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Canadian Income Tax Act with Regulations, Annotated

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R.S.C. 1985, c. 1 (5th Supp.), as amended
Consolidated to July 10, 2009

- Income Tax Application Rules, R.S.C. 1985, c. 2 (5th Supp.), as amended
- Canada-U.K. Tax Convention as amended by Protocols
- Canada-U.S. Tax Convention as amended by Protocols
- Technical Explanation of Canada-U.S. Tax Convention
- Technical Explanation of Third, Fourth and Fifth Protocols
- Income Tax Conventions Interpretation Act
- Interpretation Act
- Pending Amendments, including Former Bill C-10, *Income Tax Amendments Act, 2006*, and Explanatory Notes
- Selected News Releases and Budget Extracts
- Department of Finance Comfort Letters
- History Notes
- Editorial Notes
- References to Related Sections and Regulations
- References to Interpretation Bulletins, Information Circulars, CRA Forms and Guides, Technical News, Selected Technical Interpretations, Canadian Tax Foundation Articles and Other Publications
- Selected Case Annotations
- Selected Remission Orders
- Tax Rates and Other Reference Tables
- Topical Index

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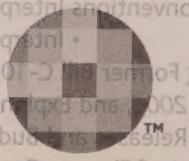

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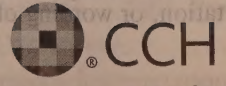

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Foreword

The 88th Edition of the CCH CANADIAN INCOME TAX ACT WITH REGULATIONS, ANNOTATED contains the consolidated text of the *Income Tax Act*, R.S.C. 1985, c. 1 (5th Supp.), the transitional provisions known as the Income Tax Application Rules, R.S.C. 1985, c. 2 (5th Supp.), and the Income Tax Regulations. This Edition consolidates all amendments made by legislation passed by Parliament and all regulations promulgated on or before the date of publication, July 10, 2009.

The "Fifth Supplement" version of the Act was proclaimed in force on March 1, 1994, replacing the former version of the Act (S.C. 70-71-72, c. 63). The former Act, which reflected the 1972 tax reform legislation, replaced the earlier *Income Tax Act*, R.S.C. 1952, c. 148, effective January 1, 1972. Information on the "Fifth Supplement" is included in this book at page lxxi. Also included, at page lxxiii, is a Table of Concordance listing sections of the Act that have been reformatted in the new version. For a record of all Acts that have amended the *Income Tax Act*, R.S.C. 1985 (5th Supp.), see page lxxxi.

Conveniently located at the front of the book for handy reference are several charts. These charts show the 2009 federal and provincial tax rates and personal tax credits, as well as prescribed interest rates, automobile rates and limits, annual average exchange rates for major currencies, capital cost allowance rates, tax calendar, lists of deadlines, offences, and penalties under the Act, and rates of withholding tax on selected types of payments under the tax conventions signed by Canada.

All pending amendments to the Act issued on or before July 10, 2009 are reproduced in place. Each proposal appears in a greyed box immediately following the provision affected. Similarly, all draft regulations outstanding at the time of publication are reproduced in place throughout the Regulations. Department of Finance Explanatory Notes to pending amendments are included as well. Federal Budget proposals not yet enacted, government press releases outlining proposed changes to income tax provisions, and Department of Finance comfort letters describing possible future amendments are also reproduced in greyed boxes following the provisions to which they relate. See the list of proposed amendments for the Act at page lxxxiii and for the Regulations at page lxxxvi.

Helpful, in-depth historical notes outlining the evolution of the Act and Regulations have been added by CCH at the end of each section. These notes are essential to the interpretation of the Act and Regulations in both current and prior taxation years. The notes begin with Bill C-15, which received Royal Assent on May 12, 1994 (S.C. 1994, c. 7) and implemented the amendments to the "Fifth Supplement" from November 30, 1991 to July 1, 1993. The full text of each provision as it read prior to an amendment is included in the history notes.

Many useful cross-references have been incorporated at the end of sections of the Act and Regulations. These cross-references direct you to a regulation, section of the Act, definition, form, guide, Interpretation Bulletin, Information Circular, Advance Tax Ruling, Technical News, SR&ED Application Policy, Registered Plans Directorate Newsletter, Registered Charities Newsletter, or to an article in TAX TOPICS, TAX PROFILE, CANADIAN TAX JOURNAL, CONFERENCE REPORT, or the CANADIAN PETROLEUM TAX JOURNAL that applies to the particular section. In situations where a reference applies to the section as a whole, it is noted following subsection (1) of the section, rather than for each subsection. If subsection (1) is a series of definitions, the general reference is noted in the charging subsection for that section. You will also find many case annotations throughout the book, which provide practical illustrations of how various provisions have been interpreted by the courts. Selected references to CRA technical interpretations and rulings have been added for certain provisions. These are listed under the heading TAX WINDOW FILES. As well, with input from members of the Editorial Board for CCH's INCOME TAX ACT WITH REGULATIONS, ANNOTATED, descriptive editorial notes have been added for certain provisions. These are generally located between the history notes and the cross-references.

The full texts of the Canada–U.S. and Canada–U.K. Tax Conventions consolidated with amending protocols and full-text history notes are reproduced in this book. Also included are the "Technical Explanations" of the Canada–U.S. Tax Convention and the Third, Fourth and Fifth Protocols issued by the U.S. Treasury Department and endorsed as authoritative by the Canadian Department of Finance.

Other features contained in this book include:

- a list of Department of Finance comfort letters that are reproduced throughout the Act and Regulations;
- a list of the tax conventions signed by Canada and those under negotiation;
- several relevant Remission Orders;
- a detailed sectional list of the *Income Tax Act*;
- a detailed sectional list of the Income Tax Regulations;
- the full texts of the *Income Tax Conventions Interpretation Act* and the *Interpretation Act*; and
- an easy-to-use, comprehensive Topical Index.

In the publication of this book, meticulous care has been exercised to set out an exact reproduction of the *Income Tax Act* and the Income Tax Regulations with all amendments incorporated in place. Some changes in printing style have been adopted, however, both for convenience and to improve readability. For example, marginal notes appearing in the official statute have been reproduced in boldface type in the first line of the section or subsection to which they apply, and in some places, where no marginal notes appear in the official statute, marginal notes have been inserted by CCH in square brackets. None of these changes affects the substance, punctuation, indentation, or wording of the statute.

July 10, 2009 CCH Canadian Limited

General Table of Contents

	Page
Foreword	iv
Reference Tables	
Current Tax Rates and Credits — 2009	
Individuals	vii
Corporations	xiv
Integration Tables	xxxi
Prescribed Quarterly Interest Rates	xxxii
Interest Rates for Leasing Rules	xxxii
Automobile Rates and Limits	xxxiii
Mileage Rates and Meal Allowances	xxxiii
Yearly Average Conversion Rates for Major Currencies	xxxiv
Alphabetical List of Assets — CCA Classes and Rates	xxxvii
Tax Calendar	xliii
Deadlines and Limitation Periods	xlvii
Offences under the ITA	liii
Penalties Assessed under the ITA	lv
International Tax Conventions	lxv
Rates of Withholding Tax under Income Tax Agreements Signed by Canada	lxvii
The Fifth Supplement	lxxi
Table of Concordance	lxxiii
Income Tax Act — List of Amending Acts	lxxxi
Proposed Amendments — Income Tax Act	lxxxiii
Proposed Amendments — Income Tax Regulations	lxxxvi
Department of Finance Comfort Letters	xci
Income Tax Act	
Sectional List	xcix
Parts I–XVII	1
Income Tax Application Rules	2069
Income Tax Regulations	
Table of Contents	2107
Sectional List	2109
Parts I–XCIV	2127
Schedules I–X	2735
Remission Orders	2799
Tax Conventions	
Canada–U.S. Tax Convention	2817
Technical Explanation	2847
Technical Explanation — Third Protocol	2866
Technical Explanation — Fourth Protocol	2879
Technical Explanation — Fifth Protocol	2881
Canada–U.K. Tax Convention	2906
Income Tax Conventions Interpretation Act	2919
Interpretation Act	2921
Topical Index	2931

General Table of Contents

Page

Foreword vi
Reference Tables vii
Current Tax Rates and Credits — 2009 viii
Individuals ix
Corporations xxi
Integration Tables xxii
Prescribed Quarterly Interest Rates xxiii
Interest Rates for Leasing Rules xxiii
Automobile Rates and Limits xxiii
Mileage Rates and Meal Allowances xxiv
Yearly Average Conversion Rates for Major Currencies xxiv
Alphabetical List of Assets — CCA Classes and Rates xxiv
Tax Calendar xlvi
Deadlines and Limitation Periods xlvii
Offences under the ITA xlvii
Penalties Assessed under the ITA xlvi
International Tax Conventions xlvii
Rates of Withholding Tax under Income Tax Agreements Signed by Canada xlvii
The Fifth Supplement lxxi
Table of Concordance lxxii
Income Tax Act — List of Amending Acts lxxxi
Proposed Amendments — Income Tax Act lxxxii
Proposed Amendments — Income Tax Regulations lxxxvi
Department of Finance Comfort Letters xci
Income Tax Act xcix
Sectional List xcix
Parts I–XVII 2069
Income Tax Application Rules 2069
Income Tax Regulations 2107
Table of Contents 2109
Sectional List 2127
Parts I–XCIV 2735
Schedules I–X 2799
Remission Orders 2817
Tax Conventions 2847
Canada–U.S. Tax Convention 2866
Technical Explanation 2879
Technical Explanation — Third Protocol 2881
Technical Explanation — Fourth Protocol 2906
Technical Explanation — Fifth Protocol 2919
Canada–U.K. Tax Convention 2921
Income Tax Conventions Interpretation Act 2931
Interpretation Act 2931
Topical Index 2931

Current Tax Rates and Credits

(From information available as of June 2009)

Personal Income Tax Rate Components — 2009 (Including Surtaxes)

		Basic Tax		Surtax
		Rates	Brackets	
Federal[1]		15.00%	$0	
		22.00%	$40,726	
		26.00%	$81,452	
		29.00%	$126,264	
Provincial or Territorial	Alberta	10.00%	$0	
	British Columbia	5.06%	$0	
		7.70%	$35,716	
		10.50%	$71,433	
		12.29%	$82,014	
		14.70%	$99,588	
	Manitoba	10.80%	$0	No surtax
		12.75%	$31,000	
		17.40%	$67,000	
	New Brunswick	9.65%	$0	
		14.50%	$35,707	
		16.00%	$71,415	
		17.00%	$116,105	
	Newfoundland and Labrador	7.70%	$0	
		12.80%	$31,061	
		15.50%	$62,121	
	Northwest Territories	5.90%	$0	
		8.60%	$36,885	
		12.20%	$73,772	
		14.05%	$119,936	
	Nova Scotia	8.79%	$0	10% of tax above $10,000
		14.95%	$29,590	
		16.67%	$59,180	
		17.50%	$93,000	
	Nunavut	4.00%	$0	No surtax
		7.00%	$38,832	
		9.00%	$77,664	
		11.50%	$126,264	
	Ontario	6.05%	$0	20% of tax above $4,257 + 36% of tax above $5,370
		9.15%	$36,848	
		11.16%	$73,698	
	Prince Edward Island	9.80%	$0	10% of tax above $12,500
		13.80%	$31,984	
		16.70%	$63,969	
	Quebec[1]	16.00%	$0	No surtax
		20.00%	$38,385	
		24.00%	$76,770	
	Saskatchewan	11.00%	$0	
		13.00%	$40,113	
		15.00%	$114,610	
	Yukon	7.04%	$0	5% of tax above $6,000
		9.68%	$40,726	
		11.44%	$81,452	
		12.76%	$126,264	
Non-residents[2]		7.20%	$0	No surtax
		10.56%	$40,726	
		12.48%	$81,452	
		13.92%	$126,264	

Notes:

1. In Quebec, basic federal tax is reduced by the 16.5% abatement of basic federal tax.
2. Instead of provincial or territorial tax, non-residents pay an additional 48% of basic federal tax on income taxable in Canada that is not earned in a province or territory, so the non-resident rates are 48% of federal rates. Non-residents are subject to provincial or territorial rates (in this table) on:
   - employment income and business income earned in the respective province or territory; and
   - income and capital gains on dispositions of real property located in a province or territory.

   Different rates may apply to non-residents in other circumstances.

Personal Tax Credits — 2009

The two tables below contain information concerning select personal tax credits. The first table contains the federal and provincial/territorial rates used in the calculation of personal tax credits. The second table shows the value of the credits. Provinces and territories use their own prescribed amounts to determine their personal tax credits.

		Personal tax credit rates (See table below for some limitations)													
		Federal	Alt.	B.C.	Man.	N.B.	Nfld. & Lab.	N.W.T.	N.S.	Nun.	Ont.	P.E.I.	Que.[1]	Sask.	Yukon
General factor[2]		15%	10%	5.06%	10.8%	9.65%	7.7%	5.9%	8.79%	4%	6.05%	9.8%	20%	11%	7.04%
Charitable donations	First $200	29%	21%	14.7%	17.4%	17%	15.5%	14.05%	17.5%	11.5%	11.16%	16.7%	24%	15%	12.76%
	Amount over $200														
Dividend tax credit[3] (on grossed-up amount)	Eligible	18.97%	10%	11%	11%	12%	9.75%	11.5%	8.85%	6.2%	7.4%	10.5%	11.9%	11%	11%
	Non-eligible	13.33%	3.5%	4.2%	2.5%	5.3%	5%	6%	7.7%	4%	5.13%	3.2%	8%	6%	4.45%

	Federal Amounts	Maximum value (before surtaxes) of credits that are based on prescribed amounts													
		Federal	Alt.	B.C.	Man.	N.B.	Nfld. & Lab.	N.W.T.	N.S.	Nun.	Ont.	P.E.I.	Que.[1]	Sask.	Yukon
Basic	$10,320	$1,548	$1,678	$474	$878	$830	$599	$747	$702	$466	$537	$755	$2,091[1]	$1,460	$727
Spouse				$406		$705	$489		$596		$456	$642	N/A		
Equivalent to spouse												$617			
Age 65	$6,408	$961	$468	$213	$403	$405	$281	$366	$343	$349	$262	$369	$450[1]	$477	$451
Disability — Basic	$7,196	$1,079	$1,294	$356	$667	$672	$404	$606	$416	$466	$434	$675	$476	$923	$507
Disability — Under 18 supplement	$4,198	$630	$971	$208	$389	$392	$190	$248	$285	$168	$253	$394	N/A[1]		$296
Infirm dependant (18 or over)									$231			$240			
Caregiver									$405						
Pension income	$2,000	$300	$129	$51	$108	$97	$77	$59	$97	$80	$74	$98	$400[1]	$110	$141
Child	$2,089	$313	N/A											$541	$147
Adoption	$10,909	$1,636	$1,147	$552	$1,080	N/A	$808	N/A			$656	N/A	N/A[1]	N/A	$768
Children's fitness	$500	$75	N/A		$54	N/A			$44	N/A				N/A[6]	$35
CPP/QPP	$2,119	$318	$212	$107	$229	$204	$163	$125	$186	$85	$128	$208	N/A[1]	$233	$149
Employment insurance (EI)	$732[5]	$110	$73	$37	$79	$71	$56	$43	$64	$29	$44	$72		$80	$52
Canada Employment	$1,044	$157	N/A												$73
Education (per month) — Full-time	$400	$60	$65	$10	$43	$39	$15	$24	$18	$16	$29	$39	$386[1]	$44	$28
Education (per month) — Part-time	$120	$18	$20	$3	$13	$12	$5	$7	$5	$5	$9	$12	N/A	$13	$8
Textbook (per month) — Full-time	$65	$10	N/A							$3	N/A				$5
Textbook (per month) — Part-time	$20	$3								$1					$1
									× 1.1		× 1.2 or × 1.56	× 1.1			× 1.05

Factors at bottom of table increase value of credits to reflect surtaxes.[4]

Notes:

1. See below for Quebec's special credits and rules.
2. The general factor, multiplied by the federal (or provincial/territorial) amount, yields the value of the federal (or provincial/territorial) credit.
3. Eligible dividends are designated as such by the payor. They are grossed up by 45% and include dividends paid by:
   - public corporations or other corporations that are not Canadian-controlled private corporations (CCPCs), that are resident in Canada and are subject to the federal general corporate income tax rate (i.e., 19% in 2009); or
   - CCPCs, to the extent that the CCPC's income is:
     - not investment income (other than eligible dividends from public corporations); and
     - subject to the federal general corporate income tax rate (i.e., the income is active business income not subject to the federal small business rate).

   Non-eligible dividends are grossed up by 25% and include dividends paid out of either income eligible for the federal small business rate or a CCPC's investment income (other than eligible dividends received from public corporations).
4. For taxpayers affected by provincial/territorial surtaxes, the value of the credits shown will be higher by the factors indicated. For example, to a taxpayer in Ontario's top bracket, the $537 shown for the basic Ontario credit would be worth $838 (i.e., $537 × 1.56).
5. In Quebec, the federal EI amount is $584.
6. In Saskatchewan, commencing 2009, a refundable income tax credit provides up to $150 per child aged six to 14, for cultural, recreational and sports activity fees.

Quebec's Special Credits and Rules — 2009

Quebec's Special Credits and Rules — 2009

The following special rules apply to Quebec's non-refundable tax credits:

- the minimum basic personal credit, the Quebec Pension Plan (QPP), Employment Insurance (EI), Health Services Fund and Quebec Parental Insurance Plan (QPIP) credits are combined into a single basic personal credit equal to $10,455;
- employees, employers and the self-employed must contribute to the QPIP, from which maternity, adoption and parental leave benefits are paid. As a result, federal EI premiums are lower for Quebec employees than for other employees;
- an adult student can transfer the unused portion of the basic personal credit to a parent (but if this transfer is made, the other dependant (18 or over) credit of $561 cannot be claimed for that student);
- most non-refundable credits, such as the basic personal credit and the age credit, can be transferred to a spouse, if not used by the taxpayer;
- the age, pension and living alone credits are reduced if net family income exceeds $30,345;
- a person that lives alone or with a dependant can claim a credit of $245;
- a person that qualifies for the living alone credit and lives with an eligible student is eligible for an additional $304 credit;
- the maximum education credit of $386 per term (maximum two terms per year) can be claimed by a supporting Quebec parent (but is not transferable) for a child under 18 who attends post-secondary school full-time (part-time for infirm dependants);
- a student can transfer the unused portion of the tuition and examination tax credits to a parent or grandparent; and
- the medical expense credit is based on the amount by which qualifying expenses exceed 3% of net family income (see below for details on the refundable medical expense credit).

Select Quebec refundable tax credits are listed in the table below.

	Details
Adoption	50% of eligible adoption expenses (maximum credit of $10,000)
Child care	26% to 75% of qualifying child care expenses (limits apply)[1]
Caregivers	Maximum credit of $1,057 is reduced if the dependant's income exceeds $21,140
Respite expenses for informal caregivers	30% of eligible respite expenses paid for the care of a person who resides with the caregiver and has a significant disability; maximum credit of $1,560 is reduced if family income exceeds $51,180
Informal caregivers	Maximum credit of $500 for each care recipient can be allocated to a volunteer who provides home respite to informal caregivers of the care recipient
Home support for seniors	30% of eligible expenses; maximum credit of $4,680 for independent seniors, and $6,480 for dependent seniors, aged 70 and over, is reduced if family income exceeds $51,180; expenses eligible for this credit will not qualify for the medical expense credit
Medical	25% of medical expenses eligible for the non-refundable credit and 25% of amount deducted for impairment support products and services; maximum credit of $1,056 is reduced if family income exceeds $20,425

1. Commencing 2009, the limit on child care expenses paid for a child under seven at the end of the year (other than a child who qualifies for the disability tax credit) increased from $7,000 to $9,000.

Credits: Federal Limitations and Other Information — 2009

Credits: Federal Limitations and Other Information — 2009

This table presents additional information related to federal credits. Other restrictions may also apply. The provinces/territories may have comparable thresholds and rules.

	Limitations	To whom the credit may be transferred	Carry-forward
Tuition	Credit available only if at least $100 is paid in fees to an institution	Spouse, parent or grandparent (Maximum combined tuition, education and textbook credits transferable = $750)	Indefinite
Education	Credit = $60/month for full-time students and certain disabled part-time students; $18/month for other part-time students		
Textbook	Credit = $10/month for full-time students and certain disabled part-time students; $3/month for other part-time students		
Medical	Credit is based on amount by which qualifying medical expenses exceed the lesser of $2,011 and 3% of net income (generally, expenses for any twelve-month period ending in the year can be claimed)	Either spouse may claim the medical expense credit	
CPP/QPP + EI	For employees, maximum credit = $428 (in Quebec, $405); self-employed persons deduct 50% of CPP/QPP premiums paid for their own coverage (maximum deduction of $2,119) and claim a credit for the non-deductible half of premiums paid (maximum credit $318); self-employed persons do not pay EI premiums	N/A	
Canada Employment	Credit is based on employment income		
Transit pass	Public transit passes (monthly or longer) and certain weekly and electronic payment cards for travel are eligible	Spouse or parent	
Student loan interest	Interest must be paid on qualifying student loans	N/A	
Charitable donations	Eligible donations are limited to 75% of net income	Either spouse may claim the donation credit	5 years
Spousal and equivalent to spouse	Reduced by any net income of the spouse or qualifying dependant	N/A	
Infirm dependant	Reduced if dependant's income exceeds $5,956		
Caregiver	For providers of in-home care for an adult relative (reduced if relative's income exceeds $14,336)		
Age	Reduced if income exceeds $32,312	Spouse	
Pension	Maximum credit = $300		
Child	Credit available for each child under 18		
Adoption	Must be claimed in the year the adoption period ends	Either parent may claim the adoption and children's fitness credits	
Children's fitness	Maximum credit = $75 for children under 16; $150 for children under 18 who qualify for the disability tax credit		
Disability — Basic	For individuals with severe and prolonged impairment	Spouse, parent, grandparent, child, grandchild, sibling, aunt, uncle, niece or nephew	
Disability — Under 18 supplement	Reduced if child care expenses and attendant care expenses (claimed as a medical expense for child) exceed $2,459		

These tables show combined federal and provincial (or federal and territorial) marginal tax rates – the percentage of tax paid on the last dollar of income, or on additiona income.

Each row contains marginal rates for:
- ordinary income and interest;
- the actual amount of capital gains; and
- the actual amount of dividends (eligible and non-eligible) from Canadian corporations.

	Taxable income $10,320[1] to $40,726					Taxable income $40,726 to $81,452				
	Brackets	Ordinary income & interest	Capital gains	Canadian dividends		Brackets	Ordinary income & interest	Capital gains	Canadian dividends	
				Eligible[2]	Non-eligible[2]				Eligible[2]	Non-eligible
Federal only	$10,320	15.00%	7.50%	(5.75%) to 0%	2.08%	$40,726	22.00%	11.00%	4.40%	10.83%
Alberta	$16,775	25.00%	12.50%	(5.75%) to 0%	10.21%	$40,726	32.00%	16.00%	4.40%	18.96%
	$10,320	15.00%	7.50%	(5.75%) to 0%	2.08%					
British Columbia	$35,716	22.70%	11.35%	(10.54%) to 0%	6.46%	$71,433	32.50%	16.25%	3.68% to 4.40%	18.71%
	$10,320	20.06%	10.03%	(14.36%) to 0%	3.16%	$40,726	29.70%	14.85%	(0.39%) to 4.40%	15.21%
Manitoba	$31,000	27.75%	13.88%	(3.21%) to 2.54%	14.90%	$67,000	39.40%	19.70%	13.68%	29.46%
	$10,320	25.80%	12.90%	(6.04%) to 0%	12.46%	$40,726	34.75%	17.38%	6.94%	23.65%
New Brunswick	$35,707	29.50%	14.75%	(2.13%) to 3.63%	13.58%	$71,415	38.00%	19.00%	10.20%	24.21%
	$10,320	24.65%	12.33%	(9.16%) to 0%	7.52%	$40,726	36.50%	18.25%	8.03%	22.33%
Newfoundland and Labrador	$31,061	27.80%	13.90%	(1.33%) to 4.42%	11.83%	$62,121	37.50%	18.75%	12.74%	23.96%
	$10,320	22.70%	11.35%	(8.72%) to 0%	5.46%	$40,726	34.80%	17.40%	8.82%	20.58%
Non-resident[3]	$10,320	22.20%	11.10%	(8.51%) to 0%	3.08%	$40,726	32.56%	16.28%	6.51%	16.03%
Northwest Territories	$36,885	23.60%	11.80%	(9.96%) to 0%	5.33%	$73,772	34.20%	17.10%	5.42%	18.58%
	$12,664	20.90%	10.45%	(13.87%) to 0%	1.96% to 2.08%	$40,726	30.60%	15.30%	0.20% to 4.40%	14.08%
	$10,320	15.00%	7.50%	(5.75%) to 0%	2.08%					
Nova Scotia	$29,590	29.95%	14.98%	3.10% to 8.85%	11.15%	$81,237[4]	40.34%	20.17%	16.87%	23.17%
	$10,320	23.79%	11.90%	(5.84%) to 0%	3.45%	$59,180	38.67%	19.34%	15.74%	22.05%
						$40,726	36.95%	18.48%	13.25%	19.90%
Nunavut	$38,832	22.00%	11.00%	(4.59%) to 1.16%	5.83%	$77,664	31.00%	15.50%	8.46%	17.08%
	$11,644	19.00%	9.50%	(8.94%) to 0%	2.08%	$40,726	29.00%	14.50%	5.56%	14.58%
	$10,320	15.00%	7.50%	(5.75%) to 0%	2.08%					
Ontario	$36,848	24.15%	12.08%	(3.21%) to 2.54%	7.11%	$76,442[4]	39.41%	19.70%	12.91%	22.59%
	$10,320	21.05%	10.53%	(7.71%) to 0%	3.23%	$73,698	35.39%	17.70%	10.94%	19.88%
						$64,881[4]	32.98%	16.49%	7.45%	16.86%
						$40,726	31.15%	15.58%	6.94%	15.86%
Prince Edward Island	$31,984	28.80%	14.40%	(0.97%) to 4.79%	15.33%	$63,969	38.70%	19.35%	13.39%	27.71%
	$10,320	24.80%	12.40%	(6.77%) to 0%	10.33%	$40,726	35.80%	17.90%	9.19%	24.08%
Quebec	$38,385	32.53%	16.26%	6.94% to 11.75%	16.74%	$76,770	42.37%	21.19%	21.22%	29.05%
	$13,069	28.53%	14.26%	1.14% to 5.95%	11.74%	$40,726	38.37%	19.19%	15.42%	24.05%
	$10,320	12.53%	6.26%	(4.80%) to 0%	1.74%					
Saskatchewan	$40,113	28.00%	14.00%	(2.85%) to 2.90%	10.83%	$40,726	35.00%	17.50%	7.30%	19.58%
	$13,269	26.00%	13.00%	(5.75%) to 0%	8.33%					
	$10,320	15.00%	7.50%	(5.75%) to 0%	2.08%					
Yukon	$10,320	22.04%	11.02%	(11.49%) to 0%	5.32%	$80,596[4]	32.16%	16.08%	2.39% to 4.40%	17.70%
						$40,726	31.68%	15.84%	2.49% to 4.40%	17.37%

Individual Marginal Rates for 2009 (continued)

	Taxable income $81,452 to $126,264					Taxable income over $126,264				
				Canadian dividends				Canadian dividends	
	Brackets	Ordinary income & interest	Capital gains	Eligible[2]	Non-eligible	Ordinary income & interest	Capital gains	Eligible	Non-eligible
Federal only	$81,452	26.00%	13.00%	10.20%	15.83%	29.00%	14.50%	14.55%	19.58%
Alberta	$81,452	36.00%	18.00%	10.20%	23.96%	39.00%	19.50%	14.55%	27.71%
British Columbia	$99,588	40.70%	20.35%	15.57%	28.96%	43.70%	21.85%	19.92%	32.71%
	$82,014	38.29%	19.15%	12.07%	25.95%				
	$81,452	36.50%	18.25%	9.48% to 10.20%	23.71%				
Manitoba	$81,452	43.40%	21.70%	19.48%	34.46%	46.40%	23.20%	23.83%	38.21%
New Brunswick	$116,105	43.00%	21.50%	17.45%	30.46%	46.00%	23.00%	21.80%	34.21%
	$81,452	42.00%	21.00%	16.00%	29.21%				
Newfoundland and Labrador	$81,452	41.50%	20.75%	18.54%	28.96%	44.50%	22.25%	22.89%	32.71%
Non-resident[3]	$81,452	38.48%	19.24%	15.10%	23.43%	42.92%	21.46%	21.53%	28.98%
Northwest Territories	$119,936	40.05%	20.03%	13.90%	25.90%	43.05%	21.53%	18.25%	29.65%
	$81,452	38.20%	19.10%	11.22%	23.58%				
Nova Scotia	$93,000	45.25%	22.63%	24.00%	29.31%	48.25%	24.13%	28.35%	33.06%
	$81,452	44.34%	22.17%	22.67%	28.17%				
Nunavut	$81,452	35.00%	17.50%	14.26%	22.08%	40.50%	20.25%	22.24%	28.96%
Ontario	$81,452	43.41%	21.70%	18.71%	27.59%	46.41%	23.20%	23.06%	31.34%
Prince Edward Island	$98,143[4]	44.37%	22.19%	20.09%	34.40%	47.37%	23.69%	24.44%	38.15%
	$81,452	42.70%	21.35%	19.19%	32.71%				
Quebec	$81,452	45.71%	22.86%	26.06%	33.22%	48.22%	24.11%	29.69%	36.35%
Saskatchewan	$114,610	41.00%	20.50%	16.00%	27.08%	44.00%	22.00%	20.35%	30.83%
	$81,452	39.00%	19.50%	13.10%	24.58%				
Yukon	$81,452	38.01%	19.01%	10.87%	25.01%	42.40%	21.20%	17.23%	30.49%

(1) Provincial tax may be payable on taxable incomes below $10,320 for residents of British Columbia, Manitoba, New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario and Prince Edward Island, where the basic amounts are less than $10,320.

(2) When two dividend rates are indicated, the lower rate has a negative federal and/or provincial/territorial component. A negative federal component shelters other income from federal tax and a negative provincial/territorial component shelters other income from provincial/territorial tax. As a result, depending on the level of other income, the combined federal and provincial/territorial rate could be higher, but will not exceed the higher rate shown, which applies if the taxpayer has no other income.

(3) A non-resident who does not qualify for the federal personal basic credit of $10,320 will pay tax on taxable income below $10,320. Non-residents may claim the personal basic credit only if all or substantially all (i.e., 90% or more) of the non-resident's worldwide income is included in his or her taxable income earned in Canada for the year.
Non-resident rates for interest and dividends apply only in limited circumstances. Generally, interest (commencing 2008, other than most interest paid to arm's length non-residents) and dividends paid non-residents are subject to Part XIII withholding tax.

(4) The bracket relates to surtaxes levied by Nova Scotia, Ontario, Prince Edward Island or the Yukon, and assumes that only the basic personal credit is available.

Federal and Provincial Income Taxes Payable by Individuals at Various Levels of Taxable Income — 2009

This table shows the combined federal and provincial (or territorial) income taxes payable, including surtaxes, assuming only the basic personal tax credit is claimed (except for non-residents — see footnote 1, below), and that all income is either interest or ordinary income (such as salary). When income includes at least $1,044 of salary, the Canada Employment Credit, described under **Personal Tax Credits — 2009** (see table), will reduce the results shown by $157 ($131 in Quebec). Depending on the types of income and deductions, the Alternative Minimum Tax may apply.

2009	Alberta	British Columbia	Manitoba	New Brunswick	Newfoundland and Labrador	Non-resident[1]	Northwest Territories[6]	Nova Scotia	Nunavut[6]	Ontario[6]	Prince Edward Island	Quebec[7]	Saskatchewan	Yukon
$1,000,000	$376,878	$418,270	$447,957	$443,761	$429,695	$414,553	$412,438	$465,310	$387,215	$444,936	$456,726	$465,896	$424,001	$407,088
$500,000	$181,878	$199,770	$215,957	$213,761	$207,195	$199,953	$197,188	$224,060	$184,715	$212,888	$219,876	$224,821	$204,001	$195,098
$400,000	$142,878	$156,070	$169,557	$167,761	$162,695	$157,033	$154,138	$175,810	$144,215	$166,478	$172,506	$176,606	$160,001	$152,700
$300,000	$103,878	$112,370	$123,157	$121,761	$118,195	$114,113	$111,088	$127,560	$103,715	$120,068	$125,136	$128,391	$116,001	$110,302
$250,000	$84,378	$90,520	$99,957	$98,761	$95,945	$92,653	$89,563	$103,435	$83,465	$96,864	$101,451	$104,284	$94,001	$89,103
$200,000	$64,878	$68,670	$76,757	$75,761	$73,695	$71,193	$68,038	$79,310	$63,215	$73,659	$77,766	$80,176	$72,001	$67,904
$150,000	$45,378	$46,820	$53,557	$52,761	$51,445	$49,733	$46,513	$55,185	$42,965	$50,454	$54,081	$56,069	$50,001	$46,705
$100,000	$26,666	$25,758	$31,145	$30,710	$29,983	$29,439	$26,144	$31,848	$24,159	$28,037	$31,184	$32,619	$29,081	$26,658
$90,000	$23,066	$21,919	$26,805	$26,510	$25,833	$25,591	$22,324	$27,350	$20,659	$23,696	$26,883	$28,048	$25,181	$22,857
$80,000	$19,524	$18,184	$22,523	$22,368	$21,741	$21,829	$18,562	$22,995	$17,217	$19,413	$22,671	$23,526	$21,339	$19,143
$70,000	$16,324	$14,974	$18,583	$18,589	$17,991	$18,573	$15,278	$19,128	$14,270	$15,820	$18,801	$19,560	$17,839	$15,975
$60,000	$13,124	$12,004	$14,968	$14,939	$14,298	$15,317	$12,218	$15,261	$11,370	$12,612	$15,046	$15,723	$14,339	$12,807
$50,000	$9,924	$9,034	$11,493	$11,289	$10,818	$12,061	$9,158	$11,552	$8,470	$9,497	$11,466	$11,886	$10,839	$9,639
$40,000	$6,775	$6,115	$8,069	$7,690	$7,389	$8,880	$6,149	$7,908	$5,621	$6,432	$7,937	$8,091	$7,392	$6,541
$30,000	$4,275	$3,996	$5,314	$5,017	$4,663	$6,660	$3,975	$4,913	$3,686	$4,230	$5,137	$5,174	$4,792	$4,337
$20,000	$1,775	$1,990	$2,734	$2,552	$2,393	$4,440	$1,885	$2,508	$1,786	$2,125	$2,657	$2,321	$2,192	$2,133
Top marginal rates:														
Canadian dividends														
(eligible)	14.55%	19.92%	23.83%	21.80%	22.89%	21.53%[2]	18.25%	28.35%	22.24%	23.06%	24.44%	29.69%	20.35%	17.23%
(non-eligible)	27.71%	32.71%	38.21%	34.21%	32.71%	28.98%[2]	29.65%	33.06%	28.96%	31.34%	38.15%	36.35%	30.83%	30.49%
Capital gains	19.50%	21.85%	23.20%	23.00%	22.25%	21.46%	21.53%	24.13%	20.25%	23.20%	23.69%	24.11%	22.00%	21.20%
Other income	39.00%	43.70%	46.40%	46.00%	44.50%	42.92%[2]	43.05%	48.25%	40.50%	46.41%	47.37%	48.22%	44.00%	42.40%
Dividend tax credit (eligible)[3]	28.97%	29.97%	29.97%	30.97%	28.72%	28.07%	30.47%	28.70%	25.17%	30.51%	30.52%	27.74%	29.97%	30.52%
(non-eligible)[4]	16.83%	17.53%	15.83%	18.63%	18.33%	19.73%	19.33%	21.80%	17.33%	21.34%	16.85%	19.13%	19.33%	18.00%
Maximum value of additional credits[5]	25.00%	20.06%	25.80%	24.65%	22.70%	22.20%	20.90%	24.67%	19.00%	24.44%	25.78%	32.53%	26.00%	22.39%

1 The table assumes the non-resident will not qualify for the federal personal basic credit of $10,320. Non-residents may claim the personal basic credit only if all or substantially all (i.e., 90% or more) of the non-resident's worldwide income is included in his or her taxable income earned in Canada for the year. The non-resident amounts apply to income taxable in Canada that is not earned in a province or territory.

2 Non-resident rates for interest and dividends apply only in limited circumstances. Generally, interest (commencing 2008, other than most interest paid to arm's length non-residents) and dividends paid to non-residents are subject to Part XIII withholding tax.

3 Taxpayers in top brackets (i.e., taxable income above $126,264) who receive Canadian eligible dividends can determine their tax by multiplying the dividend tax credit by the amount of eligible dividends (grossed up by 45%) and subtracting the result from the amount of tax shown in the table. For example, a Manitoba resident with $200,000 taxable income consisting of $185,500 salary plus $14,500 of grossed-up eligible dividends ($10,000 actual dividends) will pay the $76,757 tax shown, less 29.97% of $14,500, yielding $72,411.

4 Taxpayers in top brackets (i.e., taxable income above $126,264) who receive Canadian non-eligible dividends can determine their tax by multiplying the dividend tax credit by the amount of non-eligible dividends (grossed up by 25%) and subtracting the result from the amount of tax shown in the table. For example, an Alberta resident with $250,000 taxable income consisting of $240,000 salary plus $10,000 of grossed-up non-eligible dividends ($8,000 actual dividends) will pay the $84,378 tax shown, less 16.83% of $10,000, yielding $82,695.

5 When personal tax credits in addition to the basic personal tax credit are available, the results in this table are too high. For taxpayers in the top tax bracket of their jurisdictions, the amounts can be adjusted by subtracting the product of the percentage indicated (maximum value of additional credits) and the amount of each additional credit. Charitable donations over $200 have a higher maximum value.

6 Amounts do not include the Northwest Territories and Nunavut employees' payroll taxes or the Ontario Health Premium.

7 Taxable income may differ for federal and Quebec purposes, in which case the amounts shown in the table may require adjustment.

Top Marginal Rates — A 17-Year History

		1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Federal rates (including surtaxes)		31.32						30.89	30.45	29.00								
Combined rates (%) (including surtaxes and flat taxes)	**Alberta**	46.07					45.60	45.17	43.71	39.00								
	British Columbia	51.11	54.16		54.17			52.27	51.26	45.70	43.70							
	Manitoba	50.40					50.11	48.95	48.08	46.40								
	New Brunswick	50.74	51.36			51.05	50.43	49.68	48.77	46.84						46.95		46.00
	Newfoundland and Labrador	51.33			53.33			52.90	51.31	48.64						47.04	45.00	44.50
	Non-resident	46.40						45.97	44.37	42.92								
	Northwest Territories	44.37						43.94	43.50	42.05			42.55	43.05				
	Nova Scotia	50.30	53.75		50.30		49.98	49.66	49.23	48.79	47.34			48.25				
	Nunavut	(Nunavut came into existence on April 1, 1999)						43.94	43.50	42.05	40.50							
	Ontario	52.35	53.19		52.92	51.64	50.29	48.75	47.86	46.41								
	Prince Edward Island	50.30						49.55	48.79	47.37								
	Quebec	52.94				53.01	52.61	52.18	50.67	48.72	48.22							
	Saskatchewan	51.95					51.58	50.79	49.73	45.00	44.50	44.00						
	Yukon	45.94	46.55					46.11	45.37	43.01	42.40							

Deferred Income Plan Contributions Limits

The maximum amount deductible RRSP, DPSP and money RPP contribution limits for 2005 to 2011 are as shown:

	2005	2006	2007	2008	2009	2010	2011
Dollar limits:							
RRSP	$16,500	$18,000	$19,000*	$20,000*	$21,000*	$22,000*	Indexed
DPSP	$ 9,000	$ 9,500*	$10,000*	$10,500*	$11,000*	Indexed	Indexed
Money Purchase RPP	$18,000	$19,000*	$20,000*	$21,000*	$22,000*	Indexed	Indexed

*The greater of the amount shown or the amount that would result if the RPP money purchase of $18,000 was indexed for increases in the average wages after 2005

Federal Corporate Tax Rates — 2003–2009 (%)

The rates shown are in effect for 12-month taxation years ended December 31. All rate changes must be prorated for taxation years that straddle the effective date.

The rates shown are in effect for 12-month taxation years ended December 31. All rate changes must be prorated for taxation years that straddle the effective date.

			2003	2004	2005 - 2006	2007	2008	2009
General[4]		Basic rate	38					
		Less: provincial abatement	10					
		Rate after abatement	28					
		Plus: federal surtax[1]	1.12				n/a	
		General federal rate (before reduction)	29.12				28	
		Less: general rate reduction[2, 3]	5	7			8.5	9
		General federal rate	**24.12**	**22.12**			**19.5**	**19**
Manufacturing & processing (M&P) income		General federal rate (before reduction)[3]	29.12				28	
		Less: M&P deduction[2]	7				8.5	9
		M&P rate	**22.12**				**19.5**	**19**
Canadian-controlled private corporations (CCPCs)	**Threshold**	Small business deduction threshold[5]	**$225,000**	**$250,000**	**$300,000**	**$400,000**		**$500,000**
	Active business income up to threshold	General federal rate (before reduction)[3]	29.12				28	
		Less: small business deduction[5]	16				17	
		CCPC small business rate	**13.12**				**11**	
	Active business income from threshold to $300,000	General federal rate (before reduction)[3]	29.12	n/a				
		Less: CCPC rate reduction[6]	7					
		CCPC reduced rate	**22.12**					
	Investment income	General federal rate (before reduction)[3]	29.12				28	
		Additional refundable tax[7]	6.67					
		CCPC investment income rate	**35.79**				**34.67**	

Notes:

1. The federal surtax was eliminated for all corporations on January 1, 2008, resulting in a 1.12% decrease in income tax rates. This overrides rules that would have eliminated or reduced the surtax on January 1, 2008, only for associated companies with taxable capital under $75 million.

2. Recent and planned changes to the general rate reduction and manufacturing and processing deduction are shown in the following table.

	Changes effective after December 31, 2004		
	From	**To**	**Effective**
General rate reduction and M&P deduction	7%	8.5%*	January 1, 2008*
	8.5%	9%*	January 1, 2009*
	9%	10%*	January 1, 2010*
	10%	11.5%*	January 1, 2011*
	11.5%	13%*	January 1, 2012*

* The general rate reduction and M&P deduction were originally scheduled to increase to 7.5% on January 1, 2008, to 8% on January 1, 2009, to 9% on January 1, 2010 and to 9.5% on January 1, 2011.

3. The general rate reduction does not apply to: M&P income; income benefiting from the small business deduction or the CCPC rate reduction; investment income of CCPCs; income of credit unions, most deposit insurance corporations, mutual fund corporations, mortgage investment corporations and investment corporations; and, until taxation years beginning after 2006, resource income. Income not eligible for the general rate reduction may qualify for special tax treatment.

Federal Corporate Tax Rates — 2003–2009 (%) (continued)

4. Recent and planned changes to the federal income tax rate on resource income are shown in the following table.

	Changes effective after December 31, 2004		
	From	To	Effective
Resource tax rate (including the 1.12% surtax, applicable before 2008)	27.12%	26.12%	January 1, 2005
	26.12%	24.12%	January 1, 2006
	24.12%	22.12%	January 1, 2007*
	22.12%	19.5%**	January 1, 2008**
	19.5%	19%**	January 1, 2009**
	19%	18%**	January 1, 2010**
	18%	16.5%**	January 1, 2011**
	16.5%	15%**	January 1, 2012**

* Commencing January 1, 2007, the resource tax rate is the same as the general rate.

** The resource tax rate was originally scheduled to decrease to 20.5% on January 1, 2008, to 20% on January 1, 2009, to 19% on January 1, 2010 and to 18.5% on January 1, 2011.

5. The small business deduction applies to active business income earned in Canada of associated CCPCs, up to a threshold. As a result of a clawback, the small business deduction is reduced if taxable paid-up capital employed in Canada, on an associated basis, exceeded $10 million in the preceding year.

Recent changes to the small business deduction are shown in the following table.

	Changes effective after December 31, 2004		
	From	To	Effective
Small Business Deduction	16%	17%*	January 1, 2008*

* The small business deduction was originally scheduled to increase to 16.5% on January 1, 2008 and to 17% on January 1, 2009.

Recent changes to the threshold are set out in the following table.

	Changes effective after December 31, 2004		
	From	To	Effective
Threshold up to which CCPC rate applies*	$250,000	$300,000	January 1, 2005
	$300,000	$400,000	January 1, 2007
	$400,000	$500,000	January 1, 2009

* For taxation years straddling the effective date, the original threshold applies for the number of days in the year before that date.

6. A 7% rate reduction applied from January 1, 2001, to active business income between the small business threshold and $300,000 earned in Canada of associated CCPCs. It was eliminated commencing the 2005 taxation year when the general rate reduction was fully phased in, and therefore matched the 7% CCPC rate reduction.

7. A 6⅔% additional refundable tax on investment income applies to investment income (other than deductible dividends) of CCPCs. It is refundable through the refundable dividend tax on hand (RDTOH) mechanism.

Other Federal Corporate Tax Rates for 2009

	Rate	Corporations affected	Description	Special rules
Income not earned in a province or territory	29%[1]	All corporations	Income tax for 2009 is calculated as follows: Basic federal rate 38% Less: General rate reduction -9% General federal rate 29% Therefore, the federal rate is 29%, instead of 19%.	Corporate income that is not earned in a province or territory is neither: • eligible for the provincial abatement; nor • subject to provincial or territorial tax (exceptions apply).
Branch tax	25%	Non-resident corporations, except: • transportation, communications and iron-ore mining companies; and • insurers (except in special circumstances).	Applies to after-tax profits that are not invested in qualifying property in Canada.	The 25% rate may be reduced by the relevant tax treaty (generally to the withholding tax rate on dividends, which is usually 5%, 10% or 15%). Some treaties prohibit the imposition of branch tax or provide that the tax is payable only on earnings exceeding a threshold.
Part III.1 Tax on Excess Designations	20% or 30%	Canadian-resident corporations	Applies if: • a CCPC has designated as eligible dividends during the year an amount that exceeds the corporation's general rate income pool (GRIP) at the end of the year; or • a non-CCPC pays an eligible dividend when it has a positive balance in its low rate income pool (LRIP).	A corporation subject to Part III.1 tax at the 20% rate (i.e., the excess designation was inadvertent) can elect, with shareholder concurrence, to treat all or part of the excess designation as a separate non-eligible dividend, in which case Part III.1 tax will not apply to the amount that is the subject of the election.
Refundable Part IV tax	33⅓%	Private corporations and certain public corporations	Payable on taxable dividends received from certain taxable Canadian corporations.	Refundable to the corporation when it pays dividends, through the refundable dividend tax on hand (RDTOH) mechanism, at a rate of $1 for every $3 of taxable dividends paid.
Refundable Investment Tax	6⅔%	Canadian-Controlled Private Corporations (CCPCs)	Increases the total federal rate that applies to investment income of a CCPC to 34.67% (before 2008, 35.79% after federal surtax).	
Large Corporations Tax (LCT)	Nil[2]	All corporations	Before 2006, imposed on taxable capital employed in Canada over $50 million. (The $50 million threshold was shared among related corporations; associated corporations in the case of CCPCs.)	A notional LCT, calculated as if the LCT rate and capital tax threshold were 0.225% and $10 million, respectively, is relevant for certain purposes (e.g., a CCPC's small business limit). Before 2008, the portion of the federal surtax liability that was the corporation's Canadian surtax liability reduced any LCT liability for the year or the previous three years (and, before 2006, the next seven years).
Part VI Financial Institutions Capital Tax	1.25%	Banks Trust and loan corporations Life insurance companies	Applies to banks, trust and loan corporations and life insurance companies with capital employed in Canada over $1 billion (before July 1, 2006, 1.25% rate for capital over $300 million; 1% between $200 million and $300 million; and nil below $200 million). The thresholds are shared among related corporations.	Reduced by the corporation's federal income tax liability (before 2008, net of any federal surtax claimed against the LCT liability). Any unused federal income tax liability can be applied to reduce Financial Institutions Capital Tax for the previous three years and the next seven. Unused income taxes that can be carried back from taxation years ending after June 30, 2006, are calculated using capital tax rates and thresholds that applied before July 1, 2006 (i.e., 1.25% for capital over $300 million; 1% between $200 million and $300 million; nil below $200 million).

Notes:

1. Recent and planned changes to the federal rate for income not earned in a province or territory are shown in the following table:

	Changes effective after December 31, 2004		
	From	To	Effective
Income not earned in a province or territory	32.12%	29.5%*	January 1, 2008*
	29.5%	29%*	January 1, 2009*
	29%	28%*	January 1, 2010*
	28%	26.5%*	January 1, 2011*
	26.5%	25%*	January 1, 2012*

* The rate for income not earned in a province or territory was originally scheduled to decrease to 30.5% on January 1, 2008, to 30% on January 1, 2009, to 29% on January 1, 2010 and to 28.5% on January 1, 2011.

2. Recent changes to the Large Corporations Tax are shown in the following table:

	Changes effective after December 31, 2004		
	From	To	Effective
Large Corporations Tax	0.200%	0.175%	January 1, 2005
	0.175%	Nil	January 1, 2006

Corporate Income Tax Rates by Province/Territory — 2009 (%) (General and M&P Corporate Income Tax Rates)

Corporate Income Tax Rates by Province — 2009 (%)

(Prepared from information available as of June 9, 2009.)

All rate changes must be pro-rated for taxation years that straddle the effective date. Use the rate changes to determine rates for taxation years ending on December 31, 2005 or later.

Tax holidays may reduce or eliminate provincial tax.

In addition to income tax:

- financial institutions may also be subject to Part VI Financial Institution Capital Tax (see **Other Federal Corporate Tax Rates for 2009**); and
- most provinces impose capital taxes on corporations that have permanent establishments in the province (see **Capital Tax Rates and Exemptions for 2009**).

General and M&P Corporate Income Tax Rates (for December 31, 2009 year end) (%)

The percentages shown in the table below reflect the combined federal and provincial/territorial corporate rates (general and manufacturing and processing (M&P)) for a 12-month taxation year ended December 31, 2009, on income allocated to provinces or territories. For Canadian-controlled private corporations (CCPCs), this table applies to income other than:

- the first $500,000 of active business income; and
- investment income.

For more CCPC rates, see table **Canadian-Controlled Private Corporation (CCPC) Income Tax Rates**.

	General (Non-Manufacturing)		Manufacturing & Processing	
Basic federal rate		**38**		**38**
Provincial abatement		(10)		(10)
4% federal surtax[1]		n/a		n/a
Federal rate (before deductions)		**28**		**28**
Deductions General rate reduction[3]		(9)[2]		n/a
Deductions M&P[4]		n/a		(9)
Federal rate		**19**[2] ↓		**19** ↓
	Provincial	**Federal + Provincial**	Provincial	**Federal + Provincial**
Alberta[5]	10	**29**[2]	10	**29**
British Columbia[6]	11	**30**[2]	11	**30**
Manitoba[7]	12.5	**31.5**[2]	12.5	**31.5**
New Brunswick[8]	12.5	**31.5**[2]	12.5	**31.5**
Newfoundland and Labrador	14 **H**	**33**[2]	5 **H**	**24**
Northwest Territories[9]	11.5	**30.5**[2]	11.5	**30.5**
Nova Scotia	16	**35**[2]	16	**35**
Nunavut	12	**31**[2]	12	**31**
Ontario[10, 11]	14[12] **H**	**33**[2]	12[12] **H**	**31**
Prince Edward Island[13]	16 **H**	**35**[2]	16 **H**	**35**
Quebec[14]	11.9 **H**	**30.9**[2]	11.9 **H**	**30.9**
Saskatchewan[15]	12	**31**[2]	10[16]	**29**
Yukon	15	**34**[2]	2.5	**21.5**

H = Tax holidays are available to certain corporations in the provinces indicated.

Notes:

1. The 4% federal surtax was eliminated for all corporations on January 1, 2008. See footnote 1 to the table, **Federal Corporate Tax Rates**.
2. For cases when the federal 9% general rate reduction does not apply. See footnote 3 to the table, **Federal Corporate Tax Rates**.
3. For recent and planned changes to the general rate reduction. See footnote 2 to the table, **Federal Corporate Tax Rates**.
4. For recent and planned changes to the manufacturing and processing deduction. See footnote 2 to the table, **Federal Corporate Tax Rates**.
5. Recent Alberta changes are shown in the following table:

	Alberta changes effective after December 31, 2004		
	From	**To**	**Effective**
General and M&P	11.5%	10%*	April 1, 2006

* Alberta's long-term goal is to reduce the rate to 8%.

Corporate Income Tax Rates by Province — 2009 (continued)

6. Recent and planned British Columbia changes are shown in the following table:

	British Columbia changes effective after December 31, 2004		
	From	To	Effective
General and M&P	13.5%	12%	July 1, 2005
	12%	11%	July 1, 2008
	11%	10.5%	January 1, 2010
	10.5%	10%	January 1, 2011

7. Recent and planned Manitoba changes are shown in the following table:

	Manitoba changes effective after December 31, 2004		
	From	To	Effective
General and M&P	15.5%	15%	January 1, 2005
	15%	14.5%	January 1, 2006
	14.5%	14%	January 1, 2007
	14%	13%	July 1, 2008
	13%	12%	July 1, 2009
	12%	11%*	To be determined

* The rate reduction is subject to balanced budget requirements.

8. The New Brunswick general and M&P rate reduction from 13% to 12% that was scheduled for January 1, 2007 was repealed. Planned New Brunswick changes are shown in the following table:

	New Brunswick changes effective after December 31, 2004		
	From	To	Effective
General and M&P	13%	12%	July 1, 2009
	12%	11%	July 1, 2010
	11%	10%	July 1, 2011
	10%	8%	July 1, 2012

9. Recent Northwest Territories changes are shown in the following table:

	Northwest Territories changes effective after December 31, 2004		
	From	To	Effective
General and M&P	14%	11.5%	July 1, 2006

10. Planned Ontario changes are shown in the following table:

	Ontario changes effective after December 31, 2004		
	From	To	Effective
General	14%	12%	July 1, 2010
	12%	11.5%	July 1, 2011
	11.5%	11%	July 1, 2012
	11%	10%	July 1, 2013
M&P	12%	10%	July 1, 2010

11. Corporations subject to Ontario income tax may also be liable for corporate minimum tax (CMT) based on adjusted book income. The minimum tax is payable only to the extent that it exceeds the regular Ontario income tax liability. Planned Ontario changes are shown in the following table:

		Ontario changes effective after December 31, 2004	
		Taxation years ending	
		Before July 1, 2010	After June 30, 2010
Corporate Minimum Tax (CMT) rate		4%	2.7%
Thresholds for CMT to apply*	Total assets	> $5 million	≥ $50 million
		or	and
	Annual gross revenues	> $10 million	≥ $100 million

* Thresholds apply on an associated basis.

12. For CCPCs affected by the clawback, the Ontario rates are higher than those shown. See the table, **Canadian-Controlled Private Corporation (CCPC) Income Tax Rates** (note 13).

13. Recent Prince Edward Island changes are shown in the following table:

	Prince Edward Island changes effective after December 31, 2004		
	From	To	Effective
M&P	7.5%	16%	April 1, 2005

Corporate Income Tax Rates by Province — 2009 (continued)

14. Recent Quebec changes are shown in the following table:

		Quebec changes effective after December 31, 2004		
		From	To	Effective
General active/ eligible and M&P	Financial institutions (other than insurance corporations) and oil refining companies*	8.9%	9.9%	January 1, 2006
		9.9%	11.9%	June 1, 2007
	Other	8.9%	9.9%	January 1, 2006
		9.9%	11.4%	January 1, 2008
		11.4%	11.9%	January 1, 2009
General inactive		16.25%	9.9%	February 21, 2007
		9.9%	11.4%	January 1, 2008
		11.4%	11.9%	January 1, 2009

* From June 1, 2007 to December 31, 2008, Quebec's active/eligible rates of 9.9% and 11.4% do not apply to financial institutions (other than insurance corporations) and oil refining companies. For financial institutions (other than insurance corporations) and oil refining companies, the active/eligible rate is 11.9% and the combined rate is 31.4% for December 31, 2008 year ends (11.07% and 33.19%, respectively, for December 31, 2007 year ends).

15. Recent Saskatchewan changes are shown in the following table:

	Saskatchewan changes effective after December 31, 2004		
	From	To	Effective
General	17%	14%	July 1, 2006
	14%	13%	July 1, 2007
	13%	12%	July 1, 2008

16. The general rate (12% in 2009) is the maximum Saskatchewan rate. A rebate of up to the difference between the general rate and 10% (2% in 2009) of manufacturing profits allocated to Saskatchewan is available, which can reduce the rate to as low as 10%.

Canadian-Controlled Private Corporation (CCPC) Income Tax Rates (for December 31, 2009 Year End) (%)

	Active business income of CCPCs[1]					
	up to $400,000[2]		$400,000 to $500,000[2]		Investment income[3]	
Federal rate (before deductions)		**28**		**28**		**28**
Small business deduction[2]		(17)		(17)		n/a
Refundable investment tax		n/a		n/a		6.67
Federal rate		**11** ↓		**11** ↓		**34.67** ↓
	Provincial	**Federal + Provincial**	Provincial	**Federal + Provincial**	Provincial	**Federal + Provincial**
Alberta[4]	3	**14**	3 or 4.73	**14 or 15.73**	10	**44.67**
British Columbia[5]	2.5	**13.5**	11	**22**	11	**45.67**
Manitoba[6]	1	**12**	12.5	**23.5**	12.5	**47.16***
New Brunswick[7]	5	**16**	5	**16**	12.5	**47.16***
Newfoundland and Labrador[8]	5 H	**16**	5 H	**16**	14 H	**48.67**
Northwest Territories[9]	4	**15**	4	**15**	11.5	**46.17**
Nova Scotia[10]	5 H	**16**	16 H	**27**	16	**50.67**
Nunavut[11]	4	**15**	4	**15**	12	**46.67**
Ontario[12, 13]	5.5 H	**16.5**	5.5 H	**16.5**	14 H	**48.67**
Prince Edward Island[14]	2.37 H	**13.37**	2.37 H	**13.37**	16 H	**50.67**
Quebec[15]	8 H	**19**	8.83 H	**19.83**	11.9 H	**46.57**
Saskatchewan[16]	4.5	**15.5**	4.5	**15.5**	12	**46.67**
Yukon[17] M&P	2.5	**13.5**	2.5	**13.5**		n/a
Non-M&P	4	**15**	15	**26**	15	**49.67**

H = Tax holidays are available to certain corporations in the provinces indicated. For Nova Scotia, the holiday applies only to the Nova Scotia CCPC small business rate.

* Although 34.67% (federal) + 12.5% (Manitoba/New Brunswick) = 47.17%, the exact rate is 47.163%.

Notes:

1. See the table, **General and M&P Corporate Income Tax Rates**, for the rates that apply to CCPC's on active business income above $500,000.

   The federal small business threshold increased from $400,000 to $500,000, retroactive to January 1, 2009. The $500,000 threshold also applies in:
   - New Brunswick, Newfoundland and Labrador, Northwest Territories, Nunavut, Ontario (see footnote 13 below), Prince Edward Island and Saskatchewan;
   - Quebec, after March 19, 2009 (see footnote 15 below);
   - Alberta, after March 31, 2009 (see footnote 4 below);
   - British Columbia, after December 31, 2009 (see footnote 5).

   Manitoba, Nova Scotia and the Yukon have not harmonized with this increase.

2. See footnote 5 to the table, **Federal Corporate Tax Rates**, for:
   - recent changes to the small business deduction and threshold; and
   - a description of the federal small business deduction clawback and threshold.

   The clawback also applies for the purposes of the provincial/territorial small business deductions in the territories and all of the provinces except Ontario. Ontario's clawback is outlined in footnote 13, below.

3. Rates on investment income are 15.67% higher than the general rates for 2009 (see the table, **General and M&P Corporate Income Tax Rates**), because:
   - CCPC investment income does not benefit from the 9% federal general rate reduction; and
   - the rates on investment income includes a 6⅔% tax that is refundable when the CCPC pays taxable dividends.

   Generally, 26⅔% of a CCPC's aggregate investment income is added to its refundable dividend tax on hand (RDTOH). This amount is refundable at a rate of $1 for every $3 of taxable dividends paid by the CCPC.

CCPC Income Tax Rates — 2009 (continued)

4. Recent Alberta changes are shown in the following table:

	Alberta changes effective after December 31, 2004		
	From	To	Effective
CCPC rate on over-integrated income*	3%	9.7%	January 1, 2009
Threshold up to which CCPC rate applies**	$400,000	$430,000	April 1, 2007
	$430,000	$460,000	April 1, 2008
	$460,000	$500,000	April 1, 2009

* Commencing January 1, 2009, an "over-integration tax payable" effectively increases Alberta's tax rate by 6.7% from 3% to 9.7% on income that is eligible for the Alberta CCPC small business deduction (SBD), but exceeds the federal SBD threshold. In general, this 6.7% tax applies only when this income is distributed as eligible dividends. However, because the federal SBD threshold increased from $400,000 to $500,000 retroactive to January 1, 2009, this tax in effect no longer applies.

** For taxation years straddling the effective date, the original threshold applies for the number of days in the year before that date.

As a result of changes to Alberta's CCPC threshold, the rates shown in the following table apply to active business income of a CCPC in Alberta in 2009:

	Alberta 2009 combined federal/provincial rates	
	Up to $460,000	$460,000 to $500,000
M&P	14%	15.73%
Non M&P		

5. Recent and planned British Columbia changes are shown in the following table:

	British Columbia changes effective after December 31, 2004		
	From	To	Effective
CCPC rates	4.5%	3.5%	July 1, 2008
	3.5%	2.5%*	December 1, 2008
Threshold up to which CCPC rate applies**	$300,000	$400,000	January 1, 2005
	$400,000	$500,000	January 1, 2010

* British Columbia's goal is to have the lowest small business rate in Canada by April 1, 2012.

** For taxation years straddling the effective date, the original threshold applies for the number of days in the year before that date.

6. Recent and planned Manitoba changes are shown in the following table:

	Manitoba changes effective after December 31, 2004		
	From	To	Effective
CCPC rates	5%	4.5%	January 1, 2006
	4.5%	3%	January 1, 2007
	3%	2%	January 1, 2008
	2%	1%	January 1, 2009
	1%	0%	December 1, 2010*
Threshold up to which CCPC rate applies**	$360,000	$400,000	January 1, 2005

* A discussion paper will address the concern that corporations that benefit from the 0% rate may be unable to claim Manitoba's non-refundable income tax credits.

** For taxation years straddling the effective date, the original threshold applies for the number of days in the year before that date.

7. Recent New Brunswick changes are shown in the following table:

	New Brunswick changes effective after December 31, 2004		
	From	To	Effective
CCPC rates	2.5%	2%	July 1, 2005
	2%	1.5%	July 1, 2006
	1.5%*	5%*	January 1, 2007
Threshold up to which CCPC rate applies**	$425,000	$450,000	July 1, 2005
	$450,000	$475,000	July 1, 2006
	$475,000*	$400,000*	January 1, 2007
	$400,000	$500,000	January 1, 2009

* The CCPC small business rate reduction from 1.5% to 1% and the threshold increase from $475,000 to $500,000 that were scheduled for July 1, 2007 were repealed.

** For taxation years straddling the effective date, the original threshold applies for the number of days in the year before that date.

CCPC Income Tax Rates — 2009 (continued)

8. Recent Newfoundland and Labrador changes are shown in the following table:

	Newfoundland and Labrador changes effective after December 31, 2004		
	From	To	Effective
Threshold up to which CCPC rate applies*	$250,000	$300,000	January 1, 2005
	$300,000	$400,000	January 1, 2007
	$400,000	$500,000	January 1, 2009

* For taxation years straddling the effective date, the original threshold applies for the number of days in the year before that date.

9. Recent Northwest Territories changes are shown in the following table:

	Northwest Territories changes effective after December 31, 2004		
	From	To	Effective
Threshold up to which CCPC rate applies*	$250,000	$300,000	January 1, 2005
	$300,000	$400,000	January 1, 2007
	$400,000	$500,000	January 1, 2009

* For taxation years straddling the effective date, the original threshold applies for the number of days in the year before that date.

10. Recent Nova Scotia changes are shown in the following table:

	Nova Scotia changes effective after December 31, 2004		
	From	To	Effective
Threshold up to which CCPC rate applies*	$250,000	$300,000	January 1, 2005
	$300,000	$350,000	April 1, 2005
	$350,000	$400,000	April 1, 2006

* For taxation years straddling the effective date, the original threshold applies for the number of days in the year before that date.

11. Recent Nunavut changes are shown in the following table:

	Nunavut changes effective after December 31, 2004		
	From	To	Effective
Threshold up to which CCPC rate applies*	$250,000	$300,000	January 1, 2005
	$300,000	$400,000	January 1, 2007
	$400,000	$500,000	January 1, 2009

* For taxation years straddling the effective date, the original threshold applies for the number of days in the year before that date.

12. Corporations subject to Ontario income tax may also be liable for corporate minimum tax (CMT) based on adjusted book income. The minimum tax is payable only to the extent that it exceeds the regular Ontario income tax liability. For rates and thresholds, see the table, **General and M&P Corporate Income Tax Rates** (note 11).

13. Planned Ontario changes are shown in the following table:

	Ontario changes effective after December 31, 2004		
	From	To	Effective
CCPC rates	5.5%	4.5%	July 1, 2010

Recent and planned changes related to Ontario's CCPC clawback, are shown below:

Ontario CCPC clawback* effective after December 31, 2004				
Lower threshold	Upper threshold	Addition to rate (between thresholds) due to clawback		Effective
		Non-M&P	M&P	
$400,000	$1,128,519	4.67%	3.57%	Before January 1, 2007
$500,000	$1,500,000	4.25%	3.25%	January 1, 2007**
n/a	n/a	0%	0%	July 1, 2010

* A surtax claws back the benefit of Ontario's small business deduction when taxable income of associated corporations exceeds a specified lower threshold. The benefit is eliminated completely once taxable income, on an associated basis, reaches an upper threshold. The addition to the rate, due to the clawback, increases the rate that would otherwise apply.

** The changes apply retroactively to January 1, 2007.

The rates shown in the following table apply to active business income of a CCPC in Ontario in 2009:

	Ontario 2009 combined federal/provincial rates	
	Up to $500,000	$500,000 to $1,500,000
M&P	16.5%	34.25%
Non M&P		37.25%

CCPC Income Tax Rates — 2009 (continued)

14. Recent and planned Prince Edward Island changes are shown in the following table:

	Prince Edward Island changes effective after December 31, 2004		
	From	To	Effective
CCPC rates	7.5%	6.5%	April 1, 2005
	6.5%	5.4%	April 1, 2006
	5.4%	4.3%	April 1, 2007
	4.3%	3.2%	April 1, 2008
	3.2%	2.1%	April 1, 2009
	2.1%	1%	April 1, 2010
Threshold up to which CCPC rate applies*	$250,000	$300,000	January 1, 2005
	$300,000	$400,000	January 1, 2007
	$400,000	$500,000	January 1, 2009

* For taxation years straddling the effective date, the original threshold applies for the number of days in the year before that date.

15. Recent Quebec changes are shown in the following table:

	Quebec changes effective after December 31, 2004		
	From	To	Effective
CCPC rates	8.9%	8.5%	January 1, 2006**
	8.5%	8%	March 24, 2006
Threshold up to which CCPC rate applies*	Nil	$400,000	January 1, 2006**
	$400,000	$500,000	March 20, 2009

* For taxation years straddling the effective date, the original threshold applies for the number of days in the year before that date.

** Before January 1, 2006, there was no CCPC threshold in Quebec and the provincial corporate income tax was 8.9% on all active business income.

16. Recent Saskatchewan changes are shown in the following table:

	Saskatchewan changes effective after December 31, 2004		
	From	To	Effective
CCPC rates	5.5%	5%	January 1, 2005
	5%	4.5%	January 1, 2007
Threshold up to which CCPC rate applies*	$300,000	$400,000	July 1, 2006
	$400,000	$450,000	July 1, 2007
	$450,000	$500,000	July 1, 2008

* For taxation years straddling the effective date, the original threshold applies for the number of days in the year before that date.

17. Recent Yukon changes are shown in the following table:

	Yukon changes effective after December 31, 2004		
	From	To	Effective
CCPC rates	6%	4%	January 1, 2005
Threshold up to which CCPC rate applies*	$250,000	$300,000	January 1, 2005
	$300,000	$400,000	January 1, 2007

* For taxation years straddling the effective date, the original threshold applies for the number of days in the year before that date.

Capital Tax Rates and Exemptions for 2009

Capital Tax Rates and Exemptions for 2009

In addition to federal capital taxes:

- four provinces levy a general capital tax on corporations (other than financial institutions) that have a permanent establishment there; and
- all provinces except Alberta levy a capital tax on financial institutions such as trust and loan companies and banks.

The calculation of the tax base may differ from province to province. The territories do not impose capital taxes.

The table below sets out capital tax rates for a twelve-month taxation year ending December 31, 2009. See the table following this one for capital tax rates for financial institutions, which follow special rules not applicable to other corporations.

Corporations in General

		Rate (for December 31, 2009 year-end)	Exemption[1]
Federal Large Corporations Tax[2]		No capital tax	
Alberta			
British Columbia			
Manitoba[3]	On first $20 million of taxable capital	0.2%	$10 million
	On taxable capital between $20 million and $21 million	2.4%	Nil
	On taxable capital > $21 million	0.4%	
New Brunswick[4]		No capital tax	
Newfoundland and Labrador			
Nova Scotia[5]	If taxable capital < $10 million	0.35%	$5 million
	If taxable capital ≥ $10 million	0.175%	Nil
Ontario[6]		0.225%	$15 million
Prince Edward Island		No capital tax	
Quebec[7]		0.24%	Up to $1 million
Saskatchewan[8]		No capital tax	

Notes:

1. Exemptions are generally shared by associated or related corporations.
2. The Large Corporations Tax was eliminated on January 1, 2006. See the table, **Other Federal Corporate Tax Rates for 2009**, above.
3. Recent and planned changes to Manitoba's general capital tax are shown below:

			Manitoba changes effective after December 31, 2004 Taxable capital employed in Manitoba (before Manitoba's capital tax deduction)				
			First $5 million*	> $5 million and ≤ $10 million*	>$10 million and ≤ $15 million	> $15 million and ≤ $20 million	> $20 million and ≤ $21 million	> $21 million
All companies	Taxation years commencing after	January 1, 2004	Nil*	0.3%			0.5%	
		January 1, 2007		Nil*	0.3%		2.5%	0.5%
		January 1, 2008			0.2%**		2.4%**	0.4%**
M&P companies	July 1, 2008***				Nil***			
Non-M&P companies	Taxation years commencing after	January 1, 2009			0.1%**		2.3%**	0.3%**
		January 1, 2010			Nil**		2.2%**	0.2%**
	After 2010				Nil**			

* Manitoba's capital tax deduction increased from $5 million to $10 million for taxation years commencing after January 1, 2007.

** The rate reduction does not apply to Crown corporations.

*** Manitoba's general capital tax is eliminated on July 1, 2008, for companies that use more than 50% of their labour and capital in Manitoba in M&P activities.

4. Recent changes to New Brunswick's general rate are shown below:

	New Brunswick changes effective after December 31, 2004		
	From	To	Effective
General capital tax rate	0.3%	0.25%	January 1, 2006
	0.25%	0.2%	January 1, 2007
	0.2%	0.1%	January 1, 2008
	0.1%	Nil	January 1, 2009

Capital Tax Rates and Exemptions for 2009 (continued)

5. Recent and planned changes to Nova Scotia's general rate are shown below:

		Nova Scotia changes effective after December 31, 2004		
		From	To	Effective
General capital tax rate	If taxable capital ≥ $10 million	0.3%	0.275%	July 1, 2005
		0.275%	0.25%	July 1, 2006
		0.25%	0.225%	July 1, 2007
		0.225%	0.2%	July 1, 2008
		0.2%	0.15%	July 1, 2009
		0.15%	0.1%	July 1, 2010
		0.1%	0.05%	July 1, 2011
		0.05%	Nil	July 1, 2012
	If taxable capital < $10 million	0.6%	0.55%	July 1, 2005
		0.55%	0.5%	July 1, 2006
		0.5%	0.45%	July 1, 2007
		0.45%	0.4%	July 1, 2008
		0.4%	0.3%	July 1, 2009
		0.3%	0.2%	July 1, 2010
		0.2%	0.1%	July 1, 2011
		0.1%	Nil	July 1, 2012

6. Recent and planned changes to Ontario's general rate and exemption are shown below:

		Ontario changes effective after December 31, 2004		
		From	To	Effective
General capital tax rate	Manufacturing and resource companies*	0.3%	Nil*	January 1, 2007
			0.225%**	
	Other companies	0.225%	0.15%	January 1, 2010
		0.15%	Nil	July 1, 2010
General capital tax exemption***		$5 million	$7.5 million	January 1, 2005
		$7.5 million	$10 million	January 1, 2006
		$10 million	$12.5 million	January 1, 2007
		$12.5 million	$15 million	January 1, 2008

* Retroactive to January 1, 2007, the general capital tax is eliminated or reduced for Ontario companies engaged in manufacturing or resource activities, as follows:

		Capital tax changes
% of salaries and wages related to M&P and resource activities	≥ 50%	Eliminated on January 1, 2007.(i)
	> 20% and < 50%	Reduced proportionately (straight-line) from January 1, 2007,(i) until July 1, 2010, when it will be eliminated.
	≤ 20%	Eliminated on July 1, 2010.

(i) Capital tax for manufacturing and resource companies was originally scheduled to be eliminated on January 1, 2008. It was made retroactive to January 1, 2007, for corporations that have employees reporting to a permanent establishment in Ontario on March 25, 2008.

** The general capital tax rate was originally scheduled to decrease to 0.285% on January 1, 2007 and to 0.225% on January 1, 2009.

*** For taxation years straddling the effective date, the previous exemption applies for the number of days in the year before that date.

Capital Tax Rates and Exemptions for 2009 (continued)

7. Recent and planned Quebec changes are shown below:

		Quebec changes effective after December 31, 2004		
		From	To	Effective
General capital tax rate	All companies	0.6%	0.525%	January 1, 2006
		0.525%	0.49%	January 1, 2007
		0.49%	0.36%	January 1, 2008
	M&P companies*	0.36%	Nil*	Taxation years ending after March 13, 2008*
	Non-M&P companies		0.24%**	January 1, 2009**
		0.24%	0.12%	January 1, 2010
		0.12%	Nil	January 1, 2011
Capital tax exemption***		$600,000	$1,000,000	January 1, 2005

* The general capital tax is eliminated or reduced for Quebec companies engaged in manufacturing and processing, as follows:

		Capital tax changes
% of activities attributable to M&P (based on M&P assets and labour)	≥ 50%	Eliminated for taxation years ending after March 13, 2008.
	> 20% and < 50%	Reduced proportionately (straight-line) for taxation years ending after March 13, 2008, until January 1, 2011, when it will be eliminated.
	≤ 20%	Eliminated on January 1, 2011.

** The general capital tax rate was originally scheduled to decrease from 0.36% to 0.29% on January 1, 2009.

*** The exemption is reduced by $1 for every $3 of the previous year's paid-up capital of the associated group exceeding the current year's maximum capital tax exemption. Therefore, for 2009 the exemption is eliminated when 2008 paid-up capital of the associated group exceeds $4,000,000.

8. Saskatchewan imposes a capital tax surcharge on large resource corporations. The surcharge rates decreased from July 1, 2006 to July 1, 2008.

Recent changes to Saskatchewan's general rate are shown below:

		Saskatchewan changes effective after December 31, 2004		
		From	To	Effective
General capital tax rate**	New capital*	0.6%	Nil*	July 1, 2006
	Other capital		0.3%	
		0.3%	0.15%	July 1, 2007
		0.15%	Nil	July 1, 2008

* The nil rate applies to new capital (i.e., additions of depreciable property in Saskatchewan made after June 30, 2006) and is implemented by applying a non-refundable tax credit against the corporation's capital tax liability.

** The rate changes do not apply to Saskatchewan Crown corporations, for which the rate remains 0.6%. (An additional 0.9% rate applies to telecommunications Crown corporations.)

Recent changes to Saskatchewan's capital tax exemption follow:

	Saskatchewan changes effective after December 31, 2004		
	From	To	Effective
General capital tax exemption*	$17.5 million	$20 million	Taxation years beginning after December 31, 2004

* Although a $10 million exemption is available to each corporation, the additional exemption (above $10 million) must be shared by the associated group. The extent to which the additional exemption is available to a corporation will depend on the proportion of salaries and wages paid in Saskatchewan by that corporation in relation to the total salaries and wages paid by the associated group.

Capital Tax Rates and Exemptions for 2009 (continued)

Financial Institutions

Financial institutions include banks and trust and loan corporations, but not insurance companies. For other corporations, see table above.

				Rate (for December 31, 2009 year-end)	Exemption[1]
Federal	Large Corporations Tax (LCT)[2]			No capital tax	
	Part VI Financial Institutions Capital Tax[3]			1.25%	$1 billion
Alberta				No capital tax	Nil
British Columbia[4]	If net paid-up capital ≤ $1 billion	If net paid-up capital < $10 million		Reduced rates	
		If net paid-up capital ≥ $10 million	B.C. paid-up capital < $10.25 million		
			B.C. paid-up capital ≥ $10.25 million	0.416%	
	If net paid-up capital > $1 billion	Based in and has head office in B.C.			
		Other		1.247%	
Manitoba[5]				3%	$10 million
New Brunswick				4%	$5 million
Newfoundland and Labrador	If paid-up capital ≤ $10 million				Nil
	If paid-up capital > $10 million				$30 million
Nova Scotia	Trust & loan corporations	Head office in N.S.			$500,000
		Other			
	Banks				
Ontario[6]	On first $400 million of adjusted taxable paid-up capital			0.45%	$15 million[6]
	On adjusted taxable paid-up capital > $400 million	Deposit-taking financial institutions		0.675%	Nil
		Other		0.54%	
Prince Edward Island				5%	$2 million
Quebec[7]				0.73%	Nil
Saskatchewan[8]	If taxable paid-up capital ≤ $1.5 billion			0.7%	Up to $20 million
	If taxable paid-up capital > $1.5 billion			3.25%	

Notes:

1. Associated or related corporations may be required to share the exemption.
2. The Large Corporations Tax was eliminated on January 1, 2006. See the table, **Other Federal Corporate Tax Rates for 2009**.
3. See the table, **Other Federal Corporate Tax Rates for 2009**. Recent changes to Part VI tax are shown in the following table:

		Federal changes effective after December 31, 2004	
		Before July 1, 2006	After June 30, 2006
Taxable capital employed in Canada	Between $200 million and $300 million	1%	Nil
	Between $300 million and $1 billion	1.25%	
	Over $1 billion	1.25%	

4. Recent and planned changes to British Columbia's capital tax rates are shown below:

		British Columbia changes effective after December 31, 2004			
		Net paid-up capital ≥ $10 million and ≤ $1 billion		Net paid-up capital > $1 billion	
	Effective	B.C. paid-up capital < $10.25 million	B.C. paid-up capital ≥ $10.25 million	Based in and has head office in B.C.	Other
Capital tax rates	Before April 1, 2008	Reduced rates	1%		3%
	April 1, 2008*		0.667%		2%
	April 1, 2009*		0.333%		1%
	April 1, 2010*		Nil **		

* After March 31, 2008 and before April 1, 2010, British Columbia's rate reductions are implemented by deducting from its financial corporation's capital tax payable:

- 33⅓% of the capital tax payable for April 1, 2008 to March 31, 2009;
- 66⅔% of the capital tax payable for April 1, 2009 to March 31, 2010; and
- 100% of the capital tax payable after March 31, 2010, if the taxation year includes March 31, 2010.

** Effective April 1, 2010, financial institutions with paid-up capital of $1 billion or more will be subject to a minimum tax, calculated as 1% of B.C. paid-up capital. The tax will be reduced for B.C. corporate income taxes paid.

Capital Tax Rates and Exemptions for 2009 (continued)

5. Manitoba's capital tax deduction increased from $5 million to $10 million, effective taxation years commencing after January 1, 2007.

6. Recent and planned changes to Ontario's exemption and rates are shown below:

	Ontario changes effective after December 31, 2004		
	From	To	Effective
Capital tax exemption*	$5 million	$7.5 million	January 1, 2005
	$7.5 million	$10 million	January 1, 2006
	$10 million	$12.5 million	January 1, 2007
	$12.5 million	$15 million	January 1, 2008

* For taxation years straddling the effective date, the previous exemption applies for the number of days in the year before that date.

		Ontario changes effective after December 31, 2004		
	Effective	Adjusted taxable paid-up capital* ≤ $400 million	Adjusted taxable paid-up capital* > $400 million	
			Deposit-taking	Other
Capital tax rates	Before January 1, 2007	0.6%	0.9%	0.72%
	January 1, 2007	0.45%**	0.675%**	0.54%**
	January 1, 2010	0.3%	0.45%	0.36%
	July 1, 2010	Nil		

* The adjusted taxable paid-up capital of a financial institution is net of the capital tax exemption.

** The financial institution rates were originally scheduled to decrease to:

- 0.57% on January 1, 2007 and to 0.45% on January 1, 2009;
- 0.855% on January 1, 2007 and to 0.675% on January 1, 2009; and
- 0.684% on January 1, 2007 and to 0.54% on January 1, 2009.

7. The 0.73% Quebec rate includes a 0.25% compensatory tax on paid-up capital. The rate applies to financial institutions, including savings and credit unions. A 2% compensatory tax on payroll also applies. Recent and planned changes in Quebec's base rate and exemption are shown below:

	Quebec changes effective after December 31, 2004		
	From	To	Effective
Capital tax rates	1.2%	1.05%	January 1, 2006
	1.05%	0.98%	January 1, 2007
	0.98%	0.72%	January 1, 2008
	0.72%	0.48%*	January 1, 2009*
	0.48%	0.24%	January 1, 2010
	0.24%	Nil	January 1, 2011

* The capital tax rate was originally scheduled to decrease from 0.72% to 0.58% on January 1, 2009.

8. The threshold at which Saskatchewan's 3.25% financial institutions capital tax rate applies increased from $1 billion to $1.5 billion for taxation years ending after October 30, 2008.

Recent changes to Saskatchewan's capital tax exemption follow:

	Saskatchewan changes effective after December 31, 2004		
	From	To	Effective
Capital tax exemption*	$17.5 million	$20 million	Taxation years beginning after December 31, 2004

* Although a $10 million exemption is available to each corporation, the additional exemption (above $10 million) must be shared by the associated group. The extent that the additional exemption is available to a corporation will depend on the proportion of salaries and wages paid in Saskatchewan by that corporation in relation to the total salaries and wages paid by the associated group.

Payroll Tax Rates

Payroll Tax Rates

Only those provinces and territories listed in the table below have payroll taxes (by various names).

		Rate	Payroll[1]	Payroll tax
Manitoba[2]	Health and Post-Secondary Education Tax	2.15%	Over $2,500,000	Payroll × 2.15%
		4.3%	$1,250,000 to $2,500,000	(Payroll − $1,250,000) × 4.3%
		0%	$0 to $1,250,000	$0
Newfoundland and Labrador[3]		2%	Over $1,000,000	(Payroll − $1,000,000) × 2%
		0%	$0 to $1,000,000	$0
Northwest Territories[4]	Payroll Tax	2%	Over $0	Payroll × 2%
Nunavut[4]				
Ontario	Employer Health Tax	1.95%	Over $400,000	(Payroll − $400,000) × 1.95%
		0%	$0 to $400,000	$0
Quebec[5]	Health Services Fund	4.26%	Over $5,000,000	Payroll x rate
		Reduced rates	$1,000,000 to $5,000,000	
		2.7%	$0 to $1,000,000	

Notes:

1. Associated employers must aggregate their payroll costs to apply the thresholds.

2. Recent changes to the thresholds at which Manitoba's Health and Post-Secondary Education Tax apply follow:

		Manitoba threshold changes effective after December 31, 2004		
		From	To	Effective
Rate	2.15%	Over $2,000,000	Over $2,500,000	January 1, 2008
	4.3%	$1,000,000 to $2,000,000	$1,250,000 to $2,500,000	
	0%	$0 to $1,000,000	$0 to $1,250,000	

3. Recent changes to the thresholds at which Newfoundland and Labrador's Health and Post-Secondary Education Tax apply follow:

		Newfoundland and Labrador threshold changes effective after December 31, 2004		
		From	To	Effective
Rate	2%	Over $700,000	Over $1,000,000	January 1, 2008
	4%	$600,000 to $700,000*	n/a	
	0%	$0 to $600,000	$0 to $1,000,000	

* If the payroll was between $600,000 and $700,000, the $600,000 exemption was phased down to $500,000 by reducing the exemption by $1 for every dollar of payroll above the exemption. The result was an effective rate of 4%.

4. In the Northwest Territories and Nunavut, payroll tax is paid by employees. It is not levied on employers, but employers must deduct the tax from remuneration paid to employees.

   Northwest Territories' payroll tax rate increased from 1% to 2% on January 1, 2005.

   Nunavut's payroll tax increased from 1% to 2% on April 1, 2007.

5. Quebec's Health Services Tax rate is reduced for employers with annual payrolls between $1 million and $5 million, using a formula that depends on both the calendar year and the employer's total payroll.

   Every Quebec employer with a payroll of $1,000,000 or more must:

   - allot at least 1% of payroll to training; or
   - contribute to a provincial fund the difference between that amount and the amount actually spent on training.

   In limited cases, corporations may be exempt from the Health Services Tax, and in some cases refunds may be made. Investment holding corporations may also be subject to a 1% compensatory tax on payroll.

   Individuals whose income from certain sources, excluding remuneration, exceeds $13,075 must contribute to the Health Services Fund (annual maximum contribution is $1,000). The contribution gives rise to a tax credit.

   Commencing 2006, employees, employers and the self-employed must contribute to a parental insurance plan, from which maternity, adoption and parental leave benefits will be paid.

Provincial Health Insurance Premiums

Provincial Health Insurance Premiums

Only Alberta, British Columbia and Ontario have health care premiums. Some employers pay all or a part of the employee's premiums. Employer-paid premiums constitute a taxable benefit to the employee.

Alberta Health Care Premiums

	Single	Couple/Family
After March 31, 2002*	$44 per month	$88 per month
January 1, 2009	Nil	

* In Alberta, commencing October 1, 2004, seniors are exempt from health care premiums.

British Columbia Medical Services Plan Premiums

	Single	Couple	Family
After April 30, 2002*	$54 per month	$96 per month	$108 per month

* In British Columbia, assistance is available to low-income earners.

Ontario Health Premiums

Ontario imposes a health care premium on individuals with taxable incomes exceeding $20,000 who are residents of Ontario on the last day of the taxation year. Individuals earning less than $20,000 are exempt, along with trusts and non-residents. The premium depends on taxable income, as shown in the table below.

		Premium per individual	
		2004	2005 and subsequent years
Taxable income	Up to $20,000	Nil	
	$20,000 to $25,000	3% of income > $20,000	6% of income > $20,000
	$25,000 to $36,000	$150	$300
	$36,000 to $38,500	$150 + 3% of income > $36,000	$300 + 6% of income > $36,000
	$38,500 to $48,000	$225	$450
	$48,000 to $48,600	$225 + 12.5% of income > $48,000	$450 + 25% of income > $48,000
	$48,600 to $72,000	$300	$600
	$72,000 to $72,600	$300 + 12.5% of income > $72,000	$600 + 25% of income > $72,000
	$72,600 to $200,000	$375	$750
	$200,000 to $200,600	$375 + 12.5% of income > $200,000	$750 + 25% of income > $200,000
	$200,600 and over	$450	$900

Integration Tables

Table 1: Active Business Income (based on a December 31, 2009 year end and $10,000 of active business income)[1]

This table shows:

- the income tax deferral if active business income is earned and retained in a corporation as opposed to being paid out of the corporation as salary to the shareholder; and
- the tax saving (cost) if instead of being paid out of the corporation as salary, the after-tax corporate income is paid out as a dividend to the shareholder.

	Eligible for Small Business Deduction[2]		No Small Business Deduction[2]			
			No M&P Deduction		M&P Deduction	
	Deferral	Saving	Deferral	Saving/(Cost)	Deferral	Saving/(Cost)
Alberta	2,500	117	1,000	(33)	1,000	(33)
British Columbia	3,020	191	1,370	(24)	1,370	(24)
Manitoba	3,552	190	1,602	(30)	1,602	(30)
New Brunswick	3,000	126	1,450	(43)	1,450	(43)
Newfoundland and Labrador	2,959	211	1,259	(274)	2,159	420
Northwest Territories	3,005	485	1,455	187	1,455	187
Nova Scotia	3,225	448	1,325	(518)	1,325	(518)
Nunavut	2,750	289	1,150	(384)	1,150	(384)
Ontario	3,093	476	1,443	(102)	1,643	52
Prince Edward Island	3,400	95	1,237	(352)	1,237	(352)
Quebec	3,133	188	1,943	(109)	1,943	(109)
Saskatchewan	2,850	245	1,300	(104)	1,500	55
Yukon	2,740[3]	148[3]	840	(297)	2,090	737

Notes:

1 This table assumes the individual is taxed at the top marginal income tax rate. Levies other than federal and provincial income tax, the employer portion of provincial health tax and the employee portion of Northwest Territories and Nunavut payroll taxes are not considered (e.g., Canada Pension Plan contributions). Different results may arise in special circumstances (e.g., for Quebec financial institutions and oil refining companies that are not eligible for the small business deduction, and for credit unions).

2 The federal small business threshold increased from $400,000 to $500,000, retroactive to January 1, 2009. The $500,000 threshold also applies in New Brunswick, Newfoundland and Labrador, Northwest Territories, Nunavut, Ontario, Prince Edward Island and Saskatchewan, after March 19, 2009 in Quebec, after March 31, 2009 in Alberta and after December 31, 2009 in British Columbia. Manitoba, Nova Scotia and the Yukon have not harmonized with this increase.

3 The figures assume that Yukon's rate on active business income that is not M&P income applies. If Yukon's rate on active business income that is M&P income applies, the tax deferral is $2,890 and the tax saving is $253.

Table 2: Investment Income (based on a December 31, 2009 year end and $10,000 of investment income)[1]

This table shows:

- the income tax deferral or prepayment if investment income is earned and retained in a corporation as opposed to being earned directly by an individual; and
- the tax cost if the after-tax corporate income is paid out as a dividend to the shareholder.

	Portfolio Dividends		Capital Gains		Interest	
	(Prepayment)	(Cost)	Deferral/ (Prepayment)	(Cost)	Deferral/ (Prepayment)	(Cost)
Alberta	(1,878)	Nil	(283)	(58)	(567)	(117)
British Columbia	(1,341)	Nil	(98)	(73)	(197)	(147)
Manitoba	(950)	Nil	(38)	(233)	(76)	(466)
New Brunswick	(1,153)	Nil	(58)	(93)	(116)	(186)
Newfoundland and Labrador	(1,044)	Nil	(208)	(183)	(417)	(367)
Northwest Territories	(1,508)	Nil	(155)	(8)	(312)	(17)
Nova Scotia	(498)	Nil	(120)	(109)	(242)	(220)
Nunavut	(1,109)	Nil	(308)	(133)	(617)	(267)
Ontario	(1,027)	Nil	(113)	(34)	(226)	(66)
Prince Edward Island	(889)	Nil	(164)	(357)	(330)	(715)
Quebec	(364)	Nil	83	(38)	165	(76)
Saskatchewan	(1,298)	Nil	(133)	(33)	(267)	(67)
Yukon	(1,610)	Nil	(363)	(250)	(727)	(499)

Notes:

1 This table assumes that:

- the individual is taxed at the top marginal income tax rate;
- the portfolio dividends are designated as "eligible" dividends;
- the capital gains deductions for qualifying small business corporation shares or qualified farming or fishing property are not available; and
- the taxable dividend paid is sufficient to generate a full refund of refundable tax.

Prescribed Quarterly Interest Rates

- Deemed interest on employee and shareholder loans
- Rate for overpaid taxes
- Late or deficient income tax payments and unremitted withholdings

	Jan. 1 - Mar. 31			Apr. 1 - June 30			July 1 - Sept. 30			Oct. 1 - Dec. 31		
1994	5	7	7	4	6	6	6	8	8	5	7	7
1995	6	8	8	8	10	10	9	11	13	7	9	11
1996	7	9	11	6	8	10	5	7	9	5	7	9
1997	4	6	8	3	5	7	4	6	8	4	6	8
1998	4	6	8	5	7	9	5	7	9	5	7	9
1999	5	7	9	5	7	9	5	7	9	5	7	9
2000	5	7	9	6	8	10	6	8	10	6	8	10
2001	6	8	10	6	8	10	5	7	9	5	7	9
2002	3	5	7	2	4	6	3	5	7	3	5	7
2003	3	5	7	3	5	7	4	6	8	3	5	7
2004	3	5	7	3	5	7	2	4	6	3	5	7
2005	3	5	7	3	5	7	3	5	7	3	5	7
2006	3	5	7	4	6	8	4	6	8	5	7	9
2007	5	7	9	5	7	9	5	7	9	5	7	9
2008	4	6	8	4	6	8	3	5	7	3	5	7
2009	2	4	6	1	3	5	1	3	5			

Income Tax Regulation: 4300; 4301

Prescribed Interest Rates for Leasing Rules (%)

	2000	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*
January	7.12	6.63	6.66	6.55	6.24	5.87	5.20	5.03	5.22	5.00
February	7.25	6.59	6.75	6.37	6.14	5.86	5.04	5.11	5.18	4.45
March	7.36	6.71	6.72	6.45	6.15	5.69	5.22	5.23	5.17	4.74
April	6.98	6.63	6.68	6.39	5.98	5.71	5.17	5.10	5.14	4.70
May	6.96	6.74	7.00	6.52	5.94	5.75	5.26	5.21	4.91	4.63
June	7.03	6.94	6.89	6.34	6.23	5.55	5.59	5.21	5.02	4.72
July	6.94	7.08	6.76	6.01	6.23	5.41	5.51	5.43	5.07	5.11
August	6.90	6.97	6.73	5.98	6.30	5.27	5.69	5.59	5.07	4.96
September	6.83	7.01	6.70	6.35	6.29	5.31	5.46	5.52	5.18	
October	6.79	6.72	6.55	6.40	6.14	5.11	5.22	5.44	5.02	
November	6.83	6.86	6.38	6.19	6.02	5.21	5.08	5.50	5.14	
December	6.79	6.32	6.61	6.33	5.96	5.38	5.25	5.39	5.31	

Income Tax Regulation: 4302

Automobile Rates and Limits

The following rates and limits are prescribed in sections 7305.1 to 7307 of the Income Tax Regulations. In recent years, the Department of Finance has been adjusting the amounts by News Release issued at the end of the calendar year.

See the definitions of "automobile" and "passenger vehicle" in subsection 248(1).

	Jan. 1/00-Dec. 31/00	Jan. 1/01-Dec. 31/02	Jan. 1/03-Dec. 31/04	Jan. 1/05-Dec. 31/05	Jan. 1/06-Dec. 31/07	Jan. 1/08-Dec. 31/09
Operating expense benefit - per kilometre [1]						
Employees	15¢	16¢	17¢	20¢	22¢	24¢
Employees employed principally in selling or leasing automobiles	12¢	13¢	14¢	17¢	19¢	21¢

	Jan. 1/00-Dec. 31/00	Jan. 1/01-Dec. 31/02	Jan. 1/03-Dec. 31/04	Jan. 1/05-Dec. 31/05	Jan. 1/06-Dec. 31/07	Jan. 1/08-Dec. 31/09
Reasonable allowance per kilometre [2]						
Deductible by employer where tax-free allowance paid to employee:						
All Provinces*	37¢/31¢	41¢/35¢	42¢/36¢	45¢/39¢	50¢/44¢	52¢/46¢
Nunavut, Yukon and Northwest Territories*	41¢/35¢	45¢/39¢	46¢/40¢	49¢/43¢	54¢/48¢	56¢/50¢

	Jan. 1/00-Dec. 31/00	Jan. 1/01-Dec. 31/02	Jan. 1/03-Dec. 31/04	Jan. 1/05-Dec. 31/05	Jan. 1/06-Dec. 31/07	Jan. 1/08-Dec. 31/09
Cost of passenger vehicle [3]	$27,000**	$30,000**	$30,000**	$30,000**	$30,000**	$30,000**
Prescribed monthly interest [4]	$250	$300	$300	$300	$300	$300
Monthly lease amount [5]	$700**	$800**	$800**	$800**	$800**	$800**

* First number applies to the first 5,000 kilometres driven in the year. The second number applies to subsequent kilometres driven in the year.

** Applicable federal and provincial sales taxes are added to these figures to calculate the ceiling amount.

[1] Reg. 7305.1; prescribed for s. 6(1)(*k*)(v).

[2] Reg. 7306; prescribed for s. 18(1)(*r*).

[3] Reg. 7307(1); prescribed for ss. 13(2), 13(7)(*g*), 13(7)(*h*)(iii), 20(4), 20(16.1), the description of B in 67.3(*d*), and 85(1)(*e*.4)(i).

[4] Reg. 7307(2); prescribed for the description of A in s. 67.2.

[5] Reg. 7307(3); prescribed for the description of A in s. 67.3(*c*).

Mileage Rates and Meal Allowances

In calculating northern residents' deductions (s. 110.7), moving expenses (s. 62), and transportation to obtain medical services (s. 118.2(2)), the CRA will permit mileage deductions to be calculated on an arbitrary cents per kilometre basis, and flat rate meal allowances for the travel period in lieu of actual "reasonable" expenses.

This method of calculating mileage deductions is not available for auto expenses claimed in the course of employment. Receipts need not be kept when claiming the flat rate allowance; they must be kept if claiming actual expenses. For 2001 and 2002, the flat rate allowance is $11 per meal, to a maximum of $33 per day; for 2003, 2004 and 2005, $15 per meal, to a maximum of $45 per day; and for 2006, 2007, and 2008, $17 per meal, to a maximum of $51 per day.

Where the option is permitted, the acceptable mileage rates are:

Province or Territory	*Cents per kilometre for taxation year*				
	2004	2005	2006	2007	2008
Alberta	43.5	45.5	47.5	48.0	53.0
British Columbia	43.0	45.5	47.5	48.0	54.0
Manitoba	40.5	44.0	45.5	46.5	50.5
New Brunswick	43.5	45.5	47.5	47.0	52.0
Newfoundland and Labrador	47.5	49.0	50.5	50.5	55.5
Northwest Territories	49.0	52.5	54.5	56.5	64.0
Nova Scotia	44.0	46.0	47.5	48.0	52.5
Nunavut	49.0	52.5	54.5	56.5	64.0
Ontario	45.5	47.0	48.5	49.5	55.5
Prince Edward Island	44.0	45.5	47.5	47.0	52.5
Quebec	47.5	50.0	51.5	52.5	58.0
Saskatchewan	40.0	43.0	44.5	46.0	49.5
Yukon	50.5	55.0	57.0	58.0	66.0

For travel from outside Canada into Canada, use the per kilometre rate for the province or territory of final destination. For travel from Canada to outside Canada, use the per kilometre rate for the province or territory where travel began. For travel between countries outside Canada, the actual expense method must be used.

Yearly Average Conversion Rates for Major Currencies (2004–2008)

For a complete list of monthly and annual conversion rate averages, see the "Exchange Rates" page on the Bank of Canada website at http://www.bankofcanada.ca/en/rates/exchange.html.

Country	Monetary Unit	2004	2005	2006	2007	2008
Argentina	*peso*	0.4420	0.4145	0.3670	0.3420	0.3319
Australia	*dollar*	0.9582	0.9243	0.8543	0.8982	0.9002
Bahamas	*dollar*	1.3015	1.2116	1.1341	1.0748	1.0660
Brazil	*new real*	0.4451	0.4993	0.5217	0.5513	0.5868
Burma (Myanmar)	*kyat*	0.2265	0.2105	0.1961	0.1931	0.1976
Chile	*peso*	0.002137	0.002167	0.002138	0.002055	0.002057
China	*renminbi*	0.1573	0.1479	0.1422	0.1412	0.1536
Colombia	*peso*	0.000495	0.000522	0.000482	0.000518	0.000544
Communauté Financière Africaine	*franc C.F.A.*	0.002465	0.002300	0.002170	0.002240	0.002379
Comptoirs Français du Pacifique	*franc C.P.A.*	0.01355	0.01265	0.01193	0.01231	0.01308
Croatia	*kuna*	0.2157	0.2039	0.1944	0.2002	0.2160
Czech Republic	*koruna*	0.05069	0.05064	0.05026	0.05293	0.06259
Denmark	*krone*	0.2173	0.2025	0.1909	0.1972	0.2093
East Caribbean	*E.C. dollar*	0.4874	0.4535	0.4242	0.4029	0.4040
European Monetary Union	*Euro*	1.6169	1.5090	1.4237	1.4691	1.5603
Fiji	*dollar*	0.7557	0.7206	0.6571	0.6680	0.6701
Ghana	*cedi*	0.000146	0.000134	0.000124	0.000122 1.0689[1]	0.9865
Guatemala	*quetzal*	—	0.15861	0.1491	0.1400	0.1410
Honduras	*lempira*	0.07155	0.06437	0.06002	0.05688	0.05641
Hong Kong	*dollar*	0.167098	0.155772	0.145989	0.137744	0.136931
Hungary	*forint*	0.006427	0.006088	0.005397	0.005848	0.006215
Iceland	*krona*	0.01856	0.01928	0.01629	0.01677	0.01264
India	*rupee*	0.02876	0.02753	0.02511	0.02605	0.02458
Indonesia	*rupiah*	0.000146	0.000125	0.000124	0.000118	0.000111
Israel	*shekel*	0.2904	0.2704	0.2547	0.2614	0.2974
Jamaica	*dollar*	0.02145	0.01964	0.01734	0.01561	0.01466
Japan	*yen*	0.012035	0.011035	0.009753	0.009121	0.01037
Malaysia	*ringgit*	0.3425	0.3199	0.3092	0.3125	0.3195
Mexico	*peso*	0.1154	0.1112	0.1041	0.09832	0.09587
Morocco	*dirham*	0.1467	0.1369	0.1289	0.1310	0.1375
Neth. Antilles	*guilder/florin*	0.7312	0.6807	0.6372	0.6038	0.5990
New Zealand	*dollar*	0.8636	0.8542	0.7368	0.7892	0.7547
Norway	*krone*	0.1931	0.1882	0.1769	0.1832	0.1900
Pakistan	*rupee*	0.02234	0.02033	0.01881	0.01769	0.01515
Panama	*balboa*	1.3015	1.2116	1.1341	1.0748	1.0660
Peru	*nuevo sol*	0.3812	0.3679	0.3464	0.3432	0.3642
Philippines	*peso*	0.02322	0.02201	0.02211	0.02328	0.02400
Poland	*zloty*	0.3575	0.3749	0.3657	0.3883	0.4456
Romania	*nouveau leu*	N/A	N/A	N/A	0.4153	0.4241
Russia	*rouble*	0.04518	0.04284	0.04173	0.04198	0.04285
Serbia	*dinar*	N/A	N/A	N/A	0.01800	0.01918
Singapore	*dollar*	0.7698	0.7283	0.7139	0.7126	0.7525
Slovakia	*koruna*	0.04040	0.03910	0.03830	0.04350	0.04999
Slovenia	*tolar*	0.006765	0.006299	0.005942	N/A[2]	N/A[2]
South Africa	*rand*	0.2023	0.1907	0.1689	0.1523	0.1299
South Korea	*won*	0.001136	0.001184	0.001188	0.001156	0.000979
Sri Lanka	*rupee*	0.01288	0.01207	0.01091	0.009727	0.009836
Sweden	*krona*	0.1772	0.1628	0.1539	0.1589	0.1623
Switzerland	*franc*	1.0473	0.9746	0.9050	0.8946	0.9840

Country	Monetary Unit	2004	2005	2006	2007	2008
Taiwan	*new Taiwan dollar*	0.03903	0.03775	0.03488	0.03271	0.03377
Thailand	*baht*	0.03235	0.03013	0.02993	0.03323	0.03229
Trindad & Tobago	*dollar*	0.2116	0.1944	0.1804	0.1708	0.1718
Tunisia	*dinar*	1.0452	0.9360	0.8528	0.8392	0.8650
Turkey	*new lira*[3]	0.009136[4]	0.8996[5]	0.7933[5]	0.8221[5]	0.8207
United Arab Emiratesdirham	*dirham*	—	—	—	0.2700	0.2902
United Kingdom	*pound*	2.38418532	2.20669880	2.08858760	2.14865378	1.96166905
United States	*dollar*	1.30152024	1.21163240	1.13409360	1.07478127	1.06601429
Venezuela	*bolivar/bolivar fuerte*[6]	0.000693	0.000576	0.000528	0.000501	0.4964[6]
Vietnam	dong	—	—	0.000071	0.000067	0.000065

Notes:

[1] Based on the average value after Ghana redenominated its currency in July 2007.

[2] Effective January 1, 2007, Slovenia replaced the *tolar* with the Euro as its currency.

[3] Introduced January 1, 2005.

[4] Based on 10,000 Lira.

[5] Based on 1,000,000 Lira.

[6] Effective January 1, 2008, the bolivar was replaced with the bolivar fuerte, which in effect removed the first three zeros from the conversion rate.

To report a major transaction where proceeds were received (or capital or depreciable property was acquired) in a foreign currency, the amount is usually converted to Canadian dollars using the exchange rate on the actual date of the transaction. This can be obtained from the Bank of Canada Web site (www.bankofcanada.ca/en/rates/exchange.html). Where periodic income is received in a foreign currency, or a taxpayer has a series of relatively small transactions, the CRA will normally accept the reporting of all transactions converted at the average rate for the year.

To convert income reported in foreign currency, multiply by the rate above to report in Canadian dollars. For example, if you received 2008 income reported to you as US$100 (100 U.S. dollars), you would report Canadian income of $100 × 1.06601429 = CDN$106.60 (106.60 Canadian dollars). If you were reporting Canadian dollar receipts to a foreign government, you would divide the Canadian dollars by the number shown. For example, if you have to report CDN$100 (100 Canadian dollars) on a U.S. tax return, you would report CDN$100 / 1.06601429 = US$93.81.

Alphabetical List of Assets — Capital Cost Allowance Classes and Rates

The following table sets out the current capital cost allowance rates. This table is for use only as a quick reference guide for the capital cost allowance classes and rates for certain types of assets. See Part XI and Schedules II, III, IV, V, and VI of the Income Tax Regulations for detailed rules relating to capital cost allowance.

Item	Rate	Class
Access roads and trails for the protection of standing timber	30%	10
Air conditioning equipment — same rate as building[1]		
Aircraft[16]	25%	9
furniture and fittings	25%	9
hangars[1]	10%	6
Airplane runways[16]	8%	17
Amusement park components (including fences, bridges, canals, stalls, tractors, etc.)	15%	37
land improvements[39]	15%	37
Apparel, used for earning rental income[1,26]	100%	12
Asphalt surface, storage yard[16]	8%	17
Assets, tangible capital[1,2]	20%	8
used primarily in manufacturing and processing[10,15]		29, 39, 40, 43
Automobiles[1]	30%	10
acquired after June 17, 1987 in excess of prescribed amount (Reg. 7307(1))[1,7]	30%	10.1
for lease or rental[22]	40%	16
Automotive equipment[1]	30%	10
designed for and used in amusement parks	15%	37
Bar code scanners — see Cash registers		
Billboards		
acquired before 1988	35%	11
acquired after 1987[10]	20%	8
Boats — see Vessels		
Boilers		
heating use — same rate as building		
used primarily in manufacturing or processing[10,15]		29, 39, 43
Books of lending libraries[26]	100%	12
Breakwaters		
wooden	10%	6
other	5%	3
Bridges[1]	4%	1
Buildings[1]		
addition or alteration — same class as buildings[13]		
amusement park stalls	15%	37
brick, stone, cement, etc., acquired before 1988	5%	3
brick, stone, cement, etc., acquired after 1987	4%	1
component parts — generally same class as building (see individual items)		
farm ensilage storage	20%	8
foundation excavation — same rate as building		
frame, log, stucco on frame, galvanized iron or corrugated metal[25]	10%	6
kiln, tank, vat used in manufacturing and processing	20%	8
manufacturing or processing[43]	4%	1
mining (except refineries and office buildings not at mine)	30%	10
multiple-unit residential[7,18]	5%	31
non-residential[43]	4%	1
portable camp	30%	10
rental property[7]		
storage of fresh fruits and vegetables	20%	8
Buses	30%	10
Cable TV converters and descramblers (acquired after Aug. 31, 1984)	30%	10
Cables — telephone, telegraph or data communication		
acquired before Feb. 23, 2005	5%	3
acquired after Feb. 22, 2005	12%	42
fibre optic[29]	12%	42
Calculator	20%	8
Canals[1]	4%	1
Canoes	15%	7
Capital tangible assets[1,2]	20%	8
used primarily in manufacturing and processing[10,15]		29, 39, 40, 43
Cash registers	20%	8
electronic, to record multiple sales taxes[3]	100%	12
Catalyst[21]	5%	26
Cattle	nil	—
Chinaware[26]	100%	12
Cold storage structures	20%	8
Computer hardware and systems software[15,30]		
acquired before Mar. 23, 2004	30%	10
acquired after Mar. 22, 2004 and before Mar. 19, 2007	45%	45
acquired after Mar. 18, 2007[44]	55%	50

Item	Rate	Class
acquired after Jan 27, 2009 and before Feb. 2011[44]	100%	52
Computer software[10,16,24,30]	100%	12
Concessions		14
Concrete mixing plant	20%	8
Contractors' movable equipment, heavy	30%	10
acquired before 1988[5]	50%	22
acquired after 1987[5,10]	30%	38
Conversion cost — see Vessels		
Copyrights		14
Costume and accessories for earning rental income[1,26]	100%	12
Culverts[1,10]	4%	1
Cutlery[26]	100%	12
Cutting part of a machine[1,27]	100%	12
Dairy plant and equipment	20%	8
Dams[1]	4%	1
Data communication equipment — wire and cable		
acquired before Feb. 23, 2005	5%	3
acquired after Feb. 22, 2005	12%	42
Data communication switching equipment[16]	8%	17
Dental instruments (costing less than $500; $200 limit if acquired before May 2, 2006)[1,16,26]	100%	12
Deuterium enriched water[21]	5%	26
Dies[1,27]	100%	12
Display fixtures (window)	20%	8
Distribution equipment for gas, heat, electrical energy, or water[4]		
acquired before 1988	6%	2
acquired after 1987	4%	1
for heat or water, acquired after Feb. 27, 2000	8%	17
Docks[1]	5%	3
Drive-in theatre property	30%	10
Electrical advertising signs[10,16]	20%	8
Electrical generating and distributing equipment[4,6,10]		
acquired before 1988	6%	2
acquired after 1987	4%	1
acquired after Feb. 27, 2000 for generation[10]	8%	17
acquired after Feb. 22, 2005 for transmission[34]	8%	47
combustion turbines acquired after Feb. 22, 2005[34]	15%	48
energy efficient generating equipment[19,34,35]	50%, 30%, 50%	34, 43.1, 43.2
Electrical power plants		
acquired before 1988[4]	6%	2
acquired after 1987	4%	1
not more than 15 kilowatts[16]	20%	8
not more than 15 megawatts[19,34]	50%	34
energy efficient, acquired after Feb. 21, 1994[6,34,35]	30%, 50%	43.1, 43.2
Electric wiring — same rate as building		

Item	Rate	Class
Electronic communications equipment including fax machines and telephone equipment[10]	20%	8
Electronic data processing equipment[1,15,16,30]		
applications or sales tax point of sale software[3]	100%	12
used primarily in manufacturing and processing[15]		10, 29, 40
Electronic data processing equipment — data network infrastructure and systems software		
acquired before Mar. 23, 2004[10]	20%	8
acquired after Mar. 22, 2004	30%	46
Electronic data processing equipment — general purpose and systems software		
acquired before Mar. 23, 2004[10]	30%	10
acquired after Mar. 22, 2004 and before Mar. 19, 2007	45%	45
acquired after Mar. 18, 2007[44]	55%	50
acquired after Jan 27, 2009 and before Feb. 2011[44]	100%	52
Elevators — same rate as building		
Equipment (see specific types)		
if not specifically mentioned[2]	20%	8
manufacturing and processing[10,15]		29, 39, 40, 43
Escalators — same rate as building		
Farming and fishing assets[38]		
Fences[1]	10%	6
Fibre-optic cable[29]	12%	42
Films, motion pictures[16]	30%	10
Canadian production[7,36]	30%	10
certified production[36]	100%	12
certified production acquired after 1987 and before March 1996[7,36]	30%	10
television commercials	100%	12
Franchises		14
Furniture (not otherwise listed)[15]	20%	8
Gas manufacturing and distributing equipment, plants and pipelines[4,8]		
acquired before 1988[10]	6%	2
acquired after 1987	4%	1
distribution pipelines acquired after Mar. 18, 2007[33]	6%	51
liquefied natural gas facilities acquired after Mar. 18, 2007	8%	47
transmission pipelines acquired after Feb. 22, 2005[10,33]	8%	49
Gas well equipment		
acquired after 1987	25%	41
acquired before 1988	30%	10
Generating equipment and plant of producer or distributor of electrical energy[4,6]		
acquired before 1988	6%	2
acquired after 1987	4%	1
acquired after Feb. 27, 2000	8%	17
energy efficient	30%, 50%	43.1, 43.2
wave and tidal energy equipment	30%, 50%	43.1, 43.2

Item	Rate	Class
Glass tableware[1,26]	100%	12
Grain drying machinery[11]	20%	8
Grain storage facilities — see buildings[11]		
Greenhouses[1]	10%	6
rigid frame with plastic cover	20%	8
Hangars[1]	10%	6
Harness equipment[1]	30%	10
	50%, 30%, 50%	34, 43.1, 43.2
Heat production and recovery equipment[19]		
Heating equipment		
distribution plant, acquired before 1988	6%	2
distribution plant, acquired after 1987	4%	1
general — same rate as building		
solar or energy efficient, acquired before Feb. 22, 1994[19,34]	50%	34
solar or energy efficient, acquired after Feb. 21, 1994[19,34]	30%, 50%	43.1, 43.2
Heavy water[21]	5%	26
Herbs	nil	—
Horses	nil	—
Instruments, dental or medical (costing less than $500; $200 limit if acquired before May 2, 2006)[1,16,26]	100%	12
Jetties[16]	5%	3
wood	10%	6
Jigs[1,27]	100%	12
Kitchen utensils (costing less than $500; $200 limit if acquired before May 2, 2006)[1,16,26]	100%	12
Land	nil	—
deemed depreciable[7]	nil	36
Lasts[1,36]	100%	12
Leasehold interest		13
Lending library books[1,26]	100%	12
Licences		14
Lighting fixture — same rate as building		
Linen[1,26]	100%	12
Logging mechanical equipment	30%	10
Machinery and equipment		
additional capital cost allowance on grain elevators[11]	14%	8
not specifically listed[2]	20%	8
used primarily in manufacturing and processing[10,15]		29, 39, 40, 43
Marine railways	15%	7
Medical instruments (costing less than $500; $200 limit if acquired before May 2, 2006)[1,16,26]	100%	12
Metric scales[1,20]	20%	8
Mine shafts (sunk after mine in production)[1,26]	100%	12
Mining equipment	30%	10
Mining equipment, new or expanded mines[7,14]		
acquired before 1988	30%	28
acquired after 1987	25%	41
acquired after Feb. 25, 1992 for processing foreign ore unless Class 41 elected	30%	43
Moles[1,16]	5%	3
Motion picture drive-in theatres	30%	10
Motion picture films — see Films		
Moulds[1,27]	100%	12
Multiple-unit residential buildings[7,18]	5%, 10%	31, 32
Office equipment[30]	20%	8
Offshore drilling platforms		
acquired before 1988	30%	10
acquired after 1987	25%	41
Offshore drilling vessels[7,16,17]		
acquired before 1988	15%	7
acquired after 1987	25%	41
Oil pipelines		
acquired before 1988[8,10]	6%	2
acquired after 1987	4%	1
acquired after Feb. 22, 2005 — transmission[33]	8%	49
Oil storage tanks[1,15]	10%	6
used primarily in manufacturing and processing[15]		29, 39, 43
Oil well equipment[1]		
acquired before 1988	30%	10
acquired after 1987[14]	25%	41
acquired after 1987	20%	8
Overburden removal cost, designated[1,26]	100%	12
Parking area[16]	8%	17
Patents		14
	25%	44
Patterns[1,27]	100%	12
Photocopy machines[10,15,30]	20%	8
Pinball machines — see Video games		
Pipelines		
acquired before 1988[8,10]	6%	2
acquired after 1987	4%	1
acquired after February 22, 2005 and used for transmission of oil and natural gas[33]	8%	49
acquired after March 18, 2007 for distribution of natural gas[33]	6%	51
acquired after Feb. 25, 2008 for transmission of carbon dioxide	8%	49
Plumbing — same rate as building		
Pollution control equipment[12]		
air, certified, acquired before 1999	50%	27
water, certified, acquired before 1999	50%	24
uncertified, used in M&P[10]	25%, 30%	39, 43
not specifically listed — Class 1, 2, 6 or 8, depending on type of asset		
Portable construction camp buildings	30%	10
Portable electrical generating equipment[16]	20%	8
Portable equipment used for temporary rentals[15]	30%	10
Portable tools[1,15,16]	30%	10
Power operated movable equipment[5,15]		
acquired before 1988	50%	22
acquired after 1987	30%	38

Item	Rate	Class
Power plants — see Electrical power plants		
Production equipment of distributor of heat (including structures)		
acquired before 1988[4]	6%	2
acquired after 1987	4%	1
acquired after Feb. 27, 2000	8%	17
Pumping and compression equipment		
Gas & oil acquired before Feb. 23, 2005	20%	8
Gas & oil acquired after Feb. 22, 2005[10,33]	15%	7
Carbon dioxide acquired after Feb. 25, 2008	15%	7
Radar equipment[16]	20%	8
Radio communication equipment (excluding satellites)[16]	20%	8
Radium	nil	—
Railway car and rail suspension devices[1,7,16,31]		
acquired before Feb. 28, 2000[31]	7%	35
acquired after Feb. 27, 2000[31]	15%	7
Railway locomotive (excluding automotive railway car)[16]	8%	49
acquired after May 25, 1976[16,31]	10%	6
acquired after February 27, 2000[31]	15%	7
acquired after February 25, 2008[31]	30%	10
Railway, marine	15%	7
Railway system or a part thereof designed to run on rail or track	6%	4
Railway track or grading[1,7,31]	4%	1
Railway traffic control or signalling equipment[1,7,16,31]	4%	1
Railway trestle[7,31]	5%	3
Rapid transit car[40]	20%	8
Refrigeration equipment	20%	8
Renewable energy generation equipment[6,19,34]		
acquired after February 21, 1994	30%	43.1
acquired after Feb. 22, 2005 and before 2020[35]	50%	43.2
Rental property[7]		
Roads[1,16]	8%	17
acquired in relation to a mine	25%	41
forestry (may be depreciated with timber limit)	30%	10
oil and gas mining temporary access[41]		
Roller rink floors	30%	10
Rowboats	15%	7
Sales tax calculation equipment[3]	100%	12
Satellites[7]		
acquired after 1987	30%	10
acquired before 1988	40%	30
Scales, metric — see Metric scales		
Scanners, bar codes[3]	100%	12
Scows	15%	7
Shafts, mine (sunk after mine in production)[1,26]	100%	12
Shaping part of a machine[1,27]	100%	12
Ships, including ships under construction	15%	7
Shrubs	nil	—
Sidewalks[16]	8%	17
Sleighs[1]	30%	10
Solar heating equipment[19]		
acquired before Feb. 22, 1994	50%	34
acquired after Feb. 21, 1994	30%	43.1
acquired after Feb. 22, 2005 and before 2020	50%	43.2
Spacecraft (telecommunication)[7]		
acquired before 1988	40%	30
acquired after 1987	30%	10
Spare parts for an aircraft[16]	25%	9
Sprinkler systems — same rate as building		
Stable equipment[1]	30%	10
Storage area[16]	8%	17
Storage tanks, oil or water[1]	10%	6
direct manufacturing use[15]		29, 39, 43
Subway or tunnel[1,16]	4%	1
Swimming pool	10%	6
Systems software — general purpose electronic data processing equipment[1,16,30]		
acquired before Mar. 23, 2004[10]	30%	10
acquired after Mar. 22, 2004	45%	45
acquired after Mar. 18, 2007[44]	55%	50
acquired after Jan 27, 2009 and before Feb. 2011[44]	100%	52
primary manufacturing purpose[15]		10, 29, 40
Tableware, glass[1,26]	100%	12
Tangible capital assets[1,2]	20%	8
Tank cars, railway[1,7,16]	7%	35
Tanks, oil and water storage[1]	10%	6
used primarily in manufacturing and processing[15]		29, 39, 43
Taxicabs[16]	40%	16
Telecommunication spacecraft[7]		
acquired before 1988	40%	30
acquired after 1987	30%	10
Telegraph and telephone equipment, wires and cables[16]		
acquired before Feb. 23, 2005[1,16]	5%	3
new and acquired after Feb. 22, 2005	12%	42
poles and masts[1,16]	5%	3
fibre-optic cable[29]	12%	42
Telephone or telegraph communication non-electronic switching equipment[16]	8%	17
Telephone system (purchased)[30]	20%	8
Television aerial[16]	20%	8
Television commercials	100%	12
Timber cutting and removing equipment	30%	10, 15
Timber limits — see Sched. VI of the Income Tax Regulations[7]	30%	
Timber resource property	15%	33
Tools (costing less than $500; $200 limit if acquired before May 2, 2006)[1]	100%	12

Item	Rate	Class
Tractors[1]	30%	10
for hauling freight[28]	40%	16
Trailers[1,37]	30%	10
Tramways[4,9]	6%	4
Trees	nil	—
Trestles[1,31]	5%	3
Trolley bus system[4]	6%	4
Trucks, automotive[1]	30%	10
for hauling freight[28]	40%	16
Tunnel[1,16,31]	4%	1
Uniforms[1,26]	100%	12
Vessels[7,17]	15%	7
acquired after Nov. 12, 1981	16 2/3%	
acquired before Nov. 13, 1981	33 1/3%	
furniture, fittings and spare engines	15%	7
offshore drilling after 1987[32]	25%	41
Video cassettes[23]	100%	12
Video games (coin operated) acquired after Feb. 15, 1984	40%	16
Video laser disks and digital video disks acquired after December 12, 1995[23]	100%	12
Video tapes[1,16]	30%	10
television commercial	100%	12
Wagons[1]	30%	10
Water pipelines		
acquired before 1988[10]	6%	2
acquired after 1987	4%	1
Water pollution control equipment — see Pollution control equipment		
Water storage tanks[1]	10%	6
primary manufacturing purpose[15]		
Water distribution plant and equipment[4]		
acquired before 1988	6%	2
acquired after 1987	4%	1
Well equipment, oil or gas (for use above ground)		
acquired after 1987	25%	41
acquired before 1988	30%	10
Wharves[1]	5%	3
wooden[1]	10%	6
Wind energy conversion system[19]		
acquired before Feb. 22, 1994	50%	34
acquired after Feb. 21, 1994	30%, 50%	43.1, 43.2
Windmills[1,42]	5%	3
Wiring, electric — same rate as building		

Notes:

[1] Unless included in another class of assets subject to a different rate.

[2] Not applicable to land, animals, herbs, trees, shrubs or similar growing things, gas wells, mines, oil wells, radium, rights of way, timber limits, tramway track or certain vessels.

[3] Electronic bar code scanners, electronic cash registers designed to calculate and record sales taxes imposed by multiple jurisdictions, software to allow multiple sales tax calculation, and related equipment acquired after August 8, 1989 and before 1993 for use in a retail business in Canada will be permitted a 100% write-off with no half-year rule.

[4] Except property included in Class 10, 13, 14, 26 or 28. For distributors of gas, not including a property acquired to produce or distribute gas normally distributed in portable containers, to process natural gas before its delivery to a gas distribution system and to produce oxygen or nitrogen. See also under Gas manufacturing and distribution equipment, plants and pipelines; and Pipelines.

[5] Designed for the purpose of excavating, moving, placing or compacting earth, rock, concrete or asphalt.

[6] Electrical generating equipment may be allocated to one of the following different classes: Class 1, if large and acquired by a producer; Class 2, if acquired before 1988; Class 8, if small; Class 9, if acquired before May 26, 1976 and not owned by a producer; or Class 17, if new and acquired after February 27, 2000 (with certain exclusions). Energy-efficient equipment may be in Class 34, if acquired before February 22, 1994; Class 43.1, if acquired after February 21, 1994; or Class 43.2 if acquired after February 22, 2005 and before 2020, and certain requirements are met. Only a detailed reading of the classes can determine the appropriate one; see Schedule II of the Income Tax Regulations. If used in manufacturing and processing, see note 15. Eligibility for Class 43.1 and Class 43.2 includes assets acquired on or after March 19, 2007 that generate electricity using wave or tidal energy, provided they do not do so by means of a barrage or other dam-like structure.

[7] Separate classes may be required for each asset, including: certain rental properties costing $50,000 or more (effective January 1, 1972); certain automobiles in Class 10.1; certain vessels, including Canadian vessels and off-shore drilling vessels; all Class 28 or 41 property relating to a particular mine or group of mines; railway property in Class 1, 3 or 35; and land deemed to be depreciable property in Class 36. Certified productions and certain Canadian film or video productions in Class 10 are to be put in separate classes from other Class 10 assets. See Regulation 1101 for the provisions regarding separate classes.

[8] Unless, in the case of a pipeline for oil or natural gas, the Minister is satisfied that the main source of supply for the business is likely to be exhausted within 15 years; such pipelines, not being specifically listed, fall under the general rate of 20% (Class 8).

[9] Tramway tracks: 100% on cessation of tramcar operation.

[10] Separate class elections may be available for certain assets or groups of assets, including: Class 2 pipelines, commenced after 1984 and completed after September 1, 1985, costing at least $10 million; earth-moving equipment in Class 38 acquired after 1987; outdoor advertising signs in Class 8(*l*); and certain electronic equipment in Class 8 or 10 (including computer software, photocopiers, fax machines, electronic telephone equipment, and general purpose electronic data processing equipment and systems software). Certain Class 43 manufacturing and processing assets costing more than $1,000 may also be eligible for a separate class election after February 27, 2000; however where the property is still on hand after five years, it must be merged into the general Class 43 UCC pool. See Regulation 1101 for the provisions regarding separate classes.

[11] A grain elevator or addition to a grain elevator situated in "Eastern Canada", acquired after April 1, 1972 and before August 1, 1974, is entitled to an additional allowance equal to the lesser of: 22% (Class 3), 20% (Class 6), or 14% (Class 8) of the lesser of $15,000 and the capital cost; or the undepreciated capital cost at the end of the taxation year before the allowance. New grain drying equipment for a farm acquired after July 31, 1968 and before January 1, 1970 or after April 1, 1972 but before August 1, 1974 may be depreciated at the rate equal to the lesser of 14% of the capital cost or $15,000.

[12] Certified pollution control equipment in Class 24 or 27 is depreciated 25/50/25 over three years for additions made before 1999. If not certified, the equipment may be Class 8, 39 or 43 if used primarily in manufacturing, or Class 1, 3 or 6, depending on its nature.

[13] An addition or alteration to a building originally placed in Class 3, 6 or 20, but which would no longer be in that class under current rules, may be added to the old class within certain dollar and transitional rule limitations. See IT-79R3 and Regulation 1102(19).

[14] Includes buildings, other than office buildings not situated on mining property, structures, machinery, equipment and houses, schools, hospitals, sidewalks, roads, sewers, etc., necessary to establish community facilities for the operation of a mine. Qualifying assets are included in a special class for each mine. The full amount of undepreciated capital cost up to the amount of income from a mine may be claimed, or at least 30% of the undepreciated balance. Additional allowances on property for new or expanded mines (including property used for oil sands projects) may be claimed up to the income from the new facility; acquisitions that become available for use in the year, in excess of 5% of gross revenue from the mine, also qualify for the additional allowance, for property acquired after March 6, 1996. Based on the 2007 Budget, the accelerated CCA will continue to be available in full for assets acquired by the taxpayer before March 19, 2007. It will also be available for assets acquired by the taxpayer before 2020 that are required to complete a project phase on which major construction by or on behalf of the taxpayer began before March 19,

2007. For assets that do not qualify for the full retention of the accelerated CCA as outlined above, the availability of the additional allowance will be gradually phased out in respect of claims made over the period from 2011 to 2015.

[15] Specified property used primarily in manufacturing and processing may be allocated to one of the following classes: Class 29 (25%/50%/25% straight line), if acquired after March 18, 2007 and before 2012 (or after November 12, 1981 and before 1988); Class 39 (25%, see Reg. 1100(1)(*ze*) for transitional rates), if acquired after 1987 and before February 26, 1992; and Class 43 (30%), if acquired after February 25, 1992 and before March 19, 2007. Specified property includes property that would otherwise be in Class 8, an oil or water storage tank, a powered industrial lift truck, portable tools acquired for rental purposes, certain general purpose electronic data processing equipment and systems software, or electrical generating equipment described in Class 9 (see note 6). Powered industrial lift trucks, portable tools acquired for rental purposes, and general purpose electronic data processing equipment and systems software are excluded from Class 39 and 43. These items are included in Class 40 (30%, see Reg. 1100(1)(*zf*) for transitional rates), if acquired in 1988 or 1989, and after that, they are transferred to Class 10 (30%). General purpose electronic data processing equipment moved to Class 45 (45%) if acquired after March 22, 2004 (subject to an election up to the end of 2004); Class 50 (55%) if acquired after March 18, 2007; and Class 52 (100%) if acquired after January 27, 2009 and before February 2011.

[16] Acquired after May 25, 1976. Property of this type acquired before May 26, 1976 may be in a different class. See Schedule II of the Income Tax Regulations.

[17] Accelerated capital cost allowances are provided on certain prescribed vessels and conversion costs. Additional capital cost allowances (not exceeding 15% of undepreciated capital cost) are provided in respect of offshore drilling vessels in Class 7 by Regs. 1100(1)(*va*) and 1101(2*b*).

[18] Buildings acquired before June 18, 1987 that would otherwise be included in Class 3 or 6 and in respect of which a certificate is issued by the Canada Mortgage and Housing Corporation. Such buildings acquired before 1980 that would otherwise be in Class 6 are Class 32, 10%.

[19] Such property acquired after May 25, 1976 and before February 21, 1994 is Class 34. Such assets acquired after this date are eligible for CCA at 30% in Class 43.1. Assets acquired after February 22, 2005 and before 2020 may be eligible for a CCA rate of 50% in Class 43.2.

[20] Class 12 for metric scales or scales designed for ready conversion to metric weighing acquired after March 31, 1977 and before 1984. The scale must be for use in a retail business and must have a weighing capacity of no more than 100 kilograms.

[21] The heavy water must be acquired after May 22, 1979. Prior to May 23, 1979, a catalyst was depreciable at 1%.

[22] Automobiles acquired after November 12, 1981 for lease or rental other than to any one person for more than 30 days in a 12-month period.

[23] Items must be acquired for the purpose of renting to any one person for no more than 7 days in any 30-day period.

[24] Computer software in Class 12 is subject to the half-year rule. Systems software is in Class 10.

[25] Building must be used in farming or fishing business, or be unsupported below the ground, or have been acquired before 1979.

[26] The half-year rule does not apply to this item. It may be written off in full in the year of acquisition.

[27] The half-year rule applies to assets of this description acquired after December 31, 1987. Prior acquisitions could be written off at 100% in the year of acquisition.

[28] Trucks or tractors acquired after December 6, 1991 that have a gross vehicle weight rating in excess of 11,788 kg.

[29] Acquired after December 23, 1991. See the history note for Class 42 for the election that can be made.

[30] May be eligible for a separate class. Up to $50,000 of computer expenditures (hardware and software combined) may be eligible for 100% deduction in year of acquisition if acquired by a small or medium-sized business in the period January 1, 1998 to October 31, 1999 to deal with year 2000 problems.

[31] Railway equipment may be subject to additional allowances over and above the class rate. Railway system or parts allocated to Class 4 if acquired after the end of the taxpayer's 1958 taxation year and before May 26, 1976. Railway locomotives, railway cars and railway suspension devices acquired after February 27, 2000, (other than property included in paragraph 4 of Class 10) are eligible for Class 7 (15%) depreciation rather than a combined rate of 10% or 13% (7% + additional allowance of 3% or 6%) previously available. Leased assets are included in Class 7 (15%) only if the lessor elects specified leasing property treatment. Railway locomotives acquired after February 25, 2008 and not used previously by any taxpayer for any purpose are Class 10 (30%)

[32] After November 7, 2001, Class 41 for offshore drilling vessels will not be available if the Minister of Industry has agreed to a structured financing facility. In such a case, the maximum CCA rate applicable to the vessel and its attachments will be 15% under Class 7.

[33] Class 49 applies to new transmission pipelines. Taxpayers may elect, in the year the pipelines are acquired, to place them in a separate CCA class. The rate for new natural gas distribution pipelines acquired after March 18, 2007 changes from Class 1 (4%) to Class 51 (6%). Eligible assets will include control and monitoring devices, valves, metering and regulating equipment and other equipment ancillary to a distribution pipeline, but not buildings or other structures.

[34] Specified energy property rules applicable. Includes high efficiency cogeneration equipment which is used in combined heat and power (CHP) systems, capturing waste heat from an electrical generation process and using it for manufacturing or space heating. Renewable energy generation equipment includes wind turbines, small hydroelectric facilities, active solar heating equipment, fixed location photovoltaic equipment, geothermal energy equipment, and biogas production equipment. For assets acquired after March 18, 2007, eligibility under Class 43.1 and Class 43.2 includes the following changes: eligible active solar systems include commercial and residential applications; no minimum size requirement for eligible photovoltaic and fixed location fuel cell systems; building-integrated photovoltaic systems also eligible; the list of feedstocks that may be used in eligible biogas production systems extended; and the list of fuels that can be used in eligible cogeneration systems and systems that produce heat for use in an industrial process includes waste fuels generated at pulp and paper mills.

[35] For cogeneration equipment to be eligible for inclusion in Class 43.2 (50%), the equipment must be part of a high-efficiency cogeneration system; otherwise the equipment falls into Class 43.1 (30%).

[36] Additional allowance and separate class treatment available in certain circumstances. For 1995 and subsequent taxation years, the accelerated capital cost allowance incentive for Canadian-owned film or video productions was replaced by a Canadian Film or Video Production Tax Credit under the *Income Tax Act*; for taxation years ending after October 1997, other film or video productions may qualify for the Film or Video Production Services Tax Credit.

[37] Includes trailers designed for use on both highways and railway tracks.

[38] A straight-line method may be used for assets acquired before 1972 and used in a farming or fishing business.

[39] This item excludes landscaping costs deductible under paragraph 20(1)(*aa*) of the Act.

[40] Used for public transportation within a metropolitan area and not part of a railway system.

[41] Temporary access roads in the oil and gas mining sectors may qualify as Canadian exploration or development expenses.

[42] Not to be confused with wind energy conversion systems included in Class 43.1 or 43.2.

[43] Additional allowances are available for buildings in Class 1 acquired after May 18, 2007 (including new buildings which are under construction on March 19, 2007) that are used at least 90% (measured by square footage) for manufacturing and processing in Canada or for other non-residential purposes at the end of the year. The additional allowances are 6% for such a building used for manufacturing and processing and 2% for other non-residential buildings. In each case, the building is required to be placed in a separate class in order to claim the additional allowance.

[44] Certain general-purpose electronic data processing equipment and systems software for that equipment acquired after January 27, 2009 and before February 2011 is Class 52 (100%). Such property acquired after March 18, 2007, that is not not in Class 52, is Class 50 (55%). Such property acquired after March 22, 2004 and before March 19, 2007 is Class 45 (45%).

Tax Calendar

Scope of calendar

The following calendar shows the principal dates of the *Income Tax Act* and Regulations that govern the collection of federal income tax (including withholding, remittance, refund, assessment and objection) and the filing of tax information (including information returns, tax returns and common elections applicable to individuals). If one of the dates falls on a Sunday or other holiday, it is extended to the next business day by virtue of section 26 of the *Interpretation Act*.

Monthly Requirements

10th — Date by which employers with an average monthly withholding of $15,000 or more but less than $50,000 (for the second calendar year preceding a particular calendar year) must remit the income tax withheld from the remuneration paid after the 15th of the previous month (ITR s. 108(1.1)(*a*)(ii))

15th — Date by which employers with an average monthly withholding of under $15,000 must remit the income tax withheld from the remuneration paid for the previous month (ITR s. 108(1))

25th — Date by which employers with an average monthly withholding of $15,000 or more but less than $50,000 (for the second calendar year preceding a particular calendar year) must remit the income tax withheld from the remuneration paid before the 16th of the current month (ITR s. 108(1.1)(*a*)(i))

Last day — Date by which corporations must make their income tax instalments. No instalments are required if a corporation's first instalment base or total taxes payable under Parts I, VI, VI.1 and XIII.1 of the Act is $3,000 or less (ITA ss. 157(1) and 157(2.1))

Quarterly Requirements

15th — (March, June, September, December) — Dates by which income tax instalments must be made by individuals whose expected tax liability for the current year or each of the two preceding years exceeds their source deductions by $1,800 of federal income tax for a Quebec resident or $3,000 of combined federal and provincial income taxes for a non-Quebec resident (ITA ss. 156(1), 156.1(1) "instalment threshold" and 156.1(2)(*b*))

15th — (April, July, October, January) — Dates by which employers who have an average monthly withholding of less than $3,000 for the first or second preceding calendar year and no compliance irregularities for the preceding 12 months must remit the income tax withheld from the remuneration paid for the previous quarter (ITR s. 108(1.12))

Last day of fiscal quarter Date by which a Canadian-controlled private corporation may pay its tax instalments if: (1) it has a perfect income tax, sales tax, EI, and CPP compliance history; (2) it claimed the small business deduction in the current or previous year; and (3) it had a taxable capital employed in Canada of $10 million or less and a taxable income of $500,000 or less in the current or previous year (ITA ss. 157(1.1) and 157(1.2)(*b*))

Annual Calendar

Jan. 15 — Date by which employees having exercised in the previous year an option to acquire their employer's stocks or mutual fund trust units must file their election to defer the recognition of their employment benefit from the year the securities are acquired to the year they are sold (ITA ss. 7(8) and (10))

Feb. 14 — Date by which employees must reimburse their employer for all the operating costs incurred in the previous year for the personal use of an employer-provided automobile. Otherwise, an automobile operating cost benefit will be included in their income (ITA s. 6(1)(*k*))

Feb. 29 — Last day for individuals to make their RRSP contribution for a year preceding a leap year (ITA s. 146(5))

Feb. (last day) Date by which a T4, T4A or T4A-RCA information return reporting an employee's remuneration and benefits is due (ITR ss. 200 and 205(1))

Date by which a T4A information return reporting patronage payments is due (ITA s. 135; ITR ss. 205(1) and 218)

Date by which a T4RSP information return is due. The T4RSP is used to report amounts included in a taxpayer's income under an RRSP, an HBP or an LLP (ITA ss. 146, 146.01 and 146.02; ITR ss. 205(1) and 214)

Date by which a T4RIF information return is due. The T4RIF is used to report amounts included in a taxpayer's income under a RRIF (ITA s. 146.3; ITR ss. 205(1) and 215)

Date by which a T5 information return reporting interest, eligible or non-eligible dividends, capital gains dividends, or other investment income is due (ITR ss. 201 and 205(1))

Date by which a T5008 information return reporting proceeds paid in respect of securities transactions (mostly dispositions) is due (ITR ss. 205(1) and 230)

Date by which a T5003 information return reporting the acquisition of an interest in a tax shelter is due. If the business in respect of which the form is required was discontinued, the form is due by the earlier of the last day of February or 30 days after the discontinuance of the business (ITA ss. 237.1(7), (7.1) and (7.2))

Date by which a TFSA information return (the exact name and number of which has yet to be determined) is used to report the contributions, withdrawals, etc., made in respect of a tax-free savings account (As per current ITR s. 205(1) and proposed ITR s. 223)

Mar. 1 — Last day for individuals to make their RRSP contribution for a year preceding a non-leap year (ITA s. 146(5))

Mar. 31 — Date by which an NR4 information return is due. The NR4 is used to report income like interest, dividends, royalties, trust income, etc., paid to or received for the account of a non-resident in the preceding calendar year (ITA s. 212; ITR s. 202)

Date by which a T1-CP information return reporting the ownership of an interest in a certified film or video tape is due (ITR s. 225)

Date by which a T5013 information return prepared for a tax shelter partnership or for a partnership (including a SIFT partnership) that is composed exclusively of individuals (including trusts) throughout its fiscal period is due (ITR s. 229(5)(*b*))

Apr. 30 — Date by which the balance of tax owed by any individual (including one having until June 15 to file his/her T1 income tax return) is due (ITA ss. 156.1(4) and 248(1) "balance-due day")

Date by which individuals not carrying on a business in the year and whose cohabiting spouse or common-law partner is not carrying on such business must file their T1 income tax return (ITA s. 150(1)(*d*)(i))

June 15 — Date by which individuals carrying on a business in the year or whose cohabiting spouse or common-law partner is carrying on such business must file their T1 income tax return (ITA ss. 122.6 "cohabiting spouse or common-law partner" and 150(1)(*d*)(ii))

June 30 — Date by which the T2 income tax return of a corporation operating on a calendar-year basis is due (ITA s. 150(1)(*a*))

Dec. 31 — Date by which the income tax instalment payable by a farmer or fisherman for a particular year is due. The instalment is only required if the farmer's or fisherman's net tax owing for the particular year or either of the two preceding years exceeds $1,800 of federal income tax for a Quebec resident or $3,000 of combined federal and provincial income taxes for a non-Quebec resident (ITA ss. 155(1), 156.1(1) "instalment threshold", and 156.1(2)(*a*))

Contingent Calendar

The principal tax requirements which do not fall upon fixed dates but are instead related to some other event or duty are listed below under two categories: tax collection and tax filing.

Tax Collection

- Employers with an average monthly withholding of $50,000 or more (for the second calendar year preceding a particular calendar year) must remit the income tax withheld from the remuneration paid in each of the following periods within three days (excluding Saturdays or holidays) from each period: (i) the first seven days of the month; (ii) the period after the 7th and before the 15th day; (iii) the period after the 14th but before the 22nd day; and (iv) the part of the month after the 21st day. The remittances must be made to the account of the Receiver General at a designated financial institution or directly to the Receiver General on the day before the normal due date (ITA ss. 153(1) and 153(1.4); ITR ss. 108(1.1)(*b*) and 110)
- Employers required to remit their deductions twice a month by virtue of ITR s. 108(1.1)(*a*) or four times a month by virtue of ITR s. 108(1.1)(*b*) in respect of a given calendar year may elect to remit them only once a month or twice a month, respectively, if they qualified for this decelerated remittance in the immediately preceding calendar year (ITR s. 108(1.11))

- Employers ceasing to carry on their business on a given date have only seven days after that given date to remit their deductions (ITR s. 108(2))
- Taxpayers owing amounts of taxes, interest or penalties may be informed, by a registered letter sent by the Minister to their last known address, that their goods, chattels or moveable properties will be seized and sold unless those amounts are paid within 30 days (ITA s. 225)
- Taxpayers owing amounts of taxes, interest or penalties and leaving (or intending to leave) Canada may be asked, by a notice served personally or a registered letter sent by the Minister to their last known address, to pay those amounts immediately (ITA s. 226)
- Taxpayers having filed a return within 3 years from the end of a taxation year have 3 years from the earlier of the mailing date of the original notice of assessment or notification that no tax is payable to apply for a refund. Under the "Taxpayer Relief Provisions", the Minister may decide to grant a refund to a taxpayer beyond the 3-year period but within 10 years from the end of the taxation year. No refunds will be made under those relief provisions unless all returns required under the *Income Tax Act*, the *Excise Act, 2001*, the *Excise Tax Act* and the *Air Travellers Security Charge Act* have been filed by the taxpayer (ITA ss. 152(3.1), 152(4), 164(1)(*a*)(iii), 164(1)(*b*), 164(1.5), 164(2.01) and 164(7))
- Taxpayers holding amounts of unclaimed dividends, interest or sales proceeds, at the end of their taxation year for the account of unknown beneficial owners, must withhold and remit a tax on those amounts within 60 days from the end of the taxation year (ITA s. 153(4))
- Taxpayers objecting to an assessment must generally mail their notice of objection within 90 days from the mailing date of the notice of assessment. For individuals other than trusts and testamentary trusts, notices of objection from assessments concerning Parts I and I.2 taxes must be mailed on or before the later of 90 days after the mailing of the notice of assessment or one year after the taxpayer's filing-due date for the year (ITA s. 165(1))
- Taxpayers appealing to the Tax Court of Canada must serve their notice of appeal within 90 days from the mailing date of the reassessment or confirmed assessment, or after 90 days have elapsed from the mailing date of the notice of objection if the Minister never replied to that notice (ITA s. 169(1))
- Taxpayers receiving a notice of assessment showing an amount of tax assessed but remaining unpaid must pay the remainder immediately (ITA s. 158)
- Corporations having interest refunds and interest arrears have 90 days after the latest of the following dates to apply for an offset of the two amounts: (1) mailing dates of original assessment notices giving rise to the interests; (2) mailing dates of Minister's notifications where notices of objection were filed; and (3) issue dates of court decisions if appeals were filed (ITA ss. 161.1(2) and (3)(*c*))
- The Minister has normally 4 years after the mailing of the notice of original assessment for a mutual fund trust or corporation other than a Canadian-controlled private corporation (CCPC), and 3 years for an individual, a CCPC or any other person, to reassess the taxpayer. Those time limits do not apply for taxpayers having made misrepresentations attributable to neglect, carelessness, or wilful default. If a corporation receives a provincial income tax reassessment caused by a reallocation of its taxable income earned in a province, the normal reassessment period is extended by one year after the later of the date the Minister is advised of the reassessment and 90 days after the mailing of the provincial reassessment notice ITA ss. 152(3.1) and 152(4))
- The Minister must wait 90 days after the mailing of the notice of assessment to commence actions to collect a tax debt (ITA ss. 225.1(1) and (1.1))
- The Minister has 10 years from the day that is 90 days after the mailing of the notice of assessment concerning a tax debt to commence an action to collect the tax debt but this 10-year period can be restarted in certain circumstances (ITA ss. 222(3), (4) and (5))
- The Minister has two years after an individual has ceased to be a director of a corporation to commence an action to recover amounts that were not deducted or remitted by the corporation (ITA s. 227.1(4))
- Corporations with a balance of tax due after having paid their instalments must pay the balance within three months after year-end for Canadian-controlled private corporations who claimed the small business deduction in the current year or preceding year and had a taxable income not exceeding $500,000 in the preceding year, and within two months after year-end for other corporations (ITA ss. 157(1) and 248(1) "balance-due day")
- Trusts governed by a deferred profit sharing plan that acquire a non-qualified investment or use a trust property as a security for a loan must pay the Part X tax within 10 days from the day of its acquisition or use (ITA s. 198(2))

Tax Filing

- Registered charities must file a T3010A information return within six months from the end of their fiscal period (ITA s. 149.1(14))

- Corporations must file a T2 income tax return within six months from the end of their taxation year if they have Part I tax payable for the year or if, at any time in the year, they are resident in Canada, carry on business in Canada, have a taxable capital gain or dispose of a taxable Canadian property (ITA s. 150(1)(*a*))
- The legal representative of a deceased taxpayer must file his/her T1 return (1) by the return's normal filing due date if the date of death is before November; (2) by the later of the normal filing due date and six months after the date of death if the date of death is after October but before the filing due date (ITA s. 150(1)(*b*))
- Taxpayers discontinuing a business must file the T3, T4, T5, T5008, NR4 and other information returns required under Part II of the Income Tax Regulations within 30 days from the date of discontinuance of the business (ITR s. 205(2))
- Trustees, estate administrators or any other persons controlling and receiving trust income (including interest, dividends, capital gains or other profits) in a fiduciary capacity for the account of trust beneficiaries must file a T3 information return within 90 days from the end of the trust's taxation year. However, this reporting obligation does not apply to a registered charity, cemetery care trust or trust governed by a deferred profit sharing plan, employee profit sharing plan, eligible funeral arrangement, registered education savings plan or tax-free savings account. To ensure the timely filing of the T3, public investment trusts must now make public some prescribed information on the website of CDS Innovations Inc. within 67 days after the end of the calendar year in which their taxation year ends. Other public trusts have 60 days after the end of their taxation year to provide the same type of information. (ITR ss. 204(3) and 204.1)
- A T600 Ownership Certificate must be filed on or before the 15th day of the month following the month of payment or negotiation by: (1) a financial company paying accrued interest on transfers of bonds, debentures or similar securities; (2) a debtor or encashing agent negotiating bearer coupons or warrants representing interest or dividend paid by any debtor or cheques representing interest or dividend paid by a non-resident debtor (ITA s. 234 and ITR ss. 207 and 211)
- Electric, gas or steam corporations must file an information return within six months from the end of their taxation year (ITR s. 213)
- Registered amateur athletic associations must file a T2052 information return within six months from the end of their fiscal period (ITR s. 216)
- Corporations and trusts wanting to certify for a taxation year that their shares, units or interests are qualified investments for the purpose of an RRSP, RESP, RRIF and TFSA must file a T3F information return within 90 days from the end of their taxation year (ITA ss. 146(1) "qualified investment", 146.1(1) "qualified investment", 146.3(1) "qualified investment", 207.01(1) "qualified investment", and 204 "qualified investment"; ITR s. 221(2))
- Partnerships composed exclusively of corporations must file a T5013 information return within five months after the end of their fiscal period; those composed exclusively of individuals (including trusts) or that are tax shelter partnerships must file it on or before March 31 of the calendar year following the calendar year in which their fiscal period ends; other partnerships must file it on or before the earlier of five months after the end of their fiscal period and March 31 of the calendar year following the calendar year in which their fiscal period ends. To ensure the timely filing of the T5013, public investment partnerships must now make public some prescribed information on the website of CDS Innovations Inc. within 67 days after the end of the calendar year in which their fiscal period ends. Other public partnerships must provide the same type of information by the earlier of 60 days after the end of the calendar year in which their fiscal period ends and four months after the end of that fiscal period (ITR ss. 229(5)(*a*), (*b*) and (*c*), and 229.1))
- Every member of a SIFT (specified investment flow-through) partnership liable to Part IX.1 tax for a taxation year must file a return in prescribed form (T5013) including an estimation of the tax no later than the date by which the same form must be filed by other partnerships. If a member having authority to act for the partnership has already filed the form, the other members do not have to file it again (ITA ss. 197(4) and (5), and ITR s. 229)
- Partnerships discontinuing their business must file the T5013 on or before the earlier of their normal filing due date and 90 days after the discontinuance of their activities (ITR ss. 229(5)(*a*), (*b*), (*c*) and (6))
- Corporations renouncing their Canadian exploration or development expenses for the benefit of investors having bought their flow-through shares must file a T101A information return before the end of the first month after the month in which the renunciation was made (ITA s. 66(12.7))

Deadlines and Limitation Periods: Returns, Assessments, Appeals, Payments, Refunds, and Collection

Updated to June 2009.

Legislative Provisions	Obligations	Deadlines
110.1(8)(*b*)	A corporation making a drug donation from its own inventory must make it prior to a given date to have it qualified as an "eligible medical gift" for tax purposes.	At least six months before the expiration date of the donated medecine.
116(3)	Non-resident persons disposing of taxable Canadian properties must send to the Minister a notice with the following information: name and address of the purchaser, description of the properties, proceeds of disposition and adjusted cost base of the properties.	Ten days after the disposition of the properties.
146.1(2)(*h*)	The subscriber under a Registered Education Savings Plan must stop making contributions to the plan after a certain number of years.	31 years after the plan is entered into for a regular plan and 35 years after the plan is entered into for a specified plan (i.e., disabled beneficiary).
146.1(2)(*i*)	The Registered Education Savings Plan must be terminated in a particular year.	35th year following the year the plan was opened for a regular plan and 40th year following the year the plan was opened for a specified plan (i.e., for a disabled beneficiary).
146.1(2)(*j*)	The subscriber under a family Registered Education Savings Plan must stop making contributions once the plan beneficiary reaches a certain age.	Once the beneficiary is 31 years of age.
146.2(5)	The issuer of a Tax-Free Savings Account in respect of a particular individual must file an election to register the arrangement with the Minister of National Revenue.	By the last day of February of the year following the calendar year in which the arrangement is entered into.
150(1)(*a*)	Return of income to be filed by a corporation other than a registered charity.	Within six months after the end of the taxation year.
150(1)(*b*) 150(1)(*d*)	Return of income to be filed by a deceased individual.	• Death between January 1 and October 31, and individual and cohabiting spouse were not carrying on a business: by the filing due date of April 30. • Death between January 1 and October 31, and individual or cohabiting spouse was carrying on a business: by the filing due date of June 15. • Death between November 1 and April 30 of the following year, and individual and cohabiting spouse were not carrying on a business: by the later of the filing due date of April 30 and six months after the date of death. • Death between November 1 and June 15 of the following year, and individual or cohabiting spouse was carrying on a business: by the later of the filing due date of June 15 and six months after the date of death.
150(1)(*c*)	Return of income to be filed by a trust or estate.	Within 90 days from the end of the year.
150(1)(*d*)(i)	Return of income to be filed by an individual subject to tax, or claiming a Canada Child Tax Benefit or GST Credit.	No later than April 30 of the following year.
150(1)(*d*)(ii)	Return of income to be filed by an individual carrying on a business (other than a tax shelter) during the year. The same deadline applies to his/her cohabiting spouse or common-law partner.	No later than June 15 of the following year.

Legislative Provisions	Obligations	Deadlines
152(3.1) 152(4) 152(4.2) 152(6)	Minister's assessment or reassessment of tax, interest and penalties under Part I of the Act.	Within four years from the mailing of a notice of original assessment (or notification that no tax is payable for the taxation year) for a mutual fund trust or corporation other than a Canadian-controlled private corporation (CCPC) or within three years from such mailing for an individual or a CCPC. The limitation period is extended by 3 years for taxpayers claiming deductions listed under subsection 152(6). If a corporation has received a provincial income tax reassessment caused by a reallocation of its taxable income earned in a province, its normal reassessment period is extended by one year after the later of two dates: (1) the date the Minister is advised of the reassessment, and (2) 90 days after the mailing of the provincial reassessment notice. The limitation period does not apply to a taxpayer having filed a valid waiver with the Minister during such a period or having made misrepresentations attributable to neglect, carelessness, or wilful default. The Minister is also allowed by the Taxpayer Relief Provisions to reassess individuals or testamentary trusts to refund or reduce their taxes but for no more than 10 calendar years back.
153 Reg. 108	Employers having deducted income tax from their employees' remuneration must remit the tax to the Receiver General by certain dates varying with the size of their average monthly deductions.	For employers whose average monthly deductions: • Are less than $3,000 and who are not in default of payment of their remittances over the previous 12 months: no later than April 15 re January, February and March payments; July 15 re April, May and June payments; October 15 re July, August and September payments; and January 15 re October, November and December payments. • Are less than $15,000: no later than the 15th day of the month following the month during which the source deductions were made. • Are between $15,000 and $49,999.99: no later than the 25th day of the same month for the remuneration paid in the first 15 days of the month and the 10th day of the following month for the remuneration paid from the 16th day of the month to the end of the month. • Are $50,000 or more: no later than the third working day after the end of the following periods: from the 1st to the 7th day of the month, from the 8th to the 14th day of the month, from the 15th to the 21st day of the month, and from the 22nd to the last day of the month. Note that employers ceasing to carry on their business on a particular date have only seven days after that date to remit their deductions.
155 156.1(2)	Farmers and fishermen whose net tax owing for the current and two preceding years is not less than $1,800 for a Quebec resident and $3,000 for another Canadian resident must pay their income tax by instalments.	The first instalment is equal to two-thirds of the lesser of (i) the estimated tax for the current year and (ii) the instalment base for the immediately preceding year, and must be paid by December 31 of the current year. The second one is equal to the balance of tax due and must be paid by April 30 of the following year.
156 156.1(2)	Individuals other than farmers and fishermen whose net tax owing for the current and two preceding years is not less than $1,800 for a Quebec resident and $3,000 for another Canadian resident must pay their income tax by instalments.	Under the first method, one-quarter of the lesser of (i) the estimated tax payable for the current year or (ii) the actual tax payable for the preceding year must be paid by March 15, June 15, September 15 and December 15. Under the second method, one-quarter of the actual tax payable for the second preceding year must be paid by March 15 and June 15, and one-half of the excess of the actual tax payable for the preceding year over one-half of the actual tax payable for the second preceding year must be paid by September 15 and December 15. Any balance of tax due by the individual for the year must be paid by April 30 of the following year.

Legislative Provisions	Obligations	Deadlines
157 157(1.1) 157(1.2) 157(2.1)	Corporations whose total tax payable under Parts I, VI, VI.1 and XIII.1 of the Act for the year exceeds $3,000 must normally make monthly income tax instalments. Canadian-controlled private corporations meeting the following conditions may make their instalments quarterly: (i) they have a perfect compliance history; (ii) they claimed the small business deduction in the current or preceding year; and (iii) they have a taxable capital employed in Canada of $10 million or less and a taxable income of $500,000 or less in the current or previous year.	Regardless of the method used to calculate the income tax instalments of a corporation for a taxation year (see subsections 157(1) and 157(1.1) for more details on available methods), a corporation ineligible for the quarterly instalments will have to pay its instalments by the last day of each month of the year and a corporation eligible for quarterly instalments will have to pay them by the last day of each quarter of the year. Any balance of tax due must be paid within 3 months after year-end in the case of a Canadian-controlled private corporation having claimed the small business deduction in the current or preceding year, and within 2 months from year-end in the case of any other corporation.
164(1)(*a*)	Automatic refund by the Minister.	Provided an income tax return was filed within three years from the end of a taxation year, the Minister will automatically refund any overpayment for the year, with no need for the taxpayer to file a refund application. The Minister is also allowed under the "Taxpayer Relief Provisions" to reassess an individual or a testamentary trust beyond the normal three-year reassessment period (as long as it does not exceed ten years) to refund or reduce their taxes.
164(1)(*b*) 152(3.1) 152(4)(*b*) 152(6)	Refund application made in respect of a loss carryback to another year under paragraph 152(4)(*b*) and subsection 152(6).	Within seven years from the mailing of the original notice of assessment for a mutual fund trust or a corporation other than a Canadian-controlled private corporation, and six years for another taxpayer.
164(1)(*b*) 152(3.1)	Other refund application.	Within four years from the mailing of the notice of original assessment for a mutual fund trust or a corporation other than a Canadian-controlled private corporation, and three years for another taxpayer.
165(1)(*a*)	Objection to an assessment for an individual other than a trust or for a testamentary trust.	No later than: • One year after the filing due date of the return of income; and • Ninety days after the mailing date of the notice of assessment.
165(1)(*b*)	Objection to an assessment for other taxpayers.	Within 90 days from the mailing date of the notice of assessment.
166.1(1) 166.1(7)(*a*)	Application for an extension by the Minister of the time allowed to serve a notice of objection or make a request under subsection 245(6).	Within one year from the deadline for serving the notice of objection or making the request.
166.2(1)	Application for an extension by the Tax Court of Canada of the time allowed to serve a notice of objection or make a request under subsection 245(6) if the Minister refused the application or had not yet notified the taxpayer more than 90 days after the application was filed.	Within 90 days from the date the Minister's notification of his decision was mailed to the taxpayer.
167(1) 167(5)(*a*)	Extension of time to appeal to the Tax Court of Canada.	Within one year from the expiration of the time limit to appeal to the Tax Court of Canada.
169(1)	Appeal to the Tax Court of Canada.	• Within 90 days from the date the Minister's notice was mailed to the taxpayer to confirm the old assessment or issue a new assessment. • Within 90 days from the serving of the notice of objection to the Minister if he did not notify the taxpayer that he vacated or confirmed the old assessment or issued a new one.
172(3) 180	Appeal to the Federal Court of Appeal from refusal to register, revocation of registration, etc.	Within 30 days from the date of written notification of the Minister's decision.

Legislative Provisions	Obligations	Deadlines
198(2)	Requirement for the trustee of a trust governed by a deferred profit sharing plan having (i) acquired a non-qualified investment or (ii) used a trust property as security for a loan, to remit Part X Tax to the Receiver General.	Within ten days from the date the non-qualified investment was acquired by the trust or the trust property was used to secure the loan.
207.01(1) "exempt contribution" 207.01(1) "excess TFSA amount" 207.02	Following the death of a Tax-Free Savings Account planholder, the surviving spouse or common-law partner may transfer funds from the deceased's plan to his/her own plan without triggering the payment of Part XI.01 tax on an excess amount by making and designating that exempt contribution before the expiry of certain deadlines.	The exempt contribution must be made to the survivor's plan account no later than the end of the calendar year following the year of death and must be designated by filing a prescribed form in prescribed manner within 30 days after the date the exempt contribution was made.
207.07(1)	Any person liable for Part XI.01 Tax on excess contributions to a tax-free savings account for all or part of a calendar year must pay that tax and file a return in prescribed form.	Within 90 days from the end of the calendar year.
220(3.1)	Application for the cancellation of interest and penalties otherwise payable by a taxpayer in respect of a taxation year. The Minister has the authority to do it under the Taxpayer Relief Provisions.	Within ten calendar years from the end of the taxation year in respect of which the interest and penalties were assessed.
220(3.2)	Application for an extension of the time available to a taxpayer to make, amend, or revoke an election. The Minister has the authority under the Taxpayer Relief Provisions to grant such extension.	Within ten calendar years from the end of the taxation year in respect of which the election was made.
220(3.201) 60.03(2)	Extension of the limitation period available to spouses or common-law partners to make, revoke, or amend the joint election to split their pension income.	Within three calendar years from the filing-due date of the taxation year to which the election applies.
222(4)	Initial limitation period to collect a tax debt.	Beginning of the initial 10-year limitation period: • If a notice of assessment or a notice referred to in subsection 226(1) concerning a tax debt of a taxpayer leaving Canada is mailed to or served on the taxpayer after March 3, 2004, on the 90th day after the day the last notice was mailed or served. • In all other cases, on March 4, 2004, if the debt was payable on that date or would have been payable on that date but for a limitation period that otherwise applied to the collection of the debt.
222(5)	Restarted limitation period to collect a tax debt if one of the following conditions is met: • when the taxpayer acknowledges the debt in accordance with subsection 222(6); • when the Minister commences an action to collect the debt; or • when the Minister assesses a person in respect of the personal liability of the legal representative under subsection 159(3), of a debt concerning a transfer of properties between related persons under subsection 160(2) or of source deductions under paragraph 227(10)(*a*).	For a renewed 10-year period.

Legislative Provisions	Obligations	Deadlines
222(8) 225.1(2) 225.1(3) 225.1(4) 225.1(5)	Extension of the limitation period for the collection of a tax debt: • when the Minister may not take any of the actions described in subsection 225.1(1) in respect of the debt; • when the Minister has accepted and holds security in lieu of payment of the debt; • for the period during which the tax debtor is non-resident; or • when an action that the Minister may otherwise exercise in respect of the debt is restricted or prohibited by the *Bankruptcy and Insolvency Act*, the *Companies' Creditors Arrangement Act* or the *Farm Debt Mediation Act*.	Extension equivalent to the period during which the Minister could not act.
225.1(1.1)(*c*) 225.1(2)	Earlier date by which the Minister may normally start collecting a tax debt.	91 days after the mailing of the taxpayer's notice of assessment.
227(6)	Refund application to recover non-resident withholding tax improperly deducted from payments to a non-resident person.	Within two years from the end of the calendar year in which the non-resident tax was paid to the Receiver General.
227.1(4)	Action to collect an amount payable by the director of a corporation.	Two years from the date the director last ceased to be a director of that corporation.
230(2) 230(4)(*a*) Reg. 5800(1)(*f*)	Retention of duplicate receipts received by registered charities or registered Canadian amateur athletic associations.	Two years after the end of the calendar year to which the receipts relate.
230(4)	Retention of books and records for tax purposes.	Six years after the end of the taxation year to which the books and records relate unless otherwise prescribed by regulation (for example, the retention period is two years for corporate records including minutes of shareholders' and directors' meetings).
244(4)	An information or complaint under the *Criminal Code* may be made in respect of an offence under the *Income Tax Act* but only within a certain period.	No later than eight years after the day on which the matter of the information or complaint arose.
261(3)(*b*)	Filing an election in prescribed form and manner to be able to report Canadian tax results in a currency other than Canadian dollar for a particular taxation year.	At least 6 months before the end of the particular taxation year, but not earlier than December 15, 2008 under a proposed transitional rule.
261(4)	Filing a revocation of the above election to be able to stop reporting Canadian tax results in a currency other than Canadian dollar for a particular taxation year.	At least 18 months before the beginning of the particular taxation year.

Legislative Provisions	Obligations	Deadlines
222(1)	Extension of the limitation period for the collection of a [illegible]	[illegible]
225(4) 225(5)	• when the Minister may not take any of the actions described in subsection 225(1) in the recovery of the debt • when the Minister has accepted [illegible] • for the period during which the tax debtor [illegible] • when an action [illegible] Minister may otherwise [illegible] in respect of the debt [illegible] or prohibited by [illegible]	
225(1)(1)(e) 225(2)	Earnest date by which the Minister may normally start collecting [illegible]	[illegible] days after the mailing of the [illegible] assessment
226(6)	Refund application to [illegible] non-resident [illegible] tax improperly deducted from payments to a non-resident person	Within two years from the end of the calendar year in which the non-resident tax was paid to the Receiver
227(4)	Action to collect an amount payable by the director of a corporation	Two years from the [illegible] the director last ceased to be a director of that corporation
230(2) 230(3)(a)	Retention of duplicate receipts received by registered charities or registered Canadian amateur athletic associations.	Two years after the end of the calendar year to which the receipts [illegible]
	Retention of books and records for tax purposes	Six years after the end of the taxation year to which the books and records relate unless otherwise prescribed by regulation (for example, the retention period is two years for corporate records including minutes of shareholders' and directors' meetings)
	An information or complaint under the *Criminal Code* may be made in respect of an offence under the *Income Tax Act* but only within a certain period.	No later than eight years after the day on which the matter of the information or complaint [illegible]
[illegible]	Filing an election in prescribed form and manner to be able to report Canadian tax results in a currency other than Canadian dollar for a particular taxation year.	At least 6 months before the end of the particular taxation year but not earlier than December 15, 2003 under a proposed transitional rule.
	[illegible] ion of the above election to be able to [illegible] Canadian tax results in a currency other [illegible] for a particular taxation year.	At least 15 months before the beginning of the particular taxation year.

Offences under the *Income Tax Act*

Updated to June 2009.

Legislative Provisions	Offences	Punishment
122.64(2) 122.64(3) 122.64(4)	Use or unauthorized communication of confidential information in respect of the Canada Child Tax Benefit.	On summary conviction, a fine not exceeding $5,000, or imprisonment for a term not exceeding 12 months, or both the fine and imprisonment.
238(1)	Failure to make a return as and when required by the Act or a regulation.	On summary conviction, a fine between $1,000 and $25,000, or both the fine and imprisonment for a term not exceeding 12 months. The fine is in addition to any penalty otherwise provided.
238(1) 116(1) 116(3)	Failure by a non-resident person to send to the Minister the prescribed notice required under subsection 116(3) in respect of the disposition of a taxable Canadian property (other than an excluded property or a property described in subsection 116(5.2)) no later than 10 days after the disposition. The notice is not required if another notice was filed under subsection 116(1).	On summary conviction, a fine between $1,000 and $25,000, or both the fine and imprisonment for a term not exceeding 12 months. The fine is in addition to any penalty otherwise provided.
238(1) 127(3) 127(3.1) 127(3.2)	Issuance of a tax receipt in respect of a political contribution contravening the *Income Tax Act*.	On summary conviction, a fine between $1,000 and $25,000, or both the fine and imprisonment for a term not exceeding 12 months. The fine is in addition to any penalty otherwise provided.
238(1) 147.1(7)	Failure by the administrator of a registered pension plan to comply with certain obligations.	On summary conviction, a fine between $1,000 and $25,000, or both the fine and imprisonment for a term not exceeding 12 months. The fine is in addition to any penalty otherwise provided.
238(1) 147.1(18)	Contravention of registered pension plan regulations made under subsection 147.1(18).	On summary conviction, a fine between $1,000 and $25,000, or both the fine and imprisonment for a term not exceeding 12 months. The fine is in addition to any penalty otherwise provided.
238(1) 153(1)	Failure to withhold, deduct or remit certain tax amounts.	On summary conviction, a fine between $1,000 and $25,000, or both the fine and imprisonment for a term not exceeding 12 months. The fine is in addition to any penalty otherwise provided.
238(1) 230 to 232	Failure to comply with various obligations, including keeping records and books of account, providing additional information at the Minister's request and cooperating with the Minister's representatives in the course of an inspection.	On summary conviction, a fine between $1,000 and $25,000, or both the fine and imprisonment for a term not exceeding 12 months. The fine is in addition to any penalty otherwise provided.
238(1) 238(2)	Contravention of a compliance order of the Court made under subsection 238(2).	On summary conviction, a fine between $1,000 and $25,000, or both the fine and imprisonment for a term not exceeding 12 months. The fine is in addition to any penalty otherwise provided.
239(1)(*a*)	Tax evasion: Make, or participate, assent, or acquiesce in the making of false or deceptive statements in a return or any other document filed under the Act or a regulation.	On summary conviction, a fine between 50% and 200% of the evaded tax, or both the fine and imprisonment for a term not exceeding two years. The fine is in addition to any penalty otherwise provided.
239(1)(*b*)	Tax evasion: Destroy, alter, or otherwise dispose of a record or book of account.	On summary conviction, a fine between 50% and 200% of the evaded tax, or both the fine and imprisonment for a term not exceeding two years. The fine is in addition to any penalty otherwise provided.
239(1)(*c*)	Tax evasion: Make, assent, or acquiesce in the making of false/deceptive entries, or omit, assent or acquiesce in the omission of material from a taxpayer's records or books of account.	On summary conviction, a fine between 50% and 200% of the evaded tax, or both the fine and imprisonment for a term not exceeding two years. The fine is in addition to any penalty otherwise provided.
239(1)(*d*)	Tax evasion: Wilfully evade or attempt to evade compliance with the Act or payment of taxes.	On summary conviction, a fine between 50% and 200% of the evaded tax, or both the fine and imprisonment for a term not exceeding two years. The fine is in addition to any penalty otherwise provided.

Legislative Provisions	Offences	Punishment
239(1)(*e*)	Tax evasion: Conspire with any person to commit an offence described in paragraphs 239(1)(*a*) to 239(1)(*d*).	On summary conviction, a fine between 50% and 200% of the evaded tax, or both the fine and imprisonment for a term not exceeding two years. The fine is in addition to any penalty otherwise provided.
239(1.1)(*a*) 239(1.1)(*b*) 239(1.1)(*c*) 239(1.1)(*d*) 239(1.1)(*e*) 239(1.1)(*f*)	Tax evasion: Undue refunds and credits.	On summary conviction, a fine between 50% and 200% of the undue refunds or credits, or both the fine and imprisonment for a term not exceeding two years. The fine is in addition to any penalty otherwise provided.
239(2)	Prosecution on indictment, at the election of the Attorney General of Canada, of any person charged with an offence described in subsections 239(1) or 239(1.1).	On indictment and conviction, a fine between 100% and 200% of the evaded tax, or undue refund or credit, and imprisonment for a term not exceeding five years. The fine is in addition to any penalty otherwise provided.
239(2.1)	Wilfully provide an incorrect tax shelter identification number.	On summary conviction, a fine between 100% and 200% of the cost to the other person of the person's share in the tax shelter and/or imprisonment for a term not exceeding two years. The fine is in addition to any penalty otherwise provided.
239(2.2) 241(1) 241(4.1)	Unauthorized wilful communication of taxpayer information or contravention of an order to prevent unauthorized use or disclosure of taxpayer information.	On summary conviction, a fine not exceeding $5,000, or imprisonment for a term not exceeding 12 months, or both the fine and imprisonment.
239(2.21) 241(4)	Unauthorized disclosure of confidential information on a taxpayer provided for a particular purpose under subsection 241(4).	On summary conviction, a fine not exceeding $5,000, or imprisonment for a term not exceeding 12 months, or both the fine and imprisonment.
239(2.3)	Unauthorized communication of an identification number like a business number or social insurance number.	On summary conviction, a fine not exceeding $5,000, or imprisonment for a term not exceeding 12 months, or both the fine and imprisonment.
240(2) Reg. 807	Failure to comply with the regulatory provisions concerning the identification of interest coupons by the letters "AX" for taxable obligations and "F" for non-taxable obligations.	On summary conviction, a maximum fine of $500.

Penalties Assessed under the *Income Tax Act*

Updated to June 2009.

Legislative Provisions	Default	Penalty
48.1(4)	Late filed election by an individual to take advantage of the capital gains exemption and realize latent capital gains on the shares of a small business corporation becoming public.	The lesser of: • 0.25% of the excess of the deemed proceeds of disposition of the shares over their adjusted cost base, immediately before the corporation became public, times the number of months or parts of month between the due date and actual filing date of the election; and • $100 times that same number of months/parts of month comprised in the above period.
66(12.68) 66(12.69) 66(12.691) 66(12.7) 66(12.701) 66(12.74) 66(12.741) 66(12.75)	Late filed renunciation, prescribed form, or documents in respect of Canadian exploration or development expenses.	The lesser of $15,000 and the greater of the following amounts: • $100; and • 0.25% times (1) Maximum amount of Canadian exploration expenses or Canadian development expenses renounced or attributed, or to be renounced or attributed as set out in the document; (2) Assistance reported in the document; or (3) Amount of the renunciation.
66(14.5)	Late filed or amended designation in respect of Canadian exploration or development expenses.	The lesser of: • 0.25% times (1) The designated amount; or (2) The difference between the designated amounts, multiplied by the number of months/parts of month between the due date and actual filing date of the designation; and • An amount, not exceeding $8,000, equal to the product of $100 times the number of months/parts of month comprised in the above period.
83(1) 83(2) 83(3) 83(4)	Late filed election for qualifying dividends described in subsection 83(1) or capital dividends described in subsection 83(2).	The lesser of: • One-twelfth of 1% of the dividend amount; and • $41.67 times the number of months/parts of month between the dividend payment date and the actual filing date of the election.
85(7) 85(7.1) 85(8)	Late filed or amended election for the transfer of a property by a shareholder to a corporation.	The lesser of: • 0.25% of the excess of the fair market value of the property subject to the election over the rollover amount agreed in the election, times the number of months or parts of month between the due date and actual filing date of the election; and • An amount, not exceeding $8,000, equal to the product of $100 times the number of months/parts of month comprised in the above period.
93(5) 93(5.1) 93(6)	Late filed or amended election on the disposition of shares in a foreign affiliate.	The lesser of: • 0.25% of the amount designated in the election times the number of months/parts of month between the due date and actual filing date of the election; and • An amount, not exceeding $8,000, equal to the product of $100 times the number of months/parts of month comprised in the above period.
96(5) 96(5.1) 96(6) 97(2)	Late filed or amended election for the transfer of a property by a taxpayer to a partnership.	The lesser of: • 0.25% of the excess of the fair market value of the property being transferred over the amount agreed in the election, times the number of months/parts of month between the due date and actual filing date of the election; and • An amount, not exceeding $8,000, equal to the product of $100 times the number of months/parts of month comprised in the above period.

Legislative Provisions	Default	Penalty
96(5) 96(5.1) 96(6) 98(3)	Late filed or amended election for the transfer of a property where a partnership ceases to exist.	The lesser of: • 0.25% of the difference between (1) Total of all amounts of money and fair market value of other properties received by former members; and (2) Total of proceeds of disposition of the partnership interest of each former member, times the number of months/parts of month between the due date and actual filing date of the election; and • An amount, not exceeding $8,000, equal to the product of $100 times the number of months/parts of month comprised in the above period.
110.6(19) 110.6(24) 110.6(26) 110.6(27) 110.6(29)	Late filed election for the deemed disposition of a property owned on February 22, 1994 to use the capital gains exemption.	One-third of 1% of the taxable capital gain resulting from the election times the number of months/parts of month between the day following the due date of the election and its actual filing date.
131(1) 131(1.1) 131(1.3)	Late filed election for capital gains dividends paid by a mutual fund corporation.	The lesser of: • One-twelfth of 1% of the dividend amount; and • $41.67 times the number of months/parts of month between the dividend payment date and the actual filing date of the election.
146(2)(*c.4*) 146(13.1)	Issuer of a registered retirement savings plan extending a prohibited advantage to an annuitant.	The greater of $100 and the amount or value of the advantage.
149(1)(*j*) 149(7) 149(7.1)	Non-profit corporation for scientific research and experimental development not filing a prescribed form on time.	The greater of: • $500; and • 2% of the corporation's taxable income for the year times the number of months/parts of month (not exceeding 12) between the due date and actual filing date of the prescribed form.
162(1) 150(1)	Failure to file a return of income.	5% of the tax payable that was unpaid when the return was required to be filed, plus an additional 1% of that tax for each complete month (not exceeding 12) between the due date and the actual filing date of the return.
162(2) 150(1) 150(2)	Repeated failure (within a three-year period) to file a return of income after being served a formal demand by the Minister.	10% of the tax payable that was unpaid when the return was required to be filed plus an additional 2% of that tax for each complete month (not exceeding 20) between the due date and the actual filing date of the return.
162(2.1) 150(1) 150(2)	Failure or repeated failure by a non-resident corporation to file a return of income.	The greater of: • The amount of the penalty determined for a resident under subsections 162(1) or 162(2) as appropriate; and • The greater of $100 and $25 times the number of days (not exceeding 100) between the due date and the actual filing date of the return.
162(3) 150(3)	Failure by a trustee, liquidator or any other person administering the property of a person to file a return of income.	$10 per day of default but not exceeding $50.
162(4) 234	Failing to prepare or deliver an ownership certificate required by section 234, or cashing a coupon or warrant for which no such certificate was prepared.	$50.
162(5)	Failure to provide information on a prescribed form.	$100 for each failure unless (i) a reasonable effort was made by the person required to get the information from another person; or (ii) the person required to provide a social insurance number on a return of income had already applied but not received that number.

Legislative Provisions	Default	Penalty
162(6)	Failure to provide on request a Social Insurance Number or a Business Number.	$100 for each failure unless an application to obtain a number is filed within 15 days and the number is provided within 15 days of its receipt.
162(7)	Failure by a person (other than a registered charity) or partnership to file an information return or comply with a duty as and when required by the Act or the regulations.	The greater of $100 and $25 times the number of days (not exceeding 100) during which the failure continues.
162(7.01)	Failure by a person (other than a registered charity) or partnership to file a prescribed information return when required by the Act or the regulations.	The greater of $100 and $10 times the number of days (not exceeding 100) during which the failure continues if less than 51 returns in total are required to be filed, $15 per day for 51 to 500 returns, $25 per day for 501 to 2,500 returns, $50 per day for 2,501 to 10,000 returns, and $75 per day for more than 100,000 returns. Note that this requirement applies only to returns required to be filed after 2009.
162(7.02)	Failure by a person (other than a registered charity) or partnership to file a prescribed information return as required by the regulations (e.g., manual instead of electronic filing).	Nil if less than 51 returns in total are required to be filed, $250 for 51 to 250 returns, $500 for 251 to 500 returns, $1,500 for 501 to 2,500 returns, and $2,500 for more than 2,500 returns. Note that this requirement applies only to returns required to be filed after 2009.
162(7.1)	Failure by a member of a partnership to file an information return as a member of the partnership.	The partnership is liable to a penalty equal to the greater of $100 and $25 times the number of days (not exceeding 100) during which the failure continues.
162(7.2) 150.1(2.1)	Failure by a prescribed corporation to file a return of income electronically, in accordance with subsection 150.1(2.1).	Nil for a return required to be filed before 2011, $250 for one to be filed in 2011, $500 for one to be filed in 2012, and $1,000 for one to be filed after 2012.
162(8) 162(7.1) 233	Repeated failure within a three-year period by a member of a partnership to file an information return after being served a formal demand by the Minister.	The partnership is liable to the total of the penalties imposed under subsection 162(7.1) and $100 for each partner and each month or part of month (not exceeding 24) during which the failure continues.
162(10) 233 233.1 233.2 233.3 233.4	Failure by a person or partnership, knowingly or under circumstances amounting to gross negligence, to file an information return required by formal demand under section 233 or provide the Minister with foreign-based information required under sections 233.1 to 233.4.	$500 per month of failure up to 24 months (or, if the person or partnership failed to comply with a formal demand served under section 233, $1,000 per month of failure up to 24 months) less the penalty provided under subsection 162(7).
162(10.1) 94 233.2 (As per proposed legislation)	Delay of more than 24 months in the filing by a person or partnership of an information return in respect of a specified foreign trust.	5% of the total of all amounts each of which is the fair market value, at the time it was made, of a contribution of the person or partnership made to the trust before the end of its last taxation year in respect of which the return is required, less the penalties provided under subsections 162(7) and 162(10).
162(10.1) 233.3	Delay of more than 24 months in the filing by a person or partnership of an information return in respect of specified foreign properties.	5% of the greatest of all amounts each of which is the total of the cost amounts to the person or partnership at any time in the year of the specified foreign properties, less the penalties provided under subsections 162(7) and 162(10).
162(10.1) 233.4	Delay of more than 24 months in the filing by a person or partnership of an information return in respect of a foreign affiliate.	5% of the greatest of all amounts each of which is the total of the cost amounts to the person or partnership at any time in the year of a share of the capital stock or indebtedness of the foreign affiliate, less the penalties provided under subsections 162(7) and 162(10).

Legislative Provisions	Default	Penalty
163(1) 150(1)	Failure to report an amount in a return of income for a taxation year after a similar failure had occurred for any of the three preceding taxation years.	10% of the unreported income unless a penalty is already applicable under subsection 163(2).
163(2)	Make, participate or acquiesce in the making, knowingly or in circumstances amounting to gross negligence, of a false statement or omission in a return, form, certificate, statement or answer.	The greater of $100 and 50% of the avoided taxes or excess tax credits claimed.
163(2.2) 66(12.6) 66(12.601) 66(12.62) 66(12.66)	Make, participate or acquiesce in the making, knowingly or in circumstances amounting to gross negligence, of a false statement or omission in respect of a flow-through share renunciation.	25% of the difference between the amount indicated in the renunciation and the one the corporation was entitled to renounce.
163(2.21) 163(2.22) 66(12.66) 66(12.73)	Make, participate or acquiesce in the making, knowingly or in circumstances amounting to gross negligence, of a false statement or omission in respect of a renunciation purported to have been made for the so-called look-back rule.	25% of the difference (if any) between: • The excess of the actual amount renounced by the corporation over the amount the corporation was entitled to renounce, as outlined in subsection 66(12.73); and • The excess identified in the document to be filed under subsection 66(12.73) if paragraph 163(2.21)(*b*) is applicable and nil if it is not applicable.
163(2.3) 66(12.691) 66(12.701)	Make, participate or acquiesce in the making, knowingly or in circumstances amounting to gross negligence, of a false statement or omission in a prescribed form concerning assistance re flow-through shares.	25% of the excess of the assistance that had to be reported on the prescribed form over the assistance that was actually reported on the form.
163(2.4) 233.1	Make, participate or acquiesce in the making, knowingly or in circumstances amounting to gross negligence, of a false statement or omission in a return concerning reportable transactions with non-resident non-arm's length persons.	$24,000.
163(2.4) 233.2 (As per proposed legislation)	Make, participate or acquiesce in the making, knowingly or in circumstances amounting to gross negligence, of a false statement or omission in a return concerning a specified foreign trust.	The greater of: • $24,000; and • 5% of the total of all amounts each of which is the fair market value, at the time it was made, of a contribution of the person or partnership made to the trust before the end of its last taxation year in respect of which the return is required.
163(2.4) 233.3	Make, participate or acquiesce in the making, knowingly or in circumstances amounting to gross negligence, of a false statement or omission in a return concerning a specified foreign property.	The greater of: • $24,000; and • 5% of the greatest of all amounts each of which is the total of the cost amounts to the person or partnership at any time in the year of the specified foreign property in respect of which the false statement or omission is made.

Legislative Provisions	Default	Penalty
163(2.4) 233.4	Make, participate or acquiesce in the making, knowingly or in circumstances amounting to gross negligence, of a false statement or omission in a return concerning a foreign affiliate.	The greater of: • $24,000; and • 5% of the greatest of all amounts each of which is the total of the cost amounts to the person or partnership at any time in the year of a share of the capital stock or indebtedness of the foreign affiliate in respect of which the return is filed.
163(2.4) 233.6	Person or partnership making, participating or acquiescing in the making, knowingly or in circumstances amounting to gross negligence, of a false statement or an omission in a return made in respect of distributions from a non-resident trust.	The greater of: • $2,500; and • 5% of the total of the following amounts: (1) All amounts each of which is the fair market value of a property distributed to the person or partnership in the year by the trust and in respect of which the false statement or omission are made; and (2) All amounts each of which is the greatest unpaid principal amount of a debt owing to the trust by the person or partnership in the year and in respect of which the false statement or omission is made.
163.1	Late or deficient Part I tax instalments.	50% of the difference (if any) between: • Interest payable under section 161 on all instalments for the year; and • The greater of $1,000 and 25% of the interest that would have been payable under section 161 if no instalments had been made for the year.
163.2(2) 163.2(3) 163.2(6) 163.2(14)	Misrepresentation in tax planning arrangements[1] (*tax planner penalty*[2]). Make, furnish or participate in the making of or cause another person to make or furnish, knowingly or through culpable conduct, a statement that the tax planner knows is false and could be used by another person for a purpose of the Act.	• If the statement is made in the course of a planning activity[3] or a valuation activity:[4] The greater of $1,000 and the planner's total gross entitlements[5] (generally the professional fees received in respect of that activity); and • If the statement is not made in the course of such activity: $1,000. If both the subsection 163.2(2) tax planner penalty and the subsection 163.2(4) tax preparer penalty are applicable to the same false statement, the taxpayer will only be liable to the greater penalty.
163.2(4) 163.2(5) 163.2(6) 163.2(14)	Participation in a misrepresentation (*tax preparer penalty*). Make, participate or acquiesce in the making, knowingly or through culpable conduct, of a statement that the tax preparer knows is false and could be used by another person for a purpose of the Act.	The greater of the following amounts: • $1,000; and • The lesser of: (1) The penalty to which the other person would be liable under subsection 163(2) if he/she had made the statement in a return filed for the purpose of the Act while knowing that it was false; and (2) The total of $100,000 and the tax preparer's gross compensation.[6] If both the subsection 163.2(2) tax planner penalty and the subsection 163.2(4) tax preparer penalty are applicable to the same false statement, the taxpayer will only be liable to the greater penalty.
179.1	Appeal to the Tax Court of Canada when the Court determines that there was no reasonable grounds for appeal.	10% of the amount in controversy.

Legislative Provisions	Default	Penalty
180.2(6) 181.7(1) 183(3) 183.2(2) 185(3) 185.2(2) 187(3) 187.6 189(8) 190.21 191.4(2) 193(8) 195(8) 196(4) 197(6) 202(3) 204.3(2) 204.7(3) 204.87 204.93 204.94(4) 207(4) 207.07(3) 207.2(3) 207.4(2) 207.7(4) 209(5) 210.2(7) 211.5(1) 211.6(5) 211.91(3) 218.2(5) 218.3(10) 219(3) 247(11)	Failure to comply with the requirements of subsections 162 to 163.2 in respect of the following Parts of the Act: I.2, I.3, II, II.1, III, III.1, IV, IV.1, V, VI, VI.1, VII, VIII, IX, IX.1, X, X.1, X.2, X.3, X.4, X.5, XI, XI.01, XI.1, XI.2, XI.3, XII.1, XII.2, XII.3, XII.4, XII.6, XIII.1, XIII.2, XIV and XVI.1.	Same penalties as the ones described under subsections 162 to 163.2.
184(3.1) 184(3.2) 184(5)	Late filed election to treat as a loan a dividend in respect of which an election was previously filed under subsection 83(1) or 83(2).	$41.67 times the number of months/parts of month between the dividend payment date and the actual filing date of the election. Note that this penalty would be eliminated and the dividend treated as a loan under proposed legislation.
188.1(1)	Charity — Private foundation carrying on any business or registered charity other than a private foundation carrying on a business not related to the charity.	5% of the gross revenue from the business carried on by the registered charity.
188.1(2)	Charity — Private foundation or other registered charity that was subject to a penalty under subsection 188.1(1) in the previous five years.	100% of the gross revenue for a subsequent taxation year from the business carried on by the registered charity.
188.1(3)(*a*) 149.1(12)	Charity — Acquisition of control of a corporation by a charitable foundation.	5% of the dividends received from the corporation unless a penalty is already applicable under paragraph 188.1(3)(*b*).
188.1(3.1)	Charity — Private foundation having failed to reduce to zero per cent, by the end of its taxation year, its divestment obligation percentage in respect of a class of shares of the capital stock of a corporation.	5% of the fair market value of the shares represented by the outstanding portion of that divestment obligation percentage. The penalty is doubled to 10% if either: (1) The foundation was assessed a 5% penalty in respect of any class of shares of a corporation less than five years before; or (2) The foundation failed to disclose any of the following information on Form T3010A: material transaction of the foundation in respect of the class of shares, material interest held by a relevant person in respect of the foundation, or its total corporate holdings percentage in respect of the class of shares at year-end unless the foundation held at any time during the year only an insignificant interest in that class.
188.1(4)(*a*)	Charity — Undue benefit conferred to a person by a registered charity.	105% of the benefit except if the charity is liable to the penalty under paragraph 188.1(4)(*b*).

Legislative Provisions	Default	Penalty
188.1(4)(*b*)	Charity — Registered charity that was subject to the above penalty under paragraph 188.1(4)(*a*) in the previous five years.	110% of the undue benefit conferred by the charity.
188.1(6) 149.1(14)	Charity — Failure to file the information returns required under subsection 149.1(14).	$500.
188.1(7)	Charity — Registered charity included incorrect information on a tax receipt.	5% of the amount reported on the tax receipt.
188.1(8)	Charity — Registered charity was subject to a penalty under subsection 188.1(7) in the previous five years.	10% of the amount reported on the tax receipt.
188.1(9)	Charity — Make, furnish or participate in the making, or cause another person to make or furnish a false statement on a receipt in circumstances amounting to culpable conduct.	125% of the amount reported on the receipt.
188.1(11)	Charity — Gift by a registered charity to another registered charity of a property for the principal purpose of delaying the expenditure of amounts on charitable activities.	The registered charities are jointly liable for a penalty equal to 110% of the fair market value of the property.
192(8) 192(9)	Late filed designation for the purpose of Part VII Refundable Tax on Corporations Issuing Qualifying Shares.	The lesser of $500 and 1% of the designated amount in respect of the shares.
194(7) 194(8)	Late filed designation for the purpose of Part VIII Refundable Tax on Corporations in Respect of Scientific Research and Experimental Development Tax Credit.	The lesser of: (1) 1% of the designated amount in respect of the share or debt obligation issued, or right granted times the number of months or parts of month between the last day the designation could be made and the actual day it was made; and (2) $500.
204.81(6)(*c*) 204.84	Labour-sponsored venture capital corporation issuing an information return concerning the issuance of a share when it is revoked or subscribing in respect of a share not issued within 180 days after issuing the return.	Amount of the consideration for which the share was issued or was to be issued.
204.82(3) 204.82(4)	Labour-sponsored venture capital corporation not meeting certain investment requirements for 12 consecutive months.	An amount equal to the Part X.3 Tax payable under subsection 204.82(3).

Legislative Provisions	Default	Penalty
220(3.2) 220(3.5) Reg. 600	Late filed, amended or revoked election (excluding pension income splitting election in subsection 220(3.201)) where the Minister has extended the time to make the election or granted permission to amend or revoke it. Elections under the following provisions are covered: Income tax sections: 7(10), 12(2.2)(*b*), 13(4), 13(7.4), 13(29), 14(6), 20(24), 21, 44(1), 44(6), 45(2), 45(3), 50(1), 53(2.1), 66.7(7)(*c*), 66.7(7)(*d*), 66.7(7)(*e*), 66.7(8)(*c*), 66.7(8)(*d*), 66.7(8)(*e*), 70(6.2), 70(9), 70(9.1), 70(9.2), 70(9.3), 72(2), 73(1), 80.01(4)(*c*), 80.1(1), 80.1(4), 82(3), 83(2), 86.1(2)(*f*), 104(5.3), 104(14), 107(2.001), 128.1(4)(*b*), 128.1(4)(*d*), 128.1(6)(*a*), 128.1(6)(*c*), 128.1(7)(*d*), 128.1(7)(*g*), 128.1(8)(*c*), 143(2), 146.01(7), 164(6), 164(6.1), 184(3), 256(9); Income tax regulations: 1103(1), 1103(2), 1103(2d), 5907(2.1).	The lesser of: • $8,000; and • $100 times the number of complete months between the due date of the election and the date the above application was filed with the Minister.
227(8) 153(1) 215	Failure to withhold a tax amount under subsection 153(1) or section 215.	10% of the amount that should have been deducted. If the payer is already subject to this penalty in respect of another amount and the failure was made knowingly or in circumstances amounting to gross negligence, 20% of the amount required to be deducted.
227(9) 116(1) 215(4)	Failure to remit a tax amount deducted at source or to be paid under either subsection 116(1) or a regulation made under subsection 215(4).	3% if the remittance is no more than 3 days late or made on time but not in the manner required (e.g., not paid to a designated financial institution by a large employer); 5% if 4 or 5 days late; 7% if 6 or 7 days late; or 10% if more than 7 days late. If the payer is already subject to the penalty for another amount and the failure was made knowingly or in circumstances amounting to gross negligence, 20% of the amount required to be paid or remitted.
227(9.1)	Failure to remit an amount before a prescribed date under subsection 227(9.1) of the *Income Tax Act*, subsection 21(1) of the *Canada Pension Plan*, or subsection 82(1) of the *Employment Insurance Act*.	The remittance failure penalty applies only to the excess of the remittance over $500 unless the remittance was delayed knowingly or in circumstances amounting to gross negligence.
235 150 190.2 225.1(8)	Failure by a large corporation to file a corporate return required under section 150 or 190.2.	The total of 0.0005% of the corporation's taxable capital employed in Canada at the end of its taxation year and 0.25% of the Part VI tax (if applicable) times the number of complete months (not exceeding 40) between the due date and actual filing date of the return.
237.1(2) 237.1(7.4)	Filing of false or misleading information in an application for the attribution of a tax shelter identification number, or selling/issuing of a tax shelter before the issuance of that number.	The greater of (1) $500; and (2) 25% of the total of all amounts each of which is the consideration received or receivable in respect of the tax shelter.
247(3)	Transfer pricing adjustments.	10% of the excess (if any) of: • The taxpayer's transfer pricing capital and income adjustments or setoff adjustments less the portion of such adjustments related to either qualifying cost contribution arrangements or transfer prices resulting from a reasonable effort from the taxpayer to establish an arm's length price; over • The lesser of $5 million and 10% of the taxpayer's annual gross revenue. If there is no excess, then there is no penalty.

Notes:

[1] **163.2(1) "excluded activity"** in respect of a false statement, means the activity of

(a) promoting or selling (whether as principal or agent or directly or indirectly) an arrangement, an entity, a plan, a property or a scheme (in this definition referred to as the "arrangement") where it can reasonably be considered that

(i) subsection 66(12.68) applies to the arrangement,

(ii) the definition "tax shelter" in subsection 237.1(1) applies to a person's interest in the arrangement, or

(iii) one of the main purposes for a person's participation in the arrangement is to obtain a tax benefit; or

(b) accepting (whether as principal or agent or directly or indirectly) consideration in respect of the promotion or sale of an arrangement.

[2] Any person conceiving, selling or promoting tax shelters or similar arrangements (or participating in their conception, sale or promotion). See Paragraph 6 of Information Circular No. 01-1 "Third-Party Civil Penalties".

[3] **163.2(1) "planning activity"** includes

(a) organizing or creating, or assisting in the organization or creation of, an arrangement, an entity, a plan or a scheme; and

(b) participating, directly or indirectly, in the selling of an interest in, or the promotion of, an arrangement, an entity, a plan, a property or a scheme.

[4] **163.2(1) "valuation activity"** of a person means anything done by the person in determining the value of a property or a service.

[5] **163.2(1) "gross entitlements"** of a person at any time, in respect of a planning activity or a valuation activity of the person, means all amounts to which the person, or another person not dealing at arm's length with the person, is entitled, either before or after that time and either absolutely or contingently, to receive or obtain in respect of the activity.

[6] **163.2(1) "gross compensation"** of a particular person at any time, in respect of a false statement that could be used by or on behalf of another person, means all amounts to which the particular person, or any person not dealing at arm's length with the particular person, is entitled, either before or after that time and either absolutely or contingently, to receive or obtain in respect of the statement.

[illegible]

[illegible]

[illegible]

International Tax Conventions

The following is a list of countries with which Canada has signed tax conventions. The date noted beside the country is the date that the most recent treaty was signed. If the treaty is not yet in force (as noted beside the date), the earlier treaty (if one exists) remains in force until the new treaty comes into force. Countries with which agreements are being negotiated or re-negotiated are also noted. The chart that follows shows the rates of withholding tax under the various treaties for selected types of payments.

Algeria — February 28, 1999

Argentina — April 29, 1993

Armenia — June 29, 2004

Australia — May 21, 1980 (Protocol January 23, 2002)

Austria — December 9, 1976 (Protocol June 15, 1999)

Azerbaijan — September 7, 2004

Bangladesh — February 15, 1982

Barbados — January 22, 1980

Belgium — May 23, 2002

Brazil — June 4, 1984

Bulgaria — March 3, 1999

Cameroon — May 26, 1982

Chile — January 21, 1998

China, People's Republic of — May 12, 1986 (does not apply to Hong Kong)

Colombia — November 24, 2008 (not yet in force)

Croatia — December 9, 1997

Cyprus — May 2, 1984

Czech Republic — May 25, 2001

Denmark — September 17, 1997

Dominican Republic — August 6, 1976

Ecuador — June 28, 2001

Egypt — May 30, 1983

Estonia — June 2, 1995

Finland — July 20, 2006

France — May 2, 1975 (Protocol January 16, 1987; Protocol November 30, 1995)

Gabon — November 14, 2002

Germany — April 19, 2001

Greece — June 29, 2009 (not yet in force)

Guyana — October 15, 1985

Hungary — April 15, 1992 (Protocol May 3, 1994)

Iceland — June 19, 1997

India — January 11, 1996

Indonesia — January 16, 1979 (Protocol April 1, 1998)

Ireland — October 8, 2003

Israel — July 21, 1975

Italy — November 17, 1977 (Protocol March 20, 1989). New treaty signed June 3, 2002 (not yet in force)

Ivory Coast — June 16, 1983

Jamaica — March 30, 1978

Japan — May 7, 1986 (Protocol February 19, 1999)

Jordan — September 6, 1999

Kazakhstan — September 25, 1996

Kenya — April 27, 1983

Korea, Republic of — September 5, 2006

Kuwait — January 28, 2002

Kyrgyzstan — June 4, 1998

Latvia — April 26, 1995

Lebanon — December 29, 1998 (not yet in force)

Lithuania — August 29, 1996

Luxembourg — September 10, 1999

Malaysia — October 15, 1976

Malta — July 25, 1986

Mexico — September 12, 2006

Moldova — July 4, 2002

Mongolia — May 27, 2002

Morocco — December 22, 1975

Netherlands — May 27, 1986 (Protocol March 4, 1993; Protocol August 25, 1997)

New Zealand — May 13, 1980

Nigeria — August 4, 1992

Norway — July 12, 2002

Oman — June 30, 2004

Pakistan — February 24, 1976

Papua New Guinea — October 16, 1987

Peru — July 20, 2001

Philippines — March 11, 1976

Poland — May 4, 1987

Portugal — June 14, 1999

Romania — April 8, 2004

Russia — October 5, 1995

Senegal — August 2, 2001

Singapore — March 6, 1976

Slovak Republic — May 22, 2001

Slovenia — September 15, 2000

South Africa — November 27, 1995

Spain — November 23, 1976

Sri Lanka — June 23, 1982

Sweden — August 27, 1996

Switzerland — May 5, 1997

Tanzania — December 15, 1995

Thailand — April 11, 1984

Trinidad & Tobago — September 11, 1995

Tunisia — February 10, 1982

Ukraine — March 4, 1996

United Arab Emirates — June 9, 2002

United Kingdom — September 8, 1978 (Protocol April 15, 1980; Protocol October 16, 1985; Protocol May 7, 2003)

United States — September 26, 1980 (Protocol March 17, 1995; Protocol July 29, 1997; Protocol September 21, 2007)

Uzbekistan — June 17, 1999

Venezuela — July 10, 2001

Vietnam — November 14, 1997

Zambia — February 16, 1984

Zimbabwe — April 16, 1992

The Department of Finance has announced that agreements are being negotiated or re-negotiated with the following countries: Barbados, Bolivia, Costa Rica, Cuba, Egypt, Madagascar, Malaysia, Namibia, Poland, Serbia and Montenegro, Singapore, Spain, and Turkey.

Rates of Withholding Tax under Income Tax Agreements Signed by Canada

This chart is intended for use only as a quick reference guide for the rates of withholding tax for selected types of payments under the income tax agreements Canada has signed with various countries. The rates listed in the chart are the maximum rates that Canada and the other country may withhold for the type of payment noted. Many of the treaties have unique exceptions and qualifications on withholding tax which cannot be listed in a chart such as this. Therefore, the specific treaty should be consulted when determining whether or not there is a tax liability exigible on a payment.

Countries	*Date*	*Interest*	*Dividends — % of Ownership*	*Regular Dividends*	*Royalties*	*Pension and Annuity*	*From Estate or Trust*
Algeria	1999	15%[3]	15%	15%	15%, royalties for use of computer software and patents exempt.	15%[9, 14, 16]	—
Argentina	1993	12.5%[3]	10%[5]	15%	15% generally 3%, 5%, 10% for specific items	15%[9, 14, 16]	—
Armenia	2004	10%[3]	5%[5] for investment >US $100,000.	15%	10%	pen. 15%[9, 14, 16]	15%
Australia	1980[2]	10%	5%[4, 6]	15%	10%	15%[10, 17]	15% (Can)
Austria	1976[2]	10%[3]	5%[4, 6]	15%	10%[8]	[9, 11]	15% (Can)
Azerbaijan	2004	10%[3]	10%[4]	15%	5% on computer software, patents, industrial, commercial or scientific experience royalties; 10% on other royalties	—	15%
Bangladesh	1982	15%[3]	15%	15%	10%	15%[9]	—
Barbados	1980	15%[3]	15%	15%	10%[7]	15%[9, 14, 16]	15% (Can)
Belgium	2002	10%[3]	5%[4]	15%	10%[8]	[9, 11] [13] for certain pensions	15%
Brazil	1984	15%[3] 10% Brazil in certain circumstances	15%[4]	rate not specified	15% 25% on trademarks	[15] [9] unless over $4,000	—
Bulgaria	1999	10%[3]	10%[4, 6]	15%	10%[7]	pen. 15% ann. 10%[9]	15% (Can)
Cameroon	1982	15% (Can) 20% (Cam)	15% (Can) 20% (Cam)	15% (Can) 20% (Cam)	15% (Can) 20% (Cam)	[11]	—
Chile	1998	15%	10%[5]	15%	15%	pen.[13], ann. 15%[9]	15% (Can)
China	1986	10%[3]	10%[4]	15%	10%	[11]	—
Colombia	2008[1]	10%[3]	5%[4]	15%	10%	15%[9, 14, 16]	15% (Can)
Croatia	1997	10%	5%[4, 5, 6]	15%	10%	pen. 15%[15], ann. 10%[9]	15%
Cyprus	1984	15%[3]	15%	15%	10%[7]	15%[9] [13] for certain pensions [15, 16]	15%
Czech Republic	2001	10%[3]	5%[4]	15%	10%	15%[9]	15%
Denmark	1997	10%[3]	5%[5] (if owned by a company) 10% if paid by Cdn. NRO invest. corp.	15%	10%[8]	[9, 13]	15%
Dominican Republic	1976	18%[3]	18%	18%	18%[7]	18%[9, 16]	18%
Ecuador	2001	10%[3]	5%[5]	15%	10% on use of industrial, commercial, or scientific equipment; 15% on other	pen. 15%[14, 16, 15], ann. 15%[9]	15%

Withholding Tax Rates — Tax Agreements

Countries	*Date*	*Interest*	*Dividends — % of Ownership*	*Regular Dividends*	*Royalties*	*Pension and Annuity*	*From Estate or Trust*
Egypt	1983	15%[3]	15%	15% (20% if paid to an individual resident in Canada)	15%	[11]	15%
Estonia	1995	10%[3]	5%[5,6]	15%	10%	15%[16], ann. 10%[9]	15%
Finland	2006	10%[3]	5%[4]	15%	10%[8]	pen. 20%[14], ann. 15%[9]	15%
France	1975[2]	10%[3]	5%[4] 10% if paid by Cdn. NRO invest. corp.	15%	10%[8]	pen. [13,14], ann. [9,11]	15%
Gabon	2002	10%[3]	15%	15%	10%	pen. [11], ann. [11]	—
Germany	2001	10%[3]	5%[4]	15%	10%[8]	pen. [11], ann. [9,11]	—
Greece	2009[1]	10%[3]	5%[5]	15%	10%[7]	15%[9,14,15,16]	15%
Guyana	1985	15% (Can)[3], 25% (Guy)[3]	15%	15%	10%	[9,11,14]	—
Hungary	1992[2]	10%[3]	5%[5] 10% if paid by Cdn. NRO invest. corp.	15%	10%[7]	pen. 15%[14,16], ann. 10%[9]	15%
Iceland	1997	10%[3]	5%[4,6]	15%	10%[8]	pen. 15%[14,16], ann. 15%[9]	15%
India	1996	15%[3]	15%[4]	25%	10% 15% 20%	[13]	15%
Indonesia	1979[2]	10%[3]	10%[5]	15%	10%	15%[9,14]	—
Ireland	2003	10%[3]	5%[4,6]	15%	10%[8]	pen. 15%[14,16] ann. 15%	15%
Israel	1975	15%[3]	15%	15%	15%[7]	15%[9,14,17]	15%
Italy	1977[2]	15%[3]	15%	15%	10%[7]	pen. 15%[14,15,16]	—
	2002[1]	10%[3]	5%[4,6]	15%	5%[7] on computer software, patents, industrial, commercial or scientific experience royalties, 10% on other royalties[7]	pen. 15%[14,15,16]	15%
Ivory Coast	1983	15%[3]	15% 18% on certain divs. from Ivory Coast	15% 18% on certain divs. from Ivory Coast	10%	15%	—
Jamaica	1978	15%[3]	15% 22.5% (Jam)[4]	15%	10%	pen. [11,14,16], ann. 15%[9]	15% (Can)
Japan	1986[2]	10%[3]	5%[5]	15%	10%	[11]	—
Jordan	1999	10%[3]	10%[4,6]	15%	10%	[13]	—
Kazakhstan	1996	10%[3]	5%[4,6]	15%	10%	pen. 15%[9,13] for certain pensions	—
Kenya	1983	15%[3]	15%[4]	25%	15%	15%	—
Korea	2006	10%[3]	5%[5]	15%	10%	pen. 15%[9,16] ann. 10%	—
Kuwait	2002	10%[3]	5%[4,5,6]	15%	10%	15%	—
Kyrgyzstan	1998	15%[3]	15%	15%	10%[8]	15%[9,14,16]	15%
Latvia	1995	10%[3]	5%[5,6]	15%	10%	pen. 15%[16], ann. 10%[9]	15%
Lebanon	1998[1]	10%[3]	5%[4,6]	15%	5% on cultural, computer software, industrial, commercial or scientific "know-how" royalties, 10% on other royalties	pen. 15%[9,14]	—
Lithuania	1996	10%[3]	5%[5,6]	15%	10%	pen. 15%[16], ann. 10%[9]	15%
Luxembourg	1999	10%[3]	5%[4] (if owned by a company) 10% if paid by Cdn. NRO invest. corp.	15%	10%[8]	[9,11,14], [13] for certain pensions	15%
Malaysia	1976	15%[3]	15%	15%	15% certain royalties excluded	15%[14,16]	15% (Can)

Countries	*Date*	*Interest*	*Dividends — % of Ownership*	*Regular Dividends*	*Royalties*	*Pension and Annuity*	*From Estate or Trust*
Malta	1986	15%[3]	15% (Can) not to exceed tax on profits (Malta)	15% (Can) not to exceed tax on profits (Malta)	10%[7]	15%[9,14,16]	15%
Mexico	2006	10%[3]	5%[4]	15%	10%[7]	pen. 15%[9,14,16] ann. 15%	15%
Moldova	2002	10%[3]	5%[5]	15%	10%	15%[14]	15%
Mongolia	2002	10%[3]	5%[4]	15%	5% on cultural, computer software, patent, industrial, commercial or scientific experience royalties, 10% on other royalties	pen. 15%[14,16], ann. 15%[9]	15%
Morocco	1975	15%[3]	15%	15%	10% 5% on cultural royalties	[11]	—
Netherlands	1986[2]	10%[3]	5%[4,5] (if owned by a company) 10% if paid by Cdn. NRO invest. corp.	15%	10%[8]	15%[9]	15% (Can)
New Zealand	1980	15%	15%	15%	15%	15%[15,16]	15% (Can)
Nigeria	1992	12.5%[3]	12.5%[4]	15%	12.5%	[14,11]	—
Norway	2002	10%[3]	5%[4,6]	15%	10%[8]	15[9,14]	15%
Oman	2004	10%[3]	5%[4]	15%	10%[8]	pen. 15%[14,16], ann. 15%[9]	15%
Pakistan	1976	15% (Can)[3], 25% (Pak)[3]	15% (Can) 15% (Pak)[5]	15% (Can) 20% (Pak)	15% (Can)[7], 20% (Pak)[7] copyright, trademark equipment, films 15% (Pak) technical know-how	[13] Canada may withhold 15% on alimony	15% (Can)
Papua New Guinea	1987	10%[3]	15% (Can) 25% (PNG)	15% (Can) 25% (PNG)	10%	15%[10,14,16]	—
Peru	2001	15%	10%[4]	15%	15%	15%[9,14]	15%
Philippines	1976	15%[3]	15% (Can) 15% (Phil)[4]	15% (Can) 25% (Phil)	10% (Can) 25% (Phil)	[13]	—
Poland	1987	15%[3]	15%	15%	10%[7]	15%[9,14,16]	15%
Portugal	1999	10%[3]	10%[5,6]	15%	10%	15%[9,14,16]	15%
Romania	2004	10%[3]	5%[4]	15%	10% 5% on cultural, software, industrial, commercial, scientific info.	pen. 15%	—
Russia	1995	10%[3]	10%[4]	15%	10%[8]	[13]	—
Senegal	2001	15% (Can)[3], 20% (Sen)[3], 16% (Sen)[3]	15% (Can) 16% (Sen)	15% (Can) 16% (Sen)	15%	15%[9,14]	15%
Singapore	1976	15%[3]	15% 0% (Sing) depending on domestic law	15% 0% (Sing) depending on domestic law	15%	[13] Canada may withhold 15% on alimony	15% (Can)
Slovak Republic	2001	10%[3]	5%[4]	15%	10%[7]	pen. 15%[14,16] ann. 15%	15%
Slovenia	2000	10%[3]	5% (Can)[4,6], 5% (Slo)[5]	15%	10%	pen. 15%[16] (Can) (Slo)[13] ann. 10%[9]	15%
South Africa	1995	10%[3]	5%[4,6]	15%	10% 6% on cultural, software, industrial, commercial, scientific info.	[11]	15%
Spain	1976	15%[3]	15%	15%	10%[7]	15%[9,14,16]	—
Sri Lanka	1982	15%[3]	15%	15%	10%[7]	15%[9,14,16]	15% (Can)
Sweden	1996	10%[3]	5%[5] 10% if paid by Cdn. NRO invest corp.	15%	10%[8]	[9,14,11]	15% (Can)
Switzerland	1997	10%[3]	5%[4], 10%[4] (if paid by Cdn. NRO invest. corp.)	15%	10%[8]	15%[9,14]	—
Tanzania	1995	15%[3]	20%[5]	25%	20%	15%[9,14,16] (Can)	—

Withholding Tax Rates — Tax Agreements

Countries	*Date*	*Interest*	*Dividends — % of Ownership*	*Regular Dividends*	*Royalties*	*Pension and Annuity*	*From Estate or Trust*
Thailand	1984	15% (Can) 10% (Thai) if to fin. instit. 25% (Thai) otherwise[3]	15% (Can) 15% (Thai) in certain cases 20%[5] (Thai)	15% (Can) taxed under laws of Thailand	15% 5% on cultural	[13]	15% (Can)
Trinidad and Tobago	1995	10%[3]	5%[4,6]	15%	10%[7]	pen. 15%[9,14]	—
Tunisia	1982	15%[3]	15%	15%	20%[7] on patents, trademarks, films, videos, industrial, commercial, scientific or harbour equip.; 15% on other	[11]	15%
Ukraine	1996	10%[3]	5%[5,6]	15%	10% computer software exempt	[13]	15%
United Arab Emirates	2002	10%[3]	5%[4] 10% if paid by Cdn. NRO invest. corp.	15%	10%[8]	[11]	15%
United Kingdom	1978[2]	10%[3]	5%[4]	15%	10%[8]	pen.[12] ann. 10%[9]	15% (Can)
U.S.A.	1980[2]	0%[3,18]	5%[4]	15%	10%[8]	15%[9,14]	15%
Uzbekistan	1999	10%[3]	5%[4]	15%	5% on cultural, computer software, industrial, commercial or scientific "know-how" royalties, 10% on other royalties	[13]	—
Venezuela	2001	10%[3]	10%[5]	15%	5% on cultural, computer software, industrial, commercial or scientific experience royalties, 10% on other royalties	[11,14]	—
Socialist Republic of Vietnam	1997	10%[3]	5% (if 70% controlled by corporate owner) 10% (if 25%–69% controlled by corporate owner)	15%	10%	pen. 15% ann.[9,11]	15%
Zambia	1984	15%[3]	15%	15%	15%	15%[14]	15% (Can)
Zimbabwe	1992	15%[3]	10%[5]	15% (Can) 20% (Zim)	10%	15%[9,14,16]	15% (Can)

Notes:

[1] Not yet ratified.

[2] Revised by subsequent Protocol.

[3] No withholding tax under the treaty on certain types of interest. After 2007, the Canadian *Income Tax Act* exempts interest payments to non-residents from withholding tax, except for certain interest paid or payable to a non-arms length person or participating debt interest. See paragraph 212(1)(*b*).

[4] If recipient owns at least 10% of voting stock or has 10% of voting power of stock on which dividends are paid (see specific treaty).

[5] If recipient owns at least 15% to 25% of capital or voting power of stock on which dividends are paid (see specific treaty for level of ownership specified).

[6] Does not apply to dividends from a non-resident-owned investment corporation resident in Canada.

[7] Cultural royalties are exempt from withholding tax. These include copyright royalties for production or reproduction of literary, dramatic, musical or artistic work. They usually do not include royalties on films or videotapes.

[8] Cultural royalties, computer software, industrial, commercial or scientific "know-how" royalties are exempt.

[9] Alimony and child support taxed only in the country of person receiving the payment.

[10] Alimony and child support taxed only in the paying country.

[11] May be taxed in source country — No treaty rate.

[12] Exempt from tax in source country.

[13] Taxed only in source country.

[14] Certain pensions exempt from tax in both countries.

[15] Tax withheld only if payment over a certain amount.

[16] For pensions, tax withheld is not to exceed the amount that would be payable if the recipient were resident in the source country.

[17] For pensions and annuities, tax withheld is not to exceed the amount that would be payable if the recipient were resident in the source country.

[18] Under the Canada–U.S. Treaty, the Fifth Protocol provides that withholding tax on interest will be completely eliminated for interest paid or credited after December 31, 2009. The maximum rate for withholding on interest paid or credited between January 1, 2008 and December 31, 2008 is 7%, and 4% on interest paid or credited between January 1, 2009 and December 31, 2009.

The Fifth Supplement

The present version of the *Income Tax Act* has a complex history. Its origins are to be found in chapter 52 of the 1948 Statutes of Canada. That Act became chapter 148 of the 1952 Revised Statutes of Canada. A complete transformation of the tax legislation was introduced with S.C. 1970-71-72, c. 63, the legislation that implemented the 1972 tax reform. Section 1 of that Act was a sweeping amendment to the 1952 Act, which repealed and replaced nearly all its contents. That amending Act also introduced the *Income Tax Application Rules, 1971*.

Numerous amendments were made over the years to the 1972 Act — as well as to all other Acts of Parliament. Private publishers, such as CCH, issue consolidated versions of these Acts, for reasons of convenience. However, those are not official versions of the legislation. Legally, the official version of these texts is in the very form adopted by Parliament: an initial Act, and all the amendments subsequently made.

To alleviate the inevitable and ever-increasing complexity of the documentary mass resulting from this rule, Parliament periodically reissues all of the Acts in force at a given time. For instance, such revisions were made in 1952, in 1970, and in 1985. The revision process is a delicate one, which requires years of work by a Statute Revision Commission established for that purpose.

The mandate of the Commission, as it was for the most recent revision, permits it to: arrange, revise and consolidate the public general statutes of Canada; omit from the revision all Acts or parts thereof that have expired, have been repealed or suspended, or have had their effect; omit from the revisions all Acts or parts thereof that have reference only to a particular country, province, locality, place or body politic, or otherwise have no general application; include in the revision Acts or parts thereof that, although enacted as or in private Acts, or although deemed to be local Acts or enactments, are of such a character that they impose duties or obligations on, or limit the rights or privileges of, the public; alter the numbering and arrangement of the statutes and of the different Parts, sections and other divisions thereof; make such alterations in the language of the statutes as may be required to preserve a uniform mode of expression, without changing the substance of any enactment; make such minor improvements in the language of the statutes as may be required to bring out more clearly the intention of Parliament, or make the form of expression of the statute in one of the official languages more compatible with its expression in the other official language, without changing the substance of any enactment; make such changes in the statutes as are required to reconcile seemingly inconsistent enactments; and correct editing, grammatical or typographical errors in the statutes.

The Commission did prepare a revision of the public general statutes of Canada, which became law by virtue of the *Revised Statutes of Canada, 1985 Act*, R.S.C. 1985, c. 40 (3rd Supp.). However, the *Income Tax Act* was not part of the initial release of the Statutes. The Commission postponed the revision of that Act for a few years, and only recently added it to the *corpus* of the work. This procedure was allowed by section 12 of the *Revised Statutes of Canada, 1985 Act*.

Thus, the *Income Tax Act*, along with the *Income Tax Application Rules*, were introduced in their revised form in the Fifth Supplement of the Revised Statutes of Canada, 1985. The cut-off date for that supplement was November 30, 1991; in other words, the Fifth Supplement contained provisions equivalent to the 1970-71-72 Act, with all the amendments that had come into force before December 1, 1991. A schedule to the Supplement provided for the repeal of the former Act and Income Tax Application Rules, and all amendments to the Act and Rules that received Royal Assent before December 1, 1991.

The Fifth Supplement was proclaimed in force effective March 1, 1994. On that date, the 1972 Act, and all the amendments that had been made to it over the years, were repealed, and replaced by the Fifth Supplement. The *Income Tax Act* became chapter 1 of R.S.C. 1985 (5th Supp.), while the *Income Tax Application Rules* became chapter 2.

Amending legislation enacted after November 1991, however, still had some validity: it still embodied the rules that Parliament wanted to implement. As a result, it was necessary for Parliament to re-enact that legislation, but this time, with a view to amending the text of the new Act. This was done by Bill C-15, which contained amendments equivalent to those assented to between November 30, 1991, and July 1, 1993. When Bill C-15 received Royal Assent on May 12, 1994, the new Act was up-to-date as of the date of its proclamation. Extensive amendments have been made since that time, and are reflected in the text of this book.

The new Act includes a great number of stylistic and structural changes. For example, provisions that might formerly have been broken down into paragraphs (a), (b), (c) etc. may now be structured as a formula.

A Table of Concordance is reproduced listing the sections of the former Act that have been restructured in the current Act. The Table reflects the Fifth Supplement, as amended by Bill C-15.

The First Supplement

The process of revising the Revised Statutes began soon after they were published. Congress enacted a number of statutes that amended various sections of the Revised Statutes. Some of these amendments were introduced with the phrase "Section [number] of the Revised Statutes is amended to read as follows," while others simply added new provisions to the Revised Statutes without explicitly amending any existing section.

Congress's amendments were not always consistent with the Revised Statutes. To alleviate this problem, Congress enacted several supplements to the Revised Statutes. The first supplement, published in 1874, contained all of the statutes that amended the Revised Statutes between 1873 and 1874. However, it did not incorporate the amendments into the text of the Revised Statutes. Instead, it printed the amendments separately from the Revised Statutes.

To alleviate the inevitable and ever-growing problem of the Revised Statutes becoming outdated, Congress periodically released updated versions of the Revised Statutes. The first such update was released in 1878, and it was followed by subsequent updates in 1891, 1901, 1911, 1916, 1926, 1931, 1936, 1941, 1946, 1951, 1956, 1961, 1966, 1971, 1976, 1981, 1986, 1991, 1996, 2001, 2006, 2011, 2016, 2021, and 2026. The revision process is a deliberative one that involves input from Congress, the executive branch, and the public.

The most recent update, published in 2026, is the result of a multi-year effort to revise and consolidate the public general statutes of the United States. The revision process began in 2021, when Congress passed a law directing the Office of the Law Revision Counsel to prepare a new edition of the Revised Statutes. The law provided for the revision of all public general statutes that were in force on January 1, 2021, and that had not been repealed, superseded, or expired by their own terms. The revision process was also required to take into account any changes in the law that had occurred since the last update, including changes made by executive orders, regulations, and judicial decisions.

The revision process was a complex and time-consuming one. The Office of the Law Revision Counsel worked with a team of attorneys, paralegals, and other staff members to review each statute and determine whether it should be repealed, amended, or retained. The team also had to consider the potential impact of each change on other statutes and on the overall structure of the law. In some cases, the team had to consult with experts in the relevant subject matter to ensure that the changes were accurate and appropriate.

The revision process was also subject to public scrutiny. The Office of the Law Revision Counsel published drafts of the revised statutes for public comment, and it held hearings to receive testimony from interested parties. The public comment process was an important part of the revision process, as it allowed the public to identify errors and suggest improvements to the revised statutes.

The final version of the 2026 update was published in December 2026. It contains all of the statutes that were in force on January 1, 2021, as well as any changes that were made to those statutes between that date and the date of publication. The update is available in both print and electronic formats, and it is expected to be used by lawyers, judges, and other legal professionals for many years to come.

Table of Concordance

While the Fifth Supplement to the Revised Statutes of Canada, 1985, as a general rule, did not change the numbering of the sections of the former *Income Tax Act*, it did make a substantial number of structural changes to the individual provisions. The following table relates those provisions of the former Act which underwent such change to the corresponding provisions of the Fifth Supplement as amended (the current Act). A blank space in the table indicates that there is no corresponding provision.

Income Tax Act S.C. 1970-71-72, c. 63 Section	*R.S.C. 1985* 5th Supplement Section
12	**12**
12(11)(a)	(11)"investment contract"
(i)	(a)
(ii)	(b)
(iii)	(c)
(iv)	(d)
(v)	(e)
(vi)	(f)
(vii)	(g)
(viii)	(h)
(ix)	(i)
(x)	(j)
(xi)	(k)
12(11)(b)	"anniversary day"
(i)	(a)
(ii)	(b)
(iii)	(c)
12.2	**12.2**
12.2(11)(a)	(11)"exempt policy"
12.2(11)(b)	"anniversary day"
(i)	(a)
(ii)	(b)
13	**13**
	(21)"appropriate minister"
13(21)(a)	"conversion"
13(21)(a)	"conversion cost"
13(21)(b)	"depreciable property"
13(21)(c)	"disposition of property"
13(21)(d)	"proceeds of disposition"
(i)	(a)
(ii)	(b)
(iii)	(c)
(iv)	(d)
(v)	(e)
(vi)	(f)
(vii)	(g)
(viii)	(h)
13(21)(d.1)	"timber resource property"
(i)	(a)
(A)	(i)
(B)	(ii)
(I)	(A)
(II)	(B)
(ii)	(b)
(A)	(i)
(B)	(ii)
13(21)(e)	"total depreciation"
13(21)(f)	"undepreciated capital cost"
(i)	A
(ii)	B
(ii.1)	C
(ii.2)	D
(iii)	E
(iv)	F
(A)	(a)
(B)	(b)
(v)	G
(vi)	H
(vii)	I
(viii)	J
13(21)(g)	"vessel"
14	**14**
14(5)(a)	(5)"cumulative eligible capital"
(i)	A
(ii)	B
(iii)	C
(iii.1)	D
(A)	(a)
(B)	(b)
(iii.2)	D.1
(iv)	E
(A)	(a)
(B)	(b)
(v)	F
(A)	P
(B)	Q
(I)	(a)
(II)	(b)
(C)	R
14(5)(b)	"eligible capital expenditure"
(i)	(a)
(ii)	(b)
(iii)	(c)
(A)	(i)
(B)	(ii)
(C)	(iii)
(D)	(iv)
(iv)	(d)
(v)	(e)
(vi)	(f)
(A)	(i)
(B)	(ii)
(C)	(iii)
(D)	(iv)
14(5)(c)	"adjustment time"
(i)	(a)
(ii)	(b)
(iii)	(c)
18	**18**
18(3)(a)	(3)"land"
(i)	(a)
(ii)	(b)
(iii)	(c)
18(3)(b)	"interest on debt relating to the acquisition of land"
(i)	(a)
(ii)	(b)
(A)	(i)
(B)	(ii)
(C)	(iii)
18(5)(a)	(5)"outstanding debts to specified non-residents"
(i)	(a)
(A)	(i)
(I)	(A)
(II)	(B)
(B)	(ii)
(ii)	(b)
18(5)(b)	"specified non-resident shareholder"
	" specified shareholder"
18(5)(c)	(a)
(i)	(b)
(ii)	(c)
(iii)	(d)
(iv)	
19	**19**
19(5)(a)	(5)"Canadian issue"
(i)	(a)
(A)	(i)
(B)	(ii)
(C)	(iii)
(D)	(iv)
(ii)	(b)
(A)	(i)
(B)	(ii)
(C)	(iii)
(D)	(iv)
(E)	(v)
(F)	(vi)
19(5)(b)	"Canadian newspaper or periodical"
(i)	(a)
(ii)	(b)
(A)	(i)
(B)	(ii)
(iii)	(c)
(iv)	(d)
(v)	(e)
(A)	(i)
(B)	(ii)
(C)	(iii)
(I)	(A)
(II)	(B)
(III)	(C)
(IV)	(D)
(V)	(E)
(VI)	(F)
19(5)(d)	"substantially the same"
19(5)(e)	"United States"
(i)	(a)
(ii)	(b)
20	**20**
20(18)(a)	(18)"qualifying inventory"
20(18)(b)	"specified transaction"
(i)	(a)
(ii)	(b)
(iii)	(c)
35	**35**
35(2)(a)	(2)"mining property"
35(2)(b)	"prospector"
37	**37**
37(7)(a)	(7)"approved"
37(7)(b)	"scientific research and experimental development"
37(7)(c)	(8)(a)
37(7)(d)	(b)
37(7)(e)	(c)
37(7)(f)	(d)
37.1	**37.1**
37.1(5)(a)	(5)"base period"
(i)	(a)
(ii)	(b)
37.1(5)(b)	"expenditure base"
(i)	(a)
(ii)	(b)
(A)	(i)
(I)	(A)
(II)	(B)
(B)	(ii)
(C)	(iii)
37.1(5)(c)	"qualified expenditure"
(i)	(a)
(ii)	(b)
(iii)	(c)

Reference Material

Income Tax Act S.C. 1970-71-72, c. 63 Section	*R.S.C. 1985* 5th Supplement Section
37.1(5)(d)	"research property"
37.1(5)(e)	"scientific research and experimental development"
47.1	**47.1**
(1) to (26)	(26.1)
54	**54**
54(a)	"adjusted cost base"
(i)	(a)
(ii)	(b)
(iii)	(c)
(iv)	(d)
54(b)	"capital property"
(i)	(a)
(ii)	(b)
54(c)	"disposition"
(i)	(a)
(ii)	(b)
(A)	(i)
(B)	(ii)
(C)	(iii)
(D)	(iv)
(iii)	(c)
(iv)	(d)
(v)	(e)
(A)	(i)
(B)	(ii)
(C)	(iii)
(D)	(iv)
(vi)	(f)
(vii)	(g)
54(d)	"eligible capital property"
54(e)	"listed personal property"
(i)	(a)
(ii)	(b)
(iii)	(c)
(iv)	(d)
(v)	(e)
54(f)	"personal-use property"
(i)	(a)
(A)	(i)
(B)	(ii)
(C)	(iii)
(ii)	(b)
(iii)	(c)
54(g)	"principal residence"
(i)	(a)
(i.1)	(a.1)
(ii)	(b)
(A)	(i)
(B)	(ii)
(iii)	(c)
(A)	(i)
(B)	(ii)
(iii.1)	(c.1)
(A)	(i)
(B)	(ii)
(I)	(A)
(II)	(B)
(C)	(iii)
(D)	(iv)
(I)	(A)
(II)	(B)
(iv)	(d)
(v)	(e)
(vi)	(f)
54(h)	"proceeds of disposition"
(i)	(a)
(ii)	(b)
(iii)	(c)
(iv)	(d)
(v)	(e)
(vi)	(f)
(vii)	(g)
(viii)	(h)
(ix)	(i)
(x)	(j)
(xi)	(k)
54(i)	"superficial loss"
(i)	(a)
(ii)	(b)
(iii)	(c)
(iv)	(d)
(v)	(e)
59	**59**
59(3.4)(a)	(3.4)"successor corporation"
59(3.4)(b)	"stated percentage"
(i)	(a)
(A)	(i)
(B)	(ii)
(C)	(iii)
(ii)	(b)
(A)	(i)
(B)	(ii)
(C)	(iii)
59(3.4)(c)	"specified predecessor"
(i)	(a)
(ii)	(b)
61	**61**
61(4)(a)	(4)"annual annuity amount"
61(4)(b)	"income-averaging annuity contract"
(i)	(a)
(A)	(i)
(I)	(A)
(II)	(B)
(B)	(ii)
(ii)	(b)
(iii)	(c)
(iv)	(d)
61(4)(c)	"qualifying payment"
63	**63**
63(3)(a)	(3)"child care expense"
(i)	(a)
(A)	(i)
(B)	(ii)
(C)	(iii)
(D)	(iv)
(ii)	(b)
(A)	(i)
(B)	(ii)
(C)	(iii)
(iii)	(c)
(A)	(i)
(I)	(A)
(II)	(B)
(B)	(ii)
(iv)	(d)
63(3)(b)	"earned income"
(i)	(a)
(ii)	(b)
(iii)	(c)
(iv)	(d)
63(3)(c)	"eligible child"
(i)	(a)
(ii)	(b)
(iii)	(c)
(iv)	(d)
63(3)(d)	"supporting person"
(i)	(a)
(ii)	(b)
(iii)	(c)
66	**66**
66(15)(a)	(15)"agreed portion"
(i)	(a)
(ii)	(b)
66(15)(a.1)	"assistance"
66(15)(b)	"Canadian exploration and development expenses"
(i)	(a)
(ii)	(b)
(iii)	(c)
(iv)	(d)
(v)	(e)
(A)	(i)
(B)	(ii)
(C)	(iii)
(v.1)	(f)
(vi)	(g)
(vii)	(h)
66(15)(c)	"Canadian resource property"
(i)	(a)
(ii)	(b)
(A)	(i)
(B)	(ii)
(iii)	(c)
(iv)	(d)
(v)	(e)
(vi)	(f)
(vii)	(g)
66(15)(d)	"drilling or exploration expense"
(i)	(a)
(ii)	(b)
(iii)	(c)
66(15)(d.1)	"flow-through share"
(i)	(a)
(ii)	(b)
66(15)(e)	"foreign exploration and development expenses"
(i)	(a)
(ii)	(b)
(iii)	(c)
(iv)	(d)
(v)	(e)
66(15)(f)	"foreign resource property"
66(15)(g)	"joint exploration corporation"
66(15)(g.11)	"original owner"
(i)	(a)
(ii)	(b)
66(15)(g.2)	"expense"
pre.(i)	(b)
(i)	(i)
(ii)	(ii)
	"outlay"
66(15)(g.3)	"expense"(a)
66(15)(g.4)	"predecessor owner"
(i)	(a)
(ii)	(b)
(iii)	(c)
66(15)(h)	"principal-business corporation"
(i)	(a)
(ii)	(b)
(iii)	(c)
(iv)	(d)
(A)	(i)
(B)	(ii)
(v)	(e)
(vi)	(f)
(vii)	(g)
66(15)(h.01)	"production"
(i)	(a)
(ii)	(b)
(iii)	(c)
(iv)	(d)
(v)	(e)
(vi)	(f)
66(15)(h.02)	"reserve amount"
(i)	A
(ii)	(a)
aft. (ii)	(b)
	B
66(15)(h.1)	"selling instrument"
(i)	"shareholder corporation"
(i)	(a)
(ii)	(b)
66.1	**66.1**
66.1(2)(a)	(2)pre. (a)
(i)	(a)(i)
(ii)	(b)(i)
66.1(2)(b)	
(i)	
(A)	
(I)	(a)(ii)(A)
(II)	(a)(ii)(B)
(B)	
(I)	
(II)	
(ii)	
(A)	
(B)	
(I)	
(II)	
(C)	
66.1(6)(a)	(6)"Canadian exploration expense"
	(a)
(i)	(b)
(i.1)	(i)
(A)	(ii)
(B)	(c)
(ii)	(i)
(A)	(ii)
(B)	(iii)
(C)	(iv)
(D)	(d)
(ii.1)	(i)
(A)	(ii)
(B)	(iii)
(C)	(iv)
(D)	
(I)	(A)
(II)	(B)
(ii.2)	(e)
(iii)	(f)
(A)	(i)

Income Tax Act S.C. 1970-71-72, c. 63 Section	*R.S.C. 1985* 5th Supplement Section
(B)	(ii)
(C)	(iii)
(D)	(iv)
(E)	(v)
(F)	(vi)
(iii.1)	(g)
(A)	(i)
(B)	(ii)
(iv)	(h)
(v)	(i)
(vi)	(j)
(vii)	(k)
(A)	(i)
(B)	(ii)
(C)	(iii)
66.1(6)(b)	"cumulative Canadian exploration expense"
(i)	A
(ii)	B
(iii)	C
(iv)	D
(iv.1)	E
(iv.2)	E.1
(v)	F
(vi)	G
(vii)	H
(A)	(a)
(B)	(b)
(viii)	I
(ix)	J
(x)	K
(xi)	L
(xii)	M
66.1(6)(c)	"restricted expense"
(i)	(a)
(ii)	(b)
(iii)	(c)
(iv)	(d)
(v)	(e)
(vi)	(f)
66.1(6)(d)	"specified purpose"
(i)	(a)
(ii)	(b)
(iii)	(c)
66.2	**66.2**
66.2(5)(a)	(5)"Canadian development expense"
(i)	(a)
(A)	(i)
(B)	(ii)
(C)	(iii)
(D)	(iv)
(E)	(v)
(i.1)	(b)
(ii)	(c)
(A)	(i)
(B)	(ii)
(ii.1)	(d)
(A)	(i)
(B)	(ii)
(iii)	(e)
(iv)	(f)
(v)	(g)
(vi)	(h)
(vii)	(i)
(A)	(i)
(B)	(ii)
(C)	(iii)
66.2(5)(b)	"cumulative Canadian development expense"
(i)	A
(ii)	B
(iii)	C
(iii.1)	D
(iii.2)	D.1
(iv)	E
(v)	F
(A)	(a)
(B)	(b)
(I)	(i)
(II)	(ii)
(C)	(c)
(vi)	G
(vii)	H
(vii.1)	I
(viii)	J
(ix)	K
(A)	(a)
(B)	(b)
(x)	L
(A)	(a)

Income Tax Act S.C. 1970-71-72, c. 63 Section	*R.S.C. 1985* 5th Supplement Section
(B)	(b)
(xi)	M
(xii)	N
(xiii)	O
66.4	**66.4**
66.4(5)(a)	(5)"Canadian oil and gas property expense"
(i)	(a)
(ii)	(b)
(iii)	(c)
(iv)	(d)
(v)	(e)
(A)	(i)
(B)	(ii)
(C)	(iii)
66.4(5)(b)	"cumulative Canadian oil and gas property expense"
(i)	A
(ii)	B
(iii)	C
(iii.1)	D
(iii.2)	D.1
(iv)	E
(v)	F
(A)	(a)
(B)	(b)
(I)	(i)
(II)	(ii)
(C)	(c)
(vi)	G
(vii)	H
(viii)	I
(ix)	J
66.4(5)(c)	"disposition" and "proceeds of disposition"
66.7	**66.7**
66.7(4)(b)	(4)(b)
(i)	
(A)	(i)
(I)	(A)
(II)	(B)
(B)	after (B)
66.7(5)(b)	(5)(b)
(i)	
(A)	(i)
(I)	(A)
(II)	(B)
(B)	after (B)
70	**70**
70(10)(a)	(10)"child"
(i)	(a)
(ii)	(b)
(iii)	(c)
70(10)(b)	"share of the capital stock of a family farm corporation"
(i)	(a)
A	(i)
B	(ii)
C	(iii)
D	(iv)
(ii)	(b)
(iii)	(c)
70(10)(c)	"interest in a family farm partnership"
(i)	(a)
A	(i)
B	(ii)
C	(iii)
D	(iv)
(ii)	(b)
(iii)	(c)
80.4	**80.4**
80.4(7)(a)	(7)"home purchase loan"
(i)	(a)
(ii)	(b)
(iii)	(c)
80.4(7)(b)	"prescribed rate"
(i)	(a)
(ii)	(b)
(iii)	(c)
89	**89**
89(1)(a)	(1)"Canadian corporation"
(i)	(a)
(ii)	(b)
89(1)(b)	"capital dividend account"
(i)	(a)
(A)	(i)
(I)	(A)

Income Tax Act S.C. 1970-71-72, c. 63 Section	*R.S.C. 1985* 5th Supplement Section
(II)	(B)
(III)	(C)
1.	(I)
2.	(II)
3.	(III)
(B)	(ii)
(I)	(A)
(II)	(B)
(III)	(C)
1.	(I)
2.	(II)
3.	(III)
(ii)	(b)
(iii)	(c)
(A)	(i)
(I)	(A)
(II)	(B)
(III)	(C)
(B)	(ii)
(C)	(iii)
(D)	(iv)
(E)	(v)
(F)	(vi)
(G)	(vii)
(iv)	(d)
(A)	(i)
(B)	(ii)
(v)	(e)
89(1)(b.1)	"designated property"
(i)	(a)
(A)	(i)
(B)	(ii)
(ii)	(b)
(iii)	(c)
(iv)	(d)
89(1)(c)	"paid-up capital"
(i)	(a)
(ii)	(b)
(A)	(i)
(B)	(ii)
(C)	(iii)
(D)	(iv)
(E)	(v)
(iii)	(c)
89(1)(f)	"private corporation"
(i)	(a)
(ii)	(b)
89(1)(g)	"public corporation"
(i)	(a)
(ii)	(b)
(A)	(i)
(B)	(ii)
(iii)	(c)
(A)	(i)
(B)	(ii)
89(1)(i)	"taxable Canadian corporation"
(i)	(a)
(ii)	(b)
89(1)(j)	"taxable dividend"
(i)	(a)
(ii)	(b)
94.1	**94.1**
94.1(2)(a)	(2)"designated cost"
(i)	A
(ii)	B
(iii)	C
(iv)	D
94.1(2)(b)	"non-resident entity"
95	**95**
95(1)(a)	(1)"controlled foreign affiliate"
(i)	(a)
(ii)	(b)
(iii)	(c)
(iv)	(d)
(v)	(e)
95(1)(a.1)	"excluded property"
(i)	(a)
(ii)	(b)
(iii)	(c)
(iv)	(d)
(v)	(e)
(A)	(i)
(B)	(ii)
95(1)(b)	"foreign accrual property income"
(i)	A
(A)	(a)
(B)	(b)
(C)	(c)
(D)	(d)

Reference Material

Income Tax Act S.C. 1970-71-72, c. 63 Section	*R.S.C. 1985* 5th Supplement Section
(ii)	B
(ii.1)	C
(A)	(a)
(B)	(b)
(iii)	D
(iv)	E
(v)	F
95(1)(c)	"foreign accrual tax"
(i)	(a)
(A)	(i)
(B)	(ii)
(ii)	(b)
95(1)(d)	"foreign affiliate"
95(1)(e)	"participating percentage"
(i)	(a)
(ii)	(b)
(A)	(i)
(B)	(ii)
95(1)(f)	"relevant tax factor"
(i)	(a)
(ii)	(b)
95(1)(f.1)	"surplus entitlement percentage"
95(1)(g)	"taxation year"
95(4)(a)	(4)"direct equity percentage"
(i)	(a)
(ii)	(b)
95(4)(b)	"equity percentage"
(i)	(a)
(ii)	(b)
95(4)(c)	"relevant cost base"
102	**102**
102(a)	(1)
102(b)	(2)
108	**108**
108(1)(a)	(1)"accumulating income"
(i)	(a)
(ii)	(b)
(A)	(i)
(B)	(ii)
(C)	(iii)
(iii)	(c)
108(1)(b)	"beneficiary"
108(1)(c)	"capital interest"
(i)	(a)
(ii)	(b)
108(1)(d)	"cost amount"
(i)	(a)
(A)	(i)
(B)	(ii)
(C)	(iii)
(ii)	(b)
A	A
(I)	(i)
(II)	(ii)
(III)	(iii)
B	B
C	C
D	D
108(1)(d.1)	"eligible real property gain"
108(1)(d.11)	"eligible real property loss"
108(1)(d.12)	"excluded property"
108(1)(d.2)	"eligible taxable capital gains"
(i)	(a)
(ii)	(b)
(A)	A
(B)	B
108(1)(e)	"income interest"
108(1)(f)	"inter vivos trust"
108(1)(f.1)	"non-qualifying real property"
(i)	(a)
(ii)	(b)
108(1)(f.2)	"pre-1972 spousal trust"
(i)	(a)
(ii)	(b)
108(1)(g)	"preferred beneficiary"
(i)	(a)
(ii)	(b)
(iii)	(c)
108(1)(g.1)	"qualified farm property"
108(1)(g.2)	"qualified small business corporation share"
108(1)(h)	"settlor"

Income Tax Act S.C. 1970-71-72, c. 63 Section	*R.S.C. 1985* 5th Supplement Section
(i)	(a)
(ii)	(b)
(A)	(i)
(B)	(ii)
108(1)(i)	"testamentary trust"
(i)	(a)
(ii)	(b)
(iii)	(c)
(A)	(i)
(B)	(ii)
108(1)(j)	"trust"
pre. (i)	pre. (f)
(i)	(f)
(i.1)	(g)
pre. (ii)	pre. (a)
(ii)	(a)
(iii)	(b)
(iv)	(c)
(v)	(d)
(vi)	(e)
111	**111**
111(8)(a)	(8)"net capital loss"
(i)	(a)
(A)	A
(B)	B
(ii)	(b)
(A)	(i)
(B)	(ii)
111(8)(b)	"non-capital loss"
(i)	A
(A)	E
(B)	F
(ii)	B
(iii)	C
(iv)	D
(v)	D.1
111(8)(b.1)	"farm loss"
(i)	A
	(a)
(A)	(i)
(B)	(ii)
(ii)	(b)
(iii)	B
111(8)(b.2)	"pre-1986 capital loss balance"
(i)	A
(A)	F
(B)	G
(ii)	B
	H
(A)	(a)
(B)	(b)
(C)	I
(iii)	C
(iv)	D
(v)	E
111(8)(c)	(9)
(i)	(a)
(ii)	(b)
111(9)	(10)
111(10)	(11)
113	**113**
113(3)(a)	(3)"relevant tax factor"
113(3)(b)	"non-business-income tax"
120	**120**
120(4)(a)	(4)"income earned in the year in a province"
120(4)(c)	"tax otherwise payable under this Part"
	(a)
(i)	(i)
(A)	(ii)
(B)	(b)
(ii)	
122.3	**122.3**
122.3(2)(a)	(2)"specified employer"
(i)	(a)
(ii)	(b)
(iii)	(c)
122.3(2)(b)	"tax otherwise payable under this Part for the year"
124	**124**
124(4)(a)	(4)"taxable income earned in the year in a province"
124(4)(b)	"province"
125	**125**
125(7)(a)	(7)"active business carried on by a corporation"
125(7)(b)	"Canadian-controlled private corporation"

Income Tax Act S.C. 1970-71-72, c. 63 Section	*R.S.C. 1985* 5th Supplement Section
125(7)(c)	"income of the corporation for the year from an active business"
(i)	(a)
(ii)	(b)
125(7)(d)	"personal services business"
(i)	(a)
(ii)	(b)
(iii)	(c)
(iv)	(d)
125(7)(e)	"specified investment business"
(i)	(a)
(ii)	(b)
125(7)(f)	"specified partnership income"
(i)	A
(A)	(a)
(I)	G
(II)	H
	(b)
(B)	M
(I)	(i)
(II)	(ii)
(III)	K
(IV)	L
(ii)	B
(A)	(a)
(B)	(b)
(I)	N
(II)	O
125(7)(g)	"specified partnership loss"
(i)	A
(ii)	B
125.1	**125.1**
125.1(3)(a)	(3)"Canadian manufacturing and processing profits"
125.1(3)(b)	"manufacturing or processing"
(i)	(a)
(ii)	(b)
(iii)	(c)
(iv)	(d)
(v)	(e)
(vi)	(f)
(vi.1)	(g)
(vi.2)	(h)
(vii)	(i)
(viii)	(j)
(ix)	(k)
(x)	(l)
(A)	(i)
(B)	(ii)
126	**126**
126(7)(a)	(7)"business-income tax"
(i)	(a)
(ii)	(b)
126(7)(c)	"non-business-income tax"
(i)	(a)
(ii)	(b)
(iii)	(c)
(iv)	(d)
(v)	(e)
(vi)	(f)
(vii)	(g)
(viii)	(h)
(ix)	(i)
126(7)(d)	"tax for the year otherwise payable under this Part"
	(a)
(i)	A
(A)	B
(B)	(b)
(ii)	(c)
(iii)	"unused foreign tax credit"
126(7)(e)	A
	B
(i)	C
(ii)	
(iii)	
127	**127**
127(2)(a)	(2)"income for the year from logging operations in the province"
127(2)(b)	"logging tax"
127(5)(a)	
127(5)(b)	(5)(a)

Income Tax Act S.C. 1970-71-72, c. 63 *Section*	*R.S.C. 1985 5th Supplement Section*
127(5)(c)	(b)
127.1	**127.1**
127.1(2)	(2)"refundable investment tax credit"
	pre.a
(a)	(a)
(i)	(b)
(ii)	(c)
(iii)	(d)
(iv)	(i)
(A)	(ii)
(B)	
(C)	
(v)	(e)
(A)	(i)
(B)	(ii)
(vi)	(f)
(A)	(i)
(B)	(ii)
(vii)	(g)
(A)	(i)
(B)	(ii)
(b)	
127.2	**127.2**
127.2(6)(a)	(6)"share-purchase tax credit"
	A
(i)	B
(ii)	C
(iii)	
127.2(6)(b)	"unused share purchase tax credit"
	A
(i)	B
(ii)	C
(iii)	
127.3	**127.3**
127.3(2)(a)	(2)"scientific research and experimental development tax credit"
	A
pre. (i)	(a)
(i)	(b)
(ii)	(c)
(iii)	(d)
(iv)	(e)
(v)	B
after (v)	
127.3(2)(b)	"unused scientific research and experimental development tax credit"
	A
(i)	B
(ii)	C
(iii)	
129	**129**
129(4)(a)	(4)"Canadian investment income"
	A
(i)	
A	K
(I)	L
(II)	
B	M
(I)	N
(II)	B
(ii)	C
(iii)	
129(4)(b)	"foreign investment income"
130.1	**130.1**
130.1(9)(a)	(9)"liabilities"
130.1(9)(b)	"non-qualifying taxed capital gains"
	(a)
(i)	(b)
(ii)	(c)
(iii)	(d)
(iv)	"qualifying taxed capital gains"
130.1(9)(c)	(a)
	(b)
(i)	(c)
(ii)	(d)
(iii)	(e)
(iv)	"non-qualifying real property"
(v)	
130.1(9)(d)	
131	**131**
131(6)(a)	(6)"capital gains redemptions"
(i)	C
(A)	D
(B)	K
	L
	M

Income Tax Act S.C. 1970-71-72, c. 63 *Section*	*R.S.C. 1985 5th Supplement Section*
	N
(ii)	A
(iii)	B
131(6)(b)	"capital gains dividend account"
(i)	(a)
(ii)	(b)
(iii)	(c)
(iv)	(d)
F	
(v)	(e)
(vi)	(f)
(vii)	(g)
131(6)(c)	"non-qualifying real property capital gains dividend account"
(i)	(a)
(ii)	(b)
(iii)	(c)
(iv)	(d)
131(6)(c.1)	"non-qualifying real property"
(i)	(a)
(ii)	(b)
(A)	(i)
(B)	(ii)
(iii)	(c)
(A)	(i)
(B)	(ii)
(iv)	(d)
(v)	(e)
(vi)	(f)
131(6)(d)	"refundable capital gains tax on hand"
	A
(i)	(a)
(A)	(b)
(B)	(c)
(C)	B
(ii)	
132	**132**
132(4)(a)	(4)"capital gains redemptions"
(i)	C
(A)	D
(B)	K
	L
	M
	N
(ii)	A
(iii)	B
132(4)(b)	"refundable capital gains tax on hand"
	A
(i)	(a)
(A)	(b)
(B)	(c)
(C)	B
(ii)	
133	**133**
133(8)(a)	(8)"allowable refund"
pre. (i)	C
(i)	A
(ii)	B
133(8)(b)	"Canadian property"
(i)	(a)
(ii)	(b)
133(8)(c)	"capital gains dividend account"
	A
pre. (i)	(a)
(i)	(b)
(ii)	B
	(a)
(iii)	(c)
(iv)	M
	N
(v)	(b)
133(8)(d)	"non-resident-owned investment corporation"
	(a)
(i)	(i)
(A)	(ii)
(B)	(iii)
(C)	(b)
(ii)	(i)
(A)	(ii)
(B)	(iii)
(C)	(iv)
(D)	(v)
(E)	(c)
(iii)	(d)
(iv)	

Income Tax Act S.C. 1970-71-72, c. 63 *Section*	*R.S.C. 1985 5th Supplement Section*
(A)	(i)
(B)	(ii)
(v)	(e)
(vi)	(f)
133(8)(e)	"taxable dividend"
133(9)(a)	(9)"allowable refundable tax on hand"
	A
(i)	B
(ii)	C
(ii.1)	D, L
(iii)	M
(A)	N
(B)	E
(iv)	F
(v)	
133(9)(b)	"cumulative taxable income"
	A
(i)	B
(ii)	L
(ii)	M
(A)	N
(B)	C
(iii)	P
(iii)	Q
(A)	R
(B)	D
(iv)	E
(v)	
135	**135**
135(4)(a)	(4)"allocation in proportion to patronage"
	(a)
(i)	(i)
(A)	(ii)
(B)	(b)
(ii)	"consumer goods or services"
135(4)(b)	"customer"
135(4)(c)	"income of the taxpayer attributable to business done with members"
135(4)(d)	"member"
135(4)(e)	"non-member customer"
135(4)(f)	"payment"
135(4)(g)	(a)
(i)	(b)
(ii)	(c)
(iii)	
137	**137**
137(6)(a)	(6)"allocation in proportion to borrowing"
	(a)
(i)	(b)
(ii)	"bonus interest payment"
137(6)(a.1)	(a)
	(b)
(i)	"credit union"
(ii)	(a)
137(6)(b)	(i)
(i)	(ii)
(A)	(iii)
(B)	(iv)
(C)	(v)
(D)	(vi)
(E)	(vii)
(F)	(b)
(G)	(i)
(ii)	(ii)
(A)	(iii)
(B)	(c)
(C)	"maximum cumulative reserve"
(iii)	A
137(6)(c)	B
	"member"
(i)	**137.1**
(ii)	(5)"deposit insurance corporation"
137(6)(d)	(a)
137.1	(i)
137.1(5)(a)	(A)
	(B)
(i)	(ii)
(A)	(A)
(I)	(B)
(II)	(b)
(B)	"member institution"
(I)	(a)
(II)	(b)
(ii)	
137.1(5)(b)	
(i)	
(ii)	

Income Tax Act

Amending Acts

R.S.C. 1985, c. 1 (5th Supp.) as amended.

The current version of the Income Tax Act was proclaimed in force on March 1, 1994, replacing the former Act, S.C. 1970-71-72, c. 63. The current version of the Act has been amended by the following statutes.

Year	Bill	Chapter	Royal Assent
1994	Bill C-15, *An Act to revise certain income tax law amendments in terms of the revised Income Tax Act and Income Tax Application Rules*	7	May 12, 1994
	Bill C-9, *An Act to amend the Income Tax Act*	8	May 12, 1994
	Bill C-2, *An Act to amend the Department of National Revenue Act and to amend certain other Acts in consequence thereof*	13	May 12, 1994
	Bill C-27, *An Act to amend the Income Tax Application Rules, the Canada Pension Plan, the Canada Business Corporations Act, the Excise Tax Act, the Unemployment Insurance Act and certain related Acts*	21	June 15, 1994
	Bill C-28, *Canada Student Financial Assistance Act*	28	June 23, 1994
	Bill C-32, *An Act to amend the Excise Tax Act, the Excise Act and the Income Tax Act*	29	June 23, 1994
	Bill C-49, *Department of Agriculture and Agri-Food Act*	38	November 24, 1994
	Bill C-48, *Department of Natural Resources Act*	41	December 15, 1994
1995	Bill C-46, *Department of Industry Act*	1	March 16, 1995
	Bill C-59, *An Act to amend the Income Tax Act and the Income Tax Application Rules*	3	March 26, 1995
	Bill C-53, *Department of Canadian Heritage Act*	11	June 15, 1995
	Bill C-67, *Veterans Review and Appeal Board Act*	18	June 22, 1995
	Bill C-70, *An Act to amend the Income Tax Act, the Income Tax Application Rules and related Acts*	21	June 22, 1995
	Bill C-93, *An Act to amend the Cultural Property Export and Import Act, the Income Tax Act and the Tax Court of Canada Act*	38	December 5, 1995
	Bill C-103, *An Act to amend the Excise Tax Act and Income Tax Act*	46	December 15, 1995
1996	Bill C-11, *Department of Human Resources Development Act*	11	May 29, 1996
	Bill C-36, *Income Tax Budget Amendment Act*	21	June 20, 1996
	Bill C-12, *Employment Insurance Act*	23	June 20, 1996
1997	Bill C-70, *An Act to amend the Excise Tax Act, the Federal-Provincial Fiscal Arrangements Act, the Income Tax Act, the Debt Servicing and Reduction Account Act and related Acts*	10	March 20, 1997
	Bill C-5, *An Act to amend the Bankruptcy and Insolvency Act, the Companies' Creditors Arrangement Act and the Income Tax Act*	12	April 25, 1997
	Bill C-92, *Income Tax Budget Amendments Act*	25	April 25, 1997
	Bill C-93, *Budget Implementation Act, 1997*	26	April 25, 1997
1998	Bill C-28, *Income Tax Amendments Act, 1997*	19	June 18, 1998
	Bill C-36, *Budget Implementation Act, 1998*	21	June 18, 1998
	Bill S-21, *Corruption of Foreign Public Officials Act*	34	December 10, 1998
1999	Bill C-61, *An Act to amend the War Veterans Allowance Act, the Pension Act, the Merchant Navy Veteran and Civilian War-related Benefits Act, the Department of Veterans Affairs Act, the Veterans Review and Appeal Board Act and the Halifax Relief Commission Pension Continuation Act and to amend certain other Acts in consequence thereof*	10	March 25, 1999
	Bill C-43, *Canada Customs and Revenue Agency Act*	17	April 29, 1999
	Bill C-72, *Income Tax Amendments Act, 1998*	22	June 17, 1999
	Bill C-71, *Budget Implementation Act, 1999*	26	June 17, 1999
	Bill C-84, *Miscellaneous Statute Law Amendment Act, 1999*	31	June 17, 1999
2000	Bill C-2, *Canada Elections Act*	9	May 31, 2000
	Bill C-23, *Modernization of Benefits and Obligations Act*	12	June 29, 2000
	Bill C-32, *Budget Implementation Act, 2000*	14	June 29, 2000
	Bill C-25, *Income Tax Amendments Act, 1999*	19	June 29, 2000
	Bill C-24, *Sales Tax and Excise Tax Amendments Act, 1999*	30	October 20, 2000
2001	Bill C-26, *Tobacco Tax Amendments Act, 2001*	16	June 14, 2001
	Bill C-22, *Income Tax Amendments Act, 2000*	17	June 14, 2001
	Bill C-11, *Immigration and Refugee Protection Act*	27	November 1, 2001

	Bill C-36, *Anti-terrorism Act*	41	December 18, 2001
2002	Bill C-30, *Courts Administration Service Act*	8	March 27, 2002
	Bill C-49, *Budget Implementation Act, 2001*	9	March 27, 2002
2003	Bill C-28, *Budget Implementation Act, 2003*	15	June 19, 2003
	Bill C-24, *An Act to amend the Canada Elections Act and the Income Tax Act (political financing)*	19	June 19, 2003
	Bill C-48, *An Act to amend the Income Tax Act (natural resources)*	28	November 7, 2003
2004	Bill C-8, *Library and Archives of Canada Act*	11	April 22, 2004
	Bill C-30, *Budget Implementation Act, 2004*	22	May 14, 2004
	Bill C-3, *An Act to amend the Canada Elections Act and the Income Tax Act*	24	May 14, 2004
	Bill S-10, *Federal Law-Civil Law Harmonization Act, No. 2*	25	December 15, 2004
	Bill C-5, *Canada Education Savings Act*	26	December 15, 2004
2005	Bill C-33, *Budget Implementation Act, 2004, No. 2*	19	May 13, 2005
	Bill C-45, *Canadian Forces Members and Veterans Re-establishment and Compensation Act*	21	May 13, 2005
	Bill C-43, *Budget Implementation Act, 2005*	30	June 29, 2005
	Bill C-38, *Civil Marriage Act*	33	July 20, 2005
	Bill C-23, *Department of Human Resources and Skills Development Act*	34	July 20, 2005
	Bill C-22, *Department of Social Development Act*	35	July 20, 2005
	Bill C-26, *Canada Border Services Agency Act*	38	November 3, 2005
	Bill C-66, *Energy Costs Assistance Measures Act*	49	November 25, 2005
2006	Bill C-4, *An Act to amend An Act to amend the Canada Elections Act and the Income Tax Act*	1	May 11, 2006
	Bill C-13, *Budget Implementation Act, 2006*	4	June 22, 2006
	Bill C-2, *Federal Accountability Act*	9	December 12, 2006
	Bill C-25, *An Act to amend the Proceeds of Crime (Money Laundering) and Terrorist Financing Act and the Income Tax Act*	12	December 14, 2006
2007	Bill C-28, *Budget Implementation Act, 2006, No. 2*	2	February 21, 2007
	Bill C-52, *Budget Implementation Act, 2007*	29	June 22, 2007
	Bill C-294, *An Act to amend the Income Tax Act (sports and recreation programs)*	16	June 22, 2007
	Bill C-28, *Budget and Economic Statement Implementation Act, 2007*	35	December 14, 2007
	Bill C-12, *An Act to amend the Bankruptcy and Insolvency Act, the Companies Creditors Arrangement Act, the Wage Earner Protection Program Act and chapter 47 of the Statutes of Canada, 2005*	36	December 14, 2007
2008	Bill C-50, *Budget Implementation Act, 2008*	28	June 18, 2008
2009	Bill C-10, *Budget Implementation Act, 2009*	2	March 12, 2009

Proposed Amendments

Income Tax Act

The following table lists proposed amendments firstly, that have been tabled as bills or draft legislation, followed by Budget announcements and news releases, in reverse chronological order. The proposed amendments listed below are reproduced in the *Income Tax Act* in a box immediately following the provision affected.

Although former Bill C-10, *Income Tax Amendments Act, 2006*, ceased to exist when Parliament was dissolved on September 7, 2008, CCH has continued to reproduce its provisions as pending amendments in the *Income Tax Act* in the boxes headed "Former Bill C-10". While it is expected that at least some of the provisions in the former Bill C-10 will be reintroduced, nothing from that Bill had been reintroduced as at publication date. In general, it is CCH's policy to reproduce the provisions of a government bill that is tabled or a private member's bill that passes through the House of Commons, as well as draft legislation released by the Department of Finance. As a result, with the exception of former Bill C-10 described above, the provisions of bills that ceased to exist when Parliament was dissolved on September 7, 2008 and, for government bills, that have not been reintroduced, or for private members bills, that have not passed through the House of Commons, have not been reproduced as pending amendments in the CCH *Income Tax Act* and are not listed below.

Bill or Release Name	Date	Description
Bills and Draft Legislation		
Bill C-12, S.C. 2007, c. 36	Royal Assent on December 14, 2007, but is not yet in force	Consequential amendment to s. 224(1.2).
Former Bill C-10, *Income Tax Amendments Act, 2006* (CCH Special Report 021H, dated November 9, 2006)	October 29, 2007 – First reading in the House of Commons (previous session of Parliament). Received second reading in the Senate on December 4, 2007 and ceased to exist when Parliament was dissolved on September 7, 2008	This Bill contains the provisions relating to non-resident trusts and foreign investment entities, technical amendments, and bijuralism.
Draft Legislation Concerning Foreign Affiliates (CCH Special Report 007H, dated February 27, 2004)	February 27, 2004	Proposals to amend various provisions of the Act relating to foreign affiliates. Some of the amendments were included in Bill C-28 (S.C. 2007, c. 35) and in Bill C-10 (S.C. 2009, c. 2).
Draft Legislation Concerning Interest Deductibility (CCH Special Report 006H, dated October 31, 2003)	October 31, 2003	These proposals add new section 3.1 and amend ss. 3(*d*), 9(3), and the description of E in the definition of "non-capital loss" in s. 111(8).

Budget Announcements and Releases		
Tax Deferral on Sale of Breeding Livestock	March 5, 2009	Department of Finance News Release No. 2009-024 set out that the Minister of Finance would propose amendments to s. 80.3 of the Act and s. 7305 of the Regulations to allow tax deferral on the sale of breeding livestock in prescribed areas affected by flooding or excessive moisture. See s. 80.3(4).
2009 Federal Budget Proposals Not Included in Bill C-10 (CCH Special Report 042H, dated January 27, 2009)	January 27, 2009	Home Renovation Tax Credit – See s. 54 "principal residence" and preceding s. 118.01. First-Time Home Buyers' Tax Credit – See preceding s. 118.01 and s. 146.01 before (1).
2009 Indexation Factor	December 8, 2008	Canada Revenue Agency Fact Sheet sets out the 2009 indexation factor for personal amounts, personal income tax brackets, income thresholds, the GST credit, and the Canada Child Tax Benefit. See s. 117.1(1).
SIFT Transitional Rules	December 4, 2008, updated February 2009	Department of Finance Explanatory Note (Release No. 2009-014, dated February 2, 2009) outlined a revision to the normal growth guidelines described in Department of Finance News Release No. 2006-082, dated December 15, 2006. See ss. 122.1(2) and 197(8).
Designated Stock Exchanges	July 2, 2008	Department of Finance News Release No. 2008-049 set out guidelines by which to evaluate stock exchanges that are "designated stock exchanges" for income tax purposes. See s. 262(5).
Extension for Foreign Affiliate Elections	June 27, 2008	Department of Finance News Release No. 2008-048 announced an extension for the elections for foreign affiliates. See s. 95 before (1).
Simplifying Compliance with Motor Vehicle Provisions	February 26, 2008	The 2008 Federal Budget announced consultations by the CRA with the intent to reduce the amount of record keeping required for automobile expense claims and taxable benefit calculations. See s. 8(1)(*h.1*).

Non-Resident Trusts and Foreign Investment Entities	January 3, 2008	Canada Revenue Agency Notice described the application of changes to the taxation of non-resident trusts and foreign investment entities. See s. 94(7) after the Former Bill C-10 pending amendment.
Shareholder Notification of Eligible Dividends	December 20, 2006	Canada Revenue Agency Release described the Agency's administrative position on the requirement for shareholder notification of eligible dividends. See s. 89(14).
Normal Growth Guidelines	December 15, 2006	Department of Finance News Release No. 2006-082 set out the government's view of "normal growth" re the implementation date for the tax on income trusts and public partnerships. See ss. 122.1(2) and 197(8).
Prescribed Penalty Interest	May 2, 2006	The 2006 Federal Budget proposed to remove the exemption for prescribed penalty interest imposed under the *Excise Act*, the *Air Travellers Security Charge Act*, and the GST/HST portions of the *Excise Tax Act*. See s. 67.6.
Cross-Border Share-For-Share Exchanges	February 23, 2005	The 2005 Federal Budget set out the government's continuing intention to release proposals concerning cross-border share-for-share exchanges. See s. 85.1(6).
Interim Measure Re Deductibility of Increases in Provincial Payroll and Capital Taxes	December 16, 2004	Department of Finance News Release No. 2004-080 extended to 2005 the interim measure limiting the deductibility of increases in provincial payroll and capital taxes. This interim measure has been in place since March 1993. See s. 18(1)(*a*).
Cross-Border Share-For-Share Exchanges	March 23, 2004	The 2004 Federal Budget set out the government's intention to release proposals concerning cross-border share-for-share exchanges that were first announced in the 2000 Federal Budget. See s. 85.1(6).
Cross-Border Share-For-Share Exchanges	February 18, 2003	The 2003 Federal Budget set out that the government plans to release draft legislation concerning cross-border share-for-share exchanges. See s. 85.1(6).
Interest Offset	December 21, 2000	Department of Finance News Release No. 2000-101 noted the ongoing work concerning a 2000 Federal Budget proposal to allow the offsetting of interest for individuals. See s. 161.1(1).

Thin Capitalization Rules	May 9, 2000	Department of Finance News Release No. 2000-039 described the deferral of a 2000 Federal Budget proposal to broaden the type of debt covered by the thin capitalization rules. See s. 18(4).
Annuity Contracts and Accrual Rules	December 19, 1996	Department of Finance News Release No. 96-100 set out proposed changes for annuity contracts. The changes would provide that annuity contracts issued as RRIFs not be subject to the accrual rules under s. 12.2 of the Act. See s. 12.2(1).

Proposed Amendments

Income Tax Regulations

The following table lists proposed amendments that have been tabled in bills, releases of draft regulations, Budget announcements or news releases, in reverse chronological order. The proposed amendments are reproduced in the Income Tax Regulations in a box immediately following the provision affected.

Bill or Release	Date	Regulations	Subject
Draft Regulations Pre-published in the *Canada Gazette* Part 1	April 11, 2009	304(1); 2402; 2405(3), "Canadian business property" (added), "gross Canadian life investment income"; 2405(5) (added); 2411(3); 2411(4); 2411(5) (repealed); 6209; 8102 (added); 8103 (added); 8104 (added); 8105 (added); 9100 to 9204 (added)	Securities held by financial institutions
Department of Finance News Release 2009-024	March 5, 2009	See Regulation 7305	Prescribed regions of flooding or excessive moisture that qualify for tax deferral for 2008 on sales of breeding livestock
Agriculture Canada News Releases	March 3, 2009	See Regulation 7305	Drought regions – Areas in Canada that qualify for the tax deferral for 2008 on income from drought-

			induced sales of breeding livestock
Department of Finance News Release 2008-114	December 30, 2008	See Regulations 7305.1, 7306, and 7307	2009 Automobile rates and limits
Agriculture Canada News Releases	March 7, 2008	See Regulation 7305	Drought regions – Areas in Canada that qualify for the tax deferral for 2007 on income from drought-induced sales of breeding livestock
2008 Budget Measures (CCH Special Report 033H, dated February 26, 2008)	February 26, 2008	1104(13), "biogas", "eligible waste fuel", "food waste" (repealed), "food and animal waste" (added); Schedule II, Class 43.1, 43.2	Capital cost allowance
2007 Budget Measures (CCH Special Report 025H, dated March 19, 2007)	March 19, 2007	1100(1)(y)	Phasing out of accelerated CCA for assets used in oil sands projects
Explanatory Notes Released with Notice of Ways and Means Motion (Part 2 of Former Bill C-10) (CCH Special Report 021H, dated November 21, 2006)	November 9, 2006	1101(1ag) (added) See Regulations 2000(1) and 3501(1)	Capital cost allowance for limited period franchise, concession or licence – notes for ss. 13(4.2) and (4.3) Notes concerning information to be included on receipts for political and charitable donations
The 2006 Federal Budget (CCH Special Report 016H, dated May 2, 2006)	May 2, 2006	See Class 12 in Schedule II of the Regulations See draft Regulation 7309	Cost limit for Class 12 tools to increase to $500 from $200. Proposal to remove the exemption for prescribed penalty interest imposed under the *Excise Act*, the *Air Travellers Security Charge Act*, and the GST/HST portions of the *Excise Tax Act*
Draft Regulations (CCH Special Report 013H, dated July 18, 2005)	July 18, 2005	4800.1; 4801; 4801.001 (added)	Status of corporations and trusts

Draft Regulations Pre-published in *Canada Gazette,* Part I	May 7, 2005	205.1	Electronic filing of information returns
Draft Regulations	September 16, 2004	7309 (added)	Prescribed amounts
Draft Regulations (CCH Special Report 007H, dated February 27, 2004)	February 27, 2004	8202 (added)	Prescribed properties and permanent establishments
Draft Regulations (CCH Special Report 007H, dated February 27, 2004)	February 27, 2004	5902(1); 5902(2) (repealed); 5902(3); 5902(6); 5905(1); 5905(2); 5905(4); 5905(5); 5905(5.1) (added); 5905(5.2) (added); 5905(6); 5905(7); 5905(7.1) (added); 5905(7.2) (added); 5905(7.3) (added); 5905(7.4) (added); 5905(8); 5905(16) (added); 5905(17) (added); 5905(18) (added); 5905(19) (added); 5905(20) (added); 5905(21) (added); 5905(22) (added); 5905(23) (added); 5907(1), "earnings", "exempt deficit", "exempt earnings", "exempt loss", "exempt surplus", "loss", "net earnings", "net loss", "taxable deficit", "taxable earnings", "taxable loss", "taxable surplus", "underlying foreign tax", "whole dividend"; 5907(1.1); 5907(2); 5907(2.01) (added); 5907(2.7); 5907(2.8); 5907(2.81) (added); 5907(2.82) (added); 5907(2.83) (added); 5907(2.9); 5907(2.91) (added); 5907(5.1) (repealed); 5907(9); 5907(9.1) (added); 5907(13); 5907(14) (added);	Foreign affiliates

		5911 (added); 5912 (added); 5913 (added); 5914 (added); 5915 (added); 5916 (added); 5917 (added); 5918 (added); 5919 (added)	
The 2003 Federal Budget	February 18, 2003	See Regulation 231(6)	Proposed amendment to the definition of "prescribed benefit" for purposes of tax shelters.
Draft Regulations Pre-published in *Canada Gazette,* Part I	February 15, 2003	105(2); 404(1); 413(3) (added); 800; 801; 802; 803; 805; 808(1); 808(2); 808(5); 808(6); 808(8) (added); 810 (repealed); 5301(1); 5301(4); 5301(8); 5301(10); 7900	Tax deductions; Taxable income earned in a province; Non-resident taxes; Instalment base; Prescribed financial institutions; Prescribed properties and permanent establishments
Draft Regulations (CCH Special Report H099, dated December 20, 2002)	December 20, 2002	5910 (added)	Foreign affiliates
Draft Regulations (CCH Special Report H099, dated December 20, 2002)	December 20, 2002	8604 (repealed)	Taxable capital employed in Canada
Draft Regulations (CCH Special Report H099, dated December 20, 2002)	December 20, 2002	6202.1(1); 6202.1(1.1) (added); 6202.1(2.1) (added); 6202.1(3); 6202.1(4); 6202.1(5), "excluded obligation", "new right" (added)	Prescribed securities, shares and debt obligations
Draft Regulations (CCH Special Report H099, dated December 20, 2002)	December 20, 2002	6700; 6704	Prescribed venture capital corporations; Labour-sponsored venture capital corporations; Investment contract corporations, Qualifying corporations and Prescribed stock savings plans
Draft Regulations	March 16, 2001	2606(1); 2606(2)	Taxpayer migration—Elections; Income earned in a province by an individual

Draft Regulations	March 16, 2001	5900(2); 5900(3); 5902(1); 5902(3); 5902(5); 5902(6); 5905(2); 5905(6); 5905(8); 5905(14) (added); 5905(15) (added)	Foreign affiliates
Draft Regulations	March 16, 2001	5903; 5907(1.3); 5907(1.4) (added)	Foreign affiliates—FAPI
Draft Regulations	August 8, 2000	9204(2.1) (added); 9204(5); 9204(5.1) (added)	Foreign bank branches
Draft Regulations	October 27, 1998	2902	Scientific research and experimental development
Draft Regulations	October 27, 1998	808(1.1) (added)	Non-resident taxes
Draft Regulations	November 14, 1997	9103(2) (repealed)	Impaired loans; Prescribed organizations
Department of Finance News Release No. 96-100	December 19, 1996	See Regulation 304(1)	Proposed changes for annuity contracts. The changes would provide that annuity contracts issued as RRIFs not be subject to the accrual rules under s. 12.2 of the Act

Department of Finance Comfort Letters

The following list notes the Department of Finance comfort letters that are reproduced in CCH's Income Tax Act with Regulations. *The issues described in these letters have not yet been addressed by proposed legislation or draft regulations but the letters provide some insight into possible future amendments. Where more than one letter has been released on the same issue, generally one representative letter has been reproduced.*

Provision Where Letter is Reproduced	Topic	Date
Income Tax Act		
6(1)(*a*)	Leave of absence plans	June 30, 2000
7(1.11)	Expansion of scope of subsection 7(1.11) — Non-arm's length relationship with trusts	December 4, 2006
12(1)(*s*)	Proposed repeal of paragraphs 12(1)(*s*) and 20(1)(*jj*) – Reinsurance commissions	December 21, 2005
12.2(1)	Third-party life annuity contracts Alter ego trusts acquiring annuity contracts	September 12, 2002 July 29, 2002
17(1)	Amount owing by non-resident to corporation resident in Canada	September 3, 2002
20(1)(*c*)	Reserve for premium on bond issue	October 24, 2001
20(1)(*bb*)	Deduction of investment counsel and custodial fees paid to a partnership	December 21, 2005
20(1)(*jj*)	Proposed repeal of paragraphs 12(1)(*s*) and 20(1)(*jj*) — Reinsurance commissions	December 21, 2005
39.1(1) "flow-through entity"	Increases in ACB re flow-through entities	June 13, 2003
40(3.1)	Adjustment to ACB of full shield limited liability partnership	July 11, 2003
53(1)(*e*)	Addition to ACB of partnership interest — Proceeds of disposition of a foreign resource property Cost base of partnership interest to be adjusted for disposition of certified cultural property	July 16, 2004 January 29, 2004
53(1)(*r*)	Increases in ACB re flow-through entities	June 13, 2003
55(2)	Application of subsection 55(2) to dividend received on internal reorganization Application of subsection 55(2)	October 16, 2007 September 6, 2006

55(3.01)	Paragraphs 55(3.01)(*b*) and (*c*) — Re winding-up or amalgamation of subsidiary corporation	April 21, 2005
55(3.1)	Application of paragraphs 55(3.1)(*c*) and (*d*)	June 8, 2005
	Distributions by a "specified corporation"	November 26, 2004
59(1.1)	Addition to ACB of partnership interest — Proceeds of disposition of a foreign resource property	July 16, 2004
66.8(1)	Deduction of resource expenses by commercial trust in a limited partnership	October 18, 2004
73(3)	Proposed amendment to paragraph 73(3)(*a*) to delete the word "immediately"	February 27, 2008
84(7)	Reference to "deemed dividend" in subsection 84(7)	April 8, 2003
85.1(5)	Shares acquired in foreign share-for-share exchange	December 16, 2005
86.1(2)	Prescribed foreign spin-off distribution	September 11, 2007
87(2)	Definition of "subsidiary wholly-owned corporation"	September 16, 2005
	Election under subsection 149(1.11) to retain taxable status — Where corporation amalgamates with wholly-owned subsidiary	December 6, 2004
88(1)(*c*)	Cost of non-depreciable property on winding-up — Subparagraph 88(1)(*c*)(vi)	August 13, 2007
	Ineligible property on winding up of subsidiary	September 1, 2006
88(1)(*c.2*)	Proposed amendment to subparagraph 88(1)(*c.2*)(i) —"Specified person" re bump denial	February 23, 2007
	Proposed amendment to paragraph 88(1)(*c.2*)	August 13, 2004
88(1)(*c.3*)	Addition to cost base of non-depreciable capital property on winding up of subsidiary	June 26, 2007
	Application of the substituted property rules	May 31, 2004
	Inclusion of employee stock options as specified property for purposes of paragraphs 88(1)(*c.3*) and (*c.4*)	June 24, 2003

	Amendment to the definition of "substituted property"	May 2, 2002
	Application of substituted property rules	April 22, 2002
88(1)(*c.4*)	Proposed amendment of paragraph 88(1)(*c.4*) re the definition of "specified property"	January 20, 2006
	Definition of "specified property" in paragraph 88(1)(*c.4*)	September 22, 2005
	Options and warrants — Specified property	April 15, 2005
88(1)(*e.2*)	Deduction for payment of parent against parked debt of subsidiary after wind-up	March 6, 2003
88(3)	Follow-up to earlier letters on modifications to proposed subsection 88(3)	March 19, 2009
	Proposed modifications to subsection 88(3)	April 1, 2008
	Proposed amendments to subsection 88(3) and paragraph 95(2)(*e.1*) re: distribution treated as reduction of foreign paid-up capital	June 9, 2006
	Subsection 88(3) — Determination of foreign paid-up capital of shares of a foreign affiliate	June 9, 2006
	Modifications to proposed amendments to subsection 88(3) and paragraph 95(2)(*e.*1)	April 12, 2006
	Liquidations and dissolutions of foreign affiliates	August 16, 2005
	Proposed subsection 88(3)	January 19, 2005
	Foreign affiliate and proposed subsection 88(3)	August 19, 2004
93.1(2)	Modifications to certain foreign affiliate proposals	April 19, 2006
94(7)	Former Bill C-10 — Letter to PIAC re clarification of exemption for certain pension entities	April 29, 2008
	Former Bill C-10 — Letter to PIAC re non-resident trust rules	April 2, 2008

149(1)(*d.5*)	Tax exempt status — Indirect ownership by municipality	May 5, 2004
149(1)(*o.2*)	Permissible shareholders for corporations used in connection with registered pension plans	October 16, 2003
149(1.11)	Definition of "subsidiary wholly-owned corporation" Election under subsection 149(1.11) to retain taxable status — Where corporation amalgamates with wholly-owned subsidiary	September 16, 2005 December 6, 2004
163.2(10)	Deviation range for valuations under subsection 163.2(10)	July 11, 2000
181.2(3)	Application of the LCT to joint debt	August 6, 1997
181.2(4)	Investment allowance where multiple partnership tiers	May 25, 2004
204.8(1) "reserve"	Definition of "reserve" to be amended to include deposits with credit unions	May 22, 2008
204.8(2)	Labour-sponsored venture capital corporations — Asset purchase merger	October 17, 2005
204.81(1)	No recapture of labour-sponsored tax credit in conversion of shares	May 13, 2004
204.94(2)	Part X.5 tax re RESP payments not applicable to "public primary caregiver"	January 7, 2008
211.8(1)	No recapture of labour-sponsored tax credit in conversion of shares	May 13, 2004
218.3(2)	Mutual fund merger rules	February 14, 2006
247(7)	Transfer pricing — Debt guarantee Broadening of exception from application of transfer pricing rules for debt guarantees Exception from application of transfer pricing rules for debt guarantees	January 24, 2005 December 7, 2004 March 11, 2003
248(1) "principal amount"	Reserve for premium on bond issue	October 24, 2001
248(1) "short-term preferred share"	Definition of "short-term preferred share"	May 11, 2005
248(1) "specified shareholder"	Exclusion from definition "specified shareholder" for purposes of investment corporations	March 12, 2003
248(1) "subsidiary wholly-owned corporation"	Definition of "subsidiary wholly-owned corporation" to be modified	November 5, 2004

Income Tax Regulations		
301(1)	Third-party life annuity contracts	September 12, 2002
304(1)	Last survivor annuity contracts to be prescribed in regulation 304 Alter-ego trusts acquiring annuity contracts	June 27, 2003 July 29, 2002
1403(8)	Determination of tax reserves for life insurance policies	December 1, 1999
2400(6)	Proposed amendments to regulation 2400(6) re goodwill arising from acquisition or disposition of affiliated financial institution	June 30, 2006
4802(1)	Permissible shareholders for corporations used in connection with registered pension plans	October 16, 2003
5600	Prescribed foreign spin-off distribution	September 11, 2007
5907(1) "earnings"	Definition of "earnings" from an active business Definition of "earnings" from an active business	August 17, 2005 May 16, 2005
5907(1) "exempt earnings"/"exempt loss"	Property income of foreign affiliate life insurance corporation Foreign affiliates — Definition of "exempt earnings" Foreign affiliates — Paragraph 95(2)(*a.3*) and definition of "exempt earnings" Modifications to definitions of "exempt earnings" and "exempt loss" in regulation 5907(1) Modifications to certain foreign affiliate proposals	September 13, 2007 July 17, 2006 July 17, 2006 June 9, 2006 April 19, 2006
5907(1.1)	Regulation 5907(1.1) — Residency requirement and determination of underlying foreign tax	June 9, 2006

SECTIONAL LIST OF THE INCOME TAX ACT

[R.S.C. 1985 (5th Supp.), c. 1 as amended.]

New provisions added by any of the pending amendments reproduced throughout the text of the Act are included in the list preceded by the prefix "Prop.".

Section	Subject
1	Short Title

PART I
INCOME TAX

DIVISION A LIABILITY FOR TAX

2(1)	Tax payable by persons resident in Canada
2(2)	Taxable income
2(3)	Tax payable by non-resident persons

DIVISION B COMPUTATION OF INCOME

	Basic Rules
3	Income for taxation year
Prop. 3.1(1)	Limit on loss
Prop. 3.1(2)	Determination of profit
4(1)	Income or loss from a source or from sources in a place
4(2)	Idem
4(3)	Deductions applicable
4(4)	Limitation respecting inclusions and deductions

Subdivision a Income or Loss from an Office or Employment

	Basic Rules
5(1)	Income from office or employment
5(2)	Loss from office or employment
	Inclusions
6(1)	Amounts to be included as income from office or employment
6(1)(a)	Value of benefits
6(1)(b)	Personal or living expenses
6(1)(c)	Director's or other fees
6(1)(d)	Allocations, etc., under profit sharing plan
6(1)(e)	Standby charge for automobile
6(1)(f)	Employment insurance benefits
6(1)(f.1)	Canadian Forces members and veterans income replacement benefits
6(1)(g)	Employee benefit plan benefits
6(1)(h)	Employee trust
6(1)(i)	Salary deferral arrangement payments
6(1)(j)	Reimbursements and awards
6(1)(k)	Automobile operating expense benefit
6(1)(l)	Idem
6(1.1)	Parking cost
6(2)	Reasonable standby charge
6(2.1)	Automobile salesman
6(3)	Payments by employer to employee
Prop. 6(3.1)	Amount receivable for covenant
6(4)	Group term life insurance
6(5)	Reference to policy year ending in taxation year
6(6)	Employment at special work site or remote location
6(7)	Cost of property or service
6(8)	Idem
6(9)	Amount in respect of interest on employee debt
6(10)	Contributions to an employee benefit plan
6(11)	Salary deferral arrangement
6(12)	Idem
6(13)	Application
6(14)	Part of plan or arrangement
6(15)	Forgiveness of employee debt
6(15.1)	Forgiven amount
6(16)	Disability-related employment benefits
6(17)	Definitions "disability policy" "employer" "top-up disability payment"
6(18)	Group disability benefits — insolvent insurer
6(19)	Benefit re housing loss
6(20)	Benefit re eligible housing loss
6(21)	Housing loss
6(22)	Eligible housing loss
6(23)	Employer-provided housing subsidies
7(1)	Agreement to issue securities to employees
7(1.1)	Employee stock options
7(1.11)	Non-arm's length relationship with trusts
7(1.3)	Order of disposition of shares
7(1.31)	Disposition of newly-acquired security
7(1.4)	Exchange of options
7(1.5)	Rules where shares exchanged
7(1.6)	Emigrant
7(2)	Securities held by trustee
7(3)	Special provision
7(4)	Application of s. (1)
7(5)	Non-application of this section
7(6)	Sale to trustee for employees
7(7)	Definitions "qualifying person" "security"
7(8)	Deferral in respect of non-CCPC employee options
7(9)	Meaning of "qualifying acquisition"
7(10)	Election for purposes of subsection (8)
7(11)	Meaning of "specified value"
7(12)	Identical options — order of exercise
7(13)	Revoked election
7(14)	Deferral deemed valid
7(15)	Withholding
7(16)	Prescribed form for deferral
	Deductions
8(1)	Deductions allowed
8(1)(a)	Volunteers' deduction [Repealed.]
8(1)(b)	Legal expenses of employee
8(1)(c)	Clergyman's residence
8(1)(d)	Teachers' exchange fund contribution

Section	Subject
8(1)(e)	Expenses of railway employees
8(1)(f)	Sales expenses
8(1)(g)	Transport employee's expenses
8(1)(h)	Travel expenses
8(1)(h.1)	Motor vehicle travel expenses
8(1)(i)	Dues and other expenses of performing duties
8(1)(j)	Motor vehicle and aircraft costs
8(1)(k)	Unemployment insurance premium
8(1)(l)	Canada Pension Plan contribution
8(1)(l.1)	C.P.P. contributions and U.I.A. premiums
Prop. 8(1)(l.2)	Quebec parental insurance plan
8(1)(m)	Employee's registered pension plan contributions
8(1)(m.1)	Idem
8(1)(m.2)	Employee RCA contributions
8(1)(n)	Salary reimbursement
8(1)(n.1)	Reimbursement of disability payments
8(1)(o)	Forfeited amounts
8(1)(o.1)	Idem
8(1)(p)	Musical instrument costs
8(1)(q)	Artists' employment expenses
8(1)(r)	Apprentice mechanics' tool costs
8(1)(s)	Deduction — tradesperson's tools
8(2)	General limitation
8(4)	Meals
8(5)	Dues not deductible
8(6)	Apprentice mechanics
8(6.1)	Eligible tool of tradesperson
8(7)	Cost of tool
8(9)	Presumption
8(10)	Certificate of employer
8(11)	Goods and services tax
8(12)	Forfeiture of securities by employee
8(13)	Work space in home

Subdivision b Income or Loss from a Business or Property

Basic Rules

9(1)	Income
9(2)	Loss
9(3)	Gains and losses not included
10(1)	Valuation of inventory
10(1.01)	Adventures in the nature of trade
10(1.1)	Certain expenses included in cost
10(2)	Continuation of valuation
10(2.1)	Methods of valuation to be same
10(3)	Incorrect valuation
10(4)	Fair market value
10(5)	Inventory
10(6)	Artistic endeavour
10(7)	Value in later years
10(8)	Definition of "business that is an individual's artistic endeavour"
10(9)	Transition
10(10)	Acquisition of control
10(11)	Acquisition of control
10(12)	Removing property from inventory
10(13)	Adding property to inventory
10(14)	Work in progress
11(1)	Proprietor of business
11(2)	Reference to "taxation year"
11.1	Determination of whether persons related

Inclusions

12(1)	Income inclusions
12(1)(a)	Services, etc., to be rendered
12(1)(b)	Amounts receivable
12(1)(c)	Interest
12(1)(d)	Reserve for doubtful debts
12(1)(d.1)	Reserve for guarantees, etc.
12(1)(e)	Reserves for certain goods and services, etc.
12(1)(f)	Insurance proceeds expended
12(1)(g)	Payments based on production or use
12(1)(g.1)	Proceeds of disposition of right to receive production
12(1)(h)	Previous reserve for quadrennial survey
12(1)(i)	Bad debts recovered
12(1)(i.1)	Idem
12(1)(j)	Dividends from resident corporations
12(1)(k)	Dividends from other corporations
Prop. 12(1)(k)	Foreign corporations, trusts and investment entities
12(1)(l)	Partnership income
12(1)(m)	Benefits from trusts
12(1)(n)	Employees profit sharing plan
12(1)(n.1)	Employee benefit plan
12(1)(n.2)	Forfeited salary deferral amounts
12(1)(n.3)	Retirement compensation arrangement
12(1)(o)	Royalties, etc.
12(1)(o.1)	Foreign oil and gas production taxes
12(1)(p)	Certain payments to farmers
12(1)(q)	Employment tax deduction
12(1)(r)	Inventory adjustment
12(1)(s)	Reinsurance commission
12(1)(t)	Investment tax credit
12(1)(u)	Home insulation or energy conversion grants
12(1)(v)	Research and development deductions
12(1)(w)	S. 80.4(1) benefit
12(1)(x)	Inducement, reimbursement, etc.
12(1)(x.1)	Fuel tax rebates
12(1)(x.2)	Crown charge rebates
12(1)(y)	Automobile provided to partner
12(1)(z)	Amateur athlete trust payments
12(1)(z.1)	Qualifying environmental trusts
12(1)(z.2)	Dispositions of interests in qualifying environmental trusts
12(1)(z.3)	Debt forgiveness
12(1)(z.4)	Eligible funeral arrangements
12(1)(z.5)	Former TFSA
12(1)(z.6)	Refunds
12(2)	Interpretation
Prop. 12(2.01)	No deferral of section 9 income under paragraph (1)(g)
12(2.1)	Receipt of inducement, reimbursement, etc.
12(2.2)	Deemed outlay or expense
12(3)	Interest income
12(4)	Interest from investment contract
12(4.1)	Impaired debt obligations
12(9)	Deemed accrual
12(9.1)	Exclusion of proceeds of disposition
12(10.1)	Income from R.H.O.S.P.
12(10.2)	NISA receipts
12(10.3)	Amount credited or added not included in income
12(10.4)	Acquisition of control — corporate NISA Fund No. 2
12(11)	Definitions
	"anniversary day"
	"investment contract"
12.1	Cash bonus on Canada Savings Bonds
12.2(1)	Amount to be included
12.2(5)	Idem
12.2(8)	Deemed acquisition of interest in annuity
12.2(10)	Riders
12.2(11)	Definitions
	"anniversary day"
	"exempt policy"
12.2(12)	Application of ss. 138(12) and 148(9)
12.2(13)	Application of s. 148(10)
12.3	Transition inclusion re unpaid claims reserve
12.4	Bad debt inclusion
12.5(1)	Definitions
	"base year"
	"insurance business"
	"reserve transition amount"
	"transition year"
12.5(2)	Transition year income inclusion
12.5(3)	Transition year income deduction reversal
12.5(4)	Winding-up
Prop. 12.5(5)	Amalgamations
12.5(6)	Application of subsection (7)
12.5(7)	Transfer of insurance business
12.5(8)	Ceasing to carry on business
12.5(9)	Ceasing to exist
13(1)	Recaptured depreciation
13(2)	Idem
13(3)	"taxation year", "year" and "income" of individual
13(4)	Exchanges of property
13(4.1)	Replacement for a former property
Prop. 13(4.2)	Election — limited period franchise, concession or license
Prop. 13(4.3)	Effect of election

Section	Subject
13(5)	Reclassification of property
13(5.1)	Rules applicable
13(5.2)	Idem
13(5.3)	Idem
13(5.4)	Idem
13(5.5)	Lease cancellation payment
13(6)	Misclassified property
13(7)	Rules applicable
13(7.1)	Deemed capital cost of certain property
13(7.2)	Receipt of public assistance
13(7.3)	Control of corporations by one trustee
13(7.4)	Deemed capital cost
13(7.5)	Deemed capital cost
13(8)	Disposition after ceasing business
13(9)	Meaning of "gaining or producing income"
13(10)	Deemed capital cost
13(11)	Deduction in respect of property used in performance of duties
13(12)	Application of paragraph 20(1)(cc)
13(13)	Deduction under Canadian Vessel Construction Assistance Act
13(14)	Conversion cost
13(15)	Where s. (1) and subdivision c do not apply
13(16)	Election concerning vessel
13(17)	Separate prescribed class concerning vessel
13(18)	Reassessments
13(18.1)	Ascertainment of certain property
13(19)	Disposition of deposit
13(20)	Idem
13(21)	Definitions
	"appropriate minister"
	"conversion"
	"conversion cost"
	"depreciable property"
	"disposition of property" [Repealed.]
	"proceeds of disposition"
	"timber resource property"
	"total depreciation"
	"undepreciated capital cost"
	"vessel"
13(21.1)	Disposition of building
13(21.2)	Loss on certain transfers
13(22)	Deduction for insurer
13(23)	Deduction for life insurer
13(23.1)	Application of s. 138(12)
13(24)	Acquisition of control
13(25)	Early change of control
13(26)	Restriction on deduction before available for use
13(27)	Interpretation — available for use
13(28)	Idem
13(29)	Idem
13(30)	Transfers of property
13(31)	Idem
13(32)	Leased property
13(33)	Consideration given for depreciable property
14(1)	Inclusion in income from business
14(1.01)	Election re capital gain
14(1.02)	Election re property acquired with pre-1972 outlays or expenditures
14(1.03)	Non-application of subsections (1.01) and (1.02)
14(1.1)	Deemed taxable capital gain
14(1.2)	Deemed capital gain
14(2)	Amount deemed payable
14(3)	Acquisition of eligible capital property
14(4)	References to "taxation year" or "year"
14(5)	Definitions
	"adjustment time"
	"cumulative eligible capital"
	"eligible capital expenditure"
	"exempt gains balance"
Prop. 14(5.1)	Restrictive covenant amount
14(6)	Exchange of property
14(7)	Replacement property
14(8)	Deemed residence in Canada
14(9)	Effect of election under subsection 110.6(19)
14(10)	Deemed eligible capital expenditure
14(11)	Receipt of public assistance
14(12)	Loss on certain transfers
14(13)	Deemed identical property
14(14)	Ceasing to use property in Canadian business
14(15)	Beginning to use property in Canadian business
15(1)	Benefit conferred on shareholder
15(1.1)	Conferring of benefit
15(1.2)	Forgiveness of shareholder loans
15(1.21)	Forgiven amount
15(1.3)	Cost of property or service
15(2)	Shareholder debt
15(2.2)	Where s. 15(2) not to apply — non-resident persons
15(2.3)	Where s. 15(2) not to apply — ordinary lending business
15(2.4)	Where s. 15(2) not to apply — certain employees
15(2.5)	Where s. 15(2) not to apply — certain trusts
15(2.6)	Where s. 15(2) not to apply — repayment within one year
15(2.7)	Employee of partnership
15(3)	Interest or dividend on income bond or debenture
15(4)	Idem, where corporation not resident
15(5)	Automobile benefit
15(7)	Application of ss. (1), (2) and (5)
15(9)	Deemed benefit to shareholder by corporation
15.1(1)	Interest on small business development bonds
15.1(2)	Rules for small business development bonds
15.1(3)	Definitions
	"eligible small business corporation"
	"joint election"
	"qualifying debt obligation"
	"small business development bond"
15.1(4)	Money borrowed
15.1(5)	False declaration
15.1(6)	Disqualification
15.1(7)	Exception
15.2(1)	Interest on small business bond
15.2(2)	Rules for small business bonds
15.2(3)	Definitions
	"eligible issuer"
	"joint election"
	"qualifying debt obligation"
	"small business bond"
15.2(4)	Status of interest
15.2(5)	False declaration
15.2(6)	Partnerships
15.2(7)	Deemed eligible issuer
16(1)	Income and capital combined
16(2)	Obligation issued at discount
16(3)	Idem
16(4)	Where s. (1) does not apply
16(5)	Idem
16(6)	Indexed debt obligations
16(7)	Impaired indexed debt obligations
16.1(1)	Leasing properties
16.1(2)	Assignments and subleases
16.1(3)	Idem
16.1(4)	Amalgamations and windings-up
16.1(5)	Replacement property
16.1(6)	Additional property
16.1(7)	Renegotiation of lease
17(1)	Amount owing by non-resident
17(2)	Anti-avoidance rule — indirect loan
17(3)	Exception to anti-avoidance rule — indirect loan
17(4)	Anti-avoidance rule — loan through partnership
17(5)	Anti-avoidance rule — loan through trust
17(6)	Anti-avoidance rule — loan to partnership
17(7)	Exception
17(8)	Exception
17(8.1)	Borrowed money
17(8.2)	Deemed use
17(9)	Exception
17(10)	Determination of whether related and controlled foreign affiliate status
17(11)	Determination of whether related
17(11.1)	Determination of whether persons related
17(11.2)	Back-to-back loans
17(12)	Determination of controlled foreign affiliate status
17(13)	Extended definition of controlled foreign affiliate

Section	Subject
17(14)	Anti-avoidance rule — where rights or shares issued, acquired or disposed of to avoid tax
17(15)	Definitions
	"controlled foreign affiliate"
	"exempt loan or transfer"
	"non-discretionary trust"
	"settlor"
	Deductions
18(1)	General limitations
18(1)(a)	General limitation
18(1)(b)	Capital outlay or loss
18(1)(c)	Limitation re exempt income
18(1)(d)	Annual value of property
18(1)(e)	Reserves, etc.
18(1)(e.1)	Unpaid claims under insurance policies
18(1)(f)	Payments on discounted bonds
18(1)(g)	Payments on income bonds
18(1)(h)	Personal and living expenses
18(1)(i)	Limitation re employer's contribution under supplementary unemployment benefit plan
18(1)(j)	Limitation re employer's contribution under deferred profit sharing plan
18(1)(k)	Limitation re employer's contribution under profit sharing plan
18(1)(l)	Use of recreational facilities and club dues
18(1)(l.1)	Petroleum and Gas Revenue Tax Act payments [Repealed.]
18(1)(m)	Royalties, etc.
18(1)(n)	Political contributions
18(1)(o)	Employee benefit plan contributions
18(1)(o.1)	Salary deferral arrangement
18(1)(o.2)	Retirement compensation arrangement
18(1)(p)	Limitation re personal services business expenses
18(1)(q)	Limitation re cancellation of lease
18(1)(r)	Certain automobile expenses
18(1)(s)	Loans or lending assets
18(1)(t)	Payments under different acts
18(1)(u)	Fees — individual saving plans
18(1)(v)	Interest — authorized foreign bank
Prop. 18(1)(w)	Underlying payments on qualified securities
18(2)	Limit on certain interest and property tax
18(2.1)	Where taxpayer member of partnership
18(2.2)	Base level deduction
18(2.3)	Associated corporations
18(2.4)	Failure to file agreement
18(2.5)	Special rules for base level deduction
18(3)	Definitions
	"interest on debt relating to the acquisition of land"
	"land"
18(3.1)	Costs relating to construction of building or ownership of land
18(3.2)	Included costs
18(3.3)	Completion
18(3.4)	Where s. (3.1) does not apply
18(3.5)	Idem
18(3.6)	Undue delay
18(3.7)	Commencement of footings
18(4)	Limitation re deduction of interest by certain corporations
18(5)	Definitions
	"outstanding debts to specified non-residents"
	"specified non-resident shareholder"
	"specified shareholder"
18(5.1)	Person deemed not to be specified shareholder
18(6)	Loans made on condition
18(8)	Where s. (4) does not apply
18(9)	Limitation respecting prepaid expenses
18(9.01)	Group term life insurance
18(9.02)	Application of subsection (9) to insurers
18(9.1)	Penalties, bonuses and rate-reduction payments
18(9.2)	Interest on debt obligations
18(9.3)	Interest on debt obligations
18(9.4)	Idem
18(9.5)	Idem
18(9.6)	Idem
18(9.7)	Idem
18(9.8)	Idem
18(10)	Employee benefit plan
18(11)	Limitation
18(12)	Work space in home
18(13)	Where s. (15) applies to money lenders
18(14)	Where s. (15) applies to adventures in trade
18(15)	Loss on certain properties
18(16)	Deemed identical property
18.1(1)	Definitions
	"matchable expenditure"
	"right to receive production"
	"tax benefit"
	"tax shelter"
	"taxpayer"
18.1(2)	Limitation on the deductibility of matchable expenditure
18.1(3)	Deduction of matchable expenditure
18.1(4)	Amount of deduction
18.1(5)	Special rules
18.1(6)	Proceeds of disposition considered income
18.1(7)	Arm's length disposition
18.1(8)	Non-arm's length disposition
18.1(9)	Special case
18.1(10)	Amount of deduction if non-arm's length disposition
18.1(11)	Partnerships
18.1(12)	Identical property
18.1(13)	Application of section 143.2
18.1(14)	Debt obligations
18.1(15)	Non-applicability of section 18.1
Prop. 18.1(15)	Non-application — risks ceded between insurers
Prop. 18.1(16)	Non-application — no rights, tax benefits or shelters
Prop. 18.1(17)	Revenue exception
18.2	Double-Dip Financing [Repealed.]
19(1)	Limitation re advertising expense
19(3)	Where s. (1) does not apply
19(5)	Definitions
	"Canadian issue"
	"Canadian newspaper or periodical"
	"issue of a non-Canadian newspaper or periodical"
	"substantially the same" [Repealed.]
	"United States"
19(5.1)	Interpretation
19(6)	Trust property
19(7)	Grace period
19(8)	Non-Canadian newspaper or periodical
19.01(1)	Definitions
	"advertisement directed at the Canadian market"
	"original editorial content"
	"periodical"
19.01(2)	Limitation re advertising expenses — periodicals
19.01(3)	100% deduction
19.01(4)	50% deduction
19.01(5)	Application
19.01(6)	Editions of issues
19.1(1)	Limitation re advertising expense on broadcasting undertaking
19.1(2)	Exception
19.1(4)	Definitions
	"foreign broadcasting undertaking"
	"network"
20(1)	Deductions permitted in computing income from business or property
20(1)(a)	Capital cost of property
20(1)(b)	Cumulative eligible capital amount
20(1)(c)	Interest
20(1)(d)	Compound interest
20(1)(e)	Expenses re financing
20(1)(e.1)	Annual fees, etc.
20(1)(e.2)	Premiums on life insurance used as collateral
20(1)(f)	Discount on certain obligations
20(1)(g)	Share transfer and other fees
20(1)(j)	Repayment of loan by shareholder
20(1)(l)	Doubtful or impaired debts
20(1)(l.1)	Reserve for guarantees, etc.
20(1)(m)	Reserve in respect of certain goods and services
20(1)(m.1)	Manufacturer's warranty reserve
20(1)(m.2)	Repayment of amount previously included in income
20(1)(n)	Reserve for unpaid amount

Section	Subject
20(1)(o)	Reserve for quadrennial survey
20(1)(p)	Bad debts
20(1)(q)	Employer's contributions to registered pension plan
20(1)(r)	Employer's contributions under retirement compensation arrangement
20(1)(u)	Patronage dividends
20(1)(v)	Mining taxes
20(1)(v.1)	Resource allowance
20(1)(w)	Employer's contributions under profit sharing plan
20(1)(x)	Employer's contributions under registered supplementary unemployment benefit plan
20(1)(y)	Employer's contributions under deferred profit sharing plan
20(1)(z)	Cancellation of lease
20(1)(z.1)	Idem
20(1)(aa)	Landscaping of grounds
20(1)(bb)	Fees paid to investment counsel
20(1)(cc)	Expenses of representation
20(1)(dd)	Investigation of site
20(1)(ee)	Utilities service connection
20(1)(ff)	Payments by farmers
20(1)(hh)	Repayments of inducements, etc.
20(1)(hh.1)	Repayment of obligation
20(1)(ii)	Inventory adjustment
20(1)(jj)	Reinsurance commission
20(1)(kk)	Exploration and development grants
20(1)(ll)	Repayment of interest
20(1)(mm)	Cost of substances injected in reservoir
20(1)(nn)	Part XII.6 tax
20(1)(nn.1)	Recapture of investment tax credits — child care space amount
20(1)(oo)	Salary deferral arrangement
20(1)(pp)	Idem
20(1)(qq)	Disability-related modifications to buildings
20(1)(rr)	Disability-related equipment
20(1)(ss)	Qualifying environmental trusts
20(1)(tt)	Acquisition of interests in qualifying environmental trusts
20(1)(uu)	Debt forgiveness
20(1)(vv)	Countervailing or anti-dumping duty
20(1)(ww)	Split income
20(1.1)	Application of s. 13(21)
20(1.2)	Application of s. 12.2(11)
20(2)	Borrowed money
20(2.1)	Limitation of expression "interest"
20(2.2)	Limitation of expression "life insurance policy"
20(2.3)	Sectoral reserve
20(2.4)	Specified percentage
20(3)	Borrowed money
20(4)	Bad debts from dispositions of depreciable property
20(4.1)	Idem
20(4.2)	Idem
20(4.3)	Deemed allowable capital loss
20(5)	Sale of agreement for sale or mortgage included in proceeds of disposition
20(5.1)	Idem
20(6)	Special reserves
20(7)	Where paragraph (1)(m) does not apply
20(8)	No deduction in respect of property in certain circumstances
20(9)	Application of paragraph (1)(c)
20(10)	Convention expenses
20(11)	Foreign taxes on income from property exceeding 15%
20(12)	Foreign non-business income tax
20(12.1)	Foreign tax where no economic profit
20(13)	Dividend on share from foreign affiliate of taxpayer
20(14)	Accrued bond interest
20(14.1)	Interest on debt obligation
20(15)	Regulations [Repealed.]
20(16)	Terminal loss
20(16.1)	Idem
Prop. 20(16.1)	Non-application of subsection (16)
20(16.2)	Reference to "taxation year" and "year" of individual
20(16.3)	Disposition after ceasing business
20(17)	Reduction of inventory allowance deduction
20(18)	Definitions
	"qualifying inventory"
	"specified transaction"
20(19)	Annuity contract
20(20)	Life insurance policy
20(21)	Debt obligation
20(22)	Deduction for negative reserves
20(24)	Amounts paid for undertaking future obligations
20(25)	Manner of election
20(26)	Transition deduction re unpaid claims reserve
20(27)	Loans, etc., acquired in ordinary course of business
20(27.1)	Application of ss. 13(21) and 138(12)
20(28)	Deduction before available for use
20(29)	Idem
20(30)	Specified reserve adjustment
20.01(1)	PHSP premiums
20.01(2)	Limit
20.01(3)	Equivalent coverage
20.1(1)	Borrowed money used to earn income from property
20.1(2)	Borrowed money used to earn income from business
20.1(3)	Deemed dispositions
20.1(4)	Amount payable for property
20.1(5)	Interest in partnership
20.1(6)	Refinancing
20.2	Interest — authorized foreign bank — interpretation
20.2(1)	Definitions
	"branch advance"
	"branch financial statements"
	"calculation period"
20.2(2)	Formula elements
20.2(3)	Interest deduction
20.2(4)	Branch amounts
20.2(5)	Notional interest
20.3	Weak currency debt — interpretation
20.3(1)	Definitions
	"exchange date"
	"hedge"
	"weak currency debt"
20.3(2)	Interest and gain
20.3(3)	Hedges
20.3(4)	Repayment of principal
20.4(1)	Definitions
20.4(2)	Transition year income deduction
20.4(3)	Transition year income inclusion reversal
20.4(4)	Ceasing to carry on business
21(1)	Cost of borrowed money
21(2)	Borrowed money used for exploration or development
21(3)	Borrowing for depreciable property
21(4)	Borrowing for exploration, etc.
21(5)	Reassessments
	Ceasing to Carry on Business
22(1)	Sale of accounts receivable
22(2)	Statement by vendor and purchaser
23(1)	Sale of inventory
23(3)	Reference to property in inventory
24(1)	Ceasing to carry on business
24(2)	Business carried on by spouse or controlled corporation
24(3)	Where partnership has ceased to exist
24.1	Judges
25(1)	Fiscal period of business disposed of by individual
25(2)	Election
25(3)	Dispositions in the extended fiscal period
	Special Cases
26(1)	Banks — inclusions in income
26(2)	Banks — deductions from income
26(3)	Write-offs and recoveries
26(4)	Definition of "Minister's rules"
27(1)	Application of Part I to Crown corporation
27(2)	Presumption
27(3)	Transfers of land for disposition
28(1)	Farming or fishing business
28(1.1)	Acquisition of inventory
28(1.2)	Valuation of inventory
28(1.3)	Short fiscal period
28(2)	Where joint farming or fishing business

Section	Subject
28(3)	Concurrence of Minister
28(4)	Non-resident
28(4.1)	Idem
28(4.1)	[Repealed.]
28(5)	Accounts receivable
29(1)	Disposition of animal of basic herd class
29(2)	Reduction in basic herd
29(3)	Interpretation
30	Improving land for farming
31(1)	Loss from farming where chief source of income not farming
31(1.1)	Restricted farm loss
31(2)	Determination by Minister
32(1)	Insurance agents and brokers
32(2)	Reserve to be included
32(3)	Additional reserve
32.1(1)	Employee benefit plan deductions
32.1(2)	Allocation
32.1(3)	Income of employee benefit plan
33.1(1)	International banking centres — definitions "eligible deposit" "eligible loan" "foreign bank" "non-resident person"
33.1(2)	Interpretation
33.1(3)	Designation and exemption
33.1(4)	Income or loss from an international banking centre business
33.1(5)	Restriction
33.1(6)	Election
33.1(7)	Election restriction
33.1(8)	Limitation
33.1(9)	Exception
33.1(10)	No deduction permitted
33.1(11)	Application
33.1(12)	Return
34	Professional business
34.1(1)	Additional business income
34.1(2)	Additional income election
34.1(3)	Deduction
34.1(4)	Deemed December 31, 1995 income
34.1(5)	Deemed December 31, 1995 income
34.1(6)	Deemed December 31, 1995 income
34.1(7)	Maximum December 31, 1995 income
34.1(8)	No additional income inclusion
34.1(9)	Death of partner or proprietor
34.2(1)	Definitions "December 31, 1995 income" "qualifying fiscal period" "specified percentage"
34.2(2)	Computation of December 31, 1995 income
34.2(3)	Business defined
34.2(4)	Reserve
34.2(5)	Reserve included in income
34.2(6)	No reserve
34.2(7)	Anti-avoidance rule
34.2(8)	Death of partner or proprietor
35(1)	Prospectors and grubstakers
35(2)	Definitions "mining property" "prospector"
36	Railway companies
37(1)	Scientific research and experimental development
37(1.1)	Business of related corporations
37(1.2)	Deemed time of capital expenditure
37(1.3)	SR&ED in the exclusive economic zone
37(1.4)	Salary or wages for SR&ED outside Canada
37(1.5)	Salary or wages outside Canada — limit determined
37(2)	Research outside Canada
37(3)	Minister may obtain advice
37(4)	Where no deduction allowed under section
37(5)	Where no deduction allowed under ss. 110.1 and 118.1
37(6)	Expenditures of a capital nature
37(6.1)	Amount referred to in paragraph (1)(h)
37(7)	Definitions "approved" "scientific research and experimental development"
37(8)	Interpretation
37(9)	Salary or wages
37(9.1)	Limitation re specified employees
37(9.2)	Associated corporations
37(9.3)	Agreement among associated corporations
37(9.4)	Filing
37(9.5)	Deemed corporation
37(10)	Time for election
37(11)	Filing requirement
37(12)	Misclassified expenditures
37(13)	Non-arm's length contract — linked work
37.1(1)	Additional allowance for scientific research and experimental development
37.1(2)	Idem, where corporations associated
37.1(3)	Inclusion in income where research property disposed of
37.1(4)	Capital cost of research property disposed of to associated corporation
37.1(5)	Definitions "base period" "expenditure base" "qualified expenditure" "research property" "scientific research and experimental development"
37.1(6)	When certain qualified expenditures deemed to be made
37.1(7)	Certain corporations deemed to be associated
37.2(1)	Application of s. 37.1
37.2(2)	Idem
37.3	Application of ss. 37.1(1) and (2)

Subdivision c Taxable Capital Gains and Allowable Capital Losses

38	Taxable capital gain and allowable capital loss
Prop. 38.1	Allocation of gain re certain gifts
39(1)	Meaning of capital gain and capital loss
39(2)	Capital gains and losses in respect of foreign currencies
39(3)	Gain in respect of purchase of bonds, etc., by issuer
39(4)	Election concerning disposition of Canadian securities
39(4.1)	Members of partnerships
39(5)	Exception
39(6)	Definition of "Canadian security"
39(7)	Unused share-purchase tax credit
39(8)	Unused scientific research and experimental development tax credit
39(9)	Deduction from business investment loss
39(10)	Idem, of a trust
39(11)	Recovery of bad debt
39(12)	Guarantees
39(13)	Repayment of assistance
39.1	[Reduction of capital gain]
39.1(1)	Definitions "exempt capital gains balance" "flow-through entity"
39.1(2)	Reduction of capital gain
39.1(3)	Reduction of taxable capital gain
39.1(4)	Reduction in share of partnership's taxable capital gains
39.1(5)	Reduction in share of partnership's income from a business
39.1(6)	Reduction of capital gains
39.1(7)	Nil exempt capital gains balance
40(1)	General rules
40(1.01)	Gift of non-qualifying security
40(1.1)	Reserve — property disposed of to a child
40(2)	Limitations
40(3)	Deemed gain where amounts to be deducted from adjusted cost base exceed cost plus amounts to be added to adjusted cost base
40(3.1)	Deemed gain for certain partners
40(3.11)	Amount of gain
40(3.12)	Deemed loss for certain partners
40(3.13)	Artificial transactions
40(3.131)	Specified member of a partnership
40(3.14)	Limited partner
40(3.15)	Excluded interest
40(3.16)	Amounts considered not to be substantial

Section	Subject
40(3.17)	Whether carrying on business before February 22, 1994
40(3.18)	Deemed partner
40(3.19)	Non-application of subsection (3)
40(3.2)	Non-application of subsection (3.1)
40(3.3)	Where subsection (3.4) applies
40(3.4)	Loss on certain properties
40(3.5)	Deemed identical property
40(3.6)	Loss on shares
40(3.61)	Exception — estate loss carried back
40(3.7)	Losses of non-resident
40(4)	Disposal of principal residence to spouse or trust for spouse
40(6)	Special rule concerning principal residence
40(7)	Property in satisfaction of interest in trust
40(7.1)	Effect of election under subsection 110.6(19)
40(8)	Application of s. 70(10)
40(9)	Additions to taxable Canadian property
40(10)	Application
40(11)	Gain or loss on foreign currency debt
41(1)	Taxable net gain from disposition of listed personal property
41(2)	Determination of net gain
41(3)	Definition of "listed personal property loss"
42	Dispositions subject to warranty
Prop. 42	Consideration for warranties, covenants or other obligations
43(1)	General rule for part dispositions
43(2)	Ecological gifts
43(3)	Payments out of trust income, etc.
43.1(1)	Life estates in real property
43.1(2)	Idem
44(1)	Exchanges of property
44(1.1)	Reserve — property disposed of to a child
44(2)	Time of disposition and of receipt of proceeds
44(3)	Where s. 70(3) does not apply
44(4)	Deemed election
44(5)	Replacement property
44(6)	Deemed proceeds of disposition
44(7)	Where subparagraph (1)(e)(iii) does not apply
44(8)	Application of s. 70(10)
44.1	[Capital gains deferral — Eligible small business investments]
44.1(1)	Definitions
	"ACB reduction"
	"active business corporation"
	"carrying value"
	"common share"
	"eligible pooling arrangement"
	"eligible small business corporation"
	"eligible small business corporation share"
	"permitted deferral"
	"qualifying cost" [Repealed.]
	"qualifying disposition"
	"qualifying portion of a capital gain" [Repealed.]
	"qualifying portion of the proceeds of disposition" [Repealed.]
	"replacement share"
44.1(2)	Capital gain deferral
44.1(3)	Special rule — re eligible pooling arrangements
44.1(4)	Special rule — re acquisitions on death
44.1(5)	Special rule — re breakdown of relationships
44.1(6)	Special rule — re eligible small business corporation share exchanges
44.1(7)	Special rule — re active business corporation share exchanges
44.1(8)	Special rule — re carrying on an active business
44.1(9)	Special rule — re qualifying disposition
44.1(10)	Special rule — re exceptions
44.1(11)	Determination rule
44.1(12)	Anti-avoidance rule
Prop. 44.1(13)	Order of disposition of shares
45(1)	Property with more than one use
45(2)	Election where change of use
45(3)	Election concerning principal residence
45(4)	Where election cannot be made
46(1)	Personal-use property
46(2)	Where part only of property disposed of
46(3)	Properties ordinarily disposed of as a set
46(4)	Decrease in value of personal-use property of corporation, etc.
46(5)	Excluded property
47(1)	Identical properties
47(2)	Where identical properties are bonds, etc.
47(3)	Securities acquired by employee
47.1(26.1)	Application of s. 47.1 of R.S.C. 1952, c. 148
47.1(27)	Capital losses in 1986
47.1(28)	Transition for 1986
48.1(1)	Gain when small business corporation becomes public
48.1(2)	Time for election
48.1(3)	Late filed election
48.1(4)	Penalty for late filed election
48.1(5)	Unpaid balance of penalty
49(1)	Granting of options
49(2)	Where option expires
49(2.1)	Idem
49(3)	Where option to acquire exercised
49(3.01)	Option to acquire specified property exercised
49(3.1)	Where option to dispose exercised
49(3.2)	Option granted before February 23, 1994
49(4)	Reassessment where option exercised in subsequent year
49(5)	Idem
49.1	No disposition where obligation satisfied
50(1)	Debts established to be bad debts and shares of bankrupt corporation
50(1.1)	Idem
50(2)	Where debt a personal-use property
50(3)	Disposal of R.H.O.S.P. properties
51(1)	Convertible property
51(2)	Idem
51(3)	Computation of paid-up capital
51(4)	Application
51.1	Conversion of debt obligation
52(1)	Cost of certain property the value of which included in income
Prop. 52(1)	Cost of certain property the value of which is included in income
52(1.1)	Idem, where owner non-resident
52(2)	Cost of property received as dividend in kind
52(3)	Cost of stock dividend
52(4)	Cost of property acquired as prize
52(7)	Cost of shares of subsidiary
52(8)	Cost of shares of immigrant corporation
53(1)	Adjustments to cost base
53(1.1)	Deemed contribution of capital
53(2)	Amounts to be deducted
53(2.1)	Election
53(3)	Application of paragraphs (2)(i) and (j)
53(4)	Recomputation of adjusted cost base on transfers and deemed dispositions
53(5)	Recomputation of adjusted cost base on other transfer
53(6)	Recomputation of adjusted cost base on amalgamation
54	Definitions
	"adjusted cost base"
	"capital property"
	"disposition" [Repealed.]
	"eligible capital property"
	"listed personal property"
	"personal-use property"
	"principal residence"
	"proceeds of disposition"
	"specified property"
	"superficial loss"
54.1(1)	Exception to principal residence rules
54.1(2)	Definition of "property"
54.2	Certain shares deemed to be capital property
55(1)	Avoidance
	"distribution"
	"permitted acquisition"
	"permitted exchange"
	"permitted redemption"
Prop.	"qualified person"
	"specified class"
	"specified corporation"
	"specified wholly-owned corporation"
	"safe-income determination time"
55(2)	Deemed proceeds or capital gain
55(3)	Application

Section	Subject
55(3.01)	Interpretation for paragraph (3)(a)
55(3.02)	Distribution by a specified corporation
55(3.1)	Where paragraph (3)(b) not applicable
55(3.2)	Interpretation of paragraph (3.1)(b)
55(3.3)	Interpretation of "specified shareholder" changed
Prop. 55(3.4)	Specified shareholder exclusion
Prop. 55(3.5)	Amalgamation of related corporations
55(4)	Avoidance of subsection (2)
55(5)	Applicable rules
Prop. 55(6)	Unlisted shares deemed listed

Subdivision d Other Sources of Income

56(1)	Amounts to be included in income for year
56(1)(a)	Pension benefits, unemployment insurance benefits, etc.
56(1)(a.1)	Benefits under CPP/QPP
56(1)(a.2)	Pension income reallocation
56(1)(b)	Support
56(1)(c)	Maintenance
56(1)(c.2)	Reimbursement of support payments
56(1)(d)	Annuity payments
56(1)(d.2)	Idem
56(1)(e)	Disposition of income-averaging annuity contract
56(1)(f)	Idem
56(1)(g)	Supplementary unemployment benefit plan
56(1)(h)	Registered retirement savings plan, etc.
56(1)(h.1)	Home buyers' plan
56(1)(h.2)	Lifelong learning plan
56(1)(i)	Deferred profit sharing plan
56(1)(j)	Life insurance policy proceeds
56(1)(k)	Certain tools of an employee, re proceeds
56(1)(l)	Legal expenses
56(1)(l.1)	Idem
56(1)(m)	Training allowance
Prop. 56(1)(m)	Bad debt recovered
56(1)(n)	Scholarships, bursaries, etc.
56(1)(n.1)	Apprenticeship incentive grant
56(1)(o)	Research grants
56(1)(p)	Refund of scholarships, bursaries and research grants
56(1)(q)	Education savings plan payments
56(1)(q.1)	Registered disability savings plan payments
56(1)(r)	Financial assistance
56(1)(s)	Grants under prescribed programs
56(1)(t)	Registered retirement income fund
56(1)(u)	Social assistance payments
56(1)(v)	Worker's compensation
56(1)(w)	Salary deferral arrangement
56(1)(x)	Retirement compensation arrangement
56(1)(y)	Idem
56(1)(z)	Idem
56(1)(aa)	Value of benefits
56(1.1)	Application of s. 12.2(11)
56(2)	Indirect payments
56(3)	Exemption for scholarships, fellowships, bursaries and prizes
56(4)	Transfer of rights to income
56(4.1)	Interest free or low interest loans
56(4.2)	Exception
56(4.3)	Repayment of existing indebtedness
56(5)	Exception for split income
56(6)	Child care benefit
56(8)	CPP/QPP and UCCB amounts for previous years
56(9)	Meaning of "income for the year"
56(10)	Severability of retirement compensation arrangement
56(11)	Disposition of property by RCA trust
Prop. 56(12)	Foreign retirement arrangement
56.1(1)	Support
56.1(2)	Agreement
56.1(3)	Prior payments
56.1(4)	Definitions "child support amount" "commencement day" "support amount"
56.2	Reserve claimed for debt forgiveness
56.3	Reserve claimed for debt forgiveness
Prop. 56.4(1)	Definitions
Prop.	"eligible corporation"
Prop.	"eligible interest"
Prop.	"goodwill amount"
Prop.	"permanent establishment"
Prop.	"restrictive covenant"
Prop.	"taxpayer"
Prop. 56.4(2)	Income — restrictive covenants
Prop. 56.4(3)	Non-application of subsection (2)
Prop. 56.4(4)	Treatment of purchaser
Prop. 56.4(5)	Non-application of section 68
Prop. 56.4(6)	Application of subsection (5) — if employee provides covenant
Prop. 56.4(7)	Application of subsection (5) — goodwill amount
Prop. 56.4(8)	Application of subsection (5) — disposition of property
Prop. 56.4(9)	To extent section 68 applies — capital gain election
Prop. 56.4(10)	Anti-avoidance rule — non-application of paragraph 3(c)
Prop. 56.4(11)	Anti-avoidance — non-application of subsections (7), (8) and (9)
Prop. 56.4(12)	Clarification if subsection (2) applies — where another person receives the amount
Prop. 56.4(13)	Clarification if subsection (5) applies
Prop. 56.4(14)	Filing of prescribed form
Prop. 56.4(15)	Non-application of section 42
57(1)	Certain superannuation or pension benefits
57(2)	Exception
57(3)	Limitation
57(4)	Certain payments from pension plan
57(5)	Payments to widow, etc., of contributor
58(1)	Government annuities and like annuities
58(2)	Annuities before 1940
58(3)	Limitation
58(4)	Capital element
58(5)	Spouses
58(6)	Pension benefits
58(7)	Enlargement of annuity
59(1)	Consideration for foreign resource property
59(2)	Deduction under former s. 64 in preceding year
59(3.2)	Recovery of exploration and development expenses
59(3.3)	Amounts to be included in income
59(3.4)	Definitions "specified predecessor" "stated percentage" "successor corporation"
59(3.5)	Variation of stated percentage
59(5)	Definitions of "proceeds of disposition"
59(6)	Definitions in regulations under s. 65
59.1	Involuntary disposition of resource property

Subdivision e Deductions in Computing Income

60	Other deductions
60(a)	Capital element of annuity payments
60(b)	Support
60(c)	Pension income reallocation
60(c.2)	Repayment of support payments
60(d)	Interest on death duties
60(e)	CPP/QPP contributions on self-employed earnings
Prop. 60(f)	Restrictive covenant — bad debt
Prop. 60(g)	Quebec parental insurance plan self-employed premiums
60(i)	Premium or payment under RRSP or RRIF
60(j)	Transfer of superannuation benefits
60(j.01)	Transfer of surplus
60(j.02)	Payment to registered pension plan
60(j.03)	Repayments of pre-1990 pension benefits
60(j.04)	Repayments of post-1989 pension benefits
60(j.1)	Transfer of retiring allowances
60(j.2)	Transfer to spousal RRSP

Section	Subject
60(l)	Transfer of refund of premiums under RRSP
60(m)	Estate tax applicable to certain property
60(m.1)	Succession duties applicable to certain property
60(n)	Repayment of pension or benefits
60(o)	Legal expenses
60(o.1)	Idem
60(p)	Repayment of apprenticeship incentive grant
60(q)	Refund of income payments
60(r)	Amounts included under s. 146.2(6)
60(s)	Repayment of policy loan
60(t)	RCA distributions
60(u)	RCA dispositions
60(v)	Contribution to a provincial pension plan
60(v.1)	UI and EI benefit repayment
60(w)	Tax under Part I.2
60(x)	Repayment under Canada Education Savings Act
60(y)	Repayment of UCCB
60(z)	Repayment under the Canada Disability Savings Act
60.001	Application of subparagraph 60(c.1)(i)
60.01	Eligible amount
Prop. 60.011(1)	Meaning of "lifetime benefit trust"
Prop. 60.011(2)	Meaning of "qualifying trust annuity"
Prop. 60.011(3)	Application of paragraph 60(l) to "qualifying trust annuity"
60.02	Application of subparagraph 60(v)(iii)
60.021(1)	Additions to clause 60(l)(v)(B.2) for 2008
60.021(2)	Meaning of eligible RRIF withdrawal amount
60.021(3)	Meaning of eligible variable benefit withdrawal amount
60.021(4)	Expressions used in this section
60.03(1)	Definitions
	"eligible pension income"
	"joint election"
	"pensioner"
	"pension income"
	"pension transferee"
	"qualified pension income"
	"split-pension amount"
60.03(2)	Effect of pension income split
60.03(3)	Limitation
60.03(4)	False declaration
60.1(1)	Support
60.1(2)	Agreement
60.1(3)	Prior payments
60.1(4)	Definitions
60.11	Application of subparagraph 60.1(1)(a)(ii)
60.2(1)	Refund of undeducted past service AVCs
60.2(2)	Definition of "balance of the annuitized voluntary contributions"
61(1)	Payment made as consideration for income-averaging annuity
61(2)	Idem
61(4)	Definitions
	"annual annuity amount"
	"income-averaging annuity contract"
	"qualifying payment"
61.1(1)	Where income-averaging annuity contract ceases to be such
61.1(2)	Where annuitant dies and payments continued
61.2	Reserve for debt forgiveness
61.3(1)	Deduction for insolvency with respect to resident corporations
61.3(2)	Reserve for insolvency with respect to non-resident corporations
61.3(3)	Anti-avoidance
61.4	Reserve for debt forgiveness for corporations and others
62(1)	Moving expenses
62(2)	Moving expenses of students
62(3)	Definition of "moving expenses"
63(1)	Child care expenses
63(2)	Income exceeding income of supporting person
63(2.1)	Taxpayer and supporting person with equal incomes
63(2.2)	Expenses while at school
63(2.3)	Amount deductible
63(3)	Definitions
	"annual child care expense amount"
	"child care expense"
	"earned income"
	"periodic child care expense amount"
	"eligible child"
	"supporting person"
63(4)	Commuter's child care expense
64	Disability supports deduction
64.1	Individuals absent from Canada
65(1)	Allowance for oil or gas well, mine or timber limit
65(2)	Regulations
65(3)	Lessee's share of allowance
66(1)	Exploration and development expenses of principal-business corporations
66(2)	Expenses of special product corporations
66(3)	Expenses of other taxpayers
66(4)	Foreign exploration and development expenses
66(4.1)	Country-by-country FEDE allocations
66(4.2)	Method of allocation
66(4.3)	FEDE deductions where change of individual's residence
66(5)	Dealers
66(10.4)	Idem
66(11)	Acquisition of control
66(11.3)	Control
66(11.4)	Change of control
66(11.5)	Early change of control
66(12)	Computation of exploration and development expenses
66(12.1)	Limitations of Canadian exploration and development expenses
66(12.2)	Unitized oil or gas field in Canada
66(12.3)	Idem
66(12.4)	Limitation of foreign exploration and development expenses
66(12.41)	Limitation of foreign resource expenses
66(12.42)	Partnerships
66(12.5)	Unitized oil or gas field in Canada
66(12.6)	Canadian exploration expenses to flow-through shareholder
66(12.601)	Flow-through share rules for first $2 million of Canadian development expenses
66(12.6011)	Taxable capital amount
66(12.6012)	Taxable capital employed in Canada
66(12.6013)	Amalgamations and mergers
66(12.602)	Idem
66(12.61)	Effect of renunciation
66(12.62)	Canadian development expenses to flow-through shareholder
66(12.63)	Effect of renunciation
66(12.66)	Expenses in the first 60 days of year
66(12.67)	Restrictions on renunciation
66(12.671)	Prohibited relationship
66(12.68)	Filing selling instruments
66(12.69)	Filing re partners
66(12.6901)	Consequences of failure to file
66(12.691)	Filing re assistance
66(12.7)	Filing re renunciation
66(12.7001)	Consequences of failure to file
66(12.701)	Filing re assistance
66(12.702)	Consequences of failure to file
66(12.71)	Restriction on renunciation
66(12.72)	Application of sections 231 to 231.3
66(12.73)	Reductions in renunciations
66(12.74)	Late filed forms
66(12.741)	Late renunciation
66(12.75)	Penalty
66(13)	Limitation
66(13.1)	Short taxation years
66(14)	Amounts deemed deductible under this subdivision
66(14.1)	Designation respecting Canadian exploration expense
66(14.2)	Designation respecting cumulative Canadian development expense
66(14.3)	Definition of "adjusted cumulative Canadian development expense"
66(14.4)	Special cases
66(14.5)	Penalty for late designation
66(14.6)	Deduction of carved-out income
66(15)	Definitions
	"agreed portion"

Section	Subject
	"assistance"
	"Canadian exploration and development expenses"
	"Canadian resource property"
	"drilling or exploration expense"
	"expense"
	"flow-through share"
	"foreign exploration and development expenses"
	"foreign resource property"
	"joint exploration corporation"
	"original owner"
	"outlay"
	"predecessor owner"
	"principal-business corporation"
	"production"
	"reserve amount"
	"selling instrument"
	"shareholder corporation"
	"specified foreign exploration and development expense"
66(15.1)	Application of ss. 66.1(6), 66.2(5), 66.4(5) and 66.5(2)
66(16)	Partnerships
66(17)	Non-arm's length partnerships
66(18)	Members of partnerships
66(19)	Renunciation by corporate partner, etc.
66(20)	Specified amount
66.1(1)	Amount to be included in income
66.1(2)	Deduction for certain principal-business corporations
66.1(3)	Expenses of other taxpayers
66.1(6)	Definitions
	"Canadian exploration expense"
	"Canadian renewable and conservation expense"
	"cumulative Canadian exploration expense"
	"restricted expense"
	"specified purpose"
66.1(6.1)	Application of ss. 66(15), 66.2(5) and 66.4(5)
66.1(7)	Share of partner
66.1(9)	Canadian development expenses for preceding years
66.1(10)	Certificate ceasing to be valid
66.2(1)	Amount to be included in income
66.2(2)	Deduction for cumulative Canadian development expenses
66.2(5)	Definitions
	"Canadian development expense"
	"cumulative Canadian development expense"
66.2(5.1)	Application of ss. 66(15), 66.1(6) and 66.4(5)
66.2(6)	Share of partner
66.2(7)	Exception
66.2(8)	Presumption
66.21	Foreign resource expense
66.21(1)	Definitions
	"adjusted cumulative foreign resource expense"
	"cumulative foreign resource expense"
	"foreign resource expense"
	"foreign resource income"
	"foreign resource loss"
	"global foreign resource limit"
66.21(2)	Application of s. 66(15)
66.21(3)	Amount to be included in income
66.21(4)	Deduction for cumulative foreign resource expense
66.21(5)	Individual changing residence
66.3(1)	Exploration and development shares
66.3(2)	Deductions from paid-up capital
66.3(3)	Cost of flow-through shares
66.3(4)	Paid-up capital
66.4(1)	Recovery of costs
66.4(2)	Deduction for cumulative Canadian oil and gas property expense
66.4(5)	Definitions
	"Canadian oil and gas property expense"
	"cumulative Canadian oil and gas property expense"
	"disposition and proceeds of disposition"
	"proceeds of disposition"
66.4(5.1)	Application of ss. 66(15) and 66.1(6)
66.4(6)	Share of partner
66.4(7)	Exception
66.5(1)	Deduction from income
66.5(2)	Definition of "cumulative offset account"
66.5(3)	Change of control
66.6	Acquisition from tax-exempt
66.6(1)	Where s. 29(25) of ITAR and ss. 66.7(1), (2), etc., do not apply
66.6(2)	Where s. 66.7(5) does not apply
66.7(1)	Successor of Canadian exploration and development expenses
66.7(2)	Successor of foreign exploration and development expenses
66.7(2.1)	Country-by-country successor FEDE allocations
66.7(2.2)	Method of allocation
66.7(2.3)	Successor of foreign resource expenses
66.7(3)	Successor of Canadian exploration expense
66.7(4)	Successor of Canadian development expense
66.7(5)	Successor of Canadian oil and gas property expense
66.7(6)	Where s. 29(25) of ITAR and ss. (1) to (5) do not apply
66.7(7)	Application of s. 29(25) of ITAR and ss. (1), (3), (4) and (5)
66.7(8)	Application of s. (2)
66.7(9)	Canadian development expense becoming Canadian exploration expense
66.7(10)	Change of control
Prop. 66.7(10.1)	Amalgamation — partnership property
66.7(11)	Idem
66.7(12)	Reduction of Canadian resource expenses
66.7(12.1)	Specified amount
66.7(13)	Reduction of foreign resource expenses
66.7(13.1)	Reduction of foreign resource expenses
66.7(13.2)	Specified amount — foreign resource expenses
66.7(14)	Disposal of Canadian resource properties
66.7(15)	Disposal of foreign resource properties
66.7(15.1)	Disposal of foreign resource properties — s. (2.3)
66.7(16)	Non-successor acquisitions
66.7(17)	Restriction on deductions
66.7(18)	Application of s. 66(15)
66.8(1)	Resource expenses of limited partner
66.8(2)	Expenses in following fiscal period
66.8(3)	Interpretation

Subdivision f Rules Relating to Computation of Income

67	General limitation re expenses
67.1(1)	Expenses for food, etc.
67.1(1.1)	Expenses for food and beverages of long-haul truck drivers
67.1(2)	Exceptions
67.1(3)	Fees for convention, etc.
67.1(4)	Interpretation
67.1(5)	Definitions
	"eligible travel period"
	"long-haul truck"
	"long-haul truck driver"
	"specified percentage"
	"specified place"
67.2	Interest on money borrowed for passenger vehicle
67.3	Limitation re cost of leasing passenger vehicle
67.4	More than one owner or lessor
67.5(1)	Non-deductibility of illegal payments
67.5(2)	Reassessments
67.6	Non-deductibility of fines and penalties
68	Allocation of amounts in consideration for disposition of property
Prop. 68	Allocation of amounts in consideration for property, services or restrictive covenants
69(1)	Inadequate considerations
69(1.1)	Idem, where s. 70(3) applies
69(1.2)	Idem
69(2)	Unreasonable consideration
69(3)	Idem
69(4)	Shareholder appropriations
69(5)	Idem
69(6)	Disposition of petroleum, etc.

Section	Subject
69(7)	Idem
69(8)	Fair market value of resource output disposed of to Crown
69(9)	Fair market value of resource output acquired from Crown
69(10)	Certain persons deemed to be same person
69(11)	Deemed proceeds of disposition
69(12)	Reassessments
69(12.1)	Application of ss. (11) and (12)
69(12.2)	Obligation to acquire property, etc.
69(13)	Amalgamation or merger
69(14)	New taxpayer
70(1)	Death of a taxpayer
70(2)	Amounts receivable
70(3)	Rights or things transferred to beneficiaries
70(3.1)	Exception
70(4)	Revocation of election
70(5)	Capital property of a deceased taxpayer
70(5.1)	Eligible capital property of deceased
70(5.2)	Resource properties and land inventories of a deceased taxpayer
Prop. 70(5.2)	Resource property, land inventory and property of deceased subject to s. 94.2(3)
70(5.3)	Fair market value
70(5.4)	NISA on death
70(6)	Where transfer or distribution to spouse or spouse trust
70(6.1)	Transfer or distribution of NISA to spouse or trust
70(6.2)	Election
70(7)	Special rules applicable in respect of trust for benefit of spouse
70(8)	Meaning of certain expressions in s. (7)
70(9)	When subsection (9.01) applies
70(9.01)	Transfer of farming and fishing property to child
70(9.1)	When subsection (9.11) applies
70(9.11)	Transfer of farming and fishing property from trust to settlor's children
70(9.2)	When subsection (9.21) applies
70(9.21)	Transfer of family farm and fishing corporations and partnerships
70(9.3)	When subsection (9.31) applies
70(9.31)	Transfer of family farm or fishing corporation or family farm or fishing partnership from trust to children of settlor
70(9.6)	Transfer to a parent
70(9.8)	Leased farm and fishing property
70(10)	Definitions "child" "interest in a family farm partnership" "interest in a family fishing partnership" "share of the capital stock of a family farm corporation" "share of the capital stock of a family fishing corporation"
70(11)	Application of s. 138(12)
70(12)	Value of NISA
70(13)	Capital cost of certain depreciable property
70(14)	Order of disposal of depreciable property
72(1)	Reserves, etc., for year of death
72(2)	Election by legal representative and transferee re reserves
73(1)	Inter vivos transfers by individuals
73(1.01)	Qualifying transfers
73(1.02)	Exception for transfers
73(1.1)	Interpretation
73(2)	Capital cost and amount deemed allowed to spouse, etc., or trust
73(3)	When subsection (3.1) applies
73(3.1)	Inter vivos transfer of farm or fishing property to child
73(4)	When subsection (4.1) applies
73(4.1)	Inter vivos transfer of family farm or fishing corporations and partnerships
73(5)	Disposition of a NISA
73(6)	Application of s. 70(10)
74.1(1)	Transfers and loans to spouse
74.1(2)	Transfers and loans to minors
74.1(3)	Repayment of existing indebtedness
74.2(1)	Gain or loss deemed that of lender or transferor
74.2(2)	Deemed gain or loss
74.2(3)	Election for subsection (1) to apply
74.2(4)	Application of subsection (3)
74.3(1)	Transfers or loans to a trust
74.3(2)	Definition of "designated person"
74.4	[Transfers and loans to corporations]
74.4(1)	Definitions "designated person" "excluded consideration"
74.4(2)	Transfers and loans to corporations
74.4(3)	Outstanding amount
74.4(4)	Benefit not granted to a designated person
74.5(1)	Transfers for fair market consideration
74.5(2)	Loans for value
74.5(3)	Spouses living apart
74.5(4)	Idem
74.5(5)	Definition of "designated person"
74.5(6)	Back to back loans and transfers
74.5(7)	Guarantees
74.5(8)	Definition of "specified person"
74.5(9)	Transfers or loans to a trust
74.5(11)	Artificial transactions
74.5(12)	Where ss. 74.1 to 74.3 do not apply
74.5(13)	Exception from attribution rules
75(1)	Transfers to minors
75(2)	Trusts
75(3)	Exceptions
75.1(1)	Gain or loss deemed that of transferor
75.1(2)	Definition of "child"
Prop. 75.2	Rules applicable with respect to "qualifying trust annuity"
76(1)	Security in satisfaction of income debt
76(2)	Idem
76(3)	Section enacted for greater certainty
76(4)	Debt deemed not to be income debt
76(5)	Definitions of certain expressions
76.1(1)	Non-resident moving debt from Canadian business
76.1(2)	Non-resident assuming debt
77	Bond conversion
78(1)	Unpaid amounts
78(2)	Idem
78(3)	Late filing
78(4)	Unpaid remuneration and other amounts
78(5)	Where s. (1) does not apply
79	[Acquisition of property by creditor]
79(1)	Definitions "creditor" "debt" "person" "property" "specified amount"
79(2)	Surrender of property
79(3)	Proceeds of disposition for debtor
79(4)	Subsequent payment by debtor
79(5)	Subsequent application with respect to employee or shareholder debt
79(6)	Surrender of property not payment or repayment by debtor
79(7)	Foreign exchange
79.1	[Acquisitions and reacquisitions of property by debtor]
79.1(1)	Definitions "creditor" "debt" "person" "property" "specified amount" "specified cost"
79.1(2)	Seizure of property
79.1(2.1)	Exception
79.1(3)	Creditor's capital gains reserves
79.1(4)	Creditor's inventory reserves
79.1(5)	Adjustment where disposition and reacquisition of capital property in same year
79.1(6)	Cost of seized properties for creditor
79.1(7)	Treatment of debt
79.1(8)	Claims for debts
80	[Debt forgiveness]
80(1)	Definitions "commercial debt obligation" "commercial obligation" "debtor" "directed person"

Section	Subject
	"distress preferred share"
	"eligible Canadian partnership"
	"excluded obligation"
	"excluded property"
	"excluded security"
	"forgiven amount"
	"person"
	"relevant loss balance"
	"successor pool"
	"unrecognized loss"
80(2)	Application of debt forgiveness rules
80(3)	Reductions of non-capital losses
80(4)	Reductions of capital losses
80(5)	Reductions with respect to depreciable property
80(6)	Restriction with respect to depreciable property
80(7)	Reductions of cumulative eligible capital
80(8)	Reductions of resource expenditure
80(9)	Reductions of adjusted cost bases of capital properties
80(10)	Reduction of adjusted cost bases of certain shares and debts
80(11)	Reduction of adjusted cost bases of certain shares, debts and partnership interests
80(12)	Capital gain where current year capital loss
80(13)	Income inclusion
80(14)	Residual balance
80(14.1)	Gross tax attributes
80(15)	Members of partnerships
80(16)	Designations by Minister
80(18)	Partnership designations
80.01	[Deemed settlement of debt]
80.01(1)	Definitions
	"commercial debt obligation"
	"commercial obligation"
	"debtor"
	"distress preferred shares"
	"forgiven amount"
	"person"
	"specified cost"
80.01(2)	Application
80.01(3)	Deemed settlement on amalgamation
80.01(4)	Deemed settlement on winding-up
80.01(5)	Deemed settlement on winding-up
80.01(5.1)	Deemed settlement on SIFT trust wind-up event
80.01(6)	Specified obligation in relation to debt parking
80.01(7)	Parked obligation
80.01(8)	Deemed settlement after debt parking
80.01(9)	Statute-barred debt
80.01(10)	Subsequent payments in satisfaction of debt
80.01(11)	Foreign currency gains and losses
80.02	[Distress preferred shares]
80.02(1)	Definitions
80.02(2)	General rules for distress preferred shares
80.02(3)	Substitution of distress preferred share for debt
80.02(4)	Substitution of commercial debt obligation for distress preferred share
80.02(5)	Substitution of distress preferred share for other distress preferred share
80.02(6)	Substitution of non-commercial obligation for distress preferred share
80.02(7)	Deemed settlement on expiry of term
80.03	[Effect of debt forgiveness rules]
80.03(1)	Definitions
	"commercial debt obligation"
	"commercial obligations"
	"distress preferred share"
	"forgiven amount"
	"person"
80.03(2)	Deferred recognition of debtor's gain on settlement of debt
80.03(3)	Surrender of capital property
80.03(7)	Alternative treatment
80.03(8)	Lifetime capital gains exemption
80.04	[Transfer of portion of forgiven debt]
80.04(1)	Definitions
80.04(2)	Eligible transferee
80.04(3)	Application
80.04(4)	Agreement respecting transfer of forgiven amount
80.04(5)	Consideration for agreement
80.04(5.1)	No benefit conferred
80.04(6)	Manner of filing agreement
80.04(7)	Filing by partnership
80.04(8)	Related corporations
80.04(9)	Assessment of taxpayers in respect of agreement
80.04(10)	Liability of debtor
80.04(11)	Joint liability
Prop. 80.04(11)	Joint and several, or solidary, liability
80.04(12)	Assessments in respect of liability
80.04(13)	Application of Division I
80.04(14)	Partnership members
80.1(1)	Expropriation assets acquired as compensation for or as consideration for sale of foreign property taken by or sold to foreign issuer
80.1(2)	Election re interest received or to be received on expropriation assets acquired by taxpayer
80.1(3)	Where interest amount and capital amount received at same time
80.1(4)	Assets acquired from foreign affiliate of taxpayer as dividend in kind or as benefit to shareholder
80.1(5)	Assets acquired from foreign affiliate of taxpayer as consideration for settlement, etc., of debt
80.1(6)	Assets acquired from foreign affiliate of taxpayer on winding-up, etc.
80.1(7)	Definition of "adjusted principal amount"
80.1(8)	Currency in which adjusted principal amount to be computed or expressed
80.1(9)	Election in respect of two or more expropriation assets acquired by taxpayer
80.2	Reimbursement by taxpayer [Repealed.]
Prop. 80.2(1)	Application
Prop. 80.2(2)	Rules relating to time of payment
Prop. 80.2(3)	Applying paragraph 18(1)(m)
Prop. 80.2(4)	Exception for certain partnership reimbursements
Prop. 80.2(5)	Specified amount deemed to be paid at end of taxation year
Prop. 80.2(6)	Inclusion in recipient's income
Prop. 80.2(7)	Interpretation — portion of the original amount
Prop. 80.2(8)	Inclusion in recipient's income
Prop. 80.2(9)	Deduction by taxpayer
Prop. 80.2(10)	Specified amount deemed not to be payable or receivable
Prop. 80.2(11)	Eligible portion of a specified amount
Prop. 80.2(12)	Taxpayer's share of original amount
Prop. 80.2(13)	Reduction in original amount for Part XII of the regulations
80.3	[Drought-induced sale of breeding livestock]
80.3(1)	Definitions
	"breeding animals"
	"breeding herd"
80.3(2)	Income deferral from the destruction of livestock
80.3(3)	Inclusion of deferred amount
80.3(4)	Income deferral for sales in prescribed drought region
80.3(5)	Inclusion of deferred amount
80.3(6)	Where ss. (2) and (4) do not apply
80.4(1)	Loans
80.4(1.1)	Interpretation
80.4(2)	Idem
80.4(3)	Where ss. (1) and (2) do not apply
80.4(4)	Interest on loans for home purchase or relocation
80.4(5)	Idem
80.4(6)	Deemed new home purchase loans
80.4(7)	Definitions
	"home purchase loan"
	"prescribed rate"
80.4(8)	Persons connected with a shareholder
80.5	Deemed interest

Subdivision g Amounts Not Included in Computing Income

Section	Subject
81(1)	Amounts not included in income
81(1)(a)	Statutory exemptions
81(1)(b)	War Savings Certificate
81(1)(c)	Ship or aircraft of non-residents
81(1)(d)	Service pension, allowance or compensation
81(1)(d.1)	Canadian Forces members and veterans amounts
81(1)(e)	War pensions
81(1)(f)	Halifax disaster pensions, grants or allowances
81(1)(g)	Compensation by Federal Republic of Germany
81(1)(g.1)	Income from personal injury award property
81(1)(g.2)	Income from income exempt under paragraph (g.1)
81(1)(g.3)	Hepatitis C trust
81(1)(g.4)	Relief for increased heating expenses
81(1)(g.5)	Energy cost relief
81(1)(h)	Social assistance
81(1)(i)	R.C.M.P. pension or compensation
81(1)(k)	Employees profit sharing plan
81(1)(l)	Prospecting
81(1)(m)	Interest on certain obligations
81(1)(n)	Governor General
81(1)(o)	RESP refunds
81(1)(p)	Educational assistance payments
81(1)(q)	Provincial indemnities
81(1)(r)	Foreign retirement arrangements
81(2)	M.L.A.'s expense allowance
81(3)	Municipal officers' expense allowance
81(3.1)	Travel expenses
81(4)	Payments for volunteer services
81(5)	Election

Subdivision h Corporations Resident in Canada and Their Shareholders

Section	Subject
82(1)	Taxable dividends received
82(1.1)	Limitation as to subparagraph (1)(a)(i)
82(2)	Certain dividends received by taxpayer
82(3)	Dividends received by spouse or common-law partner
83(1)	Qualifying dividends
83(2)	Capital dividend
83(2.1)	Idem
83(2.2)	Where s. 83(2.1) does not apply
83(2.3)	Idem
83(2.4)	Idem
83(3)	Late filed elections
83(3.1)	Request for election
83(4)	Penalty for late filed election
83(5)	Unpaid balance of penalty
83(6)	Definition of "qualifying dividend"
83(7)	Amalgamation where there are tax-deferred preferred shares
84(1)	Deemed dividend
84(2)	Distribution on winding-up, etc.
84(3)	Redemption, etc.
84(4)	Reduction of paid-up capital
84(4.1)	Deemed dividend on reduction of paid-up capital
84(4.2)	Deemed dividend on term preferred share
84(4.3)	Deemed dividend on guaranteed share
84(5)	Amount distributed or paid where a share
84(6)	Where s. (2) or (3) does not apply
84(7)	When dividend payable
84(8)	Where s. (3) does not apply
84(9)	Shares disposed of on redemptions, etc.
84(10)	Reduction of contributed surplus
84(11)	Computation of contributed surplus
84.1(1)	Non-arm's length sale of shares
84.1(2)	Idem
84.1(2.01)	Rules for paragraph 84.1(2)(a.1)
84.1(2.1)	Idem
84.1(2.2)	Rules for paragraph 84.1(2)(b)
84.1(3)	Addition to paid-up capital
84.2(1)	Computation of paid-up capital in respect of particular class of shares
84.2(2)	Debt deficiency
84.2(3)	Idem
85(1)	Transfer of property to corporation by shareholders
85(1.1)	Definition of "eligible property"
85(1.11)	Exception
85(1.2)	Application of subsection (1)
85(1.3)	Meaning of "wholly owned corporation"
85(1.4)	Definitions
85(2)	Transfer of property to corporation from partnership
85(2.1)	Computing paid-up capital
85(3)	Where partnership wound up
85(5)	Rules on transfers of depreciable property
85(5.1)	Acquisition of certain tools — capital cost and deemed depreciation
85(6)	Time for election
85(7)	Late filed election
85(7.1)	Special cases
85(8)	Penalty for late filed election
85(9)	Unpaid balance of penalty
85.1(1)	Share for share exchange
85.1(2)	Where s. (1) does not apply
85.1(2.1)	Computation of paid-up capital
85.1(3)	Disposition of shares of foreign affiliate
85.1(4)	Exception
85.1(5)	Foreign share for foreign share exchange
85.1(6)	Where subsection (5) does not apply
85.1(7)	Application of subsection (8)
85.1(8)	Rollover on SIFT unit for share exchange
86(1)	Exchange of shares by a shareholder in course of reorganization of capital
86(2)	Idem
86(2.1)	Computation of paid-up capital
86(3)	Application
Prop. 86(3)	[Repealed.]
86(4)	Computation of adjusted cost base
Prop. 86(4)	Application
86.1(1)	Eligible distribution not included in income
86.1(2)	Eligible distribution
86.1(3)	Cost adjustments
86.1(4)	Inventory
86.1(5)	Reassessments
87(1)	Amalgamations
87(1.1)	Shares deemed to have been received by virtue of merger
87(1.2)	New corporation continuation of a predecessor
87(1.4)	Definition of "subsidiary wholly-owned corporation"
87(1.5)	Definitions
87(2)	Rules applicable
87(2)(a)	Taxation year
87(2)(b)	Inventory
87(2)(c)	Method adopted for computing income
87(2)(d)	Depreciable property
87(2)(d.1)	Depreciable property acquired from predecessor corporation
87(2)(e)	Capital property
87(2)(e.1)	Partnership interest
87(2)(e.2)	Security or debt obligation
87(2)(e.3)	Financial institutions — specified debt obligation
87(2)(e.4)	Financial institutions — mark-to-market property
87(2)(e.5)	Financial institutions — mark-to-market property
87(2)(f)	Eligible capital property
87(2)(g.1)	Continuation
87(2)(g.2)	Financial institution rules
87(2)(g.3)	Superficial loss
87(2)(g.4)	Superficial losses — capital property
Prop. 87(2)(g.5)	Patronage dividends
87(2)(h)	Debts
87(2)(h.1)	Debts
87(2)(i)	Special reserve
87(2)(j)	Special reserve
87(2)(j.1)	Inventory adjustment
87(2)(j.2)	Prepaid expenses and matchable expenditures
87(2)(j.3)	Employee benefit plans, etc.
87(2)(j.4)	Accrual rules

Section	Subject
87(2)(j.5)	Cancellation of lease
87(2)(j.6)	Continuing corporation
87(2)(j.7)	Certain transfers and loans
87(2)(j.8)	International banking centre business
87(2)(j.9)	Part VI and Part I.3 tax
87(2)(j.91)	Part I.3 and Part VI tax
87(2)(j.92)	Subsections 125(5.1) and 157(1)
87(2)(j.93)	Mining reclamation trusts
87(2)(j.94)	Film or video productions
Prop. 87(2)(j.95)	Non-resident trusts and foreign investment entities
87(2)(k)	Certain payments to employees
87(2)(l)	Scientific research and experimental development
87(2)(l.1)	Idem
87(2)(l.2)	Definition of "predecessor corporation"
87(2)(l.21)	Forgiven amount
87(2)(l.3)	Replacement property
Prop. 87(2)(l.4)	Subsection 13(4.2) election
87(2)(m)	Reserves
Prop. 87(2)(m.2)	Gift of predecessor's property
87(2)(m.1)	Gift of non-qualifying security
87(2)(n)	Outlays made pursuant to warranty
87(2)(o)	Expiration of options previously granted
87(2)(p)	Consideration for resource property disposition
87(2)(q)	Registered plans
Prop. 87(2)(r)	Employees profit sharing plan
87(2)(s)	Tax deferred cooperative shares
87(2)(s.1)	Deemed SIFT wind-up corporation
87(2)(t)	Pre-1972 capital surplus on hand
87(2)(u)	Shares of foreign affiliate
87(2)(v)	Gifts
87(2)(x)	Taxable dividends
87(2)(y)	Contributed surplus
87(2)(z)	Foreign tax carryover
87(2)(z.1)	Capital dividend account
87(2)(z.2)	Application of Parts III and III.1
87(2)(aa)	Refundable dividend tax on hand
87(2)(bb)	Mutual fund and investment corporations
87(2)(bb.1)	Flow-through entities
87(2)(cc)	Non-resident-owned investment corporation
87(2)(ii)	Public corporation
87(2)(jj)	Interest on certain obligations
87(2)(kk)	Disposition of shares of controlled corporation
87(2)(ll)	Paragraph 20(1)(n) and subparagraph 40(1)(a)(iii) amounts
87(2)(mm)	Idem
87(2)(nn)	Refundable Part VII tax on hand
87(2)(oo)	Investment tax credit
87(2)(oo.1)	Refundable investment tax credit and balance-due day
87(2)(pp)	Cumulative offset account computation
87(2)(qq)	Continuation of corporation
87(2)(rr)	Tax on taxable preferred shares
87(2)(ss)	Transferred liability for Part VI.1 tax
87(2)(tt)	Livestock — inclusion of deferred amount
87(2)(uu)	Fuel tax rebates
87(2)(vv)	General rate income pool
87(2)(ww)	Low rate income pool
87(2.01)	Application of s. 37.1(5)
87(2.1)	Non-capital losses, etc., of predecessor corporations
87(2.11)	Vertical amalgamations
87(2.2)	Amalgamation of insurers
Prop. 87(2.3)	Quebec credit unions
87(3)	Computation of paid-up capital
87(3.1)	Election for non-application of subsection (3)
87(4)	Shares of predecessor corporation
87(4.1)	Exchanged shares
87(4.2)	Idem
87(4.3)	Exchanged rights
87(4.4)	Flow-through shares
87(5)	Options to acquire shares of predecessor corporation
87(5.1)	Adjusted cost base of option
87(6)	Obligations of predecessor corporation
87(6.1)	Adjusted cost base
87(7)	Idem
87(8)	Foreign merger
87(8.1)	Definition of "foreign merger"
87(9)	Rules applicable in respect of certain mergers
87(10)	Share deemed listed
87(11)	Vertical amalgamations
88(1)	Winding-up
88(1.1)	Non-capital losses, etc., of subsidiary
88(1.2)	Net capital losses of subsidiary
88(1.3)	Computation of income and tax of parent
88(1.4)	Qualified expenditure of subsidiary
88(1.41)	Application of s. 37.1(5)
88(1.5)	Parent continuation of subsidiary
88(1.6)	Idem
88(1.7)	Interpretation
88(2)	Winding-up of Canadian corporation
88(2.1)	Definition of "pre-1972 capital surplus on hand"
88(2.2)	Determination of pre-1972 capital surplus on hand
88(2.3)	Actual cost of certain depreciable property
88(3)	Dissolution of foreign affiliate
Prop. 88(3)	Distributions of property of a foreign affiliate
88(4)	Amalgamation deemed not to be acquisition of control
88.1(1)	Application
88.1(2)	SIFT trust wind-up event
89	[Capital dividend account]
89(1)	Definitions
	"adjusted taxable income"
	"Canadian corporation"
	"capital dividend account"
	"designated property"
	"eligible dividend"
	"excessive eligible dividend designation"
	"general rate factor"
	"general rate income pool"
	"low rate income pool"
	"paid-up capital"
	"private corporation"
	"public corporation"
	"taxable Canadian corporation"
	"taxable dividend"
89(1.01)	Application of s. 138(12)
89(1.1)	Capital dividend account where control acquired
89(1.2)	Capital dividend account of tax-exempt corporation
89(2)	Where corporation is beneficiary
89(3)	Simultaneous dividends
89(4)	GRIP addition — becoming CCPC
89(5)	GRIP addition — post-amalgamation
89(6)	GRIP addition — post-winding-up
89(7)	GRIP addition for 2006
89(8)	LRIP addition — ceasing to be CCPC
89(9)	LRIP addition — amalgamation
89(10)	LRIP addition — winding-up
89(11)	Election: non-CCPC
89(12)	Revoking election
89(13)	Repeated elections — consent required
89(14)	Dividend designation
89(15)	Meaning of expression "deposit insurance corporation"

Subdivision i Shareholders of Corporations Not Resident in Canada

90	Dividends received from non-resident corporation
91(1)	Amounts to be included in respect of share of foreign affiliate
91(2)	Reserve where foreign exchange restriction
91(3)	Reserve for preceding year to be included
91(4)	Amounts deductible in respect of foreign taxes
91(5)	Amounts deductible in respect of dividends received
91(5.1)	Deduction of dividend by shareholder
Prop. 91(5.1)	Deduction of dividend by shareholder [Repealed.]
91(5.2)	Deduction of dividend by member of partnership
Prop. 91(5.2)	Deduction of dividend by member of partnership [Repealed.]

Section	Subject
91(5.3)	Deduction of capital gain by member of partnership
Prop. 91(5.3)	Deduction of capital gain by member of partnership [Repealed.]
91(6)	Idem
91(7)	Shares acquired from a partnership
92(1)	Adjusted cost base of share of foreign affiliate
Prop. 92(1.1)	Where subsection (1.3) applies
Prop. 92(1.2)	Specified section 93 election
Prop. 92(1.3)	Adjustments to adjusted cost base
Prop. 92(1.4)	Applicability of subsection (1.3)
92(2)	Deduction in computing adjusted cost base
92(3)	Idem
92(4)	Disposition of a partnership interest
92(5)	Deemed gain from the disposition of a share
92(6)	Formula
93(1)	Election re disposition of share in foreign affiliate
93(1.1)	Idem
Prop. 93(1.1)	Deemed election
93(1.2)	Disposition of shares of a foreign affiliate held by a partnership
93(1.3)	Deemed election
Prop. 93(1.4)	Disposition of foreign affiliate shares
Prop. 93(1.4)	No election
Prop. 93(1.5)	Specified vendors — foreign affiliates
Prop. 93(1.6)	Specified purchasers — foreign affiliates
93(2)	Loss limitation on disposition of share
93(2.1)	Loss limitation — disposition of share by partnership
93(2.2)	Loss limitation — disposition of partnership interest
93(2.3)	Loss limitation — disposition of partnership interest
93(3)	Exempt dividends
93(4)	Loss on disposition of shares of foreign affiliate
93(5)	Late filed elections
93(5.1)	Special cases
93(6)	Penalty for late filed election
93(7)	Unpaid balance of penalty
93.1(1)	Shares held by a partnership
93.1(2)	Where dividends received by a partnership
94(1)	Application of certain provisions to trusts not resident in Canada
Prop. 94(1)	Definitions
	"arm's length transfer"
	"beneficiary"
	"closely-held corporation"
	"connected contributor"
	"contribution"
	"contributor"
	"eligible trust"
	"entity"
	"excluded property"
	"exempt amount"
	"exempt foreign trust"
	"exempt service"
	"exempt taxpayer"
	"indirect contributor"
	"non-resident time"
	"promoter"
	"qualifying investor"
	"qualifying services"
	"resident beneficiary"
	"resident contributor"
	"restricted property"
	"specified charity"
	"specified contributor"
	"specified controlled foreign affiliate"
	"specified fixed interest"
	"specified party"
	"specified property"
	"specified share"
	"specified time"
	"successor beneficiary"
	"trust"
94(2)	Rights and obligations
Prop. 94(2)	Rules of application
94(3)	Deduction in computing taxable income
Prop. 94(3)	Liabilities of non-resident trusts and others
94(4)	Deduction from foreign accrual property income

Section	Subject
Prop. 94(4)	Excluded provisions
94(5)	Adjusted cost base of capital interest in trust
Prop. 94(5)	Deemed cessation of residence
94(6)	Where financial assistance given
Prop. 94(6)	Becoming or ceasing to be an exempt foreign trust
Prop. 94(7)	Limit to amount recoverable
Prop. 94(8)	Recovery limit
Prop. 94(9)	Determination of contribution amount — special case
Prop. 94(10)	Where contributor becomes resident in Canada within 60 months after contributing
Prop. 94(11)	Application of subsections (12) and (13)
Prop. 94(12)	Deemed resident contributor
Prop. 94(13)	Deemed contributor
Prop. 94(14)	Restricted property — exception
Prop. 94(15)	Determining arm's length dealing and related entities
Prop. 94(16)	Anti-avoidance — 150 entities
94.1(1)	Offshore investment fund property
Prop. 94.1(1)	Definitions
	"arm's length interest"
	"beneficiary"
	"carrying value"
	"designated cost"
	"entity"
	"exempt business"
	"exempt interest"
	"exempt property"
	"exempt taxpayer"
	"financial statements"
	"foreign bank"
	"foreign investment entity"
	"investment business"
	"investment property"
	"net accounting income"
	"non-resident entity"
	"participating interest"
	"payable net accounting income"
	"qualifying entity"
	"significant interest"
	"specified interest"
	"specified party"
	"taxation year"
	"trust"
94.1(2)	Definitions
	"designated cost"
	"non-resident entity"
Prop. 94.1(2)	Rules of Application
94.1(3)	Interpretation
Prop. 94.1(3)	Conditions for application of tax regime for foreign investment entities
Prop. 94.1(4)	Income inclusion — imputed income regime
Prop. 94.1(5)	Loss on disposition of interest — reconciliation
Prop. 94.2(1)	Definitions
	"deferral amount"
	"gross-up factor"
	"mark-to-market formula"
	"proceeds of disposition"
	"readily obtainable fair market value"
	"reconciliation amount"
	"tracking entity"
	"trading day"
Prop. 94.2(2)	Rules of application
Prop. 94.2(3)	Application of mark-to-market method
Prop. 94.2(4)	Income inclusion — mark-to-market regime
Prop. 94.2(5)	Non-resident periods excluded
Prop. 94.2(6)	Foreign partnership — member becoming resident
Prop. 94.2(7)	Foreign partnership — member ceasing to be resident
Prop. 94.2(8)	Application of subsections (6) and (7)
Prop. 94.2(9)	Tracking interests
Prop. 94.2(10)	Treatment of foreign insurance policies
Prop. 94.2(11)	Treatment of foreign insurance policies
Prop. 94.2(12)	Adjustments where mark-to-market system no longer applies
Prop. 94.2(13)	Cost adjustment where disposition in year mark-to-market system applies
Prop. 94.2(14)	Deferral amount where same interest reacquired

Section	Subject
Prop. 94.2(15)	Deferral amount — fresh start re change of status of entity
Prop. 94.2(16)	Deferral amount — fresh start after emigration of taxpayer
Prop. 94.2(17)	Deferral amount — fresh start on becoming an exempt taxpayer
Prop. 94.2(18)	Superficial dispositions
Prop. 94.2(19)	Determination of capital dividend account
Prop. 94.2(20)	Application of paragraph (4)(b)
Prop. 94.2(21)	Disposition of interest — reconciliation
Prop. 94.3(1)	Definitions
	"fresh-start year"
	"income allocation"
	"loss allocation"
	"specified tax allocation"
Prop. 94.3(2)	Rules of application
Prop. 94.3(3)	Where accrual method applies
Prop. 94.3(4)	Income inclusion or deduction — accrual method
Prop. 94.3(5)	Adjusted cost base
Prop. 94.4(1)	Definitions and rules of application
Prop. 94.4(2)	Prevention of double taxation
Prop. 94.4(3)	Prevention of double taxation — foreign tax credit unavailable
95	[Foreign accrual property income]
95(1)	Definitions
Prop. 95(1)	Definitions re foreign affiliates
	"active business"
	"antecedent corporation"
	"calculating currency"
Prop.	"calculating currency exchange rate"
Prop.	"Canadian currency exchange rate"
	"controlled foreign affiliate"
	"designated acquired corporation"
Prop.	"designated taxable Canadian property"
	"eligible trust"
	"entity"
	"excluded property"
	"exempt trust"
	"foreign accrual property income"
Prop.	"foreign accrual property income" [Repealed.]
	"foreign accrual tax"
	"foreign affiliate"
	"foreign bank"
	"income from an active business"
	"income from a non-qualifying business"
	"income from property"
	"investment business"
	"investment property"
	"lease obligation"
	"lending of money"
	"licensing of property"
	"non-qualifying business"
	"non-qualifying country"
	"participating percentage"
Prop.	"relevant non-arm's length entity"
	"relevant tax factor"
	"specified fixed interest"
	"specified person or partnership"
	"specified predecessor corporation"
	"specified purchaser"
	"surplus entitlement percentage"
Prop.	"taxable Canadian business"
	"taxation year"
Prop.	"transitional exchange rate"
	"trust company"
95(2)	Determination of certain components of foreign accrual property income
Prop. 95(2)	Application — foreign affiliates
95(2.01)	Rules for the definition "controlled foreign affiliate"
95(2.02)	Rule against double-counting
95(2.1)	Rule for definition "investment business"
95(2.2)	Qualifying interest throughout year
95(2.201)	Controlled foreign affiliate throughout year
95(2.21)	Exception re subsection (2.2)
Prop. 95(2.22)	Rule for paragraph (2)(f)
Prop. 95(2.23)	Exception re s. (2.2)
95(2.3)	Application of paragraph (2)(a.1)
95(2.4)	Application of paragraph (2)(a.3)
95(2.41)	Application of paragraph (2)(a.3)
95(2.42)	Exception re paragraph (2)(a.3)
95(2.5)	Definitions for paragraph (2)(a.3)
	"excluded income" and "excluded revenue"
	"indebtedness"
	"specified deposit"
95(2.6)	Rule for the definition "specified person or partnership"
95(3)	Definition of "services"
95(3.1)	Designated property — subparagraph (2)(a.1)(i)
Prop. 95(3.1)	Definition of "designated property"
Prop. 95(3.2)	Definitions
Prop.	"dividend-like redemption"
Prop.	"eligible trust"
Prop.	"exempt trust"
Prop.	"participating interest"
Prop.	"specified fixed interest"
Prop.	"specified purchaser"
Prop.	"specified vendor"
Prop. 95(3.3)	Definitions for paragraphs (2)(c.1) to (c.6)
Prop.	"contributed property"
Prop.	"specified discontinuance"
Prop.	"triggering disposition"
Prop. 95(3.4)	Definitions for paragraphs (2)(f.3) to (f.9)
Prop.	"specified discontinuance"
Prop.	"triggering disposition"
Prop. 95(3.5)	Definitions for paragraphs (2)(h) to (h.5)
Prop.	"specified discontinuance"
Prop.	"specified purchaser"
Prop.	"specified vendor"
Prop.	"triggering disposition"
Prop. 95(3.6)	Partnerships and trusts
Prop. 95(3.7)	Anti-avoidance — 150 beneficiaries
Prop. 95(3.8)	Computing exempt surplus
95(4)	Definitions
	"direct equity percentage"
	"equity percentage"
	"relevant cost base"
95(4.1)	Application of s. 87(8.1)
95(5)	Income bonds or debentures issued by foreign affiliates
95(6)	Where rights or shares issued, acquired or disposed of to avoid tax
95(7)	Stock dividends from foreign affiliates

Subdivision j Partnerships and Their Members

96(1)	General Rules
Prop. 96(1.01)	Income allocation to former member
96(1.1)	Allocation of share of income to retiring partner
96(1.11)	Deemed dividend of SIFT partnership
96(1.2)	Disposal of right to share in income, etc.
96(1.3)	Deductions
96(1.4)	Right deemed not to be capital property
96(1.5)	Disposition by virtue of death of taxpayer
96(1.6)	Members of partnership deemed to be carrying on business in Canada
96(1.7)	Gains and losses
96(1.8)	Loan of property
Prop. 96(1.9)	Application of sections 94.1 to 94.4
96(2)	Construction
96(2.1)	Limited partnership losses
96(2.2)	At-risk amount
96(2.3)	Idem
96(2.4)	Limited partner
96(2.5)	Exempt interest
96(2.6)	Artificial transactions
96(2.7)	Idem
96(3)	Agreement or election of partnership members
96(4)	Election
96(5)	Late filing
96(5.1)	Special cases
96(6)	Penalty for late-filed election
96(7)	Unpaid balance of penalty
96(8)	Foreign partnerships
96(9)	Idem
Prop. 96(9)	Application of foreign partnership rule
97(1)	Contribution of property to partnership
97(2)	Rules where election by partners

Section	Subject
97(4)	Where capital cost to partner exceeds proceeds of disposition
97(5)	Acquisition of certain tools — capital cost and deemed depreciation
98(1)	Disposition of partnership property
98(2)	Deemed proceeds
98(3)	Rules applicable where partnership ceases to exist
98(4)	Where s. (3) does not apply
98(5)	Where partnership business carried on as sole proprietorship
98(6)	Continuation of predecessor partnership by new partnership
Prop. 98(7)	Where a partnership property is a specified participating interest
98.1(1)	Residual interest in partnership
98.1(2)	Continuation of original partnership
98.2	Transfer of interest on death
99(1)	Fiscal period of terminated partnership
99(2)	Fiscal period of terminated partnership for individual member
99(3)	Validity of election
99(4)	Idem
100(1)	Disposition of an interest in a partnership
100(2)	Gain from disposition of interest in partnership
100(2.1)	Idem
100(3)	Transfer of interest on death
100(4)	Loss re interest in partnership
Prop. 100(5)	Replacement of partnership capital
101	Disposition of farmland by partnership
102(1)	Definition of "Canadian partnership"
102(2)	Member of a partnership
103(1)	Agreement to share income, etc., so as to reduce or postpone tax otherwise payable
103(1.1)	Agreement to share income, etc., in unreasonable proportions
103(2)	Definition of "losses"

Subdivision k Trusts and Their Beneficiaries

104(1)	Reference to trust or estate
104(1.1)	Restricted meaning of "beneficiary"
104(2)	Taxed as individual
104(4)	Deemed disposition by trust
Prop. 104(4.1)	Mark-to-market property
104(5)	Depreciable property
104(5.1)	Idem
104(5.2)	Resource property
104(5.3)	Election
104(5.31)	Revocation of election
104(5.4)	Exempt beneficiary
104(5.5)	Beneficiary
104(5.6)	Designated contributor
104(5.7)	Idem
104(5.8)	Trust transfers
104(6)	Deduction in computing income of trust
104(7)	Non-resident beneficiary
Prop. 104(7.01)	Trusts deemed to be resident in Canada
104(7.1)	Capital interest greater than income interest
104(7.2)	Avoidance of s. (7.1)
104(10)	Where property owned for non-residents
104(11)	Dividend received from non-resident-owned investment corporation
104(12)	Deduction of amounts included in preferred beneficiaries' incomes
104(13)	Income of beneficiary
104(13.1)	Amounts deemed not paid
104(13.2)	Idem
104(14)	Election by trust and preferred beneficiary
104(14.01)	Late, amended or revoked election
104(14.02)	Late, amended or revoked election
104(14.1)	NISA election
104(15)	Allocable amount for preferred beneficiary
104(16)	SIFT deemed dividend
104(18)	Trust for minor
104(19)	Taxable dividends
Prop. 104(19)	Designation in respect of taxable dividends
104(20)	Designation in respect of non-taxable dividends
104(21)	Taxable capital gains
Prop. 104(21)	Designation in respect of taxable capital gains
104(21.01)	Late, amended or revoked designation
104(21.02)	Late, amended or revoked designation
104(21.03)	Late, amended or revoked designation
104(21.1)	Beneficiary's taxable capital gain
104(21.2)	Beneficiaries' taxable capital gain from trust
104(21.21)	Beneficiaries' taxable capital gain — QFP taxable capital gain
104(21.22)	Beneficiaries' taxable capital gain — QSBC taxable capital gain
104(21.23)	Beneficiaries' taxable capital gain — QFFP taxable capital gain
104(21.24)	Trusts to designate amounts
104(21.3)	Net taxable capital gains of trust determined
104(21.4)	Deemed gains
104(21.5)	Deemed gains
Prop. 104(21.6)	Deemed gains — subsection (21.4) applies
104(22)	Designation of foreign source income by trust
Prop. 104(22)	Designation in respect of foreign source income
104(22.1)	Foreign tax deemed paid by beneficiary
104(22.2)	Recalculation of trust's foreign source income
104(22.3)	Recalculation of trust's foreign tax
104(22.4)	Definitions
104(23)	Testamentary trusts
104(24)	Amount payable
104(27)	Pension benefits
104(27.1)	DPSP benefits
104(28)	Idem
104(29)	Amounts deemed payable to beneficiaries
104(30)	Tax under Part XII.2
104(31)	Idem
105(1)	Benefits under trust
105(2)	Upkeep, etc.
106(1)	Income interest in trust
106(1.1)	Cost of income interest in a trust
106(2)	Disposition by taxpayer of income interest
106(3)	Proceeds of disposition of income interest
107(1)	Disposition by taxpayer of capital interest
107(1.1)	Cost of capital interest in a trust
Prop. 107(1.2)	Deemed fair market value — non-capital property
107(2)	Distribution by personal trust
107(2.001)	No rollover on election by a trust
107(2.002)	No rollover on election by a beneficiary
107(2.01)	Distribution of principal residence
107(2.1)	Other distributions
107(2.11)	Gains not distributed to beneficiaries
107(2.2)	Flow-through entity
107(3)	Application of subsection (3.1)
107(3.1)	SIFT trust wind-up event
107(4)	Trusts in favour of spouse, common-law partner or self
Prop. 107(4.01)	Specified participating interest
107(4.1)	Where s. 75(2) applicable to trust
Prop. 107(4.2)	Distribution of property received on qualifying disposition
107(5)	Distribution to non-resident
107(5.1)	Instalment interest
107(6)	Loss reduction
107.1	Distribution by employee trust or employee benefit plan
107.2	Distribution by a retirement compensation arrangement
107.3(1)	Treatment of beneficiaries under qualifying environmental trusts
107.3(2)	Transfers to beneficiaries
107.3(3)	Ceasing to be a qualifying environmental trust
107.3(4)	Application
107.4(1)	Qualifying disposition
107.4(2)	Application of paragraph (1)(a)
107.4(3)	Tax consequences of qualifying dispositions
107.4(4)	Fair market value of vested interest in trust
108	[Trusts]
108(1)	Definitions
	"accumulating income"
	"beneficiary"
	"capital interest"
	"cost amount"
	"eligible offset"
	"eligible real property gain"

Section	Subject
	"eligible real property loss"
	"eligible taxable capital gains"
	"excluded property"
	"exempt property"
	"income interest"
	"inter vivos trust"
	"non-qualifying real property"
	"pre-1972 spousal trust"
	"preferred beneficiary"
	"qualified farm property"
	"qualified fishing property"
	"qualified small business corporation share"
	"settlor"
	"testamentary trust"
	"trust"
108(2)	When trust is a unit trust
108(3)	Meaning of "income" of trust
Prop. 108(3)	Income of a trust in certain provisions
108(4)	Trust not disqualified
108(5)	Interpretation
108(6)	Variation of trusts
108(7)	Interests acquired for consideration

DIVISION C COMPUTATION OF TAXABLE INCOME

109	Deductions permitted by individuals
110(1)	Deductions permitted
110(1)(d)	Employee options
110(1)(d.01)	Charitable donation of employee option securities
110(1)(d.1)	Idem
110(1)(d.2)	Prospector's and grubstaker's shares
110(1)(d.3)	Employer's shares
110(1)(f)	Deductions for payments
110(1)(g)	Financial assistance
110(1)(j)	Home relocation loan
110(1)(k)	Part VI.1 tax
110(1.4)	Replacement of home relocation loan
110(1.5)	Value of share under stock option
110(1.6)	Meaning of "specified event"
110(1.7)	Definitions in s. 7(7)
Prop. 110(1.7)	Reduction in exercise price
Prop. 110(1.8)	Conditions for subsection (1.7) to apply
110(2)	Charitable gifts
110(2.1)	Charitable donation — proceeds of disposition of employee option securities
110.1(1)	Deduction for gifts
110.1(1)(a)	Charitable gifts
110.1(1)(a.1)	Gifts of medicine
110.1(1)(b)	Gifts to Her Majesty
110.1(1)(c)	Gifts to institutions
110.1(1)(d)	Ecological gifts
110.1(1.1)	Limitation on deductibility
110.1(1.2)	Where control acquired
110.1(2)	Proof of gift
Prop. 110.1(2.1)	Where subsection (3) applies
110.1(3)	Gifts of capital property
110.1(4)	Gifts made by partnership
110.1(5)	Ecological gifts
110.1(6)	Non-qualifying securities
110.1(7)	Corporation ceasing to exist
110.1(8)	Eligible medical gift
110.1(9)	Rules governing international medical charities
110.2	Pension income deduction
110.2(1)	Definitions
	"eligible taxation year"
	"qualifying amount"
	"specified portion"
110.2(2)	Deduction for lump sum payments
110.4(1)	Forward averaging [Repealed.]
110.4(2)	Election [Repealed.]
110.4(4)	Death of a taxpayer [Repealed.]
110.4(5)	Exception [Repealed.]
110.4(6.1)	Revocation of election [Repealed.]
110.4(8)	Accumulated averaging amount [Repealed.]
110.5	Additions for foreign tax deductions
110.6	[Capital gains exemption]
110.6(1)	Definitions
	"annual gains limit"
	"child"
	"cumulative gains limit"
	"cumulative net investment loss"
	"eligible real property gain"
	"eligible real property loss"
	"interest in a family farm partnership"
	"interest in a family fishing partnership"
	"investment expense"
	"investment income"
	"non-qualifying real property"
	"qualified farm property"
	"qualified fishing property"
	"qualified small business corporation share"
	"share of the capital stock of a family farm corporation"
	"share of the capital stock of a family fishing corporation"
110.6(1.1)	Idem
110.6(1.2)	Property used in a fishing business
110.6(1.3)	Property used in a farming business
110.6(2)	Capital gains deduction — qualified farm property
110.6(2.1)	Capital gains deduction — qualified small business corporation shares
110.6(2.2)	Capital gains deduction — qualified fishing property
110.6(2.3)	Additional capital gains deduction — taxation year that includes March 19, 2007
110.6(3)	Capital gains deduction — other property
110.6(4)	Maximum capital gains deduction
110.6(5)	Deemed resident in Canada
110.6(6)	Failure to report capital gain
110.6(7)	Deduction not permitted
110.6(8)	Deduction not permitted
110.6(9)	Average annual rate of return
110.6(11)	Where deduction not permitted
110.6(12)	Spousal trust deduction
110.6(13)	Determination under paragraph 3(b)
110.6(14)	Related persons, etc.
110.6(15)	Value of assets of corporations
110.6(16)	Personal trust
110.6(17)	Order of deduction
110.6(18)	Eligible real property gains and losses
110.6(19)	Election for property owned on February 22, 1994
110.6(20)	Application of subsection (19)
110.6(21)	Effect of election on non-qualifying real property
110.6(22)	Adjusted cost base
110.6(23)	Disposition of partnership interest
110.6(24)	Time for election
110.6(25)	Revocation of election
110.6(26)	Late election
110.6(27)	Amended election
110.6(28)	Election that cannot be revoked or amended
110.6(29)	Amount of penalty
110.6(30)	Unpaid balance of penalty
110.6(31)	Conditions for the application of subsection (32)
110.6(32)	Deduction denied
110.7(1)	Residing in prescribed zone
110.7(2)	Specified percentage
110.7(3)	Restriction
110.7(4)	Board and lodging allowances, etc.
110.7(5)	Idem
111(1)	Losses deductible
111(1)(a)	Non-capital losses
111(1)(b)	Net capital losses
111(1)(c)	Restricted farm losses
111(1)(d)	Farm losses
111(1)(e)	Limited partnership losses
111(1.1)	Net capital losses
111(2)	Year of death
111(3)	Limitation on deductibility
111(4)	Acquisition of control
111(5)	Idem
111(5.1)	Computation of undepreciated capital cost
111(5.2)	Computation of cumulative eligible capital
111(5.3)	Doubtful debts and bad debts
111(5.4)	Non-capital loss
111(5.5)	Restriction
111(6)	Limitation

Section	Subject
111(7)	Idem
111(7.1)	Effect of election by insurer under s. 138(9) in respect of 1975 taxation year
111(7.11)	Application of s. 138(12)
111(7.2)	Non-capital loss of life insurer
111(8)	Definitions
	"exchange rate"
	"farm loss"
	"foreign currency debt"
	"net capital loss"
	"non-capital loss"
	"pre-1986 capital loss balance"
111(9)	Exception
111(10)	Fuel tax rebate loss abatement
111(11)	Fuel tax rebate — partnerships
111(12)	Foreign currency debt on acquisition of control
111.1	Order of applying provisions
112(1)	Deduction of taxable dividends received by corporation resident in Canada
112(2)	Dividends received from non-resident corporation
112(2.1)	Where no deduction permitted
112(2.2)	Idem
112(2.2)	Guaranteed shares
112(2.21)	Exceptions
112(2.22)	Interpretation
112(2.3)	Idem
112(2.4)	Where no deduction permitted
112(2.5)	Application of s. (2.4)
112(2.6)	Definitions
	"exempt share"
	"investor"
	"issuer"
112(2.7)	Change in agreement or condition
112(2.8)	Loss sustained by investor
112(2.9)	Related corporations
112(3)	Loss on share that is capital property
112(3.01)	Loss on share that is capital property — excluded dividends
112(3.1)	Loss on share held by partnership
112(3.11)	Loss on share held by partnership — excluded dividends
112(3.12)	Loss on share held by partnership — excluded dividends
112(3.2)	Loss on share held by trust
112(3.3)	Loss on share held by trust — special cases
112(3.31)	Loss on share held by trust — excluded dividends
112(3.32)	Loss on share held by trust — excluded dividends
112(4)	Loss on share that is not capital property
112(4.01)	Loss on share that is not capital property — excluded dividends
112(4.1)	Fair market value of shares held as inventory
112(4.11)	Fair market value of shares held as inventory — excluded dividends
112(4.2)	Loss on share held by trust
112(4.21)	Loss on share held by trust — excluded dividends
112(4.22)	Loss on share held by trust — excluded dividends
112(4.3)	Loss on share that is not capital property of trust
112(5)	Disposition of share by financial institution
112(5.1)	Share held for less than one year
112(5.2)	Adjustment re dividends
112(5.21)	Subsection 5(2) — excluded dividends
112(5.3)	Adjustment not applicable
112(5.4)	Deemed dispositions
112(5.5)	Stop-loss rules not applicable
112(5.6)	Stop-loss rules restricted
112(6)	Meaning of certain expressions
112(7)	Rules where shares exchanged
113(1)	Deduction in respect of dividend received from foreign affiliate
113(2)	Additional deduction
113(3)	Definitions
	"non-business-income tax"
	"relevant tax factor"
113(4)	Portion of dividend deemed paid out of exempt surplus
114	Individual resident in Canada for only part of year
114.1	Application of s. 115(2)
114.2	Deductions in separate returns

DIVISION D TAXABLE INCOME EARNED IN CANADA BY NON-RESIDENTS

115(1)	Non-resident's taxable income in Canada
115(2)	Idem
115(2.1)	Non-resident actors
115(2.2)	Deferred payment by actor's corporation
115(2.3)	Non-resident persons — 2010 Olympic and Paralympic Winter Games
115(3)	Property deemed to include interests and options
115(4)	Non-resident's income from Canadian resource property
115(4.1)	Foreign resource pool expenses
115(5)	Interpretation of "partnership"
115(6)	Application of s. 138(12)
115.1(1)	Competent authority agreements
115.1(2)	Transfer of rights and obligations
115.2	Non-Resident Funds with Canadian Service Providers
115.2(1)	Definitions
	"Canadian service provider"
	"Canadian investor"
	"designated services"
	"investment turnover rate"
	"non-resident investment fund"
	"non-resident pension fund"
	"promoter"
	"qualified investment"
	"qualified non-resident"
115.2(2)	Not carrying on business in Canada
116(1)	Disposition by non-resident person of certain property
116(2)	Certificate in respect of proposed disposition
116(3)	Notice to Minister
116(4)	Certificate in respect of property disposed of
116(5)	Liability of purchaser
116(5.01)	Treaty-protected property
116(5.02)	Notice by purchaser in respect of an acquisition of property
116(5.1)	Gifts, etc.
116(5.2)	Certificates for dispositions
116(5.3)	Liability of purchaser in certain cases
116(5.4)	Presumption
116(6)	Definition of "excluded property"
116(6.1)	Treaty-exempt property
116(7)	Application of s. 138(12)

DIVISION E COMPUTATION OF TAX

Subdivision a Rules Applicable to Individuals

117(1)	Tax payable under this Part
117(2)	Rates for taxation years after 2008
117(2.1)	Tax payable — WITB advance payment
117(3)	Minimum thresholds for 2004
117(6)	Special table [Repealed.]
117.1(1)	Annual adjustment
117.1(2)	Idem [Repealed.]
117.1(3)	Rounding
117.1(4)	Consumer Price Index
118(1)	Personal credits
118(1)(a)	Married or common-law partnership status
118(1)(b)	Wholly dependent person
118(1)(b.1)	Child amount
118(1)(c)	Single status
118(1)(c.1)	In-home care of relative
118(1)(d)	Infirm dependent
118(1)(e)	Additional amount
118(2)	Age credit

Section	Subject
118(3)	Pension credit
118(3.1)	Additions to personal credits — basic personal amount [Repealed.]
118(3.2)	Additions to personal credits — spouse or common-law partner or wholly dependent person [Repealed.]
118(3.3)	Additions to personal credits — net income threshold [Repealed.]
118(4)	Limitations re s. (1)
118(5)	Support
118(5.1)	Where subsection (5) does not apply
118(6)	Definition of "dependent"
118(7)	Definitions
	"eligible pension income"
	"pension income"
	"qualified pension income"
118(8)	Interpretation
118(8.1)	Bridging benefits
118(9)	Rounding [Repealed.]
118(9.1)	Child tax credit
118(10)	Canada Employment Credit
118.01(1)	Definitions
	"adoption period"
	"eligible adoption expense"
	"eligible child"
118.01(2)	Adoption expense tax credit
118.01(3)	Apportionment of credit
118.02(1)	Definitions
	"eligible electronic payment card"
	"eligible public transit pass"
	"public commuter transit services"
	"qualified Canadian transit organization"
	"qualifying relation"
118.02(2)	Transit pass tax credit
118.02(3)	Apportionment of credit
118.03(1)	Definitions
	"eligible fitness expense"
	"qualifying child"
	"qualifying entity"
118.03(2)	Child fitness tax credit
118.03(2.1)	Child fitness tax credit — child with disability
118.03(3)	Apportionment of credit
118.1	[Charitable gifts]
118.1(1)	Definitions
	"total charitable gifts"
	"total Crown gifts"
	"total cultural gifts"
	"total ecological gifts"
	"total gifts"
118.1(2)	Proof of gift
118.1(2.1)	Ordering
118.1(3)	Deduction by individuals for gifts
118.1(4)	Gift in year of death
118.1(5)	Gift by will
118.1(5.1)	Direct designation — insurance proceeds
118.1(5.2)	Rules applicable re s. (5.1)
118.1(5.3)	Direct designation — RRSPs, RRIFs and TFSAs
Prop. 118.1(5.4)	Where subsection (6) applies
118.1(6)	Gift of capital property
Prop. 118.1(6)	Gifts of capital property
118.1(7)	Gifts of art
118.1(7.1)	Gifts of cultural property
118.1(8)	Gifts made by partnership
118.1(9)	Commuter's charitable donations
118.1(10)	Determination of fair market value
118.1(10.1)	Determination of fair market value
118.1(10.2)	Request for determination by the Minister of the Environment
118.1(10.3)	Duty of Minister of the Environment
118.1(10.4)	Ecological gifts — redetermination
118.1(10.5)	Certificate of Fair Market Value
118.1(12)	Ecological gifts
118.1(13)	Non-qualifying securities
118.1(14)	Exchanged securities
118.1(14.1)	Exchange of beneficial interest in trust
118.1(15)	Death of donor
118.1(17)	Ordering rule
118.1(18)	Non-qualifying security defined
118.1(19)	Excepted gift
118.1(20)	Financial institution defined
118.2(1)	Medical expense credit
118.2(2)	Medical expenses
118.2(3)	Deemed medical expense
118.2(4)	Deemed payment of medical expenses
118.3(1)	Credit for mental or physical impairment
118.3(1.1)	Time spent on therapy
118.3(2)	Dependent having impairment
118.3(3)	Partial dependency
118.3(4)	Department of National Health and Welfare
118.4(1)	Nature of impairment
118.4(2)	References to medical practitioners, etc.
118.5(1)	Tuition credit
118.5(2)	Application to deemed residents
118.5(3)	Inclusion of ancillary fees and charges
118.6	[Education tax credit]
118.6(1)	Definitions
	"designated educational institution"
	"qualifying educational program"
	"specified educational program"
118.6(2)	Education credit
118.6(2.1)	Post-secondary textbook credit
118.6(3)	Students eligible for the disability tax credit
118.61(1)	Unused tuition, textbook and education tax credits
118.61(2)	Deduction of carryforward
118.61(3)	Unused tuition and education tax credits at the end of 2000 [Repealed.]
118.61(4)	Change of appropriate percentage
118.62	Credit for interest on student loan
118.7	Credit for UI premium and CPP contribution
Prop. 118.7	Credit for EI and QPIP premiums and CPP contributions
118.8	Transfer of unused credits to spouse
118.81	Tuition, textbook and education tax credits transferred
118.9	Transfer to parent or grandparent
118.91	Part-year residents
118.92	Ordering of credits
118.93	Credits in separate returns
118.94	Tax payable by non-residents (credits restricted)
118.95	Credits in year of bankruptcy
119	Former resident — credit for tax paid
119(1)	Averaging for farmers and fishermen
119(2)	Refunds
119(3)	Assessment
119(4)	Where s. (1) election null
119(5)	Revocation of election
119(6)	Limitation as to election
119(7)	Rents or trust income from farming or fishing
119(8)	Losses
119(9)	Investment tax credit
119(10)	Idem
120(1)	Income not earned in a province
120(2)	Amount deemed paid in prescribed manner
120(2.1)	Idem [Repealed.]
120(2.2)	Amount deemed paid
120(3)	Definition of "the individual's income for the year"
120(4)	Definitions
	"income earned in the year in a province"
	"tax otherwise payable under this Part"
120.1(1)	Forward averaging credit [Repealed.]
120.1(2)	Year of death [Repealed.]
120.1(3)	Deduction and additions [Repealed.]
120.1(4)	Presumption [Repealed.]
120.1(5)	Reduction [Repealed.]
120.1(6)	Individual not resident [Repealed.]
120.1(7)	Application [Repealed.]
120.1(8)	Amount required to be included [Repealed.]
120.2(1)	Minimum tax carryover
120.2(3)	Additional tax determined
120.2(4)	Where s. (1) does not apply
120.3	CPP/QPP disability benefits for previous years
120.31(1)	[Lump-sum Payments] Definitions
120.31(2)	Addition to tax payable
120.31(3)	Notional tax payable
120.4(1)	[Tax on Split Income] Definitions
	"excluded amount"
	"specified individual"
	"split income"
120.4(2)	Tax on split income
120.4(3)	Tax payable by a specified individual

Section	Subject
121	Deduction for taxable dividends
122(1)	Tax payable by inter vivos trust
Prop. 122(1.01)	Amount deemed paid
122(1.1)	Deductions not permitted
122(2)	Where s. (1) does not apply
122(3)	Definitions
	"non-deductible distributions amount"
	"taxable SIFT trust distributions"
122.1	Deduction from tax otherwise payable [Repealed.]
122.1(1)	SIFT trust distributions — definitions
	"entity"
	"equity"
	"equity value"
	"excluded subsidiary entity"
	"investment"
Prop.	"investment"
	"non-portfolio earnings"
	"non-portfolio property"
	"portfolio investment entity"
	"publicly-traded liability"
	"public market"
	"qualified REIT property"
	"real estate investment trust"
	"real or immovable property"
	"regulated innovative capital"
	"rent from real or immovable properties"
	"security"
	"SIFT trust"
	"subject entity"
	"unaffiliated publicly-traded liability"
122.1(2)	Application of definition "SIFT trust"
122.2	Amount deemed paid in prescribed manner
122.3(1)	Deduction from tax payable where employment out of Canada
Prop. 122.3(1)	Overseas employment tax credit
122.3(1.1)	Excluded income
122.3(2)	Definitions
	"specified employer"
	"tax otherwise payable under this Part for the year"
122.5	[Goods and services tax credit]
122.5(1)	Definitions
	"adjusted income"
	"cohabiting spouse or common-law partner"
	"eligible individual"
	"qualified dependent"
	"qualified relation"
	"return of income"
122.5(2)	Persons not eligible individuals, qualified relations or qualified dependents
122.5(3)	Deemed payment on account
122.5(3.1)	Adjustment of certain amounts
122.5(3.1)	When advance payment applies
122.5(3.2)	Advance payment
122.5(4)	Months specified
122.5(5)	Only one eligible individual
122.5(6)	Qualified relation of deceased eligible individual
122.5(6)	Exception re qualified dependant
122.5(6.1)	Notification to Minister
122.5(6.2)	Non-residents and part-year residents
122.5(7)	Effect of bankruptcy
122.51	Definitions
	"adjusted income"
	"eligible individual"
122.51(2)	Deemed payment on account of tax

Subdivision a.1 Child Tax Benefit

122.6	Definitions
	"adjusted earned income"
	"adjusted income"
	"base taxation year"
	"cohabiting spouse"
	"earned income"
	"eligible individual"
	"qualified dependent"
	"return of income"
122.61(1)	Deemed overpayment
122.61(2)	Exceptions
122.61(3)	Non-residents and part-year residents
122.61(3.1)	Effect of bankruptcy
122.61(4)	Amount not to be charged, etc.
122.61(5)	Annual adjustment
122.61(5.1)	Annual adjustment
122.61(6)	Additions to NCB supplement — July 2005 and 2006
122.61(6.1)	Exception
122.61(7)	Rounding
122.62(1)	Eligible individuals
122.62(2)	Extension for notices
122.62(3)	Exception
122.62(4)	Person ceasing to be an eligible individual
122.62(5)	Death of cohabiting spouse
122.62(6)	Separation from cohabiting spouse
122.62(7)	Person becoming a cohabiting spouse
122.62(9)	Advice of Department of National Health and Welfare
122.63(1)	Agreement
122.63(2)	Idem
122.63(3)	Idem
122.64(1)	Confidentiality of information
122.64(2)	Communication of information
122.64(3)	Taxpayer's address
122.64(4)	Offence

Subdivision a.2 Working Income Tax Benefit

122.7(1)	Definitions
	"adjusted net income"
	"cohabiting spouse or common-law partner"
	"designated educational institution"
	"eligible dependant"
	"eligible individual"
	"eligible spouse"
	"ineligible individual"
	"return of income"
	"working income"
122.7(2)	Deemed payment on account of tax
122.7(3)	Deemed payment on account of tax — disability supplement
122.7(4)	Eligible spouse deemed not to be an eligible individual
122.7(5)	Amount deemed to be nil
122.7(6)	Application for advance payment
122.7(7)	Advance payment
122.7(8)	Limitation — advance payment
122.7(9)	Notification to Minister
122.7(10)	Special rule re eligible dependant
122.7(11)	Effect of bankruptcy
122.7(12)	Special rules in the event of death
122.71	Modification for purposes of provincial program

Subdivision b Rules Applicable to Corporations

123	Rate for corporations
123.1	Corporation surtax
123.2(1)	Corporation surtax
123.2(2)	Specified percentage
123.2(3)	Taxable income [Repealed.]
123.3	Refundable tax on CCPC's investment income
123.4	Corporate tax reductions
123.4(1)	Definitions
	"CCPC rate reduction percentage"
	"full rate taxable income"
	"general rate reduction percentage"
123.4(2)	General deduction from tax
123.4(3)	CCPC deduction [Repealed.]
124(1)	Deduction from corporation tax
124(3)	Crown agents
124(4)	Definitions

Section	Subject
	"province"
	"taxable income earned in the year in a province"
125(1)	Small business deduction
125(1.1)	Small business deduction rate
125(2)	Business limit
125(3)	Associated corporations
125(4)	Failure to file agreement
125(5)	Special rules for business limit
125(5.1)	Business limit deduction
125(6)	Corporate partnerships
125(6.1)	Corporation deemed member of partnership
125(6.2)	Specified partnership income deemed nil
125(6.3)	Partnership deemed to be controlled
125(7)	Definitions
	"active business"
	"Canadian-controlled private corporation"
	"income of the corporation for the year from an active business"
	"personal services business"
	"specified investment business"
	"specified partnership income"
	"specified partnership loss"
125.1(1)	Manufacturing and processing profits deductions
125.1(2)	Electrical energy and steam
125.1(3)	Definitions
	"Canadian manufacturing and processing profits"
	"manufacturing or processing"
125.1(4)	Determination of gross revenue
125.1(5)	Interpretation
125.11(1)	Definitions
	"resource rate reduction percentage"
	"taxable resource income"
125.11(2)	Resource deduction
125.2(1)	Deduction of Part VI tax
125.2(2)	Idem
125.2(3)	Definition of "unused Part VI tax credit"
125.3	Deduction of Part I.3 tax
125.3(1.1)	Idem
125.3(2)	Special rules
125.3(3)	Acquisition of control
125.3(4)	Definitions
	"Canadian surtax payable"
	"unused Part I.3 tax credit"
125.4	[Film or Video Production Services Tax Credit]
125.4(1)	Definitions
	"assistance"
	"Canadian film or video production"
	"Canadian film or video production certificate"
	"investor"
Prop.	"investor" [Repealed.]
	"labour expenditure"
Prop.	"production commencement time"
	"qualified corporation"
	"qualified labour expenditure"
	"salary or wages"
Prop.	"script material"
125.4(2)	Rules governing labour expenditure of a corporation
Prop. 125.4(2)	Rules governing labour expenditures of a corporation
125.4(3)	Tax credit
125.4(4)	Exception
125.4(5)	When assistance received
125.4(6)	Revocation of certificate
Prop. 125.4(6)	Revocation of a certificate
Prop. 125.4(7)	Guidelines
125.5(1)	Definitions
	"accredited film or video production certificate"
	"accredited production"
	"assistance"
	"Canadian labour expenditure"
	"eligible production corporation"
	"qualified Canadian labour expenditure"
	"salary or wages"
125.5(2)	Rules governing Canadian labour expenditure of a corporation
125.5(3)	Tax credit
125.5(4)	Canadian film or video production
125.5(5)	When assistance received
125.5(6)	Revocation of certificate

Subdivision c Rules Applicable to All Taxpayers

126(1)	Foreign tax deduction
126(1.1)	Authorized foreign bank
Prop. 126(1.2)	Exception
126(2)	Idem
126(2.1)	Amount determined for purposes of paragraph (2)(b)
126(2.2)	Non-resident's foreign tax deduction
126(2.21)	Former resident — deduction
126(2.22)	Former resident — trust beneficiary
126(2.23)	Where foreign credit available
126(2.3)	Rules relating to unused foreign tax credit
126(3)	Employees of international organizations
126(4)	Portion of foreign tax not included
126(4.1)	No economic profit
126(4.2)	Short-term securities acquisitions
126(4.3)	Exceptions
126(4.4)	Dispositions ignored
126(5)	Foreign tax
126(5.1)	Deductions for specified capital gains
126(6)	Construction of ss. (1) and (2)
126(7)	Definitions
	"business-income tax"
	"commercial obligation"
	"economic profit"
	"foreign oil and gas business"
	"non-business-income tax"
	"production tax amount"
	"qualifying incomes"
	"qualifying loss"
	"related transactions"
	"tax-exempt income"
	"tax for the year otherwise payable under this Part"
	"taxing country"
	"unused foreign tax credit"
126(8)	Deemed dividend — partnership
126(9)	Computation of qualifying incomes and losses
126.1	[UI premium tax credit]
126.1(1)	Definitions
	"1992 cumulative premium base"
	"1992 premium base"
	"1993 cumulative premium base"
	"1993 premium base"
	"employer"
	"qualifying employee"
	"qualifying employer premium"
	"remittance date"
	"UI premium"
126.1(2)	Associated employers
126.1(3)	Idem
126.1(4)	Business carried on by another employer
126.1(5)	Definition of "specified employer"
126.1(6)	UI premium tax credit
126.1(7)	Idem
126.1(8)	Definition of "UI premium tax credit"
126.1(9)	Allocation by associated employers
126.1(10)	Allocation by the Minister
126.1(11)	UI premium tax credit — associated employers
126.1(12)	Prepayment of UI premium tax credit
126.1(13)	Idem
126.1(14)	Excess prepayment
126.1(15)	Idem
Prop. 126.1	[Repealed.]
127(1)	Logging tax deduction
127(2)	Definitions
	"income for the year from logging operations in the province"
	"logging tax"
127(3)	Monetary contributions — Canada Elections Act
Prop. 127(3)	Contributions to registered parties and candidates

Section	Subject
Prop. 127(3)	Contributions to registered parties, candidates and Senate nominees
127(3.1)	Issue of receipts
127(3.2)	Deposit of amounts contributed [Repealed.]
127(3.3)	Prohibition — issuance of receipts
127(4)	Definitions [Repealed.]
127(4.1)	Monetary contributions — form and content
127(4.2)	Allocation of amount contributed among partners [Repealed.]
127(5)	Investment tax credit
127(6)	Investment tax credit of cooperative corporation
127(7)	Investment tax credit of testamentary trust
127(8)	Investment tax credit of partnership
127(8.1)	Investment tax credit of limited partner
127(8.2)	Expenditure base
127(8.3)	Investment tax credit — allocation of unallocated partnership ITCs
127(8.31)	Amount of unallocated partnership ITC
127(8.4)	Idem
127(8.5)	Definitions
127(9)	Idem
	"annual investment tax credit limit"
	"apprenticeship expenditure"
	"approved project"
	"approved project property"
	"Cape Breton"
	"certified property"
	"child care space amount"
	"contract payment"
	"eligible apprentice"
	"eligible child care space expenditure"
	"eligible salary and wages"
	"eligible taxpayer"
	"first term shared-use-equipment"
	"flow-through mining expenditure"
	"Gaspé Peninsula"
	"government assistance"
	"investment tax credit"
	"non-government assistance"
	"non-qualifying corporation"
	"pre-production mining expenditure"
	"qualified Canadian exploration expenditure"
	"qualified construction equipment"
	"qualified expenditure"
	"qualified property"
	"qualified small-business property"
	"qualified transportation equipment"
	"second term shared-use-equipment"
	"specified child care start-up expenditure"
	"specified percentage"
	"specified property"
	"SR&ED qualified expenditure pool"
	"super-allowance benefit amount"
	"taxable supplier"
127(9.01)	Transitional application of investment tax credit definition
127(9.02)	Transitional application of investment tax credit definition
127(9.1)	Control acquired before the end of the year
127(9.2)	Control acquired after the end of the year
127(10)	Ascertainment of certain property
127(10.1)	Additions to investment tax credit
127(10.2)	Expenditure limit determined
127(10.21)	Expenditure limits — associated CCPCs
127(10.22)	Deemed non-association of corporations
127(10.23)	Application of s. (10.22)
127(10.3)	Associated corporations
127(10.4)	Failure to file agreement
127(10.6)	Expenditure limit determination in certain cases
127(10.7)	Further additions to investment tax credit
127(10.8)	Further additions to investment tax credit
127(11)	Interpretation
127(11.1)	Investment tax credit
127(11.2)	Time of expenditure and acquisition
127(11.3)	Decertification of approved project property
127(11.4)	Special rule for eligible salary and wages — apprentices
127(11.5)	Adjustments to qualified expenditures
127(11.6)	Non-arm's length costs
127(11.7)	Definitions
	"adjusted service cost"
	"adjusted selling cost"
127(11.8)	Interpretation for non-arm's length costs
127(12)	Interpretation
127(12.1)	Idem
127(12.2)	Idem
127(12.3)	Idem
127(13)	Agreement to transfer qualified expenditures
127(14)	Identification of amounts transferred
127(15)	Invalid agreements
127(16)	Non-arm's length parties
127(17)	Assessment
127(18)	Reduction of qualified expenditures
127(19)	Reduction of qualified expenditures
127(20)	Agreement to allocate
127(21)	Failure to allocate
127(22)	Invalid agreement
127(23)	Partnership's taxation year
127(24)	Exclusion from qualified expenditure
127(25)	Deemed contract payment
127(26)	Unpaid amounts
127(27)	Recapture of investment tax credit
127(27.1)	Recapture of investment tax credit — child care space amount
127(27.11)	Disposition
127(27.12)	Amount of recapture
127(28)	Recapture of investment tax credit of partnership
127(28.1)	Recapture of partnership's investment tax credits — child care property
127(29)	Recapture of investment tax credit of allocating taxpayer
127(30)	Addition to tax
127(31)	Tiered partnership
127(32)	Meaning of cost
127(33)	Certain non-arm's length transfers
127(34)	Recapture of investment tax credit
127(35)	Recapture of investment tax credit
127(36)	Transitional application of investment tax credit recapture
127.1(1)	Refundable investment tax credit
127.1(2)	Definitions
	"excluded corporation"
	"qualifying corporation"
Prop.	"qualifying corporation"
	"qualifying income limit"
	"refundable investment tax credit"
127.1(2.01)	Addition to refundable investment tax credit
127.1(2.1)	Application of s. 127(9)
127.1(2.2)	Refundable investment tax credit — associated CCPCs
127.1(2.3)	Application of s. (2.2)
127.1(3)	Deemed deduction
127.1(4)	Qualifying income limit determined in certain cases
127.2(1)	Share-purchase tax credit
127.2(2)	Persons exempt from tax
127.2(3)	Trust
127.2(3.1)	Exclusion of certain trusts
127.2(4)	Partnership
127.2(5)	Cooperative corporation
127.2(6)	Definitions
	"share-purchase tax credit"
	"unused share-purchase tax credit"
127.2(7)	Definition of "tax otherwise payable"
127.2(8)	Deemed cost of acquisition
127.2(9)	Partnership
127.2(10)	Election re first holder
127.2(11)	Calculation of consideration
127.3(1)	Scientific research and experimental development tax credit
127.3(2)	Definitions
	"scientific research and experimental development tax credit"
	"unused scientific research and experimental development tax credit"
127.3(3)	Trust
127.3(3.1)	Exclusion of certain trusts
127.3(4)	Partnership
127.3(5)	Cooperative corporation
127.3(6)	Deduction from cost
127.3(7)	Partnership
127.3(8)	Definition of "tax otherwise payable"
127.3(9)	Election re first holder

Section	Subject
127.3(10)	Calculation of consideration
127.4	[Labour-sponsored funds tax credit]
127.4(1)	Definitions
	"approved share"
	"net cost"
	"qualifying trust"
Prop.	"qualifying trust"
	"tax otherwise payable"
127.4(1.1)	Amalgamations or mergers
127.4(2)	Deduction of labour-sponsored funds tax credit
127.4(3)	3-year cooling-off period
127.4(4)	Exceptions to cooling-off period
127.4(5)	Labour-sponsored funds tax credit limit
127.4(5.1)	Deemed original acquisition
127.4(6)	Labour-sponsored funds tax credit
127.41(1)	Part XII.4 tax credit
127.41(2)	Reduction of Part I tax
127.41(3)	Deemed payment of Part I tax

DIVISION E.1 MINIMUM TAX

127.5	Obligation to pay minimum tax
127.51	Minimum amount determined
127.52(1)	Adjusted taxable income determined
127.52(2)	Partnerships
127.52(2.1)	Specified member of a partnership
127.52(3)	Definitions
	"film property"
	"limited partner"
	"rental or leasing property"
127.53(1)	Basic exemption
127.53(2)	Multiple trusts
127.53(3)	Failure to file agreement
127.531	Basic minimum tax credit determined
127.54	[Foreign tax credit for minimum tax purposes]
127.54(1)	Definitions
	"foreign income"
	"foreign taxes"
127.54(2)	Foreign tax credit
127.55	Application of s. 127.5

DIVISION F SPECIAL RULES APPLICABLE IN CERTAIN CIRCUMSTANCES

Bankruptcies

128(1)	Where corporation bankrupt
128(2)	Where individual bankrupt

Changes in Residence

128.1(1)	Immigration
128.1(1)(a)	Year-end, fiscal period
128.1(1)(b)	Deemed disposition
128.1(1)(c)	Deemed acquisition
128.1(1)(c.1)	Deemed dividend to immigrating corporation
128.1(1)(c.2)	Deemed dividend to shareholder of immigrating corporation
128.1(1)(d)	Foreign affiliate
Prop. 128.1(1.1)	Trusts subject to s. 94(3)
128.1(2)	Paid-up capital adjustment
128.1(3)	Paid-up capital adjustment
128.1(4)	Emigration
128.1(4)(a)	Year-end fiscal period
128.1(4)(a.1)	Fiscal period
128.1(4)(b)	Deemed disposition
128.1(4)(c)	Reacquisition
128.1(4)(d)	Individual-elective disposition
128.1(4)(d.1)	Employee CCPC stock option shares
128.1(4)(e)	Deemed property
128.1(4)(f)	Losses on election
128.1(5)	Instalment interest
128.1(6)	Returning former resident
128.1(7)	Returning trust beneficiary
128.1(8)	Post-emigration loss
128.1(9)	Information reporting
128.1(10)	Definitions
	"excluded right or interest"
	"reportable property"
128.2(1)	Cross-border mergers
128.2(2)	Idem
128.2(3)	Windings-up excluded
128.3	Former resident — replaced shares

Private Corporations

129(1)	Dividend refund to private corporation
129(1.1)	Dividends paid to bankrupt controlling corporation
129(1.2)	Dividends deemed not to be taxable dividends
129(2)	Application to other liability
129(2.1)	Interest on dividend refund
129(2.2)	Excess interest on dividend refund
129(3)	Definition of "refundable dividend tax on hand"
129(3.1)	Application
129(3.2)	Application
129(3.3)	Definition of "addition at December 31, 1986 of refundable dividend tax on hand"
129(3.4)	Reduction under paragraph (3.3)(a)
129(3.5)	Definition of "reduction at December 31, 1987 of refundable dividend tax on hand"
129(4)	Definitions
	"Canadian investment income"
	"foreign investment income"
129(4.1)	Interpretation of "income" or "loss"
129(4.2)	Idem
129(4.3)	Definition of "designated property"
129(5)	Reduction of refundable dividend tax on hand
129(6)	Investment income from associated corporation deemed to be active business income
129(7)	Meaning of "taxable dividend"
129(8)	Application of s. 125

Investment Corporations

130(1)	Deduction from tax
130(2)	Application of ss. 131(1) to (3.2) and (6)
130(3)	Meaning of expressions "investment corporation" and "taxed capital gains"
130(4)	Wholly owned subsidiaries

Mortgage Investment Corporations

130.1(1)	Deduction from tax
130.1(2)	Dividend equated to bond interest
130.1(3)	Application of s. (2)
130.1(4)	Election re capital gains dividend
130.1(4.1)	Application of ss. 131(1.1) to (1.4)
130.1(4.2)	Reporting
130.1(4.3)	Allocation
130.1(5)	Public corporation
130.1(6)	Meaning of "mortgage investment corporation"
130.1(7)	How shareholders counted
130.1(8)	First taxation year
130.1(9)	Definitions
	"liabilities"
	"non-qualifying real property"
	"non-qualifying taxed capital gains"
	"qualifying taxed capital gains"
130.1(10)	Definitions
	"mortgage lender"
	"newly related persons"
	"permitted acquisition"
	"permitted percentage"
	"related persons"
	"specified shareholder"

Mutual Fund Corporations

131(1)	Election re capital gains dividend
131(1.1)	Deemed date of election
131(1.2)	Request to make election
131(1.3)	Penalty
131(1.4)	Assessment and payment of penalty
131(1.5)	Reporting
131(1.6)	Allocation
131(2)	Capital gains refund to mutual fund corporation
131(3)	Application to other liability

Section	Subject
131(3.1)	Interest on capital gains refund
131(3.2)	Excess interest on capital gains refund
131(4)	Application of s. 84
131(5)	Dividend refund to mutual fund corporation
131(5.1)	TCP gains distribution
131(5.2)	Application of s. (5.1)
131(6)	Definitions
	"capital gains dividend account"
	"capital gains redemptions"
	"non-qualifying real property"
	"non-qualifying real property capital gains dividend account"
	"pro rata portion"
	"refundable capital gains tax on hand"
	"TCP gains balance"
	"TCP gains distribution"
131(7)	Definition of "taxed capital gains"
131(8)	Meaning of "mutual fund corporation"
131(8.1)	Idem
131(9)	Reduction of refundable capital gains tax on hand
131(10)	Restricted financial institution
131(11)	Rules respecting prescribed labour-sponsored venture capital corporations
	Mutual Fund Trusts
132(1)	Capital gains refund to mutual fund trust
132(2)	Application to other liability
132(2.1)	Interest on capital gains refund
132(2.2)	Excess interest on capital gains refund
132(3)	Application of s. 104(20)
132(4)	Definitions
	"capital gains redemptions"
	"pro rata portion"
	"refundable capital gains tax on hand"
	"TCP gains balance"
	"TCP gains distribution"
132(5)	Definition of "taxed capital gains"
132(5.1)	TCP gains distribution
132(5.2)	Application of subsection (5.1)
132(6)	Meaning of "mutual fund trust"
132(6.1)	Election to be mutual fund
132(6.2)	Retention of status as mutual fund trust
132(7)	Idem
132.1(1)	Amounts designated by mutual fund trust
132.1(2)	Adjusted cost base of unit where designation made
132.1(3)	Limitation on current year deduction
132.1(4)	Carryover of excess
132.1(5)	Where designation has no effect
132.11(1)	Taxation year of mutual fund trust
132.11(2)	Electing trust's share of partnership income and losses
132.11(3)	Electing trust's income from other trusts
132.11(4)	Amounts paid or payable to beneficiaries
132.11(5)	Special rules where change in status of beneficiary
132.11(6)	Additional income of electing trust
132.11(7)	Deduction
132.11(8)	Anti-avoidance
132.2(1)	Mutual funds — qualifying exchange
Prop. 132.2(1)	Definitions re qualifying exchange of mutual funds
Prop.	"first post-exchange year"
Prop.	"qualifying exchange"
Prop.	"share"
132.2(2)	Definitions
	"qualifying exchange"
	"share"
Prop. 132.2(2)	Timing
Prop. 132.2(3)	General
Prop. 132.2(4)	Qualifying exchange — non-depreciable property
Prop. 132.2(5)	Depreciable property
Prop. 132.2(6)	Due date
Prop. 132.2(7)	Amendment or revocation of election
	Non-Resident-Owned Investment Corporations
133(1)	Computation of income
133(2)	Non-resident-owned investment corporations
133(3)	Special tax rate
133(4)	No deduction for foreign taxes
133(6)	Allowable refund to non-resident-owned investment corporations
133(7)	Application to other liability
133(7.01)	Interest on allowable refund
133(7.02)	Excess interest on allowable refund
133(7.1)	Election re capital gains dividend
133(7.2)	Simultaneous dividends
133(7.3)	Application of ss. 131(1.1) to (1.4)
133(8)	Definitions
	"allowable refund"
	"Canadian property"
	"capital gains dividend account"
	"increase in capital"
	"non-resident-owned investment corporation"
	"taxable dividend"
133(9)	Definitions
	"allowable refundable tax on hand"
	"cumulative taxable income"
134	Non-resident-owned corporation not a Canadian corporation, etc.
134.1(1)	NRO — transition
134.1(2)	Application
	Patronage Dividends
135(1)	Deduction in computing income
135(1.1)	Limitation where non-arm's length customer
135(2)	Limitation where non-member customer
135(2.1)	Deduction carried over
135(3)	Amount to be deducted or withheld from payment to customer
135(4)	Definitions
	"allocation in proportion to patronage"
	"consumer goods or services"
	"customer"
	"income of the taxpayer attributable to business done with members"
	"member"
	"non-member customer"
	"payment"
135(5)	Holding out prospect of allocations
135(6)	Amount of payment to customer
135(7)	Payment to customer to be included in income
135(8)	Patronage dividends
	Agricultural Cooperatives — Tax-Deferred Patronage Dividends
135.1(1)	Definitions
	"agricultural business"
	"agricultural cooperative"
	"allowable disposition"
	"eligible member"
	"tax deferred cooperative share"
	"tax paid balance"
135.1(2)	Income inclusion
135.1(3)	Deductibility limit
135.1(4)	Deemed disposition
135.1(5)	Reacquisition
135.1(6)	Exclusion from withholding obligation
135.1(7)	Withholding on redemption
135.1(8)	Application of subsections 84(2) and (3)
	Cooperative Corporations
136(1)	Cooperative not private corporation
136(2)	Definition of "cooperative corporation"
	Credit Unions, Savings and Credit Unions and Deposit Insurance Corporations
137(1)	[Deductions in computing income]
137(2)	Payments pursuant to allocations in proportion to borrowing
137(3)	Additional deduction
137(4)	Amount deemed deductible under s. 125
137(4.1)	Payments in respect of shares
137(4.2)	Deemed interest not a dividend
137(4.3)	Determination of preferred-rate amount of a corporation
137(5)	Member's income
137(5.1)	Allocations of taxable dividends and capital gains
137(5.2)	Idem
137(6)	Definitions
	"allocation in proportion to borrowing"
	"bonus interest payment"

Section	Subject
	"credit union"
	"maximum cumulative reserve"
	"member"
137(7)	Credit union not private corporation
137.1(1)	Amounts included in income of deposit insurance corporation
137.1(2)	Amounts not included in income
137.1(3)	Amounts deductible in computing income of deposit insurance corporation
137.1(4)	Limitation on deduction
137.1(5)	Definitions
	"deposit insurance corporation"
	"investment property"
	"member institution"
137.1(5.1)	Deeming provision
137.1(6)	Deemed not to be a private corporation
137.1(7)	Deposit insurance corporation deemed not a credit union
137.1(8)	Deemed compliance
137.1(9)	Special tax rate
137.1(10)	Amounts paid by a deposit insurance corporation
137.1(10.1)	Principal amount of an obligation to pay interest
137.1(11)	Deduction by member institutions
137.1(12)	Repayment excluded
137.2	Computation of income for 1975 and subsequent years
	Insurance Corporations
138(1)	Insurance corporations
138(2)	Insurer's income or loss
138(3)	Deductions allowed in computing income
138(3.1)	Excess policy dividend deduction deemed deductible
138(4)	Amounts included in computing income
138(4.01)	Life insurance policy
138(4.1)	Idem
138(4.2)	Idem
138(4.3)	Idem
138(4.4)	Idem
138(4.5)	Application
138(4.6)	Completion
138(5)	Deductions not allowed
138(5.1)	No deduction
138(5.2)	Idem
138(6)	Deduction for dividends from taxable corporations
138(8)	No deduction for foreign tax
138(9)	Computation of income
138(10)	Application of financial institution rules
138(11)	Profit or loss in respect of Canada security
138(11.1)	Identical properties
138(11.2)	Computation of capital gain on pre-1969 depreciable property
138(11.3)	Deemed disposition
138(11.31)	Exclusion from deemed disposition
138(11.4)	Deduction of loss
138(11.41)	Inclusion of gain
138(11.5)	Transfer of insurance business by non-resident insurer
138(11.6)	Time of election
138(11.7)	Computation of paid-up capital
138(11.8)	Rules on transfers of depreciable property
138(11.9)	Computation of contributed surplus
138(11.91)	Computation of income of non-resident insurer
138(11.92)	Computation of income where insurance business is transferred
138(11.93)	Property acquired on default in payment
138(11.94)	Transfer of insurance business by resident insurer
138(12)	Definitions
	"accumulated 1968 deficit"
	"amount payable"
	"base year"
	"Canada security"
	"cost"
	"designated insurance property"
	"gross investment revenue"
	"interest"
	"life insurance policy"
	"life insurance policy in Canada"
	"maximum tax actuarial reserve"
	"non-segregated property"
	"participating life insurance policy"
	"policy loan"
	"property used by it in the year in, or held by it in the year in the course of"
	"qualified related corporation"
	"relevant authority"
	"reserve transition amount"
	"segregated fund"
	"surplus funds derived from operations"
	"transition year"
	"1975 branch accounting election deficiency"
	"1975-76 excess additional group term reserve"
	"1975-76 excess capital cost allowance"
	"1975-76 excess investment reserve"
	"1975-76 excess policy dividend deduction"
	"1975-76 excess policy dividend reserve"
	"1975-76 excess policy reserves"
138(13)	Variation in "tax basis" and "amortized cost"
138(14)	Meaning of certain expressions
138(15)	Definition not to apply
138(16)	Transition year income inclusion
138(17)	Transition year income deduction
138(18)	Transition year income inclusion reversal
138(19)	Transition year income deduction reversal
138(20)	Winding-up
138(21)	Amalgamations
138(22)	Application of subsection (23)
138(23)	Transfer of life insurance business
138(24)	Ceasing to carry on business
138(25)	Ceasing to exist
138.1(1)	Rules relating to segregated funds
138.1(2)	Rules relating to property in segregated funds at end of 1977 taxation year
138.1(3)	Capital gains and capital losses of related segregated fund trusts
138.1(4)	Election and allocation
138.1(5)	Adjusted cost base of property in related segregated fund trust
138.1(6)	Definition of "acquisition fee"
138.1(7)	Where ss. (1) to (6) do not apply
139	Conversion of insurance corporations into mutual corporations
	Demutualization of Insurance Corporations
139.1(1)	Definitions
	"conversion benefit"
	"deadline"
	"demutualization"
	"holding corporation"
	"initial deadline"
	"mutual holding corporation"
	"ownership rights"
	"person"
	"share"
	"specified insurance benefit"
	"stakeholder"
	"taxable conversion benefit"
139.1(2)	Rules of general application
139.1(3)	Special cases
139.1(4)	Consequences of demutualization
139.1(5)	Fair market value of ownership rights
139.1(6)	Paid-up capital — insurance corporation
139.1(7)	Paid-up capital — holding corporation
139.1(8)	Policy dividends
139.1(9)	Payment and receipt of premium
139.1(10)	Cost of taxable conversion benefit
139.1(11)	No shareholder benefit
139.1(12)	Exclusion of benefit from RRSP and other rules
139.1(13)	RRSP registration rules, etc.
139.1(14)	Retirement benefit
139.1(15)	Employee-paid insurance
139.1(16)	Flow-through of conversion benefits to employees and others
139.1(17)	Flow-through of share benefits to employees and others
139.1(18)	Acquisition of control
139.2	Mutual holding corporations
140(1)	Deductions in computing income
140(2)	Inclusion in computing income

Section	Subject
141	Life insurance corporation deemed to be public corporation
141(1)	Definitions
141(2)	Life insurance corporation deemed to be public corporation
141(3)	Holding corporation deemed to be public corporation
141(4)	Specified period
141(5)	Exclusion from taxable Canadian property
141.1	Deemed not to be a private corporation
	Financial Institutions
142.2	[Shares and debt held by financial institutions]
142.2(1)	Definitions
	"excluded property"
	"fair value property"
	"financial institution"
	"investment dealer"
	"mark-to-market property"
	"specified debt obligation"
	"tracking property"
142.2(2)	Significant interest
142.2(3)	Rules re significant interest
142.2(4)	Extension of meaning of "related"
142.2(5)	Significant interest — transition [Repealed.]
142.3(1)	Amounts to be included and deducted
142.3(2)	Failure to report accrued amounts
142.3(3)	Exception for certain obligations
142.3(4)	Impaired specified debt obligations
142.4	[Gains and losses from disposition of specified debt obligation]
142.4(1)	Definitions
	"tax basis"
	"transition amount"
142.4(2)	Scope of section
142.4(3)	Rules applicable to disposition
142.4(4)	Inclusions and deductions re disposition
142.4(5)	Gain or loss not amortized
142.4(6)	Gain or loss from disposition of obligation
142.4(7)	Current amount
142.4(8)	Residual portion of gain or loss
142.4(9)	Disposition of part of obligation
142.4(10)	Penalties and bonuses
142.4(11)	Payments received on or after disposition
142.5(1)	Income treatment for profits and losses
142.5(2)	Mark-to-market requirement
142.5(3)	Mark-to-market obligation
142.5(4)	Transition — deduction re non-capital amounts
142.5(5)	Transition — inclusion re non-capital amounts
142.5(6)	Transition — deduction re net capital gains
142.5(7)	Transition — inclusion re net capital gains
142.5(8)	First deemed disposition of debt obligation
142.5(8.1)	Application of subsection (8.2)
142.5(8.2)	Rules applicable to first deemed disposition of debt obligation
142.5(9)	Transition — property acquired on rollover
142.51(1)	Definitions
	"base year"
	"transition amount"
	"transition property"
	"transition year"
142.51(2)	Transition year income inclusion
142.51(3)	Transition year income deduction
142.51(4)	Transition year income inclusion reversal
142.51(5)	Transition year income deduction reversal
142.51(6)	Winding-up
142.51(7)	Amalgamations
142.51(8)	Application of subsection (9)
142.51(9)	Transfer of a business
142.51(10)	Continuation of a partnership
142.51(11)	Ceasing to carry on a business
142.51(12)	Ceasing to exist
142.6(1)	Becoming or ceasing to be a financial institution
142.6(1.1)	Ceasing to use property in Canadian business
142.6(1.2)	Beginning to use property in a Canadian business
142.6(1.3)	Specified debt obligation marked to market
142.6(1.4)	Change in status — prescribed payment card corporation share
142.6(1.5)	Change in status — prescribed securities exchange investment
142.6(1.6)	Change in status — significant interest
142.6(2)	Deemed disposition not applicable
142.6(3)	Property not inventory
142.6(4)	Property that ceases to be inventory
142.6(5)	Debt obligations acquired in rollover transactions
142.6(6)	Definition of "rollover transaction"
142.6(7)	Superficial loss rule not applicable
142.6(8)	Accrued capital gains and losses election
142.6(9)	Accrued capital gains election limit
142.6(10)	Accrued capital losses election limit
142.7(1)	Definitions
	"Canadian affiliate"
	"eligible property"
	"entrant bank"
142.7(2)	Amalgamation and merger
142.7(3)	Branch — establishment rollover
142.7(4)	No shareholder benefit or adjustment of terms
142.7(5)	Specified debt obligations
142.7(6)	Mark-to-market property
142.7(7)	Reserves
142.7(8)	Assumption of debt obligation
142.7(9)	Branch — establishment dividend
142.7(10)	Treatment of dividend
142.7(11)	Elections
142.7(12)	Winding-up of Canadian affiliate: losses
142.7(13)	Winding-up of Canadian affiliate: SDOs
	Communal Organizations
143(1)	Communal organizations
143(2)	Election in respect of income
143(3)	Refusal to accept election
143(3.1)	Election in respect of gifts
143(4)	Definitions
	"adult"
	"business agency"
	"congregation"
	"family"
	"member of a congregation"
	"participating member"
	"religious organization"
	"total charitable gifts"
	"total Crown gifts"
	"total cultural gifts"
	"total ecological gifts"
143(5)	Specification of family members
143.1	[Amateur athletes' reserve funds]
143.1(1)	Definitions
	"amateur athlete"
	"professional athlete"
	"qualifying performance income"
	"third party"
143.1(1.1)	Where subsection (1.1) applies
143.1(1.2)	Amateur athletes' reserve funds
143.1(2)	Amounts included in beneficiary's income
143.1(3)	Termination of amateur athlete trust
143.1(4)	Death of beneficiary
	Cost of Tax Shelter Investments
Prop.	Cost of Tax Shelter Investments and Limited-Recourse Debt in respect of Gifting Arrangements
143.2	[Cost of tax shelter investment]
143.2(1)	Definitions
	"expenditure"
	"limited partner"
	"limited-recourse amount"
	"taxpayer"
	"tax shelter investment"
143.2(2)	At-risk adjustment
143.2(3)	Amount or benefit not included
143.2(4)	Amount or benefit
143.2(5)	Amount or benefit
143.2(6)	Amount of expenditure
Prop. 143.2(6.1)	Limited-recourse debt in respect of a gift or monetary contribution
143.2(7)	Repayment of indebtedness
143.2(8)	Limited-recourse amount
143.2(9)	Timing
143.2(10)	Timing
143.2(11)	Short-term debt
143.2(12)	Series of loans or repayments
143.2(13)	Information located outside Canada

Section	Subject
143.2(14)	Information located outside Canada
143.2(15)	Assessments
	Expenditures
Prop. 143.3(1)	Definitions
Prop.	"expenditure"
Prop.	"option"
Prop.	"taxpayer"
Prop. 143.3(2)	Options — limitation
Prop. 143.3(3)	Corporate shares — limitation
Prop. 143.3(4)	Non-corporate interests — limitation
Prop. 143.3(5)	Clarification

DIVISION G DEFERRED AND OTHER SPECIAL INCOME ARRANGEMENTS

Section	Subject
	Employees Profit Sharing Plans
144(1)	Definitions
	"employees profit sharing plan"
	"unused portion of a beneficiary's exempt capital gains balance"
144(2)	No tax while trust governed by plan
144(3)	Allocation contingent or absolute taxable
144(4)	Allocated capital gains and losses
144(4.1)	Idem
144(4.2)	Idem
144(5)	Employer's contribution to trust deductible
144(6)	Beneficiary's receipts deductible
144(7)	Beneficiary's receipts that are not deductible
144(7.1)	Where property other than money received by beneficiary
144(8)	Allocation of credit for dividends
144(8.1)	Foreign tax deduction
144(9)	Deduction for forfeited amounts
144(10)	Payments out of profits
144(11)	Taxation year of trust
	Registered Supplementary Unemployment Benefit Plans
145	[Registered supplementary unemployment benefit plans]
145(1)	Definitions
	"registered supplementary unemployment benefit plan"
	"supplementary unemployment benefit plan"
145(2)	No tax while trust governed by plan
145(3)	Amounts received taxable
145(4)	Amounts received on amendment or winding-up of plan
145(5)	Payments by employer deductible
	Registered Retirement Savings Plans
146	[Registered retirement savings plans]
146(1)	Definitions
	"annuitant"
	"benefit"
	"earned income"
	"issuer"
	"maturity"
	"net past service pension adjustment"
	"non-qualified investment"
	"premium"
	"qualified investment"
	"RRSP deduction limit"
	"RRSP dollar limit"
	"refund of premiums"
	"registered retirement savings plan"
	"retirement income"
	"retirement savings plan"
	"spousal plan"
	"tax-paid amount"
	"unused RRSP deduction room"
146(1.1)	Restriction — financially dependent
146(2)	Acceptance of plan for registration
146(3)	Idem
146(4)	No tax while trust governed by plan
146(5)	Amount of RRSP premiums deductible
146(5.1)	Amount of spousal RRSP premiums deductible
146(5.21)	Anti-avoidance
146(6)	Disposition of non-qualified investment
146(6.1)	Contribution of certain withdrawals
146(7)	Recovery of property used as security
146(8)	Benefits taxable
146(8.01)	Subsequent re-calculation
146(8.1)	Deemed receipt of refund of premiums
146(8.2)	Amount deductible
146(8.21)	Premium deemed not paid
146(8.3)	Spousal RRSP payments
146(8.5)	Ordering
146(8.6)	Spouse's income
146(8.7)	Where s. (8.3) does not apply
146(8.8)	Effect of death where person other than spouse becomes entitled
146(8.9)	Idem
146(8.91)	Amounts deemed receivable by spouse
146(8.92)	Deduction for post-death reduction in value
146(8.93)	Subsection (8.92) not applicable
146(9)	Where disposition of property by trust
146(10)	Where acquisition of non-qualified investment by trust
146(10.1)	Where tax payable
146(11)	Life insurance policies
146(11.1)	Exception
146(12)	Change in plan after registration
146(13)	Idem
146(13.1)	RRSP advantages
146(13.2)	Maturity after age 69 [Repealed.]
146(13.3)	Notice [Repealed.]
146(14)	Premiums paid in taxation year
146(15)	Plan not registered at end of year entered into
146(16)	Transfer of funds
146(20)	Credited or added amount deemed not received
146(21)	Prescribed provincial pension plans
146(22)	Deemed payment of RRSP premiums and provincial pension plan contributions
	Home Buyers' Plan
146.01	[Home Buyers' Plan]
146.01(1)	Definitions
	"annuitant"
	"benefit"
	"completion date"
	"designated withdrawal"
	"eligible amount"
	"excluded premium"
	"excluded withdrawal"
	"HBP balance"
	"issuer"
	"participation period"
	"premium"
	"qualifying home"
	"quarter"
Prop.	"quarter" [Repealed.]
	"regular eligible amount"
	"replacement property"
	"specified disabled person"
	"supplemental eligible amount"
146.01(2)	Special Rules
146.01(3)	Repayment of eligible amount
146.01(4)	Portion of eligible amount not repaid
146.01(5)	Where individual becomes a non-resident
146.01(6)	Death of individual
146.01(7)	Exception
146.01(8)	Filing of prescribed form
Prop. 146.01(8)	Filing of prescribed form [Repealed.]
146.01(9)	Income inclusion for 1992
146.01(10)	Income inclusion for 1993
146.01(11)	Net premium balance for 1992
146.01(12)	Net premium balance for 1993
146.01(13)	Assessments
146.02(1)	Definitions
	"annuitant"
	"benefit"
	"eligible amount"
	"excluded premium"
	"excluded withdrawal"
	"full-time student"
	"LLP balance"
	"participation period"
	"period"
	"qualifying educational program"

Section	Subject
	"repayment period"
146.02(2)	Rule of application
146.02(3)	Repayment of eligible amount
146.02(4)	If portion of eligible amount not repaid
146.02(5)	Ceasing residence in Canada
146.02(6)	Death of individual
146.02(7)	Exception
	Registered Education Savings Plans
146.1	[Registered education savings plans]
146.1(1)	Definitions
	"accumulated income payment"
	"beneficiary"
	"contribution"
	"designated provincial program"
	"educational assistance payment"
	"education savings plan"
	"post-secondary educational institution"
	"post-secondary school level"
	"public primary caregiver"
	"qualified investment"
	"qualifying educational program"
	"RESP annual limit" [Repealed.]
	"refund of payments"
	"registered education savings plan"
	"specified educational program"
	"specified plan"
	"subscriber"
	"trust"
146.1(2)	Conditions for registration
146.1(2.1)	RESP is revocable
146.1(2.2)	Waiver of conditions for accumulated income payments
146.1(2.21)	Extension for making educational assistance payments
146.1(2.22)	Timing of payments
Prop. 146.1(2.3)	Social Insurance Number not required
146.1(3)	Deemed registration
146.1(4)	Registration of plans without prospectus
146.1(4.1)	Obligation to file amendment
146.1(5)	Trust not taxable
146.1(6)	Subscriber not taxable
146.1(6.1)	Transfers between plans
146.1(7)	Educational assistance payments
146.1(7.1)	Other income inclusions
146.1(7.2)	Excluded amount
146.1(8)	Definition of "beneficiary's portion of the tax-paid-income"
146.1(9)	Limitation on allocation of tax-paid-income
146.1(10)	Allocation of tax-paid-income
146.1(11)	Trust deemed to be inter vivos trust
146.1(12)	Deemed date of registration
146.1(12.1)	Notice of intent to revoke registration
146.1(12.2)	Notice of revocation
146.1(13)	Revocation of registration
146.1(14)	Former Act
146.1(15)	Regulations
146.2(1)	Definitions
	"distribution"
	"holder"
	"issuer"
	"qualifying arrangement"
	"survivor"
146.2(2)	Qualifying arrangement conditions
146.2(3)	Paragraphs (2)(a), (b) and (e) not applicable
146.2(4)	Using TFSA interest as security for a loan
146.2(5)	TFSA
146.2(6)	Trust not taxable
146.2(7)	Amount credited to a deposit
146.2(8)	Trust ceasing to be a TFSA
146.2(9)	Trust ceasing to be a TFSA on death of holder
146.2(10)	Annuity contract ceasing to be a TFSA
146.2(11)	Deposit ceasing to be a TFSA
146.2(12)	Arrangement is TFSA only
146.2(13)	Regulations
	Registered Retirement Income Funds
146.3	[Registered retirement income funds]
146.3(1)	Definitions
	"annuitant"
	"carrier"
	"designated benefit"
	"minimum amount"
	"property held"
	"qualified investment"
	"registered retirement income fund"
	"retirement income fund"
146.3(1.1)	Adjusted minimum amount for 2008
146.3(1.2)	Exceptions
146.3(2)	Acceptance of fund for registration
146.3(3)	No tax while trust governed by fund
146.3(3.1)	Exception
146.3(4)	Disposition or acquisition of property by trust
146.3(5)	Benefits taxable
146.3(5.1)	Amount included in income
146.3(5.3)	Ordering
146.3(5.4)	Spouse's income
146.3(5.5)	Where s. (5.1) does not apply
146.3(6)	Where last annuitant dies
146.3(6.1)	Designated benefit deemed received
146.3(6.11)	Transfer of designated benefit
146.3(6.2)	Amount deductible
146.3(6.3)	Deduction for post-death reduction in value
146.3(6.4)	Subsection (6.3) not applicable
146.3(7)	Acquisition of non-qualified investment by trust
146.3(8)	Disposition of non-qualified investment
146.3(9)	Tax payable where non-qualified investment acquired
Prop. 146.3(9)	Tax payable on income from non-qualified investment
146.3(10)	Recovery of property used as security
146.3(11)	Change in fund after registration
146.3(12)	Idem
146.3(13)	Idem
146.3(14)	Transfer on breakdown of marriage or common-law partnership
146.3(14.1)	Transfer to money purchase RPP
146.3(14.2)	Taxation of amount transferred
146.3(15)	Credited or added amount deemed not received
	Registered Disability Savings Plan
146.4(1)	Definitions
	"assistance holdback amount"
	"contribution"
	"disability assistance payment"
	"disability savings plan"
	"DTC-eligible individual"
	"holder"
	"lifetime disability assistance payments"
	"plan trust"
	"qualifying person"
	"registered disability savings plan"
	"specified Minister"
	"specified year"
146.4(2)	Registered status
146.4(3)	Registered status nullified
146.4(4)	Plan conditions
146.4(5)	Trust not taxable
146.4(6)	Taxation of disability assistance payments
146.4(7)	Non-taxable portion of disability assistance payment
146.4(8)	Transfer of funds
146.4(9)	No income inclusion on transfer
146.4(10)	Non-compliance — cessation of registered status
146.4(11)	Non-compliance
146.4(12)	Non-application of subsection (11)
146.4(13)	Obligation of issuer
	Deferred Profit Sharing Plans
147	[Deferred profit sharing plans]
147(1)	Definitions
	"deferred profit sharing plan"
	"forfeited amount"
	"licensed annuities provider"
	"profit sharing plan"
147(1.1)	Participating employer
147(2)	Acceptance of plan for registration
147(2.1)	Terms limiting contributions
147(2.2)	Reallocation of forfeitures
147(3)	Acceptance of employees profit sharing plan for registration
147(4)	Capital gains determined
147(5)	Registration date
147(5.1)	Contribution limits

Section	Subject
147(5.11)	Compensation
Prop. 147(5.11)	Compensation [Repealed.]
147(6)	Deferred plan not employees profit sharing plan
147(7)	No tax while trust governed by plan
147(8)	Amount of employer's contribution deductible
147(9)	Limitation on deduction
147(9.1)	No deduction
147(10)	Amounts received taxable
147(10.1)	Single payment on retirement, etc.
147(10.2)	Idem
147(10.3)	Amount contributed to or forfeited under a plan
147(10.4)	Income on disposal of shares
147(10.5)	Amended contract
147(10.6)	Commencement of annuity after age 69 [Repealed.]
147(11)	Portion of receipts deductible
147(12)	Idem
147(13)	Appropriation of trust property by employer
147(14)	Revocation of registration
147(14.1)	Idem
147(15)	Rules applicable to revoked plan
147(16)	Payments out of profits
147(17)	Interpretation of "other beneficiary"
147(18)	Inadequate consideration on purchase from or sale to trust
147(19)	Transfer to RPP, RRSP or DPSP
147(20)	Taxation of amount transferred
147(21)	Restriction re transfers
147(22)	Excess transfer
	Registered Pension Plans
147.1	[Registered pension plans]
147.1(1)	Definitions
	"actuary"
	"administrator"
	"average wage"
	"compensation"
	"defined benefit provision"
	"former limit"
	"member"
	"money purchase limit"
	"money purchase provision"
	"multi-employer plan"
	"participating employer"
	"past service event"
	"single amount"
	"specified multi-employer plan"
	"wage measure"
147.1(2)	Registration of plan
147.1(3)	Deemed registration
147.1(4)	Acceptance of amendments
147.1(5)	Additional conditions
147.1(6)	Administrator
147.1(7)	Letter of credit
147.1(8)	Pension adjustment limits
147.1(9)	Idem — multi-employer plans
147.1(10)	Past service benefits
147.1(11)	Revocation of registration — notice of intention
147.1(12)	Notice of revocation
147.1(13)	Revocation of registration
147.1(14)	Anti-avoidance — multi-employer plans
147.1(15)	Plan as registered
147.1(16)	Separate liability for obligations
147.1(17)	Superintendent of Financial Institutions
147.1(18)	Regulations
147.2(1)	Pension contributions deductible — employer contributions
147.2(2)	Employer contributions — defined benefit provisions
147.2(3)	Filing of actuarial report
147.2(4)	Amount of employee's pension contributions deductible
147.2(4)(a)	Service after 1989
147.2(4)(b)	Service before 1990 while not a contributor
147.2(4)(c)	Service before 1990 while a contributor
147.2(6)	Deductible contributions when taxpayer dies
147.3(1)	Transfer — money purchase to money purchase, RRSP or RRIF
147.3(2)	Transfer — money purchase to defined benefit
147.3(3)	Transfer — defined benefit to defined benefit
147.3(4)	Transfer — defined benefit to money purchase, RRSP or RRIF
147.3(4.1)	Transfer of surplus — defined benefit to money purchase
147.3(5)	Transfer to RPP, RRSP or RRIF for spouse on marriage breakdown
147.3(6)	Transfer — pre-1991 contributions
147.3(7)	Transfer — lump sum benefits on death
147.3(7.1)	Transfer where money purchase plan replaces money purchase plan
147.3(8)	Transfer where money purchase plan replaces defined benefit plan
147.3(9)	Taxation of amount transferred
147.3(10)	Idem
147.3(11)	Division of transferred amount
147.3(12)	Restriction re transfers
147.3(13)	Excess transfer
147.3(13.1)	Withdrawal of excessive transfers to RRSPs and RRIFs
147.3(14)	Deemed transfer
147.3(14.1)	Transfer of property between provisions
147.3(15)	Annuity contract commencing after age 69
147.4(1)	RPP annuity contract
147.4(2)	Amended contrast
147.4(3)	New contract
147.4(4)	RPP annuity contract beginning after age 69 [Repealed.]
	Life Insurance Policies
148(1)	Amounts included in computing policyholder's income
148(1.1)	Amount included in computing taxpayer's income
148(2)	Deemed proceeds of disposition
148(3)	Special rules for certain policies
148(4)	Income from disposition
148(6)	Proceeds receivable as annuity
148(7)	Disposition at non-arm's length and similar cases
148(8)	Idem
148(8.1)	Inter vivos transfer to spouse
148(8.2)	Transfer to spouse at death
148(9)	Definitions
	"adjusted cost basis"
	"amount payable"
	"cash surrender value"
	"child"
	"disposition"
	"interest"
	"policy loan"
	"premium"
	"proceeds of the disposition"
	"tax anniversary date"
	"value"
148(9.1)	Application of s. 12.2(11)
148(10)	Life annuity contracts
	Eligible Funeral Arrangements
148.1(1)	Definitions
	"custodian"
	"cemetery care trust"
	"cemetery services"
	"eligible funeral arrangement"
	"funeral services"
	"funeral or cemetery services"
	"qualifying person"
	"relevant contribution"
148.1(1)(b)	Definition of "custodian"
148.1(2)	Exemption for eligible funeral arrangements
148.1(3)	Income inclusion on return of funds
Prop. 148.1(4)	Deemed distribution on transfer
Prop. 148.1(5)	Non-application of subsection (4)

DIVISION H EXEMPTIONS

	Miscellaneous Exemptions
149(1)	Miscellaneous exemptions
149(1)(a)	Employees of a country other than Canada
149(1)(b)	Members of the family and servants of employees of a country other than Canada
149(1)(c)	Municipal authorities

Section	Subject
149(1)(d)	Corporations owned by the Crown
149(1)(d.1)	Corporations 90% owned by the Crown
149(1)(d.2)	Wholly-owned corporations
149(1)(d.3)	90% owned corporations
149(1)(d.4)	Combined ownership
149(1)(d.5)	Municipal corporations
Prop. 149(1)(d.5)	Income within boundaries of entities
149(1)(d.6)	Subsidiaries of municipal corporations
149(1)(e)	Certain organizations
149(1)(f)	Registered charities
149(1)(h.1)	Association of Universities and Colleges of Canada
149(1)(i)	Certain housing corporations
149(1)(j)	Non-profit corporations for scientific research and experimental development
149(1)(k)	Labour organizations
149(1)(l)	Non-profit organizations
149(1)(m)	Mutual insurance corporations
149(1)(n)	Housing companies
149(1)(o)	Pension trusts
149(1)(o.1)	Pension corporations
149(1)(o.2)	Idem
149(1)(o.3)	Prescribed small business investment corporations
149(1)(o.4)	Master trusts
149(1)(p)	Trusts under profit sharing plan
149(1)(q)	Trusts under a registered supplementary unemployment benefit plan
149(1)(q.1)	RCA trusts
149(1)(r)	Trusts under registered retirement savings plan
149(1)(s)	Trusts under deferred profit sharing plan
149(1)(s.1)	Trust governed by an eligible funeral arrangement
149(1)(s.2)	Cemetery care trust
149(1)(t)	Farmers' and fishermen's insurer
149(1)(u)	Registered education savings plans
149(1)(u.1)	Trusts under registered disability savings plans
149(1)(u.2)	TFSA trust
149(1)(v)	Amateur athlete trust
149(1)(w)	Trusts to provide compensation
149(1)(x)	Registered retirement income funds
149(1)(y)	Trusts to provide vacation pay
149(1)(z)	Qualifying environmental trust
Prop. 149(1)(z.1)	[Trust created because of Environment Quality Act (Quebec)]
Prop. 149(1)(z.2)	[Trust created because of Nuclear Fuel Waste Act]
149(1.1)	Exception
149(1.11)	Election
149(1.2)	Income test
149(1.3)	Capital ownership
Prop. 149(1.3)	Votes or de facto control
149(2)	Determination of income
149(3)	Application of s. (1)
149(4)	Idem
149(4.1)	Income exempt under 149(1)(t)
149(4.2)	Idem
149(4.3)	Computation of taxable income of insurer
149(5)	Exception re investment income of certain clubs
149(6)	Apportionment rule
149(7)	Time for filing
149(7.1)	Penalty for failure to file on time
149(8)	Interpretation of paragraph (1)(j)
149(9)	Rules for determining gross revenue
149(10)	Exempt corporations
Prop. 149(11)	Geographical boundaries — body performing government functions
149(12)	Information returns
	Charities
149.1	[Charities]
149.1(1)	Definitions
	"capital gains pool"
	"charitable foundation"
	"charitable organization"
	"charitable purposes"
	"charity"
	"disbursement quota"
	"divestment obligation percentage"
	"enduring property"
	"entrusted shares percentage" [Repealed.]
	"equity percentage"
	"excess corporate holdings percentage"
	"exempt shares"
	"exempt shares percentage"
	"material transaction"
	"non-qualified investment"
	"original corporate holdings percentage"
	"private foundation"
	"public foundation"
	"qualified donee"
	"related business"
	"relevant person"
	"specified gift"
	"substituted shares"
	"taxation year"
	"total corporate holdings percentage"
149.1(1.1)	Exclusions
149.1(1.2)	Authority of Minister
149.1(2)	Revocation of registration of charitable organization
149.1(3)	Revocation of registration of public foundation
149.1(4)	Revocation of registration of private foundation
149.1(4.1)	Revocation of registration of registered charity
149.1(5)	Reduction
149.1(6)	Devoting resources to charitable activity
149.1(6.1)	Charitable purposes
149.1(6.2)	Charitable activities
149.1(6.3)	Designation as public foundation, etc.
149.1(6.4)	National arts service organizations
149.1(6.5)	Revocation of designation
149.1(7)	Designation of associated charities
149.1(8)	Accumulation of property
149.1(9)	Idem
149.1(10)	Deemed charitable activity
149.1(12)	Rules
149.1(13)	Designation of private foundation as public
149.1(14)	Information returns
149.1(15)	Information may be communicated
149.1(20)	Rule regarding disbursement excess
149.1(21)	Definition of "disbursement excess"
149.1(22)	Refusal to register
149.1(23)	Annulment of registration
149.1(24)	Receipts issued before annulment
149.2(1)	Material and insignificant interests
149.2(2)	Material transaction — anti-avoidance
149.2(2.1)	Ownership
149.2(3)	Net increase in excess corporate holdings percentage
149.2(4)	Net decrease in excess corporate holdings percentage
149.2(5)	Allocation of net increase in excess corporate holdings percentage
149.2(6)	Minister's discretion
149.2(7)	Allocation of net decrease in excess corporate holdings percentage
149.2(8)	Transitional rule
149.2(9)	Where subsection (10) applies
149.2(10)	Shares held through a trust on March 18, 2007
149.2(11)	Discretionary trusts

DIVISION I RETURNS, ASSESSMENTS, PAYMENTS AND APPEALS

	Returns
150(1)	Filing returns of income — general rule
150(1)(a)	Corporations
150(1)(b)	Deceased individuals
150(1)(c)	Trusts or estates
150(1)(d)	Individuals
150(1)(e)	Designated persons
150(1.1)	Exception
150(2)	Demands for returns
150(3)	Trustees, etc.
150(4)	Death of partner or proprietor
150(5)	Excluded disposition

Section	Subject
150.1(1)	Definition of "electronic filing"
150.1(2)	Filing of return by electronic transmission
150.1(2.1)	Mandatory filing of return by electronic transmission
150.1(3)	Deemed date of filing
150.1(4)	Declaration
150.1(5)	Application to other Parts
	Estimate of Tax
151(1)	Estimate of tax
	Assessment
152(1)	Assessment
152(1.1)	Determination of losses
152(1.11)	Determination pursuant to s. 245(2)
152(1.111)	Application of s. 245(1)
152(1.12)	When determination not to be made
152(1.2)	Provisions applicable
152(1.3)	Determination binding
152(1.4)	Determination in respect of a partnership
152(1.5)	Notice of determination
152(1.6)	Absence of notification
152(1.7)	Binding effect of determination
152(1.8)	Time to assess
152(2)	Notice of assessment
152(3)	Liability not dependent on assessment
152(3.1)	Definition of "normal reassessment period"
152(3.2)	Determination of deemed overpayment
152(3.3)	Notice of determination
152(3.4)	Determination of UI premium tax credit
Prop. 152(3.4)	Determination of UI premium tax credit [Repealed.]
152(3.5)	Notice of determination
Prop. 152(3.5)	Notice of determination [Repealed.]
152(4)	Assessment and reassessment
152(4.01)	Assessment to which paragraph 152(4)(a), (b) or (c) applies
152(4.1)	Where waiver revoked
152(4.2)	Reassessment with taxpayer's consent
152(4.3)	Consequential assessment
152(4.4)	Definition of "balance"
152(5)	Limitation on assessments
152(6)	Reassessment where certain deductions claimed
152(6.1)	Reassessment where amount included in income under s. 91(1) is reduced
152(6.2)	Extended reassessment period
152(7)	Assessment not dependent on return or information
152(8)	Assessment deemed valid and binding
152(9)	Alternative basis for assessment
152(10)	Where tax deemed not to be assessed
	Payment of Tax
153(1)	Withholding
153(1.1)	Undue hardship
153(1.2)	Election to increase withholding
153(1.3)	Split-pension amount
153(1.4)	Exception — remittance to designated financial institution
153(2)	Deemed withholding
153(3)	Deemed effect of deduction
153(4)	Unclaimed dividends, interest and proceeds
153(5)	Deemed effect of remittance
153(6)	Meaning of "designated financial institution"
154(1)	Agreements providing for tax transfer payments
154(2)	Tax transfer payment
154(3)	Payment deemed received by individual
154(4)	Payment deemed received by Receiver General
154(5)	Amount not to include refund
155(1)	Farmers and fishermen
155(2)	Definition of "installment base"
156(1)	Other individuals
156(2)	Payment by mutual fund trusts
156(3)	Definition of "installment base"
156.1	[No installment required]
156.1(1)	Definitions
	"installment threshold"
	"net tax owing"
156.1(1.1)	Values of A and B in "net tax owing"
156.1(1.2)	Value of D in "net tax owing"
156.1(1.3)	Value of F in "net tax owing"

Section	Subject
156.1(2)	No installment required
156.1(3)	Idem
156.1(4)	Payment of remainder
157(1)	Payment by corporation
157(1.1)	Special case
157(1.2)	Small-CCPC
157(1.3)	Taxable income — small-CCPC
157(1.4)	Taxable capital — small-CCPC
157(1.5)	No longer a small-CCPC
157(2)	Special case [Repealed.]
157(2.1)	$3,000 threshold
157(3)	Reduced instalments
157(3.1)	Amount of payment — three-month period
157(4)	Definitions
157.1(1)	Definitions
	"eligible corporation"
	"eligible instalment day"
157.1(2)	Deferred balance-due day
157.1(3)	Deferred instalment day
158(1)	Payment of remainder
159(1)	Person acting for another
159(2)	Certificate before distribution
159(3)	Personal liability
159(3.1)	Appropriation of property
159(5)	Election where certain provisions applicable
159(5.1)	Idem
159(6)	Idem
159(6.1)	Election where s. 104(4) applicable
159(7)	Form and manner of election and interest
160(1)	Tax liability re property transferred not at arm's length
160(1.1)	Joint liability where s. 69(11) applies
Prop. 160(1.1)	Joint and several, or solidary, liability — s. 69(11)
160(1.2)	Joint liability — tax on split income
Prop. 160(1.2)	Joint and several, or solidary, liability — tax on split income
160(1.3)	Joint liability — tax on split-pension income
160(2)	Assessment
Prop. 160(2.1)	Assessment
160(3)	Discharge of liability
160(3.1)	Fair market value of undivided interest
Prop. 160(3.1)	Fair market value of undivided interest or right
160(4)	Special rules re transfer of property to spouse
160.1(1)	Where excess refunded
160.1(1.1)	Liability for refunds by reason of s. 122.5
160.1(2.1)	Liability for refunds by reason of s. 122.61
160.1(2.2)	Liability for excess refunds under s. 126.1 to partners
160.1(3)	Assessment
160.1(4)	Where amount applied to liability
160.2(1)	Joint and several liability in respect of amounts received out of or under RRSP
160.2(2)	Joint and several liability in respect of amounts received out of or under RRIF
Prop. 160.2(2.1)	Joint and several liability in respect of a qualifying trust annuity
Prop. 160.2(2.2)	No limitation on liability
160.2(3)	Minister may assess recipient
Prop. 160.2(3)	Assessment
160.2(4)	Rules applicable
Prop. 160.2(5)	Rules applicable — qualifying trust annuity
160.21(1)	Joint and several liability — registered disability savings plan
160.21(2)	No limitation on liability
160.21(3)	Rules applicable — registered disability savings plans
160.21(4)	Assessment
160.3(1)	Liability in respect of amounts received out of or under RCA trust
160.3(2)	Minister may assess recipient
Prop. 160.3(2)	Assessment
160.3(3)	Rules applicable
160.4(1)	Liability in respect of transfers by insolvent corporations
160.4(2)	Indirect transfers
160.4(3)	Minister may assess recipient
Prop. 160.4(3)	Assessment
160.4(4)	Rules applicable
	Interest
161(1)	General
161(2)	Interest on installments

Section	Subject
161(2.1)	Exception [Repealed.]
161(2.2)	Contra interest
161(4)	Limitation — farmers and fishermen
161(4.01)	Limitation — other individuals
161(4.1)	Limitation — corporations
161(5)	Participation certificates
161(6)	Income of resident from a foreign country in blocked currency
161(6.1)	Foreign tax credit adjustment
161(6.2)	Flow-through share renunciations
161(7)	Effect of carryback of loss, etc.
161(8)	Certain amounts deemed to be paid as installments
161(9)	Definitions of "instalment base", etc.
161(10)	When amount deemed paid
161(11)	Interest on penalties
161(12)	Partnership liable to interest [Repealed.]
	Offset of Refund Interest and Arrears Interest
161.1(1)	Definitions
	"accumulated overpayment amount"
	"accumulated underpayment amount"
	"arrears interest"
	"overpayment amount"
	"refund interest"
	"underpayment amount"
161.1(2)	Concurrent refund interest and arrears interest
161.1(3)	Contents of application
161.1(4)	Reallocation
161.1(5)	Repayment of refund
161.1(6)	Consequential reallocations
161.1(7)	Assessments
161.2	Period where interest not payable
161.3	Interest and penalty amounts of $25 or less
161.4(1)	Taxpayer
161.4(2)	Minister
	Penalties
162(1)	Failure to file return of income
162(2)	Repeated failure to file
162(2.1)	Failure to file — non-resident corporation
162(3)	Failure to file by trustee
162(4)	Ownership certificate
162(5)	Failure to provide information on form
162(6)	Failure to provide identification number
162(7)	Failure to comply
162(7.01)	Late filing penalty — prescribed information returns
162(7.02)	Failure to file in appropriate manner — prescribed information returns
162(7.1)	Failure to make partnership information return
162(7.2)	Failure to file in appropriate manner — return of income
162(8)	Repeated failure to file
162(8.1)	Rules where partnership liable to a penalty
162(10)	Failure to furnish foreign-based information
162(10.1)	Additional penalty
Prop. 162(10.11)	Application to trust contributions
162(10.2)	Shares or debt owned by controlled foreign affiliate
162(10.3)	Application to partnerships
162(10.4)	Application to non-resident trusts
Prop. 162(10.4)	[Repealed.]
162(11)	Effect of subsequent events
163(1)	Repeated failures
163(2)	False statements or omissions
163(2.1)	Interpretation
163(2.21)	False statement or omissions with respect to look-back rule
163(2.2)	Penalty
163(2.3)	Idem
163(2.4)	False statement or omission
Prop. 163(2.41)	Application to trust contributions
163(2.5)	Shares or debt owned by controlled foreign affiliate
163(2.6)	Application to partnerships
163(2.7)	Application to partnerships
163(2.8)	Application to members of partnerships
163(2.9)	Where partnership liable to penalty
163(2.91)	Application to non-resident trusts
Prop. 163(2.91)	[Repealed.]
163(3)	Burden of proof in respect of penalties
163(4)	Effect of carryback of losses etc.
163.1	Penalty for late or deficient instalments
	Misrepresentation of a Tax Matter by a Third Party
163.2(1)	Definitions
	"culpable conduct"
	"entity"
	"excluded activity"
	"false statement"
	"gross entitlements"
	"participate"
	"person"
	"planning activity"
	"subordinate"
	"tax benefit"
	"valuation activity"
163.2(2)	Penalty for misrepresentations in tax planning arrangements
163.2(3)	Amount of penalty
163.2(4)	Penalty for participating in a misrepresentation
163.2(5)	Amount of penalty
163.2(6)	Reliance in good faith
163.2(7)	Non-application of subsection (6)
163.2(8)	False statements in respect of a particular arrangement
163.2(9)	Clerical services
163.2(10)	Valuations
163.2(11)	Exception
163.2(12)	Special rules
163.2(13)	Assessment void
163.2(14)	Maximum penalty
	Refunds
164(1)	Refunds
164(1.1)	Repayment on objections and appeals
164(1.2)	Collection in jeopardy
164(1.3)	Notice of application
164(1.31)	Application of ss. 225.2(4), (10), (12) and (13)
164(1.4)	Provincial refund
164(1.5)	Idem
Prop. 164(1.51)	Where subsection (1.52) applies
Prop. 164(1.52)	Instalment refund
Prop. 164(1.53)	Penalties, interest not affected
164(1.6)	Refund of UI premium tax credit
Prop. 164(1.6)	Refund of UI premium tax credit [Repealed.]
164(1.7)	Limitation of repayment on objections and appeals
164(1.8)	Request to pay refund to province
164(2)	Application to other debts
164(2.01)	Withholding of refunds
164(2.1)	Application respecting refunds under s. 122.5
164(2.2)	Application respecting refunds re s. 122.61
164(2.3)	Form deemed to be a return of income
164(3)	Interest on refunds and repayments
164(3.1)	Idem
164(3.2)	Interest where amounts cancelled
164(4)	Interest on interest repaid
164(4.1)	Duty of Minister
164(5)	Effect of carryback of loss, etc.
164(5.1)	Interest — disputed amounts
164(6)	Where disposition of property by legal representative of deceased taxpayer
164(6.1)	Realization of deceased employees' options
164(7)	Definition of "overpayment"
164.1(2)	Nature of payment
164.1(3)	Idem
164.1(4)	Applying amount on debt
	Objections to Assessments
165(1)	Objections to assessment
165(1.1)	Limitation of right to object to assessments or determinations
165(1.11)	Objections by large corporations
165(1.12)	Late compliance
165(1.13)	Limitations on objections by large corporations
165(1.14)	Application of subsection (1.13)
165(1.15)	Partnership
165(1.2)	Limitation on objections
165(2)	Service
165(2.1)	Application

Section	Subject
165(3)	Duties of Minister
165(5)	Validity of reassessment
165(6)	Validity of notice of objection
165(7)	Notice of objection not required
	General
166	Irregularities
166.1(1)	Extension of time by Minister
166.1(2)	Contents of application
166.1(3)	How application made
166.1(4)	Idem
166.1(5)	Duties of Minister
166.1(6)	Date of objection or request if application granted
166.1(7)	When order to be made
166.2(1)	Extension of time by Tax Court
166.2(2)	How application made
166.2(3)	Copy to Commissioner
166.2(4)	Powers of Court
166.2(5)	When application to be granted
167(1)	Extension of time to appeal
167(2)	Contents of application
167(3)	How application made
167(4)	Copy to Deputy Attorney General
167(5)	When order to be made
	Revocation of Registration of Certain Organizations and Associations
168(1)	Notice of intention to revoke registration
168(2)	Revocation of registration
168(3)	Charities Registration (Security Information) Act
168(4)	Objection to proposal or designation

DIVISION J APPEALS TO THE TAX COURT OF CANADA AND THE FEDERAL COURT

169(1)	Appeal
169(1.1)	Ecological gifts
169(2)	Limitation of right to appeal from assessments or determinations
169(2.1)	Limitation on appeals by large corporations
169(2.2)	Waived issues
169(3)	Disposition of appeal on consent
169(4)	Provisions applicable
170(1)	Notice to Commissioner
170(2)	Notice, etc., to be forwarded to Tax Court of Canada
171(1)	Disposal of Appeal
171(1.1)	Ecological gifts
172	Appeal from refusal to register, revocation of registration, etc.
172(3)	Appeal from refusal to register, revocation of registration, etc.
172(3.1)	Exception — Charities Registration (Security Information) Act
172(4)	Deemed refusal to register
172(4.1)	Exception — Charities Registration (Security Information) Act
172(5)	Idem
172(6)	Application of s. 149.1(1)
173(1)	References to Tax Court of Canada
173(2)	Time during consideration not to count
174(1)	Reference of common questions to Tax Court of Canada
174(2)	Application to Court
174(3)	Where Tax Court of Canada may determine question
174(4)	Determination final and conclusive
174(4.1)	Appeal
174(5)	Time during consideration of question not counted
175(1)	Institution of appeals
176(1)	Notice, etc., to be forwarded to Tax Court of Canada
176(2)	Documents to be transferred to Federal Court
179	Hearings in camera
179.1	No reasonable grounds for appeal
180(1)	Appeals to Federal Court of Appeal
180(2)	No jurisdiction in a Tax Court of Canada or Federal Court–Trial Division
180(3)	Summary disposition of appeal

PART I.1
INDIVIDUAL SURTAX

180.1(1)	Individual surtax
180.1(1.1)	Foreign tax deduction
180.1(1.2)	Deduction from tax
180.1(1.3)	Idem
180.1(1.4)	Former resident credit for tax paid
180.1(3)	Return
180.1(4)	Provisions applicable to Part

PART I.2
TAX ON FAMILY ALLOWANCES AND OLD AGE SECURITY BENEFITS

180.2(1)	Definitions
	"adjusted income"
	"base taxation year"
	"return of income"
180.2(2)	Tax payable
180.2(3)	Withholding
180.2(4)	Determination of amount to be withheld
180.2(5)	Return
180.2(6)	Provisions applicable to this Part

PART I.3
TAX ON LARGE CORPORATIONS

181	[Large corporations tax]
181(1)	Definitions
	"financial institution"
	"long-term debt"
	"reserves"
181(2)	Prescribed expressions
181(3)	Determining values and amounts
181(4)	Limitations respecting inclusions and deductions
181.1(1)	Tax payable
181.1(1.1)	Specified percentage
181.1(1.2)	Exceptions
181.1(2)	Short taxation years
181.1(3)	Where tax not payable
181.1(4)	Deduction
181.1(5)	Idem
181.1(6)	Definitions
	"Canadian surtax payable"
	"unused surtax credit"
181.1(7)	Acquisition of control
181.2(1)	Taxable capital employed in Canada
181.2(2)	Taxable capital
181.2(3)	Capital
181.2(4)	Investment allowance
181.2(5)	Value of interest in partnership
181.2(6)	Loan
181.3(1)	Taxable capital employed in Canada of financial institution
181.3(2)	Taxable capital of financial institution
181.3(3)	Capital of financial institution
181.3(4)	Investment allowance of financial institution
181.3(5)	Interpretation
181.4	Taxable capital employed in Canada of non-resident
181.5(1)	Capital deduction
181.5(1.1)	Exceptions
181.5(2)	Related corporations
181.5(3)	Allocation by Minister

Section	Subject
181.5(4)	Idem
181.5(4.1)	Exceptions
181.5(5)	Idem
181.5(6)	Idem
181.5(7)	Related corporations that are not associated
181.6	Return
181.7	Payment of tax
181.71	Provisions applicable — Crown corporations

PART II
TOBACCO MANUFACTURERS' SURTAX

182(1)	Surtax
182(2)	Definitions
	"exempt activity"
	"Part I tax on tobacco manufacturing profits"
	"tobacco manufacturing"
	"tobacco manufacturing capital and labour cost"
183(1)	Return
183(2)	Payment
183(3)	Provisions applicable

PART II.1
TAX ON CORPORATE DISTRIBUTIONS

183.1(1)	Application of Part
183.1(2)	Tax payable
183.1(3)	Stock dividend
183.1(4)	Purchase of shares
183.1(5)	Indirect payment
183.1(6)	Where s. (2) does not apply
183.1(7)	Where s. 110.6(8) does not apply
183.2(1)	Return
183.2(2)	Provisions applicable to Part

PART III
ADDITIONAL TAX ON EXCESSIVE ELECTIONS

184(1)	Tax on excess of dividend paid over portion payable out of tax-paid undistributed surplus or 1971 capital surplus
184(2)	Tax on excessive elections
184(2.1)	Reduction of excess
Prop. 184(2.1)	Reduction of excess [Repealed.]
184(3)	Election to treat excess as separate dividend
184(3.1)	Election to treat dividend as loan
Prop. 184(3.1)	Election to treat dividend as loan [Repealed.]
184(3.2)	Idem
Prop. 184(3.2)	Idem [Repealed.]
184(4)	Concurrence with election
184(5)	Penalty
Prop. 184(5)	Exception for non-taxable shareholders
185(1)	Assessment of tax
185(2)	Payment of tax and interest
185(3)	Provisions applicable to Part
185(4)	Joint and several liability from excessive elections
Prop. 185(4)	Joint and several, or solidary, liability from excessive elections
185(5)	Assessment
185(6)	Rules applicable

PART III.1
ADDITIONAL TAX ON EXCESSIVE ELIGIBLE DIVIDEND DESIGNATIONS

185.1(1)	Tax on excessive eligible dividend designations
185.1(2)	Election to treat excessive eligible dividend designation as an ordinary dividend
185.1(3)	Concurrence with election
185.1(4)	Exception for non-taxable shareholders
185.2(1)	Return
185.2(2)	Provisions applicable to Part
185.2(3)	Joint and several liability from excessive eligible dividend designations
185.2(4)	Assessment
185.2(5)	Rules applicable

PART IV
TAX ON TAXABLE DIVIDENDS RECEIVED BY PRIVATE CORPORATIONS

186(1)	Tax on assessable dividends
186(1.1)	Reduction where Part IV.1 tax payable
186(2)	When corporation controlled
186(3)	Definitions
	"assessable dividend"
	"subject corporation"
186(4)	Corporations connected with particular corporation
186(5)	Deemed private corporation
186(6)	Partnerships
186.1	Exempt corporations
186.2	Exempt dividends
187(1)	Information return
187(2)	Interest
187(3)	Provisions applicable to Part

PART IV.1
TAXES ON DIVIDENDS ON CERTAIN PREFERRED SHARES RECEIVED BY CORPORATIONS

187.1	Definition of "excepted dividend"
187.2	Tax on dividends on taxable preferred shares
187.3(1)	Tax on dividends on taxable RFI shares
187.3(2)	Time of acquisition of share
187.4	Partnerships
187.5	Information return
187.6	Provisions applicable — Crown corporations
187.61	Provisions applicable — Crown corporations

PART V
TAX AND PENALTIES IN RESPECT OF REGISTERED CHARITIES

187.7	Application of s. 149.1(1)
188(1)	Deemed year-end on notice of revocation
188(1.1)	Revocation tax
188(1.2)	Winding-up period
188(1.3)	Eligible donee
188(2)	Shared liability — revocation tax
Prop. 188(2)	Joint and several, or solidary, liability — revocation tax
188(2.1)	Non-application of revocation tax
188(3)	Transfer of property tax
188(3.1)	Non-application of s. (3)
188(4)	Idem
Prop. 188(4)	Joint and several, or solidary, liability — tax transfer
188(5)	Definitions
	"net asset amount"

Section	Subject
	"net value"
188.1(1)	Penalties for charities — carrying on business
188.1(2)	Increased penalty for subsequent assessment
188.1(3)	Control of corporation by a charitable foundation
188.1(3.1)	Penalty for excess corporate holdings
188.1(3.2)	Avoidance of divestiture
188.1(3.3)	Where subsection (3.5) applies
188.1(3.4)	Rules applicable
188.1(3.5)	Avoidance of divestiture
188.1(4)	Undue benefits
188.1(5)	Meaning of undue benefits
188.1(6)	Failure to file information returns
188.1(7)	Incorrect information
188.1(8)	Increased penalty for subsequent assessment
188.1(9)	False information
188.1(10)	Maximum amount
188.1(11)	Delay of expenditure
188.2(1)	Notice of suspension with assessment
188.2(2)	Notice of suspension — general
188.2(3)	Effect of suspension
188.2(4)	Application for postponement
188.2(5)	Grounds for postponement
189(1)	Tax regarding non-qualified investment
189(2)	Computation of interest on debt
189(3)	Share deemed to be debt
189(4)	Computation of interest with respect to a share
189(5)	Share substitution
189(6)	Taxpayer to file return and pay tax
189(6.1)	Revoked charity to file returns
189(6.2)	Reduction of revocation tax liability
189(6.3)	Reduction of liability for penalties
189(7)	Minister may assess
189(8)	Provisions applicable to Part
189(8.1)	Clarification re objections under s. 168(4)
189(9)	Interest

PART VI
TAX ON CAPITAL OF FINANCIAL INSTITUTIONS

190	[Capital tax on financial institutions]
190(1)	Definitions
	"financial institution"
	"long-term debt"
	"reserves"
190(1.1)	Prescribed meanings
190(1.2)	Additional tax payable by deposit-taking institutions
190(2)	Application of ss. 181(3) and (4)
	Calculation of Capital Tax
190.1(1)	Tax payable
190.1(1.1)	Additional tax payable by life insurance corporations [Repealed.]
190.1(1.2)	Additional tax payable by deposit-taking institutions [Repealed.]
190.1(2)	Short taxation years
190.1(3)	Deduction
190.1(4)	Idem
190.1(5)	Definitions
	"unused Part I tax credit"
	"unused surtax credit"
190.1(6)	Acquisition of control
190.11	Taxable capital employed in Canada
190.12	Taxable capital
190.13	Capital
190.14	Investment in related institutions
190.15(1)	Capital deduction
190.15(2)	Related financial institution
190.15(3)	Allocation by Minister
190.15(4)	Idem
190.15(5)	Idem
190.15(6)	Idem
190.16(1)	Application to taxation year including July 1, 2006
190.16(2)	Proportionate allocation
190.16(3)	Capital deduction deemed
190.16(4)	Idem
190.16(5)	Provisions applicable to Part
190.17(1)	Enhanced capital deduction [Repealed.]
190.17(2)	Related financial institution [Repealed.]
190.17(3)	Minister's powers [Repealed.]
190.17(4)	Least amount allocated [Repealed.]
190.17(5)	Provisions applicable to Part [Repealed.]
	Administrative Provisions
190.2	Return
190.21	Provisions applicable to Part
190.211	Provisions applicable — Crown corporations

PART VI.I
TAX ON CORPORATIONS PAYING DIVIDENDS ON TAXABLE PREFERRED SHARES

191	[Tax on corporations paying dividends on taxable preferred shares]
191(1)	Definitions
	"excluded dividend"
	"financial intermediary corporation"
	"private holding corporation"
191(2)	Substantial interest
191(3)	Idem
191(4)	Deemed dividends
191(5)	Where s. (4) does not apply
Prop. 191(6)	Excluded dividend — partner
191.1(1)	Tax on taxable dividends
191.1(2)	Dividend allowance
191.1(3)	Associated corporations
191.1(4)	Total dividend allowance
191.1(5)	Failure to file agreement
191.1(6)	Dividend allowance in short years
191.2(1)	Election
191.2(2)	Time of election
191.2(3)	Assessment
191.3(1)	Agreement respecting liability for tax
191.3(1.1)	Consideration for agreement
191.3(2)	Manner of filing agreement
191.3(3)	Assessment
191.3(4)	Related corporations
191.3(5)	Assessment of transferor corporation
191.3(6)	Payment by transferor corporation
191.4(1)	Information return
191.4(2)	Provisions applicable to Part
191.4(3)	Provisions applicable — Crown corporations

PART VII
REFUNDABLE TAX ON CORPORATIONS ISSUING QUALIFYING SHARES

192(1)	Corporation to pay tax
192(2)	Definition of "Part VII refund"
192(3)	Definition of "refundable Part VII tax on hand"
192(4)	Corporation may designate amount
192(4.1)	Computing paid-up capital after designation
192(5)	Presumption
192(6)	Definition of "qualifying share"
192(7)	Effect of obligation to acquire shares
192(8)	Late designation
192(9)	Penalty for late designation
192(10)	Deemed deduction
192(11)	Restriction
193(1)	Corporation to file return
193(2)	Corporation to make payment on account of tax
193(3)	Interest
193(4)	Idem
193(5)	Evasion of tax
193(6)	Undue deferral

Section	Subject
193(7)	Avoidance of tax
193(7.1)	Tax on excess
193(8)	Provisions applicable to Part

PART VIII
REFUNDABLE TAX ON CORPORATIONS IN RESPECT OF SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT TAX CREDIT

Section	Subject
194(1)	Corporation to pay tax
194(2)	Definition of "Part VIII refund"
194(3)	Definitions "debt obligation" "refundable Part VIII tax on hand"
194(4)	Corporation may designate amount
194(4.1)	Computing paid-up capital after designation
194(4.2)	Where amount may not be designated
194(5)	Presumption
194(6)	Definition of "scientific research and experimental development financing contract"
194(7)	Late designation
194(8)	Penalty for late designation
194(9)	Restriction
195(1)	Corporation to file return
195(2)	Corporation to make payment on account of tax
195(3)	Interest
195(4)	Idem
195(5)	Evasion of tax
195(6)	Undue deferral
195(7)	Avoidance of tax
195(7.1)	Tax on excess
195(8)	Provisions applicable to Part

PART IX
TAX ON DEDUCTION UNDER SECTION 66.5

Section	Subject
196(1)	Tax in respect of cumulative offset account
196(2)	Return
196(3)	Instalments
196(4)	Provisions applicable to Part

Prop. PART IX.1
TAX ON SIFT PARTNERSHIP

Section	Subject
197(1)	Definitions "non-portfolio earnings" "SIFT partnership" "taxable non-portfolio earnings"
197(2)	Tax on partnership income
197(3)	Ordering
197(4)	Partnership to file return
197(5)	Authority to file return
197(6)	Provisions applicable to Part
197(7)	Payment
197(8)	Application of definition "SIFT partnership"

PART X
TAXES ON DEFERRED PROFIT SHARING PLANS AND REVOKED PLANS

Section	Subject
198(1)	Tax on non-qualified investments and use of assets as security
198(2)	Payment of tax
198(3)	Trustee liable for tax
198(4)	Refund of tax on disposition of non-qualified investment
198(5)	Refund of tax on recovery of property given as security
198(6)	Special rules relating to life insurance policies
198(6.1)	Idem
198(7)	Idem
198(8)	Idem
199(1)	Tax on initial non-qualified investments not disposed of
199(2)	Refund
200	Distribution deemed disposition
201(1)	Tax where inadequate consideration on purchase or sale
201(2)	Idem
201(3)	Amount forfeited in a trust
201(4)	Deemed allocation
202(1)	Returns and payment of estimated tax
202(2)	Consideration of application for refund
202(3)	Provisions applicable to Part
202(4)	Provisions applicable to refunds
202(5)	Interest
202(6)	Deemed payment of tax
203	Application to other taxes
204	Definitions "debt obligation" "equity share" "excluded property" "excluded share" "initial base" "initial non-qualified investment" "non-participating share" "non-qualified investment" "paid-up capital value" "qualified investment" "revoked plan"

PART X.1
TAX IN RESPECT OF OVER-CONTRIBUTIONS TO DEFERRED INCOME PLANS

Section	Subject
204.1(1)	Tax payable by individuals
204.1(2)	Amount deemed repaid
204.1(2.1)	Tax payable by individuals — contributions after 1990
204.1(3)	Tax payable by deferred profit sharing plan
204.1(4)	Waiver of tax
204.2(1)	Definition of "excess amount for a year in respect of registered retirement savings plans"
204.2(1.1)	Cumulative excess amount in respect of RRSPs
204.2(1.2)	Undeducted RRSP premiums
204.2(1.3)	Group RRSP amount
204.2(1.31)	Qualifying group RRSP premium
204.2(1.32)	Qualifying arrangement
204.2(1.4)	Deemed receipt where RRSP or RRIF amended
204.2(1.5)	Transitional amount
204.2(2)	Where terminated plan deemed to continue to exist
204.2(3)	When retirement savings plan deemed to be a registered plan
204.2(4)	Definition of "excess amount" for a DPSP
204.3(1)	Return and payment of tax
204.3(2)	Provisions applicable to Part

Reference Material

Section	Subject	Section	Subject

PART X.2
TAX IN RESPECT OF REGISTERED INVESTMENTS

204.4(1)	Definition of "registered investment"	204.6(1)	Tax payable
204.4(2)	Acceptance of applicant for registration	204.6(2)	Idem
204.4(3)	Revocation of registration	204.6(3)	Idem
204.4(4)	Suspension of revocation	Prop. 204.6(3)	Tax payable — real property or immovables
204.4(5)	Cancellation of revocation	204.7(1)	Return and payment of tax
204.4(6)	Successor trust	204.7(2)	Liability of trustee
204.4(7)	Deemed registration of registered investment	204.7(3)	Provisions applicable to Part
204.5	Publication of list in Canada Gazette		

PART X.3
REGISTERED LABOUR-SPONSORED VENTURE CAPITAL CORPORATIONS

204.8(1)	Definitions	204.81(8.1)	Voluntary de-registration
	"annuitant"	204.81(8.2)	Application of s. 248(7)
	"eligible business entity"	204.81(9)	Right of appeal
	"eligible investment"	204.82(1)	Recovery of credit
	"eligible labour body"	204.82(2)	Liability for tax
	"original acquisition"	204.82(2.1)	Determination of investment shortfall
	"reserve"	204.82(2.2)	Investment shortfall
	"revoked corporation"	204.82(3)	Recovery of credit
	"specified active business"	204.82(4)	Penalty
	"specified individual"	204.82(5)	Provincially registered LSVCCs
	"start-up period"	204.82(6)	Further matching of amounts payable to a province
204.8(2)	When venture capital business discontinued		
204.8(3)	Date of issue of Class A shares	204.83(1)	Refunds for federally registered LSVCCs
204.81(1)	Conditions for registration	204.83(2)	Refunds of amounts payable to provinces
Prop. 204.81(1.1)	Corporations incorporated before March 6, 1996	204.84	Penalty
		204.841	Penalty tax where venture capital business discontinued
Prop. 204.81(1.2)	Deemed provisions in articles		
204.81(2)	Registration number	204.85(1)	Dissolution of federally registered LSVCCs
204.81(3)	Successive registrations	204.85(2)	Dissolution of other LSVCCs
204.81(4)	Determination of cost	204.85(3)	Amalgamations and mergers
204.81(5)	Registration date	204.86(1)	Return and payment of tax for registered LSVCCs
204.81(6)	Revocation of registration [Repealed.]		
204.81(7)	Notice of intent to revoke registration	204.86(2)	Return and payment of tax for other LSVCCs
204.81(8)	Idem	204.87	Provisions applicable to Part

PART X.4
TAX IN RESPECT OF OVERPAYMENT TO REGISTERED EDUCATION SAVINGS PLANS

204.9	[Tax on overpayments to registered education savings plans]	204.9(4)	New beneficiary
		204.9(5)	Transfers between plans
204.9(1)	Definitions	204.91	Tax payable by subscribers
	"excess amount"	204.91(1)	Tax payable by subscribers
	"RESP lifetime limit"	204.91(2)	Waiver of tax
	"subscriber's gross cumulative excess"	204.91(3)	Marriage breakdown
	"subscriber's share of the excess amount"	204.91(4)	Deceased subscribers
204.9(1.1)	Application of s. 146.1(1)	204.92	Return and payment of tax
204.9(2)	Agreements before February 21, 1990	204.93	Provisions applicable to Part
204.9(3)	Refunds from unregistered plans		

PART X.5
PAYMENTS UNDER REGISTERED EDUCATION SAVINGS PLAN

204.94(1)	Definitions	204.94(3)	Return and payment of tax
204.94(2)	Charging provision	204.94(4)	Administrative rules

PART XI
TAXES IN RESPECT OF REGISTERED DISABILITY SAVINGS PLANS

205(1)	Definitions	206.1(4)	Refund of tax on disposition of non-qualified investment
	"advantage"		
	"allowable refund"	206.1(5)	Apportionment of refund
	"benefit"	206.1(6)	Deemed disposition and reacquisition
	"qualified investment"	206.2(1)	Tax payable where advantage extended
205(2)	Definitions in subsection 146.4(1)	206.2(2)	Amount of tax payable
206(1)	Tax payable where inadequate consideration	206.2(3)	Liability for tax
206(2)	Amount of tax payable	206.3(1)	Tax payable on use of property as security
206(3)	Liability for tax	206.3(2)	Amount of tax payable
206(4)	Payment of amount collected to RDSP	206.4	Waiver of liability
206(5)	Deemed not to be a contribution	207(1)	Return and payment of tax
206.1(1)	Tax payable on non-qualified investment	207(2)	Refund
206.1(2)	Amount of tax payable	207(3)	Multiple holders
206.1(3)	Liability for tax	207(4)	Provisions applicable to Part

Section	Subject

PART XI.01
TAXES IN RESPECT OF TFSAs

Section	Subject
207.01(1)	Definitions
	"advantage"
	"allowable refund"
	"excess TFSA amount"
	"exempt contribution"
	"non-qualified investment"
	"prohibited investment"
	"qualified investment"
	"qualifying transfer"
	"restricted property" [Repealed.]
	"TFSA dollar limit"
	"unused TFSA contribution room"
207.01(2)	Exempt contribution to survivor TFSA [Repealed.]
207.01(3)	Survivor as successor holder
207.01(4)	Significant interest
207.01(5)	Obligation of issuer
207.02	Tax payable on excess TFSA amount
207.03	Tax payable on non-resident contributions
207.04(1)	Tax payable on prohibited or non-qualified investment
207.04(2)	Amount of tax payable
207.04(3)	Where both prohibited and non-qualified investment
207.04(4)	Refund of tax on disposition of investment
207.04(5)	Deemed disposition and reacquisition
207.04(6)	Additional tax payable on prohibited investment
207.04(7)	Amount of additional tax payable
207.05(1)	Tax payable where advantage extended
207.05(2)	Amount of tax payable
207.05(3)	Liability for tax
207.06(1)	Waiver of tax payable
207.06(2)	Waiver of tax payable
207.07(1)	Return and payment of tax
207.07(2)	Refund
207.07(3)	Provisions applicable to Part

PART XI.1
TAX IN RESPECT OF DEFERRED INCOME PLANS AND OTHER TAX EXEMPT PERSONS

Section	Subject
207.1(1)	Tax payable by trust under registered retirement savings plan
207.1(2)	Tax payable by trust under deferred profit sharing plan
207.1(3)	Tax payable by trust under registered education savings plan
207.1(4)	Tax payable by trust under registered retirement income fund
207.1(5)	Tax payable in respect of agreement to acquire shares
207.2(1)	Return and payment of tax
207.2(2)	Liability of trustee
207.2(3)	Provisions applicable to Part

PART XI.2
TAX IN RESPECT OF CERTAIN PROPERTY DISPOSED OF BY CERTAIN PUBLIC AUTHORITIES OR INSTITUTIONS

Section	Subject
207.3	Tax payable by institution or public authority
207.31	Tax payable by recipient of an ecological gift
207.4(1)	Return and payment of tax
207.4(2)	Provisions applicable to Part

PART XI.3
TAX IN RESPECT OF RETIREMENT COMPENSATION ARRANGEMENTS

Section	Subject
207.5	[Tax on retirement compensation arrangements]
207.5(1)	Definitions
	"RCA trust"
	"refundable tax"
	"subject property of a retirement compensation arrangement"
207.5(2)	Election
207.6(1)	Creation of trust
207.6(2)	Life insurance policies
207.6(3)	Incorporated employee
207.6(4)	Deemed contribution
207.6(5)	Residents' arrangement
207.6(5.1)	Resident's contribution
207.6(6)	Prescribed plan or arrangement
207.6(7)	Transfers
207.7(1)	Tax payable
207.7(2)	Refund
207.7(3)	Payment of tax
207.7(4)	Provisions applicable to Part

PART XII
TAX IN RESPECT OF CERTAIN ROYALTIES, TAXES, LEASE RENTALS, ETC., PAID TO A GOVERNMENT BY A TAX EXEMPT PERSON

Section	Subject
208(1)	Tax payable by exempt person
208(1.1)	Definition of "specified stage"
208(2)	Return and payment of tax
208(3)	Liability of trustee
208(4)	Provisions applicable to Part

PART XII.1
TAX ON CARVED-OUT INCOME

Section	Subject
209	[Tax on carved-out income]
209(1)	Definitions
	"carved-out income"
	"carved-out property"
	"head lease"
	"term"
209(2)	Tax
209(3)	Return
209(4)	Payment of tax
209(5)	Provisions applicable to Part
209(6)	Partnerships

PART XII.2
TAX ON DESIGNATED INCOME OF CERTAIN TRUSTS

Section	Subject
210	Designated beneficiary
Prop. 210(1)	Definitions
Prop.	"designated beneficiary"
Prop.	"designated income"

Section	Subject
Prop. 210(2)	Tax not payable
210.1	Application of Part
Prop. 210.1	Application of Part [Repealed.]
210.2(1)	Tax on income of trust
210.2(1.1)	Amateur athlete trusts
Prop. 210.2(1.1)	Amateur athlete trusts [Repealed.]
210.2(2)	Designated income
Prop. 210.2(2)	Amateur athlete trusts
210.2(3)	Tax deemed paid by beneficiary
210.2(4)	Designations in respect of partnerships
210.2(5)	Returns
210.2(6)	Liability of trustee
210.2(7)	Provisions applicable to Part
210.3(1)	Where no designated beneficiaries
210.3(2)	Where beneficiary deemed not designated

PART XII.3
TAX ON INVESTMENT INCOME OF LIFE INSURERS

211	[Tax on investment income of life insurers]
211(1)	Definitions
	"existing guaranteed life insurance policy"
	"life insurance policy" and "life insurance policy in Canada"
	"net interest rate"
	"non-participating life insurance policy"
	"participating life insurance policy"
	"policy loan"
	"registered life insurance policy"
	"reinsurance arrangement"
	"segregated fund"
	"specified transaction or event"
	"taxable life insurance policy"
211(2)	Riders and changes in terms
211.1(1)	Tax payable
211.1(2)	Taxable Canadian life investment income
211.1(3)	Canadian life investment income
211.1(4)	Short taxation year
211.2	Return
211.3	Instalments
211.3(2)	Annualized tax payable
211.4	Payment of remainder of tax
211.5(1)	Provisions applicable to Part
211.5(2)	Interest on instalments

PART XII.4
TAX ON QUALIFYING ENVIRONMENTAL TRUSTS

211.6(1)	Charging provision
211.6(2)	Computation of income
211.6(3)	Return
211.6(4)	Payment of tax
211.6(5)	Provisions applicable to Part

PART XII.5
RECOVERY OF LABOUR-SPONSORED FUNDS TAX CREDIT

211.7	Definitions
	"approved share"
	"labour-sponsored funds tax credit"
	"net cost"
	"original acquisition"
	"qualifying trust"
	"revoked corporation"
211.7(2)	Amalgamations and mergers
211.8(1)	Disposition of approved share
211.8(1.1)	Rules of application
211.8(2)	Withholding and remittance of tax
211.8(3)	Liability for tax
211.9	Refund

PART XII.6
TAX ON FLOW-THROUGH SHARES

211.91(1)	Tax imposed
211.91(2)	Return and payment of tax
211.91(3)	Provisions applicable to Part

PART XIII
TAX ON INCOME FROM CANADA OF NON-RESIDENT PERSONS

212(1)	Tax
212(1)(a)	Management fee
212(1)(b)	Interest
212(1)(c)	Estate or trust income
212(1)(d)	Rents, royalties, etc.
212(1)(e)	Timber royalties
212(1)(f)	Alimony
212(1)(g)	Patronage dividend
212(1)(h)	Pension benefits
Prop. 212(1)(i)	Restrictive covenant amount
212(1)(j)	Benefits
212(1)(j.1)	Retiring allowances
212(1)(k)	Supplementary unemployment benefit plan payments
212(1)(l)	Registered retirement savings plan payments
212(1)(m)	Deferred profit sharing plan payments
212(1)(n)	Income-averaging annuity contract payments
212(1)(o)	Other annuity payments
212(1)(p)	Former TFSA
212(1)(q)	Registered retirement income fund payments
212(1)(r)	Registered education savings plan
212(1)(r.1)	Registered disability savings plan
212(1)(s)	Home insulation or energy conversion grants
212(1)(t)	NISA Fund No. 2 payments
212(1)(u)	Amateur athlete trust payments
212(1)(v)	Payments under an eligible funeral arrangement
212(2)	Tax on dividends
Prop. 212(2.1)	Exempt dividends
212(3)	Interest — Definitions
	"fully exempt interest"
	"participating debt interest"
212(4)	Interpretation of "management or administration fee or charge"
212(5)	Motion picture films
212(5.1)	Acting services
212(5.2)	Relief from double taxation
212(5.3)	Reduction of withholding
212(6)	Interest on provincial bonds from wholly-owned subsidiaries
212(7)	Where s. (6) does not apply
212(8)	Bonds issued after December 20, 1960 in exchange for earlier bonds
212(9)	Exemptions
212(10)	Trust beneficiaries residing outside of Canada
212(11)	Payment to beneficiary as income of trust
212(12)	Deemed payments to spouse, etc.
212(13)	Rent and other payments
212(13.1)	Application of Part XIII tax where payer or payee is a partnership
212(13.2)	Application of Part XIII tax where non-resident operates in Canada
Prop. 212(13.2)	Application of Part XIII tax — non-resident operates in Canada
212(13.3)	Application of Part XIII to authorized foreign bank
212(14)	Certificate of exemption [Repealed.]

Section	Subject
212(15)	Certain obligations
212(16)	Payments for temporary use of rolling stock
212(17)	Exception
212(17.1)	Payments to the International Olympic Committee and the International Paralympic Committee
212(18)	Undertaking
212(19)	Tax on registered securities dealers
212(20)	Designated SLA
212.1(1)	Non-arm's length sales of shares by non-residents
212.1(2)	Idem
212.1(3)	Idem
212.1(4)	Where section does not apply
212.2(1)	Application
212.2(2)	Deemed dividend
213(1)	Tax non-payable by non-resident person
213(2)	Idem
213(3)	Corporation deemed to be foreign business corporation
214(1)	No deductions
214(2)	Income and capital combined
214(3)	Deemed payments
214(3.1)	Time of deemed payment
214(4)	Securities
214(5)	Interpretation
214(6)	Deemed interest
214(7)	Sale of obligation
214(7.1)	Idem
214(8)	Meaning of "excluded obligation"
214(9)	Deemed resident
214(10)	Reduction of tax
214(11)	Application of paragraph 212(1)(b)
214(12)	Where s. (2) does not apply
214(13)	Regulations respecting residents
214(14)	Assignment of obligation
214(15)	Standby charges and guarantee fees
215(1)	Withholding and remittance of tax
215(1.1)	Exception — corporate immigration
215(2)	Idem
215(3)	Idem
215(4)	Regulations creating exceptions
215(5)	Regulations reducing deduction or withholding
215(6)	Liability for tax
216(1)	Alternatives re rents and timber royalties
216(2)	Idem
216(3)	Idem
216(4)	Optional method of payment
Prop. 216(4.1)	Optional method of payment
216(5)	Disposition by non-resident of interest in real property, timber resource property or timber limit
Prop. 216(5)	Disposition by non-resident
216(6)	Saving provision
216(7)	Election
Prop. 216(7)	Election [Repealed.]
216(8)	Restriction on deduction
216.1(1)	Alternative re: acting services
216.1(2)	Deemed Part I payment
216.1(3)	Deemed election and restriction
217	Election respecting certain payments
217(1)	Alternative re Canadian benefits
217(2)	Part I return
217(3)	Taxable income earned in Canada
217(4)	Tax credits — limitation
217(5)	Tax credits allowed
217(6)	Special credit
218(1)	Loan to wholly-owned subsidiary
218(2)	Idem
218(3)	Election
218(4)	Application of election
218.1	Application of s. 138.1

PART XIII.1
ADDITIONAL TAX ON AUTHORIZED FOREIGN BANKS

218.2(1)	Branch interest tax
218.2(2)	Taxable interest expense
218.2(3)	Where tax not payable
218.2(4)	Rate limitation
218.2(5)	Provisions applicable to Part

PART XIII.2
NON-RESIDENT INVESTORS IN CANADIAN MUTUAL FUNDS

218.3(1)	Definitions
	"assessable distribution"
	"Canadian property mutual fund investment"
	"Canadian property mutual fund loss"
	"non-resident investor"
	"unused Canadian property mutual fund loss"
218.3(2)	Tax payable
218.3(3)	Use of losses
218.3(4)	Deemed tax paid
218.3(5)	Refund
218.3(6)	Excess loss — carryback
218.3(7)	Ordering
218.3(8)	Partnership filing-due date
218.3(9)	Partnership — member resident in Canada
218.3(10)	Provisions applicable

PART XIV
ADDITIONAL TAX ON NON-RESIDENT CORPORATIONS

219(1)	Additional tax
219(1.1)	Excluded gains
219(2)	Exempt corporations
219(3)	Provisions applicable to Part
219(4)	Non-resident insurers
219(5.1)	Additional tax on insurer
219(5.2)	Election by non-resident insurer
219(5.3)	Deemed payment of dividend
219(7)	Definitions
	"accumulated 1968 deficit"
	"attributed surplus"
	"Canadian investment fund"
	"maximum tax actuarial reserves"
	"surplus funds derived from operations"
	"tax deferred account"
219(8)	Meaning of "qualified related corporation"
219.1	Corporate emigration
219.2	Limitation on rate of branch tax
219.3	Effect of tax treaty

PART XV
ADMINISTRATION AND ENFORCEMENT

	Administration
220(1)	Minister's duty
220(2)	Officers, clerks and employees
220(2.01)	Delegation
220(2.1)	Waiver of filing of documents
Prop. 220(2.2)	Exception
220(3)	Extensions for returns
220(3.1)	Waiver of penalty or interest
220(3.2)	Late, amended or revoked elections
220(3.201)	Joint election — pension income split
220(3.21)	Designations and allocations
220(3.3)	Date of late election, amended election or revocation
220(3.4)	Assessments

Section	Subject
220(3.5)	Penalty for late filed, amended or revoked elections
220(3.6)	Unpaid balance of penalty
220(3.7)	Idem
220(3.8)	Dishonoured instruments
220(4)	Security
220(4.1)	Idem
220(4.2)	Surrender of excess security
220(4.3)	Security furnished by a member institution of a deposit insurance corporation
220(4.4)	Additional security
220(4.5)	Security for departure tax
220(4.51)	Deemed security
220(4.52)	Limit
220(4.53)	Inadequate security
220(4.54)	Extension of time
220(4.6)	Security for tax on distributions of taxable Canadian property to non-resident beneficiaries
220(4.61)	Limit
220(4.62)	Inadequate security
220(4.63)	Extension of time
220(4.7)	Undue hardship
220(4.71)	Limit
220(5)	Administration of oaths
220(6)	Assignment by corporation
220(7)	Effect of assignment
220.1(1)	Security for departure tax
220.1(2)	Deemed security
220.1(3)	Limit
220.1(4)	Inadequate security
220.1(5)	Extension of time
220.2(1)	Security for tax on distribution of taxable Canadian property to non-resident beneficiaries
220.2(2)	Limit
220.2(3)	Inadequate security
220.2(4)	Extension of time
221(1)	Regulations
221(2)	Effect
221(3)	Regulations binding Crown
221(4)	Incorporation by reference
221.1	Application of interest
221.2	Re-appropriation of amounts
	Collection
222(1)	Definitions
	"action"
	"tax debt"
222(2)	Debts to Her Majesty
222(3)	No actions after limitation period
222(4)	Limitation period
222(5)	Limitation period restarted
222(6)	Acknowledgement of tax debts
222(7)	Agent or legal representative
222(8)	Extension of limitation period
222(9)	Bar to claims
222(10)	Orders made after March 3, 2004 and before effect
222.1	Court costs
223(1)	Definition of "amount payable"
223(2)	Certificates
223(3)	Registration in court
223(4)	Costs
223(5)	Charge on property
223(6)	Creation of charge
223(7)	Proceedings in respect of memorial
223(8)	Presentation of documents
223(9)	Sale, etc.
223(10)	Completion of notices, etc.
223(11)	Application for an order
223(11.1)	Deemed security
223(12)	Details in certificates and memorials
223.1(1)	Application of ss. 223(1) to (8) and (12)
223.1(2)	Application of ss. 223(9) to (11)
224(1)	Garnishment
224(1.1)	Idem
224(1.2)	Garnishment
224(1.3)	Definitions
	"secured creditor"
	"security interest"
	"similar provision"
224(1.4)	Garnishment

Section	Subject
224(2)	Minister's receipt discharges original liability
224(3)	Idem
224(4)	Failure to comply with s. (1), (1.2) or (3) requirement
224(4.1)	Failure to comply with s. (1.1) requirement
224(5)	Service of garnishee
224(6)	Idem
224.1	Recovery by deduction or set-off
224.2	Acquisition of debtor's property
224.3(1)	Payment of moneys seized from tax debtor
224.3(2)	Receipt of Minister
225(1)	Seizure of chattels
Prop. 225(1)	Seizure of goods, chattels or movable property
225(2)	Sale of seized property
225(3)	Notice of sale
225(4)	Surplus returned to owner
225(5)	Exemptions from seizure
225.1(1)	Collection restrictions
225.1(1.1)	Collection commencement day
225.1(2)	Idem
225.1(3)	Idem
225.1(4)	Idem
225.1(5)	Idem
225.1(6)	Where ss. (1) to (4) do not apply
225.1(7)	Idem — large corporations
225.1(8)	Definition of "large corporation"
225.2(1)	Definition of "judge"
225.2(2)	Authorization to proceed forthwith
225.2(3)	Notice of assessment not sent
225.2(4)	Affidavits
225.2(5)	Service of authorization and of notice of assessment
225.2(6)	How service effected
225.2(7)	Application to judge for direction
225.2(8)	Review of authorization
225.2(9)	Limitation period for review application
225.2(10)	Hearing in camera
225.2(11)	Disposition of application
225.2(12)	Directions
225.2(13)	No appeal from review order
226(1)	Taxpayer leaving Canada
226(2)	Idem
Prop. 226(2)	Seizure in case of default of payment
227(1)	Withholding taxes
227(2)	Return filed with person withholding
227(3)	Failure to file return
227(4)	Trust for moneys deducted
227(4.1)	Extension of trust
227(4.2)	Meaning of security interest
227(4.3)	Application to Crown
227(5)	Payments by trustees, etc.
227(5.1)	Definition of "specified person"
227(5.2)	"Person" includes partnership
227(6)	Excess withheld, returned or applied
227(6.1)	Repayment of non-resident shareholder loan
227(7)	Application for assessment
227(7.1)	Application for determination
227(8)	Penalty
227(8.1)	Joint and several liability
Prop. 227(8.1)	Joint and several, or solidary, liability
227(8.2)	Retirement compensation arrangement deductions
227(8.3)	Interest on amounts not deducted or withheld
227(8.4)	Liability to pay amount not deducted or withheld
227(9)	Penalty
227(9.1)	Penalty
227(9.2)	Interest on amounts deducted or withheld but not remitted
227(9.3)	Interest on certain tax not paid
227(9.4)	Liability to pay amount not remitted
227(9.5)	Payment from same establishment
227(10)	Assessment
227(10.1)	Idem
227(10.2)	Joint and several liability re contributions to RCA
Prop. 227(10.2)	Joint and several, or solidary, liability re contributions to RCA
227(10.8)	Definitions
227(11)	Withholding tax
227(12)	Agreement not to deduct void
227(13)	Minister's receipt discharges debtor
227(14)	Application of other Parts

Section	Subject
227(15)	Partnership included in "person"
227(16)	Municipal or provincial corporation excepted
227.1(1)	Liability of directors for failure to deduct
227.1(2)	Limitations on liability
227.1(3)	Idem
227.1(4)	Limitation period
227.1(5)	Amount recoverable
227.1(6)	Preference
227.1(7)	Contribution
228	Applying payments under collection agreements
229.1(1)	Repeal of s. 229
229.1(2)	Coming into force
	General
230(1)	Records and books
230(2)	Idem
230(2.1)	Idem, lawyers
230(3)	Minister's requirement to keep records, etc.
230(4)	Limitation period for keeping records, etc.
230(4.1)	Electronic records
230(4.2)	Exemptions
230(5)	Exception where no return filed
230(6)	Exception where objection or appeal
230(7)	Exception where demand by Minister
230(8)	Permission for earlier disposal
230.1(1)	Records re monetary contributions — Canada Elections Act
Prop. 230.1(1)	Records re monetary contributions
230.1(2)	Information Return
230.1(3)	Application of ss. 230(3) to (8)
230.1(6)	Definitions [Repealed.]
230.1(7)	Definition of "amount contributed" [Repealed.]
231	Definitions
	"authorized person"
	"document"
	"dwelling-house"
	"judge"
231.1(1)	Inspections
231.1(2)	Prior authorization
231.1(3)	Application
231.2(1)	Requirement to provide documents or information
231.2(2)	Unnamed persons
231.2(3)	Judicial authorization
231.2(4)	Service of authorization
231.2(5)	Review of authorization
231.2(6)	Powers on review
231.3(1)	Search warrant
231.3(2)	Evidence in support of application
231.3(3)	Evidence
231.3(4)	Contents of warrant
231.3(5)	Seizure of document
231.3(6)	Retention of things seized
231.3(7)	Return of things seized
231.3(8)	Access and copies
231.4(1)	Inquiry
231.4(2)	Appointment of hearing officer
231.4(3)	Powers of hearing officer
231.4(4)	When powers to be exercised
231.4(5)	Rights of witness at inquiry
231.4(6)	Rights of person whose affairs are investigated
231.5(1)	Copies
231.5(2)	Compliance
231.6(1)	Definition of "foreign-based information or document"
231.6(2)	Requirement to provide foreign-based information
231.6(3)	Notice
231.6(4)	Review of foreign information requirement
231.6(5)	Powers on review
231.6(6)	Idem
231.6(7)	Time during consideration not to count
231.6(8)	Consequence of failure
231.7(1)	Compliance order
231.7(2)	Contempt of court
231.7(3)	Appeal
232	[Solicitor–client privilege]
232(1)	Definitions
	"custodian"
	"judge"
	"lawyer"
	"officer"
	"solicitor–client privilege"
232(2)	Solicitor–client privilege defence
232(3)	Seizure of certain documents where privilege claimed
232(3.1)	Examination of certain documents where privilege claimed
232(4)	Application to judge
232(5)	Disposition of application
232(6)	Order to deliver or make available
232(7)	Delivery by custodian
232(8)	Continuation by another judge
232(9)	Costs
232(10)	Directions
232(11)	Prohibition
232(12)	Idem
232(13)	Authority to make copies
232(14)	Waiver of claim of privilege
232(15)	Compliance
233(1)	Information return
233(2)	Partnerships
233(3)	Application to members of partnerships
233.1	Information return with respect to certain non-resident persons
233.1(1)	Definitions
	"reportable transaction"
	"reporting partnership"
	"reporting person"
	"transaction"
233.1(2)	Reporting person's information return
233.1(3)	Reporting partnership's information return
233.1(4)	De minimis exception
233.1(5)	Deemed member of partnership
233.2(1)	Definitions
	"exempt trust"
	"specified beneficiary"
Prop.	"specified beneficiary" [Repealed.]
	"specified foreign trust"
Prop.	"specified foreign trust" [Repealed.]
233.2(2)	Non-arm's length indicators
Prop. 233.2(2)	Rule of application
233.2(3)	Partnerships
Prop. 233.2(3)	[Repealed.]
233.2(4)	Filing information on specified foreign trusts
Prop. 233.2(4)	Filing information on foreign trusts
Prop. 233.2(4.1)	Similar arrangements
233.2(5)	Joint filing
233.3(1)	Definitions
	"reporting entity"
	"specified Canadian entity"
	"specified foreign property"
233.3(2)	Application to members of partnerships
233.3(3)	Returns respecting foreign property
233.4(1)	Reporting entity
233.4(2)	Rules of application
233.4(3)	Application to members of partnerships
233.4(4)	Returns respecting foreign affiliates
233.5	Due diligence exception
233.6(1)	Returns respecting distributions from non-resident trusts
233.6(2)	Excluded trust defined
233.7	Exception for first-year residents
234(1)	Ownership certificates
234(2)	Idem
234(3)	Idem
234.1	Purchase of aviation turbine fuel
235	Penalty for failing to file corporate returns
236	Execution of documents by corporations
237(1)	Social Insurance Number
237(1.1)	Production of number
237(2)	Number required in information returns
237(3)	Authority to communicate number
237(4)	Authority to communicate number
237.1	[Tax shelters]
237.1(1)	Definitions
	"gifting arrangement"
	"person"
	"promoter"
	"tax shelter"
237.1(2)	Application
237.1(3)	Identification
237.1(4)	Sales prohibited

Section	Subject
237.1(5)	Providing tax shelter number
237.1(6)	Deductions and claims disallowed
237.1(6.1)	Deductions and claims disallowed
237.1(6.2)	Assessments
237.1(7)	Information return
237.1(7.1)	Time for filing return
237.1(7.2)	Time for filing — special case
237.1(7.3)	Copies to be provided
237.1(7.4)	Penalty
237.1(8)	Application of ss. 231 to 231.3
237.2	Application of s. 237.1
	Offences and Punishment
238(1)	Offences and punishment
238(2)	Compliance orders
238(3)	Saving
239(1)	Other offences and punishment
239(1.1)	Offences re refunds and credits
239(2)	Prosecution on indictment
239(2.1)	Providing incorrect tax shelter identification number
239(2.2)	Offence with respect to confidential information
239(2.21)	Idem
239(2.22)	Definitions
239(2.3)	Offence with respect to an identification number
239(3)	Penalty on conviction
239(4)	Stay of appeal
239(5)	Offence and punishment without reference to s. 120(2.2)
240(1)	Definition of "taxable obligation" and "non-taxable obligation"
240(2)	Interest coupon to be identified in prescribed manner — offence and punishment
241(1)	Provision of information
241(2)	Evidence relating to taxpayer information
241(3)	Communication where proceedings have been commenced
241(3.1)	Circumstances involving danger
241(3.2)	Registered charities
Prop. 241(3.3)	Information may be communicated
241(4)	Where taxpayer information may be disclosed
241(4.1)	Measures to prevent unauthorized use or disclosure
241(5)	Disclosure to taxpayer or on consent
241(6)	Appeal from order or direction
241(7)	Disposition of appeal
241(8)	Stay of order or direction
241(9)	Threats to security
Prop. 241(9)	Information may be communicated
241(9.1)	Threats to security
241(9.2)	Restrictions on information sharing
241(9.3)	Public disclosure
241(9.4)	Public disclosure by representative of government entity
241(10)	Definitions
	"aboriginal government"
	"authorized person"
	"business number"
	"contact information"
	"corporate information"
	"court of appeal"
Prop.	"designated donor information"
Prop.	"designated taxpayer information"
	"excluded individual"
	"government entity"
	"official"
Prop.	"publicly accessible charity information"
	"registration information"
	"representative"
	"taxpayer information"
241(11)	References to Petroleum and Gas Revenue Tax Act
242	Officers, etc., of corporations
243	Power to decrease punishment
	Procedure and Evidence
244(1)	Information or complaint
244(2)	Two or more offences
244(3)	Venue
244(4)	Limitation period
244(5)	Proof of service by mail
244(6)	Proof of personal service
244(7)	Proof of failure to comply
244(8)	Proof of time of compliance
244(9)	Proof of documents
244(10)	Proof of no appeal
244(11)	Presumption
244(12)	Judicial notice
244(13)	Proof of documents
244(13.1)	Revenue Canada, Taxation
244(14)	Mailing date
244(15)	Date when assessment made
244(16)	Forms prescribed or authorized
244(17)	Proof of return in prosecution for offence
244(18)	Idem, in proceedings under Division J of Part I
244(19)	Proof of statement of non-receipt
244(20)	Members of partnerships
244(21)	Proof of return filed
244(22)	Filing of information returns

PART XVI
TAX AVOIDANCE

245	[Tax avoidance]
245(1)	Definitions
	"tax benefit"
	"tax consequences"
	"transaction"
245(2)	General anti-avoidance provision
245(3)	Avoidance transaction
245(4)	Application of s. (2)
245(5)	Determination of tax consequences
245(6)	Request for adjustments
245(7)	Exception
245(8)	Duties of Minister
246(1)	Benefit conferred on a person
246(2)	Arm's length

PART XVI.1
TRANSFER PRICING

247(1)	Definitions
	"arm's length allocation"
	"arm's length transfer price"
	"documentation-due date"
	"qualifying cost contribution arrangement"
	"tax benefit"
	"transaction"
	"transfer price"
	"transfer pricing capital adjustment"
	"transfer pricing capital setoff adjustment"
	"transfer pricing income adjustment"
	"transfer pricing income setoff adjustment"
247(2)	Transfer pricing adjustment
247(3)	Penalty
247(4)	Contemporaneous documentation
247(5)	Partner's gross revenue
247(6)	Deemed member of partnership
247(7)	Exclusion for loans to controlled foreign affiliates
247(8)	Provisions not applicable
247(9)	Anti-avoidance
247(10)	No adjustment unless appropriate
247(11)	Provisions applicable to Part

Section	Subject

PART XVII
INTERPRETATION

Section	Subject
248(1)	Definitions
	"active business"
	"additional voluntary contribution"
	"adjusted cost base"
	"adjustment time"
	"aggregate investment income"
	"allowable business investment loss"
	"allowable capital loss"
	"alter ego trust"
	"amateur athlete trust"
	"amortized cost"
	"amount"
	"annuity"
	"appropriate percentage"
	"assessment"
	"authorized foreign bank"
	"automobile"
	"balance-due day"
	"bank"
	"bankrupt"
	"benefit under a deferred profit sharing plan"
	"bituminous sands"
	"borrowed money"
	"business"
	"business limit"
	"business number"
	"Canadian banking business"
	"Canadian-controlled private corporation"
	"Canadian corporation"
	"Canadian development expense"
	"Canadian exploration and development expenses"
	"Canadian exploration expense"
	"Canadian field processing"
	"Canadian oil and gas property expense"
	"Canadian partnership"
	"Canadian real, immovable or resource property"
	"Canadian resident partnership"
	"Canadian resource property"
	"capital dividend"
	"capital gain"
	"capital interest"
	"capital loss"
	"capital property"
	"cash method"
	"cemetery care trust"
	"common share"
	"common-law partner"
	"common-law partnership"
	"controlled foreign affiliate"
	"corporation"
	"corporation incorporated in Canada"
	"cost amount"
	"credit union"
	"cumulative eligible capital"
	"death benefit"
	"deferred amount"
	"deferred profit sharing plan"
	"depreciable property"
	"designated insurance property"
	"designated stock exchange"
	"disposition"
	"dividend"
	"dividend rental arrangement"
	"eligible capital amount"
	"eligible capital expenditure"
	"eligible capital property"
	"eligible dividend"
	"eligible funeral arrangement"
	"eligible relocation"
	"employed"
	"employee"
	"employee benefit plan"
	"employee trust"
	"employees profit sharing plan"
	"employer"
	"employment"
	"estate"
	"estate of the bankrupt"
	"excessive eligible dividend designation"
	"exempt income"
	"farming"
	"farm loss"
	"filing-due date"
	"fiscal period"
	"fishing"
	"flow-through share"
Prop.	"foreign accrual property income"
	"foreign affiliate"
	"foreign currency"
	"foreign currency debt"
	"foreign exploration and development expenses"
Prop.	"foreign investment entity"
	"foreign resource expense"
	"foreign resource pool expenses"
	"foreign resource property"
	"foreign retirement arrangement"
	"former business property"
	"functional currency" [Repealed.]
	"general rate income pool"
	"goods and services tax"
	"grandfathered share"
	"gross revenue"
	"group term life insurance policy"
	"home relocation loan"
	"income-averaging annuity contract"
	"income bond" or "income debenture"
	"income interest"
	"indexed debt obligation"
	"individual"
	"insurance corporation"
	"insurance policy"
	"insurer"
	"international traffic"
	"inter vivos trust"
	"inventory"
	"investment corporation"
	"investment tax credit"
	"joint partner trust"
	"lawyer"
	"legal representative"
	"lending asset"
	"licensed annuities provider"
	"life insurance business"
	"life insurance capital dividend"
	"life insurance corporation"
	"life insurance policy"
	"life insurance policy in Canada"
	"life insurer"
	"limited partnership loss"
Prop.	"listed international agreement"
	"limited-recourse amount"
	"listed personal property"
	"low rate income pool"
	"majority interest partner"
	"mineral"
	"mineral resource"
	"Minister"
	"money purchase limit"
	"mortgage investment corporation"
	"motor vehicle"
	"mutual fund corporation"
	"mutual fund trust"
	"net capital loss"
	"net corporate income tax rate"
	"net income stabilization account"
	"Newfoundland offshore area"
	"NISA Fund No. 2"
	"non-capital loss"
Prop.	"non-discretionary trust"
	"non-portfolio property"
	"non-resident"
	"non-resident-owned investment corporation"
	"Nova Scotia offshore area"
	"OSFI risk-weighting guidelines"

Section	Subject
	"generally accepted accounting principles" [Repealed.]
	"initial functional currency year" [Repealed.]
	"initial reversionary year" [Repealed.]
	"last Canadian currency year" [Repealed.]
	"last functional currency year" [Repealed.]
	"legal-entity financial statements" [Repealed.]
	"pre-reversion debt"
	"pre-transition debt"
	"qualifying currency"
	"relevant spot rate"
	"reversionary exchange rate" [Repealed.]
	"reversionary year"
	"tax credit" [Repealed.]
	"tax reporting currency"
	"transitional exchange rate" [Repealed.]
261(2)	Canadian currency requirement
261(3)	Application of subsection (5)
261(4)	Revocation of election
261(5)	Functional currency tax reporting
261(6)	Partnerships
261(6.1)	Foreign affiliates
261(7)	Converting Canadian currency amounts
261(8)	Converting pre-transition debts
261(9)	Pre-transition debts
261(10)	Deferred amounts relating to pre-transition debts
261(11)	Determination of amounts payable
261(12)	Application of subsections (7) and (8) to reversionary years
261(13)	Pre-reversion debts
261(14)	Deferred amounts relating to pre-reversion debts
261(15)	Amounts carried back
261(16)	Windings-up
261(17)	Amalgamations
261(18)	Anti-avoidance
261(19)	Mergers
261(20)	Application of subsection (21)
261(21)	Income, gain or loss determinations
261(22)	Partnership transactions
262(1)	Authority to designate stock exchange
262(2)	Revocation of designation
262(3)	Timing
262(4)	Publication
262(5)	Transition
Prop. Schedule	(Subsection 181(1)) — Listed Corporations

Income Tax Act

R.S.C. 1985, Chapter 1 (5th Supp.), as amended

An Act respecting Income Taxes

Short Title

SECTION 1: Short Title.

This Act may be cited as the *Income Tax Act*.

Historical Note: The current Income Tax Act was proclaimed in force effective March 1, 1994. It replaced the former Act (c. 63, S.C. 1970-71-72) which was repealed by a schedule to the 5th Supplement of Revised Statutes of Canada, 1985.

The Income Tax Act was first enacted as chapter 52 of 1948, and later became chapter 148 of the Revised Statutes of Canada, 1952. At the time of the statute revision of 1970, the Income Tax Act was printed as chapter I-5, but its coming into force was prevented by the enactment of tax reform legislation. Section 1 of that legislation (c. 63, S.C. 1970-71-72) took the form of an amendment which repealed and replaced the Act almost in its entirety.

Part I
Income Tax

DIVISION A — Liability for Tax

SECTION 2:

► 2(1) ◄

(1) Tax payable by persons resident in Canada. An income tax shall be paid, as required by this Act, on the taxable income for each taxation year of every person resident in Canada at any time in the year.

Editorial Note: The determination of whether a person is resident in Canada for the purposes of the Act is normally based on common law principles, although certain rules in section 250 deem a person to be resident (or not). The determination of residency is also subject to the provisions of any applicable income tax treaty, and subsection 250(5) generally ensures that a person cannot claim non-resident status under a treaty while simultaneously claiming resident status for the purposes of the Act.

Related Sections: S. 2(2) Taxable income; s. 3 Income for taxation year; s. 114 Individual resident in Canada for only part of year; s. 126 Foreign tax deduction — non-business income; s. 248(1), "person"; s. 249 Definition of "taxation year"; s. 250(1) Person deemed resident; s. 250(3) Ordinarily resident; s. 250(4) Corporation deemed resident.

Interpretation Bulletins: *Primary* — IT-221R3 (Consolid.) — Determination of an individual's residence status; IT-447 Residence of a trust or estate. *Secondary* — IT-106R3 Crown Corporation Employees Abroad.

Income Tax Technical News: Issue No. 38, Canada-U.S. Treaty's Competent Authority Provision; Issue No. 33, Permanent Establishment — The *Dudney* Case Update; Issue No. 25, E-Commerce.

Guides: P151 Canadian Residents Going Down South; T4131 Canadian Residents Abroad.

Tax Topics: No. 1497, To Reside or Not to Reside, That is the Question (with Apologies to Shakespeare); No. 1470, But is a Home a Residence?.

Tax Profile: December 2008 — Tax Planning for Emigration from Canada to the United States; April 2007 — Tax Planning for Emigration from Canada; June 2002 — Canadian Residency Update for Individuals; May 2000 — Electronic Commerce.

Canadian Petroleum Tax Journal: Moving Forward With Mobile Income, Chris Roberge, CA, CPA, Vol. 14 No. 1 2001.

Cases: The taxpayer, a U.S. resident, worked as a consulting engineer for a Canadian company. Factors such as higher profit coupled with higher risk, mobility and independence, indicate that the taxpayer was an independent contractor. Since he had no fixed base in Canada, he could not be taxed in Canada under Article XIV of the Canada-U.S. Tax Convention. *Wolf v. The Queen*, 2002 DTC 6853 (F.C.A.), reversing 2000 DTC 2595 (T.C.C.).

Rental income derived by a non-resident from a single family dwelling in Canada was income from property and not income from a business. There was no merit in the taxpayer's argument that inconsistency existed between the Minister's assessments under s. 155 and Part XIII. The onus was on the taxpayer to demonstrate that these two assessments cover the same income and he failed to do so. *Gupta v. The Queen*, 2000 DTC 6326 (F.C.A.), affirming 99 DTC 224 (T.C.C.).

A U.S. resident performing services in Canada under contract was not subject to Canadian tax under Article XIV of the Convention because he did not have a "fixed base" in Canada. The expression "fixed base" is to be given a liberal interpretation. However, there is little difference in meaning between a "fixed base" and a "permanent establishment". *The Queen v. Dudney*, 2000 DTC 6169 (F.C.A.), affirming 99 DTC 147 (T.C.C.).

Considering that Article IV of the Canada–U.S. Tax Treaty referred to remuneration in respect of "an employment" (as opposed to "all employment"), the taxpayer's secondary level employment income of $2,474 from a B.C. university was not to be added to the taxpayer's employment income of $56,939 from a Vancouver law firm in the calculation of the $10,000 tax exemption under paragraph 2(a) of Article XIV. *Prescott v. The Queen*, 96 DTC 1372 (T.C.C.).

A taxpayer with permanent homes in both Canada and Germany was deemed for the purposes of the tax treaty with West Germany to be a resident of West Germany; he lived with his wife and children there, his coin business was located there, he was involved in the community there, his church ties were there and he had been appointed an honorary director of his local band there. *Hertel v. M.N.R.*, 93 DTC 721 (T.C.C.).

A taxpayer was not ordinarily residing in Canada when he owned and occupied a dwelling in Alaska on a permanent basis and had established durable social and economic ties with the U.S.A., the centre of his vital interests. Despite the fact that his tax returns had incorrectly shown Alberta as his province of residence, he was not estopped from invoking the non-resident status. *Pearson v. M.N.R.*, 93 DTC 1182 (T.C.C.).

A non-resident partner in a business in which he did not actively participate carried on a business in Canada because he participated in the profits and was not merely investing. *Randall v. The Queen*, 85 DTC 5208 (F.C.T.D.).

The Minister argued that a certain trust was a resident of Bermuda and Canada because the Canadian trustee had sole power to appoint other trustees and that he took a very active role in investment programs of the trust. The Court held that the trust was a resident in Bermuda only because the majority of the trustees were resident in Bermuda and the trust document permitted a majority decision on all matters of trustee discretion. *Thibodeau Family Trust v. The Queen*, 78 DTC 6376 (F.C.T.D.).

Profits on the purchase and sale in Canada of speculative mining shares by a mining exploration company operating in Ireland were not taxable as the company was not resident in Canada. Notwithstanding the fact that the company had a "head office" in Toronto and the fact that it had other facilities and carried on certain activities in Canada, the central management and control of the company was in Ireland. *M.N.R. v. Tara Exploration and Development Co. Ltd.*, 72 DTC 6288 (S.C.C.), affirming 70 DTC 6370 (Ex. Ct.).

► 2(2) ◄

(2) Taxable income. The taxable income of a taxpayer for a taxation year is the taxpayer's income for the year plus the additions and minus the deductions permitted by Division C.

Related Sections: S. 2(1) Tax payable by persons resident in Canada; s. 2(3) Tax payable by non-resident persons; s. 109–112; s. 114 Individual resident in Canada for only part of year.

Forms: T1248.

Canadian Petroleum Tax Journal: Moving Forward With Mobile Income, Chris Roberge, CA, CPA, Vol. 14 No. 1 2001.

► 2(3) ◄

(3) Tax payable by non-resident persons. Where a person who is not taxable under subsection (1) for a taxation year

(*a*) was employed in Canada,

(*b*) carried on a business in Canada, or

(*c*) disposed of a taxable Canadian property,

at any time in the year or a previous year, an income tax shall be paid, as required by this Act, on the person's taxable income earned in Canada for the year determined in accordance with Division D.

Editorial Note: A non-resident's Part I income is computed in accordance with the rules provided in Division D (sections 115 through 116). However, most forms of passive investment income are subject to withholding tax under Part XIII. In either case, the non-resident's tax liability under the Act may be reduced or eliminated by an income tax treaty; see, for example, subparagraph 110(1)(*f*)(i), which allows a deduction of treaty-exempt amounts in computing taxable income.

Related Sections: S. 2(2) Taxable income; s. 111(9) Exception; s. 114 Individual resident in Canada for only part of year; s. 115 Non-resident's taxable income in Canada; s. 212 Taxation of non-residents; s. 219 Branch tax; s. 248(1), "business", "employed", "non-resident", "taxable Canadian property", "taxable income earned in Canada"; s. 249 Definition of "taxation year"; s. 253 Extended meaning of "carrying on business"; s. 255 Canada.

Interpretation Bulletins: *Primary* — IT-221R3 (Consolid.) — Determination of an individual's residence status; IT-298 Canada–U.S. Tax Convention — Number of days "present" in Canada [Archived by the CRA]. *Secondary* — IT-168R3 Athletes and players employed by football, hockey and similar clubs; IT-171R2 Non-resident individuals — Computation of taxable income earned in Canada and non-refundable tax credits [Archived by the CRA]; IT-176R2 Taxable Canadian Property — Interests in and Options on Real Property and Shares; IT-262R2 Losses of non-residents and part-year residents; IT-379R Employees Profit Sharing Plans — Allocations to Beneficiaries; IT-420R3 Non-residents — Income earned in Canada; IT-434R Rental of real property by individual.

Income Tax Technical News: Issue No. 35, Treaty Residence — Resident of Convenience; Issue No. 34, Permanent Establishments; Issue No. 34, Treaty Interpretation and the Meaning of "Liable to Tax"; Issue No. 25, E-Commerce; Issue No. 18, *Dudney v. The Queen.*

Forms: NR73; NR74; T2062.

Guides: T4058 Non-Residents and Income Tax.

Tax Topics: No. 1859, The CRA Finally Asks for Water; No. 1834, OECD: Attribution of Profits to Permanent Establishments; No. 1737, Why Tax Lawyers Should Care that the Toronto Blue Jays Struck Out.

Tax Profile: August 2008 — Fifth Protocol to the Canada–U.S. Tax Convention: A Canadian Perspective; June 2008 — International Tax Planning for the Owner-Manager; October 2007 — Important Changes Announced to the Canada — U.S. Income Tax Convention; December 2005 — Sales of Shares of Real Estate Companies by a Non-Resident of Canada — Canadian Tax Consequences; June 2005 — Are You Sure That You Don't Have a Permanent Establishment?; May 2000 — Electronic Commerce.

Canadian Petroleum Tax Journal: Taxable Canadian Property, Tony Van Rooyen, Vol. 13 No. 1 2000.

Cases: [**Editorial Note:** For references to relevant cases on this provision, please see the case annotations following subsection 2(1).]

DIVISION B — Computation of Income

Basic Rules

SECTION 3: Income for taxation year.

The income of a taxpayer for a taxation year for the purposes of this Part is the taxpayer's income for the year determined by the following rules:

(*a*) determine the total of all amounts each of which is the taxpayer's income for the year (other than a taxable capital gain from the disposition of a property) from a source inside or outside Canada, including, without restricting the generality of the foregoing, the taxpayer's income for the year from each office, employment, business and property,

(*b*) determine the amount, if any, by which

(i) the total of

(A) all of the taxpayer's taxable capital gains for the year from dispositions of property other than listed personal property, and

(B) the taxpayer's taxable net gain for the year from dispositions of listed personal property,

exceeds

(ii) the amount, if any, by which the taxpayer's allowable capital losses for the year from dispositions of property other than listed personal property exceed the taxpayer's allowable business investment losses for the year,

(*c*) determine the amount, if any, by which the total determined under paragraph (*a*) plus the amount determined under paragraph (*b*) exceeds the total of the deductions permitted by subdivision e in computing the taxpayer's income for the year (except to the extent that those deductions, if any, have been taken into account in determining the total referred to in paragraph (*a*)), and

(*d*) determine the amount, if any, by which the amount determined under paragraph (*c*) exceeds the total of all amounts each of which is the taxpayer's loss for the year from an office, employment, business or property or the taxpayer's allowable business investment loss for the year,

Pending Amendment

Interest Deductibility — October 31, 2003

Paragraph 3(*d*) of the Act is replaced by the following:

(*d*) determine the amount, if any, by which the amount determined under paragraph (*c*) exceeds the total of all amounts each of which is the taxpayer's loss for the year from a source that is an office, employment, business or property or the taxpayer's allowable business investment loss for the year,

Applicable: To taxation years that begin after 2004.

Explanatory Note:

Paragraph 3(d) and Description of "E" in the Definition of "Non-Capital Loss" in Subsection 111(8)

Both of these changes [the amendments to paragraph 3(*d*) and the description of "E" in the definition of "non-capital loss" in subsection 111(8)] are consequential amendments to proposed new subsection 3.1(1) of the Act, and clarify that it is only losses that are from a source that may be deducted in computing a taxpayer's income or considered to be non-capital losses under subsection 111(8) of the Act.

[**Editorial Note:** This amendment is part of the amendments released October 31, 2003 concerning the deductibility of interest and other expenses. Please refer to the notes accompanying proposed section 3.1.]

and for the purposes of this Part,

(*e*) where an amount is determined under paragraph (*d*) for the year in respect of the taxpayer, the taxpayer's income for the year is the amount so determined, and

(*f*) in any other case, the taxpayer shall be deemed to have income for the year in an amount equal to zero.

History: S. 3, the part following paragraph (*d*), was amended by S.C. 1994, c. 7, Sched. II, s. 1(1), applicable to the 1990 and subsequent taxation years. That part formerly read:

"and the amount, if any, determined under paragraph (*d*) is the taxpayer's income for the year for the purposes of this Part."

Editorial Note: A taxpayer's income cannot be negative. To the extent that losses under paragraph 3(*d*) exceed the amount determined after the application of paragraphs 3(*a*) through (*c*), the excess will constitute a non-capital loss (or farm loss, etc.), which will be subject to carryover rules found in section 111. Similarly, the excess, if any, of the amount determined under subparagraph 3(*b*)(ii) over the amount determined under subparagraph 3(*b*)(i) will constitute a net capital loss, also subject to carryover rules. Note that section 3 also includes income from "unenumerated sources" — that is, from sources other than those expressly described in section 3 or other provisions of the Act (see the Supreme Court of Canada's decision in *Schwartz*, (96 DTC 6103)).

Note also that proposed draft section 3.1, reproduced after section 3, may deny the recognition of losses from business or property if the "cumulative profit" requirement described therein is not met. The government has not released any detailed information, or revised draft legislation concerning the October 31, 2003 draft legislation on interest deductibility and the reasonable expectation of profit (REOP) loss restrictions. Neither has the government deferred the effective date of these measures, which "came into effect" January 1, 2005.

The 2005 Federal Budget document indicated that a more modest legislative initiative had been prepared and would be released for comment "at an early opportunity". The Budget document also confirmed that the changes as they relate to interest deductibility are not intended to go beyond restoring the law and administrative practice to how it was being administered prior to the Supreme Court decisions in *Ludco*, 2001 DTC 5055; *Stewart*, 2002 DTC 6969; and *Walls and Buvyer*, 2002 DTC 6960. The Department of Finance acknowledged that the new statutory REOP test in draft section 3.1 might inappropriately catch a number of ordinary commercial expenditures. Further, at the September 2005 Annual Tax Conference held by the Canadian Tax Foundation, the Department stated that it intended to replace the REOP concept with a more modest "net income" concept. No mention was made of the issue in the 2006, 2007, 2008, or 2009 Federal Budget, and at the time of writing, the Department had not yet acted in amending or revoking the REOP draft legislation.

Related Sections: S. 4(1) Income or loss from a source or from sources in a place; s. 5(1) Income from office or employment; s. 6(1) Amounts to be included as income from office or employment; s. 7(1) Agreement to issue securities to employees; s. 8(1) Deductions allowed; s. 9 Income; s. 12(1) Income inclusions; s. 18(1) General limitations; s. 31(1) Loss from farming where chief source of income not farming; s. 38 Taxable capital gain and allowable capital loss; s. 39 Meaning of capital gain and capital loss; s. 41 Taxable net gain from disposition of listed personal property; s. 54, "listed personal property"; s. 56 Amounts to be included in income for year; s. 60 Other deductions; s. 104(2) Taxed as individual; s. 248(1), "amount", "business", "corporation", "employment", "office"; s. 249 Definition of "taxation year".

Interpretation Bulletins: *Primary* — IT-169 Price adjustment clauses; IT-206R Separate businesses; IT-256R Gains from theft, defalcation or embezzlement; IT-334R2 Miscellaneous receipts; IT-365R2 Damages, settlement, and similar receipts; IT-420R3 Non-residents — Income earned in Canada; IT-434R Rental of real property by individual; IT-490 Barter transactions. *Secondary* — IT-98R2 Investment corporations [Archived by the CRA]; IT-193 Taxable income of individuals resident in Canada during part of a year [Special Release]; IT-232R3 Losses — Their Deductibility in the loss year or in other Years; IT-262R2 Losses of non-residents and part-year residents; IT-270R3 Foreign tax credit; IT-302R3 Losses of a corporation — The effect that acquisitions of control, amalgamations, and windings-up have on their deductibility; IT-377R Director's, executor's and juror's fees [Archived by the CRA]; IT-381R3 Trusts — Capital Gains and Losses and the Flow-Through of Taxable Capital Gains to Beneficiaries; IT-395R2 Foreign tax credit — Foreign-source capital gains and losses; IT-484R2 Business investment losses; IT-495R3 Child care expenses.

Advance Tax Rulings: ATR-40 Structured settlements; ATR-68 Structured settlement.

Income Tax Technical News: Issue No. 39, Settlement of a Shareholder Class Action Suit — Compensation by Way of Cash and Shares.

Tax Topics: No. 1653, REOP Resurrected — This Year's Hallowe'en Trick; No. 1621, Non-Comp Non-Taxable.

Tax Window Files: Retirement Gift from Union, March 15, 2005, CRA Document No. 2005-0114061I7 [Cash gift provided by union upon retirement of member in good standing not taxable]; Per Diem Indemnities and Allowances Paid to Jurors and Witnesses, October 5, 2004, CRA Document No. 2004-0067741E5 [Per diem indemnities received by jurors or witnesses are considered fees for services rendered and are taxable; allowances paid to cover expenses incurred by jurors or witnesses to render the services are not taxable]; Lump-Sum Payment from Private Health Services Plan (PHSP), 2004, CRA Document No. 2004-0096101R3 [Payment of a lump sum to retirees in lieu of the discontinuance of post retirement benefits under a private health services plan not taxable]; Payment to Guardian of Minor, April 26, 2002, CRA Document No. 2002-0136187 [Amount paid to the guardians of a minor child to cover the cost of the child's food, shelter, and education was for the personal care of the minor child and not income from a source]; Human Rights Damages, July 3, 2001, CRA Document No. 2001-0083935 [Amount received involving a claim before the Canadian Human Rights Commission before employment began not income from a source]; Surrogacy Arrangements, April 2, 2001, CRA Document No. 2001-0068935 [Payments received under a "gestational surrogacy contract" for services rendered by a surrogate mother would likely be income from a source, namely, a business]; Strike Pay, April 10, 2000, CRA Document No. 2000-0016846 [Payments received from a particular union by members of another union for not crossing the picket lines of the particular union not income from a source, similar to strike pay]; Ontario Hepatitis C Assistance Plan, January 6, 1999, CRA Document No. 9833955 [Assistance payments to be made by the Ontario Government to individuals who contracted hepatitis C virus through the blood system in Ontario not income from a source, considered special or general damages for personal injury].

Cases: As part of a wrongful dismissal settlement, the taxpayer received $3,080,000 to compensate him for the loss of an interest in his former employer's estate (which he had previously been promised). The settlement was not taxable because the estate interest it was intended to replace would not have been taxable, as granting it was not a term of the taxpayer's employment contract. *The Queen v. Au*, 2006 DTC 6074 (F.C.A.), affirming 2005 DTC 794 (T.C.C.).

The right to compete is not "property", and therefore payments under a non-competition agreement are non-taxable capital receipts. *Manrell v. The Queen*, 2003 DTC 5225 (F.C.A.), reversing 2002 DTC 1222 (T.C.C.).

The taxpayers received payments as consideration for signing non-competition agreements with Loblaws, after selling their shares of their own supermarket corporation to Loblaws. These payments were not income from a productive source under s. 3. *The Queen v. Fortino et al.*, 2000 DTC 6060 (F.C.A.), affirming 97 DTC 55 (T.C.C.).

The lump sum of $360,000 in damages that a taxpayer received when an employment offer was withdrawn was not a retiring allowance under s. 56(1)(*a*) since the key element of the definition of employment in s. 248(1) was missing and there was no factual basis to justify the allocation of such sum to losses of income relating to salary. *Schwartz v. The Queen*, 96 DTC 6103 (S.C.C.) reversing 94 DTC 6249 (F.C.A.) and affirming 93 DTC 555 (T.C.C.).

When the contracts signed by a taxpayer provided for his services in the writing of texts for a television series with payments to be made to his personal company, these payments were included in his income. *Giguère v. M.N.R.*, 93 DTC 488 (T.C.C.).

When considering fees paid to taxicab associations by members on certain conditions, the court decided that the fee was not income. The property in the money that was paid passed only in the event that the member left without providing a satisfactory successor. It was really a deposit. *Dominion Taxicab Ass'n v. M.N.R.*, 54 DTC 1020 (S.C.C.).

Federal Budget Extract

Deductibility of Interest and Other Expenses

[Reproduced below is an excerpt from the February 23, 2005 Federal Budget that sets out an update from the Department of Finance on the proposals that were released on October 31, 2003. There have been no more recent updates on these proposals.]

In October 2003, the Department of Finance released for public consultation a package of legislative proposals regarding the deductibility, for income tax purposes, of interest and other expenses. The proposals responded to certain court decisions that departed significantly from what had been the accepted understanding of the law in this area.

In computing income from a business or property, a taxpayer can deduct many kinds of expenses, provided they were incurred in order to earn the income. A familiar example is interest on borrowed money, which is deductible only if the borrowed money is used for the purpose of earning income from a business or property.

In this context, "income" had been understood to be a net amount comparable to profit, and to exclude capital gains. The court decisions, however, took a different view: income was read as the equivalent of gross revenue, and the distinction between income and capital gains was blurred.

The 2003 proposals were intended to restore the law on these points to its more familiar and more appropriate state.

An extended period of public consultation on the proposals ended in August 2004. Many commentators expressed concerns with the proposals' structure: in particular, that the proposals' codification of an objective "reasonable expectation of profit" test might inadvertently limit the deductibility of a wide variety

of ordinary commercial expenses. The Department of Finance has sought to respond by developing a more modest legislative initiative that would respond to those concerns while still achieving the Government's objectives. The Department will, at an early opportunity, release that alternative proposal for comment. This will be combined with a Canada Revenue Agency publication that addresses, in the context of the alternative proposal, certain administrative questions relating to deductibility.

Pending Amendment

Interest Deductibility — October 31, 2003

The Act is amended by adding the following immediately after section 3:

SECTION 3.1:

(1) Limit on loss. A taxpayer has a loss for a taxation year from a source that is a business or property only if, in the year, it is reasonable to expect that the taxpayer will realize a cumulative profit from that business or property for the period in which the taxpayer has carried on, and can reasonably be expected to carry on, that business or has held, and can reasonably be expected to hold, that property.

(2) Determination of profit. For the purpose of subsection (1), profit is determined without reference to capital gains or capital losses.

Applicable: To taxation years that begin after 2004.

Explanatory Note:

Proposed section 3.1

Proposed new subsection 3.1(1) of the Act provides that a taxpayer will be considered to have a loss from a source that is a business or property for a taxation year only if, in that year, it is reasonable to assume that taxpayer will realize a cumulative profit from the business or property,

- in the case of a business, during the time that the taxpayer has carried on, or can reasonably be expected to carry on, the business, or
- in the case of a property, during the time that the taxpayer has held, or can reasonably be expected to hold, the property.

Proposed new subsection 3.1(2) of the Act makes clear that profit, in the context of subsection 3.1(1), does not include capital gains or capital losses.

The commentary that follows elaborates on key features of these provisions and illustrates their application through the use of examples.

Timing

There are two key timing elements in this provision: the time at which an assessment is required regarding the reasonable expectation of profit from the business or property, and the time period (referred to below as the "profitability time period") over which the profitability expectations of the business or property will be measured.

Annual Evaluation

Regard must be had to subsection 3.1(1) in each year that a taxpayer seeks to report a loss from a business or property. For example, assume that a taxpayer starts a business ("Business X") in 2005 and — before applying new subsection 3.1(1) — is considered to realize losses from the business in the taxpayer's 2005, 2006, 2007 and 2008 taxation years. For each of those years, an application of subsection 3.1(1) will be required. For the 2005 taxation year, the test under the subsection is whether it is reasonable in that same 2005 taxation year to expect that the taxpayer will realize a cumulative profit from Business X over the whole of the profitability time period. For 2006 the test is whether it is reasonable in the 2006 taxation year to expect a cumulative profit, again over the whole of the profitability time period. And for each successive year, the same test will be applied: is it reasonable in that year to expect the taxpayer to profit from the business over the entire profitability time period?

Assume further that in each of the taxpayer's 2005 to 2007 taxation years it is determined that it is indeed reasonable to expect that the taxpayer will profit from Business X over the profitability time period. The taxpayer will therefore have a loss, for each of those years, from the source that is Business X. However, if by 2008 it is no longer reasonable to expect that the taxpayer will realize a profit over the period that the taxpayer has, or can reasonably be expected to, carry on Business X, the test in new subsection 3.1(1) will not be met for the 2008 taxation year. The loss in 2008 will not be considered to be from a source and will not be deductible by the taxpayer. However, this determination in 2008 will not affect the previous conclusions reached in years 2005 through 2007: the losses for each of those years remain deductible.

Profitability Time Period

In determining whether it is reasonable to expect a taxpayer to realize a profit from a business or property, new subsection 3.1(1) has regard to the entire period over which the taxpayer holds the property or carries on the business. The beginning of that "profitability time period" will usually be uncontroversial: it is the time at which the taxpayer acquired the property or commenced carrying on the business. There may occasionally be cases where that starting point is not obvious, but it is expected that the existing law and practice will be able to resolve those.

Determining the end of the profitability time period, on the other hand, will often be more an exercise of reasonable expectation. The period runs, in principle, until the taxpayer disposes of the property or ceases to carry on the business. In most instances, however, this will not have happened before the end of the taxation year to which subsection 3.1(1) is being applied. Rather, the taxpayer will be seeking to deduct a loss from a property or business that the taxpayer still plans to hold or to carry on for some time to come. Subsection 3.1(1) therefore includes in its scope the entire period in which the taxpayer "can reasonably be expected" to carry on the business or to hold the property.

Cumulative Profit

Proposed subsection 3.1(1) requires an evaluation of expectations for cumulative profit and losses, by which is meant the aggregate profit or loss over the entire profitability time period. It is thus not necessary that the taxpayer demonstrate an expectation of profit — let alone an actual profit — in respect of any particular taxation year in order to be considered to have a reasonable expectation of profit. For instance, taxpayers will often realize a start-up loss from a business or property for one or more years before the business or property begins to generate a profit. The opposite can also happen: a taxpayer may realize a profit in one year and a loss in a subsequent year. In each instance, the relevant test is the expectation of cumulative profit over the whole of the profitability time period, and a taxpayer would be able to claim a loss provided their expectations for a cumulative profit over the entire relevant time period were reasonable.

Fact-Specific

Proposed subsection 3.1(1) requires that it must be reasonable in the circumstances of the particular taxpayer to expect to profit from the property or business. A specific taxpayer would not necessarily have a reasonable expectation of profit from a particular property solely because it might be reasonable, in other circumstances, for that property to yield a profit. For example, a rental property that produces rental revenue in excess of directly related rental expenses might on those facts alone be viewed as a property that should provide a taxpayer with a reasonable expectation of profit. However, if a particular taxpayer incurs a large amount of debt in order to purchase the property, such that the amount of interest expense associated with the property means that the particular taxpayer cannot realize a profit from the rental activity, then that taxpayer would not have a reasonable expectation of profit in respect of that rental activity. Note that in such circumstances, the taxpayer may intend to profit by reselling the property itself at a gain. If that were the taxpayer's intention, the gain would presumably be considered on income account and could be included in the determination of profit for the purposes of subsection 3.1(1). See the commentary to proposed subsection 3.1(2).

Objective Determination

By requiring that the profit expectation be reasonable, it is intended that the determination be made on an objective, and not a subjective, basis. This will very often make no difference to the result of the determination as most taxpayers are expected to act on a commercially rational basis. However, where a taxpayer has — or purports to have — expectations of profit that are objectively unreasonable, subjective beliefs will not suffice. For example, consider a taxpayer who borrows funds at an annual fixed rate of 8%, and uses those funds (and no others) to make an investment that has a fixed annual return of 5%. Further assume that the investment itself cannot increase in value. In this case, there is no reasonable expectation of profit, regardless of whether, on a subjective basis, the misinformed investor intended to profit. With no reasonable expectation of profit, the taxpayer will not be considered to have realized a loss from a source that is the investment. On the other hand, given that the taxpayer has expenses that exceed the revenue generated by the investment, it would be inappropriate to tax any amount of that revenue.

The above example also highlights that the test in proposed subsection 3.1(1) will not necessarily be met solely because there is no personal element to the carrying on of a business or the holding of a property.

Not Every Business Is a Source

The distinction between a business and a source of income or loss is important to understanding proposed section 3.1. The Act recognizes, and taxes, income only if it is income from a source. Similarly, a loss is deductible only if it is a loss from a source. Section 3.1 is intended to clarify that, in respect of businesses, it is only those losses from businesses that taxpayers carry on with a reasonable expectation of profit that are to be considered as losses from a source. This implies that a taxpayer may be conducting a business without the taxpayer having a reasonable expectation of profit from that business. This implication is deliberate, and is consistent with the description of "business" in subsection 248(1) of the Act and the general understanding that a business may exist whenever a taxpayer has the subjective intention to make a profit, whether or not there is objectively a reasonable expectation of profit.

That is to say that the fact that a taxpayer is carrying on a business, and incurs expenses that exceed revenues, does not by itself mean that the business is a source, such that the taxpayer may deduct the excess. Rather, as proposed section 3.1 makes clear, the taxpayer has a loss from a source that is that business only if the taxpayer has a reasonable expectation of profit from that business.

Asymmetrical: No Rule on Income

Proposed subsection 3.1(1) is not symmetrical, in that it does not address the circumstances under which income will be considered to be from a source. This is intentional, and the provision should not be construed as suggesting that a taxpayer has a source of income only where the taxpayer has a reasonable expectation of profit from that source. A system that allowed taxpayers to prove the unreasonableness of their profit expectations in an effort to have, on that basis, untaxed income, would be inappropriate.

Profit and Subsection 3.1(2)

The reference to "profit" in proposed subsection 3.1(1) is intended to mean profit determined in accordance with generally accepted commercial principles. This is consistent with case law and the meaning of "profit"for the purposes of subsection 9(1). Personal expenses are generally not incurred for the purpose of earning profit from a business or property. Therefore, in assessing the profitability expectations of a property or business personal expenses would first need to be eliminated. Proposed subsection 3.1(2) makes clear that profit, in the context of subsection 3.1(1), does not include capital gains or capital losses. For example, consider a taxpayer who purchases a rental property for the purpose of leasing it to non-arm's-length persons. The taxpayer estimates that the expenses of financing and maintaining the property will exceed the revenue from the rental activity. Nonetheless, despite what appears to be a money-losing venture, the taxpayer chooses to purchase the property with the expectation that a gain on the sale of the property will make up for the losses from the rental activity. In a sense, the rental activity could be viewed as a cost-defraying activity for what is really a property purchased with the intention to profit from its resale. In determining whether the taxpayer has a reasonable expectation of profit from this property, the expected gain on the sale of the rental property would be included in the determination of "profit" only if it would be taxed not as a capital gain, but rather as ordinary income.

SECTION 4:

► 4(1) ◄

(1) Income or loss from a source or from sources in a place. For the purposes of this Act,

(*a*) a taxpayer's income or loss for a taxation year from an office, employment, business, property or other source, or from sources in a particular place, is the taxpayer's income or loss, as the case may be, computed in accordance with this Act on the assumption that the taxpayer had during the taxation year no income or loss except from that source or no income or loss except from those sources, as the case may be, and was allowed no deductions in computing the taxpayer's income for the taxation year except such deductions as may reasonably be regarded as wholly applicable to that source or to those sources, as the case may be, and except such part of any other deductions as may reasonably be regarded as applicable thereto; and

(*b*) where the business carried on by a taxpayer or the duties of the office or employment performed by a taxpayer was carried on or were performed, as the case may be, partly in one place and partly in another place, the taxpayer's income or loss for the taxation year from the business carried on, or the duties performed, by the taxpayer in a particular place is the taxpayer's income or loss, as the case may be, computed in accordance with this Act on the assumption that the taxpayer had during the taxation year no income or loss except from the part of the business that was carried on in that particular place or no income or loss except from the part of those duties that were performed in that particular place, as the case may be, and was allowed no deductions in computing the taxpayer's income for the taxation year except such deductions as may reasonably be regarded as wholly applicable to that part of the business or to those duties, as the case may be, and except such part of any other deductions as may reasonably be regarded as applicable thereto.

Interpretation Bulletins: *Secondary* — IT-256R Gains from theft, defalcation or embezzlement; IT-328R3 Losses on shares on which dividends have been received; IT-362R Patronage dividends; IT-377R Director's, executor's and juror's fees [Archived by the CRA].

Canadian Tax Foundation: Arnold and Darmo, "The Attribution of Profits to Permanent Establishments", *2001 Canadian Tax Journal*, No. 3, 525.

Cases: The explosives division sold by the taxpayer was not a separate business, therefore, the taxpayer was not subject to recapture of capital cost allowance or an increased s. 14(1) income inclusion. Indicators of integration included centralized financing and credit management, centralized purchasing, and common research facilities. *Du Pont Canada Inc. v. The Queen*, 2001 DTC 5269 (F.C.A.), reversing 99 DTC 1132 (T.C.C.).

The Supreme Court held that the interest expense deduction was to be allocated to the various sources of the taxpayer's income, with the result that the amount taken into account in computing the foreign tax credit was the foreign interest income reduced by the interest expense allocated to that source. *Interprovincial Pipeline Co. v. M.N.R.*, 68 DTC 5093 decision (S.C.C.).

► 4(2) ◄

(2) Idem. Subject to subsection (3), in applying subsection (1) for the purposes of this Part, no deductions permitted by sections 60 to 64 apply either wholly or in part to a particular source or to sources in a particular place.

History: S. 4(2) was amended by S.C. 1994, c. 21, s. 1(1), applicable to the 1989 and subsequent taxation years. S. 4(2) formerly read:

"(2) Subject to subsection (3), in applying subsection (1) for the purposes of this Part, no deductions permitted by sections 60 to 63 are applicable either wholly or in part to a particular source or to sources in a particular place, as the case may be."

► 4(3) ◄

(3) Deductions applicable. In applying subsection (1) for the purposes of subsections 104(22) and (22.1) and sections 115 and 126,

(*a*) subject to paragraph (*b*), all deductions permitted in computing a taxpayer's income for a taxation year for the purposes of this Part, except any deduction permitted by any of paragraphs 60(*b*) to (*o*), (*p*), (*r*) and (*v*) to (*z*), shall apply either wholly or in part to a particular source or to sources in a particular place; and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 4(3)(*a*) of the *Income Tax Act* is replaced by the following:

(*a*) subject to paragraph (*b*), all deductions permitted in computing a taxpayer's income for a taxation year for the purposes of this Part, except any deduction permitted by any of paragraphs 60(*b*) to (*o*), (*p*), (*r*) and (*v*) to (*x*), apply either wholly or in part to a particular source or to sources in a particular place; and

Applicable: To the 2002 and subsequent taxation years.

Editorial Note: A coordinating amendment with S.C. 2007, c. 35 sets out that this Bill C-10 amendment will apply for the 2002 to 2006 taxation years.

Explanatory Note: Subsection 4(2) of the *Income Tax Act* provides that, in determining the income or loss from a source, no deductions are permitted under sections 60 to 64 of the Act. Subsection 4(3) provides that this rule does not apply, with the exception of certain deductions, in determining the foreign source income designated by a trust to a beneficiary under subsections 104(22) and 104(22.1), in determining a taxpayer's taxable income earned in Canada under section 115 and in determining a taxpayer's foreign tax credit under section 126 of the Act. The exceptions are for deductions permitted by paragraphs 60(*b*) to (*o*), (*p*), (*r*) and (*v*) to (*w*).

Paragraph 4(3)(*a*) is amended to expand the list of exceptions to include deductions permitted by paragraph 60(*x*) (e.g., repayment of Canada Education Savings Grants).

This amendment applies to the 2002 and subsequent taxation years.

(*b*) any deduction permitted by subsection 104(6) or (12) shall not apply either wholly or in part to a source in a country other than Canada.

History: S. 4(3)(*a*) was replaced by S.C. 2007, c. 35, s. 101, applicable to the 2007 and subsequent taxation years. S. 4(3)(*a*) formerly read:

"(*a*) subject to paragraph (*b*), all deductions permitted in computing a taxpayer's income for a taxation year for the purposes of this Part, except any deduction permitted by any of paragraphs 60(*b*) to (*o*), (*p*), (*r*) and (*v*) to (*w*), shall apply either wholly or in part to a particular source or to sources in a particular place; and"

S. 4(3) was amended by S.C. 1994, c. 21, s. 1(2), applicable to taxation years that end after November 12, 1981, except that for taxation years that begin before 1993, subsection 4(3) shall be read as follows:

"(3) The following rules apply for the purposes of this Act:

(*a*) in applying paragraph (1)(*b*) for the purposes of sections 115 and 126, subject to paragraph (*b*), all deductions permitted in computing a taxpayer's income for a taxation year for the purposes of this Part shall apply either wholly or in part to a particular source or to sources in a particular place; and

(*b*) in applying subsection (1) for the purposes of subsections 104(22) and (22.1) and sections 115 and 126,

(i) any deduction permitted by any of paragraphs 60(*b*) to (*o*), (*p*), (*r*) and (*v*) to (*w*) shall not apply either wholly or in part to a particular source or to sources in a particular place, and

(ii) any deduction permitted by subsection 104(6) or (12) shall not apply either wholly or in part to a source in a country other than Canada."

S. 4(3) formerly read:

"(3) *Deductions applicable.* In applying paragraph (1)(*b*) for the purposes of sections 115 and 126, all deductions allowed in computing the income of a taxpayer for a taxation year for the purposes of this Part, except any deduction permitted by paragraph 60(*b*), (*c*), (*d*) or (*i*), shall be deemed to be applicable either wholly or in part to a particular source or to sources in a particular place, as the case may be."

Interpretation Bulletins: *Secondary* — IT-270R3 Foreign tax credit; IT-420R3 Non-residents — Income earned in Canada.

► 4(4) ◄

(4) Limitation respecting inclusions and deductions. [Repealed by S.C. 1996, c. 21, s. 2(1).]

History: S. 4(4) was repealed by S.C. 1996, c. 21, s. 2(1), applicable to taxation years that end after July 19, 1995. S. 4(4) formerly read:

"(4) *Limitation respecting inclusions and deductions.* Unless a contrary intention is evident, no provision of this Part shall be read or construed to require the inclusion or to permit the deduction, either directly or indirectly, in computing a taxpayer's income for a taxation year or the taxpayer's income or loss for a taxation year from a particular source or from sources in a particular place, of any amount to the extent that that amount has been directly or indirectly included or deducted, as the case may be, in computing such income or loss for the year or any preceding taxation year under, in accordance with or because of any other provision of this Part."

S. 4(4) was amended by S.C. 1994, c. 7, Sched. II, s. 2(1), applicable to the 1990 and subsequent taxation years. S. 4(4) formerly read:

"(4) Unless a contrary intention is evident, no provision of this Part shall be read or construed to require the inclusion or to permit the deduction, in computing the income of a taxpayer for a taxation year or the taxpayer's income or loss for a taxation year from a particular source or from sources in a particular place, of any amount to the extent that that amount has been included or deducted, as the case may be, in computing that income or loss under, in accordance with or by virtue of any other provision of this Part."

Related Sections: S. 248(1), "amount", "business", "employment", "office", "property"; s. 249 Definition of "taxation year".

Subdivision a — Income or Loss from an Office or Employment

Basic Rules

SECTION 5:

► 5(1) ◄

(1) Income from office or employment. Subject to this Part, a taxpayer's income for a taxation year from an office or employment is the salary, wages and other remuneration, including gratuities, received by the taxpayer in the year.

Editorial Note: The often contentious issue of whether a person is an employee or an independent contractor relates largely to the fact that employees are only allowed those deductions specifically set out in section 8, whereas independent contractors are allowed deductions in accordance with the (broader) rules regarding the computation of income from a business.

Related Sections: S. 3(*a*) Income for taxation year; s. 4(1)(*a*) Income or loss from a source or from sources in a place; s. 6 Amounts to be included as income from office or employment; s. 6(3) Payments by employer to employee; s. 7 Agreement to issue securities to employees; s. 8(2) General limitation; s. 15(2.4) When s. 15(2) not to apply — certain employees; s. 64 Disability supports deduction; s. 81 Amounts not included in income; s. 115(1)(*a*)(i) Non-resident's taxable income in Canada; s. 149(1)(*a*) Employees of a country other than Canada; s. 149(1)(*b*) Members of the family and servants of employees of a country other than Canada; s. 153(1)(*a*) Withholding; s. 249(1) Definition of "taxation year".

Interpretation Bulletins: *Primary* — IT-68R2 Exemption from income tax in Canada — Professors and teachers from other countries; IT-266 Taxation of members of provincial legislative assemblies [Archived by the CRA]; IT-316 Awards for employees' suggestions and inventions [Archived by the CRA]. *Secondary* — IT-75R4 Scholarships, Fellowships, Bursaries, Prizes, Research Grants and Financial Assistance; IT-113R4 Benefits to employees — Stock options; IT-168R3 Athletes and players employed by football, hockey and similar clubs; IT-196R2 Payments by employer to employee; IT-202R2 Employees' or workers' compensation; IT-213R Prizes from lottery schemes, pool system betting and giveaway contests; IT-257R Canada Council grants; IT-292 Taxation of elected officers of incorporated municipalities, school boards, municipal commissions and similar bodies; IT-365R2 Damages, settlement, and similar receipts; IT-389R Vacation pay trusts established under collective agreements; IT-470R (Consolid.) Employees' fringe benefits; IT-515R2 Education tax credit.

Advance Tax Rulings: ATR-21 Pension benefit from an unregistered pension plan; ATR-64 Phantom stock award plan.

Forms: T4; T4 Sum.; T4A; T4A Sum.; T4A(P) Supp.; T4F Sum.; T4F.

Guides: RC4110 Employee or Self-employed?.

Canadian Tax Foundation: Clarke, "The Employee/Independent Contractor Conundrum", *2004 British Columbia Tax Conference*, 10:1; Friedlander, "What Has Tort Law Got to Do With It? Distinguishing Between Employee and Independent Contractors in the Federal Income Tax, Employment Insurance, and Canada Pension Plan Contexts", *2003 Canadian Tax Journal*, No. 4, 1467; Gaucher, "Employee or Independent Contractor", *1999 Conference Report*, 33:1.

Tax Window Files: Settlement for Loss of Employment — Lost Vacation Pay, Expenses not Covered by Medical Plan and Human Rights Violation, February 17, 2005, CRA Document No. 2004-0104331E5 [Indemnities for loss of annual vacation credits and reimbursement of psychotherapy and drug costs were taxable; indemnity for moral prejudice granted in accordance with Canadian Human Rights Act was not taxable]; Retiring Allowance — Collective Agreement — Severance Pay, January 16, 2004, CRA Document No. 2003-0046491E5 [Employee who had option under a collective agreement to collect "severance pay" immediately or upon retirement would be receiving employment income and not a retiring allowance]; Timing of Income Recognition — Cheques Mailed to Taxpayer, December 23, 2003, CRA Document No. 2003-0049497 [Lump-sum from employer in lieu of previous pay cheques that were not received was included in the year in which the lump sum was received]; Employee Awards — Points Exchangeable for Goods, November 12, 2003, CRA Document No. 2003-0020275 [Whether employer "points" program, under which points redeemable for goods, are cash or non-cash gifts under CRA employee gift policy].

Cases: Dancers at the Royal Winnipeg Ballet were independent contractors, not employees. Although the company exercised extensive control over their work, this was required to stage a season of performances. The understanding of the parties as to the nature of their legal relationship was relevant, although not conclusive. *The Royal Winnipeg Ballet v. M.N.R.*, 2006 DTC 6323 (F.C.A.), reversing (T.C.C.), unreported.

As part of a wrongful dismissal settlement, the taxpayer received $3,080,000 to compensate him for the loss of an interest in his former employer's estate (which he had previously been promised). The settlement was not taxable because the estate interest it was intended to replace would not have been taxable, as granting it was not a term of the taxpayer's employment contract. *The Queen v. Au*, 2006 DTC 6074 (F.C.A.), affirming 2005 DTC 794 (T.C.C.).

The taxpayer, a U.S. resident, worked as a consulting engineer for a Canadian company. Factors such as higher profit coupled with higher risk, mobility and independence, indicate that the taxpayer was an independent contractor. Since he had no fixed base in Canada, he could not be taxed in Canada under Article XIV of the Canada-U.S. Tax Convention. *Wolf v. The Queen*, 2002 DTC 6853 (F.C.A.), reversing 2000 DTC 2595 (T.C.C.).

Considering that the tax equalization payment received by the taxpayer from the taxpayer's U.S. employer was made pursuant to an element of the overall ongoing compensation package and was designed to induce the taxpayer to serve outside the U.S., it constituted part of the taxpayer's remuneration for services within the meaning of s. 5(1). *Gernhart v. The Queen*, 98 DTC 6026 (F.C.A.), affirming 96 DTC 1672 (T.C.C.).

The Federal Court of Appeal, in determining whether a relationship is between an employer and employee or between two businesses, held that the test was whether the alleged employees were providing services in a business or employment capacity. *Wiebe Door Services Ltd. v. M.N.R.*, 87 DTC 5025 (F.C.A.).

► 5(2) ◄

(2) Loss from office or employment. A taxpayer's loss for a taxation year from an office or employment is the amount of the taxpayer's loss, if any, for the taxation year from that source computed by applying, with such modifications as the circumstances require, the provisions of this Act respecting the computation of income from that source.

Interpretation Bulletins: *Secondary* — IT-168R3 Athletes and players employed by football, hockey and similar clubs.

Tax Window Files: Repayment of Stock Option Benefit, April 11, 2001, CRA Document No. 2001-0073225 [No deduction allowed for employee who was required to repay amount of taxable employee stock option benefit].

Inclusions

SECTION 6:

► 6(1) ◄

(1) Amounts to be included as income from office or employment. There shall be included in computing the income of a taxpayer for a taxation year as income from an office or employment such of the following amounts as are applicable:

Interpretation Bulletins: *Primary* — IT-63R5 Benefits, including standby charge for an automobile, from the personal use of a motor vehicle supplied by an employer — After 1992; IT-85R2 Health and welfare trusts for employees; IT-160R3 Personal use of aircraft; IT-168R3 Athletes and players employed by football, hockey and similar clubs; IT-470R (Consolid.) Employees' fringe benefits; IT-529 Flexible Employee Benefit Programs. *Secondary* — IT-54 Wage loss replacement plans — Changes in plans established before June 19, 1971 [Archived by the CRA]; IT-75R4 Scholarships, Fellowships, Bursaries, Prizes, Research Grants and Financial Assistance; IT-196R2 Payments by employer to employee; IT-227R Group term life insurance premiums; IT-339R3 Meaning of "private health services plan"; IT-357R2 Expenses of training; IT-365R2 Damages, settlement, and similar receipts; IT-421R2 Benefits to Individuals, Corporations and Shareholders from Loans or Debt; IT-428 Wage loss replacement plans; IT-432R2 Benefits conferred on shareholders; IT-495R3 Child care expenses; IT-502 Employee benefit plans and employee trusts.

► 6(1)(a) ◄

(a) Value of benefits — the value of board, lodging and other benefits of any kind whatever received or enjoyed by the taxpayer in the year in respect of, in the course of, or by virtue of an office or employment, except any benefit

(i) derived from the contributions of the taxpayer's employer to or under a registered pension plan, group sickness or accident insurance plan, private health services plan, supplementary unemployment benefit plan, deferred profit sharing plan or group term life insurance policy,

(ii) under a retirement compensation arrangement, an employee benefit plan or an employee trust,

(iii) that was a benefit in respect of the use of an automobile,

(iv) derived from counselling services in respect of

(A) the mental or physical health of the taxpayer or an individual related to the taxpayer, other than a benefit attributable to an outlay or expense to which paragraph 18(1)(*l*) applies, or

(B) the re-employment or retirement of the taxpayer, or

(v) under a salary deferral arrangement, except to the extent that the benefit is included under this paragraph because of subsection (11);

Department of Finance Comfort Letter [Leave of Absence Plans]

June 30, 2000

Dear XXXX

Thank you for your letter of January 5, 2000 concerning the taxation of amounts paid to a participant under a leave of absence plan. I wish also to acknowledge your subsequent telephone conversations with Mr. Simon Thompson of this Division. I apologize for the delay in writing to you.

In your letter you describe a plan to fund "salary" of a plan participant on leave from employment. We understand that the Canada Customs and Revenue Agency has provided an advance ruling to the effect the plan will be a prescribed plan under paragraph 6801(*a*) of the *Income Tax Regulations* (and not a salary deferral arrangement or employee benefit plan). Amounts withheld and contributed to the plan from a participant's salary in a particular year will not be taxable in that year, but rather when received upon payment from the plan. We also understand that under the plan the investment income earned in each year on a participant's contributions to the plan will be allocated and paid out to the participant (and included in the participant's income for that year). The participant is required under the plan, however, to contribute the allocated income amount back to the plan ("re-contributions").

You are seeking a technical amendment to the income tax provisions so that the amount of re-contributions by a participant is excluded from the participant's income when paid out of the plan during the leave period. We agree that it would be appropriate that the return of re-contributions not be included in computing income. We will recommend that an amendment to this effect apply to the 2000 and subsequent taxation years.

Thank you for writing.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 6(1)(*a*)(iii) was amended by S.C. 1994, c. 21, s. 2(1), applicable to the 1993 and subsequent taxation years. S. 6(1)(*a*)(iii) formerly read:

"(iii) that was a benefit in relation to the use of an automobile, except to the extent that the benefit related to the operation of the automobile,"

S. 6(1)(*a*)(v) was added by S.C. 1994, c. 7, Sched. II, s. 3(1), applicable to the 1986 and subsequent taxation years.

Editorial Note: Certain benefits excluded under paragraph 6(1)(*a*) are dealt with elsewhere in the Act, e.g., subsection 6(4) for group term life insurance, paragraph 6(1)(*e*) for automobile standby charge and paragraphs 6(1)(*k*) and (*l*) for employer-paid automobile operating costs. The provision may not necessarily apply to an employee who is also a shareholder of a corporate employer and receives the benefit as a shareholder not as an employee. If this is the case, the benefit is considered received under subsection 15(1).

Related Sections: S. 5(1) Income from office or employment; s. 6(1.1) Parking cost; s. 6(2) Reasonable standby charge; s. 6(2.1) Automobile salesman; s. 6(4) Group term life insurance; s. 6(6) Employment at special work site or remote location; s. 6(7) Cost of property or service; s. 6(9) Amount in respect of interest on employee debt; s. 6(14) Part of plan or arrangement; s. 6(15) Forgiveness of employee debt; s. 6(16) Disability-related employment benefits; s. 6(18) Group disability benefits — insolvent insurer; s. 6(19) Benefit re housing loss; s. 6(20) Benefit re eligible housing loss; s. 6(23) Employer-provided housing subsidies; s. 7(1) Agreement to issue securities to employees; s. 8(11) Goods and services tax; s. 15(9) Deemed benefit to shareholder by corporation; s. 20.01(1) PHSP premiums; s. 56(1)(*a*) Pension benefits, unemployment insurance benefits, etc.; s. 56(1)(*g*) Supplementary unemployment benefit plan; s. 56(1)(*i*) Deferred profit sharing plan; s. 56(1)(*w*) Salary deferral arrangement; s. 56(1)(*x*) Retirement compensation arrangement — employee recipient; s. 56(1)(*y*) Retirement compensation arrangement — proceeds of disposition; s. 56(1)(*z*) Retirement compensation arrangement — non-employee recipient; s. 79(3) Proceeds of disposition for debtor; s. 79(5) Subsequent application with respect to employee or shareholder debt; s. 80(1), "forgiven amount"; s. 80(2)(*g*) Application of debt forgiveness rules; s. 80.01(1), "forgiven amount"; s. 81(3.1) Travel expenses; s. 145(1), "supplementary unemployment benefit plan"; s. 145(3) Amounts received taxable; s. 147(1), "deferred profit sharing plan"; s. 147(10) Amounts received taxable; s. 248(1), "benefit under a deferred profit sharing plan", "deferred amount", "employee benefit plan", "employee trust", "group term life insurance policy", "registered pension plan", "retirement compensation arrangement", "retiring allowance", "private health services plan", "salary deferral arrangement".

Regulations: 200(3).

Interpretation Bulletins: *Primary* — IT-63R5 Benefits, including standby charge for an automobile, from the personal use of a motor vehicle supplied by an employer — After 1992; IT-85R2 Health and welfare trusts for employees; IT-160R3 Personal use of aircraft; IT-470R (Consolid.) Employees' fringe benefits; IT-529 Flexible Employee Benefit Programs. *Secondary* — IT-54 Wage loss replacement plans — Changes in plans established before June 19, 1971 [Archived by the CRA]; IT-75R4 Scholarships, Fellowships, Bursaries, Prizes, Research Grants and Financial Assistance; IT-196R2 Payments by employer to employee; IT-227R Group term life insurance premiums; IT-339R3 Meaning of "private health services plan"; IT-357R2 Expenses of training; IT-421R2 Benefits to Individuals, Corporations and Shareholders from Loans or Debt; IT-428 Wage loss replacement plans; IT-432R2 Benefits conferred on shareholders; IT-502 Employee benefit plans and employee trusts.

Advance Tax Rulings: ATR-8 Self-insured health and welfare trust fund; ATR-21 Pension benefit from an unregistered pension plan.

Income Tax Technical News: Issue No. 40, Administrative policy changes for taxable employment benefits; Issue No. 25, Health and welfare trusts; Issue No. 15, Christmas parties and employer-paid special events; Issue No. 15, Employer payment of professional membership fees; Issue No. 13, Employer-paid educational costs.

Tax Topics: No. 1501, Cancellation of Stock Options: Reynolds Revived!; No. 1500, 21 Years' Worth of Disability Compensation Taxed in One Year.

Guides: T4130 Employers Guide to Payroll Deductions — Taxable Benefits.

Canadian Tax Foundation: Friedlander and Steele, "The Income Taxation of Flexible Benefit Plans in Canada", *1998 Canadian Tax Journal*, No. 4, 786; Arnold and Li, "The Appropriate Tax Treatment of the Reimbursement of Moving Expenses", *1996 Canadian Tax Journal*, No. 1, 1.

Canadian Petroleum Tax Journal: Attracting and Retaining Executives and Employees with Tax-Efficient Incentives, Julie Y. Lee, Vol. 14 No. 1 2001; Current Trends in Executive Compensation Structures and Their Taxation, Rachel Colabella and Denise McMullen, Vol. 13 No. 1 2000.

Tax Window Files: Wage Loss Replacement Plan — Employee-Shareholder Beneficiaries, February 12, 2007, CRA Document No. 2006-0214141E5; Private Health Services Plan for Shareholder-Employee, October 19, 2006, CRA Document No. 2006-0204951I7; Health and Welfare Trusts, May 5, 2005, CRA Document No. 2005-0121151E5 [General comments regarding health and welfare trusts]; Retirement Gift from Union, March 15, 2005, CRA Document No. 2005-0114061I7 [Cash gift provided by union upon retirement of member in good standing not taxable]; Taxable Benefit — Weight-Loss Program, March 4, 2005, CRA Document No. 2005-0109731E5 [Weight loss program provided by employer results in taxable benefit for participating employees]; Settlement for Loss of Employment — Lost Vacation Pay, Expenses not Covered by Medical Plan and Human Rights Violation, February 17, 2005, CRA Document No. 2004-0104331E5 [Indemnities for loss of annual vacation credits and reimbursement of psychotherapy and drug costs were taxable; indemnity for moral prejudice granted in accordance with Canadian Human Rights Act was not taxable]; Lump-Sum Payment from Private Health Services Plan (PHSP), 2004, CRA Document No. 2004-0096101R3 [Payment of a lump sum to retirees in lieu of the discontinuance of post retirement benefits under a private health services plan not taxable]; Employee Parking, November 26, 2004, CRA Document No. 2004-0101151E5 [No taxable benefit from free parking space for employee required to use vehicle for employment-related travel three or more days per week]; Free Tuition for Employee's Dependant, June 1, 2004, CRA Document No. 2004-0069811E5 [Tuition fees for employee's child were taxable benefit]; Professional Membership Initiation or Admission Fees, April 14, 2004, CRA Document No. 2004-0058301E5 [Employer-paid initiation fees for professional organization generally taxable benefits, but annual membership fees generally not taxable benefits; both deductible for employer]; Employee Benefits — Reimbursement of Computer, Modem and Internet Costs — Computer Allowance, March 4, 2004, CRA Document No. 2003-0049831E5 [Employer reimbursements for employees' costs of computers were taxable benefits; reimbursements of modem and

internet costs were not taxable]; Pre-employment Education Costs, January 16, 2002, CRA Document No. 2001-0110155 [Reimbursement of individual's tuition fees incurred prior to commencing employment may be taxable benefit; also, s. 6(3) may be applicable]; Gifts to Employees — Air Miles, January 9, 2002, CRA Document No. 2001-0110543 [Transfer of air miles to employees taxable benefits, not covered by CRA's $500 gift exception for non-cash gifts]; Bus Passes Provided to Municipal Employees, December 7, 2001, CRA Document No. 2001-0099547 [Bus passes for employees of municipal-operated transit system taxable benefits]; Flexible Benefit Plans, October 25, 2001, CRA Document No. 2001-0084095 [CRA comments on various scenarios involving flex-benefit plans]; Computers Provided to Employees, October 15, 2001, CRA Document No. 2001-0100305 [Reimbursements for employees' home computers and software were taxable benefits, not falling within CRA guidelines in Income Tax Technical News No. 13]; Tuition Fees Paid by Employer, November 17, 2000, CRA Document No. 2000-0043607 [Employer-paid tuition for executive MBA not taxable if within guidelines of Income Tax Technical News No. 13]; Employer-related Training, July 29, 1999, CRA Document No. 9910065 [Employer-paid tuition fees and supplies non-taxable benefits; question of fact whether non-reimbursable living allowance taxable].

Cases: The taxpayers' employer partially reimbursed their children's university tuition in recognition of the students' academic achievement. The scholarship cheques were issued directly to the students. These were not employment benefits because the taxpayers received no measurable economic advantage from them. *The Queen v. Bartley et al.,* 2009 DTC 5019 (F.C.A.), affirming 2008 DTC 3012 (T.C.C.) and 2008 DTC 3027 (T.C.C.).

The cost of the taxpayer's golf club membership was not included in his income since it was primarily for his employer's benefit. The value of a benefit to a particular taxpayer should be determined on an individual basis, taking into account actual use, as opposed to availability. *Rachfalowski v. The Queen,* 2008 DTC 3626 (T.C.C.).

The taxpayer's daughter qualified for a $1,200 award from the university where the taxpayer worked. It was paid to the taxpayer who, in turn, gave it to her daughter to put towards her tuition. It was not an employment benefit since the taxpayer received it on a resulting trust for her daughter and received no measurable economic advantage from it. *Okonski v. The Queen,* 2008 DTC 2992 (T.C.C.).

The taxpayers were given free parking passes by their employer. For most of them, this was a taxable benefit since it eliminated their need to pay for parking. However, one taxpayer had no taxable benefit since the parking pass reduced the employer's costs associated with his extensive use of his car for employer business. Another taxpayer had no taxable benefit since he never used the pass. *Adler et al. v. The Queen,* 2007 DTC 783 (T.C.C.).

Generally, an employer's reimbursement of tuition fees for an employee's children constitutes a benefit under s. 6(1)(*a*), unless the fees are required to be paid due to the nature of the employment. *Guay v. A.G. of Canada,* 2005 DTC 5217 (F.C.A.), affirming 2003 DTC 3957 (T.C.C.).

Free parking spaces provided to employees were not considered to be taxable benefits where the employer received an economic benefit by providing the space. *Chow et al. v. The Queen,* 2001 DTC 164 (T.C.C.).

The taxpayer sued her employer's group insurance carrier regarding denial of long-term disability benefits. The lump-sum settlement she received was taxable under s. 6(1)(*a*) as a benefit received by virtue of her employment. *Dumas v. The Queen,* 2000 DTC 2603 (T.C.C.).

A business trip which involved some travel by cruise ship and some sightseeing was not a taxable benefit. The test does not exclude pleasurable activities undertaken during the trip, so long as the business aspect predominates. The fact that it may help advance the taxpayer's career does not make it a taxable benefit. *Romeril v. The Queen,* 99 DTC 221 (T.C.C.).

Considering that the tax equalization payment received by the taxpayer from the taxpayer's U.S. employer was made pursuant to an element of the overall ongoing compensation package and was designed to induce the taxpayer to serve outside the U.S., it constituted part of the taxpayer's remuneration for services within the meaning of s. 5(1). *Gernhart v. The Queen,* 98 DTC 6026 (F.C.A.), affirming 96 DTC 1672 (T.C.C.).

Since s. 6(1)(*a*) includes "any kind" of economic advantage arising from a taxpayer's employment which renders his office of greater value to him, the benefit received by the taxpayer by virtue of his and his guests' attendance at a Christmas party and staying overnight at the hotel was taxable. *Dunlap v. The Queen,* 98 DTC 2053 (T.C.C.).

Having regard to the fact that the overwhelming portion of the time spent by the taxpayer and his spouse in New Orleans had been devoted to business activities, no part of the trip expenses were to be regarded as a personal benefit. *Lowe v. The Queen,* 96 DTC 6226 (F.C.A.).

Airline travel received by a taxpayer as a result of "frequent flyer" points acquired while travelling on the employer's business constituted a benefit from employment. The correct measure of the amount of the benefit was the price that the taxpayer would have had to pay to purchase a ticket to travel on the same flight, in the same class, and subject to the same restrictions. *Mommersteeg et al. v. The Queen,* 96 DTC 1011 (T.C.C.).

Although each of five taxpayers' houses in Toronto may have been a significantly more valuable asset than their previous houses in Calgary, their equity in both houses was the same, so that the subsidization payments their employer had paid, when they were relocated to Toronto were merely a reimbursement of an employment expense from which they received no economic advantage. *Attorney General of Canada v. Hoefele et al.,* 95 DTC 5602 (F.C.A.).

As part of a housing program termination package, the taxpayer received from his employer $7,240, which was included in his income considering that it arose out of an agreement entered into at the time of or before the period of his employment and it represented the money's worth of certain contractual rights which were of benefit to him. *The Queen v. Blanchard,* 95 DTC 5479 (F.C.A.), reversing 92 DTC 6585 (F.C.T.D.).

A police officer who received $500 per year from his employer to assist him in defraying the cost of clothing worn on the job was held not to have enjoyed any economic benefit. The taxpayer spent more on the clothing than he received, and the $500 was therefore nothing more than a reimbursement (as opposed to an "allowance"). *The Queen v. Huffman,* 90 DTC 6405 (F.C.A.).

► 6(1)(b) ◄

(b) Personal or living expenses — all amounts received by the taxpayer in the year as an allowance for personal or living expenses or as an allowance for any other purpose, except

(i) travel, personal or living expense allowances

(A) expressly fixed in an Act of Parliament, or

(B) paid under the authority of the Treasury Board to a person who was appointed or whose services were engaged pursuant to the *Inquiries Act*, in respect of the discharge of the person's duties relating to the appointment or engagement,

(ii) travel and separation allowances received under service regulations as a member of the Canadian Forces,

(iii) representation or other special allowances received in respect of a period of absence from Canada as a person described in paragraph 250(1)(*b*), (*c*), (*d*) or (*d*.1),

(iv) representation or other special allowances received by a person who is an agent-general of a province in respect of a period while the person was in Ottawa as the agent-general of the province,

(v) reasonable allowances for travel expenses received by an employee from the employee's employer in respect of a period when the employee was employed in connection with the selling of property or negotiating of contracts for the employee's employer,

(v.1) allowances for board and lodging of the taxpayer, to a maximum total of $300 for each month of the year, if

(A) the taxpayer is, in that month, a registered participant with, or member of, a sports team or recreation program of the employer in respect of which membership or participation is restricted to persons under 21 years of age,

(B) the allowance is in respect of the taxpayer's participation or membership and is not attributable to services of the taxpayer as a coach, instructor trainer, referee, administrator or other similar occupation,

(C) the employer is a registered charity or a non-profit organization described in paragraph 149(1)(*l*), and

(D) the allowance is reasonably attributable to the cost to the taxpayer of living away from the place where the employee would, but for the employment, ordinarily reside,

(vi) reasonable allowances received by a minister or clergyman in charge of or ministering to a diocese, parish or congregation for expenses for transportation incident to the discharge of the duties of that office or employment,

(vii) reasonable allowances for travel expenses (other than allowances for the use of a motor vehicle) received by an employee (other than an employee employed in connection with the selling of property or the negotiating of contracts for the employer) from the employer for travelling away from

(A) the municipality where the employer's establishment at which the employee ordinarily worked or to which the employee ordinarily reported was located, and

(B) the metropolitan area, if there is one, where that establishment was located,

in the performance of the duties of the employee's office or employment,

(vii.1) reasonable allowances for the use of a motor vehicle received by an employee (other than an employee employed in connection with the selling of property or the negotiating of contracts for the employer) from the employer for travelling in the performance of the duties of the office or employment,

(viii) [Repealed by S.C. 1999, c. 22, s. 2(1).]

(ix) allowances (not in excess of reasonable amounts) received by an employee from the employee's employer in respect of any child of the employee living away from the employee's domestic establishment in the place where the employee is required by reason of the employee's employment to live and in full-time attendance at a school in which the language primarily used for instruction is the official language of Canada primarily used by the employee if

(A) a school suitable for that child primarily using that language of instruction is not available in the place where the employee is so required to live, and

(B) the school the child attends primarily uses that language for instruction and is not farther from that place than the community nearest to that place in which there is such a school having suitable boarding facilities,

and, for the purposes of subparagraphs (v), (vi) and (vii.1), an allowance received in a taxation year by a taxpayer for the use of a motor vehicle in connection with or in the course of the taxpayer's office or employment shall be deemed not to be a reasonable allowance

(x) where the measurement of the use of the vehicle for the purpose of the allowance is not based solely on the number of kilometres for which the vehicle is used in connection with or in the course of the office or employment, or

(xi) where the taxpayer both receives an allowance in respect of that use and is reimbursed in whole or in part for expenses in respect of that use (except where the reimbursement is in respect of supplementary business insurance or toll or ferry charges and the amount of the allowance was determined without reference to those reimbursed expenses);

CRA Press Release

2.5% Indexation Factor for 2009

See CRA Fact Sheet, dated December 8, 2008, that is reproduced following subsection 117.1(1). This release announces a 2.5% indexation factor applicable for 2009 tax bracket thresholds, personal amounts and other amounts relating to non-refundable credits, as well as the refundable medical expense supplement and Old Age Security repayment threshold. Increases to the Canada Child Tax Benefit (including the National Child Benefit supplement and the Child Disability Benefit) and the Goods and Services Tax Credit will take effect as of July 1, 2009.

History: S. 6(1)(*b*)(v.1) was added by S.C. 2007, c. 16, s. 1, applicable to taxation years that end after June 22, 2007.

S. 6(1)(*b*)(viii) was repealed by S.C. 1999, c. 22, s. 2(1), applicable to the 1998 and subsequent taxation years. S. 6(1)(*b*)(viii) formerly read:

"(viii) such part of the total of allowances received by a person who is a volunteer fireman from a government, municipality or other public authority for expenses incurred by the person in respect of, in the course of, or by virtue of the discharge of the person's duties as a volunteer fireman, as does not exceed $500, or"

S. 6(1)(*b*)(xi) was amended by S.C. 1994, c. 21, s. 2(2), applicable to the 1993 and subsequent taxation years. S. 6(1)(*b*)(xi) formerly read:

"(xi) where the taxpayer both receives an allowance in respect of that use and is reimbursed in whole or in part for expenses in respect of that use (except where the reimbursement is in respect of supplementary business insurance or parking, toll or ferry charges and the amount of the allowance is determined without reference to those reimbursed expenses);"

S. 6(1)(*b*)(vii), that portion preceding clause (A), was amended by S.C. 1994, c. 7, Sched. II, s. 3(2), applicable to the 1990 and subsequent taxation years. That part formerly read:

"(vii) allowances (not in excess of reasonable amounts) for travel expenses (other than allowances for the use of a motor vehicle) received by an employee (other than an employee employed in connection with the selling of property or negotiating of contracts for the employee's employer) from the employee's employer for travelling away from"

S. 6(1)(*b*)(vii.1) was amended by S.C. 1994, c. 7, Sched. II, s. 3(3), applicable to the 1990 and subsequent taxation years. S. 6(1)(*b*)(vii.1) formerly read:

"(vii.1) allowances (not in excess of reasonable amounts) for the use of a motor vehicle received by an employee (other than an employee employed in connection with the selling of property or negotiating of contracts for the employee's employer) from the employee's employer for travelling in the performance of the duties of the employee's office or employment,"

S. 6(1)(*b*), the portion following clause (ix)(B), was amended by S.C. 1994, c. 7, Sched. II, s. 3(4). That portion of s. 6(1)(*b*) following clause (ix)(B) and preceding subparagraph (x) is applicable to the 1990 and subsequent taxation years. Ss. 6(1)(*b*)(x) and (xi) are applicable to the 1988 and subsequent taxation years, except that these subparagraphs are not applicable to the 1988 and 1989 taxation years of an individual who so elects by notifying the Minister of National Revenue in writing. All that portion of paragraph 6(1)(*b*) following clause (ix)(B) formerly read:

"and, for the purposes of subparagraphs (v), (vi) and (vii.1), an allowance received in the year by the taxpayer for use of a motor vehicle in connection with or in the course of the taxpayer's office or employment shall be deemed to be in excess of a reasonable amount

(x) where the measurement of the use of the vehicle for the purpose of the allowance is not based solely on the number of kilometres for which the vehicle is used in connection with or in the course of the office or employment, or

(xi) where the taxpayer both receives an allowance in respect of the use of the vehicle in connection with or in the course of the office or employment and is reimbursed in whole or in part for expenses in respect of the same use;"

Editorial Note: In contrast to paragraph 6(1)(*a*), which generally requires that an economic benefit be conferred upon an employee, paragraph 6(1)(*b*) includes any allowance in income regardless of whether an economic benefit is conferred, unless one of the listed exceptions applies. A reimbursement is not generally an allowance, and will normally be included, if at all, under paragraph 6(1)(*a*). Although the term "allowance" is not defined in the Act, it generally means a periodic or other payment received by an employee from his/her employer, in addition to his/her salary, if the employee does not have to account for its use.

Related Sections: S. 5(1) Income from office or employment; s. 6(6) Employment at special work site or remote location; s. 6(16) Disability-related employment benefits; s. 8(1)(*f*) Sales expenses; s. 8(1)(*g*) Transport employee's expenses; s. 8(1)(*h*) Travel expenses; s. 8(1)(*h.1*) Motor vehicle travel expenses; s. 8(1)(*j*) Motor vehicle and aircraft costs; s. 18(1)(*r*) Certain automobile expenses; s. 67.2 Interest on money borrowed for passenger vehicle; s. 67.3 Limitation re cost of leasing passenger vehicle; s. 67.4 More than one owner or lessor; s. 81(3.1) Travel expenses; s. 81(4) Payments for volunteer services; s. 118.5(1)(*b*) Tuition credit; s. 248(1), "motor vehicle", "personal or living expenses".
Interpretation Bulletins: *Secondary* — IT-470R (Consolid.) Employees' fringe benefits; IT-516R2 Tuition tax credit; IT-522R Vehicle, Travel and Sales Expenses of Employees.
Income Tax Technical News: Issue No. 40, Administrative Policy Changes for Taxable Employment Benefits.
Guides: T4130 Employers Guide to Payroll Deductions — Taxable Benefits.
Canadian Tax Foundation: Tang, "Automobile Taxable Benefits and Expenses: Part 2", *1998 Canadian Tax Journal*, No. 1, 125.
Tax Window Files: Allowance for Use of Automobile, Minimum Amount, April 7, 2005, CRA Document No. 2005-0115061E5 [Minimum car allowance received when kilometre threshold is not met is taxable]; Use of Employer Provided Vehicle — Logbook, March 14, 2005, CRA Document No. 2005-0119451E5 [Employer obligated to ensure that an employee maintains a logbook in respect of the personal use of an employer-provided motor vehicle]; Flat Rate Automobile Allowance, June 29, 2004, CRA Document No. 2004-0057181E5 [Flat rate automobile allowance taxable]; Employee Benefits — Reimbursement of Computer, Modem and Internet Costs — Computer Allowance, March 4, 2004, CRA Document No. 2003-0049831E5 [Allowance paid to enable employees to buy and maintain computers taxable]; Combined Motor Vehicle Allowance, February 20, 2003, CRA Document No. 2002-0176735 [Where flat rate allowance does not cover same use of automobile as per-km allowance, latter not deemed unreasonable under subparagraph 6(1)(*b*)(x) (compare to CRA doc. 2000-0050967 below)]; Bonus Forfeited for Non-Taxable School Allowance, 2001, CRA Document No. 2000-0053243 [Favourable ruling for employees who elect to forfeit their bonus in order to receive non-taxable schooling allowance under subparagraph 6(1)(*b*)(ix)]; Reasonableness of Allowance, November 24, 2000, CRA Document No. 2000-0050967 [Combined flat rate allowance and per-km allowance deemed not to be reasonable allowance pursuant to subparagraph 6(1)(*b*)(x)]; Unreasonable Automobile Allowance, August 15, 2000, CRA Document No. 2000-0027727 [Employee receiving unreasonably low motor vehicle allowance eligible to deduct motor vehicle expenses]; Employer-related Training, July 29, 1999, CRA Document No. 9910065 [Employer-paid tuition fees and supplies non-taxable benefits; question of fact whether non-reimbursable living allowance taxable].
Cases: The amount of $10,000 given by the CNR to assist a taxpayer with the purchase of a home in Winnipeg to replace the one he had sold in Moncton when he agreed to work at the CNR Winnipeg facility following the closing of the Moncton facility was taxable inasmuch as this sum increased the taxpayer's net worth by $10,000 and did not simply restore him to his previous financial state. *The Queen v. Phillips*, 94 DTC 6177 (F.C.A.), reversing 93 DTC 5247 (F.C.T.D.) and 90 DTC 1274 (T.C.C.).

As a result of changes in passenger services effected by Via Rail, the taxpayer was given the option of receiving either a $22,000 lump sum or certain relocation benefits. The lump sum he elected to receive had not been paid to reimburse him for specific expenses actually incurred by him. It was an allowance that had to be included in his income. *Vickery v. The Queen*, 93 DTC 993 (T.C.C.).

► 6(1)(c) ◄

(c) Director's or other fees — director's or other fees received by the taxpayer in the year in respect of, in the course of, or by virtue of an office or employment;

Editorial Note: An individual representing a corporation on another corporation's board of directors does not have to include the directors' fees in income if the fees are repaid or turned over to the individual's corporate employer.

Interpretation Bulletins: *Primary* — IT-377R Director's, executor's and juror's fees [Archived by the CRA].

► 6(1)(d) ◄

(d) Allocations, etc., under profit sharing plan — amounts allocated to the taxpayer in the year by a trustee under an employees profit sharing plan as provided by section 144 except subsection 144(4), and amounts required by subsection 144(7) to be included in computing the taxpayer's income for the year;

Related Sections: S. 8(1)(*o.1*) Forfeited amounts re employee profit sharing plans; s. 12(1)(*n*) Employees profit sharing plan; s. 128.1(10), "excluded right or interest", s. 144(1), "employees profit sharing plan"; s. 144(9) Deduction for forfeited amounts; s. 248(1), "employee benefit plan".
Regulations: 212
Interpretation Bulletins: *Secondary* — IT-379R Employees Profit Sharing Plans — Allocations to Beneficiaries

► 6(1)(e) ◄

(e) Standby charge for automobile — where the taxpayer's employer or a person related to the employer made an automobile available to the taxpayer, or to a person related to the taxpayer, in the year, the amount, if any, by which

(i) an amount that is a reasonable standby charge for the automobile for the total number of days in the year during which it was made so available

exceeds

(ii) the total of all amounts, each of which is an amount (other than an expense related to the operation of the automobile) paid in the year to the employer or the person related to the employer by the taxpayer or the person related to the taxpayer for the use of the automobile;

Editorial Note: The amount of the reasonable standby charge is computed under subsection 6(2). See the excerpt from the 2008 Federal Budget regarding plans to reduce the amount of record keeping required for automobile expense claims and taxable benefit calculations, reproduced following paragraph 8(1)(*h.1*).

The period during which the automobile is made available to the employee starts on the day the vehicle and the keys are made available to the employee and ends on the day they are returned to the employer or a person related to the employer. The vehicle is still considered made available to the employee if it is used by a person related to the employee or if it is not actually used by the employee but sits in his/her driveway or parking space.

Related Sections: S. 6(1)(*a*)(iii) Value of benefits; s. 6(1)(*k*) Automobile operating expense benefit — employer automobile; s. 6(1)(*l*) Automobile operating expense benefit — employee automobile; s. 6(1.1) Parking cost; 6(2) Reasonable standby charge; s. 6(2.1) Automobile salesman; s. 6(7) Cost of property or service; s. 8(1)(*f*) Sales expenses; s. 8(1)(*h.1*) Motor vehicle travel expenses; s. 8(1)(*j*) Motor vehicle and aircraft costs; s. 12(1)(*y*) Automobile provided to partner; s. 15(5) Automobile benefit; s. 248(1), "automobile".
Regulations: 200(3).
Interpretation Bulletins: *Primary* — IT-63R5 Benefits, including standby charge for an automobile, from the personal use of a motor vehicle supplied by an employer — After 1992.
Forms: RC18.
Guides: T4130 Employers Guide to Payroll Deductions — Taxable Benefits.
Canadian Tax Foundation: Tang and Katz, "Automobile Taxable Benefits and Expenses: Part 1", *1997 Canadian Tax Journal*, No. 5, 1150.
Tax Window Files: Standby Charge, January 10, 2002, CRA Document No. 2001-0107325 [Cost of employer's car reduced for purposes of stand-by charge formula by amount paid by employee (or shareholder)]; Cost of Automobile, January 15, 2001, CRA Document No. 2000-0054037 [Cost of employer's car reduced for purposes of stand-by charge formula by amount paid by employee (or shareholder)]; Standby Charge — Shared Lease Costs, June 18, 1998, CRA Document No. 9813005 [Lease costs paid by employee to lessor do not reduce standby charge, but employee may be entitled to deduction under s. 8(1)(*h.1*)].
Cases: An automobile salesperson was required to include a standby charge in income for the use of company vehicle even though the vehicle was subject to sale at any time and the taxpayer's use of the vehicle was restricted. *The Queen v. Adams*, 98 DTC 6266 (F.C.A.), reversing 97 DTC 228 (T.C.C.).

► 6(1)(e.1) ◄

(e.1) Goods and services tax — [Repealed by S.C. 1997, c. 10, s. 267(1).]

History: S. 6(1)(e.1) was repealed by S.C. 1997, c. 10, s. 267(1), applicable to the 1996 and subsequent taxation years. S. 6(1)(e.1) formerly read:

"(e.1) *Goods and services tax* — the total of all amounts each of which is 7% of the amount, if any, by which

(i) an amount (in this paragraph referred to as the 'benefit amount') that would be required under paragraph (*a*) or (*e*) to be included in computing the taxpayer's income for the year in respect of a supply, other than a zero-rated supply or an exempt supply, (within the meanings assigned by Part IX of the *Excise Tax Act*) of property or a service if no amount were paid to the employer or to a person related to the employer in respect of the amount that would be so required to be included

exceeds

(ii) the amount, if any, included in the benefit amount that can reasonably be attributed to tax imposed under an Act of the legislature of a province that is a prescribed tax for the purposes of section 154 of the *Excise Tax Act*;"

S. 6(1)(*e*.1) was amended by S.C. 1994, c. 7, Sched. VIII, s. 1(1), applicable to the 1991 and subsequent taxation years. For its application to the 1991 taxation year, see S.C. 1994, c. 7, Sched. VIII, s. 1(2) below. S. 6(1)(*e*.1) formerly read:

"(*e*.1) *Goods and services tax* — the total of all amounts, each of which is 7% of the amount, if any, by which

(i) an amount required under paragraph (*a*) or (*e*) to be included in computing the income of the taxpayer for the year in respect of a supply, other than a zero-rated supply or an exempt supply (within the meanings assigned by Part IX of the *Excise Tax Act*), of property or a service in respect of which section 173 of that Act applies

exceeds

(ii) the amount, if any, included in the amount that is required to be so included under paragraph (*a*) or (*e*), as the case may be, that may reasonably be attributed to tax imposed under an Act of the legislature of a province that is a prescribed tax for the purposes of section 154 of the *Excise Tax Act*;"

Related Sections: S. 6(7) Cost of property or service.

Sec. 1(2), Chap. 7, Schedule VIII, 1994

(2) [Application of Sec. 6(1)(e.1) to the 1991 taxation year.] Subsection (1) applies to the 1991 and subsequent taxation years except that, in applying paragraph 6(1)(*e*.1) of the said Act to the 1991 taxation year, it shall be read as follows:

"(*e*.1) the total of all amounts each of which is 7% of the amount, if any, by which

(i) an amount required under paragraph (*a*) or (*e*) to be included in computing the taxpayer's income for the year in respect of a supply, other than a zero-rated supply or an exempt supply, (within the meanings assigned by Part IX of the *Excise Tax Act*) of property or a service

exceeds

(ii) the amount, if any, included in the amount that is required to be so included under paragraph (*a*) or (*e*), as the case may be, that can reasonably be attributed to tax imposed under an Act of the legislature of a province that is a prescribed tax for the purposes of section 154 of the *Excise Tax Act*;"

► 6(1)(f) ◄

(f) Employment insurance benefits — the total of all amounts received by the taxpayer in the year that were payable to the taxpayer on a periodic basis in respect of the loss of all or any part of the taxpayer's income from an office or employment, pursuant to

(i) a sickness or accident insurance plan,

(ii) a disability insurance plan, or

(iii) an income maintenance insurance plan

to or under which his employer has made a contribution, not exceeding the amount, if any, by which

(iv) the total of all such amounts received by the taxpayer pursuant to the plan before the end of the year and

(A) where there was a preceding taxation year ending after 1971 in which any such amount was, by virtue of this paragraph, included in computing the taxpayer's income, after the last such year, and

(B) in any other case, after 1971,

exceeds

(v) the total of the contributions made by the taxpayer under the plan before the end of the year and

(A) where there was a preceding taxation year described in clause (iv)(A), after the last such year, and

(B) in any other case, after 1967;

Editorial Note: This provision does not apply to benefits from an employee-pay-all plan for which the premiums are paid only by the employee not the employer.

Related Sections: S. 6(17) Definitions; s. 6(18) Group disability benefits — insolvent insurer; s. 8(1)(*n*.1)(iii) Reimbursement of disability payments; s. 110.2(1), "qualifying amount"; s. 122.51(1), "eligible individual"; s. 139.1(15) Employee-paid insurance. ITAR s. 19 Income maintenance payments.

Regulations: Part II.

Interpretation Bulletins: *Primary* — IT-428 Wage loss replacement plans. *Secondary* — IT-54 Wage loss replacement plans — Changes in plans established before June 19, 1971 [Archived by the CRA]; IT-85R2 Health and welfare trusts for employees; IT-529 Flexible Employee Benefit Programs.

Advance Tax Rulings: ATR-8 Self-insured health and welfare trust fund.

Tax Topics: No. 1622, New Ways to Tax the Disabled on Disability Insurance Settlements; No. 1500, 21 Years' Worth of Disability Compensation Taxed in One Year.

Tax Window Files: Change in Long-Term Disability Plan, May 9, 2001, CRA Document No. 2001-0081335 [Conversion from employee-pay-all plan to employer-pay-all plan results in a new plan and precludes deduction under 6(1)(*f*)(v) for employee contributions to former plan]; Use of Annuity to Fund Disability Payments, 2001, CRA Document No. 2001-0106033 [Benefits under group disability insurance policy taxable where insurer financed payments with purchase of annuity similar to a structured settlement]; Creation of Employee Funded Long-Term Disability Plan, May 19, 2000, CRA Document No. 2000-0015835 [Existing plan spilt into two plans, one not taxable under paragraph 6(1)(*f*) because employee-pay-all plan].

Cases: The taxpayer sued her employer's insurer after it discontinued long-term disability benefits. Since part of the lump-sum settlement she received was intended to replace accumulated arrears of disability payments, the *surrogatum* principle required that this portion be included in her income under s. 6(1)(*f*). *Tsiaprailis v. The Queen*, 2005 DTC 5119 (S.C.C.), affirming 2003 DTC 5246 (F.C.A.), reversing in part 2002 DTC 1563 (T.C.C.).

The taxpayer negotiated a lump-sum settlement with his employer's insurer after being denied disability payments. The portion of the settlement that was intended to replace past benefits was taxable under s. 6(1)(*f*). *Switzer v. The Queen*, 2005 DTC 431 (T.C.C.).

The taxpayer sued her insurer after it discontinued disability payments. A portion of her lump-sum settlement attributable to arrears is includable in income under s. 6(1)(*f*). Since no such allocation had been calculated, the matter was remitted to the Minister for reassessment in accordance with the *Tsiaprailis* decision. *The Queen v. Siftar*, 2003 DTC 5243 (F.C.A.), reversing in part 2001 DTC 938 (T.C.C.).

When the taxpayer was injured in an accident, her employer's group disability insurer denied her claim. But, following mediation, the taxpayer received a lump-sum settlement. Paragraph 6(1)(*f*) was inapplicable, since the settlement amount was not payable on a periodic basis. *Fry v. The Queen*, 2001 DTC 846 (T.C.C.).

The taxpayer was employed with a corporation having a group disability insurance policy. When the policy carrier refused to meet his disability claim, he sued the carrier, but later received a settlement of $138,000 in return for an absolute release. Paragraph 6(1)(*f*) was inapplicable, since the amount received by the taxpayer was not payable to him on a periodic basis. *Whitehouse v. The Queen*, 2000 DTC 1616 (T.C.C.).

A taxpayer was not required to include in her income a lump sum settlement of $25,000 she had received under her employer's group long-term disability policy since it did not represent the aggregate of a series of payments which the taxpayer might have received over her lifetime. *Landry v. The Queen*, 98 DTC 1416 (T.C.C.).

► 6(1)(f.1) ◄

(f.1) Canadian Forces members and veterans income replacement benefits — the total of all amounts received by the taxpayer in the year on account of an earnings loss benefit, a supplementary retirement benefit or a permanent impairment allowance payable to the taxpayer under Part 2 of the *Canadian Forces Members and Veterans Re-establishment and Compensation Act*;

History: S. 6(1)(*f*.1) was added by S.C. 2005, c. 21, s. 101, and comes into force on April 1, 2006.

► 6(1)(g) ◄

(g) Employee benefit plan benefits — the total of all amounts each of which is an amount received by the

taxpayer in the year out of or under an employee benefit plan or from the disposition of any interest in any such plan, other than the portion thereof that is

(i) a death benefit or an amount that would, but for the deduction provided in the definition of that term in subsection 248(1), be a death benefit,

(ii) a return of amounts contributed to the plan by the taxpayer or a deceased employee of whom the taxpayer is an heir or legal representative, to the extent that the amounts were not deducted in computing the taxable income of the taxpayer or the deceased employee for any taxation year, or

(iii) a superannuation or pension benefit attributable to services rendered by a person in a period throughout which the person was not resident in Canada;

History: S. 6(1)(*g*)(ii) was replaced by S.C. 2009, c. 2, s. 2(1), applicable to the 2009 and subsequent taxation years. S. 6(1)(*g*)(ii) formerly read:

"(ii) a return of amounts contributed to the plan by the taxpayer or a deceased employee of whom the taxpayer is an heir or legal representative, or"

Editorial Note: Employee members of an Employee Benefit Plan (EBP) are not required to include any amount in their income when the employer makes a contribution to the EBP by virtue of subparagraph 6(1)(*a*)(ii) but must include an amount in their income under paragraph 6(1)(*g*) when they receive an amount under the plan from the custodian. At the same time, the employer is prevented by paragraph 18(1)(*o*) to claim a deduction at the time the contribution is made but is allowed under section 32.1 to claim such deduction within limits after the EBP made payments to the employee members.

Related Sections: S. 6(1)(*a*)(ii) Value of benefits; s. 6(10) Contributions to an employee benefit plan; s. 12(1)(*n*) Employees profit sharing plan; s. 12(1)(*n.1*) Employee benefit plan; s. 18(1)(*o*) Employee benefit plan contributions; s. 32.1 Employee benefit plan contributions; s. 104(6)(*a.1*) Deduction in computing income of trust; s. 107.1 Distribution by employee trust, employee benefit plan or similar trust; s. 128.1(10), "excluded right or interest"; s. 212(17) Exception; s. 248(1), "death benefit", "employee benefit plan".

Interpretation Bulletins: *Primary* — IT-502 Employee benefit plans and employee trusts. *Secondary* — IT-499R Superannuation or pension benefits; IT-529 Flexible Employee Benefit Programs.

Advance Tax Rulings: ATR-17 Employee benefit plan — Purchase of company shares.

Canadian Petroleum Tax Journal: Current Trends in Executive Compensation Structures and Their Taxation, Rachel Colabella and Denise McMullen, Vol. 13 No. 1 2000.

► 6(1)(h) ◄

(h) Employee trust — amounts allocated to the taxpayer for the year by a trustee under an employee trust;

Related Sections: S. 6(1)(*a*)(ii) Value of benefits; s. 12(1)(*n*) Employees profit sharing plan; s. 12(1)(*n.1*) Employee benefit plan; s. 32.1 Insurance agents and brokers; s. 104(6)(*a*) Deduction in computing income of trust; s. 104(13) Income of beneficiary; s. 107.1 Distribution by employee trust, employee benefit plan or similar trust; s. 248(1), "employee trust".

Regulations: Part II.

Interpretation Bulletins: *Primary* — IT-502 Employee benefit plans and employee trusts. *Secondary* — IT-499R Superannuation or pension benefits; IT-529 Flexible Employee Benefit Programs.

► 6(1)(i) ◄

(i) Salary deferral arrangement payments — the amount, if any, by which the total of all amounts received by any person as benefits (other than amounts received by or from a trust governed by a salary deferral arrangement) in the year out of or under a salary deferral arrangement in respect of the taxpayer exceeds the amount, if any, by which

(i) the total of all deferred amounts under the arrangement that were included under paragraph (*a*) as benefits in computing the taxpayer's income for preceding taxation years

exceeds

(ii) the total of

(A) all deferred amounts received by any person in preceding taxation years out of or under the arrangement, and

(B) all deferred amounts under the arrangement that were deducted under paragraph 8(1)(*o*) in computing the taxpayer's income for the year or preceding taxation years;

Related Sections: S. 6(11) Salary deferral arrangement; s. 6(12) Salary deferral arrangement — accrued interest; s. 6(13) Application; s. 6(14) Part of plan or arrangement; s. 20(1)(*pp*) Salary deferral arrangement; s. 56(1)(*w*) Salary deferral arrangement; s. 128.1(10), "excluded right or interest"; s. 248(1), "deferred amount", "salary deferral arrangement".

Interpretation Bulletins: *Primary* — IT-529 Flexible Employee Benefit Programs.

► 6(1)(j) ◄

(j) Reimbursements and awards — amounts received by the taxpayer in the year as an award or reimbursement in respect of an amount that would, if the taxpayer were entitled to no reimbursements or awards, be deductible under subsection 8(1) in computing the income of the taxpayer, except to the extent that the amounts so received

(i) are otherwise included in computing the income of the taxpayer for the year, or

(ii) are taken into account in computing the amount that is claimed under subsection 8(1) by the taxpayer for the year or a preceding taxation year;

► 6(1)(k) ◄

(k) Automobile operating expense benefit — where

(i) an amount is determined under subparagraph (*e*)(i) in respect of an automobile in computing the taxpayer's income for the year,

(ii) amounts related to the operation (otherwise than in connection with or in the course of the taxpayer's office or employment) of the automobile for the period or periods in the year during which the automobile was made available to the taxpayer or a person related to the taxpayer are paid or payable by the taxpayer's employer or a person related to the taxpayer's employer (each of whom is in this paragraph referred to as the "payor"), and

(iii) the total of the amounts so paid or payable is not paid in the year or within 45 days after the end of the year to the payor by the taxpayer or by the person related to the taxpayer,

the amount in respect of the operation of the automobile determined by the formula

$$A - B$$

where

A is

(iv) where the automobile is used primarily in the performance of the duties of the taxpayer's office or employment during the period or periods referred to in subparagraph (ii) and the taxpayer notifies the employer in writing before the end of the year of the taxpayer's intention to have this subparagraph apply, ½ of the amount determined under subparagraph (*e*)(i) in respect of

the automobile in computing the taxpayer's income for the year, and

(v) in any other case, the amount equal to the product obtained when the amount prescribed for the year is multiplied by the total number of kilometres that the automobile is driven (otherwise than in connection with or in the course of the taxpayer's office or employment) during the period or periods referred to in subparagraph (ii), and

B is the total of all amounts in respect of the operation of the automobile in the year paid in the year or within 45 days after the end of the year to the payor by the taxpayer or by the person related to the taxpayer; and

History: S. 6(1)(*k*) was added by S.C. 1994, c. 21, s. 2(3), applicable to the 1993 and subsequent taxation years.

Editorial Note: The benefit is based on a prescribed amount per personal-use kilometre driven (24 cents per personal-use kilometre in 2008 and 2009; 21 cents for employees employed principally in selling or leasing automobiles). The optional method of including one-half of the standby charge is available only if the automobile is used primarily for employment purposes during the period in which it is made available to the employee.

See the excerpt from the 2008 Federal Budget regarding plans to reduce the amount of record keeping required for automobile expense claims and taxable benefit calculations, reproduced following paragraph 8(1)(*h.1*).

Related Sections: S. 6(1)(*a*)(iii) Value of benefits; s. 6(1)(*e*) Standby charge for automobile; s. 6(1)(*l*) Automobile operating expense benefit — employee automobile; s. 6(1.1) Parking cost; s. 6(2) Reasonable standby charge; s. 6(2.1) Automobile salesman; s. 6(7) Cost of property or service; s. 12(1)(*y*) Automobile provided to partner; s. 15(5) Automobile benefit; s. 15(9) Deemed benefit to shareholder by corporation; s. 80.5 Deemed interest; s. 248(1), "automobile"; s. 257 Negative amounts.
Regulations: S. 7305.1
Forms: RC18.
Guides: T4130 Employers Guide to Payroll Deductions — Taxable Benefits.
Canadian Tax Foundation: Tang and Katz, "Automobile Taxable Benefits and Expenses: Part 1", *1997 Canadian Tax Journal*, No. 5, 1150.

► 6(1)(l) ◄

(l) Idem — the value of a benefit in respect of the operation of an automobile (other than a benefit to which paragraph (*k*) applies or would apply but for subparagraph (*k*)(iii)) received or enjoyed by the taxpayer in the year in respect of, in the course of or because of, the taxpayer's office or employment.

History: S. 6(1)(*l*) was added by S.C. 1994, c. 21, s. 2(3), applicable to the 1993 and subsequent taxation years.

Related Sections: S. 6(1)(*a*)(iii) Value of benefits; s. 6(1)(*e*) Standby charge for automobile; s. 6(1)(*k*) Automobile operating expense benefit — employer automobile.

► 6(1.1) ◄

(1.1) Parking cost For the purposes of this section, an amount or a benefit in respect of the use of a motor vehicle by a taxpayer does not include any amount or benefit related to the parking of the vehicle.

History: S. 6(1.1) was added by S.C. 1994, c. 21, s. 2(4), applicable to the 1993 and subsequent taxation years.

Related Sections: S. 6(1)(*a*)(iii) Value of benefits; s. 6(1)(*e*) Standby charge for automobile; s. 6(1)(*k*) Automobile operating expense benefit — employer automobile.

► 6(2) ◄

(2) Reasonable standby charge. For the purposes of paragraph (1)(*e*), a reasonable standby charge for an automobile for the total number of days (in this subsection referred to as the "total available days") in a taxation year during which the automobile is made available to a taxpayer or to a person related to the taxpayer by the employer of the taxpayer or by a person related to the employer (both of whom are in this subsection referred to as the "employer") shall be deemed to be the amount determined by the formula

$$\frac{A}{B} \times [2\% \times (C \times D) + \frac{2}{3} \times (E - F)]$$

where

A is

(*a*) the lesser of the total kilometres that the automobile is driven (otherwise than in connection with or in the course of the taxpayer's office or employment) during the total available days and the value determined for the description of B for the year in respect of the standby charge for the automobile during the total available days, if

(i) the taxpayer is required by the employer to use the automobile in connection with or in the course of the office or employment, and

(ii) the distance travelled by the automobile in the total available days is primarily in connection with or in the course of the office or employment, and

(*b*) the value determined for the description of B for the year in respect of the standby charge for the automobile during the total available days, in any other case;

B is the product obtained when 1,667 is multiplied by the quotient obtained by dividing the total available days by 30 and, if the quotient so obtained is not a whole number and exceeds one, by rounding it to the nearest whole number or, where that quotient is equidistant from two consecutive whole numbers, by rounding it to the lower of those two numbers;

C is the cost of the automobile to the employer where the employer owns the vehicle at any time in the year;

D is the number obtained by dividing such of the total available days as are days when the employer owns the automobile by 30 and, if the quotient so obtained is not a whole number and exceeds one, by rounding it to the nearest whole number or, where that quotient is equidistant from two consecutive whole numbers, by rounding it to the lower of those two numbers;

E is the total of all amounts that may reasonably be regarded as having been payable by the employer to a lessor for the purpose of leasing the automobile during such of the total available days as are days when the automobile is leased to the employer; and

F is the part of the amount determined for E that may reasonably be regarded as having been payable to the lessor in respect of all or part of the cost to the lessor of insuring against

(*a*) loss of, or damage to, the automobile, or

(*b*) liability resulting from the use or operation of the automobile.

History: S. 6(2), the descriptions of A and B were replaced by S.C. 2003, c. 15, s. 69(1), applicable to the 2003 and subsequent taxation years. S. 6(2), the descriptions of A and B formerly read:

"A is the lesser of

(*a*) the total number of kilometres that the automobile is driven (otherwise than in connection with or in the course of the taxpayer's office or employment) during the total available days, and

(*b*) the value determined for B for the year under this subsection in respect of the standby charge for the automobile during the total available days,

except that the amount determined under paragraph (*a*) shall be deemed to be equal to the amount determined under paragraph (*b*) unless

(*c*) the taxpayer is required by the employer to use the automobile in connection with or in the course of the office or employment, and

(*d*) all or substantially all of the distance travelled by the automobile in the total available days is in connection with or in the course of the office or employment;

B is the product obtained when 1,000 is multiplied by the quotient obtained by dividing the total available days by 30 and, if the quotient so obtained is not a whole number and exceeds one, by rounding it to the nearest whole number or, where that quotient is equidistant from two consecutive whole numbers, by rounding it to the lower of those two numbers;"

Editorial Note: Generally speaking, the standby charge for employer-provided automobiles is reduced only if the distance travelled in the course of employment exceeds the distance of personal travel and the personal travel does not exceed 1,667 kilometres per month.

Related Sections: S. 6(2.1) Automobile salesman; s. 6(7) Cost of property or service; s. 12(1)(*y*) Automobile provided to partner; s. 15(5) Automobile benefit; s. 85(1)(*e.4*) Transfer of property to corporation by shareholders; s. 248(1), "automobile".

Interpretation Bulletins: *Primary* — IT-63R5 Benefits, including standby charge for an automobile, from the personal use of a motor vehicle supplied by an employer — After 1992. *Secondary* — IT-291R3 Transfer of property to a corporation under subsection 85(1).

Canadian Tax Foundation: Tang and Katz, "Automobile Taxable Benefits and Expenses: Part 1", *1997 Canadian Tax Journal*, No. 5, 1150.

Tax Window Files: Use of Employer Provided Vehicle — Logbook, March 14, 2005, CRA Document No. 2005-0119451E5 [Employer obligated to ensure that an employee maintains a logbook in respect of the personal use of an employer-provided motor vehicle]; Standby Charge, January 10, 2002, CRA Document No. 2001-0107325 [Cost of employer's car reduced for purposes of stand-by charge formula by amount paid by employee (or shareholder)]; Cost of Automobile, January 15, 2001, CRA Document No. 2000-0054037 [Cost of employer's car reduced for purposes of stand-by charge formula by amount paid by employee (or shareholder)]; Standby Charge — Shared Lease Costs, June 18, 1998, CRA Document No. 9813005 [Lease costs paid by employee to lessor do not reduce standby charge, but employee may be entitled to deduction under s. 8(1)(*h.1*)].

► 6(2.1) ◄

(2.1) Automobile salesman. Where in a taxation year

(*a*) a taxpayer was employed principally in selling or leasing automobiles,

(*b*) an automobile owned by the taxpayer's employer was made available by the employer to the taxpayer or to a person related to the taxpayer, and

(*c*) the employer has acquired one or more automobiles,

the amount that would otherwise be determined under subsection (2) as a reasonable standby charge shall, at the option of the employer, be computed as if

(*d*) the reference in the formula in subsection (2) to "2%" were read as a reference to "1½%", and

(*e*) the cost to the employer of the automobile were the greater of

(i) the quotient obtained by dividing

(A) the cost to the employer of all new automobiles acquired by the employer in the year for sale or lease in the course of the employer's business

by

(B) the number of automobiles described in clause (A), and

(ii) the quotient obtained by dividing

(A) the cost to the employer of all automobiles acquired by the employer in the year for sale or lease in the course of the employer's business

by

(B) the number of automobiles described in clause (A).

Interpretation Bulletins: *Primary* — IT-63R5 Benefits, including standby charge for an automobile, from the personal use of a motor vehicle supplied by an employer — After 1992.

► 6(2.2) ◄

(2.2) Benefit re auto operation. [Repealed by S.C. 1994, c. 21, s. 2(5).]

History: S. 6(2.2) was repealed by S.C. 1994, c. 21, s. 2(5), applicable to the 1993 and subsequent taxation years. S. 6(2.2) formerly read:

"(2.2) *Benefit re auto operation.* Where

(*a*) an amount is determined under subparagraph (1)(*e*)(i) for an automobile in computing the income of a taxpayer for a taxation year,

(*b*) the automobile is used primarily in the performance of the duties of the taxpayer's office or employment, and

(*c*) the taxpayer notifies the taxpayer's employer in writing before the end of the year that the amount of the benefit relating to the operation of the automobile for the period in the year during which it was made available is to be determined under this subsection,

the amount of the benefit relating to the operation of the automobile shall, for the purposes of paragraph (1)(*a*), be deemed to be the amount, if any, by which

(*d*) one-half of the amount determined for the automobile under subparagraph (1)(*e*)(i) in respect of the taxpayer for the year

exceeds

(*e*) the total of all amounts related to the operation of the automobile paid in the year, by the taxpayer or by a person related to the taxpayer, to the employer or to the person who made the automobile available."

Related Sections: S. 6(1)(*k*) Automobile operating expense benefit — employer automobile.

Interpretation Bulletins: *Primary* — IT-63R5 Benefits, including standby charge for an automobile, from the personal use of a motor vehicle supplied by an employer — After 1992.

► 6(3) ◄

(3) Payments by employer to employee. An amount received by one person from another

(*a*) during a period while the payee was an officer of, or in the employment of, the payer, or

(*b*) on account, in lieu of payment or in satisfaction of an obligation arising out of an agreement made by the payer with the payee immediately prior to, during or immediately after a period that the payee was an officer of, or in the employment of, the payer,

shall be deemed, for the purposes of section 5, to be remuneration for the payee's services rendered as an officer or during the period of employment, unless it is established that, irrespective of when the agreement, if any, under which the amount was received was made or the form or legal effect thereof, it cannot reasonably be regarded as having been received

(*c*) as consideration or partial consideration for accepting the office or entering into the contract of employment,

(*d*) as remuneration or partial remuneration for services as an officer or under the contract of employment, or

(*e*) in consideration or partial consideration for a covenant with reference to what the officer or employee is, or is not, to do before or after the termination of the employment.

Editorial Note: In general terms, subsection 6(3) ensures that inducement payments made to prospective employees and non-competition payments made to departing employees are considered remuneration and therefore are taxable under section 5 upon receipt (see also new proposed subsection 6(3.1)).

Related Sections: S. 87(2)(*k*) Certain payments to employees.

Interpretation Bulletins: *Primary* — IT-196R2 Payments by employer to employee. *Secondary* — IT-75R4 Scholarships, Fellowships, Bursaries, Prizes, Research Grants and Financial Assistance; IT-247 Employer's contribution to pensioners' premiums under provincial medical and hospital services plans [Archived by the CRA]; IT-337R4 (Consolid.) Retiring allowances; IT-470R (Consolid.) Employees' fringe benefits; IT-515R2 Education tax credit; IT-529 Flexible Employee Benefit Programs.

Tax Topics: No. 1501, Cancellation of Stock Options: Reynolds Revived.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 6 of the Act is amended by adding the following after subsection (3):

(3.1) Amount receivable for covenant. If an amount (other than an amount to which paragraph (1)(*a*) applies because of subsection (11)) is receivable at the end of a taxation year by a taxpayer in respect of a covenant, agreed to by the taxpayer more than 36 months before the end of that taxation year, with reference to what the taxpayer is, or is not, to do, and the amount would be included in the taxpayer's income for the year under this subdivision if it were received by the taxpayer in the year, the amount

(*a*) is deemed to be received by the taxpayer at the end of the taxation year for services rendered as an officer or during the period of employment; and

(*b*) is deemed not to be received at any other time.

Applicable: To amounts receivable in respect of a covenant agreed to after October 7, 2003.

Explanatory Note:

Amounts Receivable for Covenant

New subsection 6(3.1) of the Act provides that an employee is — if certain circumstances exist — required to include in the employee's income from employment for a taxation year an amount that is receivable at the end of a taxation year in respect of a covenant as to what the employee is, or is not, to do. Subsection 6(3.1) is added consequential to new section 56.4 of the Act which concerns the tax treatment of amounts received or receivable in respect of a restrictive covenant (additional commentary is provided in the explanatory notes accompanying new section 56.4). In contrast, amounts related to covenants made in the context of an office or employment are generally included in income on a "received" basis.

New subsection 6(3.1) applies to a receivable of an employee in respect of a covenant if

- the amount is not receivable under a salary deferral arrangement to which paragraph 6(1)(*a*) applies because of subsection 6(11) (in such cases, the amount is currently taxable as employment income even though it is receivable),
- the employee agreed to the covenant more than 36 months before the end of the taxation year, and
- the amount would be included in the taxpayer's income, as income from an office or employment, if it were received by the taxpayer in the year.

If applicable, subsection 6(3.1) provides that the amount receivable is deemed to be received by the taxpayer at the end of the taxation year for services rendered as an officer or during the period of employment, and that the amount is deemed not to be received at any other time (thereby precluding an inclusion because of the receipt).

In cases where subsection 6(3.1) deems an amount that is receivable to be received, new paragraph 60(*f*) provides a deduction in a subsequent taxation year if the amount becomes a bad debt.

Subsection 6(3.1) applies to amounts receivable in respect of a covenant agreed to after October 7, 2003.

► 6(4) ◄

(4) Group term life insurance. Where at any time in a taxation year a taxpayer's life is insured under a group term life insurance policy, there shall be included in computing the taxpayer's income for the year from an office or employment the amount, if any, prescribed for the year in respect of the insurance.

History: S. 6(4) was amended by S.C. 1995, c. 3, s. 1(2), applicable to insurance provided in respect of periods that are after June 1994. S. 6(4) formerly read:

"(4) *Group term life insurance.* Notwithstanding any exception provided for in paragraph (1)(*a*), there shall be included in computing a taxpayer's income for a taxation year as income from an office or employment the premium in respect of any period in the year before July 1994 for any excess over $25,000 of the amount of life insurance (other than prescribed insurance) in effect on the taxpayer's life during that period under a group term life insurance policy under which any life insurance was effected on the taxpayer's life in respect of, in the course of or because of, the taxpayer's office or employment or former office or employment, determined as the remainder obtained by

(*a*) dividing that proportion of the total premium (other than a prescribed premium) payable on account of life insurance under the policy in respect of the policy year that ends in the year, minus the amount of any dividend or experience rating refund payable on account of life insurance under the policy in respect of the policy year, that the number of days in that period is of the number of days in the policy year, by the mean of the total amount of life insurance (other than prescribed insurance) in effect under the policy at the beginning of the policy year and the total amount of life insurance (other than prescribed insurance) so in effect at the end of the policy year,

(*b*) multiplying the quotient obtained under paragraph (*a*) by the excess over $25,000 of the amount of life insurance (other than prescribed insurance) in effect on the taxpayer's life during that period under the policy, and

(*c*) subtracting from the product obtained under paragraph (*b*) any amount that the taxpayer has reimbursed to the taxpayer's employer, or has paid, in respect of the amount of life insurance (other than prescribed insurance) in excess of $25,000 in effect on the taxpayer's life during that period under the policy,

and in the case of a taxpayer on whose life any life insurance was in effect during any period in the year before July 1994 under more than one such group insurance policy,

(*d*) this subsection shall be read as requiring a separate determination of the amount or amounts, if any, to be included in computing the taxpayer's income for the year in respect of each particular policy, and

(*e*) the expression '$25,000' in this subsection shall be read as referring, in respect of a particular policy, to that proportion of $25,000 that the amount of life insurance (other than prescribed insurance) in effect on the taxpayer's life during that period under the policy is of the total amount of life insurance (other than prescribed insurance) in effect on the taxpayer's life during that period under all of the policies."

S. 6(4) was amended by S.C. 1995, c. 3, s. 1(1), applicable to insurance provided in respect of periods that are in 1994 and before July 1994. S. 6(4) formerly read:

"(4) *Portion of premium under certain group insurance policies.* Notwithstanding any exception provided for in paragraph (1)(*a*), there shall be included in computing the income of a taxpayer for a taxation year as income from an office or employment the premium in respect of any period in the year for any excess over $25,000 of the amount of life insurance in effect on the life of the taxpayer during that period under a group term life insurance policy under which any life insurance was effected on the life of the taxpayer in respect of, in the course of, or by virtue of the taxpayer's office or employment or former office or employment, determined as the remainder obtained by

(*a*) dividing that proportion of the total premium payable on account of life insurance under the policy in respect of the policy year ending in the year, minus the amount of any dividend or experience rating refund payable on account of life insurance under the policy in respect of the policy year, that the number of days in that period is of the number of days in the policy year, by the mean of the total amount of life insurance in effect under the policy at the commencement of the policy year and the total amount of life insurance so in effect at the end of the policy year,

(*b*) multiplying the quotient obtained under paragraph (*a*) by the excess over $25,000 of the amount of life insurance in effect on the life of the taxpayer during that period under the policy, and

(*c*) subtracting from the product obtained under paragraph (*b*) any amount that the taxpayer has reimbursed to the taxpayer's employer, or has paid, in respect of the portion of the premium attributable to the amount of life insurance in excess of $25,000 in effect on the taxpayer's life under the policy,

and in the case of a taxpayer on whose life any life insurance was in effect during any period in the year under more than one such group insurance policy,

(*d*) this subsection shall be read as requiring a separate determination of the amount or amounts, if any, to be included in computing the taxpayer's income for the year in respect of each particular policy, and

(*e*) the expression '$25,000' in this subsection shall be read as referring, in respect of a particular policy, to that proportion of $25,000 that the amount of life insurance in effect on the life of the taxpayer during that

period under the policy is of the total amount of life insurance in effect on the taxpayer's life during that period under all of the policies."

Related Sections: S. 6(1)(*a*)(i) Value of benefits; s. 139.1(15) Employee-paid insurance; s. 146(1), "earned income"; s. 248(1), "group term life insurance policy".
Regulations: 2700 to 2705.
Interpretation Bulletins: *Primary* — IT-227R Group term life insurance premiums. *Secondary* — IT-85R2 Health and welfare trusts for employees; IT-529 Flexible Employee Benefit Programs.
Forms: T2030.
Guides: T4130 Employers Guide to Payroll Deductions — Taxable Benefits.

► 6(5) ◄

(5) Reference to policy year ending in taxation year. [Repealed by S.C. 1995, c. 3, s. 1(3).]

History: S. 6(5) was repealed by S.C. 1995, c. 3, s. 1(3), applicable to the 1995 and subsequent taxation years. S. 6(5) formerly read:

"(5) *Reference to policy year ending in taxation year.* A reference in subsection (4) to 'the policy year' ending in a taxation year shall, where there is no such year ending in the taxation year, be construed as a reference to the period commencing on the anniversary in the immediately preceding taxation year of the date of issue of the policy, or where there is no such anniversary, on the date of issue of the policy, and ending on the last day in the taxation year on which the policy was in effect."

Interpretation Bulletins: *Secondary* — IT-227R Group term life insurance premiums.

► 6(6) ◄

(6) Employment at special work site or remote location. Notwithstanding subsection (1), in computing the income of a taxpayer for a taxation year from an office or employment, there shall not be included any amount received or enjoyed by the taxpayer in respect of, in the course or by virtue of the office or employment that is the value of, or an allowance (not in excess of a reasonable amount) in respect of expenses the taxpayer has incurred for,

(*a*) the taxpayer's board and lodging for a period at

(i) a special work site, being a location at which the duties performed by the taxpayer were of a temporary nature, if the taxpayer maintained at another location a self-contained domestic establishment as the taxpayer's principal place of residence

(A) that was, throughout the period, available for the taxpayer's occupancy and not rented by the taxpayer to any other person, and

(B) to which, by reason of distance, the taxpayer could not reasonably be expected to have returned daily from the special work site, or

(ii) a location at which, by virtue of its remoteness from any established community, the taxpayer could not reasonably be expected to establish and maintain a self-contained domestic establishment,

if the period during which the taxpayer was required by the taxpayer's duties to be away from the taxpayer's principal place of residence, or to be at the special work site or location, was not less than 36 hours; or

(*b*) transportation between

(i) the principal place of residence and the special work site referred to in subparagraph (*a*)(i), or

(ii) the location referred to in subparagraph (*a*)(ii) and a location in Canada or a location in the country in which the taxpayer is employed,

in respect of a period described in paragraph (*a*) during which the taxpayer received board and lodging, or a reasonable allowance in respect of board and lodging, from the taxpayer's employer.

Related Sections: S. 67.1(2)(*e*.1)(ii) Exceptions; s. 110.7(4)(*a*) Board and lodging allowances, etc; s. 248(1), "self-contained domestic establishment".
Interpretation Bulletins: *Primary* — IT-91R4 Employment at special work sites or remote locations; IT-254R2 Fishermen-employees and seafarers — Value of rations and quarters. *Secondary* — IT-470R (Consolid.) Employees' fringe benefits; IT-522R Vehicle and other travelling expenses — Employees.
Forms: TD4; T2200.
Guides: T4080 Employers Guide to Housing and Travel Assistance Benefits Paid in Prescribed Zones Rev. 97.
Canadian Petroleum Tax Journal: Canada Customs and Revenue Agency 1999 Roundtable Questions and Answers, Question 19, Vol. 13 No. 1 2000.

► 6(7) ◄

(7) Cost of property or service. To the extent that the cost to a person of purchasing a property or service or an amount payable by a person for the purpose of leasing property is taken into account in determining an amount required under this section to be included in computing a taxpayer's income for a taxation year, that cost or amount payable, as the case may be, shall include any tax that was payable by the person in respect of the property or service or that would have been so payable if the person were not exempt from the payment of that tax because of the nature of the person or the use to which the property or service is to be put.

History: S. 6(7) was amended by S.C. 1997, c. 10, s. 267(2), applicable to the 1996 and subsequent taxation years. S. 6(7) formerly read:

"(7) *Goods and services tax.* To the extent that an amount required to be included in computing the income of a taxpayer for a taxation year under paragraph (1)(*a*) or (*e*) is determined by reference to the cost to a person of any property or service, that cost shall, for the purposes of those paragraphs, be determined without reference to any goods and services tax payable by that person in respect of the property or service."

Related Sections: S. 6(1)(*a*) Value of benefits; s. 6(1)(*e*) Standby charge for automobile; s. 6(1)(*k*) Automobile operating expense benefit — employer automobile; s. 6(2) Reasonable standby charge; s. 8(11) Goods and services tax.

► 6(8) ◄

(8) GST rebates re costs of property or service. If

(*a*) an amount in respect of an outlay or expense is deducted under section 8 in computing the income of a taxpayer for a taxation year from an office or employment, or

(*b*) an amount is included in the capital cost to a taxpayer of a property described in subparagraph 8(1)(*j*)(ii) or 8(1)(*p*)(ii),

and a particular amount is paid to the taxpayer in a particular taxation year as a rebate under the *Excise Tax Act* in respect of any goods and services tax included in the amount of the outlay or expense, or the capital cost of the property, as the case may be, the particular amount

(*c*) to the extent that it relates to an outlay or expense referred to in paragraph (*a*), shall be included in computing the taxpayer's income from an office or employment for the particular taxation year, and

(*d*) to the extent that it relates to the capital cost of property referred to in paragraph (*b*), is deemed, for the purposes of subsection 13(7.1), to have been received by the taxpayer in the particular taxation year as assistance from a government for the acquisition of the property.

History: S. 6(8) was amended by S.C. 2002, c. 9, s. 20(1), applicable to the 2002 and subsequent taxation years. S. 6(8) formerly read:

"(8) *Idem.* Where

(*a*) an amount in respect of an expense is deducted under section 8 in computing the income of a taxpayer for a taxation year from an office or employment, or

(*b*) an amount is included in the capital cost to a taxpayer of a property described in subparagraph 8(1)(*j*)(ii) or (*p*)(ii),

and a particular amount is paid to the taxpayer in a particular taxation year as a rebate under the *Excise Tax Act* in respect of any goods and services tax included in the amount of the expense, or the capital cost of the property, as the case may be, the particular amount

(*c*) to the extent that it relates to an expense referred to in paragraph (*a*), shall be included in computing the taxpayer's income from an office or employment for the particular year, and

(*d*) to the extent that it relates to the capital cost of property referred to in paragraph (*b*), shall be deemed, for the purposes of subsection 13(7.1), to have been received by the taxpayer in the particular year as assistance from a government for the acquisition of the property."

Related Sections: S. 8(11) Goods and services tax.

► 6(9) ◄

(9) Amount in respect of interest on employee debt. Where an amount in respect of a loan or debt is deemed by subsection 80.4(1) to be a benefit received in a taxation year by an individual, the amount of the benefit shall be included in computing the income of the individual for the year as income from an office or employment.

Editorial Note: If the employee loan or debt is for income-earning purposes, a deduction of part or all of the interest benefit may be allowed under subparagraph 8(1)(*j*)(i) or paragraph 20(1)(*c*); see section 80.5.

Related Sections: S. 6(23) Employer-provided housing subsidies; s. 15(9) Deemed benefit to shareholder by corporation; s. 80.5 Deemed interest.
Regulations: Part II.
Interpretation Bulletins: *Secondary* — IT-171R2 Non-resident individuals — Computation of taxable income earned in Canada and non-refundable tax credits [Archived by the CRA]; IT-421R2 Benefits to Individuals, Corporations and Shareholders from Loans or Debt.

► 6(10) ◄

(10) Contributions to an employee benefit plan. For the purposes of subparagraph (1)(*g*)(ii),

(*a*) an amount included in the income of an individual in respect of an employee benefit plan for a taxation year preceding the year in which it was paid out of the plan shall be deemed to be an amount contributed to the plan by the individual; and

(*b*) where an amount is received in a taxation year by an individual from an employee benefit plan that was in a preceding year an employee trust, such portion of the amount so received by the individual as does not exceed the amount, if any, by which the lesser of

(i) the amount, if any, by which

(A) the total of all amounts allocated to the individual or a deceased person of whom the individual is an heir or legal representative by the trustee of the plan at a time when it was an employee trust

exceeds

(B) the total of all amounts previously paid out of the plan to or for the benefit of the individual or the deceased person at a time when the plan was an employee trust, and

(ii) the portion of the amount, if any, by which the cost amount to the plan of its property immediately before it ceased to be an employee trust exceeds its liabilities at that time that

(A) the amount determined under subparagraph (i) in respect of the individual

is of

(B) the total of amounts determined under subparagraph (i) in respect of all individuals who were beneficiaries under the plan immediately before it ceased to be an employee trust

exceeds

(iii) the total of all amounts previously received out of the plan by the individual or a deceased person of whom the individual is an heir or legal representative at a time when the plan was an employee benefit plan to the extent that the amounts were deemed by this paragraph to be a return of amounts contributed to the plan

shall be deemed to be the return of an amount contributed to the plan by the individual.

Related Sections: S. 248(1), "employee benefit plan", "employee trust".
Interpretation Bulletins: *Secondary* — IT-502 Employee benefit plans and employee trusts.

► 6(11) ◄

(11) Salary deferral arrangement. Where at the end of a taxation year any person has a right under a salary deferral arrangement in respect of a taxpayer to receive a deferred amount, an amount equal to the deferred amount shall be deemed, for the purposes only of paragraph (1)(*a*), to have been received by the taxpayer as a benefit in the year, to the extent that the amount was not otherwise included in computing the taxpayer's income for the year or any preceding taxation year.

Related Sections: S. 6(1)(*a*)(v) Value of benefits; s. 6(1)(*i*) Salary deferral arrangement payments; s. 6(12)–(14); s. 8(1)(*o*) Forfeited amounts re salary deferral arrangements; s. 12(1)(*n.2*) Forfeited salary deferral amounts; s. 20(1)(*oo*) Salary deferral arrangement; s. 56(1)(*w*) Salary deferral arrangement; s. 248(1), "deferred amount", "salary deferral arrangement".
Canadian Petroleum Tax Journal: Attracting and Retaining Executives and Employees with Tax-Efficient Incentives, Julie Y. Lee, Vol. 14 No. 1 2001.

► 6(12) ◄

(12) Idem. Where at the end of a taxation year any person has a right under a salary deferral arrangement (other than a trust governed by a salary deferral arrangement) in respect of a taxpayer to receive a deferred amount, an amount equal to any interest or other additional amount that accrued to, or for the benefit of, that person to the end of the year in respect of the deferred amount shall be deemed at the end of the year, for the purposes only of subsection (11), to be a deferred amount that the person has a right to receive under the arrangement.

Related Sections: S. 6(13) Application; s. 6(14) Part of plan or arrangement.

► 6(13) ◄

(13) Application. Subsection (11) does not apply in respect of a deferred amount under a salary deferral arrangement in respect of a taxpayer that was established primarily for the benefit of one or more non-resident employees in respect of services to be rendered in a country other than Canada, to the extent that the deferred amount

(*a*) was in respect of services rendered by an employee who

(i) was not resident in Canada at the time the services were rendered, or

(ii) was resident in Canada for a period (in this subsection referred to as an "excluded period") of not more than 36 of the 72 months preceding the time the services were rendered and was an employee to whom the arrangement applied before the employee became resident in Canada; and

(*b*) cannot reasonably be regarded as being in respect of services rendered or to be rendered during a

period (other than an excluded period) when the employee was resident in Canada.

Related Sections: S. 6(12) Salary deferral arrangement — accrued interest; s. 6(14) Part of plan or arrangement.

► 6(14) ◄

(14) Part of plan or arrangement. Where deferred amounts under a salary deferral arrangement in respect of a taxpayer (in this subsection referred to as "that arrangement") are required to be included as benefits under paragraph (1)(*a*) in computing the taxpayer's income and that arrangement is part of a plan or arrangement (in this subsection referred to as the "plan") under which amounts or benefits not related to the deferred amounts are payable or provided, for the purposes of this Act, other than this subsection,

(*a*) that arrangement shall be deemed to be a separate arrangement independent of other parts of the plan of which it is a part; and

(*b*) where any person has a right to a deferred amount under that arrangement, an amount received by the person as a benefit at any time out of or under the plan shall be deemed to have been received out of or under that arrangement except to the extent that it exceeds the amount, if any, by which

(i) the total of all deferred amounts under that arrangement that were included under paragraph (1)(*a*) as benefits in computing the taxpayer's income for taxation years ending before that time

exceeds

(ii) the total of

(A) all deferred amounts received by any person before that time out of or under the plan that were deemed by this paragraph to have been received out of or under that arrangement, and

(B) all deferred amounts under that arrangement that were deducted under paragraph 8(1)(*o*) in computing the taxpayer's income for the year or preceding taxation years.

Related Sections: S. 6(11) Salary deferral arrangement; s. 6(12) Salary deferral arrangement — accrued interest; s. 6(13) Application; s. 56(10) Severability of retirement compensation arrangement.

► 6(15) ◄

(15) Forgiveness of employee debt. For the purpose of paragraph (1)(*a*),

(*a*) a benefit shall be deemed to have been enjoyed by a taxpayer at any time an obligation issued by any debtor (including the taxpayer) is settled or extinguished; and

(*b*) the value of that benefit shall be deemed to be the forgiven amount at that time in respect of the obligation.

History: S. 6(15) was amended by S.C. 1995, c. 21, s. 1(1), applicable to taxation years that end after February 21, 1994. S. 6(15) formerly read:

"(15) *Forgiven employee loans.* For the purposes of paragraph (1)(*a*), the value of the benefit received or enjoyed by a taxpayer, in circumstances where a loan or other obligation to pay an amount is settled or extinguished at any time without any payment by the taxpayer or by payment by the taxpayer of an amount that is less than the amount of the obligation outstanding at that time, shall be deemed to be the amount, if any, by which the amount of the obligation outstanding at that time exceeds the amount so paid, if any."

Related Sections: S. 79(3) Proceeds of disposition for debtor; s. 80(1), "forgiven amount".

► 6(15.1) ◄

(15.1) Forgiven amount. For the purpose of subsection (15), the "forgiven amount" at any time in respect of an obligation issued by a debtor has the meaning that would be assigned by subsection 80(1) if

(*a*) the obligation were a commercial obligation (within the meaning assigned by subsection 80(1)) issued by the debtor;

(*b*) no amount included in computing income because of the obligation being settled or extinguished at that time were taken into account;

(*c*) the definition "forgiven amount" in subsection 80(1) were read without reference to paragraphs (*f*) and (*h*) of the description of B in that definition; and

(*d*) section 80 were read without reference to paragraphs (2)(*b*) and (*q*) of that section.

History: S. 6(15.1) was added by S.C. 1995, c. 21, s. 1(1), applicable to taxation years that end after February 21, 1994.

Related Sections: S. 79 Surrender of property by debtor; s. 80.01(1), "forgiven amount".

► 6(16) ◄

(16) Disability-related employment benefits. Notwithstanding subsection (1), in computing an individual's income for a taxation year from an office or employment, there shall not be included any amount received or enjoyed by the individual in respect of, in the course of or because of the individual's office or employment that is the value of a benefit relating to, or an allowance (not in excess of a reasonable amount) in respect of expenses incurred by the individual for,

(*a*) the transportation of the individual between the individual's ordinary place of residence and the individual's work location (including parking near that location) if the individual is blind or is a person in respect of whom an amount is deductible, or would but for paragraph 118.3(1)(*c*) be deductible, because of the individual's mobility impairment, under section 118.3 in computing a taxpayer's tax payable under this Part for the year; or

(*b*) an attendant to assist the individual in the performance of the individual's duties if the individual is a person in respect of whom an amount is deductible, or would but for paragraph 118.3(1)(*c*) be deductible, under section 118.3 in computing a taxpayer's tax payable under this Part for the year.

History: S. 6(16) was added by S.C. 1994, c. 7, Sched. II, s. 3(5), applicable to the 1991 and subsequent taxation years.

Related Sections: S. 6(1.1) Parking cost; s. 6(17) Definitions; s. 64 Disability supports deduction; s. 118.4(1) Nature of impairment.
Interpretation Bulletins: *Secondary* — IT-519R2 (Consolid.) Medical expense and disability tax credits and attendant care expense deduction.

► 6(17) ◄

(17) Definitions. The definitions in this subsection apply in this subsection and subsection (18).

"*disability policy*" — "disability policy" means a group disability insurance policy that provides for periodic payments to individuals in respect of the loss of remuneration from an office or employment.

History: S. 6(17), the definition "disability policy" was added by S.C. 1998, c. 19, s. 68(1), applicable to payments made after August 10, 1994.

"employer" — "employer" of an individual includes a former employer of the individual.

History: S. 6(17), the definition "employer" was added by S.C. 1998, c. 19, s. 68(1), applicable to payments made after August 10, 1994.

"top-up disability payment" — "top-up disability payment" in respect of an individual means a payment made by an employer of the individual as a consequence of the insolvency of an insurer that was obligated to make payments to the individual under a disability policy where

(*a*) the payment is made to an insurer so that periodic payments made to the individual under the policy will not be reduced because of the insolvency, or will be reduced by a lesser amount, or

(*b*) the following conditions are satisfied:

(i) the payment is made to the individual to replace, in whole or in part, periodic payments that would have been made under the policy to the individual but for the insolvency, and

(ii) the payment is made under an arrangement by which the individual is required to reimburse the payment to the extent that the individual subsequently receives an amount from an insurer in respect of the portion of the periodic payments that the payment was intended to replace.

For the purposes of paragraphs (*a*) and (*b*), an insurance policy that replaces a disability policy is deemed to be the same policy as, and a continuation of, the disability policy that was replaced.

History: S. 6(17), the definition "top-up disability payment" was added by S.C. 1998, c. 19, s. 68(1), applicable to payments made after August 10, 1994.

Related Sections: S. 8(1)(*n*) Salary reimbursement; s. 8(1)(*n.1*) Reimbursement of disability payments.

► 6(18) ◄

(18) Group disability benefits — insolvent insurer. Where an employer of an individual makes a top-up disability payment in respect of the individual,

(*a*) the payment is, for the purpose of paragraph (1)(*a*), deemed not to be a benefit received or enjoyed by the individual;

(*b*) the payment is, for the purpose of paragraph (1)(*f*), deemed not to be a contribution made by the employer to or under the disability insurance plan of which the disability policy in respect of which the payment is made is or was a part; and

(*c*) if the payment is made to the individual, it is, for the purpose of paragraph (1)(*f*), deemed to be an amount payable to the individual pursuant to the plan.

History: S. 6(18) was added by S.C. 1998, c. 19, s. 68(1), applicable to payments made after August 10, 1994.

Related Sections: S. 6(17) Definitions; s. 8(1)(*n.1*) Reimbursement of disability payments.

► 6(19) ◄

(19) Benefit re housing loss. For the purpose of paragraph (1)(*a*), an amount paid at any time in respect of a housing loss (other than an eligible housing loss) to or on behalf of a taxpayer or a person who does not deal at arm's length with the taxpayer in respect of, in the course of or because of, an office or employment is deemed to be a benefit received by the taxpayer at that time because of the office or employment.

History: S. 6(19) was added by S.C. 1999, c. 22, s. 2(2), applicable

(*a*) to the 2001 and subsequent taxation years in respect of an eligible relocation of an individual in connection with which the individual begins employment at a new work location before October 1998; and

(*b*) in any other case, after February 23, 1998.

Editorial Note: See the editorial note under subsection 6(20).

Related Sections: S. 6(21) Housing loss; s. 251(1) Arm's length.
Interpretation Bulletins: *Secondary* — IT-470R (Consolid.) Employees' Fringe Benefits.
Canadian Tax Foundation: Arnold and Li, "The Appropriate Tax Treatment of the Reimbursement of Moving Expenses", *1996 Canadian Tax Journal*, No. 1, 1.

► 6(20) ◄

(20) Benefit re eligible housing loss. For the purpose of paragraph (1)(*a*), an amount paid at any time in a taxation year in respect of an eligible housing loss to or on behalf of a taxpayer or a person who does not deal at arm's length with the taxpayer in respect of, in the course of or because of, an office or employment is deemed to be a benefit received by the taxpayer at that time because of the office or employment to the extent of the amount, if any, by which

(*a*) one half of the amount, if any, by which the total of all amounts each of which is so paid in the year or in a preceding taxation year exceeds $15,000

exceeds

(*b*) the total of all amounts each of which is an amount included in computing the taxpayer's income because of this subsection for a preceding taxation year in respect of the loss.

History: S. 6(20) was added by S.C. 1999, c. 22, s. 2(2), applicable

(*a*) to the 2001 and subsequent taxation years in respect of an eligible relocation of an individual in connection with which the individual begins employment at a new work location before October 1998; and

(*b*) in any other case, after February 23, 1998.

Editorial Note: An "eligible housing loss" is defined in subsection 6(22) and is generally a loss incurred on the disposition of a house in respect of an "eligible relocation". An eligible relocation is defined in subsection 248(1) and generally means a relocation to enable the taxpayer to carry on employment or business at a new work location, where the taxpayer's new residence is at least 40 kilometres closer to the new work location than the taxpayer's former residence (the one that gave rise to the loss). One-half of a reimbursement of a taxpayer's eligible housing loss in excess of $15,000 is included in the taxpayer's income under subsection 6(20). In contrast, if the loss is not an eligible housing loss, the reimbursement will be fully included in the taxpayer's income under subsection 6(19).

Related Sections: S. 6(22) Eligible housing loss; s. 251(1) Arm's length.
Interpretation Bulletins: *Secondary* — IT-470R (Consolid.) Employees' Fringe Benefits.

► 6(21) ◄

(21) Housing loss. In this section, "housing loss" at any time in respect of a residence of a taxpayer means the amount, if any, by which the greater of

(*a*) the adjusted cost base of the residence at that time to the taxpayer or to another person who does not deal at arm's length with the taxpayer, and

(*b*) the highest fair market value of the residence within the six-month period that ends at that time

exceeds

(*c*) if the residence is disposed of by the taxpayer or the other person before the end of the first taxation year that begins after that time, the lesser of

(i) the proceeds of disposition of the residence, and

(ii) the fair market value of the residence at that time, and

(*d*) in any other case, the fair market value of the residence at that time.

History: S. 6(21) was added by S.C. 1999, c. 22, s. 2(2), applicable
(*a*) to the 2001 and subsequent taxation years in respect of an eligible relocation of an individual in connection with which the individual begins employment at a new work location before October 1998; and
(*b*) in any other case, after February 23, 1998.

Related Sections: S. 6(19) Benefit re housing loss.
Interpretation Bulletins: *Secondary* — IT-470R (Consolid.) Employees' Fringe Benefits.

► 6(22) ◄

(22) Eligible housing loss. In this section, "eligible housing loss" in respect of a residence designated by a taxpayer means a housing loss in respect of an eligible relocation of the taxpayer or a person who does not deal at arm's length with the taxpayer and, for these purposes, no more than one residence may be so designated in respect of an eligible relocation.

History: S. 6(22) was added by S.C. 1999, c. 22, s. 2(2), applicable
(*a*) to the 2001 and subsequent taxation years in respect of an eligible relocation of an individual in connection with which the individual begins employment at a new work location before October 1998; and
(*b*) in any other case, after February 23, 1998.

Related Sections: S. 6(20) Benefit re eligible housing loss; s. 248(1), "Eligible relocation".
Interpretation Bulletins: *Secondary* — IT-470R (Consolid.) Employees' Fringe Benefits.

► 6(23) ◄

(23) Employer-provided housing subsidies. For greater certainty, an amount paid or the value of assistance provided by any person in respect of, in the course of or because of, an individual's office or employment in respect of the cost of, the financing of, the use of or the right to use, a residence is, for the purposes of this section, a benefit received by the individual because of the office or employment.

History: S. 6(23) was added by S.C. 1999, c. 22, s. 2(2), applicable
(*a*) to the 2001 and subsequent taxation years in respect of an eligible relocation of an individual in connection with which the individual begins employment at a new work location before October 1998; and
(*b*) in any other case, after February 23, 1998.

Related Sections: S. 6(9) Amount in respect of interest on employee debt; s. 80.4(1) Loans; s. 80.4(1.1) Loan or debt from office or employment; s. 110(1)(*j*) Home relocation loan; s. 248(1), "home relocation loan".

SECTION 7:

► 7(1) ◄

(1) Agreement to issue securities to employees. Subject to subsections (1.1) and (8), where a particular qualifying person has agreed to sell or issue securities of the particular qualifying person (or of a qualifying person with which it does not deal at arm's length) to an employee of the particular qualifying person (or of a qualifying person with which the particular qualifying person does not deal at arm's length),

(*a*) if the employee has acquired securities under the agreement, a benefit equal to the amount, if any, by which

(i) the value of the securities at the time the employee acquired them

exceeds the total of

(ii) the amount paid or to be paid to the particular qualifying person by the employee for the securities, and

(iii) the amount, if any, paid by the employee to acquire the right to acquire the securities

is deemed to have been received, in the taxation year in which the employee acquired the securities, by the employee because of the employee's employment;

(*b*) if the employee has transferred or otherwise disposed of rights under the agreement in respect of some or all of the securities to a person with whom the employee was dealing at arm's length, a benefit equal to the amount, if any, by which

(i) the value of the consideration for the disposition

exceeds

(ii) the amount, if any, paid by the employee to acquire those rights

shall be deemed to have been received, in the taxation year in which the employee made the disposition, by the employee because of the employee's employment;

(*c*) if rights of the employee under the agreement have, by one or more transactions between persons not dealing at arm's length, become vested in a person who has acquired securities under the agreement, a benefit equal to the amount, if any, by which

(i) the value of the securities at the time the person acquired them

exceeds the total of

(ii) the amount paid or to be paid to the particular qualifying person by the person for the securities, and

(iii) the amount, if any, paid by the employee to acquire the right to acquire the securities,

is deemed to have been received, in the taxation year in which the person acquired the securities, by the employee because of the employee's employment, unless at the time the person acquired the securities the employee was deceased, in which case such a benefit is deemed to have been received by the person in that year as income from the duties of an employment performed by the person in that year in the country in which the employee primarily performed the duties of the employee's employment;

(*d*) if rights of the employee under the agreement have, by one or more transactions between persons not dealing at arm's length, become vested in a particular person who has transferred or otherwise disposed of rights under the agreement to another person with whom the particular person was dealing at arm's length, a benefit equal to the amount, if any, by which

(i) the value of the consideration for the disposition

exceeds

(ii) the amount, if any, paid by the employee to acquire those rights

shall be deemed to have been received, in the taxation year in which the particular person made the disposition, by the employee because of the employee's employment, unless at the time the other person acquired the rights the employee was deceased, in which case such a benefit shall be deemed to have been received by the particular person in that year as income from the duties of an employment performed by the particular person in that year in the country in which the employee pri-

marily performed the duties of the employee's employment; and

(*e*) if the employee has died and immediately before death owned a right to acquire securities under the agreement, a benefit equal to the amount, if any, by which

(i) the value of the right immediately after the death exceeds

(ii) the amount, if any, paid by the employee to acquire the right

shall be deemed to have been received, in the taxation year in which the employee died, by the employee because of the employee's employment, and paragraphs (*b*), (*c*) and (*d*) do not apply.

History: S. 7(1), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 2(1), applicable to the 2000 and subsequent taxation years except that a share acquired in 2000 under an agreement referred to in subsection 7(1) of the Act is deemed to comply with the requirements of paragraph 7(9)(*d*) of the Act if, at all times during the period beginning at the time the agreement was made (determined without reference to subsection 7(1.4) of the Act) and ending at the time the share was acquired, the class of shares to which the share belongs was listed on a prescribed stock exchange. S. 7(1), the portion before paragraph (*a*) formerly read:

"S. 7. *Agreement to issue securities to employees.*

(1) Subject to subsection (1.1), where a particular qualifying person has agreed to sell or issue securities of the particular qualifying person, or of a qualifying person with which it does not deal at arm's length, to an employee of the particular qualifying person or of a qualifying person with which it does not deal at arm's length,"

S. 7(1), the portion before paragraph (*d*) was amended by S.C. 1999, c. 22, s. 3(1), applicable to the 1998 and subsequent taxation years. S. 7(1), the portion before paragraph (*d*) formerly read:

"S. 7. *Agreement to issue shares to employees.*

(1) Subject to subsection (1.1), where a corporation has agreed to sell or issue shares of the capital stock of the corporation or of a corporation with which it does not deal at arm's length to an employee of the corporation or of a corporation with which it does not deal at arm's length,

(*a*) if the employee has acquired shares under the agreement, a benefit equal to the amount, if any, by which

(i) the value of the shares at the time the employee acquired them exceeds

(ii) the total of the amount paid or to be paid to the corporation by the employee for the shares and any amount paid by the employee to acquire the right to acquire the shares

shall be deemed to have been received, in the taxation year in which the employee acquired the shares, by the employee because of the employee's employment;

(*b*) if the employee has transferred or otherwise disposed of rights under the agreement in respect of some or all of the shares to a person with whom the employee was dealing at arm's length, a benefit equal to the amount, if any, by which

(i) the value of the consideration for the disposition exceeds

(ii) the amount, if any, paid by the employee to acquire those rights

shall be deemed to have been received, in the taxation year in which the employee made the disposition, by the employee because of the employee's employment;

(*c*) if rights of the employee under the agreement have, by one or more transactions between persons not dealing at arm's length, become vested in a person who has acquired shares under the agreement, a benefit equal to the amount, if any, by which

(i) the value of the shares at the time that person acquired them exceeds

(ii) the total of the amount paid or to be paid to the corporation by that person for the shares and any amount paid by the employee to acquire the right to acquire the shares

shall be deemed to have been received, in the taxation year in which the person acquired the shares, by the employee because of the employee's employment, unless at the time the person acquired the shares the employee was deceased, in which case such a benefit shall be deemed to have been received by the person in that year as income from the duties of an employment performed by the person in that year in the country in which the employee primarily performed the duties of the employee's employment;"

S. 7(1)(*e*), the portion before subparagraph (i), was amended by S.C. 1999, c. 22, s. 3(2), applicable to the 1998 and subsequent taxation years. S. 7(1)(*e*), the portion before subparagraph (i) formerly read:

"(*e*) if the employee has died and immediately before the death the employee owned a right to acquire shares under the agreement, a benefit equal to the amount, if any, by which"

Ss. 7(1)(*a*) to (*d*) were amended by S.C. 1994, c. 7, Sched. II, s. 4(1), applicable to the 1988 and subsequent taxation years. Ss. 7(1)(*a*) to (*d*) formerly read:

"(*a*) if the employee has acquired shares under the agreement, a benefit equal to the amount by which the value of the shares at the time the employee acquired them exceeds the amount paid or to be paid to the corporation therefor by the employee shall be deemed to have been received by the employee by virtue of the employee's employment in the taxation year in which the employee acquired the shares;

(*b*) if the employee has transferred or otherwise disposed of rights under the agreement in respect of some or all of the shares to a person with whom the employee was dealing at arm's length, a benefit equal to the value of the consideration for the disposition shall be deemed to have been received by the employee by virtue of the employee's employment in the taxation year in which the employee made the disposition;

(*c*) if rights of the employee under the agreement have, by one or more transactions between persons not dealing at arm's length, become vested in a person who has acquired shares under the agreement, a benefit equal to the amount by which the value of the shares at the time that person acquired them exceeds the amount paid or to be paid to the corporation therefor by that person shall be deemed to have been received by the employee by virtue of the employee's employment in the taxation year in which that person acquired the shares; and

(*d*) if rights of the employee under the agreement have, by one or more transactions between persons not dealing at arm's length, become vested in a person who has transferred or otherwise disposed of rights under the agreement to a person with whom the transferor was dealing at arm's length, a benefit equal to the value of the consideration for the disposition shall be deemed to have been received by the employee by virtue of the employee's employment in the taxation year in which the disposition was made."

S. 7(1)(*e*) was added by S.C. 1994, c. 7, Sched. II, s. 4(2), applicable to deaths occurring after July 13, 1990.

Editorial Note: Employee stock option benefits are generally included in income in the year of the exercise or disposition of the option, subject to two major exceptions. In the case of options granted by Canadian-controlled private corporations (subsection 7(1.1)), the inclusion of the benefit is normally deferred to the year in which the subject securities are disposed of. Similarly, in the case of corporate issuers whose shares are listed on a designated stock exchange (subsections 7(8) through (11)), the inclusion of the benefit may be deferred to the year in which the subject securities are disposed of. In either case, the amount of the benefit is added to the adjusted cost base of the securities; see paragraph 53(1)(*j*). Normally, one-half of the benefit is deductible in computing the employee's taxable income; see paragraphs 110(1)(*d*) and (*d.1*).

Related Sections: S. 8(12) Forfeiture of securities by employee; s. 47(3) Securities acquired by employee; s. 49(3) Where option to acquire exercised; s. 52(1) Cost of certain property the value of which included in income; s. 53(1)(*j*) Share or fund unit taxed as stock option benefit; s. 53(2)(*t*) Amounts to be deducted — Right to acquire shares or units; s. 110(1)(*d*) Employee options; s. 110(1)(*d.01*) Charitable donation of employee option securities; s. 110(1)(*d.1*) Employee options for CCPC shares; s. 110(1.5) Determination of amounts relating to employee security options; s. 110(1.6) Meaning of "specified event"; s.110(1.7) Definitions in subsection 7(7); s. 110(2.1) Charitable donation — proceeds of disposition of employee option securities; s. 128.1(4)(*d.1*) Employee CCPC stock option shares; s. 128.1(10), "excluded right or interest"; s. 164(6.1) Realization of deceased employees' options; s. 251 Arm's length.

Interpretation Bulletins: *Primary* — IT-113R4 Benefits to employees — Stock options. *Secondary* — IT-171R2 Non-resident individuals — Computation of taxable income earned in Canada and non-refundable tax credits [Archived by the CRA]; IT-495R3 Child care expenses.

Advance Tax Rulings: ATR-15 Employee stock option plan; ATR-64 Phantom stock award plan.

Information Circulars: IC 73-25R4 Business equity valuations; IC 89-3 Policy statement on business equity valuations.

Income Tax Technical News: Issue No. 19, Change of Position in Respect of GAAR — Section 7; Issue No. 19, Disposition of Identical Properties Acquired Under a Section 7 Securities Option; Issue No. 19, Securities Option Plan — Disposal of Securities Option Rights for Shares.

Tax Topics: No. 1630, No Relief for Stock Options; No. 1501, Cancellation of Stock Options: Reynolds Revived!; No. 1483, Taxation of Stock Options; No. 1482, Taxation of Stock Options.

Tax Profile: July 2007 — Canadian Tax Traps; March 2006 — Some Tax Considerations for Investing in Silicon Valley North.

Canadian Tax Foundation: Macnaughton and Mawani, "Contributions of Employee Stock Options to RRSPs and TFSAs: Valuation Issues and Policy Anomalies", *2008 Canadian Tax Journal*, No. 4, 893; Spadorcia and Montgomery, "Equity Compensation: Emerging Trends", *2004 Conference Report*,

24:1; Ebel and Stewart, "Update on Employee Stock Options and Employee Benefits", *2002 Conference Report*, 27:1; Sandler, "The Tax Treatment of Employee Stock Options: Generous to a Fault", *2001 Canadian Tax Journal*, No 2, 259; Spadorcia and Diles, "Compensating The Cross Border Executive: Stock Option Plans", *2000 Conference Report*, 30:1.

Canadian Petroleum Tax Journal: Attracting and Retaining Executives and Employees with Tax-Efficient Incentives, Julie Y. Lee, Vol. 14 No. 1 2001; Current Trends in Executive Compensation Structures and Their Taxation, Rachel Colabella and Denise McMullen, Vol. 13 No. 1 2000.

Tax Window Files: Employee Stock Options — Choice to Sell or Exercise Options, August 15, 2007, CRA Document No. 2006-0213941R3; Tax Treatment of Employee Stock Options, June 7, 2007, CRA Document No. 2006-0217731E5; Bad Debt for Amount Owing Under Employee Stock Option, October 6, 2006, CRA Document No. 2006-0196271C6; Employee Share Purchase Plan (ESPP), April 25, 2005, CRA Document No. 2005-0112901E5; Stock Option Benefit — Share Losing Value Between Acquisition and Disposal Date, November 29, 2004, CRA Document No. 2004-0010513E5; Cashless Exercise of Employee Stock Options, August 18, 2004, CRA Document No. 2004-0070361E5 ["Cashless exercise" of employee stock option generally results in acquisition date being the same as the settlement date of the sale, but depends on the circumstances]; Replacement of Share Appreciation Rights with Stock Options, 2004, CRA Document No. 2003-0043361R3 [No taxable benefit where "phantom plan" is replaced with stock option plan, subsection 7(1) then applies to the stock option plan in the normal manner]; Employee Stock Option — Election To Receive/Pay Cash, December 23, 2003, CRA Document No. 2003-0049927 [Cash payment made to employee in lieu of the employee receiving shares under a stock option agreement]; Recognition of Stock Option Benefit as a Result of Share Redemption, March 26, 2003, CRA Document No. 2002-0179145 [Application of subsections 7(1) and 84(3) on employee stock option and subsequent redemption of shares]; Repayment of Stock Option Benefit, April 11, 2001, CRA Document No. 2001-0073225 [No deduction allowed for employee required to repay amount of taxable employee stock option benefit]; Offer of Employment and Stock Options, September 8, 2000, CRA Document No. 2000-0035405 [Subsection 7(1) applied to a stock option included in an offer of employment to a prospective employee].

Cases: In return for helping him to find employment, the taxpayer paid a consultant a portion of the stock option benefits that he received from his new employer. These payments were not deductible under s. 7(1)(*a*)(iii). *Morin v. The Queen*, 2006 DTC 6057 (F.C.A.), reversing 2005 DTC 813 (T.C.C.).

The taxpayer received a lump sum payment in consideration of his releasing a company from its obligations under various stock option agreements. This amount had to be included in the taxpayer's income since he clearly "transferred or disposed of" his rights under his stock option agreements. *Dundas v. The Queen*, 95 DTC 5116 (F.C.A.), affirming 93 DTC 5162 (F.C.T.D.), and 90 DTC 1529 (T.C.C.).

There was a potential conflict between s. 6(1)(*g*) and s. 7, when attempts were made to construe both groups of provisions as they applied to the taxpayer's employee stock ownership plan. However, the provisions of s. 7 prevailed since its language was more specific than the general language contained in s. 6(1)(*g*). *M.N.R. v. Chrysler Canada Ltd. et al.*, 92 DTC 6346 (F.C.T.D.).

An agreement executed in Quebec by an employee to purchase shares of a non-arm's length corporation was considered to be a stock option. *Gesser v. The Queen*, 92 DTC 6273 (F.C.A.), reversing 89 DTC 5274 (F.C.T.D.), and affirming 84 DTC 1570 (T.C.C.).

► 7(1.1) ◄

(1.1) Employee stock options. Where after March 31, 1977 a Canadian-controlled private corporation (in this subsection referred to as "the corporation") has agreed to sell or issue a share of the capital stock of the corporation or of a Canadian-controlled private corporation with which it does not deal at arm's length to an employee of the corporation or of a Canadian-controlled private corporation with which it does not deal at arm's length and at the time immediately after the agreement was made the employee was dealing at arm's length with

(*a*) the corporation,

(*b*) the Canadian-controlled private corporation, the share of the capital stock of which has been agreed to be sold by the corporation, and

(*c*) the Canadian-controlled private corporation that is the employer of the employee,

in applying paragraph (1)(*a*) in respect of the employee's acquisition of the share, the reference in that paragraph to "the taxation year in which the employee acquired the securities" shall be read as a reference to "the taxation year in which the employee disposed of or exchanged the securities".

History: S. 7(1.1), the portion following paragraph (*c*), was amended by S.C. 1999, c. 22, s. 3(3), applicable to the 1998 and subsequent taxation years. S. 7(1.1), the portion following paragraph (*c*) formerly read:

"in applying paragraph (1)(*a*) in respect of the employee's acquisition of the share, the reference in that paragraph to 'the taxation year in which the employee acquired the shares' shall be read as a reference to 'the taxation year in which the employee disposed of or exchanged the shares'."

S. 7(1.1), the portion following paragraph (*c*), was amended by S.C. 1994, c. 7, Sched. II, s. 4(3), applicable to the 1988 and subsequent taxation years. That part formerly read:

"in applying paragraph (1)(*a*) in respect of the employee's acquisition of the share, the reference in that paragraph to 'the taxation year in which the employee acquired the shares' shall be read as 'the taxation year in which the employee disposed of or exchanged the shares'."

Editorial Note: The deferral of the recognition of the stock option benefit under subsection 7(1.1) continues to apply if the Canadian-controlled private corporation (CCPC) issuing or selling the shares subsequently ceases to be a CCPC. See also the editorial note under subsection 7(1). The benefit can qualify for the one-half deduction in computing taxable income under either paragraph 110(1)(*d*) or (*d.1*).

Related Sections: S. 47(3) Securities acquired by employee; s. 53(1)(*j*) Share or fund unit taxed as stock option benefit; s. 110(1)(*d.1*) Employee options for CCPC shares; s. 125(7), "Canadian-controlled private corporation"; s. 128.1(4)(*d.1*) Employee CCPC stock option shares; s. 251 Arm's length.

Interpretation Bulletins: *Primary* — IT-113R4 Benefits to employees — Stock options. *Secondary* — IT-171R2 Non-resident individuals — Computation of taxable income earned in Canada and non-refundable tax credits [Archived by the CRA].

Advance Tax Rulings: ATR-15 Employee stock option plan.

Income Tax Technical News: Issue No. 19, Change of Position in Respect of GAAR — Section 7; Issue No. 19, Disposition of Identical Properties Acquired Under a Section 7 Securities Option.

Tax Profile: March 2006 — Some Tax Considerations for Investing in Silicon Valley North.

Tax Window Files: ACB of CCPC Shares Acquired by Trust on Behalf of Employees, August 18, 2005, CRA Document No. 2005-0126131E5; Employee Stock Options — Substituted Property, January 13, 2005, CRA Document No. 2004-0101701E5 [Sale of shares that were received as stock dividend in respect of CCPC shares acquired under an employee stock option did not affect the timing of the subsection 7(1) inclusion]; Exchange of CCPC Options, August 30, 2000, CRA Document No. 2000-0032525; Stock Option Benefit — CCPC Shares Purchased for Cancellation, February 10, 2000, CRA Document No. 1999-0008425; Transfer of Stock Option to RRSP, October 21, 1996, CRA Document No. 9633215

► 7(1.11) ◄

(1.11) Non-arm's length relationship with trusts. For the purposes of this section, a mutual fund trust is deemed not to deal at arm's length with a corporation only if the trust controls the corporation.

Department of Finance Comfort Letter
[Expansion of Scope of Subsection 7(1.11) — Non-Arm's Length Relationship with Trusts]

December 4, 2006

Dear XXXX

I am writing in response to your letters and e-mails concerning subsection 7(1.11) of the *Income Tax Act* (the "Act"). I also acknowledge phone conversations that you and your colleague, XXXX have had with officials of this Branch.

Section 7 of the Act contains provisions dealing with agreements under which an employee of a corporation or mutual fund trust may acquire securities of the employer or of an entity that deals at non-arm's length with the employer. Subsection 7(1.11) deems a mutual fund trust to deal at non-arm's length with a corporation, for the purpose of section 7, only if the trust controls the corporation. Thus, in any other situation in which a corporation and a mutual fund trust deal at non-arm's length, the provisions of section 7 will not apply.

You have suggested that subsection 7(1.11) excludes certain other non-arm's length relationships between a mutual fund trust and a corporation that may not be offensive from a policy perspective, and have asked that the scope of subsection 7(1.11) be expanded accordingly.

We have considered this issue carefully and are prepared to recommend that the scope of subsection 7(1.11) be expanded to

include a corporation and a mutual fund trust where the corporation owns securities that would give it more than 50% of the votes that could be cast under all circumstances at a meeting of unitholders of the trust. As discussed, the securities to which such voting rights are attached would not be limited to units of the trust and could thus include, for example, securities that are exchangeable into units of the trust.

We will recommend to the Minister of Finance that the proposed amendment apply to rights exercised or disposed of after 2004 under agreements to sell or issue securities made after 2002.

While I cannot offer any assurance that the Minister or Parliament will agree with our recommendation in this regard, I hope that this statement of our position is helpful to you.

Yours sincerely,

Brian Ernewein
General Director — Legislation
Tax Policy Branch

History: S. 7(1.11) was added by S.C. 1999, c. 22, s. 3(4), applicable to the 1998 and subsequent taxation years.

Related Sections: S. 104(1) Reference to trust or estate; s. 104(2) Taxed as individual; s. 132(6) Meaning of "mutual fund trust"; s. 251 Arm's length.

► 7(1.2) ◄

(1.2) Idem. [Repealed by 1986, c. 6, s. 2(2).]

Related Sections: S. 110(1)(*d.1*) Employee options for CCPC shares.

► 7(1.3) ◄

(1.3) Order of disposition of securities. For the purposes of this subsection, subsections (1.1) and (8), subdivision c, paragraph 110(1)(*d.01*), subparagraph 110(1)(*d.1*)(ii) and subsections 110(2.1) and 147(10.4), and subject to subsection (1.31) and paragraph (14)(*c*), a taxpayer is deemed to dispose of securities that are identical properties in the order in which the taxpayer acquired them and, for this purpose,

(*a*) where a taxpayer acquires a particular security (other than under circumstances to which subsection (1.1) or (8) or 147(10.1) applies) at a time when the taxpayer also acquires or holds one or more other securities that are identical to the particular security and are, or were, acquired under circumstances to which any of subsections (1.1), (8) or 147(10.1) applied, the taxpayer is deemed to have acquired the particular security at the time immediately preceding the earliest of the times at which the taxpayer acquired those other securities; and

(*b*) where a taxpayer acquires, at the same time, two or more identical securities under circumstances to which either subsection (1.1) or (8) applied, the taxpayer is deemed to have acquired the securities in the order in which the agreements under which the taxpayer acquired the rights to acquire the securities were made.

History: S. 7(1.3) was amended by S.C. 2001, c. 17, s. 2(2), applicable to securities acquired, but not disposed of, before February 28, 2000 and to securities acquired after February 27, 2000. S. 7(1.3) formerly read:

"(1.3) *Order of disposition of shares.* For the purpose of subsection (1.1), a taxpayer shall be deemed to dispose of shares that are identical properties in the order in which the taxpayer acquired them."

Editorial Note: Subsection 7(1.3) provides that identical securities are disposed of in the order in which they were acquired for the purposes of the deferral rules — that is, those cases where the benefit is included in the year of the disposition of the securities rather than the year of acquisition (see subsections 7(1.1) and 7(8)). The ordering rule also applies for the purposes of determining the capital gain or loss on the disposition of the securities. Furthermore, if a taxpayer acquires securities that qualify for deferral and subsequently acquires identical securities that do not qualify for deferral, the latter are deemed to be acquired first, such that they will be deemed to have been disposed of prior to the deferral securities. Thus, a taxpayer holding both deferral securities and non-deferral securities that are identical will be deemed to dispose of the non-deferral securities first. The effect of the ordering rules is to defer, until all non-deferral securities have been disposed of, the benefit and capital gain or loss in respect of the identical deferral securities. The ordering rules in subsection 7(1.3) are subject to the elective rule in subsection 7(1.31) which can apply where a security is disposed of within 30 days of its acquisition. See also subsection 47(3), which provides that the securities eligible for the deferral are not identical to other securities, such that the averaging cost rules of subsection 47(1) do not apply.

Related Sections: S. 7(1.31) Disposition of newly-acquired security; s. 47(3) Securities acquired by employee.

Tax Window Files: Separate Pools of Shares, June 29, 2001, CRA Document No. 2001-0072955

► 7(1.31) ◄

(1.31) Disposition of newly-acquired security. Where a taxpayer acquires, at a particular time, a particular security under an agreement referred to in subsection (1) and, on a day that is no later than 30 days after the day that includes the particular time, the taxpayer disposes of a security that is identical to the particular security, the particular security is deemed to be the security that is so disposed of if

(*a*) no other securities that are identical to the particular security are acquired, or disposed of, by the taxpayer after the particular time and before the disposition;

(*b*) the taxpayer identifies the particular security as the security so disposed of in the taxpayer's return of income under this Part for the year in which the disposition occurs; and

(*c*) the taxpayer has not so identified the particular security, in accordance with this subsection, in connection with the disposition of any other security.

History: S. 7(1.31) was added by S.C. 2001, c. 17, s. 2(2), applicable to securities acquired, but not disposed of, before February 28, 2000 and to securities acquired after February 27, 2000.

Editorial Note: See the editorial note to subsection 7(1.3).

Related Sections: S. 47(3) Securities acquired by employee.

Tax Window Files: Disposition of Securities — Designation by Estate, July 26, 2005, CRA Document No. 2005-0115091E5

► 7(1.4) ◄

(1.4) Exchange of options. Where

(*a*) a taxpayer disposes of rights under an agreement referred to in subsection (1) to acquire securities of a particular qualifying person that made the agreement or of a qualifying person with which it does not deal at arm's length (which rights and securities are referred to in this subsection as the "exchanged option" and the "old securities", respectively),

(*b*) the taxpayer receives no consideration for the disposition of the exchanged option other than rights under an agreement with a person (in this subsection referred to as the "designated person") that is

(i) the particular person,

(ii) a qualifying person with which the particular person does not deal at arm's length immediately after the disposition,

(iii) a corporation formed on the amalgamation or merger of the particular person and one or more other corporations,

(iv) a mutual fund trust to which the particular person has transferred property in circumstances to which subsection 132.2(1) applied,

(v) a qualifying person with which the corporation referred to in subparagraph (iii) does not deal at arm's length immediately after the disposition, or

(vi) if the disposition is before 2013 and the old securities were equity in a SIFT wind-up entity

that was at the time of the disposition a mutual fund trust, a SIFT wind-up corporation in respect of the SIFT wind-up entity

to acquire securities of the designated person or a qualifying person with which the designated person does not deal at arm's length (which rights and securities are referred to in this subsection as the "new option" and the "new securities", respectively), and

(*c*) the amount, if any, by which

(i) the total value of the new securities immediately after the disposition

exceeds

(ii) the total amount payable by the taxpayer to acquire the new securities under the new option

does not exceed the amount, if any, by which

(iii) the total value of the old securities immediately before the disposition

exceeds

(iv) the amount payable by the taxpayer to acquire the old securities under the exchanged option,

for the purposes of this section,

(*d*) the taxpayer is deemed (other than for the purposes of subparagraph (9)(*d*)(ii)) not to have disposed of the exchanged option and not to have acquired the new option,

(*e*) the new option is deemed to be the same option as, and a continuation of, the exchanged option, and

(*f*) if the designated person is not the particular person, the designated person is deemed to be the same person as, and a continuation of, the particular person.

History: S. 7(1.4)(*b*)(vi) was added by S.C. 2009, c. 2, s. 3(1), applicable after December 19, 2007.

S. 7(1.4)(*a*) was amended by S.C. 2001, c. 17, s. 2(3), applicable to the 1998 and subsequent taxation years. S. 7(1.4)(*a*) formerly read:

"(*a*) a taxpayer disposes of rights under an agreement referred to in subsection (1) or (1.1) to acquire securities of a particular qualifying person that made the agreement or of a qualifying person with which it does not deal at arm's length (which rights and securities are referred to in this subsection and paragraph 110(1)(*d*) as the 'exchanged option' and the 'old securities', respectively),"

S. 7(1.4)(*d*) was amended by S.C. 2001, c. 17, s. 2(4), applicable to the 2000 and subsequent taxation years. S. 7(1.4)(*d*) formerly read:

"(*d*) the taxpayer is deemed not to have disposed of the exchanged option and not to have acquired the new option,"

S. 7(1.4) was amended by S.C. 1999, c. 22, s. 3(5), applicable to the 1998 and subsequent taxation years. S. 7(1.4) formerly read:

"(1.4) *Exchange of options.* For the purposes of this section and paragraph 110(1)(*d*), where

(*a*) a taxpayer disposes of rights under an agreement referred to in subsection (1) or (1.1) to acquire shares of the capital stock of a particular corporation that made the agreement or of a corporation with which the particular corporation does not deal at arm's length (which rights and shares are referred to in this subsection and paragraph 110(1)(*d*) as the 'exchanged option' and the 'old shares', respectively),

(*b*) the taxpayer receives no consideration for the disposition of the exchanged option other than rights under an agreement with

(i) the particular corporation,

(ii) a corporation with which the particular corporation does not deal at arm's length immediately after the disposition,

(iii) a corporation formed on the amalgamation or merger of the particular corporation and one or more other corporations, or

(iv) a corporation with which the corporation referred to in subparagraph (iii) does not deal at arm's length immediately after the disposition

to acquire shares of its capital stock or of the capital stock of a corporation with which it does not deal at arm's length (which rights and shares are referred to in this subsection and paragraph 110(1)(*d*) as the 'new option' and the 'new shares', respectively), and

(*c*) the amount, if any, by which

(i) the total value of the new shares immediately after the disposition exceeds

(ii) the total amount payable by the taxpayer to acquire the new shares under the new option

does not exceed the amount, if any, by which

(iii) the total value of the old shares immediately before the disposition exceeds

(iv) the amount payable by the taxpayer to acquire the old shares under the exchanged option,

the following rules apply:

(*d*) the taxpayer shall be deemed not to have disposed of the exchanged option and not to have acquired the new option,

(*e*) the new option shall be deemed to be the same option as, and a continuation of, the exchanged option, and

(*f*) the corporation referred to in subparagraph (*b*)(ii), (iii) or (iv), as the case may be, shall be deemed to be the same corporation as, and a continuation of, the particular corporation."

S. 7(1.4) was amended by S.C. 1994, c. 7, Sched. II, s. 4(4), applicable to the 1988 and subsequent taxation years, except that where the taxpayer so elects by notifying the Minister of National Revenue in writing, subsection 7(1.4) is not applicable with respect to dispositions by the taxpayer occurring before July 14, 1990. S. 7(1.4) formerly read:

"(1.4) *Rules where options exchanged.* For the purposes of this section and paragraph 110(1)(*d*), where a taxpayer exchanges rights that the taxpayer has acquired under an agreement referred to in this section (in this subsection referred to as an 'exchanged option') on an amalgamation or merger of two or more corporations and receives no consideration for the disposition of the exchanged option other than rights under an agreement of the corporation resulting from the amalgamation or merger to issue or sell to the taxpayer shares of its capital stock or of the capital stock of a corporation with which it does not deal at arm's length (in this subsection referred to as a 'new option'), the following rules apply:

(*a*) the taxpayer shall be deemed not to have disposed of the exchanged option and not to have acquired the new option;

(*b*) the new option shall be deemed to be the same option as, and a continuation of, the exchanged option; and

(*c*) the amalgamated or merged corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation."

Editorial Note: Subsection 7(1.4) provides a tax-free rollover and effective continuation of the option in the circumstances described therein. A key prerequisite is that the amount, if any, by which the new option is "in the money" (value of new securities in excess of exercise price) cannot exceed the amount by which the old option is in the money; see paragraph 7(1.4)(*c*).

Related Sections: S. 87(5) Options to acquire shares of predecessor corporation; s. 110(1)(*d*) Employee options; s. 110(1.5) Determination of amounts relating to employee security options; s. 251 Arm's length.

Canadian Petroleum Tax Journal: The Recent Take-Over Phenomenon, D. Alan Ross and Stanley R. Ebel, Vol. 14 No. 1 2001.

Tax Window Files: Stock Options — Exchange, December 1, 2004, CRA Document No. 2004-0058171R3; Option Exercise Price Reduction, October 29, 2004, CRA Document No. 2004-0093241E5; Change in Exercise Price of Employee Stock Options, October 7, 1997, CRA Document No. 9724275

► 7(1.5) ◄

(1.5) Rules where securities exchanged. For the purposes of this section and paragraphs 110(1)(*d*) to (*d*.1), where

(*a*) a taxpayer disposes of or exchanges securities of a particular qualifying person that were acquired by the taxpayer under circumstances to which either subsection (1.1) or (8) applied (in this subsection referred to as the "exchanged securities"),

(*b*) the taxpayer receives no consideration for the disposition or exchange of the exchanged securities other than securities (in this subsection referred to as the "new securities") of

(i) the particular qualifying person,

(ii) a qualifying person with which the particular qualifying person does not deal at arm's length immediately after the disposition or exchange,

(iii) a corporation formed on the amalgamation or merger of the particular qualifying person and one or more other corporations,

(iv) a mutual fund trust to which the particular qualifying person has transferred property in cir-

cumstances to which subsection 132.2(1) applied, or

(v) a qualifying person with which the corporation referred to in subparagraph (iii) does not deal at arm's length immediately after the disposition or exchange, and

(*c*) the total value of the new securities immediately after the disposition or exchange does not exceed the total value of the old securities immediately before the disposition or exchange,

the following rules apply:

(*d*) the taxpayer is deemed not to have disposed of or exchanged the exchanged securities and not to have acquired the new securities,

(*e*) the new securities are deemed to be the same securities as, and a continuation of, the exchanged securities, except for the purpose of determining if the new securities are identical to any other securities,

(*f*) the qualifying person that issued the new securities is deemed to be the same person as, and a continuation of, the qualifying person that issued the exchanged securities, and

(*g*) where the exchanged securities were issued under an agreement, the new securities are deemed to have been issued under that agreement.

History: S. 7(1.5) was amended by S.C. 2001, c. 17, s. 2(5), applicable to dispositions and exchanges of securities by a taxpayer that occur after February 27, 2000. S. 7(1.5) formerly read:

"(1.5) *Rules where shares exchanged.* For the purposes of this section and paragraph 110(1)(*d.1*), where

(*a*) a taxpayer disposes of or exchanges shares of a Canadian corporation that were acquired by the taxpayer under an agreement referred to in subsection (1.1) (in this subsection referred to as the 'exchanged shares'),

(*b*) the taxpayer receives no consideration for the disposition or exchange of the exchanged shares other than shares (in this subsection referred to as the 'new shares') of

(i) the corporation,

(ii) a corporation with which the corporation does not deal at arm's length immediately after the disposition or exchange,

(iii) a corporation formed on the amalgamation or merger of the corporation and one or more other corporations, or

(iv) a corporation with which the corporation referred to in subparagraph (iii) does not deal at arm's length immediately after the disposition or exchange, and

(*c*) the total value of the new shares immediately after the disposition or exchange does not exceed the total value of the old shares immediately before the disposition or exchange,

the following rules apply:

(*d*) the taxpayer shall be deemed not to have disposed of or exchanged the exchanged shares and not to have acquired the new shares,

(*e*) the new shares shall be deemed to be the same shares as, and a continuation of, the exchanged shares,

(*f*) the corporation that issued the new shares shall be deemed to be the same corporation as, and a continuation of, the corporation that issued the exchanged shares, and

(*g*) where the exchanged shares were issued under an agreement, the new shares shall be deemed to have been issued under that agreement."

S. 7(1.5), the portion preceding paragraph (*a*), was amended by S.C. 1994, c. 21, s. 3(1), applicable to the 1992 and subsequent taxation years. The portion formerly read:

"(1.5) *Exchange of shares.* For the purposes of subsection (1.1) and paragraph 110(1)(*d.1*), where"

S. 7(1.5) was amended by S.C. 1994, c. 7, Sched. II, s. 4(4), applicable to the 1988 and subsequent taxation years except that, where the taxpayer so elects by notifying the Minister of National Revenue in writing, subsection 7(1.5) is not applicable with respect to dispositions by the taxpayer occurring before July 14, 1990. S. 7(1.5) formerly read:

"(1.5) *Rules where shares exchanged.* For the purposes of subsection (1.1) and paragraph 110(1)(*d.1*), where, in circumstances where subsection 85.1(1) or 87(4) apply, a taxpayer acquires shares of a Canadian corporation (in this subsection referred to as 'new shares') in exchange for shares of a Canadian corporation acquired under an agreement referred to in subsection (1.1) (in this subsection referred to as 'exchanged shares'), the following rules apply:

(*a*) the taxpayer shall be deemed not to have disposed of or exchanged the exchanged shares and not to have acquired the new shares;

(*b*) the new shares shall be deemed to be the same shares as, and a continuation of, the exchanged shares;

(*c*) the purchaser (within the meaning assigned by section 85.1) or the new corporation (within the meaning assigned by section 87), as the case may be, shall be deemed to be the same corporation as, and a continuation of, the corporation that issued the exchanged shares; and

(*d*) where the exchanged shares were issued under an agreement, the new shares shall be deemed to have been issued under that agreement."

Editorial Note: Subsection 7(1.5) effectively provides that the recognition of the benefit in respect of the option under subsection 7(1), which would have been deferred under either subsection 7(1.1) or (8), can continue to be deferred notwithstanding that the taxpayer has acquired the new securities in exchange for the old shares that were acquired under the option. The recognition of the benefit will be deferred until the disposition of the new securities.

Related Sections: S. 47(3) Securities acquired by employee; s. 251 Arm's length.

► 7(1.6) ◄

(1.6) Emigrant. For the purposes of this section and paragraph 110(1)(*d.1*), a taxpayer is deemed not to have disposed of a share acquired under circumstances to which subsection (1.1) applied solely because of subsection 128.1(4).

History: S. 7(1.6) was added by S.C. 2001, c. 17, s. 2(5), applicable after 1992.

Tax Profile: April 2007 — Tax Planning for Emigration from Canada.

► 7(1.7) ◄

(1.7) Rights ceasing to be exercisable. For the purposes of paragraphs (1)(*b*) and 110(1)(*d*), where a taxpayer receives at a particular time one or more particular amounts in respect of rights of the taxpayer to acquire securities under an agreement referred to in subsection (1) ceasing to be exercisable in accordance with the terms of the agreement, and the cessation would not, if this Act were read without reference to this subsection, constitute a transfer or disposition of those rights by the taxpayer,

(*a*) the taxpayer is deemed to have disposed of those rights at the particular time to a person with whom the taxpayer was dealing at arm's length and to have received the particular amounts as consideration for the disposition; and

(*b*) for the purpose of determining the amount, if any, of the benefit that the taxpayer is deemed by paragraph (1)(*b*) to have received as a consequence of the disposition referred to in paragraph (*a*), the taxpayer is deemed to have paid an amount to acquire those rights equal to the amount, if any, by which

(i) the amount paid by the taxpayer to acquire those rights (determined without reference to this subsection)

exceeds

(ii) the total of all amounts each of which is an amount received by the taxpayer before the particular time in respect of the cessation.

History: S. 7(1.7) was added by S.C. 2001, c. 17, s. 2(5), applicable to amounts received on or after March 16, 2001, other than amounts received on or after that day

(*a*) pursuant to an agreement in writing made before that day in settlement of claims arising as a result of a cessation occurring before that day; or

(*b*) pursuant to an order or judgment issued before that day in respect of claims arising as a result of a cessation occurring before that day.

Editorial Note: Subsection 7(1.7) overrides the effect of the decision in *Buccini v. The Queen*, 2000 DTC 6685 (F.C.A.).

Related Sections: S. 251 Arm's length.

► 7(2) ◄

(2) Securities held by trustee. If a security is held by a trustee in trust or otherwise, whether absolutely, conditionally or contingently, for an employee, the employee is deemed, for the purposes of this section and paragraphs 110(1)(*d*) to (*d*.1),

(*a*) to have acquired the security at the time the trust began to so hold it; and

(*b*) to have exchanged or disposed of the security at the time the trust exchanged it or disposed of it to any person other than the employee.

History: S. 7(2), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 2(6), applicable to the 2000 and subsequent taxation years. S. 7(2), the portion before paragraph (*a*) formerly read:

"(2) *Securities held by trustee.* If a security is held by a trustee in trust or otherwise, whether absolutely, conditionally or contingently, for an employee, the employee is deemed, for the purposes of this section and paragraphs 110(1)(*d*) and (*d*.1),"

S. 7(2) was amended by S.C. 1999, c. 22, s. 3(6), applicable to the 1998 and subsequent taxation years. S. 7(2) formerly read:

"(2) *Shares held by trustee.* Where a share is held by a trustee in trust or otherwise, whether absolutely, conditionally or contingently, for an employee, the employee shall be deemed, for the purposes of this section and paragraphs 110(1)(*d*) and (*d*.1),

(*a*) to have acquired the share at the time the trust commenced so to hold it; and

(*b*) to have exchanged or disposed of the share at the time the trust exchanged it or disposed of it to any person other than the employee."

Related Sections: S. 8(12) Forfeiture of securities by employee; s. 104(21.2) Beneficiaries' taxable capital gain; s. 110.6(16) Personal trust.

Tax Window Files: ACB of CCPC Shares Acquired by Trust on Behalf of Employees, August 18, 2005, CRA Document No. 2005-0126131E5

► 7(3) ◄

(3) Special provision. If a particular qualifying person has agreed to sell or issue securities of the particular person, or of a qualifying person with which it does not deal at arm's length, to an employee of the particular person or of a qualifying person with which it does not deal at arm's length,

(*a*) except as provided by this section, the employee is deemed to have neither received nor enjoyed any benefit under or because of the agreement; and

(*b*) the income for a taxation year of any person is deemed to be not less than its income for the year would have been if a benefit had not been conferred on the employee by the sale or issue of the securities.

History: S. 7(3) was amended by S.C. 1999, c. 22, s. 3(6), applicable to the 1995 and subsequent taxation years, except that the reference in paragraph 7(3)(*b*) of the Act to "person" shall be read as "corporation" in respect of benefits conferred before March 1998. S. 7(3) formerly read:

"(3) *Special provision.* Where a corporation has agreed to sell or issue shares of the capital stock of the corporation or of a corporation with which it does not deal at arm's length to an employee of the corporation or of a corporation with which it does not deal at arm's length

(*a*) no benefit shall be deemed to have been received or enjoyed by the employee under or by virtue of the agreement for the purpose of this Part except as provided by this section; and

(*b*) the income for a taxation year of the corporation or of a corporation with which it does not deal at arm's length shall be deemed to be not less than its income for the year would have been if a benefit had not been conferred on the employee by the sale or issue of the shares to the employee or to a person in whom the employee's rights under the agreement have become vested."

Editorial Note: Paragraph 7(3)(*a*) ensures that the grant of the employee stock option does not itself generate a taxable benefit to the employee. Paragraph 7(3)(*b*) prohibits a deduction by the qualifying person (e.g., the employer corporation) in respect of the issuance or sale of the securities to the employee.

Related Sections: S. 6(1)(*a*) Value of benefits; s. 7(7) Definitions; s. 251 Arm's length.

Advance Tax Rulings: ATR-64 Phantom stock award plan.

Income Tax Technical News: Issue No. 7, Stock Options Plans — Receipt of cash in lieu of shares.

Tax Profile: March 2006 — Some Tax Considerations for Investing in Silicon Valley North.

Canadian Petroleum Tax Journal: Attracting and Retaining Executives and Employees with Tax-Efficient Incentives, Julie Y. Lee, Vol. 14 No. 1 2001.

► 7(4) ◄

(4) Application of s. (1). For greater certainty it is hereby declared that, where a person to whom any provision of subsection (1) would otherwise apply has ceased to be an employee before all things have happened that would make that provision applicable, subsection (1) shall continue to apply as though the person were still an employee and as though the employment were still in existence.

► 7(5) ◄

(5) Non-application of this section. This section does not apply if the benefit conferred by the agreement was not received in respect of, in the course of, or by virtue of, the employment.

Related Sections: S. 248(1), "employee", "employment".

► 7(6) ◄

(6) Sale to trustee for employees. If a particular qualifying person has entered into an arrangement under which securities of the particular person, or of a qualifying person with which it does not deal at arm's length, are sold or issued by either person to a trustee to be held by the trustee in trust for sale to an employee of the particular person or of a qualifying person with which it does not deal at arm's length,

(*a*) for the purposes of this section (other than subsection (2)) and paragraphs 110(1)(*d*) to (*d*.1),

(i) any particular rights of the employee under the arrangement in respect of those securities are deemed to be rights under a particular agreement with the particular person under which the particular person has agreed to sell or issue securities to the employee,

(ii) any securities acquired under the arrangement by the employee or by a person in whom the particular rights have become vested are deemed to be securities acquired under the particular agreement, and

(iii) any amounts paid or agreed to be paid to the trustee for any securities acquired under the arrangement by the employee or by a person in whom the particular rights have become vested are deemed to be amounts paid or agreed to be paid to the particular person for securities acquired under the particular agreement; and

(*b*) subsection (2) does not apply in respect of securities held by the trustee under the arrangement.

History: S. 7(6)(*a*), the portion before subparagraph (i) was amended by S.C. 2001, c. 17, s. 2(7), applicable to the 2000 and subsequent taxation years. S. 7(6)(*a*), the portion before subparagraph (i) formerly read:

"(*a*) for the purposes of this section (other than subsection (2)) and paragraphs 110(1)(*d*) and (*d*.1),"

S. 7(6) was amended by S.C. 1999, c. 22, s. 3(7), applicable to the 1998 and subsequent taxation years. S. 7(6) formerly read:

"(6) *Sale to trustee for employees.* Where a corporation has entered into an arrangement under which shares of the capital stock of the corporation or of a corporation with which it does not deal at arm's length are sold or issued by either corporation to a trustee to be held by the trustee in trust for sale to an employee of the corporation or of a corporation with which it does not deal at arm's length,

(*a*) for the purposes of this section (except subsection (2)) and paragraphs 110(1)(*d*) and (*d*.1), any rights of the employee under the arrangement in respect of those shares, any shares acquired thereunder by the employee or by a person in whom those rights have become vested, and any amounts paid or agreed to be paid to the trustee for any shares acquired

thereunder by the employee or any such person, shall be deemed to be, respectively, rights under, shares acquired under, and amounts paid or agreed to be paid to the corporation for shares acquired under, an agreement with the corporation under which the corporation has agreed to sell or issue shares to the employee; and

(*b*) subsection (2) does not apply in respect of shares held by the trustee under the arrangement."

S. 7(6), the part preceding paragraph (*b*), was amended by S.C. 1994, c. 7, Sched. II, s. 4(5), applicable to the 1988 and subsequent taxation years. S. 7(6), the part preceding paragraph (*b*), formerly read:

"(6) *Shares purchased by trustee for employees.* Where a corporation has entered into an arrangement whereby shares of the corporation or of a corporation with which it does not deal at arm's length are purchased by a trustee to be held by the trustee in trust for sale to an employee of the corporation or of a corporation with which it does not deal at arm's length,

(*a*) for the purposes of this section except subsection (2), any rights of the employee under the arrangement in respect of those shares, any shares acquired thereunder by the employee or by a person in whom rights of the employee thereunder in respect of those shares have become vested, and any amounts paid or agreed to be paid to the trustee for any shares acquired thereunder by the employee or any such person, shall be deemed to be, respectively, rights under, shares acquired under, and amounts paid or agreed to be paid to the corporation for shares acquired under, an agreement with the corporation whereby the corporation has agreed to sell or issue shares to the employee; and"

Related Sections: S. 104(1) Reference to trust or estate; s. 251 Arm's length.

Advance Tax Rulings: ATR-15 Employee stock option plan.

Tax Window Files: Use of Trust To Acquire Employer Shares for Employees, May 3, 2005, CRA Document No. 2005-0124261E5

Cases: To circumvent Stock Exchange rules, the taxpayer acquired shares under option agreements that he resold to a stock promoter at cost. It could not be said that these shares were impressed with a trust, nor that the taxpayer had acted as the promoter's agent. The stock option benefits were included in the taxpayer's income. *Stafford v. The Queen*, 93 DTC 438 (T.C.C.).

► 7(7) ◄

(7) Definitions. The definitions in this subsection apply in this section and in subsection 47(3), paragraphs 53(1)(*j*), 110(1)(*d*) and (*d*.01) and subsections 110(1.5), (1.6) and (2.1).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 7(7) of the Act before the definition "qualifying person" is replaced by the following:

(7) Definitions. The following definitions apply in this section and in subsection 47(3), paragraphs 53(1)(*j*) and 110(1)(*d*) and (*d*.01) and subsections 110(1.5) to (1.8) and (2.1).

Applicable: After 1998. However,

(*a*) it does not apply to a right under an agreement to which subsection 7(7), as enacted by subsection 3(7) of the *Income Tax Amendments Act, 1998*, does not (except for the purpose of applying paragraph 7(3)(*b*) of the Act) apply; and

(*b*) before 2000, the portion of subsection 7(7) before the definition "qualifying person" is to be read as follows:

"(7) The definitions in this subsection apply in this section and in paragraph 110(1)(*d*) and subsections 110(1.5) to (1.8)."

Explanatory Note: Section 7 of the Act deals with agreements (generally referred to as stock options) under which employees of a corporation or mutual fund trust acquire rights to acquire securities of the employer (or a person with whom the employer does not deal at arm's length).

Subsection 7(7) of the Act defines the expressions "qualifying person" and "security" for the purposes of section 7 and certain other provisions of the Act relating to those agreements. "Qualifying person" is defined as a corporation or a mutual fund trust. "Security" is defined as a share issued by a corporation or a unit of a mutual fund trust.

Subsection 7(7) is amended to have these definitions also apply for the purposes of new subsections 110(1.7) and (1.8) of the Act. New subsection 110(1.7) ensures that a reduction in the exercise price under an employee security option will not disqualify the employee from claiming the security option deduction under paragraph 110(1)(*d*), provided certain conditions are met. New subsection 110(1.8) sets out the conditions that must be met in order for new subsection 110(1.7) to apply.

This amendment, which applies after 1998, is consequential to the enactment of new subsections 110(1.7) and (1.8). For additional information, see the commentary to those subsections.

History: S. 7(7), the portion before the definition "qualifying person" was amended by S.C. 2001, c. 17, s. 2(8), applicable after 1997, except that

(*a*) it does not apply to a right under an agreement to which subsection 7(7) of the Act, as enacted by subsection 3(7) of chapter 22 of the Statutes of Canada, 1999, does not (except for the purpose of applying paragraph 7(3)(*b*) of the Act) apply [See history for the definitions of "qualifying person" and "security" below for the application of such a right]; and

(*b*) before 2000, the portion of subsection 7(7) of the Act before the definition "qualifying person" shall be read as follows:

"(7) The definitions in this subsection apply in this section and in paragraph 110(1)(*d*) and subsections 110(1.5) and (1.6)."

S. 7(7), the portion before the definition "qualifying person" formerly read:

"(7) *Definitions.* The definitions in this subsection apply in this section and in paragraph 110(1)(*d*)."

S. 7(7) was added by S.C. 1999, c. 22, s. 3(7), applicable after 1994. [See also the application below for the definitions "qualifying person" and "security".]

"qualifying person" — "qualifying person" means a corporation or a mutual fund trust.

History: S. 7(7), the definition "qualifying person" was added by S.C. 1999, c. 22, s. 3(7), applicable after 1994 but, except for the purpose of applying paragraph 7(3)(*b*) of the Act, does not apply to a right under an agreement made before March 1998 to sell or issue trust units to an individual unless

(*a*) the right was outstanding at the end of February 1998 and was not disposed of before March 1998 in circumstances to which paragraph 7(1)(*b*) of the Act, applies; and

(*b*) the individual so elects in writing filed with the Minister of National Revenue on or before the later of

(i) the filing-due date for the individual's taxation year that includes the earlier of

(A) the time of the individual's death, and

(B) the time that the right was first disposed of after February 1998, and

(ii) the day that is six months after the end of the month in which this Act is assented to [December 31, 1999].

Related Sections: S. 132(6) Meaning of "mutual fund trust".

"security" — "security" of a qualifying person means

(*a*) if the person is a corporation, a share of the capital stock of the corporation; and

(*b*) if the person is a mutual fund trust, a unit of the trust.

History: S. 7(7), the definition "security" was added by S.C. 1999, c. 22, s. 3(7), applicable after 1994 but, except for the purpose of applying paragraph 7(3)(*b*) of the Act, does not apply to a right under an agreement made before March 1998 to sell or issue trust units to an individual unless

(*a*) the right was outstanding at the end of February 1998 and was not disposed of before March 1998 in circumstances to which paragraph 7(1)(*b*) of the Act applies; and

(*b*) the individual so elects in writing filed with the Minister of National Revenue on or before the later of

(i) the filing-due date for the individual's taxation year that includes the earlier of

(A) the time of the individual's death, and

(B) the time that the right was first disposed of after February 1998, and

(ii) the day that is six months after the end of the month in which this Act is assented to [December 31, 1999].

Related Sections: S. 8(12) Forfeiture of securities by employee; s. 132(6) Meaning of "mutual fund trust".

Tax Window Files: Employee Stock Options — Bearer Deposit Receipts, March 6, 2002, CRA Document No. 2001-0097575

► 7(8) ◄

(8) Deferral in respect of non-CCPC employee options. Where a particular qualifying person (other than a Canadian-controlled private corporation) has agreed to sell or issue securities of the particular qualifying person (or of a qualifying person with which it does not deal at arm's length) to a taxpayer who is an employee of the particular qualifying person (or of a qualifying person with which the particular qualifying person does not deal at arm's length), in applying paragraph (1)(*a*) in respect of the taxpayer's acquisition of a security under the agreement, the reference in that paragraph to "the taxation year in which the employee acquired the securities" shall be read as a reference to "the taxation year in which the employee disposed of or exchanged the securities" if

(*a*) the acquisition is a qualifying acquisition; and

(*b*) the taxpayer elects, in accordance with subsection (10), to have this subsection apply in respect of the acquisition.

History: S. 7(8) was added by S.C. 2001, c. 17, s. 2(9), applicable to the 2000 and subsequent taxation years.

Editorial Note: Employee stock option benefits are generally included in income in the year of the exercise or disposition of the option under subsection 7(1). However, where subsection 7(8) applies, the recognition of the benefit is deferred to the year of the disposition of the security acquired under the option. The security must be acquired under a "qualifying acquisition" (subsection 7(9)) and the taxpayer must make the election under subsection 7(10).

Related Sections: S. 47(3) Securities acquired by employee; s. 110(1.7) Definitions in subsection 7(7); s. 125(7), "Canadian-controlled private corporation"; s. 251 Arm's length.
Regulations: 200(5).
Forms: T1212.
Tax Window Files: Deferred Stock Option Benefits — Non-Resident, October 8, 2004, CRA Document No. 2004-0086701C6; Separate Pools of Shares, June 29, 2001, CRA Document No. 2001-0072955

► 7(9) ◄

(9) Meaning of "qualifying acquisition". For the purpose of subsection (8), a taxpayer's acquisition of a security under an agreement made by a particular qualifying person is a qualifying acquisition if

(*a*) the acquisition occurs after February 27, 2000;

(*b*) the taxpayer would, if this Act were read without reference to subsection (8), be entitled to deduct an amount under paragraph 110(1)(*d*) in respect of the acquisition in computing income for the taxation year in which the security is acquired;

(*c*) where the particular qualifying person is a corporation, the taxpayer was not, at the time immediately after the agreement was made, a person who would, if the references in the portion of the definition "specified shareholder" in subsection 248(1) before paragraph (*a*) to "in a taxation year" and "at any time in the year" were read as references to "at any time" and "at that time", respectively, be a specified shareholder of any of

(i) the particular qualifying person,

(ii) any qualifying person that, at that time, was an employer of the taxpayer and was not dealing at arm's length with the particular qualifying person, and

(iii) the qualifying person of which the taxpayer had, under the agreement, a right to acquire a security; and

(*d*) where the security is a share,

(i) it is of a class of shares that, at the time the acquisition occurs, is listed on a designated stock exchange, and

(ii) where rights under the agreement were acquired by the taxpayer as a result of one or more dispositions to which subsection (1.4) applied, none of the rights that were the subject of any of the dispositions included a right to acquire a share of a class of shares that, at the time the rights were disposed of, was not listed on any designated stock exchange.

History: S. 7(9)(*d*)(i) and (ii) were amended by S.C. 2007, c. 35, s. 68(2), by replacing "prescribed stock exchange" with "designated stock exchange", applicable on and after December 14, 2007.

S. 7(9) was added by S.C. 2001, c. 17, s. 2(9), applicable to the 2000 and subsequent taxation years.

Related Sections: S. 248(29) Prescribed stock exchange rule; s. 251 Arm's length.
Regulations: 3200; 3201.

► 7(10) ◄

(10) Election for the purpose of subsection (8). For the purpose of subsection (8), a taxpayer's election to have that subsection apply in respect of the taxpayer's acquisition of a particular security under an agreement referred to in subsection (1) is in accordance with this subsection if

(*a*) the election is filed, in the prescribed form and manner at a particular time that is before January 16 of the year following the year in which the acquisition occurs, with a person who would be required to file an information return in respect of the acquisition if subsection (8) were read without reference to paragraph (8)(*b*);

(*b*) the taxpayer is resident in Canada at the time the acquisition occurs; and

(*c*) the specified value of the particular security does not exceed the amount by which

(i) $100,000

exceeds

(ii) the total of all amounts each of which is the specified value of another security acquired by the taxpayer at or before the particular time under an agreement referred to in subsection (1), where

(A) the taxpayer's right to acquire that other security first became exercisable in the year that the taxpayer's right to acquire the particular security first became exercisable, and

(B) at or before the particular time, the taxpayer has elected in accordance with this subsection to have subsection (8) apply in respect of the acquisition of that other security.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Application

(5) An election by a taxpayer under subsection 7(10) of the Act to have subsection 7(8) of the Act apply is deemed to have been filed in a timely manner if

(*a*) it is filed on or before the 60th day after the day on which this Act is assented to;

(*b*) it is in respect of a security acquired by the taxpayer before the day on which this Act is assented to;

(*c*) the taxpayer is entitled to a deduction under paragraph 110(1)(*d*) of the Act in respect of the acquisition; and

(*d*) the taxpayer would not have been so entitled if subsection 110(1.7) of the Act, as enacted by subsection (2), did not apply.

Applicable: Royal Assent.

Explanatory Note:

Extended Deadline for Deferral Election

Where certain conditions are satisfied, subsection 7(8) of the Act allows an employee to defer taxation of a security option benefit to the year in which the employee disposes of the security. One condition is that the employee be eligible to claim the deduction under paragraph 110(1)(*d*) in respect of the benefit. Another condition is that the employee files an election to defer before January 16th of the year following the year in which the option is exercised (or before August 14, 2001 for securities acquired in 2000).

The coming-into-force provisions for subsections 110(1.7) and (1.8) extend the deferral election deadline for securities which are acquired before this legislation receives Royal Assent, and which become qualified for the deduction under paragraph 110(1)(*d*) only by reason of amended subsection 110(1.7), to the later of

- the election deadline that would otherwise apply, and
- the day that is 60 days after Royal Assent.

History: S. 7(10) was added by S.C. 2001, c. 17, s. 2(9), applicable to the 2000 and subsequent taxation years except that an election under subsection 7(10) to have subsection 7(8) apply in respect of a security acquired in 2000 is deemed to have been filed in a timely manner if it is filed on or before August 13, 2001 [60 days after Royal Assent (June 14, 2001)].

Editorial Note: Effectively, in respect of options that vest in any one year, the election to defer the recognition of the benefit resulting from the exercise of the options is limited to $100,000 worth of securities acquired under the options (value determined at the time the option was granted).

Forms: T1212.

► 7(11) ◄

(11) Meaning of "specified value". For the purpose of paragraph (10)(*c*), the specified value of a particular security acquired by a taxpayer under an agreement referred to in subsection (1) is the amount determined by the formula

A/B

where

A is the fair market value, determined at the time the agreement was made, of a security that was the subject of the agreement at the time the agreement was made; and

B is

(*a*) except where paragraph (*b*) applies, 1, and

(*b*) where the number or type of securities that are the subject of the agreement has been modified in any way after the time the agreement was made, the number of securities (including any fraction of a security) that it is reasonable to consider the taxpayer would, at the time the particular security was acquired, have a right to acquire under the agreement in lieu of one of the securities that was the subject of the agreement at the time the agreement was made.

History: S. 7(11) was added by S.C. 2001, c. 17, s. 2(9), applicable to the 2000 and subsequent taxation years.

► 7(12) ◄

(12) Identical options — order of exercise. Unless the context otherwise requires, a taxpayer is deemed to exercise identical rights to acquire securities under agreements referred to in subsection (1)

(*a*) where the taxpayer has designated an order, in the order so designated; and

(*b*) in any other case, in the order in which those rights first became exercisable and, in the case of identical rights that first became exercisable at the same time, in the order in which the agreements under which those rights were acquired were made.

History: S. 7(12) was added by S.C. 2001, c. 17, s. 2(9), applicable to the 2000 and subsequent taxation years.

Related Sections: S. 7(1.3) Order of disposition of securities.

► 7(13) ◄

(13) Revoked election. For the purposes of this section (other than this subsection), an election filed by a taxpayer to have subsection (8) apply to the taxpayer's acquisition of a security is deemed never to have been filed if, before January 16 of the year following the year in which the acquisition occurs, the taxpayer files with the person with whom the election was filed a written revocation of the election.

History: S. 7(13) was added by S.C. 2001, c. 17, s. 2(9), applicable to the 2000 and subsequent taxation years except that a written request under subsection 7(13), to revoke an election in respect of a security acquired in 2000 is deemed to have been filed in a timely manner if it is filed on or before August 13, 2001 [60 days after the day on which this Act receives Royal Assent (June 14, 2001)].

► 7(14) ◄

(14) Deferral deemed valid. For the purposes of this section and paragraph 110(1)(*d*), where a taxpayer files an election to have subsection (8) apply in respect of the taxpayer's acquisition of a particular security and subsection (8) would not apply to the acquisition if this section were read without reference to this subsection, the following rules apply if the Minister so notifies the taxpayer in writing:

(*a*) the acquisition is deemed, for the purpose of subsection (8), to be a qualifying acquisition;

(*b*) the taxpayer is deemed to have elected, in accordance with subsection (10), at the time of the acquisition, to have subsection (8) apply in respect of the acquisition; and

(*c*) if, at the time the Minister sends the notice, the taxpayer has not disposed of the security, the taxpayer is deemed (other than for the purpose of subsection (1.5)) to have disposed of the security at that time and to have acquired the security immediately after that time other than under an agreement referred to in subsection (1).

History: S. 7(14) was added by S.C. 2001, c. 17, s. 2(9), applicable to the 2000 and subsequent taxation years.

► 7(15) ◄

(15) Withholding. Where, because of subsection (8), a taxpayer is deemed by paragraph (1)(*a*) to have received a benefit from employment in a taxation year, the benefit is deemed to be nil for the purpose of subsection 153(1).

History: S. 7(15) was added by S.C. 2001, c. 17, s. 2(9), applicable to the 2000 and subsequent taxation years.

Editorial Note: Subsection 7(15) effectively provides that tax is not required to be withheld in respect of the benefit that is deferred by reason of subsection 7(8). The provision is silent as to withholding requirements in respect of other benefits taxable by virtue of subsection 7(1), including those deferred by reason of subsection 7(1.1). Historically, the CRA has indicated that withholding is required except in the cases of undue hardship (e.g. where the employee receives insufficient cash remuneration from which tax can be withheld); see the CRA documents listed below.

Tax Window Files: Tax Treatment of Employee Stock Options, June 7, 2007, CRA Document No. 2006-0217731E5; Deferred Stock Option Benefits — Non-Resident, October 8, 2004, CRA Document No. 2004-0086701C6; Stock Option Withholding Information Return, February 10, 1993, CRA Document No. 923447A; Source Deductions Hardship Stock Options, January 12, 1993, CRA Document No. 9233476.

► 7(16) ◄

(16) Prescribed form for deferral. Where, at any time in a taxation year, a taxpayer holds a security that was acquired under circumstances to which subsection (8) applied, the taxpayer shall file with the Minister, with the taxpayer's return of income for the year, a prescribed form containing prescribed information relating to the taxpayer's acquisition and disposition of securities under agreements referred to in subsection (1).

History: S. 7(16) was added by S.C. 2001, c. 17, s. 2(9), applicable to the 2000 and subsequent taxation years.

Deductions

SECTION 8:

► 8(1) ◄

(1) Deductions allowed. In computing a taxpayer's income for a taxation year from an office or employment, there may be deducted such of the following amounts as are wholly applicable to that source or such part of the following amounts as may reasonably be regarded as applicable thereto:

Related Sections: S. 4(1) Income or loss from a source or from sources in a place; s. 5(1) Income from office or employment; s. 5(2) Loss from office or employment; s. 6(1)(*j*) Reimbursements and awards; s. 6(8) GST rebates re costs of property or service; s. 8(2) General limitation.

Interpretation Bulletins: *Secondary* — IT-168R3 Athletes and players employed by football, hockey and similar clubs; IT-292 Taxation of elected officers of incorporated municipalities, school boards, municipal commissions and similar bodies.

Forms: T777.

► 8(1)(a) ◄

(a) Volunteers' deduction — [Repealed by S.C. 2001, c. 17, s. 3(1).]

History: S. 8(1)(*a*) was repealed by S.C. 2001, c. 17, s. 3(1), applicable to the 1998 and subsequent taxation years. S. 8(1)(*a*) formerly read:

"(*a*) *Volunteers' deduction* — in respect of each employer of the taxpayer that is a government, municipality or public authority, the lesser of $1,000 and the total of all amounts received in the year by the taxpayer from the employer that are

(i) included in the taxpayer's income for the year from an office or employment, and

(ii) from the performance, as a volunteer, of the taxpayer's duties as

(A) an ambulance technician,

(B) a firefighter, or

(C) a person who assists in the search or rescue of individuals or in other emergency situations,

except that no amount may be so deducted in respect of an employer if the taxpayer is employed in the year, otherwise than as a volunteer, by the employer in connection with the performance of any of the duties referred to in subparagraph (ii) or of similar duties;"

S. 8(1)(*a*) was added by S.C. 1999, c. 22, s. 4(1), applicable to the 1998 and subsequent taxation years. S. 8(1)(*a*) was previously repealed by the former Act.

Related Sections: S. 8(10) Certificate of employer; s. 81(4) Payments for volunteer services.

► 8(1)(b) ◄

(b) Legal expenses of employee — amounts paid by the taxpayer in the year as or on account of legal expenses incurred by the taxpayer to collect or establish a right to salary or wages owed to the taxpayer by the employer or former employer of the taxpayer;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 8(1)(*b*) of the Act is replaced by the following:

(b) **Legal expenses of employee** — amounts paid by the taxpayer in the year as or on account of legal expenses incurred by the taxpayer to collect, or to establish a right to, an amount owed to the taxpayer that, if received by the taxpayer, would be required by this subdivision to be included in computing the taxpayer's income;

Applicable: To amounts paid in the 2001 and subsequent taxation years.

Explanatory Note:

Legal Expenses of Employee

Paragraph 8(1)(*b*) of the Act allows the deduction of amounts paid by the taxpayer to collect or establish a right to salary or wages owed to the taxpayer by the taxpayer's employer or former employer.

Concern has been expressed that where an amount is not owed to the employee directly by the employer, any legal expenses incurred by the taxpayer would not be deductible under paragraph 8(1)(*b*), even though the amount, when received, would be taxable as employment income. This would be the case, for example, with respect to legal fees incurred by a taxpayer to collect insurance benefits under a sickness or accident insurance policy provided through an employer.

Paragraph 8(1)(*b*) is amended, effective for amounts paid after 2000, to allow a deduction for legal expenses incurred by a taxpayer to collect, or establish a right to collect, an amount that, if received, would be included in computing the taxpayer's employment income.

Related Sections: S. 6(1)(*j*) Reimbursements and awards; s. 6(8) GST rebates re costs of property or service; s. 56(1)(*a*)(ii) Pension benefits, unemployment insurance benefits, etc.; s. 60(*o.1*)(i)(B) Legal expenses for pension benefit or retiring allowance; s. 110.2(1), "qualifying amount".

Interpretation Bulletins: *Secondary* — IT-99R5 (Consolid.) Legal and accounting fees.

Guides: T4044 Employment Expenses — Supplementary Income Tax Guide.

Tax Window Files: Legal Expenses of Employee, June 1, 2005, CRA Document No. 2005-0113991E5 [Legal fees relating to inappropriate termination notice and negotiating a settlement not deductible under paragraph 8(1)(*b*) or paragraph 60(*o.1*)]; Withholding on Reimbursement of Legal Fees, June 2, 2000, CRA Document No. 2000-0020065 [CRA administrative policy to waive withholdings for reimbursement of legal fees included in income by virtue of 6(1)(*j*) to extent deductible under paragraph 8(1)(*b*)].

Cases: The damages claimed by a taxpayer as a result of a flawed competition for a job promotion did not relate to salary or wages "owed", but to an amount in lieu of the salary or wages that she would have earned, had the competition been fair. *Turner-Lienaux v. The Queen*, 97 DTC 5293 (F.C.A.), affirming 97 DTC 261 (T.C.C.).

A teacher's expenses of defending criminal charges were held not deductible since they could not be considered as expenses incurred for the purpose of collecting salary or wages. *Wilson v. The Queen*, 91 DTC 5407 (F.C.A.), affirming 90 DTC 6382 (F.C.T.D.) and (T.C.C.) unreported.

► 8(1)(c) ◄

(c) Clergy residence — where, in the year, the taxpayer

(i) is a member of the clergy or of a religious order or a regular minister of a religious denomination, and

(ii) is

(A) in charge of a diocese, parish or congregation,

(B) ministering to a diocese, parish or congregation, or

(C) engaged exclusively in full-time administrative service by appointment of a religious order or religious denomination,

the amount, not exceeding the taxpayer's remuneration for the year from the office or employment, equal to

(iii) the total of all amounts including amounts in respect of utilities, included in computing the taxpayer's income for the year under section 6 in respect of the residence or other living accommodation occupied by the taxpayer in the course of, or because of, the taxpayer's office or employment as such a member or minister so in charge of or ministering to a diocese, parish or congregation, or so engaged in such administrative service, or

(iv) rent and utilities paid by the taxpayer for the taxpayer's principal place of residence (or other principal living accommodation), ordinarily occupied during the year by the taxpayer, or the fair rental value of such a residence (or other living accommodation), including utilities, owned by the taxpayer or the taxpayer's spouse or common-law partner, not exceeding the lesser of

(A) the greater of

(I) $1,000 multiplied by the number of months (to a maximum of ten) in the year, during which the taxpayer is a person described in subparagraphs (i) and (ii), and

(II) one-third of the taxpayer's remuneration for the year from the office or employment, and

(B) the amount, if any, by which

(I) the rent paid or the fair rental value of the residence or living accommodation, including utilities

exceeds

(II) the total of all amounts each of which is an amount deducted, in connection with the same accommodation or residence, in computing an individual's income for the year from an office or employment or from a business (other than an amount deducted under this paragraph by the taxpayer), to the extent that the amount can reasonably be considered to relate to the period, or a portion of the period, in respect of which an amount is claimed by the taxpayer under this paragraph;

History: S. 8(1)(*c*) was amended by S.C. 2001, c. 17, s. 3(2), applicable to the 2001 and subsequent taxation years. S. 8(1)(*c*) formerly read:

"(*c*) *Clergyman's residence* — where the taxpayer is a member of the clergy or of a religious order or a regular minister of a religious denomination, and is in charge of or ministering to a diocese, parish or congregation, or engaged exclusively in full-time administrative service by appointment of a religious order or religious denomination, an amount equal to

(i) the value of the residence or other living accommodation occupied by the taxpayer in the course of or by virtue of the taxpayer's office or employment as such a member or minister so in charge of or ministering to a diocese, parish or congregation, or so engaged in such administrative service, to the extent that that value is included in computing the taxpayer's income for the year by virtue of section 6, or

(ii) rent paid by the taxpayer for a residence or other living accommodation rented and occupied by the taxpayer, or the fair rental value of a residence or other living accommodation owned and occupied by the taxpayer, during the year but not, in either case, exceeding the taxpayer's remuneration from the taxpayer's office or employment as described in subparagraph (i);"

Related Sections: S. 8(10) Certificate of employer; s. 146(1), "earned income".

Interpretation Bulletins: *Primary* — IT-141R (Consolid.) Clergy residence deduction.

Registered Charities Newsletters: No. 23, Clergy residence deduction.

Forms: T1223.

Cases: Although an interfaith chaplain was not an ordained member of the clergy, she was a "regular minister of a religious denomination" and was therefore entitled to the clergyman's residence deduction. *Noseworthy v. The Queen*, 99 DTC 541 (T.C.C.).

To be a member of the "clergy", one does not have to be "ordained", and the word "ordain" is not restricted to churches using that word. *Kraft et al. v. The Queen*, 99 DTC 693 (T.C.C.).

Missionaries were considered to be regular ministers of a religious order ministering to a congregation and therefore entitled to a deduction for clergyman's residence. *McGorman et al. v. The Queen*, 99 DTC 699 (T.C.C.).

Considering that in his capacity as the Manitoba Secretary of the Canadian Bible Society, the taxpayer, an ordained minister, participated in the worship services of the 200 Lutheran churches he visited every year, all the requirements of s. 8(1)(*c*) had been met by him. *Vibe v. The Queen*, 98 DTC 1684 (T.C.C.).

The president of the Ontario Bible College (OBC) was denied a clergyman's residence deduction on the ground that OBC was not a religious order and he was not "in charge of or ministering to a congregation". *McRae v. The Queen*, 97 DTC 5124 (F.C.A.), affirming 94 DTC 6687 (F.C.T.D.).

► 8(1)(d) ◄

(d) Teachers' exchange fund contribution — a single amount, in respect of all employments of the taxpayer as a teacher, not exceeding $250 paid by the taxpayer in the year to a fund established by the Canadian Education Association for the benefit of teachers from Commonwealth countries present in Canada under a teachers' exchange arrangement;

► 8(1)(e) ◄

(e) Expenses of railway employees — amounts disbursed by the taxpayer in the year for meals and lodging while employed by a railway company

(i) away from the taxpayer's ordinary place of residence as a relieving telegrapher or station agent or on maintenance and repair work, or

(ii) away from the municipality and the metropolitan area, if there is one, where the taxpayer's home terminal was located, and at a location from which, by reason of distance from the place where the taxpayer maintained a self-contained domestic establishment in which the taxpayer resided and actually supported a spouse or common-law partner or a person dependent on the taxpayer for support and connected with the taxpayer by blood relationship, marriage or common-law partnership or adoption, the taxpayer could not reasonably be expected to return daily to that place,

to the extent that the taxpayer has not been reimbursed and is not entitled to be reimbursed in respect thereof;

History: S. 8(1)(*e*)(ii) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(a) and 10(a), applicable January 1, 2001, coming into force on July 31, 2000. S. 8(1)(*e*)(ii) formerly read:

"(ii) away from the municipality and the metropolitan area, if there is one, where the taxpayer's home terminal was located, and at a location from which, by reason of distance from the place where the taxpayer maintained a self-contained domestic establishment in which the taxpayer resided and actually supported a spouse or a person dependent on the taxpayer for support and connected with the taxpayer by blood relationship, marriage or adoption, the taxpayer could not reasonably be expected to return daily to that place,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Related Sections: S. 6(6) Employment at special work site or remote location; s. 6(8) GST rebates re costs of property or service; s. 8(1)(*f*) Sales expenses; s. 8(1)(*g*) Transport employee's expenses; s. 8(1)(*h*) Travel expenses; s. 8(11) Goods and services tax; s. 67.1(1) Expenses for food, etc; s. 67.1(2) Exceptions; s. 248(1), "common-law partner", "self-contained domestic establishment"; s. 251(6) Blood relationship, etc.
Interpretation Bulletins: *Secondary* — IT-522R Vehicle, Travel and Sales Expenses of Employees.
Information Circulars: IC 73-21R9 Claims for Meals and Lodging Expenses of Transport Employees.
Forms: TL2.

► 8(1)(f) ◄

(f) Sales expenses — where the taxpayer was employed in the year in connection with the selling of property or negotiating of contracts for the taxpayer's employer, and

(i) under the contract of employment was required to pay the taxpayer's own expenses,

(ii) was ordinarily required to carry on the duties of the employment away from the employer's place of business,

(iii) was remunerated in whole or part by commissions or other similar amounts fixed by reference to the volume of the sales made or the contracts negotiated, and

(iv) was not in receipt of an allowance for travel expenses in respect of the taxation year that was, by virtue of subparagraph 6(1)(*b*)(v), not included in computing the taxpayer's income,

amounts expended by the taxpayer in the year for the purpose of earning the income from the employment (not exceeding the commissions or other similar amounts referred to in subparagraph (iii) and received by the taxpayer in the year) to the extent that those amounts were not

(v) outlays, losses or replacements of capital or payments on account of capital, except as described in paragraph (*j*),

(vi) outlays or expenses that would, by virtue of paragraph 18(1)(*l*), not be deductible in computing the taxpayer's income for the year if the employment were a business carried on by the taxpayer, or

(vii) amounts the payment of which reduced the amount that would otherwise be included in computing the taxpayer's income for the year because of paragraph 6(1)(*e*);

History: S. 8(1)(*f*)(vii) was added by S.C. 1994, c. 7, Sched. II, s. 5(1), applicable to the 1990 and subsequent taxation years.

Editorial Note: The deduction for a salesperson's expenses under paragraph 8(1)(*f*) is limited to the amount of commission income received in the year. A salesperson can alternatively deduct travel and automobile expenses under paragraphs 8(1)(*h*) and (*h.1*) without the commission income limitation. However, the salesperson can claim a deduction under the latter provisions only if no deduction is made under paragraph 8(1)(*f*) in respect of any expenses.

Related Sections: S. 6(8) GST rebates re costs of property or service; s. 6(9) Amount in respect of interest on employee debt; s. 8(1)(*h*) Travel expenses; s. 8(1)(*h.1*) Motor vehicle travel expenses; s. 8(1)(*j*) Motor vehicle and aircraft costs; s. 8(4) Meals; s. 8(9) Presumption; s. 8(10) Certificate of employer; s. 8(11) Goods and services tax; s. 8(13) Work space in home; s. 18(1)(*h*) Personal and living expenses; s. 18(1)(*l*) Use of recreational facilities and club dues; s. 18(1)(*n*) Certain automobile expenses; s. 67.1(1) Expenses for food, etc; s. 67.1(2) Exceptions; s. 67.3 Limitation re cost of leasing passenger vehicle.
Regulations: 102(2)(*d*).
Interpretation Bulletins: *Primary* — IT-522R Vehicle, Travel and Sales Expenses of Employees. *Secondary* — IT-352R2 Employee's expenses, including work space in home expenses.
Guides: T4044 Employment Expenses — Supplementary Income Tax Guide.
Forms: T777; T2200; TD1X.
Tax Topics: No. 1673, Supreme Court's Decision on Interest Deductibility Defies Logic; No. 1517, Interest Not (Necessarily) a Capital Expense.
Tax Profile: April 2004 — Interest is Almost Always a Capital Expense; July 2001 — Deducting Interest as a Current Expense.
Cases: A stockbroker was successfully sued after resigning from his employment without notice. The judgment amount plus costs and legal fees were deductible as employment-related expenses since they were incurred as a consequence of leaving his former employer to earn more income with a larger firm. *Raphael v. The Queen,* 2008 DTC 3559 (T.C.C.).

The purchase of a client list and the related interest payments were both on account of capital and therefore not deductible under s. 8(1)(*f*). *Gifford v. The Queen et al.,* 2004 DTC 6120 (S.C.C.), affirming 2002 DTC 7197 (F.C.A.), reversing 2001 DTC 168 (T.C.C.).

A stockbroker incurred legal fees for representation before the Montreal Exchange's Disciplinary Committee and Governing Committee, before the Commission des valeurs mobilières du Québec, and in criminal proceedings. These expenses were deductible since they had been incurred for the purpose of earning income from the taxpayer's employment. *Mercille v. The Queen,* 2000 DTC 1915 (T.C.C.).

When a commissioned salesman had received from his employer a reimbursement of 25 cents per kilometre for his travelling expenses and had also been reimbursed for his meals and lodging expenses, this reasonable allowance was excluded from income so that the taxpayer could not claim sales expenses under s. 8(1)(*f*). *Lavigne v. The Queen,* 94 DTC 1571 (T.C.C.).

Occasional absences from the place of employment do not qualify the taxpayer as being "ordinarily required" to carry his duties away from his place of employment. *Stromberg v. M.N.R.,* 54 DTC 28 (T.A.B.) and 56 DTC 61. See also *Turnbull v. M.N.R.,* 60 DTC 634 (T.A.B.); *Neufeld v. M.N.R.,* 81 DTC 18 (T.R.B.); *Jalbert v. M.N.R.,* 86 DTC 1766 (T.C.C.).

► 8(1)(g) ◄

(g) Transport employee's expenses — where the taxpayer was an employee of a person whose principal business was passenger, goods, or passenger and goods transport and the duties of the employment required the taxpayer, regularly,

(i) to travel, away from the municipality where the employer's establishment to which the taxpayer reported for work was located and away from the metropolitan area, if there is one, where it was located, on vehicles used by the employer to transport the goods or passengers, and

(ii) while so away from that municipality and metropolitan area, to make disbursements for meals and lodging,

amounts so disbursed by the taxpayer in the year to the extent that the taxpayer has not been reimbursed and is not entitled to be reimbursed in respect thereof;

Related Sections: S. 6(1)(*b*)(vii) Amounts to be included as income from office or employment; s. 6(8) GST rebates re costs of property or service; s. 8(1)(*e*) Expenses of railway employees; s. 8(1)(*h*) Travel expenses; s. 8(11) Goods and services tax; s. 67.1(1) Expenses for food, etc; s. 67.1(2) Exceptions.
Interpretation Bulletins: *Secondary* — IT-254R2 Fishermen-employees and seafarers — Value of rations and quarters [Archived by the CRA]; IT-522R Vehicle, Travel and Sales Expenses of Employees.
Information Circulars: IC 73-21R9 Claims for Meals and Lodging Expenses of Transport Employees.
Forms: TL2.

► 8(1)(h) ◄

(h) Travel expenses — where the taxpayer, in the year,

(i) was ordinarily required to carry on the duties of the office or employment away from the

employer's place of business or in different places, and

(ii) was required under the contract of employment to pay the travel expenses incurred by the taxpayer in the performance of the duties of the office or employment,

amounts expended by the taxpayer in the year (other than motor vehicle expenses) for travelling in the course of the office or employment, except where the taxpayer

(iii) received an allowance for travel expenses that was, because of subparagraph 6(1)(*b*)(v), (vi) or (vii), not included in computing the taxpayer's income for the year, or

(iv) claims a deduction for the year under paragraph (*e*), (*f*) or (*g*);

History: S. 8(1)(*h*) was amended by S.C. 1994, c. 7, Sched. II, s. 5(2), applicable to the 1988 and subsequent taxation years. S. 8(1)(*h*) formerly read:

"(*h*) where the taxpayer, in the year,

(i) was ordinarily required to carry on the duties of the employment away from the employer's place of business or in different places,

(ii) under the contract of employment was required to pay the travel expenses incurred by the taxpayer in the performance of the duties of the office or employment, and

(iii) was not in receipt of an allowance for travel expenses that was, by virtue of subparagraph 6(1)(*b*)(v), (vi), (vii) or (vii.1), not included in computing the taxpayer's income and did not claim any deduction for the year under paragraph (*e*), (*f*) or (*g*),

amounts expended by the taxpayer in the year for travelling in the course of the employment;"

Editorial Note: Generally speaking, travel expenses include those incurred on meals, accommodation, and travel (other than automobile expenses) in the course of work-related travel. See the subsection 8(4) limitation regarding meal expenses.

Related Sections: S. 6(8) GST rebates re costs of property or service; s. 6(9) Amount in respect of interest on employee debt; s. 8(1)(*h.1*) Motor vehicle travel expenses; s. 8(1)(*j*) Motor vehicle and aircraft costs; s. 8(1) Deductions allowed; s. 8(4) Meals; s. 8(9) Presumption; s. 8(10) Certificate of employer; s. 8(13) Work space in home; s. 81(3.1) Travel expenses; s. 248(1), "motor vehicle".

Regulations: 102(2)(*d*).

Interpretation Bulletins: *Primary* — IT-522R Vehicle, Travel and Sales Expenses of Employees. *Secondary* — IT-266 Taxation of members of provincial legislative assemblies [Archived by the CRA].

Information Circulars: IC 73-21R9 Claims for Meals and Lodging Expenses of Transport Employees; IC 74-6R2 Power saw expenses.

Guides: T4044 Employment Expenses — Supplementary Income Tax Guide.

Forms: T777; T2200; TD1X.

Tax Window Files: Automobile Expenses, July 15, 2004, CRA Document No. 2004-0077791E5 [If car expenses exceed the amount of the car allowance received, the expenses will be deductible if employee voluntarily includes the allowance in income].

Cases: Living expenses incurred by an R.C.M.P. officer while attending an English course in Montreal were deducible from his employment income on the ground that he had been required to carry on the duties of his office or employment away from his employer's place of business. *A.G. of Canada v. Tremblay,* 98 DTC 6008 (F.C.A.), affirming 96 DTC 3215 (T.C.C.).

As long as the requirement in their contract of employment to attend an annual Teacher's Convention took them away from the places where they usually worked, the taxpayers were entitled to deduct their convention expenses. *Imray et al. v. The Queen,* 98 DTC 6580 (F.C.T.D.).

Although provided with a free pass by the Montreal Urban Transit Authority to check the traffic flow, the taxpayer was entitled to deduct his travel expenses for the use of his own automobile in travelling to and from certain check points since it was the most practical way to perform his job as a "checker". *Stokes v. The Queen,* 93 DTC 201 (T.C.C.).

Where the terms of a taxpayer's employment as school principal did not require him ordinarily to be elsewhere than at his school, his travelling expenses for delivering reports and picking up materials could not be deducted. *Krause v. The Queen,* 93 DTC 594 (T.C.C.).

► 8(1)(h.1) ◄

(h.1) Motor vehicle travel expenses — where the taxpayer, in the year,

(i) was ordinarily required to carry on the duties of the office or employment away from the employer's place of business or in different places, and

(ii) was required under the contract of employment to pay motor vehicle expenses incurred in the performance of the duties of the office or employment,

amounts expended by the taxpayer in the year in respect of motor vehicle expenses incurred for travelling in the course of the office or employment, except where the taxpayer

(iii) received an allowance for motor vehicle expenses that was, because of paragraph 6(1)(*b*), not included in computing the taxpayer's income for the year, or

(iv) claims a deduction for the year under paragraph (*f*);

Federal Budget Extract

Simplifying Compliance With the Motor Vehicle Tax Provisions

[Reproduced below is an excerpt from the February 26, 2008 Federal Budget, which notes that the CRA plans to reduce the amount of record keeping required for automobile expense claims and taxable benefit calculations.]

To support motor vehicle expense claims and calculate taxable benefits, the Canada Revenue Agency (CRA) requires individuals to keep a detailed record (i.e. a logbook) of their business driving, including the total and business kilometres driven annually, as well as the date, destination, distance driven and purpose for each business trip. This requirement can be burdensome for taxpayers. The CFIB [Canadian Federation of Independent Business] has indicated that its members have identified the requirement to keep a logbook as the most burdensome aspect of the motor vehicle tax provisions.

In conjunction with the Office of the Secretary of State (Small Business and Tourism) and the CRA, simplification options were reviewed. To reduce the record-keeping burden and allow small business owners more time to devote to growing their firms, Budget 2008 proposes that maintaining a logbook during a sample period of time, that is representative of how the motor vehicle is used, be sufficient to support motor vehicle expense and taxable benefit calculations. To inform the development of the proposed record-keeping requirements, the CRA will undertake consultations in 2008 with key stakeholders, including the CFIB, and will implement a revised administrative policy in 2009.

History: S. 8(1)(*h.1*) was added by S.C. 1994, c. 7, Sched. II, s. 5(3), applicable to the 1988 and subsequent taxation years.

Related Sections: S. 6(8) GST rebates re costs of property or service; s. 8(1)(*j*) Motor vehicle and aircraft costs; s. 8(10) Certificate of employer; s. 18(1)(*r*) Certain automobile expenses; s. 67.3 Limitation re cost of leasing passenger vehicle; s. 81(3.1) Travel expenses; s. 248(1), "motor vehicle".

Regulations: 102(2)(*d*).

Guides: T4044 Employment Expenses — Supplementary Income Tax Guide.

Forms: T777; T2200.

Canadian Tax Foundation: Tang, "Automobile Taxable Benefits and Expenses: Part 2", *1998 Canadian Tax Journal,* No. 1, 125.

Cases: Although the taxpayer received a reasonable allowance from her employer in respect of the use of her motor vehicle in the performance of her duties of employment, this did not bar her from claiming a deduction in relation to that portion of her motor vehicle travel expenses for which she was not reimbursed. *Evans v. The Queen,* 99 DTC 168 (T.C.C.).

► 8(1)(i) ◄

(i) Dues and other expenses of performing duties — amounts paid by the taxpayer in the year as

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of paragraph 8(1)(*i*) of the Act before subparagraph (i) is replaced by the following:

(i) Dues and other expenses of performing duties — an amount paid by the taxpayer in the year, or on behalf of the taxpayer in the year if the amount paid on behalf of the taxpayer is required to be included in the taxpayer's income for the year, as

Applicable: Royal Assent.

Explanatory Note:

Dues and Other Expenses of Performing Duties

Paragraph 8(1)(*i*) of the Act permits an employee to deduct certain dues and other employment expenses that are paid by the employee. Paragraph 8(1)(*i*) is amended, applicable on Royal Assent, to clarify that an expense described in that paragraph that is paid on an employee's behalf is deductible by the employee if the amount paid is required to be included in computing the employee's income.

(i) annual professional membership dues the payment of which was necessary to maintain a professional status recognized by statute,

(ii) office rent, or salary to an assistant or substitute, the payment of which by the officer or employee was required by the contract of employment,

(iii) the cost of supplies that were consumed directly in the performance of the duties of the office or employment and that the officer or employee was required by the contract of employment to supply and pay for,

(iv) annual dues to maintain membership in a trade union as defined

(A) by section 3 of the *Canada Labour Code*, or

(B) in any provincial statute providing for the investigation, conciliation or settlement of industrial disputes,

or to maintain membership in an association of public servants the primary object of which is to promote the improvement of the members' conditions of employment or work,

(v) annual dues that were, pursuant to the provisions of a collective agreement, retained by the taxpayer's employer from the taxpayer's remuneration and paid to a trade union or association designated in subparagraph (iv) of which the taxpayer was not a member,

(vi) dues to a parity or advisory committee or similar body, the payment of which was required under the laws of a province in respect of the employment for the year, and

(vii) dues to a professions board, the payment of which was required under the laws of a province,

to the extent that the taxpayer has not been reimbursed, and is not entitled to be reimbursed in respect thereof;

History: S. 8(1)(*i*)(vii) was added by S.C. 1998, c. 19, s. 69(1), applicable to 1996 and subsequent taxation years.

Related Sections: S. 6(8) GST rebates re costs of property or service; s. 8(1)(*l*.1) C.P.P. contributions and E.I. premiums; s. 8(5) Dues not deductible; s. 8(10) Certificate of employer; s. 8(11) Goods and services tax; s. 8(13) Work space in home.

Regulations: 102(2)(*d*); 100(3)(*b*).

Interpretation Bulletins: *Primary* — IT-103R Dues paid to a union or to a parity or advisory committee; IT-158R2 Employees' professional membership dues; IT-352R2 Employee's expenses, including work space in home expenses.

Information Circulars: IC 74-6R2 Power saw expenses.

Guides: T4044 Employment Expenses — Supplementary Income Tax Guide.

Forms: T777; T2200; TD1X.

Tax Window Files: Deduction — Dues Paid to Trade Union Outside Canada, May 27, 2003, CRA Document No. 2003-0015727 [Annual dues paid to trade union located outside of Canada deductible]; Annual Membership Dues — Continuing Education, April 24, 2002, CRA Document No. 2001-0112695 [Amounts expended on professional development courses did not qualify as professional membership dues]; Union Dues — Bargaining Unit, February 18, 1997, CRA Document No. 9640195 [Amounts paid by members of a bargaining unit deductible as union dues].

Cases: Provincial court judges are not public servants within the meaning of s. 8(1)(*i*)(iv), and hence are not entitled to deduct membership dues in a provincial judges' association. *Crowe et al. v. The Queen*, 2002 DTC 1463 (T.C.C.).

Membership fees for the Appraisal Institute of Canada are deductible. *Montgomery et al. v. The Queen*, 99 DTC 5186 (F.C.A.), reversing 97 DTC 5510 (F.C.T.D.) which reversed 97 DTC 5510 (T.C.C.).

► 8(1)(j) ◄

(j) **Motor vehicle and aircraft costs** — where a deduction may be made under paragraph (*f*), (*h*) or (*h*.1) in computing the taxpayer's income from an office or employment for a taxation year,

(i) any interest paid by the taxpayer in the year on borrowed money used for the purpose of acquiring, or on an amount payable for the acquisition of, property that is

(A) a motor vehicle that is used, or

(B) an aircraft that is required for use

in the performance of the duties of the taxpayer's office or employment, and

(ii) such part, if any, of the capital cost to the taxpayer of

(A) a motor vehicle that is used, or

(B) an aircraft that is required for use

in the performance of the duties of the office or employment as is allowed by regulation;

History: All that portion of s. 8(1)(*j*) preceding clause (i)(B) was amended by S.C. 1994, c. 7, Sched. II, s. 5(4), applicable to the 1988 and subsequent taxation years. That portion formerly read:

"(*j*) *Automobile and aircraft costs* — where a deduction may be made under paragraph (*f*) or (*h*) in computing the taxpayer's income from an office or employment for a taxation year,

(i) any interest paid by the taxpayer in the year on borrowed money used for the purpose of acquiring

(A) an automobile that is used, or"

S. 8(1)(*j*)(ii)(A) was amended by S.C. 1994, c. 7, Sched. II, s. 5(5), applicable to the 1988 and subsequent taxation years. That clause formerly read:

"(A) an automobile that is used, or"

Related Sections: S. 6(8) GST rebates re costs of property or service; s. 8(1)(*q*) Artists' employment expenses; s. 8(9) Presumption; s. 13(7) Rules applicable; s. 13(11) Deduction in respect of property used in performance of duties; s. 67.2 Interest on money borrowed for passenger vehicle; s. 67.3 Limitation re cost of leasing passenger vehicle; s. 80(9) Reductions of adjusted cost bases of capital properties; s. 80.4 Loans; s. 80.5 Deemed interest; s. 248(1), "motor vehicle".

Regulations: 102(2)(*d*); 1100(1)(*a*)(x), (x.1); Sch. II.

Interpretation Bulletins: *Primary* — IT-522R Vehicle, Travel and Sales Expenses of Employees. *Secondary* — IT-478R2 Capital Cost Allowance — Recapture and Terminal Loss; IT-525R (Consolid.) Performing Artists.

Guides: T4044 Employment Expenses — Supplementary Income Tax Guide.

Forms: T777; T2200.

Cases: Sections 8(1)(*j*) and 20(1)(*c*) do not provide a complete code dealing with interest deductibility. In circumstances where interest is not a payment on account of capital, it may be deducted as long as it meets the other requirements, such as those set out in s. 8(1)(*f*) or s. 18(1)(*a*), and is not

precluded by some other section of the Act. *Gifford v. The Queen et al.*, 2004 DTC 6120 (S.C.C.), affirming 2002 DTC 7197 (F.C.A.), reversing 2001 DTC 168 (T.C.C.).

► 8(1)(k) ◄

(k) Unemployment insurance premium — [Repealed by 1988, c. 55, s. 2(1).]

► 8(1)(l) ◄

(l) Canada Pension Plan contribution — [Repealed by 1988, c. 55, s. 2(1).]

► 8(1)(l.1) ◄

(l.1) C.P.P. contributions and U.I.A. [E.I.] premiums — any amount payable by the taxpayer in the year

(i) as an employer's premium under the *Employment Insurance Act*, or

(ii) as an employer's contribution under the *Canada Pension Plan* or under a provincial pension plan as defined in section 3 of the *Canada Pension Plan*,

in respect of salary, wages or other remuneration, including gratuities, paid to an individual employed by the taxpayer as an assistant or substitute to perform the duties of the taxpayer's office or employment if an amount is deductible by the taxpayer for the year under subparagraph (*i*)(ii) in respect of that individual;

History: S. 8(1)(*l.1*)(i) was amended by S.C. 1996, c. 23, s. 171, by replacing the term "Unemployment Insurance Act" with the term "Employment Insurance Act", effective June 30, 1996.

Related Sections: S. 60(*e*) CPP/QPP contributions on self-employed earnings; s. 118.7 Credit for EI premium and CPP contribution.
Interpretation Bulletins: *Secondary* — IT-352R2 Employee's expenses, including work space in home expenses.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 8(1) of the Act is amended by adding the following after paragraph (*l.1*):

(l.2) Quebec parental insurance plan — an amount payable by the taxpayer in the year as an employer's premium under the *Act respecting parental insurance*, R.S.Q., c. A-29.011 in respect of salary, wages or other remuneration, including gratuities, paid to an individual employed by the taxpayer as an assistant or substitute to perform the duties of the taxpayer's office or employment if an amount is deductible by the taxpayer for the year under subparagraph (*i*)(ii) in respect of that individual;

Applicable: To the 2006 and subsequent taxation years.

Explanatory Note:

Quebec Parental Insurance Plan Premium

New paragraph 8(1)(*l.2*) of the Act permits a taxpayer to deduct, in computing income for a taxation year, an amount paid by the taxpayer in the year as an employer's premium under the new Quebec Parental Insurance Plan in respect of salary, wages or other remuneration, including gratuities, paid to an individual employed by the taxpayer as an assistant or substitute to perform the duties of the taxpayer's office or employment if an amount is deductible by the taxpayer for the year under subparagraph 8(1)(*i*)(ii) in respect of that individual.

This amendment applies to the 2006 and subsequent taxation years and is consequential to the introduction of the new Quebec Parental Insurance Plan on January 1, 2006.

► 8(1)(m) ◄

(m) Employee's registered pension plan contributions — the amount in respect of contributions to registered pension plans that, by reason of subsection 147.2(4), is deductible in computing the taxpayer's income for the year;

Related Sections: S. 18(11) Borrowed money used for contribution; s. 20(1)(*q*) Employer's contributions to registered pension plan; s. 60(*j*) Transfer of superannuation benefits; s. 60(*j.01*) Transfer of surplus; s. 60(*j.02*) Payment to registered pension plan; s. 60(*j.03*) Repayments of pre-1990 pension benefits; s. 60(*j.04*) Repayments of post-1989 pension benefits; s. 60(*j.1*) Transfer of retiring allowances; s. 60.2 Refund of undeducted past service AVCs; s. 146(1), "earned income"; s. 147.1 Registered pension plans; s. 248(1), "additional voluntary contribution", "registered pension plan".
Regulations: 100(3)(*a*).
Interpretation Bulletins: *Primary* — IT-167R6 Registered pension plans — Employee's contributions.
Information Circulars: IC 72-13R8 Employees' pension plans.
Advance Tax Rulings: ATR-2 Contribution to pension plan for past service.
Tax Profile: October 2007 — Important Changes Announced to the Canada — U.S. Income Tax Convention.

► 8(1)(m.1) ◄

(m.1) Idem — [Repealed by 1990, c. 35, s. 2(2).]

Related Sections: S. 147.2(4) Amount of employee's pension contributions deductible.

► 8(1)(m.2) ◄

(m.2) Employee RCA contributions — an amount contributed by the taxpayer in the year to a pension plan in respect of services rendered by the taxpayer where the plan is a prescribed plan established by an enactment of Canada or a province or where

(i) the plan is a retirement compensation arrangement,

(ii) the amount was paid to a custodian (within the meaning assigned by the definition "retirement compensation arrangement" in subsection 248(1)) of the arrangement who is resident in Canada, and

(iii) either

(A) the taxpayer was required, by the terms of the taxpayer's office or employment, to contribute the amount, and the total of the amounts contributed to the plan in the year by the taxpayer does not exceed the total of the amounts contributed to the plan in the year by any other person in respect of the taxpayer, or

(B) the plan is a pension plan the registration of which under this Act was revoked (other than a plan the registration of which was revoked as of the effective date of its registration) and the amount was contributed in accordance with the terms of the plan as last registered;

(C) [Repealed by S.C. 1994, c. 21, s. 4(2).]

History: S. 8(1)(*m.2*), the portion preceding subparagraph (i), was amended by S.C. 1994, c. 21, s. 4(1), applicable to the 1992 and subsequent taxation years. The portion formerly read:

"(*m.2*) *Employee RCA contributions* — an amount contributed by the taxpayer in the year to a pension plan in respect of services rendered by the taxpayer where"

S. 8(1)(*m.2*)(iii)(C) was repealed by S.C. 1994, c. 21, s. 4(2), applicable to the 1992 and subsequent taxation years. S. 8(1)(*m.2*)(iii)(C) formerly read:

"(C) the plan is a prescribed plan or arrangement;"

S. 8(1)(*m.2*)(iii)(C) was added by S.C. 1994, c. 7, Sched. VIII, s. 2(1), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 18(11)(*e*) Borrowed money used for contribution; s. 20(1)(*r*) Employer's contributions under retirement compensation arrangement; s. 56(1)(*x*) Retirement compensation arrangement — employee recipient; s. 56(1)(*y*) Retirement compensation arrangement — proceeds of disposition; s. 56(1)(*z*) Retirement compensation arrangement — non-employee recipient; s. 60(*t*)(ii) RCA distributions; s. 60(*u*)(ii) RCA dispositions; s. 146(1), "earned income"; s. 207.6(6) Prescribed plan or arrangement; s. 207.6(7) Transfers; s. 248(1), "prescribed".
Regulations: 100(3)(*b.1*); 6802; 6802.1(1); 6803.

► 8(1)(n) ◄

(n) Salary reimbursement — an amount paid by or on behalf of the taxpayer in the year pursuant to an arrangement (other than an arrangement described in subparagraph (*b*)(ii) of the definition "top-up disability payment" in subsection 6(17)) under which the taxpayer is required to reimburse any amount paid to the taxpayer for a period throughout which the taxpayer did not perform the duties of the office or employment, to the extent that

(i) the amount so paid to the taxpayer for the period was included in computing the taxpayer's income from an office or employment, and

(ii) the total of amounts so reimbursed does not exceed the total of amounts received by the taxpayer for the period throughout which the taxpayer did not perform the duties of the office or employment;

History: S. 8(1)(*n*), the portion before subparagraph (i) was amended by S.C. 1998, c. 19, s. 69(2), applicable to arrangements entered into after August 10, 1994. S. 8(1)(*n*), the portion before subparagraph (i) formerly read:

"(*n*) *Salary reimbursement* — an amount paid by or on behalf of the taxpayer in the year pursuant to an arrangement under which the taxpayer is required to reimburse any amount paid to the taxpayer for a period throughout which the taxpayer did not perform the duties of the office or employment, to the extent that"

Related Sections: S. 5(1) Income from office or employment; s. 8(1)(*n.1*) Reimbursement of disability payments.
Interpretation Bulletins: *Secondary* — IT-202R2 Employees' or workers' compensation; IT-340R Scholarships, fellowships, bursaries, and research grants — Forgivable loans, repayable awards and repayable employment income.

► 8(1)(n.1) ◄

(n.1) Reimbursement of disability payments — where,

(i) as a consequence of the receipt of a payment (in this paragraph referred to as the "deferred payment") from an insurer, a payment (in this paragraph referred to as the "reimbursement payment") is made by or on behalf of an individual to an employer or former employer of the individual pursuant to an arrangement described in subparagraph (*b*)(ii) of the definition "top-up disability payment" in subsection 6(17), and

(ii) the reimbursement payment is made

(A) in the year, other than within the first 60 days of the year if the deferred payment was received in the immediately preceding taxation year, or

(B) within 60 days after the end of the year, if the deferred payment was received in the year,

an amount equal to the lesser of

(iii) the amount included under paragraph 6(1)(*f*) in respect of the deferred payment in computing the individual's income for any taxation year, and

(iv) the amount of the reimbursement payment;

History: S. 8(1)(*n.1*) was added by S.C. 1998, c. 19, s. 69(3), applicable to reimbursement payments made after August 10, 1994.

Related Sections: S. 6(18) Group disability benefits — insolvent insurer; s. 8(1)(*n*) Salary reimbursement.

► 8(1)(o) ◄

(o) Forfeited amounts — where at the end of the year the rights of any person to receive benefits under a salary deferral arrangement in respect of the taxpayer have been extinguished or no person has any further right to receive any amount under the arrangement, the amount, if any, by which the total of all deferred amounts under the arrangement included in computing the taxpayer's income for the year and preceding taxation years as benefits under paragraph 6(1)(*a*) exceeds the total of

(i) all such deferred amounts received by any person in that year or preceding taxation years out of or under the arrangement,

(ii) all such deferred amounts receivable by any person in subsequent taxation years out of or under the arrangement, and

(iii) all amounts deducted under this paragraph in computing the taxpayer's income for preceding taxation years in respect of deferred amounts under the arrangement;

Related Sections: S. 6(1)(*i*) Salary deferral arrangement payments; s. 6(14) Part of plan or arrangement; s. 12(1)(*n.2*) Forfeited salary deferral amounts; s. 248(1), "deferred amount", "salary deferral arrangement".

► 8(1)(o.1) ◄

(o.1) Idem — an amount that is deductible in computing the taxpayer's income for the year because of subsection 144(9);

History: S. 8(1)(*o.1*) was added by S.C. 1994, c. 21, s. 4(3), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 6(1)(*d*) Allocations, etc., under profit sharing plan.
Interpretation Bulletins: *Secondary* — IT-379R Employees Profit Sharing Plans — Allocations to Beneficiaries.

► 8(1)(p) ◄

(p) Musical instrument costs — where the taxpayer was employed in the year as a musician and as a term of the employment was required to provide a musical instrument for a period in the year, an amount (not exceeding the taxpayer's income for the year from the employment, computed without reference to this paragraph) equal to the total of

(i) amounts expended by the taxpayer before the end of the year for the maintenance, rental or insurance of the instrument for that period, except to the extent that the amounts are otherwise deducted in computing the taxpayer's income for any taxation year, and

(ii) such part, if any, of the capital cost to the taxpayer of the instrument as is allowed by regulation;

Related Sections: S. 6(8) GST rebates re costs of property or service; s. 8(1)(*q*) Artists' employment expenses; s. 13(7) Rules applicable; s. 13(11) Deduction in respect of property used in performance of duties; s. 80(9) Reductions of adjusted cost bases of capital properties.
Regulations: 1100(1)(*a*)(viii); Sch. II.
Interpretation Bulletins: *Secondary* — IT-478R2 Capital Cost Allowance — Recapture and Terminal Loss; IT-525R (Consolid.) Performing artists; IT-257R Canada Council grants.

► 8(1)(q) ◄

(q) Artists' employment expenses — where the taxpayer's income for the year from the office or employment includes income from an artistic activity

(i) that was the creation by the taxpayer of, but did not include the reproduction of, paintings, prints,

etchings, drawings, sculptures or similar works of art,

(ii) that was the composition by the taxpayer of a dramatic, musical or literary work,

(iii) that was the performance by the taxpayer of a dramatic or musical work as an actor, dancer, singer or musician, or

(iv) in respect of which the taxpayer was a member of a professional artists' association that is certified by the Minister of Canadian Heritage,

amounts paid by the taxpayer before the end of the year in respect of expenses incurred for the purpose of earning the income from those activities to the extent that they were not deductible in computing the taxpayer's income for a preceding taxation year, but not exceeding a single amount in respect of all such offices and employments of the taxpayer equal to the amount, if any, by which

(v) the lesser of $1,000 and 20% of the total of all amounts each of which is the taxpayer's income from an office or employment for the year, before deducting any amount under this section, that was income from an artistic activity described in any of subparagraphs (i) to (iv),

exceeds

(vi) the total of all amounts deducted by the taxpayer for the year under paragraph (*j*) or (*p*) in respect of costs or expenses incurred for the purpose of earning the income from such an activity for the year;

History: S. 8(1)(*q*)(iv) was amended by S.C. 1995, c. 11, s. 46, by changing the phrase "Minister of Communications" to "Minister of Canadian Heritage", effective July 12, 1996.

S. 8(1)(*q*) was added by S.C. 1994, c. 7, Sched. II, s. 5(6), applicable to amounts paid after 1990.

Interpretation Bulletins: *Primary* — IT-525R (Consolid.) Performing Artists. *Secondary* — IT-257R Canada Council grants; 504R2 Visual Artists and Writers.
Forms: T777.

► 8(1)(r) ◄

(r) Apprentice mechanics' tool costs — if the taxpayer was an eligible apprentice mechanic at any time after 2001 and before the end of the taxation year, the amount claimed by the taxpayer for the taxation year under this paragraph not exceeding the lesser of

(i) the taxpayer's income for the taxation year computed without reference to this paragraph, and

(ii) the amount determined by the formula

(A – B) + C

where

A is the total of all amounts each of which is the cost to the taxpayer of an eligible tool acquired in the taxation year by the taxpayer or, if the taxpayer first becomes employed as an eligible apprentice mechanic in the taxation year, the cost to the taxpayer of an eligible tool acquired by the taxpayer in the last three months of the preceding taxation year,

B is the lesser of

(A) the value of A for the taxation year in respect of the taxpayer, and

(B) the greater of

(I) the amount that is the total of $500 and the amount determined for the taxation year for B in subsection 118(10), and

(II) 5% of the total of

1. the total of all amounts each of which is the taxpayer's income from employment for the taxation year as an eligible apprentice mechanic, computed without reference to this paragraph, and

2. the amount, if any, by which the amount required by paragraph 56(1)(*n.1*) to be included in computing the taxpayer's income for the taxation year exceeds the amount required by paragraph 60(*p*) to be deducted in computing that income, and

C is the amount by which the amount determined under this subparagraph for the preceding taxation year in respect of the taxpayer exceeds the amount deducted under this paragraph for that preceding taxation year by the taxpayer; and

History: S. 8(1)(*r*)(ii), clause (B) of the description of B was replaced by S.C. 2007, c. 2, s. 2(1), applicable to the 2006 and subsequent taxation years except that, for the 2006 taxation year, subclause (B)(I) of the description of B in subparagraph 8(1)(*r*)(ii) is to be read as follows:

"(I) the amount that is the total of $1,000 and the amount, if any, deducted by the taxpayer for the taxation year under paragraph (1)(*s*), and"

S. 8(1)(*r*)(ii), clause (B) of the description of B formerly read:

"(B) the greater of $1,000 and 5% of the total of all amounts, each of which is the taxpayer's income from employment for the taxation year as an eligible apprentice mechanic, computed without reference to this paragraph, and"

S. 8(1)(*r*) was added by S.C. 2002, c. 9, s. 21(1), applicable to eligible tools acquired after 2001.

Related Sections: S. 6(8) GST rebates re costs of property or service; s. 8(1)(*s*) Deduction — tradesperson's tools; s. 8(6) Apprentice mechanics; s. 8(7) Cost of tool; s. 53(2)(*m*) Amounts to be deducted — Deductible cost of property; s. 56(1)(*k*) Certain tools of an employee, re proceeds; s. 85(5.1) Acquisition of certain tools — capital cost and deemed depreciation; s. 97(5) Acquisition of certain tools — capital cost and deemed depreciation.
Interpretation Bulletins: *Secondary* — IT-291R3 Transfer of property to a corporation under subsection 85(1).
Guides: T4044 Employment Expenses — Supplementary Income Tax Guide.

► 8(1)(s) ◄

(s) Deduction — tradesperson's tools — if the taxpayer is employed as a tradesperson at any time in the taxation year, the lesser of $500 and the amount determined by the formula

A – $1,000

where

A is the lesser of

(i) the total of all amounts each of which is the cost of an eligible tool acquired by the taxpayer in the year, and

(ii) the total of

(A) the amount that would, if this subsection were read without reference to this paragraph, be the taxpayer's income for the taxation year from employment as a tradesperson in the taxation year, and

(B) the amount, if any, by which the amount required by paragraph 56(1)(*n.1*) to be

included in computing the taxpayer's income for the taxation year exceeds the amount required by paragraph 60(*p*) to be deducted in computing that income.

CRA Press Release
2.5% Indexation Factor for 2009

See CRA Fact Sheet, dated December 8, 2008, that is reproduced following subsection 117.1(1). This release announces a 2.5% indexation factor applicable for 2009 tax bracket thresholds, personal amounts and other amounts relating to non-refundable credits, as well as the refundable medical expense supplement and Old Age Security repayment threshold. Increases to the Canada Child Tax Benefit (including the National Child Benefit supplement and the Child Disability Benefit) and the Goods and Services Tax Credit will take effect as of July 1, 2009.

History: S. 8(1)(*s*) was added by S.C. 2007, c. 2, s. 2(2), applicable to the 2006 and subsequent taxation years.

Related Sections: S. 8(6.1) Eligible tool of tradesperson; s. 8(7) Cost of tool.
Guides: T4044 Employment Expenses — Supplementary Income Tax Guide.

► 8(2) ◄

(2) General limitation. Except as permitted by this section, no deductions shall be made in computing a taxpayer's income for a taxation year from an office or employment.

Interpretation Bulletins: *Secondary* — IT-377R Director's, executor's and juror's fees [Archived by the CRA]; IT-352R2 Employee's expenses, including work space in home expenses.
Tax Window Files: Reimbursement of Moving Expenses, October 25, 2004, CRA Document No. 2004-0080871E5 [No deduction for individual required to repay reimbursed relocation expenses to his former employer]; Repayment of Stock Option Benefit, April 11, 2001, CRA Document No. 2001-0073225 [No deduction allowed for employee required to repay amount of taxable employee stock option benefit].

► 8(3) ◄

(3) Limitation re employment expense deduction. [Repealed by 1988, c. 55, s. 2(3).]

Related Sections: S. 81(4) Payments for volunteer services.

► 8(4) ◄

(4) Meals. An amount expended in respect of a meal consumed by a taxpayer who is an officer or employee shall not be included in computing the amount of a deduction under paragraph (1)(*f*) or (*h*) unless the meal was consumed during a period while the taxpayer was required by the taxpayer's duties to be away, for a period of not less than twelve hours, from the municipality where the employer's establishment to which the taxpayer ordinarily reported for work was located and away from the metropolitan area, if there is one, where it was located.

Related Sections: S. 67.1(1) Expenses for food, etc.
Interpretation Bulletins: *Secondary* — IT-522R Vehicle, Travel and Sales Expenses of Employees.
Information Circulars: IC 73-21R9 Claims for Meals and Lodging Expenses of Transport Employees.
Forms: T777; TD1X.

► 8(5) ◄

(5) Dues not deductible. Notwithstanding subparagraphs (1)(*i*)(i), (iv), (vi) and (vii), dues are not deductible under those subparagraphs in computing a taxpayer's income from an office or employment to the extent that they are, in effect, levied

(*a*) for or under a superannuation fund or plan;

(*b*) for or under a fund or plan for annuities, insurance (other than professional or malpractice liability insurance that is necessary to maintain a professional status recognized by statute) or similar benefits; or

(*c*) for any other purpose not directly related to the ordinary operating expenses of the committee or similar body, association, board or trade union, as the case may be.

History: S. 8(5), the portion before paragraph (*a*) was amended by S.C. 1998, c. 19, s. 69(4), applicable to the 1996 and subsequent taxation years. S. 8(5), the portion before paragraph (*a*) formerly read:

"(5) *Dues not deductible.* Notwithstanding subparagraphs (1)(*i*)(i), (iv) and (vi), dues are not deductible under those subparagraphs in computing a taxpayer's income from an office or employment to the extent that they are, in effect, levied"

S. 8(5)(*c*) was amended by S.C. 1998, c. 19, s. 69(5), applicable to the 1996 and subsequent taxation years. S. 8(5)(*c*) formerly read:

"(*c*) for any other purpose not directly related to the ordinary operating expenses of the committee or similar body, association or trade union to which they were paid."

Interpretation Bulletins: *Secondary* — IT-103R Dues paid to a union or to a parity or advisory committee; IT-158R2 Employees' professional membership dues.

► 8(6) ◄

(6) Apprentice mechanics. For the purpose of paragraph (1)(*r*),

(*a*) a taxpayer is an eligible apprentice mechanic in a taxation year if, at any time in the taxation year, the taxpayer

(i) is registered in a program established in accordance with the laws of Canada or of a province that leads to designation under those laws as a mechanic licensed to repair self-propelled motorized vehicles, and

(ii) is employed as an apprentice mechanic;

(*b*) an eligible tool is a tool (including ancillary equipment) that

(i) is acquired by a taxpayer for use in connection with the taxpayer's employment as an eligible apprentice mechanic,

(ii) has not been used for any purpose before it is acquired by the taxpayer,

(iii) is certified in prescribed form by the taxpayer's employer to be required to be provided by the taxpayer as a condition of, and for use in, the taxpayer's employment as an eligible apprentice mechanic; and

(iv) is, unless the device or equipment can be used only for the purpose of measuring, locating or calculating, not an electronic communication device or electronic data processing equipment; and

(*c*) a taxpayer who, for a taxation year, is not an eligible apprentice mechanic and has an excess amount determined under the description of C in subparagraph (1)(*r*)(ii) is, for the taxation year, entitled to claim a deduction under that paragraph as if that excess amount were wholly applicable to an employment of the taxpayer.

History: S. 8(6)(*a*)(i) was replaced by S.C. 2007, c. 2, s. 2(3), applicable to property acquired on or after May 2, 2006. S. 8(6)(*a*)(i) formerly read:

"(i) is registered in a program established in accordance with the laws of a province that leads to designation under those laws as a mechanic licensed to repair self-propelled motorized vehicles, and"

S. 8(6)(*b*)(iv) was added by S.C. 2007, c. 2, s. 2(4), applicable to property acquired on or after May 2, 2006.

S. 8(6) was added by S.C. 2002, c. 9, s. 21(2), applicable to eligible tools acquired after 2001. S. 8(6) was previously repealed by the former Act.

Advance Tax Rulings: ATR-2 Contribution to pension plan for past service.
Forms: T2200.

► 8(6.1) ◄

(6.1) Eligible tool of tradesperson. For the purposes of paragraph (1)(*s*), an eligible tool of a taxpayer is a tool (including ancillary equipment) that

(*a*) is acquired by the taxpayer on or after May 2, 2006 for use in connection with the taxpayer's employment as a tradesperson;

(*b*) has not been used for any purpose before it is acquired by the taxpayer;

(*c*) is certified in prescribed form by the taxpayer's employer to be required to be provided by the taxpayer as a condition of, and for use in, the taxpayer's employment as a tradesperson; and

(*d*) is, unless the device or equipment can be used only for the purpose of measuring, locating or calculating, not an electronic communication device or electronic data processing equipment.

History: S. 8(6.1) was added by S.C. 2007, c. 2, s. 2(5), applicable to the 2006 and subsequent taxation years.

Forms: T2200.
Guides: T4044 Employment Expenses — Supplementary Income Tax Guide.

► 8(7) ◄

(7) Cost of tool. Except for the purposes of the description of A in subparagraph (1)(*r*)(ii) and the description of A in paragraph (1)(*s*), the cost to a taxpayer of an eligible tool the cost of which was included in determining the value of one or both of those descriptions in respect of the taxpayer for a taxation year is the amount determined by the formula

$$K - (K \times L/M)$$

where

K is the cost to the taxpayer of the tool determined without reference to this subsection;

L is

(*a*) if the tool is a tool to which only paragraph (1)(*r*) applies in the taxation year, the amount that would be determined under subparagraph (1)(*r*)(ii) in respect of the taxpayer for the taxation year if the value of C in that subparagraph were nil,

(*b*) if the tool is a tool to which only paragraph (1)(*s*) applies in the taxation year, the amount determined under that paragraph to be deductible by the taxpayer in the taxation year, or

(*c*) if the tool is a tool to which both paragraphs (1)(*r*) and (*s*) apply in the taxation year, the amount that is the total of

(i) the amount that would be determined under subparagraph (1)(*r*)(ii) in respect of the taxpayer for the taxation year if the value of C in that subparagraph were nil, and

(ii) the amount determined under paragraph (1)(*s*) to be deductible by the taxpayer in the taxation year; and

M is the amount that is

(*a*) if the tool is a tool to which only paragraph (1)(*r*) applies in the taxation year, the value of A determined under subparagraph (1)(*r*)(ii) in respect of the taxpayer for the taxation year,

(*b*) if the tool is a tool to which only paragraph (1)(*s*) applies in the taxation year, the amount determined under subparagraph (i) of the description of A in paragraph (1)(*s*) in respect of the taxpayer for the taxation year, and

(*c*) if the tool is a tool to which both paragraphs (1)(*r*) and (*s*) apply in the taxation year, the amount that is the greater of the value of A determined under subparagraph (1)(*r*)(ii) in respect of the taxpayer for the taxation year and the amount determined under subparagraph (i) of the description of A in paragraph (1)(*s*) in respect of the taxpayer for the taxation year.

History: S. 8(7) was replaced by S.C. 2007, c. 2, s. 2(5), applicable to the 2006 and subsequent taxation years. S. 8(7) formerly read:

"(7) *Cost of tools of an apprentice mechanic.* Except for the purpose of the description of A in subparagraph (1)(*r*)(ii), the cost to a taxpayer of an eligible tool the cost of which was included in determining the value of that description in respect of the taxpayer for a taxation year is the amount determined by the formula

$$K - (K \times L/M)$$

where

K is the cost to the taxpayer of the tool determined without reference to this subsection;

L is the amount that would be determined under subparagraph (1)(*r*)(ii) in respect of the taxpayer for the taxation year if the value of C in that subparagraph were nil; and

M is the value of A determined under subparagraph (1)(*r*)(ii) in respect of the taxpayer for the taxation year."

S. 8(7) was added by S.C. 2002, c. 9, s. 21(2), applicable to eligible tools acquired after 2001. S. 8(7) was previously repealed by the former Act.

Related Sections: S. 85(5.1) Acquisition of certain tools — capital cost and deemed depreciation; s. 97(5) Acquisition of certain tools — capital cost and deemed depreciation.
Interpretation Bulletins: *Secondary* — IT-291R3 Transfer of property to a corporation under subsection 85(1).

► 8(8) ◄

(8) Employees' contributions to pension fund for arrears. [Repealed by 1990, c. 35, s. 2(6).]

Related Sections: S. 147.2(4) Amount of employee's pension contributions deductible.

► 8(9) ◄

(9) Presumption. Notwithstanding any other provision of this Act, the total of all amounts that would otherwise be deductible by a taxpayer pursuant to paragraph (1)(*f*), (*h*) or (*j*) for travelling in the course of the taxpayer's employment in an aircraft that is owned or rented by the taxpayer, may not exceed an amount that is reasonable in the circumstances having regard to the relative cost and availability of other modes of transportation.

Related Sections: S. 67 General limitation re expenses.
Interpretation Bulletins: *Secondary* — IT-522R Vehicle, Travel and Sales Expenses of Employees.

► 8(10) ◄

(10) Certificate of employer. An amount otherwise deductible for a taxation year under paragraph (1)(*c*), (*f*), (*h*) or (*h.1*) or subparagraph (1)(*i*)(ii) or (iii) by a taxpayer shall not be deducted unless a prescribed form, signed by the taxpayer's employer certifying that the conditions set out in the applicable provision were met in the year in respect of the taxpayer, is filed with the taxpayer's return of income for the year.

History: S. 8(10) was amended by S.C. 2001, c. 17, s. 3(3), applicable to the 1998 and subsequent taxation years except that in its application to the 1998 to 2000 taxation years the reference to "paragraph (1)(*c*), (*f*)" in subsection 8(10) shall be read as a reference to "paragraph (1)(*f*)". S. 8(10) formerly read:

"(10) *Certificate of employer.* An amount otherwise deductible for a taxation year under paragraph (1)(*a*), (*f*), (*h*) or (*h.1*) or subparagraph (1)(*i*)(ii) or (iii) by a taxpayer shall not be deducted unless a prescribed form signed by the taxpayer's employer certifying that the conditions set out in that paragraph or subparagraph, as the case may be, were met in the year in respect of the taxpayer is filed with the taxpayer's return of income for the year."

S. 8(10) was amended by S.C. 1999, c. 22, s. 4(2), applicable to the 1998 and subsequent taxation years. S. 8(10) formerly read:

"(10) *Certificate of employer.* An amount otherwise deductible for a taxation year under paragraph (1)(*f*), (*h*) or (*h*.1) or subparagraph (1)(*i*)(ii) or (iii) by a taxpayer shall not be deducted unless a prescribed form signed by the taxpayer's employer certifying that the conditions set out in that provision were met in the year in respect of the taxpayer is filed with the taxpayer's return of income for the year under this Part."

S. 8(10) was amended by S.C. 1994, c. 7, Sched. II, s. 5(7), applicable to the 1988 and subsequent taxation years. S. 8(10) formerly read:

"(10) *Certificate.* An amount otherwise deductible for a taxation year under paragraph (1)(*f*) or (*h*) or subparagraph (1)(*i*)(ii) or (iii) by a taxpayer shall not be deducted unless the taxpayer files with the taxpayer's return of income for the year a prescribed form signed by the taxpayer's employer certifying that the conditions set out in that provision were met in the year in respect of the taxpayer."

Interpretation Bulletins: *Secondary* — IT-352R2 Employee's expenses, including work space in home expenses; IT-522R Vehicle, Travel and Sales Expenses of Employees.
Information Circulars: IC 73-21R9 Claims for Meals and Lodging Expenses of Transport Employees; IC 74-6R2 Power saw expenses.
Forms: T2200.
Tax Window Files: Employment Expenses — Work Space In Home, May 26, 2005, CRA Document No. 2005-0124821E5 [General guidelines as to when an employer should issue Form T2200 to an employee].

► 8(11) ◄

(11) Goods and services tax. For the purposes of this section and section 6, the amount of any rebate paid or payable to a taxpayer under the *Excise Tax Act* in respect of the goods and services tax shall be deemed not to be an amount that is reimbursed to the taxpayer or to which the taxpayer is entitled.

Related Sections: S. 6(7) Cost of property or service; s. 6(8) GST rebates re costs of property or service; s. 248(17) Application of s. (16) to passenger vehicles and aircraft; s. (18) Goods and services tax — repayment of input tax credit.

► 8(12) ◄

(12) Forfeiture of securities by employee. If, in a taxation year,

(*a*) an employee is deemed by subsection 7(2) to have disposed of a security (as defined in subsection 7(7)) held by a trust,

(*b*) the trust disposed of the security to the person that issued the security,

(*c*) the disposition occurred as a result of the employee not meeting the conditions necessary for title to the security to vest in the employee, and

(*d*) the amount paid by the person to acquire the security from the trust or to redeem or cancel the security did not exceed the amount paid to the person for the security,

the following rules apply:

(*e*) there may be deducted in computing the employee's income for the year from employment the amount, if any, by which

(i) the amount of the benefit deemed by subsection 7(1) to have been received by the employee in the year or a preceding taxation year in respect of the security

exceeds

(ii) any amount deducted under paragraph 110(1)(*d*) or (*d*.1) in computing the employee's taxable income for the year or a preceding taxation year in respect of that benefit, and

(*f*) notwithstanding any other provision of this Act, the employee's gain or loss from the disposition of the security is deemed to be nil and section 84 does not apply to deem a dividend to have been received in respect of the disposition.

History: S. 8(12) was amended by S.C. 1999, c. 22, s. 4(3), applicable to the 1998 and subsequent taxation years. S. 8(12) formerly read:

"(12) *Return of employee shares by trustee.* Where, in a taxation year,

(*a*) an employee is deemed by subsection 7(2) to have disposed of a share held by a trust,

(*b*) the trust disposed of the share to the corporation that issued the share,

(*c*) the disposition occurred as a result of the employee not meeting the conditions necessary for title to the share to vest in the employee, and

(*d*) the amount paid by the corporation to acquire the share from the trust or to redeem or cancel the share did not exceed the amount paid to the corporation for the share,

the following rules apply:

(*e*) there may be deducted in computing the employee's income for the year from employment the amount, if any, by which

(i) the amount of the benefit deemed by subsection 7(1) to have been received by the employee in the year or a preceding taxation year in respect of the share

exceeds

(ii) any amount deducted under paragraph 110(1)(*d*) or (*d*.1) in computing the employee's taxable income for the year or a preceding taxation year in respect of that benefit, and

(*f*) notwithstanding any other provision of this Act, any gain or loss of the employee otherwise determined from the disposition of the share shall be deemed to be nil and section 84 does not apply to deem a dividend to have been received in respect of the disposition."

S. 8(12) was added by S.C. 1994, c. 7, Sched. II, s. 5(8), applicable to the 1988 and subsequent taxation years.

Forms: T777.

► 8(13) ◄

(13) Work space in home. Notwithstanding paragraphs (1)(*f*) and (*i*),

(*a*) no amount is deductible in computing an individual's income for a taxation year from an office or employment in respect of any part (in this subsection referred to as the "work space") of a self-contained domestic establishment in which the individual resides, except to the extent that the work space is either

(i) the place where the individual principally performs the duties of the office or employment, or

(ii) used exclusively during the period in respect of which the amount relates for the purpose of earning income from the office or employment and used on a regular and continuous basis for meeting customers or other persons in the ordinary course of performing the duties of the office or employment;

(*b*) where the conditions set out in subparagraph (*a*)(i) or (ii) are met, the amount in respect of the work space that is deductible in computing the individual's income for the year from the office or employment shall not exceed the individual's income for the year from the office or employment, computed without reference to any deduction in respect of the work space; and

(*c*) any amount in respect of a work space that was, solely because of paragraph (*b*), not deductible in computing the individual's income for the immediately preceding taxation year from the office or employment shall be deemed to be an amount in respect of a work space that is otherwise deductible in computing the individual's income for the year from that office or employment and that, subject to paragraph (*b*), may be deducted in computing the individual's income for the year from the office or employment.

History: S. 8(13) was added by S.C. 1994, c. 7, Sched. II, s. 5(8), applicable to the 1991 and subsequent taxation years.

Editorial Note: A deduction for home office expenses is limited to the taxpayer's employment income (before the expenses). Any excess expenses can be carried forward and deducted in the following year, subject to the

same limitation. Non-commissioned and commissioned employees can deduct a portion of rent (subparagraph 8(1)(*i*)(ii)). Commissioned employees can deduct a portion of property taxes and house insurance (paragraph 8(1)(*f*)). Neither can deduct capital cost allowance in respect of the house or mortgage interest.

Related Sections: S. 248(1), "self-contained domestic establishment".
Interpretation Bulletins: *Secondary* — IT-352R2 Employee's expenses, including work space in home expenses.
Forms: T2200.

Guides: T4044 Employment Expenses — Supplementary Income Tax Guide.

Canadian Tax Foundation: Roy, "Taxing the Virtual Office", *1996 Conference Report*, Vol. 1, 31:1.

Tax Window Files: Employment Expenses — Work Space In Home, May 26, 2005, CRA Document No. 2005-0124821E5 [General guidelines as to when an employer should issue Form T2200 to an employee]; Home Office Expenses, January 21, 2000, CRA Document No. 1999-0005332 [CRA comments on "regular and continuous" requirement in subsection 8(13)].

Subdivision b — Income or Loss from a Business or Property

Basic Rules

SECTION 9:

► 9(1) ◄

(1) Income. Subject to this Part, a taxpayer's income for a taxation year from a business or property is the taxpayer's profit from that business or property for the year.

Editorial Note: The computation of profit is subject to six "guiding principles" set out by the Supreme Court of Canada in the *Canderel* (98 DTC 6100 (S.C.C.), reversing 95 DTC 5101 (F.C.A.)) and *Toronto College Park* (98 DTC 6088 (S.C.C.), reversing 96 DTC 6407 (F.C.A.)) decisions (see "Cases" below). According to these principles, a taxpayer is "free to adopt any method which is not inconsistent with" the provisions of the Act, legal principles and well-accepted business principles, although the method must also provide an accurate picture of the taxpayer's income position. However, since well-accepted business principles are interpretive aids only, and not rules of law, it appears that a method of computing profit which is consistent with the provisions of the Act and the legal principles will suffice, assuming that it provides an accurate picture of income (see, for example, the *Urbandale Realty* (2000 DTC 6118 (F.C.A.), reversing 97 DTC 5353 (F.C.T.D.) and 93 DTC 154 (T.C.C.)) decision under "Cases" below).

Related Sections: S. 10 Valuation of inventory; s. 11 Proprietor of business; s. 12(1) Income inclusions; s. 12(2) Interpretation; s. 18(1)(a) General limitation; s. 18(1)(b) Capital outlay or loss; s. 20(1) Deductions permitted in computing income from business or property; s. 34 Professional business; s. 248(1), "business", "property"; s. 249 Definition of "taxation year".

Interpretation Bulletins: *Primary* — IT-92R2 Income of contractors; IT-95R Foreign exchange gains and losses; IT-129R Lawyers' trust accounts and disbursements; IT-182 Compensation for loss of business income, or of property used in a business; IT-200 Surface rentals and farming operations; IT-218R Profit, capital gains and losses from the sale of real estate, including farmland and inherited land and conversion of real estate from capital property to inventory and vice versa; IT-261R Prepayments of rents; IT-314 Income of dealers in oil and gas leases [Archived by the CRA]; IT-346R Commodity futures and certain commodities; IT-359R2 Premiums and other amounts with respect to leases; IT-373R2 (Consolid.) Woodlots; IT-417R2 Prepaid expenses and deferred charges; IT-423 Sale of sand, gravel or topsoil [Archived by the CRA] IT-425 Miscellaneous farm income; IT-454 Business transactions prior to incorporation; IT-461 Forfeited deposits [Archived by the CRA]; IT-493 Agency cooperative corporations [Archived by the CRA]; IT-504R2 (Consolid.) Visual artists and writers. *Secondary* — IT-75R4 Scholarships, Fellowships, Bursaries, Prizes, Research Grants and Financial Assistance; IT-99R5 (Consolid.) Legal and accounting fees; IT-223 Overhead expense insurance vs. income insurance [Archived by the CRA]; IT-293R Debtor's gain on settlement of debt; IT-403R Options on real estate; IT-434R Rental of real property by individual; IT-444R Corporations — Involuntary Dissolutions; IT-479R Transactions in securities; IT-490 Barter transactions; IT-533 Interest Deductibility and Related Issues.

Advance Tax Rulings: ATR-4 Exchange of interest rates; ATR-15 Employee stock option plan; ATR-20 Redemption premium on debentures; ATR-23 Private health services plan; ATR-62 Mutual fund distribution limited partnership — Amortization of selling commissions.

Income Tax Technical News: Issue No. 38, Criteria for Determining Hedge Effectiveness for Tax Purposes; Issue No. 32, Reserve for Prepaid Amount: Impact of the *Ellis Vision* case; Issue No. 30, Prepaid Income — Whether Subsection 9(1) or Paragraph 12(1)(*a*) Applies?; Issue No. 25, Reasonable Expectation of Profit; Issue No. 18, Cudd Pressure Control Inc. v. The Queen; Issue No. 16, Court decisions.

Forms: T776; T2032; T2042; T2121; T2124.

Guides: RC4110 Employee or Self-employed?; P134 Using Your Home for Day Care; RC4015 Reconciliation of Business Income for Tax Purposes; T4002 Business and Professional Income; T4003 Farming Income; T4004 Fishing Income.

Tax Topics: No. 1928, Potential Conflict? Sections 9 and 10 of the *Income Tax Act*; No. 1872, Lease Cancellation Payment Received by Landlord; No. 1838, Conversion of Vacant Land from Capital Property to Inventory; No. 1805, The Matching Principle: RIP; No. 1791, Budget Proposals Regarding Functional Currency Tax Reporting; No. 1745, Characterizing Convertible Hedges: Round Holes Cannot Fit Into Square Pegs; No. 1578, After REOP, Where Do We GAAR From Here?; No. 1506, Supreme Court to Rule on the "reasonable expectation of profit" and Related Issues; No. 1471, Is GAAP Relevant in Determining the Characterization of an Expense for Income Tax Purposes?.

Tax Profile: February 2005 — The Canadian Treatment of Derivatives.

Canadian Tax Foundation: Sibson, "Reasonable Expectation of Profit — A Return to Sanity?", *2002 Conference Report*, 6:1; Laiken and Laiken, "Working With the Source Test: The Supreme Court's Replacement for the Reasonable Expectation of Profit Test", *2002 Canadian Tax Journal*, No. 3, 1147; Arnold and Darmo, "The Attribution of Profits to Permanent Establishments", *2001 Canadian Tax Journal*, No. 3, 525; Walker, "Timing and Recognition of Income", *2001 Annual Conference*, 29:1; Weinstein, "Damages, Fines And Penalties - An Update", *2000 Conference Report*, 7:1; Carr, "Current Receipts and Expenses after Canderel, Toronto College Park, and Ikea", *1998 Canadian Tax Journal*, No. 5, 953; Frankovic, "The Matching of 'Current' Expense Under Canada's Income Tax Laws", *1998 Canadian Tax Journal*, No. 1, 1; Beam and Laiken, "Adventure or Concern in the Nature of Trade: 'Badges of Trade' As the Key Indicator of Taxpayer Intention", *1996 Canadian Tax Journal*, No. 3, 888.

Cases: The taxpayers participated extensively in sports lotteries using a methodology that increased their potential payout and risk significantly. Although they lost 95% of the time, they had net winnings of $5,523,088. However, they were not professional gamblers who had a system to assess and minimize risks. The winnings were not business income but tax-exempt capital gains. *Leblanc et al. v. The Queen*, 2007 DTC 307 (T.C.C.).

A storage park operation carried on by a limited partnership constituted a source of income. Since it was commercial in nature, with no evidence of any personal element, the REOP test did not arise. Although the taxpayers were clearly motivated by tax considerations when purchasing their partnership interests, this does not detract from the commercial nature of the operation or its characterization as a source of income. *The Queen v. Walls et al.*, 2002 DTC 6960 (S.C.C.), affirming 2000 DTC 6025 (F.C.A.), reversing 96 DTC 6142 (F.C.T.D.).

A two-stage approach is required in determining whether a taxpayer's activities constitute a source of income. First, has the activity been undertaken in pursuit of profit, or is it a personal endeavour? Secondly, if not personal, is the source of income a business or property? If there is a personal element, it will only be considered as a source of income if undertaken in a sufficiently commercial manner. REOP is only one of several considerations to be taken into account at this stage. *Stewart v. The Queen*, 2002 DTC 6969 (S.C.C.), reversing 2000 DTC 6163 (F.C.A.) and 98 DTC 1600 (T.C.C.).

Considering that the required approval of the taxpayer's invoices for progress payments had been given by its subcontractor prior to June 30, 1991, the holdbacks were receivable in 1991 and, as such, had to be included in income for that year. *Supreme Steel Limited v. The Queen*, 2001 DTC 5121 (F.C.A.), affirming 96 DTC 1430 (T.C.C.).

A land developer was entitled to deduct a $2.9 million regional development charge in the year it was paid, even though none of the lands affected by the charge were sold by the taxpayer during that year. *Urbandale Realty Corporation Limited v. The Queen*, 2000 DTC 6118 (F.C.A.), reversing 97 DTC 5353 (F.C.T.D.) and 93 DTC 154 (T.C.C.).

An over-quota levy in relation to the excess production of eggs was deductible since it was incurred as part of the taxpayer's day-to-day operations and was incurred for the purposes of earning income. The characterization of the levy as a "fine or penalty" was of no consequence. *65302 British Columbia Limited v. The Queen*, 99 DTC 5814 (S.C.C.), reversing 98 DTC 6002 (F.C.A.), which reversed 96 DTC 2049 (T.C.C.).

The corporate taxpayer had a "participation clause" in its lease, entitling it to a percentage of the lessor's annual net profits. In 1989, the taxpayer accepted a payment from its lessor to "buy-out" and cancel the participation clause. The "buy-out" payment was a capital receipt rather than income. *The T. Eaton Company Limited v. The Queen*, 99 DTC 5178 (F.C.A.), reversing 96 DTC 1846 (T.C.C.).

The annual profit or loss of a business may be determined by any method that produces an accurate picture of the financial result of the operation of the business, and is consistent with the Act, established case law, and well accepted business principles. Well accepted business principles are not limited to GAAP and are not rules of law, but merely interpretive aids to be applied on a case-by-case basis. *Toronto College Park v. The Queen*, 98 DTC 6088 (S.C.C.), reversing 96 DTC 6407 (F.C.A.). *Canderel Limited v. The Queen*, 98 DTC 6100 (S.C.C.), reversing 95 DTC 5101 (F.C.A.).

The measure of damages paid to the taxpayer had been determined by reference to the present value of the income lost as a result of the reduced management fees brought about by its solicitor's errors. Considering that the taxpayer did not lose its capital asset inasmuch as he continued to provide management services and its solicitor's errors did not cripple its profit-making structure, the amounts received as damages were income. *Prince Rupert Hotel (1957) Ltd v. The Queen*, 95 DTC 5227 (F.C.A.), affirming 93 DTC 5243 (F.C.T.D.).

In reporting his income from his trading in gold futures, the taxpayer had used the "lowest cost of market" method. Although this method had led to substantial deferrals of income, there was nothing "artificial" involved since the taxpayer had reported his losses when they were incurred and his gains when they were realized. The "market to market" method was inappropriate to describe income since it involved recognizing all unrealized losses and gains. *The Queen v. Friedberg*, 93 DTC 5507 (S.C.C.), affirming 92 DTC 6031 (F.C.A.), reversing in part 89 DTC 5115 (F.C.T.D.).

Amounts earned but not billed were included in the taxpayer's income where the taxpayer had a clear legal right to payment for any electricity delivered and in any amount reasonably estimated. *West Kootenay Power and Light Limited v. The Queen*, 92 DTC 6023 (F.C.A.), affirming 91 DTC 5214 (F.C.T.D.).

► 9(2) ◄

(2) Loss. Subject to section 31, a taxpayer's loss for a taxation year from a business or property is the amount of the taxpayer's loss, if any, for the taxation year from that source computed by applying the provisions of this Act respecting computation of income from that source with such modifications as the circumstances require.

Related Sections: See subsection 9(1).
Guides: RC4015 Reconciliation of Business Income for Tax Purposes; T4002 Business and Professional Income.

► 9(3) ◄

(3) Gains and losses not included. In this Act, "income from a property" does not include any capital gain from the disposition of that property and "loss from a property" does not include any capital loss from the disposition of that property.

Pending Amendment

Interest Deductibility — October 31, 2003

Subsection 9(3) of the Act is replaced by the following:

(3) Gains and losses not included. In this Act, income or loss from a business or property does not include any capital gain or capital loss.

Applicable: To taxation years that begin after 2004.

Explanatory Note: Subsection 9(3) of the Act provides that "income from a property" and "loss from a property" do not include, respectively, any capital gain from the disposition of that property or any capital loss from the disposition of that property.

Subsection 9(3) is amended to clarify that income or loss from a business does not include any capital gains or losses. Income and capital gain (and loss and capital loss) have always been viewed as two different items for tax purposes; therefore, this amendment simply makes clear what was always the case under the law.

[**Editorial Note:** This amendment is part of the amendments released October 31, 2003 concerning the deductibility of interest and other expenses. Please refer to the notes accompanying proposed section 3.1.]

Related Sections: S. 39(1) Meaning of capital gain and capital loss.

SECTION 10:

► 10(1) ◄

(1) Valuation of inventory. For the purpose of computing a taxpayer's income for a taxation year from a business that is not an adventure or concern in the nature of trade, property described in an inventory shall be valued at the end of the year at the cost at which the taxpayer acquired the property or its fair market value at the end of the year, whichever is lower, or in a prescribed manner.

History: S. 10(1) was amended by S.C. 1998, c. 19, s. 70(1), applicable
(*a*) to taxation years that end after December 20, 1995;
(*b*) in respect of a business that is an adventure or concern in the nature of trade, to taxation years of a taxpayer that end before December 21, 1995, except where
(i) the taxpayer's filing-due date for the year is after December 20, 1995, or
(ii) the taxpayer has valued the inventory of the business for the purpose of computing income for the year from the business at an amount that is less than the cost at which the taxpayer acquired the property, which valuation is reflected in a return of income, notice of objection or notice of appeal filed or served under the Act before December 21, 1995; and
(*c*) in respect of a business that is an adventure or concern in the nature of trade, to fiscal periods of a partnership that end before December 21, 1995, except where
(i) the filing-due dates of all of the members of the partnership for their taxation years that include the end of the fiscal period are after December 20, 1995, or
(ii) the partnership has valued the inventory of the business for the purpose of computing income for the fiscal period from the business at an amount that is less than the cost at which the partnership acquired the property, which valuation is reflected in a return of income, notice of objection or notice of appeal filed or served under the Act before December 21, 1995 by any member of the partnership.

S. 10(1) formerly read:

"(1) *Valuation of inventory.* For the purpose of computing income from a business, inventory shall be valued at its cost to the taxpayer or its fair market value, whichever is lower, or in such other manner as may be permitted by regulation."

Editorial Note: Since the cost of inventory for purposes of subsection 10(1) means its acquisition cost, under the lower of cost or fair market value method, any write-down in the value of inventory must be written "back up" if the value subsequently increases, but only to the acquisition cost. Regulation 1801 allows all inventories of a business to be valued at fair market value; see regulation 1802 for rules regarding the valuation of animals.

Related Sections: S. 18(2) Limit on certain interest and property tax; s. 23 Sale of inventory; s. 28(1.2) Valuation of inventory; s. 85(1)(*c*.1) Transfer of property to corporation by shareholders; s. 87(2)(*b*) Inventory; s. 112(4.1) Fair market value of shares held as inventory; s. 248(1), "business", "fiscal period", "inventory"; s. 249.1 Definition of "fiscal period".
Regulations: Part XVIII.
Interpretation Bulletins: *Primary* — IT-473R Inventory valuation. *Secondary* — IT-51R2 Supplies on hand at the end of a fiscal period; IT-98R2 Investment corporations [Archived by the CRA]; IT-142R3 Settlement of debts on the winding-up of a corporation; IT-153R3 Land developers — Subdivision and development costs and carrying charges on land; IT-165R Returnable containers; IT-189R2 Corporations used by practising members of professions; IT-283R2 Capital cost allowance — Video tapes, videotape cassettes, films, computer software and master recording media [Archived by the CRA]; IT-452 Utility service connections [Archived by the CRA]; IT-474R2 Amalgamations of Canadian corporations; IT-482R Pipelines; IT-504R2 (Consolid.) Visual artists and writers.
Forms: T2034.
Tax Profile: February 2005 — The Canadian Treatment of Derivatives.
Tax Window Files: Land Development Costs, October 27, 2005, CRA Document No. 2005-0152891E5; Amalgamation — Valuation of Inventory, May 1, 2000, CRA Document No. 1999-0010677 [No legal requirement for an amalgamated corporation to value its closing inventory on the same basis as the closing inventory of its predecessor corporations.]; Whether Shares Inventory?, March 4, 1999, CRA Document No. 9901417
Cases: Consultants providing information technology services were entitled to value their work-in-progress inventory, for work performed but unbilled, using the lower of cost or market method under s. 10(1). The application of s. 10(1) is not confined to the professional practices enumerated under s. 34. *CGI Information Systems and Management Consultants Inc. et al. v. The Queen,* 2009 DTC 5030 (F.C.A.), reversing 2008 DTC 2812 (T.C.C.).

The taxpayer was entitled to deduct the decline in the fair market value of an unsold single piece of land as a business loss in the years immediately following its acquisition since the property involved was inventory to the extent that its cost or value was relevant to the computation of business income in the year of disposition and the valuation of stock-in trade at the lower of cost and fair market value under s. 10(1) applied to all inventory used in the computation of business income. *Friesen v. The Queen,* 95 DTC 5551 (S.C.C.), reversing 93 DTC 5313 (F.C.A.) and 92 DTC 6248 (F.C.T.D.).

A change in the method of valuing inventory during a tax exempt period was not in line with the consistency principle and therefore not permitted by statute. *The Queen v. Cyprus Anvil Corp,* 90 DTC 6063 (F.C.A.), reversing 85 DTC 5306 (F.C.T.D.).

► 10(1.01) ◄

(1.01) Adventures in the nature of trade. For the purpose of computing a taxpayer's income from a business that is an adventure or concern in the nature of trade, property described in an inventory shall be valued at the cost at which the taxpayer acquired the property.

History: S. 10(1.01) was added by S.C. 1998, c. 19, s. 70(1), applicable
(*a*) to taxation years that end after December 20, 1995;
(*b*) in respect of a business that is an adventure or concern in the nature of trade, to taxation years of a taxpayer that end before December 21, 1995, except where
(i) the taxpayer's filing-due date for the year is after December 20, 1995, or
(ii) the taxpayer has valued the inventory of the business for the purpose of computing income for the year from the business at an amount that is less than the cost at which the taxpayer acquired the property,

which valuation is reflected in a return of income, notice of objection or notice of appeal filed or served under the Act before December 21, 1995; and

(*c*) in respect of a business that is an adventure or concern in the nature of trade, to fiscal periods of a partnership that end before December 21, 1995, except where

(i) the filing-due dates of all of the members of the partnership for their taxation years that include the end of the fiscal period are after December 20, 1995, or

(ii) the partnership has valued the inventory of the business for the purpose of computing income for the fiscal period from the business at an amount that is less than the cost at which the partnership acquired the property, which valuation is reflected in a return of income, notice of objection or notice of appeal filed or served under the Act before December 21, 1995 by any member of the partnership.

Editorial Note: Subsection 10(1.01) effectively overrides the Supreme Court of Canada's decision in the *Friesen* case (95 DTC 5551).

Related Sections: S. 18(14) When s. (15) applies to adventurers in trade; s. 18(15) Loss on certain properties; s. 18(16) Deemed identical property; s. 248(1), "business".

Tax Topics: No. 1466, Reemark investors win another one!.

Tax Profile: February 2005 — The Canadian Treatment of Derivatives.

Cases: The taxpayers purchased residential condominium units from a developer, which they later resold. The transactions were adventures in the nature of trade because the taxpayers had a reasonable expectation of profit from resale. The properties themselves were inventory which is subject to the prohibition of writedowns in s. 10(1.01). However, the taxpayers were entitled to deduct the carrying costs relating to the units in the years in which they were incurred. *Stremler et al. v. The Queen,* 2000 DTC 1757 (T.C.C.).

► 10(1.1) ◄

(1.1) Certain expenses included in cost. For the purposes of subsections (1), (1.01) and (10), where land is described in an inventory of a business of a taxpayer, the cost at which the taxpayer acquired the land shall include each amount that is

(*a*) described in paragraph 18(2)(*a*) or (*b*) in respect of the land and for which no deduction is permitted to the taxpayer, or to another person or partnership that is

(i) a person or partnership with whom the taxpayer does not deal at arm's length,

(ii) if the taxpayer is a corporation, a person or partnership that is a specified shareholder of the taxpayer, or

(iii) if the taxpayer is a partnership, a person or partnership whose share of any income or loss of the taxpayer is 10% or more; and

(*b*) not included in or added to the cost to that other person or partnership of any property otherwise than because of paragraph 53(1)(*d.3*) or subparagraph 53(1)(*e*)(xi).

History: S. 10(1.1) was amended by S.C. 1998, c. 19, s. 70(1), applicable

(*a*) to taxation years that end after December 20, 1995;

(*b*) in respect of a business that is an adventure or concern in the nature of trade, to taxation years of a taxpayer that end before December 21, 1995, except where

(i) the taxpayer's filing-due date for the year is after December 20, 1995, or

(ii) the taxpayer has valued the inventory of the business for the purpose of computing income for the year from the business at an amount that is less than the cost at which the taxpayer acquired the property, which valuation is reflected in a return of income, notice of objection or notice of appeal filed or served under the Act before December 21, 1995; and

(*c*) in respect of a business that is an adventure or concern in the nature of trade, to fiscal periods of a partnership that end before December 21, 1995, except where

(i) the filing-due dates of all of the members of the partnership for their taxation years that include the end of the fiscal period are after December 20, 1995, or

(ii) the partnership has valued the inventory of the business for the purpose of computing income for the fiscal period from the business at an amount that is less than the cost at which the partnership acquired the property, which valuation is reflected in a return of income, notice of objection or notice of appeal filed or served under the Act before December 21, 1995 by any member of the partnership.

S. 10(1.1) formerly read:

"(1.1) *Certain expenses included in cost.* For the purpose of subsection (1), the cost to a particular taxpayer of land that is described in the inventory of a business carried on by the taxpayer shall include each amount described in paragraph 18(2)(*a*) or (*b*) in respect of that land for which no deduction is permitted to the taxpayer or to another person in respect of whom the taxpayer was a person, corporation or partnership described in subparagraph (*b*)(i), (ii) or (iii) of the definition 'interest on debt relating to the acquisition of land' in subsection 18(3), where that amount was not included in or added to the cost to that other person of any property otherwise than because of paragraph 53(1)(*d.3*) or subparagraph 53(1)(*e*)(xi)."

S. 10(1.1) was amended by S.C. 1994, c. 7, Sched. II, s. 6(1), applicable to the 1988 and subsequent taxation years. S. 10(1.1) formerly read:

"(1.1) *Non-deductible expenses.* For the purposes of subsection (1), the cost to a particular taxpayer of land that is included in the inventory of a business carried on by the taxpayer shall include all amounts described in paragraph 18(2)(*a*) or (*b*) in respect of that land for which no deduction is permitted to the taxpayer or, by reason of subsection 18(3), to another taxpayer in respect of whom the particular taxpayer was a person, corporation or partnership described in subparagraph (*b*)(i), (ii) or (iii) of the definition 'interest on debt relating to the acquisition of land' in subsection 18(3), where the amounts were not included in the cost to that other taxpayer of property."

Editorial Note: Subsection 10(1.1) provides that interest expense and property taxes in respect of land inventory that are not deductible under subsection 18(2) shall form part of the acquisition cost of the inventory, notwithstanding that a shareholder or partner of the taxpayer may add such amounts to the adjusted cost base of its share in the taxpayer under paragraph 53(1)(*d.3*) or its partnership interest in the taxpayer under subparagraph 53(1)(*e*)(xi), as the case may be.

Related Sections: S. 18(3), "land", "interest on debt relating to the acquisition of land".

Tax Window Files: Interest Deductibility; Inventory, April 21, 2004, CRA Document No. 2004-0061651E5; Compound Interest, April 10, 2003, CRA Document No. 2002-0147295

► 10(2) ◄

(2) Continuation of valuation. Notwithstanding subsection (1), for the purpose of computing income for a taxation year from a business, the inventory at the commencement of the year shall be valued at the same amount as the amount at which it was valued at the end of the preceding taxation year for the purpose of computing income for that preceding year.

► 10(2.1) ◄

(2.1) Methods of valuation to be the same. Where property described in an inventory of a taxpayer's business that is not an adventure or concern in the nature of trade is valued at the end of a taxation year in accordance with a method permitted under this section, that method shall, subject to subsection (6), be used in the valuation of property described in the inventory at the end of the following taxation year for the purpose of computing the taxpayer's income from the business unless the taxpayer, with the concurrence of the Minister and on any terms and conditions that are specified by the Minister, adopts another method permitted under this section.

History: S. 10(2.1) was amended by S.C. 1998, c. 19, s. 70(2), applicable

(*a*) to taxation years that end after December 20, 1995;

(*b*) in respect of a business that is an adventure or concern in the nature of trade, to taxation years of a taxpayer that end before December 21, 1995, except where

(i) the taxpayer's filing-due date for the year is after December 20, 1995, or

(ii) the taxpayer has valued the inventory of the business for the purpose of computing income for the year from the business at an amount that is less than the cost at which the taxpayer acquired the property, which valuation is reflected in a return of income, notice of objection or notice of appeal filed or served under the Act before December 21, 1995; and

(*c*) in respect of a business that is an adventure or concern in the nature of trade, to fiscal periods of a partnership that end before December 21, 1995, except where

(i) the filing-due dates of all of the members of the partnership for their taxation years that include the end of the fiscal period are after December 20, 1995, or

(ii) the partnership has valued the inventory of the business for the purpose of computing income for the fiscal period from the business

at an amount that is less than the cost at which the partnership acquired the property, which valuation is reflected in a return of income, notice of objection or notice of appeal filed or served under the Act before December 21, 1995 by any member of the partnership.

S. 10(2.1) formerly read:

"(2.1) *Methods of valuation to be same.* Where property described in the inventory of a business of a taxpayer at the end of a taxation year is valued in accordance with a method provided for under this section, that method shall, subject to subsection (6), be used in the valuation of property described in the inventory of that business at the end of the following taxation year for the purpose of computing the taxpayer's income from that business unless the taxpayer, with the concurrence of the Minister and on such terms and conditions as are specified by the Minister, adopts another method provided for under this section."

S. 10(2.1) was added by S.C. 1994, c. 7, Sched. II, s. 6(2), applicable with respect to computations of income for the 1990 and subsequent taxation years.

► 10(3) ◄

(3) Incorrect valuation. Where the inventory of a business at the commencement of a taxation year has, according to the method adopted by the taxpayer for computing income from the business for that year, not been valued as required by subsection (1), the inventory at the commencement of that year shall, if the Minister so directs, be deemed to have been valued as required by that subsection.

► 10(4) ◄

(4) Fair market value. For the purpose of subsection (1), the fair market value of property (other than property that is obsolete, damaged or defective or that is held for sale or lease or for the purpose of being processed, fabricated, manufactured, incorporated into, attached to, or otherwise converted into property for sale or lease) that is

(*a*) work in progress at the end of a taxation year of a business that is a profession means the amount that can reasonably be expected to become receivable in respect thereof after the end of the year; and

(*b*) advertising or packaging material, parts, supplies or other property (other than work in progress of a business that is a profession) that is included in inventory means the replacement cost of the property.

Interpretation Bulletins: *Primary* — IT-51R2 Supplies on hand at the end of a fiscal period.

► 10(5) ◄

(5) Inventory. Without restricting the generality of this section,

(*a*) property (other than capital property) of a taxpayer that is advertising or packaging material, parts or supplies or work in progress of a business that is a profession is, for greater certainty, inventory of the taxpayer;

(*b*) anything used primarily for the purpose of advertising or packaging property that is included in the inventory of a taxpayer shall be deemed not to be property held for sale or lease or for any of the purposes referred to in subsection (4); and

(*c*) property of a taxpayer, the cost of which to the taxpayer was deductible by virtue of paragraph 20(1)(*mm*), is, for greater certainty, inventory of the taxpayer having a cost to the taxpayer, except for the purposes of that paragraph, of nil.

Editorial Note: See the election in section 34 to exclude work-in-progress, which applies to certain professional businesses.

Related Sections: S. 34 Professional business.

Interpretation Bulletins: *Primary* — IT-51R2 Supplies on hand at the end of a fiscal period. *Secondary* — IT-457R Election by professionals to exclude work in progress from income.

Tax Topics: No. 1928, Potential Conflict? Sections 9 and 10 of the *Income Tax Act*.

Cases: The transitional provisions of s. 10(6) required a professional trustee in bankruptcy to include in its income for 1983 one-half of its work in progress at the end of 1982. Since its work in progress for 1984 was deemed to be what it was at the end of 1983, the overall result was to include in its 1984 income any portion of its work in progress at the end of 1982 that was not included in its 1983 income. *170635 Canada Ltée v. M.N.R.*, 93 DTC 1129 (T.C.C.).

► 10(6) ◄

(6) Artistic endeavour. Notwithstanding subsection (1), for the purpose of computing the income of an individual other than a trust for a taxation year from a business that is the individual's artistic endeavour, the value of the inventory of the business for that year shall, if the individual so elects in the individual's return of income under this Part for the year, be deemed to be nil.

Interpretation Bulletins: *Secondary* — IT-212R3 Income of deceased persons — Rights or things; IT-504R2 (Consolid.) Visual artists and writers.

Tax Window Files: Inventory of a Deceased Artist, April 7, 2005, CRA Document No. 2004-0099191E5

► 10(7) ◄

(7) Value in later years. Where an individual has made an election pursuant to subsection (6) for a taxation year, the value of the inventory of a business that is the individual's artistic endeavour shall, for each subsequent taxation year, be deemed to be nil unless the individual, with the concurrence of the Minister and on such terms and conditions as are specified by the Minister, revokes the election.

Interpretation Bulletins: *Secondary* — IT-504R2 (Consolid.) Visual artists and writers.

► 10(8) ◄

(8) Definition of "business that is an individual's artistic endeavour". For the purpose of this section, "business that is an individual's artistic endeavour" means the business of creating paintings, prints, etchings, drawings, sculptures or similar works of art, where such works of art are created by the individual, but does not include a business of reproducing works of art.

Interpretation Bulletins: *Secondary* — IT-504R2 (Consolid.) Visual artists and writers.

► 10(9) ◄

(9) Transition. Where, at the end of a taxpayer's last taxation year at the end of which property described in an inventory of a business that is an adventure or concern in the nature of trade was valued under subsection (1), the property was valued at an amount that is less than the cost at which the taxpayer acquired the property, after that time the cost to the taxpayer at which the property was acquired is, subject to subsection (10), deemed to be that amount.

History: S. 10(9) was added by S.C. 1998, c. 19, s. 70(3), applicable

(*a*) to taxation years that end after December 20, 1995;

(*b*) in respect of a business that is an adventure or concern in the nature of trade, to taxation years of a taxpayer that end before December 21, 1995, except where

(i) the taxpayer's filing-due date for the year is after December 20, 1995, or

(ii) the taxpayer has valued the inventory of the business for the purpose of computing income for the year from the business at an amount that is less than the cost at which the taxpayer acquired the property, which valuation is reflected in a return of income, notice of objection or notice of appeal filed or served under the Act before December 21, 1995; and

(*c*) in respect of a business that is an adventure or concern in the nature of trade, to fiscal periods of a partnership that end before December 21, 1995, except where

(i) the filing-due dates of all of the members of the partnership for their taxation years that include the end of the fiscal period are after December 20, 1995, or

(ii) the partnership has valued the inventory of the business for the purpose of computing income for the fiscal period from the business at an amount that is less than the cost at which the partnership acquired the property, which valuation is reflected in a return of income, notice of objection or notice of appeal filed or served under the Act before December 21, 1995 by any member of the partnership.

► 10(10) ◄

(10) Acquisition of control. Notwithstanding subsection (1.01), property described in an inventory of a corporation's business that is an adventure or concern in the nature of trade at the end of the corporation's taxation year that ends immediately before the time at which control of the corporation is acquired by a person or group of persons shall be valued at the cost at which the corporation acquired the property, or its fair market value at the end of the year, whichever is lower, and, after that time, the cost at which the corporation acquired the property is, subject to a subsequent application of this subsection, deemed to be that lower amount.

History: S. 10(10) was added by S.C. 1998, c. 19, s. 70(3), applicable
(*a*) to taxation years that end after December 20, 1995;
(*b*) in respect of a business that is an adventure or concern in the nature of trade, to taxation years of a taxpayer that end before December 21, 1995, except where
(i) the taxpayer's filing-due date for the year is after December 20, 1995, or
(ii) the taxpayer has valued the inventory of the business for the purpose of computing income for the year from the business at an amount that is less than the cost at which the taxpayer acquired the property, which valuation is reflected in a return of income, notice of objection or notice of appeal filed or served under the Act before December 21, 1995; and
(*c*) in respect of a business that is an adventure or concern in the nature of trade, to fiscal periods of a partnership that end before December 21, 1995, except where
(i) the filing-due dates of all of the members of the partnership for their taxation years that include the end of the fiscal period are after December 20, 1995, or
(ii) the partnership has valued the inventory of the business for the purpose of computing income for the fiscal period from the business at an amount that is less than the cost at which the partnership acquired the property, which valuation is reflected in a return of income, notice of objection or notice of appeal filed or served under the Act before December 21, 1995 by any member of the partnership.

Related Sections: S. 256(7) Acquiring control; s. 256(8) Deemed exercise of right.

► 10(11) ◄

(11) Acquisition of control. For the purposes of subsections 88(1.1) and 111(5), a corporation's business that is at any time an adventure or concern in the nature of trade is deemed to be a business carried on at that time by the corporation.

History: S. 10(11) was added by S.C. 1998, c. 19, s. 70(3), applicable
(*a*) to taxation years that end after December 20, 1995;
(*b*) in respect of a business that is an adventure or concern in the nature of trade, to taxation years of a taxpayer that end before December 21, 1995, except where
(i) the taxpayer's filing-due date for the year is after December 20, 1995, or
(ii) the taxpayer has valued the inventory of the business for the purpose of computing income for the year from the business at an amount that is less than the cost at which the taxpayer acquired the property, which valuation is reflected in a return of income, notice of objection or notice of appeal filed or served under the Act before December 21, 1995; and
(*c*) in respect of a business that is an adventure or concern in the nature of trade, to fiscal periods of a partnership that end before December 21, 1995, except where
(i) the filing-due dates of all of the members of the partnership for their taxation years that include the end of the fiscal period are after December 20, 1995, or
(ii) the partnership has valued the inventory of the business for the purpose of computing income for the fiscal period from the business at an amount that is less than the cost at which the partnership acquired the property, which valuation is reflected in a return of income, notice of objection or notice of appeal filed or served under the Act before December 21, 1995 by any member of the partnership.

► 10(12) ◄

(12) Removing property from inventory. If at any time a non-resident taxpayer ceases to use, in connection with a business or part of a business carried on by the taxpayer in Canada immediately before that time, a property that was immediately before that time described in the inventory of the business or the part of the business, as the case may be, (other than a property that was disposed of by the taxpayer at that time), the taxpayer is deemed
(*a*) to have disposed of the property immediately before that time for proceeds of disposition equal to its fair market value at that time; and
(*b*) to have received those proceeds immediately before that time in the course of carrying on the business or the part of the business, as the case may be.

History: S. 10(12) was added by S.C. 2001, c. 17, s. 4(1), applicable after December 23, 1998.

Related Sections: S. 14(14) References to "taxation year" or "year"; s. 45(1)(*d*) Property with more than one use; s. 126(4.4) Dispositions ignored; s. 248(1), "taxable Canadian property".

► 10(13) ◄

(13) Adding property to inventory. If at any time a property becomes included in the inventory of a business or part of a business that a non-resident taxpayer carries on in Canada after that time (other than a property that was, otherwise than because of this subsection, acquired by the taxpayer at that time), the taxpayer is deemed to have acquired the property at that time at a cost equal to its fair market value at that time.

History: S. 10(13) was added by S.C. 2001, c. 17, s. 4(1), applicable after December 23, 1998.

Related Sections: S. 14(14) References to "taxation year" or "year"; s. 45(1)(*d*) Property with more than one use; s. 126(4.4) Dispositions ignored.

► 10(14) ◄

(14) Work in progress. For the purposes of subsections (12) and (13), property that is included in the inventory of a business includes property that would be so included if paragraph 34(*a*) did not apply.

History: S. 10(14) was added by S.C. 2001, c. 17, s. 4(1), applicable after December 23, 1998.

SECTION 11:

► 11(1) ◄

(1) Proprietor of business. Subject to sections 34.1 and 34.2, where an individual is a proprietor of a business, the individual's income from the business for a taxation year is deemed to be the individual's income from the business for the fiscal periods of the business that end in the year.

History: S. 11(1) was amended by S.C. 1996, c. 21, s. 3(1), applicable to the 1995 and subsequent taxation years. S. 11(1) formerly read:
"(1) Where an individual is a proprietor of a business, the individual's income from the business for a taxation year shall be deemed to be the individual's income from the business for the fiscal period or periods ending in the year."

Editorial Note: The end of the fiscal period of an individual's business must coincide with the calendar year end, unless the individual has elected under subsection 249.1(4) to use the "alternative method" of computing business income under section 34.1.

Related Sections: S. 248(1), "business"; s. 249 Definition of "taxation year"; s. 249.1 Definition of "fiscal period".

Cases: The fiscal period adopted by an individual in respect of a business applies only to income from the business itself. *Prefontaine v. M.N.R.* (T.C.C.) 84 DTC 1688.

► 11(2) ◄

(2) Reference to "taxation year". Where an individual's income for a taxation year includes income from a business the fiscal period of which does not coincide with the calendar year, unless the context otherwise requires, a reference in this subdivision or section 80.3 to a "taxation year" or "year" shall, in respect of the business, be read as a reference to a fiscal period of the business ending in the year.

History: S. 11(2) was amended by S.C. 1994, c. 21, s. 5(1), applicable to the 1988 and subsequent taxation years. S. 11(2) formerly read:

"(2) *Reference to 'taxation year' or 'year'.* Where an individual's income for a taxation year includes income from a business the fiscal period of which does not coincide with the calendar year, unless the context otherwise requires, a reference in this Division to a 'taxation year' or 'year' shall, in respect of the business, be read as a reference to a fiscal period of the business ending in the year."

Related Sections: S. 25 Fiscal period for individual proprietor of business disposed of; s. 248(1), "business"; s. 249 Definition of "taxation year"; s. 249.1(1) Definition of "fiscal period".
Regulations: S. 1104(1).
Interpretation Bulletins: *Secondary* — IT-151R5 (Consolid.) — Scientific research and experimental development expenditures; IT-151R4 Scientific research and experimental development expenditures [Archived by the CRA].

Inclusions

SECTION 12:

► 12(1) ◄

(1) Income inclusions. There shall be included in computing the income of a taxpayer for a taxation year as income from a business or property such of the following amounts as are applicable:

► 12(1)(a) ◄

(a) Services, etc., to be rendered — any amount received by the taxpayer in the year in the course of a business

(i) that is on account of services not rendered or goods not delivered before the end of the year or that, for any other reason, may be regarded as not having been earned in the year or a previous year, or

(ii) under an arrangement or understanding that it is repayable in whole or in part on the return or resale to the taxpayer of articles in or by means of which goods were delivered to a customer;

Editorial Note: Prepaid (unearned) income included under paragraph 12(1)(*a*) is often eligible for the paragraph 20(1)(*m*) reserve. Paragraph 12(1)(*a*) does not apply to unearned income from property, although such amounts would normally be included under section 9 profit if they had attained the "quality of income". The CRA generally allows the recognition of prepaid income from property to be deferred to the year to which it relates, so that the net result is normally the same as that seen where the paragraph 20(1)(*m*) reserve applies; see CRA document No. 2004-0105461R3, June 1, 2005.

Related Sections: S. 12(1)(*e*) Reserves for certain goods and services, etc.; s. 12(2) Interpretation; s. 20(1)(*m*) Reserve in respect of certain goods and services; s. 20(1)(*m.1*) Manufacturer's warranty reserve; s. 20(1)(*m.2*) Repayment of amount previously included in income; s. 20(6) Special reserves; s. 20(7) Where para. (1)(m) does not apply; s. 20(24) Amounts paid for undertaking future obligations; s. 87(2)(*j*) Special reserves.
Interpretation Bulletins: *Primary* — IT-165R Returnable containers; IT-246 Funeral directors — Prepaid funeral costs. *Secondary* — IT-154R Special reserves; IT-321R Insurance agents and brokers — Unearned commissions [Archived by the CRA]; IT-457R Election by professionals to exclude work in progress from income.
Income Tax Technical News: Issue No. 32, Reserve for Prepaid Amount: Impact of the *Ellis Vision* case; Issue No. 30, Prepaid Income — Whether Subsection 9(1) or Paragraph 12(1)(*a*) Applies.
Tax Topics: No. 1700, 2004 Canadian Tax Foundation Conference - CRA Round Table; No. 1598, Prepayments and the "Quality of Income".
Tax Profile: November 2004 — Reserve for Pre-paid Amount — Impact of Ellis Vision; November 2003 — Revenue Canada Round Table.

Canadian Tax Foundation: Frankovic, "The Taxation of Prepaid Income", *2002 Canadian Tax Journal*, No. 4, 1239.

Tax Window Files: Services Invoiced in Advance, February 4, 2005, CRA Document No. 2004-0101781E5 [Amounts invoiced but not paid in the current taxation year for services to be performed in the subsequent taxation year not included in income for the current taxation year under paragraph 12(1)(*a*) or (*b*)]; Site Reclamation Costs, September 27, 2004, CRA Document No. 2003-0048241E5 [A reserve may be claimed where a taxpayer has received a specifically identifiable amount in respect of the future reclamation costs which it is obligated to incur and the amount is included in the taxpayer's income under paragraph 12(1)(*a*)]; Software Maintenance Agreements, October 7, 2003, CRA Document No. 2003-0037947 [Fees in respect of software maintenance plan included in income under paragraph 12(1)(*a*); partly eligible for paragraph 20(1)(*m*) reserve]; Refundable Membership Fees, September 25, 2003, CRA Document No. 2003-0022405 [Returnable membership fee may be included under paragraph 12(1)(*a*) if it does not have the quality of income]; Computer Software Maintenance Agreements, December 4, 2001, CRA Document No. 2001-0110895 [Amounts received under hardware and software maintenance agreements included under paragraph 12(1)(*a*) if without quality of income, but if earned, included under section 9]; Customer Deposits, February 12, 1998, CRA Document No. 9800185 [Deposits without the quality of income not included under paragraph 12(1)(*a*)].

Cases: Licence fees received in advance for the future use of television productions were eligible for a s. 20(1)(*m*) reserve. The reference to "amounts described in paragraph 12(1)(*a*)" does not mean only amounts that were included in income *by virtue of* s. 12(1)(*a*). *Ellis Vision Incorporated v. The Queen*, 2004 DTC 2024 (T.C.C.).

Revenue from the sale of season passes to a recreational facility was included in income but the taxpayer could claim a reserve in respect of services to be rendered after the end of the year. Since the services would all be rendered after October 31, it was reasonable that the entire amount should be deductible as a reserve. *Blue Mountain Resorts Limited v. The Queen*, 2002 DTC 1886 (T.C.C.).

A waste disposal company was required to perform various tasks associated with reconstituting dump sites for thirty years following the closing thereof. A portion of the fees charged by the taxpayer was intended to meet those future costs. This amount was deductible as a reserve since it was not "earned" in the year it was received. *Deputy Minister of Revenue for Quebec v. La Compagnie Meloche Inc.*, 2002 DTC 7169 (Que. C.A.).

Progress payments received by the taxpayer for the construction of ships had the quality of income when received. Because these amounts were earned, the taxpayer was not entitled to claim a reserve on them. *Burrard Yarrows Corporation v. The Queen*, 88 DTC 6352 (F.C.A.), affirming 86 DTC 6459 (F.C.T.D.).

An agreement of purchase and sale was entered into one year with the attendant conditions precedent being fulfilled the next. It was held that sale took place, and tax was payable in the year the conditions were fulfilled, as the balance of purchase price was not payable until that time and entitlement to deposits was also contingent upon fulfillment. *The Queen v. Imperial General Properties Limited*, 85 DTC 5045 (F.C.A.), reversing 83 DTC 5059 (F.C.T.D.).

► 12(1)(b) ◄

(b) Amounts receivable — any amount receivable by the taxpayer in respect of property sold or services rendered in the course of a business in the year, notwithstanding that the amount or any part thereof is not due until a subsequent year, unless the method adopted by the taxpayer for computing income from the business and accepted for the purpose of this Part does not require the taxpayer to include any amount receivable in computing the taxpayer's income for a taxation year unless it has been received in the year, and for the purposes of this paragraph, an amount shall be deemed to have become receivable in respect of services rendered in the course of a business on the day that is the earlier of

(i) the day on which the account in respect of the services was rendered, and

(ii) the day on which the account in respect of those services would have been rendered had there been no undue delay in rendering the account in respect of the services;

Editorial Note: Amounts included under paragraph 12(1)(*b*) may be eligible for the paragraph 20(1)(*n*) reserve. It is possible that amounts for services rendered may be receivable under general principles, notwithstanding that they are not deemed to be receivable under the deeming language of paragraph 12(1)(*b*).

Related Sections: S. 12(1)(*e*) Reserves for certain goods and services, etc.; s. 12(2) Interpretation; s. 20(1)(*n*) Reserve for unpaid amounts; s. 20(8) No deduction in respect of property in certain circumstances; s. 34 Professional business.

Interpretation Bulletins: *Primary* — IT-170R Sale of property — When included in income computation. *Secondary* — IT-129R Lawyers' trust accounts and disbursements; IT-457R Election by professionals to exclude work in progress from income.

Tax Window Files: Services Invoiced in Advance, February 4, 2005, CRA Document No. 2004-0101781E5 [Amounts invoiced but not paid in the current taxation year for services to be performed in the subsequent taxation year not included in income for the current taxation year under paragraph 12(1)(*a*) or (*b*)]; Contingent Legal Fees, June 20, 2003, CRA Document No. 2003-0015775 [Legal fees under a contingency fee agreement included in income at the earlier of the time the fees are billed or become billable]; Revenue Recognition, July 23, 1996, CRA Document No. 9615915 [Revenues from service contracts recognized when billed or able to be billed].

Cases: Considering that the required approval of the taxpayer's invoices for progress payments had been given by its subcontractor prior to June 30, 1991, the holdbacks were receivable in 1991 and, as such, had to be included in income for that year. *Supreme Steel Limited v. The Queen,* 2001 DTC 5121 (F.C.A.), affirming 96 DTC 1430 (T.C.C.).

For an amount to be "receivable", there is no requirement that the right to payment be immediate. In addition, the taxpayer's right to receive the amounts of notes and mortgages became absolute when the obligations were made and signed. The existence of an express right of set off did not convert the absolute obligations to contingent ones. *The Queen v. Huang & Danczkay Ltd.,* 2000 DTC 6549 (F.C.A.), reversing 98 DTC 6393 (F.C.T.D.) and 93 DTC 1028 (T.C.C.).

The taxpayer reported income for tax purposes using the "billed method" so that income which was earned but not yet billed was not reported in the period. For general accounting purposes it continued to use the "earned method". The "earned method" produced a "truer picture" of the taxpayer's income and must therefore be used for tax purposes. *Maritime Telegraph and Telephone Company, Limited v. The Queen,* 92 DTC 6191 (F.C.A.), affirming 91 DTC 5038 (F.C.T.D.).

A taxpayer is not necessarily required to use the same method of calculating income for tax purposes as that used for calculating income for accounting purposes. *West Kootenay Power and Light Co. Ltd. v. The Queen,* 92 DTC 6023 (F.C.A.).

In the absence of a statutory definition, an amount is receivable when the so-called recipient has a clearly legal, though not necessarily immediate, right to receive it. Progress payments to a building contractor that were not to be made until an architect's certificate had been issued were held to be "receivable" only when the certificate had been issued. *M.N.R. v. John Colford Contracting Co. Ltd.,* 62 DTC 1338 (S.C.C.), affirming 60 DTC 1131 (Ex. Ct.) and 57 DTC 45 (T.A.B.).

► 12(1)(c) ◄

(c) Interest — subject to subsections (3) and (4.1), any amount received or receivable by the taxpayer in the year (depending on the method regularly followed by the taxpayer in computing the taxpayer's income) as, on account of, in lieu of payment of or in satisfaction of, interest to the extent that the interest was not included in computing the taxpayer's income for a preceding taxation year;

History: S. 12(1)(*c*) was amended by S.C. 2001, c. 17, s. 5(1), applicable to taxation years that end after September 1997. S. 12(1)(*c*) formerly read:

"(*c*) *Interest* — subject to subsections (3) and (5), any amount received or receivable by the taxpayer in the year (depending on the method regularly followed by the taxpayer in computing the taxpayer's income) as, on account of, in lieu of payment of or in satisfaction of, interest to the extent that the interest was not included in computing the taxpayer's income for a preceding taxation year;"

S. 12(1)(*c*) was amended by S.C. 1998, c. 19, s. 71(1), applicable

(*a*) to taxation years that end after September 1997; and

(*b*) to a taxpayer's taxation years that end after 1995 and before October 1997 where the taxpayer files an election in accordance with paragraph 81(11)(*b*).

S. 12(1)(*c*) formerly read:

"(*c*) *Interest* — any amount received or receivable by the taxpayer in the year (depending on the method regularly followed by the taxpayer in computing the taxpayer's profit) as, on account or in lieu of payment of, or in satisfaction of, interest to the extent that the interest was not included in computing the taxpayer's income for a preceding taxation year;"

Editorial Note: Despite the receipt and receivable methods of reporting interest set out in paragraph 12(1)(*c*), corporations, partnerships and certain trusts must generally include interest on an accrual basis under subsection 12(3), even if it is not received or has not become receivable in the year. An accrual rule also applies to individuals in subsection 12(4), although it is based on an accrual of interest up to an "anniversary day" of an "investment contract" in the taxation year (both terms are defined in subsection 12(11)).

Related Sections: S. 12(3) Interest income; s. 12(4) Interest from investment contract; s. 12(9) Deemed accrual; s. 12.1 Cash bonus on Canada Savings Bonds; s. 16 Income and capital combined; s. 17 Amount owing by non-resident; s. 20(14) Accrued bond interest; s. 20(21) Debt obligation; s. 81(1)(*m*) Interest on certain obligations.

Regulations: Part II; 7000.

Interpretation Bulletins: *Primary* — IT-396R Interest income.

Advance Tax Rulings: ATR-61 Interest accrual rules.

Income Tax Technical News: Issue No. 30, Pre-judgment Interest.

Forms: T5 Sum.; T5.

Tax Profile: November 2003 — Revenue Canada Round Table.

Tax Window Files: Interest Income Renunciation, June 11, 2004, CRA Document No. 2004-0076291E5 [Paragraph 12(1)(*c*) and subsection 12(3) not applicable when right to interest renounced by creditor]; Indexed Debt Obligations — Various Issues, December 22, 2003, CRA Document No. 2003-0000125 [Various comments regarding the inclusion of interest under indexed debt obligations]; Contingent Interest, March 24, 1998, CRA Document No. 9806325 [Interest not included under paragraph 12(1)(*c*) where dependent upon unfulfilled condition]; Contingent Interest — Indexed Note, 1997, CRA Document No. 9719753 [Contingent "interest" to be paid at end of five-year obligation based on value of stock index included under paragraph 12(1)(*c*) upon maturity, holder not required to accrue interest under subsection 12(4)].

Cases: Pre-judgment interest was not "interest" for the purposes of s. 12(1)(*c*) since it related to damages arising in tort, and not in contract. Since the taxpayer did not have any right to a principal amount prior to judgment, there could be no interest until judgment. *Ahmad v. The Queen,* 2002 DTC 2065 (T.C.C.).

Since interest was paid to a taxpayer not as compensation for the expropriation of his land but as compensation for the expropriating authority's failure to pay promptly the balance of the value of the land taken, such interest had to be included in his income. *The Queen v. Shaw,* 93 DTC 5121 (F.C.A.), reversing 93 DTC 6145 (F.C.T.D.).

The sum of $3,090,900 in interest, which had accrued but not been paid on the debentures which the taxpayer had surrendered in return for shares of a joint venture corporation was not included in its income when the shares were not worth their par value because of the conditions attached thereto; the interest had in fact been received by the taxpayer. *Praxair Canada Inc. v. The Queen,* 93 DTC 5100 (F.C.T.D.).

► 12(1)(d) ◄

(d) Reserve for doubtful debts — any amount deducted under paragraph 20(1)(*l*) as a reserve in computing the taxpayer's income for the immediately preceding taxation year;

Interpretation Bulletins: *Secondary* — IT-442R Bad debts and reserves for doubtful debts.

► 12(1)(d.1) ◄

(d.1) Reserve for guarantees, etc. — any amount deducted under paragraph 20(1)(*l.1*) as a reserve in computing the taxpayer's income for the immediately preceding taxation year;

► 12(1)(e) ◄

(e) Reserves for certain goods and services, etc. — any amount

(i) deducted under paragraph 20(1)(*m*) (including any amount substituted by virtue of subsection 20(6) for any amount deducted under that paragraph), paragraph 20(1)(*m.1*) or subsection 20(7), or

(ii) deducted under paragraph 20(1)(*n*),

in computing the taxpayer's income from a business for the immediately preceding year;

Related Sections: S. 12(1)(*a*) Services, etc., to be rendered; s. 12(1)(*b*) Amounts receivable; s. 20(1)(*m*) Reserve in respect of certain goods and services; s. 20(1)(*m.1*) Manufacturer's warranty reserve; s. 20(7) Where para. (1)(m) does not apply; s. 20(22) Deduction for negative reserves; s. 66.4(2) Deduction for cumulative Canadian oil and gas property expense.

Interpretation Bulletins: *Secondary* — IT-73R6 The small business deduction; IT-154R Special reserves.
Tax Window Files: Amounts Paid for Undertaking Future Obligations, March 7, 2005, CRA Document No. 2005-0114981E5 [Subsection 20(24) deduction not limited to year of paragraph 12(1)(*a*) inclusion and therefore can be claimed in year of paragraph 12(1)(*e*) inclusion].
Cases: The taxpayer operated a club and charged its new members an initiation fee which was amortized over 10 years. There was no basis for the amortization since the initiation fees were earned in the year of receipt. The taxpayer had, in effect, deducted a reserve under s. 20(1)(*m*). However, it would be a gross distortion of the taxpayer's income picture if the entire balance of its "Deferred Initiation Fees" account were to be taxed in one year under s. 12(1)(*e*). *Argus Holdings Limited v. The Queen,* 2000 DTC 6681 (F.C.A.), reversing 99 DTC 597 (T.C.C.).

► 12(1)(e.1) ◄

(e.1) Negative reserves — where the taxpayer is an insurer, the amount prescribed in respect of the insurer for the year;

History: S. 12(1)(*e.1*) was added by S.C. 1997, c. 25, s. 2(1), applicable to the 1996 and subsequent taxation years.

Related Sections: S. 20(22) Deduction for negative reserves.
Regulations: 1400(2)–(5); 1402; 1402.1; 1408.

► 12(1)(f) ◄

(f) Insurance proceeds expended — such part of any amount payable to the taxpayer as compensation for damage to, or under a policy of insurance in respect of damage to, property that is depreciable property of the taxpayer as has been expended by the taxpayer

(i) within the year, and

(ii) within a reasonable time after the damage,

on repairing the damage;

► 12(1)(g) ◄

(g) Payments based on production or use — any amount received by the taxpayer in the year that was dependent on the use of or production from property whether or not that amount was an instalment of the sale price of the property, except that an instalment of the sale price of agricultural land is not included by virtue of this paragraph;

Editorial Note: Although paragraph 12(1)(*g*) can apply to share sales that are subject to earn-out agreements, the CRA generally allows a cost recovery method of reporting capital gains or losses in such cases; see Interpretation Bulletin IT-426R, "Shares Sold Subject to an Earnout Agreement".

Regulations: Part II.
Interpretation Bulletins: *Primary* — IT-462 Payments based on production or use. *Secondary* — IT-373R2 (Consolid.) Woodlots; IT-423 Sale of sand, gravel or topsoil [Archived by the CRA]; IT-426R Shares sold subject to an earnout agreement.
Tax Topics: No. 1713, Payments Based on Use or Production.
Canadian Petroleum Tax Journal: High Tech in the Oil Patch: Planning Considerations For Transferring Technology Offshore, Derek A. Kurrant, Vol. 13 No. 1 2000.
Tax Window Files: Sale of Goodwill Subject to Earnout Agreement, December 16, 2004, CRA Document No. 2004-0098121E5 [Consideration received for eligible capital property dependent upon the use or production from that property was taxable under paragraph 12(1)(*g*)]; Royalty Income — Interaction of Paragraph 12(1)(g) and Section 9, May 11, 2001, CRA Document No. 2001-0072367 [Paragraph 12(1)(*g*) does not override section 9. See also proposed subsection 12(2.01)]; Right to Cut Timber, October 6, 2000, CRA Document No. 2000-0037995 [Whether payment received in respect of right to cut timber is capital or subject to paragraph 12(1)(*g*). See also CRA Document No. 9616950].

► 12(1)(g.1) ◄

(g.1) Proceeds of disposition of right to receive production — any proceeds of disposition to which subsection 18.1(6) applies;

History: S. 12(1)(*g.1*) was added by S.C. 1998, c. 19, s. 71(2), applicable to dispositions that occur after November 17, 1996.

► 12(1)(h) ◄

(h) Previous reserve for quadrennial survey — any amount deducted as a reserve under paragraph 20(1)(*o*) in computing the taxpayer's income for the immediately preceding year;

► 12(1)(i) ◄

(i) Bad debts recovered — any amount, other than an amount referred to in paragraph (*i.1*), received in the year on account of a debt or a loan or lending asset in respect of which a deduction for bad debts or uncollectable loans or lending assets was made in computing the taxpayer's income for a preceding taxation year;

Related Sections: S. 20(1)(*p*) Bad debts; s. 22(1) Sale of accounts receivable.
Interpretation Bulletins: *Secondary* — IT-442R Bad debts and reserves for doubtful debts.

► 12(1)(i.1) ◄

(i.1) Bad debts recovered — where an amount is received in the year on account of a debt in respect of which a deduction for bad debts was made under subsection 20(4.2) in computing the taxpayer's income for a preceding taxation year, the amount determined by the formula

$$A \times B/C$$

where

A is 1/2 of the amount so received,

B is the amount that was deducted under subsection 20(4.2) in respect of the debt, and

C is the total of the amount that was so deducted under subsection 20(4.2) and the amount that was deemed by that subsection or subsection 20(4.3) to be an allowable capital loss in respect of the debt;

History: S. 12(1)(*i.1*) was amended by S.C. 2001, c. 17, s. 5(2), applicable in respect of taxation years that end after February 27, 2000 except that, for taxation years that ended after February 27, 2000 and before October 18, 2000, the reference to the fraction "1/2" in the description of A in paragraph 12(1)(*i.1*) shall be read as a reference to the fraction "2/3". S. 12(1)(*i.1*) formerly read:

"(*i.1*) *Idem* — where an amount is received in the year on account of a debt in respect of which a deduction for bad debts under subsection 20(4.2) was made in computing the taxpayer's income for a preceding taxation year, that proportion of 3/4 of the amount that

(i) the amount that was deducted under subsection 20(4.2) in respect of that debt

is of

(ii) the total of the amount that was so deducted under subsection 20(4.2) and the amount that was deemed to be an allowable capital loss under subsection 20(4.2) in respect of the debt;"

Related Sections: S. 39(11) Recovery of bad debt.

► 12(1)(j) ◄

(j) Dividends from resident corporations — any amount required by subdivision h to be included in computing the taxpayer's income for the year in respect of a dividend paid by a corporation resident in Canada on a share of its capital stock;

Related Sections: S. 82 Taxable dividends received.
Regulations: Part II.
Interpretation Bulletins: *Primary* — IT-67R3 Taxable dividends from corporations resident in Canada.
Tax Profile: October 2004 — Taxation of Dividends: A Survey in the Context of Private Corporations and Their Shareholders.

► 12(1)(k) ◄

(k) Dividends from other corporations — any amount required by subdivision i to be included in computing the taxpayer's income for the year in respect of a dividend paid by a corporation not resident in Canada on a share of its capital stock or in respect of a share owned by the taxpayer of the capital stock of a foreign affiliate of the taxpayer;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 12(1)(*k*) of the *Income Tax Act* is replaced by the following:

(k) Foreign corporations, trusts and investment entities — any amount required by subdivision i to be included in computing the taxpayer's income for the year;

Applicable: To taxation years that begin after 2006, except that paragraph 12(1)(*k*) also applies to a taxation year of a taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the taxpayer.

Explanatory Note: Section 12 of the *Income Tax Act* provides for the inclusion of various amounts in computing a taxpayer's income for a taxation year from business or property. Paragraph 12(1)(*k*) refers to certain dividends required by existing sections 90 to 95 to be so added.

Paragraph 12(1)(*k*) is amended so that it refers to all amounts required to be added in computing income under amended sections 90 to 95, including new sections 94.1 to 94.3 relating to foreign investment entities. For more information, see the commentary on those new sections.

This amendment applies to taxation years that begin after 2006.

Related Sections: S. 90 Dividends received from non-resident corporation; s. 91 Amounts to be included in respect of share of foreign affiliate.
Regulations: Part II.

► 12(1)(l) ◄

(l) Partnership income — any amount that is, by virtue of subdivision j, income of the taxpayer for the year from a business or property;

Editorial Note: The character of the income as either business or property income flows through from the partnership to the partner; see generally subsection 96(1).

Related Sections: S. 96 General rules.
Interpretation Bulletins: *Secondary* — IT-278R2 Death of a partner or of a retired partner.
Forms: T2032.

► 12(1)(m) ◄

(m) Benefits from trusts — any amount required by subdivision k or subsection 132.1(1) to be included in computing the taxpayer's income for the year, except

(i) any amount deemed by that subdivision to be a taxable capital gain of the taxpayer, and

(ii) any amount paid or payable to the taxpayer out of or under an RCA trust (within the meaning assigned by subsection 207.5(1));

History: S. 12(1)(*m*), the portion before subparagraph (i), was amended by S.C. 1994, c. 21, s. 6(1), applicable to the 1988 and subsequent taxation years. The portion formerly read:

"(*m*) any amount required by subdivision k to be included in computing the income of the taxpayer for the year, except"

► 12(1)(n) ◄

(n) Employees profit sharing plan — any amount received by the taxpayer in the year out of or under

(i) an employees profit sharing plan, or

(ii) an employee trust

established for the benefit of employees of the taxpayer or of a person with whom the taxpayer does not deal at arm's length;

Related Sections: S. 6(1)(*a*) Value of benefits; s. 6(1)(*d*) Allocations, etc., under profit sharing plan; s. 6(1)(*g*) Employee benefit plan benefits; s. 6(10) Contributions to an employee benefit plan; s. 32.1 Employee benefit plan contributions; s. 107.1 Distribution by employee trust, employee benefit plan or similar trust; s. 144(1), "employees profit sharing plan".
Regulations: 212
Interpretation Bulletins: *Secondary* — IT-502 Employee benefit plans and employee trusts.

► 12(1)(n.1) ◄

(n.1) Employee benefit plan — the amount, if any, by which the total of amounts received by the taxpayer in the year out of or under an employee benefit plan to which the taxpayer has contributed as an employer (other than amounts included in the income of the taxpayer by virtue of paragraph (*m*)) exceeds the amount, if any, by which the total of all amounts

(i) so contributed by the taxpayer to the plan, or

(ii) included in computing the taxpayer's income for any preceding taxation year by virtue of this paragraph

exceeds the total of all amounts

(iii) deducted by the taxpayer in respect of the taxpayer's contributions to the plan in computing the taxpayer's income for the year or any preceding taxation year, or

(iv) received by the taxpayer out of or under the plan in any preceding taxation year (other than an amount included in the taxpayer's income by virtue of paragraph (*m*));

Related Sections: S. 6(1)(*a*) Value of benefits; s. 6(1)(*g*) Employee benefit plan benefits; s. 6(10) Contributions to an employee benefit plan; s. 18(1)(*o*) Employee benefit plan contributions; s. 32.1 Employee benefit plan contributions; s. 107.1 Distribution by employee trust, employee benefit plan or similar trust; s. 248(1), "employee benefit plan".
Interpretation Bulletins: *Secondary* — IT-502 Employee benefit plans and employee trusts.

► 12(1)(n.2) ◄

(n.2) Forfeited salary deferral amounts — where deferred amounts under a salary deferral arrangement in respect of another person have been deducted under paragraph 20(1)(*oo*) in computing the taxpayer's income for preceding taxation years, any amount in respect of the deferred amounts that was deductible under paragraph 8(1)(*o*) in computing the income of the person for a taxation year ending in the year;

Related Sections: S. 6(11)–(13) Salary deferral arrangement; s. 87(2)(*j.3*) Employee benefit plans, etc.

► 12(1)(n.3) ◄

(n.3) Retirement compensation arrangement — the total of all amounts received by the taxpayer in the year in the course of a business out of or under a retirement compensation arrangement to which the taxpayer, another person who carried on a business that was acquired by the taxpayer, or any person

with whom the taxpayer or that other person does not deal at arm's length, has contributed an amount that was deductible under paragraph 20(1)(*r*) in computing the contributor's income for a taxation year;

Related Sections: S. 248(1), "retirement compensation arrangement".
Forms: T4A-RCA.
Guides: T4041 Retirement Compensation Arrangements Guide.

► 12(1)(o) ◄

(o) Royalties, etc. — [Repealed by S.C. 2003, c. 28, s. 1(2).]

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subclauses 12(1)(*o*)(ii)(B)(I) to (V) of the *Income Tax Act* are replaced by the following:

(I) of petroleum, natural gas or related hydrocarbons from a natural accumulation of petroleum or natural gas (other than a mineral resource) located in Canada, or from an oil or gas well located in Canada, in respect of which the taxpayer had an interest, or for civil law a right,

(II) of sulphur from a natural accumulation of petroleum or natural gas located in Canada, from an oil or gas well located in Canada or from a mineral resource located in Canada, in respect of which the taxpayer had an interest, or for civil law a right,

(III) to any stage that is not beyond the prime metal stage or its equivalent, of metal, minerals (other than iron or petroleum or related hydrocarbons) or coal from a mineral resource located in Canada in respect of which the taxpayer had an interest, or for civil law a right,

(IV) to any stage that is not beyond the pellet stage or its equivalent, of iron from a mineral resource located in Canada in respect of which the taxpayer had an interest, or for civil law a right, or

(V) to any stage that is not beyond the crude oil stage or its equivalent, of petroleum or related hydrocarbons from a deposit located in Canada of bituminous sands or oil shales in respect of which the taxpayer had an interest, or for civil law a right;

Applicable: Royal Assent.

Explanatory Note: As part of the harmonization of federal legislation, the Government has undertaken to review all its legislation where provincial private law concepts are found in order to reflect appropriately the common law and the civil law, in both official languages.

As part of this harmonization initiative, federal tax legislation is being reviewed. Several changes to the legislation have already been implemented, namely by way of the *Income Tax Amendments Act, 2000*, S.C. 2001, c. 17. The proposed amendments continue this harmonization initiative.

This Part proposes amendments to the *Income Tax Act* concerning the concepts of "joint and several liability"/"solidary liability", "tangible property"/"corporeal property", "intangible property"/"incorporeal property", "personal property"/"movable property", "real property"/"immovable property", "interest"/"right" which are further described below. The proposed amendments are not intended to change the current application of the amended provisions; they purport to reflect the concepts and terminology of the common law and the civil law in both official languages. They will come into force on Royal Assent to this Bill.

Joint and Several Liability and Solidary Liability

The French version of the current tax legislation uses the term "*solidairement*", which is appropriate for both civil law and common law. Therefore, the French version does not need to be amended.

In the English version of the current tax legislation, only the term "jointly and severally" is used. This term is maintained for common law purposes. The term "jointly and severally" is no longer adequate in civil law in English and has been replaced with the term "solidarily". Therefore, it is appropriate to add the term "solidarily" in the English version in order to reflect the civil law.

Tangible and Corporeal Property

In the French version of the current tax legislation, only the civil law terminology "*bien corporel*" is used. In the English version, only the common law term "tangible property" is used.

In the French version of the legislation, it is appropriate to add the term "*bien tangible*" in order to reflect the common law.

In the English version of the legislation, it is appropriate to add the term "corporeal property" in order to reflect the civil law.

Intangible and Incorporeal Property

In the French version of the current tax legislation, only the civil law terminology "*bien incorporel*" is used. In the English version, only the common law term "intangible property" is used.

In the French version of the legislation, it is appropriate to add the term "*bien intangible*" in order to reflect the common law. Where it is appropriate to do so, the shared elements of the relevant terms are combined in the phrase "*bien incorporel ou intangible*", which refers to both systems of law.

In the English version of the legislation, it is appropriate to add the term "incorporeal property" in order to reflect the civil law. Where it is appropriate to do so, the shared elements of the relevant terms are combined in the phrase "intangible or incorporeal property", which refers to both systems of law.

Personal Property and Movable Property

In the French version of the current tax legislation, only the civil law terminology "*bien meuble*" is used. In the English version, the terms "personal property" and "chattels" are used to reflect the common law.

It is therefore appropriate to add in the French version a reference to the term "*bien personnel*" in order to reflect the common law. Where it is appropriate to do so, the shared elements of the relevant terms are combined in the phrase "*bien meuble ou personnel*", which refers to both systems of law.

In the English version of the legislation, the term "movable" is added in order to reflect the civil law. Where it is appropriate to do so, the shared elements are combined in the phrase "personal or movable property", which refers to both systems of law.

Real Property and Immovable Property

In the French version of the current tax legislation, only the civil law terminology "*bien immeuble*" is used. In the English version, only the common law concept of "real property" is used.

It is therefore appropriate to add a reference, in the French version, to the term "*bien réel*" in order to reflect the common law. Where it is appropriate to do so, the shared elements of the relevant terms are combined in the phrase "*bien immeuble ou réel*", which refers to both systems of law.

In the English version of the legislation, the term "immovable" is added in order to reflect the civil law. Where it is appropriate to do so, the shared elements of the relevant terms are combined in the phrase "real or immovable property", which refers to both systems of law.

Interest and Right

Generally, in the current tax legislation, the common law term "interest" and the civil law term "*droit*" are used to refer to the relationship that exists between a person and property. At common law, it is possible to have a right or an interest in property; an interest in property necessarily involves rights in property while the reverse is not always true.

For purposes of the civil law, it is appropriate to limit the application of the term "*droit*" in the French version to the civil

law, unless otherwise provided. In the English version, it is appropriate to add a reference to the concept of "right" in order to address the civil law audience and to similarly limit the application of this term to the civil law, unless otherwise provided.

The term "interest" is a common law concept that is translated into French by the term "*intérêt*". It is therefore appropriate to add a reference to the concept of "*intérêt*" in the French version in order to address the common law audience.

History: S. 12(1)(*o*) was repealed by S.C. 2003, c. 28, s. 1(2), applicable to taxation years that begin after 2006. S. 12(1)(*o*) formerly read:

"(*o*) *Royalties, etc.* — any amount (other than a prescribed amount and an amount referred to in paragraph 18(1)(*m*))

(i) that became receivable in the year by

(A) Her Majesty in right of Canada or of a province,

(B) an agent of Her Majesty in right of Canada or of a province, or

(C) a corporation, a commission or an association that is controlled by Her Majesty in right of Canada or of a province or by an agent of Her Majesty in right of Canada or of a province, and

(ii) that can reasonably be considered to be a royalty, tax (other than a tax or portion of a tax that can reasonably be considered to be a municipal or school tax), lease rental or bonus, however described, or to be in respect of the late receipt or non-receipt of any of those amounts, in relation to

(A) the acquisition, development or ownership of a Canadian resource property of the taxpayer, or

(B) the production in Canada

(I) of petroleum, natural gas or related hydrocarbons from a natural accumulation of petroleum or natural gas (other than a mineral resource) located in Canada, or from an oil or gas well located in Canada, in respect of which the taxpayer had an interest,

(II) of sulphur from a natural accumulation of petroleum or natural gas located in Canada, from an oil or gas well located in Canada or from a mineral resource located in Canada, in respect of which the taxpayer had an interest,

(III) to any stage that is not beyond the prime metal stage or its equivalent, of metal, minerals (other than iron or petroleum or related hydrocarbons) or coal from a mineral resource located in Canada in respect of which the taxpayer had an interest,

(IV) to any stage that is not beyond the pellet stage or its equivalent, of iron from a mineral resource located in Canada in respect of which the taxpayer had an interest, or

(V) to any stage that is not beyond the crude oil stage or its equivalent, of petroleum or related hydrocarbons from a deposit located in Canada of bituminous sands or oil shales in respect of which the taxpayer had an interest;"

S. 12(1)(*o*) was replaced by S.C. 2003, c. 28, s. 1(1), applicable to amounts that become receivable after December 20, 2002.

For each taxation year that ends after 2002 and begins before 2007, paragraph 12(1)(*o*) of the Act applies only to the percentage of each amount described by that paragraph that is the total of

(*a*) that proportion of 100% that the number of days in the taxation year that are before 2003 is of the number of days in the taxation year,

(*b*) that proportion of 90% that the number of days in the taxation year that are in 2003 is of the number of days in the taxation year,

(*c*) that proportion of 75% that the number of days in the taxation year that are in 2004 is of the number of days in the taxation year,

(*d*) that proportion of 65% that the number of days in the taxation year that are in 2005 is of the number of days in the taxation year, and

(*e*) that proportion of 35% that the number of days in the taxation year that are in 2006 is of the number of days in the taxation year.

[The application of paragraph 12(1)(*o*) for taxation years that end after 2002 and begin before 2007, noted above] does not apply for the purpose of applying any provision of Part XII of the *Income Tax Regulations* that makes reference to the income of a taxpayer. S. 12(1)(*o*) formerly read:

"(*o*) *Royalties, etc.* — any amount (other than an amount referred to in paragraph 18(1)(*m*), paid or payable by the taxpayer, or a prescribed amount) that, because of an obligation imposed by statute or a contractual obligation substituted for an obligation imposed by statute, became receivable in the year by

(i) Her Majesty in right of Canada or a province,

(ii) an agent of Her Majesty in right of Canada or a province, or

(iii) a corporation, commission or association that is controlled by Her Majesty in right of Canada or a province or by an agent of Her Majesty in right of Canada or a province

as a royalty, tax (other than a tax or portion of a tax that can reasonably be considered to be a municipal or school tax), lease rental or bonus or as an amount, however described, that can reasonably be regarded as being in lieu of any such amount, or in respect of the late receipt or non receipt of any such amount, and that can reasonably be regarded as being in relation to

(iv) the acquisition, development or ownership of a Canadian resource property of the taxpayer in respect of which the obligation imposed by statute or the contractual obligation, as the case may be, applied, or

(v) the production in Canada

(A) of petroleum, natural gas or related hydrocarbons from a natural accumulation of petroleum or natural gas (other than a mineral resource) located in Canada or from an oil or gas well located in Canada,

(B) of sulphur from a natural accumulation of petroleum or natural gas located in Canada, from an oil or gas well located in Canada or from a mineral resource located in Canada,

(C) to any stage that is not beyond the prime metal stage or its equivalent, of metal, minerals (other than iron or petroleum or related hydrocarbons) or coal from a mineral resource located in Canada,

(D) to any stage that is not beyond the pellet stage or its equivalent, of iron from a mineral resource located in Canada, or

(E) to any stage that is not beyond the crude oil stage or its equivalent, of petroleum or related hydrocarbons from tar sands from a mineral resource located in Canada,

in respect of which the taxpayer had an interest to which the obligation imposed by statute or the contractual obligation, as the case may be, applied;"

S. 12(1)(*o*), the portion after subparagraph (iii), was amended by S.C. 1997, c. 25, s. 2(2), applicable to taxation years that begin after 1996. That part formerly read:

"as a royalty, tax (other than a tax or portion thereof that may reasonably be considered to be a municipal or school tax), lease rental or bonus or as an amount, however described, that may reasonably be regarded as being in lieu of any such amount, and that may reasonably be regarded as being in relation to

(iv) the acquisition, development or ownership of a Canadian resource property, or

(v) the production in Canada

(A) of petroleum, natural gas or related hydrocarbons from a natural accumulation of petroleum or natural gas (other than a mineral resource) or from an oil or gas well,

(B) to any stage that is not beyond the prime metal stage or its equivalent, of metal, minerals (other than iron or petroleum or related hydrocarbons) or coal from a mineral resource,

(C) to any stage that is not beyond the pellet stage or its equivalent, of iron from a mineral resource, or

(D) to any stage that is not beyond the crude oil stage or its equivalent, of petroleum or related hydrocarbons from tar sands from a mineral resource,

situated on property in Canada in which the taxpayer had an interest with respect to which the obligation imposed by statute or the contractual obligation, as the case may be, applied;"

S. 12(1)(*o*)(v)(B) was amended by S.C. 1994, c. 7, Sched. II, s. 7(1), applicable with respect to amounts becoming receivable after July 13, 1990. S. 12(1)(*o*)(v)(B) formerly read:

"(B) to any stage that is not beyond the prime metal stage or its equivalent, of metal or minerals (other than iron or petroleum or related hydrocarbons) from a mineral resource,"

Related Sections: S. 18(1)(*m*) Royalties, etc.; s. 53(1)(*e*)(i)(B) Adjustments to cost base — Interest in a partnership; s. 53(2)(*c*)(i)(B) Amounts to be deducted — Interest in a partnership; s. 65 Allowance for oil or gas well, mine or timber limit; s. 66(15), "Canadian resource property"; s. 66.1(2) Deduction for certain principal-business corporations; s. 69(6) Disposition of petroleum, natural gas, etc.; s. 69(7) Acquisition of petroleum, natural gas, etc.; s. 69(8) Fair market value of resource output disposed of to Crown; s. 69(9) Fair market value of resource output acquired from Crown; s. 69(10) Certain persons deemed to be same person; s. 80.2(*b*) Reimbursement by taxpayer; s. 104(29) Amounts deemed payable to beneficiaries; s. 208 Tax payable by exempt person; s. 219(1)(*k*) Branch tax; s. 248(1), "Canadian field processing", "gross revenue".

Regulations: 1211.

Interpretation Bulletins: *Primary* — IT-438R2 Crown charges — Resource properties in Canada.

Forms: T79; T81(IND); T2 SCH 420; T82; T2 SCH 400.

► 12(1)(o.1) ◄

(o.1) Foreign oil and gas production taxes — the total of all amounts, each of which is the taxpayer's production tax amount for a foreign oil and gas business of the taxpayer for the year, within the meaning assigned by subsection 126(7);

History: S. 12(1)(*o.1*) was added by S.C. 2001, c. 17, s. 5(3), applicable to taxation years of a taxpayer that begin after the earlier of

(*a*) December 31, 1999; and

(*b*) where, for the purposes of subsection 117(26), a date is designated in writing by the taxpayer and the designation is filed with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act receives royal assent [June 14, 2001], the later of

(i) the date so designated, and

(ii) December 31, 1994.

► 12(1)(p) ◄

(p) Certain payments to farmers — any amount received by the taxpayer in the year as a stabilization payment, or as a refund of a levy, under the *Western Grain Stabilization Act* or as a payment, or a refund of a premium, in respect of the gross revenue insurance program established under the *Farm Income Protection Act*;

History: S. 12(1)(*p*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 3(1), applicable to the 1991 and subsequent taxation years. S. 12(1)(*p*) formerly read:

"(*p*) *Stabilization payments, etc.* — any amount received by the taxpayer as a stabilization payment or as a refund of levy under the *Western Grain Stabilization Act*;"

Related Sections: S. 20(1)(*ff*) Payments by farmers; s. 248(1), "amount", "gross revenue".

► 12(1)(q) ◄

(q) Employment tax deduction — any amount deducted under subsection 127(13) or (14) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, by the taxpayer for the year;

► 12(1)(r) ◄

(r) Inventory adjustment — the total of all amounts each of which, in respect of a property described in the taxpayer's inventory at the end of the year and valued at its cost amount to the taxpayer for the purposes of computing the taxpayer's income for the year, is an allowance in respect of depreciation, obsolescence or depletion included in that cost amount;

Related Sections: S. 87(2)(*j.1*) Inventory adjustment.

► 12(1)(s) ◄

(s) Reinsurance commission — the total of all amounts each of which is the maximum amount that an insurer may claim in the year in respect of a reserve for a reinsurance commission for a policy as allowed by regulations made under paragraph 20(7)(*c*) in respect of a risk the reinsurance of which is assumed by the taxpayer;

Department of Finance Comfort Letter
[Proposed Repeal of Paragraphs 12(1)(s) and 20(1)(jj) — Reinsurance Commissions]

December 21, 2005

Dear XXXX,

I am writing in response to your correspondence of October 19, 2005, requesting that paragraphs 12(1)(*s*) and 20(1)(*jj*) of the *Income Tax Act* (the "Act") be repealed because of the introduction of subsection 18(9.02)of the Act.

Subsection 18(9.02) of the Act, introduced in 2001, generally applies to taxation years that begin after 1999. This provision was introduced to ensure that the acquisition costs (i.e. commissions paid to a broker) that are incurred by an insurer or a reinsurer in respect of a policy are deducted as if they were incurred as consideration for services to be rendered consistently throughout the period of coverage under the policy. The deduction of acquisition costs over the term of the policy results in a matching of acquisition costs with the premium income over the period of coverage under the policy.

Prior to the introduction of subsection 18(9.02) of the Act, a different mechanism existed for matching acquisition costs with premium income. In the case of reinsurance, where the insurer cedes to a reinsurer all or part of the risk under a policy issued by the insurer, it receives a reinsurance commission from the reinsurer and is entitled to claim a reserve for unearned premiums. Paragraphs 12(1)(*s*) and 20(1)(*jj*) of the Act apply to the reinsurer in the taxation year in which it pays the reinsurance commission and in subsequent taxation years. Essentially, paragraph 12(1)(*s*) requires the reinsurer to include in computing its income for a particular taxation year the amount the insurer was entitled to claim as a reserve for unearned premiums in respect of the re-insurance premium paid to the insurer by the reinsurer. Paragraph 20(1)(*jj*) then permits the reinsurer to deduct in computing its income for the following year the amount included in computing its income for the particular taxation year under paragraph 12(1)(*s*). The effect of this mechanism is to ensure that the acquisition costs of the re-insurer are matched with premium income under the policy. This mechanism also requires the reinsurer to deduct the reinsurance commission, as it is included in the income of the insurer.

With the introduction of subsection 18(9.02), both the insurer and the re-insurer must treat the acquisition costs incurred by the insurer in respect of the policy or reinsurance commission paid by the reinsurer in respect of the reinsurance policy as if they were incurred as consideration for services that are to be rendered consistently throughout the period of coverage under the policy. Consequently, there is no need to have paragraphs 12(1)(*s*) and 20(1)(*jj*) apply to the reinsurer. The premium income of the reinsurer from the reinsurance policy will be matched with the reinsurance commission expense of the reinsurer over the period of coverage of the reinsurance policy. In fact, the existence of paragraphs 12(1)(*s*) and 20(1)(*jj*) can cause tax anomalies in the above situation by requiring an inclusion in income to offset a deduction that can no longer be claimed because of subsection 18(9.02).

Given this unintended result, it would seem appropriate to repeal paragraphs 12(1)(*s*) and 20(1)(*jj*) of the Act. We are prepared to recommend to the Minister of Finance such a change for taxation years that begin after 1999. If this recommendation is acted upon, it will be included in a future technical bill.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

Related Sections: S. 20(1)(*jj*) Reinsurance commission.

► 12(1)(t) ◄

(t) Investment tax credit — the amount deducted under subsection 127(5) or (6) in respect of a property acquired or an expenditure made in a preceding taxation year in computing the taxpayer's tax payable for a preceding taxation year to the extent that it was not included in computing the taxpayer's income for a preceding taxation year under this paragraph or is not included in an amount determined under paragraph 13(7.1)(*e*) or 37(1)(*e*), subparagraph 53(2)(*c*)(vi) or (*h*)(ii) or for I in the definition "undepreciated capital cost" in subsection 13(21) or L in the definition "cumulative Canadian exploration expense" in subsection 66.1(6);

Interpretation Bulletins: *Secondary* — IT-273R2 Government assistance — General comments.
Information Circulars: IC 78-4R3 Investment tax credit rates.

► 12(1)(u) ◄

(u) Home insulation or energy conversion grants — the amount of any grant received by the taxpayer in the year under a prescribed program of the Government of Canada relating to home insulation or energy conversion in respect of a property used by the taxpayer principally for the purpose of gaining or producing income from a business or property;

Related Sections: S. 13(7.1) Deemed capital cost of certain property; s. 53(1)(*k*) Adjustments to cost base — Expropriation asset; s. 56(1)(*s*) Grants under prescribed programs; s. 212(1)(*s*) Home insulation or energy conversion grants.
Regulations: 224; 5500; 5501.

► 12(1)(v) ◄

(v) **Research and development deductions** — the amount, if any, by which the total of amounts determined at the end of the year in respect of the taxpayer under paragraphs 37(1)(*d*) to (*h*) exceeds the total of amounts determined at the end of the year in respect of the taxpayer under paragraphs 37(1)(*a*) to (*c.1*);

Interpretation Bulletins: *Secondary* — IT-151R5 (Consolid.) — Scientific research and experimental development expenditures; IT-151R4 Scientific research and experimental development expenditures [Archived by the CRA].
Forms: T661.

► 12(1)(w) ◄

(w) **S. 80.4(1) benefit** — where the taxpayer is a corporation that carried on a personal services business at any time in the year or a preceding taxation year, the amount deemed by subsection 80.4(1) to be a benefit received by it in the year from carrying on a personal services business;

Interpretation Bulletins: *Secondary* — IT-421R2 Benefits to Individuals, Corporations and Shareholders from Loans or Debt.

► 12(1)(x) ◄

(x) **Inducement, reimbursement, etc.** — any particular amount (other than a prescribed amount) received by the taxpayer in the year, in the course of earning income from a business or property, from

(i) a person or partnership (in this paragraph referred to as the "payer") who pays the particular amount

(A) in the course of earning income from a business or property,

(B) in order to achieve a benefit or advantage for the payer or for persons with whom the payer does not deal at arm's length, or

(C) in circumstances where it is reasonable to conclude that the payer would not have paid the amount but for the receipt by the payer of amounts from a payer, government, municipality or public authority described in this subparagraph or in subparagraph (ii), or

(ii) a government, municipality or other public authority,

where the particular amount can reasonably be considered to have been received

(iii) as an inducement, whether as a grant, subsidy, forgivable loan, deduction from tax, allowance or any other form of inducement, or

(iv) as a refund, reimbursement, contribution or allowance or as assistance, whether as a grant, subsidy, forgivable loan, deduction from tax, allowance or any other form of assistance, in respect of

(A) an amount included in, or deducted as, the cost of property, or

(B) an outlay or expense,

to the extent that the particular amount

(v) was not otherwise included in computing the taxpayer's income, or deducted in computing, for the purposes of this Act, any balance of undeducted outlays, expenses or other amounts, for the year or a preceding taxation year,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 12(1)(x) of the Act is amended by adding the following after subparagraph (v):

(v.1) is not an amount received by the taxpayer in respect of a restrictive covenant, as defined by subsection 56.4(1), that was included, under subsection 56.4(2), in computing the income of a person related to the taxpayer,

Applicable: After October 7, 2003.

Explanatory Note:

Inducements, Reimbursements, etc.

Paragraph 12(1)(x) of the Act provides that certain inducements, reimbursements, contributions, allowances and assistance received by a taxpayer in the course of earning income from a business or property must be included in income "to the extent that" the particular amounts have not otherwise been included in income or reduced the cost of a property or the amount of an outlay or expense. Paragraph 12(1)(x) is amended consequential to the restrictive covenant rules in new section 56.4 of the Act (additional commentary is provided in the explanatory notes accompanying new section 56.4).

New subparagraph 12(x)(v.1) provides that the income inclusion referred to in paragraph (x) does not apply to the extent the amount in respect of a restrictive covenant (as defined by new subsection 56.4(1)) was included under subsection 56.4(2) in computing the income of a person related to the taxpayer. In other words, to the extent that a taxpayer receives an amount for a restrictive covenant that a person related to the taxpayer is required under subsection 56.4(2) to include in computing income, paragraph 12(1)(x) will not apply to require the taxpayer to include the amount in computing the taxpayer's income.

New subparagraph 12(1)(x)(v.1) applies after October 7, 2003.

(vi) except as provided by subsection 127(11.1), (11.5) or (11.6), does not reduce, for the purpose of an assessment made or that may be made under this Act, the cost or capital cost of the property or the amount of the outlay or expense, as the case may be,

(vii) does not reduce, under subsection (2.2) or 13(7.4) or paragraph 53(2)(*s*), the cost or capital cost of the property or the amount of the outlay or expense, as the case may be, and

(viii) may not reasonably be considered to be a payment made in respect of the acquisition by the payer or the public authority of an interest in the taxpayer or the taxpayer's business or property;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 12(1)(x)(viii) of the Act is replaced by the following:

(viii) may not reasonably be considered to be a payment made in respect of the acquisition by the payer or the

public authority of an interest in the taxpayer, an interest in, or for civil law a right in, the taxpayer's business or an interest in, or for civil law a real right in, the taxpayer's property;

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

History: S. 12(1)(*x*)(i) was amended by S.C. 1999, c. 22, s. 5(1), applicable to amounts received after February 23, 1998 other than amounts received before 1999 pursuant to an agreement in writing made before February 24, 1998. S. 12(1)(*x*)(i) formerly read:

"(i) a person (in this paragraph referred to as the 'payer') who pays the particular amount in the course of earning income from a business or property or in order to achieve a benefit or advantage for the payer or for persons with whom the payer does not deal at arm's length, or"

S. 12(1)(*x*), the portion before subparagraph (vii) was amended by S.C. 1998, c. 19, s. 71(3), applicable to amounts received after 1990 except that, for taxation years that began before 1996, subparagraph 12(1)(x)(vi) of the Act shall be read without reference to "(11.5) or (11.6),". S. 12(1)(*x*), the portion before subparagraph (vii) formerly read:

"(*x*) *Inducement, reimbursement, etc.* — any amount (other than a prescribed amount) received by the taxpayer in the year, in the course of earning income from a business or property, from

(i) a person who pays the amount (in this paragraph referred to as 'the payer') in the course of earning income from a business or property or in order to achieve a benefit or advantage for the payer or for persons with whom the payer does not deal at arm's length, or

(ii) a government, municipality or other public authority

where the amount can reasonably be considered to have been received

(iii) as an inducement, whether as a grant, subsidy, forgivable loan, deduction from tax, allowance or any other form of inducement, or

(iv) as a reimbursement, contribution or allowance or as assistance, whether as a grant, subsidy, forgivable loan, deduction from tax, allowance or any other form of assistance, in respect of the cost of property or in respect of an outlay or expense

to the extent that the amount

(v) was not otherwise included in computing the taxpayer's income, or deducted in computing, for the purposes of this Act, any balance of undeducted outlays, expenses or other amounts, for the year or a preceding taxation year,

(vi) except as provided by subsection 127(11.1), (11.5) or (11.6), does not reduce, for the purpose of an assessment made or that may be made under this Act, the cost or capital cost of the property or the amount of the outlay or expense, as the case may be,"

S. 12(1)(x)(vi) was amended by S.C. 1996, c. 21, s. 4(1), applicable to taxation years that begin after 1995. S. 12(1)(x)(vi) formerly read:

"(vi) except as provided by subsection 127(11.1), does not reduce, for the purposes of this Act, the cost or capital cost of the property or the amount of the outlay or expense, as the case may be,"

Editorial Note: Taxpayers can elect that an amount that would otherwise be included in income under paragraph 12(1)(*x*) in respect of the cost of a property or the amount of an outlay or expense can instead serve to reduce the cost of the property or the amount of the outlay or expense, as the case may be (see subsections 12(2.2), 13(7.4) and paragraph 53(2)(*s*)). However, the elections are not available if the amount is included in income other than under paragraph 12(1)(*x*) (for example, section 9 profit).

Related Sections: S. 12(2.1) Receipt of inducement, reimbursement, etc.; s. 20(1)(*hh*) Repayments of inducements, etc.; s. 53(2.1) Election; s. 87(2)(*j.6*) Continuing corporation; s. 248(1), "assessment".

Regulations: 7300.

Interpretation Bulletins: *Primary* — IT-273R2 Government Assistance — General Comments *Secondary* — IT-151R5 (Consolid.) — Scientific research and experimental development expenditures; IT-151R4 Scientific research and experimental development expenditures [Archived by the CRA].

Income Tax Technical News: Issue No. 29, Application of paragraph 12(1)(*x*).

Forms: T1273; T1274; T1275.

Guides: RC4408 Farming Income and the CAIS Program Harmonized Guide.

Tax Topics: No. 1677, Income Tax Implications of Lease Cancellation Payments.

Tax Profile: March 2002 — Selected Tax Issues for Commercial Landlords and Tenants.

Canadian Tax Foundation: Weinstein, "Damages, Fines And Penalties - An Update", *2000 Conference Report*, 7:1.

Tax Window Files: Inducements — Mortgage Interest Rebate, January 19, 2005, CRA Document No. 2004-0091601E5 [Mortgage interest rebate included in income]; Inducements — Quebec Tax Deduction for Securities Acquired under a Cooperative Investment Plan, April 28, 2004, CRA Document No. 2004-0071331I7 [Tax deduction under the Quebec *Taxation Act* was not a grant, subsidy or other assistance]; Refund of Non-deductible Interest, January 16, 2003, CRA Document No. 2002-0164407 [Refund of non-deductible interest included under subparagraph 12(1)(*x*)(iv) but taxpayer entitled to elect pursuant to subsection 12(2.2)]; Capital Tax Credit, 2003, CRA Document No. 2003-0034663 [Provincial credits that reduce provincial capital tax and that would have otherwise been deductible in computing income for federal income tax purposes not subject to paragraph 12(1)(*x*)]; Reimbursement for Stock Options Issued by Subsidiary, January 9, 2001, CRA Document No. 2000-0050505 [Reimbursement from foreign subsidiary to Canadian parent for issuance of shares to subsidiary's employees not subject to paragraph 12(1)(*x*)]; Reimbursement for Shares Issued Under Stock Option Plan, 2001, CRA Document No. 2001-0082983 [Reimbursement by foreign subsidiary to Canadian parent for shares issued under stock option plan not included in parent's income. But see Document No. 2002-0179805 regarding reimbursements of amounts accruing before the reimbursement agreement]; Reimbursement for Shares Issued under Stock Option Plan, September 18, 2000, CRA Document No. 2000-0029465 [Reimbursement by foreign subsidiary to Canadian parent for shares issued under stock option plan not included in parent's income. But see Document No. 2002-0179805 regarding reimbursements of amounts accruing before the reimbursement agreement]; Whether Share Redemption is an Inducement, 1997, CRA Document No. 9707693 [Redemption of shares for a nominal amount did not constitute inducement for purposes of paragraph 12(1)(*x*)].

Cases: The tenant inducement payment received by the taxpayer before the enactment of s. 12(1)(*x*) had to be included in income in the year received. *Ikea Limited v. The Queen*, 98 DTC 6092 (S.C.C.), affirming 96 DTC 6526 (F.C.A.).

The refund that the taxpayer received in 1994 of the federal sales tax paid and deducted by its predecessors between 1985 and 1989 had to be brought into its income for the years in which it was originally deducted rather than in its 1994 income. *Canada Safeway Ltd. v. The Queen*, 98 DTC 6060 (F.C.A.), affirming 97 DTC 187 (T.C.C.).

The lease inducement payment received by a taxpayer in the auto glass business upon leasing premises for use as a new head office was included in its income, considering that such payment could not be connected with any capital purpose and was directly and inextricably bound up with the economics of the taxpayer's operation. *The Queen v. TCG International Inc. (formerly Trans Canada Glass Ltd.)*, 96 DTC 6547 (F.C.T.D.) reversing 93 DTC 1260 (T.C.C.).

A tax credit received by the taxpayer under s. 1029.7 of the *Quebec Taxation Act* was an inducement payment for the purposes of s. 12(1)(*x*). *Tioxide Canada Inc. v. The Queen*, 96 DTC 6296 (F.C.A.), affirming 93 DTC 1499 (T.C.C.).

The amount paid to a partnership for entering into a lease could not be considered to be "a reimbursement, contribution, allowance or assistance ... in respect of the costs" of term deposits in which it had been obliged to invest the inducement payments until the commencement of the term of the lease, so that the taxpayer's share was included in his income. *Hill v. The Queen*, 95 DTC 5225 (F.C.A.), affirming 94 DTC 1078 (T.C.C.).

The $1 million inducement payment received by a taxpayer in consideration for an increased rent was income from his business considering that, from the moment he undertook to lease the premises, the taxpayer had signalled his intention of engaging in the business of subleasing. Had that arrangement been carried out, his profit from business would have been the difference between his rent and the rent charged to his sub-lessees. When the deal was changed so as to increase his own rent, his profit was expected to come from the lease inducement as well as from the rent differential. *The Queen v. Remington*, 94 DTC 6548 (F.C.A.), reversing 93 DTC 1020 (T.C.C.).

However, when a computer manufacturing taxpayer corporation received lease inducement payments from different landlords with respect to seven leases, such payments were included income. In this case, the primary consideration granted by the taxpayer was its acceptance of its obligations under the various leases to pay rent and these obligations were on revenue account. The inducement payments were just as much revenue payments as were the periodic rental payments to the landlords. *IBM Canada Ltd. v. M.N.R.*, 93 DTC 1266 (T.C.C.).

► 12(1)(x.1) ◄

(x.1) Fuel tax rebates — the total of all amounts each of which is

(i) a fuel tax rebate received in the year by the taxpayer under subsection 68.4(3) of the *Excise Tax Act*, or

(ii) the amount determined by the formula

$$10(A - B) - C$$

where

A is the total of all fuel tax rebates under subsections 68.4(2) and (3.1) of that Act received in the year by the taxpayer,

B is the total of all amounts, in respect of fuel tax rebates under section 68.4 of that Act

received in the year by the taxpayer, repaid by the taxpayer under subsection 68.4(7) of that Act, and

C is the total of all amounts, in respect of fuel tax rebates under section 68.4 of that Act received in the year, deducted under subsection 111(10) in computing the taxpayer's non-capital losses for other taxation years;

History: S. 12(1)(x1)(ii) was amended by S.C. 1997, c. 26, s. 82(1), applicable to the 1997 and subsequent taxation years. S. 12(1)(x.1)(ii) formerly read:

"(ii) the amount, if any, by which

(A) 10 times the amount, if any, by which

(I) the total of all fuel tax rebates under subsection 68.4(2) of that Act received in the year by the taxpayer

exceeds

(II) the total of all amounts, in respect of fuel tax rebates under subsection 68.4(2) of that Act received in the year by the taxpayer, repaid by the taxpayer under subsection 68.4(7) of that Act

exceeds

(B) the total of all amounts, in respect of fuel tax rebates under subsection 68.4(2) of that Act received in the year, deducted under subsection 111(10) in computing the taxpayer's non-capital loss for a year;"

S. 12(1)(x1) was added by S.C. 1994, c. 7, Sched. VI, s. 2(1), applicable to the 1992 and subsequent taxation years.

► 12(1)(x.2) ◄

(x.2) Crown charge rebates — the total of all amounts each of which is an amount that

(i) was received by the taxpayer, including by way of a deduction from tax, in the year as a refund, reimbursement, contribution or allowance, in respect of an amount that was at any time receivable, directly or indirectly in any manner whatever, by Her Majesty in right of Canada or of a province in respect of

(A) the acquisition, development or ownership of a Canadian resource property, or

(B) the production in Canada from a mineral resource, a natural accumulation of petroleum or natural gas, or an oil or a gas well, and

(ii) was not otherwise included in computing the taxpayer's income for the year or a preceding taxation year;

History: S. 12(1)(x2) was added by S.C. 2003, c. 28, s. 1(3), applicable to taxation years that end after 2002, except that for each taxation year that begins before 2012, paragraph 12(1)(x2) applies to the amount determined in respect of that taxation year by the formula

$$[A - (B \times C \times D)] \times E$$

where

A is the amount to which that paragraph would apply but for this [application]

B is the total of all amounts each of which was received by the taxpayer in the taxation year under Division 1 of Part 6 or Part 11 of the *Alberta Corporate Tax Act*, chapter A-15 of the Revised Statutes of Alberta 2000;

C is

(*a*) in the case of an individual, 1,

(*b*) in the case of a taxable Canadian corporation, the greater of 0 and the fraction determined by the formula

$$1 - (F/\$3 \text{ million})$$

where

F is the amount by which the Alberta crown royalty, within the meaning assigned by Division 1 of Part 6 of the *Alberta Corporate Tax Act*, chapter A-15 of the Revised Statutes of Alberta, 2000, of the corporation for the taxation year exceeds $2 million, and

(c) in any other case, 0;

D is the percentage that is the total of

(*a*) that proportion of 50% that the number of days in the taxation year that are before 2008 is of the number of days in the taxation year,

(*b*) that proportion of 40% that the number of days in the taxation year that are in 2008 is of the number of days in the taxation year,

(*c*) that proportion of 30% that the number of days in the taxation year that are in 2009 is of the number of days in the taxation year,

(*d*) that proportion of 20% that the number of days in the taxation year that are in 2010 is of the number of days in the taxation year, and

(*e*) that proportion of 10% that the number of days in the taxation year that are in 2011 is of the number of days in the taxation year; and

E is

(*a*) for the purpose of applying any provision of Part XII of the *Income Tax Regulations*, nil, and

(*b*) for any other purpose, the percentage that is the total of

(i) that proportion of 10% that the number of days in the taxation year that are in 2003 is of the number of days in the taxation year,

(ii) that proportion of 25% that the number of days in the taxation year that are in 2004 is of the number of days in the taxation year,

(iii) that proportion of 35% that the number of days in the taxation year that are in 2005 is of the number of days in the taxation year,

(iv) that proportion of 65% that the number of days in the taxation year that are in 2006 is of the number of days in the taxation year, and

(v) that proportion of 100% that the number of days in the taxation year that are after 2006 is of the number of days in the taxation year.

Related Sections: S. 12(1)(*o*) Royalties, etc.; s. 18(1)(*m*) Royalties, etc.; s. 66(15), "Canadian resource property"; s. 80.2 Reimbursement by taxpayer.

► 12(1)(y) ◄

(y) Automobile provided to partner — where the taxpayer is an individual who is a member of a partnership or an employee of a member of a partnership and the partnership makes an automobile available in the year to the taxpayer or to a person related to the taxpayer, the amounts that would be included by reason of paragraph 6(1)(*e*) in the income of the taxpayer for the year if the taxpayer were employed by the partnership;

History: S. 12(1)(*y*) was amended by S.C. 1997, c. 10, s. 268(1), applicable to the 1996 and subsequent taxation years. S. 12(1)(*y*) formerly read:

"(*y*) *Automobile provided to partner* — where the taxpayer is an individual who is a member of a partnership or an employee of a member of the partnership and the partnership makes an automobile available in the year to the taxpayer or to a person related to the taxpayer, the amounts that would be included, by reason of paragraph 6(1)(*e*) or by reason of paragraph 6(1)(*e.1*) if that paragraph were read without reference to paragraph 6(1)(*a*), in the income of the taxpayer for the year if the taxpayer were employed by the partnership;"

Interpretation Bulletins: *Secondary* — IT-63R5 Benefits, including standby charge for an automobile, from the personal use of a motor vehicle supplied by an employer — After 1992.

► 12(1)(z) ◄

(z) Amateur athlete trust payments — any amount in respect of an amateur athlete trust required by section 143.1 to be included in computing the taxpayer's income for the year;

History: S. 12(1)(*z*) was added by S.C. 1994, c. 7, Sched. VIII, s. 3(2), applicable to the 1988 and subsequent taxation years.

Related Sections: S. 143.1(1) Amateur athletes' reserve funds; s. 248(1), "amateur athlete trust", "amount".

Forms: T1061.

► 12(1)(z.1) ◄

(z.1) Qualifying environmental trusts — the total of all amounts received by the taxpayer in the year as a beneficiary under a qualifying environmental trust, whether or not the amounts are included because of subsection 107.3(1) in computing the taxpayer's income for any taxation year;

History: S. 12(1)(z.1) was amended by S.C. 1998, c. 19, s. 2(1), applicable to taxation years that end after February 18, 1997. S. 12(1)(z.1) formerly read:

"(z.1) *Mining reclamation trusts* — the total of all amounts received by the taxpayer in the year as a beneficiary under a mining reclamation trust, whether or not such amounts are included because of subsection 107.3(1) in computing the taxpayer's income for any taxation year;"

S. 12(1)(z.1) was added by S.C. 1995, c. 3, s. 2(1), applicable to taxation years that end after February 22, 1994.

Editorial Note: The amounts received out of the trust are included in the taxpayer's income under paragraph 12(1)(z.1), and are subsequently deductible under general principles if they are spent on environmental reclamation incurred in the course of the taxpayer's business. See the Frankovic article cited below, at 35-6, and 41-53.

Related Sections: S. 20(1)(*ss*) Qualifying environmental trusts; s. 107.3(1) Treatment of beneficiaries under qualifying environmental trusts; s. 127.41 Part XII.4 tax credit.

Canadian Tax Foundation: Frankovic, "The Case for 'Reverse Depreciation' of Reclamation Costs", *2004 Canadian Tax Journal*, No. 1, 1.

► 12(1)(z.2) ◄

(z.2) Dispositions of interests in qualifying environmental trusts — the total of all amounts each of which is the consideration received by the taxpayer in the year for the disposition to another person or partnership of all or part of the taxpayer's interest as a beneficiary under a qualifying environmental trust, other than consideration that is the assumption of a reclamation obligation in respect of the trust;

History: S. 12(1)(z2) was amended by S.C. 1998, c. 19, s. 2(1), applicable to taxation years that end after February 18, 1997. S. 12(1)(z2) formerly read:

"(z2) *Dispositions of interests in mining reclamation trusts* — the total of all amounts each of which is the consideration received by the taxpayer in the year for the disposition to another person or partnership of all or part of the taxpayer's interest as a beneficiary under a mining reclamation trust, other than consideration that is the assumption of a mining reclamation obligation in respect of the trust;"

S. 12(1)(z2) was added by S.C. 1995, c. 3, s. 2(1), applicable to taxation years that end after February 22, 1994.

► 12(1)(z.3) ◄

(z.3) Debt forgiveness — any amount required because of subsection 80(13) or (17) to be included in computing the taxpayer's income for the year;

History: S. 12(1)(z3) was added by S.C. 1995, c. 21, s. 76(1), applicable to taxation years that end after February 21, 1994.

► 12(1)(z.4) ◄

(z.4) Eligible funeral arrangements — any amount required because of subsection 148.1(3) to be included in computing the taxpayer's income for the year;

History: S. 12(1)(z4) was added by S.C. 1995, c. 21, s. 76(1), applicable to the 1993 and subsequent taxation years.

► 12(1)(z.5) ◄

(z.5) Former TFSA — any amount required because of subsection 146.2(9) to be included in computing the taxpayer's income for the year; and

History: S. 12(1)(z5) was added by S.C. 2009, c. 2, s. 4(1), applicable to the 2009 and subsequent taxation years.

S. 12(1)(z5) was repealed by S.C. 2003, c. 28, s. 1(4), applicable to taxation years that begin after 2006. S. 12(1)(z5) formerly read:

"(z5) *Resource loss* — 25% of the taxpayer's prescribed resource loss for the year; and"

The application of paragraph 12(1)(z5) was amended by S.C. 2003, c. 28, s. 1(10), as follows:

For each taxation year that ends after 2002 and begins before 2007, the reference to "25%" in paragraph 12(1)(z5) is to be read as a reference to the percentage that is the total of

(*a*) that proportion of 25% that the number of days in the taxation year that are before 2003 is of the number of days in the taxation year,

(*b*) that proportion of 22.5% that the number of days in the taxation year that are in 2003 is of the number of days in the taxation year,

(*c*) that proportion of 18.75% that the number of days in the taxation year that are in 2004 is of the number of days in the taxation year,

(*d*) that proportion of 16.25% that the number of days in the taxation year that are in 2005 is of the number of days in the taxation year, and

(*e*) that proportion of 8.75% that the number of days in the taxation year that are in 2006 is of the number of days in the taxation year.

S. 12(1)(z5) was added by S.C. 1997, c. 25, s. 2(3), applicable to taxation years that begin after 1996.

Related Sections: S. 96(1)(*d*) General rules.

Regulations: 1100(1)(*w*)(i), 1100(1)(*x*)(i), 1100(1)(*y*)(i), 1100(1)(*ya*)(i); 1210.1; 5203(1), "adjusted business income".

Forms: T81(IND); T2 SCH 420.

► 12(1)(z.6) ◄

(z.6) Refunds — any amount received by the taxpayer in the year in respect of a refund of an amount that was deducted under paragraph 20(1)(*vv*) in computing income for any taxation year.

History: S. 12(1)(z6) was added by S.C. 1999, c. 22, s. 5(2), applicable to amounts received after February 23, 1998.

Related Sections: S. 13(21), "Undepreciated capital cost".

► 12(2) ◄

(2) Interpretation. Paragraphs (1)(*a*) and (*b*) are enacted for greater certainty and shall not be construed as implying that any amount not referred to in those paragraphs is not to be included in computing income from a business for a taxation year whether it is received or receivable in the year or not.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 12 of the Act is amended by adding the following after subsection (2):

(2.01) No deferral of section 9 income under paragraph (1)(g). Paragraph (1)(g) does not defer the inclusion in income of any amount that would, if this section were read without reference to that paragraph, be included in computing the taxpayer's income in accordance with section 9.

Applicable: Royal Assent.

Explanatory Note:

No Deferral of Section 9 Under Paragraph (1)(g)

New subsection 12(2.01) of the Act, which comes into force on Royal Assent, provides that paragraph 12(1)(g) of the Act does not defer the inclusion in a taxpayer's income of an amount that would otherwise be so included at an earlier time in accordance with section 9 of the Act. Accordingly, where an amount based on production or use would be included in computing a taxpayer's income from a business or property (if section 12 were read without reference to paragraph 12(1)(g)) at a time when the amount is accrued but not yet received, subsection 12(2.01) clarifies that paragraph 12(1)(g) does not apply to defer the inclusion of the amount in income until the time of receipt.

► 12(2.1) ◄

(2.1) Receipt of inducement, reimbursement, etc. For the purposes of paragraph (1)(*x*), where at a particular time a taxpayer who is a beneficiary of a trust or a member of a partnership has received an amount as an inducement, whether as a grant, subsidy, forgivable loan, deduction from tax, allowance or any other form of inducement, in respect of the activities of the trust or partnership, or as a reimbursement, contribution, allowance or as assistance, whether as a grant, subsidy, forgivable loan, deduction from tax, allowance or any other form of assistance, in respect of the cost of property or in respect of an expense of the trust or partnership, the amount shall be deemed to have been received at that time by the trust or partnership, as the case may be, as such an inducement, reimbursement, contribution, allowance or assistance.

Interpretation Bulletins: *Secondary* — IT-273R2 Government Assistance — General Comments.

► 12(2.2) ◄

(2.2) Deemed outlay or expense. Where

(*a*) in a taxation year a taxpayer receives an amount that would, but for this subsection, be included under paragraph (1)(*x*) in computing the taxpayer's

income for the year in respect of an outlay or expense (other than an outlay or expense in respect of the cost of property of the taxpayer) made or incurred by the taxpayer before the end of the following taxation year, and

(*b*) the taxpayer elects under this subsection on or before the day on or before which the taxpayer's return of income under this Part for the year is required to be filed, or would be required to be filed if tax under this Part were payable by the taxpayer for the year or, where the outlay or expense is made or incurred in the following taxation year, for that following year,

the amount of the outlay or expense shall be deemed for the purpose of computing the taxpayer's income, other than for the purposes of this subsection and paragraphs (1)(*x*) and 20(1)(*hh*), to have always been the amount, if any, by which

(*c*) the amount of the outlay or expense

exceeds

(*d*) the lesser of the amount elected by the taxpayer under this subsection and the amount so received by the taxpayer,

and, notwithstanding subsections 152(4) to (5), such assessment or reassessment of the taxpayer's tax, interest and penalties under this Act for any taxation year shall be made as is necessary to give effect to the election.

History: S. 12(2.2) was amended by S.C. 1994, c. 7, Sched. VIII, s. 3(3), applicable to amounts received after January 1990. S. 12(2.2) formerly read:

"(2.2) Where a taxpayer has in a taxation year received an amount that would, but for this subsection, be included in computing the taxpayer's income for the year by reason of paragraph (1)(*x*) in respect of an outlay or expense made or incurred by the taxpayer in the year, in any of the 3 taxation years immediately preceding the year or in the taxation year immediately following the year (other than an outlay or expense in respect of the cost of property of the taxpayer) and the taxpayer elects under this subsection on or before the day on or before which the taxpayer's return of income under this Part is required to be filed, or would be required to be filed if the taxpayer had tax payable, for the year, or, where the outlay or expense is made or incurred in the taxation year immediately following the year, for that following year, the amount of the outlay or expense shall be deemed, for the purposes of computing the income of the taxpayer, other than for the purposes of this subsection and subparagraphs (1)(*x*)(iv) and 20(1)(*hh*)(ii), to have always been the amount, if any, by which

(*a*) the amount of the outlay or expense

exceeds

(*b*) the lesser of the amount elected by the taxpayer under this subsection and the amount so received by the taxpayer,

and, notwithstanding subsections 152(4) and (5), such assessment or reassessment of the taxpayer's tax, interest and penalties under this Act for any taxation year shall be made as is necessary to give effect to the election."

Editorial Note: See the editorial note under paragraph 12(1)(*x*).

Related Sections: S. 13(7.4) Deemed capital cost; s. 53(2.1) Election.

Interpretation Bulletins: *Secondary* — IT-273R2 Government Assistance — General Comments.

► 12(3) ◄

(3) Interest income. Subject to subsection (4.1), in computing the income for a taxation year of a corporation, partnership, unit trust or any trust of which a corporation or a partnership is a beneficiary, there shall be included any interest on a debt obligation (other than interest in respect of an income bond, an income debenture, a small business bond, a small business development bond, a net income stabilization account or an indexed debt obligation) that accrues to it to the end of the year, or becomes receivable or is received by it before the end of the year, to the extent that the interest was not included in computing its income for a preceding taxation year.

History: S. 12(3) was amended by S.C. 1998, c. 19, s. 71(4), applicable

(*a*) to taxation years that end after September 1997; and

(*b*) to a taxpayer's taxation years that end after 1995 and before October 1997 where the taxpayer files an election in accordance with paragraph 81(11)(*b*).

S. 12(3) formerly read:

"(3) *Interest income.* Notwithstanding paragraph (1)(*c*), in computing the income for a taxation year of a corporation, partnership, unit trust or any trust of which a corporation or a partnership is a beneficiary, there shall be included any interest on a debt obligation (other than interest in respect of an income bond, an income debenture, a small business development bond, a small business bond, a net income stabilization account or an indexed debt obligation) that accrues to it to the end of the year, or becomes receivable or is received by it before the end of the year, to the extent that the interest was not included in computing its income for a preceding taxation year."

S. 12(3) was amended by S.C. 1994, c. 21, s. 6(2), applicable to debt obligations issued after October 16, 1991. S. 12(3) formerly read:

"(3) Notwithstanding paragraph (1)(*c*), in computing the income for a taxation year of a corporation, partnership, unit trust or any trust of which a corporation or a partnership is a beneficiary, there shall be included any interest on a debt obligation (other than interest in respect of an income bond, an income debenture, a small business development bond, a small business bond or a net income stabilization account) that accrues to it to the end of the year, or becomes receivable or is received by it before the end of the year, to the extent that the interest was not included in computing its income for a preceding taxation year."

S. 12(3) was amended by S.C. 1994, c. 7, Sched. VIII, s. 3(4), applicable to the 1991 and subsequent taxation years to add the reference to a net income stabilization account. S. 12(3) formerly read:

"(3) Notwithstanding paragraph (1)(*c*), in computing the income for a taxation year of a corporation, partnership, unit trust or any trust of which a corporation or a partnership is a beneficiary, there shall be included any interest on a debt obligation (other than interest in respect of an income bond, an income debenture, a small business development bond, or a small business bond) that accrued to it to the end of the year, or became receivable or was received by it before the end of the year, to the extent that the interest was not included in computing its income for a preceding taxation year."

Editorial Note: See the editorial note under paragraph 12(1)(*c*).

Related Sections: S. 12(1)(*c*) Interest; s. 12(1)(*p*) Certain payments to farmers; s. 12(4) Interest from investment contract; s. 12(5) Exception; s. 12(9) Deemed accrual; s. 15.2(3), "small business bond"; s. 16(6) Indexed debt obligations; s. 20(14) Accrued bond interest; s. 20(19) Annuity contract; s. 20(21) Debt obligation; s. 87(2)(*j.4*) Accrual rules; s. 248(1), "corporation", "income bond", "net income stabilization account", "small business bond", "small business development bond".

Regulations: 201(4) — (4.2); 7000(2).

Interpretation Bulletins: *Secondary* — IT-142R3 Settlement of debts on the winding-up of a corporation; IT-265R3 Payments of income and capital combined; IT-396R Interest income.

Tax Window Files: Interest Income Renunciation, June 11, 2004, CRA Document No. 2004-0076291E5 [Paragraph 12(1)(*c*) and subsection 12(3) not applicable when right to interest renounced by creditor]; Discount on Bond Subject to Annual Accrual, March 21, 1994, CRA Document No. 9328405 [Accrual rules apply to discount on debt obligation with stipulated interest well below market rate of interest].

► 12(4) ◄

(4) Interest from investment contract. Subject to subsection (4.1), where in a taxation year a taxpayer (other than a taxpayer to whom subsection (3) applies) holds an interest in an investment contract on any anniversary day of the contract, there shall be included in computing the taxpayer's income for the year the interest that accrued to the taxpayer to the end of that day with respect to the investment contract, to the extent that the interest was not otherwise included in computing the taxpayer's income for the year or any preceding taxation year.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 12(4) of the Act is replaced by the following:

(4) **Interest from investment contract.** Subject to subsection (4.1), where in a taxation year a taxpayer (other than a taxpayer to whom subsection (3) applies) holds an interest in, or for civil law a right in, an investment contract on any anniversary day of the contract, there shall be included in computing the taxpayer's income for the year the interest that accrued to the taxpayer to the end of that day with respect to the investment contract, to the extent that the interest was not otherwise included in computing the taxpayer's income for the year or any preceding taxation year.

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

History: S. 12(4) was amended by S.C. 1998, c. 19, s. 71(4), applicable
(*a*) to taxation years that end after September 1997; and
(*b*) to a taxpayer's taxation years that end after 1995 and before October 1997 where the taxpayer files an election in accordance with paragraph 81(11)(*b*).

S. 12(4) formerly read:

"(4) *Idem.* Where in a taxation year a taxpayer (other than a taxpayer to whom subsection (3) applies) holds an interest in an investment contract on any anniversary day of the contract, there shall be included in computing the taxpayer's income for the year the interest that accrued to the taxpayer to the end of that day with respect to the investment contract, to the extent that the interest was not otherwise included in computing the taxpayer's income for the taxation year or any preceding taxation year."

Editorial Note: See the editorial note under paragraph 12(1)(*c*).

Related Sections: S. 12(9) Deemed accrual; s. 12(11) Definitions; s. 20(14) Accrued bond interest; s. 20(21) Debt obligation; s. 87(2)(*j*.4) Accrual rules.
Regulations: 201(4)–(4.2)
Interpretation Bulletins: *Secondary* — IT-265R3 Payments of income and capital combined [Archived by the CRA]; IT-396R Interest income.
Advance Tax Rulings: ATR-61 Interest accrual rules.
Tax Window Files: Investment Contract — Anniversary Day — Accrued Interest on Rate-Riser Investment, May 31, 2005, CRA Document No. 2005-0122641E5 [Subsections 12(4) and (9) applied to "rate-riser" investment]; Accrued Interest on Callable Step-up Bond, September 9, 2003, CRA Document No. 2003-0006645 [Application of subsections 12(4) and (9) to "callable step-up bonds"]; Contingent Interest — Indexed Note, 1997, CRA Document No. 9719753 [Contingent "interest" to be paid at end of five-year indexed note included under paragraph 12(1)(*c*) upon maturity; holder of note not required to accrue interest under subsection 12(4); see also CRA doc. 9633886]; Discount on Bond Subject to Annual Accrual, March 21, 1994, CRA Document No. 9328405 [Accrual rules apply to discount on debt obligation with stipulated interest well below market rate of interest]; Stripped Bonds and Coupons — Accrued Interest, February 14, 1992, CRA Document No. 9204345 [Application of interest accrual rules to stripped bond].

► 12(4.1) ◄

(4.1) Impaired debt obligations. Paragraph (1)(*c*) and subsections (3) and (4) do not apply to a taxpayer in respect of a debt obligation for the part of a taxation year throughout which the obligation is impaired where an amount in respect of the obligation is deductible because of subparagraph 20(1)(*l*)(ii) in computing the taxpayer's income for the year.

History: S. 12(4.1) was added by S.C. 1998, c. 19, s. 71(4), applicable
(*a*) to taxation years that end after September 1997; and
(*b*) to a taxpayer's taxation years that end after 1995 and before October 1997 where the taxpayer files an election in accordance with paragraph 81(11)(*b*).

► 12(5) ◄

(5) Exception. [Repealed by S.C. 1990, c. 39, s. 4(1).]

► 12(6) ◄

(6) Application. [Repealed by S.C. 1990, c. 39, s. 4(1).]

► 12(7) ◄

(7) Idem. [Repealed by S.C. 1990, c. 39, s. 4(1).]

► 12(8) ◄

(8) Accrued interest may be included in income. [Repealed by S.C. 1990, c. 39, s. 4(1).]

► 12(9) ◄

(9) Deemed accrual. For the purposes of subsections (3), (4) and (11) and 20(14) and (21), where a taxpayer acquires an interest in a prescribed debt obligation, an amount determined in prescribed manner shall be deemed to accrue to the taxpayer as interest on the obligation in each taxation year during which the taxpayer holds the interest in the obligation.

Editorial Note: See the pending amendment replacing subsections 12(9) and (9.1) reproduced following subsection 12(9.1).

History: S. 12(9) was amended by S.C. 1994, c. 7, Sched. II, s. 7(2), applicable to investment contracts last acquired after 1989. S. 12(9) formerly read:

"(9) For the purposes of subsections (3) and (4) and 20(14) and (21), where a taxpayer has at any time acquired an interest in a prescribed debt obligation, an amount determined in prescribed manner shall be deemed to accrue to the taxpayer as interest on the obligation in each taxation year during which the taxpayer holds the interest in the obligation."

Regulations: 201(7); 7000.
Interpretation Bulletins: *Secondary* — IT-265R3 Payments of income and capital combined [Archived by the CRA]; IT-396R Interest income; IT-410R Debt obligations — Accrued interest on transfer [Archived by the CRA].
Advance Tax Rulings: ATR-61 Interest accrual rules.
Tax Window Files: Investment Contract — Anniversary Day — Accrued Interest on Rate-Riser Investment, May 31, 2005, CRA Document No. 2005-0122641E5 [Subsections 12(4) and (9) applied to "rate-riser" investment]; Interest Calculation on Escalating Debt Obligation, March 30, 2005, CRA Document No. 2004-0102421E5 [Application of subsection 12(9) to escalating debt obligations]; Interest Income Calculation — Coupon Bonds Issued at a Premium or Discount, May 31, 2004, CRA Document No. 2004-0074381E5 [General comments regarding the accrual of interest on bonds issued at a premium or discount]; Accrued Interest on Callable Step-up Bond, September 9, 2003, CRA Document No. 2003-0006645 [Application of subsections 12(4) and (9) to "callable step-up bonds"]; Contingent Interest — Indexed Note, 1997, CRA Document No. 9719753 [Contingent "interest" to be paid at end of five-year indexed note included under paragraph 12(1)(*c*) upon maturity; holder of note not required to accrue interest under subsection 12(4); see also CRA doc. 9633886]; Discount on Bond Subject to Annual Accrual, March 21, 1994, CRA Document No. 9328405 [Accrual rules apply to discount on debt obligation with stipulated interest well below market rate of interest]; Calculation of Interest on Strip Bond Coupons, March 18, 1993, CRA Document No. 9235556 [Application of interest accrual rules to strip coupons]; Stripped Bonds and Coupons — Accrued Interest, February 14, 1992, CRA Document No. 9204345 [Application of interest accrual rules to strip coupons].

► 12(9.1) ◄

(9.1) Exclusion of proceeds of disposition. Where a taxpayer disposes of an interest in a debt obligation that is a debt obligation in respect of which the proportion of the payments of principal to which the taxpayer is entitled is not equal to the proportion of the payments of interest to which the taxpayer is entitled, such portion of the proceeds of disposition received by the taxpayer as can reasonably be considered to represent a recovery of the cost to the taxpayer of the interest in the debt obligation shall, notwithstanding any other provision of this Act, not be included in computing the income of the taxpayer, and for the purpose of this subsection, a debt obligation includes, for greater certainty, all of the issuer's obligations to pay principal and interest under that obligation.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsections 12(9) and (9.1) of the Act are replaced by the following:

(9) Deemed accrual. For the purposes of subsections (3), (4) and (11) and 20(14) and (21), where a taxpayer acquires an interest in, or for civil law a right in, a prescribed debt obligation, an amount determined in prescribed manner shall be deemed to accrue to the taxpayer as interest on the obligation in each taxation year during which the taxpayer holds the interest or the right in the obligation.

(9.1) Exclusion of proceeds of disposition. Where a taxpayer disposes of an interest in, or for civil law a right in, a debt obligation that is a debt obligation in respect of which the proportion of the payments of principal to which the taxpayer is entitled is not equal to the proportion of the payments of interest to which the taxpayer is entitled, such portion of the proceeds of disposition received by the taxpayer as can reasonably be considered to represent a recovery of the cost to the taxpayer of the interest or the right in the debt obligation shall, notwithstanding any other provision of this Act, not be included in computing the income of the taxpayer, and for the purpose of this subsection, a debt obligation includes, for greater certainty, all of the issuer's obligations to pay principal and interest under that obligation.

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

History: S. 12(9.1) was amended by S.C. 1994, c. 7, Sched. VIII, s. 3(5), applicable to dispositions of debt obligations occurring after October 16, 1991. S. 12(9.1) formerly read:

"(9.1) *Exception.* Where a taxpayer disposes of an interest in a debt obligation that, by virtue of paragraph 7000(1)(*b*) of the *Income Tax Regulations*, is a prescribed debt obligation for the purposes of subsection (9), such portion of the proceeds of the disposition received by the taxpayer as may reasonably be considered to represent a recovery of the cost to the taxpayer of the debt obligation shall, notwithstanding any other provision of this Act, not be included in computing the taxpayer's income under this Part."

► 12(10) ◄

(10) Application. [Repealed by S.C. 1990, c. 39, s. 4(3).]

► 12(10.1) ◄

(10.1) Income from R.H.O.S.P. Notwithstanding any other provision of this Act, where an individual was at the end of 1985 a beneficiary under a registered home ownership savings plan (within the meanings assigned by paragraphs 146.2(1)(*a*) and (*h*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as they read in their application to the 1985 taxation year), that portion of the income that can reasonably be considered to have accrued under the plan before 1986 (other than the portion thereof that can reasonably be considered to be attributable to amounts contributed after May 22, 1985 to or under the plan) shall not be included in computing the income of the individual or of any other person.

Related Sections: S. 50(3) Disposal of R.H.O.S.P. properties; s. 146.2(22) Contributions to R.H.O.S.P. after May 22, 1985.

► 12(10.2) ◄

(10.2) NISA receipts. There shall be included in computing a taxpayer's income for a taxation year from a property the total of all amounts each of which is the amount determined by the formula

A – B

where

A is an amount paid at a particular time in the year out of the taxpayer's NISA Fund No. 2; and

B is the amount, if any, by which

(*a*) the total of all amounts each of which is

(i) deemed by subsection (10.4) or 104(5.1) or (14.1) to have been paid out of the taxpayer's NISA Fund No. 2 before the particular time, or

(ii) deemed by subsection 70(5.4) or 73(5) to have been paid out of another person's NISA Fund No. 2 on being transferred to the taxpayer's NISA Fund No. 2 before the particular time,

exceeds

(*b*) the total of all amounts each of which is the amount by which an amount otherwise determined under this subsection in respect of a payment out of the taxpayer's NISA Fund No. 2 before the particular time was reduced because of this description.

History: S. 12(10.2), paragraph (*a*) of the description of B was replaced by S.C. 2007, c. 35, s. 9(1), applicable to the balance in a NISA Fund No. 2 to the extent that that balance consists of contributions made to the fund, and amounts earned on those contributions, in the 2008 and subsequent taxation years. S. 12(10.2), paragraph (*a*) of the description of B formerly read:

"(a) the total of all amounts each of which is deemed by subsection 104(5.1) or (14.1) to have been paid out of the taxpayer's NISA Fund No. 2 before the particular time, or is deemed by subsection 70(5.4) or 73(5) to have been paid out of another person's NISA Fund No. 2 on being transferred to the taxpayer's NISA Fund No. 2 before the particular time,"

S. 12(10.2) was added by S.C. 1994, c. 7, Sched. VIII, s. 3(6), applicable to the 1991 and subsequent taxation years.

Related Sections: S. 70(5.4) NISA on death; s. 73(5) Disposition of a NISA; s. 104(5.1) Interest in NISA Fund No. 2; s. 104(14.1) NISA election; s. 212(1)(*t*) NISA Fund No. 2 payments; s. 214(3)(*l*) Deemed payments; s. 248(1), "NISA Fund No. 2", "property"; s. 249(1) Definition of "taxation year".
Regulations: 202(2.1); 202(3).
Forms: T1163; T1175.
Guides: RC4060 Farming Income and NISA — Joint Forms and Guide.

► 12(10.3) ◄

(10.3) Amount credited or added not included in income. Notwithstanding any other provision of this Act, an amount credited or added to a taxpayer's NISA Fund No. 2 shall not be included in computing the taxpayer's income solely because of that crediting or adding.

History: S. 12(10.3) was added by S.C. 1994, c. 7, Sched. VIII, s. 3(6), applicable to the 1991 and subsequent taxation years.

Related Sections: S. 70(5.4) NISA on death; s. 73(5) Disposition of a NISA; s. 104(5.1) Interest in NISA Fund No. 2; s. 104(14.1) NISA election; s. 248(1), "NISA Fund No. 2", "property"; s. 249(1) Definition of "taxation year".

► 12(10.4) ◄

(10.4) Acquisition of control — corporate NISA Fund No. 2. For the purpose of subsection (10.2), if at any time there is an acquisition of control of a corporation, the balance of the corporation's NISA Fund No. 2, if any, at that time is deemed to be paid out to the corporation immediately before that time.

History: S. 12(10.4) was added by S.C. 2007, c. 35, s. 9(2), applicable to the balance in a NISA Fund No. 2 to the extent that that balance consists of contributions made to the fund, and amounts earned on those contributions, in the 2008 and subsequent taxation years.

► 12(11) ◄

(11) Definitions. In this section,

Interpretation Bulletins: *Secondary* — IT-265R3 Payments of income and capital combined [Archived by the CRA]; IT-396R Interest income.

"anniversary day" — "anniversary day" of an investment contract means

(*a*) the day that is one year after the day immediately preceding the date of issue of the contract,

(*b*) the day that occurs at every successive one year interval from the day determined under paragraph (*a*), and

(*c*) the day on which the contract was disposed of;

"*investment contract*" — "investment contract", in relation to a taxpayer, means any debt obligation other than

(*a*) a salary deferral arrangement or a plan or arrangement that, but for any of paragraphs (*a*), (*b*) and (*d*) to (*l*) of the definition "salary deferral arrangement" in subsection 248(1), would be a salary deferral arrangement,

(*b*) a retirement compensation arrangement or a plan or arrangement that, but for any of paragraphs (*a*), (*b*), (*d*) and (*f*) to (*n*) of the definition "retirement compensation arrangement" in subsection 248(1), would be a retirement compensation arrangement,

(*c*) an employee benefit plan or a plan or arrangement that, but for any of paragraphs (*a*) to (*e*) of the definition "employee benefit plan" in subsection 248(1), would be an employee benefit plan,

(*d*) a foreign retirement arrangement,

(*d.1*) a TFSA,

(*e*) an income bond,

(*f*) an income debenture,

(*g*) a small business development bond,

(*h*) a small business bond,

(*i*) an obligation in respect of which the taxpayer has (otherwise than because of subsection (4)) at periodic intervals of not more than one year, included, in computing the taxpayer's income throughout the period in which the taxpayer held an interest in the obligation, the income accrued thereon for such intervals,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*i*) of the definition "investment contract" in subsection 12(11) of the Act is replaced by the following:

(*i*) an obligation in respect of which the taxpayer has (otherwise than because of subsection (4)) at periodic intervals of not more than one year, included, in computing the taxpayer's income throughout the period in which the taxpayer held an interest in, or for civil law a right in, the obligation, the income accrued thereon for such intervals,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*j*) an obligation in respect of a net income stabilization account,

(*k*) an indexed debt obligation, and

(*l*) a prescribed contract.

History: S. 12(11), paragraph (*d.1*) of the definition "investment contract" was added by S.C. 2009, c. 2, s. 4(2), applicable to the 2009 and subsequent taxation years.

S. 12(11), paragraph (*k*) of the definition of "investment contract", was renumbered as paragraph (*l*) and new paragraph (*k*) was added by S.C. 1994, c. 21, s. 6(3), applicable to debt obligations issued after October 16, 1991.

S. 12(11), paragraph (*j*) of the definition of "investment contract", was amended and paragraph (*k*) was added by S.C. 1994, c. 7, Sched. VIII, S. 3(7), applicable to the 1991 and subsequent taxation years. Paragraph (*j*) formerly read:

"(*j*) a prescribed contract."

S. 12(11), the definition of "investment contract", was amended by S.C. 1994, c. 7, Sched. II, S. 7(3), applicable to the 1985 and subsequent taxation years, except that

(*a*) in its application to the 1985 taxation year, the definition "investment contract" in subsection 12(11) of the Act, as enacted by subsection (3), shall be read without reference to paragraphs (*a*) and (*b*) of that definition;

(*b*) in its application to the 1985 to 1989 taxation years, the definition "investment contract" in subsection 12(11) of the Act, as enacted by subsection (3), shall be read without reference to paragraph (*d*) of that definition; and

(*c*) in applying paragraph (*i*) of the definition "investment contract" in subsection 12(11) of the Act, as enacted by subsection (3), in respect of debt obligations acquired before 1990, the reference in that paragraph to "not more than one year" shall be read as "not more than 3 years".

S. 12(11), the definition of "investment contract", formerly read:

" '*investment contract*' — 'investment contract', in relation to a taxpayer, means any debt obligation (other than a salary deferral arrangement, an income bond, an income debenture, a small business development bond, a small business bond, an obligation in respect of which the taxpayer has, at periodic intervals of not more than one year, included, in computing the taxpayer's income throughout the period in which the taxpayer held an interest in the obligation, the income accrued thereon for such intervals, or a prescribed contract)."

Related Sections: S. 12(1)(*c*) Interest; s. 12(4) Interest from investment contract; s. 16(6) Indexed debt obligations; s. 248(1), "foreign retirement arrangement", "net income stabilization account", "prescribed".
Regulations: 7000(6).

SECTION 12.1: Cash bonus on Canada Savings Bonds.

Notwithstanding any other provision of this Act, where in a taxation year a taxpayer receives an amount from the Government of Canada in respect of a Canada Savings Bond as a cash bonus that the Government of Canada has undertaken to pay (other than any amount of interest, bonus or principal agreed to be paid at the time of the issue of the bond under the terms of the bond), the taxpayer shall, in computing the taxpayer's income for the year, include as interest in respect of the Canada Savings Bond 1/2 of the cash bonus so received.

Related Sections: S. 12(1)(*c*) Interest.
Regulations: Part II; 220.

SECTION 12.2:

► 12.2(1) ◄

(1) Amount to be included. Where in a taxation year a taxpayer holds an interest, last acquired after 1989, in a life insurance policy that is not

(*a*) an exempt policy,

(*b*) a prescribed annuity contract, and

(*c*) a contract under which the policyholder has, under the terms and conditions of a life insurance policy that was not an annuity contract and that was last acquired before December 2, 1982, received the proceeds therefrom in the form of an annuity contract,

on any anniversary day of the policy, there shall be included in computing the taxpayer's income for the taxation year the amount, if any, by which the accumulating fund on that day in respect of the interest in the policy, as determined in prescribed manner, exceeds the adjusted cost basis to the taxpayer of the interest in the policy on that day.

Department of Finance Comfort Letter [Third-Party Life Annuity Contracts]

September 12, 2002

Dear XXXX

This is in reply to your letter dated June 12, 2002 concerning third-party life annuity contracts and the definition of adjusted

cost basis (ACB) found in subsection 148(9) of the *Income Tax Act* (the Act).

In your letter you have recommended that the definition "adjusted cost basis" in subsection 148(9) of the Act be amended to replace the term "life annuity contract" currently found therein with the term "annuity contract". You have indicated that the term "life annuity contract", as defined in subsection 301(1) of the Income Tax Regulations (the Regulations), is overly restrictive because it excludes certain third-party life annuity contracts under which annuity payments are dependent on the life of an individual but the annuitants are either not individuals or are not the individual on whose life the annuity payments are dependent. You have pointed out that subsection 12.2(1) of the Act may inappropriately require an income inclusion in respect of interests in such third-party life annuity contracts because mortality gains and losses affect the determination of the accumulating fund in respect of the interest but not the ACB of the interest.

You have also requested that the amendments be effective for the 1981 and subsequent taxation years (the effective date for subsection 12.2(1)), in order to reflect the historical industry practice which, in your view, provides the appropriate tax result.

We agree with your conclusion that the definition "life annuity contract" in subsection 301(1) of the Regulations is overly restrictive and can result in inappropriate income inclusions under subsection 12.2(1) of the Act. We do, however, envision a different solution to this issue than that which you have suggested. In particular, we propose to recommend to the Minister of Finance that the definition "life annuity contract" in subsection 301(1) of the Regulations be amended to include life annuity contracts under which the annuitant is a partnership or a person as well as life annuity contracts under which the annuity payments are based on the life of an individual who is not the annuitant. We also propose to recommend to the Minister of Finance that the proposed amendments to the definition "life annuity contract" in subsection 301(1) of the Regulations be made applicable to taxation years that end after 1996. However, in calculating the adjusted cost basis to a policyholder of the policyholder's interest in a life insurance policy for taxation years that end after 1996, the proposed amendments will be made applicable, for the purposes of applying the definition "adjusted cost basis" in subsection 148(9) of the Act, to taxation years that end after 1980.

If the recommendation is accepted we will begin the process of submitting the amendments to the Income Tax Regulations for approval and promulgation.

Thank you for bringing this matter to our attention.

Yours sincerely,

Len Farber
General Director
Tax Legislation Division
Tax Policy Branch

Department of Finance Comfort Letter [Alter Ego Trusts Acquiring Annuity Contracts]

July 29, 2002

Dear XXXX

Thank you for your letter dated May 6, 2002, concerning section 304 of the *Income Tax Regulations* (the "Regulations") and its application to *alter ego* trusts.

Section 304 defines a "prescribed annuity contract" for a taxation year for the purposes of subsection 12.2(1) and paragraph 148(2)(*b*) of the *Income Tax Act* (the "Act"). *Alter ego* trusts and joint spousal and common-law partner trusts are trusts described in paragraph 104(4)(*a*) of the Act and as you mentioned in your letter, these trusts would appear to qualify as a specified trust eligible to hold prescribed annuities under clause 304(1)(*c*)(iii)(A) of the Regulations.

However, it would appear that an *alter ego* trust would not be able to acquire an annuity contract that is a prescribed annuity contract because subclauses 304(1)(*c*)(iv)(B)(II) and 304(1)(*c*)(iv)(C)(II) require, in the case of a specified trust, that the terms of the contract determine annuity payments by reference to the "spouse or common-law partner who is entitled to receive the income of the trust". *Alter ego* trusts do not comply with those subclauses because, in the case of *alter ego* trusts, the annuity payments would be determined by reference to the individual who is entitled to receive the income of the trust and not by reference to the spouse or common-law partner. As a result, you have requested that those subclauses be amended to allow *alter ego* trusts to hold prescribed annuity contracts.

From a policy perspective, it appears appropriate to permit an *alter ego* trust to be eligible to hold a prescribed annuity contract if all the other conditions of section 304 of the Regulations are met. This treatment would be in accordance with the treatment of the other trusts described in paragraph 104(4)(*a*) of the Act. Consequently, we are prepared to recommend to the Minister of Finance that amendments be made to subclauses 304(1)(*c*)(iv)(B)(II) and 304(1)(*c*)(iv)(C)(II) of the Regulations to permit an *alter ego* trust to hold a prescribed annuity contract. Further, we intend to recommend that the amendments apply to the taxation years that begin after 2001.

Of course, I can offer no assurance that the Minister of Finance will agree with the recommendation that I have described. Nonetheless, I hope that this statement of our position is helpful.

Thank you for bringing this matter to our attention.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

Department of Finance Press Release
Proposals Affecting Segregated Fund Policies and Other Annuity Contracts

[A portion of the text of Department of Finance Release No. 96-100, dated December 19, 1996, and part (b) of the accompanying appendix relating to the accrual rules for an annuity contract issued as an RRIF are reproduced below. Most of the release and appendix concerned the issue of segregated funds with respect to the foreign property rules under former Part XI of the Act.]

Finance Minister Paul Martin today announced a number of proposed measures affecting the tax treatment of annuity contracts, including segregated fund policies, offered by insurers.

* * *

The proposed changes are described in more detail in the attached appendix.

* * *

For further information:

Andrew Nicholls
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(613) 995-3586

Appendix — Proposed changes for segregated funds and other annuities

Background

There are a number of different types of RRSPs and RRIFs currently available to Canadians. One type is the RRSP or RRIF trust, which is a trust established to hold "qualified investments" for the benefit of the RRSP or RRIF annuitant. Another type is the RRSP or RRIF deposit, which is a contract under which a financial institution agrees to repay a principal amount deposited plus stipulated interest.

* * *

[A]nnuities that are issued as RRIFs may technically not be exempt from the accrual rules under section 12.2 of the Act. These rules require income accruing under annuity contracts to be reported annually. The application of these rules to RRIFs is particularly anomalous because annuities issued as RRSPs are exempt from these rules.

Proposed Amendments

* * *

(b) *Accrual Rules*

- An annuity contract issued as a RRIF will not be subject to the accrual rules under section 12.2 of the Act.

• This amendment will be implemented by way of an amendment to subsection 304(1) of the Regulations. It is contemplated that it will apply to taxation years that begin after 1986, given that the original amendments to the Act that gave rise to the need for this amendment applied after 1986.

History: S. 12.2(1) was repealed by S.C. 1994, c. 7, Sched. II, s. 8(1), applicable to life insurance policies last acquired after 1989. S. 12.2(3) was renumbered as s. 12.2(1) and the portion preceding paragraph (*a*) was amended by S.C. 1994, c. 7, Sched. II, s. 8(2), effective with respect to life insurance policies last acquired after 1989. S. 12.2(1) formerly read:

"(1) In computing the income for a taxation year of a corporation, partnership, unit trust or any trust of which a corporation or partnership is a beneficiary that holds

(*a*) an interest, last acquired after December 1, 1982, in a life insurance policy, or

(*b*) an interest, last acquired after December 19, 1980 and before December 2, 1982, in an annuity contract under which annuity payments did not commence before December 2, 1982,

that is not

(*c*) an interest in an exempt policy, or

(*d*) an interest, last acquired before December 2, 1982, in a contract under which the policyholder has, under the terms and conditions of a life insurance policy that was not an annuity contract, received the proceeds therefrom in the form of an annuity contract,

there shall be included the amount by which the accumulating fund at the end of the calendar year ending in the taxation year, as determined in prescribed manner, in respect of the interest exceeds the adjusted cost basis of the interest to the corporation, partnership, unit trust or trust at the end of that calendar year."

For the previous text of the portion preceding paragraph (*a*), see the history note to s. 12.2(3) below.

Related Sections: S. 148(9) Definitions.
Regulations: 201(5); 304; 307.
Interpretation Bulletins: *Primary* — IT-87R2 Policyholders' income from life insurance policies. *Secondary* — IT-355R2 Interest on loans to buy life insurance policies and annuity contracts, and interest on policy loans [Archived by the CRA]; IT-363R2 Deferred Profit Sharing Plans — Deductibility of Employer Contributions and Taxation of Amounts Received by a Beneficiary [Archived by the CRA]; IT-365R2 Damages, settlement, and similar receipts.
Advance Tax Rulings: ATR-68 Structured settlement.

► 12.2(2) ◄

(2) Interest not disposed of before 1985. [Repealed by S.C. 1990, c. 39, s. 5(1).]

► 12.2(3) ◄

(3) Amounts included in income. [Repealed by S.C. 1994, c. 7, Sched. II, s. 8(2).]

History: S. 12.2(3) was renumbered as s. 12.2(1) and the portion preceding paragraph (*a*) was amended by S.C. 1994, c. 7, Sched. II, s. 8(2), applicable to life insurance policies last acquired after 1989. S. 12.2(3) formerly read:

"(3) Where in a taxation year a taxpayer (other than a taxpayer to whom subsection (1) applies) holds an interest, acquired after 1989, in a life insurance policy that is not

(*a*) an exempt policy,

(*b*) a prescribed annuity contract, and

(*c*) a contract under which the policyholder has, under the terms and conditions of a life insurance policy that was not an annuity contract and that was last acquired before December 2, 1982, received the proceeds therefrom in the form of an annuity contract,

on any anniversary day of the policy, there shall be included in computing the taxpayer's income for the taxation year the amount, if any, by which the accumulating fund on that day in respect of the interest in the policy, as determined in prescribed manner, exceeds the adjusted cost basis to the taxpayer of the interest in the policy on that day."

Regulations: 304(1).

► 12.2(4) ◄

(4) Election. [Repealed by S.C. 1990, c. 39, s. 5(1).]

Regulations: 304(1); 600(*b*).

► 12.2(4.1) ◄

(4.1) Revocation of election. [Repealed by S.C. 1990, c. 39, s. 5(1).]

► 12.2(5) ◄

(5) Idem. Where in a taxation year subsection (1) applies with respect to a taxpayer's interest in an annuity contract (or would apply if the contract had an anniversary day in the year at a time when the taxpayer held the interest), there shall be included in computing the taxpayer's income for the year the amount, if any, by which

(*a*) the total of all amounts each of which is an amount determined at the end of the year, in respect of the interest, for any of H to L in the definition "adjusted cost basis" in subsection 148(9)

exceeds

(*b*) the total of all amounts each of which is an amount determined at the end of the year, in respect of the interest, for any of A to G in the definition referred to in paragraph (*a*).

History: S. 12.2(5), preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 8(3), applicable to life insurance policies last acquired after 1989. S. 12.2(5) preceding paragraph (*a*) formerly read:

"(5) Where in a taxation year subsection (1) or (3) applies with respect to a taxpayer's interest in an annuity contract, there shall be included in computing the taxpayer's income for the year the amount, if any, by which"

Regulations: 201(5).

► 12.2(6) ◄

(6) Application. [Repealed by S.C. 1990, c. 39, s. 5(2).]

► 12.2(7) ◄

(7) Idem. [Repealed by S.C. 1990, c. 39, s. 5(2).]

► 12.2(8) ◄

(8) Deemed acquisition of interest in annuity. For the purposes of this section, the first premium that was not fixed before 1990 and that was paid after 1989 by or on behalf of a taxpayer under an annuity contract, other than a contract described in paragraph (1)(*d*) of this section, or paragraph 12.2(3)(*e*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, or to which subsection (1) of this section or subsection 12.2(4) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, applies (as those paragraphs and subsections, the numbers of which are those in force immediately before December 17, 1991, read in their application to life insurance policies last acquired before 1990) or to which subsection 12(3) applies, last acquired by the taxpayer before 1990 (in this subsection referred to as the "original contract") shall be deemed to have been paid to acquire, at the time the premium was paid, an interest in a separate annuity contract issued at that time, to the extent that the amount of the premium was not fixed before 1990, and each subsequent premium paid under the original contract shall be deemed to have been paid under that separate contract to the extent that the amount of that subsequent premium was not fixed before 1990.

History: S. 12.2(8) was amended by S.C. 1994, c. 7, Sched. II, s. 8(4), applicable to premiums paid after 1989. S. 12.2(8) formerly read:

"(8) For the purposes of this section, the first premium that was not fixed before 1990 and that was paid after 1989 by or on behalf of a taxpayer under an annuity contract (other than a contract described in paragraph (1)(*d*) or (3)(*c*) or a contract to which subsection (1) or (3) or 12(3) applies) last acquired by the taxpayer before 1990 (in this subsection referred to as the 'original contract') shall be deemed to have been paid to acquire, at the time the premium was paid, an interest in a separate annuity contract issued at that time and each subsequent premium paid under the original contract shall be deemed to have been paid under that separate contract."

► 12.2(9) ◄

(9) Rules where premium paid. [Repealed by S.C. 1990, c. 39, s. 5(4).]

Editorial Note: This provision is still relevant for policies acquired before 1990.

History: S. 12.2(9) was repealed by 1990, c. 39, s. 5(4), applicable with respect to life insurance policies last acquired after 1989. S. 12.2(9) formerly read:

"(9) Where, at any time after December 1, 1982, a prescribed premium (other than a premium referred to in subsection (8)) has been paid by or on behalf of a taxpayer in respect of an interest in a life insurance policy last acquired on or before that date, and

(*a*) the policy is not an exempt policy, or

(*b*) there has been a prescribed increase in any benefit on death under the policy,

this Act applies after that time with respect to his interest in the policy as if

(*c*) subsections (1), (3) and (4) and 148(4), paragraph 148(2)(*b*) and clause 148(9)(*e.2*)(iv)(A) were read without reference to the words 'last acquired after December 1, 1982';

(*d*) subsection (1) were read without reference to paragraph (*d*) thereof;

(*e*) subsection (3) were read without reference to paragraph (*e*) thereof;

(*f*) subsection 148(6) were not applicable;

(*g*) subparagraph 148(9)(*a*)(ix) were read as follows:

'(ix) in the case of an interest in a life insurance policy (other than an annuity contract), the aggregate of all amounts each of which is the net cost of pure insurance in respect of the interest, as determined in prescribed manner, immediately before the end of the calendar year ending in a taxation year commencing after the later of

(A) May 31, 1985, and

(B) the end of the year before the year in which subsection 12.2(9) first applied in respect of the interest, and

before that time,;'

(*h*) subparagraph 148(9)(*c*)(ix) were read without reference to clause (A) thereof; and

(*i*) all that portion of subparagraph 148(9)(e.1)(iii) preceding clause (A) thereof were read as follows:

'(iii) that portion of any amount paid, after the later of May 31, 1985 and the time at which subsection 12.2(9) first applied in respect of the interest, under the policy with respect to

and, for the purposes of this subsection, paragraph 148(10)(*d*) shall be read without reference to the expression "(other than a conversion into an annuity contract)".'"

Regulations: 309.

► 12.2(10) ◄

(10) Riders. For the purposes of this Act, a rider added at any time after 1989 to a life insurance policy last acquired before 1990 that provides additional life insurance is deemed to be a separate life insurance policy issued at that time unless

(*a*) the policy is an exempt policy last acquired after December 1, 1982 or an annuity contract; or

(*b*) the only additional life insurance provided by the rider is an accidental death benefit.

History: S. 12.2(10) was amended by S.C. 1998, c. 19, s. 72(1), applicable to riders added after 1989. S. 12(10) formerly read:

"(10) *Riders.* For the purposes of this Act, any rider added at any time after 1989 to a life insurance policy (other than an annuity contract) last acquired before 1990 that provides for additional life insurance (other than an accidental death benefit) shall be deemed to be a separate life insurance policy issued at that time."

► 12.2(11) ◄

(11) Definitions. In this section and paragraph 56(1)(*d.1*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 12.2(11) of the Act before the definition "anniversary day" is replaced by the following:

(11) Definitions. The definitions in this subsection apply in this section and in paragraph 94.2(11)(*c*), and in paragraph 56(1)(*d.1*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952.

Applicable: After 2006, except that the portion of subsection 12.2(11) before the definition "anniversary day" also applies to a taxation year of a taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the taxpayer.

Explanatory Note: Subsection 12.2(11) of the Act provides the definitions "anniversary day" and "exempt policy" for the purposes of section 12.2 and paragraph 56(1)(*d.1*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952.

Subsection 12.2(11) is amended so that it also applies for the purpose of paragraph 94.2(11)(*c*) of the Act. As a result, references to the expressions "anniversary day" and "exempt policy" in paragraph 94.2(11)(*c*) will carry the same meaning as that used in section 12.2.

This amendment applies after 2006.

For more detail on subsection 94.2(11), see the commentary on that provision.

"anniversary day" — "anniversary day" of a life insurance policy means

(*a*) the day that is one year after the day immediately preceding the day on which the policy was issued, and

(*b*) each day that occurs at each successive one-year interval after the day determined under paragraph (*a*).

History: S. 12.2(11), the definition of "anniversary day", was amended by S.C. 1994, c. 7, Sched. II, s. 8(5), applicable to life insurance policies last acquired after 1989. S. 12.2(11), the definition of "anniversary day", formerly read:

"'anniversary day' of a life insurance policy means the last day of each calendar year ending after the policy was issued;"

"exempt policy" — "exempt policy" has the meaning prescribed by regulation.

Regulations: 306.

► 12.2(12) ◄

(12) Application of ss. 138(12) and 148(9). The definitions in subsections 138(12) and 148(9) apply to this section.

History: S. 12.2(12) was not part of the former Income Tax Act.

Related Sections: S. 138(12) Definitions; s. 148(9) Definitions.

► 12.2(13) ◄

(13) Application of s. 148(10). Subsection 148(10) applies to this section.

History: S. 12.2(13) was not part of the former Income Tax Act.

Related Sections: S. 148(10) Life annuity contracts.

SECTION 12.3: Transition inclusion re unpaid claims reserve.

Where an amount has been deducted under subsection 20(26) in computing the income of an insurer for its taxation year that includes February 23, 1994, there shall be included in computing the insurer's income for that taxation year and each subsequent taxation year that begins before 2004, the prescribed portion for the year of the amount so deducted.

History: S. 12.3 was amended by S.C. 1995, c. 3, s. 3(1), applicable to taxation years that end after February 22, 1994. S. 12.3 formerly read:

"S. 12.3. *Net reserve inclusion.* Where a taxpayer has deducted an amount under subsection 20(26) in computing the taxpayer's income for the taxpayer's first taxation year that commences after June 17, 1987 and ends after 1987, there shall be included in computing the taxpayer's income for each of the taxation years ending after 1988 and commencing before 1993, the prescribed amount of the taxpayer's net reserve inclusion for that year."

Related Sections: S. 87(2)(*g*.1) Continuation.
Regulations: 8101(2)–(5).

SECTION 12.4: Bad debt inclusion.

Where, in a taxation year, a taxpayer disposes of a property that was a property described in an inventory of the taxpayer and in the year or a preceding taxation year an amount has been deducted under paragraph 20(1)(*p*) in computing the taxpayer's income in respect of the property, there shall be included in computing the taxpayer's income for the year from the business in which the property was used or held, the amount, if any, by which

(*a*) the total of all amounts deducted under paragraph 20(1)(*p*) by the taxpayer in respect of the property in computing the taxpayer's income for the year or a preceding taxation year

exceeds

(*b*) the total of all amounts included under paragraph 12(1)(*i*) by the taxpayer in respect of the property in computing the taxpayer's income for the year or a preceding taxation year.

Related Sections: S. 87(2)(*g*.1) Continuation.

SECTION 12.5: [Insurer's Reserve Inclusion].

► 12.5(1) ◄

(1) Definitions. The definitions in this section apply for the purposes of this section and section 20.4.

"base year" — "base year" of an insurer means the insurer's taxation year that immediately precedes its transition year.

History: S. 12.5(1), the definition "base year" was added by S.C. 2009, c. 2, s. 5(1), applicable to taxation years that begin after September 2006.

"insurance business" — "insurance business" of an insurer, is an insurance business carried on by the insurer, other than a life insurance business.

History: S. 12.5(1), the definition "insurance business" was added by S.C. 2009, c. 2, s. 5(1), applicable to taxation years that begin after September 2006.

"reserve transition amount" — "reserve transition amount" of an insurer, in respect of an insurance business carried on by it in Canada in its transition year, is the positive or negative amount determined by the formula

$$A - B$$

where

A is the maximum amount that the insurer would be permitted to claim under paragraph 20(7)(*c*) (and that would be prescribed by section 1400 of the Regulations for the purpose of paragraph 20(7)(*c*)) as a policy reserve for its base year in respect of its insurance policies if

(*a*) the generally accepted accounting principles that applied to the insurer in valuing its assets and liabilities for its transition year had applied to it for its base year, and

(*b*) section 1400 of the Regulations were read in respect of the insurer's base year as it reads in respect of its transition year; and

B is the maximum amount that the insurer is permitted to claim under paragraph 20(7)(*c*) as a policy reserve for its base year.

History: S. 12.5(1), the definition "reserve transition amount" was added by S.C. 2009, c. 2, s. 5(1), applicable to taxation years that begin after September 2006.

"transition year" — "transition year" of an insurer means the insurer's first taxation year that begins after September 2006.

History: S. 12.5(1), the definition "transition year" was added by S.C. 2009, c. 2, s. 5(1), applicable to taxation years that begin after September 2006.

► 12.5(2) ◄

(2) Transition year income inclusion. There shall be included in computing an insurer's income for its transition year from an insurance business carried on by it in Canada in the transition year, the positive amount, if any, of the insurer's reserve transition amount in respect of that insurance business.

History: S. 12.5(2) was added by S.C. 2009, c. 2, s. 5(1), applicable to taxation years that begin after September 2006.

► 12.5(3) ◄

(3) Transition year income deduction reversal. If an amount has been deducted under subsection 20.4(2) in computing an insurer's income for its transition year from an insurance business carried on by it in Canada, there shall be included in computing the insurer's income, for each particular taxation year of the insurer that ends after the beginning of the transition year, from that insurance business, the amount determined by the formula

$$A \times B/1825$$

where

A is the amount deducted under subsection 20.4(2) in computing the insurer's income for the transition year from that insurance business; and

B is the number of days in the particular taxation year that are before the day that is 1825 days after the first day of the transition year.

History: S. 12.5(3) was added by S.C. 2009, c. 2, s. 5(1), applicable to taxation years that begin after September 2006.

► 12.5(4) ◄

(4) Winding-up. If an insurer has, in a winding-up to which subsection 88(1) has applied, been wound-up into another corporation (referred to in this subsection as the "parent"), and immediately after the winding-up the parent carries on an insurance business, in applying subsections (3) and 20.4(3) in computing the incomes of the insurer and of the parent for particular taxation years that end on or after the first day (referred to in this subsection as the "start day") on which assets of the insurer were distributed to the parent on the winding-up,

(*a*) the parent is, on and after the start day, deemed to be the same corporation as and a continuation of the insurer in respect of

(i) any amount included under subsection (2) or deducted under subsection 20.4(2) in computing the insurer's income from an insurance business for its transition year,

(ii) any amount included under subsection (3) or deducted under subsection 20.4(3) in computing the insurer's income from an insurance business for a taxation year of the insurer that begins before the start day, and

(iii) any amount that would — in the absence of this subsection and if the insurer existed and carried on an insurance business on each day that is the start day or a subsequent day and on which the

parent carries on an insurance business — be required to be included or deducted, in respect of any of those days, under subsection (3) or 20.4(3) in computing the insurer's income from an insurance business; and

(*b*) the insurer is, in respect of each of its particular taxation years, to determine the value for B in the formulas in subsections (3) and 20.4(3) without reference to the start day and days after the start day.

History: S. 12.5(4) was added by S.C. 2009, c. 2, s. 5(1), applicable to taxation years that begin after September 2006.

► 12.5(5) ◄

(5) Amalgamations. If there is an amalgamation (within the meaning assigned by subsection 87(1)) of an insurer with one or more other corporations to form one corporation (referred to in this subsection as the "new corporation"), and immediately after the amalgamation the new corporation carries on an insurance business, in applying subsections (3) and 20.4(3) in computing the new corporation's income for particular taxation years that begin on or after the day on which the amalgamation occurred, the new corporation is, on and after that day, deemed to be the same corporation as and a continuation of the insurer in respect of

(*a*) any amount included under subsection (2) or deducted under subsection 20.4(2) in computing the insurer's income from an insurance business for its transition year;

(*b*) any amount included under subsection (3) or deducted under subsection 20.4(3) in computing the insurer's income from an insurance business for a taxation year of the insurer that begins before the day on which the amalgamation occurred; and

(*c*) any amount that would — in the absence of this subsection and if the insurer existed and carried on an insurance business on each day that is the day on which the amalgamation occurred or a subsequent day and on which the new corporation carries on an insurance business — be required to be included or deducted, in respect of any of those days, under subsection (3) or 20.4(3) in computing the insurer's income from an insurance business.

History: S. 12.5(5) was added by S.C. 2009, c. 2, s. 5(1), applicable to taxation years that begin after September 2006.

► 12.5(6) ◄

(6) Application of subsection (7). Subsection (7) applies if, at any time, an insurer (referred to in this subsection and subsection (7) as the "transferor") transfers, to a corporation (referred to in this subsection and subsection (7) as the "transferee") that is related to the transferor, property in respect of an insurance business carried on by the transferor in Canada (referred to in this subsection and subsection (7) as the "transferred business") and

(*a*) subsection 138(11.5) or (11.94) applies to the transfer; or

(*b*) subsection 85(1) applies to the transfer, the transfer includes all or substantially all of the property and liabilities of the transferred business and, immediately after the transfer, the transferee carries on an insurance business.

History: S. 12.5(6) was added by S.C. 2009, c. 2, s. 5(1), applicable to taxation years that begin after September 2006.

► 12.5(7) ◄

(7) Transfer of insurance business. If this subsection applies in respect of the transfer, at any time, of property

(*a*) the transferee is, at and after that time, deemed to be the same corporation as and a continuation of the transferor in respect of

(i) any amount included under subsection (2) or deducted under subsection 20.4(2) in computing the transferor's income for its transition year that can reasonably be attributed to the transferred business,

(ii) any amount included under subsection (3) or deducted under subsection 20.4(3) in computing the transferor's income for a taxation year of the transferor that begins before that time that can reasonably be attributed to the transferred business,

(iii) any amount that would — in the absence of this subsection and if the transferor existed and carried on an insurance business on each day that includes that time or is a subsequent day and on which the transferee carries on an insurance business — be required to be included or deducted, in respect of any of those days, under subsection (3) or 20.4(3) in computing the transferor's income that can reasonably be attributed to the transferred business; and

(*b*) in determining, in respect of the day that includes that time or any subsequent day, any amount that is required under subsection (3) or 20.4(3) to be included or deducted in computing the transferor's income for each particular taxation year from the transferred business, the description of A in the formulas in those subsections is deemed to be nil.

History: S. 12.5(7) was added by S.C. 2009, c. 2, s. 5(1), applicable to taxation years that begin after September 2006.

► 12.5(8) ◄

(8) Ceasing to carry on business. If at any time an insurer ceases to carry on all or substantially all of an insurance business (referred to in this subsection as the "discontinued business"), and none of subsections (4) to (6) apply, there shall be included in computing the insurer's income from the discontinued business for the insurer's taxation year that includes the time that is immediately before that time, the amount determined by the formula

A – B

where

A is the amount deducted under subsection 20.4(2) in computing the insurer's income from the discontinued business for its transition year; and

B is the total of all amounts each of which is an amount included under subsection (3) in computing the insurer's income from the discontinued business for a taxation year that began before that time.

History: S. 12.5(8) was added by S.C. 2009, c. 2, s. 5(1), applicable to taxation years that begin after September 2006.

► 12.5(9) ◄

(9) Ceasing to exist. If at any time an insurer that carried on an insurance business ceases to exist (otherwise than as a result of a winding-up or amalgamation described

in subsection (4) or (5)), for the purposes of subsections (8) and 20.4(4), the insurer is deemed to have ceased to carry on the insurance business at the earlier of

(*a*) the time (determined without reference to this subsection) at which the insurer ceased to carry on the insurance business, and

(*b*) the time that is immediately before the end of the last taxation year of the insurer that ended at or before the time at which the insurer ceased to exist.

History: S. 12.5(9) was added by S.C. 2009, c. 2, s. 5(1), applicable to taxation years that begin after September 2006.

SECTION 13:

► 13(1) ◄

(1) Recaptured depreciation. Where, at the end of a taxation year, the total of the amounts determined for E to J in the definition "undepreciated capital cost" in subsection (21) in respect of a taxpayer's depreciable property of a particular prescribed class exceeds the total of the amounts determined for A to D in that definition in respect thereof, the excess shall be included in computing the taxpayer's income for the year.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 13(1) of the Act is replaced by the following:

SECTION 13:

(1) Recaptured depreciation. If, at the end of a taxation year, the total of the amounts determined for E to K in the definition "undepreciated capital cost" in subsection (21) in respect of a taxpayer's depreciable property of a particular prescribed class exceeds the total of the amounts determined for A to D.1 in that definition in respect of that property, the excess shall be included in computing the taxpayer's income of the year.

Applicable: To taxation years that end after February 23, 1998.

Explanatory Note:

Recaptured Depreciation

Subsection 13(1) of the Act provides for the inclusion in a taxpayer's income of recaptured capital cost allowance when the taxpayer's proceeds of disposition of depreciable property of a prescribed class exceeds the undepreciated capital cost (UCC) of the property.

Subsection 13(1) is amended to add a reference to the new descriptions of D.1 and K of the definition "undepreciated capital cost" in subsection 13(21). Those descriptions provide for an addition to the UCC of a class of certain countervailing duties paid in respect of property of the class ("D.1") and a corresponding reduction for any refunds of those amounts ("K").

This amendment applies to taxation years that end after February 23, 1998, and corrects a technical deficiency.

Editorial Note: Subsection 13(1) includes in income the negative balance of the undepreciated capital cost (UCC) in respect of a class of depreciable property, if any, at the end of a taxation year. In general terms, the inclusion is normally meant to reflect previously deducted depreciation to the extent it is "recaptured" on a sale of depreciable property (for example, when the sole property in a class is sold for proceeds in excess of the UCC). The amount included under subsection 13(1) is added to the UCC balance at the beginning of the next taxation year (see amount B in the UCC definition in subsection 13(21)).

Related Sections: S. 13(2) Recaptured depreciation for passenger vehicle; s. 13(3) "Taxation year", "year" and "income" of individual; s. 13(5.2) Lease-option agreement — exercise of option; s. 13(5.3) Lease-option agreement — disposition of option; s. 13(8) Disposition after ceasing business; s. 13(13) Deduction under Canadian Vessel Construction Assistance Act; s. 13(15) Where s. (1) and subdivision c do not apply; s. 13(21) Definitions; s. 28(1)(*d*) Farming or fishing business; s. 36 Railway companies; s. 37(6) Expenditures of a capital nature; s. 45(2) Election where change of use; s. 70(5) Capital property of a deceased taxpayer; s. 73(2) Capital cost and amount deemed allowed to spouse, etc., or trust; s. 85(5) Rules on transfers of depreciable property; s. 87(2)(*d*) Depreciable property; s. 87(2)(*l.3*) Replacement property; s. 88(1) Winding-up; s. 97(4) Where capital cost to partner exceeds proceeds of disposition; s. 98(3) Rules applicable where partnership ceases to exist; s. 104(5), Depreciable property; s. 107(2) Distribution by personal trust; s. 110.1(3) Gifts of capital property; s. 110.6(1), "investment income"; s. 115(1)(*a*)(iii.2) Non-resident's taxable income in Canada; s. 118.1(6) Gift of capital property; s. 138(12) Definitions; s. 216(6) Saving provision; and ITAR s. 20(2) Recapture of capital cost allowances.

Interpretation Bulletins: *Primary* — IT-220R2 Capital cost allowance — Proceeds of disposition of depreciable property; IT-478R2 Capital cost allowance — Recapture and terminal loss. *Secondary* — IT-121R3 Election to capitalize cost of borrowed money [Archived by the CRA]; IT-151R5 (Consolid.) — Scientific research and experimental development expenditures; IT-151R4 Scientific research and experimental development expenditures [Archived by the CRA]; IT-190R2 Capital cost allowance transferred and misclassified property; IT-206R Separate businesses; IT-209R Inter-vivos gifts of capital property to individuals directly or through trusts; IT-267R2 Capital cost allowance — Vessels; IT-288R2 Gifts of capital properties to a charity and others; IT-297R2 Gifts in kind to charity and others; IT-349R3 Intergenerational transfers of farm property on death; IT-393R2 Election — Tax on rents and timber royalties — non-residents; IT-418 Capital cost allowance — Partial dispositions of property; IT-420R3 Non-residents — Income earned in Canada; IT-472 SR Capital cost allowance — Class 8 property; IT-481 (Consolid.) Timber resource property and timber limits; IT-510 Transfers and loans of property made after May 22, 1985 to a related minor; IT-521R Motor vehicle expenses claimed by self-employed individuals.

Tax Window Files: Election to Transfer Property to CCA Class, March 6, 2006, CRA Document No. 2006-0171111E5; Allocation of Partnership Income Between Spouse Partners, January 14, 2004, CRA Document No. 2003-0029571E5; Estate — Transfer of Building to Income Beneficiary, December 9, 2003, CRA Document No. 2003-0032585; Dispositions — Transfer of Buildings from Nominee Corporation to Principal, January 7, 2003, CRA Document No. 2003-0045613; Disposition of Assets Used in Farming Business, January 28, 2002, CRA Document No. 2001-0115515; Report on the Tax Treatment of Lawyers' Income on Their Appointment to the Bench, November 23, 2000, CRA Document No. 2000-0025955; Transfer of Option on Depreciable Property, 1996, CRA Document No. 9628173; Capital Cost Allowance — Transfer of Property Between Classes, March 18, 1996, CRA Document No. 9528985; Leasing Properties Governed by Section 16.1 Used for Scientific Research, March 30, 1993, CRA Document No. 9232645; Non-Arm's Length Disposition Acquired Before V-Day, January 11, 1993, CRA Document No. 9235577; Damages for Breach of Contract — Westcoast Energy Case, December 1, 1992, CRA Document No. 923512A; Recapture of Capital Cost Allowance — Business Income or Property Income, August 24, 1992, CRA Document No. 9221275.

Cases: The explosives division sold by the taxpayer was not a separate business, therefore, the taxpayer was not subject to recapture of capital cost allowance or an increased s. 14(1) income inclusion. Indicators of integration included centralized financing and credit management, centralized purchasing, and common research facilities. *Du Pont Canada Inc. v. The Queen*, 2001 DTC 5269 (F.C.A.), reversing 99 DTC 1132 (T.C.C.).

A building was allocated a value greater than its undepreciated capital cost regardless of the fact that the purchaser was only interested in the land. *Stanley v. M.N.R.*, 72 DTC 6004 (S.C.C.).

► 13(1.1) ◄

(1.1) Idem. [Repealed by 1976-77, c. 4, s. 3(1).]

► 13(2) ◄

(2) Idem. Notwithstanding subsection (1), where an excess amount is determined under that subsection at the end of a taxation year in respect of a passenger vehicle having a cost to a taxpayer in excess of $20,000 or such other amount as may be prescribed, that excess amount shall not be included in computing the taxpayer's income for the year but shall be deemed, for the purposes of B in the definition "undepreciated capital cost" in subsection (21), to be an amount included in the taxpayer's income for the year by reason of this section.

Editorial Note: Subsection 13(2) provides that depreciation recapture will not be included in income in respect of a passenger vehicle with a cost exceeding $20,000 (or such other amount as may be prescribed) — see Regulation 7307(1). However, the recapture, is deemed for the purpose of B

in the definition "undepreciated capital cost" in subsection 13(21) to have been included in the taxpayer's income for the year, ensuring that the result of the computation of undepreciated capital cost of the particular class will be nil.

Related Sections: S. 13(3) "Taxation year", "year" and "income" of individual; s. 13(7)(*g*) Rules applicable; s. 20(16.1) Terminal loss for passenger vehicle; s. 67.2 Interest on money borrowed for passenger vehicle; s. 248(1), "passenger vehicle".
Proposed Related Sections: S. 13(4.2); s. 13(4.3).
Regulations: 1100(2.5); 7307(1); Sched. II, Class 10.1.
Interpretation Bulletins: *Secondary* — IT-478R2 Capital Cost Allowance — Recapture and Terminal Loss; IT-521R Motor vehicle expenses claimed by self-employed individuals; IT-522R Vehicle, Travel and Sales Expenses of Employees.

► 13(3) ◄

(3) "Taxation year", "year" and "income" of individual. Where a taxpayer is an individual whose income for a taxation year includes income from a business the fiscal period of which does not coincide with the calendar year and depreciable property acquired for the purpose of gaining or producing income from the business has been disposed of,

(*a*) for greater certainty, each reference in subsections (1) and (2) to a "taxation year" and "year" shall be read as a reference to a "fiscal period"; and

(*b*) a reference in subsection (1) to "the income" shall be read as a reference to "the income from the business".

Related Sections: S. 13(8) Disposition after ceasing business; s. 20(16.2) Reference to "taxation year" and "year" of individual.
Interpretation Bulletins: *Secondary* — IT-172R Capital cost allowance — Taxation year of individual; IT-478R2 Capital cost allowance — Recapture and terminal loss.

► 13(4) ◄

(4) Exchanges of property. Where an amount in respect of the disposition in a taxation year (in this subsection referred to as the "initial year") of depreciable property (in this section referred to as the "former property") of a prescribed class of a taxpayer would, but for this subsection, be the amount determined for F or G in the definition "undepreciated capital cost" in subsection (21) in respect of the disposition of the former property that is either

(*a*) property the proceeds of disposition of which were proceeds referred to in paragraph (*b*), (*c*) or (*d*) of the definition "proceeds of disposition" in subsection (21), or

(*b*) a property that was, immediately before the disposition, a former business property of the taxpayer,

and the taxpayer so elects under this subsection in the taxpayer's return of income for the taxation year in which the taxpayer acquires a depreciable property of a prescribed class of the taxpayer that is a replacement property for the taxpayer's former property,

(*c*) the amount otherwise determined for F or G in the definition "undepreciated capital cost" in subsection (21) in respect of the disposition of the former property shall be reduced by the lesser of

(i) the amount, if any, by which the amount otherwise determined for F or G in that definition exceeds the undepreciated capital cost to the taxpayer of property of the prescribed class to which the former property belonged at the time immediately before the time that the former property was disposed of, and

(ii) the amount that has been used by the taxpayer to acquire

(A) where the former property is referred to in paragraph (*a*), before the end of the second taxation year following the initial year, or

(B) in any other case, before the end of the first taxation year following the initial year,

a replacement property of a prescribed class that has not been disposed of by the taxpayer before the time at which the taxpayer disposed of the former property, and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 13(4)(*c*)(ii) of the Act is replaced by the following:

(ii) the amount that has been used by the taxpayer to acquire

(A) if the former property is described in paragraph (*a*), before the later of the end of the second taxation year following the initial year and 24 months after the end of the initial year, or

(B) in any other case, before the later of the end of the first taxation year following the initial year and 12 months after the end of the initial year,

a replacement property of a prescribed class that has not been disposed of by the taxpayer before the time at which the taxpayer disposed of the former property, and

Applicable: In respect of dispositions that occur in taxation years that end on or after December 20, 2000, except that for those dispositions that occur in taxation years that end before December 20, 2001, clause 13(4)(*c*)(ii)(B) is to be read as follows:

"(B) in any other case, before the end of the first taxation year following the initial year,"

Explanatory Note:

Exchanges of Property

Subsection 13(4) of the Act allows a taxpayer, who is required under subsection 13(1) to include in income recaptured depreciation resulting from the disposition of certain depreciable property, to elect to defer tax on the recapture to the extent that the taxpayer reinvests the proceeds of disposition in a replacement property within a certain period of time, namely

- in the case of certain involuntary dispositions, e.g., theft or expropriation, before the end of the taxpayer's second taxation year that begins after the property was disposed of, or
- in other situations, before the end of the taxpayer's first taxation year that begins after the property was disposed of.

Subparagraph 13(4)(*c*)(ii) is amended to accommodate taxation years that are shorter than 12 months, by providing that the periods for acquiring replacement property end at the later of the times mentioned above and

- in the case of involuntary dispositions, within 24 months after the end of the taxation year in which the property was disposed of, or
- in other situations, within 12 months after the end of the taxation year in which the property was disposed of.

These amendments apply, in the case of involuntary dispositions, in respect of dispositions that occur in taxation years that end on or after December 20, 2000, and in any other case, in respect of dispositions that occur in taxation years that end on or after December 20, 2001.

(*d*) the amount of the reduction determined under paragraph (*c*) shall be deemed to be proceeds of

disposition of a depreciable property of the taxpayer that had a capital cost equal to that amount and that was property of the same class as the replacement property, from a disposition made on the later of

(i) the time the replacement property was acquired by the taxpayer, and

(ii) the time the former property was disposed of by the taxpayer.

History: S. 13(4), the portion after paragraph (*b*) and before paragraph (*c*), was amended by S.C. 1998, c. 19, s. 73(1), applicable to dispositions of former properties that occur after the 1993 taxation year. S. 13(4), the portion after paragraph (*b*) and before paragraph (*c*), formerly read:

"and the taxpayer so elects under this subsection in the taxpayer's return of income under this Part for the year in which the taxpayer acquires, as a replacement for the former property, a property (in this subsection referred to as a 'replacement property'),"

Editorial Note: Subsection 13(4) allows a taxpayer who is required under subsection 13(1) to include in income recaptured depreciation from the disposition of certain depreciable property to elect to defer tax on the recapture to the extent that the taxpayer reinvests the proceeds of disposition in a replacement property. In the case of certain involuntary dispositions (e.g., theft or expropriation), the proceeds must be reinvested before the end of the taxpayer's second taxation year that begins after the property was disposed of, and, in other situations, before the end of the taxpayer's first taxation year that begins after the property was disposed of.

Related Sections: S. 13(4.1) Replacement for a former property; s. 13(18) Reassessments; s. 13(21) Definitions; s. 14(6) Exchange of property; s. 44(1) Exchanges of property; s. 44(4) Deemed election; s. 44(6) Deemed proceeds of disposition; s. 87(2)(*l*.3) Replacement property; s. 96(3) Agreement or election of partnership members; s. 220(3.2) Late, amended or revoked elections; s. 248(1), "former business property".

Proposed Related Sections: S. 13(4.2); s. 13(4.3).

Regulations: 600(b).

Interpretation Bulletins: *Primary* — IT-259R4 Exchange of property. *Secondary* — IT-267R2 Capital cost allowance — Vessels; IT-271R Expropriations — Time and proceeds of disposition [Archived by the CRA].

Information Circulars: IC 07-1 Taxpayer relief provisions; IC 92-1 Guidelines for accepting late, amended or revoked elections.

Tax Profile: July 2003 — The Replacement Property Rules.

Canadian Tax Foundation: Shapiro, "The Replacement Property Rules: A Bit More Than Before", *Personal Tax Planning feature, 2002 Canadian Tax Journal*, 6:2141.

Tax Window Files: Location of Former Business Property, December 4, 2006, CRA Document No. 2006-0213921E5; Replacement Property Rules, July 31, 2006, CRA Document No. 2005-0156171E5; Replacement Property — Partnership Interest, February 17, 2005, CRA Document No. 2004-0090411E5; Replacement Property Rules — Building on Leased Land, January 24, 2003, CRA Document No. 2002-0173815; Use of Replacement Property Rules by Foreign Affiliate, 2001, CRA Document No. 2001-0079463; Winding-Up of a Farming Partnership — Application of Replacement Property Rules, June 4, 1993, CRA Document No. 9302965; Replacement Property Rules — Restrictions on Change of Use, May 29, 1992, CRA Document No. 9208765.

► 13(4.1) ◄

(4.1) Replacement for a former property. For the purposes of subsection (4), a particular depreciable property of a prescribed class of a taxpayer is a replacement for a former property of the taxpayer if

(*a*) it is reasonable to conclude that the property was acquired by the taxpayer to replace the former property;

(*a*.1) it was acquired by the taxpayer and used by the taxpayer or a person related to the taxpayer for a use that is the same as or similar to the use to which the taxpayer or a person related to the taxpayer put the former property;

(*b*) where the former property was used by the taxpayer or a person related to the taxpayer for the purpose of gaining or producing income from a business, the particular depreciable property was acquired for the purpose of gaining or producing income from that or a similar business or for use by a person related to the taxpayer for such a purpose;

(*c*) where the former property was a taxable Canadian property of the taxpayer, the particular depreciable property is a taxable Canadian property of the taxpayer; and

(*d*) where the former property was a taxable Canadian property (other than treaty-protected property) of the taxpayer, the particular depreciable property is a taxable Canadian property (other than treaty-protected property) of the taxpayer.

History: S. 13(4.1)(*c*) was amended, and paragraph (*d*) was added by S.C. 1999, c. 22, s. 6(1), applicable to any disposition that occurs in a taxation year that ends after 1997. S. 13(4.1)(*c*) formerly read:

"(*c*) where the former property was taxable Canadian property (or would have been taxable Canadian property if the taxpayer were non-resident throughout the year in which the former property was disposed of and the former property were used in a business carried on by the taxpayer), the particular depreciable property was taxable Canadian property (or would have been taxable Canadian property if the taxpayer were non-resident throughout the year in which the particular property was acquired and the particular property were used in a business carried on by the taxpayer)."

S. 13(4.1)(*a*) was amended by S.C. 1998, c. 19, s. 73(2), applicable to dispositions of former properties that occur after the 1993 taxation year.

S. 13(4.1)(*a*) formerly read:

"(*a*) it was acquired by the taxpayer for the same or a similar use as the use to which the taxpayer or a person related to the taxpayer put the former property;"

S. 13(4.1)(a.1) was added by 1998, c. 19, s. 73(2), applicable to dispositions of former properties that occur after the 1993 taxation year except that, where a taxpayer so elects in respect of a former property that was disposed of before this Act is assented to [Royal Assent June 18, 1998] by notifying the Minister of National Revenue in writing on or before the filing-due date for the taxpayer's first taxation year that ends after the day on which this Act is assented to [Royal Assent June 18, 1998], paragraph 13(4.1)(a.1) of the Act shall, for the purpose of determining whether a property is a replacement property of the former property, be read as follows:

"(*a*.1) it was acquired by the taxpayer for a use that is the same as or similar to the use to which the taxpayer or a person related to the taxpayer put the former property;"

S. 13(4.1)(*a*) to (*c*) were amended by S.C. 1994, c. 7, Sched. II, s. 9(1). Amendments to s. 13(4.1)(*a*) and (*b*) are applicable with respect to dispositions of former properties occurring after July 13, 1990. Amendments to s. 13(4.1)(*c*) are applicable with respect to property acquired as a replacement for a former property disposed of after April 2, 1990, other than a former property disposed of

(*a*) under an agreement in writing entered into before April 3, 1990; or

(*b*) pursuant to a written notice of an intention to take the property under statutory authority given before April 3, 1990 or for the sale price of the property sold to a person by whom such a notice was given before April 3, 1990.

S. 13(4.1)(*a*) to (*c*) formerly read:

"(*a*) it was acquired by the taxpayer for the same or a similar use as the use to which the taxpayer put the former property;

(*b*) where the former property was used by the taxpayer for the purpose of gaining or producing income from a business, the particular depreciable property was acquired for the purpose of gaining or producing income from that or a similar business; and

(*c*) where the taxpayer was not resident in Canada at the time the taxpayer acquired the particular depreciable property, in addition to the requirements in paragraphs (*a*) and (*b*), the particular depreciable property was taxable Canadian property."

Related Sections: S. 44(5) Replacement property; s. 248(1), "treaty-protected property".

Interpretation Bulletins: *Primary* — IT-259R4 Exchange of property.

Tax Window Files: Location of Former Business Property, December 4, 2006, CRA Document No. 2006-0213921E5; Replacement Property Rules, July 31, 2006, CRA Document No. 2005-0156171E5; Acquisition of a Replacement Property from a Related Person, October 15, 2004, CRA Document No. 2004-0068421E5; Replacement Property Rules, May 28, 2004, CRA Document No. 2004-0066251E5; Replacement Property Rules — Same or Similar Use, June 6, 2003, CRA Document No. 2003-0012135; Use of Replacement Property Rules on Property Exchanges, 2002, CRA Document No. 2002-0127033; Replacement Property Rules — Excess Property, September 19, 2000 and 2000, CRA Document No. 2000-0028883.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 13 of the Act is amended by adding the following after subsection (4.1):

(4.2) Election — limited period franchise, concession or license. Subsection (4.3) applies in circumstances where

(*a*) a taxpayer (in this subsection and subsection (4.3) referred to as the "transferor") has, pursuant to a written agreement with a person or partnership (in this subsection and subsection (4.3) referred to as the "transferee"), at any time disposed of or terminated a former property that is a franchise, concession or licence for a limited period that is wholly attributable to the carrying on of a business at a fixed place;

(*b*) the transferee acquired the former property from the transferor or, on the termination, acquired a similar property in respect of the same fixed place from another person or partnership; and

(*c*) the transferor and the transferee jointly elect in their returns of income for their taxation years that include that time to have subsection (4.3) apply in respect of the acquisition and the disposition or termination.

(4.3) Effect of election. Where this subsection applies in respect of an acquisition and a disposition or termination,

(*a*) if the transferee acquired a similar property referred to in paragraph (4.2)(*b*), the transferee is deemed to have also acquired the former property at the time that the former property was terminated and to own the former property until the transferee no longer owns the similar property;

(*b*) if the transferee acquired the former property referred to in paragraph (4.2)(*b*), the transferee is deemed to own the former property until such time as the transferee owns neither the former property nor a similar property in respect of the same fixed place to which the former property related;

(*c*) for the purpose of calculating the amount deductible under paragraph 20(1)(*a*) in respect of the former property in computing the transferee's income, the life of the former property remaining on its acquisition by the transferee is deemed to be equal to the period that was the life of the former property remaining on its acquisition by the transferor; and

(*d*) any amount that would, if this Act were read without reference to this subsection, be an eligible capital amount to the transferor or an eligible capital expenditure to the transferee in respect of the disposition or termination of the former property by the transferor is deemed to be

(i) neither an eligible capital amount nor an eligible capital expenditure,

(ii) an amount required to be included in computing the capital cost to the transferee of the former property, and

(iii) an amount required to be included in computing the proceeds of disposition to the transferor in respect of a disposition of the former property.

Applicable: In respect of dispositions and terminations that occur after December 20, 2002.

Explanatory Note:

Election — Limited Period Franchise, Concession or License

Subsection 14(6) of the Act permits a taxpayer to defer tax otherwise arising on the disposition of an eligible capital property, to the extent that the taxpayer reinvests the proceeds of disposition in a replacement property within a certain period of time. A franchise, concession or license with an indefinite term may be such an eligible capital property. However, such a property with a defined term will generally be a depreciable property included in Class 14 of Schedule II of the *Income Tax Regulations* ("the Regulations") and will not be eligible for similar replacement treatment under subsection 13(4) of the Act because such a property is not a "former business property" as defined in subsection 248(1) of the Act. Further, the replacement property provisions for depreciable property generally apply only to immoveable property.

New subsections 13(4.2) and (4.3) of the Act are added, concurrent with the amendment of the definition "former business property", to allow a taxpayer (the "transferor") to use the replacement property rules under subsection 13(4) in respect of the disposition or termination of a property that is the subject of a joint election with the purchaser (the "transferee") of the property.

New subsection 13(4.2) describes the circumstances under which the transferor and the transferee may make a joint election. Property eligible for the election is a "former property" described in subsection 13(4) that is a franchise, concession or license for a limited period that is wholly attributable to the carrying on of a business at a fixed place. The election may be made where the property is disposed of directly by the transferor to the transferee or where the property of the transferor is terminated and the transferee acquires a similar property in respect of the same fixed place from another person. Both parties must elect in their returns of income for their respective taxation years that include the year of the disposition or termination.

New subsection 13(4.3) provides rules that apply when an election has been made under subsection 13(4.2). If the transferee acquires the property disposed of by the transferor (the "former property"), the transferee is deemed to own that property until such time as the transferee owns neither the former property nor a similar property in respect of the same fixed place to which the former property related. If the transferee instead acquires a similar property in respect of the same fixed place (i.e., the life of the former property was terminated), the transferee is deemed to have also acquired the former property and to continue to own it until the transferee no longer owns the similar property.

In either case, for the purpose of claiming a deduction by the transferee under paragraph 20(1)(*a*) of the Act, the life of the former property in the hands of the transferee is deemed to be the term remaining at the time the transferor originally acquired the property. For instance, a license with a 20-year life when it was originally acquired by the transferor, but with 5 years remaining at the time of the transfer, would be considered to have a 20-year life in the hands of the transferee for the purposes of claiming a deduction under paragraph 20(1)(*a*).

There may be circumstances where, but for an election under subsection 13(4.2), a portion of the consideration given by a transferee upon the sale of a limited period franchise, license or concession might reasonably be considered to be an eligible capital amount to the transferor and an eligible capital expenditure to the transferee. For instance, a portion of the consideration may reasonably relate to the preferred status that the transferee may receive in obtaining a new property at the end of the term. Where an election under subsection 13(4.2) is made, subsection 13(4.3) provides that such an amount will be neither an eligible capital amount to the transferor, nor an eligible capital expenditure to the transferee, but will instead be included in the cost to the transferee and proceeds of disposition of the transferor of the former property.

In this regard, it is also proposed that section 1101 of the Regulations be amended, applicable after December 20, 2002, by adding the following after subsection (1*af*):

(1*ag*) If more than one property of a taxpayer is described in the same class in Schedule II, and one or more of the properties is a property in respect of which the taxpayer is a transferee that has elected under subsection 13(4.2) of the Act, a separate class is prescribed for each such property of the taxpayer that would otherwise be included in the same class.

If, subsequent to the acquisition of the former property by the transferee, the life of the former property expires and a similar property in respect of the same fixed place is not acquired by the transferee, the transferee may, under subsection 20(16) of the Act, be entitled to a terminal loss in respect of the former property. Refer to the commentary to new paragraph 20(16.1)(*b*) of the Act regarding limitations in respect of the deduction of such a terminal loss.

New subsections 13(4.2) and (4.3) apply in respect of dispositions and terminations that occur after December 20, 2002.

Example 1

Ms. Mubarak is a franchisee with 5 years remaining of a 20-year agreement. The original cost was $60,000, and the undepreciated capital cost ("UCC") is $15,000. The agreement is transferable, so she agrees to sell the franchise to Mr. Grando at its fair market value of $85,000. Ms. Mubarak will, in the same taxation year, purchase from Ms. Vincent a replacement franchise that has 15 years remaining of a 20-year term, for $100,000.

But for the making of an election under subsection 13(4.2), Ms. Mubarak would have a capital gain of $25,000 (i.e., $85,000 – $60,000) and a UCC balance of $55,000 (i.e., $15,000 + $100,000 – $60,000) before deducting any capital cost allowance for the year. The adjusted cost base ("ACB") of her replacement franchise would be $100,000. Mr. Grando would have acquired a Class 14 property with an ACB and capital cost of $85,000, depreciable over 5 years.

If Ms. Mubarak and Mr. Grando jointly elect under subsection 13(4.2), Ms. Mubarak may elect under subsections 13(4) and 44(1) to defer the capital gain, such that the ACB and capital cost of the replacement franchise will be deemed to be $75,000 (i.e., $100,000 less the $25,000 deferred capital gain). Furthermore, Ms. Mubarak's UCC balance for Class 14 will be $30,000 (i.e., an increase equivalent to the $100,000 cost of the replacement franchise less the $85,000 proceeds from the former property), to be amortized over the remaining 15-year term. In this regard, note that the term for amortizing Ms. Mubarak's replacement franchise is unaffected by her and Mr. Grando's joint election in respect of the former property. Mr. Grando, on the other hand, will be required to amortize his $85,000 cost of the former property over 20 years, which was the term of the former property when it was first acquired by Ms. Mubarak.

If Mr. Grando does not enter into a new agreement with the franchisor after the 5-year period, he will be eligible for a terminal loss (even if there are other Class 14 assets, because the $85,000 property will be in a "separate class"). However, a terminal loss will not be available if a person dealing non-arm's length with Mr. Grando, at any time before the time that is 24 months after the expiry of the old agreement, enters into a new franchise agreement in respect of the same fixed place.

Example 2

Consider the same example, except that the original franchise agreement of Ms. Mubarak (the former property) is not transferable, but instead must be terminated and renewed with the franchisor. Suppose that it is renewed by Mr. Grando for a period of 12 years, with an additional amount of $120,000 paid by Mr. Grando to the franchisor for the new agreement.

In this case it is arguable that, for Mr. Grando, the $85,000 payment to Ms. Mubarak is, absent an election under subsection 13(4.2), an eligible capital expenditure by Mr. Grando. That is, Mr. Grando will pay a separate amount of $120,000 to the franchisor for a Class 14 asset, but the $85,000 payment to Ms. Mubarak is, in effect, incurred to acquire the right to renew the franchise, not to acquire a Class 14 property. Ms. Mubarak has likewise received proceeds of disposition of an eligible capital property (i.e., an "eligible capital amount", 3/4 of which would reduce her Cumulative Eligible Capital balance), not proceeds of disposition of a Class 14 property. Absent an election under subsection 13(4.2), Ms. Mubarak would not be entitled to acquire a replacement eligible capital property, but could be entitled to claim a terminal loss on the termination of the original franchise agreement (if she had no other Class 14 assets on hand at the end of the taxation year of disposition). Subsection 14(1) would apply to the eligible capital amount received by Ms. Mubarak.

The $120,000 cost of the new agreement to Mr. Grando, paid to the franchisor, could be written off by Mr. Grando over its 12-year term.

If Ms. Mubarak and Mr. Grando jointly elect under subsection 13(4.2), no part of the proceeds of disposition for the former property will be an eligible capital amount or an eligible capital expenditure. The results are the same as in Example 1, except that Mr. Grando will now have two Class 14 properties:

- the new franchise agreement, the $120,000 cost of which may be written off by him over its 12-year term; and
- the former property, deemed to have been acquired by him and included in a separate class, the $85,000 cost of which may be written off by him over its deemed 20-year term.

Example 3

Consider again Example 1, but suppose that the replacement franchise, purchased by Ms. Mubarak from Ms. Vincent, is itself the subject of a joint election by them under subsection 13(4.2). Ms. Mubarak is required to amortize her $30,000 UCC (see Example 1) over the original 20-year term of Ms. Vincent, not over its remaining 15 years.

Editorial Note: Draft subsections 13(4.2) and (4.3) allow elections under subsections 13(4) and 44(1) (to defer recapture of depreciation and capital gains, respectively) to be made in respect of a franchise, concession or limited period license if the transferor and transferee elect jointly. However, paragraph 20(16.1)(*b*) provides that a terminal loss will not be available to the transferee in respect of such property.

► 13(5) ◄

(5) Reclassification of property. Where one or more depreciable properties of a taxpayer that were included in a prescribed class (in this subsection referred to as the "old class") become included at any time (in this subsection referred to as the "transfer time") in another prescribed class (in this subsection referred to as the "new class"), for the purpose of determining at any subsequent time the undepreciated capital cost to the taxpayer of depreciable property of the old class and the new class

(*a*) the value of A in the definition "undepreciated capital cost" in subsection (21) shall be determined as if each of those depreciable properties were

(i) properties of the new class acquired before the subsequent time, and

(ii) never included in the old class; and

(*b*) there shall be deducted in computing the total depreciation allowed to the taxpayer for property of the old class before the subsequent time, and added in computing the total depreciation allowed to the taxpayer for property of the new class before the subsequent time, the greater of

(i) the amount determined by the formula

$$A - B$$

where

A is the total of all amounts each of which is the capital cost to the taxpayer of each of those depreciable properties, and

B is the undepreciated capital cost to the taxpayer of depreciable property of the old class at the transfer time, and

(ii) the total of all amounts each of which is an amount that would have been deducted under paragraph 20(1)(*a*) in respect of a depreciable property that is one of those properties in computing the taxpayer's income for a taxation year that ended before the transfer time and at the end of which the property was included in the old class if

(A) the property had been the only property included in a separate prescribed class, and

(B) the rate allowed by the regulations made for the purpose of paragraph 20(1)(*a*) in respect of that separate class had been the effective rate that was used by the taxpayer to calculate a deduction under that paragraph in respect of the old class for the year.

History: S. 13(5) was amended by S.C. 1997, c. 25, s. 3(1), applicable to properties of a prescribed class that, after 1996, become included in property of another prescribed class. S. 13(5) formerly read:

"(5) *Transferred property.* Where depreciable property of a taxpayer that was included in a prescribed class (in this subsection referred to as the 'former class') has been transferred to another prescribed class (in this subsection referred to as the 'other class'), for purposes of determining the undepreciated capital cost to the taxpayer of depreciable property of the former class and of the other class at any time after the transfer

(*a*) the transferred property shall be deemed to be depreciable property of the other class acquired before that time and not depreciable property of the former class acquired before that time; and

(*b*) an amount equal to the greater of

(i) the amount, if any, by which the capital cost to the taxpayer of the transferred property exceeds the undepreciated capital cost to the taxpayer of depreciable property of the former class immediately before the transfer, and

(ii) the total of all amounts that would have been deducted by the taxpayer in respect of the transferred property under paragraph 20(1)(*a*) in computing the taxpayer's income for taxation years ending before the transfer had that property been the only property included in a separate prescribed class and had the rate allowed by the regulations made under paragraph 20(1)(*a*) in respect of that separate class been the effective rate that was used by the taxpayer to calculate a deduction under that paragraph in respect of the former class for taxation years at the end of which the transferred property was included in the former class

shall be included in computing the total depreciation allowed to the taxpayer for property of the other class before that time and not included in computing the total depreciation allowed to the taxpayer for property of the former class before that time."

Related Sections: S. 87(2)(*d*) Depreciable property.
Regulations: 1103; Sched. II.
Interpretation Bulletins: *Primary* — IT-190R2 Capital cost allowance — Transferred and misclassified property. *Secondary* — IT-521R Motor vehicle expenses claimed by self-employed individuals; IT-522R Vehicle, Travel and Sales Expenses of Employees.
Information Circulars: IC 84-1 Revision of capital cost allowance claims and other permissive deductions.
Tax Window Files: Class 43.1 Generating Heat from Wood Pellets, November 25, 2005, CRA Document No. 2005-0151611E5; Definition of Automobile — Pick up Truck, January 19, 2004, CRA Document No. 2003-0045911I7; Depreciable Property — Conversion to Inventory, August 28, 2002, CRA Document No. 2002-0146025; Capital Cost Allowance — Cogeneration Equipment, December 21, 2000, CRA Document No. 2000-0038285; Change in Use of Property, June 30, 2000, CRA Document No. 1999-0013945.

► 13(5.1) ◄

(5.1) Rules applicable. Where at any time in a taxation year a taxpayer acquires a particular property in respect of which, immediately before that time, the taxpayer had a leasehold interest that was included in a prescribed class, for the purposes of this section, section 20 and any regulations made under paragraph 20(1)(*a*), the following rules apply:

(*a*) the leasehold interest shall be deemed to have been disposed of by the taxpayer at that time for proceeds of disposition equal to the amount, if any, by which

(i) the capital cost immediately before that time of the leasehold interest

exceeds

(ii) the total of all amounts claimed by the taxpayer in respect of the leasehold interest and deductible under paragraph 20(1)(*a*) in computing the taxpayer's income in previous taxation years;

(*b*) the particular property shall be deemed to be depreciable property of a prescribed class of the taxpayer acquired by the taxpayer at that time and there shall be added to the capital cost to the taxpayer of the property an amount equal to the capital cost referred to in subparagraph (*a*)(i); and

(*c*) the total referred to in subparagraph (*a*)(ii) shall be added to the total depreciation allowed to the taxpayer before that time in respect of the class to which the particular property belongs.

Interpretation Bulletins: *Primary* — IT-464R Capital cost allowance — Leasehold Interests.
Tax Window Files: Industrial Mineral Mine — Acquisition of Leased Property, May 3, 2000, CRA Document No. 1999-0015195; Leasehold Interest in Land, January 20, 1997, CRA Document No. 9640135.

► 13(5.2) ◄

(5.2) Idem. Where, at any time, a taxpayer has acquired a capital property that is depreciable property or real property in respect of which, before that time, the taxpayer or any person with whom the taxpayer was not dealing at arm's length was entitled to a deduction in computing income in respect of any amount paid or payable for the use of, or the right to use, the depreciable property or real property and the cost or the capital cost (determined without reference to this subsection) at that time of the property to the taxpayer is less than the fair market value thereof at that time determined without reference to any option with respect to that property, for the purposes of this section, section 20 and any regulations made under paragraph 20(1)(*a*), the following rules apply:

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 13(5.2) of the Act before paragraph (*a*) is replaced by the following:

(5.2) Deemed cost and depreciation. Where, at any time, a taxpayer has acquired a capital property that is depreciable property or real or immovable property in respect of which, before that time, the taxpayer or any person with whom the taxpayer was not dealing at arm's length was entitled to a deduction in computing income in respect of any amount paid or payable for the use of, or the right to use, the property and the cost or the capital cost (determined without reference to this subsection) at that time of the property to the taxpayer is less than the fair market value thereof at that time determined without reference to any option with respect to that property, for the purposes of this section, section 20 and any regulations made under paragraph 20(1)(*a*), the following rules apply:

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*a*) the property shall be deemed to have been acquired by the taxpayer at that time at a cost equal to the lesser of

(i) the fair market value of the property at that time determined without reference to any option with respect to that property, and

(ii) the total of the cost or the capital cost (determined without reference to this subsection) of the property to the taxpayer and all amounts (other than amounts paid or payable to a person with whom the taxpayer was not dealing at arm's length) each of which is an outlay or expense made or incurred by the taxpayer or by a person with whom the taxpayer was not dealing at arm's length at any time for the use of, or the right to use, the property,

and for the purposes of this paragraph and subsection (5.3), where a particular corporation has been incorporated or otherwise formed after the time any other corporation with which the particular corporation would not have been dealing at arm's length had the particular corporation been in existence before that time, the particular corporation shall be deemed to have been in existence from the time of the formation of the other corporation and to have been not dealing at arm's length with the other corporation;

(*b*) the amount by which the cost to the taxpayer of the property determined under paragraph (*a*) exceeds the cost or the capital cost thereof (determined without reference to this subsection) shall be added to the total depreciation allowed to the taxpayer before that time in respect of the prescribed class to which the property belongs; and

(*c*) where the property would, but for this paragraph, not be depreciable property of the taxpayer, it shall be deemed to be depreciable property of a separate prescribed class of the taxpayer.

Editorial Note: Subsection 13(5.2) applies when a taxpayer has paid rent for property (e.g., a building) and later acquires the property. Essentially, if the property is later sold for a profit, the rent paid is "recaptured" because it is treated as CCA claimed, which is recaptured under subsection 13(1).

Regulations: S. 1101(5g); Sched. II, Class 36.
Interpretation Bulletins: *Primary* — IT-233R Lease option agreements; Sale leaseback agreements [Archived by the CRA].
Income Tax Technical News: Issue No. 21, Cancellation of Interpretation Bulletin IT-233R.
Forms: T776.

► 13(5.3) ◄

(5.3) Idem. Where, at any time in a taxation year, a taxpayer has disposed of a capital property that is an option with respect to depreciable property or real property in respect of which the taxpayer or any person with whom the taxpayer was not dealing at arm's length was entitled to a deduction in computing income in respect of any amount paid for the use of, or the right to use, the depreciable property or real property, for the purposes of this section, the amount, if any, by which the proceeds of disposition to the taxpayer of the option exceed the taxpayer's cost in respect thereof shall be deemed to be an excess referred to in subsection (1) in respect of the taxpayer for the year.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 13(5.3) of the Act is replaced by the following:

(5.3) Deemed recapture. Where, at any time in a taxation year, a taxpayer has disposed of a capital property that is an option with respect to depreciable property or real or immovable property in respect of which the taxpayer or any person with whom the taxpayer was not dealing at arm's length was entitled to a deduction in computing income in respect of any amount paid for the use of, or the right to use, the property, for the purposes of this section, the amount, if any, by which the proceeds of disposition to the taxpayer of the option exceed the taxpayer's cost in respect thereof shall be deemed to be an excess referred to in subsection (1) in respect of the taxpayer for the year.

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

Related Sections: S. 13(5.2) Lease-option agreement — exercise of option; s. 49 Granting of options.
Tax Window Files: Transfer of Option on Depreciable Property, 1996, CRA Document No. 9628173.

► 13(5.4) ◄

(5.4) Idem. Where, before the time of disposition of a capital property that was depreciable property of a taxpayer, the taxpayer, or any person with whom the taxpayer was not dealing at arm's length, was entitled to a deduction in computing income in respect of any outlay or expense made or incurred for the use of, or the right to use, during a period of time, that capital property (other than an outlay or expense made or incurred by the taxpayer or a person with whom the taxpayer was not dealing at arm's length before the acquisition of the property), except where the taxpayer disposed of the property to a person with whom the taxpayer was not dealing at arm's length and that person was subject to the provisions of subsection (5.2) with respect to the acquisition by that person of the property, the following rules apply:

(*a*) an amount equal to the lesser of

(i) the total of all amounts (other than amounts paid or payable to the taxpayer or a person with whom the taxpayer was not dealing at arm's length) each of which was a deductible outlay or expense made or incurred before the time of disposition by the taxpayer, or by a person with whom the taxpayer was not dealing at arm's length, for the use of, or the right to use, during the period of time, the property, and

(ii) the amount, if any, by which the fair market value of the property at the earlier of

(A) the expiration of the last period of time in respect of which the deductible outlay or expense referred to in subparagraph (i) was made or incurred, and

(B) the time of the disposition

exceeds the capital cost to the taxpayer of the property immediately before that time

shall, immediately before the time of the disposition, be added to the capital cost of the property to the person who owned the property at that time; and

(*b*) the amount added to the capital cost to the taxpayer of the property pursuant to paragraph (*a*) shall be added immediately before the time of the disposition to the total depreciation allowed to the taxpayer before that time in respect of the prescribed class to which the property belongs.

Related Sections: S. 13(5.5) Lease cancellation payment.

► 13(5.5) ◄

(5.5) Lease cancellation payment. For the purposes of subsection (5.4), an amount deductible by a taxpayer under paragraph 20(1)(*z*) or (*z*.1) in respect of a cancellation of a lease of property shall, for greater certainty, be deemed

not to be an outlay or expense that was made or incurred by the taxpayer for the use of, or the right to use, the property.

► 13(6) ◄

(6) Misclassified property. Where, in calculating the amount of a deduction allowed to a taxpayer under subsection 20(16) or regulations made for the purposes of paragraph 20(1)(*a*) in respect of depreciable property of the taxpayer of a prescribed class (in this subsection referred to as the "particular class"), there has been added to the capital cost to the taxpayer of depreciable property of the particular class the capital cost of depreciable property (in this subsection referred to as "added property") of another prescribed class, for the purposes of this section, section 20 and any regulations made for the purposes of paragraph 20(1)(*a*), the added property shall, if the Minister so directs with respect to any taxation year for which, under subsection 152(4), the Minister may make any reassessment or additional assessment or assess tax, interest or penalties under this Part, be deemed to have been property of the particular class and not of the other class at all times before the beginning of the year and, except to the extent that the added property or any part thereof has been disposed of by the taxpayer before the beginning of the year, to have been transferred from the particular class to the other class at the beginning of the year.

History: S. 13(6) was amended by S.C. 1994, c. 7, Sched. II, s. 9(2), applicable after April 19, 1983. S. 13(6) formerly read:

"(6) Where, in calculating the amount of a deduction allowed to a taxpayer under subsection 20(16) or regulations made under paragraph 20(1)(*a*) in respect of depreciable property of the taxpayer of a prescribed class, there has been added to the capital cost to the taxpayer of depreciable property of that class the capital cost of depreciable property (in this subsection referred to as 'added property') of another prescribed class, for the purposes of this section, section 20 and any regulations made under paragraph 20(1)(*a*) the added property shall, if the Minister so directs with reference to any taxation year for which, within the time specified in paragraph 152(4)(*a*) or (*b*), the Minister may make any reassessment or additional assessment or assess tax, interest or penalties under this Part as the circumstances require, be deemed to have been property of the first-mentioned class and not of the other class at all times before the commencement of that year and, except to the extent that that property or any part thereof has been disposed of by the taxpayer before the commencement of that year, to have been transferred from the first-mentioned class to the other class at the commencement of that year."

Related Sections: S. 152(4) Assessment and reassessment.
Interpretation Bulletins: *Primary* — IT-190R2 Capital cost allowance — Transferred and misclassified property.
Information Circulars: IC 84-1 Revision of capital cost allowance claims and other permissive deductions.
Tax Window Files: Capital Cost Allowance — Subsection 13(16), August 16, 1995, CRA Document No. 9512405; Class 34 — Electrical Generating Equipment — Effect of Revocation of Certificate, November 21, 1991, CRA Document No. 912972.

► 13(7) ◄

(7) Rules applicable. Subject to subsection 70(13), for the purposes of paragraphs 8(1)(*j*) and (*p*), this section, section 20 and any regulations made for the purpose of paragraph 20(1)(*a*),

(*a*) where a taxpayer, having acquired property for the purpose of gaining or producing income, has begun at a later time to use it for some other purpose, the taxpayer shall be deemed to have disposed of it at that later time for proceeds of disposition equal to its fair market value at that time and to have reacquired it immediately thereafter at a cost equal to that fair market value;

(*b*) where a taxpayer, having acquired property for some other purpose, has begun at a later time to use it for the purpose of gaining or producing income, the taxpayer shall be deemed to have acquired it at that later time at a capital cost to the taxpayer equal to the lesser of

(i) the fair market value of the property at that later time, and

(ii) the total of

(A) the cost to the taxpayer of the property at that later time determined without reference to this paragraph, paragraph (*a*) and subparagraph (*d*)(ii), and

(B) ½ of the amount, if any, by which

(I) the fair market value of the property at that later time

exceeds the total of

(II) the cost to the taxpayer of the property as determined under clause (A), and

(III) twice the amount deducted by the taxpayer under section 110.6 in respect of the amount, if any, by which the fair market value of the property at that later time exceeds the cost to the taxpayer of the property as determined under clause (A);

(*c*) where property has, since it was acquired by a taxpayer, been regularly used in part for the purpose of gaining or producing income and in part for some other purpose, the taxpayer shall be deemed to have acquired, for the purpose of gaining or producing income, the proportion of the property that the use regularly made of the property for gaining or producing income is of the whole use regularly made of the property at a capital cost to the taxpayer equal to the same proportion of the capital cost to the taxpayer of the whole property and, if the property has, in such a case, been disposed of, the proceeds of disposition of the proportion of the property deemed to have been acquired for gaining or producing income shall be deemed to be the same proportion of the proceeds of disposition of the whole property;

(*d*) where, at any time after a taxpayer has acquired property, there has been a change in the relation between the use regularly made by the taxpayer of the property for gaining or producing income and the use regularly made of the property for other purposes,

(i) if the use regularly made by the taxpayer of the property for the purpose of gaining or producing income has increased, the taxpayer shall be deemed to have acquired at that time depreciable property of that class at a capital cost equal to the total of

(A) the proportion of the lesser of

(I) its fair market value at that time, and

(II) its cost to the taxpayer at that time determined without reference to this subparagraph, subparagraph (ii) and paragraph (*a*)

that the amount of the increase in the use regularly made by the taxpayer of the property for that purpose is of the whole of the use regularly made of the property, and

(B) ½ of the amount, if any, by which

(I) the amount deemed under subparagraph 45(1)(*c*)(ii) to be the taxpayer's proceeds of disposition of the property in respect of the change

exceeds the total of

(II) that proportion of the cost to the taxpayer of the property as determined under subclause (A)(II) that the amount of the increase in the use regularly made by the taxpayer of the property for that purpose is of the whole of the use regularly made of the property, and

(III) twice the amount deducted by the taxpayer under section 110.6 in respect of the amount, if any, by which the amount determined under subclause (I) exceeds the amount determined under subclause (II), and

(ii) if the use regularly made of the property for the purpose of gaining or producing income has decreased, the taxpayer shall be deemed to have disposed at that time of depreciable property of that class and the proceeds of disposition shall be deemed to be an amount equal to the proportion of the fair market value of the property as of that time that the amount of the decrease in the use regularly made by the taxpayer of the property for that purpose is of the whole use regularly made of the property;

(*e*) notwithstanding any other provision of this Act except subsection 70(13), where at a particular time a person or partnership (in this paragraph referred to as the "taxpayer") has, directly or indirectly, in any manner whatever, acquired (otherwise than as a consequence of the death of the transferor) a depreciable property (other than a timber resource property) of a prescribed class from a person or partnership with whom the taxpayer did not deal at arm's length (in this paragraph referred to as the "transferor") and, immediately before the transfer, the property was a capital property of the transferor,

(i) where the transferor was an individual resident in Canada or a partnership any member of which was either an individual resident in Canada or another partnership and the cost of the property to the taxpayer at the particular time determined without reference to this paragraph exceeds the cost, or where the property was depreciable property, the capital cost of the property to the transferor immediately before the transferor disposed of it, the capital cost of the property to the taxpayer at the particular time shall be deemed to be the amount that is equal to the total of

(A) the cost or capital cost, as the case may be, of the property to the transferor immediately before the particular time, and

(B) 1/2 of the amount, if any, by which

(I) the transferor's proceeds of disposition of the property

exceed the total of

(II) the cost or capital cost, as the case may be, to the transferor immediately before the particular time,

(III) twice the amount deducted by any person under section 110.6 in respect of the amount, if any, by which the amount determined under subclause (I) exceeds the amount determined under subclause (II), and

(IV) the amount, if any, required by subsection 110.6(21) to be deducted in computing the capital cost to the taxpayer of the property at that time

and, for the purposes of paragraph (*b*) and subparagraph (*d*)(i), the cost of the property to the taxpayer shall be deemed to be the same amount,

(ii) where the transferor was neither an individual resident in Canada nor a partnership any member of which was either an individual resident in Canada or another partnership and the cost of the property to the taxpayer at the particular time determined without reference to this paragraph exceeds the cost, or where the property was depreciable property, the capital cost of the property to the transferor immediately before the transferor disposed of it, the capital cost of the property to the taxpayer at that time shall be deemed to be the amount that is equal to the total of

(A) the cost or capital cost, as the case may be, of the property to the transferor immediately before the particular time, and

(B) 1/2 of the amount, if any, by which the transferor's proceeds of disposition of the property exceed the cost or capital cost, as the case may be, to the transferor immediately before the particular time

and, for the purposes of paragraph (*b*) and subparagraph (*d*)(i), the cost of the property to the taxpayer shall be deemed to be the same amount, and

(iii) where the cost or capital cost, as the case may be, of the property to the transferor immediately before the transferor disposed of it exceeds the capital cost of the property to the taxpayer at that time determined without reference to this paragraph, the capital cost of the property to the taxpayer at that time shall be deemed to be the amount that was the cost or capital cost, as the case may be, of the property to the transferor immediately before the transferor disposed of it and the excess shall be deemed to have been allowed to the taxpayer in respect of the property under regulations made under paragraph 20(1)(*a*) in computing the taxpayer's income for taxation years ending before the acquisition of the property by the taxpayer;

(*e*.1) where a taxpayer is deemed by paragraph 110.6(19)(*a*) to have disposed of and reacquired a property that immediately before the disposition was a depreciable property, the taxpayer shall be deemed to have acquired the property from himself, herself or itself and, in so having acquired the property, not to have been dealing with himself, herself or itself at arm's length;

(*f*) where a corporation is deemed under paragraph 111(4)(*e*) to have disposed of and reacquired depreciable property (other than a timber resource property), the capital cost to the corporation of the property at the time of the reacquisition is deemed to be the amount that is equal to the total of

(i) the capital cost to the corporation of the property at the time of the disposition, and

(ii) 1/2 of the amount, if any, by which the corporation's proceeds of disposition of the property exceed the capital cost to the corporation of the property at the time of the disposition;

(*g*) where the cost to a taxpayer of a passenger vehicle exceeds $20,000 or such other amount as is prescribed, the capital cost to the taxpayer of the vehicle shall be deemed to be $20,000 or that other prescribed amount, as the case may be; and

(*h*) notwithstanding paragraph (*g*), where a passenger vehicle is acquired by a taxpayer at any time from a person with whom the taxpayer does not deal at arm's length, the capital cost at that time to the taxpayer of the vehicle shall be deemed to be the least of

(i) the fair market value of the vehicle at that time,

(ii) the amount that immediately before that time was the cost amount to that person of the vehicle, and

(iii) $20,000 or such other amount as is prescribed.

History: S. 13(7)(*b*)(ii)(B) was amended by S.C. 2001, c. 17, s. 6(1), by replacing the references to the fraction "3/4" with "1/2" and by replacing the reference to the expression "4/3 of" with a reference to the word "twice" applicable to changes in use of property that occur in taxation years that end after February 27, 2000 except that, for changes in use of property that occur in a taxpayer's taxation year that includes February 28, 2000 or October 17, 2000, or began after February 28, 2000 and ended before October 17, 2000, the references in clause 13(7)(*b*)(ii)(B) to the fraction "1/2" shall be read as a reference to the fraction in paragraph 38(*a*) of the Act that applies to the taxpayer for the year and the reference to the word "twice" shall be read as a reference to the expression "the fraction that is the reciprocal of the fraction in paragraph 38(*a*), as enacted by subsection 22(1) of the *Income Tax Amendments Act, 2000* [S.C. 2001, c. 17], that applies to the taxpayer for the year, multiplied by".

S. 13(7)(*d*)(i)(B) was amended by S.C. 2001, c. 17, s. 6(2), by replacing the reference to the fraction "3/4" with "1/2" and by replacing the reference to the expression "4/3 of" with a reference to the word "twice" applicable to changes in use of property that occur in taxation years that end after February 27, 2000 except that, for changes in use of property that occur in a taxpayer's taxation year that includes February 28, 2000 or October 17, 2000, or began after February 28, 2000 and ended before October 17, 2000, the reference in clause 13(7)(*d*)(i)(B) to the fraction "1/2" shall be read as a reference to the fraction in paragraph 38(*a*) of the Act that applies to the taxpayer for the year and the reference to the word "twice" shall be read as a reference to the expression "the fraction that is the reciprocal of the fraction in paragraph 38(*a*), as enacted by subsection 22(1) of the *Income Tax Amendments Act, 2000* [S.C. 2001, c. 17], that applies to the taxpayer for the year, multiplied by".

S. 13(7)(*e*) was amended by S.C. 2001, c. 17, s. 6(3), by replacing the reference to the fraction "3/4" with "1/2" and by replacing the reference to the expression "4/3 of" with a reference to the word "twice", applicable to acquisitions of property that occur in taxation years that end after February 27, 2000 except that, for acquisitions of property in a taxation year that includes February 28, 2000 or October 17, 2000, or began after February 28, 2000 and ended before October 17, 2000, of a person or partnership from whom the property was acquired, the references in paragraph 13(7)(*e*) to the fraction "1/2" shall be read as references to the fraction in paragraph 38(*a*) of the Act that applies to the person or partnership from whom the taxpayer acquired the property for the year in which the person or partnership disposed of the property, and the references to the word "twice" shall be read as references to the expression "the fraction that is the reciprocal of the fraction in paragraph 38(*a*), as enacted by subsection 22(1) of the *Income Tax Amendments Act, 2000* [S.C. 2001, c. 17], that applies to the person or partnership from whom the taxpayer acquired the property for the year in which the person or partnership disposed of the property, multiplied by".

S. 13(7)(*f*)(ii) was amended by S.C. 2001, c. 17, s. 6(4), by replacing the reference to the fraction "3/4" with a reference to the fraction "1/2", applicable to acquisitions of property that occur in taxation years that end after February 27, 2000 except that, for acquisitions of property that occur in a taxpayer's taxation year that includes February 28, 2000 or October 17, 2000, or began after February 28, 2000 and ended before October 17, 2000, the reference in subparagraph 13(7)(*f*)(ii) to the fraction "1/2" shall be read as a reference to the fraction in paragraph 38(*a*) of the Act that applies to the taxpayer for the year.

S. 13(7)(*f*), the portion before subparagraph (i), was amended by S.C. 1998, c. 19, s. 73(3), applicable after April 26, 1995. S. 13(7)(*f*), the portion before subparagraph (i) formerly read:

"(*f*) where a corporation is deemed under paragraph 111(4)(*e*) or 149(10)(*b*) to have disposed of and reacquired depreciable property (other than a timber resource property), the capital cost to the corporation of the property at the time of the reacquisition shall be deemed to be the amount that is equal to the total of"

S. 13(7)(*e*)(i)(B)(IV) was added by S.C. 1995, c. 3, s. 4(1), applicable to the 1994 and subsequent taxation years.

S. 13(7)(*e.1*) was added by S.C. 1995, c. 3, s. 4(2), applicable to the 1994 and subsequent taxation years.

S. 13(7), the portion preceding paragraph (*a*), was amended by S.C. 1994, c. 21, s. 7(1), applicable after 1992. The portion formerly read:

"(7) For the purposes of paragraphs 8(1)(*j*) and (*p*), this section, section 20 and any regulations made under paragraph 20(1)(*a*), the following rules apply:"

S. 13(7)(*e*), the portion preceding subparagraph (i), was amended by S.C. 1994, c. 21, s. 7(2), applicable after 1992. The portion formerly read:

"(*e*) notwithstanding any other provision of this Act, where at a particular time a person or partnership (in this paragraph referred to as the 'taxpayer') has, directly or indirectly, in any manner whatever, acquired (otherwise than as a consequence of the death of the transferor) a depreciable property (other than a timber resource property) of a prescribed class from a person or partnership with whom the taxpayer did not deal at arm's length (in this paragraph referred to as the 'transferor') and the property was a capital property of the transferor,"

Ss. 13(7)(*a*) and (*b*) were amended by S.C. 1994, c. 7, Sched. II, s. 9(3), applicable to changes in use occurring after May 22, 1985, except that

(*a*) in applying paragraph 13(7)(*a*) to changes in use occurring before May 1988, it shall be read as follows:

"(*a*) where a taxpayer, having acquired property for the purpose of gaining or producing income therefrom or for the purpose of gaining or producing income from a business, has begun at a later time to use it for some other purpose, the taxpayer shall be deemed to have disposed of it at that later time for proceeds of disposition equal to its fair market value at that time and to have reacquired it immediately thereafter at a cost equal to that fair market value;"

and

(*b*) in applying clause 13(7)(*b*)(ii)(B) of the Act,

(i) to changes in use of property by a person or partnership in taxation years and fiscal periods ending before 1988, the references, if any, therein to "3/4" and "4/3 of" shall be read as "1/2" and "2 times", respectively,

(ii) to changes in use of property by an individual or a partnership in taxation years and fiscal periods ending after 1987 and before 1990, the references, if any, therein to "3/4" and "4/3" shall be read as "2/3" and "3/2", respectively,

(iii) to changes in use of property by a corporation in taxation years ending after 1987 and beginning before 1990 throughout which the corporation was a Canadian-controlled private corporation, the reference in that clause to "3/4" shall, in respect of the corporation for the year, be read as a reference to the fraction determined as the total of

(A) the proportion of 1/2 that the number of days in the year that are before 1988 is of the number of days in the year,

(B) the proportion of 2/3 that the number of days in the year that are after 1987 and before 1990 is of the number of days in the year, and

(C) the proportion of 3/4 that the number of days in the year that are after 1989 is of the number of days in the year, and

(iv) to changes in use of property by a corporation in taxation years ending after 1987 and beginning before 1990 where throughout the year the corporation was not a Canadian-controlled private corporation, the reference in that clause to "3/4" shall, in respect of the corporation for the year, be read as a reference to the fraction determined as the total of

(A) the proportion of 1/2 that the number of days in the year that are before July 1988 is of the number of days in the year,

(B) the proportion of 2/3 that the number of days in the year that are after June 1988 and before 1990 is of the number of days in the year, and

(C) the proportion of 3/4 that the number of days in the year that are after 1989 is of the number of days in the year.

Ss. 13(7)(*a*) and (*b*) formerly read:

"(*a*) where a taxpayer, having acquired property for the purpose of gaining or producing income, has commenced at a later time to use it for some other purpose, the taxpayer shall be deemed to have disposed of it at that later time at its fair market value at that later time;

(*b*) where a taxpayer, having acquired property for some other purpose, has commenced at a later time to use it for the purpose of gaining or producing income, the taxpayer shall be deemed to have acquired it at that later time at a capital cost to the taxpayer equal to the lesser of

(i) its fair market value at that later time, and

(ii) the total of

(A) its cost to the taxpayer at that later time determined without reference to this paragraph, paragraph (*a*) and subparagraph (*d*)(ii), and

(B) 3/4 of the amount, if any, by which

(I) the fair market value of the property at that later time exceeds the total of

(II) the cost to the taxpayer of the property immediately before that later time, and

(III) 4/3 of the amount deducted by the taxpayer under section 110.6 in respect of the amount, if any, by which the fair market value of the property at that later time exceeds the cost to the taxpayer of the property immediately before that later time;"

S. 13(7)(*c*) was amended by S.C. 1994, c. 7, Sched. II, s. 9(4), applicable to changes in use occurring after April 1988. S. 13(7)(*c*) formerly read:

"(*c*) where property (other than a motor vehicle in respect of which section 67.3 applies) has, since it was acquired by a taxpayer, been regularly used in part for the purpose of gaining or producing income and in part for some other purpose, the taxpayer shall be deemed to have acquired, for the purpose of gaining or producing income, the proportion of the property that the use regularly made of the property for gaining or producing income is of the whole use regularly made of the property at a capital cost to the taxpayer equal to the same proportion of the capital cost to the taxpayer of the whole property; and, if the property has, in such a case, been disposed of, the proceeds of disposition of the proportion of the property deemed to have been acquired for gaining or producing income shall be deemed to be the same proportion of the proceeds of disposition of the whole property;"

Ss. 13(7)(*d*)(i)(B)(II) and (III) were amended by S.C. 1994, c. 7, Sched. II, s. 9(5), applicable to changes in use occurring after May 22, 1985, except that

(*a*) in applying subclause 13(7)(*d*)(i)(B)(III) of the Act,

(i) to changes in use of property by a person or partnership in taxation years and fiscal periods ending before 1988, the references, if any, therein to "3/4" and "4/3 of" shall be read as "1/2" and "2 times", respectively,

(ii) to changes in use of property by an individual or a partnership in taxation years and fiscal periods ending after 1987 and before 1990, the references, if any, therein to "3/4" and "4/3" shall be read as "2/3" and "3/2", respectively,

(iii) to changes in use of property by a corporation in taxation years ending after 1987 and beginning before 1990 throughout which the corporation was a Canadian-controlled private corporation, the reference in that clause to "3/4" shall, in respect of the corporation for the year, be read as a reference to the fraction determined as the total of

(A) the proportion of 1/2 that the number of days in the year that are before 1988 is of the number of days in the year,

(B) the proportion of 2/3 that the number of days in the year that are after 1987 and before 1990 is of the number of days in the year, and

(C) the proportion of 3/4 that the number of days in the year that are after 1989 is of the number of days in the year, and

(iv) to changes in use of property by a corporation in taxation years ending after 1987 and beginning before 1990 where throughout the year the corporation was not a Canadian-controlled private corporation, the reference in that clause to "3/4" shall, in respect of the corporation for the year, be read as a reference to the fraction determined as the total of

(A) the proportion of 1/2 that the number of days in the year that are before July 1988 is of the number of days in the year,

(B) the proportion of 2/3 that the number of days in the year that are after June 1988 and before 1990 is of the number of days in the year, and

(C) the proportion of 3/4 that the number of days in the year that are after 1989 is of the number of days in the year.

S. 13(7)(*d*)(i)(B)(II) and (III) formerly read:

"(II) the cost to the taxpayer of the property immediately before that time, and

(III) 4/3 of the amount deducted by the taxpayer under section 110.6 in respect of the amount, if any, by which the amount determined under subclause (I) exceeds the cost to the taxpayer of the property immediately before that time, and"

S. 13(7)(*e*) preceding subparagraph (i) was amended by S.C. 1994, c. 7, Sched. II, s. 9(6), applicable to property acquired after May 22, 1985. S. 13(7)(*e*) preceding subparagraph (i) formerly read:

"(*e*) notwithstanding any other provision of this Act, where at a particular time a person or partnership (in this paragraph referred to as the 'taxpayer') has, directly or indirectly, in any manner whatever, acquired a depreciable property of a prescribed class from a person or partnership with whom the taxpayer did not deal at arm's length (in this paragraph referred to as the 'transferor') and the property was a capital property of the transferor immediately before the particular time,"

S. 13(7)(*f*) preceding subparagraph (i) was amended by S.C. 1994, c. 7, Sched. II, s. 9(7), applicable to property acquired after May 22, 1985. S. 13(7)(*f*) preceding subparagraph (i) formerly read:

"(*f*) where a corporation is deemed by paragraph 111(4)(*e*) or 149(10)(*b*) to have disposed of and reacquired depreciable property, the capital cost to the corporation of the property at the time of the reacquisition shall be deemed to be the amount that is equal to the total of"

S. 13(7)(*h*) preceding subparagraph (i) was amended by S.C. 1994, c. 7, Sched. II, s. 9(8), applicable to taxation years and fiscal periods commencing after June 17, 1987 that end after 1987. S. 13(7)(*h*) preceding subparagraph (i) formerly read:

"(*h*) where a passenger vehicle is acquired by a taxpayer at any time from a person with whom the taxpayer does not deal at arm's length, the capital cost at that time to the taxpayer of the vehicle shall be deemed to be the least of"

Related Sections: S. 13(2) Recaptured depreciation for passenger vehicle; s. 13(4) Exchanges of property; s. 13(7.3) Control of corporations by one trustee; s. 13(9) Meaning of "gaining or producing income"; s. 13(21.2) Loss on certain transfers; s. 20(16.1) Terminal loss for passenger vehicle; s. 44(1) Exchanges of property; s. 45(1) Property with more than one use; s. 45(2) Election where change of use; s. 67.2 Interest on money borrowed for passenger vehicle; s. 67.3 Limitation re cost of leasing passenger vehicle; s. 67.4 More than one owner or lessor; s. 69 Inadequate considerations; s. 70(13) Capital cost of certain depreciable property; s. 85(1)(*e.4*) Transfer of property to corporation by shareholders; s. 85(5) Rules on transfers of depreciable property; s. 97(4) Where capital cost to partner exceeds proceeds of disposition; s. 248(1), "cost amount".

Regulations: 1100(2.5); 1101(1af); 1102(14); 7307(1); Sched. II, Class 10.1.

Interpretation Bulletins: *Primary* — IT-102R2 Conversion of property, other than real property, from or to inventory; IT-160R3 Personal use of aircraft [Archived by the CRA]; IT-217R Depreciable property owned on December 31, 1971 [Archived by the CRA]; IT-522R Vehicle, Travel and Sales Expenses of Employees; IT-525R (Consolid.) Performing Artists. *Secondary* — IT-120R6 Principal Residence; IT-148R3 Recreational properties and club dues; IT-209R SR Inter-vivos gifts of capital property to individuals directly or through trusts; IT-291R3 Transfer of property to a corporation under subsection 85(1); IT-302R3 Losses of a corporation — the effect that acquisitions of control, amalgamations and windings-up have on their deductibility — after January 15, 1987; IT-521R Motor vehicle expenses claimed by self-employed individuals.

Tax Window Files: Change in Use of a Duplex Given to a Grandson, January 26, 2007, CRA Document No. 2005-0157751E5; Automobile — Multiple Owners, January 2, 2007, CRA Document No. 2006-021755117; Resale of Depreciable Property Acquired from Related Person, November 8, 2006, CRA Document No. 2006-0176171E5; Election under Subsection 110.6(19) of the Act — Impact on Undepreciated Capital Cost of Non-Qualifying Real Property, July 7, 2006, CRA Document No. 2006-018596117; Definition of Automobile, January 10, 2005, CRA Document No. 2004-009125117; Shareholder's Use of Automobile in Corporate Activity, October 8, 2004, CRA Document No. 2004-0086861C6; Deceased Taxpayer — Transfer of Depreciable Property to Spouse, September 15, 2004, CRA Document No. 2004-007500117; Capital Cost Allowance — Leasehold Interest, June 14, 2004, CRA Document No. 2004-0071821E5; Definition of Automobile — Pick up Truck, January 19, 2004, CRA Document No. 2003-004591117; Capital Cost Allowance — Acquisition of Computer Software from Related Non-Resident Company, June 30, 2003, CRA Document No. 2003-0014995; Non-arm's Length Transfer of Goodwill, October 11, 2002, CRA Document No. 2002-0156835; Acquisition of Control — After Assets Are Acquired, 2002, CRA Document No. 2002-0151343; Use of Replacement Property Rules on Property Exchanges, 2002, CRA Document No. 2002-0127033; Change in Use of Property, June 30, 2000, CRA Document No. 1999-0013945; Transfer of Property to Corporation When Capital Gains Exemption Has Been Claimed, March 3, 1999, CRA Document No. 9727195; Nova Scotia Investment Tax Credit, July 7, 1999, CRA Document No. 9824115; Capital Gains Exemption and Transfer of Property to Corporation, August 7, 1997, CRA Document No. 9636425; Capital Gains Election — Price Adjustment Clause, January 5, 1996, CRA Document No. 9525957; Change in use of Automobile, June 29, 1995, CRA Document No. 9511027; Partnership Bump, June 24, 1994, CRA Document No. 9325685; Conversion of Property from Inventory to Principal Residence, February 21, 1994, CRA Document No. 9335765; Undeclared Income, November 30, 1999, CRA Document No. 9M19160.

Cases: When a taxpayer acquired new vehicles each year just before its year end, and traded in its old vehicles just after year-end, the vehicles were not disposed of at year-end merely because they were held for disposal and paragraph 13(7)(*a*) did not apply. *Hewlett Packard (Canada) Ltd. v. The Queen*, 2004 DTC 6498 (F.C.A.).

► 13(7.1) ◄

(7.1) Deemed capital cost of certain property. For the purposes of this Act, where section 80 applied to

reduce the capital cost to a taxpayer of a depreciable property or a taxpayer deducted an amount under subsection 127(5) or (6) in respect of a depreciable property or received or is entitled to receive assistance from a government, municipality or other public authority in respect of, or for the acquisition of, depreciable property, whether as a grant, subsidy, forgivable loan, deduction from tax, investment allowance or as any other form of assistance other than

(*a*) an amount described in paragraph 37(1)(*d*),

(*b*) an amount deducted as an allowance under section 65, or

(*b*.1) an amount included in income by virtue of paragraph 12(1)(*u*) or 56(1)(*s*),

the capital cost of the property to the taxpayer at any particular time shall be deemed to be the amount, if any, by which the total of

(*c*) the capital cost of the property to the taxpayer, determined without reference to this subsection, subsection (7.4) and section 80, and

(*d*) such part, if any, of the assistance as has been repaid by the taxpayer, pursuant to an obligation to repay all or any part of that assistance, in respect of that property before the disposition thereof by the taxpayer and before the particular time

exceeds the total of

(*e*) where the property was acquired in a taxation year ending before the particular time, all amounts deducted under subsection 127(5) or (6) by the taxpayer for a taxation year ending before the particular time,

(*f*) the amount of assistance the taxpayer has received or is entitled, before the particular time, to receive, and

(*g*) all amounts by which the capital cost of the property to the taxpayer is required because of section 80 to be reduced at or before that time,

in respect of that property before the disposition thereof by the taxpayer.

History: S. 13(7.1), the part preceding paragraph (*a*), was amended by S.C. 1995, c. 21, s. 2(1), applicable to taxation years that end after February 21, 1994. That part formerly read:

"(7.1) *Deemed capital cost of certain property.* For the purposes of this Act, where a taxpayer has deducted an amount under subsection 127(5) or (6) in respect of a depreciable property or has received or is entitled to receive assistance from a government, municipality or other public authority in respect of, or for the acquisition of, depreciable property, whether as a grant, subsidy, forgivable loan, deduction from tax, investment allowance or as any other form of assistance other than"

S. 13(7.1)(*c*) was amended by S.C. 1995, c. 21, s. 2(2), applicable to taxation years that end after February 21, 1994. S. 13(7.1)(*c*) formerly read:

"(*c*) the capital cost thereof to the taxpayer, determined without reference to this subsection and subsection (7.4), and"

S. 13(7.1)(*g*) was added by S.C. 1995, c. 21, s. 2(3), applicable to taxation years that end after February 21, 1994.

Editorial Note: If a GST input tax credit or other government assistance cannot be applied to reduce the capital cost of depreciable property under subsection 13(7.1) or the adjusted cost base of capital property under paragraph 53(2)(*k*), it is generally included in income under paragraph 12(1)(*t*) or (*x*).

Related Sections: S. 6(8) GST rebates re costs of property or service; s. 12(1)(*t*) Investment tax credit; s. 13(7.2) Receipt of public assistance; s. 13(7.4) Deemed capital cost; s. 80(1), "excluded obligation"; s. 80(5) Reductions with respect to depreciable property; s. 80(9) Reductions of adjusted cost bases of capital properties; s. 87(2)(*j*.6) Continuing corporation; s. 127(11.5) Adjustments to qualified expenditures; s. 127(12) Deemed capital cost of depreciable property; s. 248(16) Goods and services tax — input tax credit and rebate; s. 248(18) Goods and services tax — repayment of input tax credit.

Proposed Related Sections: S. 248(16.1); s. 248(18.1).

Interpretation Bulletins: *Primary* — IT-273R2 Government assistance — General comments. *Secondary* — IT-478R2 Capital cost allowance — Recapture and terminal loss.

Tax Window Files: Quebec Capital Tax Credit, January 22, 2007, CRA Document No. 2006-0212641E5; Entitlement to Receive Assistance, March 30, 1998, CRA Document No. 9730805; Construction of Permanent Dyke to Prevent Flooding of Farmland, October 27, 1997, CRA Document No. 9727645; Feed Freight Adjustment, April 24, 1996, CRA Document No. 9611755; Ontario Super Allowance and Ontario Current Cost Adjustment, November 27, 1992, CRA Document No. 9235220.

► 13(7.2) ◄

(7.2) Receipt of public assistance. For the purposes of subsection (7.1), where at any time a taxpayer who is a beneficiary of a trust or a member of a partnership has received or is entitled to receive assistance from a government, municipality or other public authority whether as a grant, subsidy, forgivable loan, deduction from tax, investment allowance or as any other form of assistance, the amount of the assistance that may reasonably be considered to be in respect of, or for the acquisition of, depreciable property of the trust or partnership shall be deemed to have been received at that time by the trust or partnership, as the case may be, as assistance from the government, municipality or other public authority for the acquisition of depreciable property.

Related Sections: S. 53(2)(*c*)(ix) Amounts to be deducted — Interest in a partnership; s. 53(2)(*h*)(v) Amounts to be deducted — Capital interest in a trust.

► 13(7.3) ◄

(7.3) Control of corporations by one trustee. For the purposes of paragraph (7)(*e*), where at a particular time one corporation would, but for this subsection, be related to another corporation by reason of both corporations being controlled by the same executor, liquidator of a succession or trustee and it is established that

(*a*) the executor, liquidator or trustee did not acquire control of the corporations as a result of one or more estates or trusts created by the same individual or by two or more individuals not dealing with each other at arm's length, and

(*b*) the estate or trust under which the executor, liquidator or trustee acquired control of each of the corporations arose only on the death of the individual creating the estate or trust,

the two corporations are deemed not to be related to each other at the particular time.

History: S. 13(7.3) was amended by S.C. 2001, c. 17, s. 196(1), applicable on Royal Assent, June 14, 2001. S. 13(7.3) formerly read:

"(7.3) *Control of corporations by one trustee.* For the purposes of paragraph (7)(*e*), where at a particular time one corporation would, but for this subsection, be related to another corporation by reason of both corporations being controlled by the same trustee or executor and it is established that

(*a*) the trustee or executor did not acquire control of the corporations as a result of one or more trusts or estates created by the same individual or by two or more individuals not dealing with each other at arm's length, and

(*b*) the trust or estate under which the trustee or executor acquired control of each of the corporations arose only on the death of the individual creating the trust or estate,

the two corporations shall be deemed not to be related to each other at that particular time."

Related Sections: S. 256(6) Saving provision — controlled corporations; s. 256(7) Acquiring control; s. 256(8) Deemed exercise of right; s. 256(9) Date of acquisition of control.

► 13(7.4) ◄

(7.4) Deemed capital cost. Notwithstanding subsection (7.1), where a taxpayer has in a taxation year received an amount that would, but for this subsection, be included in the taxpayer's income under paragraph 12(1)(*x*)

in respect of the cost of a depreciable property acquired by the taxpayer in the year, in the three taxation years immediately preceding the year or in the taxation year immediately following the year and the taxpayer elects under this subsection on or before the day on or before which the taxpayer is required to file the taxpayer's return of income under this Part for the year, or, where the property is acquired in the taxation year immediately following the year, for that following year, the capital cost of the property to the taxpayer shall be deemed to be the amount by which the total of

(*a*) the capital cost of the property to the taxpayer otherwise determined, applying the provisions of subsection (7.1), where necessary, and

(*b*) such part, if any, of the amount received by the taxpayer as has been repaid by the taxpayer pursuant to a legal obligation to repay all or any part of that amount, in respect of that property and before the disposition thereof by the taxpayer, and as may reasonably be considered to be in respect of the amount elected under this subsection in respect of the property

exceeds the amount elected by the taxpayer under this subsection, but in no case shall the amount elected under this subsection exceed the least of

(*c*) the amount so received by the taxpayer,

(*d*) the capital cost of the property to the taxpayer otherwise determined, and

(*e*) where the taxpayer has disposed of the property before the year, nil.

Editorial Note: See the editorial note under paragraph 12(1)(*x*).

Related Sections: S. 87(2)(*j.6*) Continuing corporation; s. 125.4(5) When assistance received; s. 125.5(5) When assistance received; s. 127(11.5) Adjustments to qualified expenditures; s. 220(3.2) Late, amended or revoked elections.

Regulations: 600(b).

Interpretation Bulletins: *Secondary* — IT-273R2 Government assistance — General comments; IT-478R2 Capital Cost Allowance — Recapture and Terminal Loss.

Information Circulars: IC 92-1 Guidelines for accepting late, amended or revoked elections; IC 07-1 Taxpayer relief provisions.

Tax Profile: March 2002 — Selected Tax Issues for Commercial Landlords and Tenants.

► 13(7.5) ◄

(7.5) Deemed capital cost. For the purposes of this Act,

(*a*) where a taxpayer, to acquire a property prescribed in respect of the taxpayer, is required under the terms of a contract made after March 6, 1996 to make a payment to Her Majesty in right of Canada or a province or to a Canadian municipality in respect of costs incurred or to be incurred by the recipient of the payment

(i) the taxpayer is deemed to have acquired the property at a capital cost equal to the portion of that payment made by the taxpayer that can reasonably be regarded as being in respect of those costs, and

(ii) the time of acquisition of the property by the taxpayer is deemed to be the later of the time the payment is made and the time at which those costs are incurred;

(*b*) where

(i) at any time after March 6, 1996 a taxpayer incurs a cost on account of capital for the building of, for the right to use or in respect of, a prescribed property, and

(ii) the amount of the cost would, if this paragraph did not apply, not be included in the capital cost to the taxpayer of depreciable property of a prescribed class,

the taxpayer is deemed to have acquired the property at that time at a capital cost equal to the amount of the cost;

(*c*) where a taxpayer acquires an intangible property as a consequence of making a payment to which paragraph (*a*) applies or incurring a cost to which paragraph (*b*) applies,

(i) the property referred to in paragraph (*a*) or (*b*) is deemed to include the intangible property, and

(ii) the portion of the capital cost referred to in paragraph (*a*) or (b) that applies to the intangible property is deemed to be the amount determined by the formula

$$A \times B/C$$

where

A is the lesser of the amount of the payment made or cost incurred and the amount determined for C,

B is the fair market value of the intangible property at the time the payment was made or the cost was incurred, and

C is the fair market value at the time the payment was made or the cost was incurred of all intangible properties acquired as a consequence of making the payment or incurring the cost; and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced]

Paragraph 13(7.5)(*c*) of the Act is replaced by the following:

(*c*) where a taxpayer acquires an intangible property, or for civil law an incorporeal property, as a consequence of making a payment to which paragraph (*a*) applies or incurring a cost to which paragraph (*b*) applies,

(i) the property referred to in paragraph (*a*) or (*b*) is deemed to include the intangible or incorporeal property, and

(ii) the portion of the capital cost referred to in paragraph (*a*) or (*b*) that applies to the intangible or incorporeal property is deemed to be the amount determined by the formula

$$A \times B/C$$

where

A is the lesser of the amount of the payment made or cost incurred and the amount determined for C,

B is the fair market value of the intangible or incorporeal property at the time the payment was made or the cost was incurred, and

C is the fair market value at the time the payment was made or the cost was incurred of all intangible or incorporeal properties acquired as a con-

sequence of making the payment or incurring the cost; and

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*d*) any property deemed by paragraph (*a*) or (*b*) to have been acquired at any time by a taxpayer as a consequence of making a payment or incurring a cost

(i) is deemed to have been acquired for the purpose for which the payment was made or the cost was incurred, and

(ii) is deemed to be owned by the taxpayer at any subsequent time that the taxpayer benefits from the property.

History: S. 13(7.5) was added by S.C. 1997, c. 25, s. 3(2), applicable to taxation years that end after March 6, 1996.

Regulations: 1102(14.2); 1102(14.3).
Interpretation Bulletins: *Secondary* — IT-143R3 Meaning of eligible capital expenditure.

► 13(8) ◄

(8) Disposition after ceasing business. Notwithstanding subsections (3) and 11(2), where a taxpayer, after ceasing to carry on a business, has disposed of depreciable property of the taxpayer of a prescribed class that was acquired by the taxpayer for the purpose of gaining or producing income from the business and that was not subsequently used by the taxpayer for some other purpose, in applying subsection (1) or (2), each reference therein to a "taxation year" and "year" shall not be read as a reference to a "fiscal period".

Related Sections: S. 13(1) Recaptured depreciation; s. 13(3) "Taxation year", "year" and "income" of individual; s. 20(16.3) Disposition after ceasing business; s. 25(3) Dispositions in the extended fiscal period.
Interpretation Bulletins: *Secondary* — IT-172R Capital cost allowance — Taxation year of individual [Archived by the CRA]; IT-478R2 Capital cost allowance — Recapture and terminal loss.

► 13(9) ◄

(9) Meaning of "gaining or producing income". In applying paragraphs (7)(*a*) to (*d*) in respect of a non-resident taxpayer, a reference to "gaining or producing income" in relation to a business shall be read as a reference to gaining or producing income from a business wholly carried on in Canada or such part of a business as is wholly carried on in Canada.

Interpretation Bulletins: *Secondary* — IT-478R2 Capital Cost Allowance — Recapture and Terminal Loss

► 13(10) ◄

(10) Deemed capital cost. For the purposes of this Act, where a taxpayer has, after December 3, 1970 and before April 1, 1972, acquired prescribed property

(*a*) for use in a prescribed manufacturing or processing business carried on by the taxpayer, and

(*b*) that was not used for any purpose whatever before it was acquired by the taxpayer,

the taxpayer shall be deemed to have acquired that property at a capital cost to the taxpayer equal to 115% of the amount that, but for this subsection and section 21, would have been the capital cost to the taxpayer of that property.

Regulations: 1102(15).
Interpretation Bulletins: *Secondary* — IT-273R2 Government assistance — General comments.

► 13(11) ◄

(11) Deduction in respect of property used in performance of duties. Any amount deducted under subparagraph 8(1)(*j*)(ii) or (*p*)(ii) of this Act or subsection 11(11) of *The Income Tax Act*, chapter 52 of the Statutes of Canada, 1948, shall be deemed, for the purposes of this section to have been deducted under regulations made under paragraph 20(1)(*a*).

Interpretation Bulletins: *Secondary* — IT-522R Vehicle, Travel and Sales Expenses of Employees.
Tax Window Files: Earned Income — Recaptured CCA, January 27, 2004, CRA Document No. 2004-0055367.

► 13(12) ◄

(12) Application of para. 20(1)(cc). Where, in computing the income of a taxpayer for a taxation year, an amount has been deducted under paragraph 20(1)(*cc*) or the taxpayer has elected under subsection 20(9) to make a deduction in respect of an amount that would otherwise have been deductible under that paragraph, the amount shall, if it was a payment on account of the capital cost of depreciable property, be deemed to have been allowed to the taxpayer in respect of the property under regulations made under paragraph 20(1)(*a*) in computing the income of the taxpayer

(*a*) for the year, or

(*b*) for the year in which the property was acquired,

whichever is the later.

Interpretation Bulletins: *Primary* — IT-99R5 Legal and accounting fees.

► 13(13) ◄

(13) Deduction under Canadian Vessel Construction Assistance Act. Where a deduction has been made under the *Canadian Vessel Construction Assistance Act* for any taxation year, subsection (1) is applicable in respect of the prescribed class created by that Act or any other prescribed class to which the vessel may have been transferred.

► 13(14) ◄

(14) Conversion cost. For the purposes of this section, section 20 and any regulations made under paragraph 20(1)(*a*), a vessel in respect of which any conversion cost is incurred after March 23, 1967 shall, to the extent of the conversion cost, be deemed to be included in a separate prescribed class.

Related Sections: S. 13(17) Separate prescribed class concerning vessel.
Regulations: S. 1100(1)(v); s. 1101(2a).
Interpretation Bulletins: *Secondary* — IT-267R2 Capital cost allowance — Vessels.

► 13(15) ◄

(15) Where s. (1) and subdivision c do not apply. Where a vessel owned by a taxpayer on January 1, 1966 or constructed pursuant to a construction contract entered into by the taxpayer prior to 1966 and not completed by that date was disposed of by the taxpayer before 1974,

(*a*) subsection (1) and subdivision c do not apply to the proceeds of disposition

(i) if an amount at least equal to the proceeds of disposition was used by the taxpayer, before May, 1974 and during the taxation year of the taxpayer in which the vessel was disposed of or within 4 months after the end of that taxation year, under conditions satisfactory to the appropriate minister, either for replacement or to incur any con-

version cost with respect to a vessel owned by the taxpayer, or

(ii) if the appropriate minister certified that the taxpayer had, on satisfactory terms, deposited

(A) on or before the day on which the taxpayer was required to file a return of the taxpayer's income for the taxation year in which the vessel was disposed of, or

(B) on or before such day subsequent to the day referred to in clause (A) as the appropriate minister specified in respect of the taxpayer,

an amount at least equal to the tax that would, but for this subsection, have been payable by the taxpayer under this Part in respect of the proceeds of disposition, or satisfactory security therefor, as a guarantee that the proceeds of disposition would be used before 1975 for replacement; and

(*b*) if within the time specified for the filing of a return of the taxpayer's income for the taxation year in which the vessel was disposed of

(i) the taxpayer elected to have the vessel constituted a prescribed class, or

(ii) where any conversion cost in respect of the vessel was included in a separate prescribed class, the taxpayer elected to have the vessel transferred to that class,

the vessel shall be deemed to have been so transferred immediately before the disposition thereof, but this paragraph does not apply unless the proceeds of disposition of the vessel exceed the amount that would be the undepreciated capital cost of property of the class to which it would be so transferred.

Related Sections: S. 13(16) Election concerning vessel; s. 13(17) Separate prescribed class concerning vessel; s. 13(18) Reassessments; s. 13(18.1) Ascertainment of certain property; s. 13(19) Reassessments; s. 13(20) Refund of deposit; s. 13(21), "appropriate minister".

► 13(16) ◄

(16) Election concerning vessel. Where a vessel owned by a taxpayer is disposed of by the taxpayer, the taxpayer may, if subsection (15) does not apply to the proceeds of disposition or if the taxpayer did not make an election under paragraph (15)(*b*) in respect of the vessel, within the time specified for the filing of a return of the taxpayer's income for the taxation year in which the vessel was disposed of, elect to have the proceeds that would be included in computing the taxpayer's income for the year under this Part treated as proceeds of disposition of property of another prescribed class that includes a vessel owned by the taxpayer.

Related Sections: S. 13(17) Separate prescribed class concerning vessel; s. 96(3) Agreement or election of partnership members.
Interpretation Bulletins: *Secondary* — IT-267R2 Capital cost allowance — Vessels.
Tax Window Files: Disposition of Vessel — Election to Treat Recapture as Proceeds of Property of Another Prescribed Class, March 9, 2004, CRA Document No. 2004-0059661E5.

► 13(17) ◄

(17) Separate prescribed class concerning vessel. Where a separate prescribed class has been constituted either under this Act or the *Canadian Vessel Construction Assistance Act* by reason of the conversion of a vessel owned by a taxpayer and the vessel is disposed of by the taxpayer, if no election in respect of the vessel was made under paragraph (15)(*b*), the separate prescribed class constituted by reason of the conversion shall be deemed to have been transferred to the class in which the vessel was included immediately before the disposition thereof.

Interpretation Bulletins: *Secondary* — IT-267R2 Capital cost allowance — Vessels.

► 13(18) ◄

(18) Reassessments. Notwithstanding any other provision of this Act, where a taxpayer has

(*a*) used an amount as described in paragraph (4)(*c*), or

(*b*) made an election under paragraph (15)(*b*) in respect of a vessel and the proceeds of disposition of the vessel were used before 1975 for replacement under conditions satisfactory to the appropriate minister,

such reassessments of tax, interest or penalties shall be made as are necessary to give effect to subsections (4) and (15).

► 13(18.1) ◄

(18.1) Ascertainment of certain property. For the purpose of determining whether property meets the criteria set out in the Regulations in respect of prescribed energy conservation property, the Technical Guide to Class 43.1, as amended from time to time and published by the Department of Natural Resources, shall apply conclusively with respect to engineering and scientific matters.

History: S. 13(18.1) was added by S.C. 1995, c. 3, s. 4(3), applicable to property acquired after February 21, 1994.

Related Sections: S. 241(4)(*d*)(vi.1) Where taxpayer information may be disclosed.
Regulations: 8200.1
Tax Window Files: Request for description of property encompassed by paragraph (d) of Class 43.1 and Class 43.2, March 9, 2007, CRA Document No. 2007-0225661E5; Class 43.1, September 20, 2001, CRA Document No. 2001-0067815

► 13(19) ◄

(19) Disposition of deposit. All or any part of a deposit made under subparagraph (15)(*a*)(ii) or under the *Canadian Vessel Construction Assistance Act* may be paid out to or on behalf of any person who, under conditions satisfactory to the appropriate minister and as a replacement for the vessel disposed of, acquires a vessel before 1975

(*a*) that was constructed in Canada and is registered in Canada or is registered under conditions satisfactory to the appropriate minister in any country or territory to which the British Commonwealth Merchant Shipping Agreement, signed at London on December 10, 1931, applies, and

(*b*) in respect of the capital cost of which no allowance has been made to any other taxpayer under this Act or the *Canadian Vessel Construction Assistance Act*,

or incurs any conversion cost with respect to a vessel owned by that person that is registered in Canada or is registered under conditions satisfactory to the appropriate minister in any country or territory to which the agreement referred to in paragraph (*a*) applies, but the ratio of the amount paid out to the amount of the deposit shall not exceed the ratio of the capital cost to that person of the vessel or the conversion cost to that person of the vessel, as the case may be, to the proceeds of disposition of the vessel disposed of, and any deposit or part of a deposit not so paid out before July 1, 1975 or not paid out pursuant to subsec-

tion (20) shall be paid to the Receiver General and form part of the Consolidated Revenue Fund.

Related Sections: S. 13(21), "appropriate minister".

► 13(20) ◄

(20) Idem. Notwithstanding any other provision of this section, where a taxpayer made a deposit under subparagraph (15)(*a*)(ii) and the proceeds of disposition in respect of which the deposit was made were not used by any person before 1975 under conditions satisfactory to the appropriate minister as a replacement for the vessel disposed of,

(*a*) to acquire a vessel described in paragraphs (19)(*a*) and (*b*), or

(*b*) to incur any conversion cost with respect to a vessel owned by that person that is registered in Canada or is registered under conditions satisfactory to the appropriate minister in any country or territory to which the agreement referred to in paragraph (19)(*a*) applies,

the appropriate minister may refund to the taxpayer the deposit, or the part thereof not paid out to the taxpayer under subsection (19), as the case may be, in which case there shall be added, in computing the income of the taxpayer for the taxation year of the taxpayer in which the vessel was disposed of, that proportion of the amount that would have been included in computing the income for the year under this Part had the deposit not been made under subparagraph (15)(*a*)(ii) that the portion of the proceeds of disposition not so used before 1975 as such a replacement is of the proceeds of disposition, and, notwithstanding any other provision of this Act, such reassessments of tax, interest or penalties shall be made as are necessary to give effect to this subsection.

► 13(21) ◄

(21) Definitions. In this section,

Related Sections: S. 20(1.1) Application of s. 13(21); s. 20(27.1) Application of ss. 13(21) and 138(12).
Interpretation Bulletins: *Primary* — IT-418 Capital cost allowance — Partial Dispositions of property. *Secondary* — IT-273R2 Government assistance — General comments.
Tax Window Files: British Columbia Forestry Revitalization Act and Forest (Revitalization) Amendment Act, December 1, 2003, CRA Document No. 2003-0020445; Damages for Loss of Capital Property and Mental Injury, 2003, CRA Document No. 2003-0034983; Additions or Alterations to Leased Property, February 10, 1999, CRA Document No. 9833685.

"appropriate minister" — "appropriate minister" means the Canadian Maritime Commission, the Minister of Industry, Trade and Commerce, the Minister of Regional Industrial Expansion, the Minister of Industry, Science and Technology or the Minister of Industry or any other minister or body that was or is legally authorized to perform the act referred to in the provision in which this expression occurs at the time the act was or is performed;

History: S. 13(21), the definition "appropriate minister" was amended by S.C. 1995, c. 1, s. 40, effective on proclamation, March 29, 1995. That definition formerly read:
" '*appropriate minister*' — 'appropriate minister' means the Canadian Maritime Commission, the Minister of Industry, Trade and Commerce, the Minister of Regional Industrial Expansion, the Minister of Industry, Science and Technology or such other minister or body as was or is legally authorized to perform the act referred to in the provision in which this expression occurs at the time the act was or is performed;"
The definition "appropriate minister" was added to s. 13(21) in the revised Act.

Interpretation Bulletins: *Primary* — IT-418 Capital cost allowance — Partial Dispositions of property.

"conversion" — "conversion", in respect of a vessel, means a conversion or major alteration in Canada by a taxpayer;

History: S. 13(21), the definition of "conversion", was amended by S.C. 1994, c. 7, Sched. II, s. 9(9), applicable to conversions beginning after July 13, 1990. S. 13(21), the definition of "conversion", formerly read:
" 'conversion', in respect of a vessel, means a conversion or major alteration in Canada by a taxpayer in accordance with plans approved in writing by the appropriate minister for the purposes of this Act;"

Interpretation Bulletins: *Primary* — IT-418 Capital cost allowance — Partial Dispositions of property. *Secondary* — IT-267R2 Capital cost allowance — Vessels.
Tax Window Files: Court Ordered Sale of Property — Application of Section 79, December 8, 1997, CRA Document No. 9721155.

"conversion cost" — "conversion cost", in respect of a vessel, means the cost of a conversion;

History: The definition "conversion cost" was added to s. 13(21) in the revised Act.
S. 13(21), the definition of "conversion cost" was amended by S.C. 1994, c. 7, Sched. II, s. 9(9), applicable to conversions beginning after July 13, 1990. S. 13(21), the definition of "conversion cost" formerly read:
" 'conversion cost', in respect of a vessel, means the cost of a conversion as determined by the appropriate minister for the purposes of this Act;"

Related Sections: S. 13(1) Recaptured depreciation; s. 13(13)–(20).
Interpretation Bulletins: *Primary* — IT-418 Capital cost allowance — Partial Dispositions of property. *Secondary* — IT-267R2 Capital cost allowance — Vessels.

"depreciable property" — "depreciable property" of a taxpayer as of any time in a taxation year means property acquired by the taxpayer in respect of which the taxpayer has been allowed, or would, if the taxpayer owned the property at the end of the year and this Act were read without reference to subsection (26), be entitled to, a deduction under paragraph 20(1)(*a*) in computing income for that year or a preceding taxation year;

History: S. 13(21), the definition of "depreciable property", was amended by S.C. 1994, c. 7, Sched. II, s. 9(9), applicable to property acquired after 1989. S. 13(21), the definition of "depreciable property", formerly read:
" 'depreciable property' of a taxpayer as of any time in a taxation year means property acquired by the taxpayer in respect of which the taxpayer was allowed, or, if the taxpayer owned the property at the end of the year, would be entitled to, a deduction under paragraph 20(1)(*a*) in computing income for that year or a previous taxation year;"

Related Sections: S. 13(1) Recaptured depreciation; s. 13(5.2)(*c*) Lease-option agreement — exercise of option; s. 13(33) Consideration given for depreciable property; s. 20(1)(*a*) Capital cost of property; s. 54, "capital property"; s. 88(1)(c.7) Winding-up; s. 107.4(3)(*d*) Tax consequences of qualifying dispositions; s. 248(1), "depreciable property".
Regulations: Part XI.
Interpretation Bulletins: *Primary* — IT-102R2 Conversion of property, other than real property, from or to inventory; IT-128R Capital cost allowance — Depreciable property; IT-220R2 Capital cost allowance — proceeds of disposition of depreciable property; IT-418 Capital cost allowance — Partial dispositions of property.
Tax Window Files: Depreciable Property, January 27, 2003, CRA Document No. 2002-0177677; Capital Loss of Estate on Disposition of Principal Residence, September 10, 2002, CRA Document No. 2002-0148955; Timber Limit — Capital Property or Inventory, July 28, 1995, CRA Document No. 943255.

"disposition of property" — [Repealed by S.C. 2001, c. 17, s. 6(5).]

History: S. 13(21), the definition "disposition of property" was repealed by S.C. 2001, c. 17, s. 6(5), applicable to transactions and events that occur after December 23, 1998. S. 13(21), the definition "disposition of property", formerly read:
" '*disposition of property*' — 'disposition of property' includes any transaction or event entitling a taxpayer to proceeds of disposition of property;"

Related Sections: S. 248(1), "disposition".
Interpretation Bulletins: *Primary* — IT-170R Sale of property — When included in income computation; IT-418 Capital cost allowance — Partial Dispositions of property; IT-460 Dispositions — Absence of consideration. *Secondary* — IT-102R2 Conversion of property, other than real property, from or to inventory; IT-182 Compensation for loss of business income, or of

property used in a business; IT-218R Profit, capital gains and losses from the sale of real estate, including farmland and inherited land and conversion of real estate from capital property to inventory and vice versa; IT-505 Mortgage foreclosures and conditional sales repossessions [Archived by the CRA].
Advance Tax Rulings: ATR-1 Transfer of legal title in land to bare trustee corporation — Mortgagee's requirements sole reason for transfer.
Cases: Under a rental/sale agreement entered into on June 1, 1985, gas cylinders were to be purchased over five years, one-fifth being purchased each year, the remaining being rented until actually purchased. A disposition had occurred not on June 1, 1985 but rather over the course of five years, as set out in the agreement. *Borstad Welding Supplies (1972) Ltd v. The Queen*, 93 DTC 5457 (F.C.T.D.).

"proceeds of disposition" — "proceeds of disposition" of property includes

(*a*) the sale price of property that has been sold,

(*b*) compensation for property unlawfully taken,

(*c*) compensation for property destroyed and any amount payable under a policy of insurance in respect of loss or destruction of property,

(*d*) compensation for property taken under statutory authority or the sale price of property sold to a person by whom notice of an intention to take it under statutory authority was given,

(*e*) compensation for property injuriously affected, whether lawfully or unlawfully or under statutory authority or otherwise,

(*f*) compensation for property damaged and any amount payable under a policy of insurance in respect of damage to property, except to the extent that the compensation or amount, as the case may be, has within a reasonable time after the damage been expended on repairing the damage,

(*g*) an amount by which the liability of a taxpayer to a mortgagee or hypothecary creditor is reduced as a result of the sale of mortgaged or hypothecated property under a provision of the mortgage or hypothec, plus any amount received by the taxpayer out of the proceeds of the sale, and

(*h*) any amount included because of section 79 in computing a taxpayer's proceeds of disposition of the property;

History: S. 13(21), paragraph (*g*) of the definition "proceeds of disposition" was amended by S.C. 2001, c. 17, s 196(2), applicable on Royal Assent, June 14, 2001. S. 13(21), paragraph (*g*) of the definition "proceeds of disposition" formerly read:

"(*g*) an amount by which the liability of a taxpayer to a mortgagee is reduced as a result of the sale of mortgaged property under a provision of the mortgage, plus any amount received by the taxpayer out of the proceeds of the sale, and"

S. 13(21), paragraph (*h*) of the definition "proceeds of disposition", was amended by S.C. 1995, c. 21, s. 2(4), applicable to taxation years that end after February 21, 1994. That paragraph formerly read:

"(*h*) any amount included in computing a taxpayer's proceeds of disposition of the property by virtue of paragraph 79(*c*);"

Related Sections: S. 12(1)(*f*) Insurance proceeds expended; s. 13(4) Exchanges of property; s. 13(21), "undepreciated capital cost"; s. 13(21.1) Disposition of building; s. 44 Exchanges of property; s. 54, "proceeds of disposition"; s. 79(3) Proceeds of disposition for debtor.
Proposed Related Sections: S. 248(39).
Interpretation Bulletins: *Primary* — IT-418 Capital cost allowance — Partial Dispositions of property. *Secondary* — IT-170R Sale of property — When included in income computation; IT-259R4 Exchange of property; IT-271R Expropriations — Time and proceeds of disposition [Archived by the CRA]; IT-460 Dispositions — Absence of consideration; IT-505 Mortgage foreclosures and conditional sales repossessions [Archived by the CRA].
Tax Window Files: Replacement Property Rules — Forced Sale, July 26, 1995, CRA Document No. 9501585; Assumption of Contingent Liabilities on Acquisition of Assets, October 30, 1992, CRA Document No. 9222345
Cases: When, following the taxpayers' mortgage default, their mortgagee was allowed to purchase their condominium property for a stipulated sum and granted judgment for the balance of the amount owing, the taxpayers could report as "proceeds of disposition" their shares of the stipulated sum rather than their shares of the full principal amount still outstanding on the mortgage. *Brill et al. v. The Queen*, 96 DTC 6572 (F.C.A.), reversing in part 95 DTC 5435 (F.C.T.D.).

Since paragraph (*h*) of the definition "proceeds of disposition" in s. 13(21) specifically refers to any amount included in a taxpayer's proceeds of disposition by virtue of s. 79(*c*), the taxpayers' principal indebtedness to the mortgagees at the time they acquired the beneficial ownership of various condominiums in consequence of the failure to pay the mortgage amount owing was included in their proceeds of disposition. *Farn et al. v. The Queen*, 95 DTC 5426 (F.C.T.D.).

"timber resource property" — "timber resource property" of a taxpayer means

(*a*) a right or licence to cut or remove timber from a limit or area in Canada (in this definition referred to as an "original right") if

(i) that original right was acquired by the taxpayer (other than in the manner referred to in paragraph (*b*)) after May 6, 1974, and

(ii) at the time of the acquisition of the original right

(A) the taxpayer may reasonably be regarded as having acquired, directly or indirectly, the right to extend or renew that original right or to acquire another such right or licence in substitution therefor, or

(B) in the ordinary course of events, the taxpayer may reasonably expect to be able to extend or renew that original right or to acquire another such right or licence in substitution therefor, or

(*b*) any right or licence owned by the taxpayer to cut or remove timber from a limit or area in Canada if that right or licence may reasonably be regarded

(i) as an extension or renewal of or as one of a series of extensions or renewals of an original right of the taxpayer, or

(ii) as having been acquired in substitution for or as one of a series of substitutions for an original right of the taxpayer or any renewal or extension thereof;

Related Sections: S. 13(21), "Undepreciated capital cost"; s. 128.1(4)(*b*)(i) Emigration; s. 248(1) Definition applies to entire Act.
Regulations: Sch. II, Class 33.
Interpretation Bulletins: *Primary* — IT-418 Capital cost allowance — Partial Dispositions of property; IT-481 (Consolid.) Timber resource property and timber limits. *Secondary* — IT-373R2 (Consolid.) Woodlots; IT-393R2 Election re tax on rents and timber royalties — non-residents.
Tax Window Files: Timber Limits, July 23, 1997, CRA Document No. 9639765.
Cases: The proceeds from the transfer of cutting licences were income from the disposition of "timber resource properties" because original rights become timber resource properties when initially obtained, renewed, extended or substituted for earlier rights after May 6, 1974 and it is irrelevant whether the licenses were extensions, renewals or substitutions for original rights initially acquired before or after May 6, 1974. *The Queen v. Kettle River Sawmills Ltd. et al.*, 94 DTC 6086 (F.C.A.), reversing 92 DTC 6525 (F.C.T.D.).

"total depreciation" — "total depreciation" allowed to a taxpayer before any time for property of a prescribed class means the total of all amounts each of which is an amount deducted by the taxpayer under paragraph 20(1)(*a*) in respect of property of that class or an amount deducted under subsection 20(16), or that would have been so deducted but for subsection 20(16.1), in computing the taxpayer's income for taxation years ending before that time;

Regulations: Part XI.
Interpretation Bulletins: *Primary* — IT-418 Capital cost allowance — Partial Dispositions of property. *Secondary* — IT-478R2 Capital Cost Allowance — Recapture and Terminal Loss; IT-522R Vehicle, Travel and Sales Expenses of Employees.

"undepreciated capital cost" — "undepreciated capital cost" to a taxpayer of depreciable property of a prescribed class as of any time means the amount determined by the formula

$$(A + B + C + D + D.1) - (E + E.1 + F + G + H + I + J + K)$$

where

A is the total of all amounts each of which is the capital cost to the taxpayer of a depreciable property of the class acquired before that time,

B is the total of all amounts included in the taxpayer's income under this section for a taxation year ending before that time, to the extent that those amounts relate to depreciable property of the class,

C is the total of all amounts each of which is such part of any assistance as has been repaid by the taxpayer, pursuant to an obligation to repay all or any part of that assistance, in respect of a depreciable property of the class subsequent to the disposition thereof by the taxpayer that would have been included in an amount determined under paragraph (7.1)(*d*) had the repayment been made before the disposition,

D is the total of all amounts each of which is an amount repaid in respect of a property of the class subsequent to the disposition thereof by the taxpayer that would have been an amount described in paragraph (7.4)(*b*) had the repayment been made before the disposition,

D.1 is the total of all amounts each of which is an amount paid by the taxpayer before that time as or on account of an existing or proposed countervailing or anti-dumping duty in respect of depreciable property of the class,

E is the total depreciation allowed to the taxpayer for property of the class before that time,

E.1 is the total of all amounts each of which is an amount by which the undepreciated capital cost to the taxpayer of depreciable property of that class is required (otherwise than because of a reduction in the capital cost to the taxpayer of depreciable property) to be reduced at or before that time because of subsection 80(5),

F is the total of all amounts each of which is an amount in respect of a disposition before that time of property (other than a timber resource property) of the taxpayer of the class, and is the lesser of

(*a*) the proceeds of disposition of the property minus any outlays and expenses to the extent that they were made or incurred by the taxpayer for the purpose of making the disposition, and

(*b*) the capital cost to the taxpayer of the property,

G is the total of all amounts each of which is the proceeds of disposition before that time of a timber resource property of the taxpayer of the class minus any outlays and expenses to the extent that they were made or incurred by the taxpayer for the purpose of making the disposition,

H is, where the property of the class was acquired by the taxpayer for the purpose of gaining or producing income from a mine and the taxpayer so elects in prescribed manner and within a prescribed time in respect of that property, the amount equal to that portion of the income derived from the operation of the mine that is, by virtue of the provisions of the *Income Tax Application Rules* relating to income from the operation of new mines, not included in computing income of the taxpayer or any other person,

I is the total of all amounts deducted under subsection 127(5) or (6), in respect of a depreciable property of the class of the taxpayer, in computing the taxpayers' tax payable for a taxation year ending before that time and subsequent to the disposition of that property by the taxpayer,

J is the total of all amounts of assistance that the taxpayer received or was entitled to receive before that time, in respect of or for the acquisition of a depreciable property of the class of the taxpayer subsequent to the disposition of that property by the taxpayer, that would have been included in an amount determined under paragraph (7.1)(*f*) had the assistance been received before the disposition; and

K is the total of all amounts each of which is an amount received by the taxpayer before that time in respect of a refund of an amount added to the undepreciated capital cost of depreciable property of the class because of the description of D.1;

History: S. 13(21), the formula in the definition "undepreciated capital cost" was amended by S.C. 1999, c. 22, s. 6(2), applicable after February 23, 1998. S. 13(21), the formula in the definition "undepreciated capital cost" formerly read:

"(A + B + C + D) – (E + E.1 + F + G + H + I + J)"

S. 13(21), the description of D.1 in the definition "undepreciated capital cost" was added by S.C. 1999, c. 22, s. 6(3), applicable to amounts that become payable after February 23, 1998.

S. 13(21), the description of K in the definition "undepreciated capital cost" was added by S.C. 1999, c. 22, s. 6(4), applicable to amounts that are received after February 23, 1998.

S. 13(21), the formula in the definition "undepreciated capital cost", was amended by S.C. 1995, c. 21, s. 2(5), applicable to taxation years that end after February 21, 1994. That formula formerly read:

"(A + B + C + D) – (E + F + G + H + I + J)"

S. 13(21), the description of E.1 in the definition "undepreciated capital cost", was added by S.C. 1995, c. 21, s. 2(6), applicable to taxation years that end after February 21, 1994.

Related Sections: S. 12(1)(*f*) Insurance proceeds expended; S. 12(1)(*t*) Investment tax credit; s. 12(1)(z6) Refunds; s. 13(1) Recaptured depreciation; s. 13(2) Recaptured depreciation for passenger vehicle; s. 13(4) Exchanges of property; s. 13(5) Reclassification of property; s. 13(5.2) Lease-option agreement — exercise of option; s. 13(7) Rules applicable; s. 13(21), "proceeds of disposition"; s. 13(22) Deduction for insurer; s. 13(23) Deduction for life insurer; s. 13(24) Acquisition of control; s. 13(26) Restriction on deduction before available for use; s. 20(1)(*vv*) Countervailing or anti-dumping duty; s. 20(16) Terminal loss; s. 70(13) Capital cost of certain depreciable property; s. 87(2)(*j*.6) Continuing corporation; s. 138(11.31)(*b*) Exclusion from deemed disposition; s. 248(1), "undepreciated capital cost" s. 257 Negative amounts; ITAR 18 General depreciation provisions.

Regulations: 1100(2) — (2.4).

Interpretation Bulletins: *Primary* — IT-418 Capital cost allowance — Partial Dispositions of property. *Secondary* — IT-172R Capital cost allowance — Taxation year of individual [Archived by the CRA]; IT-327 Capital cost allowance — Elections under regulation 1103 [Archived by the CRA]; IT-478R2 Capital cost allowance — Recapture and terminal loss; IT-481 (Consolid.) Timber resource property and timber limits.

Tax Window Files: Resale of Depreciable Property Acquired from Related Person, November 8, 2006, CRA Document No. 2006-0176171E5; Purchase of Vehicle Using GM Points, September 8, 2006, CRA Document No. 2006-0175841E5; Depreciable Property — Conversion to Inventory, August

28, 2002, CRA Document No. 2002-0146025; Costs of Disposition of Capital Property, May 6, 1993, CRA Document No. 9312410; Real Estate Development — Allocation of Cost of Constructing Golf Course, February 1, 1993, CRA Document No. 923476A.

"vessel" — "vessel" means a vessel as defined in the *Canada Shipping Act*.

Interpretation Bulletins: *Primary* — IT-267R2 Capital cost allowance — Vessels; IT-418 Capital cost allowance — Partial dispositions of property.
Canadian Petroleum Tax Journal: Offshore Oil & Gas Interests: A Perspective on Exploration & Development of Offshore Petroleum and Natural Gas Resources in Eastern Canada, Michael R. Smith, CA and B. David Nielsen, CA, Vol. 13 No. 1 2000.

► 13(21.1) ◄

(21.1) Disposition of building. Notwithstanding subsection (7) and the definition "proceeds of disposition" in section 54, where at any particular time in a taxation year a taxpayer disposes of a building of a prescribed class and the proceeds of disposition of the building determined without reference to this subsection and subsection (21.2) are less than the lesser of the cost amount and the capital cost to the taxpayer of the building immediately before the disposition, for the purposes of paragraph (*a*) of the description of F in the definition "undepreciated capital cost" in subsection (21) and subdivision c,

(*a*) where in the year the taxpayer or a person with whom the taxpayer does not deal at arm's length disposes of land subjacent to, or immediately contiguous to and necessary for the use of, the building, the proceeds of disposition of the building are deemed to be the lesser of

(i) the amount, if any, by which

(A) the total of the fair market value of the building at the particular time and the fair market value of the land immediately before its disposition

exceeds

(B) the lesser of the fair market value of the land immediately before its disposition and the amount, if any, by which the cost amount to the vendor of the land (determined without reference to this subsection) exceeds the total of the capital gains (determined without reference to subparagraphs 40(1)(*a*)(ii) and (iii)) in respect of dispositions of the land within 3 years before the particular time by the taxpayer or by a person with whom the taxpayer was not dealing at arm's length to the taxpayer or to another person with whom the taxpayer was not dealing at arm's length, and

(ii) the greater of

(A) the fair market value of the building at the particular time, and

(B) the lesser of the cost amount and the capital cost to the taxpayer of the building immediately before its disposition,

and, notwithstanding any other provision of this Act, the proceeds of disposition of the land are deemed to be the amount, if any, by which

(iii) the total of the proceeds of disposition of the building and of the land determined without reference to this subsection and subsection (21.2)

exceeds

(iv) the proceeds of disposition of the building as determined under this paragraph,

and the cost to the purchaser of the land shall be determined without reference to this subsection; and

(*b*) where paragraph (*a*) does not apply with respect to the disposition and, at any time before the disposition, the taxpayer or a person with whom the taxpayer did not deal at arm's length owned the land subjacent to, or immediately contiguous to and necessary for the use of, the building, the proceeds of disposition of the building are deemed to be an amount equal to the total of

(i) the proceeds of disposition of the building determined without reference to this subsection and subsection (21.2), and

(ii) 1/2 of the amount by which the greater of

(A) the cost amount to the taxpayer of the building, and

(B) the fair market value of the building

immediately before its disposition exceeds the proceeds of disposition referred to in subparagraph (i).

History: S. 13(21.1)(*b*)(ii) was amended by S.C. 2001, c. 17, s. 6(6), by replacing the reference to the fraction "1/4" with a reference to the fraction "1/2", applicable to taxation years that end after February 27, 2000 except that, for a taxpayer's taxation year that includes February 28, 2000 or October 17, 2000, or began after February 28, 2000 and ended before October 17, 2000, the reference in subparagraph 13(21.1)(*b*)(ii) to the fraction "1/2" shall be read as a reference to the fraction determined when the fraction in paragraph 38(*a*) of the Act that applies to the taxpayer for the year is subtracted from 1.

S. 13(21.1) was amended by S.C. 1998, c. 19, s. 73(4), subject to section 247 of this Bill (see Application below), applicable to dispositions of property that occur after April 26, 1995 except that, where

(*a*) a property is disposed of after April 26, 1995 and before June 20, 1996, and

(*b*) the transferor elects in writing, filed with the Minister of National Revenue before the end of the third month after the month in which this Act is assented to [Royal Assent June 18, 1998],

the portion of subparagraph 13(21.2)(e)(iii) of the Act before clause (A) shall be read as follows:

"(iii) the transferor is deemed to own a property that was acquired before the beginning of the taxation year that includes the particular time at a capital cost equal to the amount of the excess described in paragraph (*b*), and that is of a separate prescribed class that is the same class as the particular class, until the time that is immediately before the first time, after the particular time,"

S. 13(21.1) formerly read:

"(21.1) *Disposition of a building.* Notwithstanding subsection (7) and the definition 'proceeds of disposition' in section 54, where at any particular time in a taxation year a taxpayer disposed of a building of a prescribed class and the proceeds of disposition of the building determined without reference to this subsection are less than the lesser of the cost amount and the capital cost to the taxpayer of the building immediately before its disposition, for the purposes of paragraph (*a*) of the description of F in the definition 'undepreciated capital cost' in subsection (21) and subdivision c, the following rules apply:

(*a*) where in the same taxation year the taxpayer or a person with whom the taxpayer was not dealing at arm's length disposed of the land subjacent to, or immediately contiguous to and necessary for the use of, the building, the proceeds of disposition of the building shall be deemed to be the lesser of

(i) the amount, if any, by which

(A) the total of the fair market value of the building at the particular time and the fair market value of the land immediately before its disposition

exceeds

(B) the lesser of the fair market value of the land immediately before its disposition and the amount, if any, by which the cost amount to the vendor of the land (determined without reference to this subsection) exceeds the total of the capital gains (determined without reference to subparagraphs 40(1)(*a*)(ii) and (iii)) in respect of dispositions of the land within the 3 year period preceding the particular time by the taxpayer or by a person with whom the taxpayer was not dealing at arm's length to the taxpayer or to another person with whom the taxpayer was not dealing at arm's length, and

(ii) the greater of

(A) the fair market value of the building at the particular time, and
(B) the lesser of the cost amount and the capital cost to the taxpayer of the building immediately before its disposition
and, notwithstanding any other provision of this Act, the proceeds of disposition of the land shall be deemed to be the amount, if any, by which
(iii) the total of the proceeds of disposition of the building and of the land determined without reference to this subsection
exceeds
(iv) the proceeds of disposition of the building as determined under this paragraph,
and the cost to the purchaser of the land shall be determined without reference to this subsection; and

(*b*) where paragraph (*a*) does not apply with respect to the disposition and, at any time before the disposition, the taxpayer or a person with whom the taxpayer was not dealing at arm's length owned the land subjacent to, or immediately contiguous to and necessary for the use of, the building, the proceeds of disposition of the building shall be deemed to be an amount equal to the total of
(i) the proceeds of disposition of the building determined without reference to this subsection, and
(ii) 1/4 of the amount by which the greater of
(A) the cost amount to the taxpayer of the building, and
(B) the fair market value of the building
immediately before its disposition exceeds the proceeds of disposition referred to in subparagraph (i)."

Sec. 247, Chap. 19, 1998

247. [*Exception to coming-into-force.*]

(1) Subsections 73(4), 74(5), subsection 18(13) of the Act, as enacted by subsection 79(2) and subsections 89(1), (2) and (6), 94(1) and (2), 95(1), 116(3) to (5), 120(1) and 124(1) and (2) do not apply to the disposition of property by a person or partnership (in this subsection and subsection (2) referred to as the "transferor") that occurred before 1996

(*a*) to a person who was obliged on April 26, 1995 to acquire the property pursuant to the terms of an agreement in writing made on or before that day; or

(*b*) in a transaction, or as part of a series of transactions, the arrangements for which, evidenced in writing, were substantially advanced before April 27, 1995, other than a transaction or series a main purpose of which can reasonably be considered to have been to enable an unrelated person to obtain the benefit of
(i) any deduction in computing income, taxable income earned in Canada or tax payable under the Act, or
(ii) any balance of undeducted outlays, expenses or other amounts.

(2) Election. Notwithstanding subsection (1), subsection 18(13) of the Act, as enacted by subsection 79(2), and the other subsections of this Act referred to in subsection (1) apply to a disposition in respect of which the transferor has filed with the Minister of National Revenue before the end of the third month after the month in which this Act is assented to [Royal Assent June 18, 1998] an election in writing to have those subsections apply.

(3) Interpretation. For the purpose of subsection (1),

(*a*) a person shall be considered not to be obliged to acquire property where the person can be excused from the obligation if there is a change to the Act or if there is an adverse assessment under the Act;

(*b*) an "unrelated person" means any person who was not, or a partnership any member of which was not, related (otherwise than because of paragraph 251(5)(*b*) of the Act) to the transferor at the time of the disposition; and

(*c*) a person is deemed to be related to a partnership of which that person is a majority interest partner.

Editorial Note: Subsection 13(21.1) applies before subsection 13(21.2), but does not prevent subsection 13(21.2) from applying. If both apply, subsection 13(21.2) may defer the recognition of a terminal loss arising after the application of subsection 13(21.1).

Related Sections: S. 70(5)(*c*) Capital property of a deceased taxpayer; s. 70(5)(*d*) Capital property of a deceased taxpayer.
Regulations: 1103(1).
Interpretation Bulletins: *Primary* — IT-220R2 Capital cost allowance — proceeds of disposition of depreciable; IT-349R3 Intergenerational transfers of farm property on death.
Tax Topics: No. 1846, Demolition of Buildings; No. 1676, Demolition of Buildings.
Tax Window Files: Allocation of Proceeds of Disposition to Building, November 8, 2006, CRA Document No. 2006-0203301I7; Election under Regulation 1103(1) to reduce the affect of S. 13(21), September 20, 2004, CRA Document No. 2004-0072411E5; Terminal Loss on Building, May 28, 1996, CRA Document No. 9608555; Denial of Loss May Not Apply Where Corporation Controlled by a Group of Persons, April 21, 1994, CRA Document No. 9337785; Proceeds of Disposition for Purposes of Subsection 13(21.1), June 29, 1992, CRA Document No. 9201515.
Cases: The taxpayer leased its shopping plaza for 25 years on August 31, 1961, granting the lessee an option to purchase it no later than 60 days prior to the end of the term. On January 20, 1986, an assignee of the lessee exercised such option and on August 29, 1986, the plaza was sold. Since the taxpayer was bound to give effect to the option granted by it to its original lessor in 1961 and the written agreement was in effect on May 9, 1985, s. 13(21.1) permitted the taxpayer to allocate the entire proceeds of sale to the land and to claim a terminal loss on the building. *The Queen v. Trade Investments Shopping Centre Ltd,* 93 DTC 486 (F.C.T.D.).

► 13(21.2) ◄

(21.2) Loss on certain transfers. Where

(*a*) a person or partnership (in this subsection referred to as the "transferor") disposes at a particular time (otherwise than in a disposition described in any of paragraphs (*c*) to (*g*) of the definition "superficial loss" in section 54) of a depreciable property of a particular prescribed class of the transferor,

(*b*) the lesser of
(i) the capital cost to the transferor of the transferred property, and
(ii) the proportion of the undepreciated capital cost to the transferor of all property of the particular class immediately before that time that
(A) the fair market value of the transferred property at that time
is of
(B) the fair market value of all property of the particular class immediately before that time
exceeds the amount that would otherwise be the transferor's proceeds of disposition of the transferred property at the particular time, and

(*c*) on the 30th day after the particular time, a person or partnership (in this subsection referred to as the "subsequent owner") who is the transferor or a person affiliated with the transferor owns or has a right to acquire the transferred property (other than a right, as security only, derived from a mortgage, hypothec, agreement for sale or similar obligation),

the following rules apply:

(*d*) sections 85 and 97 do not apply to the disposition,

(*e*) for the purposes of applying this section and section 20 and any regulations made for the purpose of paragraph 20(1)(*a*) to the transferor for taxation years that end after the particular time,
(i) the transferor is deemed to have disposed of the transferred property for proceeds equal to the lesser of the amounts determined under subparagraphs (*b*)(i) and (ii) with respect to the transferred property,
(ii) where two or more properties of a prescribed class of the transferor are disposed of at the same time, subparagraph (i) applies as if each property so disposed of had been separately disposed of in the order designated by the transferor or, if the transferor does not designate an order, in the order designated by the Minister,
(iii) the transferor is deemed to own a property that was acquired before the beginning of the taxation year that includes the particular time at a capital cost equal to the amount of the excess described in paragraph (*b*), and that is property of the particular class, until the time that is immediately before the first time, after the particular time,
(A) at which a 30-day period begins throughout which neither the transferor nor a person affili-

ated with the transferor owns or has a right to acquire the transferred property (other than a right, as security only, derived from a mortgage, hypothec, agreement for sale or similar obligation),

(B) at which the transferred property is not used by the transferor or a person affiliated with the transferor for the purpose of earning income and is used for another purpose,

(C) at which the transferred property would, if it were owned by the transferor, be deemed by section 128.1 or subsection 149(10) to have been disposed of by the transferor,

(D) that is immediately before control of the transferor is acquired by a person or group of persons, where the transferor is a corporation, or

(E) at which the winding-up of the transferor begins (other than a winding-up to which subsection 88(1) applies), where the transferor is a corporation, and

(iv) the property described in subparagraph (iii) is considered to have become available for use by the transferor at the time at which the transferred property is considered to have become available for use by the subsequent owner,

(*f*) for the purposes of subparagraphs (*e*)(iii) and (iv), where a partnership otherwise ceases to exist at any time after the particular time, the partnership is deemed not to have ceased to exist, and each person who was a member of the partnership immediately before the partnership would, but for this paragraph, have ceased to exist is deemed to remain a member of the partnership, until the time that is immediately after the first time described in clauses (*e*)(iii)(A) to (E), and

(*g*) for the purposes of applying this section and section 20 and any regulations made for the purpose of paragraph 20(1)(*a*) to the subsequent owner,

(i) the subsequent owner's capital cost of the transferred property is deemed to be the amount that was the transferor's capital cost of the transferred property, and

(ii) the amount by which the transferor's capital cost of the transferred property exceeds its fair market value at the particular time is deemed to have been deducted under paragraph 20(1)(*a*) by the subsequent owner in respect of property of that class in computing income for taxation years that ended before the particular time.

History: S. 13(21.2)(*a*) was amended by S.C. 2001, c. 17, s. 6(7), applicable after November 1999 except that, if an individual (other than a trust) so elects in writing and files the election with the Minister of National Revenue on or before the individual's filing-due date for the taxation year in which this Act receives royal assent [June 14, 2001], [paragraph 13(21.2)(*a*)] does not apply in respect of the disposition of a property by the individual before July 2000

(*a*) to a person who was obliged on November 30, 1999 to acquire the property pursuant to the terms of an agreement in writing made on or before that day; or

(*b*) in a transaction, or as part of a series of transactions, the arrangements for which, evidenced in writing, were substantially advanced before December 1999, other than a transaction or series of transactions a main purpose of which can reasonably be considered to have been to enable an unrelated person to obtain the benefit of

(i) any deduction in computing income, taxable income, taxable income earned in Canada or tax payable under the Act, or

(ii) any balance of undeducted outlays, expenses or other amounts.

S. 13(21.2)(*a*) formerly read:

"(*a*) a corporation, trust or partnership (in this subsection referred to as the 'transferor') disposes at a particular time (otherwise than in a disposition described in any of paragraphs (*c*) to (*g*) of the definition 'superficial loss' in section 54) of a depreciable property of a particular prescribed class of the transferor,"

S. 13(21.2)(*c*) was amended by S.C. 2001, c. 17, s. 196(3), applicable on Royal Assent, June 14, 2001. S. 13(21.2)(*c*) formerly read:

"(*c*) on the 30th day after the particular time, a person or partnership (in this subsection referred to as the 'subsequent owner') who is the transferor or a person affiliated with the transferor owns or has a right to acquire the transferred property (other than a right, as security only, derived from a mortgage, agreement for sale or similar obligation),"

S. 13(21.2)(*e*)(ii) was amended by S.C. 2001, c. 17, s. 6(8), applicable after November 1999. S. 13(21.2)(*e*)(ii) formerly read:

"(ii) where 2 or more properties of a prescribed class of the transferor are disposed of at the same time, subparagraph (i) applies as if each property so disposed of had been separately disposed of in the order designated by the taxpayer or, if the taxpayer does not designate an order, in the order designated by the Minister,"

S. 13(21.2)(*e*)(iii)(A) was amended by S.C. 2001, c. 17, s. 196(4), applicable on Royal Assent, June 14, 2001. S. 13(21.2)(*e*)(iii)(A) formerly read:

"(A) at which a 30-day period begins throughout which neither the transferor nor a person affiliated with the transferor owns or has a right to acquire the transferred property (other than a right, as security only, derived from a mortgage, agreement for sale or similar obligation),"

S. 13(21.2) was added by S.C. 1998, c. 19, s. 73(4), applicable, subject to section 247 of this Bill (see Application below) to dispositions of property that occur after April 26, 1995 except that, where

(*a*) a property is disposed of after April 26, 1995 and before June 20, 1996, and

(*b*) the transferor elects in writing, filed with the Minister of National Revenue before the end of the third month after the month in which this Act is assented to [Royal Assent June 18, 1998],

the portion of subparagraph 13(21.2)(e)(iii) of the Act before clause (A) shall be read as follows:

"(iii) the transferor is deemed to own a property that was acquired before the beginning of the taxation year that includes the particular time at a capital cost equal to the amount of the excess described in paragraph (*b*), and that is of a separate prescribed class that is the same class as the particular class, until the time that is immediately before the first time, after the particular time,"

Sec. 247, Chap. 19, 1998

247. [*Exception to coming-into-force.*] (1) Subsections 73(4), 74(5), subsection 18(13) of the Act, as enacted by subsection 79(2) and subsections 89(1), (2) and (6), 94(1) and (2), 95(1), 116(3) to (5), 120(1) and 124(1) and (2) do not apply to the disposition of property by a person or partnership (in this subsection and subsection (2) referred to as the "transferor") that occurred before 1996

(*a*) to a person who was obliged on April 26, 1995 to acquire the property pursuant to the terms of an agreement in writing made on or before that day; or

(*b*) in a transaction, or as part of a series of transactions, the arrangements for which, evidenced in writing, were substantially advanced before April 27, 1995, other than a transaction or series a main purpose of which can reasonably be considered to have been to enable an unrelated person to obtain the benefit of

(i) any deduction in computing income, taxable income, taxable income earned in Canada or tax payable under the Act, or

(ii) any balance of undeducted outlays, expenses or other amounts.

(2) Election. Notwithstanding subsection (1), subsection 18(13) of the Act, as enacted by subsection 79(2), and the other subsections of this Act referred to in subsection (1) apply to a disposition in respect of which the transferor has filed with the Minister of National Revenue before the end of the third month after the month in which this Act is assented to [Royal Assent June 18, 1998] an election in writing to have those subsections apply.

(3) Interpretation. For the purpose of subsection (1),

(*a*) a person shall be considered not to be obliged to acquire property where the person can be excused from the obligation if there is a change to the Act or if there is an adverse assessment under the Act;

(*b*) an "unrelated person" means any person who was not, or a partnership any member of which was not, related (otherwise than because of paragraph 251(5)(*b*) of the Act) to the transferor at the time of the disposition; and

(*c*) a person is deemed to be related to a partnership of which that person is a majority interest partner.

Editorial Note: Similar stop-loss rules are found in subsection 14(12) for dispositions of eligible capital property, subsection 18(15) for property held in an adventure or concern in the nature of trade, and subsection 40(3.4) for non-depreciable capital property.

Related Sections: S. 14(12) Loss on certain transfers; s. 18(13)–(16) When s. (15) applies to money lenders; s. 40(3.3) When subsection (3.4) applies; s. 40(3.4) Loss on certain properties; s. 69(5)(*d*) Winding-up of corporation; s. 87(2)(*g.3*) Superficial losses; s. 88(1)(*d.1*) Winding-up; s. 139.1(18) Acquisition of control; s. 251.1 Definition of "affiliated persons"; s. 256(7) Acquiring control; s. 256(8) Deemed exercise of right.

Interpretation Bulletins: *Secondary* — IT-291R3 Transfer of property to a corporation under subsection 85(1).

Tax Profile: May 2004 — The Stop-Loss Rules.

Canadian Tax Foundation: Courage, "Utilization of Losses and Debt Restructuring", *2006 Ontario Tax Conference*, 9:1-86.

Tax Window Files: Depreciable Property Transferred from Trust to Majority Interest Beneficiary, March 21, 2007, CRA Document No. 2004-0091061E5; Suspended Loss With Respect to Depreciable Property, July 25, 2005, CRA Document No. 2005-0125501E5; Capital Cost Allowance — Leasehold Interest, June 14, 2004, CRA Document No. 2004-0071821E5.

► 13(22) ◄

(22) Deduction for insurer. For the purposes of E in the definition "undepreciated capital cost" in subsection (21), an insurer shall be deemed to have been allowed a deduction for depreciation for property of a prescribed class under paragraph 20(1)(*a*) in computing income for taxation years before its 1977 taxation year equal to the total of

(*a*) the amount determined, immediately after the end of its 1976 taxation year, for E in that definition, with respect to property of the particular prescribed class of the insurer (determined without reference to this subsection),

(*b*) the lesser of

(i) the amount of its 1975-76 excess capital cost allowance with respect to property of the particular prescribed class of the insurer, and

(ii) that proportion of the amount, if any, by which its 1975 branch accounting election deficiency exceeds the amount determined under subparagraph 138(4.1)(*d*)(ii) that

(A) the amount of its 1975-76 excess capital cost allowance with respect to property of the particular prescribed class of the insurer

is of

(B) the total of all its 1975-76 excess capital cost allowances with respect to properties of a prescribed class of the insurer, and

(*c*) the lesser of

(i) the amount, if any, by which

(A) the undepreciated capital cost of property of the particular prescribed class of the insurer immediately after the end of its 1976 taxation year (determined without reference to this subsection),

exceeds

(B) the amount determined under paragraph (*b*) in respect of property of the particular prescribed class of the insurer, and

(ii) that proportion of the amount, if any, by which its 1975 branch accounting election deficiency exceeds the total of

(A) the amount determined under subparagraph 138(4.1)(*d*)(ii),

(B) the total of all amounts determined under paragraph (*b*) with respect to property of a prescribed class of the insurer,

(C) the total described in subclause 138(4.1)(*a*)(ii)(B)(IV),

(D) the amount determined under subparagraph 138(4.1)(*b*)(ii), and

(E) the amount determined under subparagraph 138(4.1)(*a*)(ii)

that

(F) the undepreciated capital cost of property of the particular prescribed class of the insurer immediately after the end of its 1976 taxation year (determined without reference to this subsection),

is of

(G) the total of all amounts each of which is the undepreciated capital cost of property of a prescribed class of the insurer immediately after the end of its 1976 taxation year (determined without reference to this subsection).

► 13(23) ◄

(23) Deduction for life insurer. For the purposes of E in the definition "undepreciated capital cost" in subsection (21), a life insurer shall be deemed to have been allowed a deduction for depreciation for property of a prescribed class under paragraph 20(1)(*a*) in computing income for taxation years before its 1978 taxation year equal to the total of

(*a*) the amount determined immediately after the end of its 1977 taxation year for E in that definition, with respect to property of the particular prescribed class of the insurer (determined without reference to this subsection), and

(*b*) the amount, if any, by which

(i) the total of all maximum amounts the insurer was entitled to claim with respect to property of the particular prescribed class of the insurer in taxation years ending before 1978 and after 1968

exceeds

(ii) the amount determined under paragraph (*a*).

► 13(23.1) ◄

(23.1) Application of s. 138(12). The definitions in subsection 138(12) apply to this section.

History: S. 13(23.1) was not part of the former Act.

► 13(24) ◄

(24) Acquisition of control. Where control of a corporation has been acquired at any time by a person or group of persons and, within the 12-month period that ended immediately before that time, the corporation or a partnership of which it was a majority interest partner acquired depreciable property (other than property that was owned by the corporation or partnership or by a person that would, if section 251.1 were read without reference to the definition "controlled" in subsection 251.1(2) [(*sic*) 251.1(3) — CCH], be affiliated with the corporation throughout the period that began immediately before the 12-month period began and ended at the time the property was acquired by the corporation or partnership) that was not used, or acquired for use, by the corporation or partnership in a business that was carried on by it immediately before the 12-month period began,

(*a*) for the purposes of the description of A in the definition "undepreciated capital cost" in subsection (21) and of sections 127 and 127.1, the property is, subject to paragraph (*b*), deemed not to have been

acquired by the corporation or partnership before that time and to have been acquired by it immediately after that time; and

(*b*) where the property was disposed of by it before that time and was not reacquired by it before that time, for the purpose of the description of A in that definition, the property is deemed to have been acquired by the corporation or partnership immediately before the property was disposed of.

History: S. 13(24) was amended by S.C. 1998, c. 19, s. 73(5), applicable to acquisitions of control that occur after April 26, 1995. S. 13(24) formerly read:

"(24) *Acquisition of control.* Where at any time control of a corporation has been acquired by a person or group of persons and, within the twelve month period ending immediately before that time, the corporation, or a partnership of which it was a majority interest partner (within the meaning assigned by subsection 97(3.1)), acquired depreciable property (other than property that was owned by the corporation or partnership or by a person or persons related to the corporation throughout the period commencing immediately before the twelve month period and ending at the time the property was acquired by the corporation or partnership) that was not used, or acquired for use, by the corporation or partnership in a business that was carried on by it immediately before that twelve month period, for the purposes of A in the definition 'undepreciated capital cost' in subsection (21) and of sections 127 and 127.1, the property shall be deemed not to have been acquired by the corporation or partnership before that time and shall be deemed to have been acquired by it immediately after that time, except that, where the property was disposed of by it before that time and not reacquired by it before that time, for the purposes of A in that definition, the property shall be deemed to have been acquired by the corporation or partnership immediately before the property was disposed of."

Related Sections: S. 13(25) Early change of control; s. 87(2)(*j*.6) Continuing corporation; s. 139.1(18) Acquisition of control; s. 256(6)–s. 256(9) Date of acquisition of control.

Interpretation Bulletins: *Primary* — IT-302R3 Losses of a corporation — the effect that acquisitions of control, amalgamations and windings-up have on their deductibility — after January 15, 1987.

Income Tax Technical News: Issue No. 7, Control by a Group 50/50 arrangement.

► 13(25) ◄

(25) Early change of control. For the purpose of subsection (24), where a corporation referred to in that subsection was incorporated or otherwise formed in the 12-month period referred to in that subsection, the corporation is deemed to have been, throughout the period that began immediately before the 12-month period and ended immediately after it was incorporated or otherwise formed,

(*a*) in existence; and

(*b*) affiliated with every person with whom it was affiliated (otherwise than because of a right referred to in paragraph 251(5)(*b*)) throughout the period that began when it was incorporated or otherwise formed and ended immediately before its control is acquired.

History: S. 13(25) was amended by S.C. 1998, c. 19, s. 73(5), applicable to acquisitions of control that occur after April 26, 1995. S. 13(25) formerly read:

"(25) *Early change of control.* For the purposes of subsection (24), where the corporation referred to in that subsection was incorporated or otherwise formed during the twelve month period referred to in that subsection, it shall be deemed to have been, throughout the period commencing immediately before the twelve month period and ending immediately after it was incorporated or otherwise formed,

(*a*) in existence; and

(*b*) related to the person or persons to whom it was related (otherwise than by reason of a right referred to in paragraph 251(5)(*b*)) throughout the period commencing when it was incorporated or otherwise formed and ending immediately before the control of the corporation was acquired."

► 13(26) ◄

(26) Restriction on deduction before available for use. In applying the definition "undepreciated capital cost" in subsection (21) for the purpose of paragraph 20(1)(*a*) and any regulations made for the purpose of that paragraph, in computing a taxpayer's income for a taxation year from a business or property, no amount shall be included in calculating the undepreciated capital cost to the taxpayer of depreciable property of a prescribed class in respect of the capital cost to the taxpayer of a property of that class (other than property that is a certified production, as defined by regulations made for the purpose of paragraph 20(1)(*a*)) before the time the property is considered to have become available for use by the taxpayer.

History: S. 13(26) was added by S.C. 1994, c. 7, Sched. II, s. 9(11), applicable to property acquired by a taxpayer after 1989, other than property acquired

(*a*) from a person with whom the taxpayer was not dealing at arm's length (otherwise than because of a right referred to in paragraph 251(5)(*b*) of the Act) at the time the property was acquired, or

(*b*) in the course of a reorganization in respect of which, if a dividend were received by a corporation in the course of the reorganization, subsection 55(2) of the Act would not apply to the dividend because of the application of paragraph 55(3)(*b*) of the Act,

where the property was depreciable property of the person from whom it was acquired and was owned by that person before 1990.

Editorial Note: Subsection 13(26) essentially provides that if depreciable property is not "available for use", as defined in subsection 13(27) and (28), no CCA can be claimed for the year the property is acquired or the following year. However, this limitation is effectively restricted by the "two-year rolling start" rule in paragraphs 13(27)(*b*) and 13(28)(*c*). When a CCA claim has been delayed under subsection 13(26), the full (not half) claim will be available once subsection 13(26) ceases to apply. This is because the "half-year rule" in Regulation 1100(2)(*a*)(i) applies only to property "acquired in the year." Also, see Regulation 1100(2)(*a*)(vii).

Related Sections: S. 13(27)–(32); s. 20(1)(*a*) Capital cost of property; s. 20(28) Exception to available-for-use rule; s. 20(29) Exception to soft costs capitalization rule; s. 37(1.2) Deemed time of capital expenditure; s. 127(11.2) Time of expenditure and acquisition; s. 248(19) When property available for use.

Regulations: 1100(2)(*a*)(i); 1100(2)(*a*)(vii); 1103(2g).

Canadian Petroleum Tax Journal: Offshore Oil & Gas Interests: A Perspective on Exploration & Development of Offshore Petroleum and Natural Gas Resources in Eastern Canada, Michael R. Smith, CA and B. David Nielsen, CA, Vol. 13 No. 1 2000.

Tax Window Files: Leasehold Improvements and the "Available for Use" Rules, October 16, 1992, CRA Document No. 9228451.

► 13(27) ◄

(27) Interpretation — available for use. For the purposes of subsection (26) and subject to subsection (29), property (other than a building or part thereof) acquired by a taxpayer shall be considered to have become available for use by the taxpayer at the earliest of

(*a*) the time the property is first used by the taxpayer for the purpose of earning income,

(*b*) the time that is immediately after the beginning of the first taxation year of the taxpayer that begins more than 357 days after the end of the taxation year of the taxpayer in which the property was acquired by the taxpayer,

(*c*) the time that is immediately before the disposition of the property by the taxpayer,

(*d*) the time the property

(i) is delivered to the taxpayer, or to a person or partnership (in this paragraph referred to as the "other person") that will use the property for the benefit of the taxpayer, or, where the property is not of a type that is deliverable, is made available to the taxpayer or the other person, and

(ii) is capable, either alone or in combination with other property in the possession at that time of the taxpayer or the other person, of being used by or for the benefit of the taxpayer or the other person to produce a commercially saleable

product or to perform a commercially saleable service, including an intermediate product or service that is used or consumed, or to be used or consumed, by or for the benefit of the taxpayer or the other person in producing or performing any such product or service,

(*e*) in the case of property acquired by the taxpayer for the prevention, reduction or elimination of air or water pollution created by operations carried on by the taxpayer or that would be created by such operations if the property had not been acquired, the time at which the property is installed and capable of performing the function for which it was acquired,

(*f*) in the case of property acquired by

(i) a corporation a class of shares of the capital stock of which is listed on a designated stock exchange,

(ii) a corporation that is a public corporation because of an election made under subparagraph (*b*)(i) of the definition "public corporation" in subsection 89(1) or a designation made by the Minister in a notice to the corporation under subparagraph (*b*)(ii) of that definition, or

(iii) a subsidiary wholly-owned corporation of a corporation described in subparagraph (i) or (ii),

the end of the taxation year for which depreciation in respect of the property is first deducted in computing the earnings of the corporation in accordance with generally accepted accounting principles and for the purpose of the financial statements of the corporation for the year presented to its shareholders,

(*g*) in the case of property acquired by the taxpayer in the course of carrying on a business of farming or fishing, the time at which the property has been delivered to the taxpayer and is capable of performing the function for which it was acquired,

(*h*) in the case of property of a taxpayer that is a motor vehicle, trailer, trolley bus, aircraft or vessel for which one or more permits, certificates or licences evidencing that the property may be operated by the taxpayer in accordance with any laws regulating the use of such property are required to be obtained, the time all those permits, certificates or licences have been obtained,

(*i*) in the case of property that is a spare part intended to replace a part of another property of the taxpayer if required due to a breakdown of that other property, the time the other property became available for use by the taxpayer,

(*j*) in the case of a concrete gravity base structure and topside modules intended to be used at an oil production facility in a commercial discovery area (within the meaning assigned by section 2 of the *Canada Petroleum Resources Act*) on which the drilling of the first well that indicated the discovery began before March 5, 1982, in an offshore region prescribed for the purposes of subsection 127(9), the time the gravity base structure deballasts and lifts the assembled topside modules, and

(*k*) where the property is (within the meaning assigned by subsection (4.1)) a replacement for a former property described in paragraph (4)(*a*) that was acquired before 1990 or that became available for use at or before the time the replacement property is acquired, the time the replacement property is acquired,

and, for the purposes of paragraph (*f*), where depreciation is calculated by reference to a portion of the cost of the property, only that portion of the property shall be considered to have become available for use at the end of the taxation year referred to in that paragraph.

History: S. 13(27)(*f*)(i) was amended by S.C. 2007, c. 35, s. 68(2), by replacing "prescribed stock exchange" with "designated stock exchange", applicable on and after December 14, 2007 [the day on which this Act is assented to].

S. 13(27)(*d*) was amended by S.C. 1998, c. 19, applicable to property acquired after 1989. S. 13(27)(*d*) formerly read:

"(*d*) the time the property is delivered or made available to the taxpayer and is capable, either alone or in combination with other property in the taxpayer's possession at that time, of producing a commercially saleable product or performing a commercially saleable service, including an intermediate product or service that is used or consumed, or is to be used or consumed, by the taxpayer in producing or providing any such product or service,"

S. 13(27) was added by S.C. 1994, c. 7, Sched. II, s. 9(11), applicable to property acquired by a taxpayer after 1989, other than property acquired

(*a*) from a person with whom the taxpayer was not dealing at arm's length (otherwise than because of a right referred to in paragraph 251(5)(*b*) of the Act) at the time the property was acquired, or

(*b*) in the course of a reorganization in respect of which, if a dividend were received by a corporation in the course of the reorganization, subsection 55(2) of the Act would not apply to the dividend because of the application of paragraph 55(3)(*b*) of the Act,

where the property was depreciable property of the person from whom it was acquired and was owned by that person before 1990.

Related Sections: S. 13(21.2)(*e*)(iv) Loss on certain transfers; s. 13(26) Restriction on deduction before available for use; s. 13(28)–(32); s. 20(1)(*a*) Capital cost of property; s. 20(28) Exception to available-for-use rule; s. 20(29) Exception to soft costs capitalization rule; s. 37(1.2) Deemed time of capital expenditure; s. 87(2)(*j*.6) Continuing corporation; s. 139.1(18) Acquisition of control; s. 127(11.2) Time of expenditure and acquisition; s. 248(19) When property available for use.

Regulations: 1100(2)(*a*)(vii); 3200; 3201.

Canadian Petroleum Tax Journal: Offshore Oil & Gas Interests: A Perspective on Exploration & Development of Offshore Petroleum and Natural Gas Resources in Eastern Canada, Michael R. Smith, CA and B. David Nielsen, CA, Vol. 13 No. 1 2000.

Tax Window Files: Available for Use, December 14, 2000, CRA Document No. 2000-0059255; Prescribed Stock Exchanges — Over-the-counter Bulletin Board, March 7, 1997, CRA Document No. 9704665; Fishing Boats — Capital Cost Allowance and Tax Credits, March 22, 1993, CRA Document No. 9307316; Proceeds of Disposition for Purposes of Subsection 13(21.1), June 29, 1992, CRA Document No. 9201515; Available-For-Use Rules — Deductibility of Interest Not a Factor, April 15, 1992, CRA Document No. 9133165.

► 13(28) ◄

(28) Idem. For the purposes of subsection (26) and subject to subsection (29), property that is a building or part thereof of a taxpayer shall be considered to have become available for use by the taxpayer at the earliest of

(*a*) the time all or substantially all of the building is first used by the taxpayer for the purpose for which it was acquired,

(*b*) the time the construction of the building is complete,

(*c*) the time that is immediately after the beginning of the taxpayer's first taxation year that begins more than 357 days after the end of the taxpayer's taxation year in which the property was acquired by the taxpayer,

(*d*) the time that is immediately before the disposition of the property by the taxpayer, and

(*e*) where the property is (within the meaning assigned by subsection (4.1)) a replacement for a former property described in paragraph (4)(*a*) that

was acquired before 1990 or that became available for use at or before the time the replacement property is acquired, the time the replacement property is acquired,

and, for the purpose of this subsection, a renovation, alteration or addition to a particular building shall be considered to be a building separate from the particular building.

History: S. 13(28) was added by S.C. 1994, c. 7, Sched. II, s. 9(11), applicable to property acquired by a taxpayer after 1989, other than property acquired

(*a*) from a person with whom the taxpayer was not dealing at arm's length (otherwise than because of a right referred to in paragraph 251(5)(*b*) of the Act) at the time the property was acquired, or

(*b*) in the course of a reorganization in respect of which, if a dividend were received by a corporation in the course of the reorganization, subsection 55(2) of the Act would not apply to the dividend because of the application of paragraph 55(3)(*b*) of the Act,

where the property was depreciable property of the person from whom it was acquired and was owned by that person before 1990.

Related Sections: S.13(21.2)(*e*)(iv) Loss on certain transfers; s. 13(30) Transfers of property; s. 13(31) Transfers of property — continuity of ownership; s. 87(2)(*j.6*) Continuing corporation.
Regulations: 1100(2)(*a*)(vii).
Tax Window Files: Available for Use Rules, December 19, 2003, CRA Document No. 2003-0035347; Leasehold Improvements and the "Available for Use" Rules, October 16, 1992, CRA Document No. 9228451; Available for Use Rules — Renovations Deemed to be Building, April 22, 1992, CRA Document No. 9209837.

► 13(29) ◄

(29) Idem. For the purposes of subsection (26), where a taxpayer acquires property (other than a building that is used or is to be used by the taxpayer principally for the purpose of gaining or producing gross revenue that is rent) in the taxpayer's first taxation year (in this subsection referred to as the "particular year") that begins more than 357 days after the end of the taxpayer's taxation year in which the taxpayer first acquired property after 1989, that is part of a project of the taxpayer, or in a taxation year subsequent to the particular year, and at the end of any taxation year (in this subsection referred to as the "inclusion year") of the taxpayer

(*a*) the property can reasonably be considered to be part of the project, and

(*b*) the property has not otherwise become available for use,

if the taxpayer so elects in prescribed form filed with the taxpayer's return of income under this Part for the particular year, that particular portion of the property the capital cost of which does not exceed the amount, if any, by which

(*c*) the total of all amounts each of which is the capital cost to the taxpayer of a depreciable property (other than a building that is used or is to be used by the taxpayer principally for the purpose of gaining or producing gross revenue that is rent) that is part of the project, that was acquired by the taxpayer after 1989 and before the end of the taxpayer's last taxation year that ends more than 357 days before the beginning of the inclusion year and that has not become available for use at or before the end of the inclusion year (except where the property has first become available for use before the end of the inclusion year because of this subsection or paragraph (27)(*b*) or (28)(*c*))

exceeds

(*d*) the total of all amounts each of which is the capital cost to the taxpayer of a depreciable property, other than the particular portion of the property, that is part of the project to the extent that the property is considered, because of this subsection, to have become available for use before the end of the inclusion year

shall be considered to have become available for use immediately before the end of the inclusion year.

History: S. 13(29) was added by S.C. 1994, c. 7, Sched. II, s. 9(11), applicable to property acquired by a taxpayer after 1989, other than property acquired

(*a*) from a person with whom the taxpayer was not dealing at arm's length (otherwise than because of a right referred to in paragraph 251(5)(*b*) of the Act) at the time the property was acquired, or

(*b*) in the course of a reorganization in respect of which, if a dividend were received by a corporation in the course of the reorganization, subsection 55(2) of the Act would not apply to the dividend because of the application of paragraph 55(3)(*b*) of the Act,

where the property was depreciable property of the person from whom it was acquired and was owned by that person before 1990.

Related Sections: S. 220(3.2) Late, amended or revoked elections.
Regulations: 600(*b*); 4609.
Forms: T1031.
Canadian Petroleum Tax Journal: Offshore Oil & Gas Interests: A Perspective on Exploration & Development of Offshore Petroleum and Natural Gas Resources in Eastern Canada, Michael R. Smith, CA and B. David Nielsen, CA, Vol. 13 No. 1 2000.

► 13(30) ◄

(30) Transfers of property. Notwithstanding subsections (27) to (29), for the purpose of subsection (26), property of a taxpayer shall be deemed to have become available for use by the taxpayer at the earlier of the time the property was acquired by the taxpayer and, if applicable, a prescribed time, where

(*a*) the property was acquired

(i) from a person with whom the taxpayer was not dealing at arm's length (otherwise than because of a right referred to in paragraph 251(5)(*b*)) at the time the property was acquired by the taxpayer, or

(ii) in the course of a reorganization in respect of which, if a dividend were received by a corporation in the course of the reorganization, subsection 55(2) would not apply to the dividend because of paragraph 55(3)(*b*); and

(*b*) before the property was acquired by the taxpayer, it became available for use (determined without reference to paragraphs (27)(*c*) and (28)(*d*)) by the person from whom it was acquired.

History: S. 13(30) was amended by S.C. 1994, c. 7, Sched. VIII, s. 4(1), applicable to property acquired after 1989. S. 13(30) formerly read:

"(30) Notwithstanding subsections (27) to (29), for the purposes of subsection (26), property of a taxpayer shall be deemed to have become available for use by the taxpayer at the time the property was acquired where

(*a*) the property was acquired

(i) from a person with whom the taxpayer was not dealing at arm's length (otherwise than because of a right referred to in paragraph 251(5)(*b*)) at that time, or

(ii) in the course of a reorganization in respect of which, if a dividend were received by a corporation in the course of the reorganization, subsection 55(2) would not apply to the dividend because of the application of paragraph 55(3)(*b*); and

(*b*) the property had become available for use by the person from whom it was acquired (determined without reference to paragraphs (27)(*c*) and (28)(*d*)) before that time."

S. 13(30) was added by S.C. 1994, c. 7, Sched. II, s. 9(11), applicable to property acquired after 1989.

Regulations: 1100(2.2)(*j*).

► 13(31) ◄

(31) Idem. For the purposes of paragraphs (27)(*b*) and (28)(*c*) and subsection (29), where a property of a taxpayer was acquired from a person (in this subsection referred to as "the transferor")

(*a*) with whom the taxpayer was, at the time the taxpayer acquired the property, not dealing at arm's

length (otherwise than because of a right referred to in paragraph 251(5)(*b*)), or

(*b*) in the course of a reorganization in respect of which, if a dividend were received by a corporation in the course of the reorganization, subsection 55(2) would not apply to the dividend because of the application of paragraph 55(3)(*b*),

the taxpayer shall be deemed to have acquired the property at the time it was acquired by the transferor.

History: S. 13(31) was added by S.C. 1994, c. 7, Sched. II, s. 9(11), applicable to property acquired after 1989.

► 13(32) ◄

(32) Leased property. Where a taxpayer has leased property that is depreciable property of a person with whom the taxpayer does not deal at arm's length, the amount, if any, by which

(*a*) the total of all amounts paid or payable by the taxpayer for the use of, or the right to use, the property in a particular taxation year and before the time the property would have been considered to have become available for use by the taxpayer if the taxpayer had acquired the property, and that, but for this subsection, would be deductible in computing the taxpayer's income for any taxation year

exceeds

(*b*) the total of all amounts received or receivable by the taxpayer for the use of, or the right to use, the property in the particular taxation year and before that time and that are included in the income of the taxpayer for any taxation year

shall be deemed to be a cost to the taxpayer of a property included in Class 13 in Schedule II to the *Income Tax Regulations* and not to be an amount paid or payable for the use of, or the right to use, the property.

History: S. 13(32) was added by S.C. 1994, c. 7, Sched. II, s. 9(11), applicable to depreciable property of a person referred to in that subsection that was acquired by that person after 1989.

Related Sections: S. 13(26)–(31); s. 20(1)(*a*) Capital cost of property; s. 20(28) Exception to available-for-use rule; s. 20(29) Exception to soft costs capitalization rule; s. 37(1.2) Deemed time of capital expenditure; s. 127(11.2) Time of expenditure and acquisition; s. 248(19) When property available for use.

► 13(33) ◄

(33) Consideration given for depreciable property. For greater certainty, where a person acquires a depreciable property for consideration that can reasonably be considered to include a transfer of property, the portion of the cost to the person of the depreciable property attributable to the transfer shall not exceed the fair market value of the transferred property.

History: S. 13(33) was added by S.C. 1994, c. 21, s. 7(3), applicable to property acquired after November 1992.

Related Sections: S. 13(21) Definitions; s. 13(30) Transfers of property; s. 68 Allocation of amounts in consideration for disposition of property; s. 69(1) Inadequate considerations.

► 13(34) ◄

(34) Deductible expenses. Notwithstanding paragraph 1102(1)(*a*) of the Regulations, for taxation years that end after 1987 and before December 6, 1996, the classes of property prescribed for the purpose of paragraph 20(1)(*a*) are deemed to include property of a taxpayer that, if the Act were read without reference to sections 66 to 66.4, would be included in one of the classes.

History: S. 13(34) was added by S.C. 2001, c. 17, s. 6(9), applicable on Royal Assent, June 14, 2001.

Editorial Note: Subsection 13(34) prevents circularity between the depreciable property provisions and the resource provisions, which do not apply to depreciable property.

Related Sections: S. 66.1(6), "Canadian exploration expense"; s. 66.2(5), "Canadian development expense".

SECTION 14:

► 14(1) ◄

(1) Eligible capital property — inclusion in income from business. Where, at the end of a taxation year, the total of all amounts each of which is an amount determined, in respect of a business of a taxpayer, for E in the definition "cumulative eligible capital" in subsection (5) (in this section referred to as an "eligible capital amount") or for F in that definition exceeds the total of all amounts determined for A to D in that definition in respect of the business (which excess is in this subsection referred to as "the excess"), there shall be included in computing the taxpayer's income from the business for the year the total of

(*a*) the amount, if any, that is the lesser of

(i) the excess, and

(ii) the amount determined for F in the definition "cumulative eligible capital" in subsection (5) at the end of the year in respect of the business, and

(*b*) the amount, if any, determined by the formula

$$2/3 \times (A - B - C - D)$$

where

A is the excess,

B is the amount determined for F in the definition "cumulative eligible capital" in subsection (5) at the end of the year in respect of the business,

C is 1/2 of the amount determined for Q in the definition "cumulative eligible capital" in subsection (5) at the end of the year in respect of the business, and

D is the amount claimed by the taxpayer, not exceeding the taxpayer's exempt gains balance for the year in respect of the business.

History: S. 14(1) was amended by S.C. 2001, c. 17, s. 7(1), applicable to taxation years that end after February 27, 2000 except that, for taxation years that ended after February 27, 2000 and before October 18, 2000, the reference to the fraction "2/3" in the formula in paragraph 14(1)(b) of the Act, as enacted by subsection (1), shall be read as a reference to the fraction "8/9". S. 14(1) formerly read:

"S. 14. *Inclusion in income from business.*

(1) Where, at the end of a taxation year, the total of all amounts each of which is an amount determined, in respect of a business of a taxpayer, for E in the definition 'cumulative eligible capital' in subsection (5) (in this section referred to as an 'eligible capital amount') or for F in that definition exceeds the total of all amounts determined for A to D in that definition in respect of the business (which excess is in this subsection referred to as 'the excess'),

(*a*) in the case of a taxpayer (other than

(i) a corporation,

(ii) a partnership all the members of which were

(A) corporations,

(B) partnerships all the members of which were corporations, or

(C) partnerships described in this subparagraph, or

(iii) a partnership that was not a Canadian partnership throughout the year)

who was resident in Canada throughout the year,

(iv) the amount, if any, that is the lesser of

(A) the excess, and

(B) the amount determined for F in the definition 'cumulative eligible capital' in subsection (5) at the end of the year in respect of the business

shall be included in computing the taxpayer's income from that business for the year, and

(v) there shall be included in computing the taxpayer's income from the business for the year the amount determined by the formula

A – B – C – D

where

A is the excess,

B is the amount determined for F in the definition 'cumulative eligible capital' in subsection (5) at the end of the year in respect of the business,

C is 1/2 of the amount determined for Q in the definition 'cumulative eligible capital' in subsection (5) at the end of the year in respect of the business, and

D is such amount as the taxpayer claims, not exceeding the taxpayer's exempt gains balance in respect of the business for the year

(*b*) in any other case, the amount, if any, by which the excess exceeds 1/2 of the amount determined for Q in the definition 'cumulative eligible capital' in subsection (5) in respect of the business shall be included in computing the taxpayer's income from that business for that year."

S. 14(1)(*a*)(v), the portion after the description of D, was repealed by S.C. 1998, c. 19, s. 74(1), applicable to fiscal periods that end after February 22, 1994, otherwise than solely because of an election under subsection 25(1) of the Act. S. 14(1)(*a*)(v) formerly read:

"and, for the purposes of section 110.6 and of paragraph 3(*b*) as it applies for the purposes of that section, the total of all amounts each of which is the portion of the amount so included that can reasonably be attributed to proceeds of a disposition in the year of a qualified farm property (within the meaning assigned by subsection 110.6(1)) in excess of the taxpayer's cost of the property shall be deemed to be a taxable capital gain of the taxpayer from the disposition in the year of qualified farm property."

S. 14(1)(*a*)(v) was amended by S.C. 1995, c. 3, s. 5(1), applicable to fiscal periods that end after February 22, 1994 otherwise than because of an election under subsection 25(1) of the Act. S. 14(1)(*a*)(v) formerly read:

"(v) the amount, if any, by which the excess exceeds the total of

(A) the amount determined under subparagraph (iv), and

(B) 1/2 of the amount determined for Q in the definition 'cumulative eligible capital' in subsection (5) in respect of the business

shall be deemed to be a taxable capital gain of the taxpayer from a disposition of capital property by the taxpayer in the year and, for the purposes of section 110.6, that property shall be deemed to have been disposed of by the taxpayer in the year; and"

S. 14(1), the portion following (*a*)(iv) was amended by S.C. 1994, c. 7, Sched. II, s. 10(1), applicable (a) in the case of a corporation, to taxation years beginning after June 1988; and (b) in any other case, to fiscal periods beginning after 1987. S. 14(1) following (*a*)(iv) formerly read:

"(v) the amount, if any, by which the excess exceeds the amount determined under subparagraph (iv) shall be deemed to be a taxable capital gain of the taxpayer from a disposition of capital property by the taxpayer in the year and, for the purposes of section 110.6, that property shall be deemed to have been disposed of by the taxpayer in the year; and

(*b*) in any other case, the excess shall be included in computing the taxpayer's income from that business for that year."

Related Sections: S. 20(4.2) Bad debts re eligible capital property; s. 24(1) Ceasing to carry on business; s. 54 Definitions; s. 70(9.8) Leased farm and fishing property.

Interpretation Bulletins: *Primary* — IT-123R6 Transactions involving eligible capital property; IT-386R Eligible capital amounts. *Secondary* — IT-73R6 The small business deduction; IT-99R5 (Consolid.) Legal and accounting fees; IT-206R Separate businesses; IT-291R3 Transfer of property to a corporation under subsection 85(1); IT-313R2 Eligible capital property — Rules where a taxpayer has ceased carrying on a business or has died; IT-330R Dispositions of capital property subject to warranty, covenant, or other conditional or contingent obligations [Archived by the CRA]; IT-365R2 Damages, settlement, and similar receipts; IT-381R3 Trusts — Deduction of amounts paid or payable to beneficiaries and flow-through of taxable capital gains to beneficiaries; IT-425 Miscellaneous farm income; IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].

Advance Tax Rulings: ATR-6 Vendor reacquires business assets following default by purchaser.

Tax Topics: No. 1649, Restricting the Tax Advantage of Restrictive Covenants; No. 1621, Non-Comp Non-Taxable.

Cases: The taxpayer's predecessor corporations received consideration for setting aside non-competition agreements. The agreements were eligible capital property and setting them aside was a disposition of that property. If they had made the payments, rather than having received them, they would have incurred an eligible capital expenditure. Therefore, the payments were included in income under s. 14(1). *RCI Environnement Inc. v. The Queen,* 2009 DTC 5037 (F.C.A.), affirming 2008 DTC 2277 (T.C.C.).

The city expropriated the land and building in which the taxpayer carried on its business. The city paid the taxpayer $12 million, of which $9 million was damages to compensate for the inability to relocate its business. Since the city did not pay the $9 million for the purposes of earning income from a business, it was not an eligible capital expenditure and was therefore a non-taxable capital receipt in the taxpayer's hands. *The Queen v. Toronto Refiners and Smelters Limited,* 2003 DTC 5002 (F.C.A.), affirming 2001 DTC 876 (T.C.C.).

The explosives division sold by the taxpayer was not a separate business, therefore, the taxpayer was not subject to recapture of capital cost allowance or an increased s. 14(1) income inclusion. Indicators of integration included centralized financing and credit management, centralized purchasing, and common research facilities. *Du Pont Canada Inc. v. The Queen,* 2001 DTC 5269 (F.C.A.), reversing 99 DTC 1132 (T.C.C.).

The taxpayers received payments as consideration for signing non-competition agreements with Loblaws, after selling their shares of their own supermarket corporation to Loblaws. The Tax Court of Canada held that the payments were not eligible capital amounts since the taxpayers were not personally involved in operating the corporation's business. This issue was abandoned by the Crown on appeal. *The Queen v. Fortino et al.,* 2000 DTC 6060 (F.C.A.), affirming 97 DTC 55 (T.C.C.).

The cost of plans for the construction of a building was an eligible capital expenditure even though the project had to be abandoned. *Brooke Bond Foods Ltd. v. The Queen,* 84 DTC 6144 (F.C.T.D.).

► 14(1.01) ◄

(1.01) Election re capital gain. A taxpayer may, in the taxpayer's return of income for a taxation year, or with an election under subsection 83(2) filed on or before the taxpayer's filing-due date for the taxation year, elect that the following rules apply to a disposition made at any time in the year of an eligible capital property in respect of a business, if the taxpayer's actual proceeds of the disposition exceed the taxpayer's eligible capital expenditure in respect of the acquisition of the property, that eligible capital expenditure can be determined and, for taxpayers who are individuals, the taxpayer's exempt gains balance in respect of the business for the taxation year is nil:

(*a*) for the purpose of subsection (5) other than the description of A in the definition "cumulative eligible capital", the proceeds of disposition of the property are deemed to be equal to the amount of that eligible capital expenditure;

(*b*) the taxpayer is deemed to have disposed at that time of a capital property that had, immediately before that time, an adjusted cost base to the taxpayer equal to the amount of that eligible capital expenditure, for proceeds of disposition equal to the actual proceeds; and

(*c*) if the eligible capital property is

(i) a qualified farm property (within the meaning assigned by subsection 110.6(1)) of the taxpayer at that time, the capital property deemed by paragraph (*b*) to have been disposed of by the taxpayer is deemed to be a qualified farm property of the taxpayer at that time, and

(ii) a qualified fishing property (within the meaning assigned by subsection 110.6(1)) of the taxpayer at that time, the capital property deemed by paragraph (*b*) to have been disposed of by the taxpayer is deemed to be a qualified fishing property of the taxpayer at that time.

History: S. 14(1.01)(*c*) was replaced by S.C. 2007, c. 2, s. 3(2), applicable to dispositions of property that occur on or after May 2, 2006. S. 14(1.01)(*c*) formerly read:

"(*c*) where the eligible capital property is at that time a qualified farm property (within the meaning assigned by subsection 110.6(1)) of the taxpayer, the capital property deemed by paragraph (*b*) to have been disposed of by the taxpayer is deemed to have been at that time a qualified farm property of the taxpayer."

S. 14(1.01), the portion before paragraph (*c*) was replaced by S.C. 2007, c. 2, s. 3(1), applicable to dispositions of eligible capital property that occur in taxation years that end after February 27, 2000, except that, in its application to those dispositions of eligible capital property that occur before December 21, 2002, the portion of subsection 14(1.01) before paragraph (*c*) is to be read as follows:

"(1.01) A taxpayer may, in the taxpayer's return of income for a taxation year, elect that the following rules apply to a disposition made at any time in the taxation year of an eligible capital property (other than goodwill) in respect of a business, if the taxpayer's actual proceeds of the disposition exceed the taxpayer's cost of the property, that cost can be determined and,

for taxpayers who are individuals, the taxpayer's exempt gains balance in respect of the business for the taxation year is nil:

(*a*) for the purposes of subsection (5), the proceeds of disposition of the property are deemed to be equal to that cost;

(*b*) the taxpayer is deemed to have disposed at that time of a capital property that had, immediately before that time, an adjusted cost base to the taxpayer equal to that cost, for proceeds of disposition equal to the actual proceeds; and"

S. 14(1.01), the portion before paragraph (*c*) formerly read:

"(1.01) *Election re capital gain.* Where, at any time in a taxation year, a taxpayer disposes of an eligible capital property (other than goodwill) in respect of a business, the cost of the property to the taxpayer can be determined, the proceeds of the disposition (in this subsection referred to as the 'actual proceeds') exceed that cost, the taxpayer's exempt gains balance in respect of the business for the year is nil and the taxpayer so elects under this subsection in the taxpayer's return of income for the year,

(*a*) for the purposes of subsection (5), the proceeds of disposition of the property are deemed to be equal to that cost;

(*b*) the taxpayer is deemed to have disposed at that time of a capital property that had at that time an adjusted cost base to the taxpayer equal to that cost, for proceeds of disposition equal to the actual proceeds; and"

S. 14(1.01) was added by S.C. 2001, c. 17, s. 7(1), applicable to taxation years that end after February 27, 2000.

Editorial Note: Subsection 14(1.01) allows eligible capital (other than goodwill) to be treated as a capital gain: where the taxpayer so elects, it is deemed to have disposed of a capital property with an ACB equal to the identified cost, and proceeds of disposition equal to the actual proceeds of the property, and the property is removed from the eligible capital pool. The consequences of this election can be far-reaching, as it brings into play the capital gains regime rather than eligible capital. For example, capital loss balances can shelter the gain (pre-existing capital losses would offset the capital dividend account addition). It appears that the election permits a reserve, whereas a disposition of eligible capital does not. While the taxable portion of eligible capital is subject to corporate "business rates", a subsection 14(1.01) election made by a CCPC will attract refundable tax treatment (including the $6\frac{1}{3}\%$ refundable tax on investment income, per section 123.3, and the denial of the corporate tax reduction in section 123.4). The election may be filed with the capital dividend election.

The wording of this provision suggests that the election may be restricted to property acquired from a third party. (The prospect of meeting this requirement by transferring the property to another taxpayer on a rollover basis pursuant to subsections 85(1) or (2) is foreclosed by paragraph 14(1.03)(*b*).)

Related Sections: S. 14(1.02) Election re property acquired with pre-1972 outlays or expenditures; s. 14(1.03) Non-application of subsections (1.01) and (1.02); s. 54, "capital property", "eligible capital property"; s. 89(1), "capital dividend account"; s. 123.2 Corporation surtax; s. 123.3 Refundable tax on CCPC's investment income; s. 129 Dividend refund to private corporation; s. 248(1), "capital property", "eligible capital property".

Tax Topics: No. 1720, Eligible Capital — Some Big Changes Part II; No. 1718, Eligible Capital — Some Big Changes Part I.

► 14(1.02) ◄

(1.02) Election re property acquired with pre-1972 outlays or expenditures. If at any time in a taxation year a taxpayer has disposed of an eligible capital property in respect of which an outlay or expenditure to acquire the property was made before 1972 (which outlay or expenditure would have been an eligible capital expenditure if it had been made or incurred as a result of a transaction that occurred after 1971), the taxpayer's actual proceeds of the disposition exceed the total of those outlays or expenditures, that total can be determined, subsection 21(1) of the *Income Tax Application Rules* applies in respect of the disposition and, for taxpayers who are individuals, the taxpayer's exempt gains balance in respect of the business for the taxation year is nil, the taxpayer may, in the taxpayer's return of income for the taxation year, or with an election under subsection 83(2) filed on or before the taxpayer's filing-due date for the taxation year, elect that the following rules apply:

(*a*) for the purpose of subsection (5) other than the description of A in the definition "cumulative eligible capital", the proceeds of disposition of the property are deemed to be nil;

(*b*) the taxpayer is deemed to have disposed at that time of a capital property that had, immediately before that time, an adjusted cost base to the taxpayer equal to nil, for proceeds of disposition equal to the amount determined, in respect of the disposition, under subsection 21(1) of the *Income Tax Application Rules*; and

(*c*) if the eligible capital property is

(i) a qualified farm property (within the meaning assigned by subsection 110.6(1)) of the taxpayer at that time, the capital property deemed by paragraph (*b*) to have been disposed of by the taxpayer is deemed to be a qualified farm property of the taxpayer at that time, and

(ii) a qualified fishing property (within the meaning assigned by subsection 110.6(1)) of the taxpayer at that time, the capital property deemed by paragraph (*b*) to have been disposed of by the taxpayer is deemed to be a qualified fishing property of the taxpayer at that time.

History: S. 14(1.02)(*c*) was replaced by S.C. 2007, c. 2, s. 3(4), applicable to dispositions of property that occur on or after May 2, 2006. S. 14(1.02)(*c*) formerly read:

"(*c*) if the eligible capital property is at that time a qualified farm property (within the meaning assigned by subsection 110.6(1)) of the taxpayer, the capital property deemed by paragraph (*b*) to have been disposed of by the taxpayer is deemed to have been at that time a qualified farm property of the taxpayer."

S. 14(1.02) was added by S.C. 2007, c. 2, s. 3(3), applicable to dispositions of eligible capital property that occur after December 20, 2002.

► 14(1.03) ◄

(1.03) Non-application of subsections (1.01) and (1.02). Subsections (1.01) and (1.02) do not apply to a disposition by a taxpayer of a property

(*a*) that is goodwill; or

(*b*) that was acquired by the taxpayer

(i) in circumstances where an election was made under subsection 85(1) or (2) and the amount agreed on in that election in respect of the property was less than the fair market value of the property at the time it was so acquired, and

(ii) from a person or partnership with whom the taxpayer did not deal at arm's length and for whom the eligible capital expenditure in respect of the acquisition of the property cannot be determined.

History: S. 14(1.03) was added by S.C. 2007, c. 2, s. 3(3), applicable to dispositions of eligible capital property that occur after December 20, 2002, except that, in applying subsection 14(1.03) to dispositions that occur on or before February 27, 2004, subsection 14(1.03) is to be read without reference to its paragraph (*b*).

► 14(1.1) ◄

(1.1) Deemed taxable capital gain. For the purposes of section 110.6 and paragraph 3(*b*) as it applies for the purposes of that section, an amount included under paragraph (1)(*b*) in computing a taxpayer's income for a particular taxation year from a business is deemed to be a taxable capital gain of the taxpayer for the year from the disposition in the year of qualified farm property to the extent of the lesser of

(*a*) the amount included under paragraph (1)(*b*) in computing the taxpayer's income for the particular year from the business, and

(*b*) the amount determined by the formula

A – B

where

A is the amount by which the total of

(i) 3/4 of the total of all amounts each of which is the taxpayer's proceeds from a disposition in a preceding taxation year that began after 1987 and ended before February 28, 2000 of eligible capital property in respect of the business that, at the time of the disposition, was a qualified farm property (within the meaning assigned by subsection 110.6(1)) of the taxpayer,

(ii) 2/3 of the total of all amounts each of which is the taxpayer's proceeds from a disposition in the particular year or a preceding taxation year that ended after February 27, 2000 and before October 18, 2000 of eligible capital property in respect of the business that, at the time of the disposition, was a qualified farm property (within the meaning assigned by subsection 110.6(1)) of the taxpayer, and

(iii) 1/2 of the total of all amounts each of which is the taxpayer's proceeds from a disposition in the particular year or a preceding taxation year that ended after October 17, 2000 of eligible capital property in respect of the business that, at the time of the disposition, was a qualified farm property (within the meaning assigned by subsection 110.6(1)) of the taxpayer

exceeds the total of

(iv) 3/4 of the total of all amounts each of which is

(A) an eligible capital expenditure of the taxpayer in respect of the business that was made or incurred in respect of a qualified farm property disposed of by the taxpayer in a preceding taxation year that began after 1987 and ended before February 28, 2000, or

(B) an outlay or expense of the taxpayer that was not deductible in computing the taxpayer's income and that was made or incurred for the purpose of making a disposition referred to in clause (A),

(v) 2/3 of the total of all amounts each of which is

(A) an eligible capital expenditure of the taxpayer in respect of the business that was made or incurred in respect of a qualified farm property disposed of by the taxpayer in the particular year or a preceding taxation year that ended after February 27, 2000 and before October 18, 2000, or

(B) an outlay or expense of the taxpayer that was not deductible in computing the taxpayer's income and that was made or incurred for the purpose of making a disposition referred to in clause (A), and

(vi) 1/2 of the total of all amounts each of which is

(A) an eligible capital expenditure of the taxpayer in respect of the business that was made or incurred in respect of a qualified farm property disposed of by the taxpayer in the particular year or a preceding taxation year that ended after October 17, 2000, or

(B) an outlay or expense of the taxpayer that was not deductible in computing the taxpayer's income and that was made or incurred for the purpose of making a disposition referred to in clause (A), and

B is the total of all amounts each of which is

(i) that portion of an amount deemed by subparagraph (1)(*a*)(v) (as it applied in respect of the business to fiscal periods that began after 1987 and ended before February 23, 1994) to be a taxable capital gain of the taxpayer that can reasonably be attributed to a disposition of a qualified farm property of the taxpayer, or

(ii) an amount deemed by this section to be a taxable capital gain of the taxpayer for a taxation year preceding the particular year from the disposition of qualified farm property of the taxpayer.

History: S. 14(1.1), the portion before the description of B in paragraph (*b*) was amended by S.C. 2001, c. 17, s. 7(2), applicable to taxation years that end after February 27, 2000. S. 14(1.1), the portion before the description of B in paragraph (*b*) formerly read:

"(1.1) *Deemed taxable capital gain.* For the purposes of section 110.6 and of paragraph 3(*b*) as it applies for the purposes of that section, an amount included under subparagraph (1)(*a*)(v) in computing a taxpayer's income for a particular taxation year from a business is deemed to be a taxable capital gain of the taxpayer for the year from the disposition in the year of qualified farm property to the extent of the lesser of

(*a*) the amount included under subparagraph (1)(*a*)(v) in computing the taxpayer's income for the particular year from the business, and

(*b*) the amount determined by the formula

A – B

where

A is 3/4 of the amount determined in respect of the taxpayer for the particular year equal to the amount, if any, by which

(i) the total of all amounts each of which is the taxpayer's proceeds from a disposition in the particular year or a preceding taxation year that began after 1987 of an eligible capital property in respect of the business that, at the time of disposition, was a qualified farm property (as defined in subsection 110.6(1)) of the taxpayer

exceeds

(ii) the total of all amounts each of which is

(A) an eligible capital expenditure of the taxpayer in respect of the business that was made or incurred in respect of a qualified farm property disposed of by the taxpayer in the particular year or a preceding taxation year that began after 1987, or

(B) an outlay or expense of the taxpayer that was not deductible in computing the taxpayer's income and was made or incurred for the purpose of making a disposition referred to in subparagraph (i), and"

S. 14(1.1) was added by S.C. 1998, c. 19, s. 74(2), applicable to fiscal periods that end after February 22, 1994, otherwise than solely because of an election under subsection 25(1) of the Act.

Related Sections: S. 110.6(2) Capital gains deduction — qualified farm property.

► 14(1.2) ◄

(1.2) Deemed capital gain. For the purposes of section 110.6 and paragraph 3(*b*) as it applies for the purposes of that section, an amount included under paragraph (1)(*b*) in computing a taxpayer's income for a particular taxation year from a fishing business is deemed to be a taxable capital gain of the taxpayer for the year from the disposi-

tion in the year of qualified fishing property to the extent of the lesser of

(*a*) the amount included under paragraph 1(*b*) in computing the taxpayer's income for the particular year from the fishing business, and

(*b*) the amount determined by the formula

A – B

where

A is the amount by which

(i) 1/2 of the total of all amounts each of which is the taxpayer's proceeds from a disposition on or after May 2, 2006 and in the particular taxation year or a preceding taxation year of eligible capital property (referred to in this subsection as a "disposed property") that was at the time of the disposition a qualified fishing property (within the meaning assigned by subsection 110.6(1)) of the taxpayer exceeds the total of

(ii) 1/2 of the total of all amounts each of which is

(A) an eligible capital expenditure of the taxpayer in respect of the fishing business that was made or incurred in respect of a disposed property, or

(B) an outlay or expense of the taxpayer that was not deductible in computing the taxpayer's income and that was made or incurred for the purpose of making a disposition of a disposed property, and

B is the total of all amounts each of which is an amount deemed by this section to be a taxable capital gain of the taxpayer for a taxation year preceding the particular year from the disposition of qualified fishing property of the taxpayer.

History: S. 14(1.2) was added by S.C. 2007, c. 2, s. 3(5), applicable to dispositions of property that occur on or after May 2, 2006.

► 14(2) ◄

(2) Amount deemed payable. Where any amount is, by any provision of this Act, deemed to be a taxpayer's proceeds of disposition of any property disposed of by the taxpayer at any time, for the purposes of this section, that amount shall be deemed to have become payable to the taxpayer at that time.

Interpretation Bulletins: *Secondary* — IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].

► 14(3) ◄

(3) Acquisition of eligible capital property. Notwithstanding any other provision of this Act, where at any particular time a person or partnership (in this subsection referred to as the "taxpayer") has, directly or indirectly, in any manner whatever, acquired an eligible capital property in respect of a business from a person or partnership with which the taxpayer did not deal at arm's length (in this subsection referred to as the "transferor") and the property was an eligible capital property of the transferor (other than property acquired by the taxpayer as a consequence of the death of the transferor), the eligible capital expenditure of the taxpayer in respect of the business is, in respect of that acquisition, deemed to be equal to 4/3 of the amount, if any, by which

(*a*) the amount determined for E in the definition "cumulative eligible capital" in subsection (5) in respect of the disposition of the property by the transferor

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 14(3)(*a*) of the Act is replaced by the following:

(*a*) the amount determined for E in the definition "cumulative eligible capital" in subsection (5) in respect of the disposition of the property by the transferor or, if the property is the subject of an election under subsection (1.01) or (1.02) by the transferor, 3/4 of the actual proceeds referred to in that subsection,

Applicable: To taxation years that end after February 27, 2000. [However, for taxation years that end before December 21, 2002, the expression "subsection (1.01) or (1.02)" in the amendment to paragraph 14(3)(*a*) is to be read as "subsection (1.01)".]

Explanatory Note:

Acquisition of Eligible Capital Property

Subsection 14(3) of the Act provides rules regarding non-arm's length transfers of eligible capital property. The provision prevents the deduction, under paragraph 20(1)(*b*) of the Act, of the portion of the purchaser's cost that is reflected in a capital gains exemption claimed by the vendor under section 110.6 of the Act. Absent any claim by the vendor of a capital gains exemption under subsection 110.6, the eligible capital expenditure to the purchaser generally equals the proceeds of disposition of the vendor. That is, the eligible capital expenditure of the purchaser equals 4/3 of the amount determined in respect of the vendor under the description of E in the formula in the definition "cumulative eligible capital" in subsection 14(5) of the Act.

Paragraph 14(3)(*a*) is amended, for taxation years that end after February 27, 2000, to ensure that, if the eligible capital property is the subject of an election by the vendor under subsection 14(1.01) or (1.02) of the Act, the eligible capital expenditure of the purchaser will, subject to the adjustments in subsection 14(3) for deductions under section 110.6, equal the actual proceeds of disposition to the vendor.

exceeds the total of

(*b*) the total of all amounts that can reasonably be considered to have been claimed as deductions under section 110.6 for taxation years that ended before February 28, 2000 by any person with whom the taxpayer was not dealing at arm's length in respect of the disposition of the property by the transferor, or any other disposition of the property before the particular time,

(*b*.1) 9/8 of the total of all amounts that can reasonably be considered to have been claimed as deductions under section 110.6 for taxation years that ended after February 27, 2000 and before October 18, 2000 by any person with whom the taxpayer was not dealing at arm's length in respect of the disposition of the property by the transferor, or any other disposition of the property before the particular time, and

(*b*.2) 3/2 of the total of all amounts that can reasonably be considered to have been claimed as deductions

under section 110.6 for taxation years that end after October 17, 2000 by any person with whom the taxpayer was not dealing at arm's length in respect of the disposition of the property by the transferor, or any other disposition of the property before the particular time,

except that, where the taxpayer disposes of the property after the particular time, the amount of the eligible capital expenditure deemed by this subsection to be made by the taxpayer in respect of the property shall be determined at any time after the disposition as if the total of the amounts determined under paragraphs (*b*), (*b*.1) and (*b*.2) in respect of the disposition were the lesser of

(*c*) the amount otherwise so determined, and

(*d*) the amount, if any, by which

(i) the amount determined under paragraph (*a*) in respect of the disposition of the property by the transferor

exceeds

(ii) the amount determined for E in the definition "cumulative eligible capital" in subsection (5) in respect of the disposition of the property by the taxpayer.

History: S. 14(3), the portion before paragraph (*c*), was amended by S.C. 2001, c. 17, s. 7(3), applicable to taxation years that end after February 27, 2000. S. 14(3), the portion before paragraph (*c*) formerly read:

"(3) *Acquisition of eligible capital property.* Notwithstanding any other provision of this Act, where at any time a person or partnership (in this subsection referred to as the 'taxpayer') has, directly or indirectly, in any manner whatever, acquired an eligible capital property in respect of a business from a person or partnership with whom the taxpayer did not deal at arm's length (in this subsection referred to as the 'transferor') and the property was an eligible capital property of the transferor (other than property acquired by the taxpayer as a consequence of the death of the transferor), the eligible capital expenditure of the taxpayer in respect of the business shall, in respect of that acquisition, be deemed to be equal to 4/3 of the amount, if any, by which

(*a*) the amount determined for E in the definition 'cumulative eligible capital' in subsection (5) in respect of the disposition of the property by the transferor

exceeds

(*b*) the total of all amounts that can reasonably be considered to have been claimed as deductions under section 110.6 by any person with whom the taxpayer was not dealing at arm's length in respect of the disposition of the property by the transferor, or any other disposition of the property before that time,

except that, where the taxpayer disposes of the property after that time, the amount of the eligible capital expenditure deemed by this subsection to be made by the taxpayer in respect of the property shall be determined at any time after the disposition as if the amount determined under paragraph (*b*) in respect thereof were the lesser of"

S. 14(3) was amended by S.C. 1994, c. 7, Sched. II, s. 10(2), applicable to acquisitions of property occurring after 1987, except that, in its application to acquisitions by a taxpayer after 1987 and before the taxpayer's adjustment time in respect of the business in which the property is used, the reference in subsection 14(3) of the Act to "4/3 of" shall be read as "2 times". S. 14(3) formerly read:

"(3) Notwithstanding any other provision of this Act, where at a particular time a person or partnership (in this subsection referred to as the 'taxpayer') has, directly or indirectly, in any manner whatever, acquired an eligible capital property in respect of a business from a person or partnership that disposed of the property to the taxpayer and with whom the taxpayer did not deal at arm's length, and the property that was disposed of was an eligible capital property of the person or partnership, the eligible capital expenditure in respect of the business made by the taxpayer relating to the acquisition shall be deemed to be 4/3 of the amount, if any, by which

(*a*) the amount determined for E in the definition 'cumulative eligible capital' in subsection (5) by the person or partnership in respect of the disposition

exceeds

(*b*) the amount, if any, determined under subparagraph (1)(*a*)(v) by the person or partnership in respect of the disposition to the extent that the amount may reasonably be considered to have been claimed by any person as a deduction under section 110.6."

Interpretation Bulletins: *Secondary* — IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].

► 14(4) ◄

(4) References to "taxation year" or "year". Where a taxpayer is an individual and the taxpayer's income for a taxation year includes income from a business the fiscal period of which does not coincide with the calendar year, for greater certainty a reference in this section to a "taxation year" or "year" shall be read as a reference to a "fiscal period" or "period".

► 14(5) ◄

(5) Definitions. In this section,

"*adjustment time*" — "adjustment time" of a taxpayer in respect of a business is

(*a*) in the case of a corporation formed as a result of an amalgamation occurring after June 30, 1988, the time immediately before the amalgamation,

(*b*) in the case of any other corporation, the time immediately after the commencement of its first taxation year commencing after June 30, 1988, and

(*c*) for any other taxpayer, the time immediately after the commencement of the taxpayer's first fiscal period commencing after 1987 in respect of the business;

Interpretation Bulletins: *Secondary* — IT-291R3 Transfer of property to a corporation under subsection 85(1); IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].

"*cumulative eligible capital*" — "cumulative eligible capital" of a taxpayer at any time in respect of a business of the taxpayer means the amount determined by the formula

$$(A + B + C + D + D.1) - (E + F)$$

where

A is 3/4 of the total of all eligible capital expenditures in respect of the business made or incurred by the taxpayer before that time and after the taxpayer's adjustment time,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The description of A in the definition "cumulative eligible capital" in subsection 14(5) of the Act is replaced by the following:

A is the amount, if any, by which 3/4 of the total of all eligible capital expenditures in respect of the business made or incurred by the taxpayer after the taxpayer's adjustment time and before that time exceeds the total of all amounts each of which is determined by the formula

$$1/2 \times (A.1 - A.2) \times (A.3/A.4)$$

where

A.1 is the amount required, because of paragraph (1)(*b*) or 38(*a*), to be included in the income of a person or partnership (in this definition referred to as the "transferor") not dealing at arm's length with the taxpayer in respect of the disposition after December 20, 2002 of a property that was an eligible capital property acquired by the taxpayer directly or indirectly, in any manner whatever, from the transferor and not disposed of by the taxpayer before that time,

A.2 is the total of all amounts that can reasonably be considered to have been claimed as deductions under section 110.6 by the transferor in respect of that disposition,

A.3 is the transferor's proceeds from that disposition, and

A.4 is the transferor's total proceeds of disposition of eligible capital property in the taxation year of the transferor in which the property described in A.1 was disposed of,

Applicable: To taxation years that end after February 27, 2000, except that the expression "disposition after December 20, 2002 of a property that was an eligible capital property" in the description of A.1 in the description of A in the definition "cumulative eligible capital" in subsection 14(5) is to be read as the expression "disposition after 2003 of a property that was an eligible capital property" if

(*a*) the taxpayer referred to in that description of A.1 acquired the property referred to in that description from the transferor referred to in that description;

(*b*) the property was so acquired under an agreement in writing made before December 21, 2002, between the transferor, or a particular person that controlled the transferor, and another person who dealt at an arm's length with the transferor and the particular person; and

(*c*) no clause in the agreement or any other arrangement allows an obligation of any party to the agreement to be changed, reduced or waived in the event of a change to, or an adverse assessment under, the *Income Tax Act*.

Explanatory Note:

Definition of Cumulative Eligible Capital

The definition "cumulative eligible capital" in subsection 14(5) of the Act provides for the calculation of a taxpayer's cumulative eligible capital property pool for the purpose of determining the taxpayer's allowable deduction in respect of eligible capital property (ECP) for the year.

Variable A in the definition "cumulative eligible capital" represents 3/4 of the eligible capital expenditures of a taxpayer as the result of the acquisition of an eligible capital property after the taxpayer's "adjustment time" (generally since 1987). Variable A is amended to ensure that the taxpayer's pool includes only the taxable portion of the gain realized by the non-arm's length transferor on the disposition after December 20, 2002 of eligible capital property.

Variable A is generally reduced by 1/2 of the gain of the transferor in respect of the property under paragraph 14(1)(*b*) or 38(*a*) of the Act. (Where the transferor has claimed a capital gains exemption in respect of the transfer under subsection 110.6 of the Act, subsection 14(3) of the Act reduces the taxpayer's eligible capital expenditure accordingly. The reduction in Variable A will therefore not include 1/2 of the amount of that claim.) Where the transferor has realized such a gain in a taxation year in respect of more than one property, the amount of the gain of the transferor for the purposes of this calculation is that proportion of the gain that the proceeds of disposition of the eligible capital property acquired by the taxpayer is of the total proceeds of disposition of all such property disposed of in the transferor's taxation year.

The reduction to Variable A does not apply where the eligible capital property has previously been disposed of by the taxpayer or was acquired on or before December 20, 2002.

Example 1

Mr. X purchased a farm production quota several years ago for $300,000 and claimed no cumulative eligible capital amounts, such that his cumulative eligible capital at the end of his previous taxation year was $225,000. This year he sold the production quota to his sister, Mrs. Y, for its fair market value of $1,200,000. Mr. X reported income of $450,000 under paragraph 14(1)(*b*) of the Act, and did not claim a capital gains exemption under section 110.6 of the Act. (Alternatively, Mr. X could have made an election under subsection 14(1.01) of the Act to report a taxable capital gain under paragraph 38(*a*) of the Act.)

Because Mrs. Y purchased the production quota in a non-arm's length transaction, the amount included in Variable A of her cumulative eligible capital balance at the end of the year of acquisition would be $675,000 (i.e. 3/4 of $1,200,000, less 1/2 of the taxable gain of Mr. X of $450,000). This result may also be illustrated as the total of the taxable gain of Mr. X of $450,000 and 3/4 of his eligible capital expenditure of $300,000.

Example 2

Assume the same facts as Example 1, except that Mr. X claimed a capital gains exemption of $250,000 in respect of his $450,000 taxable gain under paragraph 14(1)(*b*) of the Act.

Mrs. Y's eligible capital expenditure under subsection 14(3) of the Act is deemed to be $700,000, calculated as 4/3 of the excess of

- 3/4 of the actual proceeds of disposition of $1,200,000 (i.e. $900,000)

over

- 3/2 of the $250,000 capital gains exemption claimed by Mr. X (i.e. $375,000)

The amount included in Variable A of Mrs. Y's cumulative eligible capital balance is calculated as follows:

• 3/4 of her deemed eligible capital expenditure of $700,000		$525,000
less 1/2 of the amount by which		
• the taxable gain of Mr. X	$450,000	
exceeds		
• the capital gains exemption claimed by Mr. X	250,000	
	200,000	
	× 1/2	
		100,000
Amount included in Variable A		$425,000

The calculation of "cumulative eligible capital" is designed so that the pool cannot be negative immediately after the end of the year. In this regard, variable F in the calculation generally reduces the pool by the total amount of ECP deductions claimed in prior years (generally, variable P), net of amounts included in income in prior years (variable R) under subsection 14(1) of the Act as recapture of ECP deductions or as deemed capital gains.

Variable R in the definition "cumulative eligible capital" is amended to ensure that amounts included in the income of a corporation under former paragraph 14(1)(*b*) of the Act (as it applied to taxation years that ended before February 28, 2000) continue to be included in the calculation of variable F.

The amendments generally apply to taxation years that end after February 27, 2000.

B is the total of

(*a*) 3/2 of all amounts included under paragraph (1)(*b*) in computing the taxpayer's income from the business for taxation years that ended before that time and after October 17, 2000,

(*b*) 9/8 of all amounts included under paragraph (1)(*b*) in computing the taxpayer's income from the business for taxation years that ended

(i) before that time, and

(ii) after February 27, 2000 and before October 18, 2000,

(*c*) all amounts included under paragraph (1)(*b*) in computing the taxpayer's income from the business for taxation years that ended

(i) before the earlier of that time and February 28, 2000, and

(ii) after the taxpayer's adjustment time,

(*d*) all amounts each of which is the amount that would have been included under subparagraph (1)(*a*)(v) (as that subparagraph applied for taxation years that ended before February 28, 2000) in computing the taxpayer's income from the business, if the amount determined for D in that subparagraph for the year were nil, for taxation years that ended

(i) before the earlier of that time and February 28, 2000, and

(ii) after February 22, 1994, and

(*e*) all taxable capital gains included, because of the application of subparagraph (1)(*a*)(v) (as that subparagraph applied for taxation years that ended before February 28, 2000) to the taxpayer in respect of the business, in computing the taxpayer's income for taxation years that began before February 23, 1994,

C is 3/2 of the amount, if any, of the taxpayer's cumulative eligible capital in respect of the business at the taxpayer's adjustment time,

D is the amount, if any, by which

(*a*) the total of all amounts deducted under paragraph 20(1)(*b*) in computing the taxpayer's income from the business for taxation years ending before the taxpayer's adjustment time

exceeds

(*b*) the total of all amounts included under subsection (1) in computing the taxpayer's income from the business for taxation years ending before the taxpayer's adjustment time,

D.1 is, where the amount determined by B exceeds zero, 1/2 of the amount determined for Q in respect of the business

E is the total of all amounts each of which is 3/4 of the amount, if any, by which

(*a*) an amount that the taxpayer has or may become entitled to receive, after the taxpayer's adjustment time and before that time, on account of capital in respect of the business carried on or formerly carried on by the taxpayer, other than an amount that

(i) is included in computing the taxpayer's income, or deducted in computing, for the purposes of this Act, any balance of undeducted outlays, expenses or other amounts for the year or a preceding taxation year,

(ii) reduces the cost or capital cost of a property or the amount of an outlay or expense, or

(iii) is included in computing any gain or loss of the taxpayer from a disposition of a capital property

exceeds

(*b*) all outlays and expenses that were not otherwise deductible in computing the taxpayer's income and were made or incurred by the taxpayer for the purpose of obtaining the amount described by paragraph (*a*), and

F is the amount determined by the formula

$$(P + P.1 + Q) - R$$

where

P is the total of all amounts deducted under paragraph 20(1)(*b*) in computing the taxpayer's income from the business for taxation years ending before that time and after the taxpayer's adjustment time,

P.1 is the total of all amounts each of which is an amount by which the cumulative eligible capital of the taxpayer in respect of the business is required to be reduced at or before that time because of subsection 80(7);

Q is the amount, if any, by which

(*a*) the total of all amounts deducted under paragraph 20(1)(*b*) in computing the taxpayer's income from the business for taxation years ending before the taxpayer's adjustment time

exceeds

(*b*) the total of all amounts included under subsection (1) in computing the taxpayer's income for taxation years ending before the taxpayer's adjustment time, and

R is the total of all amounts included, in computing the taxpayer's income from the business for taxation years that ended before that time and after the taxpayer's adjustment time, under subparagraph (1)(*a*)(iv) in respect of taxation years that ended before February 28, 2000 and under paragraph (1)(*a*) in respect of taxation years that end after February 27, 2000;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The description of R in the definition "cumulative eligible capital" in subsection 14(5) of the Act is replaced by the following:

R is the total of all amounts each of which is an amount included, in computing the taxpayer's income from the business for a taxation year that ended before that time and after the taxpayer's adjustment time

(*a*) in the case of a taxation year that ends after February 27, 2000, under paragraph (1)(*a*), or

(*b*) in the case of a taxation year that ended before February 28, 2000,

(i) under subparagraph (1)(*a*)(iv), as that subparagraph applied in respect of that taxation year, or

(ii) under paragraph (1)(*b*), as that paragraph applied in respect of that taxation year, to the extent that the amount so included is in respect of an amount included in the amount determined for P;

Applicable: To taxation years that end after February 27, 2000.

Explanatory Note: See the Explanatory Note following the amendment to the description of A in the definition "cumulative eligible capital" in subsection 14(5).

History: S. 14(5), the description of E in the definition "cumulative eligible capital" was replaced by S.C. 2007, c. 2, s. 3(6), applicable to amounts that become receivable on or after May 2, 2006, except that it does not apply to an amount that became receivable by a taxpayer before August 31, 2006 if the taxpayer so elects by filing with the Minister of National Revenue an election in writing on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes August 31, 2006. S. 14(5), the description of E in the definition "cumulative eligible capital" formerly read:

"E is the total of all amounts each of which is 3/4 of the amount, if any, by which

(*a*) an amount which, as a result of a disposition occurring after the taxpayer's adjustment time and before that time, the taxpayer has or may

become entitled to receive, in respect of the business carried on or formerly carried on by the taxpayer where the consideration given by the taxpayer therefor was such that, if any payment had been made by the taxpayer after 1971 for that consideration, the payment would have been an eligible capital expenditure of the taxpayer in respect of the business

exceeds

(*b*) all outlays and expenses to the extent that they were not otherwise deductible in computing the taxpayer's income and were made or incurred by the taxpayer for the purpose of giving that consideration, and"

S. 14(5), the description of B in the definition "cumulative eligible capital" was amended by S.C. 2001, c. 17, s. 7(4), applicable to taxation years that end after February 27, 2000. S. 14(5), the description of B in the definition "cumulative eligible capital" formerly read:

"B is the total of

(*a*) all amounts each of which is the amount that would have been included under subparagraph (1)(*a*)(v) in computing the taxpayer's income from the business for a taxation year that ended before that time and after February 22, 1994 if the amount determined for D in that subparagraph for the year were nil,

(*b*) all amounts included under paragraph (1)(*b*) in computing the taxpayer's income from the business for taxation years that ended before that time and after the taxpayer's adjustment time, and

(*c*) all taxable capital gains included, because of the application of subparagraph (1)(*a*)(v) to the taxpayer in respect of the business, in computing the taxpayer's income for taxation years that began before February 23, 1994."

S. 14(5), the description of R in the definition "cumulative eligible capital" was amended by S.C. 2001, c. 17, s. 7(5), applicable to taxation years that end after February 27, 2000. S. 14(5), the description of R in the definition "cumulative eligible capital" formerly read:

"R is the total of all amounts included under subparagraph (1)(*a*)(iv) in computing the taxpayer's income from the business for taxation years ending before that time and after the taxpayer's adjustment time;"

S. 14(5), the second formula in the definition "cumulative eligible capital", was amended by S.C. 1995, c. 21, s. 3(1), applicable to taxation years that end after February 21, 1994. That formula formerly read:

"(P + Q) – R"

S. 14(5), the description of P.1 in the definition "cumulative eligible capital", was added by S.C. 1995, c. 21, s. 3(2), applicable to taxation years that end after February 21, 1994.

S. 14(5), the description of B in the definition "cumulative eligible capital" was amended by S.C. 1995, c. 3, s. 5(2), applicable to fiscal periods that end after February 22, 1994 otherwise than because of an election under subsection 25(1) of the Act. That description formerly read:

"B is the total of all amounts deemed by subparagraph (1)(*a*)(v) to have been a taxable capital gain of the taxpayer from a disposition of capital property and all amounts included by reason of paragraph (1)(*b*) in computing the taxpayer's income from the business for taxation years ending before that time and after the taxpayer's adjustment time,"

S. 14(5), the first formula in the definition "cumulative eligible capital" was amended by S.C. 1994, c. 7, Sched. II, s. 10(3) and the description D.1 was added by S.C. 1994, c. 7, Sched. II, s. 10(3.1), applicable

(*a*) in the case of a corporation, to taxation years beginning after June 1988; and

(*b*) in any other case, to fiscal periods beginning after 1987.

S. 14(5), the first formula in the definition of "cumulative eligible capital" formerly read:

"(A + B + C + D) – (E + F)"

Related Sections: S. 20(4.2) Bad debts re eligible capital property; s. 24(1) Ceasing to carry on business; s. 87(2)(*f*) Eligible capital property; s. 87(2)(*f*.1) Idem.

Interpretation Bulletins: *Secondary* — IT-143R3 Meaning of eligible capital expenditure; IT-330R Dispositions of capital property subject to warranty, covenant, or other conditional or contingent obligations [Archived by the CRA]; IT-365R2 Damages, settlement, and similar receipts.

Forms: T2 SCH 10.

Tax Topics: No. 1855, Amendment to Cumulative Eligible Capital Definition Negates Mirror Image Test.

"eligible capital expenditure" — "eligible capital expenditure" of a taxpayer in respect of a business means the portion of any outlay or expense made or incurred by the taxpayer, as a result of a transaction occurring after 1971, on account of capital for the purpose of gaining or producing income from the business, other than any such outlay or expense

(*a*) in respect of which any amount is or would be, but for any provision of this Act limiting the quantum of any deduction, deductible (otherwise than under paragraph 20(1)(*b*)) in computing the taxpayer's income from the business, or in respect of which any amount is, by virtue of any provision of this Act other than paragraph 18(1)(*b*), not deductible in computing that income,

(*b*) made or incurred for the purpose of gaining or producing income that is exempt income, or

(*c*) that is the cost of, or any part of the cost of,

(i) tangible property of the taxpayer,

(ii) intangible property that is depreciable property of the taxpayer,

(iii) property in respect of which any deduction (otherwise than under paragraph 20(1)(*b*)) is permitted in computing the taxpayer's income from the business or would be so permitted if the taxpayer's income from the business were sufficient for the purpose, or

(iv) an interest in, or right to acquire, any property described in any of subparagraphs (i) to (iii)

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*c*) of the definition "eligible capital expenditure" in subsection 14(5) of the Act is replaced by the following:

(*c*) that is the cost of, or any part of the cost of,

(i) tangible property, or for civil law corporeal property, of the taxpayer,

(ii) intangible property, or for civil law incorporeal property, that is depreciable property of the taxpayer,

(iii) property in respect of which any deduction (otherwise than under paragraph 20(1)(*b*)) is permitted in computing the taxpayer's income from the business or would be so permitted if the taxpayer's income from the business were sufficient for the purpose, or

(iv) an interest in, or for civil law a right in, or a right to acquire any property described in any of subparagraphs (i) to (iii)

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

but, for greater certainty and without restricting the generality of the foregoing, does not include any portion of

(*d*) any amount paid or payable to any creditor of the taxpayer as, on account or in lieu of payment of any debt or as or on account of the redemption, cancellation or purchase of any bond or debenture,

(*e*) where the taxpayer is a corporation, any amount paid or payable to a person as a shareholder of the corporation, or

(*f*) any amount that is the cost of, or any part of the cost of,

(i) an interest in a trust,

(ii) an interest in a partnership,

(iii) a share, bond, debenture, mortgage, hypothecary claim, note, bill or other similar property, or

(iv) an interest in, or right to acquire, any property described in any of subparagraphs (i) to (iii);

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph (*f*)(iv) of the definition "eligible capital expenditure" in subsection 14(5) of the Act is replaced by the following:

(iv) an interest in, or for civil law a right in, or a right to acquire any property described in any of subparagraphs (i) to (iii).

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

History: S. 14(5), subparagraph (*f*)(iii) of the definition "eligible capital expenditure" was amended by S.C. 2001, c. 17, s. 197(1), applicable on Royal Assent, June 14, 2001. S. 14(5), subparagraph (*f*)(iii) of the definition "eligible capital expenditure" formerly read:

"(iii) a share, bond, debenture, mortgage, note, bill or other similar property, or"

Interpretation Bulletins: *Primary* — IT-143R3 Meaning of eligible capital expenditure. *Secondary* — IT-104R3 Deductibility of Fines or Penalties; IT-187 Customer lists and ledger accounts; IT-341R4 Expenses of issuing or selling shares, units in a trust, interests in a partnership or syndicate and expenses of borrowing money; IT-364 Commencement of business operations; IT-467R2 Damages, settlements and similar payments; IT-482R Pipelines.

Canadian Petroleum Tax Journal: Canada Customs and Revenue Agency 1999 Roundtable Questions and Answers, Question 2, Vol. 13 No. 1 2000.

Cases: The taxpayer's predecessor corporations received consideration for setting aside non-competition agreements. The agreements were eligible capital property and setting them aside was a disposition of that property. If they had made the payments, rather than having received them, they would have incurred an eligible capital expenditure. Therefore, the payments were included in income under s. 14(1). *RCI Environnement Inc. v. The Queen,* 2009 DTC 5037 (F.C.A.), affirming 2008 DTC 2277 (T.C.C.).

The city expropriated the land and building in which the taxpayer carried on its business. The city paid the taxpayer $12 million, of which $9 million was damages to compensate for the inability to relocate its business. Since the city did not pay the $9 million for the purposes of earning income from a business, it was not an eligible capital expenditure and was therefore a non-taxable capital receipt in the taxpayer's hands. *The Queen v. Toronto Refiners and Smelters Limited,* 2003 DTC 5002 (F.C.A.), affirming 2001 DTC 876 (T.C.C.).

"*exempt gains balance*" — "exempt gains balance" of an individual in respect of a business of the individual for a taxation year means the amount determined by the formula

A – B

where

A is the lesser of

(*a*) the amount by which

(i) the amount that would have been the individual's taxable capital gain determined under paragraph 110.6(19)(*b*) in respect of the business if

(A) the amount designated in an election under subsection 110.6(19) in respect of the business were equal to the fair market value at the end of February 22, 1994 of all the eligible capital property owned by the elector at that time in respect of the business, and

(B) this Act were read without reference to subsection 110.6(20)

exceeds

(ii) the amount determined by the formula

0.75(C – 1.1D)

where

C is the amount designated in the election that was made under subsection 110.6(19) in respect of the business, and

D is the fair market value at the end of February 22, 1994 of the property referred to in clause (i)(A), and

(*b*) the individual's taxable capital gain determined under paragraph 110.6(19)(*b*) in respect of the business, and

B is the total of all amounts each of which is the amount determined for D in subparagraph (1)(*a*)(v) in respect of the business for a preceding taxation year that ended before February 28, 2000 or the amount determined for D in paragraph (1)(*b*) for a preceding taxation year that ended after February 27, 2000.

History: S. 14(5), the description of B in the definition "exempt gains balance" was amended by S.C. 2001, c. 17, s. 7(6), applicable to taxation years that end after February 27, 2000. S. 14(5), the description of B in the definition "exempt gains balance" formerly read:

"B is the total of all amounts each of which is the amount determined for D in subparagraph (1)(*a*)(v) in respect of the business for a preceding taxation year."

S. 14(5), the definition "exempt gains balance" was added by S.C. 1995, c. 3, s. 5(3), applicable to fiscal periods that end after February 22, 1994 otherwise than because of an election under subsection 25(1) of the Act.

Interpretation Bulletins: *Secondary* — IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 14 of the Act is amended by adding the following after subsection (5):

(5.1) Restrictive covenant amount. The description of E in the definition "cumulative eligible capital" in subsection (5) does not apply to an amount that is received or receivable by a taxpayer in a taxation year if that amount is required to be included in the taxpayer's income because of subsection 56.4(2).

Applicable: After October 7, 2003.

Explanatory Note:

Restrictive Covenant Amount

New subsection 14(5.1) of the Act provides that the description E of the definition "cumulative eligible capital" in subsection 14(5) does not apply to an amount if the amount is required to be included in the taxpayer's income because of subsection 56.4(2). However, subsection 56.4(2) does not apply to an amount if paragraph 56.4(3)(*b*) applies to the amount, in which case the amount may be a cumulative eligible capital receipt for the purposes of applying section 14. As well, if new subparagraph 56.4(7)(*d*)(i) or (ii) applies, consideration that could reasonably be regarded as being for the restrictive covenant granted by a taxpayer for nil proceeds may be — depending on the circumstances — a goodwill amount (as defined by new subsection 56.4(1)) that is to be included in computing the cumulative eligible capital of the taxpayer, or the taxpayer's eligible corporation (as defined by new subsection 56.4(1)). New

section 56.4 is more fully described below in the notes accompanying that provision.

New subsection 14(5.1) is consequential to the rules for restrictive covenant amounts as set out in new section 56.4, and applies after October 7, 2003.

► 14(6) ◄

(6) Exchange of property. Where in a taxation year (in this subsection referred to as the "initial year") a taxpayer disposes of an eligible capital property (in this section referred to as the taxpayer's "former property") and the taxpayer so elects under this subsection in the taxpayer's return of income for the year in which the taxpayer acquires an eligible capital property that is a replacement property for the taxpayer's former property, such amount, not exceeding the amount that would otherwise be included in the amount determined for E in the definition "cumulative eligible capital" in subsection (5) (if the description of E in that definition were read without reference to "3/4 of") in respect of a business, as has been used by the taxpayer before the end of the first taxation year after the initial year to acquire the replacement property

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 14(6) of the Act before paragraph (a) is replaced by the following:

(6) Exchange of property. If in a taxation year (in this subsection referred to as the "initial year") a taxpayer disposes of an eligible capital property (in this section referred to as the taxpayer's "former property") and the taxpayer so elects under this subsection in the taxpayer's return of income for the year in which the taxpayer acquires an eligible capital property that is a replacement property for the taxpayer's former property, the amount, not exceeding the amount that would otherwise be included in the amount determined for E in the definition "cumulative eligible capital" in subsection (5) (if the description of E in that definition were read without reference to "3/4 of") in respect of a business, that has been used by the taxpayer to acquire the replacement property before the later of the end of the first taxation year after the initial year and 12 months after the end of the initial year

Applicable: In respect of dispositions that occur in taxation years that end on or after December 20, 2001.

Explanatory Note:

Exchange of Property

Where a taxpayer has disposed of an eligible capital property in a taxation year and has acquired a replacement eligible capital property before the end of the subsequent taxation year, subsection 14(6) of the Act allows the taxpayer to elect to defer the inclusion of an amount in income under subsection 14(1) of the Act that would normally result from a negative balance in the taxpayer's cumulative eligible capital account at the end of the year of disposition.

Subsection 14(6) is amended to accommodate taxation years that are shorter than 12 months, by providing that the period for acquiring a replacement property ends at the later of the end of the subsequent taxation year and the time that is 12 months after the end of the taxation year in which the property was disposed of. This amendment applies in respect of dispositions of eligible capital property that occur in taxation years that end on or after December 20, 2001.

(*a*) shall, subject to paragraph (*b*), not be included in the amount determined for E in that definition for the purpose of determining the cumulative eligible capital of the taxpayer in respect of the business; and

(*b*) shall, to the extent of 3/4 thereof, be included in the amount determined for E in that definition for the purpose of determining the cumulative eligible capital of the taxpayer in respect of the business at a time that is the later of

(i) the time the replacement property was acquired by the taxpayer, and

(ii) the time the former property was disposed of by the taxpayer.

History: S. 14(6), the portion before paragraph (*a*), was amended by S.C. 1998, c. 19, s. 74(3), applicable to dispositions of former properties that occur after the 1993 taxation year. S. 14(6), the portion before paragraph (*a*), formerly read:

"(6) *Exchange of property.* Where in a taxation year (in this subsection referred to as the 'initial year') a taxpayer has disposed of an eligible capital property (in this section referred to as the taxpayer's 'former property'), if the taxpayer so elects under this subsection in the taxpayer's return of income under this Part for the year in which the taxpayer acquires, as a replacement property for the taxpayer's former property, an eligible capital property (in this section referred to as a 'replacement property'), such amount not exceeding the amount that would otherwise be included in the amount determined for E in the definition 'cumulative eligible capital' in subsection (5) (if the description of E in that definition were read without reference to '3/4 of') in respect of a business as has been used by the taxpayer before the end of the first taxation year following the initial year to acquire the replacement property"

Related Sections: S. 14(7) Replacement property; s. 220(3.2) Late, amended or revoked elections.
Regulations: 600(b).
Interpretation Bulletins: *Primary* — IT-259R4 Exchange of property; *Secondary* — IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].
Information Circulars: IC 07-1 Taxpayer Relief Provisions.
Tax Profile: July 2003 — The Replacement Property Rules.

► 14(7) ◄

(7) Replacement property. For the purposes of subsection (6), a particular eligible capital property of a taxpayer is a replacement property for a former property of the taxpayer if

(*a*) it is reasonable to conclude that the property was acquired by the taxpayer to replace the former property;

(*a*.1) it was acquired by the taxpayer for a use that is the same as or similar to the use to which the taxpayer put the former property;

(*b*) it was acquired for the purpose of gaining or producing income from the same or a similar business as that in which the former property was used; and

(*c*) where the former property was used by the taxpayer in a business carried on in Canada, the particular property was acquired for use by the taxpayer in a business carried on by the taxpayer in Canada.

History: S. 14(7)(*a*) was amended by S.C. 1998, c. 19, s. 74(4), applicable to dispositions of former properties that occur after the 1993 taxation year. S. 14(7)(*a*) formerly read:

"(*a*) it was acquired by the taxpayer for the same or a similar use as the use to which the taxpayer put the former property;"

S. 14(7)(*a*.1) was added by S.C. 1998, c. 19, s. 74(4), applicable to dispositions of former properties that occur after the 1993 taxation year.

S. 14(7)(*c*) was amended by S.C. 1994, c. 7, Sched. II, s. 10(4), applicable to property acquired as a replacement for a former property disposed of after April 2, 1990, other than a former property disposed of

(*a*) under an agreement in writing entered into before April 3, 1990; or

(*b*) pursuant to a written notice of an intention to take the property under statutory authority given before April 3, 1990 or for the sale price of the property sold to a person by whom such a notice was given before April 3, 1990.

S. 14(7)(*c*) formerly read:

"(*c*) where the taxpayer was not resident in Canada at the time the taxpayer acquired the particular property, in addition to the requirements in

paragraphs (*a*) and (*b*), the particular property was acquired for use by the taxpayer in a business carried on by the taxpayer in Canada."

Related Sections: S. 13(2) Recaptured depreciation for passenger vehicle; s. 54, "eligible capital property"; s. 61(2) Income-averaging annuity — eligible income; s. 248(1), "amount", "business", "corporation", "fiscal period", "individual", "shareholder"; and ITAR s. 21(1) Goodwill and other nothings.

Interpretation Bulletins: *Primary* — IT-259R4 Exchange of property. *Secondary* — IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].

► 14(8) ◄

(8) Deemed residence in Canada. Where an individual was resident in Canada at any time in a particular taxation year and throughout

(*a*) the preceding taxation year, or

(*b*) the following taxation year,

for the purpose of paragraph (1)(*a*), the individual shall be deemed to have been resident in Canada throughout the particular year.

History: S. 14(8) was added by S.C. 1994, c. 21, s. 8(1), applicable to the 1988 and subsequent taxation years.

Interpretation Bulletins: *Secondary* — IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].

► 14(9) ◄

(9) Effect of election under subsection 110.6(19). Where an individual elects under subsection 110.6(19) in respect of a business, the individual shall be deemed to have received proceeds of a disposition on February 23, 1994 of eligible capital property in respect of the business equal to the amount determined by the formula

$$(A - B) \frac{4}{3}$$

where

A is the amount determined in respect of the business under subparagraph (*a*)(ii) of the description of A in the definition "exempt gains balance" in subsection (5), and

B is the amount determined in respect of the business under subparagraph (*a*)(i) of the description of A in the definition "exempt gains balance" in subsection (5).

History: S. 14(9) was added by S.C. 1995, c. 3, s. 5(4), applicable to fiscal periods that end after February 22, 1994 otherwise than because of an election under subsection 25(1) of the Act.

Interpretation Bulletins: *Secondary* — IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].

► 14(10) ◄

(10) Deemed eligible capital expenditure. For the purposes of this Act, where a taxpayer received or is entitled to receive assistance from a government, municipality or other public authority in respect of, or for the acquisition of, property the cost of which is an eligible capital expenditure of the taxpayer in respect of a business, whether as a grant, subsidy, forgivable loan, deduction from tax, investment allowance or as any other form of assistance, that eligible capital expenditure shall at any time be deemed to be the amount, if any, by which the total of

(*a*) that eligible capital expenditure, determined without reference to this subsection, and

(*b*) such part, if any, of the assistance as the taxpayer repaid before

(i) the taxpayer ceased to carry on the business, and

(ii) that time

under a legal obligation to pay all or any part of the assistance

exceeds

(*c*) the amount of the assistance the taxpayer received or is entitled to receive before the earlier of that time and the time the taxpayer ceases to carry on the business.

History: S. 14(10) was added by S.C. 1995, c. 21, s. 3(3), applicable to assistance that a taxpayer receives or becomes entitled to receive after February 21, 1994 and repayments of such assistance.

Interpretation Bulletins: *Secondary* — IT-273R2 Government assistance — General comments; IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].

► 14(11) ◄

(11) Receipt of public assistance. For the purpose of subsection (10), where at any time a taxpayer who is a beneficiary under a trust or a member of a partnership received or is entitled to receive assistance from a government, municipality or other public authority, whether as a grant, subsidy, forgivable loan, deduction from tax, investment allowance or as any other form of assistance, the amount of the assistance that can reasonably be considered to be in respect of, or for the acquisition of, property the cost of which was an eligible capital expenditure of the trust or partnership shall be deemed to have been received at that time by the trust or partnership, as the case may be, as assistance from the government, municipality or other public authority for the acquisition of such property.

History: S. 14(11) was added by S.C. 1995, c. 21, s. 3(3), applicable to assistance that a taxpayer receives or becomes entitled to receive after February 21, 1994 and repayments of such assistance.

Interpretation Bulletins: *Secondary* — IT-273R2 Government assistance — General comments; IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].

► 14(12) ◄

(12) Loss on certain transfers. Where

(*a*) a corporation, trust or partnership (in this subsection referred to as the "transferor") disposes at any time in a taxation year of a particular eligible capital property in respect of a business of the transferor in respect of which it would, but for this subsection, be permitted a deduction under paragraph 24(1)(*a*) as a consequence of the disposition, and

(*b*) during the period that begins 30 days before and ends 30 days after the disposition, the transferor or a person affiliated with the transferor acquires a property (in this subsection referred to as the "substituted property") that is, or is identical to, the particular property and, at the end of that period, a person or partnership that is either the transferor or a person or partnership affiliated with the transferor owns the substituted property,

the transferor is deemed, for the purposes of this section and sections 20 and 24, to continue to own eligible capital property in respect of the business, and not to have ceased to carry on the business, until the time that is immediately before the first time, after the disposition,

(*c*) at which a 30-day period begins throughout which neither the transferor nor a person affiliated with the transferor owns

(i) the substituted property, or

(ii) a property that is identical to the substituted property and that was acquired after the day that is 31 days before the period begins,

(*d*) at which the substituted property is not eligible capital property in respect of a business carried on

by the transferor or a person affiliated with the transferor,

(*e*) at which the substituted property would, if it were owned by the transferor, be deemed by section 128.1 or subsection 149(10) to have been disposed of by the transferor,

(*f*) that is immediately before control of the transferor is acquired by a person or group of persons, where the transferor is a corporation, or

(*g*) at which the winding-up of the transferor begins (other than a winding-up to which subsection 88(1) applies), where the transferor is a corporation.

History: S. 14(12) was added by S.C. 1998, c. 19, s. 74(5), applicable subject to section 247 of this Bill (see Application below) to dispositions of property that occur after April 26, 1995.

Sec. 247, Chap. 19, 1998

247. [*Exception to coming-into-force.*]

(1) Subsections 73(4), 74(5), subsection 18(13) of the Act, as enacted by subsection 79(2) and subsections 89(1), (2) and (6), 94(1) and (2), 95(1), 116(3) to (5), 120(1) and 124(1) and (2) do not apply to the disposition of property by a person or partnership (in this subsection and subsection (2) referred to as the "transferor") that occurred before 1996

(*a*) to a person who was obliged on April 26, 1995 to acquire the property pursuant to the terms of an agreement in writing made on or before that day; or

(*b*) in a transaction, or as part of a series of transactions, the arrangements for which, evidenced in writing, were substantially advanced before April 27, 1995, other than a transaction or series a main purpose of which can reasonably be considered to have been to enable an unrelated person to obtain the benefit of

(i) any deduction in computing income, taxable income, taxable income earned in Canada or tax payable under the Act, or

(ii) any balance of undeducted outlays, expenses or other amounts.

(2) Election. Notwithstanding subsection (1), subsection 18(13) of the Act, as enacted by subsection 79(2), and the other subsections of this Act referred to in subsection (1) apply to a disposition in respect of which the transferor has filed with the Minister of National Revenue before the end of the third month after the month in which this Act is assented to [Royal Assent June 18, 1998] an election in writing to have those subsections apply.

(3) Interpretation. For the purpose of subsection (1),

(*a*) a person shall be considered not to be obliged to acquire property where the person can be excused from the obligation if there is a change to the Act or if there is an adverse assessment under the Act;

(*b*) an "unrelated person" means any person who was not, or a partnership any member of which was not, related (otherwise than because of paragraph 251(5)(*b*) of the Act) to the transferor at the time of the disposition; and

(*c*) a person is deemed to be related to a partnership of which that person is a majority interest partner.

Editorial Note: Similar stop-loss rules are found in subsection 13(21.2) for dispositions of depreciable capital property, subsection 18(15) for property held in an adventure or concern in the nature of trade, and subsection 40(3.4) for non-depreciable capital property.

Related Sections: S. 256(7) Acquiring control; s. 256(8) Deemed exercise of right.

Interpretation Bulletins: *Secondary* — IT-291R3 Transfer of property to a corporation under subsection 85(1).

Tax Profile: May 2004 — The Stop-Loss Rules.

► 14(13) ◄

(13) Deemed identical property. For the purpose of subsection (12),

(*a*) a right to acquire a property (other than a right, as security only, derived from a mortgage, hypothec, agreement for sale or similar obligation) is deemed to be a property that is identical to the property; and

(*b*) where a partnership otherwise ceases to exist at any time after the disposition, the partnership is deemed not to have ceased to exist and each person who, immediately before the partnership would, but for this paragraph, have ceased to exist, was a member of the partnership is deemed to remain a member of the partnership, until the time that is immediately after the first time described in paragraphs (12)(*c*) to (*g*).

History: S. 14(13)(*a*) was amended by S.C. 2001, c. 17, s. 197(2), applicable on Royal Assent, June 14, 2001. S. 14(13)(*a*) formerly read:

"(*a*) a right to acquire a property (other than a right, as security only, derived from a mortgage, agreement for sale or similar obligation) is deemed to be a property that is identical to the property; and"

S. 14(13) was added by S.C. 1998, c. 19, s. 74(5), applicable subject to section 247 of this Bill (see Application below) to dispositions of property that occur after April 26, 1995.

Sec. 247, Chap. 19, 1998

247. [*Exception to coming-into-force.*]

(1) Subsections 73(4), 74(5), subsection 18(13) of the Act, as enacted by subsection 79(2) and subsections 89(1), (2) and (6), 94(1) and (2), 95(1), 116(3) to (5), 120(1) and 124(1) and (2) do not apply to the disposition of property by a person or partnership (in this subsection and subsection (2) referred to as the "transferor") that occurred before 1996

(*a*) to a person who was obliged on April 26, 1995 to acquire the property pursuant to the terms of an agreement in writing made on or before that day; or

(*b*) in a transaction, or as part of a series of transactions, the arrangements for which, evidenced in writing, were substantially advanced before April 27, 1995, other than a transaction or series a main purpose of which can reasonably be considered to have been to enable an unrelated person to obtain the benefit of

(i) any deduction in computing income, taxable income, taxable income earned in Canada or tax payable under the Act, or

(ii) any balance of undeducted outlays, expenses or other amounts.

(2) Election. Notwithstanding subsection (1), subsection 18(13) of the Act, as enacted by subsection 79(2), and the other subsections of this Act referred to in subsection (1) apply to a disposition in respect of which the transferor has filed with the Minister of National Revenue before the end of the third month after the month in which this Act is assented to [Royal Assent June 18, 1998] an election in writing to have those subsections apply.

(3) Interpretation. For the purpose of subsection (1),

(*a*) a person shall be considered not to be obliged to acquire property where the person can be excused from the obligation if there is a change to the Act or if there is an adverse assessment under the Act;

(*b*) an "unrelated person" means any person who was not, or a partnership any member of which was not, related (otherwise than because of paragraph 251(5)(*b*) of the Act) to the transferor at the time of the disposition; and

(*c*) a person is deemed to be related to a partnership of which that person is a majority interest partner.

► 14(14) ◄

(14) Ceasing to use property in Canadian business. If at a particular time a non-resident taxpayer ceases to use, in connection with a business or part of a business carried on by the taxpayer in Canada immediately before the particular time, a property that was immediately before the particular time eligible capital property of the taxpayer (other than a property that was disposed of by the taxpayer at the particular time), the taxpayer is deemed to have disposed of the property immediately before the particular time for proceeds of disposition equal to the amount determined by the formula

$$A - B$$

where

A is the fair market value of the property immediately before the particular time, and

B is

(*a*) where at a previous time before the particular time the taxpayer ceased to use the property in connection with a business or part of a business carried on by the taxpayer outside Canada and began to use it in connection with a business or part of a business carried on by the taxpayer in Canada, the amount, if any, by which the fair market value of the property at the previous time exceeded its cost to the taxpayer at the previous time, and

(*b*) in any other case, nil.

History: S. 14(14) was added by S.C. 2001, c. 17, s. 7(7), applicable after June 27, 1999 in respect of an authorized foreign bank, and after August 8, 2000 in any other case.

Related Sections: S. 10(12) Removing property from inventory; s. 142.6(1.1) Ceasing to use property in Canadian business; s. 248(1), "taxable Canadian property".

► 14(15) ◄

(15) Beginning to use property in Canadian business. If at a particular time a non-resident taxpayer ceases to use, in connection with a business or part of a business carried on by the taxpayer outside Canada immediately before the particular time, and begins to use, in connection with a business or part of a business carried on by the taxpayer in Canada, a property that is an eligible capital property of the taxpayer, the taxpayer is deemed to have disposed of the property immediately before the particular time and to have reacquired the property at the particular time for consideration equal to the lesser of the cost to the taxpayer of the property immediately before the particular time and its fair market value immediately before the particular time.

History: S. 14(15) was added by S.C. 2001, c. 17, s. 7(7), applicable after June 27, 1999 in respect of an authorized foreign bank, and after August 8, 2000 in any other case.

Related Sections: S. 10(14) Work in progress; s. 142.6(1.2) Beginning to use property in a Canadian business.

SECTION 15:

► 15(1) ◄

(1) Benefit conferred on shareholder. Where at any time in a taxation year a benefit is conferred on a shareholder, or on a person in contemplation of the person becoming a shareholder, by a corporation otherwise than by

(*a*) the reduction of the paid-up capital, the redemption, cancellation or acquisition by the corporation of shares of its capital stock or on the winding-up, discontinuance or reorganization of its business, or otherwise by way of a transaction to which section 88 applies,

(*b*) the payment of a dividend or a stock dividend,

(*c*) conferring, on all owners of common shares of the capital stock of the corporation at that time, a right in respect of each common share, that is identical to every other right conferred at that time in respect of each other such share, to acquire additional shares of the capital stock of the corporation, and, for the purpose of this paragraph,

(i) where

(A) the voting rights attached to a particular class of common shares of the capital stock of a corporation differ from the voting rights attached to another class of common shares of the capital stock of the corporation, and

(B) there are no other differences between the terms and conditions of the classes of shares that could cause the fair market value of a share of the particular class to differ materially from the fair market value of a share of the other class,

the shares of the particular class shall be deemed to be property that is identical to the shares of the other class, and

(ii) rights are not considered identical if the cost of acquiring the rights differs, or

(*d*) an action described in paragraph 84(1)(*c*.1), (*c*.2) or (*c*.3),

the amount or value thereof shall, except to the extent that it is deemed by section 84 to be a dividend, be included in computing the income of the shareholder for the year.

History: S. 15(1)(*c*) was amended by S.C. 1994, c. 21, s. 9(1), applicable to benefits conferred after December 19, 1991. S. 15(1)(*c*) formerly read:

"(*c*) conferring, on all owners of common shares of the capital stock of the corporation at that time, a right in respect of each common share, that is identical to every other right conferred at that time in respect of each other such share, to acquire additional shares of the capital stock of the corporation, and for the purpose of this paragraph, rights shall not be considered identical if the cost of acquiring the rights differs, or"

S. 15(1), the portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 5(1), applicable to benefits conferred on or after December 20, 1991. That portion formerly read:

"(1) Where, in a taxation year, a benefit has been conferred on a shareholder, or on a person in contemplation of the person's becoming a shareholder, by a corporation otherwise than by"

S. 15(1)(*c*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 5(2), applicable to benefits conferred on or after December 20, 1991. S. 15(1)(*c*) formerly read:

"(*c*) conferring on all owners of common shares of the capital stock of the corporation a right to buy additional shares thereof, or"

S. 15(1)(*b*) was amended by S.C. 1994, c. 7, Sched. II, s. 11(1), applicable to benefits conferred after June 1988. S. 15(1)(*b*) formerly read:

"(*b*) the payment of a dividend,"

Editorial Note: The shareholder benefit under subsection 15(1) is included as ordinary income and not as a dividend, such that the dividend tax credit (individual shareholder) and the inter-corporate deduction (corporate shareholder) are not applicable. The corporation will not normally be allowed a deduction on account of the benefit. Unlike the shareholder loan inclusion rules (subsection 15(2) and paragraph 20(1)(*j*)), there is no offsetting provision that allows the shareholder to deduct a repayment of the benefit.

Related Sections: S. 7(3) Special provision; s. 51(1) Convertible property; s. 52(1) Cost of certain property the value of which included in income; s. 69(4) Shareholder appropriations; s. 69(5) Winding-up of corporation; s. 79(3) Proceeds of disposition for debtor; s. 79(5) Subsequent application with respect to employee or shareholder debt; s. 80(1), "forgiven amount"; s. 80(2) Application of debt forgiveness rules; s. 80.4(2) Loan or debt by virtue of shareholding; s. 84(1)–(5) Deemed dividend; s. 85(1) Transfer of property to corporation by shareholders; s. 86(1) Exchange of shares by a shareholder in course of reorganization of capital; s. 120.4 Tax on split income; s. 139.1(11) No shareholder benefit; s. 214(3) Deemed payments; s. 246(1) Benefit conferred on a person; s. 248(1), "share", "shareholder"; s. 249(1) Definition of "taxation year".

Interpretation Bulletins: *Primary* — IT-116R3 Right to buy additional shares; IT-432R2 Benefits conferred on shareholders; *Secondary* — IT-63R5 Benefits, including standby charge for an automobile, from the personal use of a motor vehicle supplied by an employer — After 1992; IT-96R6 Options granted by corporations to acquire shares, bonds or debentures; IT-160R3 Personal use of aircraft; IT-169 Price adjustment clauses; IT-256R Gains from theft, defalcation or embezzlement; IT-291R3 Transfer of property to a corporation under subsection 85(1); IT-335R2 Indirect payments; IT-357R2 Expenses of training.

Information Circulars: IC 76-19R3 Transfer of property to a corporation under section 85; IC 87-2R International Transfer Pricing.

Advance Tax Rulings: ATR-9 Transfer of personal residence from corporation to its controlling shareholder; ATR-14 Non-arm's length interest charges; ATR-27 Exchange and acquisition of interests in capital properties through rollovers and winding-up ("Butterfly"); ATR-29 Amalgamation of social clubs; ATR-35 Partitioning of assets to get specific ownership — "Butterfly"; ATR-36 Estate freeze.

Income Tax Technical News: Issue No. 32, New Administrative Policy on Single-Purpose Corporations; Issue No. 31R2, Single-Purpose Corporations; Issue No. 25, Dividend Reinvestment Plans.

Forms: T2 SCH 11.

Tax Topics: No. 1700, 2004 Canadian Tax Foundation Conference — CRA Round Table.

Tax Profile: September 2006 — Canadian Acquisition of U.S. Real Estate; November 2004 — New Administrative Policy on Single-Purpose Corporations; May 2004 — Ownership of U.S. Residential Property by Canadian Residents; December 2000 — Preferred Share Design: Tax Free Reorganizations and Benefit Conferrals.

Canadian Tax Foundation: Goldberg, "Single-Purpose and Professional Corporations Recent Developments", *2005 Conference Report*, 11:1; Heddema, "Section 15 Shareholder Benefits: A Review and Update", *2004 British Columbia Tax Conference*, 12:1.

Tax Window Files: Wage Loss Replacement Plan — Employee-Shareholder Beneficiaries, February 12, 2007, CRA Document No. 2006-0214141E5; Automobile Used by Shareholder's Spouse, January 4, 2007, CRA Document No. 2006-0187051E5; Shareholders' Benefits — Critical Illness Insurance, November 3, 2006, CRA Document No.

2006-0178561E5; Private Health Services Plan for Shareholder-Employee, October 19, 2006, CRA Document No. 2006-020495117; Transfer of Life Insurance Policy Between Related Corporations, October 6, 2006, CRA Document No. 2006-0197211C6; Single Purpose Corporations, June 22, 2005, CRA Document No. 2005-0136421E5; Transfer of Life Insurance Policy for No Consideration, April 4, 2005, CRA Document No. 2005-0110941E5; Shareholders' Benefits — Life Insurance Policy, June 29, 2004, CRA Document No. 2004-008190117 [For corporate-owned insurance policy on the life of a shareholder where the shareholder's spouse was the beneficiary, the shareholder benefit was based on the insurance premiums paid by the corporation and not the death benefit paid under the policy. However, if the corporation is the beneficiary, there is no shareholder benefit — see Document number 2004-007297117]; Shareholder Loans — Loan to Shareholder's Adult Child, March 23, 2004, CRA Document No. 2003-0049031E5; Repayment of Contributed Surplus, August 25, 2003, CRA Document No. 2003-0031585; Changes in Terms of Debt Obligation, March 26, 2003, CRA Document No. 2001-0105315 [Conversion of interest-bearing inter-corporate loan (from one subsidiary to another subsidiary) to a non-interest bearing loan does not generally result in a taxable benefit for the parent corporation]; Benefit Resulting from Issue of Shares, January 3, 2003, CRA Document No. 2002-0143965 [Taxable benefit conferred when a corporation's first share is issued for a nominal price after the corporation has carried on business and has accumulated value]; Cancellation of Shares vs. Reverse Stock Split, August 27, 2002, CRA Document No. 2002-0157745 [No income tax consequences in *pro rata* cancellation of shares in a reverse stock-split only if the change to the number of shares under the applicable corporate law does not result in a disposition of the shares]; Reimbursement of Stock Option Benefit, December 5, 2001, CRA Document No. 2001-0082983 [Reimbursement by foreign subsidiary to Canadian parent for shares issued under stock option plan not included in parent's income. But see Document No. 2002-0179805 regarding reimbursements of amounts accruing before the reimbursement agreement]; Reimbursement for Shares Issued under Stock Option Plan, September 18, 2000, CRA Document No. 2000-0029465 [Reimbursement by foreign subsidiary to Canadian parent for shares issued under stock option plan not included in parent's income. But see Document No. 2002-0179805 regarding reimbursements of amounts accruing before the reimbursement agreement]; Change to Dividend Rate, January 14, 1999, CRA Document No. 9828555

Cases: A release of claims under a guarantee did not constitute a shareholder's benefit since there were no quantifiable claims at the time the release was granted and all obligations under the guarantee were satisfied. *Axa Canada Inc. v. The Queen,* 2006 DTC 2198 (T.C.C.).

There was no shareholder's benefit where payments owed to a corporation were paid directly to a shareholder who then used the funds to acquire assets for the company. Although the transactions were not properly recorded in the corporation's financial statements, the taxpayer himself received no benefit. *The Queen v. Franklin,* 2002 DTC 6803 (F.C.A.), affirming 2000 DTC 2456 (T.C.C.).

Although certain expenses claimed by a family corporation were disallowed, they were not to be included in a shareholder's income since there was no evidence of an intent to confer a benefit, or that any benefit was actually conferred. Even if they could be construed as benefits, they should be allocated among all of the company's shareholders. *Robson et al. v. The Queen,* (T.C.C.) 2001 DTC 1039.

When a taxpayer did not know of the bookkeeping error resulting in the overstated credit balance in his shareholder loan account and did not attempt to use it for his own benefit or advantage, the amount was not to be included in his income since, in order for the value of a benefit to be included in a shareholder's income, it must be conferred with his knowledge or consent. *The Queen v. Chopp,* (F.C.A.) 98 DTC 6014, affirming (T.C.C.) 95 DTC 527.

The taxpayer's corporation purchased a condominium which was occupied by the taxpayer and his wife during part of the year. This gave rise to a shareholder's benefit, calculated on the assumption that the condominium had been acquired for personal use. The calculation was based on what the corporation could have earned on the money committed to the acquisition and renovation, not just on the fair rental value for the periods of personal use. It was calculated on the basis of what the taxpayer would have had to pay to get the same benefit from a company of which he was not a shareholder. *The Queen v. Fingold,* (F.C.A.) 97 DTC 5449, reversing (T.C.C.) 96 DTC 1305.

Payments made by a corporation to a taxpayer's divorced spouse constituted a shareholder benefit to the taxpayer. *Osadchuk v. The Queen,* (F.C.A.) 96 DTC 6083, affirming (T.C.C.) 95 DTC 98.

A house built by the taxpayer's corporation on land which was to be subdivided was not built for business purposes and was a shareholder benefit. The calculation should be based on the company's rate of return, expressed as a percentage of its equity in the house, as opposed to free-market rental. *Youngman v. The Queen,* (F.C.A.) 90 DTC 6322, reversing (F.C.T.D.) 86 DTC 6584 and (T.R.B.) unreported.

The word "benefit" refers to the monetary amounts received from a corporation and not the shareholder's overall financial or physical well-being. Therefore amounts received by a shareholder from one corporation used to meet losses of another corporation were shareholder benefits and properly included in income. *Vine Estate v. The Queen,* (F.C.T.D.) 89 DTC 5528.

► 15(1.1) ◄

(1.1) Conferring of benefit. Notwithstanding subsection (1), if in a taxation year a corporation has paid a stock dividend to a person and it may reasonably be considered that one of the purposes of that payment was to significantly alter the value of the interest of any specified shareholder of the corporation, the fair market value of the stock dividend shall, except to the extent that it is otherwise included in computing that person's income under any of paragraphs 82(1)(*a*), (*a*.1) and (*c*) to (*e*), be included in computing the income of that person for the year.

History: S. 15(1.1) was replaced by S.C. 2007, c. 2, s. 43(1), applicable to dividends paid after 2005. S. 15(1.1) formerly read:

"(1.1) *Conferring of benefit.* Notwithstanding subsection (1), where in a taxation year a corporation has paid a stock dividend to a person and it may reasonably be considered that one of the purposes of that payment was to significantly alter the value of the interest of any specified shareholder of the corporation, the fair market value of the stock dividend shall, except to the extent that it is otherwise included in computing that person's income under paragraph 82(1)(*a*), be included in computing the income of that person for the year."

Related Sections: S. 248(1), "stock dividend".

Interpretation Bulletins: *Secondary* — IT-432R2 Benefits conferred on shareholders.

Cases: A corporation declared stock dividends to the controlling shareholder and his wife and children (who owned non-voting shares). Although the effect of issuing the stock dividends was to significantly alter the controlling shareholder's interest in the corporation, this was not the purpose of the payment. Subsection 15(1.1) was inapplicable. *Wong et al. v. The Queen,* 99 DTC 458 (T.C.C.)

► 15(1.2) ◄

(1.2) Forgiveness of shareholder debt. For the purpose of subsection (1), the value of the benefit where an obligation issued by a debtor is settled or extinguished at any time shall be deemed to be the forgiven amount at that time in respect of the obligation.

History: S. 15(1.2) was amended by S.C. 1995, c. 21, s. 4(1), applicable to taxation years that end after February 21, 1994. S. 15(1.2) formerly read:

"(1.2) *Forgiveness of shareholder loans.* For the purposes of subsection (1), the value of the benefit or advantage conferred on a shareholder, in circumstances where a loan or other obligation to pay an amount is settled or extinguished at any time without any payment by that shareholder or by payment by the shareholder of an amount that is less than the amount of the obligation outstanding at that time, shall be deemed to be the amount, if any, by which the obligation outstanding at that time exceeds the total of the amount, if any, of the benefit in respect of the obligation that was included in the shareholder's income at the time the obligation arose and the amount, if any."

Editorial Note: See subsection 15(1.21), below, regarding the computation of the forgiven amount.

Interpretation Bulletins: *Secondary* — IT-432R2 Benefits conferred on shareholders.

Tax Window Files: Benefit from Settlement of Debt on Dissolution of Foreign Affiliate, August 30, 2004, CRA Document No. 2003-0001351E5.

► 15(1.21) ◄

(1.21) Forgiven amount. For the purpose of subsection (1.2), the "forgiven amount" at any time in respect of an obligation issued by a debtor has the meaning that would be assigned by subsection 80(1) if

(*a*) the obligation were a commercial obligation (within the meaning assigned by subsection 80(1)) issued by the debtor;

(*b*) no amount included in computing income (otherwise than because of paragraph 6(1)(*a*)) because of the obligation being settled or extinguished were taken into account;

(*c*) the definition "forgiven amount" in subsection 80(1) were read without reference to paragraphs (*f*) and (*h*) of the description B in that definition; and

(*d*) section 80 were read without reference to paragraphs (2)(*b*) and (*q*) of that section.

History: S. 15(1.21) was added by S.C. 1995, c. 21, s. 4(1), applicable to taxation years that end after February 21, 1994.

Interpretation Bulletins: *Secondary*—IT-432R2 Benefits conferred on shareholders.

► 15(1.3) ◄

(1.3) Cost of property or service. To the extent that the cost to a person of purchasing a property or service or an amount payable by a person for the purpose of leasing property is taken into account in determining an amount required under this section to be included in computing a taxpayer's income for a taxation year, that cost or amount payable, as the case may be, shall include any tax that was payable by the person in respect of the property or service or that would have been so payable if the person were not exempt from the payment of that tax because of the nature of the person or the use to which the property or service is to be put.

History: S. 15(1.3) was amended by S.C. 1997, c. 10, s. 269(1), applicable to the 1996 and subsequent taxation years. S. 15(1.3) formerly read:

"(1.3) *Goods and services tax.* To the extent that an amount or value of a benefit required under subsection (1) to be included in computing the income of a taxpayer for a taxation year is determined by reference to the cost to a corporation of any property or service, that cost shall, for the purposes of that subsection, be determined without reference to any goods and services tax payable by that corporation in respect of the property or service."

Interpretation Bulletins: *Secondary*—IT-432R2 Benefits conferred on shareholders.

► 15(1.4) ◄

(1.4) Idem. [Repealed by S.C. 1997, c. 10, s. 269(1).]

History: S. 15(1.4) was repealed by S.C. 1997, c. 10, s. 269(1), applicable to the 1996 and subsequent taxation years. S. 15(1.4) formerly read:

"(1.4) *Idem.* Where the amount or value of a benefit (in this subsection referred to as the 'benefit amount') (other than a benefit referred to in subsection (5)) would be required under subsection (1) to be included in computing a taxpayer's income for a taxation year in respect of a supply, other than a zero-rated supply or an exempt supply (within the meanings assigned by Part IX of the *Excise Tax Act*), of property or a service if no amount were paid to the corporation or to a person related to the corporation in respect of the amount that would be so required to be included, there shall be included in computing the taxpayer's income for the year the total of all amounts each of which is an amount determined by the formula

0.07(A – B)

where

A is the amount that would be so required under subsection (1) to be included in computing the taxpayer's income for the year; and

B is the amount, if any, included in the benefit amount that can reasonably be attributed to tax imposed under an Act of the legislature of a province that is a prescribed tax for the purposes of section 154 of the *Excise Tax Act*."

S. 15(1.4), the portion before the formula, was amended by S.C. 1994, c. 21, s. 9(2), applicable to the 1993 and subsequent taxation years. The portion formerly read:

"(1.4) Where the amount or value (in this subsection referred to as the 'benefit amount') of a benefit would be required under subsection (1) to be included in computing a taxpayer's income for a taxation year in respect of a supply, other than a zero-rated supply or an exempt supply, (within the meanings assigned by Part IX of the *Excise Tax Act*) of property or a service, if no amount were paid to the corporation or to a person related to the corporation in respect of the amount that would be so required to be included, there shall be included in computing the taxpayer's income for the year the total of all amounts each of which is an amount determined by the formula"

S. 15(1.4) was amended by S.C. 1994, c. 7, Sched. VIII, s. 5(3), applicable to the 1991 and subsequent taxation years except that, in applying subsection 15(1.4) of the Act to the 1991 taxation year, it shall be read as follows:

"(1.4) Where the amount or value (in this subsection referred to as the 'benefit amount') of a benefit is required under subsection (1) to be included in computing a taxpayer's income for a taxation year in respect of a supply, other than a zero-rated supply or an exempt supply, (within the meanings assigned by Part IX of the *Excise Tax Act*) of property or a service, there shall be included in computing the taxpayer's income for the year the total of all amounts each of which is an amount determined by the formula

0.07(A – B)

where

A is an amount required under subsection (1) to be included in computing the taxpayer's income for the year in respect of a supply (other than a zero-rated supply or an exempt supply, within the meanings assigned by Part IX of the *Excise Tax Act*) of property or a service; and

B is an amount, if any, included in the benefit amount that can reasonably be attributed to tax imposed under an Act of the legislature of a province that is a prescribed tax for the purposes of section 154 of the *Excise Tax Act*."

S. 15(1.4) formerly read:

"(1.4) Where the amount or value of a benefit is required under subsection (1) to be included in computing the income of a taxpayer for a taxation year (in this subsection referred to as the 'benefit amount') in respect of a supply, other than a zero-rated supply or an exempt supply (within the meanings assigned by Part IX of the *Excise Tax Act*), of property or a service in respect of which section 173 of that Act applies, an additional amount, equal to 7% of the amount by which the benefit amount exceeds the amount, if any, included in the benefit amount that may reasonably be attributed to tax imposed under an Act of the legislature of a province that is a prescribed tax for the purposes of section 154 of the *Excise Tax Act*, shall be included in computing the income of the taxpayer for the year."

Interpretation Bulletins: *Secondary*—IT-432R2 Benefits conferred on shareholders.

► 15(2) ◄

(2) Shareholder debt. Where a person (other than a corporation resident in Canada) or a partnership (other than a partnership each member of which is a corporation resident in Canada) is

(*a*) a shareholder of a particular corporation,

(*b*) connected with a shareholder of a particular corporation, or

(*c*) a member of a partnership, or a beneficiary of a trust, that is a shareholder of a particular corporation

and the person or partnership has in a taxation year received a loan from or has become indebted to the particular corporation, any other corporation related to the particular corporation or a partnership of which the particular corporation or a corporation related to the particular corporation is a member, the amount of the loan or indebtedness is included in computing the income for the year of the person or partnership.

History: S. 15(2) was amended by S.C. 1998, c. 19, s. 75(1), applicable to loans made and indebtedness arising in the 1990 and subsequent taxation years, except that

(*a*) in its application to loans made and indebtedness arising before April 26, 1995, subsection 15(2.4) of the Act shall be read without reference to paragraph (*e*); and

(*b*) in its application to loans made and indebtedness arising before June 20, 1996, subsection 15(2.5) of the Act shall be read without reference to "(other than employees who are specified employees of the corporation or of another corporation related to the corporation)".

S. 15(2) formerly read:

"(2) *Shareholder debt.* Where a person (other than a corporation resident in Canada) or a partnership (other than a partnership each member of which is a corporation resident in Canada) is a shareholder of a particular corporation, is connected with a shareholder of a particular corporation or is a member of a partnership, or a beneficiary of a trust, that is a shareholder of a particular corporation and the person or partnership has in a taxation year received a loan from or has become indebted to the particular corporation, to any other corporation related thereto or to a partnership of which the particular corporation or a corporation related thereto is a member, the amount of the loan or indebtedness shall be included in computing the income for the year of the person or partnership, unless

(*a*) the loan was made or the indebtedness arose

(i) in the ordinary course of the lender's or creditor's business and, in the case of a loan, the lending of money was part of its ordinary business,

(ii) in respect of an individual who is an employee of the lender or creditor or the spouse of an employee of the lender or creditor to enable or assist the individual to acquire a dwelling or a share of the capital stock of a cooperative housing corporation acquired for the sole purpose of acquiring the right to inhabit a dwelling owned by the corporation, where the dwelling is for the individual's habitation,

(iii) where the lender or creditor is a corporation, in respect of an employee of the corporation, or of another corporation that is related to the corporation, to enable or assist the employee to acquire from the corporation, or a corporation related thereto, previously unissued fully paid shares of the capital stock of the corporation or the related corporation, as the case may be, to be held by the employee for the employee's own benefit, or

(iv) in respect of an employee of the lender or creditor to enable or assist the employee to acquire an automobile to be used by the employee in the performance of the duties of the employee's office or employment, and *bona fide* arrangements were made, at the time the loan was made or the indebtedness arose, for repayment thereof within a reasonable time; or

(*b*) the loan or indebtedness was repaid within one year after the end of the taxation year of the lender or creditor in which it was made or incurred and it is established, by subsequent events or otherwise, that the repayment was not made as part of a series of loans or other transactions and repayments."

S. 15(2)(*a*)(ii) was amended by S.C. 1994, c. 7, Sched. II, s. 11(2), applicable to the 1985 and subsequent taxation years. S. 15(2)(*a*)(ii) formerly read:

"(ii) in respect of an employee of the lender or creditor or the spouse of an employee of the lender or creditor to enable or assist the employee or the employee's spouse to acquire a dwelling for his or her habitation,"

S. 15(2)(*a*)(iii) was amended by S.C. 1994, c. 7, Sched. II, s. 11(3), applicable to loans made and indebtedness arising after 1981. S. 15(2)(*a*)(iii) formerly read:

"(iii) where the lender or creditor is a corporation, in respect of an employee of the corporation to enable or assist the employee to acquire from the corporation fully paid shares of the capital stock of the corporation, or to acquire from a corporation related thereto fully paid shares of the capital stock of the related corporation, to be held by the employee for the employee's own benefit, or"

Editorial Note: The exceptions to the subsection 15(2) shareholder loan inclusion are found in subsections 15(2.2) through (2.6). If the loan is included under subsection 15(2), the deemed interest benefit rules for low or no-interest loans (subsection 80.4(2)) do not apply. A deduction is allowed if the loan is subsequently repaid under paragraph 20(1)(*j*).

Related Sections: S. 17(1) Amount owing by non-resident; s. 17(7) Exception; s. 20(1)(*j*) Repayment of loan by shareholder; s. 80.4(2) Loan or debt by virtue of shareholding; s. 80.4(3) Where ss. (1) and (2) do not apply; s. 214(3)(*a*) Deemed payments; s. 227(6.1) Repayment of non-resident shareholder loan; s. 248(10) Series of transactions. 251(2);

Interpretation Bulletins: *Primary* — IT-119R4 Debts of shareholders and certain persons connected with shareholders.

Forms: T2 SCH 11.

Canadian Tax Foundation: Tremblay, and Wilkie, "The Canadian Triangle: The Canadian Triangle: Tax Policy Reflections on the Uneasy Interaction of 15(2), 17, and 95(2)", *2002 Annual Conference*, 18:1; Teltscher, "Loans to Shareholder-Employees: Salary Versus Dividends", *1996 Conference Report*, Vol. 2, 53:1.

Canadian Petroleum Tax Journal: Attracting and Retaining Executives and Employees with Tax-Efficient Incentives, Julie Y. Lee, Vol. 14 No. 1 2001.

Tax Window Files: Non-Shareholder Employee at the Time of a Loan, September 7, 2006, CRA Document No. 2006-0172841E5; Shareholder Loan to Acquire Home, February 20, 2006, CRA Document No. 2005-0159061E5; Loans to Related Foreign Corporations, February 8, 2006, CRA Document No. 2004-0064811E5; Assignment of Shareholder Loan, June 21, 2005, CRA Document No. 2005-0129551E5 [Assignment of loan did not affect paragraph 15(2.4)(*b*) exception to shareholder loan rules]; Home Purchase Loan by Company to Shareholder-Employee, October 27, 2004, CRA Document No. 2004-0088581E5 [Home purchase loan made to sole employee who was also president and sole shareholder; whether paragraph 15(2.4)(*b*) exception could apply]; Loan by a Corporation to a Partnership, October 8, 2004, CRA Document No. 2004-0088411C6; Novation of Debt — Shareholder Loan, June 1, 2004, CRA Document No. 2004-0077171I7 [Issuance of a new promissory note, which replaces an existing promissory note, results in a new loan subject to subsection 15(2)]; Shareholder Loans — Loan to Shareholder's Adult Child, March 23, 2004, CRA Document No. 2003-0049031E5; Loan to Shareholder — Assignment of Debt, March 22, 2004, CRA Document No. 2004-0062761E5 [Subsection 15(2) applies where a shareholder of a corporation initially owes a debt to someone other than the corporation and the debt is later assigned to the corporation]; Housing Loan by a Corporation to its Sole Shareholder, February 26, 2004, CRA Document No. 2003-0045471E5 [Housing loan made to sole shareholder included under subsection 15(2) and not eligible for paragraph 15(2)(*b*) exception]; Lending Money in the Ordinary Course of Business, January 23, 2004, CRA Document No. 2003-0047891E5 [General comments regarding the subsection 15(2.3) exception, and in particular, whether the corporation made a loan in the ordinary course of its ordinary business of lending money].

Cases: The Act does not require a provision for repayment of a shareholder's loan on a certain date. All that is required is simply an arrangement for payment within a reasonable time. In addition, any *bona fide* repayment arrangement does not have to be in writing, but certainly does have to be contractually binding. *Davidson v. The Queen*, 99 DTC 933 (T.C.C.).

When the five-year promissory note dated January 10, 1986 on the strength of which a corporation's shareholder borrowed $100,000 to purchase a house provided for annual capital repayments of $20,000 and no capital payments were made until 1992, it still could be said that *at the time of the loan* there were *bona fide* arrangements made for its repayments within a reasonable time. *Kalousdian v. The Queen*, 94 DTC 1722 (T.C.C.).

JK, who was related to the taxpayers, sold them shares in exchange of demand promissory notes which he assigned to a corporation controlled by him. The amounts of their respective indebtedness to the company were included in their income under s. 15(2) which should not be confined to situations where the indebtedness to the corporation has arisen directly rather than by way of the assignment to it of debt from a third party. *Kwong et al. v. The Queen*, 93 DTC 588 (T.C.C.).

When a corporation caused its Canadian subsidiary, of which the taxpayer was an employee and shareholder, to advance $55,000 to him to be repayable in full if he were to quit or sell his property, this amount was included in his income as a shareholder loan since, pursuant to the arrangement, the loan was not to be reimbursed within a reasonable time. *The Queen v. Silden*, 93 DTC 5362 (F.C.A.), reversing 90 DTC 6576.

► 15(2.1) ◄

(2.1) Persons connected with a shareholder. For the purposes of subsection (2), a person is connected with a shareholder of a particular corporation if that person does not deal at arm's length with the shareholder and if that person is a person other than

(*a*) a foreign affiliate of the particular corporation; or

(*b*) a foreign affiliate of a person resident in Canada with which the particular corporation does not deal at arm's length.

Related Sections: S. 15(7) Application of ss. (1), (2) and (5); s. 95(1), "foreign affiliate", s. 251(1) Arm's length.

Tax Window Files: Loans to Related Foreign Corporations, February 8, 2006, CRA Document No. 2004-0064811E5; Loan by a Corporation to a Partnership, October 8, 2004, CRA Document No. 2004-0088411C6.

► 15(2.2) ◄

(2.2) When s. 15(2) not to apply — non-resident persons. Subsection (2) does not apply to indebtedness between non-resident persons.

History: S. 15(2.2) was added by S.C. 1998, c. 19, s. 75(2), applicable to loans made and indebtedness arising in the 1990 and subsequent taxation years.

► 15(2.3) ◄

(2.3) When s. 15(2) not to apply — ordinary lending business. Subsection (2) does not apply to a debt that arose in the ordinary course of the creditor's business or a loan made in the ordinary course of the lender's ordinary business of lending money where, at the time the indebtedness arose or the loan was made, *bona fide* arrangements were made for repayment of the debt or loan within a reasonable time.

History: S. 15(2.3) was added by S.C. 1998, c. 19, s. 75(2), applicable to loans made and indebtedness arising in the 1990 and subsequent taxation years.

Tax Window Files: Loans to Related Foreign Corporations, February 8, 2006, CRA Document No. 2004-0064811E5; Application of Subsection 15(2.3), January 23, 2004, CRA Document No. 2003-0047891E5.

► 15(2.4) ◄

(2.4) When s. 15(2) not to apply — certain employees. Subsection (2) does not apply to a loan made or a debt that arose

(*a*) in respect of an individual who is an employee of the lender or creditor but not a specified employee of the lender or creditor,

(*b*) in respect of an individual who is an employee of the lender or creditor or who is the spouse or common-law partner of an employee of the lender or creditor to enable or assist the individual to acquire a dwelling or a share of the capital stock of a cooperative housing corporation acquired for the sole purpose of acquiring the right to inhabit a

dwelling owned by the corporation, where the dwelling is for the individual's habitation,

(*c*) where the lender or creditor is a particular corporation, in respect of an employee of the particular corporation or of another corporation that is related to the particular corporation, to enable or assist the employee to acquire from the particular corporation, or from another corporation related to the particular corporation, previously unissued fully paid shares of the capital stock of the particular corporation or the related corporation, as the case may be, to be held by the employee for the employee's own benefit, or

(*d*) in respect of an employee of the lender or creditor to enable or assist the employee to acquire a motor vehicle to be used by the employee in the performance of the duties of the employee's office or employment,

where

(*e*) it is reasonable to conclude that the employee or the employee's spouse or common-law partner received the loan, or became indebted, because of the employee's employment and not because of any person's share-holdings, and

(*f*) at the time the loan was made or the debt was incurred, *bona fide* arrangements were made for repayment of the loan or debt within a reasonable time.

History: S. 15(2.4)(*b*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(b), applicable January 1, 2001, coming into force on July 31, 2000. S. 15(2.4)(*b*) formerly read:

"(*b*) in respect of an individual who is an employee of the lender or creditor or who is the spouse of an employee of the lender or creditor to enable or assist the individual to acquire a dwelling or a share of the capital stock of a cooperative housing corporation acquired for the sole purpose of acquiring the right to inhabit a dwelling owned by the corporation, where the dwelling is for the individual's habitation,"

S. 15(2.4)(*e*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(b), applicable January 1, 2001, coming into force on July 31, 2000. S. 15(2.4)(*e*) formerly read:

"(*e*) it is reasonable to conclude that the employee or the employee's spouse received the loan, or became indebted, because of the employee's employment and not because of any person's share-holdings, and"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 15(2.4) was added by S.C. 1998, c. 19, s. 75(2), applicable to loans made and indebtedness arising in the 1990 and subsequent taxation years, except that

(*a*) in its application to loans made and indebtedness arising before April 26, 1995, subsection 15(2.4) of the Act shall be read without reference to paragraph (*e*).

Editorial Note: The exception in paragraph (*a*) applies only to employees who are not specified employees while the exceptions in paragraphs (*b*) through (*d*) can apply to any employee. "Specified employee" is defined in subsection 248(1) and generally means an employee who owns at least 10% of the shares of a class of the capital stock of the employer corporation or any related corporation (see also the deeming rules in the definition of "specified shareholder") or who is non-arm's length with the corporation. See subsection 15(2.7) regarding employees of a partnership.

Related Sections: S. 248(1), "specified employee"; s. 251(2) Definition of "related persons".

Canadian Petroleum Tax Journal: Attracting and Retaining Executives and Employees with Tax-Efficient Incentives, Julie Y. Lee, Vol. 14 No. 1 2001.

Tax Window Files: Shareholder Loan to Acquire Home, February 20, 2006, CRA Document No. 2005-0159061E5; Assignment of Shareholder Loan, June 21, 2005, CRA Document No. 2005-0129551E5 [Assignment of loan did not affect paragraph 15(2.4)(*b*) exception to shareholder loan rules]; Home Purchase Loan by Company to Shareholder-Employee, October 27, 2004, CRA Document No. 2004-0088581E5 [Home purchase loan made to sole employee who was also president and sole shareholder; whether paragraph 15(2.4)(*b*) exception could apply].

► 15(2.5) ◄

(2.5) When s. 15(2) not to apply — certain trusts. Subsection (2) does not apply to a loan made or a debt that arose in respect of a trust where

(*a*) the lender or creditor is a private corporation;

(*b*) the corporation is the settlor and sole beneficiary of the trust;

(*c*) the sole purpose of the trust is to facilitate the purchase and sale of the shares of the corporation, or of another corporation related to the corporation, for an amount equal to their fair market value at the time of the purchase or sale, as the case may be, from or to the employees of the corporation or of the related corporation (other than employees who are specified employees of the corporation or of another corporation related to the corporation), as the case may be; and

(*d*) at the time the loan was made or the debt incurred, *bona fide* arrangements were made for repayment of the loan or debt within a reasonable time.

History: S. 15(2.5) was added by S.C. 1998, c. 19, s. 75(2), applicable to loans made and indebtedness arising in the 1990 and subsequent taxation years, except that in its application to loans made and indebtedness arising before June 20, 1996, subsection 15(2.5) of the Act shall be read without reference to "(other than employees who are specified employees of the corporation or of another corporation related to the corporation)".

► 15(2.6) ◄

(2.6) When s. 15(2) not to apply — repayment within one year. Subsection (2) does not apply to a loan or an indebtedness repaid within one year after the end of the taxation year of the lender or creditor in which the loan was made or the indebtedness arose, where it is established, by subsequent events or otherwise, that the repayment was not part of a series of loans or other transactions and repayments.

History: S. 15(2.6) was added by S.C. 1998, c. 19, s. 75(2), applicable to loans made and indebtedness arising in the 1990 and subsequent taxation years.

Editorial Note: *Bona fide* repayments of shareholder loans that result from the payment of dividends, salaries, or bonuses, are not part of a series of loans or other transactions and repayments for these purposes; see paragraph 29 of IT-119R4.

Tax Window Files: Shareholder Loans, December 14, 2000 and December 6, 2000, CRA Document No. 2000-0056035.

► 15(2.7) ◄

(2.7) Employee of partnership. For the purpose of this section, an individual who is an employee of a partnership is deemed to be a specified employee of the partnership where the individual is a specified shareholder of one or more corporations that, in total, are entitled, directly or indirectly, to a share of any income or loss of the partnership, which share is not less than 10% of the income or loss.

History: S. 15(2.7) was added by S.C. 1998, c. 19, s. 75(2), applicable to loans made and indebtedness arising in the 1990 and subsequent taxation years.

Related Sections: S. 248(1), "specified shareholder".

► 15(3) ◄

(3) Interest or dividend on income bond or debenture. An amount paid as interest or a dividend by a corporation resident in Canada to a taxpayer in respect of an

income bond or income debenture shall be deemed to have been paid by the corporation and received by the taxpayer as a dividend on a share of the capital stock of the corporation, unless the corporation is entitled to deduct the amount so paid in computing its income.

Related Sections: S. 15.1 Interest on small business development bonds; s. 18(1)(*g*) Payments on income bonds; s. 112(2.1) Where no deduction permitted; s. 248(1), "income bond"; s. 258 Deemed dividend.
Interpretation Bulletins: *Primary* — IT-52R4 Income bonds and income debentures [Archived by the CRA].

▶ 15(4) ◀

(4) Idem, where corporation not resident. An amount paid as interest or a dividend by a corporation not resident in Canada to a taxpayer in respect of an income bond or income debenture shall be deemed to have been received by the taxpayer as a dividend on a share of the capital stock of the corporation unless the amount so paid was, under the laws of the country in which the corporation was resident, deductible in computing the amount for the year on which the corporation was liable to pay income or profits tax imposed by the government of that country.

Related Sections: S. 15.1 Interest on small business development bonds; s. 18(1)(*g*) Payments on income bonds; s. 112(2.2) Guaranteed shares; s. 248(1), "income bond"; s. 258 Deemed dividend.
Interpretation Bulletins: *Secondary* — IT-52R4 Income bonds and income debentures [Archived by the CRA].

▶ 15(5) ◀

(5) Automobile benefit. For the purposes of subsection (1), the value of the benefit to be included in computing a shareholder's income for a taxation year with respect to an automobile made available to the shareholder, or a person related to the shareholder, by a corporation shall (except where an amount is determined under subparagraph 6(1)(*e*)(i) in respect of the automobile in computing the shareholder's income for the year) be computed on the assumption that subsections 6(1), (1.1), (2) and (7) apply, with such modifications as the circumstances require, and as though the references therein to "the employer of the taxpayer", "the taxpayer's employer" and "the employer" were read as "the corporation".

History: S. 15(5) was amended by S.C. 1997, c. 10, s. 269(2), applicable to the 1996 and subsequent taxation years. S. 15(5) formerly read:

"(5) *Automobile benefit.* For the purpose of subsection (1), the value of the benefit to be included in computing a shareholder's income for a taxation year with respect to an automobile made available to the shareholder, or a person related to the shareholder, by a corporation shall (except where an amount is determined under subparagraph 6(1)(*e*)(i) in respect of the automobile in computing the shareholder's income for the year) be computed on the assumption that subsections 6(1), (1.1) and (2) apply, with such modifications as the circumstances require, and as though the references therein to 'the employer of the taxpayer', 'the taxpayer's employer' and 'the employer' were read as 'the corporation'."

S. 15(5) was amended by S.C. 1994, c. 21, s. 9(3), applicable to the 1993 and subsequent taxation years. S. 15(5) formerly read:

"(5) For the purposes of subsection (1), the value of the benefit to be included in computing the income of a shareholder for a taxation year with respect to an automobile made available to the shareholder, or to a person related to the shareholder, by a corporation shall, except when an amount has been included in computing the shareholder's income by virtue of paragraph 6(1)(*e*) in respect of the automobile, be computed on the assumption that subsections 6(1), (2) and (2.2) apply, with such modifications as the circumstances require, and as though the references in those subsections to 'the employer' or 'the taxpayer's employer', as the case may be, were read as references to 'the corporation'."

Editorial Note: The amount of the shareholder automobile benefit is computed by reference to the "standby charge" otherwise applicable to employee automobile benefits; see especially paragraph 6(1)(*e*) and subsection 6(2).

Regulations: 200(4).
Interpretation Bulletins: *Secondary* — IT-63R5 Benefits, including standby charge for an automobile, from the personal use of a motor vehicle supplied by an employer — After 1992.
Tax Window Files: Automobile Used by Shareholder's Spouse, January 4, 2007, CRA Document No. 2006-0187051E5; Shareholder's Use of Automobile in Corporate Activity, October 8, 2004, CRA Document No. 2004-0086861C6.

▶ 15(6) ◀

(6) Application of ss. 6(2). [Repealed by S.C. 1980-81-82-83, c. 140, s. 7(3).]

▶ 15(7) ◀

(7) Application of ss. (1), (2) and (5). For greater certainty, subsections (1), (2) and (5) are applicable in computing, for the purposes of this Part, the income of a shareholder or of a person or partnership whether or not the corporation, or the lender or creditor, as the case may be, was resident or carried on business in Canada.

Interpretation Bulletins: *Secondary* — IT-119R4 Debts of shareholders, certain persons connected with shareholders, etc.; IT-432R2 Benefits conferred on shareholders.

▶ 15(8) ◀

(8) Where s. (2) does not apply. [Repealed by S.C. 1998, c. 19, s. 75(4).]

History: S. 15(8) was repealed by S.C. 1998, c. 19, s. 75(3), applicable to loans made and indebtedness arising in the 1990 and subsequent taxation years. S. 15(8) formerly read:

"(8) *Where s. (2) does not apply.* Subsection (2) does not apply in respect of indebtedness between non-resident persons."

Interpretation Bulletins: *Secondary* — IT-119R4 Debts of shareholders, certain persons connected with shareholders, etc.

▶ 15(9) ◀

(9) Deemed benefit to shareholder by corporation. Where an amount in respect of a loan or debt is deemed by section 80.4 to be a benefit received by a person or partnership in a taxation year, the amount is deemed for the purpose of subsection (1) to be a benefit conferred in the year on a shareholder, unless subsection 6(9) or paragraph 12(1)(*w*) applies to the amount.

History: S. 15(9) was amended by S.C. 1998, c. 19, s. 75(4), applicable to taxation years that end after November 1991. S. 15(9) formerly read:

"(9) *Deemed benefit to shareholder by corporation.* Where an amount in respect of a loan or debt is deemed by section 80.4 to be a benefit received by a person or partnership in a taxation year, the amount of the loan or debt (other than any amount to which subsection 6(9) or paragraph 12(1)(*w*) applies) shall be deemed for the purposes of subsection (1) to be a benefit conferred in the year on a shareholder."

Editorial Note: The benefit under section 80.4 is based on the prescribed rates of interest (Regulation 4301) in effect during the period of the loan or debt. The deemed amount is deductible by virtue of section 80.5 to the extent that the loan is used for income-earning purposes.

Related Sections: S. 80.5 Deemed interest.
Regulations: Part II.
Interpretation Bulletins: *Secondary* — IT-421R2 Benefits to Individuals, Corporations and Shareholders from Loans or Debt.

SECTION 15.1:

▶ 15.1(1) ◀

(1) Interest on small business development bonds. Any amount received by a taxpayer as or on account of interest on a small business development bond shall, except for the purposes of Part IV, be deemed to have been received as a taxable dividend.

History: S. 15.1(1) was amended by S.C. 1994, c. 7, Sched. VIII, s. 6(1), applicable to obligations issued after February 25, 1992. S. 15.1(1) formerly read:

"S. 15.1. *Small business development bond.*

(1) Any amount received by a taxpayer as or on account of interest in respect of a small business development bond shall, except for the purposes of Part IV, be deemed to have been received as a taxable dividend."

Related Sections: S. 15(3) Interest or dividend on income bond or debenture; s. 15(4) Idem; where corporation not resident; s. 18(1)(*g*) Payments on income bonds; s. 89(1) Capital dividend account; s. 248(1), "income bond", "taxable dividend".
Interpretation Bulletins: *Primary* — IT-507R Small business development bonds and small business bonds [Archived by the CRA].

► 15.1(2) ◄

(2) Rules for small business development bonds. Where a corporation (in this section referred to as the "issuer") has issued an obligation that is at any time a small business development bond, notwithstanding any other provision of this Act,

(*a*) in computing the issuer's income for a taxation year, no deduction shall be made in respect of any amount paid or payable (depending on the method regularly followed in computing the issuer's income) as or on account of interest on the obligation in respect of a period that includes that time;

(*b*) except for the purpose of subsection 129(1), to the extent that any amount paid by the issuer as or on account of interest on the obligation is not allowed as a deduction because of paragraph (*a*), it shall, when paid, be deemed to have been paid as a taxable dividend; and

(*c*) except for the purposes of paragraph 125(1)(*b*), the issuer's taxable income for any taxation year that includes a period throughout which the obligation was a small business development bond but

(i) the issuer was not an eligible small business corporation, or

(ii) all or substantially all of the proceeds from the issue of the obligation cannot reasonably be regarded as having been used by the issuer or a corporation with which it was not dealing at arm's length in the financing of an active business carried on in Canada immediately before the obligation was issued

shall be deemed to be an amount equal to the total of

(iii) the amount paid or payable (depending on the method regularly followed in computing the issuer's income) as or on account of interest on the obligation in respect of that period, and

(iv) the issuer's taxable income otherwise determined for the year.

History: S. 15.1(2) was amended by S.C. 1994, c. 7, Sched. VIII, s. 6(1), applicable to obligations issued after February 25, 1992. S. 15.1(2) formerly read:

"(2) *Idem.* Where a corporation, in this section referred to as the 'issuer', has issued an obligation that is at any time a small business development bond, notwithstanding any other provision of this Act, the following rules apply:

(*a*) in computing the income of the issuer for a taxation year, no deduction shall be made in respect of any amount paid or payable (depending on the method regularly followed by the issuer in computing its income) for a period that includes that time as or on account of interest on the bond;

(*b*) except for the purposes of subsection 129(1), to the extent that any amount paid by the issuer as or on account of interest on the bond is not allowed as a deduction by virtue of paragraph (*a*), it shall, when paid, be deemed to have been paid as a taxable dividend; and

(*d*) except for the purposes of paragraph 125(1)(*b*), the taxable income of the issuer for any taxation year that includes a period throughout which the obligation was a small business development bond shall, where

(i) the issuer was not an eligible small business corporation,

(ii) the property acquired with the proceeds of the bond or the property referred to in subparagraph (*d*)(iii) of the definition 'qualifying debt obligation' in subsection (3)

(A) was not property used for specified purposes by the issuer, or

(B) was not owned by the issuer, or

(iii) all or substantially all of the proceeds from the issue of an obligation issued in circumstances described in subparagraphs (*a*)(i) to (iii) of the definition 'qualifying debt obligation' in subsection (3) cannot reasonably be regarded as having been used by the issuer or a corporation with which it was not dealing at arm's length in the financing of an active business carried on in Canada immediately before the time of its issuance,

be deemed to be an amount equal to the total of

(iv) the amount paid or payable (depending on the method regularly followed by the issuer in computing its income) for that period as or on account of interest on the obligation, and

(v) its taxable income otherwise determined for the year."

Related Sections: S. 15.1(3), "Small business development bond"; s. 15.1(4) Money borrowed; s. 15.1(6) Disqualification; s. 125(1) Small business deduction; s. 125(7), "active business carried on by a corporation"; s. 129(1) Dividend refund to private corporation; s. 143(1)(*m*) Communal organizations; s. 248(1), "active business", "taxable income", "taxable dividend", "active business"; s. 249(1) Definition of "taxation year"; s. 255 Canada.

► 15.1(3) ◄

(3) Definitions. In this section,

History: S. 15.1(3), that portion preceding the definition of "eligible small business corporation", was repealed and re-enacted by S.C. 1994, c. 7, Sched. VIII, s. 6(1), applicable to obligations issued after February 25, 1992. S. 15.1(3), that portion preceding the definition of "eligible small business corporation", was not amended by the repeal and re-enactment.

"eligible small business corporation" — "eligible small business corporation" at any time means a taxable Canadian corporation that at that time is

(*a*) a small business corporation, or

(*b*) a cooperative corporation (within the meaning assigned by subsection 136(2)) all or substantially all of the assets of which are used in an active business carried on by it in Canada;

History: S. 15.1(3), the definition of "eligible small business corporation", was amended by S.C. 1994, c. 7, Sched. VIII, s. 6(1), applicable to obligations issued after February 25, 1992. That definition formerly read:

" 'eligible small business corporation' at any time means a taxable Canadian corporation that at that time is

(*a*) a small business corporation, or

(*b*) a cooperative corporation (within the meaning assigned by subsection 136(2)) all or substantially all of the assets of which are used in an active business carried on by it in Canada;"

Related Sections: S. 89(1), "taxable Canadian corporation"; s. 136(2) Definition of "cooperative corporation"; s. 248(1), "active business", "small business corporation", "taxable Canadian corporation".

"joint election" — "joint election" means an election that is made in prescribed form, containing prescribed information, jointly by the issuer of an obligation and the person who is the holder of the obligation at the time of the election, that is filed with the Minister by the holder, and in which the holder and the issuer elect that this section apply to the obligation;

History: S. 15.1(3), the definition of "joint election", was amended by S.C. 1994, c. 7, Sched. VIII, s. 6(1), applicable to obligations issued after February 25, 1992. That definition formerly read:

" 'joint election' means an election made in prescribed form jointly by the issuer of an obligation and the person who is the holder of the obligation at the election time and filed with the Minister by the holder in which the issuer and the holder elect that the provisions of this section apply with respect to that obligation and in which the issuer declares that

(*a*) it is an eligible small business corporation, and

(*b*) the property, if any, acquired with the proceeds of or financed or refinanced by the obligation is property used for specified purposes;"

Related Sections: S. 248(1), "prescribed".

"majority interest partner" — [Repealed by S.C. 1998, c. 19, s. 76(1).]

History: S. 15.1(3), the definition of "majority interest partner", was repealed by S.C. 1998, c. 19, s. 76(1), applicable after April 26, 1995. S. 15.1(3), the definition "majority interest partner", formerly read:

" 'majority interest partner' — 'majority interest partner' of a partnership means a taxpayer who, if subsection 97(3.1) applied to this section, would be deemed to be a majority interest partner of the partnership;"

S. 15.1(3), the definition of "majority interest partner", was added by S.C. 1994, c. 7, Sched. VIII, s. 6(1), applicable to obligations issued after February 25, 1992.

"property used for specified purposes" — [Repealed by S.C. 1994, c. 7, Sched. VIII, s. 6(1).]

History: S. 15.1(3), the definition of "property used for specified purposes", was repealed by S.C. 1994, c. 7, Sched. VIII, s. 6(1), applicable to obligations issued after February 25, 1992. That definition formerly read:

" 'property used for specified purposes' means property used primarily in the carrying on of an active business in Canada but does not include

(*a*) property that is used by an issuer primarily for the purpose of being leased to any person, other than an eligible small business corporation,

(i) that does not use the property primarily for the purpose of leasing it to any other person, and

(ii) that would be associated with the issuer if this Act were read without reference to paragraph 251(5)(*b*), or

(*b*) property used in a business carried on by an issuer as a member of a partnership;"

"qualifying debt obligation" — "qualifying debt obligation" of a corporation at a particular time means an obligation that is a bond, debenture, bill, note, mortgage, hypothecary claim or similar obligation issued after February 25, 1992 and before 1995,

(*a*) the principal amount of which is not less than $10,000 or more than $500,000,

(*b*) that is issued for a term of not more than 5 years and, except in the event of a failure or default under the terms or conditions of the obligation, not less than one year, and

(*c*) that was issued not more than 5 years before the particular time,

if the obligation is issued by the corporation

(*d*) as part of a proposal to, or an arrangement with, its creditors that has been approved by a court under the *Bankruptcy and Insolvency Act*,

(*e*) at a time when all or substantially all of its assets are under the control of a receiver, receiver-manager, sequestrator or trustee in bankruptcy, or

(*f*) at a time when, because of financial difficulty, the corporation is in default, or could reasonably be expected to default, on a debt held by a person with whom the corporation was dealing at arm's length and the obligation is issued, in whole or in part, directly or indirectly in exchange or substitution for that debt;

History: S. 15.1(3), the portion of the definition "qualifying debt obligation" before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 198, applicable on Royal Assent, June 14, 2001. S. 15.1(3), the portion of the definition "qualifying debt obligation" before paragraph (*a*) formerly read:

" 'qualifying debt obligation' — 'qualifying debt obligation' of a corporation at a particular time means an obligation that is a bond, debenture, bill, note, mortgage or similar obligation issued after February 25, 1992 and before 1995,"

S. 15.1(3), the part before paragraph (*a*) of the definition of "qualifying debt obligation", was amended by S.C. 1994, c. 8, s. 1(1), applicable to obligations issued after 1992, and, for the purpose of the definition "small business development bond" in subsection 15.1(3) of the Act, an election made after 1992 and before the day that is 91 days after the day this Act is assented to [Royal Assent May 12, 1994] in respect of an obligation issued after 1992 and before 1995 shall be deemed to have been made within 90 days after the day the obligation was issued.

S. 15.1(3), the part before paragraph (*a*) of the definition of "qualifying debt obligation" formerly read:

" 'qualifying debt obligation' of a corporation at a particular time means an obligation that is a bond, debenture, bill, note, mortgage or similar obligation issued after December 11, 1979 and before 1988 or after February 25, 1992 and before 1993,"

S. 15.1(3), the definition of "qualifying debt obligation", was amended by S.C. 1994, c. 7, Sched. VIII, s. 6(1), applicable to obligations issued after February 25, 1992. That definition formerly read:

" 'qualifying debt obligation' of a corporation at any particular time means an obligation that is a bond, debenture, bill, note, mortgage or similar obligation issued after December 11, 1979 and before 1988,

(*a*) the principal amount of which is not less than $10,000 or more than $500,000,

(*b*) that is issued for a term of not more than five years and, except in the event of a failure or default under the terms or conditions of the obligation, not less than one year, and

(*c*) that was issued not more than five years before the particular time

if

(*d*) all of the proceeds from the issuance before February 1, 1982 of the obligation are used by the corporation

(i) to acquire after December 11, 1979 and before February 1, 1982 property that is specified property of the corporation,

(ii) to finance qualified expenditures (within the meaning assigned by paragraph 127(10.1)(*c*)) made by the corporation after December 11, 1979 and before February 1, 1982 in respect of scientific research,

(iii) to repay at any time before February 1, 1982, in whole or in part, one or more obligations of the corporation to the extent of an amount not exceeding the cost to the corporation of property referred to in subparagraph (i) or qualified expenditures referred to in subparagraph (ii) that was acquired or that were incurred by the corporation after December 11, 1979 and before the time of the repayment, or

(iv) for any combination of purposes described in subparagraphs (i) to (iii), or

(*e*) the obligation is issued by the corporation

(i) as part of a proposal to, or an arrangement with, its creditors that has been approved by a court under the *Bankruptcy and Insolvency Act*,

(ii) at a time when all or substantially all of its assets are under the control of a receiver, receiver-manager, sequestrator or trustee in bankruptcy, or

(iii) at a time when, by reason of financial difficulty, the corporation is in default, or could reasonably be expected to default, on a debt held by a person with whom the corporation was dealing at arm's length and it is issued, in whole or in part, directly or indirectly in exchange or substitution for that debt;"

S. 15.1(3), the definition of "qualifying debt obligation", was amended by S.C. 1994, c. 7, Sched. V, s. 90(1), to change "*Bankruptcy Act*" to "*Bankruptcy and Insolvency Act*", deemed to have come into force November 30, 1992.

Related Sections: S. 248(1), "corporation", "principal amount".

"small business development bond" — "small business development bond" at any time means

(*a*) an obligation that is at that time a qualifying debt obligation issued after 1981 and before 1988 by a Canadian-controlled private corporation in respect of which a joint election was made within 90 days after the later of its issue date and March 30, 1983,

(*b*) an obligation that is at that time a qualifying debt obligation issued after February 25, 1992 by a Canadian-controlled private corporation in respect of which a joint election was made within 90 days after its issue date, or

(*c*) an obligation that is at that time a qualifying debt obligation issued by a Canadian-controlled private corporation if

(i) it is reasonable to consider that the corporation and the holder of the obligation intended that this section apply to the obligation, having regard to such factors as may be relevant, including the rate of interest stipulated under the terms of the obligation and the manner in which the corporation and the holder have treated the obligation for the purposes of this Act, and

(ii) the holder files with the Minister a joint election in respect of the obligation within 90 days after the date of notification by the Minister that a joint election in respect of the obligation has not been filed.

History: S. 15.1(3), the definition of "small business development bond", was amended by S.C. 1994, c. 7, Sched. VIII, s. 6(1), applicable to obligations issued after February 25, 1992, except that an election made in respect of an obligation after February 25, 1992 and before September 9, 1993, shall be deemed to have been made within 90 days after the day the obligation was issued.

S. 15.1(3), the definition of "small business development bond", formerly read:

" 'small business development bond' at any time means

(*a*) an obligation that is at that time a qualifying debt obligation issued before 1982 by a Canadian-controlled private corporation in respect of which a joint election was made at a particular time that is within 90 days after the later of its issue date and February 26, 1981, or

(*b*) an obligation that is at that time a qualifying debt obligation issued after 1981 by a Canadian-controlled private corporation in respect of which a joint election was made at a particular time that is within 90 days after the later of its issue date and March 30, 1983;"

Related Sections: S. 125(7), "Canadian-controlled private corporation"; s. 248(1), "corporation".

"specified property" — [Repealed by S.C. 1994, c. 7, Sched. VIII, s. 6(1).]

History: S. 15.1(3), the definition of "specified property", was repealed by S.C. 1994, c. 7, Sched. VIII, s. 6(1), applicable to obligations issued after February 25, 1992. That definition formerly read:

" 'specified property' of an issuer means property acquired by the issuer that is

(*a*) depreciable property that has not been used for any purpose whatever before it was acquired by the issuer, or

(*b*) capital property that is land (excluding any building or other structure affixed to land) other than land acquired by the issuer from a person with whom it was not dealing at arm's length,

but does not include any

(*c*) automobile, or

(*d*) transportation equipment used principally for the purpose of transporting persons other than passengers who pay for the transportation services."

► 15.1(4) ◄

(4) Money borrowed. Notwithstanding any other provision of this Act, an amount paid or payable by a taxpayer pursuant to a legal obligation to pay interest on borrowed money used for the purpose of acquiring a small business development bond shall be deemed to be an amount paid or payable, as the case may be, on borrowed money used for the purpose of earning income from a business or property.

History: S. 15.1(4) was amended by S.C. 1994, c. 7, Sched. VIII, s. 6(1), applicable to obligations issued after February 25, 1992. S. 15.1(4) formerly read:

"(4) *Presumption.* Where an issuer has disposed of specified property, for the purposes of paragraph (2)(*d*), the property shall be deemed to be owned by the issuer and to be property used for specified purposes if, in the thirty day period after the date of disposition of the property, the principal amount of the obligation is reduced by an amount not less than the amount by which the proceeds of disposition to the issuer of the property exceed the expense incurred by it in disposing of the property."

Related Sections: S. 248(1), "borrowed money", "business", "property".

► 15.1(5) ◄

(5) False declaration. Where the Minister establishes that an issuer has knowingly or under circumstances amounting to gross negligence made a false declaration in a joint election in respect of an obligation, the reference in subparagraph (2)(*c*)(iii) to "the amount paid or payable" shall in respect of the obligation be read as a reference to "3 times the amount paid or payable".

History: S. 15.1(5) was amended by S.C. 1994, c. 7, Sched. VIII, s. 6(1), applicable to obligations issued after February 25, 1992. S. 15.1(5) formerly read:

"(5) *Idem.* Notwithstanding any other provision of this Act, an amount paid or payable by a taxpayer pursuant to a legal obligation to pay interest on borrowed money used for the purpose of acquiring a small business development bond shall be deemed to be an amount paid or payable, as the case may be, on borrowed money used for the purpose of earning income from a business or property."

Related Sections: S. 15.1(3), "small business development bond"; s. 248(1), "amount".

► 15.1(6) ◄

(6) Disqualification. Where at a particular time an issuer makes a joint election in respect of an obligation and

(*a*) the issuer or any other corporation associated at the time the obligation was issued with the issuer,

(*b*) an individual who controls or is a member of a related group that controls the issuer, or

(*c*) a partnership any member of which, who is a majority interest partner of the partnership, controls, or is a member of a related group that controls, the issuer

had at or before the particular time made a joint election in respect of any small business development bond or small business bond, as the case may be, for the purposes of this section, the issuer shall be deemed not to be an eligible small business corporation in respect of the obligation.

History: S. 15.1(6) was amended by S.C. 1994, c. 7, Sched. VIII, s. 6(1), applicable to obligations issued after February 25, 1992. S. 15.1(6) formerly read:

"(6) *False declaration.* Where an issuer knowingly or under circumstances amounting to gross negligence makes a false declaration in a joint election in respect of an obligation, the reference in subparagraph (2)(*d*)(iv) to 'the amount' shall in respect of the issuer be read as a reference to '3 times the amount'."

Related Sections: S. 15.1(3), "majority interest partner"; s. 248(1), "corporation", "individual"; s. 251(4) Definitions concerning groups; s. 256(1) Associated corporations.

► 15.1(7) ◄

(7) Exception. Subsection (6) does not apply in respect of an obligation issued at any time where the issue price of the obligation does not exceed the amount, if any, by which

(*a*) $500,000

exceeds

(*b*) the total of all amounts each of which is the principal amount outstanding immediately after that time in respect of

(i) another obligation that is a small business development bond issued by

(A) the issuer, or

(B) a corporation associated with the issuer, or

(ii) a small business bond issued by

(A) an individual who controls, or is a member of a related group that controls, the issuer, or

(B) a partnership any member of which, who is a majority interest partner of the partnership, controls, or is a member of a related group that controls, the issuer.

History: S. 15.1(7) was amended by S.C. 1994, c. 7, Sched. VIII, s. 6(1), applicable to obligations issued after February 25, 1992. S. 15.1(7) formerly read:

"(7) *Presumption.* Where at any particular time an issuer makes a joint election in respect of an obligation and at or before that time the issuer or any other corporation associated with the issuer at or before that time makes or has made a joint election in respect of any other obligation, for the purposes of this section, the issuer shall be deemed not to be an eligible small business corporation."

Related Sections: S. 15.1(3), "majority interest partner"; s. 248(1), "amount", "corporation", "individual", "principal amount"; s. 251(4) Definitions concerning groups; s. 256(1) Associated corporations.

► 15.1(8)–(12) ◄

(8)–(12) [Small business development bonds]. [Repealed by S.C. 1994, c. 7, Sched. VIII, s. 6(1).]

History: S. 15.1(8) was repealed by S.C. 1994, c. 7, Sched. VIII, s. 6(1), applicable to obligations issued after February 25, 1992. S. 15.1(8) formerly read:

"(8) *Idem.* For the purposes of this section, where an eligible small business corporation has acquired property from another person who did not deal at arm's length with the corporation immediately after the acquisition, the corporation shall be deemed to have acquired the property

(*a*) from the person from whom that other person acquired the property; and

(*b*) at the time the other person acquired the property."

S. 15.1(9) was repealed by S.C. 1994, c. 7, Sched. VIII, s. 6(1), applicable to obligations issued after February 25, 1992. S. 15.1(9) formerly read:

"(9) *Exception.* Where an issuer or any corporation associated with the issuer has made a joint election in respect of a small business development bond, subsection (7) shall not apply with respect to the issuer and any corporation associated with that issuer that would, but for that subsection, be an eligible small business corporation in respect of any obligation issued at any particular time after May 23, 1985 in circumstances described in any of subparagraphs (*e*)(i) to (iii) of the definition 'qualifying debt obligation' in subsection (3), if the issue price of any such bond does not exceed the amount, if any, by which

(*a*) $500,000

exceeds

(*b*) the total of all amounts each of which is the principal amount outstanding at that time in respect of

(i) a small business development bond issued

(A) before the particular time by the issuer, or

(B) at or before the particular time by a corporation associated with the issuer, or

(ii) a small business bond issued at or before the particular time by

(A) an individual who controls or is a member of a related group that controls the issuer, or

(B) a partnership any member of which is a person who is a majority interest partner of the partnership (within the meaning assigned by subsection 97(3.1)) and who controls, or is a member of a related group that controls, the issuer."

S. 15.1(10) was repealed by S.C. 1994, c. 7, Sched. VIII, s. 6(1), applicable to obligations issued after February 25, 1992. S. 15.1(10) formerly read:

"(10) *Presumption.* Notwithstanding the definition 'small business development bond' in subsection (3), where the holder of a qualifying debt obligation issued by a Canadian-controlled private corporation has not filed with the Minister a joint election within the time referred to in that definition and, after the issue of the qualifying debt obligation, the corporation has not issued a small business development bond, other than a small business development bond that is an obligation described in paragraph (*e*) of the definition 'qualifying debt obligation' in subsection (3), the obligation shall be deemed to be a small business development bond if

(*a*) it is reasonable to consider that the corporation and the holder intended that this section would apply to the obligation having regard to such factors as may be relevant, including the rate of interest stipulated under the terms of the obligation and the manner in which the corporation and the holder have treated the obligation for the purposes of this Act; and

(*b*) the holder files with the Minister a joint election within 90 days from the later of

(i) the date of notification by the Minister that a joint election in respect of the obligation has not been filed pursuant to the definition 'small business development bond' in subsection (3), and

(ii) March 30, 1983."

S. 15.1(11) was repealed by S.C. 1994, c. 7, Sched. VIII, s. 6(1), applicable to obligations issued after February 25, 1992. S. 15.1(11) formerly read:

"(11) *Penalties.* For the purpose of subsection 163(3), where an amount is added to the taxable income of an issuer by virtue of subsection (6), the amount shall be deemed to be a penalty assessed by the Minister under section 163."

S. 15.1(12) was repealed by S.C. 1994, c. 7, Sched. VIII, s. 6(1), applicable to obligations issued after February 25, 1992. S. 15.1(12) formerly read:

"(12) *Replacement property.* Where, at any time after December 11, 1979, an amount has become receivable by a corporation as proceeds of disposition (within the meaning assigned by paragraph (*b*), (*c*) or (*d*) of the definition 'proceeds of disposition' in subsection 13(21) or paragraph (*b*), (*c*) or (*d*) of the definition of that expression in section 54) of specified property and the corporation has, before the end of the first taxation year following the taxation year in which an amount in respect of the disposition of the specified property has become receivable, acquired a replacement property (within the meaning assigned by subsection 13(4.1) or 44(5)) that is specified property, for the purpose of subsection (4) the cost to the corporation of its replacement property shall be deemed to be an expense incurred by it in disposing of the specified property."

SECTION 15.2:

► 15.2(1) ◄

(1) Interest on small business bond. Any amount received by a taxpayer as or on account of interest on a small business bond shall, except for the purposes of Part IV, be deemed to have been received as a taxable dividend from a taxable Canadian corporation.

History: S. 15.2(1) was amended by S.C. 1994, c. 7, Sched. VIII, s. 6(1), applicable to obligations issued after February 25, 1992. S. 15.2(1) formerly read:

"S. 15.2. *Small business bond.*

(1) Any amount received by a taxpayer as or on account of interest in respect of a small business bond shall, except for the purposes of Part IV, be deemed to have been received as a taxable dividend from a taxable Canadian corporation."

Related Sections: S. 89(1) Capital dividend account; s. 248(1), "taxable Canadian corporation", "taxable dividend".

Interpretation Bulletins: *Primary* — IT-507R Small business development bonds and small business bonds [Archived by the CRA].

► 15.2(2) ◄

(2) Rules for small business bonds. Where an individual or a partnership (in this section referred to as the "issuer") has issued an obligation that is at any time a small business bond, notwithstanding any other provision of this Act,

(*a*) in computing the issuer's income for a taxation year, no deduction shall be made in respect of any amount paid or payable (depending on the method regularly followed in computing the issuer's income) as or on account of interest on the bond in respect of a period that includes that time; and

(*b*) for any taxation year that includes a period throughout which the obligation was a small business bond but

(i) the issuer was not an eligible issuer, or

(ii) all or substantially all of the proceeds from the issue of the obligation were not used by the issuer in the financing of an active business carried on by the issuer in Canada immediately before the time of the issue of the obligation,

there shall be added to the tax otherwise payable under this Part by the issuer for that taxation year an amount equal to 29% of the amount of interest paid or payable (depending on the method regularly followed in computing the issuer's income) in respect of the bond for that period.

History: S. 15.2(2) was amended by S.C. 1994, c. 7, Sched. VIII, s. 6(1), applicable to obligations issued after February 25, 1992. S. 15.2(2) formerly read:

"(2) *Idem.* Where an individual or partnership (in this section referred to as the 'issuer') has issued an obligation that is at any time a small business bond, notwithstanding any other provision of this Act, the following rules apply:

(*a*) in computing the income of the issuer for a taxation year, no deduction shall be made in respect of any amount paid or payable (depending on the method regularly followed by the issuer in computing its income) for a period that includes that time as or on account of interest on the bond; and

(*b*) for any taxation year that includes a period throughout which the obligation was a small business bond but

(i) the issuer was not an eligible issuer, or

(ii) all or substantially all of the proceeds from the issue of an obligation issued in circumstances described in paragraph (*d*) of the definition 'qualifying debt obligation' in subsection (3) were not used by the eligible issuer in the financing of an active business carried on by it in Canada immediately before the time of the issuance of the obligation,

there shall be added to the tax otherwise payable by the issuer for that taxation year an amount equal to 34% of the amount of interest paid or payable (depending on the method regularly followed by the issuer in computing its income) in respect of the bond for that period."

Related Sections: S. 15.2(5) False declaration; s. 15.2(6) Partnerships; s. 248(1), "active business", "individual"; s. 255 Canada.

► 15.2(3) ◄

(3) Definitions. In this section,

History: S. 15.2(3), that portion preceding the definition of "eligible issuer", was repealed and re-enacted by S.C. 1994, c. 7, Sched. VIII, s. 6(1), applicable to obligations issued after February 25, 1992.

"*eligible issuer*" — "eligible issuer" at any time means

(*a*) an individual (other than a trust) who is resident in Canada and who,

(i) has not made a joint election before that time in respect of a small business bond,

(ii) is not a majority interest partner of a partnership that has made a joint election before that time in respect of a small business bond, and

(iii) neither controls nor is a member of a related group that controls

(A) a corporation that has made a joint election before that time in respect of a small business development bond, or

(B) a corporation that is associated with a corporation referred to in clause (A), or

(*b*) a partnership

(i) each member of which is an individual (other than a trust) who is resident in Canada,

(ii) each majority interest partner, if any, of which is an eligible issuer, and

(iii) that has not made a joint election before that time in respect of a small business bond;

History: S. 15.2(3), the definition of "eligible issuer", was amended by S.C. 1994, c. 7, Sched. VIII, s. 6(1), applicable to obligations issued after February 25, 1992. That definition formerly read:

" 'eligible issuer' means

(*a*) an individual (other than a trust) resident in Canada who has not, or is not a majority interest partner (within the meaning assigned by subsection 97(3.1)) of a partnership that has previously made a joint election in respect of a small business bond or who does not control or is not a member of a related group that controls a corporation that has previously made a joint election in respect of a small business development bond, or

(*b*) a partnership, all the members of which are individuals who are eligible issuers under paragraph (*a*);"

Related Sections: S. 15.2(3), "majority interest partner"; s. 104(1) Reference to trust or estate; s. 248(1), "corporation", "individual", "trust"; s. 250(1) Person deemed resident; s. 251(4) Definitions concerning groups; s. 251(5) Control by related groups, options, etc; s. 255 Canada; s. 256(1) Associated corporations.

"joint election" — "joint election" means an election that is made in prescribed form, containing prescribed information, jointly by the issuer of an obligation and the person who is the holder of the obligation at the time of the election, that is filed with the Minister by the holder and in which the holder and the issuer elect that the provisions of this section apply to that obligation;

History: S. 15.2(3), the definition of "joint election", was amended by S.C. 1994, c. 7, Sched. VIII, s. 6(1), applicable to obligations issued after February 25, 1992. That definition formerly read:

" 'joint election' means an election made in prescribed form jointly by the issuer of an obligation and the person who is the holder of the obligation at the election time and filed with the Minister by the holder in which the issuer and the holder elect that the provisions of this section apply with respect to that obligation and in which the issuer declares that

(*a*) it is an eligible issuer, and

(*b*) the requirements of paragraph (*d*) of the definition 'qualifying debt obligation' in this subsection have been met;"

Related Sections: S. 248(1), "prescribed".

"majority interest partner" — [Repealed by S.C. 1998, c. 19, s. 77(1).]

History: S. 15.2(3), the definition of "majority interest partner", was repealed by S.C. 1998, c. 19, s. 77(1), applicable after April 26, 1995. S. 15.2(3), the definition of "majority interest partner", formerly read:

" *'majority interest partner'* — 'majority interest partner' of a partnership means a taxpayer who, if subsection 97(3.1) applied to this section, would be deemed to be a majority interest partner of the partnership;"

S. 15.2(3), the definition of "majority interest partner" was added by S.C. 1994, c. 7, Sched. VIII, s. 6(1), applicable to obligations issued after February 25, 1992.

"qualifying debt obligation" — "qualifying debt obligation" of an issuer at a particular time means an obligation that is a bill, note, mortgage, hypothecary claim or similar obligation issued after February 25, 1992 and before 1995,

(*a*) the principal amount of which is not less than $10,000 or more than $500,000,

(*b*) that is issued for a term of not more than 5 years and, except in the event of a failure or default under the terms or conditions of the obligation, not less than one year, and

(*c*) that was issued not more than 5 years before the particular time,

if the obligation is issued

(*d*) as part of a proposal to, or an arrangement with, the issuer's creditors that has been approved by a court under the *Bankruptcy and Insolvency Act*,

(*e*) at a time when all or substantially all of the issuer's assets are under the control of a receiver, receiver-manager, sequestrator or trustee in bankruptcy, or

(*f*) at a time when, because of financial difficulty, the issuer is in default, or could reasonably be expected to default, on a debt incurred in the course of the issuer's business and held by a person with whom the issuer was dealing at arm's length or, where the issuer is a partnership, by a person with whom each member of the partnership was dealing at arm's length, and it is issued, in whole or in part, directly or indirectly in exchange or substitution for that debt,

and the funds from the issue of the obligation are used in Canada in a business of the issuer carried on immediately before the time of issue;

History: S. 15.2(3), the portion of the definition "qualifying debt obligation" before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 199, applicable on Royal Assent, June 14, 2001. S. 15.2(3), the portion of the definition "qualifying debt obligation" before paragraph (*a*) formerly read:

" *'qualifying debt obligation'* — 'qualifying debt obligation' of an issuer at a particular time means an obligation that is a bill, note, mortgage or similar obligation issued after February 25, 1992 and before 1995,"

S. 15.2(3), the portion of the definition of "qualifying debt obligation" preceding paragraph (*a*), was amended by S.C. 1994, c. 8, s. 2(1), applicable to obligations issued after 1992, and, for the purpose of the definition "small business bond" in subsection 15.2(3) of the Act, an election made after 1992 and before the day that is 91 days after the day this Act is assented to (May 12, 1994) in respect of an obligation issued after 1992 and before 1995 shall be deemed to have been made within 90 days after the day the obligation was issued.

S. 15.2(3), the portion of the definition of "qualifying debt obligation" preceding paragraph (*a*), formerly read:

" 'qualifying debt obligation' of an issuer at a particular time means an obligation that is a bill, note, mortgage or similar obligation issued after November 12, 1981 and before 1988 or after February 25, 1992 and before 1993,"

S. 15.2(3), the definition of "qualifying debt obligation", was amended by S.C. 1994, c. 7, Sched. VIII, s. 6(1), applicable to obligations issued after February 25, 1992. That definition formerly read:

" 'qualifying debt obligation' of an individual or a partnership at any time means an obligation that is a bill, note, mortgage or similar obligation issued after November 12, 1981 and before 1988,

(*a*) the principal amount of which is not less than $10,000 or more than $500,000,

(*b*) that is issued for a term of not more than five years and, except in the event of a failure or default under the terms or conditions of the obligation, not less than one year, and

(*c*) that was issued not more than five years before that time

if

(*d*) the obligation is issued

(i) as part of a proposal to, or an arrangement with, the individual's or partnership's creditors, as the case may be, that has been approved by a court under the *Bankruptcy and Insolvency Act*,

(ii) at a time when all or substantially all of the individual's or partnership's assets, as the case may be, are under the control of a receiver, receiver-manager, sequestrator or trustee in bankruptcy, or

(iii) at a time when, by reason of financial difficulty, the individual or partnership is in default, or could reasonably be expected to default, on a debt incurred in the course of the business of the individual or partnership, as the case may be, and held by a person with whom the individual or each member of the partnership was dealing at arm's length and it is issued, in whole or in part, directly or indirectly in exchange or substitution for that debt,

and the funds from the issuance thereof are used in Canada in a business of the individual or partnership carried on immediately before the time of issuance;"

S. 15.2(3)(*a*)(iii)(A) was amended by S.C. 1994, c. 7, Sched. V, s. 90(1), to change "*Bankruptcy Act*" to "*Bankruptcy and Insolvency Act*", deemed to have come into force November 30, 1992.

Related Sections: S. 248(1), "business", "principal amount".

"small business bond" — " small business bond " at any time means

(*a*) an obligation that is at that time a qualifying debt obligation, issued by an individual or a partnership, in respect of which a joint election was made within 90 days after its issue date, or

(*b*) an obligation that is at that time a qualifying debt obligation issued by an individual or a partnership if

(i) it is reasonable to consider that the issuer and the holder of the obligation intended that this section apply to the obligation, having regard to such factors as may be relevant, including the rate of interest stipulated under the terms of the obligation and the manner in which the issuer and the holder have treated the obligation for the purposes of this Act, and

(ii) the holder files with the Minister a joint election in respect of the obligation within 90 days after the date of notification by the Minister that a joint election in respect of the obligation has not been filed under paragraph (*a*).

History: S. 15.2(3), the definition of "small business bond", was amended by S.C. 1994, c. 7, Sched. VIII, s. 6(1), applicable to obligations issued after February 25, 1992, except that an election made in respect of an obligation after February 25, 1992 and before September 9, 1993, shall be deemed to have been made within 90 days after the day the obligation was issued.

S. 15.2(3), the definition of "small business bond", formerly read:

" 'small business bond' at any time means an obligation that is at that time a qualifying debt obligation issued by an individual or partnership in respect of which a joint election was made at a particular time that is within 90 days after the later of its issue date and March 30, 1983."

Related Sections: S. 248(1), "individual", "prescribed".

► 15.2(4) ◄

(4) Status of interest. Notwithstanding any other provision of this Act, an amount paid or payable by a taxpayer pursuant to a legal obligation to pay interest on borrowed money used for the purpose of acquiring a small business bond shall be deemed to be an amount paid or payable, as the case may be, on borrowed money used for the purpose of earning income from a business or property.

History: S. 15.2(4) was amended by S.C. 1994, c. 7, Sched. VIII, s. 6(1), applicable to obligations issued after February 25, 1992. S. 15.2(4) formerly read:

"(4) *Presumption.* Notwithstanding any other provision of this Act, an amount paid or payable by a taxpayer pursuant to a legal obligation to pay interest on borrowed money used for the purpose of acquiring a small business bond shall be deemed to be an amount paid or payable, as the case may be, on borrowed money used for the purpose of earning income from a business or property."

Related Sections: S. 15.2(3), "small business bond"; s. 248(1), "amount", "borrowed money", "business", "property".

► 15.2(5) ◄

(5) False declaration. Where the Minister establishes that an issuer has knowingly or under circumstances amounting to gross negligence made a false declaration in a joint election in respect of an obligation, the reference in paragraph (2)(*b*) to "29%" shall, in respect of the obligation, be read as a reference to "87%".

History: S. 15.2(5) was amended by S.C. 1994, c. 7, Sched. VIII, s. 6(1), applicable to obligations issued after February 25, 1992. S. 15.2(5) formerly read:

"(5) Where an issuer knowingly or under circumstances amounting to gross negligence makes a false declaration in a joint election in respect of an obligation, the reference in paragraph (2)(*b*) to '34%' shall be read as a reference to '102%'."

Related Sections: S. 15.2(2) Rules for small business bonds; s. 15.2(3), "small business bond"; s. 248(1), "small business bond".

► 15.2(6) ◄

(6) Partnerships. For the purpose of paragraph (2)(*b*), in the case of an issuer that is a partnership, the expression "tax otherwise payable under this Part by the issuer" shall be read as a reference to the "tax otherwise payable under this Part by each member of the partnership" and each member shall add to that member's tax otherwise payable under this Part for the taxation year that includes the period described in paragraph (2)(*b*) the amount that can reasonably be regarded as that member's share of the amount determined under that paragraph with respect to the partnership.

History: S. 15.2(6) was amended by S.C. 1994, c. 7, Sched. VIII, s. 6(1), applicable to obligations issued after February 25, 1992. S. 15.2(6) formerly read:

"(6) For the purposes of paragraph (2)(*b*), in the case of an issuer that is a partnership, the expression 'tax otherwise payable by the issuer' shall be read as a reference to the 'tax otherwise payable by each member of the partnership' and each member shall add to the member's tax otherwise payable for the taxation year that includes the period described in paragraph (2)(*b*) the amount that can reasonably be regarded as the member's share of the amount determined under that paragraph with respect to the partnership."

Related Sections: S. 15.2(2) Rules for small business bonds; s. 248(1), "amount"; s. 249(1) Definition of "taxation year".

► 15.2(7) ◄

(7) Deemed eligible issuer. Where, but for subparagraphs (*a*)(i), (ii) and (iii) and (*b*)(ii) of the definition "eligible issuer" in subsection (3), an individual or a partnership would be an "eligible issuer", the individual or partnership shall be deemed to be an eligible issuer in respect of a small business bond at any time where the issue price of the bond does not exceed the amount, if any, by which

(*a*) $500,000

exceeds

(*b*) where the issuer is an individual, the total of all amounts each of which is the principal amount outstanding immediately after that time in respect of

(i) another obligation that is a small business bond issued by

(A) the individual, or

(B) a partnership of which the individual is a majority interest partner, or

(ii) a small business development bond issued by

(A) a corporation that is controlled by the individual or by a related group of which the individual is a member, or

(B) a corporation that is associated with a corporation referred to in clause (A), or

(*c*) where the issuer is a partnership, the total of all amounts each of which is the principal amount outstanding immediately after that time in respect of

(i) another obligation that is a small business bond issued by

(A) the partnership,

(B) an individual who is a majority interest partner of the partnership, or

(C) a partnership of which the individual referred to in clause (B) is a majority interest partner, or

(ii) a small business development bond issued by

(A) a corporation that is controlled by the individual referred to in clause (i)(B) or by a related group of which the individual is a member, or

(B) a corporation that is associated with a corporation referred to in clause (A).

History: S. 15.2(7) was amended by S.C. 1994, c. 7, Sched. VIII, s. 6(1), applicable to obligations issued after February 25, 1992. S. 15.2(7) formerly read:

"(7) Where an individual, a partnership of which the individual is a majority interest partner (within the meaning assigned by subsection 97(3.1)) or a corporation that is controlled by

(*a*) the individual,

(*b*) a related group of which the individual is a member, or

(*c*) a member of the partnership who is a majority interest partner of the partnership (within the meaning assigned by subsection 97(3.1))

has previously made a joint election in respect of a small business bond or, in the case of a corporation, a small business development bond, the individual and any partnership of which the individual is a majority interest partner (within the meaning assigned by subsection 97(3.1)) shall be deemed to be an eligible issuer in respect of any additional small business bond that the individual or partnership may issue at any particular time after May 23, 1985 if at the particular time the issue price of the additional bond does not exceed the amount, if any, by which

(*d*) $500,000

exceeds,

(*e*) where the issuer is an individual, the total of all amounts each of which is the principal amount outstanding at that particular time in respect of

(i) another small business bond issued

(A) before the particular time by the individual, or

(B) at or before the particular time by a partnership of which the individual is a majority interest partner (within the meaning assigned by subsection 97(3.1)), or

(ii) a small business development bond issued at or before the particular time by

(A) a corporation that is controlled by the individual, or by a related group of which the individual is a member, or

(B) a corporation that is associated with a corporation referred to in clause (A), or

(*f*) where the issuer is a partnership, the total of all amounts each of which is the principal amount outstanding at that particular time in respect of

(i) another small business bond issued

(A) before the particular time by the partnership, or

(B) at or before the particular time by an individual who is a majority interest partner of the partnership (within the meaning assigned by subsection 97(3.1)), or

(ii) a small business development bond issued at or before the particular time by

(A) a corporation that is controlled by the individual referred to in clause (i)(B) or by a related group of which the individual is a member, or

(B) a corporation that is associated with a corporation referred to in clause (A)."

Related Sections: S. 15.2(3), "majority interest partner", "small business bond"; s. 248(1), "corporation", "individual", "principal amount"; s. 251(4) Definitions concerning groups; s. 256(1) Associated corporations.

► 15.2(8) ◄

(8) Presumption. [Repealed by S.C. 1994, c. 7, Sched. VIII, s. 6(1).]

History: S. 15.2(8) was repealed by S.C. 1994, c. 7, Sched. VIII, s. 6(1), applicable to obligations issued after February 25, 1992. S. 15.2(8) formerly read:

"(8) *Presumption.* Notwithstanding the definition 'small business bond' in subsection (3), where the holder of a qualifying debt obligation issued by an individual or a partnership has not filed with the Minister a joint election within the time referred to in that definition, the obligation shall be deemed to be a small business bond if

(*a*) it is reasonable to consider that the issuer and the holder intended that this section would apply to the obligation having regard to such factors as may be relevant, including the rate of interest stipulated under the terms of the obligation and the manner in which the issuer and the holder have treated the obligation for the purposes of this Act; and

(*b*) the holder files with the Minister a joint election within 90 days after the date of notification by the Minister that a joint election in respect of the obligation has not been filed pursuant to the definition 'small business bond' in subsection (3)."

► 15.2(9) ◄

(9) Penalty. [Repealed by S.C. 1994, c. 7, Sched. VIII, s. 6(1).]

History: S. 15.2(9) was repealed by S.C. 1994, c. 7, Sched. VIII, s. 6(1), applicable to obligations issued after February 25, 1992. S. 15.2(9) formerly read:

"(9) *Penalty.* For the purpose of subsection 163(3), where an amount is added to the tax otherwise payable by an issuer by virtue of subsection (5), the amount shall be deemed to be a penalty assessed by the Minister under section 163."

SECTION 16:

► 16(1) ◄

(1) Income and capital combined. Where, under a contract or other arrangement, an amount can reasonably be regarded as being in part interest or other amount of an income nature and in part an amount of a capital nature, the following rules apply:

(*a*) the part of the amount that can reasonably be regarded as interest shall, irrespective of when the contract or arrangement was made or the form or legal effect thereof, be deemed to be interest on a debt obligation held by the person to whom the amount is paid or payable; and

(*b*) the part of the amount that can reasonably be regarded as an amount of an income nature, other than interest, shall, irrespective of when the contract or arrangement was made or the form or legal effect thereof, be included in the income of the taxpayer to whom the amount is paid or payable for the taxation year in which the amount was received or became due to the extent it has not otherwise been included in the taxpayer's income.

Editorial Note: The courts have applied paragraph 16(1)(*a*) to deferred payment transactions where the deferred purchase price of property can reasonably be considered to contain an interest element. Generally speaking, where property is disposed of and the payment of the purchase price is deferred, the extent to which the purchase price (not including stipulated interest thereon) exceeds the fair market value of the property at the time of the disposition may be considered interest. See the cases cited below ("Cases").

Related Sections: S. 12(3) Interest income; s. 12(4) Interest from investment contract; s. 16(4) Where s. (1) does not apply; s. 16(5) Where s. 1 does not apply; s. 20(1)(*c*) Interest; s. 214(2) Income and capital combined; s. 214(12) Where s. (2) does not apply.

Regulations: 201(1)(*d*).

Interpretation Bulletins: *Primary* — IT-265R3 Payments of income and capital combined [Archived by the CRA]. *Secondary* — IT-365R2 Damages, settlement, and similar receipts; IT-396R Interest income; IT-533 Interest Deductibility and Related Issues.

Income Tax Technical News: Issue No. 21, Cancellation of Interpretation Bulletin IT-233R.

Forms: T5 Sum.; T5.

Cases: Where an interest-free loan was equivalent to the fair market value of the property furnished as security payments to a non-resident in liquidation, the loan could not be regarded as including an interest element on which withholding tax was payable. *Rodmon Construction Inc. v. The Queen*, 75 DTC 5038 (F.C.T.D.), reversing T.R.B. (unreported).

The sale price for timber limits was paid in instalments without interest. No part of the instalments should be regarded as interest since the sale price was not in excess of fair market value and there was no evidence that interest affected the price or that it was the taxpayer's invariable practice to charge interest. *Vanwest Logging Co. v. MNR*, 71 DTC 5120 (Ex. Ct.).

The taxpayer sold his farm through instalment payments without interest. Part of each instalment could reasonably be regarded as interest since the property was sold for more than fair market value and the taxpayer, who must have appreciated the benefits of capitalization, proposed the non-payment of interest despite common business practice. *Groulx v. MNR*, 67 DTC 5284 (S.C.C.), affirming 66 DTC 5126 (Ex. Ct.), reversing 64 DTC 739 (T.A.B.).

► 16(2) ◄

(2) Obligation issued at discount. Where, in the case of a bond, debenture, bill, note, mortgage or similar obligation issued after December 20, 1960 and before June 19, 1971 by a person exempt from tax under section 149, a non-resident person not carrying on business in Canada, or

a government, municipality or municipal or other public body performing a function of government,

(*a*) the obligation was issued for an amount that is less than the principal amount of the obligation,

(*b*) the interest stipulated to be payable on the obligation, expressed in terms of an annual rate on

(i) the principal amount thereof, if no amount is payable on account of the principal amount before the maturity of the obligation, or

(ii) the amount outstanding from time to time as or on account of the principal amount thereof, in any other case,

is less than 5%, and

(*c*) the yield from the obligation, expressed in terms of an annual rate on the amount for which the obligation was issued (which annual rate shall, if the terms of the obligation or any agreement relating thereto conferred on the holder thereof a right to demand payment of the principal amount of the obligation or the amount outstanding as or on account of the principal amount, as the case may be, before the maturity of the obligation, be calculated on the basis of the yield that produces the highest annual rate obtainable either on the maturity of the obligation or conditional on the exercise of any such right) exceeds the annual rate determined under paragraph (*b*) by more than 1/3 thereof,

the amount by which the principal amount of the obligation exceeds the amount for which the obligation was issued shall be included in computing the income of the first owner of the obligation who is a resident of Canada and is not a person exempt from tax under section 149 or a government, for the taxation year of that owner of the obligation in which he, she or it became the owner thereof.

Related Sections: S. 16(5) Where s. 1 does not apply; s. 53 Adjustments to cost base — Obligation issued at a discount.

Interpretation Bulletins: *Primary* — IT-265R3 Payments of income and capital combined [Archived by the CRA].

► 16(3) ◄

(3) Obligation issued at discount. Where, in the case of a bond, debenture, bill, note, mortgage, hypothecary claim or similar obligation (other than an obligation that is a prescribed debt obligation for the purpose of subsection 12(9)) issued after June 18, 1971 by a person exempt, because of section 149, from Part I tax on part or on all of the person's income, a non-resident person not carrying on business in Canada or a government, municipality or municipal or other public body performing a function of government,

(*a*) the obligation was issued for an amount that is less than the principal amount of the obligation, and

(*b*) the yield from the obligation, expressed in terms of an annual rate on the amount for which the obligation was issued (which annual rate shall, if the terms of the obligation or any agreement relating thereto conferred on the holder thereof a right to demand payment of the principal amount of the obligation or the amount outstanding as or on account of the principal amount, as the case may be, before the maturity of the obligation, be calculated on the basis of the yield that produces the highest annual rate obtainable either on the maturity of the obligation or conditional on the exercise of any such right) exceeds 4/3 of the interest stipulated to be payable on the obligation, expressed in terms of an annual rate on

(i) the principal amount of the obligation, if no amount is payable on account of the principal amount before the maturity of the obligation, or

(ii) the amount outstanding from time to time as or on account of the principal amount thereof, in any other case,

the amount by which the principal amount of the obligation exceeds the amount for which the obligation was issued shall be included in computing the income of the first owner of the obligation

(*c*) who is resident in Canada,

(*d*) who is not a government nor a person exempt, because of section 149, from tax under this Part on all or part of the person's taxable income, and

(*e*) of whom the obligation is a capital property,

for the taxation year in which the owner acquired the obligation.

History: S. 16(3), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 200, applicable on Royal Assent June 14, 2001. S. 16(3), the portion before paragraph (*a*) formerly read:

"(3) *Idem.* Where, in the case of a bond, debenture, bill, note, mortgage or similar obligation (other than an obligation that is a prescribed debt obligation for the purpose of subsection 12(9)) issued after June 18, 1971 by a person exempt, because of section 149, from Part I tax on part or on all of the person's income, a non-resident person not carrying on business in Canada or a government, municipality or municipal or other public body performing a function of government,"

S. 16(3), the portion following paragraph (*b*), was amended by S.C. 1994, c. 21, s. 10(1), applicable to the 1990 and subsequent taxation years. The portion formerly read:

"the amount by which the principal amount of the obligation exceeds the amount for which the obligation was issued shall be included in computing the income of the first owner of the obligation who is a resident of Canada and is not a person exempt from tax under section 149 or a government, for the taxation year of that owner of the obligation in which he, she or it became the owner thereof."

S. 16(3), that portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 7(1), applicable to the 1991 and subsequent taxation years. S. 16(3), that portion preceding paragraph (*a*), formerly read:

"(3) Where, in the case of a bond, debenture, bill, note, mortgage or similar obligation issued after June 18, 1971 by a person exempt from tax under section 149, a non-resident person not carrying on business in Canada, or a government, municipality or municipal or other public body performing a function of government,"

Editorial Note: The amount included under subsection 16(3) is added to the taxpayer's adjusted cost base of the debt obligation under paragraph 53(1)(*g*).

Related Sections: S. 53(1)(*g*) Adjustments to cost base — Obligation issued at a discount; s. 142.4(1), "tax basis"; s. 214(7) Sale of obligation; s. 214(7.1) Obligation transfer between a resident and a non-resident; s. 253 Extended meaning of "carrying on business".

Interpretation Bulletins: *Secondary* — IT-265R3 Payments of income and capital combined [Archived by the CRA].

► 16(4) ◄

(4) Where s. (1) does not apply. Subsection (1) does not apply to any amount received by a taxpayer in a taxation year

(*a*) as an annuity payment; or

(*b*) in satisfaction of the taxpayer's rights under an annuity contract.

Related Sections: S. 12.2(1) Amount to be included; s. 56(1)(*d*) Annuity payments; s. 248(1), "annuity".

Regulations: Part III.

Interpretation Bulletins: *Secondary* — IT-265R3 Payments of income and capital combined [Archived by the CRA].

► 16(5) ◄

(5) Idem. Subsection (1) does not apply in any case where subsection (2) or (3) applies.

Interpretation Bulletins: *Secondary* — IT-265R3 Payments of income and capital combined [Archived by the CRA].

► 16(6) ◄

(6) Indexed debt obligations. Subject to subsection (7) and for the purposes of this Act, where at any time in a taxpayer's taxation year

(*a*) an interest in an indexed debt obligation is held by the taxpayer,

(i) an amount determined in prescribed manner shall be deemed to be received and receivable by the taxpayer in the year as interest in respect of the obligation, and

(ii) an amount determined in prescribed manner shall be deemed to be paid and payable in respect of the year by the taxpayer as interest under a legal obligation of the taxpayer to pay interest on borrowed money used for the purpose of earning income from a business or property;

(*b*) an indexed debt obligation is an obligation of the taxpayer,

(i) an amount determined in prescribed manner shall be deemed to be payable in respect of the year by the taxpayer as interest in respect of the obligation, and

(ii) an amount determined in prescribed manner shall be deemed to be received and receivable by the taxpayer in the year as interest in respect of the obligation; and

(*c*) the taxpayer pays or credits an amount in respect of an amount determined under subparagraph (*b*)(i) in respect of an indexed debt obligation, the payment or crediting shall be deemed to be a payment or crediting of interest on the obligation.

History: S. 16(6), the portion before paragraph (*a*), was amended by 1998, c. 19, s. 78(1), applicable

(*a*) to taxation years that end after September 1997; and

(*b*) to a taxpayer's taxation years that end after 1995 and before October 1997 where the taxpayer files an election in accordance with paragraph 81(11)(*b*). S. 16(6), the portion before paragraph (*a*), formerly read:

"(6) *Indexed debt obligations.* For the purposes of this Act, where at any time in a taxpayer's taxation year"

S. 16(6) was added by S.C. 1994, c. 7, Sched. VIII, s. 7(2), applicable to debt obligations issued after October 16, 1991.

Related Sections: S. 12(1)(*c*) Interest; s. 20(1)(*c*) Interest; s. 53(1)(*g*.1) Adjustments to cost base — Indexed debt obligation; s. 53(2)(i.1) Amounts to be deducted — Indexed debt obligation; s. 212(1)(*b*) Interest; s. 248(1), "amount", "borrowed money", "business", "indexed debt obligation".

Regulations: 7001.

Tax Window Files: Excluded Amount with Respect to Indexed Debt Obligation, December 21, 2005, CRA Document No. 2005-0154191E5; Indexed Debt Obligations — Various Issues, December 22, 2003, CRA Document No. 2003-0000125

► 16(7) ◄

(7) Impaired indexed debt obligations. Paragraph (6)(*a*) does not apply to a taxpayer in respect of an indexed debt obligation for the part of a taxation year throughout which the obligation is impaired where an amount in respect of the obligation is deductible because of subparagraph 20(1)(*l*)(ii) in computing the taxpayer's income for the year.

History: S. 16(7) was added by 1998, c. 19, s. 78(2), applicable

(*a*) to taxation years that end after September 1997; and

(*b*) to a taxpayer's taxation years that end after 1995 and before October 1997 where the taxpayer files an election in accordance with paragraph 81(11)(*b*).

SECTION 16.1:

► 16.1(1) ◄

(1) Leasing properties. Where a taxpayer (in this section referred to as the "lessee") leases tangible property (other than prescribed property) that would, if the lessee acquired the property, be depreciable property of the lessee, from a person resident in Canada other than a person whose taxable income is exempt from tax under this Part, or from a non-resident person who holds the lease in the course of carrying on a business through a permanent establishment in Canada, as defined by regulation, any income from which is subject to tax under this Part, who owns the property and with whom the lessee was dealing at arm's length (in this section referred to as the "lessor") for a term of more than one year, if the lessee and the lessor jointly elect in prescribed form filed with their returns of income for their respective taxation years that include the particular time when the lease began, the following rules apply for the purpose of computing the income of the lessee for the taxation year that includes the particular time and for all subsequent taxation years:

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 16.1(1) of the Act before paragraph (*a*) is replaced by the following:

SECTION 16.1:

(1) Leasing properties. Where a taxpayer (in this section referred to as the "lessee") leases tangible property, or for civil law corporeal property, that is not prescribed property and that would, if the lessee acquired the property, be depreciable property of the lessee, from a person resident in Canada other than a person whose taxable income is exempt from tax under this Part, or from a non-resident person who holds the lease in the course of carrying on a business through a permanent establishment in Canada, as defined by regulation, any income from which is subject to tax under this Part, who owns the property and with whom the lessee was dealing at arm's length (in this section referred to as the "lessor") for a term of more than one year, if the lessee and the lessor jointly elect in prescribed form filed with their returns of income for their respective taxation years that include the particular time when the lease began, the following rules apply for the purpose of computing the income of the lessee for the taxation year that includes the particular time and for all subsequent taxation years:

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*a*) in respect of amounts paid or payable for the use of, or for the right to use, the property, the lease shall be deemed not to be a lease;

(*b*) the lessee shall be deemed to have acquired the property from the lessor at the particular time at a cost equal to its fair market value at that time;

(*c*) the lessee shall be deemed to have borrowed money from the lessor at the particular time, for the purpose of acquiring the property, in a principal amount equal to the fair market value of the property at that time;

(*d*) interest shall be deemed to accrue on the principal amount of the borrowed money outstanding from time to time, compounded semi-annually, not in advance, at the prescribed rate in effect

(i) at the earlier of

(A) the time, if any, before the particular time, at which the lessee last entered into an agreement to lease the property, and

(B) the particular time, or

(ii) where the lease provides that the amount payable by the lessee for the use of, or the right to use, the property varies according to prevailing interest rates in effect from time to time, and the lessee so elects, in respect of all of the property that is subject to the lease, in the lessee's return of income under this Part for the taxation year of the lessee in which the lease began, at the beginning of the period for which the interest is being calculated;

(*e*) all amounts paid or payable by or on behalf of the lessee for the use of, or the right to use, the property in the year shall be deemed to be blended payments, paid or payable by the lessee, of principal and interest on the borrowed money outstanding from time to time, calculated in accordance with paragraph (*d*), applied firstly on account of interest on principal, secondly on account of interest on unpaid interest and thirdly on account of unpaid principal, if any, and the amount, if any, by which any such payment exceeds the total of those amounts shall be deemed to be paid or payable on account of interest, and any amount deemed by reason of this paragraph to be a payment of interest shall be deemed to have been an amount paid or payable, as the case may be, pursuant to a legal obligation to pay interest in respect of the year on the borrowed money;

(*f*) at the time of the expiration or cancellation of the lease, the assignment of the lease or the sublease of the property by the lessee, the lessee shall (except where subsection (4) applies) be deemed to have disposed of the property at that time for proceeds of disposition equal to the amount, if any, by which

(i) the total of

(A) the amount referred to in paragraph (*c*), and

(B) all amounts received or receivable by the lessee in respect of the cancellation or assignment of the lease or the sublease of the property

exceeds

(ii) the total of

(A) all amounts deemed under paragraph (*e*) to have been paid or payable, as the case may be, by the lessee on account of the principal amount of the borrowed money, and

(B) all amounts paid or payable by or on behalf of the lessee in respect of the cancellation or assignment of the lease or the sublease of the property;

(*g*) for the purposes of subsections 13(5.2) and (5.3), each amount paid or payable by or on behalf of the lessee that would, but for this subsection, have been an amount paid or payable for the use of, or the right to use, the property shall be deemed to have been deducted in computing the lessee's income as an amount paid or payable by the lessee for the use of, or the right to use, the property after the particular time;

(*h*) any amount paid or payable by or on behalf of the lessee in respect of the granting or assignment of the lease or the sublease of the property that would, but for this paragraph, be the capital cost to the lessee of a leasehold interest in the property shall be deemed to be an amount paid or payable, as the case may be, by the lessee for the use of, or the right to use, the property for the remaining term of the lease; and

(*i*) where the lessee elects under this subsection in respect of a property and, at any time after the lease was entered into, the owner of the property is a non-resident person who does not hold the lease in the course of carrying on a business through a permanent establishment in Canada, as defined by regulation, any income from which is subject to tax under this Part, for the purposes of this subsection the lease shall be deemed to have been cancelled at that time.

History: S. 16.1(1), the portion before paragraph (*a*) was amended by S.C. 1999, c. 22, s. 7(1), applicable to leases entered into by a taxpayer or partnership after 3:30 p.m., Eastern Daylight Saving Time, August 18, 1998, other than such leases entered into after that time pursuant to an agreement in writing

(*a*) made before that time under which the taxpayer or partnership was required to enter into the lease, and

(*b*) in respect of which there is no agreement or other arrangement under which the obligation of the taxpayer or partnership to enter into the lease can be changed, reduced or waived if there is a change to the Act or if there is an adverse assessment under the Act,

and for the purpose of this subsection, a lease in respect of which a material change has been agreed to by the parties to the lease, effective at any particular time that is after 3:30 p.m., Eastern Daylight Saving Time, August 18, 1998, is deemed to have been entered into at that particular time. That portion formerly read:

"S. 16.1. *Leasing properties.*

(1) Where a taxpayer (in this section referred to as the 'lessee') leases tangible property (other than prescribed property) that would, if the lessee acquired the property, be depreciable property of the lessee, from a person resident in Canada (or from a non-resident person who holds the lease in the course of carrying on a business through a permanent establishment in Canada, as defined by regulation, any income from which is subject to tax under this Part) who owns the property and with whom the lessee was dealing at arm's length (in this section referred to as the 'lessor') for a term of more than one year, if the lessee and the lessor jointly elect in prescribed form filed with their returns of income under this Part for their respective taxation years that include the particular time when the lease began, the following rules apply for the purposes of computing the income of the lessee for the taxation year that includes the particular time and for all subsequent taxation years:"

S. 16.1(1) preceding paragraph (*e*) was amended by S.C. 1994, c. 7, Sched. II, s. 12(1), applicable to leases and subleases entered into after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989, other than

(*a*) leases entered into under an agreement in writing entered into at or before 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989 under which the lessee thereunder has the right to require the lease of the property, and

(*b*) subleases of properties that are subject to leases described in paragraph (*a*) or to leases entered into at or before 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989,

except that, with respect to leases and subleases entered into after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989 and before June 12, 1989, subsection 16.1(1) shall be read without reference to paragraph 16.1(1)(*i*) of the Act, to the words "resident in Canada (or from a non-resident person who holds the lease in the course of carrying on a business through a permanent establishment in Canada, as defined by regulation, any income from which is

subject to tax under this Part)" and to the words "and with whom the lessee was dealing at arm's length", and, with respect to leases and subleases entered into after June 11, 1989 and before July 13, 1990, subsection 16.1(1) shall be read without reference to clause 16.1(1)(*d*)(i)(A) of the Act, to the words "the earlier of" and to the words "any income from which is subject to tax under this Part".

S. 16.1(1) preceding (*e*) formerly read:

"S. 16.1. *Leasing properties.*

(1) Where, at any particular time, a taxpayer (in this section referred to as the 'lessee') has leased tangible property (other than prescribed property) that would, if the lessee had acquired the property, have been depreciable property of the lessee, from a person resident in Canada (or from a person not resident in Canada where the lease is held in the course of carrying on a business through a permanent establishment in Canada, as defined by regulation) who owns the property and with whom the lessee was dealing at arm's length (in this section referred to as the 'lessor') for a term of more than one year, if the lessee and the lessor have jointly elected by filing the prescribed form with their returns of income under this Part for their respective taxation years that include the time at which the lease was entered into, the following rules apply for the purposes of computing the income of the lessee for the taxation year that includes the particular time and for all subsequent taxation years:

(*a*) the lease shall be deemed not to be a lease;

(*b*) the lessee shall be deemed to have acquired the property from the lessor at the particular time at a cost equal to its fair market value at that time;

(*c*) the lessee shall be deemed to have borrowed money from the lessor at the particular time, for the purpose of acquiring the property, in a principal amount equal to the fair market value of the property at that time;

(*d*) interest shall be deemed to accrue on the principal amount of the borrowed money outstanding from time to time, compounded semi-annually, not in advance, at the prescribed rate in effect at the particular time (or, where a particular lease provides that the amount paid or payable by the lessee for the use of, or the right to use, the property varies according to prevailing interest rates in effect from time to time, and the lessee so elects, in respect of all of the property that is subject to the particular lease, in the lessee's return of income under this Part for the taxation year of the lessee in which the particular lease was entered into, the prescribed rate that is in effect at the time the interest is being calculated);".

S. 16.1(1)(*i*) was amended by S.C. 1994, c. 7, Sched. II, s. 12(2), applicable to leases and subleases entered into after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989, other than

(*a*) leases entered into under an agreement in writing entered into at or before 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989 under which the lessee thereunder has the right to require the lease of the property, and

(*b*) subleases of properties that are subject to leases described in paragraph (*a*) or to leases entered into at or before 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989,

except that, with respect to leases and subleases entered into after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989 and before June 12, 1989, subsection 16.1(1) shall be read without reference to paragraph 16.1(1)(*i*) of the Act, to the words "resident in Canada (or from a non-resident person who holds the lease in the course of carrying on a business through a permanent establishment in Canada, as defined by regulation, any income from which is subject to tax under this Part)" and to the words "and with whom the lessee was dealing at arm's length", and, with respect to leases and subleases entered into after June 11, 1989 and before July 13, 1990, subsection 16.1(1) shall be read without reference to clause 16.1(1)(*d*)(i)(A) of the Act, to the words "the earlier of" and to the words "any income from which is subject to tax under this Part".

S. 16.1(1)(*i*) formerly read:

"(*i*) where the lessee has made an election under this subsection in respect of a property and, at any time after the lease was entered into, the owner of the property is a person not resident in Canada (except where the person holds the lease in the course of carrying on a business through a permanent establishment in Canada, as defined by regulation), for the purposes of this subsection, the lease shall be deemed to have been cancelled at that time."

Regulations: 1100(1.13)(a); 4302; 8200; 8201.
Forms: T2145; T2146.

► 16.1(2) ◄

(2) Assignments and subleases. Subject to subsections (3) and (4), where at any particular time a lessee who has made an election under subsection (1) in respect of a leased property assigns the lease or subleases the property to another person (in this section referred to as the "assignee"),

(*a*) subsection (1) shall not apply in computing the income of the lessee in respect of the lease for any period after the particular time; and

(*b*) if the lessee and the assignee jointly elect in prescribed form filed with their returns of income under this Part for their respective taxation years that include the particular time, subsection (1) shall apply to the assignee as if

(i) the assignee leased the property at the particular time from the owner of the property for a term of more than one year, and

(ii) the assignee and the owner of the property jointly elected under subsection (1) in respect of the property with their returns of income under this Part for their respective taxation years that include the particular time.

History: s. 16.1(2)(*b*) was amended by S.C. 1994, c. 7, Sched. II, s. 12(3), applicable to leases and subleases entered into after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989, other than

(*a*) leases entered into under an agreement in writing entered into at or before 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989 under which the lessee thereunder has the right to require the lease of the property, and

(*b*) subleases of properties that are subject to leases described in paragraph (*a*) or to leases entered into at or before 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989.

S. 16.1(2)(*b*) formerly read:

"(*b*) if the lessee and the assignee have jointly elected by filing the prescribed form with their returns of income under this Part for their respective taxation years that include the time at which the assignment or sublease was entered into, subsection (1) shall apply to the assignee as if the assignee leased the property at that time from the owner of the property for a term of more than one year."

► 16.1(3) ◄

(3) Idem. Subject to subsection (4), where at any particular time a lessee who has made an election under subsection (1) in respect of a leased property assigns the lease or subleases the property to another person with whom the lessee is not dealing at arm's length, the other person shall, for the purposes of subsection (1) and for the purposes of computing that person's income in respect of the lease for any period after the particular time, be deemed to be the same person as, and a continuation of, the lessee, except that, notwithstanding paragraph (1)(*b*), that other person shall be deemed to have acquired the property from the lessee at the time that it was acquired by the lessee at a cost equal to the amount that would be the lessee's proceeds of disposition of the property determined under paragraph (1)(*f*) if that amount were determined without reference to clauses (1)(*f*)(i)(B) and (ii)(B).

► 16.1(4) ◄

(4) Amalgamations and windings-up. Notwithstanding subsection (2), where at any time a particular corporation that has made an election under subsection (1) in respect of a lease assigns the lease

(*a*) by reason of an amalgamation (within the meaning assigned by subsection 87(1)), or

(*b*) in the course of the winding-up of a Canadian corporation in respect of which subsection 88(1) applies,

to another corporation with which it does not deal at arm's length, the other corporation shall, for the purposes of subsection (1) and for the purposes of computing its income in respect of the lease after that time, be deemed to

be the same person as, and a continuation of, the particular corporation.

► 16.1(5) ◄

(5) Replacement property. For the purposes of subsection (1), where at any time a property (in this subsection referred to as a "replacement property") is provided by a lessor to a lessee as a replacement for a similar property of the lessor (in this subsection referred to as the "original property") that was leased by the lessor to the lessee, and the amount payable by the lessee for the use of, or the right to use, the replacement property is the same as the amount that was so payable in respect of the original property, the replacement property shall be deemed to be the same property as the original property.

History: S. 16.1(5) was added by S.C. 1994, c. 7, Sched. II, s. 12(4), applicable to leases and subleases entered into after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989, other than

(*a*) leases entered into under an agreement in writing entered into at or before 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989 under which the lessee thereunder has the right to require the lease of the property, and

(*b*) subleases of properties that are subject to leases described in paragraph (*a*) or to leases entered into at or before 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989.

► 16.1(6) ◄

(6) Additional property. For the purposes of subsection (1), where at any particular time

(*a*) an addition or alteration (in this subsection referred to as "additional property") is made by a lessor to a property (in this subsection referred to as the "original property") of the lessor that is the subject of a lease,

(*b*) the lessor and the lessee of the original property have jointly elected under subsection (1) in respect of the original property, and

(*c*) as a consequence of the addition or alteration, the total amount payable by the lessee for the use of, or the right to use, the original property and the additional property exceeds the amount so payable in respect of the original property,

the following rules apply:

(*d*) the lessee shall be deemed to have leased the additional property from the lessor at the particular time,

(*e*) the term of the lease of the additional property shall be deemed to be greater than one year,

(*f*) the lessor and the lessee shall be deemed to have jointly elected under subsection (1) in respect of the additional property,

(*g*) the prescribed rate in effect at the particular time in respect of the additional property shall be deemed to be equal to the prescribed rate in effect in respect of the original property at the particular time,

(*h*) the additional property shall be deemed not to be prescribed property, and

(*i*) the excess referred to in paragraph (*c*) shall be deemed to be an amount payable by the lessee for the use of, or the right to use, the additional property.

History: S. 16.1(6) was added by S.C. 1994, c. 7, Sched. II, s. 12(4), applicable to leases and subleases entered into after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989, other than

(*a*) leases entered into under an agreement in writing entered into at or before 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989 under which the lessee thereunder has the right to require the lease of the property, and

(*b*) subleases of properties that are subject to leases described in paragraph (*a*) or to leases entered into at or before 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989.

Regulations: 4302.

► 16.1(7) ◄

(7) Renegotiation of lease. For the purposes of subsection (1), where at any time

(*a*) a lease (in this subsection referred to as the "original lease") of property is renegotiated in the course of a *bona fide* renegotiation, and

(*b*) as a result of the renegotiation, the amount payable by the lessee of the property for the use of, or the right to use, the property is altered in respect of a period after that time (otherwise than because of an addition or alteration to which subsection (6) applies),

the original lease shall be deemed to have expired and the renegotiated lease shall be deemed to be a new lease of the property entered into at that time.

History: S. 16.1(7) was added by S.C. 1994, c. 7, Sched. II, s. 12(4), applicable to leases and subleases entered into after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989, other than

(*a*) leases entered into under an agreement in writing entered into at or before 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989 under which the lessee thereunder has the right to require the lease of the property, and

(*b*) subleases of properties that are subject to leases described in paragraph (*a*) or to leases entered into at or before 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989.

SECTION 17:

► 17(1) ◄

(1) Amount owing by non-resident. Where, at any time in a taxation year of a corporation resident in Canada, a non-resident person owes an amount to the corporation, that amount has been or remains outstanding for more than a year and the total determined under paragraph (*b*) for the year is less than the amount of interest that would be included in computing the corporation's income for the year in respect of the amount owing if that interest were computed at a reasonable rate for the period in the year during which the amount was owing, the corporation shall include an amount in computing its income for the year equal to the amount, if any, by which

(*a*) the amount of interest that would be included in computing the corporation's income for the year in respect of the amount owing if that interest were computed at the prescribed rate for the period in the year during which the amount was owing

exceeds

(*b*) the total of all amounts each of which is

(i) an amount included in computing the corporation's income for the year as, on account of, in lieu of or in satisfaction of, interest in respect of the amount owing,

(ii) an amount received or receivable by the corporation from a trust that is included in computing the corporation's income for the year or a subsequent year and that can reasonably be attributed to interest on the amount owing for the period in the year during which the amount was owing, or

(iii) an amount that is included in computing the corporation's income for the year or a subsequent year under subsection 91(1) and that can reason-

ably be attributed to interest on the amount owing for the period in the year during which the amount was owing.

Department of Finance Comfort Letter [Amount Owing by Non-Resident to Corporation Resident in Canada]

September 3, 2002

Dear XXXX:

I am writing in reply to your letter dated March 20, 2002 to Mr. Wally Conway in which you requested amendments to subparagraph 17(1)(*b*)(iii) and subsection 17(2) of the *Income Tax Act* (the "Act").

Subsection 17(1) of the Act generally applies where a non-resident owes an amount, to a corporation resident in Canada, at any time in a particular taxation year of the corporation, that amount owing to the corporation has been or remains outstanding for more than one year and the corporation does not include, in computing its income for the particular taxation year, interest, computed at a reasonable rate, on the amount owing to the corporation for the period in the particular taxation year during which the amount was owing. Where subsection 17(1) applies, the corporation is treated as having received interest, computed at a prescribed rate, on the amount owing for the period in the particular taxation year during which the amount was owing to the corporation.

Subsection 17(2) is an anti-avoidance rule that supports subsection 17(1) and is intended to prevent the use of indirect arrangements to circumvent subsection 17(1). Subsection 17(2) generally provides that, where a corporation resident in Canada (Canco) makes a loan, or transfers property, to an intermediary which in turn uses the loaned money or the transferred property to make a loan or transfer property to another non-resident person (the ultimate debtor), the ultimate debtor is treated as if it owes to Canco an amount equal to the amount owing by the ultimate debtor that arose because of the arrangement.

Subparagraph 17(1)(*b*)(iii) addresses cases where subsection 17(1) applies to a corporation resident in Canada (Canco) in respect of an amount equal to an amount owing to a controlled foreign affiliate (CFA) of Canco by a non-resident person because that amount is deemed under subsection 17(2) to be an amount owing to Canco by the non-resident person. In those cases, subparagraph 17(1)(*b*)(iii) was to provide for a reduction in the subsection 17(1) income inclusion of Canco in a particular taxation year of Canco. The reduction is intended to equal the amount of foreign accrual property income of CFA that is included in Canco's income for the particular year or a subsequent year under subsection 91(1) of the Act that can reasonably be attributed to the interest income of CFA derived from the amount owing to CFA by the non-resident person for the period in the particular year of Canco during which that amount was so owing to CFA and during which an amount equal to that amount owing to CFA was deemed to be owing to Canco by the non-resident person. For example, subparagraph 17(1)(*b*)(iii) is intended to apply where Canco transfers property to CFA, CFA then uses the property to make an interest-bearing loan to another non-resident person (the ultimate debtor), CFA earns foreign accrual property income from the interest-bearing loan made to the ultimate debtor, Canco includes that foreign accrual property income of CFA in its income, the ultimate debtor is deemed under subsection 17(2) to owe an amount to Canco equal to the amount it owes to CFA and subsection 17(1) applies to Canco in respect of the amount deemed to be owed to it by the ultimate debtor.

In your letter you noted that, in cases where subsection 17(2) applies, the deemed amount owing to Canco by the non-resident person to which subsection 17(1) applies and to which subparagraph 17(1)(*b*)(iii) refers is not the actual amount owing to CFA by the non-resident person that gives rise to the foreign accrual property income of CFA. Therefore, you noted that, in those cases, subparagraph 17(1)(*b*)(iii) would not apply to reduce Canco's income inclusion under subsection 17(1). From a tax policy point of view, we agree with your conclusion that the non-application of subparagraph 17(1)(*b*)(iii) in those cases would be inappropriate. We also agree with your submission that, from a tax policy point of view, it would be appropriate to amend subsection 17(2) so that the amount deemed by subsection 17(2) to be owed to Canco by the non-resident borrower is the actual amount owed to CFA by the non-resident borrower, rather than merely an equivalent amount.

In your letter, you also gave an example involving the interaction of subsections 17(1), (2) and (11.2). In that example, a corporation resident in Canada (Canco) transfers property to a controlled foreign affiliate (CFA) of Canco, CFA uses the property to make an interest-bearing loan (Loan #1) to another non-resident person (Forco1) and then Forco1 uses the funds to make a non interest-bearing loan (Loan #2) to another non-resident person (Forco2). Subsection 17(11.2) could apply to deem Loan #2 to have been made directly by CFA to Forco2. Thus, it is Loan #2 rather than Loan #1 that would be deemed by subsection 17(2) to be owing to Canco by CFA. From a tax policy point of view, we agree with your conclusion that, since it is the interest income earned by CFA on Loan #1 that would be included in computing CFA's foreign accrual property income, it would be appropriate in those cases to give reference to Loan #1 when applying subsection 17(2) in conjunction with subparagraph 17(1)(*b*)(iii) where Loan #1 can be linked to Loan #2.

We are prepared to recommend to the Minister of Finance that subsection 17(2) of the Act be amended to provide that the amount that is deemed by that subsection to be owing to the corporation resident in Canada by the non-resident person who is described in paragraph 17(2)(*a*) is the amount owing by that non-resident person to the particular person or partnership who is described in that paragraph under the same terms and conditions that apply to the amount owing by that non-resident person to the particular person or partnership, notwithstanding that the amount remains owing by that non-resident person to the particular person or partnership.

We are also prepared to recommend to the Minister of Finance that subparagraph 17(1)(*b*)(iii) of the Act be amended. The recommended amendments to that paragraph would provide for the inclusion of amounts in respect of a corporation resident in Canada that are amounts that, under subsection 91(1) of the Act, are included in computing the income of the corporation resident in Canada for the particular year or a subsequent year and that can reasonably be attributed to interest income of a controlled foreign affiliate of the corporation resident in Canada derived from specified amounts in respect of the corporation resident in Canada that are owing to the controlled foreign affiliate when they qualified as such amounts. Amounts will, at a particular time, qualify as specified amounts in respect of a corporation resident in Canada that are owing to a controlled foreign affiliate of that corporation, if at that time,

- the amounts are owing to the controlled foreign affiliate by the non-resident person referred to in subsection 17(1), the amounts are deemed by subsection 17(2) to be owed to the corporation resident in Canada by the non-resident person and the amounts are the amounts to which subsection 17(1) applies in respect of the corporation, or
- the amounts (not exceeding the actual amounts owing to which subsection 17(1) applies) are owing to the controlled foreign affiliate by a non-resident person and

1. would be deemed by subsection 17(2), if section 17 were read without reference to subsection 17(11.2), to be owed to the corporation resident in Canada by that non-resident person,

2. are loans made by the controlled foreign affiliate that are deemed, under paragraph 17(11.2)(*b*), not to have been made by the controlled foreign affiliate, and

3. are loans made by the controlled foreign affiliate to persons other than the non-resident person referred to in subsection 17(1) that resulted in a loan being made to the non-resident person referred to in subsection 17(1) that

— is deemed by paragraph 17(11.2)(*a*) to have been made by the controlled foreign affiliate to the non-resident person referred to in subsection 17(1) for the purposes of subsection 17(2), and

— is deemed by subsection 17(2) to be owed to the corporation resident in Canada by the non-resident person and is the amount owing to which subsection 17(1) applies.

We will recommend that the amendments apply to taxation years that begin after February 23, 1998.

Thank you for writing.

Yours sincerely,

Len Farber
General Director
Tax Legislation Division
Tax Policy Branch

History: S. 17(1) was amended by S.C. 1999, c. 22, s. 8(1), applicable to taxation years that begin after February 23, 1998 except that in its application to a taxation year that includes March 10, 1999, the amount determined under subsection 17(1) of the Act is deemed to be the amount that is equal to the total of

(i) the amount that would have been determined under that subsection if the taxation year had ended at the end of March 10, 1999 and if subsection 17(7) of the Act had read as follows:

"(7) Subsection (1) does not apply in respect of an amount owing to a corporation resident in Canada by a non-resident person if a tax has been paid under Part XIII on the amount owing."

(ii) the amount that would have been determined under subsection 17(1) of the Act if the taxation year had begun immediately after the end of March 10, 1999. S. 17(1) formerly read:

"S. 17. *Loan to non-resident.*

(1) Where a corporation resident in Canada has lent money to a non-resident person and the loan remained outstanding for one year or longer without interest on the loan computed at a reasonable rate having been included in computing the lender's income, the corporation shall be deemed to have received, on the last day of each taxation year during which the loan was outstanding, interest on the loan at the prescribed rate computed for the period in the taxation year during which it was outstanding."

Editorial Note: Subsection 17(1) was enacted to prevent corporations resident in Canada from avoiding Canadian tax by providing loans or other amounts at low interest or no interest to non-residents. For the provision to apply, (a) a corporation resident in Canada must be owed funds by a non-resident person (the creditor must be a Canadian resident corporation but the debtor can be any person who is a non-resident), (b) the amount owed to the Canadian resident corporation must have been outstanding for more than a year, and (c) the Canadian resident corporation must have included in its income for the year, an amount of interest in respect of the outstanding amount that is less than interest computed at a reasonable rate for the period in the year during which the amount was owing. If these conditions are satisfied, the difference between the amount of such interest received (if any) and interest calculated at the prescribed interest rate under Regulation 4301 is included in the Canadian resident corporation's income for the year.

It should be noted that section 17 contains many anti-avoidance rules which may cause a loan or transfer to be "caught" and that exceptions to the application of subsection 17(1) are found in subsections (7), (8) and (9). It should also be noted that subsection 17(1) was amended applicable to taxation years that begin after February 23, 1998. Before this amendment, the provision only applied to loans, and the amendment extended the application significantly by including any amount outstanding. The term "interest computed at a reasonable rate" is not defined in the Act but the CRA has published numerous technical interpretations setting out its views on the meaning of this term. It should also be noted that if a non-resident owes an amount to a Canadian resident and such amount is not subject to subsection 17(1) because of an exception to section 17 or because the amount is not owed to a Canadian resident corporation, section 247 which deals with transfer pricing may apply.

Regulations: 4301.

Tax Topics: No. 1631, Tinkering with Section 17.

Tax Profile: June 2008 — International Tax Planning for the Owner-Manager; January 2008 — Tax Ramifications of Non-Resident Purchases of Canadian Businesses; July 2001 — International Fiscal Association (Canadian Branch), International Tax Seminars.

Canadian Tax Foundation: Grosman and Buttenham, "Foreign Affiliate Taxation: An Update For Owner-Managers and Their Advisors", *2005 Ontario Tax Conference*, 2:1; Terry McDowell, "Section 17: Practical Issues Arising From the Indirect Indebtedness Rule", *2004 Tax Conference*, 19:1; Tremblay, and Wilkie, "The Canadian Triangle: The Canadian Triangle: Tax Policy Reflections on the Uneasy Interaction of 15(2), 17, and 95(2)", *2002 Annual Conference*, 18:1; Moskowitz, "Recent Amendments To Section 17", *1999 Conference Report*, No. 43:1; Woolford-Marshall, "Amendments to Section 17: Imputed Income to Canadian Resident Corporations on Certain Loans to Non-residents", *1999 Canadian Tax Journal*, No. 3, 640.

Tax Window Files: Loan to Non-Resident — Doubtful Debt, March 29, 2006, CRA Document No. 2004-0093541E5; Reasonable Rate of Interest, March 6, 2003, CRA Document No. 2002-0178357; Application of Subsection 17(1), August 2, 2002, CRA Document No. 2002-0148547; Amount Owing by Non-Resident, February 8, 2001, CRA Document No. 2001-0064555; Loan to Non-Resident, September 3, 1999, CRA Document No. 9824065; Loans to Non-Residents — Reasonable Rate of Interest, October 27, 1992, CRA Document No. 9230027; Reasonable Rate of Interest on Loans to Non-Residents, February 6, 1992, CRA Document No. 9032185.

Cases: The amendment to subsection 17(1), substituting "prescribed rates" for the previously stipulated 5 per cent per annum rate, did not have the effect of creating new obligations on the taxpayer with respect to loan transactions entered into prior to January 1, 1979. *Upper Lakes Shipping Limited v. M.N.R.*, 92 DTC 2381 (T.C.C.).

► 17(2) ◄

(2) Anti-avoidance rule — indirect loan. For the purpose of this section and subject to subsection (3), where

(*a*) a non-resident person owes an amount at any time to a particular person or partnership (other than a corporation resident in Canada), and

(*b*) it is reasonable to conclude that the particular person or partnership entered into the transaction under which the amount became owing or the particular person or partnership permitted the amount owing to remain outstanding because

(i) a corporation resident in Canada made a loan or transfer of property, or

(ii) the particular person or partnership anticipated that a corporation resident in Canada would make a loan or transfer of property,

either directly or indirectly, in any manner whatever, to or for the benefit of any person or partnership (other than an exempt loan or transfer),

the non-resident person is deemed at that time to owe to the corporation an amount equal to the amount owing to the particular person or partnership.

History: S. 17(2) was amended by S.C. 1999, c. 22, s. 8(1), applicable to taxation years that begin after 1999. S. 17(2) formerly read:

"(2) *Exception.* Subsection (1) does not apply if a tax has been paid on the amount of the loan under Part XIII."

Editorial Note: Subsection 17(2) is an anti-avoidance provision which deals with indirect loans. For the subsection to apply, the following tests must be met: (a) a non-resident person owes an amount at any time to a person or partnership other than a Canadian resident corporation; (b) a Canadian resident corporation made a loan or transfer of property, either directly or indirectly in any manner whatsoever to or for the benefit of any person or partnership; and (c) it is reasonable to conclude that the particular person or partnership entered into the transaction under (a) above, because of the loan or transfer under (b) above. If these conditions are met, the non-resident person is deemed to owe money to the Canadian resident corporation in an amount equal to the amount owing to the particular person or partnership. It should be noted that because the test is a subjective "reasonable to conclude" test, it is often difficult to ascertain when this anti-avoidance provision applies. It should also be noted that the provision does not apply if it involves an "exempt loan or transfer" which is defined in subsection 17(15) to generally include (a) loan made by a Canadian resident corporation at arm's length interest; (b) a transfer of property or payment at arm's length (other than a transfer of property made for the purpose of acquiring shares of a foreign affiliate of a corporation or a corporation with whom the corporation does not deal at arm's length); (c) a dividend paid by a Canadian resident corporation; and (d) payment made by a Canadian resident corporation on a reduction of paid-up capital, or if the exception provided in subsection (3) applies.

Subsection 17(2) is extended by further anti-avoidance rules dealing with partnerships, trusts and multi-tiered entities found in subsections (4), (5) and (6) and an anti-avoidance rule relating to back-to-back loans found in subsection (11.2).

See the Department of Finance comfort letter dated September 3, 2002, reproduced following subsection 17(1).

Related Sections: S. 245(2) General anti-avoidance provision.

Tax Topics: No. 1631, Tinkering with Section 17.

Canadian Tax Foundation: McDowell, "Subsection 17(2) — Practical Issues Arising from the Indirect Rule", *2004 Conference Report*, 19:1.

Canadian Petroleum Tax Journal: Recent Developments in Corporate Reorganizations and International Transactions, Doug Richardson and Edward Rowe, Vol. 13 No. 1 2000.

Tax Window Files: Transfer of Property, May 19, 2005, CRA Document No. 2004-0072331E5; Loan to Non-Resident — Back-to-Back Loans, December 1, 2000, CRA Document No. 2000-0011895.

► 17(3) ◄

(3) Exception to anti-avoidance rule — indirect loan. Subsection (2) does not apply to an amount owing at any

time by a non-resident person to a particular person or partnership where

(*a*) at that time, the non-resident person and the particular person or each member of the particular partnership, as the case may be, are controlled foreign affiliates of the corporation resident in Canada; or

(*b*) at that time,

(i) the non-resident person and the particular person are not related or the non-resident person and each member of the particular partnership are not related, as the case may be,

(ii) the terms or conditions made or imposed in respect of the amount owing, determined without reference to any loan or transfer of property by a corporation resident in Canada described in paragraph (2)(*b*) in respect of the amount owing, are such that persons dealing at arm's length would have been willing to enter into them at the time that they were entered into, and

(iii) if there were an amount of interest payable on the amount owing at that time that would be required to be included in computing the income of a foreign affiliate of the corporation resident in Canada for a taxation year, that amount of interest would not be required to be included in computing the foreign accrual property income of the affiliate for that year.

History: S. 17(3) was amended by S.C. 1999, c. 22, s. 8(1), applicable to taxation years that begin after 1999. S. 17(3) formerly read:

"(3) *Further exception.* Subsection (1) does not apply if the loan was made to a subsidiary controlled corporation and it is established that the money that was lent was used in the subsidiary corporation's business for the purpose of gaining or producing income."

Editorial Note: One exception to the anti-avoidance rule in subsection 17(2) is found in subsection (3) which provides that subsection (2) does not apply to an amount owing at any time by a non-resident person to a particular person or a partnership if (a) the non-resident person and the particular person or each member of the particular partnership as the case may be, are controlled foreign affiliates of the corporation resident in Canada; or (b) the non-resident person and the particular person are not related, the terms in respect of the amount owing are such that persons dealing at arm's length would have been willing to enter into them, and, if there were an amount of interest payable on the amount owing at the time that would be required to be included in computing the income of a foreign affiliate of the corporation resident in Canada, that amount of interest would not be required to be included in computing the FAPI of the affiliate for the year.

The second exception deals with debts owed to unrelated third parties on arm's length terms. An example would be a Canadian resident corporation lending funds at a preferential rate to an unrelated third party in order to induce the third party to make a loan to one of its non-resident suppliers and the loan from the third party to the non-resident is on arm's length terms and any interest payable is not FAPI to the Canadian resident corporation.

It should be noted that for purposes of section 17, the definition of "controlled foreign affiliate" which is defined in subsection 95(1) (subject to the interpretational rules in subsections 95(2.01) and (2.02)) is modified by subsections 17(10), (12), (13) and (15). These modifications are generally designed to ensure that, in determining whether an income inclusion under section 17 is warranted, it is the level of Canadian ownership of the foreign entity that is ultimately determinative. For example, a foreign entity will not be considered a "controlled foreign affiliate" of a corporation resident in Canada (and therefore no exemption from the income inclusion rules in section 17 will be available) if the entity is considered a "controlled foreign affiliate" of the corporation resident in Canada solely because of the attribution of shareholdings in the foreign entity by another foreign entity that is related to the corporation resident in Canada (i.e., a foreign parent or sister company).

It should also be noted that for purposes of determining whether parties are related, reference should be made to subsection 251 as modified by subsections 17(10), (11), (11.1) and (11.3).

Related Sections: S. 17(10) Determination of whether related and controlled foreign affiliate status; s. 17(11) Determination of whether related; s. 17(11.1) Determination of whether persons related; s. 17(12) Determination of controlled foreign affiliate status; s. 17(13) Extended definition of controlled foreign affiliate; s. 17(15) Definitions; s. 95(1), "foreign affiliate", "controlled foreign affiliate", " foreign accrual property income"; s. 248(1), "corporation", "non-resident"; s. 251 Arm's length.

► 17(4) ◄

(4) Anti-avoidance rule — loan through partnership. For the purpose of this section, where a non-resident person owes an amount at any time to a partnership and subsection (2) does not deem the non-resident person to owe an amount equal to that amount to a corporation resident in Canada, the non-resident person is deemed at that time to owe to each member of the partnership, on the same terms as those that apply in respect of the amount owing to the partnership, that proportion of the amount owing to the partnership at that time that

(*a*) the fair market value of the member's interest in the partnership at that time

is of

(*b*) the fair market value of all interests in the partnership at that time.

Editorial Note: Subsection 17(4) is an anti-avoidance rule which deals with situations where a non-resident person owes an amount to a partnership and subsection (2) does not deem a like amount to be owing to a Canadian resident corporation. In such case, the non-resident person is deemed to owe each member of the partnership a portion of the amount owing at the particular time. A similar anti-avoidance rule applies to amounts owed to a trust under subsection 17(5). In such case, if the trust is a non-discretionary trust, the non-resident person is deemed to owe an amount to each beneficiary of the trust based on the beneficiary's interest in the trust. For purposes of this provision, "non-discretionary trust" is defined in subsection 17(15). In the case of any other trust, the non-resident person is deemed to owe each settlor an amount equal to the entire amount owing to the trust. Therefore, if there is more than one settlor, the same amount owing may give rise to more than one income inclusion. The definition of "settlor" is also found in subsection 17(15). Subsection 17(6) provides a similar anti-avoidance rule for tiered entities. It applies where a partnership owes an amount to any person or any other partnership. In such event, each member of the partnership owing the amount is deemed to owe a share of the amount owing. The apportionment of the amount owing is based on the fair market value of the interest of each member of the partnership owing the amount.

History: S. 17(4) was added by S.C. 1999, c. 22, s. 8(1), applicable to taxation years that begin after February 23, 1998.

► 17(5) ◄

(5) Anti-avoidance rule — loan through trust. For the purpose of this section, where a non-resident person owes an amount at any time to a trust and subsection (2) does not deem the non-resident person to owe an amount equal to that amount to a corporation resident in Canada,

(*a*) where the trust is a non-discretionary trust at that time, the non-resident person is deemed at that time to owe to each beneficiary of the trust, on the same terms as those that apply in respect of the amount owing to the trust, that proportion of the amount owing to the trust that

(i) the fair market value of the beneficiary's interest in the trust at that time

is of

(ii) the fair market value of all the beneficial interests in the trust at that time; and

(*b*) in any other case, the non-resident person is deemed at that time to owe to each settlor in respect of the trust, on the same terms as those that apply in respect of the amount owing to the trust, an amount equal to the amount owing to the trust.

Editorial Note: See the Editorial Note following subsection 17(4).

History: S. 17(5) was added by S.C. 1999, c. 22, s. 8(1), applicable to taxation years that begin after February 23, 1998.

► 17(6) ◄

(6) Anti-avoidance rule — loan to partnership. For the purpose of this section, where a particular partnership owes an amount at any time to any person or any other partnership (in this subsection referred to as the "lender"), each member of the particular partnership is deemed to owe at that time to the lender, on the same terms as those that apply in respect of the amount owing by the particular partnership to the lender, that proportion of the amount owing to the lender that

(*a*) the fair market value of the member's interest in the particular partnership at that time

is of

(*b*) the fair market value of all interests in the particular partnership at that time.

Editorial Note: See the Editorial Note following subsection 17(4).

History: S. 17(6) was added by S.C. 1999, c. 22, s. 8(1), applicable to taxation years that begin after February 23, 1998.

► 17(7) ◄

(7) Exception. Subsection (1) does not apply in respect of an amount owing to a corporation resident in Canada by a non-resident person if a tax has been paid under Part XIII on the amount owing, except that, for the purpose of this subsection, tax under Part XIII is deemed not to have been paid on that portion of the amount owing in respect of which an amount was repaid or applied under subsection 227(6.1).

History: S. 17(7) was added by S.C. 1999, c. 22, s. 8(1), applicable to taxation years that begin after February 23, 1998 except that in its application to such a taxation year that ends before March 10, 1999, subsection 17(7) of the Act shall be read as follows:

"(7) Subsection (1) does not apply in respect of an amount owing to a corporation resident in Canada by a non-resident person if a tax has been paid under Part XIII on the amount owing."

Editorial Note: Subsection 17(7) provides another exception to the inclusion rule in subsection (1). Specifically, if there is an amount owing to a Canadian resident corporation by a non-resident person, subsection 17(1) does not apply if withholding tax has been paid under Part XIII of the Act on the amount owing. However, if withholding tax was refunded under subsection 227(6.1) in respect of a repayment of a non-resident shareholder loan, Part XIII non-resident withholding tax is deemed not to have been paid for the purpose of subsection 17(7).

Related Sections: S. 15(2) Shareholder debt; s. 214(3)(*a*) Deemed payments; s. 227(6.1) Repayment of non-resident shareholder loan.

Tax Window Files: Loan To Non-resident Corporation, November 26, 2001, CRA Document No. 2001-0107145.

► 17(8) ◄

(8) Exception. Subsection (1) does not apply to a corporation resident in Canada for a taxation year of the corporation in respect of an amount owing to the corporation by a non-resident person if the non-resident person is a controlled foreign affiliate of the corporation throughout the period in the year during which the amount is owing to the extent that it is established that the amount owing

(*a*) arose as a loan or advance of money to the affiliate that the affiliate has used, throughout the period that began when the loan or advance was made and that ended at the earlier of the end of the year and the time at which the amount was repaid,

(i) for the purpose of earning

(A) income from an active business, as defined in subsection 95(1), of the affiliate, or

(B) income that was included in computing the income from an active business of the affiliate under subsection 95(2), or

(ii) for the purpose of making a loan or advance to another controlled foreign affiliate of the corporation where, if interest became payable on the loan or advance at any time in the period and the affiliate was required to include the interest in computing its income for a taxation year, that interest would not be required to be included in computing the affiliate's foreign accrual property income for that year; or

(*b*) arose in the course of an active business, as defined in subsection 95(1), carried on by the affiliate throughout the period that began when the amount owing arose and that ended at the earlier of the end of the year and the time at which the amount was repaid.

History: S. 17(8), the portion before paragraph (*a*) was replaced by S.C. 2007, c. 35, s. 10(1), applicable to taxation years that begin after February 23, 1998 and, notwithstanding subsections 152(4) to (5), any assessment of the taxpayer's tax, interest and penalties payable under the Act for any taxation year that begins after February 23, 1998 and ends before October 2, 2007 shall be made that is necessary to take the amendment to the portion of subsection 17(8) before paragraph (*a*) into account.

S. 17(8), the portion before paragraph (*a*) formerly read:

"(8) *Exception.* Subsection (1) does not apply to a corporation resident in Canada for a taxation year of the corporation in respect of an amount owing to the corporation by a non-resident person if the non-resident person is a controlled foreign affiliate of the corporation throughout the period in the year during which the amount is owing and it is established that the amount owing"

S. 17(8) was added by S.C. 1999, c. 22, s. 8(1), applicable to taxation years that begin after February 23, 1998.

Editorial Note: Subsection 17(8) is another exception to subsection (1) and limits, in certain circumstances, the income inclusion to a Canadian resident under subsection (1) if the non-resident person owing the amount is a controlled foreign affiliate of the Canadian resident corporation throughout the period during which the amount is owed. The definition of "controlled foreign affiliate" is found in subsection 95(1) (subject to the interpretational rules in subsection 95(2.01) and (2.02), as modified for purposes of section 17 (see the Editorial Note for subsection 17(3))).

Subparagraph 17(8)(*a*)(i) provides that there is no income inclusion to the extent that a loan or advance of money was made and that loan or advance was used by the controlled foreign affiliate either to earn income from an active business or to earn income that was included in the affiliate's income from an active business pursuant to subsection 95(2). It should be noted that this use must occur throughout the period that began when the loan or advance was made and that ended at the earlier of the end of the year and the time at which the amount was repaid.

Subparagraph 17(8)(*a*)(ii) provides that there is no income inclusion to the extent that a loan or advance was made and that loan or advance was used by the controlled foreign affiliate to make a loan or advance to another controlled foreign affiliate of the Canadian resident corporation and interest, if payable, and included in the first affiliate's income will not be required to be included in computing the first affiliate's FAPI for the year.

Paragraph 17(8)(*a*) limits the income inclusion under subsection 17(1) only in circumstances where a controlled foreign affiliate owes an amount to a corporation resident in Canada as a loan or advance of money. Paragraph 17(8)(*b*) limits the income inclusion in circumstances where a controlled foreign affiliate owes other amounts to the Canadian-resident corporation to the extent the amounts arose in the course of an active business carried on by the controlled foreign affiliate. The active business must be carried on by the affiliate throughout the period that began when the amount owing arose and that ended at the earlier of the end of the year and the time at which the amount was repaid.

Related Sections: S. 95(1) Foreign affiliate; s. 95(2) Determination of certain components of foreign accrual property income.

Tax Topics: No. 1631, Tinkering with Section 17.

Tax Window Files: Transfer Pricing Adjustment — Loan to Non-resident Corporation, February 6, 2004, CRA Document No. 2003-0033891E5; Loan to Non-Resident Corporation, October 23, 2001, CRA Document No. 2000-0060475; Loan by Non-resident — Indirect loans, December 22, 1999, CRA Document No. 9931735.

► 17(8.1) ◄

(8.1) Borrowed money. Subsection (8.2) applies in respect of money (referred to in this subsection and in subsection (8.2) as "new borrowings") that a controlled foreign affiliate of a particular corporation resident in Canada has borrowed from the particular corporation to the extent that the affiliate has used the new borrowings

(*a*) to repay money (referred to in this subsection and in subsection (8.2) as "previous borrowings") previously borrowed from any person or partnership, if

(i) the previous borrowings became owing after the last time at which the affiliate became a controlled foreign affiliate of the particular corporation, and

(ii) the previous borrowings were, at all times after they became owing, used for a purpose described in subparagraph (8)(*a*)(i) or (ii); or

(*b*) to pay an amount owing (referred to in this subsection and in subsection (8.2) as the "unpaid purchase price") by the affiliate for property previously acquired from any person or partnership, if

(i) the property was acquired, and the unpaid purchase price became owing, by the affiliate after the last time at which it became a controlled foreign affiliate of the particular corporation,

(ii) the unpaid purchase price is in respect of the property, and

(iii) throughout the period that began when the unpaid purchase price became owing by the affiliate and ended when the unpaid purchase price was so paid, the property had been used principally to earn income described in clause (8)(*a*)(i)(A) or (B).

History: S. 17(8.1) was added by S.C. 2007, c. 35, s. 10(2), applicable to taxation years that begin after February 23, 1998 and, notwithstanding subsections 152(4) to (5), any assessment of the taxpayer's tax, interest and penalties payable under the Act for any taxation year that begins after February 23, 1998 and ends before October 2, 2007 shall be made that is necessary to take subsections 17(8.1) and (8.2) into account.

► 17(8.2) ◄

(8.2) Deemed use. To the extent that this subsection applies in respect of new borrowings, the new borrowings are, for the purpose of subsection (8), deemed to have been used for the purpose for which the proceeds from the previous borrowings were used or were deemed by this subsection to have been used, or to acquire the property in respect of which the unpaid purchase price was payable, as the case may be.

History: S. 17(8.2) was added by S.C. 2007, c. 35, s. 10(2), applicable to taxation years that begin after February 23, 1998 and, notwithstanding subsections 152(4) to (5), any assessment of the taxpayer's tax, interest and penalties payable under the Act for any taxation year that begins after February 23, 1998 and ends before October 2, 2007 shall be made that is necessary to take subsections 17(8.1) and (8.2) into account.

► 17(9) ◄

(9) Exception. Subsection (1) does not apply to a corporation resident in Canada for a taxation year of the corporation in respect of an amount owing to the corporation by a non-resident person if

(*a*) the corporation is not related to the non-resident person throughout the period in the year during which the amount owing is outstanding;

(*b*) the amount owing arose in respect of goods sold or services provided to the non-resident person by the corporation in the ordinary course of the business carried on by the corporation; and

(*c*) the terms and conditions in respect of the amount owing are such that persons dealing at arm's length would have been willing to enter into them at the time that they were entered into.

History: S. 17(9) was added by S.C. 1999, c. 22, s. 8(1), applicable to taxation years that begin after February 23, 1998.

Editorial Note: Subsection 17(9) provides a further exception to the income inclusion under subsection (1). To qualify for this exception, the following test must be met: (a) the corporation is not related to the non-resident person while the amount owed is outstanding (related is defined in section 251 as modified for purposes of section 17 by subsections 17(10), (11) and (11.1)); (b) the amount owing is for goods or services sold to the non-resident person by the Canadian resident corporation in the ordinary course of its business; and (c) the terms and conditions for the amount owing are those that parties at arm's length would have been willing to enter into.

Related Sections: S. 251(1) Arm's length.

Tax Window Files: Reasonable Rate of Interest, March 6, 2003, CRA Document No. 2002-0178357.

► 17(10) ◄

(10) Determination of whether related and controlled foreign affiliate status. For the purpose of this section, in determining whether persons are related to each other and whether a non-resident corporation is a controlled foreign affiliate of a corporation resident in Canada at any time,

(*a*) each member of a partnership is deemed to own that proportion of the number of shares of a class of the capital stock of a corporation owned by the partnership at that time that

(i) the fair market value of the member's interest in the partnership at that time

is of

(ii) the fair market value of all interests in the partnership at that time; and

(*b*) each beneficiary of a non-discretionary trust is deemed to own that proportion of the number of shares of a class of the capital stock of a corporation owned by the trust at that time that

(i) the fair market value of the beneficiary's interest in the trust at that time

is of

(ii) the fair market value of all the beneficial interests in the trust at that time.

History: S. 17(10) was added by S.C. 1999, c. 22, s. 8(1), applicable to taxation years that begin after February 23, 1998.

► 17(11) ◄

(11) Determination of whether related. For the purpose of this section, in determining whether persons are related to each other at any time, each settlor in respect of a trust, other than a non-discretionary trust, is deemed to own the shares of a class of the capital stock of a corporation owned by the trust at that time.

History: S. 17(11) was added by S.C. 1999, c. 22, s. 8(1), applicable to taxation years that begin after February 23, 1998.

Related Sections: S. 251(2) Definition of "related persons"; s. 251(3) Corporations related through a third corporation; s. 251(3.1) Relation where amalgamation or merger; s. 251(3.2) Amalgamation of related corporations; s. 251(4) Definitions concerning groups; s. 251(5) Control by related groups, options, etc; s. 251(6) Blood relationship, etc.

► 17(11.1) ◄

(11.1) Determination of whether persons related. For the purposes of this section, in determining whether persons are related to each other at any time, any rights referred to in subparagraph 251(5)(*b*)(i) that exist at that time are deemed not to exist at that time to the extent that the exercise of those rights is prohibited at that time under a law of the country under the law of which the corporation was formed or last continued and is governed, that restricts the foreign ownership or control of the corporation.

History: S. 17(11.1) was added by S.C. 2001, c. 17, s. 8(1), applicable to taxation years that begin after February 23, 1998.

► 17(11.2) ◄

(11.2) Back-to-back loans. For the purposes of subsection (2) and paragraph (3)(*b*), where a non-resident person, or a partnership each member of which is non-resident, (in this subsection referred to as the "intermediate lender") makes a loan to a non-resident person, or a partnership each member of which is non-resident, (in this subsection referred to as the "intended borrower") because the intermediate lender received a loan from another non-resident person, or a partnership each member of which is non-resident, (in this subsection referred to as the "initial lender")

(*a*) the loan made by the intermediate lender to the intended borrower is deemed to have been made by the initial lender to the intended borrower (to the extent of the lesser of the amount of the loan made by the initial lender to the intermediate lender and the amount of the loan made by the intermediate lender to the intended borrower) under the same terms and conditions and at the same time as it was made by the intermediate lender; and

(*b*) the loan made by the initial lender to the intermediate lender and the loan made by the intermediate lender to the intended borrower are deemed not to have been made to the extent of the amount of the loan deemed to have been made under paragraph (*a*).

History: S. 17(11.2) was added by S.C. 2001, c. 17, s. 8(1), applicable to taxation years that begin after February 23, 1998.

Editorial Note: Subsection 17(11.2) prevents the use of back-to-back loans to avoid the application of subsection (2). If a non-resident person loans an amount to a non-resident person because the lender received a loan from another non-resident person, subsection 17(11.2) will apply to deem the initial lender to have made the loan directly to the intended borrower for purposes of subsection (2).

Tax Topics: No. 1631, Tinkering with Section 17.

► 17(11.3) ◄

(11.3) Determination of whether persons related. For the purpose of applying paragraph (3)(*b*) in respect of a corporation resident in Canada described in paragraph (2)(*b*), in determining whether persons described in subparagraph (3)(*b*)(i) are related to each other at any time, any rights referred to in paragraph 251(5)(*b*) that otherwise exist at that time are deemed not to exist at that time where, if the rights were exercised immediately before that time,

(*a*) all of those persons would at that time be controlled foreign affiliates of the corporation resident in Canada; and

(*b*) because of subsection (8), subsection (1) would not apply to the corporation resident in Canada in respect of the amount that would, but for this subsection, have been deemed to have been owing at that time to the corporation resident in Canada by the non-resident person described in subparagraph (3)(*b*)(i).

History: S. 17(11.3) was added by S.C. 2001, c. 17, s. 8(1), applicable to taxation years that begin after February 23, 1998.

► 17(12) ◄

(12) Determination of controlled foreign affiliate status. For the purpose of this section, in determining whether a non-resident person is a controlled foreign affiliate of a corporation resident in Canada at any time, each settlor in respect of a trust, other than a non-discretionary trust, is deemed to own that proportion of the number of shares of a class of the capital stock of a corporation owned by the trust at that time that one is of the number of settlors in respect of the trust at that time.

History: S. 17(12) was added by S.C. 1999, c. 22, s. 8(1), applicable to taxation years that begin after February 23, 1998.

► 17(13) ◄

(13) Extended definition of controlled foreign affiliate. For the purpose of this section, where, at any time, two corporations resident in Canada are related (otherwise than because of a right referred to in paragraph 251(5)(*b*)), any corporation that is a controlled foreign affiliate of one of the corporations at that time is deemed to be a controlled foreign affiliate of the other corporation at that time.

History: S. 17(13) was added by S.C. 1999, c. 22, s. 8(1), applicable to taxation years that begin after February 23, 1998.

► 17(14) ◄

(14) Anti-avoidance rule — where rights or shares issued, acquired or disposed of to avoid tax. For the purpose of this section,

(*a*) where any person or partnership has a right under a contract, in equity or otherwise, either immediately or in the future and either absolutely or contingently, to, or to acquire, shares of the capital stock of a corporation and it can reasonably be considered that the principal purpose for the existence of the right is to avoid or reduce the amount of income that subsection (1) would otherwise require any corporation to include in computing its income for any taxation year, those shares are deemed to be owned by that person or partnership; and

(*b*) where any person or partnership acquires or disposes of shares of the capital stock of a corporation, either directly or indirectly, and it can reasonably be considered that the principal purpose for the acquisition or disposition of the shares is to avoid or reduce the amount of income that subsection (1) would otherwise require any corporation to include in computing its income for any taxation year, those shares are deemed not to have been acquired or disposed of, as the case may be, and where the shares were unissued by the corporation immediately before the acquisition, those shares are deemed not to have been issued.

History: S. 17(14) was added by S.C. 1999, c. 22, s. 8(1), applicable to taxation years that begin after February 23, 1998.

► 17(15) ◄

(15) Definitions. The definitions in this subsection apply in this section.

"controlled foreign affiliate" — "controlled foreign affiliate", at any time, of a taxpayer resident in Canada, means a corporation that would, at that time, be a controlled foreign affiliate of the taxpayer within the meaning assigned by the definition "controlled foreign affiliate" in subsection 95(1) if the word "or" were added at the end of paragraph (*a*) of that definition and

(*a*) subparagraph (*b*)(ii) of that definition were read as "all of the shares of the capital stock of the foreign affiliate that are owned at that time by persons resident in Canada who do not deal at arm's length with the taxpayer,"; and

(*b*) subparagraph (*b*)(iv) of that definition were read as "all of the shares of the capital stock of the foreign

affiliate that are owned at that time by persons resident in Canada who do not deal at arm's length with any relevant Canadian shareholder;".

Coordinating Amendment

S.C. 2007 c. 35 (Bill C-28) — Coordinating Amendments With Former Bill C-10 — Income Tax Amendments Act, 2006 — December 14, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The following applies if former Bill C-10, introduced in the 2nd session of the 39th Parliament and entitled the *Income Tax Amendments Act, 2006* (referred to as the "other Act"), receives royal assent: If this Act [Bill C-28, S.C. 2007, c. 35] receives royal assent before the other Act receives royal assent, section 4 of the other Act [the amendment to the definition of "controlled foreign affiliate" in subsection 17(15)] is repealed. The definition "controlled foreign affiliate" in subsection 17(15) of the *Income Tax Act* as amended by subsection 10(3) of S.C. 2007, c. 35, is replaced by the following:

"*controlled foreign affiliate*" — "controlled foreign affiliate", at any time, of a taxpayer resident in Canada, means a corporation that would, at that time, be a controlled foreign affiliate of the taxpayer within the meaning assigned by the definition "controlled foreign affiliate" in subsection 95(1) if the word "or" were added at the end of paragraph (*a*) of that definition and

(*a*) subparagraph (*b*)(ii) of that definition were read as "all of the shares of the capital stock of the foreign affiliate that are owned at that time by persons resident in Canada who do not deal at arm's length with the taxpayer,";

(*b*) subparagraph (*b*)(iv) of that definition were read as "all of the shares of the capital stock of the foreign affiliate that are owned at that time by persons resident in Canada who do not deal at arm's length with any relevant Canadian shareholder;"; and

(*c*) that definition were read without reference to its paragraph (*c*).

Applicable: To taxation years, of a foreign affiliate of a taxpayer, that begin after February 23, 1998, except that, in applying the definition "controlled foreign affiliate" in subsection 17(15) of the *Income Tax Act*,

(*a*) for taxation years, of a foreign affiliate of a taxpayer, that begin after 2002 and on or before February 27, 2004, that definition is to be read as follows:

"'*controlled foreign affiliate*' — 'controlled foreign affiliate' has the meaning that would be assigned by the definition 'controlled foreign affiliate' in subsection 95(1) for taxation years, of a foreign affiliate of a taxpayer, that begin after 2002 and on or before February 27, 2004, if the word 'or' were added at the end of paragraph (*a*) of that definition and

(*a*) subparagraph (*b*)(ii) of that definition were read as 'all of the shares of the capital stock of the foreign affiliate that are owned at that time by persons resident in Canada who do not deal at arm's length with the taxpayer,';

(*b*) subparagraph (*b*)(iv) of that definition were read as 'all of the shares of the capital stock of the foreign affiliate that are owned at that time by persons resident in Canada who do not deal at arm's length with any relevant Canadian shareholder;'; and

(*c*) that definition were read without reference to its paragraph (*c*)."

(*b*) for taxation years, of a foreign affiliate of a taxpayer, that begin after February 23, 1998 and before 2003, that definition is to be read as follows:

"'*controlled foreign affiliate*' — 'controlled foreign affiliate' has the meaning that would be assigned by the definition 'controlled foreign affiliate' in subsection 95(1) for taxation years, of a foreign affiliate of a taxpayer, that begin after February 23, 1998 and before 2003, if subparagraph (*b*)(iii) of that definition were read as 'each share of the capital stock of a corporation that is owned at that time by the taxpayer and each share of the capital stock of a corporation that is owned at that time by any person resident in Canada with whom the taxpayer does not deal at arm's length.'."

History: S. 17(15), the definition "controlled foreign affiliate" was replaced by S.C. 2007, c. 35, s. 10(3), applicable to taxation years, of a foreign affiliate of a taxpayer, that begin after February 23, 1998, except that, in applying the definition "controlled foreign affiliate", in subsection 17(15)

(*a*) for taxation years, of a foreign affiliate of a taxpayer, that begin after 2002 and on or before February 27, 2004, that definition is to be read as follows:

"'controlled foreign affiliate' has the meaning that would be assigned by the definition 'controlled foreign affiliate' in subsection 95(1) for taxation years, of a foreign affiliate of a taxpayer, that begin after 2002 and on or before February 27, 2004, if the word 'or' were added at the end of paragraph (*a*) of that definition and

(*a*) subparagraph (*b*)(ii) of that definition were read as 'all of the shares of the capital stock of the foreign affiliate that are owned at that time by persons resident in Canada who do not deal at arm's length with the taxpayer,'; and

(*b*) subparagraph (*b*)(iv) of that definition were read as 'all of the shares of the capital stock of the foreign affiliate that are owned at that time by persons resident in Canada who do not deal at arm's length with any relevant Canadian shareholder;'."

(*b*) for taxation years, of a foreign affiliate of a taxpayer, that begin after February 23, 1998 and before 2003, that definition is to be read as follows:

"'controlled foreign affiliate' has the meaning that would be assigned by the definition 'controlled foreign affiliate' in subsection 95(1) for taxation years, of a foreign affiliate of a taxpayer, that begin after February 23, 1998 and before 2003, if subparagraph (*b*)(iii) of that definition were read as 'each share of the capital stock of a corporation that is owned at that time by the taxpayer and each share of the capital stock of a corporation that is owned at that time by any person resident in Canada with whom the taxpayer does not deal at arm's length.'."

S. 17(15), the definition "controlled foreign affiliate" formerly read:

"'*controlled foreign affiliate*' — 'controlled foreign affiliate' has the meaning that would be assigned by the definition 'controlled foreign affiliate' in subsection 95(1) if paragraphs (*d*) and (*e*) of that definition read as follows:

'(*d*) one or more persons resident in Canada with whom the taxpayer does not deal at arm's length, or

(*e*) the taxpayer and one or more persons resident in Canada with whom the taxpayer does not deal at arm's length.'"

S. 17(15), the definition "controlled foreign affiliate" was added by S.C. 1999, c. 22, s. 8(1), applicable to taxation years that begin after February 23, 1998.

"*exempt loan or transfer*" — "exempt loan or transfer" means

(*a*) a loan made by a corporation resident in Canada where the interest rate charged on the loan is not less than the interest rate that a lender and a borrower would have been willing to agree to if they were dealing at arm's length with each other at the time the loan was made;

(*b*) a transfer of property (other than a transfer of property made for the purpose of acquiring shares of the capital stock of a foreign affiliate of a corporation or a foreign affiliate of a person resident in Canada with whom the corporation was not dealing at arm's length) or payment of an amount owing by a corporation resident in Canada pursuant to an agreement made on terms and conditions that persons who were dealing at arm's length at the time the agreement was entered into would have been willing to agree to;

(*c*) a dividend paid by a corporation resident in Canada on shares of a class of its capital stock; and

(*d*) a payment made by a corporation resident in Canada on a reduction of the paid-up capital in respect of shares of a class of its capital stock (not exceeding the total amount of the reduction).

History: S. 17(15), the definition "exempt loan or transfer" was amended by S.C. 2001, c. 17, s. 8(2), applicable to taxation years that begin after February 23, 1998. S. 17(15), the definition "exempt loan or transfer" formerly read:

"*'exempt loan or transfer'*" — 'exempt loan or transfer' means a loan or transfer of property made by a corporation to a person or a partnership where

(*a*) at the time of the loan or transfer, the corporation was not related to the person or to any member of the partnership, as the case may be;

(*b*) the loan or transfer of property was not part of a series of transactions or events at the end of which the corporation was related to the person or to any member of the partnership, as the case may be; and

(*c*) the terms and conditions of the loan or transfer (determined without reference to any other loan or transfer of property to either a person related to the corporation or a partnership any member of which was related to the corporation) are such that persons dealing at arm's length would have been willing to enter into them at the time that they were entered into."

S. 17(15), the definition "exempt loan or transfer" was added by S.C. 1999, c. 22, s. 8(1), applicable to taxation years that begin after February 23, 1998.

"*non-discretionary trust*" — "non-discretionary trust", at any time, means a trust in which all interests were vested indefeasibly at the beginning of the trust's taxation year that includes that time.

History: S. 17(15), the definition "non-discretionary trust" was added by S.C. 1999, c. 22, s. 8(1), applicable to taxation years that begin after February 23, 1998.

Tax Profile: February 2000 — A Quick Reference Guide to Different Types of Trusts.

"*settlor*" — "settlor" in respect of a trust at any time means any person or partnership that has made a loan or transfer of property, either directly or indirectly, in any manner whatever, to or for the benefit of the trust at or before that time, other than, where the person or partnership deals at arm's length with the trust at that time,

(*a*) a loan made by the person or partnership to the trust at a reasonable rate of interest; or

(*b*) a transfer made by the person or partnership to the trust for fair market value consideration.

History: S. 17(15), the definition "settlor" was added by S.C. 1999, c. 22, s. 8(1), applicable to taxation years that begin after February 23, 1998.

Deductions

SECTION 18:

► 18(1) ◄

(1) General limitations. In computing the income of a taxpayer from a business or property no deduction shall be made in respect of

Editorial Note: Subsection 18(1) expressly disallows the deduction of certain amounts that might otherwise be deductible under general principles. The rest of section 18 similarly sets out restrictions on the deductibility of amounts that might otherwise be deductible.

Related Sections: S. 9(1) Income; s. 9(2) Loss; s. 20(1) Deductions permitted in computing income from business or property; s. 248(1), "business", "property"; s. 249 Definition of "taxation year".

Interpretation Bulletins: *Primary* — IT-357R2 Expenses of training.

Cases: Child care expenses are not business expenses and as such are not deductible under s. 18(1). Furthermore such expenses are dealt with specifically under section 63 of the Act. *Symes v. The Queen et al*, 94 DTC 6001 (S.C.C.).

► 18(1)(a) ◄

(a) General limitation — an outlay or expense except to the extent that it was made or incurred by the taxpayer for the purpose of gaining or producing income from the business or property;

Department of Finance Press Release

Extension of Interim Measure on Deductibility of Provincial Payroll and Capital Taxes

[Reproduced below is Department of Finance News Release No. 2004-080, dated December 16, 2004, which extends the interim measure limiting the deductibility of increases in provincial payroll and capital taxes. This interim measure has been in place since March 1993.]

Minister of Finance Ralph Goodale announced today that the interim measure that limits the deductibility of increases in provincial payroll and capital taxes will continue to apply.

Under the interim measure, any existing provincial payroll and capital taxes will remain deductible for federal income tax purposes, but increases in these taxes by way of provincial actions to increase the rate, change the definition of the base or introduce new taxes generally would not be deductible.

The announcement of the extension of the interim measure ensures that all businesses and provinces are informed of the rules that apply to the deductibility of provincial payroll and capital taxes.

Related Sections: S. 9(1) Income; s. 9(2) Loss; s. 18(1)(*h*) Personal and living expenses; s. 20(1) Deductions permitted in computing income from business or property; s. 20(16) Terminal loss; s. 21(1) Cost of borrowed money; s. 26(2) Banks — deductions from income; s. 30 Improving land for farming.

Interpretation Bulletins: *Primary* — IT-99R5 (Consolid.) Legal and accounting fees; IT-185R (Consolid.) Losses from theft, defalcation or embezzlement; IT-211R Membership dues — Associations and societies; IT-261R Prepayments of rents; IT-357R2 Expenses of training; IT-364 Commencement of business operations; IT-467R2 Damages, settlements and similar payments; IT-475 Expenditures on research and for business expansion; IT-487 General limitation on deduction of outlays or expenses; IT-521 Motor vehicle expenses claimed by self-employed individuals. *Secondary* — IT-105 Administrative costs of pensions plans; IT-153R3 Land developers — Subdivision and development costs and carrying charges on land; IT-316 Awards for employees' suggestions and inventions [Archived by the CRA]; IT-341R4 Expenses of issuing or selling shares, units in a trust, interests in a partnership or syndicate and expenses of borrowing money; IT-389R Vacation pay trusts established under collective agreements; IT-461 Forfeited deposits [Archived by the CRA].

Information Circulars: IC 77-11 Sales tax reassessments — Deductibility in computing income; IC 88-2 para. 18 — General anti-avoidance rule — Section 245 of the Income Tax Act.

Advance Tax Rulings: ATR-4 Exchange of interest rates; ATR-20 Redemption premium on debentures; ATR-21 Pension benefit from an unregistered pension plan; ATR-23 Private health services plan.

Income Tax Technical News: Issue No. 24, Legal Costs to Obtain Support Amounts; Issue No. 16, Court decisions.

Guides: T4036 Rental Income.

Tax Topics: No. 1897, Unmasking "Management Fees"; What's in a Name?; No. 1862, The Deduction of Professional Fees — *Boleh v. The Queen*; No. 1805, The Matching Principle: RIP; No. 1667, *BJ Services*: The Porosity of Paragraph 18(1)(*a*); No. 1526, Contingent expenses; No. 1471, Is GAAP relevant in determining the characterization of an expense for income tax purposes?.

Canadian Tax Foundation: Sibson, "Reasonable Expectation of Profit — A Return to Sanity?", *2002 Conference Report*, 6:1; Laiken and Laiken, "Working With the Source Test: The Supreme Court's Replacement for the Reasonable Expectation of Profit Test", *2002 Canadian Tax Journal*, No. 3, 1147; Weinstein, "Damages, Fines And Penalties — An Update", *2000 Conference Report*, 7:1; Frankovic, "The Income Tax Treatment of Prepaid Expenses and Similar Costs: A Time Value Analysis", *2000 Canadian Tax Journal*, No. 5, 1371; Carr, "Current Receipts and Expenses after Canderel, Toronto College Park, and Ikea", *1998 Canadian Tax Journal*, No. 5, 953; Frankovic, "The Matching of 'Current' Expense Under Canada's Income Tax Laws", *1998 Canadian Tax Journal*, No. 1, 1.

Canadian Petroleum Tax Journal: Tax Treatment and Classification of Costs in the Energy Sector, Chan and Van Dyke, Vol. 139 No. 1 2008; Recent Cases of Interest — Deduction of Fines, Penalties, and Damage Awards, Gerald Grenon, Vol. 13 No. 1 2000.

Tax Window Files: Damages Received for Cancellation of a Service Contract, December 6, 2006, CRA Document No. 2005-0163291E5; Legal Fees Incurred with Respect to Shareholder Oppression Remedy Suit, October 3, 2006, CRA Document No. 2006-0181191I7; Contractors Payments to Subcontractors — Deduction for Reasonable Expenses, May 31, 2006, CRA Document No. 2006-0181651I7; Deductibility of Professional Liability Insurance, December 21, 2004, CRA Document No. 2004-0091011E5 [Liability insurance premiums paid after a professional closed his business but in respect of acts performed in the course of the previous business practice remained deductible]; Deduction of Various Expenses Connected with an Illegal Business, June 8, 2004, CRA Document No. 2004-0067401I7 [Expenses incurred for purpose of earning income from illegal business deductible, but expenses incurred by taxpayer to defend against personal criminal accusations not deductible]; Professional Membership Initiation or Admission Fees, April 14, 2004, CRA Document No. 2004-0058301E5 [Employer-paid initiation fees and annual membership fees for employees of professional organization deductible for employer]; Deductibility of Unrealized Losses on FX Contracts, January 28, 2004, CRA Document No. 2003-0028891E5 [Accrued losses at year end from foreign exchange contracts deductible if incurred for purposes of paragraph 18(1)(*a*) and not contingent for purposes of paragraph 18(1)(*e*)]; Takeover or Sale of Assets — Cost of Information Cir-

cular, February 6, 2002, CRA Document No. 2001-0105605 [Expenses for obligations imposed under securities or corporate law in producing take-over bid circulars generally deductible; transactions costs incurred to fight a take-over bid not deductible]; Interest on Index-Linked GIC, April 11, 2000, CRA Document No. 2000-0001327 [Accrued "interest" on index-linked debt obligation contingent until maturity]; Costs Incurred After Cessation of Business, February 2, 1994, CRA Document No. 9327515 [Building expenses incurred after cessation of business not deductible in computing income from the business].

Cases: Under a collective agreement, the taxpayer contributed to a contingency fund for employee programs. After previous court decisions held that these obligations were contingent, the documentation was amended specifically to create an absolute liability. Despite the amendment, the unexpended portion of the fund remained a contingent liability that was not deductible by virtue of s. 18(1)(*e*). *The Queen v. General Motors of Canada Limited,* 2008 DTC 6381 (F.C.A.), reversing 2007 DTC 272 (T.C.C.).

The taxpayer's parent company paid the taxpayer's employees to surrender options to purchase shares of the parent. The taxpayer reimbursed its parent for these payments and was entitled to deduct the amount reimbursed. The reimbursement payments could not be recharacterized as capital expenditures just because they were made in the context of the parent's corporate reorganization. *Shoppers Drug Mart Limited v. The Queen,* 2008 DTC 2043 (T.C.C.).

Professional fees incurred to reorganize capital structure and to update shareholder agreements were deductible as a current expense since they were incurred to earn income. *Truckbase Corporation et al. v. The Queen,* 2006 DTC 2930 (T.C.C.).

A lawyer could not deduct legal fees paid to defend himself on criminal charges. Although he argued that he would have lost his license to practice law if convicted, the legal fees were not a business expense, but a non-deductible personal expenditure. *Leduc v. The Queen,* 2005 DTC 250 (T.C.C.).

Financial and legal expenses incurred in defending against a hostile take-over bid were deductible. The expenses were a cost of doing business, and were so integral to conducting the target corporation's business that they could not be divorced from the corporate activities of gaining and producing income. *BJ Services Company Canada v. The Queen,* 2004 DTC 2032 (T.C.C.).

The taxpayer hired a firm of financial advisors which recommended a share for share exchange arrangement under which taxpayer's shareholders would become shareholders of a third party. The $1.2 million fee paid to the financial advisors was deductible as a current expense. *International Colin Energy Corporation v. The Queen,* 2002 DTC 2185 (T.C.C.).

Partnership losses with respect to a storage park operation were deductible since it constituted a source of income. Since it was commercial in nature, with no evidence of any personal element, the REOP test did not arise. Although the taxpayers were clearly motivated by tax considerations when purchasing their partnership interests, this does not detract from the commercial nature of the operation or its characterization as a source of income. *The Queen v. Walls et al.,* 2002 DTC 6960 (S.C.C.), affirming 2000 DTC 6025 (F.C.A.), reversing 96 DTC 6142 (F.C.T.D.).

The taxpayer, who purchased condominium units for rental purposes, was able to deduct related losses since the rental activity lacked any personal element and was clearly a commercial activity. REOP was not the appropriate test. The taxpayer's hope of realizing an eventual capital gain with the expectation of deducting interest expenses, did not detract from the commercial nature of his rental operation, or its characterization as a source of income. *Stewart v. The Queen,* 2002 DTC 6969 (S.C.C.), reversing 2000 DTC 6163 (F.C.A.) and 98 DTC 1600 (T.C.C.).

Employer contributions in respect of vacation pay were deductible in the year the contributions were made even though the vacations were not actually taken until a subsequent year. It is not a non-deductible reserve because the employer's obligation to pay such contributions is "incurred" as soon as the employee's entitlement to the vacation pay has been earned. *Fédération des Caisses Populaires Desjardins de Montréal et al. v. The Queen,* 2001 DTC 5173 (F.C.A.), reversing 99 DTC 1275 (T.C.C.).

The taxpayers held back a portion of their payments to independent contractors until they received workers' compensation clearance certificates. The taxpayers were entitled to claim a deduction for the holdbacks since the contract price was not a contingent liability. It became an absolute obligation when the contractors had completed their work. *Wawang Forest Products Limited et al. v. The Queen,* 2001 DTC 5212 (F.C.A.), reversing 99 DTC 759.

The taxpayer was entitled to deduct legal fees in connection with divorce proceedings since the fees were incurred to obtain maintenance payments to which she was entitled under the *Divorce Act. Gallien v. The Queen,* 2000 DTC 2514 (T.C.C.).

The taxpayer sought to deduct notional (but unpaid) rent during a rent-free period provided in its lease. This was calculated in accordance with an amortization formula said to reflect GAAP. It was not deductible for tax purposes because s. 18(1)(*a*) requires that the "outlay or expense" be "made or incurred" to earn income. *Buck Consultants Limited v. The Queen,* 2000 DTC 6015 (F.C.A.), affirming 96 DTC 1464 (T.C.C.).

A land developer was entitled to deduct a $2.9 million regional development charge in the year it was paid, even though none of the lands affected by the charge were sold by the taxpayer during that year. *Urbandale Realty Corporation Limited v. The Queen,* 2000 DTC 6118 (F.C.A.), reversing 97 DTC 5353 (F.C.T.D.) and 93 DTC 154 (T.C.C.).

An over-quota levy in relation to the excess production of eggs was deductible since it was incurred as part of the taxpayer's day-to-day operations and was incurred for the purposes of earning income. The characterization of the levy as a "fine or penalty" was of no consequence. *65302 British Columbia Limited v. The Queen,* 99 DTC 5799 (S.C.C.), reversing 98 DTC 6002 (F.C.A.), which reversed 96 DTC 2049. (T.C.C.).

Certain UI, RPP, and other employee-related contributions and premiums paid by the taxpayer in respect of its employees, after the end of its taxation year, constituted non-deductible reserves. *Federation des Caisses Populaires Desjardins de Montreal et de L'Ouest du Quebec v. The Queen,* 99 DTC 1275 (T.C.C.).

The deduction by a "foot and transit" courier of the cost of extra food and water was allowed as a business expense because he was using them as a replacement for automobile fuel. *Scott v. The Queen,* 98 DTC 6530 (F.C.A.).

The estimated costs of a taxpayer's silviculture obligations under its provincial timber harvesting licence were not deductible since the obligation to pay them had not come into existence in the taxation years in issue. *Northwood Pulp and Timber Ltd. v. The Queen,* 98 DTC 6640 (F.C.A.), affirming 96 DTC 1104 (T.C.C.).

Tenant inducement payments paid by the taxpayer were not required to be amortized over the course of the lease, and were deductible in the year incurred. *Toronto College Park v. The Queen,* 98 DTC 6088 (S.C.C.), reversing 96 DTC 6407 (F.C.A.). *Canderel Limited v. The Queen,* 98 DTC 6100 (S.C.C.), reversing 95 DTC 5101 (F.C.A.).

Although the circulars sent by a taxpayer to outline its position on take-over bids were not financial reports, they were required by securities legislation and their costs were deductible. *The Queen v. Boulangerie St-Augustin Inc.,* 97 DTC 5012 (F.C.A.), affirming 95 DTC 164 (T.C.C.).

The taxpayers' rental losses could not be disallowed, under the reasonable expectation of profit test, without giving their enterprise a reasonable length of time beyond the three start-up years to prove itself capable of yielding profits. *Tonn et al. v. The Queen,* 96 DTC 6001 (F.C.A.).

► 18(1)(b) ◄

(b) Capital outlay or loss — an outlay, loss or replacement of capital, a payment on account of capital or an allowance in respect of depreciation, obsolescence or depletion except as expressly permitted by this Part;

Editorial Note: The deduction (depreciation) of the cost of depreciable property is provided under the capital cost allowance provisions of paragraph 20(1)(*a*) and the regulations thereunder. The costs of certain intangible capital expenses are deductible under specific provisions (for example, financing costs and similar amounts under paragraphs 20(1)(*c*) through (*f*)). Most other intangible capital expenses fall into the "catch-all" category of eligible capital expenditure and are deducted (amortized) under paragraph 20(1)(*b*).

Related Sections: S. 14(5), "Eligible capital expenditure"; s. 20(1) Deductions permitted in computing income from business or property; s. 20(1)(*a*) Capital cost of property; s. 20(1)(*b*) Cumulative eligible capital amount; s. 20(10) Convention expenses; s. 20(16) Terminal loss; s. 24(1) Ceasing to carry on business; s. 26(2) Banks — deductions from income; s. 30 Improving land for farming; s. 39(1)(*b*) and (*c*) Meaning of capital gain and capital loss.

Interpretation Bulletins: *Primary* — IT-187 Customer lists and ledger accounts; IT-467R2 Damages, settlements and similar payments; IT-475 Expenditures on research and for business expansion. *Secondary* — IT-99R5 (Consolid.) Legal and accounting fees; IT-104R3 Deductibility of Fines or Penalties; IT-143R3 Meaning of eligible capital expenditure; IT-261R Prepayments of rents; IT-285R2 Capital cost allowance — General comments; IT-341R4 Expenses of issuing or selling shares, units in a trust, interests in a partnership or syndicate and expenses of borrowing money; IT-364 Commencement of business operations.

Advance Tax Rulings: ATR-20 Redemption premium on debentures.

Income Tax Technical News: Issue No. 21, Cancellation of Interpretation Bulletin IT-233R.

Tax Topics: No. 1882, Stock Market Losses: Might They Be Fully Deductible?; No. 1740, Lease Negotiation and Finder Fees; No. 1673, Supreme Court's Decision on Interest Deductibility Defies Logic.

Tax Profile: April 2004 — Interest is Almost Always a Capital Expense.

Canadian Tax Foundation: Flatters, "The Distinction Between Income and Capital in the Income Tax Act", *2005 Prairie Provinces Tax Conference,* 16:1; Ebel, "Transaction Costs", *2005 Conference Report,* 34:1; Frankovic, "Why Interest Should Be Considered a Current Expense", *2001 Canadian Tax Journal,* No. 4, 859; Durnford, "The Deductibility of Building Repair and Renovation Costs", *1997 Canadian Tax Journal,* No. 3, 395.

Canadian Petroleum Tax Journal: Tax Treatment and Classification of Costs in the Energy Sector, Chan and Van Dyke, Vol. 139 No. 1 2008; Pot Pourri of Income Tax Issues, John Chan, Vol. 14 No. 1 2001.

Tax Window Files: Clothing Expenses of a Personal Style Consultant, January 16, 2007, CRA Document No. 2006-0217641E5; Damages Received for Cancellation of a Service Contract, December 6, 2006, CRA Document No. 2005-0163291E5; Discount on Sales of Accounts Receivable, October 30, 2006, CRA Document No. 2006-0199721I7; Contract Termina-

tion Payment, November 5, 2003, CRA Document No. 2003-0043297 [Contract termination payment normally on income account if contract settled in the course of an ongoing business, but on capital account if made as a consequence of the termination of the business]; Cost to Clean Up Gas Station Fuel Tank Leakage, November 16, 2001, CRA Document No. 2001-0101055 [Environmental clean-up costs that do not contribute value to the land beyond its worth in an undisturbed state generally current expenses; costs incurred for the purpose of improving the land in preparation for development or sale or to alter the land beyond its natural state generally capital expenses]; Strong Currency Loan Hedged by a Cross Currency Interest Rate Swap, July 13, 2001, CRA Document No. 2000-0051017 [Swap payment hedging strong currency loan on capital account]; Investment Related Expenses — Internet Fees and Phone Line, May 8, 2000, CRA Document No. 2000-0015227 [Portion of internet fees and phone bill allocable to investment information and advice were capital]; Interest Rate Swap — Termination Payment/Receipt, September 7, 1994, CRA Document No. 9415947 [Payments under interest rate swap agreements on income account]; Swap Transactions, March 10, 1992, CRA Document No. 9204145 [Payments under interest rate swap agreements on income account].

Cases: Professional fees incurred to reorganize capital structure and to update shareholder agreements were not subject to the s. 18(1)(*b*) restrictions on the deductibility of capital expenses. *Truckbase Corporation et al. v. The Queen*, 2006 DTC 2930 (T.C.C.).

Fees paid to an agent to find new store locations and to negotiate leases and renewals were deductible expenses, not capital outlays. *Pantorama Industries Inc. v. The Queen*, 2005 DTC 5230 (F.C.A.), reversing 2004 DTC 2536 (T.C.C.).

Considering that the only asset that a taxpayer was trying to maintain and preserve in a libel suit was a capital asset (his professional reputation), his legal expenses were not deductible. *Upenieks v. The Queen et al.*, 94 DTC 6656 (F.C.A.).

When properties had been purchased for less than their normal capital value at that time, the expenditures needed (due to their condition) to restore them to their normal value was capital in nature. *Fiore v. The Queen*, 93 DTC 5215 (F.C.A.).

The taxpayer was in the business of open pit asbestos mining. As the size of the pit expanded, the taxpayer was required to purchase adjoining land from time to time in order to maintain the stability of the pit walls. The cost of the land purchases was found to be a deductible business expense rather than a capital expenditure. *Johns-Manville Canada Inc. v. The Queen*, 85 DTC 5373 (S.C.C.), reversing 82 DTC 6054 (F.C.A.), which reversed 79 DTC 5270 (F.C.T.D.).

Cost of a geological survey undertaken by a railway company to place the resulting information with interested members of the public in the hope that it would lead to development of the area and attract business was not a capital expenditure. The result of the survey was not an acquisition of an advantage of an enduring benefit but merely the procurement of some information. *Algoma Central Railway v. M.N.R.*, 68 DTC 5096 (S.C.C.), affirming 67 DTC 5091 (Ex. Ct.).

► 18(1)(c) ◄

(c) Limitation re exempt income — an outlay or expense to the extent that it may reasonably be regarded as having been made or incurred for the purpose of gaining or producing exempt income or in connection with property the income from which would be exempt;

Interpretation Bulletins: *Primary* — IT-467R2 Damages, settlements and similar payments. *Secondary* — IT-104R3 Deductibility of Fines or Penalties; IT-341R4 Expenses of issuing or selling shares, units in a trust, interests in a partnership or syndicate and expenses of borrowing money.

► 18(1)(d) ◄

(d) Annual value of property — the annual value of property except rent for property leased by the taxpayer for use in the taxpayer's business;

► 18(1)(e) ◄

(e) Reserves, etc. — an amount as, or on account of, a reserve, a contingent liability or amount or a sinking fund except as expressly permitted by this Part;

Editorial Note: The restriction in the predecessor to paragraph 18(1)(*e*) was apparently construed by reference to accounting principles; see the Supreme Court of Canada decision in the *Time Motors* case (69 DTC 5149). Whether the restriction in current paragraph 18(1)(*e*) is construed by reference to accounting principles or legal principles is explored in the Frankovic article cited below (see "Canadian Tax Foundation", below, at 41-50 of the article). The author concludes that legal principles should apply for the purpose of determining whether an amount is contingent.

Related Sections: S. 20(1)(*l*) Doubtful or impaired debts; s. 20(1)(*l.1*) Reserve for guarantees, etc.; s. 20(1)(*m*) Reserve in respect of certain goods and services; s. 20(1)(*m.1*) Manufacturer's warranty reserve; s. 20(1)(*n*) Reserve for unpaid amounts; s. 20(1)(*o*) Reserve for quadrennial survey; s. 20(1)(*p*) Bad debts.

Interpretation Bulletins: *Primary* — IT-215R Reserves,contingent accounts and sinking funds [Archived by the CRA]; IT-321R Insurance agents and brokers — Unearned commissions [Archived by the CRA]; IT-467R2 Damages, settlements and similar payments. *Secondary* — IT-109R2 Unpaid amounts.

Tax Topics: No. 1793, Contingent Liabilities: The Gathering Storm; No. 1526, Contingent Expenses.

Tax Profile: February 2005 — The Canadian Treatment of Derivatives.

Canadian Tax Foundation: Frankovic, "The Case for 'Reverse Depreciation' of Reclamation Costs ", *2004 Canadian Tax Journal*, No. 1, 1.

Tax Window Files: Site Reclamation Costs, September 27, 2004, CRA Document No. 2003-0048241E5 [Comments regarding the deduction of reclamation costs]; Contingent Liability — Payment on Death of Member, March 25, 2004, CRA Document No. 2003-0043431E5 [Refundable fees payable in the event of death were contingent]; Deductibility of Unrealized Losses on FX Contracts, January 28, 2004, CRA Document No. 2003-0028891E5 [Accrued losses at year end from foreign exchange contracts deductible only if incurred as a legal matter for purposes of paragraph 18(1)(*a*) and if not contingent for purposes of paragraph 18(1)(*e*)]; Obligation to Redeem Customer Reward Points for Merchandise, October 13, 2000, CRA Document No. 2000-0034027 [Liability to incur cost of merchandise to be delivered after end of the year on redemption of customers' reward points not contingent even though based on estimates]; Interest on Index-Linked GIC, April 11, 2000, CRA Document No. 2000-0001327 [Accrued "interest" on index-linked debt obligation contingent until maturity].

Cases: Under a collective agreement, the taxpayer contributed to a contingency fund for employee programs. After previous court decisions held that these obligations were contingent, the documentation was amended specifically to create an absolute liability. Despite the amendment, the unexpended portion of the fund remained a contingent liability that was not deductible by virtue of s. 18(1)(*e*). *The Queen v. General Motors of Canada Limited*, 2008 DTC 6381 (F.C.A.), reversing 2007 DTC 272 (T.C.C.).

The taxpayer acquired an interest in seismic data for a cash payment and a promissory note. He agreed to pay $85,000 plus 8% interest under the terms of the note and, accordingly, his liability was absolute. The fact that it was a limited-recourse debt and might not be repaid in full did not render the liability contingent. *The Queen v. McLarty*, 2008 DTC 6354 (S.C.C.), affirming in part 2006 DTC 6340 (F.C.A.), affirming in part 2005 DTC 217 (T.C.C.).

When the taxpayer purchased a property, it assumed whatever liability the vendor might have had for environmental clean up. The taxpayer could not add the "cost" of this assumed liability to the purchase price of the buildings and equipment for CCA purposes since no amount had actually been spent on clean-up and there was no evidence that the vendor actually had any legally enforceable liability. *A & D Holdings Inc. v. The Queen*, 2006 DTC 2219 (T.C.C.).

Under a collective agreement, the taxpayer established a contingency fund, from which payments were made to certain benefit plans when prescribed thresholds in those plans were reached. Payments were also made to an employee child care program upon acceptance of union requests. Annual allocations to the fund were not deductible since any obligation to make payments out of the fund was contingent. *General Motors of Canada Limited v. The Queen*, 2004 DTC 6716 (F.C.A.), affirming 2003 DTC 1533 (T.C.C.).

Employer contributions in respect of vacation pay were deductible in the year the contributions were made even though the vacations were not actually taken until a subsequent year. It is not a non-deductible reserve because the employer's obligation to pay such contributions is "incurred" as soon as the employee's entitlement to the vacation pay has been earned. *Fédération des Caisses Populaires Desjardins de Montréal et al. v. The Queen*, 2001 DTC 5173 (F.C.A.), reversing 99 DTC 1275 (T.C.C.).

The taxpayer's Deferred Liability-Workmen's Compensation account was not a contingent account within the meaning of s.18(1)(*e*). *Canadian Pacific Limited v. The Minister of Revenue (Ontario)*, 99 DTC 5286 (Ont. C.A.).

The estimated costs of a taxpayer's silviculture obligations under its provincial timber harvesting licence were not deductible since the obligation to pay them had not come into existence in the taxation years in issue. *Northwood Pulp and Timber Ltd. v. The Queen*, 98 DTC 6640 (F.C.A.), affirming 96 DTC 1104 (T.C.C.).

► 18(1)(e.1) ◄

(e.1) Unpaid claims under insurance policies — an amount in respect of claims that were received by an insurer before the end of the year under insurance policies and that are unpaid at the end of the year, except as expressly permitted by this Part;

Related Sections: S. 138(3)(*a*) Deductions allowed in computing income.
Regulations: Part XIV.

► 18(1)(f) ◄

(f) Payments on discounted bonds — an amount paid or payable as or on account of the principal amount of any obligation described in paragraph 20(1)(*f*) except as expressly permitted by that paragraph;

Editorial Note: Since the restriction in paragraph 18(1)(*f*) relates to a discount that is part of the principal amount of a debt obligation, it does not apply to a discount that is considered interest.

Related Sections: S. 248(1), "principal amount".
Interpretation Bulletins: *Secondary* — IT-341R4 Expenses of issuing or selling shares, units in a trust, interests in a partnership or syndicate and expenses of borrowing money.

► 18(1)(g) ◄

(g) Payments on income bonds — an amount paid by a corporation as interest or otherwise to holders of its income bonds or income debentures unless the bonds or debentures have been issued or the income provisions thereof have been adopted since 1930

(i) to afford relief to the debtor from financial difficulties, and

(ii) in place of or as an amendment to bonds or debentures that at the end of 1930 provided unconditionally for a fixed rate of interest;

Related Sections: S. 15(3) Interest or dividend on income bond or debenture; s. 15(4) Idem, where corporation not resident; s. 15.1 Interest on small business development bonds; s. 248(1), "income bond".
Interpretation Bulletins: *Secondary* — IT-52R4 Income bonds and income debentures [Archived by the CRA].

► 18(1)(h) ◄

(h) Personal and living expenses — personal or living expenses of the taxpayer, other than travel expenses incurred by the taxpayer while away from home in the course of carrying on the taxpayer's business;

Related Sections: S. 20(1) Deductions permitted in computing income from business or property; s. 20(16) Terminal loss; s. 248(1) Definitions.
Interpretation Bulletins: *Secondary* — IT-104R3 Deductibility of Fines or Penalties; IT-143R3 Meaning of eligible capital expenditure; IT-223 Overhead expense insurance vs. income insurance [Archived by the CRA]; IT-322R Farm losses; IT-341R4 Expenses of issuing or selling shares, units in a trust, interests in a partnership or syndicate and expenses of borrowing money; IT-373R2 (Consolid.) Woodlots; IT-521R Motor vehicle expenses claimed by self-employed individuals.
Income Tax Technical News: Issue No. 16, *Scott v. The Queen.*
Cases: A lawyer could not deduct legal fees paid to defend himself on criminal charges. Although he argued that he would have lost his license to practice law if convicted, the legal fees were not a business expense, but a non-deductible personal expenditure. *Leduc v. The Queen,* 2005 DTC 250 (T.C.C.).

The deduction by a "foot and transit" courier of the cost of extra food and water was allowed as a business expense because he was using them as a replacement for automobile fuel. *Scott v. The Queen,* 98 DTC 6530 (F.C.A.).

A deduction in respect of a nanny's salary is limited to the amount deductible under s. 63 as child care expenses. Such salary is a personal rather than a business expense. *Symes v. The Queen,* 94 DTC 6001 (S.C.C.), affirming 91 DTC 5397 (F.C.A.), reversing 89 DTC 5243 (F.C.T.D.).

► 18(1)(i) ◄

(i) Limitation re employer's contribution under supplementary unemployment benefit plan — an amount paid by an employer to a trustee under a supplementary unemployment benefit plan except as permitted by section 145;

► 18(1)(j) ◄

(j) Limitation re employer's contribution under deferred profit sharing plan — an amount paid by an employer to a trustee under a deferred profit sharing plan except as expressly permitted by section 147;

► 18(1)(k) ◄

(k) Limitation re employer's contribution under profit sharing plan — an amount paid by an employer to a trustee under a profit sharing plan that is not

(i) an employees profit sharing plan,

(ii) a deferred profit sharing plan, or

(iii) a registered pension plan;

Related Sections: S. 144 Definitions; s. 147 Deferred profit sharing plans.
Interpretation Bulletins: *Secondary* — IT-502 Employee benefit plans and employee trusts.

► 18(1)(l) ◄

(l) Use of recreational facilities and club dues — an outlay or expense made or incurred by the taxpayer after 1971,

(i) for the use or maintenance of property that is a yacht, a camp, a lodge or a golf course or facility, unless the taxpayer made or incurred the outlay or expense in the ordinary course of the taxpayer's business of providing the property for hire or reward, or

(ii) as membership fees or dues (whether initiation fees or otherwise) in any club the main purpose of which is to provide dining, recreational or sporting facilities for its members;

Related Sections: S. 6(1)(*a*)(iv)(A) Value of benefits; s. 8(1)(*f*) Sales expenses.
Interpretation Bulletins: *Primary* — IT-148R3 Recreational properties and club dues. *Secondary* — IT-211R Membership dues — Associations and societies; IT-470R (Consolid.) Employees' fringe benefits.
Cases: The word "lodge" in s. 18(1)(*l*) does not include large resort hotels with modern amenities. *Hewlett-Packard (Canada) Co. v. The Queen,* 2005 DTC 976 (T.C.C.).

► 18(1)(l.1) ◄

(l.1) Petroleum and Gas Revenue Tax Act payments — [Repealed by S.C. 2003, c. 28, s. 2(1).]

History: S. 18(1)(*l.1*) was repealed by S.C. 2003, c. 28, s. 2(1), applicable to amounts that become payable after December 20, 2002. S. 18(1)(*l.1*) formerly read:

"(*l.1*) *Petroleum and Gas Revenue Tax Act payments* — any amount paid or that became payable in the year to Her Majesty in right of Canada by virtue of an obligation imposed under the *Petroleum and Gas Revenue Tax Act*;"

Related Sections: S. 53(1)(*e*) Adjustments to cost base — Interest in a partnership; s. 53(2)(*c*) Amounts to be deducted — Interest in a partnership; s. 208(1) Tax payable by exempt person; s. 219(1)(*k*) Branch tax.

► 18(1)(m) ◄

(m) Royalties, etc. — [Repealed by S.C. 2003, c. 28, s. 2(3).]

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 2(5) before paragraph (*a*) and 2(7) of *An Act to Amend the Income Tax Act (Natural Resources)* [S.C. 2003, c. 28, relating to the transitional rules and repeal of paragraph 18(1)(*m*) of the *Income Tax Act*] are replaced by the following:

(5) For each taxation year that ends after 2002 and begins before 2008, paragraph 18(1)(*m*) of the Act applies, notwithstanding paragraph 20(1)(*v*) of the Act, only to the percentage of

each amount described by paragraph 18(1)(*m*) of the Act that is the total of

(7) Subsection (3) applies to taxation years that begin after 2007.

Applicable: Royal Assent.

Explanatory Note:

Act to Amend the Income Tax Act (Natural Resources)

Subsection 2(5) of the *Act to Amend the Income Tax Act (Natural Resources)* repealed paragraph 18(1)(*m*) of the Act effective for taxation years that begin after 2006. Subsection 2(5) is being amended with the result that paragraph 18(1)(*m*) is now being repealed effective for taxation years that begin after 2007. This amendment is being made to accommodate a reimbursement made in a taxation year of the taxpayer that begins after 2006 and before 2008 in circumstances where the taxpayer's taxation year does not coincide with the taxation year or fiscal period of the recipient, as would normally be the case where the recipient of the reimbursement is a partnership of which the taxpayer is a member.

History: S. 18(1)(*m*) was repealed by S.C. 2003, c. 28, s. 2(3), applicable to taxation years that begin after 2006. S. 18(1)(*m*) formerly read:

"(*m*) *Royalties, etc.* — any amount (other than a prescribed amount)

(i) that is paid or payable in the year to

(A) Her Majesty in right of Canada or of a province,

(B) an agent of Her Majesty in right of Canada or of a province, or

(C) a corporation, a commission or an association that is controlled by Her Majesty in right of Canada or of a province or by an agent of Her Majesty in right of Canada or of a province, and

(ii) that can reasonably be considered to be a royalty, tax (other than a tax or portion of a tax that can reasonably be considered to be a municipal or school tax), lease rental or bonus, however described, or to be in respect of the late payment or non-payment of any of those amounts, in relation to

(A) the acquisition, development or ownership of a Canadian resource property, or

(B) the production in Canada

(I) of petroleum, natural gas or related hydrocarbons from a natural accumulation of petroleum or natural gas (other than a mineral resource) located in Canada, or from an oil or gas well located in Canada,

(II) of sulphur from a natural accumulation of petroleum or natural gas located in Canada, from an oil or gas well located in Canada or from a mineral resource located in Canada,

(III) to any stage that is not beyond the prime metal stage or its equivalent, of metal, minerals (other than iron or petroleum or related hydrocarbons) or coal from a mineral resource located in Canada,

(IV) to any stage that is not beyond the pellet stage or its equivalent, of iron from a mineral resource located in Canada, or

(V) to any stage that is not beyond the crude oil stage or its equivalent, of petroleum or related hydrocarbons from a deposit located in Canada of bituminous sands or oil shales;"

S. 18(1)(*m*) was replaced by S.C. 2003, c. 28, s. 2(2), applicable to amounts that become payable after December 20, 2002.

For each taxation year that ends after 2002 and begins before 2007, paragraph 18(1)(*m*) applies, notwithstanding paragraph 20(1)(*v*) of the Act, only to the percentage of each amount described by that paragraph 18(1)(*m*) that is the total of

(*a*) that proportion of 100% that the number of days in the taxation year that are before 2003 is of the number of days in the taxation year,

(*b*) that proportion of 90% that the number of days in the taxation year that are in 2003 is of the number of days in the taxation year,

(*c*) that proportion of 75% that the number of days in the taxation year that are in 2004 is of the number of days in the taxation year,

(*d*) that proportion of 65% that the number of days in the taxation year that are in 2005 is of the number of days in the taxation year, and

(*e*) that proportion of 35% that the number of days in the taxation year that are in 2006 is of the number of days in the taxation year.

[The application of paragraph 18(1)(*m*) for taxation years that end after 2002 and begin before 2007, noted above] does not apply for the purpose of applying any provision of Part XII of the *Income Tax Regulations* that makes reference to the income of a taxpayer.

S. 18(1)(*m*) formerly read:

"(*m*) *Royalties, etc.* — any amount (other than a prescribed amount) paid or payable by virtue of an obligation imposed by statute or a contractual obligation substituted for an obligation imposed by statute to

(i) Her Majesty in right of Canada or a province,

(ii) an agent of Her Majesty in right of Canada or a province, or

(iii) a corporation, commission or association that is controlled by Her Majesty in right of Canada or a province or by an agent of Her Majesty in right of Canada or a province

as a royalty, tax (other than a tax or portion of a tax that can reasonably be considered to be a municipal or school tax), lease rental or bonus or as an amount, however described, that can reasonably be regarded as being in lieu of any such amount, or in respect of the late payment or non-payment of any such amount, and that can reasonably be regarded as being in relation to

(iv) the acquisition, development or ownership of a Canadian resource property, or

(v) the production in Canada

(A) of petroleum, natural gas or related hydrocarbons from a natural accumulation of petroleum or natural gas (other than a mineral resource) located in Canada or from an oil or gas well located in Canada,

(B) of sulphur from a natural accumulation of petroleum or natural gas located in Canada, from an oil or gas well located in Canada or from a mineral resource located in Canada,

(C) to any stage that is not beyond the prime metal stage or its equivalent, of metal, minerals (other than iron or petroleum or related hydrocarbons) or coal from a mineral resource located in Canada,

(D) to any stage that is not beyond the pellet stage or its equivalent, of iron from a mineral resource located in Canada, or

(E) to any stage that is not beyond the crude oil stage or its equivalent, of petroleum or related hydrocarbons from tar sands from a mineral resource located in Canada,"

S. 18(1)(*m*), the portion after subparagraph (iii), was amended by S.C. 1997, c. 25, s. 4(1), applicable to taxation years that begin after 1996. That part formerly read:

"as a royalty, tax (other than a tax or portion of a tax that may reasonably be considered to be a municipal or school tax), lease rental or bonus or as an amount, however described, that may reasonably be regarded as being in lieu of any such amount, and that may reasonably be regarded as being in relation to

(iv) the acquisition, development or ownership of a Canadian resource property, or

(v) the production in Canada of

(A) petroleum, natural gas or related hydrocarbons from a natural accumulation of petroleum or natural gas in Canada, other than a mineral resource, or from an oil or gas well in Canada,

(B) metal, minerals (other than iron or petroleum or related hydrocarbons) or coal from a mineral resource in Canada to any stage that is not beyond the prime metal stage or its equivalent,

(C) iron from a mineral resource in Canada to any stage that is not beyond the pellet stage or its equivalent, or

(D) petroleum or related hydrocarbons from tar sands from a mineral resource in Canada to any stage that is not beyond the crude oil stage or its equivalent;"

S. 18(1)(*m*)(v)(B) was amended by S.C. 1994, c. 7, Sched. II, s. 13(1), applicable to amounts becoming payable after July 13, 1990. s. 13(1)(*m*)(v)(B) formerly read:

"(B) metal or minerals, other than iron or petroleum or related hydrocarbons, from a mineral resource in Canada to any stage that is not beyond the prime metal stage or its equivalent,"

Related Sections: S. 12(1)(*o*) Royalties, etc.; s. 53(1)(*e*) Adjustments to cost base — Interest in a partnership; s. 53(2)(*c*) Amounts to be deducted — Interest in a partnership; s. 65 Allowance for oil or gas well, mine or timber limit; s. 66(15), "Canadian resource property"; s. 66.2(5), "Canadian development expense"; s. 66.4(5), "Canadian oil and gas property expense"; s. 69(6) Disposition of petroleum, natural gas, etc.; s. 69(7) Acquisition of petroleum, natural gas, etc.; s. 69(8) Fair market value of resource output disposed of to Crown; s. 69(9) Fair market value of resource output acquired from Crown; s. 69(10) Certain persons deemed to be same person; s. 80.2 Reimbursement by taxpayer; s. 104(29) Amounts deemed payable to beneficiaries; s. 208(1) Tax payable by exempt person; s. 219(1)(*k*) Branch tax.

Regulations: 1204(4); 1206(1); 1206(8.1), 1206(9)(*b*); 1211; 5203(1), "adjusted business income".

Interpretation Bulletins: *Primary* — IT-438R2 Crown charges — Resource properties in Canada.

Forms: T79; T81(IND); T2 SCH 420; T82; T2 SCH 400.

► 18(1)(n) ◄

(n) Political contributions — a political contribution;

Related Sections: S. 127(3) Monetary contributions — Canada Elections Act.

► 18(1)(o) ◄

(o) Employee benefit plan contributions — an amount paid or payable as a contribution to an employee benefit plan;

Related Sections: S. 6(1)(*a*) Value of benefits; s. 6(1)(*g*) Employee benefit plan benefits; s. 12(1)(*n.1*) Employee benefit plan; s. 18(10) Employee benefit plan; s. 32.1 Additional allowance for scientific research and experimental

development; s. 107.1 Distribution by employee trust, employee benefit plan or similar trust.
Interpretation Bulletins: *Secondary* — IT-502 Employee benefit plans and employee trusts.

► 18(1)(o.1) ◄

(o.1) Salary deferral arrangement — except as expressly permitted by paragraphs 20(1)(*oo*) and (*pp*), an outlay or expense made or incurred under a salary deferral arrangement in respect of another person, other than such an arrangement established primarily for the benefit of one or more non-resident employees in respect of services to be rendered outside Canada;

History: S. 18(1)(*o.1*) was amended by S.C. 1994, c. 7, Sched. II, s. 13(2), applicable to the 1986 and subsequent taxation years. S. 18(1)(*o.1*) formerly read:

"(o.1) except as expressly permitted by paragraph 20(1)(*oo*), an outlay or expense made or incurred under a salary deferral arrangement in respect of another person, other than an arrangement established primarily for the benefit of one or more non-resident employees in respect of services to be rendered in a country other than Canada;"

► 18(1)(o.2) ◄

(o.2) Retirement compensation arrangement — except as expressly permitted by paragraph 20(1)(*r*), contributions made under a retirement compensation arrangement;

► 18(1)(p) ◄

(p) Limitation re personal services business expenses — an outlay or expense to the extent that it was made or incurred by a corporation in a taxation year for the purpose of gaining or producing income from a personal services business, other than

(i) the salary, wages or other remuneration paid in the year to an incorporated employee of the corporation,

(ii) the cost to the corporation of any benefit or allowance provided to an incorporated employee in the year,

(iii) any amount expended by the corporation in connection with the selling of property or the negotiating of contracts by the corporation if the amount would have been deductible in computing the income of an incorporated employee for a taxation year from an office or employment if the amount had been expended by the incorporated employee under a contract of employment that required the employee to pay the amount, and

(iv) any amount paid by the corporation in the year as or on account of legal expenses incurred by it in collecting amounts owing to it on account of services rendered

that would, if the income of the corporation were from a business other than a personal services business, be deductible in computing its income;

Editorial Note: Paragraph 18(1)(*p*) severely limits the expenses that can be claimed by a personal services business (essentially an "incorporated employee"). All deductions are disallowed except (i) remuneration paid (not payable) to an incorporated employee including benefits or allowances; (ii) selling expenses and similar expenses that would have been deductible in computing the individual's employment income if he or she had expended them; and (iii) legal expenses incurred in collecting amounts owing for services rendered.

Related Sections: s. 125(7), "personal services business".

Interpretation Bulletins: *Secondary* — IT-73R6 The small business deduction; IT-168R3 Athletes and players employed by football, hockey and similar clubs.

► 18(1)(q) ◄

(q) Limitation re cancellation of lease — an amount paid or payable by the taxpayer for the cancellation of a lease of property of the taxpayer leased by the taxpayer to another person, except to the extent permitted by paragraph 20(1)(*z*) or (*z.1*);

Interpretation Bulletins: *Secondary* — IT-359R2 Premiums and other amounts with respect to leases.
Tax Topics: No. 1677, Income Tax Implications of Lease Cancellation Payments.

► 18(1)(r) ◄

(r) Certain automobile expenses — an amount paid or payable by the taxpayer as an allowance for the use by an individual of an automobile to the extent that the amount exceeds an amount determined in accordance with prescribed rules, except where the amount so paid or payable is required to be included in computing the individual's income;

Related Sections: S. 6(1)(*b*) Personal or living expenses; s. 67.2 Interest on money borrowed for passenger vehicle; s. 67.3 Limitation re cost of leasing passenger vehicle; s. 67.4 More than one owner or lessor.
Regulations: 7306.

► 18(1)(s) ◄

(s) Loans or lending assets — any loss, depreciation or reduction in a taxation year in the value or amortized cost of a loan or lending asset of a taxpayer made or acquired by the taxpayer in the ordinary course of the taxpayer's business of insurance or the lending of money and not disposed of by the taxpayer in the year, except as expressly permitted by this Part;

History: S. 18(1)(*s*) was amended by S.C. 1994, c. 7, Sched. II, s. 13(3), applicable to taxation years and fiscal periods commencing after June 17, 1987 that end after 1987. S. 18(1)(*s*) formerly read:

"(*s*) any loss, depreciation or reduction in the value or amortized cost of a loan or lending asset described in subparagraph 20(1)(*l*)(ii) of a taxpayer who was an insurer or whose ordinary business included the lending of money, acquired by the taxpayer in the ordinary course of the taxpayer's business of insurance or lending money and not disposed of by the taxpayer in the taxation year, except as expressly permitted by this Part; and"

► 18(1)(t) ◄

(t) Payments under different acts — any amount paid or payable

(i) under this Act (other than tax paid or payable under Part XII.2 or Part XII.6),

(ii) as interest under Part IX of the *Excise Tax Act*, or

(iii) as interest under the *Air Travellers Security Charge Act*;

History: S. 18(1)(*t*) was replaced by S.C. 2006, c. 4, s. 161(1), applicable to taxation years that begin on or after April 1, 2007. S. 18(1)(*t*) formerly read:

"(*t*) *Payments under Act* — any amount paid or payable under this Act (other than tax paid or payable under Part XII.2 or Part XII.6);"

S. 18(1)(*t*) was amended by S.C. 1997, c. 25, s. 4(2), applicable to the 1997 and subsequent taxation years. S. 18(1)(*t*) formerly read:

"(*t*) *Payments under Act* — any amount paid or payable under this Act."

Interpretation Bulletins: *Secondary* — IT-104R3 Deductibility of Fines or Penalties.
Information Circulars: IC 77-11 Sales tax reassessments — Deductibility in computing income;
Income Tax Technical News: Issue No. 38, Income Tax Treatment of GST.
Cases: An unrecovered withholding tax could not be considered as an expense laid out to produce income and so it was not deductible. *Harrowston Corporation v. The Queen*, 96 DTC 6544 (F.C.A.), affirming 93 DTC 995 (T.C.C.).

► 18(1)(u) ◄

(u) Fees — individual saving plans — any amount paid or payable by the taxpayer for services in respect of a retirement savings plan, retirement income fund or TFSA under or of which the taxpayer is the annuitant or holder; and

History: S. 18(1)(*u*) was replaced by S.C. 2008, c. 28, s. 2(1), applicable to the 2009 and subsequent taxation years. S. 18(1)(*u*) formerly read:

"(*u*) *RSP/RIF fees* — any amount paid or payable by the taxpayer for services in respect of a retirement savings plan or retirement income fund under which the taxpayer is the annuitant; and"

S. 18(1)(*u*) was added by S.C. 1997, c. 25, s. 4(2), applicable to amounts paid or payable after March 5, 1996.

► 18(1)(v) ◄

(v) Interest — authorized foreign bank — where the taxpayer is an authorized foreign bank, an amount in respect of interest that would otherwise be deductible in computing the taxpayer's income from a business carried on in Canada, except as provided in section 20.2.

History: S. 18(1)(*v*) was added by S.C. 2001, c. 17, s. 9(1), applicable after June 27, 1999.

Related Sections: S. 248(1), "authorized foreign bank".

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 18(1) of the Act is amended by striking out the word "and" at the end of paragraph (*u*), by adding the word "and" at the end of paragraph (*v*) and by adding the following after paragraph (*v*):

(w) Underlying payments on qualified securities — except as expressly permitted, an amount that is deemed by subsection 260(5.1) to have been received by another person as an amount described in any of paragraphs 260(5.1)(*a*) to (*c*).

Applicable: After 2001.

Explanatory Note:

Securities Lending Arrangement Compensation Payments

Section 260 of the Act provides special rules relating to securities lending arrangements. Former subsection 260(6) prohibited a borrower, other than in certain circumstances, from deducting in computing its income an amount paid as a compensation payment pursuant to a securities lending arrangement.

As part of the restructuring of section 260, particularly subsection 260(6), new paragraph 18(1)(*w*) is enacted to prohibit a borrower from deducting a compensation payment, except where expressly permitted by the Act. This new paragraph, therefore, continues the function of the former subsection 260(6).

This amendment applies after 2001.

► 18(2) ◄

(2) Limit on certain interest and property tax. Notwithstanding paragraph 20(1)(*c*), in computing the taxpayer's income for a particular taxation year from a business or property, no amount shall be deductible in respect of any expense incurred by the taxpayer in the year as, on account or in lieu of payment of, or in satisfaction of,

(*a*) interest on debt relating to the acquisition of land, or

(*b*) property taxes (not including income or profits taxes or taxes computed by reference to the transfer of property) paid or payable by the taxpayer in respect of land to a province or to a Canadian municipality,

unless, having regard to all the circumstances (including the cost to the taxpayer of the land in relation to the taxpayer's gross revenue, if any, from the land for the particular year or any preceding taxation year), the land can reasonably be considered to have been, in the year,

(*c*) used in the course of a business carried on in the particular year by the taxpayer, other than a business in the ordinary course of which land is held primarily for the purpose of resale or development, or

(*d*) held primarily for the purpose of gaining or producing income of the taxpayer from the land for the particular year,

except to the extent of the total of

(*e*) the amount, if any, by which the taxpayer's gross revenue, if any, from the land for the particular year exceeds the total of all amounts deducted in computing the taxpayer's income from the land for the year, and

(*f*) in the case of a corporation whose principal business is the leasing, rental or sale, or the development for lease, rental or sale, or any combination thereof, of real property owned by it, to or for a person with whom the corporation is dealing at arm's length, the corporation's base level deduction for the particular year.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 18(2)(*f*) of the Act is replaced by the following:

(*f*) in the case of a corporation whose principal business is the leasing, rental or sale, or the development for lease, rental or sale, or any combination thereof, of real or immovable property owned by it, to or for a person with whom the corporation is dealing at arm's length, the corporation's base level deduction for the particular year.

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

Editorial Note: The exceptions in paragraphs 18(2)(*c*) and (*d*) are independent of the thresholds in paragraphs (*e*) and (*f*); in other words, if a taxpayer falls within one of the exceptions in paragraphs (*c*) and (*d*), there is no limitation to the deduction of interest or property taxes under subsection 18(2).

Related Sections: S. 18(2.1) Where taxpayer member of partnership; s. 18(3), "interest on debt relating to the acquisition of land"; s. 53(1)(*d.3*) Adjustments to cost base — Denied deduction for interest or soft costs; s. 53(1)(*h*) Adjustments to cost base — Land; s. 212(1)(*b*)(iii)(E) Interest.

Interpretation Bulletins: *Primary* — IT-153R3 Land developers — Subdivision and development costs and carrying charges on land. *Secondary* — IT-142R3 Settlement of debts on the winding-up of a corporation; IT-355R2 Interest on loans to buy life insurance policies and annuity contracts, and interest on policy loans [Archived by the CRA]; IT-360R2 Interest payable in a foreign currency; IT-373R2 (Consolid.) Woodlots.

Tax Profile: December 2007 — Non-Resident Investment in Canadian Real Estate.

Tax Window Files: Carrying Charges — Inventory of Land Developers, April 21, 2004, CRA Document No. 2004-0061651E5 [Land developer

allowed to add interest expense to cost of land inventory instead of deducting on a current basis]; Compound Interest — Incurred with Respect to Vacant Land and Construction of Building, April 10, 2003, CRA Document No. 2002-0147295 [Subsections 18(2) and (3.1) can apply to compound interest only when paid].

► 18(2.1) ◄

(2.1) Where taxpayer member of partnership. Where a taxpayer who is a member of a partnership was obligated to pay any amount as, on account or in lieu of payment of, or in satisfaction of, interest (in this subsection referred to as an "interest amount") on money that was borrowed by the taxpayer before April 1, 1977 and that was used to acquire land owned by the partnership before that day or on an obligation entered into by the taxpayer before April 1, 1977 to pay for land owned by the partnership before that day, and, in a taxation year of the taxpayer, either,

(*a*) the partnership has disposed of all or any portion of the land, or

(*b*) the taxpayer has disposed of all or any portion of the taxpayer's interest in the partnership

to a person other than a person with whom the taxpayer does not deal at arm's length, in computing the taxpayer's income for the year or any subsequent year, there may be deducted such portion of the taxpayer's interest amount

(*c*) that was, by virtue of subsection (2), not deductible in computing the income of the taxpayer for any previous taxation year,

(*d*) that was not deductible in computing the income of any other taxpayer for any taxation year,

(*e*) that was not included in computing the adjusted cost base to the taxpayer of any property, and

(*f*) that was not deductible under this subsection in computing the income of the taxpayer for any previous taxation year

as is reasonable having regard to the portion of the land or interest in the partnership, as the case may be, so disposed of.

Regulations: Part XLIII.

► 18(2.2) ◄

(2.2) Base level deduction. For the purposes of this section, a corporation's base level deduction for a taxation year is the amount that would be the amount of interest, computed at the prescribed rate, for the year in respect of a loan of $1,000,000 outstanding throughout the year, unless the corporation is associated in the year with one or more other corporations in which case, except as otherwise provided in this section, its base level deduction for the year is nil.

Related Sections: S. 256(1) Associated corporations.
Regulations: 4301.

► 18(2.3) ◄

(2.3) Associated corporations. Notwithstanding subsection (2.2), if all of the corporations that are associated with each other in a taxation year have filed with the Minister in prescribed form an agreement whereby, for the purposes of this section, they allocate an amount to one or more of them for the taxation year and the amount so allocated or the total of the amounts so allocated, as the case may be, does not exceed $1,000,000, the base level deduction for the year for each of the corporations is the base level deduction that would be computed under subsection (2.2) in respect of the corporation if the reference in that subsection to $1,000,000 were read as a reference to the amount so allocated to it.

Forms: T2005.

► 18(2.4) ◄

(2.4) Failure to file agreement. If any of the corporations that are associated with each other in a taxation year has failed to file with the Minister an agreement as contemplated by subsection (2.3) within 30 days after notice in writing by the Minister has been forwarded to any of them that such an agreement is required for the purpose of any assessment of tax under this Part, the Minister shall, for the purpose of this section, allocate an amount to one or more of them for the taxation year, which amount or the total of which amounts, as the case may be, shall equal $1,000,000 and in any such case, the amount so allocated to any corporation shall be deemed to be an amount allocated to the corporation pursuant to subsection (2.3).

► 18(2.5) ◄

(2.5) Special rules for base level deduction. Notwithstanding any other provision of this section,

(*a*) where a corporation, in this paragraph referred to as the "first corporation", has more than one taxation year ending in the same calendar year and is associated in two or more of those taxation years with another corporation that has a taxation year ending in that calendar year, the base level deduction of the first corporation for each taxation year in which it is associated with the other corporation ending in that calendar year is, subject to the application of paragraph (*b*), an amount equal to its base level deduction for the first such taxation year determined without reference to paragraph (*b*); and

(*b*) where a corporation has a taxation year that is less than 51 weeks, its base level deduction for the year is that proportion of its base level deduction for the year determined without reference to this paragraph that the number of days in the year is of 365.

Forms: T2005.

► 18(3) ◄

(3) Definitions. In subsection (2),

Related Sections: S. 20(1)(*c*) Interest.
Interpretation Bulletins: *Primary* — IT-153R3 Land developers — Subdivision and development costs and carrying charges on land.

"*interest on debt relating to the acquisition of land*" — "interest on debt relating to the acquisition of land" includes

(*a*) interest paid or payable in a year in respect of borrowed money that cannot be identified with particular land but that may nonetheless reasonably be considered (having regard to all the circumstances) as interest on borrowed money used in respect of or for the acquisition of land, and

(*b*) interest paid or payable in the year by a taxpayer in respect of borrowed money that may reasonably be considered (having regard to all the circumstances) to have been used to assist, directly or indirectly,

(i) another person with whom the taxpayer does not deal at arm's length,

(ii) a corporation of which the taxpayer is a specified shareholder, or

(iii) a partnership of which the taxpayer's share of any income or loss is 10% or more,

to acquire land to be used or held by that person, corporation or partnership otherwise than as described in paragraph (2)(*c*) or (*d*), except where the assistance is in the form of a loan to that person, corporation or partnership and a reasonable rate of interest on the loan is charged by the taxpayer;

"land" — "land" does not, except to the extent that it is used for the provision of parking facilities for a fee or charge, include

(*a*) any property that is a building or other structure affixed to land,

(*b*) the land subjacent to any property described in paragraph (*a*), or

(*c*) such land immediately contiguous to the land described in paragraph (*b*) that is a parking area, driveway, yard, garden or similar land as is necessary for the use of any property described in paragraph (*a*).

► 18(3.1) ◄

(3.1) Costs relating to construction of building or ownership of land. Notwithstanding any other provision of this Act, in computing a taxpayer's income for a taxation year,

(*a*) no deduction shall be made in respect of any outlay or expense made or incurred by the taxpayer (other than an amount deductible under paragraph 20(1)(*a*), (*aa*) or (*qq*) or subsection 20(29)) that can reasonably be regarded as a cost attributable to the period of the construction, renovation or alteration of a building by or on behalf of the taxpayer, a person with whom the taxpayer does not deal at arm's length, a corporation of which the taxpayer is a specified shareholder or a partnership of which the taxpayer's share of any income or loss is 10% or more and relating to the construction, renovation or alteration, or a cost attributable to that period and relating to the ownership during that period of land

(i) that is subjacent to the building, or

(ii) that

(A) is immediately contiguous to the land subjacent to the building,

(B) is used, or is intended to be used, for a parking area, driveway, yard, garden or any other similar use, and

(C) is necessary for the use or intended use of the building; and

(*b*) the amount of such an outlay or expense shall, to the extent that it would otherwise be deductible in computing the taxpayer's income for the year, be included in computing the cost or capital cost, as the case may be, of the building to the taxpayer, to the person with whom the taxpayer does not deal at arm's length, to the corporation of which the taxpayer is a specified shareholder or to the partnership of which the taxpayer's share of any income or loss is 10% or more, as the case may be.

History: S. 18(3.1)(*b*) was amended by S.C. 2001, c. 17, s. 9(2), applicable to outlays and expenses made or incurred after December 21, 2000. S. 18(3.1)(*b*) formerly read:

"(*b*) the amount of such an outlay or expense shall be included in computing the cost or capital cost, as the case may be, of the building to the taxpayer, to the person with whom the taxpayer does not deal at arm's length, to the corporation of which the taxpayer is a specified shareholder or to the partnership of which the taxpayer's share of any income or loss is 10% or more, as the case may be."

S. 18(3.1)(*a*), the portion preceding subparagraph (i), was amended by S.C. 1994, c. 21, s. 11(1), applicable after 1990 except that, in its application to buildings acquired before 1990, the reference in paragraph 18(3.1)(*a*) of the Act to "or subsection 20(29)" shall be read as ", subsection 20(29) or section 37 or 37.1". The portion formerly read:

"(*a*) no deduction shall be made in respect of any outlay or expense made or incurred by the taxpayer (other than an amount deductible under paragraph 20(1)(*a*), (*aa*) or (*gg*) or subsection 20(29)) that can reasonably be regarded as a cost attributable to the period of the construction, renovation or alteration of a building by or on behalf of the taxpayer, a person with whom the taxpayer does not deal at arm's length, a corporation of which the taxpayer is a specified shareholder or a partnership of which the taxpayer's share of any income or loss is 10% or more and relating to the construction, renovation or alteration, or a cost attributable to that period and relating to the ownership during that period of land"

S. 18(3.1)(*a*), that portion preceding subparagraph (i), was amended by S.C. 1994, c. 7, Sched. II, s. 13(4), applicable to 1987 and subsequent taxation years except that, in its application with respect to buildings acquired before 1990, the reference in paragraph 18(3.1)(*a*) to "or subsection 20(29)" shall be read as ", subsection 20(29) or section 37 or 37.1".

S. 18(3.1)(*a*), that portion preceding subparagraph (i), formerly read:

"(*a*) no deduction shall be made in respect of any outlay or expense made or incurred by the taxpayer, other than an amount deductible by reason of paragraph 20(1)(*a*) or (*aa*), that may reasonably be regarded as a cost attributable to the period of the construction, renovation or alteration of a building and relating to the construction, renovation or alteration or a cost attributable to that period and relating to the ownership during that period, of land"

Editorial Note: The construction-period expenses referred to in subsection 18(3.1) that are required to be capitalized are often referred to as "soft costs", and include the costs listed in subsection 18(3.3). Subsection 20(29) provides an exception to the capitalization of soft costs under subsection 18(3.1), and allows a taxpayer to deduct such costs incurred in a year to the extent of the taxpayer's rental income from the building computed before taking into account any capital cost allowance under subsection 20(28).

Related Sections: S. 18(3.2) Included costs; s. 18(3.3) Completion; s. 18(3.4) Where s. (3.1) does not apply; s. 18(3.5) Transitional rules; s. 20(1)(*gg*) Disability-related modifications to buildings; s. 20(29) Exception to soft costs capitalization rule; s. 53(1)(*d.3*) Adjustments to cost base — Denied deduction for interest or soft costs.

Interpretation Bulletins: *Secondary* — IT-121R3 Election to capitalize cost of borrowed money [Archived by the CRA]; IT-142R3 Settlement of debts on the winding-up of a corporation; IT-355R2 Interest on loans to buy life insurance policies and annuity contracts, and interest on policy loans [Archived by the CRA].

Tax Profile: December 2007 — Non-Resident Investment in Canadian Real Estate.

Cases: Construction interest capitalized under s. 18(3.1) lost its character as "interest" and was therefore not subject to Part XIII tax when paid out to a non-resident lender. *Eastern Success Co. Ltd. v. The Queen*, 2004 DTC 3521 (T.C.C.).

► 18(3.2) ◄

(3.2) Included costs. For the purposes of subsection (3.1), costs relating to the construction, renovation or alteration of a building or to the ownership of land include

(*a*) interest paid or payable by a taxpayer in respect of borrowed money that cannot be identified with a particular building or particular land, but that can reasonably be considered (having regard to all the circumstances) as interest on borrowed money used by the taxpayer in respect of the construction, renovation or alteration of a building or the ownership of land; and

(*b*) interest paid or payable by a taxpayer in respect of borrowed money that may reasonably be considered (having regard to all the circumstances) to have been used to assist, directly or indirectly,

(i) another person with whom the taxpayer does not deal at arm's length,

(ii) a corporation of which the taxpayer is a specified shareholder, or

(iii) a partnership of which the taxpayer's share of any income or loss is 10% or more,

to construct, renovate or alter a building or to purchase land, except where the assistance is in the form of a loan to that other person, corporation or partnership and a reasonable rate of interest on the loan is charged by the taxpayer.

► 18(3.3) ◄

(3.3) Completion. For the purposes of subsection (3.1), the construction, renovation or alteration of a building is completed at the earlier of the day on which the construction, renovation or alteration is actually completed and the day on which all or substantially all of the building is used for the purpose for which it was constructed, renovated or altered.

► 18(3.4) ◄

(3.4) Where s. (3.1) does not apply. Subsection (3.1) does not apply to prohibit a deduction in a taxation year of the specified percentage of any outlay or expense described in that subsection made or incurred before 1992 by

(*a*) a corporation whose principal business is throughout the year the leasing, rental or sale, or the development for lease, rental or sale, or any combination thereof, of real property owned by it to or for a person with whom the corporation is dealing at arm's length, or

(*b*) a partnership

(i) each member of which is a corporation described in paragraph (*a*), and

(ii) the principal business of which is throughout the year the leasing, rental or sale, or the development for lease, rental or sale, or any combination thereof, of real property held by it, to or for a person with whom each member of the partnership is dealing at arm's length,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraphs 18(3.4)(*a*) and (*b*) of the Act are replaced by the following:

(*a*) a corporation whose principal business is throughout the year the leasing, rental or sale, or the development for lease, rental or sale, or any combination thereof, of real or immovable property owned by it, to or for a person with whom the corporation is dealing at arm's length, or

(*b*) a partnership

(i) each member of which is a corporation described in paragraph (*a*), and

(ii) the principal business of which is throughout the year the leasing, rental or sale, or the development for lease, rental or sale, or any combination thereof, of real or immovable property held by it, to or for a person with whom each member of the partnership is dealing at arm's length,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

and for the purposes of this subsection, "specified percentage" means, in respect of an outlay or expense made or incurred in 1988, 80%, in 1989, 60%, in 1990, 40%, and in 1991, 20%.

► 18(3.5) ◄

(3.5) Idem. Subsection (3.1) does not apply in respect of an outlay or expense in respect of a building or the land described in subparagraph (3.1)(*a*)(i) or (ii) in respect of the building,

(*a*) where the construction, renovation or alteration of the building was in progress on November 12, 1981,

(*b*) where the installation of the footings or other base support of the building commenced after November 12, 1981 and before 1982,

(*c*) if, in the case of a new building being constructed in Canada or an existing building being renovated or altered in Canada, arrangements, evidenced in writing, for the construction, renovation or alteration were substantially advanced before November 13, 1981 and the installation of footings or other base support for the new building or the renovation or alteration of the existing building, as the case may be, commenced before June 1, 1982, or

(*d*) if, in the case of a new building being constructed in Canada, the taxpayer was obligated to construct the building under the terms of an agreement in writing entered into before November 13, 1981 and arrangements, evidenced in writing, respecting the construction of the building were substantially advanced before June 1, 1982 and the installation of footings or other base support for the building commenced before 1983,

and the construction, renovation or alteration, as the case may be, of the building proceeds after 1982 without undue delay (having regard to acts of God, labour disputes, fire, accidents or unusual delay by common carriers or suppliers of materials or equipment).

History: S. 18(3.5), the portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 13(5), applicable to outlays and expenses made or incurred after May 9, 1985. S. 18(3.5), the portion preceding paragraph (*a*), formerly read:

"(3.5) Subsection (3.1) does not apply in respect of an outlay or expense in respect of a building or the land described in subparagraph (3.1)(*a*)(i) or (ii),"

► 18(3.6) ◄

(3.6) Undue delay. For the purposes of subsection (3.5), where more than one building is being constructed under any of the circumstances described in that subsection on one site or on immediately contiguous sites, no undue delay shall be regarded as occurring in the construction of any such building if construction of at least one such building proceeds after 1982 without undue delay and

continuous construction of all other such buildings proceeds after 1983 without undue delay.

► 18(3.7) ◄

(3.7) Commencement of footings. For the purposes of this section, the installation of footings or other base support for a building shall be deemed to commence on the first placement of concrete, pilings or other material that is to provide permanent support for the building.

► 18(4) ◄

(4) Limitation re deduction of interest by certain corporations. Notwithstanding any other provision of this Act, in computing the income for a taxation year of a corporation resident in Canada from a business or property, no deduction shall be made in respect of that proportion of any amount otherwise deductible in computing its income for the year in respect of interest paid or payable by it on outstanding debts to specified non-residents that

(*a*) the amount, if any, by which

(i) the average of all amounts each of which is, in respect of a calendar month that ends in the year, the greatest total amount at any time in the month of the corporation's outstanding debts to specified non-residents,

exceeds

(ii) two times the total of

(A) the retained earnings of the corporation at the beginning of the year, except to the extent that those earnings include retained earnings of any other corporation,

(B) the average of all amounts each of which is the corporation's contributed surplus at the beginning of a calendar month that ends in the year, to the extent that it was contributed by a specified non-resident shareholder of the corporation, and

(C) the average of all amounts each of which is the corporation's paid-up capital at the beginning of a calendar month that ends in the year, excluding the paid-up capital in respect of shares of any class of the capital stock of the corporation owned by a person other than a specified non-resident shareholder of the corporation,

is of

(*b*) the amount determined under subparagraph (*a*)(i) in respect of the corporation for the year.

Department of Finance Press Release

Finance Minister Clarifies Certain Income Tax Measures in the 2000 Budget

[Reproduced below is Department of Finance News Release 2000-039, dated May 9, 2000, concerning certain measures that were proposed in the February 28, 2000 Federal Budget.]

Finance Minister Paul Martin today announced several clarifications to measures announced in the 2000 budget. These clarifications will ensure the smooth conduct of business transactions while consultations take place.

Thin Capitalization Rules

The thin capitalization rules in the *Income Tax Act* prevent foreign-owned corporations resident in Canada from using an excessive amount of debt when they capitalize their Canadian operations.

Minister Martin today announced the deferral of the budget measure that broadened the kind of debt covered by the thin capitalization rules to include loans to a Canadian corporation from a third party that are guaranteed or secured by a specified non-resident. In certain circumstances, including guaranteed debt in the scope of the thin capitalization rules, has raised concerns. Deferring this element of the thin capitalization provision will enable officials to consult broadly with a view to reaching a consensus on how best to define those guarantees that are equivalent to related party debt. Any resulting proposals will be brought forward on a fully prospective basis.

As indicated in the 2000 budget, interested parties will also be consulted on matters related to other business arrangements such as partnerships, trusts, branches and the use of leases.

* * *

Submissions on these issues may be made to the Tax Policy Branch of the Department of Finance.

For further information:

Sanjeev Sivarulrasa (613) 992-5864

History: S. 18(4)(*a*) was amended by S.C. 2001, c. 17, s. 9(3), applicable to taxation years that begin after 2000. S. 18(4)(*a*) formerly read:

"(*a*) the amount, if any, by which

(i) the greatest aggregate amount that the corporation's outstanding debts to specified non-residents were at any time in the year,

exceeds

(ii) 3 times the total of

(A) the retained earnings of the corporation at the commencement of the year, except to the extent that those earnings include retained earnings of any other corporation,

(B) the corporation's contributed surplus at the commencement of the year, to the extent that it was contributed by a specified non-resident shareholder of the corporation, and

(C) the greater of the corporation's paid-up capital at the commencement of the year and the corporation's paid-up capital at the end of the year, excluding the paid-up capital in respect of shares of any class of the capital stock of the corporation owned by a person other than a specified non-resident shareholder of the corporation,"

Related Sections: S. 18(5) Definitions; s. 18(6) Loans made on condition; s. 18(8) Where s. (4) does not apply; s. 20(1)(*c*) Interest; s. 89(1), "Paid-up capital".

Interpretation Bulletins: *Primary* — IT-59R3 Interest on debts owing to specified non-residents (thin capitalization).

Information Circulars: IC 87-2R International Transfer Pricing.

Income Tax Technical News: Issue No. 38, Thin Capitalization; Issue No. 15, Back-to-back loans in relation to subsections 18(4) and 18(6); Issue No. 16, Wildenburg Holdings Ltd..

Tax Topics: No. 1930, Budget 2009 Provides Initial Response to Final Report Issued by the Advisory Panel on Canada's System of International Taxation; No. 1867-68, 2007 Canadian Tax Foundation Annual Conference CRA Round Table; No. 1814, 2006 Canadian Tax Foundation Annual Conference CRA Round Table; No. 1467, Budget proposals re thin capitalization.

Tax Profile: January 2009 — Enhancing Canada's International Tax Advantage; January 2008 — Tax Ramifications of Non-Resident Purchases of Canadian Businesses; December 2007 — Non-Resident Investment in Canadian Real Estate.

Canadian Tax Foundation: Lanthier, "Thin Capitalization: Cross-Border Issues and Strategies", *2003 Conference Report*, 25:1; Fontaine and Kong, "The March 16, 2001 Draft Legislation: Thin Capitalization, Non-Resident-Owned Investment Corporations, and Foreign Spinoff Relief", *2001 Canadian Tax Journal*, No. 2, 383.

Canadian Petroleum Tax Journal: Café Annie's Tasty Inbound Financing, Jim McKee, Vol. 15 No. 1 2002; Recent Developments in Corporate Reorganizations and International Transactions, Doug Richardson and Edward Rowe, Vol. 13 No. 1 2000; Canada Customs and Revenue Agency 1999 Roundtable Questions and Answers, Question 11, Vol. 13 No. 1 2000.

Cases: Since the mortgage loan of the taxpayer and a corporation it had entered into a partnership agreement with was their debt and not that of the partnership, the thin capitalization rules applied. *Wildenburg Holdings Limited v. Minister of Revenue (Ont.)*, 2001 DTC 5145 (Ont. C.A.).

The thin capitalization rules were used to restrict the corporate taxpayer's deduction of interest which it had paid on funds borrowed from two related U.S. corporations. The Canada–U.S. Tax Treaty does not operate to limit the application of the thin capitalization rules to the taxpayer's situation. *Specialty Manufacturing Limited v. The Queen*, 99 DTC 5222 (F.C.A.), affirming 97 DTC 1511 (T.C.C.).

Since the mortgage loan the taxpayer and a corporation it had entered into a partnership agreement with was their debt and not that of the partnership, the taxpayer could not use the deeming provisions of s. 96(1) to prevent the application of the thin capitalization rules. *Wildenburg Holdings Ltd. v. M.N.R.*, 98 DTC 6462 (Ont. (Gen. Div.)).

► 18(5) ◄

(5) Definitions. Notwithstanding any other provision of this Act (other than subsection (5.1)), in this subsection and subsections (4) to (6),

History: The portion of subsection 18(5) before the definition "outstanding debts to specified non-residents" was amended by S.C. 1994, c. 7, Sched. VIII, s. 8(1), applicable to the 1993 and subsequent taxation years and, where a corporation so elected by notifying the Minister of National Revenue in writing before December 11, 1993, to its 1989 and subsequent taxation years. That part formerly read:

"(5) *Definitions.* Notwithstanding any other provision of this Act, in this subsection and subsections (4) and (6),"

Related Sections: S. 248(1), "corporation", "individual", "insurance corporation", "non-resident", "property", "shareholder"; s. 249(1) Definition of "taxation year".

Regulations: 8201.

Interpretation Bulletins: *Secondary* — IT-59R3 Interest on debts owing to specified non-residents (thin capitalization).

Tax Topics: No. 1467, Budget proposals re thin capitalization.

"outstanding debts to specified non-residents" — "outstanding debts to specified non-residents" of a corporation at any particular time in a taxation year means

(*a*) the total of all amounts each of which is an amount outstanding at that time as or on account of a debt or other obligation to pay an amount

(i) that was payable by the corporation to a person who was, at any time in the year,

(A) a specified non-resident shareholder of the corporation, or

(B) a non-resident person, or a non-resident-owned investment corporation, who was not dealing at arm's length with a specified shareholder of the corporation, and

(ii) on which any amount in respect of interest paid or payable by the corporation is or would be, but for subsection (4), deductible in computing the corporation's income for the year,

but does not include

(*b*) an amount outstanding at the particular time as or on account of a debt or other obligation to pay an amount to

(i) a non-resident insurance corporation to the extent that the obligation was, for the non-resident insurance corporation's taxation year that included the particular time, designated insurance property in respect of an insurance business carried on in Canada through a permanent establishment as defined by regulation, or

(ii) an authorized foreign bank, if the bank uses or holds the obligation at the particular time in its Canadian banking business;

History: S. 18(5), paragraph (*b*) of the definition "outstanding debts to specified non-residents" was amended by S.C. 2001, c. 17, s. 9(4), applicable after June 27, 1999. S. 18(5), paragraph (*b*) of the definition "outstanding debts to specified non-residents" formerly read:

"(*b*) an amount outstanding at the particular time as or on account of a debt or other obligation to pay an amount to a non-resident insurance corporation to the extent that the amount was, for the non-resident insurance corporation's taxation year that included the particular time, designated insurance property in respect of an insurance business carried on in Canada through a permanent establishment as defined by regulation;"

Paragraph (*b*) of the definition "outstanding debts to specified non-residents" was amended by S.C. 1997, c. 25, s. 4(3), applicable to the 1997 and subsequent taxation years. That part formerly read:

"(*b*) any amount outstanding at the particular time as or on account of a debt or other obligation to pay an amount to a non-resident insurance corporation where the amount outstanding at the particular time was, in the non-resident insurance corporation's taxation year that included the particular time, included, for the purposes of section 138, as property used by it in the year in, or held by it in the year in the course of, carrying on an insurance business through a permanent establishment (within the meaning assigned for the purpose of subsection 112(2)) in Canada,"

Paragraph (*b*) of the definition "outstanding debts to specified non-residents" was amended by S.C. 1994, c. 7, Sched. VIII, s. 8(2), applicable to the 1991 and subsequent taxation years and, where a corporation so elected by notifying the Minister of National Revenue in writing before December 11, 1993, to its 1985 and subsequent taxation years. Paragraph (*b*) of the definition "outstanding debts to specified non-residents" formerly read:

"(*b*) where the corporation is controlled by a non-resident insurance corporation, the total of all amounts each of which is an amount outstanding at the particular time as or on account of a debt or other obligation to pay an amount to the non-resident insurance corporation where the amount outstanding at the particular time has, in the non-resident insurance corporation's taxation year that included the particular time, been included as property used by it in the year in, or held by it in the year in the course of (within the meaning assigned by the definition 'property used by it in the year in, or held by it in the year in the course of' in subsection 138(12)) carrying on an insurance business in Canada;"

Related Sections: S. 248(1), "corporation", "individual", "insurance corporation", "non-resident", "property", "shareholder"; s. 249(1) Definition of "taxation year".

Regulations: 8201.

Interpretation Bulletins: *Secondary* — IT-59R3 Interest on debts owing to specified non-residents (thin capitalization).

Tax Topics: No. 1467, Budget proposals re thin capitalization.

"specified non-resident shareholder" — "specified non-resident shareholder" of a corporation at any time means a specified shareholder of the corporation who was at that time a non-resident person or a non-resident-owned investment corporation;

Tax Topics: No. 1467, Budget proposals re thin capitalization.

"specified shareholder" — "specified shareholder" of a corporation at any time means a person who at that time, either alone or together with persons with whom that person is not dealing at arm's length, owns

(*a*) shares of the capital stock of the corporation that give the holders thereof 25% or more of the votes that could be cast at an annual meeting of the shareholders of the corporation, or

(*b*) shares of the capital stock of the corporation having a fair market value of 25% or more of the fair market value of all of the issued and outstanding shares of the capital stock of the corporation,

and, for the purpose of determining whether a particular person is a specified shareholder of a corporation at any time, where the particular person or a person with whom the particular person is not dealing at arm's length has at that time a right under a contract, in equity or otherwise, either immediately or in the future and either absolutely or contingently

(*c*) to, or to acquire, shares in a corporation or to control the voting rights of shares in a corporation, or

(*d*) to cause a corporation to redeem, acquire or cancel any of its shares (other than shares held by the particular person or a person with whom the particular person is not dealing at arm's length),

the particular person or the person with whom the particular person is not dealing at arm's length, as the case may be, shall be deemed at that time to own the shares referred to in paragraph (*c*) and the corporation referred to in paragraph (*d*) shall be deemed at that time to have redeemed, acquired or cancelled the shares referred to in paragraph (*d*), unless the right is not exercisable at that time because the exercise thereof is contingent on the death, bankruptcy or permanent disability of an individual.

History: The definition "specified shareholder" in subsection 18(5) was amended by S.C. 1994, c. 7, Sched. VIII, s. 8(3), applicable to the 1993 and

subsequent taxation years and, where a corporation so elected by notifying the Minister of National Revenue in writing before December 11, 1993, to its 1989 and subsequent taxation years. The definition "specified shareholder" formerly read:

" 'specified shareholder' of a corporation at any time means a shareholder of the corporation who at that time, either alone or together with persons with whom that shareholder was not dealing at arm's length, owned 25% or more of the issued shares of any class of the capital stock of the corporation."

Related Sections: S. 248(1), "corporation", "individual", "insurance corporation", "non-resident", "property", "shareholder"; s. 249(1) Definition of "taxation year"; s. 251 Arm's length.
Interpretation Bulletins: *Secondary* — IT-59R3 Interest on debts owing to specified non-residents (thin capitalization).
Tax Topics: No. 1467, Budget proposals re thin capitalization.

▶ 18(5.1) ◀

(5.1) Person deemed not to be specified shareholder. For the purposes of subsections (4) to (6), where

(*a*) a particular person would, but for this subsection, be a specified shareholder of a corporation at any time,

(*b*) there was in effect at that time an agreement or arrangement under which, on the satisfaction of a condition or the occurrence of an event that it is reasonable to expect will be satisfied or will occur, the particular person will cease to be a specified shareholder, and

(*c*) the purpose for which the particular person became a specified shareholder was the safeguarding of rights or interests of the particular person or a person with whom the particular person is not dealing at arm's length in respect of any indebtedness owing at any time to the particular person or a person with whom the particular person is not dealing at arm's length,

the particular person shall be deemed not to be a specified shareholder of the corporation at that time.

History: S. 18(5.1) was added by S.C. 1994, c. 7, Sched. VIII, s. 8(4), applicable to the 1993 and subsequent taxation years and, where a corporation so elected by notifying the Minister of National Revenue in writing before December 11, 1993, to its 1989 and subsequent taxation years.

Related Sections: S. 248(1), "corporation", "specified shareholder"; s. 251 Arm's length.
Tax Topics: No. 1467, Budget proposals re thin capitalization.

▶ 18(6) ◀

(6) Loans made on condition. Where any loan (in this subsection referred to as the "first loan") has been made

(*a*) by a specified non-resident shareholder of a corporation, or

(*b*) by a non-resident person, or a non-resident-owned investment corporation, who was not dealing at arm's length with a specified shareholder of a corporation,

to another person on condition that a loan (in this subsection referred to as the "second loan") be made by any person to a particular corporation resident in Canada, for the purposes of subsections (4) and (5), the lesser of

(*c*) the amount of the first loan, and

(*d*) the amount of the second loan

shall be deemed to be a debt incurred by the particular corporation to the person who made the first loan.

Interpretation Bulletins: *Secondary* — IT-59R3 Interest on debts owing to specified non-residents (thin capitalization).
Income Tax Technical News: Issue No. 15, Back-to-back loans in relation to subsections 18(4) and 18(6).
Tax Topics: No. 1715, Thin Capitalization Rules — "Back-to-Back" Loans; No. 1467, Budget proposals re thin capitalization.

▶ 18(7) ◀

(7) Limitation on application of section 21 where ss. (4) applicable. [Repealed by 1985, c. 45, s. 9(5).]

Tax Topics: No. 1467, Budget proposals re thin capitalization.

▶ 18(8) ◀

(8) Where s. (4) does not apply. [Repealed by S.C. 2001, c. 17, s. 9(5).]

History: S. 18(8) was repealed by S.C. 2001, c. 17, s. 9(5), applicable to taxation years that begin after 2000. S. 18(8) formerly read:

"(8) *Where s. (4) does not apply.* Subsection (4) does not apply in computing the income for a taxation year of a corporation whose principal business in Canada throughout the year was the developing or manufacturing of aircraft or aircraft components."

Related Sections: S. 18(1)(*c*) Limitation re exempt income.
Interpretation Bulletins: *Secondary* — IT-59R3 Interest on debts owing to specified non-residents (thin capitalization).
Tax Topics: No. 1467, Budget proposals re thin capitalization.

▶ 18(9) ◀

(9) Limitation respecting prepaid expenses. Notwithstanding any other provision of this Act,

(*a*) in computing a taxpayer's income for a taxation year from a business or property (other than income from a business computed in accordance with the method authorized by subsection 28(1)), no deduction shall be made in respect of an outlay or expense to the extent that it can reasonably be regarded as having been made or incurred

(i) as consideration for services to be rendered after the end of the year,

(ii) as, on account of, in lieu of payment of or in satisfaction of, interest, taxes (other than taxes imposed on an insurer in respect of insurance premiums of a non-cancellable or guaranteed renewable accident and sickness insurance policy, or a life insurance policy other than a group term life insurance policy that provides coverage for a period of 12 months or less), rent or royalties in respect of a period that is after the end of the year, or

(iii) as consideration for insurance in respect of a period after the end of the year, other than

(A) where the taxpayer is an insurer, consideration for reinsurance, and

(B) consideration for insurance on the life of an individual under a group term life insurance policy where all or part of the consideration is for insurance that is (or would be if the individual survived) in respect of a period that ends more than 13 months after the consideration is paid;

(*b*) such portion of each outlay or expense (other than an outlay or expense of a corporation, partnership or trust as, on account of, in lieu of payment of or in satisfaction of, interest) made or incurred as would, but for paragraph (*a*), be deductible in computing a taxpayer's income for a taxation year shall be deductible in computing the taxpayer's income for the subsequent year to which it can reasonably be considered to relate;

(*c*) for the purposes of section 37.1, such portion of each qualified expenditure (within the meaning assigned by subsection 37.1(5)) as was made by a taxpayer in a taxation year and as would, but for

paragraph (*a*), have been deductible in computing the taxpayer's income for the year shall be deemed

(i) not to be a qualified expenditure made by the taxpayer in the year, and

(ii) to be a qualified expenditure made by the taxpayer in the subsequent year to which the expenditure can reasonably be considered to relate;

(*d*) for the purpose of paragraph (*a*), an outlay or expense of a taxpayer is deemed not to include any payment referred to in subparagraph 37(1)(*a*)(ii) or (iii) that

(i) is made by the taxpayer to a person or partnership with which the taxpayer deals at arm's length, and

(ii) is not an expenditure described in subparagraph 37(1)(*a*)(i);

(*e*) for the purposes of section 37 and the definition "qualified expenditure" in subsection 127(9), the portion of an expenditure that is made or incurred by a taxpayer in a taxation year and that would, but for paragraph (*a*), have been deductible under section 37 in computing the taxpayer's income for the year, is deemed

(i) not to be made or incurred by the taxpayer in the year, and

(ii) to be made or incurred by the taxpayer in the subsequent taxation year to which the expenditure can reasonably be considered to relate; and

(*f*) for the purpose of the definition "eligible child care space expenditure" in subsection 127(9), the portion of an expenditure (other than for the acquisition of depreciable property) that is made or incurred by a taxpayer in a taxation year and that would, but for paragraph (*a*), have been deductible under this Act in computing the taxpayer's income for the year, is deemed

(i) not to be made or incurred by the taxpayer in the year, and

(ii) to be made or incurred by the taxpayer in the subsequent taxation year to which the expenditure can reasonably be considered to relate.

History: S. 18(9)(*f*) was added by S.C. 2007, c. 35, s. 11(1), applicable to expenses incurred on or after March 19, 2007.

S. 18(9)(*a*)(ii) was amended by S.C. 2001, c. 17, s. 9(6), applicable to taxation years that begin after 1999 except that, where a taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year in which this Act receives royal assent, the amendment applies to taxation years that end after 1997. S. 18(9)(*a*)(ii) formerly read:

"(ii) as, on account or in lieu of payment of, or in satisfaction of, interest, taxes (other than taxes imposed on insurance premiums), rent or royalty in respect of a period after the end of the year, or"

S. 18(9)(*d*) was amended by S.C. 1996, c. 21, s. 5(1), applicable to payments made after 1995. S. 18(9)(*d*) formerly read:

"(*d*) for the purposes of paragraph (*a*), an outlay or expense shall be deemed not to include any payment referred to in clause 37(1)(*a*)(ii)(E)."

S. 18(9)(*e*) was added by S.C. 1996, c. 21, s. 5(1), applicable to expenditures made or incurred at any time.

S. 18(9)(*a*)(iii) was amended by S.C. 1995, c. 3, s. 6(1), applicable to premiums paid after February 1994 for insurance. S. 18(9)(*a*)(iii) formerly read:

"(iii) as consideration for insurance in respect of a period after the end of the year (other than an amount paid in respect of reinsurance by an insurer);"

S. 18(9)(*b*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 8(5), applicable to amounts paid as, on account of, in lieu of payment of or in satisfaction of, interest in respect of a period or part thereof that is after 1991. S. 18(9)(*b*) formerly read:

"(*b*) such portion of each outlay or expense made or incurred as would, but for paragraph (*a*), have been deductible in computing a taxpayer's income for a taxation year shall be deductible in computing the taxpayer's income for the subsequent year to which it can reasonably be considered to relate;"

Editorial Note: See also subsection 18(9.2) regarding prepaid interest incurred by corporations, trusts and partnerships, and subsection 18(9.1) regarding early repayment penalties, bonuses, and interest-rate reduction payments. The CRA historically applied the matching principle of accounting to amortize or defer the deduction of expenses such as deferred charges that were similar in nature to prepaid expenses but not specifically covered by subsection 18(9). However, the CRA position was cast into doubt as a result of the Supreme Court decisions in *Canderel* and *Toronto College Park* cited below; in this regard, see also the lead article in Tax Topics No. 1805, October 12, 2006.

Related Sections: S. 18(1)(*a*) General limitation; s. 18(1)(*b*) Capital outlay or loss; s. 18(9.2) Interest on debt obligations — notional principal; s. 18.1 Definitions; s. 18.1(4) Amount of deduction; s. 87(2)(*j.2*) Prepaid expenses and matchable expenditures.

Interpretation Bulletins: *Primary* — IT-417R2 Prepaid expenses and deferred charges. *Secondary* — IT-109R2 Unpaid amounts; IT-151R5 (Consolid.) — Scientific research and experimental development expenditures; IT-151R4 Scientific research and experimental development expenditures [Archived by the CRA]; IT-211R Membership dues — Associations and societies.

Income Tax Technical News: Issue No. 25, Health and Welfare Trusts.

Canadian Tax Foundation: Frankovic, "The Income Tax Treatment of Prepaid Expenses and Similar Costs: A Time Value Analysis", *2000 Canadian Tax Journal*, No. 5, 1371; Frankovic, "The Matching of 'Current' Expense Under Canada's Income Tax Laws", *1998 Canadian Tax Journal*, No. 1, 1.

Tax Window Files: Straight-Line Amortization or Averaging of Rent, May 26, 2008, CRA Document No. 2008-0272771I7; Prepaid Lease Payments, February 22, 2005, CRA Document No. 2004-0109381E5 [Application of subsection 18(9) when section 16.1 election is made]; Lump-Sum Rent Payment, December 15, 2004, CRA Document No. 2004-0093841E5 [Treatment of lump sum additional rent payment required at beginning of fourth year of twenty-year lease]; Lump-Sum Prepayment of Automobile Lease, June 3, 2003, CRA Document No. 2003-0015675 [Subsection 18(9) applies to amortize prepayment under car lease over the period of the lease; section 67.3 then applies to limit the amount otherwise deductible in each year]; Amortization of Product Liability Insurance Premiums, January 30, 2003, CRA Document No. 2002-0169785 [Product liability insurance purchased by manufacturer subject to amortization under subsection 18(9); amortization can be based on expected claims against the manufacturer over the life of the manufactured goods, and if not feasible, straight-line amortization acceptable over life of goods]; Extended Warranty, July 11, 1995, CRA Document No. 9505997 [Amount paid for extended warranty subject to subsection 18(9) where the amount may reasonably be regarded as having been incurred as consideration for services to be rendered or for insurance in respect of a future period].

Cases: Tenant inducement payments paid by the taxpayer were not required to be amortized over the course of the lease, and were deductible in the year incurred. *Toronto College Park v. The Queen*, 98 DTC 6088 (S.C.C.), reversing 96 DTC 6407 (F.C.A.). *Canderel Limited v. The Queen*, 98 DTC 6100 (S.C.C.), reversing 95 DTC 5101 (F.C.A.).

► 18(9.01) ◄

(9.01) Group term life insurance. Where

(*a*) a taxpayer pays a premium after February 1994 and before 1997 under a group term life insurance policy for insurance on the life of an individual,

(*b*) the insurance is for the remainder of the individual's lifetime, and

(*c*) no further premiums will be payable for the insurance,

no amount may be deducted in computing the taxpayer's income for a taxation year from a business or property in respect of the premium except that there may be so deducted,

(*d*) where the year is the taxation year in which the premium was paid or a subsequent taxation year and the individual is alive at the end of the year, the lesser of

(i) the amount determined by the formula

$$A - B$$

and

(ii) 1/3 of the amount determined by the formula

$$\frac{A \times C}{365}$$

where

A is the amount that would, if this Act were read without reference to this subsection, be deductible in respect of the premium in computing the taxpayer's income,

B is the total amount deductible in respect of the premium in computing the taxpayer's income for preceding taxation years, and

C is the number of days in the year, and

(*e*) where the individual died in the year, the amount determined under subparagraph (*d*)(i).

History: S. 18(9.01) was added by S.C. 1995, c. 3, s. 6(2), applicable to premiums paid after February 1994 for insurance.

► 18(9.02) ◄

(9.02) Application of subsection (9) to insurers. For the purpose of subsection (9), an outlay or expense made or incurred by an insurer on account of the acquisition of an insurance policy (other than a non-cancellable or guaranteed renewable accident and sickness insurance policy or a life insurance policy other than a group term life insurance policy that provides coverage for a period of 12 months or less) is deemed to be an expense incurred as consideration for services rendered consistently throughout the period of coverage of the policy.

History: S. 18(9.02) was added by S.C. 2001, c. 17, s. 9(7), applicable to taxation years that begin after 1999 except that, where a taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year in which this Act receives royal assent, the subsection applies to taxation years that end after 1997.

► 18(9.1) ◄

(9.1) Penalties, bonuses and rate-reduction payments. Subject to subsection 142.4(10), where at any time a payment, other than a payment that

(*a*) can reasonably be considered to have been made in respect of the extension of the term of a debt obligation or in respect of the substitution or conversion of a debt obligation to another debt obligation or share, or

(*b*) is contingent or dependent on the use of or production from property or is computed by reference to revenue, profit, cash flow, commodity price or any other similar criterion or by reference to dividends paid or payable to shareholders of any class of shares of the capital stock of a corporation,

is made to a person or partnership by a taxpayer in the course of carrying on a business or earning income from property in respect of borrowed money or on an amount payable for property acquired by the taxpayer (in this subsection referred to as a "debt obligation")

(*c*) as consideration for a reduction in the rate of interest payable by the taxpayer on the debt obligation, or

(*d*) as a penalty or bonus payable by the taxpayer because of the repayment by the taxpayer of all or part of the principal amount of the debt obligation before its maturity,

the payment shall, to the extent that it can reasonably be considered to relate to, and does not exceed the value at that time of, an amount that, but for the reduction described in paragraph (*c*) or the repayment described in paragraph (*d*), would have been paid or payable by the taxpayer as interest on the debt obligation for a taxation year of the taxpayer ending after that time, be deemed,

(*e*) for the purposes of this Act, to have been paid by the taxpayer and received by the person or partnership at that time as interest on the debt obligation, and

(*f*) for the purpose of computing the taxpayer's income in respect of the business or property for the year, to have been paid or payable by the taxpayer in that year as interest pursuant to a legal obligation to pay interest,

(i) in the case of a reduction described in paragraph (*c*), on the debt obligation, and

(ii) in the case of a repayment described in paragraph (*d*),

(A) where the repayment was in respect of all or part of the principal amount of the debt obligation that was borrowed money, except to the extent that the borrowed money was used by the taxpayer to acquire property, on borrowed money used in the year for the purpose for which the borrowed money that was repaid was used, and

(B) where the repayment was in respect of all or part of the principal amount of the debt obligation that was either borrowed money used to acquire property or an amount payable for property acquired by the taxpayer, on the debt obligation to the extent that the property or property substituted therefor is used by the taxpayer in the year for the purpose of gaining or producing income therefrom or for the purpose of gaining or producing income from a business.

History: S. 18(9.1), the portion before paragraph (*a*), was amended by 1998, c. 19, s. 79(1), applicable to taxation years that end after February 22, 1994. S. 18(9.1), the portion before paragraph (*a*), formerly read:

"(9.1) *Penalties, bonuses and rate-reduction payments.* Where at any time a payment, other than a payment that"

S. 18(9.1) was added by S.C. 1994, c. 7, Sched. II, s. 13(6), applicable to payments made after 1984 except that, in its application to payments made before July 13, 1990, subsection 18(9.1) shall be read without reference to paragraph 18(9.1)(*e*).

Related Sections: S. 18(9) Limitation respecting prepaid expenses; s. 18(9.2) Interest on debt obligations — notional principal; s. 20(1)(*c*) Interest; s. 20(1)(*e*) Expenses re financing; s. 248(1), "principal amount".

Interpretation Bulletins: *Secondary* — IT-104R3 Deductibility of Fines or Penalties.

Canadian Tax Foundation: Frankovic, "The Income Tax Treatment of Prepaid Expenses and Similar Costs: A Time Value Analysis", *2000 Canadian Tax Journal*, No. 5, 1371.

Tax Window Files: Deduction of Interest Penalty After Disposition of Property, October 10, 2003, CRA Document No. 2003-0030055 [Subsection 18(9.1) not applicable to interest rate penalty on mortgage after the mortgaged property was sold]; Determining the Penalty Amount, September 30, 2003, CRA Document No. 2003-0023137 [Possible bifurcation between penalty or bonus component and restructuring fee component of payment; former could be subject to subsection 18(9.1)]; Amortization of Defeasance Premiums, May 15, 2002, CRA Document No. 2003-0011615 ["Present value" amortization acceptable for penalty or bonus]; Premium Paid by Issuer on Purchase of Bonds in Open Market, September 13, 2000, CRA Document No. 2000-0036825 [Subsection 19(9.1) not applicable to premium paid for a bond purchased on the open market in the normal manner]; Restructuring Mortgage Interest Payments, August 15, 1997, CRA Document No. 9720045 [Subsection 18(9.1) not applicable (but s. 20(1)(*e*)(ii.1) was) to payment made in connection with restructuring or rescheduling of mortgage which included an interest rate reduction].

► 18(9.2) ◄

(9.2) Interest on debt obligations. For the purposes of this Part, the amount of interest payable on borrowed

money or on an amount payable for property (in this subsection and subsections (9.3) to (9.8) referred to as the "debt obligation") by a corporation, partnership or trust (in this subsection and subsections (9.3) to (9.7) referred to as the "borrower") in respect of a taxation year shall, notwithstanding subparagraph (9.1)(*f*)(i), be deemed to be an amount equal to the lesser of

(*a*) the amount of interest, not in excess of a reasonable amount, that would be payable on the debt obligation by the borrower in respect of the year if no amount had been paid before the end of the year in satisfaction of the obligation to pay interest on the debt obligation in respect of the year and if the amount outstanding at each particular time in the year that is after 1991 on account of the principal amount of the debt obligation were the amount, if any, by which

(i) the amount outstanding at the particular time on account of the principal amount of the debt obligation

exceeds the total of

(ii) all amounts each of which is an amount paid before the particular time in satisfaction, in whole or in part, of the obligation to pay interest on the debt obligation in respect of a period or part thereof that is after 1991, after the beginning of the year, and after the time the amount was so paid (other than a period or part thereof that is in the year where no such amount was paid before the particular time in respect of a period, or part of a period, that is after the end of the year), and

(iii) the amount, if any, by which

(A) the total of all amounts of interest payable on the debt obligation (determined without reference to this subsection) by the borrower in respect of taxation years ending after 1991 and before the year (to the extent that the interest does not exceed a reasonable amount)

exceeds

(B) the total of all amounts of interest deemed by this subsection to have been payable on the debt obligation by the borrower in respect of taxation years ending before the year, and

(*b*) the amount, if any, by which

(i) the total of all amounts of interest payable on the debt obligation (determined without reference to this subsection) by the borrower in respect of the year or taxation years ending after 1991 and before the year (to the extent that the interest does not exceed a reasonable amount)

exceeds

(ii) the total of all amounts of interest deemed by this subsection to have been payable on the debt obligation by the borrower in respect of taxation years ending before the year.

History: S. 18(9.2) was added by S.C. 1994, c. 7, Sched. VIII, s. 8(6), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 18(9) Limitation respecting prepaid expenses; s. 20(1)(*c*) Interest; s. 20(1)(*e*) Expenses re financing; s. 104(1) Reference to trust or estate; s. 248(1), "borrowed money", "principal amount".

Canadian Tax Foundation: Frankovic, "The Income Tax Treatment of Prepaid Expenses and Similar Costs: A Time Value Analysis", *2000 Canadian Tax Journal*, No. 5, 1371.

► 18(9.3) ◄

(9.3) Interest on debt obligations. Where at any time in a taxation year of a borrower a debt obligation of the borrower is settled or extinguished or the holder of the obligation acquires or reacquires property of the borrower in circumstances in which section 79 applies in respect of the debt obligation and the total of

(*a*) all amounts each of which is an amount paid at or before that time in satisfaction, in whole or in part, of the obligation to pay interest on the debt obligation in respect of a period or part of a period that is after that time, and

(*b*) all amounts of interest payable on the debt obligation (determined without reference to subsection (9.2)) by the borrower in respect of taxation years ending after 1991 and before that time, or in respect of periods, or parts of periods, that are in such years and before that time (to the extent that the interest does not exceed a reasonable amount),

exceeds the total of

(*c*) all amounts of interest deemed by subsection (9.2) to have been payable on the debt obligation by the borrower in respect of taxation years ending before that time, and

(*d*) the amount of interest that would be deemed by subsection (9.2) to have been payable on the debt obligation by the borrower in respect of the year if the year had ended immediately before that time,

(which excess is in this subsection referred to as the "excess amount"), the following rules apply:

(*e*) for the purpose of applying section 79 in respect of the borrower, the principal amount at that time of the debt obligation shall be deemed to be equal to the amount, if any, by which

(i) the principal amount at that time of the debt obligation

exceeds

(ii) the excess amount, and

(*f*) the excess amount shall be deducted at that time in computing the forgiven amount in respect of the obligation (within the meaning assigned by subsection 80(1)).

History: S. 18(9.3), the part preceding paragraph (*a*), was amended by S.C. 1995, c. 21, s. 5(1), applicable to the 1992 and subsequent taxation years. S. 18(9.3) the part preceding (*a*) formerly read:

"(9.3) *Idem.* Where at any time in a taxation year of a borrower a debt obligation of the borrower has been settled or extinguished and the total of"

S. 18(9.3)(*a*) was amended by S.C. 1995, c. 21, s. 5(1), applicable to taxation years that end after February 21, 1994, except it does not apply to any obligation settled or extinguished

(*a*) before February 22, 1994;

(*b*) after February 21, 1994

(i) under the terms of an agreement in writing entered into on or before that date, or

(ii) under the terms of any amendment to such an agreement, where that amendment was entered into in writing before July 12, 1994 and the amount of the settlement or extinguishment was not substantially greater than the settlement or extinguishment provided under the terms of the agreement;

(*c*) before 1996 pursuant to a restructuring of debt in connection with a proceeding commenced in a court in Canada before February 22, 1994;

(*d*) before 1996 in connection with a proposal (or notice of intention to make a proposal) that was filed under the *Bankruptcy and Insolvency Act*, or similar legislation of a country other than Canada, before February 22, 1994; or

(*e*) before 1996 in connection with a written offer that was made by, or communicated to, the holder of the obligation before February 22, 1994.

S. 18(9.3)(*a*) formerly read:

"(*a*) all amounts each of which is an amount paid before that time in satisfaction, in whole or in part, of the obligation to pay interest on the debt obligation in respect of a period or part thereof that is after that time, and"

S. 18(9.3)(*e*) was amended by S.C. 1995, c. 21, s. 5(2), applicable to the 1992 and subsequent taxation years. S. 18(9.3)(*e*) formerly read:

"(*e*) for the purpose of applying paragraph 79(*c*) in respect of the borrower, where the debt obligation was extinguished in circumstances to which section 79 applies, the amount outstanding at that time on account of the principal amount of the debt obligation shall be deemed to be the amount, if any, by which

(i) the amount outstanding at that time on account of the principal amount of the debt obligation

exceeds

(ii) the excess amount, and"

S. 18(9.3)(*f*) was amended by S.C. 1995, c. 21, s. 5(2), applicable to taxation years that end after February 21, 1994, except that it does not apply to any obligation settled or extinguished

(*a*) before February 22, 1994;

(*b*) after February 21, 1994

(i) under the terms of an agreement in writing entered into on or before that date, or

(ii) under the terms of any amendment to such an agreement, where that amendment was entered into in writing before July 12, 1994 and the amount of the settlement or extinguishment was not substantially greater than the settlement or extinguishment provided under the terms of the agreement;

(*c*) before 1996 pursuant to a restructuring of debt in connection with a proceeding commenced in a court in Canada before February 22, 1994;

(*d*) before 1996 in connection with a proposal (or notice of intention to make a proposal) that was filed under the *Bankruptcy and Insolvency Act*, or similar legislation of a country other than Canada, before February 22, 1994; or

(*e*) before 1996 in connection with a written offer that was made by, or communicated to, the holder of the obligation before February 22, 1994.

S. 18(9.3)(*f*) formerly read:

"(*f*) for the purpose of applying section 80 in respect of the borrower, where the debt obligation was settled or extinguished in circumstances to which that section applies, the debt obligation shall be deemed to have been settled or extinguished by the payment of an amount equal to the total of

(i) the amount, if any, of the payment made to settle or extinguish the debt obligation (determined without reference to this subsection), and

(ii) the excess amount."

S. 18(9.3) was added by S.C. 1994, c. 7, Sched. VIII, s. 8(6), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 18(9.2) Interest on debt obligations — notional principal; s. 18(9.3) Interest on debt obligations — extinguished obligations; s. 80(1) Definitions; s. 248(1), "amount", "principal amount"; s. 249(1) Definition of "taxation year".

► 18(9.4) ◄

(9.4) Idem. Where an amount is paid at any time by a person or partnership in respect of a debt obligation of a borrower

(*a*) as, on account of, in lieu of payment of or in satisfaction of, interest on the debt obligation in respect of a period or part thereof that is after 1991 and after that time, or

(*b*) as consideration for a reduction in the rate of interest payable on the debt obligation (excluding, for greater certainty, a payment described in paragraph (9.1)(*a*) or (*b*)) in respect of a period or part thereof that is after 1991 and after that time,

that amount shall be deemed, for the purposes of subsection (9.5) and, subject to that subsection, for the purposes of clause (9.2)(*a*)(iii)(A), subparagraph (9.2)(*b*)(i), paragraph (9.3)(*b*) and subsection (9.6), to be an amount of interest payable on the debt obligation by the borrower in respect of that period or part thereof and shall be deemed, for the purposes of subparagraph (9.2)(*a*)(ii) and paragraph (9.3)(*a*), to be an amount paid at that time in satisfaction of the obligation to pay interest on the debt obligation in respect of that period or part thereof.

History: S. 18(9.4) was added by S.C. 1994, c. 7, Sched. VIII, s. 8(6), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 18(9.1) Penalties, bonuses and rate-reduction payments; s. 18(9.2) Interest on debt obligations — notional principal; s. 248(1), "amount".

► 18(9.5) ◄

(9.5) Idem. Where the amount of interest payable on a debt obligation (determined without reference to subsection (9.2)) by a borrower in respect of a particular period or part thereof that is after 1991 can reasonably be regarded as an amount payable as consideration for

(*a*) a reduction in the amount of interest that would otherwise be payable on the debt obligation in respect of a subsequent period, or

(*b*) a reduction in the amount that was or may be paid before the beginning of a subsequent period in satisfaction of the obligation to pay interest on the debt obligation in respect of that subsequent period

(determined without reference to the existence of, or the amount of any interest paid or payable on, any other debt obligation), that amount shall, for the purposes of clause (9.2)(*a*)(iii)(A), subparagraph (9.2)(*b*)(i), paragraph (9.3)(*b*) and subsection (9.6), be deemed to be an amount of interest payable on the debt obligation by the borrower in respect of the subsequent period and not to be an amount of interest payable on the debt obligation by the borrower in respect of the particular period and shall, when paid, be deemed for the purposes of subparagraph (9.2)(*a*)(ii) and paragraph (9.3)(*a*) to be an amount paid in satisfaction of the obligation to pay interest on the debt obligation in respect of the subsequent period.

History: S. 18(9.5) was added by S.C. 1994, c. 7, Sched. VIII, s. 8(6), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 18(9.2) Interest on debt obligations — notional principal; s. 248(1), "amount".

► 18(9.6) ◄

(9.6) Idem. Where the liability in respect of a debt obligation of a person or partnership is assumed by a borrower at any time,

(*a*) the amount of interest payable on the debt obligation (determined without reference to subsection (9.2)) by any person or partnership in respect of a period shall, to the extent that that period is included in a taxation year of the borrower ending after 1991, be deemed, for the purposes of clause (9.2)(*a*)(iii)(A), subparagraph (9.2)(*b*)(i) and paragraph (9.3)(*b*), to be an amount of interest payable on the debt obligation by the borrower in respect of that year, and

(*b*) the application of subsections (9.2) and (9.3) to the borrower in respect of the debt obligation after that time shall be determined on the assumption that subsection (9.2) applied to the borrower in respect of the debt obligation before that time,

and, for the purposes of this subsection, where the borrower came into existence at a particular time that is after the beginning of the particular period beginning at the beginning of the first period in respect of which interest was payable on the debt obligation by any person or partnership and ending at the particular time, the borrower shall be deemed

(*c*) to have been in existence throughout the particular period, and

(*d*) to have had, throughout the particular period, taxation years ending on the day of the year on which its first taxation year ended.

History: S. 18(9.6) was added by S.C. 1994, c. 7, Sched. VIII, s. 8(6), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 18(9.2) Interest on debt obligations — notional principal; s. 248(1) Definitions; s. 249(1) Definition of "taxation year".

► 18(9.7) ◄

(9.7) Idem. Where the amount paid by a borrower at any particular time, in satisfaction of the obligation to pay a particular amount of interest on a debt obligation in respect of a subsequent period or part thereof, exceeds the particular amount of that interest, discounted

(*a*) for the particular period beginning at the particular time and ending at the end of the subsequent period or part thereof, and

(*b*) at the rate or rates of interest applying under the debt obligation during the particular period (or, where the rate of interest of any part of the particular period is not fixed at the particular time, at the prescribed rate of interest in effect at the particular time),

that excess shall

(*c*) for the purposes of applying subsections (9.2) to (9.6) and (9.8), be deemed to be neither an amount of interest payable on the debt obligation nor an amount paid in satisfaction of the obligation to pay interest on the debt obligation, and

(*d*) be deemed to be a payment described in paragraph (9.1)(*d*) in respect of the debt obligation.

History: S. 18(9.7) was added by S.C. 1994, c. 7, Sched. VIII, s. 8(6), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 18(9.2) Interest on debt obligations — notional principal; s. 248(1), "amount", "prescribed".

Regulations: 4301.

► 18(9.8) ◄

(9.8) Idem. Nothing in any of subsections (9.2) to (9.7) shall be construed as providing that

(*a*) the total of all amounts each of which is the amount of interest payable on a debt obligation by an individual (other than a trust), or deemed by subsection (9.2) to be payable on the debt obligation by a corporation, partnership or trust, in respect of a taxation year ending after 1991 and before any particular time,

may exceed

(*b*) the total of all amounts each of which is the amount of interest payable on the debt obligation (determined without reference to subsection (9.2)) by a person or partnership in respect of a taxation year ending after 1991 and before that particular time.

History: S. 18(9.8) was added by S.C. 1994, c. 7, Sched. VIII, s. 8(6), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 18(9.2) Interest on debt obligations — notional principal; s. 104(1) Reference to trust or estate; s. 248(1), "amount", "corporation", "trust"; s. 249(1) Definition of "taxation year".

► 18(10) ◄

(10) Employee benefit plan. Paragraph (1)(*o*) does not apply in respect of a contribution to an employee benefit plan

(*a*) to the extent that the contribution

(i) is made in respect of services performed by an employee who is not resident in Canada and is regularly employed in a country other than Canada, and

(ii) cannot reasonably be regarded as having been made in respect of services performed or to be performed during a period when the employee is resident in Canada;

(*b*) the custodian of which is non-resident, to the extent that the contribution

(i) is in respect of an employee who is non-resident at the time the contribution is made, and

(ii) cannot reasonably be regarded as having been made in respect of services performed or to be performed during a period when the employee is resident in Canada; or

(*c*) the custodian of which is non-resident, to the extent that the contribution can reasonably be regarded as having been made in respect of services performed by an employee in a particular calendar month where

(i) the employee was resident in Canada throughout no more than 60 of the 72 calendar months ending with the particular month, and

(ii) the employee became a member of the plan before the end of the month following the month in which the employee became resident in Canada,

and, for the purpose of this paragraph, where benefits provided to an employee under a particular employee benefit plan are replaced by benefits provided under another employee benefit plan, the other plan shall be deemed, in respect of the employee, to be the same plan as the particular plan.

History: S. 18(10)(*b*) was amended and paragraph (*c*) was added by S.C. 1994, c. 21, s. 11(2), applicable to contributions made after 1992. The portion formerly read:

"(*b*) the custodian of which is not resident in Canada, to the extent that the contribution

(i) is in respect of an employee who was

(A) not resident in Canada at the time the contribution was made, or

(B) resident in Canada for a period (in this paragraph referred to as an 'excluded period') of not more than 36 of the 72 months preceding the date on which the contribution is made and was a beneficiary under the plan before becoming resident in Canada, and

(ii) cannot reasonably be regarded as having been made in respect of services performed or to be performed during a period (other than an excluded period) when the employee is resident in Canada."

Interpretation Bulletins: *Secondary* — IT-502 Employee benefit plans and employee trusts.

► 18(11) ◄

(11) Limitation. Notwithstanding any other provision of this Act, in computing the income of a taxpayer for a taxation year, no amount is deductible under paragraph 20(1)(*c*), (*d*), (*e*), (*e*.1) or (*f*) in respect of borrowed money (or other property acquired by the taxpayer) in respect of any period after which the money (or other property) is used by the taxpayer for the purpose of

(*a*) making a payment after November 12, 1981 as consideration for an income-averaging annuity contract, unless the contract was acquired pursuant to an agreement in writing entered into before November 13, 1981;

(*b*) paying a premium (within the meaning assigned by subsection 146(1) read without reference to the portion of the definition "premium" in that subsection following paragraph (*b*) of that definition)

under a registered retirement savings plan after November 12, 1981;

(*c*) making a contribution to a registered pension plan or a deferred profit sharing plan after November 12, 1981, other than

(i) a contribution described in subparagraph 8(1)(*m*)(ii) or (iii) (as they read in their application to the 1990 taxation year) that was required to be made pursuant to an obligation entered into before November 13, 1981, or

(ii) a contribution deductible under paragraph 20(1)(*q*) or (*y*) in computing the taxpayer's income;

(*d*) making a payment as consideration for an annuity the payment for which was deductible in computing the taxpayer's income by virtue of paragraph 60(*l*);

(*e*) making a contribution to a retirement compensation arrangement where the contribution was deductible under paragraph 8(1)(*m*.2) in computing the taxpayer's income;

(*f*) making a contribution to a net income stabilization account;

(*g*) making a contribution to any account under a provincial pension plan prescribed for the purpose of paragraph 60(*v*),

(*h*) making a contribution into a registered education savings plan,

(*i*) making a contribution to a registered disability savings plan, or

(*j*) making a contribution under a TFSA,

and, for the purposes of this subsection, to the extent that an indebtedness is incurred by a taxpayer in respect of a property and at any time that property or a property substituted therefor is used for any of the purposes referred to in this subsection, the indebtedness shall be deemed to be incurred at that time for that purpose.

History: S. 18(11)(*j*) was added by S.C. 2008, c. 28, s. 2(2), applicable to the 2009 and subsequent taxation years.

S. 18(11)(*i*) was added by S.C. 2007, c. 35, s. 102, applicable to the 2008 and subsequent taxation years.

S. 18(11)(*h*) was added by S.C. 1998, c. 19, s. 3(1), applicable to the 1998 and subsequent taxation years.

S. 18(11)(*g*) was added by S.C. 1994, c. 21, s. 11(3), applicable to the 1993 and subsequent taxation years.

S. 18(11)(*b*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 8(7), applicable to the 1992 and subsequent taxation years. S. 18(11)(*b*) formerly read:

"(*b*) paying a premium under a registered retirement savings plan after November 12, 1981;"

S. 18(11)(*f*) was added, and that part following paragraph (*f*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 8(8), applicable to the 1991 and subsequent taxation years. S. 18(11), the portion following paragraph (*f*), formerly read: "and, for the purposes of this subsection, where an indebtedness is incurred by a taxpayer in respect of a property and at any time that property or a property substituted therefor is used for any of the purposes referred to in paragraphs (*a*) to (*e*), the indebtedness shall be deemed to be incurred at that time for that purpose."

S. 18(11), the portion before paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 13(7), applicable to the 1990 and subsequent taxation years. That portion formerly read:

"(11) Notwithstanding any other provision of this Act, in computing the income of a taxpayer for a taxation year, no amount shall be deducted under paragraph 20(1)(*c*), (*d*) or (*e*) of this Act or paragraph 20(1)(*k*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, in respect of indebtedness incurred for the purpose of"

S. 18(11), following paragraph (*e*), was added by S.C. 1994, c. 7, Sched. II, s. 13(8), applicable to the 1990 and subsequent taxation years.

Related Sections: S. 146(1), "premium", "registered retirement savings plan"; s. 248(1), "net income stabilization account", "property".

Interpretation Bulletins: *Secondary* — IT-124R6 Contributions to registered retirement savings plans; IT-307R4 Spousal or common-law partner registered retirement savings plans; IT-355R2 Interest on loans to buy life insurance policies and annuity contracts, and interest on policy loans [Archived by the CRA].

► 18(12) ◄

(12) Work space in home. Notwithstanding any other provision of this Act, in computing an individual's income from a business for a taxation year,

(*a*) no amount shall be deducted in respect of an otherwise deductible amount for any part (in this subsection referred to as the "work space") of a self-contained domestic establishment in which the individual resides, except to the extent that the work space is either

(i) the individual's principal place of business, or

(ii) used exclusively for the purpose of earning income from business and used on a regular and continuous basis for meeting clients, customers or patients of the individual in respect of the business;

(*b*) where the conditions set out in subparagraph (*a*)(i) or (ii) are met, the amount for the work space that is deductible in computing the individual's income for the year from the business shall not exceed the individual's income for the year from the business, computed without reference to the amount and sections 34.1 and 34.2; and

(*c*) any amount not deductible by reason only of paragraph (*b*) in computing the individual's income from the business for the immediately preceding taxation year shall be deemed to be an amount otherwise deductible that, subject to paragraphs (*a*) and (*b*), may be deducted for the year for the work space in respect of the business.

History: S. 18(12)(*b*) was amended by S.C. 1996, c. 21, s. 5(2), applicable to the 1995 and subsequent taxation years. S. 18(12)(b) formerly read:

"(*b*) where the conditions set out in subparagraph (*a*)(i) or (ii) are met, the amount for the work space that is deductible in computing the individual's income from the business for a taxation year shall not exceed the individual's income from the business for the year, computed without reference to the amount; and"

Editorial Note: A deduction for home office business expenses is limited to the individual's income from the business (before the expenses). Any excess expenses can be carried forward and deducted in the following year, subject to the same limitation.

Interpretation Bulletins: *Primary* — IT-514 Work space in home expenses. *Secondary* — IT-504R2 (Consolid.) Visual artists and writers.

Canadian Tax Foundation: Roy, "Taxing the Virtual Office", *1996 Conference Report*, Vol. 1, 31:1.

Cases: Although the taxpayer's studio had its own separate entrance and created a sense of a separate entity, it was physically connected to her residence and was "part of the self-contained domestic establishment" comprising her residence. *Ellis v. The Queen*, 94 DTC 1731 (T.C.C.).

► 18(13) ◄

(13) When s. (15) applies to money lenders. Subsection (15) applies, subject to subsection 142.6(7), when

(*a*) a taxpayer (in this subsection and subsection (15) referred to as the "transferor") disposes of a particular property;

(*b*) the disposition is not described in any of paragraphs (*c*) to (*g*) of the definition "superficial loss" in section 54;

(*c*) the transferor is not an insurer;

(*d*) the ordinary business of the transferor includes the lending of money and the particular property was used or held in the ordinary course of that business;

(*e*) the particular property is a share, or a loan, bond, debenture, mortgage, hypothecary claim, note, agreement for sale or any other indebtedness;

(*f*) the particular property was, immediately before the disposition, not a capital property of the transferor;

(*g*) during the period that begins 30 days before and ends 30 days after the disposition, the transferor or a person affiliated with the transferor acquires a property (in this subsection and subsection (15) referred to as the "substituted property") that is, or is identical to, the particular property; and

(*h*) at the end of the period, the transferor or a person affiliated with the transferor owns the substituted property.

History: S. 18(13)(*e*) was amended by S.C. 2001, c. 17, s. 201(1), applicable on Royal Assent, June 14, 2001. S. 18(13)(*e*) formerly read:

"(*e*) the particular property is a share, or a loan, bond, debenture, mortgage, note, agreement for sale or any other indebtedness;"

S. 18(13) was amended by 1998, c. 19, s. 79(2), applicable subject to section 247 of this Bill (see Application below) to dispositions of property that occur after April 26, 1995, other than a disposition that occurred before July 1995 to which subsection 142.6(7) of the Act

(*a*) does not apply; and

(*b*) would apply if the disposition had occurred after June 1995.

S. 18(13) formerly read:

"(13) *Superficial loss.* Subject to subsection 142.6(7) and notwithstanding any other provision of this Act, where a taxpayer (other than an insurer)

(*a*) who was a resident of Canada at any time in a taxation year and whose ordinary business during that year included the lending of money, or

(*b*) who at any time in the year carried on a business of lending money in Canada

has sustained a loss on a disposition of property used or held in that business that is a share, or a loan, bond, debenture, mortgage, note, agreement of sale or any other indebtedness, other than a property that is a capital property of the taxpayer, no amount shall be deducted in computing the income of the taxpayer from that business for the year in respect of the loss where

(*c*) during the period commencing 30 days before and ending 30 days after the disposition, the taxpayer or a person or partnership that does not deal at arm's length with the taxpayer acquired or agreed to acquire the same or identical property (in this subsection referred to as the 'substituted property'), and

(*d*) at the end of the period described in paragraph (*c*), the taxpayer, person or partnership, as the case may be, owned or had a right to acquire the substituted property,

and any such loss shall be added in computing the cost to the taxpayer, person or partnership, as the case may be, of the substituted property."

Sec. 247, Chap. 19, 1998

247. [*Exception to coming-into-force.*]

(1) Subsections 73(4), 74(5), subsection 18(13) of the Act, as enacted by subsection 79(2) and subsections 89(1), (2) and (6), 94(1) and (2), 95(1), 116(3) to (5), 120(1) and 124(1) and (2) do not apply to the disposition of property by a person or partnership (in this subsection and subsection (2) referred to as the "transferor") that occurred before 1996

(*a*) to a person who was obliged on April 26, 1995 to acquire the property pursuant to the terms of an agreement in writing made on or before that day; or

(*b*) in a transaction, or as part of a series of transactions, the arrangements for which, evidenced in writing, were substantially advanced before April 27, 1995, other than a transaction or series a main purpose of which can reasonably be considered to have been to enable an unrelated person to obtain the benefit of

(i) any deduction in computing income, taxable income, taxable income earned in Canada or tax payable under the Act, or

(ii) any balance of undeducted outlays, expenses or other amounts.

(2) Election. Notwithstanding subsection (1), subsection 18(13) of the Act, as enacted by subsection 79(2), and the other subsections of this Act referred to in subsection (1) apply to a disposition in respect of which the transferor has filed with the Minister of National Revenue before the end of the third month after the month in which this Act is assented to [Royal Assent June 18, 1998] an election in writing to have those subsections apply.

(3) Interpretation. For the purpose of subsection (1),

(*a*) a person shall be considered not to be obliged to acquire property where the person can be excused from the obligation if there is a change to the Act or if there is an adverse assessment under the Act;

(*b*) an "unrelated person" means any person who was not, or a partnership any member of which was not, related (otherwise than because of paragraph 251(5)(*b*) of the Act) to the transferor at the time of the disposition; and

(*c*) a person is deemed to be related to a partnership of which that person is a majority interest partner.

S. 18(13) was amended by S.C. 1995, c. 21, s. 48(1), applicable to dispositions occurring after October 30, 1994. S. 18(13) formerly read:

"(13) *Superficial loss.* Subject to subsection 138(5.2) and notwithstanding any other provision of this Act, where a taxpayer"

Related Sections: S. 248(12) Identical properties.

Tax Profile: May 2004 — The Stop-Loss Rules.

► 18(14) ◄

(14) When s. (15) applies to adventurers in trade. Subsection (15) applies where

(*a*) a person (in this subsection and subsection (15) referred to as the "transferor") disposes of a particular property;

(*b*) the particular property is described in an inventory of a business that is an adventure or concern in the nature of trade;

(*c*) the disposition is not a disposition that is deemed to have occurred by section 70, subsection 104(4), section 128.1, paragraph 132.2(1)(*f*) or subsection 138(11.3) or 149(10);

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 18(14)(*c*) of the Act is replaced by the following:

(*c*) the disposition is not a disposition that is deemed to have occurred by section 70, subsection 104(4), section 128.1, paragraph 132.2(3)(*a*) or (*c*) or subsection 138(11.3) or 149(10);

Applicable: To dispositions that occur after 1998.

Explanatory Note:

Losses — Adventurers in Trade

Subsection 18(14) of the Act describes the circumstances in which the loss-deferral rule in subsection 18(15) applies to dispositions of property that is described in an inventory of a business that is an adventure or concern in the nature of trade. Paragraph 18(14)(*c*) excludes from the application of the rule dispositions under specified provisions of the Act. As a consequence of the restructuring of section 132.2 of the Act, the reference in paragraph 18(14)(*c*) to paragraph 132.2(1)(*f*) is replaced by references to paragraphs 132.2(3)(*a*) and (*c*).

This amendment applies to dispositions that occur after 1998.

(*d*) during the period that begins 30 days before and ends 30 days after the disposition, the transferor or a person affiliated with the transferor acquires property (in this subsection and subsection (15) referred to as the "substituted property") that is, or is identical to, the particular property; and

(*e*) at the end of the period, the transferor or a person affiliated with the transferor owns the substituted property.

History: S. 18(14) was added by 1998, c. 19, s. 79(2), applicable to dispositions of property that occur after June 20, 1996, other than a disposition that occurred before 1997 to a person or partnership that was obliged on June 20, 1996 to acquire the property pursuant to the terms of an agreement in writing made on or before that day and, for the purpose of this subsection, a person or partnership shall be considered not to be obliged to acquire property where the person or partnership can be excused from performing the

obligation if there is a change to the Act or if there is an adverse assessment under the Act.

Tax Profile: May 2004 — The Stop-Loss Rules.

▶ 18(15) ◀

(15) Loss on certain properties. If this subsection applies because of subsection (13) or (14) to a disposition of a particular property,

(*a*) the transferor's loss, if any, from the disposition is deemed to be nil, and

(*b*) the amount of the transferor's loss, if any, from the disposition (determined without reference to this subsection) is deemed to be a loss of the transferor from a disposition of the particular property at the first time, after the disposition,

(i) at which a 30-day period begins throughout which neither the transferor nor a person affiliated with the transferor owns

(A) the substituted property, or

(B) a property that is identical to the substituted property and that was acquired after the day that is 31 days before the period begins,

(ii) at which the substituted property would, if it were owned by the transferor, be deemed by section 128.1 or subsection 149(10) to have been disposed of by the transferor,

(iii) that is immediately before control of the transferor is acquired by a person or group of persons, where the transferor is a corporation, or

(iv) at which the winding-up of the transferor begins (other than a winding-up to which subsection 88(1) applies), where the transferor is a corporation,

and for the purpose of paragraph (*b*), where a partnership otherwise ceases to exist at any time after the disposition, the partnership is deemed not to have ceased to exist, and each person who was a member of the partnership immediately before the partnership would, but for this subsection, have ceased to exist is deemed to remain a member of the partnership, until the time that is immediately after the first time described in subparagraphs (*b*)(i) to (iv).

History: S. 18(15) was added by 1998, c. 19, s. 79(2), applicable to dispositions of property that occur after April 26, 1995.

Editorial Note: Similar stop-loss rules are found in subsection 13(21.2) for dispositions of depreciable capital property, subsection 14(12) for eligible capital property, and subsection 40(3.4) for non-depreciable capital property.

Related Sections: S. 13(21.2) Loss on certain transfers; s. 14(12) Loss on certain transfers; s. 18(16) Deemed identical property; s. 256(7) Acquiring control; s. 256(8) Deemed exercise of right.

▶ 18(16) ◀

(16) Deemed identical property. For the purposes of subsections (13), (14) and (15), a right to acquire a property (other than a right, as security only, derived from a mortgage, hypothec, agreement for sale or similar obligation) is deemed to be a property that is identical to the property.

History: S. 18(16) was amended by S.C. 2001, c. 17, s. 201(2), applicable on Royal Assent, June 14, 2001. S. 18(16) formerly read:

"(16) *Deemed identical property.* For the purposes of subsections (13), (14) and (15), a right to acquire a property (other than a right, as security only, derived from a mortgage, agreement for sale or similar obligation) is deemed to be a property that is identical to the property."

S. 18(16) was added by 1998, c. 19, s. 79(2), applicable to dispositions of property that occur after April 26, 1995.

SECTION 18.1: [Matchable Expenditures].

▶ 18.1(1) ◀

(1) Definitions. The definitions in this subsection apply in this section.

"*matchable expenditure*" — "matchable expenditure" of a taxpayer means the amount of an expenditure that is made by the taxpayer to

(*a*) acquire a right to receive production,

(*b*) fulfil a covenant or obligation arising in circumstances in which it is reasonable to conclude that a relationship exists between the covenant or obligation and a right to receive production, or

(*c*) preserve or protect a right to receive production,

but does not include an amount for which a deduction is provided under section 20 in computing the taxpayer's income.

History: S. 18.1(1), the definition "matchable expenditure", was added by S.C. 1998, c. 19, s. 80(1), generally applicable to every expenditure made by a taxpayer or a partnership after November 17, 1996. See the history note following s. 18.1(15) for the complete rules on the application of this provision.

"*right to receive production*" — "right to receive production" means a right under which a taxpayer is entitled, either immediately or in the future and either absolutely or contingently, to receive an amount all or a portion of which is computed by reference to use of property, production, revenue, profit, cash flow, commodity price, cost or value of property or any other similar criterion or by reference to dividends paid or payable to shareholders of any class of shares where the amount is in respect of another taxpayer's activity, property or business but such a right does not include an income interest in a trust, a Canadian resource property or a foreign resource property.

History: S. 18.1(1), the definition "right to receive production", was added by S.C. 1998, c. 19, s. 80(1), generally applicable to every expenditure made by a taxpayer or a partnership after November 17, 1996. See the history note following s. 18.1(15) for the complete rules on the application of this provision.

"*tax benefit*" — "tax benefit" means a reduction, avoidance or deferral of tax or other amount payable under this Act or an increase in a refund of tax or other amount under this Act.

History: S. 18.1(1), the definition "tax benefit", was added by S.C. 1998, c. 19, s. 80(1), generally applicable to every expenditure made by a taxpayer or a partnership after November 17, 1996. See the history note following s. 18.1(15) for the complete rules on the application of this provision.

"*tax shelter*" — "tax shelter" means a property that would be a tax shelter (as defined in subsection 237.1(1)) if

(*a*) the cost of a right to receive production were the total of all amounts each of which is a matchable expenditure to which the right relates; and

(*b*) subsections (2) to (13) did not apply for the purpose of computing an amount, or in the case of a partnership a loss, represented to be deductible.

History: S. 18.1(1), the definition "tax shelter", was added by S.C. 1998, c. 19, s. 80(1), generally applicable to every expenditure made by a taxpayer or a partnership after November 17, 1996. See the history note following s. 18.1(15) for the complete rules on the application of this provision.

"*taxpayer*" — "taxpayer" includes a partnership.

History: S. 18.1(1), the definition "taxpayer", was added by S.C. 1998, c. 19, s. 80(1), generally applicable to every expenditure made by a taxpayer

or a partnership after November 17, 1996. See the history note following s. 18.1(15) for the complete rules on the application of this provision.

► 18.1(2) ◄

(2) Limitation on the deductibility of matchable expenditure. In computing a taxpayer's income from a business or property for a taxation year, no amount of a matchable expenditure may be deducted except as provided by subsection (3).

History: S. 18.1(2) was added by S.C. 1998, c. 19, s. 80(1), generally applicable to every expenditure made by a taxpayer or a partnership after November 17, 1996. See the history note following s. 18.1(15) for the complete rules on the application of this provision.

Tax Profile: March 2004 — Loss Utilization By Individuals.

► 18.1(3) ◄

(3) Deduction of matchable expenditure. If a taxpayer's matchable expenditure would, but for subsection (2) and this subsection, be deductible in computing the taxpayer's income, there may be deducted in respect of the matchable expenditure in computing the taxpayer's income for a taxation year the amount that is determined under subsection (4) for the year in respect of the expenditure.

History: S. 18.1(3) was added by S.C. 1998, c. 19, s. 80(1), generally applicable to every expenditure made by a taxpayer or a partnership after November 17, 1996. See the history note following s. 18.1(15) for the complete rules on the application of this provision.

► 18.1(4) ◄

(4) Amount of deduction. For the purpose of subsection (3), the amount determined under this subsection for a taxation year in respect of a taxpayer's matchable expenditure is the amount, if any, that is the least of

(*a*) the total of

(i) the lesser of

(A) 1/5 of the matchable expenditure, and

(B) the amount determined by the formula

$$(A/B) \times C$$

where

A is the number of months that are in the year and after the day on which the right to receive production to which the matchable expenditure relates is acquired,

B is the lesser of 240 and the number of months that are in the period that begins on the day on which the right to receive production to which the matchable expenditure relates is acquired and that ends on the day the right is to terminate, and

C is the amount of the matchable expenditure, and

(ii) the amount, if any, by which the amount determined under this paragraph for the preceding taxation year in respect of the matchable expenditure exceeds the amount of the matchable expenditure deductible in computing the taxpayer's income for that preceding year,

(*b*) the total of

(i) all amounts each of which is included in computing the taxpayer's income for the year (other than any portion of such amount that is the subject of a reserve claimed by the taxpayer for the year under this Act) in respect of the right to receive production to which the matchable expenditure relates, and

(ii) the amount by which the amount determined under this paragraph for the preceding taxation year in respect of the matchable expenditure exceeds the amount of the matchable expenditure deductible in computing the taxpayer's income for that preceding year, and

(*c*) the amount, if any, by which

(i) the total of all amounts each of which is an amount of the matchable expenditure that would, but for this section, have been deductible in computing the taxpayer's income for the year or a preceding taxation year

exceeds

(ii) the total of all amounts each of which is an amount of the matchable expenditure deductible under subsection (3) in computing the taxpayer's income for a preceding taxation year.

History: S. 18.1(4) was added by S.C. 1998, c. 19, s. 80(1), generally applicable to every expenditure made by a taxpayer or a partnership after November 17, 1996. See the history note following s. 18.1(15) for the complete rules on the application of this provision.

► 18.1(5) ◄

(5) Special rules. For the purpose of this section,

(*a*) where a taxpayer's matchable expenditure is made before the day on which the related right to receive production is acquired by the taxpayer, the expenditure is deemed to have been made on that day;

(*b*) where a taxpayer has one or more rights to renew a particular right to receive production to which a matchable expenditure relates for one or more additional terms, after the term that includes the time at which the particular right was acquired, the particular right is deemed to terminate on the latest day on which the latest possible such term could terminate if all rights to renew the particular right were exercised;

(*c*) where a taxpayer has 2 or more rights to receive production that can reasonably be considered to be related to each other, the rights are deemed to be one right; and

(*d*) where the term of a taxpayer's right to receive production is for an indeterminate period, the right is deemed to terminate 240 months after it is acquired.

History: S. 18.1(5) was added by S.C. 1998, c. 19, s. 80(1), generally applicable to every expenditure made by a taxpayer or a partnership after November 17, 1996. See the history note following s. 18.1(15) for the complete rules on the application of this provision.

► 18.1(6) ◄

(6) Proceeds of disposition considered income. Where in a taxation year a taxpayer disposes of all or part of a right to receive production to which a matchable expenditure relates, the proceeds of the disposition shall be included in computing the taxpayer's income for the year.

History: S. 18.1(6) was added by S.C. 1998, c. 19, s. 80(1), generally applicable to every expenditure made by a taxpayer or a partnership after November 17, 1996. See the history note following s. 18.1(15) for the complete rules on the application of this provision.

► 18.1(7) ◄

(7) Arm's length disposition. Subject to subsections (8) to (10), where in a taxation year a taxpayer disposes (otherwise than in a disposition to which subsection 87(1) or 88(1) applies) of all of the taxpayer's right to receive

production to which a matchable expenditure (other than an expenditure no portion of which would, if this section were read without reference to this subsection, be deductible under subsection (3) in computing the taxpayer's income) relates, or the taxpayer's right expires, the amount deductible in respect of the expenditure under subsection (3) in computing the taxpayer's income for the year is deemed to be the amount, if any, determined under paragraph (4)(*c*) for the year in respect of the expenditure.

History: S. 18.1(7) was added by S.C. 1998, c. 19, s. 80(1), generally applicable to every expenditure made by a taxpayer or a partnership after November 17, 1996. See the history note following s. 18.1(15) for the complete rules on the application of this provision.

► 18.1(8) ◄

(8) Non-arm's length disposition. Subsection (10) applies where

(*a*) a taxpayer's particular right to receive production to which a matchable expenditure (other than an expenditure no portion of which would, if this section were read without reference to subsections (7) and (10), be deductible under subsection (3) in computing the taxpayer's income) relates has expired or the taxpayer has disposed of all of the right (otherwise than in a disposition to which subsection 87(1) or 88(1) applies);

(*b*) during the period that begins 30 days before and ends 30 days after the disposition or expiry, the taxpayer or a person affiliated, or who does not deal at arm's length, with the taxpayer acquires a right to receive production (in this subsection and subsection (10) referred to as the "substituted property") that is, or is identical to, the particular right; and

(*c*) at the end of the period, the taxpayer or a person affiliated, or who does not deal at arm's length, with the taxpayer owns the substituted property.

History: S. 18.1(8) was added by S.C. 1998, c. 19, s. 80(1), generally applicable to every expenditure made by a taxpayer or a partnership after November 17, 1996. See the history note following s. 18.1(15) for the complete rules on the application of this provision.

► 18.1(9) ◄

(9) Special case. Subsection (10) applies where

(*a*) a taxpayer's particular right to receive production to which a matchable expenditure (other than an expenditure no portion of which would, if this section were read without reference to subsections (7) and (10), be deductible under subsection (3) in computing the taxpayer's income) relates has expired or the taxpayer has disposed of all of the right (otherwise than in a disposition to which subsection 87(1) or 88(1) applies); and

(*b*) during the period that begins at the time of the disposition or expiry and ends 30 days after that time, a taxpayer that had an interest, directly or indirectly, in the right has another interest, directly or indirectly, in another right to receive production, which other interest is a tax shelter or a tax shelter investment (as defined by section 143.2).

History: S. 18.1(9) was added by S.C. 1998, c. 19, s. 80(1), generally applicable to every expenditure made by a taxpayer or a partnership after November 17, 1996. See the history note following s. 18.1(15) for the complete rules on the application of this provision.

► 18.1(10) ◄

(10) Amount of deduction if non-arm's length disposition. Where this subsection applies because of subsection (8) or (9) to a disposition or expiry in a taxation year or a preceding taxation year of a taxpayer's right to receive production to which a matchable expenditure relates,

(*a*) the amount deductible under subsection (3) in respect of the expenditure in computing the taxpayer's income for a taxation year that ends at or after the disposition or expiry of the right is the least of the amounts determined under subsection (4) for the year in respect of the expenditure; and

(*b*) the least of the amounts determined under subsection (4) in respect of the expenditure for a taxation year is deemed to be the amount, if any, determined under paragraph (4)(*c*) in respect of the expenditure for the year where the year includes the time that is immediately before the first time, after the disposition or expiry,

(i) at which the right would, if it were owned by the taxpayer, be deemed by section 128.1 or subsection 149(10) to have been disposed of by the taxpayer,

(ii) that is immediately before control of the taxpayer is acquired by a person or group of persons, if the taxpayer is a corporation,

(iii) at which winding-up of the taxpayer begins (other than a winding-up to which subsection 88(1) applies), if the taxpayer is a corporation,

(iv) if subsection (8) applies, at which a 30-day period begins throughout which neither the taxpayer nor a person affiliated, or who does not deal at arm's length, with the taxpayer owns

(A) the substituted property, or

(B) a property that is identical to the substituted property and that was acquired after the day that is 31 days before the period began, or

(v) if subsection (9) applies, at which a 30-day period begins throughout which no taxpayer who had an interest, directly or indirectly, in the right has an interest, directly or indirectly, in another right to receive production if one or more of those direct or indirect interests in the other right is a tax shelter or tax shelter investment (as defined by section 143.2).

History: S. 18.1(10) was added by S.C. 1998, c. 19, s. 80(1), generally applicable to every expenditure made by a taxpayer or a partnership after November 17, 1996. See the history note following s. 18.1(15) for the complete rules on the application of this provision.

► 18.1(11) ◄

(11) Partnerships. For the purpose of paragraph (10)(*b*), where a partnership otherwise ceases to exist at any time after a disposition or expiry referred to in subsection (10), the partnership is deemed not to have ceased to exist, and each taxpayer who was a member of the partnership immediately before the partnership would, but for this subsection, have ceased to exist is deemed to remain a member of the partnership until the time that is immediately after the first of the times described in subparagraphs (10)(*b*)(i) to (v).

History: S. 18.1(11) was added by S.C. 1998, c. 19, s. 80(1), generally applicable to every expenditure made by a taxpayer or a partnership after November 17, 1996. See the history note following s. 18.1(15) for the complete rules on the application of this provision.

► 18.1(12) ◄

(12) Identical property. For the purposes of subsections (8) and (10), a right to acquire a particular right to receive production (other than a right, as security only,

derived from a mortgage, hypothec, agreement of sale or similar obligation) is deemed to be a right to receive production that is identical to the particular right.

History: S. 18.1(12) was amended by S.C. 2001, c. 17, s. 202, applicable on Royal Assent, June 14, 2001. S. 18.1(12) formerly read:

"(12) *Identical property.* For the purposes of subsections (8) and (10), a right to acquire a particular right to receive production (other than a right, as security only, derived from a mortgage, agreement of sale or similar obligation) is deemed to be a right to receive production that is identical to the particular right."

S. 18.1(12) was added by S.C. 1998, c. 19, s. 80(1), generally applicable to every expenditure made by a taxpayer or a partnership after November 17, 1996. See the history note following s. 18.1(15) for the complete rules on the application of this provision.

► 18.1(13) ◄

(13) Application of section 143.2. For the purpose of applying section 143.2 to an amount that would, if this section were read without reference to this subsection, be a matchable expenditure any portion of the cost of which is deductible under subsection (3), the expenditure is deemed to be a tax shelter investment and that section shall be read without reference to subparagraph 143.2(6)(*b*)(ii).

History: S. 18.1(13) was added by S.C. 1998, c. 19, s. 80(1), generally applicable to every expenditure made by a taxpayer or a partnership after November 17, 1996. See the history note following s. 18.1(15) for the complete rules on the application of this provision.

► 18.1(14) ◄

(14) Debt obligations. Where the rate of return on a taxpayer's right to receive production to which a matchable expenditure (other than an expenditure no portion of which would, if this section were read without reference to this subsection, be deductible under subsection (3) in computing the taxpayer's income) relates is reasonably certain at the time the taxpayer acquires the right,

(*a*) the right is, for the purposes of subsection 12(9) and Part LXX of the *Income Tax Regulations*, deemed to be a debt obligation in respect of which no interest is stipulated to be payable in respect of its principal amount and the obligation is deemed to be satisfied at the time the right terminates for an amount equal to the total of the return on the obligation and the amount that would otherwise be the matchable expenditure that is related to the right; and

(*b*) notwithstanding subsection (3), no amount may be deducted in computing the taxpayer's income in respect of any matchable expenditure that relates to the right.

History: S. 18.1(14) was added by S.C. 1998, c. 19, s. 80(1), generally applicable to every expenditure made by a taxpayer or a partnership after November 17, 1996. See the history note following s. 18.1(15) for the complete rules on the application of this provision.

► 18.1(15) ◄

(15) Non-applicability of section 18.1. Subject to subsections (1) and (14), this section does not apply to a taxpayer's matchable expenditure in respect of a right to receive production if

(*a*) no portion of the expenditure can reasonably be considered to have been paid to another taxpayer, or to a person with whom the other taxpayer does not deal at arm's length, to acquire the right from the other taxpayer and

(i) the taxpayer's expenditure cannot reasonably be considered to relate to a tax shelter or tax shelter investment (within the meaning assigned by subsection 143.2(1)) and none of the main purposes for making the expenditure is that the taxpayer, or a person with whom the taxpayer does not deal at arm's length, obtain a tax benefit, or

(ii) before the end of the taxation year in which the expenditure is made, the total of all amounts each of which is included in computing the taxpayer's income for the year (other than any portion of such an amount that is the subject of a reserve claimed by the taxpayer for the year under this Act) in respect of the right to receive production to which the matchable expenditure relates exceeds 80% of the expenditure; or

(*b*) the expenditure is in respect of commissions or other expenses related to the issuance of an insurance policy for which all or a portion of a risk has been ceded to the taxpayer (in this paragraph referred to as the "reinsurer") and both the reinsurer and the person to whom the expenditure is made or is to be made are insurers subject to the supervision of

(i) the Superintendent of Financial Institutions, in the case of an insurer that is required by law to report to the Superintendent of Financial Institutions, or

(ii) in any other case, the Superintendent of Insurance or other similar officer or authority of the province under whose laws the insurer is incorporated.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 18.1(15) of the Act is replaced by the following:

(15) Non-application — risks ceded between insurers. Subsections (2) to (13) do not apply to a taxpayer's matchable expenditure in respect of a right to receive production if

(*a*) the expenditure is in respect of commissions, or other expenses, related to the issuance of an insurance policy for which all or a portion of a risk has been ceded to the taxpayer; and

(*b*) the taxpayer and the person to whom the expenditure is made, or is to be made, are both insurers who are subject to the supervision of

(i) the Superintendent of Financial Institutions, if the taxpayer or that person, as the case may be, is an insurer who is required by law to report to the Superintendent of Financial Institutions, or

(ii) the Superintendent of Insurance, or other similar officer or authority, of the province under whose laws the insurer is incorporated, in any other case.

(16) Non-application — no rights, tax benefits or shelters. Subsections (2) to (13) do not apply to a taxpayer's matchable expenditure in respect of a right to receive production if

(*a*) no portion of the matchable expenditure can reasonably be considered to have been paid to another taxpayer, or to a person or partnership with whom the other taxpayer does not deal at arm's length, to acquire the right from the other taxpayer;

(*b*) no portion of the matchable expenditure can reasonably be considered to relate to a tax shelter or a tax shelter investment (within the meaning assigned by subsection 143.2(1)); and

(*c*) none of the main purposes for making the matchable expenditure can reasonably be considered to have been to obtain a tax benefit for the taxpayer, a person or partnership with whom the taxpayer does not deal at arm's length, or a person or partnership that holds, directly or indirectly, an interest in the taxpayer.

(17) Revenue exception. Paragraph (4)(*a*) does not apply in determining the amount for a taxation year that may be deducted in respect of a taxpayer's matchable expenditure in respect of a right to receive production if

(*a*) before the end of the taxation year in which the matchable expenditure is made, the total of all amounts each of which is included in computing the taxpayer's income for the year (other than any portion of any of those amounts that is the subject of a reserve claimed by the taxpayer for the year under this Act) in respect of the right to receive production that relates to the matchable expenditure exceeds 80% of the matchable expenditure; and

(*b*) no portion of the matchable expenditure can reasonably be considered to have been paid to another taxpayer, or to a person or partnership with whom the other taxpayer does not deal at arm's length, to acquire the right from the other taxpayer.

Applicable: [Subject to the application in (3) below, the amendment to subsection 18.1(15) and the addition of subsections 18.1(16) and (17)] apply in respect of expenditures made by a taxpayer on or after September 18, 2001 in respect of a right to receive production, except if

(*a*) the expenditure was

(i) required to be made under a written agreement made by the taxpayer before September 18, 2001,

(ii) made under, or described in, the terms of a prospectus, preliminary prospectus or registration statement that was, before September 18, 2001, filed with a public authority in Canada in accordance with the securities legislation of Canada or of a province and, if required by law, accepted for filing by the public authority before September 18, 2001, or

(iii) made under, or described in, the terms of an offering memorandum distributed as part of an offering of securities if

(A) the memorandum contains a complete, or substantially complete, description of the securities contemplated in the offering as well as the terms and conditions of the offering,

(B) the memorandum was distributed before September 18, 2001,

(C) solicitations in respect of a sale of the securities contemplated in the offering were made before September 18, 2001, and

(D) the sale of the securities contemplated in the offering was substantially in accordance with the memorandum;

(*b*) the expenditure was made before 2002;

(*c*) the expenditure was made in consideration for services that were rendered in Canada before 2002 in respect of an activity, or a business, all or substantially all of which was carried on in Canada;

(*d*) there is no agreement, or other arrangement, under which the obligation of any taxpayer in respect of the expenditure can, on or after September 18, 2001, be changed, reduced or waived if there is a change to, or an adverse assessment under, the Act;

(*e*) if the right to receive production is, or is related to, a tax shelter investment, a tax shelter identification number in respect of the tax shelter was obtained before September 18, 2001; and

(*f*) if the expenditure was made under, or described in, the terms of a document that is a prospectus, a preliminary prospectus, a registration statement or an offering memorandum (and regardless of whether the expenditure was also made under a written agreement)

(i) all of the funds raised pursuant to the document that may reasonably be used to make a matchable expenditure were received by the taxpayer before 2002,

(ii) all or substantially all of the securities distributed pursuant to the document for the purpose of raising the funds described in subparagraph (i) were acquired before 2002 by a person who is not

(A) a promoter, or an agent of a promoter, of the securities, other than an agent of the promoter who acquired the security as principal and not for resale,

(B) a vendor of the right to receive production,

(C) a broker or dealer in securities, other than a person who acquired the security as principal and not for resale, or

(D) a person who does not deal at arm's length with a person to whom clause (A) or (B) applies, and

(iii) all or substantially all of the funds raised pursuant to the document before 2002 were used to make expenditures that were required to be made pursuant to agreements in writing made before September 18, 2001.

(3) The amendment to subsection 18.1(15) and the addition of subsections 18.1(16) and (17) do not apply to an expenditure made by a taxpayer in respect of a right to receive production in respect of a particular film or video production if

(*a*) expenditures in respect of the particular film or video production

(i) were made before September 18, 2001 (as determined, for the purpose of this paragraph, without reference to subsection 143.2(10) of the Act, except if a repaid amount for the purposes of that subsection is paid after 2002), or

(ii) were required to be made by the taxpayer under a written agreement made before September 18, 2001 by the taxpayer;

(*b*) principal photography of the particular film or video production

(i) began before 2002,

(ii) was primarily completed before April 2002, and

(iii) was conducted primarily in Canada;

(*c*) the expenditure

(i) was made before April 2002 in the course of the taxpayer's business of providing film production services in respect of the particular film or video production (as determined for the purpose of this subparagraph without reference to subsection 143.2(10), except to the extent that a repaid amount for the purposes of that subsection is paid after 2002),

(ii) was made under, or described in, the terms of

(A) a prospectus, preliminary prospectus or registration statement that was, before September 18, 2001, filed with a public authority in Canada in accordance with the securities legislation of Canada or of a province and, if required by law, accepted for filing by the public authority before September 18, 2001, or

(B) an offering memorandum distributed as part of an offering of securities if

(I) the memorandum contains a complete, or substantially complete, description of the securities contemplated in the offering as well as the terms and conditions of the offering,

(II) the memorandum was distributed before September 18, 2001,

(III) solicitations in respect of a sale of the securities contemplated in the offering have been made before September 18, 2001, and

(IV) the sale of the securities contemplated in the offering was substantially in accordance with the memorandum, and

(iii) was not an amount in respect of advertising, marketing, promotion or market research;

(*d*) except where the particular film or video production is a designated production of the taxpayer, at least 75% of the total of all expenditures, each of which is an expenditure made by the taxpayer in the course of the business referred to in subparagraph (*c*)(i), is an expenditure described for the purpose of that subparagraph made in consideration for the supply of goods or services that are supplied or rendered in Canada before April 2002 by persons that are subject to tax on the expenditure under Part I or XIII of the Act;

(*e*) there is no agreement, or other arrangement, under which the obligation of any taxpayer to acquire a security distributed pursuant to the prospectus, preliminary prospectus, registration statement or offering memorandum can, after September 18, 2001, be changed, reduced or waived if there is a change to, or an adverse assessment under, the Act;

(*f*) if the right to receive production is, or is related to, a tax shelter investment, a tax shelter identification number in respect of the tax shelter was obtained before September 18, 2001;

(*g*) all of the funds raised pursuant to the prospectus, preliminary prospectus, registration statement or offering memorandum that may reasonably be used to make a matchable expenditure before April 2002 in respect of the particular film or video production are received by the taxpayer before 2003;

(*h*) all of the securities distributed pursuant to the prospectus, preliminary prospectus, registration statement or offering memorandum for the purpose of raising the funds described in paragraph (g) were acquired before 2002;

(*i*) all or substantially all of the securities distributed pursuant to the prospectus, preliminary prospectus, registration statement or offering memorandum for the purpose of raising the funds described in paragraph (g) were acquired by a person who is not

(i) a promoter, or an agent of a promoter, of the securities, other than an agent of the promoter who acquired the security as principal and not for resale,

(ii) a vendor of the right to receive production,

(iii) a broker or dealer in securities, other than a person who acquired the security as principal and not for resale, or

(iv) a person who does not deal at arm's length with a person referred to in subparagraph (i) or (ii); and

(*j*) except where the particular film or video production is a designated production of the taxpayer, all or substantially all of the matchable expenditures made by the taxpayer that are wholly attributable to the principal photography of the particular film or video production are wholly attributable to principal photography conducted in Canada.

(4) For the purpose of paragraphs (3)(*d*) and (*j*) [above], a designated production of a taxpayer is

(*a*) a film or video production in respect of which

(i) all of the expenditures made by the taxpayer in respect of the particular film or video production were required to be made under a written agreement made by the taxpayer before September 18, 2001,

(ii) if the taxpayer is a partnership,

(A) the taxpayer's expenditures in respect of the particular film or video production were funded, in whole or in part, with funds raised from the initial contribution of capital of members of the taxpayer, pursuant to subscriptions in writing for the issue of units in the taxpayer,

(B) all or substantially all of those written subscriptions were received by the taxpayer on or before September 18, 2001,

(C) at least one member of the taxpayer referred to in subparagraph (i) is a partnership (in this subsection referred to as a "master partnership"),

(D) the subscriptions in writing of all master partnerships for units in the taxpayer were funded, in whole or in part, with funds raised from the initial contribution of capital of members of the master partnerships, pursuant to subscriptions in writing for the issue of units in the master partnerships, and

(E) all or substantially all of the subscriptions in writing referred to in clause (D) were received by the master partnership on or before September 18, 2001,

(iii) if a member of a particular master partnership is a partnership (in this subsection referred to as an "original master partnership"),

(A) the subscriptions in writing of all original master partnerships for units in the particular master partnership were funded, in whole or in part, with funds raised from the initial contribution of capital of members of the original master partnerships, pursuant to subscriptions in writing for the issue of units in the original master partnerships, and

(B) all or substantially all of those written subscriptions were received by the original master partnership on or before September 18, 2001, and

(iv) no member of an original master partnership is a partnership, an interest in which is a tax shelter; or

(*b*) a film or video production in respect of which

(i) principal photography was all or substantially all complete before September 18, 2001, and

(ii) all or substantially all of the taxpayer's expenditures were made on or before September 18, 2001 (as determined, for the purpose of this paragraph, without reference to subsection 143.2(10), except if a repaid amount for the purposes of that subsection is paid after 2002).

Explanatory Note: Section 18.1 of the Act provides rules that restrict the deductibility of a taxpayer's cost of a "right to receive production", by prorating the deductibility of the amount of the investment over the economic life of the right. In the transactions that are subject to these rules, investors undertake to pay expenditures that would otherwise be expenses payable by the "vendor" (e.g., payroll, selling commissions) in exchange for a right to receive future income (a "right to receive production"), usually from the vendor's business operations. Such an expenditure by the taxpayer, referred to as a "matchable expenditure", is defined in subsection 18.1(1) of the Act.

Subsection 18.1(15) of the Act provides two general exceptions to the application of the matchable expenditure rules. One such exception, in paragraph 18.1(15)(*b*), generally applies where the matchable expenditure relates to the issuance of an insurance policy for which all or a portion of a risk has been ceded to the taxpayer. This exception remains unchanged other than changes in numbering.

Paragraph 18.1(15)(*a*) provides the other exception to the matchable expenditure rules, applicable only if no part of the expenditure of the taxpayer can reasonably considered to have been paid to another person to acquire the right to receive production from that person. If this condition is met, the expenditures must meet one of two further criteria. Subparagraph 18.1(15)(*a*)(i) allows the exception if the taxpayer's expenditure cannot reasonably be considered to relate to a tax shelter investment and none of the main purposes of making the expenditure is to obtain a tax benefit. Alternatively, subparagraph 18.1(15)(*a*)(ii) allows the exception if, in the same year as the matchable expenditure is made, the total revenues of the taxpayer from the right to receive production exceed 80% of the expenditure. If this 80% revenue threshold is met, the portion of the expenditure that is deductible is limited only by general rules that apply to all business expenditures.

Subparagraph 18.1(15)(*a*)(i) is renumbered as new subsection 18.1(16) and remains unchanged. The alternative exception in subparagraph 18.1(15)(*a*)(ii) (the 80% revenue threshold) is renumbered as new subsection 18.1(17) and no longer provides a general exception to the application of the matchable expenditure rules. This amended rule provides that if any portion of the matchable expenditure can reasonably be considered to relate to a tax shelter or a tax shelter investment, subsection 18.1(4), which requires the amortization of the expenditure (subject to an income limit), will apply without reference to paragraph 18.1(4)(*a*). The result is that the cumulative amount deducted in respect of a matchable expenditure may not exceed the taxpayer's cumulative revenue from the associated right to receive production.

The amendments to section 18.1 generally apply in respect of expenditures made by a taxpayer on or after September 18, 2001.

History: S. 18.1(15) was amended by S.C. 2001, c. 17, s. 10(1), applicable to expenditures made after November 17, 1996. S. 18.1(15) formerly read:

"(15) *Non-applicability of section 18.1.* Subject to subsections (1) and (14), this section does not apply to a taxpayer's matchable expenditure in respect of a right to receive production if no portion of the expenditure can reasonably be considered to have been paid to another taxpayer, or to a person with whom the other taxpayer does not deal at arm's length, to acquire the right from the other taxpayer and

(*a*) the taxpayer's expenditure cannot reasonably be considered to relate to a tax shelter or tax shelter investment (as defined by section 143.2) and none of the main purposes for making the expenditure is that the taxpayer, or a person with whom the taxpayer does not deal at arm's length, obtain a tax benefit; or

(*b*) before the end of the taxation year in which the expenditure is made, the total of all amounts each of which is included in computing the taxpayer's income for the year (other than any portion of such an amount that is the subject of a reserve claimed by the taxpayer for the year under this Act) in respect of the right to receive production to which the matchable expenditure relates exceeds 80% of the expenditure."

S. 18.1(15) was added by S.C. 1998, c. 19, s. 80(1). Subsections 18.1(1) to 18.1(15) are applicable to every expenditure made by a taxpayer or a partnership after November 17, 1996 other than, in respect of a particular right to receive production, such an expenditure made

(*a*) before 1997 under an agreement in writing made by the taxpayer or the partnership before 1997 to acquire the particular right

(i) in return for paying selling commissions incurred before 1997 in connection with the distribution of shares of a mutual fund corporation or units of mutual fund trust, or

(ii) to render production services before 1997 for a film or video production,

and, for the purpose of applying this paragraph, the expenditure is deemed to have been made no earlier than the time and only to the extent it is considered for the purposes of the Act to have been made and, if subparagraph (ii) applies, only to the extent the services were rendered at or before that time,

(*b*) before August 1997 if

(i) the expenditure was made under an agreement in writing made by the taxpayer or the partnership before August 1997 to acquire the particular right in return for paying selling commissions incurred after 1996 and before August 1997 in connection with the distribution of shares of a mutual fund corporation or units of a mutual fund trust that is managed by an administrator of mutual funds,

(ii) the particular right to receive production is identified in an advance income tax ruling request delivered to Revenue Canada before November 18, 1996,

(iii) the total of all such expenditures made by any taxpayer or partnership in respect of all of the rights identified in the advance income tax ruling request does not exceed $30,000,000, and

(iv) all tax shelter investments (as defined in section 143.2 of the Act) that can reasonably be considered to relate to the expenditure were acquired before August 1997,

and, for the purpose of applying this paragraph, an expenditure is deemed to have been made no earlier than the time and only to the extent it is considered for the purposes of the Act to have been made,

(*c*) before August 1997 if

(i) the expenditure is made under an agreement in writing made by the taxpayer or the partnership before August 1997 to acquire the particular right in return for paying selling commissions incurred after 1996 and before August 1997 in connection with the distribution of shares of a mutual fund corporation or units of a mutual fund trust that is managed by an administrator of mutual funds, other than by an

administrator of a mutual fund that is or is related to an administrator to which paragraph (*b*) refers in respect of commissions incurred in connection with the distribution of the shares or units described in paragraph (*b*),

(ii) the total of all such expenditures made by any taxpayer or partnership to acquire particular rights in return for paying selling commissions in connection with the distribution of shares of the mutual fund corporation or units of the mutual fund trust that is managed by the administrator of mutual funds or any other person that is related to the administrator does not exceed $10,000,000, and

(iii) all tax shelter investments (as defined in section 143.2 of the Act) that can reasonably be considered to relate to the expenditure were acquired before August 1997,

and, for the purpose of applying this paragraph, an expenditure is deemed to have been made no earlier than the time and only to the extent it is considered for the purposes of the Act to have been made,

(*d*) before November 1997 under an agreement in writing made by the taxpayer or the partnership before November 1997 to acquire the particular right and to render production services before November 1997 for a film or video production if

(i) at least 75% of the expenditures made in respect of the film or video production by the taxpayer or partnership pertain to services performed in Canada by residents of Canada, and

(ii) all tax shelter investments (as defined in section 143.2 of the Act) that can reasonably be considered to relate to the expenditure were acquired before November 1997,

and, for the purpose of applying this paragraph, the expenditure is deemed to have been made no earlier than the time and only to the extent it is considered for the purposes of the Act to have been made and only to the extent the services are rendered at or before that time,

(*e*) before 1998, under an agreement in writing made by the taxpayer or the partnership before November 18, 1996 to acquire the particular right and, for the purpose of this paragraph, if the expenditure relates to service obligations to be fulfilled by the taxpayer or partnership, the expenditure is deemed to have been made no earlier than the time and only to the extent it is considered for the purposes of the Act to have been made and only to the extent the services are rendered at or before that time,

(*f*) before 1998, pursuant to the terms of a document that is a prospectus, preliminary prospectus or registration statement if

(i) the document was filed before November 18, 1996 with a public authority in Canada in accordance with the securities legislation of Canada or of any province and, where required by law, accepted for filing by the public authority,

(ii) the particular right is identified in the document, and

(iii) all the funds raised pursuant to the document were raised before 1997 and all tax shelter investments (as defined in section 143.2 of the Act), that can reasonably be considered to relate to the expenditure, were acquired before August 1997,

and, for the purpose of applying this paragraph, if an expenditure relates to service obligations to be fulfilled by the taxpayer or partnership, the expenditure is deemed to have been made no earlier than the time and only to the extent it is considered for the purposes of the Act to have been made and only to the extent the services are rendered at or before that time, or

(*g*) before 1998, pursuant to the terms of an offering memorandum distributed as part of an offering of securities if

(i) the memorandum contained a complete or substantially complete description of the securities contemplated in the offering as well as the terms and conditions of the offering,

(ii) the memorandum was distributed before November 18, 1996,

(iii) solicitations in respect of the sale of the securities contemplated by the memorandum were made before November 18, 1996,

(iv) the sale of the securities was substantially in accordance with the memorandum,

(v) the particular right is identified in the document, and

(vi) all the funds raised pursuant to the memorandum were raised before 1997 and all tax shelter investments (as defined in section 143.2 of the Act) that can reasonably be considered to relate to the expenditure were acquired before August 1997,

and, for the purpose of applying this paragraph, if an expenditure relates to service obligations to be fulfilled by the taxpayer or partnership, the expenditure is deemed to have been made no earlier than the time and only to the extent it is considered for the purposes of the Act to have been made and only to the extent the services are rendered at or before that time,

except that paragraphs (*e*), (*f*) and (*g*) apply to an expenditure only if

(*h*) there is no agreement or other arrangement under which the obligations of the taxpayer or the partnership with respect to the expenditure can be changed, reduced or waived if there is a change to the Act or if there is an adverse assessment under the Act,

(*i*) where the expenditure is associated with one or more tax shelters sold or offered for sale at a time and in circumstances in which section 237.1 of the Act requires an identification number to have been obtained, the identification number was obtained before that time, and

(*j*) in the case of an expenditure, including an expenditure to which paragraph (*e*) applies, made pursuant to a document described in paragraph (*f*) or (*g*), a portion of the securities authorized to be sold in 1996 pursuant to the document were after 1995 and before November 18, 1996 sold to, or subscribed for by, a person who was not at the time of sale or subscription

(i) a promoter, or an agent of a promoter, of the securities,

(ii) a grantor of the right to receive production to which the expenditure relates,

(iii) a broker or dealer in securities, or

(iv) a person who did not deal at arm's length with a person referred to in subparagraph (i) or (ii).

Related Sections: S. 12(1)(*s*) Reinsurance commission; s. 20(1)(*jj*) Reinsurance commission.

SECTION 18.2: [Double-Dip Financing]. [Repealed by S.C. 2009, c. 2, s. 6(1).]

Editorial Note: S. 18.2 was enacted following the 2007 Federal Budget applicable in respect of interest and other borrowing costs paid or payable in respect of a period or periods beginning after 2011. Therefore, effective January 1, 2012, section 18.2 would have restricted the deductibility of interest and other borrowing costs incurred by a Canadian corporate taxpayer generally where such borrowing had also given rise to an interest for foreign tax purposes — the so-called "double dip". The 2009 Federal Budget proposed that s. 18.2 be repealed before it became applicable, and the repeal was enacted by S.C. 2009, c. 2. The government cited the recommendations of the Advisory Panel on Canada's System of International Taxation in terms of the potential effects of s. 18.2 on foreign investment by Canadian multinational firms as reason for the repeal.

History: S. 18.2 was repealed by S.C. 2009, c. 2, s. 6(1), applicable in respect of interest and other borrowing costs paid or payable in respect of a period or periods that begin after 2011. S. 18.2(1) was previously added by S.C. 2007, c. 35, s. 12(1), applicable in respect of interest and other borrowing costs paid or payable in respect of the same period.

SECTION 19:

▶ 19(1) ◀

(1) Limitation re advertising expense — newspapers. In computing income, no deduction shall be made in respect of an otherwise deductible outlay or expense of a taxpayer for advertising space in an issue of a newspaper for an advertisement directed primarily to a market in Canada unless

(*a*) the issue is a Canadian issue of a Canadian newspaper; or

(*b*) the issue is an issue of a newspaper that would be a Canadian issue of a Canadian newspaper except that

(i) its type has been wholly set in the United States or has been partly set in the United States with the remainder having been set in Canada, or

(ii) it has been wholly printed in the United States or has been partly printed in the United States with the remainder having been printed in Canada.

History: S. 19(1), the portion before subparagraph (*b*)(i) was amended by S.C. 2001, c. 17, s. 11(1), applicable in respect of advertisements placed in an issue dated after May 2000. S. 19(1), the portion before subparagraph (*b*)(i) formerly read:

"S. 19. *Limitation re advertising expense.*

(1) In computing income, no deduction shall be made in respect of an otherwise deductible outlay or expense of a taxpayer for advertising space in an issue of a newspaper or periodical for an advertisement directed primarily to a market in Canada unless

(*a*) the issue is a Canadian issue of a Canadian newspaper or periodical dated after 1975; or

(*b*) the issue is an issue of a newspaper or periodical dated after December 31, 1988 that would be a Canadian issue of a Canadian newspaper or periodical except that"

Related Sections: S. 19(3) Where s. (1) does not apply; s. 19(5) Definitions.

▶ 19(2) ◀

(2) Idem. [Repealed by 1974-75-76, c. 106, s. 1.]

▶ 19(3) ◀

(3) Where s. (1) does not apply. Subsection (1) does not apply with respect to an advertisement in a special issue or edition of a newspaper that is edited in whole or in

part and printed and published outside Canada if that special issue or edition is devoted to features or news related primarily to Canada and the publishers thereof publish such an issue or edition not more frequently than twice a year.

► 19(4) ◄

(4) Idem. [Repealed by 1974-75-76, c. 106, s. 2.]

► 19(5) ◄

(5) Definitions. In this section,

"Canadian issue" — "Canadian issue" of a newspaper means an issue, including a special issue,

(*a*) the type of which, other than the type for advertisements or features, is set in Canada,

(*b*) all of which, exclusive of any comics supplement, is printed in Canada,

(*c*) that is edited in Canada by individuals resident in Canada, and

(*d*) that is published in Canada;

History: S. 19(5), the definition "Canadian issue" was amended by S.C. 2001, c. 17, s. 11(3), applicable in respect of advertisements placed in an issue dated after May 2000. S. 19(5), the definition "Canadian issue" formerly read:

" *'Canadian issue'* — 'Canadian issue' means,

(*a*) in relation to a newspaper, an issue, including a special issue,

(i) the type of which, other than the type for advertisements or features, is set in Canada,

(ii) the whole of which, exclusive of any comics supplement, is printed in Canada,

(iii) that is edited in Canada by individuals resident in Canada, and

(iv) that is published in Canada, and

(*b*) in relation to a periodical, an issue, including a special issue,

(i) the type of which, other than the type for advertisements, is set in Canada,

(ii) that is printed in Canada,

(iii) that is edited in Canada by individuals resident in Canada, and

(iv) that is published in Canada,

but does not include an issue of a periodical

(v) that is produced or published under a licence granted by a person who produces or publishes issues of a periodical that are printed, edited or published outside Canada, or

(vi) the contents of which, excluding advertisements, are substantially the same as the contents of an issue of a periodical, or the contents of one or more issues of one or more periodicals, that was or were printed, edited or published outside Canada;"

"Canadian newspaper" — "Canadian newspaper" means a newspaper the exclusive right to produce and publish issues of which is held by one or more of the following:

(*a*) a Canadian citizen,

(*b*) a partnership

(i) in which interests representing in value at least 3/4 of the total value of the partnership property are beneficially owned by, and

(ii) at least 3/4 of each income or loss of which from any source is included in the determination of the income of,

corporations described in paragraph (*e*) or Canadian citizens or any combination thereof,

(*c*) an association or society of which at least 3/4 of the members are Canadian citizens,

(*d*) Her Majesty in right of Canada or a province, or a municipality in Canada, or

(*e*) a corporation

(i) that is incorporated under the laws of Canada or a province,

(ii) of which the chairperson or other presiding officer and at least 3/4 of the directors or other similar officers are Canadian citizens, and

(iii) that, if it is a corporation having share capital, is

(A) a public corporation a class or classes of shares of the capital stock of which are listed on a designated stock exchange in Canada, other than a corporation controlled by citizens or subjects of a country other than Canada, or

(B) a corporation of which at least 3/4 of the shares having full voting rights under all circumstances, and shares having a fair market value in total of at least 3/4 of the fair market value of all of the issued shares of the corporation, are beneficially owned by Canadian citizens or by public corporations a class or classes of shares of the capital stock of which are listed on a designated stock exchange in Canada, other than a public corporation controlled by citizens or subjects of a country other than Canada,

and, for the purposes of clause (B), where shares of a class of the capital stock of a corporation are owned, or deemed by this definition to be owned, at any time by another corporation (in this definition referred to as the "holding corporation"), other than a public corporation a class or classes of shares of the capital stock of which are listed on a designated stock exchange in Canada, each shareholder of the holding corporation shall be deemed to own at that time that proportion of the number of such shares of that class that

(C) the fair market value of the shares of the capital stock of the holding corporation owned at that time by the shareholder

is of

(D) the fair market value of all the issued shares of the capital stock of the holding corporation outstanding at that time,

and, where at any time shares of a class of the capital stock of a corporation are owned, or are deemed by this definition to be owned, by a partnership, each member of the partnership shall be deemed to own at that time the least proportion of the number of such shares of that class that

(E) the member's share of the income or loss of the partnership from any source for its fiscal period that includes that time

is of

(F) the income or loss of the partnership from that source for its fiscal period that includes that time,

and for this purpose, where the income and loss of a partnership from any source for a fiscal period are nil, the partnership shall be deemed to have had income from that source for that period in the amount of $1,000,000;

History: S. 19(5)(*e*), the portion before clause (iii)(C) of the definition "Canadian newspaper" was replaced by S.C. 2007, c. 35, s. 13(1), applicable on and after December 14, 2007. S. 19(5)(*e*), the portion before clause (iii)(C) in the definition "Canadian newspaper" formerly read:

"(*e*) a corporation

(i) that is incorporated under the laws of Canada or a province,

(ii) of which the chairperson or other presiding officer and at least 3/4 of the directors or other similar officers are Canadian citizens, and

(iii) that, if it is a corporation having share capital, is

(A) a public corporation a class or classes of shares of the capital stock of which are listed on a prescribed stock exchange in Canada, other than a corporation controlled by citizens or subjects of a country other than Canada, or

(B) a corporation of which at least 3/4 of the shares having full voting rights under all circumstances, and shares having a fair market value in total of at least 3/4 of the fair market value of all of the issued shares of the corporation, are beneficially owned by Canadian citizens or by public corporations a class or classes of shares of the capital stock of which are listed on a prescribed stock exchange in Canada, other than a public corporation controlled by citizens or subjects of a country other than Canada,

and, for the purposes of clause (B), where shares of a class of the capital stock of a corporation are owned, or deemed by this definition to be owned, at any time by another corporation (in this definition referred to as the 'holding corporation'), other than a public corporation a class or classes of shares of the capital stock of which are listed on a prescribed stock exchange in Canada, each shareholder of the holding corporation shall be deemed to own at that time that proportion of the number of such shares of that class that"

S. 19(5), the portion of the definition "Canadian newspaper or periodical" before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 11(4), applicable in respect of advertisements placed in an issue dated after May 2000. S. 19(5), the portion of the definition "Canadian newspaper or periodical" before paragraph (*a*) formerly read:

" '*Canadian newspaper or periodical*' — 'Canadian newspaper or periodical' means a newspaper or periodical the exclusive right to produce and publish issues of which is held by one or more of the following:"

The application provisions below for the amendments in the definition "Canadian newspaper or periodical" made by S.C. 1994, c. 7, Sched. II, ss. 14(1) and (2), were amended by S.C. 1994, c. 7, Sched. VIII, s. 159, which provides that where an election or request referred to in the application provisions below was made before December 11, 1993, the election or request shall be deemed to have been made before 1992.

S. 19(5), paragraph (*b*) of the definition of "Canadian newspaper or periodical", was amended by S.C. 1994, c. 7, Sched. II, s. 14(1), applicable to rights referred to in the definition "Canadian newspaper or periodical" that are acquired after July 13, 1990 (and rights acquired after 1988 where the acquirer of the right so elected by notifying the Minister of National Revenue in writing before 1992) and, for that purpose, where an individual who is a citizen or subject of a country other than Canada or a corporation controlled by such an individual or individuals has at any time after July 13, 1990 acquired, in an arm's length transaction,

(*a*) more than 1/4 of the shares of a particular corporation that have full voting rights under all circumstances, or

(*b*) shares of a particular corporation having a fair market value in the total of more than 1/4 of the fair market value of all of the issued shares of the particular corporation,

the particular corporation and any corporation controlled by the particular corporation shall be deemed to have acquired at that time any right referred to in the definition "Canadian newspaper or periodical" in subsection 19(5) of the Act that is owned by the particular corporation or controlled corporation at that time.

S. 19(5), paragraph (*b*) of the definition of "Canadian newspaper or periodical", formerly read:

"(*b*) a partnership of which at least 3/4 of the members are Canadian citizens and in which interests representing in value at least 3/4 of the total value of the partnership property are beneficially owned by Canadian citizens,"

S. 19(5), subparagraph (*e*)(iii) of the definition "Canadian newspaper or periodical", was amended by S.C. 1994, c. 7, Sched. II, s. 14(2), applicable to rights referred to in the definition "Canadian newspaper or periodical" that are acquired after July 13, 1990 (and rights acquired after 1988 where the acquirer of the right so elected by notifying the Minister of National Revenue in writing before 1992) and, for that purpose, where an individual who is a citizen or subject of a country other than Canada or a corporation controlled by such an individual or individuals has at any time after July 13, 1990 acquired, in an arm's length transaction,

(*a*) more than 1/4 of the shares of a particular corporation that have full voting rights under all circumstances, or

(*b*) shares of a particular corporation having a fair market value in the total of more than 1/4 of the fair market value of all of the issued shares of the particular corporation,

the particular corporation and any corporation controlled by the particular corporation shall be deemed to have acquired at that time any right referred to in the definition "Canadian newspaper or periodical" in subsection 19(5) of the Act that is owned by the particular corporation or controlled corporation at that time.

S. 19(5), subparagraph (*e*)(iii) of the definition "Canadian newspaper or periodical", formerly read:

"(iii) of which, if it is a corporation having share capital, at least 3/4 of the shares having full voting rights under all circumstances, and shares representing in total at least 3/4 of the paid-up capital, are beneficially owned by Canadian citizens or by corporations other than corporations controlled by citizens or subjects of a country other than Canada;"

Regulations: 3200.

"*issue of a non-Canadian newspaper or periodical*" — [Repealed by 1988, c. 65, s. 133(2).]

"*substantially the same*" — [Repealed by S.C. 2001, c. 17, s. 11(2).]

History: S. 19(5), the definition "substantially the same" was repealed by S.C. 2001, c. 17, s. 11(2), applicable in respect of advertisements placed in an issue dated after May 2000. S. 19(5), the definition "substantially the same" formerly read:

" '*substantially the same*' — 'substantially the same' means more than 20% the same;"

"*United States*" — "United States" means

(*a*) the United States of America, but does not include Puerto Rico, the Virgin Islands, Guam or any other United States possession or territory, and

(*b*) any areas beyond the territorial sea of the United States within which, in accordance with international law and its domestic laws, the United States may exercise rights with respect to the seabed and subsoil and the natural resources of those areas.

► 19(5.1) ◄

(5.1) Interpretation. In this section, each of the following is deemed to be a Canadian citizen:

(*a*) a trust or corporation described in paragraph 149(1)(*o*) or (*o.1*) formed in connection with a pension plan that exists for the benefit of individuals a majority of whom are Canadian citizens;

(*b*) a trust described in paragraph 149(1)(*r*) or (*x*), the annuitant in respect of which is a Canadian citizen;

(*c*) a mutual fund trust, within the meaning assigned by subsection 132(6), other than a mutual fund trust the majority of the units of which are held by citizens or subjects of a country other than Canada;

(*d*) a trust, each beneficiary of which is a person, partnership, association or society described in any of paragraphs (*a*) to (*e*) of the definition "Canadian newspaper" in subsection (5); and

(*e*) a person, association or society described in paragraph (*c*) or (*d*) of the definition "Canadian newspaper" in subsection (5).

History: S. 19(5.1) was added by S.C. 2001, c. 17, s. 11(5), applicable in respect of advertisements placed in an issue dated after June 1996 except that, in applying subsection 19(5.1) to advertisements placed in an issue dated after June 1996 and before June 2000, the references in subsection 19(5.1) to "Canadian newspaper" shall be read as references to "Canadian newspaper or periodical".

► 19(6) ◄

(6) Trust property. Where the right that is held by any person, partnership, association or society described in the definition "Canadian newspaper" in subsection (5) to produce and publish issues of a newspaper is held as property of a trust or estate, the newspaper is not a Canadian newspaper unless each beneficiary under the trust or estate is a person, partnership, association or society described in that definition.

History: S. 19(6) was amended by S.C. 2001, c. 17, s. 11(6), applicable in respect of advertisements placed in an issue dated after May 2000. S. 19(6) formerly read:

"(6) *Trust property.* Where the right that is held by any person, partnership, association or society described in the definition 'Canadian newspaper or periodical' in subsection (5) to produce and publish issues of a newspaper or periodical is held as property of a trust or estate, the newspaper or periodical is not a Canadian newspaper or periodical within the meaning of this

section unless each beneficiary under the trust or estate is a person, partnership, association or society so described."

► 19(7) ◄

(7) Grace period. A Canadian newspaper that would, but for this subsection, cease to be a Canadian newspaper, is deemed to continue to be a Canadian newspaper until the end of the 12th month that follows the month in which it would, but for this subsection, have ceased to be a Canadian newspaper.

History: S. 19(7) was amended by S.C. 2001, c. 17, s. 11(6), applicable in respect of advertisements placed in an issue dated after May 2000. S. 19(7) formerly read:

"(7) *Grace period.* Notwithstanding any other provision of this section, where a newspaper or periodical that was at any time after June 30, 1965 a Canadian newspaper or periodical within the meaning of this section subsequently ceases to be such a Canadian newspaper or periodical, the newspaper or periodical shall be deemed to continue to be a Canadian newspaper or periodical within the meaning of this section until the expiration of the 12th month following the month in which it so ceased to be a Canadian newspaper or periodical."

Related Sections: S. 89(1), s. 181(2), "paid-up capital"; s. 104(1) Reference to trust or estate; s. 248(1), "business", "corporation", "property"; s. 255 Canada.

► 19(8) ◄

(8) Non-Canadian newspaper. Where at any time one or more persons or partnerships that are not described in any of paragraphs (*a*) to (*e*) of the definition "Canadian newspaper" in subsection (5) have any direct or indirect influence that, if exercised, would result in control in fact of a person or partnership that holds a right to produce or publish issues of a newspaper, the newspaper is deemed not to be a Canadian newspaper at that time.

History: S. 19(8) was amended by S.C. 2001, c. 17, s. 11(6), applicable in respect of advertisements placed in an issue dated after May 2000. S. 19(8) formerly read:

"(8) *Non-Canadian newspaper or periodical.* Where at any time one or more persons or partnerships that are not described in any of paragraphs (*a*) to (*e*) of the definition 'Canadian newspaper or periodical' in subsection (5) have any direct or indirect influence that, if exercised, would result in control in fact of a person or partnership that holds a right to produce or publish issues of a newspaper or periodical, the newspaper or periodical is deemed not to be a Canadian newspaper or periodical at that time."

S. 19(8) was added by S.C. 1995, c. 46, s. 5(1), applicable December 15, 1995, except that it does not apply to a newspaper or periodical where the influence that would result in control in fact of a person or partnership that holds the right to produce or publish the newspaper or periodical arose as a consequence of a transaction or series of transactions that was completed before April 1993.

SECTION 19.01:

► 19.01(1) ◄

(1) Definitions. The definitions in this subsection apply in this section.

"advertisement directed at the Canadian market" — "advertisement directed at the Canadian market" has the same meaning as the expression "directed at the Canadian market" in section 2 of the *Foreign Publishers Advertising Services Act* and includes a reference to that expression made by or under that Act.

History: S. 19.01(1), the definition "advertisement directed at the Canadian market" was added by S.C. 2001, c. 17, s. 12(1), applicable in respect of advertisements placed in an issue dated after May 2000.

"original editorial content" — "original editorial content" in respect of an issue of a periodical means non-advertising content

(*a*) the author of which is a Canadian citizen or a permanent resident of Canada within the meaning assigned by the *Immigration Act* and, for this purpose, "author" includes a writer, a journalist, an illustrator and a photographer; or

(*b*) that is created for the Canadian market and has not been published in any other edition of that issue of the periodical published outside Canada.

History: S. 19.01(1), the definition "original editorial content" was added by S.C. 2001, c. 17, s. 12(1), applicable in respect of advertisements placed in an issue dated after May 2000.

"periodical" — "periodical" has the meaning assigned by section 2 of the *Foreign Publishers Advertising Services Act*.

History: S. 19.01(1), the definition "periodical" was added by S.C. 2001, c. 17, s. 12(1), applicable in respect of advertisements placed in an issue dated after May 2000.

► 19.01(2) ◄

(2) Limitation re advertising expenses — periodicals. Subject to subsections (3) and (4), in computing income, no deduction shall be made by a taxpayer in respect of an otherwise deductible outlay or expense for advertising space in an issue of a periodical for an advertisement directed at the Canadian market.

History: S. 19.01(2) was added by S.C. 2001, c. 17, s. 12(1), applicable in respect of advertisements placed in an issue dated after May 2000.

► 19.01(3) ◄

(3) 100% deduction. A taxpayer may deduct in computing income an outlay or expense of the taxpayer for advertising space in an issue of a periodical for an advertisement directed at the Canadian market if

(*a*) the original editorial content in the issue is 80% or more of the total non-advertising content in the issue; and

(*b*) the outlay or expense would, but for subsection (2), be deductible in computing the taxpayer's income.

History: S. 19.01(3) was added by S.C. 2001, c. 17, s. 12(1), applicable in respect of advertisements placed in an issue dated after May 2000.

► 19.01(4) ◄

(4) 50% deduction. A taxpayer may deduct in computing income 50% of an outlay or expense of the taxpayer for advertising space in an issue of a periodical for an advertisement directed at the Canadian market if

(*a*) the original editorial content in the issue is less than 80% of the total non-advertising content in the issue; and

(*b*) the outlay or expense would, but for subsection (2), be deductible in computing the taxpayer's income.

History: S. 19.01(4) was added by S.C. 2001, c. 17, s. 12(1), applicable in respect of advertisements placed in an issue dated after May 2000.

► 19.01(5) ◄

(5) Application. For the purposes of subsections (3) and (4),

(*a*) the percentage that original editorial content is of total non-advertising content is the percentage that the total space occupied by original editorial content in the issue is of the total space occupied by non-advertising content in the issue; and

(*b*) the Minister may obtain the advice of the Department of Canadian Heritage for the purpose of

(i) determining the result obtained under paragraph (*a*), and

(ii) interpreting any expression defined in this section that is defined in the *Foreign Publishers Advertising Services Act*.

History: S. 19.01(5) was added by S.C. 2001, c. 17, s. 12(1), applicable in respect of advertisements placed in an issue dated after May 2000.

► 19.01(6) ◄

(6) Editions of issues. For the purposes of this section,

(*a*) where an issue of a periodical is published in several versions, each version is an edition of that issue; and

(*b*) where an issue of a periodical is published in only one version, that version is an edition of that issue.

History: S. 19.01(6) was added by S.C. 2001, c. 17, s. 12(1), applicable in respect of advertisements placed in an issue dated after May 2000.

SECTION 19.1:

► 19.1(1) ◄

(1) Limitation re advertising expense on broadcasting undertaking. Subject to subsection (2), in computing income, no deduction shall be made in respect of an otherwise deductible outlay or expense of a taxpayer made or incurred after September 21, 1976 for an advertisement directed primarily to a market in Canada and broadcast by a foreign broadcasting undertaking.

► 19.1(2) ◄

(2) Exception. In computing income, a deduction may be made in respect of an outlay or expense made or incurred before September 22, 1977 for an advertisement directed primarily to a market in Canada and broadcast by a foreign broadcasting undertaking pursuant to

(*a*) a written agreement entered into on or before January 23, 1975; or

(*b*) a written agreement entered into after January 23, 1975 and before September 22, 1976 if the agreement is for a term of one year or less and by its express terms is not capable of being extended or renewed.

► 19.1(3) ◄

(3) Limitation to exception in paragraph (2)(a). [Repealed by 1977-78, c. 1, s. 13(2).]

► 19.1(4) ◄

(4) Definitions. In this section,

"*foreign broadcasting undertaking*" — "foreign broadcasting undertaking" means a network operation or a broadcasting transmitting undertaking located outside Canada or on a ship or aircraft not registered in Canada;

"*network*" — "network" includes any operation involving two or more broadcasting undertakings whereby control over all or any part of the programs or program schedules of any of the broadcasting undertakings involved in the operation is delegated to a network operator.

SECTION 20:

► 20(1) ◄

(1) Deductions permitted in computing income from business or property. Notwithstanding paragraphs 18(1)(*a*), (*b*) and (*h*), in computing a taxpayer's income for a taxation year from a business or property, there may be deducted such of the following amounts as are wholly applicable to that source or such part of the following amounts as may reasonably be regarded as applicable thereto:

Editorial Note: Subsection 20(1) allows the deduction of certain amounts that might not otherwise be deductible under general principles or owing to the restrictions in paragraph 18(1)(*a*) (expense not deductible unless incurred for the purpose of earning income from business or property), 18(1)(*b*) (capital expenses not deductible except as expressly permitted), or 18(1)(*h*) (personal and living expenses not deductible).

Related Sections: S. 13(21), "depreciable property"; s. 14(5), "cumulative eligible capital"; s. 95(1), "foreign affiliate"; s. 108(2) When trust is a unit trust; s. 147(1), "deferred profit sharing plan"; s. 248(1), "amount", "business", "corporation", "income bond", "income debenture", "insurance corporation", "insurer", "lending asset", "life insurance business", "motor vehicle", "passenger vehicle", "prescribed", "principal amount", "property", "registered pension plan", "regulation", "share", "shareholder", "superannuation or pension benefit", "Treasury Board"; s. 249 Definition of "taxation year"; s. 255 Canada; ITAR s. 20(3) Depreciable property of partnership of prescribed class.

► 20(1)(a) ◄

(a) Capital cost of property — such part of the capital cost to the taxpayer of property, or such amount in respect of the capital cost to the taxpayer of property, if any, as is allowed by regulation;

Related Sections: S. 13(5) Reclassification of property; s. 13(6) Misclassified property; s. 13(7) Rules applicable; s. 13(11) Deduction in respect of property used in performance of duties; s. 13(12) Application of para. 20(1)(cc); s. 13(14) Conversion cost; s. 13(21) Definitions; s. 13(34) Deductible expenses; s. 21 Cost of borrowed money; s. 28(1) Farming or fishing business; s. 37(6) Expenditures of a capital nature; s. 85(5) Rules on transfers of depreciable property; s. 87(2)(*d*) Depreciable property; s. 87(2)(*d.1*) Depreciable property acquired from predecessor corporation; s. 88 Winding-up; s. 97(4) Where capital cost to partner exceeds proceeds of disposition; s. 98(3) Rules applicable where partnership ceases to exist; s. 98(5) Where partnership business carried on as sole proprietorship; s. 104(5) Depreciable property; s. 107(2) Distribution by personal trust; s. 164(6) Where disposition of property by legal representative of deceased taxpayer; s. 216(5) Disposition by non-resident of interest in real property, timber resource property or timber limit; and ITAR s. 18(2) Depreciable property acquired before 1949; s. 20(1) Depreciable property, (2) Recapture of capital cost allowances, (3) Depreciable property of partnership of prescribed class.

Regulations: Part XI; Part XVII; Schedules II to VI.

Interpretation Bulletins: *Primary* — IT-79R3 Capital cost allowance — Buildings or other structures; IT-128R Capital cost allowance — Depreciable property; IT-147R3 Capital cost allowance — Accelerated write-off of manufacturing and processing machinery and equipment.; IT-172R Capital cost allowance — Taxation year of individual; IT-291R3 Transfer of property to a corporation under subsection 85(1); IT-267R2 Capital cost allowance — Vessels; IT-283R2 Capital cost allowance — Video tapes, videotape cassettes, films, computer software and master recording media [Archived by the CRA]; IT-285R2 Capital cost allowance — General comments; IT-304R2 Condominiums; IT-306R2 Capital cost allowance — Contractor's movable equipment; IT-317R Capital cost allowance — Radio and television equipment [Archived by the CRA]; IT-324 Capital Cost Allowance — Emphyteutic Lease [Archived by the CRA]; IT-336R Capital cost allowance — Pollution control property [Archived by the CRA]; IT-422 Definition of tools; IT-464R Capital cost allowance — Leasehold Interests; IT-469R Capital cost allowance — Earth-moving equipment; IT-472 Capital cost allowance — Class 8 property; IT-477 (Consolid.) Capital cost allowance — Patents, franchises, concessions and licences; IT-485 Cost of clearing or levelling land; IT-492 Capital cost allowance — Industrial mineral mines; IT-501 Capital cost allowance — Logging assets. *Secondary* — IT-121R3 Election to capitalize cost of borrowed money; IT-187 Customer lists and ledger accounts; IT-327 Capital cost allowance — Elections under regulation 1103 [Archived by the CRA]; IT-371 Rental property — Meaning of "principal business"; IT-381R3 Trusts — Deduction of amounts paid or payable to beneficiaries and flow-through of taxable capital gains to beneficiaries; IT-465R Non-resident beneficiaries of trusts; IT-481 (Consolid.) Timber resource property and timber limits.

Information Circulars: IC 84-1 Revision of capital cost allowance claims and other permissive deductions.

Advance Tax Rulings: ATR-1 Transfer of legal title in land to bare trustee corporation — Mortgagee's requirements sole reason for transfer.

Income Tax Technical News: Issue No. 20, Tax Treatment of Golf Courses; Issue No. 14, Millennium bug expenditures.

Forms: T2 SCH 8.

Cases: When the taxpayer purchased a property, it assumed whatever liability the vendor might have had for environmental clean up. The taxpayer could not add the "cost" of this assumed liability to the purchase price of the buildings and equipment for CCA purposes since no amount had actually been spent on clean-up and there was no evidence that the vendor actually had any legally enforceable liability. *A & D Holdings Inc. v. The Queen*, 2006 DTC 2219 (T.C.C.).

The taxpayer purchased equipment and circuitously leased it back to the vendor, while using prepayment arrangements and bonds to minimize financial risk. The Court rejected the Minister's argument that, without real financial risk or economic cost, GAAR should be used to deny CCA claims. There is nothing in GAAR or the object of the CCA provisions that permits "cost" to be interpreted as "amount economically at risk". *The Queen v. Canada Trustco*

Mortgage Company, 2005 DTC 5523 (S.C.C.), affirming 2004 DTC 6119 (F.C.A.), affirming 2003 DTC 587 (T.C.C.).

When during the five-day period between the wind-up of its subsidiaries and their sale to a related corporation, the depreciable assets acquired by the taxpayer had been used to produce some business income, they were eligible for CCA treatment in its hands. *Hickman Motors Ltd. v. The Queen*, 97 DTC 5363 (S.C.C.), reversing 95 DTC 5575 (F.C.A.) and 93 DTC 5040 (F.C.T.D.).

► 20(1)(b) ◄

(b) **Cumulative eligible capital amount** — such amount as the taxpayer claims in respect of a business, not exceeding 7% of the taxpayer's cumulative eligible capital in respect of the business at the end of the year except that, where the year is less than 12 months, the amount allowed as a deduction under this paragraph shall not exceed that proportion of the maximum amount otherwise allowable that the number of days in the taxation year is of 365;

History: S. 20(1)(*b*) was amended by S.C. 2001, c. 17, s. 13(1), applicable to taxation years that begin after December 21, 2000. S. 20(1)(*b*) formerly read:

"(*b*) *Cumulative eligible capital amount* — such amount as the taxpayer may claim in respect of a business, not exceeding 7% of the taxpayer's cumulative eligible capital in respect of the business at the end of the year;"

Related Sections: S. 14(1) Eligible capital property — inclusion in income from business; s. 14(5), "cumulative eligible capital", "eligible capital expenditure"; s. 20(4.2) Bad debts re eligible capital property; s. 24(1) Ceasing to carry on business; s. 28(1) Farming or fishing business; s. 70(5.1) Eligible capital property of deceased; s. 70(9.8) Leased farm and fishing property; s. 87(2)(*f*) Eligible capital property; s. 111(5.2) Computation of cumulative eligible capital.

Interpretation Bulletins: *Secondary* — IT-123R6 Transactions involving eligible capital property; IT-143R3 Meaning of eligible capital expenditure; IT-291R3 Transfer of property to a corporation under subsection 85(1); IT-302R3 Losses of a corporation — The effect on their deductibility of changes in control, amalgamation and winding-up; IT-313R2 Eligible capital property — Rules where a taxpayer has ceased carrying on a business or has died; IT-341R4 Expenses of issuing or selling shares, units in a trust, interests in a partnership or syndicate and expenses of borrowing money.

Forms: T2 SCH 10.

Tax Topics: No. 1718, Eligible Capital — Some Big Changes Part I.

► 20(1)(c) ◄

(c) **Interest** — an amount paid in the year or payable in respect of the year (depending on the method regularly followed by the taxpayer in computing the taxpayer's income), pursuant to a legal obligation to pay interest on

(i) borrowed money used for the purpose of earning income from a business or property (other than borrowed money used to acquire property the income from which would be exempt or to acquire a life insurance policy),

(ii) an amount payable for property acquired for the purpose of gaining or producing income from the property or for the purpose of gaining or producing income from a business (other than property the income from which would be exempt or property that is an interest in a life insurance policy),

(iii) an amount paid to the taxpayer under

(A) an appropriation Act and on terms and conditions approved by the Treasury Board for the purpose of advancing or sustaining the technological capability of Canadian manufacturing or other industry, or

(B) the *Northern Mineral Exploration Assistance Regulations* made under an appropriation Act that provides for payments in respect of the Northern Mineral Grants Program, or

(iv) borrowed money used to acquire an interest in an annuity contract in respect of which section 12.2 applies (or would apply if the contract had an anniversary day in the year at a time when the taxpayer held the interest) except that, where annuity payments have begun under the contract in a preceding taxation year, the amount of interest paid or payable in the year shall not be deducted to the extent that it exceeds the amount included under section 12.2 in computing the taxpayer's income for the year in respect of the taxpayer's interest in the contract,

or a reasonable amount in respect thereof, whichever is the lesser;

Federal Budget Extract
Deductibility of Interest and Other Expenses

[Reproduced below is an excerpt from the February 23, 2005 Federal Budget that sets out an update from the Department of Finance on the proposals that were released on October 31, 2003. See proposed section 3.1. There have been no more recent updates on these proposals.]

In October 2003, the Department of Finance released for public consultation a package of legislative proposals regarding the deductibility, for income tax purposes, of interest and other expenses. The proposals responded to certain court decisions that departed significantly from what had been the accepted understanding of the law in this area.

In computing income from a business or property, a taxpayer can deduct many kinds of expenses, provided they were incurred in order to earn the income. A familiar example is interest on borrowed money, which is deductible only if the borrowed money is used for the purpose of earning income from a business or property.

In this context, "income" had been understood to be a net amount comparable to profit, and to exclude capital gains. The court decisions, however, took a different view: income was read as the equivalent of gross revenue, and the distinction between income and capital gains was blurred.

The 2003 proposals were intended to restore the law on these points to its more familiar and more appropriate state.

An extended period of public consultation on the proposals ended in August 2004. Many commentators expressed concerns with the proposals' structure: in particular, that the proposals' codification of an objective "reasonable expectation of profit" test might inadvertently limit the deductibility of a wide variety of ordinary commercial expenses. The Department of Finance has sought to respond by developing a more modest legislative initiative that would respond to those concerns while still achieving the Government's objectives. The Department will, at an early opportunity, release that alternative proposal for comment. This will be combined with a Canada Revenue Agency publication that addresses, in the context of the alternative proposal, certain administrative questions relating to deductibility.

Department of Finance Comfort Letter
[Reserve for Premium on Bond Issue]

October 24, 2001

Dear XXXX

I am writing in response to your letter dated October 17, 2001 concerning the income tax treatment of a premium received by a taxpayer upon the re-opening of a bond issue where the bond's interest rate is higher than the market rate of interest for similar debt instruments at the time of such re-opening.

You have requested that we consider recommending a provision that would permit a taxpayer to claim a reserve in respect of such a premium with the intended effect that the income tax treatment would follow the accounting treatment. This would avoid having the premium included in income at the outset,

only to be offset by increased interest expense over the remaining term of the debt.

We are sympathetic to your request. Consequently it will be recommended to the Minister of Finance that an amendment be introduced to the Act that will have the effect of matching the premium income and the enhanced interest expense that gives rise to the premium. Our recommendation regarding the timing of the effective date will likely depend on the exact nature of our recommendation, however, we would, at a minimum, recommend that a taxpayer be able to elect to have the amendment apply to debts issued after 2000.

While I can, as you know, offer no assurance that either the Minister or Parliament will accept our recommendation, I have no reason to believe that this would be controversial.

We trust that this letter addresses your concerns.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 20(1)(*c*)(iv) was amended by S.C. 1994, c. 7, Sched. II, s. 15(1), applicable to contracts last acquired after 1989, S. 20(1)(*c*)(iv) formerly read:

"(iv) borrowed money used to acquire an interest in an annuity contract to which section 12.2 applies, except that, where annuity payments have commenced under the contract in a preceding taxation year, the amount of interest paid or payable in the year shall not be deducted to the extent that it exceeds the amount included under that section or under paragraph 56(1)(*d*.1) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, in computing the taxpayer's income for the year with respect to the taxpayer's interest in the contract,"

Editorial Note: A specific provision is required to permit the deduction of interest, as the courts have held that interest expense is generally on account of capital and therefore not otherwise deductible. However, for financial institutions and other taxpayers in the business of lending money, interest expense is apparently not on account of capital, so that it may be deducted under general principles in the computation of profit under section 9. See the Supreme Court of Canada decision in *Gifford* (see "Cases", below).

In the *Stewart* and *Ludco* decisions (see "Cases", below), the Supreme Court held, respectively, that a "reasonable expectation of profit" test is not an appropriate source test for income tax purposes, and that the term "income" in paragraph 20(1)(*c*) refers to gross income rather than net income. Thus, the taxpayers in those cases were allowed to deduct significant interest expense even though they were not reporting net income or profit from the underlying sources. In response to these decisions, the Department of Finance introduced draft legislation on October 31, 2003, which proposed to restrict the deductibility of interest expense by denying losses from a business or property that did not have a reasonable expectation of profit ("REOP") (draft section 3.1). The draft legislation was scheduled to take effect in taxation years ending after 2004. However, in the 2005 Federal Budget, the Department responded to criticisms of the REOP draft legislation by announcing that it would replace it with a more modest legislative initiative (see "Federal Budget Extract", above). Further, at the September 2005 Annual Tax Conference held by the Canadian Tax Foundation, the Department stated that it intended to replace the REOP concept with a more modest "net income" concept. No mention was made of the issue in the 2006, 2007, 2008, or 2009 Federal Budget, and at the time of writing, the Department had not yet acted in amending or revoking the REOP draft legislation.

Draft legislation dealing with interest deductibility was released in December 1991 but was never enacted. Since the 1991 proposals are not expected to be acted on, they have not been reproduced in the text of the Act.

Related Sections: S. 18(2) Limit on certain interest and property tax; s. 18(3.1) Costs relating to construction of building or ownership of land; s. 18(4) Limitation re deduction of interest by certain corporations; s. 18(9.1) Penalties, bonuses and rate-reduction payments; s. 18(9.2) Interest on debt obligations — notional principal; s. 20(1)(*d*) Compound interest; s. 20(1)(*e*) Expenses re financing; s. 20(2) Borrowed money; s. 20(3) Borrowed money; s. 20(14) Accrued bond interest; s. 21 Cost of borrowed money.

Interpretation Bulletins: *Primary* — IT-355R2 Interest on loans to buy life insurance policies and annuity contracts, and interest on policy loans [Archived by the CRA]; IT-533 Interest Deductibility and Related Issues. *Secondary* — IT-104R3 Deductibility of Fines or Penalties; IT-121R3 Election to capitalize cost of borrowed money [Archived by the CRA]; IT-265R3 Payments of income and capital combined [Archived by the CRA]; IT-341R4 Expenses of issuing or selling shares, units in a trust, interests in a partnership or syndicate, and expenses of borrowing money; IT-362R Patronage dividends.

Information Circulars: IC 88-2 General anti-avoidance rule — Section 245 of the Income Tax Act (paras. 19 and 20, Supp. 1 para. 5).

Advance Tax Rulings: ATR-14 Non-arm's length interest charges; ATR-16 Inter-company dividends and interest expense; ATR-41 Convertible preferred shares.

Income Tax Technical News: Issue No. 34, Income Trusts and Interest Deductibility; Issue No. 18, Byram v. The Queen; Issue No. 18, C.R.B. Logging Co. Limited v. The Queen; Issue No. 18, Ludco Enterprises Ltd. et al. v. The Queen; Issue No. 18, Singleton v. The Queen; Issue No. 16, Court decisions.

Tax Topics: No. 1924, Lipson (SCC) — A Unanimously Divided Supreme Court; No. 1919-20, 2008 Canadian Tax Foundation Annual Conference — Department of Finance Presentation and CRA Round Table; No. 1883, Supreme Court To Consider GAAR in *Lipson Appeal*; No. 1843, Finance's May 14, 2007 Revised Interest Deductibility Proposals — An "Anti-Double-Dip Initiative"; No. 1829, The Federal Budget's Interest Restrictions — Clear and Present Danger?; No. 1782, Walk the Line — *Lipson v. The Queen*; No. 1774, Deduction of Interest: Cash or Accrual Basis?; No. 1675, Canadian Tax Foundation's Interest Deductibility Symposium; No. 1673, Supreme Court's Decision on Interest Deductibility Defies Logic; No. 1653, REOP Resurrected - This Year's Hallowe'en Trick; No. 1651, Supreme Court of Canada to Rule on the Characterization of Interest Expense; No. 1591, Federal Court of Appeal Rules on the Nature of Interest Expense; No. 1580, Refinancing a Partnership Interest — More on the "Singleton Shuffle"; No. 1506, Supreme Court to rule on the "Reasonable Expectation of Profit" and related issues; No. 1486, Interest on Funds Borrowed to Purchase Shareholder's Interest.

Tax Profile: February 2009 — SCC on the GAAR — Taxpayer Loses in Lipson; May 2007 — Impact of 2007 Federal Budget on Cross-Border Transactions; September 2006 — Canadian Acquisition of U.S. Real Estate; April 2004 — Interest is Almost Always a Capital Expense; February 2004 — Interest and Other Financing Costs; December 2003 — Proposed Amendments to the Income Tax Act (Canada) Related to the Deductibility of Interest and Other Expenses: the Reintroduction of Reasonable Expectation of Profit; November 2003 — Revenue Canada Round Table; July 2003 — One Foot in the Present and One Foot in the Past: Interest Deductibility and Anti-Avoidance.

Canadian Tax Foundation: Friedlander, "What Does Gifford Mean?", *2005 Canadian Tax Journal*, No. 4, 897; Johnson and Tamaki, "Deductibility of Interest and Other Expenses-Proposed Section 3.1", *2004 Ontario Tax Conference*, 6:1; Carr, "Interest Deductibility, in Corporate Tax Planning Feature", *2003 Canadian Tax Journal*, No. 3, 1422; Tamaki, "Interest Deductibility", *2003 Conference Report*, 1:1; Du Pont and Jodoin, "Interest Deductibility: An Update", *2001 Conference Report*, 40:1; Martin, "The Fundamentals of the Interest Expense Deduction", *2002 Prairie Provinces Tax Conference*, 3:1; Templeton, "'The Earth' is Not Flat', in 'Current Cases' feature", *2001 Canadian Tax Journal*, No. 3, 720; Frankovic, "Why Interest Should Be Considered a Current Expense", *2001 Canadian Tax Journal*, No. 4, 859; Owen, "Subparagraph 20(1)(C)(i): What Is Its Purpose?", *2000 Canadian Tax Journal*, No. 2, 231; Lewin, "Interest Deductibility: The Ongoing Saga", *1999 Conference Report*, 23:1; Edgar, "The Concept of Interest Under the Income Tax Act", *1996 Canadian Tax Journal*, No. 2, 277; Arnold and Edgar, "Deductibility of Interest Expense", *1995 Canadian Tax Journal*, No. 5, 1216; Arnold, "Is Interest a Capital Expense?", *1992 Canadian Tax Journal*, No. 3, 533.

Canadian Petroleum Tax Journal: Recent Trends In Interest Expense Deductibility, J. Scott Bodie and Jehad Haymour, Vol. 15 No. 1 2002; Café Annie's Tasty Inbound Financing, Jim McKee, Vol. 15 No. 1 2002; Selected Current Issues Regarding Interest Deductibility, Sandra E. Jack, Vol. 15 No. 1 2002.

Tax Window Files: Interest Deductibility, April 24, 2008, CRA Document No. 2008-0275171E5 [Discussion on net or gross income concept and pending draft legislation]; Interest Deduction, March 10, 2008, CRA Document No. 2008-0267961E5 [Current use of funds relevant]; Deduction of Interest, October 5, 2007, CRA Document No. 2007-0243181C6; Interest Deductibility — Dividends Paid with Promissory Notes Issued to Shareholders, March 3, 2006, CRA Document No. 2005-0151871I7; Interest Deductibility — Co-Borrowers, June 7, 2005, CRA Document No. 2005-0121551E5; Interest on Loan To Pay Interest, May 3, 2005, CRA Document No. 2005-0116661C6 [Interest on second loan used to pay interest on original loan deductible since original loan used to earn income from business]; Participating Loan, February 8, 2005, CRA Document No. 2004-0103941E5; Interest Expense — Borrowing to Pay for Current Expenditures, February 3, 2005, CRA Document No. 2005-0111871E5 [Interest on loan used to pay current expenses remained deductible after the year in which current expenses were incurred]; Interest Deductibility — Notion of Capital, May 31, 2004, CRA Document No. 2003-0051971E5 [Interest deductible on borrowed money used to redeem shares — Trans-Prairie rationale applies and generally based on legal stated capital of shares rather than tax paid-up capital (see also paragraph 23 of Interpretation Bulletin IT-533)]; Interest Expense — Double Dip Deduction and Thin Capitalization, May 18, 2004, CRA Document No. 2004-0063351I7 [Structure of cross-border "double-dip" loan does not, in itself, preclude an interest deduction under paragraph 20(1)(*c*), although GAAR may apply]; Deductibility of Penalties and Interest Under the CPP Act and Ei Act, January 28, 2004, CRA Document No. 2004-0054881I7 [Interest paid pursuant to the *CPP Act* or *EI Act* in respect of un-remitted source deductions is interest paid on borrowed money]; Interest Free Loans to Related Company, April 9, 2003, CRA Document No. 2003-0181655 [Interest on borrowed money used to make interest-free loan

generally not deductible, unless loan made to wholly-owned corporation or under "exceptional circumstances"]; Loss Consolidation Interest Deductibility, February 11, 2003, CRA Document No. 2003-0044293 [Interest deduction allowed in "in-house" corporate loss utilization transaction]; Interest Deductibility — Cash Damming Technique, 2003, CRA Document No. 2002-0180523 [Interest deduction allowed in "cash-damming" transaction]; Participating Interest, October 11, 2002, CRA Document No. 2002-0157035 [Participating payments generally not interest, unless payments restricted to fixed percentage of principal that reflects arm's length market interest rate, or payments otherwise meant to increase financing rate to market interest rate, and no other indications of equity investment]; Interest on Index-Linked GIC, April 11, 2000, CRA Document No. 2000-0001327 ["Interest" payable on index-linked debt contingent until maturity]; Interest Rate Swap, September 7, 1994, CRA Document No. 9415947 [Payments under interest rate swap agreements on income account, included or deducted in computing s. 9 profit].

Cases: The taxpayer's wife obtained a bank loan to purchase shares of a family corporation from him. He used the proceeds to buy a new house. They then took out a mortgage on the house and used it to pay off the bank loan. The mortgage interest was deducted from her dividend income and the resulting loss was attributed to him under s. 74.1(1). This was not an abuse of s. 20(1)(*c*) or 20(3). However, it was an abuse of the attribution rules and GAAR was used to disallow deduction of the mortgage interest. *Lipson et al. v. The Queen,* 2009 DTC 5015 (S.C.C.), affirming 2007 DTC 5172 (F.C.A.), affirming 2006 DTC 2687 (T.C.C.).

Days before emigrating from Canada, the taxpayers executed a departure trade designed to create a $1.7 million interest deduction. The deduction was disallowed under s. 114(*c*) since the phrase, "any other deduction permitted for the purpose of computing taxable income" is restricted to Division C deductions, which excludes a s. 20(1)(*c*) interest deduction. *Grant et al. v. The Queen,* 2007 DTC 5351 (F.C.A.), affirming 2006 DTC 3071 (T.C.C.).

Paragraph 20(1)(*c*) does not require compliance with GAAP. The only requirement to be taken from the plain meaning of the provision is that interest be accounted for on a consistent basis: either cash or accrual. *Crown Forest Industries Ltd. v. The Queen,* 2006 DTC 2321 (T.C.C.).

Sections 8(1)(*j*) and 20(1)(*c*) do not provide a complete code dealing with interest deductibility. In circumstances where interest is not a payment on account of capital, it may be deducted as long as it meets the other requirements, such as those set out in s. 8(1)(*f*) or s. 18(1)(*a*), and is not precluded by some other section of the Act. *Gifford v. The Queen et al.,* 2004 DTC 6120 (S.C.C.), affirming 2002 DTC 7197 (F.C.A.), reversing 2001 DTC 168 (T.C.C.).

The taxpayer entered into a series of transactions designed to create an interest deduction. The direct use of the borrowed funds was to purchase shares in a company to earn dividend income. While this met the requirements of s. 20(1)(*c*), the deduction was denied because it artificially reduced the taxpayer's income, contrary to the 1987 version of s. 245(1). *Novopharm Limited v. The Queen,* 2003 DTC 5195 (F.C.A.), affirming 2002 DTC 1307 (T.C.C.).

The taxpayer issued a promissory note to dissatisfied shareholders to redeem their shares in settling a dispute. Interest on the note was deductible since the note replaced paid-up capital and retained earnings that were being used in the business and was therefore an acquisition of property. *Penn Ventilator Canada Limited v. The Queen,* 2002 DTC 1498 (T.C.C.).

The taxpayer and others purchased land which they immediately sold and leased back. They borrowed funds from the purchaser to construct an office building on the land. Cash flow above a certain amount was paid to the owner as either interest or rent based on a formula. Such "excess interest" payments were deductible. *Hill v. The Queen,* 2002 DTC 1749 (T.C.C.).

Interest relating to a highly leveraged condominium purchase fell within the scope of s. 20(1)(*c*). The rental activity lacked any personal element and was clearly a commercial activity. REOP was not the appropriate test. S. 20(1)(*c*) is not a tax avoidance mechanism and the taxpayer's hope of realizing an eventual capital gain with the expectation of deducting interest expenses, did not detract from the commercial nature of his rental operation, or its characterization as a source of income. *Stewart v. The Queen,* 2002 DTC 6969 (S.C.C.), reversing 2000 DTC 6163 (F.C.A.) and 98 DTC 1600 (T.C.C.).

The taxpayer borrowed funds which it loaned on an interest-free basis to a holding corporation, to enable the latter's parent to purchase V corporation. The interest was deductible because of "exceptional circumstances", namely that the taxpayer expected to earn business income from management fees and the take-over of some of V's operations. *The Queen v. Canadian Helicopters Limited,* 2002 DTC 6805 (F.C.A.), affirming 2001 DTC 339 (T.C.C.).

The taxpayers borrowed money to acquire the shares of two Panamanian corporations. Although the dividends they received were significantly less than the interest on the borrowed money, the bulk of the return being in capital gains, the interest was deductible since one of the purposes of the borrowed funds was to earn (dividend) income. It was not necessary to establish a prime or dominant purpose, and "income" means gross, not net income. *Ludco Enterprises Ltd. et al. v. The Queen,* 2001 DTC 5505 (S.C.C.), reversing 99 DTC 5153 (F.C.A.), 98 DTC 6045 (F.C.T.D.) and 93 DTC 1351 (T.C.C.).

The taxpayer withdrew funds from his law firm capital account and used this amount to assist in the purchase of a house. Later on the same day, he borrowed funds from a bank which he used to refinance his capital account. Interest on the loan was deductible because the transactions were viewed independently and the proceeds from the loan were used to earn income. *The Queen v. Singleton,* 2001 DTC 5533 (S.C.C.), affirming 99 DTC 5362 (F.C.A.) which reversed 96 DTC 1850 (T.C.C.).

The taxpayer invested in units of a limited partnership carrying on the business of renting apartments. Almost all of the purchase price was financed by arm's length borrowings. The Minister had argued that the taxpayer had no reasonable expectation of profit because his interest payments exceeded his income from the partnership. However, the partnership was a viable business with a reasonable expectation of profit and therefore the interest was deductible. *The Queen v. Milewski,* 2000 DTC 6559 (F.C.A.), affirming 99 DTC 968 (T.C.C.).

Interest was not deductible where the corporate taxpayer borrowed funds from a bank for the purpose of financing the purchase by a third party of the corporations which owned the taxpayer's issued and outstanding shares. *C.R.B. Logging Co. Ltd. v. The Queen,* 2000 DTC 6547 (F.C.A.), affirming 99 DTC 840 (T.C.C.).

A bank advanced $36 million to its subsidiary which then paid the bank a $45 million dividend. The subsidiary was denied a deduction for interest paid on the advanced funds because the direct use of the funds was to pay a dividend, which was an ineligible use. *The Chase Manhattan Bank of Canada v. The Queen,* 2000 DTC 6018 (F.C.A.), affirming 97 DTC 349 (T.C.C.).

Rather than borrowing in Canadian funds, the taxpayer borrowed foreign funds, converted these to Canadian funds, and entered into foreign exchange swap agreements to meet foreign currency interest and principal payments. Based on the S.C.C. decision in *The Queen v. Shell Canada Limited,* the interest paid on the foreign currency loans was deductible. *Canadian Pacific Limited v. The Queen,* 2000 DTC 6174 (F.C.A.), reversing 99 DTC 5132 (F.C.A.) and 98 DTC 2021 (T.C.C.).

Rather than borrowing in U.S. dollars at 9.1%, the taxpayer borrowed in New Zealand dollars at 15.4%, converted the funds into U.S. dollars (which it required for operations) and concurrently entered into a forward foreign exchange contract to hedge its N.Z. dollar obligations. The 15.4% interest was deductible because, between Shell and the lenders, the payments were consideration for the use of the N.Z. dollars that Shell had borrowed. The 15.4% rate was the N.Z. market rate between arm's length parties and therefore a reasonable rate. *Shell Canada Limited v. The Queen,* 99 DTC 5669 (S.C.C.), reversing 98 DTC 6177 (F.C.A.) which reversed in part 97 DTC 395 (T.C.C.).

Construction period interest may be treated as an expense, deductible under s. 20(1)(c), or may be capitalized under s. 21(1), but not otherwise. Capitalized interest is not part of the capital cost for ITC purposes. *Alberta Wheat Pool et al. v. The Queen,* 99 DTC 5198 (F.C.A.), affirming 96 DTC 1795 (T.C.C.).

The corporate taxpayer purchased its own debentures in the open market at a discounted purchase price which included accrued interest. The taxpayer was entitled to interest deductions in respect of the accrued interest. *Hudson Bay Mining and Smelting Co., Limited v. The Queen,* 99 DTC 5269 (F.C.A.), reversing 96 DTC 1246 (T.C.C.).

Corporate taxpayer used proceeds of a bank loan to pay off a guarantee which it had given, and thereby acquired control of two corporations which held lands relevant to a certain development project in which the taxpayer was interested. Interest on the loan was deductible. *Lewisporte Holdings Limited v. The Queen,* 99 DTC 253 (T.C.C.)

When the agreement reached during the course of a trial made no reference to a debenture held by the taxpayer's bank against all of its assets, the deduction by the taxpayer of interest on the debenture was disallowed on the ground that it had been "settled". *Central City Financial Services Ltd. v. The Queen,* 98 DTC 6645 (F.C.A.), affirming 98 DTC 1021 (T.C.C.).

In keeping with the new commercial realities, participating interest paid on the taxpayer's long-term bonds was deductible both as interest under s. 20(1)(c and as an expense incurred in the course of borrowing money under s. 20(1)(*e*). *The Queen v. Sherway Centre Limited,* 98 DTC 6121 (F.C.A.), affirming 96 DTC 1640 (T.C.C.).

Where property is exchanged for property acquired with a loan, the deduction under s. 20(1)(*c*) is based not on the value of the replacement property, but on the amount of the original loan. Accordingly, where a taxpayer acquired property worth $1,000 in exchange for a rollover of property purchased with a $1 million loan, he was entitled to continue to claim an interest deduction on the basis of the amount of that loan. *Tennant v. The Queen,* 96 DTC 6121 (S.C.C.), reversing 94 DTC 6505 (F.C.A.) and 93 DTC 5067 (F.C.T.D.).

A trust wanted to make capital allocations to the beneficiary but it did not want to liquidate any assets in order to do so. Instead, the trust borrowed the money and claimed a deduction for the interest paid on the borrowed money. The S.C.C. held that the interest was not deductible. Despite the fact that the borrowing could be characterized as indirectly preserving income, the trust in fact borrowed money for an ineligible direct purpose (i.e., making capital allocations to the beneficiary) and the deduction was therefore prohibited. *The Queen v. Bronfman Trust,* 87 DTC 5059 (S.C.C.), reversing 83 DTC 5243 (F.C.A.) and 79 DTC 5438 (F.C.T.D.), which reversed 78 DTC 1752 (T.R.B.).

► 20(1)(d) ◄

(d) Compound interest — an amount paid in the year pursuant to a legal obligation to pay interest on an amount that would be deductible under paragraph

(*c*) if it were paid in the year or payable in respect of the year;

Editorial Note: Compound interest is deductible only in the year in which it is paid, in contrast to simple interest which is effectively deductible on an accrual basis under paragraph 20(1)(*c*).

Related Sections: S. 20(2.1) Limitation of expression "interest"; s. 20(2.2) Limitation of expression "life insurance policy"; s. 21 Cost of borrowed money.
Interpretation Bulletins: *Secondary* — IT-104R3 Deductibility of Fines or Penalties; IT-121R3 Election to capitalize cost of borrowed money [Archived by the CRA]; IT-355R2 Interest on loans to buy life insurance policies and annuity contracts, and interest on policy loans [Archived by the CRA]; IT-362R Patronage dividends; IT-533 Interest Deductibility and Related Issues.
Tax Window Files: Compound Interest — Incurred with Respect to Vacant Land and Construction of Building, April 10, 2003, CRA Document No. 2002-0147295 [The restrictions in subsections 18(2) and (3.1) can apply to compound interest in the year it is paid and otherwise deductible under paragraph 20(1)(*d*)].

► 20(1)(e) ◄

(e) Expenses re financing — such part of an amount (other than an excluded amount) that is not otherwise deductible in computing the income of the taxpayer and that is an expense incurred in the year or a preceding taxation year

(i) in the course of an issuance or sale of units of the taxpayer where the taxpayer is a unit trust, of interests in a partnership or syndicate by the partnership or syndicate, as the case may be, or of shares of the capital stock of the taxpayer,

(ii) in the course of a borrowing of money used by the taxpayer for the purpose of earning income from a business or property (other than money used by the taxpayer for the purpose of acquiring property the income from which would be exempt),

(ii.1) in the course of incurring indebtedness that is an amount payable for property acquired for the purpose of gaining or producing income therefrom or for the purpose of gaining or producing income from a business (other than property the income from which would be exempt or property that is an interest in a life insurance policy), or

(ii.2) in the course of a rescheduling or restructuring of a debt obligation of the taxpayer or an assumption of a debt obligation by the taxpayer, where the debt obligation is

(A) in respect of a borrowing described in subparagraph (ii), or

(B) in respect of an amount payable described in subparagraph (ii.1),

and, in the case of a rescheduling or restructuring, the rescheduling or restructuring, as the case may be, provides for the modification of the terms or conditions of the debt obligation or the conversion or substitution of the debt obligation to or with a share or another debt obligation,

(including a commission, fee, or other amount paid or payable for or on account of services rendered by a person as a salesperson, agent or dealer in securities in the course of the issuance, sale or borrowing) that is the lesser of

(iii) that proportion of 20% of the expense that the number of days in the year is of 365 and

(iv) the amount, if any, by which the expense exceeds the total of all amounts deductible by the taxpayer in respect of the expense in computing the taxpayer's income for a preceding taxation year,

and, for the purposes of this paragraph,

(iv.1) "excluded amount" means

(A) an amount paid or payable as or on account of the principal amount of a debt obligation or interest in respect of a debt obligation,

(B) an amount that is contingent or dependent on the use of, or production from, property, or

(C) an amount that is computed by reference to revenue, profit, cash flow, commodity price or any other similar criterion or by reference to dividends paid or payable to shareholders of any class of shares of the capital stock of a corporation,

(v) where in a taxation year all debt obligations in respect of a borrowing described in subparagraph (ii) or in respect of indebtedness described in subparagraph (ii.1) are settled or extinguished (otherwise than in a transaction made as part of a series of borrowings or other transactions and repayments), by the taxpayer for consideration that does not include any unit, interest, share or debt obligation of the taxpayer or any person with whom the taxpayer does not deal at arm's length or any partnership or trust of which the taxpayer or any person with whom the taxpayer does not deal at arm's length is a member or beneficiary, this paragraph shall be read without reference to the words "the lesser of" and to subparagraph (iii), and

(vi) where a partnership has ceased to exist at any particular time in a fiscal period of the partnership,

(A) no amount may be deducted by the partnership under this paragraph in computing its income for the period, and

(B) there may be deducted for a taxation year ending at or after that time by any person or partnership that was a member of the partnership immediately before that time, that proportion of the amount that would, but for this subparagraph, have been deductible under this paragraph by the partnership in the fiscal period ending in the year had it continued to exist and had the partnership interest not been redeemed, acquired or cancelled, that the fair market value of the member's interest in the partnership immediately before that time is of the fair market value of all the interests in the partnership immediately before that time;

History: S. 20(1)(*e*), the portion before subparagraph (i) was amended by S.C. 2001, c. 17, s. 13(2), applicable to expenses incurred by a taxpayer after November 1999, other than expenses incurred pursuant to a written agreement made by the taxpayer before December 1999. S. 20(1)(*e*), the portion before subparagraph (i) formerly read:

"(*e*) *Expenses re financing* — such part of an amount that is not otherwise deductible in computing the income of the taxpayer and that is an expense incurred in the year or a preceding taxation year"

S. 20(1)(*e*), the portion after subparagraph (ii.2) and before subparagraph (iii) was amended by S.C. 2001, c. 17, s. 13(3), applicable to expenses incurred by a taxpayer after November 1999, other than expenses incurred pursuant to a written agreement made by the taxpayer before December 1999. S. 20(1)(*e*), the portion after subparagraph (ii.2) and before subparagraph (iii) formerly read:

"(including a commission, fee or other amount paid or payable for or on account of services rendered by a person as a salesperson, agent or dealer in securities in the course of the issuance, sale or borrowing, but not including any amount that is paid or payable as or on account of the principal amount of the indebtedness or as or on account of interest) that is the lesser of"

S. 20(1)(*e*)(iv.1) was added by S.C. 2001, c. 17, s. 13(4), applicable to expenses incurred by a taxpayer after November 1999, other than expenses incurred pursuant to a written agreement made by the taxpayer before December 1999.

S. 20(1)(*e*), the portion after subparagraph (ii.2) and before subparagraph (iii), was amended by S.C. 1998, c. 19, s. 81(1), applicable to expenses incurred after 1987. S. 20(1)(*e*), the portion after subparagraph (ii.2) and before subparagraph (iii), formerly read:

"(including a commission, fee or other amount paid or payable for or on account of services rendered by a person as a salesperson, agent or dealer in securities in the course of the issuance, sale or borrowing, but not including any amount that is a payment described in paragraph 18(9.1)(*c*) or (*d*) nor any amount paid or payable as or on account of the principal amount of the indebtedness or as or on account of interest) that is the lesser of"

S. 20(1)(*e*), the portion following subparagraph (ii) and preceding subparagraph (iii), was amended by S.C. 1994, c. 21, s. 12(1), applicable to expenses incurred after 1987. The portion formerly read:

"(including a commission, fee or other amount paid or payable for or on account of services rendered by a person as a salesman, agent or dealer in securities in the course of the issuance, sale or borrowing, but not including any amount paid or payable as or on account of the principal amount of the indebtedness or as or on account of interest) that is the lesser of"

S. 20(1)(*e*)(v) was amended by S.C. 1994, c. 21, s. 12(2), applicable to expenses incurred after 1987. S. 20(1)(*e*)(v) formerly read:

"(v) where in a taxation year all debt obligations in respect of a borrowing are settled or extinguished (otherwise than in a transaction made as part of a series of borrowings or other transactions and repayments) by the taxpayer for consideration that does not include any unit, interest, share or debt obligation of the taxpayer or any person with whom the taxpayer does not deal at arm's length or any partnership or trust of which the taxpayer or any person with whom the taxpayer does not deal at arm's length is a member or beneficiary, this paragraph shall be read without reference to the words 'the lesser of' and to subparagraph (iii), and"

Editorial Note: Effective generally after November 1999, participation payments and similar "excluded amounts" are not deductible under paragraph 20(1)(*e*); the provision was amended in this regard in response to the decision in *Sherway Centre Limited* (see "Cases", below).

Related Sections: S. 18(9.1) Penalties, bonuses and rate-reduction payments; s. 20(1)(*e.1*) Annual fees, etc.; s. 20(3) Borrowed money; s. 21 Cost of borrowed money; s. 53(2)(*c*) Amounts to be deducted — Interest in a partnership; s. 248(10) Series of transactions.

Interpretation Bulletins: *Primary* — IT-341R4 Expenses of issuing or selling shares, units in a trust, interests in a partnership or syndicate and expenses of borrowing money. *Secondary* — IT-121R3 Election to capitalize cost of borrowed money [Archived by the CRA].

Tax Topics: No. 1636, Investment Banking and Other Fees Incurred in Connection with Purchase and Sales of Shares.

Tax Profile: November 2003 — Current Cases; April 2000 — Participating Loan Arrangements.

Canadian Tax Foundation: Ebel, "Transaction Costs", *2005 Conference Report*, 35:1.

Canadian Petroleum Tax Journal: Canada Customs and Revenue Agency 1999 Roundtable Questions and Answers, Question 10, Vol. 13 No. 1 2000.

Tax Window Files: Expense of Borrowing Money, October 8, 2004, CRA Document No. 2004-0087021C6 [Member of a corporate group borrowed on behalf of the group and incurred costs in the course of the borrowing; a reimbursement of those costs by another member of the group deductible under subparagraph 20(1)(*e*)(iii)]; Financing Costs Incurred During Construction of Building, February 24, 2004, CRA Document No. 2004-0056861E5 [Interaction of subsection 18(3.1) and paragraph 20(1)(*e*)]; Demutualization Expenses, October 24, 2003, CRA Document No. 2003-0183447; Guarantee Fee, May 13, 2003, CRA Document No. 2003-0013655 [Payment made in the course of borrowing money, as consideration for a lender agreeing to charge a borrower a lower interest rate than the borrower could otherwise negotiate with another lender, could be deductible under paragraph 20(1)(*e*)]; Deductibility of Break-Up Fee, March 5, 2003, CRA Document No. 2002-0151425; Investment Banker Fees, March 4, 2003, CRA Document No. 2002-0151485; Cost of Issuing Units of Mutual Fund, April 25, 2001, CRA Document No. 2001-0076585 [Undeducted balance of trust unit issuance fees greater than 20% of total fees not deductible in the year of windup of the unit trust under paragraph 20(1)(*e*). No provision analogous to that for repayment of debt]; Financing Expenses, November 15, 1999, CRA Document No. 9926245; Restructuring Mortgage Interest Payments, August 15, 1997, CRA Document No. 9720045 [Paragraph 20(1)(*e*) applied to restructuring or rescheduling payment which included an interest rate reduction].

Cases: Financial and legal expenses incurred in defending against a hostile takeover bid were deductible under s. 20(1)(*e*) as expenses incurred during the eventual sale of the target corporation's shares. *BJ Services Company Canada v. The Queen*, 2004 DTC 2032 (T.C.C.).

The taxpayer entered into a series of transactions designed to create an interest deduction. Because the interest deduction artificially reduced the taxpayer's income, the interest deduction, along with the deduction of a related loan arrangement fee, were denied on the basis of the 1987 version of s. 245(1). *Novopharm Limited v. The Queen*, 2003 DTC 5195 (F.C.A.), affirming 2002 DTC 1307 (T.C.C.).

The taxpayer hired a firm of financial advisors which recommended a share for share exchange arrangement under which taxpayer's shareholders would become shareholders of a third party. The fee paid to the financial advisors was deductible under s. 18(1)(*a*) but there were also "respectable arguments" that it may have been deductible under s. 20(1)(*e*), even though it was a sale by shareholders and not by the corporation itself. *International Colin Energy Corporation v. The Queen*, 2002 DTC 2185 (T.C.C.).

In keeping with the new commercial realities, participating interest paid on the taxpayer's long-term bonds was deductible both as interest under s. 20(1)(*c*) and as an expense incurred in the course of borrowing money under s. 20(1)(*e*). *The Queen v. Sherway Centre Limited*, 98 DTC 6121 (F.C.A.), affirming 96 DTC 1640 (T.C.C.).

A company which was required under a loan agreement to pay 1% of its gross rental income from its new office building for 25 years to the company that had helped to finance the project was entitled to deduct these payments from its income. *M.N.R. v. Yonge-Eglinton Building Ltd.*, 74 DTC 6180 (F.C.A.), affirming 72 DTC 6465 (F.C.T.D.).

► 20(1)(e.1) ◄

(e.1) Annual fees, etc. — an amount payable by the taxpayer (other than a payment that is contingent or dependent on the use of, or production from, property or is computed by reference to revenue, profit, cash flow, commodity price or any other similar criterion or by reference to dividends paid or payable to shareholders of any class of shares of the capital stock of a corporation) as a standby charge, guarantee fee, registrar fee, transfer agent fee, filing fee, service fee or any similar fee, that can reasonably be considered to relate solely to the year and that is incurred by the taxpayer

(i) for the purpose of borrowing money to be used by the taxpayer for the purpose of earning income from a business or property (other than borrowed money used by the taxpayer for the purpose of acquiring property the income from which would be exempt income),

(ii) in the course of incurring indebtedness that is an amount payable for property acquired for the purpose of gaining or producing income therefrom or for the purpose of gaining or producing income from a business (other than property the income from which would be exempt or property that is an interest in a life insurance policy), or

(iii) for the purpose of rescheduling or restructuring a debt obligation of the taxpayer or an assumption of a debt obligation by the taxpayer, where the debt obligation is

(A) in respect of a borrowing described in subparagraph (i), or

(B) in respect of an amount payable described in subparagraph (ii),

and, in the case of a rescheduling or restructuring, the rescheduling or restructuring, as the case may be, provides for the modification of the terms or conditions of the debt obligation or the conversion or substitution of the debt obligation to or with a share or another debt obligation.

History: S. 20(1)(e.1) was amended by S.C. 1994, c. 21, s. 12(3), applicable to expenses incurred after 1987. S. 20(1)(e.1) formerly read:

"(e.1) an amount payable by the taxpayer (other than a payment that is contingent or dependent on the use or production from property or is

computed by reference to revenue, profit, cash flow, commodity price or any other similar criterion or by reference to dividends paid or payable to shareholders of any class of shares of the capital stock of a corporation) as a standby charge, guarantee fee, registrar fee, transfer agent fee, filing fee, service fee or any similar fee, that may reasonably be considered to relate solely to the year and that relates to money borrowed by the taxpayer and used by the taxpayer for the purpose of earning income from a business or property (other than money used by the taxpayer for the purpose of acquiring property the income from which would be exempt);"

Related Sections: S. 20(3) Borrowed money.
Interpretation Bulletins: *Primary* — IT-341R4 Expenses of issuing or selling shares, units in a trust, interests in a partnership or syndicate, and expenses of borrowing money.

► 20(1)(e.2) ◄

(e.2) Premiums on life insurance used as collateral — such portion of the lesser of

(i) the premiums payable by the taxpayer under a life insurance policy (other than an annuity contract) in respect of the year, where

(A) an interest in the policy is assigned to a restricted financial institution in the course of a borrowing from the institution,

(B) the interest payable in respect of the borrowing is or would, but for subsections 18(2) and (3.1) and sections 21 and 28, be deductible in computing the taxpayer's income for the year, and

(C) the assignment referred to in clause (A) is required by the institution as collateral for the borrowing

and

(ii) the net cost of pure insurance in respect of the year, as determined in accordance with the regulations, in respect of the interest in the policy referred to in clause (i)(A),

as can reasonably be considered to relate to the amount owing from time to time during the year by the taxpayer to the institution under the borrowing;

History: S. 20(1)(e.2) was added by S.C. 1994, c.7, Sched. II, s. 15(2), applicable to premiums payable after 1989.

Editorial Note: It is not necessary that the person claiming the deduction under paragraph 20(1)(e.2) be the person whose life is insured under the policy. Thus, for example, a corporation with a life insurance policy on the life of one of its executives may claim the deduction.

Regulations: 308(1), 308(1.1).
Interpretation Bulletins: *Primary* — IT-309R2 Premiums on life insurance used as collateral. *Secondary* — IT-341R4 Expenses of issuing or selling shares, units in a trust, interests in a partnership or syndicate, and expenses of borrowing money;
Tax Topics: No. 1681, Life Insurance: Exploring the Corporate Edge — Part I.
Tax Profile: September 2004 — Review of Tax Implications of Corporate-Owned Life Insurance Buy-Sell Arrangements.
Tax Window Files: Deductibility of Life Insurance and Disability Insurance Premiums — Loan Collateral, March 31, 2005, CRA Document No. 2004-0093651E5.

► 20(1)(f) ◄

(f) Discount on certain obligations — an amount paid in the year in satisfaction of the principal amount of any bond, debenture, bill, note, mortgage, hypothecary claim or similar obligation issued by the taxpayer after June 18, 1971 on which interest was stipulated to be payable, to the extent that the amount so paid does not exceed,

(i) in any case where the obligation was issued for an amount not less than 97% of its principal amount, and the yield from the obligation, expressed in terms of an annual rate on the amount for which the obligation was issued (which annual rate shall, if the terms of the obligation or any agreement relating thereto conferred on its holder a right to demand payment of the principal amount of the obligation or the amount outstanding as or on account of its principal amount, as the case may be, before the maturity of the obligation, be calculated on the basis of the yield that produces the highest annual rate obtainable either on the maturity of the obligation or conditional on the exercise of any such right) does not exceed 4/3 of the interest stipulated to be payable on the obligation, expressed in terms of an annual rate on

(A) the principal amount of the obligation, if no amount is payable on account of the principal amount before the maturity of the obligation, or

(B) the amount outstanding from time to time as or on account of the principal amount of the obligation, in any other case,

the amount by which the lesser of the principal amount of the obligation and all amounts paid in the year or in any preceding year in satisfaction of its principal amount exceeds the amount for which the obligation was issued, and

(ii) in any other case, 1/2 of the lesser of the amount so paid and the amount by which the lesser of the principal amount of the obligation and all amounts paid in the year or in any preceding taxation year in satisfaction of its principal amount exceeds the amount for which the obligation was issued;

History: S. 20(1)(*f*), the portion before subparagraph (i) was amended by S.C. 2001, c. 17, s. 203(1), applicable on Royal Assent, June 14, 2001. S. 20(1)(*f*), the portion before subparagraph (i) formerly read:

"(*f*) *Discount on certain obligations* — an amount paid in the year in satisfaction of the principal amount of any bond, debenture, bill, note, mortgage or similar obligation issued by the taxpayer after June 18, 1971 on which interest was stipulated to be payable, to the extent that the amount so paid does not exceed,"

S. 20(1)(*f*)(ii) was amended by S.C. 2001, c. 17, s. 13(5), by replacing the reference to the fraction "3/4" with a reference to the fraction "1/2", applicable in respect of amounts that become payable after February 27, 2000 except that, for amounts that became payable after February 27, 2000 and before October 18, 2000, the reference to the fraction "1/2" in subparagraph 20(1)(*f*)(ii) of the Act shall be read as a reference to the fraction "2/3".

Editorial Note: Paragraph 20(1)(*f*) only applies if the discount is part of the principal amount of the debt obligation, so that it does not apply, for example, to a discount that is considered interest.

Related Sections: S. 18(1)(*f*) Payments on discounted bonds; s. 18(11) Borrowed money used for contribution; s. 110.6(1) Definitions — fair market value of NISA; s. 127.52(1) Adjusted taxable income determined.
Interpretation Bulletins: *Secondary* — IT-341R4 Expenses of issuing or selling shares, units in a trust, interests in a partnership or syndicate, and expenses of borrowing money; IT-533 Interest Deductibility and Related Issues.
Income Tax Technical News: Issue No. 25, Foreign Exchange Losses.
Tax Topics: No. 1826, Recognition of FX Gains and Losses in Doubt After Supreme Court Decision; No. 1814, 2006 Canadian Tax Foundation Annual Conference CRA Round Table; No. 1808, Supreme Court Rules FX Losses Not Deductible as "Discounts"; No. 1683, *Imperial Oil Limited v. The Queen.*
Cases: The taxpayer issued convertible debentures with a conversion rate of $10/share. They were not issued at a discount. Most of the debentures were later converted into shares with a market value of $13 to $14. The taxpayer could not claim a s. 20(1)(*f*) deduction for the difference between the market value of the shares issued on the conversion date and the amount received for the debentures on the issuance date. *Provigo Inc. et al. v. The Queen*, 2008 DTC 6601 (F.C.A.), affirming 2008 DTC 3232 (T.C.C.).

The taxpayers redeemed U.S. dollar debentures which had been issued at a discount. Foreign exchange losses incurred on the redemption were not deductible under s. 20(1)(*f*) and could only be claimed as a capital loss under

s. 39. *The Queen v. Imperial Oil Limited and Inco Limited*, 2006 DTC 6639 (S.C.C.), reversing 2004 DTC 6702 (F.C.A.) and affirming 2004 DTC 2377 (T.C.C.) re *Imperial Oil*, and reversing 2005 DTC 5109 (F.C.A.) and affirming 2004 DTC 3586 (T.C.C.) re *Inco*.

► 20(1)(g) ◄

(g) Share transfer and other fees — where the taxpayer is a corporation,

(i) an amount payable in the year as a fee for services rendered by a person as a registrar of or agent for the transfer of shares of the capital stock of the taxpayer or as an agent for the remittance to shareholders of the taxpayer of dividends declared by it,

(ii) an amount payable in the year as a fee to a stock exchange for the listing of shares of the capital stock of the taxpayer, and

(iii) an expense incurred in the year in the course of printing and issuing a financial report to shareholders of the taxpayer or to any other person entitled by law to receive the report;

► 20(1)(h) ◄

(h) Certification fee paid to a bank — [Repealed by 1984, c. 45, s. 10(1).]

► 20(1)(i) ◄

(i) Sale of bill — [Repealed by 1984, c. 45, s. 10(1).]

► 20(1)(j) ◄

(j) Repayment of loan by shareholder — such part of any loan or indebtedness repaid by the taxpayer in the year as was by virtue of subsection 15(2) included in computing the taxpayer's income for a preceding taxation year (except to the extent that the amount of the loan or indebtedness was deductible from the taxpayer's income for the purpose of computing the taxpayer's taxable income for that preceding taxation year), if it is established by subsequent events or otherwise that the repayment was not made as part of a series of loans or other transactions and repayments;

Editorial Note: *Bona fide* repayments of shareholder loans that result from the payment of dividends, salaries, or bonuses are not considered part of a series of loans or other transactions and repayments; see paragraphs 29 and 31 of Interpretation Bulletin IT-119R4.

Related Sections: S. 248(10) Series of transactions.
Interpretation Bulletins: *Secondary* — IT-119R4 Debts of shareholders and certain persons connected with shareholders
Tax Window Files: Shareholder Loan — Non-resident, October 11, 2002, CRA Document No. 2002-0156915

► 20(1)(k) ◄

(k) Combined income and capital — [Repealed by 1988, c. 55, s. 12(4).]

► 20(1)(l) ◄

(l) Doubtful or impaired debts — a reserve determined as the total of

(i) a reasonable amount in respect of doubtful debts (other than a debt to which subparagraph (ii) applies) that have been included in computing the taxpayer's income for the year or a preceding taxation year, and

(ii) where the taxpayer is a financial institution (as defined in subsection 142.2(1)) in the year or a taxpayer whose ordinary business includes the lending of money, an amount in respect of properties (other than mark-to-market properties, as defined in that subsection) that are

(A) impaired loans or lending assets that are specified debt obligations (as defined in that subsection) of the taxpayer, or

(B) impaired loans or lending assets that were made or acquired by the taxpayer in the ordinary course of the taxpayer's business of insurance or the lending of money

equal to the total of

(C) the percentage (not exceeding 100%) that the taxpayer claims of the prescribed reserve amount for the taxpayer for the year, and

(D) in respect of loans, lending assets or specified debt obligations that are impaired and for which an amount is not deductible for the year because of clause (C) (each of which in this clause is referred to as a "loan"), the taxpayer's specified percentage for the year of the lesser of

(I) the total of all amounts each of which is a reasonable amount as a reserve (other than any portion of which is in respect of a sectoral reserve) for a loan in respect of the amortized cost of the loan to the taxpayer at the end of the year, and

(II) the amount determined by the formula

$$0.9M - N$$

where

M is the amount that is the taxpayer's reserve or allowance for impairment (other than any portion of the amount that is in respect of a sectoral reserve) for all loans that is determined for the year in accordance with generally accepted accounting principles, and

N is the total of all amounts each of which is the specified reserve adjustment for a loan (other than an income bond, an income debenture, a small business bond or small business development bond) for the year or a preceding taxation year;

History: S. 20(1)(*l*) was amended by S.C. 1998, c. 19, s. 81(4), applicable
(*a*) to taxation years that end after September 1997; and
(*b*) to a taxpayer's taxation years that end after 1995 and before October 1997 where the taxpayer elects in writing to have subsection (4) apply to the year and files the election with the Minister of National Revenue by September 30, 1998.

S. 20(1)(*l*) formerly read:

"(*l*) *Reserve for doubtful debts* — a reserve determined as the total of
(i) a reasonable amount in respect of doubtful debts that have been included in computing the income of the taxpayer for that year or a preceding year, and
(ii) where the taxpayer is a financial institution (as defined in subsection 142.2(1)) in the year or a taxpayer whose ordinary business includes the lending of money, an amount in respect of properties (other than mark-to-market properties, as defined in that subsection) that are doubtful loans or lending assets that were made or acquired by the taxpayer in the ordinary course of the taxpayer's business of insurance or the lending of money or that were specified debt obligations (as defined in that subsection) of the taxpayer, equal to the total of
(A) the prescribed reserve amount for the taxpayer for the year, and
(B) in respect of doubtful loans or lending assets for which an amount was not deducted for the year by reason of clause (A) (in this clause referred to as the 'loans'), the lesser of
(I) a reasonable amount as a reserve for the loans in respect of the amortized cost of the loans to the taxpayer at the end of the year, and
(II) the product obtained when the total of
1. that part of the reserve for the loans reported in the financial statements of the taxpayer for the year that is in respect of the

amortized cost to the taxpayer at the end of the year of the loans, and

2. the total of all amounts included under subsection 12(3) or paragraph 142.3(1)(*a*) in computing the taxpayer's income for the year or a preceding taxation year to the extent that those amounts reduced the part of the reserve referred to in sub-subclause 1

is multiplied by one minus the prescribed recovery rate,

or such lesser amount as the taxpayer may claim where the lesser amount is the total of a percentage of the amount determined under clause (A) and the same percentage of the amount determined under clause (B);"

S. 20(1)(*l*)(ii), the portion before clause (A), was amended by S.C. 1998, c. 19, s. 81(2), applicable to taxation years that end after February 22, 1994. S. 20(1)(*l*)(ii), the portion before clause (A), formerly read:

"(ii) an amount in respect of doubtful loans or lending assets of a taxpayer who was an insurer or whose ordinary business included the lending of money, made or acquired by the taxpayer in the ordinary course of the taxpayer's business of insurance or the lending of money, equal to the total of"

S. 20(1)(*l*)(ii)(B)(II)2 was amended by S.C. 1998, c. 19, s. 81(3), applicable to taxation years that end after February 22, 1994. S. 20(1)(*l*)(ii)(B)(II)2 formerly read:

"2. the total of all amounts included in computing the taxpayer's income under subsection 12(3) for the year or a preceding taxation year to the extent that those amounts reduced the part of the reserve referred to in sub-subclause 1"

Editorial Note: The amount claimed as a doubtful or impaired debt reserve is included in income in the following taxation year under paragraph 12(1)(*d*), and a reserve may be claimed in that following year if the debt remains doubtful or impaired.

Related Sections: S. 12(1)(*d*) Reserve for doubtful debts; s. 20(27) Loans, etc., acquired in ordinary course of business; s. 22(1) Sale of accounts receivable; s. 79 Surrender of property by debtor; s. 87(2)(*h*) Debts; s. 138(5) Deductions not allowed; and ITAR s. 23(5) Definitions.

Regulations: 8000; 8002; 8003; 8005; 8006.

Interpretation Bulletins: *Primary* — IT-442R Bad debts and reserves for doubtful debts. *Secondary* — IT-291R3 Transfer of property to a corporation under subsection 85(1); IT-505 Mortgage foreclosures and conditional sales repossessions [Archived by the CRA].

Advance Tax Rulings: ATR-6 Vendor reacquires business assets following default by purchaser.

Forms: T2 SCH 13.

Tax Window Files: Transfer of Impaired Specified Debt Obligations, November 21, 2002, CRA Document No. 2002-0148037; Financial Institution — Doubtful or Impaired Debt Reserves, March 22, 1999, CRA Document No. 9901865 [Possibility of pooling loans with similar characteristics and applying a historical loss factor]; Interest Income Subject to a Contingency, March 24, 1998, CRA Document No. 9806325; Money lending business, March 6, 1995, CRA Document No. 9430707.

Cases: The taxpayer sold a building and claimed a reserve for doubtful accounts based on the assumption that the security he held for payment of the purchase price had deteriorated in value. The reserve could not be deducted because the taxpayer had not included amounts payable under the contract of sale in his income. Also, there had been no objective basis supporting the taxpayer's calculation of the reserve amount. *Langdon v. The Queen*, 2000 DTC 6203 (F.C.A.), affirming 98 DTC 1690 (T.C.C.).

A taxpayer claimed a reserve of $3,084,000 for doubtful debts, using the same generally accepted accounting principles it used for calculating doubtful accounts for financial statements. This method was accepted but the reserve was reduced to $2,921,000. *The Queen v. Coppley Noyes & Randall Ltd.*, 93 DTC 5196 (F.C.A.), reversing 91 DTC 5291 (F.C.T.D.).

► 20(1)(l.1) ◄

(l.1) Reserve for guarantees, etc. — a reserve in respect of credit risks under guarantees, indemnities, letters of credit or other credit facilities, bankers' acceptances, interest rate or currency swaps, foreign exchange or other future or option contracts, interest rate protection agreements, risk participations and other similar instruments or commitments issued, made or assumed by a taxpayer who was an insurer or whose ordinary business included the lending of money in favour of persons with whom the taxpayer deals at arm's length in the ordinary course of the taxpayer's business of insurance or the lending of money, equal to the lesser of

(i) a reasonable amount as a reserve for credit risk losses of the taxpayer expected to arise after the end of the year under or in respect of those instruments or commitments, and

(ii) 90% of the reserve for credit risk losses of the taxpayer expected to arise after the end of the year under or in respect of those instruments or commitments determined for the year in accordance with generally accepted accounting principles,

or such lesser amount as the taxpayer may claim;

History: S. 20(1)(*l.1*)(ii) was amended by S.C. 1998, c. 19, s. 81(5), applicable

(*a*) to taxation years that end after September 1997; and

(*b*) to a taxpayer's taxation years that end after 1995 and before October 1997 where the taxpayer elects in writing to have subsection (4) apply to the year and files the election with the Minister of National Revenue by September 30, 1998.

S. 20(1)(*l.1*)(ii) formerly read:

"(ii) the product obtained when the reserve for credit risk losses of the taxpayer expected to arise after the end of the year under or in respect of those instruments or commitments reported in the financial statements of the taxpayer for the year is multiplied by one minus the prescribed recovery rate,"

Related Sections: S. 12(1)(*d.1*) Reserve for guarantees, etc.; s. 20(27) Loans, etc., acquired in ordinary course of business; s. 87(2)(*h*) Debts.

Regulations: 8001.

Forms: T2 SCH 13.

Cases: The taxpayer sold a building and claimed a reserve for doubtful accounts based on the assumption that the security he held for payment of the purchase price had deteriorated in value. The reserve could not be deducted because the taxpayer had not included amounts payable under the contract of sale in his income. Also, there had been no objective basis supporting the taxpayer's calculation of the reserve amount. *Langdon v. The Queen*, 2000 DTC 6203 (F.C.A.), affirming 98 DTC 1690 (T.C.C.).

► 20(1)(m) ◄

(m) Reserve in respect of certain goods and services — subject to subsection (6), where amounts described in paragraph 12(1)(*a*) have been included in computing the taxpayer's income from a business for the year or a previous year, a reasonable amount as a reserve in respect of

(i) goods that it is reasonably anticipated will have to be delivered after the end of the year,

(ii) services that it is reasonably anticipated will have to be rendered after the end of the year,

(iii) periods for which rent or other amounts for the possession or use of land or chattels have been paid in advance, or

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 20(1)(*m*)(iii) of the Act is replaced by the following:

(iii) periods for which rent or other amounts for the possession or use of land or of chattels or movables have been paid in advance, or

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(iv) repayments under arrangements or understandings of the class described in subparagraph 12(1)(*a*)(ii) that it is reasonably anticipated will have to be made after the end of the year on the return or resale to the taxpayer of articles other than bottles;

Editorial Note: The paragraph 20(1)(*m*) reserve does not apply to receipts of prepaid rent that is (or will be) income from property, nor does it apply to receipts of prepaid interest or prepayments for the sale of land (land is apparently not a "good"). However, in the past, the CRA has indicated that the inclusion of prepaid rent that is income from property can be deferred to the year to which it relates, in accordance with financial accounting principles; see Interpretation Bulletin IT-261R. The *Ellis Vision* decision (2004 DTC 2024 (T.C.C.)) (see "Cases", below) indicates that the reserve can apply to amounts included under section 9 profit, as long as they are amounts described in paragraph 12(1)(*a*).

Related Sections: S. 12(1)(*e*) Reserves for certain goods and services, etc.; s. 20(7) Where para. (1)(m) does not apply; s. 20(24) Amounts paid for undertaking future obligations; s. 32(1) Insurance agents and brokers; s. 34 Professional business; s. 87(2)(*j*) Special reserves.

Interpretation Bulletins: *Primary* — IT-154R Special reserves. *Secondary* — IT-92R2 Income of contractors; IT-165R Returnable containers [Archived by the CRA]; IT-261R Prepayments of rents; IT-321R Insurance agents and brokers — Unearned commissions [Archived by the CRA].

Income Tax Technical News: Issue No. 32, Reserve for Prepaid Amount: Impact of the *Ellis Vision* Case.

Forms: T2 SCH 13.

Tax Topics: No. 1700, 2004 Canadian Tax Foundation Conference - CRA Round Table; No. 1598, Prepayments and the "Quality of Income".

Tax Profile: November 2004 — Reserve for Pre-paid Amount — Impact of Ellis Vision; November 2003 — Revenue Canada Round Table.

Canadian Tax Foundation: Frankovic, "The Taxation of Prepaid Income", *2002 Canadian Tax Journal*, No. 4, 1239.

Tax Window Files: Site Reclamation Costs, September 27, 2004, CRA Document No. 2003-0048241E5 [A reserve may be claimed where a taxpayer has received a specifically identifiable amount in respect of the future reclamation costs which it is obligated to incur and the amount is included in the taxpayer's income under paragraph 12(1)(*a*)]; Software Maintenance Agreements, October 7, 2003, CRA Document No. 2003-0037947 [Reserve allowed for portion of payments made under computer software maintenance agreement, based on elements of maintenance plan not in the nature of an indemnity]; Computer Software Maintenance Agreements, December 4, 2001, CRA Document No. 2001-0110895 [No reserve allowed for computer software and hardware maintenance fees (by virtue of paragraph 20(7)(*a*)) owing to contingent nature of obligations].

Cases: Licence fees received in advance for the future use of television productions were eligible for a s. 20(1)(*m*) reserve. The reference to "amounts described in paragraph 12(1)(*a*)" does not mean only amounts that were included in income *by virtue of* s. 12(1)(*a*). *Ellis Vision Incorporated v. The Queen*, 2004 DTC 2024 (T.C.C.).

Revenue from the sale of season passes to a recreational facility was included in income but the taxpayer could claim a reserve in respect of services to be rendered after the end of the year. Since the services would all be rendered after October 31, it was reasonable that the entire amount should be deductible as a reserve. *Blue Mountain Resorts Limited v. The Queen*, 2002 DTC 1886 (T.C.C.).

A waste disposal company was required to perform various tasks associated with reconstituting dump sites for thirty years following the closing thereof. A portion of the fees charged by the taxpayer was intended to meet those future costs. This amount was deductible as a reserve since it was not "earned" in the year it was received. *Deputy Minister of Revenue for Quebec v. La Compagnie Meloche Inc.*, 2002 DTC 7169 (Que. C.A.).

The taxpayer operated a club and charged its new members an initiation fee which was amortized over 10 years. There was no basis for the amortization since the initiation fees were earned in the year of receipt. The taxpayer had, in effect, deducted a reserve under s. 20(1)(*m*). However, it would be a gross distortion of the taxpayer's income picture if the entire balance of its "Deferred Initiation Fees" account were to be taxed in one year under s. 12(1)(*e*). *Argus Holdings Limited v. The Queen*, 2000 DTC 6681 (F.C.A.), reversing 99 DTC 597 (T.C.C.).

Progress payments received by the taxpayer for the construction of ships had the quality of income when received. Because these amounts were earned, the taxpayer was not entitled to claim a reserve on them. *Burrard Yarrows Corporation v. The Queen*, 88 DTC 6352 (F.C.A.), affirming (F.C.T.D.) 86 DTC 6459.

► 20(1)(m.1) ◄

(m.1) Manufacturer's warranty reserve — where an amount described in paragraph 12(1)(*a*) has been included in computing the taxpayer's income from a business for the year or a preceding taxation year, a reasonable amount as a reserve in respect of goods or services that it is reasonably anticipated will have to be delivered or rendered after the end of the year pursuant to an agreement for an extended warranty

(i) entered into by the taxpayer with a person with whom the taxpayer was dealing at arm's length, and

(ii) under which the only obligation of the taxpayer is to provide those goods or services with respect to property manufactured by the taxpayer or by a corporation related to the taxpayer,

not exceeding that portion of the amount paid or payable by the taxpayer to an insurer that carries on an insurance business in Canada to insure the taxpayer's liability under the agreement in respect of an outlay or expense made or incurred after December 11, 1979 and in respect of the period after the end of the year;

Interpretation Bulletins: *Primary* — IT-154R Special reserves.

Forms: T2 SCH 13.

► 20(1)(m.2) ◄

(m.2) Repayment of amount previously included in income — a repayment in the year by the taxpayer of an amount required by paragraph 12(1)(*a*) to be included in computing the taxpayer's income from a business for the year or a preceding taxation year;

Interpretation Bulletins: *Primary* — IT-154R Special reserves.

► 20(1)(n) ◄

(n) Reserve for unpaid amounts — where an amount included in computing the taxpayer's income from the business for the year or for a preceding taxation year in respect of property sold in the course of the business is payable to the taxpayer after the end of the year and, except where the property is real property, all or part of the amount was, at the time of the sale, not due until at least 2 years after that time, a reasonable amount as a reserve in respect of such part of the amount as can reasonably be regarded as a portion of the profit from the sale;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 20(1)(*n*) of the Act is replaced by the following:

(n) Reserve for unpaid amounts — where an amount included in computing the taxpayer's income from the business for the year or for a preceding taxation year in respect of property sold in the course of the business is payable to the taxpayer after the end of the year and, except where the property is real or immovable property, all or part of the amount was, at the time of the sale, not due until at least 2 years after that time, a reasonable amount as a reserve in respect of such part of the

amount as can reasonably be regarded as a portion of the profit from the sale;

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

History: S. 20(1)(*n*) was amended by S.C. 1995, c. 21, s. 6(1), applicable to taxation years that end after February 21, 1994. S. 20(1)(*n*) formerly read:

"(*n*) *Reserve for amount not due until later year* — where an amount has been included in computing the taxpayer's income from the business for the year or for a previous year in respect of property sold in the course of the business and that amount or a part thereof is not due,

(i) where the property sold is property other than land, until a day that is

(A) more than 2 years after the day on which the property was sold, and

(B) after the end of the taxation year, or

(ii) where the property sold is land, until a day that is after the end of the taxation year,

a reasonable amount as a reserve in respect of such part of the amount so included in computing the income as may reasonably be regarded as a portion of the profit from the sale;"

Editorial Note: By virtue of subsection 20(8), the reserve under paragraph 20(1)(*n*) is generally not available after the second taxation year following the year of sale (more particularly, it is not allowed in a year if the sale occurred more than 36 months before the end of the year).

Related Sections: S. 12(1)(*e*) Reserves for certain goods and services, etc.; s. 20(8) No deduction in respect of property in certain circumstances; s. 66.2(2) Deduction for cumulative Canadian development expenses; s. 66.4(2) Deduction for cumulative Canadian oil and gas property expense; s. 72 Reserves, etc., for year of death; s. 79 Surrender of property by debtor; s. 87(2)(*i*) Special reserve.

Interpretation Bulletins: *Primary* — IT-152R3 Special reserves — Sale of land; IT-154R Special reserves; IT-436R Reserves — Where promissory notes are included in disposal proceeds. *Secondary* — IT-505 Mortgage foreclosures and conditional sales repossessions [Archived by the CRA].

Information Circulars: IC 88-2 General anti-avoidance rule — Section 245 of the Income Tax Act.

Forms: T2 SCH 13; T2069.

Tax Window Files: Continuity of Reserves on Dissolution of Partnership, November 20, 2003, CRA Document No. 2003-0033545 [Where partnership dissolves, reserves formerly claimed under 20(1)(*m*) and (*n*) can continue to be claimed by sole proprietor to whom subsection 98(5) applies].

► 20(1)(o) ◄

(o) Reserve for quadrennial survey — such amount as may be prescribed as a reserve for expenses to be incurred by the taxpayer by reason of quadrennial or other special surveys required under the *Canada Shipping Act*, or the regulations under that Act, or under the rules of any society or association for the classification and registry of shipping approved by the Minister of Transport for the purposes of the *Canada Shipping Act*;

Related Sections: S. 12(1)(*h*) Previous reserve for quadrennial survey.
Regulations: 3600.
Forms: T2 SCH 13.

► 20(1)(p) ◄

(p) Bad debts — the total of

(i) all debts owing to the taxpayer that are established by the taxpayer to have become bad debts in the year and that have been included in computing the taxpayer's income for the year or a preceding taxation year, and

(ii) all amounts each of which is that part of the amortized cost to the taxpayer at the end of the year of a loan or lending asset (other than a mark-to-market property, as defined in subsection 142.2(1)) that is established in the year by the taxpayer to have become uncollectible and that,

(A) where the taxpayer is an insurer or a taxpayer whose ordinary business includes the lending of money, was made or acquired in the ordinary course of the taxpayer's business of insurance or the lending of money, or

(B) where the taxpayer is a financial institution (as defined in subsection 142.2(1)) in the year, is a specified debt obligation (as defined in that subsection) of the taxpayer;

History: S. 20(1)(*p*)(ii) was amended by S.C. 1998, c. 19, s. 81(6), applicable to taxation years that end after February 22, 1994. S. 20(1)(*p*)(ii) formerly read:

"(ii) all amounts each of which is that part of the amortized cost to the taxpayer at the end of the year of a loan or lending asset made or acquired in the ordinary course of business by a taxpayer who was an insurer or whose ordinary business included the lending of money established by the taxpayer to have become uncollectable in the year;"

Editorial Note: Bad debts that are subsequently recovered are included in income under paragraph 12(1)(*i*).

Related Sections: S. 12(1)(*i*) Bad debts recovered; s. 20(27) Loans, etc., acquired in ordinary course of business; s. 22(1) Sale of accounts receivable; s. 79 Surrender of property by debtor; s. 87(2)(*g*) Reserves; s. 87(2)(*h*) Debts.

Interpretation Bulletins: *Primary* — IT-442R Bad debts and reserves for doubtful debts. *Secondary* — IT-123R6 Transactions involving eligible capital property; IT-159R3 Capital debts established to be bad debts; IT-291R3 Transfer of property to a corporation under subsection 85(1); IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA]; IT-505 Mortgage foreclosures and conditional sales repossessions [Archived by the CRA].

Advance Tax Rulings: ATR-6 Vendor reacquires business assets following default by purchaser.

Cases: Loans made by the taxpayer were made in the ordinary course of a moneylending business and associated bad debts were deductible. The taxpayer typically lent money for terms of two to three years and he kept track of interest payment due dates and outstanding balances, so that there was a "continuity or system" in his lending activities. He had even purchased certain bonds in the course of the carrying on of that business. *Langhammer v. The Queen*, 2001 DTC 45 (T.C.C.).

The taxpayer advanced funds to a related corporation and the loan later became uncollectible. Although the advance was clearly a loan, the taxpayer was not entitled to bad debt deductions because the taxpayer was not in the money-lending business and the loan was not made as part of the taxpayer's ordinary business. *Loman Warehousing Ltd. v. The Queen*, 2000 DTC 6610 (F.C.A.), affirming 99 DTC 1113 (T.C.C.).

The taxpayer supplied the labour of its own employees to a related corporation but recorded the accounts receivable as a reduction of its own expenses, rather than as revenue from the supply of services. The related company later became insolvent and the taxpayer treated the amounts owing as bad debts. Although the taxpayer's accounting records did not show that the amounts had been included in the taxpayer's income prior to the deduction, they were no less revenue just because they were improperly recorded. Therefore the bad debts deduction was allowed. *Williams Gold Refining Co. of Canada Limited v. The Queen*, 2000 DTC 1829 (T.C.C.).

► 20(1)(q) ◄

(q) Employer's contributions to registered pension plan — such amount in respect of employer contributions to registered pension plans as is permitted by subsection 147.2(1);

Related Sections: S. 146(5) Amount of RRSP premiums deductible; s. 147(8) Amount of employer's contribution deductible.
Regulations: Part XXVII.
Interpretation Bulletins: *Primary* — IT-105 Administrative costs of pensions plans.
Information Circulars: IC 72-13R8 Employees' pension plans.
Forms: T2 SCH 15.

► 20(1)(r) ◄

(r) Employer's contributions under retirement compensation arrangement — amounts paid by the taxpayer in the year as contributions under a retirement compensation arrangement in respect of services rendered by an employee or former employee of the taxpayer, other than where it is established, by subsequent events or otherwise, that the amounts were paid as part of a series of payments and refunds of contributions under the arrangement;

Related Sections: S. 248(1), "retirement compensation arrangement".
Forms: T737-RCA.
Guides: T4041 Retirement Compensation Arrangements Guide.

► 20(1)(s) ◄

(s) Employer's special contribution — [Repealed by 1990, c. 35, s. 4(2).]

Regulations: 8516(3).
Registered Plans Directorate Newsletters: No. 91-5, Transitional rules and other administrative issues for pension plans.

► 20(1)(t) ◄

(t) Scientific research and experimental development — [Repealed by 1988, c. 55, s. 12(7).]

► 20(1)(u) ◄

(u) Patronage dividends — such amounts in respect of payments made by the taxpayer pursuant to allocations in proportion to patronage as are permitted by section 135;

Regulations: 219.

► 20(1)(v) ◄

(v) Mining taxes — such amount as is allowed by regulation in respect of taxes on income for the year from mining operations;

Regulations: 3900.

► 20(1)(v.1) ◄

(v.1) Resource allowance — [Repealed by S.C. 2003, c. 28, s. 3(1).]

History: S. 20(1)(*v.1*) was repealed by S.C. 2003, c. 28, c. 3(1), applicable to taxation years that begin after 2006. S. 20(1)(*v.1*) formerly read:

"(*v.1*) *Resource allowance* — such amount as is allowed to the taxpayer for the year by regulation in respect of natural accumulations of petroleum or natural gas in Canada, oil or gas wells in Canada or mineral resources in Canada;"

[The application of paragraph 20(1)(*v.1*) was amended by S.C. 2003, c. 28, s. 3(3), as follows:

For each taxation year that ends after 2002 and begins before 2007, paragraph 20(1)(*v.1*) of the Act applies only to the percentage of the amount described by that paragraph that is the total of

(*a*) that proportion of 100% that the number of days in the taxation year that are before 2003 is of the number of days in the taxation year,

(*b*) that proportion of 90% that the number of days in the taxation year that are in 2003 is of the number of days in the taxation year,

(*c*) that proportion of 75% that the number of days in the taxation year that are in 2004 is of the number of days in the taxation year,

(*d*) that proportion of 65% that the number of days in the taxation year that are in 2005 is of the number of days in the taxation year, and

(*e*) that proportion of 35% that the number of days in the taxation year that are in 2006 is of the number of days in the taxation year.

Regulations: 1100(1)(*w*)(i), 1100(1)(*x*)(i), 1100(1)(*y*)(i), 1100(1)(*ya*)(i); 1210.
Forms: T2 SCH 51; T81(IND); T2 SCH 420.
Canadian Petroleum Tax Journal: Pot Pourri of Income Tax Issues, John Chan, Vol. 14 No. 1 2001; Canada Customs and Revenue Agency 1999 Roundtable Questions and Answers, Question 1, Vol. 13 No. 1 2000; Resource Allowance — The New Certainty?, B. David Nielsen and Nelson M. Whitmore, Vol. 10 No. 1 1997.

► 20(1)(w) ◄

(w) Employer's contributions under profit sharing plan — an amount paid by the taxpayer to a trustee in trust for employees of the taxpayer or of a corporation with whom the taxpayer does not deal at arm's length, under an employees profit sharing plan as permitted by section 144;

Forms: T2 SCH 15.

► 20(1)(x) ◄

(x) Employer's contributions under registered supplementary unemployment benefit plan — an amount paid by the taxpayer to a trustee under a registered supplementary unemployment benefit plan as permitted by section 145;

Forms: T2 SCH 15.

► 20(1)(y) ◄

(y) Employer's contributions under deferred profit sharing plan — an amount paid by the taxpayer to a trustee under a deferred profit sharing plan as permitted by subsection 147(8);

Forms: T2 SCH 15.

► 20(1)(z) ◄

(z) Cancellation of lease — the proportion of an amount not otherwise deductible that was paid or that became payable by the taxpayer before the end of the year to a person for the cancellation of a lease of property of the taxpayer leased by the taxpayer to that person that

(i) the number of days that remained in the term of the lease (including all renewal periods of the lease), not exceeding 40 years, immediately before its cancellation and that were in the year

is of

(ii) the number of days that remained in the term of the lease (including all renewal periods of the lease), not exceeding 40 years, immediately before its cancellation,

in any case where the property was owned at the end of the year by the taxpayer or by a person with whom the taxpayer was not dealing at arm's length and no part of the amount was deductible by the taxpayer under paragraph (z.1) in computing the taxpayer's income for a preceding taxation year;

Editorial Note: By virtue of paragraph 18(1)(*q*), no deduction is allowed for a lease cancellation payment made by a lessor except as provided under paragraph 20(1)(*z*) or (z1).

Interpretation Bulletins: *Secondary* — IT-359R2 Premiums and other amounts with respect to leases; IT-467R2 Damages, settlements and similar payments.
Tax Topics: No. 1677, Income Tax Implications of Lease Cancellation Payments.
Tax Profile: March 2002 — Selected Tax Issues for Commercial Landlords and Tenants.

► 20(1)(z.1) ◄

(z.1) Idem — an amount not otherwise deductible that was paid or that became payable by the taxpayer before the end of the year to a person for the cancellation of a lease of property of the taxpayer leased by the taxpayer to that person, in any case where

(i) the property was not owned at the end of the year by the taxpayer or by a person with whom the taxpayer was not dealing at arm's length, and

(ii) no part of the amount was deductible by the taxpayer under this paragraph in computing the taxpayer's income for any preceding taxation year,

to the extent of the amount thereof (or in the case of capital property, 1/2 of the amount thereof) that was not deductible by the taxpayer under paragraph (z) in computing the taxpayer's income for any preceding taxation year;

History: S. 20(1)(z1) was amended by S.C. 2001, c. 17, s. 13(6), by replacing the reference to the fraction "3/4" with a reference to the fraction "1/2", applicable in respect of amounts that become payable after February 27, 2000 except that, for amounts that became payable after February 27, 2000 and before October 18, 2000, the reference to the fraction "1/2" in paragraph 20(1)(z1) of the Act shall be read as a reference to the fraction "2/3".

Editorial Note: By virtue of paragraph 18(1)(*q*), no deduction is allowed for a lease cancellation payment made by a lessor except as provided under paragraph 20(1)(*z*) or (z1).

Related Sections: S. 13(5.5) Lease cancellation payment; s. 18(1)(*q*) Limitation re cancellation of lease; s. 20(1)(*z*) Cancellation of lease — before sale of leased property; s. 87(2)(*j*.5) Cancellation of lease.

Interpretation Bulletins: *Secondary* — IT-359R2 Premiums and other amounts with respect to leases; IT-467R2 Damages, settlements and similar payments.

Tax Topics: No. 1677, Income Tax Implications of Lease Cancellation Payments.

Tax Profile: March 2002 — Selected Tax Issues for Commercial Landlords and Tenants.

► 20(1)(aa) ◄

(aa) Landscaping of grounds — an amount paid by the taxpayer in the year for the landscaping of grounds around a building or other structure of the taxpayer that is used by the taxpayer primarily for the purpose of gaining or producing income therefrom or from a business;

Interpretation Bulletins: *Primary* — IT-296 Landscaping of grounds [Archived by the CRA]; IT-485 Cost of clearing or levelling land. *Secondary* — IT-304R2 Condominiums.

► 20(1)(bb) ◄

(bb) Fees paid to investment counsel — an amount other than a commission paid by the taxpayer in the year to a person

(i) for advice as to the advisability of purchasing or selling a specific share or security of the taxpayer, or

(ii) for services in respect of the administration or management of shares or securities of the taxpayer,

if that person's principal business

(iii) is advising others as to the advisability of purchasing or selling specific shares or securities, or

(iv) includes the provision of services in respect of the administration or management of shares or securities.

Department of Finance Comfort Letter
[Deduction of Investment Counsel and Custodial Fees Paid to a Partnership]

December 21, 2005

Dear XXXX,

I am writing in response to your June 30, 2005 letter to me requesting an amendment to paragraph 20(1)(*bb*) of the *Income Tax Act* (the "Act"). In particular, you have requested that we extend the deduction for investment counsel and custodial fees paid to a person to also include such fees paid to a partnership.

In general, paragraph 20(1)(*bb*) allows a taxpayer to deduct fees, other than commissions, paid for advice on buying or selling a specific share or security by the taxpayer or for the administration or the management of the shares or securities of the taxpayer. The fees must be paid to a person whose principal business includes the administration or management of shares or securities. A person is defined in subsection 248(1) of the Act to include any corporation and any entity exempt, because of subsection 149(1), from tax under Part I on all or part of the entity's taxable income. A person, therefore, does not include a partnership. However, certain provisions of the Act specify that for specific purposes a person includes a partnership. This is not the case with paragraph 20(1)(*bb*).

In the situation you describe, XXXX carries on an investment management business and is registered as investment counsel and portfolio manager under applicable securities legislation. XXXX has received an offer to purchase its business. The proposed transaction involves transferring the business to a limited partnership in which the majority interest will indirectly be held by members of the public. The partnership has applied for registration as investment counsel and portfolio manager and its principal business will consist of providing advice regarding the buying and selling of securities to both tax-exempt and taxable clients. Because the paragraph 20(1)(*bb*) deduction does not apply to investment counsel fees paid to a partnership, there is a concern that the partnership may be at a competitive disadvantage with respect to providing advice to taxable clients. You acknowledge that this issue could be addressed by transferring the taxable client business to a wholly-owned subsidiary of the partnership, however, this would result in additional administrative costs and complexity. In addition, it is your understanding that the securities regulators have expressed reservations regarding the "dual registrant" alternative, and would prefer a single registrant.

Paragraph 20(1)(*bb*) of the Act is an exception to the general rule that expenses on capital account are not deductible. As an exception, the rule is intentionally narrowly drafted. The rule contains several restrictions including an ownership requirement, and the requirement that the payment must be to a person whose principal business is investment counsel, management or administration services in respect of shares or securities. However, we can discern no tax policy reason for excluding the deduction of investment counsel and custodial fees paid to a partnership. As such, we will recommend to the Minister of Finance that the Act be amended to allow the deduction of investment counsel and custodial fees paid to a partnership, assuming the other conditions in 20(1)(*bb*) are otherwise met. In addition, we will recommend that the amendment be effective after June 30, 2005, the day that you brought this issue to our attention.

We cannot offer any assurance that either the Minister of Finance or Parliament will agree with the recommendations that we intend to make in this regard. Nonetheless, we trust that this statement of our position is helpful.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

Interpretation Bulletins: *Primary* — IT-238R2 Fees paid to investment counsel. *Secondary* — IT-124R6 Contributions to registered retirement savings plans.

► 20(1)(cc) ◄

(cc) Expenses of representation — an amount paid by the taxpayer in the year as or on account of expenses incurred by the taxpayer in making any representation relating to a business carried on by the taxpayer,

(i) to the government of a country, province or state or to a municipal or public body performing a function of government in Canada, or

(ii) to an agency of a government or of a municipal or public body referred to in subparagraph (i) that had authority to make rules, regulations or by-laws relating to the business carried on by the taxpayer,

including any representation for the purpose of obtaining a licence, permit, franchise or trade-mark relating to the business carried on by the taxpayer;

Related Sections: S. 13(12) Application of para. 20(1)(cc); s. 20(9) Application of para. (1)(cc).

Interpretation Bulletins: *Secondary* — IT-99R5 (Consolid.) Legal and accounting fees.

► 20(1)(dd) ◄

(dd) Investigation of site — an amount paid by the taxpayer in the year for investigating the suitability of a site for a building or other structure planned by the taxpayer for use in connection with a business carried on by the taxpayer;

Interpretation Bulletins: *Primary* — IT-350R Investigation of site.

► 20(1)(ee) ◄

(ee) Utilities service connection — an amount paid by the taxpayer in the year to a person (other than a person with whom the taxpayer was not dealing at arm's length) for the purpose of making a service connection to the taxpayer's place of business for the supply, by means of wires, pipes or conduits, of electricity, gas, telephone service, water or sewers supplied by that person, to the extent that the amount so paid was not paid

(i) to acquire property of the taxpayer, or

(ii) as consideration for the goods or services for the supply of which the service connection was undertaken or made;

Interpretation Bulletins: *Primary* — IT-452 Utility service connections [Archived by the CRA]. *Secondary* — IT-482R Pipelines.

► 20(1)(ff) ◄

(ff) Payments by farmers — an amount paid by the taxpayer in the year as a levy under the *Western Grain Stabilization Act*, as a premium in respect of the gross revenue insurance program established under the *Farm Income Protection Act* or as an administration fee in respect of a net income stabilization account;

History: S. 20(1)(*ff*) was amended by S.C. 1994, c.7, Sched. VIII, s. 9(1), applicable to the 1991 and subsequent taxation years. S. 20(1)(*ff*) formerly read:

"(*ff*) *Western Grain Stabilization Act* payments — an amount paid by the taxpayer in the year as the levy under the *Western Grain Stabilization Act*;"

Related Sections: S. 12(1)(*p*) Certain payments to farmers; s. 248(1), "amount", "gross revenue", "net income stabilization account".

► 20(1)(gg) ◄

(gg) Disability-related modifications to buildings — [Repealed by S.C. 1994, c. 7, Sched. VIII, s. 157(1).]

History: S. 20(1)(*gg*) and its application provision were repealed by S.C. 1994, c.7, Sched. VIII, s. 157(1), which is deemed to have come into force on December 17, 1991. Note that a similar provision is enacted as s. 20(1)(*qq*). S. 20(1)(*gg*) formerly read:

"(*gg*) *Disability-related modifications to buildings* — an amount paid by the taxpayer in the year for such prescribed renovations or alterations to a building of the taxpayer that is used by the taxpayer primarily for the purpose of gaining or producing income therefrom or from a business as are made for the purpose of enabling individuals who have a mobility impairment to gain access to the building or be mobile within it;"

S. 20(1)(*gg*) was added by S.C. 1994, c.7, Sched. II, s. 15(3), applicable to renovations and alterations made after 1990.

Related Sections: S. 18(3.1) Costs relating to construction of building or ownership of land; s. 20(1)(*qq*) Disability-related modifications to buildings.

► 20(1)(hh) ◄

(hh) Repayments of inducements, etc. — an amount repaid by the taxpayer in the year pursuant to a legal obligation to repay all or part of a particular amount

(i) included under paragraph 12(1)(*x*) in computing the taxpayer's income for the year or a preceding taxation year, or

(ii) that is, by reason of subparagraph 12(1)(*x*)(vi) or subsection 12(2.2), not included under paragraph 12(1)(*x*) in computing the taxpayer's income for the year or a preceding taxation year, where the particular amount relates to an outlay or expense (other than an outlay or expense that is in respect of the cost of property of the taxpayer or that is or would be, if amounts deductible by the taxpayer were not limited by reason of paragraph 66(4)(*b*), subsection 66.1(2), subparagraph 66.2(2)(*a*)(ii), the words "30% of" in clause 66.21(4)(*a*)(ii)(B), clause 66.21(4)(*a*)(ii)(C) or (D) or subparagraph 66.4(2)(*a*)(ii), deductible under section 66, 66.1, 66.2, 66.21 or 66.4) that would, if the particular amount had not been received, have been deductible in computing the taxpayer's income for the year or a preceding taxation year;

History: S. 20(1)(*hh*)(ii) was amended by S.C. 2001, c. 17, s. 13(7), applicable to taxation years that begin after 2000. S. 20(1)(*hh*)(ii) formerly read:

"(ii) that is, because of subparagraph 12(1)(*x*)(vi) or subsection 12(2.2), not included under paragraph 12(1)(*x*) in computing the taxpayer's income for the year or a preceding taxation year, where the particular amount relates to an outlay or expense (other than an outlay or expense that is in respect of the cost of property of the taxpayer or that is or would be, if amounts deductible by the taxpayer were not limited because of paragraph 66(4)(*b*), subsection 66.1(2) or subparagraph 66.2(2)(*a*)(ii) or 66.4(2)(*a*)(ii), deductible under section 66, 66.1, 66.2 or 66.4) that would, but for the receipt of the particular amount, have been deductible in computing the taxpayer's income for the year or a preceding taxation year;"

S. 20(1)(*hh*)(ii) was amended by S.C. 1994, c. 8, s. 3(1), applicable to taxation years that end after December 2, 1992. S. 20(1)(*hh*)(ii) formerly read:

"(ii) that is, by reason of subparagraph 12(1)(*x*)(vi) or subsection 12(2.2), not included in computing the income of the taxpayer under paragraph 12(1)(*x*) for the year or a preceding taxation year, where the particular amount relates to an outlay or expense (other than an outlay or expense that is in respect of the cost of property of the taxpayer or that is or would be, if amounts deductible by the taxpayer were not limited by reason of paragraph 66(4)(*b*) or subparagraph 66.1(2)(*a*)(ii), 66.2(2)(*a*)(ii) or 66.4(2)(*a*)(ii), deductible under section 66, 66.1, 66.2 or 66.4) that would, but for the receipt of the particular amount, have been deductible in computing the income of the taxpayer for the year or a preceding taxation year;"

Related Sections: S. 12(2.2) Deemed outlay or expense; s. 87(2)(*j.6*) Continuing corporation.

Interpretation Bulletins: *Secondary* — IT-273R2 Government assistance — General comments.

► 20(1)(hh.1) ◄

(hh.1) Repayment of obligation — 3/4 of any amount (other than an amount to which paragraph 14(10)(*b*) applies in respect of the taxpayer) repaid by the taxpayer in the year under a legal obligation to repay all or part of an amount to which paragraph 14(10)(*c*) applies in respect of the taxpayer;

History: S. 20(1)(*hh.1*) was added by S.C. 1995, c. 21, s. 6(2), applicable to amounts repaid after February 21, 1994.

Interpretation Bulletins: *Secondary* — IT-273R2 Government assistance — General comments.

► 20(1)(ii) ◄

(ii) Inventory adjustment — the amount required by paragraph 12(1)(*r*) to be included in computing the taxpayer's income for the immediately preceding taxation year;

Related Sections: S. 12(1)(*r*) Inventory adjustment; s. 87(2)(*j.1*) Inventory adjustment.

► 20(1)(jj) ◄

(jj) Reinsurance commission — the amount required by paragraph 12(1)(*s*) to be included in computing the taxpayer's income for the immediately preceding taxation year;

Department of Finance Comfort Letter
[Proposed Repeal of Paragraphs 12(1)(s) and 20(1)(jj) — Reinsurance Commissions]

December 21, 2005

Dear XXXX,

I am writing in response to your correspondence of October 19, 2005, requesting that paragraphs 12(1)(*s*) and 20(1)(*jj*) of the *Income Tax Act* (the "Act") be repealed because of the introduction of subsection 18(9.02)of the Act.

Subsection 18(9.02) of the Act, introduced in 2001, generally applies to taxation years that begin after 1999. This provision

was introduced to ensure that the acquisition costs (i.e. commissions paid to a broker) that are incurred by an insurer or a reinsurer in respect of a policy are deducted as if they were incurred as consideration for services to be rendered consistently throughout the period of coverage under the policy. The deduction of acquisition costs over the term of the policy results in a matching of acquisition costs with the premium income over the period of coverage under the policy.

Prior to the introduction of subsection 18(9.02) of the Act, a different mechanism existed for matching acquisition costs with premium income. In the case of reinsurance, where the insurer cedes to a reinsurer all or part of the risk under a policy issued by the insurer, it receives a reinsurance commission from the reinsurer and is entitled to claim a reserve for unearned premiums. Paragraphs 12(1)(*s*) and 20(1)(*jj*) of the Act apply to the reinsurer in the taxation year in which it pays the reinsurance commission and in subsequent taxation years. Essentially, paragraph 12(1)(*s*) requires the reinsurer to include in computing its income for a particular taxation year the amount the insurer was entitled to claim as a reserve for unearned premiums in respect of the re-insurance premium paid to the insurer by the reinsurer. Paragraph 20(1)(*jj*) then permits the reinsurer to deduct in computing its income for the following year the amount included in computing its income for the particular taxation year under paragraph 12(1)(*s*). The effect of this mechanism is to ensure that the acquisition costs of the re-insurer are matched with premium income under the policy. This mechanism also requires the reinsurer to deduct the reinsurance commission, as it is included in the income of the insurer.

With the introduction of subsection 18(9.02), both the insurer and the re-insurer must treat the acquisition costs incurred by the insurer in respect of the policy or reinsurance commission paid by the reinsurer in respect of the reinsurance policy as if they were incurred as consideration for services that are to be rendered consistently throughout the period of coverage under the policy. Consequently, there is no need to have paragraphs 12(1)(*s*) and 20(1)(*jj*) apply to the reinsurer. The premium income of the reinsurer from the reinsurance policy will be matched with the reinsurance commission expense of the reinsurer over the period of coverage of the reinsurance policy. In fact, the existence of paragraphs 12(1)(*s*) and 20(1)(*jj*) can cause tax anomalies in the above situation by requiring an inclusion in income to offset a deduction that can no longer be claimed because of subsection 18(9.02).

Given this unintended result, it would seem appropriate to repeal paragraphs 12(1)(*s*) and 20(1)(*jj*) of the Act. We are prepared to recommend to the Minister of Finance such a change for taxation years that begin after 1999. If this recommendation is acted upon, it will be included in a future technical bill.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

Related Sections: S. 12(1)(*s*) Reinsurance commission.

► 20(1)(kk) ◄

(kk) Exploration and development grants — the amount of any assistance or benefit received by the taxpayer in the year as a deduction from or reimbursement of an expense that is a tax (other than the goods and services tax) or royalty to the extent that

(i) the tax or royalty is, by reason of the receipt of the amount by the taxpayer, not deductible in computing the taxpayer's income for a taxation year, and

(ii) the deduction or reimbursement was included by the taxpayer in the amount determined for J in the definition "cumulative Canadian exploration expense" in subsection 66.1(6), for M in the definition "cumulative Canadian development expense" in subsection 66.2(5) or for I in the definition "cumulative Canadian oil and gas property expense" in subsection 66.4(5);

► 20(1)(ll) ◄

(ll) Repayment of interest — such part of any amount payable by the taxpayer because of a provision of this Act, or of an Act of a province that imposes a tax similar to the tax imposed under this Act, as was paid in the year and as can reasonably be considered to be a repayment of interest that was included in computing the taxpayer's income for the year or a preceding taxation year;

History: S. 20(1)(*ll*) was amended by S.C. 1994, c. 21, s. 12(4), applicable to taxation years that begin after 1991. S. 20(1)(*ll*) formerly read:

"(*ll*) *Amount deemed to be tax payable* — such part of any amount payable by the taxpayer by virtue of

(i) paragraph 164(3.1)(*a*) or (4)(*a*) or any similar provision of any Act of a province that imposes a tax similar to the tax imposed under this Act, or

(ii) paragraph 18(4)(*a*) of the *Petroleum and Gas Revenue Tax Act*

as was paid in the year and as may reasonably be considered to be repayment of interest that was included in computing the taxpayer's income for the year or a preceding taxation year;"

► 20(1)(mm) ◄

(mm) Cost of substances injected in reservoir — the portion claimed by the taxpayer of an amount that is an outlay or expense made or incurred by the taxpayer before the end of the year that is a cost to the taxpayer of any substance injected before that time into a natural reservoir to assist in the recovery of petroleum, natural gas or related hydrocarbons to the extent that that portion was not

(i) otherwise deducted in computing the taxpayer's income for the year, or

(ii) deducted in computing the taxpayer's income for any preceding taxation year,

except that where the year is less than 51 weeks, the amount that may be claimed under this paragraph by the taxpayer for the year shall not exceed the greater of

(iii) that proportion of the maximum amount that may otherwise be claimed under this paragraph by the taxpayer for the year that the number of days in the year is of 365, and

(iv) the amount of such outlay or expense that was made or incurred by the taxpayer in the year and not otherwise deducted in computing the taxpayer's income for the year;

History: S. 20(1)(*mm*) was amended by S.C. 1997, c. 25, s. 5(1), applicable to the 1996 and subsequent taxation years. S. 20(1)(*mm*) formerly read:

"(*mm*) *Cost of substances injected in reservoir* — such portion, as may be claimed by the taxpayer, of an amount that is an outlay or expense made or incurred by the taxpayer before the end of the year that is a cost to the taxpayer of any substance injected before that time into a natural reservoir to assist in the recovery of petroleum, natural gas or related hydrocarbons to the extent that that portion was not

(i) otherwise deducted by the taxpayer in computing the taxpayer's income for the year,

(ii) deducted by the taxpayer in computing the taxpayer's income for any preceding taxation year,

(iii) an outlay or expense described in the definition 'Canadian exploration expense' in subsection 66.1(6) or the definition 'Canadian development expense' in subsection 66.2(5), or

(iv) a Canadian oil and gas property expense;

except that where the year is less than 51 weeks, the amount that may be claimed under this paragraph by the taxpayer for the year shall not exceed the greater of

(v) that proportion of the maximum amount that may otherwise be claimed under this paragraph by the taxpayer for the year that the number of days in the year is of 365, and

(vi) the amount of such outlay or expense not referred to in any of subparagraphs (i) to (iv) that was made or incurred by the taxpayer in the year;"

S. 20(1)(*mm*), the portion following subparagraph (iv), was amended by S.C. 1994, c.7, Sched. II, s. 15(4), applicable to taxation years beginning after July 13, 1990.

► 20(1)(nn) ◄

(nn) Part XII.6 tax — the tax, if any, under Part XII.6 paid in the year or payable in respect of the year by the taxpayer (depending on the method regularly followed by the taxpayer in computing the taxpayer's income);

History: S. 20(1)(*nn*) was added by S.C. 1997, c. 25, s. 5(1), applicable to the 1997 and subsequent taxation years.

Canadian Petroleum Tax Journal: Flow-Through Shares: An Update, Angelo F. Toselli, Vol. 10 No. 1 1997.

► 20(1)(nn.1) ◄

(nn.1) Recapture of investment tax credits — child care space amount — total of all amounts (other than an amount in respect of a disposition of a depreciable property) added because of subsection 127(27.1) or (28.1) to the taxpayer's tax otherwise payable under this Part for any preceding taxation year;

History: S. 20(1)(nn.1) was added by S.C. 2007, c. 35, s. 14(1), applicable on and after March 19, 2007.

► 20(1)(oo) ◄

(oo) Salary deferral arrangement — any deferred amount under a salary deferral arrangement in respect of another person to the extent that it was

(i) included under paragraph 6(1)(*a*) as a benefit in computing the income of the other person for the taxation year of the other person that ends in the taxpayer's taxation year, and

(ii) in respect of services rendered to the taxpayer;

Related Sections: S. 87(2)(*j.3*) Employee benefit plans, etc.

► 20(1)(pp) ◄

(pp) Idem — any amount under a salary deferral arrangement in respect of another person (other than an arrangement established primarily for the benefit of one or more non-resident employees in respect of services to be rendered outside Canada) to the extent that it was

(i) included under paragraph 6(1)(*i*) in computing the income of the other person for the taxation year of the other person that ends in the taxpayer's taxation year, and

(ii) in respect of services rendered to the taxpayer;

History: S. (20)1)(*pp*) was added by S.C. 1994, c.7, Sched. II, s. 15(5), applicable to the 1986 and subsequent taxation years.

► 20(1)(qq) ◄

(qq) Disability-related modifications to buildings — an amount paid by the taxpayer in the year for prescribed renovations or alterations to a building used by the taxpayer primarily for the purpose of gaining or producing income from the building or from a business that are made to enable individuals who have a mobility impairment to gain access to the building or to be mobile within it;

History: S. 20(1)(*qq*) was added by S.C. 1994, c.7, Sched. VIII, s. 9(2), applicable to renovations and alterations made after 1990 except that, with respect to renovations and alterations made after 1990 and before February 26, 1992, the reference to "prescribed renovations or alterations to a building" in that paragraph shall be read as "prescribed renovations or alterations to a building of the taxpayer".

Note that a similar provision was previously enacted as s. 20(1)(*gg*).

Related Sections: S. 18(3.1) Costs relating to construction of building or ownership of land; s. 248(1), "amount", "business", "individual", "prescribed".
Regulations: 8800.

► 20(1)(rr) ◄

(rr) Disability-related equipment — an amount paid by the taxpayer in the year for any prescribed disability-specific device or equipment;

History: S. 20(1)(*rr*) was amended by S.C. 1994, c. 21, s. 12(5), applicable to amounts paid after February 25, 1992. S. 20(1)(*rr*) formerly read:

"(*rr*) an amount paid by the taxpayer in the year for prescribed devices or equipment acquired primarily to assist individuals who have a sight or hearing impairment."

S. 20(1)(*rr*) was added by S.C. 1994, c.7, Sched. VIII, s. 9(2), applicable to amounts paid after February 25, 1992.

Related Sections: S. 248(1), "prescribed".
Regulations: 8801.

► 20(1)(ss) ◄

(ss) Qualifying environmental trusts — a contribution made in the year by the taxpayer to a qualifying environmental trust under which the taxpayer is a beneficiary;

History: S. 20(1)(*ss*) was amended by S.C. 1998, c. 19, s. 4(1), applicable to taxation years that end after February 18, 1997 and, for the purpose of paragraph 20(1)(*ss*) of the Act, each contribution made after 1995 and before February 19, 1997 by a taxpayer to a trust (other than a mining reclamation trust as defined in subsection 248(1) of the Act) is deemed to have been made on February 19, 1997. S. 20(1)(*ss*) formerly read:

"(*ss*) *Mining reclamation trusts* — a contribution made in the year by the taxpayer to a mining reclamation trust under which the taxpayer is a beneficiary;"

S. 20(1)(*ss*) was added by S.C. 1995, c. 3, s. 7(1), applicable to taxation years that end after February 22, 1994 and, for the purpose of this subsection, each contribution made by a taxpayer to a trust before February 23, 1994 shall be deemed to have been made on February 23, 1994.

Editorial Note: Although the contributions to the trust are deductible, the income earned on the contributions while inside the trust is taxed under section 211.6.

Related Sections: S. 12(1)(z1) Qualifying environmental trusts; s. 107.3(1) Treatment of beneficiaries under qualifying environmental trusts; s. 127.41 Part XII.4 tax credit.
Canadian Tax Foundation: Frankovic, "The Case for 'Reverse Depreciation' of Reclamation Costs ", *2004 Canadian Tax Journal*, No. 1, 1.
Tax Window Files: Site Reclamation Costs, September 27, 2004, CRA Document No. 2003-0048241E5

► 20(1)(tt) ◄

(tt) Acquisition of interests in qualifying environmental trusts — the consideration paid by the taxpayer in the year for the acquisition from another person or partnership of all or part of the taxpayer's interest as a beneficiary under a qualifying environmental trust, other than consideration that is the assumption of a reclamation obligation in respect of the trust; and

History: S. 20(1)(*tt*) was amended by S.C. 1998, c. 19, s. 4(1), applicable to taxation years that end after February 18, 1997. S. 20(1)(*tt*) formerly read:

"(*tt*) *Acquisition of interests in mining reclamation trusts* — the consideration paid by the taxpayer in the year for the acquisition from another person or partnership of all or part of the taxpayer's interest as a beneficiary under a mining reclamation trust, other than consideration that is the assumption of a mining reclamation obligation in respect of the trust;"

S. 20(1)(*tt*) was added by S.C. 1995, c. 3, s. 7(1), applicable to taxation years that end after February 22, 1994.

► 20(1)(uu) ◄

(uu) Debt forgiveness — any amount deducted in computing the taxpayer's income for the year because of paragraph 80(15)(*a*) or subsection 80.01(10);

History: S. 20(1)(*uu*) was added by S.C. 1995, c. 21, s. 6(3), applicable to taxation years that end after February 21, 1994.

► 20(1)(vv) ◄

(vv) Countervailing or anti-dumping duty — an amount paid in the year by the taxpayer as or on account of an existing or proposed countervailing or

anti-dumping duty in respect of property (other than depreciable property); and

History: S. 20(1)(*w*) was added by S.C. 1999, c. 22, s. 9(1), applicable to amounts that become payable after February 23, 1998.

Related Sections: S. 12(1)(z6) Refunds; s. 13(21), "undepreciated capital cost".

► 20(1)(ww) ◄

(ww) Split income — where the taxpayer is a specified individual in relation to the year, the individual's split income for the year.

History: S. 20(1)(*ww*) was added by S.C. 2000, c. 19, s. 2(1), applicable to the 2000 and subsequent taxation years.

Related Sections: S. 120.4(1), "specified individual", "split income".

► 20(1.1) ◄

(1.1) Application of s. 13(21). The definitions in subsection 13(21) apply to any regulations made under paragraph (1)(*a*).

History: S. 20(1.1) was added in the revised Act.

► 20(1.2) ◄

(1.2) Application of s. 12.2(11). The definitions in subsection 12.2(11) apply to paragraph (1)(*c*).

History: S. 20(1.2) was added in the revised Act.

► 20(2) ◄

(2) Borrowed money. For the purposes of paragraph (1)(*c*), where a person has borrowed money in consideration of a promise by the person to pay a larger amount and to pay interest on the larger amount,

(*a*) the larger amount shall be deemed to be the amount borrowed; and

(*b*) where the amount actually borrowed has been used in whole or in part for the purpose of earning income from a business or property, the proportion of the larger amount that the amount actually so used is of the amount actually borrowed shall be deemed to be the amount so used.

Editorial Note: The CRA takes the position that a discount on a debt obligation that pays stipulated interest cannot be considered interest, because paragraph 20(2)(*a*) provides that the discount is deemed to be part of the amount borrowed for the purposes of paragraph 20(1)(*c*) (see paragraph 37 of IT-533). For a contrary view, see the publication "Deductibility of Interest Expense", CCH Canadian Limited (2004), at 74-75.

Interpretation Bulletins: *Secondary* — IT-533 Interest Deductibility and Related Issues.

► 20(2.1) ◄

(2.1) Limitation of expression "interest". For the purposes of paragraphs (1)(*c*) and (*d*), "interest" does not include an amount that is paid after the taxpayer's 1977 taxation year or payable in respect of a period after the taxpayer's 1977 taxation year, depending on the method regularly followed by the taxpayer in computing the taxpayer's income, in respect of interest on a policy loan made by an insurer except to the extent that the amount of that interest is verified by the insurer in prescribed form and within the prescribed time to be

(*a*) interest paid in the year on that loan; and

(*b*) interest (other than interest that would, but for paragraph (2.2)(*b*), be interest on money borrowed before 1978 to acquire a life insurance policy or on an amount payable for property acquired before 1978 that is an interest in a life insurance policy) that is not added to the adjusted cost basis (within the meaning given that expression in subsection 148(9)) to the taxpayer of the taxpayer's interest in the policy.

Regulations: 4001.

Interpretation Bulletins: *Primary* — IT-355R2 Interest on loans to buy life insurance policies and annuity contracts, and interest on policy loans [Archived by the CRA].

Forms: T2210.

► 20(2.2) ◄

(2.2) Limitation of expression "life insurance policy". For the purposes of paragraphs (1)(*c*) and (*d*), a "life insurance policy" does not include a policy

(*a*) that is or is issued pursuant to a registered pension plan, a registered retirement savings plan, an income-averaging annuity contract or a deferred profit sharing plan;

(*b*) that was an annuity contract issued before 1978 that provided for annuity payments to commence not later than the day on which the policyholder attains 75 years of age; or

(*c*) that is an annuity contract all of the insurer's reserves for which vary in amount depending on the fair market value of a specified group of properties.

History: S. 20(2.2)(*c*) was added by S.C. 1994, c. 7, Sched. II, s. 15(6), applicable to the 1987 and subsequent taxation years.

Interpretation Bulletins: *Primary* — IT-355R2 Interest on loans to buy life insurance policies and annuity contracts, and interest on policy loans [Archived by the CRA]; IT-533 Interest Deductibility and Related Issues.

► 20(2.3) ◄

(2.3) Sectoral reserve. For the purpose of clause (1)(*l*)(ii)(D), a sectoral reserve is a reserve or an allowance for impairment for a loan that is determined on a sector-by-sector basis (including a geographic sector, an industrial sector or a sector of any other nature) and not on a property-by-property basis.

History: S. 20(2.3) was added by S.C. 1998, c. 19, s. 81(7), applicable

(*a*) to taxation years that end after September 1997; and

(*b*) to a taxpayer's taxation years that end after 1995 and before October 1997 where the taxpayer elects in writing to have subsection (4) apply to the year and files the election with the Minister of National Revenue by September 30, 1998.

► 20(2.4) ◄

(2.4) Specified percentage. For the purpose of clause (1)(*l*)(ii)(D), a taxpayer's specified percentage for a taxation year is

(*a*) where the taxpayer has a prescribed reserve amount for the year, the percentage that is the percentage of the prescribed reserve amount of the taxpayer for the year claimed by the taxpayer under clause (1)(*l*)(ii)(C) for the year, and

(*b*) in any other case, 100%.

History: S. 20(2.4) was added by S.C. 1998, c. 19, s. 81(7), applicable

(*a*) to taxation years that end after September 1997; and

(*b*) to a taxpayer's taxation years that end after 1995 and before October 1997 where the taxpayer elects in writing to have subsection (4) apply to the year and files the election with the Minister of National Revenue by September 30, 1998.

► 20(3) ◄

(3) Borrowed money. For greater certainty, if a taxpayer uses borrowed money to repay money previously borrowed, or to pay an amount payable for property described in subparagraph (1)(*c*)(ii) previously acquired (which previously borrowed money or amount payable in respect of previously acquired property is, in this subsection, referred to as the "previous indebtedness"), subject to subsection 20.1(6), for the purposes of paragraphs (1)(*c*), (*e*) and (*e.1*), subsections 20.1(1) and (2), section 21 and subparagraph 95(2)(*a*)(ii), and for the purpose of paragraph 20(1)(*k*) of the *Income Tax Act*, Chapter 148 of the Revised Statutes

of Canada, 1952, the borrowed money is deemed to be used for the purpose for which the previous indebtedness was used or incurred, or was deemed by this subsection to have been used or incurred.

History: S. 20(3) was replaced by S.C. 2009, c. 2, s. 7(1), applicable in respect of interest paid or payable in respect of a period or periods that begin after January 27, 2009. S. 20(3) was replaced by S.C. 2007, c. 35, s. 14(2), applicable in respect of interest paid or payable in respect of a period or periods that begin after 2011, to read as above except for a reference to s. 18.2 included. However, as a result of the repeal of s. 18.2, the reference to s. 18.2 was deleted in the amendment to s. 20(3) by S.C. 2009, c. 2, for interest paid or payable in respect of a period or periods that begin after January 27, 2009. S. 20(3) formerly read:

"(3) *Borrowed money.* For greater certainty, it is hereby declared that where a taxpayer has used borrowed money

(*a*) to repay money previously borrowed, or

(*b*) to pay an amount payable for property described in subparagraph (1)(*c*)(ii) previously acquired,

subject to subsection 20.1(6), the borrowed money shall, for the purposes of paragraphs (1)(*c*), (*e*) and (*e*.1), subsections 20.1(1) and (2), section 21 and subparagraph 95(2)(*a*)(ii) and for the purpose of paragraph 20(1)(*k*) of the *Income Tax Act*, Chapter 148 of the Revised Statutes of Canada, 1952, be deemed to have been used for the purpose for which the money previously borrowed was used or was deemed by this subsection to have been used, or to acquire the property in respect of which the amount was payable, as the case may be."

S. 20(3), the portion after paragraph (*b*) was amended by S.C. 1995, c. 21, s. 45(1), applicable to expenses incurred in taxation years that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, the portion of subsection 20(3) after paragraph (*b*) applies to expenses incurred in taxation years of the foreign affiliate of the taxpayer that end after 1994, unless

(*a*) such foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation; or

(*b*) the first taxation year of such foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time that that taxation year would have begun if there had not been that change in the taxation year of such foreign affiliate.

S. 20(3), the portion after paragraph (*b*), formerly read:

"subject to subsection 20.1(6), the borrowed money shall, for the purposes of paragraphs (1)(*c*), (*e*) and (*e*.1), subsections 20.1(1) and (2) and section 21, and for the purpose of paragraph 20(1)(*k*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, be deemed to have been used for the purpose for which the money previously borrowed was used or was deemed by this subsection to have been used, or to acquire the property in respect of which the amount was payable, as the case may be."

S. 20(3), the portion following paragraph (*b*), was amended by S.C. 1994, c. 21, s. 12(6), applicable to expenses incurred after 1987 except that, in its application to such expenses incurred before 1994, the portion of subsection 20(3) of the Act after paragraph (*b*) shall be read without reference to the expressions "subject to subsection 20.1(6)" and "subsections 20.1(1) and (2)".

S. 20(3), the portion following paragraph (*b*), formerly read:

"the borrowed money shall, for the purposes of paragraph (1)(*c*) (or 20(1)(*k*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952) and section 21, be deemed to have been used for the purpose for which the money previously borrowed was used or was deemed by this subsection to have been used, or to acquire the property in respect of which the said amount was so payable, as the case may be."

Related Sections: S. 20.1 Borrowed money used to earn income from property.

Interpretation Bulletins: *Secondary*— IT-533 Interest Deductibility and Related Issues.

► 20(4) ◄

(4) Bad debts from dispositions of depreciable property. Where an amount that is owing to a taxpayer as or on account of the proceeds of disposition of depreciable property (other than a timber resource property or a passenger vehicle having a cost to the taxpayer in excess of $20,000 or such other amount as may be prescribed) of the taxpayer of a prescribed class is established by the taxpayer to have become a bad debt in a taxation year, there may be deducted in computing the taxpayer's income for the year the lesser of

(*a*) the amount so owing to the taxpayer, and

(*b*) the amount, if any, by which the capital cost to the taxpayer of that property exceeds the total of the amounts, if any, realized by the taxpayer on account of the proceeds of disposition.

History: S. 20(4) was amended by S.C. 1994, c. 7, Sched. II, s. 15(7), applicable to amounts that are established after July 13, 1990 to have become bad debts. S. 20(4) formerly read:

"(4) *Uncollectable portion of proceeds of disposition of depreciable property.* Where an amount that is owing to a taxpayer as or on account of the proceeds of disposition of depreciable property (other than a timber resource property) of the taxpayer of a prescribed class is established by the taxpayer to have become a bad debt in a taxation year, there may be deducted in computing the taxpayer's income for the year the lesser of

(*a*) the amount so owing to the taxpayer, and

(*b*) the amount, if any, by which the capital cost to the taxpayer of that property exceeds the total of the amounts, if any, realized by the taxpayer on account of the proceeds of disposition."

Related Sections: S. 13(21) Definitions; s. 20(1)(*a*) Capital cost of property.

Regulations: 7307(1).

Interpretation Bulletins: *Secondary*— IT-159R3 Capital debts established to be bad debts; IT-220R2 Capital cost allowance — Proceeds of disposition of depreciable property.

► 20(4.1) ◄

(4.1) Idem. Where an amount that is owing to a taxpayer as or on account of the proceeds of disposition of a timber resource property of the taxpayer is established by the taxpayer to have become a bad debt in a taxation year, the amount so owing to the taxpayer may be deducted in computing the taxpayer's income for the year.

Related Sections: S. 13(2) Recaptured depreciation for passenger vehicle; s. 20(1)(*a*) Capital cost of property.

► 20(4.2) ◄

(4.2) Bad debts re eligible capital property. Where, in respect of one or more dispositions of eligible capital property by a taxpayer, an amount that is described in paragraph (*a*) of the description of E in the definition "cumulative eligible capital" in subsection 14(5) in respect of the taxpayer is established by the taxpayer to have become a bad debt in a taxation year, there shall be deducted in computing the taxpayer's income for the year the amount determined by the formula

$$(A + B) - (C + D + E + F + G + H)$$

where

A is the lesser of

(*a*) 1/2 of the total of all amounts each of which is such an amount that was so established to have become a bad debt in the year or a preceding taxation year, and

(*b*) the amount that is

(i) where the year ended after February 27, 2000, the amount, if any, that would be the total of all amounts determined by the formula in paragraph 14(1)(*b*) (if that formula were read without reference to the description of D) for the year, or for a preceding taxation year that ended after February 27, 2000, and

(ii) where the year ended before February 28, 2000, nil;

B is the amount, if any, by which

(*a*) 3/4 of the total of all amounts each of which is such an amount that was so established to be a bad debt in the year or a preceding taxation year

exceeds the total of

(*b*) 3/2 of the amount by which

(i) the value of A exceeds

(ii) the amount included in the value of A because of subparagraph (*b*)(i) of the description of A in respect of taxation years that ended after February 27, 2000 and before October 18, 2000, and

(*c*) 9/8 of the amount included in the value of A because of subparagraph (*b*)(i) of the description of A in respect of taxation years that ended after February 27, 2000 and before October 18, 2000;

C is the total of all amounts each of which is an amount determined under subsection 14(1) or (1.1) for the year, or a preceding taxation year, that ends after October 17, 2000 and in respect of which a deduction can reasonably be considered to have been claimed under section 110.6 by the taxpayer;

D is the total of all amounts each of which is an amount determined under subsection 14(1) or (1.1) for the year, or a preceding taxation year, that ended after February 27, 2000 and before October 18, 2000 and in respect of which a deduction can reasonably be considered to have been claimed under section 110.6 by the taxpayer;

E is the total of all amounts each of which is an amount determined under subsection 14(1) or (1.1) for a preceding taxation year that ended before February 28, 2000 and in respect of which a deduction can reasonably be considered to have been claimed under section 110.6 by the taxpayer;

F is the total of

(*a*) 2/3 of the total of all amounts each of which is the value determined in respect of the taxpayer for D in the formula in paragraph 14(1)(*b*) for the year, or a preceding taxation year, that ends after October 17, 2000, and

(*b*) 8/9 of the total of all amounts each of which is the value determined in respect of the taxpayer for D in the formula in paragraph 14(1)(*b*) for the year, or a preceding taxation year, that ended after February 27, 2000 and before October 18, 2000;

G is the total of all amounts each of which is the value determined in respect of the taxpayer for D in the formula in subparagraph 14(1)(*a*)(v) (as that subparagraph applied for taxation years that ended before February 28, 2000) for a preceding taxation year; and

H is the total of all amounts deducted by the taxpayer under this subsection for preceding taxation years.

History: S. 20(4.2) was amended by S.C. 2001, c. 17, s. 13(8), applicable to taxation years that end after February 27, 2000 except that, for taxation years that ended after February 27, 2000 and before October 18, 2000,

(*a*) the reference to the fraction "1/2" in paragraph (*a*) of the description of A in subsection 20(4.2) of the Act shall be read as a reference to the fraction "2/3";

(*b*) the reference to the fraction "3/2" in paragraph (*b*) of the description of B in subsection 20(4.2) of the Act shall be read as a reference to the fraction "9/8".

S. 20(4.2) formerly read:

"(4.2) *Idem.* Where, in respect of a disposition of eligible capital property by a taxpayer, an amount that comes within the terms of paragraph (*a*) of the description of E in the definition 'cumulative eligible capital' in subsection 14(5) was included in the calculation of the taxpayer's cumulative eligible capital and is established by the taxpayer to have become a bad debt in a taxation year, there shall be deducted in computing the income of the taxpayer for the year

(*a*) the amount, if any, by which

(i) 3/4 of the total of

(A) the total of all amounts each of which is such an amount that was so established by the taxpayer to be a bad debt in the year, and

(B) the total of all amounts each of which is such an amount that was so established by the taxpayer to be a bad debt in a preceding taxation year,

exceeds the total of

(ii) the total of all amounts each of which is

(A) the taxable capital gain of the taxpayer determined under subsection 14(1) for the year or a preceding taxation year and in respect of which a deduction can reasonably be considered to have been claimed under section 110.6, or

(B) an amount determined in respect of the taxpayer for D in subparagraph 14(1)(*a*)(v) for the year or a preceding taxation year, and

(iii) the total of all amounts deducted by the taxpayer under this subsection in preceding taxation years

and the amount, if any, by which

(*b*) 3/4 of the amount determined under clause (*a*)(i)(A) for the year

exceeds

(*c*) the amount determined under paragraph (*a*) for the year

shall be deemed to be an allowable capital loss of the taxpayer from a disposition of capital property by the taxpayer in the year."

S. 20(4.2)(*a*)(ii) was amended by S.C. 1995, c. 3, s. 7(2), applicable to taxation years that end after February 22, 1994. S. 20(4.2)(*a*)(ii) formerly read:

"(ii) the total of all amounts each of which is an amount determined under subparagraph 14(1)(*a*)(v) in respect of the taxpayer for the year or a preceding taxation year, and in respect of which a deduction under section 110.6 may reasonably be considered to have been claimed, and"

Related Sections: S. 12(1)(*i.1*) Bad debts recovered; s. 20(4.3) Deemed allowable capital loss; s. 39(11) Recovery of bad debt; s. 50(1)(*a*) Debts established to be bad debts and shares of bankrupt corporation; s. 79.1(7) Treatment of debt; s. 79.1(8) Claims for debts; s. 89(1), "capital dividend account".

Interpretation Bulletins: *Primary* — IT-442R Bad debts and reserves for doubtful debts. *Secondary* — IT-123R6 Transactions involving eligible capital property.

► 20(4.3) ◄

(4.3) Deemed allowable capital loss. Where, in respect of one or more dispositions of eligible capital property by a taxpayer, an amount that is described in paragraph (*a*) of the description of E in the definition "cumulative eligible capital" in subsection 14(5) in respect of the taxpayer is established by the taxpayer to have become a bad debt in a taxation year, the taxpayer is deemed to have an allowable capital loss from a disposition of capital property in the year equal to the lesser of

(*a*) the total of the value determined for A and 2/3 of the value determined for B in the formula in subsection (4.2) in respect of the taxpayer for the year; and

(*b*) the total of all amounts each of which is

(i) the value determined for C or paragraph (*a*) of the description of F in the formula in subsection (4.2) in respect of the taxpayer for the year,

(ii) 3/4 of the value determined for D or paragraph (*b*) of the description of F in the formula in subsection (4.2) in respect of the taxpayer for the year, or

(iii) 2/3 of the value determined for E or G in the formula in subsection (4.2) in respect of the taxpayer for the year.

History: S. 20(4.3) was added by S.C. 2001, c. 17, s. 13(8), applicable to taxation years that end after February 27, 2000 except that, for taxation years that ended after February 27, 2000 and before October 18, 2000, the reference to the fraction "2/3" in paragraph 20(4.3)(*a*) and subparagraph 20(4.3)(*b*)(iii) shall be read as a reference to the fraction "8/9"; and subparagraph 20(4.3)(*b*)(ii) shall be read without reference to the expression "3/4 of".

Related Sections: S. 20(4.2) Bad debts re eligible capital property.

► 20(5) ◄

(5) Sale of agreement for sale, mortgage or hypothecary claim included in proceeds of disposition. Where depreciable property, other than a timber resource property, of a taxpayer has, in a taxation year, been disposed of to a person with whom the taxpayer was dealing at arm's length, and the proceeds of disposition include an agreement for the sale of, or a mortgage or hypothecary claim on, land that the taxpayer has, in a subsequent taxation year, sold to a person with whom the taxpayer was

dealing at arm's length, there may be deducted in computing the income of the taxpayer for the subsequent year an amount equal to the lesser of

(*a*) the amount, if any, by which the principal amount of the agreement for sale, mortgage or hypothecary claim outstanding at the time of the sale exceeds the consideration paid by the purchaser to the taxpayer for the agreement for sale, mortgage or hypothecary claim, and

(*b*) the amount determined under paragraph (*a*) less the amount, if any, by which the proceeds of disposition of the depreciable property exceed the capital cost to the taxpayer of that property.

History: S. 20(5), the portion before paragraph (*b*) was amended by S.C. 2001, c. 17, s. 203(2), applicable on Royal Assent, June 14, 2001. S. 20(5), the portion before paragraph (*b*) formerly read:

"(5) *Sale of agreement for sale or mortgage included in proceeds of disposition.* Where depreciable property, other than a timber resource property, of a taxpayer has, in a taxation year, been disposed of to a person with whom the taxpayer was dealing at arm's length, and the proceeds of disposition include an agreement for sale of or mortgage on land that the taxpayer has, in a subsequent taxation year, sold to a person with whom the taxpayer was dealing at arm's length, there may be deducted in computing the income of the taxpayer for the subsequent year an amount equal to the lesser of

(*a*) the amount, if any, by which the principal amount of the agreement for sale or mortgage outstanding at the time of the sale exceeds the consideration paid by the purchaser to the taxpayer for the agreement for sale or mortgage, and"

Related Sections: S. 13(2) Recaptured depreciation for passenger vehicle; s. 13(3) "Taxation year", "year" and "income" of individual; s. 13(21) Definitions.
Interpretation Bulletins: *Primary* — IT-323 Sale of mortgage included in proceeds of disposition of depreciable property [Archived by the CRA]. *Secondary* — IT-220R2 Capital cost allowance — Proceeds of disposition of depreciable property.

► 20(5.1) ◄

(5.1) Sale of agreement for sale, mortgage or hypothecary claim included in proceeds of disposition. Where a timber resource property of a taxpayer has, in a taxation year, been disposed of to a person with whom the taxpayer was dealing at arm's length, and the proceeds of disposition include an agreement for sale of, or a mortgage or hypothecary claim on, land that the taxpayer has, in a subsequent taxation year, sold to a person with whom the taxpayer was dealing at arm's length, there may be deducted in computing the income of the taxpayer for the subsequent year the amount, if any, by which the principal amount of the agreement for sale, mortgage or hypothecary claim outstanding at the time of the sale exceeds the consideration paid by the purchaser to the taxpayer for the agreement for sale, mortgage or hypothecary claim.

History: S. 20(5.1) was amended by S.C. 2001, c. 17, s. 203(3), applicable on Royal Assent, June 14, 2001. S. 20(5.1) formerly read:

"(5.1) *Idem.* Where a timber resource property of a taxpayer has, in a taxation year, been disposed of to a person with whom the taxpayer was dealing at arm's length, and the proceeds of disposition include an agreement for sale of or mortgage on land that the taxpayer has, in a subsequent taxation year, sold to a person with whom the taxpayer was dealing at arm's length, there may be deducted in computing the income of the taxpayer for the subsequent year the amount, if any, by which the principal amount of the agreement for sale or mortgage outstanding at the time of the sale exceeds the consideration paid by the purchaser to the taxpayer for the agreement for sale or mortgage."

Related Sections: S. 13(2) Recaptured depreciation for passenger vehicle; s. 13(3) "Taxation year", "year" and "income" of individual; s. 13(21), "proceeds of disposition", "timber resource property".

► 20(6) ◄

(6) Special reserves. Where an amount is deductible in computing income for a taxation year under paragraph (1)(*m*) as a reserve in respect of

(*a*) articles of food or drink that it is reasonably anticipated will have to be delivered after the end of the year, or

(*b*) transportation that it is reasonably anticipated will have to be provided after the end of the year,

there shall be substituted for the amount determined under that paragraph an amount not exceeding the total of amounts included in computing the taxpayer's income from the business for the year that were received or receivable (depending on the method regularly followed by the taxpayer in computing the taxpayer's profit) in the year in respect of

(*c*) articles of food or drink not delivered before the end of the year, or

(*d*) transportation not provided before the end of the year,

as the case may be.

Related Sections: S. 12(1)(*e*) Reserves for certain goods and services, etc.
Interpretation Bulletins: *Secondary* — IT-154R Special reserves.

► 20(7) ◄

(7) Where para. (1)(m) does not apply. Paragraph (1)(*m*) does not apply to allow a deduction

(*a*) as a reserve in respect of guarantees, indemnities or warranties;

(*b*) in computing the income of a taxpayer for a taxation year from a business in any case where the taxpayer's income for the year from that business is computed in accordance with the method authorized by subsection 28(1); or

(*c*) as a reserve in respect of insurance, except that in computing an insurer's income for a taxation year from an insurance business, other than a life insurance business, carried on by it, there may be deducted as a policy reserve any amount that the insurer claims not exceeding the amount prescribed in respect of the insurer for the year.

History: S. 20(7)(*c*) was amended by S.C. 1997, c. 25, s. 5(2), applicable to the 1996 and subsequent taxation years. S. 20(7)(*c*) formerly read:

"(*c*) as a reserve in respect of insurance, except that an insurance corporation may, in computing its income for a taxation year from an insurance business, other than a life insurance business, carried on by it, deduct as policy reserves such amounts as are prescribed for the purposes of this paragraph."

Related Sections: S. 12(1)(*e*) Reserves for certain goods and services, etc.; s. 12(1)(*e.1*) Negative reserves; s. 12(1)(*s*) Reinsurance commission; s. 139.1(8) Policy dividends.
Regulations: 1400(1),1400(3),1400(4),1400(5); 1402; 1402.1; 1408.
Interpretation Bulletins: *Secondary* — IT-154R Special reserves.
Canadian Tax Foundation: Frankovic, "The Taxation of Prepaid Income", *2002 Canadian Tax Journal*, No. 4, 1239.
Tax Window Files: Deductibility of a Reserve in Respect of a Class Action, April 11, 2006, CRA Document No. 2006-0169571I7; Assignment of Obligation Under Structured Settlement, 2006, CRA Document No. 2004-0086091R3; Continuity of Reserves on Dissolution of Partnership, November 20, 2003, CRA Document No. 2003-0033545; Software Maintenance Agreements, October 7, 2003, CRA Document No. 2003-0037947 [Reserve allowed for portion of payments made under computer software maintenance agreement, based on elements of maintenance plan not in the nature of an indemnity]; Computer Software Maintenance Agreements, December 4, 2001, CRA Document No. 2001-0110895 [Amounts received under hardware and software maintenance agreements not eligible for paragraph 20(1)(*m*) reserve owing to restriction in subsection 20(7)]; Assumption Reinsurance Agreement, August 8, 1997, CRA Document No. 9712983; Reserve — Assignment under a Structured Settlement, April 22, 1994, CRA Document No. 9408475; Life Insurer — Negative Policy Reserves, June 22, 1993, CRA Document No. 9409445; Structured Settlement Funded by Annuity — Receipt of Annuity by Insurance Company, February 9, 1993, CRA Document No. 9238645.

► 20(8) ◄

(8) No deduction in respect of property in certain circumstances. Paragraph (1)(*n*) does not apply to allow a deduction in computing the income of a taxpayer for a taxation year from a business in respect of a property sold in the course of the business if

(*a*) the taxpayer, at the end of the year or at any time in the immediately following taxation year,

(i) was exempt from tax under any provision of this Part, or

(ii) was not resident in Canada and did not carry on the business in Canada; or

(*b*) the sale occurred more than 36 months before the end of the year.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 20(8) of the Act is amended by striking out the word "or" at the end of paragraph (*a*) and by adding the following after paragraph (*b*):

(*c*) the purchaser of the property sold was a corporation that, immediately after the sale,

(i) was controlled, directly or indirectly, in any manner whatever, by the taxpayer,

(ii) was controlled, directly or indirectly, in any manner whatever, by a person or group of persons that controlled the taxpayer, directly or indirectly, in any manner whatever, or

(iii) controlled the taxpayer, directly or indirectly, in any manner whatever; or

(*d*) the purchaser of the property sold was a partnership in which the taxpayer was, immediately after the sale, a majority interest partner.

Applicable: In respect of property sold by a taxpayer after December 20, 2002. However, if a property so sold pursuant to an agreement in writing made before December 21, 2002 is transferred to the purchaser before 2004

(*a*) subsection 20(8), as it read immediately before [the addition of paragraphs (*c*) and (*d*)], applies in respect of the property; and

(*b*) for the purpose of applying paragraph 20(1)(*n*) to the taxpayer for a taxation year in respect of the property, a reasonable amount as a reserve in respect of an amount not due in respect of the sale may not exceed the amount that would be reasonable if the proceeds from any subsequent disposition of the property that the purchaser receives before the end of the taxation year were received by the taxpayer.

Explanatory Note:

Reserve Not Available

Paragraph 20(1)(*n*) of the Act allows a taxpayer to claim a reserve in respect of the taxpayer's profit from the sale of certain property, where all or part of the proceeds of the sale are not due until at least two years after the time of sale. However, subsection 20(8) of the Act provides that this reserve is limited to taxation years that end less than 36 months after the time of the sale. For example, where the taxation year is 12 months, the reserve is available in the taxation year in which the sale occurred and the two subsequent taxation years.

New paragraphs 20(8)(*c*) and (*d*) generally apply, in respect of dispositions of property that occur after December 20, 2002, to provide that the reserve under paragraph 20(1)(*n*) is not available to a taxpayer where the purchaser of the property is a corporation controlled by the taxpayer or is a partnership of which the taxpayer is a majority interest partner.

Related Sections: S. 20(1)(*n*) Reserve for unpaid amounts; s. 149 Miscellaneous exemptions; s. 212 Taxation of non-residents.

Interpretation Bulletins: *Primary* — IT-152R3 Special reserves — Sale of land. *Secondary* — IT-154R Special reserves.

► 20(9) ◄

(9) Application of para. (1)(cc). In lieu of making any deduction of an amount permitted by paragraph (1)(*cc*) in computing a taxpayer's income for a taxation year from a business, the taxpayer may, if the taxpayer so elects in prescribed manner, make a deduction of 1/10 of that amount in computing the taxpayer's income for that taxation year and a like deduction in computing the taxpayer's income for each of the 9 immediately following taxation years.

Related Sections: S. 13(12) Application of para. 20(1)(cc); s. 249(1) Definition of "taxation year".
Regulations: 4100.

► 20(10) ◄

(10) Convention expenses. Notwithstanding paragraph 18(1)(*b*), there may be deducted in computing a taxpayer's income for a taxation year from a business an amount paid by the taxpayer in the year as or on account of expenses incurred by the taxpayer in attending, in connection with the business, not more than two conventions held during the year by a business or professional organization at a location that may reasonably be regarded as consistent with the territorial scope of that organization.

Interpretation Bulletins: *Primary* — IT-131R2 Convention expenses; *Secondary* — IT-357R2 Expenses of training.

► 20(11) ◄

(11) Foreign taxes on income from property exceeding 15%. In computing the income of an individual from a property other than real property for a taxation year after 1975 that is income from a source outside Canada, there may be deducted the amount, if any, by which,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 20(11) of the Act before paragraph (*a*) is replaced by the following:

(11) Foreign taxes on income from property exceeding 15%. In computing the income of an individual from a property other than real or immovable property for a taxation year after 1975 that is income from a source outside Canada, there may be deducted the amount, if any, by which,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*a*) such part of any income or profits tax paid by the taxpayer to the government of a country other than Canada for the year as may reasonably be regarded as having been paid in respect of an amount that has been included in computing the taxpayer's income for the year from the property,

exceeds

(*b*) 15% of the amount referred to in paragraph (*a*).

Related Sections: S. 95(1), "foreign affiliate"; s. 104(22) Designation of foreign source income by trust; s. 126(7) Definitions; s. 144(8.1) Foreign tax

deduction; s. 248(1), "corporation", "share"; s. 249(1) Definition of "taxation year"; s. 255 Canada.

Interpretation Bulletins: *Primary* — IT-506 Foreign income taxes as a deduction from income. *Secondary* — IT-201R2 Foreign tax credit — Trust and beneficiaries; IT-270R3 Foreign tax credit.

Tax Profile: February 2007 — U.S. Limited Liability Companies — The Good, the Bad and the Ugly; January 2006 — Foreign Source Income: Outbound Structures and Foreign Tax Credit Planning — Part I; April 2001 — Canada–U.S. Hybrids.

► 20(12) ◄

(12) Foreign non-business income tax. In computing a taxpayer's income for a taxation year from a business or property, there may be deducted such amount as the taxpayer claims not exceeding the non-business income tax paid by the taxpayer for the year to the government of a country other than Canada (within the meaning assigned by subsection 126(7) read without reference to paragraphs (*c*) and (*e*) of the definition "non-business-income tax" in that subsection) in respect of that income, other than any such tax, or part thereof, that can reasonably be regarded as having been paid by a corporation in respect of income from a share of the capital stock of a foreign affiliate of the corporation.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 20(12) of the Act is replaced by the following:

(12) Foreign non-business income tax. In computing the income of a taxpayer who is resident in Canada at any time in a taxation year from a business or property for the year, there may be deducted any amount that the taxpayer claims that does not exceed the non-business income tax paid by the taxpayer for the year to the government of a country other than Canada (within the meaning assigned by subsection 126(7) read without reference to paragraphs (*c*) and (*e*) of the definition "non-business income tax" in that subsection) in respect of that income, other than any of those taxes paid that can, in whole or in part, reasonably be regarded as having been paid by a corporation in respect of income from a share of the capital stock of a foreign affiliate of the corporation.

Applicable: After December 20, 2002 in respect of taxes paid at any time.

Explanatory Note:

Deduction for Foreign Tax

Subsection 20(12) of the Act allows a taxpayer to deduct, in computing income for a taxation year from a business or property, non-business income taxes paid to a foreign government in respect of the income. The subsection is amended to make explicit the requirement that the taxpayer claiming the deduction be resident in Canada during all or part of the year for which the claim is made. This amendment is clarifying only, and applicable after December 20, 2002. (Accordingly, the amendment is effective for any application of the Act after that date.)

History: S. 20(12) was amended by S.C. 1994, c. 7, Sched. VIII, s. 9(3), applicable to the 1992 and subsequent taxation years. S. 20(12) formerly read:

"(12) In computing the income of a taxpayer for a taxation year, there may be deducted such amount as the taxpayer may claim not exceeding the non-business income tax paid by the taxpayer for the year to the government of a country other than Canada (within the meaning assigned by the definition 'non-business-income tax' in subsection 126(7) if that definition were read without reference to paragraphs (*c*) and (*e*) thereof) other than any such tax, or part thereof, that may reasonably be regarded as having been paid by a corporation in respect of income from a share of the capital stock of a foreign affiliate of the corporation."

Related Sections: S. 95(1), "foreign affiliate"; s. 104(22) Designation of foreign source income by trust; s. 126(7), "business-income tax", "non-business-income tax"; s. 138(5.1) No deduction; s. 248(1), "corporation", "share", "foreign affiliate".

Interpretation Bulletins: *Primary* — IT-506 Foreign income taxes as a deduction from income. *Secondary* — IT-201R2 Foreign tax credit — Trust and beneficiaries; IT-270R3 Foreign tax credit.

Tax Profile: February 2007 — U.S. Limited Liability Companies — The Good, the Bad and the Ugly; January 2006 — Foreign Source Income: Outbound Structures and Foreign Tax Credit Planning — Part I.

► 20(12.1) ◄

(12.1) Foreign tax where no economic profit. In computing a taxpayer's income for a taxation year from a business, there may be deducted the amount that the taxpayer claims not exceeding the lesser of

(*a*) the amount of foreign tax (within the meaning assigned by subsection 126(4.1)) that

(i) is in respect of a property used in the business for a period of ownership by the taxpayer or in respect of a related transaction (as defined in subsection 126(7)),

(ii) is paid by the taxpayer for the year,

(iii) is, because of subsection 126(4.1), not included in computing the taxpayer's business-income tax or non-business-income tax, and

(iv) where the taxpayer is a corporation, is not an amount that can reasonably be regarded as having been paid in respect of income from a share of the capital stock of a foreign affiliate of the taxpayer, and

(*b*) the portion of the taxpayer's income for the year from the business that is attributable to the property for the period or to a related transaction (as defined in subsection 126(7)).

History: S. 20(12.1) was added by S.C. 1999, c. 22, s. 9(2), applicable to the 1998 and subsequent taxation years.

Related Sections: S. 248(28) Limitation respecting inclusions, deductions and tax credits.

► 20(13) ◄

(13) Dividend on share from foreign affiliate of taxpayer. In computing the income for a taxation year of a taxpayer resident in Canada, there may be deducted such amount in respect of a dividend received by the taxpayer in the year on a share owned by the taxpayer of the capital stock of a foreign affiliate of the taxpayer as is provided by subdivision i.

Related Sections: S. 91(5) Amounts deductible in respect of dividends received.

► 20(14) ◄

(14) Accrued bond interest. Where, by virtue of an assignment or other transfer of a debt obligation, other than an income bond, an income debenture, a small business development bond or a small business bond, the transferee has become entitled to an amount of interest that accrued on the debt obligation for a period commencing before the time of transfer and ending at that time that is not payable until after that time, that amount

(*a*) shall be included as interest in computing the transferor's income for the transferor's taxation year in which the transfer occurred, except to the extent that it was otherwise included in computing the

transferor's income for the year or a preceding taxation year; and

(*b*) may be deducted in computing the transferee's income for a taxation year to the extent that the amount was included as interest in computing the transferee's income for the year.

Related Sections: S. 12(9) Deemed accrual; s. 20(14.1) Interest on debt obligation; s. 20(21) Debt obligation; s. 53(2)(*l*) Amounts to be deducted — Accrued interest on transferred debt obligation; s. 214(6) Deemed interest; s. 214(7) Sale of obligation; s. 214(7.1) Obligation transfer between a resident and a non-resident; s. 214(9) Deemed resident.
Regulations: 211.
Interpretation Bulletins: *Primary* — IT-410R Debt obligations — Accrued interest on transfer [Archived by the CRA]. *Secondary* — IT-396R Interest income.
Tax Window Files: Interest Income Calculation — Coupon Bonds Issued at a Premium or Discount, May 31, 2004, CRA Document No. 2004-0074381E5

► 20(14.1) ◄

(14.1) Interest on debt obligation. Where a person who has issued a debt obligation, other than an income bond, an income debenture, a small business development bond or a small business bond, is obligated to pay an amount that is stipulated to be interest on that debt obligation in respect of a period before its issue (in this subsection referred to as the "unearned interest amount") and it is reasonable to consider that the person to whom the debt obligation was issued paid to the issuer consideration for the debt obligation that included an amount in respect of the unearned interest amount,

(*a*) for the purposes of subsection (14) and section 12, the issue of the debt obligation shall be deemed to be an assignment of the debt obligation from the issuer, as transferor, to the person to whom the obligation was issued, as transferee, and an amount equal to the unearned interest amount shall be deemed to be interest that accrued on the obligation for a period commencing before the issue and ending at the time of issue; and

(*b*) notwithstanding paragraph (*a*) or any other provision of this Act, no amount that can reasonably be considered to be an amount in respect of the unearned interest amount shall be deducted or included in computing the income of the issuer.

► 20(15) ◄

(15) Regulations. [Repealed by S.C. 2003, c. 28, s. 3(2).]

History: S. 20(15) was repealed by S.C. 2003, c. 28, s. 3(2), applicable to taxation years that end after 2002. S. 20(15) formerly read:

"(15) *Regulations.* For greater certainty it is hereby declared that, in the case of a regulation made under paragraph (1)(*v.1*) allowing to a taxpayer an amount in respect of natural accumulations of petroleum or natural gas in Canada, oil or gas wells in Canada or mineral resources in Canada,

(*a*) there may be allowed to the taxpayer by that regulation an amount in respect of any or all such accumulations, wells or resources; and

(*b*) notwithstanding any other provision contained in this Act, the Governor in Council may prescribe the formula by which the amount that may be allowed to the taxpayer by that regulation shall be determined."

Related Sections: S. 20(1)(*v.1*) Resource allowance.
Regulations: 1210.

► 20(16) ◄

(16) Terminal loss. Notwithstanding paragraphs 18(1)(*a*), (*b*) and (*h*), where at the end of a taxation year,

(*a*) the total of all amounts used to determine A to D in the definition "undepreciated capital cost" in subsection 13(21) in respect of a taxpayer's depreciable property of a particular class exceeds the total of all amounts used to determine E to J in that definition in respect of that property, and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 20(16)(*a*) of the Act is replaced by the following:

(*a*) the total of all amounts used to determine A to D.1 in the definition "undepreciated capital cost" in subsection 13(21) in respect of a taxpayer's depreciable property of a particular class exceeds the total of all amounts used to determine E to K in that definition in respect of that property, and

Applicable: To taxation years that end after February 23, 1998.

Explanatory Note:

Terminal Loss

Subsection 20(16) of the Act permits a taxpayer to deduct, in computing the taxpayer's income for a year, the terminal loss of the taxpayer in respect of a class of depreciable property at the end of the year. That subsection is amended to add a reference to the new descriptions of D.1 and K of the definition "undepreciated capital cost" in subsection 13(21) of the Act. For information about those new descriptions, see the commentary to subsection 13(1).

This amendment applies to taxation years that end after February 23, 1998, and corrects a technical deficiency.

(*b*) the taxpayer no longer owns any property of that class,

in computing the taxpayer's income for the year

(*c*) there shall be deducted the amount of the excess determined under paragraph (*a*), and

(*d*) no amount shall be deducted for the year under paragraph (1)(*a*) in respect of property of that class.

History: S. 20(16), that part following paragraph (*d*), was repealed by S.C. 1994, c. 7, Sched. II, s. 15(8), applicable to taxation years beginning after July 13, 1990. That part formerly read:

"and the amount of the excess determined under paragraph (*a*) shall be deemed to have been deducted under paragraph (1)(*a*) in computing the taxpayer's income for the year from a business or property."

Editorial Note: In general terms, a terminal loss occurs when there is no property left in a class of depreciable property and the undepreciated capital cost (UCC) balance of the class is positive at the end of a taxation year. The loss is fully deductible in computing income in the year. Despite the positive UCC balance, capital cost allowance is not deductible in the year under paragraph 20(1)(*a*). Unlike capital cost allowance, which is a permissive deduction, a terminal loss must be deducted in the year it occurs.

Related Sections: S. 20(16.1) Terminal loss for passenger vehicle.
Interpretation Bulletins: *Primary* — IT-464R Capital cost allowance — Leasehold Interests; IT-478R2 Capital cost allowance — Recapture and terminal loss, *Secondary* — IT-172R Capital cost allowance — Taxation year of individual; IT-288R2 Gifts of capital properties to a charity and others; IT-465R Non-resident beneficiaries of trusts; IT-478R2 Capital Cost Allowance — Recapture and Terminal Loss.
Canadian Petroleum Tax Journal: Canada Customs and Revenue Agency 1999 Roundtable Questions and Answers, Question 14, Vol. 13 No. 1 2000.

► 20(16.1) ◄

(16.1) Idem. Subsection (16) does not apply in respect of a passenger vehicle of a taxpayer that has a cost to the taxpayer in excess of $20,000 or such other amount as is prescribed.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 20(16.1) of the Act is replaced by the following:

(16.1) Non-application of subsection (16). Subsection (16) does not apply

(*a*) in respect of a passenger vehicle of a taxpayer that has a cost to the taxpayer in excess of $20,000 or any other amount that is prescribed; and

(*b*) in respect of a taxation year in respect of a property that was a former property deemed by paragraph 13(4.3)(*a*) or (*b*) to be owned by the taxpayer, if

(i) within 24 months after the taxpayer last owned the former property, the taxpayer or a person not dealing at arm's length with the taxpayer acquires a similar property in respect of the same fixed place to which the former property applied, and

(ii) at the end of the taxation year, the taxpayer or the person owns the similar property or another similar property in respect of the same fixed place to which the former property applied.

Applicable: In respect of taxation years that end after December 20, 2002.

Explanatory Note:

Non-Application of Subsection (16)

Subsection 20(16.1) of the Act provides that a terminal loss under subsection 20(16) in respect of a depreciable property that is a "passenger vehicle" costing more than a prescribed amount (currently set at $30,000) is not deductible in computing income. That rule is renumbered as paragraph 20(16.1)(*a*) and new paragraph 20(16.1)(*b*) is added, applicable to taxation years that end after December 20, 2002. These amendments are made concurrently with the addition of subsections 13(4.2) and (4.3) of the Act and with the amendment of the definition "former business property" in subsection 248(1) of the Act.

New paragraph 20(16.1)(*b*) provides that a terminal loss is not available in respect of another person's former business property that was deemed under paragraph 13(4.3)(*a*) or (*b*) (as the result of a joint election under subsection 13(4.2) by the taxpayer and the other person) to be owned by the taxpayer. For further information, refer to the commentary to subsections 13(4.2) and (4.3).

History: S. 20(16.1) was amended by S.C. 1994, c. 7, Sched. VIII, s. 9(4), applicable to the taxation years and fiscal periods beginning after June 17, 1987 that end after 1987. S. 20(16.1) formerly read:

"(16.1) *Idem.* Notwithstanding paragraph (16)(*c*), where an excess amount is determined under paragraph (16)(*a*) at the end of a taxation year in respect of a passenger vehicle having a cost to a taxpayer in excess of $20,000 or such other amount as may be prescribed, that excess amount shall not be deducted in computing the taxpayer's income for the year."

Related Sections: S. 13(2) Recaptured depreciation for passenger vehicle; s. 248(1), "passenger vehicle", "prescribed".
Regulations: 1100(2.5); 7307(1); Sched. II, Class 10.1.
Interpretation Bulletins: *Secondary* — IT-478R2 Capital Cost Allowance — Recapture and Terminal Loss; IT-521R Motor vehicle expenses claimed by self-employed individuals; IT-522R Vehicle, Travel and Sales Expenses of Employees.

► 20(16.2) ◄

(16.2) Reference to "taxation year" and "year" of individual. Where a taxpayer is an individual and the taxpayer's income for a taxation year includes income from a business the fiscal period of which does not coincide with the calendar year, if depreciable property acquired for the purpose of gaining or producing income from the business has been disposed of, each reference in subsections (16) and (16.1) to a "taxation year" and "year" shall, for greater certainty, be read as a reference to a "fiscal period".

History: S. 20(16.2) was added in the revised Act.

Interpretation Bulletins: *Secondary* — IT-478R2 Capital Cost Allowance — Recapture and Terminal Loss.

► 20(16.3) ◄

(16.3) Disposition after ceasing business. Where a taxpayer, after ceasing to carry on a business, has disposed of depreciable property of the taxpayer of a prescribed class that was acquired by the taxpayer for the purpose of gaining or producing income from the business and that was not subsequently used by the taxpayer for some other purpose, in applying subsection (16) or (16.1), each reference in that subsection to a "taxation year" and "year" shall, notwithstanding anything in subsection (16.2), not be read as a reference to a "fiscal period".

History: S. 20(16.3) was added in the revised Act.

Interpretation Bulletins: *Secondary* — IT-478R2 Capital Cost Allowance — Recapture and Terminal Loss.

► 20(17) ◄

(17) Reduction of inventory allowance deduction. Notwithstanding paragraph 20(1)(*gg*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, the deduction allowed under that paragraph to a taxpayer for a taxation year shall be reduced by 3% of that proportion of the lesser of

(*a*) the cost amount to the taxpayer of the taxpayer's qualifying inventory that was disposed of during the year by the taxpayer in a specified transaction to a person with whom the taxpayer was not dealing at arm's length, and

(*b*) the cost amount to the taxpayer of the taxpayer's qualifying inventory at the beginning of the year,

that the number of days in the year and after the date of disposition is of 365.

Editorial Note: Former Bill C-10 proposes to repeal subsections 20(17) and 20(18). See the pending amendment following subsection 20(18).

Related Sections: S. 20(18), "qualifying inventory".

► 20(18) ◄

(18) Definitions. For the purposes of this subsection and subsection (17),

"*qualifying inventory*" — "qualifying inventory" means tangible property described in subparagraphs 20(1)(*gg*)(i) and (ii) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, other than real property or an interest therein or property of a taxpayer that becomes property of a new corporation by virtue of an amalgamation or merger;

"*specified transaction*" — "specified transaction" means

(*a*) a distribution by a corporation of qualifying inventory on or in the course of its winding-up,

(*b*) a disposition by a taxpayer of all or a substantial part of the taxpayer's qualifying inventory, or

(*c*) a disposition at a particular time of qualifying inventory by a taxpayer one of the principal purposes of which was to permit a person with whom the taxpayer does not deal at arm's length to obtain a deduction in respect thereof under paragraph 20(1)(*gg*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, for that person's first taxation year commencing after the particular time,

but does not include any such distribution or disposition by a taxpayer to another person during a taxation year of that other person that ends at least 11 months after the commencement of the taxation year of the taxpayer during which the distribution or disposition occurs.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsections 20(17) and (18) of the Act are repealed.

(17) Reduction of inventory allowance deduction. [Repealed.]

(18) Definitions. [Repealed.]

Applicable: Royal Assent.

Explanatory Note: Subsections 20(17) and 20(18) Subsections 20(17) and 20(18) are repealed, as the provision to which they relate has been repealed.

► 20(19) ◄

(19) Annuity contract. Where a taxpayer has in a particular taxation year received a payment under an annuity contract in respect of which an amount was by virtue of subsection 12(3) included in computing the taxpayer's income for a taxation year commencing before 1983, there may be deducted in computing the taxpayer's income for the particular year such amount, if any, as is allowed by regulation.

Related Sections: S. 87(2)(*j*.4) Accrual rules.
Regulations: 303.

► 20(20) ◄

(20) Life insurance policy. Where in a taxation year a taxpayer disposes of an interest in a life insurance policy that is not an annuity contract (otherwise than as a consequence of a death) or of an interest in an annuity contract (other than a prescribed annuity contract), there may be deducted in computing the taxpayer's income for the year an amount equal to the lesser of

(*a*) the total of all amounts in respect of the interest in the policy that were included under section 12.2 of this Act or paragraph 56(1)(*d*.1) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, in computing the taxpayer's income for the year or a preceding taxation year, and

(*b*) the amount, if any, by which the adjusted cost basis (within the meaning assigned by section 148) to the taxpayer of that interest immediately before the disposition exceeds the proceeds of the disposition (within the meaning assigned by section 148) of the interest that the policyholder, a beneficiary or an assignee became entitled to receive.

History: S. 20(20), all that part preceding paragraph (*b*), was amended by S.C. 1994, c. 7, Sched. II, s. 15(9), applicable to dispositions occurring after 1989. That portion formerly read:

"(20) Where a taxpayer has in a particular taxation year disposed of an interest in a life insurance policy that is not an annuity contract (otherwise than as a consequence of a death) or an interest in an annuity contract under which annuity payments have not commenced and in respect of which an amount was included by virtue of subsection 12.2(1) or (3) of this Act or subsection 12.2(4) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, in computing the taxpayer's income for a taxation year, there may be deducted in computing the taxpayer's income for the particular year an amount equal to the lesser of

(*a*) the total of all amounts each of which is an amount in respect of the interest in the policy that was included by virtue of subsection 12.2(1), (3) or (5) of this Act or subsection 12.2(4) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, in computing the taxpayer's income for the year or a preceding taxation year, and"

Related Sections: S. 148(2) Deemed proceeds of disposition.

► 20(21) ◄

(21) Debt obligation. Where a taxpayer has in a particular taxation year disposed of a property that is an interest in a debt obligation for consideration equal to its fair market value at the time of disposition, there may be deducted in computing the taxpayer's income for the particular year the amount, if any, by which

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 20(21) of the Act before paragraph (*a*) is replaced by the following:

(21) Debt obligation. Where a taxpayer has in a particular taxation year disposed of a property that is an interest in, or for civil law a right in, a debt obligation for consideration equal to its fair market value at the time of disposition, there may be deducted in computing the taxpayer's income for the particular year the amount, if any, by which

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*a*) the total of all amounts each of which is an amount that was included in computing the taxpayer's income for the particular year or a preceding taxation year as interest in respect of that property

exceeds the total of all amounts each of which is

(*b*) the portion of an amount that was received or became receivable by the taxpayer in the particular year or a preceding taxation year that can reasonably be considered to be in respect of an amount described in paragraph (*a*) and that was not repaid by the taxpayer to the issuer of the debt obligation because of an adjustment in respect of interest received before the time of disposition by the taxpayer, or

(*c*) an amount in respect of that property that was deductible by the taxpayer by virtue of paragraph (14)(*b*) in computing the taxpayer's income for the particular year or a preceding taxation year.

History: S. 20(21)(*b*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 9(5), applicable to dispositions occurring after December 20, 1991. S. 20(21)(*b*) formerly read:

"(*b*) the portion of an amount that was received or became receivable by the taxpayer at or before that time that can reasonably be considered to be in respect of an amount described in paragraph (*a*) and that was not repaid by the taxpayer to the issuer of the debt obligation because of an adjustment in respect of interest received before that time by the taxpayer, or"

S. 20(21)(*b*) was amended by S.C. 1994, c. 7, Sched. II, s. 15(10), applicable to the 1986 and subsequent taxation years. S. 20(21)(*b*) formerly read:

"(*b*) the portion of an amount that was received or became receivable by the taxpayer at or before that time as can reasonably be considered to be in respect of an amount described in paragraph (*a*), or"

Related Sections: S. 12(3) Interest income; s. 12(4) Interest from investment contract; s. 12(9) Deemed accrual; s. 20(14) Accrued bond interest; s. 248(1), "amount"; s. 249(1) Definition of "taxation year".
Interpretation Bulletins: *Secondary*— IT-396R Interest income.
Tax Window Files: Interest Income Calculation — Coupon Bonds Issued at a Premium or Discount, May 31, 2004, CRA Document No. 2004-0074381E5

► 20(22) ◄

(22) Deduction for negative reserves. In computing an insurer's income for a taxation year, there may be deducted the amount included under paragraph 12(1)(*e.1*) in computing the insurer's income for the preceding taxation year.

History: S. 20(22) was added by S.C. 1997, c. 25, s. 5(3), applicable to the 1996 and subsequent taxation years.
Related Sections: S. 12(1)(*e.1*) Negative reserves.

► 20(23) ◄

(23) "Member's portion". [Repealed by 1990, c. 35, s. 4(3).]

► 20(24) ◄

(24) Amounts paid for undertaking future obligations. Where an amount is included under paragraph 12(1)(*a*) in computing a taxpayer's income for a taxation year in respect of an undertaking to which that paragraph applies and the taxpayer paid a reasonable amount in a particular taxation year to another person as consideration for the assumption by that other person of the taxpayer's obligations in respect of the undertaking, if the taxpayer and the other person jointly so elect,

(*a*) the payment may be deducted in computing the taxpayer's income for the particular year and no amount is deductible under paragraph (1)(*m*) or (*m.1*) in computing the taxpayer's income for that or any subsequent taxation year in respect of the undertaking; and

(*b*) where the amount was received by the other person in the course of business, it shall be deemed to be an amount described in paragraph 12(1)(*a*).

History: S. 20(24) was amended by S.C. 1994, c. 7, Sched. VIII, s. 9(6), applicable to the 1991 and subsequent taxation years. S. 20(24) formerly read:

"(24) Where a taxpayer has under paragraph 12(1)(*a*) included in computing the taxpayer's income for a taxation year amounts in respect of services not rendered or goods not delivered before the end of the year and the taxpayer has paid a reasonable amount in a particular taxation year to another taxpayer for undertaking to provide those services or goods, if the payer and the recipient have jointly so elected, the following rules apply:

(*a*) the payer may deduct the payment in computing the payer's income for the particular year and no amount is deductible in respect of those services and goods under paragraph (1)(*m*) in computing the payer's income for that or any subsequent taxation year; and

(*b*) for the purposes of paragraph 12(1)(*a*), the recipient shall be deemed to have received the payment in the course of a business on account of services not rendered or goods not delivered before the end of the taxation year in which the recipient received the payment."

Related Sections: S. 12(1)(*a*) Services, etc., to be rendered; s. 20(1)(*m*) Reserve in respect of certain goods and services; s. 20(1)(*m.1*) Manufacturer's warranty reserve; s. 20(25) Manner of election; s. 248(1), "amount", "business"; s. 249(1) Definition of "taxation year".
Regulations: 600 (Draft amendment)
Interpretation Bulletins: *Secondary*— IT-154R Special reserves; IT-321R Insurance agents and brokers — Unearned commissions [Archived by the CRA].
Tax Window Files: Amounts Paid for Undertaking Future Obligations, March 7, 2005, CRA Document No. 2005-0114981E5 [Subsection 20(24) deduction not limited to year of paragraph 12(1)(*a*) inclusion and therefore can be claimed in year of paragraph 12(1)(*e*) inclusion].

► 20(25) ◄

(25) Manner of election. An election under subsection (24) shall be made by notifying the Minister in writing on or before the earlier of the days on or before which either the payer or the recipient is required to file a return of income pursuant to section 150 for the taxation year in which the payment to which the election relates was made.
Interpretation Bulletins: *Secondary*— IT-154R Special reserves.

► 20(26) ◄

(26) Transition deduction re unpaid claims reserve. An insurer may deduct, in computing its income for its taxation year that includes February 23, 1994, such amount as the insurer claims not exceeding the amount prescribed to be the insurer's unpaid claims reserve adjustment.

History: S. 20(26) was amended by S.C. 1995, c. 3, s. 7(3), applicable to taxation years that include February 23, 1994. S. 20(26) formerly read:

"(26) *Deduction re net reserve adjustment.* In computing the income from a business of a taxpayer who is an insurer or whose business includes the lending of money for the taxpayer's first taxation year that commences after June 17, 1987 and ends after 1987, there may be deducted an amount equal to the taxpayer's prescribed amount of net reserve adjustment or such lesser amount as the taxpayer may claim."

Related Sections: S. 12.3 Transition inclusion re unpaid claims reserve.
Regulations: 8100.

► 20(27) ◄

(27) Loans, etc., acquired in ordinary course of business. For the purposes of computing a deduction under paragraph (1)(*l*), (*l.1*) or (*p*) from the income for a taxation year of a taxpayer who was an insurer or whose ordinary business included the lending of money, a loan or lending asset or an instrument or commitment described in paragraph (1)(*l.1*) acquired from a person with whom the taxpayer did not deal at arm's length for an amount equal to its fair market value shall be deemed to have been acquired by the taxpayer in the ordinary course of the taxpayer's business of insurance or the lending of money where

(*a*) the person from whom the loan or lending asset or instrument or commitment was acquired carried on the business of insurance or the lending of money; and

(*b*) the loan or lending asset was made or acquired or the instrument or commitment was issued, made or assumed by the person in the ordinary course of the person's business of insurance or the lending of money.

► 20(27.1) ◄

(27.1) Application of ss. 13(21) and 138(12). The definitions in subsections 13(21) and 138(12) apply to this section.

History: S. 20(27.1) was added in the revised Act.

► 20(28) ◄

(28) Deduction before available for use. In computing a taxpayer's income from a business or property for a taxation year ending before the time a building or a part thereof acquired after 1989 by the taxpayer becomes available for use by the taxpayer, there may be deducted an amount not exceeding the amount by which the lesser of

(*a*) the amount that would be deductible under paragraph (1)(*a*) for the year in respect of the building if subsection 13(26) did not apply, and

(*b*) the taxpayer's income for the year from renting the building, computed without reference to this subsection and before deducting any amount in respect of the building under paragraph (1)(*a*)

exceeds

(*c*) the amount deductible under paragraph (1)(*a*) for the year in respect of the building, computed without reference to this subsection,

and any amount so deducted shall be deemed to be an amount deducted by the taxpayer under paragraph (1)(*a*) in computing the taxpayer's income for the year.

History: S. 20(28) was added by S.C. 1994, c. 7, Sched. II, s. 15(11), applicable to taxation years ending after 1989.

Related Sections: S. 13(26)–(32) Available for use rules; s. 20(1)(*a*) Capital cost of property.

► 20(29) ◄

(29) Idem. Where, because of subsection 18(3.1), a deduction would, but for this subsection, not be allowed to a taxpayer in respect of an outlay or expense in respect of a building, or part thereof, and the outlay or expense would, but for that subsection and without reference to this subsection, be deductible in computing the taxpayer's income for a taxation year, there may be deducted in respect of such outlays and expenses in computing the taxpayer's income for the year an amount equal to the lesser of

(*a*) the total of all such outlays or expenses, and

(*b*) the taxpayer's income for the year from renting the building or the part thereof computed without reference to subsection (28) and this subsection.

History: S. 20(29) was added by S.C. 1994, c. 7, Sched. II, s. 15(11), applicable to outlays and expenses made or incurred after 1989.

Editorial Note: Subsection 20(29) provides an exception to the capitalization of soft costs under subsection 18(3.1), and allows a taxpayer to deduct such costs incurred in a year to the extent of the taxpayer's rental income from the building computed before taking into account any capital cost allowance under subsection 20(28).

Related Sections: S. 13(26)–(32); s. 18(3.1) Costs relating to construction of building or ownership of land; s. 20(1)(*gg*) Disability-related modifications to buildings.

► 20(30) ◄

(30) Specified reserve adjustment. For the purpose of the description of N in subclause (1)(*l*)(ii)(D)(II), the specified reserve adjustment for a loan of a taxpayer for a taxation year is the amount determined by the formula

$$0.1(A \times B \times C/365)$$

where

A is the carrying amount of the impaired loan that is used or would be used in determining the interest income on the loan for the year in accordance with generally accepted accounting principles;

B is the effective interest rate on the loan for the year determined in accordance with generally accepted accounting principles; and

C is the number of days in the year on which the loan is impaired.

History: S. 20(30) was added by S.C. 1998, c. 19, s. 81(8), applicable

(*a*) to taxation years that end after September 1997; and

(*b*) to a taxpayer's taxation years that end after 1995 and before October 1997 where the taxpayer elects in writing to have subsection (4) apply to the year and files the election with the Minister of National Revenue by September 30, 1998.

SECTION 20.01:

► 20.01(1) ◄

(1) PHSP premiums. Notwithstanding paragraphs 18(1)(*a*) and (*h*) and subject to subsection (2), there may be deducted in computing an individual's income for a taxation year from a business carried on by the individual and in which the individual is actively engaged on a regular and continuous basis, directly or as a member of a partnership, an amount payable by the individual or partnership in respect of the year as a premium, contribution or other consideration under a private health services plan in respect of the individual, the individual's spouse or common-law partner or any person who is a member of the individual's household if

(*a*) in the year or in the preceding taxation year

(i) the total of all amounts each of which is the individual's income from such a business for a fiscal period that ends in the year exceeds 50% of the individual's income for the year, or

(ii) the individual's income for the year does not exceed the total of $10,000 and the total referred to in subparagraph (i) in respect of the individual for the year,

on the assumption that the individual's income from each business is computed without reference to this subsection and the individual's income is computed without reference to this subsection and subdivision e; and

(*b*) the amount is payable under a contract between the individual or partnership and

(i) a person licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada an insurance business or the business of offering to the public its services as trustee,

(ii) a person or partnership engaged in the business of offering to the public its services as an administrator of private health services plans, or

(iii) a person the taxable income of which is exempt under section 149 and that is a business or professional organization of which the individual is a member or a trade union of which the individual or a majority of the individual's employees are members.

History: S. 20.01(1), the portion before paragraph (*a*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(c), applicable January 1, 2001, coming into force on July 31, 2000. S. 20.01(1), the portion before paragraph (*a*) formerly read:

"(1) Notwithstanding paragraphs 18(1)(*a*) and (*h*) and subject to subsection (2), there may be deducted in computing an individual's income for a taxation year from a business carried on by the individual and in which the individual is actively engaged on a regular and continuous basis, directly or as a member of a partnership, an amount payable by the individual or partnership in respect of the year as a premium, contribution or other consideration under a private health services plan in respect of the individual, the individual's spouse or any person who is a member of the individual's household if"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 20.01(1) was added by S.C. 1999, c. 22, s. 10(1), applicable to amounts that become payable after 1997.

Related Sections: S. 6(1)(*a*) Value of benefits; s. 18(1)(*a*) General limitation; s. 118.2(2)(*q*) Medical expenses; s. 248(1), "disposition", "private health services plan".

► 20.01(2) ◄

(2) Limit. For the purpose of calculating the amount deductible under subsection (1) in computing an individual's income for a taxation year from a particular business,

(*a*) no amount may be deducted to the extent that

(i) it is deducted under this section in computing another individual's income for any taxation year, or

(ii) it is included in calculating a deduction under section 118.2 in computing an individual's tax payable under this Part for any taxation year;

(*b*) where an amount payable under a private health services plan relates to a period in the year throughout which

(i) each of one or more persons

(A) is employed on a full-time basis (other than on a temporary or seasonal basis) in the particular business or in another business carried on by

(I) the individual (otherwise than as a member of a partnership),

(II) a partnership of which the individual is a majority interest partner, or

(III) a corporation affiliated with the individual, and

(B) has accumulated not less than three months of service in that employment since the person last became so employed, and

(ii) the total number of persons employed in a business described in clause (i)(A), with whom the individual deals at arm's length and to whom coverage is extended under the plan, is not less than 50% of the total number of persons each of whom is a person

(A) who carries on the particular business or is employed in a business described in clause (i)(A), and

(B) to whom coverage is extended under the plan,

the amount so deductible in relation to the period shall not exceed the individual's cost of equivalent coverage under the plan in respect of each employed person who deals at arm's length with the individual and who is described in subparagraph (i) in relation to the period;

(*c*) subject to paragraph (*d*), where an amount payable under a private health services plan relates to a particular period in the year, other than a period described in paragraph (*b*), the amount so deductible in relation to the particular period shall not exceed the amount determined by the formula

$$(A/365) \times (B + C)$$

where

A is the number of days in the year that are included in the particular period,

B is the product obtained when $1,500 is multiplied by the number of persons each of whom is covered under the plan, and

(i) is the individual or the individual's spouse or common-law partner, or

(ii) is a member of the individual's household and has attained the age of 18 years before the beginning of the particular period, and

C is the product obtained when $750 is multiplied by the number of members of the individual's household who, but for the fact that they have not attained the age of 18 years before the particular period began, would be included in computing the product under the description of B; and

(*d*) where an amount payable under a private health services plan relates to a particular period in the year (other than a period described in paragraph (*b*)) and one or more persons with whom the individual deals at arm's length are described in subparagraph (*b*)(i) in relation to the particular period, the amount so deductible in relation to the particular period shall not exceed the lesser of the amount determined under the formula set out in paragraph (*c*) and the individual's cost of equivalent coverage in respect of any such person in relation to the particular period.

History: S. 20.01(2)(*c*), subparagraph (i) of the description of B was amended by S.C. 2000, c. 12, Sched. 2, s. 1(c), applicable January 1, 2001, coming into force on July 31, 2000. S. 20.01(2)(*c*), subparagraph (i) of the description of B formerly read:

"(i) is the individual or the individual's spouse, or"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 20.01(2) was added by S.C. 1999, c. 22, s. 10(1), applicable to amounts that become payable after 1997.

► 20.01(3) ◄

(3) Equivalent coverage. For the purpose of subsection (2), an amount payable in respect of an individual under a private health services plan in relation to a period does not exceed the individual's cost of equivalent coverage under the plan in respect of another person in relation to the period to the extent that, in relation to the period, the amount does not exceed the product obtained when

(*a*) the amount that would be the individual's cost of coverage under the plan if the benefits and coverage in respect of the individual, the individual's spouse or common-law partner and the members of the individual's household were identical to the benefits and coverage made available in respect of the other person, the other person's spouse or common-law partner and the members of the other person's household

is multiplied by

(*b*) the percentage of the cost of coverage under the plan in respect of the other person that is payable by the individual or a partnership of which the individual is a member.

History: S. 20.01(3)(*a*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(c), applicable January 1, 2001, coming into force on July 31, 2000. S. 20.01(3)(*a*) formerly read:

"(*a*) the amount that would be the individual's cost of coverage under the plan if the benefits and coverage in respect of the individual, the individual's spouse and the members of the individual's household were identical to the benefits and coverage made available in respect of the other person, the other person's spouse and the members of the other person's household"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 20.01(3) was added by S.C. 1999, c. 22, s. 10(1), applicable to amounts that become payable after 1997.

SECTION 20.1:

► 20.1(1) ◄

(1) Borrowed money used to earn income from property. Where

(*a*) at any time after 1993 borrowed money ceases to be used by a taxpayer for the purpose of earning income from a capital property (other than real property or depreciable property), and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 20.1(1)(*a*) of the English version of the Act is replaced by the following:

(*a*) at any time after 1993 borrowed money ceases to be used by a taxpayer for the purpose of earning income from a capital property (other than real or immovable property or depreciable property), and

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*b*) the amount of the borrowed money that was so used by the taxpayer immediately before that time exceeds the total of

(i) where the taxpayer disposed of the property at that time for an amount of consideration that is not less than the fair market value of the property at that time, the amount of the borrowed money used to acquire the consideration,

(ii) where the taxpayer disposed of the property at that time and subparagraph (i) does not apply, the amount of the borrowed money that, if the taxpayer had received as consideration an amount of money equal to the amount by which the fair market value of the property at that time exceeds the amount included in the total by reason of subparagraph (iii), would be considered to be used to acquire the consideration,

(iii) where the taxpayer disposed of the property at that time for consideration that includes a reduction in the amount of the borrowed money, the amount of the reduction, and

(iv) where the taxpayer did not dispose of the property at that time, the amount of the borrowed money that, if the taxpayer had disposed of the property at that time and received as consideration an amount of money equal to the fair market value of the property at that time, would be considered to be used to acquire the consideration,

an amount of the borrowed money equal to the excess shall, to the extent that the amount is outstanding after that time, be deemed to be used by the taxpayer for the purpose of earning income from the property.

History: S. 20.1(1) was added by S.C. 1994, c. 21, s. 13(1), applicable after 1993.

Editorial Note: Section 20.1 effectively overrules the decision in *Emerson v. The Queen*, 86 DTC 6184 (F.C.A.), which held that interest on borrowed money ceased to be deductible under paragraph 20(1)(*c*) when the source of income to which the interest related no longer existed, unless the borrowed money could be traced to another income-producing use.

Related Sections: S. 20(1)(*c*) Interest; s. 20(3) Borrowed money.

Interpretation Bulletins: *Secondary* — IT-533 Interest Deductibility and Related Issues.

Tax Window Files: Interest Expense and Attribution of Income, May 16, 2000, CRA Document No. 2000-0005125 [Subsection 20.1(1) may apply to borrowed money used to acquire shares that are subsequently transferred to spouse for no consideration, assuming fair market value of shares less than amount of borrowed money]; Loss of Income Source — Interest on Funds Used to Acquire Partnership Interest, June 10, 1996, CRA Document No. 9611135 [Subsection 20.1(1) not applicable to partnership interest to extent capital withdrawn by partnership].

► 20.1(2) ◄

(2) Borrowed money used to earn income from business. Where at any particular time after 1993 a taxpayer ceases to carry on a business and, as a consequence, borrowed money ceases to be used by the taxpayer for the purpose of earning income from the business, the following rules apply:

(*a*) where, at any time (in this paragraph referred to as the "time of disposition") at or after the particular time, the taxpayer disposes of property that was last used by the taxpayer in the business, an amount of the borrowed money equal to the lesser of

(i) the fair market value of the property at the time of disposition, and

(ii) the amount of the borrowed money outstanding at the time of disposition that is not deemed by this paragraph to have been used before the time of disposition to acquire any other property

shall be deemed to have been used by the taxpayer immediately before the time of disposition to acquire the property;

(*b*) subject to paragraph (*a*), the borrowed money shall, after the particular time, be deemed not to have been used to acquire property that was used by the taxpayer in the business;

(*c*) the portion of the borrowed money outstanding at any time after the particular time that is not deemed by paragraph (*a*) to have been used before that subsequent time to acquire property shall be deemed to be used by the taxpayer at that subsequent time for the purpose of earning income from the business; and

(*d*) the business shall be deemed to have fiscal periods after the particular time that coincide with the taxation years of the taxpayer, except that the first such fiscal period shall be deemed to begin at the end of the business's last fiscal period that began before the particular time.

History: S. 20.1(2) was added by S.C. 1994, c. 21, s. 13(1), applicable after 1993.

Related Sections: S. 20(1)(*c*) Interest; s. 20(3) Borrowed money.

Cases: The taxpayer ceased to operate a business and later disposed of property used in that business. Interest on funds borrowed to acquire such property was deductible under s. 20.1(2). *Ciebien v. The Queen*, (T.C.C.) 2002 DTC 1589.

► 20.1(3) ◄

(3) Deemed dispositions. For the purpose of paragraph (2)(*a*),

(*a*) where a property was used by a taxpayer in a business that the taxpayer has ceased to carry on, the taxpayer shall be deemed to dispose of the property at the time at which the taxpayer begins to use the

property in another business or for any other purpose;

(*b*) where a taxpayer, who has at any time ceased to carry on a business, regularly used a property in part in the business and in part for some other purpose,

(i) the taxpayer shall be deemed to have disposed of the property at that time, and

(ii) the fair market value of the property at that time shall be deemed to equal the proportion of the fair market value of the property at that time that the use regularly made of the property in the business was of the whole use regularly made of the property; and

(*c*) where the taxpayer is a trust, subsections 104(4) to (5.2) do not apply.

History: S. 20.1(3) was added by S.C. 1994, c. 21, s. 13(1), applicable after 1993.

Related Sections: S. 20(3) Borrowed money.

► 20.1(4) ◄

(4) Amount payable for property. Where an amount is payable by a taxpayer for property, the amount shall be deemed, for the purposes of this section and, where subsection (2) applies with respect to the amount, for the purposes of this Act, to be payable in respect of borrowed money used by the taxpayer to acquire the property.

History: S. 20.1(4) was added by S.C. 1994, c. 21, s. 13(1), applicable after 1993.

Related Sections: S. 20(3) Borrowed money.
Interpretation Bulletins: *Secondary*— IT-533 Interest Deductibility and Related Issues.

► 20.1(5) ◄

(5) Interest in partnership. For the purposes of this section, where borrowed money that has been used to acquire an interest in a partnership is, as a consequence, considered to be used at any time for the purpose of earning income from a business or property of the partnership, the borrowed money shall be deemed to be used at that time for the purpose of earning income from property that is the interest in the partnership and not to be used for the purpose of earning income from the business or property of the partnership.

History: S. 20.1(5) was added by S.C. 1994, c. 21, s. 13(1), applicable after 1993.

Related Sections: S. 20(3) Borrowed money.

► 20.1(6) ◄

(6) Refinancings. Where at any time a taxpayer uses borrowed money to repay money previously borrowed that was deemed by paragraph (2)(*c*) immediately before that time to be used for the purpose of earning income from a business,

(*a*) paragraphs (2)(*a*) to (*c*) apply with respect to the borrowed money; and

(*b*) subsection 20(3) does not apply with respect to the borrowed money.

History: S. 20.1(6) was added by S.C. 1994, c. 21, s. 13(1), applicable after 1993.

Related Sections: S. 20(3) Borrowed money.

SECTION 20.2:

► 20.2(1) ◄

(1) Interest — authorized foreign bank — interpretation. The following definitions apply in this section.

"branch advance" — "branch advance" of an authorized foreign bank means an amount allocated or provided by, or on behalf of, the bank to, or for the benefit of, its Canadian banking business under terms that were documented, before the amount was so allocated or provided, to the same extent as, and in a form similar to the form in which, the bank would ordinarily document a loan by it to a person with whom it deals at arm's length.

History: S. 20.2(1), the definition "branch advance" was added by S.C. 2001, c. 17, s. 14(1), applicable After June 27, 1999 except that in its application to amounts allocated or provided before the day that is 14 days after August 8, 2000, the definition "branch advance" in subsection 20.2(1) shall be read as follows:

" 'branch advance' of an authorized foreign bank at a particular time means an amount allocated or provided by, or on behalf of, the bank to, or for the benefit of, its Canadian banking business under terms that were documented, on or before December 31, 2000, to the same extent as, and in a form similar to the form in which, the bank would ordinarily document a loan by it to a person with whom it deals at arm's length."

"branch financial statements" — "branch financial statements" of an authorized foreign bank for a taxation year means the unconsolidated statements of assets and liabilities and of income and expenses for the year, in respect of its Canadian banking business,

(*a*) that form part of the bank's annual report for the year filed with the Superintendent of Financial Institutions as required under section 601 of the *Bank Act*, and accepted by the Superintendent, and

(*b*) if no filing is so required for the taxation year, that are prepared in a manner consistent with the statements in the annual report or reports so filed and accepted for the period or periods in which the taxation year falls,

except if the Minister demonstrates that the statements are not prepared in accordance with generally-accepted accounting principles in Canada as modified by any specifications applicable to the bank made by the Superintendent of Financial Institutions under subsection 308(4) of the *Bank Act* (in this definition referred to as "modified GAAP"), in which case it means the statements subject to such modifications as are required to make them comply with modified GAAP.

History: S. 20.2(1), the definition "branch financial statements" was amended by S.C. 2001, c. 17, s. 14(1), applicable after June 27, 1999.

"calculation period" — "calculation period" of an authorized foreign bank for a taxation year means any one of a series of regular periods into which the year is divided in a designation by the bank in its return of income for the year or, in the absence of such a designation, by the Minister,

(*a*) none of which is longer than 31 days;

(*b*) the first of which commences at the beginning of the year and the last of which ends at the end of the year; and

(*c*) that are, unless the Minister otherwise agrees in writing, consistent with the calculation periods designated for the bank's preceding taxation year.

History: S. 20.2(1), the definition "calculation period" was added by S.C. 2001, c. 17, s. 14(1), applicable after June 27, 1999.

► 20.2(2) ◄

(2) Formula elements. The following descriptions apply for the purposes of the formulae in subsection (3) for any calculation period in a taxation year of an authorized foreign bank:

A is the amount of the bank's assets at the end of the period;

BA is the amount of the bank's branch advances at the end of the period;

IBA is the total of all amounts each of which is a reasonable amount on account of notional interest for the period, in respect of a branch advance, that would be deductible in computing the bank's income for the year if it were interest payable by, and the advance were indebtedness of, the bank to another person and if this Act were read without reference to paragraph 18(1)(*v*) and this section;

IL is the total of all amounts each of which is an amount on account of interest for the period in respect of a liability of the bank to another person or partnership that would be deductible in computing the bank's income for the year if this Act were read without reference to paragraph 18(1)(*v*) and this section; and

L is the amount of the bank's liabilities to other persons and partnerships at the end of the period.

History: S. 20.2(2) was added by S.C. 2001, c. 17, s. 14(1), applicable after June 27, 1999.

► 20.2(3) ◄

(3) Interest deduction. In computing the income of an authorized foreign bank from its Canadian banking business for a taxation year, there may be deducted on account of interest for each calculation period of the bank for the year,

(*a*) where the total amount at the end of the period of its liabilities to other persons and partnerships and branch advances is 95% or more of the amount of its assets at that time, an amount not exceeding

(i) if the amount of liabilities to other persons and partnerships at that time is less than 95% of the amount of its assets at that time, the amount determined by the formula

$$IL + IBA \times (0.95 \times A - L)/BA$$

and

(ii) if the amount of those liabilities at that time is greater than or equal to 95% of the amount of its assets at that time, the amount determined by the formula

$$IL \times (0.95 \times A)/L$$

and

(*b*) in any other case, the total of

(i) the amount determined by the formula

$$IL + IBA$$

and

(ii) the product of

(A) the amount claimed by the bank, in its return of income for the year, not exceeding the amount determined by the formula

$$(0.95 \times A) - (L + BA)$$

and

(B) the average, based on daily observations, of the Bank of Canada bank rate for the period.

History: S. 20.2(3) was added by S.C. 2001, c. 17, s. 14(1), applicable after June 27, 1999.

► 20.2(4) ◄

(4) Branch amounts. Only amounts that are in respect of an authorized foreign bank's Canadian banking business, and that are recorded in the books of account of the business in a manner consistent with the manner in which they are required to be treated for the purposes of the branch financial statements, shall be used to determine

(*a*) the amounts in subsection (2); and

(*b*) the amounts in subsection (3) of an authorized foreign bank's assets, liabilities to other persons and partnerships, and branch advances.

History: S. 20.2(4) was added by S.C. 2001, c. 17, s. 14(1), applicable after June 27, 1999.

► 20.2(5) ◄

(5) Notional interest. For the purposes of the description of IBA in subsection (2), a reasonable amount on account of notional interest for a calculation period in respect of a branch advance is the amount that would be payable on account of interest for the period by a notional borrower, having regard to the duration of the advance, the currency in which repayment is required and all other terms, as adjusted by paragraph (*c*), of the advance, if

(*a*) the borrower were a person that dealt at arm's length with the bank, that carried on the bank's Canadian banking business and that had the same credit-worthiness and borrowing capacity as the bank;

(*b*) the advance were a loan by the bank to the borrower; and

(*c*) any of the terms of the advance (excluding the rate of interest, but including the structure of the interest calculation, such as whether the rate is fixed or floating and the choice of any reference rate referred to) that are not terms that would be made between the bank as lender and the borrower, having regard to all the circumstances, including the nature of the Canadian banking business, the use of the advanced funds in the business and normal risk management practices for banks, were instead terms that would be agreed to by the bank and the borrower.

History: S. 20.2(5) was added by S.C. 2001, c. 17, s. 14(1), applicable after June 27, 1999.

Related Sections: S. 18(1)(*v*) Interest — authorized foreign bank; s. 212(13.3) Application of Part XIII to authorized foreign bank; s. 218.2(2) Taxable interest expense; s. 248(1), "authorized foreign bank", "Canadian banking business".

SECTION 20.3:

► 20.3(1) ◄

(1) Weak currency debt — interpretation. The definitions in this subsection apply in this section.

"*exchange date*" — "exchange date" in respect of a debt of a taxpayer that is at any time a weak currency debt

means, if the debt is incurred or assumed by the taxpayer

(*a*) in respect of borrowed money that is denominated in the final currency, the day that the debt is incurred or assumed by the taxpayer; and

(*b*) in respect of borrowed money that is not denominated in the final currency, or in respect of the acquisition of property, the day on which the taxpayer uses the borrowed money or the acquired property, directly or indirectly, to acquire funds that are, or to settle an obligation that is, denominated in the final currency.

History: S. 20.3(1), the definition "exchange date", was added by S.C. 2001, c. 17, s. 14(1), applicable to taxation years that end after February 27, 2000.

"*hedge*" — "hedge" in respect of a debt of a taxpayer that is at any time a weak currency debt means any agreement made by the taxpayer

(*a*) that can reasonably be regarded as having been made by the taxpayer primarily to reduce the taxpayer's risk, with respect to payments of principal or interest in respect of the debt, of fluctuations in the value of the weak currency, and

(*b*) that is identified by the taxpayer as a hedge in respect of the debt in a designation in prescribed form filed with the Minister on or before the 30th day after the day the taxpayer enters into the agreement.

History: S. 20.3(1), the definition "hedge" was added by S.C. 2001, c. 17, s. 14(1), applicable to taxation years that end after February 27, 2000.

Sec. 14(4), Chap. 17, S.C. 2001

(4) A designation described in paragraph (*b*) of the definition "hedge" in subsection 20.3(1) of the Act is deemed to have been filed in a timely manner if it is filed on or before the later of July 31, 2000 and the 30th day after the day the taxpayer agrees to the hedge.

"*weak currency debt*" — "weak currency debt" of a taxpayer at a particular time means a particular debt in a foreign currency (in this section referred to as the "weak currency"), incurred or assumed by the taxpayer at a time (in this section referred to as the "commitment time") after February 27, 2000, in respect of a borrowing of money or an acquisition of property, where

(*a*) any of the following applies, namely,

(i) the borrowed money is denominated in a currency (in this section referred to as the "final currency") other than the weak currency, is used for the purpose of earning income from a business or property and is not used to acquire funds in a currency other than the final currency,

(ii) the borrowed money or the acquired property is used, directly or indirectly, to acquire funds that are denominated in a currency (in this section referred to as the "final currency") other than the weak currency, that are used for the purpose of earning income from a business or property and that are not used to acquire funds in a currency other than the final currency,

(iii) the borrowed money or the acquired property is used, directly or indirectly, to settle an obligation that is denominated in a currency (in this section referred to as the "final currency") other than the weak currency, that is incurred or assumed for the purpose of earning income from a business or property and that is not incurred or assumed to acquire funds in a currency other than the final currency, or

(iv) the borrowed money or the acquired property is used, directly or indirectly, to settle another debt of the taxpayer that is at any time a weak currency debt in respect of which the final currency (which is deemed to be the final currency in respect of the particular debt) is a currency other than the currency of the particular debt;

(*b*) the amount of the particular debt (together with any other debt that would, but for this paragraph, be at any time a weak currency debt, and that can reasonably be regarded as having been incurred or assumed by the taxpayer as part of a series of transactions that includes the incurring or assumption of the particular debt) exceeds $500,000; and

(*c*) either of the following applies, namely,

(i) if the rate at which interest is payable at the particular time in the weak currency in respect of the particular debt is determined under a formula based on the value from time to time of a reference rate (other than a reference rate the value of which is established or materially influenced by the taxpayer), the interest rate at the commitment time, as determined under the formula as though interest were then payable, exceeds by more than two percentage points the rate at which interest would have been payable at the commitment time in the final currency if

(A) the taxpayer had, at the commitment time, instead incurred or assumed an equivalent amount of debt in the final currency on the same terms as the particular debt (excluding the rate of interest but including the structure of the interest calculation, such as whether the rate is fixed or floating) with those modifications that the difference in currency requires, and

(B) interest on the equivalent amount of debt referred to in clause (A) was payable at the commitment time, or

(ii) in any other case, the rate at which interest is payable at the particular time in the weak currency in respect of the particular debt exceeds by more than two percentage points the rate at which interest would have been payable at the particular time in the final currency if at the commitment time the taxpayer had instead incurred or assumed an equivalent amount of debt in the final currency on the same terms as the particular debt (excluding the rate of interest but including the structure of the interest calculation, such as whether the rate is fixed or floating), with those modifications that the difference in currency requires.

History: S. 20.3(1), the definition "weak currency debt" was added by S.C. 2001, c. 17, s. 14(1), applicable to taxation years that end after February 27, 2000.

► 20.3(2) ◄

(2) Interest and gain. Notwithstanding any other provision of this Act, the following rules apply in respect of a particular debt of a taxpayer (other than a corporation

described in one or more of paragraphs (*a*), (*b*), (*c*) and (*e*) of the definition "specified financial institution" in subsection 248(1)) that is at any time a weak currency debt:

(*a*) no deduction on account of interest that accrues on the debt for any period that begins after the day that is the later of June 30, 2000 and the exchange date during which it is a weak currency debt shall exceed the amount of interest that would, if at the commitment time the taxpayer had instead incurred or assumed an equivalent amount of debt, the principal and interest in respect of which were denominated in the final currency, on the same terms as the particular debt (excluding the rate of interest but including the structure of the interest calculation, such as whether the rate is fixed or floating) have accrued on the equivalent debt during that period, with those modifications that the difference in currency requires;

(*b*) the amount, if any, of the taxpayer's gain or loss (in this section referred to as a "foreign exchange gain or loss") for a taxation year on the settlement or extinguishment of the debt that arises because of the fluctuation in the value of any currency shall be included or deducted, as the case may be, in computing the taxpayer's income for the year from the business or the property to which the debt relates; and

(*c*) the amount of any interest on the debt that was, because of this subsection, not deductible is deemed, for the purpose of computing the taxpayer's foreign exchange gain or loss on the settlement or extinguishment of the debt, to be an amount paid by the taxpayer to settle or extinguish the debt.

History: S. 20.3(2) was added by S.C. 2001, c. 17, s. 14(1), applicable to taxation years that end after February 27, 2000.

Related Sections: S. 20(1)(*c*) Interest.
Canadian Tax Foundation: Chapman and Marcovitz, "Weak-currency Borrowing Transactions", *2001 Canadian Tax Journal*, No. 4, 961.
Canadian Petroleum Tax Journal: Café Annie's Tasty Inbound Financing, Jim McKee, Vol. 15 No. 1 2002.

► 20.3(3) ◄

(3) Hedges. In applying subsection (2) in circumstances where a taxpayer has entered into a hedge in respect of a debt of the taxpayer that is at any time a weak currency debt, the amount paid or payable in the weak currency for a taxation year on account of interest on the debt, or paid in the weak currency in the year on account of the debt's principal, shall be decreased by the amount of any foreign exchange gain, or increased by the amount of any foreign exchange loss, on the hedge in respect of the amount so paid or payable.

History: S. 20.3(3) was added by S.C. 2001, c. 17, s. 14(1), applicable to taxation years that end after February 27, 2000.

► 20.3(4) ◄

(4) Repayment of principal. If the amount (expressed in the weak currency) outstanding on account of principal in respect of a debt of the taxpayer that is at any time a weak currency debt is reduced before maturity (whether by repayment or otherwise), the amount (expressed in the weak currency) of the reduction is deemed, except for the purposes of determining the rate of interest that would have been charged on an equivalent loan in the final currency and applying paragraph (*b*) of the definition "weak currency debt" in subsection (1), to have been a separate debt from the commitment time.

History: S. 20.3(4) was added by S.C. 2001, c. 17, s. 14(1), applicable to taxation years that end after February 27, 2000.

SECTION 20.4: [Insurer's Reserve Deduction].

► 20.4(1) ◄

(1) Definitions. The definitions in section 12.5 apply for the purposes of this section.

History: S. 20.4(1) was added by S.C. 2009, c. 2, s. 8(1), applicable to taxation years that begin after September 2006.

► 20.4(2) ◄

(2) Transition year income deduction. There shall be deducted in computing an insurer's income for its transition year from an insurance business carried on by it in Canada in the transition year the absolute value of the negative amount, if any, of the insurer's reserve transition amount in respect of that insurance business.

History: S. 20.4(2) was added by S.C. 2009, c. 2, s. 8(1), applicable to taxation years that begin after September 2006.

► 20.4(3) ◄

(3) Transition year income inclusion reversal. If an amount has been included under subsection 12.5(2) in computing an insurer's income for its transition year from an insurance business carried on by it in Canada, there shall be deducted in computing the insurer's income, for each particular taxation year of the insurer that ends after the beginning of the transition year, from that insurance business, the amount determined by the formula

$$A \times B/1825$$

where

A is the amount included under subsection 12.5(2) in computing the insurer's income for the transition year from that insurance business; and

B is the number of days in the particular taxation year that are before the day that is 1825 days after the first day of the transition year.

History: S. 20.4(3) was added by S.C. 2009, c. 2, s. 8(1), applicable to taxation years that begin after September 2006.

► 20.4(4) ◄

(4) Ceasing to carry on business. If at any time an insurer ceases to carry on all or substantially all of an insurance business (referred to in this subsection as the "discontinued business"), and none of subsections 12.5(4) to (6) apply, there shall be deducted in computing the insurer's income from the discontinued business for the insurer's taxation year that includes the time that is immediately before that time, the amount determined by the formula

$$A - B$$

where

A is any amount included under subsection 12.5(2) in computing the insurer's income from the discontinued business for its transition year; and

B is the total of all amounts each of which is an amount deducted under subsection (3) in computing the insurer's income from the discontinued business for a taxation year that began before that time.

History: S. 20.4(4) was added by S.C. 2009, c. 2, s. 8(1), applicable to taxation years that begin after September 2006.

SECTION 21:

► 21(1) ◄

(1) Cost of borrowed money. Where in a taxation year a taxpayer has acquired depreciable property, if the taxpayer elects under this subsection in the taxpayer's return of income under this Part for the year,

(*a*) in computing the taxpayer's income for the year and for such of the 3 immediately preceding taxation years as the taxpayer had, paragraphs 20(1)(*c*), (*d*), (*e*) and (*e*.1) do not apply to the amount or to the part of the amount specified in the taxpayer's election that, but for an election under this subsection in respect thereof, would be deductible in computing the taxpayer's income (other than exempt income) for any such year in respect of borrowed money used to acquire the depreciable property or the amount payable for the depreciable property; and

(*b*) the amount or the part of the amount, as the case may be, described in paragraph (*a*) shall be added to the capital cost to the taxpayer of the depreciable property so acquired by the taxpayer.

History: S. 21(1)(*a*) was amended by S.C. 1994, c. 7, Sched. II, s. 16(1), applicable after 1987. S. 21(1)(*a*) formerly read:

"(*a*) in computing the taxpayer's income for the year and for such of the 3 immediately preceding taxation years as the taxpayer had, paragraphs 20(1)(*c*), (*d*) and (*e*) do not apply to the amount or to the part of the amount specified by the taxpayer in the election that, but for an election under this subsection in respect thereof, would have been deductible in computing the taxpayer's income (other than exempt income) for any such year in respect of borrowed money used to acquire the depreciable property or the amount payable for the depreciable property acquired by the taxpayer; and"

Related Sections: S. 20(3) Borrowed money; s. 21(5) Reassessments; s. 212(1)(*b*)(iii)(E) Interest; s. 220(3.2) Late, amended or revoked elections.
Regulations: 600(*a*).
Interpretation Bulletins: *Primary* — IT-121R3 Election to capitalize cost of borrowed money. *Secondary* — IT-142R3 Settlement of debts on the winding-up of a corporation; IT-341R4 Expenses of issuing or selling shares, units in a trust, interests in a partnership or syndicate and expenses of borrowing money; IT-360R2 Interest payable in a foreign currency.
Information Circulars: IC 07-1 Taxpayer Relief Provisions.
Advance Tax Rulings: ATR-1 Transfer of legal title in land to bare trustee corporation — Mortgagee's requirements sole reason for transfer.
Cases: Construction period interest may be treated as an expense, deductible under s. 20(1)(c), or may be capitalized under s. 21(1), but not otherwise. Capitalized interest is not part of the capital cost for ITC purposes. *Alberta Wheat Pool et al. v. The Queen*, (F.C.A.) 99 DTC 5198, affirming (T.C.C.) 96 DTC 1795.

► 21(2) ◄

(2) Borrowed money used for exploration or development. Where in a taxation year a taxpayer has used borrowed money for the purpose of exploration, development or the acquisition of property and the expenses incurred by the taxpayer in respect of those activities are Canadian exploration and development expenses, Canadian exploration expenses, Canadian development expenses, Canadian oil and gas property expenses, foreign resource expenses in respect of a country, or foreign exploration and development expenses, as the case may be, if the taxpayer so elects under this subsection in the taxpayer's return of income for the year,

(*a*) in computing the taxpayer's income for the year and for such of the three immediately preceding taxation years as the taxpayer had, paragraphs 20(1)(*c*), (*d*), (*e*) and (*e*.1) do not apply to the amount or to the part of the amount specified in the taxpayer's election that, but for that election, would be deductible in computing the taxpayer's income (other than exempt income or income that is exempt from tax under this Part) for any such year in respect of the borrowed money used for the exploration, development or acquisition of property, as the case may be; and

(*b*) the amount or the part of the amount, as the case may be, described in paragraph (*a*) is deemed to be Canadian exploration and development expenses, Canadian exploration expenses, Canadian development expenses, Canadian oil and gas property expenses, foreign resource expenses in respect of a country, or foreign exploration and development expenses, as the case may be, incurred by the taxpayer in the year.

History: S. 21(2) was amended by S.C. 2001, c. 17, s. 15(1), applicable to taxation years that begin after 2000. S. 21(2) formerly read:

"(2) *Borrowed money used for exploration or development.* Where in a taxation year a taxpayer has used borrowed money for the purpose of exploration, development or the acquisition of property and the expenses incurred by the taxpayer in respect thereof are Canadian exploration and development expenses, foreign exploration and development expenses, Canadian exploration expenses, Canadian development expenses or Canadian oil and gas property expenses, as the case may be, if the taxpayer elects under this subsection in the taxpayer's return of income under this Part for the year,

(*a*) in computing the taxpayer's income for the year and for such of the 3 immediately preceding taxation years as the taxpayer had, paragraphs 20(1)(*c*), (*d*), (*e*) and (*e*.1) do not apply to the amount or to the part of the amount specified in the taxpayer's election that, but for an election under this subsection in respect thereof, would be deductible in computing the taxpayer's income (other than exempt income) for any such year in respect of the borrowed money used for the exploration, development or acquisition of property, as the case may be; and

(*b*) the amount or the part of the amount, as the case may be, described in paragraph (*a*) shall be deemed to be Canadian exploration and development expenses, foreign exploration and development expenses, Canadian exploration expenses, Canadian development expenses or Canadian oil and gas property expenses, as the case may be, incurred by the taxpayer in the year."

S. 21(2)(*a*) was amended by S.C. 1994, c. 7, Sched. II, s. 16(2), applicable after 1987. S. 21(2)(*a*) formerly read:

"(*a*) in computing the taxpayer's income for the year and for such of the 3 immediately preceding taxation years as the taxpayer had, paragraphs 20(1)(*c*), (*d*) and (*e*) do not apply to the amount or to the part of the amount specified by the taxpayer in the election that, but for an election under this subsection in respect thereof, would have been deductible in computing the taxpayer's income (other than exempt income) for any such year in respect of the borrowed money used for the exploration, development or acquisition of property, as the case may be; and"

Related Sections: S. 21(5) Reassessments; s. 66 Exploration and development expenses of principal-business corporations.
Regulations: 600(*a*).
Interpretation Bulletins: *Primary* — IT-121R3 Election to capitalize cost of borrowed money. *Secondary* — IT-142R3 Settlement of debts on the winding-up of a corporation; IT-341R4 Expenses of issuing or selling shares, units in a trust, interests in a partnership or syndicate and expenses of borrowing money; IT-360R2 Interest payable in a foreign currency.
Information Circulars: IC 07-1 Taxpayer Relief Provisions.

► 21(3) ◄

(3) Borrowing for depreciable property. In computing the income of a taxpayer for a particular taxation year, where the taxpayer

(*a*) in any preceding taxation year

(i) made an election under subsection (1) in respect of borrowed money used to acquire depreciable property or an amount payable for depreciable property acquired by the taxpayer, or

(ii) was, by virtue of subsection 18(3.1), required to include an amount in respect of the construction of a depreciable property in computing the capital cost to the taxpayer of the depreciable property, and

(*b*) in each taxation year, if any, after that preceding taxation year and before the particular year, made

an election under this subsection covering the total amount that, but for an election under this subsection in respect thereof, would have been deductible in computing the taxpayer's income (other than exempt income) for each such year in respect of the borrowed money used to acquire the depreciable property or the amount payable for the depreciable property acquired by the taxpayer,

if an election under this subsection is made in the taxpayer's return of income under this Part for the particular year, paragraphs 20(1)(*c*), (*d*), (*e*) and (*e*.1) do not apply to the amount or to the part of the amount specified in the election that, but for an election under this subsection in respect thereof, would be deductible in computing the taxpayer's income (other than exempt income) for the particular year in respect of the borrowed money used to acquire the depreciable property or the amount payable for the depreciable property acquired by the taxpayer, and the amount or part of the amount, as the case may be, shall be added to the capital cost to the taxpayer of the depreciable property.

History: S. 21(3), all that portion following paragraph (*b*), was amended by S.C. 1994, c. 7, Sched. II, s. 16(3), applicable after 1987. That portion formerly read:

"if the taxpayer elects under this subsection in the taxpayer's return of income under this Part for the particular year, paragraphs 20(1)(*c*), (*d*) and (*e*) do not apply to the amount or to the part of the amount specified by the taxpayer in the election that, but for an election under this subsection in respect thereof, would have been deductible in computing the taxpayer's income (other than exempt income) for the particular year in respect of the borrowed money used to acquire the depreciable property or the amount payable for the depreciable property acquired by the taxpayer, and the said amount or part of the amount, as the case may be, shall be added to the capital cost to the taxpayer of the depreciable property so acquired by him."

Interpretation Bulletins: *Primary* — IT-121R3 Election to capitalize cost of borrowed money. *Secondary* — IT-142R3 Settlement of debts on the winding-up of a corporation; IT-341R4 Expenses of issuing or selling shares, units in a trust, interests in a partnership or syndicate and expenses of borrowing money; IT-360R2 Interest payable in a foreign currency.

► 21(4) ◄

(4) Borrowing for exploration, etc. In computing the income of a taxpayer for a particular taxation year, where the taxpayer

(*a*) in any preceding taxation year made an election under subsection (2) in respect of borrowed money used for the purpose of exploration, development or acquisition of property,

(*b*) in each taxation year, if any, after that preceding taxation year and before the particular year, made an election under this subsection covering the total amount that, but for that election, would have been deductible in computing the taxpayer's income (other than exempt income or income that is exempt from tax under this Part) for each such year in respect of the borrowed money used for the exploration, development or acquisition of property, as the case may be, and

(*c*) so elects in the taxpayer's return of income for the particular year,

the following rules apply:

(*d*) paragraphs 20(1)(*c*), (*d*), (*e*) and (*e*.1) do not apply to the amount or to the part of the amount specified in the election that, but for the election, would be deductible in computing the taxpayer's income (other than exempt income or income that is exempt from tax under this Part) for the particular year in respect of the borrowed money used for the exploration, development or acquisition of property, and

(*e*) the amount or part of the amount, as the case may be, is deemed to be Canadian exploration and development expenses, Canadian exploration expenses, Canadian development expenses, Canadian oil and gas property expenses, foreign resource expenses in respect of a country, or foreign exploration and development expenses, as the case may be, incurred by the taxpayer in the particular year.

History: S. 21(4)(*b*) was amended, and paragraphs (*c*), (*d*) and (*e*) were added, by S.C. 2001, c. 17, s. 15(2), applicable to taxation years that begin after 2000. S. 21(4)(*b*) formerly read:

"(*b*) in each taxation year, if any, after that preceding taxation year and before the particular year, made an election under this subsection covering the total amount that, but for an election under this subsection in respect thereof, would have been deductible in computing the taxpayer's income (other than exempt income) for each such year in respect of the borrowed money used for the exploration, development or acquisition of property, as the case may be,

if an election under this subsection is made in the taxpayer's return of income under this Part for the particular year, paragraphs 20(1)(*c*), (*d*), (*e*) and (*e*.1) do not apply to the amount or to the part of the amount specified in the election that, but for an election under this subsection in respect thereof, would be deductible in computing the taxpayer's income (other than exempt income) for the particular year in respect of the borrowed money used for the exploration, development or acquisition of property, and the amount or part of the amount, as the case may be, shall be deemed to be Canadian exploration and development expenses, foreign exploration and development expenses, Canadian exploration expenses, Canadian development expenses or Canadian oil and gas property expenses, as the case may be, incurred by the taxpayer in the particular year."

S. 21(4), all that portion following paragraph (*b*), was amended by S.C. 1994, c. 7, Sched. II, s. 16(4), applicable after 1987. That portion formerly read:

"if the taxpayer elects under this subsection in the taxpayer's return of income under this Part for the particular year, paragraphs 20(1)(*c*), (*d*) and (*e*) do not apply to the amount or to the part of the amount specified by the taxpayer in the election that, but for an election under this subsection in respect thereof would have been deductible in computing the taxpayer's income (other than exempt income) for the particular year in respect of the borrowed money used for the exploration, development or acquisition of property, and the said amount or part of the amount, as the case may be, shall be deemed to be Canadian exploration and development expenses, foreign exploration and development expenses, Canadian exploration expenses, Canadian development expenses or Canadian oil and gas property expenses, as the case may be, incurred by the taxpayer in the particular year."

Interpretation Bulletins: *Primary* — IT-121R3 Election to capitalize cost of borrowed money. *Secondary* — IT-142R3 Settlement of debts on the winding-up of a corporation; IT-341R4 Expenses of issuing or selling shares, units in a trust, interests in a partnership or syndicate and expenses of borrowing money; IT-360R2 Interest payable in a foreign currency.

► 21(5) ◄

(5) Reassessments. Notwithstanding any other provision of this Act, where a taxpayer has made an election in accordance with the provisions of subsection (1) or (2), such reassessments of tax, interest or penalties shall be made as are necessary to give effect thereto.

Related Sections: S. 13(10) Deemed capital cost; s. 13(21), "depreciable property"; s. 20(3) Borrowed money; s. 248(1), "amount", "assessment", "exempt income", "prescribed", "regulation".

Regulations: 600(*a*).

Interpretation Bulletins: *Primary* — IT-121R3 Election to capitalize cost of borrowed money. *Secondary* — IT-142R3 Settlement of debts on the winding-up of a corporation; IT-341R4 Expenses of issuing or selling shares, units in a trust, interests in a partnership or syndicate and expenses of borrowing money; IT-360R2 Interest payable in a foreign currency.

Ceasing to carry on business

SECTION 22:

► 22(1) ◄

(1) Sale of accounts receivable. Where a person who has been carrying on a business has, in a taxation year, sold all or substantially all the property used in carrying on the business, including the debts that have been or will be included in computing the person's income for that year or a previous year and that are still outstanding, and including the debts arising from loans made in the ordinary course of the person's business if part of the person's ordinary business was the lending of money and that are still outstanding, to a purchaser who proposes to continue the business which the vendor has been carrying on, if the vendor and the purchaser have executed jointly an election in prescribed form to have this section apply, the following rules are applicable:

(*a*) there may be deducted in computing the vendor's income for the taxation year an amount equal to the difference between the face value of the debts so sold (other than debts in respect of which the vendor has made deductions under paragraph 20(1)(*p*)), and the consideration paid by the purchaser to the vendor for the debts so sold;

(*b*) an amount equal to the difference described in paragraph (*a*) shall be included in computing the purchaser's income for the taxation year;

(*c*) the debts so sold shall be deemed, for the purposes of paragraphs 20(1)(*l*) and (*p*), to have been included in computing the purchaser's income for the taxation year or a previous year but no deduction may be made by the purchaser under paragraph 20(1)(*p*) in respect of a debt in respect of which the vendor has previously made a deduction; and

(*d*) each amount deducted by the vendor in computing income for a previous year under paragraph 20(1)(*p*) in respect of any of the debts so sold shall be deemed, for the purpose of paragraph 12(1)(*i*), to have been so deducted by the purchaser.

Editorial Note: In the absence of the section 22 election, a loss incurred by the vendor on the sale of the accounts receivable would likely be on capital account. Section 22 does not specify the time period for filing the election, although the CRA indicates that the election should be filed with the tax return of either party for the year of sale (see Form T2022).

Related Sections: S. 22(2) Statement by vendor and purchaser.
Interpretation Bulletins: *Primary* — IT-188R Sale of accounts receivable. *Secondary* — IT-291R3 Transfer of property to a corporation under subsection 85(1); IT-442R Bad debts and reserves for doubtful debts; IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].
Forms: T2022.

► 22(2) ◄

(2) Statement by vendor and purchaser. An election executed for the purposes of subsection (1) shall contain a statement by the vendor and the purchaser jointly as to the consideration paid for the debts sold by the vendor to the purchaser and that statement shall, subject to subsection 69(1), as against the Minister, be binding on the vendor and the purchaser in so far as it may be relevant in respect of any matter arising under this Act.

Related Sections: S. 248(1), "amount", "business", "prescribed", "property".
Interpretation Bulletins: *Secondary* — IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].

SECTION 23:

► 23(1) ◄

(1) Sale of inventory. Where, on or after disposing of or ceasing to carry on a business or a part of a business, a taxpayer has sold all or any part of the property that was included in the inventory of the business, the property so sold shall, for the purposes of this Part, be deemed to have been sold by the taxpayer in the course of carrying on the business.

Related Sections: S. 10(1) Valuation of inventory.
Interpretation Bulletins: *Primary* — IT-287R2 Sale of inventory. *Secondary* — IT-427R Livestock of Farmers; IT-457R Election by professionals to exclude work in progress from income.

► 23(2) ◄

(2) Agreement as to price by vendor and purchaser. [Repealed by 1974-75-76, c. 26, s. 11(1).]

► 23(3) ◄

(3) Reference to property in inventory. A reference in this section to property that was included in the inventory of a business shall be deemed to include a reference to property that would have been so included if the income from the business had not been computed in accordance with the method authorized by subsection 28(1) or paragraph 34(*a*).

Related Sections: S. 61(2) Income-averaging annuity — eligible income; s. 248(1), "business", "inventory", "property".
Interpretation Bulletins: *Primary* — IT-287R2 Sale of inventory. *Secondary* — IT-427R Livestock of Farmers; IT-457R Election by professionals to exclude work in progress from income.

SECTION 24:

► 24(1) ◄

(1) Ceasing to carry on business. Notwithstanding paragraph 18(1)(*b*), where at any time after a taxpayer ceases to carry on a business the taxpayer no longer owns any property that was eligible capital property in respect of the business and that has value, in computing the taxpayer's income for taxation years ending after that time,

(*a*) there shall be deducted, for the first such taxation year, the amount of the taxpayer's cumulative eligible capital in respect of the business at that time;

(*b*) no amount may be deducted under paragraph 20(1)(*b*) in respect of the business;

(*c*) for the purposes of determining the value of P in the definition "cumulative eligible capital" in subsection 14(5), the amount deducted by the taxpayer under paragraph (*a*) shall be deemed to be an amount deducted under paragraph 20(1)(*b*) in computing the taxpayer's income from the business for the taxation year that included that time; and

(*d*) for the purposes of subsection 14(1), section 14 shall be read without reference to subsection 14(4).

History: S. 24(1) was amended by S.C. 1994, c. 7, Sched. II, s. 17(1), applicable after July 13, 1990. S. 24(1) formerly read:

"(1) Notwithstanding paragraph 18(1)(*b*), where a taxpayer has ceased to carry on a business, in computing the taxpayer's income for the taxpayer's taxation year in which the taxpayer so ceased to carry on the business,

(*a*) there shall be deducted the amount of the taxpayer's cumulative eligible capital in respect of the business at the time the taxpayer so ceased to carry on the business;

(*b*) no amount is deductible by virtue of paragraph 20(1)(*b*) in respect of the business;

(*c*) notwithstanding the definition 'cumulative eligible capital' in subsection 14(5), the taxpayer's cumulative eligible capital in respect of the

business immediately after the time the taxpayer so ceased to carry on the business shall be deemed to be nil; and

(*d*) for the purposes of subsection 14(1), section 14 shall be read without reference to subsection 14(4)."

Editorial Note: Subsection 70(5.1), rather than subsection 24(1), applies upon an individual's death where the eligible capital property in respect of the individual's business is acquired by a beneficiary as a consequence of the individual's death. Subsection 24(2) generally applies if the eligible capital property in respect of an individual's business is acquired by the individual's spouse or common-law partner or a corporation controlled by the individual that carries on the business. In either case, the individual is not allowed the terminal allowance deduction under paragraph 24(1)(*a*); rather, the eligible capital property is effectively rolled over to the person who acquires the property. See also the stop-loss rule in subsection 14(12), which can apply if the taxpayer is a corporation, trust or partnership and an affiliated person acquires the eligible capital property.

Related Sections: S. 14(12) Loss on certain transfers; s. 54(1), "eligible capital property"; s. 70(5.1) Eligible capital property of deceased.

Interpretation Bulletins: *Primary* — IT-313R2 Eligible capital property — Rules where a taxpayer has ceased carrying on a business or has died. *Secondary* — IT-123R6 Transactions involving eligible capital property; IT-291R3 Transfer of property to a corporation under subsection 85(1); IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].

► 24(2) ◄

(2) Business carried on by spouse or controlled corporation. Notwithstanding subsection (1), where at any time an individual ceases to carry on a business and thereafter the individual's spouse or common-law partner, or a corporation controlled directly or indirectly in any manner whatever by the individual, carries on the business and acquires all of the property that was eligible capital property in respect of the business owned by the individual before that time and that had value at that time,

(*a*) in computing the individual's income for the individual's first taxation year ending after that time, subsection (1) shall be read without reference to paragraph (1)(*a*) and the reference in paragraph (1)(*c*) to "the amount deducted by the taxpayer under paragraph (*a*)" shall be read as a reference to "an amount equal to the taxpayer's cumulative eligible capital in respect of the business immediately before that time";

(*b*) in computing the cumulative eligible capital of the spouse or common-law partner or the corporation, as the case may be, in respect of the business, the spouse or common-law partner or corporation shall be deemed to have acquired an eligible capital property and to have made an eligible capital expenditure at that time at a cost equal to 4/3 of the total of

(i) the cumulative eligible capital of the taxpayer in respect of the business immediately before that time, and

(ii) the amount, if any, determined for F in the definition "cumulative eligible capital" in subsection 14(5) in respect of the business of the individual at that time;

(*c*) for the purposes of determining the cumulative eligible capital in respect of the business of the spouse or common-law partner or corporation after that time, an amount equal to the amount determined under subparagraph (*b*)(ii) shall be added to the amount otherwise determined in respect thereof for P in the definition "cumulative eligible capital" in subsection 14(5); and

(*d*) for the purpose of determining after that time the amount required to be included under paragraph 14(1)(*b*) in computing the income of the spouse, the common-law partner or the corporation in respect of any subsequent disposition of property of the business, there shall be added to the amount otherwise determined for Q in the definition "cumulative eligible capital" in subsection 14(5) the amount, if any, determined for Q in that definition in respect of the business of the individual immediately before the individual ceased to carry on business.

History: S. 24(2)(*d*) was amended by S.C. 2001, c. 17, s. 16(1), applicable to taxation years that end after February 27, 2000. S. 24(2)(*d*) formerly read:

"(*d*) for the purposes of determining after that time

(i) the amount deemed by subparagraph 14(1)(*a*)(v) to be the spouse's or common-law partner's taxable capital gain, and

(ii) the amount to be included under subparagraph 14(1)(*a*)(v) or paragraph 14(1)(*b*) in computing the income of the spouse or common-law partner or corporation

in respect of any subsequent disposition of property of the business, there shall be added to the amount otherwise determined for Q in the second formula in the definition 'cumulative eligible capital' in subsection 14(5) the amount, if any, determined for Q in that formula in respect of the business of the individual immediately before the individual ceased to carry on the business."

S. 24(2), the portion before paragraph (*a*), was amended by S.C. 2000, c. 12, Sched. 2, s. 1(d), applicable January 1, 2001, coming into force on July 31, 2000. S. 24(2), the portion before paragraph (*a*) formerly read:

"(2) *Business carried on by spouse or controlled corporation.* Notwithstanding subsection (1), where at any time an individual ceases to carry on a business and thereafter the individual's spouse, or a corporation controlled directly or indirectly in any manner whatever by the individual, carries on the business and acquires all of the property that was eligible capital property in respect of the business owned by the individual before that time and that had value at that time,"

S. 24(2)(*b*) and (*c*) were amended by S.C. 2000, c. 12, Sched. 2, s. 1(d), applicable January 1, 2001, coming into force on July 31, 2000. S. 24(2)(*b*) and (*c*) formerly read:

"(*b*) in computing the cumulative eligible capital of the spouse or the corporation, as the case may be, in respect of the business, the spouse or corporation shall be deemed to have acquired an eligible capital property and to have made an eligible capital expenditure at that time at a cost equal to 4/3 of the total of

(i) the cumulative eligible capital of the taxpayer in respect of the business immediately before that time, and

(ii) the amount, if any, determined for F in the definition 'cumulative eligible capital' in subsection 14(5) in respect of the business of the individual at that time;

(*c*) for the purposes of determining the cumulative eligible capital in respect of the business of the spouse or corporation after that time, an amount equal to the amount determined under subparagraph (*b*)(ii) shall be added to the amount otherwise determined in respect thereof for P in the definition 'cumulative eligible capital' in subsection 14(5); and"

S. 24(2)(*d*)(i) was amended by S.C. 2000, c. 12, Sched. 2, s. 7(a), applicable January 1, 2001, coming into force on July 31, 2000. S. 24(2)(*d*)(i) formerly read:

"(i) the amount deemed by subparagraph 14(1)(*a*)(v) to be the spouse's taxable capital gain, and"

S. 24(2)(*d*)(ii) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(d), applicable January 1, 2001, coming into force on July 31, 2000. S. 24(2)(*d*)(ii) formerly read:

"(ii) the amount to be included under subparagraph 14(1)(*a*)(v) or paragraph 14(1)(*b*) in computing the income of the spouse or corporation"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 24(2)(*d*)(ii) was amended by S.C. 1995, c. 3, s. 8(1), applicable to fiscal periods that end after February 22, 1994. S. 24(2)(*d*)(ii) formerly read:

"(ii) the amount to be included under paragraph 14(1)(*b*) in computing the income of the spouse or corporation"

S. 24(2)(*a*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 10(1), applicable after July 13, 1990. S. 24(2)(*a*) formerly read:

"(*a*) in computing the individual's income for the individual's first taxation year ending after that time, subsection (1) shall be read without reference to paragraph (1)(*a*) and the reference in paragraph (1)(*c*) to 'the amount deducted by the taxpayer under paragraph (*a*)' shall be read as a reference to 'an amount equal to the taxpayer's cumulative eligible capital in respect of property immediately before that time';"

S. 24(2)(*d*) was added by S.C. 1994, c. 7, Sched. VIII, s. 10(2), applicable after July 13, 1990.

S. 24(2) was amended by S.C. 1994, c. 7, Sched. II, s. 17(1), applicable after July 13, 1990. S. 24(2) formerly read:

"(2) *Where business carried on by spouse or controlled corporation.* Notwithstanding subsection (1), where an individual has ceased to carry on a business and thereafter the individual's spouse, or a corporation controlled directly or indirectly in any manner whatever by the individual, has carried on the business,

(*a*) in computing the individual's income for the individual's taxation year in which the individual so ceased to carry on the business, the provisions of subsection (1) shall be read without reference to paragraph (1)(*a*) and as if the reference in paragraph (1)(*c*) to 'the time the taxpayer so ceased to carry on the business' were read as a reference to 'the end of the taxation year in which the taxpayer so ceased to carry on the business'; and

(*b*) in computing the cumulative eligible capital in respect of the business of the spouse or the corporation, as the case may be, at any time after the end of the taxation year in which the individual so ceased to carry on the business, there shall be included the amount of the individual's cumulative eligible capital in respect thereof at the end of that taxation year."

Editorial Note: The rollover under subsection 24(2) effectively results in the acquiring spouse or common-law partner or controlled corporation assuming the individual's former eligible capital property pool. The individual is not allowed the terminal allowance deduction under paragraph 24(1)(*a*). Note that subsection 24(2) takes precedence over the rollover under subsection 70(5.1) upon an individual's death.

Related Sections: S. 14(5), "cumulative eligible capital"; s. 70(5.1) Eligible capital property of deceased; s. 256(5.1) Control in fact.

► 24(3) ◄

(3) Where partnership has ceased to exist. Notwithstanding subsection (1), where at any time a partnership ceases to exist in circumstances to which neither subsection 98(3) nor subsection 98(5) applies, there may be deducted, in computing the income for the first taxation year beginning after that time of a taxpayer who was a member of the partnership immediately before that time, an amount determined by the formula

$$A \times \frac{B}{C}$$

where

A is the amount that would, had the partnership continued to exist, have been deductible under subsection (1) in computing its income;

B is the fair market value of the taxpayer's interest in the partnership immediately before that time; and

C is the fair market value of all interests in the partnership immediately before that time.

History: S. 24(3) was added by S.C. 1994, c. 7, Sched. VIII, s. 10(3), applicable after July 13, 1990.

SECTION 24.1: Judges. [Repealed by S.C. 1996, c. 21, s. 6(1).]

History: S. 24.1 was repealed by S.C. 1996, c. 21, s. 6(1), applicable to appointments made after 1995. S. 24.1 formerly read:

"S. 24.1. *Judges.* Where in a taxation year a taxpayer has been appointed a judge by the Governor General or the Governor in Council or by the lieutenant governor in council of a province and the taxpayer elects in the taxpayer's return of income under this Part for the year to have this section apply to the computation of the taxpayer's income,

(*a*) the taxpayer's income from a professional practice for a fiscal period ending in that taxation year and commencing in the preceding taxation year shall be deemed to be that proportion of that income that the number of months in the taxation year during which the taxpayer was not a judge is of the number of months in the fiscal period; and

(*b*) the amount by which the taxpayer's income for that taxation year from the taxpayer's professional practice, computed without reference to this section, exceeds the amount that is deemed by paragraph (*a*) to be the taxpayer's income for the fiscal period shall be deemed to be income of the taxpayer in the immediately following taxation year."

SECTION 25:

► 25(1) ◄

(1) Fiscal period for individual proprietor of business disposed of. Where an individual was the proprietor of a business and disposed of it during a fiscal period of the business, the fiscal period may, if the individual so elects and subsection 249.1(4) does not apply in respect of the business, be deemed to have ended at the time it would have ended if the individual had not disposed of the business during the fiscal period.

History: S. 25(1) was amended by S.C. 1996, c. 21, s. 7(1), applicable to fiscal periods that begin after 1994. S. 25(1) formerly read:

"(1) Where an individual was the proprietor of a business and disposed of it during a fiscal period of the business, the fiscal period may, if the individual so elects, be deemed to have ended at the time it would have ended if the individual had not disposed of the business during the fiscal period."

Related Sections: S. 25(2) Election; s. 249.1(4) Alternative method.
Interpretation Bulletins: *Secondary* — IT-179R Change of Fiscal Period; IT-287R2 Sale of inventory; IT-313R2 Eligible capital property — Rules where a taxpayer has ceased carrying on a business or has died.
Information Circulars: IC 76-19R3 Transfer of property to a corporation under section 85.

► 25(2) ◄

(2) Election. An election under subsection (1) is not valid unless the individual, at the time when the fiscal period of the business would, if the election were valid, be deemed to have ended, is resident in Canada.

Related Sections: S. 248(1), "business", "fiscal period", "individual"; s. 255 Canada.

► 25(3) ◄

(3) Dispositions in the extended fiscal period. Where subsection (1) applies in respect of a fiscal period of a business of an individual, for the purpose of computing the individual's income for the fiscal period,

(*a*) section 13 shall be read without reference to subsection 13(8); and

(*b*) section 24 shall be read without reference to paragraph 24(1)(*d*).

Interpretation Bulletins: *Secondary* — IT-478R2 Capital Cost Allowance — Recapture and Terminal Loss.

Special Cases

SECTION 26:

► 26(1) ◄

(1) Banks — inclusions in income. There shall be included in computing the income of a bank for its first taxation year that commences after June 17, 1987 and ends after 1987 the total of

(*a*) the total of the specific provisions of the bank, as determined, or as would be determined if such a determination were required, under the Minister's rules, as at the end of its immediately preceding taxation year,

(*b*) the total of the general provisions of the bank, as determined, or as would be determined if such a determination were required, under the Minister's rules, as at the end of its immediately preceding taxation year,

(*c*) the amount, if any, by which

(i) the amount of the special provision for losses on trans-border claims of the bank, as determined, or

as would be determined if such a determination were required, under the Minister's rules, that was deductible by the bank under subsection (2) in computing its income for its immediately preceding taxation year

exceeds

(ii) that part of the amount determined under subparagraph (i) that was a realized loss of the bank for that immediately preceding taxation year, and

(*d*) the amount, if any, of the tax allowable appropriations account of the bank, as determined, or as would be determined if such a determination were required, under the Minister's rules, at the end of its immediately preceding taxation year.

Related Sections: S. 248(1), "amount".

► 26(2) ◄

(2) Banks — deductions from income. In computing the income for a taxation year of a bank, there may be deducted an amount not exceeding the total of

(*a*) that part of the total of the amounts of the five-year average loan loss experiences of the bank, as determined, or as would be determined if such a determination were required, under the Minister's rules, for all taxation years before its first taxation year that commences after June 17, 1987 and ends after 1987 that is specified by the bank for the year and was not deducted by the bank in computing its income for any preceding taxation year,

(*b*) that part of the total of the amounts transferred by the bank to its tax allowable appropriations account, as permitted under the Minister's rules, for all taxation years before its first taxation year that commences after June 17, 1987 and ends after 1987 that is specified by the bank for the year and was not deducted by the bank in computing its income for any preceding taxation year,

(*c*) that part of the amount, if any, by which

(i) the amount of the special provision for losses on trans-border claims, as determined, or as would be determined if such a determination were required, under the Minister's rules, that was deductible by the bank under this subsection in computing its income for its last taxation year before its first taxation year that commences after June 17, 1987 and ends after 1987

exceeds

(ii) that part of the amount determined under subparagraph (i) that was a realized loss of the bank for that last taxation year

that is specified by the bank for the year and was not deducted by the bank in computing its income for any preceding taxation year,

(*d*) where the tax allowable appropriations account of the bank at the end of its last taxation year before its first taxation year that commences after June 17, 1987 and ends after 1987, as determined, or as would be determined if such a determination were required, under the Minister's rules, is a negative amount, that part of such amount expressed as a positive number that is specified by the bank for the year and was not deducted by the bank in computing its income for any preceding taxation year, and

(*e*) that part of the total of the amounts calculated in respect of the bank for the purposes of the Minister's rules, or that would be calculated for the purposes of those rules if such a calculation were required, under Procedure 8 of the Procedures for the Determination of the Provision for Loan Losses as set out in Appendix 1 of those rules, for all taxation years before its first taxation year that commences after June 17, 1987 and ends after 1987 that is specified by the bank for the year and was not deducted by the bank in computing its income for any preceding taxation year.

► 26(3) ◄

(3) Write-offs and recoveries. In computing the income of a bank, the following rules apply:

(*a*) any amount that was recorded by the bank as a realized loss or a write-off of an asset that was included by the bank in the calculation of an amount deductible under the Minister's rules, or would have been included in the calculation of such an amount if such a calculation had been required, for any taxation year before its first taxation year that commences after June 17, 1987 and ends after 1987, shall, for the purposes of paragraph 12(1)(*i*) and section 12.4, be deemed to have been deducted by the bank under paragraph 20(1)(*p*) in computing its income for the year for which it was so recorded; and

(*b*) any amount that was recorded by the bank as a recovery of a realized loss or a write-off of an asset that was included by the bank in the calculation of an amount deductible under the Minister's rules, or would have been included in the calculation of such an amount if such a calculation had been required, for any taxation year before its first taxation year that commences after June 17, 1987 and ends after 1987 shall, for the purposes of section 12.4, be deemed to have been included by the bank under paragraph 12(1)(*i*) in computing its income for the year for which it was so recorded.

► 26(4) ◄

(4) Definition of "Minister's rules". For the purposes of this section, "Minister's rules" means the *Rules for the Determination of the Appropriations for Contingencies of a Bank* issued under the authority of the Minister of Finance pursuant to section 308 of the *Bank Act* for the purposes of subsections (1) and (2) of this section.

SECTION 27:

► 27(1) ◄

(1) Application of Part I to Crown corporation. This Part applies to a federal Crown corporation as if

(*a*) any income or loss from a business carried on by the corporation as agent of Her Majesty, or from a property of Her Majesty administered by the corporation, were an income or loss of the corporation from the business or the property, as the case may be; and

(*b*) any property, obligation or debt of any kind whatever held, administered, entered into or incurred by the corporation as agent of Her Majesty were a property, obligation or debt, as the case may be, of the corporation.

History: S. 27(1) was amended by S.C. 1998, c. 19, s. 82(1), applicable
(*a*) for the purpose of section 181.71 of the Act, to taxation years that end after June 1989;
(*b*) for the purposes of section 187.61 of the Act, and subsection 191.4(3) of the Act, after 1987;
(*c*) for the purpose of section 190.211 of the Act, after May 23, 1985; and
(*d*) for all other purposes, after April 26, 1995.
S. 27(1) formerly read:
"S. 27. *Application of Part to Crown corporations.*
(1) This Part applies to a prescribed federal Crown corporation as if any income or loss from
(*a*) a business carried on by the corporation as agent of Her Majesty, and
(*b*) a property of Her Majesty administered by the corporation,
were an income or loss, as the case may be, of the corporation therefrom."

Interpretation Bulletins: *Primary*—IT-347R2 Crown corporations [Archived by the CRA].
Tax Topics: No. 1625, Provincial Crown Corporation Not Bound by the *Income Tax Act*.

► 27(2) ◄

(2) Presumption. Notwithstanding any other provision of this Act, a prescribed federal Crown corporation and any corporation controlled by such a corporation are each deemed not to be a private corporation and paragraphs 149(1)(*d*) to (*d*.4) do not apply to those corporations.

History: S. 27(2) was amended by S.C. 2001, c. 17, s. 17(1), applicable to taxation years and fiscal periods that begin after 1998. S. 27(2) formerly read:
"(2) *Presumption.* Notwithstanding any other provision of this Act, a prescribed federal Crown corporation and any corporation controlled by such a corporation shall be deemed not to be a private corporation and paragraph 149(1)(*d*) does not apply thereto."

Regulations: 7100.

► 27(3) ◄

(3) Transfers of land for disposition. Where land of Her Majesty has been transferred to a prescribed federal Crown corporation for purposes of disposition, the acquisition of the property by the corporation and any disposition thereof shall be deemed not to have been in the course of the business carried on by the corporation.

Related Sections: S. 89(1), "private corporation"; s. 248(1), "business", "corporation", "property".
Regulations: 7100.

SECTION 28:

► 28(1) ◄

(1) Farming or fishing business. For the purpose of computing the income of a taxpayer for a taxation year from a farming or fishing business, the income from the business for that year may, if the taxpayer so elects, be computed in accordance with a method (in this section referred to as the "cash method") whereby the income therefrom for that year shall be deemed to be an amount equal to the total of

(*a*) all amounts that

(i) were received in the year, or are deemed by this Act to have been received in the year, in the course of carrying on the business, and

(ii) were in payment of or on account of an amount that would, if the income from the business were not computed in accordance with the cash method, be included in computing income therefrom for that or any other year, and

(*b*) with respect to a farming business, such amount, if any, as is specified by the taxpayer in respect of the business in the taxpayer's return of income under this Part for the year, not exceeding the amount, if any, by which

(i) the fair market value at the end of the year of inventory owned by the taxpayer in connection with the business at that time

exceeds

(ii) the amount determined under paragraph (*c*) for the year,

(*c*) with respect to a farming business, the amount, if any, that is the lesser of

(i) the taxpayer's loss from the business for the year computed without reference to this paragraph and to paragraph (*b*), and

(ii) the value of inventory purchased by the taxpayer that was owned by the taxpayer in connection with the business at the end of the year, and

(*d*) the total of all amounts each of which is an amount included in computing the taxpayer's income for the year from the business because of subsection 13(1), 14(1), 80(13) or 80.3(3) or (5),

minus the total of

(*e*) all amounts, other than amounts described in section 30, that

(i) were paid in the year, or are deemed by this Act to have been paid in the year, in the course of carrying on the business,

(ii) in the case of amounts paid, or deemed by this Act to have been paid, for inventory, were in payment of or on account of an amount that would be deductible in computing the income from the business for the year or any other taxation year if that income were not computed in accordance with the cash method, and

(iii) in any other case, were in payment of or on account of an amount that would be deductible in computing the income from the business for a preceding taxation year, the year or the following taxation year if that income were not computed in accordance with the cash method,

(*e*.1) all amounts, other than amounts described in section 30, that

(i) would be deductible in computing the income from the business for the year if that income were not computed in accordance with the cash method,

(ii) are not deductible in computing the income from the business for any other taxation year, and

(iii) were paid in a preceding taxation year in the course of carrying on the business,

(*f*) the total of all amounts each of which is the amount, if any, included under paragraph (*b*) or (*c*) in computing the taxpayer's income from the business for the immediately preceding taxation year, and

(*g*) the total of all amounts each of which is an amount deducted for the year under paragraph 20(1)(*a*), (*b*) or (*uu*), subsection 20(16) or 24(1), section 30 or subsection 80.3(2) or (4) in respect of the business,

except that paragraphs (*b*) and (*c*) do not apply in computing the income of the taxpayer for the taxation year in which the taxpayer dies.

History: S. 28(1)(*d*) was amended by S.C. 1998, c. 19, s. 83(1), applicable to taxation years that end after February 21, 1994. S. 28(1)(*d*) formerly read:

"(*d*) the total of all amounts each of which is an amount included in computing the taxpayer's income for the year from the business because of subsection 13(1), 14(1), 80(13) or (17) or 80.3(3) or (5),"

S. 28(1)(*e*)(ii) was amended by S.C. 1998, c. 19, s. 83(2), applicable to amounts paid after April 26, 1995, other than amounts paid pursuant to an agreement in writing made by the payer on or before April 26, 1995. S. 28(1)(*e*)(ii) formerly read:

"(ii) were in payment of or on account of an amount that would, if the income from the business were not computed in accordance with the cash method, be deductible in computing income therefrom for that or any other taxation year,"

S. 28(1)(*e*)(iii) was added by S.C. 1998, c. 19, s. 83(2), applicable to amounts paid after April 26, 1995, other than amounts paid pursuant to an agreement in writing made by the payer on or before April 26, 1995.

S. 28(1)(*e.1*) was added by S.C. 1998, c. 19, s. 83(3), applicable to amounts paid after April 26, 1995, other than amounts paid pursuant to an agreement in writing made by the payer on or before April 26, 1995.

S. 28(1)(*d*) was amended by S.C. 1995, c. 21, s. 7(1), applicable to taxation years that end after February 21, 1994. S. 28(1)(*d*) formerly read:

"(*d*) the total of all amounts each of which is an amount included in computing the taxpayer's income for the year from the business by reason of subsection 13(1), 14(1) or 80.3(3) or (5),"

S. 28(1)(*g*) was amended by S.C. 1995, c. 21, s. 7(2), applicable to taxation years that end after February 21, 1994. S. 28(1)(*g*) formerly read:

"(*g*) the total of all amounts each of which is an amount deducted for the year as permitted under paragraph 20(1)(*a*) or (*b*), subsection 20(16) or 24(1), section 30 or subsection 80.3(2) or (4) in respect of the business,"

S. 28(1), that portion following paragraph (*g*), was added by S.C. 1994, c. 7 Sched. II, s. 18(1), applicable to fiscal periods beginning after 1988.

Related Sections: S. 20(7) Where para. (1)(m) does not apply; s. 23(3) Reference to property in inventory; s. 28(1.1)–(4); s. 87(2)(*b*) Inventory.

Interpretation Bulletins: *Primary* — IT-427R Livestock of Farmers; IT-433R Farming or Fishing — Use of Cash Method. *Secondary* — IT-154R Special reserves; IT-156R Feedlot operators [Archived by the CRA]; IT-184R Deferred cash purchase tickets issued for grain; IT-291R3 Transfer of property to a corporation under subsection 85(1); IT-373R2 (Consolid.) Woodlots; IT-505 Mortgage foreclosures and conditional sales repossessions [Archived by the CRA].

Forms: T1273; T1274; T1275; T2042; T2121.

Guides: RC4408 Farming Income and the CAIS Program Harmonized Guide; T4003 Farming Income; T4004 Fishing Income.

Cases: The election to use the cash method of accounting can only be made with the filing of the return. Once the taxpayer filed his return on the accrual basis, the cash option no longer existed for that taxation year. *Hadler Turkey Farms Inc. v. The Queen*, 86 DTC 6013 (F.C.T.D.).

► 28(1.1) ◄

(1.1) Acquisition of inventory. Where at any time, and in circumstances where paragraph 69(1)(*a*) or (*c*) applies, a taxpayer acquires inventory that is owned by the taxpayer in connection with a farming business the income from which is computed in accordance with the cash method, for the purposes of this section an amount equal to the cost to the taxpayer of the inventory shall be deemed

(*a*) to have been paid by the taxpayer at that time and in the course of carrying on that business, and

(*b*) to be the only amount so paid for the inventory by the taxpayer,

and the taxpayer shall be deemed to have purchased the inventory at the time it was so acquired.

History: S. 28(1.1) was added by S.C. 1994, c. 7, Sched. II, s. 18(3), applicable to taxation years and fiscal periods ending after 1990. Former s. 28(1.1) was repealed by S.C. 1994, c. 7, Sched. II, s. 18(2), applicable to fiscal periods beginning after 1988. Former s. 28(1.1) read as follows:

"(1.1) *Inventory.* For the purposes of subsection (1), inventory owned in connection with a farming business means property that would have been included as inventory of the business if the income from the business had not been computed in accordance with the cash method, and includes livestock but does not include animals included in a taxpayer's basic herd (within the meaning assigned by section 29)."

Interpretation Bulletins: *Primary* — IT-427R Livestock of Farmers; IT-433R Farming or Fishing — Use of Cash Method.

Forms: T2034.

► 28(1.2) ◄

(1.2) Valuation of inventory. For the purpose of paragraph (1)(*c*) and notwithstanding section 10, inventory of a taxpayer shall be valued at any time at the lesser of the total amount paid by the taxpayer at or before that time to acquire it (in this section referred to as its "cash cost") and its fair market value, except that an animal (in this section referred to as a "specified animal") that is a horse or, where the taxpayer has so elected in respect thereof for the taxation year that includes that time or for any preceding taxation year, is a bovine animal registered under the *Animal Pedigree Act*, shall be valued

(*a*) at any time in the taxation year in which it is acquired, at such amount as is designated by the taxpayer not exceeding its cash cost to the taxpayer and not less than 70% of its cash cost to the taxpayer; and

(*b*) at any time in a subsequent taxation year, at such amount as is designated by the taxpayer not exceeding its cash cost to the taxpayer and not less than 70% of the total of

(i) its value determined under this subsection at the end of the preceding taxation year, and

(ii) the total amount paid on account of the purchase price of the animal during the year.

History: S. 28(1.2) was amended by S.C. 1994, c. 7, Sched. II, s. 18(4), applicable to fiscal periods beginning after 1988. S. 28(1.2) formerly read:

"(1.2) For the purposes of paragraph (1)(*c*) and notwithstanding section 10, inventory of a taxpayer shall be valued at any time at the lesser of the amount paid by the taxpayer at or before that time to acquire it (in this section referred to as its 'cash cost') and its fair market value, except that an animal (in this section referred to as a 'specified animal') that is a horse or, where the taxpayer so elects in respect thereof, is a bovine animal registered under the *Animal Pedigree Act* shall be valued,

(*a*) at any time in the taxation year in which it is acquired, at such amount as is designated by the taxpayer not exceeding its cash cost to the taxpayer and not less than 70% of its cash cost to the taxpayer; and

(*b*) at any time in any subsequent taxation year, at such amount as is designated by the taxpayer not exceeding its cash cost to the taxpayer and not less than 70% of its value determined under this subsection at the end of the preceding taxation year."

Interpretation Bulletins: *Primary* — IT-427R Livestock of Farmers; IT-433R Farming or Fishing — Use of Cash Method. *Secondary* — IT-291R3 Transfer of property to a corporation under subsection 85(1).

► 28(1.3) ◄

(1.3) Short fiscal period. For each taxation year that is less than 51 weeks, the reference in subsection (1.2) to "70" shall be read as a reference to the number determined by the formula

$$100 - (30 \times \frac{A}{365})$$

where

A is the number of days in the taxation year.

Interpretation Bulletins: *Primary* — IT-427R Livestock of Farmers; IT-433R Farming or Fishing — Use of Cash Method.

► 28(2) ◄

(2) Where joint farming or fishing business. Subsection (1) does not apply for the purpose of computing the income of a taxpayer for a taxation year from a farming or fishing business carried on by the taxpayer jointly with one or more other persons, unless each of the other persons by whom the business is jointly carried on has elected to have his or her income from the business for that year computed in accordance with the cash method.

Interpretation Bulletins: *Primary* — IT-427R Livestock of Farmers; IT-433R Farming or Fishing — Use of Cash Method. *Secondary* — IT-373R2 (Consolid.) Woodlots.

► 28(3) ◄

(3) Concurrence of Minister. Where a taxpayer has filed a return of income under this Part for a taxation year wherein the taxpayer's income for that year from a farming or fishing business has been computed in accordance with the cash method, income from the business for each subsequent taxation year shall, subject to the other provisions of this Part, be computed in accordance with that method unless the taxpayer, with the concurrence of the Minister and on such terms and conditions as are specified by the Minister, adopts some other method.

Interpretation Bulletins: *Primary* — IT-427R Livestock of Farmers; IT-433R Farming or Fishing — Use of Cash Method. *Secondary* — IT-373R2 (Consolid.) Woodlots.

► 28(4) ◄

(4) Non-resident. Notwithstanding subsections (1) and (5), where at the end of a taxation year a taxpayer who carried on a business the income from which was computed in accordance with the cash method is non-resident and does not carry on that business in Canada, an amount equal to the total of all amounts each of which is the fair market value of an amount outstanding during the year as or on account of a debt owing to the taxpayer that arose in the course of carrying on the business and that would have been included in computing the taxpayer's income for the year if the amount had been received by the taxpayer in the year, shall (to the extent that the amount was not otherwise included in computing the taxpayer's income for the year or a preceding taxation year) be included in computing the taxpayer's income from the business

(*a*) for the year, if the taxpayer was non-resident throughout the year; and

(*b*) for the part of the year throughout which the taxpayer was resident in Canada, if the taxpayer was resident in Canada at any time in the year.

History: Ss. 28(4)(*a*) and (*b*) were amended by S.C. 2001, c. 17, s. 18(1), applicable to the 1998 and subsequent taxation years. Ss. 28(4)(*a*) and (*b*) formerly read:

"(*a*) for the year, if section 114 is not applicable; or

(*b*) if section 114 is applicable, for the period or periods referred to in paragraph 114(*a*) in respect of the year."

S. 28(4) was amended by S.C. 1994, c. 7, Sched. II, s. 18(5), applicable to taxpayers who cease to reside in Canada or who cease to carry on business in Canada after July 13, 1990. S. 28(4) formerly read:

"(4) *Change in residence.* Where a taxpayer who, at a time when the taxpayer was a resident of Canada, carried on a business the income from which was computed in accordance with the method authorized by subsection (1) has, on or after disposing of or ceasing to carry on the business or a part of the business, ceased to be a resident of Canada in a taxation year, an amount equal to the value, at the time the taxpayer ceased to be a resident of Canada, of

(*a*) such part of the property that would have been included in the inventory of the business or the part of the business if the income from the business had not been computed in accordance with the method authorized by subsection (1) as remained the property of the taxpayer at the time the taxpayer ceased to be a resident of Canada, and

(*b*) such part of amounts outstanding at the time the taxpayer ceased to be a resident of Canada as or on account of debts owing to the taxpayer that arose in the course of carrying on the business as would have been included in computing the taxpayer's income for the year if the amounts had been received by the taxpayer in the year at a time when the taxpayer was a resident of Canada,

shall be included in computing the taxpayer's income

(*c*) for the year, if section 114 is not applicable, or

(*d*) if section 114 is applicable, for the period or periods in the year referred to in paragraph 114(*a*)."

Related Sections: S. 61(2) Income-averaging annuity — eligible income.
Interpretation Bulletins: *Primary* — IT-427R Livestock of Farmers; IT-433R Farming or Fishing — Use of Cash Method.

► 28(4.1) ◄

(4.1) Idem. [Repealed by S.C. 2001, c. 17, s. 18(2).]

History: S. 28(4.1) was repealed by S.C. 2001, c. 17, s. 18(2), applicable after December 23, 1998. S. 28(4.1) formerly read:

"(4.1) *Idem.* Notwithstanding subsection (1), where at any time in a taxation year

(*a*) a taxpayer who carried on a business the income from which is computed in accordance with the cash method is non-resident, and

(*b*) a property that was inventory owned by the taxpayer in connection with the business is not used in connection with a business carried on in Canada by the taxpayer (other than inventory sold in the course of carrying on the business),

the taxpayer shall (except where this subsection applied in respect of the property at an earlier time) be deemed to have disposed of the property at that time in the course of carrying on the business for proceeds of disposition equal to its fair market value at that time and an amount equal to those proceeds shall be included in computing the taxpayer's income from the business

(*c*) for the year, if section 114 does not apply, or

(*d*) if section 114 applies, for the period or periods in the year referred to in paragraph 114(*a*)."

S. 28(4.1) was added by S.C. 1994, c. 7, Sched. II, s. 18(5), applicable to taxpayers who cease to reside in Canada after July 13, 1990 and with respect to property that ceases after July 13, 1990 to be used in connection with a business carried on in Canada.

► 28(5) ◄

(5) Accounts receivable. There shall be included in computing the income of a taxpayer for a taxation year such part of an amount received by the taxpayer in the year, on or after disposing of or ceasing to carry on a business or a part of a business, for, on account or in lieu of payment of, or in satisfaction of debts owing to the taxpayer that arose in the course of carrying on the business as would have been included in computing the income of the taxpayer for the year had the amount so received been received by the taxpayer in the course of carrying on the business.

Interpretation Bulletins: *Primary* — IT-427R Livestock of Farmers; IT-433R Farming or Fishing — Use of Cash Method.
Related Sections: S. 248(1), "amount", "business", "farming", "fishing".

SECTION 29:

► 29(1) ◄

(1) Disposition of animal of basic herd class. Where a taxpayer has a basic herd of a class of animals and disposes of an animal of that class in the course of carrying on a farming business in a taxation year, if the taxpayer so elects in the taxpayer's return of income under this Part for the year the following rules apply:

(*a*) there shall be deducted in computing the taxpayer's basic herd of that class at the end of the year such number as is designated by the taxpayer in the taxpayer's election, not exceeding the least of

(i) the number of animals of that class so disposed of by the taxpayer in that year,

(ii) 1/10 of the taxpayer's basic herd of that class on December 31, 1971, and

(iii) the taxpayer's basic herd of that class of animal at the end of the immediately preceding taxation year; and

(*b*) there shall be deducted in computing the taxpayer's income from the farming business for the taxation year the product obtained when

(i) the number determined under paragraph (*a*) in respect of the taxpayer's basic herd of that class for the year

is multiplied by

(ii) the quotient obtained when the fair market value on December 31, 1971 of the taxpayer's ani-

mals of that class on that day is divided by the number of the taxpayer's animals of that class on that day.

Related Sections: S. 29(2) Reduction in basic herd; s. 61(2) Income-averaging annuity — eligible income.
Cases: Where a dairy herd has not been treated as a capital asset in the past, proceeds from the sale of the herd will be treated as income and not as a capital gain. *Syrico Corp. v. M.N.R.*, (T.C.C.) 88 DTC 1001.
Forms: T2034.

► 29(2) ◄

(2) Reduction in basic herd. Where a taxpayer carries on a farming business in a taxation year and the taxpayer's basic herd of any class at the end of the immediately preceding year, minus the deduction, if any, required by paragraph (1)(*a*) to be made in computing the taxpayer's basic herd of that class at the end of the year, exceeds the number of animals of that class owned by the taxpayer at the end of the year,

(*a*) there shall be deducted in computing the taxpayer's basic herd of that class at the end of the year the number of animals comprising the excess; and

(*b*) there shall be deducted in computing the taxpayer's income from the farming business for the taxation year the product obtained when

(i) the number of animals comprising the excess is multiplied by

(ii) the quotient obtained when the fair market value on December 31, 1971 of the taxpayer's animals of that class on that day is divided by the number of the taxpayer's animals of that class on that day.

► 29(3) ◄

(3) Interpretation. For the purposes of this section,

(*a*) a taxpayer's "basic herd" of any class of animals at a particular time means such number of the animals of that class that the taxpayer had on hand at the end of his 1971 taxation year as were, for the purpose of assessing the taxpayer's tax under this Part for that year, accepted by the Minister, as a consequence of an application made by the taxpayer, to be capital properties and not to be stock-in-trade, minus the numbers, if any, required by virtue of this section to be deducted in computing the taxpayer's basic herd of that class at the end of taxation years of the taxpayer ending before the particular time;

(*b*) "class of animals" means animals of a particular species, namely, cattle, horses, sheep or swine, that are

(i) purebred animals of that species for which a certificate of registration has been issued by a person recognized by breeders in Canada of purebred animals of that species to be the registrar of the breed to which such animals belong, or issued by the Canadian Livestock Records Corporation, or

(ii) animals of that species other than purebred animals described in subparagraph (i),

each of which descriptions in subparagraphs (i) and (ii) shall be deemed to be of separate classes, except that where the number of the taxpayer's animals described in subparagraph (i) or (ii), as the case may be, of a particular species is not greater than 10% of the total number of the taxpayer's animals of that species that would otherwise be of two separate classes by virtue of this paragraph, the taxpayer's animals described in subparagraphs (i) and (ii) of that species shall be deemed to be of a single class; and

(*c*) in determining the number of animals of any class on hand at any time, an animal shall not be included if it was acquired for a feeder operation, and an animal shall be included only if its actual age is not less than,

(i) in the case of cattle, 2 years,

(ii) in the case of horses, 3 years, and

(iii) in the case of sheep or swine, one year,

except that 2 animals of a class under the age specified in subparagraph (i), (ii) or (iii), as the case may be, shall be counted as one animal of the age so specified.

Related Sections: S. 54, "capital property"; s. 248(1), "business", "farming".

SECTION 30: Improving land for farming.

Notwithstanding paragraphs 18(1)(*a*) and (*b*), there may be deducted in computing a taxpayer's income for a taxation year from a farming business any amount paid by the taxpayer before the end of the year for clearing land, levelling land or installing a land drainage system for the purposes of the business, to the extent that the amount has not been deducted in a preceding taxation year.

Related Sections: S. 248(1), "amount", "business", "farming".
Interpretation Bulletins: *Primary* — IT-485 Cost of clearing or levelling land.

SECTION 31:

► 31(1) ◄

(1) Loss from farming where chief source of income not farming. Where a taxpayer's chief source of income for a taxation year is neither farming nor a combination of farming and some other source of income, for the purposes of sections 3 and 111 the taxpayer's loss, if any, for the year from all farming businesses carried on by the taxpayer shall be deemed to be the total of

(*a*) the lesser of

(i) the amount by which the total of the taxpayer's losses for the year, determined without reference to this section and before making any deduction under section 37 or 37.1, from all farming businesses carried on by the taxpayer exceeds the total of the taxpayer's incomes for the year, so determined from all such businesses, and

(ii) $2,500 plus the lesser of

(A) 1/2 of the amount by which the amount determined under subparagraph (i) exceeds $2,500, and

(B) $6,250, and

(*b*) the amount, if any, by which

(i) the amount that would be determined under subparagraph (*a*)(i) if it were read as though the words "and before making any deduction under section 37 or 37.1" were deleted,

exceeds

(ii) the amount determined under subparagraph (*a*)(i).

History: S. 31(1), the portion after paragraph (*b*) was repealed by S.C. 1995, c. 21, s. 8(1), applicable to taxation years that end after February 21, 1994. S. 31(1) after paragraph (*b*) formerly read:

"and for the purposes of this Act the amount, if any, by which the amount determined under subparagraph (*a*)(i) exceeds the amount determined under subparagraph (*a*)(ii) is the taxpayer's 'restricted farm loss' for the year."

Related Sections: S. 9(2) Loss; s. 53(1) Adjustments to cost base; s. 101 Disposition of farmland by partnership.

Interpretation Bulletins: *Primary* — IT-322R Farm losses. *Secondary* — IT-156R Feedlot operators [Archived by the CRA]; IT-232R3 Non-capital losses, net capital losses, restricted farm losses, farm losses and limited partnership losses — Their composition and deductibility in computing taxable income; IT-262R2 Losses of non-residents and part-year residents; IT-302R3 Losses of a corporation — The effect on their deductibility of changes in control, amalgamation and winding-up; IT-373R2 (Consolid.) Woodlots.

Income Tax Technical News: Issue No. 30, Restricted Farm Losses.

Tax Profile: November 2003 — Revenue Canada Round Table.

Cases: The taxpayer's deductible farming losses were not restricted since her chief source of income was farming and her medical practice combined. Although she dedicated four days a week to her medical practice, she still spent part of those days, and the remaining days of the week, on her farm. All of her excess income was invested in the farm, and it was potentially profitable. *Stackhouse v. The Queen,* 2007 DTC 620 (T.C.C.).

A lawyer's farming losses were not restricted to the s. 31(1) amounts since his chief source of income was a combination of farming and law. The farm did have profit potential and there was a synergy between it and the law practice. The combination question does not require that farming be the predominant element in the combination or that there be a connection between farming and the second source. *Gunn v. The Queen,* 2006 DTC 6544 (F.C.A.), reversing 2005 DTC 1074 (T.C.C.).

Where the owner of a racing horse showed insufficient command of the facts involved in his horse racing enterprise to indicate that he seriously regarded it as a business proposition, it was found that his expenses were not put out with a reasonable expectation of profit and were not deductible. *Moldowan v. The Queen,* 77 DTC 5213 (S.C.C.), affirming 75 DTC 5216 (F.C.A.), affirming 74 DTC 6496 (F.C.T.D.), affirming 73 DTC 228 (T.R.B.).

► 31(1.1) ◄

(1.1) Restricted farm loss. For the purposes of this Act, a taxpayer's "restricted farm loss" for a taxation year is the amount, if any, by which

(*a*) the amount determined under subparagraph (1)(*a*)(i) in respect of the taxpayer for the year

exceeds

(*b*) the total of the amount determined under subparagraph (1)(*a*)(ii) in respect of the taxpayer for the year and all amounts each of which is an amount by which the taxpayer's restricted farm loss for the year is required to be reduced because of section 80.

History: S. 31(1.1) was added by S.C. 1995, c. 21, s. 8(2), applicable to taxation years that end after February 21, 1994.

► 31(2) ◄

(2) Determination by Minister. For the purpose of this section, the Minister may determine that a taxpayer's chief source of income for a taxation year is neither farming nor a combination of farming and some other source of income.

Related Sections: S. 9(2) Loss; S. 31(1) Loss from farming where chief source of income not farming; s. 248(1), "amount", "business", "farming".

Cases: When a taxpayer had purchased a cattle farm with the specific purpose of supplying its supermarket chain, its farming and retail food sales operations became so intimately connected as to make its chief source of income a combination of farming and another source and the taxpayer's farm losses could be deducted. *Gestion S.A.P. Inc. v. M.N.R.,* 94 DTC 1349 (T.C.C.).

A taxpayer's chief source of income was a combination of farming and dentistry where his dental practice had contributed such a substantial amount of income to his farming operation that farming became the central focus of his life rather than a sideline business. *Hover v. M.N.R.,* 93 DTC 98 (T.C.C.).

SECTION 32:

► 32(1) ◄

(1) Insurance agents and brokers. In computing a taxpayer's income for a taxation year from the taxpayer's business as an insurance agent or broker, no amount may be deducted under paragraph 20(1)(*m*) for the year in respect of unearned commissions from the business, but in computing the taxpayer's income for the year from the business there may be deducted, as a reserve in respect of such commissions, an amount equal to the lesser of

(*a*) the total of all amounts each of which is that proportion of an amount that has been included in computing the taxpayer's income for the year or a preceding taxation year as a commission in respect of an insurance contract (other than a life insurance contract) that

(i) the number of days in the period provided for in the insurance contract that are after the end of the taxation year

is of

(ii) the number of days in that period, and

(*b*) the total of all amounts each of which is the amount that would, but for this subsection, be deductible under paragraph 20(1)(*m*) for the year in respect of a commission referred to in paragraph (*a*).

History: S. 32(1) was amended by S.C. 1994, c. 7, Sched. II, s. 19(1), applicable to taxation years ending after 1990. S. 32(1) formerly read:

"(1) Paragraph 20(1)(*m*) does not apply to allow a deduction to an insurance agent or broker in respect of unearned commissions but a taxpayer may, in computing the taxpayer's income from a business as an insurance agent or broker for a taxation year, deduct as a reserve in respect of unearned commissions an amount equal to the proportion of an amount that has been included in computing the taxpayer's income for the year or a previous year as a commission in respect of an insurance contract, other than a life insurance contract, that

(*a*) the number of days in that portion of the period provided for in the insurance contract that is after the end of the taxation year,

is of

(*b*) the whole of that period."

Related Sections: S. 32(2) Reserve to be included; s. 72 Reserves, etc., for year of death.

Interpretation Bulletins: *Primary* — IT-321R Insurance agents and brokers — Unearned commissions [Archived by the CRA].

Cases: The use of the phrase "unearned commissions" is merely an arbitrary label. Consequently, the reserve allowed against income received by an insurance agent or broker does not involve any subjective assessment of whether commissions are earned or unearned. *J. W. Baker Agency (1976) Ltd. v. The Queen,* 89 DTC 5078 (F.C.A.), affirming 88 DTC 6030 (F.C.T.D.).

► 32(2) ◄

(2) Reserve to be included. There shall be included as income of a taxpayer for a taxation year from a business as an insurance agent or broker, the amount deducted under subsection (1) in computing the taxpayer's income therefrom for the immediately preceding year.

Related Sections: S. 101 Disposition of farmland by partnership; s. 248(1), "amount", "business".

► 32(3) ◄

(3) Additional reserve. In computing a taxpayer's income for a taxation year ending after 1990 from a business carried on by the taxpayer throughout the year as an insurance agent or broker, there may be deducted as an additional reserve an amount not exceeding

(*a*) where the year ends in 1991, 90%,

(*b*) where the year ends in 1992, 80%,

(*c*) where the year ends in 1993, 70%,

(*d*) where the year ends in 1994, 60%,

(*e*) where the year ends in 1995, 50%,

(*f*) where the year ends in 1996, 40%,

(*g*) where the year ends in 1997, 30%,

(*h*) where the year ends in 1998, 20%,

(*i*) where the year ends in 1999, 10%, and

(*j*) where the year ends after 1999, 0%

of the amount, if any, by which

(*k*) the reserve that was deducted by the taxpayer under subsection (1) for the taxpayer's last taxation year ending before 1991

exceeds

(*l*) the amount deductible by the taxpayer under subsection (1) for the taxpayer's first taxation year ending after 1990,

and any amount so deducted by the taxpayer for a taxation year shall be deemed for the purposes of subsection (2) to have been deducted for that year under subsection (1).

History: S. 32(3) was added by S.C. 1994, c. 7, Sched. II, s. 19(2), applicable to taxation years ending after 1990.

SECTION 32.1:

► 32.1(1) ◄

(1) Employee benefit plan deductions. Where a taxpayer has made contributions to an employee benefit plan in respect of the taxpayer's employees or former employees, the taxpayer may deduct in computing the taxpayer's income for a taxation year

(*a*) such portion of an amount allocated to the taxpayer for the year under subsection (2) by the custodian of the plan as does not exceed the amount, if any, by which

(i) the total of all amounts each of which is a contribution by the taxpayer to the plan for the year or a preceding year

exceeds the total of all amounts each of which is

(ii) an amount in respect of the plan deducted by the taxpayer in computing the taxpayer's income for a preceding year, or

(iii) an amount received by the taxpayer in the year or a preceding year that was a return of amounts contributed by the taxpayer to the plan; and

(*b*) where at the end of the year all of the obligations of the plan to the taxpayer's employees and former employees have been satisfied and no property of the plan will thereafter be paid to or otherwise be available for the benefit of the taxpayer, the amount, if any, by which

(i) the total of all amounts each of which is a contribution by the taxpayer to the plan for the year or a preceding year

exceeds the total of all amounts each of which is

(ii) an amount in respect of the plan deducted by the taxpayer in computing the taxpayer's income for a preceding year, or, by virtue of paragraph (*a*), for the year, or

(iii) an amount received by the taxpayer in the year or a preceding year that was a return of amounts contributed by the taxpayer to the plan.

Related Sections: S. 6(1)(*a*) Value of benefits; s. 6(1)(*g*) Employee benefit plan benefits; s. 12(1)(*n*) Employees profit sharing plan; s. 12(1)(*n.1*) Employee benefit plan; s. 18(1)(*o*) Employee benefit plan contributions; s. 87(2)(*j.3*) Employee benefit plans, etc.; s. 107.1 Distribution by employee trust, employee benefit plan or similar trust.

Interpretation Bulletins: *Secondary* — IT-502 Employee benefit plans and employee trusts.

Advance Tax Rulings: ATR-17 Employee benefit plan — Purchase of company shares.

► 32.1(2) ◄

(2) Allocation. Every custodian of an employee benefit plan shall each year allocate to persons who have made contributions to the plan in respect of their employees or former employees the amount, if any, by which the total of

(*a*) all payments made in the year out of or under the plan to or for the benefit of their employees or former employees (other than the portion thereof that, by virtue of subparagraph 6(1)(*g*)(ii), is not required to be included in computing the income of a taxpayer), and

(*b*) all payments made in the year out of or under the plan to the heirs or the legal representatives of their employees or former employees

exceeds the income of the plan for the year.

Interpretation Bulletins: *Secondary* — IT-502 Employee benefit plans and employee trusts.

► 32.1(3) ◄

(3) Income of employee benefit plan. For the purposes of subsection (2), the income of an employee benefit plan for a year

(*a*) in the case of a plan that is a trust, is the amount that would be its income for the year if section 104 were read without reference to subsections 104(4) to (24); and

(*b*) in any other case, is the total of all amounts each of which is the amount, if any, by which a payment under the plan by the custodian thereof in the year exceeds

(i) in the case of an annuity, that part of the payment determined in prescribed manner to have been a return of capital, and

(ii) in any other case, that part of the payment that could, but for paragraph 6(1)(*g*), reasonably be regarded as being a payment of a capital nature.

Regulations: 300.

Interpretation Bulletins: *Secondary* — IT-502 Employee benefit plans and employee trusts.

SECTION 33:

(1)–(3) [Repealed by 1988, c. 55, s. 17(1).]

SECTION 33.1:

► 33.1(1) ◄

(1) International banking centres — definitions. In this section,

"eligible deposit" — "eligible deposit", at any particular time, means a debt owing at the particular time by a taxpayer that is a prescribed financial institution as or on account of an amount deposited with the taxpayer by

(*a*) a non-resident person with whom the taxpayer is dealing at arm's length at the particular time, where

(i) at the particular time, the deposit is recorded in the books of account of an international banking centre business of the taxpayer,

(ii) at the particular time, the taxpayer is not obligated, either immediately or in the future and either absolutely or contingently, to repay any portion of the debt to a person other than a non-resident person, and

(iii) before the deposit was recorded in the books of account of the international banking centre business, the taxpayer made reasonable inquiries and had no reasonable cause to believe that any por-

tion of the amount was deposited on behalf of, for the benefit of or as a condition of any transaction with, a person (other than a non-resident person with whom the taxpayer was dealing at arm's length), or

(*b*) another prescribed financial institution with whom the taxpayer is dealing at arm's length at the particular time, where

(i) at or before the time at which the deposit was made, the prescribed financial institution provided written notice to the taxpayer that the deposit was being made from deposits recorded in the books of account of an international banking centre business of that prescribed financial institution, and

(ii) a reasonable rate of interest is paid or payable by the taxpayer in respect of the deposit;

History: S. 33.1(1), subparagraph (*a*)(iii) of the definition "eligible deposit", was amended by S.C. 1994, c. 7, Sched. II, s. 20(1), applicable to deposits first recorded in the books of account of an international banking centre business after July 13, 1990. That portion formerly read:

"(iii) before the deposit was recorded in the books of account of the international banking centre business, the taxpayer made reasonable inquiries and had no reasonable cause to believe that any portion of the amount was deposited on behalf of, for the benefit of or as a condition of any transaction with a person other than a non-resident person, or"

Related Sections: S. 248(1), "amount", "principal amount"; s. 255 Canada. **Regulations:** 7900.

"*eligible loan*" — "eligible loan", at any particular time, means

(*a*) a loan or deposit (in this paragraph referred to as a "loan") made by a taxpayer that is a prescribed financial institution to a non-resident person (in this paragraph referred to as the "borrower") with whom the taxpayer is dealing at arm's length at the particular time, where

(i) at the particular time, neither a person other than a non-resident person nor a person with whom the taxpayer is not dealing at arm's length is obligated to the taxpayer, either immediately or in the future and either absolutely or contingently, to pay to the taxpayer any amount in respect of the loan,

(ii) the loan was recorded in the books of account of an international banking centre business of the taxpayer throughout the period commencing with the later of

(A) the time at which the loan was made, and

(B) the earliest of

(I) the time at which the loan was first recorded in the books of account of a branch or office of the taxpayer located in Canada,

(II) the end of the first taxation year in respect of which the taxpayer has made any designation under subsection (3), and

(III) the end of 1992

and ending at the particular time,

(iii) in the case of a loan made before the end of the first taxation year in respect of which the taxpayer has made any designation under subsection (3) (other than a loan recorded in the books of account of an international banking centre business of the taxpayer at the time at which the loan was made) or a loan made to a foreign bank, the taxpayer made reasonable inquiries before the loan was recorded in the books of account of the international banking centre business and had no reasonable cause to believe that the borrower had used or would use any proceeds of the loan, directly or indirectly, for the purpose of

(A) earning income in Canada, or

(B) making a loan to a person other than a non-resident person, and

(iv) in the case of any other loan, the taxpayer, before the loan was recorded in the books of account of the international banking centre business,

(A) obtained a statement signed by or on behalf of the borrower that the borrower would not use any proceeds of the loan, directly or indirectly, for a purpose described in subparagraph (iii), and

(B) had no reasonable cause to believe that the borrower would use any proceeds of the loan, directly or indirectly, for a purpose described in subparagraph (iii),

(*b*) a loan acquired by a taxpayer that is a prescribed financial institution from a foreign bank with which the taxpayer is not dealing at arm's length at the time the loan was acquired, where the conditions described in subparagraphs (*a*)(i) to (iii) are met at the particular time, or

(*c*) a deposit made by a taxpayer that is a prescribed financial institution with another prescribed financial institution with whom the taxpayer is dealing at arm's length at the particular time where, at or before the time at which the deposit was made, the taxpayer provided written notice to the prescribed financial institution that the deposit was being made from deposits recorded in the books of account of an international banking centre business of the taxpayer;

Related Sections: S. 248(1), "amount", "principal amount"; s. 255 Canada. **Regulations:** 7900.

"*foreign bank*" — "foreign bank" has the meaning assigned by the definition "foreign bank" in section 2 of the *Bank Act* (read without reference to paragraph (*g*)), except that an authorized foreign bank is not considered to be a foreign bank in respect of its Canadian banking business;

History: S. 33.1(1), the definition "foreign bank" was amended by S.C. 2001, c. 17, s. 19(1), applicable after June 27, 1999. S. 33.1(1), the definition "foreign bank" formerly read:

"'*foreign bank*' — 'foreign bank' has the meaning that would be assigned by the definition 'foreign bank' in subsection 2(1) of the *Bank Act* if that definition were read without reference to paragraph (*g*) thereof;"

Related Sections: S. 248(1), "authorized foreign bank", "Canadian banking business".

"*non-resident person*" — "non-resident person" at any time, with respect to a taxpayer, includes a person that the taxpayer, based on reasonable inquiries, believes at that time to be a person not resident in Canada.

► 33.1(2) ◄

(2) Interpretation. For the purposes of this section,

(*a*) a partnership shall be deemed to be a person;

(*b*) where a member of a partnership and a person do not deal with each other at arm's length, the part-

nership and the person shall be deemed not to deal with each other at arm's length;

(*c*) a partnership is a non-resident person only where all of its members are non-resident persons; and

(*d*) a deposit made by or to a non-resident person or a loan made to a non-resident person does not include a deposit made by or to, or a loan made to, as the case may be, a fixed place of business in Canada of the non-resident person.

► 33.1(3) ◄

(3) Designation and exemption. Where a taxpayer that was, throughout a taxation year, a prescribed financial institution has designated in respect of the year, by filing a prescribed form with the Minister on or before the day that is 90 days after the commencement of the year, a branch or office of the taxpayer in the metropolitan area of Montreal in the Province of Quebec or in the metropolitan area of Vancouver in the Province of British Columbia as a branch or office in which an international banking centre business of the taxpayer is to be carried on and has not revoked that designation by filing a prescribed form with the Minister on or before that day, in computing the income of the taxpayer for the year no amount shall be added or deducted in respect of the taxpayer's income or loss, as the case may be, for the year from the international banking centre business.

Regulations: 7900.
Forms: T781; T781-C.

► 33.1(4) ◄

(4) Income or loss from an international banking centre business. Subject to subsection (5), the amount of a taxpayer's income or loss, as the case may be, for a taxation year from an international banking centre business shall be determined on the assumption that

(*a*) the international banking centre business was a separate business carried on by the taxpayer the only income or loss of which was derived from eligible loans for the period in the year during which they were recorded in the books of account of the business; and

(*b*) the only amount payable for the year by the taxpayer in respect of interest on money borrowed for the purpose of earning income from the business was equal to the total of

(i) the total of all amounts each of which is the interest payable by the taxpayer in respect of an eligible deposit for the period in the year during which it was recorded in the books of account of the business, and

(ii) the amount equal to that proportion of

(A) the total of all amounts each of which is the amount determined in respect of a day in the year equal to the amount, if any, by which

(I) 96% of the total of all amounts each of which is the amount outstanding on account of the principal amount of an eligible loan recorded in the books of account of the business at the end of the day

exceeds

(II) the total of all amounts each of which is the amount outstanding on account of the principal amount of an eligible deposit recorded in the books of account of the business at the end of the day

that

(B) the total determined under subparagraph (i) is of

(C) the total of all amounts each of which is the amount outstanding on account of the principal amount of an eligible deposit recorded in the books of account of the business at the end of a day in the year.

► 33.1(5) ◄

(5) Restriction. A taxpayer's income for a taxation year from an international banking centre business shall not exceed that proportion of that income determined in accordance with subsection (4) that

(*a*) the total of all amounts each of which is an amount determined in respect of a day in the year equal to the lesser of

(i) 96% of the total of all amounts each of which is the amount outstanding on account of the principal amount of an eligible loan recorded in the books of account of the business at the end of the day, and

(ii) the total of all amounts each of which is the amount outstanding on account of the principal amount of an eligible deposit recorded in the books of account of the business at the end of the day

is of

(*b*) 96% of the total of all amounts each of which is the amount outstanding on account of the principal amount of an eligible loan recorded in the books of account of the business at the end of a day in the year.

► 33.1(6) ◄

(6) Election. For the purposes of subsections (4) and (5), where a taxpayer so elects in the taxpayer's return of income for a taxation year or in a prescribed form filed with the Minister within 90 days after the day of mailing of a notice of assessment for the year or a notification that no tax is payable for the year, an eligible deposit recorded in the books of account of an international banking centre business of the taxpayer at the end of a day in the year shall be deemed not to have been recorded at any time in the day in the books of account of that business and shall be deemed to have been recorded throughout that day in the books of account of another international banking centre business of the taxpayer designated by the taxpayer in the election.

Forms: T781-B.

► 33.1(7) ◄

(7) Election restriction. A taxpayer may elect, as provided in subsection (6), only in respect of eligible deposits recorded in the books of account of an international banking centre business at the end of a day to the extent that the total of those deposits exceeds 96% of the total of all amounts outstanding on account of the principal amounts of eligible loans recorded in the books of account of the business at the end of the day.

History: S. 33.1(7) was amended by S.C. 1994, c. 7, Sched. II, s. 20(2), applicable to taxation years beginning after December 17, 1987. S. 33.1(7) formerly read:

"(7) A taxpayer may elect, as provided in subsection (6), only in respect of eligible deposits recorded in the books of account of an international banking centre business at the end of a day to the extent that the total of those deposits exceeds the total of all amounts each of which is the amount outstanding on account of the principal amount of an eligible loan recorded in the books of account of the business at the end of the day."

► 33.1(8) ◄

(8) Limitation. In computing the income of a taxpayer for a taxation year, an amount paid or payable by the taxpayer on a deposit for the period in the year during which it was an eligible deposit shall, notwithstanding any other provision of this Act, be deductible only in computing the income or loss of the taxpayer from an international banking centre business.

► 33.1(9) ◄

(9) Exception. Where less than 90% of the revenue of a taxpayer for a taxation year from loans or deposits for the period in the year during which they were recorded in the books of account of an international banking centre business was derived from eligible loans in respect of which employees of the taxpayer actively participated in the solicitation, negotiation, analysis or management thereof while employed at a branch or office designated under subsection (3) as a branch or office in which an international banking centre business of the taxpayer is to be carried on, the amount, if any, of the taxpayer's income for the year from the international banking centre business shall, notwithstanding subsection (3), be included in computing the taxpayer's income for the year.

► 33.1(10) ◄

(10) No deduction permitted. Notwithstanding any other provision of this Act, in computing the income of a taxpayer no deduction shall be made in respect of any amount paid or payable in respect of indebtedness of the taxpayer to any person where, under an arrangement of which the taxpayer was aware or ought to have been aware at the time the indebtedness was incurred by the taxpayer, any portion of the indebtedness may reasonably be regarded as having been provided directly or indirectly from proceeds of a loan recorded in the books of account of an international banking centre business of a prescribed financial institution and any person has, in respect of that loan, signed a statement described in subparagraph (*a*)(iv) of the definition "eligible loan" in subsection (1).

Regulations: 7900.

► 33.1(11) ◄

(11) Application. For greater certainty,

(*a*) where at any time a loan or deposit of a taxpayer ceases to be an eligible loan otherwise than by virtue of its disposition to another person, the taxpayer shall be deemed to have disposed of the loan or deposit in the course of carrying on an international banking centre business and to have received proceeds of disposition therefor equal to the fair market value of the loan or deposit at that time and to have reacquired the loan or deposit immediately after that time at a cost equal to its fair market value at that time;

(*b*) a taxpayer's loss for a taxation year from an international banking centre business shall not be included in determining the taxpayer's non-capital loss for the year; and

(*c*) the amount, if any, by which

(i) the amount that would be a taxpayer's income for a taxation year from an international banking centre business if this section were read without reference to subsection (5)

exceeds

(ii) the taxpayer's income for the year from the international banking centre business

shall be added in computing the income of the taxpayer for the year.

► 33.1(12) ◄

(12) Return. Every taxpayer that has, in respect of a taxation year, designated a branch or office under subsection (3) as a branch or office in which an international banking centre business of the taxpayer is to be carried on shall, within six months after the end of the year, file with the Minister a return in prescribed form containing prescribed information.

Forms: T781-A.

SECTION 34: Professional business.

In computing the income of a taxpayer for a taxation year from a business that is the professional practice of an accountant, dentist, lawyer, medical doctor, veterinarian or chiropractor, the following rules apply:

(*a*) where the taxpayer so elects in the taxpayer's return of income under this Part for the year, there shall not be included any amount in respect of work in progress at the end of the year; and

(*b*) where the taxpayer has made an election under this section, paragraph (*a*) shall apply in computing the taxpayer's income from the business for all subsequent taxation years unless the taxpayer, with the concurrence of the Minister and on such terms and conditions as are specified by the Minister, revokes the election to have that paragraph apply.

Related Sections: S. 23(3) Reference to property in inventory.
Interpretation Bulletins: *Primary* — IT-457R Election by professionals to exclude work in progress from income. *Secondary* — IT-189R2 Corporations used by practising members of professions; IT-212R3 Income of deceased persons — Rights or things; IT-278R2 Death of a partner or of a retired partner.
Forms: T2032.
Tax Topics: No. 1928, Potential Conflict? Sections 9 and 10 of the *Income Tax Act*.

SECTION 34.1:

► 34.1(1) ◄

(1) Additional business income. Where

(*a*) an individual (other than a testamentary trust) carries on a business in a taxation year,

(*b*) a fiscal period of the business begins in the year and ends after the end of the year (in this subsection referred to as the "particular period"), and

(*c*) the individual has elected under subsection 249.1(4) in respect of the business and the election has not been revoked,

there shall be included in computing the individual's income for the year from the business, the amount determined by the formula

$$(A - B) \times \frac{C}{D}$$

where

A is the total of the individual's income from the business for the fiscal periods of the business that end in the year,

B is the lesser of

(i) the total of all amounts each of which is an amount included in the value of A in respect of the business and that is deemed to be a taxable capital gain for the purpose of section 110.6, and

(ii) the total of all amounts deducted under section 110.6 in computing the individual's taxable income for the year,

C is the number of days on which the individual carries on the business that are both in the year and in the particular period, and

D is the number of days on which the individual carries on the business that are in fiscal periods of the business that end in the year.

History: S. 34.1(1) was added by S.C. 1996, c. 21, s. 8(1), applicable after 1994.

Related Sections: S. 34.2 Reserve for December 31, 1995 income.

▶ 34.1(2) ◀

(2) Additional income election. Where

(*a*) an individual (other than a testamentary trust) begins carrying on a business in a taxation year and not earlier than the beginning of the first fiscal period of the business that begins in the year and ends after the end of the year (in this subsection referred to as the "particular period"), and

(*b*) the individual has elected under subsection 249.1(4) in respect of the business and the election has not been revoked,

there shall be included in computing the individual's income for the year from the business the lesser of

(*c*) the amount designated in the individual's return of income for the year, and

(*d*) the amount determined by the formula

$$(A - B) \times \frac{C}{D}$$

where

A is the individual's income from the business for the particular period,

B is the lesser of

(i) the total of all amounts each of which is an amount included in the value of A in respect of the business and that is deemed to be a taxable capital gain for the purpose of section 110.6, and

(ii) the total of all amounts deducted under section 110.6 in computing the individual's taxable income for the taxation year that includes the end of the particular period,

C is the number of days on which the individual carries on the business that are both in the year and in the particular period, and

D is the number of days on which the individual carries on the business that are in the particular period.

History: S. 34.1(2) was added by S.C. 1996, c. 21, s. 8(1), applicable after 1994.

Related Sections: S. 34.2 Reserve for December 31, 1995 income.

▶ 34.1(3) ◀

(3) Deduction. There shall be deducted in computing an individual's income for a taxation year from a business the amount, if any, included under subsection (1) or (2) in computing the individual's income for the preceding taxation year from the business.

History: S. 34.1(3) was added by S.C. 1996, c. 21, s. 8(1), applicable after 1994.

Related Sections: S. 34.2 Reserve for December 31, 1995 income; s. 249.1 Definition of "fiscal period".

▶ 34.1(4) ◀

(4) Deemed December 31, 1995 income. For the purpose of section 34.2, where

(*a*) at the end of 1994 an individual carried on a particular business no fiscal period of which ended at that time, and

(*b*) an amount is included under subsection (1) in computing the individual's income for the 1995 taxation year in respect of

(i) the particular business, or

(ii) another business that would, if subsection 34.2(3) applied for the purpose of this subparagraph, be included in the particular business,

subject to subsection (7), the December 31, 1995 income of the individual in respect of the particular business or the other business, as the case may be, is deemed to be the amount that would have been so included if the descriptions of A and B in subsection (1) were read as follows:

"A is the total of the individual's income from the business for the fiscal periods of the business that end in the year (determined as if paragraphs 34.2(2)(*a*) to (*d*) applied in computing that income),

B is the lesser of

(i) the total of all amounts each of which is an amount included in the value of A in respect of the business and that is deemed to be a taxable capital gain for the purpose of section 110.6, and

(ii) the total of the maximum amounts deductible under section 110.6 in computing the individual's taxable income for the year,".

History: S. 34.1(4) was added by S.C. 1996, c. 21, s. 8(1), applicable after 1994.

Related Sections: S. 34.2 Reserve for December 31, 1995 income.

▶ 34.1(5) ◀

(5) Deemed December 31, 1995 income. For the purpose of section 34.2, where

(*a*) at the end of 1994 an individual carried on a particular business no fiscal period of which ended at that time, and

(*b*) an amount is included under subsection (2) in computing the individual's income for the 1995 taxation year in respect of another business that would, if subsection 34.2(3) applied for the purpose of this paragraph, be included in the particular business,

the December 31, 1995 income of the individual in respect of the other business is deemed to be the amount that would have been so included if the descriptions of A and B in paragraph (2)(*d*) were read as follows:

"A is the individual's income from the business for the particular period (determined as if paragraphs 34.2(2)(*a*) to (*d*) applied in computing that income),

B is the lesser of

(i) the total of all amounts each of which is an amount included in the value of A in respect of the business and that is deemed to be a taxable capital gain for the purpose of section 110.6, and

(ii) the total of the maximum amounts deductible under section 110.6 in computing the individual's taxable income for the taxation year that includes the end of the particular period,".

History: S. 34.1(5) was added by S.C. 1996, c. 21, s. 8(1), applicable after 1994.

Related Sections: S. 34.2 Reserve for December 31, 1995 income.

► 34.1(6) ◄

(6) Deemed December 31, 1995 income. For the purpose of section 34.2, where

(*a*) at the end of 1995 an individual carries on a business as a member of a partnership no fiscal period of which ended at the end of 1994,

(*b*) the business was carried on by a professional corporation as a member of the partnership at the end of 1994,

(*c*) the professional corporation transferred its interest in the partnership to the individual before the end of 1995,

(*d*) the individual is a practising member of the professional body under the authority of which the professional corporation practised the profession,

(*e*) the individual was a specified shareholder of the professional corporation immediately before the transfer,

(*f*) the professional corporation does not have a share of the income or loss of the partnership for the first fiscal period of the partnership that ends after the end of 1995, and

(*g*) an amount is included under subsection (2) in computing the individual's income for the 1995 taxation year in respect of the business,

the December 31, 1995 income of the individual in respect of the business is deemed to be the amount that would have been so included if the descriptions of A and B in paragraph (2)(*d*) were read as follows:

"A is the individual's income from the business for the particular period (determined as if paragraphs 34.2(2)(*a*) to (*d*) applied in computing that income),

B is the lesser of

(i) the total of all amounts each of which is an amount included in the value of A in respect of the business and that is deemed to be a taxable capital gain for the purpose of section 110.6, and

(ii) the total of the maximum amounts deductible under section 110.6 in computing the individual's taxable income for the taxation year that includes the end of the particular period,"

and, for the purpose of computing the values of C and D in paragraph (2)(*d*), the individual is deemed to carry on the business on the days on which the corporation carried on the business.

History: S. 34.1(6) was added by S.C. 1996, c. 21, s. 8(1), applicable after 1994.

Related Sections: S. 34.2 Reserve for December 31, 1995 income.

► 34.1(7) ◄

(7) Maximum December 31, 1995 income. Where an amount was included under subsection (1) in computing an individual's income for the 1995 taxation year from a business and

(*a*) the individual's December 31, 1995 income otherwise determined under subsection (4) in respect of the business for the purpose of section 34.2

exceeds

(*b*) the amount that would be described under paragraph (*a*) if the descriptions of A, B and D in subsection (1) were read as follows:

"A is the individual's income from the business for the particular period (determined as if paragraphs 34.2(2)(*a*) to (*d*) applied in computing that income),

B is the lesser of

(i) the total of all amounts each of which is an amount included in the value of A in respect of the business and that is deemed to be a taxable capital gain for the purpose of section 110.6, and

(ii) the total of the maximum amounts deductible under section 110.6 in computing the individual's taxable income for the taxation year that includes the end of the particular period,

D is the number of days on which the individual carries on the business that are in the particular period."

for the purpose of applying subsection 34.2(4) to the 1996 and subsequent taxation years, the December 31, 1995 income of the individual in respect of the business is deemed to be the amount determined under paragraph (*b*).

History: S. 34.1(7) was added by S.C. 1996, c. 21, s. 8(1), applicable after 1994.

Related Sections: S. 34.2 Reserve for December 31, 1995 income.

► 34.1(8) ◄

(8) No additional income inclusion. Subsections (1) and (2) do not apply in computing an individual's income for a taxation year from a business where

(*a*) the individual dies or otherwise ceases to carry on the business in the year; or

(*b*) the individual becomes a bankrupt in the calendar year in which the taxation year ends.

History: S. 34.1(8) was added by S.C. 1996, c. 21, s. 8(1), applicable after 1994.

Related Sections: S. 34.2 Reserve for December 31, 1995 income.

► 34.1(9) ◄

(9) Death of partner or proprietor. Where

(*a*) an individual carries on a business in a taxation year,

(*b*) the individual dies in the year and after the end of a fiscal period of the business that ends in the year,

(*c*) another fiscal period of the business ends because of the individual's death (in this subsection referred to as the "short period"), and

(*d*) the individual's legal representative

(i) elects that this subsection apply in computing the individual's income for the year, or

(ii) files a separate return of income under subsection 150(4) in respect of the individual's business,

notwithstanding subsection (8), there shall be included in computing the individual's income for the year from the business, the amount determined by the formula

$$(A - B) \times C/D$$

where

A is the total of the individual's income from the business for fiscal periods (other than the short period) of the business that end in the year,

B is the lesser of

(i) the total of all amounts, each of which is an amount included in the value of A in respect of the business that is deemed to be a taxable capital gain for the purpose of section 110.6, and

(ii) the total of all amounts deducted under section 110.6 in computing the individual's taxable income for the year,

C is the number of days in the short period, and

D is the total number of days in fiscal periods of the business (other than the short period) that end in the year.

History: S. 34.1(9) was added by S.C. 1998, c. 19, s. 84(1), applicable to the 1996 and subsequent taxation years, except that subparagraph 34.1(9)(*d*)(ii) of the Act does not apply to the 1996 and 1997 taxation years.

SECTION 34.2: [Reserve for December 31, 1995 income].

► 34.2(1) ◄

(1) Definitions. The definitions in this subsection apply in this section.

"December 31, 1995 income" — "December 31, 1995 income" in respect of a business carried on by a taxpayer means the amount determined by the formula

$$(A - B - C + D) \times E$$

where

A is the total of all amounts each of which is the taxpayer's income from the business for a qualifying fiscal period,

B is the total of all amounts each of which is the taxpayer's loss from the business for a qualifying fiscal period,

C is the lesser of

(*a*) the total of all amounts each of which is an amount included in computing the taxpayer's income or loss from the business for a qualifying fiscal period and that is deemed to be a taxable capital gain for the purpose of section 110.6, and

(*b*) the total of the maximum amounts deductible under section 110.6 in computing the taxpayer's taxable income for the taxation year in which the qualifying fiscal periods end,

D is

(*a*) where the taxpayer is a professional corporation, the total salary or wages deductible in computing the value of A or B in respect of the business that is payable by the corporation to an individual

(i) who is a practising member of the professional body under the authority of which the corporation practised the profession, and

(ii) who is a specified shareholder of the corporation, and

(*b*) in any other case, nil, and

E is

(*a*) where the taxpayer is a professional corporation a taxation year of which ended at the end of 1995 because of the application of paragraph 249.1(1)(*b*), the amount determined by the formula

$$\frac{F - G}{F}$$

where

F is the number of days in all qualifying fiscal periods of the business, and

G is the number of days in the year, and

(*b*) in any other case, 1.

"qualifying fiscal period" — "qualifying fiscal period" of a business of a taxpayer means

(*a*) where at the end of 1994 the taxpayer carried on the business and no fiscal period of the business ended at that time, a fiscal period of the business that

(i) begins after the beginning of the taxpayer's taxation year that includes the end of 1995, and

(ii) ends

(A) at the end of 1995 because of the application of paragraph 249.1(1)(*b*) or because of the application of section 25 and paragraph 249.1(1)(*b*), or

(B) immediately before the end of 1995 because of the application of subsection 99(2) and paragraph 249.1(1)(*b*),

(*b*) a fiscal period of the business that ends at the end of 1995 because of the application of paragraph 249.1(1)(*b*) where

(i) the taxpayer is an individual who carries on the business as a member of a partnership at the end of 1995,

(ii) the individual acquired the individual's interest in the partnership in 1995 from a professional corporation,

(iii) the professional corporation carried on the business at the end of 1994 as a member of the partnership and does not have a share of the income or loss of the partnership for the fiscal period,

(iv) the individual is a practising member of the professional body under the authority of which the professional corporation practised the profession, and

(v) the individual was a specified shareholder of the professional corporation immediately before acquiring the interest, and

(*c*) where

(i) the taxpayer is a professional corporation that has a taxation year that ends at the end of 1995 because of the application of paragraph 249.1(1)(*b*), and

(ii) at the end of 1994 the business was carried on by the professional corporation as a member of a partnership, or by an individual

(A) who transferred an interest in the partnership to the professional corporation before the end of 1995,

(B) who is a practising member of the professional body under the authority of which the professional corporation practises the profession,

(C) who was a specified shareholder of the professional corporation immediately after the transfer, and

(D) who does not have a share of the income or loss of the partnership for the first fiscal period of the partnership that ends in 1995,

a fiscal period of the business that ends in that taxation year.

"specified percentage" — "specified percentage" of a taxpayer for a particular taxation year in respect of a business means

(*a*) where the first taxation year in which a qualifying fiscal period of the business ends is 1995, or subsection 34.1(4), (5) or (6) applies in respect of the business, and the particular year ends in

(i) 1995, 95%,
(ii) 1996, 85%,
(iii) 1997, 75%,
(iv) 1998, 65%,
(v) 1999, 55%,
(vi) 2000, 45%,
(vii) 2001, 35%,
(viii) 2002, 25%,
(ix) 2003, 15%, and
(x) any other year, 0%, and

(*b*) where the first taxation year in which a qualifying fiscal period of a business of the taxpayer ends is 1996 and the particular year ends in

(i) 1996, 95%,
(ii) 1997, 85%,
(iii) 1998, 75%,
(iv) 1999, 65%,
(v) 2000, 55%,
(vi) 2001, 45%,
(vii) 2002, 35%,
(viii) 2003, 25%,
(ix) 2004, 15%, and
(x) any other year, 0%.

History: S. 34.2(1) was added by S.C. 1996, c. 21, s. 8(1), applicable after 1994.

Related Sections: S. 34.1 Additional business income; s. 249.1 Definition of "fiscal period".

► 34.2(2) ◄

(2) Computation of December 31, 1995 income. For the purpose of the definition "December 31, 1995 income" in subsection (1), a taxpayer's income or loss from a business for a qualifying fiscal period shall be computed as if

(*a*) this Act were read without reference to paragraph 28(1)(*b*);

(*b*) the taxpayer had made the election referred to in paragraph 34(*a*) in respect of the business for the period;

(*c*) the maximum amount deductible in respect of any reserve, allowance or other amount were deducted; and

(*d*) the taxpayer had not received any taxable dividend.

History: S. 34.2(2) was added by S.C. 1996, c. 21, s. 8(1), applicable after 1994.

Related Sections: S. 34.1 Additional business income; s. 249.1 Definition of "fiscal period".

► 34.2(3) ◄

(3) Business defined. For the purposes of the definition "qualifying fiscal period" in subsection (1) and subparagraphs (6)(*b*)(i) and (*c*)(i), a reference to a particular business of a taxpayer includes another business substituted therefor, or for which the particular business was substituted, by the taxpayer where

(*a*) all or substantially all of the gross revenue of the particular business is derived from the sale, leasing, rental or development of properties or the rendering of services; and

(*b*) all or substantially all of the gross revenue of the other business is derived from the sale, leasing, rental or development, as the case may be, of similar properties or the rendering of similar services.

History: S. 34.2(3) was added by S.C. 1996, c. 21, s. 8(1), applicable after 1994.

► 34.2(4) ◄

(4) Reserve. Subject to subsection (6), where a taxpayer carries on a business in a taxation year, there may be deducted in computing the taxpayer's income for the year from the business, as a reserve in respect of December 31, 1995 income, such amount as the taxpayer claims not exceeding the least of

(*a*) the specified percentage for the year of the taxpayer's December 31, 1995 income in respect of the business;

(*b*) where an amount was deductible under this subsection in computing the taxpayer's income for a preceding taxation year from the business, the amount included under subsection (5) in computing the taxpayer's income for the particular year from the business; and

(*c*) the taxpayer's income for the particular year computed before deducting any amount under this subsection in respect of the business or under any of paragraph 60(*w*), sections 61.2 to 61.4 and subsection 80(17).

History: S. 34.2(4) was added by S.C. 1996, c. 21, s. 8(1), applicable after 1994.

► 34.2(5) ◄

(5) Reserve included in income. There shall be included in computing a taxpayer's income for a taxation year from a business the amount deducted under subsection (4) in computing the taxpayer's income therefrom for the preceding taxation year.

History: S. 34.2(5) was added by S.C. 1996, c. 21, s. 8(1), applicable after 1994.

► 34.2(6) ◄

(6) No reserve. No deduction shall be made under subsection (4) in computing a taxpayer's income for a taxation year from a business where

(*a*) at the end of the year or at any time in the following taxation year,

(i) the taxpayer's income from the business is exempt from tax under this Part, or

(ii) the taxpayer is non-resident and does not carry on the business through a permanent establishment (as defined by regulation) in Canada;

(*b*) the taxpayer is a corporation and the year ends immediately before another taxation year

(i) at the beginning of which the business is not carried on principally by the corporation nor by members of a partnership of which the corporation is a member,

(ii) in which the corporation becomes a bankrupt, or

(iii) in which the corporation is dissolved or wound up (other than in circumstances to which subsection 88(1) applies); or

(*c*) the taxpayer is an individual, and

(i) at the beginning of the year, the business is not carried on principally by the individual nor by members of a partnership of which the individual is a member,

(ii) the individual dies or becomes a bankrupt in the calendar year in which the taxation year ends, or

(iii) the individual is a trust that ceases to exist in the year.

History: S. 34.2(6) was added by S.C. 1996, c. 21, s. 8(1), applicable after 1994.

Regulations: 8201.

► 34.2(7) ◄

(7) Anti-avoidance rule. Where it is reasonable to conclude that one of the main reasons a person carries on a business or is a member of a partnership is to avoid the application of subparagraph (6)(*b*)(i) or (*c*)(i), the person is deemed not to carry on the business, and not to be a member of the partnership, for the purposes of those subparagraphs.

History: S. 34.2(7) was added by S.C. 1996, c. 21, s. 8(1), applicable after 1994.

► 34.2(8) ◄

(8) Death of partner or proprietor. Where

(*a*) an individual carries on a business in a taxation year,

(*b*) the individual dies in the year,

(*c*) an amount is included under subsection (5) in computing the individual's income for the year from the business, and

(*d*) the individual's legal representative

(i) elects that this subsection apply in computing the individual's income for the year, or

(ii) files a separate return of income under subsection 150(4) in respect of the individual's business,

there shall be deducted in computing the individual's income for the year from the business the lesser of

(*e*) the greatest amount that would have been deductible under subsection (4) in computing the individual's income for the year from the business if the individual had not died, and

(*f*) any amount that the representative claims.

History: S. 34.2(8) was added by S.C. 1998, c. 19, s. 85(1), applicable to the 1996 and subsequent taxation years.

SECTION 35:

► 35(1) ◄

(1) Prospectors and grubstakers. Where a share of the capital stock of a corporation

(*a*) is received in a taxation year by an individual as consideration for the disposition by the individual to the corporation of a mining property or interest therein acquired by the individual as a result of the individual's efforts as a prospector, either alone or with others, or

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 35(1)(*a*) of the Act is replaced by the following:

(*a*) is received in a taxation year by an individual as consideration for the disposition by the individual to the corporation of a mining property or an interest, or for civil law a right, therein acquired by the individual as a result of the individual's efforts as a prospector, either alone or with others, or

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*b*) is received in a taxation year

(i) by a person who has, either under an arrangement with a prospector made before the prospecting, exploration or development work or as an employer of a prospector, advanced money for, or paid part or all of, the expenses of prospecting or exploring for minerals or of developing a property for minerals, and

(ii) as consideration for the disposition by the person referred to in subparagraph (i) to the corporation of a mining property or interest therein acquired under the arrangement under which that person made the advance or paid the expenses, or if the prospector was the person's employee, acquired by the person through the employee's efforts,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 35(1)(*b*)(ii) of the Act is replaced by the following:

(ii) as consideration for the disposition by the person referred to in subparagraph (i) to the corporation of a mining property or an interest, or for civil law a right,

therein acquired under the arrangement under which that person made the advance or paid the expenses, or if the prospector's employee, acquired by the person through the employee's efforts,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

the following rules apply:

(*c*) notwithstanding any other provision of this Act, no amount in respect of the receipt of the share shall be included

(i) in computing the income for the year of the individual or person, as the case may be, except as provided in paragraph (*d*), or

(ii) in computing at any time the amount to be determined for F in the definition "cumulative Canadian development expense" in subsection 66.2(5) in respect of the individual or person, as the case may be,

(*d*) in the case of an individual or partnership (other than a partnership each member of which is a taxable Canadian corporation), an amount in respect of the receipt of the share equal to the lesser of its fair market value at the time of acquisition and its fair market value at the time of disposition or exchange of the share shall be included in computing the income of the individual or partnership, as the case may be, for the year in which the share is disposed of or exchanged,

(*e*) notwithstanding subdivision c, in computing the cost to the individual, person or partnership, as the case may be, of the share, no amount shall be included in respect of the disposition of the mining property or the interest therein, as the case may be,

(*f*) notwithstanding sections 66 and 66.2, in computing the cost to the corporation of the mining property or the interest therein, as the case may be, no amount shall be included in respect of the share, and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraphs 35(1)(*e*) and (*f*) of the Act are replaced by the following:

(*e*) notwithstanding subdivision c, in computing the cost to the individual, person or partnership, as the case may be, of the share, no amount shall be included in respect of the disposition of the mining property or the interest, or for civil law the right, therein, as the case may be,

(*f*) notwithstanding sections 66 and 66.2, in computing the cost to the corporation of the mining property or the interest, or for civil law the right, therein, as the case may be, no amount shall be included in respect of the share, and

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*g*) for the purpose of paragraph (*d*), an individual or partnership shall be deemed to have disposed of or exchanged shares that are identical properties in the order in which they were acquired.

Related Sections: S. 81(1) Amounts not included in income; s. 110(1)(*d.2*) Prospector's and grubstaker's shares.

Interpretation Bulletins: *Primary* — IT-171R2 Non-resident individuals — Taxable income earned in Canada [Archived by the CRA.].

Cases: For the purposes of section 35 a prospector must be an individual. In *Kay v. M.N.R.*, 71 DTC 5085 (Ex. Ct.) the major portion of what might have been regarded as prospecting work was performed by a company and the grubstaker exemption was held not to apply. See also *Keevil Consultants Ltd. v. M.N.R.*, 73 DTC 5409 (F.C.T.D.); and *Geophysical Engineering Ltd. v. M.N.R.*, 76 DTC 6390 (S.C.C.), affirming 74 DTC 6650 (F.C.A.).

► 35(2) ◄

(2) Definitions. In this section,

"*mining property*" — "mining property" means

(*a*) a right, licence or privilege to prospect, explore, drill or mine for minerals in a mineral resource in Canada, or

(*b*) real property in Canada (other than depreciable property) the principal value of which depends on its mineral resource content;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*b*) of the definition "mining property" in subsection 35(2) of the Act is replaced by the following:

(*b*) real property or an immovable in Canada (other than depreciable property) the principal value of which depends on its mineral resource content;

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

History: S. 35(2), the definition "mining property" was amended by S.C. 2001, c. 17, s. 20(1), applicable to shares received after December 21, 2000. S. 35(2), the definition "mining property" formerly read:

" '*mining property*' — 'mining property' means a right to prospect, explore or mine for minerals or a property the principal value of which depends on its mineral content;"

Related Sections: S. 81(1) Amounts not included in income; s. 248(1), "corporation", "employee", "individual", "minerals", "property", "share".

"*prospector*" — "prospector" means an individual who prospects or explores for minerals or develops a property for minerals on behalf of the individual, on behalf of the individual and others or as an employee.

SECTION 36: Railway companies.

Where any amount in respect of an expenditure incurred by a taxpayer on or in respect of the repair, replacement, alteration or renovation of depreciable property of the taxpayer of a prescribed class is, under a uniform classification and system of accounts and returns prescribed by the National Transportation Agency pursuant to the *Railway Act*, required to be entered in the books of the taxpayer otherwise than as an expense,

(*a*) no deduction may be made in respect of that expenditure in computing the income of the taxpayer for a taxation year; and

(*b*) for the purposes of section 13 and regulations made under paragraph 20(1)(*a*), the taxpayer shall be deemed to have acquired, at the time the expenditure was incurred, depreciable property of a class prescribed by regulation at a capital cost equal to that amount.

Related Sections: S. 13(21), "depreciable property"; s. 248(1), "prescribed", "regulation".
Regulations: 1102(10).

SECTION 37:

► 37(1) ◄

(1) Scientific research and experimental development. Where a taxpayer carried on a business in Canada in a taxation year, there may be deducted in computing the taxpayer's income from the business for the year such amount as the taxpayer claims not exceeding the amount, if any, by which the total of

(*a*) the total of all amounts each of which is an expenditure of a current nature made by the taxpayer in the year or in a preceding taxation year ending after 1973

(i) on scientific research and experimental development carried on in Canada, directly undertaken by or on behalf of the taxpayer, and related to a business of the taxpayer,

(i.1) by payments to a corporation resident in Canada to be used for scientific research and experimental development carried on in Canada that is related to a business of the taxpayer, but only where the taxpayer is entitled to exploit the results of that scientific research and experimental development,

(ii) by payments to

(A) an approved association that undertakes scientific research and experimental development,

(B) an approved university, college, research institute or other similar institution,

(C) a corporation resident in Canada and exempt from tax under paragraph 149(1)(*j*), or

(D) [Repealed by S.C. 1996, c. 21, s. 9(4).]

(E) an approved organization that makes payments to an association, institution or corporation described in any of clauses (A) to (C)

to be used for scientific research and experimental development carried on in Canada that is related to a business of the taxpayer, but only where the taxpayer is entitled to exploit the results of that scientific research and experimental development, or

(iii) where the taxpayer is a corporation, by payments to a corporation resident in Canada and exempt from tax because of paragraph 149(1)(*j*), for scientific research and experimental development that is basic research or applied research carried on in Canada

(A) the primary purpose of which is the use of results therefrom by the taxpayer in conjunction with other scientific research and experimental development activities undertaken or to be undertaken by or on behalf of the taxpayer that relate to a business of the taxpayer, and

(B) that has the technological potential for application to other businesses of a type unrelated to that carried on by the taxpayer

(*b*) the lesser of

(i) the total of all amounts each of which is an expenditure of a capital nature made by the taxpayer (in respect of property acquired that would be depreciable property of the taxpayer if this section were not applicable in respect of the property, other than land or a leasehold interest in land) in the year or in a preceding taxation year ending after 1958 on scientific research and experimental development carried on in Canada, directly undertaken by or on behalf of the taxpayer, and related to a business of the taxpayer, and

(ii) the undepreciated capital cost to the taxpayer of the property so acquired as of the end of the taxation year (before making any deduction under this paragraph in computing the income of the taxpayer for the taxation year),

(*c*) the total of all amounts each of which is an expenditure made by the taxpayer in the year or in a preceding taxation year ending after 1973 by way of repayment of amounts described in paragraph (*d*),

(*c*.1) all amounts included by virtue of paragraph 12(1)(*v*), in computing the taxpayer's income for any previous taxation year, and

(*c*.2) all amounts added because of subsection 127(27), (29) or (34) to the taxpayer's tax otherwise payable under this Part for any preceding taxation year, and

(*c*.3) in the case of a partnership, all amounts each of which is an excess referred to in subsection 127(30) in respect of the partnership for any preceding fiscal period,

exceeds the total of

(*d*) the total of all amounts each of which is the amount of any government assistance or non-government assistance (within the meanings assigned to those expressions by subsection 127(9)) in respect of an expenditure described in paragraph (*a*) or (*b*) that, at the taxpayer's filing-due date for the year, the taxpayer has received, is entitled to receive or can reasonably be expected to receive,

(*d*.1) the total of all amounts each of which is the super-allowance benefit amount (within the meaning assigned by subsection 127(9)) for the year or for a preceding taxation year in respect of the taxpayer in respect of a province,

(*e*) that part of the total of all amounts each of which is an amount deducted under subsection 127(5) in computing the tax payable under this Part by the taxpayer for a preceding taxation year where the amount can reasonably be attributed to

(i) a prescribed proxy amount for a preceding taxation year,

(ii) an expenditure of a current nature incurred in a preceding taxation year that was a qualified expenditure incurred in that preceding year in respect of scientific research and experimental development for the purposes of section 127, or

(iii) an amount included because of paragraph 127(13)(*e*) in the taxpayer's SR&ED qualified expenditure pool at the end of a preceding taxation year within the meaning assigned by subsection 127(9),

(*f*) the total of all amounts each of which is an amount deducted under this subsection in computing the taxpayer's income for a preceding taxation year, except amounts described in subsection (6),

(*f*.1) the total of all amounts each of which is the lesser of

(i) the amount deducted under section 61.3 in computing the taxpayer's income for a preceding taxation year, and

(ii) the amount, if any, by which the amount that was deductible under this subsection in computing the taxpayer's income for that preceding year exceeds the amount claimed under this subsection in computing the taxpayer's income for that preceding year,

(*g*) the total of all amounts each of which is an amount equal to twice the amount claimed under subparagraph 194(2)(*a*)(ii) by the taxpayer for the year or any preceding taxation year, and

(*h*) where the taxpayer is a corporation control of which has been acquired by a person or group of persons before the end of the year, the amount determined for the year under subsection (6.1) with respect to the corporation.

History: S. 37(1)(*d*.1) was added by S.C. 2001, c. 17, s. 21(1), applicable to taxation years that begin after February 2000 except that, if a taxpayer's first taxation year that begins after February 2000 ends before 2001, paragraph 37(1)(*d*.1) applies to the taxpayer's taxation years that begin after 2000.

S. 37(1)(*c*.2) and (*c*.3) were added by S.C. 1999, c. 22, s. 11(1), applicable to the 1998 and subsequent taxation years.

S. 37(1), before paragraph (*a*), was amended by S.C. 1996, c. 21, s. 9(1), applicable to taxation years that begin after 1995. S. 37(1), before paragraph (*a*), formerly read:

"(1) Where a taxpayer carried on a business in Canada in a taxation year and files with the Minister by the day on or before which the taxpayer's return of income under this Part for the taxpayer's following taxation year is required to be filed, or would be required to be filed if tax under this Part were payable by the taxpayer for that following year, a prescribed form containing prescribed information, there may be deducted in computing the taxpayer's income from the business for the year such amount as the taxpayer claims not exceeding the amount, if any, by which the total of"

S. 37(1)(*a*)(i.1) was added by S.C. 1996, c. 21, s. 9(2), applicable to payments made after 1995.

S. 37(1)(*a*)(ii)(D) was repealed by S.C. 1996, c. 21, s. 9(4), applicable to payments made after 1995. S. 37(1)(*a*)(ii)(D) formerly read:

"(D) a corporation resident in Canada, or"

S. 37(1)(*a*)(ii), after clause (E), was amended by S.C. 1996, c. 21, s. 9(5), applicable to payments made after 1995. S. 37(1)(*a*)(ii), after clause (E), formerly read:

"to be used for scientific research and experimental development carried on in Canada, related to a business of the taxpayer, and provided that the taxpayer is entitled to exploit the results of that scientific research and experimental development, or"

S. 37(1)(*d*) and (*e*) were amended by S.C. 1996, c. 21, s. 9(7), applicable to taxation years that begin after 1995. S. 37(1)(*d*) and (*e*) formerly read:

"(*d*) the total of all amounts each of which is the amount of any government assistance or non-government assistance (within the meanings assigned to those expressions by subsection 127(9)) in respect of an expenditure described in paragraph (*a*) or (*b*) that, at the time of filing of the return of income for the year, the taxpayer has received, is entitled to receive or can reasonably be expected to receive,

(*e*) that part of the total of all amounts each of which is an amount deducted under subsection 127(5) in computing the tax otherwise payable by the taxpayer under this Part for a preceding taxation year that can reasonably be attributed to a prescribed proxy amount of a preceding taxation year or expenditures of a current nature made in a preceding taxation year that were qualified expenditures in respect of scientific research and experimental development for the purposes of section 127;"

S. 37(1)(*f*.1) was added by S.C. 1995, c. 21, s. 9(1), applicable to taxation years that end after February 21, 1994.

S. 37(1), the portion before paragraph (*a*) was amended by S.C. 1995, c. 3, s. 9(1). This amendment is applicable after February 21, 1994 to expenditures incurred at any time except that, for an expenditure incurred by a taxpayer in a taxation year that ended before February 22, 1994, the taxpayer may file the prescribed form referred to in subsection 37(1), by the later of the day referred to in that subsection and the day that is 90 days after March 26, 1995. The amended part formerly read:

"S. 37. *Scientific research and experimental development.*

(1) Where a taxpayer carried on a business in Canada in a taxation year and files with the taxpayer's return of income under this Part for the year a prescribed form containing prescribed information, there may be deducted in computing the taxpayer's income from the business for the year such amount as the taxpayer may claim not exceeding the amount, if any, by which the total of"

S. 37(1)(*e*) was amended by S.C. 1994, c. 8, s. 4(1), applicable to taxation years that end after December 2, 1992. S. 37(1)(*e*) formerly read:

"(*e*) that part of the total of all amounts each of which is an amount deducted under subsection 127(5) in computing the tax otherwise payable by the taxpayer under this Part for a preceding taxation year that may reasonably be attributed to expenditures of a current nature made in a preceding taxation year that were qualified expenditures in respect of scientific research and experimental development for the purposes of section 127,"

S. 37(1)(*a*)(iii) was added by S.C. 1994, c. 7, Sched. II, s. 21(1), applicable with respect to payments made after December 15, 1987.

Editorial Note: Subsection 37(1) generally allows a full deduction for SR&ED expenditures carried on in Canada, even if the expenditure was not incurred to produce income and would otherwise be disallowed by paragraph 18(1)(*a*), or is on account of capital and would otherwise be disallowed by paragraph 18(1)(*b*). Expenditures that are deductible under subsection 37(1) (except in the case of used equipment and non-arm's length contract payments) are also "qualified expenditures" under subsection 127(9) and give rise to investment tax credits of 20% or 35%. SR&ED expenditures carried on outside Canada qualify for a deduction under subsection 37(2) and will not qualify for investment tax credits.

Related Sections: S. 12(1)(*t*) Investment tax credit; s. 12(1)(*v*) Research and development deductions; s. 18(9)(*d*), (*e*) Limitation respecting prepaid expenses; s. 37(1.1) Business of related corporations; s. 37(1.2) Research outside Canada; s. 37(1.3) SR&ED in the exclusive economic zone; s. 37(2) Research outside Canada; s. 37(4) Where no deduction allowed under section; s. 37(6) Expenditures of a capital nature; s. 37(6.1) Amount referred to in para. (1)(h); s. 37(7), "approved"; s. 37(8) Interpretation; s. 37(11) Filing requirement; s. 53(2)(*k*) Amounts to be deducted — Government assistance; s. 87(2)(*l*) Scientific research and experimental development; s. 96(1)(*e*.1) General rules; s. 125.4(2)(*c*) Rules governing labour expenditure of a corporation; s. 127(9), "contract payment", "investment tax credit", "qualified expenditure"; s. 127(10.1) Additions to investment tax credit; s. 127(10.8) Further additions to investment tax credit; s. 127(11.2) Time of expenditure and acquisition; s. 127(12.1) Scientific research and experimental development; s. 149(1)(*j*) Non-profit corporations for scientific research and experimental development; s. 248(1), "scientific research and experimental development"; s. 256(7) Acquiring control; s. 256(8) Deemed exercise of right.

Regulations: 1102(1)(*d*).

Interpretation Bulletins: *Primary* — IT-151R5 (Consolid.) — Scientific research and experimental development expenditures. *Secondary* — IT-121R3 Election to capitalize cost of borrowed money [Archived by the CRA.].

Information Circulars: IC 86-4R3 Scientific research and experimental development; IC 97-1 Scientific Research and Experimental Development — Administrative Guidelines for Software Development.

SR&ED Application Policies: Application Policy 2005-01, Shared-Use Equipment; Application Policy 2004-03, Prototypes, Pilot Plants/Commercial Plants, Custom Products and Commercial Assets; Application Policy 2004-02R2, Filing Requirements for Claiming SR&ED; Application Policy 2004-01, Retiring Allowance; Application Policy 2002-03, Expenditures Incurred for Administrative Salaries or Wages — "Directly Related" Test; Application Policy 2002-02R2, Experimental Production and Commercial Production with Experimental Development Work — Allowable SR&ED Expenditures; Application Policy 2002-01, Expenditures Incurred for Administrative Salaries or Wages — "Directly Related" Test; Application Policy 2001-01, Research Chairs; Application Policy 2000-03, Government Assistance — Treatment of Provincial and Territorial R&D Assistance; Application Policy 2000-01, Cost of materials for SR&ED; Application Policy 96-10, Third party payments — Approval process; Application Policy 96-06, Directly Undertaking,Supervising or Supporting Directly Engaged SR&ED Salary and Wages; Application Policy 96-04, Payments to third parties for SR&ED; Application Policy 96-03, Claimants' entitlements and responsibilities; Application Policy 95-05, SR&ED Capital Expenditures — Retroactive deductions under subsection 37(1); Application Policy 95-04, Conflict of Interest; Application Policy 95-01, Linked Activities — Regulations 2900(1)(d); Application Policy 94-02, Expenditures of Sole-Purpose SR&ED Performers Paragraphs

37(8)(a) of the Act and 2902(a) of the Regulations; Application Policy 94-01, Retroactive Claims for Scientific Research (TPRs).

Forms: T2 SCH 31; T2 SCH 301; T2 SCH 340; T2 SCH 360; T2 SCH 380; T2 SCH 403; T2 SCH 442; T661; T666; T1129; T1232; T1263.

Guides: T4052 An Introduction to the Scientific Research and Experimental Development Program; T4088 Claiming Scientific Research and Experimental Development Expenditures — Guide to Form T661; RC4290 Refunds for Small Business R&D.

Tax Topics: No. 1844, SR&ED Investment Tax Credit Claims: Making the CRA's Revised Procedures Work; No. 1830, The CRA's Revised Position on SR&ED Contracts; No. 1792, An Axe Instead of a Scalpel: Finance Canada's Response to the Alcatel Decision; No. 1767, Draft Legislation Overrides Alcatel — Affects SR&ED ITCs and More; No. 1564, Software and Life Sciences SR&ED Guidelines; No. 1561, Documentation for Scientific Research and Experimental Development Claims.

Tax Profile: April 2006 — The SR&ED Deduction and Investment Tax Credits; March 2006 — Some Tax Considerations for Investing in Silicon Valley North.

Canadian Tax Foundation: R & D Recent Developments, "Shop Floor SR & ED: Are You Missing Out?", *2006 Conference Report*, vol. 6, no. 2; Tax for the Owner Manager, 6, "Supporting SR & ED Claims", *Canadian Tax Highlights, 6*, vol. 6, no. 4; Tax for the Owner Manager, 8-9, "SR & ED and Outsourcing", *Canadian Tax Highlights, 6*, vol. 14, no. 4; R&D: "Credits Today, Innovation Tomorrow", *1999 Corporate Management Tax Conference*, 1:1–15:77.

Canadian Petroleum Tax Journal: Recent Cases of Interest — Capital Vs. Current Expense (Plus a Little SR&ED) — Pipeline Replacement and Repair, Gerald Grenon, Vol. 13 No. 1 2000; High Tech in the Oil Patch: Planning Considerations For Transferring Technology Offshore, Derek A. Kurrant, Vol. 13 No. 1 2000; Offshore Oil & Gas Interests: A Perspective on Exploration & Development of Offshore Petroleum and Natural Gas Resources in Eastern Canada, Michael R. Smith, CA and B. David Nielsen, CA, Vol. 13 No. 1 2000; Recent Cases of Interest — SR&ED, Gerald Grenon, Vol. 13 No. 1 2000.

Tax Window Files: Scientific Research and Experimental Development (SR&ED) Government Assistance, May 3, 2007, CRA Document No. 2007-0224191E5; Scientific Research and Experimental Development (SR&ED) Used Equipment, January 30, 2007, CRA Document No. 2006-0211041E5; Scientific Research and Experimental Development — Tests and Studies Required to Meet Regulatory Requirements, January 17, 2007, CRA Document No. 2005-0152601E5; Scientific Research and Experimental Development — Approved Organization, June 9, 2006, CRA Document No. 2006-0168111E5; Scientific Research and Experimental Development (SR&ED) — Administrative Support to Subsidiary, July 30, 2004, CRA Document No. 2004-0063811E5; Scientific Research and Experimental Development — Payments to Approved University, College, March 26, 2003, CRA Document No. 2003-0004967; Scientific Research and Experimental Development — Contributions to Employee Profit Sharing Plan, July 19, 2002, CRA Document No. 2002-0129737; Scientific Research — Treatment of Licence to Use Computer Software, October 3, 2001, CRA Document No. 2001-0092607; Scientific Research and Experimental Development — Approved Research Institute, September 7, 2000, CRA Document No. 1999-0009325; Definition of Canada for Purposes of SR&ED, July 31, 2000, CRA Document No. 2000-0037597; Effect of Acquisition of Control on SR&ED, April 27, 1999, CRA Document No. 9810385; Scientific Research and Experimental Development — Northwest Hydraulic Consultants Ltd., September 22, 1998, CRA Document No. 9822360; Definition of Canada for Purposes of SR & ED, September 23, 1998, CRA Document No. 9809087; Investment Tax Credits Allocated to Members of Partnership, October 16, 1997, CRA Document No. 9710866; Non-Profit Corporation for Scientific Research, 1996, CRA Document No. 9600943; Computer Software, October 8, 1996, CRA Document No. 9621950; Wind-up — Effect of Investment Tax Credits Claimed by Subsidiary, February 7, 1996, CRA Document No. 9520375; Wind-up — Use of Subsidiary's Unused Scientific Research, October 6, 1995, CRA Document No. 9522230; Scientific Research — Related benefits, January 11, 1994, CRA Document No. 9324986; Revenue Canada R&D Training Session Round Table, December 22, 1993, CRA Document No. 9336906; Scientific Research and Experimental Development, December 13, 1993, CRA Document No. 9320416; Scientific Research and Experimental Development, December 13, 1993, CRA Document No. 9320416; Scientific Research and Experimental Development — Accrued Salaries, November 30, 1993, CRA Document No. 931850A; Scientific Research — Meaning of Bonus, November 29, 1993, CRA Document No. 9324456; Contract Payments, November 5, 1993, CRA Document No. 9331455; Impact of Forgiveness of Debt on Undeducted Scientific Research and Development Expenditures, July 27, 1993, CRA Document No. 9315356; Scientific Research and Experimental Development — Third Party Payment, June 25, 1993, CRA Document No. 9307055; Scientific Research and Experimental Development — Approved Organizations, May 18, 1993, CRA Document No. 9308255; Qualified Expenditure — Election under Section 16.1, May 7, 1993, CRA Document No. 9236865; Leasing Properties Governed by Section 16.1 Used for Scientific Research, March 30, 1993, CRA Document No. 9232645; Scientific Research — Funding Received by Related Non-Resident Corporation — Whether Non-Government Assistance, March 19, 1993, CRA Document No. 9225325; Non-Taxable Research Corporation — Qualifications, January 12, 1993, CRA Document No. 9235825; Scientific Research — "Entitled to Exploit", August 20, 1992, CRA Document No. 9213925; Criteria to Qualify as an NPO for Scientific Research, August 4, 1992, CRA Document No. 9222275; Scientific Research Performed on Behalf of U.S. Parent, August 7, 1992, CRA Document No. 9216485; Scientific Research Expenses — Accounting for the Ins and Outs, July 28, 1992, CRA Document No. 9220946.

Cases: Two partnerships carried out SR&ED through a research corporation, which they paid with Brazilian currency promissory notes. Due to a devaluation of the Brazilian currency and rampant inflation in Brazil, the partnerships sustained significant unhedged losses. In the absence of relevant Canadian accounting principles, the Tax Court was justified in using American accounting principles to significantly discount the SR&ED expenses and promissory notes. *Romar et al. v. The Queen,* 2009 DTC 5057 (F.C.A.), affirming in part 2008 DTC 2647 (T.C.C.).

Stock option benefits provided by the taxpayer to its employees, who were engaged in SR&ED, were an "expenditure of a current nature...on scientific research and experimental development" within the meaning of s. 37(1)(*a*)(i). *Alcatel Canada Inc. v. The Queen,* 2005 DTC 387 (T.C.C.).

The communication charges incurred by the taxpayer for a telephone line to pass instructions and data between its employees in Ottawa an a corporation testing its software in Alabama qualified as SR&ED since the telephone line had formed a necessary part of the taxpayer's SR&ED activities. *Data Kinetics Ltd. v. The Queen,* 98 DTC 1877 (T.C.C.).

The expenditures on a computer-aided learning research project did not constitute SR&ED expenditures since "scientific research" connotes systematic investigation involving the existence of controlled experiment and of highly accurate measurements entailing the testing of one's theories against empirical evidence and would not include activities of research in social sciences or the routine collection of data. *ETA Performance Systems Corporation v. M.N.R.,* 93 DTC 451 (T.C.C.).

▶ 37(1.1) ◀

(1.1) Business of related corporations. Notwithstanding paragraph (8)(*c*), for the purposes of subsection (1), where a taxpayer is a corporation, scientific research and experimental development, related to a business carried on by another corporation to which the taxpayer is related (otherwise than by reason of a right referred to in paragraph 251(5)(*b*)) and in which that other corporation is actively engaged, at the time at which an expenditure or payment in respect of the scientific research and experimental development is made by the taxpayer, shall be considered to be related to a business of the taxpayer at that time.

▶ 37(1.2) ◀

(1.2) Deemed time of capital expenditure. For the purposes of paragraph (1)(*b*), an expenditure made by a taxpayer in respect of property shall be deemed not to have been made before the property is considered to have become available for use by the taxpayer.

History: S. 37(1.2) was added by S.C. 1994, c. 7, Sched. II, s. 21(2), applicable to expenditures made by a taxpayer after 1989 other than expenditures in respect of property acquired

(*a*) from a person with whom the taxpayer was not dealing at arm's length (otherwise than because of a right referred to in paragraph 251(5)(*b*) of the Act) at the time the property was acquired, or

(*b*) in the course of a reorganization in respect of which, if a dividend were received by a corporation in the course of the reorganization, subsection 55(2) of the Act would not apply to the dividend because of the application of paragraph 55(3)(*b*) of the Act,

where the property was depreciable property of the person from whom it was acquired (or would, but for section 37 of the Act, be depreciable property of the person from whom it was acquired) and was owned by that person before 1990.

Related Sections: S. 13(26) Restriction on deduction before available for use; s. 127(11.2) Time of expenditure and acquisition; s. 248(19) When property available for use.

SR&ED Application Policies: Application Policy 2003-01, Capital Property Intended to be Used All or Substantially All for SR&ED.

▶ 37(1.3) ◀

(1.3) SR&ED in the exclusive economic zone. For the purposes of this section and section 127 of this Act and Part XXIX of the Income Tax Regulations, an expenditure is deemed to have been made by a taxpayer in Canada if the expenditure is

(*a*) made by the taxpayer in the course of a business carried on by the taxpayer in Canada; and

(*b*) made for the prosecution of scientific research and experimental development in the exclusive economic zone of Canada, within the meaning of the *Oceans Act*, or in the airspace above that zone or the seabed or subsoil below that zone.

History: S. 37(1.3) was added by S.C. 2005, c. 30, s. 2(1), applicable to expenditures made after February 22, 2005.

Editorial Note: The definition of "exclusive economic zone" in subsection 37(1.3) is broader than the one in subsection 35(1) of the *Interpretation Act* because it includes airspace.

► 37(1.4) ◄

(1.4) Salary or wages for SR&ED outside Canada. For the purposes of this section, section 127 and Part XXIX of the *Income Tax Regulations*, the amount of a taxpayer's expenditure for a taxation year determined under subsection (1.5) is deemed to be made in the taxation year in respect of scientific research and experimental development carried on in Canada by the taxpayer.

History: S. 37(1.4) was added by 2008, c. 28, s. 3(1), applicable in respect of taxation years that end on or after February 26, 2008.

► 37(1.5) ◄

(1.5) Salary or wages outside Canada — limit determined. The amount of a taxpayer's expenditure for a taxation year determined under this subsection is the lesser of

(*a*) the amount that is the total of all expenditures each of which is an expenditure made by the taxpayer, in the taxation year and after February 25, 2008, in respect of an expense incurred in the taxation year for salary or wages paid to the taxpayer's employee who was resident in Canada at the time the expense was incurred in respect of scientific research and experimental development,

(i) that was carried on outside Canada,

(ii) that was directly undertaken by the taxpayer,

(iii) that related to a business of the taxpayer, and

(iv) that was solely in support of scientific research and experimental development carried on in Canada by the taxpayer, and

(*b*) the amount that is 10 per cent of the total of all expenditures, made by the taxpayer in the year, each of which would, if this Act were read without reference to subsection (1.4), be an expenditure made in respect of an expense incurred in the year for salary or wages paid to an employee in respect of scientific research and experimental development that was carried on in Canada, that was directly undertaken by the taxpayer and that related to a business of the taxpayer.

History: S. 37(1.5) was added by 2008, c. 28, s. 3(1), applicable in respect of taxation years that end on or after February 26, 2008, except that in respect of taxation years that include February 26, 2008, the reference in paragraph 37(1.5)(*b*) to "10 per cent" shall be read as a reference to the percentage determined by the formula

$$10\% \times A/B$$

where

A is the number of days in the taxation year that are after February 25, 2008; and

B is the number of days in the taxation year.

► 37(2) ◄

(2) Research outside Canada. In computing the income of a taxpayer for a taxation year from a business of the taxpayer, there may be deducted expenditures of a current nature made by the taxpayer in the year

(*a*) on scientific research and experimental development carried on outside Canada, directly undertaken by or on behalf of the taxpayer, and related to the business (except to the extent that subsection (1.4) deems the expenditures to have been made in Canada); or

(*b*) by payments to an approved association, university, college, research institute or other similar institution to be used for scientific research and experimental development carried on outside Canada related to the business provided that the taxpayer is entitled to exploit the results of that scientific research and experimental development.

Editorial Note: Subsection 37(2) allows a full deduction for current R&D expenditures carried on outside Canada, even if the expenditure was not incurred to produce income and would be otherwise disallowed by paragraph 18(1)(*a*). Expenditures that are deductible under subsection 37(2) are not "qualified expenditures" under subsection 127(9) and therefore do not give rise to investment tax credits. (See subsection 37(1) for R&D expenditures carried on in Canada.)

History: S. 37(2)(*a*) was replaced by S.C. 2008, c. 28, s. 3(2), applicable in respect of taxation years that end on or after February 26, 2008. S. 37(2)(*a*) formerly read:

"(*a*) on scientific research and experimental development carried on outside Canada, directly undertaken by or on behalf of the taxpayer, and related to the business; or"

Related Sections: S. 241(4)(*a*) Where taxpayer information may be disclosed.

Tax Window Files: Scientific Research and Experimental Development — Tests and Studies Required to Meet Regulatory Requirements, January 17, 2007, CRA Document No. 2005-0152601E5; Preparation of Clinical Trial Materials — Pharmaceutical Research and Development, October 29, 2002, CRA Document No. 2002-0155347; Preparation of Clinical Trial Materials — Pharmaceutical Research and Development, December 18, 2002, CRA Document No. 2002-0178237.

► 37(3) ◄

(3) Minister may obtain advice. The Minister may obtain the advice of the Department of Industry, the National Research Council of Canada, the Defence Research Board or any other agency or department of the Government of Canada carrying on activities in the field of scientific research as to whether any particular activity constitutes scientific research and experimental development.

History: S. 37(3) was amended by S.C. 1995, c. 1, s 59(1), to change the expression "Department of Industry, Science and Technology" to "Department of Industry", effective on proclamation, March 29, 1995.

Cases: A taxpayer's rights under s. 15 of the Charter are not infringed where the Minister fails to seek advice before proposing to reassess him because the taxpayer can challenge the basis and validity of the assessment once it is issued. *Stromotich v. The Queen*, 88 DTC 6172 (F.C.T.D.).

► 37(4) ◄

(4) Where no deduction allowed under section. No deduction may be made under this section in respect of an expenditure made to acquire rights in, or arising out of, scientific research and experimental development.

SR&ED Application Policies: Application Policy 2000-04R2, Recapture of Investment Tax Credit.

Tax Window Files: Scientific Research and Experimental Development — Rights In, or Arising Out of, April 24, 2003, CRA Document No. 2002-0169537.

► 37(5) ◄

(5) Where no deduction allowed under ss. 110.1 and 118.1. Where, in respect of an expenditure on scientific research and experimental development made by a taxpayer in a taxation year, an amount is otherwise deductible under this section and under section 110.1 or 118.1, no deduction may be made in respect of the expenditure under

section 110.1 or 118.1 in computing the taxable income of, or the tax payable by, the taxpayer for any taxation year.

► 37(6) ◄

(6) Expenditures of a capital nature. An amount claimed under subsection (1) that may reasonably be considered to be in respect of a property described in paragraph (1)(*b*) shall, for the purpose of section 13, be deemed to be an amount allowed to the taxpayer in respect of the property under regulations made under paragraph 20(1)(*a*), and for that purpose the property shall be deemed to be of a separate prescribed class.

Editorial Note: Subsection 37(6) provides that the recapture provisions of the capital cost allowance system (see subsection 13(1)) will apply in respect of capital property that is later sold. For this purpose, the property will be deemed to be in a separate prescribed class.

Related Sections: S. 87(2)(*d*)(ii)(D) Depreciable property;
Regulations: Part XI.
SR&ED Application Policies: Application Policy 2000-04R2, Recapture of Investment Tax Credit..
Tax Window Files: Scientific Research — Treatment of Licence to Use Computer Software, October 3, 2001, CRA Document No. 2001-0092607.

► 37(6.1) ◄

(6.1) Amount referred to in para. (1)(h). Where a taxpayer is a corporation control of which was last acquired by a person or group of persons at any time (in this subsection referred to as "that time") before the end of a taxation year of the corporation, the amount determined for the purposes of paragraph (1)(*h*) for the year with respect to the corporation in respect of a business is the amount, if any, by which

(*a*) the amount, if any, by which

(i) the total of all amounts each of which is

(A) an expenditure described in paragraph (1)(*a*) or (*c*) that was made by the corporation before that time,

(B) the lesser of the amounts determined in respect of the corporation under subparagraphs (1)(*b*)(i) and (ii) immediately before that time, or

(C) an amount determined in respect of the corporation under paragraph (1)(*c*.1) for its taxation year ending immediately before that time

exceeds the total of all amounts each of which is

(ii) the total of all amounts determined in respect of the corporation under paragraphs (1)(*d*) to (*g*) for its taxation year ending immediately before that time, or

(iii) the amount deducted by virtue of subsection (1) in computing the corporation's income for its taxation year ending immediately before that time

exceeds

(*b*) the total of

(i) where the business to which the amounts described in clause (*a*)(i)(A), (B) or (C) may reasonably be considered to have been related was carried on by the corporation for profit or with a reasonable expectation of profit throughout the year, the total of

(A) the corporation's income for the year from the business before making any deduction under subsection (1), and

(B) where properties were sold, leased, rented or developed, or services were rendered, in the course of carrying on the business before that time, the corporation's income for the year, before making any deduction under subsection (1), from any other business substantially all the income of which was derived from the sale, leasing, rental or development, as the case may be, of similar properties or the rendering of similar services, and

(ii) the total of all amounts each of which is an amount determined in respect of a preceding taxation year of the corporation that ended after that time equal to the lesser of

(A) the amount determined under subparagraph (i) with respect to the corporation in respect of the business for that preceding year, and

(B) the amount in respect of the business deducted by virtue of subsection (1) in computing the corporation's income for that preceding year.

► 37(7) ◄

(7) Definitions. In this section,

"*approved*" — "approved" means approved by the Minister after the Minister has, if the Minister considers it necessary, obtained the advice of the Department of Industry or the National Research Council of Canada;

History: S. 37(7), the definition of "approved" was amended by S.C. 1995, c. 1, s 59(1), to change the expression "Department of Industry, Science and Technology" to "Department of Industry", effective upon proclamation, March 29, 1995.

Interpretation Bulletins: *Primary* — IT-151R5 (Consolid.) Scientific Research and Experimental Development Expenditures.
Income Tax Technical News: Issue No. 23, List of "Approved" Entities for the Purpose of Scientific Research and Experimental Development.
Tax Window Files: Approved Organization, June 9, 2006, CRA Document No. 2006-0168111E5; SR&ED Approved Status, December 2, 2004, CRA Document No. 2004-0096811E5; SR&ED Approved University, March 26, 2003, CRA Document No. 2003-0004967; Approved Organization — SR&ED, October 23, 2002, CRA Document No. 2002-0152995; Scientific Research and Experimental Development — Approved Research Institute, September 7, 2000, CRA Document No. 1999-0009325.

"*scientific research and experimental development*" — [Repealed by S.C. 1996, c. 21, s. 9(8).]

History: S. 37(7), the definition "scientific research and experimental development" was repealed by S.C. 1996, c. 21, s. 9(8), applicable to work performed after February 27, 1995 except that, for the purposes of paragraphs 149(1)(*j*) and (8)(*b*), this amendment does not apply to work performed pursuant to an agreement in writing entered into before February 28, 1995. That definition formerly read:
"'*scientific research and experimental development*'" "scientific research and experimental development' has the meaning given to that expression by regulation."

Regulations: 2900(1).

► 37(8) ◄

(8) Interpretation. In this section,

(*a*) references to expenditures on or in respect of scientific research and experimental development

(i) where the references occur in subsection (2), include only

(A) expenditures each of which was an expenditure incurred for and all or substantially all of which was attributable to the prosecution of scientific research and experimental development, and

(B) expenditures of a current nature that were directly attributable, as determined by regulation, to the prosecution of scientific research and experimental development, and

(ii) where the references occur other than in subsection (2), include only

(A) expenditures incurred by a taxpayer in a taxation year (other than a taxation year for which the taxpayer has elected under clause (B)), each of which is

(I) an expenditure of a current nature all or substantially all of which was attributable to the prosecution, or to the provision of premises, facilities or equipment for the prosecution, of scientific research and experimental development in Canada,

(II) an expenditure of a current nature directly attributable, as determined by regulation, to the prosecution, or to the provision of premises, facilities or equipment for the prosecution, of scientific research and experimental development in Canada, or

(III) an expenditure of a capital nature that at the time it was incurred was for the provision of premises, facilities or equipment, where at that time it was intended

1. that it would be used during all or substantially all of its operating time in its expected useful life for, or

2. that all or substantially all of its value would be consumed in,

the prosecution of scientific research and experimental development in Canada, and

(B) where a taxpayer has elected in prescribed form and in accordance with subsection (10) for a taxation year, expenditures incurred by the taxpayer in the year each of which is

(I) an expenditure of a current nature for, and all or substantially all of which was attributable to, the lease of premises, facilities or equipment for the prosecution of scientific research and experimental development in Canada, other than an expenditure in respect of general purpose office equipment or furniture,

(II) an expenditure in respect of the prosecution of scientific research and experimental development in Canada directly undertaken on behalf of the taxpayer,

(III) an expenditure described in subclause (A)(III), other than an expenditure in respect of general purpose office equipment or furniture,

(IV) that portion of an expenditure made in respect of an expense incurred in the year for salary or wages of an employee who is directly engaged in scientific research and experimental development in Canada that can reasonably be considered to relate to such work having regard to the time spent by the employee thereon, and, for this purpose, where that portion is all or substantially all of the expenditure, that portion shall be deemed to be the amount of the expenditure,

(V) the cost of materials consumed in the prosecution of scientific research and experimental development in Canada, or

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subclause 37(8)(*a*)(ii)(B)(V) of the Act is replaced by the following:

(V) the cost of materials consumed or transformed in the prosecution of scientific research and experimental development in Canada, or

Applicable: To costs incurred after February 23, 1998.

Explanatory Note: Paragraph 37(8)(*a*) of the Act provides rules for interpreting the expression "expenditures on or in respect of scientific research and experimental development" which is used in subsections 37(1), (2) and (5). Clauses 37(8)(*a*)(ii)(B) provides for the alternative "proxy" method for determining SR&ED expenditures. Subclause 37(8)(*a*)(ii)(B)(V) provides that, in the context of the proxy method for determining SR&ED expenditures, the references to expenditures on or in respect of SR&ED (other than in subsection 37(2)) include only, among things listed in clause 37(8)(*a*)(ii)(B), the cost of "materials consumed" in the prosecution of SR&ED in Canada.

Subclause 37(8)(*a*)(ii)(B)(V) is amended for costs incurred after February 23, 1998 in two respects. First, the phrase "materials consumed" is changed to "materials consumed or transformed". Second, the reference in the French version of the subclause to "matières" is changed to "matériaux".

(VI) 1/2 of any other expenditure of a current nature in respect of the lease of premises, facilities or equipment used primarily for the prosecution of scientific research and experimental development in Canada, other than an expenditure in respect of general purpose office equipment or furniture;

(*b*) for greater certainty, references to scientific research and experimental development related to a business include any scientific research and experimental development that may lead to or facilitate an extension of that business;

(*c*) except in the case of a taxpayer who derives all or substantially all of the taxpayer's revenue from the prosecution of scientific research and experimental development (including the sale of rights arising out of scientific research and experimental development carried on by the taxpayer), the prosecution of scientific research and experimental development shall not be considered to be a business of the taxpayer to which scientific research and experimental development is related; and

(*d*) notwithstanding paragraph (*a*), references to expenditures on or in respect of scientific research and experimental development shall not include

(i) any capital expenditure made in respect of the acquisition of a building, other than a prescribed special-purpose building, including a leasehold interest therein,

(ii) any outlay or expense made or incurred for the use of, or the right to use, a building other than a prescribed special-purpose building, and

(iii) payments made by a taxpayer to

(A) a corporation resident in Canada and exempt from tax under paragraph 149(1)(*j*), an

approved research institute or an approved association, with which the taxpayer does not deal at arm's length,

(B) a corporation other than a corporation referred to in clause (A), or

(C) an approved university, college or organization

to be used for scientific research and experimental development

(D) in the case of such a payment to a person described in clause (A) or (B), to the extent that the amount of the payment may reasonably be considered to have been made to enable the recipient to acquire a building or a leasehold interest in a building or to pay an amount in respect of the rental expense in respect of a building, and

(E) in the case of a payment to a person described in clause (C), to the extent that the amount of the payment may reasonably be considered to have been made to enable the recipient to acquire a building, or a leasehold interest in a building, in which the taxpayer has, or may reasonably be expected to acquire, an interest.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Clause 37(8)(*d*)(iii)(E) of the English version of the Act is replaced by the following:

(E) in the case of a payment to a person described in clause (C), to the extent that the amount of the payment may reasonably be considered to have been made to enable the recipient to acquire a building, or a leasehold interest in a building, in which the taxpayer has, or may reasonably be expected to acquire, an interest or, for civil law, a right.

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

History: S. 37(8)(*a*)(ii) was amended by S.C. 1994, c. 8, s. 4(2), applicable to taxation years that end after December 2, 1992. S. 37(8)(*a*)(ii) formerly read:

"(ii) where the references occur other than in subsection (2), include only

(A) expenditures each of which was an expenditure incurred for and all or substantially all of which was attributable to the prosecution, or to the provision of premises, facilities or equipment for the prosecution, of scientific research and experimental development in Canada, and

(B) expenditures of a current nature that were directly attributable, as determined by regulation, to the prosecution, or to the provision of premises, facilities or equipment for the prosecution, of scientific research and experimental development in Canada;"

S. 37(8)(*d*)(ii) was amended by S.C. 1994, c. 8, s. 4(3), applicable to taxation years that end after December 2, 1992. S. 37(8)(*d*)(ii) formerly read:

"(ii) any rental expense incurred in respect of a building other than a prescribed special-purpose building, and"

Related Sections: S. 37(1.1) Business of related corporations; s. 37(9) Salary or wages; s. 37(9.1)–(9.5) Limitation re: specified employees; s. 37(10) Time for election; s. 96(3) Agreement or election of partnership members; s. 127(9), "qualified expenditure"; s. 149(1)(*j*)(ii)(A) Miscellaneous exemptions.

Proposed Related Sections: S. 143.3.

Regulations: 2900(2)–2900(4); 2902; 2903.

Interpretation Bulletins: *Primary* — IT-151R5 Scientific Research and Experimental Development Expenditures.

Information Circulars: IC 86-4R3 Scientific research and experimental development; IC 97-1 Scientific Research and Experimental Development — Administrative Guidelines for Software Development.

SR&ED Application Policies: Application Policy 2004-03, Prototypes, Pilot Plants/Commercial Plants, Custom Products and Commercial Assets; Application Policy 2004-01, Retiring Allowance; Application Policy 2003-01, Capital Property Intended to be Used All or Substantially All for SR&ED; Application Policy 2002-02R2, Experimental Production and Commercial Production with Experimental Development Work — Allowable SR&ED Expenditures; Application Policy 2002-01, Expenditures Incurred for Administrative Salaries or Wages — "Directly Related" Test.

Tax Topics: No. 1767, Draft Legislation Overrides Alcatel — Affects SR&ED ITCs and More.

Tax Window Files: Lease of used equipment & non-arm's length party, February 15, 2007, CRA Document No. 2006-020676117; Scientific Research and Experimental Development — Activities Performed on Behalf of Foreign Corporation, October 7, 2005, CRA Document No. 2005-0140991C6; Scientific Research and Experimental Development (SR&ED) — Administrative Support to Subsidiary, July 30, 2004, CRA Document No. 2004-0063811E5; Scientific Research and Experimental Development — Contributions to Employee Profit Sharing Plan, July 19, 2002, CRA Document No. 2002-0129737; Scientific Research — Treatment of Licence to Use Computer Software, October 3, 2001, CRA Document No. 2001-0092607; Scientific Research and Experimental Development, March 26, 2001, CRA Document No. 2001-0069747

Cases: Stock option benefits provided by the taxpayer to its employees, who were engaged in SR&ED, were "expenditures made in respect of...salary or wages" within the meaning of s. 37(8)(*a*)(ii)(B)(IV). *Alcatel Canada Inc. v. The Queen*, 2005 DTC 387 (T.C.C.).

► 37(9) ◄

(9) Salary or wages. An expenditure of a taxpayer

(*a*) does not include, for the purposes of clauses (8)(*a*)(ii)(A) and (B), remuneration based on profits or a bonus, where the remuneration or bonus, as the case may be, is in respect of a specified employee of the taxpayer, and

(*b*) includes, for the purpose of paragraph (1.5)(*a*), an amount paid in respect of an expense incurred for salary or wages paid to an employee only if the taxpayer reasonably believes that the salary or wages is not subject to an income or profits tax imposed, because of the employee's presence or activity in a country other than Canada, by a government of that other country.

History: S. 37(9) was replaced by S.C. 2008, c. 28, s. 3(3), applicable in respect of taxation years that end on or after February 26, 2008. S. 37(9) formerly read:

"(9) *Salary or wages.* For the purposes of clauses (8)(*a*)(ii)(A) and (B), an expenditure of a taxpayer does not include remuneration based on profits or a bonus, where the remuneration or bonus, as the case may be, is in respect of a specified employee of the taxpayer."

S. 37(9) was added by S.C. 1994, c. 8, s. 4(4), applicable to taxation years that end after December 2, 1992.

Related Sections: S. 248(1), "specified employee".

► 37(9.1) ◄

(9.1) Limitation re specified employees. For the purposes of clauses (8)(*a*)(ii)(A) and (B), expenditures incurred by a taxpayer in a taxation year do not include expenses incurred in the year in respect of salary or wages of a specified employee of the taxpayer to the extent that those expenses exceed the amount determined by the formula

$$A \times B/365$$

where

A is 5 times the Year's Maximum Pensionable Earnings (as determined under section 18 of the *Canada Pension Plan*) for the calendar year in which the taxation year ends; and

B is the number of days in the taxation year on which the employee is a specified employee of the taxpayer.

History: S. 37(9.1) was added by S.C. 1997, c. 25, s. 6(1), applicable to taxation years that begin after March 5,1996.

► 37(9.2) ◄

(9.2) Associated corporations. Where

(*a*) in a taxation year of a corporation that ends in a calendar year, the corporation employs an individual who is a specified employee of the corporation,

(*b*) the corporation is associated with another corporation (in this subsection and subsection (9.3) referred to as the "associated corporation") in a taxation year of the associated corporation that ends in the calendar year, and

(*c*) the individual is a specified employee of the associated corporation in the taxation year of the associated corporation that ends in the calendar year,

for the purposes of clauses (8)(*a*)(ii)(A) and (B), the expenditures incurred by the corporation in its taxation year or years that end in the calendar year and by each associated corporation in its taxation year or years that end in the calendar year do not include expenses incurred in those taxation years in respect of salary or wages of the specified employee unless the corporation and all of the associated corporations have filed with the Minister an agreement referred to in subsection (9.3) in respect of those years.

History: S. 37(9.2) was added by S.C. 1997, c. 25, s. 6(1), applicable to taxation years that begin after March 5,1996.

Related Sections: S. 37(9.5) Deemed corporation.

► 37(9.3) ◄

(9.3) Agreement among associated corporations. Where all of the members of a group of associated corporations of which an individual is a specified employee file, in respect of their taxation years that end in a particular calendar year, an agreement with the Minister in which they allocate an amount in respect of the individual to one or more of them for those years and the amount so allocated or the total of the amounts so allocated, as the case may be, does not exceed the amount determined by the formula

$$A \times B/365$$

where

A is 5 times the Year's Maximum Pensionable Earnings (as determined under section 18 of the *Canada Pension Plan*) for the particular calendar year, and

B is the lesser of 365 and the number of days in those taxation years on which the individual was a specified employee of one or more of the corporations,

the maximum amount that may be claimed in respect of salary or wages of the individual for the purposes of clauses (8)(*a*)(ii)(A) and (B) by each of the corporations for each of those years is the amount so allocated to it for each of those years.

History: S. 37(9.3) was added by S.C. 1997, c. 25, s. 6(1), applicable to taxation years that begin after March 5,1996.

Related Sections: S. 37(9.5) Deemed corporation.
Forms: T1174.

► 37(9.4) ◄

(9.4) Filing. An agreement referred to in subsection (9.3) is deemed not to have been filed by a taxpayer unless

(*a*) it is in prescribed form; and

(*b*) where the taxpayer is a corporation, it is accompanied by

(i) where its directors are legally entitled to administer its affairs, a certified copy of their resolution authorizing the agreement to be made, and

(ii) where its directors are not legally entitled to administer its affairs, a certified copy of the document by which the person legally entitled to administer its affairs authorized the agreement to be made.

History: S. 37(9.4) was added by S.C. 1997, c. 25, s. 6(1), applicable to taxation years that begin after March 5,1996.

► 37(9.5) ◄

(9.5) Deemed corporation. For the purposes of subsections (9.2) and (9.3) and this subsection, each

(*a*) individual related to a particular corporation,

(*b*) partnership of which a majority interest partner is

(i) an individual related to a particular corporation, or

(ii) a corporation associated with a particular corporation, and

(*c*) limited partnership of which a member whose liability as a member is not limited is

(i) an individual related to a particular corporation, or

(ii) a corporation associated with a particular corporation,

is deemed to be a corporation associated with the particular corporation.

History: S. 37(9.5) was added by S.C. 1997, c. 25, s. 6.1, applicable to taxation years that begin after March 5,1996.

► 37(10) ◄

(10) Time for election. Any election made under clause (8)(*a*)(ii)(B) for a taxation year by a taxpayer shall be filed by the taxpayer on the day on which the taxpayer first files a prescribed form referred to in subsection (11) for the year.

History: S. 37(10) was amended by S.C. 1998, c. 19, s. 86(2), applicable after February 21, 1994 to expenditures incurred at any time except that, for taxation years that began before 1996, the reference in subsection 37(10) of the Act to "subsection (11)" shall be read as a reference to "subsection (1)". S. 37(10) formerly read:

"(10) *Time for election.* Any election made under clause (8)(*a*)(ii)(B) for a taxation year by a taxpayer shall be filed by the taxpayer on the day on which the taxpayer first files a prescribed form referred to in subsection (11) for the year."

S. 37(10) was amended by S.C. 1996, c. 21, s. 9(9), applicable to taxation years that begin after 1995. S. 37(10) formerly read:

"(10) *Time for election.* Any election under clause (8)(*a*)(ii)(B) made by a taxpayer for a taxation year shall be filed with the taxpayer's return of income under this Part for the year."

S. 37(10) was added by S.C. 1994, c. 8, s. 4(4), applicable to taxation years that end after December 2, 1992.

► 37(11) ◄

(11) Filing requirement. Subject to subsection (12), no amount in respect of an expenditure that would be incurred by a taxpayer in a taxation year that begins after 1995 if this Act were read without reference to subsection 78(4) may be deducted under subsection (1) unless the taxpayer files with the Minister a prescribed form containing prescribed information in respect of the expenditure on or before the day that is 12 months after the taxpayer's filing-due date for the year.

History: S. 37(11) was amended by S.C. 1996, c. 21, s. 9(10), applicable to taxation years that begin after 1995. S. 37(11) formerly read:

"(11) *Reclassified expenditures.* For the purpose of subsection (1), a taxpayer is not required to file the prescribed form referred to in that subsection in respect of an expenditure incurred in a taxation year by the taxpayer where the expenditure is reclassified by the Minister on an assessment of the tax-

payer's tax payable under this Part for the year, or on a determination that no tax under this Part is payable by the taxpayer for the year, as an expenditure in respect of scientific research and experimental development."

S. 37(11) was added by S.C. 1995, c. 3, s. 9(2), applicable after February 21, 1994 to expenditures incurred at any time except that, for an expenditure incurred by a taxpayer in a taxation year that ended before February 22, 1994, the taxpayer may file the prescribed form referred to in subsection 37(1), by the later of the day referred to in that subsection and the day that is 90 days after this Act is assented to [Royal Assent March 26, 1995].

Editorial Note: The SR&ED filing deadline for corporations is 18 months from the year end. Draft subsection 220(2.2) provides that the CRA cannot extend this deadline. Claims should be made in advance of the 18-month deadline to allow time for a CRA request for additional information to be answered within the 18-month deadline. See also *Tax for Owner-Managers*, January 2007, "The CRA's SR&ED Claim-Processing Procedure".

Related Sections: S. 127(9), "investment tax credit"; s. 220(2) Officers, clerks and employees.
Proposed Related Sections: S. 220(2.2).
Forms: T661.
Guides: T4088 Claiming Scientific Research and Experimental Development Expenditures — Guide to Form T661.
SR&ED Application Policies: Application Policy 2004-02R2, Filing Requirements for Claiming SR&ED; Application Policy 2000-02R, Guidelines for Resolving Claimants' SR&ED Concerns.
Tax Topics: No. 1844, SR&ED Investment Tax Credit Claims: Making the CRA's Revised Procedures Work; No. 1824, Stamping of Hand-Delivered Mail at CRA Local Offices — SR&ED Implications.

► 37(12) ◄

(12) Misclassified expenditures. If a taxpayer has not filed a prescribed form in respect of an expenditure in accordance with subsection (11), for the purposes of this Act, the expenditure is deemed not to be an expenditure on or in respect of scientific research and experimental development.

History: S. 37(12) was amended by S.C. 1998, c. 19, s. 5(1), applicable to the 1997 and subsequent taxation years. S. 37(12) formerly read:

"(12) *Reclassified expenditures.* A taxpayer is not required to file the prescribed form referred to in subsection (11) in respect of an expenditure that would be incurred in a taxation year by the taxpayer if this Act were read without reference to subsection 78(4) where the expenditure is reclassified by the Minister on an assessment of the taxpayer's tax payable under this Part for the year, or on a determination that no tax under this Part is payable by the taxpayer for the year, as an expenditure in respect of scientific research and experimental development."

S. 37(12) was added by S.C. 1996, c. 21, s. 9(10), applicable to taxation years that begin after 1995.

Editorial Note: If the filing deadline in subsection 37(11) has not been met in respect of an expenditure, subsection 37(12) deems the expenditure not to be an SR&ED expenditure. In this case, the expenditure will be subject to the ordinary rules for capital or current expenditures.

► 37(13) ◄

(13) Non-arm's length contract — linked work. For the purposes of this section and sections 127 and 127.1, where

(*a*) work is performed by a taxpayer for a person or partnership at a time when the person or partnership does not deal at arm's length with the taxpayer, and

(*b*) the work would be scientific research and experimental development if it were performed by the person or partnership,

the work is deemed to be scientific research and experimental development.

History: S. 37(13)(*b*) was amended by S.C. 1998, c. 19, s. 86(3), applicable to taxation years that begin after 1995. S. 37(13)(*b*) formerly read:

"(*b*) the work would be scientific research and experimental development described in paragraph 2900(1)(*d*) of the *Income Tax Regulations* if it were performed by the person or partnership,"

S. 37(13) was added by S.C. 1996, c. 21, s. 9(10), applicable to taxation years that begin after 1995.

Related Sections: S. 248(1), "Scientific research and experimental development".
Tax Window Files: Scientific Research and Experimental Development (SR&ED) — Administrative Support to Subsidiary, July 30, 2004, CRA Document No. 2004-0063811E5.

SECTION 37.1: Additional allowance for scientific research and experimental development. [Repealed by S.C. 1998, c. 19, s. 87(1).]

History: S. 37.1 was repealed by S.C. 1998, c. 19, s. 87(1), applicable to the 1995 and subsequent taxation years. S. 37.1(1) formerly read:

"S. 37.1. *Additional allowance for scientific research and experimental development.*

(1) In computing the income for a taxation year of a corporation that carried on business in Canada, other than a corporation referred to in subsection (2), there may be deducted an amount (in this section referred to as the 'research allowance' of the corporation) equal to 50% of the amount, if any, by which

(*a*) the qualified expenditure made by the corporation in the year

exceeds

(*b*) the total of

(i) the expenditure base of the corporation for the year, and

(ii) the total of all amounts each of which is an amount paid to the corporation in the year by

(A) Her Majesty in right of Canada or a province in respect of scientific research and experimental development to the extent that the amount may reasonably be considered to relate to

(I) the qualified expenditure made by the corporation in taxation years ending after 1977, or

(II) the cost of or depreciation on any research property of the corporation,

(B) another corporation resident in Canada for scientific research and experimental development related to the business of that other corporation, or

(C) a corporation not resident in Canada if it is entitled to a deduction under subparagraph 37(1)(*a*)(v) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, in respect of the amount so paid.

(2) *Idem, where corporations associated.* In computing the income for a particular taxation year of a corporation that carried on business in Canada and that was associated in the particular year with one or more other such corporations, there may be deducted an amount (in this section referred to as the 'research allowance' of the corporation) determined in accordance with the following rules:

(*a*) determine the amount in respect of the corporation by which the qualified expenditure made by the corporation in the particular year exceeds the total that would have been described in paragraph (1)(*b*) in respect of the corporation for the particular year if subsection (1) had applied to the corporation,

(*b*) determine the amount, if any, by which the total of

(i) the qualified expenditure made by the corporation in the particular year, and

(ii) the total of all amounts each of which is the qualified expenditure made by another corporation associated in the particular year with the corporation, in the other corporation's taxation year that ended in the calendar year in which the particular year ended,

exceeds

(iii) the total of

(A) the expenditure base of the corporation for the particular year,

(B) the expenditure base of each other corporation associated in the particular year with the corporation for that other corporation's taxation year that ended in the calendar year in which the particular year ended, and

(C) the total of all amounts each of which is an amount that would be described in subparagraph (1)(*b*)(ii) if subsection (1) were applicable

(I) paid to the corporation in the particular year, or

(II) paid to another corporation associated in the particular year with the corporation, if paid in the other corporation's taxation year that ended in the calendar year in which the particular year ended,

(*c*) determine the total of

(i) the amount determined under paragraph (*a*) in respect of the corporation for the year, and

(ii) the total of all amounts each of which is the amount determined under paragraph (*a*) for another corporation that is associated in the particular year with the corporation in respect of the other corporation's taxation year that ended in the calendar year in which the particular year ended, and

(*d*) determine the amount that is 50% of that proportion of the amount determined under paragraph (*b*) that

(i) the amount determined under paragraph (*a*)

is of

(ii) the total determined under paragraph (*c*),

and the amount determined under paragraph (*d*) is the amount of the research allowance that may be deducted in computing the income for the particular year of the corporation.

(3) *Inclusion in income where research property disposed of.* Where at any time in a particular taxation year a corporation has disposed of a research property (other than to a corporation with which it was associated in the year in a transaction to which subsection 85(1) or 88(1) applied), there shall be included in computing the income of the corporation for the year an amount equal to the lesser of

(*a*) 50% of the lesser of

(i) the fair market value at that time of the property, and

(ii) the capital cost to the corporation of the property at that time, and

(*b*) the amount, if any, by which the total of

(i) all amounts each of which is the research allowance deducted in computing the income of the corporation for any taxation year commencing before that time, and

(ii) all amounts each of which is an amount in respect of another corporation associated in the particular year with the corporation, equal to the research allowance deducted in computing the income of the other corporation for any taxation year ending in or before the particular year,

exceeds the total of all amounts each of which is an amount in respect of a disposition of property before that time, that was

(iii) an amount included by virtue of this subsection in computing the income of the corporation for any taxation year commencing before that time, or

(iv) an amount in respect of another corporation associated in the particular year with the corporation included by virtue of this subsection in computing the income of that other corporation for any taxation year ending in or before the particular year.

(4) *Capital cost of research property disposed of to associated corporation.* For the purposes of this subsection and subsection (3), where at any time in a taxation year subsection 85(1) or 88(1) applied with respect to a disposition of research property by a particular corporation to another corporation with which it was associated in the year,

(*a*) the property shall be deemed to be a research property of the other corporation; and

(*b*) where the capital cost to the particular corporation of the property exceeds its proceeds of disposition, the capital cost to the other corporation shall be deemed to be the amount that was the capital cost thereof to the particular corporation.

(5) *Definitions.* In this section,

'base period' — 'base period' of a corporation for a particular taxation year means, except as provided in paragraph 87(2)(*l.1*), the period commencing

(*a*) where the corporation has 3 consecutive taxation years commencing at any time after the end of its 1976 taxation year and ending immediately before the particular year, on the first day of the first of those 3 years, and

(*b*) in any other case, on the later of the first day of its first taxation year and the first day of its 1977 taxation year

and ending immediately before the first day of the particular taxation year;

'expenditure base' — 'expenditure base' of a corporation for a particular taxation year means the product obtained when the amount, if any, by which

(*a*) the total of all amounts each of which is the qualified expenditure made by the corporation in a taxation year in its base period (or, in the case of a new corporation within the meaning of subsection 87(1), made by the corporation in its base period),

exceeds

(*b*) the total of all amounts paid to the corporation by

(i) Her Majesty in right of Canada or a province in respect of scientific research and experimental development to the extent that the amount may reasonably be considered to relate to

(A) the qualified expenditure made by the corporation in taxation years ending after 1976, or

(B) the cost of or depreciation on any research property of the corporation,

(ii) another corporation resident in Canada for scientific research and experimental development related to the business of that other corporation, or

(iii) a corporation not resident in Canada if it was entitled to a deduction under subparagraph 37(1)(*a*)(v) in respect of the amount so paid

in a taxation year in its base period (or, in the case of a new corporation within the meaning of subsection 87(1), paid to the corporation in its base period),

is multiplied by the proportion that the number of days in the particular year is of the number of days in its base period;

'qualified expenditure' — 'qualified expenditure' made by a corporation in a taxation year means the total of expenditures (other than prescribed expenditures) each of which is

(*a*) an expenditure, in respect of scientific research and experimental development carried on in Canada, made by it in the year and described in paragraph 37(1)(*a*),

(*b*) an expenditure made by it in the year to acquire property that has not been used for any purpose whatever before it was acquired by the corporation and that is an expenditure described in subparagraph 37(1)(*b*)(i), or

(*c*) a payment made by it in the year to Her Majesty in right of Canada or a province to the extent that it may reasonably be considered to be a repayment of an amount described in clause (1)(*b*)(ii)(A) with regard to that corporation;

'research property' — 'research property' of a corporation means property referred to in paragraph (*b*) of the definition 'qualified expenditure' in this subsection acquired by virtue of an expenditure made by the corporation after the end of its 1977 taxation year;

'scientific research and experimental development' — 'scientific research and experimental development' has the meaning given to that expression by regulation.

(6) *When certain qualified expenditures deemed to be made.* Where a corporation has in a taxation year ending in a particular calendar year made a payment to another corporation with which it is associated in the taxation year,

(*a*) if the payment would, but for this paragraph, be included in the qualified expenditure made by the corporation in the taxation year, such portion of the payment as may reasonably be regarded as a payment for or on account of a scientific research and experimental development expenditure to be made by the other corporation in a taxation year (in this paragraph referred to as a 'subsequent year') ending after the particular calendar year shall be deemed, for the purposes of this section, not to have been paid at the time at which it was actually paid, but to have been paid on the last day of the subsequent year; and

(*b*) if the payment is received by the other corporation in a taxation year ending in a calendar year preceding the particular calendar year, the payment shall, if it may reasonably be regarded as a payment for or on account of a scientific research and experimental development expenditure to be made by the other corporation in a taxation year (in this paragraph referred to as the 'specified year') following the year in which the payment was received by it, be deemed, for the purposes of this section, not to have been paid to the other corporation in the taxation year in which it was actually paid, but to have been paid on the last day of the specified year.

(7) *Certain corporations deemed to be associated.* For the purpose of computing the research allowance of a particular corporation for a taxation year, where another corporation other than a corporation that was

(*a*) a predecessor corporation (within the meaning of subsection 87(1)) in respect of the particular corporation or in respect of a corporation associated with the particular corporation in the year, or

(*b*) a subsidiary corporation (within the meaning assigned to the expression 'subsidiary' by subsection 88(1)) that was wound up before the taxation year, if its parent corporation (within the meaning assigned to the expression 'parent' by that subsection) was the particular corporation or a corporation associated with the particular corporation in the year,

was not associated with the particular corporation in the year but was associated with the particular corporation in a taxation year in the particular corporation's base period for the year, and

(*c*) all or substantially all of the property of the other corporation used by it in carrying on any business during that base period, was acquired in any manner whatever by the particular corporation, or by one or more corporations associated with the particular corporation in the year,

that other corporation shall (notwithstanding that it may have ceased to exist) be deemed to be a corporation

(*d*) associated with the particular corporation in the year, and

(*e*) that had taxation years ending on anniversaries of the last day of its taxation year in which it was last associated with the particular corporation."

For the application of s. 37.1, see ss. 37.2 and 37.3.

SECTION 37.2: Application of s. 37.1. [Repealed by S.C. 1998, c. 19, s. 87(1).]

History: S. 37.2 was repealed by S.C. 1998, c. 19, s. 87(1), applicable to the 1995 and subsequent taxation years. S. 37.2 formerly read:

"S. 37.2. *Application of s. 37.1.*

(1) Section 37.1 is applicable to taxation years ending after 1977 and before 1989 except that,

(*a*) in its application to any taxation year commencing before 1978, the research allowance of a corporation shall be that proportion of the research allowance otherwise deductible that the number of days in the taxation year after 1977 is of the number of days in the taxation year;

(*b*) in its application to a taxation year ending after 1987, the research allowance of a corporation shall be that proportion of the research allowance otherwise deductible that the number of days in the taxation year before 1988 is of the number of days in the taxation year; and

(*c*) with respect to the disposition of a research property, section 37.1 is applicable to the 1978 and subsequent taxation years.

(2) *Idem.* Words and expressions used in subsection (1) have the meanings assigned by section 37.1."

S. 37.2 was added in the revised Act.

SECTION 37.3: Application of ss. 37.1(1) and (2). [Repealed by S.C. 1998, c. 19, s. 87(1).]

History: S. 37.3 was repealed by S.C. 1998, c. 19, s. 87(1), applicable to the 1995 and subsequent taxation years. S. 37.3 formerly read:

"S. 37.3 *Application of ss. 37.1(1) and (2).* Notwithstanding section 37.2, subsections 37.1(1) and (2) do not apply to a taxation year of a corporation that ends after October 1983 unless

(*a*) in the case of a particular taxation year that includes November 1, 1983, the corporation elects in its return of income under Part I for the year to have those subsections apply, in which case each corporation that was associated with the corporation in the year shall be deemed to have so elected in respect of its taxation year that ended in the calendar year in which the particular taxation year ended; or

(*b*) the qualified expenditure (within the meaning assigned by subsection 37.1(5)) made by the corporation in the year includes

(i) an expenditure that the corporation was obligated to make pursuant to an agreement in writing entered into by the corporation before April 20, 1983, or

(ii) an expenditure that the corporation was obligated to make in respect of a project pursuant to an agreement in writing entered into by the corporation before November 2, 1983, where the project commenced before 1984 and proceeded without undue delay, and arrangements, evidenced by writing, respecting the project were substantially advanced before April 20, 1983,

and the corporation elects in its return of income under Part I for the taxation year to have those subsections apply, in which case the amount that may be deducted under section 37.1 in computing the income of the corporation for the year shall be that proportion of the amount thereof that could, but for this section, have been so deducted by the corporation (on the assumption that it is not associated in the year with any other corporation) that

(iii) an amount equal to the total of expenditures made by the corporation in the year each of which is an expenditure described in the definition 'qualified expenditure' in subsection 37.1(5) and is made pursuant to an agreement referred to in subparagraph (i) or (ii)

is of

(iv) the qualified expenditure (within the meaning assigned by subsection 37.1(5)) made by the corporation in the year."

S. 37.3 was added in the revised Act.

Subdivision c — Taxable Capital Gains and Allowable Capital Losses

SECTION 38: Taxable capital gain and allowable capital loss.

For the purposes of this Act,

(*a*) subject to paragraphs (*a.1*) to (*a.3*), a taxpayer's taxable capital gain for a taxation year from the disposition of any property is 1/2 of the taxpayer's capital gain for the year from the disposition of the property;

(*a.1*) a taxpayer's taxable capital gain for a taxation year from the disposition of a property is equal to zero if

(i) the disposition is the making of a gift to a qualified donee of a share, debt obligation or right listed on a designated stock exchange, a share of the capital stock of a mutual fund corporation, a unit of a mutual fund trust, an interest in a related segregated fund trust (within the meaning assigned by paragraph 138.1(1)(*a*)) or a prescribed debt obligation,

(ii) the disposition is deemed by section 70 to have occurred and the taxpayer is deemed by subsection 118.1(5) to have made a gift described in subparagraph (i) of the property, or

(iii) the disposition is the exchange, for a security described in subparagraph (i), of a share of the capital stock of a corporation, which share included, at the time it was issued and at the time of the disposition, a condition allowing the holder to exchange it for the security, and the taxpayer

(A) receives no consideration on the exchange other than the security, and

(B) makes a gift of the security to a qualified donee not more than 30 days after the exchange;

(*a.2*) a taxpayer's taxable capital gain for a taxation year from the disposition of a property is equal to zero if

(i) the disposition is the making of a gift to a qualified donee (other than a private foundation) of a property described, in respect of the taxpayer, in paragraph 110.1(1)(*d*) or in the definition "total ecological gifts" in subsection 118.1(1), or

(ii) the disposition is deemed by section 70 to have occurred and the taxpayer is deemed by subsection 118.1(5) to have made a gift described in subparagraph (i) of the property;

(*a.3*) a taxpayer's taxable capital gain for a taxation year, from the disposition of an interest in a partnership (other than a prescribed interest in a partnership) that would be an exchange described in subparagraph (*a.1*)(iii) if the interest were a share in the capital stock of a corporation, is equal to the lesser of

(i) that taxable capital gain determined without reference to this paragraph, and

(ii) 1/2 of the amount, if any, by which

(A) the total of

(I) the cost to the taxpayer of the partnership interest, and

(II) each amount required by subparagraph 53(1)(*e*)(iv) or (x) to be added in determining the taxpayer's adjusted cost base of the partnership interest,

exceeds

(B) the adjusted cost base to the taxpayer of the partnership interest (determined without reference to subparagraphs 53(2)(*c*)(iv) and (v));

(*b*) a taxpayer's allowable capital loss for a taxation year from the disposition of any property is 1/2 of the taxpayer's capital loss for the year from the disposition of that property; and

(*c*) a taxpayer's allowable business investment loss for a taxation year from the disposition of any property is 1/2 of the taxpayer's business investment loss for the year from the disposition of that property.

History: S. 38(*a*) was replaced by S.C. 2008, c. 28, s. 4(1), applicable in respect of gifts made on or after February 26, 2008. S. 38(*a*) formerly read:

"(*a*) subject to paragraphs (*a.*1) and (*a.*2), a taxpayer's taxable capital gain for a taxation year from the disposition of any property is 1/2 of the taxpayer's capital gain for the year from the disposition of the property;"

S. 38(*a.1*)(iii) was added by S.C. 2008, c. 28, s. 4(2), applicable in respect of gifts made on or after February 26, 2008.

S. 38(*a.3*) was added by S.C. 2008, c. 28, s. 4(3), applicable in respect of gifts made on or after February 26, 2008.

S. 38(*a.*1)(i) was replaced by S.C. 2007, c. 35, s. 15(1), applicable in respect of gifts made on or after March 19, 2007, except that, in its application before December 14, 2007, the reference to "designated stock exchange" in subparagraph 38(*a.1*)(i) shall be read as a reference to "prescribed stock exchange". S. 38(*a.*1)(i) formerly read:

"(i) the disposition is the making of a gift to a qualified donee (other than a private foundation) of a share, debt obligation or right listed on a prescribed stock exchange, a share of the capital stock of a mutual fund corporation, a unit of a mutual fund trust, an interest in a related segregated fund trust (within the meaning assigned by paragraph 138.1(1)(*a*)) or a prescribed debt obligation, or"

S. 38(*a.*1), the portion before subparagraph (ii) was replaced by S.C. 2006, c. 4, s. 51(1), applicable in respect of gifts of property made after May 1, 2006. S. 38(*a.*1), the portion before subparagraph (ii) formerly read:

"(*a.*1) a taxpayer's taxable capital gain for a taxation year from the disposition of any property is 1/4 of the taxpayer's capital gain for the year from the disposition of the property if

(i) the disposition is the making of a gift to a qualified donee (as defined in subsection 149.1(1)), other than a private foundation, of a share, debt obligation or right listed on a prescribed stock exchange, a share of the capital stock of a mutual fund corporation, a unit of a mutual fund trust, an interest in a related segregated fund trust (within the meaning assigned by paragraph 138.1(1)(*a*)) or a prescribed debt obligation, or"

S. 38(*a.*2), the portion before subparagraph (i) was replaced by S.C. 2006, c. 4, s. 51(2), applicable in respect of gifts of property made after May 1, 2006. S. 38(*a.*2), the portion before subparagraph (i) formerly read:

"(*a.*2) a taxpayer's taxable capital gain for a taxation year from the disposition of a property is 1/4 of the taxpayer's capital gain for the year from the disposition of the property where"

S. 38(*a.*1), the portion before subparagraph (i) was amended by S.C. 2002, c. 9, s. 22(1), applicable to dispositions that occur after 2001. S. 38(*a.*1), the portion before subparagraph (i) formerly read:

"(*a.*1) a taxpayer's taxable capital gain for a taxation year from the disposition after February 18, 1997 and before 2002 of any property is 1/4 of the taxpayer's capital gain for the year from the disposition of the property where"

S. 38(*a.*1) was amended by S.C. 2001, c. 17, s. 22(2), by replacing the reference to the fraction "3/8" with a reference to the fraction "1/4", applicable to the 2000 and subsequent taxation years except that

(*a*) for a taxation year of a taxpayer that includes February 28, 2000 or October 17, 2000, the reference to the fraction "1/4" in paragraph 38(*a.*1) shall be read as a reference to 1/2 of the fraction in paragraph 38(*a*) that applies to the taxpayer for the year;

(*a.*1) for a taxation year that began after February 28, 2000 and ended before October 17, 2000, the reference to the fraction "1/4" in paragraph 38(*a.*1) shall be read as a reference to the fraction "1/3"; and

(*b*) for a taxation year that ended before February 28, 2000, the reference to the fraction "1/4" in paragraph 38(*a*.1) shall be read as a reference to the fraction "3/8".

S. 38(*a*.2) was added by S.C. 2001, c. 17, s. 22(3), applicable to gifts made by a taxpayer after February 27, 2000 except that

(*a*) if the taxpayer's taxation year began after February 28, 2000 and ended before October 17, 2000, the reference to the fraction "1/4" in paragraph 38(*a*.2) shall be read as a reference to the fraction "1/3"; and

(*b*) if the taxpayer's taxation year includes February 28, 2000 or October 17, 2000, the reference to the fraction "1/4" in paragraph 38(*a*.2) shall be read as a reference to 1/2 of the fraction in paragraph 38(*a*) that applies to the taxpayer for the year.

S. 38(*a*), (*b*) and (*c*) were amended by S.C. 2001, c. 17, s. 22(1) and 22(4), applicable to the 2000 and subsequent taxation years except that

(*a*) for a taxation year of a taxpayer that ended before February 28, 2000, the references to the fraction "1/2" in paragraph 38(*a*) and in paragraphs 38(*b*) and (*c*) shall be read as references to the fraction "3/4",

(*b*) for a taxpayer's taxation year that began after February 28, 2000 and ended before October 17, 2000, the references to the fraction "1/2" in paragraph 38(*a*) and in paragraphs 38(*b*) and (*c*) shall be read as references to the fraction "2/3",

(*c*) for a taxation year of a taxpayer that includes February 28, 2000 but does not include October 18, 2000, the references to the fraction "1/2" in paragraph 38(*a*) and in paragraphs 38(*b*) and (*c*) shall be read as references to the fraction that applies to the taxpayer for that year, and for this purpose,

(i) where the amount of the taxpayer's net capital gains from dispositions of property in the period that began at the beginning of the year and ended at the end of February 27, 2000 (in this paragraph referred to as the "first period") exceeds the amount of the taxpayer's net capital losses from dispositions of property in the period that begins at the beginning of February 28, 2000 and ends at the end of the year (in this paragraph referred to as the "second period"), the fraction that applies to the taxpayer for the year is 3/4,

(ii) where the amount of the taxpayer's net capital losses from dispositions of property in the first period exceeds the amount of the taxpayer's net capital gains from dispositions of property in the second period, the fraction that applies to the taxpayer for the year is 3/4,

(iii) where the amount of the taxpayer's net capital gains from dispositions of property in the first period is less than the amount of the taxpayer's net capital losses from dispositions of property in the second period, the fraction that applies to the taxpayer for the year is 2/3,

(iv) where the amount of the taxpayer's net capital losses from dispositions of property in the first period is less than the amount of the taxpayer's net capital gains from dispositions of property in the second period, the fraction that applies to the taxpayer for the year is 2/3,

(v) where the taxpayer has only net capital gains, or only net capital losses, from dispositions of property in each of the first and second periods, the fraction that applies to the taxpayer for the year is the fraction determined by the formula

$$(3/4 \times A + 2/3 \times B)/(A + B)$$

where

A is the net capital gains or the net capital losses, as the case may be, of the taxpayer from dispositions of property in the first period, and

B is the net capital gains or the net capital losses, as the case may be, of the taxpayer from dispositions of property in the second period, and

(vi) where the net capital gains and net capital losses of the taxpayer for the year are nil, the fraction that applies to the taxpayer for the year is 2/3,

(*d*) for a taxation year of a taxpayer that began after February 27, 2000 and includes October 18, 2000, the references to the fraction "1/2" in paragraph 38(*a*) and in paragraphs 38(*b*) and (*c*) shall be read as references to the fraction that applies to the taxpayer for that year, and for this purpose,

(i) where the amount of the taxpayer's net capital gains from dispositions of property in the period that began at the beginning of the year and ended at the end of October 17, 2000 (in this paragraph referred to as the "first period") exceeds the amount of the taxpayer's net capital losses from dispositions of property in the period that begins at the beginning of October 18, 2000 and ends at the end of the year (in this paragraph referred to as the "second period"), the fraction that applies to the taxpayer for the year is 2/3,

(ii) where the amount of the taxpayer's net capital losses from dispositions of property in the first period exceeds the amount of the taxpayer's net capital gains from dispositions of property in the second period, the fraction that applies to the taxpayer for the year is 2/3,

(iii) where the amount of the taxpayer's net capital gains from dispositions of property in the first period is less than the amount of the taxpayer's net capital losses from dispositions of property in the second period, the fraction that applies to the taxpayer for the year is 1/2,

(iv) where the amount of the taxpayer's net capital losses from dispositions of property in the first period is less than the amount of the taxpayer's net capital gains from dispositions of property in the second period, the fraction that applies to the taxpayer for the year is 1/2,

(v) where the taxpayer has only net capital gains, or only net capital losses, from dispositions of property in each of the first and second periods, the fraction that applies to the taxpayer for the year is the fraction determined by the formula

$$(2/3 \times A + 1/2 \times B)/(A + B)$$

where

A is the net capital gains or the net capital losses, as the case may be, of the taxpayer from dispositions of property in the first period, and

B is the net capital gains or the net capital losses, as the case may be, of the taxpayer from dispositions of property in the second period, and

(vi) where the net capital gains and net capital losses of the taxpayer for the year are nil, the fraction that applies to the taxpayer for the year is 1/2,

(*e*) for a taxation year of a taxpayer that includes February 27, 2000 and October 18, 2000, the references to the fraction "1/2" in paragraph 38(*a*) and in paragraphs 38(*b*) and (*c*) shall be read as references to the fraction that applies to the taxpayer for that year, and for this purpose,

(i) the fraction that applies to the taxpayer for the year is 3/4, where

(A) the amount by which the amount of the taxpayer's net capital gains from dispositions of property in the period that began at the beginning of the year and ended at the end of February 27, 2000 (in this paragraph referred to as the "first period") exceeds the amount of the taxpayer's net capital losses from dispositions of property in the period that began at the beginning of February 28, 2000 and ended at the end of October 17, 2000 (in this paragraph referred to as the "second period")

exceeds

(B) the amount of the taxpayer's net capital losses from dispositions of property in the period that begins at the beginning of October 18, 2000 and ends at the end of the year (in this paragraph referred to as the "third period"),

(ii) the fraction that applies to the taxpayer for the year is 3/4, where

(A) the amount by which the amount of the taxpayer's net capital losses from dispositions of property in the first period exceeds the amount of the taxpayer's net capital gains from dispositions of property in the second period

exceeds

(B) the amount of the taxpayer's net capital gains from dispositions of property in the third period,

(iii) the fraction that applies to the taxpayer for the year is 2/3, where

(A) the amount by which the amount of the taxpayer's net capital gains from dispositions of property in the second period exceeds the amount of the taxpayer's net capital losses from dispositions of property in the first period

exceeds

(B) the amount of the taxpayer's net capital losses from dispositions of property in the third period,

(iv) the fraction that applies to the taxpayer for the year is 2/3, where

(A) the amount by which the amount of the taxpayer's net capital losses from dispositions of property in the second period exceeds the amount of the taxpayer's net capital gains from dispositions of property in the first period

exceeds

(B) the amount of the taxpayer's net capital gains from dispositions of property in the third period,

(v) where the taxpayer has net capital gains in each of the first and second periods and the total amount of those net capital gains in those periods exceeds the amount of the taxpayer's net capital losses in the third period, the fraction that applies to the taxpayer for the year is the fraction that is determined by the formula

$$(3/4 \times A + 2/3 \times B)/(A + B)$$

where

A is the net capital gains of the taxpayer from dispositions of property in the first period, and

B is the net capital gains of the taxpayer from dispositions of property in the second period,

(vi) where the taxpayer has net capital losses in each of the first and second periods and the total amount of those net capital losses in those periods exceeds the amount of the taxpayer's net capital gains in the third period, the fraction that applies to the taxpayer for the year is the fraction that is determined by the formula

$$(3/4 \times A + 2/3 \times B)/(A + B)$$

where

A is the net capital losses of the taxpayer from dispositions of property in the first period, and

B is the net capital losses of the taxpayer from dispositions of property in the second period,

(vii) where the taxpayer has only net capital gains, or only net capital losses, from dispositions of property in each of the first, second and third periods, the fraction that applies to the taxpayer for the year is the fraction that is determined by the formula

$$(3/4 \times A + 2/3 \times B + 1/2 \times C)/(A + B + C)$$

where

A is the taxpayer's net capital gains or net capital losses, as the case may be, from dispositions of property in the first period,

B is the taxpayer's net capital gains or net capital losses, as the case may be, from dispositions of property in the second period, and

C is the taxpayer's net capital gains or net capital losses, as the case may be, from dispositions of property in the third period,

(viii) where the amount of the taxpayer's net capital gains from dispositions of property in the first period exceeds the amount of the taxpayer's net capital losses from dispositions of property in the second period and the taxpayer has net capital gains from dispositions of property in the third period, the fraction that applies to the taxpayer for the year is the fraction that is determined by the formula

$$(3/4 \times A + 1/2 \times B)/(A + B)$$

where

A is the amount by which the taxpayer's net capital gains from dispositions of property in the first period exceeds the amount of the taxpayer's net capital losses from dispositions of property in the second period, and

B is the taxpayer's net capital gains from dispositions of property in the third period,

(ix) where the amount of the taxpayer's net capital losses from dispositions of property in the first period exceeds the amount of the taxpayer's net capital gains from dispositions of property in the second period and the taxpayer has net capital losses from dispositions of property in the third period, the fraction that applies to the taxpayer for the year is the fraction that is determined by the formula

$$(3/4 \times A + 1/2 \times B)/(A + B)$$

where

A is the amount by which the taxpayer's net capital losses from dispositions of property in the first period exceeds the amount of the taxpayer's net capital gains from dispositions of property in the second period, and

B is the taxpayer's net capital losses from dispositions of property in the third period,

(x) where the amount of the taxpayer's net capital gains from dispositions of property in the second period exceeds the amount of the taxpayer's net capital losses from dispositions of property in the first period and the taxpayer has net capital gains from dispositions of property in the third period, the fraction that applies to the taxpayer for the year is the fraction that is determined by the formula

$$(2/3 \times A + 1/2 \times B)/(A + B)$$

where

A is the amount by which the taxpayer's net capital gains from dispositions of property in the second period exceeds the amount of the taxpayer's net capital losses from dispositions of property in the first period, and

B is the taxpayer's net capital gains from dispositions of property in the third period,

(xi) where the amount of the taxpayer's net capital losses from dispositions of property in the second period exceeds the amount of the taxpayer's net capital gains from dispositions of property in the first period and the taxpayer has net capital losses from dispositions of property in the third period, the fraction that applies to the taxpayer for the year is the fraction that is determined by the formula

$$(2/3 \times A + 1/2 \times B)/(A + B)$$

where

A is the amount by which the taxpayer's net capital losses from dispositions of property in the second period exceeds the amount of the taxpayer's net capital gains from dispositions of property in the first period, and

B is the taxpayer's net capital losses from dispositions of property in the third period, and

(xii) in any other case, the fraction that applies to the taxpayer for the year is 1/2, and

in determining the fraction that applies to a taxpayer under paragraphs (*a*) to (*e*) for the year, the following rules apply:

(*f*) the net capital gains of the taxpayer from dispositions of property in a period is the amount, if any, by which the taxpayer's capital gains from dispositions of property in the period exceed the taxpayer's capital losses from dispositions of property in the period,

(*g*) the net capital losses of the taxpayer from dispositions of property in a period is the amount, if any, by which the taxpayer's capital losses from dispositions of property in the period exceed the taxpayer's capital gains from dispositions of property in the period,

(*h*) the net amount included as a capital gain of the taxpayer for a taxation year from a disposition to which paragraph 38(*a.2*) applies or from a disposition to which paragraph 38(*a.1*) applies, is deemed to be equal to one half of the capital gain,

(*i*) the net amount included as a capital gain of the taxpayer for a taxation year from a disposition of property before the year because of subparagraphs 40(1)(*a*)(ii) and (iii) is deemed to be a capital gain of the taxpayer from a disposition of property on the first day of the year,

(*j*) each capital loss that is a business investment loss shall be determined without reference to subsections 39(9) and (10),

(*k*) where an amount is included in computing the income of the taxpayer for the year because of subsection 80(13) in respect of a commercial obligation that is settled, the amount that would be determined under that subsection in respect of the obligation, if the value of E in the formula in that subsection were 1, is deemed to be a capital gain of the taxpayer from a disposition of property on the day on which the settlement occurs,

(*l*) the taxpayer's capital gains and losses from dispositions of property (other than taxable Canadian property) while the taxpayer is a non-resident are deemed to be nil,

(*m*) where an election is made by a taxpayer under paragraph 104(21.4)(*d*), subsection 104(21.5), subsection 130.1(4.4) or (4.5), or subsection 131(1.7) or (1.9) for a year, the portion of the taxpayer's net capital gains for the year that are to be treated as being in respect of capital gains realized on dispositions of property that occurred in a particular period in the year is that proportion of those net capital gains that the number of days in the particular period is of the number of days in the year,

(*n*) where the election made under paragraph 104(21.4)(*d*), or subsection 104(21.5) for the year was made by a personal trust, the portion of the taxpayer's net capital gains for the year that are to be treated as being in respect of capital gains realized on dispositions of property that occurred in a particular period in the year is that proportion of those net capital gains that the number of days in the particular period is of the number of days that are in all periods in the year in which a net gain was realized,

(*o*) where an amount is designated under subsection 104(21) in respect of a beneficiary by a trust in respect of the net taxable capital gains of the trust for a taxation year of the trust and the trust does not elect under paragraph 104(21.4)(*d*) for the year, the deemed gains of the beneficiary referred to in subsection 104(21.4) are deemed to have been realized in each period in the year in a proportion that is equal to the same proportion that the net capital gains of the trust realized by the trust in that period is of all the net capital gains realized by the trust in the year,

(*p*) where in the course of administering the estate of a deceased taxpayer, a capital loss from a disposition of property by the legal representative of a deceased taxpayer is deemed under paragraph 164(6)(*c*) to be a capital loss of the deceased taxpayer from the disposition of property by the taxpayer in the taxpayer's last taxation year and not to be a capital loss of the estate, the capital loss is deemed to be from the disposition of a property by the taxpayer immediately before the taxpayer's death,

(*q*) each capital gain referred to in paragraph 104(21.4)(*a*) in respect of a beneficiary, shall be determined as if that paragraph were read without reference to subparagraph 104(21.4)(*a*)(ii),

(*r*) where no capital gains or losses are realized in a period, the amount of net capital gains or losses for that period is deemed to be nil,

(*s*) where a net amount is included as a capital gain of a taxpayer for a taxation year because of the granting of an option under subsection 49(1), the net amount is deemed to be a capital gain of the taxpayer from a disposition of property on the day on which the option was granted,

(*t*) where a net amount is included as a capital gain of a corporation for its taxation year under subsection 49(2) because of the expiration of an option that was granted by the corporation, the net amount is deemed to be a capital gain of the corporation from a disposition of property on the day on which the option expired,

(*u*) where a net amount is included as a capital gain of a trust for its taxation year under subsection 49(2.1) because of the expiration of an option that was granted by the trust, the net amount is deemed to be a capital gain of the trust from a disposition of property on the day on which the option expired, and

(*v*) where a net amount is included as a capital gain of a taxpayer for a taxation year because of subsection 49(3), (3.01) or (3.1), the net amount is deemed to be a capital gain of the taxpayer from a disposition of property on the day on which the option was exercised.

S. 38(*a*), (*b*) and (*c*) formerly read:

"(*a*) subject to paragraph (*a.1*), a taxpayer's taxable capital gain for a taxation year from the disposition of any property is 3/4 of the taxpayer's capital gain for the year from the disposition of the property;

(*b*) a taxpayer's allowable capital loss for a taxation year from the disposition of any property is 3/4 of the taxpayer's capital loss for the year from the disposition of that property; and

(*c*) a taxpayer's allowable business investment loss for a taxation year from the disposition of any property is 3/4 of the taxpayer's business investment loss for the year from the disposition of that property."

S. 38(*a*) was amended and paragraph (*a.1*) was added by S.C. 1998, c. 19, s. 6(1), applicable after February 18, 1997. S. 38(*a*) formerly read:

"(*a*) a taxpayer's taxable capital gain for a taxation year from the disposition of any property is 3/4 of the taxpayer's capital gain for the year from the disposition of that property;"

Editorial Note: Allowable capital losses are only deductible against taxable capital gains; see paragraph 3(*c*) (an exception is made in the year of death and the preceding year pursuant to subsection 111(2)). However, allowable business investment losses are deductible against all forms of income; see paragraph 3(*d*).

The capital gains inclusion rate is zero for charitable gifts of publicly listed securities (paragraph 38(*a*.1)) and certified ecologically sensitive lands (paragraph 38(*a*.2)), (applicable to gifts of publicly listed securities to private foundations made after March 18, 2007). This is a reduction from the previous 1/4 inclusion rate for such gifts. Paragraph 38(*a*.3) provides a reduction in the taxable capital gain on the exchange of a partnership interest for publicly traded securities which are then donated to a qualified donee.

Related Sections: S. 39(1) Meaning of capital gain and capital loss; s. 53 Adjustments to cost base; s. 100 Disposition of an interest in a partnership; s. 248(1), "disposition", "property".
Regulations: 3200; 3201; 6210.
Interpretation Bulletins: *Secondary* — IT-381R3 Trusts — Deduction of amounts paid or payable to beneficiaries and flow-through of taxable capital gains to beneficiaries; IT-484R2 Business investment losses.
Information Circulars: IC 72-25R4 Business equity valuations.
Forms: T1 SCH 3; T2 SCH 6; T3 SCH 1.
Guides: RC4169 Tax Treatment of Mutual Funds for Individuals.
Registered Charities Newsletters: No. 28, Capital Gains Exemption on Gifts of Securities.
Tax Topics: No. 1523, No ABIL Please!; No. 1490, Parent Corporation Receives Both ABIL and Subsidiary's Losses.
Tax Profile: January 2009 — Market Meltdown — Capital Loss Utilization.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The Act is amended by adding the following after section 38:

SECTION 38.1: **Allocation of gain re certain gifts.**

If a taxpayer is entitled to an amount of an advantage in respect of a gift of property described in paragraph 38(*a*.1) or (*a*.2),

(*a*) those paragraphs apply only to that proportion of the taxpayer's capital gain in respect of the gift that the eligible amount of the gift is of the taxpayer's proceeds of disposition in respect of the gift; and

(*b*) paragraph 38(*a*) applies to the extent that the taxpayer's capital gain in respect of the gift exceeds the amount of the capital gain to which paragraph 38(*a*.1) or (*a*.2) applies.

Applicable: To gifts made after December 20, 2002.

Explanatory Note: Paragraphs 38(*a*.1) and (*a*.2) of the Act provide a special inclusion rate for capital gains arising as a result of a gift to qualified donees of certain securities or of environmentally sensitive land. This inclusion rate is one-half of the normal inclusion rate.

Section 38.1 of the Act is added consequential to the addition of new subsections 248(31) to (33) of the Act, for gifts made after December 20, 2002. New section 38.1 provides that, where a taxpayer is entitled to an advantage or benefit in respect of a gift, only part of the taxpayer's capital gain will be entitled to the special inclusion rate. The Part entitled to the special inclusion rate is that proportion of the gain that the eligible amount of the gift is of the taxpayer's total proceeds of disposition in respect of the property.

For additional details, see the commentary to new subsections 248(31) and (32) regarding the eligible amount of a gift and the amount of the advantage in respect of a gift.

SECTION 39:

► 39(1) ◄

(1) Meaning of capital gain and capital loss. For the purposes of this Act,

(*a*) a taxpayer's capital gain for a taxation year from the disposition of any property is the taxpayer's gain for the year determined under this subdivision (to the extent of the amount thereof that would not, if section 3 were read without reference to the expression "other than a taxable capital gain from the disposition of a property" in paragraph 3(*a*) and without reference to paragraph 3(*b*), be included in computing the taxpayer's income for the year or any other taxation year) from the disposition of any property of the taxpayer other than

(i) eligible capital property,

(i.1) an object that the Canadian Cultural Property Export Review Board has determined meets the criteria set out in paragraphs 29(3)(*b*) and (*c*) of the *Cultural Property Export and Import Act* and that has been disposed of,

(A) in the case of a gift to which subsection 118.1(5) applies, within the period ending 36 months after the death of the taxpayer or, where written application therefor has been made to the Minister by the taxpayer's legal representative within that period, within such longer period as the Minister considers reasonable in the circumstances, and

(B) in any other case, at any time,

to an institution or a public authority in Canada that was, at the time of the disposition, designated under subsection 32(2) of that Act either generally or for a specified purpose related to that object,

(ii) a Canadian resource property,

(ii.1) a foreign resource property,

(ii.2) a property if the disposition is a disposition to which subsection 142.4(4) or (5) or 142.5(1) applies,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 39(1)(*a*) of the Act is amended by adding the following after subparagraph (ii.2):

(ii.3) a property in respect of which

(A) subsection 94.2(3) applies to the taxpayer for the year, and

(B) subsection 94.2(20) does not apply to the taxpayer for the year,

Applicable: To dispositions that occur after 2006, except that that subsection also applies to dispositions of a taxpayer that occur in a taxation year of the taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the taxpayer.

Explanatory Note: Paragraph 39(1)(*a*) of the Act describes a taxpayer's capital gain for a taxation year from the disposition of property. Under this paragraph, gains from dispositions of specified properties are to be excluded in determining a capital gain. Under subparagraph 39(1)(*a*)(ii.2), the specified properties include specified debt obligations, where subsection 142.4(4) or (5) applies to the disposition, and mark-to-market properties where subsection 142.5(1) applies to the disposition. Under subparagraph 39(1)(*b*)(ii), the same exclusion generally applies with regard to a taxpayer's capital loss.

New subparagraph 39(1)(*a*)(ii.3) provides a similar exclusion for property in respect of which subsection 94.2(3) applies (and subsection 94.2(20) does not apply) to a taxpayer for a taxation year. Subsection 94.2(3) sets out the conditions for the application of the mark-to-market taxation regime under section 94.2 for participating interests in foreign investment entities and tracking entities. Because of paragraph 94.2(5)(*b*), this exclusion does not apply to gains from the disposition by a taxpayer of

property where the taxpayer is not resident in Canada immediately before the time of the disposition.

This amendment applies to dispositions that occur after 2006.

(iii) an insurance policy, including a life insurance policy, except for that part of a life insurance policy in respect of which a policyholder is deemed by paragraph 138.1(1)(*e*) to have an interest in a related segregated fund trust,

(iv) a timber resource property, or

(v) an interest of a beneficiary under a qualifying environmental trust;

(*b*) a taxpayer's capital loss for a taxation year from the disposition of any property is the taxpayer's loss for the year determined under this subdivision (to the extent of the amount thereof that would not, if section 3 were read in the manner described in paragraph (*a*) of this subsection and without reference to the expression "or the taxpayer's allowable business investment loss for the year" in paragraph 3(*d*), be deductible in computing the taxpayer's income for the year or any other taxation year) from the disposition of any property of the taxpayer other than

(i) depreciable property, or

(ii) property described in any of subparagraphs (*a*)(i), (ii) to (iii) and (v); and

(*c*) a taxpayer's business investment loss for a taxation year from the disposition of any property is the amount, if any, by which the taxpayer's capital loss for the year from a disposition after 1977

(i) to which subsection 50(1) applies, or

(ii) to a person with whom the taxpayer was dealing at arm's length

of any property that is

(iii) a share of the capital stock of a small business corporation, or

(iv) a debt owing to the taxpayer by a Canadian-controlled private corporation (other than, where the taxpayer is a corporation, a debt owing to it by a corporation with which it does not deal at arm's length) that is

(A) a small business corporation,

(B) a bankrupt (within the meaning assigned by subsection 128(3)) that was a small business corporation at the time it last became a bankrupt, or

(C) a corporation referred to in section 6 of the *Winding-up Act* that was insolvent (within the meaning of that Act) and was a small business corporation at the time a winding-up order under that Act was made in respect of the corporation,

exceeds the total of

(v) in the case of a share referred to in subparagraph (iii), the amount, if any, of the increase after 1977 by virtue of the application of subsection 85(4) in the adjusted cost base to the taxpayer of the share or of any share (in this subparagraph referred to as a "replaced share") for which the share or a replaced share was substituted or exchanged,

(vi) in the case of a share referred to in subparagraph (iii) that was issued before 1972 or a share (in this subparagraph and subparagraph (vii) referred to as a "substituted share") that was substituted or exchanged for such a share or for a substituted share, the total of all amounts each of which is an amount received after 1971 and before or on the disposition of the share or an amount receivable at the time of such a disposition by

(A) the taxpayer,

(B) where the taxpayer is an individual, the taxpayer's spouse or common-law partner, or

(C) a trust of which the taxpayer or the taxpayer's spouse or common-law partner was a beneficiary

as a taxable dividend on the share or on any other share in respect of which it is a substituted share, except that this subparagraph shall not apply in respect of a share or substituted share that was acquired after 1971 from a person with whom the taxpayer was dealing at arm's length,

(vii) in the case of a share to which subparagraph (vi) applies and where the taxpayer is a trust referred to in paragraph 104(4)(*a*), the total of all amounts each of which is an amount received after 1971 or receivable at the time of the disposition by the settlor (within the meaning assigned by subsection 108(1)) or by the settlor's spouse or common-law partner as a taxable dividend on the share or on any other share in respect of which it is a substituted share, and

(viii) the amount determined in respect of the taxpayer under subsection (9) or (10), as the case may be.

History: S. 39(1)(*a*)(ii.2) was replaced by S.C. 2009, c. 2, s. 9(1), applicable to taxation years that begin after September 2006. S. 39(1)(*a*)(ii.2) formerly read:

"(ii.2) a property to the disposition of which subsection 142.4(4) or (5) or 142.5(1) applies,"

S. 39(1)(*c*)(vi)(B) and (C) were amended by S.C. 2000, c. 12, Sched. 2, s. 1(e), applicable January 1, 2001, coming into force on July 31, 2000. S. 39(1)(*c*)(vi)(B) and (C) formerly read:

"(B) where the taxpayer is an individual, the taxpayer's spouse, or

(C) a trust of which the taxpayer or the taxpayer's spouse was a beneficiary"

S. 39(1)(*c*)(vii) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(e), applicable January 1, 2001, coming into force on July 31, 2000. S. 39(1)(*c*)(vii) formerly read:

"(vii) in the case of a share to which subparagraph (vi) applies and where the taxpayer is a trust referred to in paragraph 104(4)(*a*), the total of all amounts each of which is an amount received after 1971 or receivable at the time of the disposition by the settlor (within the meaning assigned by subsection 108(1)) or by the settlor's spouse as a taxable dividend on the share or on any other share in respect of which it is a substituted share, and"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 39(1)(*a*)(v) was amended by S.C. 1998, c. 19, s. 7(1), applicable to taxation years that end after February 18, 1997. S. 39(1)(*a*)(iv) formerly read:

"(v) an interest of a beneficiary under a mining reclamation trust;"

S. 39(1)(*a*)(ii.2) was added by S.C. 1995, c. 21, s. 49(1), applicable to dispositions of property occurring after February 22, 1994.

S. 39(1)(*b*)(ii), was amended by S.C. 1995, c. 21, s. 49(2), applicable to taxation years that end after February 22, 1994 except that, in its application to property disposed of before February 23, 1994, subparagraph 39(1)(*b*)(ii) shall be read as follows:

"(ii) property described in subparagraph (*a*)(i), (ii), (ii.1), (iii) or (v); and"

S. 39(1)(*b*)(ii) formerly read:

"(ii) property described in subparagraph (*a*)(i), (ii), (ii.1), (iii) or (v); and"

S. 39(1)(*a*)(v) was added by S.C. 1995, c. 3, s. 10(1), applicable to taxation years that end after February 22, 1994.

S. 39(1)(*b*)(ii) was amended by S.C. 1995, c. 3, s. 10(2), applicable to taxation years that end after February 22, 1994. S. 39(1)(*b*)(ii) formerly read:

"(ii) property described in subparagraph (*a*)(i), (ii) or (iii); and"

S. 39(1)(*a*)(i.1) was amended by S.C. 1994, c. 7, Sched. II, s. 22(1), applicable with respect to dispositions occurring after December 11, 1988. S. 39(1)(*a*)(i.1) formerly read:

"(i.1) an object that the Canadian Cultural Property Export Review Board has determined meets all criteria set out in paragraphs 29(3)(*b*) and (*c*) of the *Cultural Property Export and Import Act* and that has been disposed of,

(A) in the case of a gift to which subsection 118.1(5) applies, within 15 months after the death of the taxpayer or such longer period as is reasonable in the circumstances, and

(B) in any other case, at any time,

to an institution or public authority in Canada that was at the time of the disposition designated under subsection 32(2) of that Act either generally or for a purpose related to that object,"

S. 39(1)(*c*)(iv) was amended by S.C. 1994, c. 7, Sched. II, s. 22(2), applicable to the 1987 and subsequent taxation years. S. 39(1)(*c*)(iv) formerly read:

"(iv) a debt owing to the taxpayer by a small business corporation other than, where the taxpayer is a corporation, a debt owed to it by a small business corporation with which it does not deal at arm's length"

Editorial Note: The opening wording to paragraph 39(1)(*a*) essentially provides that a capital gain is a gain from the disposition of property that would not be included in income but for the capital gains provisions of the Act. (Specific exceptions are then listed.) Similar wording applies in paragraph 39(1)(*b*) in respect of capital losses. Note that for the purposes of computing a business investment loss under paragraph 39(1)(*c*), the definition of "small business corporation" (subsection 248(1)) includes a corporation that was a small business corporation at any time during the 12 months preceding the disposition of the share or debt.

Related Sections: S. 13(21), "depreciable property"; s. 38 Taxable capital gain and allowable capital loss; s. 39(2) Capital gains and losses in respect of foreign currencies; s. 39(3) Gain in respect of purchase of bonds, etc., by issuer; s. 39(9) Deduction from business investment loss; s. 39(10) Idem, of a trust; s. 40(1) General rules; s. 41(2) Determination of net gain; s. 41(3) Definition of "listed-personal-property loss"; s. 54, "capital property", "eligible capital property"; s. 104(1) Reference to trust or estate; s. 248(1), "disposition", "principal amount", "property", "share", "taxable dividend".

Interpretation Bulletins: *Primary* — IT-407R4 (Consolid.) Dispositions of cultural property to designated Canadian institutions; IT-426R Shares sold subject to an earnout agreement; IT-479R Transactions in securities; IT-484R2 Business investment losses. *Secondary* — IT-125R4 Disposition of resource properties; IT-159R3 Capital debts established to be bad debts; IT-262R2 Losses of non-residents and part-year residents; IT-297R2 Gifts in kind to charity and others; IT-316 Awards for employees' suggestions and inventions [Archived by the CRA]; IT-334R2 Miscellaneous receipts; IT-346R Commodity futures and certain commodities; IT-359R2 Premiums and other amounts with respect to leases; IT-395R2 Foreign tax credit — Foreign-source capital gains and losses; IT-444R Corporations — Involuntary Dissolutions; IT-481 (Consolid.) Timber resource property and timber limits.

Advance Tax Rulings: ATR-15 Employee stock option plan; ATR-28 Redemption of capital stock of family farm corporation.

Income Tax Technical News: Issue No. 39, Settlement of a Shareholder Class Action Suit — Compensation by Way of Cash and Shares.

Guides: T4037 Capital Gains.

Tax Topics: No. 1882, Stock Market Losses: Might They Be Fully Deductible?; No. 1838, Conversion of Vacant Land from Capital Property to Inventory; No. 1766, Two Recent Real Estate Decisions; No. 1649, Restricting the Tax Advantage of Restrictive Covenants; No. 1621, Non-Comp Non-Taxable; No. 1523, No ABIL Please!; No. 1481, The Small Business Investment Rollover; No. 1490, Parent Corporation Receives Both ABIL and Subsidiary's Losses.

Tax Profile: January 2009 — Market Meltdown — Capital Loss Utilization; February 2005 — The Canadian Treatment of Derivatives; March 2004 — Loss Utilization By Individuals.

Cases: The taxpayer was awarded damages for wrongful cancellation of a dealer agreement. The damage award constituted proceeds from the disposition of capital property, consisting of the taxpayer's rights under the agreement, and was therefore a taxable capital gain *Valley Equipment Limited v. The Queen,* 2008 DTC 6200 (F.C.A.), affirming 2006 DTC 3593 (T.C.C.).

The right to compete is not "property", and therefore payments under a non-competition agreement are not proceeds of disposition giving rise to a taxable capital gain. *Manrell v. The Queen,* 2003 DTC 5225 (F.C.A.), reversing 2002 DTC 1222 (T.C.C.).

The taxpayer loaned funds to a partnership. When the loan became unrecoverable, the taxpayer was entitled to an ABIL deduction because the partnership's debt was a debt of the partners (who were CCPCs and small business corporations). *Klein v. The Queen,* 2001 DTC 443 (T.C.C.).

The corporate taxpayer had a "participation clause" in its lease, entitling it to a percentage of the lessor's annual net profits. In 1989, the taxpayer accepted a payment from its lessor to "buy-out" and cancel the participation clause. The "buy-out" payment was a capital receipt rather than income. *The T. Eaton Company Limited v. The Queen,* 99 DTC 5178 (F.C.A.), reversing 96 DTC 1846 (T.C.C.).

When a real estate agent purchased a residential property in December 1987, listed it for sale in January 1988 and sold it a profit in May 1988, the profit was characterized as income on the ground that the transaction was related to her occupational activities as a real estate agent. *Gratl v. The Queen,* 94 DTC 6255 (F.C.A.), affirming (T.C.C.) unreported.

When a mining engineer with a 30-year background in natural resources disposed of shares of resource companies, most of which he had acquired through the exercise of employee stock options, their sale fell within the purview of an adventure in the nature of trade and yielded income. *Pollock v. The Queen,* 94 DTC 6050 (F.C.A.), affirming 90 DTC 6142 (F.C.T.D.).

A taxpayer's background and experience as a former licensed stockbroker were consistent with that of a security trader. His share purchases were highly leveraged and involved those of resource companies not paying dividends. The high volume of transactions, the relatively quick turnover and the considerable outlay of the taxpayer's time lead to conclude that the profits from the transactions were business income. *McGroarty v. The Queen,* 94 DTC 6276 (F.C.T.D.), affirming 89 DTC 185 (T.C.C.).

A developer sold land, reported the profit as income and took back a mortgage which it later sold at a discount. The discount was treated as a loss on income account, rather than as a capital loss as it had been acquired in the course of the taxpayer's normal trading activities. *Millford Development Limited v. The Queen,* 93 DTC 5052 (F.C.T.D.), reversing 85 DTC 248 (T.C.C.).

Where an SRTC debenture was redeemed by a taxpayer six months after buying it as a tax shelter, the resulting gain was treated as business income from an adventure in the nature of trade. *The Queen v. Loewen,* 93 DTC 5109 (F.C.T.D.), reversing 90 DTC 1009 (T.C.C.) . See also *Morello v. M.N.R.,* 93 DTC 1072 (T.C.C.).

The frequency of the real estate transactions in which a taxpayer had engaged, the short length of the period of ownership, the lack of perseverance in the face of problems inherent in property rentals and the lack of interest shown in analyzing the return on the rentals were all factors indicating purchases of a speculative nature. *Dauphinais v. M.N.R.,* 93 DTC 631 (T.C.C.).

The sale of commercial properties yielded capital where the taxpayers' whole course of conduct confirmed their stated intention to purchase them as investments. They investigated the rental market, converting existing structures to provide greater rental accommodation, they complied with municipal requirements, they advertised for desirable tenants, they made cash-flow projections and they arranged permanent financing for two of the properties. *600166 Ontario Ltd. et al. v. M.N.R.,* 93 DTC 910 (T.C.C.).

A taxpayer could not be heard to argue that the method of calculating capital gains in Canadian dollars does not reflect the true economic selling price or cost of the asset because of the fluctuating purchasing power of the Canadian dollar. *Macdonald v. The Queen,* 93 DTC 5318 (F.C.A.).

The loss from an investment in shares of a construction company was characterized as a business investment loss. *H.Y. Louie Co. Ltd. v. The Queen,* 86 DTC 6228 (F.C.T.D.).

► 39(2) ◄

(2) Capital gains and losses in respect of foreign currencies. Notwithstanding subsection (1), where, by virtue of any fluctuation after 1971 in the value of the currency or currencies of one or more countries other than Canada relative to Canadian currency, a taxpayer has made a gain or sustained a loss in a taxation year, the following rules apply:

(*a*) the amount, if any, by which

(i) the total of all such gains made by the taxpayer in the year (to the extent of the amounts thereof that would not, if section 3 were read in the manner described in paragraph (1)(*a*) of this section, be included in computing the taxpayer's income for the year or any other taxation year)

exceeds

(ii) the total of all such losses sustained by the taxpayer in the year (to the extent of the amounts thereof that would not, if section 3 were read in the manner described in paragraph (1)(*a*) of this

section, be deductible in computing the taxpayer's income for the year or any other taxation year), and

(iii) if the taxpayer is an individual, $200,

shall be deemed to be a capital gain of the taxpayer for the year from the disposition of currency of a country other than Canada, the amount of which capital gain is the amount determined under this paragraph; and

(*b*) the amount, if any, by which

(i) the total determined under subparagraph (*a*)(ii), exceeds

(ii) the total determined under subparagraph (*a*)(i), and

(iii) if the taxpayer is an individual, $200,

shall be deemed to be a capital loss of the taxpayer for the year from the disposition of currency of a country other than Canada, the amount of which capital loss is the amount determined under this paragraph.

Related Sections: S. 20(1)(*f*) Discount on certain obligations; s. 40(10) Application; s. 40(11) Gain or loss on foreign currency debt; s. 111(12) Foreign currency debt on acquisition of control; s. 248(1), "principal amount".

Interpretation Bulletins: *Secondary* — IT-95R Foreign exchange gains and losses.

Income Tax Technical News: Issue No. 38, Imperial Oil and the Treatment of Foreign Currency Loans; Issue No. 15, The tax consequences of the adoption of the "Euro" currency.

Tax Topics: No. 1826, Recognition of FX Gains and Losses in Doubt After Supreme Court Decision; No. 1814, 2006 Canadian Tax Foundation Annual Conference CRA Round Table; No. 1808, Supreme Court Rules FX Losses Not Deductible as "Discounts"; No. 1683, *Imperial Oil Limited v. The Queen.*

Canadian Tax Foundation: Maikawa and Martin, "Foreign Exchange and Foreign Affiliates: Continuing Problems and Possible Solutions", *2006 Canadian Tax Journal,* No. 1, 241.

Cases: The taxpayer borrowed U.S. dollars to build a plant. When the U.S. dollar appreciated, the taxpayer used hedge accounting to effectively net its increased profit from U.S. revenues against the foreign currency losses realized on its debt repayments. The Court rejected its argument that a loss on a foreign currency hedge takes its character from the item being hedged. The losses took their character from the nature of the loan and were therefore capital losses. Also, hedge accounting is not appropriate for tax purposes. *Saskferco Products ULC v. The Queen,* 2008 DTC 6698 (F.C.A.), affirming 2007 DTC 1183 (T.C.C.).

The taxpayers redeemed U.S. dollar debentures which had been issued at a discount. Foreign exchange losses incurred on the redemption were not deductible under s. 20(1)(*f*) and could only be claimed as a capital loss under s. 39. *The Queen v. Imperial Oil Limited and Inco Limited,* 2006 DTC 6639 (S.C.C.), reversing 2004 DTC 6702 (F.C.A.) and affirming 2004 DTC 2377 (T.C.C.) re Imperial Oil, and reversing 2005 DTC 5109 (F.C.A.) and affirming 2004 DTC 3586 (T.C.C.) re Inco.

► 39(3) ◄

(3) Gain in respect of purchase of bonds, etc., by issuer. Where a taxpayer has issued any bond, debenture or similar obligation and has at any subsequent time in a taxation year and after 1971 purchased the obligation in the open market, in the manner in which any such obligation would normally be purchased in the open market by any member of the public,

(*a*) the amount, if any, by which the amount for which the obligation was issued by the taxpayer exceeds the purchase price paid or agreed to be paid by the taxpayer for the obligation shall be deemed to be a capital gain of the taxpayer for the taxation year from the disposition of a capital property, and

(*b*) the amount, if any, by which the purchase price paid or agreed to be paid by the taxpayer for the obligation exceeds the greater of the principal amount of the obligation and the amount for which it was issued by the taxpayer shall be deemed to be a capital loss of the taxpayer for the taxation year from the disposition of a capital property,

to the extent that the amount determined under paragraph (*a*) or (*b*) would not, if section 3 were read in the manner described in paragraph (1)(*a*) and this Act were read without reference to subsections 80(12) and (13), be included or be deductible, as the case may be, in computing the taxpayer's income for the year or any other taxation year.

History: S. 39(3) the portion following paragraph (*b*) was amended by S.C. 1995, c. 21, s. 10(1), applicable to taxation years that end after February 21, 1994. That part formerly read:

"to the extent of the amount of the capital gain or capital loss, as the case may be, that would not, if section 3 were read in the manner described in paragraph (1)(*a*) of this section, be included or be deductible, as the case may be, in computing the taxpayer's income for the year or any other taxation year."

Related Sections: ITAR s. 26(1.1) Principal amount of certain obligations.

► 39(4) ◄

(4) Election concerning disposition of Canadian securities. Except as provided in subsection (5), where a Canadian security has been disposed of by a taxpayer in a taxation year and the taxpayer so elects in prescribed form in the taxpayer's return of income under this Part for that year,

(*a*) every Canadian security owned by the taxpayer in that year or any subsequent taxation year shall be deemed to have been a capital property owned by the taxpayer in those years; and

(*b*) every disposition by the taxpayer of any such Canadian security shall be deemed to be a disposition by the taxpayer of a capital property.

Editorial Note: See the editorial note under subsection 39(5).

Forms: T123.

Tax Profile: January 2009 — Market Meltdown — Capital Loss Utilization; June 2007 — Selected Tax Issues For Hedge Funds; November 2006 — Structuring and Taxation of Canadian Hedge Funds; February 2005 — The Canadian Treatment of Derivatives; August 2004 — Canadian Tax Treatment of Index Participation Units and Exchange-Traded Index Derivatives; March 2004 — Loss Utilization By Individuals.

Sec. 7(5), Chap. 19, 1998

(5) For the purpose of subsection 39(4) of the Act, if

(*a*) an election referred to in that subsection is made by a mutual fund corporation or mutual fund trust in prescribed form on or before its filing-due date for its taxation year that includes the day on which this Act is assented to [Royal Assent June 18, 1998], and

(*b*) the election is in respect of a particular taxation year that ends after 1990 and that is not after the corporation's or trust's taxation year that includes the day on which this Act is assented to [Royal Assent June 18, 1998],

the election is deemed to have been made in the corporation's or trust's return of income under Part I of the Act for the particular year.

► 39(4.1) ◄

(4.1) Members of partnerships. For the purpose of determining the income of a taxpayer who is a member of a partnership, subsections (4) and (5) apply as if

(*a*) every Canadian security owned by the partnership were owned by the taxpayer; and

(*b*) every Canadian security disposed of by the partnership in a fiscal period of the partnership were disposed of by the taxpayer at the end of that fiscal period.

History: S. 39(4.1) was added by S.C. 1994, c. 7, Sched. II, s. 22(3), applicable to dispositions occurring after July 13, 1990.

Tax Window Files: 39(4) Election — Tiered Partnerships, February 12, 2003, CRA Document No. 2002-0141425 [Subsection 39(4.1) not applicable to securities owned by lower-tier partnership where member of higher-tier partnership makes subsection 39(4) election].

► 39(5) ◄

(5) Exception. An election under subsection (4) does not apply to a disposition of a Canadian security by a taxpayer (other than a mutual fund corporation or a mutual fund trust) who at the time of the disposition is

(*a*) a trader or dealer in securities,

(*b*) a financial institution (as defined in subsection 142.2(1)),

(*c*) [Repealed by 1995, c. 21, s. 49(3).]

(*d*) [Repealed by 1995, c. 21, s. 49(3).]

(*e*) [Repealed by 1995, c. 21, s. 49(3).]

(*f*) a corporation whose principal business is the lending of money or the purchasing of debt obligations or a combination thereof, or

(*g*) a non-resident,

or any combination thereof.

History: S. 39(5), the portion before paragraph (*a*) was amended by S.C. 1998, c. 19, s. 7(2), applicable to the 1991 and subsequent taxation years. S. 39(5) formerly read:

"(5) *Where election under s. (4) does not apply.* An election under subsection (4) does not apply to a disposition of a Canadian security by a taxpayer who, at the time the security is disposed of, is"

S. 39(5)(*b*) was amended by S.C. 1995, c. 21, s. 49(3), applicable to dispositions of property occurring after February 22, 1994, other than the disposition of property in a taxation year that begins before November 1994 where the property is mark-to-market property (as defined in subsection 142.2(1)) for the year. S. 39(5)(*b*) formerly read:

"(*b*) a bank,"

Paragraphs 39(5)(*c*), (*d*), and (*e*) were repealed by S.C. 1995, c. 21, s. 49(3), applicable to dispositions of property occurring after February 22, 1994, other than the disposition of property in a taxation year that begins before November 1994 where the property is mark-to-market property (as defined in subsection 142.2(1)) for the year. Those paragraphs formerly read:

"(*c*) a corporation licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering to the public its services as trustee,

(*d*) a credit union,

(*e*) an insurance corporation,"

Editorial Note: Since the subsection 39(4) election does not apply to dispositions made by traders or dealers in securities, which apparently include all persons found to be in the business of buying and selling securities (see the *Vancouver Art Metals* decision (93 DTC 5116 (F.C.A.), reversing 91 DTC 5643 (F.C.T.D.)) in "Cases", below), the election essentially only covers dispositions that would otherwise be adventures or concerns in the nature of trade.

Cases: Considering that the words "trader or dealer" should be given their ordinary meaning, a person loses the benefit of the capital gain election when he professionally engages in dealing in securities or when his dealings amount to carrying on a business and can no longer be characterized as investor's transactions, or mere adventures in the nature of trade. *The Queen v. Vancouver Art Metal Works Ltd.*, 93 DTC 5116 (F.C.A.), reversing 91 DTC 5643 (F.C.T.D.).

► 39(6) ◄

(6) Definition of "Canadian security". For the purposes of this section, "Canadian security" means a security (other than a prescribed security) that is a share of the capital stock of a corporation resident in Canada, a unit of a mutual fund trust or a bond, debenture, bill, note, mortgage, hypothecary claim or similar obligation issued by a person resident in Canada.

History: S. 39(6) was amended by S.C. 2001, c. 17, s. 204, applicable on Royal Assent, June 14, 2001. S. 39(6) formerly read:

"(6) *Definition of 'Canadian security'.* For the purposes of this section, 'Canadian security' means a security (other than a prescribed security) that is a share of the capital stock of a corporation resident in Canada, a unit of a mutual fund trust or a bond, debenture, bill, note, mortgage or similar obligation issued by a person resident in Canada."

Regulations: 6200.

Tax Profile: February 2005 — The Canadian Treatment of Derivatives; August 2004 — Canadian Tax Treatment of Index Participation Units and Exchange-Traded Index Derivatives.

► 39(7) ◄

(7) Unused share-purchase tax credit. The amount of any unused share-purchase tax credit of a taxpayer for a particular taxation year, to the extent that it was not deducted from the taxpayer's tax otherwise payable under this Part for the immediately preceding taxation year, shall be deemed to be a capital loss of the taxpayer from a disposition of property for the year immediately following the particular taxation year.

► 39(8) ◄

(8) Unused scientific research and experimental development tax credit. The amount of any unused scientific research and experimental development tax credit of a taxpayer for a particular taxation year, to the extent that it was not deducted from the taxpayer's tax otherwise payable under this Part for the immediately preceding taxation year, shall be deemed to be a capital loss of the taxpayer from a disposition of property for the year immediately following the particular taxation year, except that where the taxpayer is an individual the capital loss shall be deemed to be 147% of that amount.

Related Sections: S. 127.3(1) Scientific research and experimental development tax credit; s. 127.3(2), "unused scientific research and experimental development tax credit".

► 39(9) ◄

(9) Deduction from business investment loss. In computing the business investment loss of a taxpayer who is an individual (other than a trust) for a taxation year from the disposition of a particular property, there shall be deducted an amount equal to the lesser of

(*a*) the amount that would be the taxpayer's business investment loss for the year from the disposition of that particular property if paragraph (1)(*c*) were read without reference to subparagraph (1)(*c*)(viii), and

(*b*) the amount, if any, by which the total of

(i) the total of all amounts each of which is twice the amount deducted by the taxpayer under section 110.6 in computing the taxpayer's taxable income for a preceding taxation year that

(A) ended before 1988, or

(B) begins after October 17, 2000,

(i.1) the total of all amounts each of which is

(A) 3/2 of the amount deducted under section 110.6 in computing the taxpayer's taxable income for a preceding taxation year that

(I) ended after 1987 and before 1990, or

(II) began after February 27, 2000 and ended before October 18, 2000, or

(B) the amount determined by multiplying the reciprocal of the fraction in paragraph 38(*a*) that applies to the taxpayer for each of the taxpayer's taxation years that includes February 28, 2000 or October 18, 2000 by the amount deducted under section 110.6 in computing the taxpayer's taxable income for that year, and

(i.2) the total of all amounts each of which is 4/3 of the amount deducted under section 110.6 in computing the taxpayer's taxable income for a pre-

ceding taxation year that ended after 1989 and before February 28, 2000

exceeds

(ii) the total of all amounts each of which is an amount deducted by the taxpayer under paragraph (1)(*c*) by virtue of subparagraph (1)(*c*)(viii) in computing the taxpayer's business investment loss

(A) from the disposition of property in taxation years preceding the year, or

(B) from the disposition of property other than the particular property in the year

except that, where a particular amount was included under subparagraph 14(1)(*a*)(v) in the taxpayer's income for a taxation year that ended after 1987 and before 1990, the reference in subparagraph (i.1) to "3/2" shall, in respect of that portion of any amount deducted under section 110.6 in respect of the particular amount, be read as "4/3".

History: S. 39(9)(*b*)(i) to (i.2) were amended by S.C. 2001, c. 17, s. 23(1), applicable to taxation years that end after February 27, 2000. S. 39(9)(*b*)(i) to (i.2) formerly read:

"(i) the total of all amounts each of which is twice the amount deducted by the taxpayer under section 110.6 in computing the taxpayer's taxable income for a preceding taxation year ending before 1988,

(i.1) the total of all amounts each of which is 3/2 of the amount deducted by the taxpayer under section 110.6 in computing the taxpayer's taxable income for a preceding taxation year ending after 1987 and before 1990, and

(i.2) the total of all amounts each of which is 4/3 of the amount deducted by the taxpayer under section 110.6 in computing the taxpayer's taxable income for a preceding taxation year ending after 1989"

S. 39(9)(*b*), the portion following subparagraph (ii), was added by S.C. 1994, c. 21, s. 14(1), applicable to the 1988 and subsequent taxation years.

Interpretation Bulletins: *Secondary*—IT-484R2 Business investment losses.

► 39(10) ◄

(10) Idem, of a trust. In computing the business investment loss of a trust for a taxation year from the disposition of a particular property, there shall be deducted an amount equal to the lesser of

(*a*) the amount that would be the trust's business investment loss for the year from the disposition of that particular property if paragraph (1)(*c*) were read without reference to subparagraph (1)(*c*)(viii), and

(*b*) the amount, if any, by which the total of

(i) the total of all amounts each of which is twice the amount designated by the trust under subsection 104(21.2) in respect of a beneficiary in its return of income for a preceding taxation year that

(A) ended before 1988, or

(B) begins after October 17, 2000,

(i.1) the total of all amounts each of which is

(A) 3/2 of the amount designated by the trust under subsection 104(21.2) in respect of a beneficiary in its return of income for a preceding taxation year that

(I) ended after 1987 and before 1990, or

(II) began after February 27, 2000 and ended before October 18, 2000, or

(B) the amount determined by multiplying the reciprocal of the fraction in paragraph 38(*a*) that applies to the trust for each of the trust's taxation years that includes February 28, 2000 or October 18, 2000 by the amount designated by the trust under subsection 104(21.2) in respect of a beneficiary in its return of income for that year, and

(i.2) the total of all amounts each of which is 4/3 of the amount designated by the trust under subsection 104(21.2) in respect of a beneficiary in its return of income for a preceding taxation year that ended after 1989 and before February 28, 2000

exceeds

(ii) the total of all amounts each of which is an amount deducted by the trust under paragraph (1)(*c*) by virtue of subparagraph (1)(*c*)(viii) in computing its business investment loss

(A) from the disposition of property in taxation years preceding the year, or

(B) from the disposition of property other than the particular property in the year

except that, where a particular amount was included under subparagraph 14(1)(*a*)(v) in the trust's income for a taxation year that ended after 1987 and before 1990, the reference in subparagraph (i.1) to "3/2" shall, in respect of that portion of any amount deducted under section 110.6 in respect of the particular amount, be read as "4/3".

History: S. 39(10)(*b*)(i) to (i.2) were amended by S.C. 2001, c. 17, s. 23(2), applicable to taxation years that end after February 27, 2000. S. 39(10)(*b*)(i) to (i.2) formerly read:

"(i) the total of all amounts each of which is twice the amount designated by the trust under subsection 104(21.2) in respect of a beneficiary in its return of income for a preceding taxation year ending before 1988,

(i.1) the total of all amounts each of which is 3/2 of the amount designated by the trust under subsection 104(21.2) in respect of a beneficiary in its return of income for a preceding taxation year ending after 1987 and before 1990, and

(i.2) the total of all amounts each of which is 4/3 of the amount designated by the trust under subsection 104(21.2) in respect of a beneficiary in its return of income for a preceding taxation year ending after 1989"

S. 39(10)(*b*), the portion following subparagraph (ii), was added by S.C. 1994, c. 21, s. 14(2), applicable to the 1988 and subsequent taxation years.

Interpretation Bulletins: *Secondary*—IT-484R2 Business investment losses.

► 39(11) ◄

(11) Recovery of bad debt. Where an amount is received in a taxation year on account of a debt (in this subsection referred to as the "recovered amount") in respect of which a deduction for bad debts had been made under subsection 20(4.2) in computing a taxpayer's income for a preceding taxation year, the amount, if any, by which 1/2 of the recovered amount exceeds the amount determined under paragraph 12(1)(*i.1*) in respect of the recovered amount is deemed to be a taxable capital gain of the taxpayer from a disposition of capital property in the year.

History: S. 39(11) was amended by S.C. 2001, c. 17, s. 23(3), applicable to taxation years that end after February 27, 2000 except that, for taxation years that ended after February 27, 2000 and before October 18, 2000, the reference to the fraction "1/2" in subsection 39(11) shall be read as a reference to the fraction "2/3". S. 39(11) formerly read:

"(11) *Recovery of bad debt.* Where an amount is received in a taxation year on account of a debt (in this subsection referred to as the 'recovered amount') in respect of which a deduction for bad debts had been made under subsection 20(4.2) in computing the taxpayer's income for a preceding taxation year, the amount, if any, by which 3/4 of the recovered amount exceeds the amount determined under paragraph 12(1)(*i.1*) in respect of the recovered amount shall be deemed to be a taxable capital gain of the taxpayer from a disposition of capital property by the taxpayer in the year."

S. 39(11) was amended by S.C. 1995, c. 3, s. 10(3), applicable to the 1994 and subsequent taxation years except that, in its application to the 1994 taxation year, subsection 39(11) shall be read as follows:

"(11) Where an amount is received in a taxation year on account of a debt (in this subsection referred to as the 'recovered amount') in respect of which a deduction for bad debts had been made under subsection 20(4.2) in computing the taxpayer's income for a preceding taxation year, the amount, if any, by which 3/4 of the recovered amount exceeds the amount determined under paragraph 12(1)(*i.1*) in respect of the recovered amount shall be deemed to be a taxable capital gain of the taxpayer from a disposition of capital property by the taxpayer in the year and, for the purposes of section 110.6, that property shall be deemed to have been disposed of by the taxpayer on the day on which the taxpayer received the recovered amount."

S. 39(11) formerly read:

"(11) *Recovery of bad debt.* Where an amount is received in a taxation year on account of a debt (in this subsection referred to as the 'recovered amount') in respect of which a deduction for bad debts under subsection 20(4.2) had been made in computing the taxpayer's income for a preceding taxation year, the amount, if any, by which 3/4 of the recovered amount exceeds the amount determined under paragraph 12(1)(*i.1*) in respect of the recovered amount shall be deemed to be a taxable capital gain of the taxpayer from a disposition of capital property by the taxpayer in the year and, for the purposes of section 110.6, that property shall be deemed to have been disposed of by the taxpayer in the year."

► 39(12) ◄

(12) Guarantees. For the purpose of paragraph (1)(*c*), where

(*a*) an amount was paid by a taxpayer in respect of a debt of a corporation under an arrangement under which the taxpayer guaranteed the debt,

(*b*) the amount was paid to a person with whom the taxpayer was dealing at arm's length, and

(*c*) the corporation was a small business corporation

(i) at the time the debt was incurred, and

(ii) at any time in the 12 months before the time an amount first became payable by the taxpayer under the arrangement in respect of a debt of the corporation,

that part of the amount that is owing to the taxpayer by the corporation shall be deemed to be a debt owing to the taxpayer by a small business corporation.

History: S. 39(12) was added by S.C. 1994, c. 7, Sched. II, s. 22(4), applicable to amounts paid after 1985.

► 39(13) ◄

(13) Repayment of assistance. The total of all amounts paid by a taxpayer in a taxation year each of which is

(*a*) such part of any assistance described in subparagraph 53(2)(*k*)(i) in respect of, or for the acquisition of, a capital property (other than depreciable property) by the taxpayer that was repaid by the taxpayer in the year where the repayment is made after the disposition of the property by the taxpayer and under an obligation to repay all or any part of that assistance, or

(*b*) an amount repaid by the taxpayer in the year in respect of a capital property (other than depreciable property) acquired by the taxpayer that is repaid after the disposition thereof by the taxpayer and that would have been an amount described in subparagraph 53(2)(*s*)(ii) had the repayment been made before the disposition of the property,

shall be deemed to be a capital loss of the taxpayer for the year from the disposition of property by the taxpayer in the year and, for the purpose of section 110.6, that property shall be deemed to have been disposed of by the taxpayer in the year.

History: S. 39(13) was added by S.C. 1994, c. 7, Sched. VIII, s. 11(1), applicable to 1991 and subsequent taxation years.

Related Sections: S. 13(21), "disposition of property"; s. 39(1)(*b*) Meaning of capital gain and capital loss; s. 54, "capital property", "disposition"; s. 248(1), "amount", "capital loss", "property".

SECTION 39.1: [Exempt capital gains balance in respect of flow-through entity].

► 39.1(1) ◄

(1) Definitions. In this section,

"*exempt capital gains balance*" — "exempt capital gains balance" of an individual for a taxation year that ends before 2005 in respect of a flow-through entity means the amount determined by the formula

$$A - B - C - F$$

where

A is

(*a*) if the entity is a trust referred to in any of paragraphs (*f*) to (*j*) of the definition "flow-through entity" in this subsection, the amount determined under paragraph 110.6(19)(*c*) in respect of the individual's interest or interests therein, and

(*b*) in any other case, the lesser of

(i) 4/3 of the total of the taxable capital gains that resulted from elections made under subsection 110.6(19) in respect of the individual's interests in or shares of the capital stock of the entity, and

(ii) the amount that would be determined under subparagraph (i) if

(A) the amount designated in the election in respect of each interest or share were equal to the amount determined by the formula

$$D - E$$

where

D is the fair market value of the interest or share at the end of February 22, 1994, and

E is the amount, if any, by which the amount designated in the election that was made in respect of the interest or share exceeds 11/10 of its fair market value at the end of February 22, 1994, and

(B) this Act were read without reference to subsection 110.6(20),

B is the total of all amounts each of which is the amount by which the individual's capital gain for a preceding taxation year, determined without reference to subsection (2), from the disposition of an interest in or a share of the capital stock of the entity was reduced under that subsection,

C is

(*a*) if the entity is a trust described in any of paragraphs (*d*) and (*h*) to (*j*) of the definition "flow-through entity" in this subsection, the total of

(i) 3/2 of the total of all amounts each of which is the amount by which the individual's taxable capital gain (determined without reference to this section), for a preceding taxation

year that began after February 27, 2000 and ended before October 18, 2000 that resulted from a designation made under subsection 104(21) by the trust, was reduced under subsection (3),

(ii) 4/3 of the total of all amounts each of which is the amount by which the individual's taxable capital gain (determined without reference to this section), for a preceding taxation year that ended before February 28, 2000 and that resulted from a designation made under subsection 104(21) by the trust, was reduced under subsection (3),

(iii) the amount claimed by the individual under subparagraph 104(21.4)(*a*)(ii) or (21.7)(*b*)(ii) for a preceding taxation year, and

(iv) twice the total of all amounts each of which is the amount by which the individual's taxable capital gain (determined without reference to this section) for a preceding taxation year that began after October 17, 2000 and that resulted from a designation made under subsection 104(21) by the trust, was reduced under subsection (3),

(*b*) if the entity is a partnership, the total of

(i) 3/2 of the total of

(A) the total of all amounts each of which is the amount by which the individual's share of the partnership's taxable capital gains (determined without reference to this section), for its fiscal period that began after February 27, 2000 and ended before October 18, 2000, was reduced under subsection (4), and

(B) the total of all amounts each of which is the amount by which the individual's share of the partnership's income from a business (determined without reference to this section), for its fiscal period that began after February 27, 2000 and ended before October 18, 2000, was reduced under subsection (5),

(ii) 4/3 of the total of

(A) the total of all amounts each of which is the amount by which the individual's share of the partnership's taxable capital gains (determined without reference to this section), for its fiscal period that ended before February 28, 2000 and in a preceding taxation year was reduced under subsection (4), and

(B) the total of all amounts each of which is the amount by which the individual's share of the partnership's income from a business (determined without reference to this section), for its fiscal period that ended before February 28, 2000 and in a preceding taxation year, was reduced under subsection (5),

(iii) the product obtained when the reciprocal of the fraction in paragraph 38(*a*) that applies to the partnership for its fiscal period that includes February 28, 2000 or October 17, 2000 is multiplied by the total of

(A) the total of all amounts each of which is the amount by which the individual's share of the partnership's taxable capital gains (determined without reference to this section), for its fiscal period that includes February 28, 2000 or October 17, 2000 and ended in a preceding taxation year, was reduced under subsection (4), and

(B) the total of all amounts each of which is the amount by which the individual's share of the partnership's income from a business (determined without reference to this section), for its fiscal period that includes February 28, 2000 or October 17, 2000 and ended in a preceding taxation year was reduced under subsection (5), and

(iv) twice the total of

(A) the total of all amounts each of which is the amount by which the individual's share of the partnership's taxable capital gains (determined without reference to this section), for its fiscal period that began after October 17, 2000 and ended in a preceding taxation year, was reduced under subsection (4), and

(B) the total of all amounts each of which is the amount by which the individual's share of the partnership's income from a business (determined without reference to this section), for its fiscal period that began after October 17, 2000 and ended in a preceding taxation year, was reduced under subsection (5), and

(*c*) in any other case, the total of all amounts each of which is the amount by which the total of the individual's capital gains otherwise determined under subsection 130.1(4) or 131(1), subsections 138.1(3) and (4) or subsection 144(4), as the case may be, for a preceding taxation year in respect of the entity was reduced under subsection (6); and

F is

(*a*) if the entity is a trust described in any of paragraphs (*g*) to (*j*) of the definition "flow-through entity" in this subsection, the total of all amounts each of which is an amount included before the year in the cost to the individual of a property under subsection 107(2.2) or paragraph 144(7.1)(*c*) because of the individual's exempt capital gains balance in respect of the entity, and

(*b*) in any other case, nil;

History: S. 39.1(1), paragraphs (*a*) and (*b*) of the description of C in the definition "exempt capital gains balance" were amended by S.C. 2001, c. 17, s. 24(1), applicable to taxation years that end after February 27, 2000. S. 39.1(1), paragraphs (*a*) and (*b*) of the description of C in the definition "exempt capital gains balance" formerly read:

"(*a*) if the entity is a trust described in any of paragraphs (*d*) and (*h*) to (*j*) of the definition 'flow-through entity' in this subsection, 4/3 of the total of all amounts each of which is the amount by which the individual's taxable capital gain otherwise determined for a preceding taxation year

that resulted from a designation made under subsection 104(21) by the trust was reduced under subsection (3),

(*b*) if the entity is a partnership, 4/3 of the total of all amounts each of which is

(i) the amount by which the individual's share otherwise determined of the partnership's taxable capital gains for its fiscal period that ended in a preceding taxation year was reduced under subsection (4), or

(ii) the amount by which the individual's share otherwise determined of the partnership's income from a business for its fiscal period that ended in a preceding taxation year was reduced under subsection (5), and"

S. 39.1(1), the description of F in the definition "exempt capital gains balance" was added by S.C. 1998, c. 19, s. 88(2), applicable to the 1994 and subsequent taxation years.

S. 39.1(1), the formula in the definition "exempt capital gains balance" was amended by S.C. 1998, c. 19, s. 88(1), applicable to the 1994 and subsequent taxation years. S. 39.1(1), the formula in the definition "exempt capital gains balance" formerly read:

"A – B – C"

S. 39.1(1), the definition "exempt capital gains balance" was added by S.C. 1995, c. 3, s. 11(1), applicable to the 1994 and subsequent taxation years.

"flow-through entity" — "flow-through entity" means

(*a*) an investment corporation,

(*b*) a mortgage investment corporation,

(*c*) a mutual fund corporation,

(*d*) a mutual fund trust,

(*e*) a partnership,

(*f*) a related segregated fund trust for the purpose of section 138.1,

(*g*) a trust governed by an employees profit sharing plan,

(*h*) a trust maintained primarily for the benefit of employees of a corporation or 2 or more corporations that do not deal at arm's length with each other, where one of the main purposes of the trust is to hold interests in shares of the capital stock of the corporation or corporations, as the case may be, or any corporation not dealing at arm's length therewith,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*h*) of the definition "flow-through entity" in subsection 39.1(1) of the Act is replaced by the following:

(*h*) a trust maintained primarily for the benefit of employees of a corporation or 2 or more corporations that do not deal at arm's length with each other, where one of the main purposes of the trust is to hold interests in, or for civil law rights in, shares of the capital stock of the corporation or corporations, as the case may be, or any corporation not dealing at arm's length therewith,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*i*) a trust established exclusively for the benefit of one or more persons each of whom was, at the time the trust was created, either a person from whom the trust received property or a creditor of that person, where one of the main purposes of the trust is to secure the payments required to be made by or on behalf of that person to such creditor, and

(*j*) a trust all or substantially all of the properties of which consist of shares of the capital stock of a corporation, where the trust was established pursuant to an agreement between 2 or more shareholders of the corporation and one of the main purposes of the trust is to provide for the exercise of voting rights in respect of those shares pursuant to that agreement.

Department of Finance Comfort Letter [Increases in ACB re Flow-Through Entities]

June 13, 2003

Dear XXXX:

Thank you for your letter dated April 10, 2002, concerning paragraph 53(1)(*r*) of the *Income Tax Act* (the "Act") and its application in respect of an employee trust.

Paragraph 53(1)(*r*) of the Act was added as a consequence of the elimination of the $100,000 lifetime capital gains exemption for gains that are realized after February 22, 1994 and the introduction of a mechanism in subsection 110.6(19) of the Act for recognizing gains accrued to the end of that day. Where an individual recognized a capital gain accrued to that time on a share or other interest in a flow-through entity (as defined in subsection 39.1(1) of the Act), the amount of the gain is credited to a special account referred to as the individual's exempt capital gains balance in respect of the entity. Claims may be made against this account to reduce gains that are flowed out to the individual by the entity for taxation years that end before 2005 or that are realized on dispositions of shares or other interests in the entity for those years.

Where an individual disposes of all shares or other interest in an entity described in any of paragraphs (*a*) to (*f*) of the flow-though entity definition, paragraph 53(1)(*r*) of the Act increases the individual's adjusted cost base of each share or interest by a *pro rata* portion of the amount of the individual's unused exempt capital gains balance in respect of the entity. Paragraph 53(1)(*r*) of the Act benefits individuals in circumstances in which their interest in a flow-through entity has declined in value since February 22, 1994.

In your letter, you have requested that paragraph 53(1)(*r*) of the Act be amended to include a reference to a flow-through entity described in paragraph (*h*) of the definition "flow-through" entity in subsection 39.1(1) of the Act, (i.e. a trust maintained primarily to hold shares of a corporation for the benefit of employees of the corporation).

In your letter, you have also requested that paragraph 53(1)(*r*) of the Act be amended to provide that where the fair market value of a particular interest in an entity is nil, the fair market value of the particular interest be deemed to be $1 to permit a calculation to be made under the formula in paragraph 53(1)(*r*) of the Act where the fair market value of all the interests in an entity is nil at the time of disposition.

From a policy perspective, it appears appropriate to permit a trust described in paragraph (*h*) of the definition "flow-through entity" in subsection 39.1(1) of the Act to qualify for the adjustment to the cost base in paragraph 53(1)(*r*) of the Act. Consequently, we are prepared to recommend to the Minister of Finance that an amendment be made to paragraph 53(1)(*r*) of the Act to add a reference to an entity described in paragraph (*h*) of the definition "flow-through entity" in subsection 39.1(1) of the Act. We understand that this particular issue arises, in the context of your client, with respect to a disposition occurring in 2002; accordingly it will be recommended that this amendment apply to dispositions of shares or interests that occur after 2001.

It also seems appropriate to provide that, for the purpose of the calculation in paragraph 53(1)(*r*) of the Act, where the fair market value of all the interests in an entity is nil at the time of disposition, the fair market value of each interest in the entity be deemed to be $1 and a recommendation to that effect will also be put forward.

Of course, I can offer no assurance that the Minister of Finance will agree with the recommendations that I have described. Nonetheless, I hope that this statement of our position is helpful.

Thank you for bringing this matter to our attention.
Yours sincerely,
Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 39.1(1), the definition "flow-through entity" was added by S.C. 1995, c. 3, s. 11(1), applicable to the 1994 and subsequent taxation years.

► 39.1(2) ◄

(2) Reduction of capital gain. Where at any time after February 22, 1994 an individual disposes of an interest in or a share of the capital stock of a flow-through entity, the individual's capital gain, if any, otherwise determined for a taxation year from the disposition shall be reduced by such amount as the individual claims, not exceeding the amount determined by the formula

$$A - B - C$$

where

A is the exempt capital gains balance of the individual for the year in respect of the entity,

B is

(*a*) if the entity made a designation under subsection 104(21) in respect of the individual for the year, twice the amount, if any, claimed under subsection (3) by the individual for the year in respect of the entity,

(*b*) if the entity is a partnership, twice the total of

(i) the amount, if any, claimed under subsection (4) by the individual for the year in respect of the entity, and

(ii) the amount, if any, claimed under subsection (5) by the individual for the year in respect of the entity, and

(*c*) in any other case, the amount, if any, claimed under subsection (6) by the individual for the year in respect of the entity, and

C is the total of all reductions under this subsection in the individual's capital gains otherwise determined for the year from the disposition of other interests in or shares of the capital stock of the entity.

History: S. 39.1(2), paragraphs (*a*) and (*b*) of the description of B were amended by S.C. 2001, c. 17, s. 24(2), by replacing the reference to the expression "4/3 of" with a reference to the word "twice", applicable to taxation years that end after February 27, 2000 except that, where the taxation year of an entity that ends in the taxpayer's taxation year includes February 28, 2000 or October 17, 2000, or began after February 28, 2000, and ended before October 17, 2000 the reference to the word "twice" in paragraphs (*a*) and (*b*) of the description of B in subsection 39.1(2) shall be read as a reference to the expression "the fraction that is the reciprocal of the fraction in paragraph 38(*a*), as enacted by subsection 22(1) of the *Income Tax Amendments Act, 2000* [S.C. 2001, c. 17], that applies to the entity for its taxation year that ends in the taxpayer's taxation year, multiplied by".

S. 39.1(2) was added by S.C. 1995, c. 3, s. 11(1), applicable to the 1994 and subsequent taxation years.

► 39.1(3) ◄

(3) Reduction of taxable capital gain. The taxable capital gain otherwise determined under subsection 104(21) of an individual for a taxation year as a result of a designation made under that subsection by a flow-through entity shall be reduced by such amount as the individual claims, not exceeding 1/2 of the individual's exempt capital gains balance for the year in respect of the entity.

History: S. 39.1(3) was amended by S.C. 2001, c. 17, s. 24(3), by replacing the reference to the fraction "3/4" with a reference to the fraction "1/2", applicable to taxation years that end after February 27, 2000 except that, where the taxation year of an entity that ends in the taxpayer's taxation year includes February 28, 2000 or October 17, 2000, or began after February 28, 2000 and ended before October 17, 2000, the reference to the fraction "1/2" in subsection 39.1(3) shall be read as a reference to the fraction in paragraph 38(*a*) that applies to the entity for its taxation year that ends in the taxpayer's taxation year.

S. 39.1(3) was added by S.C. 1995, c. 3, s. 11(1), applicable to the 1994 and subsequent taxation years.

► 39.1(4) ◄

(4) Reduction in share of partnership's taxable capital gains. An individual's share otherwise determined for a taxation year of a taxable capital gain of a partnership from the disposition of a property (other than property acquired by the partnership after February 22, 1994 in a transfer to which subsection 97(2) applied) for its fiscal period that ends after February 22, 1994 and in the year shall be reduced by such amount as the individual claims, not exceeding the amount determined by the formula

$$A - B$$

where

A is 1/2 of the individual's exempt capital gains balance for the year in respect of the partnership, and

B is the total of amounts claimed by the individual under this subsection in respect of other taxable capital gains of the partnership for that fiscal period.

History: S. 39.1(4), the description of A was amended by S.C. 2001, c. 17, s. 24(4), by replacing the reference to the fraction "3/4" with a reference to the fraction "1/2", applicable to taxation years that end after February 27, 2000 except that, where the taxation year of an entity that ends in the taxpayer's taxation year includes February 28, 2000 or October 17, 2000, or began after February 28, 2000 and ended before October 17, 2000, the reference to the fraction "1/2" in the description of A in subsection 39.1(4) shall be read as reference to the fraction in paragraph 38(*a*) that applies to the entity for its taxation year that ends in the taxpayer's taxation year.

S. 39.1(4) was added by S.C. 1995, c. 3, s. 11(1), applicable to the 1994 and subsequent taxation years.

► 39.1(5) ◄

(5) Reduction in share of partnership's income from a business. An individual's share otherwise determined for a taxation year of the income of a partnership from a business for the partnership's fiscal period that ends in the year and the individual's share of the partnership's taxable capital gain, if any, arising under paragraph 14(1)(*b*) shall be reduced by such amount as the individual claims, not exceeding the lesser of

(*a*) the amount, if any, by which 1/2 of the individual's exempt capital gains balance for the year in respect of the partnership exceeds the total of

(i) the amount, if any, claimed under subsection (4) by the individual for the year in respect of the partnership, and

(ii) all amounts, if any, claimed under this subsection by the individual for the year in respect of other businesses of the partnership, and

(*b*) the amount determined by the formula

$$A \times (B/C)$$

where

A is the amount included under paragraph 14(1)(*b*) in computing the income of the partnership from the business for the fiscal period,

B is the amount that would otherwise be the individual's share of the partnership's income from the business for the fiscal period, and

C is the partnership's income from the business for the fiscal period.

History: S. 39.1(5) was amended by S.C. 2001, c. 17, s. 24(5), applicable to taxation years that end after February 27, 2000 except that, where the

taxation year of an entity that ends in the taxpayer's taxation year includes February 28, 2000 or October 17, 2000, or began after February 28, 2000 and ended before October 17, 2000, the reference to the fraction "1/2" in subsection 39.1(5) shall be read as reference to the fraction in paragraph 14(1)(*b*), that applies to the entity for its taxation year that ends in the taxpayer's taxation year; and subparagraph 39.1(5)(*a*)(i) shall be read as follows:

"(i) the amount, if any, claimed under subsection (4) by the individual for the year in respect of the partnership multiplied by the fraction obtained when the fraction in paragraph 14(1)(*b*) applicable to the entity for its taxation year that ends in the taxpayer's taxation year is divided by the fraction in paragraph 38(*a*) that applies to the entity for that taxation year."

S. 39.1(5) formerly read:

"(5) *Reduction in share of partnership's income from a business.* An individual's share otherwise determined for a taxation year of the income of a partnership from a business for the partnership's fiscal period that ends in the year and the individual's share of the partnership's taxable capital gain, if any, arising under subparagraph 14(1)(*a*)(v) shall be reduced by such amount as the individual claims, not exceeding the lesser of

(*a*) the amount, if any, by which 3/4 of the individual's exempt capital gains balance for the year in respect of the partnership exceeds the total of

(i) the amount, if any, claimed under subsection (4) by the individual for the year in respect of the partnership, and

(ii) all amounts, if any, claimed under this subsection by the individual for the year in respect of other businesses of the partnership, and

(*b*) the amount determined by the formula

$$A \times \frac{B}{C}$$

where

A is the amount included under subparagraph 14(1)(*a*)(v) in computing the income of the partnership from the business for the fiscal period,

B is the amount that would otherwise be the individual's share of the partnership's income from the business for the fiscal period, and

C is the partnership's income from the business for the fiscal period."

S. 39.1(5) was added by S.C. 1995, c. 3, s. 11(1), applicable to the 1994 and subsequent taxation years.

► 39.1(6) ◄

(6) Reduction of capital gains. The total capital gains otherwise determined under subsection 130.1(4) or 131(1), subsections 138.1(3) and (4) or subsection 144(4), as the case may be, of an individual for a taxation year as a result of one or more elections, allocations or designations made after February 22, 1994 by a flow-through entity shall be reduced by such amount as the individual claims, not exceeding the individual's exempt capital gains balance for the year in respect of the entity.

History: S. 39.1(6) was added by S.C. 1995, c. 3, s. 11(1), applicable to the 1994 and subsequent taxation years.

► 39.1(7) ◄

(7) Nil exempt capital gains balance. Notwithstanding subsection (1), where at any time an individual ceases to be a member or shareholder of, or a beneficiary under, a flow-through entity, the exempt capital gains balance of the individual in respect of the entity for each taxation year that begins after that time is deemed to be nil.

History: S. 39.1(7) was added by S.C. 1995, c. 3, s. 11(1), applicable to the 1994 and subsequent taxation years.

SECTION 40: [Calculation of gain, loss or reserve].

► 40(1) ◄

(1) General rules. Except as otherwise expressly provided in this Part

(*a*) a taxpayer's gain for a taxation year from the disposition of any property is the amount, if any, by which

(i) if the property was disposed of in the year, the amount, if any, by which the taxpayer's proceeds of disposition exceed the total of the adjusted cost base to the taxpayer of the property immediately before the disposition and any outlays and expenses to the extent that they were made or incurred by the taxpayer for the purpose of making the disposition, or

(ii) if the property was disposed of before the year, the amount, if any, claimed by the taxpayer under subparagraph (iii) in computing the taxpayer's gain for the immediately preceding year from the disposition of the property,

exceeds

(iii) subject to subsection (1.1), such amount as the taxpayer may claim

(A) in the case of an individual (other than a trust) in prescribed form filed with the taxpayer's return of income under this Part for the year, and

(B) in any other case, in the taxpayer's return of income under this Part for the year,

as a deduction, not exceeding the lesser of

(C) a reasonable amount as a reserve in respect of such of the proceeds of disposition of the property that are payable to the taxpayer after the end of the year as can reasonably be regarded as a portion of the amount determined under subparagraph (i) in respect of the property, and

(D) an amount equal to the product obtained when 1/5 of the amount determined under subparagraph (i) in respect of the property is multiplied by the amount, if any, by which 4 exceeds the number of preceding taxation years of the taxpayer ending after the disposition of the property; and

(*b*) a taxpayer's loss for a taxation year from the disposition of any property is,

(i) if the property was disposed of in the year, the amount, if any, by which the total of the adjusted cost base to the taxpayer of the property immediately before the disposition and any outlays and expenses to the extent that they were made or incurred by the taxpayer for the purpose of making the disposition, exceeds the taxpayer's proceeds of disposition of the property, and

(ii) in any other case, nil.

History: S. 40(1)(*a*)(iii)(C) was amended by S.C. 1995, c. 21, s. 11(1), applicable to taxation years that end after February 21, 1994. That clause formerly read:

"(C) a reasonable amount as a reserve in respect of such of the proceeds of disposition of the property that are not due to the taxpayer until after the end of the year as may reasonably be regarded as a portion of the amount determined under subparagraph (i) in respect of the property, and"

Editorial Note: Whether the gain or loss under subsection 40(1) is a capital gain or capital loss (or business investment loss) is determined under the provisions of subsection 39(1). Generally speaking, the rest of section 40 either qualifies, expands, or imposes limitations on the recognition of gains or losses.

Related Sections: S. 40(2) Limitations; s. 44 Exchanges of property; s. 53(1) Adjustments to cost base; s. 53(2) Amounts to be deducted; s. 54, "adjusted cost base", "capital property", "listed personal property", "principal residence", "proceeds of disposition"; s. 69(1) Inadequate considerations; s. 72 Reserves, etc., for year of death; s. 79 Surrender of property by debtor; s. 87(2)(*m*) Reserves; s. 100(2) Gain from disposition of interest in partnership; s. 104(1) Reference to trust or estate; s. 248(1), "amount", "business", "corporation", "disposition", "exempt income", "farming", "individual", "property"; s. 255 Canada.

Interpretation Bulletins: *Primary* — IT-236R4 Reserves — Disposition of Capital Property [Archived by the CRA]. *Secondary* — IT-66R6 Capital dividends; IT-95R Foreign exchange gains and losses; IT-104R3 Deductibility of Fines or Penalties; IT-259R4 Exchange of property; IT-268R4 Inter vivos transfer of farm property to child; IT-332R Personal-use property [Archived by the CRA]; IT-334R2 Miscellaneous receipts; IT-426R Shares sold subject to an earnout agreement; IT-461 Forfeited deposits [Archived by the CRA];

IT-467R2 Damages, settlements and similar payments; IT-505 Mortgage foreclosures and conditional sales repossessions [Archived by the CRA].

Information Circulars: IC 88-2 General anti-avoidance rule — Section 245 of the Income Tax Act.

Income Tax Technical News: Issue No. 18, Byram v. The Queen.

Forms: T3 SCH 2; T2017; T2091(IND).

Guides: T4037 Capital Gains.

Tax Topics: No. 1481, The Small Business Investment Rollover.

Cases: No reserve may be claimed for a promissory note of which the taxpayer is entitled to enforce payment but does not do so. *The Queen v. Derbecker,* 84 DTC 6549 (F.C.A.), reversing 84 DTC 6136 (F.C.T.D.). See also: *Pineo v. The Queen,* 86 DTC 6322 (F.C.T.D.).

► 40(1.01) ◄

(1.01) Gift of non-qualifying security. A taxpayer's gain for a particular taxation year from a disposition of a non-qualifying security of the taxpayer (as defined in subsection 118.1(18)) that is the making of a gift (other than an excepted gift, within the meaning assigned by subsection 118.1(19)) to a qualified donee (as defined in subsection 149.1(1)) is the amount, if any, by which

(*a*) where the disposition occurred in the particular year, the amount, if any, by which the taxpayer's proceeds of disposition exceed the total of the adjusted cost base to the taxpayer of the security immediately before the disposition and any outlays and expenses to the extent they were made or incurred by the taxpayer for the purpose of making the disposition, and

(*b*) where the disposition occurred in the 60-month period that ends at the beginning of the particular year, the amount, if any, deducted under paragraph (*c*) in computing the taxpayer's gain for the preceding taxation year from the disposition of the security

exceeds

(*c*) the amount that the taxpayer claims in prescribed form filed with the taxpayer's return of income for the particular year, where the taxpayer is not deemed by subsection 118.1(13) to have made a gift of property before the end of the particular year as a consequence of a disposition of the security by the donee or as a consequence of the security ceasing to be a non-qualifying security of the taxpayer before the end of the particular year.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 40(1.01)(c) of the Act is replaced by the following:

(*c*) the amount that the taxpayer claims in prescribed form filed with the taxpayer's return of income for the particular year, not exceeding the eligible amount of the gift, where the taxpayer is not deemed by subsection 118.1(13) to have made a gift of property before the end of the particular year as a consequence of a disposition of the security by the donee or as a consequence of the security ceasing to be a non-qualifying security of the taxpayer before the end of the particular year.

Applicable: To gifts made after December 20, 2002.

Explanatory Note:

Gift of Non-qualifying Security

Subsection 40(1.01) of the Act allows a taxpayer to claim a reserve in respect of any gain realized from the making of a gift of a "non-qualifying security", as defined for the purposes of sections 110.1 and 118.1 of the Act. The gift is not recognized as a gift for the purposes of those sections until a subsequent time when the security ceases to be a non-qualifying security or it is disposed of by the donee. The reserve available in subsection 40(1.01) allows the resulting inclusion in income to be deferred until the year that includes the subsequent time, unless the taxpayer first becomes non-resident or tax-exempt.

Paragraph 40(1.01)(*c*) is amended consequential to the addition of new subsections 248(30) to (33) of the Act, for gifts made after December 20, 2002, to provide that the reserve claimed by the taxpayer may not exceed the eligible amount of the gift. For additional details, see the commentary to subsection 248(31) of the Act regarding the eligible amount of a gift.

History: S. 40(1.01) was added by S.C. 1998, c. 19, s. 8(1), applicable to the 1997 and subsequent taxation years.

Tax Profile: May 2002 — Update on Charitable Giving.

► 40(1.1) ◄

(1.1) Reserve — property disposed of to a child. In computing the amount that a taxpayer may claim under subparagraph (1)(*a*)(iii) in computing the taxpayer's gain from the disposition of a property, that subparagraph shall be read as if the references in that subparagraph to "1/5" and "4" were references to "1/10" and "9" respectively, if,

(*a*) the property was disposed of by the taxpayer to the taxpayer's child,

(*b*) that child was resident in Canada immediately before the disposition, and

(*c*) the property was immediately before the disposition,

(i) any land in Canada or depreciable property in Canada of a prescribed class that was used by the taxpayer, the spouse or common-law partner of the taxpayer, a child or a parent of the taxpayer in a farming or fishing business carried on in Canada,

(ii) a share of the capital stock of a family farm corporation of the taxpayer or an interest in a family farm partnership of the taxpayer (such a share or an interest having the meaning assigned by subsection 70(10)),

(iii) a qualified small business corporation share of the taxpayer (within the meaning assigned by subsection 110.6(1)), or

(iv) a share of the capital stock of a family fishing corporation of the taxpayer or an interest in a family fishing partnership (such a share or an interest having the meaning assigned by subsection 70(10)).

History: S. 40(1.1) was replaced by S.C. 2007, c. 2, s. 4(1), applicable to dispositions of property that occur on or after May 2, 2006. S. 40(1.1) formerly read:

"(1.1) *Property disposed of to a child.* Where the property referred to in subparagraph (1)(*a*)(iii) is property that the taxpayer disposed of to the tax-

payer's child, who was resident in Canada immediately before the disposition, and was

(*a*) any land in Canada or depreciable property in Canada of a prescribed class that was, immediately before the disposition, used by the taxpayer, the taxpayer's spouse or common-law partner, or any of the taxpayer's children in the business of farming,

(*b*) immediately before the disposition, a share of the capital stock of a family farm corporation of the taxpayer or an interest in a family farm partnership of the taxpayer, or

(*c*) immediately before the disposition, a share of the capital stock of a small business corporation of the taxpayer,

in computing the amount of any claim in respect of that property under subparagraph (1)(*a*)(iii), that subparagraph shall be read as if the references therein to '1/5' and '4' were references to '1/10' and '9' respectively."

S. 40(1.1)(*a*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(f), applicable January 1, 2001, coming into force on July 31, 2000. S. 40(1.1)(*a*) formerly read:

"(*a*) any land in Canada or depreciable property in Canada of a prescribed class that was, immediately before the disposition, used by the taxpayer, the taxpayer's spouse, or any of the taxpayer's children in the business of farming,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Interpretation Bulletins: *Secondary* — IT-236R4 Reserves — Disposition of Capital Property [Archived by the CRA]; IT-268R4 Inter vivos transfer of farm property to child.

► 40(2) ◄

(2) Limitations. Notwithstanding subsection (1),

(*a*) subparagraph (1)(*a*)(iii) does not apply to permit a taxpayer to claim any amount under that subparagraph in computing a gain for a taxation year if

(i) the taxpayer, at the end of the year or at any time in the immediately following year, was not resident in Canada or was exempt from tax under any provision of this Part, or

(ii) the purchaser of the property sold is a corporation that, immediately after the sale,

(A) was controlled, directly or indirectly, in any manner whatever, by the taxpayer,

(B) was controlled, directly or indirectly, in any manner whatever, by a person or group of persons by whom the taxpayer was controlled, directly or indirectly, in any manner whatever, or

(C) controlled the taxpayer, directly or indirectly, in any manner whatever, where the taxpayer is a corporation;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 40(2)(*a*) of the Act is amended by striking out the word "or" at the end of subparagraph (i), by adding the word "or" at the end of subparagraph (ii) and by adding the following after subparagraph (ii):

(iii) the purchaser of the property sold is a partnership in which the taxpayer was, immediately after the sale, a majority interest partner;

Applicable: To sales that occur after December 20, 2002.

Explanatory Note:

Reserve on Property Sold to a Controlled Partnership

Paragraph 40(2)(*a*) of the Act generally restricts a taxpayer's ability to claim a capital gains reserve in respect of properties disposed of to a non-resident or to a corporation that controlled the taxpayer or was controlled by the taxpayer. Paragraph 40(2)(*a*) is amended in respect of dispositions of property that occur after December 20, 2002, to provide that a capital gains reserve will also not be allowed to a taxpayer where the purchaser of the property is a partnership of which the taxpayer is a majority interest partner.

(*b*) where the taxpayer is an individual, the taxpayer's gain for a taxation year from the disposition of a property that was the taxpayer's principal residence at any time after the date (in this section referred to as the "acquisition date") that is the later of December 31, 1971 and the day on which the taxpayer last acquired or reacquired it, as the case may be, is the amount determined by the formula

$$A - (A \times \frac{B}{C}) - D$$

where

A is the amount that would, if this Act were read without reference to this paragraph and subsections 110.6(19) and (21), be the taxpayer's gain therefrom for the year,

B is one plus the number of taxation years that end after the acquisition date for which the property was the taxpayer's principal residence and during which the taxpayer was resident in Canada,

C is the number of taxation years that end after the acquisition date during which the taxpayer owned the property whether jointly with another person or otherwise, and

D is

(i) where the acquisition date is before February 23, 1994 and the taxpayer or a spouse or common-law partner of the taxpayer elected under subsection 110.6(19) in respect of the property or an interest therein that was owned, immediately before the disposition, by the taxpayer, 4/3 of the lesser of

(A) the total of all amounts each of which is the taxable capital gain of the taxpayer or of a spouse or common-law partner of the taxpayer that would have resulted from an election by the taxpayer or spouse or common-law partner under subsection 110.6(19) in respect of the property or interest if

(I) this Act were read without reference to subsection 110.6(20), and

(II) the amount designated in the election were equal to the amount, if any, by which the fair market value of the prop-

erty or interest at the end of February 22, 1994 exceeds the amount determined by the formula

E – 1.1F

where

E is the amount designated in the election that was made in respect of the property or interest, and

F is the fair market value of the property or interest at the end of February 22, 1994, and

(B) the total of all amounts each of which is the taxable capital gain of the taxpayer or of a spouse or common-law partner of the taxpayer that would have resulted from an election that was made under subsection 110.6(19) in respect of the property or interest if the property were the principal residence of neither the taxpayer nor the spouse or common-law partner for each particular taxation year unless the property was designated, in a return of income for the taxation year that includes February 22, 1994 or for a preceding taxation year, to be the principal residence of either of them for the particular taxation year, and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph (i) of the description of D in paragraph 40(2)(*b*) of the Act is replaced by the following:

(i) where the acquisition date is before February 23, 1994 and the taxpayer or a spouse or common-law partner of the taxpayer elected under subsection 110.6(19) in respect of the property or an interest, or for civil law a right, therein that was owned, immediately before the disposition, by the taxpayer, 4/3 of the lesser of

(A) the total of all amounts each of which is the taxable capital gain of the taxpayer or of a spouse or common-law partner of the taxpayer that would have resulted from an election by the taxpayer or spouse or common-law partner under subsection 110.6(19) in respect of the property or the interest or right if

(I) this Act were read without reference to subsection 110.6(20), and

(II) the amount designated in the election were equal to the amount, if any, by which the fair market value of the property or the interest or right at the end of February 22, 1994 exceeds the amount determined by the formula

E - 1.1F

where

E is the amount designated in the election that was made in respect of the property or the interest or right, and

F is the fair market value of the property or the interest or right at the end of February 22, 1994, and

(B) the total of all amounts each of which is the taxable capital gain of the taxpayer or of a spouse or common-law partner of the taxpayer that would have resulted from an election that was made under subsection 110.6(19) in respect of the property or the interest or right if the property were the principal residence of neither the taxpayer nor the spouse or common-law partner for each particular taxation year unless the property was designated, in a return of income for the taxation year that includes February 22, 1994 or for a preceding taxation year, to be the principal residence of either of them for the particular taxation year, and

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(ii) in any other case, zero;

(*c*) where the taxpayer is an individual, the taxpayer's gain for a taxation year from the disposition of land used in a farming business carried on by the taxpayer that includes property that was at any time the taxpayer's principal residence is

(i) the taxpayer's gain for the year, otherwise determined, from the disposition of the portion of the land that does not include the property that was the taxpayer's principal residence, plus the taxpayer's gain for the year, if any, determined under paragraph (*b*) from the disposition of the property that was the taxpayer's principal residence, or

(ii) if the taxpayer so elects in prescribed manner in respect of the land, the taxpayer's gain for the year from the disposition of the land including the property that was the taxpayer's principal residence, determined without regard to paragraph (*b*) or subparagraph (i) of this paragraph, less the total of

(A) $1,000, and

(B) $1,000 for each taxation year ending after the acquisition date for which the property was the taxpayer's principal residence and during which the taxpayer was resident in Canada;

(*d*) where the taxpayer is a corporation, its loss for a taxation year from the disposition of a bond or debenture is its loss therefrom for the year otherwise determined, less the total of such amounts received by it as, on account or in lieu of payment of, or in satisfaction of interest thereon as were, by virtue of paragraph 81(1)(*m*), not included in computing its income;

(*e*) [Repealed by S.C. 1998, c. 19, s. 89(1).]

(*e*.1) a taxpayer's loss, if any, from the disposition at any time to a particular person or partnership of an obligation that was, immediately after that time, payable by another person or partnership to the particular person or partnership is nil where the taxpayer, the particular person or partnership and the other person or partnership are related to each other at that time or would be related to each other at that

time if paragraph 80(2)(*j*) applied for the purpose of this paragraph;

(*e*.2) a taxpayer's loss on the settlement or extinguishment of a particular commercial obligation (in this paragraph having the meaning assigned by subsection 80(1)) issued by a person or partnership and payable to the taxpayer shall, where any part of the consideration given by the person or partnership for the settlement or extinguishment of the particular obligation consists of one or more other commercial obligations issued by the person or partnership to the taxpayer, be deemed to be the amount determined by the formula

$$A \times \frac{(B - C)}{B}$$

where

A is the amount, if any, that would be the taxpayer's loss from the disposition of the particular obligation if this Act were read without reference to this paragraph,

B is the total fair market value of all the consideration given by the person or partnership for the settlement or extinguishment of the particular obligation, and

C is the total fair market value of the other obligations;

(*f*) a taxpayer's gain or loss from the disposition of

(i) a chance to win a prize or bet, or

(ii) a right to receive an amount as a prize or as winnings on a bet,

in connection with a lottery scheme or a pool system of betting referred to in section 205 of the *Criminal Code* is nil;

(*g*) a taxpayer's loss, if any, from the disposition of a property, to the extent that it is

(i) a superficial loss,

(ii) a loss from the disposition of a debt or other right to receive an amount, unless the debt or right, as the case may be, was acquired by the taxpayer for the purpose of gaining or producing income from a business or property (other than exempt income) or as consideration for the disposition of capital property to a person with whom the taxpayer was dealing at arm's length,

(iii) a loss from the disposition of any personal-use property of the taxpayer (other than listed personal property or a debt referred to in subsection 50(2)), or

(iv) a loss from the disposition of property to

(A) a trust governed by a deferred profit sharing plan, an employees profit sharing plan, a registered disability savings plan, a registered retirement income fund or a TFSA under which the taxpayer is a beneficiary or immediately after the disposition becomes a beneficiary, or

(B) a trust governed by a registered retirement savings plan under which the taxpayer or the taxpayer's spouse or common-law partner is an annuitant or becomes, within 60 days after the end of the taxation year, an annuitant,

is nil;

(*h*) where the taxpayer is a corporation, its loss otherwise determined from the disposition at any time in a taxation year of shares of the capital stock of a corporation (in this paragraph referred to as the "controlled corporation") that was controlled, directly or indirectly in any manner whatever, by it at any time in the year, is its loss therefrom otherwise determined less the amount, if any, by which

(i) all amounts added under paragraph 53(1)(*f*.1) to the cost to a corporation, other than the controlled corporation, of property disposed of to that corporation by the controlled corporation that were added to the cost of the property during the period while the controlled corporation was controlled by the taxpayer and that can reasonably be attributed to losses on the property that accrued during the period while the controlled corporation was controlled by the taxpayer,

exceeds

(ii) all amounts by which losses have been reduced by virtue of this paragraph in respect of dispositions before that time of shares of the capital stock of the controlled corporation; and

(*i*) where at a particular time a taxpayer has disposed of a share of the capital stock of a corporation that was at any time a prescribed venture capital corporation or a prescribed labour-sponsored venture capital corporation or a share of the capital stock of a taxable Canadian corporation that was held in a prescribed stock savings plan or of a property substituted for such a share, the taxpayer's loss from the disposition thereof shall be deemed to be the amount, if any, by which

(i) the loss otherwise determined

exceeds

(ii) the amount, if any, by which

(A) the amount of prescribed assistance that the taxpayer (or a person with whom the taxpayer was not dealing at arm's length) received or is entitled to receive in respect of the share

exceeds

(B) the total of all amounts determined under subparagraph (i) in respect of any disposition of the share or of the property substituted for the share before the particular time by the taxpayer or by a person with whom the taxpayer was not dealing at arm's length.

(*j*) [Repealed by 1986, c. 6, s. 18(3).]

History: S. 40(2)(*g*)(iv)(A) was replaced by S.C. 2008, c. 28, s. 5(1), applicable to the 2009 and subsequent taxation years. S. 40(2)(*g*)(iv)(A) formerly read:

"(A) a trust governed by a deferred profit sharing plan, an employees profit sharing plan, a registered disability savings plan or a registered retirement income fund under which the taxpayer is a beneficiary or immediately after the disposition becomes a beneficiary, or"

S. 40(2)(*g*)(iv)(A) was replaced by S.C. 2007, c. 35, s. 103, applicable to the 2008 and subsequent taxation years. S. 40(2)(*g*)(iv)(A) formerly read:

"(A) a trust governed by a deferred profit sharing plan, an employees profit sharing plan or a registered retirement income fund under which the taxpayer is a beneficiary or immediately after the disposition becomes a beneficiary, or"

S. 40(2)(*g*)(iv)(A) was amended by S.C. 2001, c. 17, s. 25(1), applicable to the 1998 and subsequent taxation years. S. 40(2)(*g*)(iv)(A) formerly read:

"(A) a trust governed by a plan or fund referred to in any of subparagraphs (*e*)(ii) to (iv) of the definition 'disposition' in section 54 under

which the taxpayer is a beneficiary or immediately after the disposition becomes a beneficiary, or"

S. 40(2)(*b*), subparagraph (i) of the description of D was amended by S.C. 2000, c. 12, Sched. 2, s. 1(f), applicable January 1, 2001, coming into force on July 31, 2000. S. 40(2), subparagraph (i) of the description of D formerly read:

"(i) where the acquisition date is before February 23, 1994 and the taxpayer or a spouse of the taxpayer elected under subsection 110.6(19) in respect of the property or an interest therein that was owned, immediately before the disposition, by the taxpayer, 4/3 of the lesser of

(A) the total of all amounts each of which is the taxable capital gain of the taxpayer or of a spouse of the taxpayer that would have resulted from an election by the taxpayer or spouse under subsection 110.6(19) in respect of the property or interest if

(I) this Act were read without reference to subsection 110.6(20), and

(II) the amount designated in the election were equal to the amount, if any, by which the fair market value of the property or interest at the end of February 22, 1994 exceeds the amount determined by the formula

E - 1.1F

where

E is the amount designated in the election that was made in respect of the property or interest, and

F is the fair market value of the property or interest at the end of February 22, 1994, and

(B) the total of all amounts each of which is the taxable capital gain of the taxpayer or of a spouse of the taxpayer that would have resulted from an election that was made under subsection 110.6(19) in respect of the property or interest if the property were the principal residence of neither the taxpayer nor the spouse for each particular taxation year unless the property was designated, in a return of income for the taxation year that includes February 22, 1994 or for a preceding taxation year, to be the principal residence of either of them for the particular taxation year, and"

S. 40(2)(*g*)(iv)(B) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(f), applicable January 1, 2001, coming into force on July 31, 2000. S. 40(2)(*g*)(iv)(B) formerly read:

"(B) a trust governed by a registered retirement savings plan under which the taxpayer or the taxpayer's spouse is an annuitant or becomes, within 60 days after the end of the taxation year, an annuitant,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 40(2)(*e*) was repealed by S.C. 1998, c. 19, s. 89(1), applicable subject to section 247 of this Bill (see Application below), to dispositions of property that occur after April 26, 1995. S. 40(2)(*e*) formerly read:

"(*e*) where the taxpayer is a corporation, its loss otherwise determined from the disposition of any property disposed of by it to

(i) a person by whom it was controlled, directly or indirectly in any manner whatever, or

(ii) a corporation that was controlled, directly or indirectly in any manner whatever, by a person described in subparagraph (i),

is nil;"

Sec. 247, Chap. 19, 1998

247. [*Exception to coming-into-force.*]

(1) Subsections 73(4), 74(5), subsection 18(13) of the Act, as enacted by subsection 79(2) and subsections 89(1), (2) and (6), 94(1) and (2), 95(1), 116(3) to (5), 120(1) and 124(1) and (2) do not apply to the disposition of property by a person or partnership (in this subsection and subsection (2) referred to as the "transferor") that occurred before 1996

(*a*) to a person who was obliged on April 26, 1995 to acquire the property pursuant to the terms of an agreement in writing made on or before that day; or

(*b*) in a transaction, or as part of a series of transactions, the arrangements for which, evidenced in writing, were substantially advanced before April 27, 1995, other than a transaction or series a main purpose of which can reasonably be considered to have been to enable an unrelated person to obtain the benefit of

(i) any deduction in computing income, taxable income, taxable income earned in Canada or tax payable under the Act, or

(ii) any balance of undeducted outlays, expenses or other amounts.

(2) Election. Notwithstanding subsection (1), subsection 18(13) of the Act, as enacted by subsection 79(2), and the other subsections of this Act referred to in subsection (1) apply to a disposition in respect of which the transferor has filed with the Minister of National Revenue before the end of the third month after the month in which this Act is assented to [Royal Assent June 18, 1998] an election in writing to have those subsections apply.

(3) Interpretation. For the purpose of subsection (1),

(*a*) a person shall be considered not to be obliged to acquire property where the person can be excused from the obligation if there is a change to the Act or if there is an adverse assessment under the Act;

(*b*) an "unrelated person" means any person who was not, or a partnership any member of which was not, related (otherwise than because of paragraph 251(5)(*b*) of the Act) to the transferor at the time of the disposition; and

(*c*) a person is deemed to be related to a partnership of which that person is a majority interest partner.

S. 40(2)(*h*)(i) was amended by S.C. 1998, c. 19, s. 89(2), applicable subject to section 247 of this Bill (see Application reproduced above), to dispositions of property that occur after April 26, 1995. S. 40(2)(*h*)(i) formerly read:

"(i) all amounts added under paragraph 53(1)(*f*.1) to the cost to another corporation of property disposed of to that corporation by the controlled corporation that were added to the cost of that property during the period that the controlled corporation was controlled by the taxpayer and that may reasonably be considered to be attributable to losses on the property that accrued during the period that the controlled corporation was controlled by the taxpayer,"

S. 40(2)(*e*.1) was added by S.C. 1995, c. 21, s. 11(2), applicable to dispositions that occur after July 12, 1994, other than dispositions pursuant to agreements in writing entered into before July 13, 1994.

S. 40(2)(*e*.2) was added by S.C. 1995, c. 21, s. 11(2), applicable to dispositions that occur after December 20, 1994, other than dispositions pursuant to agreements in writing entered into before December 21, 1994.

S. 40(2)(*b*) was amended by S.C. 1995, c. 3, s. 12(1), applicable to dispositions that occur after February 22, 1994. S. 40(2)(*b*) formerly read;

"(*b*) where the taxpayer is an individual, the taxpayer's gain for a taxation year from the disposition of a property that was the taxpayer's principal residence at any time after the date (in this section referred to as the 'acquisition date'), that is the later of December 31, 1971 and the day on which the taxpayer last acquired or reacquired it, as the case may be, is the taxpayer's gain therefrom for the year otherwise determined minus that proportion thereof that

(i) one plus the number of taxation years ending after the acquisition date for which the property was the taxpayer's principal residence and during which the taxpayer was resident in Canada,

is of

(ii) the number of taxation years ending after the acquisition date during which the taxpayer owned the property whether jointly with another person or otherwise;"

S. 40(2)(*i*)(ii) was amended by S.C. 1994, c. 21, s. 15(1), applicable to the 1991 and subsequent taxation years. S. 40(2)(*i*)(ii) formerly read:

"(ii) the amount, if any, by which the amount of any prescribed assistance in respect of the share received by the taxpayer or by a person with whom the taxpayer was not dealing at arm's length exceeds the total of all amounts each of which is an amount determined under subparagraph (i) in respect of any disposition of the share or of the property substituted for the share before the particular time by the taxpayer or by a person with whom the taxpayer was not dealing at arm's length."

Related Sections: S. 40(1) General rules; s. 40(4) Disposal of principal residence to spouse or trust for spouse; s. 53(2) Amounts to be deducted; s. 54, "principal residence", "superficial loss"; s. 69(5) Winding-up of corporation; s. 85(4) Loss from disposition to controlled corporation; s. 87(2)(*kk*) Disposition of shares of controlled corporation; s. 248(1), "disposition"; s. 256(5.1) Control in fact.

Regulations: 6700; 6700.1; 6700.2; 6701; 6702; 6705.

Interpretation Bulletins: *Primary* — IT-120R6 Principal Residence; IT-213R Prizes from lottery schemes, pool system betting and giveaway contests; IT-291R3 Transfer of property to a corporation under subsection 85(1); IT-239R2 Deductibility of capital losses from guaranteeing loans for inadequate consideration and from loaning funds at less than a reasonable rate of interest in non-arm's length circumstances [Archived by the CRA]. *Secondary* — IT-95R Foreign exchange gains and losses; IT-124R6 Contributions to registered retirement savings plans; IT-159R3 Capital debts established to be bad debts; IT-218R Profit, capital gains and losses from the sale of real estate, including farmland and inherited land and conversion of real estate from capital property to inventory and vice versa; IT-236R4 Reserves — Disposition of Capital Property [Archived by the CRA]; IT-268R4 Inter vivos transfer of farm property to child; IT-273R2 Government assistance — General comments; IT-373R2 (Consolid.) Woodlots; IT-404R Payments to lottery ticket vendors; IT-484R2 Business investment losses.

Tax Profile: January 2009 — Market Meltdown — Capital Loss Utilization; July 2007 — Canadian Tax Traps; May 2004 — The Stop-Loss Rules; March 2004 — Loss Utilization By Individuals.

Canadian Tax Foundation: Katz, De Lisser, and Haber, "The Principal Residence Exemption", *2001 Canadian Tax Journal*, No. 4, 990.

Cases: The taxpayers participated extensively in sports lotteries using a methodology that increased their potential payout and risk significantly. Although they lost 95% of the time, they had net winnings of $5,523,088. However, they were not professional gamblers who had a system to assess and minimize risks. The winnings were not business income but tax-exempt capital gains. *Leblanc et al. v. The Queen,* 2007 DTC 307 (T.C.C.).

The taxpayer was allowed to claim a capital loss on the disposition of non-interest bearing loans made to a corporation even though the taxpayer was a shareholder of the corporation for only part of the relevant time and a shareholder of its parent corporation for the rest of the time. There was still a connection to the dividend income generating stream. *The Queen v. Byram,* 99 DTC 5117 (F.C.A.), affirming 95 DTC 5069 (F.C.T.D.).

The taxpayer was not allowed to claim a capital loss on amounts paid to extricate several of its subsidiaries from U.S. partnerships and itself from guarantees in respect of the partnerships, because no property was disposed of. *The Cadillac Fairview Corporation Limited v. The Queen,* 99 DTC 5121 (F.C.A.), affirming 97 DTC 405 (T.C.C.).

The taxpayer met the objective test that her entire 32.75-acre parcel of land qualified for principal residence treatment. *Carlile v. The Queen,* 95 DTC 5483 (F.C.A.), reversing 93 DTC 5336 (F.C.T.D.).

The application date of the income earning test under s. 40(2)(*g*) was the date when a collateral was furnished by a taxpayer to a corporation to enable it to become successful again and pay dividends. The taxpayer could therefore deduct the capital loss arising from the insolvency of that corporation. *National Developments Ltd. v. The Queen,* 94 DTC 1061 (T.C.C.).

When the only reason for the taxpayer to have guaranteed the bank loan of a corporation incorporated for the benefit of his children was to facilitate the highly leveraged transfer of his business assets to his children, the taxpayer could not deduct a capital loss. *W. F. Botkin Construction Ltd. v. The Queen,* 93 DTC 448 (T.C.C.).

A taxpayer could claim the principal residence exemption on the sale of 8.9 acres of land which at the time of purchase in 1966 a zoning by-law had compelled him to buy in its entirety. He was not allowed at any time to retain the minimum lot size of 3 acres prevailing in 1966 and sell the remaining acres. *Augart v. The Queen,* 93 DTC 5205 (F.C.A.), reversing 92 DTC 6610 (F.C.T.D.).

► 40(3) ◄

(3) Deemed gain where amounts to be deducted from adjusted cost base exceed cost plus amounts to be added to adjusted cost base. Where

(*a*) the total of all amounts required by subsection 53(2) (except paragraph 53(2)(*c*)) to be deducted in computing the adjusted cost base to a taxpayer of any property at any time in a taxation year

exceeds

(*b*) the total of

(i) the cost to the taxpayer of the property determined for the purpose of computing the adjusted cost base to the taxpayer of that property at that time, and

(ii) all amounts required by subsection 53(1) to be added to the cost to the taxpayer of the property in computing the adjusted cost base to the taxpayer of that property at that time,

the following rules apply:

(*c*) subject to paragraph 93(1)(*b*), the amount of the excess shall be deemed to be a gain of the taxpayer for the year from a disposition at that time of the property,

(*d*) for the purposes of section 93, the definition "foreign accrual property income" in subsection 95(1) and section 110.6, the property shall be deemed to have been disposed of by the taxpayer in the year, and

(*e*) for the purposes of section 93, the amount of the excess shall be deemed to be proceeds of disposition of the property to the taxpayer.

History: S. 40(3), the portion following paragraph (*b*), was amended by S.C. 1994, c. 7, Sched. II, s. 23(1), applicable to the 1987 and subsequent taxation years. That portion formerly read:

"the amount of the excess shall be deemed to be a gain of the taxpayer for the year from a disposition at that time of that property and for the purposes of section 110.6, that property shall be deemed to have been disposed of by the taxpayer in the year."

Editorial Note: Subsections 53(1) and (2) provide additions and deductions, respectively, in the computation of the adjusted cost base of a capital property. Under subsection 40(3), if the deductions exceed the adjusted cost base (otherwise determined) and the additions, the difference is deemed to be a gain of the taxpayer from a disposition of the property. The rule under subsection 40(3) does not apply to deductions in computing the adjusted cost base of a partnership interest under paragraph 53(2)(*c*), although a similar rule applies under subsection 40(3.1) to interests of limited partners and specified members of a partnership.

Related Sections: S. 53 Adjustments to cost base — Deemed gain resulting from negative ACB.

Interpretation Bulletins: *Secondary* — IT-278R2 Death of a partner or of a retired partner.

Cases: The taxpayer received a cash payment for reducing his interest in a partnership. At the same time, one of the other partners increased its investment in the partnership by contributing capital so that the total capital of the partnership prior to and after these transactions was the same. The cash received by the taxpayer was not a distribution of capital but proceeds of disposition of an interest in the partnership. *Stursberg v. The Queen,* 93 DTC 5271 (F.C.A.), affirming 91 DTC 5607 (F.C.T.D.), and 90 DTC 1159 (T.C.C.).

► 40(3.1) ◄

(3.1) Deemed gain for certain partners. Where, at the end of a fiscal period of a partnership, a member of the partnership is a limited partner of the partnership, or is a member of the partnership who was a specified member of the partnership at all times since becoming a member, except where the member's partnership interest was held by the member on February 22, 1994 and is an excluded interest at the end of the fiscal period,

(*a*) the amount determined under subsection (3.11) is deemed to be a gain from the disposition, at the end of the fiscal period, of the member's interest in the partnership; and

(*b*) for the purpose of section 110.6, the interest is deemed to have been disposed of by the member at that time.

Department of Finance Comfort Letter
[Adjustment to ACB of Full Shield Limited Liability Partnership]

July 11, 2003

Dear XXXX:

Re: Limited Liability Partnerships

I am replying to your letter of October 3, 2002 and follow-up discussions with Departmental officials concerning the definition "limited partner" in the *Income Tax Act*. Your client is concerned that this definition does not provide an exception for all types of professional limited liability partnerships ("LLPs").

As you know, the definition "limited partner" in the *Income Tax Act* was amended in 2001, to provide an exception for partners of an LLP (applicable after 1997) in cases where the LLP legislation protects the partner from liability arising because of the negligence of another member of the LLP. You described such partnerships as "partial" shield LLPs. You note that another statutory model for LLPs exists under which LLP partners are provided a "full" shield from partnership liabilities (for example, from partnership account payables). You ask that the definition "limited partner" for income tax purposes be amended to provide an exception for partners who benefit from full shield LLP legislation.

As mentioned in our discussions, we have difficulty supporting your proposal. In particular, a partner's personal liability with respect to the operation of a full shield LLP business, including general debts of the LLP, is limited. As well, the partner can withdraw capital (or be allocated losses) such that the partner's interest in the LLP can become negative. It is precisely such circumstances to which the negative adjusted cost base rule and limited partnership at-risk loss rules are intended to apply. From a tax policy perspective, therefore, we see no

basis for distinguishing between the income tax treatment accorded a partner of a full shield professional LLP and that accorded a limited partner of another partnership.

However, in our discussions you also asked that, if we are unable to agree to your original request, that we consider allowing for an adjustment to the adjusted cost base (the "ACB") of a partner's interest in a full shield LLP for the income (loss) allocation made at the end of a fiscal period of the LLP rather than the current approach under which the adjustment is made immediately after the end of the fiscal period. The advantage of such a change for full shield LLP partners would be that an income allocation would be included in the ACB of a partner's LLP interest at the end of the fiscal period of the LLP for the purpose of applying the negative adjusted cost base rule in subsection 40(3.1) of the *Income Tax Act*.

In this regard, we are prepared to recommend to the Minister of Finance that, for the purposes of applying the negative adjusted cost base rule in subsection 40(3.1) of the *Income Tax Act*, the Act be amended to provide that the ACB of a full shield professional LLP be adjusted at the end of the fiscal period of the LLP to reflect income (loss) allocations made by the LLP at that time. If enacted, we would anticipate that such a change would apply to allocations of income (loss) made by full shield LLPs on or after December 1, 2001.

I trust that your client is in agreement with this approach to the matter and thank you for bringing this matter to my attention.

Yours sincerely,

Len Farber
General Director
Tax Legislation Division
Tax Policy Branch

History: S. 40(3.1) was amended by S.C. 1998, c. 19, s. 89(3), applicable after February 21, 1994, except that subsection 40(3.1) does not apply to a member of a partnership before the end of the partnership's fifth fiscal period that ends after 1994 if the following conditions are met:

(*a*) the member acquired the partnership interest before 1995;

(*b*) all or substantially all of the property (other than money) of the partnership is a film production or an interest in one or more partnerships all or substantially all of the property of which is a film production;

(*c*) the principal photography of the production (or, in the case of a production that is a television series, an episode of the series) began before 1995;

(*d*) the funds used to produce the film production were raised before 1995 and the principal photography of the production was completed, and the funds were expended, before 1995 (or, in the case of a film production prescribed for the purpose of subparagraph 96(2.2)(*d*)(ii) of the Act, the principal photography of the production was completed, and the funds were expended, before March 2, 1995); and

(*e*) one of the following conditions is met:

(i) the producer of the production

(A) had, before February 22, 1994, entered into a written agreement for the pre-production, distribution, broadcasting, financing or acquisition of the production or the acquisition of the screenplay for the production, or

(B) had entered into a written contract before February 22, 1994 with a screenwriter to write the screenplay for the production,

(ii) the producer of the production received before 1995 a commitment for funding or government assistance (or an advance ruling or active status letter in respect of eligibility for such funding or other government assistance) for the production from a federal or provincial government agency the mandate of which is related to the provision of assistance to film productions in Canada, or

(iii) the production is a continuation of a television series an episode of which satisfies the requirements of this paragraph. S. 40(3.1) formerly read:

"(3.1) *Deemed gain for certain partners.* Where, at the end of a fiscal period of a partnership, a member of the partnership is a limited partner of the partnership or is a member of the partnership who was a specified member of the partnership at all times since becoming a member (except where the member's partnership interest was held by the member on February 22, 1994 and is an excluded interest at the end of the fiscal period), the amount determined under subsection (3.11) shall be deemed to be a gain from the disposition, at the end of the fiscal period, of the member's interest in the partnership and, for the purpose of section 110.6, the interest shall be deemed to have been disposed of by the member at that time."

S. 40(3.1) was added by S.C. 1995, c. 3, s. 12(2). For its application, see S.C. 1995, c. 3, s. 12(6) below.

Editorial Note: A member of a partnership has a deemed gain equal to the negative ACB of its interest (as calculated in subsection (3.11)) if, at the end of the partnership's fiscal period, the member is either: (a) a limited partner, including pursuant to special rules in subsection (3.14) (special arrangements designed to limit liability or losses, other than LLPs); or (b) was at *all times since becoming a partner* a "specified member" of the partnership (basically inactive). Anti-avoidance rules (subsection 40(3.131)) may deem specified-partner-at-all-times status where such status is avoided to escape this subsection. The deemed gain is added to partnership ACB, per subparagraph 53(1)(*e*)(vi). Subsection 40(3.12) may provide relief where a positive partnership ACB subsequently arises. Grandfathering may apply for an interest held by the member on February 22, 1994, if it is an "excluded interest" per subsection (3.15), at the end of the fiscal period.

See also the Editorial Note to subsection 40(3).

Related Sections: S. 40(3) Deemed gain where amounts to be deducted from adjusted cost base exceed cost plus amounts to be added to adjusted cost base; s. 40(3.11) Amount of gain; s. 40(3.14) Limited partner; s. 40(3.15) Excluded interest; s. 248(1), "specified member".

Tax Topics: No. 1921, Ontario Limited Liability Partnerships — A Hidden Danger for Many Inventory.

Canadian Tax Foundation: Ewens, "Tax Issues Affecting Partnerships", *1997 Conference Report*, 8:1.

Sec. 12(6), Chap. 3, S.C. 1995

Sec. 12. [Application of subsection 40(3.1).]

(6) Subsection 40(3.1) applies after February 21, 1994, except that it does not apply to a member of a partnership before the end of the partnership's fifth fiscal period ending after 1994 where the following conditions are met:

(*a*) the member acquires the partnership interest before 1995;

(*b*) all or substantially all of the property (other than money) of the partnership is a film production or an interest in one or more partnerships all or substantially all of the property of which is a film production;

(*c*) the principal photography of the production (or, in the case of a television series, an episode of the series) commences before 1995;

(*d*) the funds used to produce the film production are raised before 1995 and the principal photography of the production is completed, and the funds are expended, before 1995 (or, in the case of a film production prescribed for the purpose of subparagraph 96(2.2)(*d*)(ii) of the Act, the principal photography of the production is completed, and the funds are expended, before March 2, 1995); and

(*e*) one of the following conditions is met:

(i) the producer of the production has, before February 22, 1994, entered into a written agreement for the pre-production, distribution, broadcasting, financing or acquisition of the production or the acquisition of the screenplay for the production (or has entered into a written contract before February 22, 1994 with a screenwriter to write the screenplay for the production),

(ii) the producer of the production receives before 1995 a commitment for funding or government assistance (or an advance ruling or active status letter in respect of eligibility for such funding or other government assistance) for the production from a federal or provincial government agency the mandate of which is related to the provision of assistance to film productions in Canada, or

(iii) the production is a continuation of a television series an episode of which satisfies the requirements of paragraph (*e*).

► 40(3.11) ◄

(3.11) Amount of gain. For the purpose of subsection (3.1), the amount determined at any time under this subsection in respect of a member's interest in a partnership is the amount determined by the formula

A – B

where

A is the total of all amounts required by subsection 53(2) to be deducted in computing the adjusted cost base to the member of the interest in the partnership at that time, and

B is the total of

(*a*) the cost to the member of the interest determined for the purpose of computing the adjusted cost base to the member of the interest at that time, and

(*b*) all amounts required by subsection 53(1) to be added to the cost to the member of the interest in computing the adjusted cost base to the member of the interest at that time.

History: S. 40(3.11) was added by S.C. 1995, c. 3, s. 12(2), applicable after February 21, 1994.

Editorial Note: Subsection 40(3.11) provides the calculation of negative ACB for the purpose of subsection 40(3.1). Since the gain is calculated at the end of the fiscal period of the partnership, the addition/reduction for current year income/loss is ignored, since these adjustments relate to income or loss "before that time" (see subparagraphs 53(1)(*e*)(i) and 53(2)(*c*)(i)). The lag relating to income may result in negative cost base, e.g., due to distributions during the year; consideration should be given to loans rather than distributions.

Related Sections: S. 40(3) Deemed gain where amounts to be deducted from adjusted cost base exceed cost plus amounts to be added to adjusted cost base.

► 40(3.12) ◄

(3.12) Deemed loss for certain partners. Where a corporation, an individual (other than a trust) or a testamentary trust (each of which is referred to in this subsection as the "taxpayer") is a member of a partnership at the end of a fiscal period of the partnership, the taxpayer shall be deemed to have a loss from the disposition at that time of the member's interest in the partnership equal to the amount that the taxpayer elects in the taxpayer's return of income under this Part for the taxation year that includes that time, not exceeding the lesser of

(*a*) the amount, if any, by which

(i) the total of all amounts each of which was an amount deemed by subsection (3.1) to be a gain of the taxpayer from a disposition of the interest before that time

exceeds

(ii) the total of all amounts each of which was an amount deemed by this subsection to be a loss of the taxpayer from a disposition of the interest before that time, and

(*b*) the adjusted cost base to the taxpayer of the interest at that time.

History: S. 40(3.12) was added by S.C. 1995, c. 3, s. 12(2), applicable after February 21, 1994.

Editorial Note: Subsection 40(3.12) provides limited relief from subsection 40(3.1): a corporation, individual or a testamentary trust which is a member of a partnership at the end of a fiscal period of the partnership may be able to elect to treat a positive adjusted cost base ("ACB") as a capital loss from the disposition of the partnership interest at that time. The loss may not exceed previous gains required to be reported under subsection 40(3.1) (in excess of previous losses claimed under subsection 40(3.12)). The loss (which reduces partnership ACB, per subparagraph 53(2)(*c*)(i.1)) may then be carried back pursuant to the normal rules. Subsection 40(3.13) provides rules against the artificial creation of cost base, e.g., where a loan is made by the partnership as part of a series of contributions to the partnership.

Related Sections: S. 40(3) Deemed gain where amounts to be deducted from adjusted cost base exceed cost plus amounts to be added to adjusted cost base.

► 40(3.13) ◄

(3.13) Artificial transactions. For the purpose of applying section 53 at any time to a member of a partnership who would be a member described in subsection (3.1) of the partnership if the fiscal period of the partnership that includes that time ended at that time, where at any time after February 21, 1994 the member of the partnership makes a contribution of capital to the partnership and

(*a*) the partnership or a person or partnership with whom the partnership does not deal at arm's length

(i) makes a loan to the member or to a person with whom the member does not deal at arm's length, or

(ii) pays an amount as, on account of, in lieu of payment of or in satisfaction of, a distribution of the member's share of the partnership profits or partnership capital, or

(*b*) the member or a person with whom the member does not deal at arm's length becomes indebted to the partnership or a person or partnership with whom the partnership does not deal at arm's length,

and it is established, by subsequent events or otherwise, that the loan, payment or indebtedness, as the case may be, was made or arose as part of a series of contributions and such loans, payments or other transactions, the contribution of capital shall be deemed not to have been made.

History: S. 40(3.13) was added by S.C. 1995, c. 3, s. 12(2), applicable after February 21, 1994.

► 40(3.131) ◄

(3.131) Specified member of a partnership. Where it can reasonably be considered that one of the main reasons that a member of a partnership was not a specified member of the partnership at all times since becoming a member of the partnership is to avoid the application of subsection (3.1) to the member's interest in the partnership, the member is deemed for the purpose of that subsection to have been a specified member of the partnership at all times since becoming a member of the partnership.

History: S. 40(3.131) of the Act was added by S.C. 1998, c. 19, s. 89(4), applicable after April 26, 1995.

► 40(3.14) ◄

(3.14) Limited partner. For the purpose of subsection (3.1), a member of a partnership at a particular time is a limited partner of the partnership at that time if, at that time or within 3 years after that time,

(*a*) by operation of any law governing the partnership arrangement, the liability of the member as a member of the partnership is limited (except by operation of a provision of a statute of Canada or a province that limits the member's liability only for debts, obligations and liabilities of the partnership, or any member of the partnership, arising from negligent acts or omissions or misconduct that another member of the partnership or an employee, agent or representative of the partnership commits in the course of the partnership business while the partnership is a limited liability partnership);

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 40(3.14)(*a*) of the English version of the Act is replaced by the following:

(*a*) by operation of any law governing the partnership arrangement, the liability of the member as a member of the partnership is limited (except by operation of a provision of a statute of Canada or a province that limits the member's liability only for debts, obligations and liabilities of the partnership, or any member of the partnership, arising from negligent acts or omissions, from misconduct or from fault of another member of the partnership or an employee, an agent or a representative of the partnership in the course of the partnership business while the partnership is a limited liability partnership);

Applicable: After June 20, 2001.

Explanatory Note:

Limited Partner

Subsection 40(3.1) of the Act provides that a member of a partnership is considered to realize a capital gain from the disposition, at the end of a fiscal period of the partnership, of the member's interest in the partnership where, at the end of the fiscal period, the member is a limited partner or was, since becoming a partner, a "specified member" of the partnership and the member's adjusted cost base of the interest is negative at that time.

Subsection 40(3.14) of the Act provides an extended definition of "limited partner" for the purpose of determining whether a member's interest in a partnership is subject to the negative adjusted cost base rule in subsection 40(3.1).

Paragraph 40(3.14)(*a*) provides that a member of a partnership is a "limited partner" if, by operation of law governing the partnership agreement, the liability of the member as a member is limited. However, paragraph 40(3.14)(*a*) does not apply in cases where a member's liability is limited by operation of a statutory provision of Canada (or of a province) that limits the member's liability only for the debts, obligations and liabilities of a limited liability partnership (or of any member of the partnership) arising from negligent acts or omissions of another member of the partnership (or of an employee, agent or representative of the partnership) in the course of the partnership business and while the partnership is a limited liability partnership.

The Province of Quebec has amended its legislation concerning partnerships to allow partners to carry on their activities within a limited liability partnership. That legislation refers to the civil law concept of "fault/fautes". Paragraph 40(3.14)(*a*) of the English version does not currently refer to the civil law concept of "fault" and is amended to do so, effective after June 20, 2001.

(*b*) the member or a person not dealing at arm's length with the member is entitled, either immediately or in the future and either absolutely or contingently, to receive an amount or to obtain a benefit that would be described in paragraph 96(2.2)(*d*) if that paragraph were read without reference to subparagraphs (ii) and (vi);

(*c*) one of the reasons for the existence of the member who owns the interest

(i) can reasonably be considered to be to limit the liability of any person with respect to that interest, and

(ii) cannot reasonably be considered to be to permit any person who has an interest in the member to carry on the person's business (other than an investment business) in the most effective manner; or

(*d*) there is an agreement or other arrangement for the disposition of an interest in the partnership and one of the main reasons for the agreement or arrangement can reasonably be considered to be to attempt to avoid the application of this subsection to the member.

History: S. 40(3.14)(*a*) was amended by S.C. 2001, c. 17, s. 25(2), applicable after 1997. S. 40(3.14)(*a*) formerly read:

"(*a*) by operation of any law governing the partnership arrangement, the liability of the member as a member of the partnership is limited;"

S. 40(3.14)(*b*) was amended by S.C. 1998, c. 19, s. 89(6), applicable to fiscal periods that end after November 1994. S. 40(3.14)(*b*) formerly read:

"(*b*) the member or a person with whom the member does not deal at arm's length is entitled to receive an amount or obtain a benefit that would be described in paragraph 96(2.2)(*d*) if it were read without reference to subparagraphs 96(2.2)(*d*)(ii) and (vi);"

S. 40(3.14) was added by S.C. 1995, c. 3, s. 12(2), applicable after February 21, 1994.

Tax Topics: No. 1921, Ontario Limited Liability Partnerships — A Hidden Danger for Many Inventory.

► 40(3.15) ◄

(3.15) Excluded interest. For the purpose of subsection (3.1), an excluded interest in a partnership at any time means an interest in a partnership that actively carries on a business that was carried on by it throughout the period beginning February 22, 1994 and ending at that time, or that earns income from a property that was owned by it throughout that period, unless in that period there was a substantial contribution of capital to the partnership or a substantial increase in the indebtedness of the partnership.

History: S. 40(3.15) was added by S.C. 1995, c. 3, s. 12(2), applicable after February 21, 1994.

Editorial Note: This subsection may provide grandfathering relief from subsection 40(3.1) in respect of an "excluded interest". In addition to the requirements in subsection (3.1) itself, the partnership interest must be held by the member on February 22, 1994. There are only limited provisions for successor members (see subsection 40(3.18)). There is additional grandfathering in subsection (3.16), pursuant to which amounts will not be considered to be substantial. These largely relate to agreements or offering documents entered into or filed before February 22, 1994; however, paragraph 40(3.16)(*d*) stipulates that an amount will not be considered to be substantial where it was used for an activity that was carried on by the partnership on February 22, 1994, other than a "significant expansion" of the activity.

Related Sections: S. 40(3) Deemed gain where amounts to be deducted from adjusted cost base exceed cost plus amounts to be added to adjusted cost base.

► 40(3.16) ◄

(3.16) Amounts considered not to be substantial. For the purpose of subsection (3.15), an amount will be considered not to be substantial where

(*a*) the amount

(i) was raised pursuant to the terms of a written agreement entered into by a partnership before February 22, 1994 to issue an interest in the partnership and was expended on expenditures contemplated by the agreement before 1995 (or before March 2, 1995 in the case of amounts expended to acquire a film production prescribed for the purpose of subparagraph 96(2.2)(*d*)(ii) the principal photography of which or, in the case of such a production that is a television series, one episode of the series, commences before 1995 and the production is completed before March 2, 1995, or an interest in one or more partnerships

all or substantially all of the property of which is such a film production),

(ii) was raised pursuant to the terms of a written agreement (other than an agreement referred to in subparagraph (i)) entered into by a partnership before February 22, 1994 and was expended on expenditures contemplated by the agreement before 1995 (or before March 2, 1995 in the case of amounts expended to acquire a film production prescribed for the purpose of subparagraph 96(2.2)(*d*)(ii) the principal photography of which or, in the case of such a production that is a television series, one episode of the series, commences before 1995 and the production is completed before March 2, 1995, or an interest in one or more partnerships all or substantially all of the property of which is such a film production),

(iii) was used by the partnership before 1995 (or before March 2, 1995 in the case of amounts expended to acquire a film production prescribed for the purpose of subparagraph 96(2.2)(*d*)(ii) the principal photography of which or, in the case of such a production that is a television series, one episode of the series, commences before 1995 and the production is completed before March 2, 1995, or an interest in one or more partnerships all or substantially all of the property of which is such a film production) to make an expenditure required to be made pursuant to the terms of a written agreement entered into by the partnership before February 22, 1994, or

(iv) was used to repay a loan, debt or contribution of capital that had been received or incurred in respect of any such expenditure;

(*b*) the amount was raised before 1995 pursuant to the terms of a prospectus, preliminary prospectus, offering memorandum or registration statement filed before February 22, 1994 with a public authority in Canada pursuant to and in accordance with the securities legislation of Canada or of a province and, where required by law, accepted for filing by the public authority, and expended before 1995 (or before March 2, 1995 in the case of amounts expended to acquire a film production prescribed for the purpose of subparagraph 96(2.2)(*d*)(ii), or an interest in one or more partnerships all or substantially all of the property of which is such a film production) on expenditures contemplated by the document that was filed before February 22, 1994;

(*c*) the amount was raised before 1995 pursuant to the terms of an offering memorandum distributed as part of an offering of securities where

(i) the memorandum contained a complete or substantially complete description of the securities contemplated in the offering as well as the terms and conditions of the offering,

(ii) the memorandum was distributed before February 22, 1994,

(iii) solicitations in respect of the sale of the securities contemplated by the memorandum were made before February 22, 1994,

(iv) the sale of the securities was substantially in accordance with the memorandum, and

(v) the funds are expended in accordance with the memorandum before 1995 (except that the funds may be expended before March 2, 1995 in the case of a partnership all or substantially all of the property of which is a film production prescribed for the purpose of subparagraph 96(2.2)(*d*)(ii) the principal photography of which or, in the case of such a production that is a television series, one episode of the series, commences before 1995 and the production is completed before March 2, 1995, or an interest in one or more partnerships all or substantially all of the property of which is such a film production); or

(*d*) the amount was used for an activity that was carried on by the partnership on February 22, 1994 but not for a significant expansion of the activity nor for the acquisition or production of a film production.

History: S. 40(3.16) was added by S.C. 1995, c. 3, s. 12(2), applicable after February 21, 1994.

► 40(3.17) ◄

(3.17) Whether carrying on business before February 22, 1994. For the purpose of subsection (3.15), a partnership in respect of which paragraph (3.16)(*a*), (*b*) or (*c*) applies shall be considered to have actively carried on the business, or earned income from the property, contemplated in the document referred to in that paragraph throughout the period beginning February 22, 1994 and ending on the earlier of the closing date, if any, stipulated in the document and January 1, 1995.

History: S. 40(3.17) was added by S.C. 1995, c. 3, s. 12(2), applicable after February 21, 1994.

► 40(3.18) ◄

(3.18) Deemed partner. For the purpose of subsection (3.1), a member of a partnership who acquired an interest in the partnership after February 22, 1994 shall be deemed to have held the interest on February 22, 1994 where the member acquired the interest

(*a*) in circumstances in which

(i) paragraph 70(6)(*d.1*) applied,

(ii) where the member is an individual, the member's spouse or common-law partner held the partnership interest on February 22, 1994,

(iii) where the member is a trust, the taxpayer by whose will the trust was created held the partnership interest on February 22, 1994, and

(iv) the partnership interest was, immediately before the death of the spouse or common-law partner or the taxpayer, as the case may be, an excluded interest;

(*b*) in circumstances in which

(i) paragraph 70(9.2)(*c*) applied,

(ii) the member's parent held the partnership interest on February 22, 1994, and

(iii) the partnership interest was, immediately before the parent's death, an excluded interest;

(*c*) in circumstances in which

(i) paragraph 70(9.3)(*e*) applied,

(ii) the trust referred to in subsection 70(9.3) or the taxpayer by whose will the trust was created held the partnership interest on February 22, 1994, and

(iii) the partnership interest was, immediately before the death of the spouse or common-law partner referred to in subsection 70(9.3), an excluded interest; or

(*d*) before 1995 pursuant to a document referred to in subparagraph (3.16)(*a*)(i) or paragraph (3.16)(*b*) or (*c*).

History: S. 40(3.18)(*a*)(ii) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(f), applicable January 1, 2001, coming into force on July 31, 2000. S. 40(3.18)(*a*)(ii) formerly read:

"(ii) where the member is an individual, the member's spouse held the partnership interest on February 22, 1994,"

S. 40(3.18)(*a*)(iv) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(f), applicable January 1, 2001, coming into force on July 31, 2000. S. 40(3.18)(*a*)(iv) formerly read:

"(iv) the partnership interest was, immediately before the death of the spouse or the taxpayer, as the case may be, an excluded interest;"

S. 40(3.18)(*c*)(iii) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(f), applicable January 1, 2001, coming into force on July 31, 2000. S. 40(3.18)(*c*)(iii) formerly read:

"(iii) the partnership interest was, immediately before the death of the spouse referred to in subsection 70(9.3), an excluded interest; or"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 40(3.18) was added by S.C. 1995, c. 3, s. 12(2), applicable after February 21, 1994.

► 40(3.19) ◄

(3.19) Non-application of subsection (3). Subsection (3) does not apply in any case where subsection (3.1) applies.

History: S. 40(3.19) was added by S.C. 1995, c. 3, s. 12(2), applicable after February 21, 1994.

► 40(3.2) ◄

(3.2) Non-application of subsection (3.1). Subsection (3.1) does not apply in any case where paragraph 98(1)(*c*) or 98.1(1)(*c*) applies.

History: S. 40(3.2) was added by S.C. 1995, c. 3, s. 12(2), applicable after February 21, 1994.

► 40(3.3) ◄

(3.3) When subsection (3.4) applies. Subsection (3.4) applies when

(*a*) a corporation, trust or partnership (in this subsection and subsection (3.4) referred to as the "transferor") disposes of a particular capital property (other than depreciable property of a prescribed class) otherwise than in a disposition described in any of paragraphs (*c*) to (*g*) of the definition "superficial loss" in section 54;

(*b*) during the period that begins 30 days before and ends 30 days after the disposition, the transferor or a person affiliated with the transferor acquires a property (in this subsection and subsection (3.4) referred to as the "substituted property") that is, or is identical to, the particular property; and

(*c*) at the end of the period, the transferor or a person affiliated with the transferor owns the substituted property.

History: S. 40(3.3) was added by S.C. 1998, c. 19, s. 89(6), applicable subject to section 247 of this Bill, (see Application below), to dispositions of property that occur after April 26, 1995.

Sec. 247, Chap. 19, 1998

247. [*Exception to coming-into-force.*]

(1) Subsections 73(4), 74(5), subsection 18(13) of the Act, as enacted by subsection 79(2) and subsections 89(1), (2) and (6), 94(1) and (2), 95(1), 116(3) to (5), 120(1) and 124(1) and (2) do not apply to the disposition of property by a person or partnership (in this subsection and subsection (2) referred to as the "transferor") that occurred before 1996

(*a*) to a person who was obliged on April 26, 1995 to acquire the property pursuant to the terms of an agreement in writing made on or before that day; or

(*b*) in a transaction, or as part of a series of transactions, the arrangements for which, evidenced in writing, were substantially advanced before April 27, 1995, other than a transaction or series a main purpose of which can reasonably be considered to have been to enable an unrelated person to obtain the benefit of

(i) any deduction in computing income, taxable income, taxable income earned in Canada or tax payable under the Act, or

(ii) any balance of undeducted outlays, expenses or other amounts.

(2) Election. Notwithstanding subsection (1), subsection 18(13) of the Act, as enacted by subsection 79(2), and the other subsections of this Act referred to in subsection (1) apply to a disposition in respect of which the transferor has filed with the Minister of National Revenue before the end of the third month after the month in which this Act is assented to [Royal Assent June 18, 1998] an election in writing to have those subsections apply.

(3) Interpretation. For the purpose of subsection (1),

(*a*) a person shall be considered not to be obliged to acquire property where the person can be excused from the obligation if there is a change to the Act or if there is an adverse assessment under the Act;

(*b*) an "unrelated person" means any person who was not, or a partnership any member of which was not, related (otherwise than because of paragraph 251(5)(*b*) of the Act) to the transferor at the time of the disposition; and

(*c*) a person is deemed to be related to a partnership of which that person is a majority interest partner.

Editorial Note: Similar stop-loss rules are found in subsection 13(21.2) for dispositions of depreciable capital property, subsection 14(12) for dispositions of eligible capital property, and subsection 18(15) for property held in an adventure or concern in the nature of trade.

Tax Profile: January 2009 — Market Meltdown → Capital Loss Utilization; May 2004 — The Stop-Loss Rules.

► 40(3.4) ◄

(3.4) Loss on certain properties. If this subsection applies because of subsection (3.3) to a disposition of a particular property,

(*a*) the transferor's loss, if any, from the disposition is deemed to be nil, and

(*b*) the amount of the transferor's loss, if any, from the disposition (determined without reference to paragraph (2)(*g*) and this subsection) is deemed to be a loss of the transferor from a disposition of the particular property at the time that is immediately before the first time, after the disposition,

(i) at which a 30-day period begins throughout which neither the transferor nor a person affiliated with the transferor owns

(A) the substituted property, or

(B) a property that is identical to the substituted property and that was acquired after the day that is 31 days before the period begins,

(ii) at which the property would, if it were owned by the transferor, be deemed by section 128.1 or subsection 149(10) to have been disposed of by the transferor,

(iii) that is immediately before control of the transferor is acquired by a person or group of persons, where the transferor is a corporation,

(iv) at which the transferor or a person affiliated with the transferor is deemed by section 50 to

have disposed of the property, where the substituted property is a debt or a share of the capital stock of a corporation, or

(v) at which the winding-up of the transferor begins (other than a winding-up to which subsection 88(1) applies), where the transferor is a corporation,

and, for the purpose of paragraph (*b*), where a partnership otherwise ceases to exist at any time after the disposition, the partnership is deemed not to have ceased to exist, and each person who was a member of the partnership immediately before the partnership would, but for this subsection, have ceased to exist is deemed to remain a member of the partnership, until the time that is immediately after the first time described in subparagraphs (*b*)(i) to (v).

History: S. 40(3.4) was added by S.C. 1998, c. 19, s. 89(6), applicable subject to section 247 of this Bill, (see Application below), to dispositions of property that occur after April 26, 1995.

Sec. 247, Chap. 19, 1998

247. [*Exception to coming-into-force.*]

(1) Subsections 73(4), 74(5), subsection 18(13) of the Act, as enacted by subsection 79(2) and subsections 89(1), (2) and (6), 94(1) and (2), 95(1), 116(3) to (5), 120(1) and 124(1) and (2) do not apply to the disposition of property by a person or partnership (in this subsection and subsection (2) referred to as the "transferor") that occurred before 1996

(*a*) to a person who was obliged on April 26, 1995 to acquire the property pursuant to the terms of an agreement in writing made on or before that day; or

(*b*) in a transaction, or as part of a series of transactions, the arrangements for which, evidenced in writing, were substantially advanced before April 27, 1995, other than a transaction or series a main purpose of which can reasonably be considered to have been to enable an unrelated person to obtain the benefit of

(i) any deduction in computing income, taxable income earned in Canada or tax payable under the Act, or

(ii) any balance of undeducted outlays, expenses or other amounts.

(2) Election. Notwithstanding subsection (1), subsection 18(13) of the Act, as enacted by subsection 79(2), and the other subsections of this Act referred to in subsection (1) apply to a disposition in respect of which the transferor has filed with the Minister of National Revenue before the end of the third month after the month in which this Act is assented to [Royal Assent June 18, 1998] an election in writing to have those subsections apply.

(3) Interpretation. For the purpose of subsection (1),

(*a*) a person shall be considered not to be obliged to acquire property where the person can be excused from the obligation if there is a change to the Act or if there is an adverse assessment under the Act;

(*b*) an "unrelated person" means any person who was not, or a partnership any member of which was not, related (otherwise than because of paragraph 251(5)(*b*) of the Act) to the transferor at the time of the disposition; and

(*c*) a person is deemed to be related to a partnership of which that person is a majority interest partner.

Editorial Note: The stop-loss rules in subsection 40(3.4) do not apply to individuals other than trusts. However, the superficial loss rules may apply to individuals (paragraph 40(2)(*g*); section 54 "superficial loss").

Related Sections: S. 13(21.2) Loss on certain transfers; s. 14(12) Loss on certain transfers; s. 18(15) Loss on certain properties; s. 40(3.5) Deemed identical property; s. 256(7) Acquiring control; s. 256(8) Deemed exercise of right.

Interpretation Bulletins: *Secondary* — IT-291R3 Transfer of property to a corporation under subsection 85(1).

Tax Profile: January 2009 — Market Meltdown — Capital Loss Utilization; May 2004 — The Stop-Loss Rules.

Cases: Subsection 40(3.4) did not apply to deny a capital loss where the taxpayer sold shares to an affiliated corporation as part of a restructuring. The condition in s. 40(3.3)(*c*) was not met since, at the end of the 61-day period, the shares no longer existed as a result of a merger. *Cascades Inc. v. The Queen,* 2008 DTC 2387 (T.C.C.).

► 40(3.5) ◄

(3.5) Deemed identical property. For the purposes of subsections (3.3) and (3.4),

(*a*) a right to acquire a property (other than a right, as security only, derived from a mortgage, hypothec, agreement for sale or similar obligation) is deemed to be a property that is identical to the property;

(*b*) a share of the capital stock of a corporation that is acquired in exchange for another share in a transaction to which section 51, 85.1, 86 or 87 applies is deemed to be a property that is identical to the other share;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 40(3.5)(*b*) of the Act is replaced by the following:

(*b*) a share of the capital stock of a corporation that is acquired in exchange for another share in a transaction is deemed to be a property that is identical to the other share if

(i) section 51, 86, or 87 applies to the transaction, or

(ii) the following conditions are met, namely,

(A) section 85.1 applies to the transaction,

(B) subsection (3.4) applied to a prior disposition of the other share, and

(C) none of the times described in any of subparagraphs (3.4)(*b*)(i) to (v) has occurred in respect of the prior disposition;

Applicable: To dispositions of property that occur after April 26, 1995, except that it does not apply to any of those dispositions by a person or partnership that occurred before 1996 and that is described in subsection 247(1) of the *Income Tax Amendments Act, 1997* unless the person or partnership, as the case may be, made a valid election under subsection 247(2) of that Act.

Explanatory Note:

Deemed Identical Property

Subsections 40(3.3) and (3.4) of the Act set out rules under which losses on certain dispositions of non-depreciable capital property are deferred. In some cases, the application of these rules is contingent upon whether one property is identical to the disposed of non-depreciable capital property.

Current paragraph 40(3.5)(*b*) treats a share that is acquired in exchange for another share under any of a number of sections as being identical to that other share. One of the effects of this deeming rule is to ensure that a deferred loss is not inappropriately realized through a transaction under one of those sections.

For example, assume that a taxpayer, who on Day 1 disposed of a share for proceeds that were less than the taxpayer's adjusted cost base of the share, reacquired an identical share on Day 15. Under the loss-deferral rules, the taxpayer's loss on the disposition will be deferred until, generally, neither the taxpayer nor an affiliated person owns such a share. If the taxpayer then exchanged that share for another, under for example an exchange under section 86 of the Act, it would be appropriate to continue to defer recognition of the deferred loss until that substituted share is disposed of. This is accomplished by treating the share acquired on the exchange as identical to the share given up.

However, paragraph 40(3.5)(*b*) can have an inappropriate effect where a taxpayer uses the share-for-share exchange rule in section 85.1 of the Act. Provided certain criteria are satisfied, that section permits a share-for-share exchange to take place on a tax-deferred basis, but it also allows the exchanging shareholder to realize a loss. A shareholder who chooses to do so may find that paragraph 40(3.5)(*b*) forces a deferral of that loss — even though the loss arises from the section 85.1 exchange itself, not from a previous disposition as in the above example.

Paragraph 40(3.5)(*b*) is amended to deem a share that is acquired in exchange for another share under section 85.1 to be identical to that other share only if the loss in respect of the exchanged share is suspended at the time of the exchange by virtue of subsections 40(3.3) and (3.4).

This amendment to paragraph 40(3.5)(*b*) applies to dispositions of property that occur after April 26, 1995, subject to the coming-into-force provisions that originally enacted subsection 40(3.5).

(*b.1*) a share of the capital stock of a SIFT wind-up corporation in respect of a SIFT wind-up entity is, if the share was acquired before 2013, deemed to be a property that is identical to equity in the SIFT wind-up entity;

(*c*) where subsections (3.3) and (3.4) apply to the disposition by a transferor of a share of the capital stock of a corporation, and after the disposition the corporation is merged with one or more other corporations, otherwise than in a transaction in respect of which paragraph (*b*) applies to the share, or is wound up in a winding-up to which subsection 88(1) applies, the corporation formed on the merger or the parent (within the meaning assigned by subsection 88(1)), as the case may be, is deemed to own the share while it is affiliated with the transferor; and

(*d*) where subsections (3.3) and (3.4) apply to the disposition by a transferor of a share of the capital stock of a corporation, and after the disposition the share is redeemed, acquired or cancelled by the corporation, otherwise than in a transaction in respect of which paragraph (*b*) or (*c*) applies to the share, the transferor is deemed to own the share while the corporation is affiliated with the transferor.

History: S. 40(3.5)(*b.1*) was added by S.C. 2009, c. 2, s. 10(1), applicable to dispositions that occur on or after November 28, 2008.

S. 40(3.5)(*a*) was amended by S.C. 2001, c. 17, s. 205, applicable on Royal Assent, June 14, 2001. S. 40(3.5)(*a*) formerly read:

"(*a*) a right to acquire a property (other than a right, as security only, derived from a mortgage, agreement for sale or similar obligation) is deemed to be a property that is identical to the property;"

S. 40(3.5) was added by S.C. 1998, c. 19, s. 89(6), applicable subject to section 247 of this Bill, (see Application below), to dispositions of property that occur after April 26, 1995.

Sec. 247, Chap. 19, 1998

247. [*Exception to coming-into-force.*]

(1) Subsections 73(4) [amendment of subsection 13(21.1) and the addition of subsection 13(21.2)], 74(5) [addition of subsections 14(12) and (13)], subsection 18(13) of the Act, as enacted by subsection 79(2) and subsections 89(1) [repeal of paragraph 40(2)(*e*)], (2) [amendment to subparagraph 40(2)(*h*)(i)] and (6) [addition of subsections 40(3.3)–(3.6)], 94(1) [amendments to paragraphs 53(1)(*f.1*) and (*f.11*)] and (2) [amendment to paragraph 53(1)(*f.2*)], 95(1) [amendment to definition "superficial loss" in section 54], 116(3) to (5) [repeal of subsections 85(4) and (5.1), and amendment to subsection 85(5)], 120(1) [amendment to subsection 93(4)] and 124(1) [amendment to subsection 97(2)] and (2) [repeal of subsections 97(3) and (3.1)] do not apply to the disposition of property by a person or partnership (in this subsection and subsection (2) referred to as the "transferor") that occurred before 1996

(*a*) to a person who was obliged on April 26, 1995 to acquire the property pursuant to the terms of an agreement in writing made on or before that day; or

(*b*) in a transaction, or as part of a series of transactions, the arrangements for which, evidenced in writing, were substantially advanced before April 27, 1995, other than a transaction or series a main purpose of which can reasonably be considered to have been to enable an unrelated person to obtain the benefit of

(i) any deduction in computing income, taxable income, taxable income earned in Canada or tax payable under the Act, or

(ii) any balance of undeducted outlays, expenses or other amounts.

(2) Election. Notwithstanding subsection (1), subsection 18(13) of the Act, as enacted by subsection 79(2), and the other subsections of this Act referred to in subsection (1) apply to a disposition in respect of which the transferor has filed with the Minister of National Revenue before the end of the third month after the month in which this Act is assented to [Royal Assent June 18, 1998] an election in writing to have those subsections apply.

(3) Interpretation. For the purpose of subsection (1),

(*a*) a person shall be considered not to be obliged to acquire property where the person can be excused from the obligation if there is a change to the Act or if there is an adverse assessment under the Act;

(*b*) an "unrelated person" means any person who was not, or a partnership any member of which was not, related (otherwise than because of paragraph 251(5)(*b*) of the Act) to the transferor at the time of the disposition; and

(*c*) a person is deemed to be related to a partnership of which that person is a majority interest partner.

► 40(3.6) ◄

(3.6) Loss on shares. Where at any time a taxpayer disposes, to a corporation that is affiliated with the taxpayer immediately after the disposition, of a share of a class of the capital stock of the corporation (other than a share that is a distress preferred share as defined in subsection 80(1)),

(*a*) the taxpayer's loss, if any, from the disposition is deemed to be nil; and

(*b*) in computing the adjusted cost base to the taxpayer after that time of a share of a class of the capital stock of the corporation owned by the taxpayer immediately after the disposition, there shall be added the proportion of the amount of the taxpayer's loss from the disposition (determined without reference to paragraph (2)(g) and this subsection) that

(i) the fair market value, immediately after the disposition, of the share

is of

(ii) the fair market value, immediately after the disposition, of all shares of the capital stock of the corporation owned by the taxpayer.

History: S. 40(3.6) was added by S.C. 1998, c. 19, s. 89(6), applicable subject to section 247 of this Bill, (see Application below), to dispositions of property that occur after April 26, 1995.

Sec. 247, Chap. 19, 1998

247. [*Exception to coming-into-force.*]

(1) Subsections 73(4), 74(5), subsection 18(13) of the Act, as enacted by subsection 79(2) and subsections 89(1), (2) and (6), 94(1) and (2), 95(1), 116(3) to (5), 120(1) and 124(1) and (2) do not apply to the disposition of property by a person or partnership (in this subsection and subsection (2) referred to as the "transferor") that occurred before 1996

(*a*) to a person who was obliged on April 26, 1995 to acquire the property pursuant to the terms of an agreement in writing made on or before that day; or

(*b*) in a transaction, or as part of a series of transactions, the arrangements for which, evidenced in writing, were substantially advanced before April 27, 1995, other than a transaction or series a main purpose of which can reasonably be considered to have been to enable an unrelated person to obtain the benefit of

(i) any deduction in computing income, taxable income, taxable income earned in Canada or tax payable under the Act, or

(ii) any balance of undeducted outlays, expenses or other amounts.

(2) Election. Notwithstanding subsection (1), subsection 18(13) of the Act, as enacted by subsection 79(2), and the other subsections of this Act referred to in subsection (1) apply to a disposition in respect of which the transferor has filed with the Minister of National Revenue before the end of the third month after the month in which this Act is assented to [Royal Assent June 18, 1998] an election in writing to have those subsections apply.

(3) Interpretation. For the purpose of subsection (1),

(*a*) a person shall be considered not to be obliged to acquire property where the person can be excused from the obligation if there is a change to the Act or if there is an adverse assessment under the Act;

(*b*) an "unrelated person" means any person who was not, or a partnership any member of which was not, related (otherwise than because of paragraph 251(5)(*b*) of the Act) to the transferor at the time of the disposition; and

(*c*) a person is deemed to be related to a partnership of which that person is a majority interest partner.

Tax Topics: No. 1582, Estate Planning in the 21st Century.
Tax Profile: May 2004 — The Stop-Loss Rules.
Canadian Tax Foundation: Kopstein and Pantry, "Subparagraph 212(1)(b)(vii) Withholding Tax Exemption", *2005 Conference Report*, 15:1; Everett and Ireland, "Impact of the Proposed New Stop-Loss Rules", *1997 Conference Report*, 17:1.

► 40(3.61) ◄

(3.61) Exception — estate loss carried back. If, in the course of administering the estate of a deceased taxpayer, the taxpayer's legal representative elects in accordance with subsection 164(6) to treat all or any portion of the estate's capital loss (determined without reference to subsections (3.4) and (3.6)) from the disposition of a share of the capital stock of a corporation as a capital loss of the deceased taxpayer from the disposition of the share, subsections (3.4) and (3.6) apply to the estate in respect of the loss only to the extent that the amount of the loss exceeds the portion of the loss to which the election applies.

History: S. 40(3.61) was added by S.C. 2005, c. 19, s. 13(1), applicable to losses from dispositions that occur or occurred after March 22, 2004.

► 40(3.7) ◄

(3.7) Losses of non-resident. If an individual disposes of a property at any time after having ceased to be resident in Canada, for the purposes of applying subsections 100(4), 107(1) and 112(3) to (3.32) and (7) in computing the individual's loss from the disposition,

(*a*) the individual is deemed to be a corporation in respect of dividends received by the individual, or deemed under Part XIII to have been paid to the individual, at a particular time that is after the time at which the individual last acquired the property and at which the individual was non-resident; and

(*b*) an amount on account of

(i) each taxable dividend received by the individual at a particular time described in paragraph (*a*), and

(ii) each amount deemed under Part XIII to have been paid to the individual at a particular time described in paragraph (*a*), as a dividend from a corporation resident in Canada, to the extent that the amount can reasonably be considered to relate to the property,

is deemed to be a taxable dividend that was received by the individual and that was deductible under section 112 in computing the individual's taxable income or taxable income earned in Canada for the taxation year that includes that particular time.

History: S. 40(3.7) was added by S.C. 2001, c. 17, s. 25(3), applicable to dispositions after December 23, 1998 by individuals who cease to be resident in Canada after October 1, 1996.

Related Sections: S. 212(2) Tax on dividends.
Tax Profile: December 2008 — Tax Planning for Emigration from Canada to the United States.

► 40(4) ◄

(4) Disposal of principal residence to spouse or trust for spouse. Where a taxpayer has, after 1971, disposed of property to an individual in circumstances to which subsection 70(6) or 73(1) applied, for the purposes of computing the individual's gain from the disposition of the property under paragraph (2)(*b*) or (*c*), as the case may be,

(*a*) the individual shall be deemed to have owned the property throughout the period during which the taxpayer owned it;

(*b*) the property shall be deemed to have been the individual's principal residence

(i) in any case where subsection 70(6) is applicable, for any taxation year for which it would, if the taxpayer had designated it in prescribed manner to have been the taxpayer's principal residence for that year, have been the taxpayer's principal residence, and

(ii) in any case where subsection 73(1) is applicable, for any taxation year for which it was the taxpayer's principal residence; and

(*c*) where the individual is a trust, the trust shall be deemed to have been resident in Canada during each taxation year during which the taxpayer was resident in Canada.

Editorial Note: The general effect of subsection 40(4) is that, for the purposes of the principal residence exemption, the transferee spouse or trust inherits the transferor's years of ownership of the residence and the years of qualifying principal residence status.

Interpretation Bulletins: *Secondary* — IT-120R6 Principal residence.
Forms: T1255.

► 40(5) ◄

(5) Where principal residence is property of trust for spouse. [Repealed by S.C. 1994, c. 7, Sched. VIII, s. 12(1).]

History: S. 40(5) was repealed by S.C. 1994, c. 7, Sched. VIII, s. 12(1), applicable to dispositions occurring after 1990. S. 40(5) formerly read:

"(5) *Where principal residence is property of trust for spouse.* For the purposes of determining whether any property of a trust described in subsection 70(6) or 73(1) was its principal residence for any taxation year, the reference in paragraph (*a*) of the definition 'principal residence' in section 54 to 'the taxpayer' shall be read as if it were a reference to the spouse referred to in subparagraph 70(6)(*b*)(i) or 73(1)(*c*)(i), as the case may be."

Related Sections: S. 54, "adjusted cost base", "capital property", "listed personal property", "principal residence"; s. 104(1) Reference to trust or estate; s. 248(1), "amount", "business", "corporation", "farming", "individual", "property"; s. 255 Canada.

► 40(6) ◄

(6) Special rule concerning principal residence. Where a property was owned by a taxpayer, whether jointly with another person or otherwise, at the end of 1981 and continuously thereafter until disposed of by the taxpayer, the amount of the gain determined under paragraph (2)(*b*) in respect of the disposition shall not exceed the amount, if any, by which the total of

(*a*) the taxpayer's gain calculated in accordance with paragraph (2)(*b*) on the assumption that the taxpayer had disposed of the property on December 31, 1981 for proceeds of disposition equal to its fair market value on that date, and

(*b*) the taxpayer's gain calculated in accordance with paragraph (2)(*b*) on the assumption that that paragraph applies and that

(i) the taxpayer acquired the property on January 1, 1982 at a cost equal to its proceeds of disposition as determined under paragraph (*a*), and

(ii) the description of B in paragraph (2)(*b*) is read without reference to "one plus"

exceeds

(*c*) the amount, if any, by which the fair market value of the property on December 31, 1981 exceeds the proceeds of disposition of the property determined without reference to this subsection.

History: S. 40(6)(*b*)(ii) was amended by S.C. 1995, c. 3, s. 12(3), applicable to dispositions that occur after February 22, 1994. S. 40(6)(*b*)(ii) formerly read:

"(ii) subparagraph (2)(*b*)(i) is read without reference to 'one plus'"

Interpretation Bulletins: *Secondary* — IT-120R6 Principal Residence.

► 40(7) ◄

(7) Property in satisfaction of interest in trust. Where property has been acquired by a taxpayer in satisfaction of all or any part of the taxpayer's capital interest in a trust, in circumstances to which subsection 107(2) applies

and subsection 107(4) does not apply, for the purposes of paragraph (2)(*b*) and the definition "principal residence" in section 54 the taxpayer shall be deemed to have owned the property continuously since the trust last acquired it.

Editorial Note: If the trust makes the election under subsection 107(2.01), which provides a deemed disposition and reacquisition by the trust of the property at its fair market value immediately before the subsection 107(2) rollover, the deeming rule in subsection 40(7) is of no practical consequence (since it only extends back to the time that the trust last acquired the property, namely, the time that is immediately before the subsection 107(2) rollover).

Related Sections: S. 108(1), "capital interest".

Interpretation Bulletins: *Secondary*—IT-120R6 Principal Residence.

► 40(7.1) ◄

(7.1) Effect of election under subsection 110.6(19). Where an election was made under subsection 110.6(19) in respect of a property of a taxpayer that was the taxpayer's principal residence for the 1994 taxation year or that, in the taxpayer's return of income for the taxation year in which the taxpayer disposes of the property or grants an option to acquire the property, is designated as the taxpayer's principal residence, in determining, for the purposes of paragraph (2)(*b*) and subsections (4) to (7), the day on which the property was last acquired or reacquired by the taxpayer and the period throughout which the property was owned by the taxpayer this Act shall be read without reference to subsection 110.6(19).

History: S. 40(7.1) was added by S.C. 1995, c. 3, s. 12(4), applicable to dispositions that occur after February 22, 1994.

Interpretation Bulletins: *Secondary*—IT-120R6 Principal Residence.

► 40(8) ◄

(8) Application of s. 70(10). The definitions in subsection 70(10) apply to this section.

History: S. 40(8) was added in the revised Act.

► 40(9) ◄

(9) Additions to taxable Canadian property. If a non-resident person disposes of a taxable Canadian property

(*a*) that the person last acquired before April 27, 1995,

(*b*) that would not be a taxable Canadian property immediately before the disposition if section 115 were read as it applied to dispositions that occurred on April 26, 1995, and

(*c*) that would be a taxable Canadian property immediately before the disposition if section 115 were read as it applied to dispositions that occurred on January 1, 1996,

the person's gain or loss from the disposition is deemed to be the amount determined by the formula

$$A \times B/C$$

where

A is the amount of the gain or loss determined without reference to this subsection;

B is the number of calendar months in the period that begins with May 1995 and ends with the calendar month that includes the time of the disposition; and

C is the number of calendar months in the period that begins with the calendar month in which the person last acquired the property and ends with the calendar month that includes the time of the disposition.

History: S. 40(9), the portion before the formula, was amended by S.C. 2001, c. 17, s. 25(4), applicable to dispositions that occur after April 26, 1995. S. 40(9), the portion before the formula formerly read:

"(9) *Additions to taxable Canadian property.* Where a non-resident person disposes of a taxable Canadian property that the person last acquired before April 27, 1995 and that would not be a taxable Canadian property immediately before the disposition if section 115 were read as it applied to dispositions that occurred on April 26, 1995, the person's gain or loss from the disposition is deemed to be the amount determined by the formula"

S. 40(9) is added by S.C. 1998, c. 19, s. 89(7), applicable subject to section 247 of this Bill, (see Application below), to dispositions of property that occur after April 26, 1995.

Sec. 247, Chap. 19, 1998

247. [*Exception to coming-into-force.*]

(1) Subsections 73(4), 74(5), subsection 18(13) of the Act, as enacted by subsection 79(2) and subsections 89(1), (2) and (6), 94(1) and (2), 95(1), 116(3) to (5), 120(1) and 124(1) and (2) do not apply to the disposition of property by a person or partnership (in this subsection and subsection (2) referred to as the "transferor") that occurred before 1996

(*a*) to a person who was obliged on April 26, 1995 to acquire the property pursuant to the terms of an agreement in writing made on or before that day; or

(*b*) in a transaction, or as part of a series of transactions, the arrangements for which, evidenced in writing, were substantially advanced before April 27, 1995, other than a transaction or series a main purpose of which can reasonably be considered to have been to enable an unrelated person to obtain the benefit of

(i) any deduction in computing income, taxable income, taxable income earned in Canada or tax payable under the Act, or

(ii) any balance of undeducted outlays, expenses or other amounts.

(2) Election. Notwithstanding subsection (1), subsection 18(13) of the Act, as enacted by subsection 79(2), and the other subsections of this Act referred to in subsection (1) apply to a disposition in respect of which the transferor has filed with the Minister of National Revenue before the end of the third month after the month in which this Act is assented to [Royal Assent June 18, 1998] an election in writing to have those subsections apply.

(3) Interpretation. For the purpose of subsection (1),

(*a*) a person shall be considered not to be obliged to acquire property where the person can be excused from the obligation if there is a change to the Act or if there is an adverse assessment under the Act;

(*b*) an "unrelated person" means any person who was not, or a partnership any member of which was not, related (otherwise than because of paragraph 251(5)(*b*) of the Act) to the transferor at the time of the disposition; and

(*c*) a person is deemed to be related to a partnership of which that person is a majority interest partner.

► 40(10) ◄

(10) Application. Subsection (11) applies in computing at any particular time a corporation's gain or loss (in this subsection and subsection (11) referred to as the "new gain" or "new loss", as the case may be), in respect of any part (which in this subsection and subsection (11) is referred to as the "relevant part" and which may for greater certainty be the whole) of a foreign currency debt of the corporation, arising from a fluctuation in the value of the currency of the foreign currency debt (other than, for greater certainty, a gain or a capital loss that arises because of the application of subsection 111(12)), if at any time before the particular time the corporation realized a capital loss or gain in respect of the foreign currency debt because of subsection 111(12).

History: S. 40(10) was added by S.C. 2009, c. 2, s. 10(2), applicable after 2005.

Related Sections: S. 39(2) Capital gains and losses in respect of foreign currencies; s. 111(4) Acquisition of control; s. 111(8), "exchange rate", "foreign currency debt"; s. 111(12) Foreign currency debt on acquisition of control.

► 40(11) ◄

(11) Gain or loss on foreign currency debt. If this subsection applies, the new gain is the positive amount, or the new loss is the negative amount, as the case may be, determined by the formula

$$A + B - C$$

where

A is

(*a*) if the corporation would, but for any application of subsection 111(12), recognize a new gain, the

amount of the new gain, determined without reference to this subsection, or

(*b*) if the corporation would, but for any application of subsection 111(12), recognize a new loss, the amount of the new loss, determined without reference to this subsection, multiplied by (-1);

B is the total of all amounts each of which is that portion of the amount of a capital loss realized by the corporation at any time before the particular time, in respect of the foreign currency debt and because of subsection 111(12), that is reasonably attributable to

(*a*) the relevant part of the foreign currency debt at the particular time, or

(*b*) the forgiven amount, if any, (within the meaning assigned by subsection 80(1)) in respect of the foreign currency debt at the particular time; and

C is the total of all amounts each of which is that portion of the amount of a gain realized by the corporation at any time before the particular time, in respect of the foreign currency debt and because of subsection 111(12), that is reasonably attributable to

(*a*) the relevant part of the foreign currency debt at the particular time, or

(*b*) the forgiven amount, if any, (within the meaning assigned by subsection 80(1)) in respect of the foreign currency debt at the particular time.

History: S. 40(11) was added by S.C. 2009, c. 2, s. 10(2), applicable after 2005.

Related Sections: S. 39(2) Capital gains and losses in respect of foreign currencies; s. 111(4) Acquisition of control; s. 111(8), "exchange rate", "foreign currency debt"; s. 111(12) Foreign currency debt on acquisition of control.

SECTION 41:

▶ 41(1) ◀

(1) Taxable net gain from disposition of listed personal property. For the purposes of this Part, a taxpayer's taxable net gain for a taxation year from dispositions of listed personal property is ½ of the amount determined under subsection (2) to be the taxpayer's net gain for the year from dispositions of such property.

History: S. 41(1) was amended by S.C. 2001, c. 17, s. 26(1), by replacing the reference to the fraction "¾" with a reference to the fraction "½", applicable to taxation years that end after February 27, 2000 except that, for taxation years that include February 28, 2000 or October 17, 2000, or began after February 28, 2000 and ended before October 17, 2000, the reference to the fraction "½" in subsection 41(1) of the Act shall be read as a reference to the fraction in paragraph 38(*a*) of the Act that applies to the taxpayer for the year.

Editorial Note: Losses in a taxation year from dispositions of listed personal property can be deducted from gains from dispositions of listed personal property in the year, if any. If there are excess losses in the year from listed personal property, the excess can be carried back three years or forward seven years and deducted from gains from listed personal property in any of those other years. If there is a net gain in a year from listed personal properties, one-half of the net gain is included in income by virtue of subsection 41(1) and clause 3(*b*)(i)(B).

Related Sections: S. 53(1) Adjustments to cost base; s. 54, "listed personal property"; s. 127.5 Obligation to pay minimum tax; s. 127.52(1)(*d*)(i) Adjusted taxable income determined.

Interpretation Bulletins: *Secondary* — IT-262R2 Losses of non-residents and part-year residents; IT-332R Personal-use property [Archived by the CRA].

Forms: T1A.

▶ 41(2) ◀

(2) Determination of net gain. A taxpayer's net gain for a taxation year from dispositions of listed personal property is an amount determined as follows:

(*a*) determine the amount, if any, by which the total of the taxpayer's gains for the year from the disposition of listed personal property, other than property described in subparagraph 39(1)(*a*)(i.1), exceeds the total of the taxpayer's losses for the year from dispositions of listed personal property, and

(*b*) deduct from the amount determined under paragraph (*a*) such portion as the taxpayer may claim of the taxpayer's listed-personal-property losses for the 7 taxation years immediately preceding and the 3 taxation years immediately following the taxation year, except that for the purposes of this paragraph

(i) an amount in respect of a listed-personal-property loss is deductible for a taxation year only to the extent that it exceeds the total of amounts deducted under this paragraph in respect of that loss for preceding taxation years,

(ii) no amount is deductible in respect of the listed-personal-property loss of any year until the deductible listed-personal-property losses for previous years have been deducted, and

(iii) no amount is deductible in respect of listed-personal-property losses from the amount determined under paragraph (*a*) for a taxation year except to the extent of the amount so determined for the year,

and the remainder determined under paragraph (*b*) is the taxpayer's net gain for the year from dispositions of listed personal property.

Editorial Note: See the editorial note following subsection 41(1).

Interpretation Bulletins: *Secondary* — IT-262R2 Losses of non-residents and part-year residents; IT-332R Personal-use property [Archived by the CRA]; IT-407R4 (Consolid.) Dispositions of Cultural Property to Designated Canadian Institutions.

Forms: T1A.

▶ 41(3) ◀

(3) Definition of "listed-personal-property loss". In this section, "listed-personal-property loss" of a taxpayer for a taxation year means the amount, if any, by which the total of the taxpayer's losses for the year from dispositions of listed personal property exceeds the total of the taxpayer's gains for the year from dispositions of listed personal property, other than property described in subparagraph 39(1)(*a*)(i.1).

Related Sections: S. 41(1) Taxable net gain from disposition of listed personal property; s. 54, "listed personal property"; s. 248(1), "amount", "property".

Interpretation Bulletins: *Secondary* — IT-159R3 Capital debts established to be bad debts; IT-232R3 Non-capital losses, net capital losses, restricted farm losses, farm losses and limited partnership losses — Their composition and deductibility in computing taxable income; IT-262R2 Losses of non-residents and part-year residents; IT-332R Personal-use property [Archived by the CRA].

SECTION 42: Dispositions subject to warranty.

In computing a taxpayer's proceeds of disposition of any property for the purposes of this subdivision, there shall be included all amounts received or receivable by the taxpayer as consideration for warranties, covenants or other conditional or contingent obligations given or incurred by the taxpayer in respect of the disposition, and in computing the taxpayer's income for the taxation year in which the property was disposed of and for each subsequent taxation year, any outlay or expense made or incurred by the taxpayer in any such year pursuant to or by

reason of any such obligation shall be deemed to be a loss of the taxpayer for that year from a disposition of a capital property and for the purposes of section 110.6, that capital property shall be deemed to have been disposed of by the taxpayer in that year.

Pending Amendment

Draft Legislation — Foreign Affiliates — February 27, 2004

Section 42 of the Act is replaced by the following:

SECTION 42: Consideration for warranties, covenants or other obligations.

For the purposes of this subdivision

(*a*) an amount received or receivable by a taxpayer in a taxation year as consideration for a warranty, a covenant or another conditional or contingent obligation given or incurred by the taxpayer in respect of a property disposed of, at any time, by the taxpayer

(i) is, if the amount is received or becomes receivable on or before the taxpayer's filing-due date for the taxpayer's taxation year in which the taxpayer disposed of the property, to be included in computing the taxpayer's proceeds of disposition of the property, and

(ii) is, if the amount is received or becomes receivable after that filing-due date, deemed to be a capital gain of the taxpayer from the disposition, by the taxpayer of the property, that occurs at the time when the amount is received or becomes receivable; and

(*b*) an outlay or expense paid or payable by the taxpayer in a taxation year under a warranty, covenant or another conditional or contingent obligation given or incurred by the taxpayer in respect of property disposed of, at any time, by the taxpayer

(i) is, if the amount is paid or becomes payable on or before the taxpayer's filing-due date for the taxpayer's taxation year in which the taxpayer disposed of the property, to be deducted in computing the taxpayer's proceeds of disposition of the property, and

(ii) is, if the amount is paid or becomes payable after that filing-due date, deemed to be a capital loss of the taxpayer from the disposition, by the taxpayer of the property, that occurs at the time when the amount is paid or becomes payable.

Applicable: To taxation years that end after February 27, 2004.

Explanatory Note: Section 42 of the Act provides rules governing warranties, covenants, and other conditional or contingent obligations given by a taxpayer in respect of a disposition of properties.

Section 42 is amended to provide that an amount received or receivable by a taxpayer in a taxation year as consideration for a warranty, a covenant or another conditional or contingent obligation given or incurred by the taxpayer in respect of a property disposed of, at any time, by the taxpayer

- is, if the amount is received or becomes receivable on or before the taxpayer's filing-due date for the taxpayer's taxation year in which the taxpayer disposed of the property, to be included in computing the taxpayer's proceeds of disposition of the property, and
- is, if the amount is received or becomes receivable after that filing-due date, deemed to be a capital gain of the taxpayer from the disposition, by the taxpayer of the property, that occurs at the time when the amount is received or becomes receivable.

This section is also amended to provide that an outlay or expense paid or payable by the taxpayer in a taxation year under a warranty, covenant or another conditional or contingent obligation given or incurred by the taxpayer in respect of property disposed of, at any time, by the taxpayer

- is, if the amount is paid or becomes payable on or before the taxpayer's filing-due date for the taxpayer's taxation year in which the taxpayer disposed of the property, to be deducted in computing the taxpayer's proceeds of disposition of the property, and
- is, if the amount is paid or becomes payable after that filing-due date, deemed to be a capital loss of the taxpayer from the disposition, by the taxpayer of the property, that occurs at the time when the amount is paid or becomes payable.

This change applies to taxation years that end after February 27, 2004.

Related Sections: S. 54, "capital property", "proceeds of disposition"; s. 87(2)(*n*) Outlays made pursuant to warranty.
Interpretation Bulletins: *Primary* — IT-330R Dispositions of capital property subject to warranty, covenant, or other conditional or contingent obligations [Archived by the CRA].
Tax Topics: No. 1699, Principal Residence Exemption — Filing Requirements.

SECTION 43:

► 43(1) ◄

(1) General rule for part dispositions. For the purpose of computing a taxpayer's gain or loss for a taxation year from the disposition of part of a property, the adjusted cost base to the taxpayer, immediately before the disposition, of that part is the portion of the adjusted cost base to the taxpayer at that time of the whole property that can reasonably be regarded as attributable to that part.

History: S. 43 was amended, and subsection (1) was added, by S.C. 2001, c. 17, s. 27(1), applicable after February 27, 1995. S. 43 formerly read:

"S. 43. *Part dispositions.* For the purpose of computing a taxpayer's gain or loss for a taxation year from the disposition of a part of a property, the adjusted cost base to the taxpayer, immediately before the disposition, of that part is such portion of the adjusted cost base to the taxpayer at that time of the whole property as may reasonably be regarded as attributable to that part."

Related Sections: S. 40(1) General rules; s. 53(2) Amounts to be deducted; s. 54, "adjusted cost base"; "proceeds of disposition"; s. 248(1), "disposition", "property".
Interpretation Bulletins: *Primary* — IT-264R Part dispositions. *Secondary* — IT-200 Surface rentals and farming operations; IT-226R Gift to a charity of a residual interest in real property or an equitable interest in a trust; IT-278R2 Death of a partner or of a retired partner; IT-338R2 Partnership interests — Effects on adjusted cost base resulting from the admission or retirement of a partner [Archived by the CRA]; IT-359R2 Premiums and other amounts with respect to leases; IT-373R2 (Consolid.) Woodlots; IT-418 Capital cost allowance — Partial Dispositions of property.

► 43(2) ◄

(2) Ecological gifts. For the purposes of subsection (1) and section 53, where at any time a taxpayer disposes of a servitude, covenant or easement to which land is subject in circumstances where subsection 110.1(5) or 118.1(12) applies,

(*a*) the portion of the adjusted cost base to the taxpayer of the land immediately before the disposition that can reasonably be regarded as attributable to the servitude, covenant or easement, as the case may be, is deemed to be equal to the amount determined by the formula

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 43(2) of the Act before the formula in paragraph (*a*) is replaced by the following:

(2) Ecological gifts. For the purposes of subsection (1) and section 53, where at any time a taxpayer disposes of a

covenant or an easement to which land is subject or, in the case of land in the Province of Quebec, a real servitude, in circumstances where subsection 110.1(5) or 118.1(12) applies,

(*a*) the portion of the adjusted cost base to the taxpayer of the land immediately before the disposition that can reasonably be regarded as attributable to the covenant, easement or real servitude, as the case may be, is deemed to be equal to the amount determined by the formula

Applicable: To gifts made after December 20, 2002.

Explanatory Note:

Ecological Gifts

Section 43(2) of the Act applies where the part of a property donated as an ecological gift is a covenant, easement or servitude established under common law, the civil law of the province of Quebec, or the law of other provinces allowing for their establishment. Subsection 43(2) ensures that a portion of the adjusted cost base ("ACB") of the land to which the covenant, easement or servitude relates is allocated to the donated covenant, easement or servitude. For this purpose, the allocation of the ACB of the land to the gift is calculated in proportion to the percentage decrease in the value of the land as a result of the donation.

Subsection 43(2) is amended to clarify its application to "real servitudes" under the *Civil Code of Quebec*. This amendment applies to gifts made after December 20, 2002.

$$A \times B/C$$

where

A is the adjusted cost base to the taxpayer of the land immediately before the disposition,

B is the amount determined under subsection 110.1(5) or 118.1(12) in respect of the disposition, and

C is the fair market value of the land immediately before the disposition; and

(*b*) for greater certainty, the cost to the taxpayer of the land shall be reduced at the time of the disposition by the amount determined under paragraph (*a*).

History: S. 43(2) was added by S.C. 2001, c. 17, s. 27(1), applicable in respect of gifts made after February 27, 1995.

► 43(3) ◄

(3) Payments out of trust income, etc. Notwithstanding subsection (1), where part of a capital interest of a taxpayer in a trust would, but for paragraph (*h*) or (*i*) of the definition "disposition" in subsection 248(1), be disposed of solely because of the satisfaction of a right to enforce payment of an amount by the trust, no part of the adjusted cost base to the taxpayer of the taxpayer's capital interest in the trust shall be allocated to that part of the capital interest.

History: S. 43(3) was added by S.C. 2001, c. 17, s. 27(1), applicable to satisfactions of rights that occur after 1999.

SECTION 43.1:

► 43.1(1) ◄

(1) Life estates in real property. Notwithstanding any other provision of this Act, where at any time a taxpayer disposes of a remainder interest in real property (except as a result of a transaction to which subsection 73(3) would otherwise apply or by way of a gift to a donee described in the definition "total charitable gifts" or "total Crown gifts" in subsection 118.1(1)) to a person or partnership and retains a life estate or an estate *pur autre vie* (in this section called the "life estate") in the property, the taxpayer shall be deemed

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 43.1(1) of the Act before paragraph (*a*) is replaced by the following:

SECTION 43.1:

(1) Life estates in real property. Notwithstanding any other provision of this Act, if at any time a taxpayer disposes of a remainder interest in real property (except as a result of a transaction to which subsection 73(3) would otherwise apply or by way of a gift to a donee described in the definition "total charitable gifts", "total Crown gifts" or "total ecological gifts" in subsection 118.1(1)) to a person or partnership and retains a life estate or an estate pur autre vie (in this section called the "life estate") in the property, the taxpayer is deemed

Applicable: To dispositions that occur after February 27, 1995.

Explanatory Note: Section 43.1 of the Act deals with the disposition of a remainder interest in real property by a taxpayer who retains the life estate or estate *pur autre vie* in the property. Subsection 43.1(1) provides that in such a case the taxpayer will be considered to have disposed of the life estate, that has been retained, for proceeds equal to its fair market value at the time the remainder interest is disposed of, and to have reacquired the life estate immediately after that time at the same fair market value.

However, subsection 43.1(1) does not apply in cases where the remainder interest is a gift to a donee described in the definition "total charitable gifts" or "total Crown gifts" in subsection 118.1(1) of the Act. Subsection 43.1(1) is amended to also preclude its application to gifts made to donees described in the definition "total ecological gifts" in subsection 118.1(1). This amendment applies to dispositions of life interests that occur after February 27, 1995, when ecological gifts were first defined for the purposes of section 118.1.

(*a*) to have disposed at that time of the life estate in the property for proceeds of disposition equal to its fair market value at that time; and

(*b*) to have reacquired the life estate immediately after that time at a cost equal to the proceeds of disposition referred to in paragraph (*a*).

History: S. 43.1(1), the portion before paragraph (*a*), was amended by S.C. 1994, c. 21, s. 16(1), applicable to dispositions occurring after December 20, 1991. The portion formerly read:

"(1) Notwithstanding any other provision of this Act, where at any time a taxpayer disposes of a remainder interest in real property (except as a result of a transaction to which subsection 73(3) would otherwise apply) to a person or partnership (other than a registered charity that is a charitable organization within the meaning assigned by subsection 149.1(1)) and retains a life estate or an estate *pur autre vie* (in this section called the 'life estate') in the property, the taxpayer shall be deemed"

S. 43.1(1) was added by S.C. 1994, c. 7, Sched. VIII, s. 13(1), applicable to dispositions and terminations occurring after December 20, 1991.

Editorial Note: Section 43.1 effectively results in a "freeze" upon the disposition of a remainder interest in real property. Although the taxpayer may realize a gain on the (actual) disposition of the remainder interest and the deemed disposition of the life interest under subsection 43.1(1), the life interest is subject to a rollover upon the taxpayer's death under subsection (2). Thus, any further accrued gain on the property can be deferred until the holder of the remainder interest disposes of the property. Note that subsection 43.1(1) does not apply to charitable donations of remainder interests.

Related Sections: S. 13(21), "proceeds of disposition"; s. 54, "proceeds of disposition"; s. 248(1), "disposition", "property"; s. 248(4) Interest in real property.

► 43.1(2) ◄

(2) Idem. Where, as a result of an individual's death, a life estate to which subsection (1) applied is terminated,

(*a*) the holder of the life estate immediately before the death shall be deemed to have disposed of the life estate immediately before the death for proceeds of disposition equal to the adjusted cost base to that person of the life estate immediately before the death; and

(*b*) where a person who is the holder of the remainder interest in the real property immediately before the death was not dealing at arm's length with the holder of the life estate, there shall, after the death, be added in computing the adjusted cost base to that person of the real property an amount equal to the lesser of

(i) the adjusted cost base of the life estate in the property immediately before the death, and

(ii) the amount, if any, by which the fair market value of the real property immediately after the death exceeds the adjusted cost base to that person of the remainder interest immediately before the death.

History: S. 43.1(2) was added by S.C. 1994, c. 7, Sched. VIII, s. 13(1), applicable to dispositions and terminations occurring after December 20, 1991.

Editorial Note: See the editorial note under subsection 43.1(1).

Related Sections: S. 53(1)(*o*) Adjustments to cost base — Remainder interests in land; s. 54, "adjusted cost base"; s. 248(1), "adjusted cost base", "individual", "property"; s. 251 Arm's length.

Tax Topics: No. 1769, Unpleasant Tax Surprise for Donees of Remainder Interest.

SECTION 44:

► 44(1) ◄

(1) Exchanges of property. Where at any time in a taxation year (in this subsection referred to as the "initial year") an amount has become receivable by a taxpayer as proceeds of disposition of a capital property that is not a share of the capital stock of a corporation (which capital property is in this section referred to as the taxpayer's "former property") that is either

(*a*) property the proceeds of disposition of which are described in paragraph (*b*), (*c*) or (*d*) of the definition "proceeds of disposition" in subsection 13(21) or paragraph (*b*), (*c*) or (*d*) of the definition "proceeds of disposition" in section 54, or

(*b*) a property that was, immediately before the disposition, a former business property of the taxpayer,

and the taxpayer has

(*c*) where the former property is described in paragraph (*a*), before the end of the second taxation year following the initial year, and

(*d*) in any other case, before the end of the first taxation year following the initial year,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraphs 44(1)(*c*) and (*d*) of the Act are replaced by the following:

(*c*) if the former property is described in paragraph (*a*), before the later of the end of the second taxation year following the initial year and 24 months after the end of the initial year, and

Applicable: In respect of dispositions that occur in taxation years that end on or after December 20, 2000.

(*d*) in any other case, before the later of the end of the first taxation year following the initial year and 12 months after the end of the initial year,

Applicable: In respect of dispositions that occur in taxation years that end on or after December 20, 2001.

Explanatory Note: Subsection 44(1) of the Act allows a taxpayer who incurs a capital gain on the disposition of certain capital property to elect to defer tax on the gain to the extent that the taxpayer reinvests the proceeds in a replacement property within a certain period of time, namely

- in the case of certain involuntary dispositions, e.g., theft or expropriation, before the end of the second taxation year of the taxpayer that begins after the property was disposed of, or
- in other situations, before the end of the first taxation year of the taxpayer that begins after the property was disposed of.

Paragraphs 44(1)(*c*) and (*d*) are amended to accommodate taxation years that are shorter than 12 months, by providing that the periods for acquiring replacement property end at the later of the times mentioned above and

- in the case of involuntary dispositions, within 24 months after the end of the taxation year in which the property was disposed of, or
- in other situations, within 12 months after the end of the taxation year in which the property was disposed of.

These amendments apply, in the case of involuntary dispositions, in respect of dispositions that occur in taxation years that end on or after December 20, 2000 and, in any other case, in respect of dispositions that occur in taxation years that end on or after December 20, 2001.

acquired a capital property that is a replacement property for the taxpayer's former property and the replacement property has not been disposed of by the taxpayer before the time the taxpayer disposed of the taxpayer's former property, notwithstanding subsection 40(1), if the taxpayer so elects under this subsection in the taxpayer's return of income for the year in which the taxpayer acquired the replacement property,

(*e*) the gain for a particular taxation year from the disposition of the taxpayer's former property shall be deemed to be the amount, if any, by which

(i) where the particular year is the initial year, the lesser of

(A) the amount, if any, by which the proceeds of disposition of the former property exceed

(I) in the case of depreciable property, the lesser of the proceeds of disposition of the former property computed without reference to subsection (6) and the total of its adjusted cost base to the taxpayer immediately before the disposition and any outlays and expenses to the extent that they were made or incurred by the taxpayer for the purpose of making the disposition, and

(II) in any other case, the total of its adjusted cost base to the taxpayer immediately before the disposition and any outlays and expenses to the extent that they were made or incurred by the taxpayer for the purpose of making the disposition, and

(B) the amount, if any, by which the proceeds of disposition of the former property exceed the

total of the cost to the taxpayer, or in the case of depreciable property, the capital cost to the taxpayer, determined without reference to paragraph (*f*), of the taxpayer's replacement property and any outlays and expenses to the extent that they were made or incurred by the taxpayer for the purpose of making the disposition, or

(ii) where the particular year is subsequent to the initial year, the amount, if any, claimed by the taxpayer under subparagraph (iii) in computing the taxpayer's gain for the immediately preceding year from the disposition of the former property,

exceeds

(iii) subject to subsection (1.1), such amount as the taxpayer claims,

(A) in the case of an individual (other than a trust), in prescribed form filed with the taxpayer's return of income under this Part for the particular year, and

(B) in any other case, in the taxpayer's return of income under this Part for the particular year,

as a deduction, not exceeding the lesser of

(C) a reasonable amount as a reserve in respect of such of the proceeds of disposition of the former property that are payable to the taxpayer after the end of the particular year as can reasonably be regarded as a portion of the amount determined under subparagraph (i) in respect of the property, and

(D) an amount equal to the product obtained when 1/5 of the amount determined under subparagraph (i) in respect of the property is multiplied by the amount, if any, by which 4 exceeds the number of preceding taxation years of the taxpayer ending after the disposition of the property, and

(*f*) the cost to the taxpayer or, in the case of depreciable property, the capital cost to the taxpayer, of the taxpayer's replacement property at any time after the time the taxpayer disposed of the taxpayer's former property, shall be deemed to be

(i) the cost to the taxpayer or, in the case of depreciable property, the capital cost to the taxpayer of the taxpayer's replacement property otherwise determined,

minus

(ii) the amount, if any, by which the amount determined under clause (*e*)(i)(A) exceeds the amount determined under clause (*e*)(i)(B).

History: S. 44(1), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 28(1), applicable to shares disposed of after April 15, 1999, other than shares disposed of after that date as a consequence of a public takeover bid or offer filed with a public authority before April 16, 1999. S. 44(1), the portion before paragraph (*a*) formerly read:

"S. 44. *Exchanges of property.*

(1) Where at any time in a taxation year (in this subsection referred to as the 'initial year') an amount has become receivable by a taxpayer as proceeds of disposition of a capital property (in this section referred to as the taxpayer's 'former property') that is either"

S. 44(1)(*d*), the portion after paragraph (*d*) and before paragraph (*e*), was amended by S.C. 1998, c. 19, s. 90(1), applicable to dispositions of former properties that occur after the 1993 taxation year except that, if a taxpayer so elects in respect of a former property of the taxpayer that was disposed of before the day of Royal Assent, June 18, 1998, by notifying the Minister of National Revenue in writing on or before the filing-due date for the taxpayer's first taxation year that ends after the day of Royal Assent, June 18, 1998, paragraph 44(5)(*a.1*) of the Act shall, for the purpose of determining whether a property of the taxpayer is a replacement property of the former property, be read as follows:

"(*a.1*) it was acquired by the taxpayer for a use that is the same as or similar to the use to which the taxpayer or a person related to the taxpayer put the former property;"

The portion of S. 44(1) after paragraph (*d*) and before paragraph (*e*) formerly read:

"acquired a capital property (in this section referred to as the taxpayer's 'replacement property') as a replacement for the taxpayer's former property and the taxpayer's replacement property has not been disposed of by the taxpayer prior to the time the taxpayer disposed of the taxpayer's former property, notwithstanding subsection 40(1), if the taxpayer so elects under this subsection in the taxpayer's return of income under this Part for the year in which the taxpayer acquired the replacement property,"

S. 44(1)(*e*)(iii)(C) was amended by S.C. 1995, c. 21, s. 12(1), applicable to taxation years that end after February 21, 1994. S. 44(1)(*e*)(iii)(C) formerly read:

"(C) a reasonable amount as a reserve in respect of such of the proceeds of disposition of the former property that are not due to the taxpayer until after the end of the particular year as can reasonably be regarded as a portion of the amount determined under subparagraph (i) in respect of the property, and"

S. 44(1)(*e*)(iii) was amended by S.C. 1994, c. 7, Sched. II, s. 24(1), applicable to the 1990 and subsequent taxation years. S. 44(1)(*e*)(iii) formerly read:

"(iii) subject to subsection (1.1), such amount as the taxpayer may claim as a deduction, not exceeding the lesser of

(A) a reasonable amount as a reserve in respect of such of the proceeds of disposition of the former property that are not due to the taxpayer until after the end of the particular year as may reasonably be regarded as a portion of the amount determined under subparagraph (i) in respect of the property, and

(B) an amount equal to the product obtained when 1/5 of the amount determined under subparagraph (i) in respect of the property is multiplied by the amount, if any, by which 4 exceeds the number of preceding taxation years of the taxpayer ending after the disposition of the property, and"

Related Sections: S. 13(21) Definitions; s. 44(6) Deemed proceeds of disposition; s. 44(7) Where subpara. (1)(e)(iii) does not apply; s. 54, "capital property", "proceeds of disposition"; s. 87(2)(*l.3*) Replacement property; s. 96(3) Agreement or election of partnership members; s. 220(3.2) Late, amended or revoked elections; s. 248(1), "amount", "former business property", "property".

Regulations: 600(b).

Interpretation Bulletins: *Primary* — IT-259R4 Exchange of property; IT-271R Expropriations — Time and proceeds of disposition [Archived by the CRA]; IT-491 Former Business Property.

Information Circulars: IC 07-1 Taxpayer Relief Provisions.

Income Tax Technical News: Issue No. 25, Replacement Property Rules and Business Expansions.

Forms: T1030.

Canadian Tax Foundation: Shapiro, "The Replacement Property Rules: A Bit More Than Before", *Personal Tax Planning feature, 2002 Canadian Tax Journal*, 6:2141.

Cases: A rental building is not a former business property because it is used for producing income from property, not from a business. *Buonincontri v. The Queen*, 85 DTC 5277 (F.C.T.D.).

► 44(1.1) ◄

(1.1) Reserve — property disposed of to a child. In computing the amount that a taxpayer may claim under subparagraph (1)(*e*)(iii) in computing the taxpayer's gain from the disposition of a former property of the taxpayer, that subparagraph shall be read as if the references in that subparagraph to "1/5" and "4" were references to "1/10" and "9" respectively if that former property is real or immovable property in respect of the disposition of which, because of subsection 73(3), the rules in subsection 73(3.1) applied to the taxpayer and a child of the taxpayer.

History: S. 44(1.1) was replaced by S.C. 2007, c. 2, s. 5(1), applicable to dispositions of property that occur on or after May 2, 2006. S. 44(1.1) formerly read:

"(1.1) *Farm property disposed of to child.* Where the former property referred to in subparagraph (1)(*e*)(iii) is real property in respect of the disposition of which the rules in subsection 73(3) apply, in computing the amount of any claim in respect of that property under that subparagraph, it shall be read as if the references therein to '1/5' and '4' were references to '1/10' and '9' respectively."

► 44(2) ◄

(2) Time of disposition and of receipt of proceeds. For the purposes of this Act, the time at which a taxpayer has disposed of a property for which there are proceeds of disposition as described in paragraph (*b*), (*c*) or (*d*) of the definition "proceeds of disposition" in subsection 13(21) or paragraph (*b*), (*c*) or (*d*) of the definition "proceeds of disposition" in section 54, and the time at which an amount, in respect of those proceeds of disposition has become receivable by the taxpayer shall be deemed to be the earliest of

(*a*) the day the taxpayer has agreed to an amount as full compensation to the taxpayer for the property lost, destroyed, taken or sold,

(*b*) where a claim, suit, appeal or other proceeding has been taken before one or more tribunals or courts of competent jurisdiction, the day on which the taxpayer's compensation for the property is finally determined by those tribunals or courts,

(*c*) where a claim, suit, appeal or other proceeding referred to in paragraph (*b*) has not been taken before a tribunal or court of competent jurisdiction within two years of the loss, destruction or taking of the property, the day that is two years following the day of the loss, destruction or taking,

(*d*) the time at which the taxpayer is deemed by section 70 or paragraph 128.1(4)(*b*) to have disposed of the property, and

(*e*) where the taxpayer is a corporation other than a subsidiary corporation referred to in subsection 88(1), the time immediately before the winding-up of the corporation,

and the taxpayer shall be deemed to have owned the property continuously until the time so determined.

History: S. 44(2)(*d*) was amended by S.C. 1994, c. 21, s. 17(1), applicable after 1992 except that, where a corporation elects in accordance with paragraph 111(4)(*a*), paragraph 44(2)(*d*) applies to the corporation from the corporation's time of continuation (within the meaning assigned by that paragraph). S. 44(2)(*d*) formerly read:

"(*d*) the time at which the taxpayer is deemed by section 48 or 70 to have disposed of the property, and"

Related Sections: S. 59.1 Involuntary disposition of resource property.
Interpretation Bulletins: *Secondary*—IT-125R4 Disposition of resource properties; IT-185R (Consolid.) Losses from theft, defalcation or embezzlement.

► 44(3) ◄

(3) Where s. 70(3) does not apply. Subsection 70(3) does not apply to compensation referred to in paragraph (*b*), (*c*) or (*d*) of the definition "proceeds of disposition" in subsection 13(21) or paragraph (*b*), (*c*) or (*d*) of the definition "proceeds of disposition" in section 54 that has been transferred or distributed to beneficiaries or other persons beneficially interested in an estate or trust.

Related Sections: S. 70(3) Rights or things transferred to beneficiaries.

► 44(4) ◄

(4) Deemed election. Where a former property of a taxpayer was a depreciable property of the taxpayer

(*a*) if the taxpayer has elected in respect of that property under subsection (1), the taxpayer shall be deemed to have elected in respect thereof under subsection 13(4); and

(*b*) if the taxpayer has elected in respect of that property under subsection 13(4), the taxpayer shall be deemed to have elected in respect thereof under subsection (1).

► 44(5) ◄

(5) Replacement property. For the purposes of this section, a particular capital property of a taxpayer is a replacement property for a former property of the taxpayer, if

(*a*) it is reasonable to conclude that the property was acquired by the taxpayer to replace the former property;

(*a*.1) it was acquired by the taxpayer and used by the taxpayer or a person related to the taxpayer for a use that is the same as or similar to the use to which the taxpayer or a person related to the taxpayer put the former property;

(*b*) where the former property was used by the taxpayer or a person related to the taxpayer for the purpose of gaining or producing income from a business, the particular capital property was acquired for the purpose of gaining or producing income from that or a similar business or for use by a person related to the taxpayer for such a purpose;

(*c*) where the former property was a taxable Canadian property of the taxpayer, the particular capital property is a taxable Canadian property of the taxpayer; and

(*d*) where the former property was a taxable Canadian property (other than treaty-protected property) of the taxpayer, the particular capital property is a taxable Canadian property (other than treaty-protected property) of the taxpayer.

History: S. 44(5)(*c*) was amended, and paragraph (*d*) was added by S.C. 1999, c. 22, s. 12(1), applicable to dispositions that occur in taxation years that end after 1997. S. 44(5)(*c*) formerly read:

"(*c*) where the former property was taxable Canadian property (or would have been taxable Canadian property if the taxpayer were non-resident throughout the year in which the former property was disposed of and the former property were used in a business carried on by the taxpayer), the particular capital property was taxable Canadian property (or would have been taxable Canadian property if the taxpayer were non-resident throughout the year in which the particular capital property was acquired and the particular capital property were used in a business carried on by the taxpayer)."

S. 44(5)(*a*) was amended by S.C. 1998, c. 19, s. 90(2), applicable to dispositions of former properties that occur after the 1993 taxation year. S. 44(5)(*a*) formerly read:

"(*a*) it was acquired by the taxpayer for the same or a similar use as the use to which the taxpayer or a person related to the taxpayer put the former property;"

S. 44(5)(*a*.1) was added by S.C. 1998, c. 19, s. 90(2), applicable to dispositions of former properties that occur after the 1993 taxation year except that, if a taxpayer so elects in respect of a former property of the taxpayer that was disposed of before the day of Royal Assent, June 18, 1998, by notifying the Minister of National Revenue in writing on or before the filing-due date for the taxpayer's first taxation year that ends after the day of Royal Assent, June 18, 1998, paragraph 44(5)(*a*.1) of the Act shall, for the purpose of determining whether a property of the taxpayer is a replacement property of the former property, be read as follows:

"(*a*.1) it was acquired by the taxpayer for a use that is the same as or similar to the use to which the taxpayer or a person related to the taxpayer put the former property;"

S. 44(5)(*a*) to (*c*) were amended by S.C. 1994, c. 7, Sched. II, s. 24(2). Paragraphs (*a*) and (*b*) are applicable to dispositions of former properties occurring after July 13, 1990. Paragraph (*c*) is applicable to property acquired as a replacement for a former property disposed of after April 2, 1990, other than a former property disposed of

(*a*) under an agreement in writing entered into before April 3, 1990; or

(*b*) pursuant to a written notice of an intention to take the property under statutory authority given before April 3, 1990 or for the sale price of the property sold to a person by whom such a notice was given before April 3, 1990.

S. 44(5)(*a*) to (*c*) formerly read:

"(*a*) it was acquired by the taxpayer for the same or a similar use as the use to which the taxpayer put the former property;

(*b*) where the former property was used by the taxpayer for the purpose of gaining or producing income from a business, the particular capital

property was acquired for the purpose of gaining or producing income from that or a similar business; and

(c) where the taxpayer was not resident in Canada at the time the taxpayer acquired the particular capital property, in addition to the requirements in paragraphs (a) and (b), the particular capital property was taxable Canadian property."

Related Sections: S. 13(4) Exchanges of property; s. 13(4.1) Replacement for a former property; s. 13(6) Misclassified property; s. 13(7) Rules applicable; s. 248(1), "treaty-protected property".

► 44(6) ◄

(6) Deemed proceeds of disposition. Where a taxpayer has disposed of property that was a former business property and was in part a building and in part the land (or an interest therein) subjacent to, or immediately contiguous to and necessary for the use of, the building, for the purposes of this subdivision, the amount if any, by which

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 44(6) of the Act before paragraph (a) is replaced by the following:

(6) Deemed proceeds of disposition. Where a taxpayer has disposed of property that was a former business property and was in part a building and in part the land (or an interest, or for civil law a right, therein) subjacent to, or immediately contiguous to and necessary for the use of, the building, for the purposes of this subdivision, the amount if any, by which

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(o).]

(a) the proceeds of disposition of one such part determined without regard to this subsection

exceed

(b) the adjusted cost base to the taxpayer of that part

shall, to the extent that the taxpayer so elects in the taxpayer's return of income under this Part for the year in which the taxpayer acquired a replacement property for the former business property, be deemed not to be proceeds of disposition of that part and to be proceeds of disposition of the other part.

History: S. 44(6), the portion preceding paragraph (a), was amended by S.C. 1994, c. 21, s. 17(2), applicable to dispositions occurring after December 21, 1992. The portion formerly read:

"(6) Where a taxpayer has disposed of property that was a former business property and was in part a building and in part the land, or an interest therein, subjacent to or necessary for the use of the building, for the purposes of subsection (1), the amount, if any, by which"

Related Sections: S. 220(3.2) Late, amended or revoked elections.
Regulations: 600(b).
Information Circulars: IC 07-1 Taxpayer Relief Provisions.

► 44(7) ◄

(7) Where subpara. (1)(e)(iii) does not apply. Subparagraph (1)(e)(iii) does not apply to permit a taxpayer to claim any amount under that subparagraph in computing a gain for a taxation year where

(a) the taxpayer, at the end of the year or at any time in the immediately following year, was not resident in Canada or was exempt from tax under any provision of this Part; or

(b) the person to whom the former property of the taxpayer was disposed of was a corporation that, immediately after the disposition,

(i) was controlled, directly or indirectly in any manner whatever, by the taxpayer,

(ii) was controlled, directly or indirectly in any manner whatever, by a person or group of persons by whom the taxpayer was controlled, directly or indirectly in any manner whatever, or

(iii) controlled the taxpayer, directly or indirectly in any manner whatever, where the taxpayer is a corporation.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 44(7) of the Act is amended by striking out the word "or" at the end of paragraph (a), by adding the word "or" at the end of paragraph (b) and by adding the following after paragraph (b):

(c) the former property of the taxpayer was disposed of to a partnership in which the taxpayer was, immediately after the disposition, a majority interest partner.

Applicable: To dispositions of property by a taxpayer that occur after December 20, 2002. However, if a property so disposed of pursuant to an agreement in writing made before December 21, 2002 is transferred to the purchaser before 2004

(a) subsection 44(7), as it read immediately before the enactment of [the addition of paragraph 44(7)(c)], applies in respect of the disposition of property; and

(b) for the purpose of applying subparagraph 44(1)(e)(iii) to the taxpayer for a taxation year in respect of the property, a reasonable amount as a reserve in respect of the proceeds of disposition may not exceed the amount that would be reasonable if the proceeds from any subsequent disposition of the property that the purchaser receives before the end of the taxation year were received by the taxpayer.

Explanatory Note:

Where Subparagraph 44(1)(e)(iii) Does Not Apply

Subsection 44(7) of the Act restricts a taxpayer from claiming a capital gains reserve under subparagraph 44(1)(e)(iii) where the former property of the taxpayer was disposed of to a non-resident or a corporation that, immediately after the disposition, controlled the taxpayer or was controlled by the taxpayer or by a person or group of persons who controlled the taxpayer. Subsection 44(7) is amended, generally in respect of dispositions of property that occur after December 20, 2002, to provide that the capital gains reserve is also not allowed to a taxpayer where the purchaser of the property is a partnership of which the taxpayer is a majority interest partner.

Related Sections: S. 256(5.1) Control in fact.

► 44(8) ◄

(8) Application of s. 70(10). The definitions in subsection 70(10) apply to this section.

History: S. 44(8) was added in the revised Act.

SECTION 44.1: [Capital gain deferral re small business investments].

Editorial Note: Section 44.1 offers a deferral of capital gains tax with respect to a gain from the disposition of the shares of certain active business corporations by an individual (other than a trust) where such individual reinvests the proceeds of disposition into eligible small business investments. Similar to the exchange of property provisions, this policy measure only provides a deferral which is reflected in a reduction of the cost base of the

new investment. (See also the Editorial Notes re the "eligible small business corporation share" definition and subsection 44.1(2).)

► 44.1(1) ◄

(1) Definitions. The definitions in this subsection apply in this section.

"ACB reduction" — "ACB reduction" of an individual in respect of a replacement share of the individual in respect of a qualifying disposition of the individual means the amount determined by the formula

$$D \times (E/F)$$

where

D is the permitted deferral of the individual in respect of the qualifying disposition;

E is the cost to the individual of the replacement share; and

F is the cost to the individual of all the replacement shares of the individual in respect of the qualifying disposition.

History: S. 44.1(1), the descriptions of E and F in the definition "ACB reduction" were replaced by S.C. 2003, c. 15, s. 70(2), applicable in respect of dispositions that occur after February 18, 2003. S. 44.1(1), the descriptions of E and F in the definition "ACB reduction" formerly read:

"E is the qualifying cost to the individual of the replacement share; and

F is the qualifying cost to the individual of all the replacement shares of the individual in respect of the qualifying disposition."

S. 44.1(1), the definition "ACB reduction" was added by S.C. 2001, c. 17, s. 29(1), applicable to dispositions that occur after February 27, 2000.

"active business corporation" — "active business corporation" at any time means, subject to subsection (10), a corporation that is, at that time, a taxable Canadian corporation all or substantially all of the fair market value of the assets of which at that time is attributable to assets of the corporation that are

(*a*) assets used principally in an active business carried on by the corporation or by an active business corporation that is related to the corporation;

(*b*) shares issued by or debt owing by other active business corporations that are related to the corporation; or

(*c*) a combination of assets described in paragraphs (*a*) and (*b*).

History: S. 44.1(1), the definition "active business corporation" was added by S.C. 2001, c. 17, s. 29(1), applicable to dispositions that occur after February 27, 2000 except that, for dispositions that occurred after February 27, 2000 and before October 18, 2000, the definition "active business corporation" in subsection 44.1(1) shall be read without reference to the words "subject to subsection (10)" and as if the reference to the words "carried on" in paragraph (*a*) of that definition were read as a reference to "carried on primarily in Canada".

Editorial Note: See the Editorial Note to the definition of "eligible small business corporation".

Related Sections: S. 44.1(8), Special rule — re carrying on an active business; s. 44.1(10), Special rule — re exceptions; s. 89(1), "taxable Canadian corporation".

"carrying value" — "carrying value" of the assets of a corporation at any time means the amount at which the assets of the corporation would be valued for the purpose of the corporation's balance sheet as of that time if that balance sheet were prepared in accordance with generally accepted accounting principles used in Canada at that time, except that an asset of a corporation that is a share or debt issued by a related corporation is deemed to have a carrying value of nil.

History: S. 44.1(1), the definition "carrying value" was added by S.C. 2001, c. 17, s. 29(1), applicable to dispositions that occur after February 27, 2000.

Related Sections: s. 248(24), Accounting methods.

"common share" — "common share" means a share prescribed for the purpose of paragraph 110(1)(*d*).

History: S. 44.1(1), the definition "common share" was added by S.C. 2001, c. 17, s. 29(1), applicable to dispositions that occur after February 27, 2000.

Regulations: 6204.

"eligible pooling arrangement" — "eligible pooling arrangement" in respect of an individual means an agreement in writing made between the individual and another person or partnership (which other person or partnership is referred to in this definition and subsection (3) as the "investment manager") where the agreement provides for

(*a*) the transfer of funds or other property by the individual to the investment manager for the purpose of making investments on behalf of the individual;

(*b*) the purchase of eligible small business corporation shares with those funds, or the proceeds of a disposition of the other property, within 60 days after receipt of those funds or the other property by the investment manager; and

(*c*) the provision of a statement of account to the individual by the investment manager at the end of each month that ends after the transfer disclosing the details of the investment portfolio held by the investment manager on behalf of the individual at the end of that month and the details of the transactions made by the investment manager on behalf of the individual during the month.

History: S. 44.1(1), the definition "eligible pooling arrangement" was added by S.C. 2001, c. 17, s. 29(1), applicable to dispositions that occur after February 27, 2000.

"eligible small business corporation" — "eligible small business corporation" at any time means, subject to subsection (10), a corporation that, at that time, is a Canadian-controlled private corporation all or substantially all of the fair market value of the assets of which at that time is attributable to assets of the corporation that are

(*a*) assets used principally in an active business carried on primarily in Canada by the corporation or by an eligible small business corporation that is related to the corporation;

(*b*) shares issued by or debt owing by other eligible small business corporations that are related to the corporation; or

(*c*) a combination of assets described in paragraphs (*a*) and (*b*).

History: S. 44.1(1), the definition "eligible small business corporation" was added by S.C. 2001, c. 17, s. 29(1), applicable to dispositions that occur after February 27, 2000 except that, for dispositions that occurred after February 27, 2000 and before October 18, 2000, the definition "eligible small business corporation" in subsection 44.1(1) shall be read without reference to the words "subject to subsection (10)".

Editorial Note: An "eligible small business corporation" is generally a Canadian-controlled private corporation, as defined under subsection 125(7) (in contrast, an active business corporation need not be a Canadian-controlled private corporation). It is defined (subject to subsection 44.1(10)) as a taxable Canadian corporation, all or substantially all of the fair market value of the assets of which is attributable to assets used principally in an active business carried on primarily in Canada by the corporation or a related corporation that is also an eligible small business corporation, and shares or debt of other eligible small business corporations that are related to the corporation. While the definition is similar to "small business corporation" in subsection 248(1), there are a number of differences. (See also the Editorial Note to subsection 44.1(2).)

Related Sections: S. 44.1(8), Special rule — re carrying on an active business; s. 44.1(10), Special rule — re exceptions; s. 125(7), "Canadian-controlled private corporation".

"eligible small business corporation share" — "eligible small business corporation share" of an individual means a common share issued by a corporation to the individual if

(*a*) at the time the share was issued, the corporation was an eligible small business corporation; and

(*b*) immediately before and after the share was issued, the total carrying value of the assets of the corporation and corporations related to it did not exceed $50,000,000.

History: S. 44.1(1), the definition "eligible small business corporation share" was added by S.C. 2001, c. 17, s. 29(1), applicable to dispositions that occur after February 27, 2000 except that, for dispositions that occurred after February 27, 2000 and before October 18, 2000, the definition "eligible small business corporation share" in subsection 44.1(1) shall be read as follows:

" 'eligible small business corporation share' of an individual means a common share issued by a corporation to the individual if

(*a*) at the time the share was issued, the corporation was an eligible small business corporation;

(*b*) immediately before the share was issued, the total carrying value of the assets of the corporation and corporations related to it did not exceed $2,500,000; and

(*c*) immediately after the share was issued, the total carrying value of the assets of the corporation and corporations related to it did not exceed $10,000,000."

Editorial Note: An "eligible small business corporation share" of an individual is a common share issued by an "eligible small business corporation"; the total carrying value of the assets of which (together with related corporations) did not exceed $50,000,000 immediately before and after the issuance of the share. Because the shares must be from treasury, shares acquired by an individual from the initial investor will not be eligible for the deferral. The meaning of "common share" is prescribed under Regulation 6204. The "carrying value" of the assets is the amount determined for such property in accordance with Canadian GAAP except that shares or debt of a related corporation are deemed to have a carrying value of nil.

A share must be a share of an "active business corporation" but not necessarily a share of an "eligible small business corporation" throughout an individual's ownership period. The latter status is necessary only at the time the share was issued to the individual, thus allowing an individual to claim a deferral with respect to a share of a corporation that was not a Canadian-controlled private corporation throughout the period of ownership. The CRA takes the position that a corporation must have started its business before it can be considered an "eligible small business corporation". For a business to be seen as having started, a significant activity (i.e., a regular part of an income-earning process), must have been undertaken.

(See also the Editorial Note to subsection 44.1(2).)

"permitted deferral" — "permitted deferral" of an individual in respect of a qualifying disposition of the individual means the amount determined by the formula

$$(G/H) \times I$$

where

G is the lesser of the individual's proceeds of disposition from the qualifying disposition and the total of all amounts each of which is the cost to the individual of a replacement share in respect of the qualifying disposition;

H is the individual's proceeds of disposition from the qualifying disposition; and

I is the individual's capital gain from the qualifying disposition.

History: S. 44.1(1), the descriptions of G, H and I in the definition "permitted deferral" were replaced by S.C. 2003, c. 15, s. 70(3), applicable in respect of dispositions that occur after February 18, 2003. S. 44.1(1), the descriptions of G, H and I in the definition "permitted deferral" formerly read:

"G is the lesser of the amount included in the description of H and the total of all amounts each of which is the qualifying cost to the individual of a replacement share in respect of the qualifying disposition;

H is the qualifying portion of the individual's proceeds of disposition from the qualifying disposition; and

I is the qualifying portion of the individual's capital gain from the qualifying disposition."

S. 44.1(1), the definition "permitted deferral" was added by S.C. 2001, c. 17, s. 29(1), applicable to dispositions that occur after February 27, 2000.

Editorial Note: Effective February 18, 2003, there is no limit on the amount of capital gains eligible for the deferral. (See also the Editorial Note to subsection 44.1(2).)

Related Sections: S. 44.1(12), Anti-avoidance rule.

"qualifying cost" — [Repealed by S.C. 2003, c. 15, s. 70(1).]

History: S. 44.1(1), the definition "qualifying cost" was repealed by S.C. 2003, c. 15, s. 70(1), applicable in respect of dispositions that occur after February 18, 2003. S. 44.1(1), the definition "qualifying cost" formerly read:

" *'qualifying cost'* — 'qualifying cost' to an individual of particular replacement shares of the individual in respect of a qualifying disposition of the individual that are shares of the capital stock of a particular eligible small business corporation means the lesser of

(*a*) the total of all amounts each of which is the cost to the individual of such a replacement share; and

(*b*) the amount by which $2,000,000 exceeds the total of all amounts each of which is the cost to the individual of a share that was a share of the capital stock of the particular eligible small business corporation or of a corporation related to it at the time the particular replacement shares were acquired and that was a replacement share of the individual in respect of another qualifying disposition."

S. 44.1(1), the definition "qualifying cost" was added by S.C. 2001, c. 17, s. 29(1), applicable to dispositions that occur after February 27, 2000 except that, for dispositions that occurred after February 27, 2000 and before October 18, 2000, the definition "qualifying cost" in subsection 44.1(1) shall be read as if the reference to "$2,000,000" in paragraph (*b*) of that definition were read as a reference to "$500,000".

"qualifying disposition" — "qualifying disposition" of an individual (other than a trust) means, subject to subsection (9), a disposition of shares of the capital stock of a corporation where each such share disposed of was

(*a*) an eligible small business corporation share of the individual;

(*b*) throughout the period during which the individual owned the share, a common share of an active business corporation; and

(*c*) throughout the 185-day period that ended immediately before the disposition of the share, owned by the individual.

History: S. 44.1(1), the definition "qualifying disposition" was added by S.C. 2001, c. 17, s. 29(1), applicable to dispositions that occur after February 27, 2000 except that, for dispositions that occurred after February 27, 2000 and before October 18, 2000, the definition "qualifying disposition" in subsection 44.1(1) shall be read without reference to the words "subject to subsection (9)".

Editorial Note: A "qualifying disposition" of a common share of an active business corporation by an individual requires that the active business of the corporation was carried on primarily in Canada by the corporation or a related active business corporation since the time at which the individual last acquired the share or a period of 730 days, whichever is less. (See also the Editorial Note to subsections 44.1(2) and 44.1(9).)

Related Sections: S. 44.1(9), Special rule — re qualifying disposition.

"qualifying portion of a capital gain" — [Repealed by S.C. 2003, c. 15, s. 70(1).]

History: S. 44.1(1), the definition "qualifying portion of a capital gain" was repealed by S.C. 2003, c. 15, s. 70(1), applicable in respect of dispositions that occur after February 18, 2003. S. 44.1(1), the definition "qualifying portion of a capital gain" formerly read:

" *'qualifying portion of a capital gain'* — 'qualifying portion of a capital gain' of an individual from a particular qualifying disposition of the individual means the amount determined by the formula

$$J \times (1 - (K/L))$$

where

J is the individual's capital gain from the particular qualifying disposition, determined without reference to this section

K is the amount, if any, by which the total of

(*a*) the total of all amounts each of which is the adjusted cost base to the individual of a share of a particular corporation that was the subject of the particular qualifying disposition (which adjusted cost base shall be determined immediately before the share was disposed of and without reference to this section), and

(*b*) the total of all amounts each of which is the adjusted cost base to the individual of a share of the particular corporation or a corpora-

tion related to it at the time of the particular qualifying disposition that was the subject of another qualifying disposition (in respect of which a permitted deferral was deducted under this section by the individual) that occurred at or before the time of the particular qualifying disposition (which adjusted cost base shall be determined immediately before the share was disposed of and without reference to this section)

exceeds

(*c*) $2,000,000; and

L is the total of all amounts each of which is the adjusted cost base to the individual of a share of the particular corporation that was the subject of the particular qualifying disposition (which adjusted cost base shall be determined immediately before the share was disposed of and without reference to this section)."

S. 44.1(1), the definition "qualifying portion of a capital gain" was added by S.C. 2001, c. 17, s. 29(1), applicable to dispositions that occur after February 27, 2000 except that, for dispositions that occurred after February 27, 2000 and before October 18, 2000, the definition "qualifying portion of a capital gain" in subsection 44.1(1) shall be read as if the reference to "$2,000,000" in paragraph (*c*) of the description of K in that definition were read as a reference to "$500,000".

Related Sections: S. 39(1)(*a*) Meaning of capital gain and capital loss; s. 54, "adjusted cost base".

"qualifying portion of the proceeds of disposition" — [Repealed by S.C. 2003, c. 15, s. 70(1).]

History: S. 44.1(1), the definition "qualifying portion of the proceeds of disposition" was repealed by S.C. 2003, c. 15, s. 70(1), applicable in respect of dispositions that occur after February 18, 2003. S. 44.1(1), the definition "qualifying portion of the proceeds of disposition" formerly read:

" *'qualifying portion of the proceeds of disposition'* — 'qualifying portion of the proceeds of disposition' of an individual from a qualifying disposition means the amount determined by the formula

$$M \times (N/O)$$

where

M is the individual's proceeds of disposition from the qualifying disposition;

N is the individual's qualifying portion of the capital gain from the qualifying disposition; and

O is the individual's capital gain from the qualifying disposition, determined without reference to this section."

S. 44.1(1), the definition "qualifying portion of the proceeds of disposition" was added by S.C. 2001, c. 17, s. 29(1), applicable to dispositions that occur after February 27, 2000.

"replacement share" — "replacement share" of an individual in respect of a qualifying disposition of the individual in a taxation year means an eligible small business corporation share of the individual that is

(*a*) acquired by the individual in the year or within 120 days after the end of the year; and

(*b*) designated by the individual in the individual's return of income for the year to be a replacement share in respect of the qualifying disposition.

History: S. 44.1(1), paragraph (*a*) of the definition "replacement share" was replaced by S.C. 2003, c. 15, s. 70(4), applicable in respect of dispositions that occur after February 18, 2003. S. 44.1(1), paragraph (*a*) of the definition "replacement share" formerly read:

"(*a*) acquired by the individual in the year or within 60 days after the end of the year, but not later than 120 days after the qualifying disposition occurred; and"

S. 44.1(1), the definition "replacement share" was added by S.C. 2001, c. 17, s. 29(1), applicable to dispositions that occur after February 27, 2000.

Editorial Note: A "replacement share" is an eligible small business corporation share that is acquired by the individual in the year or within 120 days after the end of the year and is designated by the individual in his/her tax return for the year to be a replacement share in respect of the qualifying disposition. However, the late filing of, or the failure to make a designation, could prevent an individual from claiming the deferral, even though the shares would otherwise qualify as replacement shares. The designation is also not eligible for relief under subsection 220(3.2). This highlights the importance of making a designation in respect of the replacement shares on a timely basis. (See also the Editorial Note to subsection 44.1(2).)

► 44.1(2) ◄

(2) Capital gain deferral. Where an individual has made a qualifying disposition in a taxation year,

(*a*) the individual's capital gain for the year from the qualifying disposition is deemed to be the amount by which the individual's capital gain for the year from the qualifying disposition, determined without reference to this section, exceeds the individual's permitted deferral in respect of the qualifying disposition;

(*b*) in computing the adjusted cost base to the individual of a replacement share of the individual in respect of the qualifying disposition at any time after its acquisition, there shall be deducted the amount of the ACB reduction of the individual in respect of the replacement share; and

(*c*) where the qualifying disposition was a disposition of a share that was a taxable Canadian property of the individual, the replacement share of the individual in respect of the qualifying disposition is deemed to be taxable Canadian property of the individual.

History: S. 44.1(2) was added by S.C. 2001, c. 17, s. 29(1), applicable to dispositions that occur after February 27, 2000.

Editorial Note: The small business investment deferral allows an individual to defer the amount of his or her capital gain from a "qualifying disposition" as follows: (a) the individual's capital gain from the qualifying disposition is reduced by the amount of the individual's "permitted deferral" in respect of the disposition; (b) the adjusted cost base of the individual's "replacement shares" is reduced by the amount of the individual's ACB reduction in respect of such shares (the ACB reduction is the amount of the permitted deferral prorated over the number of replacement shares); and (c) the replacement shares of the individual in respect of the qualifying disposition are deemed to be taxable Canadian property where the qualifying disposition was a disposition of shares that were taxable Canadian property.

An individual's permitted deferral is proportional to the percentage of the proceeds from a qualifying disposition that is reinvested in replacement shares.

Related Sections: S. 39(1)(*a*) Meaning of capital gain and capital loss; s. 53(2)(*a*)(v) Amounts to be deducted — Share of the capital stock of a corporation; s. 54, "adjusted cost base"; s. 107.4(3)(*f*) Tax consequences of qualifying dispositions; s. 248(1), "taxable Canadian property".

Tax Topics: No. 1527, ESBC vs. QSBC.

Tax Profile: June 2001 — Capital Gains Deferral for Small Business.

Canadian Tax Foundation: Shapiro, "The Replacement Property Rules: A Bit More Than Before", *Personal Tax Planning feature, 2002 Canadian Tax Journal*, 6:2141.

► 44.1(3) ◄

(3) Special rule — re eligible pooling arrangements. Except for the purpose of the definition "eligible pooling arrangement" in subsection (1), any transaction entered into by an investment manager under an eligible pooling arrangement on behalf of an individual is deemed to be a transaction of the individual and not a transaction of the investment manager.

History: S. 44.1(3) was added by S.C. 2001, c. 17, s. 29(1), applicable to dispositions that occur after February 27, 2000.

Editorial Note: Any transaction entered into by an investment manager under an eligible pooling arrangement on behalf of an individual is deemed to be that of the individual.

► 44.1(4) ◄

(4) Special rule — re acquisitions on death. For the purpose of this section, a share of the capital stock of a corporation, acquired by an individual as a consequence of the death of a person who is the individual's spouse, common-law partner or parent, is deemed to be a share that was acquired by the individual at the time it was acquired by that person and owned by the individual throughout the period that it was owned by that person, if

(*a*) where the person was the spouse or common-law partner of the individual, the share was an eligible small business share of the person and subsection 70(6) applied to the individual in respect of the share; or

(*b*) where the person was the individual's parent, the share was an eligible small business share of the parent and subsection 70(9.2) applied to the individual in respect of the share.

History: S. 44.1(4) was added by S.C. 2001, c. 17, s. 29(1), applicable to dispositions that occur after February 27, 2000.

Editorial Note: Where an individual acquires the shares of a corporation as a consequence of the death of his/her spouse, common-law partner or parent, the individual is deemed to have acquired the shares at the same time as the deceased individual and to have owned the shares throughout the period that they were owned by the deceased individual.

► 44.1(5) ◄

(5) Special rule — re breakdown of relationships. For the purpose of this section, a share of the capital stock of a corporation, acquired by an individual from a person who was the individual's former spouse or common-law partner as a consequence of the settlement of rights arising out of their marriage or common-law partnership, is deemed to be a share that was acquired by the individual at the time it was acquired by that person and owned by the individual throughout the period that it was owned by that person if the share was an eligible small business share of the person and subsection 73(1) applied to the individual in respect of the share.

History: S. 44.1(5) was added by S.C. 2001, c. 17, s. 29(1), applicable to dispositions that occur after February 27, 2000.

Editorial Note: Where an individual acquires shares of a corporation from the individual's former spouse or common-law partner as a result of a settlement agreement with such former spouse or common-law partner, the individual is deemed to have acquired such shares at the time that the transferor acquired the shares and to have owned such shares throughout the period that the transferor owned the shares.

► 44.1(6) ◄

(6) Special rule — re eligible small business corporation share exchanges. For the purpose of this section, where an individual receives shares of the capital stock of a corporation that are eligible small business corporation shares of the individual (in this subsection referred to as the "new shares") as the sole consideration for the disposition of shares issued by another corporation that were eligible small business corporation shares of the individual (in this subsection referred to as the "exchanged shares"), the new shares are deemed to have been owned by the individual throughout the period that the exchanged shares were owned by the individual if

(*a*) paragraph 85(1)(*h*) or subsection 85.1(3) or 87(4) applied to the individual in respect of the new shares; and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 44.1(6) of the Act before paragraph (*b*) is replaced by the following:

(6) Special rule — re eligible small business corporation share exchanges. For the purpose of this section, where an individual receives shares of the capital stock of a particular corporation that are eligible small business corporation shares of the individual (in this subsection referred to as the "new shares") as the sole consideration for the disposition by the individual of shares issued by the particular corporation or by another corporation that were eligible small business corporation shares of the individual (in this subsection referred to as the "exchanged shares"), the new shares are deemed to have been owned by the individual throughout the period that the exchanged shares were owned by the individual if

(*a*) section 51, paragraph 85(1)(*h*), subsection 85.1(1), section 86 or subsection 87(4) applied to the individual in respect of the new shares; and

Applicable: To dispositions that occur after February 27, 2000.

Explanatory Note:

Special Rule — Eligible Small Business Corporation Share Exchanges

Subsection 44.1(6) of the Act provides rules that apply where an individual exchanges an eligible small business corporation share for new eligible small business corporation share. Subsection 44.1(6) is amended to substitute the reference to subsection 85.1(3) with a reference to subsection 85.1(1) and to add a reference to sections 51 and 86. These changes apply to dispositions of shares made after February 27, 2000.

(*b*) the individual's total proceeds of disposition of the exchanged shares was equal to the total of all amounts each of which was the individual's adjusted cost base of an exchanged share immediately before the disposition.

History: S. 44.1(6) was added by S.C. 2001, c. 17, s. 29(1), applicable to dispositions that occur after February 27, 2000.

► 44.1(7) ◄

(7) Special rule — re active business corporation share exchanges. For the purpose of this section, where an individual receives common shares of the capital stock of a corporation (in this subsection referred to as the "new shares") as the sole consideration for the disposition of common shares of another corporation (in this subsection referred to as the "exchanged shares"), the new shares are deemed to be eligible small business corporation shares of the individual and shares of the capital stock of an active business corporation that were owned by the individual throughout the period that the exchanged shares were owned by the individual, if

(*a*) paragraph 85(1)(*h*) or subsection 85.1(3) or 87(4) applied to the individual in respect of the new shares;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 44.1(7) of the Act before paragraph (*b*) is replaced by the following:

(7) Special rule — re active business corporation share exchanges. For the purpose of this section, where an individual receives common shares of the capital stock of a particular corporation (in this subsection referred to as the "new shares") as the sole consideration for the disposition by the individual of common shares of the particular corporation or of another corporation (in this subsection referred to as the "exchanged shares"), the new shares are deemed to be eligible small business corporation shares of the individual and shares of the capital stock of an active business corporation that were owned by the individual throughout the period that the exchanged shares were owned by the individual, if

(*a*) section 51, paragraph 85(1)(*h*), subsection 85.1(1), section 86 or subsection 87(4) applied to the individual in respect of the new shares;

Applicable: To dispositions that occur after February 27, 2000.

Explanatory Note:

Special Rule — Active Business Corporation Share Exchanges

Subsection 44.1(7) of the Act provides rules that apply where an individual, in the course of a qualifying disposition, disposes of common shares of an active business corporation for consideration consisting only of new common shares of another active business corporation issued to the individual. Subsection 44.1(7) is amended to substitute the reference to subsection 85.1(3) with a reference to subsection 85.1(1) and to add a reference to sections 51 and 86.

These changes apply to dispositions of shares made after February 27, 2000.

(*b*) the total of the individual's proceeds of disposition in respect of the disposition of the exchanged shares was equal to the total of the individual's adjusted cost bases immediately before the disposition of such shares; and

(*c*) the disposition of the exchanged shares was a qualifying disposition of the individual.

History: S. 44.1(7) was added by S.C. 2001, c. 17, s. 29(1), applicable to dispositions that occur after February 27, 2000.

Editorial Note: The provisions of subsections 44.1(6) and (7) allow certain share exchanges and rollovers to occur without jeopardizing the qualification of the shares as shares of an active business corporation held throughout the 185-day holding period. The individual who had rolled or exchanged shares for new shares of an eligible small business corporation is deemed to have owned the new shares throughout the period that he or she owned the exchanged or rolled shares.

► 44.1(8) ◄

(8) Special rule — re carrying on an active business. For the purpose of the definitions in subsection (1), a property held at any particular time by a corporation that would, if this Act were read without reference to this subsection, be considered to carry on an active business at that time, is deemed to be used or held by the corporation in the course of carrying on that active business if the property (or other property for which the property is substituted property) was acquired by the corporation, at any time in the 36-month period ending at the particular time, because the corporation

(*a*) issued a debt or a share of a class of its capital stock in order to acquire money for the purpose of acquiring property to be used in or held in the course of, or making expenditures for the purpose of, earning income from an active business carried on by it;

(*b*) disposed of property used or held by it in the course of carrying on an active business in order to acquire money for the purpose of acquiring property to be used in or held in the course of, or making expenditures for the purpose of, earning income from an active business carried on by it; or

(*c*) accumulated income derived from an active business carried on by it in order to acquire property to be used in or held in the course of, or to make expenditures for the purpose of, earning income from an active business carried on by it.

History: S. 44.1(8) was added by S.C. 2001, c. 17, s. 29(1), applicable to dispositions that occur after February 27, 2000.

Editorial Note: Cash will be deemed to be an active business asset during a 36-month period that begins after the corporation received the funds from certain transactions relating to its active business. This subsection, in effect, provides a 36-month grace period for a corporation to convert its cash into active business assets.

A similar grace period does not apply to the definition of a "small business corporation share" in subsection 248(1) and a "qualifying small business corporation share" in section 110.6.

An essential condition to the application of subsection 44.1(8) is that the corporation be considered as carrying on an active business at any time for the purpose of determining if a particular property is used in the course of carrying on an active business. The CRA has indicated that this condition will not be met if the business had not started at the time the treasury shares were acquired by the individual (Doc. No. 2004-008379117).

Related Sections: S. 248(5) Substituted property.

► 44.1(9) ◄

(9) Special rule — re qualifying disposition. A disposition of a common share of an active business corporation (in this subsection referred to as the "subject share") by an individual that, but for this subsection, would be a qualifying disposition of the individual is deemed not to be a qualifying disposition of the individual unless the active business of the corporation referred to in paragraph (*a*) of the definition "active business corporation" in subsection (1) was carried on primarily in Canada

(*a*) at all times in the period that began at the time the individual last acquired the subject share and ended at the time of disposition, if that period is less than 730 days; or

(*b*) in any other case, for at least 730 days in the period referred to in paragraph (*a*).

History: S. 44.1(9) was added by S.C. 2001, c. 17, s. 29(1), applicable to dispositions that occur after February 27, 2000 except that, for dispositions that occurred after February 27, 2000 and before October 18, 2000, section 44.1 shall be read without reference to subsections 44.1(9) and (10).

Editorial Note: A disposition of a common share of an active business corporation by an individual is deemed not to be a qualifying disposition unless the active business of the corporation was carried on primarily in Canada by the corporation or a related active business corporation since the time at which the individual last acquired the share or for a period of 730 days, whichever is less.

► 44.1(10) ◄

(10) Special rule — re exceptions. For the purpose of this section, an eligible small business corporation and an active business corporation at any time do not include a corporation that is at that time,

(*a*) a professional corporation;

(*b*) a specified financial institution;

(*c*) a corporation the principal business of which is the leasing, rental, development or sale, or any combination of those activities, of real property owned by it; or

(*d*) a corporation more than 50 per cent of the fair market value of the property of which (net of debts incurred to acquire the property) is attributable to real property.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraphs 44.1(10)(*c*) and (*d*) of the Act are replaced by the following:

(*c*) a corporation the principal business of which is the leasing, rental, development or sale, or any combination

of those activities, of real or immovable property owned by it; or

(*d*) a corporation more than 50 per cent of the fair market value of the property of which (net of debts incurred to acquire the property) is attributable to real or immovable property.

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

History: S. 44.1(10) was added by S.C. 2001, c. 17, s. 29(1), applicable to dispositions that occur after February 27, 2000 except that, for dispositions that occurred after February 27, 2000 and before October 18, 2000, section 44.1 shall be read without reference to subsections 44.1(9) and (10).

Editorial Note: An eligible small business corporation and an active business corporation do not include: a "professional corporation" (as defined in subsection 248(1)); a "specified financial institution" (as defined in subsection 248(1)); a corporation, the principal business of which is the leasing, rental, development or sale — or any combination of those activities — of real property owned by it; or a corporation more than 50% of the fair market value of the property of which (net of debts incurred to acquire the property) is attributable to real property.

Related Sections: S. 248(1), "professional corporation", "specified financial institution".

► 44.1(11) ◄

(11) Determination rule. In determining whether a share owned by an individual is an eligible small business corporation share of the individual, this Act shall be read without reference to section 48.1.

History: S. 44.1(11) was added by S.C. 2001, c. 17, s. 29(1), applicable to dispositions that occur after February 27, 2000.

Editorial Note: The Act is to be read without reference to section 48.1 in determining whether a share owned by an individual is an eligible small business corporation share of the individual. Section 48.1 deems a share to be reacquired and therefore would be offside the definition of an eligible small business corporation share as the share would not be "issued".

► 44.1(12) ◄

(12) Anti-avoidance rule. The permitted deferral of an individual in respect of a qualifying disposition of shares issued by a corporation (in this subsection referred to as "new shares") is deemed to be nil where

(*a*) the new shares (or shares for which the new shares are substituted property) were issued to the individual or a person related to the individual as part of a series of transactions or events in which

(i) shares of the capital stock of a corporation (in this subsection referred to as the "old shares") were disposed of by the individual or a person related to the individual, or

(ii) the paid-up capital of old shares or the adjusted cost base to the individual or to a person related to the individual of the old shares was reduced;

(*b*) the new shares (or shares for which the new shares are substituted property) were issued by the corporation that issued the old shares or were issued by a corporation that, at or immediately after the time of issue of those shares, was a corporation that was not dealing at arm's length with the corporation that issued the old shares; and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 44.1(12)(*b*) of the Act is replaced by the following:

(*b*) the new shares (or shares for which the new shares are substituted property) were

(i) issued by the corporation that issued the old shares,

(ii) issued by a corporation that, at or immediately after the time of issue of the new shares, was a corporation that was not dealing at arm's length with

(A) the corporation that issued the old shares, or

(B) the individual, or

(iii) issued, by a corporation that acquired the old shares (or by another corporation related to that corporation), as part of the transaction or event or series of transactions or events that included that acquisition of the old shares; and

Applicable: To dispositions that occur after February 27, 2004.

Explanatory Note:

Anti-avoidance Rule

Subsection 44.1(12) of the Act is an anti-avoidance rule. It applies where an individual or persons related to the individual dispose of shares of a particular corporation (which would normally result in the use of the corporate reorganization rules or a return of paid-up capital of shares of the corporation) and acquire new shares of the particular corporation or a corporation that does not deal at arm's length with the particular corporation principally for the purpose of increasing the total amount of permitted deferrals with respect to qualifying dispositions of the individual and the related persons. Where the rule applies, the permitted deferral with respect to qualifying dispositions of the new shares is deemed to be nil.

Subsection 44.1(12) is amended to apply to the following circumstances:

- when the new shares are issued by a corporation that, at or immediately after the time of issue of the new shares, was a corporation that was not dealing at arm's length with the individual; and
- when the new shares are issued, by a corporation that acquired the old shares (or by another corporation related to that corporation), as part of the transaction or event or series of transactions or events that included that acquisition of the old shares.

This amendment applies to dispositions that occur after February 27, 2004.

(*c*) it is reasonable to conclude that one of the main reasons for the series of transactions or events or a transaction in the series was to permit the individual, persons related to the individual, or the individual and persons related to the individual to become eligible to deduct under subsection (2) permitted deferrals in respect of qualifying dispositions of new shares (or shares substituted for the new shares) the total of which would exceed the total that those persons would have been eligible to deduct under subsection (2) in respect of permitted deferrals in respect of qualifying dispositions of old shares.

History: S. 44.1(12) was added by S.C. 2001, c. 17, s. 29(1), applicable to dispositions that occur after February 27, 2000.

Editorial Note: This anti-avoidance rule will deem the permitted deferral to be nil where an individual (or a related person) disposes of shares of a particular corporation and acquires new shares of the particular corporation (or of a corporation not at arm's length with the particular corporation) with the purpose of increasing the total amount of permitted deferrals with respect to qualifying dispositions of the individual (and/or related persons).

The provision is broadly worded to potentially encompass any internal reorganization, the purpose of which is to increase the permitted deferral of a related group of companies.

Related Sections: S. 54, "adjusted cost base"; s. 248(1), "taxable Canadian property"; s. 248(5) Substituted property; s. 251(1) Arm's length; s. 251(6) Blood relationship, etc.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 44.1 of the Act is amended by adding the following after subsection (12):

(13) **Order of disposition of shares.** For the purpose of this section, an individual is deemed to dispose of shares that are identical properties in the order in which the individual acquired them.

Applicable: In respect of dispositions that occur after December 20, 2002. However, if an individual so elects in writing and files the election with the Minister of National Revenue on or before the individual's filing-due date for the individual's taxation year in which this Act is assented to, subsection 44.1(13) applies, in respect of the individual, to dispositions that occur after February 27, 2000.

Explanatory Note:

Order of Disposition of Shares

New subsection 44.1(13) of the Act is a provision that applies when an individual disposes of a share that is identical to other shares owned by the individual. The provision deems, for the purposes of section 44.1, the shares to have been disposed of in the same order in which the individual acquired them.

New subsection 44.1(13) applies to dispositions that occur after December 20, 2002 or, if the individual so elects in writing and files the election with the Minister of National Revenue, to dispositions made after February 27, 2000.

SECTION 45:

► 45(1) ◄

(1) Property with more than one use. For the purposes of this subdivision the following rules apply:

(*a*) where a taxpayer,

(i) having acquired property for some other purpose, has commenced at a later time to use it for the purpose of gaining or producing income, or

(ii) having acquired property for the purpose of gaining or producing income, has commenced at a later time to use it for some other purpose,

the taxpayer shall be deemed to have

(iii) disposed of it at that later time for proceeds equal to its fair market value at that later time, and

(iv) immediately thereafter reacquired it at a cost equal to that fair market value;

(*b*) where property has, since it was acquired by a taxpayer, been regularly used in part for the purpose of gaining or producing income and in part for some other purpose, the taxpayer shall be deemed to have acquired, for that other purpose, the proportion of the property that the use regularly made of the property for that other purpose is of the whole use regularly made of the property at a cost to the taxpayer equal to the same proportion of the cost to the taxpayer of the whole property, and, if the property has, in such a case, been disposed of, the proceeds of disposition of the proportion of the property deemed to have been acquired for that other purpose shall be deemed to be the same proportion of the proceeds of disposition of the whole property;

(*c*) where, at any time after a taxpayer has acquired property, there has been a change in the relation between the use regularly made by the taxpayer of the property for gaining or producing income and the use regularly made of the property for other purposes,

(i) if the use regularly made of the property for those other purposes has increased, the taxpayer shall be deemed to have

(A) disposed of the property at that time for proceeds equal to the proportion of the fair market value of the property at that time that the amount of the increase in the use regularly made by the taxpayer of the property for those other purposes is of the whole use regularly made of the property, and

(B) immediately thereafter reacquired the property so disposed of at a cost equal to the proceeds referred to in clause (A), and

(ii) if the use regularly made of the property for those other purposes has decreased, the taxpayer shall be deemed to have

(A) disposed of the property at that time for proceeds equal to the proportion of the fair market value of the property at that time that the amount of the decrease in use regularly made by the taxpayer of the property for those other purposes is of the whole use regularly made of the property, and

(B) immediately thereafter reacquired the property so disposed of at a cost equal to the proceeds referred to in clause (A); and

(*d*) in applying this subsection in respect of a non-resident taxpayer, a reference to "gaining or producing income" shall be read as a reference to "gaining or producing income from a source in Canada".

History: S. 45(1)(*d*) was added by S.C. 2001, c. 17, s. 30(1), applicable after October 1, 1996.

S. 45(1)(*c*)(ii) was amended and s. 45(1)(*c*)(i) was added by S.C. 1994, c. 7, Sched. II, s. 25(1), applicable to the 1972 and subsequent taxation years. S. 45(1)(*c*)(ii) formerly read:

"(ii) if the use regularly made by the taxpayer of the property for those other purposes has decreased, the taxpayer shall be deemed to have disposed of property at that time and the proceeds of disposition shall be deemed to be an amount equal to the proportion of the fair market value of the property at that time that the amount of the decrease in use regularly made by the taxpayer of the property for those other purposes is of the whole use regularly made of the property."

Editorial Note: Subsection 45(1) does not appear to apply to conversions of inventory to income-producing capital property, or vice versa, since both types of property are used for income-producing purposes. For the CRA's views of the income tax consequences of such conversions, see IT-102R2 and IT-218R, noted below ("Interpretation Bulletins").

Related Sections: S. 13(7) Rules applicable; s. 45(2) Election where change of use; s. 45(3) Election concerning principal residence; s. 54, "principal residence", "proceeds of disposition".

Interpretation Bulletins: *Secondary* — IT-102R2 Conversion of property, other than real property, from or to inventory; IT-120R6 Principal Residence; IT-160R3 Personal use of aircraft [Archived by the CRA]; IT-218R Profit, capital gains and losses from the sale of real estate, including farmland and inherited land and conversion of real estate from capital property to inventory and vice versa.

Tax Topics: No. 1838, Conversion of Vacant Land from Capital Property to Inventory.

Tax Window Files: Change in Use of a Duplex Given to a Grandson, January 26, 2007, CRA Document No. 2005-0157751E5; Cottage — Intention of Purchaser, December 18, 2006, CRA Document No. 2006-0208681E5; Change in Use of Property Prior to Acquisition, October 26, 2005, CRA Document No. 2005-0125831E5; Principal Residence Exemption — Use of Residence for Rental and Business Purposes, January 7, 2004, CRA Document No. 2003-0038217; Principal Residence Exemption — Rental of Home Outside Canada, May 14, 2003, CRA Document No.

2003-0014907; Change in Use of Property, June 30, 2000, CRA Document No. 1999-0013945.
Cases: Where there has been a deemed disposition, the proceeds are deemed to have been received at the time the property was deemed to have been disposed of. *Derlago v. The Queen*, 88 DTC 6290 (F.C.T.D.), affirming 86 DTC 1503 (T.C.C.).

► 45(2) ◄

(2) Election where change of use. For the purposes of this subdivision and section 13, where subparagraph (1)(*a*)(i) or paragraph 13(7)(*b*) would otherwise apply to any property of a taxpayer for a taxation year and the taxpayer so elects in respect of the property in the taxpayer's return of income for the year under this Part, the taxpayer shall be deemed not to have begun to use the property for the purpose of gaining or producing income except that, if in the taxpayer's return of income under this Part for a subsequent taxation year the taxpayer rescinds the election in respect of the property, the taxpayer shall be deemed to have begun so to use the property on the first day of that subsequent year.

History: S. 45(2) was amended by S.C. 1994, c. 21, s. 18(1), applicable to the 1992 and subsequent taxation years. S. 45(2) formerly read:

"(2) For the purposes of this subdivision and section 13, where subparagraph (1)(*a*)(i) and paragraph 13(7)(*b*) would otherwise be applicable in respect of any property of a taxpayer for a taxation year and the taxpayer so elects in the taxpayer's return of income for the year under this Part, the taxpayer shall be deemed not to have commenced to use the property for the purpose of gaining or producing income therefrom or for the purpose of gaining or producing income from a business except that, if in the taxpayer's return of income for a subsequent year and under this Part the taxpayer rescinds the election in respect of the property, the taxpayer shall be deemed to have commenced so to use the property on the first day of that subsequent year."

Editorial Note: In the case of a change of use in a residential property, an election under subsection 45(2) or (3) to preserve principal residence status (e.g., where the taxpayer moves out of the residence and subsequently rents it out, or vice versa) is normally applicable for up to four years; see paragraph (*d*) of the definition "principal residence" in section 54. However, principal residence status can be extended beyond four years for taxpayers who are required to live away from their principal residence for longer periods of time by virtue of their employment; see section 54.1.

Related Sections: S. 13(7) Rules applicable; s. 54, "principal residence"; s. 54.1(1) Exception to principal residence rules; s. 220(3.2) Late, amended or revoked elections; s. 248(1), "business", "property".
Regulations: 600(b).
Interpretation Bulletins: *Secondary* — IT-120R6 Principal Residence.
Information Circulars: IC 07-1 Taxpayer Relief Provisions.
Tax Topics: No. 1699, Draft Legislation Governing Non-Competition Payments.
Tax Profile: April 2007 — Tax Planning for Emigration from Canada.
Tax Window Files: Principal Residence Exemption — Two Houses on Property, April 28, 2006, CRA Document No. 2005-0157441I7; Change in Use of Property Prior to Acquisition, October 26, 2005, CRA Document No. 2005-0125831E5; Principal Residence Exemption, June 3, 2004, CRA Document No. 2004-0056851E5; Principal Residence Exemption — Rental of Home Outside Canada, May 14, 2003, CRA Document No. 2003-0014907.

► 45(3) ◄

(3) Election concerning principal residence. Where at any time a property that was acquired by a taxpayer for the purpose of gaining or producing income ceases to be used for that purpose and becomes the principal residence of the taxpayer, subsection (1) shall not apply to deem the taxpayer to have disposed of the property at that time and to have reacquired it immediately thereafter if the taxpayer so elects by notifying the Minister in writing on or before the earlier of

(*a*) the day that is 90 days after a demand by the Minister for an election under this subsection is sent to the taxpayer, and

(*b*) the taxpayer's filing-due date for the taxation year in which the property is actually disposed of by the taxpayer.

History: S. 45(3)(*b*) was amended by S.C. 1996, c. 21, s. 10(1), applicable to the 1995 and subsequent taxation years. S. 45(3)(*b*) formerly read:

"(*b*) April 30 following the year in which the property is actually disposed of by the taxpayer."

Editorial Note: See the editorial note under subsection 45(2). The subsection 45(3) election cannot be made if capital cost allowance has been claimed in respect of the property for a taxation year ending after 1984; see subsection 45(4).

Related Sections: S. 45(4) Where election cannot be made; s. 54, "principal residence"; s. 54.1(1) Exception to principal residence rules; s. 220(3.2) Late, amended or revoked elections; s. 248(1), "filing-due date".
Regulations: 600(b).
Interpretation Bulletins: *Secondary* — IT-120R6 Principal Residence.
Information Circulars: IC 07-1 Taxpayer Relief Provisions.

► 45(4) ◄

(4) Where election cannot be made. Notwithstanding subsection (3), an election described in that subsection shall be deemed not to have been made in respect of a change in use of property if any deduction in respect of the property has been allowed for any taxation year ending after 1984 and on or before the change in use under regulations made under paragraph 20(1)(*a*) to the taxpayer, the taxpayer's spouse or common-law partner or a trust under which the taxpayer or the taxpayer's spouse or common-law partner is a beneficiary.

History: S. 45(4) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(g), applicable January 1, 2001, coming into force on July 31, 2000. S. 45(4) formerly read:

"(4) *Where election cannot be made.* Notwithstanding subsection (3), an election described in that subsection shall be deemed not to have been made in respect of a change in use of property if any deduction in respect of the property has been allowed for any taxation year ending after 1984 and on or before the change in use under regulations made under paragraph 20(1)(*a*) to the taxpayer, the taxpayer's spouse or a trust under which the taxpayer or the taxpayer's spouse is a beneficiary."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Interpretation Bulletins: *Secondary* — IT-120R6 Principal Residence.

SECTION 46:

► 46(1) ◄

(1) Personal-use property. Where a taxpayer has disposed of a personal-use property (other than an excluded property disposed of in circumstances to which subsection 110.1(1), or the definition "total charitable gifts", "total cultural gifts" or "total ecological gifts" in subsection 118.1(1), applies) of the taxpayer, for the purposes of this subdivision

(*a*) the adjusted cost base to the taxpayer of the property immediately before the disposition shall be deemed to be the greater of $1,000 and the amount otherwise determined to be its adjusted cost base to the taxpayer at that time; and

(*b*) the taxpayer's proceeds of disposition of the property shall be deemed to be the greater of $1,000 and the taxpayer's proceeds of disposition of the property otherwise determined.

History: S. 46(1), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 31(1), applicable to property acquired after February 27, 2000. S. 46(1), the portion before paragraph (*a*) formerly read:

"S. 46. *Personal-use property.*

(1) Where a taxpayer has disposed of any personal-use property of the taxpayer, for the purposes of this subdivision"

Editorial Note: The effect of the deeming rules in subsection 46(1) with respect to personal-use property can be summarized as follows. If a taxpayer's actual adjusted cost base of the property is less than $1,000, the taxpayer cannot have a loss from the property and can only have a gain from the property to the extent that the actual proceeds of disposition exceed $1,000. If the taxpayer's actual proceeds of disposition are less than $1,000, the taxpayer cannot have a gain from the property and can only have a loss to the extent that the actual adjusted cost base of the property exceeds $1,000. (Note also that losses are recognized only in respect of listed personal property and arm's length personal-use property debts — see subparagraph 40(2)(*g*)(iii)).

Related Sections: S. 41(1) Taxable net gain from disposition of listed personal property; s. 41(2) Determination of net gain; s. 50(2) Where debt a personal-use property; s. 54, "personal-use property", "proceeds of disposition"; s. 248(1), "disposition".
Interpretation Bulletins: *Secondary* — IT-332R Personal-use property [Archived by the CRA]; IT-373R2 (Consolid.) Woodlots.
Tax Window Files: Personal-Use Property — Disposition of a Collection, November 10, 2004, CRA Document No. 2004-0077831E5

► 46(2) ◄

(2) Where part only of property disposed of. Where a taxpayer has disposed of part of a personal-use property (other than a part of an excluded property disposed of in circumstances to which subsection 110.1(1), or the definition "total charitable gifts", "total cultural gifts" or "total ecological gifts" in subsection 118.1(1), applies) owned by the taxpayer and has retained another part of the property, for the purposes of this subdivision

(*a*) the adjusted cost base to the taxpayer, immediately before the disposition, of the part so disposed of shall be deemed to be the greater of

(i) the adjusted cost base to the taxpayer at that time of that part otherwise determined, and

(ii) that proportion of $1,000 that the amount determined under subparagraph (i) is of the adjusted cost base to the taxpayer at that time of the whole property; and

(*b*) the proceeds of disposition of the part so disposed of shall be deemed to be the greater of

(i) the proceeds of disposition of that part otherwise determined, and

(ii) the amount determined under subparagraph (*a*)(ii).

History: S. 46(2), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 31(2), applicable to property acquired after February 27, 2000. S. 46(2), the portion before paragraph (*a*) formerly read:

"(2) *Where part only of property disposed of.* Where a taxpayer has disposed of part of a personal-use property owned by the taxpayer and has retained another part of the property, for the purposes of this subdivision"

Editorial Note: The adjusted cost base of the part of the property "otherwise determined" (subparagraph 46(2)(*a*)(i)) is presumably that in accordance with the rules in subsection 43(1).

Related Sections: S. 43(1) General rule for part dispositions; s. 54, "adjusted cost base", "proceeds of disposition".
Interpretation Bulletins: *Secondary* — IT-332R Personal-use property [Archived by the CRA].

► 46(3) ◄

(3) Properties ordinarily disposed of as a set. For the purposes of this subdivision, where a number of personal-use properties of a taxpayer that would, if the properties were disposed of, ordinarily be disposed of in one disposition as a set,

(*a*) have been disposed of by more than one disposition so that all of the properties have been acquired by one person or by a group of persons not dealing with each other at arm's length, and

(*b*) had, immediately before the first disposition referred to in paragraph (*a*), a total fair market value greater than $1,000,

the properties shall be deemed to be a single personal-use property and each such disposition shall be deemed to be a disposition of a part of that property.

Editorial Note: Since subsection 46(3) deems each disposition of a property in the set to be a disposition of part of a single personal-use property, the part-disposition rules in subsection 46(2) apply.

Related Sections: S. 46(2) Where part only of property disposed of.
Interpretation Bulletins: *Secondary* — IT-332R Personal-use property [Archived by the CRA].
Tax Window Files: Personal-Use Property — Disposition of a Collection, November 10, 2004, CRA Document No. 2004-0077831E5

► 46(4) ◄

(4) Decrease in value of personal-use property of corporation, etc. Where it may reasonably be regarded that, by reason of a decrease in the fair market value of any personal-use property of a corporation, partnership or trust,

(*a*) a taxpayer's gain, if any, from the disposition of a share of the capital stock of a corporation, an interest in a trust or an interest in a partnership has become a loss, or is less than it would have been if the decrease had not occurred, or

(*b*) a taxpayer's loss, if any, from the disposition of a share or interest described in paragraph (*a*) is greater than it would have been if the decrease had not occurred,

the amount of the gain or loss, as the case may be, shall be deemed to be the amount that it would have been but for the decrease.

Editorial Note: Subsection 46(4) ensures that an accrued personal-use property loss cannot be claimed indirectly by holding a personal-use property in a corporation, trust or partnership. For example, in the absence of the provision, one could claim a loss on the disposition of a share in a corporation attributable to an accrued loss in respect of personal-use property owned by the corporation.

Interpretation Bulletins: *Secondary* — IT-332R Personal-use property [Archived by the CRA].

► 46(5) ◄

(5) Excluded property. For the purpose of this section, "excluded property" of a taxpayer means property acquired by the taxpayer, or by a person with whom the taxpayer does not deal at arm's length, in circumstances in which it is reasonable to conclude that the acquisition of the property relates to an arrangement, plan or scheme that is promoted by another person or partnership and under which it is reasonable to conclude that the property will be the subject of a gift to which subsection 110.1(1), or the definition "total charitable gifts", "total cultural gifts" or "total ecological gifts" in subsection 118.1(1), applies.

History: S. 46(5) was added by S.C. 2001, c. 17, s. 32(3), applicable to property acquired after February 27, 2000.
Editorial Note: Subsection 46(5) was enacted in response to certain tax shelter gifting arrangements under which property was acquired and immediately donated to a charity at a purported fair market value that was in excess of the donor's cost but not more than $1,000. The practical effect of the provision has been diluted somewhat owing to the new gifting rules, particularly draft subsection 248(35).

Related Sections: S. 251(1) Arm's length.
Tax Profile: May 2002 — Update on Charitable Giving.

SECTION 47:

► 47(1) ◄

(1) Identical properties. Where at any particular time after 1971 a taxpayer who owns one property that was or two or more identical properties each of which was, as the case may be, acquired by the taxpayer after 1971, acquires one or more other properties (in this subsection referred to as "newly-acquired properties") each of which is

identical to each such previously-acquired property, for the purposes of computing, at any subsequent time, the adjusted cost base of the taxpayer of each such identical property,

(*a*) the taxpayer shall be deemed to have disposed of each such previously-acquired property immediately before the particular time for proceeds equal to its adjusted cost base to the taxpayer immediately before the particular time;

(*b*) the taxpayer shall be deemed to have acquired the identical property at the particular time at a cost equal to the quotient obtained when

(i) the total of the adjusted cost bases to the taxpayer immediately before the particular time of the previously-acquired properties, and the cost to the taxpayer (determined without reference to this section) of the newly-acquired properties

is divided by

(ii) the number of the identical properties owned by the taxpayer immediately after the particular time;

(*c*) there shall be deducted, after the particular time, in computing the adjusted cost base to the taxpayer of each such identical property, the amount determined by the formula

$$\frac{A}{B}$$

where

A is the total of all amounts deducted under paragraph 53(2)(*g*.1) in computing immediately before the particular time the adjusted cost base to the taxpayer of the previously-acquired properties, and

B is the number of such identical properties owned by the taxpayer immediately after the particular time or, where subsection (2) applies, the quotient determined under that subsection in respect of the acquisition; and

(*d*) there shall be added, after the particular time, in computing the adjusted cost base to the taxpayer of each such identical property the amount determined under paragraph (*c*) in respect of the identical property.

History: S. 47(1)(*c*) was added by S.C. 1995, c. 21, s. 13(1), applicable to taxation years that end after February 21, 1994.

S. 47(1)(*d*) was added by S.C. 1995, c. 21, s. 13(1), applicable to taxation years that end after February 21, 1994.

Editorial Note: The deemed dispositions and acquisitions in paragraphs 47(1)(*a*) and (*b*) effectively provide for the averaging of the adjusted cost bases of a taxpayer's identical properties. Paragraphs (*c*) and (*d*) may be relevant, if at all, to the application of the debt forgiveness rules in section 80.03.

Related Sections: S. 7(1.3) Order of disposition of securities; s. 7(1.31) Disposition of newly-acquired security; s. 54, "adjusted cost base"; s. 138(11.1) Identical properties; s. 248(12) Identical properties.

Interpretation Bulletins: *Primary* — IT-387R2 (Consolid.) Meaning of "identical properties". *Secondary* — IT-78 Capital property owned on December 31, 1971 — Identical properties [Archived by the CRA]; IT-88R2 Stock dividends; IT-115R2 Fractional interests in shares; IT-146R4 Shares entitling shareholders to choose taxable or capital dividends; IT-199 Identical properties acquired in non-arm's length transactions [Archived by the CRA].

Income Tax Technical News: Issue No. 19, Change of Position in Respect of GAAR — Section 7.

Tax Window Files: Identical Properties — Shares Acquired By Estate, September 17, 2004, CRA Document No. 2004-0083161E5; Short Sale — Capital Gains and Losses, May 24, 2001, CRA Document No. 2001-0069045; Identical Properties — Distribution of Shares by Estate, May 24, 2001, CRA Document No. 2000-0015655; Employee Stock Option Shares — Identical Properties and Order of Disposition, February 27, 2001, CRA Document No. 2001-0068447.

▶ 47(2) ◀

(2) Where identical properties are bonds, etc. For the purposes of subsection (1), where a group of identical properties referred to in that subsection is a group of identical bonds, debentures, bills, notes or similar obligations issued by a debtor, subparagraph (1)(*b*)(ii) shall be read as follows:

"(ii) the quotient obtained when the total of the principal amounts of all such identical properties owned by the taxpayer immediately after the particular time is divided by the principal amount of the identical property."

Related Sections: S. 248(12) Identical properties.

▶ 47(3) ◀

(3) Securities acquired by employee. For the purpose of subsection (1), a security (within the meaning assigned by subsection 7(7)) acquired by a taxpayer after February 27, 2000 is deemed not to be identical to any other security acquired by the taxpayer if

(*a*) the security is acquired in circumstances to which any of subsections 7(1.1), (1.5) or (8) or 147(10.1) applies; or

(*b*) the security is a security to which subsection 7(1.31) applies.

History: S. 47(3) was added by S.C. 2001, c. 17, s. 32(1), applicable after 1999. S. 47(3) was previously repealed by the former Act.

Editorial Note: Subsection 47(3) provides that a security described therein is not subject to the cost averaging rules in subsection 47(1), effectively meaning that the adjusted cost base of the security is determined without reference to other securities that might otherwise be identical properties.

Related Sections: S. 7(1.3) Order of disposition of securities; s. 7(1.31) Disposition of newly-acquired security.

Tax Window Files: Adjusted Cost Base of Stock Option Shares following Amalgamation, August 14, 2003, CRA Document No. 2002-0167465; Short Sale To Hedge Gain on CCPC Shares, July 3, 2002, CRA Document No. 2002-0131355

▶ 47(4) ◀

(4) Meaning of "property". [Repealed by 1986, c. 6, s. 19(1).]

SECTION 47.1: Indexed Security Investment Plans.

[Subsections 47.1(1) to (26) were repealed by S.C. 1986, c. 6, s. 20.]

Interpretation Bulletins: *Secondary* — IT-387R2 (Consolid.) Meaning of "identical properties".

▶ 47.1(26.1) ◀

(26.1) Application of s. 47.1 of R.S.C., 1952, c. 148. Words and expressions used in subsections (27) and (28) have the meanings assigned to them by subsections 47.1(1) to (26) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as the latter subsections read on July 1, 1986 and in so far as they are not inconsistent with subsections (27) and (28).

History: S. 47.1(26.1) was not part of the former Act.

▶ 47.1(27) ◀

(27) Capital losses in 1986. Notwithstanding any other provision of this Act, where paragraph 47.1(10)(*f*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as that paragraph read on January 1, 1986, applied in respect of the termination before 1986 of an indexed security investment plan under which a taxpayer was a participant, any amount that would have been deemed under that paragraph to be a capital loss of the

taxpayer from the Plan for the 1986 or a subsequent taxation year shall be deemed to be a capital loss of the taxpayer for the 1986 taxation year from the disposition of property in 1986.

► 47.1(28) ◄

(28) Transition for 1986. Where a taxpayer was a participant under a Plan on January 1, 1986, the following rules apply:

(*a*) each indexed security owned under the Plan by the taxpayer on that date shall be deemed to have been disposed of under the Plan on that date for proceeds of disposition determined by the formula

$$A \times \frac{B}{C}$$

where

A is the indexing base of the Plan on that date determined as if subparagraph 47.1(3)(*a*)(i) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, were read as "the fair market value of all indexed securities owned by the taxpayer under the Plan at the end of the preceding taxation year",

B is the fair market value of the security on that date, and

C is the fair market value of all indexed securities owned under the Plan by the taxpayer on that date;

(*b*) each indexed security deemed under paragraph (*a*) to have been disposed of under the Plan shall be deemed to have been reacquired outside the Plan by the taxpayer immediately after that date at a cost equal to the amount deemed under paragraph (*a*) to be the proceeds of the disposition of that security;

(*c*) each put or call option referred to in clause 47.1(4)(*a*)(iv)(B) or (C) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as that clause read on January 1, 1986, outstanding under the Plan on that date shall be deemed to have been closed out under the Plan on that date at a cost equal to the amount that the taxpayer would have had to pay on that date if the taxpayer had actually closed out the option on a prescribed stock exchange in Canada on that date;

(*d*) each put or call option deemed under paragraph (*c*) to have been closed out shall be deemed to be written outside the Plan immediately after that date for proceeds equal to the amount deemed under paragraph (*c*) to be the cost at which the option was closed out; and

(*e*) for greater certainty, the taxpayer's indexed gain or loss, as the case may be, for the 1986 taxation year from the Plan and unindexed gain or loss, as the case may be, for that year from the Plan shall be nil.

Regulations: 3200.

SECTION 48:

► 48(1) ◄

(1) Deemed disposition of property where taxpayer has ceased to be resident in Canada. [Repealed by S.C. 1994, c. 21, s. 19(1).]

History: S. 48(1) was repealed by S.C. 1994, c. 21, s. 19(1), applicable after 1992 except that, where a corporation elects in accordance with paragraph 111(4)(*a*), the repeal of subsection 48(1) applies to the corporation from the corporation's time of continuation (within the meaning assigned by that paragraph). S. 48(1) formerly read:

"(1) For the purposes of this subdivision, where a taxpayer has ceased, at any particular time in a taxation year and after 1971, to be resident in Canada, the taxpayer shall be deemed to have disposed, immediately before the particular time, of each property, other than

(*a*) any property that would be taxable Canadian property if at no time in the year the taxpayer had been resident in Canada except where the taxpayer is an individual other than a trust and the taxpayer has elected in prescribed manner and within a prescribed time to be deemed to have disposed of such property owned by the taxpayer immediately before the particular time,

(*b*) a right to receive any payment described in paragraph 212(1)(*h*), in any of paragraphs 212(1)(*j*) to (*q*) and a right to receive any payment of a benefit under the *Canada Pension Plan* or a provincial pension plan as defined in section 3 of that Act, or

(*c*) where the taxpayer is an individual other than a trust or was, immediately before the particular time, a Canadian corporation, any property not described in paragraph (*a*) or (*b*) in respect of which the taxpayer has elected in prescribed manner and within prescribed time and has furnished the Minister with security acceptable to the Minister for the payment of the additional tax under this Part that would have been payable by the taxpayer if the taxpayer had not so elected,

that was owned by the taxpayer immediately before the particular time for proceeds of disposition equal to the fair market value of the property immediately before the particular time and to have reacquired the property immediately after the taxpayer so ceased to be resident in Canada at a cost equal to that fair market value, except that where the taxpayer has made an election under paragraph (*a*) or (*c*), the total of the taxpayer's allowable capital losses for the year from dispositions under this subsection of such of those properties as were not listed personal property of the taxpayer shall be deemed to be the lesser of that total otherwise determined and the total of the taxpayer's taxable capital gains for the year from the dispositions under this subsection of such of those properties as were not listed personal property of the taxpayer."

► 48(1.1) ◄

(1.1) Gains and losses from indexed security investment plans where taxpayer has ceased to be resident in Canada. [Repealed by 1986, c. 6, s. 21(3).]

► 48(2) ◄

(2) Property in respect of which election made deemed to be taxable Canadian property. [Repealed by S.C. 1994, c. 21, s. 19(1).]

History: S. 48(2) was repealed by S.C. 1994, c. 21, s. 19(1), applicable after 1992 except that, where a corporation elects in accordance with paragraph 111(4)(*a*), the repeal of subsection 48(2) applies to the corporation from the corporation's time of continuation (within the meaning assigned by that paragraph). S. 48(2) formerly read:

"(2) Any property of a taxpayer described in paragraph (1)(*c*) in respect of which the taxpayer has made an election under that paragraph shall be deemed to be taxable Canadian property of the taxpayer from the time immediately after the taxpayer ceased to be resident in Canada until the time immediately after the taxpayer

(*a*) disposes of it, or

(*b*) next becomes resident in Canada,

whichever first occurs."

► 48(3) ◄

(3) Deemed acquisition of property on becoming a resident of Canada. [Repealed by S.C. 1994, c. 21, s. 19(1).]

History: S. 48(3) was repealed by S.C. 1994, c. 21, s. 19(1), applicable after 1992 except that, where a corporation elects in accordance with paragraph 111(4)(*a*), the repeal of subsection 48(3) applies to the corporation from the corporation's time of continuation (within the meaning assigned by that paragraph). S. 48(3) formerly read:

"(3) For the purposes of this subdivision, where a taxpayer has become, at any particular time in a taxation year and after 1971, resident in Canada, the taxpayer shall be deemed to have acquired at the particular time each property owned by the taxpayer at that time, other than

(*a*) property that would be taxable Canadian property if the taxpayer had disposed of it immediately before the particular time, or

(*b*) property described in paragraph (1)(*c*) in respect of which the taxpayer had previously made an election under that paragraph in respect of the last preceding time the taxpayer ceased to be resident in Canada,

at a cost equal to its fair market value at the particular time."

▶ 48(4) ◀

(4) Exception where taxpayer resident in Canada for short term only. [Repealed by S.C. 1994, c. 21, s. 19(1).]

History: S. 48(4) was repealed by S.C. 1994, c. 21, s. 19(1), applicable after 1992 except that, where a corporation elects in accordance with paragraph 111(4)(*a*), the repeal of subsection 48(4) applies to the corporation from the corporation's time of continuation (within the meaning assigned by that paragraph). S. 48(4) formerly read:

"(4) Subsection (1) does not apply in respect of any property owned by an individual other than a trust at the particular time immediately before the individual ceased to be resident in Canada, if

(*a*) the property was

(i) owned by the individual immediately before the individual last became resident in Canada, or

(ii) acquired by the individual by inheritance or bequest at any time after the individual last became resident in Canada; and

(*b*) during the 10 years immediately preceding the particular time, the individual was resident in Canada for a period or periods the total of which was 60 months or less."

▶ 48(5) ◀

(5) Where corporation becomes resident in Canada. [Repealed by S.C. 1994, c. 21, s. 19(1).]

History: S. 48(5) was repealed by S.C. 1994, c. 21, s. 19(1), applicable after 1992 except that, where a corporation elects in accordance with paragraph 111(4)(*a*), the repeal of subsection 48(5) applies to the corporation from the corporation's time of continuation (within the meaning assigned by that paragraph). S. 48(5) formerly read:

"(5) Where at any time a corporation becomes resident in Canada and immediately before that time the corporation was a foreign affiliate of a taxpayer resident in Canada, for the purposes of subdivision i, the following rules apply:

(*a*) the taxation year of the corporation that would otherwise have included that time shall be deemed to have ended immediately before that time and a new taxation year shall be deemed to have commenced at that time;

(*b*) the corporation shall be deemed to have been a controlled foreign affiliate (within the meaning assigned by subsection 95(1)) of the taxpayer at the end of the taxation year that is deemed by paragraph (*a*) to have ended immediately before that time; and

(*c*) such amount as is prescribed shall be included in the foreign accrual property income (within the meaning assigned by subsection 95(1)) of the foreign affiliate for the taxation year that is deemed by paragraph (*a*) to have ended immediately before that time."

SECTION 48.1:

▶ 48.1(1) ◀

(1) Gain when small business corporation becomes public. Where

(*a*) at any time in a taxation year an individual owns capital property that is a share of a class of the capital stock of a corporation that,

(i) at that time, is a small business corporation, and

(ii) immediately after that time, ceases to be a small business corporation because a class of its or another corporation's shares is listed on a designated stock exchange, and

(*b*) the individual elects in prescribed form to have this section apply,

the individual shall be deemed, except for the purposes of sections 7 and 35 and paragraph 110(1)(*d*.1),

(*c*) to have disposed of the share at that time for proceeds of disposition equal to the greater of

(i) the adjusted cost base to the individual of the share at that time, and

(ii) the lesser of the fair market value of the share at that time and such amount as is designated in the prescribed form by the individual in respect of the share, and

(*d*) to have reacquired the share immediately after that time at a cost equal to those proceeds of disposition.

History: S. 48.1(1)(*a*)(ii) was amended by S.C. 2007, c. 35, s. 68(2), by replacing "prescribed stock exchange" with "designated stock exchange", applicable on and after December 14, 2007 [the day on which this Act is assented to].

S. 48.1(1)(*a*)(ii) was amended by S.C. 2001, c. 17, s. 33(1), applicable to corporations that cease to be small business corporations after 1999. S. 48.1(1)(*a*)(ii) formerly read:

"(ii) immediately after that time, ceases to be a small business corporation because a class of its shares is listed on a prescribed stock exchange, and"

Sec. 33(3), Chap. 17, S.C. 2001

(3) Where a corporation ceases to be a Canadian-controlled private corporation in a taxation year solely because of the application of subsection 113(2) of this Act, an election under subsection 48.1(1) of the Act, as enacted by subsection (1), that is made by an individual in respect of the 1999 or 2000 taxation year is deemed to have been made on time if the election is made on or before the individual's filing-due date for the taxation year in which this Act receives Royal Assent [Royal Assent June 14, 2001].

S. 48.1(1)(*a*)(ii) was amended by S.C. 1998, c. 19, s. 91(1), applicable to corporations that cease to be a small business corporation after 1995. S. 48.1(1)(*a*)(ii) formerly read:

"(ii) immediately after that time, becomes a public corporation because of the listing of a class of its shares on a prescribed stock exchange in Canada, and"

Sec. 91(3), Chap. 19, 1998

(3) An election under subsection 48.1(1) of the Act, as amended by subsection (1), that is made by an individual for the 1995 taxation year is deemed to have been made on time, if

(*a*) a class of the shares of the capital stock of the corporation in respect of which the election is made was, on January 1, 1996, listed on a stock exchange listed in section 3201 of the *Income Tax Regulations*;

(*b*) the corporation was a small business corporation on December 31, 1995; and

(*c*) the election is made before the end of the third month after the month in which this Act is assented to [Royal Assent June 18, 1998].

S. 48.1(1) was added by S.C. 1994, c. 7, Sched. II, s. 26(1), applicable to the 1991 and subsequent taxation years.

Related Sections: S. 110.6(2.1) Capital gains deduction — qualified small business corporation shares.
Regulations: 3200.
Forms: T2101.
Tax Profile: June 2001 — Capital Gains Deferral for Small Business.

▶ 48.1(2) ◀

(2) Time for election. An election made under subsection (1) by an individual for a taxation year shall be made on or before the individual's filing-due date for the year.

History: S. 48.1(2) was amended by S.C. 1996, c. 21, s. 11(1), applicable to the 1995 and subsequent taxation years. S. 48.1(2) formerly read:

"(2) *Time for election.* An election made under subsection (1) by an individual for a taxation year shall be made on or before the balance-due day of the individual for that year."

S. 48.1(2) was added by S.C. 1994, c. 7, Sched. II, s. 26(1), applicable to the 1991 and subsequent taxation years.

Related Sections: S. 248(1), "filing-due date".
Forms: T2101.

▶ 48.1(3) ◀

(3) Late filed election. Where the election referred to in subsection (2) was not made on or before the day referred to therein, the election shall be deemed for the purposes of subsections (1) and (2) to have been made on that day if, on or before the day that is 2 years after that day,

(*a*) the election is made in prescribed form; and

(*b*) an estimate of the penalty in respect of that election is paid by the individual when the election is made.

History: S. 48.1(3) was added by S.C. 1994, c. 7, Sched. II, s. 26(1), applicable to the 1991 and subsequent taxation years.

Forms: T2101.

▶ 48.1(4) ◀

(4) Penalty for late filed election. For the purposes of this section, the penalty in respect of an election

referred to in paragraph (3)(*a*) is an amount equal to the lesser of

(*a*) 1/4 of 1% of the amount, if any, by which

(i) the proceeds of disposition determined under subsection (1)

exceed

(ii) the amount referred to in subparagraph (1)(*c*)(i)

for each month or part of a month during the period commencing on the day referred to in subsection (2) and ending on the day the election is made, and

(*b*) an amount equal to the product obtained by multiplying $100 by the number of months each of which is a month all or part of which is during the period referred to in paragraph (*a*).

History: S. 48.1(4) was added by S.C. 1994, c. 7, Sched. II, s. 26(1), applicable to the 1991 and subsequent taxation years.

Forms: T2101.

► 48.1(5) ◄

(5) Unpaid balance of penalty. The Minister shall, with all due dispatch, examine each election referred to in paragraph (3)(*a*), assess the penalty payable and send a notice of assessment to the individual, who shall pay forthwith to the Receiver General the amount, if any, by which the penalty so assessed exceeds the total of all amounts previously paid on account of that penalty.

History: S. 48.1(5) was added by S.C. 1994, c. 7, Sched. II, s. 26(1), applicable to the 1991 and subsequent taxation years.

Forms: T2101.

SECTION 49:

► 49(1) ◄

(1) Granting of options. Subject to subsections (3) and (3.1), for the purposes of this subdivision, the granting of an option, other than

(*a*) an option to acquire or to dispose of a principal residence,

(*b*) an option granted by a corporation to acquire shares of its capital stock or bonds or debentures to be issued by it, or

(*c*) an option granted by a trust to acquire units of the trust to be issued by the trust,

is a disposition of a property the adjusted cost base of which to the grantor immediately before the grant is nil.

History: S. 49(1) was amended by S.C. 1994, c. 7, Sched. II, s. 27(1), applicable to options granted after 1989. S. 49(1) formerly read:

"(1) Subject to subsections (2), (3) and (3.1), for the purpose of this subdivision, the granting of an option, other than

(*a*) an option to acquire or to dispose of a principal residence, or

(*b*) an option granted by a corporation to acquire shares of its capital stock or bonds or debentures to be issued by it,

is a disposition of a property the adjusted cost base of which to the grantor immediately before the grant is nil."

Editorial Note: Since the adjusted cost base of the granted option is deemed to be nil, the option premium received as consideration for the option (if any) will constitute a capital gain to the grantor of the option (unless the exceptions in paragraphs (*a*) through (*c*) apply). If the option is subsequently exercised, the capital gain can be effectively nullified and will instead serve to adjust the grantor's proceeds of disposition or cost of the optioned property, as the case may be. See subsections (3), (3.1) and (4).

If the option premium is on income account for the grantor of the option, subsection 49(1) is not relevant. The CRA takes the position that a premium on income account is recognized by the grantor in the year in which the option is exercised or expires; see paragraphs 29 and 32 of IT-479R.

Related Sections: S. 7(1) Agreement to issue securities to employees; s. 7(3) Special provision; s. 39(1) Meaning of capital gain and capital loss; s. 51(1) Convertible property.

Interpretation Bulletins: *Primary* — IT-96R6 Options granted by corporations to acquire shares, bonds or debentures and by trusts to acquire trust units; IT-403R Options on real estate. *Secondary* — IT-479R Transactions in securities.

Tax Topics: No. 1489, Excess CDA Dividends and Options.

Tax Profile: February 2005 — The Canadian Treatment of Derivatives; August 2004 — Canadian Tax Treatment of Index Participation Units and Exchange-Traded Index Derivatives.

Tax Window Files: Principal Residence Exemption — Capital Gains Exemption — Extension/Exercise of Purchase Option re Farm Property, December 21, 2006, CRA Document No. 2006-0170851E5; Transfer of Leasing Agreement between Related Corporations, April 4, 2005, CRA Document No. 2004-0099411E5; Lease Option-Sale, July 12, 2004, CRA Document No. 2004-0076531E5; Lease-Bargain Purchase Option, February 4, 2003, CRA Document No. 2003-0028033; Bond options, October 29, 1996, CRA Document No. 9626325.

► 49(2) ◄

(2) Where option expires. Where at any time an option described in paragraph (1)(*b*) (other than an option to acquire shares of the capital stock of a corporation in consideration for the incurring, pursuant to an agreement described in paragraph (*e*) of the definition "Canadian exploration and development expenses" in subsection 66(15), paragraph (*i*) of the definition "Canadian exploration expense" in subsection 66.1(6), paragraph (*g*) of the definition "Canadian development expense" in subsection 66.2(5) or paragraph (*c*) of the definition "Canadian oil and gas property expense" in subsection 66.4(5), of any expense described in whichever of those paragraphs is applicable) that has been granted by a corporation after 1971 expires,

(*a*) the corporation shall be deemed to have disposed of capital property at that time for proceeds equal to the proceeds received by it for the granting of the option; and

(*b*) the adjusted cost base to the corporation of that capital property immediately before that time shall be deemed to be nil.

Editorial Note: Where the option granted by the corporation expires, the holder is also deemed to have disposed of the option, which will normally result in a capital loss; see subparagraph (*b*)(iv) of the definition of "disposition" in subsection 248(1). The CRA takes the position that a conversion right with respect to a security that is not severable from the security and cannot be separately traded is not subject to section 49, such that the expiry of the conversion right will not be subject to subsection 49(2) (paragraph 9, IT-96R6).

Related Sections: S. 39(1) Meaning of capital gain and capital loss; s. 51(1) Convertible property; s. 54 "capital property"; s. 87(2)(*o*) Expiration of options previously granted; s. 248(1), "disposition".

Interpretation Bulletins: *Secondary* — IT-96R6 Options granted by corporations to acquire shares, bonds or debentures; IT-98R2 Investment corporations [Archived by the CRA].

► 49(2.1) ◄

(2.1) Idem. Where at any time an option referred to in paragraph (1)(*c*) expires,

(*a*) the trust shall be deemed to have disposed of capital property at that time for proceeds equal to the proceeds received by it for the granting of the option; and

(*b*) the adjusted cost base to the trust of that capital property immediately before that time shall be deemed to be nil.

Editorial Note: Where the option granted by the trust expires, the holder is also deemed to have disposed of the option, which will normally result in a capital loss; see subparagraph (*b*)(iv) of the definition of "disposition" in subsection 248(1).

History: S. 49(2.1) was added by S.C. 1994, c. 7, Sched. II, s. 27(2), applicable to options granted after 1989.

Related Sections: S. 39(1) Meaning of capital gain and capital loss; s. 108(2)(*b*) When trust is a unit trust; s. 248(1), "disposition".

▶ 49(3) ◀

(3) Where option to acquire exercised. Where an option to acquire property is exercised so that property is disposed of by a taxpayer (in this subsection referred to as the "vendor") or so that property is acquired by another taxpayer (in this subsection referred to as the "purchaser"), for the purpose of computing the income of each such taxpayer the granting and the exercise of the option shall be deemed not to be dispositions of property and there shall be included

(*a*) in computing the vendor's proceeds of disposition of the property, the consideration received by the vendor for the option; and

(*b*) in computing the cost to the purchaser of the property,

(i) where paragraph 53(1)(*j*) applied to the acquisition of the property by the purchaser because a person who did not deal at arm's length with the purchaser was deemed because of the acquisition to have received a benefit under section 7, the adjusted cost base to that person of the option immediately before that person last disposed of the option, and

(ii) in any other case, the adjusted cost base to the purchaser of the option.

History: S. 49(3)(*b*) was amended by S.C. 1994, c. 7, Sched. II, s. 27(3), applicable after July 13, 1990. S. 49(3)(*b*) formerly read:

"(*b*) in computing the cost to the purchaser of the property, the adjusted cost base to the purchaser of the option."

Editorial Note: In general terms, if a call option (to purchase capital property) is exercised, the option premium paid by the option holder/purchaser is included in the vendor's proceeds of disposition of the property and is added to the purchaser's adjusted cost base of the property. Under subsection 49(4), the vendor may file an amended return for the year in which the option was granted to nullify the previous inclusion of the option premium (effectively, under subsection 49(1)). If the option expires, the option holder realizes a capital loss, generally equal to the option premium (see subparagraph (*b*)(iv) of the definition of "disposition" in subsection 248(1)).

Related Sections: S. 161(7) Effect of carryback of loss, etc.
Interpretation Bulletins: *Secondary* — IT-96R5 Options granted by corporations to acquire shares, bonds or debentures.
Tax Topics: No. 1489, Excess CDA Dividends and Options.
Tax Profile: February 2005 — The Canadian Treatment of Derivatives; August 2004 — Canadian Tax Treatment of Index Participation Units and Exchange-Traded Index Derivatives.
Tax Window Files: Option to Buy an Automobile at a Favourable Price, April 25, 2005, CRA Document No. 2004-010830117; Lease Option-Sale, July 12, 2004, CRA Document No. 2004-0076531E5.

▶ 49(3.01) ◀

(3.01) Option to acquire specified property exercised. Where at any time a taxpayer exercises an option to acquire a specified property,

(*a*) there shall be deducted after that time in computing the adjusted cost base to the taxpayer of the specified property the total of all amounts deducted under paragraph 53(2)(*g*.1) in computing, immediately before that time, the adjusted cost base to the taxpayer of the option; and

(*b*) the amount determined under paragraph (*a*) in respect of that acquisition shall be added after that time in computing the adjusted cost base to the taxpayer of the specified property.

History: S. 49(3.01) was added by S.C. 1995, c. 21, s. 14(1), applicable to taxation years that end after February 21, 1994.

Related Sections: S. 53(1)(*q*) Adjustments to cost base — Debt forgiveness.

▶ 49(3.1) ◀

(3.1) Where option to dispose exercised. Where an option to dispose of property is exercised so that property is disposed of by a taxpayer (in this subsection referred to as the "vendor") or so that property is acquired by another taxpayer (in this subsection referred to as the "purchaser"), for the purpose of computing the income of each such taxpayer the granting and the exercise of the option shall be deemed not to be dispositions of property and there shall be deducted

(*a*) in computing the vendor's proceeds of disposition of the property, the adjusted cost base to the vendor of the option; and

(*b*) in computing the cost to the purchaser of the property, the consideration received by the purchaser for the option.

Editorial Note: In general terms, if a put option (to sell capital property) is exercised, the option premium paid by the option holder/vendor is deducted from the vendor's proceeds of disposition of the property and is deducted from the purchaser's cost of the property. Under subsection 49(4), the purchaser may file an amended return for the year in which the option was granted to nullify the previous inclusion of the option premium (effectively, under subsection 49(1)). If the option expires, the option holder realizes a capital loss, generally equal to the option premium (see subparagraph (*b*)(iv) of the definition of "disposition" in subsection 248(1)).

Related Sections: S. 161(7) Effect of carryback of loss, etc.
Interpretation Bulletins: *Secondary* — IT-96R5 Options granted by corporations to acquire shares, bonds or debentures.

▶ 49(3.2) ◀

(3.2) Option granted before February 23, 1994. Where an individual (other than a trust) who disposes of property pursuant to the exercise of an option that was granted by the individual before February 23, 1994 so elects in the individual's return of income for the taxation year in which the disposition occurs, subsection (3) does not apply in respect of the disposition in computing the income of the individual.

History: S. 49(3.2) was added by S.C. 1995, c. 3, s. 13(1), applicable after February 21, 1994.

▶ 49(4) ◀

(4) Reassessment where option exercised in subsequent year. Where

(*a*) an option granted by a taxpayer in a taxation year (in this subsection referred to as the "initial year") is exercised in a subsequent taxation year (in this subsection referred to as the "subsequent year"),

(*b*) the taxpayer has filed a return of the taxpayer's income for the initial year as required by section 150, and

(*c*) on or before the day on or before which the taxpayer was required by section 150 to file a return of the taxpayer's income for the subsequent year, the taxpayer has filed an amended return for the initial year excluding from the taxpayer's income the proceeds received by the taxpayer for the granting of the option,

such reassessment of the taxpayer's tax, interest or penalties for the year shall be made as is necessary to give effect to the exclusion.

Related Sections: S. 161(7) Effect of carryback of loss, etc; s. 163(4) Effect of carryback of losses etc; s. 164(5) Effect of carryback of loss, etc.

Interpretation Bulletins: *Primary* — IT-384R Reassessment where option exercised in subsequent year. *Secondary* — IT-96R6 Options granted by corporations to acquire shares, bonds or debentures.

► 49(5) ◄

(5) Idem. Where a taxpayer has granted an option (in this subsection referred to as the "original option") to which subsection (1), (2) or (2.1) applies, and grants one or more extensions or renewals of that original option,

(*a*) for the purposes of subsections (1), (2) and (2.1), the granting of each extension or renewal shall be deemed to be the granting of an option at the time the extension or renewal is granted;

(*b*) for the purposes of subsections (2) to (4) and subparagraph (*b*)(iv) of the definition "disposition" in subsection 248(1), the original option and each extension or renewal of it is deemed to be the same option; and

(*c*) subsection (4) shall be read as if the year in which the original option was granted and each year in which any extension or renewal thereof was granted were all initial years.

History: S. 49(5)(*b*) was amended by S.C. 2001, c. 17, s. 34(1), applicable to options granted after December 23, 1998. S. 49(5)(*b*) formerly read:

"(*b*) for the purposes of subsections (2) to (4) and subparagraph (*b*)(iv) of the definition 'disposition' in subsection 54, the original option and each extension or renewal thereof shall be deemed to be the same option; and"

S. 49(5), all that portion preceding paragraph (*c*), was amended by S.C. 1994, c. 7, Sched. II, s. 27(4), applicable to options granted, extended or renewed after 1989. S. 49(5), all that portion preceding paragraph (*c*) formerly read:

"(5) *Idem.* Where a taxpayer has granted an option (in this subsection referred to as the 'original option') to which subsection (1) or (2) applies, and has granted one or more extensions or renewals of that original option,

(*a*) for the purposes of subsections (1) and (2), the granting of each extension or renewal shall be deemed to be the granting of an option at the time the extension or renewal is granted;

(*b*) for the purposes of subsections (2), (3), (3.1) and (4) and subparagraph (*b*)(iv) of the definition 'disposition' in section 54, the original option and each extension or renewal thereof shall be deemed to be the same option; and"

Interpretation Bulletins: *Secondary* — IT-96R6 Options granted by corporations to acquire shares, bonds or debentures and by trusts to acquire trust units.

SECTION 49.1: No disposition where obligation satisfied.

For greater certainty, where a taxpayer acquires a particular property in satisfaction of an absolute or contingent obligation of a person or partnership to provide the particular property pursuant to a contract or other arrangement one of the main objectives of which was to establish a right, whether absolute or contingent, to the particular property and that right was not under the terms of a trust, partnership agreement, share or debt obligation, the satisfaction of the obligation is not a disposition of that right.

History: S. 49.1 was added by S.C. 2000, c. 19, s. 3(1), applicable to obligations satisfied after December 15, 1998.

Related Sections: S. 139.1 Demutualization of insurance corporations; s. 248(1), "disposition".

SECTION 50:

► 50(1) ◄

(1) Debts established to be bad debts and shares of bankrupt corporation. For the purposes of this subdivision, where

(*a*) a debt owing to a taxpayer at the end of a taxation year (other than a debt owing to the taxpayer in respect of the disposition of personal-use property) is established by the taxpayer to have become a bad debt in the year, or

(*b*) a share (other than a share received by a taxpayer as consideration in respect of the disposition of personal-use property) of the capital stock of a corporation is owned by the taxpayer at the end of a taxation year and

(i) the corporation has during the year become a bankrupt (within the meaning of subsection 128(3)),

(ii) the corporation is a corporation referred to in section 6 of the *Winding-up Act* that is insolvent (within the meaning of that Act) and in respect of which a winding-up order under that Act has been made in the year, or

(iii) at the end of the year,

(A) the corporation is insolvent,

(B) neither the corporation nor a corporation controlled by it carries on business,

(C) the fair market value of the share is nil, and

(D) it is reasonable to expect that the corporation will be dissolved or wound up and will not commence to carry on business

and the taxpayer elects in the taxpayer's return of income for the year to have this subsection apply in respect of the debt or the share, as the case may be, the taxpayer shall be deemed to have disposed of the debt or the share, as the case may be, at the end of the year for proceeds equal to nil and to have reacquired it immediately after the end of the year at a cost equal to nil.

History: S. 50(1)(*b*)(iii) was amended by S.C. 1995, c. 21, s. 15(1), applicable to taxation years that end after February 21, 1994. S. 50(1)(*b*)(iii) formerly read:

"(iii) at the end of the year, the corporation is insolvent and neither the corporation nor a corporation controlled by it carries on business, and

(A) at the end of the year, the fair market value of the share is nil and it is reasonable to expect that the corporation will be dissolved or wound up and will not begin to carry on business, and

(B) in the taxpayer's return of income under this Part for the year the taxpayer elects to have this subsection apply in respect of the share,

the taxpayer shall be deemed to have disposed of the debt or the share, as the case may be, at the end of the year for proceeds equal to nil and to have reacquired it immediately thereafter at a cost equal to nil."

The application provision for S.C. 1994, c. 7, Sched. II, s. 28(1) was amended by S.C. 1994, c. 7, Sched. VIII, s. 159. As a result, where an election referred to in the application provision reproduced below was made before December 11, 1993, the election "shall be deemed to have been made before 1992".

S. 50(1), all that portion following (*b*)(ii) thereof, was amended by S.C. 1994, c. 7, Sched. II, s. 28(1), applicable

(*a*) to the 1990 and subsequent taxation years; and

(*b*) where a taxpayer so elected in respect of a share of the capital stock of a corporation by notifying the Minister of National Revenue in writing before 1992, to each of the taxpayer's 1985 to 1989 taxation years in respect of the share owned by the taxpayer at the end of the year, except that subsection (1) does not apply in respect of any such taxation year in respect of the share where the corporation or a corporation controlled by it carried on business during the 24-month period immediately following the end of the year, and, where a taxpayer elected under this paragraph in respect of a share of the capital stock of a corporation,

(i) the taxpayer shall be deemed to have elected, in the taxpayer's returns of income under Part I of the Act for each of those years, to have subsection 50(1) of the Act, as amended by subsection (1), apply to the share, and

(ii) notwithstanding subsections 152(4) to (5) of the Act, such assessments of tax, interest and penalties shall be made as are necessary to give effect to the election.

S. 50(1), that portion following (*b*)(ii) formerly read:

"(iii) the corporation ceased to carry on all of its businesses and was insolvent during the year, and

(A) at the end of the year, the fair market value of the share is nil and it is reasonable to expect that the corporation will be dissolved or wound up and will not commence to carry on any business, and

(B) the corporation did not commence to carry on any business in the year or within 24 months following the end of the year,

the taxpayer shall be deemed to have disposed of the debt or the share, as the case may be, at the end of the year and to have reacquired it immediately thereafter at a cost equal to nil."

Editorial Note: The loss resulting from the deemed disposition in subsection 50(1) may qualify as a business investment loss; see paragraph 39(1)(*c*). Subsection 50(2) provides for the treatment of bad debts that are personal-use property owed by arm's length persons.

Related Sections: S. 39(1) Meaning of capital gain and capital loss; s. 80.01(6) Specified obligation in relation to debt parking; s. 96(3) Agreement or election of partnership members; s. 220(3.2) Late, amended or revoked elections.
Regulations: 600(b).
Interpretation Bulletins: *Primary* — IT-159R3 Capital debts established to be bad debts. *Secondary* — IT-220R2 Capital cost allowance — Proceeds of disposition of depreciable property; IT-239R2 Deductibility of capital losses from guaranteeing loans for inadequate consideration and from loaning funds at less than a reasonable rate of interest in non-arm's length circumstances [Archived by the CRA]; IT-484R2 Business investment losses.
Information Circulars: IC 07-1 Taxpayer Relief Provisions.
Tax Topics: No. 1490, Parent Corporation Receives Both ABIL and Subsidiary's Losses.
Tax Profile: October 2008 — Tax Consequences of Debt Restructuring and Workouts in Canada.
Tax Window Files: Bad Debt for Amount Owing Under Employee Stock Option, October 6, 2006, CRA Document No. 2006-0196271C6; Capital Loss — Cease Trading Order, April 28, 2006, CRA Document No. 2006-0175701M4; Business Investment Loss — Bad Debt — Non-Profit Organization, June 9, 2005, CRA Document No. 2005-0122511I7; Disposition of Capital Property — Treatment of Loss on Debt and Legal Costs, November 13, 2003, CRA Document No. 2003-0039637; Election under Subsection 50(1), December 18, 2000, CRA Document No. 2000-0041105
Cases: The taxpayer was not allowed to claim a capital loss on amounts paid to extricate several of its subsidiaries from U.S. partnerships and itself from guarantees in respect of the partnerships, because no property was disposed of. *The Cadillac Fairview Corporation Limited v. The Queen*, 99 DTC 5121 (F.C.A.), affirming 97 DTC 405 (T.C.C.).

In determining whether amounts in question became "bad debts", a taxpayer must act in a "pragmatic businesslike manner". A taxpayer is not required to attempt to collect the amounts in question if such attempt would result in the debtor's bankruptcy. *Granby Construction & Equipment Ltd. v. M.N.R.*, 89 DTC 456 (T.C.C.).

► 50(1.1) ◄

(1.1) Idem. Where

(*a*) a taxpayer is deemed because of subparagraph (1)(*b*)(iii) to have disposed of a share of the capital stock of a corporation at the end of a taxation year, and

(*b*) the taxpayer or a person with whom the taxpayer is not dealing at arm's length owns the share at the earliest time, during the 24-month period immediately following the disposition, that the corporation or a corporation controlled by it carries on business,

the taxpayer or the person, as the case may be, shall be deemed to have disposed of the share at that earliest time for proceeds of disposition equal to its adjusted cost base to the taxpayer determined immediately before the time of the disposition referred to in paragraph (*a*) and to have reacquired it immediately after that earliest time at a cost equal to those proceeds.

Editorial Note: Subsection 50(1.1) applies if a share of a corporation was subject to the deemed disposition for nil proceeds rule under subparagraph 50(1)(*b*)(iii) (corporation insolvent, not carrying on business, fair market value of share is nil) and the corporation subsequently begins to carry on business within 24 months of the disposition. If the original shareholder or a non-arm's length person owns the share at that subsequent time, there is a deemed disposition of the share for proceeds equal to the original adjusted cost base, such that resulting gain effectively offsets the previous loss under subsection 50(1).

History: S. 50(1.1) was added by S.C. 1994, c. 7, Sched. II, s. 28(2), applicable to the 1990 and subsequent taxation years.

► 50(2) ◄

(2) Where debt a personal-use property. Where at the end of a taxation year a debt that is a personal-use property of a taxpayer is owing to the taxpayer by a person with whom the taxpayer deals at arm's length and is established by the taxpayer to have become a bad debt in the year,

(*a*) the taxpayer shall be deemed to have disposed of it at the end of the year for proceeds equal to the amount, if any, by which

(i) its adjusted cost base to the taxpayer immediately before the end of the year

exceeds

(ii) the amount of the taxpayer's gain, if any, from the disposition of the personal-use property the proceeds of disposition of which included the debt; and

(*b*) the taxpayer shall be deemed to have reacquired the debt immediately after the end of the year at a cost equal to the amount of the proceeds determined under paragraph (*a*).

Editorial Note: The loss resulting from the deemed disposition of the debt is limited to the amount of the gain realized on the previous disposition of the personal-use property.

Related Sections: S. 40(2)(*g*) Limitations; s. 46 Personal-use property; s. 54, "adjusted cost base", "personal-use property"; s. 248(1), "amount".
Interpretation Bulletins: *Primary* — IT-159R3 Capital debts established to be bad debts.

► 50(3) ◄

(3) Disposal of R.H.O.S.P. properties. Each trust that was at the end of 1985 governed by a registered home ownership savings plan (within the meaning assigned by paragraph 146.2(1)(*h*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read in its application to the 1985 taxation year) shall be deemed to have disposed, immediately before 1986, of each property it holds at that time for proceeds of disposition equal to the fair market value of the property at that time and to have reacquired it immediately after 1985 at a cost equal to that fair market value.

Related Sections: S. 12(10.1) Income from R.H.O.S.P.

SECTION 51:

► 51(1) ◄

(1) Convertible property. Where a share of the capital stock of a corporation is acquired by a taxpayer from the corporation in exchange for

(*a*) a capital property of the taxpayer that is another share of the corporation (in this section referred to as a "convertible property"), or

(*b*) a capital property of the taxpayer that is a bond, debenture or note of the corporation the terms of which confer on the holder the right to make the exchange (in this section referred to as a "convertible property")

and no consideration other than the share is received by the taxpayer for the convertible property,

(*c*) except for the purpose of subsection 20(21), the exchange shall be deemed not to be a disposition of the convertible property,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 51(1)(*c*) of the English version of the Act is replaced by the following:

(*c*) except for the purposes of subsections 20(21) and 44.1(6) and (7) and paragraph 94(2)(*m*), the exchange is deemed not to be a disposition of the convertible property,

Applicable: To taxation years of a taxpayer that begin after 1999, except that, for any taxation year of the taxpayer that begins before 2007 in respect of which paragraph 94(2)(*m*) does not apply to the taxpayer, paragraph 51(1)(*c*) shall be read without reference to the expression "and paragraph 94(2)(*m*)".

Explanatory Note: Paragraph 51(1)(*c*) of the Act provides that, except for the purpose of subsection 20(21), an exchange described in paragraph 51(1)(*a*) or (*b*) is deemed not to be to be a disposition of the convertible property.

Paragraph 51(1)(*c*) is amended to add a reference to subsections 44.1(6), 44.1(7), and 94(2)(*m*).

This amendment applies to taxation years that begin after 1999, except that, for any taxation year of the taxpayer that begins before 2007 in respect of which new paragraph 94(2)(*m*) of the Act does not apply to the taxpayer, paragraph 51(1)(*c*) is to be read without the reference to paragraph 94(2)(*m*).

(*d*) the cost to the taxpayer of all the shares of a particular class acquired by the taxpayer on the exchange shall be deemed to be the amount determined by the formula

$$A \times \frac{B}{C}$$

where

A is the adjusted cost base to the taxpayer of the convertible property immediately before the exchange,

B is the fair market value, immediately after the exchange, of all the shares of the particular class acquired by the taxpayer on the exchange, and

C is the fair market value, immediately after the exchange, of all the shares acquired by the taxpayer on the exchange,

(*d*.1) there shall be deducted, after the exchange, in computing the adjusted cost base to the taxpayer of a share acquired by the taxpayer on the exchange, the amount determined by the formula

$$A \times \frac{B}{C}$$

where

A is the total of all amounts deducted under paragraph 53(2)(*g*.1) in computing, immediately before the exchange, the adjusted cost base to the taxpayer of the convertible property,

B is the fair market value, immediately after the exchange, of that share, and

C is the fair market value, immediately after the exchange, of all the shares acquired by the taxpayer on the exchange,

(*d*.2) the amount determined under paragraph (*d*.1) in respect of a share shall be added, after the exchange, in computing the adjusted cost base to the taxpayer of the share,

(*e*) for the purposes of sections 74.4 and 74.5, the exchange shall be deemed to be a transfer of the convertible property by the taxpayer to the corporation, and

(*f*) where the convertible property is taxable Canadian property of the taxpayer, the share acquired by the taxpayer on the exchange shall be deemed to be taxable Canadian property of the taxpayer.

History: The portion of s. 51(1) before paragraph (*a*) was amended by S.C. 1998, c. 19, s. 92(1), applicable to exchanges that occur after June 20, 1996, other than exchanges that occur before 1997 under agreements in writing made on or before June 20, 1996. The portion of s. 51(1) before paragraph (*a*) formerly read:

"(1) Where a share of the capital stock of a corporation is acquired by a taxpayer in exchange for"

S. 51(1)(*d*.1) and (*d*.2) were added by S.C. 1995, c. 21, s. 16(1), applicable to taxation years that end after February 21, 1994.

S. 51(1) was amended by S.C. 1994, c. 21, s. 20(1), applicable to exchanges occurring, and reorganizations that begin, after December 21, 1992. S. 51(1) formerly read:

"(1) Where shares of the capital stock of a corporation have been acquired by a taxpayer in exchange for a capital property of the taxpayer that was a share, bond, debenture or note of the corporation (in this section referred to as a 'convertible property') the terms of which conferred on the holder the right to make the exchange and no consideration was received by the taxpayer for the convertible property other than those shares, the following rules apply:

(*a*) the exchange shall be deemed not to have been a disposition of property;

(*b*) the cost to the taxpayer of all the shares of a particular class acquired by the taxpayer on the exchange shall be deemed to be that proportion of the adjusted cost base to the taxpayer of the convertible property immediately before the exchange that

(i) the fair market value, immediately after the exchange, of all the shares of the particular class acquired by the taxpayer on the exchange

is of

(ii) the fair market value, immediately after the exchange, of all the shares acquired by the taxpayer on the exchange; and

(*c*) for the purposes of sections 74.4 and 74.5, the exchange shall be deemed to be a transfer of the convertible property by the taxpayer to the corporation."

Editorial Note: Subsection 51(1) provides a tax-free rollover upon the exchange of the share or debt of the corporation into another share of the corporation. The CRA takes the position that, where a conversion feature described in paragraph 51(1)(*b*) is not severable from the underlying security and cannot be separately traded, section 51 applies to the exclusion of section 49. However, if the conversion feature is severable and can be separately traded, it may be considered an option subject to section 49. See paragraph 9 of IT-96R6. Subsection 51(1) does not apply if the exchange or conversion is otherwise subject to subsection 85(1) or (2) or section 86 (subsection 51(4)).

Related Sections: S. 40(3.5) Deemed identical property; s.53(1)(*q*) Adjustments to cost base — Debt forgiveness; s.53(2)(*g*.1) Amounts to be deducted — Debt forgiveness; s.55(1), "permitted exchange"; s.55(3)(*b*) Application; s.84 Deemed dividend; s. 85 Transfer of property to corporation by shareholders; s. 86(1) Exchange of shares by a shareholder in course of reorganization of capital; s. 86(3) Application; s. 112(7) Rules where shares exchanged; s. 116(5) Liability of purchaser; ITAR 26(24).

Interpretation Bulletins: *Primary* — IT-115R2 Fractional interests in shares. *Secondary* — IT-96R6 Options granted by corporations to acquire shares, bonds or debentures; IT-146R4 Shares entitling shareholders to choose taxable or capital dividends.

Tax Profile: October 2008 — Tax Consequences of Debt Restructuring and Workouts in Canada; December 2000 — Preferred Share Design: Tax Free Reorganizations and Benefit Conferrals.

Canadian Tax Foundation: Tabuchi, "'Share Capital Reorganizations for Private Corporations", in Personal Tax Planning feature", *2003 Canadian Tax Journal*, No. 3, 1340; Moch and Ebel, "Basics of Corporate Reorganizations: Sections 51, 85, 85.1, and 86", *2002 Prairie Provinces Tax Conference*, 10:1; Moch And Ebel, "Share Reorganizations and Corporate Takeover Transactions — Using Tax Rollover Provisions", *2000 Conference Report*, 8:1.

Tax Window Files: Capital loss reduction under 112(3.2) for estate, May 30, 2007, CRA Document No. 2007-0224371I7; Grandfathering of Stop Loss Provision, January 18, 2006, CRA Document No. 2005-0145111E5; Application of Rollover Provisions to a Partnership, December 16, 2005, CRA Document No. 2005-0150411E5; Price Adjustment Clauses, July 6, 2004, CRA Document No. 2004-0081631E5; Disposition of Capital Property — Treatment of Loss on Debt and Legal Costs, November 13, 2003, CRA Document No. 2003-0039637; Section 116 Certificate — Application to Rollover under Section 51, February 12, 1997, CRA Document No. 9631575 (see also CRA Document no. 2002-0156945).

Cases: A convertible debenture purchased at fair market value by an employee and later converted to shares gave rise to a taxable benefit under

s. 7, regardless of whether s. 51 established a cost for the shares. *Mansfield v. The Queen*, 84 DTC 6535 (F.C.A.), affirming 83 DTC 5136 (F.C.T.D.).

► 51(2) ◄

(2) Idem. Notwithstanding subsection (1), where

(*a*) shares of the capital stock of a corporation have been acquired by a taxpayer in exchange for a convertible property in circumstances such that, but for this subsection, subsection (1) would have applied,

(*b*) the fair market value of the convertible property immediately before the exchange exceeds the fair market value of the shares immediately after the exchange, and

(*c*) it is reasonable to regard any portion of the excess (in this subsection referred to as the "gift portion") as a benefit that the taxpayer desired to have conferred on a person related to the taxpayer,

the following rules apply:

(*d*) the taxpayer shall be deemed to have disposed of the convertible property for proceeds of disposition equal to the lesser of

(i) the total of its adjusted cost base to the taxpayer immediately before the exchange and the gift portion, and

(ii) the fair market value of the convertible property immediately before the exchange,

(*e*) the taxpayer's capital loss from the disposition of the convertible property shall be deemed to be nil, and

(*f*) the cost to the taxpayer of all the shares of a particular class acquired in exchange for the convertible property shall be deemed to be that proportion of the lesser of

(i) the adjusted cost base to the taxpayer of the convertible property immediately before the exchange, and

(ii) the total of the fair market value immediately after the exchange of all the shares acquired by the taxpayer in exchange for the convertible property and the amount that, but for paragraph (*e*), would have been the taxpayer's capital loss on the disposition of the convertible property,

that

(iii) the fair market value, immediately after the exchange, of all the shares of the particular class acquired by the taxpayer on the exchange

is of

(iv) the fair market value, immediately after the exchange, of all the shares acquired by the taxpayer on the exchange.

Interpretation Bulletins: *Primary* — IT-115R2 Fractional interests in shares. *Secondary* — IT-146R4 Shares entitling shareholders to choose taxable or capital dividends.
Tax Profile: December 2000 — Preferred Share Design: Tax Free Reorganizations and Benefit Conferrals.
Tax Window Files: Price Adjustment Clause — Estate Freeze, April 11, 2005, CRA Document No. 2005-0112321E5.

► 51(3) ◄

(3) Computation of paid-up capital. Where subsection (1) applies to the exchange of convertible property described in paragraph (1)(*a*) (referred to in this subsection as the "old shares"), in computing the paid-up capital in respect of a particular class of shares of the capital stock of the corporation at any particular time that is the time of, or any time after, the exchange

(*a*) there shall be deducted the amount determined by the formula

$$(A - B) \times \frac{C}{A}$$

where

A is the total of all amounts each of which is the amount of the increase, if any, as a result of the exchange, in the paid-up capital in respect of a class of shares of the capital stock of the corporation, computed without reference to this subsection as it applies to the exchange,

B is the paid-up capital immediately before the exchange in respect of the old shares, and

C is the increase, if any, as a result of the exchange, in the paid-up capital in respect of the particular class of shares, computed without reference to this subsection as it applies to the exchange; and

(*b*) there shall be added an amount equal to the lesser of

(i) the amount, if any, by which

(A) the total of all amounts deemed by subsection 84(3), (4) or (4.1) to be a dividend on shares of that class paid by the corporation before the particular time

exceeds

(B) the total that would be determined under clause (A) if this Act were read without reference to paragraph (*a*), and

(ii) the total of all amounts required by paragraph (*a*) to be deducted in respect of that particular class of shares before the particular time.

History: S. 51(3) was added by S.C. 1994, c. 21, s. 20(2), applicable to exchanges occurring after August 1992, other than exchanges occurring after August 1992 and before December 21, 1992 where the corporation issuing shares on the exchange so elects in writing and files the election with the Minister of National Revenue before the end of the sixth month after the month in which this Act is assented to (Royal Assent, June 15, 1994).

Related Sections: S. 84(5) Amount distributed or paid where a share; s. 89(1), "paid-up capital".
Tax Window Files: Shift of Paid-Up Capital Between Classes of Shares, 1999, CRA Document No. 9905543.

► 51(4) ◄

(4) Application. Subsections (1) and (2) do not apply to any exchange to which subsection 85(1) or (2) or section 86 applies.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 51(4) of the Act is replaced by the following:

(4) Application. Subsections (1) and (2) do not apply to (*a*) any exchange to which subsection 85(1) or (2) or section 86 applies; and

(*b*) any exchange of property if that property was, immediately before the exchange, a specified participating interest.

Applicable: Applies to exchanges that occur in taxation years that begin after 2006, except that that subsection also applies in respect of a taxpayer to exchanges that occur in a taxation year of the taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the taxpayer.

Explanatory Note: Subsection 51(4) of the Act provides that subsections 51(1) and (2) will not apply to any exchange to which subsection 85(1) or (2) or section 86 applies.

Subsection 51(4) is amended to provide that subsections 51(1) and (2) also will not apply to any exchange of property if that property was, immediately before the exchange, a specified participating interest. The concept of a specified participating interest is generally relevant in the context of the foreign investment entity rules in sections 94.1 to 94.4. For more information on the definition "specified participating interest" in subsection 248(1), see the commentary on that definition.

This amendment applies to exchanges that occur in taxation years that begin after 2006.

History: S. 51(4) was added by S.C. 1994, c. 21, s. 20(2), applicable to exchanges occurring, and reorganizations that begin, after December 21, 1992.

Interpretation Bulletins: *Secondary*—IT-115R2 Fractional interests in shares.

SECTION 51.1: Conversion of debt obligation.

Where

(*a*) a taxpayer acquires a bond, debenture or note of a debtor (in this section referred to as the "new obligation") in exchange for a capital property of the taxpayer that is another bond, debenture or note of the same debtor (in this section referred to as the "convertible obligation"),

(*b*) the terms of the convertible obligation conferred on the holder the right to make the exchange, and

(*c*) the principal amount of the new obligation is equal to the principal amount of the convertible obligation,

the cost to the taxpayer of the new obligation and the proceeds of disposition of the convertible obligation shall be deemed to be equal to the adjusted cost base to the taxpayer of the convertible obligation immediately before the exchange.

History: S. 51.1 was added by S.C. 1995, c. 21, s. 50(1), applicable to exchanges occurring after October 1994.

Tax Profile: October 2008 — Tax Consequences of Debt Restructuring and Workouts in Canada.

SECTION 52:

► 52(1) ◄

(1) Cost of certain property the value of which included in income. Where

(*a*) a taxpayer acquired property after 1971 (other than an annuity contract, a right as a beneficiary under a trust to enforce payment of an amount by the trust to the taxpayer, property acquired in circumstances to which subsection (2) or (3) applies or property acquired from a trust in satisfaction of all or part of the taxpayer's capital interest in the trust), and

(*b*) an amount in respect of its value was

(i) included, otherwise than under section 7, in computing

(A) the taxpayer's taxable income or taxable income earned in Canada, as the case may be, for a taxation year during which the taxpayer was non-resident, or

(B) the taxpayer's income for a taxation year throughout which the taxpayer was resident in Canada, or

(ii) for the purpose of computing the tax payable under Part XIII by the taxpayer, included in an amount that was paid or credited to the taxpayer,

for the purposes of this subdivision, the amount so included shall be added in computing the cost to the taxpayer of the property, except to the extent that the amount was otherwise added to the cost or included in computing the adjusted cost base to the taxpayer of the property.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 52(1) of the Act is replaced by the following:

SECTION 52:

(1) Cost of certain property the value of which is included in income. In applying this subdivision, an amount shall be added in computing the cost at any time to a taxpayer of a property if

(*a*) the taxpayer acquired the property after 1971;

(*b*) the amount was not at or before that time otherwise added to the cost, or included in computing the adjusted cost base, to the taxpayer of the property;

(*c*) the property is not an annuity contract, a right as a beneficiary under a trust to enforce payment of an amount by the trust to the taxpayer, property acquired in circumstances to which subsection (2) or (3) applies, or property acquired from a trust in satisfaction of all or part of the taxpayer's capital interest in the trust; and

(*d*) an amount in respect of the property's value was

(i) included, otherwise than under section 7 or subsection 94.2(4), in computing

(A) the taxpayer's taxable income or taxable income earned in Canada, as the case may be, for a taxation year during which the taxpayer was non-resident, or

(B) the taxpayer's income for a taxation year throughout which the taxpayer was resident in Canada, or

(ii) for the purpose of computing the tax payable under Part XIII by the taxpayer, included in an amount that was paid or credited to the taxpayer.

Applicable: Subsection (1) applies to taxation years that begin after 2006, except that that subsection also applies to a taxation year of a taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the taxpayer.

Explanatory Note: Section 52 of the Act sets out the rules for determining the cost of certain property for the purposes of measuring any gain or loss on its disposition.

Subject to a number of exceptions, subsection 52(1) of the Act applies where a taxpayer acquires property and a particular amount in respect of its value was included in computing the taxpayer's income for a taxation year throughout which the taxpayer was resident in Canada (or in computing a non-resident taxpayer's taxable income earned in Canada under section 115, taxable income under section 114 or an amount from which tax is withheld under Part XIII). In these circumstances, the particular amount is added in determining the cost to the taxpayer of the property for the purposes of determining capital gains and losses in respect of the property.

Where subsection 94.2(3) applies (and subsection 94.2(20) does not apply) to a taxpayer for a taxation year in respect of a property, an amount in respect of the taxpayer's cost of the property may be included under subsection 94.2(4) in computing the taxpayer's income from the property. Subsection 52(1) is amended so that it does not apply to add an amount to the cost to a taxpayer of a property where the amount may have been so included under subsection 94.2(4).

This amendment is made, even though a taxpayer's property that is subject to the mark-to-market rules in subsection 94.2(4) for a taxation year is generally considered not to be (except where subsection 94.2(20) applies to the taxpayer for the taxation year) property a gain from the disposition of which is a capital gain, to deal with the situation where it may become at some later time capital property or where it is capital property to which subsection 94.2(20) applied to the taxpayer for the taxation year. Subsection 52(1) should not apply to cause a "bump" in the cost of a property in respect of income or gains recognized under subsection 94.2(4) because section 94.2 contains its own rules for making adjustments in respect of such income or gains. For more detail, see the commentary on subsections 94.2(12), (13) and (21), and the definition "deferral amount" in subsection 94.1(1).

For more information on the definitions "participating interest" and "foreign investment entity" and section 94.2, see the commentary on those provisions.

This amendment applies to taxation years that begin after 2006.

History: S. 52(1) was amended by S.C. 2001, c. 17, s. 35(1), applicable after 1999 except that, in respect of property acquired before 2000 and disposed of before March 2000, paragraph 52(1)(*a*) of the Act, as enacted by that subsection, shall be read as follows:

"(*a*) a taxpayer acquired property after 1971 (other than an annuity contract or property acquired as described in subsection (2), (3) or (6)), and"

S. 52(1) formerly read:

"S. 52. *Cost of certain property value of which included in income.*

(1) For the purposes of this subdivision, where a taxpayer acquired property after 1971 (other than an annuity contract or property acquired as described in subsection (2), (3) or (6)) and an amount in respect of the value thereof was included in computing the taxpayer's income otherwise than under section 7, the amount so included shall be added in computing the cost to the taxpayer of that property, except to the extent that the amount was otherwise added to the cost or included in computing the adjusted cost base to the taxpayer of the property."

S. 52(1) was amended by S.C. 1994, c. 7, Sched. VII, s. 14(1), applicable after October 16, 1991. S. 52(1) formerly read:

"(1) For the purposes of this subdivision, where a taxpayer has acquired property after 1971 (other than an annuity contract or property acquired as described in subsection (2), (3) or (6)) and an amount in respect of the value thereof has been included in computing the taxpayer's income otherwise than under section 7, the amount so included shall be added in computing the cost to the taxpayer of that property."

Editorial Note: Although subsection 52(1) does not apply to section 7 employee stock option benefits included in income (see subparagraph (1)(*b*)(i)), such amounts are added to the cost of the acquired securities under paragraph 53(1)(*j*).

Related Sections: S. 12(9) Deemed accrual; s. 15(1) Benefit conferred on shareholder; s. 53(1)(*b*) Adjustments to cost base — Deemed dividend; s. 54, "adjusted cost base"; s. 69(5) Winding-up of corporation; s. 107(2.1) Other distributions; s. 147(10.4) Income on disposal of shares.

Interpretation Bulletins: *Secondary* — IT-96R6 Options granted by corporations to acquire shares, bonds or debentures and by trusts to acquire trust units; IT-432R2 Benefits conferred on shareholders.

▶ 52(1.1) ◀

(1.1) Idem, where owner non-resident. [Repealed by S.C. 2001, c. 17, s. 35(1).]

History: S. 52(1.1) was repealed by S.C. 2001, c. 17, s. 35(1), applicable after 1999. S. 52(1.1) formerly read:

"(1.1) *Idem, where owner non-resident.* For the purposes of this subdivision, where a non-resident person has acquired property after 1971 (other than property acquired as described in subsection (2), (3) or (6)) that would, if that person disposed of it, be taxable Canadian property of that person and

(*a*) an amount in respect of the value thereof has been included, otherwise than under section 7, in computing that person's taxable income earned in Canada, or

(*b*) an amount in respect of the value thereof has, for the purposes of computing the tax payable by that person under Part XIII, been included in an amount that has been paid or credited to that person,

the amount so included shall be added in computing the cost to that person of that property."

Related Sections: S. 69(5) Winding-up of corporation.

Interpretation Bulletins: *Secondary* — IT-432R2 Benefits conferred on shareholders.

▶ 52(2) ◀

(2) Cost of property received as dividend in kind. Where any property has, after 1971, been received by a shareholder of a corporation at any time as, on account or in lieu of payment of, or in satisfaction of, a dividend payable in kind (other than a stock dividend) in respect of a share owned by the shareholder of the capital stock of the corporation, the shareholder shall be deemed to have acquired the property at a cost to the shareholder equal to its fair market value at that time, and the corporation shall be deemed to have disposed of the property at that time for proceeds equal to that fair market value.

Related Sections: S. 69(5) Winding-up of corporation; s. 82(1) Taxable dividends received; s. 86.1(1) Eligible distribution not included in income; s. 142.7(4) Deemed fair market value.

▶ 52(3) ◀

(3) Cost of stock dividend. Where a shareholder of a corporation has, after 1971, received a stock dividend in respect of a share owned by the shareholder of the capital stock of the corporation, the shareholder shall be deemed to have acquired the share or shares received by the shareholder as a stock dividend at a cost to the shareholder equal to the total of

(*a*) where the stock dividend is a dividend, the amount of the stock dividend,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 52(3)(*a*) of the Act is replaced by the following:

(*a*) where the stock dividend is a dividend, the amount, if any, by which

(i) the amount of the stock dividend

exceeds

(ii) the amount of the dividend that the shareholder may deduct under subsection 112(1) in computing the shareholder's taxable income,

Applicable: In respect of amounts received on or after November 9, 2006.

Explanatory Note:

Cost of Stock Dividend

Subsection 52(3) of the Act establishes the cost of a share received as a stock dividend by a shareholder of a corporation.

If the stock dividend is a dividend under the Act, paragraph 52(3)(*a*) provides that the cost of a stock dividend received by a shareholder is the amount of the dividend. Paragraph 52(3)(*a*) is amended to provide that the cost of a stock dividend to a shareholder that is a corporation does not include the amount, if any, of a dividend that the corporation may deduct under subsection 112(1) of the Act in computing the corporation's taxable income. Essentially, this change is meant to ensure that the cost of a stock dividend does not include an amount that is not taxable income to the recipient corporation.

For related amendments, see the commentary accompanying amended paragraph 53(1)(*b*) and amended definition "capital dividend account" in subsection 89(1) of the Act.

This amendment is consequential to amendments made to the expenditure limitation proposals in new section 143.3, which were first released for consultation on November 17,

2005 (Department of Finance release 2005-080). For further commentary, see the notes to amended paragraph 53(1)(*b*) and the amended definition "capital dividend account" in subsection 89(1).

This amendment applies in respect of amounts received on or after November 9, 2006.

(*a*.1) where the stock dividend is not a dividend, nil, and

(*b*) where an amount is included in the shareholder's income in respect of the stock dividend under subsection 15(1.1), the amount so included.

History: S. 52(3)(*a*) was amended and s. 52(3)(*a*.1) was added by S.C. 1994, c. 7, Sched. II, s. 29(1), applicable to stock dividends paid after May 23, 1985. S. 52(3)(*a*) formerly read:

"(*a*) the amount of the stock dividend, and"

Editorial Note: The "amount of the stock dividend" is the amount by which the corporation's paid-up capital is increased by reason of the payment of the dividend (subsection 248(1), "amount"). If subsection 15(1.1) applies to the stock dividend, the fair market value of the stock dividend in excess of the amount of the stock dividend is also added to the cost of the share.

Related Sections: S. 82(1) Taxable dividends received; s. 95(7) Stock dividends from foreign affiliates; s. 248(1), "amount".

Interpretation Bulletins: *Secondary* — IT-88R2 Stock dividends.

Tax Topics: No. 1820, Beware of Pitfalls in November 9, 2006 Technical Amendments When Crystallizing "Safe Income"!.

► 52(4) ◄

(4) Cost of property acquired as prize. Where any property has been acquired by a taxpayer at any time after 1971 as a prize in connection with a lottery scheme, the taxpayer shall be deemed to have acquired the property at a cost to the taxpayer equal to its fair market value at that time.

Editorial Note: The receipt of the prize should not be included in income because lottery winnings are generally tax-free windfalls.

Interpretation Bulletins: *Secondary* — IT-213R Prizes from lottery schemes, pool system betting and giveaway contests.

► 52(5) ◄

(5) Cost of property transferred by trustee under employees profit sharing plan. [Repealed by 1973-74, c. 14, s. 12(2).]

► 52(6) ◄

(6) Cost of right to receive from trust. [Repealed by S.C. 2001, c. 17, s. 35(2).]

History: S. 52(6) was repealed by S.C. 2001, c. 17, s. 35(2), applicable after 1999, but not to rights that were acquired before 2000 and disposed of before March 2000. S. 52(6) formerly read:

"(6) *Cost of right to receive from trust.* Notwithstanding subsection (1), where a beneficiary under a trust acquires a right to enforce payment by the trust of an amount out of a capital gain or the income of the trust (determined without reference to the provisions of this Act) for the taxation year of the trust in which the right was acquired by the beneficiary, for the purposes of this subdivision, the cost to the beneficiary of the right shall be deemed to be the amount that became so payable."

Interpretation Bulletins: *Primary* — IT-390 Unit trusts — Cost of rights and adjustments to cost base [Archived by the CRA]. *Secondary* — IT-268R4 Inter vivos transfer of farm property to child.

► 52(7) ◄

(7) Cost of shares of subsidiary. Notwithstanding any other provision of this Act, where a corporation disposes of property to another corporation in a transaction to which paragraph 219(1)(*l*) applies, the cost to it of any share of a particular class of the capital stock of the other corporation received by it as consideration for the property is deemed to be the lesser of the cost of the share to the corporation otherwise determined immediately after the disposition and the amount by which the paid-up capital in respect of that class increases because of the issuance of the share.

History: S. 52(7) was amended by S.C. 1998, c. 19, s. 93(1), applicable to taxation years that begin after 1995. S. 52(7) formerly read:

"(7) *Cost of shares of subsidiary.* Notwithstanding any other provision of this Act, where a corporation has disposed of property to its subsidiary wholly-owned corporation in a transaction to which paragraph 219(1)(*k*) applies, the cost to it of any share of a particular class of the capital stock of the subsidiary corporation received by it as consideration for the property shall be deemed to be equal to the lesser of the cost of the share to the corporation otherwise determined immediately after the disposition and the amount, if any, by which the paid-up capital of that class increased by virtue of the issuance of that share."

Interpretation Bulletins: *Secondary* — IT-137R3 Additional tax on certain corporations carrying on business in Canada.

► 52(8) ◄

(8) Cost of shares of immigrant corporation. Notwithstanding any other provision of this Act, where at any time a corporation becomes resident in Canada, the cost to any shareholder who is not at that time resident in Canada of any share of the corporation's capital stock, other than a share that was taxable Canadian property immediately before that time, is deemed to be equal to the fair market value of the share at that time.

History: S. 52(8) was amended by S.C. 1999, c. 22, s. 13(1), applicable in respect of corporations that become resident in Canada after February 23, 1998. S. 52(8) formerly read:

"(8) *Cost of shares on immigration.* Notwithstanding any other provision of this Act, where at any time a corporation becomes resident in Canada, the cost to any shareholder that is not at that time resident in Canada of any share of the capital stock of the corporation shall be deemed to be equal to the lesser of that cost otherwise determined and the paid-up capital in respect of the share immediately after that time."

S. 52(8) was added by S.C. 1994, c. 21, s. 21(1), applicable to dispositions occurring after 1992.

Related Sections: S. 128.1(2) Paid-up capital adjustment.

SECTION 53:

► 53(1) ◄

(1) Adjustments to cost base. In computing the adjusted cost base to a taxpayer of property at any time, there shall be added to the cost to the taxpayer of the property such of the following amounts in respect of the property as are applicable:

► 53(1)(a) ◄

(a) [Adjustments to cost base — Deemed gain resulting from negative ACB] — any amount deemed by subsection 40(3) to be a gain of the taxpayer for a taxation year from a disposition before that time of the property;

Related Sections: S. 54, "adjusted cost base"; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

► 53(1)(b) ◄

(b) [Adjustments to cost base — Deemed dividend] — where the property is a share of the capital stock of a corporation resident in Canada, the amount of any dividend on the share deemed by subsection 84(1) to have been received by the taxpayer before that time;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 53(1)(*b*) of the Act is replaced by the following:

(*b*) where the property is a share of the capital stock of a corporation resident in Canada, the amount, if any, by which

(i) the total of all amounts each of which is the amount of a dividend on the share deemed by subsection 84(1) to have been received by the taxpayer before that time

exceeds

(ii) the portion of the total determined under subparagraph (i) that relates to dividends

(A) in respect of which the taxpayer was permitted a deduction under subsection 112(1) in computing the taxpayer's taxable income, and

(B) that arose directly or indirectly as a result of a conversion of contributed surplus into paid-up capital;

Applicable: In respect of dividends received on or after November 9, 2006.

Explanatory Note:

Adjustments to Cost Base — Deemed Dividend

Paragraph 53(1)(*b*) of the Act provides an addition to cost base — where the taxpayer's property is a share of the capital stock of a corporation resident in Canada — equal to the amount of any dividend on the share deemed by the anti-avoidance rule in subsection 84(1) of the Act to have been received by the taxpayer before that time.

Paragraph 53(1)(*b*) is amended to exclude from this addition certain amounts received by a recipient shareholder that is a corporation. The amount excluded from the cost base addition is the portion, if any, of the dividend that the corporate shareholder is permitted to deduct under subsection 112(1) of the Act in computing the corporation's taxable income, and that arose directly or indirectly as a result of a conversion by the corporation that issued the share of its contributed surplus into paid-up capital.

In general, a deemed dividend arises in respect of a corporate conversion of contributed surplus into paid-up capital under subsection 84(1) in cases where the corporation's surplus arose on the issuance by it of shares in consideration for acquiring property that was transferred to it on tax-deferred basis by the transferor (e.g., under section 85). In such cases, the Act provides specific rules that determine the cost of the issued share to the shareholder as well as the paid-up capital of the issuing corporation.

This amendment to paragraph 53(1)(*b*), as well as to paragraph 52(3)(*a*) and to paragraph (*a*) of the definition "capital dividend account" in subsection 89(1) of the Act, addresses circumstances in which increases in a corporation's paid-up capital result in dividends that may be deducted under subsection 112(1) by a recipient corporate shareholder in computing its taxable income.

This amendment also relates to changes made to the expenditure limitation proposals in new section 143.3 of the Act, which were originally released for consultations on November 17, 2005 (Department of Finance release 2005-080). Under the original proposal, the amount by which the fair market value of shares issued by a corporation exceeded the increase in the issuing corporation's paid-up capital could not be treated as an expenditure. One outcome of this approach would have been to preclude certain increases in the adjusted cost base of shares in the issuing corporation where the issuing corporation subsequently increased its paid-up capital by all or a portion of the excess. That proposal has been amended to remove the reference to paid-up capital.

This amendment applies in respect of dividends received on or after November 9, 2006.

Related Sections: S. 54, "adjusted cost base"; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.
Tax Topics: No. 1820, Beware of Pitfalls in November 9, 2006 Technical Amendments When Crystallizing "Safe Income"!.

▶ 53(1)(b.1) ◀

(b.1) [Adjustments to cost base — Deemed dividend from immigrating corporation] — where the property is a share of the capital stock of a corporation, the amount of any dividend deemed by paragraph 128.1(1)(*c.2*) to have been received in respect of the share by the taxpayer before that time and while the taxpayer was resident in Canada;

History: S. 53(1)(*b.1*) was added by S.C. 1999, c. 22, s. 14(1), applicable after February 23, 1998.

Related Sections: S. 54, "adjusted cost base"; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

▶ 53(1)(c) ◀

(c) [Adjustments to cost base — Contributions of capital] — where the property is a share of the capital stock of a corporation and the taxpayer has, after 1971, made a contribution of capital to the corporation otherwise than by way of a loan, by way of a disposition of shares of a foreign affiliate of the taxpayer to which subsection 85.1(3) or paragraph 95(2)(*c*) applies or, subject to subsection (1.1), a disposition of property in respect of which the taxpayer and the corporation have made an election under section 85, that proportion of such part of the amount of the contribution as cannot reasonably be regarded as a benefit conferred by the taxpayer on a person (other than the corporation) who was related to the taxpayer that

(i) the amount that may reasonably be regarded as the increase in the fair market value, as a result of the contribution, of the share

is of

(ii) the amount that may reasonably be regarded as the increase in the fair market value, as a result of the contribution, of all shares of the capital stock of the corporation owned by the taxpayer immediately after the contribution;

Related Sections: S. 54, "adjusted cost base"; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.
Interpretation Bulletins: *Primary* — IT-456R Capital property — Some adjustments to cost base. *Secondary* — IT-291R3 Transfer of property to a corporation under subsection 85(1).

▶ 53(1)(d) ◀

(d) [Adjustments to cost base — Share of foreign affiliate] — where the property is a share of the capital stock of a foreign affiliate of the taxpayer, any amount required by paragraph 92(1)(*a*) to be added in computing the adjusted cost base to the taxpayer of the share;

Related Sections: S. 54, "adjusted cost base"; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

▶ 53(1)(d.01) ◀

(d.01) [Adjustments to cost base — Share of demutualized insurer] — where the property is a share of the capital stock of a corporation, any amount required by paragraph 139.1(16)(*l*) to be added in computing the adjusted cost base to the taxpayer of the share;

History: S. 53(1)(*d.01*) was added by S.C. 2000, c. 19, s. 4(1), applicable after December 15, 1998.

Related Sections: S. 53(1.1) Deemed contribution of capital; s. 54, "adjusted cost base"; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

▶ 53(1)(d.1) ◀

(d.1) [Adjustments to cost base — Capital interest in a trust] — where the property is a capital interest of the taxpayer in a trust to which paragraph 94(1)(*d*) applies, any amount required by paragraph 94(5)(*a*) to be added in computing the adjusted cost base to the taxpayer of the interest;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 53(1)(*d*.1) of the Act is replaced by the following:

(*d*.1) any amount required by paragraph 94(5)(*a*) (as that paragraph read in its application to taxation years that include December 31, 2000) to be added in computing the adjusted cost base to the taxpayer of the property;

Applicable: To taxation years that begin after 2006. The amendment to paragraph 53(1)(*d*.1) also applies to

(*a*) taxation years of a taxpayer that begin after 2000 if a trust, in which the taxpayer had a capital interest at any time in 2001, makes a valid election under paragraph [(*a*) of the application for new proposed section 94;]

(*b*) taxation years of a taxpayer that begin after 2001 if a trust, in which the taxpayer had a capital interest at any time in 2002, makes a valid election under paragraph [(*a*) or (*b*) of the application for new proposed section 94]

(*c*) taxation years of a taxpayer that begin after 2002 if a trust, in which the taxpayer had a capital interest at any time in 2003, makes a valid election under any of paragraphs [(*a*) to (*c*) of the application for new proposed section 94]

(*d*) taxation years of a taxpayer that begin after 2003 if a trust, in which the taxpayer had a capital interest at any time in 2004, makes a valid election under any of paragraphs [(*a*) to (*d*) of the application for new proposed section 94];

(*e*) taxation years of a taxpayer that begin after 2004 if a trust, in which the taxpayer had a capital interest at any time in 2005, makes a valid election under any of paragraphs [(*a*) to (*e*) of the application for new proposed section 94]; and

(*f*) taxation years of a taxpayer that begin after 2005 if a trust, in which the taxpayer had a capital interest at any time in 2006, makes a valid election under any of paragraphs [(*a*) to (*f*) of the application for new proposed section 94].

Explanatory Note: Paragraph 53(1)(*d*.1) of the Act, applied together with existing paragraph 94(5)(*a*), provides for an addition in computing the adjusted cost base (ACB) to a taxpayer of the taxpayer's capital interest in a trust to which existing paragraph 94(1)(*d*) applies. Paragraph 53(1)(*d*.1) is amended to ensure that historical ACB additions are maintained, notwithstanding the replacement of the rules in existing section 94.

This amendment applies to taxation years that begin after 2006.

It also applies to taxation years of a taxpayer that begin

- after 2000 if a trust, in which the taxpayer had a capital interest at any time in 2001, makes a valid election under paragraph (*a*) of the coming-into-force provision for new section 94,
- after 2001 if a trust, in which the taxpayer had a capital interest at any time in 2002, makes a valid election under paragraphs (*a*) or (*b*) of the coming-into-force provision for new section 94,
- after 2002 if a trust, in which the taxpayer had a capital interest at any time in 2003, makes a valid election under paragraphs (*a*) to (*c*) of the coming-into-force provision for new section 94,
- after 2003 if a trust, in which the taxpayer had a capital interest at any time in 2004, makes a valid election under paragraphs (*a*) to (*d*) of the coming-into-force provision for new section 94,
- after 2004 if a trust, in which the taxpayer had a capital interest at any time in 2005, makes a valid election under paragraphs (*a*) to (*e*) of the coming-into-force provision for new section 94, and
- after 2005 if a trust, in which the taxpayer had a capital interest at any time in 2006, makes a valid election under paragraphs (*a*) to (*f*) of the coming-into-force provision for new section 94.

Because of the possibility of such an election, amended paragraph 53(1)(*d*.1) refers to paragraph 94(5)(*a*) as it read for taxation years that include December 31, 2000.

Related Sections: S. 54, "adjusted cost base"; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

► 53(1)(d.2) ◄

(d.2) **[Adjustments to cost base — Unit in a mutual fund trust]** — where the property is a unit in a mutual fund trust, any amount required by subsection 132.1(2) to be added in computing the adjusted cost base to the taxpayer of the unit;

Related Sections: S. 54, "adjusted cost base"; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

► 53(1)(d.3) ◄

(d.3) **[Adjustments to cost base — Denied deduction for interest or soft costs]** — where the property is a share of the capital stock of a corporation of which the taxpayer was, at any time, a specified shareholder, any expense incurred by the taxpayer in respect of land or a building of the corporation that was by reason of subsection 18(2) or (3.1) not deductible by the taxpayer in computing the taxpayer's income for any taxation year commencing before that time;

Related Sections: S. 54, "adjusted cost base"; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

► 53(1)(e) ◄

(e) **[Adjustments to cost base — Interest in a partnership]** — where the property is an interest in a partnership,

(i) an amount in respect of each fiscal period of the partnership ending after 1971 and before that time, equal to the total of all amounts each of which is the taxpayer's share (other than a share under an agreement referred to in subsection 96(1.1)) of the income of the partnership from any source for that fiscal period, computed as if this Act were read without reference to

(A) paragraphs 38(*a*.1) and (*a*.2) and the fractions set out in the formula in paragraph 14(1)(*b*) and in subsection 14(5), paragraph 38(*a*) and subsection 41(1),

(A.1) paragraph 18(1)(*l*.1),

(A.2) the description of C in the formula in paragraph 14(1)(*b*), and

(B) paragraph (i), paragraphs 12(1)(*o*) and (*z*.5), 18(1)(*m*), 20(1)(*v*.1) and 29(1)(*b*) and (2)(*b*), section 55, subsections 69(6) and (7) and paragraph 82(1)(*b*) of this Act and paragraphs 20(1)(*gg*) and 81(1)(*r*) and (*s*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, and the provisions of the *Income Tax Application Rules* relating to income from the operation of new mines,

(ii) the taxpayer's share of any capital dividends and any life insurance capital dividends received by the partnership before that time on shares of the capital stock of a corporation that were partnership property,

(iii) the taxpayer's share of the amount, if any, by which

(A) any proceeds of a life insurance policy received by the partnership after 1971 and before that time in consequence of the death of any person whose life was insured under the policy,

exceeds

(B) the adjusted cost basis (within the meaning assigned by subsection 148(9)) of the policy to the partnership immediately before that person's death,

(iv) where the taxpayer has, after 1971, made a contribution of capital to the partnership otherwise than by way of loan, such part of the amount of the contribution as cannot reasonably be regarded as a benefit conferred on any other member of the partnership who was related to the taxpayer,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 53(1)(*e*) of the Act is amended by adding the following after subparagraph (iv):

(iv.1) each amount that is in respect of a specified amount described in subsection 80.2(1) and that is paid by the taxpayer to the partnership, to the extent that the amount paid is not deductible in computing the income of the taxpayer,

Applicable: To payments made in taxation years that end after 2002.

Explanatory Note:

Adjustments to Cost Base — Partnership Interest

Paragraph 53(1)(*e*) of the Act provides for additions to the adjusted cost base of a taxpayer's partnership interest. This paragraph is being amended, by adding new subparagraph (iv.1), effective for payments made in taxation years that end after 2002. New subparagraph 53(1)(*e*)(iv.1) provides for an addition to the taxpayer's adjusted cost base in circumstances where the taxpayer makes a payment to a partnership that is described in subsection 80.2(1). The addition to the adjusted cost base is equal to the amount of the payment that is not deductible in computing the income of the taxpayer.

(v) where the time is immediately before the taxpayer's death and the taxpayer was at that time a member of a partnership, the value, at the time of the taxpayer's death, of the rights or things referred to in subsection 70(2) in respect of a partnership interest held by the taxpayer immediately before the taxpayer's death, other than an interest referred to in subsection 96(1.5),

(vi) any amount deemed by subsection 40(3.1) to be a gain of the taxpayer for a taxation year from a disposition before that time of the property,

(vii) any amount deemed by paragraph 98(1)(*c*) or 98.1(1)(*c*) to be a gain of the taxpayer for a taxation year from a disposition before that time of the property,

(vii.1) a share of the taxpayer's Canadian development expense or Canadian oil and gas property expense that was deducted at or before that time in computing the adjusted cost base to the taxpayer of the interest because of subparagraph (2)(*c*)(ii) and in respect of which the taxpayer elected under paragraph (*f*) of the definition "Canadian development expense" in subsection 66.2(5) or paragraph (*b*) of the definition "Canadian oil and gas property expense" in subsection 66.4(5), as the case may be,

(viii) an amount deemed, before that time, by subsection 66.1(7), 66.2(6) or 66.4(6) to be an amount referred to in the description of G in the definition "cumulative Canadian exploration expense" in subsection 66.1(6), paragraph (*a*) of the description of F in the definition "cumulative Canadian development expense" in subsection 66.2(5) or the description of G in that definition, or paragraph (*a*) of the description of F in the definition "cumulative Canadian oil and gas property expense" in subsection 66.4(5) or the description of G in that definition in respect of the taxpayer,

(ix) the amount, if any, by which

(A) the taxpayer's share of the amount of any assistance or benefit that the partnership received or became entitled to receive after 1971 and before that time from a government, municipality or other public authority, whether as a grant, subsidy, forgivable loan, deduction from royalty or tax, investment allowance or any other form of assistance or benefit, in respect of or related to a Canadian resource property or an exploration or development expense incurred in Canada

exceeds

(B) the part, if any, of the amount included in clause (A) in respect of the interest that was repaid before that time by the taxpayer under a legal obligation to repay all or any part of the amount,

(x) any amount required by section 97 to be added before that time in computing the adjusted cost base to the taxpayer of the interest,

(xi) of which the taxpayer's share of any income or loss of the partnership was, at any time, 10% or more, any expense incurred by the taxpayer in respect of land or a building of the partnership that was by reason of subsection 18(2) or (3.1) not deductible by the taxpayer in computing the taxpayer's income for any taxation year commencing before that time;

(xii) any amount required by paragraph 110.6(23)(*a*) to be added at that time in computing the adjusted cost base to the taxpayer of the interest; and

(xiii) any amount required by subsection 127(30) to be added to the taxpayer's tax otherwise payable under this Part for a taxation year that ended before that time;

Department of Finance Comfort Letter
[Addition to ACB of Partnership Interest — Proceeds of Disposition of a Foreign Resource Property]

July 16, 2004

Dear XXXX

Thank you for your letter of January 27, 2004 to Davine Roach of this Division concerning the interaction among subsection 59(1.1) and paragraphs 53(1)(*e*) and 96(1)(*d*) of the *Income Tax Act* (the "Act"). In particular, your concern relates to the application of these provisions in circumstances where a partnership disposes of a foreign resource property ("FRP").

Where a taxpayer is a member of a partnership, the taxpayer's share of the net proceeds of disposition of a FRP disposed of by the partnership is deemed by subsections 59(1) and 1.1 of the Act to be included in the taxpayer's income. However, there is no provision of the Act that permits an addition to the adjusted cost base ("ACB") of the partnership interest held by the taxpayer. You submit that this is an inappropriate tax result because a subsequent distribution of the net proceeds realized on the disposition of the FRP by the partnership would reduce the ACB of the taxpayer's partnership interest. Since the ACB of the taxpayer's partnership interest was not increased to reflect the fact that this amount was already included in the taxpayer's income, the taxpayer would be subject to double taxation.

In your letter, you noted that paragraph 96(1)(*d*) of the Act was amended, applicable to partnership fiscal periods that begin after 2000, to include a reference to subsection 59(1). As a result of this change, you submit that a concurrent amendment to paragraph 53(1)(*e*) is required to ensure that the proceeds of disposition deemed to become receivable by a partner under subsection 59(1.1) are added to the ACB of that partner's partnership interest.

We agree that the proceeds of disposition of a FRP that are deemed by subsection 59(1.1) of the Act to become receivable by a member of a partnership and that are excluded in computing the income of the partnership by paragraph 96(1)(4) should be added to the ACB of that member's partnership interest. Accordingly, we are prepared to recommend that paragraph 53(1)(*e*) be amended, applicable to fiscal periods that begin after 2000, to include in the ACB of a partner's partnership interest, an amount equal to the amount deemed to be receivable by the partner pursuant to subsection 59(1.1). While I cannot, as you know, offer an assurance that either the Minister or Parliament will agree with our recommendation, I hope that this statement of our position is helpful to you.

Yours sincerely,
Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

Department of Finance Comfort Letter [Cost Base of Partnership Interest To Be Adjusted For Disposition of Certified Cultural Property]

January 29, 2004

Dear XXXX:

I am writing further to your e-mail of May 26, 2003 to Mr. Ed Short of this office concerning the adjustment to the cost base of a partnership interest in respect of the exempt gain of a partnership from a disposition to a designated institution of cultural property that is certified by the *Cultural Property Export Review Board*.

As you are aware, the full amount of a partnership's capital gain from the disposition of property is added to the adjusted cost base (ACB) of the members' interest in the partnership, by clause 53(1)(*e*)(i)(A) of the *Income Tax Act* (the "Act"). However, since gains from certified cultural property are excluded from the definition of capital gains, such gains generated within a partnership are not added in computing the members' ACB of their partnership interest. Consequently, the disposition by a partnership of a certified cultural property to a designated institution may result in a capital gain to the partners on the disposition of their interest.

In this regard, we are prepared to recommend to the Minister of Finance that subsection 53(1) of the Act be amended to provide that the exempt gain from the disposition of a certified cultural property be included in computing the ACB of a partnership interest, except such property that is related to a tax shelter gifting arrangement. We will recommend that such an amendment apply in respect of dispositions of certified cultural property made after 2003.

Thank you for bringing this matter to my attention.

Yours sincerely,
Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 53(1)(*e*)(xiv) was added by S.C. 2007, c. 35, s. 16(1), applicable after 2011, pursuant to the addition of s. 18.2, applicable for the same period. With the repeal of s. 18.2 by S.C. 2009, c. 2, s. 6(1), s. 53(1)(*e*)(xiv) was repealed by S.C. 2009, c. 2, s. 11(1), applicable after 2011. S. 53(1)(*e*)(xiv) would have read:

"(xiv) the total of all amounts each of which is the amount of the taxpayer's taxable earnings base adjustment (within the meaning assigned by subsection 18.2(1)) in respect of an interest in the partnership for a taxation year that ended before that time;"

S. 53(1)(*e*)(i)(A) was replaced by S.C. 2006, c. 4, s. 52(1), applicable after May 1, 2006.

S. 53(1)(*e*)(i)(A) formerly read:

"(A) the fractions set out in subsection 14(5), paragraphs 38(*a*) to (*a.2*), subsection 41(1) and in the formula in paragraph 14(1)(*b*),"

S. 53(1)(*e*)(i)(A) and (A.1) were amended, and clause (A.2) was added, by S.C. 2001, c. 17, s. 36(1), applicable in respect of fiscal periods that end after February 27, 2000 and, for fiscal periods that ended after February 18, 1997 and before February 28, 2000, clause 53(1)(*e*)(i)(A) of the Act shall be read as follows:

"(A) the fractions set out in subsection 14(5), paragraphs 38(*a*) and (*a.1*) and subsection 41(1),"

S. 53(1)(*e*)(i)(A) and (A.1) formerly read:

"(A) the fractions set out in subsection 14(5), paragraph 38(*a*) and subsection 41(1),

(A.1) paragraph 18(1)(*l.1*), and"

S. 53(1)(*e*)(xiii) was added by S.C. 1999, c. 22, s. 14(2), applicable to the 1998 and subsequent taxation years.

S. 53(1)(*e*)(i)(B) was amended by S.C. 1997, c. 25, s. 7(1), applicable for the purpose of computing the adjusted cost base of property after 1996. S. 53(1)(*e*)(i)(B) formerly read:

"(B) paragraph (*i*), paragraphs 12(1)(*o*), 18(1)(*m*), 20(1)(*v.1*) and 29(1)(*b*) and (2)(*b*), section 55, subsections 69(6) and (7) and paragraph 82(1)(*b*) of this Act and paragraphs 20(1)(*gg*) and 81(1)(*r*) and (*s*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, and the provisions of the *Income Tax Application Rules* relating to income from the operation of new mines,"

S. 53(1)(*e*)(vi) was added by S.C. 1995, c. 3, s. 14(1), applicable after February 21, 1994.

S. 53(1)(*e*)(xii) was added by S.C. 1995, c. 3, s. 14(2), applicable to the 1994 and subsequent taxation years.

S. 53(1)(*e*)(vii.1) was added by S.C. 1994, c. 7, Sched. VIII, s. 15(1), applicable after July 1990.

S. 53(1)(*e*)(ix) was amended by S.C. 1994, c. 7, Sched. II, s. 30(1), applicable for the purposes of computing after January 1990 adjusted cost bases of interests in partnerships. S. 53(1)(*e*)(ix) formerly read:

"(ix) the taxpayer's share of the amount of any assistance or benefit that the partnership has received or has become entitled to receive after 1971 and before that time from a government, municipality or other public authority, whether as a grant, subsidy, forgivable loan, deduction from royalty or tax, investment allowance or any other form of assistance or benefit, in respect of or related to a Canadian resource property or an exploration or development expense incurred in Canada,"

Related Sections: S. 53(2)(*c*) Amounts to be deducted — Interest in a partnership; s. 54, "adjusted cost base"; s. 96(1) General rules; s. 100(2) Gain from disposition of interest in partnership; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971, s. 26(9) Cost of interest in partnership, s. 26(9.1) Determination of amounts for purpose of s. (9), s. 26(9.4) Application of s. 53 of amended Act in respect of interest in partnership.

Interpretation Bulletins: *Primary* — IT-338R2 Partnership interests — Effects on adjusted cost base resulting from the admission or retirement of a partner [Archived by the CRA]; IT-353R2 Partnership interests — Some adjustments to cost base [Archived by the CRA]; IT-430R3 (Consolid.) — Life insurance proceeds received by a private corporation or a partnership as a consequence of death; *Secondary* — IT-153R3 Land Developers — Subdivision and Development Costs and Carrying Charges on Land; IT-242R Retired Partners; IT-278R2 Death of a partner or of a retired partner; IT-471R Merger of Partnerships.

Income Tax Technical News: Issue No. 5, Adjusted cost base of partnership interest; Issue No. 9, Calculation of the adjusted cost base of a partnership interest.

Forms: T2065.

► 53(1)(f) ◄

(f) [Adjustments to cost base — Substituted property] — where the property is substituted property (within the meaning assigned by paragraph (*a*) of the definition "superficial loss" in section 54) of the taxpayer, the amount, if any, by which

(i) the amount of the loss that was, because of the acquisition by the taxpayer of the property, a

superficial loss of any taxpayer from a disposition of a property

exceeds

(ii) where the property disposed of was a share of the capital stock of a corporation, the amount that would, but for paragraph 40(2)(*g*), be deducted under subsection 112(3), (3.1) or (3.2) in computing the loss of any taxpayer in respect of the disposition of the share;

History: S. 53(1)(*f*) was amended by S.C. 1994, c. 7, Sched. II, s. 30(2), applicable for the purposes of computing after July 13, 1990 adjusted cost bases of properties. S. 53(1)(*f*) formerly read:

"(*f*) where the property is substituted property (within the meaning assigned by the definition 'superficial loss' in section 54) of the taxpayer, the amount of the loss that was, by virtue of the acquisition by the taxpayer of the property, a superficial loss of any taxpayer;"

Related Sections: S. 54, "adjusted cost base"; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

Interpretation Bulletins: *Primary* — IT-456R Capital property — Some adjustments to cost base. *Secondary* — IT-291R3 Transfer of property to a corporation under subsection 85(1).

Tax Profile: January 2009 — Market Meltdown — Capital Loss Utilization; May 2004 — The Stop-Loss Rules.

► 53(1)(f.1) ◄

(f.1) [Adjustments to cost base — Previously denied capital loss] — where the taxpayer is a taxable Canadian corporation and the property was disposed of by another taxable Canadian corporation to the taxpayer in circumstances such that

(i) paragraph (*f*.2) does not apply to increase the adjusted cost base to the other corporation of shares of the capital stock of the taxpayer, and

(ii) the capital loss from the disposition was deemed by paragraph 40(2)(*e*.1) (or, where the property was acquired by the taxpayer before 1996, by paragraph 40(2)(*e*) or 85(4)(*a*) as those paragraphs read in their application to property acquired before April 26, 1995) to be nil,

the amount that would otherwise have been the capital loss from the disposition;

History: S. 53(1)(*f*.1) was amended by S.C. 1998, c. 19, s. 94(1), applicable subject to section 247 of this Bill, (see Application below), to dispositions of property that occur after April 26, 1995. S. 53(1)(*f*.1) formerly read:

"(*f*.1) where the taxpayer is a taxable Canadian corporation and the property was disposed of by another taxable Canadian corporation to the taxpayer in circumstances such that paragraph (*f*.2) does not apply so as to increase the adjusted cost base to the other corporation of shares of the capital stock of the taxpayer and the capital loss from the disposition was deemed by paragraph 40(2)(*e*) or (*e*.1) or 85(4)(*a*) to be nil, the amount that would otherwise have been the capital loss from the disposition;"

Sec. 247, Chap. 19, 1998

247. [*Exception to coming-into-force.*]

(1) Subsections 73(4), 74(5), subsection 18(13) of the Act, as enacted by subsection 79(2) and subsections 89(1), (2) and (6), 94(1) and (2), 95(1), 116(3) to (5), 120(1) and 124(1) and (2) do not apply to the disposition of property by a person or partnership (in this subsection and subsection (2) referred to as the "transferor") that occurred before 1996

(*a*) to a person who was obliged on April 26, 1995 to acquire the property pursuant to the terms of an agreement in writing made on or before that day; or

(*b*) in a transaction, or as part of a series of transactions, the arrangements for which, evidenced in writing, were substantially advanced before April 27, 1995, other than a transaction or series a main purpose of which can reasonably be considered to have been to enable an unrelated person to obtain the benefit of

(i) any deduction in computing income, taxable income, taxable income earned in Canada or tax payable under the Act, or

(ii) any balance of undeducted outlays, expenses or other amounts.

(2) Election. Notwithstanding subsection (1), subsection 18(13) of the Act, as enacted by subsection 79(2), and the other subsections of this Act referred to in subsection (1) apply to a disposition in respect of which the transferor has filed with the Minister of National Revenue before the end of the third month after the month in which this Act is assented to [Royal Assent June 18, 1998] an election in writing to have those subsections apply.

(3) Interpretation. For the purpose of subsection (1),

(*a*) a person shall be considered not to be obliged to acquire property where the person can be excused from the obligation if there is a change to the Act or if there is an adverse assessment under the Act;

(*b*) an "unrelated person" means any person who was not, or a partnership any member of which was not, related (otherwise than because of paragraph 251(5)(*b*) of the Act) to the transferor at the time of the disposition; and

(*c*) a person is deemed to be related to a partnership of which that person is a majority interest partner.

S. 53(1)(*f*.1) was amended by S.C. 1995, c. 21, s. 17(1), applicable to taxation years that end after February 21, 1994. S. 53(1)(*f*.1) formerly read:

"(*f*.1) where the property has been disposed of by a taxable Canadian corporation to the taxpayer, and the taxpayer is a taxable Canadian corporation, in circumstances such that paragraph 85(4)(*b*) does not apply so as to increase the adjusted cost base to the corporation of shares of the capital stock of the taxpayer, and the corporation's capital loss from the disposition has been deemed by paragraph 40(2)(*e*) or 85(4)(*a*) to be nil, the amount that would otherwise have been the corporation's capital loss from the disposition;"

Related Sections: S. 54, "adjusted cost base"; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

Tax Profile: January 2009 — Market Meltdown — Capital Loss Utilization.

► 53(1)(f.11) ◄

(f.11) [Adjustments to cost base — Previously denied capital loss] — where the property was disposed of by a person (other than a non-resident person or a person exempt from tax under this Part on the person's taxable income) or by an eligible Canadian partnership (as defined in subsection 80(1)) to the taxpayer in circumstances such that

(i) paragraph (*f*.1) does not apply to increase the adjusted cost base to the taxpayer of the property,

(ii) paragraph (*f*.2) does not apply to increase the adjusted cost base to that person of shares of the capital stock of the taxpayer, and

(iii) the capital loss from the disposition was deemed by paragraph 40(2)(*e*.1) (or, where the property was acquired by the taxpayer before 1996, by paragraph 85(4)(*a*) as it read in its application to property acquired before April 26, 1995) to be nil,

the amount that would otherwise be the capital loss from the disposition;

History: S. 53(1)(*f*.11) was amended by S.C. 1998, c. 19, s. 94(1), applicable subject to section 247 of this Bill, (see Application below), to dispositions of property that occur after April 26, 1995. S. 53(1)(*f*.11) formerly read:

"(*f*.11) where the property was disposed of by a person (other than a non-resident person or a person exempt from tax under this Part on the person's taxable income) or by an eligible Canadian partnership (within the meaning assigned by subsection 80(1)) to the taxpayer in circumstances such that paragraph (*f*.1) does not apply so as to increase the adjusted cost base to the taxpayer of the property, paragraph (*f*.2) does not apply so as to increase the adjusted cost base to that person of shares of the capital stock of the taxpayer and the capital loss from the disposition was deemed by paragraph 40(2)(*e*.1) or 85(4)(*a*) to be nil, the amount that would otherwise be the capital loss from the disposition;"

Sec. 247, Chap. 19, 1998

247. [*Exception to coming-into-force.*]

(1) Subsections 73(4), 74(5), subsection 18(13) of the Act, as enacted by subsection 79(2) and subsections 89(1), (2) and (6), 94(1) and (2), 95(1), 116(3) to (5), 120(1) and 124(1) and (2) do not apply to the disposition of property by a person or partnership (in this subsection and subsection (2) referred to as the "transferor") that occurred before 1996

(*a*) to a person who was obliged on April 26, 1995 to acquire the property pursuant to the terms of an agreement in writing made on or before that day; or

(*b*) in a transaction, or as part of a series of transactions, the arrangements for which, evidenced in writing, were substantially advanced before April 27, 1995, other than a transaction or series a main purpose of which can reasonably be considered to have been to enable an unrelated person to obtain the benefit of

(i) any deduction in computing income, taxable income, taxable income earned in Canada or tax payable under the Act, or
(ii) any balance of undeducted outlays, expenses or other amounts.

(2) Election. Notwithstanding subsection (1), subsection 18(13) of the Act, as enacted by subsection 79(2), and the other subsections of this Act referred to in subsection (1) apply to a disposition in respect of which the transferor has filed with the Minister of National Revenue before the end of the third month after the month in which this Act is assented to [Royal Assent June 18, 1998] an election in writing to have those subsections apply.

(3) Interpretation. For the purpose of subsection (1),
(*a*) a person shall be considered not to be obliged to acquire property where the person can be excused from the obligation if there is a change to the Act or if there is an adverse assessment under the Act;
(*b*) an "unrelated person" means any person who was not, or a partnership any member of which was not, related (otherwise than because of paragraph 251(5)(*b*) of the Act) to the transferor at the time of the disposition; and
(*c*) a person is deemed to be related to a partnership of which that person is a majority interest partner.

S. 53(1)(*f*.11) was added by S.C. 1995, c. 21, s. 17(1), applicable to taxation years that end after February 21, 1994.

Related Sections: S. 54, "adjusted cost base"; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.
Tax Profile: January 2009 — Market Meltdown — Capital Loss Utilization.

► 53(1)(f.12) ◄

(f.12) [Adjustments to cost base — Commercial obligation] — where the property is a particular commercial obligation (in this paragraph having the meaning assigned by subsection 80(1)) payable to the taxpayer as consideration for the settlement or extinguishment of another commercial obligation payable to the taxpayer and the taxpayer's loss from the disposition of the other obligation was reduced because of paragraph 40(2)(*e*.2), the proportion of the reduction that the principal amount of the particular obligation is of the total of all amounts each of which is the principal amount of a commercial obligation payable to the taxpayer as consideration for the settlement or extinguishment of that other obligation;

History: S. 53(1)(*f*.12) was added by S.C. 1995, c. 21, s. 17(1), applicable to taxation years that end after February 21, 1994.

Related Sections: S. 54, "adjusted cost base"; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

► 53(1)(f.2) ◄

(f.2) [Adjustments to cost base — Denied loss on transfer of shares to corporation] — where the property is a share, any amount required by paragraph 40(3.6)(*b*) (or, where the property was acquired by the taxpayer before 1996, by paragraph 85(4)(*b*) as it read in its application to property disposed of before April 26, 1995) to be added in computing the adjusted cost base to the taxpayer of the share;

History: S. 53(1)(*f*.2) was amended by S.C. 1998, c. 19, s. 94(1), applicable subject to section 247 of this Bill, (see Application below), to dispositions of property that occur after April 26, 1995. S. 53(1)(*f*.2) formerly read:

"(*f*.2) where the property is a share of the capital stock of a corporation, any amount required by paragraph 85(4)(*b*) to be added in computing the adjusted cost base to the taxpayer of the share;"

Sec. 247, Chap. 19, 1998

247. [*Exception to coming-into-force*.]

(1) Subsections 73(4), 74(5), subsection 18(13) of the Act, as enacted by subsection 79(2) and subsections 89(1), (2) and (6), 94(1) and (2), 95(1), 116(3) to (5), 120(1) and 124(1) and (2) do not apply to the disposition of property by a person or partnership (in this subsection and subsection (2) referred to as the "transferor") that occurred before 1996

(*a*) to a person who was obliged on April 26, 1995 to acquire the property pursuant to the terms of an agreement in writing made on or before that day; or
(*b*) in a transaction, or as part of a series of transactions, the arrangements for which, evidenced in writing, were substantially advanced before April 27, 1995, other than a transaction or series a main purpose of which can reasonably be considered to have been to enable an unrelated person to obtain the benefit of
(i) any deduction in computing income, taxable income, taxable income earned in Canada or tax payable under the Act, or
(ii) any balance of undeducted outlays, expenses or other amounts.

(2) Election. Notwithstanding subsection (1), subsection 18(13) of the Act, as enacted by subsection 79(2), and the other subsections of this Act referred to in subsection (1) apply to a disposition in respect of which the transferor has filed with the Minister of National Revenue before the end of the third month after the month in which this Act is assented to [Royal Assent June 18, 1998] an election in writing to have those subsections apply.

(3) Interpretation. For the purpose of subsection (1),
(*a*) a person shall be considered not to be obliged to acquire property where the person can be excused from the obligation if there is a change to the Act or if there is an adverse assessment under the Act;
(*b*) an "unrelated person" means any person who was not, or a partnership any member of which was not, related (otherwise than because of paragraph 251(5)(*b*) of the Act) to the transferor at the time of the disposition; and
(*c*) a person is deemed to be related to a partnership of which that person is a majority interest partner.

Related Sections: S. 54, "adjusted cost base"; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.
Interpretation Bulletins: *Primary* — IT-456R Capital property — Some adjustments to cost base.

► 53(1)(g) ◄

(g) [Adjustments to cost base — Obligation issued at a discount] — where the property is a bond, debenture, bill, note, mortgage, hypothecary claim or similar obligation, the amount, if any, by which the principal amount of the obligation exceeds the amount for which the obligation was issued, if the excess was required by subsection 16(2) or (3) to be included in computing the income of the taxpayer for a taxation year commencing before that time;

History: S. 53(1)(*g*) was amended by S.C. 2001, c. 17, s. 206, applicable on Royal Assent, June 14, 2001. S. 53(1)(*g*) formerly read:

"(*g*) where the property is a bond, debenture, bill, note, mortgage or similar obligation, the amount, if any, by which the principal amount of the obligation exceeds the amount for which the obligation was issued, if the excess was required by subsection 16(2) or (3) to be included in computing the income of the taxpayer for a taxation year commencing before that time;"

Related Sections: S. 54, "adjusted cost base"; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

► 53(1)(g.1) ◄

(g.1) [Adjustments to cost base — Indexed debt obligation] — where the property is an indexed debt obligation, any amount determined under subparagraph 16(6)(*a*)(i) in respect of the obligation and required to be included in computing the taxpayer's income for a taxation year beginning before that time;

History: S. 53(1)(*g*.1) was added by S.C. 1994, c. 7, Sched. VIII, s. 15(2), applicable to indexed debt obligations issued after October 16, 1991.

Related Sections: S. 54, "adjusted cost base"; s. 248(1), "indexed debt obligation"; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

► 53(1)(h) ◄

(h) [Adjustments to cost base — Land] — where the property is land of the taxpayer, any amount paid by the taxpayer or by another taxpayer in respect of whom the taxpayer was a person, corporation or partnership described in subparagraph (*b*)(i), (ii) or (iii) of the definition "interest on debt relating to the acquisition of land" in subsection 18(3), after 1971 and before that time pursuant to a legal obligation to pay

(i) interest on debt relating to the acquisition of land (within the meaning assigned by subsection 18(3)), or

(ii) property taxes (not including income or profits taxes or taxes imposed by reference to the transfer of property) paid by the taxpayer in respect of the property to a province or to a Canadian municipality

to the extent that the amount was, because of subsection 18(2),

(iii) not deductible in computing the taxpayer's income from the land or from a business for any taxation year beginning before that time, or

(iv) not deductible in computing the income of the other taxpayer and was not included in or added to the cost to the other taxpayer of any property otherwise than because of subparagraph (*d*.3) or subparagraph (*e*)(xi);

History: S. 53(1)(*h*), the portion after subparagraph (ii), was amended, and subparagraphs (iii) and (iv) were added by S.C. 1999, c. 22, s. 14(3), applicable after February 23, 1998. S. 53(1)(*h*), the portion after subparagraph (ii) formerly read:

"to the extent that that amount was neither deductible because of subsection 18(2) in computing the taxpayer's income from the land or from a business for any taxation year beginning before that time nor in computing the income of another person in respect of whom the taxpayer was a person, corporation or partnership described in subparagraph (*b*)(i), (ii) or (iii) of the definition 'interest on debt relating to the acquisition of land' in subsection 18(3), and was not included in or added to the cost to that other person of any property otherwise than because of paragraph (*d*.3) or subparagraph (*e*)(xi);"

S. 53(1)(*h*)(i) was amended by S.C. 1994, c. 7, Sched. II, s. 30(3), applicable to the 1988 and subsequent taxation years. S. 53(1)(*h*)(i) formerly read:

"(i) interest on debt relating to the acquisition of land, or an amount payable by the taxpayer for the land, or"

S. 53(1)(*h*), the part following subparagraph (ii), was amended by S.C. 1994, c. 7, Sched. II, s. 30(4), applicable to the 1988 and subsequent taxation years. That part formerly read:

"to the extent that that amount was not deductible by reason of subsection 18(2) in computing the taxpayer's income from the land or from a business for any taxation year commencing before that time or, by reason of subsection 18(3), in computing the income of another taxpayer in respect of whom the taxpayer was a person, corporation or partnership described in subparagraph (*b*)(i), (ii) or (iii) of the definition 'interest on debt relating to the acquisition of land' in subsection 18(3), where that amount was not included in the cost to that other taxpayer of any property other than by reason of paragraph (*d*.3) or subparagraph (*e*)(xi);"

Related Sections: S. 54, "adjusted cost base"; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

Interpretation Bulletins: *Primary* — IT-456R Capital property — Some adjustments to cost base.

► 53(1)(i) ◄

(i) [Adjustments to cost base — Land used in farming] — where the property is land used in a farming business carried on by the taxpayer, an amount in respect of each taxation year ending after 1971 and commencing before that time, equal to the taxpayer's loss, if any, for that year from the farming business, to the extent that the loss

(i) was not, by virtue of section 31, deductible in computing the taxpayer's income for that year,

(ii) was not deducted in computing the taxpayer's taxable income for the taxation year in which the taxpayer disposed of the property or any preceding taxation year,

(iii) did not exceed the total of

(A) taxes (other than income or profits taxes or taxes imposed by reference to the transfer of the property) paid by the taxpayer in that year or payable by the taxpayer in respect of that year to a province or a Canadian municipality in respect of the property, and

(B) interest, paid by the taxpayer in that year or payable by the taxpayer in respect of that year, pursuant to a legal obligation to pay interest on borrowed money used to acquire the property or on any amount as consideration payable for the property,

to the extent that those taxes and interest were included in computing the loss, and

(iv) did not exceed the remainder obtained when

(A) the total of each of the taxpayer's losses from the farming business for taxation years preceding that year (to the extent that they are required by this paragraph to be added in computing the taxpayer's adjusted cost base of the property),

is deducted from

(B) the amount, if any, by which the taxpayer's proceeds of disposition of the property exceed the adjusted cost base to the taxpayer of the property immediately before that time, determined without reference to this paragraph;

Related Sections: S. 54, "adjusted cost base"; s. 111(6) Limitation; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

► 53(1)(j) ◄

(j) [Adjustments to cost base — Share or fund unit taxed as stock option benefit] — if the property is a security (within the meaning assigned by subsection 7(7)) and, in respect of its acquisition by the taxpayer, a benefit was deemed by section 7 to have been received in any taxation year that ends after 1971 and begins before that time by the taxpayer or by a person that did not deal at arm's length with the taxpayer or, if the security was acquired after February 27, 2000, would have been so deemed if section 7 were read without reference to subsections 7(1.1) and (8), the amount of the benefit that was, or would have been, so deemed to have been received;

History: S. 53(1)(*j*) was amended by S.C. 2001, c. 17, s. 36(2), applicable after 1999. S. 53(1)(*j*) formerly read:

"(*j*) if the property is a share or unit and, in respect of its acquisition by the taxpayer, a benefit was deemed by section 7 to have been received in any taxation year that ends after 1971 and begins before that time by the taxpayer or by a person that did not deal at arm's length with the taxpayer, the amount of the benefit so deemed to have been received;"

S. 53(1)(*j*) was amended by S.C. 1999, c. 22, s. 14(4), applicable in computing the adjusted cost base of a share acquired after 1984 and of a unit acquired after February 1998. S. 53(1)(*j*) formerly read:

"(*j*) where the property is a share and, in respect of its acquisition by the taxpayer, a benefit was deemed by section 7 to have been received in any taxation year ending after 1971 and commencing before that time by the taxpayer or by a person that did not deal at arms' length with the taxpayer, the amount of the benefit so deemed to have been received;"

Related Sections: S. 54, "adjusted cost base"; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

Interpretation Bulletins: *Secondary* — IT-113R4 Benefits to employees — Stock options.

Income Tax Technical News: Issue No. 19, Change of Position in Respect of GAAR — Section 7.

► 53(1)(k) ◄

(k) [Adjustments to cost base — Expropriation asset] — where the property is an expropriation asset of the taxpayer (within the meaning assigned by section 80.1) or an asset of the taxpayer assumed for the purposes of that section to be an expropria-

tion asset thereof, any amount required by paragraph 80.1(2)(*b*) to be added in computing the adjusted cost base to the taxpayer of the asset;

Related Sections: S. 54, "adjusted cost base"; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

► 53(1)(l) ◄

(l) [Adjustments to cost base — Interest in related segregated fund trust] — where the property is an interest in a related segregated fund trust referred to in section 138.1,

(i) each amount deemed by paragraph 138.1(1)(*f*) to be an amount payable to the taxpayer before that time in respect of that interest,

(ii) each amount required by subparagraph 138.1(1)(*g*)(ii) to be added before that time in respect of that interest,

(iii) each amount in respect of that interest that is a capital gain deemed to have been allocated under subsection 138.1(4) to the taxpayer before that time, and

(iv) each amount in respect of that interest that before that time was deemed by subsection 138.1(3) to be a capital gain of the taxpayer;

Related Sections: S. 54, "adjusted cost base"; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

► 53(1)(m) ◄

(m) [Adjustments to cost base — Offshore investment fund property] — where the property is an offshore investment fund property (within the meaning assigned by subsection 94.1(1)),

(i) any amount included in respect of the property by virtue of subsection 94.1(1) in computing the taxpayer's income for a taxation year commencing before that time, or

(ii) where the taxpayer is a controlled foreign affiliate (within the meaning of subsection 95(1)), of a person resident in Canada, any amount included in respect of the property in computing the foreign accrual property income of the controlled foreign affiliate by reason of the description of C in the definition "foreign accrual property income" in subsection 95(1) for a taxation year commencing before that time;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 53(1)(*m*) of the Act is replaced by the following:

(*m*) where the property is, at or before that time, an offshore investment fund property (as defined in subsection 94.1(1) as it applied to taxation years of the taxpayer that began before 2007 or, if this paragraph applies to the taxpayer for a taxation year preceding the taxpayer's first taxation year beginning after 2006, as it applied to taxation years of the taxpayer that began before the taxpayer's first taxation year to which this paragraph applied) or a participating interest in a foreign investment entity,

(i) if the taxpayer is, at that time, resident in Canada, any amount in respect of the property included, for a taxation year that began before that time, in computing the taxpayer's income,

(A) under subsection 94.1(1) (as that subsection read in its application to the property in respect of the taxpayer for taxation years of the taxpayer that began before 2007 or, if this clause applies to the taxpayer for a taxation year preceding the taxpayer's first taxation year beginning after 2006, as it applied to taxation years of the taxpayer that began before the taxpayer's first taxation year to which this clause applied), or

(B) under subsection 94.1(4), or

(ii) if the taxpayer (referred to in this subparagraph as the "controlled foreign affiliate") is, at that time, a controlled foreign affiliate of a particular taxpayer resident in Canada, for the purposes of computing any gain or loss of the controlled foreign affiliate from the disposition of the property that is to be included in computing the foreign accrual property income of the controlled foreign affiliate in respect of the particular taxpayer, any amount included in computing the controlled foreign affiliate's foreign accrual property income in respect of the particular taxpayer for a taxation year that began before that time,

(A) because of subsection 94.1(1) and the description of C in the definition "foreign accrual property income" in subsection 95(1) (as those subsections read in their application to the controlled foreign affiliate in respect of the property for taxation years of the controlled foreign affiliate that began before 2007 or, if this clause applies to the controlled foreign affiliate for a taxation year preceding the controlled foreign affiliate's first taxation year beginning after 2006, as those subsections read in their application to taxation years of the controlled foreign affiliate that began before the controlled foreign affiliate's first taxation year to which this clause applied), or

(B) because of subsection 94.1(4) and paragraph 95(2)(*g.3*);

(*m.1*) where the property is, at or before that time, a participating interest in a foreign investment entity,

(i) if the taxpayer is, at that time, resident in Canada, any amount required by subsection 94.3(5) to be added, at or before that time, in computing the adjusted cost base to the taxpayer of the property, or

(ii) if the taxpayer (referred to in this subparagraph as the "controlled foreign affiliate") is, at that time, a controlled foreign affiliate of a particular taxpayer resident in Canada, for the purposes of computing any gain or loss of the controlled foreign affiliate from the disposition of the property that is to be included in computing the foreign accrual property income of the controlled foreign affiliate in respect of the particular taxpayer, any amount required by subsection 94.3(5) to be added, at or before that time, in computing the adjusted cost base to the controlled foreign affiliate of the property in respect of any amount included, because of subsection 94.3(4) and paragraph 95(2)(*g.3*), in computing the controlled foreign affiliate's foreign accrual property income in respect of the particular taxpayer for a taxation year that began before that time;

Applicable: To taxation years that begin after 2006, as well as to a taxation year of a taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the taxpayer.

Explanatory Note: Paragraph 53(1)(*m*) of the Act provides for an addition in computing the ACB to a taxpayer of "offshore investment fund property" to which existing section 94.1 applies. Paragraph 53(1)(*m*) is amended to ensure that the historical ACB additions are maintained, notwithstanding the replacement of the rules in existing section 94.1.

Paragraph 53(1)(*m*) is also amended to provide for an ACB addition in computing the ACB to a taxpayer of a property in

respect of which new subsection 94.1(4) has applied to include in respect of the property an amount in computing the taxpayer's income for a taxation year. For more information, see the commentary on section 94.1.

Paragraph 53(1)(*m*.1) is introduced to provide for the ACB additions contemplated by new subsection 94.3(5). For more information, see the commentary on that subsection.

These amendments apply to taxation years that begin after 2006.

Related Sections: S. 54, "adjusted cost base"; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

► 53(1)(n) ◄

(n) [Adjustments to cost base — Costs of surveying or valuing property] — the reasonable costs incurred by the taxpayer, before that time, of surveying or valuing the property for the purpose of its acquisition or disposition (to the extent that those costs are not deducted by the taxpayer in computing the taxpayer's income for any taxation year or attributable to any other property);

Related Sections: S. 54, "adjusted cost base"; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

Interpretation Bulletins: *Secondary* — IT-407R4 (Consolid.) Dispositions of Cultural Property to Designated Canadian Institutions.

► 53(1)(o) ◄

(o) [Adjustments to cost base — Remainder interests in land] — where the property is real property of the taxpayer, any amount required by paragraph 43.1(2)(*b*) to be added in computing the adjusted cost base to the taxpayer of the property;

History: S. 53(1)(*o*) was added by S.C. 1994, c. 7, Sched. VIII, s. 15(3), applicable in computing the adjusted cost base of property after December 20, 1991.

Related Sections: S. 54, "adjusted cost base"; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

► 53(1)(p) ◄

(p) [Adjustments to cost base — Flow-through entity, after 2004] — where the time is after 2004 and the property is an interest in or a share of the capital stock of a flow-through entity (within the meaning assigned by subsection 39.1(1)), the amount determined by the formula

$$A \times \frac{B}{C}$$

where

A is the amount, if any, that would, if the definition "exempt capital gains balance" in subsection 39.1(1) were read without reference to "that ends before 2005", be the taxpayer's exempt capital gains balance in respect of the entity for the taxpayer's 2005 taxation year,

B is the fair market value at that time of the property, and

C is the fair market value at that time of all the taxpayer's interests in or shares of the capital stock of the entity;

History: S. 53(1)(*p*) was added by S.C. 1995, c. 3, s. 14(3), applicable to the 1994 and subsequent taxation years.

Related Sections: S. 54, "adjusted cost base"; s. 107(2.2) Flow-through entity; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

► 53(1)(q) ◄

(q) [Adjustments to cost base — Debt forgiveness] — any amount required under paragraph (4)(*b*), (5)(*b*), (6)(*b*), 47(1)(*d*), 49(3.01)(*b*), 51(1)(*d*.2), 86(4)(*b*) or 87(5.1)(*b*) or (6.1)(*b*) to be added in computing the adjusted cost base to the taxpayer of the property, and

History: S. 53(1)(*q*) was added by S.C. 1995, c. 21, s. 17(2), applicable to taxation years that end after February 21, 1994.

Related Sections: S. 54, "adjusted cost base"; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

► 53(1)(r) ◄

(r) [Adjustments to cost base — Flow-through entity, before 2005] — where the time is before 2005, the property is an interest in, or a share of the capital stock of, a flow-through entity described in any of paragraphs (*a*) to (*f*) of the definition "flow-through entity" in subsection 39.1(1) and immediately after that time the taxpayer disposed of all of the taxpayer's interests in, and shares of the capital stock of, the entity, the amount determined by the formula

$$A \times B/C$$

where

A is the amount, if any, by which the taxpayer's exempt capital gains balance (as defined in subsection 39.1(1)) in respect of the entity for the taxpayer's taxation year that includes that time exceeds the total of all amounts each of which is

(i) the amount by which a capital gain is reduced under section 39.1 for the year because of the taxpayer's exempt capital gains balance in respect of the entity, or

(ii) twice an amount by which a taxable capital gain, or the income from a business, is reduced under section 39.1 for the year because of the taxpayer's exempt capital gains balance in respect of the entity,

B is the fair market value at that time of the property, and

C is the fair market value at that time of all the taxpayer's interests in, and shares of the capital stock of, the entity.

Department of Finance Comfort Letter [Increases in ACB re Flow-Through Entities]

June 13, 2003

Dear XXXX:

Thank you for your letter dated April 10, 2002, concerning paragraph 53(1)(*r*) of the *Income Tax Act* (the "Act") and its application in respect of an employee trust.

Paragraph 53(1)(*r*) of the Act was added as a consequence of the elimination of the $100,000 lifetime capital gains exemption for gains that are realized after February 22, 1994 and the introduction of a mechanism in subsection 110.6(19) of the Act for recognizing gains accrued to the end of that day. Where an individual recognized a capital gain accrued to that time on a share or other interest in a flow-through entity (as defined in subsection 39.1(1) of the Act), the amount of the gain is credited to a special account referred to as the individual's exempt capital gains balance in respect of the entity. Claims may be made against this account to reduce gains that are flowed out to the individual by the entity for taxation years that end before 2005 or that are realized on dispositions of shares or other interests in the entity for those years.

Where an individual disposes of all shares or other interest in an entity described in any of paragraphs (*a*) to (*f*) of the flow-though entity definition, paragraph 53(1)(*r*) of the Act increases the individual's adjusted cost base of each share or interest by a *pro rata* portion of the amount of the individual's unused exempt capital gains balance in respect of the entity. Paragraph

53(1)(*r*) of the Act benefits individuals in circumstances in which their interest in a flow-through entity has declined in value since February 22, 1994.

In your letter, you have requested that paragraph 53(1)(*r*) of the Act be amended to include a reference to a flow-through entity described in paragraph (*h*) of the definition "flow-through" entity in subsection 39.1(1) of the Act, (i.e. a trust maintained primarily to hold shares of a corporation for the benefit of employees of the corporation).

In your letter, you have also requested that paragraph 53(1)(*r*) of the Act be amended to provide that where the fair market value of a particular interest in an entity is nil, the fair market value of the particular interest be deemed to be $1 to permit a calculation to be made under the formula in paragraph 53(1)(*r*) of the Act where the fair market value of all the interests in an entity is nil at the time of disposition.

From a policy perspective, it appears appropriate to permit a trust described in paragraph (*h*) of the definition "flow-through entity" in subsection 39.1(1) of the Act to qualify for the adjustment to the cost base in paragraph 53(1)(*r*) of the Act. Consequently, we are prepared to recommend to the Minister of Finance that an amendment be made to paragraph 53(1)(*r*) of the Act to add a reference to an entity described in paragraph (*h*) of the definition "flow-through entity" in subsection 39.1(1) of the Act. We understand that this particular issue arises, in the context of your client, with respect to a disposition occurring in 2002; accordingly it will be recommended that this amendment apply to dispositions of shares or interests that occur after 2001.

It also seems appropriate to provide that, for the purpose of the calculation in paragraph 53(1)(*r*) of the Act, where the fair market value of all the interests in an entity is nil at the time of disposition, the fair market value of each interest in the entity be deemed to be $1 and a recommendation to that effect will also be put forward.

Of course, I can offer no assurance that the Minister of Finance will agree with the recommendations that I have described. Nonetheless, I hope that this statement of our position is helpful.

Thank you for bringing this matter to our attention.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 53(1)(*r*), subparagraph (ii) of the description of A was amended by S.C. 2001, c. 17, s. 36(3), by replacing the reference to the expression "4/3 of" with a reference to the word "twice", applicable to taxation years that end after February 27, 2000 except that, in applying paragraph 53(1)(*r*) of the Act for those years in respect of a taxpayer's interest in an entity, where a taxation year of the entity that includes February 28, 2000 or October 17, 2000, or began after February 28, 2000 and ended before October 17, 2000, ends in the taxpayer's taxation year, the reference to the word "twice" in subparagraph (ii) of the description of A in that paragraph shall be read as a reference to the expression "the fraction that is the reciprocal of the fraction in paragraph 38(*a*), as enacted by section 22(1) of the *Income Tax Amendments Act, 2000* [S.C. 2001, c. 17], that applies in respect of the entity for its taxation year, multiplied by".

S. 53(1)(*r*) was added by S.C. 1998, c. 19, s. 94(3), applicable to the 1994 and subsequent taxation years.

Related Sections: S. 54, "adjusted cost base"; and ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

► 53(1.1) ◄

(1.1) Deemed contribution of capital. For the purposes of paragraph (1)(*c*), where there has been a disposition of property before May 7, 1974 and

(*a*) the taxpayer and the corporation referred to in that paragraph have made an election under section 85 in respect of that property, and

(*b*) the consideration received by the taxpayer for the property did not include shares of the capital stock of the corporation,

the disposition of property shall be deemed to be a contribution of capital equal to the amount, if any, by which

(*c*) the amount that the taxpayer and the corporation have agreed on in the election

exceeds

(*d*) the fair market value at the time of the disposition of any consideration received by the taxpayer for the property so disposed of.

Related Sections: S. 53(1) Adjustments to cost base.

► 53(2) ◄

(2) Amounts to be deducted. In computing the adjusted cost base to a taxpayer of property at any time, there shall be deducted such of the following amounts in respect of the property as are applicable:

► 53(2)(a) ◄

(a) [Amounts to be deducted — Share of the capital stock of a corporation] — where the property is a share of the capital stock of a corporation resident in Canada,

(i) any amount received by the taxpayer after 1971 and before that time as, on account or in lieu of payment of, or in satisfaction of, a dividend on the share (other than a taxable dividend or a dividend in respect of which the corporation paying the dividend has elected in accordance with subsection 83(2) or (2.1) in respect of the full amount thereof),

(ii) any amount received by the taxpayer after 1971 and before that time on a reduction of the paid-up capital of the corporation in respect of the share, except to the extent that the amount is deemed by subsection 84(4) or (4.1) to be a dividend received by the taxpayer,

(iii) any amount required to be deducted before that time under section 84.1 of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it applied before May 23, 1985 in computing the adjusted cost base to the taxpayer of the share,

(iv) any amount, to the extent that such amount is not proceeds of disposition of a share, received by the taxpayer before that time that would, but for subsection 84(8), be deemed by subsection 84(2) to be a dividend received by the taxpayer, and

(v) any amount required by paragraph 44.1(2)(*b*) to be deducted in computing the adjusted cost base to the taxpayer of the share;

History: S. 53(2)(*a*)(v) was added by S.C. 2001, c. 17, s. 36(4), applicable to dispositions that occur after February 27, 2000.

S. 53(2)(*a*)(ii) was amended by S.C. 1994, c. 7, Sched. II, s. 30(5), applicable for the purposes of computing after 1989 adjusted cost bases of shares. S. 53(2)(*a*)(ii) formerly read:

"(ii) any amount received by the taxpayer after 1971 and before that time on a reduction of the paid-up capital of the corporation in respect of the share, except to the extent that that amount is deemed by subsection 84(4) to be a dividend received by the taxpayer,"

Related Sections: S. 40(3) Deemed gain where amounts to be deducted from adjusted cost base exceed cost plus amounts to be added to adjusted cost base; s. 83(1) Qualifying dividends; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

Proposed Regulations: 6700(e.1)

Interpretation Bulletins: *Primary* — IT-456R Capital property — Some adjustments to cost base. *Secondary* — IT-66R6 Capital dividends.

Tax Profile: December 2000 — Increasing Paid-Up Capital.

► 53(2)(b) ◄

(b) [Amounts to be deducted — Share of non-resident corporation] — where the property is a share of the capital stock of a corporation not resident in Canada,

(i) any amount required by paragraph 80.1(4)(*d*) or section 92 to be deducted in computing the adjusted cost base to the taxpayer of the share, and

(ii) any amount received by the taxpayer after 1971 and before that time on a reduction of the paid-up capital of the corporation in respect of the share;

Related Sections: S. 40(3) Deemed gain where amounts to be deducted from adjusted cost base exceed cost plus amounts to be added to adjusted cost base; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

► 53(2)(b.1) ◄

(b.1) [Amounts to be deducted — Capital interest in a non-resident trust] — where the property is a capital interest of the taxpayer in a trust to which paragraph 94(1)(*d*) applies, any amount required by paragraph 94(5)(*b*) to be deducted in computing the adjusted cost base to the taxpayer of the interest;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 53(2)(*b*.1) of the Act is replaced by the following:

(*b*.1) any amount required by paragraph 94(5)(*b*) (as that paragraph read in its application to taxation years that include December 31, 2000) to be deducted in computing the adjusted cost base to the taxpayer of the property;

Applicable: To taxation years that begin after 2006. The amendment to paragraph 53(2)(*b*.1) also applies to

(*a*) taxation years of a taxpayer that begin after 2000 if a trust, in which the taxpayer had a capital interest at any time in 2001, makes a valid election under paragraph [(*a*) of the application for new proposed section 94;]

(*b*) taxation years of a taxpayer that begin after 2001 if a trust, in which the taxpayer had a capital interest at any time in 2002, makes a valid election under paragraph [(*a*) or (*b*) of the application for new proposed section 94]

(*c*) taxation years of a taxpayer that begin after 2002 if a trust, in which the taxpayer had a capital interest at any time in 2003, makes a valid election under any of paragraphs [(*a*) to (*c*) of the application for new proposed section 94]

(*d*) taxation years of a taxpayer that begin after 2003 if a trust, in which the taxpayer had a capital interest at any time in 2004, makes a valid election under any of paragraphs [(*a*) to (*d*) of the application for new proposed section 94];

(*e*) taxation years of a taxpayer that begin after 2004 if a trust, in which the taxpayer had a capital interest at any time in 2005, makes a valid election under any of paragraphs [(*a*) to (*e*) of the application for new proposed section 94]; and

(*f*) taxation years of a taxpayer that begin after 2005 if a trust, in which the taxpayer had a capital interest at any time in 2006, makes a valid election under any of paragraphs [(*a*) to (*f*) of the application for new proposed section 94].

Explanatory Note: Paragraph 53(2)(*b*.1) of the Act, applied together with existing paragraph 94(5)(*b*), provides for a deduction in computing the ACB to a taxpayer of the taxpayer's capital interest in a trust to which existing paragraph 94(1)(*d*) applies. Paragraph 53(1)(*b*.1) is amended to ensure that historical ACB deductions are maintained, notwithstanding the replacement of the rules in existing section 94.

This amendment applies to taxation years that begin after 2006. It also applies to taxation years of a taxpayer that begin

- after 2000 if a trust, in which the taxpayer had a capital interest at any time in 2001, makes a valid election under the coming-into-force provision for new section 94,
- after 2001 if a trust, in which the taxpayer had a capital interest at any time in 2002, makes a valid election under the coming-into-force provision for new section 94,
- after 2002 if a trust, in which the taxpayer had a capital interest at any time in 2003, makes a valid election under the coming-into-force provision for new section 94,
- after 2003 if a trust, in which the taxpayer had a capital interest at any time in 2004, makes a valid election under the coming-into-force provision for new section 94,
- after 2004 if a trust, in which the taxpayer had a capital interest at any time in 2005, makes a valid election under the coming-into-force provision for new section 94, and
- after 2005 if a trust, in which the taxpayer had a capital interest at any time in 2006, makes a valid election under the coming-into-force provision for new section 94.

Because of the possibility of such an election, amended paragraph 53(2)(*b*.1) refers to paragraph 94(5)(*b*) as it read for taxation years that include December 31, 2000.

Related Sections: S. 40(3) Deemed gain where amounts to be deducted from adjusted cost base exceed cost plus amounts to be added to adjusted cost base; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

► 53(2)(b.2) ◄

(b.2) [Amounts to be deducted — Non-depreciable capital property of a corporation] — where the property is property of a corporation control of which was acquired by a person or group of persons at or before that time, any amount required by paragraph 111(4)(*c*) to be deducted in computing the adjusted cost base of the property;

Related Sections: S. 40(3) Deemed gain where amounts to be deducted from adjusted cost base exceed cost plus amounts to be added to adjusted cost base; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

► 53(2)(c) ◄

(c) [Amounts to be deducted — Interest in a partnership] — where the property is an interest in a partnership,

(i) an amount in respect of each fiscal period of the partnership ending after 1971 and before that time, equal to the total of amounts each of which is the taxpayer's share (other than a share under an agreement referred to in subsection 96(1.1)) of any loss of the partnership from any source for that fiscal period, computed as if this Act were read without reference to

(A) the fractions set out in subsection 14(5), paragraph 38(*b*) and in the formula in paragraph 14(1)(*b*),

(A.1) paragraph 18(1)(*l*.1),

(A.2) the description of C in the formula in paragraph 14(1)(*b*),

(B) paragraphs 12(1)(*o*) and (*z*.5), 18(1)(*m*) and 20(1)(*v*.1), section 31, subsection 40(2), section 55 and subsections 69(6) and (7) of this Act and paragraphs 20(1)(*gg*) and 81(1)(*r*) and (*s*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, and

(C) subsections 100(4) and 112(3.1), and subsection 112(4.2) as it read in its application to dispositions of property that occurred before April 27, 1995,

except to the extent that all or a portion of such a loss may reasonably be considered to have been included in the taxpayer's limited partnership loss in respect of the partnership for the taxpayer's taxation year in which that fiscal period ended,

(i.1) an amount in respect of each fiscal period of the partnership ending before that time that is the taxpayer's limited partnership loss in respect of the partnership for the taxation year in which that fiscal period ends to the extent that such loss was deducted by the taxpayer in computing the taxpayer's taxable income for any taxation year that commenced before that time,

(i.2) any amount deemed by subsection 40(3.12) to be a loss of the taxpayer for a taxation year from a disposition before that time of the property,

(i.3) if at that time the property is not a tax shelter investment as defined by section 143.2 and the taxpayer would be a member, described in subsection 40(3.1), of the partnership if the fiscal period of the partnership that includes that time ended at that time, the unpaid principal amount of any indebtedness of the taxpayer for which recourse is limited, either immediately or in the future and either absolutely or contingently, and that can reasonably be considered to have been used to acquire the property,

(i.4) if the taxpayer is a member of the partnership who was a specified member of the partnership at all times since becoming a member of the partnership or the taxpayer is at that time a limited partner of the partnership for the purposes of subsection 40(3.1), the amount

(A) deducted under subsection 34.2(4) in computing the taxpayer's income for the taxation year in respect of the interest, where that time is in the taxpayer's first taxation year in which a qualifying fiscal period (within the meaning assigned by subsection 34.2(1)) of the business carried on by the taxpayer as a member of the partnership ends and is after the end of that period, and

(B) where that time is in any other taxation year, deducted under subsection 34.2(4) in respect of the interest in computing the taxpayer's income for the taxation year preceding that other year

unless

(C) that time is immediately before a disposition of the interest and no amount is deductible under subsection 34.2(4) in respect of the interest in computing the taxpayer's income for the taxation year following the taxation year that includes that time,

(D) the taxpayer has December 31, 1995 income in respect of the business because of section 34.1, or

(E) the taxpayer's partnership interest was held by the taxpayer on February 22, 1994 and is an excluded interest (within the meaning assigned by subsection 40(3.15)) at the end of the fiscal period of the partnership that includes that time,

(ii) an amount in respect of each fiscal period of the partnership ending after 1971 and before that time, other than a fiscal period after the fiscal period in which the taxpayer ceased to be a member of the partnership, equal to the taxpayer's share of the total of

(A) amounts that, but for paragraph 96(1)(*d*), would be deductible in computing the income of the partnership for the fiscal period by virtue of the provisions of the *Income Tax Application Rules* relating to the exploration and development expenses,

(B) the Canadian exploration and development expenses and foreign resource pool expenses, if any, incurred by the partnership in the fiscal period,

(C) the Canadian exploration expense, if any, incurred by the partnership in the fiscal period,

(D) the Canadian development expense, if any, incurred by the partnership in the fiscal period, and

(E) the Canadian oil and gas property expense, if any, incurred by the partnership in the fiscal period,

(iii) any amount deemed by subsection 110.1(4) or 118.1(8) to have been a gift made, or by subsection 127(4.2) to have been an amount contributed, by the taxpayer by reason of the taxpayer's membership in the partnership at the end of a fiscal period of the partnership ending before that time,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 53(2)(*c*)(iii) of the Act is replaced by the following:

(iii) any amount deemed by subsection 110.1(4) or 118.1(8) to have been the eligible amount of a gift made by the taxpayer by reason of the taxpayer's membership in the partnership at the end of a fiscal period of the partnership ending before that time,

Applicable: January 1, 2007, which is the coming into force date of the repeal of subsection 127(4.2) contained in Bill C-2 (Royal Assent December 12, 2006). In respect of gifts and contributions made after December 20, 2002 and before January 1, 2007, subparagraph 53(2)(*c*)(iii) of the *Income Tax Act*, is replaced by the following:

"(iii) any amount deemed by subsection 110.1(4) or 118.1(8) to have been the eligible amount of a gift made, or by subsection 127(4.2) to have been an amount contributed, by the taxpayer by reason of the taxpayer's membership in the partnership at the end of a fiscal period of the partnership ending before that time,"

Explanatory Note:

Adjustments to Cost Base — Interest in a Partnership

Paragraph 53(2)(*c*) of the Act provides deductions from a taxpayer's adjusted cost base ("ACB") of a partnership interest for the purpose of determining its adjusted cost base. Subparagraph 53(2)(*c*)(iii) provides for the deduction from the ACB of a partnership interest of an amount deemed by subsection 110.1(4), 118.1(8) or 127(4.2) of the Act to have been a charitable

donation or a political party contribution because of the taxpayer's membership in the partnership.

Subparagraph 53(2)(*c*)(iii) is amended, consequential to the amendment of subsections 110.1(4), 118.1(8) and 127(4.2) and the addition of new subsection 248(31) of the Act, for gifts made after December 20, 2002. Amended subparagraph 53(2)(*c*)(iii) refers to the "eligible amount" of a gift or contribution made because of the taxpayer's membership in the partnership. For additional information about eligible amounts, see the commentary to new subsections 248(31) and (32).

(iv) any amount required by section 97 to be deducted before that time in computing the adjusted cost base to the taxpayer of the interest,

(v) any amount received by the taxpayer after 1971 and before that time as, on account or in lieu of payment of, or in satisfaction of, a distribution of the taxpayer's share (other than a share under an agreement referred to in subsection 96(1.1)) of the partnership profits or partnership capital,

(vi) an amount equal to that portion of all amounts deducted under subsection 127(5) in computing the tax otherwise payable by the taxpayer under this Part for the taxpayer's taxation years ending before that time that may reasonably be attributed to amounts added in computing the investment tax credit of the taxpayer by virtue of subsection 127(8),

(vii) any amount added pursuant to subsection 127.2(4) in computing the taxpayer's share-purchase tax credit for a taxation year ending before or after that time,

(viii) an amount equal to 50% of the amount deemed to be designated pursuant to subsection 127.3(4) before that time in respect of each share, debt obligation or right acquired by the partnership and deemed to have been acquired by the taxpayer under that subsection,

(ix) the amount of all assistance received by the taxpayer before that time that has resulted in a reduction of the capital cost of a depreciable property to the partnership by virtue of subsection 13(7.2);

(x) any amount deductible by the taxpayer under subparagraph 20(1)(*e*)(vi) in respect of the partnership for a taxation year of the taxpayer ending at or after that time;

(xi) any amount required by paragraph 110.6(23)(*b*) to be deducted at that time in computing the adjusted cost base to the taxpayer of the interest; and

(xii) any amount payable by the partnership, to the extent that the amount is deductible under subsection 20.01(1) in computing the taxpayer's income for a taxation year that began before that time;

History: S. 53(2)(*c*)(xiii) was added by S.C. 2007, c. 35, s. 16(2), applicable after 2011, pursuant to the addition of s. 18.2, applicable for the same period. With the repeal of s. 18.2 by S.C. 2009, c. 2, s. 6(1), s. 53(2)(*c*)(xiii) was repealed by S.C. 2009, c. 2, s. 11(2), applicable after 2011. S. 53(2)(*c*)(xiii) would have read:

"(xiii) the lesser of

(A) the total of all amounts each of which is the amount of a dividend that is included in computing the income of the taxpayer under section 93.1 in respect of the partnership for a taxation year that ended before that time, and

(B) the total of all amounts each of which is

(I) an amount deducted by the taxpayer under subsection 91(5.2) for a taxation year that ended before that time in respect of a dividend included in computing the amount determined under clause (A), or

(II) twice the amount deducted by the taxpayer under subsection 91(5.3) for a taxation year that ended before that time in respect of the disposition of a share on which a dividend included in computing the amount determined under clause (A) was paid;"

S. 53(2)(*c*)(i)(A) and (A.1) were amended, and clause (A.2) was added, by S.C. 2001, c. 17, s. 36(5), applicable in respect of fiscal periods that end after February 27, 2000. S. 53(2)(*c*)(i)(A) and (A.1) formerly read:

"(A) the fractions set out in subsection 14(5) and paragraph 38(*b*), (A.1) paragraph 18(1)(*l.1*),"

S. 53(2)(*c*)(ii)(B) was amended by S.C. 2001, c. 17, s. 36(6), applicable to taxation years that begin after 2000. S. 53(2)(*c*)(ii)(B) formerly read:

"(B) the Canadian exploration and development expenses and foreign exploration and development expenses, if any, incurred by the partnership in the fiscal period,"

S. 53(2)(*c*)(xii) was added by S.C. 1999, c. 22, s. 14(5), applicable after 1997.

S. 53(2)(*c*)(i)(C) was amended by S.C. 1998, c. 19, s. 94(4), applicable after April 26, 1995. S. 53(2)(*c*)(i)(C) formerly read:

"(C) subsections 112(3.1) and (4.2),"

S. 53(2)(*c*)(i.3) was amended by S.C. 1998, c. 19, s. 94(5), applicable to indebtedness of a taxpayer arising after September 26, 1994, other than indebtedness arising under an agreement in writing entered into by the taxpayer before September 27, 1994. S. 53(2)(*c*)(i.3) formerly read:

"(i.3) where at that time the taxpayer would be a member described in subsection 40(3.1) of the partnership, if the fiscal period of the partnership that includes that time ended at that time, the unpaid principal amount of any debt of the taxpayer at that time in respect of which recourse against the taxpayer is limited, either immediately or in the future and either absolutely or contingently, and that can reasonably be considered to have been used to acquire the property,"

S. 53(2)(*c*)(i)(B) was amended by S.C. 1997, c. 25, s. 7(2), applicable for the purpose of computing the adjusted cost base of property after 1996. S. 53(2)(*c*)(i)(B) formerly read:

"(B) paragraphs 12(1)(*o*), 18(1)(*m*) and 20(1)(*v.1*), section 31, subsection 40(2), section 55 and subsections 69(6) and (7) of this Act and paragraphs 20(1)(*gg*) and 81(1)(*r*) and (*s*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, and"

S. 53(2)(*c*)(i.4) was added by S.C. 1996, c. 21, s. 12(1), applicable after 1994.

S. 53(2)(*c*)(i.2) was added by S.C. 1995, c. 3, s. 14(4), applicable after February 21, 1994.

S. 53(2)(*c*)(i.3) was added by S.C. 1995, c. 3, s. 14(4), applicable after February 21, 1994, except that subparagraph 53(2)(*c*)(i.3) applies to debts entered into by a taxpayer after September 26, 1994 other than such a debt entered into pursuant to an agreement in writing entered into by the taxpayer before September 27, 1994.

S. 53(2)(*c*)(xi) was added by S.C. 1995, c. 3, s. 14(5), applicable to the 1994 and subsequent taxation years.

Related Sections: S. 87(2)(*j.6*) Continuing corporation; s. 96(1) General rules; s. 98.1 Residual interest in partnership; s. 98.2 Transfer of interest on death; s. 100(2) Gain from disposition of interest in partnership; s. 127(12.2) Adjusted cost base deductions re partnership interest, trust capital interest and government assistance; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971, s. 26(9.3) Amounts deemed to be required to be deducted in respect of interest in partnership, s. 26(9.4) Application of s. 53 of amended Act in respect of interest in partnership.

Interpretation Bulletins: *Primary* — IT-353R2 Partnership interests — Some adjustments to cost base [Archived by the CRA]. *Secondary* — IT-278R2 Death of a partner or of a retired partner; IT-341R4 Expenses of issuing or selling shares, units in a trust, interests in a partnership or syndicate and expenses of borrowing money.

Income Tax Technical News: Issue No. 5, Adjusted cost base of partnership interest; Issue No. 9, Calculation of the adjusted cost base of a partnership interest.

Forms: T2065.

Tax Topics: No. 1921, Ontario Limited Liability Partnerships — A Hidden Danger for Many Inventory.

► 53(2)(d) ◄

(d) [Amounts to be deducted — Part dispositions] — where the property is such that the taxpayer has, after 1971 and before that time, disposed of a part of it while retaining another part of it, the amount determined under section 43 to be the adjusted cost base to the taxpayer of the part so disposed of;

Related Sections: S. 40(3) Deemed gain where amounts to be deducted from adjusted cost base exceed cost plus amounts to be added to adjusted cost base; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

Interpretation Bulletins: *Secondary* — IT-200 Surface rentals and farming operations.

► 53(2)(e) ◄

(e) [Amounts to be deducted — Share, where shareholder incurred exploration and development expenses] — where the property is a share, or an interest in or a right to a share, of the capital stock of a corporation acquired before August, 1976, an amount equal to any expense incurred by the taxpayer in consideration therefor, to the extent that the expense was, by virtue of

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of paragraph 53(2)(*e*) of the Act before subparagraph (i) is replaced by the following:

(*e*) where the property is a share, or an interest in or a right to — or, for civil law, a right in or to — a share, of the capital stock of a corporation acquired before August, 1976, an amount equal to any expense incurred by the taxpayer in consideration therefor, to the extent that the expense was, by virtue of

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(i) paragraph (*e*) of the definition "Canadian exploration and development expenses" in subsection 66(15), a Canadian exploration and development expense,

(ii) paragraph (*i*) of the definition "Canadian exploration expense" in subsection 66.1(6), a Canadian exploration expense,

(iii) paragraph (*g*) of the definition "Canadian development expense" in subsection 66.2(5), a Canadian development expense, or

(iv) paragraph (*c*) of the definition "Canadian oil and gas property expense" in subsection 66.4(5), a Canadian oil and gas property expense

incurred by the taxpayer;

Related Sections: S. 40(3) Deemed gain where amounts to be deducted from adjusted cost base exceed cost plus amounts to be added to adjusted cost base; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

► 53(2)(f) ◄

(f) [Amounts to be deducted — Property received from joint exploration corporation] — where the property was received by the taxpayer as consideration for any payment or loan

(i) made before April 20, 1983 by the taxpayer as a shareholder corporation (within the meaning assigned by subsection 66(15)) to a joint exploration corporation of the shareholder, and

(ii) described in paragraph (*a*) of the definition "agreed portion" in subsection 66(15),

or the property was substituted for such a property, such portion of the payment or loan as may reasonably be considered to be related to an agreed portion (within the meaning assigned by subsection 66(15)) of the joint exploration corporation's

(iii) Canadian exploration and development expenses,

(iv) Canadian exploration expense,

(v) Canadian development expense, or

(vi) Canadian oil and gas property expense,

as the case may be;

Related Sections: S. 40(3) Deemed gain where amounts to be deducted from adjusted cost base exceed cost plus amounts to be added to adjusted cost base; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

► 53(2)(f.1) ◄

(f.1) [Amounts to be deducted — Share of the capital stock of joint exploration corporation] — where the property is a share of the capital stock of a joint exploration corporation resident in Canada and the taxpayer has, after 1971, made a contribution of capital to the corporation otherwise than by way of a loan, which contribution was included in computing the adjusted cost base of the property by virtue of paragraph (1)(*c*), such portion of the contribution as may reasonably be considered to be part of an agreed portion (within the meaning assigned by subsection 66(15)) of the corporation's

(i) Canadian exploration and development expenses,

(ii) Canadian exploration expense,

(iii) Canadian development expense, or

(iv) Canadian oil and gas property expense,

as the case may be;

Related Sections: S. 40(3) Deemed gain where amounts to be deducted from adjusted cost base exceed cost plus amounts to be added to adjusted cost base; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

► 53(2)(f.2) ◄

(f.2) [Amounts to be deducted — Resource expenses renounced by joint exploration corporation] — any amount required by paragraph 66(10.4)(*a*) to be deducted before that time in computing the adjusted cost base to the taxpayer of the property;

Related Sections: S. 40(3) Deemed gain where amounts to be deducted from adjusted cost base exceed cost plus amounts to be added to adjusted cost base; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

► 53(2)(g) ◄

(g) [Amounts to be deducted — Debt forgiveness] — where section 80 is applicable in respect of the taxpayer, the amount, if any, by which the adjusted cost base to the taxpayer of the property is required in prescribed manner to be reduced before that time;

History: S. 53(2)(*g*.1) was added by S.C. 1995, c. 21, s. 17(3), applicable to taxation years that end after February 21, 1994.

Related Sections: S. 40(3) Deemed gain where amounts to be deducted from adjusted cost base exceed cost plus amounts to be added to adjusted cost base; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

► 53(2)(g.1) ◄

(g.1) [Amounts to be deducted — Debt forgiveness] — any amount required under paragraph (4)(*a*), (5)(*a*), (6)(*a*), 47(1)(*c*), 49(3.01)(*a*), 51(1)(*d*.1), 86(4)(*a*) or 87(5.1)(*a*) or (6.1)(*a*) to be deducted in computing the adjusted cost base to the taxpayer of the property or any amount by which that adjusted cost base

is required to be reduced because of subsection 80(9), (10) or (11);

Related Sections: S. 40(3) Deemed gain where amounts to be deducted from adjusted cost base exceed cost plus amounts to be added to adjusted cost base; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

► 53(2)(h) ◄

(h) [Amounts to be deducted — Capital interest in a trust] — where the property is a capital interest of the taxpayer in a trust (other than an interest in a personal trust that has never been acquired for consideration or an interest of a taxpayer in a trust described in any of paragraphs (*a*) to (*e*.1) of the definition "trust" in subsection 108(1)),

(i) any amount paid to the taxpayer by the trust after 1971 and before that time as a distribution or payment of capital by the trust (otherwise than as proceeds of disposition of the interest or part thereof), to the extent that the amount became payable before 1988,

(i.1) any amount that has become payable to the taxpayer by the trust after 1987 and before that time in respect of the interest (otherwise than as proceeds of disposition of the interest or part thereof), except to the extent of the portion thereof

(A) that was included in the taxpayer's income by reason of subsection 104(13) or from which an amount of tax was deducted under Part XIII by reason of paragraph 212(1)(*c*),

(A.1) that was deemed by subsection 104(16) to be a dividend received by the taxpayer, or

(B) where the trust was resident in Canada throughout its taxation year in which the amount became payable

(I) that is equal to the amount designated by the trust under subsection 104(21) in respect of the taxpayer,

(II) that was designated by the trust under subsection 104(20) in respect of the taxpayer, or

(III) that is an assessable distribution (as defined in subsection 218.3(1)) to the taxpayer,

(ii) an amount equal to that portion of all amounts deducted under subsection 127(5) in computing the tax otherwise payable by the taxpayer under this Part for the taxpayer's taxation years ending before that time that may reasonably be attributed to amounts added in computing the investment tax credit of the taxpayer by virtue of subsection 127(7),

(iii) any amount added pursuant to subsection 127.2(3) in computing the taxpayer's share-purchase tax credit for a taxation year ending before or after that time,

(iv) an amount equal to 50% of the amount deemed to be designated pursuant to subsection 127.3(3) before that time in respect of each share, debt obligation or right acquired by the trust and deemed to have been acquired by the taxpayer under that subsection, and

(v) an amount equal to the amount of all assistance received by the taxpayer before that time that has resulted in a reduction of the capital cost of a depreciable property to the trust by virtue of subsection 13(7.2);

History: S. 53(2)(*h*)(i.1)(A.1) was added by S.C. 2007, c. 29, s. 2(1), deemed to have come into force on October 31, 2006.

S. 53(2)(*h*)(i.1)(B)(III) was added by S.C. 2005, c. 19, s. 14(1), applicable after 2004.

S. 53(2)(*h*), the portion before subparagraph (i), was amended by S.C. 2001, c. 17, s. 36(7), applicable to amounts that become payable after 1999. S. 53(2)(*h*), the portion before subparagraph (i) formerly read:

"(*h*) where the property is a capital interest of the taxpayer in a trust (other than an interest in a personal trust acquired by the taxpayer for no consideration or an interest of the taxpayer in a trust described in any of paragraphs (*a*) to (*d*) of the definition 'trust' in subsection 108(1)),"

S. 53(2)(*h*)(i.1)(B)(I) was amended by S.C. 2001, c. 17, s. 36(8), by striking out the reference to the expression "1/3 of", applicable to taxation years that end after February 27, 2000 except that, in applying subclause 53(2)(*h*)(i.1)(B)(I) for those years in respect of a taxpayer's interest in a trust, where a taxation year of the trust that includes February 28, 2000 or October 17, 2000, or began after February 28, 2000 and ended before October 17, 2000, ends in the taxpayer's taxation year, the reference to the expression "that is equal to the" in that subclause shall be read as a reference to the expression "that is equal to the fraction obtained when 1 is subtracted from the reciprocal of the fraction in paragraph 38(*a*), as enacted by subsection 22(1) of the *Income Tax Amendments Act, 2000* [S.C. 2001, c. 17], that applies to the trust for its taxation year, multiplied by".

Related Sections: S. 40(3) Deemed gain where amounts to be deducted from adjusted cost base exceed cost plus amounts to be added to adjusted cost base; s. 87(2)(*j*.6) Continuing corporation; s. 127(12.2) Adjusted cost base deductions re partnership interest, trust capital interest and government assistance; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

Interpretation Bulletins: *Primary* — IT-390 Unit trusts — Cost of rights and adjustments to cost base [Archived by the CRA]; IT-456R Capital property — Some adjustments to cost base. *Secondary* — IT-342R Trusts — Income payable to beneficiaries; IT-381R3 Trusts — Capital gains and losses and the flow-through of taxable capital gains to beneficiaries.

► 53(2)(i) ◄

(i) [Amounts to be deducted — Capital interest in a non-resident trust] — where the property is a capital interest in a trust (other than a unit trust) not resident in Canada that was purchased after 1971 and before that time by the taxpayer from a non-resident person at a time (in this paragraph referred to as the "purchase time") when the property was not taxable Canadian property and the fair market value of such of the trust property as was

(i) a Canadian resource property,

(ii) [Repealed by 1985, c. 45, s. 22(8).]

(iii) an income interest in a trust resident in Canada,

(iv) taxable Canadian property, or

(v) a timber resource property

was not less than 50% of the fair market value of all the trust property, that proportion of the amount, if any, by which

(vi) the fair market value at the purchase time of such of the trust properties as were properties described in any of subparagraphs (i) to (v)

exceeds

(vii) the total of the cost amounts to the trust at the purchase time of such of the trust properties as were properties described in any of subparagraphs (i) to (v),

that the fair market value at the purchase time of the interest is of the fair market value at the purchase time of all capital interests in the trust;

History: S. 53(2)(*i*), the portion before subparagraph (i) was amended by S.C. 2001, c. 17, s. 36(9), applicable for the purpose of computing the adjusted cost base of property after April 26, 1995. S. 53(2)(*i*), the portion before subparagraph (i) formerly read:

"(*i*) where the property is a capital interest in a trust (other than a unit trust) not resident in Canada that was purchased after 1971 by the taxpayer from a non-resident person at a time when the fair market value of such of the trust property as was"

S. 53(2)(*i*), the portion after subparagraph (v) was amended by S.C. 2001, c. 17, s. 36(10), applicable for the purpose of computing the adjusted cost base of property after April 26, 1995. S. 53(2)(*i*), the portion after subparagraph (v) formerly read:

"was not less than 50% of the total of

(vi) the fair market value of all the trust property, and

(vii) the amount of any money of the trust on hand,

that proportion of the amount, if any, by which

(viii) the fair market value at that time of such of the trust property as was property described in subparagraphs (i) to (v)

exceeds

(ix) the total of the cost amounts to the trust at that time of such of the trust properties as were properties described in subparagraphs (i) to (v),

that the fair market value at that time of the interest is of the fair market value at that time of all capital interests in the trust;"

Related Sections: S. 40(3) Deemed gain where amounts to be deducted from adjusted cost base exceed cost plus amounts to be added to adjusted cost base; s. 53(3) Application of paragraphs (2)(i) and (j); ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

► 53(2)(j) ◄

(j) [Amounts to be deducted — Non-resident unit trust] — where the property is a unit of a unit trust not resident in Canada that was purchased after 1971 and before that time by the taxpayer from a non-resident person at a time (in this paragraph referred to as the "purchase time") when the property was not taxable Canadian property and the fair market value of such of the trust property as was

(i) a Canadian resource property,

(ii) [Repealed by 1985, c. 45, s. 22(10).]

(iii) an income interest in a trust resident in Canada,

(iv) taxable Canadian property, or

(v) a timber resource property

was not less than 50% of the fair market value of all the trust property, that proportion of the amount, if any, by which

(vi) the fair market value at the purchase time of such of the trust properties as were properties described in any of subparagraphs (i) to (v)

exceeds

(vii) the total of the cost amounts to the trust at the purchase time of such of the trust properties as were properties described in any of subparagraphs (i) to (v),

that the fair market value at the purchase time of the unit is of the fair market value at the purchase time of all the issued units of the trust;

(ix) the total of the cost amounts to the trust at that time of such of the trust properties as were properties described in subparagraphs (i) to (v),

that the fair market value at that time of the unit is of the fair market value at that time of all of the issued units of the trust;

History: S. 53(2)(*j*), the portion before subparagraph (i), was amended by S.C. 2001, c. 17, s. 36(11), applicable for the purpose of computing the adjusted cost base of property after April 26, 1995. S. 53(2)(*j*), the portion before subparagraph (i) formerly read:

"(*j*) where the property is a unit of a unit trust not resident in Canada that was purchased after 1971 by the taxpayer from a non-resident person at a time when the fair market value of such of the trust property as was"

S. 53(2)(*j*), the portion after subparagraph (v), was amended by S.C. 2001, c. 17, s. 36(11), applicable for the purpose of computing the adjusted cost base of property after April 26, 1995. S. 53(2)(*j*), the portion after subparagraph (v) formerly read:

"was not less than 50% of the total of

(vi) the fair market value of all the trust property, and

(vii) the amount of any money of the trust on hand,

that proportion of the amount, if any, by which

(viii) the fair market value at that time of such of the trust property as was property described in subparagraphs (i) to (v),

exceeds"

Related Sections: S. 40(3) Deemed gain where amounts to be deducted from adjusted cost base exceed cost plus amounts to be added to adjusted cost base; s. 53(3) Application of paragraphs (2)(i) and (j); ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

► 53(2)(k) ◄

(k) [Amounts to be deducted — Government assistance] — where the property was acquired by the taxpayer after 1971, the amount, if any, by which the total of

(i) the amount of any assistance which the taxpayer has received or is entitled to receive before that time from a government, municipality or other public authority, in respect of, or for the acquisition of, the property, whether as a grant, subsidy, forgivable loan, deduction from tax not otherwise provided for under this paragraph, investment allowance or as any other form of assistance other than

(A) an amount described in paragraph 37(1)(*d*),

(B) an amount deducted as an allowance under section 65,

(C) the amount of prescribed assistance that the taxpayer has received or is entitled to receive in respect of, or for the acquisition of, shares of the capital stock of a prescribed venture capital corporation or a prescribed labour-sponsored venture capital corporation or shares of the capital stock of a taxable Canadian corporation that are held in a prescribed stock savings plan, or

(D) an amount included in income by virtue of paragraph 12(1)(*u*) or 56(1)(*s*), and

(ii) all amounts deducted under subsection 127(5) or (6) in respect of the property before that time,

exceeds such part, if any, of the assistance referred to in subparagraph (i) as has been repaid before that time by the taxpayer pursuant to an obligation to repay all or any part of that assistance;

History: S. 53(2)(*k*)(i)(C) was amended by S.C. 1994, c. 21, s. 22(1), applicable to the 1991 and subsequent taxation years. S. 53(2)(*k*)(i)(C) formerly read:

"(C) the amount of any prescribed assistance received by the taxpayer that has been provided in respect of, or for the acquisition of, shares of the capital stock of a prescribed venture capital corporation or a prescribed labour-sponsored venture capital corporation or shares of the capital stock of a taxable Canadian corporation that are held in a prescribed stock savings plan, or"

Related Sections: S. 40(3) Deemed gain where amounts to be deducted from adjusted cost base exceed cost plus amounts to be added to adjusted cost base; s. 127(12.2) Adjusted cost base deductions re partnership interest, trust capital interest and government assistance; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

Regulations: 6700; 6700.1; 6700.2; 6701; 6702; 6705.

Interpretation Bulletins: *Primary* — IT-273R2 Government assistance — General comments.

Income Tax Technical News: Issue No. 5, Western grain transition payments.

► 53(2)(l) ◄

(l) [Amounts to be deducted — Accrued interest on transferred debt obligation] — where the property is a debt obligation, any amount that was deductible by virtue of subsection 20(14) in computing the taxpayer's income for any taxation year commencing

before that time in respect of interest on that debt obligation;

Related Sections: S. 40(3) Deemed gain where amounts to be deducted from adjusted cost base exceed cost plus amounts to be added to adjusted cost base; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

► 53(2)(l.1) ◄

(l.1) [Amounts to be deducted — Indexed debt obligation] — where the property is an indexed debt obligation,

(i) any amount determined under subparagraph 16(6)(*a*)(ii) in respect of the obligation and deductible in computing the income of the taxpayer for a taxation year beginning before that time, and

(ii) the amount of any payment that was received or that became receivable by the taxpayer at or before that time in respect of an amount that was added under paragraph (1)(g.1) to the cost to the taxpayer of the obligation;

History: S. 53(2)(*l.1*) was added by S.C. 1994, c. 7, Sched. VIII, s. 15(4), applicable to indexed debt obligations issued after October 16, 1991.

Related Sections: S. 40(3) Deemed gain where amounts to be deducted from adjusted cost base exceed cost plus amounts to be added to adjusted cost base; s. 248(1), "indexed debt obligation"; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

► 53(2)(m) ◄

(m) [Amounts to be deducted — Deductible cost of property] — any part of the cost to the taxpayer of the property that was deductible (otherwise than because of this subdivision or paragraph 8(1)(*r*)) in computing the taxpayer's income for any taxation year commencing before that time and ending after 1971;

History: S. 53(2)(*m*) was amended by S.C. 2002, c. 9, s. 23(1), applicable after 2001. S. 53(2)(*m*) formerly read:

"(*m*) *[Amounts to be deducted — Deductible cost of property]* — such part of the cost to the taxpayer of the property as was deductible (otherwise than by virtue of this subdivision) in computing the taxpayer's income for any taxation year commencing before that time and ending after 1971;"

Related Sections: S. 40(3) Deemed gain where amounts to be deducted from adjusted cost base exceed cost plus amounts to be added to adjusted cost base; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

Interpretation Bulletins: *Secondary* — IT-350R Investigation of site.

► 53(2)(n) ◄

(n) [Amounts to be deducted — Expropriation asset] — where the property is an expropriation asset of the taxpayer (within the meaning assigned by section 80.1) or an asset of the taxpayer assumed for the purposes of that section to be an expropriation asset thereof, any amount required by paragraph 80.1(2)(*b*) to be deducted in computing the adjusted cost base to the taxpayer of the asset;

Related Sections: S. 40(3) Deemed gain where amounts to be deducted from adjusted cost base exceed cost plus amounts to be added to adjusted cost base; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

► 53(2)(o) ◄

(o) [Amounts to be deducted — Right to receive partnership property] — where the property is a right to receive partnership property within the meaning assigned by paragraph 98.2(*a*) or 100(3)(*a*), any amount received by the taxpayer in full or partial satisfaction of that right;

Related Sections: S. 40(3) Deemed gain where amounts to be deducted from adjusted cost base exceed cost plus amounts to be added to adjusted cost base; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

► 53(2)(p) ◄

(p) [Amounts to be deducted — Debt owing by a corporation] — where the property is a debt owing to the taxpayer by a corporation, any amount required to be deducted before that time under section 84.1 of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it applied before May 23, 1985 or subsection 84.2(2) in computing the adjusted cost base to the taxpayer of the debt;

Related Sections: S. 40(3) Deemed gain where amounts to be deducted from adjusted cost base exceed cost plus amounts to be added to adjusted cost base; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

► 53(2)(q) ◄

(q) [Amounts to be deducted — Interest in related segregated fund trust] — where the property is an interest in a related segregated fund trust referred to in section 138.1,

(i) each amount in respect of that interest that is a capital loss deemed to have been allocated under subsection 138.1(4) to the taxpayer before that time, and

(ii) each amount in respect of that interest that before that time was deemed by subsection 138.1(3) to be a capital loss of the taxpayer;

Related Sections: S. 40(3) Deemed gain where amounts to be deducted from adjusted cost base exceed cost plus amounts to be added to adjusted cost base; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

► 53(2)(r) ◄

(r) — [Repealed by 1986, c. 6, s. 26(4).]

Related Sections: S. 40(3) Deemed gain where amounts to be deducted from adjusted cost base exceed cost plus amounts to be added to adjusted cost base; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

► 53(2)(s) ◄

(s) [Amounts to be deducted — Inducement payments] — the amount, if any, by which

(i) the amount elected by the taxpayer before that time under subsection (2.1)

exceeds

(ii) any repayment before that time by the taxpayer of an amount received by the taxpayer as described in subsection (2.1) that may reasonably be considered to relate to the amount elected where the repayment is made pursuant to a legal obligation to repay all or any part of the amount so received;

Related Sections: S. 40(3) Deemed gain where amounts to be deducted from adjusted cost base exceed cost plus amounts to be added to adjusted cost base; s. 53(2.1) Election; s. 87(2)(*j.6*) Continuing corporation; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

Interpretation Bulletins: *Primary* — IT-456R Capital property — Some adjustments to cost base.

► 53(2)(t) ◄

(t) [Amounts to be deducted — Right to acquire shares or units] — if the property is a right to acquire shares or units under an agreement, any amount required by paragraph 164(6.1)(*b*) to be deducted in computing the adjusted cost base to the taxpayer of the right;

History: S. 53(2)(*t*) was amended by S.C. 1999, c. 22, s. 14(6), applicable after February 1998. S. 53(2)(*t*) formerly read:

"(*t*) where the property is a right to acquire shares under an agreement, any amount required by paragraph 164(6.1)(*b*) to be deducted in computing the adjusted cost base to the taxpayer of the right;"

S. 53(2)(*t*) was added by S.C. 1994, c. 7, Sched. VIII, s. 15(5), applicable after July 13, 1990.

Related Sections: S. 40(3) Deemed gain where amounts to be deducted from adjusted cost base exceed cost plus amounts to be added to adjusted cost base; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

► 53(2)(u) ◄

(u) [Amounts to be deducted — Non-qualifying real property] — where the property was at the end of February 22, 1994 a non-qualifying real property (within the meaning assigned by subsection 110.6(1) as that subsection applies to the 1994 taxation year) of a taxpayer, any amount required by paragraph 110.6(21)(*b*) to be deducted in computing the adjusted cost base to the taxpayer of the property; and

History: S. 53(2)(*u*) was added by S.C. 1995, c. 3, s. 14(6), applicable to the 1994 and subsequent taxation years.

Related Sections: S. 40(3) Deemed gain where amounts to be deducted from adjusted cost base exceed cost plus amounts to be added to adjusted cost base; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

► 53(2)(v) ◄

(v) [Amounts to be deducted — Capital gains election] — where the taxpayer elected under subsection 110.6(19) in respect of the property, any amount required by subsection 110.6(22) to be deducted in computing the adjusted cost base to the taxpayer of the property at that time.

History: S. 53(2)(*v*) was added by S.C. 1995, c. 3, s. 14(6), applicable to the 1994 and subsequent taxation years.

Related Sections: S. 40(3) Deemed gain where amounts to be deducted from adjusted cost base exceed cost plus amounts to be added to adjusted cost base; ITAR s. 26(3) Cost of acquisition of capital property owned on Dec. 31, 1971.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 53(2) of the Act is amended by striking out the word "and" at the end of paragraph (*u*), by adding the word "and" at the end of paragraph (*v*) and by adding the following after paragraph (*v*):

(*w*) where the property is, at or before that time, a participating interest in a foreign investment entity,

(i) if the taxpayer is, at that time, resident in Canada, any amount required by paragraph 94.3(5)(*b*) or 94.4(2)(*b*) to be deducted, at or before that time, in computing the adjusted cost base to the taxpayer of the property, or

(ii) if the taxpayer (referred to in this subparagraph as the "controlled foreign affiliate") is, at that time, a controlled foreign affiliate of a particular taxpayer resident in Canada, for the purposes of computing any gain or loss of the controlled foreign affiliate from the disposition of the property that is to be included in computing the controlled foreign affiliate's foreign accrual property income in respect of the particular taxpayer, any amount required by paragraph 94.3(5)(*b*) or 94.4(2)(*b*) to be deducted, at or before that time, in computing the adjusted cost base to the controlled foreign affiliate of the property in respect of an amount deducted, because of subsection 94.3(4) or 94.4(2) and paragraph 95(2)(*g.3*), in computing the foreign accrual property income of the controlled foreign affiliate in respect of the particular taxpayer.

Applicable: To taxation years that begin after 2006, as well as to a taxation year of a taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the taxpayer.

Explanatory Note: Paragraph 53(2)(*w*) of the Act is introduced to provide for the ACB reductions contemplated by new subsections 94.3(5) and 94.4(2). For more information, see the commentary on those provisions.

New paragraph 53(2)(*w*) applies to taxation years that begin after 2006.

► 53(2.1) ◄

(2.1) Election. For the purpose of paragraph (2)(*s*), where in a taxation year a taxpayer receives an amount that would, but for this subsection, be included in the taxpayer's income under paragraph 12(1)(*x*) in respect of the cost of a property (other than depreciable property) acquired by the taxpayer in the year, in the 3 taxation years preceding the year or in the taxation year following the year, the taxpayer may elect under this subsection on or before the date on or before which the taxpayer's return of income under this Part for the year is required to be filed or, where the property is acquired in the following year, for that following year, to reduce the cost of the property by such amount as the taxpayer specifies, not exceeding the least of

(*a*) the adjusted cost base, determined without reference to paragraph (2)(*s*), at the time the property was acquired,

(*b*) the amount so received by the taxpayer, and

(*c*) where the taxpayer has disposed of the property before the year, nil.

History: S. 53(2.1), the portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 15(6), applicable to the 1991 and subsequent taxation years. The portion formerly read:

"(2.1) For the purposes of paragraph (2)(*s*), where a taxpayer has in a taxation year received an amount that would, but for this subsection, be included in the taxpayer's income under paragraph 12(1)(*x*) in respect of the cost of a property acquired by the taxpayer in the year, in the three taxation years immediately preceding the year or in the taxation year immediately following the year, the taxpayer may elect under this subsection on or before the date on or before which the taxpayer is required to file the taxpayer's return of income under this Part for the year or, where the property is acquired in the immediately following year, for that following year, to reduce the cost of the property by such amount as the taxpayer may specify, not exceeding the least of"

Editorial Note: See the editorial note under paragraph 12(1)(*x*).

Related Sections: S. 13(21), "depreciable property"; s. 87(2)(*j.6*) Continuing corporation; s. 220(3.2) Late, amended or revoked elections; s. 248(1), "amount", "property".

Regulations: 600(b).

Interpretation Bulletins: *Secondary* — IT-273R2 Government assistance — General comments.

Information Circulars: IC 07-1 Taxpayer Relief Provisions.

► 53(3) ◄

(3) Application of paragraphs (2)(i) and (j). [Repealed by S.C. 2001, c. 17, s. 36(13).]

History: S. 53(3) was repealed by S.C. 2001, c. 17, s. 36(13), applicable after October 1, 1996. S. 53(3) formerly read:

"(3) *Application of paragraphs (2)(i) and (j).* For the purposes of paragraphs (2)(*i*) and (*j*), where any property of a trust would, at a particular time, have been a taxable Canadian property of the trust if it had been disposed of by the trust at that time, the property shall be deemed to have been a taxable Canadian property of the trust at that time."

Related Sections: S. 2(2) Taxable income; s. 54, "adjusted cost base", "superficial loss"; s. 83(2) Capital dividend; s. 89(1), "taxable dividend"; s. 95(1), "foreign affiliate"; s. 108(1), "capital interest"; s. 108(2) When trust is a unit trust; s. 132(6) Meaning of "mutual fund trust"; s. 248(1), "amount", "business", "corporation", "farming", "fiscal period", "income bond", "life insurance policy", "non-resident", "property", "share", "specified shareholder", "taxable Canadian property", "taxable income"; s. 255 Canada

► 53(4) ◄

(4) Recomputation of adjusted cost base on transfers and deemed dispositions. Where at any time in a taxation year a person or partnership (in this subsection referred to as the "vendor") disposes of a specified property and the proceeds of disposition of the property are determined under paragraph 48.1(1)(*c*), section 70 or 73, subsection 85(1), paragraph 87(4)(*a*) or (*c*) or 88(1)(*a*), subsection 97(2) or 98(2), paragraph 98(3)(*f*) or (5)(*f*), subsection 104(4), paragraph 107(2)(*a*), (2.1)(*a*), (4)(*d*) or (5)(*a*), 107.4(3)(*a*) or 111(4)(*e*) or section 128.1,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 53(4) of the Act before paragraph (*a*) is replaced by the following:

(4) Recomputation of adjusted cost base on transfers and deemed dispositions. If at any time in a taxation year a person or partnership (in this subsection referred to as the "vendor") disposes of a specified property and the proceeds of disposition of the property are determined under paragraph 48.1(1)(*c*), section 70 or 73, subsection 85(1), paragraph 87(4)(*a*) or (*c*) or 88(1)(*a*), subsection 97(2) or 98(2), paragraph 98(3)(*f*) or (5)(*f*), subsection 104(4), paragraph 107(2)(*a*) or (2.1)(*a*), 107.4(3)(*a*) or 111(4)(*e*) or section 128.1,

Applicable: After February 27, 2004.

Explanatory Note:

Recomputation of Adjusted Cost Base on Transfers and Deemed Dispositions

Subsection 53(4) of the Act provides rules that affect the computation of the adjusted cost base (ACB) to a taxpayer of any "specified property". As defined in section 54, "specified property" is capital property that is a share, a capital interest in a trust, a partnership interest or an option to acquire any such property. The rules in subsection 53(4) apply where the proceeds of disposition of a specified property are determined under any one of a number of specified provisions in the Act set out in the subsection.

Subsection 53(4) is amended to reflect amendments to a number of those specified provisions; namely, subsections 107(2.1), (4) and (5) of the Act. The references in subsection 53(4) to subsections 107(4) and (5) are removed because those provisions no longer provide for a deemed disposition of trust property. Instead, where subsection 107(4) or (5) applies, a disposition of property will result under paragraph 107(2.1)(*a*). Therefore, the reference to paragraph 107(2.1)(*a*) in subsection 53(4) is sufficient.

This amendment applies after February 27, 2004.

(*a*) there shall be deducted after that time in computing the adjusted cost base to the person or partnership (in this subsection referred to as the "transferee") who acquires or reacquires the property at or immediately after that time the amount, if any, by which

(i) the total of all amounts deducted under paragraph (2)(g.1) in computing, immediately before that time, the adjusted cost base to the vendor of the property,

exceeds

(ii) the amount that would be the vendor's capital gain for the year from that disposition if this Act were read without reference to subparagraph 40(1)(*a*)(iii) and subsection 100(2); and

(*b*) the amount determined under paragraph (*a*) in respect of that disposition shall be added after that time in computing the adjusted cost base to the transferee of the property.

History: S. 53(4), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 36(14), applicable to the 1998 and subsequent taxation years. S. 53(4), the portion before paragraph (*a*) formerly read:

"(4) *Recomputation of adjusted cost base on transfers and deemed dispositions.* Where at any time in a taxation year a person or partnership (in this subsection referred to as the 'vendor') disposes of a specified property and the proceeds of disposition of the property are determined under paragraph 48.1(1)(*c*), section 70 or 73, subsection 85(1), paragraph 87(4)(*a*) or (*c*) or 88(1)(*a*), subsection 97(2) or 98(2), paragraph 98(3)(*f*) or (5)(*f*), subsection 104(4), paragraph 107(2)(*a*), (2.1)(*a*), (4)(*d*) or (5)(*a*) or 111(4)(*e*) or section 128.1,"

The portion before paragraph (*a*) of S. 53(4) was amended by S.C. 1998, c. 19, s. 94(6), applicable to taxation years that end after February 21, 1994. The portion before paragraph (*a*) of S. 53(4) formerly read:

"(4) *Recomputation of adjusted cost base on transfers and deemed dispositions.* Where at any time in a taxation year a person or partnership (in this subsection referred to as the 'vendor') disposes of a specified property and the proceeds of disposition of the property are determined under paragraph 48.1(1)(*c*), section 70 or 73, subsection 85(1), paragraph 85.1(1)(*a*), 87(4)(*a*) or (*c*) or 88(1)(*a*), subsection 97(2) or 98(2), paragraph 98(3)(*f*) or (5)(*f*), subsection 104(4), paragraph 107(2)(*a*), (2.1)(*a*), (4)(*d*) or (5)(*a*) or 111(4)(*e*) or section 128.1,"

S. 53(4) was added by S.C. 1995, c. 21, s. 17(4), applicable to taxation years that end after February 21, 1994.

► 53(5) ◄

(5) Recomputation of adjusted cost base on other transfer. Where

(*a*) at any time in a taxation year a person or partnership (in this subsection referred to as the "vendor") disposes of a specified property to another person or partnership (in this subsection referred to as the "transferee"),

(*b*) immediately before that time, the vendor and the transferee do not deal with each other at arm's length or would not deal with each other at arm's length if paragraph 80(2)(*j*) applied for the purpose of this subsection,

(*c*) paragraph (*b*) would apply in respect of the disposition if each right referred to in paragraph 251(5)(*b*) that is a right of the transferee to acquire the specified property from the vendor or a right of the transferee to acquire other property as part of a transaction or event or series of transactions or events that includes the disposition were not taken into account, and

(*d*) the proceeds of the disposition are not determined under any of the provisions referred to in subsection (4),

the following rules apply:

(*e*) there shall be deducted after that time in computing the adjusted cost base to the transferee of the property the amount, if any, by which

(i) the total of all amounts deducted under paragraph (2)(g.1) in computing the adjusted cost base to the vendor of the property immediately before that time

exceeds

(ii) the amount that would be the vendor's capital gain for the year from that disposition if this Act were read without reference to subparagraph 40(1)(*a*)(iii) and subsection 100(2), and

(*f*) the amount determined under paragraph (*e*) in respect of that disposition shall be added after that time in computing the adjusted cost base to the transferee of the property.

History: S. 53(5) was amended by S.C. 1998, c. 19, s. 94(7), applicable to taxation years that end after February 21, 1994. S. 53(5) formerly read:

"(5) *Recomputation of adjusted cost base on other transfers.* Where at any time in a taxation year a person or partnership (in this subsection referred to as the 'vendor') disposes of a specified property to another person or partnership (in this subsection referred to as the 'transferee'), the vendor and the transferee do not deal with each other at arm's length (or would not deal with each other at arm's length if paragraph 80(2)(*j*) applied for the purpose of this subsection) and the proceeds of disposition of the property at that time are not determined under any of the provisions referred to in subsection (4),

(*a*) there shall be deducted after that time in computing the adjusted cost base to the transferee of the property the amount, if any, by which

(i) the total of all amounts deducted under paragraph (2)(*g.1*) in computing, immediately before that time, the adjusted cost base to the vendor of the property

exceeds

(ii) the amount that would be the vendor's capital gain for the year from that disposition if this Act were read without reference to subparagraph 40(1)(*a*)(iii) and subsection 100(2); and

(*b*) the amount determined under paragraph (*a*) in respect of that disposition shall be added after that time in computing the adjusted cost base to the transferee of the property."

S. 53(5) was added by S.C. 1995, c. 21, s. 17(4), applicable to taxation years that end after February 21, 1994.

► 53(6) ◄

(6) Recomputation of adjusted cost base on amalgamation. Where a capital property that is a specified property is acquired by a new corporate entity at any time as a result of the amalgamation or merger of 2 or more predecessor corporations,

(*a*) there shall be deducted after that time in computing the adjusted cost base to the new entity of the property the total of all amounts deducted under paragraph (2)(*g.1*) in computing, immediately before that time, the adjusted cost base to a predecessor corporation of the property, unless those amounts are otherwise deducted under that paragraph in computing the adjusted cost base to the new entity of the property; and

(*b*) the amount deducted under paragraph (*a*) in respect of the acquisition shall be added after that time in computing the adjusted cost base to the new entity of the property.

History: S. 53(6) was added by S.C. 1995, c. 21, s. 17(4), applicable to taxation years that end after February 21, 1994.

SECTION 54: Definitions

In this subdivision,

Interpretation Bulletins: *Secondary* — IT-291R3 Transfer of property to a corporation under subsection 85(1).
Forms: T2091 (IND) - WS; T1079 - WS.
Cases: An entire ten acre parcel of land constituted the taxpayers' principal residence since the property could not legally be subdivided. *Brohman et al. v. The Queen,* 2001 DTC 71 (T.C.C.).

"adjusted cost base" — "adjusted cost base" to a taxpayer of any property at any time means, except as otherwise provided,

(*a*) where the property is depreciable property of the taxpayer, the capital cost to the taxpayer of the property as of that time, and

(*b*) in any other case, the cost to the taxpayer of the property adjusted, as of that time, in accordance with section 53,

except that

(*c*) for greater certainty, where any property (other than an interest in or a share of the capital stock of a flow-through entity within the meaning assigned by subsection 39.1(1) that was last reacquired by the taxpayer as a result of an election under subsection 110.6(19)) of the taxpayer is property that was reacquired by the taxpayer after having been previously disposed of by the taxpayer, no adjustment to the cost to the taxpayer of the property that was required to be made under section 53 before its reacquisition by the taxpayer shall be made under that section to the cost to the taxpayer of the property as reacquired property of the taxpayer, and

(*d*) in no case shall the adjusted cost base to a taxpayer of any property at any time be less than nil;

History: S. 54, paragraph (*c*) of the definition "adjusted cost base", was amended by S.C. 1995, c. 3, s. 15(1), applicable to the 1994 and subsequent taxation years. That paragraph formerly read:

"(*c*) for greater certainty, where any property of the taxpayer is property that was reacquired by the taxpayer after having been previously disposed of by the taxpayer, no adjustment to the cost to the taxpayer of the property that was required to be made under section 53 before its reacquisition by the taxpayer shall be made under that section to the cost to the taxpayer of the property as reacquired property of the taxpayer, and"

S. 54, paragraph (*d*) of the definition "adjusted cost base", was amended by S.C. 1995, c. 3, s. 15(1), applicable to the 1994 and subsequent taxation years. That paragraph formerly read:

"(*d*) in no case shall the adjusted cost base of any property at the time of its disposition by the taxpayer be less than nil;"

Related Sections: S. 13(21), "depreciable property".
Interpretation Bulletins: *Secondary* — IT-102R2 Conversion of property, other than real property, from or to inventory; IT-218R Profit, capital gains and losses from the sale of real estate, including farmland and inherited land and conversion of real estate from capital property to inventory and vice versa; IT-373R2 (Consolid.) Woodlots; IT-418 Capital cost allowance — Partial Dispositions of property.
Canadian Tax Foundation: Lewin, "Tax Attributes: Cost or Capital Cost and Paid-up Capital", *1998 Conference Report,* 8:1.
Cases: In computing the ACB of their inherited shares, the taxpayers could not consider as additional cost of acquisition the monies they had paid to the estate by way of a loan or remittance to facilitate their sale to a third party. *Barabash et al. v. M.N.R.,* 93 DTC 1436 (T.C.C.).

Damage awards were properly excluded from the computation of the deceased's adjusted cost base of his shares since the awards could not be regarded as part of the price which he "had to give up in order to get the shares", which was the test laid down in *The Queen v. Stirling,* (85 DTC 5199). *Bodrug Estate v. The Queen,* 91 DTC 5621 (F.C.A.), affirming 90 DTC 6521 (F.C.T.D.).

"capital property" — "capital property" of a taxpayer means

(*a*) any depreciable property of the taxpayer, and

(*b*) any property (other than depreciable property), any gain or loss from the disposition of which would, if the property were disposed of, be a capital gain or a capital loss, as the case may be, of the taxpayer;

Interpretation Bulletins: *Secondary* — IT-102R2 Conversion of property, other than real property, from or to inventory; IT-113R4 Benefits to employees — Stock options; IT-143R3 Meaning of eligible capital expenditure.
Canadian Petroleum Tax Journal: Canada Customs and Revenue Agency 1999 Roundtable Questions and Answers, Question 5, Vol. 13 No. 1 2000.

"disposition" — [Repealed by S.C. 2001, c. 17, s. 37(1).]

History: S. 54, the definition "disposition" was repealed by S.C. 2001, c. 17, s. 37(1), applicable to transactions and events that occur after December 23, 1998. S. 54, the definition "disposition" formerly read:

"'*disposition*' — 'disposition' of any property, except as expressly otherwise provided, includes

(*a*) any transaction or event entitling a taxpayer to proceeds of disposition of property,

(*b*) any transaction or event by which

(i) any property of a taxpayer that is a share, bond, debenture, note, certificate, mortgage, agreement of sale or similar property, or an interest therein, is redeemed in whole or in part or is cancelled,

(ii) any debt owing to a taxpayer or any other right of a taxpayer to receive an amount is settled or cancelled,
(iii) any share owned by a taxpayer is converted by virtue of an amalgamation or merger, or
(iv) any option held by a taxpayer to acquire or dispose of property expires, and

(*c*) any transfer of property to a trust, or any transfer of property of a trust to any beneficiary under the trust, except as provided in paragraph (*e*),

but, for greater certainty, does not include

(*d*) any transfer of property for the purpose only of securing a debt or a loan, or any transfer by a creditor for the purpose only of returning property that had been used as security for a debt or a loan,

(*e*) any transfer of property by virtue of which there is a change in the legal ownership of the property without any change in the beneficial ownership thereof, other than a transfer by a trust resident in Canada to a trust not resident in Canada or a transfer to a trust governed by
(i) a registered retirement savings plan,
(ii) a deferred profit sharing plan,
(iii) an employees profit sharing plan, or
(iv) a registered retirement income fund

by a person who is, immediately after the transfer, a beneficiary under the plan or fund, or a transfer by any such trust governed by a plan or fund to a beneficiary thereunder,

(*f*) any issue by a corporation of a bond, debenture, note, certificate or mortgage of the corporation, or

(*g*) any issue by a corporation of a share of its capital stock, or any other transaction that, but for this paragraph, would be a disposition by a corporation of a share of its capital stock;"

Related Sections: S. 59(5) Definition of "proceeds of disposition"; s. 104(5.3) Election; s. 146 Registered retirement savings plans; s. 146.3 Registered retirement income funds; s. 147 Deferred profit sharing plans; s. 248(1), "disposition".

Interpretation Bulletins: *Primary* — IT-133 Stock exchange transactions — Date of disposition of shares; IT-146R4 Shares entitling shareholders to choose taxable or capital dividends; IT-170R Sale of property — When included in income computation; IT-325R2 Property transfers after separation, divorce and annulment; IT-444R Corporations — Involuntary Dissolutions; IT-448 Dispositions — Changes in terms of securities; IT-460 Dispositions — Absence of consideration. *Secondary* — IT-96R6 Options granted by corporations to acquire shares, bonds or debentures; IT-102R2 Conversion of property, other than real property, from or to inventory; IT-124R6 Contributions to registered retirement savings plans; IT-125R4 Disposition of resource properties; IT-126R2 Meaning of "winding-up"; IT-170R Sale of property — When included in income computation; IT-182 Compensation for loss of business income, or of property used in a business; IT-218R Profit, capital gains and losses from the sale of real estate, including farmland and inherited land and conversion of real estate from capital property to inventory and vice versa; IT-220R2 Capital cost allowance — Proceeds of disposition of depreciable property; IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA]; IT-505 Mortgage foreclosures and conditional sales repossessions [Archived by the CRA].

Advance Tax Rulings: ATR-1 Transfer of legal title in land to bare trustee corporation — Mortgagee's requirements sole reason for transfer; ATR-22R Estate freeze using share exchange.

Income Tax Technical News: Issue No. 14, Changes in terms of debt obligations; Issue No. 15, The tax consequences of the adoption of the "Euro" currency; Issue No. 7, Revocable living trusts; Issue No. 3, Loss utilization within a corporate group.

Cases: The taxpayer received a cash payment for reducing his interest in a partnership. At the same time, one of the other partners increased its investment in the partnership by contributing capital so that the total capital of the partnership prior to and after these transactions was the same. The cash received by the taxpayer was not a distribution of capital but proceeds of disposition of an interest in the partnership. *Stursberg v. The Queen*, 93 DTC 5271 (F.C.A.), affirming 91 DTC 5607 (F.C.T.D.), and 90 DTC 1159 (T.C.C.).

"*eligible capital property*" — "eligible capital property" of a taxpayer means any property, a part of the consideration for the disposition of which would, if the taxpayer disposed of the property, be an eligible capital amount in respect of a business;

Related Sections: S. 14 Eligible capital property and expenditures.

Interpretation Bulletins: *Secondary* — IT-123R6 Transactions involving eligible capital property; IT-143R3 Meaning of eligible capital expenditure.

Tax Topics: No. 1718, Eligible Capital — Some Big Changes Part I.

"*listed personal property*" — "listed personal property" of a taxpayer means the taxpayer's personal-use property that is all or any portion of, or any interest in or right to, any

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of the definition "listed personal property" in section 54 of the Act before paragraph (*a*) is replaced by the following:

"*listed personal property*" — "listed personal property" of a taxpayer means the taxpayer's personal-use property that is all or any portion of, or any interest in or right to — or, for civil law, any right in or to — any

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*a*) print, etching, drawing, painting, sculpture, or other similar work of art,
(*b*) jewellery,
(*c*) rare folio, rare manuscript, or rare book,
(*d*) stamp, or
(*e*) coin;

Related Sections: S. 41 Taxable net gain from disposition of listed personal property.

Interpretation Bulletins: *Secondary* — IT-159R3 Capital debts established to be bad debts.

"*personal-use property*" — "personal-use property" of a taxpayer includes

(*a*) property owned by the taxpayer that is used primarily for the personal use or enjoyment of the taxpayer or for the personal use or enjoyment of one or more individuals each of whom is
(i) the taxpayer,
(ii) a person related to the taxpayer, or
(iii) where the taxpayer is a trust, a beneficiary under the trust or any person related to the beneficiary,

(*b*) any debt owing to the taxpayer in respect of the disposition of property that was the taxpayer's personal-use property, and

(*c*) any property of the taxpayer that is an option to acquire property that would, if the taxpayer acquired it, be personal-use property of the taxpayer,

and "personal-use property" of a partnership includes any partnership property that is used primarily for the personal use or enjoyment of any member of the partnership or for the personal use or enjoyment of one or more individuals each of whom is a member of the partnership or a person related to such a member;

Related Sections: S. 46 Personal-use property; s. 50(2) Where debt a personal-use property.

Interpretation Bulletins: *Primary* — IT-332R Personal-use property [Archived by the CRA]. *Secondary* — IT-159R3 Capital debts established to be bad debts; IT-218R Profit, capital gains and losses from the sale of real estate, including farmland and inherited land and conversion of real estate from capital property to inventory and vice versa.

Cases: The taxpayers each purchased a group of limited edition prints and donated them to charities. The personal-use property provisions were inapplicable since the cost of acquisition and FMV of each *group* of prints exceeded $1,000, even though the value of the individual prints may have been less. *A.G. of Canada v. Nash et al.*, 2005 DTC 5696 (F.C.A.), reversing 2004 DTC 3391 (T.C.C.), 2004 DTC 3328 (T.C.C.) and 2004 DTC 3360 (T.C.C.).

"*principal residence*" — "principal residence" of a taxpayer for a taxation year means a particular property that is a housing unit, a leasehold interest in a housing unit or a share of the capital stock of a co-operative housing corporation acquired for the sole purpose of acquiring the right to inhabit a housing unit owned by the corporation and that is owned, whether jointly with another person or otherwise, in the year by the taxpayer, if

(*a*) where the taxpayer is an individual other than a personal trust, the housing unit was ordinarily inhabited in the year by the taxpayer, by the taxpayer's spouse or common-law partner or former spouse or common-law partner or by a child of the taxpayer,

(*a*.1) where the taxpayer is a personal trust, the housing unit was ordinarily inhabited in the calendar year ending in the year by a specified beneficiary of the trust for the year, by the spouse or common-law partner or former spouse or common-law partner of such a beneficiary or by a child of such a beneficiary, or

(*b*) where the taxpayer is a personal trust or an individual other than a trust, the taxpayer

(i) elected under subsection 45(2) that relates to the change in use of the particular property in the year or a preceding taxation year, other than an election rescinded under subsection 45(2) in the taxpayer's return of income for the year or a preceding taxation year, or

(ii) elected under subsection 45(3) that relates to a change in use of the particular property in a subsequent taxation year,

except that, subject to section 54.1, a particular property shall be considered not to be a taxpayer's principal residence for a taxation year

(*c*) where the taxpayer is an individual other than a personal trust, unless the particular property was designated by the taxpayer in prescribed form and manner to be the taxpayer's principal residence for the year and no other property has been designated for the purposes of this definition for the year

(i) where the year is before 1982, by the taxpayer, or

(ii) where the year is after 1981,

(A) by the taxpayer,

(B) by a person who was throughout the year the taxpayer's spouse or common-law partner (other than a spouse or common-law partner who was throughout the year living apart from, and was separated under a judicial separation or written separation agreement from, the taxpayer),

(C) by a person who was the taxpayer's child (other than a child who was at any time in the year a married person, a person who is in a common-law partnership or 18 years of age or older), or

(D) where the taxpayer was not at any time in the year a married person, a person who is in a common-law partnership or 18 years of age or older, by a person who was the taxpayer's

(I) mother or father, or

(II) brother or sister, where that brother or sister was not at any time in the year a married person, a person who is in a common-law partnership or 18 years of age or older,

(*c*.1) where the taxpayer is a personal trust, unless

(i) the particular property was designated by the trust in prescribed form and manner to be the taxpayer's principal residence for the year,

(ii) the trust specifies in the designation each individual (in this definition referred to as a "specified beneficiary" of the trust for the year) who, in the calendar year ending in the year,

(A) is beneficially interested in the trust, and

(B) except where the trust is entitled to designate it for the year solely because of paragraph (*b*), ordinarily inhabited the housing unit or has a spouse or common-law partner, former spouse or common-law partner or child who ordinarily inhabited the housing unit,

(iii) no corporation (other than a registered charity) or partnership is beneficially interested in the trust at any time in the year, and

(iv) no other property has been designated for the purpose of this definition for the calendar year ending in the year by any specified beneficiary of the trust for the year, by a person who was throughout that calendar year such a beneficiary's spouse or common-law partner (other than a spouse or common-law partner who was throughout that calendar year living apart from, and was separated pursuant to a judicial separation or written separation agreement from, the beneficiary), by a person who was such a beneficiary's child (other than a child who was during that calendar year a married person or a person who is in a common-law partnership or a person 18 years or over) or, where such a beneficiary was not during that calendar year a married person or a person who is in a common-law partnership or a person 18 years or over, by a person who was such a beneficiary's

(A) mother or father, or

(B) brother or sister, where that brother or sister was not during that calendar year a married person or a person 18 years or over, or

(*d*) because of paragraph (*b*), if solely because of that paragraph the property would, but for this paragraph, have been a principal residence of the taxpayer for 4 or more preceding taxation years,

and, for the purpose of this definition,

(*e*) the principal residence of a taxpayer for a taxation year shall be deemed to include, except where the particular property consists of a share of the capital stock of a co-operative housing corporation, the land subjacent to the housing unit and such portion of any immediately contiguous land as can reasonably be regarded as contributing to the use and enjoyment of the housing unit as a residence, except that where the total area of the subjacent land and of that portion exceeds 1/2 hectare, the excess shall be deemed not to have contributed to

the use and enjoyment of the housing unit as a residence unless the taxpayer establishes that it was necessary to such use and enjoyment, and

(*f*) a particular property designated under paragraph (*c*.1) by a trust for a year shall be deemed to be property designated for the purposes of this definition by each specified beneficiary of the trust for the calendar year ending in the year;

2009 Federal Budget Resolution

Home Renovation Tax Credit

(4) That the Act be modified consequential on the introduction of the Home Renovations Tax Credit in accordance with proposals described in the budget documents tabled by the Minister of Finance in the House of Commons on January 27, 2009.

Editorial Comment: One of the pre-budget ideas floated by the Minister of Finance was a tax credit for individual taxpayers who renovate their homes. Quebec's recent announcement of a similar tax credit seemed to support the possibility that the Federal Budget would contain this type of measure in order to help stimulate the economy.

Those predictors turned out to be accurate, as the Budget includes a temporary Home Renovation Tax Credit (HRTC) which permits individuals to claim a 15% non-refundable tax credit for eligible expenditures made in respect of eligible dwellings. The maximum credit is $1,350 and will apply to expenditures that are greater than $1,000, but do not exceed $10,000.

The restrictions applicable to claiming the HRTC are very specific. First, the HRTC will only apply for expenditures for work performed, or goods acquired, after January 27, 2009 and before February 1, 2010. However, the HRTC may not be claimed in respect of work performed or expenditures incurred under a contract that was entered into before January 28, 2009. The HRTC will be available to be claimed only in an individual's 2009 tax return.

Secondly, the HRTC is limited to one per family. This means that family members will be subject to a single limit based on their pooled expenditures. A family is considered to include an individual, the individual's spouse or common-law partner and children who are under 18 years of age. To the extent that an individual is unable to utilize the entire HRTC, the unused portion may be used by other family members. Where two or more families share ownership of an eligible dwelling, each family will be entitled to claim its own HRTC, as if the family owned the dwelling alone.

Thirdly, in order to claim the HRTC, the dwelling must be eligible to be a principal residence (within the meaning of section 54 the Act) of the individual or of one or more of the individual's other family members. For condominiums and co-operative housing corporations, an individual's share of eligible expenditures incurred in respect of common areas will also qualify for the HRTC. Where an individual earns business or rental income from part of his or her principal residence, expenditures that relate to common areas or that benefit the housing unit as a whole will qualify as eligible expenditures for HRTC purposes, subject to limits established under existing CRA administrative practices which apply when determining how business or rental income and expenditures are allocated between personal use and income-earning use.

Fourthly, the types of expenditures that will qualify for HRTCs will be subject to a variety of restrictions. Eligible expenditures must be incurred in relation to renovations or alterations of an eligible dwelling that are of an enduring nature and are integral to the eligible dwelling. This test would exclude expenditures for routine repairs and maintenance. Furthermore, financing costs of a renovation are specifically excluded. Eligible expenditures include building materials, fixtures, equipment rentals, permits, labour and professional services.

The Budget documents indicate that a taxpayer's entitlements to a HRTC will not be affected by other tax credits, grants or other programs including the medical expense tax credit program. Finally, the Budget briefly describes taxpayer compliance issues relating to the HRTC. To support a taxpayer's claims for HRTCs, eligible expenditures must be supported by receipts and expenditures will not be eligible in circumstances where goods or services are provided by a person not dealing at arm's length with the individual unless that person is registered for GST/HST purposes.

History: S. 54, paragraph (*c*) of the definition "principal residence" was amended by S.C. 2001, c. 17, s. 37(2), applicable to dispositions that occur after 1990 except that clauses (*c*)(ii)(B) to (D) of the definition "principal residence" in section 54 of the Act shall be read without reference to "or common-law partner" and "a person who is in a common-law partnership" in their application to dispositions made by a taxpayer that occur in a taxation year that is before 2001 and

(*a*) before 1998; or

(*b*) after 1997, unless a valid election is made by the taxpayer under section 144 of the *Modernization of Benefits and Obligations Act* [S.C. 2000, c. 12], that that Act apply to the taxpayer in respect of one or more taxation years that include the year.

S. 54, paragraph (*c*) of the definition "principal residence" formerly read:

"(*c*) where the taxpayer is an individual other than a personal trust, unless the particular property was designated by the taxpayer in prescribed form and manner to be the taxpayer's principal residence for the year and no other property has been designated for the purposes of this definition for the year by the taxpayer, by a person who was throughout the year the taxpayer's spouse or common-law partner (other than a spouse or common-law partner who was throughout the year living apart from, and was separated under a judicial separation or written separation agreement from, the taxpayer), by a person who was the taxpayer's child (other than a child who was during the year a married person or a person who is in a common-law partnership or 18 years or over) or, where the taxpayer was not during the year a married person or person who is in a common-law partnership or a person 18 years or over, by a person who was the taxpayer's

(i) mother or father, or

(ii) brother or sister, where that brother or sister was not during the year a married person or a person 18 years or over,"

S. 54, paragraphs (*a*) and (*a*.1) of the definition "principal residence" was amended by S.C. 2000, c. 12, Sched. 2, s. 2(a), applicable January 1, 2001, coming into force on July 31, 2000. S. 54, paragraphs (*a*) and (*a*.1) of the definition "principal residence" formerly read:

"(*a*) where the taxpayer is an individual other than a personal trust, the housing unit was ordinarily inhabited in the year by the taxpayer, by the taxpayer's spouse or former spouse or by a child of the taxpayer,

(*a*.1) where the taxpayer is a personal trust, the housing unit was ordinarily inhabited in the calendar year ending in the year by a specified beneficiary of the trust for the year, by the spouse or former spouse of such a beneficiary or by a child of such a beneficiary, or"

S. 54, the portion of paragraph (*c*) of the definition "principal residence" before subparagraph (i) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(h) and 13(a), applicable January 1, 2001, coming into force on July 31, 2000. That portion formerly read:

"(*c*) where the taxpayer is an individual other than a personal trust, unless the particular property was designated by the taxpayer in prescribed form and manner to be the taxpayer's principal residence for the year and no other property has been designated for the purposes of this definition for the year by the taxpayer, by a person who was throughout the year the taxpayer's spouse (other than a spouse who was throughout the year living apart from, and was separated under a judicial separation or written separation agreement from, the taxpayer), by a person who was the taxpayer's child (other than a child who was during the year a married person or 18 years or over) or, where the taxpayer was not during the year a married person or a person 18 years or over, by a person who was the taxpayer's"

S. 54, clause (*c*.1)(ii)(B) of the definition "principal residence" was amended by S.C. 2000, c. 12, Sched. 2, s. 2(a), applicable January 1, 2001, coming into force on July 31, 2000. S. 54, clause (*c*.1)(ii)(B) of the definition "principal residence" formerly read:

"(B) except where the trust is entitled to designate it for the year solely because of paragraph (*b*), ordinarily inhabited the housing unit or has a spouse, former spouse or child who ordinarily inhabited the housing unit,"

S. 54, the portion of subparagraph (*c*.1)(iv) before clause (A) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(h) and 13(a), applicable January 1, 2001, coming into force on July 31, 2000. S. 54, the portion of subparagraph (*c*.1)(iv) before clause (A) formerly read:

"(iv) no other property has been designated for the purpose of this definition for the calendar year ending in the year by any specified beneficiary of the trust for the year, by a person who was throughout that calendar year such a beneficiary's spouse (other than a spouse who was throughout that calendar year living apart from, and was separated pursuant to a judicial separation or written separation agreement from, the beneficiary), by a person who was such a beneficiary's child (other than a child who was during that calendar year a married person or a person 18 years or over) or, where such a benefi-

ciary was not during that calendar year a married person or a person 18 years or over, by a person who was such a beneficiary's"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

The definition "principal residence" was amended by S.C. 1994, c. 7, Sched. VIII, s. 16(1), applicable to dispositions occurring after 1990. The definition formerly read:

" '*principal residence*' — 'principal residence' of a taxpayer for a taxation year means a housing unit, a leasehold interest in such a unit, or a share of the capital stock of a co-operative housing corporation, owned, whether jointly with another person or otherwise, in the year by the taxpayer, if the housing unit was, or if the share was acquired for the sole purpose of acquiring the right to inhabit a housing unit owned by the corporation that was,

(*a*) ordinarily inhabited in the year by the taxpayer, by the taxpayer's spouse or former spouse or by a child of the taxpayer, or

(*b*) property in respect of which the taxpayer has made an election for the year in accordance with subsection 45(2) or (3),

except that, subject to section 54.1, in no case shall any such housing unit, interest or share, as the case may be, be considered to be a taxpayer's principal residence for a year

(*c*) unless it has been designated by the taxpayer in prescribed form and manner to be the taxpayer's principal residence for that year and no other such housing unit, leasehold interest or share has been so designated for that year by the taxpayer, by a person who was throughout the year the taxpayer's spouse (other than a spouse who was throughout the year living apart from, and was separated pursuant to a judicial separation or written separation agreement from, the taxpayer), by a person who was the taxpayer's child (other than a child who was during the year a married person or 18 years of age or over) or, where the taxpayer was not during the year a married person or a person 18 years of age or over, by a person who was the taxpayer's

(i) mother or father, or

(ii) brother or sister and who was not during the year a married person or a person 18 years of age or over, or

(*d*) by virtue of paragraph (*b*), if by virtue of that paragraph the property would, but for this paragraph, have been the taxpayer's principal residence for 4 or more previous taxation years,

and

(*e*) for the purposes of this definition the principal residence of a taxpayer for a taxation year shall be deemed to include, except where the property consists of a share of the capital stock of a co-operative housing corporation, the land subjacent to the housing unit and such portion of any immediately contiguous land as may reasonably be regarded as contributing to the taxpayer's use and enjoyment of the housing unit as a residence, except that where the total area of the subjacent land and of that portion exceeds 1/2 hectare, the excess shall be deemed not to have contributed to the individual's use and enjoyment of the housing unit as a residence unless the taxpayer establishes that it was necessary to that use and enjoyment, and

(*f*) for the purposes of paragraph (*c*), a property designated by a trust referred to in subsection 70(6) or 73(1) shall be deemed to be property designated by the spouse who is a beneficiary of the trust and property designated by the spouse who is a beneficiary of any such trust shall be deemed to be a property designated by the trust;"

Related Sections: S. 40(2)(*b*) Gain from disposition of principal residence; s. 40(2)(*c*) Principal residence on farm property; s. 40(4) Disposal of principal residence to spouse or trust for spouse; s. 40(6) Special rule concerning principal residence; s. 54.1 Exception to principal residence rules; s. 107(2.01) Distribution of principal residence; s. 248(1), "common-law partner", "corporation", "disposition", "individual"; "share"; s. 252(1) Extended meaning of "child".

Regulations: 2301.

Interpretation Bulletins: *Primary* — IT-120R6 Principal Residence; IT-437R Ownership of property (principal residence). *Secondary* — IT-218R Profit, capital gains and losses from the sale of real estate, including farmland and inherited land and conversion of real estate from capital property to inventory and vice versa; IT-268R4 Inter vivos transfer of farm property to child.

Income Tax Technical News: Issue No. 7, Principal residence and the capital gains election.

Forms: T1079; T1255; T2091(IND).

Tax Topics: No. 1702, Income Tax Issues To Be Considered in Negotiating Marriage Contracts; No. 1699, Draft Legislation Governing Non-Competition Payments.

Tax Profile: February 2009 — Residence Trust: Tips and Traps; April 2007 — Tax Planning for Emigration from Canada.

Canadian Tax Foundation: Katz, De Lisser, and Haber, "The Principal Residence Exemption", *2001 Canadian Tax Journal*, No. 4, 990.

Cases: An entire ten-acre parcel of land constituted the taxpayers' principal residence since the property could not legally be subdivided. *Brohman et al. v. The Queen*, 2001 DTC 71 (T.C.C.).

The taxpayer's entire 32.75-acre parcel of land qualified for principal residence treatment. The taxpayer had met the objective test because a zoning by-law set a 25-acre minimum allotment size for her property, and the local authority would not have authorized a partition of her lot between 25 acres and the remainder. *Carlile v. The Queen*, 95 DTC 5483 (F.C.A.), reversing 93 DTC 5336 (F.C.T.D.).

A taxpayer could claim the principal residence exemption on the sale of 8.9 acres of land which, at the time of purchase in 1966, a zoning by-law had compelled him to buy in its entirety. He was not allowed at any time to retain the minimum lot size of 3 acres prevailing in 1966 and sell the remaining acres. *Augurt v. The Queen*, 93 DTC 5205 (F.C.A.), reversing 92 DTC 6610 (F.C.T.D.).

"*proceeds of disposition*" — "proceeds of disposition" of property includes,

(*a*) the sale price of property that has been sold,

(*b*) compensation for property unlawfully taken,

(*c*) compensation for property destroyed, and any amount payable under a policy of insurance in respect of loss or destruction of property,

(*d*) compensation for property taken under statutory authority or the sale price of property sold to a person by whom notice of an intention to take it under statutory authority was given,

(*e*) compensation for property injuriously affected, whether lawfully or unlawfully or under statutory authority or otherwise,

(*f*) compensation for property damaged and any amount payable under a policy of insurance in respect of damage to property, except to the extent that such compensation or amount, as the case may be, has within a reasonable time after the damage been expended on repairing the damage,

(*g*) an amount by which the liability of a taxpayer to a mortgagee or hypothecary creditor is reduced as a result of the sale of mortgaged or hypothecated property under a provision of the mortgage or hypothec, plus any amount received by the taxpayer out of the proceeds of the sale,

(*h*) any amount included in computing a taxpayer's proceeds of disposition of the property because of section 79, and

(*i*) in the case of a share, an amount deemed by subparagraph 88(2)(*b*)(ii) not to be a dividend on that share,

but notwithstanding any other provision of this Part, does not include

(*j*) any amount that would otherwise be proceeds of disposition of a share to the extent that the amount is deemed by subsection 84(2) or (3) to be a dividend received and is not deemed by paragraph 55(2)(*a*) or subparagraph 88(2)(*b*)(ii) not to be a dividend, or

(*k*) any amount that would otherwise be proceeds of disposition of property of a taxpayer to the extent that the amount is deemed by subsection 84.1(1), 212.1(1) or 212.2(2) to be a dividend paid to the taxpayer;

History: S. 54, paragraph (*g*) of the definition "proceeds of disposition" was amended by S.C. 2001, c. 17, s. 207(1), applicable on Royal Assent, June 14, 2001. S. 54, paragraph (*g*) of the definition "proceeds of disposition" formerly read:

"(*g*) an amount by which the liability of a taxpayer to a mortgagee is reduced as a result of the sale of mortgaged property under a provision of the mortgage, plus any amount received by the taxpayer out of the proceeds of the sale,"

S. 54, paragraph (*k*) of the definition "proceeds of disposition" was amended by S.C. 2000, c. 19, s. 5(1), applicable to taxation years that end after December 15, 1998. S. 54(*k*) of the definition "proceeds of disposition" formerly read:

"(*k*) any amount that would otherwise be proceeds of disposition of property of a taxpayer to the extent that the amount is deemed by subsection 84.1(1) or 212.1(1) to be a dividend paid to the taxpayer;"

S. 54, paragraph (*h*) of the definition "proceeds of disposition" was amended by S.C. 1995, c. 21, s. 18(1), applicable to taxation years that end after February 21, 1994. That paragraph formerly read:

"(*h*) any amount included in computing a taxpayer's proceeds of disposition of the property by virtue of paragraph 79(*c*), and"

Related Sections: S. 13(21) Definitions; s. 44 Exchanges of property; s. 59(5) Definition of "proceeds of disposition".

Interpretation Bulletins: *Secondary* — IT-125R4 Disposition of resource properties; IT-170R Sale of property — When included in income computation; IT-185R (Consolid.) Losses from theft, defalcation or embezzlement; IT-200 Surface rentals and farming operations; IT-220R2 Capital cost allowance — Proceeds of disposition of depreciable property; IT-259R4 Exchange of property; IT-271R Expropriations — Time and proceeds of disposition [Archived by the CRA]; IT-460 Dispositions — Absence of consideration; IT-505 Mortgage foreclosures and conditional sales repossessions [Archived by the CRA].

Advance Tax Rulings: ATR-28 Redemption of capital stock of family farm corporation; ATR-35 Partitioning of assets to get specific ownership — "Butterfly".

Tax Topics: No. 1884, Amounts Received by Shareholders from Foreign Corporations in the Course of Winding Up.

Cases: When, following the taxpayers' mortgage default, their mortgagor was allowed to purchase their condominium property for a stipulated sum and granted judgment for the balance of the amount owing, the taxpayers could report as "proceeds of disposition" their shares of the stipulated sum rather than their shares of the full principal amount still outstanding on the mortgage. *Brill et al. v. The Queen*, 96 DTC 6572 (F.C.A.), reversing in part 95 DTC 5435 (F.C.T.D.).

The taxpayer received $350,000 as compensation for the expropriation of his property which included $286,534 for loss of business opportunity. This latter amount was included in the expression "compensation for property taken under statutory authority". *Sani Sport Inc. v. The Queen*, 90 DTC 6230 (F.C.A.), affirming 87 DTC 5253 (F.C.T.D.).

"*specified property*" — "specified property" of a taxpayer is capital property of the taxpayer that is

(*a*) a share,

(*b*) a capital interest in a trust,

(*c*) an interest in a partnership, or

(*d*) an option to acquire specified property of the taxpayer;

History: S. 54, the definition "specified property" was added by S.C. 1995, c. 21, s. 18(3), applicable to taxation years that end after February 21, 1994.

"*superficial loss*" — "superficial loss" of a taxpayer means the taxpayer's loss from the disposition of a particular property where

(*a*) during the period that begins 30 days before and ends 30 days after the disposition, the taxpayer or a person affiliated with the taxpayer acquires a property (in this definition referred to as the "substituted property") that is, or is identical to, the particular property, and

(*b*) at the end of that period, the taxpayer or a person affiliated with the taxpayer owns or had a right to acquire the substituted property,

except where the disposition was

(*c*) a disposition deemed to have been made by paragraph 33.1(11)(*a*), subsection 45(1), section 48 as it read in its application before 1993, section 50 or 70, subsection 104(4), section 128.1, paragraph 132.2(1)(*f*), subsection 138(11.3) or 142.5(2), section 142.6, or any of subsections 144(4.1) and (4.2) and 149(10),

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*c*) of the definition "superficial loss" in section 54 of the Act is replaced by the following:

(*c*) a disposition deemed by paragraph 33.1(11)(*a*), subsection 45(1), section 50 or 70, subsection 104(4), section 128.1, paragraph 132.2(3)(*a*) or (*c*), subsection 138(11.3) or 142.5(2), paragraph 142.6(1)(*b*) or subsection 144(4.1) or (4.2) or 149(10) to have been made,

Applicable: To dispositions that occur after 1998.

Explanatory Note:

"superficial loss"

Section 54 of the Act defines various terms for the purposes of the rules relating to taxable capital gains and allowable capital losses. The definition "superficial loss" in section 54 excludes losses on dispositions listed in paragraphs (*c*) to (*h*) of the definition from being superficial losses. As a consequence of the restructuring of section 132.2 of the Act, the reference in paragraph (*c*) of the definition to paragraph 132.2(1)(*f*) is replaced by references to paragraphs 132.2(3)(*a*) and (*c*).

This amendment applies to dispositions that occur after 1998.

(*d*) the expiry of an option,

(*e*) a disposition to which paragraph 40(2)(*e*.1) applies,

(*f*) a disposition by a corporation the control of which was acquired by a person or group of persons within 30 days after the disposition,

(*g*) a disposition by a person that, within 30 days after the disposition, became or ceased to be exempt from tax under this Part on its taxable income, or

(*h*) a disposition to which subsection 40(3.4) or 69(5) applies,

and, for the purpose of this definition,

(*i*) a right to acquire a property (other than a right, as security only, derived from a mortgage, hypothec, agreement for sale or similar obligation) is deemed to be a property that is identical to the property, and

(*j*) a share of the capital stock of a SIFT wind-up corporation in respect of a SIFT wind-up entity is, if the share was acquired before 2013, deemed to be a property that is identical to equity in the SIFT wind-up entity.

History: S. 54, paragraph (*c*) of the definition "superficial loss" was replaced by S.C. 2009, c. 2, s. 12(1), applicable to taxation years that begin after September 2006. S. 54, paragraph (*c*) of the definition "superficial loss" formerly read:

"(*c*) a disposition deemed by paragraph 33.1(11)(*a*), subsection 45(1), section 48 as it read in its application before 1993, section 50 or 70, subsection 104(4), section 128.1, paragraph 132.2(1)(*f*), subsection 138(11.3) or 142.5(2), paragraph 142.6(1)(*b*) or subsection 144(4.1) or (4.2) or 149(10) to have been made,"

S. 54, the portion of the definition "superficial loss" after paragraph (*h*) was replaced, and paragraphs (*i*) and (*j*) were added, by S.C. 2009, c. 2, s. 12(2), applicable to dispositions that occur after February 2, 2009. S. 54, the portion of the definition "superficial loss" after paragraph (*h*) formerly read:

"and, for the purpose of this definition, a right to acquire a property (other than a right, as security only, derived from a mortgage, hypothec, agreement for sale or similar obligation) is deemed to be a property that is identical to the property."

S. 54, the portion of the definition "superficial loss" after paragraph (*h*) was amended by S.C. 2001, c. 17, s. 207(2), applicable on Royal Assent, June 14, 2001. S. 54, the portion of the definition "superficial loss" after paragraph (*h*) formerly read:

"and, for the purpose of this definition, a right to acquire a property (other than a right, as security only, derived from a mortgage, agreement for sale or similar obligation) is deemed to be a property that is identical to the property."

The definition "superficial loss" in S. 54 was amended by S.C. 1998, c. 19, s. 95(1), applicable subject to section 247 of this Bill, (see Application below), to dispositions of property that occur after April 26, 1995. The definition "superficial loss" in S. 54 formerly read:

"*'superficial loss'* — 'superficial loss' of a taxpayer means the taxpayer's loss from the disposition of a property in any case where

(*a*) the same or identical property (in this definition referred to as 'substituted property') was acquired, during the period beginning 30 days before the disposition and ending 30 days after the disposition, by the taxpayer, the taxpayer's spouse or a corporation controlled, directly or indirectly in any manner whatever, by the taxpayer, and

(*b*) at the end of the period referred to in paragraph (*a*) the taxpayer, the taxpayer's spouse or the corporation, as the case may be, owned, in any manner whatever, the substituted property,

except that a loss otherwise described in this definition shall be deemed not to be a superficial loss if the disposition giving rise to the loss

(*c*) was a disposition deemed by paragraph 33.1(11)(*a*), subsection 45(1), section 48 as it read in its application before 1993, section 50 or 70, subsection 104(4), section 128.1, paragraph 132.2(1)(*f*), subsection 138(11.3) or 142.5(2), paragraph 142.6(1)(*b*) or subsection 144(4.1) or (4.2) or 149(10) to have been made,

(*d*) was the expiration of an option, or

(*e*) was a disposition of property by the taxpayer to which paragraph 40(2)(*e*.1) or subsection 85(4) applies."

Sec. 247, Chap. 19, 1998

247. [*Exception to coming-into-force.*]

(1) Subsections 73(4), 74(5), subsection 18(13) of the Act, as enacted by subsection 79(2) and subsections 89(1), (2) and (6), 94(1) and (2), 95(1), 116(3) to (5), 120(1) and 124(1) and (2) do not apply to the disposition of property by a person or partnership (in this subsection and subsection (2) referred to as the "transferor") that occurred before 1996

(*a*) to a person who was obliged on April 26, 1995 to acquire the property pursuant to the terms of an agreement in writing made on or before that day; or

(*b*) in a transaction, or as part of a series of transactions, the arrangements for which, evidenced in writing, were substantially advanced before April 27, 1995, other than a transaction or series a main purpose of which can reasonably be considered to have been to enable an unrelated person to obtain the benefit of

(i) any deduction in computing income, taxable income, taxable income earned in Canada or tax payable under the Act, or

(ii) any balance of undeducted outlays, expenses or other amounts.

(2) Election. Notwithstanding subsection (1), subsection 18(13) of the Act, as enacted by subsection 79(2), and the other subsections of this Act referred to in subsection (1) apply to a disposition in respect of which the transferor has filed with the Minister of National Revenue before the end of the third month after the month in which this Act is assented to [Royal Assent June 18, 1998] an election in writing to have those subsections apply.

(3) Interpretation. For the purpose of subsection (1),

(*a*) a person shall be considered not to be obliged to acquire property where the person can be excused from the obligation if there is a change to the Act or if there is an adverse assessment under the Act;

(*b*) an "unrelated person" means any person who was not, or a partnership any member of which was not, related (otherwise than because of paragraph 251(5)(*b*) of the Act) to the transferor at the time of the disposition; and

(*c*) a person is deemed to be related to a partnership of which that person is a majority interest partner.

S. 54, paragraph (*c*) of the definition "superficial loss" was amended by S.C. 1995, c. 21, s. 77(1), applicable to dispositions that occur after February 22, 1994, except that in applying paragraph (*c*) before July 1994, it shall be read without reference to "paragraph 132.2(1)(*f*)". Paragraph (*c*) formerly read:

"(*c*) was a disposition deemed by paragraph 33.1(11)(*a*), subsection 45(1), section 48 as it read in its application before 1993, section 50 or 70, subsection 104(4), section 128.1 or subsection 138(11.3), 144(4.1) or (4.2) or 149(10) to have been made,"

S. 54, paragraph (*e*) of the definition "superficial loss" was amended by S.C. 1995, c. 21, s. 18(2), applicable to taxation years that end after February 21, 1994. That paragraph formerly read:

"(*e*) was a disposition of property by the taxpayer to which subsection 85(4) applies."

S. 54, paragraph (*c*) of the definition "superficial loss" was amended by S.C. 1994, c. 21, s. 23(1), applicable after 1992 except that, where a corporation elects in accordance with paragraph 111(4)(*a*), paragraph (*c*) applies to the corporation from the corporation's time of continuation (within the meaning assigned by that paragraph). Paragraph (*c*) formerly read:

"(*c*) was a disposition deemed by paragraph 33.1(11)(*a*), subsection 45(1), section 48, 50 or 70 or subsection 104(4), 138(11.3), 144(4.1) or (4.2) or 149(10) to have been made,"

Paragraph (*a*) of the definition "superficial loss" was amended by S.C. 1994, c. 7, Sched. II, s. 31(1), applicable to taxation years beginning after 1988. The paragraph formerly read:

"(*a*) the same or identical property (in this definition referred to as 'substituted property') was acquired, during the period beginning 30 days before the disposition and ending 30 days after the disposition, by the taxpayer, the taxpayer's spouse or a corporation controlled, whether directly or indirectly in any manner whatever, by the taxpayer, and"

Related Sections: S. 13(21), "depreciable property"; s. 39(1) Meaning of capital gain and capital loss; s. 40(2)(*g*) Limitation on loss; s. 53 Adjustments to cost base; s. 54, "disposition"; s. 104(1) Reference to trust or estate; s. 248(1), "business", "disposition", "individual", "prescribed", "property", "share"; s. 250(5.1) Continued corporation; s. 251.1 Definition of "affiliated persons"; s. 256(7) Acquiring control; s. 256(8) Deemed exercise of right.

Interpretation Bulletins: *Secondary* — IT-159R3 Capital debts established to be bad debts; IT-387R2 (Consolid.) Meaning of "identical properties".

Tax Profile: May 2004 — The Stop-Loss Rules.

SECTION 54.1:

► 54.1(1) ◄

(1) Exception to principal residence rules. A taxation year in which a taxpayer does not ordinarily inhabit the taxpayer's property as a consequence of the relocation of the taxpayer's or the taxpayer's spouse's or common-law partner's place of employment while the taxpayer, spouse or common-law partner, as the case may be, is employed by an employer who is not a person to whom the taxpayer or the spouse is related is deemed not to be a previous taxation year referred to in paragraph (*d*) of the definition "principal residence" in section 54 if

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 54.1(1) of the English version of the Act before paragraph (*a*) is replaced by the following:

SECTION 54.1:

(1) Exception to principal residence rules. A taxation year in which a taxpayer does not ordinarily inhabit the taxpayer's property as a consequence of the relocation of the place of employment of the taxpayer or the taxpayer's spouse or common-law partner while the taxpayer or the taxpayer's spouse or common-law partner, as the case may be, is employed by an employer who is not a person to whom the taxpayer or the taxpayer's spouse or common-law partner is related is deemed not to be a previous taxation year referred to in paragraph (*d*) of the definition "principal residence" in section 54 if

Applicable: To the 2001 and subsequent taxation years except that, if a taxpayer and a person have jointly elected under section 144 of the *Modernization of Benefits and Obligations Act*, in respect of the 1998, 1999 or 2000 taxation years, [the amendment to the portion of subsection 54.1(1) before paragraph (*a*)] applies to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Explanatory Note: Section 54.1 of the Act sets out an exception to the principal residence rules. Under the rules in section 54 of the Act, if a housing unit is not ordinarily inhabited in a year and is rented out, it can continue to qualify as a principal residence for up to 4 years if the taxpayer so elects under subsection 45(2) of the Act. However, under section 54.1 it can continue to so qualify indefinitely provided that, as a consequence

of a relocation of employment of the taxpayer or the taxpayer's spouse or common-law partner, the property is not ordinarily inhabited by the taxpayer. The recent amendments to add references in the Act to a common-law partner was not made to the English version of section 54.1. The current amendment adds the required reference and corrects that oversight and generally applies to the 2001 and subsequent taxation years. However, it may apply as early as 1998 where common-law partners have jointly elected to be treated as such under the Act, starting in that year.

(*a*) the property subsequently becomes ordinarily inhabited by the taxpayer during the term of the taxpayer's or the taxpayer's spouse's or common-law partner's employment by that employer or before the end of the taxation year immediately following the taxation year in which the taxpayer's or the spouse's or common-law partner's employment by that employer terminates; or

(*b*) the taxpayer dies during the term of the taxpayer's or the spouse's or common-law partner's employment by that employer.

History: S. 54.1(1), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 238, applicable to the 2001 and following taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act* [See Sec. 144, Chap. 12, S.C. 2000, reproduced below], in respect of the 1998, 1999 or 2000 taxation years, the portion of s. 54.1(1) before paragraph (*a*) applies to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years. S. 54.1(1), the portion before paragraph (*a*) formerly read:

"S. 54.1. *Exception to principal residence rules.*

(1) A taxation year in which a taxpayer does not ordinarily inhabit the taxpayer's property as a consequence of the relocation of the taxpayer's or the taxpayer's spouse's or common-law partner's place of employment while the taxpayer or the spouse, as the case may be, is employed by an employer who is not a person to whom the taxpayer or the spouse is related shall be deemed not to be a previous taxation year referred to in paragraph (*d*) of the definition 'principal residence' in section 54 if"

S. 54.1(1) was amended by S.C. 2000, c. 12, Sched. 2, s. 7(b), applicable January 1, 2001, coming into force on July 31, 2000. S. 54.1(1) formerly read:

"(1) A taxation year in which a taxpayer does not ordinarily inhabit the taxpayer's property as a consequence of the relocation of the taxpayer's or the taxpayer's spouse's place of employment while the taxpayer or the spouse, as the case may be, is employed by an employer who is not a person to whom the taxpayer or the spouse is related shall be deemed not to be a previous taxation year referred to in paragraph (*d*) of the definition 'principal residence' in section 54 if

(*a*) the property subsequently becomes ordinarily inhabited by the taxpayer during the term of the taxpayer's or the taxpayer's spouse's employment by that employer or before the end of the taxation year immediately following the taxation year in which the taxpayer's or the spouse's employment by that employer terminates; or

(*b*) the taxpayer dies during the term of the taxpayer's or the spouse's employment by that employer."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Interpretation Bulletins: *Secondary* — IT-120R6 Principal Residence.

▶ 54.1(2) ◀

(2) Definition of "property". In this section, "property", in relation to a taxpayer, means a housing unit

(*a*) owned by the taxpayer,

(*b*) in respect of which the taxpayer has a leasehold interest, or

(*c*) in respect of which the taxpayer owned a share of the capital stock of a co-operative housing corporation if the share was acquired for the sole purpose of acquiring the right to inhabit a housing unit owned by the corporation

whether jointly with another person or otherwise in the year and that at all times was at least 40 kilometres farther from the taxpayer's or the taxpayer's spouse's or common-law partner's new place of employment than was the taxpayer's subsequent place or places of residence.

History: S. 54.1(2), the portion after paragraph (*c*) was amended by S.C. 2000, c. 12, Sched. 2, s. 7(b), applicable January 1, 2001, coming into force on July 31, 2000. S. 54.1(2), the portion after paragraph (*c*) formerly read:

"whether jointly with another person or otherwise in the year and that at all times was at least 40 kilometres farther from the taxpayer's spouse's new place of employment than was the taxpayer's subsequent place or places of residence."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Related Sections: S. 54, "principal residence"; s. 251(2) Definition of "related persons".

SECTION 54.2: Certain shares deemed to be capital property.

Where any person has disposed of property that consisted of all or substantially all of the assets used in an active business carried on by that person to a corporation for consideration that included shares of the corporation, the shares shall be deemed to be capital property of the person.

Related Sections: S. 54, "capital property"; s. 248(1), "active business", "business", "corporation", "share".

Information Circulars: IC 88-2 General anti-avoidance rule — Section 245 of the Income Tax Act (Supp. 1, para. 8).

SECTION 55:

▶ 55(1) ◀

(1) Definitions. In this section,

"*distribution*" — "distribution" means a direct or indirect transfer of property of a corporation (referred to in this section as the "distributing corporation") to one or more corporations (each of which is referred to in this section as a "transferee corporation") where, in respect of each type of property owned by the distributing corporation immediately before the transfer, each transferee corporation receives property of that type the fair market value of which is equal to or approximates the amount determined by the formula

$$A \times \frac{B}{C}$$

where

A is the fair market value, immediately before the transfer, of all property of that type owned at that time by the distributing corporation,

B is the fair market value, immediately before the transfer, of all the shares of the capital stock of the distributing corporation owned at that time by the transferee corporation, and

C is the fair market value, immediately before the transfer, of all the issued shares of the capital stock of the distributing corporation;

"*permitted acquisition*" — "permitted acquisition", in relation to a distribution by a distributing corporation, means an acquisition of property by a person or partnership on, or as part of,

(*a*) a distribution, or

(*b*) a permitted exchange or permitted redemption in relation to a distribution by another distributing corporation;

"*permitted exchange*" — "permitted exchange", in relation to a distribution by a distributing corporation, means

(*a*) an exchange of shares for shares of the capital stock of the distributing corporation to which subsection 51(1) or 86(1) applies or would, if the shares were capital property to the holder thereof, apply, other than an exchange that resulted in an acquisition of control of the distributing corporation by any person or group of persons, and

(*b*) an exchange of shares of the capital stock of the distributing corporation by one or more shareholders of the distributing corporation (each of whom is referred to in this paragraph as a "participant") for shares of the capital stock of another corporation (referred to in this paragraph as the "acquiror") in contemplation of the distribution where

(i) no share of the capital stock of the acquiror outstanding immediately after the exchange (other than directors' qualifying shares) is owned at that time by any person or partnership other than a participant,

and either

(ii) the acquiror owns, immediately before the distribution, all the shares each of which is a share of the capital stock of the distributing corporation that was owned immediately before the exchange by a participant, or

(iii) the fair market value, immediately before the distribution, of each participant's shares of the capital stock of the acquiror is equal to or approximates the amount determined by the formula

$$(A \times \frac{B}{C}) + D$$

where

A is the fair market value, immediately before the distribution, of all the shares of the capital stock of the acquiror then outstanding (other than shares issued to participants in consideration for shares of a specified class all the shares of which were acquired by the acquiror on the exchange),

B is the fair market value, immediately before the exchange, of all the shares of the capital stock of the distributing corporation (other than shares of a specified class none or all of the shares of which were acquired by the acquiror on the exchange) owned at that time by the participant,

C is the fair market value, immediately before the exchange, of all the shares (other than shares of a specified class none or all of the shares of which were acquired by the acquiror on the exchange and shares to be redeemed, acquired or cancelled by the distributing corporation pursuant to the exercise of a statutory right of dissent by the holder of the share) of the capital stock of the distributing corporation outstanding immediately before the exchange, and

D is the fair market value, immediately before the distribution, of all the shares issued to the participant by the acquiror in consideration for shares of a specified class all of the shares of which were acquired by the acquiror on the exchange;

Canadian Petroleum Tax Journal: A Comparative Study of Canadian and US Rules Regarding the Taxation of Corporate Reorganizations, Firoz Talakshi and Christy Palmer, Vol. 13 No. 1 2000.

"*permitted redemption*" — "permitted redemption", in relation to a distribution by a distributing corporation, means

(*a*) a redemption or purchase for cancellation by the distributing corporation, as part of the reorganization in which the distribution was made, of all the shares of its capital stock that were owned, immediately before the distribution, by a transferee corporation in relation to the distributing corporation,

(*b*) a redemption or purchase for cancellation by a transferee corporation in relation to the distributing corporation, or by a corporation that, immediately after the redemption or purchase, was a subsidiary wholly-owned corporation of the transferee corporation, as part of the reorganization in which the distribution was made, of all of the shares of the capital stock of the transferee corporation or the subsidiary wholly-owned corporation that were acquired by the distributing corporation in consideration for the transfer of property received by the transferee corporation on the distribution, and

(*c*) a redemption or purchase for cancellation by the distributing corporation, in contemplation of the distribution, of all the shares of its capital stock each of which is

(i) a share of a specified class the cost of which, at the time of its issuance, to its original owner was equal to the fair market value at that time of the consideration for which it was issued, or

(ii) a share that was issued, in contemplation of the distribution, by the distributing corporation in exchange for a share described in subparagraph (i);

History: Paragraphs (*a*) and (*b*) of the definition "permitted redemption" in S. 55(1) were amended by S.C. 1998, c. 19, s. 96(1), applicable to dividends received after February 21, 1994. Paragraphs (*a*) and (*b*) formerly read:

"(*a*) a redemption or purchase for cancellation by the distributing corporation, as part of the reorganization in which the distribution was made, of all the shares of its capital stock owned by a transferee corporation in relation to the distributing corporation,

(*b*) a redemption or purchase for cancellation by a transferee corporation in relation to the distributing corporation, as part of the reorganization in which the distribution was made, of all of the shares of its capital stock owned by the distributing corporation, and"

S. 55(1) was amended by S.C. 1998, c. 19, s. 96(2), applicable to dividends received after June 20, 1996.

S. 55(1) was added by S.C. 1995, c. 3, s. 16(1), applicable to dividends received after February 21, 1994 other than dividends received before 1995 in the course of a reorganization that was required on February 22, 1994 to be carried out pursuant to a written agreement entered into before February 22, 1994.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 55(1) of the Act is amended by adding the following in alphabetical order:

"qualified person" — "qualified person", in relation to a distribution, means a person or partnership with whom the distributing corporation deals at arm's length at all times during the course of the series of transactions or events that includes the distribution if

(*a*) at any time before the distribution,

(i) all of the shares of each class of the capital stock of the distributing corporation that includes shares that cause that person or partnership to be a specified shareholder of the distributing corporation (in this definition all of those shares in all of those classes are referred to as the "exchanged shares") are, in the circumstances described in paragraph (*a*) of the definition "permitted exchange", exchanged for consideration that consists solely of shares of a specified class of the capital stock of the distributing corporation (in this definition referred to as the "new shares"), or

(ii) the terms or conditions of all of the exchanged shares are amended (which shares are in this definition referred to after the amendment as the "amended shares") and the amended shares are shares of a specified class of the capital stock of the distributing corporation,

(*b*) immediately before the exchange or amendment, the exchanged shares are listed on a prescribed stock exchange,

(*c*) immediately after the exchange or amendment, the new shares or the amended shares, as the case may be, are listed on a prescribed stock exchange,

(*d*) the exchanged shares would be shares of a specified class if they were not convertible into, or exchangeable for, other shares,

(*e*) the new shares or the amended shares, as the case may be, and the exchanged shares are non-voting in respect of the election of the board of directors of the distributing corporation except in the event of a failure or default under the terms or conditions of the shares, and

(*f*) no holder of the new shares or the amended shares, as the case may be, is entitled to receive on the redemption, cancellation or acquisition of the new shares or the amended shares, as the case may be, by the distributing corporation or by any person with whom the distributing corporation does not deal at arm's length an amount (other than a premium for early redemption) that is greater than the total of the fair market value of the consideration for which the exchanged shares were issued and the amount of any unpaid dividends on the new shares or on the amended shares, as the case may be;

Applicable: In respect of dividends received after 1999.

Editorial Note: S. 100(1) of S.C. 2007, c. 35, which is a coordinating amendment with Bill C-10, provides that if Bill C-10 receives royal assent, this Bill C-10 amendment applies as though Bill C-10 had received royal assent before S.C. 2007, c. 35. As well, the reference to "prescribed stock exchange" in paragraphs (*b*) and (*c*) of the definition of "qualified person" in subsection 55(1) is replaced by a reference to "designated stock exchange" on December 14, 2007.

Explanatory Note:

Definitions

Subsection 55(1) of the Act sets out a number of definitions for the purpose of section 55.

"qualified person"

The definition "qualified person" is added to subsection 55(1), in conjunction with amendments to clause 55(3.1)(*b*)(i)(B) and paragraph 55(3.2)(*h*) of the Act. As a result of these amendments, a person or partnership may exchange shares of a distributing corporation ("old shares") for new shares of the distributing corporation and, where the conditions set out in the definition are satisfied, the ownership of the old shares will not affect the tax treatment of dividends received in the course of a reorganization to which paragraph 55(3)(*b*) applies. In general terms, a qualified person is a person or partnership that exchanges all of the old shares that caused that person or partnership to be a specified shareholder of the distributing corporation for consideration consisting solely of shares of a specified class. The definition also provides that the old shares must not be shares of a specified class solely because they were convertible into a class of shares that was not a specified class and that every holder of old shares must participate in the exchange. In addition, a person or partnership will not be a qualified person unless the old shares and the new shares are non-voting in respect of the election of the board of directors (or have voting rights only in the event of failure or default under the terms of the shares).

The addition of the definition "qualified person", applicable in respect of dividends received after 1999, is made concurrently with the addition of new subsection 55(3.4) of the Act. New subsection 55(3.4) provides that shares of a specified class are not taken into consideration in determining if a person is a specified shareholder for the purpose of subparagraph 55(3.1)(*b*)(i) and for the purpose of paragraph 55(3.2)(*h*), as that paragraph applies for the purpose of subparagraph 55(3.1)(*b*)(iii).

"safe-income determination time" — "safe-income determination time" for a transaction or event or a series of transactions or events means the time that is the earlier of

(*a*) the time that is immediately after the earliest disposition or increase in interest described in any of subparagraphs (3)(*a*)(i) to (v) that resulted from the transaction, event or series, and

(*b*) the time that is immediately before the earliest time that a dividend is paid as part of the transaction, event or series;

History: S. 55(1), the definition "safe-income determination time" was added by S.C. 1998, c. 19, s. 96(2), applicable to dividends received after June 20, 1996.

Related Sections: S. 55(2) Deemed proceeds or capital gain; s. 55(5) Applicable rules.

"specified class" — "specified class" means a class of shares of the capital stock of a distributing corporation where

(*a*) the paid-up capital in respect of the class immediately before the beginning of the series of transactions or events that includes a distribution by the distributing corporation was not less than the fair market value of the consideration for which the shares of that class then outstanding were issued,

(*b*) under neither the terms and conditions of the shares nor any agreement in respect of the shares are the shares convertible into or exchangeable for shares other than shares of a specified class or shares of the capital stock of a transferee corporation in relation to the distributing corporation, and

(*c*) under neither the terms and conditions of the shares nor any agreement in respect of the shares is any holder of the shares entitled to receive on the redemption, cancellation or acquisition of the shares by the corporation or by any person with whom the corporation does not deal at arm's length (excluding any premium for early redemption) an amount greater than the total of the fair market value of the consideration for which the shares were issued and the amount of any unpaid dividends thereon;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The definition "specified class" in subsection 55(1) of the Act is amended by striking out the word "and" at the end of paragraph (*b*) and by replacing paragraph (*c*) with the following:

(*c*) no holder of the shares is entitled to receive on the redemption, cancellation or acquisition of the shares by the corporation or by any person with whom the corporation does not deal at arm's length an amount (other than a premium for early redemption) that is greater than the total of the fair market value of the consideration for which the shares were issued and the amount of any unpaid dividends on the shares, and

(*d*) the shares are non-voting in respect of the election of the board of directors except in the event of a failure or default under the terms or conditions of the shares;

Applicable: In respect of shares issued after December 20, 2002.

Explanatory Note:

"specified class"

The definition "specified class" is relevant in determining whether an exchange of shares of the capital stock of a distributing corporation for shares of the capital stock of another corporation constitutes a permitted exchange, which, in turn, is relevant for the purpose of paragraph 55(3.1)(*b*) of the Act. The definition "specified class" is also relevant in determining if a redemption of shares by the distributing corporation prior to a distribution is a permitted redemption.

The rules applicable to shares of a specified class are based on the premise that such shares are equivalent to debt. Thus, to ensure that these shares more closely resemble debt, the definition is amended, for shares issued after December 20, 2002, to include a requirement that they be non-voting with respect to the election of the directors of the corporation (or have voting rights only in the event of failure or default under the terms of the shares).

"specified corporation" — "specified corporation" in relation to a distribution means a distributing corporation

(*a*) that is a public corporation or a specified wholly-owned corporation of a public corporation,

(*b*) shares of the capital stock of which are exchanged for shares of the capital stock of another corporation (referred to in this definition and subsection (3.02) as an "acquiror") in an exchange to which the definition "permitted exchange" in this subsection would apply if that definition were read without reference to paragraph (*a*) and subparagraph (*b*)(ii) of that definition,

(*c*) that does not make a distribution, to a corporation that is not an acquiror, after 1998 and before the day that is three years after the day on which the shares of the capital stock of the distributing corporation are exchanged in a transaction described in paragraph (*b*), and

(*d*) no acquiror in relation to which makes a distribution after 1998 and before the day that is three years after the day on which the shares of the capital stock of the distributing corporation are exchanged in a transaction described in paragraph (*b*),

and, for the purposes of paragraphs (*c*) and (*d*),

(*e*) a corporation that is formed by an amalgamation of two or more other corporations is deemed to be the same corporation as, and a continuation of, each of the other corporations, and

(*f*) where there has been a winding-up of a corporation to which subsection 88(1) applies, the parent is deemed to be the same corporation as, and a continuation of, the subsidiary;

History: S. 55(1), the definition "specified corporation" was added by S.C. 2001, c. 17, s. 38(1), applicable to transfers that occur after 1998.

"specified wholly-owned corporation" — "specified wholly-owned corporation" of a public corporation means a corporation all of the outstanding shares of the capital stock of which (other than directors' qualifying shares and shares of a specified class) are held by

(*a*) the public corporation,

(*b*) a specified wholly-owned corporation of the public corporation, or

(*c*) any combination of corporations described in paragraph (*a*) or (*b*).

History: S. 55(1), the definition "specified wholly-owned corporation" was added by S.C. 2001, c. 17, s. 38(1), applicable to transfers that occur after 1998.

► 55(2) ◄

(2) Deemed proceeds or capital gain. Where a corporation resident in Canada has received a taxable dividend in respect of which it is entitled to a deduction under subsection 112(1) or (2) or 138(6) as part of a transaction or event or a series of transactions or events, one of the purposes of which (or, in the case of a dividend under subsection 84(3), one of the results of which) was to effect a significant reduction in the portion of the capital gain that, but for the dividend, would have been realized on a disposition at fair market value of any share of capital stock immediately before the dividend and that could reasonably be considered to be attributable to anything other than income earned or realized by any corporation after 1971 and before the safe-income determination time for the transaction, event or series, notwithstanding any other section of this Act, the amount of the dividend (other than the portion of it, if any, subject to tax under Part IV that is not refunded as a consequence of the payment of a dividend to a corporation where the payment is part of the series)

(*a*) shall be deemed not to be a dividend received by the corporation;

(*b*) where a corporation has disposed of the share, shall be deemed to be proceeds of disposition of the share except to the extent that it is otherwise included in computing such proceeds; and

(*c*) where a corporation has not disposed of the share, shall be deemed to be a gain of the corporation for the year in which the dividend was received from the disposition of a capital property.

Department of Finance Comfort Letter [Application of Subsection 55(2) to Dividend Received on Internal Reorganization]

October 16, 2007

Dear XXXX

Thank you for your correspondence dated December 4, 2006 and June 1, 2007, addressed to Brian Ernewein, regarding the application of subsection 55(2) and paragraph 55(3)(x) of the *Income Tax Act* (Act). In your correspondence, you asked us to consider an amendment to the Act that would ensure that subsection 55(2) would not apply to a dividend received as pan of a series of transactions or events that includes an increase in the

interest in a corporation described in subparagraph 55(3)(*a*)(ii) in the circumstances described below.

Parentco is a widely-held publicly traded corporation. It owns indirectly, 100% of the shares of Subco 1, a taxable Canadian corporation. A subsidiary corporation controlled by Parentco ("Acquireco") acquires all the issued and outstanding shares of another corporation ("Targetco") such that Targetco becomes a wholly-owned subsidiary of Acquireco. Targetco controls another corporation (Subco 2). In consideration for the shares of Targetco, the Targetco shareholders receive money and shares of Parentco. Acquireco partly finances the cash portion of the takeover by issuing shares of its capital stock ("financing shares") solely for money to another corporation ("Finco") that is unrelated to Acquireco. Before the post-takeover internal reorganization (described below) is undertaken, the financing shares are redeemed, with the result that Finco no longer has an interest in Acquireco.

Following the acquisition of Targetco and after the cancellation of the financing shares, Parentco undertakes an internal reorganization that results in taxable dividends being received by Subco 1 and Subco 2. At no time before the end of the series of transaction or events that includes the receipt of the dividend will Subco 1 and Subco 2 cease to be controlled by Parentco.

Your concern is that subsection 55(2) of the Act will apply to the dividends that will be received in the course of the internal reorganization because the increase in interest in Acquireco by Finco will be described in subparagraph 55(3)(*a*)(ii) of the Act. You submit that the application of subsection 55(2) of the Act to the dividends to be received on the internal reorganization would not be appropriate since the increase in interest in Acquireco by Finco occurs as part of a financing transaction that is completed before the internal reorganization . Moreover, the transactions do not result in a tax-deferred disposition of the assets of the dividend payer or dividend recipient outside the Parentco group.

We agree that subsection 55(2) of the Act should not apply to the dividends received in the circumstances described above solely as a result of the acquisition of the king shares by Finco. Accordingly, we are prepared to recommend to the Minister of Finance that the Act be amended, applicable to dividends received after 2005, to ensure this result.

While I cannot of offer any assurance that either the Minister or Parliament will agree with our recommendation, I hope that this statement of our intentions is helpful to you.

Yours sincerely,
Gerard Lalonde
Director
Tax Legislation Division
Tax Policy Branch

Department of Finance Comfort Letter [Application of Subsection 55(2)]

September 6, 2006

Dear XXXX

Thank you for your letter dated May 3, 2006 regarding the application of subsection 55(2) and paragraph 55(3)(*a*) of the *Income Tax Act* (the "Act"). In your letter, you asked us to consider an amendment to the Act that would ensure that subsection 55(2) would not apply to the dividends received as part of a series of transactions or events described below.

The series of transactions or events in issue ("relevant series") includes the disposition of the shares of a publicly-traded corporation ("Targetco") to another publicly-traded corporation ("Acquireco") such that Targetco will become a wholly-owned subsidiary of Acquireco. Following the disposition of the Targetco shares to Acquireco, an indirect wholly-owned subsidiary of Targetco ("T Sub") will undertake an internal reorganization that will result in dividends being received by T Sub and another indirect wholly-owned subsidiary of Targetco ("Newco"). More specifically, the transactions or events that will occur as part of the relevant series are as follows:

(a) The Targetco shareholders will dispose of their shares of Targetco to Acquireco in consideration for shares of Acquireco. The disposition of the Targetco shares by the Targetco shareholders will occur for proceeds of disposition that are less than fair market value or will be deemed by paragraph 55(3.01)(*e*) of the Act to occur at less than fair market value.

(b) The parent of T Sub will transfer some of its shares of T Sub to Newco in consideration for shares of Newco. The fair market value of the transferred T Sub shares will be equal to the fair market value of the transferred assets referred to in paragraph (c).

(c) T Sub will transfer some of its assets to Newco in exchange for preferred shares of Newco with a fair market value and redemption value equal to the transferred assets. T Sub and Newco will jointly elect under subsection 85(1) to effect the transfer on a tax-deferred basis.

(d) Newco will redeem the Newco preferred shares for a promissory note and T Sub will purchase for cancellation the shares of its capital stock owned by Newco for a promissory note. The promissory notes will be offset and cancelled. The redemption of the Newco preferred shares and the cancellation of the T Sub shares would result in deemed dividends being received by T Sub and Newco. Newco and T Sub will each be a taxable Canadian corporation and, as a result, the deemed dividends will be deductible to T Sub and Newco under subsection 112(1) of the Act.

(e) The parent of T Sub will transfer the shares of T Sub to an indirect wholly-owned subsidiary of Acquireco ("A Sub") for fair market value. T Sub will be wound up into A Sub under subsection 88(1). Pursuant to paragraph 55(3.01)(*c*) of the Act, A Sub will be deemed, for the purpose of paragraph 55(3)(*a*), to be the same corporation and a continuation of T Sub.

You advised us that, at no time before the end of the relevant series, will more than 10% of the fair market value of the Acquireco shares or the Targetco shares be derived from the shares of either Newco, T Sub or A Sub. In addition, T Sub and Newco will not cease to be related as part of the relevant series.

Your concern is that subsection 55(2) of the Act will apply to the dividends that will be received by T Sub and Newco in the course of the internal reorganization because

(a) the disposition of the Targetco shares to Acquireco is described in subparagraph 55(3)(*a*)(i); and

(b) the increase in interest in Acquireco by the Targetco shareholders is described in subparagraph 55(3)(*a*)(ii).

You submit that the application of subsection 55(2) of the Act to the dividends to be received by T Sub and Newco in the course of the internal reorganization would not be appropriate for a number of reasons. First, the internal reorganization occurs entirely within a related group of corporations and none of the corporations will, as part of the relevant series, cease to be related. Secondly, you submit that the application of subsection 55(2) to dividends received in the course of an internal reorganization following a takeover or merger could inhibit related Canadian corporations from organizing their business in an effective manner. Lastly, you submit that the relevant series will not result in the disposition of shares of a corporation in substitution for the sale of corporate assets since all the corporate assets will continue to be owned by indirect wholly-owned subsidiaries of Acquireco.

We agree that subsection 55(2) of the Act should not apply to the dividends received by T Sub and Newco in the specific circumstances described above solely as a result of the disposition of the Targetco shares to Acquireco or as a result of the increase in interest in Acquireco by the Targetco shareholders. Accordingly, we are prepared to recommend to the Minister of Finance that the Act be amended, applicable to dividends received after 2005, to ensure this result.

While I cannot offer any assurance that either the Minister or Parliament will agree with our recommendation, I hope that this statement of our intentions is helpful to you.

Yours sincerely

Brian Ernewein
General Director — Legislation
Tax Policy Branch

History: The portion of S. 55(2) before paragraph (*a*) was amended by S.C. 1998, c. 19, s. 96(3), applicable to dividends received after June 20, 1996. The portion of S. 55(2) before paragraph (*a*) formerly read:

"(2) *Deemed proceeds or capital gain.* Where a corporation resident in Canada has after April 21, 1980 received a taxable dividend in respect of which it is entitled to a deduction under subsection 112(1) or 138(6) as part of a transaction or event or a series of transactions or events (other than as part of a series of transactions or events that commenced before April 22, 1980), one of the purposes of which (or, in the case of a dividend under subsection 84(3), one of the results of which) was to effect a significant reduction in the portion of the capital gain that, but for the dividend, would have been realized on a disposition at fair market value of any share of capital stock immediately before the dividend and that could reasonably be considered to be attributable to anything other than income earned or realized by any corporation after 1971 and before the transaction or event or the commencement of the series of transactions or events referred to in paragraph (3)(*a*), notwithstanding any other section of this Act, the amount of the dividend (other than the portion thereof, if any, subject to tax under Part IV that is not refunded as a consequence of the payment of a dividend to a corporation where the payment is part of the series of transactions or events)"

Editorial Note: Subsection 55(2) is an anti-avoidance provision essentially meant to prevent the "stripping" of accrued capital gains in the form of tax-free inter-corporate dividends. For example, in the absence of subsection 55(2), a vendor corporation that proposed to sell shares of a subsidiary corporation could arrange to have the prospective purchaser subscribe for shares in the subsidiary. The subscription proceeds could be distributed as a tax-free dividend to the vendor corporation, which would then sell its shares in the subsidiary for a price reduced by the amount of the dividend, thus reducing the capital gain that would have been realized on a simple sale of those shares. Subsection 55(2) is meant to apply to this type of transaction and to effectively convert the tax-free dividend into a capital gain.

Subsection 55(3) contains the main exceptions to the operation of subsection 55(2). Paragraph 55(3)(*a*) contains a related person exception, in very general terms, providing that the application of subsection 55(2) is limited to those cases involving a direct or indirect change of ownership to an unrelated person. Paragraph 55(3)(*b*) contains the so-called butterfly exception, which, subject to very stringent provisions, allows a tax-free corporate divisive reorganization or "de-merger". Note that the butterfly rules have been relaxed somewhat for public (distributing) corporations, by the removal of the requirement that the same *pro rata* portion of each type of the corporation's property be distributed on the reorganization to each "transferee corporation"; see subsection 55(3.02). The "safe income" exception — generally speaking, that a dividend will not be subject to subsection 55(2) provided that it only reduces the capital gain (that would have otherwise been realized, etc.) reasonably attributable to safe income — is found in subsection 55(2) itself ("... that could reasonably be considered to be attributable to anything other than income earned or realized by any corporation after 1971 and before the safe income determination time ..."). The remaining provisions of section 55 contain definitions and supplemental rules relevant to the application of subsections 55(2) and 55(3).

Related Sections: S. 55(1), "safe-income determination time"; s. 55(3) Application; s. 55(4) Avoidance of subsection (2); s. 256(7) Acquiring control; s. 256(8) Deemed exercise of right.

Information Circulars: IC 88-2 General anti-avoidance rule — Section 245 of the Income Tax Act (paras. 7, 13 and 15).

Advance Tax Rulings: ATR-27 Exchange and acquisition of interests in capital properties through rollovers and winding-up ("Butterfly"); ATR-35 Partitioning of assets to get specific ownership — "Butterfly"; ATR-58 Divisive reorganization.

Income Tax Technical News: Issue No. 37, Safe Income Calculation — Treatment of Non-Deductible Expenses; Issue No. 34, Safe Income Calculation — the *Kruco* Case; Issue No. 33, Income Earned or Realized — The *Kruco* Case; Issue No. 16, *Brelco Drilling Ltd. v. The Queen*; Issue No. 7, Subsection 55(2) (recent cases); Issue No. 3, Loss utilization within a corporate group.

Tax Topics: No. 1876, Income Tax Technical News No. 37: Safe Income Calculation — Treatment of Non-Deductible Expenses; No. 1820, Beware of Pitfalls in November 9, 2006 Technical Amendments When Crystallizing "Safe Income"!; No. 1814, 2006 Canadian Tax Foundation Annual Conference CRA Round Table; No. 1775, Series of Transactions After Canada *Trustco*: When Does Paragraph 55(3)(a) Apply?; No. 1689, Some Recent Developments in Safe Income Determination; No. 1475, Object and Spirit of Section 55.

Tax Profile: July 2007 — Canadian Tax Traps — Canadian Tax Traps; December 2004 — Taxation of Dividends: A Survey in the Context of Private Corporations and Their Shareholders — Part 2; October 2003 — Split-Up of Corporate Business Partnerships.

Canadian Tax Foundation: Pantry and Maclagan, "Issues and Updates — Safe Income", *2008 British Columbia Tax Conference*, 4:1; Brender, "Subsection 55(2): Part 1", *1997 Canadian Tax Journal*, No. 2, 343; Brender, "Subsection 55(2): Part 2", *1997 Canadian Tax Journal*, No. 4, 806.

Canadian Petroleum Tax Journal: A Comparative Study of Canadian and US Rules Regarding the Taxation of Corporate Reorganizations, Firoz Talakshi and Christy Palmer, Vol. 13 No. 1 2000; Recent Developments in Corporate Reorganizations and International Transactions, Doug Richardson and Edward Rowe, Vol. 13 No. 1 2000.

Cases: The taxpayers received s. 84(3) deemed dividends that were subject to Part IV tax, but this liability was offset by normal course dividends paid by the taxpayers. Subsection 55(2) applied since the dividends were held to be part of the series of transactions that gave rise to the deemed dividends. However, the Act does not require a *pro rata* allocation of Part IV refunds between dividends paid to corporations and those paid to individuals. The taxpayers can allocate the dividends in the manner most beneficial to them. *The Queen v. Canadian Utilities Limited et al.*, 2004 DTC 6475 (F.C.A.), reversing in part 2003 DTC 1029 (T.C.C.).

Safe income adjustments with respect to investment tax credits were not justified because it would result in double taxation and strayed from the very basis of the calculation set out in s. 55(5)(*c*). An adjustment was allowed with respect to the cost of a debt acquired by the company which gave rise to an SRED tax credit. *The Queen v. Kruco Inc.*, 2003 DTC 5506 (F.C.A.), affirming 2001 DTC 668 (T.C.C.).

The corporate taxpayer was deemed by s. 84(3) to have received a dividend upon the redemption of shares of G corporation. The same shareholders owned all of the shares of both the taxpayer and G. They subsequently sold their shares of G at arm's length. The redemption by G of its shares, and the sale by the shareholders of their G shares were part of a series of transactions coming within s. 55(2). *Granite Bay Charters Ltd. v. The Queen*, 2001 DTC 615 (T.C.C.).

Treatment of PUC and "safe income" in the calculation of deemed "proceeds of disposition" under s. 55(2). *943963 Ontario Inc. v. The Queen*, 99 DTC 802 (T.C.C.).

In the calculation of the taxpayer's "safe income", the surpluses of the taxpayer's foreign affiliates were netted against the deficits of the taxpayer's other foreign affiliates. *The Queen v. Brelco Drilling Ltd.*, 99 DTC 5253 (F.C.A.), reversing 98 DTC 1422 (T.C.C.).

Where the Minister would have allowed the corporate taxpayer the benefit of tax-free intercorporate dividends if its accountant had not failed to make a safe income designation, the taxpayer could not be said to have attempted to circumvent s. 55(2). *Nassau Walnut Investments Inc. v. The Queen*, 97 DTC 5051 (F.C.A.), affirming 95 DTC 367 (T.C.C.).

Cognizance by the taxpayer of the fact that the capital gain otherwise realizable on the sale of its shares could be significantly reduced, to the extent that it had been attributable to intercorporate dividends designated as safe income, could not be equated with a tax-avoidance purpose on the taxpayer's part. *The Queen v. Placer Dome Inc.*, 96 DTC 6562 (F.C.A.).

When the evidence adduced by two corporations claiming the deduction of inter-corporate dividends failed to establish a reasonable nexus between the events leading up to the declaration of the dividends and any previous event or transaction, the Minister could rely on the avoidance provision of s. 55(2)(*b*) to treat the dividends as proceeds of disposition of their shares. *454538 Ontario Limited et al. v. M.N.R.*, 93 DTC 427 (T.C.C.).

► 55(3) ◄

(3) Application. Subsection (2) does not apply to any dividend received by a corporation (in this subsection and subsection (3.01) referred to as the "dividend recipient")

(*a*) if, as part of a transaction or event or a series of transactions or events as a part of which the dividend was received, there was not at any particular time

(i) a disposition of property, other than

(A) money disposed of on the payment of a dividend or on a reduction of the paid-up capital of a share, and

(B) property disposed of for proceeds that are not less than its fair market value,

to a person or partnership that was an unrelated person immediately before the particular time,

(ii) a significant increase (other than as a consequence of a disposition of shares of the capital stock of a corporation for proceeds of disposition that are not less than their fair market value) in the total direct interest in any corporation of one or more persons or partnerships that were unrelated persons immediately before the particular time,

(iii) a disposition, to a person or partnership who was an unrelated person immediately before the particular time, of

(A) shares of the capital stock of the corporation that paid the dividend (referred to in this para-

graph and subsection (3.01) as the "dividend payer"), or

(B) property more than 10% of the fair market value of which was, at any time during the course of the series, derived from shares of the capital stock of the dividend payer,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Clause 55(3)(*a*)(iii)(B) of the Act is replaced by the following:

(B) property (other than shares of the capital stock of the dividend recipient) more than 10% of the fair market value of which was, at any time during the course of the series, derived from shares of the capital stock of the dividend payer,

Applicable: To dividends received after February 21, 1994.

Explanatory Note:

Exempt Dividends

Paragraph 55(3)(*a*) provides an exemption from the application of subsection 55(2) of the Act for dividends received in the course of certain related-party transactions. More specifically, paragraph 55(3)(*a*) exempts a dividend received by a corporation if, as part of a transaction or event or a series of transactions or events that includes the receipt of the dividend, there was not, at any particular time, a disposition of property or a significant increase in the total direct interest in a corporation in the circumstances described in subparagraphs 55(3)(*a*)(i) to (v).

Clause 55(3)(*a*)(iii)(B) of the Act describes a disposition, to a person or partnership that was unrelated to the dividend recipient, of property more than 10% of the fair market value of which was derived from shares of the capital stock of the dividend payer. Clause 55(3)(*a*)(iii)(B) is amended, for dividends received after February 21, 1994, to exclude a disposition of property that is a share of the capital stock of the dividend recipient. This amendment ensures that subsection 55(2) of the Act does not apply to the dividend received in the circumstances described in the following example involving the disposition of the shares of the dividend recipient:

A corporation (BuyerCo) owns all the shares of another corporation (SubCo). BuyerCo acquires all the shares of a third corporation (Target) in an arm's length transaction for fair market value. Target owns all the shares of two corporations — T1Subco and T2Subco. Target transfers, on a tax-deferred basis under section 85, all the shares of T2SubCo to SubCo in consideration for High/Low Shares of SubCo. SubCo subsequently redeems the High/Low Shares with the result that Target receives a deemed dividend.

(iv) after the time the dividend was received, a disposition, to a person or partnership that was an unrelated person immediately before the particular time, of

(A) shares of the capital stock of the dividend recipient, or

(B) property more than 10% of the fair market value of which was, at any time during the course of the series, derived from shares of the capital stock of the dividend recipient, and

(v) a significant increase in the total of all direct interests in the dividend payer of one or more persons or partnerships who were unrelated persons immediately before the particular time; or

(*b*) if the dividend was received

(i) in the course of a reorganization in which

(A) a distributing corporation made a distribution to one or more transferee corporations, and

(B) the distributing corporation was wound up or all of the shares of its capital stock owned by each transferee corporation immediately before the distribution were redeemed or cancelled otherwise than on an exchange to which subsection 51(1), 85(1) or 86(1) applies, and

(ii) on a permitted redemption in relation to the distribution or on the winding-up of the distributing corporation.

History: The portion of S. 55(3) before paragraph (*b*) was amended by S.C. 1998, c. 19, s. 96(4), applicable to dividends received by a corporation after February 21, 1994, except that,

(*a*) in respect of such dividends received before June 20, 1996, or received under an arrangement substantially advanced, as evidenced in writing, before June 20, 1996, subparagraphs 55(3)(*a*)(ii) and (v) of the Act, shall, if paragraph (*b*) does not apply, be read as follows:

"(ii) a significant increase (other than as a consequence of a disposition of shares of the capital stock of a corporation for proceeds of disposition that are not less than their fair market value) in the interest in any corporation of one or more persons or partnerships that were unrelated persons immediately before the particular time,"

"(v) a significant increase in the interest in the dividend payer of one or more persons or partnerships that were unrelated persons immediately before the particular time; or"

and

(*b*) in respect of such dividends, where they are received on shares issued before June 20, 1996, and the corporation so elects in writing before the end of the fourth month after the month in which this Act is assented to [Royal Assent June 18, 1998] or in its return of income under Part I of the Act for the year in which it received the dividends, the Act shall be read without reference to subsection 55(3.01) and paragraph 55(3)(*a*) of the Act shall be read as follows:

"(*a*) unless the dividend was received as part of a transaction or event or a series of transactions or events that resulted in

(i) a disposition of any property to a person with whom the dividend recipient was dealing at arm's length, or

(ii) a significant increase in the interest in any corporation of any person with whom the dividend recipient was dealing at arm's length; or"

The portion of S. 55(3) before paragraph (*b*) formerly read:

"(3) *Exception.* Subsection (2) does not apply to any dividend received by a corporation,

(*a*) unless the dividend was received as part of a transaction or event or a series of transactions or events that resulted in

(i) a disposition of property to a person (other than the corporation) to whom that corporation was not related, or

(ii) a significant increase in the interest in any corporation of any person (other than the corporation that received the dividend) to whom the corporation that received the dividend was not related; or"

S. 55(3)(*a*)(i) was amended by S.C. 1995, c. 3, s. 16(2), applicable to dividends received after February 21, 1994, other than dividends received as part of a transaction or event or a series of transactions or events that was required on February 22, 1994 to be carried out pursuant to a written agreement entered into before February 22, 1994. S. 55(3)(*a*)(i) formerly read:

"(i) a disposition of any property to a person with whom that corporation was dealing at arm's length, or"

S. 55(3)(*a*)(ii) was amended by S.C. 1995, c. 3, s. 16(2), applicable to dividends received after February 21, 1994, other than dividends received as part of a transaction or event or a series of transactions or events that was required on February 22, 1994 to be carried out pursuant to a written agreement entered into before February 22, 1994. S. 55(3)(*a*)(ii) formerly read:

"(ii) a significant increase in the interest in any corporation of any person with whom the corporation that received the dividend was dealing at arm's length; or"

S. 55(3)(*b*) was amended by S.C. 1995, c. 3, s. 16(3), applicable to dividends received after February 21, 1994 other than dividends received before 1995 in the course of a reorganization that was required on February 22, 1994 to

be carried out pursuant to a written agreement entered into before February 22, 1994. S. 55(3)(*b*) formerly read:

"(*b*) if the dividend was received in the course of a reorganization in which property of a particular corporation was transferred, directly or indirectly, to one or more corporations (each of which is in this paragraph referred to as a 'transferee') and, in respect of each type of property so transferred, the fair market value of the property so received by each transferee was equal to or approximated the proportion of the fair market value of all property of that type owned by the particular corporation immediately before the transfer that

(i) the total of the fair market value immediately before the transfer of all shares of the capital stock of the particular corporation owned by the transferee at that time

is of

(ii) the fair market value immediately before the transfer of all the issued shares of the capital stock of the particular corporation at that time,

except that this paragraph does not apply in respect of a transfer where, in contemplation of and before the transfer, property has become property of the particular corporation, a corporation controlled by the particular corporation or a predecessor of any such corporation otherwise than as a result of

(iii) an amalgamation of corporations each of which was related to the particular corporation,

(iv) the winding-up of a corporation that was related to the particular corporation,

(v) a transaction to which subsection (2) would, but for this subsection, apply,

(vi) a disposition of property by the particular corporation or a corporation controlled by it to another corporation controlled by the particular corporation,

(vii) a disposition of property by the particular corporation or a predecessor thereof for consideration that consists only of money or indebtedness that is not convertible into other property, or of any combination thereof, or

(viii) a prescribed transaction."

Editorial Note: See the editorial note to subsection 55(2).

Related Sections: S. 55(3.01) Interpretation for par. (3)(a); s. 55(3.1) Where paragraph (3)(b) not applicable.

Information Circulars: IC 88-2 General anti-avoidance rule — Section 245 of the Income Tax Act (para. 7).

Advance Tax Rulings: ATR-35 Partitioning of assets to get specific ownership — "Butterfly"; ATR-58 Divisive reorganization.

Tax Topics: No. 1775, Series of Transactions After Canada Trustco: When Does Paragraph 55(3)(a) Apply?; No. 1472, Watch Out for Those U.S. Pubco Spinoffs!.

Tax Profile: October 2003 — Split-Up of Corporate Business Partnerships; June 2003 — The December 20, 2002 Technical Amendments to the Income Tax Act.

Canadian Tax Foundation: Truster, "Divisive Reorganizations: Breaking Up the Family Business", *2005 Conference Report*, 12:1; Wortsman, "The Public Company Spin-Off Rule", *2000 Conference Report*, 24:1; Ton-That and Sider, "Butterfly Revisited", *1999 Conference Report*, 24:1; Nikolakakis, "Anatomy of a Butterfly: Public Company Spinoff Transactions Under Section 55", *1998 Conference Report*, 16:1; Ton-That and Bilodeau, "Breaking Up is Hard To Do", *1996 Conference Report*, Vol. 1, 11:1.

Canadian Petroleum Tax Journal: A Comparative Study of Canadian and US Rules Regarding the Taxation of Corporate Reorganizations, Firoz Talakshi and Christy Palmer, Vol. 13 No. 1 2000; Recent Developments in Corporate Reorganizations and International Transactions, Doug Richardson and Edward Rowe, Vol. 13 No. 1 2000; Canada Customs and Revenue Agency 1999 Roundtable Questions and Answers, Question 23, Vol. 13 No. 1 2000.

► 55(3.01) ◄

(3.01) Interpretation for par. (3)(a). For the purposes of paragraph (3)(*a*),

(*a*) an unrelated person means a person (other than the dividend recipient) to whom the dividend recipient is not related or a partnership any member of which (other than the dividend recipient) is not related to the dividend recipient;

(*b*) a corporation that is formed by an amalgamation of 2 or more other corporations is deemed to be the same corporation as, and a continuation of, each of the other corporations;

(*c*) where there has been a winding-up of a corporation to which subsection 88(1) applies, the parent is deemed to be the same corporation as, and a continuation of, the subsidiary;

(*d*) proceeds of disposition shall be determined without reference to "paragraph 55(2)(*a*) or" in paragraph (*j*) of the definition "proceeds of disposition" in section 54; and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 55(3.01)(*d*) of the Act is replaced by the following:

(*d*) proceeds of disposition are to be determined without reference to

(i) the expression "paragraph 55(2)(*a*) or" in paragraph (*j*) of the definition "proceeds of disposition" in section 54, and

(ii) section 93; and

Applicable: To dividends received after February 21, 1994.

Explanatory Note:

Interpretation for Paragraph 55(3)(*a*)

Paragraphs 55(3.01)(*a*) to (*e*) of the Act contain various interpretive rules for the purpose of paragraph 55(3)(*a*) of the Act. Paragraph 55(3.01)(*d*) provides that proceeds of disposition are to be determined without reference to the application of paragraph 55(2)(*a*) of the Act. This rule is intended to ensure that proceeds of disposition do not include a dividend or deemed dividend that is subject to subsection 55(2).

Section 93 of the Act permits a corporation resident in Canada to elect to treat the proceeds of disposition of a share of a foreign affiliate as a dividend in certain circumstances. Where such an election is made, the proceeds of disposition of the share are reduced accordingly. The reduction in the proceeds of disposition under section 93 is not intended to affect the application of paragraph 55(3)(*a*). Thus, paragraph 55(3.01)(*d*) is amended, for dividends received after February 21, 1994, to ensure that, for the purpose of paragraph 55(3)(*a*), proceeds of disposition are determined without reference to section 93.

(*e*) notwithstanding any other provision of this Act, where a non-resident person disposes of a property in a taxation year and the gain or loss from the disposition is not included in computing the person's taxable income earned in Canada for the year, the person is deemed to have disposed of the property for proceeds of disposition that are less than its fair market value unless, under the income tax laws of the country in which the person is resident, the gain or loss is computed as if the property were disposed of for proceeds of disposition that are not less than its fair market value and the gain or loss so computed is recognized for the purposes of those laws.

Department of Finance Comfort Letter

[Paragraphs 55(3.01)(b) and (c) — Re Winding-up or Amalgamation of Subsidiary Corporation]

April 21, 2005

Dear XXXX:

We are writing in response to your letter dated February 22, 2005, and further to your telephone discussions with Daryl Boychuk of this Division in which you expressed concern regarding the application of paragraphs 55(3.01)(*b*) and (*c*) of the *Income Tax Act* (the "Act") in certain situations involving the winding-up of a wholly-owned subsidiary into its parent

corporation or the amalgamation of a wholly-owned subsidiary with its parent corporation.

Subsection 55(3.01) of the Act applies for the purpose of paragraph 55(3)(*a*), which, in turn, provides that subsection 55(2) of the Act does not apply to a dividend received by a corporation if, as part of a transaction or event or series of transactions or events in which the dividend was received, there was not, at any particular time, a disposition of property, or a significant increase in the direct interest in a corporation, in circumstances described in subparagraphs 55(3)(*a*)(i) to (v).

Subsection 55(3.01) of the Act sets out certain rules that apply for the purpose of paragraph 55(3)(*a*). In particular, paragraph 55(3.01)(*c*) provides that where there has been a winding-up of a subsidiary corporation into its parent to which subsection 88(1) applies, the parent is deemed to be the same corporation as, and a continuation of, the subsidiary. Similarly, if the subsidiary corporation is amalgamated with the parent corporation, paragraph 55(3.01)(*b*) deems the new corporation to be the same corporation and a continuation of each of the predecessor corporations.

Your concern is that a winding-up of a wholly-owned subsidiary into its parent corporation or the amalgamation of a wholly-owned subsidiary with its parent corporation in the situations described below may result in a significant increase in the direct interest in the subsidiary corporation by a shareholder of the parent corporation as described in subparagraphs 55(3)(*a*)(ii) to (v).

We have assumed that the transactions or events described in each situation below are part of the same series of transactions or events.

Situation #1

A public corporation ("Pubco") owns all the issued and outstanding shares of a taxable Canadian corporation ("Subco"). None of the shareholders of Pubco are related to Pubco. Subco owns property 1 and property 2 and Pubco wishes to acquire property 1. However, corporate and commercial restrictions preclude Pubco from issuing shares to Subco and, therefore, a direct tax-deferred acquisition of property 1 by Pubco is not possible. Accordingly, Pubco will incorporate a wholly-owned subsidiary ("Newco") and cause Subco to transfer property 1 to Newco on a tax-deferred basis in exchange for redeemable preferred shares of Newco ("Newco shares"). The Newco shares will then be redeemed giving rise to a deemed dividend to Subco. Following the redemption of the Newco shares, Newco will be wound up into or amalgamated with Pubco.

Situation #2

Two taxable Canadian corporations ("Aco" and "Bco") are both controlled by the same person ("Mr. X"). Mr. X owns 100% of the shares of the capital stock of Aco and 70% of the shares of each class of Bco. Persons that are not related to Mr. X own the remaining shares of Bco. In addition, Aco owns 100% of the shares of another taxable Canadian corporation ("Cco"). Aco intends to transfer the properties owned by Cco to Bco. To accomplish this, Aco will transfer the shares of Cco to Bco in exchange for redeemable preferred shares of Bco ("Bco shares"). The transfer will be done on a tax-deferred basis using subsection 85(1) of the Act. Aco will then cause Bco to redeem the preferred shares owned by Aco giving rise to a deemed dividend to Aco. Cco will then be wound up into or amalgamated with Bco.

Situation #3

A public corporation ("Pubco") owns all the issued and outstanding shares of a taxable Canadian corporation ("Subco"). None of the shareholders of Pubco are related to Pubco. Subco pays a dividend to Pubco and then is wound up into Pubco or amalgamated with Pubco.

In each of the situations described above, the amalgamation or winding-up will result in an increase in the total direct interests in the subsidiary corporation by a person unrelated to the dividend recipient because the new corporation formed on the amalgamation (or the parent corporation in the case of a winding-up) is deemed by paragraph 55(3.01)(*b*) (or paragraph 55(3.01)(*c*) in the case of a winding-up) to be a continuation of the subsidiary corporation. Accordingly, subsection 55(2) of the Act will apply to the dividends that are received or deemed to be received by the dividend recipient. You have asked us to recommend an amendment to the Act that would ensure that a short-form vertical amalgamation of a wholly-owned subsidiary with its parent corporation or a winding-up of a wholly-owned subsidiary into its parent corporation would not, in the situations described above, result in the application of subsection 55(2) to a dividend received as part of a series of transactions or events that included the amalgamation or winding-up.

We agree that, in the situations described above, the amalgamation of a wholly-owned subsidiary with its parent corporation or the winding-up of a wholly-owned subsidiary corporation into its parent corporation, should not result in the increase in the total direct interests in the subsidiary corporation described in subparagraphs 55(3)(*a*)(ii) to (v) of the Act. Accordingly, we will recommend to the Minister that the Act be amended to ensure that, in the situations described above, the winding-up or amalgamation of the subsidiary corporation will not result in an increase in the interest in the subsidiary corporation described in subparagraphs 55(3)(*a*)(ii) to (v). We will also recommend that the amendment be effective for dividends received after 2004. While we cannot offer any assurance that either the Minister or Parliament will agree with our recommendation, we trust that this statement of our intentions is helpful to you.

Yours sincerely,
Len Farber
General Director
Tax Legislation Division
Tax Policy Branch

History: S. 55(3.01) was added by S.C. 1998, c. 19, s. 96(5), applicable to dividends received by a corporation after February 21, 1994, except that,

(*a*) in respect of such dividends received before June 20, 1996, or received under an arrangement substantially advanced, as evidenced in writing, before June 20, 1996, subparagraphs 55(3)(*a*)(ii) and (v) of the Act shall, if paragraph (*b*) does not apply, be read as follows:

"(ii) a significant increase (other than as a consequence of a disposition of shares of the capital stock of a corporation for proceeds of disposition that are not less than their fair market value) in the interest in any corporation of one or more persons or partnerships that were unrelated persons immediately before the particular time,"

"(v) a significant increase in the interest in the dividend payer of one or more persons or partnerships that were unrelated persons immediately before the particular time; or"

and

(*b*) in respect of such dividends, where they are received on shares issued before June 20, 1996, and the corporation so elects in writing before the end of the fourth month after the month in which this Act is assented to [Royal Assent June 18, 1998] or in its return of income under Part I of the Act for the year in which it received the dividends, the Act shall be read without reference to subsection 55(3.01), as enacted by subsection (5), and paragraph 55(3)(*a*) of the Act shall be read as follows:

"(*a*) unless the dividend was received as part of a transaction or event or a series of transactions or events that resulted in

(i) a disposition of any property to a person with whom the dividend recipient was dealing at arm's length, or

(ii) a significant increase in the interest in any corporation of any person with whom the dividend recipient was dealing at arm's length; or."

► 55(3.02) ◄

(3.02) Distribution by a specified corporation. For the purposes of the definition "distribution" in subsection (1), where the transfer referred to in that definition is by a specified corporation to an acquiror described in the definition "specified corporation" in subsection (1), the references in the definition "distribution" to

(*a*) "each type of property" shall be read as "property"; and

(*b*) "property of that type" shall be read as "property".

History: S. 55(3.02) was added by S.C. 2001, c. 17, s. 38(2), applicable to transfers that occur after 1998.

► 55(3.1) ◄

(3.1) Where paragraph (3)(b) not applicable. Notwithstanding subsection (3), a dividend to which subsection

(2) would, but for paragraph (3)(*b*), apply is not excluded from the application of subsection (2) where

(*a*) in contemplation of and before a distribution made in the course of the reorganization in which the dividend was received, property became property of the distributing corporation, a corporation controlled by it or a predecessor corporation of any such corporation otherwise than as a result of

(i) an amalgamation of corporations each of which was related to the distributing corporation,

(ii) an amalgamation of a predecessor corporation of the distributing corporation and one or more corporations controlled by that predecessor corporation,

(iii) a reorganization in which a dividend was received to which subsection (2) would, but for paragraph (3)(*b*), apply, or

(iv) a disposition of property by

(A) the distributing corporation, a corporation controlled by it or a predecessor corporation of any such corporation to a corporation controlled by the distributing corporation or a predecessor corporation of the distributing corporation,

(B) a corporation controlled by the distributing corporation or by a predecessor corporation of the distributing corporation to the distributing corporation or predecessor corporation, as the case may be, or

(C) the distributing corporation, a corporation controlled by it or a predecessor corporation of any such corporation for consideration that consists only of money or indebtedness that is not convertible into other property, or of any combination thereof,

(*b*) the dividend was received as part of a series of transactions or events in which

(i) a person or partnership (referred to in this subparagraph as the "vendor") disposed of property and

(A) the property is

(I) a share of the capital stock of a distributing corporation that made a distribution as part of the series or of a transferee corporation in relation to the distributing corporation, or

(II) property 10% or more of the fair market value of which was, at any time during the course of the series, derived from one or more shares described in subclause (I),

(B) the vendor was, at any time during the course of the series, a specified shareholder of the distributing corporation or of the transferee corporation, and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced]

Clause 55(3.1)(*b*)(i)(B) of the Act is replaced by the following:

(B) the vendor (other than a qualified person in relation to the distribution) was, at any time during the course of the series, a specified shareholder of the distributing corporation or of the transferee corporation, and

Applicable: In respect of dividends received after 1999.

Explanatory Note:

Where Paragraph (3)(*b*) not Applicable

Paragraph 55(3.1)(*b*) of the Act provides that a dividend received in the course of a reorganization to which paragraph 55(3)(*b*) applies is not excluded from the application of subsection 55(2) of the Act if one of the transactions or events described in paragraph 55(3.1)(*b*) occurs as part of the series of transactions or events that includes the receipt of the dividend. Subparagraph 55(3.1)(*b*)(i) deals with a disposition of property in circumstances described in clauses 55(3.1)(*b*)(i)(A) to (C). Clause 55(3.1)(*b*)(i)(A) describes the type of property (i.e., shares of the distributing or transferee corporation or property whose value is derived from such shares), clause 55(3.1)(*b*)(i)(B) describes the type of vendor (i.e., a specified shareholder of the distributing or transferee corporation) and clause 55(3.1)(*b*)(i)(C) describes the type of acquirer (i.e., a person unrelated to the vendor or a partnership).

Clause 55(3.1)(*b*)(i)(B) is amended, for dividends received after 1999, to exclude a vendor that is a qualified person in relation to the distribution. "Qualified person" is a new expression defined in subsection 55(1) of the Act. For additional information, see the commentary to "qualified person" under subsection 55(1).

(C) the property or any other property (other than property received by the transferee corporation on the distribution) acquired by any person or partnership in substitution therefor was acquired (otherwise than on a permitted acquisition, permitted exchange or permitted redemption in relation to the distribution) by a person (other than the vendor) who was not related to the vendor or, as part of the series, ceased to be related to the vendor or by a partnership,

(ii) control of a distributing corporation that made a distribution as part of the series or of a transferee corporation in relation to the distributing corporation was acquired (otherwise than as a result of a permitted acquisition, permitted exchange or permitted redemption in relation to the distribution) by any person or group of persons, or

(iii) in contemplation of a distribution by a distributing corporation, a share of the capital stock of the distributing corporation was acquired (otherwise than on a permitted acquisition or permitted exchange in relation to the distribution or on an amalgamation of 2 or more predecessor corporations of the distributing corporation) by

(A) a transferee corporation in relation to the distributing corporation or by a person or partnership with whom the transferee corporation did not deal at arm's length from a person to whom the acquiror was not related or from a partnership,

(B) a person or any member of a group of persons who acquired control of the distributing corporation as part of the series,

(C) a particular partnership any interest in which is held, directly or indirectly through one or more partnerships, by a person referred to in clause (B), or

(D) a person or partnership with whom a person referred to in clause (B) or a particular partnership referred to in clause (C) did not deal at arm's length,

(*c*) the dividend was received by a transferee corporation from a distributing corporation that, immediately after the reorganization in the course of which a distribution was made and the dividend was received, was not related to the transferee corporation and the total of all amounts each of which is the fair market value, at the time of acquisition, of a property that

(i) was acquired, as part of the series of transactions or events that includes the receipt of the dividend, by a person (other than the transferee corporation) who was not related to the transferee corporation or, as part of the series, ceased to be related to the transferee corporation or by a partnership, otherwise than

(A) as a result of a disposition in the ordinary course of business,

(B) on a permitted acquisition in relation to a distribution, or

(C) as a result of an amalgamation of 2 or more corporations that were related to each other immediately before the amalgamation, and

(ii) is a property (other than money, indebtedness that is not convertible into other property, a share of the capital stock of the transferee corporation and property more than 10% of the fair market value of which is attributable to one or more such shares)

(A) that was received by the transferee corporation on the distribution,

(B) more than 10% of the fair market value of which was, at any time after the distribution and before the end of the series, attributable to property (other than money and indebtedness that is not convertible into other property) described in clause (A) or (C), or

(C) to which, at any time during the course of the series, the fair market value of property described in clause (A) was wholly or partly attributable

is greater than 10% of the fair market value, at the time of the distribution, of all the property (other than money and indebtedness that is not convertible into other property) received by the transferee corporation on the distribution, or

(*d*) the dividend was received by a distributing corporation that, immediately after the reorganization in the course of which a distribution was made and the dividend was received, was not related to the transferee corporation that paid the dividend and the total of all amounts each of which is the fair market value, at the time of acquisition, of a property that

(i) was acquired, as part of the series of transactions or events that includes the receipt of the dividend, by a person (other than the distributing corporation) who was not related to the distributing corporation or, as part of the series, ceased to be related to the distributing corporation or by a partnership, otherwise than

(A) as a result of a disposition in the ordinary course of business,

(B) on a permitted acquisition in relation to a distribution, or

(C) as a result of an amalgamation of 2 or more corporations that were related to each other immediately before the amalgamation, and

(ii) is a property (other than money, indebtedness that is not convertible into other property, a share of the capital stock of the distributing corporation and property more than 10% of the fair market value of which is attributable to one or more such shares)

(A) that was owned by the distributing corporation immediately before the distribution and not disposed of by it on the distribution,

(B) more than 10% of the fair market value of which was, at any time after the distribution and before the end of the series, attributable to property (other than money and indebtedness that is not convertible into other property) described in clause (A) or (C), or

(C) to which, at any time during the course of the series, the fair market value of property described in clause (A) was wholly or partly attributable

is greater than 10% of the fair market value at the time of the distribution, of all the property (other than money and indebtedness that is not convertible into other property) owned immediately before that time by the distributing corporation and not disposed of by it on the distribution.

Department of Finance Comfort Letter
[Application of Paragraphs 55(3.1)(*c*) and (*d*)]

June 8, 2005

Dear XXXX,

We are writing in response to your correspondence of June 2, 2005 and further to your discussions with Daryl Boychuk of this Division regarding the application of paragraphs 55(3.1)(*c*) and (*d*) of the *Income Tax Act* (the "Act") in the circumstances described below.

You advised us that a taxable Canadian corporation ("Holdco") has two shareholders, both of which are taxable Canadian corporations ("Xco" and "Yco"). Xco and Yco own $^2/_3$ and $^1/_3$, respectively, of the common shares of Holdco. The principal asset owned by Holdco is shares of a public corporation ("Pubco").

Holdco is proposing to implement a reorganization described in paragraph 55(3)(*b*) of the Act (i.e., a "butterfly reorganization"). Prior to the distribution that will occur in the course of the butterfly reorganization, Holdco intends to dispose of $^1/_3$ of its Pubco shares either directly through the stock exchange or indirectly by disposing of the shares of a wholly-owned subsidiary corporation to which Holdco will transfer the Pubco shares. In each case, the shares will be disposed of at fair market value, for consideration that consists only of money.

Your concern is that property described in clause 55(3.1)(*c*)(ii)(B) and 55(3.1)(*d*)(ii)(B) will be acquired as a result of the proposed disposition of the shares of Pubco. You submit that the result is anomalous and frustrates the legislative scheme in paragraphs 55(3.1)(*c*) and (*d*), particularly in view of the exclusion in clause 55(3.1)(*a*)(iv)(C) for property disposed of

for proceeds that consists only of money or indebtedness that is not convertible into other property.

In addition, you suggest that paragraphs 55(3.1)(*c*) and (*d*) should not apply to the pre-butterfly dispositions of property in the circumstances described above.

Based on our understanding of the facts described above and the circumstances surrounding the proposed transactions, we agree that paragraphs 55(3.1)(*c*) and (*d*) of the Act should not apply to the direct or indirect disposition by Holdco of the shares of Pubco if the disposition occurs before the distribution that will be made in the course of the proposed butterfly reorganization. Accordingly, we are prepared to recommend to the Minister of Finance that paragraph 55(3.1)(*c*) and (*d*) of the Act be amended to ensure this result in respect of the proposed transactions described above, which we understand will occur in June of 2005. While we cannot offer any assurance that either the Minister or Parliament will agree with our recommendations, we hope that this statement of our position is helpful to you.

Yours sincerely,

Len Farber
General Director
Tax Legislation Division
Tax Policy Branch

Department of Finance Comfort Letter [Distributions by a "Specified Corporation"]

November 26, 2004

Dear XXXX:

We are writing in response to your correspondence dated September 28, 2004 regarding paragraph 55(3.1)(*a*) of the *Income Tax Act* (the "Act"). More specifically, you have asked us to consider an amendment to paragraph 55(3.1)(*a*) to ensure that the restrictions on the acquisition of property in contemplation of a butterfly reorganization do not apply if the distributing corporation is a "specified corporation" as defined in subsection 55(1) of the Act.

Paragraph 55(3.1)(*a*) of the Act provides that the exemption from subsection 55(2) for dividends received in the course of a butterfly reorganization does not generally apply if property becomes property of the distributing corporation in contemplation of the distribution of property by the corporation.

The rules governing butterfly reorganizations mandate that each type of property owned by the distributing corporation (other than a distributing corporation that is a specified corporation) be distributed *pro rata* based on each transferee corporation's proportionate interest in the distributing corporation. In the case of a specified corporation, subsection 55(3.02) of the Act permits the distributing corporation to undertake a butterfly reorganization by making a proportionate distribution of all of its property as opposed to each type of property. Therefore, while an acquisition of property may alter the types of property owned by the distributing corporation, you submit that since a distribution by a specified corporation is not subject to the types of property requirement, the restrictions in paragraph 55(3.1)(*a*) should not apply to a specified corporation.

We agree that paragraph 55(3.1)(*a*) of the Act should not apply to a dividend if a specified corporation acquires the property referred to in that paragraph in contemplation of a distribution by that corporation. Accordingly, we are prepared to recommend to the Minister of Finance that the Act be amended, applicable to dividends received after November 2004, to exclude the restrictions in paragraph 55(3.1)(*a*) from applying if the distribution referred to in that paragraph is a distribution by a specified corporation.

While I cannot offer any assurance that either the Minister or Parliament will agree with our recommendation, I hope that this statement of our intentions is helpful to you.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: Clauses 55(3.1)(*c*)(ii)(B) and (C) were amended by S.C. 1998, c. 19, s. 96(6), applicable to dividends received after April 26, 1995 except that, with respect to acquisitions of property that occur before June 20, 1996 or under a written agreement made before June 20, 1996,

(*a*) clause 55(3.1)(*c*)(ii)(B) of the Act shall be read as follows:

"(B) more than 10% of the fair market value of which was, at any time after the distribution and before the end of the series, attributable to property (other than money and indebtedness that is not convertible into other property) described in clause (A), or"

and

(*b*) clause 55(3.1)(*d*)(ii)(B) of the Act shall be read as follows:

"(B) more than 10% of the fair market value of which was, at any time after the distribution and before the end of the series, attributable to property (other than money and indebtedness that is not convertible into other property) described in clause (A), or"

Clauses 55(3.1)(*c*)(ii)(B) and (C) formerly read:

"(B) more than 10% of the fair market value of which was, at any time after the distribution and before the end of the series, attributable to property received by the transferee corporation on the distribution, or

(C) to which, at any time during the course of the series, more than 10% of the fair market value of a property referred to clause (A) was attributable"

Clauses 55(3.1)(*d*)(ii)(B) and (C) were amended by S.C. 1998, c. 19, s. 96(7), applicable to dividends received after April 26, 1995 except that, with respect to acquisitions of property that occur before June 20, 1996 or under a written agreement made before June 20, 1996,

(*a*) clause 55(3.1)(*c*)(ii)(B) of the Act shall be read as follows:

"(B) more than 10% of the fair market value of which was, at any time after the distribution and before the end of the series, attributable to property (other than money and indebtedness that is not convertible into other property) described in clause (A), or"

and

(*b*) clause 55(3.1)(*d*)(ii)(B) of the Act shall be read as follows:

"(B) more than 10% of the fair market value of which was, at any time after the distribution and before the end of the series, attributable to property (other than money and indebtedness that is not convertible into other property) described in clause (A), or"

Clauses 55(3.1)(*d*)(ii)(B) and (C) formerly read:

"(B) more than 10% of the fair market value of which was, at any time after the distribution, attributable to property described in clause (A), or

(C) to which, at any time during the course of the series, more than 10% of the fair market value of a property referred to in clause (A) was attributable is greater than the 10% of the fair market value at the time of the distribution, of all the property (other than money and indebtedness that is not convertible into other property) owned immediately before that time by the distributing corporation and not disposed of by it on the distribution."

S. 55(3.1) was amended by S.C. 1995, c. 3, s. 16(4), applicable to dividends received after February 21, 1994 other than dividends received before 1995 in the course of a reorganization that was required on February 22, 1994 to be carried out pursuant to a written agreement entered into before February 22, 1994, except that, in applying the Act to dividends received before June 23, 1994 to which subsections (1), (3) and (4) [of Bill C-59] apply,

(*a*) paragraph 55(3.1)(*b*) shall be read as follows:

"(*b*) the dividend was received as part of a series of transactions or events in which

(i) a person or partnership (referred to in this subparagraph as the 'vendor') disposed of property and

(A) the property is

(I) a share of the capital stock of a distributing corporation that made a distribution as part of the series or of a transferee corporation in relation to the distributing corporation, or

(II) property 10% or more of the fair market value of which was, at any time during the course of the series, derived from one or more shares described in subclause (I),

(B) the property or any other property (other than property received by the transferee corporation on the distribution) acquired by any person or partnership in substitution therefor was acquired (otherwise than on a permitted acquisition, permitted exchange or permitted redemption in relation to the distribution) by a person (other than the vendor) who was not related to the vendor or, as part of the series, ceased to be related to the vendor or by a partnership, and

(C) either

(I) control of the distributing corporation or of a transferee corporation in relation to the distributing corporation was acquired (otherwise than as a result of a permitted acquisition, permitted exchange or permitted redemption in relation to the distribution) by any person or group of persons, or

(II) the vendor was, at any time during the course of the series, a specified shareholder of the distributing corporation or a

transferee corporation in relation to the distributing corporation, or

(ii) a share of the capital stock of a distributing corporation was acquired (otherwise than on a permitted acquisition or permitted exchange in relation to a distribution by the distributing corporation or on an amalgamation of 2 or more predecessor corporations of the distributing corporation), in contemplation of a distribution by the distributing corporation, by

(A) a transferee corporation in relation to the distributing corporation, or by any person or partnership with whom the transferee corporation did not deal at arm's length from a person to whom the acquiror was not related,

(B) a person or any member of a group of persons who acquired control of the distributing corporation as part of the series,

(C) a particular partnership any interest in which is held, directly or indirectly through one or more partnerships, by a person referred to in clause (B), or

(D) a person or partnership with whom a person referred to in clause (B) or a particular partnership referred to in clause (C) did not deal at arm's length, or"

and

(*b*) the Act shall be read without reference to paragraphs 55(3.1)(*c*) and (*d*) and (3.2)(*c*) and (*e*).

S. 55(3.1) formerly read:

"(3.1) *Idem.* Notwithstanding subsection (3), a dividend to which subsection (2) would, but for paragraph (3)(*b*), otherwise apply is not excluded from the application of subsection (2) where the dividend is received as part of a series of transactions or events in which

(*a*) a person or partnership (in this subsection referred to as the 'foreign vendor') who, or any member of which, is resident in a country other than Canada disposes of property that is

(i) a share of the capital stock of the particular corporation referred to in paragraph (3)(*b*) or of a transferee (within the meaning assigned by that paragraph) in relation to the particular corporation that is taxable Canadian property of the foreign vendor or, where the foreign vendor is a partnership, would be taxable Canadian property of the foreign vendor if the foreign vendor were non-resident, or

(ii) property the fair market value of which, at any time during the course of the series of transactions or events, is derived principally from one or more shares which, if owned by the foreign vendor, would be shares described in subparagraph (i); and

(*b*) the property disposed of by the foreign vendor or any other property acquired by any person or partnership in substitution for it is acquired by a person (other than the particular corporation) or partnership that, at any time during the course of the series of transactions or events, deals at arm's length with the foreign vendor."

S. 55(3.1) was added by S.C. 1994, c. 21, s. 24(1), applicable to dividends received after May 4, 1993, other than a dividend received as part of a series of transactions or events in which a foreign vendor was obliged on May 4, 1993 to dispose of property described in paragraph 55(3.1)(*a*) under a written agreement entered into before May 5, 1993.

Income Tax Technical News: Issue No. 3, Butterfly reorganizations.
Tax Profile: June 2003 — The December 20, 2002 Technical Amendments to the Income Tax Act.

► 55(3.2) ◄

(3.2) Interpretation of paragraph (3.1)(b). For the purpose of paragraph (3.1)(*b*),

(*a*) in determining whether the vendor referred to in subparagraph (3.1)(*b*)(i) is at any time a specified shareholder of a transferee corporation or of a distributing corporation, the references in the definition "specified shareholder" in subsection 248(1) to "taxpayer" shall be read as "person or partnership";

(*b*) a corporation that is formed by the amalgamation of 2 or more corporations (each of which is referred to in this paragraph as a "predecessor corporation") shall be deemed to be the same corporation as, and a continuation of, each of the predecessor corporations;

(*c*) subject to paragraph (*d*), each particular person who acquired a share of the capital stock of a distributing corporation in contemplation of a distribution by the distributing corporation shall be deemed, in respect of that acquisition, not to be related to the person from whom the particular person acquired the share unless

(i) the particular person acquired all the shares of the capital stock of the distributing corporation that were owned, at any time during the course of the series of transactions or events that included the distribution and before the acquisition, by the other person, or

(ii) immediately after the reorganization in the course of which the distribution was made, the particular person was related to the distributing corporation;

(*d*) where a share is acquired by an individual from a personal trust in satisfaction of all or a part of the individual's capital interest in the trust, the individual shall be deemed, in respect of that acquisition, to be related to the trust;

(*e*) subject to paragraph (*f*), where at any time a share of the capital stock of a corporation is redeemed or cancelled (otherwise than on an amalgamation where the only consideration received or receivable for the share by the shareholder on the amalgamation is a share of the capital stock of the corporation formed by the amalgamation), the corporation shall be deemed to have acquired the share at that time;

(*f*) where a share of the capital stock of a corporation is redeemed, acquired or cancelled by the corporation pursuant to the exercise of a statutory right of dissent by the holder of the share, the corporation shall be deemed not to have acquired the share;

(*g*) control of a corporation shall be deemed not to have been acquired by a person or group of persons where it is so acquired solely because of

(i) the incorporation of the corporation, or

(ii) the acquisition by an individual of one or more shares for the sole purpose of qualifying as a director of the corporation; and

(*h*) each corporation that is a shareholder and specified shareholder of a distributing corporation at any time during the course of a series of transactions or events, a part of which includes a distribution made by the distributing corporation, is deemed to be a transferee corporation in relation to the distributing corporation.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced]

Paragraph 55(3.2)(*h*) of the Act is replaced by the following:

(*h*) in relation to a distribution each corporation (other than a qualified person in relation to the distribution) that is a shareholder and a specified shareholder of the distributing corporation at any time during the course of a series of transactions or events, a part of which includes the distribution made by the distributing corpo-

ration, is deemed to be a transferee corporation in relation to the distributing corporation.

Applicable: In respect of dividends received after 1999.

Explanatory Note:

Interpretation

Subsection 55(3.2) of the Act sets out a number of interpretative rules for the purpose of paragraph 55(3.1)(*b*). Paragraph 55(3.2)(*h*) provides that each corporation that is a shareholder and specified shareholder of the distributing corporation at any time during the course of the series of transactions or events that includes a distribution is deemed to be a transferee corporation in relation to the distributing corporation. Paragraph 55(3.2)(*h*) is amended, for dividends received after 1999, to ensure that a "qualified person" as defined in subsection 55(1) is not deemed by this provision to be a transferee corporation in relation to the distributing corporation. For additional information, see the comments in the explanatory note to "qualified person" under subsection 55(1).

History: S. 55(3.2)(*h*) was added by S.C. 1998, c. 19, s. 96(8), applicable to dividends received after June 20, 1996 other than dividends received in the course of a reorganization that is carried out under a series of transactions or events substantially advanced, as evidenced in writing, before June 21, 1996 or that was required on June 20, 1996 to be carried out under a written agreement made before June 21, 1996, and for the purpose of this subsection, a reorganization is deemed not to be required to be carried out if the parties to that agreement can be relieved of that requirement if there is a change to the Act.

S. 55(3.2) was added by S.C. 1995, c. 3, s. 16(4), applicable to dividends received after February 21, 1994 other than dividends received before 1995 in the course of a reorganization that was required on February 22, 1994 to be carried out pursuant to a written agreement entered into before February 22, 1994, except that, in applying the Act to dividends received before June 23, 1994 to which subsections (1), (3) and (4) [of Bill C-59] apply,

(*b*) the Act shall be read without reference to paragraphs 55(3.1)(*c*) and (*d*) and (3.2)(*c*) and (*e*).

▶ 55(3.3) ◀

(3.3) Interpretation of "specified shareholder" changed. In determining whether a person is a specified shareholder of a corporation for the purposes of subparagraph (3.1)(*b*)(i) and paragraph (3.2)(*h*), the reference in the definition "specified shareholder" in subsection 248(1) to "or of any other corporation that is related to the corporation" shall be read as "or of any other corporation that is related to the corporation and that has a significant direct or indirect interest in any issued shares of the capital stock of the corporation".

History: S. 55(3.3) was added by S.C. 1998, c. 19, s. 96(9), applicable to dividends received after 1996.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 55 of the Act is amended by adding the following after subsection (3.3):

(3.4) Specified shareholder exclusion. In determining whether a person is a specified shareholder of a corporation for the purposes of the definition "qualified person" in subsection (1), subparagraph (3.1)(*b*)(i) and paragraph (3.2)(*h*) as it applies for the purpose of subparagraph (3.1)(*b*)(iii), the expression "not less than 10% of the issued shares of any class of the capital stock of the corporation" in the definition "specified shareholder" in subsection 248(1) is to be read as the expression "not less than 10% of the issued shares of any class of the capital stock of the corporation, other than shares of a specified class (within the meaning of subsection 55(1))".

Applicable: In respect of dividends received after 1999.

(3.5) Amalgamation of related corporations. For the purposes of paragraphs (3.1)(*c*) and (*d*), a corporation formed by an amalgamation of two or more corporations (each of which is referred to in this subsection as a "predecessor corporation") that were related to each other immediately before the amalgamation, is deemed to be the same corporation as, and a continuation of, each of the predecessor corporations.

Applicable: In respect of dividends received after April 26, 1995.

Explanatory Note:

Specified Shareholder

New subsection 55(3.4) of the Act is added to provide that shares of a specified class are not to be considered in determining whether a person is a specified shareholder for the purposes of subparagraph 55(3.1)(*b*)(i) and paragraph 55(3.2)(*h*) (as it applies for the purpose of subparagraph 55(3.1)(*b*)(iii)) and for the purpose of the definition "qualified person" in subsection 55(1) of the Act. New subsection 55(3.4), which applies to dividends received after 1999, ensures that a person or partnership that would not, but for the ownership of shares of a specified class, be a specified shareholder, will not be subject to the restrictions on the disposition of property described in subparagraph 55(3.1)(*b*)(i) and will not be deemed to be a transferee corporation for the purpose of subparagraph 55(3.1)(*b*)(iii).

Subsection 55(3.5) — Amalgamations — Related Corporations

Subsection 55(3.5) of the Act is a new provision that applies for the purposes of paragraphs 55(3.1)(*c*) and (*d*) of the Act. Paragraphs 55(3.1)(*c*) and (*d*) provide that a dividend arising in the course of a reorganization to which paragraph 55(3)(*b*) applies is not exempt from the application of subsection 55(2) of the Act where, as Part of the series of transactions or events that includes the receipt of the dividend, property described therein is acquired by a particular person or partnership. In the case of paragraph 55(3.1)(*c*), the particular person is a person who is not related to the transferee corporation (or ceases to be related to the transferee corporation). In the case of paragraph 55(3.1)(*d*), the particular person is a person who is not related to the distributing corporation (or ceases to be related to the distributing corporation). Property described in paragraph 55(3.1)(*c*) does not include a share of the capital stock of the transferee corporation. Similarly, property described in paragraph 55(3.1)(*d*) does not include a share of the capital stock of the distributing corporation.

New subsection 55(3.5), which applies to dividends received after April 26, 1995, deems an amalgamated corporation to be the same corporation as, and a continuation of, each of its predecessor corporations provided each of the predecessor corporations was related to each other immediately before the amalgamation. As a result, the references in paragraphs 55(3.1)(*c*) and (*d*) to a share of the capital stock of the transferee or distributing corporation include a share of the capital stock of a new corporation formed on an amalgamation where the new corporation is deemed by new subsection 55(3.5) to be the same corporation as, and a continuation of, the transferee or distributing corporation, as the case may be.

▶ 55(4) ◀

(4) Avoidance of subsection (2). For the purposes of this section, where it can reasonably be considered that one of the main purposes of one or more transactions or events was to cause 2 or more persons to be related to each other or to cause a corporation to control another corporation, so that subsection (2) would, but for this subsection, not apply to a dividend, those persons shall be deemed not to be related to each other or the corporation shall be deemed not to control the other corporation, as the case may be.

History: S. 55(4) was amended by S.C. 1995, c. 3, s. 16(5), applicable to dividends received after February 21, 1994, other than dividends received as part of a transaction or event or a series of transactions or events that was required on February 22, 1994 to be carried out pursuant to a written agreement entered into before February 22, 1994. S. 55(4) formerly read:

"(4) *Arm's length dealings.* Where it may reasonably be considered that the principal purpose of one or more transactions or events was to cause two or more persons to be related or to not deal with each other at arm's length, or to cause one corporation to control another corporation, so as to make subsection (2) inapplicable, for the purposes of this section, those persons shall be deemed not to be related or shall be deemed to deal with

each other at arm's length, or the corporation shall be deemed not to control the other corporation, as the case may be."

► 55(5) ◄

(5) Applicable rules. For the purposes of this section,

(*a*) where a dividend referred to in subsection (2) was received by a corporation as part of a transaction or event or a series of transactions or events, the portion of a capital gain attributable to any income expected to be earned or realized by a corporation after the safe-income determination time for the transaction, event or series is deemed to be a portion of a capital gain attributable to anything other than income;

(*b*) the income earned or realized by a corporation for a period throughout which it was resident in Canada and not a private corporation shall be deemed to be the total of

(i) its income for the period otherwise determined on the assumption that no amounts were deductible by the corporation by reason of section 37.1 of this Act or paragraph 20(1)(gg) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952,

(ii) the amount, if any, by which

(A) the amount, if any, by which the total of the capital gains of the corporation for the period exceeds the total of the taxable capital gains of the corporation for the period

exceeds

(B) the amount, if any, by which the total of the capital losses of the corporation for the period exceeds the total of the allowable capital losses of the corporation for the period,

(iii) the total of all amounts each of which is an amount required to have been included under this subparagraph as it read in its application to a taxation year that ended before February 28, 2000,

(iv) the amount, if any, by which

(A) 1/2 of the total of all amounts each of which is an amount required by paragraph 14(1)(*b*) to be included in computing the corporation's income in respect of a business carried on by the corporation for a taxation year that is included in the period and that ended after February 27, 2000 and before October 18, 2000,

exceeds

(B) where the corporation has deducted an amount under subsection 20(4.2) in respect of a debt established by it to have become a bad debt in a taxation year that is included in the period and that ended after February 27, 2000 and before October 18, 2000, or has an allowable capital loss for such a year because of the application of subsection 20(4.3), the amount determined by the formula

$$V + W$$

where

V is 1/2 of the value determined for A under subsection 20(4.2) in respect of the corporation for the last such taxation year that ended in the period, and

W is 1/3 of the value determined for B under subsection 20(4.2) in respect of the corporation for the last such taxation year that ended in the period, and

(C) in any other case, nil, and

(v) the amount, if any, by which

(A) the total of all amounts each of which is an amount required by paragraph 14(1)(*b*) to be included in computing the corporation's income in respect of a business carried on by the corporation for a taxation year that is included in the period and that ends after October 17, 2000,

exceeds

(B) where the corporation has deducted an amount under subsection 20(4.2) in respect of a debt established by it to have become a bad debt in a taxation year that is included in the period and that ends after October 17, 2000, or has an allowable capital loss for such a year because of the application of subsection 20(4.3), the amount determined by the formula

$$X + Y$$

where

X is the value determined for A under subsection 20(4.2) in respect of the corporation for the last such taxation year that ended in the period, and

Y is 1/3 of the value determined for B under subsection 20(4.2) in respect of the corporation for the last such taxation year that ended in the period, and

(C) in any other case, nil;

(*c*) the income earned or realized by a corporation for a period throughout which it was a private corporation is deemed to be its income for the period otherwise determined on the assumption that no amounts were deductible by the corporation under section 37.1 of this Act, as that section applies for taxation years that ended before 1995, or paragraph 20(1)(gg) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952;

(*d*) the income earned or realized by a corporation for a period ending at a time when it was a foreign affiliate of another corporation shall be deemed to be the total of the amount, if any, that would have been deductible by that other corporation at that time by virtue of paragraph 113(1)(*a*) and the amount, if any, that would have been deductible by that other corporation at that time by virtue of paragraph 113(1)(*b*) if that other corporation

(i) owned all of the shares of the capital stock of the foreign affiliate immediately before that time,

(ii) had disposed at that time of all of the shares referred to in subparagraph (i) for proceeds of disposition equal to their fair market value at that time, and

(iii) had made an election under subsection 93(1) in respect of the full amount of the proceeds of disposition referred to in subparagraph (ii);

(*e*) in determining whether 2 or more persons are related to each other, in determining whether a person is at any time a specified shareholder of a corporation and in determining whether control of a corporation has been acquired by a person or group of persons,

(i) a person shall be deemed to be dealing with another person at arm's length and not to be related to the other person if the person is the brother or sister of the other person,

(ii) where at any time a person is related to each beneficiary (other than a registered charity) under a trust who is or may (otherwise than by reason of the death of another beneficiary under the trust) be entitled to share in the income or capital of the trust, the person and the trust shall be deemed to be related at that time to each other and, for this purpose, a person shall be deemed to be related to himself, herself or itself,

(iii) a trust and a person shall be deemed not to be related to each other unless they are deemed by paragraph (3.2)(*d*) or subparagraph (ii) to be related to each other or the person is a corporation that is controlled by the trust, and

(iv) this Act shall be read without reference to subsection 251(3) and paragraph 251(5)(*b*); and

(*f*) where a corporation has received a dividend any portion of which is a taxable dividend,

(i) the corporation may designate in its return of income under this Part for the taxation year during which the dividend was received any portion of the taxable dividend to be a separate taxable dividend, and

(ii) the amount, if any, by which the portion of the dividend that is a taxable dividend exceeds the portion designated under subparagraph (i) shall be deemed to be a separate taxable dividend.

History: S. 55(5)(*b*)(iii) was amended, and subparagraphs (iv) and (v) were added, by S.C. 2001, c. 17, s. 38(3), applicable in respect of taxation years that end after February 27, 2000. S. 55(5)(*b*)(iii) formerly read:

"(iii) the total of all amounts each of which is an amount in respect of a business carried on by the corporation at any time in the period, equal to the amount, if any, by which the total of

(A) where the period commenced before the corporation's adjustment time, the amount, if any, by which

(I) the total of the amounts in respect of the business required to be included in the calculation of the corporation's cumulative eligible capital by reason of the description of E in the definition 'cumulative eligible capital' in subsection 14(5) with respect to that portion of the period preceding its adjustment time

exceeds the total of

(II) the cumulative eligible capital of the corporation in respect of the business at the commencement of the period,

(III) 1/2 of the total of the eligible capital expenditures in respect of the business that were made or incurred by the corporation during that portion of the period preceding its adjustment time, and

(IV) to the extent that the amount determined under subclause (I) exceeds the total of the amounts determined under subclauses (II) and (III), 1/2 of the total of the eligible capital expenditures in respect of the business that were made or incurred by the corporation during that portion of the period following its adjustment time,

(B) 1/3 of the total of the amounts in respect of the business required to be included in the calculation of the corporation's cumulative eligible capital by reason of the description of E in the definition 'cumulative eligible capital' in subsection 14(5) with respect to that portion of the period following its adjustment time, and

(C) 1/3 of all amounts received in the period that were required to be included in the corporation's income by reason of paragraph 12(1)(*i.1*)

exceeds the total of

(D) where the period commenced after the corporation's adjustment time, 1/3 of the cumulative eligible capital of the corporation in respect of the business at the commencement of the period,

(E) 1/4 of the total of the eligible capital expenditures in respect of the business made or incurred by the corporation with respect to that portion of the period after its adjustment time and a portion of which were not included in subclause (A)(IV),

(F) where the period commenced before the corporation's adjustment time, 1/2 of the amount, if any, by which the total of the amounts determined in respect of the corporation under subclauses (A)(II) and (III) exceeds the amount determined in respect of the corporation under subclause (A)(I), and

(G) 1/3 of all amounts deducted by the corporation under subsection 20(4.2) in respect of debts established by it to have become bad debts during the period;"

S. 55(5)(*e*)(iv) was amended by S.C. 2001, c. 17, s. 38(5), applicable to dividends that are received after November 1999, other than dividends received as part of a transaction or event, or a series of transactions or events, that was required before December 1, 1999 to be carried out pursuant to a written agreement made before that day. S. 55(5)(*e*)(iv) formerly read:

"(iv) persons who are related to each other solely because of a right referred to in paragraph 251(5)(*b*) shall be deemed not to be related to each other; and"

S. 55(5)(*a*) was amended by S.C. 1998, c. 19, s. 96(10), applicable to dividends received after June 20, 1996. S. 55(5)(*a*) formerly read:

"(*a*) the portion of any capital gain attributable to any income that is expected to be earned or realized by a corporation after the time of receipt of the dividend referred to in subsection (2) shall, for greater certainty, be deemed to be a portion of the capital gain attributable to anything other than income;"

S. 55(5)(*c*) was amended by S.C. 1998, c. 19, s. 96(11), applicable to the 1995 and subsequent taxation years. S. 55(5)(*c*) formerly read:

"(*c*) the income earned or realized by a corporation for a period throughout which it was a private corporation shall be deemed to be its income for the period otherwise determined on the assumption that no amounts were deductible by the corporation by reason of section 37.1 of this Act or paragraph 20(1)(*gg*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952;"

S. 55(5)(*e*) was amended by S.C. 1995, c. 3, s. 16(6), applicable to dividends received after February 21, 1994, other than dividends received as part of a transaction or event or a series of transactions or events that was required on February 22, 1994 to be carried out pursuant to a written agreement entered into before February 22, 1994. S. 55(5)(*e*) formerly read:

"(*e*) in determining whether two or more persons are dealing with each other at arm's length, persons shall be deemed to be dealing with each other at arm's length and not to be related to each other if one is the brother or sister of the other; and"

Related Sections: S. 53 Adjustments to cost base; s. 55(1), "safe-income determination time"; s. 104(1) Reference to trust or estate; s. 248(1), "amount", "corporation", "dividend", "private corporation", "property", "share".

Income Tax Technical News: Issue No. 37, Safe Income Calculation — Treatment of Non-Deductible Expenses; Issue No. 33, Income Earned or Realized — The *Kruco* Case; Issue No. 16, *Brelco Drilling Ltd. v. The Queen*.

Tax Topics: No. 1876, Income Tax Technical News No. 37: Safe Income Calculation — Treatment of Non-Deductible Expenses; No. 1820, Beware of Pitfalls in November 9, 2006 Technical Amendments When Crystallizing "Safe Income"!; No. 1814, 2006 Canadian Tax Foundation Annual Conference CRA Round Table; No. 1689, Some Recent Developments in Safe Income Determination; No. 1475, Object and Spirit of Section 55.

Tax Profile: October 2003 — Split-Up of Corporate Business Partnerships.

Canadian Tax Foundation: Thomas, "It's What Parliament Said That Counts, Not What It Meant to Say", *2000 Canadian Tax Journal*, No. 4, 1260.

Canadian Petroleum Tax Journal: Recent Cases of Interest — Safe Income, Gerald Grenon, Vol. 13 No. 1 2000.

Cases: Safe income adjustments with respect to investment tax credits were not justified because it would result in double taxation and strayed from the very basis of the calculation set out in paragraph 55(5)(*c*). An adjustment was allowed with respect to the cost of a debt acquired by the company which gave rise to an SRED tax credit. *Kruco Inc. v. The Queen*, 2003 DTC 5506 (F.C.A.), affirming 2001 DTC 668 (T.C.C.).

The words "any corporation" in subsection 55(2) are not limited to those corporations listed in paragraphs 55(5)(*b*), (*c*), and (*d*) and therefore could include a foreign non-affiliate. *Lamont Management Limited v. The Queen*, 2000 DTC 6256 (F.C.A.), reversing 99 DTC 871 (T.C.C.).

In the calculation of the taxpayer's "safe income", the surpluses of the taxpayer's foreign affiliates were netted against the deficits of the taxpayer's other foreign affiliates. *The Queen v. Brelco Drilling Ltd.*, 99 DTC 5253 (F.C.A.), reversing 98 DTC 1422 (T.C.C.).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 55 of the Act is amended by adding the following after subsection (5):

(6) Unlisted shares deemed listed. A share (in this subsection referred to as the "reorganization share") is deemed, for the purposes of subsection 116(6) and the definition "taxable Canadian property" in subsection 248(1), to be listed on a prescribed stock exchange if

(*a*) a dividend, to which subsection (2) does not apply because of paragraph (3)(*b*), is received in the course of a reorganization;

(*b*) in contemplation of the reorganization

(i) the reorganization share is issued to a taxpayer by a public corporation in exchange for another share of that corporation (in this subsection referred to as the "old share") owned by the taxpayer, and

(ii) the reorganization share is exchanged by the taxpayer for a share of another public corporation (in this subsection referred to as the "new share") in an exchange that would be a permitted exchange if the definition "permitted exchange" were read without reference to paragraph (*a*) and subparagraph (*b*)(ii) of that definition;

(*c*) immediately before the exchange, the old share

(i) is listed on a prescribed stock exchange, and

(ii) is not taxable Canadian property of the taxpayer; and

(*d*) the new share is listed on a prescribed stock exchange.

Applicable: To shares that are issued after April 26, 1995.

Editorial Note: S. 100(1) of S.C. 2007, c. 35, which is a coordinating amendment with Bill C-10, provides that if Bill C-10 receives royal assent, this Bill C-10 amendment applies as though Bill C-10 had received royal assent before S.C. 2007, c. 35. As well, the reference to "prescribed stock exchange" in subsection 55(6) is replaced by a reference to "designated stock exchange" on December 14, 2007.

Explanatory Note:

Unlisted Shares of Public Corporation Deemed to be Listed

New subsection 55(6) of the Act, which applies to shares issued after April 26, 1995, treats a taxpayer's unlisted shares of a public corporation ("reorganization shares") — that were issued to the taxpayer and redeemed in the course of a tax-deferred reorganization spin-off by the public corporation — to be listed on a prescribed stock exchange. This subsection ensures that the shares are listed on a prescribed stock exchange for the purposes of the clearance certificate rule in subsection 116(1) and the definition "taxable Canadian property" in subsection 248(1) of the Act. However, for this treatment to apply, the following conditions must be met:

- a dividend must be received in the course of the reorganization to which the anti-avoidance rule in subsection 55(2) does not apply because of the exception for certain spin-off butterfly transactions in paragraph 55(3)(*b*);
- in contemplation of the reorganization
  - the reorganization share must be issued to a taxpayer by a public corporation in an exchange for another share of that corporation (the old share) owned by the taxpayer, and
  - the reorganization share must be exchanged by the taxpayer for a new share of another public corporation in an exchange that would be within the meaning of the definition "permitted exchange" in subsection 55(1) if that definition were read without reference to paragraph (*a*) and subparagraph (*b*)(ii) of that definition. In other words, the exchange occurs in contemplation of a public corporation transacting a spin-off reorganization;
- immediately before the exchange, the old share
  - must be listed on a prescribed stock exchange, and
  - must not be taxable Canadian property of the taxpayer; and
- the new share must be listed on a prescribed stock exchange.

Subdivision d — Other Sources of Income

SECTION 56:

► 56(1) ◄

(1) Amounts to be included in income for year. Without restricting the generality of section 3, there shall be included in computing the income of a taxpayer for a taxation year,

Editorial Note: The amounts described in section 56 are included in a taxpayer's Part 1 income, notwithstanding that they might not be considered income from one of the sources listed in paragraph 3(*a*) (namely, income from office, employment, business or property).

► 56(1)(a) ◄

(a) Pension benefits, unemployment insurance benefits, etc. — any amount received by the taxpayer in the year as, on account or in lieu of payment of, or in satisfaction of,

(i) a superannuation or pension benefit including, without limiting the generality of the foregoing,

(A) the amount of any pension, supplement or spouse's or common-law partner's allowance under the *Old Age Security Act* and the amount of any similar payment under a law of a province,

(B) the amount of any benefit under the *Canada Pension Plan* or a provincial pension plan as defined in section 3 of that Act,

(C) the amount of any payment out of or under a prescribed provincial pension plan, and

(C.1) the amount of any payment out of or under a foreign retirement arrangement established under the laws of a country, except to the extent that the amount would not, if the taxpayer were resident in the country, be subject to income taxation in the country,

but not including

(D) the portion of a benefit received out of or under an employee benefit plan that is required by paragraph 6(1)(*g*) to be included in computing the taxpayer's income for the year, or would be required to be so included if that paragraph were read without reference to subparagraph 6(1)(*g*)(ii),

(E) the portion of an amount received out of or under a retirement compensation arrangement that is required by paragraph (*x*) or (*z*) to be included in computing the taxpayer's income for the year, and

(F) a benefit received under section 71 of the *Canada Pension Plan* or under a similar provision of a provincial pension plan as defined in section 3 of that Act,

(ii) a retiring allowance, other than an amount received out of or under an employee benefit plan, a retirement compensation arrangement or a salary deferral arrangement,

(iii) a death benefit,

(iv) a benefit under the *Unemployment Insurance Act*, other than a payment relating to a course or program designed to facilitate the re-entry into the labour force of a claimant under that Act, or a benefit under Part I, VIII or VIII.1 of the *Employment Insurance Act*,

(v) a benefit under regulations made under an appropriation Act providing for a scheme of transitional assistance benefits to persons employed in the production of products to which the Canada-United States Agreement on Automotive Products, signed on January 16, 1965 applies, or

(vi) except to the extent otherwise required to be included in computing the taxpayer's income, a prescribed benefit under a government assistance program;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 56(1)(*a*) of the Act is amended by striking out the word "or" at the end of subparagraph (v), by adding the word "or" at the end of subparagraph (vi) and by adding the following after subparagraph (vi):

(vii) a benefit under the *Act respecting parental insurance R.S.Q., c. A-29.011*;

Applicable: To the 2006 and subsequent taxation years.

Explanatory Note: Sections 56 to 59.1 of the Act list some of the types of "other income" that are required by paragraph 3(*a*) of the Act to be included in computing the income of a taxpayer for a taxation year from sources of income (these sources are sources other than the taxpayer's income for the year from each office, employment, business and property).

Paragraph 56(1)(a) — Pension Benefits, Unemployment Insurance Benefits

Paragraph 56(1)(*a*) includes in the income of a taxpayer certain amounts received in a taxation year. This paragraph is amended by adding new subparagraph (vii) to include in the income of a taxpayer the amount of a benefit received under the new Quebec Parental Insurance Plan.

This amendment applies to the 2006 and subsequent taxation years and is consequential to the introduction of the new Quebec Parental Insurance Plan on January 1, 2006.

(vii) [Repealed by S.C. 1994, c. 21, s. 25(1).]

History: S. 56(1)(*a*)(i)(A) was amended by S.C. 2000, c. 12, Sched. 2, s. 7(c), applicable January 1, 2001, coming into force on July 31, 2000. S. 56(1)(*a*)(i)(A) formerly read:

"(A) the amount of any pension, supplement or spouse's allowance under the *Old Age Security Act* and the amount of any similar payment under a law of a province,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 56(1)(*a*)(i)(F) was added by S.C. 1998, c. 19, s. 9(1), applicable to the 1997 and subsequent taxation years, except that clause 56(1)(*a*)(i)(F) of the Act does not apply to benefits received before August 1997 by a taxpayer in respect of the death of an individual if the taxpayer is an estate that arose on or as a consequence of the death of the individual.

S. 56(1)(*a*)(iv) was amended by S.C. 1998, c. 19, s. 97(1), deemed to have come into force on June 30, 1996. S. 56(1)(*a*)(iv) formerly read:

"(iv) a benefit under the *Employment Insurance Act*, other than a payment relating to the cost of a course or program designed to facilitate the re-entry into the labour force of a claimant under that Act,"

S. 56(1)(*a*)(iv) was amended by S.C. 1996, c. 23, s. 187, by replacing the expression "Unemployment Insurance Act" with the expression "Employment Insurance Act", effective June 30, 1996.

S. 56(1)(*a*)(vi) was amended and (vii) was repealed by S.C. 1994, c. 21, s. 25(1), applicable to benefits received after October 1991. Those paragraphs formerly read:

"(vi) a benefit under the *Labour Adjustment Benefits Act*, or

(vii) an income assistance payment made pursuant to an agreement under section 5 of the *Department of Labour Act*;"

S. 56(1)(*a*)(i)(C.1) was added by S.C. 1994, c. 7, Sched. II, s. 32(1), applicable to payments received after July 13, 1990.

S. 56(1)(*a*)(iv) was amended by S.C. 1994, c. 7, Sched. II, s. 32(2), applicable to the 1988 and subsequent taxation years. S. 56(1)(*a*)(iv) formerly read:

"(iv) a benefit under the *Unemployment Insurance Act*,"

S. 56(1)(*a*)(vii) was added by S.C. 1994, c. 7, Sched. II, s. 32(3), applicable to payments received after September 14, 1989.

Related Sections: S. 6(1)(*a*)(i) Value of benefits; s. 56(1)(*l*) Legal expenses; s. 57 Certain superannuation or pension benefits; s. 60(*j*.02) Payment to registered pension plan; s. 60(*j*.03) Repayments of pre-1990 pension benefits; s. 60(*j*.04) Repayments of post-1989 pension benefits; s. 60(*l*) Transfer of refund of premiums under RRSP; s. 60(*n*) Repayment of pension or benefits; s. 60(*o*) Legal expenses; s. 60(*v*) Contribution to a provincial pension plan; s. 60(*v*.1) UI and EI benefit repayment; s. 110(1)(*f*) Deductions for payments; s. 110.2 Lump-sum Payments; s. 145(1), "supplementary unemployment benefit plan"; s. 146(1), "registered retirement savings plan"; s. 147(1), "deferred profit sharing plan"; s. 147(21) Restriction re transfers; s. 147(22) Excess transfer; s. 153(1) Withholding; s. 212(1)(*h*) Pension benefits; s. 212(1)(*j*) Benefits; s. 212(1)(*j*.1) Retiring allowances; s. 248(1), "amount", "annuity", "assessment", "death benefit", "insurer", "property", "retirement compensation arrangement", "salary deferral arrangement", "superannuation or pension benefit"; s. 252(1) Extended meaning of "child".

Regulations: 202(2), (3); 5502; 7800(1).

Interpretation Bulletins: *Primary* — IT-247 Employer's contribution to pensioners' premiums under provincial medical and hospital services plans [Archived by the CRA]; IT-337R4 (Consolid.) Retiring allowances; IT-499R Superannuation or pension benefits; IT-508R Death benefits. *Secondary* — IT-75R4 Scholarships, Fellowships, Bursaries, Prizes, Research Grants and Financial Assistance; IT-307R4 Spousal or common-law partner registered retirement savings plans; IT-365R2 Damages, settlement, and similar receipts; IT-397R Amounts excluded from income — Statutory exemptions and certain service or RCMP pensions, allowances and compensation; IT-499R Superannuation or pension benefits; IT-513R Personal tax credits; IT-528 Transfers of Funds Between Registered Plans; IT-529 Flexible Employee Benefit Programs.

Advance Tax Rulings: ATR-12 Retiring allowance; ATR-21 Pension benefit from an unregistered pension plan.

Income Tax Technical News: Issue No. 20, Retiring Allowances - Effect of Re-Employment or Employment With Affiliate.

Forms: T4A(P) Supp.; T4E; T4A(OAS) Supp.

Tax Topics: No. 1706, Retiring Allowances and E.I. Reimbursements: How Many Times Do You Have To Withhold?.

Tax Window Files: Lump-Sum Payment from Private Health Services Plan (PHSP), 2004, CRA Document No. 2004-0096101R3 [Payment of a lump sum to retirees in lieu of the discontinuance of post retirement benefits under a private health services plan not taxable].

Cases: The taxpayer was demoted by his employer due to the interference of the employer's major customer. When the taxpayer sued the customer, the damage award he received was not a "retiring allowance" since it was not related to loss of employment. *Ahmad v. The Queen*, (T.C.C.) 2002 DTC 2065.

S. 56(1)(*a*) does not provide for the taxation of settlements for loss of intended employment. Accordingly, where a taxpayer's proposed employment was terminated before it had commenced, the amount of the settlement was not taxable. Further, it could not be characterized as a "retirement allowance". *Schwartz v. The Queen*, (S.C.C.) 96 DTC 6103, reversing (F.C.A.) 94 DTC 6249, and affirming (T.C.C.) 93 DTC 555.

The amount of $603,753 received by a taxpayer from his employer's "Incentive Performance Plan" was in respect of long service, so that it could reasonably be considered as a "retiring allowance" rather than as "remuneration" for services rendered during employment. The employees were encouraged to stay by virtue of the plan vesting provisions and they were not allowed to receive amounts before retirement. *The Queen v. Albino*, (F.C.T.D.) 94 DTC 6071.

The $100,000 lump-sum payment made to the taxpayer allegedly to terminate after eight years "his business relationship" with F was nothing more than a taxable retiring allowance paid to the taxpayer in respect of his loss of office or employment when there was simply an employee-employer relationship between the taxpayer and F. *Lyness v. The Queen*, (T.C.C.) 94 DTC 1242.

Within one year of his appointment to the National Parole Board, the taxpayer was forced to resign and executed a release in return for which he received a "termination allowance" of $90,000. This sum constituted a "retiring allowance" to be included in his income. *Blaker v. The Queen*, (T.C.C.) 93 DTC 1025.

The lump-sum payment received by a Canadian resident from the U.K. Civil Service Pension Scheme was a superannuation or pension benefit to be included in his income. *Merritt v. The Queen*, (T.C.C.) 93 DTC 978.

► 56(1)(a.1) ◄

(a.1) Benefits under CPP/QPP — where the taxpayer is an estate that arose on or as a consequence of the death of an individual, each benefit received under section 71 of the *Canada Pension Plan*, or under a similar provision of a provincial pension plan as defined in section 3 of that Act, after July 1997 and in the year in respect of the death of the individual;

History: S. 56(1)(*a*.1) was added by S.C. 1998, c. 19, s. 9(2), applicable to the 1997 and subsequent taxation years, except that clause 56(1)(*a*)(i)(F) of the Act does not apply to benefits received before August 1997 by a taxpayer in respect of the death of an individual if the taxpayer is an estate that arose on or as a consequence of the death of the individual.

► 56(1)(a.2) ◄

(a.2) Pension income reallocation — where the taxpayer is a pension transferee (as defined in subsection 60.03(1)), any amount that is a split-pension amount (as defined in that subsection) in respect of the pension transferee for the taxation year;

History: S. 56(1)(*a*.2) was added by S.C. 2007, c. 29, s. 3(1), applicable to the 2007 and subsequent taxation years.

► 56(1)(b) ◄

(b) Support — the total of all amounts each of which is an amount determined by the formula

$$A - (B + C)$$

where

A is the total of all amounts each of which is a support amount received after 1996 and before the end of the year by the taxpayer from a particular person where the taxpayer and the particular person were living separate and apart at the time the amount was received,

B is the total of all amounts each of which is a child support amount that became receivable by the taxpayer from the particular person under an agreement or order on or after its commencement day and before the end of the year in respect of a period that began on or after its commencement day, and

C is the total of all amounts each of which is a support amount received after 1996 by the taxpayer from the particular person and included in the taxpayer's income for a preceding taxation year;

History:

Sec. 145, Chap. 12, S.C. 2000

145. Where, but for the application of sections 130 to 142, paragraphs 56(1)(*b*) and 60(*b*) of the *Income Tax Act* would not apply to amounts paid and received pursuant to an order or a written agreement, made before the coming into force of this section, those paragraphs do not apply unless the payor and the recipient of the amounts jointly elect to have those paragraphs apply to those amounts for the 2001 and following taxation years by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent.

S. 56(1)(*b*), the description of B was amended by S.C. 1998, c. 19, s. 97(2), applicable to amounts received after 1996. S. 56(1)(*b*) formerly read:

"B is the total of all amounts each of which is a child support amount that became receivable by the taxpayer from the particular person under an agreement or order on or after its commencement day and before the end of the year in respect of a period that began after its commencement day, and"

S. 56(1)(*b*) was amended by S.C. 1997, c. 25, s. 8(1), applicable to amounts received after 1996. S. 56(1)(*b*) formerly read:

"(*b*) *Alimony* — an amount received by the taxpayer in the year as alimony or other allowance payable on a periodic basis for the maintenance of the taxpayer, children of the taxpayer or both the taxpayer and the children if the taxpayer, because of the breakdown of the taxpayer's marriage, was living separate and apart from the spouse or former spouse who was required to make the payment at the time the payment was received and throughout the remainder of the year and the amount was received under a decree, order or judgment of a competent tribunal or under a written agreement;"

S. 56(1)(*b*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 17(1), applicable to amounts received under a decree, order or judgment of a competent tribunal or under a written agreement, with respect to a breakdown of a marriage occurring after 1992. S. 56(1)(*b*) formerly read:

"(*b*) any amount received by the taxpayer in the year, pursuant to a decree, order or judgment of a competent tribunal or pursuant to a written agreement, as alimony or other allowance payable on a periodic basis for the maintenance of the recipient thereof, children of the marriage, or both the recipient and children of the marriage, if the recipient was living apart from, and was separated pursuant to a divorce, judicial separation or written separation agreement from, the spouse or former spouse required to make the payment at the time the payment was received and throughout the remainder of the year;"

Editorial Note: Generally speaking, for orders and agreements made or amended after April 1997, child support amounts are neither deductible for the payer nor included in the income of the recipient; see also the definitions in subsection 56.1(4).

Related Sections: S. 56(12) Definition of "allowance"; s. 56.1 Support; s. 60(*b*) Support; s. 60(*c*) Pension income reallocation; s. 60(*c*.2) Repayment of support payments; s. 60.1 Support; s. 109 Deductions permitted by individuals; s. 110.2 Lump-sum Payments; s. 146(1), "earned income"; s. 252(1) Extended meaning of "child"; s. 252(3) Extended meaning of "spouse" and "former spouse".
Interpretation Bulletins: *Secondary* — IT-530R Support Payments.
Income Tax Technical News: Issue No. 24, Legal Costs to Obtain Support Amounts.
Forms: T1157; T1158.
Guides: P102 Support Payments.

► 56(1)(c) ◄

(c) Maintenance — [Repealed by S.C. 1997, c. 25, s. 8(1).]

History: S. 56(1)(*c*) was repealed by S.C. 1997, c. 25, s. 8(1), applicable to amounts received after 1996. S. 56(1)(*c*) formerly read:

"(*c*) *Maintenance* — an amount received by the taxpayer in the year as an allowance payable on a periodic basis for the maintenance of the taxpayer, children of the taxpayer or both the taxpayer and the children if
(i) at the time the amount was received and throughout the remainder of the year the taxpayer was living separate and apart from the person who was required to make the payment,
(ii) the person who was required to make the payment is the natural parent of a child of the taxpayer, and
(iii) the amount was received under an order made by a competent tribunal in accordance with the laws of a province;"

Former s. 56(1)(*c*.1) was amended and renumbered as s. 56(1)(*c*) by S.C. 1994, c. 7, Sched. VIII, s. 17(2), applicable to amounts received under an order made after 1992. For the text of former s. 56(1)(*c*.1), see the history note under that paragraph.

S. 56(1)(*c*) was repealed by S.C. 1994, c. 7, Sched. VIII, s. 17(1), applicable to amounts received under a decree, order or judgment of a competent tribunal or under a written agreement, with respect to a breakdown of a marriage occurring after 1992. S. 56(1)(*c*) formerly read:

"(*c*) any amount received by the taxpayer in the year, pursuant to an order of a competent tribunal, as an allowance payable on a periodic basis for the maintenance of the taxpayer, children of the taxpayer, or both the taxpayer and children of the taxpayer if, at the time the payment was received and throughout the remainder of the year, the taxpayer was living apart from the taxpayer's spouse who was required to make the payment;"

Related Sections: S. 56(12) Definition of "allowance"; s. 56.1 Support; s. 60(*b*) Support; s. 60(*c*) Pension income reallocation; s. 60(*c*.1) Idem; s. 60(*c*.2) Repayment of support payments; s. 60.1 Support; s. 109 Deductions permitted by individuals; s. 146(1), "earned income"; s. 252(1) Extended meaning of "child".
Regulations: Part LXV.
Cases: Late and deficient payments were nonetheless payments made pursuant to a Court Order and were therefore taxable as income. *James v. The Queen*, (F.C.T.D.) 85 DTC 5173.

► 56(1)(c.1) ◄

(c.1) Idem — [Repealed by S.C. 1994, c. 7, Sched. VIII, s. 17(2).]

History: S. 56(1)(*c*.1) was amended and renumbered as s. 56(1)(*c*) by S.C. 1994, c. 7, Sched. VIII, s. 17(2), applicable to amounts received under an order made after 1992. S. 56(1)(*c*.1) formerly read:

"(*c*.1) *Idem* — any amount received by the taxpayer in the year, pursuant to an order made by a competent tribunal in accordance with the laws of a province, as an allowance payable on a periodic basis for the maintenance of the taxpayer, the children of the taxpayer or both the taxpayer and the children of the taxpayer if
(i) the order was made
(A) after February 10, 1988, or
(B) before February 11, 1988 and the taxpayer and the person required to pay the amount jointly elected in writing before the end of the year to have this paragraph and paragraph 60(*c*.1) apply with respect to all those amounts,
(ii) at the time the amount was received and throughout the remainder of the year, the taxpayer was living apart from the person required to pay the amount, and
(iii) the person required to pay the amount is a person of the opposite sex who
(A) before the date of the order cohabited with the taxpayer in a conjugal relationship, or
(B) is the natural parent of a child of the taxpayer;"

► 56(1)(c.2) ◄

(c.2) Reimbursement of support payments — an amount received by the taxpayer in the year under a decree, order or judgment of a competent tribunal as a reimbursement of an amount deducted under paragraph 60(*b*) or (*c*), or under paragraph 60(*c*.1) as it applies, in computing the taxpayer's income for the year or a preceding taxation year to decrees, orders and judgments made before 1993;

History: S. 56(1)(*c*.2) was added by S.C. 1994, c. 7, Sched. VIII, s. 17(3), applicable to payments received after 1990.

Related Sections: S. 248(1), "amount".
Interpretation Bulletins: *Secondary* — IT-530R Support Payments.

► 56(1)(d) ◄

(d) Annuity payments — any amount received by the taxpayer in the year as an annuity payment other than an amount
(i) otherwise required to be included in computing the taxpayer's income for the year,
(ii) with respect to an interest in an annuity contract to which subsection 12.2(1) applies (or would apply if the contract had an anniversary day in the year at a time when the taxpayer held the interest), or
(iii) received out of or under an annuity contract issued or effected as a TFSA;
(iv) [Repealed by 1990, c. 39, s. 11(1).]

History: S. 56(1)(*d*)(iii) was added by S.C. 2009, c. 2, s. 13(1), applicable to the 2009 and subsequent taxation years.

S. 56(1)(*d*)(ii) was amended and s. 56(1)(*d*)(iii) was repealed by S.C. 1994, c. 7, Sched. II, s. 32(4), applicable to contracts last acquired after 1989. S. 56(1)(*d*)(ii) and (iii) formerly read:

"(ii) with respect to an interest in an annuity contract to which subsection 12.2(1) applies or would apply if the interest had been last acquired after December 19, 1980 and before December 2, 1982 (other than a contract to which subsection 12.2(1) does not apply in the year by reason of subsection 12.2(6) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, or
(iii) with respect to an interest in an annuity contract to which subsection 12.2(3) applies;"

Related Sections: S. 58 Government annuities and like annuities; s. 60(*a*) Capital element of annuity payments; s. 81(1)(*g*) Compensation by Federal Republic of Germany.
Interpretation Bulletins: *Secondary* — IT-85R2 Health and welfare trusts for employees; IT-111R2 Annuities purchased from charitable organizations [Archived by the CRA]; IT-363R2 Deferred Profit Sharing Plans — Deductibility of Employer Contributions and Taxation of Amounts Received by a Beneficiary [Archived by the CRA]; IT-500R Registered retirement savings plans — Death of annuitant.
Advance Tax Rulings: ATR-40 Structured settlements; ATR-68 Structured settlement.

► 56(1)(d.1) ◄

(d.1) Idem — [Repealed by S.C. 1990, c. 39, s. 11(2).]

► 56(1)(d.2) ◄

(d.2) Idem — any amount received out of or under, or as proceeds of disposition of, an annuity the payment for which was

(i) deductible in computing the taxpayer's income because of paragraph 60(*l*) or because of subsection 146(5.5) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952,

(ii) made in circumstances to which subsection 146(21) applied, or

(iii) made pursuant to or under a deferred profit sharing plan by a trustee under the plan to purchase the annuity for a beneficiary under the plan;

History: S. 56(1)(*d.2*)(iii) was added by S.C. 1997, c. 25, s. 8(2), applicable to the 1996 and subsequent taxation years.

S. 56(1)(*d.2*) was amended by S.C. 1994, c. 21, s. 25(2), applicable to the 1992 and subsequent taxation years. S. 56(1)(*d.2*) formerly read:

"(*d.2*) any amount received out of or under, or as proceeds of disposition of, an annuity the payment for which was deductible in computing the taxpayer's income by reason of paragraph 60(*l*) of this Act or subsection 146(5.5) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952;"

Related Sections: S. 147(10.6) Commencement of annuity after age 69.
Interpretation Bulletins: *Secondary* — IT-517R Pension tax credit [Archived by the CRA].

► 56(1)(e) ◄

(e) Disposition of income-averaging annuity contract — any amount received by the taxpayer in the year as, on account or in lieu of payment of, or in satisfaction of, proceeds of the surrender, cancellation, redemption, sale or other disposition of an income-averaging annuity contract;

Related Sections: S. 61.1 Where income-averaging annuity contract ceases to be such.
Regulations: Part II.

► 56(1)(f) ◄

(f) Idem — any amount deemed by subsection 61.1(1) to have been received by the taxpayer in the year as proceeds of the disposition of an income-averaging annuity contract;

Related Sections: S. 214(3) Deemed payments.
Regulations: Part II.

► 56(1)(g) ◄

(g) Supplementary unemployment benefit plan — amounts received by the taxpayer in the year from a trustee under a supplementary unemployment benefit plan as provided by section 145;

Regulations: 202(2), (3)

► 56(1)(h) ◄

(h) Registered retirement savings plan, etc. — amounts required by section 146 in respect of a registered retirement savings plan or a registered retirement income fund to be included in computing the taxpayer's income for the year;

Related Sections: S. 146(8) Benefits taxable.
Regulations: 202(2), (3).
Advance Tax Rulings: ATR-37 Refund of premiums transferred to spouse.

► 56(1)(h.1) ◄

(h.1) Home buyers' plan — amounts required by section 146.01 to be included in computing the taxpayer's income for the year;

History: S. 56(1)(*h.1*) was added by S.C. 1994, c. 7, Sched. VIII, s. 17(4), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 146.01(4) Portion of eligible amount not repaid; s. 146.01(5) Where individual becomes a non-resident; s. 146.01(6) Death of individual.

► 56(1)(h.2) ◄

(h.2) Lifelong learning plan — amounts required by section 146.02 to be included in computing the taxpayer's income for the year;

History: S. 56(1)(*h.2*) was added by S.C. 1999, c. 22, s. 15(1), applicable to the 1999 and subsequent taxation years.

Related Sections: S. 146.02(4) If portion of eligible amount not repaid; s. 146.02(5) Ceasing residence in Canada; s. 146.02(6) Death of individual.

► 56(1)(i) ◄

(i) Deferred profit sharing plan — amounts received by the taxpayer in the year under a deferred profit sharing plan as provided by section 147;

► 56(1)(j) ◄

(j) Life insurance policy proceeds — any amount required by subsection 148(1) or (1.1) to be included in computing the taxpayer's income for the year;

Regulations: 217.
Interpretation Bulletins: *Secondary* — IT-87R2 Policyholders' income from life insurance policies; IT-430R3 (Consolid.) — Life insurance proceeds received by a private corporation or a partnership as a consequence of death.
Forms: T5 Sum.; T5.
Tax Topics: No. 1858, Viatical Settlements — What?.

► 56(1)(k) ◄

(k) Certain tools of an employee, re proceeds — all amounts received in the year by a person or partnership (in this paragraph referred to as the "vendor") as consideration for the disposition by the vendor of a property the cost of which was included in computing an amount under paragraph 8(1)(*r*) or (*s*) in respect of the vendor or in respect of a person with whom the vendor does not deal at arm's length, to the extent that the total of those amounts received in respect of the disposition in the year and in preceding taxation years exceeds the total of the cost to the vendor of the property immediately before the disposition and all amounts included in respect of the disposition under this paragraph in computing the vendor's income for a preceding taxation year, unless the property was acquired by the vendor in circumstances to which subsection 85(5.1) or subsection 97(5) applied;

History: S. 56(1)(*k*) was replaced by S.C. 2007, c. 2, s. 6(1), applicable to the 2006 and subsequent taxation years.

S. 56(1)(*k*) formerly read:

"(*k*) *Apprentice tools, re proceeds* — all amounts received in the year by a person or partnership (in this paragraph referred to as the 'vendor') as consideration for the disposition by the vendor of a property the cost of which was included in computing an amount under paragraph 8(1)(*r*) in respect of the vendor or in respect of a person with whom the vendor does not deal at arm's length, to the extent that the total of those amounts received in respect of the disposition in the year and in preceding taxation years exceeds the total of the cost to the vendor of the property immediately before the disposition and all amounts included in respect of the disposition under this paragraph in computing the vendor's income for a preceding taxation year, unless the property was acquired by the vendor in circumstances to which subsection 85(5.1) or subsection 97(5) applied;"

S. 56(1)(*k*) was added by S.C. 2002, c. 9, s. 24(1), applicable to the 2002 and subsequent taxation years. S. 56(1)(*k*) was previously repealed by the former Act.

► 56(1)(l) ◄

(l) Legal expenses — amounts received by the taxpayer in the year as

(i) legal costs awarded to the taxpayer by a court on an appeal in relation to an assessment of any tax, interest or penalties referred to in paragraph 60(*o*),

(ii) reimbursement of costs incurred in relation to a decision of the Canada Employment and Immigration Commission, the Canada Employment and Insurance Commission, a board of referees or an umpire under the *Unemployment Insurance Act* or the *Employment Insurance Act*, or

(iii) reimbursement of costs incurred in relation to an assessment or a decision under the *Canada Pension Plan* or a provincial pension plan as defined in section 3 of that Act,

if with respect to that assessment or decision, as the case may be, an amount has been deducted or may be deductible under paragraph 60(*o*) in computing the taxpayer's income;

History: S. 56(1)(*l*)(ii) was amended by S.C. 1998, c. 19, s. 97(3), deemed to have come into force on June 30, 1996. S. 56(1)(*l*)(ii) formerly read:

"(ii) reimbursement of costs incurred in relation to a decision of the Canada Employment and Insurance Commission, a board of referees or an umpire under the *Employment Insurance Act*, or"

S. 56(1)(*l*)(ii) was amended by S.C. 1996, c. 23, s. 187, by replacing the expression "Unemployment Insurance Act" with the expression "Employment Insurance Act", effective June 30, 1996.

S. 56(1)(*l*) was amended by S.C. 1996, c. 11, s. 99, by replacing the term "Canada Employment and Immigration Commission" with the term "Canada Employment and Insurance Commission", effective July 12, 1996.

Related Sections: S. 56(1)(*a*) Pension benefits, unemployment insurance benefits, etc.; s. 60(*n*) Repayment of pension or benefits; s. 60(*o*) Legal expenses; s. 60(*v*.1) UI and EI benefit repayment; s. 152(1.2) Provisions applicable.

▶ 56(1)(l.1) ◀

(l.1) Idem — amounts received by the taxpayer in the year as an award or a reimbursement in respect of legal expenses (other than those relating to a division or settlement of property arising out of, or on a breakdown of, a marriage or common-law partnership) paid to collect or establish a right to a retiring allowance or a benefit under a pension fund or plan (other than a benefit under the *Canada Pension Plan* or a provincial pension plan as defined in section 3 of that Act) in respect of employment;

History: S. 56(1)(*l*.1) was amended by S.C. 2000, c. 12, Sched. 2, s. 9(a), applicable January 1, 2001, coming into force on July 31, 2000. S. 56(1)(*l*.1) formerly read:

"(*l*.1) *Idem* — amounts received by the taxpayer in the year as an award or a reimbursement in respect of legal expenses (other than those relating to a division or settlement of property arising out of, or on a breakdown of, a marriage) paid to collect or establish a right to a retiring allowance or a benefit under a pension fund or plan (other than a benefit under the *Canada Pension Plan* or a provincial pension plan as defined in section 3 of that Act) in respect of employment;"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 56(1)(*l*.1) was amended by S.C. 1994, c. 7, Sched. VIII, s. 17(5), applicable after 1992. S. 56(1)(*l*.1) formerly read:

"(*l*.1) amounts received by the taxpayer in the year as an award or reimbursement in respect of legal expenses (other than those relating to a division or settlement of property arising from a marriage or other conjugal relationship) paid to collect or establish a right to a retiring allowance or a benefit under a pension fund or plan (other than a benefit under the *Canada Pension Plan* or a provincial pension plan as defined in section 3 of that Act) in respect of employment;"

Related Sections: S. 60(*o*.1) Legal expenses for pension benefit or retiring allowance; s. 248(1), "employment", "retiring allowance".

Interpretation Bulletins: *Secondary* — IT-337R4 (Consolid.) Retiring allowances.

▶ 56(1)(m) ◀

(m) Training allowance — [Repealed by S.C. 1996, c. 23, s. 172.]

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 56(1) of the Act is amended by adding the following after paragraph (*l*.1):

(m) Bad debt recovered — any amount received by the taxpayer, or by a person who does not deal at arm's length with the taxpayer, in the year on account of a debt in respect of which a deduction was made under paragraph 60(*f*) in computing the taxpayer's income for a preceding taxation year;

Applicable: After October 7, 2003.

Explanatory Note:

Restrictive Covenant — Bad Debt Recovered

New paragraph 56(1)(*m*) of the Act is added to provide that a taxpayer is required to include in income any amount received in a taxation year on account of a debt in respect of which a bad debt deduction was made under new paragraph 60(*f*) of the Act in computing the taxpayer's income for a preceding taxation year. In other words, if a taxpayer makes a bad debt deduction for an amount receivable in respect of a restrictive covenant that was previously included in computing the taxpayer's income because of new section 56.4 (or new subsection 6(3.1)) of the Act, and the taxpayer (or a person not dealing at arm's length with the taxpayer) subsequently receives the amount, the amount so received is to be included in computing the taxpayer's income.

History: S. 56(1)(*m*) was repealed by S.C. 1996, c. 23, s. 172, effective January 1, 1998. S. 65(1)(*m*) formerly read:

"(*m*) *Training allowance* — amounts received by the taxpayer in the year as or on account of a training allowance paid to the taxpayer under the *National Training Act*, except to the extent that they were paid to the taxpayer as or on account of an allowance for the taxpayer's personal or living expenses while the taxpayer was away from home;"

Related Sections: S. 63(3), "earned income".

Regulations: Part II.

▶ 56(1)(n) ◀

(n) Scholarships, bursaries, etc. — the amount, if any, by which

(i) the total of all amounts (other than amounts described in paragraph (*q*), amounts received in the course of business, and amounts received in respect of, in the course of or by virtue of an office or employment) received by the taxpayer in the year, each of which is an amount received by the taxpayer as or on account of a scholarship, fellowship or bursary, or a prize for achievement in a field of endeavour ordinarily carried on by the taxpayer, other than a prescribed prize,

exceeds

(ii) the taxpayer's scholarship exemption for the year computed under subsection (3);

History: S. 56(1)(*n*), the portion after subparagraph (i), was amended by S.C. 2001, c. 17, s. 39(1), applicable to the 2000 and subsequent taxation years. S. 56(1)(*n*), the portion after subparagraph (i) formerly read:

"exceeds the greater of $500 and the total of all amounts each of which is the lesser of

(ii) the amount included under subparagraph (i) for the year in respect of a scholarship, fellowship, bursary or prize that is to be used by the taxpayer in the production of a literary, dramatic, musical or artistic work, and

(iii) the total of all amounts each of which is an expense incurred by the taxpayer in the year for the purpose of fulfilling the conditions under which the amount described in subparagraph (ii) was received, other than

(A) personal or living expenses of the taxpayer (except expenses in respect of travel, meals and lodging incurred by the taxpayer in the course of fulfilling those conditions and while absent from the taxpayer's usual place of residence for the period to which the scholarship, fellowship, bursary or prize, as the case may be, relates),

(B) expenses for which the taxpayer was reimbursed, and

(C) expenses that are otherwise deductible in computing the taxpayer's income;"

S. 56(1)(*n*), the part following subparagraph (i), was amended by S.C. 1994, c. 7, Sched. II, s. 32(5), applicable to the 1987 and subsequent taxation years. That part formerly read:

"exceeds

(ii) $500;"

Editorial Note: A scholarship, fellowship, bursary, or similar prize (but excluding a prescribed prize) that exceeds the scholarship exemption described in subsection 56(3) must be included in the recipient's income in the year of receipt. A prescribed prize (see Regulation 7700) is one that is recognized by the general public and that is awarded for meritorious achievements in the fields of arts, sciences, or service to the public (e.g., Nobel Prize).

Related Sections: S. 60(*q*) Refund of income payments; s. 62(1) Moving expenses; s. 63(3), "earned income"; s. 115(2) Non-resident's taxable income in Canada; s. 248(1), "employment", "office", "prescribed".
Regulations: 200(2); 7700.
Interpretation Bulletins: *Primary* — IT-75R4 Scholarships, Fellowships, Bursaries, Prizes, Research Grants and Financial Assistance; IT-257R Canada Council grants. *Secondary* — IT-178R3 (Consolid.) Moving expenses; IT-340R Scholarships, fellowships, bursaries, and research grants — Forgivable loans, repayable awards and repayable employment income; IT-495R3 Child care expenses; IT-515R2 Education tax credit; IT-516R2 Tuition tax credit.
Guides: P105 Students and Income Tax; RC192 Information for Students — Educational Institutions Outside Canada; RC4054 Ceiling Amounts for Housing Benefits Paid in Prescribed Zones.
Tax Profile: September 2008 — Scholarships: The Enhanced Employee Incentive.
Tax Window Files: Professional Development Grants, 2006, CRA Document No. 2006-0195781E5
Cases: The taxpayer's daughter qualified for a $1,200 award from the university where the taxpayer worked. It was paid to the taxpayer who, in turn, gave it to her daughter to put towards her tuition. The award was scholarship income in the daughter's hands since she had to maintain an annual academic average of at least 70% to receive and retain it. *Okonski v. The Queen,* 2008 DTC 2992 (T.C.C.).

An employee received $300 from her insurance company employer for her success in a series of insurance examinations. The $300 was found not to be taxable. *The Queen v. Savage,* (S.C.C.) 83 DTC 5409, affirming (F.C.A.) 81 DTC 5258, reversing (F.C.T.D.) 80 DTC 6066, affirming (T.R.B.) 79 DTC 388.

► 56(1)(n.1) ◄

(n.1) Apprenticeship incentive grant — amounts received by the taxpayer in the year under the Apprenticeship Incentive Grant program administered by the Department of Human Resources and Social Development;

History: S. 56(1)(*n.1*) was added by S.C. 2007, c. 2, s. 6(2), applicable to the 2007 and subsequent taxation years.

► 56(1)(o) ◄

(o) Research grants — the amount, if any, by which any grant received by the taxpayer in the year to enable the taxpayer to carry on research or any similar work exceeds the total of expenses incurred by the taxpayer in the year for the purpose of carrying on the work, other than

(i) personal or living expenses of the taxpayer except travel expenses (including the entire amount expended for meals and lodging) incurred by the taxpayer while away from home in the course of carrying on the work,

(ii) expenses in respect of which the taxpayer has been reimbursed, or

(iii) expenses that are otherwise deductible in computing the taxpayer's income for the year;

Related Sections: S. 60(*q*) Refund of income payments; s. 62(1) Moving expenses; s. 63(3), "earned income"; s. 115(2) Non-resident's taxable income in Canada.
Regulations: Part II.
Interpretation Bulletins: *Primary* — IT-75R4 Scholarships, Fellowships, Bursaries, Prizes, Research Grants and Financial Assistance. *Secondary* — IT-178R3 (Consolid.) Moving Expenses; IT-257R Canada Council grants; IT-340R Scholarships, fellowships, bursaries, and research grants — Forgivable loans, repayable awards and repayable employment income; IT-495R3 Child care expenses.

► 56(1)(p) ◄

(p) Refund of scholarships, bursaries and research grants — amounts as described in paragraph 60(*q*) received by the taxpayer in the year from an individual;

Related Sections: S. 56(1)(*n*) Scholarships, bursaries, etc; s. 60(*q*) Refund of income payments.
Interpretation Bulletins: *Secondary* — IT-340R Scholarships, fellowships, bursaries, and research grants — Forgivable loans, repayable awards and repayable employment income.

► 56(1)(q) ◄

(q) Education savings plan payments — amounts in respect of a registered education savings plan required by section 146.1 to be included in computing the taxpayer's income for the year;

Related Sections: S. 56(1)(*n*) Scholarships, bursaries, etc; s. 146.1(1) Definitions; s. 146.1(7) Educational assistance payments s. 146.1(7.1) Other income inclusions; s. 212(1)(*l*) Registered education savings plan.
Interpretation Bulletins: *Secondary* — IT-75R4 Scholarships, Fellowships, Bursaries, Prizes, Research Grants and Financial Assistance.

► 56(1)(q.1) ◄

(q.1) Registered disability savings plan payments — amounts in respect of a registered disability savings plan required by section 146.4 to be included in computing the taxpayer's income for the year;

History: S. 56(1)(*q.1*) was added by S.C. 2007, c. 35, s. 104, applicable to the 2008 and subsequent taxation years.

► 56(1)(r) ◄

(r) Financial assistance — amounts received in the year by the taxpayer as

(i) earnings supplements provided under a project sponsored by a government or government agency in Canada to encourage individuals to obtain or keep employment,

(ii) financial assistance under a program established by the Canada Employment Insurance Commission under Part II of the *Employment Insurance Act*,

(iii) financial assistance under a program that is

(A) established by a government or government agency in Canada or by an organization,

(B) similar to a program established under Part II of that Act, and

(C) the subject of an agreement between the government, government agency or organization and the Canada Employment Insurance Commission because of section 63 of that Act,

(iv) financial assistance provided under a program established by a government, or government agency, in Canada that provides income replacement benefits similar to income replacement ben-

efits provided under a program established under the *Employment Insurance Act*, or

(v) amounts received by the taxpayer in the year under the *Wage Earner Protection Program Act* in respect of wages (within the meaning of that Act);

History: S. 56(1)(*n*)(iv) and (v) were added by S.C. 2009, c. 2, s. 13(2), applicable to the 2003 and subsequent taxation years except that, in its application to the 2003 to 2007 taxation years, paragraph 56(1)(*n*) is to be read without reference to its subparagraph (v).

S. 56(1)(*n*) was added by S.C. 1998, c. 19, s. 97(4), applicable to the 1993 and subsequent taxation years except that, in the application before July 1996, paragraph 56(1)(*n*) of the Act shall be read without reference to subparagraphs (ii) and (iii).

Related Sections: S. 56(1)(*u*) Social assistance payments; s. 63(3), "earned income"; s. 110(1)(*g*) Financial assistance; s. 153(1)(*s*) Withholding.
Regulations: 202(2).
Interpretation Bulletins: *Primary* — IT-75R4 Scholarships, Fellowships, Bursaries, Prizes, Research Grants and Financial Assistance; *Secondary* — IT-495R3 Child care expenses.

► 56(1)(s) ◄

(s) Grants under prescribed programs — the amount of any grant received in the year under a prescribed program of the Government of Canada relating to home insulation or energy conversion by

(i) the taxpayer, other than a married taxpayer or a taxpayer who is in a common-law partnership who resided with the taxpayer's spouse or common-law partner at the time the grant was received and whose income for the year is less than the taxpayer's spouse's or common-law partner's income for the year, or

(ii) the spouse or common-law partner of the taxpayer with whom the taxpayer resided at the time the grant was received, if the spouse's or common-law partner's income for the year is less than the taxpayer's income for the year

to the extent that the amount is not required by paragraph 12(1)(*u*) to be included in computing the taxpayer's or the taxpayer's spouse's or common-law partner's income for the year or a subsequent year;

History: S. 56(1)(*s*)(i) and (ii) were amended by S.C. 2000, c. 12, Sched. 2, s. 1(i), 7(c) and 12 applicable January 1, 2001, coming into force on July 31, 2000. S. 56(1)(*s*)(i) and (ii) formerly read:

"(i) the taxpayer, other than a married taxpayer who resided with the taxpayer's spouse at the time the grant was received and whose income for the year is less than the taxpayer's spouse's income for the year, or

(ii) the spouse of the taxpayer with whom the taxpayer resided at the time the grant was received, if the spouse's income for the year is less than the taxpayer's income for the year"

S. 56(1)(*s*), the portion after subparagraph (ii), was amended by S.C. 2000, c. 12, Sched. 2, s. 7(c), applicable January 1, 2001, coming into force on July 31, 2000. S. 56(1)(*s*), the portion after subparagraph (ii), formerly read:

"to the extent that the amount is not required by paragraph 12(1)(*u*) to be included in computing the taxpayer's or the taxpayer's spouse's income for the year or a subsequent year;"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Related Sections: S. 56(9) Meaning of "income for the year"; s. 212(1)(*s*) Home insulation or energy conversion grants.
Regulations: 224; 5500; 5501.
Interpretation Bulletins: *Secondary* — IT-273R2 Government assistance — General comments.

► 56(1)(t) ◄

(t) Registered retirement income fund — amounts in respect of a registered retirement income fund required by section 146.3 to be included in computing the taxpayer's income for the year;

Related Sections: S. 146.3(5) Benefits taxable; s. 146.3(5.1) Amount included in income; s. 146.3(7) Acquisition of non-qualified investment by trust; s. 146.3(11) Change in fund after registration.
Forms: T2205.

► 56(1)(u) ◄

(u) Social assistance payments — a social assistance payment made on the basis of a means, needs or income test and received in the year by

(i) the taxpayer, other than a married taxpayer or a taxpayer who is in a common-law partnership who resided with the taxpayer's spouse or common-law partner at the time the payment was received and whose income for the year is less than the spouse's or common-law partner's income for the year, or

(ii) the taxpayer's spouse or common-law partner, if the taxpayer resided with the spouse or common-law partner at the time the payment was received and if the spouse's or common-law partner's income for the year is less than the taxpayer's income for the year,

except to the extent that the payment is otherwise required to be included in computing the income for a taxation year of the taxpayer or the taxpayer's spouse or common-law partner;

History: S. 56(1)(*u*)(i) and (ii) were amended by S.C. 2000, c. 12, Sched. 2, s. 1(i) and 12, applicable January 1, 2001, coming into force on July 31, 2000. S. 56(1)(*u*)(i) and (ii) formerly read:

"(i) the taxpayer, other than a married taxpayer who resided with the taxpayer's spouse at the time the payment was received and whose income for the year is less than the spouse's income for the year, or

(ii) the taxpayer's spouse, if the taxpayer resided with the spouse at the time the payment was received and if the spouse's income for the year is less than the taxpayer's income for the year,"

S. 56(1)(*u*), the portion after subparagraph (ii), was amended by S.C. 2000, c. 12, Sched. 2, s. 1(i) and 7(c), applicable January 1, 2001, coming into force on July 31, 2000. S. 56(1)(*u*), the portion after subparagraph (ii) formerly read:

"except to the extent that the payment is otherwise required to be included in computing he income for a taxation year of the taxpayer or the taxpayer's spouse;"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

The portion of S. 56(1)(*u*) after subparagraph (ii) was amended by S.C. 1998, c. 19, s. 97(5), applicable to the 1993 and subsequent taxation years except that, in the application before July 1996, paragraph 56(1)(*n*) of the Act shall be read without reference to subparagraphs (ii) and (iii). The portion of S. 56(1)(*u*) after subparagraph (ii) formerly read:

"except to the extent that the payment is otherwise required to be included in computing the income for a taxation year from a business or property of the taxpayer or the taxpayer's spouse;"

S. 56(1)(*u*) was amended by S.C. 1994, c. 7, Sched. II, s. 32(6), applicable to the 1982 and subsequent taxation years. S. 56(1)(*u*) formerly read:

"(*u*) a social assistance payment made in the year

(i) on the basis of a means, needs or income test, and

(ii) in respect of the taxpayer or of a person who, at the time of the payment, is related to the taxpayer or is a person in respect of whom any individual was entitled to receive a family allowance payment under the *Family Allowances Act*

and received by

(iii) the taxpayer, other than a married taxpayer who resides with the taxpayer's spouse at the time of the payment and whose income for the year is less than the spouse's income for the year, or

(iv) the taxpayer's spouse with whom the taxpayer resides at the time of the payment if the spouse's income for the year is less than the taxpayer's income for the year;"

Related Sections: S. 56(1)(*r*) Financial assistance; s. 81(1)(*h*) Social assistance; s. 110(1)(*f*) Deductions for payments.
Regulations: 233.
Guides: T4115 — T5007 Guide — Return of Benefits.
Forms: T5007.

► 56(1)(v) ◄

(v) Worker's compensation — compensation received under an employees' or workers' compensation law of Canada or a province in respect of an injury, a disability or death;

History: S. 56(1)(*v*) was amended by S.C. 1994, c. 7, Sched. III, s. 13, applicable on Royal Assent, February 28, 1992. S. 56(1)(*v*) formerly read:
"(*v*) *Workmen's compensation* — compensation received under an employee's or workmen's compensation law of Canada or a province in respect of an injury, disability or death;"

Related Sections: S. 110(1)(*f*) Deductions for payments.
Interpretation Bulletins: *Primary* — IT-202R2 Employees' or workers' compensation.
Cases: When the taxpayer was injured at work, she was compensated by her employer (under a collective agreement) rather than from the Workers' Compensation Board (WCB). The portion of this compensation that would otherwise have been received from the WCB was taxable. *Whitney v. The Queen,* 2002 DTC 7145 (F.C.A.), reversing 2001 DTC 423 (T.C.C.).

► 56(1)(w) ◄

(w) Salary deferral arrangement — the total of all amounts each of which is an amount received by the taxpayer as a benefit (other than an amount received by or from a trust governed by a salary deferral arrangement) in the year out of or under a salary deferral arrangement in respect of a person other than the taxpayer except to the extent that the amount, or another amount that may reasonably be considered to relate thereto, has been included in computing the income of that other person for the year or for any preceding taxation year;

► 56(1)(x) ◄

(x) Retirement compensation arrangement — any amount, including a return of contributions, received in the year by the taxpayer or another person, other than an amount required to be included in that other person's income for a taxation year under paragraph 12(1)(*n*.3), out of or under a retirement compensation arrangement that can reasonably be considered to have been received in respect of an office or employment of the taxpayer;

Related Sections: S. 212(1)(*j*) Benefits.
Forms: T4A-RCA.
Guides: T4041 Retirement Compensation Arrangements Guide.

► 56(1)(y) ◄

(y) Idem — any amount received or that became receivable in the year by the taxpayer as proceeds from the disposition of an interest in a retirement compensation arrangement;

Related Sections: S. 214(3) Deemed payments.

► 56(1)(z) ◄

(z) Idem — the total of all amounts, including a return of contributions, each of which is an amount received in the year by the taxpayer out of or under a retirement compensation arrangement that can reasonably be considered to have been received in respect of an office or employment of a person other than the taxpayer, except to the extent that the amount was required

(i) under paragraph 12(1)(*n*.3) to be included in computing the taxpayer's income for a taxation year, or

(ii) under paragraph (*x*) or subsection 70(2) to be included in computing the income for the year of a person resident in Canada other than the taxpayer; and

Related Sections: S. 212(1)(*j*) Benefits.

► 56(1)(aa) ◄

(aa) Value of benefits — the value of benefits received or enjoyed by any person in the year in respect of workshops, seminars, training programs and similar development programs because of the taxpayer's membership in a registered national arts service organization.

History: S. 56(1)(*aa*) was added by S.C. 1994, c. 7, Sched. II, s. 32(7) applicable after July 13, 1990.

Related Sections: S. 248(1), "registered national arts service organization".
Interpretation Bulletins: *Primary* — IT-75R4 Scholarships, Fellowships, Bursaries, Prizes, Research Grants and Financial Assistance.

► 56(1.1) ◄

(1.1) Application of s. 12.2(11). The definitions in subsection 12.2(11) apply to paragraph (1)(*d*).

History: S. 56(1.1) was not part of the former Act.

► 56(2) ◄

(2) Indirect payments. A payment or transfer of property made pursuant to the direction of, or with the concurrence of, a taxpayer to some other person for the benefit of the taxpayer or as a benefit that the taxpayer desired to have conferred on the other person (other than by an assignment of any portion of a retirement pension pursuant to section 65.1 of the *Canada Pension Plan* or a comparable provision of a provincial pension plan as defined in section 3 of that Act or of a prescribed provincial pension plan) shall be included in computing the taxpayer's income to the extent that it would be if the payment or transfer had been made to the taxpayer.

Editorial Note: If subsection 56(2) applies to include an amount in a taxpayer's income in respect of the transfer or payment of property, the CRA will reduce the transferee's income accordingly, in order to prevent double taxation; see paragraph 13 of IT-335R2. The Supreme Court of Canada has held that, as a general rule, subsection 56(2) does not apply to dividends; see the *Neuman* and *McClurg* cases cited below (see "Cases").

Related Sections: S. 56(5) Exception for split income; s. 135(4), "payment"; s. 214(3) Deemed payments; s. 246(1) Benefit conferred on a person.
Regulations: 7800(1).
Interpretation Bulletins: *Primary* — IT-335R2 Indirect payments. *Secondary* — IT-75R4 Scholarships, Fellowships, Bursaries, Prizes, Research Grants and Financial Assistance; IT-362R Patronage dividends; IT-385R2 Disposition of an income interest in a trust; IT-415R2 Deregistration of registered retirement savings plans [Archived by the CRA]; IT-432R2 Benefits conferred on shareholders.
Advance Tax Rulings: ATR-14 Non-arm's length interest charges; ATR-15 Employee stock option plan; ATR-17 Employee benefit plan — Purchase of company shares; ATR-27 Exchange and acquisition of interests in capital properties through rollovers and winding-up ("Butterfly"); ATR-29 Amalgamation of social clubs; ATR-35 Partitioning of assets to get specific ownership — "Butterfly"; ATR-36 Estate freeze.
Income Tax Technical News: Issue No. 16, *Melville Neuman v. The Queen.*
Tax Profile: February 2008 — Income Splitting A–Z; May 2006 — Professional Corporations for Physicians and Dentists in Ontario.
Cases: The taxpayer orchestrated share transfers under s. 85(1), as part of a legitimate succession plan, to leave shares to his children. The Court rejected the Minister's contention that, based on the FMV of the shares, the taxpayer had arranged the indirect transfer of the shares to his son's corporation for inadequate consideration. He did not confer a taxable benefit to his son's corporation within the meaning of s. 56(2). *Laflamme v. The Queen,* 2008 DTC 4829 (T.C.C.).

An insurance agent deposited his commission cheques in the bank account of a corporation and then drew a salary from the corporation. The commission income was held to be income of the company, and not of the agent, even though this arrangement was in violation of the agent's contract with the insurer. *Wallsten et al. v. The Queen,* (T.C.C.) 2001 DTC 215.

The taxpayer was the controlling shareholder of a corporation which paid dividends to the taxpayer's wife who held non-voting shares. Based on *Neuman v. M.N.R.*, no s. 56(2) dividend reallocations were to be included in the taxpayer's income. *Rao v. M.N.R.*, (T.C.C.) 99 DTC 413.

Management fees paid by a family holding company to the family trust and allocated to the taxpayer's minor children under preferred beneficiary elections were taxable in the hands of the children not the taxpayer. *The Queen v. Ferrel*, (F.C.A.) 99 DTC 5111, affirming (T.C.C.) 97 DTC 1565.

Since the dividends on share capital paid to the taxpayer's spouse by a closely held family corporation would otherwise have remained it its retained earnings and would not otherwise have been obtained by the taxpayer, the indirect payment provisions of ss. 56(2) did not apply. *Neuman v. The Queen*, (S.C.C.) 98 DTC 6297, reversing (F.C.A.) 96 DTC 6464 and affirming (F.C.T.D.) 94 DTC 6094 and (T.C.C.) 92 DTC 1652.

When a company, of which the taxpayer was the sole shareholder, bought a property at the request of the taxpayer's father and sold it to him three years later below its fair market value, the taxpayer's approach in determining the value of the property was not enough to infer a "desire" by him to confer a benefit on his father. *Jones. v. The Queen*, (F.C.A.) 96 DTC 6015.

A taxpayer and his partner owned all voting shares of a company, and their wives each held a number of non-voting common shares. Dividends paid to the taxpayer's wife did not constitute a "benefit" conferred upon her. Her efforts in establishing and operating the company justified the payment. *McClurg v. The Queen*, (S.C.C.) 91 DTC 5001, affirming (F.C.A.) 88 DTC 6047 and (F.C.T.D.) 86 DTC 6128, which reversed (T.C.C.) 84 DTC 1379. See also *Cliche v. M.N.R.*, (T.C.C.) 86 DTC 1571.

► 56(3) ◄

(3) Exemption for scholarships, fellowships, bursaries and prizes. For the purpose of subparagraph (1)(*n*)(ii), a taxpayer's scholarship exemption for a taxation year is the total of

(*a*) the total of all amounts each of which is the amount included under subparagraph (1)(*n*)(i) in computing the taxpayer's income for the taxation year in respect of a scholarship, fellowship or bursary received in connection with the taxpayer's enrolment

(i) in an educational program in respect of which an amount may be deducted under subsection 118.6(2) in computing the taxpayer's tax payable under this Part for the taxation year, for the immediately preceding taxation year or for the following taxation year, or

(ii) in an elementary or secondary school educational program,

(*b*) the total of all amounts each of which is the lesser of

(i) the amount included under subparagraph (1)(*n*)(i) in computing the taxpayer's income for the taxation year in respect of a scholarship, fellowship, bursary or prize that is to be used by the taxpayer in the production of a literary, dramatic, musical or artistic work, and

(ii) the total of all amounts each of which is an expense incurred by the taxpayer in the taxation year for the purpose of fulfilling the conditions under which the amount described in subparagraph (i) was received, other than

(A) personal or living expenses of the taxpayer (except expenses in respect of travel, meals and lodging incurred by the taxpayer in the course of fulfilling those conditions and while absent from the taxpayer's usual place of residence for the period to which the scholarship, fellowship, bursary or prize, as the case may be, relates),

(B) expenses for which the taxpayer is entitled to be reimbursed, and

(C) expenses that are otherwise deductible in computing the taxpayer's income, and

(*c*) the lesser of $500 and the amount by which the total described in subparagraph (1)(*n*)(i) for the taxation year exceeds the total of the amounts determined under paragraphs (*a*) and (*b*).

History: S. 56(3)(*a*) was replaced by S.C. 2007, c. 35, s. 17(1), applicable to the 2007 and subsequent taxation years. S. 56(3)(*a*) formerly read:

"(*a*) the total of all amounts each of which is the amount included under subparagraph (1)(*n*)(i) in computing the taxpayer's income for the taxation year in respect of a scholarship, fellowship or bursary received in connection with the taxpayer's enrolment in an educational program in respect of which an amount may be deducted under subsection 118.6(2) in computing the taxpayer's tax payable under this Part for the taxation year,"

S. 56(3) was replaced by S.C. 2007, c. 2, s. 6(3), applicable to the 2006 and subsequent taxation years.

S. 56(3) formerly read:

"(3) *Exemption for scholarships, fellowships, bursaries and prizes.* For the purpose of subparagraph (1)(*n*)(ii), a taxpayer's scholarship exemption for a taxation year is the greatest of

(*a*) $500,

(*b*) the lesser of

(i) $3,000 and

(ii) the total of all amounts each of which is the amount included under subparagraph (1)(*n*)(i) in computing the taxpayer's income for the year in respect of a scholarship, fellowship or bursary received in connection with the taxpayer's enrolment in an educational program in respect of which an amount may be deducted under subsection 118.6(2) in computing the taxpayer's tax payable under this Part for the year, and

(*c*) the total of all amounts each of which is the lesser of

(i) the amount included under subparagraph (1)(*n*)(i) in computing the taxpayer's income for the year in respect of a scholarship, fellowship, bursary or prize that is to be used by the taxpayer in the production of a literary, dramatic, musical or artistic work, and

(ii) the total of all amounts each of which is an expense incurred by the taxpayer in the year for the purpose of fulfilling the conditions under which the amount described in subparagraph (i) was received, other than

(A) personal or living expenses of the taxpayer (except expenses in respect of travel, meals and lodging incurred by the taxpayer in the course of fulfilling those conditions and while absent from the taxpayer's usual place of residence for the period to which the scholarship, fellowship, bursary or prize, as the case may be, relates),

(B) expenses for which the taxpayer is entitled to be reimbursed, and

(C) expenses that are otherwise deductible in computing the taxpayer's income."

S. 56(3) was added by S.C. 2001, c. 17, s. 39(2), applicable to the 2000 and subsequent taxation years. S. 56(3) was previously repealed by the former Act.

Editorial Note: The scholarship exemption is the total of the three amounts described below but will not reduce the taxpayer's scholarship income below zero or create a loss otherwise reportable against the taxpayer's other sources of income.

(a) The first amount is the total amount of scholarships, fellowships, and bursaries received by a student enrolled in a designated educational institution if the student is entitled to claim the education tax credit under s. 118.6(2) for the preceding, current, or following taxation year, or received by a student enrolled in an elementary or secondary school.

(b) The second amount is the lesser of two amounts: (i) total amount of scholarships, fellowships, bursaries, and prizes received by an artist for producing any literary, dramatic, musical, or artistic work, and (ii) total expenses incurred by the artist to fulfill the conditions of the scholarships, fellowships, bursaries, or prizes except for personal or living expenses, and reimbursed or deductible expenses. Note that travel, meal, and lodging expenses incurred by an artist meeting those conditions and being away from his/her normal residence would qualify for the exemption.

(c) The third amount is the lesser of two amounts: (i) $500, and (ii) portion of total amount of scholarships, fellowships, bursaries, and prizes received by a taxpayer but not eligible for an exemption under s. 56(3)(*a*) or (*b*). In other words, scholarships, fellowships, bursaries, and prizes still qualify for a $500 exemption even if they do not qualify for the above two more generous exemptions.

Related Sections: S. 67.1 Expenses for food, etc; s. 118.6(1), "qualifying educational program"; s. 248(1), "personal or living expenses".

Interpretation Bulletins: *Primary* — IT-75R4 Scholarships, Fellowships, Bursaries, Prizes, Research Grants and Financial Assistance. *Secondary* — IT-515R2 Education tax credit.

Guides: P105 Students and Income Tax; RC192 Information for Students — Educational Institutions Outside Canada.

Tax Profile: September 2008 — Scholarships: The Enhanced Employee Incentive.

Tax Window Files: Scholarship Exemption — Post-Doctoral Fellowship Outside Canada, May 1, 2007, CRA Document No. 2007-0228871E5; Tuition Assistance Offered to Students, July 18, 2005, CRA Document No. 2005-0122271E5

▶ 56(4) ◀

(4) Transfer of rights to income. Where a taxpayer has, at any time before the end of a taxation year, transferred or assigned to a person with whom the taxpayer was not dealing at arm's length the right to an amount (other than any portion of a retirement pension assigned by the taxpayer under section 65.1 of the *Canada Pension Plan* or a comparable provision of a provincial pension plan as defined in section 3 of that Act) that would, if the right had not been so transferred or assigned, be included in computing the taxpayer's income for the taxation year, the part of the amount that relates to the period in the year throughout which the taxpayer is resident in Canada shall be included in computing the taxpayer's income for the year unless the income is from property and the taxpayer has also transferred or assigned the property.

History: S. 56(4) was amended by S.C. 1994, c. 21, s. 25(3), applicable to the 1992 and subsequent taxation years. S. 56(4) formerly read:

"(4) *Transfer of rights to income.* Where a taxpayer has, at any time before the end of a taxation year (whether before or after the end of 1971), transferred or assigned to a person with whom the taxpayer was not dealing at arm's length the right to an amount (other than any portion of a retirement pension assigned by the taxpayer pursuant to section 65.1 of the *Canada Pension Plan* or a comparable provision of a provincial pension plan as defined in section 3 of that Act or of a prescribed provincial pension plan) that would, if the right thereto had not been so transferred or assigned, be included in computing the taxpayer's income for the taxation year because the amount would have been received or receivable by the taxpayer in or in respect of the year, the amount shall be included in computing the taxpayer's income for the year unless the income is from property and the taxpayer has also transferred or assigned the property."

Editorial Note: The closing words of subsection 56(4) indicate that the provision does not apply if the property is itself transferred, although in such case the attribution rules of section 74.1 or 74.2 may apply if the transferee is a spouse, common-law partner or minor child.

Related Sections: S. 56(5) Exception for split income; s. 74.1–74.5 Attribution rules; s. 82(2) Certain dividends received by taxpayer; s. 212(12) Deemed payments to spouse, etc; s. 251 Arm's length and related persons.

Interpretation Bulletins: *Primary* — IT-440R2 Transfer of rights to income.

Cases: A financial planner earned trailer fees from mutual fund managers but transferred the right to receive the fees to a corporation. The fees then flowed through a family trust and back to the taxpayer. The fees were included in his income under s. 56(4). Although the corporation had already paid tax on them, there is nothing in the Act to prevent double taxation in these circumstances. *Boutilier v. The Queen,* 2007 DTC 479 (T.C.C.).

Where a doctor incorporated a company to operate a private hospital and paid all fees for medical services to the company and in return received a fixed salary, the income from the professional services was income of the hospital company. The arrangement was genuine, the doctor in effect limited his earnings from the provision of medical services in order to leave the hospital with sufficient working capital. *Campbell v. The Queen,* (S.C.C.) 80 DTC 6239, affirming (F.C.A.) 79 DTC 5202, reversing (F.C.T.D.) 76 DTC 6278, (T.R.B.) 74 DTC 6598.

▶ 56(4.1) ◀

(4.1) Interest free or low interest loans. Where

(*a*) a particular individual (other than a trust) or a trust in which the particular individual is beneficially interested has, directly or indirectly by means of a trust or by any means whatever, received a loan from or become indebted to

(i) another individual (in this subsection referred to as the "creditor") who

(A) does not deal at arm's length with the particular individual, and

(B) is not a trust, or

(ii) a trust (in this subsection referred to as the "creditor trust") to which another individual (in this subsection referred to as the "original transferor") who

(A) does not deal at arm's length with the particular individual,

(B) was resident in Canada at any time in the period during which the loan or indebtedness is outstanding, and

(C) is not a trust,

has, directly or indirectly by means of a trust or by any means whatever, transferred property, and

(*b*) it can reasonably be considered that one of the main reasons for making the loan or incurring the indebtedness was to reduce or avoid tax by causing income from

(i) the loaned property,

(ii) property that the loan or indebtedness enabled or assisted the particular individual, or the trust in which the particular individual is beneficially interested, to acquire, or

(iii) property substituted for property referred to in subparagraph (i) or (ii)

to be included in the income of the particular individual,

the following rules apply:

(*c*) any income of the particular individual for a taxation year from the property referred to in paragraph (*b*) that relates to the period or periods in the year throughout which the creditor or the creditor trust, as the case may be, was resident in Canada and the particular individual was not dealing at arm's length with the creditor or the original transferor, as the case may be, shall be deemed,

(i) where subparagraph (*a*)(i) applies, to be income of the creditor for that year and not of the particular individual except to the extent that

(A) section 74.1 applies or would, but for subsection 74.5(3), apply, or

(B) subsection 75(2) applies

to that income, and

(ii) where subparagraph (*a*)(ii) applies, to be income of the creditor trust for that year and not of the particular individual except to the extent that

(A) subparagraph (i) applies,

(B) section 74.1 applies or would, but for subsection 74.5(3), apply, or

(C) subsection 75(2) applies (otherwise than because of paragraph (*d*))

to that income; and

(*d*) where subsection 75(2) applies to any of the property referred to in paragraph (*b*) and subparagraph (*c*)(ii) applies to income from the property, subsection 75(2) applies after subparagraph (*c*)(ii) is applied.

History: S. 56(4.1)(*b*)(ii) was amended by S.C. 1994, c. 21, s. 25(4), applicable to income relating to periods that begin after December 21, 1992. S. 56(4.1)(*b*)(ii) formerly read:

"(ii) property that the loan or indebtedness enabled or assisted the particular individual to acquire, or"

S. 56(4.1)(*a*), that portion preceding subparagraph (i), was amended by S.C. 1994, c. 7, Sched. VIII, s. 17(6), applicable after 1990. That portion formerly read:

"(*a*) a particular individual (other than a trust) or a trust in which the particular individual is beneficially interested (within the meaning

assigned by subsection 74.5(10)) has, directly or indirectly by means of a trust or by any means whatever, received a loan from or become indebted to"

S. 56(4.1) was amended by S.C. 1994, c. 7, Sched. II, s. 32(8), applicable to income relating to periods commencing after 1990. S. 56(4.1) formerly read:

"(4.1) Where an individual has lent property, directly or indirectly by means of a trust or by any means whatever, to another individual with whom the individual was not dealing at arm's length and it may reasonably be considered that one of the main reasons for the loan was to reduce or avoid tax by causing income from the property or property substituted therefor to be included in the income of the other individual, any income for a taxation year from the property or from property substituted therefor that relates to the period or periods of the year throughout which the individual was resident in Canada and was not dealing at arm's length with the other individual, shall be deemed to be income of the individual and not of the other individual except to the extent that section 74.1 is otherwise applicable."

Editorial Note: Unlike the attribution rules in sections 74.1 and 74.2, which can apply to low or no-interest loans made to spouses, common-law partners or minor children, subsection 56(4.1) can apply to low or no-interest loans made to any non-arm's length persons (e.g., adult children, parents).

Related Sections: S. 56(5) Exception for split income; s. 74.1–74.5 Attribution rules; s. 82(2) Certain dividends received by taxpayer; s. 104(1) Reference to trust or estate; s. 212(12) Deemed payments to spouse, etc; s. 248(1), "individual", "trust".

Interpretation Bulletins: *Secondary* — IT-394R2 Preferred Beneficiary Election.

Tax Profile: February 2008 — Income Splitting A–Z.

► 56(4.2) ◄

(4.2) Exception. Notwithstanding any other provision of this Act, subsection (4.1) does not apply to any income derived in a particular taxation year where

(*a*) interest was charged on the loan or indebtedness at a rate equal to or greater than the lesser of

(i) the prescribed rate of interest in effect at the time the loan was made or the indebtedness arose, and

(ii) the rate that would, having regard to all the circumstances, have been agreed on, at the time the loan was made or the indebtedness arose, between parties dealing with each other at arm's length;

(*b*) the amount of interest that was payable in respect of the particular year in respect of the loan or indebtedness was paid not later than 30 days after the end of the particular year; and

(*c*) the amount of interest that was payable in respect of each taxation year preceding the particular year in respect of the loan or indebtedness was paid not later than 30 days after the end of each of those preceding taxation years.

History: S. 56(4.2) was amended by S.C. 1994, c. 7, Sched. II, s. 32(8), applicable to income relating to periods beginning after 1990. S. 56(4.2) formerly read:

"(4.2) *Where s. (4.1) does not apply.* Notwithstanding any other provision of this Act, subsection (4.1) does not apply to any income derived in a particular taxation year from lent property or from property substituted therefor if

(*a*) interest was charged on the loan at a rate equal to or greater than the lesser of

(i) the prescribed rate that was in effect at the time the loan was made, and

(ii) the rate that would, having regard to all circumstances, have been agreed on, at the time the loan was made, between parties dealing with each other at arm's length;

(*b*) the amount of interest that was payable in respect of the particular year in respect of the loan was paid not later than 30 days after the end of the particular year; and

(*c*) the amount of interest that was payable in respect of each taxation year preceding the particular year in respect of the loan was paid not later than 30 days after the end of each such taxation year."

Regulations: 4301.

► 56(4.3) ◄

(4.3) Repayment of existing indebtedness. For the purposes of subsection (4.1), where at any time a particular property is used to repay, in whole or in part, a loan or indebtedness that enabled or assisted an individual to acquire another property, there shall be included in computing the income from the particular property that proportion of the income or loss, as the case may be, derived after that time from the other property or from property substituted therefor that the amount so repaid is of the cost to the individual of the other property, but for greater certainty nothing in this subsection shall affect the application of subsection (4.1) to any income or loss derived from the other property or from property substituted therefor.

History: S. 56(4.3) was amended by S.C. 1994, c. 7, Sched. II, s. 32(8), applicable to income relating to periods beginning after 1990. S. 56(4.3) formerly read:

"(4.3) For the purposes of subsection (4.1), where at any time an individual has lent property (in this subsection referred to as the 'lent property') either directly or indirectly, by means of a trust or by any other means whatever, to a person, and the lent property or property substituted therefor is used

(*a*) to repay, in whole or in part, borrowed money with which other property was acquired, or

(*b*) to reduce an amount payable for other property,

there shall be included in computing the income from the lent property, or from property substituted therefor, that is so used, that proportion of the income or loss, as the case may be, derived after that time from the other property or from property substituted therefor that the fair market value at that time of the lent property, or property substituted therefor, that is so used is of the cost to that person of the other property at the time of its acquisition, but for greater certainty nothing in this subsection shall affect the application of subsection (4.1) to any income or loss derived from the other property or from property substituted therefor."

► 56(5) ◄

(5) Exception for split income. Subsections (2), (4) and (4.1) do not apply to any amount that is included in computing a specified individual's split income for a taxation year.

History: S. 56(5) was added by S.C. 2000, c. 19, s. 6(1), applicable to the 2000 and subsequent taxation years. S. 56(5) was previously repealed. See history note below.

S. 56(5) was repealed by S.C. 1994, c. 7, Sched. VII, s. 1(1), applicable to the 1993 and subsequent taxation years. S. 56(5) formerly read:

"(5) *Family allowances.* An individual who is deemed by subsection (6) or (7) to have supported in a particular month of a taxation year a person in respect of whom

(*a*) a family allowance under the *Family Allowances Act*, or

(*b*) an allowance under a law of a province that provides for payment of an allowance similar to the family allowance provided under the *Family Allowances Act*

is paid for the particular month shall include in computing the individual's income for the year an amount equal to the total of all amounts each of which is the amount of such an allowance received by the individual or the individual's spouse for a month of the year in which the individual is deemed to have supported the person."

Related Sections: S. 60(*p*) Repayment of apprenticeship incentive grant; s. 120.4(1), "specified individual", "split income".

► 56(6) ◄

(6) Child care benefit. There shall be included in computing the income of a taxpayer for a taxation year the total of all amounts each of which is a benefit paid under section 4 of the *Universal Child Care Benefit Act* that is received in the taxation year by

(*a*) the taxpayer, if

(i) the taxpayer does not have a spouse or common-law partner at the end of the year, or

(ii) the income, for the taxation year, of the person who is the taxpayer's spouse or common-law partner at the end of the taxation year is equal to or greater than the income of the taxpayer for the taxation year; or

(*b*) the taxpayer's spouse or common-law partner at the end of the taxation year, if the income of the spouse or common-law partner for the taxation year

is greater than the taxpayer's income for the taxation year.

History: S. 56(6) was added by S.C. 2006, c. 4, s. 173(1), applicable to amounts received after June 30, 2006.

S. 56(6) was repealed by S.C. 1994, c. 7, Sched. VII, s. 1(1), applicable to the 1993 and subsequent taxation years. S. 56(6) formerly read:

"(6) *Deemed support.* For the purposes of subsection (5) and subject to subsection (7), an individual shall be deemed to have supported a person in a particular month of a taxation year if

(*a*) the person is a child of, or is dependent for support in the particular month on, the individual or the individual's spouse; and

(*b*) where the individual is married at the end of the particular month,

(i) the individual's income for the year (computed without reference to subsection (5) and section 63) exceeds that of the individual's spouse, and

(ii) the individual's spouse was not, by reason of a breakdown of the marriage, living separate and apart from the individual at the end of the particular month and for a period of at least 90 days commencing in the year."

Related Sections: S. 60(*y*) Repayment of UCCB; s. 122.5(1), "adjusted income"; s. 122.6, "adjusted income"; s. 180.2(1), "adjusted income".

▶ 56(7) ◀

(7) Idem. [Repealed by S.C. 1994, c. 7, Sched. VII, s. 1(1).]

History: S. 56(7) was repealed by S.C. 1994, c. 7, Sched. VII, s. 1(1), applicable to the 1993 and subsequent taxation years. S. 56(7) formerly read:

"(7) *Idem.* For the purposes of subsection (5), where

(*a*) an amount is allowed under subsection 118(1) because of paragraph 118(1)(*b*) in computing an individual's tax payable under this Part for a taxation year in respect of a person referred to in subsection (5), the individual shall be deemed to be the only individual to have supported the person in each month of the year and any allowance referred to in subsection (5) that is paid in respect of the person for each such month shall be deemed to have been received by the individual; and

(*b*) an allowance referred to in that subsection is paid in respect of a person for a particular month of a taxation year and no amount in respect of the allowance would, but for this paragraph, be included in computing the income for the year of any individual, the individual to whom the allowance is paid shall be deemed to have supported the person in the particular month."

S. 56(7)(*a*) was amended by S.C. 1994, c. 7, Sched. II, s. 32(9), applicable to the 1988 and subsequent taxation years. S. 56(7)(*a*) formerly read:

"(*a*) an amount is allowed under subsection 118(1) by reason of paragraph 118(1)(*b*) in computing an individual's tax payable under this Part for a taxation year in respect of a person, the individual shall be deemed to be the only individual to have supported the person in each month of the year, and"

▶ 56(8) ◀

(8) CPP/QPP and UCCB amounts for previous years. Notwithstanding subsections (1) and (6), if

(*a*) one or more amounts are received by an individual (other than a trust) in a taxation year as, on account of, in lieu of payment of or in satisfaction of, any benefit under the *Universal Child Care Benefit Act*, the *Canada Pension Plan* or a provincial pension plan as defined in section 3 of the *Canada Pension Plan*, and

(*b*) a portion, not less than $300, of the total of those amounts relates to one or more preceding taxation years,

that portion shall, at the option of the individual, not be included in the individual's income.

History: S. 56(8) was replaced by S.C. 2007, c. 2, s. 6(4), applicable to the 2006 and subsequent taxation years.

S. 56(8) formerly read:

"(8) *CPP/QPP benefits for previous years.* Notwithstanding subsection (1), where

(*a*) one or more amounts are received by an individual (other than a trust) in a taxation year as, on account of, in lieu of payment of or in satisfaction of, any benefit under the *Canada Pension Plan* or a provincial pension plan as defined in section 3 of that Act, and

(*b*) a portion, not less than $300, of the total of those amounts relates to one or more preceding taxation years,

that portion shall, at the option of the individual, not be included in the individual's income."

S. 56(8), the portion before paragraph (*b*) was amended by S.C. 1998, c. 19, s. 9(3), applicable to amounts received by an individual after 1994, other than an individual to whom tax has been remitted under subsection 23(2) of the *Financial Administration Act* in respect of the amounts referred to in paragraph 56(8)(*a*) of the *Income Tax Act*. S. 56(8), the portion before paragraph (*b*) formerly read:

"(8) *CPP/QPP disability benefits for previous years.* Notwithstanding subsection (1), where

(*a*) one or more amounts are received by an individual (other than a trust) in a taxation year as, on account of, in lieu of payment of or in satisfaction of, a disability pension under the *Canada Pension Plan* or a provincial pension plan as defined in section 3 of that Act, and"

S. 56(8) was added by S.C. 1994, c. 7, Sched. II, s. 32(10), applicable to amounts received after 1989.

Related Sections: S. 120.3 CPP/QPP disability benefits and other CPP/QPP benefits for previous years.

▶ 56(9) ◀

(9) Meaning of "income for the year". For the purposes of paragraphs (1)(*s*) and (*u*), "income for the year" of a person means the amount that would, but for those paragraphs, paragraphs 60(*v*.1) and (*w*) and section 63, be the income of that person for the year.

History: S. 56(9) was amended by S.C. 1994, c. 7, Sched. VII, s. 1(2), applicable to the 1993 and subsequent taxation years. S. 56(9) formerly read:

"(9) For the purposes of paragraphs (1)(*s*) and (*u*) and subsection (6), 'income for the year' of a person means the amount that would, but for those paragraphs, subsection (5), paragraphs 60(*v*.1) and (*w*) and section 63, be the income of the person for the year."

S. 56(9) was amended by S.C. 1994, c. 7, Sched. II, s. 32(11), applicable to the 1989 and subsequent taxation years. S. 56(9) formerly read:

"(9) *Definition of 'income for the year'.* For the purposes of paragraphs (1)(*s*) and (*u*) and subsection (6), 'income for the year' of a person means the amount that would, but for those paragraphs, subsection (5), paragraph 60(*w*) and section 63, be the income of that person for the year."

Related Sections: S. 248(1), "amount".

▶ 56(10) ◀

(10) Severability of retirement compensation arrangement. Where a retirement compensation arrangement is part of a plan or arrangement (in this subsection referred to as the "plan") under which amounts not related to the retirement compensation arrangement are payable or provided, for the purposes of this Act, other than this subsection,

(*a*) the retirement compensation arrangement shall be deemed to be a separate arrangement independent of other parts of the plan of which it is a part; and

(*b*) subject to subsection 6(14), amounts paid out of or under the plan shall be deemed to have first been paid out of the retirement compensation arrangement unless a provision in the plan otherwise provides.

▶ 56(11) ◀

(11) Disposition of property by RCA trust. For the purposes of paragraphs (1)(*x*) and (*z*), where, at any time in a year, a trust governed by a retirement compensation arrangement

(*a*) disposes of property to a person for consideration less than the fair market value of the property at the time of the disposition, or for no consideration,

(*b*) acquires property from a person for consideration greater than the fair market value of the property at the time of the acquisition, or

(*c*) permits a person to use or enjoy property of the trust for no consideration or for consideration less than the fair market value of such use or enjoyment,

the amount, if any, by which the fair market value differs from the consideration or, if there is no consideration, the amount of the fair market value shall be deemed to be an amount received at that time by the person out of or under the arrangement that can reasonably be considered to have been received in respect of an office or employment of a taxpayer.

► 56(12) ◄

(12) Definition of "allowance". [Repealed by S.C. 1997, c. 25, s. 8(3).]

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 56 of the Act is amended by adding the following after subsection (11):

(12) Foreign retirement arrangement. If an amount in respect of a foreign retirement arrangement is, as a result of a transaction, an event or a circumstance, considered to be distributed to an individual under the income tax laws of the country in which the arrangement is established, the amount is, for the purpose of paragraph (1)(*a*), deemed to be received by the individual as a payment out of the arrangement in the taxation year that includes the time of the transaction, event or circumstance.

Applicable: To the 1998 and subsequent taxation years except that, for taxation years that end before 2002, subsection 56(12) is to be read as follows:

"(12) For the purpose of paragraph (1)(*a*),

(*a*) if an amount in respect of a foreign retirement arrangement is considered, under section 408A(d)(3)(C) of the *Internal Revenue Code of 1986* of the United States (in this subsection referred to as the 'Code'), to be distributed to an individual as a result of a conversion of the arrangement after 1998 and before 2002, the amount is deemed to be received by the individual as a payment out of the arrangement in the taxation year that includes the time of the conversion; and

(*b*) if an individual received an amount as a payment out of or under a foreign retirement arrangement in 1998, or an amount is considered under section 408A(d)(3)(C) of the Code to be distributed to the individual as a result of a conversion of the arrangement in 1998, the individual was resident in Canada at the time of the receipt or conversion and the amount is an amount to which section 408A(d)(3)(A)(iii) of the Code applies,

(i) the amount is deemed not to have been received by the individual, and

(ii) an amount equal to the amount that is included under section 408A(d)(3)(A)(iii) or 408A(d)(3)(E) of the Code in the individual's gross income for a particular taxable year is deemed to be an amount received by the individual, in the taxation year that includes the day on which the particular taxable year begins, as a payment out of the arrangement, where the expressions 'gross income' and 'taxable year' in this subparagraph have the meanings assigned to those expressions by the Code."

Explanatory Note:

Foreign Retirement Arrangement

Clause 56(1)(*a*)(i)(C.1) of the Act generally requires that payments received by a taxpayer from a foreign retirement arrangement (FRA) be included in computing the taxpayer's income as a superannuation or pension benefit. An FRA is defined in subsection 248(1) of the Act as a prescribed plan or arrangement. Presently, the only arrangements prescribed to be an FRA under Regulation 6803 are individual retirement accounts and annuities (IRAs) established pursuant to section 408(*a*), (*b*) or (*h*) of the United States' *Internal Revenue Code of 1986* (referred to as the "Code").

New subsection 56(12) is introduced to require Canadian residents who hold IRAs to include in income any amount treated under the Code as a distribution from an IRA, to the extent that the amount is required to be included in income for U.S. tax purposes. New subsection 56(12), among other things, gives effect to a proposal that was announced in Finance Canada News Release 1998-129, dated December 18, 1998.

In certain circumstances, the Code provides that an amount is to be treated as a distribution from an IRA even though no distribution has in fact been made. For example, if an individual converts an IRA into a Roth IRA (which is an individual retirement plan established pursuant to section 408A(*b*) of the Code) simply by amending the plan terms, section 408A(d)(3)(C) of the Code treats the converted amount as a distribution from the regular IRA and, thus, includible in income for U.S. tax purposes. For Canadian tax purposes, however, the converted amount might not be considered to have been received by the individual and, thus, could escape taxation in Canada. Other circumstances in which the Code treats a distribution to have occurred include borrowing money from an IRA and using an IRA as security for a loan. New subsection 56(12) clarifies that such "deemed" distributions under the Code are to be treated as distributions for Canadian income tax purposes.

More specifically, subsection 56(12) provides that, for the purpose of paragraph 56(1)(*a*), an individual is deemed to have received an amount as a payment from an FRA where, as a result of a transaction, event or circumstance, the income tax laws of the foreign country in which the FRA is established treats the amount as having been distributed from the FRA to the individual. The taxation year in which the individual is deemed to have received the amount is the taxation year that includes the time of the transaction, event or circumstance.

Subsection 56(12) applies to the 1998 and subsequent taxation years except that, in its application to the 1998 to 2001 taxation years, two modifications are made. First, its application is limited to circumstances involving the conversion of an IRA into a Roth IRA. Second, for conversions of IRAs into Roth IRAs that occurred in 1998, the amount and timing of the income inclusion in Canada will match the amount and timing in the U.S. Under the Code, individuals who converted an IRA into a Roth IRA in 1998 were entitled to spread the income inclusion over a four-year period. Subsection 56(12) provides for the same treatment. However, if an individual became resident in Canada after having converted an IRA into a Roth IRA in 1998, the individual will not be subject to taxation in Canada on any amounts relating to the conversion that remain taxable for U.S. tax purposes.

History: S. 56(12) was repealed by S.C. 1997, c. 25, s. 8(3), applicable to amounts received after 1996. S. 56(12) formerly read:

"(12) *Definition of 'allowance'.* Subject to subsections 56.1(2) and 60.1(2), for the purposes of paragraphs (1)(*b*), (*c*) and (*c*.1) (in this subsection referred to as the 'former paragraphs') and 60(*b*), (*c*) and (*c*.1) (in this subsection referred to as the 'latter paragraphs'), 'allowance' does not include any amount that is received by a person, referred to in the former paragraphs as 'the taxpayer' and in the latter paragraphs as 'the recipient', unless that person has discretion as to the use of the amount."

SECTION 56.1:

► 56.1(1) ◄

(1) Support. For the purposes of paragraph 56(1)(*b*) and subsection 118(5), where an order or agreement, or any variation thereof, provides for the payment of an amount to a taxpayer or for the benefit of the taxpayer, children in the taxpayer's custody or both the taxpayer and those children, the amount or any part thereof

(*a*) when payable, is deemed to be payable to and receivable by the taxpayer; and

(*b*) when paid, is deemed to have been paid to and received by the taxpayer.

History: S. 56.1(1) was amended by S.C. 1997, c. 25, s. 9(1), applicable to amounts received after 1996. S. 56.1(1) formerly read:

"(1) *Maintenance.* Where a decree, order, judgment or written agreement described in paragraph 56(1)(*b*) or (*c*), or any variation thereof, provides for the periodic payment of an amount

(*a*) to a taxpayer by a person who is

(i) the taxpayer's spouse or former spouse, or

(ii) where the amount is paid under an order made by a competent tribunal in accordance with the laws of a province, an individual of the opposite sex who is the natural parent of a child of the taxpayer, or

(*b*) for the benefit of the taxpayer, children in the custody of the taxpayer or both the taxpayer and those children,

the amount or any part thereof, when paid, shall be deemed for the purposes of paragraphs 56(1)(*b*) and (*c*) to have been paid to and received by the taxpayer."

S. 56.1(1) was amended by S.C. 1994, c. 7, Sched. VIII, s. 18(1), applicable to amounts received under a decree, order or judgment made by a competent tribunal after 1992, or under a written agreement entered into after 1992. S. 56.1(1) formerly read:

"(1) Where, after May 6, 1974, a decree, order, judgment or written agreement described in paragraph 56(1)(*b*), (*c*) or (*c*.1), or any variation thereof, has been made providing for the periodic payment of an amount

(*a*) to a taxpayer by a person who is

(i) the taxpayer's spouse or former spouse, or

(ii) where the amount is paid pursuant to an order made by a competent tribunal after February 10, 1988 in accordance with the laws of a province, an individual of the opposite sex who

(A) before the date of the order cohabited with the taxpayer in a conjugal relationship, or

(B) is the natural parent of a child of the taxpayer, or

(*b*) for the benefit of the taxpayer, children in the custody of the taxpayer or both the taxpayer and those children,

the amount or any part thereof, when paid, shall be deemed, for the purposes of paragraphs 56(1)(*b*), (*c*) and (*c*.1), to have been paid to and received by the taxpayer."

Related Sections: S. 60.1 Support; s. 118(5) Support; s. 248(1), "amount"; s. 252(3) Extended meaning of "spouse" and "former spouse".
Interpretation Bulletins: *Secondary*— IT-530R Support Payments.

► 56.1(2) ◄

(2) Agreement. For the purposes of section 56, this section and subsection 118(5), the amount determined by the formula

A – B

where

A is the total of all amounts each of which is an amount (other than an amount that is otherwise a support amount) that became payable by a person in a taxation year, under an order of a competent tribunal or under a written agreement, in respect of an expense (other than an expenditure in respect of a self-contained domestic establishment in which the person resides or an expenditure for the acquisition of tangible property that is not an expenditure on account of a medical or education expense or in respect of the acquisition, improvement or maintenance of a self-contained domestic establishment in which the taxpayer described in paragraph (*a*) or (*b*) resides) incurred in the year or the preceding taxation year for the maintenance of a taxpayer, children in the taxpayer's custody or both the taxpayer and those children, where the taxpayer is

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of the description of A in subsection 56.1(2) of the Act before paragraph (*a*) is replaced by the following:

A is the total of all amounts each of which is an amount (other than an amount that is otherwise a support amount) that became payable by a person in a taxation year, under an order of a competent tribunal or under a written agreement, in respect of an expense (other than an expenditure in respect of a self-contained domestic establishment in which the person resides or an expenditure for the acquisition of tangible property, or for civil law corporeal property, that is not an expenditure on account of a medical or education expense or in respect of the acquisition, improvement or maintenance of a self-contained domestic establishment in which the taxpayer described in paragraph (*a*) or (*b*) resides) incurred in the year or the preceding taxation year for the maintenance of a taxpayer, children in the taxpayer's custody or both the taxpayer and those children, where the taxpayer is

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*a*) the person's spouse or common-law partner or former spouse or common-law partner, or

(*b*) where the amount became payable under an order made by a competent tribunal in accordance with the laws of a province, an individual who is the parent of a child of whom the person is a legal parent,

and

B is the amount, if any, by which

(*a*) the total of all amounts each of which is an amount included in the total determined for A in respect of the acquisition or improvement of a self-contained domestic establishment in which the taxpayer resides, including any payment of principal or interest in respect of a loan made or indebtedness incurred to finance, in any manner whatever, such acquisition or improvement

exceeds

(*b*) the total of all amounts each of which is an amount equal to 1/5 of the original principal amount of a loan or indebtedness described in paragraph (*a*),

is, where the order or written agreement, as the case may be, provides that this subsection and subsection 60.1(2) shall apply to any amount paid or payable thereunder, deemed to be an amount payable to and receivable by the taxpayer as an allowance on a periodic basis, and the taxpayer is deemed to have discretion as to the use of that amount.

History: S. 56.1(2), paragraph (*b*) of the description of A was replaced by S.C. 2005, c. 33, s. 10(1), applicable on Royal Assent, July 20, 2005. S. 56.1(2), paragraph (*b*) of the description of A formerly read:

"(b) where the amount became payable under an order made by a competent tribunal in accordance with the laws of a province, an individual who is the parent of a child of whom the person is a natural parent,"

S. 56.1(2), paragraph (*a*) of the description of A was amended by S.C. 2000, c. 12, Sched. 2, s. 2(b), applicable January 1, 2001, coming into force on July 31, 2000. S. 56.1(2), paragraph (*a*) of the description of A formerly read:

"(*a*) the person's spouse or former spouse, or"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 56.1(2), the portion before the formula, was amended by S.C. 1997, c. 25, s. 9(2), applicable to amounts received after 1996. That part formerly read:

"(2) *Agreement.* For the purposes of paragraphs 56(1)(*b*) and (*c*), the amount determined by the formula"

S. 56.1(2), the description of A, was amended by S.C. 1997, c. 25, s. 9(3), applicable to amounts received after 1996. That part formerly read:

"A is the total of all amounts each of which is an amount (other than an amount to which paragraph 56(1)(*b*) or (*c*) otherwise applies) paid by a person in a taxation year, under a decree, order or judgment of a competent tribunal or under a written agreement, in respect of an expense (other than an expenditure in respect of a self-contained domestic establishment

in which the person resides or an expenditure for the acquisition of tangible property that is not an expenditure on account of a medical or education expense or in respect of the acquisition, improvement or maintenance of a self-contained domestic establishment in which the taxpayer described in paragraph (*a*) or (*b*) resides) incurred in the year or the preceding taxation year for the maintenance of a taxpayer who is

(*a*) that person's spouse or former spouse, or

(*b*) where the amount is paid under an order made by a competent tribunal in accordance with the laws of a province, an individual of the opposite sex who is the natural parent of a child of the person,

or for the maintenance of children in the taxpayer's custody or both the taxpayer and those children if, at the time the expense was incurred and throughout the remainder of the year, the taxpayer was living separate and apart from that person, and"

S. 56.1(2), the portion after the description of B, was amended by S.C. 1997, c. 25, s. 9(4), applicable to amounts received after 1996. That part formerly read:

"shall, where the decree, order, judgment or written agreement, as the case may be, provides that this subsection and subsection 60.1(2) shall apply to any payment made thereunder, be deemed to be an amount paid by that person and received by the taxpayer as an allowance payable on a periodic basis."

S. 56.1(2) was amended by S.C. 1994, c. 7, Sched. VIII, s. 18(1), applicable to amounts received under a decree, order or judgment made by a competent tribunal after 1992, or under a written agreement entered into after 1992. S. 56.1(2) formerly read:

"(2) *Agreement.* For the purposes of paragraphs 56(1)(*b*), (*c*) and (c.1), the amount, if any, by which

(*a*) the total of all amounts each of which is an amount (other than an amount to which paragraph 56(1)(*b*), (*c*) or (c.1) otherwise applies) paid by a person in a taxation year, pursuant to a decree, order or judgment of a competent tribunal or pursuant to a written agreement, in respect of an expense (other than an expenditure in respect of a self-contained domestic establishment in which the person resides or an expenditure for the acquisition of tangible property that is not an expenditure on account of a medical or educational expense or in respect of the acquisition, improvement or maintenance of a self-contained domestic establishment in which the taxpayer described in subparagraph (i) or (ii) resides) incurred in the year or the immediately preceding taxation year for maintenance of a taxpayer who is

(i) that person's spouse or former spouse, or

(ii) where the amount is paid pursuant to an order made by a competent tribunal after February 10, 1988 in accordance with the laws of a province, an individual of the opposite sex who

(A) before the date of the order cohabited with the person in a conjugal relationship, or

(B) is the natural parent of a child of the person,

or for the maintenance of children in the taxpayer's custody or both the taxpayer and those children if, at the time the expense was incurred and throughout the remainder of the year, the taxpayer was living apart from that person

exceeds

(*b*) the amount, if any, by which

(i) the total of all amounts each of which is an amount included in the total determined under paragraph (*a*) in respect of the acquisition or improvement of a self-contained domestic establishment in which the taxpayer resides, including any payment of principal or interest in respect of a loan made or indebtedness incurred to finance, in any manner whatever, the acquisition or improvement

exceeds

(ii) the total of all amounts each of which is an amount equal to 1/5 of the original principal amount of a loan or indebtedness described in subparagraph (i)

shall, where the decree, order, judgment or written agreement, as the case may be, provides that this subsection and subsection 60.1(2) shall apply to any payment made pursuant thereto, be deemed to be an amount paid by that person and received by the taxpayer as an allowance payable on a periodic basis."

Editorial Note: Although subsection 56.1(2) indicates that the court order or written agreement must provide that this subsection and subsection 60.1(2) apply, the courts and the CRA have stated that the inclusion of a clause in the order or agreement stating the parties understand that the third-party payments will be taxable to the recipient and deductible to the payer is sufficient in this regard; see, for example, paragraph 29 of IT-530R.

Related Sections: S. 60.1(2) Agreement; s. 118(5) Support; s. 248(1), "amount", "individual", "property", "self-contained domestic establishment"; s. 252(1) Extended meaning of "child"; s. 252(3) Extended meaning of "spouse" and "former spouse".

Regulations: 6502; Part LXV.

► 56.1(3) ◄

(3) Prior payments. For the purposes of this section and section 56, where a written agreement or order of a competent tribunal made at any time in a taxation year provides that an amount received before that time and in the year or the preceding taxation year is to be considered to have been paid and received thereunder,

(*a*) the amount is deemed to have been received thereunder; and

(*b*) the agreement or order is deemed, except for the purpose of this subsection, to have been made on the day on which the first such amount was received, except that, where the agreement or order is made after April 1997 and varies a child support amount payable to the recipient from the last such amount received by the recipient before May 1997, each varied amount of child support received under the agreement or order is deemed to have been receivable under an agreement or order the commencement day of which is the day on which the first payment of the varied amount is required to be made.

History: S. 56.1(3) was amended by S.C. 1997, c. 25, s. 9(5), applicable to amounts received after 1996. S. 56.1(3) formerly read:

"(3) *Prior payments.* For the purposes of this section and section 56, where a decree, order or judgment of a competent tribunal or a written agreement made at any time in a taxation year provides that an amount received before that time and in the year or the preceding taxation year is to be considered to have been paid and received thereunder, the amount shall be deemed to have been received thereunder."

S. 56.1(3) was amended by S.C. 1994, c. 7, Sched. VIII, s. 18(1), applicable to amounts received under a decree, order or judgment made by a competent tribunal after 1992, or under a written agreement entered into after 1992. S. 56.1(3) formerly read:

"(3) For the purposes of this section and section 56, where a decree, order or judgment of a competent tribunal or a written agreement made at any time in a taxation year provides that an amount received before that time and in the year or the immediately preceding taxation year is to be considered as having been paid and received pursuant thereto, the following rules apply:

(*a*) the amount shall be deemed to have been received pursuant thereto; and

(*b*) the person who made the payment shall be deemed to have been separated pursuant to a divorce, judicial separation or written separation agreement from that person's spouse or former spouse at the time the payment was made and throughout the remainder of the year."

Related Sections: S. 60(*b*) Support; s. 60.1(3) Prior payments.

► 56.1(4) ◄

(4) Definitions. The definitions in this subsection apply in this section and section 56.

History: The application of S. 56.1(4) was amended by S.C. 1998, c. 19, s. 307(1), deemed to have come into force on April 25, 1997. That application reads as follows:

Sec. 307(1), Chap. 19, 1998

(8) Subsection (6) applies after 1996, except that

(*a*) a support amount, as defined in subsection 56.1(4) of the Act, as enacted by subsection (6), does not include an amount

(*i*) that was received under a decree, order or judgment of a competent tribunal, or under a written agreement, that does not have a commencement day (within the meaning assigned by that subsection 56.1(4)), and

(*ii*) that if paid and received would, but for this Act, not be included in computing the income of the recipient of the amount; and

(*b*) with respect to an amount payable or receivable under a decree, order or judgment of a competent tribunal, or under a written agreement, made after March 27, 1986 and before 1988, the portion of the definition "support amount" in subsection 56.1(4) of the Act, as enacted by subsection (6), before paragraph (*a*) shall be read without reference to "the recipient has discretion as to the use of the amount, and".

S. 56.1(4) was added by S.C. 1997, c. 25, s. 9(6), applicable after 1996, except that a support amount, as defined in subsection 56.1(4), does not include an amount that if paid and received would, but for S.C. 1997, c. 25, not be included in computing the income of the recipient of the amount.

"child support amount" — "child support amount" means any support amount that is not identified in the agreement or order under which it is receivable as being solely for the support of a recipient who is a spouse or common-law partner or former spouse or common-law partner of the payer or who is a parent of a child of whom the payer is a legal parent.

History: S. 56.1(4), the definition "child support amount" was replaced by S.C. 2005, c. 33, s. 10(2), applicable on Royal Assent, July 20, 2005. S. 56.1(4), the definition "child support amount" formerly read:

"*'child support amount'* — 'child support amount' means any support amount that is not identified in the agreement or order under which it is receivable as being solely for the support of a recipient who is a spouse or common-law partner or former spouse or common-law partner of the payer or who is a parent of a child of whom the payer is a natural parent."

S. 56.1(4), the definition "child support amount" was amended by S.C. 2000, c. 12, Sched. 2, s. 2(b), applicable January 1, 2001, coming into force on July 31, 2000. S. 56.1(4), the definition "child support amount" formerly read:

"*'child support amount'* — 'child support amount' means any support amount that is not identified in the agreement or order under which it is receivable as being solely for the support of a recipient who is a spouse or former spouse of the payer or who is a parent of a child of whom the payer is a natural parent."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 56.1(4), the application of the definition "child support amount" was amended by S.C. 1998, c. 19, s. 307(1), deemed to have come into force on April 25, 1997. That application reads as follows:

Sec. 307(1), Chap. 19, 1998

(8) Subsection (6) applies after 1996, except that

(*a*) a support amount, as defined in subsection 56.1(4) of the Act, as enacted by subsection (6), does not include an amount

(*i*) that was received under a decree, order or judgment of a competent tribunal, or under a written agreement, that does not have a commencement day (within the meaning assigned by that subsection 56.1(4)), and

(*ii*) that if paid and received would, but for this Act, not be included in computing the income of the recipient of the amount; and

(*b*) with respect to an amount payable or receivable under a decree, order or judgment of a competent tribunal, or under a written agreement, made after March 27, 1986 and before 1988, the portion of the definition "support amount" in subsection 56.1(4) of the Act, as enacted by subsection (6), before paragraph (*a*) shall be read without reference to "the recipient has discretion as to the use of the amount, and".

S. 56.1(4), the definition "child support amount", was added by S.C. 1997, c. 25, s. 9(6), applicable after 1996, except that a support amount, as defined in subsection 56.1(4), does not include an amount that if paid and received would, but for S.C. 1997, c. 25, not be included in computing the income of the recipient of the amount.

"commencement day" — "commencement day" at any time of an agreement or order means

(*a*) where the agreement or order is made after April 1997, the day it is made; and

(*b*) where the agreement or order is made before May 1997, the day, if any, that is after April 1997 and is the earliest of

(i) the day specified as the commencement day of the agreement or order by the payer and recipient under the agreement or order in a joint election filed with the Minister in prescribed form and manner,

(ii) where the agreement or order is varied after April 1997 to change the child support amounts payable to the recipient, the day on which the first payment of the varied amount is required to be made,

(iii) where a subsequent agreement or order is made after April 1997, the effect of which is to change the total child support amounts payable to the recipient by the payer, the commencement day of the first such subsequent agreement or order, and

(iv) the day specified in the agreement or order, or any variation thereof, as the commencement day of the agreement or order for the purposes of this Act.

History: S. 56.1(4), the application of the definition "commencement day" was amended by S.C. 1998, c. 19, s. 307(1), deemed to have come into force on April 25, 1997. That application reads as follows:

Sec. 307(1), Chap. 19, 1998

(8) Subsection (6) applies after 1996, except that

(*a*) a support amount, as defined in subsection 56.1(4) of the Act, as enacted by subsection (6), does not include an amount

(*i*) that was received under a decree, order or judgment of a competent tribunal, or under a written agreement, that does not have a commencement day (within the meaning assigned by that subsection 56.1(4)), and

(*ii*) that if paid and received would, but for this Act, not be included in computing the income of the recipient of the amount; and

(*b*) with respect to an amount payable or receivable under a decree, order or judgment of a competent tribunal, or under a written agreement, made after March 27, 1986 and before 1988, the portion of the definition "support amount" in subsection 56.1(4) of the Act, as enacted by subsection (6), before paragraph (*a*) shall be read without reference to "the recipient has discretion as to the use of the amount, and".

S. 56.1(4), the definition "commencement day", was added by S.C. 1997, c. 25, s. 9(6), applicable after 1996, except that a support amount, as defined in subsection 56.1(4), does not include an amount that if paid and received would, but for S.C. 1997, c. 25, not be included in computing the income of the recipient of the amount.

Tax Topics: No. 1702, Income Tax Issues To Be Considered in Negotiating Marriage Contracts.

"support amount" — "support amount" means an amount payable or receivable as an allowance on a periodic basis for the maintenance of the recipient, children of the recipient or both the recipient and children of the recipient, if the recipient has discretion as to the use of the amount, and

(*a*) the recipient is the spouse or common-law partner or former spouse or common-law partner of the payer, the recipient and payer are living separate and apart because of the breakdown of their marriage or common-law partnership and the amount is receivable under an order of a competent tribunal or under a written agreement; or

(*b*) the payer is a legal parent of a child of the recipient and the amount is receivable under an order made by a competent tribunal in accordance with the laws of a province.

History: S. 56.1(4), paragraph (*b*) of the definition "support amount" was replaced by S.C. 2005, c. 33, s. 10(3), applicable on Royal Assent, July 20, 2005. S. 56.1(4), paragraph (*b*) of the definition "support amount" formerly read:

"(*b*) the payer is a natural parent of a child of the recipient and the amount is receivable under an order made by a competent tribunal in accordance with the laws of a province."

S. 56.1(4), paragraph (*a*) of the definition "support amount" was amended by S.C. 2000, c. 12, Sched. 2, s. 2(b) and 9(b), applicable January 1, 2001, coming into force on July 31, 2000. S. 56.1(4), paragraph (*a*) of the definition "support amount" formerly read:

"(*a*) the recipient is the spouse or former spouse of the payer, the recipient and payer are living separate and apart because of the breakdown of their marriage and the amount is receivable under an order of a competent tribunal or under a written agreement; or"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the

taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 56.1(4), the application of the definition "support amount" was amended by S.C. 1998, c. 19, s. 307(1), deemed to have come into force on April 25, 1997. That application reads as follows:

Sec. 307(1), Chap. 19, 1998

(8) Subsection (6) applies after 1996, except that

(*a*) a support amount, as defined in subsection 56.1(4) of the Act, as enacted by subsection (6), does not include an amount

(*i*) that was received under a decree, order or judgment of a competent tribunal, or under a written agreement, that does not have a commencement day (within the meaning assigned by that subsection 56.1(4)), and

(*ii*) that if paid and received would, but for this Act, not be included in computing the income of the recipient of the amount; and

(*b*) with respect to an amount payable or receivable under a decree, order or judgment of a competent tribunal, or under a written agreement, made after March 27, 1986 and before 1988, the portion of the definition "support amount" in subsection 56.1(4) of the Act, as enacted by subsection (6), before paragraph (*a*) shall be read without reference to "the recipient has discretion as to the use of the amount, and".

S. 56.1(4), the definition "support amount", was added by S.C. 1997, c. 25, s. 9(6), applicable after 1996, except that a support amount, as defined in subsection 56.1(4) does not include an amount that if paid and received would, but for this Act, not be included in computing the income of the recipient of the amount.

Regulations: 6502.
Forms: T1157; T1158.
Tax Topics: No. 1702, Income Tax Issues To Be Considered in Negotiating Marriage Contracts.
Cases: An amount paid under a separation agreement directly to the taxpayer's adult daughter was not a "support amount" since the taxpayer's wife was not the recipient thereof, and had no discretion as to its use. Accordingly, the payments were not deductible. *Larabie*, 2000 DTC 2336 (T.C.C.).

When, instead of making maintenance payments of $700 per month for his wife and three children, the taxpayer provided his wife with monthly cheques of $690 made payable to her landlord, these amounts were deductible since they were limited and predetermined and they represented a certain type of expense which the taxpayer's wife was thereby enabled to discharge. *The Queen v. Arsenault*, 96 DTC 6131 (F.C.A.).

The requirement to include in income the child support payments received by the taxpayer from her former spouse was held not to offend the rights of single custodial parents under the Charter. *The Queen v. Thibaudeau*, 95 DTC 5273 (S.C.C.), reversing 94 DTC 6230 (F.C.A.) and affirming 92 DTC 2098 (T.C.C.).

Under the terms of an agreement, the taxpayer undertook to pay to his former spouse five "maintenance payments" of $10,000 each over a five-year period, with interest to accrue on the remaining portion of the original $50,000 outstanding at the date of each payment. These payments were not deductible as alimony since they were predetermined by the clauses of an agreement whereas alimony payments are spread over an undetermined period. *Champagne v. M.N.R.*, 93 DTC 479 (T.C.C.).

A taxpayer was entitled to deduct monthly payments made to his former wife, even though his obligation to pay was contingent on her using the money to make mortgage and tax payments. She was entitled to dispose of the amounts completely, and derived an economic benefit from them. The restrictions placed on their use did not affect the benefit. *Gagnon v. The Queen*, 86 DTC 6179 (S.C.C.), reversing 82 DTC 6318 (F.C.A.), which reversed 80 DTC 6256 (F.C.T.D.).

SECTION 56.2: Reserve claimed for debt forgiveness.

There shall be included in computing an individual's income for a taxation year during which the individual was not a bankrupt the amount, if any, deducted under section 61.2 in computing the individual's income for the preceding taxation year.

History: S. 56.2 was added by S.C. 1995, c. 21, s. 19(1), applicable to taxation years that end after February 21, 1994.

SECTION 56.3: Reserve claimed for debt forgiveness.

There shall be included in computing a taxpayer's income for a taxation year during which the taxpayer was not a bankrupt the amount, if any, deducted under section 61.4 in computing the taxpayer's income for the preceding taxation year.

History: S. 56.3 was added by S.C. 1995, c. 21, s. 19(1), applicable to taxation years that end after February 21, 1994.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The Act is amended by adding the following after section 56.3:

Restrictive Covenants

SECTION 56.4:

(1) Definitions. The following definitions apply in this section.

"*eligible corporation*" — "eligible corporation", of a taxpayer, means a taxable Canadian corporation of which,

(*a*) the taxpayer holds, directly or indirectly, shares of the capital stock; and

(*b*) taxpayers with whom the taxpayer does not deal at arm's length (determined without reference to paragraph 251(5)(*b*)) hold in aggregate, directly or indirectly, less than 10% of the issued and outstanding share capital which holdings have an aggregate fair market value of less than 10% of the fair market value of all of the issued and outstanding shares of that taxable Canadian corporation.

"*eligible interest*" — "eligible interest", of a taxpayer, means capital property of the taxpayer that is

(*a*) a partnership interest in a partnership that carries on a business;

(*b*) a share of the capital stock of a corporation that carries on a business; or

(*c*) a share of the capital stock of a corporation 90% or more of the fair market value of which is attributable to eligible interests in one other corporation.

"*goodwill amount*" — "goodwill amount", of a taxpayer, is an amount received or receivable by the taxpayer as consideration for the disposition by the taxpayer of goodwill, and that is required by the description of E in the definition "cumulative eligible capital" in subsection 14(5) to be included in computing the cumulative eligible capital of a business carried on by the taxpayer through a permanent establishment located in Canada.

"*permanent establishment*" — "permanent establishment" means a permanent establishment as defined for the purpose of subsection 16.1(1).

"*restrictive covenant*" — "restrictive covenant", of a taxpayer, means an agreement entered into, an undertaking made, or a waiver of an advantage or right by the taxpayer (other than an agreement or undertaking for the disposition of the taxpayer's property or — except where the obligation being satisfied is in respect of a right to property or services that the taxpayer acquired for less than its fair market value — for the satisfaction of an obligation described in section 49.1 that is not a disposition), whether legally enforceable or not, that affects, or is intended to affect, in any way whatever, the acquisition or provision of property or services by the taxpayer or by another taxpayer that does not deal at arm's length with the taxpayer.

"*taxpayer*" — "taxpayer" includes a partnership.

(2) Income — restrictive covenants. There is to be included in computing a taxpayer's income for a taxation year the total of all amounts each of which is an amount in respect of a restrictive covenant of the taxpayer that is received or receivable in the taxation year by the taxpayer or by a taxpayer with whom the taxpayer does not deal at arm's length (other than an amount that has been included in computing the taxpayer's income because of this subsection for a preceding taxation year or in the taxpayer's eligible corporation's income because of this subsection for the taxation year or a preceding taxation year).

(3) Non-application of subsection (2). Subsection (2) does not apply to an amount received or receivable by a particular taxpayer in a taxation year in respect of a restrictive covenant granted by the particular taxpayer to another taxpayer (referred to in this subsection and subsection (4) as the "purchaser") with whom the particular taxpayer deals at arm's length (determined without reference to paragraph 251(5)(*b*)), if

(*a*) section 5 or 6 applied to include the amount in computing the particular taxpayer's income for the taxation year or would have so applied if the amount had been received in the taxation year;

(*b*) the amount would, if this Act were read without reference to this section, be required by the description of E in the definition "cumulative eligible capital" in subsection 14(5) to be included in computing the particular taxpayer's cumulative eligible capital in respect of the business to which the restrictive covenant relates, and the particular taxpayer elects (or if the amount is payable by the purchaser in respect of a business carried on in Canada by the purchaser, the particular taxpayer and the purchaser jointly elect) in prescribed form to apply this paragraph in respect of the amount; or

(*c*) subject to subsection (10), the amount directly relates to the particular taxpayer's disposition of property that is, at the time of the disposition, an eligible interest in the partnership or corporation that carries on the business to which the restrictive covenant relates, or that is at that time an eligible interest by virtue of paragraph (*c*) of the definition "eligible interest" where the other corporation referred to in that paragraph carries on the business to which the restrictive covenant relates, and

(i) the disposition is to the purchaser (or to a person related to the purchaser),

(ii) the amount is consideration for an undertaking by the particular taxpayer not to provide, directly or indirectly, property or services in competition with the property or services provided or to be provided by the purchaser (or by a person related to the purchaser),

(iii) the restrictive covenant may reasonably be considered to have been granted to maintain or preserve the value of the eligible interest disposed of to the purchaser;

(iv) if the restrictive covenant is granted on or after July 18, 2005, subsection 84(3) does not apply to the disposition,

(v) neither section 85 nor subsection 97(2) applies to the disposition of the eligible interest by the particular taxpayer,

(vi) the amount is added to the particular taxpayer's proceeds of disposition, as defined by section 54, for the purpose of applying this Act to the disposition of the particular taxpayer's eligible interest, and

(vii) the particular taxpayer and the purchaser elect in prescribed form to apply this paragraph in respect of the amount.

(4) Treatment of purchaser. An amount paid or payable by a purchaser for a restrictive covenant is

(*a*) if the amount is required because of section 5 or 6 to be included in computing the income of an employee of the purchaser, to be considered to be wages paid or payable by the purchaser to the employee;

(*b*) if an election has been made under paragraph (3)(*b*) in respect of the amount, to be considered to be incurred by the purchaser on account of capital for the purpose of applying the definition "eligible capital expenditure" in subsection 14(5) and not to be an amount paid or payable for all other purposes of the Act; and

(*c*) if an election has been made under paragraph (3)(*c*), in respect of the amount and the amount relates to the purchaser's acquisition of property that is, immediately after the acquisition, an eligible interest of the purchaser, to be included in computing the cost to the purchaser of that interest and considered not to be an amount paid or payable for all other purposes of the Act.

(5) Non-application of section 68. If this subsection applies in respect of a restrictive covenant granted by a taxpayer, section 68 does not apply to deem consideration to be received or receivable by the taxpayer for the restrictive covenant.

(6) Application of subsection (5) — if employee provides covenant. Subsection (5) applies to a restrictive covenant if

(*a*) the restrictive covenant is granted by an individual to another taxpayer with whom the individual deals at arm's length (referred to in this subsection as the "purchaser");

(*b*) the restrictive covenant directly relates to the acquisition from one or more other persons (in this subsection and subsection (8) referred to as the "vendors") by the purchaser of an interest in the individual's employer, in a corporation related to that employer or in a business carried on by that employer;

(*c*) the individual deals at arm's length with the employer and with the vendors;

(*d*) the restrictive covenant is an undertaking by the individual not to provide, directly or indirectly, property or services in competition with property or services provided or to be provided by the purchaser (or by a person related to the purchaser) in the course of carrying on the business to which the restrictive covenant relates;

(*e*) no proceeds are received or receivable by the individual for granting the restrictive covenant; and

(*f*) the amount that can reasonably be regarded to be consideration for the restrictive covenant is received or receivable only by the vendors.

(7) Application of subsection (5) — goodwill amount. Subject to subsection (11), subsection (5) applies to a restrictive covenant if

(*a*) the restrictive covenant is granted by a taxpayer (in this subsection referred to as the "vendor") to another taxpayer with whom the vendor deals at arm's length (referred to in this subsection as the "purchaser");

(*b*) the restrictive covenant is an undertaking of the vendor not to provide, directly or indirectly, property or services in competition with the property or services provided or to be provided by the purchaser (or by a person related to the purchaser) in the course of carrying on the business to which the restrictive covenant relates;

(*c*) no proceeds are received or receivable by the vendor for granting the restrictive covenant;

(*d*) the amount that can reasonably be regarded as being the consideration for the restrictive covenant is

(i) included by the vendor in computing a goodwill amount of the vendor, or

(ii) received or receivable by a corporation that was an eligible corporation of the vendor when the restrictive covenant was granted and included by the eligible corporation in computing a goodwill amount of the eligible corporation in respect of the business to which the restrictive covenant relates;

(*e*) the restrictive covenant may reasonably be considered to have been granted to maintain or preserve the value of

(i) goodwill acquired by the purchaser from the vendor, or

(ii) goodwill acquired by the purchaser from the vendor's eligible corporation; and

(*f*) neither section 85 nor subsection 97(2) applies to the disposition of the goodwill by the vendor or the vendor's eligible corporation;

(*g*) no portion of the amount of consideration that can reasonably be regarded as being in part the consideration for the restrictive covenant is received or receivable, directly or indirectly in any manner whatever, by an individual (in this subsection and subsection (9) referred to as the "non arm's length individual") with whom the vendor does not deal at arm's length or by another taxpayer in which the non arm's length individual holds, directly or indirectly, an interest; and

(*h*) the vendor and the purchaser or, if subparagraph (*d*)(ii) applies, the vendor, the eligible corporation and the purchaser, jointly elect in prescribed form to apply subsection (5) to the restrictive covenant.

(8) Application of subsection (5) — disposition of property. Subject to subsection (11), subsection (5) applies to a restrictive covenant granted by a taxpayer if

(*a*) the restrictive covenant is granted by the taxpayer (in this subsection referred to as the "vendor") to another taxpayer (in this subsection and subsection (9) referred to as the "purchaser") with whom the vendor deals at arm's length (determined without reference to paragraph 251(5)(*b*));

(*b*) the restrictive covenant is an undertaking of the vendor not to provide, directly or indirectly, property or services in competition with the property or services provided or to be provided by the purchaser (or by a person related to the purchaser) in the course of carrying on the business to which the covenant relates;

(*c*) it is reasonable to conclude that the restrictive covenant is integral to an agreement in writing

(i) under which the vendor disposes of property (other than property to which subparagraph (ii) applies) to the purchaser for consideration that is received or receivable by the vendor, or

(ii) under which shares of the capital stock of a corporation (in this subsection and subsection (9) referred to as the "target corporation") are disposed of to the purchaser;

(*d*) where subparagraph (*c*)(i) applies, the consideration that can reasonably be regarded as being in part the consideration for the restrictive covenant is received or receivable by the vendor as consideration for the disposition of the property;

(*e*) where subparagraph (*c*)(ii) applies, no portion of the amount of consideration that can reasonably be regarded as being in part the consideration for the restrictive covenant is received or receivable, directly or indirectly in any manner whatever, by an individual (in this subsection and subsection (9) referred to as the "non arm's length individual") with whom the vendor does not deal at arm's length or by another taxpayer in which the non arm's length individual holds, directly or indirectly, an interest;

(*f*) subsection 84(3) does not apply to the disposition;

(*g*) neither section 85 nor subsection 97(2) applies to the disposition; and

(*h*) the restrictive covenant can reasonably be regarded to have been granted to maintain or preserve the fair market value of the vendor's property disposed of to the purchaser or of the shares of the target corporation disposed of to the purchaser.

(9) To extent section 68 applies — capital gain election. If subsection (7) does not apply to a taxpayer's grant of a restrictive covenant solely because the condition in paragraph (7)(*g*) has not been satisfied, or if subsection (8) does not apply solely because the condition in paragraph (8)(*e*) has not been satisfied,

(*a*) to the extent that the consideration that can reasonably be regarded as being in part the consideration for the restrictive covenant granted by the taxpayer is received or receivable by one or more non arm's length individuals and taxpayers in which one or more non arm's length individuals hold, directly or indirectly, an interest (in this subsection referred to as the "allocable portion"), section 68 applies only to that allocable portion;

(*b*) a joint election may be filed in prescribed form by the taxpayer and each non arm's length individual and other taxpayer referred to in paragraph (*a*) to deem the portion of the allocable portion that would otherwise be considered by section 68 to be received or receivable in a taxation year by the taxpayer for granting the restrictive covenant to be received or receivable in the taxation year by the taxpayer as a goodwill amount, if paragraph (7)(*g*) has not been satisfied, or as proceeds of disposition from the disposition of capital property, if paragraph (8)(*e*) has not been satisfied;

(*c*) if paragraph (*b*) applies to deem consideration to be received or receivable in the taxation by the taxpayer, except for the purpose of applying this subsection, that consideration is considered not to be received or receivable by each of the non arm's length individuals and other taxpayers who make the joint election with the taxpayer;

(*c*.1) if paragraph (*b*) applies to deem consideration to be received or receivable in a taxation year by the taxpayer and the consideration is actually received or receivable by another taxpayer — referred to in that paragraph — that is a corporation, partnership or trust, that consideration is deemed to have been received by the corporation, partnership or trust, as the case may be, as an agent of the taxpayer if it is transferred to taxpayer within 180 days from the date of receipt; and

(*d*) for greater certainty, the outlay to the purchaser for the goodwill amount referred to in subsection (7), or the cost of the shares of the target corporation referred to in subsection (8), as the case may be, does not differ from the amount that those amounts would have been if subsection (7) or (8) had applied to all of the consideration paid or payable by the purchaser to the non arm's length individuals and other taxpayers referred to in paragraph (*b*) for the goodwill amount or capital stock of the target corporation, as the case may be.

(10) Anti-avoidance rule — non-application of paragraph (3)(c). Paragraph (3)(*c*) does not apply to an amount that would, if this Act were read without reference to subsections (2) to (15), be included in computing a taxpayer's income from a source that is an office or employment or a business or property under paragraph 3(*a*).

(11) Anti-avoidance — non-application of subsections (7), (8) and (9). Subsections (7), (8) and (9) do not apply in respect of a taxpayer's grant of a restrictive covenant if one of the results of not applying section 68 to the consideration received or receivable in respect of the taxpayer's grant of the restrictive covenant would be that paragraph 3(*a*) would not apply to consideration that would, if this Act were read without reference to subsections (2) to (15), be included in computing a taxpayer's income from a source that is an office or employment or a business or property.

(12) Clarification if subsection (2) applies — where another person receives the amount. For greater certainty, if subsection (2) applies to include in computing a taxpayer's income an amount received or receivable by another taxpayer, that amount is not to be included in computing the income of that other taxpayer.

(13) Clarification if subsection (5) applies. For greater certainty, if subsection (5) applies in respect of a restrictive covenant granted by a taxpayer

(*a*) the amount referred to in paragraph (6)(*f*) is to be added in computing the amount received or receivable by the vendors as consideration for the disposition of the interest referred to in paragraph (6)(*b*);

(*b*) the amount that could reasonably be regarded as consideration referred to in subparagraph (7)(*d*)(i) or (ii), as the case may be, is to be added in computing

(i) the amount that is required by the description of E in the definition "cumulative eligible capital" in subsection 14(5) to be included in computing the cumulative eligible capital of a business carried on by the vendor through a permanent establishment located in Canada, or

(ii) the amount that is required by the description of E in the definition "cumulative eligible capital" in subsection 14(5) to be included in computing the cumulative eligible capital of a business carried on by the eligible corporation through a permanent establishment located in Canada; and

(*c*) the amount that can reasonably be regarded as being in part consideration for a restrictive covenant received or receivable to which subsection (5) applies because of subsection (8) is to be added in computing the consideration

(i) if subparagraph (8)(*c*)(i) applies, that is received or receivable by the vendor from the disposition of the property, and

(ii) if subparagraph (8)(*c*)(ii) applies, that is received or receivable by each taxpayer who disposes of shares of the target corporation to the extent that consideration is received or receivable by each such other taxpayer.

(14) Filing of prescribed form. For the purpose of paragraphs (3)(*b*) and (*c*), (7)(*h*) and (9)(*b*) an election in prescribed form filed under any of those provisions is to include a copy of the restrictive covenant and be filed

(*a*) if the person who granted the restrictive covenant is a person resident in Canada when the restrictive covenant was granted, by the person with the Minister on or before the person's filing-due date for the taxation year that includes the day on which the restrictive covenant was granted; and

(*b*) in any other case, with the Minister on or before the day that is six months after the day on which the restrictive covenant is granted.

(15) Non-application of section 42. Section 42 does not apply to an amount received or receivable as consideration for a restrictive covenant.

Applicable: Subject to [the application of section 56.4 to a restrictive covenant granted by a taxpayer before November 9, 2006, described below], section 56.4 applies to

(*a*) amounts received or receivable by a taxpayer after October 7, 2003 other than to amounts received by the taxpayer before 2005 under a grant of a restrictive covenant made in writing on or before October 7, 2003 between the taxpayer and a purchaser with whom the taxpayer deals at arm's length; and

(*b*) amounts paid or payable by a purchaser after October 7, 2003 other than to amounts paid or payable by the purchaser before 2005 under a grant of a restrictive covenant made in writing on or before October 7, 2003 between the purchaser and a taxpayer with whom the purchaser deals at arm's length.

For the purpose of applying section 56.4 to a restrictive covenant granted by a taxpayer before November 9, 2006,

(*a*) the definition "restrictive covenant" in subsection 56.4(1) is to be read without reference to the words "except where the obligation being satisfied is in respect of a right to property or services that the taxpayer acquired for less than its fair market value";

(*b*) paragraph 56.4(3)(*c*) applies as enacted unless the taxpayer elects, no later than 180 days after this Act is assented to, by filing with the Minister of National Revenue an election in writing that this paragraph apply, in which case paragraph 56.4(3)(*c*) shall be read in respect of the restrictive covenant as follows:

"(*c*) the amount directly relates to the particular taxpayer's disposition of property that is, at the time of the disposition, an eligible interest in the partnership or corporation that carries on the business to which the restrictive covenant relates, or that is at that time an eligible interest by virtue of paragraph (*c*) of the definition 'eligible interest' where the other corporation referred to in that paragraph carries on the business to which the restrictive covenant relates, and

(i) the disposition is to the purchaser (or to a person related to the purchaser),

(ii) the amount is consideration for an undertaking by the particular taxpayer not to provide, directly or indirectly, property or services in competition with the property or services provided or to be provided by the purchaser (or by a person related to the purchaser),

(iii) the amount does not exceed the amount determined by the formula

$$A - B$$

where

A is the amount that would be the fair market value of the particular taxpayer's eligible interest that is disposed of if all restrictive covenants that may reasonably be considered to relate to a disposition of an interest in the business by any taxpayer were provided for no consideration, and

B is the amount that would be the fair market value of the particular taxpayer's eligible interest that is disposed of if no covenant were granted by any taxpayer that held an interest in the business,

(iv) if the restrictive covenant is granted on or after July 18, 2005, subsection 84(3) does not apply to the disposition,

(v) the amount is added to the particular taxpayer's proceeds of disposition, as defined by section 54, for the purpose of applying this Act to the disposition of the particular taxpayer's eligible interest, and

(vi) the particular taxpayer and the purchaser elect in prescribed form to apply this paragraph in respect of the amount."

(*c*) subsection 56.4(7) is to be read without reference to paragraphs (*f*) and (*g*);

(*d*) section 56.4 is to be read without reference to subsections (10) and (11) in respect of restrictive covenants granted before November 9, 2006; and

(*e*) an election referred to in subsection 56.4(14) is deemed to be filed on a timely basis if it is filed on or before the day that is 180 days after the day on which this Act is assented to.

Explanatory Note: New section 56.4 of the Act sets out rules with respect to amounts that are received or receivable in respect of a restrictive covenant. New section 56.4 reflects changes to the income tax law proposed by the Minister of Finance on October 7, 2003 (release 2003-049) and on July 18, 2005 (Department of Finance release 2005-049). Subject to certain exceptions, new section 56.4 applies to amounts received or receivable by a taxpayer after October 7, 2003, other than to amounts received by the taxpayer before 2005 under a grant of a restrictive covenant made in writing on or before October 7, 2003 between the taxpayer and a person with whom the taxpayer deals at arm's length.

In addition to new section 56.4, there are consequential changes to other provisions of the Act, including section 6 (employment income), subsection 14(5.1) (restrictive covenant amount), section 56 (amounts to be included in income), section 60 (other deductions), section 68 (allocation of consideration) and section 212 (Part XIII tax, non-resident withholding tax) of the Act. The notes accompanying those consequential changes contain additional details about each change.

Subsection 56.4(1) — Definitions

New subsection 56.4(1) defines an "eligible corporation", an "eligible interest", a "restrictive covenant", a "goodwill amount", "a permanent establishment" and a "taxpayer" — these definitions are relevant for the purpose of computing the amount, if any, that a taxpayer is required to include in income, or in proceeds of disposition in respect of certain capital property, in respect of amounts received or receivable for a restrictive covenant.

"eligible corporation"

"Eligible corporation" of a taxpayer means a taxable Canadian corporation of which,

- the taxpayer holds, directly or indirectly, shares of the capital stock; and
- taxpayers with whom the taxpayer does not deal at arm's length (determined without reference to paragraph 251(5)(*b*)) hold in aggregate, directly or indirectly, less than 10% of the issued share capital (votes and value).

This definition is relevant for the purpose of determining whether new subsections 56.4(5) and (7) apply to provide an exception (for goodwill amounts) from the rule in section 68 that may deem a person who grants a restrictive covenant to receive an amount for the restrictive covenant.

"eligible interest"

"Eligible interest", of a taxpayer, means capital property of the taxpayer that is

- a partnership interest in a partnership that carries on a business,
- a share of the capital stock of a corporation that carries on a business, or
- a share of the capital stock of a corporation 90% or more of the fair market value of which is attributable to eligible interest in one other corporation.

"goodwill amount"

"Goodwill amount", of a taxpayer, is an amount that is received or receivable by the taxpayer as consideration for the disposition by the taxpayer of goodwill, and that is required by the description of E in the definition "cumulative eligible capital" in subsection 14(5) to be included in computing the cumulative eligible capital of a business carried on through a permanent establishment located in Canada. This definition is relevant for the purpose of determining whether new subsections 56.4(5) and (7) apply to provide an exception from the rule in section 68 that may deem a person who grants a restrictive covenant to receive an amount for the restrictive covenant.

"permanent establishment"

"Permanent establishment" means a permanent establishment as defined for the purpose of subsection 16.1(1) of the Act — see Income Tax Regulation 8201.

"restrictive covenant"

"Restrictive covenant", of a taxpayer, means an arrangement entered into, an undertaking made, or a waiver of an advantage

or right by a taxpayer (other than an arrangement or undertaking for the disposition of the taxpayer's property or — except where the obligation being satisfied is in respect of a right to property or services that the taxpayer acquired for less than its fair market value — for the satisfaction of an obligation described in section 49.1 that is not a disposition), that affects, in any way whatever, the acquisition or provision of property or services by a taxpayer or by another taxpayer that does not deal at arm's length with the taxpayer.

"taxpayer"

"Taxpayer" includes a partnership.

Subsection 56.4(2) — Income — Restrictive Covenants

New subsection 56.4(2) of the Act provides that there is to be included in computing a taxpayer's income for a taxation year amounts in respect of a restrictive covenant that are received or receivable in the taxation year by the taxpayer (or by another taxpayer with whom the taxpayer does not deal at arm's length). If an amount that is receivable is included because of subsection 56.4(2) in computing a taxpayer's income, or the taxpayer's eligible corporation's income, in a taxation year, the amount will not be included in computing the taxpayer's income in a subsequent year. Subsection 56.4(2) does not apply in certain circumstances described in subsection (3). Also, subsection 56.4(12) provides a clarifying rule in respect of amounts included in income under subsection 56.4(2).

Subsection 56.4(3) — Non-application of Subsection (2)

There are three exceptions to the income inclusion rule in subsection 56.4(2) of the Act for amounts received or receivable in respect of a restrictive covenant granted by a taxpayer to a person with whom the taxpayer deals at arm's length (the "purchaser").

First, subsection 56.4(2) does not apply to an amount if section 5 or 6 of the Act applies to include the amount in computing the taxpayer's income for the year or would have so applied if the amount had been received in the taxation year.

Second, subsection 56.4(2) does not apply to an amount that would, if the Act were read without reference to section 56.4, be required by the description of E in the definition "cumulative eligible capital" in subsection 14(5) of the Act to be included in computing the taxpayer's cumulative eligible capital in respect of the business to which the restrictive covenant relates. The taxpayer (and the purchaser if the purchaser carries on business in Canada) is required to elect jointly in prescribed form to apply this exception. The note accompanying new subsection 56.4(14) provides further details with respect to filing an election.

Third, subsection 56.4(2) does not apply to an amount to the extent that the amount is additional "proceeds of disposition" from the disposition of an eligible interest (see the definition "eligible interest" in subsection 56.4(1)) of the taxpayer if certain conditions are met. all of the following conditions must be met:

- The amount must directly relate to the taxpayer's disposition of an eligible interest in the partnership or corporation that carries on the business to which the restrictive covenant relates, or that is an eligible interest by virtue of paragraph (*c*) of the definition "eligible interest" where the other corporation referred to in that paragraph carries on the business to which the restrictive covenant relates.
- The disposition of the eligible interest must be to the purchaser of the restrictive covenant (or to a person related to that purchaser).
- The amount received or receivable must be consideration for an undertaking by the taxpayer not to provide property or services in competition with the property or services provided by the purchaser (or by a person related to the purchaser).
- The restrictive covenant must be reasonably considered to have been granted to maintain or preserve the value of the eligible interest disposed of to the purchaser.
- In order to be able to add the restrictive covenant amount to the proceeds of disposition of an eligible interest that is a share, there cannot be a redemption, acquisition or cancellation of the share to which subsection 84(3) applies. This requirement applies to a restrictive covenant granted on or after July 18, 2005.
- The disposition of the eligible interest cannot be the subject matter of a rollover under section 85 or subsection 97(2). This requirement applies to restrictive covenants granted on or after November 9, 2006.
- The amount is added in the taxpayer's proceeds of disposition of the eligible interest.
- The taxpayer and the purchaser of the restrictive covenant jointly elect in prescribed form to apply this exception. The note accompanying new subsection 56.4(14) provides further details with respect to filing an election.

New paragraph 56.4(3)(*c*) is, however, subject to new subsection 56.4(10) — discussed below in the accompanying note — which provides an anti-avoidance rule that, if applicable, results in the non application of paragraph 56.3(*c*).

Subsection 56.4(4) — Treatment of Purchaser

New subsection 56.4(4) of the Act provides rules that apply to an amount paid or payable by a purchaser of a restrictive covenant in certain circumstances.

If the amount paid or payable by a purchaser of a restrictive covenant is employment income of an employee of the purchaser, the amount is considered to be wages paid or payable by the purchaser to the employee.

If an election has been made under paragraph 56.4(3)(*b*) in respect of the amount, the amount is to be considered to be an outlay incurred by the purchaser on account of capital for the purpose of applying the definition "eligible capital expenditure" in subsection 14(5) and not to be an amount paid or payable for all other purposes of the Act.

If an election has been made under paragraph 56.4(3)(*c*) in respect of the amount and the amount relates to the purchaser's acquisition of property that is immediately after the acquisition an eligible interest of the purchaser, the amount is to be included in computing the cost to the purchaser of that interest and is considered not to be an amount paid or payable for all other purposes of the Act.

Subsection 56.4(5) — Non-application of Section 68

New subsection 56.4(5) of the Act provides that, in respect of a restrictive covenant granted by a taxpayer, section 68 does not apply to deem consideration to be received or receivable by the taxpayer for the restrictive covenant. There are three cases in which subsection 56.4(5) may apply, which are more fully described below in the notes accompanying new subsections 56.4(6) and (8).

Subsection 56.4(6) — Application of Subsection (5) — If Employee Provides Covenant

New subsection 56.4(6) of the Act provides a set of conditions that, if met, result in subsection 56.4(5) applying with respect to a restrictive covenant granted by an individual — with the result that section 68 does not apply to deem consideration to be received or receivable by the individual for granting the restrictive covenant. This is the case if all of the following conditions exist:

- The individual grants a restrictive covenant to another taxpayer with whom the individual deals at arm's length (referred to as the "purchaser").
- The restricted covenant directly relates to the acquisition from one or more other persons (referred to as the "vendors") by the purchaser of an eligible interest in the individual's employer, in a corporation related to that employer or in the business carried on by that employer.
- The individual deals at arm's length with the employer and with the vendors.
- The restrictive covenant is an undertaking of the individual not to provide, directly or indirectly, property or services in competition with the property or services provided or to be provided by the purchaser (or by a person related to the purchaser) in the course of carrying on the business to which the restrictive covenant relates.
- No proceeds are received or receivable by the individual for granting the restrictive covenant.
- The amount that can reasonably be regarded to be consideration for the restrictive covenant is received or receivable only by the vendors.

Subsection 56.4(7) — Application of Subsection (5) — Goodwill Amount

New subsection 56.4(7) of the Act provides a set of conditions that, if met, result in subsection 56.4(5) applying with respect to a restrictive covenant granted by a taxpayer — with the result

that section 68 does not apply to deem consideration to be received or receivable by a taxpayer for granting the restrictive covenant. This is the case if all of the following conditions exist:

- The restrictive covenant is granted by a taxpayer (in this subsection referred to as the "vendor") to another taxpayer with whom the vendor deals with at arm's length (referred to as the "purchaser").
- The restrictive covenant is an undertaking of the vendor not to provide, directly or indirectly, property or services in competition with the property or services provided or to be provided by the purchaser (or by a persons related to the purchaser) in the course of carrying on the business to which the restrictive covenant relates.
- No proceeds are received or receivable by the vendor for granting the restrictive covenant.
- The amount that could otherwise be reasonably be regarded as being consideration for the restrictive covenant is
  - included by the vendor in computing a goodwill amount of the vendor, or
  - received or receivable by a corporation that was an eligible corporation of the vendor when the restrictive covenant was granted and is included by that corporation in computing a goodwill amount in respect of the business to which the restrictive covenant relates.
- The restrictive covenant may reasonably be considered to have been granted to maintain or preserve the value of the goodwill acquired by the purchaser.
- The disposition of the goodwill amount cannot be the subject matter of a rollover under section 85 or subsection 97(2).
- No portion of the consideration for the restrictive covenant can be received or receivable by an individual with whom the taxpayer does not deal at arm's length (the non arm's length individual), or by another taxpayer in which the non arm's length individual holds, directly or indirectly, an interest. If this condition is not satisfied, the taxpayer may be eligible to elect capital gain treatment under new subsection 56.4(9) in respect of the consideration received by the non arm's length individual or by the other taxpayer.
- The vendor and the purchaser, or the vendor, the eligible corporation and the purchaser, as the case may be, jointly elect in prescribed form to apply subsection (5) to the restrictive covenant. The note accompanying new subsection 56.4(14) provides further details with respect to filing an election.

In general, if subsection (7) applies to a vendor who grants a restrictive covenant that directly relates to a transfer of goodwill by the vendor, no amount need be allocated to the restrictive covenant under section 68 provided the amount is included in the vendor's goodwill amount. Similarly, this exception may also apply to a vendor's grant of a restrictive covenant if it is the vendor's eligible corporation that transfers goodwill to which the restrictive covenant directly relates, provided the amount is included in computing the vendor corporation's goodwill amount.

Subsection 56.3(7) is, however, subject to new subsection 56.4(11) — discussed below in the accompanying note — which provides an anti-avoidance rule that, if applicable, results in the non application of subsection 56.4(7).

Subsection 56.4(8) — Application of Subsection (5) — Disposition of Property

New subsection 56.4(8) of the Act provides a set of conditions that, if met, result in subsection 56.4(5) applying with respect to a restrictive covenant granted by a taxpayer — with the result that section 68 does not apply to deem consideration to be received or receivable by a taxpayer for granting the restrictive covenant. This is the case if all of the following conditions exist:

- The restrictive covenant is granted by a taxpayer (in this subsection referred to as the "vendor") to another taxpayer with whom the vendor deals with at arm's length (referred to as the "purchaser").
- The restrictive covenant is an undertaking of the vendor not to provide, directly or indirectly, property or services in competition with the property or services provided or to be provided by the purchaser (or by a persons related to the purchaser) in the course of carrying on the business to which the restrictive covenant relates.
- It is reasonable to conclude that the restrictive covenant is integral to an agreement in writing
  - Under which the vendor disposes of property (other than shares of a target corporation, which are referred to below), to the purchaser for consideration that is received or receivable by the vendor. If this is the case, the consideration that can reasonably be regarded as being for the restrictive covenant must be received or receivable by the vendor as consideration for the disposition of the property.
  - Under which shares of a corporation (referred to as the "target corporation") are disposed of to the purchaser. If this is the case, while the consideration that can reasonably be regarded as being for the restrictive covenant is not received or receivable by the vendor, no portion of that consideration may be received or receivable by an individual with whom the vendor does not deal at arm's length (the "non arm's length individual") or by another taxpayer in which the non arm's length individual holds, directly or indirectly, an interest. If this condition is not satisfied, the vendor may be eligible to elect capital gain treatment under new subsection 56.4(9) in respect of the consideration received by the non arm's length individual or by the other taxpayer.
- In order to be able to add the restrictive covenant amount to the proceeds of disposition of property, the disposition cannot be a redemption, acquisition or cancellation of the share to which subsection 84(3) applies.
- The disposition of the property cannot be the subject matter of a rollover under section 85 or subsection 97(2).
- The restrictive covenant must be granted to maintain or preserve the fair market value of the vendor's property disposed of to the purchaser, or of the shares of the target corporation disposed of to the purchaser.

New subsection 56.4(8) is, however, subject to new subsection 56.4(11) — discussed below in the accompanying note — which provides an anti-avoidance rule that, if applicable, results in the non application of new subsection 56.4(8).

Subsection 56.4(9) — To Extent Section 68 Applies — Capital Gain Election

New subsection 56.4(9) of the Act provides four rules that apply if section 68 applies to a taxpayer's grant of a restrictive covenant solely because all or a portion of the consideration in respect of the restrictive covenant is received or receivable by a non arm's length individual, or by another taxpayer in which the non arm's length individual holds, directly or indirectly, an interest.

First, paragraph 56.4(9)(*a*) provides that section 68 applies solely to the consideration allocatable to the non arm's length individuals and any other taxpayer in which those individuals hold, directly or indirectly, an interest.

Second, paragraph 56.4(9)(*b*) provides for a joint election in respect of the allocatable portion. Under the election the allocatable portion is deemed to be received by the taxpayer granting the restrictive covenant as a goodwill amount or as proceeds from the disposition of capital property, based on which provision has not been satisfied so as to render section 68 applicable.

Third, paragraph 56.4(9)(*c*) provides that the consideration deemed under paragraph 56.4(9)(*b*) to be received by the grantor of the restrictive covenant is considered not to be received by the non arm's length individuals or other taxpayers who make the joint election with the grantor.

Fourth, paragraph 56.4(9)(*d*) clarifies that the purchaser's outlay for the property acquired does not differ from what it would be if subsections 56.4(7) or (8) had applied to all of the consideration paid or payable for the property by the purchaser to the non arm's length individuals or other taxpayers referred to in paragraph 56.4(9)(*b*).

New subsection 56.4(9) is, however, subject to new subsection 56.4(11) — discussed below in the accompanying note — which provides an anti-avoidance rule that, if applicable, results in the non application of new subsection 56.4(9).

Subsection 56.4(10) — Anti-avoidance — Non-application of Paragraph 56.4(3)(c)

New subsection 56.4(10) of the Act provides an anti-avoidance rule that, if applicable, denies an election under paragraph 56.4(3)(*c*) that would have allowed a taxpayer to add to their proceeds of disposition in respect of an eligible interest consideration that can reasonably be regarded as being for granting a restrictive covenant. Subsection 56.4(10) applies — and paragraph 56.4(3)(*c*) does not apply — to an amount received by a taxpayer for granting a restrictive covenant if the amount would, if the Act were read without reference to section 56.4 (other than the definitions in subsection 56.4(1)), be included in computing a taxpayer's income from a source that is an office or employment or a business or property.

New subsection 56.4(10) is meant to preclude elections under subsection 56.4(3)(*c*) from applying to consideration in respect of a restrictive covenant that is taxable as ordinary income. For example, paragraph 56.4(3)(*c*) does not apply to consideration receivable by an employee/shareholder that can reasonably be regarded under section 68 to be receivable for a covenant to which subsection 6(3) applies.

Subsection 56.4(11) — Anti-avoidance — Non-Application of Subsections (7) to (9)

New subsection 56.4(11) provides an anti-avoidance rule that overrides the exceptions to the application of section 68 that are found in subsections 56.4(7) to (9). Subsection 56.4(11) applies, and as a result section 68 applies, to consideration that can reasonably be regarded as being for a restrictive covenant if one of the results of not applying section 68 to the consideration would be that the consideration would not be included in computing a taxpayer's income from a source that is an office or employment or a business or property.

New subsection 56.4(11) is meant to preclude subsections (7) to (9) from applying to consideration in respect of a restrictive covenant that is taxable as ordinary income. For example, if a taxpayer were to grant a restrictive covenant to a purchaser in circumstances where another taxpayer disposes of shares to the purchaser, section 68 would apply to the consideration that can reasonably be regarded as being for the restrictive covenant if that consideration would be ordinary income to the other taxpayer — which would be the case, for example, if those shares were held by the other taxpayer on income account. As a result, the taxpayer granting the restrictive covenant would be required to apply subsection 56.4(2) to the consideration deemed by section 68 to have been received by the taxpayer for the covenant when computing income.

Subsection 56.4(12) — Clarification if Subsection (2) Applies — Where Another Person Receives the Amount

New subsection 56.4(12) provides that, for greater certainty, if subsection (2) applies to include in computing a taxpayer's income an amount received or receivable by another taxpayer, that amount is not to be included in computing the income of that other taxpayer.

Subsection 56.4(13) — Clarification if Subsection (5) Applies

New subsection 56.4(13) of the Act provides that, if subsection 56.4(5) applies in respect of restrictive covenant granted by a taxpayer (that is, section 68 does not apply to allocate consideration to the taxpayer's grant of a restrictive covenant), for greater certainty

- The amount referred to in paragraph 56.4(6)(*f*) — that is, the amount received by the vendors other than the taxpayer — is to be added in computing the amount received or receivable by those vendors as consideration for the disposition of the interest referred to in paragraph 56.4(6)(*b*).
- The amount referred to in paragraph 56.4(7)(*d*) — that is, the amount that could reasonably be regarded as consideration for the restrictive covenant that was included in the taxpayer's income as a goodwill amount, or in the taxpayer's eligible corporation as a goodwill amount — is to be added in computing the taxpayer's or the eligible corporation's cumulative eligible capital, as the case may be.
- The amount referred to in subparagraph (8)(*c*)(i) and (ii) — in general, the amount that could reasonably be regarded as consideration for the restrictive covenant that was received or receivable as proceeds for the disposed of property — is to be added in computing the consideration receivable for disposing of the property.

Subsection 56.4(14) — Filing of Prescribed Form

New subsection 56.4(14) of the Act provides that a joint election in prescribed form filed under paragraph 56.4(3)(*b*) and (*c*) or under paragraphs 56.4(7)(*h*) and (9)(*b*) is to include a copy of the restrictive covenant, and be filed

- if the person who agreed to the restrictive covenant is a person resident in Canada when the restrictive covenant was granted, by that person with the Minister on or before that person's filing due-date for the taxation year that includes the day on which the restrictive covenant was granted, and
- in any other case, with the Minister on or before the day that is six months after the day on which the restrictive covenant was granted.

However, such an election is deemed to be filed on a timely basis if it is filed on or before the day that is 180 days after the day this provision is assented to.

Subsection 56.4(15) — Non-application of Section 42

New subsection 56.4(15) of the Act provides that section 42 of the Act does not apply to an amount received or receivable as consideration for a restrictive covenant.

SECTION 57:

► 57(1) ◄

(1) Certain superannuation or pension benefits. Notwithstanding subparagraph 56(1)(*a*)(i), there shall be included in computing the income of a taxpayer in respect of a payment received by the taxpayer out of or under a superannuation or pension fund or plan the investment income of which has at some time been exempt from taxation under the *Income War Tax Act* by reason of an election for that exemption by the trustees or corporation administering the fund or plan, only that part of the payment that remains after deducting the proportion thereof

(*a*) that the total of the amounts paid by the taxpayer into or under the fund or plan during the period when its income was exempt by reason of that election is of the total of all amounts paid by the taxpayer into or under the fund or plan, or

(*b*) that the total of the amounts paid by the taxpayer into or under the fund or plan during the period when its income was exempt by reason of that election together with simple interest on each amount so paid from the end of the year of payment thereof to the commencement of the superannuation allowance or pension at 3% per annum is of the total of all amounts paid by the taxpayer into or under the fund or plan together with simple interest, computed in the same manner, on each amount so paid,

whichever is the greater.

Related Sections: S. 57(3) Limitation; s. 57(5) Payments to widow, etc., of contributor; s. 212(1)(*h*) Pension benefits.

► 57(2) ◄

(2) Exception. This section does not apply in respect of a payment received by a taxpayer out of or under a superannuation or pension fund or plan if the taxpayer made no payment into or under the fund or plan.

► 57(3) ◄

(3) Limitation. Where a payment, to which subsection (1) would otherwise be applicable, is received by a taxpayer out of or under a superannuation or pension fund or plan in respect of a period of service for part only of which the taxpayer made payments into or under the fund or plan, subsection (1) is applicable only to that part of the

payment which may reasonably be regarded as having been received in respect of the period for which the taxpayer made payments into or under the fund or plan and any part of the payment which may reasonably be regarded as having been received in respect of a period for which the taxpayer made no payments into or under the fund or plan shall be included in computing the taxpayer's income for the year without any deduction whatever.

► 57(4) ◄

(4) Certain payments from pension plan. Where a taxpayer, during the period from August 15, 1944 to December 31, 1945, made a contribution in excess of $300 to or under a registered pension plan in respect of services rendered by the taxpayer before the taxpayer became a contributor, there shall be included in computing the taxpayer's income in respect of a payment received by the taxpayer out of or under the plan only that part of the payment that remains after deducting the proportion thereof that the contribution so made minus $300 is of the total of the amounts paid by the taxpayer to or under the plan.

Related Sections: S. 57(5) Payments to widow, etc., of contributor.

► 57(5) ◄

(5) Payments to widow, etc., of contributor. Where, in respect of the death of a taxpayer who was a contributor to or under a superannuation or pension fund or plan described in subsection (1) or (4), a payment is received by a person in a taxation year out of or under the fund or plan, there shall be included in computing the income of that person for the year in respect thereof only that part of the payment that would, if the payment had been received by the taxpayer in the year out of or under the fund or plan, have been included by virtue of this section in computing the income of the taxpayer for the year.

Related Sections: S. 212(1)(*h*) Pension benefits; s. 248(1), "amount", "corporation", "registered pension plan", "superannuation or pension benefit".

SECTION 58:

► 58(1) ◄

(1) Government annuities and like annuities. In determining the amount that shall be included in computing the income of a taxpayer in respect of payments received by the taxpayer in a taxation year under contracts entered into before May 26, 1932 with the Government of Canada or annuity contracts like those issued under the *Government Annuities Act* entered into before that day with the government of a province or a corporation incorporated or licensed to carry on an annuities business in Canada, there may be deducted from the total of the payments received the lesser of

(*a*) the total of the amounts that would have been so received if the contracts had continued in force as they were immediately before June 25, 1940, without the exercise of any option or contractual right to enlarge the annuity by the payment of additional sums or premiums unless those additional sums or premiums had been paid before that day, and

(*b*) $5,000.

Related Sections: S. 58(3) Limitation; s. 58(4) Capital element.

► 58(2) ◄

(2) Annuities before 1940. In determining the amount that shall be included in computing the income of a taxpayer in respect of payments received by the taxpayer in a taxation year under annuity contracts entered into after May 25, 1932, and before June 25, 1940, with the Government of Canada or annuity contracts like those issued under the *Government Annuities Act* entered into during that period with the government of a province or a corporation incorporated or licensed to carry on an annuities business in Canada, there may be deducted from the total of the payments received the lesser of

(*a*) the total of the amounts that would have been received under the contracts if they had continued in force as they were immediately before June 25, 1940, without the exercise of any option or contractual right to enlarge the annuity by the payment of additional sums or premiums unless such additional sums or premiums had been paid before that day, and

(*b*) $1,200.

Related Sections: S. 58(3) Limitation; s. 58(4) Capital element.

► 58(3) ◄

(3) Limitation. Where a taxpayer has received annuity payments in respect of which the taxpayer would otherwise be entitled to make deductions under both subsection (1) and subsection (2),

(*a*) if the amount deductible under subsection (1) is $1,200 or more, he may not make a deduction under subsection (2); and

(*b*) if the amount deductible under subsection (1) is less than $1,200, the taxpayer may make one deduction computed as though subsection (2) applied to all contracts entered into before June 25, 1940.

Related Sections: S. 58(4) Capital element.

► 58(4) ◄

(4) Capital element. The amount remaining after deducting from the total of the annuity payments to which this section applies received in a taxation year the deductions permitted by subsection (1), (2) or (3) shall be deemed to be the annuity payment in respect of which the capital element is deductible under paragraph 60(*a*).

► 58(5) ◄

(5) Spouses [or common-law partners]. Where a taxpayer and the taxpayer's spouse or common-law partner each received annuity payments in respect of which they may deduct amounts under this section, the amount deductible shall be computed as if their annuities belonged to one person and may be deducted by either of them or be apportioned between them in such manner as is agreed to by them or, in case of disagreement, as the Minister determines.

History: S. 58(5) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(j), applicable January 1, 2001, coming into force on July 31, 2000. S. 58(5) formerly read:

"(5) *Spouses.* Where a taxpayer and the taxpayer's spouse each received annuity payments in respect of which they may deduct amounts under this section, the amount deductible shall be computed as if their annuities belonged to one person and may be deducted by either of them or be apportioned between them in such manner as is agreed to by them or, in case of disagreement, as the Minister determines."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the

taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 58(5) was amended by S.C. 1994, c. 7, Sched. VIII, s. 19(1), applicable after 1992. S. 58(5) formerly read:

"(5) *Husband and wife.* Where a husband and wife have each received annuity payments in respect of which they make a deduction under this section, the amount deductible shall be computed as if their annuities belonged to one person and may be deducted by either of them or apportioned between them in such manner as may be agreed by them or, in case of disagreement, as the Minister may determine."

Related Sections: S. 248(1), "annuity", "common-law partner".

► 58(6) ◄

(6) Pension benefits. This section does not apply to superannuation or pension benefits received out of or under a registered pension plan.

► 58(7) ◄

(7) Enlargement of annuity. For the purpose of this section, an annuity shall be deemed to have been enlarged on or after June 25, 1940, if what is payable under the contract has, at any such time, been increased whether by increasing the amount of each periodic payment, by increasing the number of payments or otherwise.

Related Sections: S. 60(*a*) Capital element of annuity payments; s. 248(1), "annuity", "business", "corporation", "registered pension plan", "superannuation or pension benefit".

SECTION 59:

► 59(1) ◄

(1) Consideration for foreign resource property. Where a taxpayer has disposed of a foreign resource property, there shall be included in computing the taxpayer's income for a taxation year the amount, if any, by which

(*a*) the portion of the taxpayer's proceeds of disposition from the disposition of the property that becomes receivable in the year

exceeds

(*b*) the total of

(i) all amounts each of which is an outlay or expense made or incurred by the taxpayer for the purpose of making the disposition that was not otherwise deductible for the purposes of this Part, and

(ii) where the property is a foreign resource property in respect of a country, the amount designated under this subparagraph in prescribed form filed with the taxpayer's return of income for the year in respect of the disposition.

History: S. 59(1) was amended by S.C. 2001, c. 17, s. 40(1), applicable to taxation years that begin after 2000. S. 59(1) formerly read:

"S. 59. *Consideration for foreign resource property.*

(1) Where a taxpayer has disposed of a foreign resource property, the amount, if any, by which the taxpayer's proceeds of disposition therefrom exceed any outlays or expenses made or incurred by the taxpayer for the purpose of making the disposition and that were not otherwise deductible for the purposes of this Part shall be included in computing the taxpayer's income for a taxation year to the extent that the proceeds become receivable in that year."

Related Sections: S. 54, "proceeds of disposition"; s. 66(15), "foreign resource property"; s. 70(5.2) Resource properties and land inventories of a deceased taxpayer; s. 104(5.2) Resource property.

Interpretation Bulletins: *Primary* — IT-125R4 Dispositions of resource properties.

Canadian Petroleum Tax Journal: Foreign Exploration and Development Expenditures — The New Rules, Roch J. Martin, Vol. 14 No. 1 2001.

► 59(1.1) ◄

(1.1) Partnerships. Where a taxpayer is a member of a partnership in a fiscal period of the partnership, the taxpayer's share of the amount that would be included under subsection (1) in respect of a disposition of a foreign resource property in computing the partnership's income for a taxation year if the partnership were a person, the fiscal period were a taxation year, subsection (1) were read without reference to subparagraph (1)(*b*)(ii) and section 96 were read without reference to paragraph 96(1)(*d*) is deemed to be proceeds of disposition that become receivable by the taxpayer at the end of the fiscal period in respect of a disposition of the property by the taxpayer.

Department of Finance Comfort Letter
[Addition to ACB of Partnership Interest — Proceeds of Disposition of a Foreign Resource Property]

July 16, 2004

Dear XXXX

Thank you for your letter of January 27, 2004 to Davine Roach of this Division concerning the interaction among subsection 59(1.1) and paragraphs 53(1)(*e*) and 96(1)(*d*) of the *Income Tax Act* (the "Act"). In particular, your concern relates to the application of these provisions in circumstances where a partnership disposes of a foreign resource property ("FRP").

Where a taxpayer is a member of a partnership, the taxpayer's share of the net proceeds of disposition of a FRP disposed of by the partnership is deemed by subsections 59(1) and 1.1 of the Act to be included in the taxpayer's income. However, there is no provision of the Act that permits an addition to the adjusted cost base ("ACB") of the partnership interest held by the taxpayer. You submit that this is an inappropriate tax result because a subsequent distribution of the net proceeds realized on the disposition of the FRP by the partnership would reduce the ACB of the taxpayer's partnership interest. Since the ACB of the taxpayer's partnership interest was not increased to reflect the fact that this amount was already included in the taxpayer's income, the taxpayer would be subject to double taxation.

In your letter, you noted that paragraph 96(1)(*d*) of the Act was amended, applicable to partnership fiscal periods that begin after 2000, to include a reference to subsection 59(1). As a result of this change, you submit that a concurrent amendment to paragraph 53(1)(*e*) is required to ensure that the proceeds of disposition deemed to become receivable by a partner under subsection 59(1.1) are added to the ACB of that partner's partnership interest.

We agree that the proceeds of disposition of a FRP that are deemed by subsection 59(1.1) of the Act to become receivable by a member of a partnership and that are excluded in computing the income of the partnership by paragraph 96(1)(4) should be added to the ACB of that member's partnership interest. Accordingly, we are prepared to recommend that paragraph 53(1)(*e*) be amended, applicable to fiscal periods that begin after 2000, to include in the ACB of a partner's partnership interest, an amount equal to the amount deemed to be receivable by the partner pursuant to subsection 59(1.1). While I cannot, as you know, offer an assurance that either the Minister or Parliament will agree with our recommendation, I hope that this statement of our position is helpful to you.

Yours sincerely,
Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 59(1.1) was added by S.C. 2001, c. 17, s. 40(1), applicable to fiscal periods that begin after 2000. S. 59(1.1) was previously repealed by the former Act.

► 59(1.2) ◄

(1.2) Idem. [Repealed by 1985, c. 45, s. 24(1).]

► 59(2) ◄

(2) Deduction under former s. 64 in preceding year. There shall be included in computing a taxpayer's income for a taxation year any amount that has been deducted as a reserve under subsection 64(1), (1.1) or (1.2) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada,

1952, in computing the taxpayer's income for the immediately preceding taxation year.

Related Sections: S. 39(1) Meaning of capital gain and capital loss; s. 87(2)(*p*) Consideration for resource property disposition; s. 115(4) Non-resident's income from Canadian resource property.

► 59(2.1) ◄

(2.1) Idem. [Repealed by 1985, c. 45, s. 24(2).]

► 59(3) ◄

(3) Disposition of resource property acquired before 1972. [Repealed by 1985, c. 45, s. 24(3).]

► 59(3.1) ◄

(3.1) Idem. [Repealed by 1985, c. 45, s. 24(3).]

► 59(3.2) ◄

(3.2) Recovery of exploration and development expenses. There shall be included in computing a taxpayer's income for a taxation year

(*a*) any amount referred to in paragraph 66(12.4)(*b*);

(*b*) any amount referred to in subsection 66.1(1);

(*c*) any amount referred to in subsection 66.2(1);

(*c*.1) any amount referred to in subsection 66.21(3);

(*d*) any amount referred to in subparagraph 66(10.4)(*b*)(ii); and

(*e*) any amount referred to in paragraph 66(10.4)(*c*).

History: S. 59(3.2)(c.1) was added by S.C. 2001, c. 17, s. 40(2), applicable to taxation years that begin after 2000.

Related Sections: S. 104(5.2) Resource property.

Interpretation Bulletins: *Primary* — IT-125R4 Disposition of resource properties.

► 59(3.3) ◄

(3.3) Amounts to be included in income. There shall be included in computing a taxpayer's income for a taxation year

(*a*) 33$^1/_3$% of the total of all amounts, each of which is the stated percentage of

(i) an amount that became receivable by the taxpayer after December 31, 1983 and in the year (other than an amount that would have been a Canadian oil and gas exploration expense if it had been an expense incurred by the taxpayer at the time it became receivable),

(ii) an amount that became receivable by the taxpayer after December 31, 1983 and in the year that would have been a Canadian oil and gas exploration expense described in paragraph (*c*) or (*d*) of the definition "Canadian exploration expense" in subsection 66.1(6) in respect of a qualified tertiary oil recovery project if it had been an expense incurred by the taxpayer at the time it became receivable, or

(iii) 30% of an amount that became receivable by the taxpayer in the year and in 1984 that would have been a Canadian oil and gas exploration expense (other than an expense described in paragraph (*c*) of the definition "Canadian exploration expense" in subsection 66.1(6) in respect of a qualified tertiary oil recovery project) incurred in respect of non-conventional lands if it had been an expense incurred by the taxpayer at the time it became receivable

and in respect of which the consideration given by the taxpayer was a property (other than a share, depreciable property of a prescribed class or a Canadian resource property) or services the cost of which may reasonably be regarded as having been an expenditure that was added in computing the earned depletion base of the taxpayer or in computing the earned depletion base of a predecessor where the taxpayer is a successor corporation to the predecessor;

(*b*) 33$^1/_3$% of the total of all amounts, each of which is the stated percentage of an amount in respect of a disposition of depreciable property of a prescribed class (other than a disposition of such property that had been used by the taxpayer to any person with whom the taxpayer was not dealing at arm's length) of the taxpayer after December 11, 1979 and in the year, the capital cost of which was added in computing the earned depletion base of the taxpayer or of a person with whom the taxpayer was not dealing at arm's length or in computing the earned depletion base of a predecessor where the taxpayer is a successor corporation to the predecessor, that is equal to the lesser of

(i) the proceeds of disposition of the property, and

(ii) the capital cost of the property to the taxpayer, the person with whom the taxpayer was not dealing at arm's length or the predecessor, as the case may be, computed as if no amount had been added thereto by virtue of paragraph 21(1)(*b*) or subsection 21(3);

(*c*) 33$^1/_3$% of the total of all amounts, each of which is an amount in respect of a disposition of depreciable property of a prescribed class that is bituminous sands equipment (other than a disposition of such property that had been used by the taxpayer to any person with whom the taxpayer was not dealing at arm's length) of the taxpayer after December 11, 1979 and before 1990 and in the year, the capital cost of which was added in computing the supplementary depletion base of the taxpayer or of a person with whom the taxpayer was not dealing at arm's length or in computing the supplementary depletion base of a predecessor where the taxpayer is a successor corporation to the predecessor, that is equal to the lesser of

(i) the proceeds of disposition of the property, and

(ii) the capital cost of the property to the taxpayer, the person with whom the taxpayer was not dealing at arm's length or the predecessor, as the case may be, computed as if no amount had been added thereto by virtue of paragraph 21(1)(*b*) or subsection 21(3);

(*d*) 50% of the total of all amounts, each of which is an amount in respect of a disposition of depreciable property of a prescribed class that is enhanced recovery equipment (other than a disposition of such property that had been used by the taxpayer to any person with whom the taxpayer was not dealing at arm's length) of the taxpayer after December 11, 1979 and before 1990 and in the year, the capital cost of which was added in computing the supplementary depletion base of the taxpayer or of a person with whom the taxpayer was not dealing at arm's length or in computing the supplementary depletion base of a predecessor where the taxpayer

is a successor corporation to the predecessor, that is equal to the lesser of

(i) the proceeds of disposition of the property, and

(ii) the capital cost of the property to the taxpayer, the person with whom the taxpayer was not dealing at arms' length or the predecessor, as the case may be, computed as if no amount had been added thereto by virtue of paragraph 21(1)(*b*) or subsection 21(3);

(*e*) 66⅔% of the total of all amounts, each of which is an amount that became receivable by the taxpayer after December 11, 1979 and before 1990 and in the year and in respect of which the consideration given by the taxpayer was a property (other than a share or a Canadian resource property) or services the cost of which may reasonably be regarded as having been an expenditure in connection with an oil or gas well in respect of which an amount was included in computing the taxpayer's frontier exploration base or in computing the frontier exploration base of a predecessor where the taxpayer is a successor corporation to the predecessor; and

(*f*) 33⅓% of the total of all amounts, each of which is the stated percentage of an amount that became receivable by the taxpayer after April 19, 1983 and in the year and in respect of which the consideration given by the taxpayer was a property (other than a share, depreciable property of a prescribed class or a Canadian resource property) or services the cost of which may reasonably be regarded as having been an expenditure that was included in computing the mining exploration depletion base of the taxpayer or in computing the mining exploration depletion base of a specified predecessor of the taxpayer.

Regulations: Part XI; Part XII.
Related Sections: S. 59(3.4)–(6); s. 66.1(2) Deduction for certain principal-business corporations; s. 87(1.2) New corporation continuation of a predecessor; s. 88(1.5) Parent continuation of subsidiary.

► 59(3.4) ◄

(3.4) Definitions. For the purposes of this subsection and subsection (3.3),

"*specified predecessor*" — "specified predecessor" of a taxpayer means a person who is a predecessor of

(*a*) the taxpayer, or

(*b*) a person who is a specified predecessor of the taxpayer;

"*stated percentage*" — "stated percentage" means

(*a*) in respect of an amount described in paragraph (3.3)(*a*) or (*f*) that became receivable by a taxpayer,

(i) 100% where the amount became receivable before July, 1988,

(ii) 50% where the amount became receivable after June, 1988 and before 1990, and

(iii) 0% where the amount became receivable after 1989, and

(*b*) in respect of the disposition described in paragraph (3.3)(*b*) of a depreciable property of a taxpayer,

(i) 100% where the property was disposed of before July, 1988,

(ii) 50% where the property was disposed of after June, 1988 and before 1990, and

(iii) 0% where the property was disposed of after 1989;

Related Sections: S. 59(3.5) Variation of stated percentage.

"*successor corporation*" — "successor corporation" means a corporation that has at any time after November 7, 1969 acquired, by purchase, amalgamation, merger, winding-up or otherwise (other than pursuant to an amalgamation that is described in subsection 87(1.2) or a winding-up to which the rules in subsection 88(1) apply), from another person (in this subsection and subsection (3.3) referred to as the "predecessor") all or substantially all of the Canadian resource properties of the predecessor in circumstances in which any of subsection 29(25) of the *Income Tax Application Rules* and subsections 66.7(1) and (3) to (5) apply to the corporation.

► 59(3.5) ◄

(3.5) Variation of stated percentage. Notwithstanding the definition "stated percentage" in subsection (3.4), where

(*a*) an amount became receivable by a taxpayer within 60 days after the end of 1989 in respect of a disposition of property or services, and

(*b*) the person to whom the disposition was made is a corporation that, before the end of 1989, had issued, or had undertaken to issue, a flow-through share and the corporation renounces under subsection 66(12.66), effective on December 31, 1989, an amount in respect of Canadian exploration expenses that includes an expenditure in respect of the amount referred to in paragraph (*a*),

the stated percentage in respect of the amount described in paragraph (*a*) shall be 50%.

► 59(4) ◄

(4) Determination of "relevant percentage". [Repealed by 1985, c. 45, s. 24(7).]

► 59(5) ◄

(5) Definition of "proceeds of disposition". In this section, "proceeds of disposition" has the meaning assigned by section 54.

History: S. 59(5) was amended by S.C. 2001, c. 17, s. 40(3), applicable to transactions and events that occur after December 23, 1998. S. 59(5) formerly read:

"(5) *Definitions of 'disposition' and 'proceeds of disposition'.* In this section, 'disposition' and 'proceeds of disposition' have the meanings assigned by section 54."

Interpretation Bulletins: *Secondary* — IT-125R4 Disposition of resource properties.
Cases: The taxpayers sold certain coal licences in 1968 and received part payment in 1969. They received the balance in 1977 as a result of a further transfer of the licences. This constituted a disposition of a Canadian resource property in 1977 subject to tax. *De Luca v. The Queen*, (F.C.A.) 91 DTC 5540, affirming (F.C.T.D.) 87 DTC 5202 and (T.C.C) 84 DTC 1796.

► 59(6) ◄

(6) Definitions in regulations under s. 65. In this section, "bituminous sands equipment", "Canadian oil and gas exploration expense", "earned depletion base", "enhanced recovery equipment", "frontier exploration base", "mining exploration depletion base", "non-conventional lands", "qualified tertiary oil recovery project" and "supplementary depletion base" have the meanings assigned by regulations made for the purposes of section 65.

Related Sections: S. 54, "disposition", "proceeds of disposition"; s. 248(1), "amount", "disposition", "property"; s. 255 Canada.
Regulations: 1200.

SECTION 59.1: Involuntary disposition of resource property.

Where in a particular taxation year an amount is deemed by subsection 44(2) to have become receivable by a taxpayer as proceeds of disposition described in paragraph (*d*) of the definition "proceeds of disposition" in section 54 of any Canadian resource property and the taxpayer elects, in the taxpayer's return of income under this Part for the year, to have this section apply to those proceeds of disposition,

(*a*) there shall be deducted in computing the taxpayer's income for the particular year such amount as the taxpayer may claim, not exceeding the least of,

(i) the total of all those proceeds so becoming receivable in the particular year by the taxpayer to the extent that they have been included in the amount referred to in paragraph (*a*) of the description of F in the definition "cumulative Canadian development expense" in subsection 66.2(5) or in paragraph (*a*) of the description of F in the definition "cumulative Canadian oil and gas property expense" in subsection 66.4(5) in respect of the taxpayer,

(ii) the amount required to be included in computing the taxpayer's income for the particular year by virtue of paragraph 59(3.2)(*c*), and

(iii) the taxpayer's income for the particular year determined without reference to this section;

(*b*) the amount, if any, by which

(i) the amount deducted under paragraph (*a*)

exceeds

(ii) the total of such of the Canadian exploration expenses, Canadian development expenses and Canadian oil and gas property expenses made or incurred by the taxpayer in the taxpayer's ten taxation years immediately following the particular year as were designated by the taxpayer in the taxpayer's return of income for the year in which the expense was made or incurred,

shall be included in computing the taxpayer's income for the particular year and, notwithstanding subsections 152(4) and (5), such reassessment of the taxpayer's tax, interest or penalties for any year shall be made as is necessary to give effect to the inclusion; and

(*c*) any Canadian exploration expense, Canadian development expense or Canadian oil and gas property expense made or incurred by the taxpayer and designated in the taxpayer's return of income in accordance with subparagraph (*b*)(ii) shall (except for the purposes of subsections 66(12.1), (12.2), (12.3) and (12.5) and for the purpose of computing the taxpayer's earned depletion base within the meaning assigned by regulations made for the purposes of section 65) be deemed not to be a Canadian exploration expense, a Canadian development expense or a Canadian oil and gas property expense, as the case may be, of the taxpayer.

History: S. 59.1, the portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 33(1), applicable to amounts deemed to have become receivable in taxation years beginning after 1984. The portion formerly read:

"S. 59.1. Where in a particular taxation year an amount is deemed by subsection 44(2) to have become receivable by a taxpayer as proceeds of disposition described in paragraph (*d*) of the definition 'proceeds of disposition' in section 54 of any property described in subsection 59(1.1), (1.2) or (3.1) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, and the taxpayer has filed a return of the taxpayer's income for the year, as required by section 150, in which the taxpayer has elected to have this section apply in respect of those proceeds of disposition,"

Related Sections: S. 66(18) Members of partnerships.
Interpretation Bulletins: *Primary* — IT-125R4 Dispositions of resource properties.

Subdivision e — Deductions in Computing Income

SECTION 60: Other deductions.

There may be deducted in computing a taxpayer's income for a taxation year such of the following amounts as are applicable:

Editorial Note: The deductions in section 60 serve to reduce a taxpayer's Part 1 income (see also paragraph 3(*c*)), notwithstanding that the amounts described therein may not relate to a particular source of income.

Related Sections: S. 61(4), "income-averaging annuity contract"; s. 104(1) Reference to trust or estate; s. 248(1), "amount"; "annuity", "assessment", "benefit under a deferred profit sharing plan", "death benefit", "property", "retirement compensation arrangement", "retiring allowance", "superannuation or pension benefit"; s. 249 Definition of "taxation year"; s. 255 Canada.

► 60(a) ◄

(a) **Capital element of annuity payments** — the capital element of each annuity payment included by virtue of paragraph 56(1)(*d*) in computing the taxpayer's income for the year, that is to say,

(i) if the annuity was paid under a contract, an amount equal to that part of the payment determined in prescribed manner to have been a return of capital, and

(ii) if the annuity was paid under a will or trust, such part of the payment as can be established by the recipient not to have been paid out of the income of the estate or trust;

Related Sections: S. 4(2) Deductions not attributable to a source; s. 56(1)(*d*) Annuity payments; s. 58 Government annuities and like annuities; s. 146 Registered retirement savings plans; s. 147 Deferred profit sharing plans.

Regulations: 300.

Interpretation Bulletins: *Secondary* — IT-85R2 Health and welfare trusts for employees; IT-111R2 Annuities purchased from charitable organizations [Archived by the CRA]; IT-363R2 Deferred profit sharing plans — Deductibility of employer contributions and taxation of amounts received by a beneficiary [Archived by the CRA]; IT-415R2 Deregistration of registered retirement savings plans [Archived by the CRA]; IT-500R Registered retirement savings plans — Death of an annuitant.

Advance Tax Rulings: ATR-68 Structured settlement.

► 60(b) ◄

(b) **Support** — the total of all amounts each of which is an amount determined by the formula

$$A - (B + C)$$

where

A is the total of all amounts each of which is a support amount paid after 1996 and before the end of the year by the taxpayer to a particular person, where the taxpayer and the particular person were living separate and apart at the time the amount was paid,

B is the total of all amounts each of which is a child support amount that became payable by the taxpayer to the particular person under an agreement or order on or after its commencement day and before the end of the year in respect of a period that began on or after its commencement day, and

C is the total of all amounts each of which is a support amount paid by the taxpayer to the particular person after 1996 and deductible in computing the taxpayer's income for a preceding taxation year;

History:

Sec. 145, Chap. 12, S.C. 2000

145. Where, but for the application of sections 130 to 142, paragraphs 56(1)(*b*) and 60(*b*) of the *Income Tax Act* would not apply to amounts paid and received pursuant to an order or a written agreement, made before the coming into force of this section, those paragraphs do not apply unless the payor and the recipient of the amounts jointly elect to have those paragraphs apply to those amounts for the 2001 and following taxation years by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent.

The description of B in s. 60(*b*) is amended by S.C. 1998, c. 19, s. 99(1), applicable to amounts paid after 1996. The description of B in s. 60(*b*) formerly read:

"B is the total of all amounts each of which is a child support amount that became payable by the taxpayer to the particular person under an agreement or order on or after its commencement day and before the end of the year in respect of a period that began after its commencement day, and"

S. 60(*b*) was amended by S.C. 1997, c. 25, s. 10(1), applicable to amounts received after 1996. S. 60(*b*) formerly read:

"(*b*) *Alimony payments* — an amount paid by the taxpayer in the year as alimony or other allowance payable on a periodic basis for the maintenance of the recipient, children of the recipient or both the recipient and the children, if the taxpayer, because of the breakdown of the taxpayer's marriage, was living separate and apart from the spouse or former spouse to whom the taxpayer was required to make the payment at the time the payment was made and throughout the remainder of the year and the amount was paid under a decree, order or judgment of a competent tribunal or under a written agreement;"

S. 60(*b*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 20(1), applicable to amounts received under a decree, order or judgment of a competent tribunal or under a written agreement, with respect to a breakdown of a marriage occurring after 1992. S. 60(*b*) formerly read:

"(*b*) an amount paid by the taxpayer in the year, pursuant to a decree, order or judgment of a competent tribunal or pursuant to a written agreement, as alimony or other allowance payable on a periodic basis for the maintenance of the recipient thereof, children of the marriage, or both the recipient and children of the marriage, if the taxpayer was living apart from, and was separated pursuant to a divorce, judicial separation or written separation agreement from, the taxpayer's spouse or former spouse to whom the taxpayer was required to make the payment at the time the payment was made and throughout the remainder of the year;"

Editorial Note: Generally speaking, for orders and agreements made or amended after April 1997, child support amounts are neither deductible for the payer nor included in the income of the recipient; see also the definitions in subsection 56.1(4).

Related Sections: S. 4(1) Income or loss from a source or from sources in a place; s. 4(3) Deductions applicable; s. 56(1)(*b*) Support; s. 56(1)(*c*) Maintenance; s. 56(1)(*c.2*) Reimbursement of support payments; s. 56(12) Definition of "allowance"; s. 56.1 Support; s. 60.1 Support; s. 252(1) Extended meaning of "child"; s. 252(3) Extended meaning of "spouse" and "former spouse".

Regulations: 100(3)(d).

Interpretation Bulletins: *Primary* — IT-530R Support payments.

Income Tax Technical News: Issue No. 24, Legal Costs to Obtain Support Amounts.

Forms: T1157; T1158.

Guides: P102 Support Payments.

Cases: A separation agreement stating that payments to third parties were to be "taxable as income" in the recipient's hands and "deducted as support" by the taxpayer was sufficient in order for s. 60.1(2) to apply. The separation agreement does not have to specify subsection numbers. *Ferron v. The Queen*, 2001 DTC 450 (T.C.C.).

An amount paid under a separation agreement directly to the taxpayer's adult daughter was not a "support amount" since the taxpayer's wife was not the recipient thereof, and had no discretion as to its use. Accordingly, the payments were not deductible. *Larabie*, 2000 DTC 2336 (T.C.C.).

When, instead of making maintenance payments of $700 per month for his wife and three children, the taxpayer provided his wife with monthly cheques of $690 made payable to her landlord, these amounts were deductible since they were limited and predetermined and they represented a certain type of expense which the taxpayer's wife was thereby enabled to discharge. *The Queen v. Arsenault*, 96 DTC 6131 (F.C.A.).

Pursuant to a judgment of divorce, the taxpayer was required to pay his former wife a $100 weekly alimony but agreed under a subsequent document to pay her $10,000 as "lump-sum alimony" in return for a discharge of his obligations. This lump sum was not deductible as alimony. *Dubreuil v. M.N.R.*, 93 DTC 542 (T.C.C.).

A taxpayer was entitled to deduct monthly payments made to his former wife, even though his obligation to pay was contingent on her using the money to make mortgage and tax payments. She was entitled to dispose of the amounts completely, and derived an economic benefit from them. The restrictions placed on their use did not affect the benefit. *Gagnon v. The Queen*, 86 DTC 6179 (S.C.C.), reversing 82 DTC 6318 (F.C.A.), which reversed 80 DTC 6256 (F.C.T.D.).

► 60(c) ◄

(c) Pension income reallocation — where the taxpayer is a pensioner (as defined in subsection 60.03(1)), any amount that is a split-pension amount (as defined in that subsection) in respect of the pensioner for the taxation year;

History: S. 60(*c*) was added by S.C. 2007, c. 29, s. 4(1), applicable to the 2007 and subsequent taxation years.

S. 60(*c*) was repealed by S.C. 1997, c. 25, s. 10(1), applicable to amounts received after 1996. S. 60(*c*) formerly read:

"(*c*) *Maintenance* — an amount paid by the taxpayer in the year as an allowance payable on a periodic basis for the maintenance of the recipient, children of the recipient or both the recipient and the children, if

(i) at the time the amount was paid and throughout the remainder of the year the taxpayer was living separate and apart from the recipient,

(ii) the taxpayer is the natural parent of a child of the recipient, and

(iii) the amount was received under an order made by a competent tribunal in accordance with the laws of a province;"

Former s. 60(*c.1*) was amended and renumbered as s. 60(*c*) by S.C. 1994, c. 7, Sched. VIII, s. 20(2), applicable to orders made after 1992. For the text of former s. 60(*c.1*), see the history note under that paragraph.

S. 60(*c*) was repealed by S.C. 1994, c. 7, Sched. VIII, s. 20(1), applicable to amounts received under a decree, order or judgment of a competent tribunal or under a written agreement with respect to a breakdown of a marriage occurring after 1992. S. 60(*c*) formerly read:

"(*c*) *Maintenance payments* — an amount paid by the taxpayer in the year, pursuant to an order of a competent tribunal, as an allowance payable on a periodic basis for the maintenance of the recipient thereof, children of the recipient, or both the recipient and children of the recipient if, at the time the payment was made and throughout the remainder of the year, the taxpayer was living apart from the taxpayer's spouse to whom the taxpayer was required to make the payment;"

Related Sections: S. 4(1) Income or loss from a source or from sources in a place; s. 4(3) Deductions applicable; s. 56(1)(*b*) Support; s. 56(1)(*c*) Maintenance; s. 56(1)(*c.1*) Idem; s. 56(1)(*c.2*) Reimbursement of support payments; s. 56(12) Definition of "allowance"; s. 56.1 Support; s. 60.1 Support; s. 212(1)(*f*) Alimony; s. 252(1) Extended meaning of "child".
Interpretation Bulletins: *Secondary* — IT-513R Personal tax credits.

► 60(c.1) ◄

(c.1) Idem — [Repealed by S.C. 1994, c. 7, Sched. VIII, s. 20(2).]

History: S. 60(*c.1*) was amended and renumbered as s. 60(*c*) by S.C. 1994, c. 7, Sched. VIII, s. 20(2), applicable to orders made after 1992. S. 60(*c.1*) formerly read:

"(*c.1*) an amount paid by the taxpayer in the year, pursuant to an order made by a competent tribunal in accordance with the laws of a province, as an allowance payable on a periodic basis for the maintenance of the recipient thereof, children of the recipient, or both the recipient and children of the recipient if

(i) the order was made

(A) after February 10, 1988, or

(B) before February 11, 1988 and the taxpayer and the recipient jointly elected in writing before the end of the year to have this paragraph and paragraph 56(1)(*c.1*) apply with respect to the payment,

(ii) at the time the payment was made and throughout the remainder of the year, the taxpayer was living apart from the recipient, and

(iii) the taxpayer required to pay the amount is an individual of the opposite sex who

(A) before the date of the order cohabited with the recipient in a conjugal relationship, or

(B) is the natural parent of a child of the recipient;"

Related Sections: S. 56(12) Definition of "allowance".
Regulations: 6502.
Interpretation Bulletins: *Secondary* — IT-513R Personal tax credits.
Cases: A taxpayer who separated from his common-law wife in 1985 and began paying her child support payments in 1987 that he continued to pay pursuant to a form of "separation agreement" in 1989 was not subjected to discrimination by the disallowance of their deduction. *Bergman v. The Queen*, 94 DTC 6056 (F.C.A.).

► 60(c.2) ◄

(c.2) Repayment of support payments — an amount paid by the taxpayer in the year or one of the 2 preceding taxation years under a decree, order or judgment of a competent tribunal as a repayment of an amount included under paragraph 56(1)(*b*) or (*c*), or under paragraph 56(1)(*c.1*) (as it applies, in computing the taxpayer's income for the year or a preceding taxation year, to decrees, orders and judgments made before 1993) to the extent that it was not so deducted for a preceding taxation year;

History: S. 60(*c.2*) was added by S.C. 1994, c. 7, Sched. VIII, s. 20(3), applicable to payments made after 1990.

Related Sections: S. 56(1)(*c.2*) Reimbursement of support payments.
Interpretation Bulletins: *Secondary* — IT-530R Support payments.

► 60(d) ◄

(d) Interest on death duties — an amount equal to annual interest accruing within the taxation year in respect of succession duties, inheritance taxes or estate taxes;

Related Sections: S. 4(1) Income or loss from a source or from sources in a place; s. 4(3) Deductions applicable.
Interpretation Bulletins: *Secondary* — IT-533 Interest deductibility and related issues.

► 60(e) ◄

(e) CPP/QPP contributions on self-employed earnings — 1/2 of the lesser of

(i) the total of all amounts each of which is an amount payable by the taxpayer in respect of self-employed earnings for the year as a contribution under the *Canada Pension Plan* or under a provincial pension plan within the meaning assigned by section 3 of that Act, and

(ii) the maximum amount of such contributions payable by the taxpayer for the year under the plan;

History: S. 60(*e*) was added by S.C. 2001, c. 17, s. 41(1), applicable to the 2001 and subsequent taxation years. S. 60(*e*) was previously repealed by the former Act.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 60 of the Act is amended by adding the following after paragraph (*e*):

(f) Restrictive covenant — bad debt — all debts owing to a taxpayer that are established by the taxpayer to have become bad debts in the taxation year and that are in respect of an amount included because of the operation of subsection 6(3.1) or 56.4(2) in computing the taxpayer's income in a preceding taxation year;

Applicable: After October 7, 2003.

(g) Quebec parental insurance plan — self-employed premiums — the amount determined by the formula

A – B

where

A is the total of all amounts each of which is an amount payable by the taxpayer in respect of self-employed earnings for the taxation year as a premium under the *Act respecting parental insurance R.S.Q., c. A-29.011*, and

B is the total of all amounts each of which is an amount that would be payable by the taxpayer as an employee's premium under the *Act respecting parental insurance R.S.Q., c. A-29.011* if those earn-

ings were employment income of the taxpayer for the taxation year;

Applicable: To the 2006 and subsequent taxation years.

Explanatory Note:

Paragraph 60(f) — Restrictive Covenant — Bad Debt

New paragraph 60(*f*) provides a taxpayer with a deduction for a bad debt in respect of an amount that was receivable on a restrictive covenant and previously included in computing the taxpayer's income because of new section 56.4 (or new subsection 6(3.1)) of the Act. This amendment applies after October 7, 2003.

Paragraph 60(g) — Quebec Parental Insurance Plan — Self-Employed Premiums

New paragraph 60(*g*) provides for a deduction in computing the income of a taxpayer for a taxation year equal to the amount by which the amounts payable by the taxpayer in respect of self-employed earnings for the taxation year as a premium under the new Quebec Parental Insurance Plan exceeds the amounts that would be payable by the taxpayer as an employee's premium under that Plan for the taxation year if those earnings were employment income of the taxpayer.

The other portion of the premiums paid may be claimed as a credit under section 118.7 at the lowest marginal rate.

This amendment applies to the 2006 and subsequent taxation years and is consequential to the introduction of the new Quebec Parental Insurance Plan on January 1, 2006.

► 60(f) ◄

(f) Idem — [Repealed by 1988, c. 55, s. 37(2).]

► 60(g) ◄

(g) Idem — [Repealed by 1988, c. 55, s. 37(2).]

► 60(h) ◄

(h) Canada Pension Plan contributions — [Repealed by 1988, c. 55, s. 37(2).]

► 60(i) ◄

(i) Premium or payment under RRSP or RRIF — any amount that is deductible under section 146 or 146.3 or subsection 147.3(13.1) in computing the income of the taxpayer for the year;

History: S. 60(*i*) was replaced by S.C. 2009, c. 2, s. 14(1), applicable in respect of a registered retirement income fund in respect of which the last payment out of the fund is made after 2008. S. 60(*i*) formerly read:

"(*i*) *Premium or payment under RRSP or RRIF* — any amount that is deductible under section 146 or subsection 147.3(13.1) in computing the income of the taxpayer for the year;"

S. 60(*i*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 20(4), applicable to the 1992 and subsequent taxation years. S. 60(*i*) formerly read:

"(*i*) *Premium or payment under registered retirement savings plan* — any amount that by virtue of section 146 is deductible in computing the income of the taxpayer for the taxation year;"

Related Sections: S. 4(1) Income or loss from a source or from sources in a place; s. 4(3) Deductions applicable; s. 146 Registered retirement savings plans.

Interpretation Bulletins: *Secondary* — IT-124R6 Contributions to registered retirement savings plans.

► 60(j) ◄

(j) Transfer of superannuation benefits — such part of the total of all amounts each of which is

(i) a superannuation or pension benefit (other than any amount in respect of the benefit that is deducted in computing the taxable income of the taxpayer for a taxation year because of subparagraph 110(1)(*f*)(i) or a benefit that is part of a series of periodic payments) payable out of or under a pension plan that is not a registered pension plan, attributable to services rendered by the taxpayer or a spouse or common-law partner or former spouse or common-law partner of the taxpayer in a period throughout which that person was not resident in Canada, and included in computing the income of the taxpayer for the year because of subparagraph 56(1)(*a*)(i), or

(ii) an eligible amount in respect of the taxpayer for the year under section 60.01, subsection 104(27) or (27.1) or paragraph 147(10.2)(*d*),

as

(iii) is designated by the taxpayer in the taxpayer's return of income under this Part for the year, and

(iv) does not exceed the total of all amounts each of which is an amount paid by the taxpayer in the year or within 60 days after the end of the year

(A) as a contribution to or under a registered pension plan for the taxpayer's benefit, other than the portion thereof deductible under paragraph 8(1)(*m*) in computing the taxpayer's income for the year, or

(B) as a premium (within the meaning assigned by subsection 146(1)) under a registered retirement savings plan under which the taxpayer is the annuitant (within the meaning assigned by subsection 146(1)), other than the portion thereof designated for a taxation year for the purposes of paragraph (*l*),

to the extent that the amount was not deducted in computing the taxpayer's income for a preceding taxation year;

History: S. 60(*j*)(i) was amended by S.C. 2000, c. 12, Sched. 2, s. 2(c), applicable January 1, 2001, coming into force on July 31, 2000. S. 60(*j*)(i) formerly read:

"(i) a superannuation or pension benefit (other than any amount in respect of the benefit that is deducted in computing the taxable income of the taxpayer for a taxation year because of subparagraph 110(1)(*f*)(i) or a benefit that is part of a series of periodic payments) payable out of or under a pension plan that is not a registered pension plan, attributable to services rendered by the taxpayer or a spouse or former spouse of the taxpayer in a period throughout which that person was not resident in Canada, and included in computing the income of the taxpayer for the year because of subparagraph 56(1)(*a*)(i), or"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 60(*j*)(i) was amended by S.C. 1994, c. 7, Sched. VIII, s. 20(5), applicable after 1992. S. 60(*j*)(i) formerly read:

"(i) a superannuation or pension benefit (other than any amount in respect of the benefit that is deducted in computing the taxable income of the taxpayer for a taxation year by reason of subparagraph 110(1)(*f*)(i) or a benefit that is part of a series of periodic payments) payable out of or under a pension plan that is not a registered pension plan, attributable to services rendered by the taxpayer or a spouse (in this subparagraph having the meaning assigned by subsection 146(1.1)) or former spouse of the taxpayer in a period throughout which that person was not resident in Canada, and included in computing the income of the taxpayer for the year by reason of subparagraph 56(1)(*a*)(i), or"

S. 60(*j*)(ii) was amended by S.C. 1994, c. 7, Sched. II, s. 34(1), to add the reference to s. 60.01, applicable to the 1990 and subsequent taxation years.

Related Sections: S. 8(1)(*m*) Employee's registered pension plan contributions; s. 8(8) Employees' contributions to pension fund for arrears; s. 56(1)(*a*) Pension benefits, unemployment insurance benefits, etc.; s. 60(*k*) Transfers to deferred profit sharing plans; s. 60.01 Eligible amount; s. 61 Payment made as consideration for income-averaging annuity; s. 104(27) Pension benefits; s. 146(5) Amount of RRSP premiums deductible; s. 146(22) Deemed payment of RRSP premiums and provincial pension plan contributions; s. 146.01(1), "excluded premium"; s. 146.02(1), "excluded premium"; s. 147(10) Amounts received taxable; s. 147.3(3) Transfer — defined benefit to defined benefit; s. 147.3(8) Transfer where money purchase plan replaces defined benefit plan; s. 212(1)(*h*) Pension benefits; s. 248(1), "common-law partner"; s. 252(3)

Extended meaning of "spouse" and "former spouse"; ITAR, s. 40(3) Determination of amount of payment.
Interpretation Bulletins: *Primary* — IT-528 Transfers of funds between registered plans. *Secondary* — IT-124R6 Contributions to registered retirement savings plans; IT-167R6 Registered pension plans — Employee's contributions; IT-517R Pension tax credit [Archived by the CRA].
Advance Tax Rulings: ATR-31 Funding of divorce settlement amount from DPSP.

► 60(j.01) ◄

(j.01) Transfer of surplus — such part of the total of all amounts each of which is an amount received by the taxpayer before March 28, 1988 that can reasonably be considered to be a payment in respect of the actuarial surplus under a defined benefit provision (within the meaning assigned by subsection 147.1(1)) of a registered pension plan and that is included in computing the income of the taxpayer for the year by virtue of subparagraph 56(1)(*a*)(i) (other than any portion thereof deducted by the taxpayer under subsection 60.2(1) in computing the taxpayer's income for the year) as

(i) is designated by the taxpayer in the taxpayer's return of income under this Part for the year, and

(ii) does not exceed the total of all amounts each of which as an amount paid by the taxpayer in the year or within 60 days after the end of the year

(A) as a contribution to or under a registered pension plan for the taxpayer's benefit, other than the portion thereof deductible under paragraph (*j*) or (*j.1*) or 8(1)(*m*) of this Act or paragraph 8(1)(*m.1*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, in computing the taxpayer's income for the year, or

(B) as a premium (within the meaning assigned by subsection 146(1)) under a registered retirement savings plan under which the taxpayer is the annuitant (within the meaning assigned by subsection 146(1)), other than the portion thereof that has been designated for the purposes of paragraph (*j*), (*j.1*) or (*l*),

to the extent that it was not deducted in computing the taxpayer's income for a preceding taxation year;

► 60(j.02) ◄

(j.02) Payment to registered pension plan — an amount equal to the lesser of

(i) the total of

(A) all contributions made in the year by the taxpayer to registered pension plans in respect of eligible service of the taxpayer before 1990 under the plans, where the taxpayer was obliged under the terms of an agreement in writing entered into before March 28, 1988 to make the contributions, and

(B) all amounts each of which is an amount paid in the year by the taxpayer to a registered pension plan as

(I) a repayment under a prescribed statutory provision of an amount received from the plan that was included under subsection 56(1) in computing the taxpayer's income for a taxation year ending before 1990, where the taxpayer was obliged as a consequence of a written election made before March 28, 1988 to make the repayment, or

(II) interest in respect of a repayment referred to in subclause (I),

other than the portion of that total that is deductible under paragraph 8(1)(*m*) or paragraph (*j.03*) in computing the taxpayer's income for the year, and

(ii) the total of all amounts each of which is an amount paid out of or under a registered pension plan as part of a series of periodic payments and included under subsection 56(1) in computing the taxpayer's income for the year, other than the portion of that total that can reasonably be considered to have been designated by the taxpayer for the purpose of paragraph (*j.2*);

History: S. 60(*j.02*) was added by S.C. 1994, c. 7, Sched. VIII, s. 20(6), applicable to the 1990 and subsequent taxation years.

Related Sections: S. 56(1)(*a*) Pension benefits, unemployment insurance benefits, etc.; s. 248(1), "amount", "registered pension plan".
Regulations: S. 6503.

► 60(j.03) ◄

(j.03) Repayments of pre-1990 pension benefits — an amount equal to the lesser of

(i) the total of all amounts each of which is an amount paid in the year or a preceding taxation year by the taxpayer to a registered pension plan that was not deductible in computing the taxpayer's income for a preceding taxation year and that was paid as

(A) a repayment under a prescribed statutory provision of an amount received from the plan that was included under subsection 56(1) in computing the taxpayer's income for a taxation year ending before 1990, or

(B) interest in respect of a repayment referred to in clause (A), and

(ii) the amount, if any, by which $3,500 exceeds the amount deducted under paragraph 8(1)(*m*) in computing the taxpayer's income for the year;

History: S. 60(*j.03*) was added by S.C. 1994, c. 7, Sched. VIII, s. 20(6), applicable to the 1991 and subsequent taxation years.

Related Sections: S. 56(1)(*a*) Pension benefits, unemployment insurance benefits, etc.; s. 248(1), "amount", "registered pension plan".
Regulations: S. 6503.

► 60(j.04) ◄

(j.04) Repayments of post-1989 pension benefits — the total of all amounts each of which is an amount paid in the year by the taxpayer to a registered pension plan as

(i) a repayment under a prescribed statutory provision of an amount received from the plan that

(A) was included under subsection 56(1) in computing the taxpayer's income for a taxation year ending after 1989, and

(B) can reasonably be considered not to have been designated by the taxpayer for the purpose of paragraph (*j.2*), or

(ii) interest in respect of a repayment referred to in subparagraph (i),

except to the extent that the total was deductible under paragraph 8(1)(*m*) in computing the taxpayer's income for the year;

History: S. 60(*j*.04) was added by S.C. 1994, c. 7, Sched. VIII, s. 20(6), applicable to the 1990 and subsequent taxation years.

Related Sections: S. 56(1)(*a*) Pension benefits, unemployment insurance benefits, etc.; s. 248(1), "amount", "registered pension plan".
Regulations: S. 6503.

► 60(j.1) ◄

(j.1) Transfer of retiring allowances — such part of the total of all amounts each of which is an amount paid to the taxpayer by an employer, or under a retirement compensation arrangement to which the employer has contributed, as a retiring allowance and included in computing the taxpayer's income for the year by virtue of subparagraph 56(1)(*a*)(ii) or paragraph 56(1)(*x*) as

(i) is designated by the taxpayer in the taxpayer's return of income under this Part for the year,

(ii) does not exceed the amount, if any, by which the total of

(A) $2,000 multiplied by the number of years before 1996 during which the employee or former employee in respect of whom the payment was made (in this paragraph referred to as the "retiree") was employed by the employer or a person related to the employer, and

(B) $1,500 multiplied by the number by which the number of years before 1989 described in clause (A) exceeds the number that can reasonably be regarded as the equivalent number of years before 1989 in respect of which employer contributions under either a pension plan or a deferred profit sharing plan of the employer or a person related to the employer had vested in the retiree at the time of the payment

exceeds the total of

(C) all amounts deducted under this paragraph in respect of amounts paid before the year in respect of the retiree

(I) by the employer or a person related to the employer, or

(II) under a retirement compensation arrangement to which the employer or a person related to the employer has contributed,

(C.1) all other amounts deducted under this paragraph for the year in respect of amounts paid in the year in respect of the retiree

(I) by a person related to the employer, or

(II) under a retirement compensation arrangement to which a person related to the employer has contributed, and

(D) all amounts deducted under paragraph (*t*) in computing the retiree's income for the year in respect of a retirement compensation arrangement to which the employer or a person related to the employer has contributed, and

(iii) does not exceed the total of all amounts each of which is an amount paid by the taxpayer in the year or within 60 days after the end of the year in respect of the amount so designated

(A) as a contribution to or under a registered pension plan, other than the portion thereof deductible under paragraph (*j*) or 8(1)(*m*) in computing the taxpayer's income for the year, or

(B) as a premium (within the meaning assigned by section 146) under a registered retirement savings plan under which the taxpayer is the annuitant (within the meaning assigned by section 146), other than the portion thereof that has been designated for the purposes of paragraph (*j*) or (*l*),

to the extent that it was not deducted in computing the taxpayer's income for a preceding taxation year

and for the purposes of this paragraph, "person related to the employer" includes

(iv) any person whose business was acquired or continued by the employer, and

(v) a previous employer of the retiree whose service therewith is recognized in determining the retiree's pension benefits;

History: S. 60(*j*.1)(ii)(A) was amended by S.C. 1996, c. 21, s. 13(1), applicable to the 1996 and subsequent taxation years. S. 60(*j*.1)(ii)(A) formerly read:

"(A) $2,000 multiplied by the number of years during which the employee or former employee in respect of whom the payment was made (in this paragraph referred to as the 'retiree') was employed by the employer or a person related to the employer, and"

S. 60(*j*.1), the portion after clause (ii)(B) and before clause (iii)(A), was amended by S.C. 1994, c. 7, Sched. II, s. 34(2), applicable to the 1990 and subsequent taxation years, except that where a taxpayer so elects in the taxpayer's return of income under Part I of the Act for the 1990 taxation year,

(*a*) subsection (2) does not apply to the taxpayer for that year; and

(*b*) the expression "amount paid to the taxpayer" in paragraph 60(*j*.1) of the Act shall be read as "amount paid before July 14, 1990 to the taxpayer" for that year.

That portion of s. 60(*j*.1) formerly read:

"exceeds the total of

(C) all amounts deducted under this paragraph in respect of amounts paid before the year in respect of the retiree by the employer or a person related to the employer, or under a retirement compensation arrangement to which the employer or the person has contributed, and

(D) all amounts deducted under paragraph (*t*) in computing the retiree's income for the year, and

(iii) does not exceed the total of all amounts each of which is an amount paid by the taxpayer in the year or within 60 days after the end of the year"

Related Sections: S. 146(22) Deemed payment of RRSP premiums and provincial pension plan contributions; s. 146.01(1), "excluded premium"; s. 146.02(1), "excluded premium"; s. 212(1)(*j*.1) Retiring allowances.
Regulations: 100(3)(c).
Interpretation Bulletins: *Secondary* — IT-124R6 Contributions to registered retirement savings plans; IT-167R6 Registered pension plans — Employee's contributions; IT-337R4 (Consolid.) Retiring allowances.
Advance Tax Rulings: ATR-12 Retiring allowance.
Income Tax Technical News: Issue No. 7, Retiring allowances.
Cases: Where a taxpayer engineered a corporate reorganization and then continued to do exactly the same work as before, he could not deduct a "retiring allowance". *Lorenzen v. The Queen*, 81 DTC 5251 (F.C.T.D.).

► 60(j.2) ◄

(j.2) Transfer to spousal RRSP — for taxation years ending after 1988 and before 1995, such part of the total of all amounts (other than amounts paid out of or under a registered retirement savings plan or a registered retirement income fund that by reason of section 254 are considered to be amounts paid out of or under a registered pension plan) paid on a periodic basis out of or under a registered pension plan or a deferred profit sharing plan and included, by reason of subsection 56(1), in computing the taxpayer's income for the year as

(i) is designated by the taxpayer in the taxpayer's return of income under this Part for the year, and

(ii) does not exceed the least of

(A) $6,000,

(B) the amount, if any, by which that total exceeds the part of that total designated for the year for the purposes of paragraph (*j*) of this Act or deducted under paragraph 60(*k*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, in computing the taxpayer's income for the year, and

(C) the total of all amounts each of which is paid by the taxpayer in the year or within 60 days after the end of the year as a premium (within the meaning assigned by subsection 146(1)) under a registered retirement savings plan under which the taxpayer's spouse or common-law partner (or, where the taxpayer died in the year or within 60 days after the end of the year, an individual who was the taxpayer's spouse or common-law partner immediately before the death) is the annuitant (within the meaning assigned by subsection 146(1)), to the extent that the amount was not deducted in computing the taxpayer's income for a preceding taxation year;

History: S. 60(*j*.2)(ii)(C) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(k), applicable January 1, 2001, coming into force on July 31, 2000. S. 60(*j*.2)(ii)(C) formerly read:

"(C) the total of all amounts each of which is paid by the taxpayer in the year or within 60 days after the end of the year as a premium (within the meaning assigned by subsection 146(1)) under a registered retirement savings plan under which the taxpayer's spouse (or, where the taxpayer died in the year or within 60 days after the end of the year, an individual who was the taxpayer's spouse immediately before the death) is the annuitant (within the meaning assigned by subsection 146(1)), to the extent that the amount was not deducted in computing the taxpayer's income for a preceding taxation year;"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 60(*j*.2)(ii)(C) was amended by S.C. 1994, c. 21, s. 26(1), applicable to the 1992 and subsequent taxation years. S. 60(*j*.2)(ii)(C) formerly read:

"(C) the total of all amounts each of which is an amount paid by the taxpayer in the year or within 60 days after the end of the year as a premium (within the meaning assigned by subsection 146(1)) under a registered retirement savings plan under which the taxpayer's spouse is the annuitant (within the meaning assigned by subsection 146(1)), to the extent that the amount was not deducted in computing the taxpayer's income for a preceding taxation year;"

Related Sections: S. 146.01(1), "excluded premium"; s. 212(1)(*h*) Pension benefits; s. 212(1)(*m*) Deferred profit sharing plan payments.

Interpretation Bulletins: *Secondary* — IT-307R4 Spousal or common-law partner registered retirement savings plans.

► 60(k) ◄

(k) Transfers to deferred profit sharing plans — [Repealed by 1990, c. 35, s. 5(5).]

► 60(l) ◄

(l) Transfer of refund of premiums under RRSP — the total of all amounts each of which is an amount paid by or on behalf of the taxpayer in the year or within 60 days after the end of the year (or within such longer period after the end of the year as is acceptable to the Minister)

(i) as a premium under a registered retirement savings plan under which the taxpayer is the annuitant,

(ii) to acquire, from a person licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada an annuities business, an annuity

(A) under which the taxpayer is the annuitant

(I) for the taxpayer's life, or for the lives jointly of the taxpayer and the taxpayer's spouse or common-law partner either without a guaranteed period, or with a guaranteed period that is not greater than 90 years minus the lesser of the age in whole years of the taxpayer and the age in whole years of the taxpayer's spouse or common-law partner at the time the annuity was acquired, or

(II) for a term equal to 90 years minus the age in whole years of the taxpayer or the age in whole years of the taxpayer's spouse or common-law partner, at the time the annuity was acquired, or

(B) under which the taxpayer, or a trust under which the taxpayer is the sole person beneficially interested in amounts payable under the annuity, is the annuitant for a term not exceeding 18 years minus the age in whole years of the taxpayer at the time the annuity was acquired

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Clause 60(*l*)(ii)(B) of the Act is replaced by the following:

(B) under which the taxpayer is the annuitant for a term not exceeding 18 years minus the age in whole years of the taxpayer at the time the annuity was acquired

Applicable: After 1988.

Explanatory Note:

Transfers of Refund of Premiums under RRSP

In circumstances where an individual has received (or is deemed to have received) certain taxable lump sum amounts from a registered retirement savings plan, a registered retirement income fund or a registered pension plan, paragraph 60(*l*) of the Act allows the individual to claim an offsetting deduction for qualifying payments (not exceeding the amounts so received) made by or on behalf of the individual.

If the individual is a minor and the taxable amount is received as a consequence of the death of a parent or grandparent on whom the minor was financially dependent, a payment made to acquire an immediate annuity payable for a fixed term not exceeding 18 years minus the age of the minor at the time of acquisition is a qualifying payment for the purpose of paragraph 60(*l*). Clause 60(*l*)(ii)(B) requires that the annuitant under the annuity be either the minor or a trust under which the minor is the sole person beneficially interested in amounts payable under the annuity. Clause 60(*l*)(ii)(B) is amended to require that the minor be the annuitant under the annuity. This is consequential to the introduction of new section 60.011 of the Act which, among other things, allows this requirement in paragraph 60(*l*) to be disregarded, if the annuitant under the term annuity is a trust under which the minor is the sole person beneficially interested in amounts payable under the annuity. Section 60.011 also provides that, in determining if the minor is

the sole person beneficially interested in amounts payable under the annuity, any right of a person to receive an amount from the trust only on or after the death of the minor is to be disregarded. Section 60.011 also introduces a requirement, applicable with respect to annuities acquired after 2005, that the annuity provide for commutation on the death of the minor. (Refer to the explanatory notes to new section 60.011 for further details.)

This amendment applies after 1988, which reflects the effective date of the amendment to paragraph 60(*l*) allowing a trust to be named as the annuitant.

that does not provide for any payment thereunder except

(C) the single payment by or on behalf of the taxpayer,

(D) annual or more frequent periodic payments

(I) beginning not later than one year after the date of the payment referred to in clause (C), and

(II) each of which is equal to all other such payments or not equal to all other such payments solely because of an adjustment that would, if the annuity were an annuity under a retirement savings plan, be in accordance with subparagraphs 146(3)(*b*)(iii) to (v), and

(E) payments in full or partial commutation of the annuity and, where the commutation is partial,

(I) equal annual or more frequent periodic payments thereafter, or

(II) annual or more frequent periodic payments thereafter that are not equal solely because of an adjustment that would, if the annuity were an annuity under a retirement savings plan, be in accordance with subparagraphs 146(3)(*b*)(iii) to (v);

or

(iii) to a carrier as consideration for a registered retirement income fund under which the taxpayer is the annuitant

where that total

(iv) is designated by the taxpayer in the taxpayer's return of income under this Part for the year,

(v) does not exceed the total of

(A) the amount included in computing the taxpayer's income for the year as a refund of premiums out of or under a registered retirement savings plan under which the taxpayer's spouse or common-law partner was the annuitant,

(B) the amount included in computing the taxpayer's income for the year as a refund of premiums out of or under a registered retirement savings plan where the taxpayer was dependent by reason of physical or mental infirmity on the annuitant under the plan,

(B.01) the amount included in computing the taxpayer's income for the year as a payment (other than a payment that is part of a series of periodic payments or that relates to an actuarial surplus) received by the taxpayer out of or under a registered pension plan as a consequence of the death of an individual of whom the taxpayer was a child or grandchild, if the taxpayer was, immediately before the death, financially dependent on the individual for support because of mental or physical infirmity,

(B.1) the least of

(I) the amount paid by or on behalf of the taxpayer to acquire an annuity that would be described in subparagraph (ii) if that subparagraph were read without reference to clause (A) thereof,

(II) the amount (other than any portion of it that is included in the amount determined under clause (B), (B.01) or (B.2)) that is included in computing the taxpayer's income for the year as

1. a payment (other than a payment that is part of a series of periodic payments or that relates to an actuarial surplus) received by the taxpayer out of or under a registered pension plan,

2. a refund of premiums out of or under a registered retirement savings plan, or

3. a designated benefit in respect of a registered retirement income fund (in this clause having the meaning assigned by subsection 146.3(1))

as a consequence of the death of an individual of whom the taxpayer is a child or grandchild, and

(III) the amount, if any, by which the amount determined for the year under subclause (II) in respect of the taxpayer exceeds the amount, if any, by which

1. the total of all designated benefits of the taxpayer for the year in respect of registered retirement income funds

exceeds

2. the total of all amounts that would be eligible amounts of the taxpayer for the year in respect of those funds (within the meaning that would be assigned by subsection 146.3(6.11) if the taxpayer were described in paragraph (*b*) thereof), and

(B.2) all eligible amounts of the taxpayer for the year in respect of registered retirement income funds (within the meaning assigned by subsection 146.3(6.11)),

and, where the amount is paid by a direct transfer from the issuer of a registered retirement savings plan or a carrier of a registered retirement income fund,

(C) the amount included in computing the taxpayer's income for the year as a consequence of a payment described in subparagraph 146(2)(*b*)(ii), and

(D) the amount, if any, by which

(I) the amount received by the taxpayer out of or under a registered retirement income fund under which the taxpayer is the annuitant and included because of subsection 146.3(5) in computing the taxpayer's income for the year

exceeds

(II) the amount, if any, by which the minimum amount (within the meaning assigned by subsection 146.3(1)) under the fund for the year exceeds the total of all amounts received out of or under the fund in the year by an individual who was an annuitant under the fund before the taxpayer became the annuitant under the fund and that were included because of subsection 146.3(5) in computing that individual's income for the year, and

(vi) was not deducted in computing the taxpayer's income for a preceding taxation year;

History: The application of S. 60(*l*)(v)(B.2) was amended by S.C. 2007, c. 29, s. 19(6) for the 2007 and 2008 taxation years (in force on Royal Assent, June 29, 2007) as follows:

"(6) For the purpose of applying clause 60(l)(*v*)(B.2) of the Act for the 2007 and 2008 taxation years, an eligible amount of a taxpayer for a taxation year in respect of a registered retirement income fund (within the meaning assigned by subsection 146.3(6.11) of the Act) is deemed to include

(*a*) if the taxation year is 2007, the taxpayer was the annuitant under the fund on January 1, 2007 and the taxpayer attained 69 or 70 years of age in 2006, the lesser of

(i) the total amounts included because of subsection 146.3(5) of the Act in computing the income of the taxpayer for the taxation year in respect of amounts received out of or under the fund (other than an amount paid by direct transfer from the fund to another fund or a registered retirement savings plan), and

(ii) the amount that would, but for paragraph (4)(*a*), be the minimum amount under the fund for 2007; and

(*b*) if the taxation year is 2008, the taxpayer was the annuitant under the fund on January 1, 2008 and the taxpayer attained 70 years of age in 2007, the lesser of

(i) the total amounts included because of subsection 146.3(5) of the Act in computing the income of the taxpayer for the taxation year in respect of amounts received out of or under the fund (other than an amount paid by direct transfer from the fund to another fund or a registered retirement savings plan), and

(ii) the amount that would, but for paragraph (4)(*b*), be the minimum amount under the fund for 2008."

S. 60(*l*)(v)(B.01) was added by S.C. 2003, c. 15, s. 71(1), applicable in respect of deaths that occur after 2002.

S. 60(*l*)(v)(B.1)(II), the portion before sub-subclause 1 was replaced by S.C. 2003, c. 15, s. 71(2), applicable in respect of deaths that occur after 2002. S. 60(*l*)(v)(B.1)(II), the portion before sub-subclause 1 formerly read:

"(II) the amount (other than any portion thereof included in the amount determined under clause (B) or (B.2)) included in computing the taxpayer's income for the year as"

S. 60(*l*), the portion before subparagraph (i) was amended by S.C. 2000, c. 19, s. 7(1), applicable to the 1999 and subsequent taxation years and, where an amount is included in computing a taxpayer's income for a taxation year as a result of an election under subsection 42(4) of this Act [S.C. 2000, c. 19. See the application of the amendment to the definition of "refund of premiums" in subsection 146.1(1) that was implemented by S.C. 2000, c. 19, s. 42(1).], paragraph 60(*l*) of the *Income Tax Act* shall apply to the taxpayer for the year and each subsequent taxation year that ends before 1999 as if

(*a*) the words "in the year or within 60 days after the end of the year" in that paragraph were read as "in the period that begins at the beginning of the year and ends on February 29, 2000 or on such later day as is acceptable to the Minister"; and

(*b*) subparagraph 60(*l*)(iv) of the Act were read as follows:

"(iv) is designated in prescribed form filed with the Minister before May 2000 (or before such later day as is acceptable to the Minister),"

That portion formerly read:

"(*l*) *Transfer of refund of premium under R.R.S.P.* — the total of all amounts each of which is an amount paid by or on behalf of the taxpayer in the year or within 60 days after the end of the year"

S. 60(*l*)(ii)(A)(I) and (II) were amended by S.C. 2000, c. 12, Sched. 2, s. 1(k), applicable January 1, 2001, coming into force on July 31, 2000. S. 60(*l*)(ii)(A)(I) and (II) formerly read:

"(I) for the taxpayer's life, or for the lives jointly of the taxpayer and the taxpayer's spouse either without a guaranteed period, or with a guaranteed period that is not greater than 90 years minus the lesser of the age in whole years of the taxpayer and the age in whole years of the taxpayer's spouse at the time the annuity was acquired, or

(II) for a term equal to 90 years minus the age in whole years of the taxpayer or the age in whole years of the taxpayer's spouse, at the time the annuity was acquired, or"

S. 60(*l*)(v)(A) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(k), applicable January 1, 2001, coming into force on July 31, 2000. S. 60(*l*)(v)(A) formerly read:

"(A) the amount included in computing the taxpayer's income for the year as a refund of premiums out of or under a registered retirement savings plan under which the taxpayer's spouse was the annuitant,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Clauses 60(*l*)(ii)(A) and (B) were amended by S.C. 1998, c. 19, s. 99(2), applicable to the 1989 and subsequent taxation years. Clauses 60(*l*)(ii)(A) and (B) formerly read:

"(A) under which the taxpayer is the annuitant

(I) for the taxpayer's life, or for the lives jointly of the taxpayer and the taxpayer's spouse either with a guaranteed period that is not greater than 90 years minus the age of the taxpayer or the age of the taxpayer's spouse, at the time of its acquisition or without a guaranteed period, or

(II) for a term of years equal to 90 minus the age of the taxpayer or the age of the taxpayer's spouse, at the time of its acquisition, or

(B) under which the taxpayer, or a trust under which the taxpayer is the sole person beneficially interested in all amounts payable under the annuity, is the annuitant for a term of years not exceeding 18 minus the age of the taxpayer at the time of its acquisition"

S. 60(*l*)(v)(D) was amended by S.C. 1994, c. 21, s. 26(5), applicable to the 1993 and subsequent taxation years except that, for the 1993 to 1996 taxation years, subclause 60(*l*)(v)(D)(I) shall be read as follows:

"(I) the amount received by the taxpayer out of or under a registered retirement income fund under which the taxpayer is the annuitant (or, where the taxpayer's spouse died before 1993, under which the spouse was the annuitant) and included because of subsection 146.3(5) in computing the taxpayer's income for the year"

S. 60(*l*)(v)(D) formerly read:

"(D) the portion of the amount received by the taxpayer out of or under a registered retirement income fund and included in computing the taxpayer's income for the year by virtue of subsection 146.3(5) that exceeds the minimum amount (within the meaning assigned by subsection 146.3(1)) required to be paid to the annuitant in the year under that fund, and"

S. 60(*l*)(v)(B.2) was amended by S.C. 1994, c. 21, s. 26(4), applicable to the 1993 and subsequent taxation years and subparagraph 60(*l*)(v) shall apply to a taxpayer for the 1992 taxation year as if it were read without reference to clause (B.2), unless the taxpayer elects otherwise by notifying the Minister of National Revenue in writing. S. 60(*l*)(v)(B.2) formerly read:

"(B.2) the amount included in computing the taxpayer's income for the year that was received by the taxpayer, as a consequence of the death of the taxpayer's spouse, out of or under a provincial pension plan prescribed for the purposes of paragraph (*v*),"

S. 60(*l*)(v)(B.1)(II) was amended and (III) was added by S.C. 1994, c. 21, s. 26(3), applicable to the 1993 and subsequent taxation years. S. 60(*l*)(v)(B.1)(II) formerly read:

"(II) the amount (other than any portion thereof included in the amount determined under clause (B)) included in computing the taxpayer's income for the year as a payment (other than a payment that is part of a series of periodic payments or that relates to an actuarial surplus) received by the taxpayer out of or under a registered pension plan, or as a refund of premiums out of or under a registered retirement savings plan, as a consequence of the death of an individual, where the taxpayer is a child or grandchild of the individual, and"

S. 60(*l*)(v)(B.1), the portion before (I), was amended by S.C. 1994, c. 21, s. 26(2), applicable to the 1993 and subsequent taxation years. S. 60(*l*)(v)(B.1) formerly read:

"(B.1) the lesser of"

S. 60(*l*)(ii)(A)(I) was amended by S.C. 1994, c. 7, Sched. VIII, s. 20(7), applicable after 1992. S. 60(*l*)(ii)(A)(I) formerly read:

"(I) for the taxpayer's life, or for the lives jointly of the taxpayer and the taxpayer's spouse (in this paragraph having the meaning assigned by subsection 146(1.1)), either with a guaranteed period that is not greater than 90 years minus the age of the taxpayer or the age of the taxpayer's spouse, at the time of its acquisition or without a guaranteed period, or"

Ss. 60(*l*)(ii)(D) and (E) were amended by S.C. 1994, c. 7, Sched. VIII, s. 20(8), applicable to the 1990 and subsequent taxation years. Ss. 60(*l*)(ii)(D) and (E) formerly read:

"(D) equal annual or more frequent periodic payments commencing not later than one year after the date of the payment referred to in clause (C), and

(E) payments in full or partial commutation of the annuity and, where the commutation is partial, equal annual or more frequent periodic payments thereafter,"

S. 60(*l*)(v)(B.2) was added by S.C. 1994, c. 7, Sched. II, s. 34(3), applicable to the 1990 and subsequent taxation years.

Related Sections: S. 56(1)(*a*) Pension benefits, unemployment insurance benefits, etc.; s. 60(*j*) Transfer of superannuation benefits; s. 60(*v*) Contribution to a provincial pension plan; s. 61 Payment made as consideration for income-averaging annuity; s. 146(1), "refund of premiums"; s. 146(1.1) Restriction — financially dependent; s. 146(5) Amount of RRSP premiums deductible; s. 146(21) Prescribed provincial pension plans; s. 146(22) Deemed payment of RRSP premiums and provincial pension plan contributions; s. 146.3 Registered retirement income funds; s. 146.3(5.5) Where s. (5.1) does not apply; s. 146.3(6.11) Transfer of designated benefit; s. 146.02(1), "excluded premium"; s. 147.3(13.1) Withdrawal of excessive transfers to RRSPs and RRIFs; s. 212(1)(*l*) Registered retirement savings plan payments; s. 212(1)(*q*) Registered retirement income fund payments; s. 248(1), "annuity", "retirement savings plan".

Interpretation Bulletins: *Primary* — IT-528 Transfers of funds between registered plans. *Secondary* — IT-124R6 Contributions to registered retirement savings plans; IT-307R4 Spousal or common-law partner registered retirement savings plans; IT-500R Registered retirement savings plans — Death of an annuitant; IT-517R Pension tax credit [Archived by the CRA].

Information Circulars: IC 78-18R6 Registered Retirement Income Funds.

Advance Tax Rulings: ATR-37 Refund of premiums transferred to spouse.

Forms: T2030.

Tax Topics: No. 1643, Leaving RRSP Funds to an Infirm Child or Grandchild.

► 60(m) ◄

(m) Estate tax applicable to certain property — that proportion of any superannuation or pension benefit, death benefit, benefit under a registered retirement savings plan or benefit under a deferred profit sharing plan, received by the taxpayer in the year, on or after the death of a predecessor, in payment of or on account of property to which the taxpayer is the successor, that

(i) such part of any tax payable under the *Estate Tax Act*, chapter E-9 of the Revised Statutes of Canada, 1970, in respect of the death of the predecessor as is determined under that Act to be the part thereof applicable to the property in payment of or on account of which the benefit was so received,

is of

(ii) the value of the property in payment of or on account of which the benefit was so received, computed as provided for the purpose of subsection 62(4) of the *Estate Tax Act*, chapter E-9 of the Revised Statutes of Canada, 1970;

Related Sections: S. 146(1), "earned income"; ITAR, s. 40(3) Determination of amount of payment; s. 40(4) Death benefit.

► 60(m.1) ◄

(m.1) Succession duties applicable to certain property — that proportion of any superannuation or pension benefit, death benefit, benefit under a registered retirement savings plan, benefit under a deferred profit sharing plan or benefit that is a payment under an income-averaging annuity contract, received by the taxpayer in the year, on or after the death of a predecessor, in payment of or on account of property to which the taxpayer is the successor, that

(i) such part of any succession duties payable under a law of a province in respect of the death of the predecessor as may reasonably be regarded as attributable to the property in payment of or on account of which the benefit was so received,

is of

(ii) the value of the property in payment of or on account of which the benefit was so received, as computed for the purposes of the law referred to in subparagraph (i);

► 60(n) ◄

(n) Repayment of pension or benefits — any amount paid by the taxpayer in the year as a repayment (otherwise than because of Part VII of the *Unemployment Insurance Act*, chapter U-1 of the Revised Statutes of Canada, 1985, or of Part VII of the *Employment Insurance Act*) of any of the following amounts to the extent that the amount was included in computing the taxpayer's income, and not deducted in computing the taxpayer's taxable income, for the year or for a preceding taxation year, namely,

(i) a pension described in clause 56(1)(*a*)(i)(A),

(ii) a benefit described in clause 56(1)(*a*)(i)(B),

(iii) an amount described in subparagraph 56(1)(*a*)(ii),

(iv) a benefit described in subparagraph 56(1)(*a*)(iv),

(v) a benefit described in subparagraph 56(1)(*a*)(vi), and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 60(*n*) of the Act is amended by striking out the word "and" at the end of subparagraph (v) and by adding the following after subparagraph (v):

(v.1) a benefit described in subparagraph 56(1)(*a*)(vii), and

Applicable: To the 2006 and subsequent taxation years.

Explanatory Note:

Repayment of Pension or Benefits

Paragraph 60(*n*) of the Act provides a deduction for repayments of certain benefits included in income. This paragraph is amended, consequential to the introduction of the new Quebec Parental Insurance Plan on January 1, 2006, to provide for a deduction for repayments made under that Plan. This amendment applies to the 2006 and subsequent taxation years.

(vi) an amount described in paragraph 56(1)(*r*);

History: S. 60(*n*) was amended by S.C. 2002, c. 9, s. 25(1), applicable to the 1997 and subsequent taxation years and, notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax, interest or penalty for any taxation year shall be made that is necessary to give effect to the amendment to paragraph 60(*n*). S. 60(*n*) formerly read:

"(*n*) *Repayment of pension or benefits* — the amount of

(i) any pension described in clause 56(1)(*a*)(i)(A),

(i.1) any amount described in subparagraph 56(1)(*a*)(ii),

(ii) any benefit described in clause 56(1)(*a*)(i)(B),

(ii.1) any benefit described in subparagraph 56(1)(*a*)(vi), or

(ii.2) [Repealed by S.C. 1994, c. 21, s. 26(7).]

(iii) any amount or benefit described in subparagraph 56(1)(*a*)(iv) or paragraph 56(1)(*r*),

received by the taxpayer and included in computing the taxpayer's income for the year or a preceding taxation year, to the extent of the amount or benefit repaid by the taxpayer in the year otherwise than

because of Part VII of the *Unemployment Insurance Act* or Part VII of the *Employment Insurance Act*;

(iv) [Repealed by S.C. 1996, c. 23, s. 172.1.]"

The portion of S. 60(*n*) before subparagraph (i) was amended by S.C. 1998, c. 19, s. 99(3), deemed to have come into force on June 30, 1996. The portion of S. 60(*n*) before subparagraph (i) formerly read:

"(*n*) *Overpayment of pension or benefits* — the amount of any overpayment of"

S. 60(*n*)(ii.2) was amended by S.C. 1998, c. 19, s. 99(4), deemed to have come into force on June 30, 1996. S. 60(*n*)(ii.2) formerly read:

"(iii) any benefit under the *Employment Insurance Act*,

received by the taxpayer and included in computing the taxpayer's income for the year or a preceding taxation year, to the extent of the amount thereof repaid by the taxpayer in the year otherwise than by virtue of Part VII of the *Employment Insurance Act*;"

S. 60(*n*)(iii) was amended by S.C. 1996, c. 23, s. 187, by replacing the expression "Unemployment Insurance Act" with the expression "Employment Insurance Act", effective June 30, 1996.

S. 60(*n*)(iv) was repealed by S.C. 1996, c. 23, s. 172.1, effective January 1, 1998. S. 60(*n*)(iv) formerly read:

"(iv) any amount described in paragraph 56(1)(*m*)"

S. 60(*n*)(i.1) was added by S.C. 1994, c. 21, s. 26(6), applicable to repayments made after 1990.

S. 60(*n*)(ii.2) was repealed by S.C. 1994, c. 21, s. 26(7), applicable to repayments made after October 1991. S. 60(*n*)(ii.2) formerly read:

"(ii.2) any amount described in subparagraph 56(1)(*a*)(vii),"

S. 60(*n*)(ii.2) was added by S.C. 1994, c. 7, Sched. II, s. 34(4), applicable to repayments made after September 14, 1989.

Related Sections: S. 60(*v*.1) UI and EI benefit repayment; s. 227(9.1) Penalty.

Interpretation Bulletins: *Secondary* — IT-75R4 Scholarships, fellowships, bursaries, prizes, research grants and financial assistance.

► 60(o) ◄

(o) Legal expenses — amounts paid by the taxpayer in the year in respect of fees or expenses incurred in preparing, instituting or prosecuting an objection to, or an appeal in relation to,

(i) an assessment of tax, interest or penalties under this Act or an Act of a province that imposes a tax similar to the tax imposed under this Act,

(ii) a decision of the Canada Employment and Immigration Commission, the Canada Employment and Insurance Commission, a board of referees or an umpire under the *Unemployment Insurance Act* or the *Employment Insurance Act*,

(iii) an assessment of any income tax deductible by the taxpayer under section 126 or any interest or penalty with respect thereto, or

(iv) an assessment or a decision made under the *Canada Pension Plan* or a provincial pension plan as defined in section 3 of that Act;

History: S. 60(*o*)(ii) was amended by S.C. 1998, c. 19, s. 99(5), deemed to have come into force on June 30, 1996. S. 60(*o*)(ii) formerly read:

"(ii) a decision of the Canada Employment and Insurance Commission, a board of referees or an umpire under the *Employment Insurance Act*,"

S. 60(*o*)(ii) was amended by S.C. 1996, c. 23, s. 187, by replacing the expression "Unemployment Insurance Act" with the expression "Employment Insurance Act", effective June 30, 1996.

S. 60(*o*)(ii) was amended by S.C. 1996, c. 11, s. 99, by replacing the term "Canada Employment and Immigration Commission" with the term "Canada Employment and Insurance Commission", effective July 12, 1996.

Related Sections: S. 56(1)(*l*) Legal expenses; s. 152(1.2) Provisions applicable.

Interpretation Bulletins: *Secondary* — IT-99R5 (Consolid.) Legal and accounting fees.

► 60(o.1) ◄

(o.1) Idem — the amount, if any, by which the lesser of

(i) the total of all legal expenses (other than those relating to a division or settlement of property arising out of, or on a breakdown of, a marriage or common-law partnership) paid by the taxpayer in the year or in any of the 7 preceding taxation years to collect or establish a right to an amount of

(A) a benefit under a pension fund or plan (other than a benefit under the *Canada Pension Plan* or a provincial pension plan as defined in section 3 of that Act) in respect of the employment of the taxpayer or a deceased individual of whom the taxpayer was a dependant, relation or legal representative, or

(B) a retiring allowance of the taxpayer or a deceased individual of whom the taxpayer was a dependant, relation or legal representative, and

(ii) the amount, if any, by which the total of all amounts each of which is

(A) an amount described in clause (i)(A) or (B)

(I) that is received after 1985,

(II) in respect of which legal expenses described in subparagraph (i) were paid, and

(III) that is included in computing the income of the taxpayer for the year or a preceding taxation year, or

(B) an amount included in computing the income of the taxpayer under paragraph 56(1)(*l*.1) for the year or a preceding taxation year,

exceeds the total of all amounts each of which is an amount deducted under paragraph (*j*), (*j*.01), (*j*.1) or (*j*.2) in computing the income of the taxpayer for the year or a preceding taxation year, to the extent that the amount may reasonably be considered to have been deductible as a consequence of the receipt of an amount referred to in clause (A),

exceeds

(iii) the portion of the total described in subparagraph (i) in respect of the taxpayer that may reasonably be considered to have been deductible under this paragraph in computing the income of the taxpayer for a preceding taxation year;

History: S. 60(*o*.1)(i) was amended by S.C. 2000, c. 12, Sched. 2, s. 9(c), applicable January 1, 2001, coming into force on July 31, 2000. S. 60(*o*.1)(i) formerly read:

"(i) the total of all legal expenses (other than those relating to a division or settlement of property arising out of, or on a breakdown of, a marriage) paid by the taxpayer in the year or in any of the 7 preceding taxation years to collect or establish a right to an amount of

(A) a benefit under a pension fund or plan (other than a benefit under the *Canada Pension Plan* or a provincial pension plan as defined in section 3 of that Act) in respect of the employment of the taxpayer or a deceased individual of whom the taxpayer was a dependant, relation or legal representative, or

(B) a retiring allowance of the taxpayer or a deceased individual of whom the taxpayer was a dependant, relation or legal representative, and"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 60(*o*.1)(i), the portion before clause (A), was amended by S.C. 1994, c. 7, Sched. VIII, s. 20(9), applicable after 1992. The portion formerly read:

"(i) the total of all legal expenses (other than those relating to a division or settlement of property arising from a marriage or other conjugal

relationship) paid by the taxpayer after 1985 and in the year or any of the 7 immediately preceding taxation years to collect or establish a right to an amount of"

Interpretation Bulletins: *Secondary* — IT-337R4 (Consolid.) Retiring allowances.

Tax Window Files: Legal Expenses of Employee, June 1, 2005, CRA Document No. 2005-0113991E5 [Legal fees relating to inappropriate termination notice and negotiating a settlement not deductible under paragraph 8(1)(*b*) or paragraph 60(*o.1*)].

► 60(p) ◄

(p) Repayment of apprenticeship incentive grant — the total of all amounts each of which is an amount paid in the taxation year as a repayment under the Apprenticeship Incentive Grant program of an amount that was included because of paragraph 56(1)(*n.1*) in computing the taxpayer's income for the taxation year or a preceding taxation year;

History: S. 60(*p*) was added by S.C. 2007, c. 2, s. 7(1), applicable to the 2007 and subsequent taxation years. S. 60(*p*) was previously repealed as noted below.

S. 60(*p*) was repealed by S.C. 1994, c. 7, Sched. VII, s. 2(2), applicable to the 1995 and subsequent taxation years. S. 60(*p*) formerly read:

"(*p*) the amount of any overpayment of an allowance included under subsection 56(5) in computing the taxpayer's income for the year or a preceding taxation year or an amount included because of subparagraph 115(2)(*e*)(iii) in computing the taxpayer's taxable income earned in Canada for the year or a preceding taxation year to the extent of the amount thereof repaid in the year under the *Family Allowances Act*, or under a law of a province that provides for the payment of an allowance similar to the family allowance provided under the *Family Allowances Act*;"

S. 60(*p*) was amended by S.C. 1994, c. 7, Sched. VII, s. 2(1), applicable to the 1990 and subsequent taxation years. S. 60(*p*) formerly read:

"(*p*) the amount of any overpayment of an allowance included in computing the taxpayer's income for the year or a preceding taxation year by reason of subsection 56(5) of this Act or subsection 56(8) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, or an amount included in computing the taxpayer's taxable income earned in Canada for the year or a preceding taxation year by virtue of subparagraph 115(2)(*e*)(iii) to the extent of the amount thereof that has been repaid in the year under the *Family Allowances Act*, or under a law of a province that provides for the payment of an allowance similar to the family allowance provided under the *Family Allowances Act*;"

► 60(q) ◄

(q) Refund of income payments — where the taxpayer is an individual, an amount paid by the taxpayer in the year to a person with whom the taxpayer was dealing at arm's length (in this paragraph referred to as the "payer") if

(i) the amount has been included in computing the income of the taxpayer in a preceding taxation year as an amount described in subparagraph 56(1)(*n*)(i) or paragraph 56(1)(*o*) paid to the taxpayer by the payer,

(ii) at the time the amount was paid by the payer to the taxpayer a condition was stipulated for the taxpayer to fulfil,

(iii) as a result of the failure of the taxpayer to fulfil the condition referred to in subparagraph (ii) the taxpayer was required to repay the amount to the payer,

(iv) during the period for which the amount referred to in subparagraph (i) was paid the taxpayer did not provide other than occasional services to the payer as an officer or under a contract of employment, and

(v) the amount was paid to the taxpayer for the purpose of enabling the taxpayer to further the taxpayer's education;

Related Sections: S. 56(1)(*n*) Scholarships, bursaries, etc; s. 56(1)(*o*) Research grants.

Interpretation Bulletins: *Primary* — IT-340R Scholarships, fellowships, bursaries, and research grants — Forgivable loans, repayable awards and repayable employment income. *Secondary* — IT-75R4 Scholarships, fellowships, bursaries, prizes, research grants and financial assistance.

► 60(r) ◄

(r) Amounts included under s. 146.2(6) — where an amount has been included in computing the income of the taxpayer by virtue of subsection 146.2(6) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952 (as it read in its application to the 1985 taxation year) for any of the taxpayer's three immediately preceding taxation years, the taxpayer may deduct the lesser of

(i) the amount that had been so included in computing the taxpayer's income, and

(ii) the total of all amounts used by the taxpayer to acquire in the year the taxpayer's owner-occupied home (within the meaning assigned by paragraph 146.2(1)(*f*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read in its application to the 1985 taxation year),

except that no amount may be deducted by the taxpayer for the year under this paragraph if an amount has been deducted

(iii) under subsection 146.2(6.1) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952 (as it read in its application to taxation years before 1986) in computing the taxpayer's income for any taxation year ending before 1986, or

(iv) under this paragraph for any preceding taxation year ending after 1985;

► 60(s) ◄

(s) Repayment of policy loan — the total of all repayments made by the taxpayer in the year in respect of a policy loan (within the meaning assigned by subsection 148(9)) made under a life insurance policy, not exceeding the amount, if any, by which

(i) the total of all amounts required by subsection 148(1) to be included in computing the taxpayer's income for the year or a preceding taxation year from a disposition described in paragraph (*b*) of the definition "disposition" in subsection 148(9) in respect of that policy

exceeds

(ii) the total of all repayments made by the taxpayer in respect of the policy loan that were deductible in computing the taxpayer's income for a preceding taxation year;

History: S. 60(*s*), the portion before subparagraph (i), was amended by S.C. 1994, c. 7, Sched. VIII, s. 20(10), applicable to repayments made after December 20, 1991. The portion formerly read:

"(*s*) the total of payments made by the taxpayer in the year in respect of a policy loan (within the meaning assigned by subsection 148(9)) made under a life insurance policy, not exceeding the amount, if any, by which"

Related Sections: S. 148(9), "policy loan".

► 60(t) ◄

(t) RCA distributions — where an amount in respect of a particular retirement compensation arrangement is required by paragraph 56(1)(*x*) or (*z*) or subsection 70(2) to be included in computing the taxpayer's income for the year, an amount equal to the lesser of

(i) the total of all amounts in respect of the particular arrangement so required to be included in computing the taxpayer's income for the year, and

(ii) the amount, if any, by which the total of all amounts each of which is

(A) an amount (other than an amount deductible under paragraph 8(1)(*m*.2) or transferred to the particular arrangement under circumstances in which subsection 207.6(7) applies) contributed under the particular arrangement by the taxpayer while it was a retirement compensation arrangement and before the end of the year,

(A.1) an amount transferred in respect of the taxpayer before the end of the year to the particular arrangement from another retirement compensation arrangement under circumstances in which subsection 207.6(7) applies, to the extent that the amount would have been deductible under this paragraph in respect of the other arrangement in computing the taxpayer's income if it had been received by the taxpayer out of the other arrangement,

(B) an amount paid by the taxpayer before the end of the year and at a time when the taxpayer was resident in Canada to acquire an interest in the particular arrangement, or

(C) an amount that was received or became receivable by the taxpayer before the end of the year and at a time when the taxpayer was resident in Canada as proceeds from the disposition of an interest in the particular arrangement,

exceeds the total of all amounts each of which is

(D) an amount deducted under this paragraph or paragraph (*u*) in respect of the particular arrangement in computing the taxpayer's income for a preceding taxation year, or

(E) an amount transferred in respect of the taxpayer before the end of the year from the particular arrangement to another retirement compensation arrangement under circumstances in which subsection 207.6(7) applies, to the extent that the amount would have been deductible under this paragraph in respect of the particular arrangement in computing the taxpayer's income if it had been received by the taxpayer out of the particular arrangement;

History: S. 60(*t*) was amended by S.C. 1998, c. 19, s. 99(6), applicable to the 1996 and subsequent taxation years. S. 60(*t*) formerly read:

"(*t*) *Amount included under para. 56(1)(x)* or (*z*) or s. 70(2) — where an amount in respect of a retirement compensation arrangement is required by paragraph 56(1)(*x*) or (*z*) or subsection 70(2) to be included in computing the taxpayer's income for the year, an amount equal to the lesser of

(i) the total of all amounts in respect of the arrangement so required to be included in the taxpayer's income for the year, and

(ii) the amount, if any, by which the total of

(A) all amounts, other than amounts deductible under paragraph 8(1)(*m*.2), contributed under the arrangement by the taxpayer while it was a retirement compensation arrangement and before the end of the year,

(B) all amounts paid by the taxpayer before the end of the year and at a time when the taxpayer was resident in Canada to acquire an interest in the arrangement, and

(C) all amounts that were received or became receivable by the taxpayer before the end of the year and at a time when the taxpayer was resident in Canada as proceeds from the disposition of an interest in the arrangement,

exceeds the total of all amounts deducted under this paragraph or paragraph (*u*) in respect of the arrangement in computing the taxpayer's income for a preceding taxation year;"

► 60(u) ◄

(u) RCA dispositions — where an amount in respect of a particular retirement compensation arrangement is required by paragraph 56(1)(*y*) to be included in computing the taxpayer's income for the year, an amount equal to the lesser of

(i) the total of all amounts in respect of the particular arrangement so required to be included in computing the taxpayer's income for the year, and

(ii) the amount, if any, by which the total of all amounts each of which is

(A) an amount (other than an amount deductible under paragraph 8(1)(*m*.2) or transferred to the particular arrangement under circumstances in which subsection 207.6(7) applies) contributed under the particular arrangement by the taxpayer while it was a retirement compensation arrangement and before the end of the year,

(A.1) an amount transferred in respect of the taxpayer before the end of the year to the particular arrangement from another retirement compensation arrangement under circumstances in which subsection 207.6(7) applies, to the extent that the amount would have been deductible under paragraph (*t*) in respect of the other arrangement in computing the taxpayer's income if it had been received by the taxpayer out of the other arrangement, or

(B) an amount paid by the taxpayer before the end of the year and at a time when the taxpayer was resident in Canada to acquire an interest in the particular arrangement

exceeds the total of all amounts each of which is

(C) an amount deducted under paragraph (*t*) in respect of the particular arrangement in computing the taxpayer's income for the year or a preceding taxation year,

(D) an amount deducted under this paragraph in respect of the particular arrangement in computing the taxpayer's income for a preceding taxation year, or

(E) an amount transferred in respect of the taxpayer before the end of the year from the particular arrangement to another retirement compensation arrangement under circumstances in which subsection 207.6(7) applies, to the extent that the amount would have been deductible under paragraph (*t*) in respect of the particular arrangement in computing the taxpayer's income if it had been received by the taxpayer out of the particular arrangement;

History: S. 60(*u*) was amended by S.C. 1998, c. 19, s. 99(6), applicable to the 1996 and subsequent taxation years. S. 60(*u*) formerly read:

"(*u*) *Amount included under para. 56(1)(y)* — where an amount in respect of a retirement compensation arrangement is required by paragraph 56(1)(*y*) to be included in computing the taxpayer's income for the year, an amount equal to the lesser of

(i) the total of all amounts in respect of the arrangement so required to be included in the taxpayer's income for the year, and

(ii) the amount, if any, by which the total of

(A) all amounts, other than amounts deductible under paragraph 8(1)(*m*.2), contributed under the arrangement by the taxpayer while

it was a retirement compensation arrangement and before the end of the year, and

(B) all amounts paid by the taxpayer before the end of the year and at a time when the taxpayer was resident in Canada to acquire an interest in the arrangement

exceeds the total of

(C) the total of all amounts deducted under paragraph (*t*) in respect of the arrangement in computing the taxpayer's income for the year or a preceding taxation year, and

(D) the total of all amounts deducted under this paragraph in respect of the arrangement in computing the taxpayer's income for a preceding taxation year;"

► 60(v) ◄

(v) Contribution to a provincial pension plan — the least of

(i) the amount, if any, by which

(A) the total of all amounts each of which is a contribution made in the year, or within 60 days after the end of the year, by the taxpayer to the account of the taxpayer, or of the taxpayer's spouse or common-law partner, under a prescribed provincial pension plan

exceeds

(B) the portion of the total described in clause (A) that was deducted in computing the taxpayer's income for the preceding taxation year,

(ii) the prescribed amount for the year in respect of the plan, and

(iii) the amount by which the taxpayer's RRSP deduction limit for the year exceeds the total of the amounts deducted under subsections 146(5) and (5.1) in computing the taxpayer's income for the year;

History: S. 60(*v*)(i)(A) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(k), applicable January 1, 2001, coming into force on July 31, 2000. S. 60(*v*)(i)(A) formerly read:

"(A) the total of all amounts each of which is a contribution made in the year, or within 60 days after the end of the year, by the taxpayer to the account of the taxpayer, or of the taxpayer's spouse, under a prescribed provincial pension plan"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 60(*v*)(i) was amended by S.C. 1999, c. 22, s. 16(1), applicable to the 1998 and subsequent taxation years. S. 60(*v*)(i) formerly read:

"(i) the amount contributed by the taxpayer to the taxpayer's account under a prescribed provincial pension plan in the year or within 60 days after the end of the year to the extent that the amount has not been deducted in computing the taxpayer's income for a preceding taxation year,"

Related Sections: S. 18(11) Borrowed money used for contribution; s. 56(1)(*a*) Pension benefits, unemployment insurance benefits, etc.; s. 60(*l*) Transfer of refund of premiums under RRSP; s. 60.02 Application of subpara. 60(v)(iii); s. 146(21) Prescribed provincial pension plans; s. 146(22) Deemed payment of RRSP premiums and provincial pension plan contributions; s. 146.01(1), "excluded premium"; s. 146.02(1), "excluded premium".
Regulations: 7800(1); 7800(2).
Interpretation Bulletins: *Secondary* — IT-124R6 Contributions to registered retirement savings plans.

► 60(v.1) ◄

(v.1) UI and EI benefit repayment — any benefit repayment payable by the taxpayer under Part VII of the *Unemployment Insurance Act* or Part VII of the *Employment Insurance Act* on or before April 30 of the following year, to the extent that the amount was not deductible in computing the taxpayer's income for any preceding taxation year;

History: S. 60(*v*.1) was amended by S.C. 1998, c. 19, s. 99(7), deemed to have come into force on June 30, 1996. S. 60(*v*.1) formerly read:

"(*v*.1) *UI benefit repayment* — any benefit repayment payable by the taxpayer under Part VII of the *Employment Insurance Act* on or before April 30 of the following year, to the extent that the amount was not deductible in computing the taxpayer's income or taxable income for any preceding taxation year; and"

S. 60(*v*.1) was amended by S.C. 1996, c. 23, s. 187, by replacing the expression "Unemployment Insurance Act" with the expression "Employment Insurance Act", effective June 30, 1996.

S. 60(*v*.1) was added by S.C. 1994, c. 7, Sched. II, s. 34(6), applicable to the 1989 and subsequent taxation years.

Related Sections: S. 56(1)(*a*) Pension benefits, unemployment insurance benefits, etc.; s. 60(*n*) Repayment of pension or benefits; s. 153(1)(*d*.1) Withholding; s. 227(9.1) Penalty; s. 241(1) Provision of information; s. 241(3) Communication where proceedings have been commenced; s. 241(4) Where taxpayer information may be disclosed; s. 241(10) Definitions.
Interpretation Bulletins: *Secondary* — IT-75R4 Scholarships, Fellowships, Bursaries, Prizes, Research Grants and Financial Assistance; IT-495R3 Child care expenses.

► 60(w) ◄

(w) Tax under Part I.2 — the amount of the taxpayer's tax payable under Part I.2 for the year;

Related Sections: S. 180.2 Tax on Old Age Security Benefits.
Interpretation Bulletins: *Secondary* — IT-495R3 Child care expenses.

► 60(x) ◄

(x) Repayment under *Canada Education Savings Act* — the total of all amounts each of which is an amount paid by the taxpayer in the year as a repayment, under the *Canada Education Savings Act* or under a designated provincial program (as defined in subsection 146.1(1)), of an amount that was included because of subsection 146.1(7) in computing the taxpayer's income for the year or a preceding taxation year;

History: S. 60(*x*) was replaced by S.C. 2007, c. 35, s. 18(1), applicable to the 2007 and subsequent taxation years. S. 60(*x*) formerly read:

"(*x*) *Repayment under Canada Education Savings Act* — the total of all amounts each of which is an amount paid by the taxpayer in the year as a repayment, under the *Canada Education Savings Act* or under a program administered pursuant to an agreement entered into under section 12 of that Act, of an amount that was included because of subsection 146.1(7) in computing the taxpayer's income for the year or a preceding taxation year; and"

S. 60(*x*) was replaced by S.C. 2004 c. 26, s. 20, applicable on Royal Assent, December 15, 2004. S. 60(*x*) formerly read:

"(*x*) *CESG repayment* — the total of all amounts each of which is an amount paid by the taxpayer in the year as a repayment under Part III.1 of the *Department of Human Resources Development Act* of an amount included because of subsection 146.1(7) in computing the taxpayer's income for the year or a preceding taxation year."

S. 60(*x*) was added by S.C. 1999, c. 22, s. 16(2), applicable to the 1998 and subsequent taxation years.

Related Sections: S. 146.1(14) Former Act.

► 60(y) ◄

(y) Repayment of UCCB — the total of all amounts each of which is an amount paid in the taxation year as a repayment, under the *Universal Child Care Benefit Act*, of a benefit that was included because of subsection 56(6) in computing the taxpayer's income for the taxation year or a preceding taxation year; and

History: S. 60(*y*) was added by S.C. 2006, c. 4, s. 174(1), applicable to repayments made after June 30, 2006.

Related Sections: S. 122.5(1), "adjusted income"; s. 122.6, "adjusted income"; s. 180.2(1), "adjusted income".

► 60(z) ◄

(z) Repayment under the *Canada Disability Savings Act* — the total of all amounts each of which is an amount paid in the taxation year as a repayment, under the *Canada Disability Savings Act*, of an amount that was included because of section 146.4 in computing the taxpayer's income for the taxation year or a preceding taxation year.

History: S. 60(*z*) was added by S.C. 2007, c. 35, s. 105, applicable to the 2008 and subsequent taxation years.

SECTION 60.001: Application of subpara. 60(c.1)(i).

In the application of subparagraph 60(c.1)(i) in respect of amounts received pursuant to orders made after December 11, 1979 under the laws of Ontario, the references in that subparagraph to "February 10, 1988" and "February 11, 1988" shall be read as references to "December 11, 1979" and "December 12, 1979", respectively.

History: S. 60.001 was not part of the former Act.

SECTION 60.01: Eligible amount.

For the purpose of paragraph 60(*j*), the amount, if any, by which

(*a*) the amount of any payment received by a taxpayer in a taxation year out of or under a foreign retirement arrangement and included in computing the taxpayer's income because of clause 56(1)(*a*)(i)(C.1) (other than any portion thereof that is included in respect of the taxpayer for the year under subparagraph 60(*j*)(i) or that is part of a series of periodic payments)

exceeds

(*b*) the portion, if any, of the payment included under paragraph (*a*) that can reasonably be considered to derive from contributions to the foreign retirement arrangement made by a person other than the taxpayer or the taxpayer's spouse or common-law partner or former spouse or common-law partner,

is an eligible amount in respect of the taxpayer for the year.

History: S. 60.01(*b*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(l), applicable January 1, 2001, coming into force on July 31, 2000. S. 60.01(*b*) formerly read:

"(*b*) the portion, if any, of the payment included under paragraph (*a*) that can reasonably be considered to derive from contributions to the foreign retirement arrangement made by a person other than the taxpayer or the taxpayer's spouse or former spouse,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 60.01(*b*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 21(1), applicable after 1992. S. 60.01(*b*) formerly read:

"(*b*) the portion, if any, of the payment included under paragraph (*a*) that can reasonably be considered to derive from contributions to the foreign retirement arrangement made by a person other than the taxpayer or the taxpayer's spouse (within the meaning assigned by subsection 146(1.1)) or former spouse"

S. 60.01 was added by S.C. 1994, c. 7, Sched. II, s. 35(1), applicable to payments received after July 13, 1990.

Related Sections: S. 60(*j*) Transfer of superannuation benefits; s. 248(1), "foreign retirement arrangement", "common-law partner".

Interpretation Bulletins: *Secondary* — IT-124R6 Contributions to registered retirement savings plans; IT-528 Transfers of funds between registered plans.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The Act is amended by adding the following after section 60.01:

SECTION 60.011:

(1) Meaning of "lifetime benefit trust". For the purpose of subsection (2), a trust is at any particular time a lifetime benefit trust with respect to a taxpayer and the estate of a deceased individual if

(*a*) immediately before the death of the deceased individual, the taxpayer

(i) was both a spouse or common-law partner of the deceased individual and mentally infirm, or

(ii) was both a child or grandchild of the deceased individual and dependent on the deceased individual for support because of mental infirmity; and

(*b*) the trust is, at the particular time, a personal trust under which

(i) no person other than the taxpayer may receive or otherwise obtain the use of, during the taxpayer's lifetime, any of the income or capital of the trust, and

(ii) the trustees

(A) are empowered to pay amounts from the trust to the taxpayer, and

(B) are required — in determining whether to pay, or not to pay, an amount to the taxpayer — to consider the needs of the taxpayer including, without limiting the generality of the foregoing, the comfort, care and maintenance of the taxpayer.

(2) Meaning of "qualifying trust annuity". Each of the following is a qualifying trust annuity with respect to a taxpayer:

(*a*) an annuity that meets the following conditions, namely,

(i) it is acquired after 2005,

(ii) the annuitant under it is a trust that is, at the time the annuity is acquired, a lifetime benefit trust with respect to the taxpayer and the estate of a deceased individual,

(iii) it is for the life of the taxpayer (with or without a guaranteed period), or for a fixed term equal to 90 years minus the age in whole years of the taxpayer at the time it is acquired, and

(iv) if it is with a guaranteed period or for a fixed term, it requires that, in the event of the death of the taxpayer during the guaranteed period or fixed term, any amounts that would otherwise be payable after the death of the taxpayer be commuted into a single payment;

(*b*) an annuity that meets the following conditions, namely,

(i) it is acquired after 1988,

(ii) the annuitant under it is a trust under which the taxpayer is the sole person beneficially interested (determined without regard to any right of a person to receive an amount from the trust only on or after the death of the taxpayer) in amounts payable under the annuity,

(iii) it is for a fixed term not exceeding 18 years minus the age in whole years of the taxpayer at the time it is acquired, and

(iv) if it is acquired after 2005, it requires that, in the event of the death of the taxpayer during the fixed term, any amounts that would otherwise be payable

after the death of the taxpayer be commuted into a single payment; and

(*c*) an annuity that meets the following conditions, namely,

(i) it is acquired

(A) after 2000 and before 2005 at a time at which the taxpayer was mentally or physically infirm, or

(B) in 2005 at a time at which the taxpayer was mentally infirm,

(ii) the annuitant under it is a trust under which the taxpayer is the sole person beneficially interested (determined without regard to any right of a person to receive an amount from the trust only on or after the death of the taxpayer) in amounts payable under the annuity, and

(iii) it is for the life of the taxpayer (with or without a guaranteed period), or for a fixed term equal to 90 years minus the age in whole years of the taxpayer at the time it is acquired.

(3) Application of paragraph 60(*l*) to "qualifying trust annuity". For the purpose of paragraph 60(*l*),

(*a*) in determining if a qualifying trust annuity with respect to a taxpayer is an annuity described in subparagraph 60(*l*)(ii), clauses 60(*l*)(ii)(A) and (B) are to be read without regard to their requirement that the taxpayer be the annuitant under the annuity; and

(*b*) if an amount paid to acquire a qualifying trust annuity with respect to a taxpayer would, if this Act were read without reference to this subsection, not be considered to have been paid by or on behalf of the taxpayer, the amount is deemed to have been paid on behalf of the taxpayer where

(i) it is paid

(A) by the estate of a deceased individual who was, immediately before death,

(I) a spouse or common-law partner of the taxpayer, or

(II) a parent or grandparent of the taxpayer on whom the taxpayer was dependent for support, or

(B) by the trust that is the annuitant under the qualifying trust annuity, and

(ii) it would, if it had been paid by the taxpayer, be deductible under paragraph 60(*l*) in computing the taxpayer's income for a taxation year and the taxpayer elects, in the taxpayer's return of income under this Part for that taxation year, to have this paragraph apply to the amount.

Applicable: After 1988 and, for the purpose of applying subparagraph 60.011(3)(*b*)(ii) to a taxation year that ends before 2005, a taxpayer is deemed to have made the election referred to in that subparagraph in respect of an amount paid to acquire a qualifying trust annuity if the taxpayer claimed, in their return of income for that taxation year, an amount as a deduction under paragraph 60(*l*) in respect of the amount paid to acquire the qualifying trust annuity.

Explanatory Note: New section 60.011 of the Act contains special rules relating to the application of paragraph 60(*l*) of the Act.

In circumstances where a taxpayer has received (or is deemed to have received), as a consequence of the death of a spouse or common-law partner or of a parent or a grandparent on whom the taxpayer was financially dependent, certain taxable lump sum amounts from a registered retirement savings plan (RRSP), registered retirement income fund (RRIF) or registered pension plan (RPP), paragraph 60(*l*) allows the taxpayer to claim an offsetting deduction for, among other things, a payment made by or on behalf of the taxpayer to acquire an immediate annuity that satisfies the requirements set out in that paragraph.

A taxpayer is deemed to have received an amount from an RRSP, RRIF or RPP when the amount is paid to the deceased individual's estate and an election in respect of the amount is made jointly by the taxpayer and the deceased individual's legal representative. These deeming provisions are found in subsections 104(27), 146(8.1) and 146.3(6.1) for RPPs, RRSPs and RRIFs respectively.

There are two types of annuity for which an offsetting deduction may be provided under paragraph 60(*l*).

- One type (referred to in these notes as a "life annuity") is an annuity that is payable for the life of the taxpayer (with or without a guaranteed period), or for a fixed term equal to 90 years minus the age of the taxpayer when the annuity is acquired, and under which the taxpayer is the annuitant. Where the taxpayer is a child or grandchild of the deceased individual, this type of annuity is available only if the taxpayer was dependent on the deceased individual by reason of physical or mental infirmity.
- The other type (referred to in these notes as a "minor term annuity") is an annuity payable for a fixed term not exceeding 18 years minus the age of the taxpayer when the annuity is acquired. For this type of annuity, the annuitant may be the taxpayer or a trust under which the taxpayer is the sole person beneficially interested in amounts payable under the annuity.

(Refer to subparagraph 60(*l*)(ii) of the Act for a complete description of the conditions applicable to these annuities.)

New section 60.011 contains provisions dealing with the application of paragraph 60(*l*) to a taxpayer in circumstances where a trust (under which the taxpayer is a beneficiary) is named as the annuitant under an annuity acquired with funds paid out of an RRSP, RRIF or RPP as a consequence of the death of a spouse, common-law partner, parent or grandparent of the taxpayer and included in the taxpayer's income. Section 60.011 incorporates the existing provision of paragraph 60(*l*) that allows a trust to be named the annuitant under a minor term annuity, and it allows a trust to be named the annuitant under a life annuity, if certain conditions are met. It ensures that the taxpayer is not denied the deduction under paragraph 60(*l*) by reason only of the fact that the taxpayer is not the annuitant under the annuity, or the fact that the annuity is acquired by the trust or the estate of the deceased individual rather than "by or on behalf of the taxpayer". The provisions of section 60.011 are explained in greater detail below.

Consequential changes to reflect the introduction of section 60.011 are also made. Specifically, new section 75.2 attributes to the taxpayer amounts payable under such an annuity, with corresponding changes to section 160.2 making the annuitant and the policyholder jointly and severally, or solidarily, liable with the taxpayer for any tax payable in connection with amounts attributed to the taxpayer. Paragraph 148(1)(*e*) is amended to ensure that such annuities are considered to be prescribed annuity contracts and treated in the same manner as other prescribed annuity contracts, the purchase price of which is deductible under paragraph 60(*l*). Lastly, subsection 146(8.1) is amended to ensure that the election provided for thereunder can be made if the taxpayer is "beneficially interested" in the deceased individual's estate (as defined in subsection 248(25) of the Act), but not a beneficiary under the estate (as is currently required under subsection 146(8.1)). See the explanatory notes to these provisions for further details.

New section 60.011 applies after 1988, which reflects the effective date of the amendment to paragraph 60(*l*) allowing a trust to be named as the annuitant under a minor term annuity.

Subsection 60.011(1) — Meaning of "lifetime benefit trust"

New subsection 60.011(1) of the Act defines "lifetime benefit trust" with respect to a taxpayer and the estate of a deceased individual for the purposes of new subsection 60.011(2). Subsection 60.011(2) defines "qualifying trust annuity" with respect to a taxpayer and includes, under paragraph 60.011(2)(*a*), a life annuity acquired after 2005 under which the annuitant is, at the time the annuity is acquired, a lifetime benefit trust with respect to the taxpayer and the estate of a deceased individual. Subsection 60.011(2) is relevant for new subsection 60.011(3), the provisions of which ensure that the eligibility requirements for a taxpayer to deduct the purchase price of an annuity under paragraph 60(*l*) can be met where the annuity is a qualifying trust annuity with respect to the taxpayer.

Subsection 60.011(1) defines a trust to be, at a particular time, a lifetime benefit trust with respect to a taxpayer and the estate of a deceased individual, if two conditions are satisfied. First, the taxpayer must be, immediately before the death of the deceased individual, a mentally infirm spouse or common-law

partner of the deceased individual, or a mentally infirm child or grandchild of the deceased individual who was dependent on the deceased individual by reason of that infirmity. Second, the trust must be, at the particular time, a personal trust under which

- no person other than the taxpayer may, during the taxpayer's lifetime, receive or otherwise obtain the use of any of the income of the trust (determined, as required under subsection 108(3) of the Act, without reference to the provisions of the Act) or the capital of the trust,
- the trustees are empowered to pay amounts from the trust to the taxpayer, and
- the trustees are required to consider the needs of the taxpayer (including the comfort, care and maintenance of the taxpayer) in determining whether to pay, or not to pay, an amount to the taxpayer.

Subsection 60.011(2) — Meaning of "qualifying trust annuity"

New subsection 60.011(2) of the Act defines "qualifying trust annuity" with respect to a taxpayer. Subsection 60.011(2) is relevant for new subsection 60.011(3), the provisions of which ensure that the eligibility requirements for a taxpayer to deduct the purchase price of an annuity under paragraph 60(*l*) can be met where the annuity is a qualifying trust annuity with respect to the taxpayer. It is also relevant for the purposes of new section 75.2, amended section 160.2 and amended paragraph 148(1)(*e*). Also, subsection 248(1) of the Act is amended to define the expression "qualifying trust annuity" as having the meaning assigned by subsection 60.011(2), thus ensuring that the definition in subsection 60.011(2) applies whenever the expression is used in the Act.

Subsection 60.011(2) defines three types of qualifying trust annuities with respect to a taxpayer, all of which have, as the annuitant thereunder, a trust under which the taxpayer is a beneficiary.

- Paragraph 60.011(2)(*a*) describes a life annuity that is acquired after 2005 and the annuitant under which is a trust that is, at the time of acquisition, a "lifetime benefit trust" with respect to the taxpayer and the estate of a deceased individual. ("Lifetime benefit trust" is defined in new subsection 60.011(1).) If the annuity has a guaranteed period or is for a fixed term, it must provide for commutation in the event of the death of the taxpayer during the guaranteed period or fixed term.
- Paragraph 60.011(2)(*b*) describes a minor term annuity that is acquired after 1988 and the annuitant under which is a trust under which the taxpayer is the sole person beneficially interested in amounts payable under the annuity (determined without regard to any right of a person to receive amounts from the trust only on or after the death of the taxpayer). If the annuity is acquired after 2005, it must provide for commutation in the event of the death of the taxpayer during the fixed term.
- Paragraph 60.011(2)(*c*) describes a life annuity that is acquired after 2000 and the annuitant under which is a trust under which the taxpayer is the sole person beneficially interested in amounts payable under the annuity (determined without regard to any right of a person to receive amounts from the trust only on or after the death of the taxpayer). The taxpayer must be infirm at the time of acquisition, and the annuity must be acquired before 2005 in the case of a physically infirm taxpayer, and before 2006 in the case of a mentally infirm taxpayer.

Subsection 60.011(3) — Application of Paragraph 60(*l*) to "Qualifying Trust Annuity"

New subsection 60.011(3) of the Act contains provisions which ensure that the eligibility requirements for a taxpayer to deduct the purchase price of an annuity under paragraph 60(*l*) can be met where the annuity is a "qualifying trust annuity" with respect to the taxpayer (as defined in new subsection 60.011(2)). A distinguishing feature of a qualifying trust annuity with respect to a taxpayer is that the annuitant thereunder is a trust under which the taxpayer is a beneficiary.

Paragraph 60(*l*) requires that the taxpayer claiming a deduction for the purchase price of an annuity be the annuitant under the annuity. New paragraph 60.011(3)(*a*) provides for this requirement to be disregarded in the case of a qualifying trust annuity.

Paragraph 60(*l*) allows a taxpayer to deduct the purchase price of an annuity only if the amount paid to acquire the annuity was paid "by or on behalf of" the taxpayer. If a qualifying trust annuity with respect to a taxpayer is acquired either by the trust that is the annuitant, or by the estate of a deceased individual who was a spouse or common-law partner of the taxpayer or a parent or grandparent of the taxpayer on whom the taxpayer was dependent for support, and the purchase price would not otherwise be considered to have been paid "by or on behalf of the taxpayer", paragraph 60.011(3)(*b*) deems the amount to have been paid on behalf of the taxpayer. For this deeming rule to apply, the taxpayer must so elect in the taxpayer's return of income for the year in which the amount would have been deductible under paragraph 60(*l*) had the purchase price been paid by the taxpayer. (A taxpayer is deemed to have made the election required under paragraph 60.011(3)(*b*) with respect to any amount claimed by the taxpayer as a deduction under paragraph 60(*l*) in computing income for a taxation year ending before 2005.)

SECTION 60.02: Application of subpara. 60(v)(iii).

Subparagraph 60(*v*)(iii) is applicable to the 1991 and subsequent taxation years.

History: S. 60.02 was not part of the former Act.

SECTION 60.021: [RRIF and variable benefit minimum amount rules — recontributions].

► 60.021(1) ◄

(1) Additions to clause 60(*l*)(v)(B.2) for 2008. In determining the amount that may be deducted because of paragraph 60(*l*) in computing a taxpayer's income for the 2008 taxation year, clause 60(*l*)(v)(B.2) shall be read as follows:

"(B.2) the total of all amounts each of which is

(I) the taxpayer's eligible amount (within the meaning assigned by subsection 146.3(6.11)) for the year in respect of a registered retirement income fund,

(II) the taxpayer's eligible RRIF withdrawal amount (within the meaning assigned by subsection 60.021(2)) for the year in respect of a registered retirement income fund, or

(III) the taxpayer's eligible variable benefit withdrawal amount (within the meaning assigned by subsection 60.021(3)) for the year in respect of an account of the taxpayer under a money purchase provision of a registered pension plan,"

History: S. 60.021(1) was added by S.C. 2009, c. 2, s. 15(1), in force on Royal Assent, March 12, 2009.

Amounts paid by a taxpayer, to a registered retirement savings plan or registered retirement income fund under which the taxpayer is the annuitant, during the period that begins on March 2, 2009 and that ends on the day that is 30 days after the day on which this Act is assented to, are deemed for the purpose of paragraph 60(*l*) to have been made on March 1, 2009, and not when they were actually made, except that the amounts so deemed shall not exceed the total of all amounts each of which is

(*a*) the taxpayer's eligible RRIF withdrawal amount for 2008 in respect of a registered retirement income fund, or

(*b*) the taxpayer's eligible variable benefit withdrawal amount for 2008 in respect of an account of the taxpayer under a money purchase provision of a registered pension plan.

[S.C. 2009, c. 2 was assented to on March 12, 2009. Due to statutory holidays within this 30-day period after Royal Assent, the period ends on April 14, 2009.]

► 60.021(2) ◄

(2) Meaning of eligible RRIF withdrawal amount. A taxpayer's eligible RRIF withdrawal amount for a taxation year in respect of a registered retirement income fund

under which the taxpayer is the annuitant at the beginning of the taxation year is

(*a*) except where paragraph (*b*) applies, the amount determined by the formula

A – B

where

A is the lesser of

(i) the total of all amounts included, because of subsection 146.3(5), in computing the income of the taxpayer for the taxation year in respect of amounts received out of or under the fund (other than an amount paid by direct transfer from the fund to another fund or to a registered retirement savings plan), and

(ii) the amount that would, in the absence of subsection 146.3(1.1), be the minimum amount under the fund for the taxation year, and

B is the minimum amount under the fund for the taxation year; and

(*b*) if the taxpayer attained 70 years of age in 2007, nil.

History: S. 60.021(2) was added by S.C. 2009, c. 2, s. 15(1), in force on Royal Assent, March 12, 2009.

► 60.021(3) ◄

(3) Meaning of eligible variable benefit withdrawal amount. A taxpayer's eligible variable benefit withdrawal amount for a taxation year in respect of an account of the taxpayer under a money purchase provision of a registered pension plan is the amount determined by the formula

A – B – C

where

A is the lesser of

(*a*) the total of all amounts each of which is the amount of a retirement benefit (other than a retirement benefit permissible under any of paragraphs 8506(1)(*a*) to (*e*) of the Regulations) paid from the plan in the taxation year in respect of the account and included, because of paragraph 56(1)(*a*), in computing the taxpayer's income for the taxation year, and

(*b*) the amount that would, in the absence of paragraph 8506(7)(*b*) of the Regulations, be the minimum amount for the account for the taxation year;

B is the minimum amount for the account for the taxation year; and

C is the total of all contributions made by the taxpayer under the provision and designated for the purposes of subsection 8506(10) of the Regulations.

History: S. 60.021(3) was added by S.C. 2009, c. 2, s. 15(1), in force on Royal Assent, March 12, 2009.

► 60.021(4) ◄

(4) Expressions used in this section. For the purposes of this section,

(*a*) the term "money purchase provision" has the meaning assigned by subsection 147.1(1);

(*b*) the term "retirement benefit" has the meaning assigned by subsection 8500(1) of the Regulations; and

(*c*) the minimum amount for an account of a taxpayer under a money purchase provision of a registered pension plan is the amount determined in accordance with subsection 8506(5) of the Regulations.

History: S. 60.021(4) was added by S.C. 2009, c. 2, s. 15(1), in force on Royal Assent, March 12, 2009.

SECTION 60.03: [Pension income splitting].

► 60.03(1) ◄

(1) Definitions. The following definitions apply in this section.

"eligible pension income" — "eligible pension income" has the same meaning as in subsection 118(7).

History: S. 60.03(1), the definition "eligible pension income" was added by S.C. 2007, c. 29, s. 5(1), applicable to the 2007 and subsequent taxation years.

"joint election" — "joint election" in respect of a pensioner and a pension transferee for a taxation year means an election made jointly in prescribed form by the pensioner and the pension transferee and filed with the Minister with both the pensioner's and the pension transferee's returns of income for the taxation year in respect of which the election is made, on or before their respective filing-due dates for the taxation year.

History: S. 60.03(1), the definition "joint election" was added by S.C. 2007, c. 29, s. 5(1), applicable to the 2007 and subsequent taxation years.

Editorial Note: The individuals must be married or in a common-law partnership, there must be no breakdown in the relationship during the year, and they must not be separated at year end. Both spouses must be resident in Canada at the end of the calendar year in which the taxation year ends (or immediately before death), and they would qualify even if bankrupt at year end.

Related Sections: S. 153(1.3) Split-pension amount; s. 220(3.201) Joint election — pension income split.
Forms: T1032.

"pensioner" — "pensioner" for a taxation year means an individual who

(*a*) receives eligible pension income in the taxation year; and

(*b*) is resident in Canada,

(i) if the individual dies in the taxation year, at the time that is immediately before the individual's death, or

(ii) in any other case, at the end of the calendar year in which the taxation year ends.

History: S. 60.03(1), the definition "pensioner" was added by S.C. 2007, c. 29, s. 5(1), applicable to the 2007 and subsequent taxation years.

Related Sections: S. 60(*c*) Other deductions; s. 153(2) Deemed withholding; s. 160(1.3) Joint liability — tax on split-pension income.

"pension income" — "pension income" has the meaning assigned by section 118.

History: S. 60.03(1), the definition "pension income" was added by S.C. 2007, c. 29, s. 5(1), applicable to the 2007 and subsequent taxation years.

Editorial Note: The amounts that may be split include annuity payments from superannuation or pension funds or, for pensioners over age 65, payments under an RRIF or RRSP.

Related Sections: S. 118(7), "pension income".

"pension transferee" — "pension transferee" for a taxation year means an individual who

(*a*) is resident in Canada,

(i) if the individual dies in the taxation year, at the time that is immediately before the individual's death, or

(ii) in any other case, at the end of the calendar year in which the taxation year ends; and

(*b*) at any time in the taxation year is married to, or in a common-law partnership with, a pensioner and is not, by reason of the breakdown of their marriage or common-law partnership, living separate and apart from the pensioner at the end of the taxation year and for a period of at least 90 days commencing in the taxation year.

History: S. 60.03(1), the definition "pension transferee" was added by S.C. 2007, c. 29, s. 5(1), applicable to the 2007 and subsequent taxation years.

Related Sections: S. 56(1)(*a.2*) Amounts to be included in income for year; s. 153(2) Deemed withholding; s. 160(1.3) Joint liability — tax on split-pension income.

"*qualified pension income*" — "qualified pension income" has the meaning assigned by section 118.

History: S. 60.03(1), the definition "qualified pension income" was added by S.C. 2007, c. 29, s. 5(1), applicable to the 2007 and subsequent taxation years.

Related Sections: S. 118(7) Definitions.

"*split-pension amount*" — "split-pension amount" for a taxation year is the amount elected by a pensioner and a pension transferee in a joint election for the taxation year not exceeding the amount determined by the formula

$$0.5A \times B/C$$

where

A is the eligible pension income of the pensioner for the taxation year;

B is the number of months in the pensioner's taxation year at any time during which the pensioner was married to, or was in a common-law partnership with, the pension transferee; and

C is the number of months in the pensioner's taxation year.

History: S. 60.03(1), the definition "split-pension amount" was added by S.C. 2007, c. 29, s. 5(1), applicable to the 2007 and subsequent taxation years.

Related Sections: S. 56(1)(*a.2*) Amounts to be included in income for year; s. 60(*c*) Other deductions; s. 153(2) Deemed withholding; s. 160(1.3) Joint liability — tax on split-pension income.

► 60.03(2) ◄

(2) Effect of pension income split. For the purpose of subsection 118(3), if a pensioner and a pension transferee have made a joint election in a taxation year,

(*a*) the pensioner is deemed not to have received the portion of the pensioner's pension income or qualified pension income, as the case may be, for the taxation year that is equal to the amount of the pensioner's split-pension amount for that taxation year; and

(*b*) the pension transferee is deemed to have received the split-pension amount

(i) as pension income, to the extent that the split-pension amount was pension income to the pensioner, and

(ii) as qualified pension income, to the extent that the split-pension amount was qualified pension income to the pensioner.

History: S. 60.03(2) was added by S.C. 2007, c. 29, s. 5(1), applicable to the 2007 and subsequent taxation years.

Editorial Note: The main benefit of the election (to be made annually) will derive from a difference in the marginal tax brackets of the two parties; it will be most beneficial where the transferor has a large income and the transferee does not. The age and circumstance of the transferee may contribute further to the value of making the transfer. If the transferee qualifies for the pension credit, but otherwise has no other pension income to enjoy it, the transferred-in income will qualify. A third bonus might include reduced OAS clawback burden for the transferor. Note that a change in income levels resulting from pension splitting may also affect access to the spouse/common-law partner credit and the age credit. These and other factors have to be carefully weighed to determine the optimal amount to be transferred. There will be no reduction of tax withheld based on the election to income split. Instalments may be paid based on split income. *Canada Pension Plan* income is not covered by section 60.03. Rather, the CPP legislation allows spouses and common-law partners to split their CPP retirement pensions.

Forms: T1032.
Tax Topics: No. 1873, Understanding the New Pension Income Splitting Options.
Tax Profile: February 2008 — Income Splitting A–Z.
Tax Window Files: Pension Income Splitting, December 4, 2007, CRA Document No. 2006-0214951M4; Pension Income Splitting, September 27, 2006, CRA Document No. 2006-0204981M4 [Prior to the enactment of s. 60.03, there was no provision of the ITA that permitted the splitting of pension income between spouses].

► 60.03(3) ◄

(3) Limitation. A pensioner may file only one joint election for a particular taxation year.

History: S. 60.03(3) was added by S.C. 2007, c. 29, s. 5(1), applicable to the 2007 and subsequent taxation years.

► 60.03(4) ◄

(4) False declaration. A joint election is invalid if the Minister establishes that a pensioner or a pension transferee has knowingly or under circumstances amounting to gross negligence made a false declaration in the joint election.

History: S. 60.03(4) was added by S.C. 2007, c. 29, s. 5(1), applicable to the 2007 and subsequent taxation years.

SECTION 60.1:

► 60.1(1) ◄

(1) Support. For the purposes of paragraph 60(*b*) and subsection 118(5), where an order or agreement, or any variation thereof, provides for the payment of an amount by a taxpayer to a person or for the benefit of the person, children in the person's custody or both the person and those children, the amount or any part thereof

(*a*) when payable, is deemed to be payable to and receivable by that person; and

(*b*) when paid, is deemed to have been paid to and received by that person.

History: S. 60.1(1) was amended by S.C. 1997, c. 25, s. 11(1), applicable to amounts paid after 1996. S. 60.1(1) formerly read:

"S. 60.1. *Maintenance payments.*

(1) *Maintenance payments.* Where a decree, order, judgment or written agreement described in paragraph 60(*b*) or (*c*), or any variation thereof, provides for the periodic payment of an amount by a taxpayer

(*a*) to a person who is

(i) the taxpayer's spouse or former spouse, or

(ii) where the amount is paid under an order made by a competent tribunal in accordance with the laws of a province, an individual of the opposite sex who is the natural parent of a child of the taxpayer, or

(*b*) for the benefit of the person, children in the custody of the person or both the person and those children,

the amount or any part thereof, when paid, shall be deemed for the purposes of paragraphs 60(*b*) and (*c*) to have been paid to and received by that person."

S. 60.1(1) was amended by S.C. 1994, c. 7, Sched. VIII, s. 22(1), applicable to amounts paid under a decree, order or judgment made by a competent tribunal after 1992 or under a written agreement entered into after 1992. S. 60.1(1) formerly read:

"S. 60.1. *Presumptions as to maintenance payments.*

(1) Where, after May 6, 1974, a decree, order, judgment or written agreement described in paragraph 60(*b*), (*c*) or (*c.1*), or any variation thereof, has been made providing for the periodic payment of an amount by a taxpayer

(*a*) to a person who is

(i) the taxpayer's spouse or former spouse, or

(ii) where the amount is paid pursuant to an order made by a competent tribunal after February 10, 1988 in accordance with the laws of a province, an individual of the opposite sex who

(A) before the date of the order cohabited with the taxpayer in a conjugal relationship, or

(B) is the natural parent of a child of the taxpayer, or

(*b*) for the benefit of the person or children in the custody of the person, or both the person and those children,

the amount or any part thereof, when paid, shall be deemed, for the purposes of paragraphs 60(*b*), (*c*) and (*c*.1), to have been paid to and received by that person."

Related Sections: S. 56(1)(*b*) Support; s. 56(1)(*c*) Maintenance; s. 56(1)(*c*.1) Idem; s. 56.1 Support; s. 60(*b*) Support; s. 60(*c*) Pension income reallocation; s. 248(1), "amount", "individual", "self-contained domestic establishment"; s. 252(1) Extended meaning of "child"; s. 252(3) Extended meaning of "spouse" and "former spouse".

Interpretation Bulletins: *Secondary* — IT-530R Support payments.

► 60.1(2) ◄

(2) Agreement. For the purposes of section 60, this section and subsection 118(5), the amount determined by the formula

A – B

where

A is the total of all amounts each of which is an amount (other than an amount that is otherwise a support amount) that became payable by a taxpayer in a taxation year, under an order of a competent tribunal or under a written agreement, in respect of an expense (other than an expenditure in respect of a self-contained domestic establishment in which the taxpayer resides or an expenditure for the acquisition of tangible property that is not an expenditure on account of a medical or education expense or in respect of the acquisition, improvement or maintenance of a self-contained domestic establishment in which the person described in paragraph (*a*) or (*b*) resides) incurred in the year or the preceding taxation year for the maintenance of a person, children in the person's custody or both the person and those children, where the person is

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of the description of A in subsection 60.1(2) of the Act before paragraph (*a*) is replaced by the following:

A is the total of all amounts each of which is an amount (other than an amount that is otherwise a support amount) that became payable by a taxpayer in a taxation year, under an order of a competent tribunal or under a written agreement, in respect of an expense (other than an expenditure in respect of a self-contained domestic establishment in which the taxpayer resides or an expenditure for the acquisition of tangible property, or for civil law corporeal property, that is not an expenditure on account of a medical or education expense or in respect of the acquisition, improvement or maintenance of a self-contained domestic establishment in which the person described in paragraph (*a*) or (*b*) resides) incurred in the year or the preceding taxation year for the maintenance of a person, children in the person's custody or both the person and those children, where the person is

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*a*) the taxpayer's spouse or common-law partner or former spouse or common-law partner, or

(*b*) where the amount became payable under an order made by a competent tribunal in accordance with the laws of a province, an individual who is a parent of a child of whom the taxpayer is a legal parent,

and

B is the amount, if any, by which

(*a*) the total of all amounts each of which is an amount included in the total determined for A in respect of the acquisition or improvement of a self-contained domestic establishment in which that person resides, including any payment of principal or interest in respect of a loan made or indebtedness incurred to finance, in any manner whatever, such acquisition or improvement

exceeds

(*b*) the total of all amounts each of which is an amount equal to 1/5 of the original principal amount of a loan or indebtedness described in paragraph (*a*),

is, where the order or written agreement, as the case may be, provides that this subsection and subsection 56.1(2) shall apply to any amount paid or payable thereunder, deemed to be an amount payable by the taxpayer to that person and receivable by that person as an allowance on a periodic basis, and that person is deemed to have discretion as to the use of that amount.

History: S. 60.1(2), paragraph (*b*) of the description of A was replaced by S.C. 2005, c. 33, s. 11, applicable on Royal Assent, July 20, 2005. S. 60.1(2), paragraph (*b*) of the description of A formerly read:

"(b) where the amount became payable under an order made by a competent tribunal in accordance with the laws of a province, an individual who is a parent of a child of whom the taxpayer is a natural parent,"

S. 60.1(2), paragraph (*a*) of the description of A was amended by S.C. 2000, c. 12, Sched. 2, s. 1(m), applicable January 1, 2001, coming into force on July 31, 2000. S. 60.1(2), paragraph (*a*) of the description of A formerly read:

"(*a*) the taxpayer's spouse or former spouse, or"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 60.1(2), the portion before the formula, was amended by S.C. 1997, c. 25, s. 11(2), applicable to amounts paid after 1996. That part formerly read:

"(2) *Agreement.* For the purposes of paragraphs 60(*b*) and (*c*), the amount determined by the formula"

S. 60.1(2), the description of A, was amended by S.C. 1997, c. 25, s. 11(3), applicable to amounts paid after 1996. That part formerly read:

"A is the total of all amounts each of which is an amount (other than an amount to which paragraph 60(*b*) or (*c*) otherwise applies) paid by a taxpayer in a taxation year, under a decree, order or judgment of a competent tribunal or under a written agreement, in respect of an expense (other than an expenditure in respect of a self-contained domestic establishment in which the taxpayer resides or an expenditure for the acquisition of tangible property that is not an expenditure on account of a medical or education expense or in respect of the acquisition, improvement or maintenance of a self-contained domestic establishment in which the person described in paragraph (*a*) or (*b*) resides) incurred in the year or the preceding taxation year for maintenance of a person who is

(*a*) the taxpayer's spouse or former spouse, or

(*b*) where the amount is paid under an order made by a competent tribunal in accordance with the laws of a province, an individual of the opposite sex who is the natural parent of a child of the taxpayer,

or for the maintenance of children in the person's custody or both the person and those children if, at the time the expense was incurred and throughout the remainder of the year, the taxpayer was living separate and apart from that person, and"

S. 60.1(2), the portion after the description of B, was amended by S.C. 1997, c. 25, s. 11(4), applicable to amounts paid after 1996. That part formerly read:

"shall, where the decree, order, judgment or written agreement, as the case may be, provides that this subsection and subsection 56.1(2) shall apply to any payment made thereunder, be deemed to be an amount paid by the taxpayer and received by that person as an allowance payable on a periodic basis."

S. 60.1(2) was amended by S.C. 1994, c. 7, Sched. VIII, s. 22(1), applicable to amounts paid under a decree, order or judgment made by a competent tribunal after 1992 or under a written agreement entered into after 1992. S. 60.1(2) formerly read:

"(2) For the purposes of paragraphs 60(*b*), (*c*) and (*c.1*), the amount, if any, by which

(*a*) the total of all amounts each of which is an amount (other than an amount to which paragraph 60(*b*), (*c*) or (*c.1*) otherwise applies) paid by a taxpayer in a taxation year, pursuant to a decree, order or judgment of a competent tribunal or pursuant to a written agreement, in respect of an expense (other than an expenditure in respect of a self-contained domestic establishment in which the taxpayer resides or an expenditure for the acquisition of tangible property that is not an expenditure on account of a medical or educational expense or in respect of the acquisition, improvement or maintenance of a self-contained domestic establishment in which the person described in subparagraph (i) or (ii) resides) incurred in the year or the immediately preceding taxation year for maintenance of a person who is

(i) the taxpayer's spouse or former spouse, or

(ii) where the amount is paid pursuant to an order made by a competent tribunal after February 10, 1988 in accordance with the laws of a province, an individual of the opposite sex who

(A) before the date of the order cohabited with the taxpayer in a conjugal relationship, or

(B) is the natural parent of a child of the taxpayer,

or for the maintenance of children in the person's custody or both the person and those children if, at the time the expense was incurred and throughout the remainder of the year, the taxpayer was living apart from that person

exceeds

(*b*) the amount, if any, by which

(i) the total of all amounts each of which is an amount included in the total determined under paragraph (*a*) in respect of the acquisition or improvement of a self-contained domestic establishment in which that person resides, including any payment of principal or interest in respect of a loan made or indebtedness incurred to finance, in any manner whatever, the acquisition or improvement

exceeds

(ii) the total of all amounts each of which is an amount equal to 1/5 of the original principal amount of a loan or indebtedness described in subparagraph (i)

shall, where the decree, order, judgment or written agreement, as the case may be, provides that this subsection and subsection 56.1(2) shall apply to any payment made pursuant thereto, be deemed to be an amount paid by the taxpayer and received by that person as an allowance payable on a periodic basis."

Editorial Note: Although subsection 60.1(2) indicates that the court order or written agreement must provide that this subsection and subsection 56.1(2) apply, the courts and the CRA have stated that the inclusion of a clause in the order or agreement stating the parties understand that the third-party payments will be taxable to the recipient and deductible to the payer is sufficient in this regard; see, for example, paragraph 29 of IT-530R.

Related Sections: S. 56(12) Definition of "allowance"; s. 56.1(2) Agreement; s. 248(1), "amount", "property", "self-contained domestic establishment"; s. 252(1) Extended meaning of "child"; s. 252(3) Extended meaning of "spouse" and "former spouse".

Regulations: 6502; Part LXV.

Cases: A separation agreement stating that payments to third parties were to be "taxable as income" in the recipient's hands and "deducted as support" by the taxpayer was sufficient in order for s. 60.1(2) to apply. The separation agreement does not have to specify subsection numbers. *Ferron v. The Queen*, 2001 DTC 450 (T.C.C.).

When, instead of making maintenance payments of $700 per month for his wife and three children, the taxpayer provided his wife with monthly cheques of $690 made payable to her landlord, these amounts were deductible since they were limited and predetermined and they represented a certain type of expense which the taxpayer's wife was thereby enabled to discharge. *The Queen v. Arsenault*, 96 DTC 6131 (F.C.A.).

► 60.1(3) ◄

(3) Prior payments. For the purposes of this section and section 60, where a written agreement or order of a competent tribunal made at any time in a taxation year provides that an amount paid before that time and in the year or the preceding taxation year is to be considered to have been paid and received thereunder,

(*a*) the amount is deemed to have been paid thereunder; and

(*b*) the agreement or order is deemed, except for the purpose of this subsection, to have been made on the day on which the first such amount was paid, except that, where the agreement or order is made after April 1997 and varies a child support amount payable to the recipient from the last such amount paid to the recipient before May 1997, each varied amount of child support paid under the agreement or order is deemed to have been payable under an agreement or order the commencement day of which is the day on which the first payment of the varied amount is required to be made.

History: S. 60.1(3) was amended by S.C. 1997, c. 25, s. 11(5), applicable to amounts paid after 1996. S. 60.1(3) formerly read:

"(3) *Prior payments.* For the purposes of this section and section 60, where a decree, order or judgment of a competent tribunal or a written agreement made at any time in a taxation year provides that an amount paid before that time and in the year or the preceding taxation year is to be considered to have been paid and received thereunder, the amount shall be deemed to have been paid thereunder."

S. 60.1(3) was amended by S.C. 1994, c. 7, Sched. VIII, s. 22(1), applicable to amounts paid under a decree, order or judgment made by a competent tribunal after 1992 or under a written agreement entered into after 1992. S. 60.1(3) formerly read:

"(3) For the purposes of this section and section 60, where a decree, order or judgment of a competent tribunal or a written agreement made at any time in a taxation year provides that an amount paid before that time and in the year or the immediately preceding taxation year is to be considered as having been paid and received pursuant thereto, the following rules apply:

(*a*) the amount shall be deemed to have been paid pursuant thereto; and

(*b*) the person who made the payment shall be deemed to have been separated pursuant to a divorce, judicial separation or written separation agreement from the person's spouse or former spouse at the time the payment was made and throughout the remainder of the year."

Related Sections: S. 56.1(3) Prior payments; s. 56.1(4), "child support amount".

Cases: When the Minutes of Settlement signed by the taxpayer and his former spouse failed to provide that the taxpayer's prior payments of maintenance were to be considered as having been paid and received pursuant to them, their deduction was disallowed. *Chabros v. The Queen*, 95 DTC 5247 (F.C.A.).

► 60.1(4) ◄

(4) Definitions. The definitions in subsection 56.1(4) apply in this section and section 60.

History: S. 60.1(4) was added by S.C. 1997, c. 25, s. 11(6), applicable after 1996.

SECTION 60.11: Application of subpara. 60.1(1)(a)(ii).

In the application of subparagraph 60.1(1)(*a*)(ii) in respect of amounts paid pursuant to orders made after May 6, 1974 under the laws of Ontario, the reference in that subparagraph to "February 10, 1988" shall be read as a reference to "May 6, 1974".

History: S. 60.11 was not part of the former Act.

SECTION 60.2:

► 60.2(1) ◄

(1) Refund of undeducted past service AVCs. There may be deducted in computing a taxpayer's income for a taxation year an amount equal to the total of

(*a*) where the taxation year ends before 1991, the total of all amounts each of which is that portion of an amount paid to the taxpayer before 1991 and included by reason of subparagraph 56(1)(*a*)(i) or paragraph 56(1)(*h*) or (*t*) in computing the taxpayer's

income for the year or a preceding taxation year that can reasonably be considered to be a refund of additional voluntary contributions made by the taxpayer before October 9, 1986 to a registered pension plan for the taxpayer's benefit in respect of services rendered by the taxpayer before the year in which the contributions were made, to the extent that the contributions were not deducted in computing the taxpayer's income for any taxation year; and

(*b*) the least of

(i) $3,500,

(ii) the total of all amounts each of which is an amount included after 1986 by reason of subparagraph 56(1)(*a*)(i) or paragraph 56(1)(*d.2*), (*h*) or (*t*) in computing the taxpayer's income for the year, and

(iii) the balance of the annuitized voluntary contributions of the taxpayer at the end of the year.

Related Sections: S. 8(1)(*m*) Employee's registered pension plan contributions.

► 60.2(2) ◄

(2) Definition of "balance of the annuitized voluntary contributions". For the purposes of subsection (1), "balance of the annuitized voluntary contributions" of a taxpayer at the end of a taxation year means the amount, if any, by which

(*a*) such part of the total of all amounts each of which is an additional voluntary contribution made by the taxpayer to a registered pension plan before October 9, 1986 in respect of services rendered by the taxpayer before the year in which the contribution was made, to the extent that the contribution was not deducted in computing the taxpayer's income for any taxation year, as may reasonably be considered as having been

(i) used before October 9, 1986 to acquire or provide an annuity for the taxpayer's benefit under a registered pension plan or registered retirement savings plan, or

(ii) transferred before October 9, 1986 to a registered retirement income fund under which the taxpayer was the annuitant (within the meaning assigned by subsection 146.3(1)) at the time of the transfer

exceeds

(*b*) the total of all amounts each of which is

(i) an amount deducted under paragraph (1)(*b*) in computing the taxpayer's income for a preceding taxation year, or

(ii) an amount deducted under paragraph (1)(*a*) in computing the taxpayer's income for the year or a preceding taxation year, to the extent that the amount can reasonably be considered to be in respect of a refund of additional voluntary contributions included in determining the total under paragraph (*a*).

SECTION 61:

► 61(1) ◄

(1) Payment made as consideration for income-averaging annuity. In computing the income for a taxation year of an individual resident in Canada, there may be deducted an amount equal to the lesser of

(*a*) such amount as the individual may claim, not exceeding the total of amounts each of which is a single payment

(i) made by the individual in the year or within 60 days after the end of the year as consideration for an income-averaging annuity contract of the individual, and

(ii) in respect of which no amount has been deducted in computing the individual's income for the immediately preceding taxation year, and

(*b*) the amount, if any, by which the total of

(i) the remainder obtained when the total of the amounts deductible in computing the individual's income for the year by reason of paragraphs 60(*j*) and (*l*) of this Act and paragraph 60(*k*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, is deducted from the total of amounts described in subsection (2) in respect of the individual for the year,

(ii) the amount, if any, by which the amount determined under paragraph 3(*b*) in respect of the individual for the year exceeds the total of amounts each of which is an allowable business investment loss of the individual for the year,

(iii) the individual's income for the year from the production of a literary, dramatic, musical or artistic work,

(iv) the individual's income for the year from the individual's activities as an athlete, a musician or a public entertainer such as a theatre, motion picture, radio or television artist, and

(iv.1) the amount, if any, by which the amount included in computing the income of the individual for the year by virtue of section 59 exceeds the total of amounts deducted in computing the individual's income for the year under sections 64, 66, 66.1, 66.2 and 66.4 and under section 29 of the *Income Tax Application Rules*,

exceeds

(v) the total of amounts each of which is the annual annuity amount of the individual in respect of an income-averaging annuity contract in respect of the consideration for which any amount has been deducted under this subsection in computing the individual's income for the year.

Related Sections: S. 61(2) Income-averaging annuity — eligible income.

Regulations: Part II.

Interpretation Bulletins: *Secondary* — IT-500R Registered retirement savings plans — Death of an annuitant.

► 61(2) ◄

(2) Idem. For the purposes of subsection (1), an amount described in this subsection in respect of an individual for a taxation year is any following amount:

(*a*) any single payment received by the individual in the year

(i) out of or under a superannuation or pension fund or plan

(A) on the death, withdrawal or retirement from employment of an employee or former employee,

(B) on the winding-up of the fund or plan in full satisfaction of all rights of the payee in or under the fund or plan, or

(C) to which the payee is entitled by virtue of an amendment to the plan although the payee continues to be an employee to whom the plan is applicable,

(ii) on retirement as an employee in recognition of long service and not made out of or under a superannuation fund or plan,

(iii) pursuant to an employees profit sharing plan in full satisfaction of all the individual's rights in or under the plan, to the extent that the amount thereof is required to be included in computing the individual's income for the year in which the payment was received, or

(iv) pursuant to a deferred profit sharing plan on the death, withdrawal or retirement from employment of an employee or former employee, to the extent that the amount thereof is required to be included in computing the individual's income for the year;

(*b*) a payment or payments made by an employer to the individual as an employee or former employee on or after retirement in respect of loss of office or employment, if made in the year of retirement or within one year after that year;

(*c*) a payment or payments paid to the individual as a death benefit, if paid in the year of death or within one year after that year;

(*d*) any amount included in computing the individual's income for the year by virtue of subsection 146(8), to the extent that the amount is a refund of premiums, as defined by section 146, under a registered retirement savings plan received by the individual under the plan on or after the death of the person who was, immediately before the person's death, the annuitant thereunder;

(*e*) any amount included in computing the individual's income for the year by virtue of section 13, 14 or 23, subsection 28(4) or (5) or paragraph 106(2)(*a*) of this Act or subparagraph 56(1)(*a*)(viii) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952;

(*f*) any amount deemed by section 7 to be a benefit received by the individual in the year by virtue of the individual's employment;

(*g*) the amount, if any, by which any amount received by the individual in the year as or on account of a prize for achievement in a field of endeavour ordinarily carried on by the individual exceeds $500;

(*h*) any amount included in computing the individual's income for the year by virtue of subsection 146.2(6) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952;

(*i*) a payment made in the year to an individual by virtue of paragraph 51(2)(*b*) of the *Judges Act*;

(*j*) except where the individual claimed a deduction under paragraph 23(3)(*a*) of the *Income Tax Application Rules* in computing the individual's income for the year, any amount included in computing that income by virtue of paragraph 23(3)(*c*) of that Act; and

(*k*) where the individual ceased to be a member of a partnership in the year or the preceding year and paragraph 34(*a*) applied in computing the individual's income therefrom in the preceding year, the amount included in the individual's income for the year by virtue of paragraph 3(*a*) to the extent that, having regard to all the circumstances including the proportion in which the members of the partnership have agreed to share the profits of the partnership, it can reasonably be considered to be in respect of the individual's share of the work in progress of the partnership at the time the individual ceased to be a member thereof, if, during the remainder of the year in which the individual ceased to be a member and in the following year, the individual did not

(i) become employed in the business that had been carried on by the partnership,

(ii) carry on a business that is a profession, or

(iii) become a member of a partnership that carries on a business that is a profession.

► 61(3) ◄

(3) Where income-averaging annuity contract ceases to be such. [Repealed by 1976-77, c. 4, s. 18(2).]

► 61(4) ◄

(4) Definitions. In this section,

"*annual annuity amount*" — "annual annuity amount" of an individual in respect of an income-averaging annuity contract means the total of the equal payments described in paragraph (*c*) of the definition "income-averaging annuity contract" in this subsection that, under the contract, are receivable by the individual in the twelve month period commencing on the day that the first such payment under the contract becomes receivable by the individual;

"*income-averaging annuity contract*" — "income-averaging annuity contract" of an individual means a contract between the individual and a person licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada an annuities business or a corporation licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering to the public its services as trustee, under which

(*a*) in consideration of a qualifying payment as consideration under the contract, that person agrees to pay to the individual, commencing at a time not later than 10 months after the individual has made the qualifying payment,

(i) an annuity to the individual for the individual's life, with or without a guaranteed term not exceeding the number of years that is the lesser of

(A) 15, and

(B) 85 minus the age of the individual at the time the annuity payments commence, or

(ii) an annuity to the individual for a guaranteed term described in subparagraph (i), or

(*b*) in consideration of a single payment in respect of the individual's 1981 taxation year, other than a qualifying payment, made by the individual as consideration under the contract, that person makes all payments provided for under the contract to the individual before 1983

and under which no payments are provided except the single payment by the individual and,

(*c*) in respect of a contract referred to in paragraph (*a*), equal annuity payments that are to be made annually or at more frequent periodic intervals, or

(*d*) in respect of a contract referred to in paragraph (*b*), payments described therein to the individual;

Related Sections: S. 4(2) Deductions not attributable to a source; s. 56(1)(*e*) Disposition of income-averaging annuity contract; s. 144(1), "employees profit sharing plan"; s. 248(1), "amount", "annuity", "death benefit", "deferred profit sharing plan", "employee", "employment", "individual", "office"; s. 255 Canada.
Regulations: 208.

"qualifying payment" — "qualifying payment" means a single payment made before November 13, 1981 (or made on or after November 13, 1981 pursuant to an agreement in writing entered into before that date to make such a payment in respect of the individual's 1981 taxation year, or pursuant to an arrangement in writing made before that date to have funds withheld before 1982 from any of the individual's remuneration described in paragraph (1)(*b*) earned or received before November 13, 1981 and paid by or on behalf of the individual).

SECTION 61.1:

► 61.1(1) ◄

(1) Where income-averaging annuity contract ceases to be such. Where a contract that was at any time an income-averaging annuity contract of an individual has, at a subsequent time, ceased to be an income-averaging annuity contract otherwise than by virtue of the surrender, cancellation, redemption, sale or the disposition thereof, the individual shall be deemed to have received at that subsequent time as proceeds of the disposition of an income-averaging annuity contract an amount equal to the fair market value of the contract at that subsequent time and to have acquired the contract, as another contract not being an income-averaging annuity contract, immediately thereafter at a cost to the individual equal to that fair market value.

Related Sections: S. 56(1)(*f*) Deemed disposition of income-averaging annuity contract; s. 61 Payment made as consideration for income-averaging annuity; s. 212(1)(*n*) Income-averaging annuity contract payments.
Regulations: 202(2), (3).

► 61.1(2) ◄

(2) Where annuitant dies and payments continued. Where an individual who was an annuitant under an income-averaging annuity contract has died and payments are subsequently made under that contract, the payments shall be deemed to be payments under an income-averaging annuity contract.

Interpretation Bulletins: *Secondary* — IT-212R3 Income of deceased persons — Rights or things.

SECTION 61.2: Reserve for debt forgiveness for resident individuals.

There may be deducted in computing the income for a taxation year of an individual (other than a trust) resident in Canada throughout the year such amount as the individual claims not exceeding the amount determined by the formula

$$A + B - 0.2(C - \$40{,}000)$$

where

A is the amount, if any, by which

(*a*) the total of all amounts each of which is an amount that, because of the application of section 80 to an obligation payable by the individual (or a partnership of which the individual was a member) was included under subsection 80(13) in computing the income of the individual for the year or the income of the partnership for a fiscal period that ends in the year (to the extent that, where the amount was included in computing income of a partnership, it relates to the individual's share of that income)

exceeds

(*b*) the total of all amounts deducted because of paragraph 80(15)(*a*) in computing the individual's income for the year,

B is the amount, if any, included under section 56.2 in computing the individual's income for the year, and

C is the greater of $40,000 and the individual's income for the year, determined without reference to this section, paragraph 20(1)(*ww*), section 56.2, paragraph 60(*w*), subsection 80(13) and paragraph 80(15)(*a*).

History: S. 61.2, the description of C was amended by S.C. 2000, c. 19, s. 8(1), applicable to the 2000 and subsequent taxation years. S. 61.2, the description of C formerly read:

"C is the greater of $40,000 and the individual's income for the year, determined without reference to this section, section 56.2, paragraph 60(*w*), subsection 80(13) and paragraph 80(15)(*a*)."

S. 61.2 was added by S.C. 1995, c. 21, s. 20(1), applicable to taxation years that end after February 21, 1994.

Editorial Note: In any year, an individual (other than a trust) must include an "income hit" under the debt forgiveness rules only to the extent of 20% of other income for the year in excess of $40,000. This amount is included in income in the following year under section 56.2, and the reserve calculation is made again in the following year. While this reserve does not eliminate tax on an income hit, it defers tax until the individual has sufficient income. (Claiming a reserve allows the CRA to redesignate subsection 80(5) to (11) reductions to the maximum allowed, if not already done (subsection 80(16)). Reserves/offsets for other taxpayers are governed by sections 61.3 and 61.4.

Related Sections: S. 34.2(4) Reserve; s. 56.2 Reserve claimed for debt forgiveness; s. 61.2 Reserve for debt forgiveness for resident individuals; s. 61.4 Reserve for debt forgiveness for corporations and others; s. 80(13) Income inclusion; s. 80(15) Members of partnerships; s. 80(16) Designations by Minister; s. 257 Negative amounts.

SECTION 61.3:

► 61.3(1) ◄

(1) Deduction for insolvency with respect to resident corporations. There shall be deducted in computing the income for a taxation year of a corporation resident in Canada throughout the year that is not exempt from tax under this Part on its taxable income, the lesser of

(*a*) the amount, if any, by which

(i) the total of all amounts each of which is an amount that, because of the application of section 80 to a commercial obligation (in this section having the meaning assigned by subsection 80(1)) issued by the corporation (or a partnership of which the corporation was a member) was included under subsection 80(13) in computing the income of the corporation for the year or the income of the partnership for a fiscal period that ends in the year (to the extent that the amount, where it was included in computing income of a partnership, relates to the corporation's share of that income)

exceeds

(ii) the total of all amounts deducted because of paragraph 80(15)(*a*) in computing the corporation's income for the year, and

(*b*) the amount determined by the formula

$$A - 2(B - C - D - E)$$

where

A is the amount determined under paragraph (*a*) in respect of the corporation for the year,

B is the total of

(i) the fair market value of the assets of the corporation at the end of the year,

(ii) the amounts paid before the end of the year on account of the corporation's tax payable under this Part or any of Parts I.3, II, VI and XIV for the year or on account of a similar tax payable for the year under an Act of a province, and

(iii) all amounts paid by the corporation in the 12-month period preceding the end of the year to a person with whom the corporation does not deal at arm's length

(A) as a dividend (other than a stock dividend),

(B) on a reduction of paid-up capital in respect of any class of shares of its capital stock,

(C) on a redemption, acquisition or cancellation of its shares, or

(D) as a distribution or appropriation in any manner whatever to or for the benefit of the shareholders of any class of its capital stock, to the extent that the distribution or appropriation cannot reasonably be considered to have resulted in a reduction in the amount otherwise determined for C in respect of the corporation for the year,

C is the total liabilities of the corporation at the end of the year (determined without reference to the corporation's liabilities for tax payable under this Part or any of Parts I.3, II, VI and XIV for the year or for a similar tax payable for the year under an Act of a province) and, for this purpose,

(i) the equity and consolidation methods of accounting shall not be used, and

(ii) subject to subparagraph (i) and except as otherwise provided in this description, the total liabilities of the corporation shall

(A) where the corporation is not an insurance corporation or a bank to which clause (B) or (C) applies and the balance sheet as of the end of the year was presented to the shareholders of the corporation and was prepared in accordance with generally accepted accounting principles, be considered to be the total liabilities shown on that balance sheet,

(B) where the corporation is a bank or an insurance corporation that is required to report to the Superintendent of Financial Institutions and the balance sheet as of the end of the year was accepted by the Superintendent, be considered to be the total liabilities shown on that balance sheet,

(C) where the corporation is an insurance corporation that is required to report to the superintendent of insurance or other similar officer or authority of the province under whose laws the corporation is incorporated and the balance sheet as of the end of the year was accepted by that officer or authority, be considered to be the total liabilities shown on that balance sheet, and

(D) in any other case, be considered to be the amount that would be shown as total liabilities of the corporation at the end of the year on a balance sheet prepared in accordance with generally accepted accounting principles,

D is the total of all amounts each of which is the principal amount at the end of the year of a distress preferred share (within the meaning assigned by subsection 80(1)) issued by the corporation, and

E is 50% of the amount, if any, by which

(i) the amount that would be the corporation's income for the year if that amount were determined without reference to this section and section 61.4

exceeds

(ii) the amount determined under paragraph (*a*) in respect of the corporation for the year.

History: S. 61.3(1)(*b*), the description of E, was amended by S.C. 1998, c. 19, s. 101(1), applicable to taxation years that end after February 21, 1994. S. 61.3(1)(*b*), the description of E, formerly read:

"E is 50% of the amount, if any, by which the amount that would be the corporation's income for the year if that amount were determined without reference to this section, section 61.4 and subsection 80(17) exceeds the amount determined under paragraph (*a*) in respect of the corporation for the year."

S. 61.3(1) was added by S.C. 1995, c. 21, s. 20(1), applicable to taxation years that end after February 21, 1994.

Editorial Note: This provision allows a corporation resident in Canada throughout the year to claim a permanent offset (i.e., not a reserve) of an "income hit" under the debt forgiveness rules (per paragraph (*a*)), except to the extent of twice the corporation's "net tax assets" (paragraph (*b*)), so that in the absence of such assets, a complete offset is available, even if there is only a small "tax deficit". (The provision's rationale is that an income hit should not "financially aggravate" an insolvent corporation). "Net tax assets" are based on year-end assets at fair market value (subparagraph (i) of the description of B), most income taxes paid by year end (subparagraph (ii) of the description of B), non-arm's length distributions/appropriations within 12 months of year-end (subparagraph (iii) of the description of B); less year-end liabilities/distress preferred shares (the descriptions of C and D) and 50% of

income (ignoring the income hit and related provisions) (the description of E). A section 61.3 deduction reduces undeducted SR&ED expenditures (paragraph 37(1)(*f.1*)) and allows the CRA to redesignate subsection 80(5) to (11) reductions to the maximum allowed, if not already done (subsection 80(16)). A similar offset is available for non-resident corporations, per subsection 61.3(2), both provisions being subject to an anti-avoidance rule in subsection 61.3(3) (see editorial note).

Related Sections: S. 37(1)(*f.1*) Scientific research and experimental development; s. 56.3 Reserve claimed for debt forgiveness; s. 61.3(2) Reserve for insolvency with respect to non-resident corporations; s. 61.3(3) Anti-avoidance; s. 61.4 Reserve for debt forgiveness for corporations and others; s. 80(13) Income inclusion; s. 80(15) Members of partnerships; s. 80(16) Designations by Minister; s. 80.01(10) Subsequent payments in satisfaction of debt; s. 80.04(4) Agreement respecting transfer of forgiven amount; s. 87(2)(*l.21*) Forgiven amount; s. 160.4(1) Liability in respect of transfers by insolvent corporations; s. 257 Negative amounts.

► 61.3(2) ◄

(2) Reserve for insolvency with respect to non-resident corporations. There shall be deducted in computing the income for a taxation year of a corporation that is non-resident at any time in the year, the lesser of

(*a*) the amount, if any, by which

(i) the total of all amounts each of which is an amount that, because of the application of section 80 to a commercial obligation issued by the corporation (or a partnership of which the corporation was a member) was included under subsection 80(13) in computing the corporation's taxable income or taxable income earned in Canada for the year or the income of the partnership for a fiscal period that ends in the year (to the extent that, where the amount was included in computing income of a partnership, it relates to the corporation's share of the partnership's income added in computing the corporation's taxable income or taxable income earned in Canada for the year)

exceeds

(ii) the total of all amounts deducted because of paragraph 80(15)(*a*) in computing the corporation's taxable income or taxable income earned in Canada for the year, and

(*b*) the amount determined by the formula

$$A - 2(B - C - D - E)$$

where

A is the amount determined under paragraph (*a*) in respect of the corporation for the year,

B is the total of

(i) the fair market value of the assets of the corporation at the end of the year,

(ii) the amounts paid before the end of the year on account of the corporation's tax payable under this Part or any of Parts I.3, II, VI and XIV for the year or on account of a similar tax payable for the year under an Act of a province, and

(iii) all amounts paid in the 12-month period preceding the end of the year by the corporation to a person with whom the corporation does not deal at arm's length

(A) as a dividend (other than a stock dividend),

(B) on a reduction of paid-up capital in respect of any class of shares of its capital stock,

(C) on a redemption, acquisition or cancellation of its shares, or

(D) as a distribution or appropriation in any manner whatever to or for the benefit of the shareholders of any class of its capital stock, to the extent that the distribution or appropriation cannot reasonably be considered to have resulted in a reduction of the amount otherwise determined for C in respect of the corporation for the year,

C is the total liabilities of the corporation at the end of the year (determined without reference to the corporation's liabilities for tax payable under this Part or any of Parts I.3, II, VI and XIV for the year or for a similar tax payable for the year under an Act of a province), determined in the manner described in the description of C in paragraph (1)(*b*),

D is the total of all amounts each of which is the principal amount at the end of the year of a distress preferred share (within the meaning assigned by subsection 80(1)) issued by the corporation, and

E is 50% of the amount, if any, by which

(i) the amount that would be the corporation's taxable income or taxable income earned in Canada for the year if that amount were determined without reference to this section and section 61.4

exceeds

(ii) the amount determined under paragraph (*a*) in respect of the corporation for the year.

History: S. 61.3(2)(*b*), the description of E, was amended by S.C. 1998, c. 19, s. 101(2), applicable to taxation years that end after February 21, 1994. S. 61.3(2)(*b*), the description of E, formerly read:

"E is 50% of the amount, if any, by which the amount that would be the corporation's taxable income or taxable income earned in Canada for the year if that amount were determined without reference to this section, section 61.4 and subsection 80(17) exceeds the amount determined under paragraph (*a*) in respect of the corporation for the year."

S. 61.3(2) was added by S.C. 1995, c. 21, s. 20(1), applicable to taxation years that end after February 21, 1994.

Editorial Note: See the editorial note to subsection 61.3(1).

Related Sections: S. 37(1)(*f.1*) Scientific research and experimental development; s. 56.3 Reserve claimed for debt forgiveness; s. 61.3(2) Reserve for insolvency with respect to non-resident corporations; s. 61.3(3) Anti-avoidance; s. 61.4 Reserve for debt forgiveness for corporations and others; s. 80(13) Income inclusion; s. 80(15) Members of partnerships; s. 80(16) Designations by Minister; s. 80.01(10) Subsequent payments in satisfaction of debt; s. 80.04(4) Agreement respecting transfer of forgiven amount; s. 87(2)(*l.21*) Forgiven amount; s. 160.4(1) Liability in respect of transfers by insolvent corporations; s. 257 Negative amounts.

► 61.3(3) ◄

(3) Anti-avoidance. Subsections (1) and (2) do not apply to a corporation for a taxation year where property was transferred in the 12-month period preceding the end of the year or the corporation became indebted in that period and it can reasonably be considered that one of the reasons for the transfer or the indebtedness was to increase the amount that the corporation would, but for this subsection, be entitled to deduct under subsection (1) or (2).

History: S. 61.3(3) was added by S.C. 1995, c. 21, s. 20(1), applicable to taxation years that end after February 21, 1994.

Editorial Note: This provision nullifies the subsections 61.3(1) and (2) offsets (in their entirety), where property was transferred or the corporation became indebted within 12 months preceding year-end, if one of the main reasons for the foregoing is to increase the offsets.

SECTION 61.4: Reserve for debt forgiveness for corporations and others.

There may be deducted as a reserve in computing the income for a taxation year of a taxpayer that is a corporation or trust resident in Canada throughout the year or a non-resident person who carried on business through a fixed place of business in Canada at the end of the year such amount as the taxpayer claims not exceeding the least of

(*a*) the amount determined by the formula

A – B

where

A is the amount, if any, by which

(i) the total of all amounts each of which is an amount that, because of the application of section 80 to a commercial obligation (within the meaning assigned by subsection 80(1)) issued by the taxpayer (or a partnership of which the taxpayer was a member) was included under subsection 80(13) in computing the income of the taxpayer for the year or a preceding taxation year or of the partnership for a fiscal period that ends in that year or preceding year (to the extent that, where the amount was included in computing income of a partnership, it relates to the taxpayer's share of that income)

exceeds the total of

(ii) all amounts each of which is an amount deducted under paragraph 80(15)(*a*) in computing the taxpayer's income for the year or a preceding taxation year, and

(iii) all amounts deducted under section 61.3 in computing the taxpayer's income for the year or a preceding taxation year, and

B is the amount, if any, by which the amount determined for A in respect of the taxpayer for the year exceeds the total of

(i) the amount that would be determined for A in respect of the taxpayer for the year if that value did not take into account amounts included or deducted in computing the taxpayer's income for any preceding taxation year, and

(ii) the amount, if any, included under section 56.3 in computing the taxpayer's income for the year,

(*b*) the total of

(i) 4/5 of the amount that would be determined for A in paragraph (*a*) in respect of the taxpayer for the year if that value did not take into account amounts included or deducted in computing the taxpayer's income for any preceding taxation year,

(ii) 3/5 of the amount that would be determined for A in paragraph (*a*) in respect of the taxpayer for the year if that value did not take into account amounts included or deducted in computing the taxpayer's income for the year or any preceding taxation year (other than the last preceding taxation year),

(iii) 2/5 of the amount that would be determined for A in paragraph (*a*) in respect of the taxpayer for the year if that value did not take into account amounts included or deducted in computing the taxpayer's income for the year or any preceding taxation year (other than the second last preceding taxation year), and

(iv) 1/5 of the amount that would be determined for A in paragraph (*a*) in respect of the taxpayer for the year if that value did not take into account amounts included or deducted in computing the taxpayer's income for the year or any preceding taxation year (other than the third last preceding taxation year), and

(*c*) where the taxpayer is a corporation that commences to wind up in the year (otherwise than in circumstances to which the rules in subsection 88(1) apply), nil.

History: S. 61.4 was added by S.C. 1995, c. 21, s. 20(1), applicable to taxation years that end after February 21, 1994.

Editorial Note: This provision (as well as section 56.3) allows a qualifying person to spread an "income hit" under the debt forgiveness rules over 5 years, so that at least 20% of the amount is included each year. It applies to a corporation or trust resident in Canada throughout the year, or a non-resident person who carried on business through a fixed place of business in Canada at the end of the year, but does not apply where a corporation has commenced a wind-up other than on a rollover basis (see paragraph (*c*)).

Related Sections: S. 34.2(4) Reserve; s. 56.3 Reserve claimed for debt forgiveness; s. 61.2 Reserve for debt forgiveness for resident individuals; s. 61.3 Deduction for insolvency with respect to resident corporations; s. 80(13) Income inclusion; s. 80(15) Members of partnerships; s. 80.04(4) Agreement respecting transfer of forgiven amount; s. 87(2)(*h.1*) Debts; s. 257 Negative amounts.

SECTION 62:

► 62(1) ◄

(1) Moving expenses. There may be deducted in computing a taxpayer's income for a taxation year amounts paid by the taxpayer as or on account of moving expenses incurred in respect of an eligible relocation, to the extent that

(*a*) they were not paid on the taxpayer's behalf in respect of, in the course of or because of, the taxpayer's office or employment;

(*b*) they were not deductible because of this section in computing the taxpayer's income for the preceding taxation year;

(*c*) the total of those amounts does not exceed

(i) in any case described in subparagraph (*a*)(i) of the definition "eligible relocation" in subsection 248(1), the total of all amounts, each of which is an amount included in computing the taxpayer's income for the taxation year from the taxpayer's employment at a new work location or from carrying on the business at the new work location, or because of subparagraph 56(1)(*r*)(v) in respect of the taxpayer's employment at the new work location, and

(ii) in any case described in subparagraph (*a*)(ii) of the definition "eligible relocation" in subsection 248(1), the total of amounts included in computing the taxpayer's income for the year because of paragraphs 56(1)(*n*) and (*o*); and

(*d*) all reimbursements and allowances received by the taxpayer in respect of those expenses are included in computing the taxpayer's income.

History: S. 62(1)(*c*)(i) was replaced by S.C. 2009, c. 2, s. 16(1), applicable to the 2008 and subsequent taxation years. S. 62(1)(*c*)(i) formerly read:

"(i) in any case described in subparagraph (*a*)(i) of the definition 'eligible relocation' in subsection 248(1), the taxpayer's income for the year from the taxpayer's employment at a new work location or from carrying on the business at the new work location, as the case may be, and"

S. 62(1) was amended by S.C. 1999, c. 22, s. 17(1), applicable after 1997. S. 62(1) formerly read:

"S. 62. *Moving expenses.*

(1) Where a taxpayer has, at any time, commenced

(*a*) to carry on a business or to be employed at a location in Canada (in this subsection referred to as 'the new work location'), or

(*b*) to be a student in full-time attendance at an educational institution (in this subsection referred to as 'the new work location') that is a university, college or other educational institution providing courses at a post-secondary school level,

and by reason thereof has moved from the residence in Canada at which, before the move, the taxpayer ordinarily resided (in this section referred to as 'the old residence') to a residence in Canada at which, after the move, the taxpayer ordinarily resided (in this section referred to as 'the new residence'), so that the distance between the old residence and the new work location is not less than 40 kilometres greater than the distance between the new residence and the new work location, in computing the taxpayer's income for the taxation year in which the taxpayer moved from the old residence to the new residence or for the immediately following taxation year, there may be deducted amounts paid by the taxpayer as or on account of moving expenses incurred in the course of moving from the old residence to the new residence, to the extent that

(*c*) they were not paid on the taxpayer's behalf by the taxpayer's employer,

(*d*) they were not deductible by virtue of this section in computing the taxpayer's income for the preceding taxation year,

(*e*) they would not, but for this section, be deductible in computing the taxpayer's income,

(*f*) the total of those amounts does not exceed

(i) in any case described in paragraph (*a*), the taxpayer's income for the year from the taxpayer's employment at the new work location or from carrying on the new business at the new work location, as the case may be, or

(ii) in any case described in paragraph (*b*), the total of amounts required to be included in computing the taxpayer's income for the year by virtue of paragraphs 56(1)(*n*) and (*o*), and

(*g*) any reimbursement or allowance received by the taxpayer in respect of those expenses is included in computing the taxpayer's income."

Editorial Note: If the taxpayer is resident in Canada for income tax purposes, the relocation can be inside or outside of Canada; see the postamble to the definition of "eligible relocation" in subsection 248(1).

Related Sections: S. 6(19) Benefit re housing loss; s. 6(20) Benefit re eligible housing loss; s. 6(21) Housing loss; s. 62(2) Moving expenses of students; s. 63.1 Application to deemed residents; s. 64.1 Individuals absent from Canada; s. 80.4(1.1) Loan or debt from office or employment; s. 110(1)(*j*) Home relocation loan; s. 115(2)(*f*) Non-resident's taxable income in Canada; s. 248(28) Limitation respecting inclusions, deductions and tax credits.

Interpretation Bulletins: *Primary*— IT-178R3 (Consolid.) Moving expenses. *Secondary*— IT-518R Food, beverages and entertainment expenses.

Income Tax Technical News: Issue No. 6, Moving expenses.

Forms: T1-M.

Canadian Tax Foundation: Arnold and Li, "The Appropriate Tax Treatment of the Reimbursement of Moving Expenses", *1996 Canadian Tax Journal*, No. 1, 1.

Cases: The taxpayer's employer relocated from Nanaimo, B.C. to Courtenay, B.C. in 1996. After commuting to work for seven years, the taxpayer moved to Courtenay in 2003. His moving expenses were deductible since there are no time restrictions in s. 62. *Beaudoin v. The Queen*, 2005 DTC 282 (T.C.C.).

The 40-kilometre distance referred to in s. 62(1) must be measured using the "shortest normal route". *Giannakopoulos v. M.N.R.*, 95 DTC 5447 (F.C.A.).

On moving from Ottawa to Vancouver, the taxpayer acquired a new home which was inferior to his former home but cost more. He attempted to include a deduction for the mortgage interest attributable to the difference in selling prices of the home as a moving expense, together with the cost of land registration, installation of a dishwasher and new locks. These expenses were extra costs incurred in replacing an asset, the old residence, not moving expenses. *Storrow v. The Queen*, 78 DTC 6551 (F.C.T.D.).

► 62(2) ◄

(2) Moving expenses of students. There may be deducted in computing a taxpayer's income for a taxation year the amount, if any, that the taxpayer would be entitled to deduct under subsection (1) if the definition "eligible relocation" in subsection 248(1) were read without reference to subparagraph (*a*)(i) of that definition and if the word "both" in paragraph (*b*) of that definition were read as "either or both".

History: S. 62(2) was amended by S.C. 1999, c. 22, s. 17(1), applicable after 1997. S. 62(2) formerly read:

"(2) *Application of s. (1) to certain students.* Where a taxpayer would, if subsection (1) were read without reference to paragraph (*a*) thereof and

(*a*) if the reference therein to 'moved from the residence in Canada at which' were read as a reference to 'moved from the residence at which', or

(*b*) if the reference therein to 'to a residence in Canada at which' were read as a reference to 'to a residence at which',

be entitled to deduct an amount by virtue of that subsection in computing the taxpayer's income for a taxation year, that amount may be deducted in computing the taxpayer's income for the year."

► 62(3) ◄

(3) Definition of "moving expenses". In subsection (1), "moving expenses" includes any expense incurred as or on account of

(*a*) travel costs (including a reasonable amount expended for meals and lodging), in the course of moving the taxpayer and members of the taxpayer's household from the old residence to the new residence,

(*b*) the cost to the taxpayer of transporting or storing household effects in the course of moving from the old residence to the new residence,

(*c*) the cost to the taxpayer of meals and lodging near the old residence or the new residence for the taxpayer and members of the taxpayer's household for a period not exceeding 15 days,

(*d*) the cost to the taxpayer of cancelling the lease by virtue of which the taxpayer was the lessee of the old residence,

(*e*) the taxpayer's selling costs in respect of the sale of the old residence,

(*f*) where the old residence is sold by the taxpayer or the taxpayer's spouse or common-law partner as a result of the move, the cost to the taxpayer of legal services in respect of the purchase of the new residence and of any tax, fee or duty (other than any goods and services tax or value-added tax) imposed on the transfer or registration of title to the new residence, and

(*g*) interest, property taxes, insurance premiums and the cost of heating and utilities in respect of the old residence, to the extent of the lesser of $5,000 and the total of such expenses of the taxpayer for the period

(i) throughout which the old residence is neither ordinarily occupied by the taxpayer or by any other person who ordinarily resided with the taxpayer at the old residence immediately before the move nor rented by the taxpayer to any other person, and

(ii) in which reasonable efforts are made to sell the old residence, and

(*h*) the cost of revising legal documents to reflect the address of the taxpayer's new residence, of replacing drivers' licenses and non-commercial vehicle permits (excluding any cost for vehicle insurance) and of connecting or disconnecting utilities,

but, for greater certainty, does not include costs (other than costs referred to in paragraph (*f*)) incurred by the taxpayer in respect of the acquisition of the new residence.

History: S. 62(3)(*f*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(n), applicable January 1, 2001, coming into force on July 31, 2000. S. 62(3)(*f*) formerly read:

"(*f*) where the old residence is sold by the taxpayer or the taxpayer's spouse as a result of the move, the cost to the taxpayer of legal services in respect of the purchase of the new residence and of any tax, fee or duty (other than any goods and services tax or value-added tax) imposed on the transfer or registration of title to the new residence, and"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 62(3)(*g*) and (*h*) were added by S.C. 1999, c. 22, s. 17(2), applicable to expenses incurred after 1997.

S. 62(3)(*f*) was amended by S.C. 1998, c. 19, s. 102(1), applicable to costs incurred after 1990. S. 62(3)(*f*) formerly read:

"(*f*) where the old residence is being or has been sold by the taxpayer or the taxpayer's spouse as a result of the move, the cost to the taxpayer of legal services in respect of the purchase of the new residence and of any taxes imposed on the transfer or registration of title to the new residence,"

Editorial Note: The CRA allows a "simplified method" of determining meal and vehicle expenses incurred in the course of moving, for which supporting receipts are not required. Under this method, a flat rate applies per qualifying meal and per kilometre driven in the course of moving. The current flat rates are found on the CRA website at http://www.cra-arc.gc.ca/travelcosts/.

Related Sections: S. 56(1)(*n*) Scholarships, bursaries, etc; s. 56(1)(*o*) Research grants; s. 115(2) Non-resident's taxable income in Canada; s. 248(1), "amount", "business", "employed", "employer", "employment"; s. 255 Canada.

Cases: Although they constituted an expense connected with moving, mortgage interest payments pending the sale of the taxpayer's old residence were not specifically included in the definition of "moving expenses" and, hence, were not deductible. *A. G. of Canada v. Séguin,* 97 DTC 5457 (F.C.A.), reversing 97 DTC 3255 (T.C.C.).

SECTION 63:

► 63(1) ◄

(1) Child care expenses. Subject to subsection (2), where a prescribed form containing prescribed information is filed with a taxpayer's return of income (other than a return filed under subsection 70(2) or 104(23), paragraph 128(2)(*e*) or subsection 150(4)) under this Part for a taxation year, there may be deducted in computing the taxpayer's income for the year such amount as the taxpayer claims not exceeding the total of all amounts each of which is an amount paid, as or on account of child care expenses incurred for services rendered in the year in respect of an eligible child of the taxpayer,

(*a*) by the taxpayer, where the taxpayer is described in subsection (2) and the supporting person of the child for the year is a person described in clause (i)(D) of the description of C in the formula in that subsection, or

(*b*) by the taxpayer or a supporting person of the child for the year, in any other case,

to the extent that

(*c*) the amount is not included in computing the amount deductible under this subsection by an individual (other than the taxpayer), and

(*d*) the amount is not an amount (other than an amount that is included in computing a taxpayer's income and that is not deductible in computing the taxpayer's taxable income) in respect of which any taxpayer is or was entitled to a reimbursement or any other form of assistance,

and the payment of which is proven by filing with the Minister one or more receipts each of which was issued by the payee and contains, where the payee is an individual, that individual's Social Insurance Number, but not exceeding the amount, if any, by which

(*e*) the lesser of

(i) ⅔ of the taxpayer's earned income for the year, and

(ii) the total of all amounts each of which is the annual child care expense amount in respect of an eligible child of the taxpayer for the year

exceeds

(*f*) the total of all amounts each of which is an amount that is deducted, in respect of the taxpayer's eligible children for the year, under this section in computing the income for the year of an individual (other than the taxpayer) to whom subsection (2) applies for the year.

History: S. 63(1)(*a*) was amended by S.C. 2001, c. 17, s. 42(1), applicable to the 1998 and subsequent taxation years. S. 63(1)(*a*) formerly read:

"(*a*) by the taxpayer, where the taxpayer is a taxpayer described in subsection (2) and the supporting person of the child for the year is a person described in subparagraph (2)(*b*)(vi), or"

S. 63(1)(*e*)(ii) was amended by S.C. 2001, c. 17, s. 42(2), applicable to the 2000 and subsequent taxation years. S. 63(1)(*e*)(ii) formerly read:

"(ii) the total of

(A) the product obtained when $7,000 is multiplied by the number of eligible children of the taxpayer for the year each of whom

(I) is under 7 years of age at the end of the year, or

(II) is a person in respect of whom an amount may be deducted under section 118.3 in computing a taxpayer's tax payable under this Part for the year, and

(B) the product obtained when $4,000 is multiplied by the number of eligible children of the taxpayer for the year (other than children referred to in clause (A))"

S. 63(1)(*e*)(ii)(A), the portion before subclause (I), was amended by S.C. 1999, c. 22, s. 18(1), applicable to the 1998 and subsequent taxation years. S. 63(1)(*e*)(ii)(A), the portion before subclause (I), formerly read:

"(A) the product obtained when $5,000 is multiplied by the number of eligible children of the taxpayer for the year each of whom"

S. 63(1)(*e*)(ii)(B) was amended by S.C. 1999, c. 22, s. 18(2), applicable to the 1998 and subsequent taxation years. S. 63(1)(*e*)(ii)(B) formerly read:

"(B) the product obtained when $3,000 is multiplied by the number of eligible children of the taxpayer for the year (other than those referred to in clause (A))"

S. 63(1)(*f*) was amended by S.C. 1997, c. 25, s. 12(1), applicable to the 1996 and subsequent taxation years. S. 63(1)(*f*) formerly read:

"(*f*) the total of all amounts each of which is an amount deducted, in respect of the eligible children of the taxpayer that are referred to in subparagraph (*e*)(ii), under this subsection for the year by an individual (other than the taxpayer) to whom subsection (2) is applicable for the year."

S. 63(1), the portion before paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 23(1), applicable to the 1992 and subsequent taxation years. The portion formerly read:

"(1) Subject to subsection (2), where a taxpayer who has an eligible child for a taxation year files with the taxpayer's return of income (other than a return of income filed under subsection 70(2) or 104(23), paragraph 128(2)(*e*) or subsection 150(4)) under this Part for the year a prescribed form containing prescribed information, there may be deducted in computing the income of the taxpayer for the year the total of all amounts each of which is an amount paid in the year as or on account of child care expenses in respect of an eligible child of the taxpayer for the year"

S. 63(1)(*e*)(ii)(A), the portion before subclause (I), was amended by S.C. 1994, c. 7, Sched. VIII, s. 23(2), applicable to the 1993 and subsequent taxation years. The portion formerly read:

"(A) the product obtained when $4,000 is multiplied by the number of eligible children of the taxpayer for the year each of whom"

S. 63(1)(*e*)(ii)(B) was amended by S.C. 1994, c. 7, Sched. VIII, s. 23(3), applicable to the 1993 and subsequent taxation years. S. 63(1)(*e*)(ii)(B) formerly read:

"(B) the product obtained when $2,000 is multiplied by the number of eligible children of the taxpayer for the year (other than those referred to in clause (A))"

S. 63(1)(*e*)(ii)(A)(II) was amended by S.C. 1994, c. 7, Sched. II, s. 36(1), applicable to the 1991 and subsequent taxation years. S. 63(1)(*e*)(ii)(A)(II) formerly read:

"(II) has a severe and prolonged mental or physical impairment that has been certified as such in prescribed form by a medical doctor or, where the impairment is an impairment of sight, by a medical

doctor or an optometrist, where a copy of the certificate has been filed with the Minister, and"

Editorial Note: Generally, in the case of two parents or spouses or common-law partners residing together, the deduction must be claimed by the lower-income-earning person. There are exceptions in subsection 63(2) which allow the higher-income-earning person to claim the deduction under certain circumstances (for example, where the other person is attending school, or is incapable of caring for the children because of infirmity). The general limits on the deduction are $10,000 per year per disabled child, $7,000 per year per child under 7 years old, and $4,000 per year for any other child under 16 years old during the year. There are additional limitations on weekly expenses incurred for boarding school or camp (deductions limited to 1/40th of the above amounts per week).

Related Sections: S. 63(2.2) Expenses while at school; s. 63(3) Definitions; s. 63.1 Application to deemed residents; s. 118.4 Reference to medical practitioners, etc.; s. 248(1), "amount", "individual"; s. 252 Extended meaning of "child".

Interpretation Bulletins: *Primary*— IT-495R3 Child care expenses. *Secondary*— IT-518R Food, beverages and entertainment expenses.

Information Circulars: IC 82-2R2 Social insurance number legislation that relates to the preparation of information slips.

Forms: T778.

Canadian Tax Foundation: Gordon, "Child-Care Expense Deduction", *1999 Canadian Tax Journal*, No 6, 1588.

Cases: Since baby-sitting expenses incurred during periods of orientation while a taxpayer may not actually be physically present at the work place are within the "object and spirit" of s. 63, the taxpayer could deduct the cost of a baby-sitter for the seven-day period immediately preceding her return to work. *McCluskie v. The Queen*, 94 DTC 1735 (T.C.C.).

A nanny's salary was not deductible as a business expense but was only deductible as a parental expense within the meaning of s. 63. *Symes v. The Queen et al.*, 94 DTC 6001 (S.C.C.).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of clause (i)(B) of the description of C in paragraph 63(2)(*b*) of the Act before subclause (I) is replaced by the following:

(B) a person certified in writing by a medical doctor to be a person who

Applicable: To certifications made after December 20, 2002.

Explanatory Note: Section 63 of the Act provides rules concerning the deductibility of child care expenses in computing an individual's income. When more than one taxpayer contributes to the support of an eligible child, the child care expense deduction must generally be claimed by the taxpayer with the lower income for the year. One of the exceptions to this rule is where a medical doctor certifies that the lower-income supporting individual is incapable of caring for children because of that individual's mental or physical infirmity. This amendment clarifies that such a certification has to be in writing.

This amendment applies to certifications made after December 20, 2002.

► 63(2) ◄

(2) Income exceeding income of supporting person. Where the income for a taxation year of a taxpayer who has an eligible child for the year exceeds the income for that year of a supporting person of that child (on the assumption that both incomes are computed without reference to this section and paragraphs 60(*v*.1) and (*w*)), the amount that may be deducted by the taxpayer under subsection (1) for the year as or on account of child care expenses shall not exceed the lesser of

(*a*) the amount that would, but for this subsection, be deductible by the taxpayer for the year under subsection (1), and

(*b*) the amount determined by the formula

$$A \times C$$

where

A is the total of all amounts each of which is the periodic child care expense amount in respect of an eligible child of the taxpayer for the year, and

C is the total of

(i) the number of weeks in the year during which the child care expenses were incurred and throughout which the supporting person was

(A) a student in attendance at a designated educational institution or a secondary school and enrolled in a program of the institution or school of not less than 3 consecutive weeks duration that provides that each student in the program spend not less than 10 hours per week on courses or work in the program,

(B) a person certified by a medical doctor to be a person who

(I) was incapable of caring for children because of the person's mental or physical infirmity and confinement throughout a period of not less than 2 weeks in the year to bed, to a wheelchair or as a patient in a hospital, an asylum or other similar institution, or

(II) was in the year, and is likely to be for a long, continuous and indefinite period, incapable of caring for children, because of the person's mental or physical infirmity,

(C) a person confined to a prison or similar institution throughout a period of not less than 2 weeks in the year, or

(D) a person who, because of a breakdown of the person's marriage or common-law partnership, was living separate and apart from the taxpayer at the end of the year and for a period of at least 90 days that began in the year, and

(ii) the number of months in the year (other than a month that includes all or part of a week included in the number of weeks referred to in subparagraph (i)), each of which is a month during which the child care expenses were incurred and the supporting person was a student in attendance at a designated educational institution or a secondary school and enrolled in a program of the institution or school that is not less than 3 consecutive weeks duration and that provides that each student in the program spend not less than 12 hours in the month on courses in the program.

History: S. 63(2), the formula in paragraph (*b*) was amended by S.C. 2001, c. 17, s. 42(3), applicable to the 2000 and subsequent taxation years. S. 63(2), the formula in paragraph (*b*) formerly read:

"(A + B) × C"

S. 63(2), the description of A was amended, and the description of B was repealed, by S.C. 2001, c. 17, s. 42(4), applicable to the 2000 and subsequent taxation years. S. 63(2), the descriptions of A and B formerly read:

"A is the product obtained when $175 is multiplied by the number of eligible children of the taxpayer for the year each of whom

(i) is under 7 years of age at the end of the year, or

(ii) is a person in respect of whom an amount may be deducted under section 118.3 in computing a taxpayer's tax payable under this Part for the year,

B is the product obtained when $100 is multiplied by the number of the taxpayer's eligible children for the year (other than children referred to in the description of A), and"

S. 63(2)(*b*), clause (i)(D) of the description of C was amended by S.C. 2000, c. 12, Sched. 2, s. 9(d), applicable January 1, 2001, coming into force on July 31, 2000. S. 63(2)(*b*), clause (i)(D) of the description of C formerly read:

"(D) a person who, because of a breakdown of the person's marriage, was living separate and apart from the taxpayer at the end of the year and for a period of at least 90 days that began in the year, and"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 63(2)(*b*) was amended by S.C. 1999, c. 22, s. 18(3), applicable to the 1998 and subsequent taxation years. S. 63(2)(*b*) formerly read:

"(*b*) the product obtained when the total of

(i) the product obtained when $150 is multiplied by the number of eligible children of the taxpayer for the year each of whom

(A) is under 7 years of age at the end of the year, or

(B) is a person in respect of whom an amount may be deducted under section 118.3 in computing a taxpayer's tax payable under this Part for the year, and

(ii) the product obtained when $90 is multiplied by the number of eligible children of the taxpayer for the year (other than those referred to in subparagraph (i))

is multiplied by the number of weeks in the year during which the child care expenses were incurred and throughout which the supporting person was

(iii) a student in attendance at a designated educational institution (as defined in subsection 118.6(1)) or a secondary school and enrolled in a program of the institution or school of not less than 3 consecutive weeks duration that provides that each student in the program spend not less than 10 hours per week on courses or work in the program,

(iv) a person certified by a medical doctor to be a person who

(A) by reason of mental or physical infirmity and confinement throughout a period of not less than 2 weeks in the year to bed or to a wheelchair or as a patient in a hospital, an asylum or other similar institution, was incapable of caring for children, or

(B) by reason of mental or physical infirmity, was in the year, and is likely to be for a long-continued period of indefinite duration, incapable of caring for children,

(v) a person confined to a prison or similar institution throughout a period of not less than 2 weeks in the year, or

(vi) a person who, because of a breakdown of the person's marriage, was living separate and apart from the taxpayer at the end of the year and for a period of at least 90 days beginning in the year."

S. 63(2)(*b*)(iii) was amended by S.C. 1997, c. 25, s. 12(2), applicable to the 1996 and subsequent taxation years. S. 63(2)(*b*)(iii) formerly read:

"(iii) a person in full-time attendance at a designated educational institution (within the meaning assigned by subsection 118.6(1)),"

S. 63(2)(*b*)(i), the portion before clause (A), was amended by S.C. 1994, c. 7, Sched. VIII, s. 23(4), to substitute "$150" for "$120", applicable to the 1993 and subsequent taxation years.

S. 63(2)(*b*)(ii) was amended by S.C. 1994, c. 7, Sched. VIII, s. 23(5), to substitute "$90" for "$60", applicable to the 1993 and subsequent taxation years.

S. 63(2)(*b*)(vi) was amended by S.C. 1994, c. 7, Sched. VIII, s. 23(6), applicable to the 1993 and subsequent taxation years. The subparagraph formerly read:

"(vi) a person who, by reason of a breakdown of the person's marriage or similar domestic relationship, was living separate and apart from the taxpayer at the end of the year and for a period of at least 90 days commencing in the year."

S. 63(2), the portion before paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 36(2), to add a reference to paragraph 60(v.1,) applicable to the 1989 and subsequent taxation years.

S. 63(2)(*b*)(i)(B) was amended by S.C. 1994, c. 7, Sched. II, s. 36(3), applicable to the 1991 and subsequent taxation years. The clause formerly read:

"(B) has a severe and prolonged mental or physical impairment that has been certified as such in prescribed form by a medical doctor or, where the impairment is an impairment of sight, by a medical doctor or an optometrist, where a copy of the certificate has been filed with the Minister, and"

Related Sections: S. 63(2.2) Expenses while at school; s. 118.6(2) Education credit.

▶ 63(2.1) ◀

(2.1) Taxpayer and supporting person with equal incomes. For the purposes of this section, where in any taxation year the income of a taxpayer who has an eligible child for the year and the income of a supporting person of the child are equal (on the assumption that both incomes are computed without reference to this section and paragraphs 60(*v*.1) and (*w*)), no deduction shall be allowed under this section to the taxpayer and the supporting person in respect of the child unless they jointly elect to treat the income of one of them as exceeding the income of the other for the year.

History: S. 63(2.1) was amended by S.C. 1994, c. 7, Sched. II, s. 36(4), to add a reference to paragraph 60(v.1), applicable to the 1989 and subsequent taxation years.

▶ 63(2.2) ◀

(2.2) Expenses while at school. There may be deducted in computing a taxpayer's income for a taxation year such part of the amount determined under subsection (2.3) as the taxpayer claims, where

(*a*) the taxpayer is, at any time in the year, a student in attendance at a designated educational institution or a secondary school and enrolled in a program of the institution or school of not less than 3 consecutive weeks duration that provides that each student in the program spend not less than

(i) 10 hours per week on courses or work in the program, or

(ii) 12 hours per month on courses in the program;

(*b*) there is no supporting person of an eligible child of the taxpayer for the year or the income of the taxpayer for the year exceeds the income for the year of a supporting person of the child (on the assumption that both incomes are computed without reference to this section and paragraphs 60(v.1) and (*w*)); and

(*c*) a prescribed form containing prescribed information is filed with the taxpayer's return of income (other than a return filed under subsection 70(2) or 104(23), paragraph 128(2)(*e*) or subsection 150(4)) for the year.

History: S. 63(2.2)(*a*) was amended by S.C. 1999, c. 22, s. 18(4), applicable to the 1998 and subsequent taxation years. S. 63(2.2)(*a*) formerly read:

"(*a*) the taxpayer is, at any time in the year, a student in attendance at a designated educational institution (as defined in subsection 118.6(1)) or a secondary school and enrolled in a program of the institution or school of not less than 3 consecutive weeks duration that provides that each student in the program spend not less than 10 hours per week on courses or work in the program;"

S. 63(2.2) was added by S.C. 1997, c. 25, s. 12(3), applicable to the 1996 and subsequent taxation years.

Related Sections: S. 60(v.1) UI and EI benefit repayment; s. 63(1) Child care expenses; s. 63(2)(*b*) Income exceeding income of supporting person.

► 63(2.3) ◄

(2.3) Amount deductible. For the purpose of subsection (2.2), the amount determined in respect of a taxpayer for a taxation year is the least of

(*a*) the amount by which the total of all amounts, each of which is an amount paid as or on account of child care expenses incurred for services rendered in the year in respect of an eligible child of the taxpayer, exceeds the amount that is deductible under subsection (1) in computing the taxpayer's income for the year,

(*b*) 2/3 of the taxpayer's income for the year computed without reference to this section and paragraphs 60(*v*.1) and (*w*),

(*c*) the amount determined by the formula

$$A \times C$$

where

A is the total of all amounts each of which is the periodic child care expense amount in respect of an eligible child of the taxpayer for the year, and

C is

(i) if there is a supporting person of an eligible child of the taxpayer for the year,

(A) the number of weeks, in the year, in which both the taxpayer and the supporting person were students who would be described in paragraph (2.2)(*a*) if that paragraph were read without reference to subparagraph (ii), and

(B) the number of months in the year (other than a month that includes all or part of a week included in the number of weeks referred to in clause (A)), in which both the taxpayer and the supporting person were students described in paragraph (2.2)(*a*), and

(ii) in any other case,

(A) the number of weeks, in the year, in which the taxpayer was a student who would be described in paragraph (2.2)(*a*) if that paragraph were read without reference to subparagraph (ii), and

(B) the number of months in the year (other than a month that includes all or part of a week included in the number of weeks referred to in clause (A)), in which the taxpayer was a student described in paragraph (2.2)(*a*),

(*d*) the amount by which the total calculated under subparagraph (1)(*e*)(ii) in respect of eligible children of the taxpayer for the year exceeds the amount that is deductible under subsection (1) in computing the taxpayer's income for the year, and

(*e*) where there is a supporting person of an eligible child of the taxpayer for the year, the amount by which the amount calculated under paragraph (2)(*b*) for the year in respect of the taxpayer exceeds 2/3 of the taxpayer's earned income for the year.

History: S. 63(2.3), the formula in paragraph (*c*) was amended by S.C. 2001, c. 17, s. 42(5), applicable to the 2000 and subsequent taxation years. S. 63(2.3), the formula in paragraph (*c*) formerly read:

"(A + B) × C"

S. 63(2.3)(*c*), the description of A was amended, and the description of B was repealed, by S.C. 2001, c. 17, s. 42(6), applicable to the 2000 and subsequent taxation years. S. 63(2.3)(*c*), the descriptions of A and B formerly read:

"A is the product obtained when $175 is multiplied by the number of eligible children of the taxpayer for the year each of whom is

(i) under 7 years of age at the end of the year, or

(ii) a person in respect of whom an amount may be deducted under section 118.3 in computing a taxpayer's tax payable under this Part for the year,

B is the product obtained when $100 is multiplied by the number of the taxpayer's eligible children for the year, (other than children referred to in the description of A), and"

S. 63(2.3)(*c*), the portion of the description of A before subparagraph (i), was amended by S.C. 1999, c. 22, s. 18(5), applicable to the 1998 and subsequent taxation years.

"A is the product obtained when $150 is multiplied by the number of eligible children of the taxpayer for the year each of whom is"

S. 63(2.3)(*c*), the description of B, was amended by S.C. 1999, c. 22, s. 18(6), applicable to the 1998 and subsequent taxation years. S. 63(2.3)(*c*), the description of B formerly read:

"B is the product obtained when $90 is multiplied by the number of the taxpayer's eligible children for the year (other than those referred to in the description of A), and"

S. 63(2.3)(*c*), subparagraphs (i) and (ii) of the description of C, were amended by S.C. 1999, c. 22, s. 18(7), applicable to the 1998 and subsequent taxation years. S. 63(2.3)(*c*), subparagraphs (i) and (ii) of the description of C, formerly read:

"(i) where there is a supporting person of an eligible child of the taxpayer for the year, the number of weeks, in the year, in which both the taxpayer and the supporting person were students described in paragraph (2.2)(*a*), and

(ii) in any other case, the number of weeks, in the year, in which the taxpayer was a student described in paragraph (2.2)(*a*),"

S. 63(2.3) was added by S.C. 1997, c. 25, s. 12(3), applicable to the 1996 and subsequent taxation years.

Related Sections: S. 60(*v*.1) UI and EI benefit repayment; s. 63(1) Child care expenses; s. 63(2)(*b*) Income exceeding income of supporting person.

► 63(3) ◄

(3) Definitions. In this section,

"*annual child care expense amount*" — "annual child care expense amount", in respect of an eligible child of a taxpayer for a taxation year, means

(*a*) $10,000, where the child is a person in respect of whom an amount may be deducted under section 118.3 in computing a taxpayer's tax payable under this Part for the year, and

(*b*) where the child is not a person referred to in paragraph (*a*),

(i) $7,000, where the child is under 7 years of age at the end of the year, and

(ii) $4,000, in any other case;

History: S. 63(3), the definition "annual child care expense amount" was added by S.C. 2001, c. 17, s. 42(9), applicable to the 2000 and subsequent taxation years.

"*child care expense*" — "child care expense" means an expense incurred in a taxation year for the purpose of providing in Canada, for an eligible child of a taxpayer, child care services including baby sitting services, day nursery services or services provided at a boarding school or camp if the services were provided

(*a*) to enable the taxpayer, or the supporting person of the child for the year, who resided with the child at the time the expense was incurred,

(i) to perform the duties of an office or employment,

(ii) to carry on a business either alone or as a partner actively engaged in the business,

(iii) [Repealed by S.C. 1996, c. 23, s. 173(1).]

(iv) to carry on research or any similar work in respect of which the taxpayer or supporting person received a grant, or

(v) to attend a designated educational institution or a secondary school, where the taxpayer is enrolled in a program of the institution or school of not less than three consecutive weeks duration that provides that each student in the program spend not less than

(A) 10 hours per week on courses or work in the program, or

(B) 12 hours per month on courses in the program, and

(*b*) by a resident of Canada other than a person

(i) who is the father or the mother of the child,

(ii) who is a supporting person of the child or is under 18 years of age and related to the taxpayer, or

(iii) in respect of whom an amount is deducted under section 118 in computing the tax payable under this Part for the year by the taxpayer or by a supporting person of the child,

except that

(*c*) any such expenses paid in the year for a child's attendance at a boarding school or camp to the extent that the total of those expenses exceeds the product obtained when the periodic child care expense amount in respect of the child for the year is multiplied by the number of weeks in the year during which the child attended the school or camp, and

(*d*) for greater certainty, any expenses described in subsection 118.2(2) and any other expenses that are paid for medical or hospital care, clothing, transportation or education or for board and lodging, except as otherwise expressly provided in this definition,

are not child care expenses;

History: S. 63(3), paragraph (*c*) of the definition "child care expense" was amended by S.C. 2001, c. 17, s. 42(7), applicable to the 2000 and subsequent taxation years. S. 63(3), paragraph (*c*) of the definition "child care expense" formerly read:

"(*c*) any such expenses paid in the year for a child's attendance at a boarding school or camp to the extent that the total thereof exceeds the product obtained when

(i) in the case of a child of the taxpayer who

(A) is under 7 years of age at the end of the year, or

(B) is a person in respect of whom an amount may be deducted under section 118.3 in computing a taxpayer's tax payable under this Part for the year,

$175, and

(ii) in any other case, $100

is multiplied by the number of weeks in the year during which the child attended the school or camp, and"

S. 63(3)(*c*)(i) and (ii) of the definition "child care expense" were amended by S.C. 1999, c. 22, s. 18(9), applicable to the 1998 and subsequent taxation years. S. 63(3)(*c*)(i) and (ii) of the definition "child care expense" formerly read:

"(i) in the case of a child of the taxpayer who

(A) is under 7 years of age at the end of the year, or

(B) is a person in respect of whom an amount may be deducted under section 118.3 in computing a taxpayer's tax payable under this Part for the year,

$150, and

(ii) in any other case, $90"

S. 63(3), subparagraph (*a*)(v) of the definition "child care expense", was amended by S.C. 1999, c. 22, s. 18(8), applicable to the 1998 and subsequent taxation years. S. 63(3), subparagraph (*a*)(v) of the definition "child care expense", formerly read:

"(v) to attend a designated educational institution (as defined in subsection 118.6(1)) or a secondary school, where the taxpayer is enrolled in a program of the institution or school of not less than 3 consecutive weeks duration that provides that each student in the program spend not less than 10 hours per week on courses or work in the program, and"

S. 63(3), subparagraph (*a*)(v) of the definition "child care expense", was added by S.C. 1997, c. 25, s. 12(4), applicable to the 1996 and subsequent taxation years.

S. 63(3), subparagraph (*a*)(iii) of the definition "child care expense" was repealed by S.C. 1996, c. 23, s. 173(1), effective January 1, 1998. That portion formerly read:

"(iii) to undertake an occupational training course in respect of which the taxpayer or supporting person received a training allowance paid to him or her under the *National Training Act*, or"

The portion of subparagraph (*c*)(i) of the definition "child care expense" in subsection 63(3) after clause (B) was amended by S.C. 1994, c. 7, Sched. VIII, s. 23(7), to substitute "$150" for "$120", applicable to the 1993 and subsequent taxation years.

Subparagraph (*c*)(ii) of the definition "child care expense" in subsection 63(3) was amended by S.C. 1994, c. 7, Sched. VIII, s. 23(8), to substitute "$90" for "$60", applicable to the 1993 and subsequent taxation years.

Subparagraph (*b*)(ii) of the definition "child care expense" in subsection 63(3) was amended by S.C. 1994, c. 7, Sched. II, s. 36(5), applicable to the 1990 and subsequent taxation years. The subparagraph formerly read:

"(ii) who is a supporting person of the child or was under 21 years of age and connected with the taxpayer or the taxpayer's spouse by blood relationship, marriage or adoption, or"

Clause (*c*)(i)(B) of the definition "child care expense" in subsection 63(3) was amended by S.C. 1994, c. 7, Sched. II, s. 36(6), applicable to the 1991 and subsequent taxation years. The clause formerly read:

"(B) has a severe and prolonged mental or physical impairment that has been certified as such in prescribed form by a medical doctor or, where the impairment is an impairment of sight, by a medical doctor or an optometrist, where a copy of the certificate has been filed with the Minister,"

Cases: The payments made by a taxpayer to his wife to provide child care services for their children were excluded by s. 63(3)(*a*)(ii) as an allowable child care expense and such exclusion did not constitute discrimination on the basis of family status under s. 15 of the Charter, since a group based on marital status does not form a "distinct and insular minority", even though that group may be in a minority. *Boland v. M.N.R.*, 93 DTC 1558 (T.C.C.).

"earned income" — "earned income" of a taxpayer means the total of

(*a*) all salaries, wages and other remuneration, including gratuities, received by the taxpayer in respect of in the course of, or because of, offices and employments,

(*b*) all amounts that are included, or that would, but for paragraph 81(1)(*a*) or subsection 81(4), be included, because of section 6 or 7 or paragraph 56(1)(*n*), (*n.1*), (*o*) or (*r*), in computing the taxpayer's income,

(*c*) all the taxpayer's incomes or the amounts that would, but for paragraph 81(1)(*a*), be the taxpayer's incomes from all businesses carried on either alone or as a partner actively engaged in the business, and

(*d*) all amounts received by the taxpayer as, on account of, in lieu of payment of or in satisfaction of, a disability pension under the *Canada Pension Plan* or a provincial pension plan as defined in section 3 of that Act;

History: S. 63(3), paragraph (*b*) of the definition "earned income" was replaced by S.C. 2007, c. 2, s. 8(1), applicable to the 2007 and subsequent taxation years.

S. 63(3), paragraph (*b*) of the definition "earned income" formerly read:

"(*b*) all amounts that are included, or that would, but for paragraph 81(1)(*a*) or subsection 81(4), be included, because of section 6 or 7 or paragraph 56(1)(*n*), (*o*) or (*r*), in computing the taxpayer's income,"

S. 63(3), paragraph (*b*) of the definition "earned income" was amended by S.C. 2001, c. 17, s. 42(8), applicable to the 1998 and subsequent taxation years. S. 63(3), paragraph (*b*) of the definition "earned income" formerly read:

"(*b*) all amounts that are included, or that would, but for paragraph 81(1)(*a*), be included, because of section 6 or 7 or paragraph 56(1)(*n*), (*o*) or (*r*), in computing the taxpayer's income,"

S. 63(3), paragraph (*b*) of the definition "earned income" was amended by S.C. 1999, c. 19, s. 103(1) and (2), to add a reference to paragraph 56(1)(*r*), applicable to the 1993 and subsequent taxation years, and to remove a reference to paragraph 56(1)(*m*), applicable after 1997. S. 63(3)(*b*) formerly read:

"(*b*) all amounts that are included or that would, but for paragraph 81(1)(*a*), be included because of section 6 or 7 or paragraph 56(1)(*n*) or (*o*), in computing the taxpayer's income,"

S. 63(3), paragraph (*d*) of the definition "earned income" was amended by S.C. 1998, c. 19, s. 10(1), applicable to amounts received after 1994. S. 63(3), paragraph (*d*) of the definition "earned income" formerly read:

"(*d*) all amounts described in paragraph 56(8)(*a*) received by the taxpayer in the year;"

S. 63(3), paragraph (*b*) of the definition "earned income", was amended by S.C. 1996, c. 23, s. 173(2), to delete the reference to paragraph 56(1)(*m*), effective January 1, 1998.

Paragraphs (*a*) to (*c*) of the definition "earned income" in subsection 63(3) were amended by S.C. 1994, c. 7, Sched. VII, s. 3(1), applicable to the 1993 and subsequent taxation years. The paragraphs formerly read:

"(*a*) all salaries, wages and other remuneration, including gratuities, received by the taxpayer in respect of, in the course of, or by virtue of offices and employments, and all amounts included in computing the taxpayer's income by virtue of sections 6 and 7,

(*b*) amounts included in computing the taxpayer's income by virtue of paragraph 56(1)(*m*), (*n*) or (*o*), and

(*c*) the taxpayer's incomes from all businesses carried on either alone or as a partner actively engaged in the business;"

Interpretation Bulletins: *Secondary* — IT-434R Rental of real property by individual.

"eligible child" — "eligible child" of a taxpayer for a taxation year means

(*a*) a child of the taxpayer or of the taxpayer's spouse or common-law partner, or

(*b*) a child dependent on the taxpayer or the taxpayer's spouse or common-law partner for support and whose income for the year does not exceed the amount used under paragraph (*c*) of the description of B in subsection 118(1) for the year

if, at any time during the year, the child

(*c*) is under 16 years of age, or

(*d*) is dependent on the taxpayer or on the taxpayer's spouse or common-law partner and has a mental or physical infirmity;

History: S. 63(3), paragraphs (*a*) and (*b*) of the definition "eligible child" were amended by S.C. 2000, c. 12, Sched. 2, s. 1(o), applicable January 1, 2001, coming into force on July 31, 2000. S. 63(3), paragraphs (*a*) and (*b*) of the definition "eligible child" formerly read:

"(*a*) a child of the taxpayer or of the taxpayer's spouse, or

(*b*) a child dependent on the taxpayer or the taxpayer's spouse for support and whose income for the year does not exceed the amount used under paragraph (*c*) of the description of B in subsection 118(1) for the year"

S. 63(3), paragraph (*d*) of the definition "eligible child" was amended by S.C. 2000, c. 12, Sched. 2, s. 1(o), applicable January 1, 2001, coming into force on July 31, 2000. S. 63(3), paragraph (*d*) of the definition "eligible child" formerly read:

"(*d*) is dependent on the taxpayer or on the taxpayer's spouse and has a mental or physical infirmity;"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 63(3), paragraph (*b*) of the definition "eligible child" was amended by S.C. 2000, c. 19, s. 9(1), applicable to the 1999 and subsequent taxation years except that, in its application to the 1999 taxation year, the reference to "the amount used under paragraph (*c*) of the description of B in subsection 118(1) for the year" shall be read as a reference to "$7,044". S. 63(3), paragraph (*b*) of the definition "eligible child" formerly read:

"(*b*) a child dependent on the taxpayer or the taxpayer's spouse or common-law partner for support and whose income for the year does not exceed the total of $500 and the amount used under paragraph (*c*) of the description of B in subsection 118(1) for the year".

S. 63(3), paragraph (*b*) of the definition "eligible child" was amended by S.C. 1999, c. 22, s. 18(10), applicable to the 1998 and subsequent taxation years. S. 63(3), paragraph (*b*) of the definition "eligible child" formerly read:

"(*b*) a child dependent on the taxpayer or the taxpayer's spouse and whose income for the year does not exceed the amount used under paragraph (*c*) of the description of B in subsection 118(1) for the year"

S. 63(3), paragraph (*c*) of the definition "eligible child", was amended by S.C. 1997, c. 25, s. 12(5), applicable to the 1996 and subsequent taxation years. That part formerly read:

"(*c*) is under 14 years of age, or"

S. 63(3), paragraph (*b*) of the definition "eligible child", was amended by S.C. 1994, c. 7, Sched. VII, s. 3(2), applicable to the 1993 and subsequent taxation years. That part formerly read:

"(*b*) a child in respect of whom the taxpayer deducted an amount under section 118 for the year"

"periodic child care expense amount" — "periodic child care expense amount", in respect of an eligible child of a taxpayer for a taxation year, means 1/40 of the annual child care expense amount in respect of the child for the year;

History: S. 63(3), the definition "periodic child care expense amount" was added by S.C. 2001, c. 17, s. 42(9), applicable to the 2000 and subsequent taxation years.

"supporting person" — "supporting person" of an eligible child of a taxpayer for a taxation year means a person, other than the taxpayer, who is

(*a*) a parent of the child,

(*b*) the taxpayer's spouse or common-law partner, or

(*c*) an individual who deducted an amount under section 118 for the year in respect of the child

if the parent, spouse or common-law partner or individual, as the case may be, resided with the taxpayer at any time during the year and at any time within 60 days after the end of the year.

History: S. 63(3), paragraph (*b*) of the definition "supporting person", was amended by S.C. 2000, c. 12, Sched. 2, s. 1(o), applicable January 1, 2001, coming into force on July 31, 2000. S. 63(3), paragraph (*b*) of the definition "supporting person" formerly read:

"(*b*) the taxpayer's spouse, or"

S. 63(3), the portion of the definition "supporting person" after paragraph (*c*), was amended by S.C. 2000, c. 12, Sched. 2, s. 1(o), applicable January 1, 2001, coming into force on July 31, 2000. S. 63(3), the portion of the definition "supporting person" after paragraph (*c*) formerly read:

"if the parent, spouse or individual, as the case may be, resided with the taxpayer at any time during the year and at any time within 60 days after the end of the year."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 63(3), the portion of the definition "supporting person" before paragraph (*a*), was amended by S.C. 1997, c. 25, s. 12(6), applicable to the 1983 and subsequent taxation years. That part formerly read:

"*'supporting person'* — 'supporting person' of an eligible child of a taxpayer for a taxation year means"

Cases: The Minister was justified by s. 3(*f*) to deny the taxpayer her child care expense deduction when the income of her spouse was nil rather than some positive amount. *Fromstein v. The Queen*, 93 DTC 726 (T.C.C.).

► 63(4) ◄

(4) Commuter's child care expense. Where in a taxation year a person resides in Canada near the boundary between Canada and the United States and while so resident incurs expenses for child care services that would be child care expenses if

(*a*) the definition "child care expense" in subsection (3) were read without reference to the words "in Canada", and

(*b*) the reference in paragraph (*b*) of the definition "child care expense" in subsection (3) to "resident of Canada" were read as "person",

those expenses (other than expenses paid for a child's attendance at a boarding school or camp outside Canada) shall be deemed to be child care expenses for the purpose of this section if the child care services are provided at a place that is closer to the person's principal place of residence by a reasonably accessible route, having regard to the circumstances, than any place in Canada where such child care services are available and, in respect of those expenses, subsection (1) shall be read without reference to the words "and contains, where the payee is an individual, that individual's Social Insurance Number".

History: S. 63(4) was added by S.C. 1994, c. 21, s. 27(1), applicable to the 1992 and subsequent taxation years.

SECTION 63.1: Application to deemed residents. [Repealed by 1990, c. 39, s. 14(1).]

SECTION 64: Disability supports deduction.

If a taxpayer files with the taxpayer's return of income (other than a return of income filed under subsection 70(2), paragraph 104(23)(*d*) or 128(2)(*e*) or subsection 150(4)) for the taxation year a prescribed form containing prescribed information, there may be deducted in computing the taxpayer's income for the year the lesser of

(*a*) the amount determined by the formula

$$A - B$$

where

A is the total of all amounts each of which is an amount paid by the taxpayer in the year and that

(i) was paid to enable the taxpayer

(A) to perform the duties of an office or employment,

(B) to carry on a business either alone or as a partner actively engaged in the business,

(C) to attend a designated educational institution or a secondary school at which the taxpayer is enrolled in an educational program, or

(D) to carry on research or any similar work in respect of which the taxpayer received a grant,

(ii) was paid

(A) where the taxpayer has a speech or hearing impairment, for the cost of sign-language interpretation services or real time captioning services and to a person engaged in the business of providing such services,

(B) where the taxpayer is deaf or mute, for the cost of a teletypewriter or similar device, including a telephone ringing indicator, prescribed by a medical practitioner, to enable the taxpayer to make and receive telephone calls,

(C) where the taxpayer is blind, for the cost of a device or equipment, including synthetic speech systems, Braille printers, and large-print on-screen devices, prescribed by a medical practitioner, and designed to be used by blind individuals in the operation of a computer,

(D) where the taxpayer is blind, for the cost of an optical scanner or similar device, prescribed by a medical practitioner, and designed to be used by blind individuals to enable them to read print,

(E) where the taxpayer is mute, for the cost of an electronic speech synthesizer, prescribed by a medical practitioner, and designed to be used by mute individuals to enable them to communicate by use of a portable keyboard,

(F) where the taxpayer has an impairment in physical or mental functions, for the cost of note-taking services and to a person engaged in the business of providing such services, if the taxpayer has been certified in writing by a medical practitioner to be a person who, because of that impairment, requires such services,

(G) where the taxpayer has an impairment in physical functions, for the cost of voice recognition software, if the taxpayer has been certified in writing by a medical practitioner to be a person who, because of that impairment, requires that software,

(H) where the taxpayer has a learning disability or an impairment in mental functions, for the cost of tutoring services that are rendered to, and supplementary to the primary education of, the taxpayer and to a person ordinarily engaged in the business of providing such services to individuals who are not related to the person, if the taxpayer has been certified in writing by a medical practitioner to be a person who, because of that disability or impairment, requires those services,

(I) where the taxpayer has a perceptual disability, for the cost of talking textbooks used by the taxpayer in connection with the taxpayer's enrolment at a secondary school in Canada or at a designated educational institution, if the taxpayer has been certified in writing by a medical practitioner to be a person who, because of that disability, requires those textbooks,

(J) where the taxpayer has an impairment in physical or mental functions, for the cost of attendant care services provided in Canada and to a person who is neither the taxpayer's spouse or common-law partner nor under 18 years of age, if the taxpayer is a taxpayer in respect of whom an amount may be deducted because of section 118.3, or if the taxpayer has been certified in writing by a medical practitioner to be a person who, because of that impairment is, and is likely to be indefinitely, dependent on others for their personal needs and care and who as a result requires a full-time attendant,

(K) where the taxpayer has a severe and prolonged impairment in physical or mental functions, for the cost of job coaching services (not including job placement or

career counselling services) and to a person engaged in the business of providing such services if the taxpayer has been certified in writing by a medical practitioner to be a person who, because of that impairment, requires such services,

(L) where the taxpayer is blind or has a severe learning disability, for the cost of reading services and to a person engaged in the business of providing such services, if the taxpayer has been certified in writing by a medical practitioner to be a person who, because of that impairment or disability, requires those services,

(M) where the taxpayer is blind and profoundly deaf, for the cost of deaf-blind intervening services and to a person engaged in the business of providing such services,

(N) where the taxpayer has a speech impairment, for the cost of a device that is a Bliss symbol board, or a similar device, that is prescribed by a medical practitioner to help the taxpayer communicate by selecting the symbols or spelling out words,

(O) where the taxpayer is blind, for the cost of a device that is a Braille note-taker, prescribed by a medical practitioner, to allow the taxpayer to take notes (that can, by the device, be read back to them or printed or displayed in Braille) with the help of a keyboard,

(P) where the taxpayer has a severe and prolonged impairment in physical functions that markedly restricts their ability to use their arms or hands, for the cost of a device that is a page turner prescribed by a medical practitioner to help the taxpayer to turn the pages of a book or other bound document, and

(Q) where the taxpayer is blind, or has a severe learning disability, for the cost of a device or software that is prescribed by a medical practitioner and designed to enable the taxpayer to read print,

(iii) is evidenced by one or more receipts filed with the Minister each of which was issued by the payee and contains, where the payee is an individual who is a person referred to in clause (ii)(J), that individual's Social Insurance Number, and

(iv) is not included in computing a deduction under section 118.2 for any taxpayer for any taxation year, and

B is the total of all amounts each of which is the amount of a reimbursement or any other form of assistance (other than prescribed assistance or an amount that is included in computing a taxpayer's income and that is not deductible in computing the taxpayer's taxable income) that any taxpayer is or was entitled to receive in respect of an amount included in computing the value of A, and

(*b*) the total of

(i) the total of all amounts each of which is

(A) an amount included under section 5, 6 or 7 or paragraph 56(1)(*n*), (*o*) or (*r*) in computing the taxpayer's income for the year, or

(B) the taxpayer's income for the year from a business carried on either alone or as a partner actively engaged in the business, and

(ii) where the taxpayer is in attendance at a designated educational institution or a secondary school at which the taxpayer is enrolled in an educational program, the least of

(A) $15,000,

(B) $375 times the number of weeks in the year during which the taxpayer is in attendance at the institution or school, and

(C) the amount, if any, by which the amount that would, if this Act were read without reference to this section, be the taxpayer's income for the year exceeds the total determined under subparagraph (i) in respect of the taxpayer for the year.

History: S. 64(*a*), clause (ii)(J) of the description of A was replaced by S.C. 2007, c. 2, s. 9(1), applicable to the 2005 and subsequent taxation years.

S. 64(*a*), clause (ii)(J) of the description of A formerly read:

"(J) where the taxpayer has a mental or physical infirmity, for the cost of attendant care services provided in Canada and to a person who is neither the taxpayer's spouse or common-law partner nor under 18 years of age, if the taxpayer is a taxpayer in respect of whom an amount may be deducted because of section 118.3, or if the taxpayer has been certified in writing by a medical practitioner to be a person who, because of that infirmity is, and is likely to be indefinitely, dependent on others for their personal needs and care and who as a result requires a full-time attendant,"

S. 64(*a*), clauses (ii)(F) to (H) of the description of A, were replaced by S.C. 2006, c. 4, s. 53(1), applicable to the 2005 and subsequent taxation years.

S. 64(*a*), clauses (ii)(F) to (H) of the description of A, formerly read:

"(F) where the taxpayer has a mental or physical impairment, for the cost of note-taking services and to a person engaged in the business of providing such services, if the taxpayer has been certified in writing by a medical practitioner to be a person who, because of that impairment, requires such services,

(G) where the taxpayer has a physical impairment, for the cost of voice recognition software, if the taxpayer has been certified in writing by a medical practitioner to be a person who, because of that impairment, requires that software,

(H) where the taxpayer has a learning disability or a mental impairment, for the cost of tutoring services that are rendered to, and supplementary to the primary education of, the taxpayer and to a person ordinarily engaged in the business of providing such services to individuals who are not related to the person, if the taxpayer has been certified in writing by a medical practitioner to be a person who, because of that disability or impairment, requires those services,"

S. 64(*a*), clauses (ii)(K) to (Q) of the description of A, were added by S.C. 2006, c. 4, s. 53(2), applicable to the 2005 and subsequent taxation years.

S. 64 was replaced by S.C. 2005, c. 19, s. 15(1), applicable to the 2004 and subsequent taxation years. S. 64 formerly read:

"S. 64. *Attendant care expenses.* If a taxpayer in respect of whom an amount may be deducted because of section 118.3 for a taxation year files with the taxpayer's return of income (other than a return of income filed under subsection 70(2), paragraph 104(23)(*d*) or 128(2)(*e*) or subsection 150(4)) for the year a prescribed form containing prescribed information, there may be deducted in computing the taxpayer's income for the year the lesser of

(*a*) the amount determined by the formula

$$A - B$$

where

A is the total of all amounts each of which is an amount that was

(i) paid in the year by the taxpayer to a person who, at the time of the payment, is neither the taxpayer's spouse or common-law partner nor under 18 years of age as or on account of attendant care provided in Canada to the taxpayer to enable the taxpayer to

(A) perform the duties of an office or employment,

(B) carry on a business either alone or as a partner actively engaged in the business,

(C) attend a designated educational institution or a secondary school at which the taxpayer is enrolled in an educational program, or

(D) carry on research or any similar work in respect of which the taxpayer received a grant,

the payment of which is proven by filing with the Minister one or more receipts each of which was issued by the payee and contains, where the payee is an individual, that individual's Social Insurance Number, and

(ii) not included in computing a deduction under section 118.2 for any taxation year, and

B is the total of all amounts each of which is the amount of a reimbursement or any other form of assistance (other than prescribed assistance or an amount that is included in computing a taxpayer's income and that is not deductible in computing the taxpayer's taxable income) that any taxpayer is or was entitled to receive in respect of an amount included in computing the value of A and

(*b*) 2/3 of the total of

(i) the total of all amounts each of which is

(A) an amount included under section 5, 6 or 7 or paragraph 56(1)(*n*), (*o*) or (*r*) in computing the taxpayer's income for the year, or

(B) the taxpayer's income for the year from a business carried on either alone or as a partner actively engaged in the business, and

(ii) where the taxpayer is in attendance at a designated educational institution or a secondary school at which the taxpayer is enrolled in an educational program, the least of

(A) $15,000,

(B) $375 times the number of weeks in the year during which the taxpayer is in attendance at the institution or school, and

(C) the amount, if any, by which the amount that would, if this Act were read without reference to this section, be the taxpayer's income for the year exceeds the total determined under subparagraph (i) in respect of the taxpayer for the year.

(*c*) [Repealed by 1998, c. 19, S. 11(2).]"

S. 64(*a*), clause (i)(C) of the description of A was added by S.C. 2001, c. 17, s. 43(1), applicable to the 2000 and subsequent taxation years. S. 64(*a*), clause (i)(C) of the description of A was previously repealed.

S. 64(*b*) was amended by S.C. 2001, c. 17, s. 43(2), applicable to the 2000 and subsequent taxation years. S. 64(*b*) formerly read:

"(*b*) 2/3 of the total of all amounts each of which is

(i) an amount included under any of sections 5, 6 and 7 in computing the taxpayer's income for the year from an office or employment,

(ii) an amount included by reason of paragraph 56(1)(*n*) or (*o*) in computing the taxpayer's income for the year, or

(iii) the taxpayer's income for the year from a business carried on either alone or as a partner actively engaged in the business"

S. 64(*a*), subparagraph (i) of the description of A, was amended by S.C. 2000, c. 12, s. 1(p), applicable January 1, 2001, coming into force on July 31, 2000. S. 64(*a*), subparagraph (i) of the description of A, formerly read:

"(i) paid in the year by the taxpayer to a person who, at the time of the payment, is neither the taxpayer's spouse nor under 18 years of age as or on account of attendant care provided in Canada to the taxpayer to enable the taxpayer to"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 64, the portion before paragraph (*a*) was amended by S.C. 1998, c. 19, s. 11(1), applicable to the 1997 and subsequent taxation years. S. 64, the portion before paragraph (*a*) formerly read:

"S. 64. *Attendant care expenses.* Where a taxpayer in respect of whom an amount may be deducted by reason of section 118.3 for a taxation year files with the taxpayer's return of income (other than a return of income filed under subsection 70(2) or 104(23), paragraph 128(2)(*e*) or subsection 150(4)) under this Part for the year a prescribed form containing prescribed information, there may be deducted in computing the taxpayer's income for the year an amount that is equal to the least of"

S. 64(*c*) was repealed by S.C. 1998, c. 19, s. 11(2), applicable to the 1997 and subsequent taxation years. S. 64(*c*) formerly read:

"(*c*) $5,000."

S. 64(*a*)(i)(C) was repealed by S.C. 1996, c. 23, s. 174(1), effective January 1, 1998. S. 64(*a*)(i)(C) formerly read:

"(C) undertake an occupational training course in respect of which the taxpayer received a training allowance under the *National Training Act*, or"

S. 64(*b*)(ii) was amended by S.C. 1996, c. 23, s. 174(2), to delete the reference to paragraph 56(1)(*m*), effective January 1, 1998.

S. 64(*a*) was amended by S.C. 1994, c. 7, Sched. II, s. 37(1), applicable to the 1989 and subsequent taxation years, except that, in its application to the 1989 and 1990 taxation years, the portion of subparagraph (i) in the description of A in paragraph 64(*a*) of the Act before clause (A) shall be read as follows:

"(i) paid in the year by the taxpayer to a person (other than a person related to the taxpayer or a person under 18 years of age) as or on account of attendant care provided in Canada to the taxpayer to enable the taxpayer to"

S. 64(*a*) formerly read:

"(*a*) the total of all amounts each of which is an amount that was

(i) paid in the year by the taxpayer to a person (other than a person related to the taxpayer or a person under 18 years of age) as or on account of attendant care provided in Canada to the taxpayer to enable the taxpayer to

(A) perform the duties of an office or employment,

(B) carry on a business either alone or as a partner actively engaged in the business,

(C) undertake an occupational training course in respect of which the taxpayer received a training allowance under the *National Training Act*, or

(D) carry on research or any similar work in respect of which the taxpayer received a grant,

the payment of which is proven by filing with the Minister one or more receipts each of which was issued by the payee and contains, where the payee is an individual, that individual's Social Insurance Number, and

(ii) not included in computing a deduction under section 118.2 for the year or any subsequent taxation year,"

Interpretation Bulletins: *Primary* — IT-519R2 (Consolid.) Medical expense and disability tax credits and attendant care expense deduction.
Information Circulars: IC 82-2R2 Social insurance number legislation that relates to the preparation of information slips.
Forms: T929.
Guides: RC4064 Information Concerning People with Disabilities.
Tax Topics: No. 1746, The Disability Supports Deduction; No. 1714, Committee Report Concerning Tax Credits for Disabled Individuals.

SECTION 64.1: Individuals absent from Canada.

In applying sections 63 and 64 in respect of a taxpayer who is, throughout all or part of a taxation year, absent from but resident in Canada, the following rules apply for the year or that part of the year, as the case may be:

(*a*) the definition "child care expense" in subsection 63(3), and section 64, shall be read without reference to the words "in Canada";

(*b*) subsection 63(1) and section 64 shall be read without reference to the words "and contains, where the payee is an individual, that individual's Social Insurance Number", if the payment referred to in that subsection or section, as the case may be, is made to a person who is not resident in Canada; and

(*c*) paragraph (*b*) of the definition "child care expense" in subsection 63(3) shall be read as if the word "person" were substituted for the words "resident of Canada" where they appear therein.

History: S. 64.1, the portion before paragraph (*b*), was amended by S.C. 1999, c. 22, s. 19(1), applicable after 1997. S. 64.1, the portion before paragraph (*b*) formerly read:

"S. 64.1. *Individuals absent from Canada.* In applying sections 62, 63 and 64 in respect of a taxpayer who is, throughout all or part of a taxation year, absent from but resident in Canada, the following rules apply for the year or that part of the year, as the case may be:

(*a*) subsection 62(1), the definition 'child care expense' in subsection 63(3) and section 64 shall be read without reference to the words 'in Canada';"

Interpretation Bulletins: *Secondary* — IT-178R3 (Consolid.) Moving expenses; IT-495R3 Child care expenses; IT-519R2 (Consolid.) Medical expense and disability tax credits and attendant care expense deduction.

SECTION 65:

► 65(1) ◄

(1) Allowance for oil or gas well, mine or timber limit. There may be deducted in computing a taxpayer's income for a taxation year such amount as an allowance, if any, in respect of

(*a*) a natural accumulation of petroleum or natural gas, oil or gas well, mineral resource or timber limit,

(*b*) the processing of ore (other than iron ore or tar sands) from a mineral resource to any stage that is not beyond the prime metal stage or its equivalent,

(*c*) the processing of iron ore from a mineral resource to any stage that is not beyond the pellet stage or its equivalent, or

(*d*) the processing of tar sands from a mineral resource to any stage that is not beyond the crude oil stage or its equivalent

as is allowed to the taxpayer by regulation.

Editorial Note: Section 65 provides the legislative authority for the passage of regulations for the depletion allowances, earned depletion, frontier exploration allowance, supplementary depletion and mining exploration depletion. This section is largely of historical interest only. Taxpayers have not been able to add to any such allowances after 1989 although taxpayers can continue to claim any undeducted allowances.

Related Sections: S. 53(2) Amounts to be deducted; s. 65(2) Regulations; s. 65(3) Lessee's share of allowance; s. 96(1) General rules; s. 127.5 Obligation to pay minimum tax; s. 133(1) Computation of income.
Regulations: 1200–1209; 1212.
Forms: T2 SCH 51.
Cases: The formula for calculating the frontier exploration allowance for a company in the oil and gas business uses the phrase "threshold amount ... minus". The word "minus" is used in its technical or mathematical sense and the calculation can therefore result in a negative amount. This interpretation had the effect of increasing the taxpayer's allowance. *Canterra Energy Ltd. v. The Queen,* 87 DTC 5019 (F.C.A.), reversing 85 DTC 5245 (F.C.T.D.).

► 65(2) ◄

(2) Regulations. For greater certainty it is hereby declared that, in the case of a regulation made under subsection (1) allowing to a taxpayer an amount in respect of a natural accumulation of petroleum or natural gas, an oil or gas well or a mineral resource or in respect of the processing of ore,

(*a*) there may be allowed to the taxpayer by that regulation an amount in respect of any or all

(i) natural accumulations of petroleum or natural gas, oil or gas wells or mineral resources in which the taxpayer has any interest, or

(ii) processing operations described in any of paragraphs (1)(*b*), (*c*) and (*d*) that are carried on by the taxpayer; and

(*b*) notwithstanding any other provision contained in this Act, the Governor in Council may prescribe the formula by which the amount that may be allowed to the taxpayer by that regulation shall be determined.

► 65(3) ◄

(3) Lessee's share of allowance. Where a deduction is allowed under subsection (1) in respect of a coal mine operated by a lessee, the lessor and lessee may agree as to what portion of the allowance each may deduct and, in the event that they cannot agree, the Minister may fix the portions.

Related Sections: S. 66(1) Exploration and development expenses of principal-business corporations; s. 66(3) Expenses of other taxpayers; s. 87(6) Obligations of predecessor corporation — position of debtholder; s. 248(1), "amount", "mineral resource", "regulation"; ITAR s. 29 Deduction from income of petroleum or natural gas corporation.

SECTION 66:

► 66(1) ◄

(1) Exploration and development expenses of principal-business corporations. A principal-business corporation may deduct, in computing its income for a taxation year, the lesser of

(*a*) the total of such of its Canadian exploration and development expenses as were incurred by it before the end of the taxation year, to the extent that they were not deductible in computing income for a previous taxation year, and

(*b*) of that total, an amount equal to its income for the taxation year if no deduction were allowed under this subsection, section 65 or subsection 66.1(2), minus the deductions allowed for the year by sections 112 and 113.

Related Sections: S. 13(21), "depreciable property"; s. 21(2) Borrowed money used for exploration or development; s. 35(1) Prospectors and grubstakers; s. 66(10) Joint exploration corporation; s. 66(15), "principal-business corporation"; s. 66.1(6), "Canadian exploration expense"; s. 66.4(5) Definitions; s. 87(6) Obligations of predecessor corporation — position of debtholder; s. 87(7) Obligations of predecessor corporation — position of amalgamated corporation; s. 96(1) General rules; s. 115(1) Non-resident's taxable income in Canada; s. 127.5 Obligation to pay minimum tax; s. 248(1), "amount", "corporation", "fiscal period", "individual", "mineral resource", "minerals", "property", "shareholder"; s. 255 Canada; ITAR s. 29 Deduction from income of petroleum or natural gas corporation.
Interpretation Bulletins: *Secondary* — IT-143R3 Meaning of eligible capital expenditure; IT-273R2 Government assistance — General comments; IT-400 Exploration and development expenses — Meaning of principal-business corporation.
Forms: T2 SCH12; T1229; T2 SCH 421; T88; T2 SCH 441; T1199; T1221.
Cases: A wholly-owned Canadian subsidiary of an American company, supplying natural gas to the parent in California as well as to other customers, was held to be a principal-business corporation and there was no artificial reduction of income. *The Queen v. Alberta and Southern Gas Co. Ltd.,* (S.C.C.) 78 DTC 6566, affirming (F.C.A.) 77 DTC 5244 and (F.C.T.D.) 76 DTC 6362.

► 66(2) ◄

(2) Expenses of special product corporations. A corporation (other than a principal-business corporation the principal business of which is described in paragraph (*a*) or (*b*) of the definition "principal-business corporation" in subsection (15)), whose principal business is the production or marketing of sodium chloride or potash or whose business includes manufacturing products the manufacturing of which involves processing sodium chloride or potash, may deduct, in computing its income for a taxation

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 65(2)(*a*)(i) of the Act is replaced by the following:

(i) natural accumulations of petroleum or natural gas, oil or gas wells or mineral resources in which the taxpayer has any interest or, for civil law, right, or

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

year, the drilling and exploration expenses incurred by it in the year and before May 7, 1974 on or in respect of exploring or drilling for halite or sylvite.

Related Sections: S. 66(1) Exploration and development expenses of principal-business corporations; s. 66(6) Successor corporation's Canadian exploration and development expenses.

► 66(3) ◄

(3) Expenses of other taxpayers. A taxpayer other than a principal-business corporation may deduct, in computing the taxpayer's income for a taxation year, the total of the taxpayer's Canadian exploration and development expenses to the extent that they were not deducted in computing the taxpayer's income for a preceding taxation year.

Related Sections: S. 53(2)(*e*) Amounts to be deducted — Share, where shareholder incurred exploration and development expenses; s. 66(5) Dealers; s. 66(10) Joint exploration corporation.

► 66(4) ◄

(4) Foreign exploration and development expenses. A taxpayer who is resident throughout a taxation year in Canada may deduct, in computing the taxpayer's income for that taxation year, the lesser of

(*a*) the amount, if any, by which

(i) the total of the foreign exploration and development expenses incurred by the taxpayer

(A) before the end of the year,

(B) at a time at which the taxpayer was resident in Canada, and

(C) where the taxpayer became resident in Canada before the end of the year, after the last time (before the end of the year) that the taxpayer became resident in Canada,

exceeds the total of

(ii) such of the expenses described in subparagraph (i) as were deductible in computing the taxpayer's income for a preceding taxation year, and

(iii) all amounts by which the amount described in this paragraph in respect of the taxpayer is required because of subsection 80(8) to be reduced at or before the end of the year, and

(*b*) of that total, the greater of

(i) the amount, if any, claimed by the taxpayer not exceeding 10% of the amount determined under paragraph (*a*) in respect of the taxpayer for the year, and

(ii) the total of

(A) the part of the taxpayer's income for the year, determined without reference to this subsection and subsection 66.21(4), that can reasonably be regarded as attributable to

(I) the production of petroleum or natural gas from natural accumulations outside Canada or from oil or gas wells outside Canada, or

(II) the production of minerals from mines outside Canada,

(B) the taxpayer's income for the year from royalties in respect of a natural accumulation of petroleum or natural gas outside Canada, an oil or gas well outside Canada or a mine outside Canada, determined without reference to this subsection and subsection 66.21(4), and

(C) all amounts each of which is an amount, in respect of a foreign resource property that has been disposed of by the taxpayer, equal to the amount, if any, by which

(I) the amount included in computing the taxpayer's income for the year by reason of subsection 59(1) in respect of the disposition

exceeds

(II) the total of all amounts each of which is that portion of an amount deducted under subsection 66.7(2) in computing the taxpayer's income for the year that

1. can reasonably be considered to be in respect of the foreign resource property, and

2. cannot reasonably be considered to have reduced the amount otherwise determined under clause (A) or (B) in respect of the taxpayer for the year.

History: S. 66(4)(*a*)(i) was amended by S.C. 2001, c. 17, s. 44(1), applicable to the 1999 and subsequent taxation years except that in its application to the 1999 taxation year, subparagraph 66(4)(*a*)(i) of the Act shall be read as follows:

"(i) the total of the foreign exploration and development expenses incurred by the taxpayer before the end of the year and at a time which the taxpayer was resident in Canada"

S. 66(4)(*a*)(i) formerly read:

"(i) the total of the foreign exploration and development expenses incurred by the taxpayer before the end of the year"

S. 66(4)(*b*), the portion before subparagraph (ii) was amended by S.C. 2001, c. 17, s. 44(2), applicable to the 1995 and subsequent taxation years, except that the portion of paragraph 66(4)(*b*) of the Act before subparagraph (ii) shall be read as follows in respect of cessations of residence that occurred before February 28, 2000:

"(*b*) of that total, the greatest of

(i) the amount, if any, claimed by the taxpayer not exceeding 10% of the amount determined under paragraph (*a*) in respect of the taxpayer for the year,

(i.1) if the taxpayer ceased to be resident in Canada immediately after the end of the year, the amount, if any, claimed by the taxpayer not exceeding the amount determined under paragraph (*a*) in respect of the taxpayer for the year, and"

S. 66(4)(*b*), the portion before subparagraph (ii) formerly read:

"(*b*) of that total, the greater of,

(i) such amount as the taxpayer may claim not exceeding 10% of the total determined under paragraph (*a*), and"

S. 66(4)(*b*)(ii) was amended by S.C. 2001, c. 17, s. 44(3), applicable to taxation years that begin after 2000. S. 66(4)(*b*)(ii) formerly read:

"(ii) the total of

(A) such part of the taxpayer's income for the taxation year as may reasonably be regarded as attributable to the production of petroleum or natural gas from natural accumulations thereof outside Canada or from oil or gas wells outside Canada or to the production of minerals from mines outside Canada,

(B) the taxpayer's income for the taxation year from royalties in respect of a natural accumulation of petroleum or natural gas outside Canada, an oil or gas well outside Canada or a mine outside Canada, and

(C) the total of amounts each of which is an amount, in respect of a foreign resource property that has been disposed of by the taxpayer, equal to the amount, if any, by which

(I) the amount included in computing the taxpayer's income for the year by virtue of section 59 in respect of the disposition of the property,

exceeds

(II) the amount deducted under section 64 in respect of the property in computing the taxpayer's income for the year,

determined as if no deductions were allowed under this subsection, subsections (1) and (3), section 65 and subsections 66.1(2) and (3)."

S. 66(4)(*b*)(ii), the portion after clause (C) was added by S.C. 1998, c. 19, s. 104(1), applicable to taxation years that end after May 6, 1974.

S. 66(4)(*b*), the portion after subparagraph (ii) was repealed by S.C. 1998, c. 19, s. 104(2), applicable to taxation years that end after May 6, 1974. S. 66(4)(*b*), the portion after subparagraph (ii) formerly read:

"if no deduction were allowed under this subsection, subsection (1) or (3), section 65 or subsection 66.1(2) or (3)."

S. 66(4)(*a*) was amended by S.C. 1995, c. 21, s. 21(1), applicable to taxation years that end after February 21, 1994. S. 66(4)(*a*) formerly read:

"(*a*) the total of such of the taxpayer's foreign exploration and development expenses as were incurred by the taxpayer before the end of the taxation year to the extent they were not deductible in computing the taxpayer's income for a previous taxation year, and"

Editorial Note: Subsection 66(4) provides for the deduction by a taxpayer of the taxpayer's foreign exploration development expenses ("FEDE"). FEDE cannot be incurred by taxpayer for taxation years commencing after 2000. Expenses that would otherwise be FEDE will be foreign resource expenses if they are incurred after that time. Only a taxpayer who is a resident in Canada throughout a taxation year may deduct FEDE. The taxpayer is entitled to claim a discretionary deduction equal to the greater of 10% of its FEDE at the end of the year and its income attributable to foreign oil and gas and mining activities including income from the disposition of foreign resource properties.

Related Sections: S. 66(5) Dealers; s. 87(7) Obligations of predecessor corporation — position of amalgamated corporation; s. 104(5.2) Resource property.

► 66(4.1) ◄

(4.1) Country-by-country FEDE allocations. For greater certainty, the portion of an amount deducted under subsection (4) in computing a taxpayer's income for a taxation year that can reasonably be considered to be in respect of specified foreign exploration and development expenses of the taxpayer in respect of a country is considered to apply to a source in that country.

History: S. 66(4.1) was added by S.C. 2001, c. 17, s. 44(4), applicable to taxation years of a taxpayer that begin after the earlier of

(*a*) December 31, 1999; and

(*b*) where, for the purposes of subsection 117(26), a date is designated in writing by the taxpayer and the designation is filed with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act receives royal assent [June 14, 2001], the later of

(i) the date so designated, and

(ii) December 31, 1994.

Editorial Note: Subsection 66(4.1) is relevant to the calculation by the taxpayer of its foreign tax credit in respect of the taxpayer's production tax amount for a country. The amount of the credit is based on the taxpayer's income allocable to the country. The income relevant for purposes of computing the credit is reduced by any specified foreign exploration and development expenses deducted.

Related Sections: S. 66(4) Foreign exploration and development expenses; s. 66(4.2) Method of allocation; s. 66(15) Definitions; s. 66.7(2) Successor of foreign exploration and development expenses; s. 66.7(2.1) Country-by-country successor FEDE allocations; s. 248(1), "foreign exploration and development expenses".

Canadian Petroleum Tax Journal: Foreign Exploration and Development Expenditures — The New Rules, Roch J. Martin, Vol. 14 No. 1 2001.

► 66(4.2) ◄

(4.2) Method of allocation. For the purpose of subsection (4.1), where a taxpayer has incurred specified foreign exploration and development expenses in respect of two or more countries, an allocation to each of those countries for a taxation year shall be determined in a manner that is

(*a*) reasonable having regard to all the circumstances, including the level and timing of

(i) the taxpayer's specified foreign exploration and development expenses in respect of the country, and

(ii) the profits or gains to which those expenses relate; and

(*b*) not inconsistent with the allocation made under subsection (4.1) for the preceding taxation year.

History: S. 66(4.2) was added by S.C. 2001, c. 17, s. 44(4), applicable to taxation years of a taxpayer that begin after the earlier of

(*a*) December 31, 1999; and

(*b*) where, for the purposes of subsection 117(26), a date is designated in writing by the taxpayer and the designation is filed with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act receives royal assent [June 14, 2001], the later of

(i) the date so designated, and

(ii) December 31, 1994.

Related Sections: S. 66(4) Foreign exploration and development expenses; s. 66(4.1) Country-by-country FEDE allocations; s. 66(15) Definitions; s. 66.7(2.1) Country-by-country successor FEDE allocations; s. 66.7(2.2) Method of allocation; s. 248(1), "foreign exploration and development expenses".

Canadian Petroleum Tax Journal: Foreign Exploration and Development Expenditures — The New Rules, Roch J. Martin, Vol. 14 No. 1 2001.

► 66(4.3) ◄

(4.3) FEDE deductions where change of individual's residence. Where at any time in a taxation year an individual becomes or ceases to be resident in Canada,

(*a*) subsection (4) applies to the individual as if the year were the period or periods in the year throughout which the individual was resident in Canada; and

(*b*) for the purpose of applying subsection (4), subsection (13.1) does not apply to the individual for the year.

History: S. 66(4.3) was added by S.C. 2001, c. 17, s. 44(4), applicable to the 1998 and subsequent taxation years.

Related Sections: S. 66(4) Foreign exploration and development expenses; s. 66(4.1) Country-by-country FEDE allocations; s. 66(4.2) Method of allocation; s. 66(13.1) Short taxation year; s. 66.21(5) Individual changing residence; s. 128.1 Change in residence.

► 66(5) ◄

(5) Dealers. Subsections (3) and (4) and sections 59, 64, 66.1, 66.2, 66.21, 66.4 and 66.7 do not apply in computing the income for a taxation year of a taxpayer (other than a principal-business corporation) whose business includes trading or dealing in rights, licences or privileges to explore for, drill for or take minerals, petroleum, natural gas or other related hydrocarbons.

History: S. 66(5) was amended by S.C. 2001, c. 17, s. 44(5), applicable to taxation years that begin after 2000. S. 66(5) formerly read:

"(5) *Dealers.* Subsections (3) and (4) and sections 59, 64, 66.1, 66.2, 66.4 and 66.7 do not apply in computing the income for a taxation year of a taxpayer (other than a principal-business corporation) whose business includes trading or dealing in rights, licences or privileges to explore for, drill for or take minerals, petroleum, natural gas or other related hydrocarbons."

S. 66(5) was amended by S.C. 1994, c. 7, Sched. II, s. 38(1), applicable to taxation years ending after February 17, 1987. S. 66(5) formerly read:

"(5) Subsections (3) and (4) and sections 59, 64, 66.1, 66.2 and 66.4 do not apply in computing the income for a taxation year under this Part of a taxpayer (other than a principal-business corporation) whose business includes trading or dealing in rights, licences or privileges to explore for, drill for or take minerals, petroleum, natural gas or other related hydrocarbons."

Interpretation Bulletins: *Secondary* — IT-291R3 Transfer of property to a corporation under subsection 85(1); IT-314 Income of dealers in oil and gas leases [Archived by the CRA]; IT-400 Exploration and development expenses — Meaning of principal-business corporation.

► 66(6) ◄

(6) Successor corporation's Canadian exploration and development expenses. [Repealed by 1987, c. 46, s. 18(1).]

Cases: Since a corporation formed through an amalgamation is deemed to be a new corporation, the transfer of properties by a parent corporation to its subsidiaries, and by them to the taxpayer formed through the amalgamation of P Ltd and another corporation did not allow it to stand in P Ltd's shoes and deduct the Canadian exploration and development expenses which P Ltd's predecessor corporations had not deducted, just as if the taxpayer had inherited P Ltd's "second successor corporation" status. *The Queen v. Pan Ocean Oil Ltd.*, (F.C.A.) 94 DTC 6412, reversing (F.C.T.D.) 93 DTC 5330.

► 66(7) ◄

(7) Second successor corporation's Canadian exploration and development expenses. [Repealed by 1987, c. 46, s. 18(1).]

► 66(8) ◄

(8) Successor corporation's foreign exploration and development expenses. [Repealed by 1987, c. 46, s. 18(1).]

▶ 66(9) ◀

(9) Second successor corporation's foreign exploration and development expenses. [Repealed by 1987, c. 46, s. 18(1).]

▶ 66(10) ◀

(10) Joint exploration corporation. [Repealed by S.C. 1997, c. 25, s. 13(1).]

History: S. 66(10) was repealed by S.C. 1997, c. 25, s. 13(1), applicable to renunciations made

(*a*) after 2006, in respect of a payment or loan received by a joint exploration corporation before March 6, 1996;

(*b*) after 2006, in respect of a payment or loan received by a joint exploration corporation after March 5, 1996 under an agreement in writing made

(i) by the corporation before March 6, 1996, or

(ii) by another corporation before March 6, 1996, where

(A) the other corporation controlled the corporation at the time the agreement was made, or

(B) the other corporation undertook, at the time the agreement was made, to form the corporation; and

(*c*) after March 5, 1996, in any other case.

S. 66(10) formerly read:

"(10) *Joint exploration corporation.* A joint exploration corporation may, in any particular taxation year or within 6 months from the end of that year, elect in prescribed form to renounce in favour of another corporation an agreed portion of the total of such of the joint exploration corporation's Canadian exploration and development expenses as were incurred by it during a period, after 1971 and before the end of the particular taxation year, throughout which the other corporation was a shareholder corporation, to the extent that the total of those expenses exceeds any amount deductible under subsection (1) in respect thereof by the joint exploration corporation in computing its income for any taxation year previous to the particular year and, on the election, that agreed portion

(*a*) shall be deemed, for the purpose of subsection (1) or (3), as the case may be, to be Canadian exploration and development expenses incurred by the other corporation during its taxation year in which the particular taxation year ends; and

(*b*) shall be subtracted from the total described in paragraph (1)(*a*) in determining the amount deductible by the joint exploration corporation under subsection (1) in computing its income."

Related Sections: S. 66(15), "agreed portion", "joint exploration corporation"; s. 163(2.2) False statement or omission.
Forms: T2035.

▶ 66(10.1) ◀

(10.1) Idem. [Repealed by S.C. 1997, c. 25, s. 13(1).]

History: S. 66(10.1) was repealed by S.C. 1997, c. 25, s. 13(1), applicable to renunciations made

(*a*) after 2006, in respect of a payment or loan received by a joint exploration corporation before March 6, 1996;

(*b*) after 2006, in respect of a payment or loan received by a joint exploration corporation after March 5, 1996 under an agreement in writing made

(i) by the corporation before March 6, 1996, or

(ii) by another corporation before March 6, 1996, where

(A) the other corporation controlled the corporation at the time the agreement was made, or

(B) the other corporation undertook, at the time the agreement was made, to form the corporation; and

(*c*) after March 5, 1996, in any other case.

S. 66(10.1) formerly read:

"(10.1) *Idem.* A joint exploration corporation may, in any particular taxation year or within 6 months from the end of that year, elect in prescribed form in respect of that year to renounce in favour of another corporation an agreed portion of the total of such of the joint exploration corporation's Canadian exploration expenses as were incurred by it during a period (ending before the end of the particular taxation year) throughout which the other corporation was a shareholder corporation, to the extent that the total of those expenses exceeds the total of all amounts each of which is

(*a*) an amount deducted or required to be deducted under subsection 66.1(2) in respect of those expenses by the joint exploration corporation in computing its income for any taxation year preceding the particular taxation year, or

(*b*) assistance that any person has received, is entitled to receive or, at any time, becomes entitled to receive in respect of those expenses incurred during the period or that can reasonably be regarded as relating to Canadian exploration activities of the joint exploration corporation during the period, other than that portion of the assistance arising because of section 127 or 127.1 in respect of a shareholder corporation of the joint exploration corporation,

and, on the making of the election, that agreed portion

(*c*) shall be deemed, for the purposes of the definitions 'Canadian exploration expense' and 'cumulative Canadian exploration expense' in subsection 66.1(6), to be a Canadian exploration expense incurred by the other corporation during its taxation year in which the particular taxation year ends or, if it has no such year, its last taxation year, and

(*d*) shall be included in the amount determined for F in the definition 'cumulative Canadian exploration expense' in subsection 66.1(6) by the joint exploration corporation in computing its cumulative Canadian exploration expense, at the time the election is made or, where the election is made after the end of the particular taxation year, immediately before the end of that year."

S. 66(10.1)(*a*) was amended by S.C. 1994, c. 8, s. 5(1), applicable to taxation years ending after December 2, 1992. S. 66(10.1)(*a*) formerly read:

"(*a*) an amount deductible under subsection 66.1(2) in respect of those expenses by the joint exploration corporation in computing its income for any taxation year preceding the particular taxation year, or"

S. 66(10.1)(*d*) was amended by S.C. 1994, c. 8, s. 5(2), applicable to taxation years ending after December 2, 1992. S. 66(10.1)(*d*) formerly read:

"(*d*) shall be included in the amount determined for F in the definition 'cumulative Canadian exploration expense' in subsection 66.1(6) by reason of its being deducted or deductible, as the case may be, by the joint exploration corporation in computing that corporation's cumulative Canadian exploration expense, at the time that the election is made or, where the election is made after the end of the particular taxation year, immediately before the end of that year."

S. 66(10.1)(*b*) was amended by S.C. 1994, c. 7, Sched. II, s. 38(2), applicable to assistance for expenses incurred after November 1985. The paragraph formerly read:

"(*b*) assistance that any person has received, is entitled to receive or, at any time, becomes entitled to receive in respect of those expenses incurred during the period or that can reasonably be related to Canadian exploration activities of the joint exploration corporation during the period,"

Related Sections: S. 66(3) Expenses of other taxpayers; s. 66(15), "assistance"; s. 66.1(2) Deduction for certain principal-business corporations; s. 66.1(6) Definitions; s. 163(2.2) False statement or omission.
Advance Tax Rulings: ATR-60 Joint exploration corporations.
Forms: T2035.

▶ 66(10.2) ◀

(10.2) Idem. [Repealed by S.C. 1997, c. 25, s. 13(1).]

History: S. 66(10.2) was repealed by S.C. 1997, c. 25, s. 13(1), applicable to renunciations made

(*a*) after 2006, in respect of a payment or loan received by a joint exploration corporation before March 6, 1996;

(*b*) after 2006, in respect of a payment or loan received by a joint exploration corporation after March 5, 1996 under an agreement in writing made

(i) by the corporation before March 6, 1996, or

(ii) by another corporation before March 6, 1996, where

(A) the other corporation controlled the corporation at the time the agreement was made, or

(B) the other corporation undertook, at the time the agreement was made, to form the corporation; and

(*c*) after March 5, 1996, in any other case.

S. 66(10.2) formerly read:

"(10.2) *Idem.* A joint exploration corporation may, in any particular taxation year or within 6 months from the end of that year, elect in prescribed form in respect of that year to renounce in favour of another corporation an agreed portion of the total of such of the joint exploration corporation's Canadian development expenses as were incurred by it during a period (ending before the end of the particular taxation year) throughout which the other corporation was a shareholder corporation, to the extent that the total of those expenses exceeds the total of all amounts each of which is

(*a*) an amount deducted under subsection 66.2(2) in respect of those expenses by the joint exploration corporation in computing its income for any taxation year preceding the particular taxation year, or

(*b*) assistance that any person has received, is entitled to receive or, at any time, becomes entitled to receive in respect of those expenses incurred during the period or that can reasonably be related to Canadian development activities of the joint exploration corporation during the period,

and, on the making of the election, that agreed portion

(*c*) shall be deemed, for the purposes of the definitions 'Canadian development expense' and 'cumulative Canadian development expense' in subsection 66.2(5), to be a Canadian development expense incurred by the other corporation during its taxation year in which the particular taxation year ends or, if it has no such year, its last taxation year, and

(*d*) shall be included in the amount determined for E in the definition 'cumulative Canadian development expense' in subsection 66.2(5) by reason of its being deducted by the joint exploration corporation in computing that corporation's cumulative Canadian development expense, at the time the election is made or, where the election is made after the end of the particular taxation year, immediately before the end of that year."

Related Sections: S. 66(15), "assistance"; s. 66.1(6) Definitions; s. 66.1(9) Canadian development expenses for preceding years; s. 163(2.2) False statement or omission.
Forms: T2035.

► 66(10.3) ◄

(10.3) Idem. [Repealed by S.C. 1997, c. 25, s. 13(1).]

History: S. 66(10.3) was amended by S.C. 1997, c. 25, s. 13(1), applicable to renunciations made

(*a*) after 2006, in respect of a payment or loan received by a joint exploration corporation before March 6, 1996;

(*b*) after 2006, in respect of a payment or loan received by a joint exploration corporation after March 5, 1996 under an agreement in writing made

(i) by the corporation before March 6, 1996, or

(ii) by another corporation before March 6, 1996, where

(A) the other corporation controlled the corporation at the time the agreement was made, or

(B) the other corporation undertook, at the time the agreement was made, to form the corporation; and

(*c*) after March 5, 1996, in any other case.

S. 66(10.3) formerly read:

"(10.3) *Idem.* A joint exploration corporation may, in any particular taxation year or within 6 months from the end of that year, elect in prescribed form in respect of that year to renounce in favour of another corporation an agreed portion of the total of such of the joint exploration corporation's Canadian oil and gas property expenses as were incurred by it during a period (ending before the end of the particular taxation year) throughout which the other corporation was a shareholder corporation, to the extent that the total of those expenses exceeds the total of all amounts each of which is

(*a*) an amount deducted under subsection 66.4(2) in respect of those expenses by the joint exploration corporation in computing its income for any taxation year preceding the particular taxation year, or

(*b*) assistance that any person has received, is entitled to receive or, at any time, becomes entitled to receive in respect of those expenses incurred during the period or that can reasonably be related to those expenses during the period,

and, on the making of the election, that agreed portion

(*c*) shall be deemed, for the purposes of the definitions 'Canadian oil and gas property expense' and 'cumulative Canadian oil and gas property expense' in subsection 66.4(5), to be a Canadian oil and gas property expense incurred by the other corporation during its taxation year in which the particular taxation year ends or, if it has no such year, its last taxation year, and

(*d*) shall be included in the amount determined for E in the definition 'cumulative Canadian oil and gas property expense' in subsection 66.4(5) by reason of its being deducted by the joint exploration corporation in computing that corporation's cumulative Canadian oil and gas property expense, at the time the election is made or, where the election is made after the end of the particular taxation year, immediately before the end of that year."

Related Sections: S. 66(15), "assistance"; s. 163(2.2) False statement or omission.

► 66(10.4) ◄

(10.4) Idem. Where a taxpayer has, after April 19, 1983, made a payment or loan described in paragraph (*a*) of the definition "agreed portion" in subsection (15) to a joint exploration corporation in respect of which the corporation has at any time renounced in favour of the taxpayer any Canadian exploration expenses, Canadian development expenses or Canadian oil and gas property expenses (in this subsection referred to as "resource expenses") under subsection (10.1), (10.2) or (10.3), the following rules apply:

(*a*) where the taxpayer receives as consideration for the payment or loan property that is capital property to the taxpayer,

(i) there shall be deducted in computing the adjusted cost base to the taxpayer of the property at any time the amount of any resource expenses renounced by the corporation in the taxpayer's favour in respect of the loan or payment at or before that time,

(ii) there shall be deducted in computing the adjusted cost base to the taxpayer at any time of any property for which the property, or any property substituted therefor, was exchanged the amount of any resource expenses renounced by the corporation in the taxpayer's favour in respect of the loan or payment at or before that time (except to the extent such amount has been deducted under subparagraph (i)), and

(iii) the amount of any resource expenses renounced by the corporation in favour of the taxpayer in respect of the loan or payment at any time, except to the extent that the renunciation of those expenses results in a deduction under subparagraph (i) or (ii), shall, for the purposes of this Act, be deemed to be a capital gain of the taxpayer from the disposition by the taxpayer of property at that time;

(*b*) where the taxpayer receives as consideration for the payment or loan property that is not capital property to the taxpayer,

(i) there shall be deducted in computing the cost to the taxpayer of the property at any time the amount of any resource expenses renounced by the corporation in the taxpayer's favour in respect of the loan or payment at or before that time, and

(ii) there shall be included in computing the amount referred to in paragraph 59(3.2)(*d*) for a taxation year the amount of any resource expenses renounced by the corporation in the taxpayer's favour in respect of the loan or payment at any time in the year, except to the extent that the amount has been deducted under subparagraph (i); and

(*c*) where the taxpayer does not receive any property as consideration for the payment, there shall be included in computing the amount referred to in paragraph 59(3.2)(*e*) for a taxation year the amount of any resource expenses renounced by the corporation in the taxpayer's favour in respect of the payment in the year, except to the extent that the amount has been deducted from the adjusted cost base to the taxpayer of shares of the corporation under paragraph 53(2)(*f.1*) in respect of the payment.

Advance Tax Rulings: ATR-60 Joint exploration corporations.

► 66(11) ◄

(11) Acquisition of control. Where after March 31, 1977 and before November 13, 1981 control of a corporation has been acquired by a person or persons who did not control the corporation at the time when it last ceased to carry on active business,

(*a*) the amount by which the Canadian exploration and development expenses incurred by the corporation before it last ceased to carry on active business exceeds the total of all amounts otherwise deductible by the corporation in respect of Canadian exploration and development expenses in computing its income for taxation years ending before control was so acquired, shall be deemed to have been deductible under this section by the corporation in computing its income for taxation years ending before control was so acquired;

(*b*) the amount by which the cumulative Canadian exploration expense of the corporation at the time it last ceased to carry on active business exceeds the total of amounts otherwise deducted under section

66.1 in computing its income for taxation years ending after that time and before control was so acquired, shall be deemed to have been deducted under that section by the corporation in computing its income for taxation years ending before control was so acquired;

(*c*) the amount by which the cumulative Canadian development expense of the corporation at the time it last ceased to carry on active business exceeds the total of amounts otherwise deducted under section 66.2 in computing its income for taxation years ending after that time and before control was so acquired, shall be deemed to have been deducted under that section by the corporation in computing its income for taxation years ending before control was so acquired;

(*d*) the amount by which the cumulative Canadian oil and gas property expense of the corporation at the time it last ceased to carry on active business exceeds the total of amounts otherwise deducted under section 66.4 in computing its income for taxation years ending after that time and before control was so acquired, shall be deemed to have been deducted under that section by the corporation in computing its income for taxation years ending before control was so acquired; and

(*e*) the amount by which the foreign exploration and development expenses incurred by the corporation before it last ceased to carry on active business exceeds the total of all amounts otherwise deductible by the corporation in respect of foreign exploration and development expenses in computing its income for taxation years ending before control was so acquired, shall be deemed to have been deductible under this section by the corporation in computing its income for taxation years ending before control was so acquired.

Related Sections: S. 66(11.3) Control; s. 66(15) Definitions; s. 256(7) Acquiring control; s. 256(8) Deemed exercise of right.
Regulations: 1202(1).

► 66(11.1) ◄

(11.1) Idem. [Repealed by 1987, c. 46, s. 18(2).]

► 66(11.2) ◄

(11.2) Idem. [Repealed by 1987, c. 46, s. 18(2).]

► 66(11.3) ◄

(11.3) Control. For the purposes of subsections (11) and 66.7(10), where a corporation acquired control of another corporation after November 12, 1981 and before 1983 by reason of the acquisition of shares of the other corporation pursuant to an agreement in writing concluded on or before November 12, 1981, it shall be deemed to have acquired that control on or before November 12, 1981.

► 66(11.4) ◄

(11.4) Change of control. Where,

(*a*) at any time, control of a corporation has been acquired by a person or group of persons,

(*b*) within the 12-month period that ended immediately before that time, the corporation or a partnership of which it was a majority interest partner acquired a Canadian resource property or a foreign resource property (other than a property that was owned by the corporation or partnership or a person that would, if section 251.1 were read without reference to the definition "controlled" in subsection 251.1(3), be affiliated with the corporation throughout the period that began immediately before the 12-month period began and ended at the time the property was acquired by the corporation or partnership), and

(*c*) immediately before the twelve month period commenced, the corporation was not a principal-business corporation and the partnership, if it were a corporation, would not be a principal-business corporation,

for the purposes of subsection (4) and sections 66.2, 66.21 and 66.4, except as those provisions apply for the purposes of section 66.7, the property is deemed not to have been acquired by the corporation or partnership before that time and is deemed to have been acquired by it at that time, except that, where the property has been disposed of by it before that time and not reacquired by it before that time, the property is deemed to have been acquired by the corporation or partnership immediately before it disposed of the property.

History: S. 66(11.4), the portion after paragraph (*c*) was amended by S.C. 2001, c.17, s. 44(6), applicable to taxation years that begin after 2000. S. 66(11.4), the portion after paragraph (*c*) formerly read:

"for the purposes of subsection (4) and sections 66.2 and 66.4, except as those provisions apply for the purposes of section 66.7, the property shall be deemed not to have been acquired by the corporation or partnership before that time and shall be deemed to have been acquired by it at that time, except that, where the property has been disposed of by it before that time and not reacquired by it before that time, the property shall be deemed to have been acquired by the corporation or partnership immediately before it disposed of the property."

S. 66(11.4)(*b*) was amended by S.C. 1998, c. 19, s. 104(3), applicable after April 26, 1995. S. 66(11.4)(*b*) formerly read:

"(*b*) within the twelve month period ending immediately before that time, the corporation, or a partnership of which it was a majority interest partner (within the meaning assigned by subsection 97(3.1)) acquired a Canadian resource property or a foreign resource property (other than a property that was owned by the corporation, partnership or a person or persons related to the corporation throughout the period commencing immediately before the twelve month period and ending at the time the property was acquired by the corporation or partnership), and"

Editorial Note: Subsection 66(11.4) applies in certain circumstances in which a corporation or a partnership of which it was a majority interest partner acquires a Canadian or foreign resource property within 12 months of the acquisition of control of the corporation. Where subsection 66(11.4) applies, the corporation or partnership is deemed not to have acquired the property except for the purposes of the successor corporation rules. As a result, the corporation cannot deduct any of the expenses related to the acquisition of such property, except pursuant to the successor corporation rules.

Related Sections: S. 66(11.5) Early change of control; s. 66(15), "Canadian resource property", "foreign resource property"; s. 256(7) Acquiring control; s. 256(8) Deemed exercise of right.

► 66(11.5) ◄

(11.5) Early change of control. For the purpose of subsection (11.4), where the corporation referred to in that subsection was incorporated or otherwise formed in the 12-month period referred to in that subsection, the corporation is deemed to have been, throughout the period that began immediately before the 12-month period and ended immediately after it was incorporated or otherwise formed,

(*a*) in existence; and

(*b*) affiliated with every person with whom it was affiliated (otherwise than because of a right referred to in paragraph 251(5)(*b*)) throughout the period that began when it was incorporated or otherwise

formed and ended immediately before its control was acquired.

History: S. 66(11.5) was amended by S.C. 1998, c. 19, s. 104(4), applicable to acquisitions of control that occur after April 26, 1995. S. 66(11.5) formerly read:

"(11.5) *Change of control within 12 months of incorporation.* For the purposes of subsection (11.4), where the corporation referred to in that subsection was incorporated or otherwise formed during the twelve month period referred to in that subsection, it shall be deemed to have been, throughout the period commencing immediately before the twelve month period and ending immediately after it was incorporated or otherwise formed,

(*a*) in existence; and

(*b*) related to the person or persons to whom it was related (otherwise than by virtue of a right referred to in paragraph 251(5)(*b*)) throughout the period commencing when it was incorporated or otherwise formed and ending immediately before control of the corporation was acquired."

Related Sections: S. 256(7) Acquiring control; s. 256(8) Deemed exercise of right.

► 66(12) ◄

(12) Computation of exploration and development expenses. In computing a taxpayer's Canadian exploration and development expenses,

(*a*) there shall be deducted any amount paid to the taxpayer before May 7, 1974

(i) and after 1971 under the *Northern Mineral Exploration Assistance Regulations* made under an appropriation Act that provides for payments in respect of the Northern Mineral Grants Program, or

(ii) pursuant to any agreement entered into between the taxpayer and Her Majesty in right of Canada under the Northern Mineral Grants Program or the Development Program of the Department of Indian Affairs and Northern Development, to the extent that the amount has been expended by the taxpayer as or on account of Canadian exploration and development expenses incurred by the taxpayer; and

(*b*) there shall be included any amount, except an amount in respect of interest, paid by the taxpayer after 1971 and before May 7, 1974 under the Regulations referred to in subparagraph (*a*)(i) to Her Majesty in right of Canada.

Related Sections: S. 66(15) Definitions.

► 66(12.1) ◄

(12.1) Limitations of Canadian exploration and development expenses. Except as expressly otherwise provided in this Act,

(*a*) where as a result of a transaction occurring after May 6, 1974 an amount has become receivable by a taxpayer at a particular time in a taxation year and the consideration given by the taxpayer therefor was property (other than a share or a Canadian resource property, or an interest therein or a right thereto) or services, the original cost of which to the taxpayer may reasonably be regarded as having been primarily Canadian exploration and development expenses of the taxpayer (or would have been so regarded if they had been incurred by the taxpayer after 1971 and before May 7, 1974) or a Canadian exploration expense, there shall at that time be included in the amount determined for G in the definition "cumulative Canadian exploration expense" in subsection 66.1(6) in respect of the taxpayer the amount that became receivable by the taxpayer at that time; and

(*b*) where as a result of a transaction occurring after May 6, 1974 an amount has become receivable by a taxpayer at a particular time in a taxation year and the consideration given by the taxpayer therefor was property (other than a share or a Canadian resource property, or an interest therein or a right thereto) or services, the original cost of which to the taxpayer may reasonably be regarded as having been primarily a Canadian development expense, there shall at that time be included in the amount determined for G in the definition "cumulative Canadian development expense" in subsection 66.2(5) in respect of the taxpayer the amount that became receivable by the taxpayer at that time.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraphs 66(12.1)(*a*) and (*b*) of the Act are replaced by the following:

(*a*) where as a result of a transaction occurring after May 6, 1974 an amount has become receivable by a taxpayer at a particular time in a taxation year and the consideration given by the taxpayer therefor was property (other than a share or a Canadian resource property, or an interest in or a right to — or, for civil law, a right in or to — the share or the property) or services, the original cost of which to the taxpayer may reasonably be regarding as having been primarily Canadian exploration and development expenses of the taxpayer (or would have been so regarded if they had been incurred by the taxpayer after 1971 and before May 7, 1974) or a Canadian exploration expense, there shall at that time be included in the amount determined for G in the definition "cumulative Canadian exploration expense" in subsection 66.1(6) in respect of the taxpayer the amount that became receivable by the taxpayer at that time; and

(*b*) where as a result of a transaction occurring after May 6, 1974 an amount has become receivable by a taxpayer at a particular time in a taxation year and the consideration given by the taxpayer therefor was property (other than a share or a Canadian resource property, or an interest in or a right to — or, for civil law, a right in or to — the share or the property) or services, the original cost of which to the taxpayer may reasonably be regarded as having been primarily a Canadian development expense, there shall at that time be included in the amount determined for G in the definition "cumulative Canadian development expense" in subsection 66.2(5) in respect of the taxpayer the amount that became receivable by the taxpayer at that time.

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

Editorial Note: When a taxpayer incurs Canadian exploration expenses and Canadian development expenses and sells the property resulting from such expenses, paragraphs 66(12.1)(*a*) and (*b*) require the taxpayer to reduce its cumulative Canadian exploration expense or cumulative Canadian development expense, respectively, by the proceeds of disposition. Property does not include a share or a Canadian resource property.

Related Sections: S. 66(15) Definitions; s. 66.2(5) Definitions; s. 66.2(6) Share of partner.

Interpretation Bulletins: *Secondary*—IT-125R4 Disposition of resource properties.
Advance Tax Rulings: ATR-59 Financing exploration and development through limited partnerships.
Canadian Petroleum Tax Journal: A Practical Guide to the Flow-Through Share Rules, Greg Johnson, CA, Vol. 15 No. 1 2002.

► 66(12.2) ◄

(12.2) Unitized oil or gas field in Canada. Where, pursuant to an agreement between a taxpayer and another person to unitize an oil or gas field in Canada, an amount has become receivable by the taxpayer at a particular time after May 6, 1974 from that other person in respect of Canadian exploration expense incurred by the taxpayer or Canadian exploration and development expenses incurred by the taxpayer (or expenses that would have been Canadian exploration and development expenses if they had been incurred by the taxpayer after 1971 and before May 7, 1974) in respect of that field or any part thereof, the following rules apply:

(*a*) there shall, at that time, be included by the taxpayer in the amount determined for G in the definition "cumulative Canadian exploration expense" in subsection 66.1(6) the amount that became receivable by the taxpayer; and

(*b*) there shall, at that time, be included by the other person in the amount referred to in paragraph (*c*) of the definition "Canadian exploration expense" in subsection 66.1(6) the amount that became payable by that person.

Related Sections: S. 66(15) Definitions.
Interpretation Bulletins: *Secondary*—IT-125R4 Disposition of resource properties.

► 66(12.3) ◄

(12.3) Idem. Where, pursuant to an agreement between a taxpayer and another person to unitize an oil or gas field in Canada, an amount has become receivable by the taxpayer at a particular time after May 6, 1974 from that other person in respect of Canadian development expense incurred by the taxpayer in respect of that field or any part thereof, the following rules apply:

(*a*) there shall, at that time, be included by the taxpayer in the amount determined for G in the definition "cumulative Canadian development expense" in subsection 66.2(5) the amount that became receivable by the taxpayer; and

(*b*) there shall, at that time, be included by the other person in the amount referred to in paragraph (*a*) of the definition "Canadian development expense" in subsection 66.2(5) the amount that became payable by that person.

Related Sections: S. 66.1(6), "restricted expense"; s. 66.1(9) Canadian development expenses for preceding years; s. 66.2(5) Definitions.
Interpretation Bulletins: *Secondary*—IT-125R4 Disposition of resource properties.

► 66(12.4) ◄

(12.4) Limitation of FEDE. Where, as a result of a transaction that occurs after May 6, 1974, an amount becomes receivable by a taxpayer at a particular time in a taxation year and the consideration given by the taxpayer for the amount receivable is property (other than a foreign resource property) or services, the original cost of which to the taxpayer can reasonably be regarded as having been primarily foreign exploration and development expenses of the taxpayer (or would have been so regarded if they had been incurred by the taxpayer after 1971 and the definition "foreign exploration and development expenses" in subsection (15) were read without reference to paragraph (*k*) of that definition), the following rules apply:

(*a*) in computing the taxpayer's foreign exploration and development expenses at that time, there shall be deducted the amount receivable by the taxpayer;

(*b*) where the amount receivable exceeds the total of the taxpayer's foreign exploration and development expenses incurred before that time to the extent that those expenses were not deducted or deductible, as the case may be, in computing the taxpayer's income for a preceding taxation year, there shall be included in the amount referred to in paragraph 59(3.2)(*a*) the amount, if any, by which the amount receivable exceeds the total of

(i) the taxpayer's foreign exploration and development expenses incurred before that time to the extent that those expenses were not deducted or deductible, as the case may be, in computing the taxpayer's income for a preceding taxation year, and

(ii) the amount, designated by the taxpayer in prescribed form filed with the taxpayer's return of income for the year, not exceeding the portion of the amount receivable for which the consideration given by the taxpayer was property (other than a foreign resource property) or services, the original cost of which to the taxpayer can reasonably be regarded as having been primarily

(A) specified foreign exploration and development expenses in respect of a country, or

(B) foreign resource expenses in respect of a country; and

(*c*) where an amount is included in the amount referred to in paragraph 59(3.2)(*a*) by virtue of paragraph (*b*), the total of the taxpayer's foreign exploration and development expenses at that time shall be deemed to be nil.

History: S. 66(12.4), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 44(7), applicable to taxation years that begin after 2000. S. 66(12.4), the portion before paragraph (*a*) formerly read:

"(12.4) *Limitation of foreign exploration and development expenses.* Where, as a result of a transaction occurring after May 6, 1974, an amount has become receivable by a taxpayer at a particular time in a taxation year and the consideration given by the taxpayer therefor was property (other than a foreign resource property) or services, the original cost of which to the taxpayer may reasonably be regarded as having been primarily foreign exploration and development expenses of the taxpayer (or would have been so regarded if they had been incurred by the taxpayer after 1971), the following rules apply:"

S. 66(12.4)(*b*) was amended by S.C. 2001, c. 17, s. 44(8), applicable to taxation years that begin after 2000. S. 66(12.4)(*b*) formerly read:

"(*b*) where the amount receivable exceeds the total of the taxpayer's foreign exploration and development expenses incurred before that time to the extent that those expenses were not deducted or deductible, as the case may be, in computing the taxpayer's income for a previous taxation year, there shall be included in the amount referred to in paragraph 59(3.2)(*a*) the amount by which

(i) the amount receivable

exceeds

(ii) the total of the taxpayer's foreign exploration and development expenses incurred by the taxpayer before that time to the extent that those expenses were not deducted or deductible, as the case may be, in computing the taxpayer's income for a previous taxation year; and"

Editorial Note: Subsections 66(12.4) and (12.41) apply to foreign exploration and development expenses and foreign resource expenses in a country in the same manner as subsection 66(12.1) applies to Canadian exploration expenses and Canadian development expenses.

Related Sections: S. 59(3.2) Recovery of exploration and development expenses; s. 95(1), "foreign affiliate".

Canadian Petroleum Tax Journal: Foreign Exploration and Development Expenditures — The New Rules, Roch J. Martin, Vol. 14 No. 1 2001.

► 66(12.41) ◄

(12.41) Limitations of foreign resource expenses. Where a particular amount described in subsection (12.4) becomes receivable by a taxpayer at a particular time, there shall at that time be included in the value determined for G in the definition "cumulative foreign resource expense" in subsection 66.21(1) in respect of the taxpayer and a country the amount designated under subparagraph (12.4)(b)(ii) by the taxpayer in respect of the particular amount and the country.

History: S. 66(12.41) was added by S.C. 2001, c. 17, s. 44(9), applicable to taxation years that begin after 2000.

Canadian Petroleum Tax Journal: Foreign Exploration and Development Expenditures — The New Rules, Roch J. Martin, Vol. 14 No. 1 2001.

► 66(12.42) ◄

(12.42) Partnerships. For the purposes of subsections (12.4) and (12.41), where a person or partnership is a member of a particular partnership and a particular amount described in subsection (12.4) becomes receivable by the particular partnership in a fiscal period of the particular partnership,

(*a*) the member's share of the particular amount is deemed to be an amount that became receivable by the member at the end of the fiscal period; and

(*b*) the amount deemed by paragraph (*a*) to be an amount receivable by the member is deemed to be an amount

(i) that is described in subsection (12.4) in respect of the member, and

(ii) that has the same attributes for the member as it did for the particular partnership.

History: S. 66(12.42) was added by S.C. 2001, c. 17, s. 44(9), applicable to fiscal periods that begin after 2000.

► 66(12.5) ◄

(12.5) Unitized oil or gas field in Canada. Where, pursuant to an agreement between a taxpayer and another person to unitize an oil or gas field in Canada, an amount has become receivable by the taxpayer at a particular time from that other person in respect of Canadian oil and gas property expense incurred by the taxpayer in respect of that field or any part thereof, the following rules apply:

(*a*) there shall, at that time, be included by the taxpayer in the amount determined for G in the definition "cumulative Canadian oil and gas property expense" in subsection 66.4(5) the amount that became receivable by the taxpayer; and

(*b*) there shall, at that time, be included by the other person in the amount referred to in paragraph (*a*) of the definition "Canadian oil and gas property expense" in subsection 66.4(5) the amount that became payable by that person.

Interpretation Bulletins: *Secondary* — IT-125R4 Disposition of resource properties.

► 66(12.6) ◄

(12.6) Canadian exploration expenses to flow-through shareholder. Where a person gave consideration under an agreement to a corporation for the issue of a flow-through share of the corporation and, in the period that begins on the day the agreement was made and ends 24 months after the end of the month that includes that day, the corporation incurred Canadian exploration expenses, the corporation may, after it complies with subsection (12.68) in respect of the share and before March of the first calendar year that begins after the period, renounce, effective on the day on which the renunciation is made or on an earlier day set out in the form prescribed for the purposes of subsection (12.7), to the person in respect of the share the amount, if any, by which the part of those expenses that was incurred on or before the effective date of the renunciation (which part is in this subsection referred to as the "specified expenses") exceeds the total of

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 66(12.6) of the Act before paragraph (*a*) is replaced by the following:

(12.6) Canadian exploration expenses to flow-through shareholder. If a person gave consideration under an agreement to a corporation for the issue of a flow-through share of the corporation and, in the period that begins on the day on which the agreement was made and ends 24 months after the end of the month that includes that day, the corporation incurred Canadian exploration expenses (other than an expense deemed by subsection 66.1(9) to be a Canadian exploration expense of the corporation), the corporation may, after it complies with subsection (12.68) in respect of the share and before March of the first calendar year that begins after the period, renounce, effective on the day on which the renunciation is made or on an earlier day set out in the form prescribed for the purpose of subsection (12.7), to the person in respect of the share the amount, if any, by which the portion of those expenses that was incurred on or before the effective date of the renunciation (which portion is in this subsection referred to as the "specified expenses") exceeds the total of

Applicable: To renunciations made after December 20, 2002.

Explanatory Note:

Canadian Exploration Expenses to Flow-Through Shareholder

Subsection 66(12.6) of the Act permits a principal-business corporation to renounce Canadian exploration expenses ("CEE") to its flow-through shareholders. To be eligible for flow-through treatment, CEE must be incurred in the 24-month period that begins on the day on which the relevant flow-through share agreement is entered into and must be incurred, or deemed to be incurred, on or before the effective date of the renunciation.

Subsection 66.1(9) of the Act provides for the reclassification of certain Canadian development expenses as CEE ("reclassified CDE"). The reclassified CDE is deemed, for the purposes of the Act, to be incurred by the taxpayer at the time of the reclassification and not at the time the reclassified CDE was actually incurred. To ensure that expenses actually incurred before a flow-through share agreement is entered into cannot be renounced under a flow-through share agreement, subsection 66(12.6) is amended, applicable to renunciations made after December 20, 2002, to exclude reclassified CDE from CEE that may be renounced by a corporation to its flow-through shareholders.

(*a*) the assistance that the corporation has received, is entitled to receive or can reasonably be expected to receive at any time, and that can reasonably be related to the specified expenses or to Canadian exploration activities to which the specified expenses relate (other than assistance that can rea-

sonably be related to expenses referred to in paragraph (*b*) or (*b.1*)),

(*b*) all specified expenses that are prescribed Canadian exploration and development overhead expenses of the corporation,

(*b.1*) all specified expenses each of which is a cost of, or for the use of, seismic data

(i) that had been acquired (otherwise than as a consequence of performing work that resulted in the creation of the data) by any other person before the cost was incurred,

(ii) in respect of which a right to use had been acquired by any other person before the cost was incurred, or

(iii) all or substantially all of which resulted from work performed more than one year before the cost was incurred, and

(*c*) the total of amounts that are renounced on or before the date on which the renunciation is made by any other renunciation under this subsection in respect of those expenses,

but not in any case

(*d*) exceeding the amount, if any, by which the consideration for the share exceeds the total of other amounts renounced under this subsection or subsection (12.601) or (12.62) in respect of the share on or before the day on which the renunciation is made, or

(*e*) exceeding the amount, if any, by which the cumulative Canadian exploration expense of the corporation on the effective date of the renunciation computed before taking into account any amounts renounced under this subsection on the date on which the renunciation is made, exceeds the total of all amounts renounced under this subsection in respect of any other share

(i) on the date on which the renunciation is made, and

(ii) effective on or before the effective date of the renunciation.

History: S. 66(12.6), the portion before paragraph (*c*), was amended by S.C. 1997, c. 25, s. 13(2), applicable to expenses incurred after February 1996. That part formerly read:

"(12.6) *Canadian exploration expenses to flow-through shareholder.* Where a person gave consideration under an agreement to a corporation for the issue of a flow-through share of the corporation and, during the period beginning on the day the agreement was entered into and ending 24 months after the end of the month that included that day, the corporation incurred Canadian exploration expenses, the corporation may, after it complies with subsection (12.68) in respect of the share and before March of the first calendar year beginning after that period, renounce, effective on the date on which the renunciation is made or on an earlier date set out in the form prescribed for the purposes of subsection (12.7), to the person in respect of the share the amount, if any, by which those expenses incurred by it during that period and on or before the effective date of the renunciation exceed the total of

(*a*) the assistance that it has received, is entitled to receive, or may reasonably be expected to receive at any time, and that may reasonably be related to those expenses or to Canadian exploration activities to which those expenses relate (other than assistance that may reasonably be attributable to expenses referred to in paragraph (*b*)),

(*b*) any of those expenses that are prescribed Canadian exploration and development overhead expenses of the corporation, and"

S. 66(12.6)(*b.1*) was added by S.C. 1997, c. 25, s. 13(3), applicable to costs incurred after March 5, 1996, other than costs incurred under an agreement in writing made before March 6, 1996.

S. 66(12.6)(*d*) was amended by S.C. 1997, c. 25, s. 13(4), applicable to renunciations made after 1998. S. 66(12.6)(*d*) formerly read:

"(*d*) exceeding the amount, if any, by which the consideration for the share exceeds the total of other amounts renounced under this subsection or subsection (12.601), (12.62) or (12.64) in respect of the share on or before the date on which the renunciation is made, or"

S. 66(12.6), the portion before paragraph (*a*), was amended by S.C. 1994, c. 8, s. 5(3), applicable to expenses incurred after February 1986. The portion formerly read:

"(12.6) Where a person has given consideration under an agreement to a corporation for the issue of a flow-through share of the corporation and, during the period commencing on the day the agreement was entered into and ending 24 months after the end of the month that included that day, the corporation has incurred Canadian exploration expenses, the corporation may, after it has complied with subsection (12.68) in respect of the share and within that period or within 30 days thereafter, renounce, effective on the date on which the renunciation is made or on such earlier date as may be set out in the form prescribed for the purposes of subsection (12.7), to the person in respect of the share the amount, if any, by which those expenses incurred by it during that period and on or before the effective date of the renunciation exceed the total of"

S. 66(12.6)(*d*) was amended by S.C. 1994, c. 8, s. 5(4), applicable to expenses incurred after December 2, 1992. S. 66(12.6)(*d*) formerly read:

"(*d*) exceeding the amount, if any, by which the consideration for the share exceeds the total of other amounts renounced in respect of the share under this subsection or subsection (12.62) or (12.64) on or before the date on which the renunciation is made, or"

Editorial Note: Subsections 66(12.6) to (12.75) set out the rules relating to the flow-through share regime which permit a corporation to renounce Canadian exploration expenses ("CEE") and Canadian development expenses ("CDE") incurred by the corporation to a person who enters into an agreement with the corporation to acquire flow-through shares. Only a principal-business corporation may issue flow-through shares.

Subsection 66(12.6) sets out the rules pursuant to which a corporation may renounce CEE, subsection 66(12.6.01) sets out the rules pursuant to which a corporation may renounce certain CDE incurred in oil and gas activities as CEE and subsection 66(12.62) sets out the rules pursuant to which a corporation may renounce CDE.

Subsections 66(12.61) and (12.63) provide that the CEE and CDE so renounced are deemed to be incurred by the person who entered into the agreement and not by the corporation.

Related Sections: S. 66(12.7) Filing re renunciation; s. 66(12.73) Reductions in renunciations; s. 66(15), "assistance", "flow-through share"; s. 66(16) Partnerships; s. 66(19) Renunciation by corporate partner, etc; s. 66.1(6) Definitions; s. 163(2.2) False statement or omission.
Regulations: 228; 1206(4.2), (4.3).
Forms: T101; T101A.
Canadian Petroleum Tax Journal: Renewable Energy — Tax Developments and Opportunities, Leanne Sereda, Vol. 13 No. 1 2000; Flow-Through Shares: An Update, Angelo F. Toselli, Vol. 10 No. 1 1997.

► 66(12.601) ◄

(12.601) Flow-through share rules for first $1 million of Canadian development expenses. Where

(*a*) a person gave consideration under an agreement to a corporation for the issue of a flow-through share of the corporation,

(*a.1*) the corporation's taxable capital amount at the time the consideration was given was not more than $15,000,000, and

(*b*) during the period beginning on the later of December 3, 1992 and the particular day the agreement was entered into and ending on the day that is 24 months after the end of the month that included that particular day, the corporation incurred Canadian development expenses described in paragraph (*a*) or (*b*) of the definition "Canadian development expense" in subsection 66.2(5) or that would be described in paragraph (*f*) of that definition if the words "paragraphs (*a*) to (*e*)" in that paragraph were read as "paragraphs (*a*) and (*b*)",

the corporation may, after it complies with subsection (12.68) in respect of the share and before March of the first calendar year that begins after that period, renounce, effective on the day on which the renunciation is made or on an earlier day set out in the form prescribed for the purposes of subsection (12.7), to the person in respect of the share the amount, if any, by which the part of those expenses that

was incurred on or before the effective date of the renunciation (which part is in this subsection referred to as the "specified expenses") exceeds the total of

(*c*) the assistance that the corporation has received, is entitled to receive, or can reasonably be expected to receive at any time, and that can reasonably be related to the specified expenses or Canadian development activities to which the specified expenses relate (other than assistance that can reasonably be related to expenses referred to in paragraph (*d*)),

(*d*) all specified expenses that are prescribed Canadian exploration and development overhead expenses of the corporation, and

(*e*) all amounts that are renounced on or before the day on which the renunciation is made by any other renunciation under this subsection or subsection (12.62) in respect of those expenses.

History: S. 66(12.601), the portion before paragraph (*b*), was amended by S.C. 1997, c. 25, s. 13(5), applicable to renunciations made after March 5, 1996, other than a renunciation made before 1999 in respect of consideration given

(*a*) before March 6, 1996; or

(*b*) under an agreement in writing made before March 6, 1996 or under the terms of a prospectus, preliminary prospectus, registration statement, offering memorandum or notice filed before March 6,1996 with a public authority in Canada in accordance with securities legislation of a province.

That part formerly read:

"(12.601) *Flow-through share rules for first $2 million of Canadian development expenses.* Where

(*a*) a person gave consideration under an agreement to a corporation for the issue of a flow-through share of the corporation, and"

S. 66(12.601), the portion after paragraph (*b*) and before paragraph (*e*), was amended by S.C. 1997, c. 25, s. 13(6), applicable to expenses incurred after December 2, 1992. That part formerly read:

"the corporation may, after it complies with subsection (12.68) in respect of the share and before March of the first calendar year beginning after that period, renounce, effective on the day on which the renunciation is made or on an earlier day set out in the form prescribed for the purposes of subsection (12.7), to the person in respect of the share the amount, if any, by which those expenses incurred by it during that period and on or before the effective date of the renunciation exceed the total of

(*c*) the assistance that it has received, is entitled to receive, or can reasonably be expected to receive at any time, and that can reasonably be related to those expenses or Canadian development activities to which those expenses relate (other than assistance that can reasonably be attributable to expenses referred to in paragraph (*b*)),

(*d*) any of those expenses that are prescribed Canadian exploration and development overhead expenses of the corporation, and"

S. 66(12.601) was added by S.C. 1994, c. 8, s. 5(5), applicable to expenses incurred after December 2, 1992.

Related Sections: S. 66(12.6) Canadian exploration expenses to flow-through shareholder; s. 66(12.61) Effect of renunciation; s. 66(12.7)–(12.73); s. 66(15) Definitions; s. 66(19) Renunciation by corporate partner, etc; s. 66.1(6) Definitions; s. 66.2(5) Definitions; s. 161(6.2) Flow-through share renunciations; s. 163(2.2) False statement or omission; s. 181.2(1) Taxable capital employed in Canada; s. 181.2(4) Investment allowance.

Regulations: 1206(4.2), (4.3).

Canadian Petroleum Tax Journal: A Practical Guide to the Flow-Through Share Rules, Greg Johnson, CA, Vol. 15 No. 1 2002.

► 66(12.6011) ◄

(12.6011) Taxable capital amount. For the purpose of subsection (12.601), a particular corporation's taxable capital amount at any time is the total of

(*a*) its taxable capital employed in Canada for its last taxation year that ended more than 30 days before that time, and

(*b*) the total of all amounts each of which is the taxable capital employed in Canada of another corporation associated at that time with the particular corporation for the other corporation's last taxation year that ended more than 30 days before that time.

History: S. 66(12.6011) was added by S.C. 1997, c. 25, s. 13(7), applicable after March 5, 1996, except that the amount determined under subsection 66(12.6011), in respect of a renunciation by a corporation shall be determined as if each other corporation associated with the corporation were not so associated where the renunciation was made before 1999 in respect of consideration given

(*a*) before December 6, 1996; or

(*b*) under an agreement in writing made before December 6, 1996 or under the terms of a prospectus, preliminary prospectus, registration statement, offering memorandum or notice filed before December 7, 1996 with a public authority in Canada in accordance with securities legislation of a province.

► 66(12.6012) ◄

(12.6012) Taxable capital employed in Canada. For the purpose of determining a corporation's taxable capital amount at a particular time under subsection (12.6011) and for the purpose of subsection (12.6013), a particular corporation's taxable capital employed in Canada for a taxation year is the amount that would be its taxable capital employed in Canada for the year, determined in accordance with subsection 181.2(1) and without reference to the portion of its investment allowance (as determined under subsection 181.2(4)) that is attributable to shares of the capital stock of, dividends payable by, or indebtedness of, another corporation that

(*a*) was not associated with the particular corporation at the particular time; and

(*b*) was associated with the particular corporation at the end of the particular corporation's last taxation year that ended more than 30 days before that time.

History: S. 66(12.6012) was added by S.C. 1997, c. 25, s. 13(7), applicable after March 5, 1996, except that the amount determined under subsection 66(12.6011), in respect of a renunciation by a corporation shall be determined as if each other corporation associated with the corporation were not so associated where the renunciation was made before 1999 in respect of consideration given

(*a*) before December 6, 1996; or

(*b*) under an agreement in writing made before December 6, 1996 or under the terms of a prospectus, preliminary prospectus, registration statement, offering memorandum or notice filed before December 7, 1996 with a public authority in Canada in accordance with securities legislation of a province.

► 66(12.6013) ◄

(12.6013) Amalgamations and mergers. For the purpose of determining the taxable capital amount at a particular time under subsection (12.6011) of any corporation and for the purpose of this subsection, a particular corporation that was created as a consequence of an amalgamation or merger of other corporations (each of which is in this subsection referred to as a "predecessor corporation"), and that does not have a taxation year that ended more than 30 days before the particular time, is deemed to have taxable capital employed in Canada for a taxation year that ended more than 30 days before the particular time equal to the total of all amounts each of which is the taxable capital employed in Canada of a predecessor corporation for its last taxation year that ended more than 30 days before the particular time.

History: S. 66(12.6013) was added by S.C. 1997, c. 25, s. 13(7), applicable after March 5, 1996, except that the amount determined under subsection 66(12.6011), in respect of a renunciation by a corporation shall be determined as if each other corporation associated with the corporation were not so associated where the renunciation was made before 1999 in respect of consideration given

(*a*) before December 6, 1996; or

(*b*) under an agreement in writing made before December 6, 1996 or under the terms of a prospectus, preliminary prospectus, registration statement, offering memorandum or notice filed before December 7, 1996 with a public authority in Canada in accordance with securities legislation of a province.

► 66(12.602) ◄

(12.602) Idem. A corporation shall be deemed not to have renounced any particular amount under subsection (12.601) in respect of a share where

(*a*) the particular amount exceeds the amount, if any, by which the consideration for the share exceeds the total of other amounts renounced in respect of the share under subsection (12.6), (12.601) or (12.62) on or before the day on which the renunciation is made;

(*b*) the particular amount exceeds the amount, if any, by which

(i) the cumulative Canadian development expense of the corporation on the effective date of the renunciation, computed before taking into account any amounts renounced under subsection (12.601) on the day on which the renunciation is made,

exceeds

(ii) the total of all amounts renounced under subsection (12.601) by the corporation in respect of any other share

(A) on the day on which the renunciation is made, and

(B) effective on or before the effective date of the renunciation; or

(*c*) the particular amount relates to Canadian development expenses incurred by the corporation in a calendar year and the total amounts renounced, on or before the day on which the renunciation is made, under subsection (12.601) in respect of

(i) Canadian development expenses incurred by the corporation in that calendar year, or

(ii) Canadian development expenses incurred in that calendar year by another corporation associated with the corporation at the time the other corporation incurred such expenses

exceeds $1,000,000.

History: S. 66(12.602)(*a*) was amended by S.C. 1997, c. 25, s. 13(8), applicable to renunciations made after 1998. S. 66(12.602)(*a*) formerly read:

"(*a*) the particular amount exceeds the amount, if any, by which the consideration for the share exceeds the total of other amounts renounced in respect of the share under subsection (12.6), (12.601), (12.62) or (12.64) on or before the day on which the renunciation is made;"

S. 66(12.602)(*c*), the portion after subparagraph (ii), was amended by S.C. 1997, c. 25, s. 13(9), applicable to renunciations made after March 5, 1996, other than a renunciation made before 1999 in respect of consideration given

(*a*) before March 6, 1996; or

(*b*) under an agreement in writing made before March 6, 1996 or under the terms of a prospectus, preliminary prospectus, registration statement, offering memorandum or notice filed before March 6, 1996 with a public authority in Canada in accordance with securities legislation of a province.

That part formerly read:

"exceeds $2,000,000."

S. 66(12.602) was added by S.C. 1994, c. 8, s. 5(5), applicable to expenses incurred after December 2, 1992.

Canadian Petroleum Tax Journal: A Practical Guide to the Flow-Through Share Rules, Greg Johnson, CA, Vol. 15 No. 1 2002.

► 66(12.61) ◄

(12.61) Effect of renunciation. Subject to subsections (12.69) to (12.702), where under subsection (12.6) or (12.601) a corporation renounces an amount to a person,

(*a*) the Canadian exploration expenses or Canadian development expenses to which the amount relates shall be deemed to be Canadian exploration expenses incurred in that amount by the person on the effective date of the renunciation; and

(*b*) the Canadian exploration expenses or Canadian development expenses to which the amount relates shall, except for the purposes of that renunciation, be deemed on and after the effective date of the renunciation never to have been Canadian exploration expenses or Canadian development expenses incurred by the corporation.

History: S. 66(12.61), the portion before paragraph (*a*), was amended by S.C. 1997, c. 25, s. 13(10), applicable to renunciations made after 1998. That part formerly read:

"(12.61) *Effect of renunciation.* Subject to subsections (12.69) to (12.701), where under subsection (12.6) or (12.601) a corporation renounces an amount to a person,"

S. 66(12.61) was amended by S.C. 1994, c. 8, s. 5(5), applicable to expenses incurred after December 2, 1992. S. 66(12.61) formerly read:

"(12.61) Subject to subsections (12.69) to (12.701), where under subsection (12.6) a corporation renounces an amount to a person,

(*a*) the Canadian exploration expenses to which the amount relates shall be deemed to be Canadian exploration expenses incurred in that amount by the person on the effective date of the renunciation; and

(*b*) the Canadian exploration expenses to which the amount relates shall, except for the purpose of that renunciation, be deemed on and after the effective date of the renunciation never to have been Canadian exploration expenses incurred by the corporation."

S. 66(12.61), the portion before paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 38(3), applicable after July 13, 1990. The portion formerly read:

"(12.61) Where a corporation renounces an amount to a person under subsection (12.6),"

Related Sections: S. 66(12.69)–66(12.702) Filing.

► 66(12.62) ◄

(12.62) Canadian development expenses to flow-through shareholder. Where a person gave consideration under an agreement to a corporation for the issue of a flow-through share of the corporation and, in the period that begins on the day the agreement was made and ends 24 months after the end of the month that includes that day, the corporation incurred Canadian development expenses, the corporation may, after it complies with subsection (12.68) in respect of the share and before March of the first calendar year that begins after the period, renounce, effective on the day on which the renunciation is made or on an earlier day set out in the form prescribed for the purposes of subsection (12.7), to the person in respect of the share the amount, if any, by which the part of those expenses that was incurred on or before the effective date of the renunciation (which part is in this subsection referred to as the "specified expenses") exceeds the total of

(*a*) the assistance that the corporation has received, is entitled to receive, or can reasonably be expected to receive at any time, and that can reasonably be related to the specified expenses or to Canadian development activities to which the specified expenses relate (other than assistance that can reasonably be related to expenses referred to in paragraph (*b*) or (*b*.1)),

(*b*) all specified expenses that are prescribed Canadian exploration and development overhead expenses of the corporation,

(*b*.1) all specified expenses that are described in paragraph (*e*) of the definition "Canadian development expense" in subsection 66.2(5) or that are described in paragraph (*f*) of that definition because of the reference in the latter paragraph to paragraph (*e*), and

(*c*) the total of amounts that are renounced on or before the day on which the renunciation is made by any other renunciation under this subsection or subsection (12.601) in respect of those expenses,

but not in any case

(*d*) exceeding the amount, if any, by which the consideration for the share exceeds the total of other amounts renounced in respect of the share under this subsection or subsection (12.6) or (12.601) on or before the day on which the renunciation is made, or

(*e*) exceeding the amount, if any, by which the cumulative Canadian development expense of the corporation on the effective date of the renunciation computed before taking into account any amounts renounced under this subsection on the date on which the renunciation is made, exceeds the total of all amounts renounced under this subsection in respect of any other share

(i) on the date on which the renunciation is made, and

(ii) effective on or before the effective date of the renunciation.

History: S. 66(12.62), the portion before paragraph (*c*), was amended by S.C. 1997, c. 25, s. 13(11), applicable to expenses incurred after February 1996. That part formerly read:

"(12.62) *Canadian development expenses to flow-through shareholder.* Where a person gave consideration under an agreement to a corporation for the issue of a flow-through share of the corporation and, during the period beginning on the day the agreement was entered into and ending 24 months after the end of the month that included that day, the corporation incurred Canadian development expenses, the corporation may, after it complies with subsection (12.68) in respect of the share and before March of the first calendar year beginning after that period, renounce, effective on the date on which the renunciation is made or on an earlier date set out in the form prescribed for the purposes of subsection (12.7), to the person in respect of the share the amount, if any, by which those expenses incurred by it during that period and on or before the effective date of the renunciation exceed the total of

(*a*) the assistance that it has received, is entitled to receive, or may reasonably be expected to receive at any time, and that may reasonably be related to those expenses or to Canadian development activities to which those expenses relate (other than assistance that may reasonably be attributable to expenses referred to in paragraph (*b*)),

(*b*) any of those expenses that are prescribed Canadian exploration and development overhead expenses of the corporation, and"

S. 66(12.62)(*b.1*) was added by S.C. 1997, c. 25, s. 13(12), applicable to renunciations made after March 5, 1996, other than a renunciation made before 1999 in respect of consideration given

(*a*) before March 6, 1996; or

(*b*) under an agreement in writing made before March 6, 1996 or under the terms of a prospectus, preliminary prospectus, registration statement, offering memorandum or notice filed before March 6, 1996 with a public authority in Canada in accordance with securities legislation of a province.

S. 66(12.62)(*d*) was amended by S.C. 1997, c. 25, s. 13(13), applicable to renunciations made after 1998. S. 66(12.62)(*d*) formerly read:

"(*d*) exceeding the amount, if any, by which the consideration for the share exceeds the total of other amounts renounced in respect of the share under this subsection or subsection (12.6), (12.601) or (12.64) on or before the date on which the renunciation is made, or"

S. 66(12.62), the portion before paragraph (*a*), was amended by S.C. 1994, c. 8, s. 5(6), applicable to expenses incurred after February 1986. The portion formerly read:

"(12.62) Where a person has given consideration under an agreement to a corporation for the issue of a flow-through share of the corporation and, during the period commencing on the day the agreement was entered into and ending 24 months after the end of the month that included that day, the corporation has incurred Canadian development expenses, the corporation may, after it has complied with subsection (12.68) in respect of the share and within that period or within 30 days thereafter, renounce, effective on the date on which the renunciation is made or on such earlier date as may be set out in the form prescribed for the purposes of subsection (12.7), to the person in respect of the share the amount, if any, by which those expenses incurred by it during that period and on or before the effective date of the renunciation exceed the total of"

S. 66(12.62), the portion after paragraph (*b*) and before paragraph (*e*), was amended by S.C. 1994, c. 8, s. 5(7), applicable to expenses incurred after December 2, 1992. The portion formerly read:

"(*c*) the total of amounts that are renounced on or before the date on which the renunciation is made by any other renunciation under this subsection in respect of those expenses,

but not in any case

(*d*) exceeding the amount, if any, by which the consideration for the share exceeds the total of other amounts renounced in respect of the share under this subsection or subsection (12.6) or (12.64) on or before the date on which the renunciation is made, or"

Related Sections: S. 66(12.6) Canadian exploration expenses to flow-through shareholder; s. 66(12.601) Flow-through share rules for first $1 million of Canadian development expenses; s. 66(12.7)–(12.73); s. 66(15), "flow-through share"; s. 66(19) Renunciation by corporate partner, etc; s. 66.1(6), "restricted expense"; s. 66.2(5) Definitions; s. 163(2.2) False statement or omission.

Regulations: 1206(4.2), (4.3).

Forms: T100A; T101; T101A; T101D.

► 66(12.63) ◄

(12.63) Effect of renunciation. Subject to subsections (12.691) to (12.702), where under subsection (12.62) a corporation renounces an amount to a person,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 66(12.63) of the Act before paragraph (*a*) is replaced by the following:

(12.63) Effect of renunciation. Subject to subsections (12.69) to (12.702), if under subsection (12.62) a corporation renounces an amount to a person,

Applicable: To renunciations made after December 20, 2002.

Explanatory Note:

Effect of Renunciation

Subsection 66(12.63) of the Act provides that Canadian development expenses renounced under subsection 66(12.62) of the Act by a corporation to a person are considered to have been incurred by that person on the effective date of the renunciation and not to have been incurred by the corporation.

Subsection 66(12.63) currently provides that it is subject to subsections 66(12.691) to (12.702) of the Act. Subsection 66(12.63) is amended, applicable to renunciations made after December 20, 2002, to provide that it is subject to subsections 66(12.69) to (12.702).

(*a*) the Canadian development expenses to which the amount relates shall be deemed to be Canadian development expenses incurred in that amount by the person on the effective date of the renunciation; and

(*b*) the Canadian development expenses to which the amount relates shall, except for the purposes of that renunciation, be deemed on and after the effective date of the renunciation never to have been Canadian development expenses incurred by the corporation.

History: S. 66(12.63), the portion before paragraph (*a*), was amended by S.C. 1997, c. 25, s. 13(14), applicable to renunciations made after 1998. That part formerly read:

"(12.63) *Effect of renunciation.* Subject to subsections (12.69) to (12.701), where under subsection (12.62) a corporation renounces an amount to a person,"

S. 66(12.63), the portion before paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 38(4), applicable after July 13, 1990. The portion formerly read:

"(12.63) Where a corporation renounces an amount to a person under subsection (12.62),"

Related Sections: S. 66(12.69)–(12.702) Filing; s. 66.1(9) Canadian development expenses for preceding years.

► 66(12.64) ◄

(12.64) Canadian oil and gas property expenses to flow-through shareholder. [Repealed by S.C. 1997, c. 25, s. 13(15).]

History: S. 66(12.64) was repealed by S.C. 1997, c. 25, s. 13(15), applicable to renunciations made after March 5, 1996, other than a renunciation made before 1999 in respect of consideration given

(*a*) before March 6, 1996; or

(*b*) under an agreement in writing made before March 6, 1996 or under the terms of a prospectus, preliminary prospectus, registration statement, offering memorandum or notice filed before March 6, 1996 with a public authority in Canada in accordance with securities legislation of a province.

S. 66(12.64) formerly read:

"(12.64) *Canadian oil and gas property expenses to flow-through shareholder.* Where a person gave consideration under an agreement to a corporation for the issue of a flow-through share of the corporation and, during the period beginning on the day the agreement was entered into and ending 24 months after the end of the month that included that day, the corporation incurred Canadian oil and gas property expenses, the corporation may, after it complies with subsection (12.68) in respect of the share and before March of the first calendar year beginning after that period, renounce, effective on the date on which the renunciation is made or on an earlier date set out in the form prescribed for the purposes of subsection (12.7), to the person in respect of the share the amount, if any, by which those expenses incurred by it during that period and on or before the effective date of the renunciation exceed the total of

(*a*) the assistance that it has received, is entitled to receive, or may reasonably be expected to receive at any time, and that may reasonably be related to those expenses, and

(*b*) the total of amounts that are renounced on or before the date on which the renunciation is made by any other renunciation under this subsection in respect of those expenses,

but not in any case

(*c*) exceeding the amount, if any, by which the consideration for the share exceeds the total of other amounts renounced in respect of the share under this subsection or subsection (12.6), (12.601) or (12.62) on or before the date on which the renunciation is made, or

(*d*) exceeding the amount, if any, by which the cumulative Canadian oil and gas property expense of the corporation on the effective date of the renunciation computed before taking into account any amounts renounced under this subsection on the date on which the renunciation is made, exceeds the total of all amounts renounced under this subsection in respect of any other share

(i) on the date on which the renunciation is made, and

(ii) effective on or before the effective date of the renunciation."

S. 66(12.64), the portion before paragraph (*a*), was amended by S.C. 1994, c. 8, s. 5(8), applicable to expenses incurred after February 1986. The portion formerly read:

"(12.64) Where a person has given consideration under an agreement to a corporation for the issue of a flow-through share of the corporation and, during the period commencing on the day the agreement was entered into and ending 24 months after the end of the month that included that day, the corporation has incurred Canadian oil and gas property expenses, the corporation may, after it has complied with subsection (12.68) in respect of the share and within that period or within 30 days thereafter, renounce, effective on the date on which the renunciation is made or on such earlier date as may be set out in the form prescribed for the purposes of subsection (12.7), to the person in respect of the share the amount, if any, by which those expenses incurred by it during that period and on or before the effective date of the renunciation exceed the total of"

S. 66(12.64)(*c*) was amended by S.C. 1994, c. 8, s. 5(9), applicable to expenses incurred after December 2, 1992. S. 66(12.64)(*c*) formerly read:

"(*c*) exceeding the amount, if any, by which the consideration for the share exceeds the total of other amounts renounced in respect of the share under this subsection or subsection (12.6) or (12.62) on or before the date on which the renunciation is made, or"

Related Sections: S. 66(12.6) Canadian exploration expenses to flow-through shareholder; s. 66(12.601) Flow-through share rules for first $1 million of Canadian development expenses; s. 66(12.7)–(12.73); s. 66(15), "assistance", "flow-through share"; s. 66(19) Renunciation by corporate partner, etc; s. 66.4(5) Definitions; s. 163(2.2) False statement or omission.

► 66(12.65) ◄

(12.65) Effect of renunciation. [Repealed by S.C. 1997, c. 25, s. 13(15).]

History: S. 66(12.65) was repealed by S.C. 1997, c. 25, s. 13(15), applicable to renunciations made after March 5, 1996, other than a renunciation made before 1999 in respect of consideration given

(*a*) before March 6, 1996; or

(*b*) under an agreement in writing made before March 6, 1996 or under the terms of a prospectus, preliminary prospectus, registration statement, offering memorandum or notice filed before March 6, 1996 with a public authority in Canada in accordance with securities legislation of a province.

S. 66(12.65) formerly read:

"(12.65) *Effect of renunciation.* Subject to subsections (12.69) to (12.701), where under subsection (12.64) a corporation renounces an amount to a person,

(*a*) the Canadian oil and gas property expenses to which the amount relates shall be deemed to be Canadian oil and gas property expenses incurred in that amount by the person on the effective date of the renunciation; and

(*b*) the Canadian oil and gas property expense to which the amount relates shall, except for the purposes of that renunciation, be deemed on and after the effective date of the renunciation never to have been Canadian oil and gas property expenses incurred by the corporation."

S. 66(12.65), the portion before paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 38(5), applicable after July 13, 1990. The portion formerly read:

"(12.65) Where a corporation renounces an amount to a person under subsection (12.64),"

► 66(12.66) ◄

(12.66) Expenses in the first 60 days of year. Where

(*a*) a corporation that issues a flow-through share to a person under an agreement incurs, in a particular calendar year, Canadian exploration expenses or Canadian development expenses,

(*a*.1) the agreement was made in the preceding calendar year,

(*b*) the expenses

(i) are described in paragraph (*a*), (*d*), (*f*) or (g.1) of the definition "Canadian exploration expense" in subsection 66.1(6) or paragraph (*a*) or (*b*) of the definition "Canadian development expense" in subsection 66.2(5),

(ii) would be described in paragraph (*h*) of the definition "Canadian exploration expense" in subsection 66.1(6) if the words "paragraphs (*a*) to (*d*) and (*f*) to (g.1)" were read as "paragraphs (*a*), (*d*), (*f*) and (g.1)", or

(iii) would be described in paragraph (*f*) of the definition "Canadian development expense" in subsection 66.2(5) if the words "any of paragraphs (*a*) to (*e*)" were read as "paragraph (*a*) or (*b*)",

(*c*) before the end of that preceding year the person paid the consideration in money for the share to be issued,

(*d*) the corporation and the person deal with each other at arm's length throughout the particular year, and

(*e*) in January, February or March of the particular year, the corporation renounces an amount in respect of the expenses to the person in respect of the share in accordance with subsection (12.6) or (12.601) and the effective date of the renunciation is the last day of that preceding year,

the corporation is for the purpose of subsection (12.6) or for the purposes of subsection (12.601) and paragraph (12.602)(*b*), as the case may be, deemed to have incurred the expenses on the last day of the year.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 66(12.66) of the English version of the Act after paragraph (*e*) is replaced by the following:

the corporation is, for the purpose of subsection (12.6), or of subsection (12.601) and paragraph (12.602)(*b*), as the case may be, deemed to have incurred the expenses on the last day of that preceding year.

Applicable: Royal Assent.

Explanatory Note:

Expenses in the First 60 Days of the Year

Subsection 66(12.66) of the Act permits a corporation to renounce Canadian exploration expenses ("CEE") and Canadian development expenses ("CDE") to a flow-through shareholder within defined limits. Where the conditions described in subsection 66(12.66) are met, the corporation may renounce in January, February or March of a particular calendar year, effective as of the end of the preceding calendar year, the expenses described in subsection 66(12.66) that the corporation has incurred, or plans to incur, in the particular year. In other words, subsection 66(12.66) provides a "look-back" period of one year.

The French version of subsection 66(12.66) is amended to insert paragraph (*a*.1), which was inadvertently omitted when the subsection was amended by subsection 104(5) of S.C. 1998, c. 19 (formerly Bill C-28), and to correct certain grammatical errors.

The closing words of subsection 66(12.66) currently refer to "the last day of the year". The closing words are amended, effective upon Royal Assent, to clarify that the reference to "the year" means the preceding year referred to in paragraphs 66(12.66)(*a*.1), (*c*) and (*e*).

History: Ss. 66(12.66)(*b*)(i) and (ii) were replaced by S.C. 2003, c. 28, s. 4(2), applicable to expenses incurred after 2002 pursuant to a flow-through share agreement entered into after July 26, 2002. Ss. 66(12.66)(*b*)(i) and (ii) formerly read:

"(i) are described in paragraph (*a*), (*d*) or (*f*) of the definition 'Canadian exploration expense' in subsection 66.1(6) or paragraph (*a*) or (*b*) of the definition 'Canadian development expense' in subsection 66.2(5),

(ii) would be described in paragraph (*h*) of the definition 'Canadian exploration expense' in subsection 66.1(6) if the words "paragraphs (*a*) to (*d*) and (*f*) to (*g*.1)" were read as "paragraphs (*a*), (*d*) and (*f*)", or"

S. 66(12.66)(*b*)(ii) was replaced by S.C. 2003, c. 28, s. 4(1), applicable after December 5, 1996. S. 66(12.66)(*b*)(ii) formerly read:

"(ii) would be described in paragraph (*h*) of the definition 'Canadian exploration expense' in subsection 66.1(6) if the words 'paragraphs (*a*), (*b*), (*c*), (*d*), (*f*) and (*g*)' were read as 'paragraphs (*a*), (*d*) and (*f*)', or"

S. 66(12.66), the portion after paragraph (*e*), was amended by S.C. 1998, c. 19, s. 104(5), applicable to expenses incurred after 1992. S. 66(12.66), the portion after paragraph (*e*) formerly read:

"the corporation shall for the purpose of subsection (12.6) or (12.601) be deemed to have incurred the expenses on the effective date of the renunciation."

S. 66(12.66)(*a*) was amended by S.C. 1997, c. 25, s. 13(16), applicable to expenses incurred after 1996, except that

(*a*) it does not apply to expenses incurred in January or February of 1997 in respect of an agreement that was made in 1995; and

(*b*) for the purpose of applying paragraph 66(12.66)(*a*.1) to expenses incurred in 1998, any agreement made in 1996 is deemed to have been made in 1997.

S. 66(12.66)(*a*) formerly read:

"(*a*) a corporation that issues a flow-through share to a person under an agreement incurs, within 60 days after the end of a calendar year, Canadian exploration expenses or Canadian development expenses,"

S. 66(12.66)(*a*.1) was added by S.C. 1997, c. 25, s. 13(16), applicable to expenses incurred after 1996, except that

(*a*) it does not apply to expenses incurred in January or February of 1997 in respect of an agreement that was made in 1995; and

(*b*) for the purpose of applying paragraph 66(12.66)(*a*.1) to expenses incurred in 1998, any agreement made in 1996 is deemed to have been made in 1997.

S. 66(12.66)(*b*) was amended by S.C. 1997, c. 25, s. 13(17), applicable to expenses incurred after 1992. S. 66(12.66)(*b*) formerly read:

"(*b*) the expenses are expenses described in paragraph (*a*), (*d*) or (*f*) of the definition 'Canadian exploration expense' in subsection 66.1(6) or paragraph (*a*) or (*b*) of the definition 'Canadian development expense' in subsection 66.2(5),"

S. 66(12.66)(*c*), (*d*), and (*e*) were amended by S.C. 1997, c. 25, s. 13(18), applicable to expenses incurred after 1996, except not to expenses incurred in January or February of 1997 in respect of an agreement that was made in 1995. Those paragraphs formerly read:

"(*c*) before the end of the year, the agreement was entered into between the corporation and the person and the person paid the consideration for the share in money,

(*d*) the corporation and the person deal with each other at arm's length throughout the 60 days, and

(*e*) within 90 days after the end of the year, the corporation renounces an amount in respect of the expenses to the person in respect of the share in accordance with subsection (12.6) or (12.601) and the effective date of the renunciation is the last day of the year,"

S. 66(12.66) was amended by S.C. 1994, c. 8, s. 5(10), applicable to expenses incurred after 1992. S. 66(12.66) formerly read:

"(12.66) Where

(*a*) a corporation that issues a flow-through share to a person under an agreement incurs, within 60 days after the end of a calendar year, Canadian exploration expenses,

(*b*) the Canadian exploration expenses are expenses described in paragraph (*a*), (*d*) or (*f*) of the definition 'Canadian exploration expense' in subsection 66.1(6),

(*c*) before the end of the year, the agreement was entered into between the corporation and the person and the person paid the consideration for the share in money,

(*d*) the corporation and the person deal with each other at arm's length throughout the 60 days, and

(*e*) within 90 days after the end of the year the corporation renounces an amount in respect of the Canadian exploration expenses to the person in respect of the share in accordance with subsection (12.6) and the effective date of the renunciation is the last day of the year,

the corporation shall for purposes of subsection (12.6) be deemed to have incurred the expenses on the effective date of the renunciation."

Editorial Note: A corporation may renounce effective as of December 31 of a previous calendar year, the expenses referred to in subsection 66(12.66) which it has incurred or will incur in a particular calendar year. The corporation must make the renunciation in January, February or March of the particular year.

Related Sections: S. 59(3.5)(*b*) Variation of stated percentage; s. 66(12.6) Canadian exploration expenses to flow-through shareholder; s. 66(12.601) Flow-through share rules for first $1 million of Canadian development expenses; s. 66(12.602)(*b*) Deemed non-renunciation of Canadian development expenses; s. 66(15), "flow-through share"; s. 66(16) Partnerships; s. 66(17) Non-arm's length partnerships; s. 66.1(6) "Canadian exploration expense"; s. 66.2(5), "Canadian development expense"; s. 87(4.4) Flow-through shares; s. 127(9), "flow-through mining expenditure", "investment tax credit"; s. 161(6.2) Flow-through share renunciations; s. 163(2.2) False statement or omission; s. 163(2.21) False statement or omissions with respect to look-back rule; s. 211.91(1) Tax imposed; s. 248(1), "specified future tax consequence; s. 251(1) Arm's length.

Canadian Petroleum Tax Journal: A Practical Guide to the Flow-Through Share Rules, Greg Johnson, CA, Vol. 15 No. 1 2002.

► 66(12.67) ◄

(12.67) Restrictions on renunciation. A corporation shall be deemed

(*a*) not to have renounced under any of subsections (12.6), (12.601) and (12.62) any expenses that are deemed to have been incurred by it because of a renunciation under this section by another corporation that is not related to it;

(*b*) not to have renounced under subsection (12.601) to a trust, corporation or partnership any Canadian development expenses (other than expenses renounced to another corporation that renounces under subsection (12.6) any Canadian exploration expense deemed to have been incurred by it because of the renunciation under subsection (12.601)) if, in respect of the renunciation under subsection (12.601), it has a prohibited relationship with the trust, corporation or partnership;

(*c*) not to have renounced under subsection (12.601) any Canadian development expenses deemed to have been incurred by it because of a renunciation under subsection (12.62); and

(*d*) not to have renounced under subsection (12.6) to a particular trust, corporation or partnership any Canadian exploration expenses (other than expenses ultimately renounced by another corporation under subsection (12.6) to an individual (other than a trust) or to a trust, corporation or partnership with which that other corporation does not have, in respect of that ultimate renunciation, a prohibited relationship) deemed to be incurred by it because of a renunciation under subsection (12.601) if, in respect of the renunciation under subsection (12.6), it has a prohibited relationship with the particular trust, corporation or partnership.

History: S. 66(12.67)(*a*) was amended by S.C. 1997, c. 25, s. 13(19), applicable to renunciations made after 1998. S. 66(12.67)(*a*) formerly read:

"(*a*) not to have renounced under any of subsections (12.6), (12.601), (12.62) and (12.64) any expenses that are deemed to have been incurred by it because of a renunciation under this section by another corporation that is not related to it;"

S. 66(12.67) was amended by S.C. 1994, c. 8, s. 5(11), applicable to expenses incurred after December 2, 1992. S. 66(12.67) formerly read:

"(12.67) *Restriction on renunciation.* A corporation shall not renounce under any of subsections (12.6), (12.62) and (12.64) any expenses that are deemed to have been incurred by it by virtue of a renunciation under this section by another corporation that is not related to it."

Editorial Note: There are a number of restrictions imposed on the ability of a corporation to renounce expenses. A corporation may not renounce any expenses that have been renounced to it by a person that is not related to it. A corporation may not renounce Canadian development expenses as Canadian exploration expenses pursuant to subsection 66(12.601) to a person with whom it has a prohibited relationship. Prohibited relationships are relevant only to renunciations under subsection 66(12.601) and therefore have no application to the renunciation of expenses which are Canadian exploration expenses without the deeming provisions of subsection 66(12.601).

Related Sections: S. 66(12.6) Canadian exploration expenses to flow-through shareholder; s. 66(12.61) Effect of renunciation; s. 66(12.62) Canadian development expenses to flow-through shareholder; s. 66(12.63) Effect of renunciation; s. 66(12.64) Canadian oil and gas property expenses to flow-through shareholder; s. 66(12.65) Effect of renunciation; s. 66(12.671) Prohibited relationship.

► 66(12.671) ◄

(12.671) Prohibited relationship. For the purposes of subsection (12.67), where a trust, corporation (in paragraph (*b*) referred to as the "shareholder corporation") or partnership, as the case may be, gave consideration under a particular agreement for the issue of a flow-through share of a particular corporation, the particular corporation has, in respect of a renunciation under subsection (12.6) or (12.601) in respect of the share, a prohibited relationship

(*a*) with the trust if, at any time after the particular agreement was entered into and before the share is issued to the trust, the particular corporation or any corporation related to the particular corporation is beneficially interested in the trust;

(*b*) with the shareholder corporation if, immediately before the particular agreement was entered into, the shareholder corporation was related to the particular corporation; or

(*c*) with the partnership if any part of the amount renounced would, but for subsection (12.7001), be included, because of paragraph (*h*) of the definition "Canadian exploration expense" in subsection 66.1(6), in the Canadian exploration expense of

(i) the particular corporation, or

(ii) any other corporation that, at any time

(A) after the particular agreement was entered into, and

(B) before that part of the amount renounced would, but for this paragraph, be incurred,

would, if flow-through shares issued by the particular corporation under agreements entered into at the same time as or after the time the particular agreement was entered into were disregarded, be related to the particular corporation.

History: S. 66(12.671)(*c*), the portion before subparagraph (i), was amended by S.C. 1997, c. 25, s. 13(20), applicable to renunciations made after 1998. That part formerly read:

"(*c*) with the partnership if any part of the amount renounced would, but for subsection (12.7), be included, because of paragraph (*h*) of the definition 'Canadian exploration expense' in subsection 66.1(6), in the Canadian exploration expense of"

S. 66(12.671) was added by S.C. 1994, c. 8, s. 5(11), applicable to expenses incurred after December 2, 1992.

Related Sections: S. 248(25) Beneficially interested.

► 66(12.68) ◄

(12.68) Filing selling instruments. A corporation that agrees to issue or prepares a selling instrument in respect of flow-through shares shall file with the Minister a prescribed form together with a copy of the selling instrument or agreement to issue the shares on or before the last day of the month following the earlier of

(*a*) the month in which the agreement to issue the shares is entered into, and

(*b*) the month in which the selling instrument is first delivered to a potential investor,

and the Minister shall thereupon assign an identification number to the form and notify the corporation of the number.

Related Sections: S. 66(12.7) Filing re renunciation; s. 66(12.75) Penalty; s. 66(15), "selling instrument"; s. 163.2 Amount of penalty.
Forms: T100A; T100B; T100C.

► 66(12.69) ◄

(12.69) Filing re partners. Where, in a fiscal period of a partnership, an expense is incurred by the partnership as a consequence of a renunciation of an amount under subsection (12.6), (12.601) or (12.62), the partnership shall, before the end of the third month that begins after the end of the period, file with the Minister a prescribed form identifying the share of the expense attributable to each member of the partnership at the end of the period.

History: S. 66(12.69) was amended by S.C. 1997, c. 25, s. 13(21), applicable to renunciations made after 1998. S. 66(12.69) formerly read:

"(12.69) *Filing re partners.* Where, in a fiscal period of a partnership, an expense is or, but for this subsection, would be incurred by the partnership as a consequence of a renunciation of an amount under subsection (12.6), (12.601), (12.62) or (12.64), the partnership shall, on or before the last day of the third month following the end of that period, file with the Minister a prescribed form indicating the share of the expense attributable to each member of the partnership at the end of the period and, where the prescribed form is not so filed, the partnership shall be deemed not to have incurred the expense."

S. 66(12.69) was amended by S.C. 1994, c. 8, s. 5(12), applicable to expenses incurred after December 2, 1992. S. 66(12.69) formerly read:

"(12.69) Where, in a fiscal period of a partnership, an expense is or, but for this subsection, would be incurred by the partnership as a consequence of a renunciation of an amount under subsection (12.6), (12.62) or (12.64), the partnership shall, on or before the last day of the third month following the end of that period, file with the Minister a prescribed form indicating the share of the expense attributable to each member of the partnership at the end of the period and, where the prescribed form is not so filed, the partnership shall be deemed not to have incurred the expense."

S. 66(12.69) was amended by S.C. 1994, c. 7, Sched. II, s. 38(6), applicable to fiscal periods ending after July 13, 1990. S. 66(12.69) formerly read:

"(12.69) *Filing re partners.* Where, as a consequence of a renunciation of an amount under subsection (12.6), (12.62) or (12.64), an expense is incurred by a partnership in a fiscal period thereof, the partnership shall, on or before

the last day of the third month following the end of that period, file with the Minister an information return in prescribed form indicating the share of the expense attributable to each member of the partnership at the end of that period."

Related Sections: S. 66(12.74) Late filed forms; s. 66(12.75) Penalty.
Forms: T5016.

► 66(12.6901) ◄

(12.6901) Consequences of failure to file. Where a partnership fails to file a prescribed form as required under subsection (12.69) in respect of an expense, except for the purpose of subsection (12.69) the partnership is deemed not to have incurred the expense.

History: S. 66(12.6901) was added by S.C. 1997, c. 25, s. 13(21), applicable to renunciations made after 1998.

► 66(12.691) ◄

(12.691) Filing re assistance. Where a partnership receives or becomes entitled to receive assistance as an agent for its members or former members at a particular time in respect of any Canadian exploration expense or Canadian development expense that is or, but for paragraph (12.61)(*b*) or (12.63)(*b*), would be incurred by a corporation, the following rules apply:

(*a*) where the entitlement of any such member or former member to any part of the assistance is known by the partnership as of the end of the partnership's first fiscal period ending after the particular time and that part of the assistance was not required to be reported under paragraph (*b*) in respect of a calendar year ending before the end of that fiscal period, the partnership shall, on or before the last day of the third month following the end of that fiscal period, file with the Minister a prescribed form indicating the share of that part of the assistance paid to each of those members or former members before the end of that fiscal period or to which each of those members or former members is entitled at the end of that fiscal period;

(*b*) where the entitlement of any of those members or former members to any part of the assistance is known by the partnership as of the end of a calendar year that ends after the particular time and that part of the assistance was not required to be reported under paragraph (*a*) in respect of a fiscal period ending at or before the end of that calendar year, or under this paragraph in respect of a preceding calendar year, the partnership shall, on or before the last day of the third month following the end of that calendar year, file with the Minister a prescribed form indicating the share of that part of the assistance paid to each of those members or former members before the end of that fiscal period or to which each of those members or former members is entitled at the end of that calendar year; and

(*c*) where a prescribed form required to be filed under paragraph (*a*) or (*b*) is not so filed, the part of that expense relating to the assistance required to be reported in the prescribed form shall be deemed not to have been incurred by the partnership.

History: S. 66(12.691), the portion before paragraph (*a*), was amended by S.C. 1997, c. 25, s. 13(22), applicable to renunciations made after 1998. That part formerly read:

"(12.691) *Idem.* Where a partnership receives or becomes entitled to receive assistance as an agent for its members or former members at a particular time in respect of any Canadian exploration expense, Canadian development expense or Canadian oil and gas property expense that is or, but for paragraph (12.61)(*b*), (12.63)(*b*) or (12.65)(*b*), would be incurred by a corporation, the following rules apply:"

S. 66(12.691) was added by S.C. 1994, c. 7, Sched. II, s. 38(6), applicable to assistance that a partnership receives or becomes entitled to receive after 1989 and in a fiscal period of the partnership ending after July 13, 1990.

► 66(12.7) ◄

(12.7) Filing re renunciation. Where a corporation renounces an amount in respect of Canadian exploration expenses or Canadian development expenses under subsection (12.6), (12.601) or (12.62), the corporation shall file a prescribed form in respect of the renunciation with the Minister before the end of the first month after the month in which the renunciation is made.

History: S. 66(12.7) was amended by S.C. 1997, c. 25, s. 13(23), applicable to renunciations made after 1998. S. 66(12.7) formerly read:

"(12.7) *Filing.* Where a corporation renounces an amount in respect of Canadian exploration expenses, Canadian development expenses or Canadian oil and gas property expenses under subsection (12.6), (12.601), (12.62) or (12.64), the corporation shall file a prescribed form in respect of the renunciation with the Minister before the end of the first month following the month in which the renunciation is made and, where the prescribed form is not so filed, subsections (12.61), (12.63) and (12.65) do not apply in respect of the amount so renounced."

S. 66(12.7) was amended by S.C. 1994, c. 8, s. 5(13), applicable to renunciations made after December 2, 1992. S. 66(12.7) formerly read:

"(12.7) Where a corporation renounces an amount in respect of Canadian exploration expenses, Canadian development expenses or Canadian oil and gas property expenses under subsection (12.6), (12.62) or (12.64), the corporation shall file a prescribed form in respect of the renunciation with the Minister before the end of the first month following the month in which the renunciation is made and, where the prescribed form is not so filed, subsections (12.61), (12.63) and (12.65) do not apply in respect of the amount so renounced."

S. 66(12.7) was amended by S.C. 1994, c. 7, Sched. II, s. 38(6), applicable to renunciations made after July 13, 1990. S. 66(12.7) formerly read:

"(12.7) Where a corporation renounces an amount in respect of Canadian exploration expenses, Canadian development expenses or Canadian oil and gas property expenses under subsection (12.6), (12.62) or (12.64), the corporation shall file a prescribed form in respect of the renunciation with the Minister on or before the last day of the month following the month in which the renunciation was made."

Related Sections: S. 66(12.74) Late filed forms; s. 66(12.75) Penalty.
Forms: T101; T101A.

► 66(12.7001) ◄

(12.7001) Consequences of failure to file. Where a corporation fails to file a prescribed form as required under subsection (12.7) in respect of a renunciation of an amount, subsections (12.61) and (12.63) do not apply in respect of the amount.

History: S. 66(12.7001) was added by S.C. 1997, c. 25, s. 13(23), applicable to renunciations made after 1998.

► 66(12.701) ◄

(12.701) Filing re assistance. Where a corporation receives or becomes entitled to receive assistance as an agent in respect of any Canadian exploration expense or Canadian development expense that is or, but for paragraph (12.61)(*b*) or (12.63)(*b*), would be incurred by the corporation, the corporation shall, before the end of the first month after the particular month in which it first becomes known to the corporation that a person that holds a flow-through share of the corporation is entitled to a share of any part of the assistance, file with the Minister a prescribed form identifying the share of the assistance to which each of those persons is entitled at the end of the particular month.

History: S. 66(12.701) was amended by S.C. 1997, c. 25, s. 13(23), applicable to renunciations made after 1998. S. 66(12.701) formerly read:

"(12.701) *Idem.* Where at a particular time a corporation receives or becomes entitled to receive assistance as an agent in respect of any Canadian exploration expense, Canadian development expense or Canadian oil and gas property expense that is or, but for paragraph (12.61)(*b*), (12.63)(*b*) or (12.65)(*b*), would be incurred by the corporation, the corporation shall, before the end of the first month following the particular month in which it first becomes known that a person or partnership that holds a flow-through share of the corporation is entitled to a share of any part of the assistance,

file with the Minister a prescribed form indicating the share of that part of the assistance to which each of those persons or partnerships is entitled at the end of the particular month and, where the prescribed form is not so filed, the part of the expense relating to the assistance required to be reported in the prescribed form shall be deemed not to have been incurred by the corporation."

S. 66(12.701) was added by S.C. 1994, c. 7, Sched. II, s. 38(6), applicable to assistance that a corporation receives or becomes entitled to receive after July 13, 1990.

Forms: T101D.

► 66(12.702) ◄

(12.702) Consequences of failure to file. Where a corporation fails to file a prescribed form as required under subsection (12.701) in respect of assistance, except for the purpose of subsection (12.701) the Canadian exploration expense or Canadian development expense to which the assistance relates is deemed not to have been incurred by the corporation.

History: S. 66(12.702) was added by S.C. 1997, c. 25, s. 13(23), applicable to renunciations made after 1998.

► 66(12.71) ◄

(12.71) Restriction on renunciation. A corporation may renounce an amount under subsection (12.6), (12.601) or (12.62) in respect of Canadian exploration expenses or Canadian development expenses incurred by it only to the extent that, but for the renunciation, it would be entitled to a deduction in respect of the expenses in computing its income.

History: S. 66(12.71) was amended by S.C. 1997, c. 25, s. 13(23), applicable to renunciations made after 1998. S. 66(12.71) formerly read:

"(12.71) *Restriction on renunciation.* A corporation may renounce an amount under subsection (12.6), (12.601), (12.62) or (12.64) in respect of Canadian exploration expenses, Canadian development expenses or Canadian oil and gas property expenses incurred by it only to the extent that, but for the renunciation, it would be entitled to claim a deduction in respect of the expenses in computing its income for the purposes of this Part."

S. 66(12.71) was amended by S.C. 1994, c. 8, s. 5(14), applicable to renunciations made after December 2, 1992. S. 66(12.71) formerly read:

"(12.71) A corporation may renounce an amount under subsection (12.6), (12.62) or (12.64) in respect of Canadian exploration expenses, Canadian development expenses or Canadian oil and gas property expenses incurred by it only to the extent that, but for the renunciation, it would be entitled to claim a deduction in respect of the expenses in computing its income for the purposes of this Part."

► 66(12.72) ◄

(12.72) Application of sections 231 to 231.3. [Repealed by S.C. 1997, c. 25, s. 13(23).]

History: S. 66(12.72) was repealed by S.C. 1997, c. 25, s. 13(23), applicable April 25, 1997 S. 66(12.72) formerly read:

"(12.72) *Application of sections 231 to 231.3.* Without restricting the generality of sections 231 to 231.3, where a corporation renounces an amount under subsection (12.6), (12.601), (12.62) or (12.64), sections 231 to 231.3 apply, with such modifications as the circumstances require, for the purpose of permitting the Minister to verify or ascertain the Canadian exploration expenses, Canadian development expenses or Canadian oil and gas property expenses of the corporation in respect of which the amount is renounced, the amounts renounced in respect of those expenses, any information in respect of those expenses or the amounts renounced and the amount of, or information relating to, any assistance in respect of those expenses."

S. 66(12.72) was amended by S.C. 1994, c. 8, s. 5(14), applicable after December 2, 1992. S. 66(12.72) formerly read:

"(12.72) Without restricting the generality of sections 231 to 231.3, where a corporation has renounced an amount under subsection (12.6), (12.62) or (12.64), sections 231 to 231.3 apply, with such modifications as the circumstances require, for the purpose of permitting the Minister to verify or ascertain the Canadian exploration expenses, Canadian development expenses or Canadian oil and gas property expenses of the corporation in respect of which the amount was renounced, the amounts renounced in respect of those expenses, any information in respect of the expenses or the amounts renounced and the amount of, or information relating to, any assistance in respect of the expenses."

S. 66(12.72) was amended by S.C. 1994, c. 7, Sched. II, s. 38(7), applicable after July 13, 1990. S. 66(12.72) formerly read:

"(12.72) *Application of ss. 231 to 231.3.* Without restricting the generality of sections 231 to 231.3, where a corporation has renounced any amount under subsection (12.6), (12.62) or (12.64), notwithstanding that a return of income has not been filed by any taxpayer under section 150 for the taxation year of the taxpayer in which the amount so renounced is deemed to be Canadian exploration expenses, Canadian development expenses or Canadian oil and gas property expenses incurred by the taxpayer or a partnership of which the taxpayer is a member, sections 231 to 231.3 apply, with such modifications as the circumstances require, for the purpose of permitting the Minister to verify or ascertain the Canadian exploration expenses, Canadian development expenses, or Canadian oil and gas property expenses of the corporation in respect of which the amount was renounced, the amounts renounced in respect of those expenses, and any information in respect of the expenses or the amounts renounced."

► 66(12.73) ◄

(12.73) Reductions in renunciations. Where an amount that a corporation purports to renounce to a person under subsection (12.6), (12.601) or (12.62) exceeds the amount that it can renounce to the person under that subsection,

(*a*) the corporation shall file a statement with the Minister in prescribed form where

(i) the Minister sends a notice in writing to the corporation demanding the statement, or

(ii) the excess arose as a consequence of a renunciation purported to be made in a calendar year under subsection (12.6) or (12.601) because of the application of subsection (12.66) and, at the end of the year, the corporation knew or ought to have known of all or part of the excess;

(*b*) where subparagraph (*a*)(i) applies, the statement shall be filed not later than 30 days after the Minister sends a notice in writing to the corporation demanding the statement;

(*c*) where subparagraph (*a*)(ii) applies, the statement shall be filed before March of the calendar year following the calendar year in which the purported renunciation was made;

(*d*) except for the purpose of Part XII.6, any amount that is purported to have been so renounced to any person is deemed, after the statement is filed with the Minister, to have always been reduced by the portion of the excess identified in the statement in respect of that purported renunciation; and

(*e*) where a corporation fails in the statement to apply the excess fully to reduce one or more purported renunciations, the Minister may at any time reduce the total amount purported to be renounced by the corporation to one or more persons by the amount of the unapplied excess in which case, except for the purpose of Part XII.6, the amount purported to have been so renounced to a person is deemed, after that time, always to have been reduced by the portion of the unapplied excess allocated by the Minister in respect of that person.

History: S. 66(12.73) was amended by S.C. 1997, c. 25, s. 13(23), applicable to purported renunciations made after 1996 except that, in respect of purported renunciations made before 1999, the portion of that subsection 66(12.73) before paragraph (*a*) shall be read as:

"(12.73) Where an amount that a corporation purports to renounce to a person under subsection (12.6), (12.601), (12.62) or (12.64) exceeds the amount it can renounce to the person under that subsection,"

S. 66(12.73) formerly read:

"(12.73) *Adjustment in renunciation.* Where the total of all amounts that a corporation purports to renounce to persons under subsection (12.6), (12.601), (12.62) or (12.64) in respect of expenses incurred by it in any period ending on the effective date of the purported renunciation exceeds the total amount of those expenses in respect of which it may renounce amounts under that subsection, it shall

(*a*) reduce the amount so renounced to one or more persons to effect a reduction in the total of the amounts so purported to be renounced by the amount of the excess, and

(*b*) file a statement with the Minister indicating the adjustments made in the renunciations,

and if the corporation does not so reduce the amounts and file that statement with the Minister within 30 days after notice in writing by the Minister is forwarded to the corporation that such a reduction is or will be required for the purposes of any assessment of tax under this Part, the Minister may, for the purposes of this section, reduce the amounts purported to be renounced by the corporation to one or more persons to effect a reduction in the total of the amounts so purported to be renounced by the amount of the excess, and in any such case, notwithstanding subsections (12.61), (12.63) and (12.65), the amount renounced to each of the persons shall be deemed to be the amount as reduced by the corporation or the Minister, as the case may be."

S. 66(12.73) was amended by S.C. 1994, c. 8,, s. 5(14), applicable to renunciations made after December 2, 1992. S. 66(12.73) formerly read:

"(12.73) Where the total of all amounts that a corporation purported to renounce to persons under subsection (12.6), (12.62) or (12.64) in respect of expenses incurred by it in any period ending on the effective date of the purported renunciation exceeds the total amount of those expenses in respect of which it may renounce amounts under those subsections, it shall reduce the amounts so renounced to one or more of those persons to effect a reduction in the total of the amounts so purported to be renounced by the amount of the excess and file a statement with the Minister indicating the adjustments made in the renunciations and if the corporation has failed to so reduce the amounts and file such a statement with the Minister within 30 days after notice in writing by the Minister has been forwarded to the corporation that such a reduction is or will be required for the purposes of any assessment of tax under this Part, the Minister may, for the purposes of this section, reduce the amounts purported to be renounced by the corporation to one or more of those persons to effect a reduction in the total of the amounts so purported to be renounced by the amount of the excess, and in any such case, notwithstanding subsections (12.61), (12.63) and (12.65), the amount renounced to each of the persons shall be deemed to be the amount as reduced by the corporation or the Minister, as the case may be."

Editorial Note: Subsection 66(12.73) applies where a corporation purports to renounce expenses in excess of the amount that it can renounce. The subsection contemplates two situations, one in which the Minister sends a notice to the corporation and the second in which the corporation knew it should have known of the excess. The subsection requires the corporation to file a statement reducing the renounced expenses. Where the corporation has not filed such a statement, the Minister may reduce the expenses. In *Forsburg v. The Queen*, 2005 DTC 1315 (T.C.C.), the Court held that a taxpayer has a right to challenge the Minister's determination.

Related Sections: S. 161(6.2) Flow-through share renunciations.
Forms: T101B.

► 66(12.74) ◄

(12.74) Late filed forms. A corporation or partnership may file with the Minister a document referred to in subsection (12.68), (12.69), (12.691), (12.7) or (12.701) after the particular day on or before which the document is required to be filed under the applicable subsection and the document shall, except for the purposes of this subsection and subsection (12.75), be deemed to have been filed on the day on or before which it was required to be filed if

(*a*) it is filed

(i) on or before the day that is 90 days after the particular day, or

(ii) after the day that is 90 days after the particular day where, in the opinion of the Minister, the circumstances are such that it would be just and equitable to permit the document to be filed; and

(*b*) the corporation or partnership, as the case may be, pays to the Receiver General at the time of filing a penalty in respect of the late filing.

History: S. 66(12.74) was amended by S.C. 1994, c. 7, Sched. II, s. 38(8), applicable to documents filed after June 1988, except that with respect to documents filed before July 14, 1990, the reference to "(12.691), (12.7) or (12.701)" in subsection 66(12.74) shall be read as "or (12.7)". S. 66(12.74) formerly read:

"(12.74) A corporation or partnership may file with the Minister a document referred to in subsection (12.68), (12.69) or (12.7) after the day on or before which the document is required to be filed under the applicable subsection and the document shall be deemed to have been filed on the day on or before which it was required to be filed

(*a*) if it is filed within 90 days after that day; and

(*b*) if the corporation or partnership, as the case may be, pays to the Receiver General at the time of filing a penalty in respect of the late filing."

Related Sections: S. 66(12.75) Penalty.
Forms: T100; T100A; T101; T101 SUM; T101A; T101D; T5016.

► 66(12.741) ◄

(12.741) Late renunciation. Where a corporation purports to renounce an amount under subsection (12.6), (12.601) or (12.62) after the period in which the corporation was entitled to renounce the amount, the amount is deemed, except for the purposes of this subsection and subsections (12.7) and (12.75), to have been renounced at the end of the period if

(*a*) the corporation purports to renounce the amount

(i) on or before the day that is 90 days after the end of that period, or

(ii) after the day that is 90 days after the end of that period where, in the opinion of the Minister, the circumstances are such that it would be just and equitable that the amount be renounced; and

(*b*) the corporation pays to the Receiver General a penalty in respect of the renunciation not more than 90 days after the renunciation.

History: S. 66(12.741), the portion before paragraph (*a*), was amended by S.C. 1997, c. 25, s. 13(24), applicable to renunciations made after 1998. That part formerly read:

"(12.741) *Late renunciation.* Where a corporation purports to renounce an amount under subsection (12.6), (12.601), (12.62) or (12.64) after the period during which the corporation would otherwise be entitled to renounce the amount, the amount shall, except for the purposes of this subsection and subsections (12.7) and (12.75), be deemed to have been renounced at the end of the period if"

S. 66(12.741) was added by S.C. 1994, c. 8, s. 5(15), applicable to renunciations purported to be made after February 1993.

Related Sections: S. 66(12.75) Penalty.
Forms: T101A.

► 66(12.75) ◄

(12.75) Penalty. For the purposes of subsections (12.74) and (12.741), the penalty in respect of the late filing of a document referred to in subsection (12.68), (12.69), (12.691), (12.7) or (12.701) or in respect of a renunciation referred to in subsection (12.741) is the lesser of $15,000 and

(*a*) where the penalty is in respect of the late filing of a document referred to in subsection (12.68), (12.69) or (12.7), the greater of

(i) $100, and

(ii) 1/4 of 1% of the maximum amount in respect of the Canadian exploration expenses and Canadian development expenses renounced or attributed or to be renounced or attributed as set out in the document;

(*b*) where the penalty is in respect of the late filing of a document referred to in subsection (12.691) or (12.701), the greater of

(i) $100, and

(ii) 1/4 of 1% of the assistance reported in the document; and

(*c*) where the penalty is in respect of a renunciation referred to in subsection (12.741), the greater of

(i) $100, and

(ii) 1/4 of 1% of the amount of the renunciation.

History: S. 66(12.75)(c), the portion before subparagraph (i), was amended by S.C. 1998, c. 19, s. 104(6), applicable to renunciations purported to be made after February 1993. S. 66(12.75)(c), the portion before subparagraph (i), formerly read:

"(*c*) where the penalty is in respect of a renunciation referred to in subsection (12.74), the greater of"

S. 66(12.75)(*a*)(ii) was amended by S.C. 1997, c. 25, s. 13(25), applicable to renunciations made after 1998. S. 66(12.75)(*a*)(ii) formerly read:

"(ii) 1/4 of 1% of the maximum amount in respect of the Canadian exploration expenses, Canadian development expenses and Canadian oil and gas property expenses renounced or attributed or to be renounced or attributed as set out in the document;"

S. 66(12.75), the portion before paragraph (*a*), was amended by S.C. 1994, c. 8, s. 5(16), applicable to renunciations purported to be made after February 1993. The portion formerly read:

"(12.75) For the purposes of subsection (12.74), the penalty in respect of the late filing of a document referred to in subsection (12.68), (12.69), (12.691), (12.7) or (12.701) is the lesser of $15,000 and"

S. 66(12.75)(*c*) was added by S.C. 1994, c. 8, s. 5(17), applicable to renunciations purported to be made after February 1993.

S. 66(12.75) was amended by S.C. 1994, c. 7, Sched. II, s. 38(9), applicable to documents filed after July 13, 1990, except that in its application to documents filed on or before December 17, 1991, subsection 66(12.75) shall be read as follows:

"(12.75) For the purposes of subsection (12.74), the penalty in respect of the late filing of a document referred to in subsection (12.691) or (12.701) is nil and the penalty in respect of the late filing of a document referred to in subsection (12.68), (12.69) or (12.7) is the lesser of

(*a*) $15,000, and

(*b*) 1/4 of 1% of the maximum amount in respect of the Canadian exploration expenses, Canadian development expenses and Canadian oil and gas property expenses renounced or attributed or to be renounced or attributed as set out in the document."

S. 66(12.75) formerly read:

"(12.75) For the purposes of subsection (12.74), the penalty in respect of the late filing of a document referred to in subsection (12.68), (12.69) or (12.7) is the lesser of

(*a*) $15,000, and

(*b*) 1/4 of 1% of the maximum amount in respect of the Canadian exploration expenses, Canadian development expenses and Canadian oil and gas property expenses renounced, to be renounced, attributed or to be attributed as set out in the document."

Forms: T100; T100A; T101; T101 SUM; T101A; T101D; T5016.

► 66(13) ◄

(13) Limitation. Where a taxpayer has incurred an outlay or expense in respect of which a deduction from income is authorized under more than one provision of this section or section 66.1, 66.2 or 66.4, the taxpayer is not entitled to make the deduction under more than one provision but is entitled to select the provision under which to make the deduction.

► 66(13.1) ◄

(13.1) Short taxation year. Where a taxpayer has a taxation year that is less than 51 weeks, the amount determined in respect of the year under each of subparagraph (4)(*b*)(i), paragraph 66.2(2)(*c*), subparagraph (*b*)(i) of the definition "global foreign resource limit" in subsection 66.21(1), subparagraph 66.21(4)(*a*)(i), clause 66.21(4)(*a*)(ii)(B) and paragraphs 66.4(2)(*b*) and 66.7(2.3)(*a*), (4)(*a*) and (5)(*a*) shall not exceed that proportion of the amount otherwise determined that the number of days in the year is of 365.

History: S. 66(13.1) was amended by S.C. 2001, c. 17, s. 44(10), applicable to taxation years that begin after 2000. S. 66(13.1) formerly read:

"(13.1) *Short taxation years.* Where a taxpayer has a taxation year that is less than 51 weeks, the amount determined in respect of the year under any of subparagraph 66(4)(*b*)(i) and paragraphs 66.2(2)(*c*), 66.4(2)(*b*) and 66.7(4)(*a*) and (5)(*a*) shall not exceed that proportion of the amount otherwise determined thereunder that the number of days in the year is of 365."

► 66(14) ◄

(14) Amounts deemed deductible under this subdivision. For the purposes of section 3, any amount deductible under the *Income Tax Application Rules* in respect of this subsection shall be deemed to be deductible under this subdivision.

Related Sections: ITAR s. 30(3) Reference to this Act in amended Act.

► 66(14.1) ◄

(14.1) Designation respecting Canadian exploration expense. A corporation may designate for a taxation year, by filing a designation in prescribed form with the Minister on or before the day on or before which it is required to file a return of its income for the year under section 150, a particular amount not exceeding the lesser of

(*a*) its prescribed Canadian exploration expense for the year, and

(*b*) its cumulative Canadian exploration expense at the end of the year,

and the particular amount shall be added in computing its cumulative offset account immediately before the end of the year and deducted in computing its cumulative Canadian exploration expense at any time after the end of the year.

Related Sections: S. 66(14.4) Special cases; s. 66.1(2) Deduction for certain principal-business corporations; s. 66.1(3) Expenses of other taxpayer; s. 66.1(6), "cumulative Canadian exploration expense"; s. 66.5 Deduction from income.

Regulations: 1217.

► 66(14.2) ◄

(14.2) Designation respecting cumulative Canadian development expense. A corporation may designate for a taxation year, by filing a designation in prescribed form with the Minister on or before the day on or before which it is required to file a return of its income for the year under section 150, a particular amount not exceeding

(*a*) where a deduction has been made under subsection 66.2(2) in computing its income for the year, the lesser of

(i) 30% of its prescribed Canadian development expense for the year, and

(ii) the amount, if any, by which 30% of its cumulative Canadian development expense at the end of the year exceeds the amount, if any, deducted for the year under subsection 66.2(2) in computing its income for the year, or

(*b*) where a deduction has not been made under subsection 66.2(2) in computing its income for the year, the lesser of

(i) 30% of its prescribed Canadian development expense for the year, and

(ii) 30% of the amount, if any, of its adjusted cumulative Canadian development expense at the end of the year,

and the particular amount shall be added in computing its cumulative offset account immediately before the end of the year and deducted in computing its cumulative Canadian development expense at any time after the end of the year.

Related Sections: S. 66(14.3) Definition of "adjusted cumulative Canadian development expense"; s. 66(14.4) Special cases; s. 66.5 Deduction from income.

Regulations: 1218.

► 66(14.3) ◄

(14.3) Definition of "adjusted cumulative Canadian development expense". For the purposes of paragraph (14.2)(*b*), "adjusted cumulative Canadian development expense" of a corporation at the end of a taxation year means the amount, if any, that would be its cumulative Canadian development expense at the end of the year, if no Canadian resource property were disposed of by it in the year.

► 66(14.4) ◄

(14.4) Special cases. Where, in the opinion of the Minister, the circumstances of a case are such that it would be just and equitable

(*a*) to permit a designation under subsection (14.1) or (14.2) to be filed after the day on or before which it is required by that subsection to be filed, or

(*b*) to permit a designation filed under subsection (14.1) or (14.2) to be amended,

the Minister may permit the designation to be filed or amended, as the case may be, after that day, and where the designation or amendment is filed pursuant to that permission, it shall be deemed to have been filed on the day on or before which it was required to be filed if

(*c*) it is filed with the Minister in prescribed form, and

(*d*) the corporation filing it pays to the Receiver General at the time of filing the penalty in respect of it,

and where a designation is amended under this subsection, the designation to which the amendment is made shall be deemed not to have been effective.

Related Sections: S. 66(14.5) Penalty for late designation.

► 66(14.5) ◄

(14.5) Penalty for late designation. For the purposes of this section, the penalty in respect of a designation or amended designation referred to in paragraph (14.4)(*a*) or (*b*) is the lesser of

(*a*) an amount determined by the formula

$$0.0025 \times A \times B$$

where

A is

(i) in the case of a late-filed designation, the amount designated therein, and

(ii) in the case of an amended designation, the amount, if any, by which the amount designated in the designation being amended differs from the amount designated in the amended designation, and

B is the number of months each of which is included in whole or in part in the period commencing on the day on or before which the designation was required to be filed under subsection (14.1) or (14.2), as the case may be, and ending on the day the late-filed designation or amended designation, as the case may be, is filed, and

(*b*) an amount, not exceeding $8,000, equal to the product obtained by multiplying $100 by the number of months each of which is included in whole or in part in the period referred to in the description of B in paragraph (*a*).

► 66(14.6) ◄

(14.6) Deduction of carved-out income. A taxpayer may deduct in computing the taxpayer's income under this Part for a taxation year, an amount equal to the total of the taxpayer's carved-out incomes for the year within the meaning assigned by subsection 209(1).

► 66(15) ◄

(15) Definitions. In this section,

"agreed portion" — "agreed portion" in respect of a corporation that was a shareholder corporation of a joint exploration corporation means such amount as may be agreed on between the joint exploration corporation and the shareholder corporation not exceeding

(*a*) the total of all amounts each of which is a payment or loan referred to in paragraph (*b*) of the definition "shareholder corporation" in this subsection (except to the extent that the payment or loan was made by a shareholder corporation that was not a Canadian corporation and was used by the joint exploration corporation to acquire a Canadian resource property after December 11, 1979 from a shareholder corporation that was not a Canadian corporation) made by the shareholder corporation to the joint exploration corporation during the period it was a shareholder corporation of the joint exploration corporation,

minus

(*b*) the total of the amounts, if any, previously renounced by the joint exploration corporation under any of subsections (10) to (10.3) in favour of the shareholder corporation;

Related Sections: S. 53(2) Amounts to be deducted; s. 66(10) Joint exploration corporation; s. 66(15), "joint exploration corporation".
Advance Tax Rulings: ATR-60 Joint exploration corporations.

"assistance" — "assistance" means any amount, other than a prescribed amount, received or receivable at any time from a person or government, municipality or other public authority whether the amount is by way of a grant, subsidy, rebate, forgivable loan, deduction from royalty or tax, rebate of royalty or tax, investment allowance or any other form of assistance or benefit;

"Canadian exploration and development expenses" — "Canadian exploration and development expenses" incurred by a taxpayer means any expense incurred before May 7, 1974 that is

(*a*) any drilling or exploration expense, including any general geological or geophysical expense, incurred by the taxpayer after 1971 on or in respect of exploring or drilling for petroleum or natural gas in Canada,

(*b*) any prospecting, exploration or development expense incurred by the taxpayer after 1971 in searching for minerals in Canada,

(*c*) the cost to the taxpayer of any Canadian resource property acquired by the taxpayer after 1971,

(*d*) the taxpayer's share of the Canadian exploration and development expenses incurred after 1971 by any association, partnership or syndicate in a fiscal period thereof, if at the end of that fiscal period the taxpayer was a member or partner thereof,

(*e*) any expense incurred by the taxpayer after 1971 pursuant to an agreement with a corporation under which the taxpayer incurred the expense solely in consideration for shares of the capital stock of the corporation issued to the taxpayer by the corporation or any interest in such shares or right thereto, to the extent that the expense was incurred as or on account of the cost of

(i) drilling or exploration activities, including any general geological or geophysical activities, in or in respect of exploring or drilling for petroleum or natural gas in Canada,

(ii) prospecting, exploration or development activities in searching for minerals in Canada, or

(iii) acquiring a Canadian resource property, and

(*f*) any annual payment made by the taxpayer for the preservation of a Canadian resource property,

but, for greater certainty, does not include

(*g*) any consideration given by the taxpayer for any share or any interest therein or right thereto, except as provided by paragraph (*e*), or

(*h*) any expense described in paragraph (*e*) incurred by another taxpayer to the extent that the expense was, by virtue of that paragraph, a Canadian exploration and development expense of that other taxpayer;

History: S. 66(15), paragraph (*c*) of the definition "Canadian exploration and development expenses" was amended by S.C. 1998, c. 19, s. 104(7), applicable to taxation years that begin after 1984. It formerly read:

"(*c*) the cost to the taxpayer of any Canadian resource property acquired by the taxpayer,"

Related Sections: S. 49(2) Where option granted by a corporation expires; s. 53(2) Amounts to be deducted.

"Canadian resource property" — "Canadian resource property" of a taxpayer means any property of the taxpayer that is

(*a*) any right, licence or privilege to explore for, drill for or take petroleum, natural gas or related hydrocarbons in Canada,

(*b*) any right, licence or privilege to

(i) store underground petroleum, natural gas or related hydrocarbons in Canada, or

(ii) prospect, explore, drill or mine for minerals in a mineral resource in Canada,

(*c*) any oil or gas well in Canada or any real property in Canada the principal value of which depends on its petroleum or natural gas content (but not including any depreciable property),

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*c*) of the definition "Canadian resource property" in subsection 66(15) of the Act is replaced by the following:

(*c*) any oil or gas well in Canada or any real property or immovable in Canada the principal value of which depends on its petroleum or natural gas content (but not including any depreciable property),

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*d*) any rental or royalty computed by reference to the amount or value of production from an oil or gas well in Canada or from a natural accumulation of petroleum or natural gas in Canada,

(*e*) any rental or royalty computed by reference to the amount or value of production from a mineral resource in Canada,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraphs (*d*) and (*e*) of the definition "Canadian resource property" in subsection 66(15) of the Act are replaced by the following:

(*d*) any right to a rental or royalty computed by reference to the amount or value of production from an oil or a gas well in Canada, or from a natural accumulation of petroleum or natural gas in Canada, if the payer of the rental or royalty has an interest in, or for civil law a right in, the well or accumulation, as the case may be, and 90% or more of the rental or royalty is payable out of, or from the proceeds of, the production from the well or accumulation,

(*e*) any right to a rental or royalty computed by reference to the amount or value of production from a mineral resource in Canada, if the payer of the rental or royalty has an interest in, or for civil law a right in, the mineral resource and 90% or more of the rental or royalty is payable out of, or from the proceeds of, the production from the mineral resource,

Applicable: To rights acquired after December 20, 2002.

Explanatory Note:

Definitions

Subsection 66(15) of the Act contains various definitions for the purposes of section 66.

"Canadian resource property"

A "Canadian resource property" is defined to include various interests in oil and gas and mineral resources located in Canada. The cost of a Canadian resource property is either a Canadian oil and gas property expense or a Canadian development expense.

Paragraphs (*d*) and (*e*) of the definition "Canadian resource property" are amended, effective for property acquired after December 20, 2002, to ensure that a rental or royalty described therein will not qualify as a Canadian resource property unless the person paying the rental or royalty has an interest in the property to which the rental or royalty relates and 90% or more of the rental or royalty is payable out of the production from the property.

(*f*) any real property in Canada the principal value of which depends on its mineral resource content (but not including any depreciable property), or

(*g*) any right to or interest in any property described in any of paragraphs (*a*) to (*f*), other than a right or an interest that the taxpayer has because the taxpayer is a beneficiary under a trust or a member of a partnership;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraphs (*f*) and (*g*) of the definition "Canadian resource property" in subsection 66(15) of the Act are replaced by the following:

(*f*) any real property or immovable in Canada the principal value of which depends on its mineral resource content (but not including any depreciable property),

(*g*) any right to or interest in — or, for civil law, any right to or in — any property described in any of paragraphs (*a*) to (*e*), other than a right or an interest that the taxpayer has because the taxpayer is a beneficiary under a trust or a member of a partnership, or

(*h*) an interest in real property described in paragraph (*f*) or a real right in an immovable described in that paragraph, other than an interest or a right that the taxpayer has because the taxpayer is a beneficiary under a trust or a member of a partnership;

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

History: S. 66(15), paragraph (*g*) of the definition "Canadian resource property" was replaced by S.C. 2003, c. 28, s. 4(3), applicable to rights and interests acquired after December 20, 2002.

S. 66(15), paragraph (*g*) of the definition "Canadian resource property" formerly read:

"(*g*) any right to or interest in any property described in any of paragraphs (*a*) to (*f*), other than such a right or interest that the taxpayer has by virtue of being a beneficiary of a trust;"

S. 66(15), paragraph (*c*) of the definition "Canadian resource property" was amended by S.C. 2001, c. 17, s. 44(12), applicable to taxation years that begin after 2000. S. 66(15), paragraph (*c*) of the definition "Canadian resource property" formerly read:

"(*c*) any oil or gas well in Canada or any real property in Canada the principal value of which depends on its petroleum or natural gas content (but not including any depreciable property used or to be used in connection with the extraction or removal of petroleum or natural gas therefrom),"

S. 66(15), paragraph (*f*) of the definition "Canadian resource property" was amended by S.C. 2001, c. 17, s. 44(13), applicable to taxation years that begin after 2000. S. 66(15), paragraph (*f*) of the definition "Canadian resource property" formerly read:

"(*f*) any real property in Canada the principal value of which depends on its mineral resource content (but not including any depreciable property used or to be used in connection with the extraction or removal of minerals therefrom), or"

Related Sections: S. 12(1)(*o*) Royalties, etc.; s. 12(1)(*x*2) Crown charge rebates; s. 18(1)(*m*) Royalties, etc.; s. 18.1(1), "right to receive production"; s. 39(1)(*a*)(ii) Meaning of capital gain and capital loss; s. 53(1)(*e*)(ix) Adjustments to cost base — Interest in a partnership; s. 53(2)(*i*)(i) Amounts to be deducted — Capital interest in a non-resident trust; s. 53(2)(*j*)(i) Amounts to be deducted — Non-resident unit trust; s. 59(1) Consideration for foreign resource property; s. 66(5) Dealers; s. 66(11.4) Change of control; s. 66(12.1) Limitations of Canadian exploration and development expenses; s. 66.1(6), "Canadian exploration expense"; s. 66.2(5), "Canadian development expense"; s. 66.2(7) Exception; s. 66.4(5), "Canadian oil and gas property expense"; s. 66.4(7) Exception; s. 66.7 Successor of Canadian exploration and development expenses; s. 69(13) Amalgamation or merger; s. 88(1)(*a*)(i) Winding-up; s. 104(5.2) Resource property; s. 115(4) Non-resident's income from Canadian resource property; s. 208(1.1) Definition of "specified stage"; s. 248(1), "Canadian resource property", "taxable Canadian property".

Regulations: 808(2), 808(5); 1204(1); 1206(4); 6200(*a*)(ii).

Interpretation Bulletins: *Secondary* — IT-125R4 Disposition of resource properties; IT-291R3 Transfer of property to a corporation under subsection 85(1).

Income Tax Technical News: Issue No. 10, Net profits interests and proposed section 18.1.

Canadian Petroleum Tax Journal: Offshore Oil & Gas Interests: A Perspective on Exploration & Development of Offshore Petroleum and Natural Gas Resources in Eastern Canada, Michael R. Smith, CA and B. David Nielsen, CA, Vol. 13 No. 1 2000.

"*drilling or exploration expense*" — "drilling or exploration expense" incurred on or in respect of exploring or drilling for petroleum or natural gas includes any expense incurred on or in respect of

(*a*) drilling or converting a well for the disposal of waste liquids from a petroleum or natural gas well,

(*b*) drilling for water or gas for injection into a petroleum or natural gas formation, or

(*c*) drilling or converting a well for the injection of water or gas to assist in the recovery of petroleum or natural gas from another well;

"*expense*" — "expense", incurred before a particular time by a taxpayer,

(*a*) includes an amount designated by the taxpayer at that time under paragraph 98(3)(*d*) or (5)(*d*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as a cost in respect of property that is a Canadian resource property or a foreign resource property,

but

(*b*) for greater certainty, does not include any amount paid or payable

(i) as consideration for services to be rendered after that time, or

(ii) as, on account or in lieu of payment of, or in satisfaction of, rent in respect of a period after that time;

Interpretation Bulletins: *Secondary* — IT-503 Exploration and development shares [Archived by the CRA].

"*flow-through share*" — "flow-through share" means a share (other than a prescribed share) of the capital stock of a principal-business corporation that is issued to a person under an agreement in writing entered into between the person and the corporation after February 1986, under which the corporation agrees for consideration that does not include property to be exchanged or transferred by the person under the agreement in circumstances in which section 51, 85, 85.1, 86 or 87 applies

(*a*) to incur, in the period that begins on the day the agreement was made and ends 24 months after the end of the month that includes that day, Canadian exploration expenses or Canadian development expenses in an amount not less than the consideration for which the share is to be issued, and

(*b*) to renounce, before March of the first calendar year that begins after that period, in prescribed form to the person in respect of the share, an amount in respect of the Canadian exploration expenses or Canadian development expenses so incurred by it not exceeding the consideration received by the corporation for the share,

and includes a right of a person to have such a share issued to that person and any interest acquired in such a share by a person pursuant to such an agreement;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The definition "flow-through share" in subsection 66(15) of the Act is replaced by the following:

"*flow-through share*" — "flow-through share" means a share (other than a prescribed share) of the capital stock of a

principal-business corporation, or a right (other than a prescribed right) to acquire a share of the capital stock of a principal-business corporation, issued to a person under an agreement in writing made between the person and the corporation under which the corporation, for consideration that does not include property to be exchanged or transferred by the person under the agreement in circumstances to which any of sections 51, 85, 85.1, 86 and 87 applies, agrees

(*a*) to incur, in the period that begins on the day on which the agreement was made and ends 24 months after the month that includes that day, Canadian exploration expenses or Canadian development expenses in an amount not less than the consideration for which the share or right is to be issued, and

(*b*) to renounce, in prescribed form and before March of the first calendar year that begins after that period, to the person in respect of the share or right, an amount in respect of the Canadian exploration expenses or Canadian development expenses so incurred by it not exceeding the consideration received by the corporation for the share or right;

Applicable: To agreements made after December 20, 2002.

Explanatory Note:

"flow-through share"

A flow-through share is a share of the capital stock of a principal-business corporation, or a right to such a share, that is issued to a person pursuant to an agreement in writing under which the corporation agrees to incur resource expenses and renounce those expenses to that person.

The definition is amended to exclude a prescribed right from the class of rights that qualifies as flow-through shares. A "prescribed right" is proposed to be defined in new subsections 6202.1(1.1) and (2.1) of the Regulations. This amendment ensures that restrictions on the type of shares that may qualify as flow-through shares, currently found in subsections 6202.1(1) and (2) of the Regulations, also apply to rights to acquire shares.

The amended definition "flow-through share", which applies to agreements made after December 20, 2002, no longer includes the phrase, "any interest acquired in such a share by a person pursuant to such an agreement". This phrase is being deleted because the amended definition is sufficiently comprehensive to include any interest in property that qualifies as a flow-through share.

History: S. 66(15), paragraphs (*a*) and (*b*) of the definition "flow-through share", were amended by S.C. 1997, c. 25, s. 13(26), applicable to renunciations made after 1998. Paragraphs (*a*) and (*b*) formerly read:

"(*a*) to incur, during the period commencing on the day the agreement was entered into and ending 24 months after the end of the month that includes that day, Canadian exploration expenses, Canadian development expenses or Canadian oil and gas property expenses in an amount not less than the consideration for which the share is to be issued, and

(*b*) to renounce, before March of the first calendar year beginning after that period, in prescribed form to the person in respect of the share, an amount in respect of the Canadian exploration expenses, Canadian development expenses or Canadian oil and gas property expenses so incurred by it not exceeding the consideration received by the corporation for the share,"

Paragraph (*b*) of the definition "flow-through share" was amended by S.C. 1994, c. 8, s. 5(18), applicable to shares issued pursuant to an agreement entered into after February 1986. Paragraph (*b*) formerly read:

"(*b*) to renounce, within that period or within 30 days thereafter, in prescribed form to the person in respect of the share, an amount in respect of the Canadian exploration expenses, Canadian development expenses or Canadian oil and gas property expenses so incurred by it not exceeding the consideration received by the corporation for the share,"

The portion of the definition "flow-through share" in subsection 66(15) before paragraph (*a*) was amended by S.C. 1994, c. 7, Sched. II, s. 38(10), applicable to shares issued under an agreement in writing entered into after July 13, 1990. The portion formerly read:

" 'flow-through share' means a share (other than a prescribed share) of the capital stock of a principal-business corporation that is issued to a person pursuant to an agreement in writing entered into between the person and the corporation after February 1986, under which the corporation agrees"

Related Sections: S. 66(12.6) Canadian exploration expenses to flow-through shareholder; s. 66(12.601) Flow-through share rules for first $1 million of Canadian development expenses; s. 66(12.62) Canadian development expenses to flow-through shareholder; s. 66(12.64) Canadian oil and gas property expenses to flow-through shareholder; s. 66(12.66) Expenses in the first 60 days of year; s. 66(12.68) Filing selling instruments; s. 66(15), "principal-business corporation", "selling instrument"; s. 66.3(3) Cost of flow-through shares; s. 66.3(4) Paid-up capital.

Regulations: 6202; 6202.1.

Interpretation Bulletins: *Secondary* — IT-400 Exploration and development expenses — Meaning of principal-business corporation.

Canadian Petroleum Tax Journal: A Practical Guide to the Flow-Through Share Rules, Greg Johnson, CA, Vol. 15 No. 1 2002; Renewable Energy — Tax Developments and Opportunities, Leanne Sereda, Vol. 13 No. 1 2000.

"foreign exploration and development expenses" — "foreign exploration and development expenses" incurred by a taxpayer means

(*a*) any drilling or exploration expense, including any general geological or geophysical expense, incurred by the taxpayer after 1971 on or in respect of exploring or drilling for petroleum or natural gas outside Canada,

(*b*) any expense incurred by the taxpayer for the purpose of determining the existence, location, extent or quality of a mineral resource outside Canada, including any expense incurred in the course of

(i) prospecting,

(ii) carrying out geological, geophysical or geochemical surveys,

(iii) drilling by rotary, diamond, percussion or other method, or

(iv) trenching, digging test pits and preliminary sampling,

(*c*) the cost to the taxpayer of any foreign resource property acquired by him,

(*d*) subject to section 66.8, the taxpayer's share of the foreign exploration and development expenses incurred after 1971 by a partnership in a fiscal period thereof, if at the end of that period the taxpayer was a member of the partnership, and

(*e*) any annual payment made by the taxpayer for the preservation of a foreign resource property;

but does not include

(*f*) any amount included at any time in the capital cost to the taxpayer of any depreciable property of a prescribed class,

(*g*) an expenditure incurred at any time after the commencement of production from a foreign resource property of the taxpayer in order to evaluate the feasibility of a method of recovery of petroleum, natural gas or related hydrocarbons from the portion of a natural reservoir to which the foreign resource property relates,

(*h*) an expenditure (other than a drilling expense) incurred at any time after the commencement of production from a foreign resource property of the taxpayer in order to assist in the recovery of petroleum, natural gas or related hydrocarbons from the portion of a natural reservoir to which the foreign resource property relates,

(*i*) an expenditure incurred at any time relating to the injection of any substance to assist in the recovery of petroleum, natural gas or related hydrocarbons from a natural reservoir;

(*j*) an expenditure that is the cost, or any part of the cost, to the taxpayer of any depreciable property of a prescribed class that was acquired after December 21, 2000,

(*k*) foreign resource expenses in respect of a country, or

(*l*) an expenditure made after February 27, 2000 by the taxpayer unless the expenditure was made

(i) pursuant to an agreement in writing made by the taxpayer before February 28, 2000,

(ii) for the acquisition of foreign resource property by the taxpayer, or

(iii) for the purpose of

(A) enhancing the value of foreign resource property that the taxpayer owned at the time the expenditure was incurred or that the taxpayer had a reasonable expectation of owning after that time, or

(B) assisting in evaluating whether a foreign resource property is to be acquired by the taxpayer;

History: S. 66(15), paragraph (*b*) of the definition "foreign exploration and development expenses" was amended by S.C. 2001, c. 17, s. 44(14), applicable to expenses incurred after December 21, 2000, other than expenses incurred pursuant to an agreement in writing made before December 22, 2000. S. 66(15), paragraph (*b*) of the definition "foreign exploration and development expenses" formerly read:

"(*b*) any prospecting, exploration or development expense incurred by the taxpayer after 1971 in searching for minerals outside Canada,"

S. 66(15), paragraph (*j*) of the definition "foreign exploration and development expenses" was added by S.C. 2001, c. 17, s. 44(15), applicable after 2000.

S. 66(15), paragraph (*k*) of the definition "foreign exploration and development expenses" was added by S.C. 2001, c. 17, s. 44(15), applicable after February 27, 2000.

S. 66(15), paragraph (*l*) of the definition "foreign exploration and development expenses" was added by S.C. 2001, c. 17, s. 44(15), applicable to taxation years that begin after 2000.

S. 66(15), the portion following paragraph (*e*) of the definition "foreign exploration and development expenses", was added by S.C. 1997, c. 25, s. 13(27), applicable to taxation years that end after December 5, 1996.

Related Sections: S. 66(15), "drilling or exploration expense", "foreign resource property".

Canadian Petroleum Tax Journal: Foreign Exploration and Development Expenditures — The New Rules, Roch J. Martin, Vol. 14 No. 1 2001; Canada Customs and Revenue Agency 1999 Roundtable Questions and Answers, Question 8, Vol. 13 No. 1 2000.

"foreign resource property" — "foreign resource property" of a taxpayer means any property that would be a Canadian resource property of the taxpayer if the definition "Canadian resource property" in this subsection were read as if the references therein to "in Canada" were references to "outside Canada";

Interpretation Bulletins: *Secondary* — IT-125R4 Disposition of resource properties.

"joint exploration corporation" — "joint exploration corporation" means a principal-business corporation that has not at any time since its incorporation had more than 10 shareholders, not including any individual holding a share for the sole purpose of qualifying as a director;

Related Sections: S. 66(10) Joint exploration corporation; s. 66(15), "agreed portion", "principal-business corporation".

Interpretation Bulletins: *Secondary* — IT-400 Exploration and development expenses — Meaning of principal-business corporation.

"original owner" — "original owner" of a Canadian resource property or a foreign resource property means a person

(*a*) who owned the property and disposed of it to a corporation that acquired it in circumstances in which subsection 29(25) of the *Income Tax Application Rules* or subsection 66.7(1), (2), (2.3), (3), (4) or (5) applies, or would apply if the corporation had continued to own the property, to the corporation in respect of the property, and

(*b*) who would, but for subsection 66.7(12), (13), (13.1) or (17), as the case may be, be entitled in computing that person's income for a taxation year that ends after that person disposed of the property to a deduction under section 29 of the *Income Tax Application Rules* or subsection (2), (3) or (4), 66.1(2) or (3), 66.2(2), 66.21(4) or 66.4(2) of this Act in respect of expenses described in subparagraph 29(25)(*c*)(i) or (ii) of that Act, Canadian exploration and development expenses, foreign resource pool expenses, Canadian exploration expenses, Canadian development expenses or Canadian oil and gas property expenses incurred by the person before the person disposed of the property;

History: S. 66(15), the definition "original owner" was amended by S.C. 2001, c. 17, s. 44(11), applicable to taxation years that begin after 2000. S. 66(15), the definition "original owner" formerly read:

"*'original owner'* — 'original owner' of a Canadian resource property or a foreign resource property means a person

(*a*) who owned the property and disposed of it to a corporation that acquired it in circumstances in which subsection 29(25) of the *Income Tax Application Rules* or subsection 66.7(1), (2), (3), (4) or (5) applies, or would apply if the corporation had continued to own the property, to the corporation in respect of the property, and

(*b*) who would, but for subsection 66.7(12), (13) or (17), as the case may be, be entitled in computing that person's income for a taxation year ending after that person disposed of the property to a deduction under section 29 of the *Income Tax Application Rules* or subsection (2), (3) or (4), 66.1(2) or (3), 66.2(2) or 66.4(2) of this Act in respect of expenses described in subparagraph 29(25)(*c*)(i) or (ii) of that Act, Canadian exploration and development expenses, foreign exploration and development expenses, Canadian exploration expenses, Canadian development expenses or Canadian oil and gas property expenses incurred by the person before the person disposed of the property;"

"outlay" — "outlay", made before a particular time by a taxpayer, has the meaning assigned to the expression "expense" by this subsection;

Interpretation Bulletins: *Secondary* — IT-503 Exploration and development shares [Archived by the CRA].

"predecessor owner" — "predecessor owner" of a Canadian resource property or a foreign resource property means a corporation

(*a*) that acquired the property in circumstances in which subsection 29(25) of the *Income Tax Application Rules* or subsection 66.7(1), (2), (2.3), (3), (4) or (5) applies, or would apply if the corporation had continued to own the property, to the corporation in respect of the property,

(*b*) that disposed of the property to another corporation that acquired it in circumstances in which subsection 29(25) of the *Income Tax Application Rules* or subsection 66.7(1), (2), (2.3), (3), (4) or (5) applies, or would apply if the other corporation had continued to own the property, to the other corporation in respect of the property, and

(*c*) that would, but for subsection 66.7(14), (15), (15.1) or (17), as the case may be, be entitled in computing its income for a taxation year ending after it disposed of the property to a deduction under subsection 29(25) of the *Income Tax Application Rules* or subsection 66.7(1), (2), (2.3), (3), (4) or (5) in respect of expenses incurred by an original owner of the property;

History: S. 66(15), the definition "predecessor owner" was amended by S.C. 2001, c. 17, s. 44(11), applicable to taxation years that begin after 2000. S. 66(15), the definition "predecessor owner" formerly read:

" *'predecessor owner'* — 'predecessor owner' of a Canadian resource property or a foreign resource property means a corporation

(*a*) that acquired the property in circumstances in which subsection 29(25) of the *Income Tax Application Rules* or subsection 66.7(1), (2), (3), (4) or (5) applies, or would apply if the corporation had continued to own the property, to the corporation in respect of the property,

(*b*) that disposed of the property to another corporation that acquired it in circumstances in which subsection 29(25) of the *Income Tax Application Rules* or subsection 66.7(1), (2), (3), (4) or (5) applies, or would apply if the other corporation had continued to own the property, to the other corporation in respect of the property, and

(*c*) that would, but for subsection 66.7(14), (15) or (17), as the case may be, be entitled in computing its income for a taxation year ending after it disposed of the property to a deduction under subsection 29(25) of the *Income Tax Application Rules* or subsection 66.7(1), (2), (3), (4) or (5) in respect of expenses incurred by an original owner of the property;"

"principal-business corporation" — "principal-business corporation" means a corporation the principal business of which is any of, or a combination of,

(*a*) the production, refining or marketing of petroleum, petroleum products or natural gas,

(*a*.1) exploring or drilling for petroleum or natural gas,

(*b*) mining or exploring for minerals,

(*c*) the processing of mineral ores for the purpose of recovering metals or minerals from the ores,

(*d*) the processing or marketing of metals or minerals that were recovered from mineral ores and that include metals or minerals recovered from mineral ores processed by the corporation,

(*e*) the fabrication of metals,

(*f*) the operation of a pipeline for the transmission of oil or gas,

(*f*.1) the production or marketing of calcium chloride, gypsum, kaolin, sodium chloride or potash,

(*g*) the manufacturing of products, where the manufacturing involves the processing of calcium chloride, gypsum, kaolin, sodium chloride or potash,

(*h*) the generation of energy using property described in Class 43.1 or 43.2 of Schedule II to the regulations, or any combination thereof, and

(*i*) the development of projects for which it is reasonable to expect that at least 50% of the capital cost of the depreciable property to be used in each project would be the capital cost of property described in Class 43.1 or 43.2 of Schedule II to the regulations or any combination thereof,

or a corporation all or substantially all of the assets of which are shares of the capital stock or indebtedness of one or more principal-business corporations that are related to the corporation (otherwise than because of a right referred to in paragraph 251(5)(*b*));

History: S. 66(15), paragraphs (*h*) and (*i*) of the definition "principal-business corporation", were replaced by S.C. 2007, c. 35, s. 19(1), applicable on and after February 23, 2005. S. 66(15), paragraphs (*h*) and (*i*) of the definition "principal-business corporation" formerly read:

"(*h*) the generation of energy using property described in Class 43.1 of Schedule II to the *Income Tax Regulations*, and

(*i*) the development of projects for which it is reasonable to expect that at least 50% of the capital cost of the depreciable property to be used in each project would be the capital cost of property described in Class 43.1 of Schedule II to the *Income Tax Regulations*,"

S. 66(15), paragraphs (*h*) and (*i*) of the definition "principal-business corporation", were added by S.C. 1997, c. 25, s. 13(28), applicable after December 5, 1996.

S. 66(15), the definition "principal-business corporation", was amended by S.C. 1994, c. 21, s. 28(1), applicable to the 1993 and subsequent taxation years, except that

(*a*) a corporation may elect that subsection (1) not apply to its 1993 to 1996 taxation years by so notifying the Minister of National Revenue in writing before the end of the sixth month after the month in which this Act is assented to [Royal Assent June 15, 1994]; and

(*b*) it does not apply to transactions and events that occur before the 1993 taxation year.

That definition formerly read:

" *'principal-business corporation'* — 'principal-business corporation' means a corporation whose principal business is

(*a*) production, refining or marketing of petroleum, petroleum products or natural gas, or exploring or drilling for petroleum or natural gas,

(*b*) mining or exploring for minerals,

(*c*) processing mineral ores for the purpose of recovering metals therefrom,

(*d*) a combination of

(i) processing mineral ores for the purpose of recovering metals therefrom, and

(ii) processing metals recovered from the ores so processed,

(*e*) fabricating metals,

(*f*) operating a pipeline for the transmission of oil or natural gas, or

(*g*) production or marketing of sodium chloride or potash, or whose business includes manufacturing products the manufacturing of which involves processing sodium chloride or potash,

or a corporation all or substantially all of the assets of which are shares of the capital stock of one or more other corporations that are related to the corporation (otherwise than by reason of a right referred to in paragraph 251(5)(*b*)) and whose principal business is described in any of paragraphs (*a*) to (*g*);"

Interpretation Bulletins: *Primary* — IT-400 Exploration and development expenses — Meaning of principal-business corporation.

Canadian Petroleum Tax Journal: A Practical Guide to the Flow-Through Share Rules, Greg Johnson, CA, Vol. 15 No. 1 2002.

"production" — "production" from a Canadian resource property or a foreign resource property means

(*a*) petroleum, natural gas and related hydrocarbons produced from the property,

(*b*) heavy crude oil produced from the property processed to any stage that is not beyond the crude oil stage or its equivalent,

(*c*) ore (other than iron ore or tar sands) produced from the property processed to any stage that is not beyond the prime metal stage or its equivalent,

(*d*) iron ore produced from the property processed to any stage that is not beyond the pellet stage or its equivalent,

(*e*) tar sands produced from the property processed to any stage that is not beyond the crude oil stage or its equivalent, and

(*f*) any rental or royalty from the property computed by reference to the amount or value of the production of petroleum, natural gas or related hydrocarbons or ore;

"reserve amount" — "reserve amount" of a corporation for a taxation year in respect of an original owner or predecessor owner of a Canadian resource property means the amount determined by the formula

$$A - B$$

where

A is the total of all amounts that are

(*a*) required by subsection 59(2) to be included in computing the corporation's income for the year, and

(*b*) in respect of a reserve, deducted in computing the income of the original owner or predecessor owner and deemed by paragraph 87(2)(*g*) or by virtue of that paragraph and paragraph 88(1)(*e*.2) to have been deducted by the corporation as a reserve in computing its income for a preceding taxation year, and

B is the total of amounts deducted in computing the corporation's income for the year by virtue of subsection 64(1), (1.1) or (1.2) in respect of dispo-

sitions by the original owner or predecessor owner, as the case may be;

"selling instrument" — "selling instrument" in respect of flow-through shares means a prospectus, registration statement, offering memorandum, term sheet or other similar document that describes the terms of the offer (including the price and number of shares) pursuant to which a corporation offers to issue flow-through shares;

Related Sections: S. 66(12.68) Filing selling instruments; s. 66(15), "flow-through share".

"shareholder corporation" — "shareholder corporation" of a joint exploration corporation means a corporation that for the period in respect of which the expression is being applied

(*a*) was a shareholder of the joint exploration corporation, and

(*b*) made a payment or loan to the joint exploration corporation in respect of Canadian exploration and development expenses, a Canadian exploration expense, a Canadian development expense or a Canadian oil and gas property expense incurred or to be incurred by the joint exploration corporation.

"specified foreign exploration and development expense" — "specified foreign exploration and development expense" of a taxpayer in respect of a country (other than Canada) means an amount that is included in the taxpayer's foreign exploration and development expenses and that is

(*a*) a drilling or exploration expense, including any general geological or geophysical expense, incurred by the taxpayer on or in respect of exploring or drilling for petroleum or natural gas in that country,

(*a*.1) an expense incurred by the taxpayer after December 21, 2000 (otherwise than pursuant to an agreement in writing made before December 22, 2000) for the purpose of determining the existence, location, extent or quality of a mineral resource in that country, including any expense incurred in the course of

(i) prospecting,

(ii) carrying out geological, geophysical or geochemical surveys,

(iii) drilling by rotary, diamond, percussion or other methods, or

(iv) trenching, digging test pits and preliminary sampling,

(*b*) a prospecting, exploration or development expense incurred by the taxpayer before December 22, 2000 (or after December 21, 2000 pursuant to an agreement in writing made before December 22, 2000) in searching for minerals in that country,

(*c*) the cost to the taxpayer of the taxpayer's foreign resource property in respect of that country,

(*d*) an annual payment made by the taxpayer in a taxation year of the taxpayer for the preservation of a foreign resource property in respect of that country,

(*e*) an amount deemed by subsection 21(2) or (4) to be a foreign exploration and development expense incurred by the taxpayer, to the extent that it can reasonably be considered to relate to an amount that, without reference to this paragraph and paragraph (*f*), would be a specified foreign exploration and development expense in respect of that country, or

(*f*) subject to section 66.8, the taxpayer's share of the specified foreign exploration and development expenses of a partnership incurred in respect of that country in a fiscal period of the partnership if, at the end of that period, the taxpayer was a member of the partnership.

History: S. 66(15), the definition "specified foreign exploration and development expense" was added by S.C. 2001, c. 17, s. 44(16), applicable after 1994.

► 66(15.1) ◄

(15.1) Other definitions. The definitions in subsections 66.1(6), 66.2(5), 66.21(1), 66.4(5) and 66.5(2) apply in this section.

History: S. 66(15.1) was amended by S.C. 2001, c. 17, s. 44(17), applicable after 2000. S. 66(15.1) formerly read:

"(15.1) *Application of ss. 66.1(6), 66.2(5), 66.4(5) and 66.5(2).* The definitions in subsections 66.1(6), 66.2(5), 66.4(5) and 66.5(2) apply to this section."

S. 66(15.1) was not part of the former Act.

► 66(16) ◄

(16) Partnerships. For the purposes of subsections (12.6) to (12.73), the definitions "assistance" and "flow-through share" in subsection (15) and subsections (18), (19) and 66.3(3) and (4), a partnership is deemed to be a person and its taxation year is deemed to be its fiscal period.

History: S. 66(16) was amended by S.C. 1997, c. 25, s. 13(29), applicable to fiscal periods that end after 1995. S. 66(16) formerly read:

"(16) *Partnerships.* For the purposes of subsections (12.6) to (12.66), the definitions 'assistance' and 'flow-through share' in subsection (15) and subsections (18), (19) and 66.3(3) and (4), a partnership shall be deemed to be a person and its taxation year shall be deemed to be its fiscal period."

S. 66(16) was amended by S.C. 1994, c. 7, Sched. II, s. 38(11), to add the references to subsections (18) and (19), applicable to fiscal periods ending after February 1986.

Related Sections: S. 66(12.67)–(12.73).

► 66(17) ◄

(17) Non-arm's length partnerships. For the purpose of paragraph (12.66)(*d*), a partnership and a corporation are, at all times in a calendar year,

(*a*) deemed not to deal with each other at arm's length, if

(i) an expense is deemed by subsection (12.61) to be incurred by the partnership,

(ii) the expense would, if this Act were read without reference to paragraph (12.61)(*b*), be incurred in the calendar year by the corporation, and

(iii) a share of the expense is included, because of paragraph (*h*) of the definition "Canadian exploration expense" in subsection 66.1(6), in the Canadian exploration expense of the corporation or of a member of the partnership with whom the corporation, at any time in that calendar year, does not deal at arm's length; and

(*b*) deemed to deal with each other at arm's length, in any other case.

History: S. 66(17) was replaced by S.C. 2003, c. 28, s. 4(4), applicable to expenses incurred after 1996, other than expenses incurred in January or February 1997 in respect of an agreement that was made in 1995. S. 66(17) formerly read:

"(17) *Non-arm's length partnerships.* Where an expense would, but for paragraph (12.61)(*b*), be incurred during the first 60 days of a calendar year by a corporation and the expense is deemed by subsection (12.61) to be incurred by a partnership, the partnership and the corporation shall be deemed not to deal with each other at arm's length throughout that period for the purposes of paragraph (12.66)(*d*) only where a share of the expense of

the partnership is included because of paragraph (*h*) of the definition 'Canadian exploration expense' in subsection 66.1(6) in the Canadian exploration expense of the corporation or a member of the partnership with whom the corporation does not deal at arm's length at any time during that period."

S. 66(17) was amended by S.C. 1994, c. 7, Sched. II, s. 38(11), applicable to fiscal periods ending after February 1986. S. 66(17) formerly read:

"(17) For the purpose of paragraph (12.66)(*d*), where an expense incurred during a period by a corporation that is, but for this subsection, deemed by subsection (12.61) to be incurred by a partnership is attributable directly or indirectly to a member of the partnership who does not deal with the corporation at arm's length, the partnership and the corporation shall be deemed not to deal with each other at arm's length during the period."

Related Sections: S. 66(12.61) Effect of renunciation; s. 66(12.66)(*a*) Expenses in the first 60 days of year; s. 66(16) Partnerships; s. 66.1(6) "Canadian exploration expense"; s. 127(9), "flow-through mining expenditure", "investment tax credit"; s. 163(2.2) False statement or omission; s. 211.91(1) Tax imposed; s. 251(1) Arm's length.

► 66(18) ◄

(18) Members of partnerships. For the purposes of this section, subsection 21(2), sections 59.1 and 66.1 to 66.7, paragraph (*d*) of the definition "investment expense" in subsection 110.6(1) and the descriptions of C and D in subsection 211.91(1), where a person's share of an outlay or expense made or incurred by a partnership in a fiscal period of the partnership is included in respect of the person under paragraph (*d*) of the definition "foreign exploration and development expenses" in subsection (15), paragraph (*h*) of the definition "Canadian exploration expense" in subsection 66.1(6), paragraph (*f*) of the definition "Canadian development expense" in subsection 66.2(5), paragraph (*e*) of the definition "foreign resource expense" in subsection 66.21(1) or paragraph (*b*) of the definition "Canadian oil and gas property expense" in subsection 66.4(5), the portion of the outlay or expense so included is deemed, except for the purposes of applying the definitions "foreign exploration and development expenses", "Canadian exploration expense", "Canadian development expense", "foreign resource expense" and "Canadian oil and gas property expense" in respect of the person, to be made or incurred by the person at the end of that fiscal period.

History: S. 66(18) was amended by S.C. 2001, c. 17, s. 44(18), applicable to fiscal periods that begin after 2000. S. 66(18) formerly read:

"(18) *Members of partnerships.* For the purposes of this section, subsection 21(2), sections 59.1 and 66.1 to 66.7, paragraph (*d*) of the definition 'investment expense' in subsection 110.6(1) and the descriptions of C and D in subsection 211.91(1), where a person's share of an outlay or expense made or incurred by a partnership in a fiscal period of the partnership is included in respect of the person under paragraph (*d*) of the definition 'foreign exploration and development expenses' in subsection (15), paragraph (*h*) of the definition 'Canadian exploration expense' in subsection 66.1(6), paragraph (*f*) of the definition 'Canadian development expense' in subsection 66.2(5) or paragraph (*b*) of the definition 'Canadian oil and gas property expense' in subsection 66.4(5), the portion of the outlay or expense so included is deemed, except for the purposes of applying the definitions 'foreign exploration and development expenses', 'Canadian exploration expense', 'Canadian development expense' and 'Canadian oil and gas property expense' in respect of the person, to be made or incurred by the person at the end of that fiscal period."

S. 66(18) was amended by S.C. 1997, c. 25, s. 13(30), applicable to fiscal periods that end after 1996. S. 66(18) formerly read:

"(18) *Members of partnerships.* For the purposes of this section, subsection 21(2), sections 59.1 and 66.1 to 66.7 and paragraph (*d*) of the definition 'investment expense' in subsection 110.6(1), where a person's share of an outlay or expense incurred by a partnership in a fiscal period thereof is included in respect of the person under paragraph (*d*) of the definition 'foreign exploration and development expenses' in subsection (15), paragraph (*h*) of the definition 'Canadian exploration expense' in subsection 66.1(6), paragraph (*f*) of the definition 'Canadian development expense' in subsection 66.2(5) or paragraph (*b*) of the definition 'Canadian oil and gas property expense' in subsection 66.4(5), the portion of the outlay or expense so included shall be deemed, except for the purposes of applying the definitions 'foreign exploration and development expenses', 'Canadian exploration expense', 'Canadian development expense' and 'Canadian oil and gas property expense' in respect of the person, to be made or incurred by the person at the end of that fiscal period."

S. 66(18) was added by S.C. 1994, c. 7, Sched. II, s. 38(12), applicable to fiscal periods ending after February 1986.

Related Sections: S. 66–66.7.

► 66(19) ◄

(19) Renunciation by corporate partner, etc. A corporation is not entitled to renounce under subsection (12.6), (12.601) or (12.62) to a person a specified amount in respect of the corporation where the corporation would not be entitled to so renounce the specified amount if

(*a*) the expression "end of that fiscal period" in subsection (18) were read as "time the outlay or expense was made or incurred by the partnership"; and

(*b*) the expression "on the effective date of the renunciation" in each of paragraphs (12.61)(*a*) and (12.63)(*a*) were read as "at the earliest time that any part of such expense was incurred by the corporation".

History: S. 66(19) was amended by S.C. 1997, c. 25, s. 13(31), applicable to renunciations made after 1998. S. 66(19) formerly read:

"(19) *Renunciation by member of partnership, etc.* Notwithstanding subsections (12.6), (12.601), (12.62) and (12.64), where at any time a corporation

(*a*) would, but for this subsection, be entitled to renounce under subsection (12.6), (12.601), (12.62) or (12.64) to another person

(i) all or part of the corporation's share of an outlay or expense made or incurred by a partnership of which the corporation is a member or former member at that time, or

(ii) all or part of an amount renounced to the corporation under subsection (12.6), (12.601), (12.62) or (12.64), and

(*b*) would not be entitled to so renounce the amount described in subparagraph (*a*)(i) or (ii) to the other person if

(i) the expression 'end of that fiscal period' in subsection (18) were read as 'time the outlay or expense was made or incurred by the partnership', and

(ii) the expression 'on the effective date of the renunciation' in each of paragraphs (12.61)(*a*), (12.63)(*a*) and (12.65)(*a*) were read as 'at the earliest time that any part of such expense was incurred by the corporation',

the corporation is not entitled to renounce that amount under subsection (12.6), (12.601), (12.62) or (12.64), as the case may be, at that time to the other person."

S. 66(19) was amended by S.C. 1994, c. 8, s. 5(19), applicable to renunciations of outlays or expenses made or incurred after December 2, 1992. S. 66(19) formerly read:

"(19) Notwithstanding subsections (12.6), (12.62) and (12.64), where at any time a corporation

(*a*) would, but for this subsection, be entitled to renounce

(i) all or part of its share of an outlay or expense made or incurred by a partnership of which the corporation is a member or former member at that time, or

(ii) all or part of an amount renounced to the corporation under subsection (12.6), (12.62) or (12.64),

under subsection (12.6), (12.62) or (12.64) to another person, and

(*b*) would, if

(i) the expression 'end of that fiscal period' in subsection (18) were read as 'time the outlay or expense was made or incurred by the partnership', and

(ii) the expression 'on the effective date of the renunciation' in each of paragraphs (12.61)(*a*), (12.63)(*a*) and (12.65)(*a*) were read as 'at the earliest time that any part of such expense was incurred by the corporation',

not be entitled to so renounce the amount described in subparagraph (*a*)(i) or (ii) to the other person,

the corporation is not entitled to renounce that amount under subsection (12.6), (12.62) or (12.64), as the case may be, at that time to the other person."

S. 66(19) was added by S.C. 1994, c. 7, Sched. II, s. 38(12), applicable to renunciations of outlays or expenses made or incurred after July 13, 1990, other than such outlays or expenses made or incurred under an agreement in writing entered into before July 14, 1990.

► 66(20) ◄

(20) Specified amount. For the purpose of subsection (19), a specified amount in respect of a corporation is an amount that represents

(*a*) all or part of the corporation's share of an outlay or expense made or incurred by a partnership of which the corporation is a member or former member; or

(*b*) all or part of an amount renounced to the corporation under subsection (12.6), (12.601) or (12.62).

History: S. 66(20) was added by S.C. 1997, c. 25, s. 13(31), applicable to renunciations made after 1998.

SECTION 66.1:

► 66.1(1) ◄

(1) Amount to be included in income. There shall be included in computing the amount referred to in paragraph 59(3.2)(*b*) in respect of a taxpayer for a taxation year the amount, if any, by which

(*a*) the total of all amounts referred to in the descriptions of F to M in the definition "cumulative Canadian exploration expense" in subsection (6) that are deducted in computing the taxpayer's cumulative Canadian exploration expense at the end of the year

exceeds the total of

(*b*) all amounts referred to in the descriptions of A to E.1 in the definition "cumulative Canadian exploration expense" in subsection (6) that are included in computing the taxpayer's cumulative Canadian exploration expense at the end of the year, and

(*c*) the total determined under subparagraph 66.7(12.1)(*a*)(i) in respect of the taxpayer for the year.

History: S. 66.1(1) was amended by S.C. 1994, c. 7, Sched. II, s. 39(1), applicable to taxation years ending after February 17, 1987, except that the reference to "E.1" in paragraph 66.1(1)(*b*) shall be read as "D" with respect to taxation years ending after February 17, 1987 and beginning before February 18, 1987. S. 66.1(1) formerly read:

"(1) A taxpayer shall include, in computing the amount referred to in paragraph 59(3.2)(*b*), the amount, if any, by which

(*a*) the total of all amounts referred to in the descriptions of F to M in the definition 'cumulative Canadian exploration expense' in subsection (6) that would be taken into account in computing the taxpayer's cumulative Canadian exploration expense at the end of the year

exceeds

(*b*) the total of all amounts referred to in the descriptions of A to D in the definition referred to in paragraph (*a*) that would be taken into account in computing the taxpayer's cumulative Canadian exploration expense at the end of the year."

Editorial Note: Section 66.1 provides for the deduction by a taxpayer of its Canadian exploration expenses. CEE include certain oil and gas and drilling expenses and expenses in finding a mineral resource and bringing it into production. The taxpayer adds its CEE to its cumulative Canadian exploration expense ("CCEE").

A taxpayer may claim a deduction in respect of its CCEE. A principal-business corporation is limited in the deduction it may claim to its income for the year as defined in paragraph 66.1(2)(*b*) and an additional amount that is relevant only if the corporation transfers in the year all of its Canadian resource properties to another corporation in accordance with the successor corporation rules. A taxpayer other than a principal-business corporation may claim an optional deduction up to the full amount of its CCEE at the end of the year. Such a taxpayer may claim an additional amount if it transfers in the year all of its Canadian resource properties in accordance with the successor corporation rules.

A taxpayer must include in income any amount by which its CCEE is negative at the end of the year less any amount that the taxpayer may deduct by virtue of disposing in the year of its Canadian resource properties in accordance with the successor corporation rules.

Related Sections: S. 59(3.2) Recovery of exploration and development expenses; s. 66(6) Successor corporation's Canadian exploration and development expenses; s. 66.1(6) Definitions; s. 66.4(5) Definitions; s. 127.5 Obligation to pay minimum tax.

Interpretation Bulletins: *Secondary* — IT-273R2 Government assistance — General comments.

► 66.1(2) ◄

(2) Deduction for certain principal-business corporations. In computing the income for a taxation year of a principal-business corporation (other than a corporation that would not be a principal-business corporation if the definition "principal-business corporation" in subsection 66(15) were read without reference to paragraphs (*h*) and (*i*) of that definition), there may be deducted any amount that the corporation claims not exceeding the lesser of

(*a*) the total of

(i) the amount, if any, by which its cumulative Canadian exploration expense at the end of the year exceeds the amount, if any, designated by it for the year under subsection 66(14.1), and

(ii) the amount, if any, by which

(A) the total determined under subparagraph 66.7(12.1)(*a*)(i) in respect of the corporation for the year

exceeds

(B) the amount that would be determined under subsection (1) in respect of the corporation for the year, if that subsection were read without reference to paragraph (*c*) thereof, and

(*b*) the amount, if any, by which

(i) the amount that would be its income for the year if no deduction (other than a prescribed deduction) were allowed under this subsection or section 65

exceeds

(ii) the total of all amounts each of which is an amount deducted by the corporation under section 112 or 113 in computing its taxable income for the year.

History: S. 66.1(2), the portion before paragraph (*a*), was amended by S.C. 1997, c. 25, s. 14(1), applicable to taxation years that end after December 5, 1996. That part formerly read:

"(2) *Deduction for principal-business corporation.* In computing the income of a principal-business corporation for a taxation year, there may be deducted any amount that the corporation claims not exceeding the lesser of"

S. 66.1(2) was amended by S.C. 1994, c. 8, s. 6(1), applicable to taxation years ending after December 2, 1992. S. 66.1(2) formerly read:

"(2) In computing its income for a taxation year, a taxpayer that is a principal-business corporation

(*a*) shall deduct an amount equal to the lesser of

(i) the amount, if any by which its cumulative Canadian exploration expense at the end of the year exceeds the amount, if any, designated by it for the year under subsection 66(14.1), and

(ii) its income for the year (computed without reference to subsection 59(3.3)) if no deduction (other than a prescribed deduction) were allowed under this subsection or section 65 minus the deductions allowed for the year by sections 112 and 113; and

(*b*) may deduct such amount as it claims not exceeding the total of

(i) the lesser of

(A) the amount, if any, by which

(I) the total determined under subparagraph 66.7(12.1)(*a*)(i) in respect of the taxpayer for the year

exceeds

(II) the amount that would, but for paragraph (1)(*c*), be the amount determined under subsection (1) in respect of the taxpayer for the year, and

(B) the amount, if any, by which

(I) the amount, if any, determined under subparagraph (*a*)(ii) in respect of the taxpayer for the year

exceeds

(II) the amount, if any, deducted under paragraph (*a*) by the taxpayer for the year, and

(ii) the least of

(A) the total of amounts included under subsection 59(3.3) in computing its income for the year,

(B) the total of

(I) the amount, if any, by which the amount determined under subparagraph (*a*)(i) in respect of the taxpayer for the year exceeds the amount determined under subparagraph (*a*)(ii) in respect of the taxpayer for the year, and

(II) the amount, if any, by which the amount determined under clause (i)(A) in respect of the taxpayer for the year exceeds the

amount determined under clause (i)(B) in respect of the taxpayer for the year, and

(C) the amount that would be determined under subparagraph (*a*)(ii) in respect of the taxpayer for the year if that subparagraph were read without reference to the expression '(computed without reference to subsection 59(3.3))'."

S. 66.1(2)(*b*) was amended by S.C. 1994, c. 7, Sched. II, s. 39(2), applicable to taxation years ending after February 17, 1987. S. 66.1(2)(*b*) formerly read:

"(*b*) may deduct such amount as it may claim not exceeding the least of

(i) the total of amounts required to be included in computing its income for the year by virtue of subsection 59(3.3),

(ii) the amount, if any, by which the amount described in subparagraph (*a*)(i) exceeds the amount described in subparagraph (*a*)(ii), and

(iii) the amount that would be determined under subparagraph (*a*)(ii) if that subparagraph were read without reference to '(computed without reference to subsection 59(3.3))'."

Related Sections: S. 59(3.3) Amounts to be included in income; s. 66.1(6), "cumulative Canadian exploration expense".

Regulations: 1202(2); 1213.

Interpretation Bulletins: *Secondary* — IT-400 Exploration and development expenses — Meaning of principal-business corporation.

▶ 66.1(3) ◀

(3) Expenses of other taxpayer. In computing the income for a taxation year of a taxpayer that is not a principal-business corporation, or that is a corporation that would not be a principal-business corporation if the definition "principal-business corporation" in subsection 66(15) were read without reference to paragraphs (*h*) and (*i*) of that definition, there may be deducted such amount as the taxpayer claims not exceeding the total of

(*a*) the amount, if any, by which the taxpayer's cumulative Canadian exploration expense at the end of the year exceeds the amount, if any, designated by the taxpayer for the year under subsection 66(14.1), and

(*b*) the amount, if any, by which

(i) the total determined under subparagraph 66.7(12.1)(*a*)(i) in respect of the taxpayer for the year

exceeds

(ii) the amount that would, but for paragraph (1)(*c*), be the amount determined under subsection (1) in respect of the taxpayer for the year.

History: S. 66.1(3), the portion before paragraph (*a*), was amended by S.C. 1997, c. 25, s. 14(2), applicable to taxation years that end after December 5, 1996. That part formerly read:

"(3) *Expenses of other taxpayers.* In computing the income of a taxpayer (other than a principal-business corporation) for a taxation year, there may be deducted such amount as the taxpayer claims not exceeding the total of"

S. 66.1(3) was amended by S.C. 1994, c. 7, Sched. II, s. 39(3), applicable to taxation years ending after February 17, 1987. S. 66.1(3) formerly read:

"(3) A taxpayer other than a principal-business corporation may deduct, in computing the taxpayer's income for a taxation year, such amount as the taxpayer may claim not exceeding the amount, if any, by which the taxpayer's cumulative Canadian exploration expense at the end of the year exceeds the amount, if any, designated by the taxpayer for the year under subsection 66(14.1)."

Related Sections: S. 66(15), "Canadian exploration and development expenses", "principal-business corporation"; s. 66.1(6), "cumulative Canadian exploration expense"; s. 127.5 Obligation to pay minimum tax.

▶ 66.1(4) ◀

(4) Successor corporation's Canadian exploration expense. [Repealed by 1987, c. 46, s. 19(2).]

▶ 66.1(5) ◀

(5) Second successor corporation's Canadian exploration expenses. [Repealed by 1987, c. 46, s. 19(2).]

▶ 66.1(6) ◀

(6) Definitions. In this section,

Related Sections: S. 13(7.5) Deemed capital cost.

"Canadian exploration expense" — "Canadian exploration expense" of a taxpayer means any expense incurred after May 6, 1974 that is

(*a*) any expense including a geological, geophysical or geochemical expense incurred by the taxpayer (other than an expense incurred in drilling or completing an oil or gas well or in building a temporary access road to, or preparing a site in respect of, any such well) for the purpose of determining the existence, location, extent or quality of an accumulation of petroleum or natural gas (other than a mineral resource) in Canada,

(*b*) any expense (other than an expense incurred in drilling or completing an oil or gas well or in building a temporary access road to, or preparing a site in respect of, any such well) incurred by the taxpayer after March, 1985 for the purpose of bringing a natural accumulation of petroleum or natural gas (other than a mineral resource) in Canada into production and incurred prior to the commencement of the production (other than the production from an oil or gas well) in reasonable commercial quantities from such accumulation, including

(i) clearing, removing overburden and stripping, and

(ii) sinking a shaft or constructing an adit or other underground entry,

(*c*) any expense incurred before April, 1987 in drilling or completing an oil or gas well in Canada or in building a temporary access road to, or preparing a site in respect of, any such well,

(i) incurred by the taxpayer in the year, or

(ii) incurred by the taxpayer in any previous year and included by the taxpayer in computing the taxpayer's Canadian development expense for a previous taxation year,

if, within six months after the end of the year, the drilling of the well is completed and

(iii) it is determined that the well is the first well capable of production in commercial quantities from an accumulation of petroleum or natural gas (other than a mineral resource) not previously known to exist, or

(iv) it is reasonable to expect that the well will not come into production in commercial quantities within twelve months of its completion,

(*d*) any expense incurred by the taxpayer after March, 1987 and in a taxation year of the taxpayer in drilling or completing an oil or gas well in Canada or in building a temporary access road to, or preparing a site in respect of, any such well if

(i) the drilling or completing of the well resulted in the discovery that a natural underground reservoir contains petroleum or natural gas, where

(A) before the time of the discovery, no person or partnership had discovered that the reservoir contained either petroleum or natural gas, and

(B) the discovery occurred at any time before six months after the end of the year,

(ii) the well is abandoned in the year or within six months after the end of the year without ever having produced otherwise than for specified purposes,

(iii) the period of 24 months commencing on the day of completion of the drilling of the well ends in the year, the expense was incurred within that period and in the year and the well has not within that period produced otherwise than for specified purposes, or

(iv) there has been filed with the Minister, on or before the day that is 6 months after the end of the taxation year of the taxpayer in which the drilling of the well was commenced, a certificate issued by the Minister of Natural Resources certifying that, on the basis of evidence submitted to that Minister, that Minister is satisfied that

(A) the total of expenses incurred and to be incurred in drilling and completing the well, in building a temporary access road to the well and in preparing the site in respect of the well will exceed $5,000,000, and

(B) the well will not produce, otherwise than for a specified purpose, within the period of 24 months commencing on the day on which the drilling of the well is completed,

(*e*) any expense deemed by subsection (9) to be a Canadian exploration expense incurred by the taxpayer,

(*f*) any expense incurred by the taxpayer (other than an expense incurred in drilling or completing an oil or gas well or in building a temporary access road to, or preparing a site in respect of, any such well) for the purpose of determining the existence, location, extent or quality of a mineral resource in Canada including any expense incurred in the course of

(i) prospecting,

(ii) carrying out geological, geophysical or geochemical surveys,

(iii) drilling by rotary, diamond, percussion or other methods, or

(iv) trenching, digging test pits and preliminary sampling,

but not including

(v) any Canadian development expense, or

(vi) any expense that may reasonably be considered to be related to a mine that has come into production in reasonable commercial quantities or to be related to a potential or actual extension thereof,

(*g*) any expense incurred by the taxpayer after November 16, 1978 for the purpose of bringing a new mine in a mineral resource in Canada into production in reasonable commercial quantities and incurred before the new mine comes into production in such quantities, including an expense for clearing, removing overburden, stripping, sinking a mine shaft or constructing an adit or other underground entry,

(*g.1*) any Canadian renewable and conservation expense incurred by the taxpayer,

(*h*) subject to section 66.8, the taxpayer's share of any expense referred to in any of paragraphs (*a*) to (*d*) and (*f*) to (*g.1*) incurred by a partnership in a fiscal period thereof, if at the end of the period the taxpayer is a member of the partnership, or

(*i*) any expense referred to in any of paragraphs (*a*) to (*g*) incurred by the taxpayer pursuant to an agreement in writing with a corporation, entered into before 1987, under which the taxpayer incurred the expense solely as consideration for shares, other than prescribed shares, of the capital stock of the corporation issued to the taxpayer or any interest in such shares or right thereto,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*i*) of the definition "Canadian exploration expense" in subsection 66.1(6) of the Act is replaced by the following:

(*i*) any expense referred to in any of paragraphs (*a*) to (*g*) incurred by the taxpayer pursuant to an agreement in writing with a corporation, entered into before 1987, under which the taxpayer incurred the expense solely as consideration for shares, other than prescribed shares, of the capital stock of the corporation issued to the taxpayer or any interest in or right to — or, for civil law, any right in or to — such shares,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

but, for greater certainty, shall not include

(*j*) any consideration given by the taxpayer for any share or any interest therein or right thereto, except as provided by paragraph (*i*),

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*j*) of the definition "Canadian exploration expense" in subsection 66.1(6) of the Act is replaced by the following:

(*j*) any consideration given by the taxpayer for any share or any interest in or right to — or, for civil law, any right in or to — a share, except as provided by paragraph (*i*),

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*k*) any expense described in paragraph (*i*) incurred by any other taxpayer to the extent that the expense was,

(i) by virtue of that paragraph, a Canadian exploration expense of that other taxpayer,

(ii) by virtue of paragraph (*g*) of the definition "Canadian development expense" in subsection 66.2(5), a Canadian development expense of that other taxpayer, or

(iii) by virtue of paragraph (*c*) of the definition "Canadian oil and gas property expense" in subsection 66.4(5), a Canadian oil and gas property expense of that other taxpayer,

(*k*.1) an expense that is the cost, or any part of the cost, to the taxpayer of any depreciable property of a prescribed class that was acquired after 1987,

(*k*.2) any portion of any expense that may reasonably be considered to have resulted in revenue earned by a taxpayer if

(i) the expense is otherwise described by subparagraph (*f*)(i), (iii) or (iv) and the revenue is earned before a new mine of the taxpayer in the mineral resource referred to in paragraph (*f*) comes into production in reasonable commercial quantities, or

(ii) the expense is otherwise described by paragraph (*g*) and the revenue is earned before the new mine referred to in that paragraph comes into production in reasonable commercial quantities,

(*l*) any amount (other than a Canadian renewable and conservation expense) included at any time in the capital cost to the taxpayer of any depreciable property of a prescribed class,

(*m*) an expenditure incurred at any time after the commencement of production from a Canadian resource property of the taxpayer in order to evaluate the feasibility of a method of recovery of, or to assist in the recovery of, petroleum, natural gas or related hydrocarbons from the portion of a natural reservoir to which the Canadian resource property relates,

(*n*) an expenditure incurred at any time relating to the injection of any substance to assist in the recovery of petroleum, natural gas or related hydrocarbons from a natural reservoir, or

(*o*) the taxpayer's share of any consideration, expense, cost or expenditure referred to in any of paragraphs (*j*) to (*n*) given or incurred by a partnership,

but any assistance that a taxpayer has received or is entitled to receive after May 25, 1976 in respect of or related to the taxpayer's Canadian exploration expense shall not reduce the amount of any of the expenses described in any of paragraphs (*a*) to (*i*);

History: S. 66.1(6), paragraph (*g*) of the definition "Canadian exploration expense" was replaced by S.C. 2003, c. 28, s. 5(1), applicable to expenses incurred after May 9, 1985. S. 66.1(6), paragraph (*g*) of the definition "Canadian exploration expense" formerly read:

"(*g*) any expense incurred by the taxpayer after November 16, 1978 for the purpose of bringing a new mine in a mineral resource in Canada into production in reasonable commercial quantities and incurred before the coming into production of the new mine, including

(i) clearing, removing overburden and stripping, and

(ii) sinking a mine shaft, constructing an adit or other underground entry,"

S. 66.1(6), paragraph (*k*2) of the definition "Canadian exploration expense" was added by S.C. 2003, c. 28, s. 5(2), applicable to expenses incurred after June 9, 2003.

S. 66.1(6), subparagraph (*d*)(i) of the definition "Canadian exploration expense" was amended by S.C. 2001, c. 17, s. 45(1), applicable to expenses incurred after March 1987. S. 66.1(6), subparagraph (*d*)(i) of the definition "Canadian exploration expense" formerly read:

"(i) the well resulted in the discovery of a natural accumulation of petroleum or natural gas and the discovery occurred at any time before six months after the end of the year,"

S. 66.1(6)(*k*1) of the definition "Canadian exploration expense" was added by S.C. 2001, c. 17, s. 45(2), applicable to the 1988 and subsequent taxation years.

S. 66.1(6), paragraph (*g*.1) of the definition "Canadian exploration expense" was added, and paragraph (*h*) was amended by S.C. 1997, c. 25, s. 14(3), applicable after December 5, 1996. Paragraph (*h*) of that definition formerly read:

"(*h*) subject to section 66.8, the taxpayer's share of any expense referred to in any of paragraphs (*a*), (*b*), (*c*), (*d*), (*f*) and (*g*) incurred by a partnership in a fiscal period thereof, if at the end of that period the taxpayer was a member of the partnership, or"

S. 66.1(6), paragraphs (*l*), (*m*), (*n*), and (*o*) of the definition "Canadian exploration expense" were added by S.C. 1997, c. 25, s. 14(4), applicable to taxation years that end after December 5, 1996.

S. 66.1(6), subparagraph (*d*)(iv) of the definition "Canadian exploration expense", was amended by S.C. 1994, c. 41, s. 37(1), to change the expression "Minister of Energy, Mines and Resources" to "Minister of Natural Resources", effective upon proclamation.

Related Sections: S. 12(1)(*t*) Investment tax credit; s. 13(7.5) Deemed capital cost; s. 13(21), "depreciable property"; s. 53(2)(*c*) Amounts to be deducted — Interest in a partnership; s. 53(2)(*e*) Amounts to be deducted — Share, where shareholder incurred exploration and development expenses; s. 53(2)(*f*) Amounts to be deducted — Property received from joint exploration corporation; s. 53(2)(*f*.1) Amounts to be deducted — Share of the capital stock of joint exploration corporation; s. 59(3.3) Amounts to be included in income; s. 66(10.1) Idem; s. 66(12.1)(*a*) Limitations of Canadian exploration and development expenses; s. 66(12.2) Unitized oil or gas field in Canada — Canadian exploration expenses; s. 66(12.6) Canadian exploration expenses to flow-through shareholder; s. 66(12.66) Expenses in the first 60 days of year; s. 66(12.67) Restrictions on renunciation; s. 66(14.1) Designation respecting Canadian exploration expense; s. 66(15), "assistance", "flow-through share"; s. 66.1(6), "Canadian renewable and conservation expense"; s. 66.1(7) Share of partner; s. 66.1(9) Canadian development expenses for preceding years; s. 66.2(2) Deduction for cumulative Canadian development expenses; s. 66.2(5), "Canadian development expense"; s. 66.3 Exploration and development shares; s. 66.4(5) "Canadian oil and gas property expense"; s. 66.7 Successor of Canadian exploration and development expenses; s. 66.8 Resource expenses of limited partner; s. 127(9) "flow-through mining expenditure", "pre-production mining expenditure"; s. 219(1)(*c*) Branch tax; s. 248(1), "Canadian exploration expense".

Regulations: 1203(2); 1205(1); 1206; 1207; 1217; 4608; 6202(1).

Interpretation Bulletins: *Primary* — IT-476R Capital cost allowance — Equipment used in petroleum and natural gas activities. *Secondary* — IT-503 Exploration and development shares [Archived by the CRA].

Canadian Petroleum Tax Journal: Legislation Dealing with CEE, CDE and COGPE & Proposed Policy on CEDOE, Ladak, Vol. 16 No. 1 2003; Recent Cases of Interest — Canadian Exploration Expense ("CEE"), Gerald Grenon, Vol. 13 No. 1 2000; Canada Customs and Revenue Agency 1999 Roundtable Questions and Answers, Question 15, Vol. 13 No. 1 2000; Renewable Energy — Tax Developments and Opportunities, Leanne Sereda, Vol. 13 No. 1 2000; Flow-Through Shares: An Update, Angelo F. Toselli, Vol. 10 No. 1 1997.

Cases: Canadian exploration expense ("CEE") must be incurred for the "purpose" of bringing a mine into production. These criteria must be applied objectively, without second-guessing the company's business decisions. In addition, the taxpayer, who had acquired flow-through shares, could not deduct the amounts in issue (that were not CEE) as expenses incurred to generate business income under s. 9. *Mickleborough v. The Queen*, 99 DTC 47 (T.C.C.).

Seismic data purchased for the purpose of resale or licensing does not qualify as CEE. *Global Communications Limited v. The Queen*, 99 DTC 5377 (F.C.A.), reversing 97 DTC 1293 (T.C.C.)

The costs incurred by the taxpayer for exploration, drilling and tunnelling in the development of its underground coal deposit were held to be "Canadian exploration expenses" since the expenses were related to a mine (i.e. the underground mine) separate and apart from the taxpayer's surface operations and had been incurred prior to the production from that mine in "reasonable commercial quantities". *Oro Del Norte S.A. v. The Queen*, 93 DTC 5217 (F.C.T.D.).

"Canadian renewable and conservation expense" — "Canadian renewable and conservation expense" has the meaning assigned by regulation, and for the purpose of determining whether an outlay or expense meets the criteria set out in the Regulations in respect of Canadian renewable and conservation expenses, the *Technical Guide to Canadian Renewable and Conservation Expenses*, as amended from time to time and published

by the Department of Natural Resources, shall apply conclusively with respect to engineering and scientific matters;

History: S. 66.1(6), the definition "Canadian renewable and conservation expense" was added by S.C. 1997, c. 25, s. 14(5), applicable after December 5, 1996.

Regulations: 1219.

Canadian Petroleum Tax Journal: Renewable Energy — Tax Developments and Opportunities, Leanne Sereda, Vol. 13 No. 1, 2000; Flow-Through Shares: An Update, Angelo F. Toselli, Vol. 10 No. 1 1997.

"cumulative Canadian exploration expense" — "cumulative Canadian exploration expense" of a taxpayer at any time in a taxation year means the amount determined by the formula

$$(A + B + C + D + E + E.1) - (F + G + H + I + J + J.1 + K + L + M)$$

where

A is the total of all Canadian exploration expenses made or incurred by the taxpayer before that time,

B is the total of all amounts required by subsection (1) to be included in computing the amount referred to in paragraph 59(3.2)(*b*) for the taxpayer's taxation years ending before that time,

C is the total of all amounts, except amounts in respect of interest, paid by the taxpayer after May 6, 1974 and before that time to Her Majesty in right of Canada in respect of amounts paid to the taxpayer before May 25, 1976 under the regulations referred to in paragraph (*a*) of the description of H,

D is the total of all amounts referred to in the description of G that are established by the taxpayer to have become bad debts before that time,

E is such part, if any, of the amount determined for J as has been repaid before that time by the taxpayer pursuant to a legal obligation to repay all or any part of that amount,

E.1 is the total of all specified amounts determined under paragraph 66.7(12.1)(*a*) in respect of the taxpayer for taxation years ending before that time,

F is the total of all amounts deducted or required to be deducted in computing the taxpayer's income for a taxation year ending before that time in respect of the taxpayer's cumulative Canadian exploration expense,

G is the total of all amounts that became receivable by the taxpayer before that time that are to be included in the amount determined under this description by virtue of paragraph 66(12.1)(*a*) or (12.2)(*a*),

H is the total of all amounts paid to the taxpayer after May 6, 1974 and before May 25, 1976

(*a*) under the *Northern Mineral Exploration Assistance Regulations* made under an appropriation Act that provides for payments in respect of the Northern Mineral Grants Program, or

(*b*) pursuant to any agreement entered into between the taxpayer and Her Majesty in right of Canada under the Northern Mineral Grants Program or the Development Program of the Department of Indian Affairs and Northern Development,

to the extent that the amounts have been expended by the taxpayer as or on account of Canadian exploration and development expenses or Canadian exploration expense incurred by the taxpayer,

I is the total of all amounts each of which is an amount received before that time on account of any amount referred to in the description of D,

J is the total amount of assistance that the taxpayer has received or is entitled to receive in respect of any Canadian exploration expense incurred after 1980 or that can reasonably be related to Canadian exploration activities after 1980, to the extent that the assistance has not reduced the taxpayer's Canadian exploration expense by virtue of paragraph (9)(*g*),

J.1 is the total of all amounts by which the cumulative Canadian exploration expense of the taxpayer is required because of subsection 80(8) to be reduced at or before that time,

K is the total of all amounts that are required to be deducted before that time under subsection 66(14.1) in computing the taxpayer's cumulative Canadian exploration expense,

L is that portion of the total of all amounts each of which was deducted by the taxpayer under subsection 127(5) or (6) for a taxation year that ended before that time and that can reasonably be attributed to a qualified Canadian exploration expenditure, a pre-production mining expenditure or a flow-through mining expenditure (each expenditure within the meaning assigned by subsection 127(9)) made in a preceding taxation year, and

M is the total of all amounts that are required to be deducted before that time under paragraph 66.7(12)(*b*) in computing the taxpayer's cumulative Canadian exploration expense;

History: S. 66.1(6), the description of L in the definition "cumulative Canadian exploration expense" was replaced by S.C. 2003, c. 28, s. 5(3), applicable to the 2003 and subsequent taxation years. S. 66.1(6), the description of L formerly read:

"L is that portion of the total of all amounts each of which was deducted by the taxpayer under subsection 127(5) or (6) for a taxation year that ended before that time and that can reasonably be attributed to a qualified Canadian exploration expenditure or a flow-through mining expenditure (within the meaning assigned by subsection 127(9)) made in a preceding taxation year, and"

S. 66.1(6), the description of L in the definition "cumulative Canadian exploration expense" was amended by S.C. 2001, c. 17, s. 45(3), applicable after October 17, 2000. S. 66.1(6), the description of L in the definition "cumulative Canadian exploration expense" formerly read:

"L is that portion of the total of all amounts deducted by the taxpayer under subsection 127(5) or (6) for a taxation year ending before that time that may reasonably be attributed to a qualified Canadian exploration expenditure (within the meaning assigned by subsection 127(9)) made in a preceding taxation year, and"

The formula in the definition "cumulative Canadian exploration expense" in s. 66.1(6) was amended by S.C. 1995, c. 21, s. 22(1), applicable to taxation years that end after February 21, 1994. That formula formerly read:

"(A + B + C + D + E + E.1) + (F + G + H + I + J + K + L + M)"

The description of J.1 in the definition "cumulative Canadian exploration expense" in s. 66.1(6) was added by S.C. 1995, c. 21, s. 22(2), applicable to taxation years that end after February 21, 1994.

The description of F in the definition "cumulative Canadian exploration expense" was amended by S.C. 1994, c. 8, s. 6(2), applicable to taxation years ending after December 2, 1992. The description formerly read:

"F is the total of all amounts deducted or deductible, as the case may be, in computing the taxpayer's income for a taxation year ending before that

time in respect of the taxpayer's cumulative Canadian exploration expense,"

The formula in the definition "cumulative Canadian exploration expense" was amended by S.C. 1994, c. 7, Sched. II, s. 39(4), applicable to taxation years beginning after February 17, 1987. The formula formerly read:

"(A + B + C + D + E) – (F + G + H + I + J + K + L + M)"

The description of E.1 was added to the definition "cumulative Canadian exploration expense" by S.C. 1994, c. 7, Sched. II, s. 39(4.1), applicable to taxation years beginning after February 17, 1987.

Related Sections: S. 12(1)(*t*) Investment tax credit; s. 20(1)(*kk*) Exploration and development grants; s. 53(1)(*e*)(viii) Adjustments to cost base — Interest in a partnership; s. 59(3.2)(*b*) Recovery of exploration and development expenses; s. 66(11) Acquisition of control; s. 66(12.1)(*a*) Limitations of Canadian exploration and development expenses; s. 66(12.2) Unitized oil or gas field in Canada — Canadian exploration expenses; s. 66(12.3)(*a*) Unitized oil or gas field in Canada — Canadian development expenses; s. 66(12.6)(*e*) Canadian exploration expenses to flow-through shareholder; s. 66(14.1) Designation respecting Canadian exploration expense; s. 66(15), "assistance"; s. 66.1(6), "Canadian exploration expense"; s. 66.1(7) Share of partner; s. 66.1(9) Canadian development expenses for preceding years; s. 66.7(3) Successor of Canadian exploration expense; s. 66.7(9) Canadian development expense becoming Canadian exploration expense; s. 66.7(12) Reduction of Canadian resource expenses; s. 66.7(12.1)(*a*) Specified amount; s. 79(4)(*c*) Subsequent payment by debtor; s. 80(8) Reductions of resource expenditures; s. 127(5) Investment tax credit; s. 127(6) Investment tax credit of cooperative corporation; s. 127(9), "flow-through mining expenditure", "pre-production mining expenditure"; s. 127(12.3) Cumulative Canadian exploration expense.

"restricted expense" — "restricted expense" of a taxpayer means an expense

(*a*) incurred by the taxpayer before April, 1987,

(*b*) that is deemed by paragraph 66(10.2)(*c*) to have been incurred by the taxpayer, or included by the taxpayer in the amount referred to in paragraph (*a*) of the definition "Canadian development expense" in subsection 66.2(5) by virtue of paragraph 66(12.3)(*b*), to the extent that the expense was originally incurred before April, 1987,

(*c*) that was renounced by the taxpayer under subsection 66(10.2), (12.601) or (12.62),

(*d*) in respect of which an amount referred to in subsection 66(12.3) becomes receivable by the taxpayer,

(*e*) deemed to be a Canadian exploration expense of the taxpayer or any other taxpayer by virtue of subsection (9), or

(*f*) where the taxpayer is a corporation, that was incurred by the corporation before the time control of the corporation was last acquired by a person or persons;

History: Paragraph (*c*) of the definition "restricted expense" was amended by S.C. 1994, c. 8, s. 6(3), applicable to expenses incurred after December 2, 1992. The paragraph formerly read:

"(*c*) that was renounced by the taxpayer under subsection 66(10.2) or (12.62),"

Related Sections: S. 66.1(9) Canadian development expenses for preceding years.

"specified purpose" — "specified purpose" means

(*a*) the operation of an oil or gas well for the sole purpose of testing the well or the well head and related equipment, in accordance with generally accepted engineering practices,

(*b*) the burning of natural gas and related hydrocarbons to protect the environment, and

(*c*) prescribed purposes.

Related Sections: S. 66.1(9) Canadian development expenses for preceding years.

► 66.1(6.1) ◄

(6.1) Application of ss. 66(15), 66.2(5) and 66.4(5). The definitions in subsections 66(15), 66.2(5) and 66.4(5) apply to this section.

History: S. 66.1(6.1) was not part of the former Act.

► 66.1(7) ◄

(7) Share of partner. Where a taxpayer is a member of a partnership, the taxpayer's share of any amount that would be an amount referred to in the description of E, G or J in the definition "cumulative Canadian exploration expense" in subsection (6) in respect of the partnership for a taxation year of the partnership if section 96 were read without reference to paragraph 96(1)(*d*) shall, for the purposes of this Act, be deemed to be an amount referred to in the description of E, G or J, as the case may be, in that definition in respect of the taxpayer for the taxation year of the taxpayer in which the partnership's taxation year ends.

History: S. 66.1(7) was amended by S.C. 1994, c. 7, Sched. II, s. 39(5), applicable after January 1990. S. 66.1(7) formerly read:

"(7) Where a taxpayer is a member of a partnership, the taxpayer's share of any amount that would be an amount referred to in the description of G or J in the definition 'cumulative Canadian exploration expense' in subsection (6) in respect of the partnership for a taxation year of the partnership if section 96 were read without reference to paragraph 96(1)(*d*) shall, for the purposes of this Act, be deemed to be an amount referred to in the description of G or J in that definition, as the case may be, in respect of the taxpayer for the taxation year of the taxpayer in which the partnership's taxation year ends."

Interpretation Bulletins: *Secondary* — IT-353R2 Partnership interests — Some adjustments to cost base [Archived by the CRA].

► 66.1(8) ◄

(8) Expenses in first 60 days of year. [Repealed by S.C. 1997, c. 25, s. 14(6).]

History: S. 66.1(8) was repealed by S.C. 1997, c. 25, s. 14(6), applicable after March 6, 1996. S. 66.1(8) formerly read:

"(8) *Expenses in first 60 days of year.* Where

(*a*) after December 31, 1985, a taxpayer incurs, within 60 days after the end of a calendar year, Canadian exploration expenses pursuant to an agreement referred to in paragraph (*i*) of the definition 'Canadian exploration expense' in subsection (6),

(*b*) the Canadian exploration expenses are expenses described in paragraph (*f*) of the definition 'Canadian exploration expense' in subsection (6) incurred in respect of a mineral resource other than a bituminous sands deposit, an oil sands deposit or an oil shale deposit,

(*c*) the agreement was entered into between the taxpayer and the corporation on or before the last day of the year,

(*d*) the funds relating to the Canadian exploration expenses have on or before the last day of the year been advanced to an agent acting on behalf of the taxpayer for the purposes of paying the expenses, and

(*e*) the taxpayer and the corporation deal with each other at arm's length throughout the 60 days,

the Canadian exploration expenses shall be deemed to have been incurred immediately before the end of the year and shall be deemed not to have been incurred in the subsequent year."

► 66.1(9) ◄

(9) Canadian development expenses for preceding years. Where at any time in a taxpayer's taxation year

(*a*) the drilling or completing of an oil or gas well resulted in the discovery that a natural underground reservoir contains petroleum or natural gas and, before the time of the discovery, no person or partnership had discovered that the reservoir contained either petroleum or natural gas,

(*b*) the period of 24 months commencing on the day of completion of the drilling of an oil or gas well ends and the well has not, within that period, produced otherwise than for specified purposes, or

(*c*) an oil or gas well that has never produced, otherwise than for specified purposes, is abandoned,

the amount, if any, by which the total of

(*d*) all Canadian development expenses (other than restricted expenses) described in subparagraph

(*a*)(ii) of the definition "Canadian development expense" in subsection 66.2(5) in respect of the well that are deemed by subsection 66(10.2) or (12.63) to have been incurred by the taxpayer in the year or a preceding taxation year,

(*e*) all Canadian development expenses (other than restricted expenses) described in subparagraph (*a*)(ii) of the definition "Canadian development expense" in subsection 66.2(5) in respect of the well that are required by paragraph 66(12.3)(*b*) to be included by the taxpayer in the amount referred to in paragraph (*a*) of that definition for the year or a preceding taxation year, and

(*f*) all Canadian development expenses (other than expenses referred to in paragraph (*d*) or (*e*) and restricted expenses) described in subparagraph (*a*)(ii) of the definition "Canadian development expense" in subsection 66.2(5) incurred by the taxpayer in respect of the well in a taxation year preceding the year,

exceeds

(*g*) any assistance that the taxpayer or a partnership of which the taxpayer is a member has received or is entitled to receive in respect of the expenses referred to in any of paragraphs (*d*) to (*f*),

shall, for the purposes of this Act, be deemed to be a Canadian exploration expense referred to in paragraph (*e*) of the definition "Canadian exploration expense" in subsection (6) incurred by the taxpayer at that time.

History: S. 66.1(9)(*a*) was amended by S.C. 2001, c. 17, s. 45(4), applicable to expenses incurred after March 1987. S. 66.1(9)(*a*) formerly read:

"(*a*) an oil or gas well resulted in the discovery of a natural accumulation of petroleum or natural gas,"

Editorial Note: Many expenses which are incurred in drilling and completing an oil or gas well in Canada do not initially satisfy the tests in paragraph (*d*) of the definition of "Canadian exploration expense" and therefore are initially categorized as Canadian development expenses. Subsection 66.1(9) allows the taxpayer to classify subsequently the expenses as Canadian exploration expenses.

Related Sections: S. 66(15), "assistance"; s. 66.1(6) Definitions.

► 66.1(10) ◄

(10) Certificate ceasing to be valid. A certificate in respect of an oil or gas well issued by the Minister of Natural Resources for the purposes of subparagraph (*d*)(iv) of the definition "Canadian exploration expense" in subsection (6) shall be deemed never to have been issued and never to have been filed with the Minister where

(*a*) the well produces, otherwise than for a specified purpose, within the period of 24 months commencing on the day on which the drilling of the well was completed; or

(*b*) in applying for the certificate, the applicant, in any material respect, provided any incorrect information or failed to provide information.

History: S. 66.1(10) was amended by S.C. 1994, c. 41, s. 37(1), to change the expression "Minister of Energy, Mines and Resources" to "Minister of Natural Resources", effective upon proclamation.

Related Sections: S. 66.1(6), "specified purpose".

► 66.1(11) ◄

(11) Second successor. [Repealed by 1987, c. 46, s. 19(4).]

SECTION 66.2:

► 66.2(1) ◄

(1) Amount to be included in income. There shall be included in computing the amount referred to in paragraph 59(3.2)(*c*) in respect of a taxpayer for a taxation year the amount, if any, by which the total of

(*a*) all amounts referred to in the descriptions of E to O in the definition "cumulative Canadian development expense" in subsection (5) that are deducted in computing the taxpayer's cumulative Canadian development expense at the end of the year, and

(*b*) the amount that is designated by the taxpayer for the year under subsection 66(14.2)

exceeds the total of

(*c*) all amounts referred to in the descriptions of A to D.1 in the definition "cumulative Canadian development expense" in subsection (5) that are included in computing the taxpayer's cumulative Canadian development expense at the end of the year, and

(*d*) the total determined under subparagraph 66.7(12.1)(*b*)(i) in respect of the taxpayer for the year.

History: S. 66.2(1) was amended by S.C. 1994, c. 7, Sched. II, s. 40(1), applicable to taxation years ending after February 17, 1987, except that the reference to "D.1" in paragraph 66.2(1)(*c*) shall be read as "C" with respect to taxation years ending after February 17, 1987 and beginning before February 18, 1987. S. 66.2(1) formerly read:

"(1) A taxpayer shall include, in computing the amount referred to in paragraph 59(3.2)(*c*), the amount, if any, by which

(*a*) the total of

(i) all amounts referred to in the descriptions of E to O in the definition 'cumulative Canadian development expense' in subsection (5) that would be taken into account in computing the taxpayer's cumulative Canadian development expense at the end of the year, and

(ii) the amount that is designated for the year under subsection 66(14.2)

exceeds

(*b*) the total of all amounts referred to in the descriptions of A to C in the definition 'cumulative Canadian development expense' in subsection (5) that would be taken into account in computing the taxpayer's cumulative Canadian development expense at the end of the year."

Editorial Note: Section 66.2 provides for the deduction by a taxpayer of its Canadian development expense ("CDE"). CDE include expenses incurred in drilling oil and gas wells which are not Canadian exploration expenses and expenses incurred in mining which include the cost of mineral resource properties and certain underground expenses incurred after a mine comes into production. A taxpayer may claim an optional deduction of 30% of its CCDE at the end of the year. A taxpayer may claim an additional deduction if it disposed of its Canadian resource properties in the year in accordance with the successor corporation rules.

The proceeds of disposition of a Canadian mineral resource property and any amount by which a taxpayer's cumulative Canadian oil and gas properties expenses is negative at the end of the year are deducted from a taxpayer's CCDE. The taxpayer must include in income for the year the amount by which its CCDE is negative at the end of the year, less any amount that the taxpayer may deduct by virtue of disposing in the year of its Canadian resource properties pursuant to the successor corporation rules.

Related Sections: S. 66(18) Members of partnerships; s. 66.2(5) Definitions; s. 104(5.2) Resource property; s. 127.5 Obligation to pay minimum tax.
Interpretation Bulletins: *Secondary* — IT-125R4 Dispositions of resource properties; IT-273R2 Government assistance — General comments.

► 66.2(2) ◄

(2) Deduction for cumulative Canadian development expenses. A taxpayer may deduct, in computing the taxpayer's income for a taxation year, such amount as the taxpayer may claim not exceeding the total of

(*a*) the lesser of

(i) the total of

(A) the taxpayer's cumulative Canadian development expense at the end of the year, and

(B) the amount, if any, by which

(I) the total determined under subparagraph 66.7(12.1)(*b*)(i) in respect of the taxpayer for the year

exceeds

(II) the amount that would, but for paragraph (1)(*d*), be determined under subsection (1) in respect of the taxpayer for the year, and

(ii) the amount, if any, by which the amount determined under subparagraph 66.4(2)(*a*)(ii) exceeds the amount determined under subparagraph 66.4(2)(*a*)(i),

(*b*) the lesser of

(i) the amount, if any, by which the amount determined under subparagraph (*a*)(i) exceeds the amount determined under subparagraph (*a*)(ii), and

(ii) the amount, if any, by which the total of all amounts each of which is

(A) an amount included in the taxpayer's income for the year by virtue of a disposition in the year of inventory described in section 66.3 that was a share, any interest therein or right thereto, acquired by the taxpayer under circumstances described in paragraph (*g*) of the definition "Canadian development expense" in subsection (5) or paragraph (*i*) of the definition "Canadian exploration expense" in subsection 66.1(6), or

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Clause 66.2(2)(*b*)(ii)(A) of the Act is replaced by the following:

(A) an amount included in the taxpayer's income for the year by virtue of a disposition in the year of inventory described in section 66.3 that was a share or any interest in or right to — or, for civil law, any right in or to — a share, acquired by the taxpayer under circumstances described in paragraph (g) of the definition "Canadian development expense" in subsection (5) or paragraph (*i*) of the definition "Canadian exploration expense" in subsection 66.1(6), or

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(B) an amount included by virtue of paragraph 12(1)(*e*) in computing the taxpayer's income for the year to the extent that it relates to inventory described in clause (A)

exceeds

(C) the total of all amounts deducted as a reserve by virtue of paragraph 20(1)(*n*) in computing the taxpayer's income for the year to the extent that the reserve relates to inventory described in clause (A), and

(*c*) 30% of the amount, if any, by which the amount determined under subparagraph (*b*)(i) exceeds the amount determined under subparagraph (*b*)(ii).

History: S. 66.2(2)(*a*)(i) was amended by S.C. 1994, c. 7, Sched. II, s. 40(2), applicable to taxation years ending after February 17, 1987. S. 66.2(2)(*a*)(i) formerly read:

"(i) the amount of the taxpayer's cumulative Canadian development expense at the end of the year, and"

Related Sections: S. 66(14.2) Designation respecting cumulative Canadian development expense; s. 66.2(5), "Canadian development expense".

Interpretation Bulletins: *Secondary* — IT-438R2 Crown charges — Resource properties in Canada.

Cases: Lease payments to the province for subsurface rights did not constitute "Canadian exploration expenses" because their purpose was not exclusively or even primarily exploration, but rather the accumulation of an acreage inventory which might or might not be used to serve exploration, development and production in the future. *The Queen v. Gulf Canada Limited*, 92 DTC 6123 (F.C.A.), affirming 90 DTC 6622 (F.C.T.D.).

► 66.2(3) ◄

(3) Successor corporation's Canadian development expense. [Repealed by 1987, c. 46, s. 20(2).]

► 66.2(4) ◄

(4) Second successor corporation's Canadian development expense. [Repealed by 1987, c. 46, s. 20(2).]

► 66.2(5) ◄

(5) Definitions. In this section,

"*Canadian development expense*" — "Canadian development expense" of a taxpayer means any cost or expense incurred after May 6, 1974 that is

(*a*) any expense incurred by the taxpayer in

(i) drilling or converting a well in Canada for the disposal of waste liquids from an oil or gas well,

(ii) drilling or completing an oil or gas well in Canada, building a temporary access road to the well or preparing a site in respect of the well, to the extent that the expense was not a Canadian exploration expense of the taxpayer in the taxation year in which it was incurred,

(iii) drilling or converting a well in Canada for the injection of water, gas or any other substance to assist in the recovery of petroleum or natural gas from another well,

(iv) drilling for water or gas in Canada for injection into a petroleum or natural gas formation, or

(v) drilling or converting a well in Canada for the purposes of monitoring fluid levels, pressure changes or other phenomena in an accumulation of petroleum or natural gas,

(*b*) any expense incurred by the taxpayer in drilling or recompleting an oil or gas well in Canada after the commencement of production from the well,

(*c*) any expense incurred by the taxpayer before November 17, 1978 for the purpose of bringing a mineral resource in Canada into production and incurred prior to the commencement of production from the resource in reasonable commercial quantities, including

(i) clearing, removing overburden and stripping, and

(ii) sinking a mine shaft, constructing an adit or other underground entry,

(*d*) any expense (other than an amount included in the capital cost of depreciable property) incurred by the taxpayer after 1987

(i) in sinking or excavating a mine shaft, main haulage way or similar underground work designed for continuing use, for a mine in a mineral resource in Canada built or excavated after the mine came into production, or

(ii) in extending any such shaft, haulage way or work,

(*e*) the cost to the taxpayer of, including any payment for the preservation of a taxpayer's rights in respect of, any property described in paragraph (*b*), (*e*) or (*f*) of the definition "Canadian resource property" in subsection 66(15), or any right to or interest in such property (other than a right or an interest that the taxpayer has by reason of being a beneficiary under a trust or a member of a partnership),

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*e*) of the definition "Canadian development expense" in subsection 66.2(5) of the Act is replaced by the following:

(*e*) notwithstanding paragraph 18(1)(*m*), the cost to the taxpayer of, including any payment for the preservation of a taxpayer's rights in respect of, any property described in paragraph (*b*), (*e*) or (*f*) of the definition "Canadian resource property" in subsection 66(15) or any right to or interest in — or, for civil law, any right in or to — such property (other than such a right or interest that the taxpayer has by reason of being a beneficiary under a trust or a member of a partnership) but not including any payment made to any of the persons referred to in subparagraph 18(1)(*m*)(i) for the preservation of a taxpayer's rights in respect of a Canadian resource property nor a payment to which paragraph 18(1)(*m*) applied because of clause 18(1)(*m*)(ii)(B),

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*e*) of the definition "Canadian development expense" in subsection 66.2(5) of the Act is replaced by the following:

(*e*) the cost to the taxpayer of, including any payment for the preservation of a taxpayer's rights in respect of, any property described in paragraph (*b*), (*e*) or (*f*) of the definition "Canadian resource property" in subsection 66(15), or any right to or interest in — or, for civil law, any right in or to — such property (other than a right or an interest that the taxpayer has by reason of being a beneficiary under a trust or a member of a partnership),

Applicable: To taxation years that begin after 2006.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*f*) subject to section 66.8, the taxpayer's share of any expense referred to in any of paragraphs (*a*) to (*e*) incurred by a partnership in a fiscal period thereof at the end of which the taxpayer was a member of the partnership, unless the taxpayer elects in respect of the share in prescribed form and manner on or before the day that is 6 months after the taxpayer's taxation year in which that period ends, or

(*g*) any cost or expense referred to in any of paragraphs (*a*) to (*e*) incurred by the taxpayer pursuant to an agreement in writing with a corporation, entered into before 1987, under which the taxpayer incurred the cost or expense solely as consideration for shares, other than prescribed shares, of the capital stock of the corporation issued to the taxpayer or any interest in such shares or right thereto,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*g*) of the definition "Canadian development expense" in subsection 66.2(5) of the Act is replaced by the following:

(*g*) any cost or expense referred to in any of paragraphs (*a*) to (*e*) incurred by the taxpayer pursuant to an agreement in writing with a corporation, entered into before 1987, under which the taxpayer incurred the cost or expense solely as consideration for shares, other than prescribed shares, of the capital stock of the corporation issued to the taxpayer or any interest in or right to — or, for civil law, any right in or to — such shares,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

but, for greater certainty, shall not include

(*h*) any consideration given by the taxpayer for any share or any interest therein or right thereto, except as provided by paragraph (*g*),

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*h*) of the definition "Canadian development expense" in subsection 66.2(5) of the Act is replaced by the following:

(*h*) any consideration given by the taxpayer for any share or any interest in or right to — or, for civil law, any right in or to — a share, except as provided by paragraph (*g*),

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*i*) any expense described in paragraph (*g*) incurred by any other taxpayer to the extent that the expense was,

(i) by virtue of that paragraph, a Canadian development expense of that other taxpayer,

(ii) by virtue of paragraph (*i*) of the definition "Canadian exploration expense" in subsection 66.1(6), a Canadian exploration expense of that other taxpayer, or

(iii) by virtue of paragraph (*c*) of the definition "Canadian oil and gas property expense" in subsection 66.4(5), a Canadian oil and gas property expense of that other taxpayer,

(*i.1*) an expense that is the cost, or any part of the cost, to the taxpayer of any depreciable property of a prescribed class that was acquired after 1987,

(*j*) any amount included at any time in the capital cost to the taxpayer of any depreciable property of a prescribed class, or

(*k*) the taxpayer's share of any consideration, expense, cost or expenditure referred to in any of paragraphs (*h*) to (*j*) given or incurred by a partnership,

but any assistance that a taxpayer has received or is entitled to receive after May 25, 1976 in respect of or related to the taxpayer's Canadian development expense shall not reduce the amount of any of the expenses described in any of paragraphs (*a*) to (*g*);

History: S. 66.2(5), paragraph (*e*) of the definition "Canadian development expense" was replaced by S.C. 2003, c. 28, s. 6(2), applicable to taxation years that begin after 2006. S. 66.2(5), paragraph (*e*) of the definition "Canadian development expense" formerly read:

"(*e*) notwithstanding paragraph 18(1)(*m*), the cost to the taxpayer of, including any payment for the preservation of a taxpayer's rights in respect of, any property described in paragraph (*b*), (*e*) or (*f*) of the definition 'Canadian resource property' in subsection 66(15) or any right to or interest in such property (other than such a right or an interest that the taxpayer has by reason of being a beneficiary under a trust or a member of a partnership) but not including any payment made to any of the persons referred to in subparagraph 18(1)(*m*)(i) for the preservation of a taxpayer's rights in respect of a Canadian resource property nor a payment to which paragraph 18(1)(*m*) applied because of clause 18(1)(*m*)(ii)(B),"

S. 66.2(5), paragraph (*e*) of the definition "Canadian development expense" was replaced by S.C. 2003, c. 28, s. 6(1), applicable after December 20, 2002. S. 66.2(5), paragraph (*e*) of the definition "Canadian development expense" formerly read:

"(*e*) notwithstanding paragraph 18(1)(*m*), the cost to the taxpayer of any property described in paragraph (*b*), (*e*) or (*f*) of the definition 'Canadian resource property' in subsection 66(15) or any right to or interest in such property (other than such a right or interest that the taxpayer has by virtue of being a beneficiary of a trust) but not including any payment made to any of the persons referred to in any of subparagraphs 18(1)(*m*)(i) to (iii) for the preservation of a taxpayer's rights in respect of a Canadian resource property nor a payment to which paragraph 18(1)(*m*) applied by virtue of subparagraph 18(1)(*m*)(v),"

S. 66.2(5), paragraph (*i.1*) of the definition "Canadian development expense" was added by S.C. 2001, c. 17, s. 46(1), applicable to the 1988 and subsequent taxation years.

S. 66.2(5), paragraphs (*j*) and (*k*) of the definition "Canadian development expense" were added by S.C. 1997, c. 25, s. 15(1), applicable to taxation years that end after December 5, 1996.

Paragraph (*f*) of the definition "Canadian development expense" was amended by S.C. 1994, c. 7, Sched. VIII, s. 24(1), applicable to partnership fiscal periods ending after July 1990, except that an election referred to in paragraph (*f*) of the definition "Canadian development expense" that was filed before December 11, 1993 shall be deemed to have been filed on a timely basis. The paragraph formerly read:

"(*f*) subject to section 66.8, the taxpayer's share of any expense referred to in any of paragraphs (*a*) to (*e*) incurred by a partnership in a fiscal period thereof, if, at the end of that period, the taxpayer was a member of the partnership, or"

Related Sections: S. 13(7.5) Deemed capital cost; s. 13(21), "depreciable property"; s. 18(1)(*m*) Royalties, etc.; s. 53(1)(*e*)(vii.1) Adjustments to cost base — Interest in a partnership; s. 53(1)(*e*)(viii) Adjustments to cost base — Interest in a partnership; s. 53(2)(*c*) Amounts to be deducted — Interest in a partnership; s. 53(2)(*e*) Amounts to be deducted — Share, where shareholder incurred exploration and development expenses; s. 53(2)(*f*) Amounts to be deducted — Property received from joint exploration corporation; s. 53(2)(*f.1*) Amounts to be deducted — Share of the capital stock of joint exploration corporation; s. 66(10.2) Idem; s. 66(12.1)(*b*) Limitations of Canadian exploration and development expenses; s. 66(12.601) Flow-through share rules for first $1 million of Canadian development expenses; s. 66(12.66)(*b*) Expenses in the first 60 days of year; s. 66(15), "assistance", "Canadian resource property"; s. 66(18) Members of partnerships; s. 66.1(6), "Canadian exploration expense"; s. 66.2(2) Deduction for cumulative Canadian development expenses; s. 66.2(5), "Canadian development expense"; s. 66.2(8) Presumption; s. 66.3 Exploration and development shares; s. 66.4(5), "Canadian oil and gas property expense"; s. 66.8 Resource expenses of limited partner; s. 149(1)(*o.2*)(ii.1) Pension corporations.

Regulations: 6202(1).

Interpretation Bulletins: *Secondary* — IT-438R2 Crown charges — Resource properties in Canada; IT-476R Capital cost allowance — Equipment used in petroleum and natural gas activities; IT-503 Exploration and development shares [Archived by the CRA].

Forms: T1086.

Canadian Petroleum Tax Journal: Canada Customs and Revenue Agency 1999 Roundtable Questions and Answers, Question 15, Vol. 13 No. 1 2000; Flow-Through Shares: An Update, Angelo F. Toselli, Vol. 10 No. 1 1997.

"*cumulative Canadian development expense*" — "cumulative Canadian development expense" of a taxpayer at any time in a taxation year means the amount determined by the formula

$$(A + B + C + D + D.1) - (E + F + G + H + I + J + K + L + M + M.1 + N + O)$$

where

A is the total of all Canadian development expenses made or incurred by the taxpayer before that time,

B is the total of all amounts required by virtue of subsection (1) to be included in computing the amount referred to in paragraph 59(3.2)(*c*) for taxation years ending before that time,

C is the total of all amounts referred to in the description of F or G that are established by the taxpayer to have become bad debts before that time,

D is such part, if any, of the amount determined for M as has been repaid before that time by the taxpayer pursuant to a legal obligation to repay all or any part of that amount,

D.1 is the total of all specified amounts, determined under paragraph 66.7(12.1)(*b*) in respect of the taxpayer for taxation years ending before that time,

E is the total of all amounts deducted in computing the taxpayer's income for a taxation year ending before that time in respect of the taxpayer's cumulative Canadian development expense,

F is the total of all amounts each of which is an amount in respect of property described in paragraph (*b*), (*e*) or (*f*) of the definition "Canadian resource property" in subsection 66(15) or any right to or interest in such a property, other than such a right or an interest that the taxpayer has by reason of being a beneficiary under a trust or a

member of a partnership, (in this description referred to as "the particular property") disposed of by the taxpayer before that time equal to the amount, if any, by which

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of the description of F in the definition "cumulative Canadian development expense" in subsection 66.2(5) of the Act before paragraph (*a*) is replaced by the following:

F is the total of all amounts each of which is an amount in respect of property described in paragraph (*b*), (*e*) or (*f*) of the definition "Canadian resource property" in subsection 66(15) or any right to or interest in — or, for civil law, any right in or to — such a property, other than such a right or an interest that the taxpayer has by reason of being a beneficiary under a trust or a member of a partnership, (in this description referred to as "the particular property") disposed of by the taxpayer before that time equal to the amount, if any, by which

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*a*) the amount, if any, by which the proceeds of disposition in respect of the particular property that became receivable by the taxpayer after May 6, 1974 and before that time exceed any outlays or expenses that were made or incurred by the taxpayer after May 6, 1974 and before that time for the purpose of making the disposition and that were not otherwise deductible for the purposes of this Part

exceeds

(*b*) the amount, if any, by which

(i) the total of all amounts that would be determined under paragraph 66.7(4)(*a*), immediately before the time (in this paragraph referred to as the "relevant time") when such proceeds of disposition became receivable, in respect of the taxpayer and an original owner of the particular property (or of any other property acquired by the taxpayer with the particular property in circumstances in which subsection 66.7(4) applied and in respect of which the proceeds of disposition became receivable by the taxpayer at the relevant time) if

(A) amounts that became receivable at or after the relevant time were not taken into account,

(B) each designation made under subparagraph 66.7(4)(*a*)(iii) in respect of an amount that became receivable before the relevant time were made before the relevant time,

(C) paragraph 66.7(4)(*a*) were read without reference to "30% of", and

(D) no reduction under subsection 80(8) at or after the relevant time were taken into account

exceeds the total of

(ii) all amounts that would be determined under paragraph 66.7(4)(*a*) at the relevant time in respect of the taxpayer and an original owner of the particular property (or of that other property) if

(A) amounts that became receivable after the relevant time were not taken into account,

(B) each designation made under subparagraph 66.7(4)(*a*)(iii) in respect of an amount that became receivable at or before the relevant time were made before the relevant time,

(C) paragraph 66.7(4)(*a*) were read without reference to "30% of",

(D) amounts described in subparagraph 66.7(4)(*a*)(iii) that became receivable at the relevant time were not taken into account, and

(E) no reduction under subsection 80(8) at or after the relevant time were taken into account, and

(iii) such portion of the amount otherwise determined under this paragraph as was otherwise applied to reduce the amount otherwise determined under this description,

G is the total of all amounts that became receivable by the taxpayer before that time that are to be included in the amount determined under this description by virtue of paragraph 66(12.1)(*b*) or (12.3)(*a*),

H is the total of all amounts each of which is an amount included by the taxpayer as an expense under paragraph (*a*) of the definition "Canadian development expense" in this subsection in computing the taxpayer's Canadian development expense for a previous taxation year that has become a Canadian exploration expense of the taxpayer by virtue of subparagraph (*c*)(ii) of the definition "Canadian exploration expense" in subsection 66.1(6),

I is the total of all amounts each of which is an amount that before that time has become a Canadian exploration expense of the taxpayer by virtue of subsection 66.1(9),

J is the total of all amounts each of which is an amount received before that time on account of any amount referred to in the description of C

K is the total of all amounts paid to the taxpayer after May 6, 1974 and before May 25, 1976

(*a*) under the *Northern Mineral Exploration Assistance Regulations* made under an appropriation Act that provides for payments in respect of the Northern Mineral Grants Program, or

(*b*) pursuant to any agreement, entered into between the taxpayer and Her Majesty in right of Canada under the Northern Mineral Grants Program or the Development Program of the Department of Indian Affairs and Northern Development,

to the extent that the amounts have been expended by the taxpayer as or on account of Canadian development expense incurred by the taxpayer,

L is the amount by which the total of all amounts determined under subsection 66.4(1) in respect of a taxation year of the taxpayer ending at or before that time exceeds the total of all amounts each of which is the least of

(*a*) the amount that would be determined under paragraph 66.7(4)(*a*), at a time (hereafter in this description referred to only as the "particular time") that is the end of the latest taxation year of the taxpayer ending at or before that time, in respect of the taxpayer as successor in respect of a disposition (in this description referred to as the "original disposition") of Canadian resource property by a person who is an original owner of the property because of the original disposition, if

(i) that paragraph were read without reference to "30% of",

(ii) where the taxpayer has disposed of all or part of the property in circumstances in which subsection 66.7(4) applied, that subsection continued to apply to the taxpayer in respect of the original disposition as if subsequent successors were the same person as the taxpayer, and

(iii) each designation made under subparagraph 66.7(4)(*a*)(iii) in respect of an amount that became receivable before the particular time were made before the particular time,

(*b*) the amount, if any, by which the total of all amounts each of which became receivable at or before the particular time and before 1993 by the taxpayer and is included in computing the amount determined under subparagraph 66.7(5)(*a*)(ii) in respect of the original disposition exceeds the amount, if any, by which

(i) where the taxpayer disposed of all or part of the property before the particular time in circumstances in which subsection 66.7(5) applied, the amount that would be determined at the particular time under subparagraph 66.7(5)(*a*)(i) in respect of the original disposition if that subparagraph continued to apply to the taxpayer in respect of the original disposition as if subsequent successors were the same person as the taxpayer, and

(ii) in any other case, the amount determined at the particular time under subparagraph 66.7(5)(*a*)(i) in respect of the original disposition

exceeds

(iii) the amount that would be determined at the particular time under subparagraph 66.7(5)(*a*)(ii) in respect of the original disposition if that subparagraph were read without reference to the words "or the successor", wherever they appear therein, and if amounts that became receivable after 1992 were not taken into account, and

(*c*) where

(i) after the original disposition and at or before the particular time, the taxpayer disposed of all or part of the property in circumstances in which subsection 66.7(4) applied, otherwise than by way of an amalgamation or merger or solely because of the application of paragraph 66.7(10)(*c*), and

(ii) the winding-up of the taxpayer began at or before that time or the taxpayer's disposition referred to in subparagraph (i) (other than a disposition under an agreement in writing entered into before December 22, 1992) occurred after December 21, 1992,

nil,

M is the total amount of assistance that the taxpayer has received or is entitled to receive in respect of any Canadian development expense (including an expense that has become a Canadian exploration expense of the taxpayer by virtue of subsection 66.1(9)) incurred after 1980 or that can reasonably be related to Canadian development activities after 1980,

M.1 is the total of all amounts by which the cumulative Canadian development expense of the taxpayer is required because of subsection 80(8) to be reduced at or before that time,

N is the total of all amounts that are required to be deducted before that time under subsection 66(14.2) in computing the taxpayer's cumulative Canadian development expense, and

O is the total of all amounts that are required to be deducted before that time under paragraph 66.7(12)(*c*) in computing the taxpayer's cumulative Canadian development expense.

History: S. 66.2(5), the portion of the description of F before paragraph (*a*) in the definition "cumulative Canadian development expense" was replaced by S.C. 2003, c. 28, s. 6(3), applicable after December 20, 2002. S. 66.2(5), the portion of the description of F before paragraph (*a*) in the definition "cumulative Canadian development expense" formerly read:

"F is the total of all amounts each of which is an amount in respect of a property described in paragraph (*b*), (*e*) or (*f*) of the definition 'Canadian resource property' in subsection 66(15) or a right to or interest in such a property, other than such a right or interest that the taxpayer has by virtue of being a beneficiary of a trust, (in this description referred to as the 'particular property') disposed of by the taxpayer before that time equal to the amount, if any, by which"

The formula in the definition "cumulative Canadian development expense" in s. 66.2(5) was amended by S.C. 1995, c. 21, s. 23(1), applicable to taxation years that end after February 21, 1994. That formula formerly read:

"(A + B + C + D + D.1) –
(E + F + G + H + I + J + K + L + M + N + O)"

Clause (D) in subparagraph (*b*)(i) of the description of F in the definition "cumulative Canadian development expense" in s. 66.2(5) was added by S.C. 1995, c. 21, s. 23(2), applicable to taxation years that end after February 21, 1994.

Clause (E) in subparagraph (*b*)(ii) of the description of F in the definition "cumulative Canadian development expense" in s. 66.2(5) was added by S.C. 1995, c. 21, s. 23(3), applicable to taxation years that end after February 21, 1994.

The description of M.1 in the definition "cumulative Canadian development expense" in s. 66.2(5) was added by S.C. 1995, c. 21, s. 23(4), applicable to taxation years that end after February 21, 1994.

S. 66.2(5), the description of L in the definition "cumulative Canadian development expense" was amended by S.C. 1994, c. 21, s. 29(2), applicable to taxation years that end after December 21, 1992, except that where a taxpayer so elects by notifying the Minister of National Revenue in writing before the end of the sixth month that begins after the end of the taxpayer's taxation year that includes the day on which this Act is assented to [June 15, 1994], the description of L in the definition "cumulative Canadian development expense" in subsection 66.2(5) shall apply in respect of the taxpayer to taxation years that end after February 17, 1987 and, notwithstanding subsections 152(4) to (5) of the Act, such assessments and determinations in respect of any taxation year shall be made as are necessary to give effect to the election. The description of L formerly read:

"L is the amount by which the total of all amounts each of which is an amount determined under subsection 66.4(1) in respect of a taxation year of the taxpayer ending at or before that time exceeds the total of all amounts each of which is the lesser of

(*a*) the amount that would be determined at that time under paragraph 66.7(4)(*a*) in respect of the acquisition of property from a particular original owner or predecessor owner of the property by the taxpayer if that paragraph were read without reference to '30% of', and

(*b*) the amount, if any, by which the total of the amounts that became receivable at or before that time by the taxpayer and that are described in subparagraph 66.7(5)(*a*)(ii) in respect of the disposition of property acquired from the particular original owner or predecessor owner exceeds the amount determined in subparagraph 66.7(5)(*a*)(i) in respect of the acquisition of that property,"

S. 66.2(5), the portion of the description of F in the definition "cumulative Canadian development expense" after paragraph (*a*), was amended by S.C. 1994, c. 21, s. 29(1), applicable to taxation years that end after February 17, 1987. That part formerly read:

"exceeds the amount equal to

(*b*) where the proceeds of disposition referred to in paragraph (*a*) may reasonably be attributed to the disposition of a property that was acquired by the taxpayer in circumstances in which subsection 66.7(4) applies to the taxpayer as successor, the lesser of

(i) the amount determined under paragraph (*a*) in respect of the property, and

(ii) the total of all amounts each of which is an amount that would be determined at that time under paragraph 66.7(4)(*a*) in respect of the acquisition of the property by the taxpayer if that paragraph were read without reference to '30% of', and

(*c*) in any other case, nil,"

The formula in the definition "cumulative Canadian development expense" was amended by S.C. 1994, c. 7, Sched. II, s. 40(3), applicable to taxation years beginning after February 17, 1987. The formula formerly read:

"(A + B + C + D) – (E + F + G + H + I + J + K + L + M + N + O)"

The description of D.1 was added to the definition "cumulative Canadian development expense" by S.C. 1994, c. 7, Sched. II, s. 40(3.1), applicable to taxation years beginning after February 17, 1987.

Related Sections: S. 20(1)(*kk*) Exploration and development grants; s. 53(1)(*e*)(viii) Adjustments to cost base — Interest in a partnership; s. 59(3.2)(*c*) Recovery of exploration and development expenses; s. 66(11)(*c*) Acquisition of control; s. 66(12.1) Limitations of Canadian exploration and development expenses; s. 66(12.3) Unitized oil or gas field in Canada — Canadian development expenses; s. 66(12.62) Canadian development expenses to flow-through shareholder; s. 66(14.2) Designation respecting cumulative Canadian development expense; s. 66(15), "Canadian resource property"; s. 66.1(6) "Canadian exploration expense"; s. 66.1(9) Canadian development expenses for preceding years; s. 66.2(1) Amount to be included in income; s. 66.2(5), "Canadian development expense"; s. 66.2(6) Share of partner; s. 66.2(7) Exception; s. 66.2(8) Presumption; s. 66.4(1) Recovery of costs; s. 66.7(4) Successor of Canadian development expense; s. 66.7(5) Successor of Canadian oil and gas property expense; s. 66.7(9) Canadian development expense becoming Canadian exploration expense; s. 66.7(10) Change of control; s. 66.7(12) Reduction of Canadian resource expenses; s. 66.7(12.1)(*b*) Specified amount; s. 70(5.2) Resource properties and land inventories of a deceased taxpayer; s. 80(8) Reductions of resource expenditures; s. 104(5.2) Resource property.

Interpretation Bulletins: *Secondary* — IT-125R4 Disposition of resource properties.

► 66.2(5.1) ◄

(5.1) Application of ss. 66(15), 66.1(6) and 66.4(5). The definitions in subsections 66(15), 66.1(6) and 66.4(5) apply to this section.

History: S. 66.2(5.1) was not part of the former Act.

► 66.2(6) ◄

(6) Share of partner. Except as provided in subsection (7), where a taxpayer is a member of a partnership, the taxpayer's share of any amount that would be an amount referred to in the description of D in the definition "cumulative Canadian development expense" in subsection (5), in paragraph (*a*) of the description of F in that definition or in the description of G or M in that definition in respect of the partnership for a taxation year of the partnership if section 96 were read without reference to paragraph 96(1)(*d*) shall, for the purposes of this Act, be deemed to be an amount referred to in the description of D in the definition "cumulative Canadian development expense" in subsection (5), in paragraph (*a*) of the description of F in that definition or in the description of G or M in that definition, whichever is applicable, in respect of the taxpayer for the taxation year of the taxpayer in which the partnership's taxation year ends.

History: S. 66.2(6) was amended by S.C. 1994, c. 7, Sched. II, s. 40(4), applicable after January 1990. S. 66.2(6) formerly read:

"(6) *Presumption.* Except as provided in subsection (7), where a taxpayer is a member of a partnership, the taxpayer's share of any amount that would be an amount referred to in paragraph (*a*) of the description of F in the definition 'cumulative Canadian development expense' in subsection (5) or in the description of G or M in that definition in respect of the partnership for a taxation year of the partnership if section 96 were read without reference to paragraph 96(1)(*d*) shall, for the purposes of this Act, be deemed to be an amount referred to in paragraph (*a*) of the description of F in the definition 'cumulative Canadian development expense' in subsection (5) or in the description of G or M in that definition, as the case may be, in respect of the taxpayer for the taxation year of the taxpayer in which the partnership's taxation year ends."

Interpretation Bulletins: *Primary* — IT-125R4 Disposition of resource properties. *Secondary* — IT-353R2 Partnership interests — Some adjustments to cost base [Archived by the CRA].

► 66.2(7) ◄

(7) Exception. Where a non-resident person is a member of a partnership that is deemed under paragraph 115(4)(*b*) to have disposed of any Canadian resource property, the person's share of any amount that would be an amount referred to in the description of D in the definition "cumulative Canadian development expense" in subsection (5), in paragraph (*a*) of the description of F in that definition or in the description of G or M in that definition in respect of the partnership for a taxation year of the partnership if section 96 were read without reference to paragraph 96(1)(*d*) shall, for the purposes of this Act, be deemed to be an amount referred to in the description of D in the definition "cumulative Canadian development expense" in subsection (5), in paragraph (*a*) of the description of F in that definition or in the description of G or M in that definition, whichever is applicable, in respect of the person for the taxation year of the person that is deemed under paragraph 115(4)(*a*) to have ended.

History: S. 66.2(7) was amended by S.C. 1994, c. 7, Sched. II, s. 40(4), applicable after January 1990. S. 66.2(7) formerly read:

"(7) Where a non-resident person is a member of a partnership that is deemed under paragraph 115(4)(*b*) to have disposed of a property, the non-resident person's share of any amount that would be an amount referred to in paragraph (*a*) of the description of F in the definition 'cumulative Canadian development expense' in subsection (5) or in the description of G or M in that definition in respect of the partnership for a taxation year of the partnership if section 96 were read without reference to paragraph 96(1)(*d*) shall, for the purposes of this Act, be deemed in respect of the non-resident person to be an amount referred to in paragraph (*a*) of the description of F in the definition 'cumulative Canadian development expense' in subsection (5) or in the description of G or M in that definition, as the case may be, for the taxation year of the non-resident person that is deemed under paragraph 115(4)(*a*) to have ended."

Interpretation Bulletins: *Secondary* — IT-125R4 Disposition of resource properties.

► 66.2(8) ◄

(8) Presumption. Where pursuant to the terms of an arrangement in writing entered into before December 12, 1979 a taxpayer acquired a property described in paragraph

(*a*) of the definition "Canadian oil and gas property expense" in subsection 66.4(5), for the purposes of this Act, the cost of acquisition shall be deemed to be a Canadian development expense incurred at the time the taxpayer acquired the property.

SECTION 66.21:

► 66.21(1) ◄

(1) Definitions. The definitions in this subsection apply in this section.

"adjusted cumulative foreign resource expense" — "adjusted cumulative foreign resource expense" of a taxpayer, in respect of a country, at the end of a taxation year means the total of

(*a*) the cumulative foreign resource expense of the taxpayer, in respect of that country, at the end of the year; and

(*b*) the amount, if any, by which

(i) the total determined under paragraph 66.7(13.2)(*a*) in respect of that country and the taxpayer for the year

exceeds

(ii) the amount that would, but for paragraph (3)(*c*), be determined under subsection (3) in respect of that country and the taxpayer for the year.

History: S. 66.21(1), the definition "adjusted cumulative foreign resource expense" was added by S.C. 2001, c. 17, s. 47(1), applicable to taxation years that begin after 2000.

Related Sections: S. 66.21(3) Amount to be included in income; s. 66.21(4) Deduction for cumulative foreign resource expense; s. 66.7(13.1) Reduction of foreign resource expenses; s. 66.7(13.2) Specified amount — foreign resource expenses.

"cumulative foreign resource expense" — "cumulative foreign resource expense" of a taxpayer, in respect of a country other than Canada at a particular time, means the amount determined by the formula

(A + B + C + D) – (E + F + G + H + I + J)

where

A is the total of all foreign resource expenses, in respect of that country, made or incurred by the taxpayer

(*a*) before the particular time, and

(*b*) at a time (in this definition referred to as a "resident time")

(i) at which the taxpayer was resident in Canada, and

(ii) where the taxpayer became resident in Canada before the particular time, that is after the last time (before the particular time) that the taxpayer became resident in Canada;

B is the total of all amounts required to be included in computing the amount referred to in paragraph 59(3.2)(*c*.1), in respect of that country, for taxation years that ended before the particular time and at a resident time;

C is the total of all amounts referred to in the description of F or G that are established by the taxpayer to have become a bad debt before the particular time and at a resident time;

D is the total of all specified amounts determined under subsection 66.7(13.2), in respect of the taxpayer and that country, for taxation years that ended before the particular time and at a resident time;

E is the total of all amounts deducted, in computing the taxpayer's income for a taxation year that ended before the particular time and at a resident time, in respect of the taxpayer's cumulative foreign resource expense in respect of that country;

F is the total of all amounts each of which is an amount in respect of a foreign resource property, in respect of that country, (in this description referred to as the "particular property") disposed of by the taxpayer equal to the amount, if any, by which

(*a*) the amount designated under subparagraph 59(1)(*b*)(ii) by the taxpayer in respect of the portion of the proceeds of that disposition that became receivable before the particular time and at a resident time

exceeds

(*b*) the amount, if any, by which

(i) the total of all amounts that would be determined under paragraph 66.7(2.3)(*a*), immediately before the time (in this paragraph referred to as the "relevant time") when such proceeds of disposition became receivable, in respect of the taxpayer, that country and an original owner of the particular property (or of any other property acquired by the taxpayer with the particular property in circumstances to which subsection 66.7(2.3) applied and in respect of which the proceeds of disposition became receivable by the taxpayer at the relevant time) if

(A) amounts that became receivable at or after the relevant time were not taken into account,

(B) paragraph 66.7(2.3)(*a*) were read without reference to "30% of", and

(C) no reduction under subsection 80(8) at or after the relevant time were taken into account

exceeds the total of

(ii) all amounts that would be determined under paragraph 66.7(2.3)(*a*) at the relevant time in respect of the taxpayer, that country and an original owner of the particular property (or of that other property) if

(A) amounts that became receivable after the relevant time were not taken into account,

(B) paragraph 66.7(2.3)(*a*) were read without reference to "30% of", and

(C) no reduction under subsection 80(8) at or after the relevant time were taken into account, and

(iii) the portion of the amount otherwise determined under this paragraph that was otherwise applied to reduce the amount otherwise determined under this description;

G is the total of all amounts, in respect of that country, each of which is an amount included in the amount determined under this description by reason of subsection 66(12.41) that became

receivable by the taxpayer before the particular time and at a resident time;

H is the total of all amounts each of which is an amount received before the particular time and at a resident time on account of any amount referred to in the description of C;

I is the total of all amounts each of which is an amount by which the cumulative foreign resource expense of the taxpayer, in respect of that country, is required, by reason of subsection 80(8), to be reduced at or before the particular time and at a resident time; and

J is the total of all amounts each of which is an amount that is required to be deducted, before the particular time and at a resident time, under paragraph 66.7(13.1)(*a*) in computing the taxpayer's cumulative foreign resource expense.

History: S. 66.21(1), the definition "cumulative foreign resource expense" was added by S.C. 2001, c. 17, s. 47(1), applicable to taxation years that begin after 2000.

Related Sections: S. 59(1) Consideration for foreign resource property; s. 59(3.2) Recovery of exploration and development expenses; s. 66(5) Dealers; s. 66(11.4) Change of control; s. 66(12.41) Limitations of foreign resource expenses; s. 66(12.42) Partnerships; s. 66.21(4) Deduction for cumulative foreign resource expense; s. 66.7(2.3) Successor of foreign resource expenses; s. 66.7(13.1) Reduction of foreign resource expenses; s. 66.7(13.2) Specified amount — foreign resource expenses; s. 80(8) Reductions of resource expenditures; s. 87(1.2) New corporation continuation of a predecessor; s. 88(1.5) Parent continuation of subsidiary; s. 104(5.2) Resource property; s. 110.6(1) Definitions — fair market value of NISA; s. 115(4.1) Foreign resource pool expenses; s. 248(1), "foreign resource property".

Canadian Petroleum Tax Journal: Selected Income Tax Considerations When Structuring Foreign Resource Ventures, William A. Brebber, Vol. 15 No. 1 2002; Foreign Exploration and Development Expenditures — The New Rules, Roch J. Martin, Vol. 14 No. 1 2001.

"foreign resource expense" — "foreign resource expense" of a taxpayer, in respect of a country other than Canada, means

(*a*) any drilling or exploration expense, including any general geological or geophysical expense, incurred by the taxpayer on or in respect of exploring or drilling for petroleum or natural gas in that country,

(*b*) any expense incurred by the taxpayer for the purpose of determining the existence, location, extent or quality of a mineral resource in that country, including any expense incurred in the course of

(i) prospecting,

(ii) carrying out geological, geophysical or geochemical surveys,

(iii) drilling by rotary, diamond, percussion or other methods, or

(iv) trenching, digging test pits and preliminary sampling,

(*c*) the cost to the taxpayer of any of the taxpayer's foreign resource property in respect of that country,

(*d*) any annual payment made by the taxpayer for the preservation of a foreign resource property in respect of that country, and

(*e*) subject to section 66.8, the taxpayer's share of an expense, cost or payment referred to in any of paragraphs (*a*) to (*d*) that is made or incurred by a partnership in a fiscal period of the partnership that begins after 2000 if, at the end of that period, the taxpayer was a member of the partnership

but does not include

(*f*) an expenditure that is the cost, or any part of the cost, to the taxpayer of any depreciable property of a prescribed class,

(*g*) an expenditure incurred at any time after the commencement of production from a foreign resource property of the taxpayer in order to evaluate the feasibility of a method of recovery of petroleum, natural gas or related hydrocarbons from the portion of a natural reservoir to which the foreign resource property relates,

(*h*) an expenditure (other than a drilling expense) incurred at any time after the commencement of production from a foreign resource property of the taxpayer in order to assist in the recovery of petroleum, natural gas or related hydrocarbons from the portion of a natural reservoir to which the foreign resource property relates,

(*i*) an expenditure, incurred at any time, that relates to the injection of any substance to assist in the recovery of petroleum, natural gas or related hydrocarbons from a natural reservoir,

(*j*) an expenditure incurred by the taxpayer, unless the expenditure was made

(i) for the acquisition of foreign resource property by the taxpayer, or

(ii) for the purpose of

(A) enhancing the value of foreign resource property that the taxpayer owned at the time the expenditure was incurred or that the taxpayer had a reasonable expectation of owning after that time, or

(B) assisting in evaluating whether a foreign resource property is to be acquired by the taxpayer, or

(*k*) the taxpayer's share of any cost or expenditure referred to in any of paragraphs (*f*) to (*j*) that is incurred by a partnership.

History: S. 66.21(1), the definition "foreign resource expense" was added by S.C. 2001, c. 17, s. 47(1), applicable to taxation years that begin after 2000.

Related Sections: S. 66(18) Members of partnerships; s. 66.7(2.3) Successor of foreign resource expenses; s. 66.8 Resource expenses of limited partner; s. 248(1), "foreign resource property".

Canadian Petroleum Tax Journal: Selected Income Tax Considerations When Structuring Foreign Resource Ventures, William A. Brebber, Vol. 15 No. 1 2002; Foreign Exploration and Development Expenditures — The New Rules, Roch J. Martin, Vol. 14 No. 1 2001.

"foreign resource income" — "foreign resource income" of a taxpayer for a taxation year, in respect of a country other than Canada, means the total of

(*a*) that part of the taxpayer's income for the year, determined without reference to subsections (4) and 66(4), that is reasonably attributable to

(i) the production of petroleum or natural gas from natural accumulations of petroleum or natural gas in that country or from oil or gas wells in that country, or

(ii) the production of minerals from mines in that country,

(*b*) the taxpayer's income for the year from royalties in respect of a natural accumulation of petroleum or natural gas in that country, an oil or gas well in that

country or a mine in that country, determined without reference to subsections (4) and 66(4); and

(*c*) all amounts each of which is an amount, in respect of a foreign resource property in respect of that country that has been disposed of by the taxpayer, equal to the amount, if any, by which

(i) the amount included in computing the taxpayer's income for the year by reason of subsection 59(1) in respect of that disposition

exceeds

(ii) the total of all amounts each of which is that portion of an amount deducted under subsection 66.7(2) in computing the taxpayer's income for the year that

(A) can reasonably be considered to be in respect of the foreign resource property, and

(B) cannot reasonably be considered to have reduced the amount otherwise determined under paragraph (*a*) or (*b*) in respect of the taxpayer for the year.

History: S. 66.21(1), the definition "foreign resource income" was added by S.C. 2001, c. 17, s. 47(1), applicable to taxation years that begin after 2000.

Related Sections: S. 59(1) Consideration for foreign resource property; s. 66(4) Foreign exploration and development expenses; s. 66.21(4) Deduction for cumulative foreign resource expense; s. 66.7(2) Successor of foreign exploration and development expenses; s. 66.7(2.3) Successor of foreign resource expenses; s. 248(1) "foreign resource property".

"foreign resource loss" — "foreign resource loss" of a taxpayer for a taxation year in respect of a country other than Canada means the taxpayer's loss for the year in respect of the country determined in accordance with the definition "foreign resource income" with such modifications as the circumstances require.

History: S. 66.21(1), the definition "foreign resource loss" was added by S.C. 2001, c. 17, s. 47(1), applicable to taxation years that begin after 2000.

Related Sections: S. 66.21(4)(*a*)(ii) Deduction for cumulative foreign resource expense.

"global foreign resource limit" — "global foreign resource limit" of a taxpayer for a taxation year means the amount that is the lesser of

(*a*) the amount, if any, by which

(i) the amount determined under subparagraph 66(4)(*b*)(ii) in respect of the taxpayer for the year

exceeds the total of

(ii) the total of all amounts each of which is the maximum amount that the taxpayer would be permitted to deduct, in respect of a country, under subsection (4) in computing the taxpayer's income for the year if, in its application to the year, subsection (4) were read without reference to paragraph (4)(*b*), and

(iii) the amount deducted for the year under subsection 66(4) in computing the taxpayer's income for the year; and

(*b*) the amount, if any, by which

(i) 30% of the total of all amounts each of which is, at the end of the year, the taxpayer's adjusted cumulative foreign resource expense in respect of a country

exceeds

(ii) the total described in subparagraph (*a*)(ii).

History: S. 66.21(1), the definition "global foreign resource limit" was added by S.C. 2001, c. 17, s. 47(1), applicable to taxation years that begin after 2000.

Related Sections: S. 66(4) Foreign exploration and development expenses; s. 66(13.1) Short taxation year; s. 66.21(4) Deduction for cumulative foreign resource expense.

► 66.21(2) ◄

(2) Application of subsection 66(15). The definitions in subsection 66(15) apply in this section.

History: S. 66.21(2) was added by S.C. 2001, c. 17, s. 47(1), applicable to taxation years that begin after 2000.

Editorial Note: Section 66.21 provides for the deduction of foreign resource expenses incurred in a country by a taxpayer. For taxation years commencing prior to 2001, all expenses incurred outside Canada in connection with oil and gas and mining activities were classified as foreign exploration and development expenses. Starting with taxation years commencing after 2000, such expenses are categorized as foreign resource expenses in respect of a country. Such expenses are added to a taxpayers cumulative foreign resource expense in respect of the country ("CFRE"). A taxpayer may claim a deduction in respect of each country based on its income incurred in such country. A taxpayer may claim a deduction equal to the greater of 10% of the taxpayer's adjusted CFRE and 30% of the taxpayer's income earned in the country in the year. The taxpayer is also entitled to an additional deduction in respect of its global foreign resource limit. A taxpayer may claim an additional deduction if it disposed of its foreign resource expenses in the year in accordance with the successor corporation rules.

The taxpayer must include in income any amount by which its CFRE is negative at the end of the year less any amount which the taxpayer may claim by virtue of disposing in the year of its foreign resource properties in accordance with the successor corporation rules.

Related Sections: S. 66(15) Definitions.

► 66.21(3) ◄

(3) Amount to be included in income. For the purpose of paragraph 59(3.2)(*c*.1), the amount referred to in this subsection in respect of a taxpayer for a taxation year is the amount, if any, by which

(*a*) the total of all amounts referred to in the descriptions of E to J in the definition "cumulative foreign resource expense" in subsection (1) that are deducted in computing the taxpayer's cumulative foreign resource expense at the end of the year in respect of a country

exceeds the total of

(*b*) the total of all amounts referred to in the descriptions of A to D in the definition "cumulative foreign resource expense" in subsection (1) that are included in computing the taxpayer's cumulative foreign resource expense at the end of the year in respect of the country, and

(*c*) the total determined under paragraph 66.7(13.2)(*a*) for the year in respect of the taxpayer and the country.

History: S. 66.21(3) was added by S.C. 2001, c. 17, s. 47(1), applicable to taxation years that begin after 2000.

Related Sections: S. 59(3.2) Recovery of exploration and development expenses; s. 66(5) Dealers; s. 66(11.4) Change of control; s. 66.8 Resource expenses of limited partner; s. 70(5.2)(*a*) Resource properties and land inventories of a deceased taxpayer; s. 88(1.5) Parent continuation of subsidiary.

► 66.21(4) ◄

(4) Deduction for cumulative foreign resource expense. In computing a taxpayer's income for a taxation year throughout which the taxpayer is resident in Canada, the taxpayer may deduct the amount claimed by the taxpayer, in respect of a country other than Canada, not exceeding the total of

(*a*) the greater of

(i) 10% of a particular amount equal to the taxpayer's adjusted cumulative foreign resource expense in respect of the country at the end of the year, and

(ii) the least of

(A) if the taxpayer ceased to be resident in Canada immediately after the end of the year, the particular amount,

(B) if clause (A) does not apply, 30% of the particular amount,

(C) the amount, if any, by which the taxpayer's foreign resource income for the year in respect of the country exceeds the portion of the amount, deducted under subsection 66(4) in computing the taxpayer's income for the year, that applies to a source in the country, and

(D) the amount, if any, by which

(I) the total of all amounts each of which is the taxpayer's foreign resource income for the year in respect of a country

exceeds the total of

(II) all amounts each of which is the taxpayer's foreign resource loss for the year in respect of a country, and

(III) the amount deducted under subsection 66(4) in computing the taxpayer's income for the year, and

(*b*) the lesser of

(i) the amount, if any, by which the particular amount exceeds the amount determined for the year under paragraph (*a*) in respect of the taxpayer, and

(ii) that portion of the taxpayer's global foreign resource limit for the year that is designated for the year by the taxpayer, in respect of that country and no other country, in prescribed form filed with the Minister with the taxpayer's return of income for the year.

History: S. 66.21(4) was added by S.C. 2001, c. 17, s. 47(1), applicable to taxation years that begin after 2000.

Related Sections: S. 20(1)(*hh*) Repayments of inducements, etc.; s. 66(5) Dealers; s. 66(8) Successor corporation's foreign exploration and development expenses; s. 66(11.4) Change of control; s. 66(13.1) Short taxation year; s. 66.21(5) Individual changing residence; s. 70(5.2) Resource properties and land inventories of a deceased taxpayer; s. 87(1.2) New corporation continuation of a predecessor; s. 88(1.5) Parent continuation of subsidiary; s. 115(4.1) Foreign resource pool expenses; s. 127.52(1) Adjusted taxable income determined.

Canadian Petroleum Tax Journal: Selected Income Tax Considerations When Structuring Foreign Resource Ventures, William A. Brebber, Vol. 15 No. 1 2002; Foreign Exploration and Development Expenditures — The New Rules, Roch J. Martin, Vol. 14 No. 1 2001.

► 66.21(5) ◄

(5) Individual changing residence. Where at any time in a taxation year an individual becomes or ceases to be resident in Canada,

(*a*) subsection (4) applies to the individual as if the year were the period or periods in the year throughout which the individual was resident in Canada; and

(*b*) for the purpose of applying this section, subsection 66(13.1) does not apply to the individual for the year.

History: S. 66.21(5) was added by S.C. 2001, c. 17, s. 47(1), applicable to taxation years that begin after 2000.

Related Sections: S. 66(4.3) FEDE deductions where change of individual's residence; s. 66(13.1) Short taxation year; s. 114 Individual resident in Canada for only part of year; s. 128.1 Immigration.

SECTION 66.3:

► 66.3(1) ◄

(1) Exploration and development shares. Any shares of the capital stock of a corporation or any interest in any such shares or right thereto acquired by a taxpayer under circumstances described in paragraph (*i*) of the definition "Canadian exploration expense" in subsection 66.1(6), paragraph (*g*) of the definition "Canadian development expense" in subsection 66.2(5) or paragraph (*c*) of the definition "Canadian oil and gas property expense" in subsection 66.4(5)

(*a*) shall, if acquired before November 13, 1981, be deemed

(i) not to be a capital property of the taxpayer,

(ii) subject to subsection 142.6(3), to be inventory of the taxpayer, and

(iii) to have been acquired by the taxpayer at a cost to the taxpayer of nil; and

(*b*) shall, if acquired after November 12, 1981, be deemed to have been acquired by the taxpayer at a cost to the taxpayer of nil.

History: S. 66.3(1)(*a*) was amended by S.C. 1995, c. 21, s. 51(1), applicable to taxation years that begin after October 1994. S. 66.3(1)(*a*) formerly read:

"(*a*) shall, if acquired before November 13, 1981, be deemed not to be a capital property of the taxpayer but to be inventory of the taxpayer acquired at a cost to the taxpayer of nil; and"

Related Sections: S. 66(18) Members of partnerships; s. 66.4(2) Deduction for cumulative Canadian oil and gas property expense.

Regulations: 5101–5103.

Interpretation Bulletins: *Primary* — IT-503 Exploration and development shares [Archived by the CRA].

► 66.3(2) ◄

(2) Deductions from paid-up capital. Where, at any time after May 23, 1985, a corporation has issued a share of its capital stock under circumstances described in paragraph (*i*) of the definition "Canadian exploration expense" in subsection 66.1(6), paragraph (*g*) of the definition "Canadian development expense" in subsection 66.2(5) or paragraph (*c*) of the definition "Canadian oil and gas property expense" in subsection 66.4(5) or has issued a share of its capital stock on the exercise of an interest in or right to such a share granted under circumstances described in any of those paragraphs, in computing, at any particular time after that time, the paid-up capital in respect of the class of shares of the capital stock of the corporation that included that share

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 66.3(2) of the Act before paragraph (*a*) is replaced by the following:

(2) Deductions from paid-up capital. Where, at any time after May 23, 1985, a corporation has issued a share of its capital stock under circumstances described in paragraph (*i*) of the definition "Canadian exploration expense" in subsection 66.1(6), paragraph (*g*) of the definition "Canadian development

expense" in subsection 66.2(5) or paragraph (*c*) of the definition "Canadian oil and gas property expense" in subsection 66.4(5) or has issued a share of its capital stock on the exercise of an interest in or right to — or, for civil law, a right in or to — such a share granted under circumstances described in any of those paragraphs, in computing, at any particular time after that time, the paid-up capital in respect of the class of shares of the capital stock of the corporation that included that share

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*a*) there shall be deducted the amount, if any, by which

(i) the increase as a result of the issue of the share in the paid-up capital, determined without reference to this subsection as it applies to the share, in respect of all of the shares of that class

exceeds

(ii) the amount, if any, by which

(A) the total amount of consideration received by the corporation in respect of the share, including any consideration for the interest or right in respect of the share

exceeds

(B) 50% of the amount of the expense referred to in paragraph (*i*) of the definition "Canadian exploration expense" in subsection 66.1(6), paragraph (*g*) of the definition "Canadian development expense" in subsection 66.2(5) or paragraph (*c*) of the definition "Canadian oil and gas property expense" in subsection 66.4(5) that was incurred by a taxpayer who acquired the share or the interest or right on the exercise of which the share was issued, as the case may be, pursuant to an agreement with the corporation under which the taxpayer incurred the expense solely as consideration for the share, interest or right, as the case may be; and

(*b*) there shall be added an amount equal to the lesser of

(i) the amount, if any, by which

(A) the total of all amounts each of which is an amount deemed by subsection 84(3), (4) or (4.1) to be a dividend on shares of that class paid by the corporation after May 23, 1985 and before the particular time

exceeds

(B) the total that would be determined under clause (A) if this Act were read without reference to paragraph (*a*), and

(ii) the total of all amounts each of which is an amount required by paragraph (*a*) to be deducted in computing the paid-up capital in respect of that class of shares after May 22, 1985 and before the particular time.

Related Sections: S. 66.3(4) Paid-up capital.

► 66.3(3) ◄

(3) Cost of flow-through shares. Any flow-through share (within the meaning assigned by subsection 66(15)) of a corporation acquired by a person who was a party to the agreement pursuant to which it was issued shall be deemed to have been acquired by the person at a cost to the person of nil.

Related Sections: S. 66(12.6)–(12.7).

► 66.3(4) ◄

(4) Paid-up capital. Where, at any time after February, 1986, a corporation has issued a flow-through share (within the meaning assigned by subsection 66(15)), in computing, at any particular time after that time, the paid-up capital in respect of the class of shares of the capital stock of the corporation that included that share

(*a*) there shall be deducted the amount, if any, by which

(i) the increase as a result of the issue of the share in the paid-up capital, determined without reference to this subsection as it applies to the share, in respect of all of the shares of that class

exceeds

(ii) the amount, if any, by which

(A) the total amount of consideration received by the corporation in respect of the share

exceeds

(B) 50% of the total of the expenses that were renounced by the corporation under subsection 66(12.6), (12.601), (12.62) or (12.64) in respect of the share; and

(*b*) there shall be added an amount equal to the lesser of

(i) the amount, if any, by which

(A) the total of all amounts each of which is an amount deemed by subsection 84(3), (4) or (4.1) to be a dividend on shares of that class paid by the corporation after February, 1986 and before the particular time

exceeds

(B) the total that would be determined under clause (A) if this Act were read without reference to paragraph (*a*), and

(ii) the total of all amounts each of which is an amount required by paragraph (*a*) to be deducted in computing the paid-up capital in respect of that class of shares after February, 1986 and before the particular time.

History: S. 66.3(4)(*a*)(ii)(B) was amended by S.C. 1994, c. 8, s. 7(1), applicable after December 2, 1992. S. 66.3(4)(*a*)(ii)(B) formerly read:

"(B) 50% of the total of the expenses that were renounced by the corporation under subsection 66(12.6), (12.62) or (12.64) in respect of the share; and"

SECTION 66.4:

► 66.4(1) ◄

(1) Recovery of costs. For the purposes of the description of B in the definition "cumulative Canadian oil and gas property expense" in subsection (5) and the description of L in the definition "cumulative Canadian development expense" in subsection 66.2(5) and for the purpose of subparagraph 64(1.2)(*a*)(ii) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it applies to dispositions occurring before November 13, 1981, the amount determined under this subsection in

respect of a taxpayer for a taxation year is the amount, if any, by which

(*a*) the total of all amounts referred to in the descriptions of E to J in the definition "cumulative Canadian oil and gas property expense" in subsection (5) that are deducted in computing the taxpayer's cumulative Canadian oil and gas property expense at the end of the year

exceeds the total of

(*b*) all amounts referred to in the descriptions of A to D.1 in the definition "cumulative Canadian oil and gas property expense" in subsection (5) that are included in computing the taxpayer's cumulative Canadian oil and gas property expense at the end of the year, and

(*c*) the total determined under subparagraph 66.7(12.1)(*c*)(i) in respect of the taxpayer for the year.

History: S. 66.4(1), the portion before paragraph (*a*), was amended by S.C. 1994, c. 21, s. 30(1), applicable to taxation years that end after February 17, 1987. That part formerly read:

"S. 66.4. *Recovery of costs.*

(1) For the purposes of the descriptions of A in the definition 'cumulative Canadian oil and gas property expense' in subsection (5) and L in the definition 'cumulative Canadian development expense' in subsection 66.2(5), and of subparagraph 64(1.2)(*a*)(ii) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read immediately before March 30, 1983, the amount determined under this subsection in respect of a taxpayer for a taxation year is the amount, if any, by which"

S. 66.4(1) was amended by S.C. 1994, c. 7, Sched. II, s. 41(1), applicable to taxation years ending after February 17, 1987, except that the reference to "D.1" in paragraph 66.4(1)(*b*) shall be read as "C" with respect to taxation years ending after February 17, 1987 and beginning before February 18, 1987. S. 66.4(1) formerly read:

"(1) For the purposes of the descriptions of B in the definition 'cumulative Canadian oil and gas property expense' in subsection (5) and L in the definition 'cumulative Canadian development expense' in subsection 66.2(5), and of subparagraph 64(1.2)(*a*)(ii) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read before March 30, 1983, the amount determined under this subsection in respect of a taxpayer for a taxation year is the amount, if any, by which

(*a*) the total of all amounts referred to in the descriptions of E to J in the definition 'cumulative Canadian oil and gas property expense' in subsection (5) that would be taken into account in computing the taxpayer's cumulative Canadian oil and gas property expense at the end of the year

exceeds

(*b*) the total of all amounts referred to in the descriptions of A to C in the definition 'cumulative Canadian oil and gas property expense' in subsection (5) that would be taken into account in computing the taxpayer's cumulative Canadian oil and gas property expense at the end of the year."

Editorial Note: Section 66.4 provides for the deduction by a taxpayer of its Canadian oil and gas property expenses ("COGPE"). COGPE include the cost of purchasing oil and gas properties. The taxpayer adds its COGPE to its cumulative Canadian oil and gas property expense ("CCOGPE"). A taxpayer may claim an optional deduction of 10% of its CCOGPE at the end of the year. In addition, a taxpayer may also claim an additional deduction if it disposes in the year of its Canadian resource properties in accordance with the successor corporation rules.

The proceeds of disposition of Canadian oil and gas properties are deducted from the taxpayer's CCOGPE. A taxpayer must include in income in a year any amount by which the taxpayer's CCOGPE is negative at the end of the year, less any amount that the taxpayer may claim by virtue of having disposed in the year of its Canadian resource properties in accordance with the successor corporation rules.

Related Sections: S. 66(5) Dealers; s. 66(11) Acquisition of control; s. 66(13) Limitation; s. 66(15) Definitions; s. 66(18) Members of partnerships; s. 66.1(6) Definitions; s. 66.2(5) Definitions; s. 104(5.2) Resource property; s. 127.5 Obligation to pay minimum tax.

Interpretation Bulletins: *Secondary* — IT-273R2 Government assistance — General comments.

► 66.4(2) ◄

(2) Deduction for cumulative Canadian oil and gas property expense. A taxpayer may deduct, in computing the taxpayer's income for a taxation year, such amount as the taxpayer may claim not exceeding the total of

(*a*) the lesser of

(i) the total of

(A) the taxpayer's cumulative Canadian oil and gas property expense at the end of the year, and

(B) the amount, if any, by which

(I) the total determined under subparagraph 66.7(12.1)(*c*)(i) in respect of the taxpayer for the year

exceeds

(II) the amount that would, but for paragraph (1)(*c*), be determined under subsection (1) in respect of the taxpayer for the year, and

(ii) the amount, if any, by which the total of all amounts each of which is

(A) an amount included in the taxpayer's income for the year by virtue of a disposition in the year of inventory described in section 66.3 that was a share, any interest therein or right thereto acquired by the taxpayer under circumstances described in paragraph (*c*) of the definition "Canadian oil and gas property expense" in subsection (5), or

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Clause 66.4(2)(*a*)(ii)(A) of the Act is replaced by the following:

(A) an amount included in the taxpayer's income for the year by virtue of a disposition in the year of inventory described in section 66.3 that was a share or any interest in or right to it or, for civil law, any right in or to it a share acquired by the taxpayer under circumstances described in paragraph (*c*) of the definition "Canadian oil and gas property expense" in subsection (5), or

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(B) an amount included by virtue of paragraph 12(1)(*e*) in computing the taxpayer's income for the year to the extent that it relates to inventory described in clause (A)

exceeds

(C) the total of all amounts deducted as a reserve by virtue of paragraph 20(1)(*n*) in computing the taxpayer's income for the year to the extent that the reserve relates to inventory described in clause (A); and

(*b*) 10% of the amount, if any, by which the amount determined under subparagraph (*a*)(i) exceeds the amount determined under subparagraph (*a*)(ii).

History: S. 66.4(2)(*a*)(i) was amended by S.C. 1994, c. 7, Sched. II, s. 41(2), applicable to taxation years ending after February 17, 1987. S. 66.4(2)(*a*)(i) formerly read:

"(i) the amount of the taxpayer's cumulative Canadian oil and gas property expense at the end of the year, and"

Related Sections: S. 66.2(2) Deduction for cumulative Canadian development expenses; s. 209 Tax on carved-out income.

Interpretation Bulletins: *Secondary* — IT-438R2 Crown charges — Resource properties in Canada.

► 66.4(3) ◄

(3) Successor corporation's Canadian oil and gas property expense. [Repealed by 1987, c. 46, s. 21(1).]

► 66.4(4) ◄

(4) Second successor corporation's Canadian oil and gas property expense. [Repealed by 1987, c. 46, s. 21(2).]

► 66.4(5) ◄

(5) Definitions. In this section,

"Canadian oil and gas property expense" — "Canadian oil and gas property expense" of a taxpayer means any cost or expense incurred after December 11, 1979 that is

(*a*) the cost to the taxpayer of, including any payment for the preservation of a taxpayer's rights in respect of, any property described in paragraph (*a*), (*c*) or (*d*) of the definition "Canadian resource property" in subsection 66(15), or any right to or interest in such property (other than a right or an interest that the taxpayer has by reason of being a beneficiary under a trust or a member of a partnership), or an amount paid to Her Majesty in right of the Province of Saskatchewan as a net royalty payment pursuant to a net royalty petroleum and natural gas lease that was in effect on March 31, 1977 to the extent that it can reasonably be regarded as a cost of acquiring the lease,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*a*) of the definition "Canadian oil and gas property expense" in subsection 66.4(5) of the Act is replaced by the following:

(*a*) notwithstanding paragraph 18(1)(*m*), the cost to the taxpayer of, including any payment for the preservation of a taxpayer's rights in respect of, any property described in paragraph (*a*), (*c*) or (*d*) of the definition "Canadian resource property" in subsection 66(15) or any right to or interest in — or, for civil law, any right in or to — such property (other than such a right or an interest that the taxpayer has by reason of being a beneficiary under a trust or a member of a partnership) or an amount paid or payable to Her Majesty in right of the Province of Saskatchewan as a net royalty payment pursuant to a net royalty petroleum and natural gas lease that was in effect on March 31, 1977 to the extent that it can reasonably be regarded as a cost of acquiring the lease, but not including any payment made to any of the persons referred to in subparagraph 18(1)(*m*)(i) for the preservation of a taxpayer's rights in respect of a Canadian resource property nor a payment (other than a net royalty payment referred to in this paragraph) to which paragraph 18(1)(*m*) applied because of clause 18(1)(*m*)(ii)(B),

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*a*) of the definition "Canadian oil and gas property expense" in subsection 66.4(5) of the Act is replaced by the following:

(*a*) the cost to the taxpayer of, including any payment for the preservation of a taxpayer's rights in respect of, any property described in paragraph (*a*), (*c*) or (*d*) of the definition "Canadian resource property" in subsection 66(15) or any right to or interest in — or, for civil law, any right in or to — such property (other than a right or an interest that the taxpayer has by reason of being a beneficiary under a trust or a member of a partnership), or an amount paid to Her Majesty in right of the Province of Saskatchewan as a net royalty payment pursuant to a net royalty petroleum and natural gas lease that was in effect on March 31, 1977 to the extent that it can reasonably be regarded as a cost of acquiring the lease,

Applicable: To taxation years that begin after 2006.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*b*) subject to section 66.8, the taxpayer's share of any expense referred to in paragraph (*a*) incurred by a partnership in a fiscal period thereof at the end of which the taxpayer was a member of the partnership, unless the taxpayer elects in respect of the share in prescribed form and manner on or before the day that is 6 months after the taxpayer's taxation year in which that period ends, or

(*c*) any cost or expense referred to in paragraph (*a*) incurred by the taxpayer pursuant to an agreement in writing with a corporation, entered into before 1987, under which the taxpayer incurred the cost or expense solely as consideration for shares, other than prescribed shares, of the capital stock of the corporation issued to the taxpayer or any interest in such shares or right thereto,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*c*) of the definition "Canadian oil and gas property expense" in subsection 66.4(5) of the Act is replaced by the following:

(*c*) any cost or expense referred to in paragraph (*a*) incurred by the taxpayer pursuant to an agreement in writing with a corporation, entered into before 1987, under which the taxpayer incurred the cost or expense solely as consideration for shares, other than prescribed shares, of the capital stock of the corporation issued to the taxpayer or any interest in or right to — or, for civil law, any right in or to — such shares,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

but, for greater certainty, shall not include

(*d*) any consideration given by the taxpayer for any share or any interest therein or right thereto, except as provided by paragraph (*c*), or

(*e*) any expense described in paragraph (*c*) incurred by any other taxpayer to the extent that the expense was,

(i) by virtue of that paragraph, a Canadian oil and gas property expense of that other taxpayer,

(ii) by virtue of paragraph (*i*) of the definition "Canadian exploration expense" in subsection 66.1(6), a Canadian exploration expense of that other taxpayer, or

(iii) by virtue of paragraph (*g*) of the definition "Canadian development expense" in subsection 66.2(5), a Canadian development expense of that other taxpayer,

but any amount of assistance that a taxpayer has received or is entitled to receive in respect of or related to the taxpayer's Canadian oil and gas property expense shall not reduce the amount of any of the expenses described in any of paragraphs (*a*) to (*c*);

History: S. 66.4(5), paragraph (*a*) of the definition "Canadian oil and gas property expense" was replaced by S.C. 2003, c. 28, s. 7(2), applicable to taxation years that begin after 2006. S. 66.4(5), paragraph (*a*) of the definition "Canadian oil and gas property expense" formerly read:

"(*a*) notwithstanding paragraph 18(1)(*m*), the cost to the taxpayer of, including any payment for the preservation of a taxpayer's rights in respect of, any property described in paragraph (*a*), (*c*) or (*d*) of the definition 'Canadian resource property' in subsection 66(15) or any right to or interest in such property (other than such a right or an interest that the taxpayer has by reason of being a beneficiary under a trust or a member of a partnership) or an amount paid or payable to Her Majesty in right of the Province of Saskatchewan as a net royalty payment pursuant to a net royalty petroleum and natural gas lease that was in effect on March 31, 1977 to the extent that it can reasonably be regarded as a cost of acquiring the lease, but not including any payment made to any of the persons referred to in subparagraph 18(1)(*m*)(i) for the preservation of a taxpayer's rights in respect of a Canadian resource property nor a payment (other than a net royalty payment referred to in this paragraph) to which paragraph 18(1)(*m*) applied because of clause 18(1)(*m*)(ii)(B),"

S. 66.4(5), paragraph (*a*) of the definition "Canadian oil and gas property expense" was replaced by S.C. 2003, c. 28, s. 7(1), applicable after December 20, 2002. S. 66.4(5), paragraph (*a*) of the definition "Canadian oil and gas property expense" formerly read:

"(*a*) notwithstanding paragraph 18(1)(*m*), the cost to the taxpayer of any property described in paragraph (*a*), (*c*) or (*d*) of the definition 'Canadian resource property' in subsection 66(15) or a right to or interest in such property (other than such a right or interest that the taxpayer has by reason of being a beneficiary of a trust) or an amount paid or payable to Her Majesty in right of the Province of Saskatchewan as a net royalty payment pursuant to a net royalty petroleum and natural gas lease that was in effect on March 31, 1977 to the extent that it can reasonably be regarded as a cost of acquiring the lease, but not including any payment made to any of the persons referred to in any of subparagraphs 18(1)(*m*)(i) to (iii) for the preservation of a taxpayer's rights in respect of a Canadian resource property nor a payment (other than a net royalty payment referred to in this paragraph) to which paragraph 18(1)(*m*) applied by virtue of subparagraph 18(1)(*m*)(v),"

Paragraph (*b*) of the definition "Canadian oil and gas property expense" was amended by S.C. 1994, c. 7, Sched. VIII, s. 25(1), applicable to partnership fiscal periods ending after July 1990, except that an election referred to in paragraph (*b*) that was filed before December 11, 1993 shall be deemed to have been filed on a timely basis. The paragraph formerly read:

"(*b*) subject to section 66.8, the taxpayer's share of any expense referred to in paragraph (*a*) incurred by a partnership in a fiscal period thereof, if at the end of that fiscal period he was a member thereof, or"

Related Sections: S. 18(1)(*m*) Royalties, etc.; s. 49(2) Where option granted by a corporation expires; s. 53(1)(*e*)(vii.1) Adjustments to cost base — Interest in a partnership; s. 53(2)(*c*) Amounts to be deducted — Interest in a partnership; s. 53(2)(*e*) Amounts to be deducted — Share, where shareholder incurred exploration and development expenses; s. 53(2)(*f*) Amounts to be deducted — Property received from joint exploration corporation; s. 53(2)(*f.1*) Amounts to be deducted — Share of the capital stock of joint exploration corporation; s. 66(12.5) Unitized oil or gas field in Canada; s. 66(15), "assistance", "Canadian resource property"; s. 66.1(6), "Canadian exploration expense"; s. 66.2(5), "Canadian development expense"; s. 66.2(8) Presumption; s. 66.3 Exploration and development shares; s. 66.4(2) Deduction for cumulative Canadian oil and gas property expense; s. 66.4(6) Share of partner; s. 66.4(7) Exception; s. 66.8 Resource expenses of limited partner; s. 80(8) Reductions of resource expenditures.

Regulations: 6202(1).

Interpretation Bulletins: *Secondary* — IT-125R4 Disposition of resource properties; IT-438R2 Crown charges — Resource properties in Canada; IT-503 Exploration and development shares [Archived by the CRA].

Forms: T1086.

Canadian Petroleum Tax Journal: Offshore Oil & Gas Interests: A Perspective on Exploration & Development of Offshore Petroleum and Natural Gas Resources in Eastern Canada, Michael R. Smith, CA and B. David Nielsen, CA, Vol. 13 No. 1 2000.

"*cumulative Canadian oil and gas property expense*" — "cumulative Canadian oil and gas property expense" of a taxpayer at any time in a taxation year means the amount determined by the formula

$$(A + B + C + D + D.1) - (E + F + G + H + I + I.1 + J)$$

where

A is the total of all Canadian oil and gas property expenses made or incurred by the taxpayer before that time,

B is the total of all amounts determined under subsection (1) in respect of the taxpayer for taxation years ending before that time,

C is the total of all amounts referred to in the description of F or G that are established by the taxpayer to have become bad debts before that time,

D is such part, if any, of the amount determined for I as has been repaid before that time by the taxpayer pursuant to a legal obligation to repay all or any part of that amount,

D.1 is the total of all specified amounts, determined under paragraph 66.7(12.1)(*c*) in respect of the taxpayer for taxation years ending before that time,

E is the total of all amounts deducted in computing the taxpayer's income for a taxation year ending before that time in respect of the taxpayer's cumulative Canadian oil and gas property expense,

F is the total of all amounts each of which is an amount in respect of property described in paragraph (*a*), (*c*) or (*d*) of the definition "Canadian resource property" in subsection 66(15) or any right to or interest in such a property, other than such a right or an interest that the taxpayer has by reason of being a beneficiary under a trust or a member of a partnership, (in this description

referred to as "the particular property") disposed of by the taxpayer before that time equal to the amount, if any, by which

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of the description of F in the definition "cumulative Canadian oil and gas property expense" in subsection 66.4(5) of the Act before paragraph (*a*) is replaced by the following:

F is the total of all amounts each of which is an amount in respect of property described in paragraph (*a*), (*c*) or (*d*) of the definition "Canadian resource property" in subsection 66(15) or any right to or interest in — or, for civil law, any right in or to — such a property, other than such a right or interest that the taxpayer has by reason of being a beneficiary under a trust or a member of a partnership, (in this description referred to as "the particular property") disposed of by the taxpayer before that time equal to the amount, if any, by which

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*a*) the amount, if any, by which the proceeds of disposition in respect of the particular property that became receivable by the taxpayer before that time exceed any outlays or expenses made or incurred by the taxpayer before that time for the purpose of making the disposition and that were not otherwise deductible for the purposes of this Part

exceeds the total of

(*b*) the amount, if any, by which

(i) the total of all amounts that would be determined under paragraph 66.7(5)(*a*), immediately before the time (in this paragraph and paragraph (*c*) referred to as the "relevant time") when such proceeds of disposition became receivable, in respect of the taxpayer and an original owner of the particular property (or of any other property acquired by the taxpayer with the particular property in circumstances in which subsection 66.7(5) applied and in respect of which the proceeds of disposition became receivable by the taxpayer at the relevant time) if

(A) amounts that became receivable at or after the relevant time were not taken into account,

(B) each designation made under subparagraph 66.7(4)(*a*)(iii) in respect of an amount that became receivable before the relevant time were made before the relevant time,

(C) paragraph 66.7(5)(*a*) were read without reference to "10% of", and

(D) no reduction under subsection 80(8) at or after the relevant time were taken into account

exceeds the total of

(ii) all amounts that would be determined under paragraph 66.7(5)(*a*) at the relevant time in respect of the taxpayer and an original owner of the particular property (or of that other property described in subparagraph (i)) if

(A) amounts that became receivable after the relevant time were not taken into account,

(B) each designation made under subparagraph 66.7(4)(*a*)(iii) in respect of an amount that became receivable at or before the relevant time were made before the relevant time,

(C) paragraph 66.7(5)(*a*) were read without reference to "10% of", and

(D) no reduction under subsection 80(8) at or after the relevant time were taken into account, and

(iii) such portion of the amount determined under this paragraph as was otherwise applied to reduce the amount otherwise determined under this description, and

(*c*) the amount, if any, by which

(i) the total of all amounts that would be determined under paragraph 66.7(4)(*a*), immediately before the relevant time, in respect of the taxpayer and an original owner of the particular property (or of any other property acquired by the taxpayer with the particular property in circumstances in which subsection 66.7(4) applied and in respect of which the proceeds of disposition became receivable by the taxpayer at the relevant time) if

(A) amounts that became receivable at or after the relevant time were not taken into account,

(B) each designation made under subparagraph 66.7(4)(*a*)(iii) in respect of an amount that became receivable before the relevant time were made before the relevant time,

(C) paragraph 66.7(4)(*a*) were read without reference to "30% of", and

(D) no reduction under subsection 80(8) at or after the relevant time were taken into account

exceeds the total of

(ii) all amounts that would be determined under paragraph 66.7(4)(*a*) at the relevant time in respect of the taxpayer and an original owner of the particular property (or of that other property described in subparagraph (i)) if

(A) amounts that became receivable after the relevant time were not taken into account,

(B) each designation made under subparagraph 66.7(4)(*a*)(iii) in respect of an amount that became receivable at or before the relevant time were made before the relevant time,

(C) paragraph 66.7(4)(*a*) were read without reference to "30% of",

(D) amounts described in subparagraph 66.7(4)(*a*)(ii) that became receivable at the relevant time were not taken into account, and

(E) no reduction under subsection 80(8) at or after the relevant time were taken into account, and

(iii) such portion of the amount otherwise determined under this paragraph as was otherwise applied to reduce the amount otherwise determined under this description,

G is the total of all amounts that became receivable by the taxpayer before that time that are to be included in the amount determined under this description by virtue of paragraph 66(12.5)(*a*),

H is the total of all amounts each of which is an amount received before that time on account of any amount referred to in the description of C,

I is the total amount of assistance that the taxpayer has received or is entitled to receive in respect of any Canadian oil and gas property expense incurred after 1980 or that can reasonably be related to any such expense after 1980,

I.1 is the total of all amounts by which the cumulative Canadian oil and gas property expense of the taxpayer is required because of subsection 80(8) to be reduced at or before that time, and

J is the total of all amounts that are required to be deducted before that time under paragraph 66.7(12)(*d*) in computing the taxpayer's cumulative Canadian oil and gas property expense;

History: S. 66.4(5), the portion of the description of F before paragraph (*a*) in the definition "cumulative Canadian oil and gas property expense" was replaced by S.C. 2003, c. 28, s. 7(3), applicable after December 20, 2002. S. 66.4(5), the portion of the description of F before paragraph (*a*) in the definition "cumulative Canadian oil and gas property expense" formerly read:

"F is the total of all amounts each of which is an amount in respect of a property described in paragraph (*a*), (*c*) or (*d*) of the definition 'Canadian resource property' in subsection 66(15) or a right to or interest in such a property, other than such a right or interest that the taxpayer has by reason of being a beneficiary of a trust, (in this description referred to as 'the particular property') disposed of by the taxpayer before that time equal to the amount, if any, by which"

The formula in the definition "cumulative Canadian oil and gas property expense" in s. 66.4(5) was amended by S.C. 1995, c. 21, s. 24(1), applicable to taxation years that end after February 21, 1994. That formula formerly read:

"(A + B + C + D + D.1) – (E + F + G + H + I + J)"

Clause (D) in subparagraph (*b*)(i) of the description of F in the definition "cumulative Canadian oil and gas property expense" in s. 66.4(5) was added by S.C. 1995, c. 21, s. 24(2), applicable to taxation years that end after February 21, 1994.

Clause (D) in subparagraph (*b*)(ii) of the description of F in the definition "cumulative Canadian oil and gas property expense" in s. 66.4(5) was added by S.C. 1995, c. 21, s. 24(3), applicable to taxation years that end after February 21, 1994.

Clause (D) in subparagraph (*c*)(i) of the description of F in the definition "cumulative Canadian oil and gas property expense" in s. 66.4(5) was added by S.C. 1995, c. 21, s. 24(4), applicable to taxation years that end after February 21, 1994.

Clause (E) in subparagraph (c)(ii) of the description of F in the definition "cumulative Canadian oil and gas property expense" in s. 66.4(5) was added by S.C. 1995, c. 21, s. 24(5), applicable to taxation years that end after February 21, 1994.

The description of I.1 in the definition "cumulative Canadian oil and gas property expense" in s. 66.4(5) was added by S.C. 1995, c. 21, s. 24(6), applicable to taxation years that end after February 21, 1994.

S. 66.4(5), the portion of the description of F in the definition "cumulative Canadian oil and gas property expense" after paragraph (*a*), was amended by S.C. 1994, c. 21, s. 30(2), applicable to taxation years that end after February 17, 1987. That part formerly read:

"exceeds the amount equal to

(*b*) where the proceeds of disposition referred to in paragraph (*a*) may reasonably be attributed to the disposition of a property that was acquired by the taxpayer in circumstances in which subsection 66.7(5) applies to the taxpayer as successor, the lesser of

(i) the amount determined under paragraph (*a*) in respect of the property, and

(ii) the total of all amounts each of which is an amount that would be determined at that time under paragraph 66.7(5)(*a*) in respect of the acquisition of the property by the taxpayer if that paragraph were read without reference to '10% of', and

(*c*) in any other case, nil,"

The formula in the definition "cumulative Canadian oil and gas property expense" was amended by S.C. 1994, c. 7, Sched. II, s. 41(3), applicable to taxation years beginning after February 17, 1987. The formula formerly read:

"(A + B + C + D) – (E + F + G + H + I + J)"

The description of D.1 was added to the definition "cumulative Canadian oil and gas property expense" by S.C. 1994, c. 7, Sched. II, s. 41(3.1), applicable to taxation years beginning after February 17, 1987.

Related Sections: S. 20(1)(*kk*) Exploration and development grants; s. 53(1)(*e*)(viii) Adjustments to cost base — Interest in a partnership; s. 66(11)(*d*) Acquisition of control; s. 66(12.5)(*a*) Unitized oil or gas field in Canada; s. 66(15), "Canadian resource property"; s. 66.4(1) Recovery of costs; s. 66.4(2) Deduction for cumulative Canadian oil and gas property expense; s. 66.4(5), "Canadian oil and gas property expense"; s. 66.4(6) Share of partner; s. 66.4(7) Exception; s. 66.7(4) Successor of Canadian development expense; s. 66.7(5) Successor of Canadian oil and gas property expense; s. 66.7(12) Reduction of Canadian resource expenses; s. 66.7(12.1)(*c*) Specified amount; s. 66.7(14)(*a*) Disposal of Canadian resource properties; s. 70(5.2) Resource properties and land inventories of a deceased taxpayer; s. 79(4)(*c*) Subsequent payment by debtor; s. 80(8) Reductions of resource expenditures; s. 96(2.2)(*d*) At-risk amount; s. 104(5.2) Resource property.

Interpretation Bulletins: *Secondary* — IT-125R4 Disposition of resource properties.

"proceeds of disposition" — "proceeds of disposition" has the meaning assigned by section 54.

History: S. 66.4(5), the definitions "disposition" and "proceeds of disposition" were amended by S.C. 2001, c. 17, s. 48(1), applicable to transactions and events that occur after December 23, 1998. S. 66.4(5), the definitions "disposition" and "proceeds of disposition" formerly read:

"*'disposition' and 'proceeds of disposition'* — 'disposition' and 'proceeds of disposition' have the meanings assigned by section 54."

► 66.4(5.1) ◄

(5.1) Application of ss. 66(15) and 66.1(6). The definitions in subsections 66(15) and 66.1(6) apply to this section.

History: S. 66.4(5.1) was not part of the former Act.

► 66.4(6) ◄

(6) Share of partner. Except as provided in subsection (7), where a taxpayer is a member of a partnership, the taxpayer's share of any amount that would be an amount referred to in the description of D in the definition "cumulative Canadian oil and gas property expense" in subsection (5), in paragraph (*a*) of the description of F in that definition or in the description of G or I in that definition in respect of the partnership for a taxation year of the partnership if section 96 were read without reference to paragraph 96(1)(*d*) shall, for the purposes of this Act, be deemed to be an amount referred to in the description of D in the definition "cumulative Canadian oil and gas property expense" in subsection (5), in paragraph (*a*) of the description of F in that definition or in the description of G or I in that definition, whichever is applicable, in respect of the taxpayer for the taxation year of the taxpayer in which the partnership's taxation year ends.

History: S. 66.4(6) was amended by S.C. 1994, c. 7, Sched. II, s. 41(4), applicable after January 1990. S. 66.4(6) formerly read:

"(6) Except as provided in subsection (7), where a taxpayer is a member of a partnership, the taxpayer's share of any amount that would be an amount referred to in paragraph (*a*) of the description of F in the definition 'cumulative Canadian oil and gas property expense' in subsection (5) or in the description of G or I in that definition in respect of the partnership for a taxation year of the partnership if section 96 were read without reference to paragraph 96(1)(*d*) shall, for the purposes of this Act, be deemed to be an amount referred to in paragraph (*a*) of the description of F in the definition 'cumulative Canadian oil and gas property expense' in subsection (5) or in the description of G or I in that definition, whichever is applicable, in respect of the taxpayer for the taxation year of the taxpayer in which the partnership's taxation year ends."

Related Sections: S. 66.4(7) Exception.

Interpretation Bulletins: *Primary* — IT-125R4 Disposition of resource properties. *Secondary* — IT-353R2 Partnership interests — Some adjustments to cost base [Archived by the CRA].

► 66.4(7) ◄

(7) Exception. Where a non-resident person is a member of a partnership that is deemed under paragraph 115(4)(*b*) to have disposed of any Canadian resource property, the person's share of any amount that would be an amount referred to in the description of D in the definition "cumulative Canadian oil and gas property expense" in subsection (5), in paragraph (*a*) of the description of F in that definition or in the description of G or I in that definition in respect of the partnership for a taxation year of the partnership if section 96 were read without reference to paragraph 96(1)(*d*) shall, for the purposes of this Act, be deemed to be an amount referred to in the description of D in the definition "cumulative Canadian oil and gas property expense" in subsection (5), in paragraph (*a*) of the description of F in that definition or in the description of G or I in that definition, whichever is applicable, in respect of the person for the taxation year of the person that is deemed under paragraph 115(4)(*a*) to have ended.

History: S. 66.4(7) was amended by S.C. 1994, c. 7, Sched. II, s. 41(4), applicable to taxation years of partnerships beginning after 1984. S. 66.4(7) formerly read:

"(7) *Idem.* Where a non-resident person is a member of a partnership that is deemed under paragraph 115(4)(*b*) to have disposed of a property described in any of paragraphs 59(1.2)(*a*), (2)(*c*) and (*d*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, the non-resident person's share of any amount that would be an amount referred to in paragraph (*a*) of the description of F in the definition 'cumulative Canadian oil and gas property expense' in subsection (5) or in the description of G or I in that definition in respect of the partnership for a taxation year of the partnership if section 96 were read without reference to paragraph 96(1)(*d*) shall, for the purposes of this Act, be deemed to be an amount referred to in paragraph (*a*) of the description of F in the definition 'cumulative Canadian oil and gas property expense' in subsection (5) or in the description of G or I in that definition, as the case may be, in respect of the non-resident person for the taxation year of the non-resident person that is deemed under paragraph 115(4)(*a*) to have ended."

Interpretation Bulletins: *Secondary* — IT-125R4 Disposition of resource properties.

SECTION 66.5:

► 66.5(1) ◄

(1) Deduction from income. In computing its income for a taxation year that ends before 1995, a corporation that has not made a designation for the year under subsection 66(14.1) or (14.2) may deduct such amount as it may claim not exceeding its cumulative offset account at the end of the year.

Related Sections: S. 66(18) Members of partnerships; s. 196 Tax in respect of cumulative offset account.

► 66.5(2) ◄

(2) Definition of "cumulative offset account". In this section, "cumulative offset account" of a corporation at any time means the amount, if any, by which

(*a*) the total of all amounts required to be added under subsections 66(14.1) and (14.2) in computing its cumulative offset account before that time,

exceeds

(*b*) the total of all amounts deducted under subsection (1) in computing its income for taxation years ending before that time.

Related Sections: S. 87(2)(*pp*) Cumulative offset account computation; s. 88(1)(*e.2*) Winding-up.

► 66.5(3) ◄

(3) Change of control. Where at any time after June 5, 1987 control of a corporation has been acquired by a person or group of persons, the amount deductible under subsection (1) by the corporation in computing its income for a taxation year ending after that time shall not exceed the amount, if any, by which

(*a*) the part of its income for the year that may reasonably be regarded as attributable to production from Canadian resource properties owned by it immediately before that time

exceeds

(*b*) the total of all amounts deducted under subsection 29(25) of the *Income Tax Application Rules* and subsections 66.7(1), (3), (4) and (5) by it in respect of its income for the year in computing its income for the year.

Related Sections: S. 256(7) Acquiring control; s. 256(8) Deemed exercise of right.

SECTION 66.6: Acquisition from tax-exempt.

Where a corporation acquires, by purchase, amalgamation, merger, winding-up or otherwise, all or substantially all of the Canadian resource properties or foreign resource properties of a person whose taxable income is exempt from tax under this Part, subsection 29(25) of the *Income Tax Application Rules* and subsections 66.7(1) to (5) do not apply to the corporation in respect of the acquisition of the properties.

History: S. 66.6 was amended by S.C. 1998, c. 19, s. 105(1), applicable to acquisitions that occur after April 26, 1995, other than an acquisition that occurs before 1996 and that was required by an agreement in writing entered into before April 27, 1995. S. 66.6 formerly read:

"S. 66.6. *Where s. 29(25) of ITAR and ss. 66.7(1), (2), etc., do not apply.*

(1) Where a particular corporation has at any time after July 19, 1985 acquired by purchase, amalgamation, merger, winding-up or otherwise, from another person who is exempt from tax under this Part on that person's taxable income (other than a corporation that is referred to in paragraph 149(1)(*d*) and that is a principal-business corporation within the meaning assigned by subsection 66(15)) all or substantially all of the person's Canadian resource properties, subsection 29(25) of the *Income Tax Application Rules* and subsections 66.7(1), (2), (3) and (4) do not apply to the particular corporation in respect of the acquisition of the properties except to the extent that the properties were acquired by it before 1987 pursuant to an agreement in writing made by it before July 20, 1985.

(2) *Where s. 66.7(5) does not apply.* Where a particular corporation has at any time after July 19, 1985 acquired by purchase, amalgamation, merger, winding-up or otherwise, from another person who is exempt from tax under this Part on that person's taxable income all or substantially all of the person's Canadian resource properties, subsection 66.7(5) does not apply to the particular corporation in respect of the acquisition of the properties except to the extent that the properties were acquired by it before 1987 pursuant to an agreement in writing made by it before July 20, 1985."

Related Sections: S. 66(18) Members of partnerships.

Interpretation Bulletins: *Secondary* — IT-126R2 Meaning of "winding-up".

SECTION 66.7:

► 66.7(1) ◄

(1) Successor of Canadian exploration and development expenses. Subject to subsections (6) and (7), where after 1971 a corporation (in this subsection referred to as the "successor") acquired a particular Canadian resource property (whether by way of a purchase, amalgamation, merger, winding-up or otherwise), there may be deducted by the successor in computing its income for a taxation year an amount not exceeding the total of all amounts each of which is an amount determined in respect of an original owner of the particular property that is the lesser of

(*a*) the Canadian exploration and development expenses incurred by the original owner before the original owner disposed of the particular property to the extent that those expenses were not otherwise deducted in computing the income of the successor for the year, were not deducted in computing the income of the successor for a preceding taxation year and were not deductible under subsection 66(1) or deducted under subsection 66(2) or (3) by the original owner, or deducted by any predecessor owner of the particular property, in computing income for any taxation year, and

(*b*) the amount, if any, by which

(i) the part of the successor's income for the year that may reasonably be regarded as attributable to

(A) the amount included in computing its income for the year under paragraph 59(3.2)(*c*) that may reasonably be regarded as attributable to the disposition by it in the year or a preceding taxation year of any interest in or right to the particular property to the extent that the proceeds of the disposition have not been included in determining an amount under clause 29(25)(*d*)(i)(A) of the *Income Tax Application Rules*, this clause, clause (3)(*b*)(i)(A) or paragraph (10)(g) for a preceding taxation year,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Clause 66.7(1)(*b*)(i)(A) of the Act is replaced by the following:

(A) the amount included in computing its income for the year under paragraph 59(3.2)(*c*) that may reasonably be regarded as attributable to the disposition by it in the year or a preceding taxation year of any interest in or right to — or, for civil law, any right in or to — the particular property to the extent that the proceeds of the disposition have not been included in determining an amount under clause 29(25)(*d*)(i)(A) of the *Income Tax Application Rules*, this clause, clause (3)(*b*)(i)(A) or paragraph (10)(g) for a preceding taxation year,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(B) its reserve amount for the year in respect of the original owner and each predecessor owner, if any, of the particular property, or

(C) production from the particular property,

computed as if no deduction were allowed under section 29 of the *Income Tax Application Rules*, this section or any of sections 65 to 66.5,

exceeds the total of

(ii) all other amounts deducted under subsection 29(25) of the *Income Tax Application Rules*, this subsection and subsections (3), (4) and (5) for the year that can reasonably be regarded as attributable to the part of its income for the year described in subparagraph (i) in respect of the particular property, and

(iii) all amounts added because of subsection 80(13) in computing the amount determined under subparagraph (i).

History: S. 66.7(1)(*b*)(iii) was amended by S.C. 1998, c. 19, s. 106(1), applicable to taxation years that end after February 21, 1994. It formerly read:

"(iii) all amounts added because of subsection 80(13) or (17) in computing the amount determined under subparagraph (i)."

S. 66.7(1)(*b*), the portion after subparagraph (i), was amended by S.C. 1995, c. 21, s. 25(1), applicable to taxation years that end after February 21, 1994. That part formerly read:

"exceeds

(ii) the total of all other amounts deducted under subsection 29(25) of the *Income Tax Application Rules*, this subsection and subsections (3), (4) and (5) for the year that may reasonably be regarded as attributable to the part of its income for the year described in subparagraph (i) in respect of the particular property."

S. 66.7(1)(*a*) was amended by S.C. 1994, c. 7, Sched. II, s. 42(1), applicable to taxation years ending after February 17, 1987. S. 66.7(1)(*a*) formerly read:

"(*a*) the Canadian exploration and development expenses incurred by the original owner before that owner disposed of the particular property to the extent that those expenses were not deducted by the successor in computing its income for a preceding taxation year and were not deductible under subsection 66(1), or deducted under subsection 66(2) or (3), by the original owner or deducted by any predecessor owner of the particular property in computing income for any taxation year, and"

Editorial Note: Section 66.7 sets out what are known as the successor corporation rules. These rules contemplate that an infinite number of people in succession may have owned a particular Canadian or foreign resource property before the successor acquired it. A person who incurred resource expenses while it owned a property (regardless of whether it is on that particular property) is an original owner of the property. A person who acquires a Canadian or foreign resource property in accordance with the rules may deduct the expenses of the original owner against income from and proceeds of disposition of the properties.

A corporation that owned the property before the successor and acquired it and disposed of it in a transaction that satisfied the rules is a "predecessor owner". A corporation can be both an original owner and a predecessor owner of a property.

Related Sections: S. 59(3.4), "successor corporation"; s. 66(15), "Canadian exploration and development expenses", "original owner", "predecessor owner", "production", "reserve amount"; s. 66(18) Members of partnerships; s. 66.5(3) Change of control; s. 66.6 Acquisition from tax-exempt; s. 66.8(1) Resource expenses of limited partner.

Interpretation Bulletins: *Secondary* — IT-126R2 Meaning of "winding-up".

Forms: T1046; T2010.

Canadian Petroleum Tax Journal: Canada Customs and Revenue Agency 1999 Roundtable Questions and Answers, Question 16, Vol. 13 No. 1 2000.

► 66.7(2) ◄

(2) Successor of foreign exploration and development expenses. Subject to subsections (6) and (8), where after 1971 a corporation (in this subsection referred to as the "successor") acquired a particular foreign resource property (whether by way of a purchase, amalgamation, merger, winding-up or otherwise), there may be deducted by the successor in computing its income for a taxation year an amount not exceeding the total of all amounts each

of which is an amount determined in respect of an original owner of the particular property that is the lesser of

(*a*) the amount, if any, by which

(i) the foreign exploration and development expenses incurred by the original owner before the original owner disposed of the particular property to the extent that those expenses were incurred when the original owner was resident in Canada, were not otherwise deducted in computing the successor's income for the year, were not deducted in computing the successor's income for a preceding taxation year and were not deductible by the original owner, nor deducted by any predecessor owner of the particular property, in computing income for any taxation year

exceeds

(ii) the total of all amounts each of which is an amount by which the amount described in this paragraph is required because of subsection 80(8) to be reduced at or before the end of the year, and

(*b*) the amount, if any, by which the total of

(i) the part of the successor's income for the year that can reasonably be regarded as attributable to

(A) the amount included under subsection 59(1) in computing its income for the year that can reasonably be regarded as attributable to the disposition by it of any interest in or right to the particular property, or

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Clause 66.7(2)(*b*)(i)(A) of the Act is replaced by the following:

(A) the amount included under subsection 59(1) in computing its income for the year that can reasonably be regarded as attributable to the disposition by it of any interest in or right to — or, for civil law, any right in or to — the particular property, or

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(B) production from the particular property,

computed as if no deduction were allowed under sections 65 to 66.5 and this section, and

(ii) the lesser of

(A) the total of all amounts each of which is the amount designated by the successor for the year in respect of a Canadian resource property owned by the original owner immediately before being acquired with the particular property by the successor or a predecessor owner of the particular property, not exceeding the amount included in the successor's income for the year, computed as if no deduction were allowed under section 29 of the *Income Tax Application Rules*, this section or any of sections 65 to 66.5, that can reasonably be regarded as being attributable to the production after 1988 from the Canadian resource property, and

(B) the amount, if any, by which 10% of the amount described in paragraph (*a*) for the year in respect of the original owner exceeds the total of all amounts each of which would, but for this subparagraph, clause (iii)(B) and subparagraph (10)(*h*)(vi), be determined under this paragraph for the year in respect of the particular property or other foreign resource property owned by the original owner immediately before being acquired with the particular property by the successor or a predecessor owner of the particular property

exceeds the total of

(iii) all other amounts deducted under this subsection for the year that can reasonably be regarded as attributable to

(A) the part of its income for the year described in subparagraph (i) in respect of the particular property, or

(B) a part of its income for the year described in clause (ii)(A) in respect of which an amount is designated by the successor under clause (ii)(A), and

(iv) all amounts added because of subsection 80(13) in computing the amount determined under subparagraph (i),

and income in respect of which an amount is designated under clause (*b*)(ii)(A) shall, for the purposes of clause 29(25)(*d*)(i)(B) of the *Income Tax Application Rules*, clauses (1)(*b*)(i)(C), (3)(*b*)(i)(C), (4)(*b*)(i)(B) and (5)(*b*)(i)(B) and subparagraph (10)(g)(iii), be deemed not to be attributable to production from a Canadian resource property.

History: S. 66.7(2)(*a*)(i) was amended by S.C. 2001, c. 17, s. 49(1), applicable to the 1999 and subsequent taxation years. S. 66.7(2)(*a*)(i) formerly read:

"(i) the foreign exploration and development expenses incurred by the original owner before the original owner disposed of the particular property to the extent that those expenses were not otherwise deducted in computing the successor's income for the year, were not deducted in computing the successor's income for a preceding taxation year and were not deductible by the original owner, or deducted by any predecessor owner of the particular property, in computing income for any taxation year"

S. 66.7(2)(*b*)(iv) was amended by S.C. 1998, c. 19, s. 106(2), applicable to taxation years that end after February 21, 1994. S. 66.7(2)(*b*)(iv) formerly read:

"(iv) all amounts added because of subsection 80(13) or (17) in computing the amount determined under subparagraph (i),"

S. 66.7(2)(*a*) was amended by S.C. 1995, c. 21, s. 25(2), applicable to taxation years that end after February 21, 1994. S. 66.7(2)(*a*) formerly read:

"(*a*) the foreign exploration and development expenses incurred by the original owner before the original owner disposed of the particular property to the extent that those expenses were not otherwise deducted in computing the income of the successor for the year, were not deducted in computing the income of the successor for a preceding taxation year and were not deductible by the original owner, or deducted by any predecessor owner of the particular property, in computing income for any taxation year, and"

S. 66.7(2)(*b*), the portion after subparagraph (ii), was amended by S.C. 1995, c. 21, s. 25(3), applicable to taxation years that end after February 21, 1994. That part formerly read:

"exceeds

(iii) the total of all other amounts deducted under this subsection for the year that can reasonably be regarded as attributable to

(A) the part of its income for the year described in subparagraph (i) in respect of the particular property, or

(B) a part of its income for the year described in clause (ii)(A) in respect of which an amount is designated by the successor under clause (ii)(A),"

S. 66.7(2)(*b*)(ii)(B) was amended by S.C. 1994, c. 21, s. 31(1) to replace the reference to "subparagraph (10)(*h*)(iv)" with "subparagraph (10)(*h*)(vi)", applicable to taxation years that end after February 17, 1987.

Ss. 66.7(2)(*a*) and (*b*) were amended by S.C. 1994, c. 7, Sched. II, s. 42(2), applicable to taxation years ending after February 17, 1987, except that, where subsection 66.7(2) applies to the successor referred to therein because of the application of subsection 66.7(10), clause 66.7(2)(*b*)(ii)(A) shall be read without reference to the expression "after 1988". Ss. 66.7(2)(*a*) and (*b*) formerly read:

"(*a*) the foreign exploration and development expenses incurred by the original owner before that owner disposed of the particular property to the extent that those expenses were not deducted by the successor in computing its income for a preceding taxation year and were not deductible by the original owner or deducted by any predecessor owner of the particular property in computing income for any taxation year, and

(*b*) the amount, if any, by which

(i) the part of the successor's income for the year that may reasonably be regarded as attributable to

(A) the amount included in computing its income for the year under subsection 59(1) that may reasonably be regarded as attributable to the disposition by it of any interest in or right to the particular property, or

(B) production from the particular property,

computed as if no deduction were allowed under this section or any of sections 65 to 66.5,

exceeds

(ii) the total of all other amounts deducted under this subsection for the year that may reasonably be regarded as attributable to the part of its income for the year described in subparagraph (i) in respect of the particular property."

Related Sections: S. 66(4) Foreign exploration and development expenses; s. 66.7(8) Application of subsections (2) and (2.3).

Canadian Petroleum Tax Journal: Canada Customs and Revenue Agency 1999 Roundtable Questions and Answers, Question 12, Vol. 13 No. 1 2000.

► 66.7(2.1) ◄

(2.1) Country-by-country successor FEDE allocations. For greater certainty, the portion of an amount deducted under subsection (2) in computing a taxpayer's income for a taxation year that can reasonably be considered to be in respect of specified foreign exploration and development expenses of the taxpayer in respect of a country is considered to apply to a source in that country.

History: S. 66.7(2.1) was added by S.C. 2001, c. 17, s. 49(2), applicable to taxation years of a taxpayer that begin after the earlier of

(*a*) December 31, 1999; and

(*b*) where, for the purposes of subsection 117(26), a date is designated in writing by the taxpayer and the designation is filed with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act receives royal assent [June 14, 2001], the later of

(i) the date so designated, and

(ii) December 31, 1994.

Related Sections: S. 66(4.1) Country-by-country FEDE allocations; s. 66.7(2.2) Method of allocation.

Canadian Petroleum Tax Journal: Foreign Exploration and Development Expenditures — The New Rules, Roch J. Martin, Vol. 14 No. 1 2001.

► 66.7(2.2) ◄

(2.2) Method of allocation. For the purpose of subsection (2.1), where a taxpayer has incurred specified foreign exploration and development expenses in respect of two or more countries, an allocation to each of those countries for a taxation year shall be determined in a manner that is

(*a*) reasonable having regard to all the circumstances, including the level and timing of

(i) the taxpayer's specified foreign exploration and development expenses in respect of the country, and

(ii) the profits or gains to which those expenses relate; and

(*b*) not inconsistent with the allocation made under subsection (2.1) for the preceding taxation year.

History: S. 66.7(2.2) was added by S.C. 2001, c. 17, s. 49(2), applicable to taxation years of a taxpayer that begin after the earlier of

(*a*) December 31, 1999; and

(*b*) where, for the purposes of subsection 117(26), a date is designated in writing by the taxpayer and the designation is filed with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act receives royal assent [June 14, 2001], the later of

(i) the date so designated, and

(ii) December 31, 1994.

Related Sections: S. 66(4.2) Method of allocation; s. 66.7(2.1) Country-by-country successor FEDE allocations.

Canadian Petroleum Tax Journal: Foreign Exploration and Development Expenditures — The New Rules, Roch J. Martin, Vol. 14 No. 1 2001.

► 66.7(2.3) ◄

(2.3) Successor of foreign resource expenses. Subject to subsections (6) and (8), where a corporation (in this subsection referred to as the "successor") acquired a particular foreign resource property in respect of a country (whether by way of a purchase, amalgamation, merger, winding-up or otherwise), there may be deducted by the successor in computing its income for a taxation year an amount not exceeding the total of all amounts each of which is an amount determined in respect of an original owner of the particular property that is the lesser of

(*a*) 30% of the amount, if any, by which

(i) the cumulative foreign resource expense, in respect of the country, of the original owner determined immediately after the disposition of the particular property by the original owner to the extent that it has not been

(A) deducted by the original owner or any predecessor owner of the particular property in computing income for any taxation year,

(B) otherwise deducted in computing the income of the successor for the year, or

(C) deducted by the successor in computing its income for any preceding taxation year

exceeds the total of

(ii) all amounts each of which is an amount (other than any portion of the amount that can reasonably be considered to result in a reduction of the amount otherwise determined under this paragraph in respect of another original owner of a relevant resource property who is not a predecessor owner of a relevant resource property or who became a predecessor owner of a relevant resource property before the original owner became a predecessor owner of a relevant resource property) that became receivable by a predecessor owner of the particular property, or by the successor in the year or a preceding taxation year, and that

(A) was included by the predecessor owner or the successor in computing an amount determined under paragraph (*a*) of the description of F in the definition "cumulative foreign resource expense" in subsection 66.21(1) at the end of the year, and

(B) can reasonably be regarded as attributable to the disposition of a property (in this subpara-

graph referred to as a "relevant resource property") that is

(I) the particular property, or

(II) another foreign resource property in respect of the country that was acquired from the original owner with the particular property by the successor or a predecessor owner of the particular property, and

(iii) all amounts each of which is an amount by which the amount described in this paragraph is required by reason of subsection 80(8) to be reduced at or before the end of the year, and

(*b*) the amount, if any, by which the total of

(i) the part of the successor's income for the year that can reasonably be regarded as attributable to production from the particular property, computed as if no deduction were permitted under section 29 of the *Income Tax Application Rules*, this section or any of sections 65 to 66.5, except that, where the successor acquired the particular property from the original owner at any time in the year (otherwise than by way of an amalgamation or merger or solely by reason of the application of paragraph (10)(*c*)) and did not deal with the original owner at arm's length at that time, the amount determined under this subparagraph is deemed to be nil, and

(ii) unless the amount determined under subparagraph (i) is nil by reason of the exception provided under that subparagraph, the lesser of

(A) the total of all amounts each of which is the amount designated by the successor for the year in respect of a Canadian resource property owned by the original owner immediately before being acquired with the particular property by the successor or a predecessor owner of the particular property, not exceeding the amount included in the successor's income for the year, computed as if no deduction were permitted under section 29 of the *Income Tax Application Rules*, this section or any of sections 65 to 66.5, that can reasonably be regarded as being attributable to the production from the Canadian resource property, and

(B) the amount, if any, by which 10% of the amount described in paragraph (*a*) for the year, in respect of the original owner, exceeds the total of all amounts each of which would, but for this subparagraph, clause (2)(*b*)(iii)(B) and subparagraph (10)(*h*)(vi), be determined under this paragraph for the year in respect of the particular property or other foreign resource property, in respect of the country, owned by the original owner immediately before being acquired with the particular property by the successor or by a predecessor owner of the particular property

exceeds the total of

(iii) all other amounts each of which is an amount deducted for the year under this subsection or subsection (2) that can reasonably be regarded as attributable to

(A) the part of its income for the year described in subparagraph (i) in respect of the particular property, or

(B) a part of its income for the year described in clause (ii)(A) in respect of which an amount is designated by the successor under clause (ii)(A), and

(iv) all amounts added by reason of subsection 80(13) in computing the amount determined under subparagraph (i),

and income in respect of which an amount is designated under clause (*b*)(ii)(A) is, for the purposes of clause 29(25)(*d*)(i)(B) of the *Income Tax Application Rules*, clauses (1)(*b*)(i)(C), (3)(*b*)(i)(C), (4)(*b*)(i)(B) and (5)(*b*)(i)(B) and subparagraph (10)(*g*)(iii), deemed not to be attributable to production from a Canadian resource property.

History: S. 66.7(2.3) was added by S.C. 2001, c. 17, s. 49(2), applicable to taxation years that begin after 2000.

Related Sections: S. 66(13.1) Short taxation year; s. 66.21 Application of subsection 66(15); s. 66.7(8) Application of subsections (2) and (2.3); s. 66.7(10)(*h*) Change of control; s. 66.7(13.1) Reduction of foreign resource expenses; s. 66.7(15.1) Disposal of foreign resource properties — subsection (2.3); s. 80(8) Reductions of resource expenditures; s. 248(1), "foreign resource expense", "foreign resource property".

Canadian Petroleum Tax Journal: Foreign Exploration and Development Expenditures — The New Rules, Roch J. Martin, Vol. 14 No. 1 2001.

► 66.7(3) ◄

(3) Successor of Canadian exploration expense. Subject to subsections (6) and (7), where after May 6, 1974 a corporation (in this subsection referred to as the "successor") acquired a particular Canadian resource property (whether by way of a purchase, amalgamation, merger, winding-up or otherwise), there may be deducted by the successor in computing its income for a taxation year an amount not exceeding the total of all amounts each of which is an amount determined in respect of an original owner of the particular property that is the lesser of

(*a*) the amount, if any, by which

(i) the total of

(A) the cumulative Canadian exploration expense of the original owner determined immediately after the disposition of the particular property by the original owner, and

(B) all amounts required to be added under paragraph (9)(*f*) to the cumulative Canadian exploration expense of the original owner in respect of a predecessor owner of the particular property, or the successor, as the case may be, at any time after the disposition of the particular property by the original owner and before the end of the year,

to the extent that an amount in respect of that total was not

(C) deducted or required to be deducted under subsection 66.1(2) or (3) by the original owner or deducted by any predecessor owner of the particular property in computing income for any taxation year,

(D) otherwise deducted in computing the successor's income for the year, or

(E) deducted in computing the successor's income for a preceding taxation year, or

(F) designated by the original owner pursuant to subsection 66(14.1) for any taxation year,

exceeds

(ii) the total of all amounts each of which is an amount by which the amount described in this paragraph is required because of subsection 80(8) to be reduced at or before the end of the year, and

(*b*) the amount, if any, by which

(i) the part of the successor's income for the year that may reasonably be regarded as attributable to

(A) the amount included in computing its income for the year under paragraph 59(3.2)(*c*) that may reasonably be regarded as being attributable to the disposition by it in the year or a preceding taxation year of any interest in or right to the particular property to the extent that the proceeds have not been included in determining an amount under clause 29(25)(*d*)(i)(A) of the *Income Tax Application Rules*, this clause, clause (1)(*b*)(i)(A) or paragraph (10)(g) for a preceding taxation year,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Clause 66.7(3)(*b*)(i)(A) of the Act is replaced by the following:

(A) the amount included in computing its income for the year under paragraph 59(3.2)(*c*) that may reasonably be regarded as being attributable to the disposition by it in the year or a preceding taxation year of any interest in or right to ++ or, for civil law, any right in or to —. the particular property to the extent that the proceeds have not been included in determining an amount under clause 29(25)(*d*)(i)(A) of the *Income Tax Application Rules*, this clause, clause (1)(*b*)(i)(A) or paragraph (10)(g) for a preceding taxation year,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(B) its reserve amount for the year in respect of the original owner and each predecessor owner, if any, of the particular property, or

(C) production from the particular property,

computed as if no deduction were allowed under section 29 of the *Income Tax Application Rules*, this section or any of sections 65 to 66.5,

exceeds the total of

(ii) all other amounts deducted under subsection 29(25) of the *Income Tax Application Rules*, this subsection and subsections (1), (4) and (5) for the year that can reasonably be regarded as attributable to the part of its income for the year described in subparagraph (i) in respect of the particular property, and

(iii) all amounts added because of subsection 80(13) in computing the amount determined under subparagraph (i).

History: S. 66.7(3)(*b*)(iii) was amended by S.C. 1998, c. 19, s. 106(3), applicable to taxation years that end after February 21, 1994. S. 66.7(3)(*b*)(iii) formerly read:

"(iii) all amounts added because of subsection 80(13) or (17) in computing the amount determined under subparagraph (i)."

S. 66.7(3)(*a*) was amended by S.C. 1995, c. 21, s. 25(4), applicable to taxation years that end after February 21, 1994. S. 66.7(3)(*a*) formerly read:

"(*a*) the total of

(i) the cumulative Canadian exploration expense of the original owner determined immediately after the disposition of the particular property by the original owner, and

(ii) all amounts required to be added under paragraph (9)(*f*) to the cumulative Canadian exploration expense of the original owner in respect of a predecessor owner of the particular property, or the successor, as the case may be, at any time after the disposition of the particular property by the original owner and before the end of the year,

to the extent that an amount in respect of that total was not

(iii) deducted or required to be deducted under subsection 66.1(2) or (3) by the original owner or deducted by any predecessor owner of the particular property in computing income for any taxation year,

(iii.1) otherwise deducted in computing the income of the successor for the year,

(iv) deducted by the successor in computing income for a preceding taxation year, or

(v) designated by the original owner pursuant to subsection 66(14.1) for any taxation year, and"

S. 66.7(3)(*b*), the portion after subparagraph (i), was amended by S.C. 1995, c. 21, s. 25(5), applicable to taxation years that end after February 21, 1994. That part formerly read:

"exceeds

(ii) the total of all other amounts deducted under subsection 29(25) of the *Income Tax Application Rules*, this subsection and subsections (1), (4) and (5) for the year that may reasonably be regarded as attributable to the part of its income for the year described in subparagraph (i) in respect of the particular property."

S. 66.7(3)(*a*)(iii) was amended by S.C. 1994, c. 8, s. 8(1), applicable to taxation years ending after December 2, 1992. S. 66.7(3)(*a*)(iii) formerly read:

"(iii) deductible under subsection 66.1(2) or deducted under subsection 66.1(3) by the original owner or deducted by any predecessor owner of the particular property in computing income for any taxation year,"

S. 66.7(3)(*a*)(iii.1) was added by S.C. 1994, c. 7, Sched. II, s. 42(3), applicable to taxation years ending after February 17, 1987.

Related Sections: S. 66.1(6), "Canadian exploration expense", "cumulative Canadian exploration expense".

Canadian Petroleum Tax Journal: Pot Pourri of Income Tax Issues, John Chan, Vol. 14 No. 1 2001.

► 66.7(4) ◄

(4) Successor of Canadian development expense. Subject to subsections (6) and (7), where after May 6, 1974 a corporation (in this subsection referred to as the "successor") acquired a particular Canadian resource property (whether by way of a purchase, amalgamation, merger, winding-up or otherwise), there may be deducted by the successor in computing its income for a taxation year an amount not exceeding the total of all amounts each of which is an amount determined in respect of an original owner of the particular property that is the lesser of

(*a*) 30% of the amount, if any, by which

(i) the amount, if any, by which

(A) the cumulative Canadian development expense of the original owner determined immediately after the disposition of the particular property by the original owner to the extent that it has not been

(I) deducted by the original owner or any predecessor owner of the particular property in computing income for any taxation year,

(I.1) otherwise deducted in computing the income of the successor for the year,

(II) deducted by the successor in computing its income for any preceding taxation year, or

(III) designated by the original owner pursuant to subsection 66(14.2) for any taxation year,

exceeds the total of

(ii) all amounts each of which is an amount (other than any portion thereof that can reasonably be considered to result in a reduction of the amount otherwise determined under this paragraph in respect of another original owner of a relevant mining property who is not a predecessor owner of a relevant mining property or who became a predecessor owner of a relevant mining property before the original owner became a predecessor owner of a relevant mining property) that became receivable by a predecessor owner of the particular property or the successor in the year or a preceding taxation year and that

(A) was included by the predecessor owner or the successor in computing an amount determined under paragraph (*a*) of the description of F in the definition "cumulative Canadian development expense" in subsection 66.2(5) at the end of the year, and

(B) can reasonably be regarded as attributable to the disposition of a property (in this subparagraph referred to as a "relevant mining property") that is the particular property or another Canadian resource property that was acquired from the original owner with the particular property by the successor or a predecessor owner of the particular property,

(iii) all amounts each of which is an amount (other than any portion thereof that can reasonably be considered to result in a reduction of the amount otherwise determined under paragraph (5)(*a*) in respect of the original owner or under this paragraph or paragraph (5)(*a*) in respect of another original owner of a relevant oil and gas property who is not a predecessor owner of a relevant oil and gas property or who became a predecessor owner of a relevant oil and gas property before the original owner became a predecessor owner of a relevant oil and gas property) that became receivable by a predecessor owner of the particular property or the successor after 1992 and in the year or a preceding taxation year and that

(A) is designated in respect of the original owner by the predecessor owner or the successor, as the case may be, in prescribed form filed with the Minister within 6 months after the end of the taxation year in which the amount became receivable,

(B) was included by the predecessor owner or the successor in computing an amount determined under paragraph (*a*) of the description of F in the definition "cumulative Canadian oil and gas property expense" in subsection 66.4(5) at the end of the year, and

(C) can reasonably be regarded as attributable to the disposition of a property (in this subparagraph referred to as a "relevant oil and gas property") that is the particular property or another Canadian resource property that was acquired from the original owner with the particular property by the successor or a predecessor owner of the particular property, and

(iv) all amounts each of which is an amount by which the amount described in this paragraph is required because of subsection 80(8) to be reduced at or before the end of the year, and

(*b*) the amount, if any, by which

(i) the part of the successor's income for the year that can reasonably be regarded as attributable to

(A) its reserve amount for the year in respect of the original owner and each predecessor owner of the particular property, or

(B) production from the particular property,

computed as if no deduction were allowed under section 29 of the *Income Tax Application Rules*, this section or any of sections 65 to 66.5, except that, where the successor acquired the particular property from the original owner at any time in the year (otherwise than by way of an amalgamation or merger or solely because of the application of paragraph (10)(*c*)) and did not deal with the original owner at arm's length at that time, the amount determined under this subparagraph shall be deemed to be nil,

exceeds the total of

(ii) all other amounts deducted under subsection 29(25) of the *Income Tax Application Rules*, this subsection and subsections (1), (3) and (5) for the year that can reasonably be regarded as attributable to the part of its income for the year described in subparagraph (i) in respect of the particular property, and

(iii) all amounts added because of subsection 80(13) in computing the amount determined under subparagraph (i).

History: S. 66.7(4)(*b*)(iii) was amended by S.C. 1998, c. 19, s. 106(4), applicable to taxation years that end after February 21, 1994. It formerly read:

"(iii) all amounts added because of subsection 80(13) or (17) in computing the amount determined under subparagraph (i)."

S. 66.7(4)(*a*)(iv) was added by S.C. 1995, c. 21, s. 25(6), applicable to taxation years that end after February 21, 1994.

S. 66.7(4)(*b*), the portion after subparagraph (i), was amended by S.C. 1995, c. 21, s. 25(7), applicable to taxation years that end after February 21, 1994. That part formerly read:

"exceeds

(ii) the total of all other amounts deducted under subsection 29(25) of the *Income Tax Application Rules*, this subsection and subsections (1), (3) and (5) for the year that may reasonably be regarded as attributable to the part of its income for the year described in subparagraph (i) in respect of the particular property."

S. 66.7(4)(*a*), the portion after subparagraph (i), was amended by S.C. 1994, c. 21, s. 31(2), applicable to taxation years that end after February 17, 1987 except that, where a taxpayer files a form referred to in clause 66.7(4)(*a*)(iii)(A) with the Minister of National Revenue before the end of the sixth month that begins after the end of the taxpayer's taxation year that includes the day this Act is assented to [Royal Assent June 15, 1994], the taxpayer shall be deemed to have filed the form in a timely manner. That part formerly read:

"exceeds

(B) any amount required to be deducted under paragraph (9)(*e*) from the cumulative Canadian development expense of the original owner in respect of a predecessor owner of the particular property or the successor, as the case may be, at any time after the disposition of the particular property by the original owner and before the end of the year,

exceeds

(ii) the total of all amounts each of which is an amount that became receivable by a predecessor owner of the particular property or the successor in the year or a preceding taxation year and that

(A) was included by the predecessor owner or the successor in the amount determined under paragraph (*a*) of the description of F in the definition 'cumulative Canadian development expense' in subsection 66.2(5) at the end of the year, and

(B) may reasonably be regarded as attributable to the disposition of the particular property by the predecessor owner or the successor, and"

S. 66.7(4)(*a*)(i)(A)(I.1) was added by S.C. 1994, c. 7, Sched. II, s. 42(4), applicable to taxation years ending after February 17,1987.

S. 66.7(4)(*b*)(i) was amended by S.C. 1994, c. 7, Sched. II, s. 42(5), applicable to dispositions occurring in taxation years beginning after December 16, 1991 and with respect to a disposition of a property made by a taxpayer in a taxation year ending after February 17, 1987 and beginning before December 17, 1991, where

(*a*) the taxpayer, and

(*b*) each corporation that, before the end of the taxpayer's taxation year that included December 17, 1991, acquired the property or any other property that was disposed of by the taxpayer in a taxation year ending after February 17, 1987 as part of a transaction or an event as a consequence of which that corporation was or, but for those subsections, would be entitled to deduct an amount under subsection 66.7(3), (4) or (5) of the Act in respect of an expense incurred by the taxpayer,

so elected by notice in writing filed with the Minister of National Revenue on or before the day that was 180 days after the end of the taxpayer's taxation year that included December 17, 1991 and,

(*c*) notwithstanding subsections 152(4) to (5) of the Act, such assessments of tax, interest and penalties shall be made as are necessary to give effect to the election, and

(*d*) where the taxpayer so elected in respect of a disposition, a designation under clause 66.7(12.1)(*a*)(i)(B), (*b*)(i)(B) or (*c*)(i)(B) of the Act, as enacted by subsection (15), in respect of the disposition shall be deemed to have been filed as required if it was filed with the Minister of National Revenue on or before the day that was 180 days after the end of the taxpayer's taxation year that included December 17, 1991.

S. 66.7(4)(*b*)(i) formerly read:

"(i) the part of the successor's income for the year that may reasonably be regarded as attributable to

(A) its reserve amount for the year in respect of the original owner and each predecessor owner of the particular property, or

(B) production from the particular property,

computed as if no deduction were allowed under section 29 of the *Income Tax Application Rules*, this section or any of sections 65 to 66.5,"

► 66.7(5) ◄

(5) Successor of Canadian oil and gas property expense. Subject to subsections (6) and (7), where after December 11, 1979 a corporation (in this subsection referred to as the "successor") acquired a particular Canadian resource property (whether by way of a purchase, amalgamation, merger, winding-up or otherwise), there may be deducted by the successor in computing its income for a taxation year an amount not exceeding the total of all amounts each of which is an amount determined in respect of an original owner of the particular property that is the lesser of

(*a*) 10% of the amount, if any, by which

(i) the cumulative Canadian oil and gas property expense of the original owner determined immediately after the disposition of the particular property by the original owner to the extent it has not been

(A) deducted by the original owner or any predecessor owner of the particular property in computing income for any taxation year,

(A.1) otherwise deducted in computing the income of the successor for the year, or

(B) deducted by the successor in computing its income for any preceding taxation year

exceeds the total of

(ii) the total of all amounts each of which is an amount (other than any portion thereof that can reasonably be considered to result in a reduction of the amount otherwise determined under this paragraph or paragraph (4)(*a*) in respect of another original owner of a relevant oil and gas property who is not a predecessor owner of a relevant oil and gas property or who became a predecessor owner of a relevant oil and gas property before the original owner became a predecessor owner of a relevant oil and gas property) that became receivable by a predecessor owner of the particular property or the successor in the year or a preceding taxation year and that

(A) was included by the predecessor owner or the successor in computing an amount determined under paragraph (*a*) of the description of F in the definition "cumulative Canadian oil and gas property expense" in subsection 66.4(5) at the end of the year, and

(B) can reasonably be regarded as attributable to the disposition of a property (in this subparagraph referred to as a "relevant oil and gas property") that is the particular property or another Canadian resource property that was acquired from the original owner with the particular property by the successor or a predecessor owner of the particular property, and

(iii) the total of all amounts each of which is an amount by which the amount described in this paragraph is required because of subsection 80(8) to be reduced at or before the end of the year, and

(*b*) the amount, if any, by which

(i) the part of the successor's income for the year that can reasonably be regarded as attributable to

(A) its reserve amount for the year in respect of the original owner and each predecessor owner of the particular property, or

(B) production from the particular property,

computed as if no deduction were allowed under section 29 of the *Income Tax Application Rules*, this section or any of sections 65 to 66.5, except that, where the successor acquired the particular property from the original owner at any time in the year (otherwise than by way of an amalgamation or merger or solely because of the application of paragraph (10)(*c*)) and did not deal with the original owner at arm's length at that time, the amount determined under this subparagraph shall be deemed to be nil,

exceeds the total of

(ii) all other amounts deducted under subsection 29(25) of the *Income Tax Application Rules*, this subsection and subsections (1), (3) and (4) for the year that can reasonably be regarded as attributable to the part of its income for the year described in subparagraph (i) in respect of the particular property, and

(iii) all amounts added because of subsection 80(13) in computing the amount determined under subparagraph (i).

History: S. 66.7(5)(*b*)(iii) was amended by S.C. 1998, c. 19, s. 106(5), applicable to taxation years that end after February 21, 1994. It formerly read:

"(iii) all amounts added because of subsection 80(13) or (17) in computing the amount determined under subparagraph (i)."

S. 66.7(5)(*a*), the portion after subparagraph (i) and before subparagraph (ii), was amended by S.C. 1995, c. 21, s. 25(8), applicable to taxation years that end after February 21, 1994. That part formerly read:

"exceeds"

S. 66.7(5)(*a*)(iii) was added by S.C. 1995, c. 21, s. 25(9), applicable to taxation years that end after February 21, 1994.

S. 66.7(5)(*b*), the portion after subparagraph (i), was amended by S.C. 1995, c. 21, s. 25(10), applicable to taxation years that end after February 21, 1994. That part formerly read:

"exceeds

(ii) the total of all other amounts deducted under subsection 29(25) of the *Income Tax Application Rules*, this subsection and subsections (1), (3) and (4) for the year that may reasonably be regarded as attributable to the part of its income for the year described in subparagraph (i) in respect of the particular property."

S. 66.7(5)(*a*)(ii) was amended by S.C. 1994, c. 21, s. 31(3), applicable to taxation years that end after February 17, 1987. S. 66.7(5)(*a*)(ii) formerly read:

"(ii) the total of all amounts each of which is an amount that became receivable by a predecessor owner of the particular property or the successor in the year or a preceding taxation year and that

(A) was included by the predecessor owner or the successor in the amount determined under paragraph (*a*) of the description of F in the definition 'cumulative Canadian oil and gas property expense' in subsection 66.4(5) at the end of the year, and

(B) may reasonably be regarded as attributable to the disposition of the particular property by the predecessor owner or the successor, and"

S. 66.7(5)(*a*)(i)(A.1) was added by S.C. 1994, c. 7, Sched. II, s. 42(6), applicable to taxation years ending after February 17, 1987.

S. 66.7(5)(*b*)(i) was amended by S.C. 1994, c. 7, Sched. II, s. 42(7), applicable to dispositions occurring in taxation years beginning after December 16, 1991 and with respect to a disposition of a property made by a taxpayer in a taxation year ending after February 17, 1987 and beginning before December 17, 1991, where

(*a*) the taxpayer, and

(*b*) each corporation that, before the end of the taxpayer's taxation year that included December 17, 1991, acquired the property or any other property that was disposed of by the taxpayer in a taxation year ending after February 17, 1987 as part of a transaction or an event as a consequence of which that corporation was or, but for those subsections, would be entitled to deduct an amount under subsection 66.7(3), (4) or (5) of the Act in respect of an expense incurred by the taxpayer,

so elected by notice in writing filed with the Minister of National Revenue on or before the day that was 180 days after the end of the taxpayer's taxation year that included December 17, 1991 and,

(*c*) notwithstanding subsections 152(4) to (5) of the Act, such assessments of tax, interest and penalties shall be made as are necessary to give effect to the election, and

(*d*) where the taxpayer so elected in respect of a disposition, a designation under clause 66.7(12.1)(*a*)(i)(B), (*b*)(i)(B) or (*c*)(i)(B) of the Act, in respect of the disposition shall be deemed to have been filed as required if it was filed with the Minister of National Revenue on or before the day that was 180 days after the end of the taxpayer's taxation year that included December 17, 1991.

S. 66.7(5)(*b*)(i) formerly read:

"(i) the part of the successor's income for the year that may reasonably be regarded as attributable to

(A) its reserve amount for the year in respect of the original owner and each predecessor owner of the particular property, or

(B) production from the particular property,

computed as if no deduction were allowed under section 29 of the *Income Tax Application Rules*, this section or any of sections 65 to 66.5,"

▶ 66.7(6) ◀

(6) Where s. 29(25) of ITAR and ss. (1) to (5) do not apply. Subsection 29(25) of the *Income Tax Application Rules* and subsections (1) to (5) do not apply

(*a*) in respect of a Canadian resource property or a foreign resource property acquired by way of an amalgamation to which subsection 87(1.2) applies or a winding-up to which subsection 88(1.5) applies; or

(*b*) to permit, in respect of the acquisition by a corporation before February 18, 1987 of a Canadian resource property or a foreign resource property, a deduction by the corporation of an amount that the corporation would not have been entitled to deduct under section 29 of the *Income Tax Application Rules* or section 66, 66.1, 66.2 or 66.4 if those sections, as they read in their application to taxation years ending before February 18, 1987, applied to taxation years ending after February 17, 1987.

▶ 66.7(7) ◀

(7) Application of s. 29(25) of ITAR and ss. (1), (3), (4) and (5). Subsection 29(25) of the *Income Tax Application Rules* and subsections (1), (3), (4) and (5) apply only to a corporation that has acquired a particular Canadian resource property

(*a*) where it acquired the particular property in a taxation year commencing before 1985 and, at the time it acquired the particular property, the corporation acquired all or substantially all of the property used by the person from whom it acquired the particular property in carrying on in Canada such of the businesses described in paragraphs (*a*) to (*g*) of the definition "principal-business corporation" in subsection 66(15) as were carried on by the person;

(*b*) where it acquired the particular property in a taxation year commencing after 1984 and, at the time it acquired the particular property, the corporation acquired all or substantially all of the Canadian resource properties of the person from whom it acquired the particular property;

(*c*) where it acquired the particular property after June 5, 1987 by way of an amalgamation or winding-up and it has filed an election in prescribed form with the Minister on or before the day on or before which the corporation is required to file a return of income pursuant to section 150 for its taxation year in which it acquired the particular property;

(*d*) where it acquired the particular property after November 16, 1978 and in a taxation year ending before February 18, 1987 by any means other than by way of an amalgamation or winding-up and it and the person from whom it acquired the particular property, have filed with the Minister a joint election under and in accordance with any of subsection 29(25) of the *Income Tax Application Rules*, subsection 29(29) of the *Income Tax Application Rules, 1971*, Part III of chapter 63 of the Statutes of Canada, 1970-71-72, and subsections 66(6) and (7), 66.1(4) and (5), 66.2(3) and (4) and 66.4(3) and (4) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as all of those subsections read in their application to that year; and

(*e*) where it acquired the particular property in a taxation year ending after February 17, 1987 by any means other than by way of an amalgamation or winding-up and it and the person from whom it acquired the particular property have filed a joint election in prescribed form with the Minister on or before the earlier of the days on or before which either of them is required to file a return of income pursuant to section 150 for its or the person's taxation year in which the corporation acquired the particular property.

Related Sections: S. 220(3.2) Late, amended or revoked elections.
Regulations: 600(*c*).
Information Circulars: IC 07-1 Taxpayer Relief Provisions.
Forms: T2010.

► 66.7(8) ◄

(8) Application of subsections (2) and (2.3). Subsections (2) and (2.3) apply only to a corporation that has acquired a particular foreign resource property

(*a*) where it acquired the particular property in a taxation year commencing before 1985 and, at the time it acquired the particular property, the corporation acquired all or substantially all of the property used by the person from whom it acquired the particular property in carrying on outside Canada such of the businesses described in paragraphs (*a*) to (*g*) of the definition "principal-business corporation" in subsection 66(15) as were carried on by that person;

(*b*) where it acquired the particular property in a taxation year commencing after 1984 and, at the time it acquired the particular property, the corporation acquired all or substantially all of the foreign resource properties of the person from whom it acquired the particular property;

(*c*) where it acquired the particular property after June 5, 1987 by way of an amalgamation or winding-up and it has filed an election in prescribed form with the Minister on or before the day on or before which the corporation is required to file a return of income pursuant to section 150 for its taxation year in which it acquired the particular property;

(*d*) where it acquired the particular property after November 16, 1978 and in a taxation year ending before February 18, 1987 by any means other than by way of an amalgamation or winding-up and it and the person from whom it acquired the particular property, have filed with the Minister a joint election under and in accordance with subsection 66(6) or (7) (as modified by subsections 66(8) and (9), respectively) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as those subsections read in their application to that year; and

(*e*) where it acquired the particular property in a taxation year ending after February 17, 1987 by any means other than by way of an amalgamation or winding-up and it and the person from whom it acquired the particular property have filed a joint election in prescribed form with the Minister on or before the earlier of the days on or before which either of them is required to file a return of income pursuant to section 150 for its or the person's taxation year in which the corporation acquired the particular property.

History: S. 66.7(8), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 49(3), applicable to taxation years that begin after 2000. S. 66.7(8), the portion before paragraph (*a*) formerly read:

"(8) *Application of s. (2).* Subsection (2) applies only to a corporation that has acquired a particular foreign resource property"

Related Sections: S. 220(3.2) Late, amended or revoked elections.
Regulations: 600(*c*).
Information Circulars: IC 07-1 Taxpayer Relief Provisions.
Forms: T2010.

► 66.7(9) ◄

(9) Canadian development expense becoming Canadian exploration expense. Where

(*a*) a corporation acquires a Canadian resource property,

(*b*) subsection (4) applies in respect of the acquisition, and

(*c*) the cumulative Canadian development expense of an original owner of the property determined under clause (4)(*a*)(i)(A) in respect of the corporation includes a Canadian development expense incurred by the original owner in respect of an oil or gas well that would, but for this subsection, be deemed by subsection 66.1(9) to be a Canadian exploration expense incurred in respect of the well by the original owner at any particular time after the acquisition by the corporation and before it disposed of the property,

the following rules apply:

(*d*) subsection 66.1(9) does not apply in respect of the Canadian development expense incurred in respect of the well by the original owner,

(*e*) an amount equal to the lesser of

(i) the amount that would be deemed by subsection 66.1(9) to be a Canadian exploration expense incurred in respect of the well by the original owner at the particular time if that subsection applied in respect of the expense, and

(ii) the cumulative Canadian development expense of the original owner as determined under clause (4)(*a*)(i)(A) in respect of the corporation immediately before the particular time

shall be deducted at the particular time from the cumulative Canadian development expense of the original owner in respect of the corporation for the purposes of subparagraph (4)(*a*)(i), and

(*f*) the amount required by paragraph (*e*) to be deducted shall be added at the particular time to the cumulative Canadian exploration expense of the original owner in respect of the corporation for the purpose of paragraph (3)(*a*).

History: S. 66.7(9)(*f*) was amended by S.C. 1995, c. 21, s. 25(11), applicable to taxation years that end after February 21, 1994. S. 66.7(9)(*f*) formerly read:

"(*f*) the amount required to be deducted by paragraph (*e*) shall be added at the particular time to the cumulative Canadian exploration expense of the original owner in respect of the corporation for the purposes of subparagraph (3)(*a*)(ii)."

► 66.7(10) ◄

(10) Change of control. Where at any time after November 12, 1981

(*a*) control of a corporation has been acquired by a person or group of persons, or

(*b*) a corporation ceased on or before April 26, 1995 to be exempt from tax under this Part on its taxable income,

for the purposes of the provisions of the *Income Tax Application Rules* and this Act (other than subsections 66(12.6), (12.601), (12.602), (12.62) and (12.71)) relating to deductions in respect of drilling and exploration expenses, prospecting, exploration and development expenses, Canadian exploration and development expenses, foreign resource pool expenses, Canadian exploration expenses, Canadian development expenses and Canadian oil and gas property expenses (in this subsection referred to as "resource expenses") incurred by the corporation before that time, the following rules apply:

(*c*) the corporation shall be deemed after that time to be a successor (within the meaning assigned by subsection 29(25) of the *Income Tax Application Rules* or any of subsections (1) to (5)) that had, at that time,

acquired all the properties owned by the corporation immediately before that time from an original owner thereof,

(*c*.1) where the corporation did not own a foreign resource property immediately before that time, the corporation is deemed to have owned a foreign resource property immediately before that time,

(*d*) a joint election shall be deemed to have been filed in accordance with subsections (7) and (8) in respect of the acquisition,

(*e*) the resource expenses incurred by the corporation before that time shall be deemed to have been incurred by an original owner of the properties and not by the corporation,

(*f*) the original owner is deemed to have been resident in Canada before that time while the corporation was resident in Canada,

(g) where the corporation (in this paragraph referred to as the "transferee") was, immediately before and at that time,

(i) a parent corporation (within the meaning assigned by subsection 87(1.4)), or

(ii) a subsidiary wholly-owned corporation (within the meaning assigned by subsection 87(1.4))

of a particular corporation (in this paragraph referred to as the "transferor"), if both corporations agree to have this paragraph apply to them in respect of a taxation year of the transferor ending after that time and notify the Minister in writing of the agreement in the return of income under this Part of the transferor for that year, the transferor may, if throughout that year the transferee was such a parent corporation or subsidiary wholly-owned corporation of the transferor, designate in favour of the transferee, in respect of that year, for the purpose of making a deduction under subsection 29(25) of the *Income Tax Application Rules* or this section in respect of resource expenses incurred by the transferee before that time and when it was such a parent corporation or subsidiary wholly-owned corporation of the transferor, an amount not exceeding such portion of the amount that would be its income for the year, if no deductions were allowed under any of section 29 of the *Income Tax Application Rules*, this section and sections 65 to 66.5, that may reasonably be regarded as being attributable to

(iii) the production from Canadian resource properties owned by the transferor immediately before that time, and

(iv) the disposition in the year of any Canadian resource properties owned by the transferor immediately before that time,

to the extent that the portion of the amount so designated is not designated under this paragraph in favour of any other taxpayer, and the amount so designated shall be deemed, for the purposes of determining the amount under paragraph 29(25)(*d*) of the *Income Tax Application Rules* and paragraphs (1)(*b*), (3)(*b*), (4)(*b*) and (5)(*b*),

(v) to be income from the sources described in subparagraph (iii) or (iv), as the case may be, of the transferee for its taxation year in which that taxation year of the transferor ends, and

(vi) not to be income from the sources described in subparagraph (iii) or (iv), as the case may be, of the transferor for that year,

(*h*) where the corporation (in this paragraph referred to as the "transferee") was, immediately before and at that time,

(i) a parent corporation (within the meaning assigned by subsection 87(1.4)), or

(ii) a subsidiary wholly-owned corporation (within the meaning assigned by subsection 87(1.4))

of a particular corporation (in this paragraph referred to as the "transferor"), if both corporations agree to have this paragraph apply to them in respect of a taxation year of the transferor ending after that time and notify the Minister in writing of the agreement in the return of income under this Part of the transferor for that year, the transferor may, if throughout that year the transferee was such a parent corporation or subsidiary wholly-owned corporation of the transferor, designate in favour of the transferee, in respect of that year, for the purpose of making a deduction under this section in respect of resource expenses incurred by the transferee before that time and when it was such a parent corporation or subsidiary wholly-owned corporation of the transferor, an amount not exceeding such portion of the amount that would be its income for the year, if no deductions were allowed under this section and sections 65 to 66.5, that may reasonably be regarded as being attributable to

(iii) the production from foreign resource properties owned by the transferor immediately before that time, and

(iv) the disposition of any foreign resource properties owned by the transferor immediately before that time,

to the extent that the portion of the amount so designated is not designated under this paragraph in favour of any other taxpayer, and the amount so designated shall be deemed,

(v) for the purposes of determining the amounts under paragraphs (2)(*b*) and (2.3)(*b*), to be income from the sources described in subparagraph (iii) or (iv), as the case may be, of the transferee for its taxation year in which that taxation year of the transferor ends, and

(vi) for the purposes of determining the amounts under paragraphs (2)(*b*) and (2.3)(*b*), not to be income from the sources described in subparagraph (iii) or (iv), as the case may be, of the transferor for that year,

(*i*) where, immediately before and at that time, the corporation (in this paragraph referred to as the "transferee") and another corporation (in this paragraph referred to as the "transferor") were both subsidiary wholly-owned corporations (within the meaning assigned by subsection 87(1.4)) of a particular parent corporation (within the meaning assigned by subsection 87(1.4)), if the transferee and the transferor agree to have this paragraph apply to them in respect of a taxation year of the transferor ending after that time and notify the Minister in writing of the agreement in the return of income

under this Part of the transferor for that year, paragraph (*g*) or (*h*), or both, as the agreement provides, shall apply for that year to the transferee and transferor as though one were the parent corporation (within the meaning of subsection 87(1.4)) of the other, and

(*j*) where that time is after January 15, 1987 and at that time the corporation was a member of a partnership that owned a Canadian resource property or a foreign resource property at that time

(i) for the purpose of paragraph (*c*), the corporation shall be deemed to have owned immediately before that time that portion of the property owned by the partnership at that time that is equal to its percentage share of the total of amounts that would be paid to all members of the partnership if it were wound up at that time, and

(ii) for the purposes of clause 29(25)(*d*)(i)(B) of the *Income Tax Application Rules*, clauses (1)(*b*)(i)(C) and (2)(*b*)(i)(B), subparagraph (2.3)(*b*)(i) and clauses (3)(*b*)(i)(C), (4)(*b*)(i)(B) and (5)(*b*)(i)(B) for a taxation year ending after that time, the lesser of

(A) its share of the part of the income of the partnership for the fiscal period of the partnership ending in the year that may reasonably be regarded as being attributable to the production from the property, and

(B) an amount that would be determined under clause (A) for the year if its share of the income of the partnership for the fiscal period of the partnership ending in the year were determined on the basis of the percentage share referred to in subparagraph (i),

shall be deemed to be income of the corporation for the year that may reasonably be attributable to production from the property.

History: S. 66.7(10), the portion after paragraph (*b*) and before paragraph (*c*) was amended by S.C. 2001, c. 17, s. 49(4), applicable to taxation years that begin after 2000. S. 66.7(10), the portion after paragraph (*b*) and before paragraph (*c*) formerly read:

"for the purposes of the provisions of the *Income Tax Application Rules* and this Act (other than subsections 66(12.6), (12.601), (12.602), (12.62) and (12.71)) relating to deductions in respect of drilling and exploration expenses, prospecting, exploration and development expenses, Canadian exploration and development expenses, foreign exploration and development expenses, Canadian exploration expenses, Canadian development expenses and Canadian oil and gas property expenses (in this subsection referred to as 'resource expenses') incurred by the corporation before that time, the following rules apply:"

S. 66.7(10)(*f*) was added by S.C. 2001, c. 17, s. 49(5), applicable to the 1999 and subsequent taxation years. S. 66.7(10)(*f*) was previously repealed.

Ss. 66.7(10)(*h*)(v) and (vi) were amended by S.C. 2001, c. 17, s. 49(6), applicable to taxation years that begin after 2000. Ss. 66.7(10)(*h*)(v) and (vi) formerly read:

"(v) for the purposes of determining the amounts under paragraph (2)(*b*), to be income from the sources described in subparagraph (iii) or (iv), as the case may be, of the transferee for its taxation year in which that taxation year of the transferor ends, and

(vi) for the purposes of determining the amount under paragraph (2)(*b*), not to be income from the sources described in subparagraph (iii) or (iv), as the case may be, of the transferor for that year,"

S. 66.7(10)(*j*)(ii), the portion before clause (A) was amended by S.C. 2001, c. 17, s. 49(7), applicable to taxation years that begin after 2000. S. 66.7(10)(*j*)(ii), the portion before clause (A) formerly read:

"(ii) for the purposes of clause 29(25)(*d*)(i)(B) of the *Income Tax Application Rules* and clauses (1)(*b*)(i)(C), (2)(*b*)(i)(B), (3)(*b*)(i)(C), (4)(*b*)(i)(B) and (5)(*b*)(i)(B) for a taxation year ending after that time, the lesser of"

S. 66.7(10)(*b*) was amended by S.C. 1998, c. 19, s. 106(6), applicable after April 26, 1995. It formerly read:

"(*b*) a corporation ceases to be exempt from tax under this Part on its taxable income,"

S. 66.7(10)(*c*.1) was added by S.C. 1998, c. 19, s. 106(7), applicable to taxation years that end after February 17, 1987.

S. 66.7(10), the portion after paragraph (*b*) and before paragraph (*c*), was amended by S.C. 1997, c. 25, s. 16(1), applicable to taxation years that begin after 1998. That part formerly read:

"for the purposes of the provisions of the *Income Tax Application Rules* and this Act (other than subsections 66(12.6), (12.601), (12.602), (12.62), (12.64) and (12.71)) relating to deductions with respect to drilling and exploration expenses, prospecting, exploration and development expenses, Canadian exploration and development expenses, foreign exploration and development expenses, Canadian exploration expenses, Canadian development expenses and Canadian oil and gas property expenses (in this subsection referred to as 'resource expenses') incurred by the corporation before that time, the following rules apply:"

S. 66.7(10), the portion after paragraph (*b*) and before paragraph (*c*) was amended by S.C. 1994, c. 8, s. 8(2), applicable to taxation years ending after December 2, 1992. The portion formerly read:

"for the purposes of the provisions of the *Income Tax Application Rules*, and this Act, other than subsections 66(12.6), (12.62), (12.64) and (12.71), relating to deductions with respect to drilling and exploration expenses, prospecting, exploration and development expenses, Canadian exploration and development expenses, foreign exploration and development expenses, Canadian exploration expenses, Canadian development expenses and Canadian oil and gas property expenses (in this subsection referred to as 'resource expenses') incurred by the corporation before that time, the following rules apply:"

S. 66.7(10)(*f*) was repealed by S.C. 1994, c. 7, Sched. II, s. 42(8), applicable to taxation years ending after February 17, 1987. S. 66.7(10)(*f*) formerly read:

"(*f*) where, pursuant to paragraph (*e*), foreign exploration and development expenses incurred by the corporation are deemed to have been incurred by an original owner of the properties, the corporation may designate in respect of a taxation year an amount not exceeding the lesser of

(i) the amount included in its income for the year, computed as if no deduction were allowed under section 29 of the *Income Tax Application Rules*, this section or sections 65 to 66.5, that may reasonably be regarded as being attributable to the production from a Canadian resource property owned by it immediately before that time, and

(ii) the amount, if any, by which 10% of the amount described in paragraph (2)(*a*) for the year with respect to those expenses exceeds the amount that would be determined under paragraph (2)(*b*) for the year if this paragraph and subparagraph (*h*)(vi) did not apply,

as being an amount attributable to the production described in clause (2)(*b*)(i)(B), and the amount so designated shall, for the purpose of clause 29(25)(*d*)(i)(B) of the *Income Tax Application Rules*, clauses (1)(*b*)(i)(C), (3)(*b*)(i)(C), (4)(*b*)(i)(B), (5)(*b*)(i)(B) and subparagraph (*g*)(iii) be deemed not to be an amount attributable to production from a Canadian resource property in the year,"

S. 66.7(10)(*h*)(v) was amended by S.C. 1994, c. 7, Sched. II, s. 42(9), applicable to taxation years ending after February 17, 1987. S. 66.7(10)(*h*)(v) formerly read:

"(v) for the purposes of determining the amounts under paragraph (2)(*b*) and subparagraph (*f*)(ii), to be income from the sources described in subparagraph (iii) or (iv), as the case may be, of the transferee for its taxation year in which that taxation year of the transferor ends, and"

Editorial Note: Where there has been an acquisition of control of a corporation by a person or group of persons, the corporation is considered to be a successor to itself. The corporation in such circumstances may deduct its undeducted resource expenses only in accordance with the successor corporation rules. Subsection 66.7(10) permits corporations in a group to deduct successor expenses of another corporation in a group.

Paragraph 66.7(10)(*j*) permits the corporation to deduct its successored expenses against income from and proceeds of disposition of property realized by a partnership of which it was a partner at the time of the acquisition of control.

Related Sections: S. 66(11.3) Control; s. 87(2.1)(*b*) Non-capital losses, etc., of predecessor corporations; s. 149(10)(*b*) Exempt corporations; s. 256(7) Acquiring control; s. 256(8) Deemed exercise of right.

Canadian Petroleum Tax Journal: Pot Pourri of Income Tax Issues, John Chan, Vol. 14 No. 1 2001; Recent Developments in Corporate Reorganizations and International Transactions, Doug Richardson and Edward Rowe, Vol. 13 No. 1 2000.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 66.7 of the Act is amended by adding the following after subsection (10):

(10.1) Amalgamation — partnership property. For the purposes of subsections (1) to (5) and the definition "original owner" in subsection 66(15), if at any particular time there has been an amalgamation within the meaning assigned by subsection 87(1), other than an amalgamation to which subsection 87(1.2) applies, of two or more corporations (each of which is referred to in this subsection as a "predecessor corporation") to form one corporate entity (referred to in this subsection as the "new corporation") and immediately before the particular time a predecessor corporation was a member of a partnership that owned a Canadian resource property or a foreign resource property,

(*a*) the predecessor corporation is deemed

(i) to have owned, immediately before the particular time, that portion of each Canadian resource property and of each foreign resource property owned by the partnership at the particular time that is equal to the predecessor corporation's percentage share of the total of the amounts that would be paid to all members of the partnership if the partnership were wound up immediately before the particular time, and

(ii) to have disposed of those portions to the new corporation at the particular time;

(*b*) the new corporation is deemed to have, by way of the amalgamation, acquired those portions at the particular time; and

(*c*) the income of the new corporation for a taxation year that ends after the particular time that can reasonably be attributable to production from those properties is deemed to be the lesser of

(i) the new corporation's share of the part of the income of the partnership for fiscal periods of the partnership that end in the year that can reasonably be regarded as being attributable to production from those properties, and

(ii) the amount that would be determined under subparagraph (i) for the year if the new corporation's share of the income of the partnership for the fiscal periods of the partnership that end in the year were determined on the basis of the percentage share referred to in paragraph (*a*).

Applicable: To amalgamations that occur after 1996.

Explanatory Note: Section 66.7 of the Act provides rules (commonly known as the "successor rules") in respect of Canadian exploration and development expenses, foreign exploration and development expenses, foreign resource expenses, Canadian exploration expenses, Canadian development expenses and Canadian oil and gas property expenses, respectively. The successor rules establish the parameters within which unused resource expenses of an "original owner" may be deducted by a corporation ("successor corporation") following an acquisition of resource properties by the successor corporation in circumstances described in section 66.7 of the Act.

Subsection 66.7(10.1) — Amalgamation — Partnership Property

Subsection 66.7(10) of the Act treats a corporation as a successor corporation for the purposes of the successor rules in section 66.7 following an acquisition of control (or a change in the tax-exempt status) of the corporation. A rule in paragraph 66.7(10)(*j*) deems the corporation to own its percentage share of the properties owned by a partnership of which it was a member at the time of the acquisition of control. This "look-through rule" permits the deduction of resource expenses against income from, and proceeds of disposition of, the properties owned by the partnership at the time of the acquisition of control. No similar rule currently exists which would allow a new corporation formed on an amalgamation (other than an amalgamation to which subsection 87(2.1) applies) to deduct resource expenses against income from properties owned by a partnership in which a predecessor corporation was a member at the time of the amalgamation.

New subsection 66.7(10.1) of the Act applies to an amalgamation to which subsection 87(1.2) does not apply and provides a look-through rule similar to the rule in paragraph 66.7(10)(*j*) of the Act. It does so by deeming the predecessor corporation to have owned a portion of the properties owned by a partnership immediately before the amalgamation and to have disposed of them to the new corporation formed on the amalgamation. Thus, subsection 66.7(10.1) allows a new corporation, to the extent permitted under subsections 66.7(1) to (5), to deduct from the resource pools of the predecessor corporation, amounts relating to the new corporation's share of the income from properties owned by a partnership in which a predecessor corporation was a member at the time of the amalgamation. New subsection 66.7(10.1) applies to amalgamations that occur after 1996.

► 66.7(11) ◄

(11) Idem. Where, at any time,

(*a*) control of a taxpayer that is a corporation has been acquired by a person or group of persons, or

(*b*) a taxpayer has disposed of all or substantially all of the taxpayer's Canadian resource properties or foreign resource properties,

and, before that time, the taxpayer or a partnership of which the taxpayer was a member acquired a property that is a Canadian resource property, a foreign resource property or an interest in a partnership and it may reasonably be considered that one of the main purposes of the acquisition was to avoid any limitation provided in subsection 29(25) of the *Income Tax Application Rules* or any of subsections (1) to (5) on the deduction in respect of any expenses incurred by the taxpayer or a corporation referred to as a transferee in paragraph (10)(*g*) or (*h*), the taxpayer or the partnership, as the case may be, shall be deemed, for the purposes of applying those subsections to or in respect of the taxpayer, not to have acquired the property.

Editorial Note: Section 66.7(11) is an anti-avoidance rule. Its purpose is to prevent a person from using artificially its resource expenses by buying a Canadian resource property or foreign resource property prior to an acquisition of control or disposition of all of its Canadian or foreign resource properties. But for this rule, a corporation could acquire such assets to produce income and proceeds of disposition against which the expenses of the person could be deducted in accordance with the successor corporation rules.

Related Sections: S. 87(2)(*j*.6) Continuing corporation; s. 256(7) Acquiring control; s. 256(8) Deemed exercise of right.

► 66.7(12) ◄

(12) Reduction of Canadian resource expenses. Where in a taxation year an original owner of Canadian resource properties disposes of all or substantially all of the original owner's Canadian resource properties to a particular corporation in circumstances in which subsection 29(25) of the *Income Tax Application Rules* or subsection (1), (3), (4) or (5) applies,

(*a*) the Canadian exploration and development expenses incurred by the original owner before that owner so disposed of the properties shall, for the purposes of this subdivision, be deemed after the disposition not to have been incurred by the original owner except for the purposes of making a deduction under subsection 66(1) or (2) for the year and of determining the amount that may be deducted under subsection (1) by the particular corporation or by any other corporation that subsequently acquires any of the properties;

(*b*) in determining the cumulative Canadian exploration expense of the original owner at any time after the time referred to in subparagraph (3)(*a*)(i), there shall be deducted the amount thereof determined immediately after the disposition;

(*b*.1) for the purposes of paragraph (3)(*a*), the cumulative Canadian exploration expenses of the original owner determined immediately after the disposition that was deducted or required to be deducted under subsection 66.1(2) or (3) in computing the original owner's income for the year shall be deemed to be equal to the lesser of

(i) the amount deducted under paragraph (*b*) in respect of the disposition, and

(ii) the amount, if any, by which

(A) the specified amount determined under paragraph (12.1)(*a*) in respect of the original owner for the year

exceeds

(B) the total of all amounts each of which is an amount determined under this paragraph in respect of any disposition made by the original owner before the disposition and in the year;

(*b*.2) for greater certainty, any amount (other than the amount determined under paragraph (*b*.1)) that was deducted or required to be deducted under subsection 66.1(2) or (3) by the original owner for the year or a subsequent taxation year shall, for the purposes of paragraph (3)(*a*), be deemed not to be in respect of the cumulative Canadian exploration expense of the original owner determined immediately after the disposition;

(*c*) in determining the cumulative Canadian development expense of the original owner at any time after the time referred to in clause (4)(*a*)(i)(A), there shall be deducted the amount thereof determined immediately after the disposition;

(*c*.1) for the purpose of paragraph (4)(*a*), the cumulative Canadian development expense of the original owner determined immediately after the disposition that was deducted under subsection 66.2(2) in computing the original owner's income for the year shall be deemed to be equal to the lesser of

(i) the amount deducted under paragraph (*c*) in respect of the disposition, and

(ii) the amount, if any, by which

(A) the specified amount determined under paragraph (12.1)(*b*) in respect of the original owner for the year

exceeds

(B) the total of all amounts determined under this paragraph in respect of any dispositions made by the original owner before the disposition and in the year;

(*c*.2) for greater certainty, any amount (other than the amount determined under paragraph (*c*.1)) that was deducted under subsection 66.2(2) by the original owner for the year or a subsequent taxation year shall, for the purpose of paragraph (4)(*a*), be deemed not to be in respect of the cumulative Canadian development expense of the original owner determined immediately after the disposition;

(*d*) in determining the cumulative Canadian oil and gas property expense of the original owner at any time after the time referred to in subparagraph (5)(*a*)(i), there shall be deducted the amount thereof determined immediately after the disposition;

(*d*.1) for the purpose of paragraph (5)(*a*), the cumulative Canadian oil and gas property expense of the original owner determined immediately after the disposition that was deducted under subsection 66.4(2) in computing the original owner's income for the year shall be deemed to be equal to the lesser of

(i) the amount deducted under paragraph (*d*) in respect of the disposition, and

(ii) the amount, if any, by which

(A) the specified amount determined under paragraph (12.1)(*c*) in respect of the original owner for the year

exceeds

(B) the total of all amounts determined under this paragraph in respect of any dispositions made by the original owner before the disposition and in the year;

(*d*.2) for greater certainty, any amount (other than the amount determined under paragraph (*d*.1)) that was deducted under subsection 66.4(2) by the original owner for the year or a subsequent taxation year shall, for the purpose of paragraph (5)(*a*), be deemed not to be in respect of the cumulative Canadian oil and gas property expense of the original owner determined immediately after the disposition; and

(*e*) the drilling and exploration expenses, including all general geological and geophysical expenses, incurred by the original owner before 1972 on or in respect of exploring or drilling for petroleum or natural gas in Canada and the prospecting, exploration and development expenses incurred by the original owner before 1972 in searching for minerals in Canada shall, for the purposes of section 29 of the *Income Tax Application Rules*, be deemed after the disposition not to have been incurred by the original owner except for the purposes of making a deduction under that section for the year and of determining the amount that may be deducted under subsection 29(25) of that Act by the particular corporation or any other corporation that subsequently acquires any of the properties.

Editorial Note: Where an original owner transfers all or substantially all of its Canadian resource properties in accordance with the successor corporation rules, its cumulative Canadian exploration expense ("CCEE"), cumulative Canadian development expense ("CCDE") and cumulative Canadian oil and gas property expense ("CCOGPE") are reduced to zero immediately after the disposition. Since the taxpayer claims a deduction in respect of its CCEE, CCDE and CCOGPE at the end of the year, the taxpayer would not be able to claim a deduction in respect of such CCEE, CCDE and CCOGPE, notwithstanding it might have income in the year from the Canadian resource properties disposed of. The rules in subsection 66.7(12) and (12.1) permit an original owner to claim a deduction in respect of its CCEE, CCDE and CCOGPE existing immediately after the disposition of all of its Canadian resource properties in computing its income for the year.

History: Ss. 66.7(12)(*b*.1) and (*b*.2) were amended by S.C. 1994, c. 8, s. 8(3), applicable to taxation years ending after December 2, 1992. Ss. 66.7(12)(*b*.1) and (*b*.2) formerly read:

"(*b*.1) for the purpose of paragraph (3)(*a*), the cumulative Canadian exploration expense of the original owner determined immediately after the disposition that was deductible under subsection 66.1(2) or deducted under subsection 66.1(3) in computing the original owner's income for the year shall be deemed to be equal to the lesser of

(i) the amount deducted under paragraph (*b*) in respect of the disposition, and

(ii) the amount, if any, by which

(A) the specified amount determined under paragraph (12.1)(*a*) in respect of the original owner for the year

exceeds

(B) the total of all amounts determined under this paragraph in respect of any dispositions made by the original owner before the disposition and in the year;

(*b.2*) for greater certainty, any amount (other than the amount determined under paragraph (*b.1*)) that was deductible under subsection 66.1(2) or deducted under subsection 66.1(3) by the original owner for the year or a subsequent taxation year shall, for the purpose of paragraph (3)(*a*), be deemed not to be in respect of the cumulative Canadian exploration expense of the original owner determined immediately after the disposition;"

S. 66.7(12), the portion before paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 42(11), applicable to dispositions occurring in taxation years beginning after December 16, 1991 and with respect to a disposition of a property made by a taxpayer in a taxation year ending after February 17, 1987 and beginning before December 17, 1991, where

(*a*) the taxpayer, and

(*b*) each corporation that, before the end of the taxpayer's taxation year that included December 17, 1991, acquired the property or any other property that was disposed of by the taxpayer in a taxation year ending after February 17, 1987 as part of a transaction or an event as a consequence of which that corporation was or, but for those subsections, would be entitled to deduct an amount under subsection 66.7(3), (4) or (5) of the Act in respect of an expense incurred by the taxpayer,

so elected by notice in writing filed with the Minister of National Revenue on or before the day that was 180 days after the end of the taxpayer's taxation year that included December 17, 1991 and,

(*c*) notwithstanding subsections 152(4) to (5) of the Act, such assessments of tax, interest and penalties shall be made as are necessary to give effect to the election, and

(*d*) where the taxpayer so elected in respect of a disposition, a designation under clause 66.7(12.1)(*a*)(i)(B), (*b*)(i)(B) or (*c*)(i)(B) of the Act, as enacted by subsection (15), in respect of the disposition shall be deemed to have been filed as required if it was filed with the Minister of National Revenue on or before the day that was 180 days after the end of the taxpayer's taxation year that included December 17, 1991.

S. 66.7(12), the portion before paragraph (*a*), formerly read:

"(12) Where in a taxation year and after June 5, 1987 an original owner of Canadian resource properties disposes of all or substantially all of the original owner's Canadian resource properties to a particular corporation in circumstances in which subsection 29(25) of the *Income Tax Application Rules* or subsection (1), (3), (4) or (5) applies,"

S. 66.7(12)(*b*) was amended and paragraphs (*b.1*) and (*b.2*) were added by S.C. 1994, c. 7, Sched. II, s. 42(12), applicable to dispositions occurring in taxation years beginning after December 16, 1991 and with respect to a disposition of a property made by a taxpayer in a taxation year ending after February 17, 1987 and beginning before December 17, 1991, where

(*a*) the taxpayer, and

(*b*) each corporation that, before the end of the taxpayer's taxation year that included December 17, 1991, acquired the property or any other property that was disposed of by the taxpayer in a taxation year ending after February 17, 1987 as part of a transaction or an event as a consequence of which that corporation was or, but for those subsections, would be entitled to deduct an amount under subsection 66.7(3), (4) or (5) of the Act in respect of an expense incurred by the taxpayer,

so elected by notice in writing filed with the Minister of National Revenue on or before the day that was 180 days after the end of the taxpayer's taxation year that included December 17, 1991 and,

(*c*) notwithstanding subsections 152(4) to (5) of the Act, such assessments of tax, interest and penalties shall be made as are necessary to give effect to the election, and

(*d*) where the taxpayer so elected in respect of a disposition, a designation under clause 66.7(12.1)(*a*)(i)(B), (*b*)(i)(B) or (*c*)(i)(B) of the Act, as enacted by subsection (15), in respect of the disposition shall be deemed to have been filed as required if it was filed with the Minister of National Revenue on or before the day that was 180 days after the end of the taxpayer's taxation year that included December 17, 1991.

S. 66.7(12)(*b*) formerly read:

"(*b*) in determining the cumulative Canadian exploration expense of the original owner at any time after the time referred to in subparagraph (3)(*a*)(i), there shall be deducted the amount, if any, by which the amount thereof determined immediately after the disposition exceeds the amount claimed by the original owner under subsection 66.1(2) or (3) for the year;"

Ss. 66.7(12)(*c.1*) and (*c.2*) were added by S.C. 1994, c. 7, Sched. II, s. 42(13), applicable to dispositions occurring in taxation years beginning after December 16, 1991 and with respect to a disposition of a property made by a taxpayer in a taxation year ending after February 17, 1987 and beginning before December 17, 1991, where

(*a*) the taxpayer, and

(*b*) each corporation that, before the end of the taxpayer's taxation year that included December 17, 1991, acquired the property or any other property that was disposed of by the taxpayer in a taxation year ending after February 17, 1987 as part of a transaction or an event as a consequence of which that corporation was or, but for those subsections, would be entitled to deduct an amount under subsection 66.7(3), (4) or (5) of the Act in respect of an expense incurred by the taxpayer,

so elected by notice in writing filed with the Minister of National Revenue on or before the day that was 180 days after the end of the taxpayer's taxation year that included December 17, 1991 and,

(*c*) notwithstanding subsections 152(4) to (5) of the Act, such assessments of tax, interest and penalties shall be made as are necessary to give effect to the election, and

(*d*) where the taxpayer so elected in respect of a disposition, a designation under clause 66.7(12.1)(*a*)(i)(B), (*b*)(i)(B) or (*c*)(i)(B) of the Act, as enacted by subsection (15), in respect of the disposition shall be deemed to have been filed as required if it was filed with the Minister of National Revenue on or before the day that was 180 days after the end of the taxpayer's taxation year that included December 17, 1991.

Ss. 66.7(12)(*d.1*) and (*d.2*) were added by S.C. 1994, c. 7, Sched. II, s. 42(14), applicable to dispositions occurring in taxation years beginning after December 16, 1991 and with respect to a disposition of a property made by a taxpayer in a taxation year ending after February 17, 1987 and beginning before December 17, 1991, where

(*a*) the taxpayer, and

(*b*) each corporation that, before the end of the taxpayer's taxation year that included December 17, 1991, acquired the property or any other property that was disposed of by the taxpayer in a taxation year ending after February 17, 1987 as part of a transaction or an event as a consequence of which that corporation was or, but for those subsections, would be entitled to deduct an amount under subsection 66.7(3), (4) or (5) of the Act in respect of an expense incurred by the taxpayer,

so elected by notice in writing filed with the Minister of National Revenue on or before the day that was 180 days after the end of the taxpayer's taxation year that included December 17, 1991 and,

(*c*) notwithstanding subsections 152(4) to (5) of the Act, such assessments of tax, interest and penalties shall be made as are necessary to give effect to the election, and

(*d*) where the taxpayer so elected in respect of a disposition, a designation under clause 66.7(12.1)(*a*)(i)(B), (*b*)(i)(B) or (*c*)(i)(B) of the Act, as enacted by subsection (15), in respect of the disposition shall be deemed to have been filed as required if it was filed with the Minister of National Revenue on or before the day that was 180 days after the end of the taxpayer's taxation year that included December 17, 1991.

► 66.7(12.1) ◄

(12.1) Specified amount. Where in a taxation year an original owner of Canadian resource properties disposes of all or substantially all of the original owner's Canadian resource properties in circumstances in which subsection (3), (4) or (5) applies,

(*a*) the lesser of

(i) the total of all amounts each of which is the amount, if any, by which

(A) an amount deducted under paragraph (12)(*b*) in respect of a disposition in the year by the original owner

exceeds

(B) the amount, if any, designated by the original owner in prescribed form filed with the Minister within 6 months after the end of the year in respect of an amount determined under clause (A), and

(ii) the total of

(A) the amount claimed under subsection 66.1(2) or (3) by the original owner for the year, and

(B) the amount that would, but for paragraph 66.1(1)(*c*), be determined under subsection 66.1(1) in respect of the original owner for the year

is the specified amount in respect of the original owner for the year for the purposes of clause (12)(*b.1*)(ii)(A) and of determining the value of E.1 in the definition "cumulative Canadian exploration expense" in subsection 66.1(6);

(*b*) the lesser of

(i) the total of all amounts each of which is the amount, if any, by which

(A) an amount deducted under paragraph (12)(*c*) in respect of a disposition in the year by the original owner

exceeds

(B) the amount, if any, designated by the original owner in prescribed form filed with the Minister within 6 months after the end of the year in respect of an amount determined under clause (A), and

(ii) the total of

(A) the amount claimed under subsection 66.2(2) by the original owner for the year, and

(B) the amount that would, but for paragraph 66.2(1)(*d*), be determined under subsection 66.2(1) in respect of the original owner for the year

is the specified amount in respect of the original owner for the year for the purposes of clause (12)(*c*.1)(ii)(A) and of determining the value of D.1 in the definition "cumulative Canadian development expense" in subsection 66.2(5); and

(*c*) the lesser of

(i) the total of all amounts each of which is the amount, if any, by which

(A) an amount deducted under paragraph (12)(*d*) in respect of a disposition in the year by the original owner

exceeds

(B) the amount, if any, designated by the original owner in prescribed form filed with the Minister within 6 months after the end of the year in respect of an amount determined under clause (A), and

(ii) the total of

(A) the amount claimed under subsection 66.4(2) by the original owner for the year, and

(B) the amount that would, but for paragraph 66.4(1)(*c*), be determined under subsection 66.4(1) in respect of the original owner for the year

is the specified amount in respect of the original owner for the year for the purposes of clause (12)(*d*.1)(ii)(A) and of determining the value of D.1 in the definition "cumulative Canadian oil and gas property expense" in subsection 66.4(5).

History: S. 66.7(12.1) was added by S.C. 1994, c. 7, Sched. II, s. 42(15), applicable to dispositions occurring in taxation years beginning after December 16, 1991 and with respect to a disposition of a property made by a taxpayer in a taxation year ending after February 17, 1987 and beginning before December 17, 1991, where

(*a*) the taxpayer, and

(*b*) each corporation that, before the end of the taxpayer's taxation year that included December 17, 1991, acquired the property or any other property that was disposed of by the taxpayer in a taxation year ending after February 17, 1987 as part of a transaction or an event as a consequence of which that corporation was or, but for those subsections, would be entitled to deduct an amount under subsection 66.7(3), (4) or (5) of the Act in respect of an expense incurred by the taxpayer,

so elected by notice in writing filed with the Minister of National Revenue on or before the day that was 180 days after the end of the taxpayer's taxation year that included December 17, 1991 and,

(*c*) notwithstanding subsections 152(4) to (5) of the Act, such assessments of tax, interest and penalties shall be made as are necessary to give effect to the election, and

(*d*) where the taxpayer so elected in respect of a disposition, a designation under clause 66.7(12.1)(*a*)(i)(B), (*b*)(i)(B) or (*c*)(i)(B) of the Act, as enacted by subsection (15), in respect of the disposition shall be deemed to have been filed as required if it was filed with the Minister of National Revenue on or before the day that was 180 days after the end of the taxpayer's taxation year that included December 17, 1991.

► 66.7(13) ◄

(13) Reduction of foreign resource expenses. Where after June 5, 1987 an original owner of foreign resource properties disposes of all or substantially all of the original owner's foreign resource properties to a particular corporation in circumstances in which subsection (2) applies, the foreign exploration and development expenses incurred by the original owner before that owner so disposed of the properties shall be deemed after the disposition not to have been incurred by the original owner except for the purposes of determining the amounts that may be deducted under that subsection by the particular corporation or any other corporation that subsequently acquires any of the properties.

Editorial Note: The provisions of subsection 66.7(13) and (13.1) provide rules in respect of foreign resource expenses incurred in a country that are similar to the rules described in subsection 66.7(12) and (12.1) with respect to Canadian exploration expenses, Canadian development expenses and Canadian oil and gas property expenses incurred by an original owner.

► 66.7(13.1) ◄

(13.1) Reduction of foreign resource expenses. Where in a taxation year an original owner of foreign resource properties in respect of a country disposes of all or substantially all of the original owner's foreign resource properties in circumstances to which subsection (2.3) applies,

(*a*) in determining the cumulative foreign resource expense of the original owner in respect of the country at any time after the time referred to in subparagraph (2.3)(*a*)(i), there shall be deducted the amount of that cumulative foreign resource expense determined immediately after the disposition; and

(*b*) for the purpose of paragraph (2.3)(*a*), the cumulative foreign resource expense of the original owner in respect of the country determined immediately after the disposition that was deducted under subsection 66.21(4) in computing the original owner's income for the year is deemed to be equal to the lesser of

(i) the amount deducted under paragraph (*a*) in respect of the disposition, and

(ii) the amount, if any, by which

(A) the specified amount determined under subsection (13.2) in respect of the original owner and the country for the year

exceeds

(B) the total of all amounts determined under this paragraph in respect of another disposition of foreign resource property in respect of the country made by the original owner before the disposition and in the year.

History: S. 66.7(13.1) was added by S.C. 2001, c. 17, s. 49(8), applicable to taxation years that begin after 2000.

Related Sections: S. 66.21(1), "cumulative foreign resource expense", "foreign resource expense"; s. 66.7(13.2) Specified amount — foreign resource expenses; s. 66.7(15.1) Disposal of foreign resource properties — subsection (2.3); s. 248(1), "foreign resource expense", "foreign resource property".

▶ 66.7(13.2) ◀

(13.2) Specified amount — foreign resource expenses. Where in a taxation year an original owner of foreign resource properties in respect of a country disposes of all or substantially all of the original owner's foreign resource properties in circumstances to which subsection (2.3) applies, the specified amount in respect of the country and the original owner for the year for the purposes of clause (13.1)(*b*)(ii)(A) and of determining the value of D in the definition "cumulative foreign resource expense" in subsection 66.21(1) is the lesser of

(*a*) the total of all amounts each of which is the amount, if any, by which

(i) an amount deducted under paragraph (13.1)(*a*) in respect of a disposition in the year by the original owner of foreign resource property in respect of the country

exceeds

(ii) the amount, if any, designated by the original owner in the prescribed form filed with the Minister within six months after the end of the year in respect of an amount described under subparagraph (i); and

(*b*) the total of

(i) the amount claimed under subsection 66.21(4) by the original owner in respect of the country for the year, and

(ii) the amount that would, but for paragraph 66.21(3)(*c*), be determined under subsection 66.21(3) in respect of the country and the original owner for the year.

History: S. 66.7(13.2) was added by S.C. 2001, c. 17, s. 49(8), applicable to taxation years that begin after 2000.

Related Sections: S. 66.21(1) Definitions; s. 66.21(3) Amount to be included in income; s. 66.21(4) Deduction for cumulative foreign resource expense; s. 66.7(2.3) Successor of foreign resource expenses; s. 66.7(13.1) Reduction of foreign resource expenses.

▶ 66.7(14) ◀

(14) Disposal of Canadian resource properties. Where in a taxation year a predecessor owner of Canadian resource properties disposes of Canadian resource properties to a corporation in circumstances in which subsection 29(25) of the *Income Tax Application Rules* or subsection (1), (3), (4) or (5) applies,

(*a*) for the purposes of applying any of those subsections to the predecessor owner in respect of its acquisition of any Canadian resource property owned by it immediately before the disposition, it shall be deemed, after the disposition, never to have acquired any such properties except for the purposes of

(i) determining an amount deductible under subsection (1) or (3) for the year,

(ii) where the predecessor owner and the corporation dealt with each other at arm's length at the time of the disposition or the disposition was by way of an amalgamation or merger, determining an amount deductible under subsection (4) or (5) for the year, and

(iii) determining the amount for F in the definition "cumulative Canadian development expense" in subsection 66.2(5), the amounts for paragraphs (*a*) and (*b*) in the description of L in that definition and the amount for F in the definition "cumulative Canadian oil and gas property expense" in subsection 66.4(5); and

(*b*) where the corporation or another corporation acquires any of the properties on or after the disposition in circumstances in which subsection (4) or (5) applies, amounts that become receivable by the predecessor owner after the disposition in respect of Canadian resource properties retained by it at the time of the disposition shall, for the purposes of applying subsection (4) or (5) to the corporation or the other corporation in respect of the acquisition, be deemed not to have become receivable by the predecessor owner.

History: S. 66.7(14) was amended by S.C. 1994, c. 21, s. 31(4), applicable to dispositions occurring in taxation years that end after February 17, 1987. S. 66.7(14) formerly read:

"(14) Where in a taxation year a predecessor owner of Canadian resource properties disposes of all or substantially all of its Canadian resource properties to a corporation in circumstances in which subsection 29(25) of the *Income Tax Application Rules* or subsection (1), (3), (4) or (5) applies, for the purposes of applying any of those subsections to the predecessor owner in respect of its acquisition of any of those properties, it shall be deemed, after the disposition, never to have acquired the properties except for the purposes of

(*a*) determining an amount deductible under subsection (1) or (3) for the year; and

(*b*) where the predecessor owner and the corporation dealt with each other at arm's length at the time of the disposition or the disposition was by way of an amalgamation or merger, determining an amount deductible under subsection (4) or (5) for the year."

S. 66.7(14) was amended by S.C. 1994, c. 7, Sched. II, s. 42(16), applicable to dispositions occurring in taxation years ending after February 17, 1987. S. 66.7(14) formerly read:

"(14) Where, in a taxation year and after June 5, 1987, a predecessor owner of Canadian resource properties disposes of all or substantially all of its Canadian resource properties to a corporation in circumstances in which subsection 29(25) of the *Income Tax Application Rules* or subsection (1), (3), (4) or (5) applies, for the purposes of applying any of those subsections to the predecessor owner in respect of its acquisition of any of those properties, it shall be deemed, after the disposition, never to have acquired the properties except for the purposes of making a deduction under subsection (1) or (3) for the year."

▶ 66.7(15) ◀

(15) Disposal of foreign resource properties. Where after June 5, 1987 a predecessor owner of foreign resource properties disposes of all or substantially all of its foreign resource properties to a corporation in circumstances in which subsection (2) applies, for the purpose of applying that subsection to the predecessor owner in respect of its acquisition of any of those properties (or other foreign resource properties retained by it at the time of the disposition which were acquired by it in circumstances in which subsection (2) applied), it shall be deemed, after the disposition, never to have acquired the properties.

History: S. 66.7(15) was amended by S.C. 1994, c. 21, s. 31(4), applicable to taxation years that end after February 17, 1987. S. 66.7(15) formerly read:

"(15) Where after June 5, 1987 a predecessor owner of foreign resource properties disposes of all or substantially all of its foreign resource properties to a corporation in circumstances in which subsection (2) applies, for the purposes of applying that subsection to the predecessor owner in respect of its acquisition of any of those properties, it shall be deemed, after the disposition, never to have acquired the properties."

▶ 66.7(15.1) ◀

(15.1) Disposal of foreign resource properties — subsection (2.3). Where in a taxation year a predecessor owner of foreign resource properties disposes of foreign resource properties to a corporation in circumstances to which subsection (2.3) applies,

(*a*) for the purpose of applying that subsection to the predecessor owner in respect of its acquisition of

any foreign resource properties owned by it immediately before the disposition, it is deemed, after the disposition, never to have acquired any such properties except for the purposes of

(i) where the predecessor owner and the corporation dealt with each other at arm's length at the time of the disposition or the disposition was by way of an amalgamation or merger, determining an amount deductible under subsection (2.3) for the year, and

(ii) determining the value of F in the definition "cumulative foreign resource expense" in subsection 66.21(1); and

(*b*) where the corporation or another corporation acquires any of the properties on or after the disposition in circumstances to which subsection (2.3) applies, amounts that become receivable by the predecessor owner after the disposition in respect of foreign resource properties retained by it at the time of the disposition are, for the purposes of applying subsection (2.3) to the corporation or the other corporation in respect of the acquisition, deemed not to have become receivable by the predecessor owner.

History: S. 66.7(15.1) was added by S.C. 2001, c. 17, s. 49(9), applicable to taxation years that begin after 2000.

Related Sections: S. 66.7(2.3) Successor of foreign resource expenses; s. 66.7(13.1) Reduction of foreign resource expenses.

► 66.7(16) ◄

(16) Non-successor acquisitions. Where at any time a Canadian resource property or a foreign resource property is acquired by a person in circumstances in which none of subsection 29(25) of the *Income Tax Application Rules* and subsections (1) to (5) apply, every person who was an original owner or predecessor owner of the property by reason of having disposed of the property before that time shall, for the purpose of applying those subsections to or in respect of the person or any other person who after that time acquires the property, be deemed after that time not to be an original owner or predecessor owner of the property by reason of having disposed of the property before that time.

► 66.7(17) ◄

(17) Restriction on deductions. Where in a particular taxation year and before June 6, 1987 a person disposed of a Canadian resource property or a foreign resource property in circumstances in which any of subsection 29(25) of the *Income Tax Application Rules* and subsections (1) to (5) applies, no deduction in respect of an expense incurred before the property was disposed of may be made under this section or section 66, 66.1, 66.2 or 66.4 by the person in computing the person's income for a taxation year subsequent to the particular taxation year.

► 66.7(18) ◄

(18) Application of interpretation provisions. The definitions in subsection 66(15) and sections 66.1 to 66.4 apply in this section.

History: S. 66.7(18) was amended by S.C. 2001, c. 17, s. 49(10), applicable to taxation years that begin after 2000. S. 66.7(18) formerly read:

"(18) *Application of s. 66(15).* The definitions in subsection 66(15) apply to this section."

S. 66.7(18) was not part of the former Act.

SECTION 66.8:

► 66.8(1) ◄

(1) Resource expenses of limited partner. Where a taxpayer is a limited partner of a partnership at the end of a fiscal period of the partnership, the following rules apply:

(*a*) determine the amount, if any, by which

(i) the total of all amounts each of which is the taxpayer's share of

(A) the Canadian oil and gas property expenses (in this subsection referred to as "property expenses"),

(B) the Canadian development expenses (in this subsection referred to as "development expenses"),

(C) the Canadian exploration expenses (in this subsection referred to as "exploration expenses"),

(D) the foreign resource expenses in respect of a country (in this subsection referred to as "country-specific foreign expenses"), or

(E) the foreign exploration and development expenses (in this subsection referred to as "global foreign expenses"),

incurred by the partnership in the fiscal period determined without reference to this subsection

exceeds

(ii) the amount, if any, by which

(A) the taxpayer's at-risk amount at the end of the fiscal period in respect of the partnership

exceeds

(B) the total of

(I) the amount required by subsection 127(8) in respect of the partnership to be added in computing the investment tax credit of the taxpayer in respect of the fiscal period, and

(II) the taxpayer's share of any losses of the partnership for the fiscal period from a farming business;

(*b*) the amount determined under paragraph (*a*) shall be applied

(i) first to reduce the taxpayer's share of property expenses,

(ii) if any remains unapplied, then to reduce the taxpayer's share of development expenses,

(iii) if any remains unapplied, then to reduce the taxpayer's share of exploration expenses,

(iv) if any remains unapplied, then to reduce (in the order specified by the taxpayer in writing filed with the Minister on or before the taxpayer's filing-due date for the taxpayer's taxation year in which the fiscal period ends or, where no such specification is made, in the order determined by the Minister) the taxpayer's share of country-specific foreign expenses, and

(v) if any remains unapplied, then to reduce the taxpayer's share of global foreign expenses; and

incurred by the partnership in the fiscal period; and

(*c*) for the purposes of subparagraph 53(2)(*c*)(ii), sections 66 to 66.7, subsection 96(2.1) and section 111, the taxpayer's share of each class of expenses described in subparagraph (*a*)(i) incurred by the partnership in the fiscal period shall be deemed to be the amount by which the taxpayer's share of that class of expenses as determined under subparagraph (*a*)(i) exceeds the amount, if any, that was applied under paragraph (*b*) to reduce the taxpayer's share of that class of expenses.

Department of Finance Comfort Letter
[Deduction of Resource Expenses by Commercial Trust in a Limited Partnership]

October 18, 2004

Dear XXXX

Thank you for your letter of May 14, 2004 to Mr. Daryl Boychuk of this Division concerning the application of section 66.8 and paragraph 96(2.2)(*c*) of the *Income Tax Act* (the "Act"). In particular, your concern relates to the application of these provisions to a member of a limited partnership where the limited partnership carries on the business of exploring for, developing and producing oil and natural gas.

More specifically, your concern relates to a situation where the only limited partner is a commercial trust, the sole beneficiary of which is a mutual fund trust, and the general partner is a corporation, all the shares of which are owned by the mutual fund trust. In this situation, the mutual fund trust does not deal at arm's length with either the commercial trust or the limited partnership. The mutual fund trust, as the sole investor in the commercial trust, capitalizes it with a combination of debt and equity. The commercial trust uses these funds to acquire a 99% interest in the limited partnership. In no case does the mutual fund trust derive any of its funds from a person or partnership that does not deal at arm's length with the limited partnership.

The limited partnership earns income from the resource properties and allocates 99% of this income to the commercial trust. However, the debt owing to the mutual fund trust reduces the commercial trust's at-risk amount because the debt is owed by the commercial trust to a person (the mutual fund trust) that does not deal at arm's length with the partnership. As a result, section 66.8 of the Act operates to reduce the resource expenses that the commercial trust would otherwise be treated as having incurred.

Generally, the at-risk rules are designed to limit the deduction of limited partnership losses that exceed the amount that a limited partner has risked in the partnership (the "at-risk amount"). However, as applied to a member of a limited partnership that incurs Canadian oil and gas property expenses ("COGPE", 10% of the cumulative balance of which is deductible in respect of a taxation year), Canadian development expenses ("CDE", 30% of the cumulative balance of which is deductible in respect of a taxation year) or Canadian exploration expenses ("CEE", 100% of the cumulative balance of which is deductible in respect of a taxation year) the at-risk rules may preclude a limited partner from deducting the relevant percentage of its share of the resource expenses incurred by the partnership even if the deduction of those expenses would not create a loss for the limited partner.

We agree that, in the circumstances described above, the debt owing by the commercial trust to the mutual fund trust should not, in and of itself, result in a reduction of the COGPE, CDE or CEE that the commercial trust would otherwise be treated as having incurred as a member of the limited partnership. Accordingly, we are prepared to recommend to the Minister of Finance that section 66.8 of the Act be amended to ensure that it would not apply, in the circumstances, to reduce the resource expenditures that would otherwise be treated as having been incurred by the commercial trust.

We are also prepared to recommend that the amendment apply after 2003. If the above recommendation were acted upon, we would anticipate that the amendment would be included in a future technical bill. While I cannot offer any assurance that either the Minister or Parliament will agree with our recommendation, I hope that this statement of our intentions is helpful to you.

Yours sincerely,
Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 66.8(1)(*a*)(i)(D) was amended, and clause (E) was added by S.C. 2001, c. 17, s. 50(1), applicable to fiscal periods that begin after 2000. S. 66.8(1)(*a*)(i)(D) formerly read:

"(D) the foreign exploration and development expenses (in this subsection referred to as 'foreign expenses'),"

S. 66.8(1)(*b*)(iv) was amended, and subparagraph (v) was added, by S.C. 2001, c. 17, s. 50(2), applicable to fiscal periods that begin after 2000. S. 66.8(1)(*b*)(iv) formerly read:

"(iv) if any remains unapplied, then to reduce the taxpayer's share of foreign expenses,"

Editorial Note: Section 66.8 limits the deduction by a limited partner of resource expenses allocated to the limited partner in excess of the limited partner's "at-risk amount". Where the resource expenses allocated to a limited partner exceed the limited partner's at-risk amount, the limited partner's share of resource expenses incurred by the partnership in the fiscal period are reduced in the following order: Canadian oil and gas property expenses, Canadian development expenses, Canadian exploration expenses, foreign resource expenses incurred in a country and foreign exploration and development expenses.

Where such a reduction occurs in a year, the amount of the reduction may be carried forward and added to the limited partner's share of the class of resource expenses incurred by the partnership in the immediately following fiscal period of the partnership. Such expenses may be carried forward indefinitely and deducted in future years when the limited partner has a sufficient at-risk amount.

Related Sections: S. 66(15), "foreign exploration and development expenses"; s. 66.1(6), "Canadian exploration expense"; s. 66.2(5), "Canadian development expense"; s. 66.4(5), "Canadian oil and gas property expense"; s. 66.8(2) Expenses in following fiscal period; s. 66.8(3) Interpretation.

► 66.8(2) ◄

(2) Expenses in following fiscal period. For the purposes of subparagraph (1)(*a*)(i), the amount by which a taxpayer's share of a class of expenses incurred by a partnership is reduced under paragraph (1)(*b*) in respect of a fiscal period of the partnership shall be added to the taxpayer's share, otherwise determined, of that class of expenses incurred by the partnership in the immediately following fiscal period of the partnership.

► 66.8(3) ◄

(3) Interpretation. In this section,

(*a*) the expressions "at-risk amount" of a taxpayer in respect of a partnership and "limited partner" of a partnership have the meanings assigned by subsections 96(2.2) and (2.4), respectively, except that, with respect to the definition "limited partner", the definition "exempt interest" in subsection 96(2.5) shall be read as though the reference therein to

(i) "February 25, 1986" were a reference to "June 17, 1987",

(ii) "February 26, 1986" were a reference to "June 18, 1987",

(iii) "January 1, 1987" were a reference to "January 1, 1988",

(iv) "June 12, 1986" were a reference to "June 18, 1987", and

(v) "prospectus, preliminary prospectus or registration statement" were read as "prospectus, preliminary prospectus, registration statement, offering memorandum or notice that is required to be filed before any distribution of securities may commence";

(*b*) a reference to a taxpayer who is a member of a particular partnership shall include a reference to another partnership that is a member if the particular partnership; and

(*c*) a taxpayer's share of Canadian development expenses or Canadian oil and gas property expenses incurred by a partnership in a fiscal period in respect of which the taxpayer has elected in respect of the share under paragraph (*f*) of the definition "Canadian development expense" in subsection 66.2(5) or paragraph (*b*) of the definition "Canadian oil and gas property expense" in subsection 66.4(5), as the case may be, shall be deemed to be nil.

History: S. 66.8(3)(*c*) was added by S.C. 1994, c. 7, Sched. VIII, s. 26(1), applicable to partnership fiscal periods ending after July 1990.

Related Sections: S. 66.2(5), "Canadian development expense"; s. 66.4(5), "Canadian oil and gas property expense".

Subdivision f — Rules Relating to Computation of Income

SECTION 67: General limitation re expenses.

In computing income, no deduction shall be made in respect of an outlay or expense in respect of which any amount is otherwise deductible under this Act, except to the extent that the outlay or expense was reasonable in the circumstances.

Related Sections: S. 8(9) Presumption; s. 248(1), "amount"; ITAR s. 31 Application of s. 67 of amended Act.

Interpretation Bulletins: *Secondary* — IT-75R4 Scholarships, fellowships, bursaries, prizes, research grants and financial assistance; IT-131R2 Convention expenses; IT-178R3 (Consolid.) Moving expenses; IT-357R2 Expenses of training; IT-373R2 (Consolid.) Woodlots; IT-467R2 Damages, settlements and similar payments; IT-468R Management or administration fees paid to non-residents; IT-521R Motor vehicle expenses claimed by self-employed individuals; IT-525R (Consolid.) Performing artists.

Information Circulars: IC 87-2R International Transfer Pricing.

Advance Tax Rulings: ATR-12 Retiring allowance.

Income Tax Technical News: Issue No. 30, Reasonableness of Shareholder/Manager Remuneration.

Tax Topics: No. 1814, 2006 Canadian Tax Foundation Annual Conference CRA Round Table; No. 1500, Shareholder-Manager Bonus Policy — A Follow up.

Tax Profile: June 2005 — Paying a Bonus After a Sale of Assets: Where Are We Now?; June 2004 — Owner-Manager Remuneration: Bonuses Out of Non-Active Business Income; October 2000 — Reasonableness of Bonuses: CCRA Says You Have to Be Direct Owner of Shares.

Canadian Tax Foundation: Miller, "Reasonableness Based on Residence", *2000 Canadian Tax Journal*, No. 4, 1268.

Tax Window Files: Contractors Payments to Subcontractors — Deduction for Reasonable Expenses, May 31, 2006, CRA Document No. 2006-0181651I7.

Cases: A family construction company deducted $20,000 in 1962 and $30,000 in 1963 in respect of remuneration for the company president's young brother. It was held that the deductions were reasonable having regard to the services rendered by the brother and to his contemplated status as a key man in the company. *Gabco Ltd. v. M.N.R.*, 68 DTC 5210 (Ex. Ct.).

SECTION 67.1:

► 67.1(1) ◄

(1) Expenses for food, etc. Subject to subsection (1.1), for the purposes of this Act, other than sections 62, 63, 118.01 and 118.2, an amount paid or payable in respect of the human consumption of food or beverages or the enjoyment of entertainment is deemed to be 50 per cent of the lesser of

(*a*) the amount actually paid or payable in respect thereof, and

(*b*) an amount in respect thereof that would be reasonable in the circumstances.

History: S. 67.1(1), the portion before paragraph (*a*) was replaced by S.C. 2007, c. 35, s. 20(1), applicable to amounts that are paid, or become payable, on or after March 19, 2007. S. 67.1(1), the portion before paragraph (*a*) formerly read:

"S. 67.1. (1) *Expenses for food, etc.* For the purposes of this Act, other than sections 62, 63, 118.01 and 118.2, an amount paid or payable in respect of the human consumption of food or beverages or the enjoyment of entertainment is deemed to be 50% of the lesser of"

S. 67.1(1) was replaced by S.C. 2006, c. 4, s. 54(1), applicable to the 2005 and subsequent taxation years.

S. 67.1(1) formerly read:

"S. 67.1. (1) *Expenses for food, etc.* For the purposes of this Act, other than sections 62, 63 and 118.2, an amount paid or payable in respect of the human consumption of food or beverages or the enjoyment of entertainment shall be deemed to be 50% of the lesser of

(*a*) the amount actually paid or payable in respect thereof, and

(*b*) an amount in respect thereof that would be reasonable in the circumstances."

S. 67.1(1) was amended by S.C. 1995, c. 3, s. 17(1), by replacing the reference to "80%" with a reference to "50%", applicable to expenses incurred after February 21, 1994 in respect of food and beverages consumed and entertainment enjoyed after February 1994.

Editorial Note: Section 67.1 effectively reduces by 50% the deduction claimed by a taxpayer for food, beverages, and entertainment expenses incurred for the purpose of earning employment, business, or property income. If the actual amount paid for the expenses is unreasonable, the limited deduction is only calculated on a reasonable amount. The limit does not apply to moving, adoption, medical, or child care expenses, or in the circumstances described in s. 67.1(2) but is applicable to amounts that are capitalized or included in the cost of inventory. This limit is increased to 60% in 2007, 65% in 2008, 70% in 2009, 75% in 2010, and 80% after 2010 for food and beverages expenses incurred by a long-haul truck driver after March 18, 2007 if all conditions described in s. 67.1(1.1) and (5) as to the type of travel and vehicle involved are met. If those expenses are considered to be personal in nature, they would be non-deductible under s. 18(1)(*h*).

Interpretation Bulletins: *Primary* — IT-518R Food, beverages and entertainment expenses; IT-525R (Consolid.) Performing artists. *Secondary* — IT-131R2 Convention expenses; IT-504R2 (Consolid.) Visual artists and writers; IT-522R Vehicle, travel and sales expenses of employees; IT-533 Interest deductibility and related issues.

Information Circulars: IC 73-21R9 Claims for Meals and Lodging Expenses of Transport Employees.

Forms: T2032; T2124.

Guides: T4002 Business and Professional Income.

Tax Window Files: Coffee and Water Provided to Clients and Staff, February 16, 2004, CRA Document No. 2004-0057101E5

Cases: The cost of food and entertainment vouchers that a real estate agent gave to his clients was subject to the 50% deductibility rule. *The Queen v. Stapley*, 2006 DTC 6075 (F.C.A.), reversing 2005 DTC 1095 (T.C.C.).

► 67.1(1.1) ◄

(1.1) Expenses for food and beverages of long-haul truck drivers. An amount paid or payable by a long-haul truck driver in respect of the consumption of food or beverages by the driver during an eligible travel period of the driver is deemed to be the amount determined by multiplying the specified percentage in respect of the amount so paid or payable by the lesser of

(*a*) the amount so paid or payable, and

(*b*) a reasonable amount in the circumstances.

History: S. 67.1(1.1) was added by S.C. 2007, c. 35, s. 20(2), applicable to amounts that are paid, or become payable, on or after March 19, 2007.

► 67.1(2) ◄

(2) Exceptions. Subsection (1) does not apply to an amount paid or payable by a person in respect of the consumption of food or beverages or the enjoyment of entertainment where the amount

(*a*) is paid or payable for food, beverages or entertainment provided for, or in expectation of, compensation in the ordinary course of a business carried on by that person of providing the food, beverages or entertainment for compensation;

(*b*) relates to a fund-raising event the primary purpose of which is to benefit a registered charity;

(*c*) is an amount for which the person is compensated and the amount of the compensation is reasonable and specifically identified in writing to the person paying the compensation;

(*d*) is required to be included in computing any taxpayer's income because of the application of section 6 in respect of food or beverages consumed or entertainment enjoyed by the taxpayer or a person with whom the taxpayer does not deal at arm's length, or would be so required but for subparagraph 6(6)(*a*)(ii);

(*e*) is an amount that

(i) is not paid or payable in respect of a conference, convention, seminar or similar event,

(ii) would, but for subparagraph 6(6)(*a*)(i), be required to be included in computing any taxpayer's income for a taxation year because of the application of section 6 in respect of food or beverages consumed or entertainment enjoyed by the

taxpayer or a person with whom the taxpayer does not deal at arm's length, and

(iii) is paid or payable in respect of the taxpayer's duties performed at a work site in Canada that is

(A) outside any urban area, as defined by the last Census Dictionary published by Statistics Canada before the year, that has a population of at least 40,000 individuals as determined in the last census published by Statistics Canada before the year, and

(B) at least 30 kilometres from the nearest point on the boundary of the nearest such urban area;

(*e*.1) is an amount that

(i) is not paid or payable in respect of entertainment or of a conference, convention, seminar or similar event,

(ii) would, if this Act were read without reference to subparagraph 6(6)(*a*)(i), be required to be included in computing a taxpayer's income for a taxation year because of the application of section 6 in respect of food or beverages consumed by the taxpayer or by a person with whom the taxpayer does not deal at arm's length,

(iii) is paid or payable in respect of the taxpayer's duties performed at a site in Canada at which the person carries on a construction activity or at a construction work camp referred to in subparagraph (iv) in respect of the site, and

(iv) is paid or payable for food or beverages provided at a construction work camp, at which the taxpayer is lodged, that was constructed or installed at or near the site to provide board and lodging to employees while they are engaged in construction services at the site; or

(*f*) is in respect of one of six or fewer special events held in a calendar year at which the food, beverages or entertainment is generally available to all individuals employed by the person at a particular place of business of the person and consumed or enjoyed by those individuals.

History: S. 67.1(2)(*e*.1) was added by S.C. 2002, c. 9, s. 26(1), applicable to amounts paid or payable in respect of food and beverages provided after 2001.

S. 67.1(2)(*d*) was amended by S.C. 1999, c. 22, s. 20(1), applicable to the 1987 and subsequent taxation years. S. 67.1(2)(*d*) formerly read:

"(*d*) is required to be included in computing the income of an employee of the person or would be so required but for subparagraph 6(6)(*a*)(ii); or"

S. 67.1(2)(*e*) was amended, and paragraph (*f*) was added, by S.C. 1999, c. 22, s. 20(1), applicable to expenses incurred after February 23, 1998. S. 67.1(2)(*e*) formerly read:

"(*e*) is incurred by the person for food, beverages or entertainment generally available to all individuals employed by the person at a particular place of business of the person and consumed or enjoyed by such individuals."

S. 67.1(2)(*e*) was amended by S.C. 1994, c. 7, Sched. II, s. 43(1), applicable to taxation years ending after July 13, 1990. S. 67.1(2)(*e*) formerly read:

"(*e*) is incurred by the person for food, beverages or entertainment generally available to all employees of the person at a particular location."

Income Tax Technical News: Issue No. 15, Christmas parties and employer-paid special events.

► 67.1(3) ◄

(3) Fees for convention, etc. For the purposes of this section, where a fee paid or payable for a conference, convention, seminar or similar event entitles the participant to food, beverages or entertainment (other than incidental beverages and refreshments made available during the course of meetings or receptions at the event) and a reasonable part of the fee, determined on the basis of the cost of providing the food, beverages and entertainment, is not identified in the account for the fee as compensation for the food, beverages and entertainment, $50 or such other amount as may be prescribed shall be deemed to be the actual amount paid or payable in respect of food, beverages and entertainment for each day of the event on which food, beverages or entertainment is provided and, for the purposes of this Act, the fee for the event shall be deemed to be the actual amount of the fee minus the amount deemed by this subsection to be the actual amount paid or payable for the food, beverages and entertainment.

► 67.1(4) ◄

(4) Interpretation. For the purposes of this section,

(*a*) no amount paid or payable for travel on an airplane, train or bus shall be considered to be in respect of food, beverages or entertainment consumed or enjoyed while travelling thereon; and

(*b*) "entertainment" includes amusement and recreation.

► 67.1(5) ◄

(5) Definitions. The following definitions apply for the purpose of this section.

"eligible travel period" — "eligible travel period" in respect of a long-haul truck driver is a period during which the driver is away from the municipality or metropolitan area where the specified place in respect of the driver is located for a period of at least 24 continuous hours for the purpose of driving a long-haul truck that transports goods to, or from, a location that is beyond a radius of 160 kilometres from the specified place.

History: S. 67.1(5), the definition "eligible travel period" was added by S.C. 2007, c. 35, s. 20(3), applicable to amounts that are paid, or become payable, on or after March 19, 2007.

"long-haul truck" — "long-haul truck" means a truck or a tractor that is designed for hauling freight and that has a gross vehicle weight rating (as that term is defined in subsection 2(1) of the *Motor Vehicle Safety Regulations*) that exceeds 11 788 kilograms.

History: S. 67.1(5), the definition "long-haul truck" was added by S.C. 2007, c. 35, s. 20(3), applicable to amounts that are paid, or become payable, on or after March 19, 2007.

"long-haul truck driver" — "long-haul truck driver" means an individual whose principal business or principal duty of employment is driving a long-haul truck that transports goods.

History: S. 67.1(5), the definition "long-haul truck driver" was added by S.C. 2007, c. 35, s. 20(3), applicable to amounts that are paid, or become payable, on or after March 19, 2007.

"specified percentage" — "specified percentage" in respect of an amount paid or payable is

(*a*) 60 per cent, if the amount is paid or becomes payable on or after March 19, 2007 and before 2008;

(*b*) 65 per cent, if the amount is paid or becomes payable in 2008;

(*c*) 70 per cent, if the amount is paid or becomes payable in 2009;

(*d*) 75 per cent, if the amount is paid or becomes payable in 2010; and

(*e*) 80 per cent, if the amount is paid or becomes payable after 2010.

History: S. 67.1(5), the definition "specified percentage" was added by S.C. 2007, c. 35, s. 20(3), applicable to amounts that are paid, or become payable, on or after March 19, 2007.

"specified place" — "specified place" means, in the case of an employee, the employer's establishment to which the employee ordinarily reports to work is located and, in the case of an individual whose principal business is to drive a long-haul truck to transport goods, the place where the individual resides.

History: S. 67.1(5), the definition "specified place" was added by S.C. 2007, c. 35, s. 20(3), applicable to amounts that are paid, or become payable, on or after March 19, 2007.

SECTION 67.2: Interest on money borrowed for passenger vehicle.

For the purposes of this Act, where an amount is paid or payable for a period by a person in respect of interest on borrowed money used to acquire a passenger vehicle or on an amount paid or payable for the acquisition of such a vehicle, in computing the person's income for a taxation year, the amount of interest so paid or payable shall be deemed to be the lesser of the actual amount paid or payable and the amount determined by the formula

$$\frac{A}{30} \times B$$

where

A is $250 or such other amount as may be prescribed; and

B is the number of days in the period in respect of which the interest was paid or payable, as the case may be.

History: S. 67.2 was amended by S.C. 1994, c. 7, Sched. II, s. 44(1), applicable to taxation years and fiscal periods beginning after June 17, 1987 that end after 1987. S. 67.2 formerly read:

"S. 67.2. For the purposes of this Act, where an amount in respect of interest is payable by a person on borrowed money used to acquire, or on an amount payable for the acquisition of, a passenger vehicle, in computing the income of the person for a taxation year the amount of interest so payable shall be deemed to be the lesser of the actual amount payable and the amount determined by the formula

$$\frac{A}{30} \times B$$

where

A is $250 or such other amount as may be prescribed; and

B is the number of days in the year in respect of which the interest was payable."

Editorial Note: See regulation 7307(2) for current prescribed amounts. See the excerpt from the 2008 Federal Budget regarding plans to reduce the amount of record keeping required for automobile expense claims and taxable benefit calculations, reproduced following paragraph 8(1)(*h.1*).

Related Sections: S. 18(1)(*r*) Certain automobile expenses; s. 67.4 More than one owner or lessor; s. 248(1), "passenger vehicle".

Regulations: 7307(2).

Interpretation Bulletins: *Secondary* — IT-355R2 Interest on loans to buy life insurance policies and annuity contracts, and interest on policy loans [Archived by the CRA]; IT-521 Motor vehicle expenses claimed by self-employed individuals; IT-522R Vehicle, Travel and Sales Expenses of Employees; IT-525R (Consolid.) Performing Artists.

Income Tax Technical News: Issue No. 10, 1997 deduction limits and benefit rates for automobiles.

SECTION 67.3: Limitation re cost of leasing passenger vehicle.

Notwithstanding any other section of this Act, where

(*a*) in a taxation year all or part of the actual lease charges in respect of a passenger vehicle are paid or payable, directly or indirectly, by a taxpayer, and

(*b*) in computing the taxpayer's income for the year an amount may be deducted in respect of those charges,

in determining the amount that may be so deducted, the total of those charges shall be deemed not to exceed the lesser of

(*c*) the amount determined by the formula

$$\frac{(A \times B)}{30} - C - D - E$$

where

A is $600 or such other amount as is prescribed,

B is the number of days in the period commencing at the beginning of the term of the lease and ending at the earlier of the end of the year and the end of the lease,

C is the total of all amounts deducted in computing the taxpayer's income for preceding taxation years in respect of the actual lease charges in respect of the vehicle,

D is the amount of interest that would be earned on the part of the total of all refundable amounts in respect of the lease that exceeds $1,000 if interest were

(i) payable on the refundable amounts at the prescribed rate, and

(ii) computed for the period before the end of the year during which the refundable amounts were outstanding, and

E is the total of all reimbursements that became receivable before the end of the year by the taxpayer in respect of the lease, and

(*d*) the amount determined by the formula

$$\frac{(A \times B)}{.85C} - D - E$$

where

A is the total of the actual lease charges in respect of the lease incurred in respect of the year or the total of the actual lease charges in respect of the lease paid in the year (depending on the method regularly followed by the taxpayer in computing income),

B is $20,000 or such other amount as is prescribed,

C is the greater of $23,529 (or such other amount as is prescribed) and the manufacturer's list price for the vehicle,

D is the amount of interest that would be earned on that part of the total of all refundable amounts paid in respect of the lease that exceeds $1,000 if interest were

(i) payable on the refundable amounts at the prescribed rate, and

(ii) computed for the period in the year during which the refundable amounts are outstanding, and

E is the total of all reimbursements that became receivable during the year by the taxpayer in respect of the lease.

History: S. 67.3 was amended by S.C. 1994, c. 7, Sched. II, s. 45(1), applicable to taxation years and fiscal periods beginning after June 17, 1987 that end after 1987, except that, with respect to amounts paid or payable as a reimbursement in respect of a lease expense, the section applies to taxation years that end after July 13, 1990.

Notwithstanding the foregoing, with respect to leases entered into before 1991, the description of C in paragraph 67.3(*d*) of the Act shall be read as follows:

"C is the greater of $23,529 (or such other amount as is prescribed)and the total of

(i) the manufacturer's list price for the vehicle, and

(ii) the provincial sales tax, if any, that would have been payable by a purchaser of the vehicle if it had been purchased at the manufacturer's list price for the vehicle at the time the first lease of the vehicle was entered into and in the province under the laws of which the vehicle was registered for the greatest part of the year,"

S. 67.3 formerly read:

"S. 67.3. *Limitation re cost of leasing passenger vehicle.* Notwithstanding any other provision of this Act, where

(*a*) a taxpayer leases a passenger vehicle from a lessor in a taxation year, and

(*b*) in computing the taxpayer's income for the year an amount may be deducted in respect of the vehicle,

in determining the amount that may be so deducted, the cost to the taxpayer of leasing the vehicle shall not exceed the lesser of

(*c*) the amount determined by the formula

$$\frac{(A \times B)}{30} - C - D - E$$

where

A is $600 or such other amount as may be prescribed,

B is the number of days before the end of the year during which the vehicle was leased by the taxpayer from the lessor,

C is the total of all amounts deducted in computing the taxpayer's income for preceding taxation years in respect of the lease of the vehicle,

D is the amount of interest that would be earned on that part of the total of all refundable amounts paid by or on behalf of the taxpayer in respect of the lease that exceeds $1,000 if interest were

(i) payable on the refundable amounts at the prescribed rate, and

(ii) computed for the period before the end of the year during which the refundable amounts were outstanding, and

E is the total of all reimbursements receivable by the taxpayer in respect of the lease of the vehicle before the end of the year, and

(*d*) the amount determined by the formula

$$\frac{(A \times B)}{.85C} - D - E$$

where

A is the total of the actual lease charges payable to the lessor by the taxpayer for the lease of the vehicle during the year,

B is $20,000 or such other amount as may be prescribed,

C is the greater of $23,529 (or such other amount as may be prescribed) and the total of

(i) the manufacturer's list price for the vehicle, and

(ii) the provincial sales tax, if any, that would have been payable by a purchaser of the vehicle if it had been purchased at the manufacturer's list price for the vehicle at the time the first lease of the vehicle was entered into and in the province under the laws of which the vehicle was registered for the greatest part of the year,

D is the amount of interest that would be earned on that part of the total of all refundable amounts paid by or on behalf of the taxpayer in respect of the lease that exceeds $1,000 if interest were

(i) payable on the refundable amounts at the prescribed rate, and

(ii) computed for the period in the year during which the refundable amounts are outstanding, and

E is the total of all reimbursements receivable by the taxpayer in respect of the lease of the vehicle during the year."

Editorial Note: See regulation 7307 for the prescribed amounts applicable to section 67.3. See the excerpt from the 2008 Federal Budget regarding plans to reduce the amount of record keeping required for automobile expense claims and taxable benefit calculations, reproduced following paragraph 8(1)(*h.1*).

Related Sections: S. 67.4 More than one owner or lessor; s. 248(1), "passenger vehicle".

Regulations: 4301; 7307(1), (3), (4).

Interpretation Bulletins: *Secondary*— IT-521 Motor vehicle expenses claimed by self-employed individuals; IT-522R Vehicle, travel and sales expenses of employees; IT-525R (Consolid.) Performing artists.

Income Tax Technical News: Issue No. 10, 1997 deduction limits and benefit rates for automobiles.

SECTION 67.4: More than one owner or lessor.

Where a person owns or leases a motor vehicle jointly with one or more other persons, the reference in paragraph 13(7)(g) to the amount of $20,000, in section 67.2 to the amount of $250 and in section 67.3 to the amounts of $600, $20,000 and $23,529 shall be read as a reference to that proportion of each of those amounts or such other amounts as may be prescribed for the purposes thereof that the fair market value of the first-mentioned person's interest in the vehicle is of the fair market value of the interests in the vehicle of all those persons.

Regulations: 7307(1), (2), (3).

Interpretation Bulletins: *Secondary*— IT-521 Motor vehicle expenses claimed by self-employed individuals; IT-522R Vehicle, travel and sales expenses of employees.

SECTION 67.5:

► 67.5(1) ◄

(1) Non-deductibility of illegal payments. In computing income, no deduction shall be made in respect of an outlay made or expense incurred for the purpose of doing anything that is an offence under section 3 of the *Corruption of Foreign Public Officials Act* or under any of sections 119 to 121, 123 to 125, 393 and 426 of the *Criminal Code*, or an offence under section 465 of the *Criminal Code* as it relates to an offence described in any of those sections.

History: S. 67.5(1) was amended by S.C. 1998, c. 34, s. 10, effective February 14, 1999. S. 67.5(1) formerly read:

"S. 67.5. *Non-deductibility of illegal payments.*

(1) In computing income, no deduction shall be made in respect of an outlay made or expense incurred for the purpose of doing anything that is an offence under any of sections 119 to 121, 123 to 125, 393 and 426 of the *Criminal Code* or an offence under section 465 of that Act as it relates to an offence described in any of those sections."

S. 67.5(1) was added by S.C. 1994, c. 7, Sched. II, s. 46(1), applicable to outlays made and expenses incurred after July 13, 1990.

Interpretation Bulletins: *Secondary*— IT-533 Interest deductibility and related issues.

Canadian Petroleum Tax Journal: Recent Cases of Interest — Deduction of Fines, Penalties, and Damage Awards, Gerald Grenon, Vol. 13 No. 1 2000.

► 67.5(2) ◄

(2) Reassessments. Notwithstanding subsections 152(4) to (5), the Minister may make such assessments, reassessments and additional assessments of tax, interest and penalties and such determinations and redeterminations as are necessary to give effect to subsection (1) for any taxation year.

History: S. 67.5(2) was added by S.C. 1994, c. 7, Sched. II, s. 46(1), applicable to outlays made and expenses incurred after July 13, 1990.

SECTION 67.6: Non-deductibility of fines and penalties.

In computing income, no deduction shall be made in respect of any amount that is a fine or penalty (other than a prescribed fine or penalty) imposed under a law of a country or of a political subdivision of a country (including a state, province or territory) by any person or public body that has authority to impose the fine or penalty.

Federal Budget Extract

Non-Deductibility of Interest and Penalties

[Reproduced below is an excerpt from the May 2, 2006 Federal Budget, which sets out proposed amendments to the *Income Tax Act* concerning the non-deductibility of interest and penalties imposed under various tax statutes.]

The *Income Tax Act* was amended in 2004 to provide that fines and penalties are not generally deductible. However, pending the outcome of ongoing work relating to the harmonization of administrative rules — including penalties and interest — under various tax statutes, it was proposed at that time that this prohibition on the deductibility of penalties not apply to prescribed penalty interest imposed under the *Excise Act*, the *Air Travellers Security Charge Act* and the GST/HST portions of the *Excise Tax Act*. As this harmonization exercise is now complete with the introduction of the proposals outlined above, Budget 2006 proposes that this prescription be removed in so far as it relates to the *Air Travellers Security Charge Act* and

the GST/HST portions of the *Excise Tax Act*. In addition, interest payable under the *Air Travellers Security Charge Act* and the GST/HST portions of the *Excise Tax Act* will no longer be deductible for income tax purposes.

Editorial Note: Paragraph 18(1)(*t*) was amended by Bill C-13 (Royal Assent June 22, 2006) to provide that interest paid or payable under the GST portion of the *Excise Tax Act* or under the *Air Travellers Security Charge Act* is not deductible, applicable to taxation years that begin on or after April 1, 2007. The second part of the Budget proposal noted above, concerning removing the exemption for prescribed penalty interest imposed under the *Excise Act*, the *Air Travellers Security Charge Act* and the GST/HST portions of the *Excise Tax Act*, presumably will be implemented by amending or withdrawing draft regulation 7309, applicable on the same date.

History: S. 67.6 was added by S.C. 2005, c. 19, s. 16(1), applicable to fines and penalties imposed after March 22, 2004.

Editorial Note: Section 67.6 does not apply to fines and penalties imposed under private contracts. Further, it does not apply to prescribed fines or penalties (see draft regulation 7309). However, see the excerpt from the 2006 Federal Budget and editorial note reproduced above.

Proposed Regulations: 7309.

Income Tax Technical News: Issue No. 38, Income Tax Treatment of GST.

SECTION 68: Allocation of amounts in consideration for disposition of property.

Where an amount received or receivable from a person can reasonably be regarded as being in part the consideration for the disposition of a particular property of a taxpayer or as being in part consideration for the provision of particular services by a taxpayer,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of section 68 of the Act before paragraph (*a*) is replaced by the following:

SECTION 68: Allocation of amounts in consideration for property, services or restrictive covenants.

If an amount received or receivable from a person can reasonably be regarded as being in part the consideration for the disposition of a particular property of a taxpayer, for the provision of particular services by a taxpayer or for a restrictive covenant as defined by subsection 56.4(1) granted by a taxpayer,

Applicable: On and after February 27, 2004, other than to a taxpayer's grant of a restrictive covenant made in writing by the taxpayer before February 27, 2004 between the taxpayer and a person with whom the taxpayer deals at arm's length.

Explanatory Note: Section 68 of the Act applies where an amount received or receivable can reasonably be regarded as being in Part consideration for the disposition of a particular property of a taxpayer or as being in Part consideration for the provision of particular services. If the amount is in Part consideration for the disposition of property, that Part of the consideration that can reasonably be regarded as being for the disposition of property is deemed to be the proceeds of disposition of that property and, reciprocally, the cost of the property for the acquirer. If the amount is in Part consideration for the provision of particular services, that part of the consideration that can reasonably be regarded as being for the provision of particular services is deemed to be an amount received or receivable by the taxpayer in respect of those services and, reciprocally, an amount paid or payable by the person to whom the services are rendered.

Section 68 is amended to apply in circumstances where consideration received or receivable from a person is in Part for a restrictive covenant (as defined by new subsection 56.4(1) of the Act) granted by a taxpayer. However, exceptions to the application of section 68 to a restrictive covenant are provided in new subsections 56.4(5) to (8). If section 68 applies, the part of the consideration that can reasonably be regarded as being for the restrictive covenant is considered to be an amount that is received or receivable by the taxpayer in respect of the restrictive covenant, and that Part is also considered to be paid or payable to the taxpayer by the person to whom the restrictive covenant was granted.

This change applies on and after February 27, 2004, other than to a taxpayer's grant of a restrictive covenant made in writing before February 27, 2004 between the taxpayer and a person with whom the taxpayer deals at arm's length.

(*a*) the part of the amount that can reasonably be regarded as being the consideration for the disposition shall be deemed to be proceeds of disposition of the particular property irrespective of the form or legal effect of the contract or agreement, and the person to whom the property was disposed of shall be deemed to have acquired it for an amount equal to that part; and

(*b*) the part of the amount that can reasonably be regarded as being consideration for the provision of particular services shall be deemed to be an amount received or receivable by the taxpayer in respect of those services irrespective of the form or legal effect of the contract or agreement, and that part shall be deemed to be an amount paid or payable to the taxpayer by the person to whom the services were rendered in respect of those services.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 68 of the Act is amended by striking out the word "and" at the end of paragraph (*a*), by adding the word "and" at the end of paragraph (*b*) and by adding the following after paragraph (*b*):

(*c*) the part of the amount that can reasonably be regarded as being consideration for the restrictive covenant is deemed to be an amount received or receivable by the taxpayer in respect of the restrictive covenant irrespective of the form or legal effect of the contract or agreement, and that part is deemed to be an amount paid or payable to the taxpayer by the person to whom the restrictive covenant was granted.

Applicable: On and after February 27, 2004, other than to a taxpayer's grant of a restrictive covenant made in writing by the taxpayer before February 27, 2004 between the taxpayer and a person with whom the taxpayer deals at arm's length.

Explanatory Note: See the Explanatory Note following the amendment to the portion of section 68 of the Act before paragraph (*a*).

Related Sections: S. 70(5) Capital property of a deceased taxpayer; s. 70(6) Where transfer or distribution to spouse or spouse trust; s. 248(1), "amount", "property".

Interpretation Bulletins: *Secondary* — IT-96R6 Options granted by corporations to acquire shares, bonds or debentures; IT-143R3 Meaning of eligible capital expenditure; IT-220R2 Capital cost allowance — Proceeds of disposition of depreciable property.

Tax Topics: No. 1875, Restrictive Covenants; No. 1638, Valuing a Non-Compete Agreement.

Cases: Where an amount is received which is partly payment for the disposition of property and partly payment for "something else", the taxpayer must establish that the allocation of the amount between property and "some-

thing else" is reasonable. In this context, the expression "something else" is not limited to non-property, but includes different items and classes of property. Thus, where a transaction involved the sale of land and buildings, the buildings were "something else" and the taxpayer had the onus of showing that the allocation of the sale price was reasonable. *The Queen v. Golden*, 86 DTC 6138 (S.C.C.), affirming 83 DTC 5138 (F.C.A.), which reversed 80 DTC 6378 (F.C.T.D.).

SECTION 69:

► 69(1) ◄

(1) Inadequate considerations. Except as expressly otherwise provided in this Act,

(*a*) where a taxpayer has acquired anything from a person with whom the taxpayer was not dealing at arm's length at an amount in excess of the fair market value thereof at the time the taxpayer so acquired it, the taxpayer shall be deemed to have acquired it at that fair market value;

(*b*) where a taxpayer has disposed of anything

(i) to a person with whom the taxpayer was not dealing at arm's length for no proceeds or for proceeds less than the fair market value thereof at the time the taxpayer so disposed of it,

(ii) to any person by way of gift *inter vivos*, or

(iii) to a trust because of a disposition of a property that does not result in a change in the beneficial ownership of the property; and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 69(1)(*b*) of the English version of the Act is amended by striking out the word "and" at the end of subparagraph (iii).

Applicable: To dispositions that occur after December 23, 1998.

Explanatory Note: Subsection 69(1) of the Act provides rules that deal with gifts and non-arm's length dispositions of property, except where such transactions are expressly covered by other provisions in the Act that apply to the gift or other disposition. The English version of subparagraph 69(1)(*b*)(iii) is amended to correct an editorial error, by deleting the word "and" at the end of the subparagraph.

This amendment applies to dispositions that occur after December 23, 1998.

the taxpayer shall be deemed to have received proceeds of disposition therefor equal to that fair market value; and

(*c*) where a taxpayer acquires a property by way of gift, bequest or inheritance or because of a disposition that does not result in a change in the beneficial ownership of the property, the taxpayer is deemed to acquire the property at its fair market value.

History: S. 69(1)(*b*)(iii) was added by S.C. 2001, c. 17, s. 51(1), applicable to dispositions that occur after December 23, 1998.

S. 69(1)(*c*) was amended by S.C. 2001, c. 17, s. 51(2), applicable to acquisitions that occur after December 23, 1998. S. 69(1)(*c*) formerly read:

"(*c*) where a taxpayer has acquired property by way of gift, bequest or inheritance, the taxpayer shall be deemed to have acquired the property at its fair market value at the time the taxpayer so acquired it."

Editorial Note: The deeming rules in paragraphs 69(1)(*a*) and (*b*) are one-sided, in that they only apply to the taxpayer and not the person disposing of the property (paragraph (*a*)) or the person acquiring the property (paragraph (*b*)), as the case may be. However, in the case of a gift or inheritance, the person acquiring the property is subject to the deemed acquisition at fair market value rule in paragraph 69(1)(*c*). Note that the deeming rules are subject to the express provisions of the Act that provide otherwise.

Related Sections: S. 15(1) Benefit conferred on shareholder; s. 40(2) Limitations; s. 51(1) Convertible property; s. 52(1) Cost of certain property the value of which included in income; s. 52(1.1) Idem, where owner non-resident; s. 52(2) Cost of property received as dividend in kind; s. 69(4) Shareholder appropriations; s. 69(5) Winding-up of corporation; s. 70(6) Where transfer or distribution to spouse or spouse trust; s. 73(1) Inter vivos transfers by individuals; s. 74.1(1) Transfers and loans to spouse; s. 74.2(1) Gain or loss deemed that of lender or transferor; s. 85(1) Transfer of property to corporation by shareholders; s. 86(1) Exchange of shares by a shareholder in course of reorganization of capital; s. 87(4) Shares of predecessor corporation; s. 88(1) Winding-up; s. 107(1.1) Cost of capital interest in a trust; s. 248(1), "amount", "property".

Interpretation Bulletins: *Primary* — IT-209R Inter-vivos gifts of capital property to individuals directly or through trusts; IT-405 Inadequate considerations — Acquisitions and dispositions [Archived by the CRA]. *Secondary* — IT-125R4 Disposition of resource properties; IT-140R3 Buy-sell agreements; IT-143R3 Meaning of eligible capital expenditure; IT-169 Price adjustment clauses; IT-212R3 Income of deceased persons — Rights or things; IT-213R Prizes from lottery schemes, pool system betting and giveaway contests; IT-226R Gift to a charity of a residual interest in real property or an equitable interest in a trust; IT-268R4 Inter vivos transfer of farm property to a child; IT-268R3 Inter vivos transfer of farm property to a child [Archived by the CRA.]; IT-288R2 Gifts of capital properties to a charity and others; IT-297R2 Gifts in kind to charity and others; IT-335R2 Indirect payments; IT-427R Livestock of farmers; IT-432R2 Benefits conferred on shareholders; IT-433R Farming or fishing — Use of cash method; IT-490 Barter transactions; IT-504R2 (Consolid.) Visual artists and writers.

Information Circulars: IC 72-25R4 Business equity valuations; IC 87-2R International Transfer Pricing; IC 89-3 Policy statement on business equity valuations.

Advance Tax Rulings: ATR-1 Transfer of legal title in land to bare trustee corporation — Mortgagee's requirements sole reason for transfer; ATR-9 Transfer of personal residence from corporation to its controlling shareholder; ATR-36 Estate freeze.

Tax Topics: No. 1854, The Effectiveness of Price Adjustment Clauses; No. 1814, 2006 Canadian Tax Foundation Annual Conference CRA Round Table.

Tax Profile: July 2007 — Canadian Tax Traps.

Cases: The parties involved in a sale of seismic data were dealing at arm's length even though the vendor also acted as the purchaser's agent. *The Queen v. McLarty*, 2008 DTC 6354 (S.C.C.), reversing in part 2006 DTC 6340 (F.C.A.), reversing in part 2005 DTC 217 (T.C.C.).

The taxpayers each purchased a group of limited edition prints, donated them to charities and received donation receipts for approximately three times the purchase price. Since the prints were acquired and donated in groups, FMV should be determined on a group basis and was equal to the highest price that the art vendor charged for each group of prints. *A.G. of Canada v. Nash et al.*, 2005 DTC 5696 (F.C.A.), reversing 2004 DTC 3391 (T.C.C.), 2004 DTC 3328 and 2004 DTC 3360.

A limited partner was denied partnership losses which resulted from CCA taken at the partnership level relating to the purchase of certain processing equipment. The purchase of the equipment was not at arm's length, and hence was deemed to have taken place at fair market value. *Deptuck v. The Queen*, 2003 DTC 5272 (F.C.A.), affirming 2002 DTC 1835 (T.C.C.).

A limited partnership, ITOLP, acquired equipment from a corporation, IRRI, of which G was the controlling shareholder. At that time, ITOLP's only partners were G and ITML, a corporation of which G was the sole shareholder and director. Paragraph 69(1)(a) was invoked to deem the purchase price to be the fair market value of the equipment. The taxpayers could not be heard to argue that the non-arm's length deeming rules of s. 69(1) were applicable only to "persons" and not to partnerships as separate entities. *Chutka et al. v. The Queen*, 2001 DTC 5093 (F.C.A.), affirming 98 DTC 1668 (T.C.C.).

The taxpayer was diluting his own shareholdings in a company and increasing those of his wife and children. Those dispositions by the taxpayer of his economic interest in the company gave rise to gifts, bringing into operation the "deemed proceeds" provisions of s. 69(1)(*b*)(ii) and justifying the inclusion in the taxpayer's income of his one-half share of such deemed proceeds. *The Queen v. Kieboom*, 92 DTC 6382 (F.C.A.), affirming 91 DTC 5478 (F.C.T.D.).

► 69(1.1) ◄

(1.1) Idem, where s. 70(3) applies. Where a taxpayer has acquired property that is a right or thing to which subsection 70(3) applies, the following rules apply:

(*a*) paragraph (1)(*c*) is not applicable to that property; and

(*b*) the taxpayer shall be deemed to have acquired the property at a cost equal to the total of

(i) such part, if any, of the cost thereof to the taxpayer who has died as had not been deducted by the taxpayer in computing the taxpayer's income for any year, and

(ii) any expenditures made or incurred by the taxpayer to acquire the property.

Related Sections: S. 70(3) Rights or things transferred to beneficiaries.
Interpretation Bulletins: *Secondary* — IT-212R3 Income of deceased persons — Rights or things; IT-427R Livestock of farmers.

► 69(1.2) ◄

(1.2) Idem. Where, at any time,

(*a*) a taxpayer disposed of property for proceeds of disposition (determined without reference to this subsection) equal to or greater than the fair market value at that time of the property, and

(*b*) there existed at that time an agreement under which a person with whom the taxpayer was not dealing at arm's length agreed to pay as rent, royalty or other payment for the use of or the right to use the property an amount less than the amount that would have been reasonable in the circumstances if the taxpayer and the person had been dealing at arm's length at the time the agreement was entered into,

the taxpayer's proceeds of disposition of the property shall be deemed to be the greater of

(*c*) those proceeds determined without reference to this subsection, and

(*d*) the fair market value of the property at the time of the disposition, determined without reference to the existence of the agreement.

History: S. 69(1.2) was added by S.C. 1994, c. 7, Sched. VIII, s. 27(1), applicable to dispositions occurring after December 20, 1991.

Related Sections: S. 13(21), "proceeds of disposition"; s. 54, "proceeds of disposition"; s. 248(1), "property".

► 69(2) ◄

(2) Unreasonable consideration. [Repealed by S.C. 1998, c. 19, s. 107(1).]

History: S. 69(2) was repealed by S.C. 1998, c. 19, s. 107(1), applicable to taxation years that begin after 1997. S. 69(2) formerly read:

"(2) *Unreasonable consideration.* Where a taxpayer has paid or agreed to pay to a non-resident person with whom the taxpayer was not dealing at arm's length as price, rental, royalty or other payment for or for the use or reproduction of any property, or as consideration for the carriage of goods or passengers or for other services, an amount greater than the amount (in this subsection referred to as 'the reasonable amount') that would have been reasonable in the circumstances if the non-resident person and the taxpayer had been dealing at arm's length, the reasonable amount shall, for the purpose of computing the taxpayer's income under this Part, be deemed to have been the amount that was paid or is payable therefor."

Related Sections: S. 247(2) Transfer pricing adjustment; s. 251 Arm's length; s. 253 Extended meaning of "carrying on business".
Interpretation Bulletins: *Secondary* — IT-468R Management or administration fees paid to non-residents.

► 69(3) ◄

(3) Idem. [Repealed by S.C. 1998, c. 19, s. 107(1).]

History: S. 69(3) was repealed by S.C. 1998, c. 19, s. 107(1), applicable to taxation years that begin after 1997. It formerly read:

"(3) *Idem.* Where a non-resident person has neither paid nor agreed to pay to a taxpayer with whom the person was not dealing at arm's length as price, rental, royalty or other payment for or for the use or reproduction of any property or as consideration for the carriage of goods or passengers or for other services, an amount equal to or greater than the amount that would have been a reasonable amount in the circumstances if the non-resident person and the taxpayer had been dealing at arm's length, that reasonable amount shall, for the purpose of computing the taxpayer's income under this Part, be deemed to have been received or receivable by the taxpayer therefor."

S. 69(3) was amended by S.C. 1994, c. 7, Sched. II, s. 47(1), applicable to transactions or events occurring after July 13, 1990. S. 69(3) formerly read:

"(3) Where a non-resident person has neither paid nor agreed to pay to a taxpayer with whom the taxpayer was not dealing at arm's length as price, rental, royalty or other payment for or for the use or reproduction of any property, or as consideration for the carriage of goods or passengers or for other services, the amount that would have been reasonable in the circumstances if the non-resident person and the taxpayer had been dealing at arm's length, that amount shall, for the purpose of computing the taxpayer's income under this Part, be deemed to have been received or receivable by the taxpayer therefor."

Related Sections: S. 251 Arm's length; s. 253 Extended meaning of "carrying on business".

► 69(4) ◄

(4) Shareholder appropriations. Where at any time property of a corporation has been appropriated in any manner whatever to or for the benefit of a shareholder of the corporation for no consideration or for consideration that is less than the property's fair market value and a sale of the property at its fair market value would have increased the corporation's income or reduced a loss of the corporation, the corporation shall be deemed to have disposed of the property, and to have received proceeds of disposition therefor equal to its fair market value, at that time.

History: S. 69(4) was amended by S.C. 1994, c. 21, s. 32(1), applicable to appropriations occurring after December 21, 1992. S. 69(4) formerly read:

"(4) *Idem.* Where property of a corporation has been appropriated in any manner whatever to, or for the benefit of, a shareholder, for no consideration or for a consideration below the fair market value, if the sale thereof at the fair market value would have increased the corporation's income for a taxation year, for the purpose of determining the corporation's income for the year, it shall be deemed to have sold the property during the year and to have received therefor the fair market value thereof."

► 69(5) ◄

(5) Idem. Where in a taxation year of a corporation property of the corporation has been appropriated in any manner whatever to, or for the benefit of, a shareholder, on the winding-up of the corporation, the following rules apply:

(*a*) the corporation is deemed, for the purpose of computing its income for the year, to have disposed of the property immediately before the winding-up for proceeds equal to its fair market value at that time;

(*b*) the shareholder shall be deemed to have acquired the property at a cost equal to its fair market value immediately before the winding-up;

(*c*) subsections 52(1) and (2) do not apply for the purposes of determining the cost to the shareholder of the property; and

(*d*) subsections 13(21.2), 14(12), 18(15) and 40(3.4) and (3.6) do not apply in respect of any property disposed of on the winding-up.

History: S. 69(5)(*c*) was amended by S.C. 2001, c. 17, s. 51(3), applicable to dispositions that occur after 1999. S. 69(5)(*c*) formerly read:

"(*c*) subsections 52(1), (1.1) and (2) are not applicable for the purposes of determining the cost to the shareholder of the property; and"

S. 69(5)(*a*) was amended by S.C. 1998, c. 19, s. 107(2), applicable to windings-up that begin after 1995. S. 69(5)(*a*) formerly read:

"(*a*) for the purpose of computing the corporation's income for the year,

(i) it shall be deemed to have sold each such property immediately before the winding-up and to have received therefor the fair market value thereof at that time, and

(ii) paragraph 40(2)(*e*) shall not apply in computing the loss, if any, from the sale of any such property;"

S. 69(5)(*c*), (*d*) and (*e*) was amended by S.C. 1998, c. 19, s. 107(3), applicable to windings-up that begin after April 26, 1995 except that, in its application to windings-up that began before 1996, paragraph 69(5)(*d*) of the Act shall be read as follows:

"(*d*) subsections 13(21.2), 14(12), 18(15), 40(3.4) and (3.6) and 85(4) and (5.1) do not apply to the winding-up; and

(*e*) paragraph 40(2)(*e*) does not apply in computing the loss, if any, of the shareholder from the disposition of a share of the capital stock of the corporation to the corporation on the winding-up."

S. 69(5)(*c*), (*d*) and (*e*) formerly read:

"(*c*) subsections 52(1), (1.1) and (2) are not applicable for the purposes of determining the cost to the shareholder of the property;

(*d*) subsections 85(4) and (5.1) shall not apply in respect of the winding-up; and

(*e*) paragraph 40(2)(*e*) does not apply in computing the loss, if any, of the shareholder from the disposition of a share of the capital stock of the corporation to the corporation on the winding-up."

S. 69(5)(*e*) was added by S.C. 1994, c. 7, Sched. II, s. 47(2), applicable to dispositions of shares occurring after 1985.

Interpretation Bulletins: *Secondary* — IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].

► 69(6) ◄

(6) Disposition of petroleum, etc. [Repealed by S.C. 2003, c. 28, s. 8(2).]

History: S. 69(6) was repealed by S.C. 2003, c. 28, s. 8(2), applicable to taxation years that begin after 2006. S. 69(6) formerly read:

"(6) *Disposition of petroleum, etc.* An operator with respect to a natural accumulation of petroleum or natural gas in Canada, an oil or gas well in Canada or a mineral resource in Canada who at any time disposes of property, produced in the operation, that is petroleum, natural gas or related hydrocarbons, metal or minerals for no proceeds of disposition or for proceeds of disposition less than its fair market value at that time, is deemed to have received proceeds of disposition for the property equal to that fair market value if the disposition is to

(*a*) Her Majesty in right of Canada or of a province;

(*b*) an agent of Her Majesty in right of Canada or of a province; or

(*c*) a corporation, a commission or an association that is controlled by Her Majesty in right of Canada or of a province or by an agent of Her Majesty in right of Canada or of a province."

S. 69(6) was replaced by S.C. 2003, c. 28, s. 8(1), applicable to dispositions that occur after December 20, 2002. S. 69(6) formerly read:

"(6) *Idem.* Where a taxpayer who is an operator with respect to a natural accumulation of petroleum or natural gas in Canada, an oil or gas well in Canada or a mineral resource in Canada disposes by virtue of an obligation imposed by statute or a contractual obligation substituted for an obligation imposed by statute of any petroleum, natural gas or related hydrocarbons or metal or minerals produced in the operation to

(*a*) Her Majesty in right of Canada or a province,

(*b*) an agent of Her Majesty in right of Canada or a province, or

(*c*) a corporation, commission or association that is controlled by Her Majesty in right of Canada or a province or by an agent of Her Majesty in right of Canada or a province

for no proceeds of disposition or for proceeds of disposition less than the fair market value thereof at the time the taxpayer so disposes of it, the taxpayer shall be deemed to have received proceeds of disposition therefor equal to that fair market value determined, in circumstances where the taxpayer is required by a law or contract to so dispose thereof, without regard to that law or contract."

Related Sections: S. 12(1)(*o*) Royalties, etc.; s. 18(1)(*m*) Royalties, etc.; s. 53(1)(*e*) Adjustments to cost base — Interest in a partnership; s. 53(2)(*c*) Amounts to be deducted — Interest in a partnership; s. 69(7) Acquisition of petroleum, natural gas, etc.; s. 69(8) Fair market value of resource output disposed of to Crown; s. 69(9) Fair market value of resource output acquired from Crown; s. 69(10) Certain persons deemed to be same person; s. 104(29) Amounts deemed payable to beneficiaries; s. 208(1)(*a*)(iii) Tax payable by exempt person; s. 219(1)(*k*) Branch tax.

Regulations: 1204(4); 1206(9)(*c*).

Interpretation Bulletins: *Secondary* — IT-438R2 Crown charges — Resource properties in Canada.

Forms: T81(IND); T2 SCH 420; T82; T2 SCH 400.

► 69(7) ◄

(7) Idem. [Repealed by S.C. 2003, c. 28, s. 8(2).]

History: S. 69(7) was repealed by S.C. 2003, c. 28, s. 8(2), applicable to taxation years that begin after 2006. S. 69(7) formerly read:

"(7) *Idem.* Where a taxpayer who is an operator with respect to a natural accumulation of petroleum or natural gas in Canada, an oil or gas well in Canada or a mineral resource in Canada acquires any petroleum, natural gas or related hydrocarbons or metal or minerals produced in the operation from

(*a*) Her Majesty in right of Canada or a province,

(*b*) an agent of Her Majesty in right of Canada or a province, or

(*c*) a corporation, commission or association that is controlled by Her Majesty in right of Canada or a province or by an agent of Her Majesty in right of Canada or a province

for an amount in excess of the fair market value thereof at the time the taxpayer so acquired the petroleum, natural gas or related hydrocarbons or metal or minerals, the taxpayer shall be deemed to have acquired the petroleum, natural gas or related hydrocarbons or metal or minerals at that fair market value determined, in circumstances where the taxpayer is required by a law or contract to so acquire the petroleum, natural gas or related hydrocarbons or metal or minerals, without regard to that law or contract."

Related Sections: S. 12(1)(*o*) Royalties, etc.; s. 18(1)(*m*) Royalties, etc.; s. 69(6) Disposition of petroleum, natural gas, etc.; s. 69(8) Fair market value of resource output disposed of to Crown; s. 69(9) Fair market value of resource output acquired from Crown; s. 69(10) Certain persons deemed to be same person; s. 104(29) Amounts deemed payable to beneficiaries; s. 208(1)(*a*)(iv) Tax payable by exempt person; s. 219(1)(*k*) Branch tax.

Regulations: 1206(9).

Interpretation Bulletins: *Secondary* — IT-438R2 Crown charges — Resource properties in Canada.

Forms: T81(IND); T2 SCH 420; T82; T2 SCH 400.

► 69(7.1) ◄

(7.1) Aviation turbine fuel. [Repealed by 1983-84, c. 1, s. 31(1).]

► 69(8) ◄

(8) Fair market value of resource output disposed of to Crown. [Repealed by S.C. 2003, c. 28, s. 8(2).]

History: S. 69(8) was repealed by S.C. 2003, c. 28, s. 8(2), applicable to taxation years that begin after 2006. S. 69(8) formerly read:

"(8) *Fair market value of resource output disposed of to Crown.* For the purposes of subsection (6), the fair market value at the time of disposition of a unit of any particular quantity of petroleum, natural gas or related hydrocarbons or metal or minerals disposed of by the taxpayer referred to in that subsection to a person referred to in any of paragraphs (6)(*a*) to (*c*) shall be deemed to be the amount by which

(*a*) the average proceeds of disposition that became receivable in the month that included that time by that person for the disposition of a like unit from a person other than a person referred to in any of paragraphs (6)(*a*) to (*c*)

exceed the total of

(*b*) the average total of all expenses (including depreciation) incurred by that person in respect of that month for each like unit that may reasonably be attributed to transmitting, transporting, marketing or processing thereof to the extent that those expenses are reasonable and necessary and do not include any cost of acquisition thereof, and

(*c*) in respect of the unit disposed of by the taxpayer, the amount that may reasonably be attributed as being an amount paid to, an amount that became payable to or an amount that became receivable by, Her Majesty in right of Canada for the use and benefit of a band or bands as defined in the *Indian Act*."

Related Sections: S. 12(1)(*o*) Royalties, etc.; s. 18(1)(*m*) Royalties, etc.; s. 69(6) Disposition of petroleum, natural gas, etc.; s. 69(7) Acquisition of petroleum, natural gas, etc.; s. 69(9) Fair market value of resource output acquired from Crown; s. 69(10) Certain persons deemed to be same person; s. 104(29) Amounts deemed payable to beneficiaries; s. 219(1)(*k*) Branch tax.

Interpretation Bulletins: *Secondary* — IT-438R2 Crown charges — Resource properties in Canada.

► 69(9) ◄

(9) Fair market value of resource output acquired from Crown. [Repealed by S.C. 2003, c. 28, s. 8(2).]

History: S. 69(9) was repealed by S.C. 2003, c. 28, s. 8(2), applicable to taxation years that begin after 2006. S. 69(9) formerly read:

"(9) *Fair market value of resource output acquired from Crown.* For the purposes of subsection (7), the fair market value of a unit of any particular quantity of petroleum, natural gas or related hydrocarbons or metals or minerals acquired by the taxpayer referred to in that subsection from a person referred to in any of paragraphs (7)(*a*) to (*c*) shall be deemed to be equal to the total of

(*a*) the amount, if any, paid or payable to the taxpayer by that person in respect of that unit, and

(*b*) the amount, if any, in respect of that unit paid or payable to Her Majesty in right of Canada by that person for the use and benefit of a band or bands as defined in the *Indian Act*."

Related Sections: S. 12(1)(*o*) Royalties, etc.; s. 18(1)(*m*) Royalties, etc.; s. 69(6) Disposition of petroleum, natural gas, etc.; s. 69(7) Acquisition of petroleum, natural gas, etc.; s. 69(8) Fair market value of resource output disposed of to Crown; s. 69(10) Certain persons deemed to be same person; s. 104(29) Amounts deemed payable to beneficiaries; s. 219(1)(*k*) Branch tax.

Interpretation Bulletins: *Secondary* — IT-438R2 Crown charges — Resource properties in Canada.

► 69(10) ◄

(10) Certain persons deemed to be same person. [Repealed by S.C. 2003, c. 28, s. 8(2).]

History: S. 69(10) was repealed by S.C. 2003, c. 28, s. 8(2), applicable to taxation years that begin after 2006. S. 69(10) formerly read:

"(10) *Certain persons deemed to be same person.* For the purposes of subsection (8), where a person referred to in any of paragraphs (6)(*a*) to (*c*) disposes of a unit of any particular quantity of petroleum, natural gas or related hydrocarbons or metal or minerals to another person referred to in any of those paragraphs, those persons shall be deemed to be the same person."

Related Sections: S. 12(1)(*o*) Royalties, etc.; s. 18(1)(*m*) Royalties, etc.; s. 69(6) Disposition of petroleum, natural gas, etc.; s. 69(7) Acquisition of petroleum, natural gas, etc.; s. 69(8) Fair market value of resource output disposed of to Crown; s. 69(9) Fair market value of resource output acquired from Crown; s. 104(29) Amounts deemed payable to beneficiaries; s. 219(1)(*k*) Branch tax.

Interpretation Bulletins: *Secondary* — IT-438R2 Crown charges — Resource properties in Canada.

► 69(11) ◄

(11) Deemed proceeds of disposition. Where, at any particular time as part of a series of transactions or events, a taxpayer disposes of property for proceeds of disposition that are less than its fair market value and it can reasonably be considered that one of the main purposes of the series is

(*a*) to obtain the benefit of

(i) any deduction (other than a deduction under subsection 110.6(2.1) in respect of a capital gain from a disposition of a share acquired by the taxpayer in an acquisition to which subsection 85(3) or 98(3) applied) in computing income, taxable income, taxable income earned in Canada or tax payable under this Act, or

(ii) any balance of undeducted outlays, expenses or other amounts

available to a person (other than a person that would be affiliated with the taxpayer immediately before the series began, if section 251.1 were read without reference to the definition "controlled" in subsection 251.1(3)) in respect of a subsequent disposition of the property or property substituted for the property, or

(*b*) to obtain the benefit of an exemption available to any person from tax payable under this Act on any income arising on a subsequent disposition of the property or property substituted for the property,

notwithstanding any other provision of this Act, where the subsequent disposition occurs, or arrangements for the subsequent disposition are made, before the day that is 3 years after the particular time, the taxpayer is deemed to have disposed of the property at the particular time for proceeds of disposition equal to its fair market value at the particular time.

History: S. 69(11) was amended by S.C. 1998, c. 19, s. 107(4), applicable to each disposition that is part of a series of transactions or events that begins after April 26, 1995, other than a disposition that occurred before 1996 to a person who was obliged on that day to acquire the property under the terms of an agreement in writing entered into on or before that day, and for the purpose of this subsection, a person is considered not to be obliged to acquire property where the person can be excused from the obligation if there is a change to the Act or if there is an adverse assessment under the Act. S. 69(11) formerly read:

"(11) *Deemed proceeds of disposition.* Where, at any time as part of a series of transactions, a person or partnership (in this subsection and subsection (12) referred to as the 'vendor') has disposed of property for proceeds of disposition that are less than its fair market value and it may reasonably be considered that one of the main purposes of the series was to obtain the benefit of

(*a*) any deduction in computing income, taxable income, taxable income earned in Canada or tax payable under this Act, or

(*b*) any balance of undeducted outlays, expenses or other amounts

available to a specified person in respect of a subsequent disposition of the property or property substituted for the property, notwithstanding any other provision of this Act, the vendor shall, where the subsequent disposition occurs within three years after that time, be deemed to have disposed of the property at that time for proceeds of disposition equal to its fair market value at that time."

Editorial Note: Subsection 69(11) is an anti-avoidance provision which can have severe consequences. It prevents a taxpayer from disposing of property for less than fair market value, if the disposition is part of a series of transactions or events, where it may reasonably be considered that one of the main purposes thereof is to obtain the benefit of any tax deduction or other balance (including any balance of undeducted outlays, expenses or other amounts) available to a "non-affiliated" person in respect of a subsequent disposition of the property or a substituted property. (Where the benefit is tax-exempt status, the non-affiliated requirement does not apply.) Where the subsequent disposition or arrangements for the disposition are made within three years of the original disposition, the taxpayer is deemed to have disposed of the property at fair market value.

As a disposition for less than fair market value may arise from the elected proceeds of disposition pursuant to a rollover, the application of subsection 69(11) would "knock out" the rollover. Note also that the benefit of the balances sought must be in respect of a subsequent disposition of the particular property (i.e., which was disposed of for less than fair market value) or a substituted property.

Very generally, one corporation will be "affiliated" with another corporation or individual only if that other corporation is controlled by the same person(s) and/or the spouse(s) of the person(s) who controls the other corporation. For more details regarding affiliated persons see s. 251.1.

A simple example of the application of subsection 69(11) would be where there is an attempted section 85 rollover into a non-affiliated corporation with tax losses, followed by a sale of the asset — i.e., sheltered by the losses. This could include a situation where the "lossco" is controlled by a sibling or parent, since they would not be affiliated persons.

Per subsection 69(12), the Minister may assess or reassess as necessary to give effect to subsection 69(11) without regard to assessment limitation periods; subsection 69(13) provides special rules for the purpose of determining whether subsection 69(11) is applicable in respect of amalgamations and mergers; subsection 69(14) treats a taxpayer that comes into existence during a series of transactions or events as having existed immediately before the series, and as having been affiliated with every person with whom it is affiliated when it comes into existence.

Subsection 160(1.1) of the Act provides that where subsection 69(11) of the Act applies to deem a disposition of property to have occurred at fair market value, both the person disposing of the property and the person to whom the benefit described in that subsection is available in respect of the subsequent disposition are jointly and severally liable for the payment of each other's liabilities arising under the Act as a result of that disposition. The Minister of National Revenue may assess the person for such a liability under subsection 160(2) of the Act. (Proposed amendments clarify that interest applies to such assessment.)

Subsection 248(5) provides a broad definition of the term "substituted property". Where a person has disposed of or exchanged a particular property and acquired substituted property and subsequently, by one or more further transactions, acquires further substitutions, any property acquired by any such transaction is deemed to have been substituted for the particular property. Also, any share received in payment of a stock dividend on a particular share is property substituted for the particular share.

Related Sections: S. 73(3) When subsection (3.1) applies; s. 73(4) When subsection (4.1) applies; s. 85(1) Transfer of property to corporation by shareholders; s. 85(2) Transfer of property to corporation from partnership; s. 87 Amalgamations; s. 88(1) Winding-up; s. 97(2) Rules where election by partners; s. 98(3) Rules applicable where partnership ceases to exist; s. 98(5) Where partnership business carried on as sole proprietorship; s. 112(2.4) Where no deduction permitted; s. 160(2) Assessment; s. 160(3) Discharge of liability.

Interpretation Bulletins: *Secondary* — IT-291R3 Transfer of property to a corporation under subsection 85(1); IT-474R2 Amalgamations of Canadian corporations; IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].

Information Circulars: IC 88-2 General anti-avoidance rule — Section 245 of the Income Tax Act.

Income Tax Technical News: Issue No. 9, Loss consolidation within a corporate group — Change from "related" to "affiliated".

Tax Profile: January 2009 — Market Meltdown — Capital Loss Utilization; February 2008 — Income Splitting A–Z; July 2007 — Canadian Tax Traps; May 2004 — The Stop-Loss Rules.

► 69(12) ◄

(12) Reassessments. Notwithstanding subsections 152(4) to (5), the Minister may at any time make any assessments or reassessments of the tax, interest and penalties payable by the taxpayer that are necessary to give effect to subsection (11).

History: S. 69(12) was amended by S.C. 1998, c. 19, s. 107(4), applicable to each disposition that is part of a series of transactions or events that begins after April 26, 1995, other than a disposition that occurred before 1996 to a person who was obliged on that day to acquire the property under the terms of an agreement in writing entered into on or before that day, and for the purpose of this subsection, a person is considered not to be obliged to acquire property where the person can be excused from the obligation if there is a change to the Act or if there is an adverse assessment under the Act. S. 69(12) formerly read:

"(12) *Definition of 'specified person'.* For the purposes of subsection (11), a 'specified person' is

(*a*) a person that was not (otherwise than by virtue of a right referred to in paragraph 251(5)(*b*)) related to the vendor immediately before the series of transactions commenced;

(*b*) a partnership of which neither the vendor nor a person who was (otherwise than by virtue of a right referred to in paragraph 251(5)(*b*)) related to the vendor immediately before the series commenced was a majority interest partner (within the meaning assigned by subsection 97(3.1)) immediately before the series commenced; or

(*c*) where the vendor is a partnership, a person who was neither

(i) a majority interest partner (within the meaning assigned by subsection 97(3.1)) of the partnership immediately before the series commenced, nor

(ii) a person who was (otherwise than by virtue of a right referred to in paragraph 251(5)(*b*)) related to a person described in subparagraph (i) immediately before the series commenced."

Editorial Note: See editorial note to subsection 69(11).

► 69(12.1) ◄

(12.1) Application of ss. (11) and (12). [Repealed by S.C. 1998, c. 19, s. 107(4).]

History: S. 69(12.1) was repealed by S.C. 1998, c. 19, s. 107(4), applicable to each disposition that is part of a series of transactions or events that begins after April 26, 1995, other than a disposition that occurred before 1996 to a person who was obliged on that day to acquire the property under the terms of an agreement in writing entered into on or before that day, and for the purpose of this subsection, a person is considered not to be obliged to acquire property where the person can be excused from the obligation if there is a change to the Act or if there is an adverse assessment under the Act. S. 69(12.1) formerly read:

"(12.1) *Application of ss. (11) and (12).* Subsections (11) and (12) are applicable with respect to property disposed of after January 15, 1987 except where the person or partnership disposing of the property after that date was obliged on that date to dispose of it pursuant to an agreement in writing entered into on or before that date or where the person or partnership disposed of the property as part of a series of transactions that commenced on or before that date."

S. 69(12.1) was not part of the former Act.

► 69(12.2) ◄

(12.2) Obligation to acquire property, etc. [Repealed by S.C. 1998, c. 19, s. 107(4).]

History: S. 69(12.2) was repealed by S.C. 1998, c. 19, s. 107(4), applicable to each disposition that is part of a series of transactions or events that begins after April 26, 1995, other than a disposition that occurred before 1996 to a person who was obliged on that day to acquire the property under the terms of an agreement in writing entered into on or before that day, and for the purpose of this subsection, a person is considered not to be obliged to acquire property where the person can be excused from the obligation if there is a change to the Act or if there is an adverse assessment under the Act. S. 69(12.2) formerly read:

"(12.2) *Obligation to acquire property, etc.* For the purposes of subsection (12.1), a person shall be considered not to be obliged either to acquire or dispose of property if the person may be excused from performing the obligation as a result of changes to this Act affecting acquisitions or dispositions of property."

S. 69(12.2) was not part of the former Act.

► 69(13) ◄

(13) Amalgamation or merger. Where there is an amalgamation or merger of a corporation with one or more other corporations to form one corporate entity (in this subsection referred to as the "new corporation"), each property of the corporation that becomes property of the new corporation as a result of the amalgamation or merger is deemed, for the purpose of determining whether subsection (11) applies to the amalgamation or merger, to have been disposed of by the corporation immediately before the amalgamation or merger for proceeds equal to

(*a*) in the case of a Canadian resource property or a foreign resource property, nil; and

(*b*) in the case of any other property, the cost amount to the corporation of the property immediately before the amalgamation or merger.

History: S. 69(13) was amended by S.C. 1998, c. 19, s. 107(5), applicable to amalgamations and mergers that occur after April 26, 1995. It formerly read:

"(13) *Amalgamation or merger.* Where there has been an amalgamation or merger of a corporation with one or more other corporations to form one corporate entity (in this subsection referred to as the 'new corporation'), each property of the corporation that became property of the new corporation as a result of the amalgamation or merger shall be deemed, for the purpose of determining whether subsection (11) is applicable in respect of the amalgamation or merger, to have been disposed of by the corporation immediately before the amalgamation or merger for proceeds of disposition equal to

(*a*) in the case of a Canadian resource property or a foreign resource property, nil; and

(*b*) [Repealed by S.C. 1994, c. 7, Sched. VIII, S. 27(2).]

(*c*) in the case of any other property, the cost amount to the corporation of the property immediately before the amalgamation or merger."

S. 69(13)(*b*) was repealed by S.C. 1994, c. 7, Sched. VIII, s. 27(2), applicable to an amalgamation or merger of a corporation occurring after the beginning of its first taxation year beginning after June 1988. S. 69(13)(*b*) formerly read:

"(*b*) in the case of eligible capital property, an amount equal to 4/3 of the cost amount to the corporation of the property immediately before the amalgamation or merger; and"

Editorial Note: See editorial note to subsection 69(11).

► 69(14) ◄

(14) New taxpayer. For the purpose of subsection (11), where a taxpayer is incorporated or otherwise comes into existence at a particular time during a series of transactions or events, the taxpayer is deemed

(*a*) to have existed at the time that was immediately before the series began; and

(*b*) to have been affiliated at that time with every person with whom the taxpayer is affiliated (otherwise than because of a right referred to in paragraph 251(5)(*b*)) at the particular time.

History: S. 69(14) was added by S.C. 1998, c. 19, s. 107(5), applicable to each disposition that is part of a series of transactions or events that begins after April 26, 1995, other than a disposition that occurred before 1996 to a person who was obliged on that day to acquire the property under the terms of an agreement in writing entered into on or before that day, and for the purpose of this subsection, a person is considered not to be obliged to acquire property where the person can be excused from the obligation if there is a change to the Act or if there is an adverse assessment under the Act.

Editorial Note: See editorial note to subsection 69(11).

Related Sections: S. 251.1 Definition of "affiliated persons".

SECTION 70:

► 70(1) ◄

(1) Death of a taxpayer. In computing the income of a taxpayer for the taxation year in which the taxpayer died,

(*a*) an amount of interest, rent, royalty, annuity (other than an amount with respect to an interest in an annuity contract to which paragraph 148(2)(*b*) applies), remuneration from an office or employment, or other amount payable periodically, that was not paid before the taxpayer's death, shall be deemed to have accrued in equal daily amounts in the period for or in respect of which the amount was payable, and the value of the portion thereof so deemed to have accrued to the day of death shall be included in computing the taxpayer's income for the year in which the taxpayer died; and

(*b*) paragraph 12(1)(*t*) shall be read as follows:

"(*t*) the amount deducted under subsection 127(5) or (6) in computing the taxpayer's tax payable for the year or a preceding taxation year to the extent that it was not included in computing the taxpayer's income for a preceding taxation year under this paragraph or is not included in an amount determined under paragraph 13(7.1)(*e*) or 37(1)(*e*) or subparagraph 53(2)(*c*)(vi) or (*h*)(ii) or for I in the definition 'undepreciated capital cost' in subsection 13(21) or L in the definition 'cumulative Canadian exploration expense' in subsection 66.1(6);"

Editorial Note: The CRA allows the deduction of accrued expenses relating to the amount included in income under paragraph 70(1)(*a*) provided that the expenses would have been deductible had they been paid (e.g., interest expense and property taxes). Where there is "genuine doubt" about whether the nature of income arising before a taxpayer's death is a periodic payment (subsection 70(1)) or a right or thing (subsection 70(2)), the CRA generally allows the legal representative of the taxpayer to report the income as either amount. The right or thing treatment under subsection 70(2) is normally advantageous because the income can be reported on a separate return. See paragraphs 4 and 5 of Interpretation Bulletin IT-210R2.

Related Sections: S. 5(1) Income from office or employment; s. 12(1)(*c*) Interest; s. 12(4) Interest from investment contract; s. 12.2(1) Amount to be included; s. 56(1)(*d*) Annuity payments; s. 70(2) Amounts receivable.

Interpretation Bulletins: *Primary* — IT-210R2 Income of deceased persons — Periodic payments. *Secondary* — IT-212R3 Income of deceased persons — Rights or things; IT-226R Gift to a charity of a residual interest in real property or an equitable interest in a trust; IT-234 Income of deceased persons — Farm crops; IT-259R4 Exchange of property; IT-382 Debts bequeathed or forgiven on death [Archived by the CRA]; IT-396R Interest income; IT-410R Debt obligations — Accrued interest on transfer [Archived by the CRA]; IT-427R Livestock of farmers.

Guides: T4011 Preparing Returns for Deceased Persons.

Tax Window Files: Damages — Pay Equity Settlement Received by an Estate, January 19, 2007, CRA Document No. 2006-0208561E5; Deceased Shareholder's Bonus, May 31, 2006, CRA Document No. 2006-0168181E5; Pay Equity Lump-Sum Payment, December 4, 2002, CRA Document No. 2002-0168757; Pay Equity Payments — Receipt by Estate of Deceased Employee, August 21, 2000, CRA Document No. 1999-0009157 [Wage adjustment not included under subsection 70(1) or (2) for employee who died prior to the time at which wage adjustment became determinable]; Rights or Things — Accrued Interest — Lump Sum Old Age Security Benefits, January 9, 1992, CRA Document No. 9130825.

Cases: Because of their periodic nature, the payments received by the deceased taxpayer on the actual date of his death fell within the purview of s. 70(1) and could not be considered "rights or things" within the meaning of s. 70(2). *Estate of R. Fontaine v. The Queen,* 95 DTC 5580 (F.C.A.), affirming unreported (T.C.C.).

▶ 70(2) ◀

(2) Amounts receivable. Where a taxpayer who has died had at the time of death rights or things (other than any capital property or any amount included in computing the taxpayer's income by virtue of subsection (1)), the amount of which when realized or disposed of would have been included in computing the taxpayer's income, the value thereof at the time of death shall be included in computing the taxpayer's income for the taxation year in which the taxpayer died, unless the taxpayer's legal representative has, not later than the day that is one year after the date of death of the taxpayer or the day that is 90 days after the mailing of any notice of assessment in respect of the tax of the taxpayer for the year of death, whichever is the later day, elected otherwise, in which case the legal representative shall file a separate return of income for the year under this Part and pay the tax for the year under this Part as if

(*a*) the taxpayer were another person;

(*b*) that other person's only income for the year were the value of the rights or things; and

(*c*) subject to sections 114.2 and 118.93, that other person were entitled to the deductions to which the taxpayer was entitled under sections 110, 118 to 118.7 and 118.9 for the year in computing the taxpayer's taxable income or tax payable under this Part, as the case may be, for the year.

Editorial Note: If the election is made to report rights and things in a separate return, all rights and things must be reported in that separate return, other than those transferred to beneficiaries pursuant to subsection 70(3). In other words, rights and things cannot be "split" between the regular terminal return and the elective separate return.

The personal tax credits under subsection 118(1) and (2) can be claimed on both the regular return and the separate return. Section 118.93 precludes the doubling-up of other personal credits, such that the total amount of these credits claimed on the returns cannot exceed the amount that could otherwise be claimed on the regular return only.

Related Sections: S. 10(6) Artistic endeavour; s. 12(1)(*b*) Amounts receivable; s. 34(*a*) Professional business; s. 53(1)(*e*)(v) Adjustments to cost base — Interest in a partnership; s. 56(1)(*z*) Amounts to be included in income for year; s. 60(*t*) RCA distributions; s. 69(1)(*c*) Inadequate considerations; s. 96(1.5) Disposition by virtue of death of taxpayer; s. 127.55 Application of s. 127.5; s. 159(5) Election where certain provisions applicable. s. 159(6) Death of taxpayer — tax payable.

Interpretation Bulletins: *Primary* — IT-212R3 Income of deceased persons — Rights or things; IT-234 Income of deceased persons — Farm crops. *Secondary* — IT-210R2 Income of deceased persons — Periodic payments; IT-278R2 Death of a partner or of a retired partner; IT-326R3 Returns of deceased persons as "another person"; IT-337R4 (Consolid.) Retiring allowances; IT-457R Election by professionals to exclude work in progress from income; IT-502 Employee benefit plans and employee trusts.

Tax Window Files: Damages — Pay Equity Settlement Received by an Estate, January 19, 2007, CRA Document No. 2006-0208561E5; Lump sum retroactive pension payment, November 3, 2006, CRA Document No. 2006-0192051I7; Deceased Shareholder's Bonus, May 31, 2006, CRA Document No. 2006-0168181E5; Inventory of a Deceased Artist, April 7, 2005, CRA Document No. 2004-0099191E5; Taxation of IRA Upon Death, April 16, 2004, CRA Document No. 2003-0046111E5; Pay Equity Lump-Sum Payment, December 4, 2002, CRA Document No. 2002-0168757; CPP Disability Payments After Death, April 30, 2002, CRA Document No. 2002-0133115; Balance-Due Day — Rights or Things Return, December 23, 2002, CRA Document No. 2001-0096585 [Filing of rights or things return after regular terminal return does not extend balance-due day for things or right return]; Pay Equity Payments — Receipt by Estate of Deceased Employee, August 21, 2000, CRA Document No. 1999-0009157 [Wage adjustment not included under subsection 70(1) or (2) for employee who died prior to the time at which wage adjustment became determinable]; Dividend — Right or Thing, December 21, 1995, CRA Document No. 9526035 [Subsection 70(2) not applicable to dividend declared before death but computed and payable after death]; Severance Pay — Not a Right or Thing, December 20, 1995, CRA Document No. 9530037 [Severance pay did not vest before death; was not a right or thing but rather a death benefit]; Rights of Things — Cash Basis Farmers — Receivables, May 25, 1995, CRA Document No. 9433325.

Cases: Because of their periodic nature, the payments received by the deceased taxpayer on the actual date of his death fell within the purview of s. 70(1) and could not be considered "rights or things" within the meaning of s. 70(2). *Estate of R. Fontaine v. The Queen,* 95 DTC 5580 (F.C.A.), affirming unreported (T.C.C.).

▶ 70(3) ◀

(3) Rights or things transferred to beneficiaries. Where before the time for making an election under subsection (2) has expired, a right or thing to which that subsection would otherwise apply has been transferred or distributed to beneficiaries or other persons beneficially interested in the estate or trust,

(*a*) subsection (2) is not applicable to that right or thing; and

(*b*) an amount received by one of the beneficiaries or persons on the realization or disposition of the right or thing shall be included in computing the income of the beneficiary or person for the taxation year in which the beneficiary or person received it.

History: S. 70(3)(*b*) was amended by S.C. 1998, c. 19, s. 108(1), applicable to taxation years that end after November 1991. It formerly read:

"(*b*) an amount received by one of the beneficiaries or other such persons on the realization or disposition of the right or thing shall be included in computing the taxpayer's income for the taxation year in which the taxpayer received it."

Editorial Note: See subsection 69(1.1) regarding the beneficiary's cost of the right or thing.

Related Sections: S. 44(3) Where s. 70(3) does not apply; s. 69(1.1) Inadequate considerations — where s. 70(3) applies; s. 118.1(5.1) Direct designation — insurance proceeds; s. 118.1(7) Gifts of art; s. 118.1(7.1) Gifts of cultural property.

Interpretation Bulletins: *Secondary* — IT-210R2 Income of deceased persons — Periodic payments; IT-212R3 Income of deceased persons — Rights or things; IT-278R2 Death of a partner or of a retired partner.

Tax Window Files: Inventory of a Deceased Artist, April 7, 2005, CRA Document No. 2004-0099191E5; Rights or Things, January 20, 2000, CRA Document No. 2000-0000397; Interaction of 85(1) and 70(3), November 4, 1998, CRA Document No. 9642215

Cases: If the deceased was reporting the income of his business on the cash basis, amounts receivable would also be rights or things. Accounts receivable of the deceased from his law practice had not been transferred or distributed to his beneficiary within the meaning of what is now subsection 70(3) where the deceased's daughter had agreed to pay the estate for them. *Tory Estate v. M.N.R.*, 76 DTC 6312 (S.C.C.), affirming 73 DTC 5354 (F.C.A.) and 71 DTC 5271 (F.C.T.D.).

► 70(3.1) ◄

(3.1) Exception. For the purposes of this section, "rights or things" do not include an interest in a life insurance policy (other than an annuity contract of a taxpayer where the payment therefor was deductible in computing the taxpayer's income because of paragraph 60(*l*) or was made in circumstances in which subsection 146(21) applied), eligible capital property, land included in the inventory of a business, a Canadian resource property or a foreign resource property.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 70(3.1) of the Act is replaced by the following:

(3.1) **Exception.** In this section, "rights or things" in respect of an individual do not include

(*a*) an interest in a life insurance policy (other than an annuity contract the payment for which was deductible in computing the individual's income under paragraph 60(*l*) or was made in circumstances in which subsection 146(21) applied);

(*b*) eligible capital property;

(*c*) land included in the inventory of a business;

(*d*) a Canadian resource property;

(*e*) a foreign resource property; or

(*f*) property in respect of which subsection 94.2(3) applies (and subsection 94.2(20) does not apply) to the individual for the individual's taxation year in which the individual dies.

Applicable: To taxation years that begin after 2006, except that those subsections also apply to a taxation year of a taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the taxpayer.

Explanatory Note: Under subsection 70(2) of the Act, the value of certain "rights or things" owned by an individual at the time of the individual's death is required to be included in the individual's income for the year of death. Subsection 70(3) provides that this rule does not apply in connection with "rights or things" transferred to beneficiaries of the deceased within a specified period of time. Subsection 70(3.1) provides that certain property does not constitute a "right or thing" for these purposes.

Subsection 70(3.1) is amended so that a "right or thing" does not include property in respect of which new subsection 94.2(3) applied (and subsection 94.2(20) does not apply) for the individual's taxation year in which the individual dies. New subsection 94.2(3) sets out the conditions for the application of the mark-to-market taxation regime under section 94.2 for participating interests in foreign investment entities.

This amendment applies to taxation years that begin after 2006.

History: S. 70(3.1) was amended by S.C. 1994, c. 21, s. 33(1), applicable to the 1992 and subsequent taxation years. S. 70(3.1) formerly read:

"(3.1) For the purposes of this section, 'rights or things' do not include an interest in a life insurance policy (other than an annuity contract of a taxpayer where the payment therefor was deductible in computing the taxpayer's income by virtue of paragraph 60(*l*)), eligible capital property, land included in the inventory of a business, a Canadian resource property or a foreign resource property."

Related Sections: S. 59(1) Consideration for foreign resource property.

Interpretation Bulletins: *Secondary* — IT-212R3 Income of deceased persons — Rights or things; IT-313R2 Eligible capital property — Rules where a taxpayer has ceased carrying on a business or has died.

► 70(4) ◄

(4) Revocation of election. An election made under subsection (2) may be revoked by a notice of revocation signed by the legal representative of the taxpayer and filed with the Minister within the time that an election under that subsection may be made.

Interpretation Bulletins: *Secondary* — IT-212R3 Income of deceased persons — Rights or things.

► 70(5) ◄

(5) Capital property of a deceased taxpayer. Where in a taxation year a taxpayer dies,

(*a*) the taxpayer shall be deemed to have, immediately before the taxpayer's death, disposed of each capital property of the taxpayer and received proceeds of disposition therefor equal to the fair market value of the property immediately before the death;

(*b*) any person who as a consequence of the taxpayer's death acquires any property that is deemed by paragraph (*a*) to have been disposed of by the taxpayer shall be deemed to have acquired it at the time of the death at a cost equal to its fair market value immediately before the death;

(*c*) where any depreciable property of the taxpayer of a prescribed class that is deemed by paragraph (*a*) to have been disposed of is acquired by any person as a consequence of the taxpayer's death (other than where the taxpayer's proceeds of disposition of the property under paragraph (*a*) are redetermined under subsection 13(21.1)) and the amount that was the capital cost to the taxpayer of the property exceeds the amount determined under paragraph (*b*) to be the cost to the person thereof, for the purposes of sections 13 and 20 and any regulations made for the purpose of paragraph 20(1)(*a*),

(i) the capital cost to the person of the property shall be deemed to be the amount that was the capital cost to the taxpayer of the property, and

(ii) the excess shall be deemed to have been allowed to the person in respect of the property under regulations made for the purpose of paragraph 20(1)(*a*) in computing income for taxation years that ended before the person acquired the property; and

(*d*) where a property of the taxpayer that was deemed by paragraph (*a*) to have been disposed of is acquired by any person as a consequence of the

taxpayer's death and the taxpayer's proceeds of disposition of the property under paragraph (*a*) are redetermined under subsection 13(21.1), notwithstanding paragraph (*b*),

(i) where the property was depreciable property of a prescribed class and the amount that was the capital cost to the taxpayer of the property exceeds the amount so redetermined under subsection 13(21.1), for the purposes of sections 13 and 20 and any regulations made for the purpose of paragraph 20(1)(*a*),

(A) its capital cost to the person shall be deemed to be the amount that was its capital cost to the taxpayer, and

(B) the excess shall be deemed to have been allowed to the person in respect of the property under regulations made for the purpose of paragraph 20(1)(*a*) in computing income for taxation years that ended before the person acquired the property, and

(ii) where the property is land (other than land to which subparagraph (i) applies), its cost to the person shall be deemed to be the amount that was the taxpayer's proceeds of disposition of the land as redetermined under subsection 13(21.1).

History: Ss. 70(5)(*a*) to (*c*) were amended by S.C. 1994, c. 21, s. 33(2), applicable to dispositions and acquisitions occurring after 1992. Ss. 70(5)(*a*) to (*c*) formerly read:

"(*a*) the taxpayer shall be deemed to have disposed, immediately before death, of each property that was at that time a capital property of the taxpayer and to have received proceeds of disposition therefor equal to the fair market value of the property at that time;

(*b*) any person who as a consequence of the death acquires any property that is deemed by paragraph (*a*) to have been disposed of by the taxpayer at any time shall be deemed to have acquired it immediately after that time at a cost equal to its fair market value at that time; and

(*c*) where any depreciable property of the taxpayer of a prescribed class that is deemed by paragraph (*a*) to have been disposed of is acquired by any person as a consequence of the death and the amount that was the capital cost to the taxpayer of that property exceeds the amount determined under paragraph (*b*) to be the cost to that person thereof, for the purposes of sections 13 and 20 and any regulations made for the purpose of paragraph 20(1)(*a*),

(i) the capital cost to that person of the property shall be deemed to be the amount that was the capital cost to the taxpayer of the property, and

(ii) the excess shall be deemed to have been allowed to that person in respect of the property under regulations made for the purpose of paragraph 20(1)(*a*) in computing income for the taxation years ending before the person acquired the property."

S. 70(5) was amended by S.C. 1994, c. 7, Sched. VIII, s. 28(1), applicable to dispositions occurring after 1992. S. 70(5) formerly read:

"(5) *Depreciable and other capital property of deceased taxpayer.* Where in a taxation year a taxpayer has died, the following rules apply:

(*a*) the taxpayer shall be deemed to have disposed, immediately before the taxpayer's death, of each property owned by the taxpayer at that time that was a capital property of the taxpayer (other than depreciable property of a prescribed class) and to have received proceeds of disposition therefor equal to the fair market value of the property at that time;

(*b*) the taxpayer shall be deemed to have disposed, immediately before the taxpayer's death, of all depreciable property of a prescribed class owned by the taxpayer at that time and to have received proceeds of disposition therefor equal to,

(i) where the fair market value of that property at that time exceeds the undepreciated capital cost thereof to the taxpayer at that time, the amount of that undepreciated capital cost plus 1/2 of the amount of the excess, and

(ii) in any other case, the fair market value of that property at that time plus 1/2 of the amount, if any, by which the undepreciated capital cost thereof to the taxpayer at that time exceeds that fair market value;

(*c*) any person who, as a consequence of the death of the taxpayer, has acquired any particular capital property of the taxpayer (other than depreciable property of a prescribed class) that is deemed by paragraph (*a*) to have been disposed of by the taxpayer at any time shall be deemed to have acquired it immediately after that time at a cost equal to its fair market value immediately before the death of the taxpayer;

(*d*) any person who, as a consequence of the death of the taxpayer, has acquired any particular depreciable property of the taxpayer of a prescribed class that is deemed by paragraph (*b*) to have been disposed of by the taxpayer at any time shall be deemed to have acquired it immediately after that time at a cost equal to that proportion of the proceeds of disposition of all depreciable property of that class deemed by paragraph (*b*) to have been received by the taxpayer that the fair market value immediately before the death of the taxpayer of the particular property is of the fair market value at that time of all of that property of that class; and

(*e*) where any depreciable property of the taxpayer of a prescribed class that is deemed by paragraph (*b*) to have been disposed of by the taxpayer has been acquired by any person as a consequence of the death of the taxpayer and the amount that was the capital cost to the taxpayer of that property exceeds the amount determined under paragraph (*d*) to be the cost to that person thereof, for the purposes of sections 13 and 20 and any regulations made under paragraph 20(1)(*a*),

(i) the capital cost to that person of the property shall be deemed to be the amount that was the capital cost to the taxpayer of the property, and

(ii) the excess shall be deemed to have been allowed to that person in respect of the property under regulations made under paragraph 20(1)(*a*) in computing income for taxation years before the acquisition by that person of the property."

Editorial Note: See subsection 248(8) and paragraph 248(23.1)(*a*) regarding the acquisition of property "as a consequence of" a taxpayer's death. A rollover is provided under subsection 70(6) for capital property transferred or distributed to the deceased's spouse or common-law partner or qualifying spousal or common-law partner trust. Rollovers are also available for transfers of farm property to a child of the deceased under subsections 70(9) and (9.2) (see the extended definition of "child" in subsection 70(10)). See also subsections 70(5.1) and (5.2) for deemed disposition rules with respect to a deceased's eligible capital property, resource properties, and land inventory.

Related Sections: S. 13(21), "depreciable property", "proceeds of disposition"; s. 54, "capital property"; s. 98.2 Transfer of interest on death; s. 100(3) Transfer of interest on death; s. 111(1.1) Net capital losses; s. 111(2) Year of death; s. 118.1(10.1) Determination of fair market value; s. 118.1(12) Ecological gifts; s. 159(5) Election where certain provisions applicable; s. 248(8) Occurrences as a consequence of death; s. 248(23.1) Transfers after death.

Interpretation Bulletins: *Primary* — IT-140R3 Buy-sell agreements; IT-416R3 Valuation of shares of a corporation receiving life insurance proceeds on death of a shareholder. *Secondary* — IT-278R2 Death of a partner or of a retired partner; IT-288R2 Gifts of capital properties to a charity and others; IT-349R3 Intergenerational transfers of farm property on death; IT-504R2 (Consolid.) Visual artists and writers; IT-522R Vehicle, travel and sales expenses of employees.

Information Circulars: IC 72-25R4 Business equity valuations; IC 89-3 Policy statement on business equity valuations.

Income Tax Technical News: Issue No. 38, Value of Company Attributable to Voting Non-Participating Shares.

Tax Topics: No. 1910, Valuation and Family-Business Share Structures — Some Musings; No. 1635, Estate Planning in the Twenty-First Century; No. 1570, Estate Planning in the 21st Century.

Tax Profile: February 2009 — Voting Shares — Premium for Control on Estate Freeze?; September 2004 — Review of Tax Implications of Corporate-Owned Life Insurance Buy-Sell Arrangements; November 2000 — Life Insurance Corporate Buy-Sell Arrangements.

Tax Window Files: Costs Incurred with Respect to Deemed Dispositions of Property, September 11, 2006, CRA Document No. 2006-0185591C6; Transfer Of Title To Joint Ownership With Child, July 6, 2006, CRA Document No. 2005-0152011E5; Property Inherited from Non-Resident, June 3, 2003, CRA Document No. 2002-0155735 [Paragraph 70(5)(*b*) applicable to non-resident estate of deceased individual that acquires property upon the death of the individual]; Power of Appointment, November 12, 2002, CRA Document No. 2002-0129675 [Power of appointment in respect of trust could be considered interest in the trust within meaning of subsection 248(25), so that subsection 70(5) could apply to the interest upon the death of the holder of interest]; Disposition on Death of Life Interest In Real Property, October 4, 2002, CRA Document No. 2002-0154725 [Deemed dispositions of life interests and remainder interests in land]; Identical Properties — Distribution of Shares by Estate, May 24, 2001, CRA Document No. 2000-0015655 [Estate's adjusted cost base of shares subject to subsection 70(5), which were scheduled to be redeemed, not affected by adjusted cost base of other shares subject to subsection 70(6) (that is, cost averaging rule of s. 47(1) not applicable)]; Real Property Subject to a Substitution Created before 1991, July 20, 2000, CRA Document No. 1999-0013365 [Deemed dispositions of life interests and remainder interests in land]; Disposition of Jointly Owned Property on Death, March 3, 1995, CRA Document No. 9429915 [Subsection 70(5) applies to joint tenancy in property]; Life Estate and Remainder Interest in Real Property, March 30, 1994, CRA Document No. 9330105 [Deemed dispositions of life interests and remainder interests in land].

Cases: A shareholders' agreement provided that, on a shareholder's death, his shares were deemed to have been redeemed by the corporation on the

day preceding his death. This did not avoid the deemed disposition because, by its terms, the redemption could only operate once the taxpayer had died, by which time s. 70(5) would have already applied. *Nussey Estate v. The Queen*, 2001 DTC 5240 (F.C.A.), affirming 99 DTC 1211 (T.C.C.).

► 70(5.1) ◄

(5.1) Eligible capital property of deceased. Notwithstanding subsection 24(1), where at any time a taxpayer dies and any person (in this subsection referred to as the beneficiary), as a consequence of the taxpayer's death, acquires an eligible capital property of the taxpayer in respect of a business carried on by the taxpayer immediately before that time (otherwise than by way of a distribution of property by a trust that claimed a deduction under paragraph 20(1)(*b*) in respect of the property or in circumstances to which subsection 24(2) applies),

(*a*) the taxpayer shall be deemed to have disposed of the property, immediately before the taxpayer's death, for proceeds equal to 4/3 of that proportion of the cumulative eligible capital of the taxpayer in respect of the business that the fair market value immediately before that time of the property is of the fair market value immediately before that time of all of the eligible capital property of the taxpayer in respect of the business;

(*b*) subject to paragraph (*c*), the beneficiary shall be deemed to have acquired a capital property at the time of the taxpayer's death at a cost equal to the proceeds referred to in paragraph (*a*);

(*c*) where the beneficiary continues to carry on the business previously carried on by the taxpayer, the beneficiary shall be deemed to have, at the time of the taxpayer's death, acquired an eligible capital property and made an eligible capital expenditure at a cost equal to the total of

(i) the proceeds referred to in paragraph (*a*), and

(ii) 4/3 of that proportion of the amount, if any, determined for F in the definition "cumulative eligible capital" in subsection 14(5) in respect of the business of the taxpayer at that time that the fair market value immediately before that time of the particular property is of the fair market value immediately before that time of all eligible capital property of the taxpayer in respect of the business,

and, for the purposes of determining at any time the beneficiary's cumulative eligible capital in respect of the business, an amount equal to 3/4 of the amount determined under subparagraph (ii) shall be added to the amount otherwise determined, in respect of the business, for P in the definition "cumulative eligible capital" in subsection 14(5); and

(*d*) for the purpose of determining, after that time, the amount required by paragraph 14(1)(*b*) to be included in computing the income of the beneficiary in respect of any subsequent disposition of the property of the business, there shall be added to the amount determined for Q in the definition "cumulative eligible capital" in subsection 14(5) the amount determined by the formula

$$A \times \frac{B}{C}$$

where

A is the amount, if any, determined for Q in that definition in respect of the business of the taxpayer immediately before that time,

B is the fair market value immediately before that time of the particular property, and

C is the fair market value immediately before that time of all eligible capital property of the taxpayer in respect of the business.

History: S. 70(5.1)(*d*), the portion before the formula was amended by S.C. 2001, c. 17, s. 52(1), applicable in respect of taxation years that end after February 27, 2000. S. 70(5.1)(*d*), the portion before the formula formerly read:

"(*d*) for the purposes of determining, after that time,

(i) the amount deemed by subparagraph 14(1)(*a*)(v) to be the beneficiary's taxable capital gain, and

(ii) the amount to be included under subparagraph 14(1)(*a*)(v) or paragraph 14(1)(*b*) in computing the beneficiary's income

in respect of any subsequent disposition of the property of the business, there shall be added to the amount determined for Q in the definition 'cumulative eligible capital' in paragraph 14(5) the amount determined by the formula"

S. 70(5.1)(*d*)(ii) was amended by S.C. 1995, c. 3, s. 18(1), applicable to dispositions and acquisitions that occur after February 22, 1994. S. 70(5.1)(*d*)(ii) formerly read:

"(ii) the amount to be included under paragraph 14(1)(*b*) in computing the beneficiary's income"

S. 70(5.1)(*b*) was amended by S.C. 1994, c. 21, s. 33(3), applicable to dispositions and acquisitions occurring after 1992. S. 70(5.1)(*b*) formerly read:

"(*b*) subject to paragraph (*c*), the beneficiary shall be deemed to have acquired a capital property, immediately after the death of the taxpayer, at a cost equal to the proceeds referred to in paragraph (*a*);"

S. 70(5.1)(*c*), the portion before subparagraph (i), was amended by S.C. 1994, c. 21, s. 33(4), applicable to dispositions and acquisitions occurring after 1992. That part formerly read:

"(*c*) where the beneficiary continues to carry on the business previously carried on by the taxpayer, the beneficiary shall be deemed to have acquired an eligible capital property and to have made an eligible capital expenditure at a cost equal to the total of"

S. 70(5.1)(*d*) was added by S.C. 1994, c. 7, Sched. VIII, s. 28(2), applicable to acquisitions occurring as a consequence of the death of a taxpayer after the beginning of the first fiscal period of the taxpayer's business beginning after 1987.

S. 70(5.1) was amended by S.C. 1994, c. 7, Sched. II, s. 48(1), applicable to acquisitions occurring as a consequence of the death of a taxpayer after the beginning of the first fiscal period of the taxpayer's business beginning after 1987, except that, in applying subsection 70(5.1) in respect of acquisitions occurring before July 13, 1990, that subsection shall be read without reference to the words "(otherwise than under a distribution of property by a trust that has claimed a deduction under paragraph 20(1)(*b*) in respect of the property or in circumstances to which subsection 24(2) applies)". S. 70(5.1) formerly read:

"(5.1) Notwithstanding subsection 24(1), where in a taxation year a taxpayer has died and any person (other than a spouse or corporation to whom subsection 24(2) applies), as a consequence of the death of the taxpayer, has acquired any particular eligible capital property of the taxpayer, the following rules apply:

(*a*) the taxpayer shall be deemed to have disposed, immediately before the taxpayer's death, of the property and to have received proceeds of disposition therefor in respect of a business carried on by the taxpayer equal to 4/3 of the cumulative eligible capital in respect of the business at that time; and

(*b*) the person who has so acquired the property shall be deemed to have acquired a capital property, immediately after the death of the taxpayer, at a cost equal to the proceeds of disposition referred to in paragraph (*a*), except that, where the person continues to carry on the business previously carried on by the taxpayer, the person shall be deemed to have acquired an eligible capital property and to have made an eligible capital expenditure at a cost equal to the total of

(i) the proceeds of disposition referred to in paragraph (*a*), and

(ii) the amount, if any, determined for F in the definition 'cumulative eligible capital' in subsection 14(5) in respect of the business of the taxpayer at that time

and, for the purposes of determining at any time the person's cumulative eligible capital in respect of the business, an amount equal to the amount determined under subparagraph (ii) shall be added to the amount otherwise determined for P in that definition."

Editorial Note: Subsection 24(2) provides a rollover similar to subsection 70(5.1) if the deceased's spouse or common-law partner or controlled corporation carries on the business and acquires all of the property that was the deceased's eligible capital property in respect of the business and that had value.

Related Sections: S. 24(2) Business carried on by spouse or controlled corporation; s. 54, "eligible capital property"; s. 248(1), "business".

Interpretation Bulletins: *Secondary* — IT-313R2 Eligible capital property — Rules where a taxpayer has ceased carrying on a business or has died.

► 70(5.2) ◄

(5.2) Resource properties and land inventories of a deceased taxpayer. Where in a taxation year a taxpayer dies,

(*a*) the taxpayer is deemed to have, immediately before the taxpayer's death, disposed of each Canadian resource property and foreign resource property of the taxpayer and received proceeds of disposition for that property equal to its fair market value immediately before the death;

(*a*.1) subject to subparagraph (*b*)(ii), any particular person who as a consequence of the taxpayer's death acquires any property that is deemed by paragraph (*a*) to have been disposed of by the taxpayer is deemed to have acquired the property at the time of the death at a cost equal to the fair market value of the property immediately before the death;

(*b*) notwithstanding paragraph (*a*), where the taxpayer was resident in Canada immediately before the taxpayer's death, any Canadian resource property or foreign resource property of the taxpayer that is, on or after the death and as a consequence of the death, transferred or distributed to a spouse or common-law partner of the taxpayer described in paragraph (6)(*a*) or a trust described in paragraph (6)(*b*) and it can be shown within the period ending 36 months after the death or, where written application therefor has been made to the Minister by the taxpayer's legal representative within that period, within such longer period as the Minister considers reasonable in the circumstances, that the property vested indefeasibly in the spouse or common-law partner or trust, as the case may be,

(i) the taxpayer shall be deemed to have, immediately before the death, disposed of the property and received proceeds of disposition therefor equal to such amount as is specified by the taxpayer's legal representative in the return of income of the taxpayer filed under paragraph 150(1)(*b*), not exceeding its fair market value immediately before the death, and

(ii) the spouse, common-law partner or trust, as the case may be, is deemed to have acquired the property at the time of the death at a cost equal to the amount determined in respect of the disposition under subparagraph (i);

(*c*) the taxpayer is deemed to have, immediately before the taxpayer's death, disposed of each property that was land included in the inventory of a business of the taxpayer and received proceeds of disposition for that property equal to its fair market value immediately before the death;

(*c*.1) subject to subparagraph (*d*)(ii), any particular person who as a consequence of the taxpayer's death acquires any property that is deemed by paragraph (*c*) to have been disposed of by the taxpayer is deemed to have acquired the property at the time of the death at a cost equal to the fair market value of the property immediately before the death; and

(*d*) notwithstanding paragraph (*c*), where the taxpayer was resident in Canada immediately before the taxpayer's death, any property that is land included in the inventory of a business of the taxpayer is, on or after the death and as a consequence of the death, transferred or distributed to a spouse or common-law partner of the taxpayer described in paragraph (6)(*a*) or a trust described in paragraph (6)(*b*) and it can be shown within the period ending 36 months after the death of the taxpayer or, where written application therefor has been made to the Minister by the taxpayer's legal representative within that period, within such longer period as the Minister considers reasonable in the circumstances, that the property vested indefeasibly in the spouse or common-law partner or trust, as the case may be

(i) the taxpayer shall be deemed to have, immediately before the death, disposed of the land and received proceeds of disposition therefor equal to its cost amount to the taxpayer immediately before the death, and

(ii) the spouse or common-law partner or trust, as the case may be, shall be deemed to have acquired the property at the time of the death at a cost equal to those proceeds.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 70(5.2) of the Act is replaced by the following:

(5.2) Resource property, land inventory and property of deceased subject to subsection 94.2(3). If in a taxation year a taxpayer dies,

(*a*) the taxpayer is deemed

(i) to have disposed, at the time that is immediately before the taxpayer's death, of each

(A) Canadian resource property of the taxpayer,

(B) foreign resource property of the taxpayer,

(C) property that was land included in the inventory of a business of the taxpayer, and

(D) property in respect of which subsection 94.2(3) applies (and subsection 94.2(20) does not apply) to the taxpayer for the taxation year, and

(ii) subject to paragraph (*c*), to have received at that time proceeds of disposition for each such property equal to its fair market value at that time;

(*b*) any person who, as a consequence of the taxpayer's death, acquires a property that is deemed by paragraph (*a*) to have been disposed of by the taxpayer is, subject to paragraph (*c*), deemed to have acquired the property at the time of the death at a cost equal to its fair market value at the time that is immediately before the death; and

(*c*) where the taxpayer was resident in Canada at the time that is immediately before the taxpayer's death, a particular property described in clause (*a*)(i)(A), (B) or (C) is, on or after the death and as a consequence of the death, transferred or distributed to a spouse or common-law partner of the taxpayer described in paragraph (6)(*a*) or a trust described in paragraph (6)(*b*), and it can be shown within the period that ends 36 months after the death (or, where written application has been made to the Minister by the taxpayer's legal representative within that period, within any longer period that the Minister con-

siders reasonable in the circumstances) that the particular property has, within that period, vested indefeasibly in the spouse, common-law partner or trust, as the case may be,

(i) the taxpayer is deemed to have received, at the time that is immediately before the taxpayer's death, proceeds of disposition of the particular property equal to

(A) where the particular property is Canadian resource property of the taxpayer or foreign resource property of the taxpayer, the amount specified by the taxpayer's legal representative in the taxpayer's return of income filed under paragraph 150(1)(*b*), not exceeding its fair market value at that time, and

(B) where the particular property was land included in the inventory of a business of the taxpayer, its cost amount to the taxpayer at that time, and

(ii) the spouse, common-law partner or trust, as the case may be, is deemed to have acquired at the time of the death the particular property at a cost equal to the amount determined under subparagraph (i) in respect of the disposition of it under paragraph (*a*).

Applicable: To taxation years that begin after 2006, except that those subsections also apply to a taxation year of a taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the taxpayer.

Explanatory Note: Subsection 70(5.2) of the Act provides rules with respect to the disposition of resource properties and land inventories on the death of an individual.

Subsection 70(5.2) is amended so that it also applies to property in respect of which new subsection 94.2(3) applied (and subsection 94.2(20) does not apply) for the individual's taxation year in which the individual dies. With respect to such property, amended paragraph 70(5.2)(*a*) provides for a deemed disposition, immediately before the death of the individual, for proceeds of disposition equal to the fair market value of the property at that time. New subsection 94.2(3) sets out the conditions for the application of the mark-to-market taxation regime under section 94.2 for participating interests in foreign investment entities.

In the case of a property in respect of which subsection 94.2(3) applied (and subsection 94.2(20) does not apply) for the individual's taxation year in which the individual dies, the proceeds of disposition are included in the value of A in the mark-to-market formula for the taxation year in respect of the property. This formula applies in computing the deceased's income under subsection 94.2(4) for the taxation year of death. The deceased is treated as not having held the interest after death.

Paragraph 70(5.2)(*b*) is amended to provide that properties in respect of which a deemed disposition occurs under paragraph 70(5.2)(*a*) are deemed to have been acquired, by the person who as a consequence of the individual's death acquires the property, at a cost equal to its fair market value immediately before that death.

Where certain resource properties and land inventories held by an individual immediately before death are deemed, under paragraph 70(5.2)(*a*) and (*b*), to have been disposed of by the individual and acquired at a particular cost by another person, new paragraph 70(5.2)(*c*) sets out the conditions under which it will apply, instead of 70(5.2)(*a*) and (*b*), to determine the proceeds of disposition and cost of acquisition resulting from that deemed disposition and that acquisition. In particular, where the conditions in paragraph (*c*) are met, subparagraph 70(5.2)(*c*)(i) applies to determine the deceased individual's proceeds from the deemed disposition under paragraph (*a*) of a land inventory or resource property. In turn, subparagraph 70(5.2)(*c*)(ii) deems the land inventory or resource property to have been acquired at the time of the individual's death at a cost equal to the amount determined under subparagraph (i) in respect of the deemed disposition of the property under paragraph 70(5.2)(*a*).

This amendment applies to taxation years that begin after 2006.

History: S. 70(5.2)(*a*) was amended by S.C. 2001, c. 17, s. 52(2), applicable to taxation years that begin after 2000. S. 70(5.2)(*a*) formerly read:

"(*a*) for the purposes of subsection 59(1), paragraph (*a*) of the description of F in the definition "cumulative Canadian development expense' in subsection 66.2(5) and paragraph (*a*) of the description of F in the definition 'cumulative Canadian oil and gas property expense' in subsection 66.4(5), the taxpayer shall be deemed to have, immediately before the taxpayer's death, disposed of each Canadian resource property and foreign resource property of the taxpayer and received proceeds of disposition therefor equal to its fair market value immediately before the death;"

S. 70(5.2)(*a.1*) was added by S.C. 2001, c. 17, s. 52(2), applicable to acquisitions that occur after 1992.

S. 70(5.2)(*b*)(ii) was amended by S.C. 2001, c. 17, s. 52(3), applicable to taxation years that begin after 2000. S. 70(5.2)(*b*)(ii) formerly read:

"(ii) the spouse or common-law partner or trust, as the case may be, shall be deemed to have acquired the property at the time of the death at a cost equal to the amount included in the taxpayer's income under subsection 59(1) or included in the amount determined under paragraph (*a*) of the description of F in the definition 'cumulative Canadian development expense' in subsection 66.2(5) or paragraph (*a*) of the description of F in the definition 'cumulative Canadian oil and gas property expense' in subsection 66.4(5), as the case may be, in respect of the property;"

S. 70(5.2)(*c*) was amended by S.C. 2001, c. 17, s. 52(4), applicable to taxation years that begin after 2000. S. 70(5.2)(*c*) formerly read:

"(*c*) the taxpayer shall be deemed to have, immediately before the taxpayer's death, disposed of each property that was land included in the inventory of a business of the taxpayer and received proceeds of disposition therefor equal to its fair market value immediately before the death; and"

S. 70(5.2)(*c.1*) was added by S.C. 2001, c. 17, s. 52(4), applicable to acquisitions that occur after 1992.

S. 70(5.2)(*b*), the portion before subparagraph (i), was amended by S.C. 2000, c. 12, Sched. 2, s. 1(q), applicable January 1, 2001, coming into force on July 31, 2000. S. 70(5.2)(*b*), the portion before subparagraph (i) formerly read:

"(*b*) notwithstanding paragraph (*a*), where the taxpayer was resident in Canada immediately before the taxpayer's death, any Canadian resource property or foreign resource property of the taxpayer that is, on or after the death and as a consequence of the death, transferred or distributed to a spouse of the taxpayer described in paragraph (6)(*a*) or a trust described in paragraph (6)(*b*) and it can be shown within the period ending 36 months after the death or, where written application therefor has been made to the Minister by the taxpayer's legal representative within that period, within such longer period as the Minister considers reasonable in the circumstances, that the property vested indefeasibly in the spouse or trust, as the case may be,"

S. 70(5.2)(*b*)(ii) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(q), applicable January 1, 2001, coming into force on July 31, 2000. S. 70(5.2)(*b*)(ii) formerly read:

"(ii) the spouse or trust, as the case may be, shall be deemed to have acquired the property at the time of the death at a cost equal to the amount included in the taxpayer's income under subsection 59(1) or included in the amount determined under paragraph (*a*) of the description of F in the definition 'cumulative Canadian development expense' in subsection 66.2(5) or paragraph (*a*) of the description of F in the definition 'cumulative Canadian oil and gas property expense' in subsection 66.4(5), as the case may be, in respect of the property;"

S. 70(5.2)(*d*), the portion before subparagraph (i), was amended by S.C. 2000, c. 12, Sched. 2, s. 1(q), applicable January 1, 2001, coming into force on July 31, 2000. S. 70(5.2)(*d*), the portion before subparagraph (i) formerly read:

"(*d*) notwithstanding paragraph (*c*), where the taxpayer was resident in Canada immediately before the taxpayer's death, any property that is land included in the inventory of a business of the taxpayer is, on or after the death and as a consequence of the death, transferred or distributed to a spouse of the taxpayer described in paragraph (6)(*a*) or a trust described in paragraph (6)(*b*) and it can be shown within the period ending 36 months after the death of the taxpayer or, where written application therefor has been made to the Minister by the taxpayer's legal representative within that period, within such longer period as the Minister considers reasonable in the circumstances, that the property vested indefeasibly in the spouse or trust, as the case may be,"

S. 70(5.2)(*d*)(ii) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(q), applicable January 1, 2001, coming into force on July 31, 2000. S. 70(5.2)(*d*)(ii) formerly read:

"(ii) the spouse or trust, as the case may be, shall be deemed to have acquired the property at the time of the death at a cost equal to those proceeds."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 70(5.2) was amended by S.C. 1994, c. 21, s. 33(5), applicable to dispositions and acquisitions occurring after 1992. S. 70(5.2) formerly read:

"(5.2) *Resource properties and land inventories of deceased taxpayer.* Where in a taxation year a taxpayer has died, the following rules apply:

(*a*) for the purposes of subsection 59(1), paragraph (*a*) of the description of F in the definition 'cumulative Canadian development expense' in subsection 66.2(5) and paragraph (*a*) of the description of F in the definition 'cumulative Canadian oil and gas property expense' in subsection 66.4(5), the taxpayer shall be deemed to have disposed, immediately before the taxpayer's death, of each property owned by the taxpayer at that time that was a Canadian resource property or a foreign resource property and to have received proceeds of disposition therefor equal to its fair market value at that time;

(*d*) notwithstanding paragraph (*a*), where any property of a taxpayer who was resident in Canada immediately before the taxpayer's death that is a Canadian resource property or foreign resource property has, on or after the death of the taxpayer and as a consequence thereof, been transferred or distributed to the taxpayer's spouse referred to in paragraph (6)(*a*) or a trust referred to in paragraph (6)(*b*), if it can be shown, within the period ending 36 months after the death of the taxpayer or, where written application therefor has been made to the Minister by the taxpayer's legal representative within that period, within such longer period as the Minister considers reasonable in the circumstances, that the property has become vested indefeasibly in the spouse or trust, as the case may be, the following rules apply:

(i) the taxpayer shall be deemed to have disposed of the property immediately before the taxpayer's death and to have received proceeds of disposition therefor equal to such amount as is specified by the taxpayer's legal representative in the return of income of the taxpayer referred to in paragraph 150(1)(*b*), not exceeding the fair market value of the property immediately before the taxpayer's death, and

(ii) the spouse or trust, as the case may be, shall be deemed to have acquired the property for an amount equal to the amount included in the taxpayer's income by virtue of subsection 59(1) or included in the amount determined under paragraph (*a*) of the description of F in the definition 'cumulative Canadian development expense' in subsection 66.2(5) or paragraph (*a*) of the description of F in the definition 'cumulative Canadian oil and gas property expense' in subsection 66.4(5), as the case may be, in respect of the property;

(*e*) the taxpayer shall be deemed to have disposed, immediately before the taxpayer's death, of each property that was land included in the inventory of a business of the taxpayer and to have received proceeds of disposition therefor equal to the fair market value of the property at that time; and

(*f*) notwithstanding paragraph (*e*), where any property of a taxpayer who was resident in Canada immediately before the taxpayer's death that is land included in the inventory of a business has, on or after the taxpayer's death and as a consequence thereof, been transferred or distributed to the taxpayer's spouse referred to in paragraph (6)(*a*) or a trust referred to in paragraph (6)(*b*), if it can be shown within the period ending 36 months after the death of the taxpayer or, where written application therefor has been made to the Minister by the taxpayer's legal representative within that period, within such longer period as the Minister considers reasonable in the circumstances, that the property has become vested indefeasibly in the spouse or trust, as the case may be, the taxpayer shall be deemed to have disposed of the land immediately before the taxpayer's death and to have received proceeds of disposition therefor equal to the cost amount thereof immediately before the taxpayer's death and the spouse or trust, as the case may be, shall be deemed to have acquired the property for an amount equal to those proceeds."

Editorial Note: Paragraph 70(5.2)(*b*) provides an optional full or partial rollover for resource properties and paragraph 70(5.2)(*d*) provides an optional rollover for land inventory left to the deceased's spouse or common-law partner or qualifying trust.

See subsections 248(8) and (23.1) regarding the acquisition of property "as a consequence of" a taxpayer's death. See also subsection 248(9.1), which provides that a trust created under dependant's relief legislation can qualify as a trust "created by the taxpayer's will". Subsection 248(9.2) provides that the "vesting indefeasibly" requirement will not be met unless the property so vests prior to the spouse's or common-law partner's death.

Related Sections: S. 59(1) Consideration for foreign resource property; s. 59(3.2)(*c*) Recovery of exploration and development expenses; s. 66(15), "Canadian resource property", "foreign resource property"; s. 66.2(1) Amount to be included in income; s. 66.2(5), "cumulative Canadian development expense"; s. 66.4(5), "cumulative Canadian oil and gas property expense"; s. 104(5.8) Trust transfers; s. 159(5) Election where certain provisions applicable.

Interpretation Bulletins: *Primary* — IT-125R4 Disposition of resource properties. *Secondary* — IT-212R3 Income of deceased persons — Rights or things; IT-449R Meaning of "vested indefeasibly" [Archived by the CRA].

Tax Profile: October 2007 — Important Changes Announced to the Canada — U.S. Income Tax Convention.

Tax Window Files: Canada–United States Income Tax Convention, June 12, 2001, CRA Document No. 2000-0053957.

► 70(5.3) ◄

(5.3) Fair market value. For the purposes of subsections (5) and 104(4) and section 128.1, the fair market value at any time of any property deemed to have been disposed of at that time as a consequence of a particular individual's death or as a consequence of the particular individual becoming or ceasing to be resident in Canada shall be determined as though the fair market value at that time of any life insurance policy, under which the particular individual (or any other individual not dealing at arm's length with the particular individual at that time or at the time the policy was issued) was a person whose life was insured, were the cash surrender value (as defined in subsection 148(9)) of the policy immediately before the particular individual died or became or ceased to be resident in Canada, as the case may be.

History: S. 70(5.3) was amended by S.C. 2001, c. 17, s. 52(5), applicable to dispositions that occur after October 1, 1996. S. 70(5.3) formerly read:

"(5.3) *Fair market value.* For the purposes of subsection (5) of this section and subsections 70(9.4) and (9.5) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, the fair market value, immediately before the death of the taxpayer referred to in any of those subsections, of any share of the capital stock of a corporation deemed to have been disposed of as a consequence of the taxpayer's death shall be determined as though the fair market value at that time of any life insurance policy under which the taxpayer was the person whose life was insured were the cash surrender value (within the meaning assigned by subsection 148(9)) of the policy at that time."

Related Sections: S. 110.6(15) Value of assets of corporations; s. 139.1(5) Fair market value of ownership rights.

Interpretation Bulletins: *Primary* — IT-416R3 Valuation of shares of a corporation receiving life insurance proceeds on death of a shareholder.

Information Circulars: IC 72-25R4 Business equity valuations; IC 89-3 Policy statement on business equity valuations.

Tax Profile: September 2004 — Review of Tax Implications of Corporate-Owned Life Insurance Buy-Sell Arrangements.

Tax Window Files: Fair Market Value of a Life Insurance Policy, 2006 APFF Annual Conference — Round Table on Taxation of Financial Strategies and Financial Instruments, CRA Document No. 2006-0197111C6; Share Valuation and Policy Loans, June 9, 2003, CRA Document No. 2003-0004335.

► 70(5.4) ◄

(5.4) NISA on death. Where a taxpayer who dies has at the time of death a net income stabilization account, all amounts held for or on behalf of the taxpayer in the taxpayer's NISA Fund No. 2 shall be deemed to have been paid out of that fund to the taxpayer immediately before that time.

History: S. 70(5.4) was added by S.C. 1994, c. 7, Sched. VIII, s. 28(3), applicable to the 1991 and subsequent taxation years.

Editorial Note: See subsection 70(6.1), which provides a rollover of a deceased taxpayer's NISA Fund No. 2 to a spouse, common-law partner or qualifying trust.

Related Sections: S. 12(10.2) NISA receipts; s. 248(1), "net income stabilization account", "NISA Fund No. 2".

► 70(6) ◄

(6) Where transfer or distribution to spouse or spouse trust. Where any property of a taxpayer who was resident in Canada immediately before the taxpayer's death that is a property to which subsection (5) would otherwise apply is, as a consequence of the death, transferred or distributed to

(*a*) the taxpayer's spouse or common-law partner who was resident in Canada immediately before the taxpayer's death, or

(*b*) a trust, created by the taxpayer's will, that was resident in Canada immediately after the time the

property vested indefeasibly in the trust and under which

(i) the taxpayer's spouse or common-law partner is entitled to receive all of the income of the trust that arises before the spouse's or common-law partner's death, and

(ii) no person except the spouse or common-law partner may, before the spouse's or common-law partner's death, receive or otherwise obtain the use of any of the income or capital of the trust,

if it can be shown, within the period ending 36 months after the death of the taxpayer or, where written application therefor has been made to the Minister by the taxpayer's legal representative within that period, within such longer period as the Minister considers reasonable in the circumstances, that the property has become vested indefeasibly in the spouse or common-law partner or trust, as the case may be, the following rules apply:

(*c*) paragraphs (5)(*a*) and (*b*) do not apply in respect of the property,

(*d*) subject to paragraph (*d*.1), the taxpayer shall be deemed to have, immediately before the taxpayer's death, disposed of the property and received proceeds of disposition therefor equal to

(i) where the property was depreciable property of a prescribed class, the lesser of the capital cost and the cost amount to the taxpayer of the property immediately before the death, and

(ii) in any other case, its adjusted cost base to the taxpayer immediately before the death,

and the spouse or common-law partner or trust, as the case may be, shall be deemed to have acquired the property at the time of the death at a cost equal to those proceeds,

(*d*.1) where the property is an interest in a partnership (other than an interest in a partnership to which subsection 100(3) applies),

(i) the taxpayer shall, except for the purposes of paragraph 98(5)(*g*), be deemed not to have disposed of the property as a consequence of the taxpayer's death,

(ii) the spouse or common-law partner or the trust, as the case may be, shall be deemed to have acquired the property at the time of the death at a cost equal to its cost to the taxpayer, and

(iii) each amount added or deducted in computing the adjusted cost base to the taxpayer of the property shall be deemed to be required by subsection 53(1) or (2) to be added or deducted, as the case may be, in computing the adjusted cost base to the spouse or common-law partner or the trust, as the case may be, of the property; and

(*e*) where the property was depreciable property of the taxpayer of a prescribed class, paragraph (5)(*c*) applies as if the references therein to "paragraph (*a*)" and to "paragraph (*b*)" were read as references to "paragraph (6)(*d*)".

History: S. 70(6)(*a*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(q), applicable January 1, 2001, coming into force on July 31, 2000. S. 70(6)(*a*) formerly read:

"(*a*) the taxpayer's spouse who was resident in Canada immediately before the taxpayer's death, or"

S. 70(6)(*b*)(i) and (ii) were amended by S.C. 2000, c. 12, Sched. 2, s. 1(q) and 7(d), applicable January 1, 2001, coming into force on July 31, 2000. S. 70(6)(*b*)(i) and (ii) formerly read:

"(i) the taxpayer's spouse is entitled to receive all of the income of the trust that arises before the spouse's death, and

(ii) no person except the spouse may, before the spouse's death, receive or otherwise obtain the use of any of the income or capital of the trust,"

S. 70(6), the portion after paragraph (*b*) and before paragraph (*c*), was amended by S.C. 2000, c. 12, Sched. 2, s. 1(q), applicable January 1, 2001, coming into force on July 31, 2000. S. 70(6), the portion after paragraph (*b*) formerly read:

"if it can be shown, within the period ending 36 months after the death of the taxpayer or, where written application therefor has been made to the Minister by the taxpayer's legal representative within that period, within such longer period as the Minister considers reasonable in the circumstances, that the property has become vested indefeasibly in the spouse or trust, as the case may be, the following rules apply:"

S. 70(6)(*d*), the portion after subparagraph (ii), was amended by S.C. 2000, c. 12, Sched. 2, s. 1(q), applicable January 1, 2001, coming into force on July 31, 2000. S. 70(6)(*d*), the portion after subparagraph (ii), formerly read:

"and the spouse or trust, as the case may be, shall be deemed to have acquired the property at the time of the death at a cost equal to those proceeds,"

S. 70(6)(*d*.1)(ii) and (iii) were amended by S.C. 2000, c. 12, Sched. 2, s. 1(q), applicable January 1, 2001, coming into force on July 31, 2000. S. 70(6)(*d*.1)(ii) and (iii) formerly read:

"(ii) the spouse or the trust, as the case may be, shall be deemed to have acquired the property at the time of the death at a cost equal to its cost to the taxpayer, and

(iii) each amount added or deducted in computing the adjusted cost base to the taxpayer of the property shall be deemed to be required by subsection 53(1) or (2) to be added or deducted, as the case may be, in computing the adjusted cost base to the spouse or the trust, as the case may be, of the property; and"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 70(6)(*d*) was amended by S.C. 1994, c. 21, s. 33(6), applicable to dispositions and acquisitions occurring after 1992. S. 70(6)(*d*) formerly read:

"(*d*) subject to paragraph (*d*.1), the taxpayer shall be deemed to have disposed of the property immediately before the taxpayer's death and to have received proceeds of disposition therefor equal to,

(i) where the property was depreciable property of the taxpayer of a prescribed class, that proportion of the undepreciated capital cost to the taxpayer immediately before the taxpayer's death of all of the depreciable property of the taxpayer of that class that the fair market value at that time of the property is of the fair market value at that time of all of the depreciable property of the taxpayer of that class, and

(ii) in any other case, the adjusted cost base to the taxpayer of the property immediately before the taxpayer's death,

and the spouse or trust, as the case may be, shall be deemed to have acquired the property for an amount equal to those proceeds,"

S. 70(6)(*d*.1)(ii) was amended by S.C. 1994, c. 21, s. 33(7), applicable to dispositions and acquisitions occurring after 1992. S. 70(6)(*d*.1)(ii) formerly read:

"(ii) the spouse or the trust, as the case may be, shall be deemed to have acquired the property for an amount equal to the cost thereof to the taxpayer, and"

S. 70(6), the portion before paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 28(4), applicable to dispositions occurring after 1992. That portion formerly read:

"(6) *Where transfer or distribution to spouse or trust.* Where any property of a taxpayer who was resident in Canada immediately before the taxpayer's death that is a property to which paragraphs (5)(*a*) and (*c*) or (5)(*b*) and (*d*), as the case may be, would otherwise apply has, on or after the taxpayer's death and as a consequence thereof been transferred or distributed to"

S. 70(6)(*c*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 28(5), applicable to dispositions occurring after 1992. S. 70(6)(*c*) formerly read:

"(*c*) paragraphs (5)(*a*) to (*d*) are not applicable to the property,"

S. 70(6)(*e*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 28(6), applicable to dispositions occurring after 1992. S. 70(6)(*e*) formerly read:

"(*e*) where the property was depreciable property of the taxpayer of a prescribed class, paragraph (5)(*e*) is applicable as if the reference therein to 'paragraph (*b*)' and to 'paragraph (*d*)' were read as references to 'paragraph (6)(*d*)'."

S. 70(6)(*d*), the portion before subparagraph (i), was amended by S.C. 1994, c. 7, Sched. II, s. 48(2), applicable to transfers, distributions and acquisitions occurring after January 15, 1987. That portion formerly read:

"(*d*) the taxpayer shall be deemed to have disposed of the property immediately before the taxpayer's death and to have received proceeds of disposition therefor equal to,"

S. 70(6)(*d.1*) was added by S.C. 1994, c. 7, Sched. II, s. 48(3), applicable to transfers, distributions and acquisitions occurring after January 15, 1987.

Editorial Note: Subsection 70(6) provides a rollover of capital property transferred or distributed to the spouse or common-law partner of the deceased taxpayer (paragraph (*a*)) or a qualifying spousal or common-law partner trust (paragraph (*b*)) as a consequence of the taxpayer's death. See subsections 248(8) and (23.1) regarding the requirement that the property be transferred or distributed "as a consequence of" a taxpayer's death. See also subsection 248(9.1), which provides that a trust created under dependant's relief legislation can qualify as a trust "created by the taxpayer's will". Subsection 248(9.2) provides that the "vesting indefeasibly" requirement will not be met unless the property so vests prior to the spouse's or common-law partner's death.

Subsection 70(6.2) allows the deceased's legal representative to elect out of the subsection 70(6) rollover on a property-by-property basis. Any resulting loss on the election out of the rollover will not be subject to the superficial loss rules, which do not apply upon death.

Related Sections: S. 13(21), "depreciable property"; s. 40(4) Disposal of principal residence to spouse or trust for spouse; s. 70(9.1) When subsection (9.11) applies; s. 70(9.3) When subsection (9.31) applies; s. 70(13) Capital cost of certain depreciable property; s. 70(14) Order of disposal of depreciable property; s. 73(1) Inter vivos transfers by individuals; s. 73(1.01) Qualifying transfers; s. 104(4) Deemed disposition by trust; s. 104(5) Depreciable property; s. 108(3) Income of a trust in certain provisions; s. 108(4) Trust not disqualified; s. 248(1), "common-law partner", "cost amount", "depreciable property"; s. 248(8) Occurrences as a consequence of death; s. 248(9.1) How trust created; s. 248(9.2) Vested indefeasibly; s. 248(23.1) Transfers after death; s. 252(3) Extended meaning of "spouse" and "former spouse".

Interpretation Bulletins: *Primary* — IT-305R4 Testamentary spouse trusts; IT-449R Meaning of "vested indefeasibly" [Archived by the CRA]. *Secondary* — IT-125R4 Disposition of resource properties; IT-236R4 Reserves — Disposition of capital property [Archived by the CRA]; IT-278R2 Death of a partner or of a retired partner; IT-321R Insurance agents and brokers — Unearned commissions [Archived by the CRA]; IT-522R Vehicle, travel and sales expenses of employees.

Forms: T1255.

Tax Profile: September 2004 — Review of Tax Implications of Corporate-Owned Life Insurance Buy-Sell Arrangements; February 2000 — A Quick Reference Guide to Different Types of Trusts.

Canadian Tax Foundation: Addison and Korn, "Interspousal Property Transfers: The Things They Don't Tell You at the Diamond Shop — Personal Tax Planning feature", *2002 Canadian Tax Journal*, 728:2; Schusheim, "Trust Basics: An Overview", *1998 Conference Report*, 32:1.

Tax Window Files: Spousal Trust — Requirement to Pay Life Insurance Premiums, September 11, 2006, CRA Document No. 2006-0185551C6; Testamentary Trust — Waiving Right to Income, October 7, 2005, CRA Document No. 2005-0141181C6; Testamentary Trust, April 18, 2005, CRA Document No. 2004-0093821E5 [Beneficiary spouse renouncing right to income does not disqualify trust (see also Document No. 2003-0014515); but may affect testamentary trust status if renounced after income became payable]; Spousal Rollover of Undivided Share of Real Property, January 26, 2004, CRA Document No. 2003-0006025 [Rollover available for undivided share in land left to spouse]; Transfer of Property to Spouse or Common-Law Partner Trust, September 4, 2003, CRA Document No. 2002-016643A; Tainted Spousal Trust, July 17, 2003, CRA Document No. 2003-0019235; Payment of Trust Expenses by Beneficiary, April 17, 2003, CRA Document No. 2002-0154435; Spousal Trust, February 4, 2003, CRA Document No. 2002-0129655 [Trust income cannot generally be accumulated for the benefit of the spouse to be received after being taxed to the trust]; Spousal Trust, March 5, 2002, CRA Document No. 2001-0113735 [Trust does not qualify if income of spouse beneficiary defined as a percentage of the total value of the trust property at the commencement of each year]; Vested Indefeasibly, Shareholders Agreement, September 1, 1999, CRA Document No. 9827163; Spouse Trust — Lending of Trust Property, November 14, 1996, CRA Document No. 9627345 [Lending of trust property to person other than spouse on commercial terms does not taint the spousal trust].

Cases: After the taxpayer died intestate, his shares were transferred to his wife in August 1987 in her capacity as administratrix of his estate and on December 1, 1987 she purchased them for $10,260 in cash, with the balance of the price being set off against debts owing by the estate. The spousal rollover treatment was denied because such transfer did not fall within the purview of s. 70(6). *Husel Estate v. The Queen*, 94 DTC 1765 (T.C.C.).

After the death of her husband the taxpayer was not entitled to the benefit of the spousal rollover provisions because a buy-sell agreement compelled her to sell the shares she acquired to the remaining partner of the business. The shares were never "indefeasibly vested" in the taxpayer. *Parkes v. M.N.R.*, (T.C.C.) 86 DTC 1214. See also *Greenwood et al. v. The Queen*, (F.C.A.) 94 DTC 6190, affirming (F.C.T.D.) 90 DTC 6690.

► 70(6.1) ◄

(6.1) Transfer or distribution of NISA to spouse or trust. Where a property that is a net income stabilization account of a taxpayer is, on or after the taxpayer's death and as a consequence thereof, transferred or distributed to

(*a*) the taxpayer's spouse or common-law partner, or

(*b*) a trust, created by the taxpayer's will, under which

(i) the taxpayer's spouse or common-law partner is entitled to receive all of the income of the trust that arises before the spouse's or common-law partner's death, and

(ii) no person except the spouse or common-law partner may, before the spouse's or common-law partner's death, receive or otherwise obtain the use of any of the income or capital of the trust,

subsections (5.4) and 73(5) do not apply in respect of the taxpayer's NISA Fund No. 2 if it can be shown, within the period ending 36 months after the death of the taxpayer or, where written application therefor has been made to the Minister by the taxpayer's legal representative within that period, within such longer period as the Minister considers reasonable in the circumstances, that the property has vested indefeasibly in the spouse or common-law partner or trust, as the case may be.

History: S. 70(6.1)(*a*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(q), applicable January 1, 2001, coming into force on July 31, 2000. S. 70(6.1)(*a*) formerly read:

"(*a*) the taxpayer's spouse, or"

S. 70(6.1)(*b*)(i) and (ii) were amended by S.C. 2000, c. 12, Sched. 2, s. 1(q) and 7(d), applicable January 1, 2001, coming into force on July 31, 2000. S. 70(6.1)(*b*)(i) and (ii) formerly read:

"(i) the taxpayer's spouse is entitled to receive all of the income of the trust that arises before the spouse's death, and

(ii) no person except the spouse may, before the spouse's death, receive or otherwise obtain the use of any of the income or capital of the trust,"

S. 70(6.1), the portion after paragraph (*b*), was amended by S.C. 2000, c. 12, Sched. 2, s. 1(q), applicable January 1, 2001, coming into force on July 31, 2000. S. 70(6.1), the portion after paragraph (*b*) formerly read:

"subsections (5.4) and 73(5) do not apply in respect of the taxpayer's NISA Fund No. 2 if it can be shown, within the period ending 36 months after the death of the taxpayer or, where written application therefor has been made to the Minister by the taxpayer's legal representative within that period, within such longer period as the Minister considers reasonable in the circumstances, that the property has vested indefeasibly in the spouse or trust, as the case may be."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 70(6.1) was added by S.C. 1994, c. 7, Sched. VIII, s. 28(8), applicable to the 1991 and subsequent taxation years.

Former s. 70(6.1) was repealed by S.C. 1994, c. 7, Sched. VIII, s. 28(7), applicable to the 1990 and subsequent taxation years. S. 70(6.1) formerly read:

"(6.1) *How trust created.* For the purposes of subsection (6) and paragraph 104(4)(*a*), a trust shall be considered to be created by a taxpayer's will if the trust is created

(*a*) under the terms of the taxpayer's will; or

(*b*) by an order of a court in relation to the taxpayer's estate made pursuant to any law of a province providing for the relief or support of dependants."

Editorial Note: See subsection 70(6.2) for the election out of the NISA fund rollover.

Related Sections: S. 104(1) Reference to trust or estate; s. 104(5.1) Interest in NISA Fund No. 2; s. 108(3) Income of a trust in certain provisions; s. 108(4) Trust not disqualified; s. 248(1), "common-law partner", "net income stabilization account", "NISA Fund No. 2", "trust"; s. 252(3) Extended meaning of "spouse" and "former spouse".
Interpretation Bulletins: *Secondary* — IT-305R4 Testamentary spouse trusts.
Tax Profile: February 2000 — A Quick Reference Guide to Different Types of Trusts.

► 70(6.2) ◄

(6.2) Election. Subsection (6) or (6.1) does not apply to any property of a deceased taxpayer in respect of which the taxpayer's legal representative elects, in the taxpayer's return of income under this Part (other than a return of income filed under subsection (2) or 104(23), paragraph 128(2)(*e*) or subsection 150(4)) for the year in which the taxpayer died, to have subsection (5) or (5.4), as the case may be, apply.

History: S. 70(6.2) was amended by S.C. 1994, c. 7, Sched. VIII, s. 28(8), applicable to the 1991 and subsequent taxation years. S. 70(6.2) formerly read:

"(6.2) Subsection (6) does not apply to any property of a deceased taxpayer in respect of which the legal representative of the taxpayer has elected, in the return of income of the taxpayer for the year in which the taxpayer died, to have subsection (5) apply."

Editorial Note: The election out of the rollover of subsection 70(6) may be beneficial if the property has an accrued loss (the superficial loss rules do not apply at death), if any accrued gain in respect of the property can be offset by the deceased's losses, or if any resulting gain qualifies for the capital gains exemption under section 110.6. The election is made on a property-by-property basis.

Related Sections: S. 159(5) Election where certain provisions applicable; s. 220(3.2) Late, amended or revoked elections.
Interpretation Bulletins: *Secondary* — IT-305R4 Testamentary spouse trusts.
Information Circulars: IC 07-1 Taxpayer Relief Provisions.
Tax Profile: February 2000 — A Quick Reference Guide to Different Types of Trusts.

► 70(7) ◄

(7) Special rules applicable in respect of trust for benefit of spouse. Where a trust created by a taxpayer's will would, but for the payment of, or provision for payment of, any particular testamentary debts in respect of the taxpayer, be a trust to which subsection (6) or (6.1) applies,

(*a*) for the purpose of determining the day on or before which a return (in this subsection referred to as the "taxpayer's return") of the taxpayer's income for the taxation year in which the taxpayer died is required to be filed by the taxpayer's legal representatives, subsection 150(1) shall be read without reference to paragraph 150(1)(*b*) and as if paragraph 150(1)(*d*) read as follows:

"(*d*) in the case of any other person, by the person's legal representative within 18 months after the person's death; or;" and

(*b*) where the taxpayer's legal representative so elects in the taxpayer's return (other than a return of income filed under subsection (2) or 104(23), paragraph 128(2)(*e*) or subsection 150(4)) and lists therein one or more properties (other than a net income stabilization account) that were, on or after the taxpayer's death and as a consequence thereof, transferred or distributed to the trust, the total fair market value of which properties immediately after the taxpayer's death was not less than the total of the non-qualifying debts in respect of the taxpayer,

(i) subsection (6) does not apply in respect of the properties so listed, and

(ii) notwithstanding the payment of, or provision for payment of, any such particular testamentary debts, the trust shall be deemed to be a trust described in subsection (6),

except that, where the fair market value, immediately after the taxpayer's death, of all of the properties so listed exceeds the total of the non-qualifying debts in respect of the taxpayer (the amount of which excess is referred to in this subsection as the "listed value excess") and the taxpayer's legal representative designates in the taxpayer's return one property so listed (other than money) that is capital property other than depreciable property,

(iii) the amount of the taxpayer's capital gain or capital loss, as the case may be, from the disposition of that property deemed by subsection (5) to have been made by the taxpayer is that proportion of that capital gain or capital loss otherwise determined that

(A) the amount, if any, by which the fair market value of that property immediately after the taxpayer's death exceeds the listed value excess,

is of

(B) the fair market value of that property immediately after the taxpayer's death, and

(iv) the cost to the trust of that property is

(A) where the taxpayer has a capital gain from the disposition of that property deemed by subsection (5) to have been made by the taxpayer, the total of

(I) its adjusted cost base to the taxpayer immediately before the taxpayer's death, and

(II) the amount determined under subparagraph (iii) to be the taxpayer's capital gain from the disposition of that property, or

(B) where the taxpayer has a capital loss from the disposition of that property deemed by subsection (5) to have been made by the taxpayer, the amount by which

(I) its adjusted cost base to the taxpayer immediately before the taxpayer's death

exceeds

(II) the amount determined under subparagraph (iii) to be the taxpayer's capital loss from the disposition of that property.

History: S. 70(7)(*a*) was amended by S.C. 1996, c. 21, s. 14(1), applicable after 1994. S. 70(7)(*a*) formerly read:

"(*a*) for the purpose of determining the day on or before which a return (in this subsection referred to as the 'taxpayer's return') of the taxpayer's income for the taxation year in which the taxpayer died is required to be filed by the taxpayer's legal representatives, subsection 150(1) shall be read without reference to paragraph 150(1)(*b*) and the reference in paragraph 150(1)(*d*) to 'on or before April 30 in the next year' shall be read as a reference to 'within 18 months after the person's death'; and"

S. 70(7), the portion before paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 28(9), applicable to the 1991 and subsequent taxation years. The portion formerly read:

"(7) Where a trust created by a taxpayer's will would, but for the payment of, or provision for payment of, any particular testamentary debts in respect of the taxpayer, be a trust described in subsection (6), the following rules apply:"

S. 70(7)(*b*), the portion before subparagraph (iii), was amended by S.C. 1994, c. 7, Sched. VIII, s. 28(10), applicable to the 1991 and subsequent taxation years. The portion formerly read:

"(*b*) where the taxpayer's legal representative has so elected in the taxpayer's return and has listed therein one or more specified properties (including any money) that have, on or after the taxpayer's death and as a

consequence thereof, been transferred or distributed to the trust, the total fair market value of which properties immediately after the taxpayer's death was not less than the total of the non-qualifying debts in respect of the taxpayer,

(i) subsection (6) does not apply in respect of the specified properties so listed, and

(ii) notwithstanding the payment of, or provision for payment of, any such particular testamentary debts, the trust shall be deemed to be a trust described in subsection (6),

except that where the fair market value, immediately after the taxpayer's death, of all of the specified properties so listed exceeds the total of the non-qualifying debts in respect of the taxpayer (the amount of which excess is referred to in this subsection as the 'listed value excess') and the taxpayer's legal representative has designated in the taxpayer's return one specified property so listed (other than money) that is a capital property other than depreciable property,"

S. 70(7)(*a*) was amended by S.C. 1994, c. 7, Sched. II, s. 48(4), applicable to the 1990 and subsequent taxation years. S. 70(7)(*a*) formerly read:

"(*a*) for the purpose of determining the day on or before which a return (in this subsection referred to as the 'taxpayer's return') of the taxpayer's income for the taxation year in which the taxpayer died is required to be filed by the taxpayer's legal representative, the reference in paragraph 150(1)(*b*) to '6 months' shall be read, except for the purposes of section 161, as a reference to '18 months'; and"

Editorial Note: See paragraph 26 of Interpretation Bulletin IT-305R4, *Testamentary Spouse Trusts*, for alternatives to the subsection 70(7) treatment. See also the definitions in subsection 70(8) that apply in subsection 70(7).

Related Sections: S. 13(21), "depreciable property"; s. 54, "capital property"; s. 70(8) Meaning of certain expressions in s. (7); s. 104(1) Reference to trust or estate; s. 248(1), "net income stabilization account", "trust".

Tax Profile: February 2000 — A Quick Reference Guide to Different Types of Trusts.

Tax Window Files: Transfer of Property to Spouse or Common-Law Partner Trust, September 4, 2003, CRA Document No. 2002-016643A; General Comments on 70(7), June 3, 2003, CRA Document No. 2002-016643.

► 70(8) ◄

(8) Meaning of certain expressions in s. (7). In subsection (7),

(*a*) the "fair market value" at any time of any property subject to a mortgage or hypothec is the amount, if any, by which the fair market value at that time of the property otherwise determined exceeds the amount outstanding at that time of the debt secured by the mortgage or hypothec, as the case may be;

(*b*) "non-qualifying debt" in respect of a taxpayer who has died and by whose will any trust has been created that would, but for the payment of, or provision for payment of, any particular testamentary debts in respect of the taxpayer, be a trust described in subsection (6), means any such particular testamentary debt in respect of the taxpayer other than

(i) any estate, legacy, succession or inheritance duty payable, in consequence of the taxpayer's death, in respect of any property of, or interest in, the trust, or

(ii) any debt secured by a mortgage or hypothec on property owned by the taxpayer immediately before the taxpayer's death; and

(*c*) "testamentary debt", in respect of a taxpayer who has died, means

(i) any debt owing by the taxpayer, or any other obligation of the taxpayer to pay an amount, that was outstanding immediately before the taxpayer's death, and

(ii) any amount payable (other than any amount payable to any person as a beneficiary of the taxpayer's estate) by the taxpayer's estate in consequence of the taxpayer's death,

including any income or profits tax payable by or in respect of the taxpayer for the taxation year in which the taxpayer died or for any previous taxation year, and any estate, legacy, succession or inheritance duty payable in consequence of the taxpayer's death.

History: S. 70(8)(*a*) was amended by S.C. 2001, c. 17, s. 208(1), applicable on Royal Assent, June 14, 2001. S. 70(8)(*a*) formerly read:

"(*a*) the 'fair market value' at any time of any property subject to a mortgage is the amount, if any, by which the fair market value at that time of the property otherwise determined exceeds the amount outstanding at that time of the debt secured by the mortgage, as the case may be;"

S. 70(8)(*b*)(ii) was amended by S.C. 2001, c. 17, s. 208(2), applicable on Royal Assent, June 14, 2001. S. 70(8)(*b*)(ii) formerly read:

"(ii) any debt secured by a mortgage on property owned by the taxpayer immediately before the taxpayer's death; and"

► 70(9) ◄

(9) When subsection (9.01) applies. Subsection (9.01) applies to a taxpayer and a child of the taxpayer in respect of land in Canada or depreciable property in Canada of a prescribed class of the taxpayer in respect of which subsection (5) would, if this Act were read without reference to this subsection, apply if

(*a*) the property was, before the death of the taxpayer, used principally in a fishing or farming business carried on in Canada in which the taxpayer, the spouse or common-law partner of the taxpayer or a child or a parent of the taxpayer was actively engaged on a regular and continuous basis (or, in the case of property used in the operation of a woodlot, was engaged to the extent required by a prescribed forest management plan in respect of that woodlot);

(*b*) the child of the taxpayer was resident in Canada immediately before the day on which the taxpayer died; and

(*c*) as a consequence of the death of the taxpayer, the property is transferred to and becomes vested indefeasibly in the child within the period ending 36 months after the death of the taxpayer or, if written application has been made to the Minister by the taxpayer's legal representative within that period, within any longer period that the Minister considers reasonable in the circumstances.

History: S. 70(9) was replaced by S.C. 2007, c. 2, s. 10(1), applicable to a disposition, that occurs on or after May 2, 2006, of a property unless the disposition of the property was before 2007 and the taxpayer elects in writing in the taxpayer's return of income for the taxation year in which the disposition occurred to have subsection 70(9), (9.1), (9.2) or (9.3), as that subsection read on May 1, 2006, apply to the disposition of the property.

S. 70(9) formerly read:

"(9) *Transfer of farm property to child.* If any land in Canada or depreciable property in Canada of a prescribed class of a taxpayer to which subsection (5) would otherwise apply was, before the taxpayer's death, used principally in a farming business in which the taxpayer, the taxpayer's spouse or common-law partner or any of the taxpayer's children was actively engaged on a regular and continuous basis (or, in the case of property used in the operation of a woodlot, was engaged to the extent required by a prescribed forest management plan in respect of that woodlot), the property is, as a consequence of the death, transferred or distributed to a child of the taxpayer who was resident in Canada immediately before the death and it can be shown, within the period ending 36 months after the death or, if written application that this subsection apply has been made to the Minister by the taxpayer's legal representative within that period, within any longer period that the Minister considers reasonable in the circumstances, that the property has vested indefeasibly in the child,

(*a*) paragraphs (5)(*a*) and (*b*) do not apply in respect of the property,

(*b*) the taxpayer shall be deemed to have, immediately before the taxpayer's death, disposed of the property and received proceeds of disposition therefor equal to

(i) where the property was depreciable property of a prescribed class, the lesser of the capital cost and the cost amount to the taxpayer of the property immediately before the death, and

(ii) where the property is land (other than land to which subparagraph (i) applies), its adjusted cost base to the taxpayer immediately before the death,

and the child shall be deemed to have acquired the property at the time of the death at a cost equal to those proceeds, and

(*c*) where the property was depreciable property of a prescribed class, paragraphs (5)(*c*) and (*d*) apply as if the references therein to 'paragraph (*a*)' and 'paragraph (*b*)' were read as 'paragraph (9)(*b*)',

except that, where the taxpayer's legal representative so elects in the taxpayer's return of income under this Part for the year in which the taxpayer died, paragraph (*b*) shall be read as follows:

'(*b*) the taxpayer shall be deemed to have, immediately before the taxpayer's death, disposed of the property and received proceeds of disposition therefor equal to such amount as the legal representative elects in the taxpayer's return of income under this Part for the year in which the taxpayer died, not greater than the greater of nor less than the lesser of

(i) where the property was depreciable property of a prescribed class,

(A) its fair market value immediately before the death, and

(B) the lesser of the capital cost and the cost amount to the taxpayer of the property immediately before the death, and

(ii) where the property is land (other than land to which subparagraph (i) applies),

(A) its fair market value immediately before the death, and

(B) its adjusted cost base to the taxpayer immediately before the death,

and the child shall be deemed to have acquired the property at the time of the death at a cost equal to those proceeds, except that for the purpose of this paragraph, where the elected amount exceeds the greater of the amounts determined under clauses (i)(A) and (B) or (ii)(A) and (B), as the case may be, it shall be deemed to be equal to the greater thereof, and where the elected amount is less than the lesser of the amounts determined under clauses (i)(A) and (B) or (ii)(A) and (B), as the case may be, it shall be deemed to be equal to the lesser thereof, and'."

S. 70(9), the portion before paragraph (*a*) was amended by S.C. 2002, c. 9, s. 27(1), applicable to transfers of property that occur as a consequence of deaths that occur after December 10, 2001. S. 70(9), the portion before paragraph (*a*) formerly read:

"(9) *Transfer of farm property to child.* Where any land in Canada or depreciable property in Canada of a prescribed class of a taxpayer to which subsection (5) would otherwise apply was, before the taxpayer's death, used principally in the business of farming in which the taxpayer, the taxpayer's spouse or common-law partner or any of the taxpayer's children was actively engaged on a regular and continuous basis and the property is, as a consequence of the death, transferred or distributed to a child of the taxpayer who was resident in Canada immediately before the death and it can be shown, within the period ending 36 months after the death or, where written application therefor has been made to the Minister by the taxpayer's legal representative within that period, within such longer period as the Minister considers reasonable in the circumstances, that the property has vested indefeasibly in the child,"

S. 70(9), the portion before paragraph (*a*), was amended by S.C. 2000, c. 12, Sched. 2, s. 1(q), applicable January 1, 2001, coming into force on July 31, 2000. S. 70(9), the portion before paragraph (*a*) formerly read:

"(9) *Transfer of farm property to child.* Where any land in Canada or depreciable property in Canada of a prescribed class of a taxpayer to which subsection (5) would otherwise apply was, before the taxpayer's death, used principally in the business of farming in which the taxpayer, the taxpayer's spouse or any of the taxpayer's children was actively engaged on a regular and continuous basis and the property is, as a consequence of the death, transferred or distributed to a child of the taxpayer who was resident in Canada immediately before the death and it can be shown, within the period ending 36 months after the death or, where written application therefor has been made to the Minister by the taxpayer's legal representative within that period, within such longer period as the Minister considers reasonable in the circumstances, that the property has vested indefeasibly in the child,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 70(9), the portion after paragraph (*a*), was amended by S.C. 1994, c. 21, s. 33(8), applicable to dispositions and acquisitions occurring after 1992. That part formerly read:

"(*b*) the taxpayer shall be deemed to have disposed of the property immediately before the taxpayer's death and to have received proceeds of disposition therefor equal to,

(i) where the property was depreciable property of the taxpayer of a prescribed class, that proportion of the undepreciated capital cost to the taxpayer immediately before the taxpayer's death of all of the depreciable property of the taxpayer of that class that the fair market value at that time of the property was of the fair market value at that time of all of the depreciable property of the taxpayer of that class, and

(ii) where the property was land, its adjusted cost base to the taxpayer immediately before the taxpayer's death,

and the child shall be deemed to have acquired the property for an amount equal to those proceeds, and

(*c*) where the property was depreciable property of the taxpayer of a prescribed class, paragraph (5)(*c*) applies as if the references therein to 'paragraph (*a*)' and to 'paragraph (*b*)' were read as references to 'paragraph (9)(*b*)',

except that, where the legal representative of the taxpayer has so elected in the taxpayer's return of income under this Part for the year in which the taxpayer died, paragraph (*b*) shall be read as follows:

'(*b*) the taxpayer shall be deemed to have disposed of the property immediately before the taxpayer's death and to have received proceeds of disposition therefor equal to such amount as the legal representative has elected, not greater than the greater of or less than the lesser of

(i) where the property was depreciable property of a prescribed class,

(A) the fair market value of the property immediately before the death of the taxpayer, and

(B) that proportion of the undepreciated capital cost to the taxpayer immediately before the taxpayer's death of all the depreciable property of that class of the taxpayer that the fair market value at that time of the property disposed of was of the fair market value at that time of all of the depreciable property of that class of the taxpayer, and

(ii) where the property was land not described in subparagraph (i),

(A) the fair market value of the land immediately before the taxpayer's death, and

(B) the adjusted cost base to the taxpayer of the land immediately before the taxpayer's death,

and the child shall be deemed to have acquired the property for an amount equal to those proceeds, except that for the purposes of this paragraph, where the elected amount exceeds the greater of the amounts determined under subparagraphs (i) and (ii), it shall be deemed to be equal to the greater thereof, and where the elected amount is less than the lesser of the amounts determined under those subparagraphs, it shall be deemed to be equal to the lesser thereof; and'."

S. 70(9), the portion before paragraph (*b*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 28(11), applicable to dispositions occurring after 1992. The portion formerly read:

"(9) Where any land in Canada or depreciable property in Canada of a prescribed class of a taxpayer to which paragraphs (5)(*a*) and (*c*) or (5)(*b*) and (*d*), as the case may be, would otherwise apply was, immediately before the taxpayer's death, used by the taxpayer, the taxpayer's spouse or any of the taxpayer's children in the business of farming and the property has, on or after the death of the taxpayer and as a consequence thereof, been transferred or distributed to a child of the taxpayer who was resident in Canada immediately before the death of the taxpayer and it can be shown, within the period ending 36 months after the death of the taxpayer or, where written application therefor has been made to the Minister by the taxpayer's legal representative within that period, within such longer period as the Minister considers reasonable in the circumstances, that the property has become vested indefeasibly in the child, the following rules apply:

(*a*) paragraphs (5)(*a*) to (*d*) are not applicable to the property,"

S. 70(9)(*c*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 28(12), applicable to dispositions occurring after 1992. S. 70(9)(*c*) formerly read:

"(*c*) where the property was depreciable property of the taxpayer of a prescribed class, paragraph (5)(*e*) is applicable as if the reference therein to 'paragraph (*b*)' and to 'paragraph (*d*)' were read as references to 'paragraph (9)(*b*)',"

Related Sections: S. 13(21), "depreciable property"; s. 70(5) Capital property of a deceased taxpayer; s. 70(6) Where transfer or distribution to spouse or spouse trust; s. 70(10), "child"; s. 70(13) Capital cost of certain depreciable property; s. 70(14) Order of disposal of depreciable property; s. 220(3.2) Late, amended or revoked elections; s. 248(1), "business", "common-law partner", "farming"; s. 252(1) Extended meaning of "child".

Regulations: 600(b); 7400.

Interpretation Bulletins: *Primary* — IT-349R3 Intergenerational transfers of farm property on death. *Secondary* — IT-373R2 (Consolid.) Woodlots; IT-449R Meaning of "vested indefeasibly" [Archived by the CRA].

Information Circulars: IC 07-1 Taxpayer Relief Provisions.

► 70(9.01) ◄

(9.01) Transfer of farming and fishing property to child. If, because of subsection (9), this subsection applies to the taxpayer and a child of the taxpayer in respect of a property of the taxpayer that has been transferred to the child as a consequence of the death of the taxpayer, the following rules apply:

(*a*) where the taxpayer's legal representative does not elect in the taxpayer's return of income under this Part for the year in which the taxpayer died, to have

paragraph (*b*) apply to the taxpayer and the child in respect of the property,

(i) paragraphs (5)(*a*) and (*b*) and section 69 do not apply to the taxpayer and the child in respect of the property,

(ii) the taxpayer is deemed to have

(A) disposed of the property immediately before the taxpayer's death, and

(B) received, at the time of the disposition of the property, proceeds of disposition in respect of that disposition of the property equal to

(I) where the property was depreciable property of a prescribed class, the lesser of

1. the capital cost to the taxpayer of the property, and

2. the amount, determined immediately before the time of the disposition of the property, that is that proportion of the undepreciated capital cost of property of that class to the taxpayer that the capital cost to the taxpayer of the property is of the capital cost to the taxpayer of all property of that class that had not, at or before that time, been disposed of, and

(II) where the property is land (other than land to which subclause (I) applies), the adjusted cost base to the taxpayer of the property immediately before the time of the disposition of the property,

(iii) the child is, immediately after the time of the disposition of the property, deemed to have acquired the property at a cost equal to the taxpayer's proceeds of disposition in respect of the disposition of the property determined under subparagraph (ii), and

(iv) where the property was depreciable property of a prescribed class, paragraphs (5)(*c*) and (*d*) apply to the taxpayer and the child in respect of the property as if the references in those paragraphs to "paragraph (*a*)" and "paragraph (*b*)" were read as "subparagraph (9.01)(*a*)(ii)" and "subparagraph (9.01)(*a*)(iii)", respectively; and

(*b*) where the taxpayer's legal representative elects, in the taxpayer's return of income under this Part for the taxation year in which the taxpayer died, to have this paragraph apply to the taxpayer in respect of the property,

(i) paragraphs (5)(*a*) and (*b*) and section 69 do not apply to the taxpayer and the child in respect of the property,

(ii) the taxpayer is deemed to have

(A) disposed of the property immediately before the taxpayer's death, and

(B) received, at the time of the disposition of the property, proceeds of disposition in respect of that disposition of the property equal to

(I) where the property was depreciable property of a prescribed class, the amount that the legal representative designates, which must not be greater than the greater of nor less than the lesser of

1. the fair market value of the property immediately before the time of the disposition of the property, and

2. the lesser of the capital cost to the taxpayer of the property and the amount, determined immediately before the time of the disposition of the property, that is that proportion of the undepreciated capital cost of property of that class to the taxpayer that the capital cost to the taxpayer of the property is of the capital cost to the taxpayer of all property of that class that had not, at or before that time, been disposed of, and

(II) where the property is land (other than land to which subclause (I) applies), the amount that the legal representative designates, which must not be greater than the greater of nor less than the lesser of

1. the fair market value of the property immediately before the time of the disposition of the property, and

2. the adjusted cost base to the taxpayer of the property immediately before the time of the disposition of the property,

(iii) the child is, immediately after the time of the disposition of the property, deemed to have acquired the property at a cost equal to the taxpayer's proceeds of disposition in respect of the disposition of the property determined under subparagraph (ii),

(iv) where the property was depreciable property of a prescribed class, paragraphs (5)(*c*) and (*d*) apply to the taxpayer in respect of the property as if the references in those paragraphs to "paragraph (*a*)" and "paragraph (*b*)" were read as "subparagraph (9.01)(*b*)(ii)" and "subparagraph (9.01)(*b*)(iii)", respectively,

(v) except for the purpose of this subparagraph,

(A) where the amount designated by the taxpayer's legal representative under subclause (ii)(B)(I), exceeds the greater of the amounts determined under sub-subclauses (ii)(B)(I)1 and 2 in respect of the property, the amount designated is deemed to be equal to the greater of those amounts, and

(B) where the amount designated by the taxpayer's legal representative under subclause (ii)(B)(II) exceeds the greater of the amounts determined under sub-subclauses (ii)(B)(II)1 and 2 in respect of the property, the amount designated is deemed to be equal to the greater of those amounts, and

(vi) except for the purpose of this subparagraph,

(A) where the amount designated by the taxpayer's legal representative under subclause (ii)(B)(I) is less than the lesser of the amounts determined under sub-subclauses (ii)(B)(I)1 and 2 in respect of the property, the amount designated is deemed to be equal to the lesser of those amounts, and

(B) where the amount designated by the taxpayer's legal representative under subclause (ii)(B)(II) is less than the lesser of the amounts determined under sub-subclauses (ii)(B)(II)1 and 2 in respect of the property, the amount designated is deemed to be equal to the lesser of those amounts.

History: S. 70(9.01) was added by S.C. 2007, c. 2, s. 10(1), applicable to a disposition, that occurs on or after May 2, 2006, of a property unless the disposition of the property was before 2007 and the taxpayer elects in writing in the taxpayer's return of income for the taxation year in which the disposition occurred to have subsection 70(9), (9.1), (9.2) or (9.3), as that subsection read on May 1, 2006, apply to the disposition of the property.

Editorial Note: The farming and fishing property rollover applies automatically under paragraph 70(9.01)(*a*) unless the taxpayer's legal representative elects out of the rollover under paragraph 70(9.01)(*b*). A child of the taxpayer includes a grandchild and great-grandchild of the taxpayer, and a person who, while under the age of 19, was wholly dependent on and under the custody and control of the taxpayer (see subsection 70(10)).

► 70(9.1) ◄

(9.1) When subsection (9.11) applies. Subsection (9.11) applies to a trust and a child of the settlor of the trust in respect of a property in respect of which subsection 104(4) or (5) would, if this Act were read without reference to this subsection, apply to the trust as a consequence of the death of the beneficiary under the trust who was a spouse or a common-law partner of the settlor if

(*a*) the property (or property for which the property was substituted) was transferred to the trust by the settlor;

(*b*) subsection (6), subsection 73(1) (as that subsection applied to transfers before 2000) or subparagraph 73(1.01)(*c*)(i) applied to the settlor and the trust in respect of the transfer referred to in paragraph (*a*);

(*c*) the property is, immediately before the beneficiary's death, land or a depreciable property of a prescribed class of the trust that was used in a fishing or farming business carried on in Canada;

(*d*) the child of the settlor is, immediately before the beneficiary's death, resident in Canada; and

(*e*) as a consequence of the beneficiary's death, the property is transferred to and becomes vested indefeasibly in the child of the settlor within the period ending 36 months after that beneficiary's death or, if written application has been made to the Minister by the taxpayer's legal representative within that period, within any longer period that the Minister considers reasonable in the circumstances.

History: S. 70(9.1) was replaced by S.C. 2007, c. 2, s. 10(1), applicable to a disposition, that occurs on or after May 2, 2006, of a property unless the disposition of the property was before 2007 and the taxpayer elects in writing in the taxpayer's return of income for the taxation year in which the disposition occurred to have subsection 70(9), (9.1), (9.2) or (9.3), as that subsection read on May 1, 2006, apply to the disposition of the property.

S. 70(9.1) formerly read:

"(9.1) *Transfer of farm property from trust to settlor's children.* Where any property in Canada of a taxpayer that is land or depreciable property of a prescribed class has been transferred or distributed to a trust described in subsection (6) or 73(1) (as that subsection applied to transfers before 2000) or a trust to which subparagraph 73(1.01)(*c*)(i) applies and the property or a replacement property for that property in respect of which the trust has made an election under subsection 13(4) or 44(1) was, immediately before the death of the taxpayer's spouse or common-law partner who was a beneficiary under the trust, used in the business of farming and has, on the death of the spouse or common-law partner and as a consequence of the death, been transferred or distributed to and vested indefeasibly in an individual who was a child of the taxpayer and who was resident in Canada immediately before the death of the spouse or common- law partner, the following rules apply:

(*a*) subsections 104(4) and (5) do not apply to the trust in respect of the property,

(*b*) the trust shall be deemed to have, immediately before the spouse's or common-law partner's death, disposed of the property and received proceeds of disposition therefor equal to

(i) where the property was depreciable property of a prescribed class, the lesser of the capital cost and the cost amount to the trust of the property immediately before the death, and

(ii) where the property is land (other than land to which subparagraph (i) applies), its adjusted cost base to the trust immediately before the death,

and the child shall be deemed to have acquired the property at the time of the death at a cost equal to those proceeds,

(*c*) where any depreciable property of a prescribed class that is deemed by paragraph (*b*) to have been disposed of by the trust is acquired by a child of the taxpayer as a consequence of the spouse's or common-law partner's death (other than where the trust's proceeds of disposition of the property under paragraph (*b*) are redetermined under subsection 13(21.1)) and the amount that was the capital cost to the trust of the property exceeds the amount determined under paragraph (*b*) to be the cost to the child of the property, for the purposes of sections 13 and 20 and any regulations made for the purpose of paragraph 20(1)(*a*),

(i) its capital cost to the child shall be deemed to be the amount that was its capital cost to the trust, and

(ii) the excess shall be deemed to have been allowed to the child in respect of the property under regulations made for the purpose of paragraph 20(1)(*a*) in computing income for taxation years that ended before the child acquired the property, and

(*d*) where the property of the trust that is deemed by paragraph (*b*) to have been disposed of is acquired by a child of the taxpayer as a consequence of the spouse's or common-law partner's death and the trust's proceeds of disposition of the property under paragraph (*b*) are redetermined under subsection 13(21.1), notwithstanding paragraph (*b*),

(i) where the property was depreciable property of a prescribed class and the amount that was its capital cost to the trust exceeds the amount so redetermined under subsection 13(21.1), for the purposes of sections 13 and 20 and any regulations made for the purpose of paragraph 20(1)(*a*),

(A) its capital cost to the child shall be deemed to be the amount that was its capital cost to the trust, and

(B) the excess shall be deemed to have been allowed to the child in respect of the property under regulations made for the purpose of paragraph 20(1)(*a*) in computing income for taxation years that ended before the child acquired the property, and

(ii) where the property is land (other than land to which subparagraph (i) applies), its cost to the child shall be deemed to be the amount that was the trust's proceeds of disposition as redetermined under subsection 13(21.1),

except that, where the trust so elects in its return of income under this Part for its taxation year in which the spouse or common-law partner died, paragraph (*b*) shall be read as follows:

'(*b*) the trust shall be deemed to have, immediately before the spouse's or common-law partner's death, disposed of the property and received proceeds of disposition therefor equal to such amount as the trust elects in its return of income under this Part for the year in which the spouse or common-law partner died, not greater than the greater of nor less than the lesser of

(i) where the property was depreciable property of a prescribed class,

(A) its fair market value immediately before the death, and

(B) the lesser of the capital cost and the cost amount to the trust of the property immediately before the death, and

(ii) where the property is land (other than land to which subparagraph (i) applies),

(A) its fair market value immediately before the death, and

(B) its adjusted cost base to the trust immediately before the death,

and the child shall be deemed to have acquired the property at the time of the death at a cost equal to those proceeds, except that for the purpose of this paragraph, where the elected amount exceeds the greater of the amounts determined under clauses (i)(A) and (B) or (ii)(A) and (B), as the case may be, it shall be deemed to be equal to the greater thereof, and where the elected amount is less than the lesser of the amounts determined under clauses (i)(A) and (B) or (ii)(A) and (B), as the case may be, it shall be deemed to be equal to the lesser thereof.'."

S. 70(9.1), the portion before paragraph (*a*), was amended by S.C. 2001, c. 17, s. 52(6), applicable to transfers and distributions from trusts that occur after 1999. S. 70(9.1), the portion before paragraph (*a*) formerly read:

"(9.1) *Transfer of farm property from spouse's trust to settlor's children.* Where any property in Canada of a taxpayer that is land or depreciable property of a prescribed class has been transferred or distributed to a trust described in subsection (6) or 73(1) and the property or a replacement property therefor in respect of which the trust has made an election under subsection 13(4) or 44(1) was, immediately before the death of the taxpayer's spouse or common-law partner who was a beneficiary under the trust, used in the business of farming and has, on the death of the spouse or common-law partner and as a consequence thereof, been transferred or distributed to

and become vested indefeasibly in a child of the taxpayer who was resident in Canada immediately before the death of the spouse or common-law partner, the following rules apply:"

Sec. 52(13), Chap. 17, S.C. 2001

(13) Where a particular transfer or distribution to a trust referred to in subsection 70(9.1) or (9.3) of the Act, as enacted by subsections (6) and (7), respectively, occurred before 2001, in applying that subsection 70(9.1) or (9.3) to a transfer or distribution from the trust that occurs after 1997, that subsection shall be read without reference to the words "or common-law partner" and to the *Modernization of Benefits and Obligations Act*, unless

(*a*) the particular transfer or distribution occurred after 1997;

(*b*) the death referred to in that subsection occurs after 1997; and

(*c*) either

(*i*) at the time of the particular transfer or distribution referred to in paragraph (*a*), the taxpayer was a spouse of the individual whose death is referred to in paragraph (*b*), or

(*ii*) because of an election under section 144 of the *Modernization of Benefits and Obligations Act*, sections 130 to 142 of that Act applied, at the time of the particular transfer or distribution referred to in paragraph (*a*), to the taxpayer and the individual whose death is referred to in paragraph (*b*).

S. 70(9.1), the portion before paragraph (*a*), was amended by S.C. 2000, c. 12, Sched. 2, s. 1(q), applicable January 1, 2001, coming into force on July 31, 2000. S. 70(9.1), the portion before paragraph (*a*) formerly read:

"(9.1) *Transfer of farm property from spouse's trust to settlor's children.* Where any property in Canada of a taxpayer that is land or depreciable property of a prescribed class has been transferred or distributed to a trust described in subsection (6) or 73(1) and the property or a replacement property therefor in respect of which the trust has made an election under subsection 13(4) or 44(1) was, immediately before the death of the taxpayer's spouse who was a beneficiary under the trust, used in the business of farming and has, on the death of the spouse and as a consequence thereof, been transferred or distributed to and become vested indefeasibly in a child of the taxpayer who was resident in Canada immediately before the death of the spouse, the following rules apply:"

S. 70(9.1)(*b*) and (*c*) were amended by S.C. 2000, c. 12, Sched. 2, s. 7(d), applicable January 1, 2001, coming into force on July 31, 2000. S. 70(9.1)(*b*) and (*c*) formerly read:

"(*b*) the trust shall be deemed to have, immediately before the spouse's death, disposed of the property and received proceeds of disposition therefor equal to

(i) where the property was depreciable property of a prescribed class, the lesser of the capital cost and the cost amount to the trust of the property immediately before the death, and

(ii) where the property is land (other than land to which subparagraph (i) applies), its adjusted cost base to the trust immediately before the death,

and the child shall be deemed to have acquired the property at the time of the death at a cost equal to those proceeds,

(*c*) where any depreciable property of a prescribed class that is deemed by paragraph (*b*) to have been disposed of by the trust is acquired by a child of the taxpayer as a consequence of the spouse's death (other than where the trust's proceeds of disposition of the property under paragraph (*b*) are redetermined under subsection 13(21.1)) and the amount that was the capital cost to the trust of the property exceeds the amount determined under paragraph (*b*) to be the cost to the child of the property, for the purposes of sections 13 and 20 and any regulations made for the purpose of paragraph 20(1)(*a*),

(i) its capital cost to the child shall be deemed to be the amount that was its capital cost to the trust, and

(ii) the excess shall be deemed to have been allowed to the child in respect of the property under regulations made for the purpose of paragraph 20(1)(*a*) in computing income for taxation years that ended before the child acquired the property, and"

S. 70(9.1)(*d*), the portion before subparagraph (i) was amended by S.C. 2000, c. 12, Sched. 2, s. 7(d), applicable January 1, 2001, coming into force on July 31, 2000. S. 70(9.1)(*d*), the portion before subparagraph (i) formerly read:

"(*d*) where the property of the trust that is deemed by paragraph (*b*) to have been disposed of is acquired by a child of the taxpayer as a consequence of the spouse's death and the trust's proceeds of disposition of the property under paragraph (*b*) are redetermined under subsection 13(21.1), notwithstanding paragraph (*b*),"

S. 70(9.1), the portion after paragraph (*d*), was amended by S.C. 2000, c. 12, Sched. 2, s. 1(q) and 7(d), applicable January 1, 2001, coming into force on July 31, 2000. S. 70(9.1), the portion after paragraph (*d*) formerly read:

"except that, where the trust so elects in its return of income under this Part for its taxation year in which the spouse died, paragraph (*b*) shall be read as follows:

'(*b*) the trust shall be deemed to have, immediately before the spouse's death, disposed of the property and received proceeds of disposition therefor equal to such amount as the trust elects in its return of income under this Part for the year in which the spouse died, not greater than the greater of nor less than the lesser of

(i) where the property was depreciable property of a prescribed class,

(A) its fair market value immediately before the death, and

(B) the lesser of the capital cost and the cost amount to the trust of the property immediately before the death, and

(ii) where the property is land (other than land to which subparagraph (i) applies),

(A) its fair market value immediately before the death, and

(B) its adjusted cost base to the trust immediately before the death,

and the child shall be deemed to have acquired the property at the time of the death at a cost equal to those proceeds, except that for the purpose of this paragraph, where the elected amount exceeds the greater of the amounts determined under clauses (i)(A) and (B) or (ii)(A) and (B), as the case may be, it shall be deemed to be equal to the greater thereof, and where the elected amount is less than the lesser of the amounts determined under clauses (i)(A) and (B) or (ii)(A) and (B), as the case may be, it shall be deemed to be equal to the lesser thereof,'"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 70(9.1), the portion after paragraph (*a*), was amended by S.C. 1994, c. 21, s. 33(9), applicable to dispositions and acquisitions occurring after 1992. That part formerly read:

"(*b*) the trust shall be deemed to have disposed of the property immediately before the death of the taxpayer's spouse and to have received proceeds of disposition therefor equal to,

(i) where the property was depreciable property of the trust of a prescribed class, that proportion of the undepreciated capital cost to the trust immediately before the death of the spouse of all of the depreciable property of the trust of that class that the fair market value at that time of the property was of the fair market value at that time of all of the depreciable property of the trust of that class, and

(ii) where the property was land, its adjusted cost base to the trust immediately before the death of the spouse,

and the child shall be deemed to have acquired the property for an amount equal to those proceeds, and

(*c*) where any depreciable property of the trust of a prescribed class that is deemed by paragraph (*b*) to have been disposed of by the trust has been acquired by a child of the taxpayer by virtue of the death of the taxpayer's spouse and the amount that was the capital cost to the trust of that property exceeds the amount determined under paragraph (*b*) to be the cost to the child of that property, for the purposes of sections 13 and 20 and any regulations made under paragraph 20(1)(*a*),

(i) the capital cost to the child of the property shall be deemed to be the amount that was the capital cost to the trust of the property, and

(ii) the excess shall be deemed to have been allowed to the child in respect of the property under regulations made under paragraph 20(1)(*a*) in computing income for taxation years before the acquisition by the child of the property,

except that, where the trust has so elected in its return of income under this Part for its taxation year in which the taxpayer's spouse died, paragraph (*b*) shall be read as follows:

'(*b*) the trust shall be deemed to have disposed of the property immediately before the death of the taxpayer's spouse and to have received proceeds of disposition therefor equal to such amount as the trust has elected, not greater than the greater of or less than the lesser of

(i) where the property was depreciable property of a prescribed class,

(A) the fair market value of the property immediately before the death of the spouse, and

(B) that proportion of the undepreciated capital cost to the trust immediately before the death of the spouse of all the depreciable property of that class of the trust that the fair market value at that time of the property disposed of was of the fair market value at that time of all the depreciable property of that class of the trust, and

(ii) where the property was land not described in subparagraph (i),

(A) the fair market value of the land immediately before the death of the spouse, and

(B) the adjusted cost base to the trust of the land immediately before the death of the spouse,

and the child shall be deemed to have acquired the property for an amount equal to those proceeds, except that for the purposes of this paragraph, where the elected amount exceeds the greater of the amounts determined under subparagraphs (i) and (ii), it shall be deemed to be equal to the greater thereof, and where the elected amount is less than the lesser of the amounts determined under those subparagraphs, it shall be deemed to be equal to the lesser thereof; and'"

S. 70(9.1)(*a*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 28(13), applicable after December 20, 1991. S. 70(9.1)(*a*) formerly read:

"'(*a*) subsections 104(4) and (5) are not applicable to the property,"

Related Sections: S. 70(5) Capital property of a deceased taxpayer; s. 70(6) Where transfer or distribution to spouse or spouse trust; s. 70(13) Capital cost of certain depreciable property; s. 70(14) Order of disposal of depreciable property; s. 73(1) Inter vivos transfers by individuals; s. 104(1) Reference to trust or estate; s. 164(4) Interest on interest repaid; s. 164(5) Effect of carryback of loss, etc; s. 220(3.2) Late, amended or revoked elections; s. 248(1), "cost amount", "trust".

Regulations: 600(b).

Interpretation Bulletins: *Secondary* — IT-349R3 Intergenerational transfers of farm property on death; IT-373R2 (Consolid.) Woodlots; IT-449R Meaning of "vested indefeasibly" [Archived by the CRA].

Information Circulars: IC 07-1 Taxpayer Relief Provisions.

Cases: In determining the extent to which the lands passed to the deceased's children had been used "in the business of farming" at the time of his death, s. 70(9) must receive a large and liberal construction. Inasmuch as the test is expressed in the terms of the "business of farming", it should not be restricted to the portion of the property used for the tillage of soil or for the other agricultural operations. The deceased's use of the lands "in the business of farming" was therefore extended to 50%. *Bouchard Estate v. M.N.R.*, 93 DTC 1163 (T.C.C.).

► 70(9.11) ◄

(9.11) Transfer of farming and fishing property from trust to settlor's children. If, because of subsection (9.1), this subsection applies to the trust and a child of the settlor of the trust in respect of a property of the trust that has been distributed to the child as a consequence of the death of the beneficiary under the trust who was the spouse or common-law partner of the settlor, the following rules apply:

(*a*) where the trust does not elect, in its return of income under this Part for the taxation year in which the beneficiary died, to have paragraph (*b*) apply to the trust in respect of the property,

(i) subsections 104(4) and (5) and section 69 do not apply to the trust and the child in respect of the property,

(ii) the trust is deemed to have

(A) disposed of the property immediately before the beneficiary's death, and

(B) received, at the time of the disposition, proceeds of disposition in respect of that disposition equal to

(I) where the property was depreciable property of a prescribed class, the lesser of

1. the capital cost to the trust of the property, and

2. the amount, determined immediately before the time of the disposition of the property, that is that proportion of the undepreciated capital cost of property of that class to the trust that the capital cost to the trust of the property is of the capital cost to the trust of all property of that class that had not, at or before that time, been disposed of, and

(II) where the property is land (other than land to which subclause (I) applies), the adjusted cost base to the trust of the property immediately before the time of the disposition of the property, and

(iii) the child is, immediately after the time of the disposition of the property, deemed to have acquired the property at a cost equal to the trust's proceeds of disposition in respect of the disposition of the property determined under subparagraph (ii);

(*b*) where the trust elects, in the trust's return of income under this Part for the taxation year in which the beneficiary died, to have this paragraph apply to the trust in respect of the property,

(i) subsections 104(4) and (5) do not apply to the trust in respect of the property,

(ii) the trust is deemed to have

(A) disposed of the property immediately before the beneficiary's death, and

(B) received, at the time of the disposition of the property, proceeds of disposition in respect of the disposition of the property equal to

(I) where the property was depreciable property of a prescribed class, the amount that the trust designates, which must not be greater than the greater of nor less than the lesser of

1. the fair market value of the property immediately before the time of the disposition of the property, and

2. the lesser of the capital cost to the trust of the property and the amount, determined immediately before the time of the disposition of the property, that is that proportion of the undepreciated capital cost of property of that class to the trust that the capital cost to the trust of the property is of the capital cost to the trust of all property of that class that had not, at or before that time, been disposed of, and

(II) where the property is land (other than land to which subclause (I) applies), the amount that the trust designates, which must not be greater than the greater of nor less than the lesser of

1. the fair market value of the property immediately before the time of the disposition of the property, and

2. the adjusted cost base to the trust of the property immediately before the time of the disposition of the property,

(iii) the child is, immediately after the time of the disposition of the property, deemed to have acquired the property at a cost equal to the trust's proceeds of disposition in respect of the disposition of the property determined under subparagraph (ii),

(iv) except for the purpose of this subparagraph,

(A) where the amount designated by the trust under subclause (ii)(B)(I) exceeds the greater of the amounts determined under sub-subclauses (ii)(B)(I)1 and 2 in respect of the property, the

amount designated is deemed to be equal to the greater of those amounts, and

(B) where the amount designated by the trust under subclause (ii)(B)(II) exceeds the greater of the amounts determined under sub-subclauses (ii)(B)(II)1 and 2 in respect of the property, the amount designated is deemed to be equal to the greater of those amounts, and

(v) except for the purpose of this subparagraph,

(A) where the amount designated by the trust under subclause (ii)(B)(I) is less than the lesser of the amounts determined under sub-subclauses (ii)(B)(I)1 and 2 in respect of the property, the amount designated is deemed to be equal to the lesser of those amounts, and

(B) where the amount designated by the trust under subclause (ii)(B)(II) is less than the lesser of the amounts determined under sub-subclauses (ii)(B)(II)1 and 2 in respect of the property, the amount designated is deemed to be equal to the lesser of those amounts;

(*c*) where paragraph (*a*) or (*b*) (each of which is referred to in this subsection as the "relevant provision") applied to the trust in respect of a property that was depreciable property of a prescribed class (other than where the trust's proceeds of disposition of the property under the relevant provision are redetermined under subsection 13(21.1)),

(i) the capital cost to the child of the property, immediately after the time of the disposition, is deemed to be the amount that was the capital cost to the trust of the property, immediately before the time of the disposition, and

(ii) the amount, if any, by which the capital cost to the trust of the property, immediately before the time of the disposition, exceeds the amount determined under the relevant provision to be the cost of the property to the child, immediately after the time of the disposition, is, for the purposes of sections 13 and 20 and any regulations made for the purpose of paragraph 20(1)(*a*), deemed to have been allowed to the child in respect of the property under regulations made for the purpose of paragraph 20(1)(*a*) in computing income for taxation years that ended before the child acquired the property, and

(*d*) where the relevant provision applied to the trust in respect of a property and the trust's proceeds of disposition in respect of the disposition of the property determined under the relevant provision are redetermined under subsection 13(21.1), notwithstanding the relevant provision,

(i) where the capital cost to the trust of the property, immediately before the time of the disposition, exceeds the amount redetermined under subsection 13(21.1), for the purposes of sections 13 and 20 and any regulations made for the purpose of paragraph 20(1)(*a*),

(A) the capital cost to the child of the property, immediately after the time of the disposition, is deemed to be the amount that was the capital cost to the trust of the property, immediately before the time of the disposition, and

(B) the amount, if any, by which the capital cost to the trust of the property, immediately before the time of the disposition, exceeds the amount redetermined under subsection 13(21.1) is deemed to have been allowed to the child in respect of the property under regulations made for the purpose of paragraph 20(1)(*a*) in computing income for taxation years that ended before the child acquired the property, and

(ii) where the property is land, the cost to the child of the property is deemed to be the amount that was the trust's proceeds of disposition as redetermined under subsection 13(21.1).

History: S. 70(9.11) was added by S.C. 2007, c. 2, s. 10(1), applicable to a disposition, that occurs on or after May 2, 2006, of a property unless the disposition of the property was before 2007 and the taxpayer elects in writing in the taxpayer's return of income for the taxation year in which the disposition occurred to have subsection 70(9), (9.1), (9.2) or (9.3), as that subsection read on May 1, 2006, apply to the disposition of the property.

Editorial Note: The farming and fishing property rollover applies automatically under paragraph 70(9.11)(*a*) unless the trust elects out of the rollover under paragraph 70(9.11)(*b*). A child of the taxpayer includes a grandchild and great-grandchild of the taxpayer, and a person who, while under the age of 19, was wholly dependent on and under the custody and control of the taxpayer (see subsection 70(10)).

► 70(9.2) ◄

(9.2) When subsection (9.21) applies. Subsection (9.21) applies to a taxpayer and a child of the taxpayer in respect of a property of the taxpayer in respect of which subsection (5) would, if this Act were read without reference to this subsection, apply to the taxpayer and the child if

(*a*) the property was, immediately before the death of the taxpayer, a share of the capital stock of a family fishing corporation of the taxpayer, an interest in a family fishing partnership of the taxpayer, a share of the capital stock of a family farm corporation of the taxpayer or an interest in a family farm partnership of the taxpayer;

(*b*) the child of the taxpayer was resident in Canada immediately before the day on which taxpayer died; and

(*c*) as a consequence of the death of the taxpayer, the property is transferred to and becomes vested indefeasibly in the child within the period ending 36 months after the death of the taxpayer or, if written application has been made to the Minister by the taxpayer's legal representative within that period, within any longer period that the Minister considers reasonable in the circumstances.

History: S. 70(9.2) was replaced by S.C. 2007, c. 2, s. 10(1), applicable to a disposition, that occurs on or after May 2, 2006, of a property unless the disposition of the property was before 2007 and the taxpayer elects in writing in the taxpayer's return of income for the taxation year in which the disposition occurred to have subsection 70(9), (9.1), (9.2) or (9.3), as that subsection read on May 1, 2006, apply to the disposition of the property.

S. 70(9.2) formerly read:

"(9.2) *Transfer of family farm corporations and partnerships.* Where at any time property of a taxpayer that was, immediately before the taxpayer's death, a share of the capital stock of a family farm corporation of the taxpayer or an interest in a family farm partnership of the taxpayer to which subsection (5) would otherwise apply is, as a consequence of the death, transferred or distributed to a child of the taxpayer who was resident in Canada immediately before the death and it can be shown, within the period ending 36 months after the death or, where written application therefor has been made to the Minister by the taxpayer's legal representative within that period, within such longer period as the Minister considers reasonable in the circumstances, that the property has vested indefeasibly in the child,

(*a*) subsection (5) does not apply in respect of the property, and

(*b*) where the property is a share of the capital stock of a family farm corporation, the taxpayer shall be deemed to have, immediately before the taxpayer's death, disposed of the property and received proceeds of disposition therefor equal to its adjusted cost base to the taxpayer immediately before the death, and the child shall be deemed to have acquired the property at the time of the death at a cost equal to those proceeds, and

(*c*) where the property is an interest in a family farm partnership (other than an interest in a partnership to which subsection 100(3) applies),

(i) the taxpayer shall, except for the purpose of paragraph 98(5)(*g*), be deemed not to have disposed of the property as a consequence of the taxpayer's death,

(ii) the child shall be deemed to have acquired the property at the time of the death at a cost equal to the cost to the taxpayer of the interest, and

(iii) each amount added or deducted in computing the adjusted cost base to the taxpayer of the property shall be deemed to be required by subsection 53(1) or (2) to be added or deducted, as the case may be, in computing its adjusted cost base to the child,

except that, where the taxpayer's legal representative so elects in the taxpayer's return of income under this Part for the year in which the taxpayer died, paragraph (*c*) does not apply and paragraph (*b*) shall be read as follows:

'(*b*) the taxpayer shall be deemed to have, immediately before the taxpayer's death, disposed of the property and received proceeds of disposition therefor equal to such amount as the legal representative elects in the taxpayer's return of income under this Part for the year in which the taxpayer died, not greater than the greater of nor less than the lesser of

(i) its fair market value immediately before the death, and

(ii) its adjusted cost base to the taxpayer immediately before the death,

and the child shall be deemed to have acquired the property at the time of the death at a cost equal to those proceeds, except that for the purpose of this paragraph, where the elected amount exceeds the greater of the amounts determined under subparagraphs (i) and (ii), it shall be deemed to be equal to the greater thereof, and where the elected amount is less than the lesser of the amounts determined under subparagraphs (i) and (ii), it shall be deemed to be equal to the lesser thereof, and'."

S. 70(9.2), the portion after paragraph (*a*), was amended by S.C. 1994, c. 21, s. 33(10), applicable to dispositions and acquisitions occurring after 1992. That part formerly read:

"(*b*) where the property is a share of the capital stock of a family farm corporation, the taxpayer shall be deemed to have disposed of the property immediately before the taxpayer's death and to have received proceeds of disposition therefor equal to its adjusted cost base to the taxpayer immediately before the death, and the child shall be deemed to have acquired the property for an amount equal to the proceeds, and

(*c*) where the property is an interest in a family farm partnership (other than an interest in a partnership to which subsection 100(3) applies),

(i) the taxpayer shall, except for the purposes of paragraph 98(5)(*g*), be deemed not to have disposed of the property as a consequence of the taxpayer's death,

(ii) the child shall be deemed to have acquired the property for an amount equal to the cost thereof to the taxpayer, and

(iii) each amount added or deducted in computing the adjusted cost base to the taxpayer of the property shall be deemed to be required by subsection 53(1) or (2) to be added or deducted, as the case may be, in computing the adjusted cost base to the child of the property,

except that, where the legal representative of the taxpayer so elects in the taxpayer's return of income under this Part for the year in which the taxpayer died, paragraph (*c*) does not apply and paragraph (*b*) shall be read as follows:

'(*b*) the taxpayer shall be deemed to have disposed of the property immediately before the taxpayer's death and to have received proceeds of disposition therefor equal to such amount as the legal representative elects, not greater than the greater of or less than the lesser of

(i) the fair market value of the property immediately before the death, and

(ii) the adjusted cost base to the taxpayer of the property immediately before the death,

and the child shall be deemed to have acquired the property for an amount equal to those proceeds, except that for the purposes of this paragraph, where the elected amount exceeds the greater of the amounts determined under subparagraphs (i) and (ii), it shall be deemed to be equal to the greater thereof, and where the elected amount is less than the lesser of the amounts determined under those subparagraphs, it shall be deemed to be equal to the lesser thereof,'."

S. 70(9.2), the portion before paragraph (*b*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 28(14), applicable to dispositions occurring after 1992. The portion formerly read:

"(9.2) *Transfer of family farm corps. and partnerships.* Where at any particular time after April 10, 1978 property of a taxpayer that was, immediately before the taxpayer's death, a share of the capital stock of a family farm corporation of the taxpayer or an interest in a family farm partnership of the taxpayer to which paragraphs (5)(*a*) and (*c*) would otherwise apply has, on or after the death of the taxpayer and as a consequence thereof, been transferred or distributed to a child of the taxpayer who was resident in Canada immediately before the death of the taxpayer and it can be shown, within the period ending 36 months after the death of the taxpayer or, where written application therefor has been made to the Minister by the taxpayer's legal representative within that period, within such longer period as the Minister considers reasonable in the circumstances, that the property has become vested indefeasibly in the child, the following rules apply:

(*a*) paragraphs (5)(*a*) and (*c*) are not applicable to the property,"

S. 70(9.2), the portion after paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 48(5), applicable to transfers, dispositions and acquisitions occurring after January 15, 1987. That portion formerly read:

"(*b*) the taxpayer shall be deemed to have disposed of the property immediately before the taxpayer's death and to have received proceeds of disposition therefor equal to its adjusted cost base to the taxpayer immediately before the taxpayer's death and the child shall be deemed to have acquired the property for an amount equal to those proceeds,

except that, where the legal representative of the taxpayer has so elected in the taxpayer's return of income under this Part for the year in which the taxpayer died, paragraph (*b*) shall be read as follows:

'(*b*) the taxpayer shall be deemed to have disposed of the property immediately before the taxpayer's death and to have received proceeds of disposition therefor equal to such amount as the legal representative has elected, not greater than the greater of or less than the lesser of

(i) the fair market value of the property immediately before the taxpayer's death, and

(ii) the adjusted cost base to the taxpayer of the property immediately before the taxpayer's death,

and the child shall be deemed to have acquired the property for an amount equal to those proceeds, except that for the purposes of this paragraph, where the elected amount exceeds the greater of the amounts determined under subparagraphs (i) and (ii), it shall be deemed to be equal to the greater thereof, and where the elected amount is less than the lesser of the amounts determined under those subparagraphs, it shall be deemed to be equal to the lesser thereof.'"

Related Sections: S. 70(5) Capital property of a deceased taxpayer; s. 70(10), "interest in a family farm partnership", "share of the capital stock of a family farm corporation"; s. 220(3.2) Late, amended or revoked elections; s. 252(1) Extended meaning of "child"; s. 255 Canada.

Regulations: 600(b).

Interpretation Bulletins: *Secondary* — IT-349R3 Intergenerational transfers of farm property on death; IT-373R2 (Consolid.) Woodlots; IT-449R Meaning of "vested indefeasibly" [Archived by the CRA].

Information Circulars: IC 07-1 Taxpayer Relief Provisions.

► 70(9.21) ◄

(9.21) Transfer of family farm and fishing corporations and partnerships. If, because of subsection (9.2), this subsection applies to the taxpayer and a child of the taxpayer in respect of a property of the taxpayer that has been transferred to the child as a consequence of the death of the taxpayer, the following rules apply:

(*a*) where the taxpayer's legal representative does not elect, in the taxpayer's return of income under this Part for the taxation year in which the taxpayer died, to have paragraph (*b*) apply to the taxpayer in respect of the property,

(i) paragraphs (5)(*a*) and (*b*) and section 69 do not apply to the taxpayer and the child in respect of the property,

(ii) where the property is, immediately before the death of the taxpayer, a share of the capital stock of a family fishing corporation of the taxpayer, or a share of the capital stock of a family farm corporation of the taxpayer,

(A) the taxpayer is deemed to have

(I) disposed of the property immediately before the taxpayer's death, and

(II) received proceeds of disposition in respect of that disposition equal to the adjusted cost base to the taxpayer, immediately before the time of that disposition, of the property, and

(B) the child is, immediately after the time of the disposition, deemed to have acquired the prop-

erty at a cost equal to the taxpayer's proceeds of disposition in respect of that disposition determined under clause (A), and

(iii) where the property is, immediately before the death of the taxpayer, a partnership interest described in paragraph (9.2)(*a*) (other than a partnership interest to which subsection 100(3) applies),

(A) the taxpayer is, except for the purpose of paragraph 98(5)(*g*), deemed not to have disposed of the property as a consequence of the taxpayer's death,

(B) the child is deemed to have acquired the property at the time of the taxpayer's death at a cost equal to the cost to the taxpayer of the interest immediately before the time that is immediately before the time of the taxpayer's death, and

(C) each amount required by subsection 53(1) or (2) to be added or deducted in computing the adjusted cost base to the taxpayer, immediately before the time of the taxpayer's death, of the property is deemed to be an amount required by subsection 53(1) or (2) to be added or deducted in computing, at any time at or after the time of the taxpayer's death, the adjusted cost base to the child of the property; and

(*b*) where the taxpayer's legal representative elects, in the taxpayer's return of income under this Part for the taxation year in which the taxpayer died, to have this paragraph apply to the taxpayer in respect of the property,

(i) paragraphs (5)(*a*) and (*b*) and section 69 do not apply to the taxpayer and the child in respect of the property,

(ii) subject to subparagraph (iii), where the property is, immediately before the taxpayer's death, a share of the capital stock of a family fishing corporation of the taxpayer, a share of the capital stock of a family farm corporation of the taxpayer, an interest in a family fishing partnership of the taxpayer or an interest in a family farm partnership of the taxpayer,

(A) the taxpayer is deemed to have

(I) disposed of the property immediately before the taxpayer's death, and

(II) received, at the time of the disposition of the property, proceeds of disposition in respect of the disposition of the property equal to the amount that the taxpayer's legal representative designates, which must not be greater than the greater of nor less than the lesser of

1. the fair market value of the property immediately before the taxpayer's death, and

2. the adjusted cost base to the taxpayer of the property immediately before the time of the disposition,

(B) the child is, immediately after the time of the disposition, deemed to have acquired the property at a cost equal to the taxpayer's proceeds of disposition in respect of the disposition of the property determined under clause (A),

(C) except for the purpose of this clause, where the amount designated by the taxpayer's legal representative under subclause (A)(II) exceeds the greater of the amounts determined under sub-subclauses (A)(II)1 and 2 in respect of the property, the amount designated is deemed to be equal to the greater of those amounts, and

(D) except for the purpose of this clause, where the amount designated by the taxpayer's legal representative under subclause (A)(II) is less than the lesser of the amounts determined under sub-subclauses (A)(II)1 and 2 in respect of the property, the amount designated is deemed to be equal to the lesser of those amounts, and

(iii) where the property is, immediately before the death of the taxpayer, a partnership interest described in paragraph (9.2)(*a*) (other than a partnership interest to which subsection 100(3) applies), and the taxpayer's legal representative further elects, in the taxpayer's return of income under this Part for the taxation year in which the taxpayer died, to have this subparagraph apply to the taxpayer in respect of the property,

(A) the taxpayer is, except for the purpose of paragraph 98(5)(*g*), deemed not to have disposed of the property as a consequence of the taxpayer's death,

(B) the child is deemed to have acquired the property at the time of the taxpayer's death at a cost equal to the cost to the taxpayer of the interest immediately before the time that is immediately before the death of the taxpayer, and

(C) each amount required by subsection 53(1) or (2) to be added or deducted in computing the adjusted cost base to the taxpayer, immediately before the time of the taxpayer's death, of the property is deemed to be an amount required by subsection 53(1) or (2) to be added or deducted in computing, at any time at or after the taxpayer's death, the adjusted cost base to the child of the property.

History: S. 70(9.21) was added by S.C. 2007, c. 2, s. 10(1), applicable to a disposition, that occurs on or after May 2, 2006, of a property unless the disposition of the property was before 2007 and the taxpayer elects in writing in the taxpayer's return of income for the taxation year in which the disposition occurred to have subsection 70(9), (9.1), (9.2) or (9.3), as that subsection read on May 1, 2006, apply to the disposition of the property.

Editorial Note: The farming and fishing property rollover applies automatically under paragraph 70(9.21)(*a*) unless the taxpayer's legal representative elects out of the rollover under paragraph 70(9.21)(*b*). A child of the taxpayer includes a grandchild and great-grandchild of the taxpayer, and a person who, while under the age of 19, was wholly dependent on and under the custody and control of the taxpayer (see subsection 70(10)).

► 70(9.3) ◄

(9.3) When subsection (9.31) applies. Subsection (9.31) applies to a trust and a child of the settlor of the trust in respect of a property in respect of which subsection 104(4) would, if this Act were read without reference to this subsection, apply to the trust as a consequence of the death of the beneficiary under the trust who was a spouse or a common-law partner of the settlor of the trust if

(*a*) the property (or property for which the property was substituted) was transferred to the trust by the settlor and was, immediately before that transfer, a share of the capital stock of a family farm corporation of the settlor, a share of the capital stock of a family fishing corporation of the settlor, an interest in a family farm partnership of the settlor or an interest in a family fishing partnership of the settlor;

(*b*) subsection (6), subsection 73(1) (as that subsection applied to transfers before 2000) or subparagraph 73(1.01)(*c*)(i) applied to the settlor and the trust in respect of the transfer referred to in paragraph (*a*);

(*c*) the property is, immediately before the beneficiary's death,

(i) a share of the capital stock of a Canadian corporation that would, immediately before that beneficiary's death, be a share of the capital stock of a family farm corporation of the settlor, if the settlor owned the share at that time and paragraph (*a*) of the definition "share of the capital stock of a family farm corporation", in subsection (10) were read without the words "in which the person or a spouse, common-law partner, child or parent of the person was actively engaged on a regular and continuous basis (or, in the case of property used in the operation of a woodlot, was engaged to the extent required by a prescribed forest management plan in respect of that woodlot)",

(ii) a share of the capital stock of a Canadian corporation that would, immediately before the beneficiary's death, be a share of the capital stock of a family fishing corporation of the settlor, if the settlor owned the share at that time and paragraph (*a*) of the definition "share of the capital stock of a family fishing corporation" in subsection (10) were read without reference to the words "in which the individual, the individual's spouse or common-law partner, a child of the individual or a parent of the individual was actively engaged on a regular and continuous basis", or

(iii) a partnership interest in a partnership that carried on the business of farming or fishing in Canada in which it used all or substantially all of the property;

(*d*) the child of the settlor was, immediately before that beneficiary's death, resident in Canada; and

(*e*) as a consequence of that beneficiary's death, the property is transferred to and becomes vested indefeasibly in the child within the period ending 36 months after that beneficiary's death or, if written application has been made to the Minister by the taxpayer's legal representative within that period, within any longer period that the Minister considers reasonable in the circumstances.

History: S. 70(9.3) was replaced by S.C. 2007, c. 2, s. 10(1), applicable to a disposition, that occurs on or after May 2, 2006, of a property unless the disposition of the property was before 2007 and the taxpayer elects in writing in the taxpayer's return of income for the taxation year in which the disposition occurred to have subsection 70(9), (9.1), (9.2) or (9.3), as that subsection read on May 1, 2006, apply to the disposition of the property.

S. 70(9.3) formerly read:

"(9.3) *Transfer of family farm corporation or partnership from trust to children of settlor.* Where property of a taxpayer has been transferred or distributed to a trust described in subsection (6) or 73(1) (as that subsection applied to transfers before 2000) or a trust to which subparagraph 73(1.01)(*c*)(i) applies and the property was,

(*a*) immediately before the transfer or distribution, a share of the capital stock of a family farm corporation of the taxpayer or an interest in a family farm partnership of the taxpayer, and

(*b*) immediately before the death of the taxpayer's spouse or common-law partner who was a beneficiary under the trust,

(i) a share in the capital stock of a Canadian corporation that would be a share in the capital stock of a family farm corporation if paragraph (*a*) of the definition 'share of the capital stock of a family farm corporation', in subsection (10) were read without the words 'in which the person or a spouse, common-law partner, child or parent of the person was actively engaged on a regular and continuous basis (or, in the case of property used in the operation of a woodlot, was engaged to the extent required by a prescribed forest management plan in respect of that woodlot)', or

(ii) an interest in a partnership that carried on the business of farming in Canada in which it used all or substantially all of its property,

and has, at any time after April 10, 1978, on the death of the spouse or common-law partner and as a consequence thereof, been transferred or distributed to and become vested indefeasibly in a child of the taxpayer who was resident in Canada immediately before the death of the spouse or common-law partner, the following rules apply:

(*c*) subsection 104(4) does not apply to the trust in respect of the property,

(*d*) where the property is a share of the capital stock of a family farm corporation, the trust shall be deemed to have disposed of the share immediately before the death of the spouse or common-law partner and to have received proceeds of disposition therefor equal to its adjusted cost base to the trust immediately before the death of the spouse or common-law partner, and the child shall be deemed to have acquired the property for an amount equal to those proceeds, and

(*e*) where the property is an interest in a family farm partnership (other than an interest in a partnership to which subsection 100(3) applies),

(i) the trust shall, except for the purposes of paragraph 98(5)(*g*), be deemed not to have disposed of the property as a consequence of the death of the spouse or common-law partner,

(ii) the child shall be deemed to have acquired the property for an amount equal to the cost thereof to the trust, and

(iii) each amount added or deducted in computing the adjusted cost base to the trust of the property shall be deemed to be required by subsection 53(1) or (2) to be added or deducted, as the case may be, in computing the adjusted cost base to the child of the property,

except that, where the trust so elects in its return of income under this Part for its taxation year in which the spouse or common-law partner died, paragraph (*e*) shall not apply and paragraph (*d*) shall be read as follows:

'(*d*) the trust shall be deemed to have disposed of the property immediately before the death of the spouse or common-law partner and to have received proceeds of disposition therefor equal to such amount as the trust elects, not greater than the greater of or less than the lesser of

(i) the fair market value of the property immediately before the death of the spouse or common-law partner, and

(ii) the adjusted cost base to the trust of the property immediately before the death of the spouse or common-law partner,

and the child shall be deemed to have acquired the property for an amount equal to those proceeds, except that for the purposes of this paragraph, where the elected amount exceeds the greater of the amounts determined under subparagraphs (i) and (ii), it shall be deemed to be equal to the greater thereof, and where the elected amount is less than the lesser of the amounts determined under those subparagraphs, it shall be deemed to be equal to the lesser thereof,'."

S. 70(9.3)(*b*)(i) was amended by S.C. 2002, c. 9, s. 27(2), applicable to transfers and distributions of property that occur after December 10, 2001. S. 70(9.3)(*b*)(i) formerly read:

"(i) a share in the capital stock of a Canadian corporation that would be a share in the capital stock of a family farm corporation if paragraph (*a*) of the definition 'share of the capital stock of a family farm corporation' in subsection (10) were read without the words 'in which the person or a spouse, common-law partner, child or parent of the person was actively engaged on a regular and continuous basis', or"

S. 70(9.3), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 52(7), applicable to transfers and distributions from trusts that occur after 1999. S. 70(9.3), the portion before paragraph (*a*) formerly read:

"(9.3) *Transfer of family farm corporation or partnership from spouse's trust to children of settlor.* Where property of a taxpayer has been transferred or distributed to a trust described in subsection (6) or 73(1) and the property was,

Sec. 52(13), Chap. 17, S.C. 2001

(13) Where a particular transfer or distribution to a trust referred to in subsection 70(9.1) or (9.3) of the Act, as enacted by subsections (6) and (7), respectively, occurred before 2001, in applying that subsection 70(9.1) or (9.3) to a transfer or distribution from the trust that occurs after 1997, that subsection shall be read without reference to the words "or common-law partner" and to the *Modernization of Benefits and Obligations Act*, unless

(*a*) the particular transfer or distribution occurred after 1997;

(*b*) the death referred to in that subsection occurs after 1997; and

(*c*) either

(*i*) at the time of the particular transfer or distribution referred to in paragraph (*a*), the taxpayer was a spouse of the individual whose death is referred to in paragraph (*b*), or

(*ii*) because of an election under section 144 of the *Modernization of Benefits and Obligations Act*, sections 130 to 142 of that Act applied, at the time of the particular transfer or distribution referred to in paragraph (*a*), to the taxpayer and the individual whose death is referred to in paragraph (*b*).

S. 70(9.3)(*b*), the portion before subparagraph (i), was amended by S.C. 2000, c. 12, Sched. 2, s. 1(q), applicable January 1, 2001, coming into force on July 31, 2000. S. 70(9.3)(*b*) formerly read:

"(*b*) immediately before the death of the taxpayer's spouse who was a beneficiary under the trust,"

S. 70(9.3)(*b*)(i) was amended by S.C. 2000, c. 12, Sched. 2, s. 8(a), applicable January 1, 2001, coming into force on July 31, 2000. S. 70(9.3)(*b*)(i) formerly read:

"(i) a share in the capital stock of a Canadian corporation that would be a share in the capital stock of a family farm corporation if paragraph (*a*) of the definition 'share of the capital stock of a family farm corporation' in subsection (10) were read without the words 'in which the person or a spouse, common-law partner, child or parent of the person was actively engaged on a regular and continuous basis', or"

S. 70(9.3), the portion after paragraph (*b*) and before paragraph (*c*), was amended by S.C. 2000, c. 12, Sched. 2, s. 1(q), applicable January 1, 2001, coming into force on July 31, 2000. S. 70(9.3), the portion after paragraph (*b*) and before paragraph (*c*) formerly read:

"and has, at any time after April 10, 1978, on the death of the spouse and as a consequence thereof, been transferred or distributed to and become vested indefeasibly in a child of the taxpayer who was resident in Canada immediately before the death of the spouse, the following rules apply:"

S. 70(9.3)(*d*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(q), applicable January 1, 2001, coming into force on July 31, 2000. S. 70(9.3)(*d*) formerly read:

"(*d*) where the property is a share of the capital stock of a family farm corporation, the trust shall be deemed to have disposed of the share immediately before the death of the spouse and to have received proceeds of disposition therefor equal to its adjusted cost base to the trust immediately before the death of the spouse, and the child shall be deemed to have acquired the property for an amount equal to those proceeds, and"

S. 70(9.3)(*e*)(i) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(q), applicable January 1, 2001, coming into force on July 31, 2000. S. 70(9.3)(*e*)(i) formerly read:

"(i) the trust shall, except for the purposes of paragraph 98(5)(*g*), be deemed not to have disposed of the property as a consequence of the death of the spouse,"

S. 70(9.3), the portion after paragraph (*e*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(q), applicable January 1, 2001, coming into force on July 31, 2000. S. 70(9.3), the portion after paragraph (*e*) formerly read:

"except that, where the trust so elects in its return of income under this Part for its taxation year in which the spouse died, paragraph (*e*) shall not apply and paragraph (*d*) shall be read as follows:

'(*d*) the trust shall be deemed to have disposed of the property immediately before the death of the spouse and to have received proceeds of disposition therefor equal to such amount as the trust elects, not greater than the greater of or less than the lesser of

(i) the fair market value of the property immediately before the death of the spouse, and

(ii) the adjusted cost base to the trust of the property immediately before the death of the spouse,

and the child shall be deemed to have acquired the property for an amount equal to those proceeds, except that for the purposes of this paragraph, where the elected amount exceeds the greater of the amounts determined under subparagraphs (i) and (ii), it shall be deemed to be equal to the greater thereof, and where the elected amount is less than the lesser of the amounts determined under those subparagraphs, it shall be deemed to be equal to the lesser thereof,'"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 70(9.3)(*b*)(i) was amended by S.C. 1994, c. 7, Sched. VIII, s. 28(15), applicable to the 1992 and subsequent taxation years. S. 70(9.3)(*b*)(i) formerly read:

"(i) a share in the capital stock of a Canadian corporation that would be a share in the capital stock of a family farm corporation if paragraph (*a*) of the definition 'share of the capital stock of a family farm corporation' in subsection (10) were read without the words 'and in which that person or that person's spouse or child was actively engaged' and subparagraph (*b*)(ii) of that definition were read without the words 'in which that person or that person's spouse or child was actively engaged', or"

S. 70(9.3)(*c*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 28(16), applicable after December 20, 1991. S. 70(9.3)(*c*) formerly read:

"(*c*) subsection 104(4) is not applicable to the property,"

S. 70(9.3), the portion after paragraph (*c*), was amended by S.C. 1994, c. 7, Sched. II, s. 48(6), applicable to transfers, dispositions and acquisitions occurring after January 15, 1987. The portion formerly read:

"(*d*) the trust shall be deemed to have disposed of the property immediately before the death of the taxpayer's spouse and to have received proceeds of disposition therefor equal to its adjusted cost base to the trust immediately before the death of that spouse, and the child shall be deemed to have acquired the property for an amount equal to those proceeds,

except that, where the trust has so elected in its return of income under this Part for its taxation year in which the taxpayer's spouse died, paragraph (*d*) shall be read as follows:

'(*d*) the trust shall be deemed to have disposed of the property immediately before the death of the taxpayer's spouse and to have received proceeds of disposition therefor equal to such amount as the trust has elected, not greater than the greater of or less than the lesser of

(i) the fair market value of the property immediately before the death of the spouse, and

(ii) the adjusted cost base to the trust of the property immediately before the death of the spouse,

and the child shall be deemed to have acquired the property for an amount equal to those proceeds, except that for the purposes of this paragraph, where the elected amount exceeds the greater of the amounts determined under subparagraphs (i) and (ii), it shall be deemed to be equal to the greater thereof, and where the elected amount is less than the lesser of the amounts determined under those subparagraphs, it shall be deemed to be equal to the lesser thereof.'"

Related Sections: S. 70(10), "share of the capital stock of a family farm corporation"; s. 89(1), "Canadian corporation"; s. 220(3.2) Late, amended or revoked elections; s. 248(1), "Canadian corporation".
Regulations: 600(b); 7400.
Interpretation Bulletins: *Secondary* — IT-349R3 Intergenerational transfers of farm property on death; IT-373R2 (Consolid.) Woodlots; IT-449R Meaning of "vested indefeasibly" [Archived by the CRA].
Information Circulars: IC 07-1 Taxpayer Relief Provisions.

► 70(9.31) ◄

(9.31) Transfer of family farm or fishing corporation or family farm or fishing partnership from trust to children of settlor. If, because of subsection (9.3), this subsection applies to the trust and a child of the settlor of the trust in respect of a property of the trust that has been distributed to the child as a consequence of the death of the beneficiary under the trust who was a spouse or common-law partner of the settlor of the trust, the following rules apply:

(*a*) where the trust does not elect, in its return of income under this Part for the taxation year in which the beneficiary died, to have paragraph (*b*) apply to the trust in respect of the property

(i) section 69 and subsection 104(4) do not apply to the trust and the child in respect of the property,

(ii) where the property is, immediately before the beneficiary's death, a share described in subparagraph (9.3)(*c*)(i) or (ii),

(A) the trust is deemed to have

(I) disposed of the property immediately before the beneficiary's death, and

(II) received proceeds of disposition in respect of that disposition equal to the adjusted cost base to the trust of the property immediately before the time of that disposition, and

(B) the child is, immediately after the time of the disposition, deemed to have acquired the prop-

erty at a cost equal to the trust's proceeds of disposition in respect of that disposition of the property determined under clause (A), and

(iii) where the property is, immediately before the beneficiary's death, a partnership interest described in subparagraph (9.3)(*c*)(iii) (other than a partnership interest to which subsection 100(3) applies),

(A) the trust is, except for the purpose of paragraph 98(5)(*g*), deemed not to have disposed of the property as a consequence of the beneficiary's death,

(B) the child is deemed to have acquired the property, at the time of the beneficiary's death, at a cost equal to the cost to the trust of the interest immediately before the time that is immediately before the time of the beneficiary's death, and

(C) each amount required by subsection 53(1) or (2) to be added or deducted in computing the adjusted cost base to the trust, immediately before the beneficiary's death, of the property is deemed to be an amount required by subsection 53(1) or (2) to be added or deducted in computing, at or after the time of the beneficiary's death, the adjusted cost base to the child of the property; and

(*b*) where the trust elects, in its return of income under this Part for the taxation year in which the beneficiary died, to have this paragraph apply to the trust in respect of the property

(i) subsection 104(4) does not apply to the trust in respect of the property and section 69 does not apply to the trust or the child in respect of the transfer of the property,

(ii) subject to subparagraph (iii), where the property is, immediately before the beneficiary's death, a share of the capital stock of a corporation described in subparagraph (9.3)(*c*)(i) or (ii) or a partnership interest described in subparagraph (9.3)(*c*)(iii),

(A) the trust is deemed to have

(I) disposed of the property immediately before the beneficiary's death, and

(II) received, at the time of the disposition of property, proceeds of disposition in respect of the disposition of the property equal to the amount that the trust designates, which must not be greater than the greater of nor less than the lesser of

1. the fair market value of the property immediately before the beneficiary's death, and

2. the adjusted cost base to the trust of the property immediately before the beneficiary's death, and

(B) the child is, immediately after the time of the disposition of the property, deemed to have acquired the property at a cost equal to the trust's proceeds of disposition in respect of that disposition of the property determined under clause (A),

(iii) where the property is, immediately before that beneficiary's death, a partnership interest described in subparagraph (9.3)(*c*)(iii) (other than a partnership interest to which subsection 100(3) applies), and the trust further elects, in its return of income under this Part for the taxation year in which the beneficiary died, to have this subparagraph apply to the trust in respect of the property

(A) the trust is, except for the purpose of paragraph 98(5)(*g*), deemed not to have disposed of the property as a consequence of the beneficiary's death,

(B) the child is deemed to have acquired the property, at the time of the beneficiary's death, at a cost equal to the cost to the trust of the property immediately before the time that is immediately before the beneficiary's death, and

(C) each amount required by subsection 53(1) or (2) to be added or deducted in computing, immediately before the beneficiary's death, the adjusted cost base to the trust of the property is deemed to be an amount required by subsection 53(1) or (2) to be added or deducted in computing, at or after the time of the beneficiary's death, the adjusted cost base to the child of the property,

(iv) except for the purpose of this subparagraph, where the amount designated by the trust under subclause (ii)(A)(II) exceeds the greater of the amounts determined under sub-subclauses (ii)(A)(II)1 and 2 in respect of the property, the amount designated is deemed to be equal to the greater of those amounts, and

(v) except for the purpose of this subparagraph, where the amount designated by the trust under subclause (ii)(A)(II) is less than the lesser of the amounts determined under sub-subclauses (ii)(A)(II)1 and 2 in respect of the property, the amount designated is deemed to be equal to the lesser of those amounts.

History: S. 70(9.31) was added by S.C. 2007, c. 2, s. 10(1), applicable to a disposition, that occurs on or after May 2, 2006, of a property unless the disposition of the property was before 2007 and the taxpayer elects in writing in the taxpayer's return of income for the taxation year in which the disposition occurred to have subsection 70(9), (9.1), (9.2) or (9.3), as that subsection read on May 1, 2006, apply to the disposition of the property.

Editorial Note: The farming and fishing property rollover applies automatically under paragraph 70(9.31)(*a*) unless the trust elects out of the rollover under paragraph 70(9.31)(*b*). A child of the taxpayer includes a grandchild and great-grandchild of the taxpayer, and a person who, while under the age of 19, was wholly dependent on and under the custody and control of the taxpayer (see subsection 70(10)).

► 70(9.4) ◄

(9.4) Transfer of shares of small business corporation. [Repealed by 1986, c. 6, s. 33(3).]

► 70(9.5) ◄

(9.5) Transfer of share of capital stock of small business corporation from spouse's trust to children of settlor. [Repealed by 1986, c. 6, s. 33(3).]

► 70(9.6) ◄

(9.6) Transfer to a parent. Subsection (9.01) or (9.21), as the case may be, applies in respect of a transfer of a property as if the references in those subsections to "child" were read as references to "parent" if

(*a*) the property was acquired by a taxpayer in circumstances where any of subsections (9.01), (9.11), (9.21), (9.31) and 73(3.1) and (4.1) applied in respect of the acquisition;

(*b*) as a consequence of the death of the taxpayer the property is transferred to a parent of the taxpayer; and

(*c*) the taxpayer's legal representative has elected, in the taxpayer's return of income under this Part for the taxation year in which the taxpayer died, that this subsection apply in respect of the transfer.

History: S. 70(9.6) was replaced by S.C. 2007, c. 2, s. 10(2), applicable to a disposition, that occurs on or after May 2, 2006, of a property unless the disposition of the property was before 2007 and the taxpayer elects in writing in the taxpayer's return of income for the taxation year in which the disposition occurred to have subsection 70(9), (9.1), (9.2) or (9.3), as that subsection read on May 1, 2006, apply to the disposition of the property.

S. 70(9.6) formerly read:

"(9.6) *Transfer to parent.* Where

(*a*) any property has been acquired by a taxpayer in circumstances where any of subsections (9), (9.1), (9.2), (9.3) and 73(3) and (4) applied,

(*b*) as a consequence of the death of the taxpayer after 1983 the property has been transferred or distributed to a parent of the taxpayer, and

(*c*) the taxpayer's legal representative has so elected in the taxpayer's return of income under this Part for the year in which the taxpayer died, subsection (9) or (9.2), as the case may be, shall apply in respect of the transfer or distribution as if the references therein to 'child' were read as references to 'parent'."

Interpretation Bulletins: *Primary* — IT-349R3 Intergenerational transfers of farm property on death. *Secondary* — IT-268R4 Inter vivos transfer of farm property to child.

► 70(9.7) ◄

(9.7) Transfer to parent. [Repealed by 1986, c. 6, s. 33(4).]

► 70(9.8) ◄

(9.8) Leased farm and fishing property. For the purposes of subsections (9) and 14(1), paragraph 20(1)(*b*), subsection 73(3) and paragraph (*d*) of the definitions "qualified farm property" and "qualified fishing property" in subsection 110.6(1), a property of an individual is, at a particular time, deemed to be used by the individual in a fishing or farming business, as the case may be, carried on in Canada if, at that particular time, the property is being used, principally in the course of carrying on a fishing or farming business in Canada, by

(*a*) a corporation, a share of the capital stock of which is a share of the capital stock of a family fishing corporation, or a share of the capital stock of a family farm corporation, of the individual, the individual's spouse or common-law partner, a child of the individual or a parent of the individual; or

(*b*) a partnership, a partnership interest of which is an interest in a family fishing partnership, or an interest in a family farm partnership, of the individual, the individual's spouse or common-law partner, a child of the individual or a parent of the individual.

History: S. 70(9.8) was replaced by S.C. 2007, c. 2, s. 10(3), applicable to a disposition, that occurs on or after May 2, 2006, of a property unless the disposition of the property was before 2007 and the taxpayer elects in writing in the taxpayer's return of income for the taxation year in which the disposition occurred to have subsection 70(9), (9.1), (9.2) or (9.3), as that subsection read on May 1, 2006, apply to the disposition of the property.

S. 70(9.8) formerly read:

"(9.8) *Leased farm property.* For the purposes of subsections (9) and 14(1), paragraph 20(1)(*b*), subsection 73(3) and paragraph (*d*) of the definition 'qualified farm property' in subsection 110.6(1), where at any time any property of the taxpayer was used by

(*a*) a corporation a share of the capital stock of which is a share of the capital stock of a family farm corporation of the taxpayer, the taxpayer's spouse or common-law partner or any of the taxpayer's children, or

(*b*) a partnership an interest in which is an interest in a family farm partnership of the taxpayer, the taxpayer's spouse or common-law partner or any of the taxpayer's children

in the course of carrying on the business of farming in Canada, the property shall be deemed to have been used at that time by the taxpayer in the business of farming."

S. 70(9.8)(*a*) and (*b*) were amended by S.C. 2000, c. 12, Sched. 2, s. 1(*q*), applicable January 1, 2001, coming into force on July 31, 2000. S. 70(9.8)(*a*) and (*b*) formerly read:

"(*a*) a corporation a share of the capital stock of which is a share of the capital stock of a family farm corporation of the taxpayer, the taxpayer's spouse or any of the taxpayer's children, or

(*b*) a partnership an interest in which is an interest in a family farm partnership of the taxpayer, the taxpayer's spouse or any of the taxpayer's children"

Séc. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 70(9.8), the portion before paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 48(7), applicable to the 1986 and subsequent taxation years. The portion formerly read:

"(9.8) For the purposes of subsections (9) and 73(3), where at any time any property of a taxpayer was used by"

Related Sections: S. 14(1) Eligible capital property — inclusion in income from business; s. 20(1)(*b*) Cumulative eligible capital amount; s. 110.6(1), "qualified farm property".

Interpretation Bulletins: *Primary* — IT-349R3 Intergenerational transfers of farm property on death. *Secondary* — IT-268R4 Inter vivos transfer of farm property to child.

► 70(10) ◄

(10) Definitions. In this section,

Interpretation Bulletins: *Primary* — IT-349R3 Intergenerational transfers of farm property on death. *Secondary* — IT-236R4 Reserves — Disposition of Capital Property [Archived by the CRA]; IT-268R4 Inter vivos transfer of farm property to child.

"child" — "child" of a taxpayer includes

(*a*) a child of the taxpayer's child,

(*b*) a child of the taxpayer's child's child, and

(*c*) a person who, at any time before the person attained the age of 19 years, was wholly dependent on the taxpayer for support and of whom the taxpayer had, at that time, in law or in fact, the custody and control;

"interest in a family farm partnership" — "interest in a family farm partnership" of an individual at any time means a partnership interest owned by the individual at that time if, at that time, all or substantially all of the fair market value of the property of the partnership was attributable to

(*a*) property that has been used principally in the course of carrying on a farming business in Canada in which the individual, the individual's spouse or common-law partner, a child of the individual or a parent of the individual was actively engaged on a regular and continuous basis (or, in the case of property used in the operation of a woodlot, was engaged to the extent required by a prescribed forest management plan in respect of that woodlot), by

(i) the partnership,

(ii) a corporation, a share of the capital stock of which is a share of the capital stock of a family farm corporation of the individual, the individual's spouse or common-law partner, a child of the individual or a parent of the individual,

(iii) a partnership, a partnership interest in which is an interest in a family farm partnership of the individual, the individual's spouse or common-law partner, a child of the individual or a parent of the individual, or

(iv) the individual, the individual's spouse or common-law partner, a child of the individual or a parent of the individual,

(*b*) shares of the capital stock or indebtedness of one or more corporations all or substantially all of the fair market value of the property of which was attributable to property described in paragraph (*d*),

(*c*) partnership interests or indebtedness of one or more partnerships all or substantially all of the fair market value of the property of which was attributable to property described in paragraph (*d*), or

(*d*) properties described in any of paragraphs (*a*) to (*c*);

History: S. 70(10), the definition "interest in a family farm partnership" was replaced by S.C. 2007, c. 2, s. 10(4), applicable to a disposition, that occurs on or after May 2, 2006, of a property unless the disposition of the property was before 2007 and the taxpayer elects in writing in the taxpayer's return of income for the taxation year in which the disposition occurred to have subsection 70(9), (9.1), (9.2) or (9.3), as that subsection read on May 1, 2006, apply to the disposition of the property.

S. 70(10), the definition "interest in a family farm partnership" formerly read:

" '*interest in a family farm partnership*' — 'interest in a family farm partnership' of a person at a particular time means an interest owned by the person at that time in a partnership where, at that time, all or substantially all of the fair market value of the property of the partnership was attributable to

(*a*) property that has been used by

(i) the partnership,

(ii) the person,

(iii) a spouse, common-law partner, child or parent of the person, or

(iv) a corporation a share of the capital stock of which was a share of the capital stock of a family farm corporation of the person or of a spouse, common-law partner, child or parent of the person,

principally in the course of carrying on a farming business in Canada in which the person or a spouse, common-law partner, child or parent of the person was actively engaged on a regular and continuous basis (or, in the case of property used in the operation of a woodlot, was engaged to the extent required by a prescribed forest management plan in respect of that woodlot),

(*b*) shares of the capital stock or indebtedness of one or more corporations all or substantially all of the fair market value of the property of which was attributable to property described in paragraph (*c*), or

(*c*) properties described in paragraph (*a*) or (*b*);"

S. 70(10), the portion of the definition "interest in a family farm partnership" after subparagraph (iv) was amended by S.C. 2002, c. 9, s. 27(3), applicable to transfers of property that occur after December 10, 2001. S. 70(10), the portion of the definition "interest in a family farm partnership" after subparagraph (iv) formerly read:

"principally in the course of carrying on the business of farming in Canada in which the person or a spouse, common-law partner, child or parent of the person was actively engaged on a regular and continuous basis,"

S. 70(10), paragraph (*a*) of the definition "interest in a family farm partnership", was amended by S.C. 2000, c. 12, Sched. 2, s. 1(q) and 8(a), applicable January 1, 2001, coming into force on July 31, 2000. S. 70(10), paragraph (*a*) of the definition "interest in a family farm partnership" formerly read:

"(*a*) property that has been used by

(i) the partnership,

(ii) the person,

(iii) a spouse, child or parent of the person, or

(iv) a corporation a share of the capital stock of which was a share of the capital stock of a family farm corporation of the person or of a spouse, child or parent of the person,

principally in the course of carrying on the business of farming in Canada in which the person or a spouse, child or parent of the person was actively engaged on a regular and continuous basis,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

The definition "interest in a family farm partnership" was amended by S.C. 1994, c. 7, Sched. VIII, s. 28(18), applicable to the 1992 and subsequent taxation years. The definition formerly read:

" '*interest in a family farm partnership*' — 'interest in a family farm partnership' of a person at a particular time means an interest in a partnership that, at that time, carried on the business of farming in Canada in which it used all or substantially all of its property and in which that person or that person's spouse or child was actively engaged;"

Related Sections: S. 70(10), "share of the capital stock of a family farm corporation"; s. 248(1), "common-law partner", "corporation", "farming"; s. 252(1) Extended meaning of "child"; s. 252(2) Relationships.

Regulations: 7400.

"*interest in a family fishing partnership*" — "interest in a family fishing partnership" of an individual at any time means a partnership interest owned by the individual at that time if, at that time, all or substantially all of the fair market value of the property of the partnership was attributable to

(*a*) property that has been used principally in the course of carrying on a fishing business in Canada in which the individual, the individual's spouse or common-law partner, a child of the individual or a parent of the individual was actively engaged on a regular and continuous basis, by

(i) the partnership,

(ii) a corporation, a share of the capital stock of which is a share of the capital stock of a family fishing corporation of the individual, the individual's spouse or common-law partner, a child of the individual or a parent of the individual,

(iii) a partnership, a partnership interest in which is an interest in a family fishing partnership of the individual, the individual's spouse or common-law partner, a child of the individual or a parent of the individual, or

(iv) the individual, the individual's spouse or common-law partner, a child of the individual or a parent of the individual,

(*b*) shares of the capital stock or indebtedness of one or more corporations all or substantially all of the fair market value of the property of which was attributable to property described in paragraph (*d*),

(*c*) partnership interests or indebtedness of one or more partnerships all or substantially all of the fair market value of the property of which was attributable to property described in paragraph (*d*), or

(*d*) properties described in any of paragraphs (*a*) to (*c*);

History: S. 70(10), the definition "interest in a family fishing partnership" was added by S.C. 2007, c. 2, s. 10(5), applicable to a disposition, that occurs on or after May 2, 2006, of a property unless the disposition of the property was before 2007 and the taxpayer elects in writing in the taxpayer's return of income for the taxation year in which the disposition occurred to have subsection 70(9), (9.1), (9.2) or (9.3), as that subsection read on May 1, 2006, apply to the disposition of the property.

"*share of the capital stock of a family farm corporation*" — "share of the capital stock of a family farm corporation" of a person at a particular time means a share of the capital stock of a corporation owned by the person at that time where, at that time, all or substantially all of the fair market value of the property owned by the corporation was attributable to

(*a*) property that has been used by

(i) the corporation or any other corporation, a share of the capital stock of which was a share of

the capital stock of a family farm corporation of the person or of a spouse, common-law partner, child or parent of the person,

(i.1) a corporation controlled by a corporation referred to in subparagraph (i),

(ii) the person,

(iii) a spouse, common-law partner, child or parent of the person, or

(iv) a partnership, an interest in which was an interest in a family farm partnership of the person or of a spouse, common-law partner, child or parent of the person,

principally in the course of carrying on a farming business in Canada in which the person or a spouse, common-law partner, child or parent of the person was actively engaged on a regular and continuous basis (or, in the case of property used in the operation of a woodlot, was engaged to the extent required by a prescribed forest management plan in respect of that woodlot),

(*b*) shares of the capital stock or indebtedness of one or more corporations all or substantially all of the fair market value of the property of which was attributable to property described in paragraph (*c*), or

(*c*) properties described in paragraph (*a*) or (*b*).

History: S. 70(10), the portion of the definition "share of the capital stock of a family farm corporation" after subparagraph (iv) was amended by S.C. 2002, c. 9, s. 27(4), applicable to transfers of property that occur after December 10, 2001. S. 70(10), the portion of the definition "share of the capital stock of a family farm corporation" after subparagraph (iv) formerly read:

"principally in the course of carrying on the business of farming in Canada in which the person or a spouse, common-law partner, child or parent of the person was actively engaged on a regular and continuous basis,"

S. 70(10), paragraph (*a*) of the definition "share of the capital stock of a family farm corporation" was amended by S.C. 2000, c. 12, Sched. 2, s. 8(a), applicable January 1, 2001, coming into force on July 31, 2000. S. 70(10), paragraph (*a*) of the definition "interest in a family farm partnership" formerly read:

"(*a*) property that has been used by

(i) the corporation or any other corporation, a share of the capital stock of which was a share of the capital stock of a family farm corporation of the person or of a spouse, child or parent of the person,

(i.1) a corporation controlled by a corporation referred to in subparagraph (i),

(ii) the person,

(iii) a spouse, child or parent of the person, or

(iv) a partnership, an interest in which was an interest in a family farm partnership of the person or of a spouse, child or parent of the person,

principally in the course of carrying on the business of farming in Canada in which the person or a spouse, child or parent of the person was actively engaged on a regular and continuous basis,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 70(10)(i.1) in the definition "share of the capital stock of a family farm corporation" was added by S.C. 1998, c. 19, s. 108(2), applicable to the 1994 and subsequent taxation years.

The definition "share of the capital stock of a family farm corporation" was amended by S.C. 1994, c. 7, Sched. VIII, s. 28(17), applicable to the 1992 and subsequent taxation years. The definition formerly read:

"*'share of the capital stock of a family farm corporation'*— 'share of the capital stock of a family farm corporation' of a person at a particular time means

(*a*) a share of the capital stock of a corporation that, at that time, carried on the business of farming in Canada in which it used all or substantially all of its property and in which that person or that person's spouse or child was actively engaged, or

(*b*) a share of the capital stock of a corporation all or substantially all of the property of which was, at that time,

(i) shares of the capital stock of one or more corporations described in paragraph (*a*), or a bond, debenture, bill, note, mortgage or similar obligation issued by such a corporation,

(ii) property used by the corporation in carrying on the business of farming in Canada in which that person or that person's spouse or child was actively engaged, or

(iii) any combination of properties described in subparagraphs (i) and (ii)."

Related Sections: S. 70(11) Application of s. 138(12); s. 110.6(1), "share of the capital stock of a family farm corporation"; s. 248(1), "common-law partner", "corporation", "farming"; s. 252(1) Extended meaning of "child"; s. 252(2) Relationships.

Regulations: 7400.

Advance Tax Rulings: ATR-28 Redemption of capital stock of family farm corporation.

"share of the capital stock of a family fishing corporation" — "share of the capital stock of a family fishing corporation" of an individual at any time means a share of the capital stock of a corporation owned by the individual at that time if, at that time, all or substantially all of the fair market value of the property owned by the corporation was attributable to

(*a*) property that has been used principally in the course of carrying on a fishing business in Canada in which the individual, the individual's spouse or common-law partner, a child of the individual or a parent of the individual was actively engaged on a regular and continuous basis, by

(i) the corporation,

(ii) a corporation, a share of the capital stock of which is a share of the capital stock of a family fishing corporation of the individual, the individual's spouse or common-law partner, a child of the individual or a parent of the individual,

(iii) a corporation controlled by a corporation described in subparagraph (i) or (ii),

(iv) a partnership, a partnership interest in which is an interest in a family fishing partnership of the individual, the individual's spouse or common-law partner, a child of the individual or a parent of the individual, or

(v) the individual, the individual's spouse or common-law partner, a child of the individual or a parent of the individual,

(*b*) shares of the capital stock or indebtedness of one or more corporations all or substantially all of the fair market value of the property of which was attributable to property described in paragraph (*d*),

(*c*) partnership interests or indebtedness of one or more partnerships all or substantially all of the fair market value of the property of which was attributable to property described in paragraph (*d*), or

(*d*) properties described in any of paragraphs (*a*) to (*c*);

History: S. 70(10), the definition "share of the capital stock of a family fishing corporation" was added by S.C. 2007, c. 2, s. 10(5), applicable to a disposition, that occurs on or after May 2, 2006, of a property unless the disposition of the property was before 2007 and the taxpayer elects in writing in the taxpayer's return of income for the taxation year in which the disposition occurred to have subsection 70(9), (9.1), (9.2) or (9.3), as that subsection read on May 1, 2006, apply to the disposition of the property.

► 70(11) ◄

(11) Application of s. 138(12). The definitions in subsection 138(12) apply to this section.

► 70(12) ◄

(12) Value of NISA. For the purpose of the definition "share of the capital stock of a family farm corporation" in subsection 10, the fair market value of a net income stabilization account shall be deemed to be nil.

History: S. 70(12) was added by S.C. 1994, c. 7, Sched. VIII, s. 28(19), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 248(1), "net income stabilization account".

► 70(13) ◄

(13) Capital cost of certain depreciable property. For the purposes of this section and, where a provision of this section (other than this subsection) applies, for the purposes of sections 13 and 20 (but not for the purposes of any regulation made for the purpose of paragraph 20(1)(*a*)),

(*a*) the capital cost to a taxpayer of depreciable property of a prescribed class disposed of immediately before the taxpayer's death, or

(*b*) the capital cost to a trust, to which subsection (9.1) applies, of depreciable property of a prescribed class disposed of immediately before the death of the spouse or common-law partner described in that subsection,

shall, in respect of property that was not disposed of by the taxpayer or the trust before that time, be the amount that it would be if subsection 13(7) were read without reference to

(*c*) the expression "the lesser of" in paragraph (*b*) and clause (*d*)(i)(A) thereof, and

(*d*) subparagraph (*b*)(ii), subclause (*d*)(i)(A)(II), clause (*d*)(i)(B) and paragraph (*e*) thereof.

History: S. 70(13)(*b*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(q), applicable January 1, 2001, coming into force on July 31, 2000. S. 70(13)(*b*) formerly read:

"(*b*) the capital cost to a trust, to which subsection (9.1) applies, of depreciable property of a prescribed class disposed of immediately before the death of the spouse described in that subsection,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 70(13) was added by S.C. 1994, c. 21, s. 33(11), applicable to dispositions and acquisitions occurring after 1992.

► 70(14) ◄

(14) Order of disposal of depreciable property. Where 2 or more depreciable properties of a prescribed class are disposed of at the same time as a consequence of a taxpayer's death, this section and paragraph (*a*) of the definition "cost amount" in subsection 248(1) apply as if each property so disposed of were separately disposed of in the order designated by the taxpayer's legal representative or, in the case of a trust described in subsection (9.1), by the trust and, where the taxpayer's legal representative or the trust, as the case may be, does not designate an order, in the order designated by the Minister.

History: S. 70(14) was added by S.C. 1994, c. 21, s. 33(11), applicable to dispositions and acquisitions occurring after 1992.

SECTION 71: Application of para. 3(e) on death of taxpayer. [Repealed by 1986, c. 6, s. 34(1).]

SECTION 72:

► 72(1) ◄

(1) Reserves, etc., for year of death. Where in a taxation year a taxpayer has died,

(*a*) paragraph 20(1)(*n*) does not apply to allow, in computing the income of the taxpayer for the year from a business, the deduction of any amount as a reserve in respect of property sold in the course of the business;

(*b*) no amount is deductible under subsection 32(1) as a reserve in respect of unearned commissions in computing the taxpayer's income for the year;

(*c*) no amount may be claimed under subparagraph 40(1)(*a*)(iii), paragraph 40(1.01)(*c*) or subparagraph 44(1)(*e*)(iii) in computing any gain of the taxpayer for the year;

(*d*) subsection 64(1) does not apply to allow, in computing the income of the taxpayer for the year, the deduction of any amount as a reserve in respect of the disposition of any property; and

(*e*) subsection 64(1.1) does not apply to allow, in computing the income of the taxpayer for the year, the deduction of any amount as a reserve in respect of the disposition of any property.

History: S. 72(1)(*c*) was amended by S.C. 1998, c. 19, s. 12(1), applicable to the 1997 and subsequent taxation years. S. 72(1)(*c*) formerly read:

"(*c*) no amount may be claimed under subparagraph 40(1)(*a*)(iii) or 44(1)(*e*)(iii) in computing any gain of the taxpayer for the year;"

S. 72(1)(*c*) was amended by S.C. 1994, c. 7, Sched. II, s. 49(1), applicable to the 1990 and subsequent taxation years. S. 72(1)(*c*) formerly read:

"(*c*) subparagraph 40(1)(*a*)(iii) does not apply to permit the claiming of any amount under that subparagraph in computing any gain of the taxpayer for the year;"

Editorial Note: Since subsection 72(1) denies the deduction of the reserves described therein, the underlying amounts are included in the deceased's income in the year of death. However, subsection 72(2) allows the deduction of the reserves and effectively provides a "rollover" of the reserves where the right to the underlying amount is transferred to the deceased's spouse or common-law partner or qualifying trust.

Interpretation Bulletins: *Secondary* — IT-152R3 Special reserves — Sale of land; IT-154R Special reserves; IT-236R4 Reserves — Disposition of capital property [Archived by the CRA]; IT-321R Insurance agents and brokers — Unearned commissions [Archived by the CRA].

► 72(2) ◄

(2) Election by legal representative and transferee re reserves. Where property of a taxpayer that is a right to receive any amount has, on or after the death of the taxpayer and as a consequence thereof, been transferred or distributed to the taxpayer's spouse or common-law partner described in paragraph 70(6)(*a*) or to a trust described in paragraph 70(6)(*b*) (in this subsection referred to as the "transferee"), if the taxpayer was resident in Canada immediately before the taxpayer's death and the taxpayer's legal representative and the transferee have executed jointly an election in respect of the property in prescribed form,

(*a*) any amount in respect of the property that would, but for paragraph (1)(*a*), (*b*), (*d*) or (*e*), as the case may be, have been deductible as a reserve in computing the taxpayer's income for the taxation year in which the taxpayer died shall,

(i) notwithstanding subsection (1), be deducted in computing the taxpayer's income for the taxation year in which the taxpayer died,

(ii) be included in computing the transferee's income for the transferee's first taxation year ending after the death of the taxpayer, and

(iii) be deemed to be

(A) an amount that has been included in computing the transferee's income from a business for a previous year in respect of property sold in the course of the business,

(B) an amount that has been included in computing the transferee's income for a previous year as a commission in respect of an insurance contract, other than a life insurance contract,

(C) an amount that by virtue of subsection 59(1) has been included in computing the transferee's income for a preceding taxation year, or

(D) for the purposes of subsection 64(1.1), an amount that by virtue of paragraph 59(3.2)(*c*) has been included in computing the transferee's income for a preceding taxation year and to be an amount deducted by the transferee pursuant to paragraph 64(1.1)(*a*) in computing the transferee's income for the transferee's last taxation year ending before the death,

as the case may be;

(*b*) any amount in respect of the property that could, but for paragraph (1)(*c*), have been claimed under subparagraph 40(1)(*a*)(iii) or 44(1)(*e*)(iii) in computing the amount of any gain of the taxpayer for the year shall,

(i) notwithstanding paragraph (1)(*c*), be deemed to have been so claimed, and

(ii) for the purpose of computing the transferee's income for the transferee's first taxation year ending after the death of the taxpayer and any subsequent taxation year, be deemed to have been

(A) proceeds of the disposition of capital property disposed of by the transferee in that first taxation year, and

(B) the amount determined under subparagraph 40(1)(*a*)(i) or 44(1)(*e*)(i), as the case may be, in respect of the capital property referred to in clause (A); and

(*c*) notwithstanding paragraphs (*a*) and (*b*), where any property had been disposed of by the taxpayer, in computing the income of the transferee for any taxation year ending after the death of the taxpayer,

(i) the amount of the transferee's deduction under paragraph 20(1)(*n*) as a reserve in respect of the property sold in the course of business,

(ii) the amount of the transferee's claim under subparagraph 40(1)(*a*)(iii) or 44(1)(*e*)(iii) in respect of the disposition of the property, and

(iii) the amount of the transferee's deduction under section 64 as a reserve in respect of the disposition of the property

shall be computed as if the transferee were the taxpayer who had disposed of the property and as if the property were disposed of by the transferee at the time it was disposed of by the taxpayer.

History: S. 72(2) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(*r*), applicable January 1, 2001, coming into force on July 31, 2000. S. 72(2) formerly read:

"(2) *Election by legal representative and transferee re reserves.* Where property of a taxpayer that is a right to receive any amount has, on or after the death of the taxpayer and as a consequence thereof, been transferred or distributed to the taxpayer's spouse described in paragraph 70(6)(*a*) or to a trust described in paragraph 70(6)(*b*) (in this subsection referred to as the 'transferee'), if the taxpayer was resident in Canada immediately before the taxpayer's death and the taxpayer's legal representative and the transferee have executed jointly an election in respect of the property in prescribed form,

(*a*) any amount in respect of the property that would, but for paragraph (1)(*a*), (*b*), (*d*) or (*e*), as the case may be, have been deductible as a reserve in computing the taxpayer's income for the taxation year in which the taxpayer died shall,

(i) notwithstanding subsection (1), be deducted in computing the taxpayer's income for the taxation year in which the taxpayer died,

(ii) be included in computing the transferee's income for the transferee's first taxation year ending after the death of the taxpayer, and

(iii) be deemed to be

(A) an amount that has been included in computing the transferee's income from a business for a previous year in respect of property sold in the course of the business,

(B) an amount that has been included in computing the transferee's income for a previous year as a commission in respect of an insurance contract, other than a life insurance contract,

(C) an amount that by virtue of subsection 59(1) has been included in computing the transferee's income for a preceding taxation year, or

(D) for the purposes of subsection 64(1.1), an amount that by virtue of paragraph 59(3.2)(*c*) has been included in computing the transferee's income for a preceding taxation year and to be an amount deducted by the transferee pursuant to paragraph 64(1.1)(*a*) in computing the transferee's income for the transferee's last taxation year ending before the death,

as the case may be;

(*b*) any amount in respect of the property that could, but for paragraph (1)(*c*), have been claimed under subparagraph 40(1)(*a*)(iii) or 44(1)(*e*)(iii) in computing the amount of any gain of the taxpayer for the year shall,

(i) notwithstanding paragraph (1)(*c*), be deemed to have been so claimed, and

(ii) for the purpose of computing the transferee's income for the transferee's first taxation year ending after the death of the taxpayer and any subsequent taxation year, be deemed to have been

(A) proceeds of the disposition of capital property disposed of by the transferee in that first taxation year, and

(B) the amount determined under subparagraph 40(1)(*a*)(i) or 44(1)(*e*)(i), as the case may be, in respect of the capital property referred to in clause (A); and

(*c*) notwithstanding paragraphs (*a*) and (*b*), where any property had been disposed of by the taxpayer, in computing the income of the transferee for any taxation year ending after the death of the taxpayer,

(i) the amount of the transferee's deduction under paragraph 20(1)(*n*) as a reserve in respect of the property sold in the course of business,

(ii) the amount of the transferee's claim under subparagraph 40(1)(*a*)(iii) or 44(1)(*e*)(iii) in respect of the disposition of the property, and

(iii) the amount of the transferee's deduction under section 64 as a reserve in respect of the disposition of the property

shall be computed as if the transferee were the taxpayer who had disposed of the property and as if the property were disposed of by the transferee at the time it was disposed of by the taxpayer."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 72(2)(*b*), the portion before subparagraph (i), was amended by S.C. 1994, c. 7, Sched. II, s. 49(2), applicable to the 1990 and subsequent taxation years. The portion formerly read:

"(*b*) any amount in respect of the property that could, but for paragraph (1)(*c*), have been claimed under subparagraph 40(1)(*a*)(iii) in computing the amount of any gain of the taxpayer for the year shall,"

S. 72(2)(*b*)(ii)(B) was amended by S.C. 1994, c. 7, Sched. II, s. 49(3), applicable to the 1990 and subsequent taxation years. S. 72(2)(*b*)(ii)(B) formerly read:

"(B) the amount determined under subparagraph 40(1)(*a*)(i) in respect of the capital property referred to in clause (A); and"

S. 72(2)(*c*)(ii) was amended by S.C. 1994, c. 7, Sched. II, s. 49(4), applicable to the 1990 and subsequent taxation years. S. 72(2)(*c*)(ii) formerly read:

"(ii) the amount of the transferee's claim under subparagraph 40(1)(*a*)(iii) in respect of the disposition of the property, and"

Editorial Note: See the editorial note following subsection 72(1). The effect of paragraph 72(2)(*c*) is that the deceased's three-year limit for the reserve in paragraph 20(1)(*n*) and five-year limit (ten-year limit for property transferred to children) for the reserves in subparagraphs 40(1)(*a*)(iii) and 44(1)(*e*)(iii) are effectively carried over to the transferee. In other words, the limitation periods do not start afresh for the transferee.

Related Sections: S. 54, "capital property"; s. 220(3.2) Late, amended or revoked elections; s. 248(1), "amount", "business", "property".
Regulations: 600(b).
Interpretation Bulletins: *Secondary* — IT-152R3 Special reserves — Sale of land; IT-236R4 Reserves — Disposition of capital property [Archived by the CRA].
Information Circulars: IC 07-1 Taxpayer Relief Provisions.
Forms: T2069.
Cases: Amounts were properly included in a taxpayer's income where payments on a loan were enforceably due, but were waived. *Fontaine v. M.N.R.*, 88 DTC 1656 (T.C.C.).

SECTION 73:

► 73(1) ◄

(1) *Inter vivos* transfers by individuals. For the purposes of this Part, where at any time any particular capital property of an individual (other than a trust) has been transferred in circumstances to which subsection (1.01) applies and both the individual and the transferee are resident in Canada at that time, unless the individual elects in the individual's return of income under this Part for the taxation year in which the property was transferred that the provisions of this subsection not apply, the particular property is deemed

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 73(1) of the Act before paragraph (*a*) is replaced by the following:

SECTION 73:

(1) *Inter vivos* transfers by individuals. For the purposes of this Part, where at any time any particular capital property (other than a specified participating interest) of an individual (other than a trust) has been transferred in circumstances to which subsection (1.01) applies and both the individual and the transferee are resident in Canada at that time, unless the individual elects in the individual's return of income under this Part for the taxation year in which the particular property was transferred that the provisions of this subsection not apply, the particular property is deemed

Applicable: To transfers that occur in taxation years that begin after 2006, except that that subsection also applies in respect of a taxpayer to transfers that occur in a taxation year of the taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the taxpayer.

Explanatory Note: Subsection 73(1) of the Act generally provides for a tax-deferred disposition of capital property by an individual (other than a trust) where it is transferred by the individual in circumstances where subsection 73(1.01) applies and a number of other conditions are met.

Subsection 73(1) is amended so that it does not apply to a transfer of property that is a specified participating interest. The concept of a specified participating interest is generally relevant in the context of the foreign investment entity rules in sections 94.1 to 94.4. For more information on the definition "specified participating interest" in subsection 248(1), see the commentary on that definition.

This amendment applies to transfers that occur in taxation years that begin after 2006.

(*a*) to have been disposed of at that time by the individual for proceeds equal to,

(i) where the particular property is depreciable property of a prescribed class, that proportion of the undepreciated capital cost to the individual immediately before that time of all property of that class that the fair market value immediately before that time of the particular property is of the fair market value immediately before that time of all of that property of that class, and

(ii) in any other case, the adjusted cost base to the individual of the particular property immediately before that time; and

(*b*) to have been acquired at that time by the transferee for an amount equal to those proceeds.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 53(2)(*a*) of the *Income Tax Amendments Act, 2000* [S.C. 2001, c. 17] is replaced by the following:

(*a*) in respect of transfers that occur after 1999 and before 2007, for the purpose of subsection 73(1) of the Act, as enacted by subsection (1), the residence of a transferee trust shall be determined without reference to section 94 of the Act, as it reads in its application to taxation years that began before 2007;

Applicable: Deemed to have come into force on June 14, 2001.

Explanatory Note:

Inter Vivos Transfer of Property by an Individual, S.C. 2001, c. 17, s. 53(2)(a)

Subsection 73(1) of the *Income Tax Act* generally provides for a tax-free disposition of capital property if it is transferred by an individual to the individual's spouse, common-law partner or a trust for the exclusive benefit of the spouse or common-law partner during the lifetime of the spouse or common-law partner. For subsection 73(1) to apply, the transferor and transferee must both be resident in Canada at the time of the transfer. Where the transferee is a trust, in respect of transfers that occur in 2000 or 2001, the residency requirement is determined without reference to subsection 94(1) as it read before 2002.

This amendment to the *Income Tax Amendments Act, 2000*, ensures that, in applying subsection 73(1) in respect of transfers that occur after 1999 and before 2007, the residence of a transferee will be determined without reference to section 94 of the Act, as it reads in its application to taxation years that began before 2007.

This amendment is deemed to come into force on June 14, 2001.

History: S. 73(1) was amended by S.C. 2001, c. 17, s. 53(1), applicable to transfers that occur after 1999 except that, in respect of transfers that occur in 2000 or 2001, for the purpose of subsection 73(1), the residence of a transferee trust shall be determined without reference to section 94, as it reads before 2002. S. 73(1) formerly read:

"S. 73. *Inter vivos transfer of property of spouse, etc., or trust.*

(1) For the purposes of this Part, where at any time after 1977 any particular capital property of a taxpayer has been transferred to

(*a*) the taxpayer's spouse or common-law partner,

(*b*) a former spouse or common-law partner of the taxpayer in settlement of rights arising out of their marriage or common-law partnership, or

(*c*) a trust created by the taxpayer under which

(i) the taxpayer's spouse or common-law partner is entitled to receive all of the income of the trust that arises before the spouse's or common-law partner's death, and

(ii) no person except the spouse or common-law partner may, before the spouse's or common-law partner's death, receive or otherwise obtain the use of any of the income or capital of the trust,

(*d*) [Repealed by S.C. 1994, c. 7, Sched. VIII, S. 29(1).]

and both the taxpayer and the transferee were resident in Canada at that time, unless the taxpayer elects in the taxpayer's return of income under this Part for the taxation year in which the property was transferred not to have the provisions of this subsection apply, the particular property shall be deemed to have been disposed of at that time by the taxpayer for proceeds equal to,

(*e*) where the particular property is depreciable property of a prescribed class, that proportion of the undepreciated capital cost to the taxpayer immediately before that time of all property of that class that the fair market value immediately before that time of the particular property is of the fair market value immediately before that time of all of that property of that class, and

(*f*) in any other case, the adjusted cost base to the taxpayer of the particular property immediately before that time,

and to have been acquired at that time by the transferee for an amount equal to those proceeds."

S. 73(1)(*a*) to (*c*) were amended by S.C. 2000, c. 12, Sched. 2, s. 1(s), 7(e) and 9(e), applicable January 1, 2001, coming into force on July 31, 2000. S. 73(1)(*a*) to (*c*) formerly read:

"(*a*) the taxpayer's spouse,

(*b*) a former spouse of the taxpayer in settlement of rights arising out of their marriage, or

(*c*) a trust created by the taxpayer under which

(i) the taxpayer's spouse is entitled to receive all of the income of the trust that arises before the spouse's death, and

(ii) no person except the spouse may, before the spouse's death, receive or otherwise obtain the use of any of the income or capital of the trust,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 73(1)(*d*) was repealed by S.C. 1994, c. 7, Sched. VIII, s. 29(1), applicable to transfers of property occurring after 1992. S. 73(1)(*d*) formerly read:

"(*d*) an individual of the opposite sex, under an order for the support or maintenance of the individual, made by a competent tribunal in accordance with the laws of a province, where the individual and the taxpayer cohabited in a conjugal relationship before the date of the order,"

S. 73(1)(*d*) was amended by S.C. 1994, c. 7, Sched. II, s. 50(1), applicable to transfers occurring after July 13, 1990. S. 73(1)(*d*) formerly read:

"(*d*) an individual pursuant to a decree, order or judgment of a competent tribunal made in accordance with prescribed provisions of the law of a province if that individual either entered into a written agreement with the taxpayer in accordance with those provisions or is a person within a prescribed class of persons referred to in those provisions,"

Editorial Note: Note that if the rollover applies to a property and the transferee is the transferor's spouse or common-law partner (or a trust in which such person is beneficially interested), the income attribution rules of sections 74.1 and 74.2 will normally apply to any income or taxable capital gains realized in respect of the property. In order to avoid such attribution, among other things, the transferor must elect out of the rollover; see paragraph 74.5(1)(*c*).

If the transferor elects out of the rollover and the transfer is made for inadequate consideration, the deemed disposition rules of subsection 69(1) will apply. Any loss on the transfer will be denied under the superficial loss rule of subparagraph 40(2)(*g*)(i) unless the transfer is to a former spouse or former common-law partner (see also "superficial loss" in section 54 and "affiliated persons" in subsection 251.1(1)).

Related Sections: S. 40(4) Disposal of principal residence to spouse or trust for spouse; s. 44.1(5) Special rule — re breakdown of relationships; s. 69(1) Inadequate considerations; s. 70(9.1) When subsection (9.11) applies; s. 70(9.3) When subsection (9.31) applies; s. 74.5(1)(*c*) Transfers for fair market consideration; s. 104(4) Deemed disposition by trust; s. 107(4.1) Where subsection 75(2) applicable to trust; s. 107.4(1) Qualifying disposition; s. 108(3) Income of a trust in certain provisions; s. 220(3.2) Late, amended or revoked elections; s. 252(3) Extended meaning of "spouse" and "former spouse"; ITAR s. 20(1.1) Where depreciable property disposed of to spouse, trust or child.

Regulations: 600(b); 6500(1).

Interpretation Bulletins: *Secondary* — IT-209R Inter-vivos gifts of capital property to individuals directly or through trusts; IT-325R2 Property transfers after separation, divorce and annulment.

Information Circulars: IC 07-1 Taxpayer Relief Provisions.

Tax Topics: No. 1702, Income Tax Issues To Be Considered in Negotiating Marriage Contracts.

Tax Profile: February 2008 — Income Splitting A–Z; July 2006 — Asset Protection Planning; December 2002 — Update on Current CCRA GAAR Activity.

Canadian Tax Foundation: Addison and Korn, "Interspousal Property Transfers: The Things They Don't Tell You at the Diamond Shop — Personal Tax Planning feature", *2002 Canadian Tax Journal*, 728:2; Schusheim, "Trust Basics: An Overview", *1998 Conference Report*, 32:1.

Tax Window Files: Property Transfer — Common-Law Partners, January 6, 2004, CRA Document No. 2003-0031925; RRSP and Subsection 73(1) of the Act, November 12, 2003, CRA Document No. 2003-0032907 [Rollover not applicable to transfers to spousal RRSP]; Spousal Trust, March 5, 2002, CRA Document No. 2001-0113735 [Trust does not qualify as spousal trust or alter ego trust if income of beneficiary defined as a percentage of the total value of the trust property at the commencement of each year]; Joint Spousal Trust, January 23, 2002, CRA Document No. 2001-0099055 [Transfer to trust with both spouses as settlors can qualify for rollover]; Transfer of Capital Losses — Spouses, January 11, 2001, CRA Document No. 2000-0056115; Spousal Transfer of Shares, January 27, 1999, CRA Document No. 9900985 [Transfer of shares subject to an escrow agreement, whether rollover applies]; Spouse Trust — Lending of Trust Property, November 14, 1996, CRA Document No. 9627345 [Lending of trust property to person other than spouse on commercial terms does not taint the spousal trust].

► 73(1.01) ◄

(1.01) Qualifying transfers. Subject to subsection (1.02), property is transferred by an individual in circumstances to which this subsection applies where it is transferred to

(*a*) the individual's spouse or common-law partner;

(*b*) a former spouse or common-law partner of the individual in settlement of rights arising out of their marriage or common-law partnership; or

(*c*) a trust created by the individual under which

(i) the individual's spouse or common-law partner is entitled to receive all of the income of the trust that arises before the spouse's or common-law partner's death and no person except the spouse or common-law partner may, before the spouse's or common-law partner's death, receive or otherwise obtain the use of any of the income or capital of the trust,

(ii) the individual is entitled to receive all of the income of the trust that arises before the individual's death and no person except the individual may, before the individual's death, receive or otherwise obtain the use of any of the income or capital of the trust, or

(iii) either

(A) the individual or the individual's spouse is, in combination with the other, entitled to receive all of the income of the trust that arises before the later of the death of the individual and the death of the spouse and no other person may, before the later of those deaths, receive or oth-

erwise obtain the use of any of the income or capital of the trust, or

(B) the individual or the individual's common-law partner is, in combination with the other, entitled to receive all of the income of the trust that arises before the later of the death of the individual and the death of the common-law partner and no other person may, before the later of those deaths, receive or otherwise obtain the use of any of the income or capital of the trust.

History: S. 73(1.01) was added by S.C. 2001, c. 17, s. 53(1), applicable to transfers that occur after 1999 except that, in respect of transfers that occur in 2000 and subject to the paragraph noted below, subsection 73(1.01) of the Act shall be read without reference to the words "or common-law partner", "or common-law partner's" and "or common-law partnership", and subparagraph 73(1.01)(*c*)(iii) of the Act shall be read as follows:

"(iii) the individual or the individual's spouse is, in combination with the other, entitled to receive all of the income of the trust that arises before the later of the death of the individual and the death of the spouse and no other person may, before the later of those deaths, receive or otherwise obtain the use of any of the income or capital of the trust."

The exception noted in the paragraph above does not apply to a transfer at any time by an individual to or for the benefit of another individual where, because of an election under section 144 of the *Modernization of Benefits and Obligations Act* [S.C. 2000, c. 12], sections 130 to 142 of that Act applied at that time to those individuals.

Editorial Note: See the editorial note under subsection 73(1) regarding the rollover. Note that the rollover to an alter ego trust (subparagraph 73(1.01)(*c*)(ii)) does not apply if the trust elects under subparagraph 104(4)(*a*)(ii.1) out of the deemed disposition rule that would otherwise apply at the time of the individual's death.

Related Sections: S. 70(9.1) When subsection (9.11) applies; s. 70(9.3) When subsection (9.31) applies; s. 104(4) Deemed disposition by trust; s. 107.4(1) Qualifying disposition; s. 108(3) Income of a trust in certain provisions; s. 108(4) Trust not disqualified; s. 248(1), "common-law partner", "joint spousal or common-law partner trust".

Tax Topics: No. 1702, Income Tax Issues To Be Considered in Negotiating Marriage Contracts.

Canadian Tax Foundation: Hoffstein, "Alter Ego Trusts/Joint Partner Trusts — Tips, Traps & Planning", *2004 Ontario Tax Conference*, 12A:1; Brown, "Alter Ego, Joint Conjugal, and Self-Benefit Trusts Revisited: Some Troubling Tax Issues and a Search for Better Alternatives, in Personal Tax Planning feature", *2005 Canadian Tax Journal*, No. 1, 224.

Tax Window Files: Transfer of Property to Former Common-Law Partner, January 6, 2004, CRA Document No. 2003-0031925.

► 73(1.02) ◄

(1.02) Exception for transfers. Subsection (1.01) applies to a transfer of property by an individual to a trust the terms of which satisfy the conditions in subparagraph (1.01)(*c*)(ii) or (iii) only where

(*a*) the trust was created after 1999;

(*b*) either

(i) the individual had attained 65 years of age at the time the trust was created, or

(ii) the transfer does not result in a change in beneficial ownership of the property and there is immediately after the transfer no absolute or contingent right of a person (other than the individual) or partnership as a beneficiary (determined with reference to subsection 104(1.1)) under the trust; and

(*c*) in the case of a trust the terms of which satisfy the conditions in subparagraph (1.01)(*c*)(ii), the trust does not make an election under subparagraph 104(4)(*a*)(ii.1).

History: S. 73(1.02) was added by S.C. 2001, c. 17, s. 53(1), applicable to transfers that occur after 1999 except that, in respect of transfers that occur before March 16, 2001, subparagraph 73(1.02)(*b*)(ii) of the Act shall be read as follows:

"(ii) no person (other than the individual) or partnership has any absolute or contingent right as a beneficiary under the trust (determined with reference to subsection 104(1.1)); and"

Tax Profile: February 2002 — Transferring Property to a Trust After the Enactment of Bill C-22.

Tax Window Files: Power of Appointment Exercisable by Will, May 24, 2001, CRA Document No. 2000-0048735.

► 73(1.1) ◄

(1.1) Interpretation. For greater certainty, a property is, for the purposes of subsections (1) and (1.01), deemed to be property of the individual referred to in subsection (1) that has been transferred to a particular transferee where,

(*a*) under the laws of a province or because of a decree, order or judgment of a competent tribunal made in accordance with those laws, the property

(i) is acquired or is deemed to have been acquired by the particular transferee,

(ii) is deemed or declared to be property of, or is awarded to, the particular transferee, or

(iii) has vested in the particular transferee; and

(*b*) the property was or would, but for those laws, have been a capital property of the individual referred to in subsection (1).

History: S. 73(1.1) was amended by S.C. 2001, c. 17, s. 53(1), applicable to transfers that occur after 1999. S. 73(1.1) formerly read:

"(1.1) *Interpretation.* For greater certainty, where, under the laws of a province or because of a decree, order or judgment of a competent tribunal made in accordance with those laws, a person referred to in subsection (1)

(*a*) acquires or is deemed to have acquired,

(*b*) is deemed or declared to have or is awarded, or

(*c*) has vested in that person,

property that was or would, but for those provisions, have been a capital property of the taxpayer referred to in subsection (1), that property shall, for the purposes of that subsection, be deemed to be capital property of the taxpayer that has been transferred to that person."

S. 73(1.1), that portion following paragraph (*a*), was amended by S.C. 1994, c. 21, s. 34(1), applicable with respect to transfers occurring after July 13, 1990. S. 73(1.1), that portion following paragraph (*a*), formerly read:

"(1.1) For greater certainty, where, by the operation of prescribed provisions of the law of a province or by virtue of a decree, order or judgment of a competent tribunal made in accordance with those provisions, a person referred to in subsection (1)"

Regulations: 6500(2).

Interpretation Bulletins: *Secondary* — IT-325R2 Property transfers after separation, divorce and annulment.

► 73(1.2) ◄

(1.2) Idem. [Repealed by 1980-81-82-83, c. 140, s. 41(1).]

► 73(2) ◄

(2) Capital cost and amount deemed allowed to spouse, etc., or trust. Where a transferee is deemed by subsection (1) to have acquired any particular depreciable property of a prescribed class of a taxpayer for an amount determined under paragraph (1)(*e*) and the capital cost to the taxpayer of the particular property exceeds the amount determined under that paragraph, for the purposes of sections 13 and 20 and any regulations made under paragraph 20(1)(*a*)

(*a*) the capital cost to the transferee of the particular property shall be deemed to be the amount that was the capital cost to the taxpayer thereof; and

(*b*) the excess shall be deemed to have been allowed to the transferee in respect of the particular property under regulations made under paragraph 20(1)(*a*) in computing income for taxation years before the acquisition thereof.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 73(2) of the Act is replaced by the following:

(2) Capital cost and amount deemed allowed to spouse, etc., or trust. If a transferee is deemed by subsection (1) to have acquired any particular depreciable property of a prescribed class of a taxpayer for an amount determined under paragraph (1)(*b*) and the capital cost to the taxpayer of the particular property exceeds the amount determined under that paragraph, in applying sections 13 and 20 and any regulations made under paragraph 20(1)(*a*)

(*a*) the capital cost to the transferee of the particular property is deemed to be the amount that was the capital cost to the taxpayer of the particular property; and

(*b*) the excess is deemed to have been allowed to the transferee in respect of the particular property under regulations made under paragraph 20(1)(*a*) in computing income for taxation years before the acquisition of the particular property.

Applicable: To transfers that occur after 1999.

Explanatory Note:

Capital Cost and Amount Deemed Allowed

Subsection 73(2) of the Act applies where a person ("transferor") transfers depreciable capital property ("DCP") of a prescribed class to a taxpayer ("transferee") in circumstances in which subsection 73(1) applies. If the capital cost to the transferor of the DCP is greater than the amount at which the transferee is deemed under subsection 73(1) to have acquired the DCP, subsection 73(2) ensures that the proper amount of capital cost allowance allowed to the transferor is available for recapture on a subsequent disposition of the DCP by the transferee.

Subsection 73(2) of the Act is amended to replace the reference to paragraph 73(1)(*e*) with a reference to paragraph 73(1)(*b*). Paragraph 73(1)(*b*) now provides for the amount at which the transferee is deemed to acquire property on a transfer to which subsection 73(1) applies.

This amendment applies to transfers that occur after 1999.

Editorial Note: The effect of subsection 73(2) is to flow through to the transferee any built-in recapture in respect of the transferred depreciable property.

Related Sections: S. 70(6)(*e*) Where transfer or distribution to spouse or spouse trust.

Interpretation Bulletins: *Secondary* — IT-209R Inter-vivos gifts of capital property to individuals directly or through trusts; IT-325R2 Property transfers after separation, divorce and annulment.

► 73(3) ◄

(3) When subsection (3.1) applies. Subsection (3.1) applies to a taxpayer and a child of the taxpayer in respect of property that has been transferred, at any time, by the taxpayer to the child, where

(*a*) the property was, immediately before the transfer, land in Canada or depreciable property in Canada of a prescribed class, of the taxpayer, or any eligible capital property in respect of a fishing or farming business carried on in Canada by the taxpayer;

(*b*) the child of the taxpayer was resident in Canada immediately before the transfer; and

(*c*) the property has been used principally in a fishing or farming business in which the taxpayer, the taxpayer's spouse or common-law partner, a child of the taxpayer or a parent of the taxpayer was actively engaged on a regular and continuous basis (or in the case of property used in the operation of a woodlot, was engaged to the extent required by a prescribed forest management plan in respect of that woodlot).

Department of Finance Comfort Letter

[Proposed Amendment to Paragraph 73(3)(a) to Delete the Word "Immediately"]

February 27, 2008

Dear XXXX

I am writing in response to your letter dated October 3, 2007 in which you identified an issue with respect to a change in the application of subsections 73(3) and 73(3.1) of the *Income Tax Act* (Act). In your letter you noted that the addition of the words "immediately before the transfer" in paragraph 73(3)(*a*) of the Act may result in overly restrictive interpretation regarding the application of subsection 73(3.1) of the Act.

We agree with your concern that new subsection 73(3) of the Act may be overly restrictive with regards to the circumstances under which parents are permitted to transfer farm assets including land, depreciable property and eligible capital property to their children on a tax deferred basis. As such, we are prepared to recommend to the Minister that paragraph 73(3)(*a*) of the Act be amended to remove the word "immediately". If our recommendation is acted upon, we anticipate that the amendments would be included in a future technical bill and would apply with respect to taxation years that end on or after May 6, 2006. While I cannot offer any assurance that the Minister will agree with our recommendation, I hope that this statement of our intentions is helpful to you.

Yours sincerely,

Gerard Lalonde
Director
Tax Legislation Division
Tax Policy Branch

History: S. 73(3) was replaced by S.C. 2007, c. 2, s. 11(3), applicable to a disposition, that occurs on or after May 2, 2006, of a property unless the disposition of the property was before 2007 and the taxpayer elects in writing in the taxpayer's return of income for the taxation year in which the disposition occurred to have subsection 73(3) or 73(4), as that subsection read on May 1, 2006, apply to the disposition of the property. S. 73(3) formerly read:

"(3) *Inter vivos transfer of farm property to child.* For the purposes of this Part, if at any time any land in Canada or depreciable property in Canada of a prescribed class of a taxpayer or any eligible capital property in respect of a business carried on in Canada by a taxpayer is transferred by the taxpayer to a child of the taxpayer who was resident in Canada immediately before the transfer, and the property was, before the transfer, used principally in a farming business in which the taxpayer, the taxpayer's spouse or common-law partner or any of the taxpayer's children was actively engaged on a regular and continuous basis (or, in the case of property used in the operation of a woodlot, was engaged to the extent required by a prescribed forest management plan in respect of that woodlot),

(*a*) where the property transferred was depreciable property of a prescribed class, the taxpayer shall be deemed to have disposed of the property at the time of the transfer for proceeds of disposition equal to,

(i) in any case to which neither subparagraph (ii) nor (iii) applies, the proceeds of disposition otherwise determined,

(ii) if the proceeds of disposition otherwise determined exceeded the greater of

(A) the fair market value of the property immediately before the time of the transfer, and

(B) that proportion of the undepreciated capital cost to the taxpayer immediately before the time of the transfer of all of the depreciable property of the taxpayer of that class that the fair market value at that time of the property so transferred was of the fair market value at that time of all of the depreciable property of the taxpayer of that class,

the greater of the amounts referred to in clauses (A) and (B), or

(iii) if the proceeds of disposition otherwise determined were less than the lesser of the amounts referred to in clauses (ii)(A) and (B), the lesser of those amounts;

(*b*) where the property transferred was land, the taxpayer shall be deemed to have disposed of the property at the time of the transfer for proceeds of disposition equal to,

(i) in any case to which neither subparagraph (ii) nor (iii) applies, the proceeds of disposition otherwise determined,

(ii) if the proceeds of disposition otherwise determined exceeded the greater of

(A) the fair market value of the land immediately before the time of the transfer, and

(B) the adjusted cost base to the taxpayer of the land immediately before the time of the transfer,

the greater of the amounts referred to in clauses (A) and (B), or

(iii) if the proceeds of disposition otherwise determined were less than the lesser of the amounts referred to in clauses (ii)(A) and (B), the lesser of those amounts;

(*b*.1) where the property transferred was eligible capital property, the taxpayer shall be deemed to have disposed of the property at the time of the transfer for proceeds of disposition equal to,

(i) in any case to which neither subparagraph (ii) nor (iii) applies, the proceeds of disposition otherwise determined,

(ii) if the proceeds of disposition otherwise determined exceeded the greater of

(A) the fair market value of the property immediately before the time of the transfer, and

(B) the amount determined by the formula

$$\frac{4}{3} \quad (A \times \frac{B}{C})$$

where

A is the cumulative eligible capital of the taxpayer in respect of the business,

B is the fair market value of the property immediately before the transfer, and

C is the fair market value immediately before that time of all eligible capital property of the taxpayer in respect of the business,

the greater of the amounts referred to in clauses (A) and (B), or

(iii) if the proceeds of disposition otherwise determined were less than the lesser of the amounts referred to in clauses (ii)(A) and (B), the lesser of those amounts;

(*c*) subsection 69(1) does not apply in determining the proceeds of disposition of the depreciable property, the land or the eligible capital property;

(*d*) the child shall be deemed to have acquired the depreciable property or the land, as the case may be, for an amount equal to the proceeds of disposition determined under paragraph (*a*) or (*b*), respectively;

(*d*.1) where the property transferred was eligible capital property of the taxpayer, the child shall be deemed to have acquired a capital property, immediately after the transfer, at a cost equal to the proceeds of disposition determined under paragraph (*b*.1), except that, where the child continues to carry on the business previously carried on by the taxpayer, the taxpayer's spouse or common-law partner or any of the taxpayer's children, the taxpayer shall be deemed to have acquired an eligible capital property and to have made an eligible capital expenditure at a cost equal to the total of

(i) the proceeds of disposition referred to in paragraph (*b*.1), and

(ii) 4/3 of the amount determined by the formula

$$(A \times \frac{B}{C}) - D$$

where

A is the amount, if any, determined for F in the definition 'cumulative eligible capital' in subsection 14(5) in respect of the business of the taxpayer immediately before the time of the transfer,

B is the fair market value of the property immediately before that time,

C is the fair market value immediately before that time of all eligible capital property of the taxpayer in respect of the business, and

D is the amount, if any, included under subparagraph 14(1)(*a*)(iv) in computing the income of the taxpayer as a result of the disposition,

and, for the purpose of determining at any subsequent time the child's cumulative eligible capital in respect of the business, an amount equal to 3/4 of the amount determined under subparagraph (ii) shall be added to the amount otherwise determined in respect thereof for P in the definition 'cumulative eligible capital' in subsection 14(5);

(*d*.2) for the purposes of determining after the time of the transfer

(i) the amount deemed by subparagraph 14(1)(*a*)(v) to be the child's taxable capital gain, and

(ii) the amount to be included under subparagraph 14(1)(*a*)(v) or paragraph 14(1)(*b*) in computing the child's income

in respect of any subsequent disposition of the property of the business, there shall be added to the amount otherwise determined for Q in the definition 'cumulative eligible capital' in subsection 14(5) the amount determined by the formula

$$A \times \frac{B}{C}$$

where

A is the amount, if any, determined for Q in that definition in respect of the business of the taxpayer immediately before the time of the transfer,

B is the fair market value immediately before that time of the property transferred, and

C is the fair market value immediately before that time of all eligible capital property of the taxpayer in respect of the business; and

(*e*) where the child is deemed to have acquired depreciable property of a prescribed class of the taxpayer for an amount determined under paragraph (*d*) and the capital cost to the taxpayer of the property exceeds the amount determined under that paragraph, for the purposes of sections 13 and 20 and any regulations made under paragraph 20(1)(*a*),

(i) the capital cost to the child of the property shall be deemed to be the amount that was the capital cost to the taxpayer thereof, and

(ii) the excess shall be deemed to have been allowed to the child in respect of the property under regulations made under paragraph 20(1)(*a*) in computing income for taxation years before the acquisition thereof."

S. 73(3)(*c*) was replaced by S.C. 2007, c. 2, s. 11(1), applicable to dispositions that occur after December 20, 2002. S. 73(3)(*c*) formerly read:

"(*c*) section 69 does not apply in determining the proceeds of disposition of the depreciable property, the land or the eligible capital property;"

S. 73(3), the portion before paragraph (*a*) was amended by S.C. 2002, c. 9, s. 28(1), applicable to transfers of property that occur after December 10, 2001. S. 73(3), the portion before paragraph (*a*) formerly read:

"(3) *Inter vivos transfer of farm property to child.* For the purposes of this Part, where at any time any land in Canada or depreciable property in Canada of a prescribed class of a taxpayer or any eligible capital property in respect of a business carried on in Canada by a taxpayer is transferred by the taxpayer to a child of the taxpayer who was resident in Canada immediately before the transfer, and the property was, before the transfer, used principally in the business of farming in which the taxpayer, the taxpayer's spouse or common-law partner or any of the taxpayer's children was actively engaged on a regular and continuous basis,"

S. 73(3), the portion before paragraph (*a*), was amended by S.C. 2000, c. 12, Sched. 2, s. 1(s), applicable January 1, 2001, coming into force on July 31, 2000. S. 73(3), the portion before paragraph (*a*) formerly read:

"(3) *Inter vivos transfer of farm property to child.* For the purposes of this Part, where at any time any land in Canada or depreciable property in Canada of a prescribed class of a taxpayer or any eligible capital property in respect of a business carried on in Canada by a taxpayer is transferred by the taxpayer to a child of the taxpayer who was resident in Canada immediately before the transfer, and the property was, before the transfer, used principally in the business of farming in which the taxpayer, the taxpayer's spouse or any of the taxpayer's children was actively engaged on a regular and continuous basis,"

S. 73(3)(*d*.1), the portion before subparagraph (i), was amended by S.C. 2000, c. 12, Sched. 2, s. 1(s), applicable January 1, 2001, coming into force on July 31, 2000. S. 73(3)(*d*.1) formerly read:

"(*d*.1) where the property transferred was eligible capital property of the taxpayer, the child shall be deemed to have acquired a capital property, immediately after the transfer, at a cost equal to the proceeds of disposition determined under paragraph (*b*.1), except that, where the child continues to carry on the business previously carried on by the taxpayer, the taxpayer's spouse or any of the taxpayer's children, the taxpayer shall be deemed to have acquired an eligible capital property and to have made an eligible capital expenditure at a cost equal to the total of"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 73(3)(*d*.2)(ii) was amended by S.C. 1995, c. 3, s. 19(1), applicable to transfers that occur after February 22, 1994. S. 73(3)(*d*.2)(ii) formerly read:

"(ii) the amount to be included under paragraph 14(1)(*b*) in computing the child's income"

S. 73(3), the portion before paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 29(2), applicable to transfers occurring after 1992. The portion formerly read:

"(3) *Inter vivos transfer of farm property by farmer to his child.* For the purposes of this Part, where at any time after 1971 any land in Canada or depreciable property in Canada of a prescribed class of a taxpayer or any eligible capital property in respect of a business carried on in Canada by a taxpayer has been transferred by a taxpayer to a child of the taxpayer who was resident in Canada immediately before the transfer, and the property was, immediately before the transfer, used by the taxpayer, the taxpayer's spouse or any of the taxpayer's children in the business of farming, the following rules apply:"

S. 73(3)(*b*.1)(ii)(B) was amended by S.C. 1994, c. 7, Sched. VIII, s. 29(3), applicable to transfers by a taxpayer occurring after the beginning of the first fiscal period of the taxpayer's business beginning after 1987. S. 73(3)(*b*.1)(ii)(B) formerly read:

"(B) 4/3 of the taxpayer's cumulative eligible capital in respect of the business immediately before the time of the transfer,"

S. 73(3)(*d*.1), the portion after subparagraph (i), was amended by S.C. 1994, c. 7, Sched. VIII, s. 29(4), applicable to transfers by a taxpayer occurring after the beginning of the first fiscal period of the taxpayer's business beginning after 1987. The portion formerly read:

"(ii) the amount, if any, by which

(A) the amount, if any, determined for F in the definition 'cumulative eligible capital' in subsection 14(5) in respect of the business of the taxpayer immediately before the time of the transfer

exceeds

(B) the amount, if any, included in the income of the taxpayer by reason of subparagraph 14(1)(*a*)(iv) as a result of the disposition,

and, for the purposes of determining at any time the child's cumulative eligible capital in respect of the business, an amount equal to the amount determined under subparagraph (ii) shall be added to the amount otherwise determined for P in the definition 'cumulative eligible capital' in subsection 14(5); and"

S. 73(3)(*d.2*) was added by S.C. 1994, c. 7, Sched. VIII, s. 29(5), applicable to transfers by a taxpayer occurring after the beginning of the first fiscal period of the taxpayer's business beginning after 1987.

Related Sections: S. 13(21), "depreciable property"; s. 14(5), "cumulative eligible capital"; s. 54, "eligible capital property"; s. 70(9.6) Transfer to a parent; s. 75.1(1) Gain or loss deemed that of transferor; s. 248(1), "cumulative eligible capital", "depreciable property", "eligible capital property", "farming"; s. 252(1) Extended meaning of "child".
Regulations: 7400.
Interpretation Bulletins: *Primary* — IT-268R4 Inter vivos transfer of farm property to child. *Secondary* — IT-373R2 (Consolid.) Woodlots; IT-427R Livestock of Farmers.

► 73(3.1) ◄

(3.1) *Inter vivos* transfer of farm or fishing property to child. If, because of subsection (3), this subsection applies to the taxpayer and a child of the taxpayer in respect of a property transferred by the taxpayer to the child of the taxpayer, the following rules apply:

(*a*) where, immediately before the transfer, the property was depreciable property of a prescribed class, the taxpayer is deemed to have disposed of the property, at the time of the transfer, for proceeds of disposition equal to

(i) in any case to which neither subparagraph (ii) nor (iii) applies, the taxpayer's proceeds of disposition otherwise determined,

(ii) the greater of the amounts referred to in clauses (A) and (B), if the taxpayer's proceeds of disposition otherwise determined exceed the greater of

(A) the fair market value of the property immediately before the time of the transfer, and

(B) the lesser of

(I) the capital cost to the taxpayer of the property, and

(II) the amount, determined immediately before the time of the disposition of the property, that is that proportion of the undepreciated capital cost of property of that class to the taxpayer that the capital cost to the taxpayer of the property is of the capital cost to the taxpayer of all property of that class that had not, at or before that time, been disposed of, or

(iii) if the taxpayer's proceeds of disposition otherwise determined are less than the lesser of the amounts referred to in clauses (ii)(A) and (B), the lesser of those amounts;

(*b*) where the property transferred was land, the taxpayer is deemed to have disposed of the property at the time of the transfer for proceeds of disposition equal to,

(i) in any case to which neither subparagraph (ii) nor (iii) applies, the taxpayer's proceeds of disposition otherwise determined,

(ii) the greater of the amounts referred to in clauses (A) and (B), if the taxpayer's proceeds of disposition otherwise determined exceed the greater of

(A) the fair market value of the land immediately before the time of the transfer, and

(B) the adjusted cost base to the taxpayer of the land immediately before the time of the transfer, or

(iii) if the taxpayer's proceeds of disposition otherwise determined are less than the lesser of the amounts referred to in clauses (ii)(A) and (B), the lesser of those amounts;

(*c*) where, immediately before the transfer, the property was eligible capital property, the taxpayer is deemed to have disposed of the property, at the time of the transfer, for proceeds of disposition equal to,

(i) in any case to which neither subparagraph (ii) nor (iii) applies, the taxpayer's proceeds of disposition otherwise determined,

(ii) the greater of the amounts referred to in clauses (A) and (B), if the taxpayer's proceeds of disposition otherwise determined exceed the greater of

(A) the fair market value of the property immediately before the time of the transfer, and

(B) the amount determined by the formula

$$4/3\ (A \times B/C)$$

where

A is the taxpayer's cumulative eligible capital in respect of the business,

B is the fair market value of the property immediately before the transfer, and

C is the fair market value immediately before the transfer of all the taxpayer's eligible capital property in respect of the business, or

(iii) if the taxpayer's proceeds of disposition otherwise determined are less than the lesser of the amounts referred to in clauses (ii)(A) and (B), the lesser of those amounts;

(*d*) subsection 69(1) does not apply to the taxpayer and the child in respect of the property;

(*e*) the child is deemed to have acquired the property at a cost equal to the taxpayer's proceeds of disposition in respect of the disposition of the property determined under

(i) where the property is depreciable property of the taxpayer, paragraph (*a*), and

(ii) where the property is land of the taxpayer, paragraph (*b*);

(*f*) if the property was, immediately before the transfer, an eligible capital property of the taxpayer in respect of a business, the child is deemed to have acquired

(i) where the child does not continue to carry on the business, a capital property, immediately after the transfer, at a cost equal to the taxpayer's proceeds of disposition in respect of the disposition of the property determined under paragraph (*c*),

(ii) where the child continues to carry on the business, an eligible capital property and to have made an eligible capital expenditure at a cost equal to the total of

(A) the taxpayer's proceeds of disposition referred to in paragraph (*c*), and

(B) 4/3 of the amount determined by the formula

$$(A \times B/C) - D$$

where

A is the amount, if any, determined for F in the definition "cumulative eligible capital" in subsection 14(5) in respect of the business immediately before the transfer,

B is the fair market value of the property immediately before the transfer,

C is the fair market value immediately before the transfer of all the taxpayer's eligible capital property in respect of the business, and

D is the amount, if any, included under paragraph 14(1)(*a*) in computing the taxpayer's income as a result of the disposition, and

(iii) for the purpose of determining at any subsequent time the child's cumulative eligible capital in respect of the business, an amount equal to 3/4 of the amount determined under subparagraph (ii) is to be added to the amount otherwise determined for P in the definition "cumulative eligible capital" in subsection 14(5);

(*g*) for the purpose of determining, in respect of any disposition of the property, after the time of the transfer, the amount deemed to be the child's taxable capital gain, and the amount to be included in computing the child's income, there shall be added to the amount otherwise determined for Q in respect of the business in the definition "cumulative eligible capital" in subsection 14(5), the amount determined by the formula,

$$A \times B/C$$

where

A is the amount, if any, determined for Q in that definition in respect of the business immediately before the time of the transfer,

B is the fair market value, immediately before that time, of the transferred property, and

C is the fair market value immediately before that time of all the taxpayer's eligible capital property in respect of the business; and

(*h*) where the property is depreciable property of a prescribed class of the taxpayer and the capital cost to the taxpayer of the property exceeds the cost to the child of the property, for the purposes of sections 13 and 20 and any regulations made under paragraph 20(1)(*a*),

(i) the capital cost to the child of the property is deemed to be the amount that was the capital cost to the taxpayer of the property immediately before the transfer, and

(ii) the excess is deemed to have been allowed to the child in respect of the property under regulations made under paragraph 20(1)(*a*) in computing income for taxation years that ended before the [*sic*] child acquired the property.

History: S. 73(3.1) was added by S.C. 2007, c. 2, s. 11(3), applicable to a disposition, that occurs on or after May 2, 2006, of a property unless the disposition of the property was before 2007 and the taxpayer elects in writing in the taxpayer's return of income for the taxation year in which the disposition occurred to have subsection 73(3) or 73(4), as that subsection read on May 1, 2006, apply to the disposition of the property.

Editorial Note: If the farming or fishing property rollover applies and the transferee child subsequently disposes of the property before attaining the age of 18, the attribution rules of section 75.1 may apply.

► 73(4) ◄

(4) When subsection (4.1) applies. Subsection (4.1) applies to a taxpayer and a child of the taxpayer in respect of property that has been transferred, at any time, to the child if

(*a*) the child was resident in Canada immediately before the transfer; and

(*b*) the property was, immediately before the transfer, a share of the capital stock of a family fishing corporation of the taxpayer, a share of the capital stock of a family farm corporation of the taxpayer, an interest in a family fishing partnership of the taxpayer or an interest in a family farm partnership of the taxpayer (within the meaning assigned by subsection 70(10)).

History: S. 73(4) was replaced by S.C. 2007, c. 2, s. 11(3), applicable to a disposition, that occurs on or after May 2, 2006, of a property unless the disposition of the property was before 2007 and the taxpayer elects in writing in the taxpayer's return of income for the taxation year in which the disposition occurred to have subsection 73(3) or 73(4), as that subsection read on May 1, 2006, apply to the disposition of the property. S. 73(4) formerly read:

"(4) *Inter vivos transfer of family farm corporations and partnerships.* For the purposes of this Part, where at any particular time after April 10, 1978 a taxpayer has transferred property to a child of the taxpayer who was resident in Canada immediately before the transfer, and the property was, immediately before the transfer, a share of the capital stock of a family farm corporation of the taxpayer or an interest in a family farm partnership of the taxpayer (within the meaning assigned by subsection 70(10)), the following rules apply:

(*a*) the taxpayer shall be deemed to have disposed of the property at the time of the transfer for proceeds of disposition equal to,

(i) in any case to which neither subparagraph (ii) nor (iii) applies, the proceeds of disposition otherwise determined,

(ii) if the proceeds of disposition otherwise determined exceeded the greater of

(A) the fair market value of the property immediately before the time of the transfer, and

(B) the adjusted cost base to the taxpayer of the property immediately before the time of the transfer,

the greater of the amounts referred to in clauses (A) and (B), or

(iii) if the proceeds of disposition otherwise determined were less than the lesser of the amounts referred to in clauses (ii)(A) and (B), the lesser of those amounts;

(*b*) subsection 69(1) does not apply in determining the proceeds of disposition of the property; and

(*c*) the child shall be deemed to have acquired the property for an amount equal to the proceeds of disposition determined under paragraph (*a*)."

S. 73(4)(*b*) was replaced by S.C. 2007, c. 2, s. 11(2), applicable to dispositions that occur after December 20, 2002. S. 73(4)(*b*) formerly read:

"(*b*) section 69 does not apply in determining the proceeds of disposition of the property; and"

Interpretation Bulletins: *Primary* — IT-268R4 Inter vivos transfer of farm property to child.

► 73(4.1) ◄

(4.1) *Inter vivos* transfer of family farm or fishing corporations and partnerships. If, because of subsection (4), this subsection applies to the taxpayer and the taxpayer's child in respect of the transfer of the property by the taxpayer to the child,

(*a*) subject to paragraph (*c*), where the property was, immediately before the transfer, a share of the cap-

ital stock of a family fishing corporation of the taxpayer, a share of the capital stock of a family farm corporation of the taxpayer, an interest in a family fishing partnership of the taxpayer or an interest in a family farm partnership of the taxpayer, the taxpayer is deemed to have disposed of the property at the time of the transfer for proceeds of disposition equal to.

(i) in any case to which neither subparagraph (ii) nor (iii) applies, the taxpayer's proceeds of disposition otherwise determined,

(ii) the greater of the amounts referred to in clauses (A) and (B), if the taxpayer's proceeds of disposition otherwise determined exceed the greater of

(A) the fair market value of the property immediately before the time of the transfer, and

(B) the adjusted cost base to the taxpayer of the property immediately before the time of the transfer, or

(iii) if the taxpayer's proceeds of disposition otherwise determined are less than the lesser of the amounts referred to in clauses (ii)(A) and (B), the lesser of those amounts;

(*b*) subject to paragraph (*c*), where the property is, immediately before the transfer, a share of the capital stock of a family fishing corporation of the taxpayer, a share of the capital stock of a family farm corporation of the taxpayer, an interest in a family fishing partnership of the taxpayer or an interest in a family farm partnership of the taxpayer, the child is deemed to have acquired the property for an amount equal to the taxpayer's proceeds of disposition in respect of the disposition of the property determined under paragraph (*a*);

(*c*) where the property is, immediately before the transfer, an interest in a family fishing partnership of the taxpayer, or an interest in a family farm partnership of the taxpayer (other than a partnership interest to which subsection 100(3) applies), the taxpayer receives no consideration in respect of the transfer of the property and the taxpayer elects, in the taxpayer's return of income under this Part for the taxation year which includes the time of the transfer, to have this paragraph apply in respect of the transfer of the property,

(i) the taxpayer is, except for the purpose of paragraph 98(5)(*g*), deemed not to have disposed of the property at the time of the transfer,

(ii) the child is deemed to have acquired the property at the time of the transfer at a cost equal to the cost to the taxpayer of the interest immediately before the transfer, and

(iii) each amount required by subsection 53(1) or (2) to be added or deducted in computing the adjusted cost base to the taxpayer, immediately before the transfer, of the property is deemed to be an amount required by subsection 53(1) or (2) to be added or deducted in computing at any time at or after the time of the transfer, the adjusted cost base to the child of the property; and

(*d*) subsection 69(1) does not apply to the taxpayer and the child in respect of the property.

History: S. 73(4.1) was added by S.C. 2007, c. 2, s. 11(3), applicable to a disposition, that occurs on or after May 2, 2006, of a property unless the disposition of the property was before 2007 and the taxpayer elects in writing in the taxpayer's return of income for the taxation year in which the disposition occurred to have subsection 73(3) or 73(4), as that subsection read on May 1, 2006, apply to the disposition of the property.

Editorial Note: If the farming or fishing property rollover applies and the transferee child subsequently disposes of the property before attaining the age of 18, the attribution rules of section 75.1 may apply.

► 73(5) ◄

(5) Disposition of a NISA. Where at any time a taxpayer disposes of an interest in the taxpayer's NISA Fund No. 2, an amount equal to the balance in the fund so disposed of shall be deemed to have been paid out of the fund at that time to the taxpayer except that,

(*a*) where the interest is disposed of to the taxpayer's spouse or common-law partner, former spouse or common-law partner or an individual referred to in paragraph (1)(*d*) (as it applies to transfers of property that occurred before 1993) in settlement of rights arising out of their marriage or common-law partnership, on or after the breakdown of the marriage or common-law partnership, that amount shall not be deemed to have been paid to the taxpayer if

(i) the disposition is made under a decree, order or judgment of a competent tribunal or, in the case of a spouse or common-law partner or former spouse or common-law partner, a written separation agreement, and

(ii) the taxpayer elects in the taxpayer's return of income under this Part for the taxation year in which the property was disposed of to have this paragraph apply to the disposition; and

(*b*) where the interest is disposed of to a taxable Canadian corporation in a transaction in respect of which an election is made under section 85, an amount equal to the proceeds of disposition in respect of that interest shall be deemed to be paid, at that time, to the taxpayer out of the taxpayer's NISA Fund No. 2.

History: S. 73(5)(*a*), the portion before subparagraph (ii) was amended by S.C. 2000, c. 12, Sched. 2, s. 2(d) and 9(e), applicable January 1, 2001, coming into force on July 31, 2000. S. 73(5)(*a*), the portion before subparagraph (ii) formerly read:

"(*a*) where the interest is disposed of to the taxpayer's spouse, former spouse or an individual referred to in paragraph (1)(*d*) (as it applies to transfers of property that occurred before 1993) in settlement of rights arising out of their marriage, on or after the breakdown of the marriage, that amount shall not be deemed to have been paid to the taxpayer if

(i) the disposition is made under a decree, order or judgment of a competent tribunal or, in the case of a spouse or former spouse, a written separation agreement, and"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 73(5) was amended and renumbered as s. 73(6) by S.C. 1994, c. 7, Sched. VIII, s. 29(6), applicable to dispositions occurring after 1990 except that, in applying subsection 73(5) before 1993, the reference therein to "marriage" shall be read as "marriage or other conjugal relationship". S. 73(5) formerly read:

"(5) *Application of s. 70(10).* The definitions in subsection 70(10) apply to this section."

Related Sections: S. 13(21), "proceeds of disposition"; s. 54, "proceeds of disposition"; s. 89(1), "taxable Canadian corporation"; s. 248(1), "amount", "common-law partner", "property", "taxable Canadian corporation".

► 73(6) ◄

(6) Application of s. 70(10). The definitions in subsection 70(10) apply to this section.

History: S. 73(6) was added by S.C. 1994, c. 7, Sched. VIII, s. 29(6), by renumbering former s. 73(5), applicable to dispositions occurring after 1990.

SECTION 74: Transfers to spouse. [Repealed by 1986, c. 6, s. 37(1).]

Related Sections: S. 212(12) Deemed payments to spouse, etc.

Cases: By special resolution, the taxpayer's company's authorized capital was increased and, on February 12, 1980, eight Class "A" shares were issued to his wife, causing the taxpayer's and his wife's equity ownership to change from 90% and 10%, respectively, to 50% equally. On March 1, 1981, eight more Class "A" shares were issued to each of his children and his wife, causing the equity ownership to become 21.5% for each of the taxpayer and his wife, and 19% for each of the children. In both transactions, the taxpayer had disposed of an "economic interest" in the company. This amounted to a disposition of "property". However, the 1980 transaction ought to have been characterized as a gift, just as the 1981 transaction, rather than as a spousal transfer of shares; but even if the 1980 transaction had involved a "transfer", it was a transfer of an economic interest, so that there could not be no attribution to the taxpayer. *The Queen v. Kieboom*, (F.C.A.) 92 DTC 6382, affirming (F.C.T.D.) 91 DTC 5478.

SECTION 74.1:

► 74.1(1) ◄

(1) Transfers and loans to spouse. Where an individual has transferred or lent property (otherwise than by an assignment of any portion of a retirement pension pursuant to section 65.1 of the *Canada Pension Plan* or a comparable provision of a provincial pension plan as defined in section 3 of that Act or of a prescribed provincial pension plan), either directly or indirectly, by means of a trust or by any other means whatever, to or for the benefit of a person who is the individual's spouse or common-law partner or who has since become the individual's spouse or common-law partner, any income or loss, as the case may be, of that person for a taxation year from the property or from property substituted therefor, that relates to the period in the year throughout which the individual is resident in Canada and that person is the individual's spouse or common-law partner, shall be deemed to be income or a loss, as the case may be, of the individual for the year and not of that person.

History: S. 74.1(1) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(t), applicable January 1, 2001, coming into force on July 31, 2000. S. 74.1(1) formerly read:

"(1) Where an individual has transferred or lent property (otherwise than by an assignment of any portion of a retirement pension pursuant to section 65.1 of the *Canada Pension Plan* or a comparable provision of a provincial pension plan as defined in section 3 of that Act or of a prescribed provincial pension plan), either directly or indirectly, by means of a trust or by any other means whatever, to or for the benefit of a person who is the individual's spouse or who has since become the individual's spouse, any income or loss, as the case may be, of that person for a taxation year from the property or from property substituted therefor, that relates to the period in the year throughout which the individual is resident in Canada and that person is the individual's spouse, shall be deemed to be income or a loss, as the case may be, of the individual for the year and not of that person."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Editorial Note: The attribution rules in section 74.1 apply to income or loss from property that was transferred to a spouse or common-law partner (subsection (1)) or minor children who are non-arm's length with, or nieces or nephews of, the transferor (subsection (2)). The attribution rules in section 74.2 apply to taxable capital gains realized in respect of property that was transferred to the spouse or common-law partner; no attribution of taxable capital gains applies in respect of transfers of property to minor children (except in the case of rolled-over farm or fishing property; see section 75.1). Section 74.3 contains rules that apply for the purposes of the attribution rules of section 74.1 or 74.2 where property is transferred to a trust in which the spouse, common-law partner, or minor child is beneficially interested. Section 74.4 contains a corporate income attribution rule that can apply where the transfer of property is made to a corporation and the spouse, common-law partner, or minor child is a specified shareholder of the corporation (an exception generally applies if the corporation is a small business corporation). Section 74.5 contains exceptions to the attribution rules, additional rules regarding their application, and certain definitions. Reference should also be made to section 120.4, which deals with "split income" of minor children.

Related Sections: S. 40(2)(*g*)(i) Limitations; s. 54, "superficial loss"; s. 56(2) Indirect payments; s. 56(4) Transfer of rights to income; s. 56(4.1) Interest free or low interest loans; s. 69(1) Inadequate considerations; s. 73(1) Inter vivos transfers by individuals; s. 74.3(1) Transfers or loans to a trust; s. 74.5 Exceptions; s. 75(2) Trusts; s. 82(2) Certain dividends received by taxpayer; s. 96(1.8) Loan of property; s. 108(5) Interpretation; s. 160(1) Tax liability re property transferred not at arm's length; s. 212(12) Deemed payments to spouse, etc; s. 248(5) Substituted property; s. 251.1 Arm's length.

Regulations: 7800(1).

Interpretation Bulletins: *Primary* — IT-511R Interspousal and certain other transfers and loans of property. *Secondary* — IT-295R4 Taxable dividends received after 1987 by a spouse; IT-394R2 Preferred beneficiary election.

Tax Topics: No. 1924, Lipson (SCC) — A Unanimously Divided Supreme Court; No. 1702, Income Tax Issues To Be Considered in Negotiating Marriage Contracts.

Tax Profile: February 2009 — SCC on the GAAR — Taxpayer Loses in Lipson; February 2008 — Income Splitting A-Z; July 2007 — Canadian Tax Traps; July 2006 — Asset Protection Planning.

Tax Window Files: Attribution rules — spouses, September 15, 2006, CRA Document No. 2006-0199361E5; Attribution Rules — Separation of Common-Law Partners, July 13, 2005, CRA Document No. 2005-0131351E5; Allocation of Partnership Income Between Spouse Partners, January 14, 2004, CRA Document No. 2003-0029571E5; Transfer of Property to Trust Allows Capital Gains Exemption To Be Claimed, October 10, 2003, CRA Document No. 2003-0030105; Transfer of Mutual Funds Into Joint Tenancy, February 17, 2003, CRA Document No. 2003-0182177; Attribution — Non-Deductible Contribution to Spousal RRSP, November 23, 2000, CRA Document No. 2000-0051265 [Sections 74.1(1) or 74.2(1) can apply where non-deductible contribution is made by individual to spousal RRSP]; Interest Expense and Attribution of Income, May 16, 2000, CRA Document No. 2000-0005125 [Attribution applies but interest not deductible for transferor spouse who borrowed funds to acquire shares and transferred shares to spouse for no consideration; but section 20.1 may be applicable]; Income Allocation Spouses, May 5, 2000, CRA Document No. 2000-0016795.

Cases: The taxpayer's wife obtained a bank loan to purchase shares of a family corporation from him. He used the proceeds to buy a new house. They then took out a mortgage on the house and used it to pay off the bank loan. The mortgage interest was deducted from her dividend income and the resulting loss was attributed to him under s. 74.1(1). GAAR applied since this was an abuse of the attribution rules. *Lipson et al. v. The Queen*, 2009 DTC 5015 (S.C.C.), affirming 2007 DTC 5172 (F.C.A.), affirming 2006 DTC 2687 (T.C.C.).

► 74.1(2) ◄

(2) Transfers and loans to minors. If an individual has transferred or lent property, either directly or indirectly, by means of a trust or by any other means whatever, to or for the benefit of a person who was under 18 years of age (other than an amount received in respect of that person either as a consequence of the operation of subsection 122.61(1) or under section 4 of the *Universal Child Care Benefit Act*) and who

(*a*) does not deal with the individual at arm's length, or

(*b*) is the niece or nephew of the individual,

any income or loss, as the case may be, of that person for a taxation year from the property or from property substituted for that property, that relates to the period in the taxation year throughout which the individual is resident in Canada, is deemed to be income or a loss, as the case may be, of the individual and not of that person unless that person has, before the end of the taxation year, attained the age of 18 years.

History: S. 74.1(2) was replaced by S.C. 2007, c. 2, s. 12(1), applicable in respect of amounts received after June 30, 2006.

S. 74.1(2) formerly read:

"(2) *Transfers and loans to minors.* Where an individual has transferred or lent property, either directly or indirectly, by means of a trust or by any other means whatever, to or for the benefit of a person who was under 18 years of age (other than an amount received in respect of that person as a consequence of the operation of subsection 122.61(1)) and who

(*a*) does not deal with the individual at arm's length, or

(*b*) is the niece or nephew of the individual,

any income or loss, as the case may be, of that person for a taxation year from the property or from property substituted therefor, that relates to the period in the year throughout which the individual is resident in Canada, shall be deemed to be income or a loss, as the case may be, of the individual and not of that person unless that person has, before the end of the year, attained the age of 18 years."

S. 74.1(2), the portion before paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. VII, s. 4(1), applicable to the 1993 and subsequent taxation years. The portion formerly read:

"(2) Where an individual has transferred or lent property, either directly or indirectly, by means of a trust or by any other means whatever, to or for the benefit of a person who was under 18 years of age and who"

Related Sections: S. 56(2) Indirect payments; s. 56(4) Transfer of rights to income; s. 69(1) Inadequate considerations; s. 74.3(1) Transfers or loans to a trust; s. 74.5 Exceptions; s. 75(2) Trusts; s. 82(2) Certain dividends received by taxpayer; s. 96(1.8) Loan of property; s. 108(5) Interpretation; s. 120.4 Tax on split income; s. 160(1) Tax liability re property transferred not at arm's length; s. 212(12) Deemed payments to spouse, etc; s. 248(5) Substituted property; s. 251 Arm's length.

Interpretation Bulletins: *Primary* — IT-510 Transfers and loans of property made after May 22, 1985 to related minor.

Advance Tax Rulings: ATR-25 Estate freeze.

Tax Profile: February 2008 — Income Splitting A-Z.

Canadian Tax Foundation: Donnelly, Magee, and Young, "Income Splitting and the New Kiddie Tax: Major Changes for Minor Children", *2000 Canadian Tax Journal*, No. 4, 979.

Tax Window Files: RESP — Attribution Rules, May 20, 2004, CRA Document No. 2004-0064551E5; Application of Attribution Rules, June 26, 2001 and June 29, 2001, CRA Document No. 2000-0052295 [Subsection 74.4(2) may apply when the regular attribution rules in 74.1(2) already apply]; In-Trust Accounts For Minors, March 27, 2001, CRA Document No. 2001-0067745; Filing Requirements For in-Trust Accounts, June 7, 1999, CRA Document No. 9833995; Grandfather — RRSPs For Grandchildren, August 18, 1998, CRA Document No. 9811766; Child Support, June 5, 1998, CRA Document No. 9805995 [Income earned by investing child support payments may be subject to attribution]; RESP for child or grandchild, April 25, 1996, CRA Document No. 9524595 [Attribution rules apply if education savings plan does not qualify as RESP].

▶ 74.1(3) ◀

(3) Repayment of existing indebtedness. For the purposes of subsections (1) and (2), where, at any time, an individual has lent or transferred property (in this subsection referred to as the "lent or transferred property") either directly or indirectly, by means of a trust or by any other means whatever, to or for the benefit of a person, and the lent or transferred property or property substituted therefor is used

(*a*) to repay, in whole or in part, borrowed money with which other property was acquired, or

(*b*) to reduce an amount payable for other property,

there shall be included in computing the income from the lent or transferred property, or from property substituted therefor, that is so used, that proportion of the income or loss, as the case may be, derived after that time from the other property or from property substituted therefor that the fair market value at that time of the lent or transferred property, or property substituted therefor, that is so used is of the cost to that person of the other property at the time of its acquisition, but for greater certainty nothing in this subsection shall affect the application of subsections (1) and (2) to any income or loss derived from the other property or from property substituted therefor.

Interpretation Bulletins: *Secondary* — IT-510 Transfers and loans of property made after May 22, 1985 to related minor.

SECTION 74.2:

▶ 74.2(1) ◀

(1) Gain or loss deemed that of lender or transferor. Where an individual has lent or transferred property (in this section referred to as "lent or transferred property"), either directly or indirectly, by means of a trust or by any other means whatever, to or for the benefit of a person (in this subsection referred to as the "recipient") who is the individual's spouse or common-law partner or who has since become the individual's spouse or common-law partner, the following rules apply for the purposes of computing the income of the individual and the recipient for a taxation year:

(*a*) the amount, if any, by which

(i) the total of the recipient's taxable capital gains for the year from dispositions of property (other than listed personal property) that is lent or transferred property or property substituted therefor occurring in the period (in this subsection referred to as the "attribution period") throughout which the individual is resident in Canada and the recipient is the individual's spouse or common-law partner

exceeds

(ii) the total of the recipient's allowable capital losses for the year from dispositions occurring in the attribution period of property (other than listed personal property) that is lent or transferred property or property substituted therefor

shall be deemed to be a taxable capital gain of the individual for the year from the disposition of property other than listed personal property;

(*b*) the amount, if any, by which the total determined under subparagraph (*a*)(ii) exceeds the total determined under subparagraph (*a*)(i) shall be deemed to be an allowable capital loss of the individual for the year from the disposition of property other than listed personal property;

(*c*) the amount, if any, by which

(i) the amount that the total of the recipient's gains for the year from dispositions occurring in the attribution period of listed personal property that is lent or transferred property or property substituted therefor would be if the recipient had at no time owned listed personal property other than listed personal property that was lent or transferred property or property substituted therefor

exceeds

(ii) the amount that the total of the recipient's losses for the year from dispositions of listed personal property that is lent or transferred property or property substituted therefor would be if the recipient had at no time owned listed personal property other than listed personal property that was lent or transferred property or property substituted therefor,

shall be deemed to be a gain of the individual for the year from the disposition of listed personal property;

(*d*) the amount, if any, by which the total determined under subparagraph (*c*)(ii) exceeds the total deter-

mined under subparagraph (*c*)(i) shall be deemed to be a loss of the individual for the year from the disposition of listed personal property; and

(*e*) any taxable capital gain or allowable capital loss or any gain or loss taken into account in computing an amount described in paragraph (*a*), (*b*), (*c*) or (*d*) shall, except for the purposes of those paragraphs and to the extent that the amount so described is deemed by virtue of this subsection to be a taxable capital gain or an allowable capital loss or a gain or loss of the individual, be deemed not to be a taxable capital gain or an allowable capital loss or a gain or loss, as the case may be, of the recipient.

History: S. 74.2(1), the portion before paragraph (*a*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(u), applicable January 1, 2001, coming into force on July 31, 2000. S. 74.2(1), the portion before paragraph (*a*) formerly read:

"(1) Where an individual has lent or transferred property (in this section referred to as 'lent or transferred property'), either directly or indirectly, by means of a trust or by any other means whatever, to or for the benefit of a person (in this subsection referred to as the 'recipient') who is the individual's spouse or who has since become the individual's spouse, the following rules apply for the purposes of computing the income of the individual and the recipient for a taxation year:"

S. 74.2(1)(*a*)(i) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(u), applicable January 1, 2001, coming into force on July 31, 2000. S. 74.2(1)(*a*)(i) formerly read:

"(i) the total of the recipient's taxable capital gains for the year from dispositions of property (other than listed personal property) that is lent or transferred property or property substituted therefor occurring in the period (in this subsection referred to as the 'attribution period') throughout which the individual is resident in Canada and the recipient is the individual's spouse"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Editorial Note: See the editorial comment under subsection 74.1(1).

Related Sections: S. 38 Taxable capital gain and allowable capital loss; s. 39(1) Meaning of capital gain and capital loss; s. 54, "listed personal property"; s. 69(1) Inadequate considerations; s. 73(1) Inter vivos transfers by individuals; s. 74.3(1) Transfers or loans to a trust; s. 74.5 Exceptions; s. 160(1) Tax liability re property transferred not at arm's length; s. 212(12) Deemed payments to spouse, etc; s. 248(5) Substituted property.

Interpretation Bulletins: *Primary* — IT-511R Interspousal and certain other transfers and loans of property. *Secondary* — IT-394R2 Preferred beneficiary election.

Tax Topics: No. 1702, Income Tax Issues To Be Considered in Negotiating Marriage Contracts.

Tax Profile: February 2008 — Income Splitting A–Z.

Tax Window Files: Attribution rules — spouses, September 15, 2006, CRA Document No. 2006-0199361E5; Transfer of Capital Losses to Spouse, January 11, 2001, CRA Document No. 2000-0056115 [Taxpayer can effectively transfer unrealized capital losses to the taxpayer's spouse by way of a sale at fair market value (i.e. attribution not applicable)]; Attribution — Non-Deductible Contribution to Spousal RRSP, November 23, 2000, CRA Document No. 2000-0051265 [Sections 74.1(1) or 74.2(1) can apply where non-deductible contribution is made by individual to spousal RRSP]; Capital Gain on Jointly-Held Property, March 1, 2000, CRA Document No. 1999-0015475.

► 74.2(2) ◄

(2) Deemed gain or loss. Where an amount is deemed by subsection (1) or 75(2) or section 75.1 of this Act, or subsection 74(2) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, to be a taxable capital gain or an allowable capital loss of an individual for a taxation year,

(*a*) for the purposes of sections 3 and 111, as they apply for the purposes of section 110.6, such portion of the gain or loss as may reasonably be considered to relate to the disposition of a property by another person in the year shall be deemed to arise from the disposition of that property by the individual in the year; and

(*b*) for the purposes of section 110.6, that property shall be deemed to have been disposed of by the individual on the day on which it was disposed of by the other person.

History: S. 74.2(2)(*b*) was amended by S.C. 1995, c. 3, s. 20(1), applicable to the 1994 and subsequent taxation years. S. 74.2(2)(*b*) formerly read:

"(*b*) for the purposes of section 110.6, that property shall be deemed to have been disposed of by the individual in the year."

S. 74.2(2), the portion before paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 51(1), applicable to the 1987 and subsequent taxation years. The portion formerly read:

"(2) Where an individual is deemed under subsection (1) or section 75.1 of this Act or subsection 74(2) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, to have a taxable capital gain or allowable capital loss for a taxation year,"

Editorial Note: Subsection 74.2(2) effectively provides that any capital gain or loss attributed to a transferor in respect of qualified small business corporation shares or qualified farm or fishing property is eligible for the individual's lifetime capital gains exemption under section 110.6.

Related Sections: S. 110.6 Capital gains exemption.

Interpretation Bulletins: *Primary* — IT-511R Interspousal and certain other transfers and loans of property. *Secondary* — IT-369R Attribution of trust income to settlor.

Tax Window Files: Qualified farm property — Attribution (Property Last Acquired), June 25, 2004, CRA Document No. 2004-0065501E5; Section 48.1 and Subsection 74.2(2), July 7, 1999, CRA Document No. 9911325.

► 74.2(3) ◄

(3) Election for subsection (1) to apply. Subsection (1) does not apply to a disposition at any particular time (in this subsection referred to as the "emigration disposition") under paragraph 128.1(4)(*b*), by a taxpayer who is a recipient referred to in subsection (1), unless the recipient and the individual referred to in that subsection, in their returns of income for the taxation year that includes the first time, after the particular time, at which the recipient disposes of the property, jointly elect that subsection (1) apply to the emigration disposition.

History: S. 74.2(3) was added by S.C. 2001, c. 17, s. 54(1), applicable after October 1, 1996.

Related Sections: S. 128.1(8) Post-emigration loss; s. 220(4.5) Security for departure tax.

► 74.2(4) ◄

(4) Application of subsection (3). For the purpose of applying subsection (3) and notwithstanding subsections 152(4) to (5), any assessment of tax payable under this Act by the recipient or the individual referred to in subsection (1) shall be made that is necessary to take an election under subsection (3) into account except that no such assessment shall affect the computation of

(*a*) interest payable under this Act to or by a taxpayer in respect of any period that is before the taxpayer's filing-due date for the taxation year that includes the first time, after the particular time referred to in subsection (3), at which the recipient disposes of the property referred to in that subsection; or

(*b*) any penalty payable under this Act.

History: S. 74.2(4) was added by S.C. 2001, c. 17, s. 54(1), applicable after October 1, 1996.

Related Sections: S. 128.1(8) Post-emigration loss; s. 220(4.5) Security for departure tax.

SECTION 74.3:

▶ 74.3(1) ◀

(1) Transfers or loans to a trust. Where an individual has lent or transferred property (in this section referred to as "lent or transferred property"), either directly or indirectly, by means of a trust or by any other means whatever, to a trust in which another individual who is at any time a designated person in respect of the individual is beneficially interested at any time, the following rules apply:

(*a*) for the purposes of section 74.1, the income of the designated person for a taxation year from the lent or transferred property shall be deemed to be an amount equal to the lesser of

(i) the amount in respect of the trust that was included by virtue of paragraph 12(1)(*m*) in computing the income for the year of the designated person, and

(ii) that proportion of the amount that would be the income of the trust for the year from the lent or transferred property or from property substituted therefor if no deduction were made under subsection 104(6) or (12) that

(A) the amount determined under subparagraph (i) in respect of the designated person for the year

is of

(B) the total of all amounts each of which is an amount determined under subparagraph (i) for the year in respect of the designated person or any other person who is throughout the year a designated person in respect of the individual; and

(*b*) for the purposes of section 74.2, an amount equal to the lesser of

(i) the amount that was designated under subsection 104(21) in respect of the designated person in the trust's return of income for the year, and

(ii) the amount, if any, by which

(A) the total of all amounts each of which is a taxable capital gain for the year from the disposition by the trust of the lent or transferred property or property substituted therefor

exceeds

(B) the total of all amounts each of which is an allowable capital loss for the year from the disposition by the trust of the lent or transferred property or property substituted therefor,

shall be deemed to be a taxable capital gain of the designated person for the year from the disposition of property (other than listed personal property) that is lent or transferred property.

Editorial Note: See the editorial comment under subsection 74.1(1).

Related Sections: S. 69(1) Inadequate considerations; s. 73(1) Inter vivos transfers by individuals; s. 74.5 Exceptions; s. 74.5(5) Definition of "designated person"; s. 75(2) Trusts; s. 96(1.8) Loan of property; s. 104(13) Income of beneficiary; s. 104(21) Taxable capital gains; s. 108(5) Interpretation; s. 212(12) Deemed payments to spouse, etc; s. 248(5) Substituted property.

Interpretation Bulletins: *Secondary* — IT-394R2 Preferred beneficiary election; IT-510 Transfers and loans of property made after May 22, 1985 to related minor; IT-511R Interspousal and certain other transfers and loans of property.

Tax Window Files: Attribution Where Property Transferred to Trust, April 26, 2004, CRA Document No. 2004-0064471E5 [Allocation under subsection 74.3(1) where individual transfers property to trust in which his spouse is beneficiary; trust has other income and other beneficiaries]; In-Trust Accounts For Minors, March 27, 2001, CRA Document No. 2001-0067745; Filing Requirements for In-trust Accounts, June 7, 1999, CRA Document No. 9833995.

▶ 74.3(2) ◀

(2) Definition of "designated person". In this section, "designated person", in respect of an individual, has the meaning assigned by subsection 74.5(5).

SECTION 74.4: [Transfers and loans to corporations].

▶ 74.4(1) ◀

(1) Definitions. In this section,

"*designated person*" — "designated person", in respect of an individual, has the meaning assigned by subsection 74.5(5);

"*excluded consideration*" — "excluded consideration", at any time, means consideration received by an individual that is

(*a*) indebtedness,

(*b*) a share of the capital stock of a corporation, or

(*c*) a right to receive indebtedness or a share of the capital stock of a corporation.

Editorial Note: See the editorial comment under subsection 74.1(1).

Related Sections: S. 74.5(5), "designated person"; s. 104(1) Reference to trust or estate; s. 248(1), "corporation", "principal amount", "share", "small business corporation", "taxable dividend".

Interpretation Bulletins: *Secondary* — IT-394R2 Preferred beneficiary election

▶ 74.4(2) ◀

(2) Transfers and loans to corporations. Where an individual has transferred or lent property, either directly or indirectly, by means of a trust or by any other means whatever, to a corporation and one of the main purposes of the transfer or loan may reasonably be considered to be to reduce the income of the individual and to benefit, either directly or indirectly, by means of a trust or by any other means whatever, a person who is a designated person in respect of the individual, in computing the income of the individual for any taxation year that includes a period after the loan or transfer throughout which

(*a*) the person is a designated person in respect of the individual and would have been a specified shareholder of the corporation if the definition "specified shareholder" in subsection 248(1) were read without reference to paragraphs (*a*) and (*d*) of that definition and if the reference therein to "any other corporation that is related to the corporation" were read as a reference to "any other corporation (other than a small business corporation) that is related to the corporation",

(*b*) the individual was resident in Canada, and

(*c*) the corporation was not a small business corporation,

the individual shall be deemed to have received as interest in the year the amount, if any, by which

(*d*) the amount that would be interest on the outstanding amount of the loan or transfer of the property for such periods in the year if the interest were computed thereon at the prescribed rate of interest for such periods

exceeds the total of

(*e*) any interest received in the year by the individual in respect of the transfer or loan (other than amounts deemed by this subsection to be interest),

(*f*) all amounts included in the individual's income for the taxation year pursuant to subsection 82(1) or 90(1) in respect of taxable dividends received (other than dividends deemed by section 84 to have been received) by the individual in the year on shares that were received from the corporation as consideration for the transfer or as repayment for the loan that were excluded consideration at the time the dividends were received or on shares substituted therefor that were excluded consideration at that time, and

(*g*) where the designated person is a specified individual in relation to the year, the amount required to be included in computing the designated person's income for the year in respect of all taxable dividends received by the designated person that

(i) can reasonably be considered to be part of the benefit sought to be conferred, and

(ii) are included in computing the designated person's split income for any taxation year.

History: S. 74.4(2)(*f*) was replaced by S.C. 2007, c. 2, s. 43.1(2), applicable to amounts received after 2005. S. 74.4(2)(*f*) formerly read:

"(*f*) 5/4 of all taxable dividends received (other than dividends deemed by section 84 to have been received) by the individual in the year on shares that were received from the corporation as consideration for the transfer or as repayment for the loan that were excluded consideration at the time the dividends were received or on shares substituted therefor that were excluded consideration at that time, and"

S. 74.4(2)(*g*) was added by S.C. 2000, c. 19, s. 10(1), applicable to the 2000 and subsequent taxation years.

S. 74.4(2)(*a*) was amended by S.C. 1994, c. 7, Sched. II, s. 52(1), applicable to the 1987 and subsequent taxation years with respect to loans and transfers made after October 27, 1986. S. 74.4(2)(*a*) formerly read:

"(*a*) the person is a designated person in respect of the individual and would have been a specified shareholder of the corporation if the definition 'specified shareholder' in subsection 248(1) were read without reference to paragraphs (*a*) and (*d*) of that definition,"

Editorial Note: The "corporate attribution rules" may apply to an individual who directly or indirectly transfers or loans property to a corporation, one of the main purposes being to reduce the transferor's income and benefit a "designated person", i.e., the transferor's spouse, or, if not 18 in the year, a child (or other non-arm's length person), or a niece or nephew (see subsection 74.5(5)). Taxable benefits, based on prescribed interest rates applied to the "outstanding amount" (per subsection 74.4(3)) of the loan or transfer, apply for periods throughout which (a) the person is a designated person and specified shareholder, (b) the transferor is Canadian resident, and (c) the corporation is not a "small business corporation" (see the definition in subsection 248(1), relating to corporations whose assets are devoted to Canadian active business activities). For these purposes, a specified shareholder includes a person who owns at least 10% of the shares of any class of the corporation, or a related corporation other than a small business corporation. A corporate reorganization can be classified as a transfer, e.g., where shares are transferred to a holding company, or exchanged for other shares of the company, including an estate freeze (see also subsection 84(9)). If the small business corporation exception is to be relied on, purification mechanisms to jettison non-qualifying assets should be considered.

Related Sections: S. 51(1) Convertible property; s. 51(2) Limitation of rollover benefit; s. 69(1) Inadequate considerations; s. 74.5 Exceptions; s. 84(9) Shares disposed of on redemptions, etc; s. 85(1) Transfer of property to corporation by shareholders; s. 86(1) Exchange of shares by a shareholder in course of reorganization of capital; s. 86(2) Disposition of old shares and benefit; s. 87(2)(*j.7*) Certain transfers and loans; s. 120.4(1), "split income"; s. 212(12) Deemed payments to spouse, etc; s. 248(1), "specified shareholder", "small business corporation".

Regulations: 4301.

Information Circulars: IC 88-2 General anti-avoidance rule — Section 245 of the Income Tax Act (para. 10).

Advance Tax Rulings: ATR-25 Estate freeze; ATR-36 Estate freeze.

Tax Profile: February 2008 — Income Splitting A–Z; September 2004 — Review of Tax Implications of Corporate-Owned Life Insurance Buy-Sell Arrangements.

Canadian Tax Foundation: Marquette, " 'Estate Freezes Involving Trusts,' in 'Personal Tax Planning' feature", *2002 Canadian Tax Journal*, No. 1, 335.

Tax Window Files: Application of Attribution Rules, June 26, 2001 and June 29, 2001, CRA Document No. 2000-0052295 [Subsection 74.4(2) may apply when the regular attribution rules in 74.1(2) already apply]; Transfers to corporations and status as small business corporation, February 7, 1996, CRA Document No. 9602375.

► 74.4(3) ◄

(3) Outstanding amount. For the purposes of subsection (2), the outstanding amount of a transferred property or loan at a particular time is

(*a*) in the case of a transfer of property to a corporation, the amount, if any, by which the fair market value of the property at the time of the transfer exceeds the total of

(i) the fair market value, at the time of the transfer, of the consideration (other than consideration that is excluded consideration at the particular time) received by the transferor for the property, and

(ii) the fair market value, at the time of receipt, of any consideration (other than consideration that is excluded consideration at the particular time) received by the transferor at or before the particular time from the corporation or from a person with whom the transferor deals at arm's length, in exchange for excluded consideration previously received by the transferor as consideration for the property or for excluded consideration substituted for such consideration;

(*b*) in the case of a loan of money or property to a corporation, the amount, if any, by which

(i) the principal amount of the loan of money at the time the loan was made, or

(ii) the fair market value of the property lent at the time the loan was made,

as the case may be, exceeds the fair market value, at the time the repayment is received by the lender, of any repayment of the loan (other than a repayment that is excluded consideration at the particular time).

Editorial Note: As the prescribed rate is applied to the "outstanding amount" of a transfer or loan to a corporation, this forms the basis of the taxable benefit arising from the corporate attribution rules in subsection 74.4(2). The fair market value of property transferred is reduced by amounts ("consideration") received by the transferor from the corporation (or a non-arm's length person); but "excluded consideration" (debt, shares or a right to receive them) doesn't count. Non-excluded consideration received in exchange for previously-excluded consideration also reduces the outstanding amount. In the case of a loan of money (or property), the outstanding amount is the principal (or fair market value of property lent), less the value of non-excluded repayments.

Tax Window Files: Outstanding Amount, March 19, 2002, CRA Document No. 2001-0063305.

► 74.4(4) ◄

(4) Benefit not granted to a designated person. For the purposes of subsection (2), one of the main purposes of a transfer or loan by an individual to a corporation shall not be considered to be to benefit, either directly or indirectly, a designated person in respect of the individual, where

(*a*) the only interest that the designated person has in the corporation is a beneficial interest in shares of the corporation held by a trust;

(*b*) by the terms of the trust, the designated person may not receive or otherwise obtain the use of any of the income or capital of the trust while being a designated person in respect of the individual; and

(*c*) the designated person has not received or otherwise obtained the use of any of the income or capital of the trust, and no deduction has been made by the trust in computing its income under subsection 104(6) or (12) in respect of amounts paid or payable to, or included in the income of, that person while being a designated person in respect of the individual.

Editorial Note: The exception in subsection 74.4(4) to the attribution rule of subsection 74.4(2) generally contemplates a freeze using a family trust, but the exception is relatively narrow owing to the income and capital restrictions in paragraphs (*b*) and (*c*) therein. There should be a blanket prohibition on the receipt or use of income or capital while a designated person, rather than limiting the clause to situations where the corporate attribution rules would otherwise apply (e.g., providing that the prohibition does not apply while the corporation is a small business corporation or the transferor is not a Canadian resident would not meet the criteria for the subsection 74.4(4) exception). See, for example, CRA Document No. 2005-0126381E5.

Related Sections: S. 74.5(5) Definition of "designated person".
Information Circulars: IC 88-2 General anti-avoidance rule — Section 245 of the Income Tax Act (para. 10).
Tax Window Files: Attribution — Property Transferred to a Corporation, May 13, 2005, CRA Document No. 2005-0126381E5 [Subsection 74.4(4) exception not available if designated person can receive income or capital from trust, albeit only while the corporation is a small business corporation].

► 74.4(5) ◄

(5) Time of dividend. [Repealed by 1986, c. 55, s. 19(1).]

SECTION 74.5:

► 74.5(1) ◄

(1) Transfers for fair market consideration. Notwithstanding any other provision of this Act, subsections 74.1(1) and (2) and section 74.2 do not apply to any income, gain or loss derived in a particular taxation year from transferred property or from property substituted therefor if

(*a*) at the time of the transfer the fair market value of the transferred property did not exceed the fair market value of the property received by the transferor as consideration for the transferred property;

(*b*) where the consideration received by the transferor included indebtedness,

(i) interest was charged on the indebtedness at a rate equal to or greater than the lesser of

(A) the prescribed rate that was in effect at the time the indebtedness was incurred, and

(B) the rate that would, having regard to all the circumstances, have been agreed on, at the time the indebtedness was incurred, between parties dealing with each other at arm's length,

(ii) the amount of interest that was payable in respect of the particular year in respect of the indebtedness was paid not later than 30 days after the end of the particular year, and

(iii) the amount of interest that was payable in respect of each taxation year preceding the particular year in respect of the indebtedness was paid not later than 30 days after the end of each such taxation year; and

(*c*) where the property was transferred to or for the benefit of the transferor's spouse or common-law partner, the transferor elected in the transferor's return of income under this Part for the taxation year in which the property was transferred not to have the provisions of subsection 73(1) apply.

History: S. 74.5(1)(*c*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(*v*), applicable January 1, 2001, coming into force on July 31, 2000. S. 74.5(1)(*c*) formerly read:

"(*c*) where the property was transferred to or for the benefit of the transferor's spouse, the transferor elected in the transferor's return of income under this Part for the taxation year in which the property was transferred not to have the provisions of subsection 73(1) apply."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Editorial Note: See the editorial comment under subsection 74.1(1). Note that the fair market value indebtedness exception (paragraph 74.5(1)(*b*)) ceases to apply if the interest payable in respect of any year is not paid within 30 days after the end of the year, even if it is subsequently paid.

Related Sections: S. 73(1) Inter vivos transfers by individuals; s. 87(2)(*j.7*) Certain transfers and loans; s. 120.4 Definitions; s. 248(5) Substituted property.
Interpretation Bulletins: *Secondary* — IT-394R2 Preferred beneficiary election; IT-510 Transfers and loans of property made after May 22, 1985 to related minor; IT-511R Interspousal and certain other transfers and loans of property.
Tax Topics: No. 1702, Income Tax Issues To Be Considered in Negotiating Marriage Contracts.
Tax Profile: July 2006 — Asset Protection Planning.
Tax Window Files: Transfer of Capital Losses to Spouse, January 11, 2001, CRA Document No. 2000-0056115 [Taxpayer can effectively transfer unrealized capital losses to the taxpayer's spouse by way of a sale at fair market value (i.e. attribution not applicable)]; Attribution — Transfers for Fair Market Consideration, May 19, 2000, CRA Document No. 2000-0008455 [Interest payable in respect of particular year and each preceding year must be paid on time in order to qualify for subsection 74.5(1) exception]; Interest Expense and Attribution of Income, May 16, 2000, CRA Document No. 2000-0005125 [Attribution applies but interest not deductible for transferor spouse who borrowed funds to acquire shares and transferred shares to spouse for no consideration (so that subsection 74.5(1) exception not available); but section 20.1 may be applicable].

► 74.5(2) ◄

(2) Loans for value. Notwithstanding any other provision of this Act, subsections 74.1(1) and (2) and section 74.2 do not apply to any income, gain or loss derived in a particular taxation year from lent property or from property substituted therefor if

(*a*) interest was charged on the loan at a rate equal to or greater than the lesser of

(i) the prescribed rate that was in effect at the time the loan was made, and

(ii) the rate that would, having regard to all the circumstances, have been agreed on, at the time the loan was made, between parties dealing with each other at arm's length;

(*b*) the amount of interest that was payable in respect of the particular year in respect of the loan was paid not later than 30 days after the end of the particular year; and

(*c*) the amount of interest that was payable in respect of each taxation year preceding the particular year in respect of the loan was paid not later than 30 days after the end of each such taxation year.

Editorial Note: If the interest payable on the loan in respect of any year is not paid within 30 days after the end of the year, the exception in subsection 74.5(2) ceases to apply, even if the interest is subsequently paid.

Interpretation Bulletins: *Secondary* — IT-510 Transfers and loans of property made after May 22, 1985 to related minor; IT-511R Interspousal and certain other transfers and loans of property.
Tax Window Files: Attribution — Transfers for Fair Market Consideration, May 19, 2000, CRA Document No. 2000-0008455 [Interest payable in

respect of particular year and each preceding year must be paid on time in order to qualify for subsection 74.5(1) exception].

► 74.5(3) ◄

(3) Spouses living apart. Notwithstanding subsection 74.1(1) and section 74.2, where an individual has lent or transferred property, either directly or indirectly, by means of a trust or by any other means whatever, to or for the benefit of a person who is the individual's spouse or common-law partner or who has since become the individual's spouse or common-law partner,

(*a*) subsection 74.1(1) does not apply with respect to any income or loss from the property, or property substituted therefor, that relates to the period throughout which the individual is living separate and apart from that person by reason of a breakdown of their marriage or common-law partnership; and

(*b*) section 74.2 does not apply to a disposition of the property, or property substituted therefor, occurring at any time while the individual is living separate and apart from that person because of a breakdown of their marriage or common-law partnership, if an election completed jointly with that person not to have that section apply is filed with the individual's return of income under this Part for the taxation year that includes that time or for any preceding taxation year.

History: S. 74.5(3), the portion before paragraph (*a*), was amended by S.C. 2000, c. 12, Sched. 2, s. 1(v), applicable January 1, 2001, coming into force on July 31, 2000. S. 74.5(3), the portion before paragraph (*a*) formerly read:

"(3) *Spouses living apart.* Notwithstanding subsection 74.1(1) and section 74.2, where an individual has lent or transferred property, either directly or indirectly, by means of a trust or by any other means whatever, to or for the benefit of a person who is the individual's spouse or who has since become the individual's spouse,"

S. 74.5(3)(*a*) and (*b*) were amended by S.C. 2000, c. 12, Sched. 2, s. 9(f), applicable January 1, 2001, coming into force on July 31, 2000. S. 74.5(3)(*a*) and (*b*) formerly read:

"(*a*) subsection 74.1(1) does not apply with respect to any income or loss from the property, or property substituted therefor, that relates to the period throughout which the individual is living separate and apart from that person by reason of a breakdown of their marriage; and

(*b*) section 74.2 does not apply to a disposition of the property, or property substituted therefor, occurring at any time while the individual is living separate and apart from that person because of a breakdown of their marriage, if an election completed jointly with that person not to have that section apply is filed with the individual's return of income under this Part for the taxation year that includes that time or for any preceding taxation year."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 74.5(3)(*b*) was amended by S.C. 1994, c. 7, Sched. II, s. 53(1), applicable to transfers of property made after May 22, 1985 and loans outstanding on or after May 22, 1985. S. 74.5(3)(*b*) formerly read:

"(*b*) section 74.2 does not apply with respect to a disposition of the property, or property substituted therefor, during the period throughout which the individual is living separate and apart from that person by reason of a breakdown of their marriage, if the individual files with the individual's return of income under this Part for the taxation year during which the individual commenced to so live separate and apart from that person an election completed jointly with that person not to have that section apply."

Related Sections: S. 248(1), "common-law partnership".
Interpretation Bulletins: *Secondary* — IT-511R Interspousal and certain other transfers and loans of property.
Tax Topics: No. 1702, Income Tax Issues To Be Considered in Negotiating Marriage Contracts.
Tax Window Files: Attribution Rules — Separation of Common-Law Partners, July 13, 2005, CRA Document No. 2005-0131351E5.; Separation — Transfer Capital Property to Spouse, December 9, 2004, CRA Document No. 2004-0089951E5.

► 74.5(4) ◄

(4) Idem. No amount shall be included in computing the income of an individual under subsection 74.4(2) in respect of a designated person in respect of the individual who is the spouse or common-law partner of the individual for any period throughout which the individual is living separate and apart from the designated person by reason of a breakdown of their marriage or common-law partnership.

History: S. 74.5(4) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(v) and 9(f), applicable January 1, 2001, coming into force on July 31, 2000. S. 74.5(4) formerly read:

"(4) *Idem.* No amount shall be included in computing the income of an individual under subsection 74.4(2) in respect of a designated person in respect of the individual who is the spouse of the individual for any period throughout which the individual is living separate and apart from the designated person by reason of a breakdown of their marriage."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Related Sections: S. 74.5(5) Definition of "designated person".

► 74.5(5) ◄

(5) Definition of "designated person". For the purposes of this section, "designated person", in respect of an individual, means a person

(*a*) who is the spouse or common-law partner of the individual; or

(*b*) who is under 18 years of age and who

(i) does not deal with the individual at arm's length, or

(ii) is the niece or nephew of the individual.

History: S. 74.5(5)(*a*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(v), applicable January 1, 2001, coming into force on July 31, 2000. S. 74.5(5)(*a*) formerly read:

"(*a*) who is the spouse of the individual; or"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Related Sections: S. 74.3 Transfers or loans to a trust; s. 251(1) Arm's length.
Interpretation Bulletins: *Secondary* — IT-511R Interspousal and certain other transfers and loans of property.

► 74.5(6) ◄

(6) Back to back loans and transfers. Where an individual has lent or transferred property

(*a*) to another person and that property, or property substituted therefor, is lent or transferred by any person (in this subsection referred to as a "third party") directly or indirectly to or for the benefit of a specified person with respect to the individual, or

(*b*) to another person on condition that property be lent or transferred by any person (in this subsection referred to as a "third party") directly or indirectly

to or for the benefit of a specified person with respect to the individual,

the following rules apply:

(*c*) for the purposes of sections 74.1, 74.2, 74.3 and 74.4, the property lent or transferred by the third party shall be deemed to have been lent or transferred, as the case may be, by the individual to or for the benefit of the specified person, and

(*d*) for the purposes of subsection (1), the consideration received by the third party for the transfer of the property shall be deemed to have been received by the individual.

Related Sections: S. 74.5(8) Definition of "specified person".
Interpretation Bulletins: *Secondary* — IT-510 Transfers and loans of property made after May 22, 1985 to related minor; IT-511R Interspousal and certain other transfers and loans of property.

► 74.5(7) ◄

(7) Guarantees. Where an individual is obligated, either absolutely or contingently, to effect any undertaking including any guarantee, covenant or agreement given to ensure the repayment, in whole or in part, of a loan made by any person (in this subsection referred to as the "third party") directly or indirectly to or for the benefit of a specified person with respect to the individual or the payment, in whole or in part, of any interest payable in respect of the loan, the following rules apply:

(*a*) for the purposes of sections 74.1, 74.2, 74.3 and 74.4, the property lent by the third party shall be deemed to have been lent by the individual to or for the benefit of the specified person; and

(*b*) for the purposes of paragraphs (2)(*b*) and (*c*), the amount of interest that is paid in respect of the loan shall be deemed not to include any amount paid by the individual to the third party as interest on the loan.

Related Sections: S. 74.5(8) Definition of "specified person".
Interpretation Bulletins: *Secondary* — IT-510 Transfers and loans of property made after May 22, 1985 to related minor; IT-511R Interspousal and certain other transfers and loans of property.

► 74.5(8) ◄

(8) Definition of "specified person". For the purposes of subsections (6) and (7), "specified person", with respect to an individual, means

(*a*) a designated person in respect of the individual; or

(*b*) a corporation, other than a small business corporation, of which a designated person in respect of the individual would have been a specified shareholder if the definition "specified shareholder" in subsection 248(1) were read without reference to paragraphs (*a*) and (*d*) of that definition.

Interpretation Bulletins: *Secondary* — IT-510 Transfers and loans of property made after May 22, 1985 to related minor; IT-511R Interspousal and certain other transfers and loans of property.

► 74.5(9) ◄

(9) Transfers or loans to a trust. Where a taxpayer has lent or transferred property, either directly or indirectly, by means of a trust or by any other means whatever, to a trust in which another taxpayer is beneficially interested, the taxpayer shall, for the purposes of this section and sections 74.1 to 74.4, be deemed to have lent or transferred the property, as the case may be, to or for the benefit of the other taxpayer.

Interpretation Bulletins: *Secondary* — IT-510 Transfers and loans of property made after May 22, 1985 to related minor; IT-511R Interspousal and certain other transfers and loans of property.

► 74.5(10) ◄

(10) Beneficially interested. [Repealed by S.C. 1994, c. 7 Sched. VIII, s. 30(1).]

History: S. 74.5(10) was repealed by S.C. 1994, c. 7, Sched. VIII, s. 30(1), applicable after 1990. S. 74.5(10) formerly read:

"(10) For the purposes of this section and sections 74.1 to 74.4, a taxpayer is beneficially interested in a trust if the taxpayer has any right (whether immediate or future, whether absolute or contingent or whether conditional on or subject to the exercise of a discretionary power by any person or persons) to receive any of the income or capital of the trust either directly from the trust or indirectly through one or more other trusts."

Interpretation Bulletins: *Secondary* — IT-510 Transfers and loans of property made after May 22, 1985 to related minor; IT-511R Interspousal and certain other transfers and loans of property.

► 74.5(11) ◄

(11) Artificial transactions. Notwithstanding any other provision of this Act, sections 74.1 to 74.4 do not apply to a transfer or loan of property where it may reasonably be concluded that one of the main reasons for the transfer or loan was to reduce the amount of tax that would, but for this subsection, be payable under this Part on the income and gains derived from the property or from property substituted therefor.

Interpretation Bulletins: *Secondary* — IT-510 Transfers and loans of property made after May 22, 1985 to related minor; IT-511R Interspousal and certain other transfers and loans of property.

► 74.5(12) ◄

(12) Where ss. 74.1 to 74.3 do not apply. Sections 74.1, 74.2 and 74.3 do not apply in respect of a transfer by an individual of property

(*a*) as a payment of a premium under a registered retirement savings plan under which the individual's spouse or common-law partner is, immediately after the transfer, the annuitant (within the meaning of subsection 146(1)) to the extent that the premium is deductible in computing the income of the individual for a taxation year;

(*a*.1) as an amount contributed under a provincial pension plan prescribed for the purposes of paragraph 60(*v*) under which the individual's spouse or common-law partner is, immediately after the transfer, the annuitant (within the meaning assigned by subsection 146(1)) or the owner of the account under the plan to the extent that the amount does not exceed the amount by which the amount prescribed for the purposes of subparagraph 60(*v*)(ii) for the year in respect of the plan exceeds the total of all other contributions to the plan for the year to the account of the spouse or common-law partner under the plan;

(*a*.2) as a payment of a contribution under a registered disability savings plan;

(*b*) as or on account of an amount paid by the individual to another individual who is the individual's spouse or common-law partner or a person who was under 18 years of age in a taxation year and who

(i) does not deal with the individual at arm's length, or

(ii) is the niece or nephew of the individual,

that is deductible in computing the individual's income for the year and is required to be included in computing the income of the other individual; or

(*c*) to the individual's spouse or common-law partner,

(i) while the property, or property substituted for it, is held under a TFSA of which the spouse or common-law partner is the holder, and

(ii) to the extent that the spouse or common-law partner does not, at the time of the contribution of the property under the TFSA, have an excess TFSA amount (as defined in subsection 207.01(1)).

History: S. 74.5(12)(*c*) was added by S.C. 2008, c. 28, s. 6(1), applicable to the 2009 and subsequent taxation years.

S. 74.5(12)(*a.2*) was added by S.C. 2007, c. 35, s. 106, applicable to the 2008 and subsequent taxation years.

S. 74.5(12)(*a*) to (*b*) were amended by S.C. 2000, c. 12, Sched. 2, s. 1(*v*), applicable January 1, 2001, coming into force on July 31, 2000. S. 74.5(12)(*a*) to (*b*) formerly read:

"(*a*) as a payment of a premium under a registered retirement savings plan under which the individual's spouse is, immediately after the transfer, the annuitant (within the meaning of subsection 146(1)) to the extent that the premium is deductible in computing the income of the individual for a taxation year;

(*a.1*) as an amount contributed under a provincial pension plan prescribed for the purposes of paragraph 60(*v*) under which the individual's spouse is, immediately after the transfer, the annuitant (within the meaning assigned by subsection 146(1)) or the owner of the account under the plan to the extent that the amount does not exceed the amount by which the amount prescribed for the purposes of subparagraph 60(*v*)(ii) for the year in respect of the plan exceeds the total of all other contributions to the plan for the year to the account of the spouse under the plan; or

(*b*) as or on account of an amount paid by the individual to another individual who is the individual's spouse or a person who was under 18 years of age in a taxation year and who

(i) does not deal with the individual at arm's length, or

(ii) is the niece or nephew of the individual,

that is deductible in computing the individual's income for the year and is required to be included in computing the income of the other individual."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Related Sections: S. 146(8.2) Amount deductible.

Interpretation Bulletins: *Secondary*—IT-510 Transfers and loans of property made after May 22, 1985 to related minor; IT-511R Interspousal and certain other transfers and loans of property.

Tax Window Files: 74.5(12)(a), November 23, 2000, CRA Document No. 2000-0051265 [Attribution applies to non-deductible contribution to spousal RRSP].

Cases: The cash portion of the purchase price of shares was transferred from the taxpayer's bank account to a joint account with his former wife, from which she and her daughter received cash payments. The non-cash portion took the form of promissory notes payable to the taxpayer and his ex-wife. The interest on the promissory notes and the capital gains on the shares were attributed to the taxpayer. *Gosse v. The Queen*, 93 DTC 1017 (T.C.C.).

► 74.5(13) ◄

(13) Exception from attribution rules. Subsections 74.1(1) and (2), 74.3(1) and 75(2) of this Act and section 74 of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, do not apply to any amount that is included in computing a specified individual's split income for a taxation year.

History: S. 74.5(13) was added by S.C. 2000, c. 19, s. 11(1), applicable to the 2000 and subsequent taxation years.

Related Sections: S. 120.4(1), "specified individual", "split income".

SECTION 75:

► 75(1) ◄

(1) Transfers to minors. [Repealed by 1986, c. 6, s. 39(1).]

► 75(2) ◄

(2) Trusts. Where, by a trust created in any manner whatever since 1934, property is held on condition

(*a*) that it or property substituted therefor may

(i) revert to the person from whom the property or property for which it was substituted was directly or indirectly received (in this subsection referred to as "the person"), or

(ii) pass to persons to be determined by the person at a time subsequent to the creation of the trust, or

(*b*) that, during the existence of the person, the property shall not be disposed of except with the person's consent or in accordance with the person's direction,

any income or loss from the property or from property substituted for the property, and any taxable capital gain or allowable capital loss from the disposition of the property or of property substituted for the property, shall, during the existence of the person while the person is resident in Canada, be deemed to be income or a loss, as the case may be, or a taxable capital gain or allowable capital loss, as the case may be, of the person.

History: S. 75(2), the portion after paragraph (*a*) was amended by S.C. 2001, c. 17, s. 55(1), applicable to taxation years that begin after 2000. S. 75(2), the portion after paragraph (*a*) formerly read:

"(*b*) that, during the lifetime of the person, the property shall not be disposed of except with the person's consent or in accordance with the person's direction,

any income or loss from the property or from property substituted therefor, any taxable capital gain or allowable capital loss from the disposition of the property or of property substituted therefor, shall, during the lifetime of the person while the person is resident in Canada be deemed to be income or a loss, as the case may be, or a taxable capital gain or allowable capital loss, as the case may be, of the person."

Editorial Note: The application of subparagraph 75(2)(*a*)(i) is relatively limited if the meaning of "revert" is that under trust law: "... a future estate vested in possession to the grantor or his heirs by operation of law" (Correspondence, 2005 Canadian Tax Journal No. 4, 1164-65). In the past, the CRA has taken a contrary position: "Although the word "revert" has a particular meaning in a legal context, it is found in most dictionaries and has the ordinary meaning of "return to its former state". Thus, it is our position that subparagraph 75(2)(*a*)(i) of the Act may apply if, under the terms of the trust, there is a possibility, however remote, that the property held by a trust may be returned to the person who contributed the property to the trust" (CRA Document no: 2006-0185571C6). Accordingly, the administrative position of the CRA was that a loan to a trust that was not outside and independent of the terms of the trust could be subject to subsection 75(2).

However, in the *Howson* case (2007 DTC 141), the Tax Court of Canada held that subsection 75(2) did not apply a loan to a trust, holding that "a *bona fide* loan is, on its face, not subject to reversion by the terms of the Trust. It returns to the lender by operation of the loan itself and the law of creditor rights". As a result of the *Howson* decision, the CRA has made a "qualified change" to its administrative position. At the 2007 STEP Conference, the CRA stated: "As acknowledged by the Court in *Howson*, although property held by a trust pursuant to a *bona fide* loan will eventually revert to the creditor, given that such reversion will usually not flow from the terms of the trust but by operation of the loan itself and the law of creditor rights, it follows that such property should not be subject to subsection 75(2) of the ITA.

Therefore absent the particular scenario where a loan to a trust is not outside and independent of the terms of the trust, we are of the view that a loan to a trust falls outside the ambit of subsection 75(2) of the ITA and should rather be dealt with under subsections 56(4.1) and 74.1(1) to (3) of the ITA" (CRA document no. 2007-0240421C6, June 08, 2007).

Related Sections: S. 74.4(2) Transfers and loans to corporations; s. 74.5(13) Exception from attribution rules; s. 75(3) Exceptions; s. 82(2) Certain dividends received by taxpayer; s. 107(4.1) Where subsection 75(2) applicable to trust; s. 160(1) Tax liability re property transferred not at arm's length; s. 212(12) Deemed payments to spouse, etc; s. 256(1.2)(*f*) Control, etc..

Interpretation Bulletins: *Primary* — IT-369R Attribution of trust income to settlor. *Secondary* — IT-394R2 Preferred beneficiary election; IT-447 Residence of a trust or estate.

Tax Profile: February 2008 — Income Splitting A-Z; February 2002 — Transferring Property to a Trust After the Enactment of Bill C-22; February 2000 — A Quick Reference Guide to Different Types of Trusts.

Canadian Tax Foundation: Crockett, "'Subsection 75(2): The Spoiler', in Personal Tax Planning feature", *2005 Canadian Tax Journal*, No. 3, 806; Marquette, " 'Estate Freezes Involving Trusts,' in 'Personal Tax Planning' feature", *2002 Canadian Tax Journal*, No. 1, 335.

Tax Window Files: 2006 STEP Conference — Question 14, Attribution of FAPI under Subsection 75(2), September 11, 2006, CRA Document No. 2006-0185671C6; 2006 STEP Conference — Question 4, Application of subsection 75(2) to a Genuine Loan, September 11, 2006, CRA Document No. 2006-0185571C6; Attribution of FAPI of a 94(1)(c) Trust, April 19, 2006, CRA Document No. 2004-0080731I7; Application of 75(2), October 8, 2004, CRA Document No. 2004-0086941C6; Attribution of Trust Income — Charitable Annuity Contract, August 3, 2004, CRA Document No. 2004-0066431E5; Attribution Where Property May Revert to Transferor, April 25, 2003, CRA Document No. 2002-0162855 [Subsection 75(2) applies where trust indenture confers a right to appoint any person (therefore including settlor) as a capital beneficiary of the trust]; Distribution of Property by Reversionary Trust, August 1, 2002, CRA Document No. 1999-0013085 [Subsection 75(2) ceases to apply if terms of trust are changed such that settlor's explicit consent is not required and trust decisions are made solely by consensus of the majority]; 75(2) and Alter Ego Trust, July 11, 2002, CRA Document No. 2001-0114045; Interest Expense — Property Transferred to Discretionary Trust, July 8, 2002, CRA Document No. 2000-0052275 [Interest on borrowed money used to purchase securities continues to be deductible if securities are transferred to trust subject to subsection 75(2)]; Attribution of Income From Non-Discretionary Trust, June 20, 2002, CRA Document No. 1999-0013055 [Subsection 75(2) applies when settlor is sole trustee of irrevocable non-discretionary trust with no power to add beneficiaries even if settlor is not a beneficiary of the trust]; Transfer of Property from Reversionary Trust to New Trust, January 3, 2002, CRA Document No. 2001-0067955 [When property transferred from a subsection 75(2) trust to a second trust, subsection 75(2) does not necessarily apply to second trust; however, subsection 107(4.1) can apply to distributions from the second trust].

Cases: The s. 75(2) attribution rules did not apply to the taxpayer since funds she put into a family trust were in fact loans to the trust. Bona fide loans are not subject to reversion under the terms of the trust. They return to the lender by virtue of the loan itself, and through the law of creditors' rights. *Howson v. The Queen*, 2007 DTC 141 (T.C.C.).

► 75(3) ◄

(3) Exceptions. Subsection (2) does not apply to property held in a taxation year

(*a*) by a trust governed by a deferred profit sharing plan, an employee benefit plan, an employees profit sharing plan, a registered disability savings plan, a registered education savings plan, a registered pension plan, a registered retirement income fund, a registered retirement savings plan, a registered supplementary unemployment benefit plan, a retirement compensation arrangement or a TFSA;

(*b*) by an employee trust, a related segregated fund trust (within the meaning assigned by paragraph 138.1(1)(*a*)), a trust described in paragraph (*a*.1) of the definition "trust" in subsection 108(1), or a trust described in paragraph 149(1)(*y*);

(*c*) by a trust that

(i) is not resident in Canada,

(ii) is resident in a country under the laws of which an income tax is imposed,

(iii) is exempt under the laws referred to in subparagraph (ii) from the payment of income tax to the government of the country of which the trust is a resident, and

(iv) was established principally in connection with, or the principal purpose of which is to administer or provide benefits under, one or more superannuation, pension or retirement funds or plans or any funds or plans established to provide employee benefits;

(*c*.1) by a qualifying environmental trust; or

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 75(3) of the Act is amended by striking out the word "or" at the end of paragraph (*c*.1) and by adding the following after paragraph (*c*.1):

(*c*.2) by a trust that is non-resident, for the purpose of computing its income for the year, because a contributor (as defined by subsection 94(1)) to the trust is an individual (other than a trust) who is, at the end of the year, resident in Canada and has, at the end of the year, been resident in Canada for a period of, or for periods the total of which is, not more than 60 months; or

Applicable: To trust taxation years that begin after 2000 except that, for trust taxation years that begin in 2001, 2002, 2003, 2004, 2005 or 2006, paragraph 75(3)(*c*.2) shall be read as follows:

"(*c*.2) by a trust that is non-resident, for the purpose of computing its income for the year, because a contributor (as defined by subsection 94(1) as it reads in its application to taxation years that begin after 2006) to the trust is an individual (other than a trust) who is, at the end of the year, resident in Canada and has, at the end of the year, been resident in Canada for a period of, or for periods the total of which is, not more than 60 months; or"

Explanatory Note: Subsection 75(2) of the Act generally provides for the attribution of income derived from certain trust property to a person resident in Canada where the property was received by the trust from the person and can revert to the person (or pass to other persons determined by that person). Subsection 75(3) exempts property held by certain trusts from this attribution rule.

Subsection 75(3) is amended by adding new paragraph 75(3)(*c*.2). New paragraph 75(3)(*c*.2) ensures that subsection 75(2) does not apply to property held by a trust in respect of which all of the contributors are recent immigrants to Canada (i.e., none of the contributors to the trust has been resident in Canada for more than 60 months). The exception is consistent with similar 60-month exemptions in:

- section 94 (see subsection 94(3) and the definitions "connected contributor" and "resident contributor" in subsection 94(1)),
- section 94.1 (see subsection 94.1(3) and the definition "exempt taxpayer" in subsection 94.1(1)), and
- section 94.2 (see subparagraph 94.2(11)(*c*)(*i*)).

New paragraph 75(3)(*c*.2) applies to trust taxation years that begin after 2000 except that, for trust taxation years that begin in 2001, 2002, 2003, 2004, 2005 or 2006, paragraph 75(3)(*c*.2) applies with reference to subsection 94(1) as it reads in its application to taxation years that begin after 2006.

(*d*) by a prescribed trust.

History: S. 75(3)(*a*) was replaced by S.C. 2008, c. 28, s. 7(1), applicable to the 2009 and subsequent taxation years. S. 75(3)(*a*) formerly read:

"(*a*) by a trust governed by a deferred profit sharing plan, an employee benefit plan, an employees profit sharing plan, a registered disability savings plan, a registered education savings plan, a registered pension plan, a registered retirement income fund, a registered retirement savings plan, a registered supplementary unemployment benefit plan or a retirement compensation arrangement;"

S. 75(3)(*a*) was replaced by S.C. 2007, c. 35, s. 107, applicable to the 2008 and subsequent taxation years. S. 75(3)(*a*) formerly read:

"(*a*) by a trust governed by a deferred profit sharing plan, an employee benefit plan, an employees profit sharing plan, a registered education savings plan, a registered pension plan, a registered retirement income fund, a registered retirement savings plan, a registered supplementary unemployment benefit plan or a retirement compensation arrangement;"

S. 75(3)(*a*) was amended by S.C. 2001, c. 17, s. 55(2), applicable to taxation years that end after October 8, 1986 and, notwithstanding subsections 152(4) to (5) of the Act, the Minister of National Revenue shall make any assessments, reassessments and additional assessments of tax, interest and penalties that are necessary to give effect to the words "retirement compensation arrangement" in that paragraph. S. 75(3)(*a*) formerly read:

"(*a*) by a trust governed by a registered pension plan, an employees profit sharing plan, a registered supplementary unemployment benefit plan, a registered retirement savings plan, a deferred profit sharing plan, a registered education savings plan, a registered retirement income fund or an employee benefit plan;"

S. 75(3)(*b*) was amended by S.C. 2001, c. 17, s. 55(2), applicable to the 1999 and subsequent taxation years. S. 75(3)(*b*) formerly read:

"(*b*) by an employee trust, a related segregated fund trust (within the meaning assigned by paragraph 138.1(1)(*a*)) or a trust described in paragraph 149(1)(*y*);"

S. 75(3)(*c*.1) was amended by S.C. 1998, c. 19, s. 13(1), applicable to taxation years that end after February 22, 1994. S. 75(3)(*c*.1) formerly read:

"(*c*.1) by a mining reclamation trust; or"

S. 75(3)(*c*.1) was added by S.C. 1995, c. 3, s. 21(1), applicable to taxation years that end after February 22, 1994.

Related Sections: S. 38 Taxable capital gain and allowable capital loss; s. 104(1) Reference to trust or estate; s. 107.3 Cost of property other than non-depreciable capital property; s. 146.4(1), "registered disability savings plan"; s. 149(1)(*z*) Qualifying environmental trust; s. 160(1) Tax liability re property transferred not at arm's length; s. 212(12) Deemed payments to spouse, etc

Interpretation Bulletins: *Secondary* — IT-369R Attribution of trust income to settlor.

Tax Window Files: Non-Resident Health and Welfare Trusts: Barbados, Bermuda and Cayman Islands, May 10, 2004, CRA Document No. 2004-0057511I7.

SECTION 75.1:

► 75.1(1) ◄

(1) Gain or loss deemed that of transferor. Where

(*a*) subsection 73(3) or (4) applied to the transfer of property (in this subsection referred to as "transferred property") by a taxpayer to a child of the taxpayer,

(*b*) the transfer was made at less than the fair market value of the transferred property immediately before the time of the transfer, and

(*c*) in a taxation year, the transferee disposed of the transferred property and did not, before the end of that year, attain the age of 18 years,

the following rules apply:

(*d*) the amount, if any, by which

(i) the total of the transferee's taxable capital gains for the year from dispositions of transferred property

exceeds

(ii) the total of the transferee's allowable capital losses for the year from dispositions of transferred property,

shall, during the lifetime of the transferor while the transferor is resident in Canada, be deemed to be a taxable capital gain of the transferor for the year from the disposition of property,

(*e*) the amount, if any, by which the total determined under subparagraph (*d*)(ii) exceeds the total determined under subparagraph (*d*)(i) shall, during the lifetime of the transferor while the transferor is resident in Canada, be deemed to be an allowable capital loss of the transferor for the year from the disposition of property, and

(*f*) any taxable capital gain or allowable capital loss taken into account in computing an amount described in paragraph (*d*) or the amount described in paragraph (*e*) shall, except for the purposes of those paragraphs, to the extent that the amount so described is deemed by virtue of this subsection to be a taxable capital gain or an allowable capital loss of the transferor, be deemed not to be a taxable capital gain or an allowable capital loss, as the case may be, of the transferee.

History: S. 75.1(1)(*a*) was amended by S.C. 1994, c. 7, Sched. II, s. 54(1), applicable to property transferred after 1989. That portion formerly read:

"(*a*) a taxpayer has, after 1971, transferred property (in this subsection referred to as 'transferred property') to a child of the taxpayer in circumstances where subsection 73(3) applied in respect of the transfer,"

Editorial Note: Subsection 75.1(1) provides an exception to the general rule that taxable capital gains of minor children are not subject to attribution.

Related Sections: S. 38 Taxable capital gain and allowable capital loss; s. 39(1) Meaning of capital gain and capital loss; s. 160(1) Tax liability re property transferred not at arm's length.

Interpretation Bulletins: *Secondary* — IT-268R4 Inter vivos transfer of farm property to child.

► 75.1(2) ◄

(2) Definition of "child". For the purposes of this section, "child" of a taxpayer includes a child of the taxpayer's child and a child of the taxpayer's child's child.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The Act is amended by adding the following after section 75.1:

SECTION 75.2: Rules applicable with respect to "qualifying trust annuity".

Where an amount paid to acquire a qualifying trust annuity with respect to a taxpayer was deductible under paragraph 60(*l*) in computing the taxpayer's income,

(*a*) any amount that is paid out of or under the annuity at any particular time after 2005 and before the death of the taxpayer is deemed to have been received out of or under the annuity at the particular time by the taxpayer, and not to have been received by any other taxpayer; and

(*b*) if the taxpayer dies after 2005

(i) an amount equal to the fair market value of the annuity at the time of the taxpayer's death is deemed to have been received, immediately before the taxpayer's death, by the taxpayer out of or under the annuity, and

(ii) for the purpose of subsection 70(5), the annuity is to be disregarded in determining the fair market value (immediately before the taxpayer's death) of the tax-

payer's interest in the trust that is the annuitant under the annuity.

Applicable: After 2005.

Explanatory Note: New section 75.2 of the Act provides attribution rules in respect of a "qualifying trust annuity" with respect to a taxpayer (as defined in new subsection 60.011(2) of the Act), the purchase price of which is deductible by the taxpayer under paragraph 60(*l*). A distinguishing feature of such an annuity is that the annuitant thereunder is a qualifying trust under which the taxpayer is a beneficiary.

Paragraph 75.2(*a*) deems any amount paid out of or under such an annuity at any time after 2005 and before the taxpayer's death to have been received at that time by the taxpayer. The taxpayer is required, by paragraph 56(1)(*d.2*) of the Act, to include this amount in computing the taxpayer's income for the year in which they are deemed to have received the amount, as would be the case if the taxpayer were the annuitant under the annuity. Paragraph 75.2(*a*) also deems the amount not to have been received by any other taxpayer, thus ensuring that the amount, although payable to the trust that is the annuitant under the annuity, is disregarded in determining the trust's income for tax purposes.

Paragraph 75.2(*b*) contains special provisions that apply where a taxpayer who was entitled to a deduction under paragraph 60(*l*) for the purchase price of a qualifying trust annuity with respect to the taxpayer dies after 2005. Subparagraph 75.2(*b*)(i) deems the taxpayer to have received, immediately before death, an amount out of or under the annuity equal to the fair market value of the annuity at that time. This amount is included, also under paragraph 56(1)(*d.2*), in computing the taxpayer's income for the taxation year that includes that time.

Subparagraph 75.2(*b*)(ii) provides for the annuity to be disregarded in determining, for the purpose of subsection 70(5) of the Act, the fair market value of the taxpayer's interest in the trust that is the annuitant under the annuity. Subsection 70(5) deems a deceased taxpayer to have disposed of each capital property owned by the taxpayer immediately before death for proceeds equal to the fair market value of the property at that time. To the extent that subsection 70(5) deems a taxpayer who dies after 2005 to have disposed of an interest in a trust that is the annuitant under a qualifying trust annuity with respect to the taxpayer, subparagraph 75.2(*b*)(ii) ensures — by disregarding the annuity in determining the fair market value of the taxpayer's interest in the trust — that the taxpayer is not subject to double taxation with respect to the annuity.

SECTION 76:

▶ 76(1) ◀

(1) Security in satisfaction of income debt. Where a person receives a security or other right or a certificate of indebtedness or other evidence of indebtedness wholly or partially as payment of, in lieu of payment of or in satisfaction of, a debt that is then payable, the amount of which debt would be included in computing the person's income if it were paid, the value of the security, right or indebtedness or the applicable portion thereof shall, notwithstanding the form or legal effect of the transaction, be included in computing the person's income for the taxation year in which it is received.

History: S. 76(1) was amended by S.C. 1994, c. 7, Sched. II, s. 55(1), applicable to securities, rights, certificates of indebtedness and other evidences of indebtedness received after July 13, 1990. S. 76(1) formerly read:

"(1) Where a person has received a security or other right or a certificate of indebtedness or other evidence of indebtedness wholly or partially as, in lieu of payment of, or in satisfaction of, a debt that was then payable, the amount of which debt would be included in computing the person's income if it had been paid, the value of the security, right or indebtedness or the applicable portion thereof shall, notwithstanding the form or legal effect of the transaction, be included in computing the person's income for the taxation year in which it was received."

Related Sections: S. 214(3) Deemed payments; s. 214(4) Securities.
Interpretation Bulletins: *Primary* — IT-77R Securities in satisfaction of an income debt [Archived by the CRA]. *Secondary* — IT-433R Farming or fishing — Use of cash method.
Advance Tax Rulings: ATR-6 Vendor reacquires business assets following default by purchaser.
Tax Window Files: Sale of Farm Inventory, June 18, 2004, CRA Document No. 2004-0073061I7; Security in Satisfaction of Income Debt, May 25, 2000, CRA Document No. 1999-0009795; Postdated Cheques Cash Purchase Tickets, January 18, 1999, CRA Document No. 9803437; Promissory Note — Whether Payment of Debt?, April 2, 1998, CRA Document No. 9722066; Post-dated cheques, July 18, 1996, CRA Document No. 9624775.
Cases: Where the taxpayers, members of a dairy products marketing association, received the profits from sale of their products partly in cash and partly in certificates redeemable for cash in the future, the amount of the certificates constituted income in their hands. Receipt of profits by the marketing association as the agent of the taxpayers constituted receipt by the taxpayers. *Pendray Farms Ltd. and Fortuna Farms Ltd. v. The Queen*, 80 DTC 6062 (F.C.T.D.).

▶ 76(2) ◀

(2) Idem. Where a security or other right or a certificate of indebtedness or other evidence of indebtedness is received by a person wholly or partially as payment of, in lieu of payment of or in satisfaction of, a debt before the debt is payable, but is not itself payable or redeemable before the day on which the debt is payable, it shall, for the purpose of subsection (1), be deemed to be received by the person holding it at that time when the debt becomes payable.

History: S. 76(2) was amended by S.C. 1994, c. 7, Sched. II, s. 55(1), applicable to securities, rights, certificates of indebtedness and other evidences of indebtedness received after July 13, 1990. S. 76(2) formerly read:

"(2) Where a security or other right or a certificate of indebtedness or other evidence of indebtedness has been received by a person wholly or partially as, in lieu of payment of, or in satisfaction of, a debt before the debt was payable, but was not itself payable or redeemable before the day on which the debt was payable, it shall, for the purpose of subsection (1), be deemed to have been received when the debt became payable by the person holding it at that time."

▶ 76(3) ◀

(3) Section enacted for greater certainty. This section is enacted for greater certainty and shall not be construed as limiting the generality of the other provisions of this Part by which amounts are required to be included in computing income.

▶ 76(4) ◀

(4) Debt deemed not to be income debt. Where a cash purchase ticket or other form of settlement prescribed pursuant to the *Canada Grain Act* or by the Minister is issued to a taxpayer in respect of grain delivered in a taxation year of a taxpayer to a primary elevator or process elevator and the ticket or other form of settlement entitles the holder thereof to payment by the operator of the elevator of the purchase price, without interest, stated in the ticket for the grain at a date that is after the end of that taxation year, the amount of the purchase price stated in the ticket or other form of settlement shall, notwithstanding any other provision of this section, be included in computing the income of the taxpayer to whom the ticket or other form of settlement was issued for the taxpayer's taxation year immediately following the taxation year in which the grain was delivered and not for the taxation year in which the grain was delivered.

Related Sections: S. 76(5) Definitions of certain expressions.
Interpretation Bulletins: *Primary* — IT-184R Deferred cash purchase tickets issued for grain.

▶ 76(5) ◀

(5) Definitions of certain expressions. In subsection (4), the expressions "cash purchase ticket", "operator", "primary elevator" and "process elevator" have the meanings assigned by the *Canada Grain Act* and "grain" means

wheat, oats, barley, rye, flaxseed and rapeseed produced in the designated area defined by the *Canadian Wheat Board Act*.

Related Sections: S. 248(1), "amount".

SECTION 76.1:

► 76.1(1) ◄

(1) Non-resident moving debt from Canadian business. If at any time a debt obligation of a non-resident taxpayer that is denominated in a foreign currency ceases to be an obligation of the taxpayer in respect of a business or part of a business carried on by the taxpayer in Canada immediately before that time (other than an obligation in respect of which the taxpayer ceased to be indebted at that time), for the purpose of determining the amount of any income, loss, capital gain or capital loss due to the fluctuation in the value of the foreign currency relative to Canadian currency, the taxpayer is deemed to have settled the debt obligation immediately before that time at the amount outstanding on account of its principal amount.

History: S. 76.1(1) was added by S.C. 2001, c. 17, s. 56(1), applicable after June 27, 1999 in respect of an authorized foreign bank, and after August 8, 2000 in any other case.

Related Sections: S. 10(12) Removing property from inventory; s. 10(13) Adding property to inventory; s. 13(9) Meaning of "gaining or producing income"; s. 14(14) Ceasing to use property in Canadian business; s. 14(15) Beginning to use property in Canadian business; s. 142.6(2) Deemed disposition not applicable; s. 248(1), "foreign currency".

► 76.1(2) ◄

(2) Non-resident assuming debt. If at any time a debt obligation of a non-resident taxpayer that is denominated in a foreign currency becomes an obligation of the taxpayer in respect of a business or part of a business that the taxpayer carries on in Canada after that time (other than an obligation in respect of which the taxpayer became indebted at that time), the amount of any income, loss, capital gain or capital loss in respect of the obligation due to the fluctuation in the value of the foreign currency relative to Canadian currency shall be determined based on the amount of the obligation in Canadian currency at that time.

History: S. 76.1(2) was added by S.C. 2001, c. 17, s. 56(1), applicable after June 27, 1999 in respect of an authorized foreign bank, and after August 8, 2000 in any other case.

SECTION 77: **Bond conversion.** [Repealed by S.C. 1995, c. 21, s. 52(1).]

History: S. 77 was repealed by S.C. 1995, c. 21, s. 52(1), applicable to exchanges occurring after October 1994. S. 77 formerly read:

"S. 77. *Bond conversion.* Where a bond of a debtor is acquired by a taxpayer in exchange for another bond of the same debtor and

(*a*) the terms of the bond for which it was exchanged conferred on the holder thereof the right to make the exchange, and

(*b*) the amount payable to the holder of the bond on its maturity is the same as the amount that would have been payable to the holder of the bond for which it was exchanged on the maturity of that bond,

the cost of the bond so acquired and the sale price of the bond for which it was exchanged shall be deemed to be,

(*c*) in the event that the bond that was exchanged was property described in an inventory of a business carried on by the taxpayer, the amount at which it had been valued at the end of the last complete fiscal period of the business preceding the exchange, or

(*d*) in any other event, the adjusted cost base to the taxpayer of the bond that was exchanged, immediately before the exchange."

Related Sections: S. 51.1 Conversion of debt obligation; s. 54, "adjusted cost base"; s. 248(1), "business", "fiscal period", "inventory", "property".

SECTION 78:

► 78(1) ◄

(1) Unpaid amounts. Where an amount in respect of a deductible outlay or expense that was owing by a taxpayer to a person with whom the taxpayer was not dealing at arm's length at the time the outlay or expense was incurred and at the end of the second taxation year following the taxation year in which the outlay or expense was incurred, is unpaid at the end of that second taxation year, either

(*a*) the amount so unpaid shall be included in computing the taxpayer's income for the third taxation year following the taxation year in which the outlay or expense was incurred, or

(*b*) where the taxpayer and that person have filed an agreement in prescribed form on or before the day on or before which the taxpayer is required by section 150 to file the taxpayer's return of income for the third succeeding taxation year, for the purposes of this Act the following rules apply:

(i) the amount so unpaid shall be deemed to have been paid by the taxpayer and received by that person on the first day of that third taxation year, and section 153, except subsection 153(3), is applicable to the extent that it would apply if that amount were being paid to that person by the taxpayer, and

(ii) that person shall be deemed to have made a loan to the taxpayer on the first day of that third taxation year in an amount equal to the amount so unpaid minus the amount, if any, deducted or withheld therefrom by the taxpayer on account of that person's tax for that third taxation year.

Related Sections: S. 12(1)(*i*) Sale of bill; s. 20(1)(*l*) Doubtful or impaired debts; s. 20(1)(*p*) Bad debts; s. 28(1) Farming or fishing business.

Interpretation Bulletins: *Primary* — IT-109R2 Unpaid amounts. *Secondary* — IT-152R3 Special reserves — Sale of land; IT-293R Debtor's gain on settlement of debt.

Information Circulars: IC 88-2 General anti-avoidance rule — Section 245 of the Income Tax Act (para. 16).

Forms: T2047.

Tax Window Files: Unpaid Amount — Forgiveness of Debt, December 3, 2002, CRA Document No. 2002-0170145 [Subsection 78(1) not applicable to an amount that has been previously forgiven under section 80]; Unpaid Amount and Non-Deductible Interest, October 17, 1997, CRA Document No. 9707385 [An amount is not subject to subsection 78(1) if its deduction is denied under subsection 18(2) or it is added to the cost of inventory].

Cases: The taxpayer was formed by amalgamation. One of its predecessor corporations had deducted $30,990,627 in unpaid interest accrued on a related company loan. The loan became the taxpayer's debt under s. 87(7). The unpaid amount was to be included in its income under s. 78(1) since the taxpayer was deemed to be related to its predecessor and to have been dealing at non-arm's length with the debtor at the time the obligation arose. *Dow Chemical Canada Inc. v. The Queen*, 2008 DTC 6544 (F.C.A.), reversing 2007 DTC 1701 (T.C.C.).

► 78(2) ◄

(2) Idem. Where an amount in respect of a deductible outlay or expense that was owing by a taxpayer that is a corporation to a person with whom the taxpayer was not dealing at arm's length is unpaid at the time when the taxpayer is wound up, and the taxpayer is wound up before the end of the second taxation year following the taxation

year in which the outlay or expense was incurred, the amount so unpaid shall be included in computing the taxpayer's income for the taxation year in which it was wound up.

Related Sections: S. 78(5) Where s. (1) does not apply.

► 78(3) ◄

(3) Late filing. Where, in respect of an amount described in subsection (1) that was owing by a taxpayer to a person, an agreement in a form prescribed for the purposes of this section is filed after the day on or before which the agreement is required to be filed for the purposes of paragraph (1)(*b*), both paragraphs (1)(*a*) and (*b*) apply in respect of the said amount, except that paragraph (1)(*a*) shall be read and construed as requiring 25% only of the said amount to be included in computing the taxpayer's income.

► 78(4) ◄

(4) Unpaid remuneration and other amounts. Where an amount in respect of a taxpayer's expense that is a superannuation or pension benefit, a retiring allowance, salary, wages or other remuneration (other than reasonable vacation or holiday pay or a deferred amount under a salary deferral arrangement) in respect of an office or employment is unpaid on the day that is 180 days after the end of the taxation year in which the expense was incurred, for the purposes of this Act other than this subsection, the amount shall be deemed not to have been incurred as an expense in the year and shall be deemed to be incurred as an expense in the taxation year in which the amount is paid.

History: S. 78(4) was amended by S.C. 1994, c. 7, Sched. II, s. 56(1), applicable to expenses incurred after July 1990. S. 78(4) formerly read:

"(4) *Unpaid remuneration.* Where an amount in respect of a taxpayer's expense that is salary, wages or other remuneration (other than reasonable vacation or holiday pay or a deferred amount under a salary deferral arrangement) in respect of an office or employment is unpaid on the day that is 180 days after the end of the taxation year in which the expense was incurred, for the purposes of this Act, the amount shall be deemed not to have been incurred as an expense in the year and shall be deemed to be incurred as an expense in the taxation year in which the amount is paid."

Editorial Note: The limitation in subsection 78(4) prevents unlimited deferral — that is, without the limitation, the accrual-basis payer could deduct the remuneration in the year in which it became payable, while the recipient would normally include the remuneration in the year in which it was received. Effectively, owing to the 180-day limitation, this type of deferral is limited to one taxation year.

Related Sections: S. 37(11) Filing requirement s. 37(12) Misclassified expenditures; s. 127(9), "investment tax credit"; s. 127(13) Agreement to transfer qualified expenditures.

Regulations: 2900(9).

Income Tax Technical News: Issue No. 38, Subsection 78(4) — Liability Assumed by Third Party.

Tax Window Files: Unpaid Remuneration, March 22, 2004, CRA Document No. 2004-0060641E5; Deductibility of Bonus Accruals, October 18, 2000, CRA Document No. 2000-0050787; Unpaid Amount: Bonus, August 24, 2000, CRA Document No. 2000-0041255; Application of 78(4), November 30, 1993, CRA Document No. 931850A.

► 78(5) ◄

(5) Where s. (1) does not apply. Subsection (1) does not apply in any case where subsection (4) applies.

Related Sections: S. 78(4) Unpaid remuneration and other amounts.

► 78(6) ◄

(6) Late filing. [Repealed by 1986, c. 55, s. 21(1).]

SECTION 79: [Surrender of property by debtor].

► 79(1) ◄

(1) Definitions. In this section,

History: S. 79(1) was added by S.C. 1995, c. 21, s. 26(1), applicable to property acquired or reacquired after February 21, 1994, other than property acquired or reacquired pursuant to a court order made before February 22, 1994. S. 79 formerly read:

"S. 79. *Mortgage foreclosures and conditional sales repossessions.* Where, at any time in a taxation year, a taxpayer who

(*a*) was a mortgagee or other creditor of another person who had previously acquired property, or

(*b*) had previously sold property to another person under a conditional sales agreement,

has acquired or reacquired the beneficial ownership of the property in consequence of the other person's failure to pay all or any part of an amount (in this section referred to as the 'taxpayer's claim') owing by that person to the taxpayer, the following rules apply:

(*c*) there shall be included, in computing the other person's proceeds of disposition of the property, the principal amount of the taxpayer's claim plus all amounts each of which is the principal amount of any debt that had been owing by the other person, to the extent that it has been extinguished by virtue of the acquisition or reacquisition, as the case may be,

(*d*) any amount paid by the other person after the acquisition or reacquisition, as the case may be, as, on account of or in satisfaction of the taxpayer's claim shall be deemed to be a loss of that person, for that person's taxation year in which payment of that amount was made, from the disposition of the property,

(*e*) in computing the income of the taxpayer for the year,

(i) the amount, if any, claimed by the taxpayer under subparagraph 40(1)(*a*)(iii) or 44(1)(*e*)(iii) in computing the taxpayer's gain for the immediately preceding taxation year from the disposition of the property, and

(ii) the amount, if any, deducted under paragraph 20(1)(*n*) in computing the income of the taxpayer for the immediately preceding year in respect of the property,

shall be deemed to be nil,

(*f*) the taxpayer shall be deemed to have acquired or reacquired, as the case may be, the property at the amount, if any, by which the cost at that time of the taxpayer's claim exceeds the amount described in subparagraph (*e*)(i) or (ii), as the case may be, in respect of the property;

(*g*) the adjusted cost base to the taxpayer of the taxpayer's claim shall be deemed to be nil, and

(*h*) in computing the taxpayer's income for the year or a subsequent year, no amount is deductible in respect of the taxpayer's claim by virtue of paragraph 20(1)(*l*) or (*p*)."

S. 79(*e*)(i) was amended by S.C. 1994, c. 7, Sched. II, s. 57(1), applicable

(*a*) to property in respect of which a taxpayer has claimed an amount under subparagraph 44(1)(*e*)(iii) of the Act and that was reacquired by the taxpayer after 1985 and before July 13, 1990, where the taxpayer so elected before July 1991, and

(*b*) to property acquired or reacquired after July 12, 1990,

and, notwithstanding subsections 152(4) to (5) of the Act, such assessments of tax, interest and penalties shall be made as are necessary to give effect to an election made pursuant to paragraph (*a*).

S. 79(*e*)(i) formerly read:

"(i) the amount, if any, claimed by the taxpayer under subparagraph 40(1)(*a*)(iii) in computing the taxpayer's gain for the immediately preceding taxation year from the disposition of the property, and"

Related Sections: S. 18(9.3)(*e*) Interest on debt obligations — extinguished obligations; s. 54, "adjusted cost base"; s. 80 Debt forgiveness rules; s. 248(1), "amount", "principal amount", "property".

Interpretation Bulletins: *Primary* — IT-505 Mortgage foreclosures and conditional sales repossessions [Archived by the CRA]. *Secondary* — IT-170R Sale of property — When included in income computation.

Advance Tax Rulings: ATR-6 Vendor reacquires business assets following default by purchaser.

Cases: The taxpayers invested in realty, title to which was held on their behalf by trustees. Funding was provided by a group of financiers in exchange for a share of the property as of a certain date. The property was foreclosed upon prior to that date. In deducting the loss resulting from the foreclosure, the taxpayers were not restricted to the amount of their own investments, but were entitled to deduct the full amount. *Ward v. The Queen*, 88 DTC 6212 (F.C.T.D.).

"creditor" — "creditor", of a particular person includes a person to whom the particular person is obligated to pay an amount under a mortgage, hypothecary claim or similar obligation and, where property was sold to the particular person under a conditional sales agreement, the seller of the property (or any assignee with respect to the agreement) is deemed to be a creditor of the particular person in respect of that property;

History: S. 79(1), the definition "creditor" was amended by S.C. 2001, c. 17, s. 209, applicable on Royal Assent, June 14, 2001. S. 79(1), the definition "creditor" formerly read:

"*'creditor'* — 'creditor' of a particular person includes a person to whom the particular person is obligated to pay an amount under a mortgage or similar obligation and, where property was sold to the particular person under a conditional sales agreement, the seller of the property (or any

assignee with respect to the agreement) shall be deemed to be a creditor of the particular person in respect of that property;"

The definition "creditor" in s. 79(1) was added by S.C. 1995, c. 21, s. 26(1), applicable to property acquired or reacquired after February 21, 1994, other than property acquired or reacquired pursuant to a court order made before February 22, 1994.

"debt" — "debt" includes an obligation to pay an amount under a mortgage, hypothecary claim or similar obligation or under a conditional sales agreement;

History: S. 79(1), the definition "debt" was amended by S.C. 2001, c. 17, s. 209, applicable on Royal Assent, June 14, 2001. S. 79(1), the definition "debt" formerly read:

"'debt' — 'debt' includes an obligation to pay an amount under a mortgage or similar obligation or under a conditional sales agreement;"

The definition "debt" in s. 79(1) was added by S.C. 1995, c. 21, s. 26(1), applicable to property acquired or reacquired after February 21, 1994, other than property acquired or reacquired pursuant to a court order made before February 22, 1994.

"person" — "person" includes a partnership;

History: The definition "person" in s. 79(1) was added by S.C. 1995, c. 21, s. 26(1), applicable to property acquired or reacquired after February 21, 1994, other than property acquired or reacquired pursuant to a court order made before February 22, 1994.

"property" — "property" does not include

(*a*) money, or

(*b*) indebtedness owed by or guaranteed by the government of a country, or a province, state, or other political subdivision of that country;

History: The definition "property" in s. 79(1) was added by S.C. 1995, c. 21, s. 26(1), applicable to property acquired or reacquired after February 21, 1994, other than property acquired or reacquired pursuant to a court order made before February 22, 1994.

"specified amount" — "specified amount" at any time of a debt owed or assumed by a person means

(*a*) the unpaid principal amount of the debt at that time, and

(*b*) unpaid interest accrued to that time on the debt.

History: The definition "specified amount" in s. 79(1) was added by S.C. 1995, c. 21, s. 26(1), applicable to property acquired or reacquired after February 21, 1994, other than property acquired or reacquired pursuant to a court order made before February 22, 1994.

Sec. 26(3), Chap. 21, 1995

(3) [Election re application of former paragraph 79(f).] Where a taxpayer so elects in writing filed with the Minister of National Revenue, paragraph 79(*f*) shall apply to the taxpayer in respect of property reacquired by the taxpayer after 1991 and to which sections 79 and 79.1 do not apply as if it read as follows:

"(*e*.1) where the property is capital property of the taxpayer and was disposed of by the taxpayer to the other person in the year and subsequently reacquired by the taxpayer in the year, the taxpayer's proceeds of disposition of the property shall be deemed to be the lesser of the proceeds of disposition of the property to the taxpayer (determined without reference to this paragraph) and the amount that is the greater of

(i) the amount, if any, by which such proceeds (determined without reference to this paragraph) exceeds such portion of the proceeds as is represented by the taxpayer's claim, and

(ii) the cost amount to the taxpayer of the property immediately before its disposition by the taxpayer;

(*f*) the taxpayer shall be deemed to have reacquired the property at the amount, if any, by which the cost at that time of the taxpayer's claim exceeds the amount described in subparagraph (*e*)(i) or (ii) in respect of that property or the amount, if any, by which the proceeds of disposition of the property are reduced because of paragraph (*e*.1), as the case may be;"

► 79(2) ◄

(2) Surrender of property. For the purposes of this section, a property is surrendered at any time by a person to another person where the beneficial ownership of the property is acquired or reacquired at that time from the person by the other person and the acquisition or reacquisition of the property was in consequence of the person's failure to pay all or part of one or more specified amounts of debts owed by the person to the other person immediately before that time.

History: S. 79(2) was added by S.C. 1995, c. 21, s. 26(1), applicable to property acquired or reacquired after February 21, 1994, other than property acquired or reacquired pursuant to a court order made before February 22, 1994.

Editorial Note: Section 79 — which results in deemed proceeds of an asset surrendered to a creditor based on applicable debt balances (see subsection 79(3)) — is operative where there is a "surrender" of property by a person, which in sections 79 and 79.1 includes a partnership. This occurs where beneficial ownership of the property is acquired (or reacquired) by another person — i.e., the creditor — in consequence of the person's — i.e., the debtor's — failure to pay all or part of one or more debts (which includes an obligation under conditional sales agreement) owed to the creditor immediately before the time the property is surrendered. The application of section 79 generally "trumps" the debt forgiveness rules (see subsection 80(2)) (unless section 80 applied in a previous year under the debt parking provisions). Taking legal proceedings is not a prerequisite of the section. Because property must be acquired by the creditor, section 79 will generally apply to a foreclosure, quit claim, or repossession under a conditional sales agreement, but generally not to a power of sale or judicial sale, so that these remedies may have very different tax effects. Also, section 79 will not normally apply to the debtor if the creditor acquires the asset from a third party, e.g., a transferee of the debtor.

Related Sections: S. 13(21)(*h*) Definitions; s. 18(9.3) Interest on debt obligations — extinguished obligations; s. 54, "proceeds of disposition" (paragraph (*h*)); s. 79.1 Seizure of property by creditor; s. 80(1), "excluded obligation", "forgiven amount"; s. 80(2) Application of debt forgiveness rules; s. 87(2)(*h.1*) Debts; s. 118(2) Age credit; s. 122.5(1), "adjusted income"; s. 122.6, "adjusted income"; s. 122.7(1), "adjusted net income"; s. 127.2(1)(*d*) Share-purchase tax credit; s. 180.2(1), "adjusted income"; s. 261 Definitions.

► 79(3) ◄

(3) Proceeds of disposition for debtor. Where a particular property is surrendered at any time by a person (in this subsection referred to as the "debtor") to a creditor of the debtor, the debtor's proceeds of disposition of the particular property shall be deemed to be the amount determined by the formula

$$(A + B + C + D + E - F) \times \frac{G}{H}$$

where

A is the total of all specified amounts of debts of the debtor that are in respect of properties surrendered at that time by the debtor to the creditor and that are owing immediately before that time to the creditor;

B is the total of all amounts each of which is a specified amount of a debt that is owed by the debtor immediately before that time to a person (other than the creditor), to the extent that the amount ceases to be owing by the debtor as a consequence of properties being surrendered at that time by the debtor to the creditor;

C is the total of all amounts each of which is a specified amount of a particular debt that is owed by the debtor immediately before that time to a person (other than a specified amount included in the amount determined for A or B as a consequence of properties being surrendered at that time by the debtor to the creditor), where

(*a*) any property surrendered at that time by the debtor to the creditor was security for

(i) the particular debt, and

(ii) another debt that is owed by the debtor immediately before that time to the creditor, and

(*b*) the other debt is subordinate to the particular debt in respect of that property;

D is

(*a*) where a specified amount of a debt owed by the debtor immediately before that time to a person (other than the creditor) ceases, as a consequence of the surrender at that time of properties by the debtor to the creditor, to be secured by all properties owned by the debtor immediately before that time, the lesser of

(i) the amount, if any, by which the total of all such specified amounts exceeds the portion of that total included in any of the amounts determined for B or C as a consequence of properties being surrendered at that time by the debtor to the creditor, and

(ii) the amount, if any, by which the total cost amount to the debtor of all properties surrendered at that time by the debtor to the creditor exceeds the total amount that would, but for this description and the description of F, be determined under this subsection as a consequence of the surrender, and

(*b*) in any other case, nil;

E is

(*a*) where the particular property is surrendered at that time by the debtor in circumstances in which paragraph 69(1)(*b*) would, but for this subsection, apply and the fair market value of all properties surrendered at that time by the debtor to the creditor exceeds the amount that would, but for this description and the description of F, be determined under this subsection as a consequence of the surrender, that excess, and

(*b*) in any other case, nil;

F is the total of all amounts each of which is the lesser of

(*a*) the portion of a particular specified amount of a particular debt included in the amount determined for A, B, C or D in computing the debtor's proceeds of disposition of the particular property, and

(*b*) the total of

(i) all amounts included under paragraph 6(1)(*a*) or subsection 15(1) in computing the income of any person because the particular debt was settled, or deemed by subsection 80.01(8) to have been settled, at or before the end of the taxation year that includes that time,

(ii) all amounts renounced under subsection 66(10), (10.1), (10.2) or (10.3) by the debtor in respect of the particular debt,

(iii) all amounts each of which is a forgiven amount (within the meaning assigned by subsection 80(1)) in respect of the debt at a previous time that the particular debt was deemed by subsection 80.01(8) to have been settled,

(iv) where the particular debt is an excluded obligation (within the meaning assigned by subsection 80(1)), the particular specified amount, and

(v) the lesser of

(A) the unpaid interest accrued to that time on the particular debt, and

(B) the total of

(I) the amount, if any, by which the total of all amounts included because of section 80.4 in computing the debtor's income for the taxation year that includes that time or for a preceding taxation year in respect of interest on the particular debt exceeds the total of all amounts paid before that time on account of interest on the particular debt, and

(II) such portion of that unpaid interest as would, if it were paid, be included in the amount determined under paragraph 28(1)(*e*) in respect of the debtor;

G is the fair market value at that time of the particular property, and

H is the fair market value at that time of all properties surrendered by the debtor to the creditor at that time.

History: S. 79(3) was added by S.C. 1995, c. 21, s. 26(1), applicable to property acquired or reacquired after February 21, 1994, other than property acquired or reacquired pursuant to a court order made before February 22, 1994.

Editorial Note: This provision determines the deemed proceeds of disposition of an asset surrendered to a creditor (but does not affect the tax cost of the surrendered asset or the nature of the gain or loss). Generally, the deemed proceeds are based on the "specified amounts" (unpaid principal and accrued interest) owing to the creditor/transferee in respect of the surrendered asset (the description of A); added to proceeds are specified amounts owing to others which cease to be owing as a consequence of the surrender (the description of B) or other debts having priority, e.g., a 1st mortgage, where property is surrendered to a second mortgagee (the description of C). Also added is a debt owing to a person other than the creditor/transferee which ceases to be secured by all assets owned by the debtor, e.g., a 2nd mortgage which continues to be owing when property is surrendered to a first mortgagee (the description of D — the addition is limited by the cost of the surrendered property). Subtracted are amounts otherwise included in proceeds, but which have been taken into account under other income tax provisions (the description of F). The deemed proceeds are prorated based on the fair market values of the surrendered assets (the descriptions of G and H). (Per s. 79(7), the amount of foreign currency debt is determined based on the foreign exchanged rate at the time of issuance.)

The deemed proceeds may increase to the fair market value of the surrendered assets where the debtor and creditor are not at arm's length (the description of E). Gains from dispositions to which s. 79 apply are sometimes excluded from amounts elsewhere in the *Income Tax Act* which based on income, e.g., certain tax credits for low-income individuals. S. 79(4) provides relief where a debtor formerly subject to this subsection subsequently pays the debt.

Related Sections: S. 13(21)(*h*) Definitions; s. 18(9.3) Interest on debt obligations — extinguished obligations; s. 54, "proceeds of disposition" (paragraphs (*g*) and (*h*)); s. 79.1 Seizure of property by creditor; s. 80(1), "excluded obligation", "forgiven amount"; s. 80(2) Application of debt forgiveness rules; s. 87(2)(*h.1*) Debts; s. 118(2) Age credit; s. 122.5(1), "adjusted income"; s. 122.6 "adjusted income"; s. 122.7(1), "adjusted net income"; s. 127.2(1)(*d*) Share-purchase tax credit; s. 180.2(1), "adjusted income"; s. 261 Functional currency reporting.

Tax Profile: October 2008 — Tax Consequences of Debt Restructuring and Workouts in Canada.

► 79(4) ◄

(4) Subsequent payment by debtor. An amount paid at any time by a person as, on account of or in satisfaction of, a specified amount of a debt that can reasonably be considered to have been included in the amount determined for A, C or D in subsection (3) in respect of a property surrendered before that time by the person shall be deemed to be a repayment of assistance, at that time in respect of the property, to which

(*a*) subsection 39(13) applies, where the property was capital property (other than depreciable property) of the person immediately before its surrender;

(*b*) paragraph 20(1)(*hh*.1) applies, where the cost of the property to the person was an eligible capital expenditure;

(*c*) the description of E in the definition "cumulative Canadian exploration expense" in subsection 66.1(6), the description of D in the definition "cumulative Canadian development expense" in subsection 66.2(5) or the description of D in the definition "cumulative Canadian oil and gas property expense" in subsection 66.4(5), as the case may be, applies, where the cost of the property to the person was a Canadian exploration expense, a Canadian development expense or a Canadian oil and gas property expense; or

(*d*) paragraph 20(1)(*hh*) applies, in any other case.

History: S. 79(4) was added by S.C. 1995, c. 21, s. 26(1), applicable to property acquired or reacquired after February 21, 1994, other than property acquired or reacquired pursuant to a court order made before February 22, 1994.

Editorial Note: S. 79(4) provides relief where a debtor formerly subject to subsection 79(3) treatment (i.e., in respect of deemed proceeds for an asset surrendered to a creditor) subsequently pays the debt. The type of relief corresponds with the nature of the deemed proceeds. Such a payment is treated as a capital loss under s. 39(13) to the extent that it relates to previously-surrendered non-depreciable capital property, or added to the resource pool if it relates to property the cost of which was CEE, CDE or COGPE. In all other cases, the amount of the payment (or three-quarters of the payment where it relates to eligible capital property) is deductible (under s. 20(1)(*hh*) or (*hh.1*)).

► 79(5) ◄

(5) Subsequent application with respect to employee or shareholder debt. Any amount included under paragraph 6(1)(*a*) or subsection 15(1) in computing a person's income for a taxation year that can reasonably be considered to have been included in the amount determined for A, C or D in subsection (3) as a consequence of properties being surrendered before the year by the person shall be deemed to be a repayment by the person, immediately before the end of the year, of assistance to which subsection (4) applies.

History: S. 79(5) was added by S.C. 1995, c. 21, s. 26(1), applicable to property acquired or reacquired after February 21, 1994, other than property acquired or reacquired pursuant to a court order made before February 22, 1994.

► 79(6) ◄

(6) Surrender of property not payment or repayment by debtor. Where a specified amount of a debt is included in the amount determined at any time for A, B, C or D in subsection (3) in respect of a property surrendered at that time by a person to a creditor of the person, for the purpose of computing the person's income, no amount shall be considered to have been paid or repaid by the person as a consequence of the acquisition or reacquisition of the surrendered property by the creditor.

History: S. 79(6) was added by S.C. 1995, c. 21, s. 26(1), applicable to property acquired or reacquired after February 21, 1994, other than property acquired or reacquired pursuant to a court order made before February 22, 1994.

► 79(7) ◄

(7) Foreign exchange. Where a debt is denominated in a currency (other than Canadian currency), any amount determined for A, B, C or D in subsection (3) in respect of the debt shall be determined with reference to the relative value of that currency and Canadian currency at the time the debt was issued.

History: S. 79(7) was added by S.C. 1995, c. 21, s. 26(1), applicable to property acquired or reacquired after February 21, 1994, other than property acquired or reacquired pursuant to a court order made before February 22, 1994.

Editorial Note: See the editorial note to subsection 79(3).

SECTION 79.1: [Seizure of property by creditor].

► 79.1(1) ◄

(1) Definitions. In this section,

"*creditor*" — "creditor" has the meaning assigned by subsection 79(1);

History: The definition "creditor" in s. 79.1(1) was added by S.C. 1995, c. 21, s. 26(1), applicable to property acquired or reacquired after February 21, 1994, other than property acquired or reacquired pursuant to a court order made before February 22, 1994.

"*debt*" — "debt" has the meaning assigned by subsection 79(1);

History: The definition "debt" in s. 79.1(1) was added by S.C. 1995, c. 21, s. 26(1), applicable to property acquired or reacquired after February 21, 1994, other than property acquired or reacquired pursuant to a court order made before February 22, 1994.

"*person*" — "person" has the meaning assigned by subsection 79(1);

History: The definition "person" in s. 79.1(1) was added by S.C. 1995, c. 21, s. 26(1), applicable to property acquired or reacquired after February 21, 1994, other than property acquired or reacquired pursuant to a court order made before February 22, 1994.

"*property*" — "property" has the meaning assigned by subsection 79(1);

History: The definition "property" in s. 79.1(1) was added by S.C. 1995, c. 21, s. 26(1), applicable to property acquired or reacquired after February 21, 1994, other than property acquired or reacquired pursuant to a court order made before February 22, 1994.

"*specified amount*" — "specified amount" has the meaning assigned by subsection 79(1);

History: The definition "specified amount" in s. 79.1(1) was added by S.C. 1995, c. 21, s. 26(1), applicable to property acquired or reacquired after February 21, 1994, other than property acquired or reacquired pursuant to a court order made before February 22, 1994.

"*specified cost*" — "specified cost" to a person of a debt owing to the person means

(*a*) where the debt is capital property of the person, the adjusted cost base to the person of the debt, and

(*b*) in any other case, the amount, if any, by which

(i) the cost amount to the person of the debt exceeds

(ii) such portion of that cost amount as would be deductible in computing the person's income (otherwise than in respect of the principal amount of the debt) if the debt were established by the person to have become a bad debt or to have become uncollectable.

History: The definition "specified cost" in s. 79.1(1) was added by S.C. 1995, c. 21, s. 26(1), applicable to property acquired or reacquired after February 21, 1994, other than property acquired or reacquired pursuant to a court order made before February 22, 1994.

► 79.1(2) ◄

(2) Seizure of property. Subject to subsection (2.1) and for the purpose of this section, a property is seized at any time by a person in respect of a debt where

(*a*) the beneficial ownership of the property is acquired or reacquired at that time by the person; and

(*b*) the acquisition or reacquisition of the property is in consequence of another person's failure to pay to the person all or part of the specified amount of the debt.

History: S. 79.1(2) was amended by S.C. 2001, c. 17, s. 57(1), applicable in respect of property acquired or reacquired after February 27, 2000. S. 79.1(2) formerly read:

"(2) *Seizure of property.* For the purposes of this section, a property is seized at any time by a person in respect of a debt where the beneficial ownership of the property is acquired or reacquired at that time by the person and the acquisition or reacquisition of the property was in consequence of another person's failure to pay to the person all or part of the specified amount of the debt."

S. 79.1(2) was added by S.C. 1995, c. 21, s. 26(1), applicable to property acquired or reacquired after February 21, 1994, other than property acquired or reacquired pursuant to a court order made before February 22, 1994.

Editorial Note: Section 79.1 — which results in deemed cost to a creditor of a seized asset based in part on pre-existing debt balances (see subsection 79.1(6)) — is operative where there is a "seizure" of property by a person, which in sections 79 and 79.1 includes a partnership. This occurs where beneficial ownership of the property is acquired (or reacquired) by a person — i.e., the creditor — in consequence of another person's — i.e., the debtor's — failure to pay all or part of a debt (which includes an obligation under a conditional sales agreement). Taking legal proceedings are not a prerequisite of this section. Because property must be acquired by the creditor, section 79 will generally apply to a foreclosure, quit claim, or repossession under a conditional sales agreement, but generally not to a power of sale or judicial sale. Also, it is not necessary that the property be seized from the debtor: section 79.1(2) could apply where the original debtor transfers the secured property to a third party and there is not a debtor-creditor relationship between the third party and the creditor.

► 79.1(2.1) ◄

(2.1) Exception. For the purpose of this section, foreign resource property is deemed not to be seized at any time from

(*a*) an individual or a corporation, if the individual or corporation is non-resident at that time; or

(*b*) a partnership (other than a partnership each member of which is resident in Canada at that time).

History: S. 79.1(2.1) was added by S.C. 2001, c. 17, s. 57(1), applicable in respect of property acquired or reacquired after February 27, 2000.

► 79.1(3) ◄

(3) Creditor's capital gains reserves. Where a property is seized at any time in a particular taxation year by a creditor in respect of a debt, for the purpose of computing the income of the creditor for the particular year, the amount claimed by the creditor under subparagraph 40(1)(*a*)(iii) or 44(1)(*e*)(iii) in computing the creditor's gain for the preceding taxation year from any disposition before the particular year of the property shall be deemed to be the amount, if any, by which the amount so claimed exceeds the total of all amounts each of which is an amount determined under paragraph (6)(*a*) or (*b*) in respect of the seizure.

History: S. 79.1(3) was added by S.C. 1995, c. 21, s. 26(1), applicable to property acquired or reacquired after February 21, 1994, other than property acquired or reacquired pursuant to a court order made before February 22, 1994.

Editorial Note: Where a property is seized, reserves for the preceding year are not added back to income, but instead reduce the cost of the seized property (per subsection 79.1(6)). However, if the preceding year's reserve exceeds the creditor's cost of the seized property (per paragraphs 79.1(6)(*a*) and (*b*)), the excess is added to the creditor's income in the year of seizure.

► 79.1(4) ◄

(4) Creditor's inventory reserves. Where a property is seized at any time in a particular taxation year by a creditor in respect of a debt, for the purpose of computing the income of the creditor for the particular year, the amount deducted under paragraph 20(1)(*n*) in computing the income of the creditor for the preceding taxation year in respect of any disposition of the property before the particular year shall be deemed to be the amount, if any, by which the amount so deducted exceeds the total of all amounts each of which is an amount determined under paragraph (6)(*a*) or (*b*) in respect of the seizure.

History: S. 79.1(4) was added by S.C. 1995, c. 21, s. 26(1), applicable to property acquired or reacquired after February 21, 1994, other than property acquired or reacquired pursuant to a court order made before February 22, 1994.

Editorial Note: See the editorial note to subsection 79.1(3).

► 79.1(5) ◄

(5) Adjustment where disposition and reacquisition of capital property in same year. Where a property is seized at any time in a taxation year by a creditor in respect of one or more debts and the property was capital property of the creditor that was disposed of by the creditor at a previous time in the year, the proceeds of disposition of the property to the creditor at the previous time shall be deemed to be the lesser of the amount of the proceeds (determined without reference to this subsection) and the amount that is the greater of

(*a*) the amount, if any, by which the amount of such proceeds (determined without reference to this subsection) exceeds such portion of the proceeds as is represented by the specified amounts of those debts immediately before that time, and

(*b*) the cost amount to the creditor of the property immediately before the previous time.

History: S. 79.1(5) was added by S.C. 1995, c. 21, s. 26(1), applicable to property acquired or reacquired after February 21, 1994, other than property acquired or reacquired pursuant to a court order made before February 22, 1994.

Editorial Note: Subsection 79.1(5) provides relief to a creditor who seizes capital property during the year of sale by the creditor, generally by reducing the creditor's proceeds of disposition by the unpaid portion of those proceeds at the time of the seizure (the deemed proceeds cannot be less than the creditor's previous tax cost). There is a corresponding reduction in the cost of the seized property to the creditor, under subsection 79.1(6).

► 79.1(6) ◄

(6) Cost of seized properties for creditor. Where a particular property is seized at any time in a taxation year by a creditor in respect of one or more debts, the cost to the creditor of the particular property shall be deemed to be the amount, if any, by which the total of

(*a*) that proportion of the total specified costs immediately before that time to the creditor of those debts that

(i) the fair market value of the particular property immediately before that time

is of

(ii) the fair market value of all properties immediately before that time that were seized by the creditor at that time in respect of those debts, and

(*b*) all amounts each of which is an outlay or expense made or incurred, or a specified amount at that time of a debt that is assumed, by the creditor at or before that time to protect the creditor's interest in the particular property, except to the extent the outlay or expense

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of paragraph 79.1(6)(*b*) of the Act before subparagraph (i) is replaced by the following:

(*b*) all amounts each of which is an outlay or expense made or incurred, or a specified amount at that time of a debt that is assumed, by the creditor at or before that time to protect the creditor's interest, or for civil law the creditor's right, in the particular property, except to the extent the outlay or expense

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(i) was included in the cost to the creditor of property other than the particular property,

(ii) was included before that time in computing, for the purposes of this Act, any balance of undeducted outlays, expenses or other amounts of the creditor, or

(iii) was deductible in computing the creditor's income for the year or a preceding taxation year

exceeds

(*c*) the amount, if any, claimed or deducted under paragraph 20(1)(*n*) or subparagraph 40(1)(*a*)(iii) or 44(1)(*e*)(iii), as the case may be, in respect of the particular property in computing the creditor's income or capital gain for the preceding taxation year or the amount by which the proceeds of disposition of the creditor of the particular property are reduced because of subsection (5) in respect of a disposition of the particular property by the creditor occurring before that time and in the year.

History: S. 79.1(6) was added by S.C. 1995, c. 21, s. 26(1), applicable to property acquired or reacquired after February 21, 1994, other than property acquired or reacquired pursuant to a court order made before February 22, 1994.

Editorial Note: This provision determines the deemed cost of an asset seized by a creditor, which is based on the tax balance of the pre-existing debt, plus amounts incurred to protect the creditor's interest, less reserves from a prior sale of the asset. More specifically, the deemed cost is based on the "specified cost" of the debt (as defined in subsection 79.1(1)) — ACB in the case of debt which is capital property — prorated based on the fair market values of seized properties (paragraph 79.1(6)(*a*)). Added to this amount are outlays incurred not otherwise taken into account for tax purposes (that is, not included in other properties' cost, balances of undeducted outlays, or otherwise deductible), and the "specified amount" of debt assumed by the creditor at or before seizure to protect its interest in the asset (paragraph 79.1(6)(*b*)). Subtracted are the previous year's reserves in respect of a prior sale of the asset (which do not have to be added back to income, per subsections 79.1(3) and (4), and the special reduction of proceeds in subsection 79.1(5) where property is sold and seized in the same year (paragraph 79.1(6)(*c*)). Where a creditor previously sold the seized asset to the debtor and a resale at an amount in excess of the cost determined above is not planned in the near future, it may be advantageous to seize the property early on, that is, when reserves are high. (Technical note: "specified amount" includes accrued but unpaid interest, whereas "specified cost" does not.)

Related Sections: S. 79 Surrender of property by debtor; s. 138(11.93) Property acquired on default in payment; s. 142.4(3) Rules applicable to disposition.

► 79.1(7) ◄

(7) Treatment of debt. Where a property is seized at any time in a taxation year by a creditor in respect of a particular debt,

(*a*) the creditor shall be deemed to have disposed of the particular debt at that time;

(*b*) the amount received on account of the particular debt as a consequence of the seizure shall be deemed

(i) to be received at that time, and

(ii) to be equal to

(A) where the particular debt is capital property, the adjusted cost base to the creditor of the particular debt, and

(B) in any other case, the cost amount to the creditor of the particular debt;

(*c*) where any portion of the particular debt is outstanding immediately after that time, the creditor shall be deemed to have reacquired that portion immediately after that time at a cost equal to

(i) where the particular debt is capital property, nil, and

(ii) in any other case, the amount, if any, by which

(A) the cost amount to the creditor of the particular debt

exceeds

(B) the specified cost to the creditor of the particular debt; and

(*d*) where no portion of the particular debt is outstanding immediately after that time and the particular debt is not capital property, the creditor may deduct as a bad debt in computing the creditor's income for the year the amount described in subparagraph (*c*)(ii) in respect of the seizure.

History: S. 79.1(7) was added by S.C. 1995, c. 21, s. 26(1), applicable to property acquired or reacquired after February 21, 1994, other than property acquired or reacquired pursuant to a court order made before February 22, 1994.

Editorial Note: While subsection 79.1(6) deals with the tax cost of assets seized by a creditor, subsection 79.1(7) deals with the tax treatment of the indebtedness held by the creditor in respect of the seizure. It is generally designed to ensure that there will be no gain or loss on the debt itself in respect of the seizure, unless the creditor subsequently recovers further amounts on the debt. More specifically: the debt is considered to have been disposed of at the time of seizure (paragraph 79.1(7)(*a*)); the amount received as a consequence of the seizure is deemed to equal the debt's adjusted cost base (or its cost amount, if not capital property) (paragraph 79.1(7)(*b*)). If any portion of the debt is still outstanding after the seizure, it is deemed to have been reacquired at a cost of nil, if capital property (subparagraph 79.1(7)(*c*)(i)). (If the debt is not capital property, it is deemed to be reacquired at its cost amount less its "specified cost" (subparagraph 79.1(7)(*c*)(ii)). In the event that no part of a debt remains outstanding after seizure, the excess may be deducted by the creditor as a bad debt (paragraph 79.1(7)(*d*)); this allows a deduction for unpaid interest.)

Subsection 79.1(8) ensures that, where an asset is seized, no amount in respect of the creditor's debt is deductible as a bad, doubtful or impaired debt (per the Explanatory Notes, this prohibition does not apply to unpaid interest); nor can any amount be included in computing any balances of undeducted outlays and the like.

Related Sections: S. 20(1)(*l*) Doubtful or impaired debts; s. 20(1)(*p*) Bad debts; s. 20(4) Bad debts from dispositions of depreciable property; s. 20(4.1) Bad debts re timber resource property s. 20(4.2) Bad debts re eligible capital property; s. 20(4.3) Deemed allowable capital loss; s. 50(1) Debts established to be bad debts and shares of bankrupt corporation.

► 79.1(8) ◄

(8) Claims for debts. Where a property is seized at any time in a taxation year by a creditor in respect of a debt, no amount in respect of the debt

(*a*) is deductible in computing the creditor's income for the year or a subsequent taxation year as a bad, doubtful or impaired debt; or

(*b*) shall be included after that time in computing, for the purposes of this Act, any balance of undeducted outlays, expenses or other amounts of the creditor as a bad, doubtful or impaired debt.

History: S. 79.1(8) was amended by S.C. 1998, c. 19, s. 110(1), applicable to (a) taxation years that end after September 1997; and (b) to a taxpayer's taxation years that end after 1995 and before October 1997 where the

taxpayer files an election in accordance with paragraph 81(11)(*b*), it formerly read:

"(8) *Claims for bad and doubtful debts.* Where a property is seized at any time in a taxation year by a creditor in respect of a debt, no amount in respect of the principal amount of the debt shall be

(*a*) deductible in computing the creditor's income for the year or a subsequent taxation year as a bad or doubtful debt; or

(*b*) included after that time in computing, for the purposes of this Act, any balance of undeducted outlays, expenses or other amounts of the creditor as a bad or doubtful debt."

S. 79.1(8) was added by S.C. 1995, c. 21, s. 26(1), applicable to property acquired or reacquired after February 21, 1994, other than property acquired or reacquired pursuant to a court order made before February 22, 1994.

Editorial Note: See editorial note to subsection 79.1(7).

Related Sections: S. 20(1)(*l*) Doubtful or impaired debts; s. 20(1)(*p*) Bad debts; s. 20(4) Bad debts from dispositions of depreciable property; s. 20(4.1) Bad debts re timber resource property; s. 20(4.2) Bad debts re eligible capital property; s. 20(4.3) Deemed allowable capital loss; s. 50(1) Debts established to be bad debts and shares of bankrupt corporation.

SECTION 80: [Debt forgiveness rules].

► 80(1) ◄

(1) Definitions. In this section,

History: S. 80(1) was amended by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.

S. 80(1) formerly read:

"S. 80. *Debtor's gain on settlement of debts.*

(1) Where at any time in a taxation year a debt or other obligation of a taxpayer to pay an amount is settled or extinguished after 1971 without any payment by the taxpayer or by the payment of an amount less than the principal amount of the debt or obligation, as the case may be, the amount by which the lesser of the principal amount thereof and the amount for which the obligation was issued by the taxpayer exceeds the amount so paid, if any, shall be applied

(*a*) to reduce, in the following order, the taxpayer's

(i) non-capital losses,

(i.1) farm losses,

(ii) net capital losses, and

(iii) restricted farm losses,

for preceding taxation years, to the extent of the amount of those losses that would otherwise be deductible in computing the taxpayer's taxable income for the year or a subsequent year, and

(*b*) to the extent that the excess exceeds the portion thereof required to be applied as provided in paragraph (*a*), to reduce in prescribed manner the capital cost to the taxpayer of any depreciable property and the adjusted cost base to the taxpayer of any capital property,

unless

(*c*) the taxpayer is, at that time, a bankrupt within the meaning of section 128,

(*d*) the debt or obligation was such that

(i) where interest was paid or payable by the taxpayer in respect of it pursuant to a legal obligation, or

(ii) if interest had been paid or payable by the taxpayer in respect of it pursuant to a legal obligation,

no amount in respect of the interest was or would have been deductible under this Part in computing the taxpayer's income if this Act were read without reference to subsections 18(2), (3.1) and (4) and section 21,

(*e*) section 79 is applicable in respect of the debt or obligation,

(*f*) the excess is otherwise required to be included in computing the taxpayer's income for the year or a preceding taxation year or to be deducted in computing the capital cost to the taxpayer of any depreciable property, the adjusted cost base to the taxpayer of any capital property or the cost amount to the taxpayer of any other property,

(*g*) the excess would be deemed by subsection 39(3) to be a capital gain of the taxpayer for the year from the disposition of a capital property if this Act were read without reference to this subsection, or

(*h*) the debt or obligation is settled or extinguished by way of bequest or inheritance."

Editorial Note: See the editorial note following subsection 80(2).

Regulations: Part LIV.

Interpretation Bulletins: *Primary* — IT-293R Debtor's gain on settlement of debt; IT-382 Debts bequeathed or forgiven on death [Archived by the CRA]. *Secondary* — IT-109R2 Unpaid amounts; IT-142R3 Settlement of debts on the winding-up of a corporation; IT-232R3 Non-capital losses, net capital losses, restricted farm losses, farm losses and limited partnership losses — Their composition and deductibility in computing taxable income; IT-268R4 Inter vivos transfer of farm property to child; IT-430R3 (Consolid.) — Life insurance proceeds received by a private corporation or a partnership as a consequence of death; IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].

Advance Tax Rulings: ATR-66 Non-arm's length transfer of debt followed by a winding-up and a sale of shares.

Cases: The taxpayer's predecessor benefited from the forgiveness of a loan. The loan was a "commercial debt obligation" and s. 80 applied despite the taxpayer's arguments to the contrary based on the concepts of retrospective application, release of debtor, novation, loan vs. debt and lack of REOP. *Gibralt Capital Corporation v. The Queen*, 2003 DTC 5270 (F.C.A.), affirming 2002 DTC 1601 (T.C.C.).

"*commercial debt obligation*" — "commercial debt obligation" issued by a debtor means a debt obligation issued by the debtor

(*a*) where interest was paid or payable by the debtor in respect of it pursuant to a legal obligation, or

(*b*) if interest had been paid or payable by the debtor in respect of it pursuant to a legal obligation,

an amount in respect of the interest was or would have been deductible in computing the debtor's income, taxable income or taxable income earned in Canada, as the case may be, if this Act were read without reference to subsections 15.1(2) and 15.2(2), paragraph 18(1)(*g*), subsections 18(2), (3.1) and (4) and section 21;

History: The definition "commercial debt obligation" in s. 80(1) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.

Tax Profile: October 2008 — Tax Consequences of Debt Restructuring and Workouts in Canada.

"*commercial obligation*" — "commercial obligation" issued by a debtor means

(*a*) a commercial debt obligation issued by the debtor, or

(*b*) a distress preferred share issued by the debtor;

History: The definition "commercial obligation" in s. 80(1) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.

Related Sections: S. 6(15.1) Forgiven amount; s. 15(1.21) Forgiven amount; s. 40(2)(e.2) Limitations.

"*debtor*" — "debtor" includes any corporation that has issued a distress preferred share and any partnership;

History: The definition "debtor" in s. 80(1) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.

"*directed person*" — "directed person" at any time in respect of a debtor means

(*a*) a taxable Canadian corporation or an eligible Canadian partnership by which the debtor is controlled at that time, or

(*b*) a taxable Canadian corporation or an eligible Canadian partnership that is controlled at that time by

(i) the debtor,

(ii) the debtor and one or more persons related to the debtor, or

(iii) a person or group of persons by which the debtor is controlled at that time;

History: The definition "directed person" in s. 80(1) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.

Related Sections: S. 89(1), "taxable Canadian corporation"; s. 256(7) Acquiring control; s. 256(8) Deemed exercise of right.

"*distress preferred share*" — "distress preferred share" issued by a corporation means, at any time, a share issued after February 21, 1994 (other than a share issued pursuant to an agreement in writing entered into on or before that date) by the corporation that is a share described in paragraph (*e*) of the definition "term preferred share" in subsection 248(1) that would be a term preferred share at that time if that definition were read without reference to paragraphs (*e*) and (*f*);

History: The definition "distress preferred shares" in s. 80(1) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.

"eligible Canadian partnership" — "eligible Canadian partnership" at any time means a Canadian partnership none of the members of which is, at that time,

(*a*) a non-resident owned investment corporation,

(*b*) a person exempt, because of subsection 149(1), from tax under this Part on all or part of the person's taxable income,

(*c*) a partnership, other than an eligible Canadian partnership, or

(*d*) a trust, other than a trust in which no non-resident person and no person described in paragraph (*a*), (*b*) or (*c*) is beneficially interested;

History: The definition "eligible Canadian partnership" in s. 80(1) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.

"excluded obligation" — "excluded obligation" means an obligation issued by a debtor where

(*a*) the proceeds from the issue of the obligation

(i) were included in computing the debtor's income or, but for the expression "other than a prescribed amount" in paragraph 12(1)(*x*), would have been so included,

(ii) were deducted in computing, for the purposes of this Act, any balance of undeducted outlays, expenses or other amounts, or

(iii) were deducted in computing the capital cost or cost amount to the debtor of any property of the debtor,

(*b*) an amount paid by the debtor in satisfaction of the entire principal amount of the obligation would be included in the amount determined under paragraph 28(1)(*e*) or section 30 in respect of the debtor,

(*c*) section 78 applies to the obligation, or

(*d*) the principal amount of the obligation would, if this Act were read without reference to sections 79 and 80 and the obligation were settled without any amount being paid in satisfaction of its principal amount, be included in computing the debtor's income because of the settlement of the obligation;

History: The definition "excluded obligation" in s. 80(1) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.

Canadian Tax Foundation: Ruby, "Section 80 and Unincorporated Entities", *1997 Conference Report*, 19:1.

Cases: Where debt forgiveness pertains to a "trade debt", it will usually form part of the profit of the business. However, as in this case, where a forgiveness occurs in a borrower-lender relationship entered into to finance the operations of the business, it will usually be treated as an abatement of a capital liability. Hence, its forgiveness has no impact on the taxpayer's profit for the year is not required to be included in the taxpayer's income. *Queenswood Land Associates Limited v. The Queen*, 2000 DTC 6065 (F.C.A.), reversing 97 DTC 1048 (T.C.C.).

The taxpayer was indebted to a related company in relation to the purchase of certain chemicals from that company. The company later forgave a portion of the taxpayer's indebtedness. The forgiveness had the effect of reducing the taxpayer's cost of goods sold and therefore increasing profits. Accordingly, the taxpayer should pay tax on these profits. *M.N.R. v. Enjay Chemical Co. Limited*, 71 DTC 5293 (F.C.T.D.), reversing in part 70 DTC 1477 (T.A.B.).

An automobile dealership was overstocked with cars. Its supplier agreed to provide a rebate of $250 for each automobile in stock that the dealer subsequently sold. The rebate was applied against the outstanding debt owed by the dealer to the supplier. The rebates were included in the dealer's income, because their net effect was to add to the dealer's revenues. *Oxford Motors Limited v. M.N.R.*, 59 DTC 1119 (S.C.C.), affirming 58 DTC 1104 (Ex. Ct.).

"excluded property" — "excluded property" means property of a non-resident debtor that is treaty-protected property or that is not taxable Canadian property;

History: S. 80(1), the definition "excluded property" was amended by S.C. 1999, c. 22, s. 21(1), applicable to the 1998 and subsequent taxation years. S. 80(1), the definition "excluded property" formerly read:

"'excluded property' — 'excluded property' at any time means property of a non-resident debtor that would not be taxable Canadian property of the debtor if it were disposed of at that time by the debtor;"

The definition "excluded property" in s. 80(1) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.

Related Sections: S. 248(1), "treaty-protected property".

"excluded security" — "excluded security" issued by a corporation to a person as consideration for the settlement of a debt means

(*a*) a distress preferred share issued by the corporation to the person, or

(*b*) a share issued by the corporation to the person under the terms of the debt, where the debt was a bond, debenture or note listed on a designated stock exchange in Canada and the terms for the conversion to the share were not established or substantially modified after the later of February 22, 1994 and the time that the bond, debenture or note was issued;

History: S. 80(1), paragraph (*b*) of the definition "excluded security" was replaced by S.C. 2007, s. 35, s. 21(1), applicable on and after December 14, 2007. S. 80(1), paragraph (*b*) of the definition "excluded security" formerly read:

"(*b*) a share issued by the corporation to the person under the terms of the debt, where the debt was a bond, debenture or note listed on a prescribed stock exchange in Canada and the terms for the conversion to the share were not established or substantially modified after the later of February 22, 1994 and the time that the bond, debenture or note was issued;"

The definition "excluded security" in s. 80(1) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.

Regulations: 3200, 3201.

"forgiven amount" — "forgiven amount" at any time in respect of a commercial obligation issued by a debtor is the amount determined by the formula

$$A - B$$

where

A is the lesser of the amount for which the obligation was issued and the principal amount of the obligation, and

B is the total of

(*a*) the amount, if any, paid at that time in satisfaction of the principal amount of the obligation,

(*b*) the amount, if any, included under paragraph 6(1)(*a*) or subsection 15(1) in computing the income of any person because of the settlement of the obligation at that time,

(*c*) the amount, if any, deducted at that time under paragraph 18(9.3)(*f*) in computing the forgiven amount in respect of the obligation,

(*d*) the capital gain, if any, of the debtor resulting from the application of subsection 39(3) to the purchase at that time of the obligation by the debtor,

(*e*) such portion of the principal amount of the obligation as relates to an amount renounced

under subsection 66(10), (10.1), (10.2) or (10.3) by the debtor,

(*f*) any portion of the principal amount of the obligation that is included in the amount determined for A, B, C or D in subsection 79(3) in respect of the debtor for the taxation year of the debtor that includes that time or for a preceding taxation year,

(*g*) the total of all amounts each of which is a forgiven amount at a previous time that the obligation was deemed by subsection 80.01(8) or (9) to have been settled,

(*h*) such portion of the principal amount of the obligation as can reasonably be considered to have been included under section 80.4 in computing the debtor's income for a taxation year that includes that time or for a preceding taxation year,

(*i*) where the debtor is a bankrupt at that time, the principal amount of the obligation,

(*j*) such portion of the principal amount of the obligation as represents the principal amount of an excluded obligation,

(*k*) where the debtor is a partnership and the obligation was, since the later of the creation of the partnership or the issue of the obligation, always payable to a member of the partnership actively engaged, on a regular, continuous and substantial basis, in those activities of the partnership that are other than the financing of the partnership business, the principal amount of the obligation, and

(*l*) the amount, if any, given at or before that time by the debtor to another person as consideration for the assumption by the other person of the obligation;

History: The definition "forgiven amount" in s. 80(1) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.

Related Sections: S. 6(15.1) Forgiven amount; s. 15(1.21) Forgiven amount; s. 87(2)(*h.1*) Debts.

"person" — "person" includes a partnership;

History: The definition "person" in s. 80(1) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.

"relevant loss balance" — "relevant loss balance" at a particular time for a commercial obligation and in respect of a debtor's non-capital loss, farm loss, restricted farm loss or net capital loss, as the case may be, for a particular taxation year means the amount of such loss that would be deductible in computing the debtor's taxable income or taxable income earned in Canada, as the case may be, for the taxation year that includes that time if

(*a*) the debtor had sufficient incomes from all sources and sufficient taxable capital gains,

(*b*) subsections (3) and (4) did not apply to reduce such loss at or after that time, and

(*c*) paragraph 111(4)(*a*) and subsection 111(5) did not apply to the debtor,

except that, where the debtor is a corporation the control of which was acquired at a previous time by a person or group of persons and the particular year ended before the previous time, the relevant loss balance at the particular time for the obligation and in respect of such loss for the particular year shall be deemed to be nil unless

(*d*) the obligation was issued by the debtor before, and not in contemplation of, the acquisition of control, or

(*e*) all or substantially all of the proceeds from the issue of the obligation were used to satisfy the principal amount of another obligation to which paragraph (*d*) or this paragraph would apply if the other obligation were still outstanding;

History: The definition "relevant loss balance" in s. 80(1) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.

Related Sections: S. 31(1.1) Restricted farm loss; s. 111(8), "farm loss", "net capital loss", "non-capital loss".

"successor pool" — "successor pool" at any time for a commercial obligation and in respect of an amount determined in relation to a debtor means the portion of that amount that would be deductible under subsection 66.7(2), (2.3), (3), (4) or (5), as the case may be, in computing the debtor's income for the taxation year that includes that time, if

(*a*) the debtor had sufficient incomes from all sources,

(*b*) subsection (8) did not apply to reduce the amount so determined at that time,

(*c*) the year ended immediately after that time, and

(*d*) paragraphs 66.7(2.3)(*a*), (4)(*a*) and (5)(*a*) were read without reference to the expressions "30% of", "30% of" and "10% of", respectively,

except that the successor pool at that time for the obligation is deemed to be nil unless

(*e*) the obligation was issued by the debtor before, and not in contemplation of, the event described in paragraph (8)(*a*) that gives rise to the deductibility under subsection 66.7(2), (2.3), (3), (4) or (5), as the case may be, of all or part of that amount in computing the debtor's income, or

(*f*) all or substantially all of the proceeds from the issue of the obligation were used to satisfy the principal amount of another obligation to which paragraph (*e*) or this paragraph would apply if the other obligation were still outstanding;

History: S. 80(1), the portion of the definition "successor pool" before paragraph (*f*) was amended by S.C. 2001, c. 17, s. 58(1), applicable to taxation years that begin after 2000. S. 80(1), the portion of the definition "successor pool" before paragraph (*f*) formerly read:

" *'successor pool'* — 'successor pool' at any time for a commercial obligation and in respect of an amount determined in relation to a debtor means such portion of that amount as would be deductible under subsection 66.7(2), (3), (4) or (5), as the case may be, in computing the debtor's income for the taxation year that includes that time, if

(*a*) the debtor had sufficient incomes from all sources,

(*b*) subsection (8) did not apply to reduce the amount so determined at that time,

(*c*) the year ended immediately after that time, and

(*d*) paragraphs 66.7(4)(*a*) and (5)(*a*) were read without reference to the expressions '30% of' and '10% of', respectively,

except that the successor pool at that time for the obligation shall be deemed to be nil unless

(*e*) the obligation was issued by the debtor before, and not in contemplation of, the event described in paragraph (8)(*a*) that gives rise to the deductibility under subsection 66.7(2), (3), (4) or (5), as the case may be, of all or part of that amount in computing the debtor's income, or"

The definition "successor pool" in s. 80(1) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.

Canadian Petroleum Tax Journal: Canada Customs and Revenue Agency 1999 Roundtable Questions and Answers, Question 6, Vol. 13 No. 1 2000.

"unrecognized loss" — "unrecognized loss" at a particular time, in respect of an obligation issued by a debtor, from the disposition of a property means the amount that would, but for subparagraph 40(2)(*g*)(ii), be a capital loss from the disposition by the debtor at or before the particular time of a debt or other right to receive an amount, except that where the debtor is a corporation the control of which was acquired before the particular time and after the time of the disposition by a person or group of persons, the unrecognized loss at the particular time in respect of the obligation is deemed to be nil unless

(*a*) the obligation was issued by the debtor before, and not in contemplation of, the acquisition of control, or

(*b*) all or substantially all of the proceeds from the issue of the obligation were used to satisfy the principal amount of another obligation to which paragraph (*a*) or this paragraph would apply if the other obligation were still outstanding.

History: S. 80(1), the portion of the definition "unrecognized loss" before paragraph (*a*) was amended by S.C. 1998, c. 19, s. 111(1), applicable to taxation years that end after February 21, 1994. S. 80(1), the portion of the definition "unrecognized loss" before paragraph (*a*) formerly read:

" *'unrecognized loss'* — 'unrecognized loss' at a particular time, in respect of an obligation issued by a debtor, from the disposition of a property means the amount that would, but for subparagraph 40(2)(*g*)(ii), be a capital loss from the disposition at or before the particular time of a debt or other right to receive an amount, except that where the debtor is a corporation the control of which was acquired before the particular time and after the time of the disposition by a person or group of persons, the unrecognized loss at the particular time in respect of the obligation shall be deemed to be nil unless"

The definition "unrecognized loss" in s. 80(1) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.

Related Sections: S. 87(2)(*l.21*) Forgiven amount.

► 80(2) ◄

(2) Application of debt forgiveness rules. For the purposes of this section,

(*a*) an obligation issued by a debtor is settled at any time where the obligation is settled or extinguished at that time (otherwise than by way of a bequest or inheritance or as consideration for the issue of a share described in paragraph (*b*) of the definition "excluded security" in subsection (1));

(*b*) an amount of interest payable by a debtor in respect of an obligation issued by the debtor shall be deemed to be an obligation issued by the debtor that

(i) has a principal amount, and

(ii) was issued by the debtor for an amount,

equal to the portion of the amount of such interest that was deductible or would, but for subsection 18(2) or (3.1) or section 21, have been deductible in computing the debtor's income for a taxation year;

(*c*) subsections (3) to (5) and (7) to (13) apply in numerical order to the forgiven amount in respect of a commercial obligation;

(*d*) the applicable fraction of the unapplied portion of a forgiven amount at any time in respect of an obligation issued by the debtor is in respect of a loss for any other taxation year, the fraction required to be used under section 38 for that year;

(*e*) where an applicable fraction (as determined under paragraph (*d*)) of the unapplied portion of a forgiven amount is applied under subsection (4) to reduce at any time a loss for a taxation year, the portion of the forgiven amount so applied shall, except for the purpose of reducing the loss, be deemed to be the quotient obtained when the amount of the reduction is divided by the applicable fraction;

(*f*) where 3/4 of the unapplied portion of a forgiven amount is applied under subsection (7) to reduce cumulative eligible capital, except for the purpose of reducing the cumulative eligible capital, the portion of the forgiven amount so applied shall be deemed to be 4/3 of the amount of the reduction;

(*g*) where a corporation issues a share (other than an excluded security) to a person as consideration for the settlement of a debt issued by the corporation and payable to the person, the amount paid in satisfaction of the debt because of the issue of the share is deemed to be equal to the fair market value of the share at the time it was issued;

(*g.1*) where a debt issued by a corporation and payable to a person is settled at any time, the amount, if any, that can reasonably be considered to be the increase, as a consequence of the settlement of the debt, in the fair market value of shares of the capital stock of the corporation owned by the person (other than any shares acquired by the person as consideration for the settlement of the debt) is deemed to be an amount paid at that time in satisfaction of the debt;

(*h*) where any part of the consideration given by a debtor to another person for the settlement at any time of a particular commercial debt obligation issued by the debtor and payable to the other person consists of a new commercial debt obligation issued by the debtor to the other person

(i) an amount equal to the principal amount of the new obligation shall be deemed to be paid by the debtor at that time, because of the issue of the new obligation, in satisfaction of the principal amount of the particular obligation, and

(ii) the new obligation shall be deemed to have been issued for an amount equal to the amount, if any, by which

(A) the principal amount of the new obligation exceeds

(B) the amount, if any, by which the principal amount of the new obligation exceeds the amount for which the particular obligation was issued;

(*i*) where 2 or more commercial obligations issued by a debtor are settled at the same time, those obligations shall be treated as if they were settled at different times in the order designated by the debtor in a prescribed form filed with the debtor's return of income under this Part for the debtor's taxation year that includes that time or, if the debtor does not so designate any such order, in the order designated by the Minister;

(*j*) for the purpose of determining, at any time, whether 2 persons are related to each other or whether any person is controlled by any other person, it shall be assumed that

(i) each partnership and each trust is a corporation having a capital stock of a single class of voting shares divided into 100 issued shares,

(ii) each member of a partnership and each beneficiary under a trust owned at that time the number of issued shares of that class that is equal to the proportion of 100 that

(A) the fair market value at that time of the member's interest in the partnership or the beneficiary's interest in the trust, as the case may be

is of

(B) the fair market value at that time of all members' interests in the partnership or all beneficiaries' interests in the trust, as the case may be, and

(iii) where a beneficiary's share of the income or capital of a trust depends on the exercise by any person of, or the failure by any person to exercise, any discretionary power, the fair market value at any time of the beneficiary's interest in the trust is equal to

(A) where the beneficiary is not entitled to receive or otherwise obtain the use of any of the income or capital of the trust before the death after that time of one or more other beneficiaries under the trust, nil, and

(B) in any other case, the total fair market value at that time of all beneficiaries' interests under the trust;

(*k*) where an obligation is denominated in a currency (other than Canadian currency), the forgiven amount at any time in respect of the obligation shall be determined with reference to the relative value of that currency and Canadian currency at the time the obligation was issued;

(*l*) where an amount is paid in satisfaction of the principal amount of a particular commercial obligation issued by a debtor and, as a consequence of the payment, the debtor is legally obliged to pay that amount to another person, the obligation to pay that amount to the other person shall be deemed to be a commercial obligation that was issued by the debtor at the same time and in the same circumstances as the particular obligation;

(*m*) for greater certainty, the amount that can be applied under this section to reduce another amount may not exceed that other amount;

(*n*) except for the purposes of this paragraph, where

(i) a commercial debt obligation issued by a debtor is settled at any time,

(ii) the debtor is at that time a member of a partnership, and

(iii) the obligation was, under the agreement governing the obligation, treated immediately before that time as a debt owed by the partnership,

the obligation shall be considered to have been issued by the partnership and not by the debtor;

(*o*) notwithstanding paragraph (*n*), where a commercial debt obligation for which a particular person is jointly liable with one or more other persons is settled at any time in respect of the particular person but not in respect of all of the other persons, the portion of the obligation that can reasonably be considered to be the particular person's share of the obligation shall be considered to have been issued by the particular person and settled at that time and not at any subsequent time;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 80(2)(*o*) of the Act is replaced by the following:

(*o*) notwithstanding paragraph (*n*), where a commercial debt obligation, for which a particular person is liable with one or more other persons, is settled at any time in respect of the particular person but not in respect of all of the other persons, the portion of the obligation that can reasonably be considered to be the particular person's share of the obligation shall be considered to have been issued by the particular person and settled at that time and not at any subsequent time;

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*p*) a commercial debt obligation issued by an individual that is outstanding at the time of the individual's death and settled at a subsequent time shall, if the estate of the individual was liable for the obligation immediately before the subsequent time, be deemed to have been issued by the estate at the same time and in the same circumstances as the obligation was issued by the individual; and

(*q*) where a commercial debt obligation issued by an individual would, but for this paragraph, be settled at any time in the period ending 6 months after the death of an individual (or within such longer period as is acceptable to the Minister and the estate of the individual) and the estate of the individual was liable immediately before that time for the obligation

(i) the obligation shall be deemed to have been settled at the beginning of the day on which the individual died and not at that time,

(ii) any amount paid at that time by the estate in satisfaction of the principal amount of the obligation shall be deemed to have been paid at the beginning of the day on which the individual died,

(iii) any amount given by the estate at or before that time to another person as consideration for assumption by the other person of the obligation shall be deemed to have been given at the beginning of the day on which the individual died, and

(iv) paragraph (*b*) shall not apply in respect of the settlement to interest that accrues within that period,

except that this paragraph does not apply in circumstances in which any amount is because of the settlement included under paragraph 6(1)(*a*) or subsection 15(1) in computing the income of any person or in which section 79 applies in respect of the obligation.

History: S. 80(2)(*d*) was amended by S.C. 2001, c. 17, s. 58(2), applicable to taxation years that end after February 27, 2000. S. 80(2)(*d*) formerly read:

"(*d*) the applicable fraction of the unapplied portion of a forgiven amount at any time in respect of an obligation issued by a debtor is

(i) in respect of a loss for a taxation year that ends after 1989, 3/4,

(ii) in respect of a loss for a taxation year that ended before 1988, 1/2, and

(iii) in respect of a loss for any other taxation year, the fraction required to be used under section 38 for that year;"

S. 80(2)(*g*) was amended by S.C. 1998, c. 19, s. 111(2), applicable to taxation years that end after February 21, 1994. It formerly read:

"(*g*) the amount paid in satisfaction of a debt issued by a corporation and payable to a person shall

(i) where any part of the consideration given to the person for the settlement of the debt consists of a share (other than an excluded security) issued by the corporation to the person, be deemed to be equal to the total of

(A) the fair market value of the share at the time it was issued, and

(B) the amount, if any, that can reasonably be considered to be the increase, as a consequence of the settlement of the debt, in the fair market value of other shares of the capital stock of the corporation owned by the person, and

(ii) in any other case, be deemed to include the amount described in clause (i)(B);"

S. 80(2)(*g.1*) was added by S.C. 1998, c. 19, s. 111(2), applicable to taxation years that end after February 21, 1994.

S. 80(2) was amended by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.

S. 80(2) formerly read:

"(2) *Deemed settlement on amalgamation.* Where a debt or other obligation of a corporation (in this subsection referred to as the 'debtor') to pay an amount to another corporation (in this subsection referred to as the 'creditor') is settled or extinguished on or by virtue of an amalgamation of the debtor and the creditor, the debt or obligation shall be deemed to have been settled or extinguished immediately before the time that is immediately before the amalgamation by a payment made by the debtor and received by the creditor of an amount equal to the amount that would have been the creditor's cost amount of the debt or obligation at that time if the definition 'cost amount' in subsection 248(1) were read without reference to paragraph (*e*) of that definition."

Editorial Note: When a "commercial obligation" (subsection 80(1)) of a debtor is settled or extinguished, subsections 80(3) through (12) apply in sequential order to reduce tax attributes of the debtor (including a partnership), such as non-capital loss and capital loss carryforwards and the cost of certain properties, to the extent of the "forgiven amount" (subsection 80(1)) of the obligation. If there is a remaining unapplied forgiven amount after the application of subsections 80(3) through (12), one-half of the unapplied forgiven amount is included in the debtor's income under subsection 80(13). A reserve may be available to partially or wholly offset that income inclusion under either section 61.2, 61.3, or 61.4. Alternatively, the debtor can elect to transfer any unapplied forgiven amount to an "eligible transferee" (under the provisions of section 80.04), which reduces the income inclusion under subsection 80(13) for the debtor. The amount so transferred is effectively treated as a forgiven amount of a commercial obligation of the eligible transferee for the purposes of section 80.

The debt forgiveness rules can apply on a subsection 88(1) wind-up or amalgamation where indebtedness is between the parties (settlement may be based on tax cost of the debt), or if debt becomes "parked" or statute-barred (section 80.01). Reductions to ACB from these rules can become taxable where a person "surrenders" (through certain transactions that would otherwise be rollovers) capital property that is a share, an interest in a partnership, or a capital interest in a trust (section 80.03).

Related Sections: S. 6(15) Forgiveness of employee debt; s. 6(15.1) Forgiven amount; s. 15(1.2) Forgiveness of shareholder debt; s. 15(1.21) Forgiven amount; s. 53(2)(g) Amounts to be deducted — Debt forgiveness; s. 79(3) Proceeds of disposition for debtor; s. 80.01 Debt forgiveness rules — Deemed settlement of debt; s. 80.02 Debt forgiveness rules — Distress preferred shares; s. 80.03 Surrender of capital property; s. 80.04 Debt forgiveness rules — Transfer of forgiven amount; s. 95(2)(*g.1*) Determination of certain components of foreign accrual property income; s. 139.1(18) Acquisition of control; s. 220(3.21) Designations and allocations; s. 256(7) Acquiring control; s. 256(8) Deemed exercise of right.

Information Circulars: IC 88-2 General anti-avoidance rule — Section 245 of the Income Tax Act (para. 23, Supp. 1, para. 6).

Forms: T2153; T2154.

Tax Profile: October 2008 — Tax Consequences of Debt Restructuring and Workouts in Canada.

Canadian Tax Foundation: Baek, "Tax Planning for Recessionary Times", *2003 Annual Conference*, 53:1; Ahmed and Silverson, "The New Debt Forgiveness Rules: Planning Opportunities and Traps for the Unwary", *1996 Conference Report*, Vol. 1, 21:1; Arnold and Ward, "Dispositions — A Critique of Revenue Canada's Interpretation", *1980 Canadian Tax Journal*, No. 5, 559.

Cases: When the agreement reached during the course of a trial made no reference to a debenture held by the taxpayer's bank against all of its assets, the deduction by the taxpayer of interest on the debenture was disallowed on the ground that it had been "settled". *Central City Financial Services Ltd. v. The Queen*, 98 DTC 6645 (F.C.A.), affirming 98 DTC 1021 (T.C.C.).

► 80(3) ◄

(3) Reductions of non-capital losses. Where a commercial obligation issued by a debtor is settled at any time, the forgiven amount at that time in respect of the obligation shall be applied to reduce at that time, in the following order,

(*a*) the debtor's non-capital loss for each taxation year that ended before that time to the extent that the amount so applied

(i) does not exceed the amount (in subsection (4) referred to as the debtor's "ordinary non-capital loss at that time for the year") that would be the relevant loss balance at that time for the obligation and in respect of the debtor's non-capital loss for the year if the description of E in the definition "non-capital loss" in subsection 111(8) were read without reference to the expression "the taxpayer's allowable business investment loss for the year", and

(ii) does not, because of this subsection, reduce the debtor's non-capital loss for a preceding taxation year;

(*b*) the debtor's farm loss for each taxation year that ended before that time, to the extent that the amount so applied

(i) does not exceed the amount that is the relevant loss balance at that time for the obligation and in respect of the debtor's farm loss for the year, and

(ii) does not, because of this subsection, reduce the debtor's farm loss for a preceding taxation year; and

(*c*) the debtor's restricted farm loss for each taxation year that ended before that time, to the extent that the amount so applied

(i) does not exceed the amount that is the relevant loss balance at that time for the obligation and in respect of the debtor's restricted farm loss for the year, and

(ii) does not, because of this subsection, reduce the debtor's restricted farm loss for a preceding taxation year.

History: S. 80(3) was amended by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.

S. 80(3) formerly read:

"(3) *Deemed settlement on winding-up.* Where

(*a*) there has been a winding-up to which the rules in subsection 88(1) applied and a debt or other obligation of the subsidiary to pay an amount to the parent or a debt or other obligation of the parent to pay an amount to the subsidiary is settled or extinguished on the winding-up without any payment or by the payment of an amount that is less than both the principal amount of the debt or obligation and the amount that would have been the cost amount to the parent or the subsidiary, as the case may be, of the debt or obligation immediately before the winding-up if

the definition 'cost amount' in subsection 248(1) were read without reference to paragraph (*e*) of that definition, and

(*b*) the parent so elects in prescribed form on or before the day on or before which the parent is required to file a return of income pursuant to section 150 for the taxation year in which the debt or obligation was settled or extinguished,

the debt or obligation shall be deemed to have been settled or extinguished on the winding-up by the payment of an amount equal to the amount that would have been the cost amount to the parent or the subsidiary, as the case may be, of the debt or obligation immediately before the winding-up if the definition 'cost amount' in subsection 248(1) were read without reference to paragraph (*e*) of that definition."

Editorial Note: The application of the forgiven amount to tax losses, per subsections 80(3) and (4), is mandatory, applying first to non-capital, farm and restricted farm losses, in that order (subsection 80(3)); then to ABILs and net capital losses, based on the gross amount of the losses (subsection 80(4)). The forgiven amount, which reduces the carryforward otherwise available for the year in which the amount is forgiven, is applied to earlier years first. These subsections apply to carryforwards, rather than current year losses or carrybacks (however, subsection 80(12) applies to current-year capital losses). The "relevant loss balance" definition in subsection 80(1) limits the forgiven amount that can be applied to loss carryforwards and is fairly similar to the loss carryforward balance. For example, the carryforwards are still subject to expiry periods, but the loss streaming rules on an acquisition of control (per subsections 111(4) and (5)) are ignored.

(See also the editorial note to subsection 80(2).)

Related Sections: S. 31(1.1) Restricted farm loss; s. 111(8), "farm loss" (the description of C); "non-capital loss" (the description of D.2).

Interpretation Bulletins: *Primary* — IT-142R3 Settlement of debts on the winding-up of a corporation.

Advance Tax Rulings: ATR-66 Non-arm's length transfer of debt followed by a winding-up and a sale of shares.

Forms: T2027.

► 80(4) ◄

(4) Reductions of capital losses. Where a commercial obligation issued by a debtor is settled at any time, the applicable fraction of the remaining unapplied portion of a forgiven amount at that time in respect of the obligation shall be applied to reduce at that time, in the following order,

(*a*) the debtor's non-capital loss for each taxation year that ended before that time to the extent that the amount so applied

(i) does not exceed the amount, if any, by which

(A) the relevant loss balance at that time for the obligation and in respect of the debtor's non-capital loss for the year

exceeds

(B) the debtor's ordinary non-capital loss (within the meaning assigned by subparagraph (3)(*a*)(i)) at that time for the year, and

(ii) does not, because of this subsection, reduce the debtor's non-capital loss for a preceding taxation year; and

(*b*) the debtor's net capital loss for each taxation year that ended before that time, to the extent that the amount so applied

(i) does not exceed the relevant loss balance at that time for the obligation and in respect of the debtor's net capital loss for the year, and

(ii) does not, because of this subsection, reduce the debtor's net capital loss for a preceding taxation year.

History: S. 80(4) was amended by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.

S. 80(4) formerly read:

"(4) *Principal for interest payable.* For the purposes of subsections (1) and (3), an amount of interest in respect of a debt or other obligation of a taxpayer shall be deemed to be a debt or other obligation issued by the taxpayer that

(*a*) has a principal amount, and

(*b*) was issued by the taxpayer for an amount,

equal to the portion of the amount of the interest that is deductible, or would, but for subsection 18(2) or (3.1) or section 21, be deductible, in computing the taxpayer's income under this Part for a taxation year."

S. 80(4) was amended by S.C. 1994, c. 7, Sched. II, s. 58(1), applicable to interest in respect of debts or other obligations settled or extinguished after May 9, 1985, except that, in its application to interest accruing before July 14, 1990, subsection 80(4) of the Act, shall be read as follows:

"(4) For the purposes of subsections (1) and (3), an amount of interest in respect of a debt or other obligation of a taxpayer shall be deemed to be a debt or other obligation issued by the taxpayer that

(*a*) has a principal amount, and

(*b*) was issued by the taxpayer for an amount,

equal to the portion of the amount of the interest that is deducted, or would, but for subsection 18(2) or (3.1) or section 21, be deductible, in computing the taxpayer's income under this Part for a taxation year."

S. 80(4) formerly read:

"(4) For the purposes of subsections (1) and (3), an amount of interest payable by a taxpayer on a debt or other obligation shall be deemed to have a principal amount equal to the portion thereof that was deducted, or would, but for subsection 18(2) or (3.1) or section 21, have been deductible, in computing the taxpayer's income for a taxation year under this Part."

Editorial Note: See the editorial note to subsection 80(3).

Related Sections: S. 111(8), "net capital loss" (the description of D); "non-capital loss".

Interpretation Bulletins: *Secondary* — IT-142R3 Settlement of debts on the winding-up of a corporation.

► 80(5) ◄

(5) Reductions with respect to depreciable property. Where a commercial obligation issued by a debtor is settled at any time, the remaining unapplied portion of the forgiven amount at that time in respect of the obligation shall be applied, in such manner as is designated by the debtor in a prescribed form filed with the debtor's return of income under this Part for the taxation year that includes that time, to reduce immediately after that time the following amounts:

(*a*) the capital cost to the debtor of a depreciable property that is owned by the debtor immediately after that time; and

(*b*) the undepreciated capital cost to the debtor of depreciable property of a prescribed class immediately after that time.

History: S. 80(5) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.

Editorial Note: After the (mandatory) application of the forgiven amount to loss carryforwards, the remaining unapplied portion of the forgiven amount may be applied (i.e., if the debtor designates) to reduce the debtor's UCC of depreciable property, cumulative eligible capital, and resource pools immediately after time of forgiveness, under subsections 80(5), (7) and (8) respectively. The application is elective, but if maximum claims are not made, the debtor cannot "move on" to later subsections, such as applying the forgiven amount to non-depreciable capital property, or transferring unapplied forgiven amounts to an eligible transferee under section 80.04. There is no requirement to designate these attributes in any order — e.g., resource pools can be designated instead of UCC — low-rate rather than high-rate CCA classes can be designated. (See also the editorial note to subsection 80(2).)

Related Sections: S. 13(7.1) Deemed capital cost of certain property; s. 13(21), "depreciable property", "undepreciated capital cost"; s. 88(1) Winding-up; s. 96(3) Agreement or election of partnership members; s. 220(3.21) Designations and allocations.

Forms: T2154.

► 80(6) ◄

(6) Restriction with respect to depreciable property. Where a commercial obligation issued by a debtor is settled at any time,

(*a*) an amount may be applied under subsection (5) to reduce, immediately after that time, the capital cost to the debtor of a depreciable property of a prescribed class only to the extent that

(i) the undepreciated capital cost to the debtor of depreciable property of that class at that time

exceeds

(ii) the total of all other reductions immediately after that time to that undepreciated capital cost; and

(*b*) an amount may be applied under subsection (5) to reduce, immediately after that time, the capital cost to the debtor of a depreciable property (other than a depreciable property of a prescribed class) only to the extent that

(i) the capital cost to the debtor of the property at that time

exceeds

(ii) the amount that was allowed to the debtor before that time under Part XVII of the *Income Tax Regulations* in respect of the property.

History: S. 80(6) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.

► 80(7) ◄

(7) Reductions of cumulative eligible capital. Where a commercial obligation issued by a debtor is settled at any time, 3/4 of the remaining unapplied portion of the forgiven amount at that time in respect of the obligation shall be applied (to the extent designated in a prescribed form filed with the debtor's return of income under this Part for the taxation year that includes that time) to reduce immediately after that time the cumulative eligible capital of the debtor in respect of each business of the debtor (or, where the debtor is at that time non-resident, in respect of each business carried on in Canada by the debtor).

History: S. 80(7) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.

Editorial Note: See the editorial note to subsection 80(5).

Related Sections: S. 14(5), "cumulative eligible capital"; s. 220(3.21) Designations and allocations.

Forms: T2154.

► 80(8) ◄

(8) Reductions of resource expenditures. Where a commercial obligation issued by a debtor is settled at any time, the remaining unapplied portion of the forgiven amount at that time in respect of the obligation shall be applied (to the extent designated in a prescribed form filed with the debtor's return of income under this Part for the taxation year that includes that time) to reduce immediately after that time the following amounts:

(*a*) where the debtor is a corporation resident in Canada throughout that year, each particular amount that would be determined in respect of the debtor under paragraph 66.7(2)(*a*), (2.3)(*a*), (3)(*a*), (4)(*a*) or (5)(*a*) if paragraphs 66.7(2.3)(*a*), (4)(*a*) and (5)(*a*) were read without reference to the expressions "30% of", "30% of" and "10% of", respectively, as a consequence of the acquisition of control of the debtor by a person or group of persons, the debtor ceasing to be exempt from tax under this Part on its taxable income or the acquisition of properties by the debtor by way of an amalgamation or merger, where the amount so applied does not exceed the successor pool immediately after that time for the obligation and in respect of the particular amount;

(*b*) the cumulative Canadian exploration expense (within the meaning assigned by subsection 66.1(6)) of the debtor;

(*c*) the cumulative Canadian development expense (within the meaning assigned by subsection 66.2(5)) of the debtor;

(*d*) the cumulative Canadian oil and gas property expense (within the meaning assigned by subsection 66.4(5)) of the debtor;

(*e*) the total determined under paragraph 66(4)(*a*) in respect of the debtor, where

(i) the debtor is resident in Canada throughout that year, and

(ii) the amount so applied does not exceed such portion of the total of the debtor's foreign exploration and development expenses (within the meaning assigned by subsection 66(15)) as were incurred by the debtor before that time and would be deductible under subsection 66(4) in computing the debtor's income for that year if the debtor had sufficient income described in subparagraph 66(4)(*b*)(ii) and if that year ended at that time; and

(*f*) the cumulative foreign resource expense (within the meaning assigned by subsection 66.21(1)) of the debtor in respect of a country.

History: S. 80(8)(*a*) was amended by S.C. 2001, c. 17, s. 58(3), applicable to taxation years that begin after 2000. S. 80(8)(*a*) formerly read:

"(*a*) where the debtor is a corporation resident in Canada throughout that year, each particular amount that would be determined in respect of the debtor under paragraph 66.7(2)(*a*), (3)(*a*), (4)(*a*) or (5)(*a*) if paragraphs 66.7(4)(*a*) and (5)(*a*) were read without reference to the expressions '30% of' and '10% of', respectively, as a consequence of the acquisition of control of the debtor by a person or group of persons, the debtor ceasing to be exempt from tax under this Part on its taxable income or the acquisition of properties by the debtor by way of an amalgamation or merger, where the amount so applied does not exceed the successor pool immediately after that time for the obligation and in respect of the particular amount;"

S. 80(8)(*f*) was added by S.C. 2001, c. 17, s. 58(4), applicable to taxation years that begin after 2000.

S. 80(8) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.

Editorial Note: See the editorial note to subsection 80(5).

Forms: T2154.

► 80(9) ◄

(9) Reductions of adjusted cost bases of capital properties. Where a commercial obligation issued by a debtor is settled at any time and amounts have been designated under subsections (5), (7) and (8) to the maximum extent permitted in respect of the settlement, subject to subsection (18)

(*a*) the remaining unapplied portion of the forgiven amount at that time in respect of the obligation shall be applied (to the extent designated in a prescribed form filed with the debtor's return of income under this Part for the taxation year that includes that time) to reduce immediately after that time the adjusted cost bases to the debtor of capital properties (other than shares of the capital stock of corporations of which the debtor is a specified shareholder at that time, debts issued by corporations of which the debtor is a specified shareholder at that time, interests in partnerships that are related to the debtor at that time, depreciable property that is not of a prescribed class, personal-use properties and excluded properties) that are owned by the debtor immediately after that time;

(*b*) an amount may be applied under this subsection to reduce, immediately after that time, the capital cost to the debtor of a depreciable property of a prescribed class only to the extent that

(i) the capital cost immediately after that time to the debtor of the property (determined without reference to the settlement of the obligation at that time)

exceeds

(ii) its capital cost immediately after that time to the debtor for the purposes of paragraphs 8(1)(*j*) and (*p*), sections 13 and 20 and any regulations made for the purpose of paragraph 20(1)(*a*) (determined without reference to the settlement of the obligation at that time); and

(*c*) for the purposes of paragraphs 8(1)(*j*) and (*p*), sections 13 and 20 and any regulations made for the purpose of paragraph 20(1)(*a*), no amount shall be considered to have been applied under this subsection.

History: S. 80(9) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.

Editorial Note: After the (mandatory) application of the forgiven amount to loss carryforwards, and provided that the maximum designation is made to depreciable property, cumulative eligible capital and resource pools (per subsections 80(5)–(8)), the remaining unapplied portion of the forgiven amount may be applied (i.e., if the debtor designates) to reduce the debtor's ACB of "general" capital property owned immediately after time of forgiveness. ("Specified shareholder property" and "related-party property" are covered in subsections 80(10) and (11). Special rules apply to partnerships (see subsection 80(18)); restrictions apply to non-residents' "excluded property".) Although there is a restriction on designating personal-use property, most other non-depreciable capital properties of the debtor can be designated. There is no specific requirement of a "nexus" to the investment or business in respect of which the debt was forgiven. The application is elective (presumably, the debtor would designate long-term holds), but if maximum claims are not made, the debtor cannot "move on", e.g., transfer unapplied forgiven amount to an eligible transferee under section 80.04. Paragraph 80(9)(*b*) also permits designations of the capital cost of depreciable property where the capital cost has been restricted for the purposes of the rules relating to depreciation, e.g., where there has been a change of use or non-arm's length transfer of the property subject to subsection 13(7).

(See also the editorial note to subsection 80(2).)

Related Sections: S. 53(2)(*g*) Amounts to be deducted — Debt forgiveness; s. 53(2)(*g*.1) Amounts to be deducted — Debt forgiveness; s. 88(1) Winding-up; s. 96(3) Agreement or election of partnership members; s. 220(3.21) Designations and allocations.

Forms: T2154.

► 80(10) ◄

(10) Reduction of adjusted cost bases of certain shares and debts. Where a commercial obligation issued by a debtor is settled at any time in a taxation year and amounts have been designated by the debtor under subsections (5), (7), (8) and (9) to the maximum extent permitted in respect of the settlement, subject to subsection (18) the remaining unapplied portion of that forgiven amount shall be applied (to the extent that it is designated in a prescribed form filed with the debtor's return of income under this Part for the year) to reduce immediately after that time the adjusted cost bases to the debtor of capital properties, owned by the debtor immediately after that time, that are shares of the capital stock of corporations of which the debtor is a specified shareholder at that time and debts issued by corporations of which the debtor is a specified shareholder at that time (other than shares of the capital stock of corporations related to the debtor at that time, debts issued by corporations related to the debtor at that time and excluded properties).

History: S. 80(10) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.

Editorial Note: After the (mandatory) application of the forgiven amount to loss carryforwards, and provided that the maximum designation is made to depreciable property, cumulative eligible capital and resource pools (per subsections 80(5)–(8)) and "general" capital property (per subsection 80(9)), the remaining unapplied portion of the forgiven amount may be applied (i.e., if the debtor designates) to reduce the debtor's ACB of capital property that is shares or debt of a corporation in which the debtor is a "specified shareholder" at the time of forgiveness, other than corporations to which the debtor is related (covered in subsection 80(11)). "Specified shareholder", per the definition in subsection 248(1), refers a debtor who owns 10% or more of the shares of any class of the corporation (or of another related corporation), counting shares owned by non-arm's-length persons. Such shareholdings may often be long-term holds and therefore advantageous to designate, although the repayment of debt owing by such a corporation may trigger a gain, if designated. (Special rules apply to partnerships (see subsection 80(18)); restrictions apply to non-residents' "excluded property".)

(See also the editorial note to subsection 80(2).)

Related Sections: S. 53(2)(*g*) Amounts to be deducted — Debt forgiveness; s. 53(2)(*g*.1) Amounts to be deducted — Debt forgiveness; s. 96(3) Agreement or election of partnership members; s. 220(3.21) Designations and allocations.

Forms: T2154.

► 80(11) ◄

(11) Reduction of adjusted cost bases of certain shares, debts and partnership interests. Where a commercial obligation issued by a debtor is settled at any time in a taxation year and amounts have been designated by the debtor under subsections (5), (7), (8), (9) and (10) to the maximum extent permitted in respect of the settlement, subject to subsection (18) the remaining unapplied portion of that forgiven amount shall be applied (to the extent that it is designated in a prescribed form filed with the debtor's return of income under this Part for the year) to reduce immediately after that time the adjusted cost bases to the debtor of

(*a*) shares and debts that are capital properties (other than excluded properties and properties the adjusted cost bases of which are reduced at that time under subsection (9) or (10)) of the debtor immediately after that time; and

(*b*) interests in partnerships that are related to the debtor at that time that are capital properties (other than excluded properties) of the debtor immediately after that time.

History: S. 80(11) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.

Editorial Note: After the (mandatory) application of the forgiven amount to loss carryforwards, and provided that the maximum designations are made under the preceding subsections, the remaining unapplied portion of the forgiven amount may be applied (i.e., if the debtor designates) to reduce the debtor's "related party property" — i.e., ACB of capital property that is shares or debts of related corporations or interests in related partnerships immediately after time of forgiveness. (Per paragraph 80(2)(*j*), related partnership status is determined by assuming that the partnership is a corporation, and pro-rating the taxpayer's interest based on fair market value.) In most cases, such designations will not be advisable because they will not alleviate an income hit under subsection 80(13). (Special rules apply to partnerships (see subsection 80(18)); restrictions apply to non-residents' "excluded property".)

(See also the editorial note to subsection 80(2).)

Related Sections: S. 53(2)(*g*) Amounts to be deducted — Debt forgiveness; s. 53(2)(*g*.1) Amounts to be deducted — Debt forgiveness; s. 96(3) Agreement or election of partnership members; s. 220(3.21) Designations and allocations.

Forms: T2154.

► 80(12) ◄

(12) Capital gain where current year capital loss. Where a commercial obligation issued by a debtor (other than a partnership) is settled at any time in a taxation year and amounts have been designated by the debtor under subsections (5), (7), (8) and (9) to the maximum extent permitted in respect of the settlement,

(*a*) the debtor shall be deemed to have a capital gain for the year from the disposition of capital property (or, where the debtor is non-resident at the end of the year, taxable Canadian property), equal to the lesser of

(i) the remaining unapplied portion of the forgiven amount at that time in respect of the obligation, and

(ii) the amount, if any, by which the total of

(A) all of the debtor's capital losses for the year from the dispositions of properties (other than listed personal properties and excluded properties), and

(B) twice the amount that would, because of subsection 88(1.2), be deductible under paragraph 111(1)(*b*) in computing the debtor's taxable income for the year, if the debtor had sufficient income and taxable capital gains for the year,

exceeds the total of

(C) all of the debtor's capital gains for the year from the dispositions of such properties (determined without reference to this subsection), and

(D) all amounts each of which is an amount deemed by this subsection to be a capital gain of the debtor for the year as a consequence of the application of this subsection to other commercial obligations settled before that time; and

(*b*) the forgiven amount at that time in respect of the obligation shall be considered to have been applied under this subsection to the extent of the amount deemed by this subsection to be a capital gain of the debtor for the year as a consequence of the application of this subsection to the settlement of the obligation at that time.

History: S. 80(12)(*a*)(ii)(B) was amended by S.C. 2001, c. 17, s. 58(5), by replacing the reference to the expression "4/3 of" with a reference to the word "twice", applicable to taxation years that end after February 27, 2000 except that, for a taxation year of a debtor that includes February 28, 2000 or October 17, 2000, or began after February 28, 2000 and ended before October 17, 2000, the reference to the word "twice" in clause 80(12)(*a*)(ii)(B) of the Act shall be read as a reference to the expression "the fraction that is the reciprocal of the fraction in paragraph 38(*a*), as enacted by subsection 22(1) of the *Income Tax Amendments Act, 2000* [S.C. 2001, c. 17], that applies to the debtor for the year, multiplied by",

S. 80(12) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.

Editorial Note: After the (mandatory) application of the forgiven amount to loss carryforwards, and provided that the maximum designations are made to depreciable property, cumulative eligible capital and resource pools (per subsections 80(5)–(8)) and "general" capital property (per subsection 80(9)), the remaining unapplied portion of the forgiven amount is applied to reduce current-year capital losses. This is done by deeming an amount of the unapplied portion equivalent to current-year capital losses to be a capital gain. The application of this provision is mandatory and does not require a designation to be filed; however, it appears that it can be avoided by not making maximum designations for elective deductions (as described above).

► 80(13) ◄

(13) Income inclusion. Where a commercial obligation issued by a debtor is settled at any time in a taxation year, there shall be added, in computing the debtor's income for the year from the source in connection with which the obligation was issued, the amount determined by the formula

$$(A + B - C - D) \times E$$

where

A is the remaining unapplied portion of the forgiven amount at that time in respect of the obligation,

B is the lesser of

(*a*) the total of all amounts designated under subsection (11) by the debtor in respect of the settlement of the obligation at that time, and

(*b*) the residual balance at that time in respect of the settlement of the obligation,

C is the total of all amounts each of which is an amount specified in an agreement filed under section 80.04 in respect of the settlement of the obligation at that time,

D is

(*a*) where the debtor has designated amounts under subsections (5), (7), (8), (9) and (10) to the maximum extent permitted in respect of the settlement, the amount, if any, by which

(i) the total of all amounts each of which is an unrecognized loss at that time, in respect of the obligation, from the disposition of a property

exceeds

(ii) twice the total of all amounts each of which is an amount by which the amount determined before that time under this subsection in respect of a settlement of an obligation issued by the debtor has been reduced because of an amount determined under this paragraph, and

(*b*) in any other case, nil, and

E is

(*a*) where the debtor is a partnership, 1, and

(*b*) in any other case, 1/2.

History: S. 80(13), subparagraph (*a*)(ii) of the description of D was amended by S.C. 2001, c. 17, s. 58(6), by replacing the reference to the expression "4/3 of" with a reference to the word "twice", applicable to taxation years that end after February 27, 2000 except that, for a taxation year of a debtor that includes February 28, 2000 or October 17, 2000, or began after February 28, 2000 and ended before October 17, 2000, the reference to the word "twice" in subparagraph (*a*)(ii) of the description of D in subsection 80(13) of the Act shall be read as a reference to the expression "the fraction that is the reciprocal of the fraction in paragraph 38(*a*), as enacted by subsection 22(1) of the *Income Tax Amendments Act, 2000* [S.C. 2001, c. 17], that applies to the debtor for the year, multiplied by".

S. 80(13), paragraph (*b*) of the description of E was amended by S.C. 2001, c. 17, s. 58(7), by replacing the reference to the number "0.75" with a reference to the fraction "1/2", applicable to taxation years that end after February 27, 2000 except that, for a taxation year of a debtor that includes February 28, 2000 or October 17, 2000, or began after February 28, 2000 and ended before October 17, 2000, the reference to the fraction "1/2" in paragraph (*b*) of the description of E in subsection 80(13) of the Act shall be read as a reference to the fraction in paragraph 38(*a*) of the Act that applies to the debtor for the year.

The description of B in section 80(13)(*b*) was amended by S.C. 1998, c. 19, s. 111(3), applicable to taxation years that end after February 21, 1994. It formerly read:

"(*b*) the total of

(i) the residual balance at that time in respect of the settlement of the obligation, and

(ii) the amount, if any, by which the amount determined for C in respect of the settlement exceeds the amount determined for A in respect of the settlement,"

S. 80(13) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.

Editorial Note: Subsection 80(13) provides for an "income hit" based on 50% (100% for a partnership) of the remaining unapplied portion of the forgiven amount (the description of A), i.e., after the application of the previous subsections (subsections 80(3)–(12)). The income hit, which is subject to reserves/offsets in sections 61.2–61.4, is adjusted for certain items, notably transfers of forgiven amounts to eligible transferees under section 80.04:

- Added are amounts applied under subsection 80(11) to reduce ACB of "related party property" (i.e., capital property that is shares or debts of

related corporations or interests in related partnerships) (the description of B).

Note: this addback (and therefore the income hit) is reduced if the "residual balance" is less than amounts applied under subsection 80(11). Basically, "residual balance" pertains to "gross tax attributes" (see below) available to persons within the debtor's Canadian control group ("directed persons", per the definition in subsection 80(1)). This addback is designed to ensure that the debtor has maximized transfers of unapplied forgiven amounts to directed persons (under section 80.04), before "related party property" can be designated by the debtor (under subsection 80(11)) to reduce the income hit. Basically, "gross tax attributes" of directed persons refer to tax attributes other than "related party property" remaining after settlement, taking into account section 80.04 transfers of unapplied forgiven amounts (see subsections 80(14) and (14.1)).

- Subtracted are transfers of unapplied forgiven amounts to eligible transferees under section 80.04 — i.e., this can be done to reduce the income hit (the description of C).
- Subtracted are certain stopped losses (under subparagraph 40(2)(*g*)(ii) — see the definition of "unrecognized loss" in subsection 80(1)), provided that maximum designations other than under subsection 80(11) have been made (the description of D).

See also the editorial note under subsection 80(2).

Related Sections: S. 12(1)(z3) Debt forgiveness; s. 28(1) Farming or fishing business; s. 61.2 Reserve for debt forgiveness for resident individuals; s. 61.3(1) Deduction for insolvency with respect to resident corporations; s. 61.3(2) Reserve for insolvency with respect to non-resident corporations; s. 61.4 Reserve for debt forgiveness for corporations and others; s. 80(16) Designations by Minister; s. 95(1), "foreign accrual property income".

Information Circulars: IC 88-2 General anti-avoidance rule — Section 245 of the Income Tax Act (para. 23).

Tax Profile: October 2008 — Tax Consequences of Debt Restructuring and Workouts in Canada.

► 80(14) ◄

(14) Residual balance. For the purpose of subsection (13), the residual balance at any time in a taxation year in respect of the settlement of a particular commercial obligation issued by a debtor is the amount, if any, by which

(*a*) the gross tax attributes of directed persons at that time in respect of the debtor

exceeds the total of

(*b*) the value of A in subsection (13) in respect of the settlement of the particular obligation at that time,

(*c*) all amounts each of which is

(i) the amount, if any, by which the value of A in subsection (13) in respect of a settlement before that time and in the year of a commercial obligation issued by the debtor exceeds the value of C in that subsection in respect of the settlement,

(ii) the value of A in subsection (13) in respect of a settlement of a commercial obligation that is deemed by paragraph 80.04(4)(*e*) to have been issued by a directed person in respect of the debtor because of the filing of an agreement under section 80.04 in respect of a settlement before that time and in the year of a commercial obligation issued by the debtor, or

(iii) the amount specified in an agreement (other than an agreement with a directed person in respect of the debtor) filed under section 80.04 in respect of the settlement before that time and in the year of a commercial obligation issued by the debtor, and

(*d*) all amounts each of which is an amount in respect of a settlement at a particular time before that time and in the year of a commercial obligation issued by the debtor equal to the least of

(i) the total of all amounts designated under subsection (11) in respect of the settlement,

(ii) the residual balance of the debtor at the particular time, and

(iii) the amount, if any, by which the sum of the values of A and B in subsection (13) in respect of the settlement exceeds the value of C in that subsection in respect of the settlement.

History: S. 80(14) was amended by S.C. 1998, c. 19, s. 111(4), applicable to taxation years that end after February 21, 1994. It formerly read:

"(14) *Residual balance.* For the purpose of subsection (13), the residual balance at any time in a taxation year in respect of the settlement of a particular commercial obligation issued by a debtor is the amount, if any, by which the total of

(*a*) all amounts each of which is an amount that would be applied under any of subsections (3) to (10) and (12) in respect of the settlements of separate commercial obligations issued by directed persons at that time in respect of the debtor if

(i) those obligations were issued at that time by those directed persons and were settled immediately after that time,

(ii) an amount equal to the forgiven amount at that time in respect of the particular obligation were the forgiven amount immediately after that time in respect of each of those obligations,

(iii) amounts were designated under subsections (5), (7), (8), (9) and (10) by those directed persons to the maximum extent permitted in respect of the settlement of each of those obligations, and

(iv) no amounts were designated under subsection (11) by any of those directed persons in respect of the settlement of any of those obligations, and

(*b*) where the debtor is a partnership, all amounts each of which is 1/4 of an amount deducted because of paragraph (*c*) or (*d*) in computing the residual balance at that time in respect of the settlement of the particular obligation,

exceeds the total of

(*c*) all amounts each of which is 4/3 of the amount that would be included under subsection (13) in computing the debtor's income for the year in respect of the settlement at or before that time of a commercial obligation issued by the debtor if the amounts determined for B and D in subsection (13) were nil,

(*d*) all amounts each of which is 4/3 of an amount that would, if the amount determined for D in subsection (13) were nil, be included under subsection (13) in computing the income of any of those directed persons in respect of the settlement of an obligation that is deemed by paragraph 80.04(4)(*e*) to have been issued by the directed person because of the filing of an agreement under section 80.04 in respect of the settlement at or before that time and in the year of a commercial obligation issued by the debtor,

(*e*) all amounts each of which is an amount specified in an agreement (other than an agreement with any of those directed persons) filed under section 80.04 in respect of the settlement at or before that time and in the year of a commercial obligation issued by the debtor, and

(*f*) all amounts each of which is the lesser of

(i) the total of all amounts designated under subsection (11) in respect of the settlement before that time and in the year of another commercial obligation issued by the debtor, and

(ii) the residual balance of the debtor at that previous time."

S. 80(14) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.

► 80(14.1) ◄

(14.1) Gross tax attributes. The gross tax attributes of directed persons at any time in respect of a debtor means the total of all amounts each of which is an amount that would be applied under any of subsections (3) to (10) and (12) in respect of a settlement of a separate commercial obligation (in this subsection referred to as a "notional obligation") issued by directed persons at that time in respect of the debtor if the following assumptions were made:

(*a*) a notional obligation was issued immediately before that time by each of those directed persons and was settled at that time;

(*b*) the forgiven amount at that time in respect of each of those notional obligations was equal to the total of all amounts each of which is a forgiven amount at or before that time and in the year in respect of a commercial obligation issued by the debtor;

(*c*) amounts were designated under subsections (5), (7), (8), (9) and (10) by each of those directed persons to the maximum extent permitted in respect of the settlement of each of those notional obligations; and

(*d*) no amounts were designated under subsection (11) by any of those directed persons in respect of the settlement of any of the notional obligations.

History: S. 80(14.1) was added by S.C. 1998, c. 19, s. 111(4), applicable to taxation years that end after February 21, 1994.

► 80(15) ◄

(15) Members of partnerships. Where a commercial debt obligation issued by a partnership (in this subsection referred to as the "partnership obligation") is settled at any time in a fiscal period of the partnership that ends in a taxation year of a member of the partnership,

(*a*) the member may deduct, in computing the member's income for the year, such amount as the member claims not exceeding the relevant limit in respect of the partnership obligation;

(*b*) for the purpose of paragraph (*a*), the relevant limit in respect of the partnership obligation is the amount that would be included in computing the member's income for the year as a consequence of the application of subsection (13) and section 96 to the settlement of the partnership obligation if the partnership had designated amounts under subsections (5), (7), (8), (9) and (10) to the maximum extent permitted in respect of each obligation settled in that fiscal period and if income arising from the application of subsection (13) were from a source of income separate from any other sources of partnership income; and

(*c*) for the purposes of this section and section 80.04,

(i) the member shall be deemed to have issued a commercial debt obligation that was settled at the end of that fiscal period,

(ii) the amount deducted under paragraph (*a*) in respect of the partnership obligation in computing the member's income shall be treated as if it were the forgiven amount at the end of that fiscal period in respect of the obligation referred to in subparagraph (i),

(iii) subject to subparagraph (iv), the obligation referred to in subparagraph (i) shall be deemed to have been issued at the same time at which, and in the same circumstances in which, the partnership obligation was issued,

(iv) where the member is a corporation the control of which was acquired at a particular time that is before the end of that fiscal period and before the corporation became a member of the partnership and the partnership obligation was issued before the particular time,

(A) subject to the application of this subparagraph to an acquisition of control of the corporation after the particular time and before the end of that fiscal period, the obligation referred to in subparagraph (i) shall be deemed to have been issued by the member after the particular time, and

(B) paragraph (*e*) of the definition "relevant loss balance" in subsection (1), paragraph (*f*) of the definition "successor pool" in that subsection and paragraph (*b*) of the definition "unrecognized loss" in that subsection do not apply in respect of that acquisition of control, and

(v) the source in connection with which the obligation referred to in subparagraph (i) was issued shall be deemed to be the source in connection with which the partnership obligation was issued.

History: S. 80(15) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.

Editorial Note: Where an amount would otherwise be included in a partner's income as a result of debt forgiveness to a partnership to which there is an income hit (i.e., s. 80(13) applies to the partnership), s. 80(15) allows a partner to claim an offsetting deduction (s. 80(15)(*a*)), which is treated as if it were a debt which was settled vis-à-vis the partner at the end of the partnership's fiscal period (s. 80(15)(*c*)(i)). Thus, it may be applied against the partner's tax accounts, etc. The deduction cannot exceed the "relevant limit" — the amount included in the partner's income assuming that the partnership made maximum designations under s. 80(5)–(10) (s. 80(15)(*b*)). (Note: under s. 80(18), the maximum designations in respect of non-depreciable capital property by a partnership cannot exceed the excess of the ACB over fair market value of the property at the time.)

It appears that the deduction does not prevent what would otherwise be the income of the partnership from increasing the partner's partnership ACB, and that the deemed forgiven debt can be applied to positive ACB which results from the income. An important advantage of the election is that the "income hit" to a partner is 50% of the amount to a partnership (see description D of s. 80(13)).

Related Sections: S. 20(1)(*uu*) Debt forgiveness; s. 61.2 Reserve for debt forgiveness for resident individuals; s. 61.3 Deduction for insolvency with respect to resident corporations; s. 61.4 Reserve for debt forgiveness for corporations and others; s. 80(18) Partnership designations; s. 80.04(4) Agreement respecting transfer of forgiven amount.

► 80(16) ◄

(16) Designations by Minister. Where a commercial obligation issued by a debtor is settled at any time in a taxation year and, as a consequence of the settlement an amount would, but for this subsection, be deducted under section 61.2 or 61.3 in computing the debtor's income for the year and the debtor has not designated amounts under subsections (5) to (11) to the maximum extent possible in respect of the settlement,

(*a*) the Minister may designate amounts under subsections (5) to (11) to the extent that the debtor would have been permitted to designate those amounts; and

(*b*) the amounts designated by the Minister shall, except for the purpose of this subsection, be deemed to have been designated by the debtor as required by subsections (5) to (11).

History: S. 80(16) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.

Editorial Note: This provision is operative where a debtor claims reserves/offsets against an "income hit" under subsection 80(13) pursuant to sections 61.2 or 61.3, and the debtor has not made the maximum designations under subsections 80(5)–(11). It allows the CRA to designate such amounts on behalf of the debtor, to the extent that the debtor would have been permitted to designate such amounts.

► 80(17) ◄

(17) Income inclusion where residual balance a positive amount. [Repealed by S.C. 1998, c. 19, s. 111(5).]

History: S. 80(17) was repealed by S.C. 1998, c. 19, s. 111(5), applicable to taxation years that end after February 21, 1994. It formerly read:

"(17) *Income inclusion where residual balance a positive amount.* Where a commercial obligation issued by a corporation is settled at any time in a taxation year and, as a consequence of the settlement an amount is deducted under section 61.3 in computing the corporation's income for the year, unless the corporation has commenced to wind up on or before the day that is 12 months after the end of the year there shall be added in computing the corporation's income for the year from the source in connection with which the obligation was issued 50% of the lesser of

(*a*) the total of all amounts designated under subsection (11) by the corporation in respect of the settlement of the obligation at that time, and

(*b*) the amount, if any, by which the lesser of

(i) the residual balance (within the meaning assigned by subsection (14)) of the corporation at that time in respect of the settlement of the obligation, and

(ii) the amount, if any, by which the amount deducted under section 61.3 in computing the corporation's income for the year exceeds the amount, if any, deducted because of paragraph 37(1)(*f*.1) in determining the balance determined under subsection 37(1) in respect of the corporation after the year because of an amount deducted under section 61.3 in computing the corporation's income for the year

exceeds the total of all amounts included because of this subsection in computing the corporation's income for the year in respect of a settlement before that time of a commercial obligation issued by the corporation."

S. 80(17) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.

Related Sections: S. 12(1)(z.3) Debt forgiveness; s. 34.2(4) Reserve.

► 80(18) ◄

(18) Partnership designations. Where a commercial obligation issued by a partnership is settled at any time after December 20, 1994, the amount designated under subsection (9), (10) or (11) in respect of the settlement by the partnership to reduce the adjusted cost base of a capital property acquired shall not exceed the amount, if any, by which the adjusted cost base at that time to the partnership of the property exceeds the fair market value at that time of the property.

History: S. 80(18) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.

Sec. 27(2), Chap. 21, S.C. 1995

Sec. 27. [Application of sections 80 to 80.04.]

(2) Sections 80 to 80.04 apply to taxation years that end after February 21, 1994, except that

(*a*) sections 80 to 80.04 do not, other than for the purposes of subsections 6(15) and (15.1), 15(1.2) and (1.21) and section 79, apply to any obligation settled or extinguished

(i) before February 22, 1994,

(ii) after February 21, 1994

(A) under the terms of an agreement in writing entered into on or before that date, or

(B) under the terms of any amendment to such an agreement, where that amendment was entered into in writing before July 12, 1994 and the amount of the settlement or extinguishment was not substantially greater than the settlement or extinguishment provided under the terms of the agreement,

(iii) before 1996 pursuant to a restructuring of debt in connection with a proceeding commenced in a court in Canada before February 22, 1994,

(iv) before 1996 in connection with a proposal (or notice of intention to make a proposal) that was filed under the *Bankruptcy and Insolvency Act*, or similar legislation of a country other than Canada, before February 22, 1994, or

(v) before 1996 in connection with a written offer that was made by, or communicated to, the holder of the obligation before February 22, 1994;

(*b*) in its application with respect to interest accruing before July 14, 1990, the words "was deductible" in paragraph 80(2)(*b*) of the Act, as enacted by subsection (1), shall be read as "was deducted"; and

(*c*) a form referred to in section 80 or subsection 80.03(7) or 80.04(6) of the Act, as enacted by subsection (1), shall be deemed to have been filed on a timely basis if it is filed with the Minister of National Revenue before 1996.

Editorial Note: See the editorial note to subsection 80(15).

SECTION 80.01: [Debt forgiveness rules — Deemed settlement of debt].

► 80.01(1) ◄

(1) Definitions. In this section,

History: S. 80.01(1) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.01.

"*commercial debt obligation*" — "commercial debt obligation" has the meaning assigned by subsection 80(1);

History: The definition "commercial debt obligation" in s. 80.01(1) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.01.

"*commercial obligation*" — "commercial obligation" has the meaning assigned by subsection 80(1);

History: The definition "commercial obligation" in s. 80.01(1) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.01.

"*debtor*" — "debtor" has the meaning assigned by subsection 80(1);

History: The definition "debtor" in s. 80.01(1) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.01.

"*distress preferred share*" — "distress preferred share" has the meaning assigned by subsection 80(1);

History: The definition "distress preferred share" in s. 80.01(1) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.01.

"*forgiven amount*" — "forgiven amount" has the meaning assigned by subsection 80(1) except that, where an amount would be included in computing a person's income under paragraph 6(1)(*a*) or subsection 15(1) as a consequence of the settlement of an obligation if the obligation were settled without any payment being made in satisfaction of its principal amount, "forgiven amount" in respect of that obligation has the meaning assigned by subsection 6(15.1) or 15(1.21), as the case may be;

History: The definition "forgiven amount" in s. 80.01(1) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.01.

"*person*" — "person" has the meaning assigned by subsection 80(1);

History: The definition "person" in s. 80.01(1) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.01.

"*specified cost*" — "specified cost" at any time to a person of an obligation means,

(*a*) where the obligation is capital property of the person at that time, the adjusted cost base at that time to the person of the obligation, and

(*b*) in any other case, the cost amount to the person of the obligation.

History: The definition "specified cost" in s. 80.01(1) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.01.

► 80.01(2) ◄

(2) Application. For the purposes of this section,

(*a*) paragraphs 80(2)(*a*), (*b*), (*j*), (*l*) and (*n*) apply; and

(*b*) a person has a significant interest in a corporation at any time if the person owned at that time

(i) shares of the capital stock of the corporation that would give the person 25% or more of the votes that could be cast under all circumstances at

an annual meeting of shareholders of the corporation, or

(ii) shares of the capital stock of the corporation having a fair market value of 25% or more of the fair market value of all the issued shares of the capital stock of the corporation

and, for the purposes of this paragraph, a person shall be deemed to own at any time each share of the capital stock of a corporation that is owned, otherwise than because of this paragraph, at that time by another person with whom the person does not deal at arm's length.

History: S. 80.01(2) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.01.

Related Sections: S. 95(2)(*g*.1) Determination of certain components of foreign accrual property income.

► 80.01(3) ◄

(3) Deemed settlement on amalgamation. Where a commercial obligation or another obligation (in this subsection referred to as the "indebtedness") of a debtor that is a corporation to pay an amount to another corporation (in this subsection referred to as the "creditor") is settled on an amalgamation of the debtor and the creditor, the indebtedness shall be deemed to have been settled immediately before the time that is immediately before the amalgamation by a payment made by the debtor and received by the creditor of an amount equal to the amount that would have been the creditor's cost amount of the indebtedness at that time if

(*a*) the definition "cost amount" in subsection 248(1) were read without reference to paragraph (*e*) of that definition; and

(*b*) that cost amount included amounts added in computing the creditor's income in respect of the portion of the indebtedness representing unpaid interest, to the extent those amounts have not been deducted in computing the creditor's income as bad debts in respect of that unpaid interest.

History: S. 80.01(3) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.01.

► 80.01(4) ◄

(4) Deemed settlement on winding-up. Where there is a winding-up of a subsidiary to which the rules in subsection 88(1) apply and

(*a*) a debt or other obligation (in this subsection referred to as the "subsidiary's obligation") of the subsidiary to pay an amount to the parent, or

(*b*) a debt or other obligation (in this subsection referred to as the "parent's obligation") of the parent to pay an amount to the subsidiary

is, as a consequence of the winding-up, settled at a particular time without any payment of an amount or by the payment of an amount that is less than the principal amount of the subsidiary's obligation or the parent's obligation, as the case may be,

(*c*) where that payment is less than the amount that would have been the cost amount to the parent or subsidiary of the subsidiary's obligation or the parent's obligation immediately before the particular time if the definition "cost amount" in subsection 248(1) were read without reference to paragraph (*e*) of that definition and the parent so elects in a prescribed form on or before the day on or before which the parent is required to file a return of income pursuant to section 150 for the taxation year that includes the particular time, the amount paid at that time in satisfaction of the principal amount of the subsidiary's obligation or the parent's obligation shall be deemed to be equal to the amount that would be the cost amount to the parent or the subsidiary, as the case may be, of the subsidiary's obligation or the parent's obligation immediately before the particular time if

(i) the definition "cost amount" in subsection 248(1) were read without reference to paragraph (*e*) of that definition, and

(ii) that cost amount included amounts added in computing the parent's income or the subsidiary's income in respect of the portion of the indebtedness representing unpaid interest, to the extent that the parent or the subsidiary has not deducted any amounts as bad debts in respect of that unpaid interest, and

(*d*) for the purposes of applying section 80 to the subsidiary's obligation, where property is distributed at any time in circumstances to which paragraph 88(1)(*a*) or (*b*) applies and the subsidiary's obligation is settled as a consequence of the distribution, the subsidiary's obligation shall be deemed to have been settled immediately before the time that is immediately before the time of the distribution and not at any later time.

History: S. 80.01(4) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.01.

Regulations: 600(*c*).
Information Circulars: IC 07-1 Taxpayer Relief Provisions.
Forms: T2027.

► 80.01(5) ◄

(5) Deemed settlement on winding-up. Where there is a winding-up of a subsidiary to which the rules in subsection 88(1) apply and, as a consequence of the winding-up, a distress preferred share issued by the subsidiary and owned by the parent (or a distress preferred share issued by the parent and owned by the subsidiary) is settled at any time without any payment of an amount or by the payment of an amount that is less than the principal amount of the share,

(*a*) where the payment was less than the adjusted cost base of the share to the parent or the subsidiary, as the case may be, immediately before that time, for the purposes of applying the provisions of this Act to the issuer of the share, the amount paid at that time in satisfaction of the principal amount of the share shall be deemed to be equal to its adjusted cost base to the parent or to the subsidiary, as the case may be; and

(*b*) for the purposes of applying section 80 to the share, where property is distributed at any time in circumstances to which paragraph 88(1)(*a*) or (*b*) applies and the share is settled as a consequence of the distribution, the share shall be deemed to have been settled immediately before the time that is immediately before the time of the distribution and not at any later time.

History: S. 80.01(5) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.01.

► 80.01(5.1) ◄

(5.1) Deemed settlement on SIFT trust wind-up event. If a trust that is a SIFT wind-up entity is the only beneficiary under another trust (in this subsection referred to as the "subsidiary trust"), and a capital property that is a debt or other obligation (in this subsection referred to as the "subsidiary trust's obligation") of the subsidiary trust to pay an amount to the SIFT wind-up entity is, as a consequence of a distribution from the subsidiary trust that is a SIFT trust wind-up event, settled at a particular time without any payment of an amount or by the payment of an amount that is less than the principal amount of the subsidiary trust's obligation

(*a*) paragraph (*b*) applies if

(i) the payment is less than the amount that would have been the adjusted cost base to the SIFT wind-up entity of the subsidiary trust's obligation immediately before the particular time, and

(ii) the SIFT wind-up entity elects, in prescribed form on or before the SIFT wind-up entity's filing-due date for the taxation year that includes the particular time, to have paragraph (*b*) apply;

(*b*) if this paragraph applies, the amount paid at the particular time in satisfaction of the principal amount of the subsidiary trust's obligation is deemed to be equal to the amount that would be the adjusted cost base to the SIFT wind-up entity of the subsidiary trust's obligation immediately before the particular time if that adjusted cost base included amounts added in computing the SIFT wind-up entity's income in respect of the portion of the indebtedness representing unpaid interest, to the extent that the SIFT wind-up entity has not deducted any amounts as bad debts in respect of that unpaid interest; and

(*c*) for the purposes of applying section 80 to the subsidiary trust's obligation, the subsidiary trust's obligation is deemed to have been settled immediately before the time that is immediately before the distribution.

History: S. 80.01(5.1) was added by S.C. 2009, c. 2, s. 17(1), applicable after July 14, 2008.

► 80.01(6) ◄

(6) Specified obligation in relation to debt parking. For the purpose of subsection (7), an obligation issued by a debtor is, at a particular time, a specified obligation of the debtor where

(*a*) at any previous time (other than a time before the last time, if any, the obligation became a parked obligation before the particular time),

(i) a person who owned the obligation

(A) dealt at arm's length with the debtor, and

(B) where the debtor is a corporation, did not have a significant interest in the debtor, or

(ii) the obligation was acquired by the holder of the obligation from another person who was, at the time of that acquisition, not related to the holder or related to the holder only because of paragraph 251(5)(*b*); or

(*b*) the obligation is deemed by subsection 50(1) to be reacquired at the particular time.

History: S. 80.01(6) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.01.

Editorial Note: See the editorial note to subsection 80.01(8).

► 80.01(7) ◄

(7) Parked obligation. For the purposes of this subsection and subsections (6), (8) and (10),

(*a*) an obligation issued by a debtor is a "parked obligation" at any time where at that time

(i) the obligation is a specified obligation of the debtor, and

(ii) the holder of the obligation

(A) does not deal at arm's length with the debtor, or

(B) where the debtor is a corporation and the holder acquired the obligation after July 12, 1994 (otherwise than pursuant to an agreement in writing entered into on or before July 12, 1994), has a significant interest in the debtor; and

(*b*) an obligation that is, at any time, acquired or reacquired in circumstances to which subparagraph (6)(*a*)(ii) or paragraph (6)(*b*) applies shall, if the obligation is a parked obligation immediately after that time, be deemed to have become a parked obligation at that time.

History: S. 80.01(7) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.01.

Editorial Note: See the editorial note to subsection 80.01(8).

► 80.01(8) ◄

(8) Deemed settlement after debt parking. Where at any particular time after February 21, 1994 a commercial debt obligation that was issued by a debtor becomes a parked obligation (otherwise than pursuant to an agreement in writing entered into before February 22, 1994) and the specified cost at the particular time to the holder of the obligation is less than 80% of the principal amount of the obligation, for the purpose of applying the provisions of this Act to the debtor

(*a*) the obligation shall be deemed to have been settled at the particular time; and

(*b*) the forgiven amount at the particular time in respect of the obligation shall be determined as if the debtor had paid an amount at the particular time in satisfaction of the principal amount of the obligation equal to that specified cost.

History: S. 80.01(8) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.01.

Editorial Note: When a commercial debt obligation becomes a "parked obligation" (this may occur, for example, if the debt becomes held by persons who closely hold the debtor corporation), and the tax cost of the obligation is less than 80% of the principal amount, the debt forgiveness rules apply as if the debt was settled based on the tax cost (subsection 80.01(8)).

To be a "parked obligation", a debt must have been a "specified obligation" (subparagraph 80.01(7)(*a*)(i)). Per subsection 80.01(6), a debt will have been a specified obligation if:

- it was previously owned by a person at arm's length with the debtor who did not have a "significant interest", if it is a corporate debtor (subparagraph 80.01(6)(*a*)(i)). Basically, "significant interest" pertains to ownership of shares having at least 25% of either votes or value, counting ownership by non-arm's length persons — see subsection 80.01(2);
- it was acquired from a non-related person (subparagraph 80.01(6)(*a*)(ii)); or
- the holder elected to claim the obligation as a bad debt under subsection 50(1) (paragraph 80.01(6)(*b*)).

In addition, the debt must become "parked" — i.e., where the holder of the obligation is not at arm's length with the debtor (clause 80.01(7)(*a*)(ii)(A)), or has a "significant interest" (see above) in a corporate debtor (clause 80.01(7)(*a*)(ii)(B)).

Common situations in which the debt parking rules apply are where a creditor who is non-arm's length to the debtor (or holds a significant interest) claims a bad debt loss under subsection 50(1), or where a corporation is taken over at significantly less than book value (i.e., debt is acquired for less than 80% of its principal amount). Subsection 80.01(10) permits, in certain circumstances, a debtor to claim a deduction for a payment made in respect of the principal amount of a commercial debt obligation that was previously settled.

Technical Note: The specified obligation must "become" a parked obligation, normally requiring a change of status from "unparked" to "parked". However, in the case of items 2 and 3 above, paragraph 80.01(7)(*b*) deems a debt to have "become" parked if it is a parked debt immediately after these circumstances apply. This may deem the debt parking rules to apply for certain simultaneous sales of shares and debt.

Related Sections: S. 79(3) Proceeds of disposition for debtor.
Canadian Tax Foundation: Ruby, "Section 80 and Unincorporated Entities", *1997 Conference Report*, 19:1; Ahmed and Silverson, "The New Debt Forgiveness Rules: Planning Opportunities and Traps for the Unwary", *1996 Conference Report*, Vol. 1, 21:1.

► 80.01(9) ◄

(9) Statute-barred debt. Where at any particular time after February 21, 1994 a commercial debt obligation issued by a debtor that is payable to a person (other than a person with whom the debtor is related at the particular time) becomes unenforceable in a court of competent jurisdiction because of a statutory limitation period and the obligation would, but for this subsection, not have been settled or extinguished at the particular time, for the purpose of applying the provisions of this Act to the debtor, the obligation shall be deemed to have been settled at the particular time.

History: S. 80.01(9) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.01.

► 80.01(10) ◄

(10) Subsequent payments in satisfaction of debt. Where a commercial debt obligation issued by a debtor is first deemed by subsection (8) or (9) to have been settled at a particular time, at a subsequent time a payment is made by the debtor of an amount in satisfaction of the principal amount of the obligation and it cannot reasonably be considered that one of the reasons the obligation became a parked obligation or became unenforceable, as the case may be, before the subsequent time was to have this subsection apply to the payment, in computing the debtor's income for the taxation year (in this subsection referred to as the "subsequent year") that includes the subsequent time from the source in connection with which the obligation was issued, there may be deducted the amount determined by the formula

$$0.5(A - B) - C$$

where

A is the amount of the payment,

B is the amount, if any, by which

(*a*) the principal amount of the obligation

exceeds the total of

(*b*) all amounts each of which is a forgiven amount at any time

(i) in the period that began at the particular time and ended immediately before the subsequent time, and

(ii) at which a particular portion of the obligation is deemed by subsection (8) or (9) to be settled

in respect of the particular portion, and

(*c*) all amounts paid in satisfaction of the principal amount of the obligation in the period that began at the particular time and ended immediately before the subsequent time, and

C is the amount, if any, by which the total of

(*a*) all amounts deducted under section 61.3 in computing the debtor's income for the subsequent year or a preceding taxation year,

(*b*) all amounts added because of subsection 80(13) in computing the debtor's income for the subsequent year or a preceding taxation year in respect of a settlement under subsection (8) or (9) in a period during which the debtor was exempt from tax under this Part on its taxable income, and

(*c*) all amounts added because of subsection 80(13) in computing the debtor's income for the subsequent year or a preceding taxation year in respect of a settlement under subsection (8) or (9) in a period during which the debtor was non-resident (other than any of those amounts added in computing the debtor's taxable income or taxable income earned in Canada)

exceeds the total of

(*d*) the amount, if any, deducted because of paragraph 37(1)(*f*.1) in determining the balance determined under subsection 37(1) in respect of the debtor immediately after the subsequent year, and

(*e*) all amounts by which the amount deductible under this subsection in respect of a payment made by the debtor before the subsequent time in computing the debtor's income for the subsequent year or a preceding year has been reduced because of this description.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 59(2) of the *Income Tax Amendments Act, 2000* [S.C. 2001, c. 17, the application of the amendment to subsection 80.01(10)] is replaced by the following:

(2) Subsection (1) applies to taxation years that end after February 27, 2000, except that, for a taxation year of a debtor that includes either February 28, 2000 or October 17, 2000, or began after February 28, 2000 and ended before October 17, 2000, the reference to "1/2" in subsection 80.01(10) of the Act, as enacted by subsection (1), is to be read as a reference to the fraction in paragraph 38(*a*) of the Act that applied to the debtor for the year in which the commercial debt obligation was deemed to have been settled.

Applicable: Deemed to have come into force on June 14, 2001.

Explanatory Note:

Debt Forgiveness Rules

Subsection 59(2) of the *Income Tax Amendments Act, 2000* is amended to provide that, in computing a debtor's income for a particular taxation year, the fraction in paragraph 38(*a*) of the *Income Tax Act* to be applied in respect of the settlement of a commercial debt obligation is the fraction in that paragraph that applied to the debtor in the debtor's taxation year in which the obligation was deemed to have been settled instead of the

fraction in that paragraph that applies to the debtor in the particular taxation year.

This change corrects a technical deficiency, and is deemed to have come into force on June 14, 2001.

History: S. 80.01(10) was amended by S.C. 2001, c. 17, s. 59(1), by replacing the reference to the number "0.75" in the formula with a reference to the number "0.5", applicable to taxation years that end after February 27, 2000 except that, for a taxation year of a debtor that includes February 28, 2000 or October 17, 2000, or began after February or October 17, 2000 or began after February 28, 2000 and ended before October 17, 2000, the reference to the fraction "½" in subsection 80.01(10) of the Act shall be read as a reference to the fraction in paragraph 38(*a*) of the Act that applies to the debtor for the year.

S. 80.01(10) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.01.

Related Sections: S. 20(1)(*uu*) Debt forgiveness; s. 87(2)(*j.21*) Forgiven amount.

► 80.01(11) ◄

(11) Foreign currency gains and losses. Where an obligation issued by a debtor is denominated in a currency (other than the Canadian currency) and the obligation is deemed by subsection (8) or (9) to have been settled, those subsections do not apply for the purpose of determining any gain or loss of the debtor on the settlement that is attributable to a fluctuation in the value of the currency relative to the value of Canadian currency.

History: S. 80.01(11) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.01.

Sec. 27(2), Chap. 21, S.C. 1995

Sec. 27. [Application of sections 80 to 80.04.]

(2) Sections 80 to 80.04 apply to taxation years that end after February 21, 1994, except that

(*a*) sections 80 to 80.04 do not, other than for the purposes of subsections 6(15) and (15.1), 15(1.2) and (1.21) and section 79, apply to any obligation settled or extinguished

(i) before February 22, 1994,

(ii) after February 21, 1994

(A) under the terms of an agreement in writing entered into on or before that date, or

(B) under the terms of any amendment to such an agreement, where that amendment was entered into in writing before July 12, 1994 and the amount of the settlement or extinguishment was not substantially greater than the settlement or extinguishment provided under the terms of the agreement,

(iii) before 1996 pursuant to a restructuring of debt in connection with a proceeding commenced in a court in Canada before February 22, 1994,

(iv) before 1996 in connection with a proposal (or notice of intention to make a proposal) that was filed under the *Bankruptcy and Insolvency Act*, or similar legislation of a country other than Canada, before February 22, 1994, or

(v) before 1996 in connection with a written offer that was made by, or communicated to, the holder of the obligation before February 22, 1994;

(*b*) in its application with respect to interest accruing before July 14, 1990, the words "was deductible" in paragraph 80(2)(*b*) of the Act, as enacted by subsection (1), shall be read as "was deducted"; and

(*c*) a form referred to in section 80 or subsection 80.03(7) or 80.04(6) of the Act, as enacted by subsection (1), shall be deemed to have been filed on a timely basis if it is filed with the Minister of National Revenue before 1996.

SECTION 80.02: [Debt forgiveness rules — Distress preferred shares].

► 80.02(1) ◄

(1) Definitions. In this section, "commercial debt obligation", "commercial obligation", "distress preferred share" and "person" have the meanings assigned by subsection 80(1).

History: S. 80.02(1) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.02.

► 80.02(2) ◄

(2) General rules for distress preferred shares. For the purpose of applying the provisions of this Act to an issuer of a distress preferred share,

(*a*) the principal amount, at any time, of the share shall be deemed to be the amount (determined at that time) for which the share was issued;

(*b*) the amount for which the share was issued shall, at any time, be deemed to be the amount, if any, by which the total of

(i) the amount for which the share was issued, determined without reference to this paragraph, and

(ii) all amounts by which the paid-up capital in respect of the share increased after the share was issued and before that time

exceeds

(iii) the total of all amounts each of which is an amount paid before that time on a reduction of the paid-up capital in respect of the share, except to the extent that the amount is deemed by section 84 to have been paid as a dividend;

(*c*) the share shall be deemed to be settled at such time as it is redeemed, acquired or cancelled by the issuer; and

(*d*) a payment in satisfaction of the principal amount of the share is any payment made on a reduction of the paid-up capital in respect of the share to the extent that the payment would be proceeds of disposition of the share within the meaning that would be assigned by the definition "proceeds of disposition" in section 54 if that definition were read without reference to paragraph (*j*).

History: S. 80.02(2) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.02.

Related Sections: S. 95(2)(*g.1*) Determination of certain components of foreign accrual property income.

► 80.02(3) ◄

(3) Substitution of distress preferred share for debt. Where any part of the consideration given by a corporation to another person for the settlement or extinguishment at any time of a commercial debt obligation that was issued by the corporation and owned immediately before that time by the other person consists of a distress preferred share issued by the corporation to the other person,

(*a*) for the purposes of section 80, the amount paid at that time in satisfaction of the principal amount of the obligation because of the issue of that share shall be deemed to be equal to the lesser of

(i) the principal amount of the obligation, and

(ii) the amount by which the paid-up capital in respect of the class of shares that include that

share increases because of the issue of that share; and

(*b*) for the purpose of subparagraph (2)(*b*)(i), the amount for which the share was issued shall be deemed to be equal to the amount deemed by paragraph (*a*) to have been paid at that time.

History: S. 80.02(3) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.02.

► 80.02(4) ◄

(4) Substitution of commercial debt obligation for distress preferred share. Where any part of the consideration given by a corporation to another person for the settlement at any time of a distress preferred share that was issued by the corporation and owned immediately before that time by the other person consists of a commercial debt obligation issued by the corporation to the other person, for the purposes of section 80

(*a*) the amount paid at that time in satisfaction of the principal amount of the share because of the issue of that obligation shall be deemed to be equal to the principal amount of the obligation; and

(*b*) the amount for which the obligation was issued shall be deemed to be equal to its principal amount.

History: S. 80.02(4) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.02.

► 80.02(5) ◄

(5) Substitution of distress preferred share for other distress preferred share. Where any part of the consideration given by a corporation to another person for the settlement at any time of a particular distress preferred share that was issued by the corporation and owned immediately before that time by the other person consists of another distress preferred share issued by the corporation to the other person, for the purposes of section 80

(*a*) the amount paid at that time in satisfaction of the principal amount of the particular share because of the issue of the other share shall be deemed to be equal to the amount by which the paid-up capital in respect of the class of shares that includes the other share increases because of the issue of the other share; and

(*b*) for the purpose of subparagraph (2)(*b*)(i), the amount for which the other share was issued shall be deemed to be equal to the amount deemed by paragraph (*a*) to have been paid at that time.

History: S. 80.02(5) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.02.

► 80.02(6) ◄

(6) Substitution of non-commercial obligation for distress preferred share. Where any part of the consideration given by a corporation to another person for the settlement at any time of a distress preferred share that was issued by the corporation and owned immediately before that time by the other person consists of another share (other than a distress preferred share) or an obligation (other than a commercial obligation) issued by the corporation to the other person, for the purposes of section 80, the amount paid at that time in satisfaction of the principal amount of the distress preferred share because of the issue of the other share or obligation shall be deemed to be equal to the fair market value of the other share or obligation, as the case may be, at that time.

History: S. 80.02(6) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.02.

► 80.02(7) ◄

(7) Deemed settlement on expiry of term. Where at any time a distress preferred share becomes a share that is not a distress preferred share, for the purposes of section 80

(*a*) the share shall be deemed to have been settled immediately before that time; and

(*b*) a payment equal to the fair market value of the share at that time shall be deemed to have been made immediately before that time in satisfaction of the principal amount of the share.

History: S. 80.02(7) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.02.

Sec. 27(2), Chap. 21, S.C. 1995

Sec. 27. [Application of sections 80 to 80.04.]

(2) Sections 80 to 80.04 apply to taxation years that end after February 21, 1994, except that

(*a*) sections 80 to 80.04 do not, other than for the purposes of subsections 6(15) and (15.1), 15(1.2) and (1.21) and section 79, apply to any obligation settled or extinguished

(i) before February 22, 1994,

(ii) after February 21, 1994

(A) under the terms of an agreement in writing entered into on or before that date, or

(B) under the terms of any amendment to such an agreement, where that amendment was entered into in writing before July 12, 1994 and the amount of the settlement or extinguishment was not substantially greater than the settlement or extinguishment provided under the terms of the agreement,

(iii) before 1996 pursuant to a restructuring of debt in connection with a proceeding commenced in a court in Canada before February 22, 1994,

(iv) before 1996 in connection with a proposal (or notice of intention to make a proposal) that was filed under the *Bankruptcy and Insolvency Act*, or similar legislation of a country other than Canada, before February 22, 1994, or

(v) before 1996 in connection with a written offer that was made by, or communicated to, the holder of the obligation before February 22, 1994;

(*b*) in its application with respect to interest accruing before July 14, 1990, the words "was deductible" in paragraph 80(2)(*b*) of the Act, as enacted by subsection (1), shall be read as "was deducted"; and

(*c*) a form referred to in section 80 or subsection 80.03(7) or 80.04(6) of the Act, as enacted by subsection (1), shall be deemed to have been filed on a timely basis if it is filed with the Minister of National Revenue before 1996.

SECTION 80.03:

► 80.03(1) ◄

(1) Definitions. In this section, "commercial debt obligation", "commercial obligation", "distress preferred share", "forgiven amount" and "person" have the meanings assigned by subsection 80(1).

History: S. 80.03(1) was amended by S.C. 1998, c. 19, s. 112(1), applicable to taxation years that end after February 21, 1994. It formerly read:

"(1) *Definitions.* In this section,

(*a*) 'commercial debt obligation', 'commercial obligation', 'distress preferred share', 'forgiven amount' and 'person' have the meanings assigned by subsection 80(1); and

(*b*) 'taxable dividend' does not include any capital gains dividends (within the meaning assigned by subsection 131(1))."

S. 80.03(1) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.03.

► 80.03(2) ◄

(2) Deferred recognition of debtor's gain on settlement of debt. Where at any time in a taxation year a person (in this subsection referred to as the "transferor") surrenders a particular capital property (other than a distress preferred share) that is a share, a capital interest in a trust or an interest in a partnership, the person shall be deemed to have a capital gain from the disposition at that time of another capital property (or, where the particular property is a taxable Canadian property, another taxable Canadian property) equal to the amount, if any, by which

(*a*) the total of all amounts deducted under paragraph 53(2)(*g.1*) in computing the adjusted cost base to the transferor of the particular property immediately before that time

exceeds the total of

(*b*) the amount that would be the transferor's capital gain for the year from the disposition of the particular property if this Act were read without reference to subsection 100(2), and

(*c*) where, at the end of the year, the transferor is resident in Canada or is a non-resident person who carries on business in Canada through a fixed place of business, the amount designated under subsection (7) by the transferor in respect of the disposition, at that time or immediately after that time, of the particular property.

History: S. 80.03(2) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.03.

Editorial Note: Subsection 80.03(2) is intended to prevent a person (including a partnership) from enjoying indefinite deferrals for capital properties whose ACB has been reduced under subsections 80(9) to (11). It applies where a person "surrenders" capital property; such a surrender occurs in respect of:

- the disposition of shares of a subsidiary on a subsection 88(1) winding up (subparagraph 80.03(3)(*a*)(i));
- shares of another corporation which merges with the corporate shareholder (subparagraph 80.03(3)(*a*)(ii));
- a capital interest in a personal trust disposed of under an otherwise tax-deferred rollover pursuant to paragraph 107(2)(*c*) (paragraph 80.03(3)(*b*)); or
- a partnership interest disposed of under an otherwise tax-deferred rollover in respect of partnership dissolutions pursuant to subsection 98(3) or (5) (paragraph 80.03(3)(*c*)).

In these four situations, the person is deemed to have a capital gain equal to the ACB reductions under paragraph 53(2)(*g.1*) in respect of the surrendered property, which are based on application of subsections 80(9)–(11) (paragraph 80.03(2)(*a*)). However, this amount is reduced by actual capital gains on the surrendered property, except to the extent of negative ACB of a partnership interest (paragraph 80.03(2)(*b*)). Alternatively, the person may treat all or part of the capital gain that would otherwise arise as a forgiven amount, to the extent that so designated under subsection 80.03(7) (paragraph 80.03(2)(*c*)).

Related Sections: S. 95(2)(*g.1*) Determination of certain components of foreign accrual property income.

► 80.03(3) ◄

(3) Surrender of capital property. For the purpose of subsection (2), a person shall be considered to have surrendered a property at any time only where

(*a*) in the case of a share of the capital stock of a particular corporation,

(i) the person is a corporation that disposed of the share at that time and the proceeds of disposition of the share are determined under paragraph 88(1)(*b*), or

(ii) the person is a corporation that owned the share at that time and, immediately after that time, amalgamates or merges with the particular corporation;

(*b*) in the case of a capital interest in a trust, the person disposed of the interest at that time and the proceeds of disposition are determined under paragraph 107(2)(*c*); and

(*c*) in the case of an interest in a partnership, the person disposed of the interest at that time and the proceeds of disposition are determined under paragraph 98(3)(*a*) or (5)(*a*).

Editorial Note: See the editorial note to subsection 80.03(2).

History: S. 80.03(3) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.03.

► 80.03(4) ◄

(4) Dispositions by corporations. [Repealed by S.C. 1998, c. 19, s. 112(2).]

History: S. 80.03(4) was repealed by S.C. 1998, c. 19, s. 112(2), applicable to taxation years that end after February 21, 1994. It formerly read:

"(4) *Dispositions by corporations.* Where at any time in a taxation year a corporation (in this subsection referred to as the 'vendor') disposes of a particular capital property that is a share, an interest in a partnership or a capital interest in a trust, otherwise than by way of a disposition to which subsection (2) or 53(6) applies, a disposition to another corporation in circumstances to which subsection 53(5) applies, or a disposition the proceeds from which are determined under subsection 47(1), section 86 or any of the provisions (other than subsection 97(2)) referred to in subsection 53(4), the vendor shall be deemed to have a capital gain from the disposition at that time of another capital property (or where the particular property is a taxable Canadian property, another taxable Canadian property) equal to the amount, if any, by which the lesser of

(*a*) all amounts deducted under paragraph 53(2)(*g.1*) in computing the adjusted cost base to the vendor of the particular property immediately before that time, and

(*b*) where the particular property

(i) is a share, the total of all amounts each of which is

(A) a taxable dividend on the share that was received in the specified period relating to the disposition of the share, to the extent that the dividend is deductible in computing taxable income of a holder of the share or a beneficiary under a trust that held the share, or

(B) a capital dividend on the share that was received in the specified period relating to the disposition of the share,

(ii) is an interest in a partnership, the total of all amounts each of which is

(A) the share of a taxable dividend relating to the interest that was received after July 12, 1994 and in a fiscal period of the partnership that ended in the specified period relating to the disposition of the interest, to the extent that such share is deductible in computing taxable income of a person holding the interest in the partnership or a beneficiary under a trust that held the interest in the partnership, or

(B) the share of a capital dividend relating to the interest that was received after July 12, 1994 and in a fiscal period of the partnership that ended in the specified period relating to the disposition of the interest, or

(iii) is a capital interest in a trust, the total of all amounts each of which is such portion of a taxable dividend that was received by the trust in the specified period relating to the disposition of the capital interest and that was deemed by subsection 104(19) to have been received in respect of the capital interest, to the extent that such portion was deductible in computing taxable income of a person holding the capital interest

exceeds the total of

(*c*) the amount that would be the vendor's capital gain for the year from the disposition of the particular property if this Act were read without reference to subparagraph 40(1)(*a*)(iii) and subsection 100(2), and

(*d*) where the vendor is resident in Canada at the end of the year or is a non-resident person who carries on business in Canada through a fixed place of business at the end of the year, the amount designated under subsection (7) by the vendor in respect of the disposition of the particular property."

S. 80.03(4) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.03.

► 80.03(5) ◄

(5) Specified period. [Repealed by S.C. 1998, c. 19, s. 112(2).]

History: S. 80.03(5) was repealed by S.C. 1998, c. 19, s. 112(2), applicable to taxation years that end after February 21, 1994. It formerly read:

"(5) *Specified period.* For the purpose of subsection (4), the specified period relating to a disposition at a particular time of a property by a person is the period

(*a*) that began at or on the later of July 12, 1994 and the last time before the particular time that the person acquired the property, and

(*b*) that ended at the particular time."

S. 80.03(5) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.03.

► 80.03(6) ◄

(6) When property acquired. [Repealed by S.C. 1998, c. 19, s. 112(2).]

History: S. 80.03(6) was repealed by S.C. 1998, c. 19, s. 112(2), applicable to taxation years that end after February 21, 1994. It formerly read:

"(6) *When property acquired.* For the purposes of this subsection and subsection (5), where, as a consequence of the disposition at a particular time of a property to a person, an amount is deducted under paragraph 53(2)(*g.1*) in computing the adjusted cost base of the property after the particular time, the person shall be deemed not to have acquired the property at the particular time and to have acquired the property at the time it was last acquired before the particular time."

S. 80.03(6) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.03.

► 80.03(7) ◄

(7) Alternative treatment. Where at any time in a taxation year a person disposes of a property, for the purposes of subsection (2) and section 80

(*a*) the person may designate an amount in a prescribed form filed with the person's return of income under this Part for the year; and

(*b*) where an amount is designated by the person under paragraph (*a*) in respect of the disposition,

(i) the person shall be deemed to have issued a commercial debt obligation at that time that is settled immediately after that time,

(ii) the lesser of the amount so designated and the amount that would, but for this subsection, be a capital gain determined in respect of the disposition because of subsection (2) shall be treated as if it were the forgiven amount at the time of the settlement in respect of the obligation referred to in subparagraph (i),

(iii) the source in connection with which the obligation referred to in subparagraph (i) was issued shall be deemed to be the business, if any, carried on by the person at the end of the year, and

(iv) where the person does not carry on a business at the end of the year, the person shall be deemed to carry on an active business at the end of the year and the source in connection with which the obligation referred to in subparagraph (i) was issued shall be deemed to be the business deemed by this subparagraph to be carried on.

History: S. 80.03(7), the portion before paragraph (*a*) was amended by S.C. 1998, c. 19, s. 112(3), applicable to taxation years that end after February 21, 1994. It formerly read:

"(7) *Alternative treatment.* Where at any time in a taxation year a person disposes of a property, for the purposes of subsections (2) and (4) and section 80"

S. 80(7)(*b*)(ii) was amended by S.C. 1998, c. 19, s. 112(4), applicable to taxation years that end after February 21, 1994. It formerly read:

"(ii) the lesser of the amount so designated and the amount that would, but for this subsection, be a capital gain determined in respect of the disposition because of subsection (2) or (4) shall be treated as if it were the forgiven amount at the time of the settlement in respect of the obligation referred to in subparagraph (i),"

S. 80.03(7) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.03.

Editorial Note: See the editorial note to subsection 80.03(2).

Related Sections: S. 87(2)(*h.1*) Debts; s. 220(3.21) Designations and allocations.

Forms: T2155.

► 80.03(8) ◄

(8) Lifetime capital gains exemption. Where, as a consequence of the disposition at any time by an individual of a property that is a qualified farm property of the individual or a qualified small business corporation share of the individual (within the meanings assigned by subsection 110.6(1)), the individual is deemed by subsection (2) to have a capital gain at that time from the disposition of another property, for the purposes of sections 3, 74.3 and 111, as they apply for the purpose of section 110.6, the other property shall be deemed to be a qualified farm property of the individual or a qualified small business corporation share of the individual, as the case may be.

History: S. 80.03(8) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.03.

Sec. 27(2), Chap. 21, S.C. 1995

Sec. 27. [Application of sections 80 to 80.04.]

(2) Sections 80 to 80.04 apply to taxation years that end after February 21, 1994, except that

(*a*) sections 80 to 80.04 do not, other than for the purposes of subsections 6(15) and (15.1), 15(1.2) and (1.21) and section 79, apply to any obligation settled or extinguished

(i) before February 22, 1994,

(ii) after February 21, 1994

(A) under the terms of an agreement in writing entered into on or before that date, or

(B) under the terms of any amendment to such an agreement, where that amendment was entered into in writing before July 12, 1994 and the amount of the settlement or extinguishment was not substantially greater than the settlement or extinguishment provided under the terms of the agreement,

(iii) before 1996 pursuant to a restructuring of debt in connection with a proceeding commenced in a court in Canada before February 22, 1994,

(iv) before 1996 in connection with a proposal (or notice of intention to make a proposal) that was filed under the *Bankruptcy and Insolvency Act*, or similar legislation of a country other than Canada, before February 22, 1994, or

(v) before 1996 in connection with a written offer that was made by, or communicated to, the holder of the obligation before February 22, 1994;

(*b*) in its application with respect to interest accruing before July 14, 1990, the words "was deductible" in paragraph 80(2)(*b*) of the Act, as enacted by subsection (1), shall be read as "was deducted"; and

(*c*) a form referred to in section 80 or subsection 80.03(7) or 80.04(6) of the Act, as enacted by subsection (1), shall be deemed to have been filed on a timely basis if it is filed with the Minister of National Revenue before 1996.

SECTION 80.04: [Debt forgiveness rules — Transfer of forgiven amount].

► 80.04(1) ◄

(1) Definitions. In this section, "commercial debt obligation", "commercial obligation", "debtor", "directed person", "eligible Canadian partnership", "forgiven amount" and "person" have the meanings assigned by subsection 80(1).

History: S. 80.04(1) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.04.

► 80.04(2) ◄

(2) Eligible transferee. For the purpose of this section, an "eligible transferee" of a debtor at any time is a directed person at that time in respect of the debtor or a taxable Canadian corporation or eligible Canadian partnership related (otherwise than because of a right referred to in paragraph 251(5)(*b*)) at that time to the debtor.

History: S. 80.04(2) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.04.

Related Sections: S. 87(2)(*h.1*) Debts.

► 80.04(3) ◄

(3) Application. Paragraphs 80(2)(*a*), (*b*), (*j*), (*l*) and (*n*) apply for the purpose of this section.

History: S. 80.04(3) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.04.

► 80.04(4) ◄

(4) Agreement respecting transfer of forgiven amount. Where

(*a*) a particular commercial obligation (other than an obligation deemed by paragraph (*e*) to have been issued) issued by a debtor is settled at a particular time,

(*b*) amounts have been designated by the debtor under subsections 80(5) to (10) to the maximum extent permitted in respect of the settlement of the particular obligation at the particular time,

(*c*) the debtor and an eligible transferee of the debtor at the particular time file under this section an agreement between them in respect of that settlement, and

(*d*) an amount is specified in that agreement

the following rules apply:

(*e*) except for the purposes of subsection 80(11), the transferee shall be deemed to have issued a commercial debt obligation that was settled at the particular time,

(*f*) the specified amount shall be deemed to be the forgiven amount at the particular time in respect of the obligation referred to in paragraph (*e*),

(*g*) subject to paragraph (*h*), the obligation referred to in paragraph (*e*) shall be deemed to have been issued at the same time (in paragraph (*h*) referred to as the "time of issue") at which, and in the same circumstances in which, the particular obligation was issued,

(*h*) where the transferee is a corporation the control of which was acquired by a person or group of persons after the time of issue and the transferee and the debtor were not related to each other immediately before that acquisition of control,

(i) the obligation referred to in paragraph (*e*) shall be deemed to have been issued after that acquisition of control, and

(ii) paragraph (*e*) of the definition "relevant loss balance" in subsection 80(1), paragraph (*f*) of the definition "successor pool" in that subsection and paragraph (*b*) of the definition "unrecognized loss" in that subsection do not apply in respect of that acquisition of control,

(*i*) the source in connection with which the obligation referred to in paragraph (*e*) was issued shall be deemed to be the source in connection with which the particular obligation was issued, and

(*j*) for the purposes of sections 61.3 and 61.4, the amount included under subsection 80(13) in computing the income of the eligible transferee in respect of the settlement of the obligation referred to in paragraph (*e*) or deducted under paragraph 80(15)(*a*) in respect of such income shall be deemed to be nil.

History: S. 80.04(4) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.04.

Related Sections: S. 96(3) Agreement or election of partnership members; s. 256(7) Acquiring control.

► 80.04(5) ◄

(5) Consideration for agreement. For the purposes of this Part, where property is acquired at any time by an eligible transferee as consideration for entering into an agreement with a debtor that is filed under this section

(*a*) where the property was owned by the debtor immediately before that time,

(i) the debtor shall be deemed to have disposed of the property at that time for proceeds equal to the fair market value of the property at that time, and

(ii) no amount may be deducted in computing the debtor's income as a consequence of the transfer of the property, except any amount arising as a consequence of the application of subparagraph (i);

(*b*) the cost at which the property was acquired by the eligible transferee at that time shall be deemed to be equal to the fair market value of the property at that time; and

(*c*) the eligible transferee shall not be required to add an amount in computing income solely because of the acquisition at that time of the property;

(*d*) [Repealed by S.C. 1998, c. 19, s. 113(1).]

History: S. 80.04(5)(*b*) and (*c*) were amended by S.C. 1998, c. 19, s. 113(1), applicable to taxation years that end after February 21, 1994. It formerly read:

"(*b*) the cost at which the property was acquired by the eligible transferee at that time shall be deemed to be equal to the fair market value of the property at that time;

(*c*) the eligible transferee shall not be required to add an amount in computing income solely because of the acquisition at that time of the property; and"

S. 80.04(5)(*d*) was repealed by S.C. 1998, c. 19, s. 113(1), applicable to taxation years that end after February 21, 1994. It formerly read:

"(*d*) no benefit shall be considered to have been conferred on the debtor as a consequence of the debtor entering into an agreement filed under this section."

S. 80.04(5) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.04.

► 80.04(5.1) ◄

(5.1) No benefit conferred. For the purposes of this Part, where a debtor and an eligible transferee enter into an agreement that is filed under this section, no benefit shall be considered to have been conferred on the debtor as a consequence of the agreement.

History: S. 80.04(5.1) was added by S.C. 1998, c. 19, s. 113(2), applicable to taxation years that end after February 21, 1994.

► 80.04(6) ◄

(6) Manner of filing agreement. Subject to subsection (7), a particular agreement between a debtor and an eligible transferee in respect of an obligation issued by the debtor that was settled at any time shall be deemed not to have been filed under this section

(*a*) where it is not filed with the Minister in a prescribed form

(i) on or before the later of

(A) the day on or before which the debtor's return of income under this Part is required to be filed for the taxation year or fiscal period, as the case may be, that includes that time (or would be required to be filed if tax under this Part were payable by the debtor for the year), and

(B) the day on or before which the transferee's return of income under this Part is required to be filed for the taxation year or fiscal period, as the case may be, that includes that time, or

(ii) within the period within which the debtor or the transferee may serve a notice of objection to an assessment of tax payable under this Part for a taxation year or fiscal period, as the case may be, described in clause (i)(A) or (B), as the case may be;

(*b*) where it is not accompanied by,

(i) where the debtor is a corporation and its directors are legally entitled to administer its affairs, a certified copy of their resolution authorizing the agreement to be made,

(ii) where the debtor is a corporation and its directors are not legally entitled to administer its affairs, a certified copy of the document by which the person legally entitled to administer its affairs authorized the agreement to be made,

(iii) where the transferee is a corporation and its directors are legally entitled to administer its affairs, a certified copy of their resolution authorizing the agreement to be made, and

(iv) where the transferee is a corporation and its directors are not legally entitled to administer its affairs, a certified copy of the document by which the person legally entitled to administer its affairs authorized the agreement to be made; or

(*c*) if an agreement amending the particular agreement has been filed in accordance with this section, except where subsection (8) applies to the particular agreement.

History: S. 80.04(6) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.04.

Forms: T2156.

► 80.04(7) ◄

(7) Filing by partnership. For the purpose of subsection (6), where an obligation is settled at any time in a fiscal period of a partnership, it shall be assumed that

(*a*) the partnership is required to file a return of income under this Part for the fiscal period on or before the latest day on or before which any member of the partnership during the fiscal period is required to file a return of income under this Part for the taxation year in which that fiscal period ends (or would be required to file such a return of income if tax under this Part were payable by the member for that year); and

(*b*) the partnership may serve a notice of objection described in subparagraph (6)(*a*)(ii) within each period within which any member of the partnership during the fiscal period may serve a notice of objection to tax payable under this Part for a taxation year in which that fiscal period ends.

History: S. 80.04(7) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.04.

► 80.04(8) ◄

(8) Related corporations. Where at any time a corporation becomes related to another corporation and it can reasonably be considered that the main purpose of the corporation becoming related to the other corporation is to enable the corporations to file an agreement under this section, the amount specified in the agreement shall be deemed to be nil for the purpose of the description of C in subsection 80(13).

History: S. 80.04(8) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.04.

► 80.04(9) ◄

(9) Assessment of taxpayers in respect of agreement. The Minister shall, notwithstanding subsections 152(4) to (5), assess or reassess the tax, interest and penalties payable under this Act by any taxpayer in order to take into account an agreement filed under this section.

History: S. 80.04(9) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.04.

► 80.04(10) ◄

(10) Liability of debtor. Without affecting the liability of any person under any other provision of this Act, where a debtor and an eligible transferee file an agreement between them under this section in respect of an obligation issued by the debtor that was settled at any time, the debtor is, to the extent of 30% of the amount specified in the agreement, liable to pay

(*a*) where the transferee is a corporation, all taxes payable under this Act by it for taxation years that end in the period that begins at that time and ends 4 calendar years after that time;

(*b*) where the transferee is a partnership, the total of all amounts each of which is the tax payable under this Act by a person for a taxation year

(i) that begins or ends in that period, and

(ii) that includes the end of a fiscal period of the partnership during which the person was a member of the partnership; and

(*c*) interest and penalties in respect of such taxes.

History: S. 80.04(10)(*a*) was amended by S.C. 1998, c. 19, s. 113(3), applicable to taxation years that end after February 21, 1994. It formerly read:

"(*a*) where the transferee is a corporation, all taxes payable under this Act by it for taxation years that end in the period that begins at that time and ends 10 calendar years after that time;"

S. 80.04(10) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.04.

► 80.04(11) ◄

(11) Joint liability. Where taxes, interest and penalties are payable under this Act by a person for a taxation year and those taxes, interest and penalties are payable by a debtor because of subsection (10), the debtor and the person are jointly and severally liable to pay those amounts.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 80.04(11) of the English version of the Act is replaced by the following:

(11) Joint and several, or solidary, liability. Where taxes, interest and penalties are payable under this Act by a person for a taxation year and those taxes, interest and penalties are payable by a debtor because of subsection (10), the debtor and the person are jointly and severally, or solidarily, liable to pay those amounts.

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

History: S. 80.04(11) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.04.

► 80.04(12) ◄

(12) Assessments in respect of liability. Where a debtor and an eligible transferee file an agreement between them under this section in respect of an obligation issued by the debtor that was settled at a particular time,

(*a*) where the debtor is an individual or a corporation, the Minister may at any subsequent time assess the debtor in respect of taxes, interest and penalties for which the debtor is liable because of subsection (10); and

(*b*) where the debtor is a partnership, the Minister may at any subsequent time assess any person who has been a member of the partnership in respect of taxes, interest and penalties for which the partnership is liable because of subsection (10), to the extent that those amounts relate to taxation years of the transferee (or, where the transferee is another partnership, members of the other partnership) that end at or after

(i) where the person was not a member of the partnership at the particular time, the first subsequent time the person becomes a member of the partnership, and

(ii) in any other case, the particular time.

History: S. 80.04(12) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.04.

► 80.04(13) ◄

(13) Application of Division I. The provisions of Division I apply to an assessment under subsection (12) as though it had been made under section 152.

History: S. 80.04(13) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.04.

► 80.04(14) ◄

(14) Partnership members. For the purposes of paragraphs (10)(*b*) and (12)(*b*) and this subsection, where at any time a member of a particular partnership is another partnership, each member of the other partnership shall be deemed to be a member of the particular partnership at that time.

History: S. 80.04(14) was added by S.C. 1995, c. 21, s. 27(1). For its application, see S.C. 1995, c. 21, s. 27(2), reproduced after section 80.04.

Sec. 27(2), Chap. 21, S.C. 1995

Sec. 27. [Application of sections 80 to 80.04.]

(2) Sections 80 to 80.04 apply to taxation years that end after February 21, 1994, except that

(*a*) sections 80 to 80.04 do not, other than for the purposes of subsections 6(15) and (15.1), 15(1.2) and (1.21) and section 79, apply to any obligation settled or extinguished

(i) before February 22, 1994,

(ii) after February 21, 1994

(A) under the terms of an agreement in writing entered into on or before that date, or

(B) under the terms of any amendment to such an agreement, where that amendment was entered into in writing before July 12, 1994 and the amount of the settlement or extinguishment was not substantially greater than the settlement or extinguishment provided under the terms of the agreement,

(iii) before 1996 pursuant to a restructuring of debt in connection with a proceeding commenced in a court in Canada before February 22, 1994,

(iv) before 1996 in connection with a proposal (or notice of intention to make a proposal) that was filed under the *Bankruptcy and Insolvency Act*, or similar legislation of a country other than Canada, before February 22, 1994, or

(v) before 1996 in connection with a written offer that was made by, or communicated to, the holder of the obligation before February 22, 1994;

(*b*) in its application with respect to interest accruing before July 14, 1990, the words "was deductible" in paragraph 80(2)(*b*) of the Act, as enacted by subsection (1), shall be read as "was deducted"; and

(*c*) a form referred to in section 80 or subsection 80.03(7) or 80.04(6) of the Act, as enacted by subsection (1), shall be deemed to have been filed on a timely basis if it is filed with the Minister of National Revenue before 1996.

SECTION 80.1:

► 80.1(1) ◄

(1) Expropriation assets acquired as compensation for, or as consideration for sale of, foreign property taken by or sold to foreign issuer. Where in a taxation year ending coincidentally with or after December 31, 1971 a taxpayer resident in Canada has acquired any bonds, debentures, mortgages, hypothecary claims, notes or similar obligations (in this section referred to as "expropriation assets") issued by the government of a country other than Canada or issued by a person resident in a country other

than Canada and guaranteed by the government of that country,

(*a*) as compensation for

(i) shares owned by the taxpayer of the capital stock of a foreign affiliate of the taxpayer that carried on business in that country, or

(ii) all or substantially all of the property used by the taxpayer in carrying on business in that country,

(which shares or property, as the case may be, are referred to in this section as "foreign property"), taken, after June 18, 1971, from the taxpayer by the issuer under the authority of a law of that country, or

(*b*) as consideration for the sale of foreign property sold, after June 18, 1971, by the taxpayer to the issuer, if

(i) the sale was, by a law of that country, expressly required to be made, or

(ii) the sale was made after notice or other manifestation of an intention to take the foreign property,

if the taxpayer has so elected, in prescribed form and within prescribed time, in respect of all of the expropriation assets so acquired by the taxpayer, the following rule applies, namely, an amount in respect of each such expropriation asset, equal to

(*c*) the principal amount of the asset, or

(*d*) where the taxpayer has designated in the taxpayer's election an amount in respect of the asset that is less than the principal amount thereof, the amount so designated,

shall be deemed to be

(*e*) the cost to the taxpayer of the asset, and

(*f*) for the purpose of computing the taxpayer's proceeds of disposition of the foreign property so taken or sold, the amount received by the taxpayer by virtue of the taxpayer's acquisition of the asset,

except that in no case may the taxpayer designate an amount in respect of any expropriation asset so that the taxpayer's proceeds of disposition of the foreign property so taken or sold (computed having regard to the provisions of paragraph (*f*)) are less than the cost amount to the taxpayer of the foreign property immediately before it was so taken or sold.

History: S. 80.1(1), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 210, applicable on Royal Assent, June 14, 2001. S. 80.1(1), the portion before paragraph (*a*) formerly read:

"S. 80.1. *Expropriation assets acquired as compensation for or as consideration for sale of foreign property taken by or sold to foreign issuer.*

(1) Where in a taxation year ending coincidentally with or after December 31, 1971 a taxpayer resident in Canada has acquired any bonds, debentures, mortgages, notes or similar obligations (in this section referred to as 'expropriation assets') issued by the government of a country other than Canada or issued by a person resident in a country other than Canada and guaranteed by the government of that country,"

Related Sections: S. 53(1) Adjustments to cost base; s. 53(2) Amounts to be deducted; s. 80.1(4) Assets acquired from foreign affiliate of taxpayer as dividend in kind or as benefit to shareholder; s. 80.1(5) Assets acquired from foreign affiliate of taxpayer as consideration for settlement, etc., of debt; s. 80.1(6) Assets acquired from foreign affiliate of taxpayer on winding-up, etc; s. 90–95 Shareholders of corporations not resident in Canada.
Regulations: 600(*b*); Part XLV.
Forms: T2079.

► 80.1(2) ◄

(2) Election re interest received or to be received on expropriation assets acquired by taxpayer. Where a taxpayer has elected in prescribed form and within prescribed time in respect of all amounts (each of which is referred to in this section as an "interest amount") received or to be received by the taxpayer as or on account of interest on all expropriation assets acquired by the taxpayer as compensation for, or as consideration for the sale of, foreign property taken by or sold to any particular issuer as described in subsection (1), the following rules apply in respect of each such asset so acquired by the taxpayer:

(*a*) in computing the taxpayer's income for a taxation year from the asset, there may be deducted, in respect of each interest amount received by the taxpayer in the year on the asset, the lesser of the interest amount and the total of

(i) the amount required by paragraph (*b*) to be added, by virtue of the receipt by the taxpayer of the interest amount, in computing the adjusted cost base to the taxpayer of the asset, and

(ii) the greater of

(A) the adjusted cost base to the taxpayer of the asset immediately before the interest amount was so received by the taxpayer, and

(B) the adjusted principal amount to the taxpayer of the asset immediately before the interest amount was so received by the taxpayer,

and there shall be included, in respect of each amount (in this paragraph referred to as a "capital amount") received by the taxpayer in the year as, on account or in lieu of payment of, or in satisfaction of,

(iii) any proceeds of disposition of the asset, or

(iv) the principal amount of the asset,

the amount, if any, by which the capital amount exceeds the greater of the adjusted cost base to the taxpayer of the asset immediately before the capital amount was received by the taxpayer and its adjusted principal amount to the taxpayer at that time;

(*b*) in computing, at any particular time, the adjusted cost base to the taxpayer of the asset, there shall be added, in respect of each interest amount received by the taxpayer on the asset before the particular time, an amount equal to the lesser of

(i) any income or profits tax paid by the taxpayer to the government of a country other than Canada in respect of the interest amount, and

(ii) that proportion of the tax referred to in subparagraph (i) that the adjusted cost base to the taxpayer of the asset immediately before the interest amount was received by the taxpayer is of the amount, if any, by which the interest amount exceeds the tax referred to in that subparagraph,

and there shall be deducted

(iii) each interest amount received by the taxpayer on the asset before the particular time, and

(iv) each amount received by the taxpayer before the particular time on account of the principal amount of the asset;

(*c*) the receipt by the taxpayer of an amount described in subparagraph (*b*)(iv) in respect of the asset shall be deemed not to be a partial disposition thereof; and

(*d*) for the purposes of section 126, notwithstanding the definition "non-business-income tax" in subsection 126(7), the "non-business-income tax" paid by a taxpayer does not include any tax, or any portion thereof, the amount of which is required by paragraph (*b*) to be added in computing the adjusted cost base to the taxpayer of the asset.

Related Sections: S. 80.1(3) Where interest amount and capital amount received at same time; s. 80.1(7) Definition of "adjusted principal amount"; s. 80.1(8) Currency in which adjusted principal amount to be computed or expressed; s. 80.1(9) Election in respect of two or more expropriation assets acquired by taxpayer.
Regulations: Part XLV.
Forms: T2079.

► 80.1(3) ◄

(3) Where interest amount and capital amount received at same time. For the purposes of subsection (2), where an interest amount on an expropriation asset and a capital amount with respect to that asset are received by a taxpayer at the same time, the interest amount shall be deemed to have been received by the taxpayer immediately before the capital amount.

► 80.1(4) ◄

(4) Assets acquired from foreign affiliate of taxpayer as dividend in kind or as benefit to shareholder. Where a foreign affiliate of a taxpayer resident in Canada would, on the assumption that the foreign affiliate were resident in Canada and its only foreign affiliates were corporations that were foreign affiliates of the taxpayer, be entitled to make an election under subsection (1) in respect of assets acquired by it that would, on that assumption, be expropriation assets of the foreign affiliate, and all or any of those assets are subsequently acquired by the taxpayer from the foreign affiliate as a dividend payable in kind, or as a benefit received from the foreign affiliate that would otherwise be required by subsection 15(1) to be included in computing the income of the taxpayer, if the taxpayer has so elected, in prescribed form and within prescribed time, in respect of all assets so acquired by the taxpayer from the foreign affiliate, the following rules apply in respect of each asset so acquired by the taxpayer:

(*a*) an amount equal to

(i) the principal amount of the asset, or

(ii) where the taxpayer has designated in the taxpayer's election an amount in respect of the asset that is less than the principal amount thereof, the amount so designated,

shall be deemed to be,

(iii) notwithstanding subsection 52(2), the cost to the taxpayer of the asset, and

(iv) the amount of the dividend or benefit, as the case may be, received by the taxpayer by virtue of the acquisition by the taxpayer of the asset;

(*b*) where the asset was so acquired as such a benefit and the taxpayer has designated in the election a class of shares as described in this paragraph in respect of the asset, the amount of the benefit shall be deemed

(i) to have been received by the taxpayer as a dividend from the foreign affiliate in respect of such class of shares of the capital stock thereof as the taxpayer has designated in the election, and

(ii) not to be an amount required by subsection 15(1) to be included in computing the taxpayer's income;

(*c*) in computing the taxable income of the taxpayer for the taxation year in which the taxpayer acquired the asset, there may be deducted from the taxpayer's income for the year the amount, if any, by which the amount received by the taxpayer as a dividend by virtue of the acquisition by the taxpayer of the asset exceeds the total of amounts deductible in respect of the dividend under sections 91 and 113 in computing the taxpayer's income or taxable income, as the case may be, for the year;

(*d*) there shall be deducted in computing the adjusted cost base to the taxpayer of each share of the capital stock of the foreign affiliate that is a share of a class in respect of which an amount was received by the taxpayer as a dividend by virtue of the acquisition by the taxpayer of the asset, the quotient obtained by dividing the amount, if any, deducted by the taxpayer under paragraph (*c*) in respect of the dividend by the number of shares of that class owned by the taxpayer immediately before that amount was received by the taxpayer as a dividend;

(*e*) any capital loss of the taxpayer from the disposition, after the time when the asset was so acquired by the taxpayer, of a share of the capital stock of the foreign affiliate shall be deemed to be nil; and

(*f*) where the taxpayer has so elected in prescribed form and within prescribed time, subsection (2) applies as if the asset were an expropriation asset acquired by the taxpayer as compensation for foreign property taken by a particular issuer as described in subsection (1).

Related Sections: S. 53(2)(*b*) Amounts to be deducted — Share of non-resident corporation; s. 220(3.2) Late, amended or revoked elections.
Regulations: 600(b); Part XLV.
Information Circulars: IC 07-1 Taxpayer Relief Provisions.
Forms: T2079.

► 80.1(5) ◄

(5) Assets acquired from foreign affiliate of taxpayer as consideration for settlement, etc., of debt. Where a foreign affiliate of a taxpayer resident in Canada would, on the assumption that the foreign affiliate were resident in Canada and its only foreign affiliates were corporations that were foreign affiliates of the taxpayer, be entitled to make an election under subsection (1) in respect of assets acquired by it that would, on that assumption, be expropriation assets of the foreign affiliate, and all or any of those assets are subsequently acquired by the taxpayer from the foreign affiliate as consideration for the settlement or extinguishment of a capital property of the taxpayer that was a debt payable by the foreign affiliate to the taxpayer or any other obligation of the foreign affiliate to pay an amount to the taxpayer (which debt or other obligation is referred to in this subsection as the "obligation"), if the taxpayer has so elected, in prescribed form and within prescribed time, in respect of all of the assets so acquired by the taxpayer from the foreign affiliate, the following rules apply in respect of each such asset so acquired by the taxpayer:

(*a*) paragraph (4)(*a*) applies in respect of the asset as if subparagraph (4)(*a*)(iv) were read as follows:

"(iv) the taxpayer's proceeds of the disposition of the obligation settled or extinguished by virtue of the acquisition by the taxpayer of the asset;";

(*b*) where the taxpayer has designated in the taxpayer's election a class of shares as described in this paragraph in respect of the asset,

(i) the amount, if any, by which the cost to the taxpayer of the asset (computed having regard to paragraph (*a*) and paragraph (4)(*a*)) exceeds the amount of the obligation settled or extinguished by virtue of the acquisition by the taxpayer of the asset shall be deemed to have been received by the taxpayer as a dividend from the foreign affiliate in respect of such class of shares of the capital stock thereof as the taxpayer has designated in the election, and

(ii) the taxpayer's gain, if any, from the disposition of the obligation shall be deemed to be nil;

(*c*) the taxpayer's loss, if any, from the disposition of the obligation shall be deemed to be nil; and

(*d*) paragraphs (4)(*c*) to (*f*) apply in respect of the asset.

Regulations: Part XLV.
Forms: T2079.

► 80.1(6) ◄

(6) Assets acquired from foreign affiliate of taxpayer on winding-up, etc. Where a foreign affiliate of a taxpayer resident in Canada would, on the assumption that the foreign affiliate were resident in Canada and its only foreign affiliates were corporations that were foreign affiliates of the taxpayer, be entitled to make an election under subsection (1) in respect of assets acquired by it that would, on that assumption, be expropriation assets of the foreign affiliate, and all or any of those assets are subsequently acquired by the taxpayer from the foreign affiliate,

(*a*) on the winding-up, discontinuance or reorganization of the business of the foreign affiliate, or

(*b*) as consideration for the redemption, cancellation or acquisition by the foreign affiliate of shares of its capital stock,

if the taxpayer has so elected, in prescribed form and within prescribed time,

(*c*) in respect of all of the assets so acquired by the taxpayer from the foreign affiliate, subsection (1) applies in respect of each such asset, or

(*d*) in respect of all amounts received or to be received by the taxpayer as or on account of interest on all of the assets so acquired by the taxpayer from the foreign affiliate, subsection (2) applies in respect of each such asset,

as if the assets were expropriation assets acquired by the taxpayer as consideration for the sale of foreign property that consisted of shares of the capital stock of the foreign affiliate owned by the taxpayer immediately before the assets were so acquired and that was sold to a particular issuer as described in subsection (1).

Forms: T2079.

► 80.1(7) ◄

(7) Definition of "adjusted principal amount". In this section, "adjusted principal amount" to a taxpayer of an expropriation asset at any particular time means the amount, if any, by which

(*a*) the total of the principal amount of the asset and, in respect of each interest amount received by the taxpayer on the asset before the particular time, the lesser of the tax referred to in subparagraph (2)(*b*)(i) in respect of that interest amount and the proportion determined under subparagraph (2)(*b*)(ii) in respect thereof,

exceeds

(*b*) the total of each amount received by the taxpayer before the particular time as an interest amount on the asset and each amount received by the taxpayer before the particular time as, on account or in lieu of payment of, or in satisfaction of, the principal amount of the asset.

Related Sections: S. 80.1(9) Election in respect of two or more expropriation assets acquired by taxpayer.

► 80.1(8) ◄

(8) Currency in which adjusted principal amount to be computed or expressed. For the purposes of this section, the adjusted principal amount, at any particular time, of an expropriation asset or of any asset assumed for the purposes of this section to be an expropriation asset shall be computed in the currency in which the principal amount of the asset is, under the terms thereof, payable, except that for greater certainty, for the purposes of paragraph (2)(*a*), the adjusted principal amount at any particular time of such an asset is its adjusted principal amount at that time computed as provided in this subsection but expressed in Canadian currency.

Related Sections: S. 80.1(9) Election in respect of two or more expropriation assets acquired by taxpayer.

► 80.1(9) ◄

(9) Election in respect of two or more expropriation assets acquired by taxpayer. For the purposes of subdivision c and subsection (2), and in applying subsections (7) and (8) for those purposes, where two or more expropriation assets that were

(*a*) issued by the government of a country other than Canada, or

(*b*) issued by a person resident in a country other than Canada and guaranteed by the government of that country

at the same time, or as compensation for, or consideration for the sale of, the same foreign property, have been acquired by a taxpayer and the taxpayer has so elected, in prescribed form and within prescribed time, in respect of all of the expropriation assets that were so issued or guaranteed by the government of that country and acquired by the taxpayer before the making of the election, all of those expropriation assets shall be considered to be a single expropriation asset that was issued or guaranteed by the government of that country and acquired by the taxpayer.

Forms: T2079.

SECTION 80.2: Reimbursement by taxpayer.

[Repealed by S.C. 2003, c. 28, s. 9(1).]

[Editorial note: S. 80.2 was repealed for taxation years that begin after 2006. See the history note following s. 80.2. However, it is proposed that the repeal of s. 80.2 be itself repealed, with the result that s. 80.2 will continue in force. However, as stated in the explanatory notes, s. 80.2 "will apply only to specified amounts paid in respect of original amounts that are paid or become payable or receivable in taxation years or fiscal periods of the recipient that begin before 2007". See the Pending Amendments for s. 80.2.]

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 80.2 of the Act is replaced by the following:

SECTION 80.2:

(1) Application. Subsections (2) to (13) apply if

(*a*) in a taxation year, a taxpayer, under the terms of a contract, pays to a person (referred to in this section as the "recipient") an amount (referred to in this section as the "specified amount") that may reasonably be considered to be received by the recipient as a reimbursement of, or a contribution or an allowance in respect of, an amount (referred to in this section as the "original amount")

(i) that was described by paragraph 18(1)(*m*) and was paid or payable by the recipient, or

(ii) that was, in respect of the recipient, an amount described by paragraph 12(1)(*o*);

(*b*) the original amount is paid or became payable or receivable in a taxation year or fiscal period of the recipient that begins before 2007; and

(*c*) the taxpayer is resident in Canada or carries on business in Canada when the specified amount is paid.

(2) Rules relating to time of payment. If the specified amount is paid in a taxation year of the taxpayer that begins before 2008, the eligible portion of the specified amount, referred to in subsection (11), is deemed to be a payment described by paragraph 18(1)(*m*). If, however, the specified amount is paid in a taxation year of the taxpayer that begins after 2007, the specified amount is deemed, for the purpose of applying this section to the taxpayer, to be nil.

(3) Applying paragraph 18(1)(*m*). For the purpose of applying paragraph 18(1)(*m*) for the taxpayer's taxation year in which the specified amount was paid, the amount to which that paragraph applies is to be determined for that taxation year

(*a*) if the taxpayer was in existence at the time the original amount became receivable by a person referred to in subparagraph 12(1)(*o*)(i) or became payable to a person referred to in subparagraph 18(1)(*m*)(i), as if the specified amount were paid by the taxpayer at that time; and

(*b*) in any other case, as if

(i) the taxpayer were in existence and had a calendar taxation year at the time the original amount became receivable by a person referred to in subparagraph 12(1)(*o*)(i) or became payable to a person referred to in subparagraph 18(1)(*m*)(i), and

(ii) the specified amount were paid by the taxpayer at that time.

(4) Exception for certain partnership reimbursements. Subsection (3) does not apply to a specified amount paid by a taxpayer if

(*a*) the recipient is a partnership;

(*b*) the original amount became receivable by a person referred to in subparagraph 12(1)(*o*)(i) or became payable to a person referred to in subparagraph 18(1)(*m*)(i), in a particular fiscal period of the partnership;

(*c*) the taxpayer is a member of the partnership at the end of the particular fiscal period; and

(*d*) the taxpayer paid the specified amount before the end of the taxation year of the taxpayer in which that particular fiscal period ends.

(5) Specified amount deemed to be paid at end of taxation year. A specified amount paid by the taxpayer to a partnership is deemed to have been paid on the last day of a particular taxation year of the taxpayer, and not at the time it was paid, if

(*a*) the taxpayer paid an amount to the partnership in the particular taxation year (referred to in this subsection as the "initial payment");

(*b*) the initial payment was paid before September 17, 2004;

(*c*) the initial payment is an amount to which subsection (3) did not apply because of subsection (4);

(*d*) the taxpayer's share of the original amount in respect of the initial payment is greater than the initial payment;

(*e*) the specified amount is equal to or less than the difference between the taxpayer's share of the original amount in respect of the initial payment and the initial payment;

(*f*) the taxpayer elects in the taxpayer's return of income for the taxpayer's taxation year that includes the time at which the specified amount would, if this Act were read without reference to this subsection, have been paid, to have this subsection apply to the specified amount; and

(*g*) the specified amount is paid before 2006.

(6) Inclusion in recipient's income. The recipient shall include in computing the recipient's income for the taxation year or fiscal period in which the original amount was paid or became payable or receivable, the amount, if any, by which the eligible portion of the specified amount exceeds the portion of the original amount that was included in computing the income of the recipient for the taxation year or fiscal period because of paragraph 12(1)(*o*) or that was not deductible in computing the income of the recipient for the taxation year or fiscal period because of paragraph 18(1)(*m*).

(7) Interpretation — portion of the original amount. For the purpose of subsection (6), the portion of the original amount that was included in computing the income of the recipient or that was not deductible in computing the income of the recipient is the amount that would be included in computing the income of the recipient under paragraph 12(1)(*o*) or that would not be deductible in computing the income of the recipient under paragraph 18(1)(*m*), if the original amount were equal to the eligible portion of the specified amount.

(8) Inclusion in recipient's income. The recipient shall include, in computing the recipient's income for its taxation year or fiscal period in which the original amount was paid or became payable or receivable, the amount, if any, by which the specified amount exceeds the eligible portion of the specified amount.

(9) Deduction by taxpayer. Subject to paragraphs 18(1)(*a*) and (*b*), the taxpayer may deduct in computing the taxpayer's income for the taxpayer's taxation year in which the specified amount was paid, the amount, if any, by which the specified amount exceeds the eligible portion of the specified amount.

(10) Specified amount deemed not to be payable or receivable. Except for the purposes of this section and subparagraph 53(1)(*e*)(iv.1),

(*a*) the taxpayer is deemed not to have paid, and not to have been obligated to pay, the specified amount; and

(*b*) the recipient is deemed not to have received, and not to have been entitled to receive, the specified amount.

(11) Eligible portion of a specified amount. The eligible portion of a specified amount is

(*a*) an amount equal to the specified amount if

(i) the specified amount was paid before September 17, 2004,

(ii) the original amount is a tax imposed under a provincial law on the production of

(A) petroleum, natural gas or related hydrocarbons from a natural accumulation of petroleum or natural gas (other than a mineral resource) located in Canada, or from an oil or gas well located in Canada if the petroleum, natural gas or related hydrocarbons are not, before extraction, owned by the Crown in right of Canada or a province, or

(B) metals, minerals or coal from a mineral resource located in Canada if the metals, minerals or coal are not, before extraction, owned by the Crown in right of Canada or a province,

(iii) the specified amount does not exceed the taxpayer's share of the original amount, or

(iv) the original amount is a prescribed amount; and

(*b*) the taxpayer's share of the original amount, in any other case.

(12) Taxpayer's share of original amount. A taxpayer's share of an original amount in respect of a specified amount paid by the taxpayer to a recipient in respect of a property is the amount that may reasonably be considered to be the taxpayer's share of the total of all amounts described in paragraph 12(1)(*o*) or 18(1)(*m*) in respect of the property, which share may not exceed the total of

(*a*) that proportion of the total of all amounts described in paragraph 12(1)(*o*) or 18(1)(*m*) in respect of the property that the taxpayer's share of production from the property payable to the taxpayer as a royalty, which royalty is computed without reference to the costs of exploration or production, is of the total production from the property, and

(*b*) that proportion of the total of all amounts described in paragraph 12(1)(*o*) or 18(1)(*m*) in respect of the property (other than those amounts which the recipient has received or is entitled to receive as a reimbursement, contribution or allowance in respect of a royalty described in paragraph (*a*)) that the taxpayer's share of the income from the property is of the total income from the property.

(13) Reduction in original amount for Part XII of the regulations. For the purpose of applying Part XII of the *Income Tax Regulations*, an original amount in respect of which a specified amount is received is deemed, for the taxation year in which the original amount was paid or became payable or receivable, not to include an amount equal to the eligible portion of the specified amount.

Applicable: In respect of specified amounts paid after 2001.

Where a person is liable to an amount of tax under Part I of the Act for a taxation year that exceeds the amount to which the person would be liable if section 80.2 applied as it read on December 31, 2001, the person is deemed, for the purpose of determining any interest or penalty payable by that person, to have paid the excess on that person's balance-due date, if

(*a*) the person's balance-due date for the taxation year was before September 17, 2004; and

(*b*) the excess was paid to the Receiver General before March 2005.

Notwithstanding subsections 152(4) to (5) of the Act, all assessments, determinations, and redeterminations may be made as necessary to give effect to [the amendment and application of section 80.2 noted above.]

Explanatory Note: Section 80.2 of the Act is a special rule that applies where a taxpayer pays an amount to another person as a reimbursement, contribution or allowance (collectively referred to herein as a "reimbursement") in respect of a Crown charge described in paragraph 12(1)(*o*) or 18(1)(*m*) of the Act. If applicable, section 80.2 deems the taxpayer to have paid an amount described in paragraph 18(1)(*m*) and deems the other person (the "recipient") neither to have received nor to have become entitled to receive the reimbursement. In effect, section 80.2 provides for the transfer of non-deductible Crown charges from the recipient to the taxpayer. Normally, the taxpayer is entitled to a share of the production or the income from production from the property that is subject to the Crown charge. Therefore, although section 80.2 treats the taxpayer as having incurred a non-deductible Crown charge, the taxpayer would be entitled to a deduction under paragraph 20(1)(*v.1*) of the Act (resource allowance) calculated by reference to the taxpayer's income from the property.

Section 80.2 operates to deem the taxpayer making the reimbursement to have paid an amount described in paragraph 18(1)(*m*) only to the extent that the reimbursed Crown charge was either included in the recipient's income or was denied as a deduction in computing the recipient's income. With the phasing out of the income inclusion in paragraph 12(1)(*o*) and the prohibition against the deduction of Crown charges in paragraph 18(1)(*m*), section 80.2 may no longer apply to the entire amount of a reimbursement. In addition, section 80.2 does not explicitly preclude the recipient from taking a deduction (or reducing an income inclusion) in respect of a reimbursed Crown charge. As well, since section 80.2 does not deem the taxpayer to have made the reimbursement at the time the obligation to pay the Crown charge arose, a taxpayer may seek to increase the percentage of the reimbursement that is not subject to paragraph 18(1)(*m*) by delaying the reimbursement. For these reasons, the total amount deductible in computing the income of the taxpayer and the recipient may, in certain circumstances, exceed the amount that was intended to be deductible.

Accordingly, section 80.2 of the Act is amended:

(a) to eliminate any excess deductions that may be available as a result of a reimbursement of a Crown charge;

(b) to preclude a taxpayer who makes a reimbursement of a Crown charge from increasing the amount deductible by delaying the time of the reimbursement; and

(c) to ensure that a taxpayer who makes a reimbursement of a Crown charge is deemed to have paid an amount described in paragraph 18(1)(*m*) only to the extent that the reimbursed Crown charge can reasonably be considered to relate to the taxpayer's share of the production, or the income from production, from the property to which the Crown charge relates.

New section 80.2 of the Act applies to reimbursements made after 2001, except that, the rule described in paragraph (*c*) above, applies only to reimbursements made on or after September 17, 2004.

The ability to claim excess deductions in respect of reimbursed Crown charges is eliminated by treating the eligible portion of the reimbursement (in most cases, the full amount of the reimbursement) as a payment described in paragraph 18(1)(*m*) (subsection 80.2(2)) and by reversing the benefit of any deduction in respect of a reimbursed Crown charge claimed by the recipient (subsection 80.2(6)). The eligible portion of the reimbursement is referred to in new section 80.2 as the "eligible portion of the specified amount" (see discussion below under subsections 80.2(11) and (12)). The amount of a reimbursement that exceeds the eligible portion of the specified amount is included in the income of the recipient (subsection 80.2(8)) and, subject to paragraphs 18(1)(*a*) and (*b*), is deductible in computing the income of the taxpayer (subsection 80.2(9)). In addition, new subsection 80.2(3) of the Act precludes a taxpayer from increasing the deductible portion of a reimbursement by delaying the time of the reimbursement. It does this by ensuring that the amount deductible is determined by reference to the time that the reimbursed Crown charge was imposed (*i.e.*, became payable to, or receivable by, the Crown or an emanation of the Crown). It should be noted that new subsection 80.2(3) does not apply to a reimbursement paid to a partnership if the reimbursement meets the conditions described in new subsection 80.2(4) of the Act. These conditions, which are set out in paragraphs 80.2(4)(*a*) to (*d*), are discussed in the commentary to new subsection 80.2(4).

Subsection 80.2(1) — Application

New subsection 80.2(1) of the Act provides that subsections 80.2(2) to (13) apply if a taxpayer (either resident in Canada or carrying on business in Canada) pays an amount, under the terms of a contract, that may reasonably be considered to have been received by the recipient as a reimbursement in respect of a Crown charge described by paragraph 12(1)(*o*) or 18(1)(*m*) of the Act. The Crown charge is referred to in new section 80.2 as the "original amount." By referring to an original amount "described" by paragraphs 12(1)(*o*) or 18(1)(*m*) (and not the amount either included in income or denied as a deduction under these provisions), subsection 80.2(1) ensures that section 80.2 applies to the full amount of the reimbursement. The full amount of the reimbursement is referred to in new section 80.2 as the "specified amount."

New paragraph 80.2(1)(*b*) of the Act provides that the reimbursed Crown charge must be paid or payable by the recipient or receivable by a person described in paragraph 12(1)(*o*) in a taxation year or fiscal period of the recipient that begins before 2007. As a result, section 80.2 will only apply to a reimbursement if the recipient is subject to restrictions on the deductibility of the reimbursed Crown charge (*i.e.*, the Crown charge is described in paragraph 18(1)(*m*)) or is required to include some portion of the Crown charge in income (*i.e.*, the Crown charge is described in paragraph 12(1)(*o*)).

Subsection 80.2(2) — Rules Relating to Time of Payment

New subsection 80.2(2) of the Act provides that if the specified amount is paid in a taxation year of the taxpayer that begins before 2008, the eligible portion of the specified amount is deemed to be an amount described by paragraph 18(1)(*m*). It

also provides that, if the specified amount is paid in a taxation year of the taxpayer that begins after 2007, the specified amount is deemed, for the purpose of applying section 80.2 to the taxpayer, to be nil.

For payments made before September 17, 2004, the eligible portion of the specified amount is equal to the specified amount. For reimbursements made on or after September 17, 2004, the eligible portion of the specified amount may be less than the specified amount. The rules for determining the eligible portion of the specified amount are described in the commentary to subsections 80.2(11) and (12).

To accommodate the payment of a reimbursement in a taxation year of the taxpayer that begins after 2006 and before 2008 (the eligible portion of which is deemed to be described by paragraph 18(1)(*m*)), paragraph 18(1)(*m*), which was originally repealed effective for taxation years that begin after 2006, will be repealed for taxation years that begin after 2007. If, however, a reimbursement described in subsection 80.2(1) is delayed to a taxation year of the taxpayer that begins after 2007, the specified amount is deemed, for the purpose of applying section 80.2 to the taxpayer, to be nil and no deduction will be available to the taxpayer in respect of the reimbursement.

Subsection 80.2(3) — Applying Paragraph 18(1)(m)

To ensure that the taxpayer does not benefit (*i.e.*, increase the percentage of the reimbursement that is deductible in computing income) by delaying the reimbursement of a Crown charge, new subsection 80.2(3) of the Act provides that paragraph 18(1)(*m*) applies as if the reimbursement were made at the time the Crown charge was imposed (*i.e.*, became payable or receivable). If the taxpayer did not exist at the time the Crown charge was imposed (*e.g.*, a new corporation created on an amalgamation), the percentage of the reimbursement that is subject to paragraph 18(1)(*m*) is computed as if the taxpayer were in existence at that time and had a calendar year-end. In either case, the percentage of the reimbursement that is subject to paragraph 18(1)(*m*) and, accordingly, the amount that is not deductible in the taxation year in which the reimbursement is paid, is determined by reference to the percentages described in the transitional rules to the repeal of paragraph 18(1)(*m*), as if the taxpayer paid the reimbursement at the time the reimbursed Crown charge was imposed.

Subsection 80.2(4) — Exception for Certain Partnership Reimbursements

New subsection 80.2(4) of the Act provides that subsection 80.2(3) does not apply to certain partnership reimbursements if the conditions, set out in new paragraphs 80.2(4)(*a*) to (*d*), are met. Those conditions require the taxpayer to be a member of the partnership at the end of the particular fiscal period in which the Crown charge became payable or receivable and require the reimbursement to be paid before the end of the taxation year of the taxpayer in which the particular fiscal period of the partnership ends. The purpose of new subsection 80.2(4) is to permit a member of a partnership to determine the amount deductible in respect of a reimbursed Crown charge by reference to the same taxation year as the profit from the partnership's production (on which the reimbursed Crown charge was imposed) is allocated to the member.

Subsection 80.2(5) — Specified Amount Deemed to be Paid at End of Taxation Year

New subsection 80.2(5) of the Act is a special rule that applies to a taxpayer that made a reimbursement payment to a partnership before September 17, 2004 ("initial reimbursement"). If the conditions set out in new subsection 80.2(5) are met, the taxpayer may make a supplemental reimbursement ("top-up reimbursement") that is deemed to have been paid at the end of the taxation year in which the initial reimbursement was made. New subsection 80.2(5) only applies if the taxpayer's share of the original amount in respect of the initial reimbursement is greater than the initial reimbursement (*i.e.*, the taxpayer reimbursed the partnership for less than the taxpayer's share of the Crown charges). In addition, the top-up reimbursement must be paid before 2006 and cannot exceed the difference between the taxpayer's share of the original amount in respect of the initial reimbursement and the initial reimbursement. The rules for determining a taxpayer's share of the original amount in respect of the initial reimbursement are set out in new subsection 80.2(12).

The purpose of new subsection 80.2(5) is to permit a taxpayer to make a retroactive top-up reimbursement if the initial reimbursement was less than the taxpayer's share of the Crown charges. This provision recognizes that: 1) a taxpayer may have made a partial reimbursement prior to September 17, 2004 (the date of the press release announcing the amendments to section 80.2) in the expectation of obtaining a deduction in respect of reimbursed Crown charges that was proportionate to the reduction in the taxpayer's resource allowance; and 2) the deduction anticipated by the taxpayer may have been diminished by new section 80.2. Thus, new subsection 80.2(5) affords the taxpayer the opportunity to correct for unanticipated tax consequences relating to the application of new section 80.2 to the initial reimbursement.

Subsection 80.2(6) — Inclusion in Recipient's Income

New subsection 80.2(6) of the Act requires the recipient to include in income, for the taxation year or fiscal period in which the original amount was paid or became payable or receivable, the amount by which the eligible portion of the specified amount exceeds the portion of the original amount that was included in the income of the recipient (if the reimbursement relates to a paragraph 12(1)(*o*) amount) or was not allowed as a deduction (if the reimbursement relates to a paragraph 18(1)(*m*) amount). The purpose of this provision is to offset any reduction in income available to the recipient in respect of a reimbursed Crown charge.

Subsection 80.2(7) — Interpretation — Portion of the Original Amount

New subsection 80.2(7) of the Act provides that, in determining the amount included in the income of the recipient under subsection 80.2(6), the portion of the original amount that was included in computing the income of the recipient or that was not deductible in computing the income of the recipient is determined as if the original amount were equal to the eligible portion of the specified amount. For example, assume that, in its taxation year ending on December 31, 2003, a recipient was entitled to a deduction of $500 in respect of $5,000 of Crown charges described in paragraph 18(1)(*m*) (10% of $5,000) and that one-half of the Crown charges ($2,500) were reimbursed in that year. In this case, the recipient would be required to include $250 in its income (10% of $2,500 — the amount deductible by the recipient if the original amount were equal to the eligible portion of the specified amount). As a further example, assume that the recipient receives a reimbursement of $3,000 after September 17, 2004 in respect of $5,000 of Crown charges incurred in its taxation year ending December 31, 2004. It is further determined that the eligible portion of the specified amount is $2,000. In this case, the recipient would be required to include $500 in its income under this provision (25% of $2,000 — the amount deductible by the recipient if the original amount were equal to the eligible portion of the specified amount). The portion of the reimbursement that exceeds the eligible portion of the specified amount ($1,000) would be included in the recipient's 2004 income under new subsection 80.2(8).

Subsection 80.2(8) — Inclusion in Recipient's Income

New subsection 80.2(8) of the Act requires the recipient to include, in computing the recipient's income for its taxation year or fiscal period in which the original amount was paid or became payable or receivable, the amount, if any, by which the specified amount exceeds the eligible portion of the specified amount. The amount included in the income of the recipient under this subsection is equal to the amount that may be deductible by the taxpayer under subsection 80.2(9).

Subsection 80.2(9) — Deduction by Taxpayer

New subsection 80.2(9) of the Act provides that the taxpayer may deduct, subject to paragraphs 18(1)(*a*) and (*b*), in computing the taxpayer's income for the taxpayer's taxation year in which the specified amount was paid, the amount, if any, by which the specified amount exceeds the eligible portion of the specified amount. The amount described in this subsection is that portion of a reimbursement that is not treated as a payment described by paragraph 18(1)(*m*).

Subsection 80.2(10) — Specified Amount Deemed Not to be Payable or Receivable

New paragraphs 80.2(10)(*a*) and (*b*) of the Act, provide that, except for the purposes of section 80.2 and subparagraph 53(1)(*e*)(iv.1), the taxpayer is deemed not to have paid and not to have been obligated to pay, the specified amount and the recipient is deemed not to have received and not to have been entitled to receive, the specified amount. This subsection ensures that the tax implications of payments described in subsection 80.2(1) are dealt with entirely within section 80.2.

Subsection 80.2(11) — Eligible Portion of a Specified Amount

The amount of a reimbursement that is deemed by new subsection 80.2(2) of the Act to be a payment described by paragraph 18(1)(*m*) is the "eligible portion of the specified amount." The eligible portion of the specified amount is defined in paragraph 80.2(11)(*b*), subject to certain exceptions enumerated in paragraph 80.2(11)(*a*), as the taxpayer's share of the original amount. The taxpayer's share of the original amount is described in new subsection 80.2(12).

Paragraph 80.2(11)(*a*) provides that the eligible portion of the specified amount is equal to the specified amount if

(a) the specified amount was paid before September 17, 2004;

(b) the original amount is a tax imposed under a law of a province on freehold minerals; or

(c) the specified amount does not exceed the taxpayer's share the original amount.

The specified amount of a reimbursement, in future, may also be prescribed by regulation, to be equal to the eligible portion of the specified amount.

Subsection 80.2(12) — Taxpayer's Share of Original Amount

New subsection 80.2(12) of the Act provides that the taxpayer's share of the original amount is the amount that may reasonably be considered to be the taxpayer's share of the Crown charges in respect of a particular property. More specifically, this subsection provides that the taxpayer's share of the Crown charges may not exceed the total of the amounts described in paragraphs 80.2(12)(*a*) and (*b*) of the Act.

New paragraph 80.2(12)(*a*) of the Act provides that the taxpayer's share of the Crown charges in respect of a property upon which the taxpayer has an overriding royalty (a royalty calculated without reference to the cost of exploration or production) is the proportion of those Crown charges that is equal to the taxpayer's proportionate share of the production from the property.

New paragraph 80.2(12)(*b*) of the Act provides that the taxpayer's share of the Crown charges in respect of a property (excluding any Crown charges that were reimbursed under the terms of an overriding royalty) is equal to the taxpayer's share of the income from the property.

The requirement that the taxpayer be entitled to a share of the production, or the income, from the property to which the reimbursed Crown charge relates is intended to ensure that a reimbursement paid by a taxpayer will be deemed to be an amount described by paragraph 18(1)(*m*) only to the extent that the taxpayer is entitled to an appropriate share of the production, or the income, from the property. This, in turn, is intended to ensure that section 80.2 is not used to separate the Crown charges (through a reimbursement) from the resource profits generated by a particular property for the purpose of increasing the deduction that may be available in respect of the Crown charges.

Subsection 80.2(13) — Reduction in Original Amount for Part XII of the Income Tax Regulations

New subsection 80.2(13) of the Act clarifies that, in computing the resource profits under Part XII of the Regulations, the Crown charges that were paid or became payable by the recipient, or that were receivable in respect of the recipient, are reduced by the eligible portion of the specified amount. For example, if a recipient had an amount described in paragraph 12(1)(*o*) equal to $1,000 and $700 of this amount was reimbursed (and the $700 did not exceed the eligible portion of the specified amount) in circumstances described in subsection 80.2(1), the recipient would be treated, for the purpose of computing the recipient's resource profits, as having a paragraph 12(1)(*o*) amount equal to $300.

Payment of Tax

In circumstances where a taxpayer or recipient is required to pay any income tax that the taxpayer or recipient would not be so liable but for the amendments to section 80.2, such taxes will be deemed to have been paid on the balance-due day for the relevant year if the balance due date was before September 17, 2004 and the tax is paid to the Receiver General for Canada before March 2005.

Examples

Assume that each of the recipient and the taxpayer is a resident taxable Canadian corporation and that each has a calendar taxation year. The recipient acquires a lease on Crown lands, which gives it the right to explore for and produce oil and natural gas from a particular property. Under the terms of the lease, the recipient is subject to a provincial Crown royalty based on the production from the property. The recipient enters into a contract with the taxpayer under which it sells a royalty interest on the property to the taxpayer equal to 50% of the production from the property free of all costs of development and operation. During each of 2003, 2004 and 2005, the production from the property is $2.4 million, the royalty payable to the taxpayer is $1.2 million and the Crown royalty on the production from the property is $600,000.

Example 1

Assume that the Crown royalty is described in paragraph 18(1)(m) and that, under the terms of the contract, the taxpayer agreed to reimburse the recipient for the portion of the Crown royalty relating to its share of production ($300,000). During 2003, the taxpayer reimburses the recipient on a monthly basis at the same time that the Crown royalty became payable to the provincial government. Although the recipient receives the reimbursement, it claims a deduction in respect of the reimbursed Crown royalty equal to $30,000. In this case, new section 80.2 would apply as follows:

	Recipient (2003)	Taxpayer (2003)
80.2(2)		($30,000)*
80.2(6)	$30,000	
Penalty/Interest	Nil**	Nil**

*Note that if the taxpayer had claimed a deduction that exceeded $30,000, the "excess" deduction would be disallowed.

**Assuming that any tax resulting from the application of proposed section 80.2 is paid before March 2005.

The taxpayer is deemed by subsection 80.2(2) to have paid an amount under paragraph 18(1)(*m*) equal to the specified amount (the amount of the reimbursement), 90% of which is denied as a deduction in computing the taxpayer's income by paragraph 18(1)(*m*). In addition, the deduction taken by the recipient in respect of the reimbursed Crown royalty is reversed by subsection 80.2(6). Pursuant to subsection 80.2(13), the recipient would not include in computing its resource profits under Part XII of the Regulations any portion of the Crown royalty that was reimbursed by the taxpayer. Accordingly, for the purpose of computing its resource profits, the recipient would be treated as having a Crown royalty equal to $300,000.

Example 2

Assume that the Crown royalty is described by paragraph 12(1)(*o*) and that, under the terms of the contract, the taxpayer reimburses the recipient on January 1, 2004 for its share of the Crown royalty that became receivable in 2003. Although the recipient is entitled to the reimbursement, it includes, under paragraph 12(1)(*o*), only $270,000 in its income in respect of the reimbursed Crown royalties (90% of $300,000). In this case, new section 80.2 would apply as follows:

	Recipient (2003)	Taxpayer (2004)
80.2(2)/(3)		($30,000)*
80.2(6)	$30,000	
Penalty/Interest	Nil**	

*(10% of $300,000). Note that if the taxpayer had claimed a total deduction that exceeded $30,000, the "excess" deduction would be disallowed.

** Assuming that any tax resulting from the application of proposed section 80.2 is paid before March 2005.

As in Example 1, the recipient has a $30,000 income inclusion under new subsection 80.2(6). The result is that the total amount included in the income of the recipient in 2003 under paragraph 12(1)(*o*) and subsection 80.2(6) in respect of the reimbursed Crown royalty is equal to $300,000. In addition, new subsections 80.2(2) and (3) ensure that the entire amount of the reimbursement is an amount described in paragraph 18(1)(*m*) and that the percentage of the reimbursement that is not deductible by the taxpayer is determined as if the reimbursement were paid at the time the Crown royalty became receivable (i.e., 2003 percentages apply). Pursuant to subsection 80.2(13), the recipient would not include in computing its resource profits under Part XII of the Regulations any portion of the Crown royalty that was reimbursed by the taxpayer. Accordingly, for the purpose of computing its resource profits, the recipient would be treated as having a Crown royalty equal to $300,000.

Example 3

Assume that, under the terms of the contract, the taxpayer reimburses the recipient $400,000 on January 31, 2005 in respect of Crown royalties described in paragraph 12(1)(*o*), all of which became receivable by the province during 2004. In this situation, the reimbursement exceeds the eligible portion of the specified amount by $100,000. In computing its income for 2004, the recipient includes $300,000 (75% of $400,000) in respect of the reimbursed Crown royalty. Assuming that a deduction by the taxpayer for any portion of the reimbursement would not be denied by either paragraph 18(1)(*a*) or (*b*), new section 80.2 would apply as follows:

	Recipient (2004)	Taxpayer (2005)
80.2(2)/(3)		($75,000)*
80.2(6)	$75,000**	
80.2(8)	$100,000***	
80.2(9)		($100,000)

* The deduction for the eligible portion of the specified amount is based on the percentage that applies in the taxpayer's 2004 taxation year (25% of $300,000).

** Subsection 80.2(6) requires the recipient to include in its income, the amount by which the eligible portion of the specified amount ($300,000) exceeds the portion of the original amount that was included in the recipient's income ($225,000 or 75% of $300,000).

*** Subsection 80.2(8) requires the recipient to include in income, in the taxation year in which the Crown royalty became receivable, an amount equal to the difference between the specified amount ($400,000) and the eligible portion of the specified amount ($300,000).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 9 of [S.C. 2003, c. 28, *An Act to Amend the Income Tax Act (Natural Resources)*, which is the repeal of section 80.2] is repealed.

Applicable: Royal Assent.

Explanatory Note: Subsection 80.2 of the Act was repealed by section 9 of *An Act to Amend the Income Tax Act (Natural Resources)*, S.C. 2003, c.28, effective for taxation years that begin after 2006. Section 9 of that Act is being repealed with the result that section 80.2 will continue in force. However, section 80.2 will apply only to specified amounts paid in respect of original amounts that are paid or become payable or receivable in taxation years or fiscal periods of the recipient that begin before 2007. As a result, section 80.2 will only apply to a reimbursement if the recipient is subject to restrictions on the deductibility of the reimbursed Crown charge (i.e., the Crown charge is described in paragraph 18(1)(*m*)) or is required to include some portion of the Crown charge in income (i.e., the Crown charge is described in paragraph 12(1)(*o*)).

The repeal of section 9 of the *Act to Amend the Income Tax Act (Natural Resources)* extends the possible application of section 80.2 to a reimbursement that is made in a taxation year of the taxpayer that begins after 2006 (assuming the reimbursed Crown charge was imposed in a taxation year or fiscal period of the recipient that begins before 2007). This extension of section 80.2, along with the extension of paragraph 18(1)(*m*) will accommodate, among other things, a reimbursement of a Crown charge by a member of a partnership, as described in new subsection 80.2(4), where such reimbursement is made in a taxation year of the member that begins after 2006 and before 2008.

History: S. 80.2 was repealed by S.C. 2003, c. 28, s. 9(1), applicable to taxation years that begin after 2006. S. 80.2 formerly read:

"S. 80.2. *Reimbursement by taxpayer.* Where

(*a*) a taxpayer, under the terms of a contract, pays to another person an amount (in this subsection referred to as the 'specified payment') that may reasonably be considered to have been received by the other person as a reimbursement, contribution or allowance in respect of an amount (referred to in paragraph (*b*) as the 'particular amount') paid or payable by the other person,

(*b*) the particular amount is included in the income of the other person or is denied as a deduction in computing the income of the other person by reason of paragraph 12(1)(*o*) or 18(1)(*m*), as the case may be, and

(*c*) the taxpayer was resident in Canada or carrying on business in Canada at the time the specified payment was made by the taxpayer,

the following rules apply for the purposes of this Act, other than this section:

(*d*) the taxpayer shall be deemed neither to have made nor to have become obligated to make the specified payment to the other person but to have paid an amount described in paragraph 18(1)(*m*) equal to the amount of the specified payment, and

(*e*) the other person shall be deemed neither to have received nor to have become entitled to receive the specified payment from the taxpayer."

Related Sections: S. 18(1)(*m*) Royalties, etc.

Interpretation Bulletins: *Secondary* — IT-438R2 Crown charges — Resource properties in Canada.

SECTION 80.3: [Drought-induced sale of breeding livestock].

► 80.3(1) ◄

(1) Definitions. In this section,

"breeding animals" — "breeding animals" means

(*a*) horses that are over 12 months of age and are kept for breeding in the commercial production of pregnant mares' urine, and

(*b*) deer, elk and other similar grazing ungulates, bovine cattle, bison, goats and sheep that are over 12 months of age and are kept for breeding;

History: S. 80.3(1), paragraph (*b*) of the definition "breeding animals", was amended by S.C. 1994, c. 7, Sched. VIII, s. 31(1), applicable to fiscal periods and taxation years ending after 1990. S. 80.3(1), paragraph (*b*) of the definition "breeding animals", formerly read:

"(*b*) bovine cattle, bison, goats and sheep that are over 12 months of age and are kept for breeding;"

Interpretation Bulletins: *Secondary* — IT-425 Miscellaneous farm income.

"breeding herd" — "breeding herd" of a taxpayer at any time means the number determined by the formula

$$A - (B - C)$$

where

A is the total number of the taxpayer's breeding animals held in the course of carrying on a farming business at that time,

B is the total number of the taxpayer's breeding animals held in the business at that time that are female bovine cattle that have not given birth to calves, and

C is the lesser of the number determined as the value of B and one-half the total number of the taxpayer's breeding animals held in the business at

that time that are female bovine cattle that have given birth to calves.

Interpretation Bulletins: *Secondary* — IT-425 Miscellaneous farm income.

► 80.3(2) ◄

(2) Income deferral from the destruction of livestock. Where a particular amount in respect of the forced destruction of livestock under statutory authority in a taxation year of a taxpayer is included in computing the income of the taxpayer for the year from a farming business, there may be deducted in computing that income such amount as the taxpayer claims not exceeding the particular amount.

Related Sections: S. 11(2) Reference to "taxation year".

► 80.3(3) ◄

(3) Inclusion of deferred amount. The amount deducted under subsection (2) in computing the income of a taxpayer from a farming business for a taxation year shall be deemed to be income of the taxpayer from the business for the taxpayer's immediately following taxation year.

► 80.3(4) ◄

(4) Income deferral for sales in prescribed drought region. Where in a taxation year a taxpayer carries on a farming business in a region that is a prescribed drought region at any time in the year and the taxpayer's breeding herd at the end of the year in respect of the business does not exceed 85% of the taxpayer's breeding herd at the beginning of the year in respect of the business, there may be deducted in computing the taxpayer's income from the business for the year such amount as the taxpayer claims, not exceeding the amount, if any, determined by the formula

$$(A - B) \times C$$

where

A is the amount by which

(*a*) the total of all amounts included in computing the taxpayer's income for the year from the business in respect of the sale of breeding animals in the year

exceeds

(*b*) the total of all amounts deducted under paragraph 20(1)(*n*) in computing the taxpayer's income from the business for the year in respect of an amount referred to in paragraph (*a*) of this description;

B is the total of all amounts deducted in computing the taxpayer's income from the business for the year in respect of the acquisition of breeding animals; and

C is

(*a*) 30% where the taxpayer's breeding herd at the end of the year in respect of the business exceeds 70% of the taxpayer's breeding herd at the beginning of the year in respect of the business, and

(*b*) 90% where the taxpayer's breeding herd at the end of the year in respect of the business does not exceed 70% of the taxpayer's breeding herd at the beginning of the year in respect of the business.

Department of Finance Press Release
Notice of Ways and Means Motion Re Tax Deferral for Breeding Livestock in Flood Regions

[Reproduced below is Department of Finance News Release No. 2009-024, dated March 5, 2009, concerning a proposal to amend the rules in section 80.3 of the *Income Tax Act* and section 7305 of the Income Tax Regulations to allow tax deferral on the sale of breeding livestock in prescribed areas affected by flooding or excessive moisture, as is now the case for prescribed drought regions. The News Release also sets out areas of excessive moisture in Manitoba in 2008 that would qualify under this proposed amendment.]

The Honourable Jim Flaherty, Minister of Finance, today tabled in the House of Commons a Notice of Ways and Means Motion proposing tax amendments to help farmers who have had to deplete their breeding herds of grazing livestock as a result of flood or excessive moisture.

These income tax amendments will extend the existing rules that apply to farmers in prescribed drought regions. They will permit farmers, who dispose of such breeding livestock in a taxation year because of flood or excessive moisture, to exclude a portion of the sale proceeds from their incomes until the following taxation year. As a result, the full amount of the proceeds eligible for the deferral will be available to replenish their herds in the following taxation year.

In particular, this tax deferral will apply to sales of breeding herds of grazing livestock in a taxation year in regions that are prescribed, on the advice of the Minister of Agriculture and Agri-Food, as suffering from flood or other excessive moisture conditions significantly affecting forage yields in the year. This new measure will apply to the 2008 and subsequent taxation years. For 2008, 14 rural municipalities (St. Laurent, Coldwell, Eriksdale, Grahamdale, Fisher, Bifrost, Siglunes, Armstrong, Gimli, Alonsa, Mossey River, Ethelbert, Mountain South and Lawrence) and adjacent First Nations (Peguis, Fisher River, Lake Manitoba, Ebb and Flow, Sandy Bay, Little Saskatchewan, Lake St. Martin, Dauphin River, Kinonjeoshtegon, O-Chi-Chak-Ko-Sipi, Skownan and Pinaymootang), will qualify for the program, having suffered at least a 75 per cent decline in forage yields.

As with the existing rules applicable in respect of prescribed drought regions, the tax deferral will apply to unusually heavy sales, with the proportion of sales proceeds eligible for deferral rising with increasing levels of sales. The deferral will apply to proceeds from sales of grazing livestock where such sales result in a reduction of 15 per cent or more of the number of animals in a farmer's breeding herd. For sales which result in a reduction in excess of 15 per cent and less than 30 per cent of the breeding herd, 30 per cent of the proceeds will be eligible for the deferral, while 90 per cent of the proceeds will be eligible for the deferral in respect of sales of 30 per cent or more of the animals in the herd.

Minister Flaherty announced the intention of the Government to introduce legislation to implement this proposal at the earliest opportunity.

Related Sections: S. 11(2) Reference to "taxation year".
Regulations: 7305; 7305.01.

► 80.3(5) ◄

(5) Inclusion of deferred amount. The amount deducted under subsection (4) in computing the income of a taxpayer for a particular taxation year from a farming business carried on in a prescribed drought region may, to the extent that the taxpayer so elects, be included in computing the taxpayer's income from the business for a taxation year ending after the particular taxation year, and shall, except to the extent that the amount has been included under this subsection in computing the taxpayer's income from the business for a preceding taxation year after the particular year, be deemed to be income of the taxpayer from the business for the taxation year of the taxpayer that is the earliest of

(*a*) the first taxation year beginning after the end of the period or series of continuous periods, as the case may be, for which the region is a prescribed drought region,

(*b*) the first taxation year, following the particular taxation year, at the end of which the taxpayer is

(i) non-resident, and

(ii) not carrying on business through a fixed place of business in Canada, and

(*c*) the taxation year in which the taxpayer dies.

History: S. 80.3(5) was amended by S.C. 1994, c. 7, Sched. II, s. 59(1), applicable to fiscal periods and taxation years ending after 1987. S. 80.3(5) formerly read:

"(5) The amount deducted under subsection (4) in computing the income of a taxpayer for a taxation year from a farming business carried on in a prescribed drought region shall be deemed to be income of the taxpayer from the business for the taxpayer's first taxation year commencing after the end of the period or series of continuous periods, as the case may be, for which the region was a prescribed drought region or, where the taxpayer has died before the beginning of that first taxation year, for the taxation year in which the taxpayer died, except to the extent that the amount has been included in computing the taxpayer's income from the business for a preceding taxation year."

► 80.3(6) ◄

(6) Where ss. (2) and (4) do not apply. Subsections (2) and (4) do not apply to a taxpayer in respect of a farming business for a taxation year

(*a*) in which the taxpayer died; or

(*b*) where at the end of the year the taxpayer is non-resident and not carrying on the business through a fixed place of business in Canada.

History: S. 80.3(6)(*b*) was amended by S.C. 1994, c. 7, Sched. II, s. 59(2), applicable to fiscal periods and taxation years ending after 1987. S. 80.3(6)(*b*) formerly read:

"(*b*) where the taxpayer is not resident in Canada at the end of the year and at any time in the year did not carry on the business in Canada."

SECTION 80.4:

► 80.4(1) ◄

(1) Loans. Where a person or partnership receives a loan or otherwise incurs a debt because of or as a consequence of a previous, the current or an intended office or employment of an individual, or because of the services performed or to be performed by a corporation carrying on a personal services business, the individual or corporation, as the case may be, shall be deemed to have received a benefit in a taxation year equal to the amount, if any, by which the total of

(*a*) all interest on all such loans and debts computed at the prescribed rate on each such loan and debt for the period in the year during which it was outstanding, and

(*b*) the total of all amounts each of which is an amount of interest that was paid or payable in respect of the year on such a loan or debt by

(i) a person or partnership (in this paragraph referred to as the "employer") that employed or intended to employ the individual,

(ii) a person (other than the debtor) related to the employer, or

(iii) a person or partnership to or for whom or which the services were or were to be provided or performed by the corporation or a person (other than the debtor) who does not deal at arm's length with that person or any member of that partnership,

exceeds the total of

(*c*) the amount of interest for the year paid on all such loans and debts not later than 30 days after the end of the year, and

(*d*) any portion of the total determined in respect of the year under paragraph (*b*) that is reimbursed in the year or within 30 days after the end of the year by the debtor to the person or entity who made the payment referred to in that paragraph.

History: S. 80.4(1), that portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 32(1), applicable to taxation years beginning after 1991. S. 80.4(1), that portion preceding paragraph (*a*), formerly read:

"(1) Where a person or partnership received a loan or otherwise incurred a debt by virtue of the office or employment or intended office or employment of an individual, or by virtue of the services performed or to be performed by a corporation carrying on a personal services business, the individual or corporation, as the case may be, shall be deemed to have received a benefit in a taxation year equal to the amount, if any, by which the total of"

Editorial Note: If the loan is used for income-earning purposes, an offsetting deduction is normally allowed under section 80.5. See also the special treatment for home purchase loans and home relocation loans (paragraphs 80.4(4) and 110(1)(*j*)).

Related Sections: S. 6(9) Amount in respect of interest on employee debt; s. 6(23) Employer-provided housing subsidies; s. 12(1)(*w*) S. 80.4(1) benefit; s. 15(9) Deemed benefit to shareholder by corporation; s. 79(3) Proceeds of disposition for debtor; s. 80(1), "forgiven amount"; s. 80.4(2) Loan or debt by virtue of shareholding; s. 80.5 Deemed interest; s. 110(1)(*j*) Home relocation loan; s. 125(7), "personal services business"; s. 248(1), "corporation", "employment", "home relocation loan", "individual", "office".

Regulations: 4301.

Interpretation Bulletins: *Primary* — IT-421R2 Benefits to Individuals, Corporations and Shareholders from Loans or Debt; *Secondary* — IT-73R6 The small business deduction; IT-171R2 Non-resident individuals — Taxable income earned in Canada [Archived by the CRA].

Guides: T4130 Employers Guide to Payroll Deductions — Taxable Benefits.

Canadian Petroleum Tax Journal: Attracting and Retaining Executives and Employees with Tax-Efficient Incentives, Julie Y. Lee, Vol. 14 No. 1 2001.

Tax Window Files: Application of Subsection 80.4(1) — Group Housing Benefit, April 20, 2006, CRA Document No. 2005-0154531E5; Taxable Benefits, December 19, 2001, CRA Document No. 2001-0109417 [Subsection 80.4(1) not applicable but paragraph 6(1)(*a*) is applicable].

► 80.4(1.1) ◄

(1.1) Interpretation. A loan or debt is deemed to have been received or incurred because of an individual's office or employment, or because of services performed by a corporation that carries on a personal services business, as the case may be, if it is reasonable to conclude that, but for an individual's previous, current or intended office or employment, or the services performed or to be performed by the corporation,

(*a*) the terms of the loan or debt would have been different; or

(*b*) the loan would not have been received or the debt would not have been incurred.

History: S. 80.4(1.1) was added by S.C. 1999, c. 22, s. 22(1), applicable to loans received and debts incurred after February 23, 1998 except that, in its application to a loan received or a debt incurred after February 23, 1998 in respect of an eligible relocation of an individual in connection with which the individual begins employment at the new work location before October 1998, subsection (1) does not apply to taxation years that end before 2001. S. 80.4(1.1) was previously repealed by the former Act.

Editorial Note: This provision was added in response to the *Siwik* decision (96 DTC 1678), where the court reasoned that subsection 80.4(1) did not apply because the loan at issue was received by an employee from his employer for the purpose of purchasing a new home, and not because of or as a consequence of the employee's employment.

Related Sections: S. 6(23) Employer-provided housing subsidies; s. 62(1) Moving expenses; s. 110(1)(*j*) Home relocation loan; s. 248(1), "eligible relocation", "home relocation loan".

► 80.4(2) ◄

(2) Idem. Where a person (other than a corporation resident in Canada) or a partnership (other than a partnership each member of which is a corporation resident in Canada) was

(*a*) a shareholder of a corporation,

(*b*) connected with a shareholder of a corporation, or

(*c*) a member of a partnership, or a beneficiary of a trust, that was a shareholder of a corporation,

and by virtue of that shareholding that person or partnership received a loan from, or otherwise incurred a debt to, that corporation, any other corporation related thereto or a partnership of which that corporation or any corporation related thereto was a member, the person or partnership shall be deemed to have received a benefit in a taxation year equal to the amount, if any, by which

(*d*) all interest on all such loans and debts computed at the prescribed rate on each such loan and debt for the period in the year during which it was outstanding

exceeds

(*e*) the amount of interest for the year paid on all such loans and debts not later than 30 days after the later of the end of the year and December 31, 1982.

Editorial Note: If the loan is used for income-earning purposes, an offsetting deduction is normally allowed under section 80.5. See subsection 80.4(8) for the definition of "connected".

Related Sections: S. 15(2) Shareholder debt; s. 15(9) Deemed benefit to shareholder by corporation; s. 79(3) Proceeds of disposition for debtor; s. 80(1), "forgiven amount"; s. 80.5 Deemed interest.
Regulations: 4301.
Cases: A taxpayer cannot avoid having interest on a loan added to his income by purporting to set-off the debt by means of the *ex post facto* declaration of a dividend. *Wood v. M.N.R.*, 88 DTC 1180 (T.C.C.). Nor can a taxpayer avoid the possibility that the Minister will deem him to have received interest on a debt owed to him by a corporation by virtue of the indebtedness being set-off by drawings received from the corporation. *Gannon v. M.N.R.*, 88 DTC 1282 (T.C.C.) and *Wolf v. M.N.R.*, 92 DTC 1858 (T.C.C.). Similarly, a taxpayer cannot avoid the possibility that the Minister will deem him to have received interest on a loan by purporting to set off accrued but unpaid bonuses against it. *Austin v. M.N.R.*, 91 DTC 778 (T.C.C.).

► 80.4(3) ◄

(3) Where ss. (1) and (2) do not apply. Subsections (1) and (2) do not apply in respect of any loan or debt, or any part thereof,

(*a*) on which the rate of interest was equal to or greater than the rate that would, having regard to all the circumstances (including the terms and conditions of the loan or debt), have been agreed on, at the time the loan was received or the debt was incurred, between parties dealing with each other at arm's length if

(i) none of the parties received the loan or incurred the debt by virtue of an office or employment or by virtue of the shareholding of a person or partnership, and

(ii) the ordinary business of the creditor included the lending of money,

except where an amount is paid or payable in any taxation year to the creditor in respect of interest on the loan or debt by a party other than the debtor; or

(*b*) that was included in computing the income of a person or partnership under this Part.

Tax Window Files: Shareholder benefit — Deemed interest, January 5, 1996, CRA Document No. 9532557 [exception applied because loan made at commercial rates].
Cases: S. 80.4(3) did not permit the market rate of interest on a portion of the taxpayer's loan to be blended with the rates (at less than market) paid by him on other portion of the loan, so as to reduce his taxable benefit. *Marchand v. The Queen*, 97 DTC 5272 (F.C.A.).

► 80.4(4) ◄

(4) Interest on loans for home purchase or relocation. For the purpose of computing the benefit under subsection (1) in a taxation year in respect of a home purchase loan or a home relocation loan and for the purpose of paragraph 110(1)(*j*), the amount of interest determined under paragraph (1)(*a*) shall not exceed the amount of interest that would have been determined thereunder if it had been computed at the prescribed rate in effect at the time the loan was received or the debt was incurred, as the case may be.

Editorial Note: Subsection 80.4(4) provides upside protection for employees subject to the deemed interest benefit rules if the prescribed rate of interest increases beyond the rate that was in effect at the time that a home purchase loan (subsection 80.4(7)) or home relocation loan (subsection 248(1)) was received. For these purposes, if the term of the loan is more than five years, the prescribed rate of interest on the fifth anniversary of the loan (and each subsequent fifth anniversary date) is deemed to be the rate in effect at the time the loan was received, by virtue of subsection 80.4(6). In other words, the interest rate "cap" is reset every five years.

Related Sections: S. 80.4(7), "home purchase loan"; s. 248(1), "home relocation loan".
Regulations: 4301.
Tax Window Files: No Ceiling on Prescribed Interest Rate for Shareholder Loan, February 24, 1995, CRA Document No. 9431767.

► 80.4(5) ◄

(5) Idem. Where an individual has, before November 13, 1981,

(*a*) received a housing loan, or

(*b*) made arrangements in writing in respect of a home purchase loan that would, if the loan were made before 1982, have been a housing loan,

for the purpose of computing the amount of interest referred to in paragraph (1)(*a*) on the loan, the amount of the loan may be reduced

(*c*) for the 1982 taxation year, by the amount, if any, by which $40,000 exceeds the total of

(i) all amounts claimed as a reduction under this subsection for the year by the individual's spouse or common-law partner with whom the individual resided in the year, and

(ii) all amounts claimed as a reduction under this subsection for the year by the individual on all other loans, and

(*d*) for the 1983 taxation year, by the amount, if any, by which $20,000 exceeds the total of

(i) all amounts claimed as a reduction under this subsection for the year by the individual's spouse or common-law partner with whom the individual resided in the year, and

(ii) all amounts claimed as a reduction under this subsection for the year by the individual on all other loans.

History: S. 80.4(5)(*c*)(i) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(w), applicable January 1, 2001, coming into force on July 31, 2000. S. 80.4(5)(*c*)(i) formerly read:

"(i) all amounts claimed as a reduction under this subsection for the year by the individual's spouse with whom the individual resided in the year, and"

S. 80.4(5)(*d*)(i) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(w), applicable January 1, 2001, coming into force on July 31, 2000. S. 80.4(5)(*d*)(i) formerly read:

"(i) all amounts claimed as a reduction under this subsection for the year by the individual's spouse with whom the individual resided in the year, and"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

► 80.4(6) ◄

(6) Deemed new home purchase loans. For the purposes of this section, other than paragraph (3)(*a*) and

subsection (5), where a home purchase loan or a home relocation loan of an individual has a term for repayment exceeding five years, the balance outstanding on the loan on the date that is five years from the day the loan was received or was last deemed by this subsection to have been received shall be deemed to be a new home purchase loan received by the individual on that date.

Editorial Note: See the editorial note under subsection 80.4(4).

► 80.4(7) ◄

(7) Definitions. In this section,

"home purchase loan" — "home purchase loan" means that portion of any loan received or debt otherwise incurred by an individual in the circumstances described in subsection (1) that is used to acquire, or to repay a loan or debt that was received or incurred to acquire, a dwelling, or a share of the capital stock of a cooperative housing corporation acquired for the sole purpose of acquiring the right to inhabit a dwelling owned by the corporation, where the dwelling is for the habitation of

(*a*) the individual by virtue of whose office or employment the loan is received or the debt is incurred,

(*b*) a specified shareholder of the corporation by virtue of whose services the loan is received or the debt is incurred, or

(*c*) a person related to a person described in paragraph (*a*) or (*b*),

or that is used to repay a home purchase loan;

History: S. 80.4(7), that portion of the definition "home purchase loan" (formerly numbered as s. 80.4(7)(*a*)) before paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 60(1), applicable to the 1985 and subsequent taxation years. That portion of s. 80.4(7) formerly read:

"(*a*) *'home purchase loan'* — means that portion of any loan received or debt otherwise incurred by an individual in the circumstances described in subsection (1) that is used to acquire, or to repay a loan or debt that had been received or incurred to acquire, a dwelling for the habitation of"

"prescribed rate" — "prescribed rate" of interest means

(*a*) 6% per annum before 1978,

(*b*) 8% per annum for 1978, and

(*c*) for any year, or part thereof, after 1978, such rate of interest as is prescribed therefor except that, for the purpose of computing the benefit under subsection (1) in a taxation year on a home purchase loan received after November 12, 1981 and before 1982, the prescribed rate of interest at the time the loan was received shall be deemed to be 16% per annum.

Regulations: 4301.

► 80.4(8) ◄

(8) Persons connected with a shareholder. For the purposes of subsection (2), a person is connected with a shareholder of a corporation if that person does not deal at arm's length with the shareholder and if that person is a person other than

(*a*) a foreign affiliate of the corporation; or

(*b*) a foreign affiliate of a person resident in Canada with which the corporation does not deal at arm's length.

SECTION 80.5: Deemed interest.

Where a benefit is deemed by section 80.4 to have been received in a taxation year by

(*a*) an individual or corporation under subsection 80.4(1), or

(*b*) a person or partnership under subsection 80.4(2),

the amount of the benefit shall, for the purposes of subparagraph 8(1)(*j*)(i) and paragraph 20(1)(*c*), be deemed to be interest paid in, and payable in respect of, the year by the debtor pursuant to a legal obligation to pay interest on borrowed money.

Editorial Note: Section 80.5 effectively provides that the deemed interest amounts under section 80.4 will also be deductible, to the extent that the borrowed money is used for income-earning purposes as set out in either paragraph 8(1)(*j*) or 20(1)(*c*).

Interpretation Bulletins: *Primary* — IT-421R2 Benefits to Individuals, Corporations and Shareholders from Loans or Debt.

Tax Window Files: Application of section 80.5 to non-residents, April 30, 1996, CRA Document No. 9614165.

Subdivision g — Amounts Not Included In Computing Income

SECTION 81:

► 81(1) ◄

(1) Amounts not included in income. There shall not be included in computing the income of a taxpayer for a taxation year,

► 81(1)(a) ◄

(a) Statutory exemptions — an amount that is declared to be exempt from income tax by any other enactment of Parliament, other than an amount received or receivable by an individual that is exempt by virtue of a provision contained in a tax convention or agreement with another country that has the force of law in Canada;

Related Sections: S. 126(3) Employees of international organizations; s. 212(1)(*h*) Pension benefits.

Interpretation Bulletins: *Primary* — IT-397R Amounts excluded from income — Statutory exemptions and certain service or RCMP pensions, allowances and compensation; IT-495R3 Child care expenses.

Income Tax Technical News: Issue No. 2, Tax exemption for Indians; Issue No. 5, Paragraph 81(1)(*a*) statutory exemptions — *Indian Act*, Issue No. 7, Interest income — Situs of savings account (Indians); Issue No. 9, Taxation of Indians — Investment income.

Cases: Treaty 8 did not include a promise of exemption from taxation for the Aboriginal signatories. *Benoit et al. v. The Queen*, 2003 DTC 5366 (F.C.A.), reversing 2002 DTC 6896 (F.C.T.D.).

Although the school and hospital they worked at were not on the reserve, status Indians' employment earnings were deemed to be situated on the reserve and tax exempt when their employers and the reserve were found to be intimately connected. *The Queen v. Poker et al.*, 94 DTC 6658 (F.C.T.D.), affirming (for this taxpayer) 92 DTC 2267 (T.C.C.); and *Folster v. The Queen*, 97 DTC 5314 (F.C.A.), reversing (for this taxpayer) 94 DTC 6658 (F.C.T.D.) [Editorial Note: Originally, the Court found for both taxpayers. The subsequent F.C.T.D. decision was in favour of only one of the taxpayers (employed by the school). The last appeal to the F.C.A. was successful for the remaining taxpayer (employed by the hospital).]

Applying the relevant connecting factors, the unemployment insurance benefits received by an Indian on a reserve were not taxable. *Williams v. The Queen*, 92 DTC 6320 (S.C.C.), reversing in part 90 DTC 6399 (F.C.A.).

► 81(1)(b) ◄

(b) War Savings Certificate — an amount received under a War Savings Certificate issued by His Majesty in right of Canada or under a similar savings certificate issued by His Majesty in right of Newfoundland before April 1, 1949;

► 81(1)(c) ◄

(c) Ship or aircraft of non-residents — the income for the year of a non-resident person earned in Canada from the operation of a ship or aircraft in international traffic, if the country where that person resided grants substantially similar relief for the year to a person resident in Canada;

Related Sections: S. 18(8) Where s. (4) does not apply.

Interpretation Bulletins: *Secondary* — IT-494 Hire of ships and aircraft from non-residents.

Forms: T2Sch97.

Cases: A U.K. shipping company operated its own ships besides controlling a large number of subsidiary shipping companies and having large investments in associated companies. Its six branch offices in Canada derived income by providing service to all these companies as well as outside companies. The Court held that the U.K. company was entitled to exemption for income earned by the Canadian branches from services rendered to ships owned or chartered by the U.K. company. Profits realized from services performed for affiliates, subsidiaries and outsiders were subject to tax with a deduction permitted for head office administration expenses attributable to operations in Canada. *Furness Withy & Co. Ltd. v. M.N.R.*, 68 DTC 5033 (S.C.C.), affirming 66 DTC 5358 (Ex. Ct.).

► 81(1)(d) ◄

(d) Service pension, allowance or compensation — a pension payment, an allowance or compensation that is received under or is subject to the *Pension Act*, the *Civilian War-related Benefits Act* or the *War Veterans Allowance Act*, an amount received under the Gallantry Awards Order or compensation received under the regulations made under section 9 of the *Aeronautics Act*;

History: S. 81(1)(*d*) was amended by S.C. 1999, c. 10, s. 44, coming into force on May 1, 1999. S. 81(1)(*d*) formerly read:

"(*d*) *Service pension, allowance or compensation* — a pension payment, an allowance or compensation that is received under or is subject to the *Pension Act*, the *Merchant Navy Veteran and Civilian War-related Benefits Act* or the *War Veterans Allowance Act*, an amount received under the *Gallantry Awards Order* or compensation received under the regulations made under section 9 of the *Aeronautics Act*;"

S. 81(1)(*d*) was amended by S.C. 1994, c. 7, Sched. IV, s. 15, deemed to have come into force on July 1, 1992. S. 81(1)(*d*) formerly read:

"(*d*) a pension payment, an allowance or compensation that is received under or is subject to the *Pension Act*, the *Merchant Navy Veteran and Civilian War-related Benefits Act* or the *War Veterans Allowance Act*, an amount received under the *Gallantry Awards Order* or compensation received under regulations made under section 9 of the *Aeronautics Act*;"

S. 81(1)(*d*) was amended by S.C. 1994, c. 7, Sched. II, s. 61(1), applicable to the 1986 and subsequent taxation years. S. 81(1)(*d*) formerly read:

"(*d*) a pension payment, an allowance or compensation that is received under or is subject to the *Pension Act*, the *Civilian War Pensions and Allowances Act* or the *War Veterans Allowance Act*, or compensation received under regulations made under section 9 of the *Aeronautics Act*;"

Interpretation Bulletins: *Secondary* — IT-397R Amounts excluded from income — Statutory exemptions and certain service or RCMP pensions, allowances and compensation.

► 81(1)(d.1) ◄

(d.1) Canadian Forces members and veterans amounts — the total of all amounts received by the taxpayer in the year on account of a Canadian Forces income support benefit payable to the taxpayer under Part 2 of the *Canadian Forces Members and Veterans Re-establishment and Compensation Act* or on account of a disability award, death benefit, clothing allowance or detention benefit payable to the taxpayer under Part 3 of that Act;

History: S. 81(1)(*d.1*) was added by S.C. 2005, c. 21, s. 102, and comes into force on April 1, 2006.

► 81(1)(e) ◄

(e) War pensions — a pension payment received on account of disability or death arising out of a war from a country that was an ally of Canada at the time of the war, if that country grants substantially similar relief for the year to a person receiving a pension referred to in paragraph (*d*);

History: S. 81(1)(*e*) was amended by S.C. 1994, c. 7, Sched. II, s. 61(2), applicable to the 1988 and subsequent taxation years. S. 81(1)(*e*) formerly read:

"(*e*) *Service pension from another country* — a pension payment received on account of disability or death arising out of war service from a country that was an ally of Her Majesty or His Majesty at the time of the war service, if that country grants substantially similar relief for the year to a person receiving a pension referred to in paragraph (*d*);"

Interpretation Bulletins: *Secondary* — IT-397R Amounts excluded from income — Statutory exemptions and certain service or RCMP pensions, allowances and compensation.

► 81(1)(f) ◄

(f) Halifax disaster pensions, grants or allowances — a pension payment, a grant or an allowance in respect of death or injury sustained in the explosion in Halifax in 1917 and received from the Halifax Relief Commission the incorporation of which was confirmed by *An Act respecting the Halifax Relief Commission*, chapter 24 of the Statutes of Canada, 1918, or received pursuant to the *Halifax Relief*

Commission Pension Continuation Act, chapter 88 of the Statutes of Canada, 1974-75-76;

History: S. 81(1)(*f*) was amended by S.C. 1995, c. 18, s. 88, applicable upon proclamation. S. 81(1)(*f*) formerly read:

"(*f*) *Halifax disaster pensions, grants or allowances* — a pension payment, a grant or an allowance in respect of death or injury sustained in the explosion at Halifax in 1917 received from the Halifax Relief Commission the incorporation of which was confirmed by *An Act respecting the Halifax Relief Commission*, chapter 24 of the Statutes of Canada, 1918, or from the Canadian Pension Commission pursuant to the *Halifax Relief Commission Pension Continuation Act*, chapter 88 of the Statutes of Canada, 1974-75-76;"

► 81(1)(g) ◄

(g) Compensation by Federal Republic of Germany — a payment made by the Federal Republic of Germany or by a public body performing a function of government within that country as compensation to a victim of National Socialist persecution, where no tax is payable in respect of that payment under a law of the Federal Republic of Germany that imposes an income tax;

Related Sections: S. 56(1)(*a*) Pension benefits, unemployment insurance benefits, etc.

► 81(1)(g.1) ◄

(g.1) Income from personal injury award property — the income for the year from any property acquired by or on behalf of a person as an award of, or pursuant to an action for, damages in respect of physical or mental injury to that person, or from any property substituted therefor and any taxable capital gain for the year from the disposition of any such property,

(i) where the income was income from the property, if the income was earned in respect of a period before the end of the taxation year in which the person attained the age of 21 years, and

(ii) in any other case, if the person was less than 21 years of age during any part of the year;

Related Sections: S. 81(1)(*g.2*) Income from income exempt under para. (g.1); s. 81(5) Election.

Interpretation Bulletins: *Secondary* — IT-365R2 Damages, settlements, and similar receipts.

► 81(1)(g.2) ◄

(g.2) Income from income exempt under para. (*g.1*) — any income for the year from any income that is by virtue of this paragraph or paragraph (g.1) not required to be included in computing the taxpayer's income (other than any income attributable to any period after the end of the taxation year in which the person on whose behalf the income was earned attained the age of 21 years);

Interpretation Bulletins: *Secondary* — IT-365R2 Damages, settlements, and similar receipts.

► 81(1)(g.3) ◄

(g.3) Hepatitis C trust — the amount that, but for this paragraph, would be the income of the taxpayer for the year where

(i) the taxpayer is the trust established under the 1986-1990 Hepatitis C Settlement Agreement entered into by Her Majesty in right of Canada and Her Majesty in right of each of the provinces, and

(ii) the only contributions made to the trust before the end of the year are those provided for under the Agreement;

History: S. 81(1)(*g.3*) was added by S.C. 2000, c. 19, s. 12(1), applicable to the 1999 and subsequent taxation years. S. 81(1)(*g.3*) was previously repealed by S.C. 1985, c. 45, s. 39(1).

► 81(1)(g.4) ◄

(g.4) Relief for increased heating expenses — an amount received pursuant to the *Order Authorizing Ex Gratia Payments for Increased Heating Expenses*;

History: S. 81(1)(*g.4*) was added by S.C. 2001, c. 17, s. 60(1), applicable to amounts received after 2000.

► 81(1)(g.5) ◄

(g.5) Energy cost relief — an amount received pursuant to Part 1 of the *Energy Costs Assistance Measures Act*;

History: S. 81(1)(*g.5*) was added by S.C. 2005, c. 49, s. 5, applicable on Royal Assent, November 25, 2005.

► 81(1)(h) ◄

(h) Social assistance — where the taxpayer is an individual (other than a trust), a social assistance payment (other than a prescribed payment) ordinarily made on the basis of a means, needs or income test under a program provided for by an Act of Parliament or a law of a province, to the extent that it is received directly or indirectly by the taxpayer for the benefit of another individual (other than the taxpayer's spouse or common-law partner or a person who is related to the taxpayer or to the taxpayer's spouse or common-law partner), if

(i) no family allowance under the *Family Allowances Act* or any similar allowance under a law of a province that provides for payment of an allowance similar to the family allowance provided under that Act is payable in respect of the other individual for the period in respect of which the social assistance payment is made, and

(ii) the other individual resides in the taxpayer's principal place of residence, or the taxpayer's principal place of residence is maintained for use as the residence of that other individual, throughout the period referred to in subparagraph (i);

History: S. 81(1)(*h*), the portion before subparagraph (i), was amended by S.C. 2000, c. 12, Sched. 2, s. 1(x), applicable January 1, 2001, coming into force on July 31, 2000. S. 81(1)(*h*) formerly read:

"(*h*) *Social assistance* — where the taxpayer is an individual (other than a trust), a social assistance payment (other than a prescribed payment) ordinarily made on the basis of a means, needs or income test under a program provided for by an Act of Parliament or a law of a province, to the extent that it is received directly or indirectly by the taxpayer for the benefit of another individual (other than the taxpayer's spouse or a person who is related to the taxpayer or to the taxpayer's spouse), if"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S.C. 1994, c. 7, Sched. VIII, s. 159, reproduced below, deems certain requests or elections made pursuant to 81(1)(*h*) to have been made before 1992.

S. 81(1)(*h*), that portion preceding subparagraph (i), was amended by S.C. 1994, c. 7, Sched. VIII, s. 33(1), applicable after 1992. S. 81(1)(*h*), that portion preceding subparagraph (i), formerly read:

"(*h*) *Social assistance* — where the taxpayer is an individual (other than a trust), a social assistance payment (other than a prescribed payment) ordinarily made on the basis of a means, needs or income test under a program provided for by an Act of Parliament or a law of a province, to

the extent that it is received directly or indirectly by the taxpayer for the benefit of another individual (other than a person who is cohabiting in a conjugal relationship with the taxpayer or who is related to the taxpayer or to such a person), if"

S. 81(1)(*h*) was added by S.C. 1994, c. 7, Sched. II, s. 61(3), applicable to the 1982 and subsequent taxation years and, notwithstanding subsections 152(4) to (5) of the Act, if before 1992 a taxpayer requested the Minister of National Revenue to do so, such assessments of tax, amounts deemed to be paid on account of tax, interest and penalties payable or deemed to be paid by the taxpayer for any such year shall be made as are necessary to give effect to subsection (3) in respect of the taxpayer.

Related Sections: S. 56(1)(*u*) Social assistance payments; s. 248(1), "common-law partner", "individual"; s. 251(6) Blood relationship, etc; s. 252(2) Relationships.

Income Tax Technical News: Issue No. 31R2, Application of Paragraph 81(1)(*h*); Issue No. 17, Application of paragraph 81(1)(h) to employment income.

Sec. 159, Sched. VIII, Chap. 7, S.C. 1994

Sec. 159. [Deemed date of elections and requests.] Where an election or request referred to in subsection [. . . 61(7) of S.C. 1994, c. 7, Sched. II, which established the application date for subsections 81(1)(*h*)] was made before December 11, 1993, the election or request shall be deemed to have been made before 1992.

► 81(1)(i) ◄

(i) R.C.M.P. pension or compensation — a pension payment or compensation received under section 5, 31 or 45 of the *Royal Canadian Mounted Police Pension Continuation Act*, chapter R-10 of the Revised Statutes of Canada, 1970, or section 32 or 33 of the *Royal Canadian Mounted Police Superannuation Act*, in respect of an injury, disability or death;

Interpretation Bulletins: *Secondary* — IT-397R Amounts excluded from income — Statutory exemptions and certain service or RCMP pensions, allowances and compensation.

► 81(1)(j) ◄

(j) Social assistance payments — [Repealed by 1980-81-82-83, c. 140, s. 46(3).]

► 81(1)(k) ◄

(k) Employees profit sharing plan — a payment or part of a payment from an employees profit sharing plan that section 144 provides is not to be included;

► 81(1)(l) ◄

(l) Prospecting — an amount in respect of the receipt of a share that section 35 provides is not to be included;

► 81(1)(m) ◄

(m) Interest on certain obligations — interest that accrued to, became receivable or was received by, a corporation resident in Canada (in this paragraph referred to as the "parent corporation") on a bond, debenture, bill, note, mortgage or similar obligation received by it as consideration for the disposition by it, before June 18, 1971, of

(i) a business carried on by it in a country other than Canada, or

(ii) all of the shares of a corporation that carried on a business in a country other than Canada, and such of the debts and other obligations of that corporation as were, immediately before the disposition, owing to the parent corporation,

if

(iii) the business was of a public utility or public service nature,

(iv) the business or the property described in subparagraph (ii), as the case may be, was disposed of to a person or persons resident in that country, and

(v) the obligation received by the parent corporation was issued by or guaranteed by the government of that country or any agent thereof;

Related Sections: S. 12(1)(*c*) Interest; s. 40(2)(*d*) Limitations; s. 87(2)(*jj*) Interest on certain obligations; s. 212(1)(*b*) Interest.

► 81(1)(n) ◄

(n) Governor General — income from the office of Governor General of Canada;

► 81(1)(o) ◄

(o) RESP refunds — [Repealed by S.C. 1998, c. 19, s. 14(1).]

History: S. 81(1)(*o*) was repealed by S.C. 1998, c. 19, s. 14(1), applicable to the 1998 and subsequent taxation years. S. 81(1)(*o*) formerly read:

"(*o*) *RESP refunds* — a refund of payments (within the meaning assigned by subsection 146.1(1));"

► 81(1)(p) ◄

(p) Educational assistance payments — [Repealed by S.C. 1998, c. 19, s. 14(1).]

History: S. 81(1)(*p*) was repealed by S.C. 1998, c. 19, s. 14(1), applicable to the 1998 and subsequent taxation years. S. 81(1)(*p*) formerly read:

"(*p*) *Educational assistance payments* — an educational assistance payment (within the meaning assigned by subsection 146.1(1)) received by a beneficiary under an education savings plan (within the meaning assigned by subsection 146.1(1)) that is not registered or the registration of which has been revoked pursuant to section 146.1;"

► 81(1)(q) ◄

(q) Provincial indemnities — an amount paid to an individual as an indemnity under a prescribed provision of the law of a province; or

Regulations: 6501.

► 81(1)(r) ◄

(r) Foreign retirement arrangements — an amount that is credited or added to a deposit or account governed by a foreign retirement arrangement as interest or other income in respect of the deposit or account, where the amount would, but for this paragraph, be included in the taxpayer's income solely because of that crediting or adding.

History: S. 81(1)(*r*) was added by S.C. 1994, c. 7, Sched. II, s. 61(4), applicable to the 1990 and subsequent taxation years.

Related Sections: S. 248(1), "foreign retirement arrangement".

► 81(1)(s) ◄

(s) [Excess of incremental resource royalty over incremental payout] — [Repealed by 1986, c. 2, s. 20(1).]

► 81(1.1) ◄

(1.1) Interpretation. [Repealed by 1986, c. 2, s. 20(2).]

► 81(2) ◄

(2) M.L.A.'s expense allowance. Where an elected member of a provincial legislative assembly has, under an Act of the provincial legislature, been paid an allowance in a taxation year for expenses incident to the discharge of the member's duties in that capacity, the allowance shall not be included in computing the member's income for the year unless it exceeds ½ of the maximum fixed amount provided by law as payable to the member by way of salary, indemnity and other remuneration as a member in respect of attendance at a session of the legislature, in which event there shall be included in computing the member's income for the year only the amount by which the allowance exceeds ½ of that maximum fixed amount.

Related Sections: S. 6(1)(*b*) Personal or living expenses; s. 8(3) Limitation re employment expense deduction.
Interpretation Bulletins: *Secondary* — IT-266 Taxation of members of provincial legislative assemblies [Archived by the CRA].

► 81(3) ◄

(3) Municipal officers' expense allowance. Where a person who is

(*a*) an elected officer of an incorporated municipality,

(*b*) an officer of a municipal utilities board, commission or corporation or any other similar body, the incumbent of whose office as such an officer is elected by popular vote, or

(*c*) a member of a public or separate school board or similar body governing a school district,

has been paid by the municipal corporation or the body of which the person was such an officer or member (in this subsection referred to as the person's "employer") an amount as an allowance in a taxation year for expenses incident to the discharge of the person's duties as such an officer or member, the allowance shall not be included in computing the person's income for the year unless it exceeds 1/2 of the amount that was paid to the person in the year by the person's employer as salary or other remuneration as such an officer or member, in which event there shall be included in computing the person's income for the year only the amount by which the allowance exceeds 1/2 of the amount so paid to the person by way of salary or remuneration.

Related Sections: S. 6(1)(*b*) Personal or living expenses; s. 8(3) Limitation re employment expense deduction.
Interpretation Bulletins: *Primary* — IT-292 Taxation of elected officers of incorporated municipalities, school boards, municipal commissions and similar bodies.

► 81(3.1) ◄

(3.1) Travel expenses. There shall not be included in computing an individual's income for a taxation year an amount (not in excess of a reasonable amount) received by the individual from an employer with whom the individual was dealing at arm's length as an allowance for, or reimbursement of, travel expenses incurred by the individual in the year in respect of the individual's part-time employment in the year with the employer (other than expenses incurred in the performance of the duties of the individual's part-time employment) if

(*a*) throughout the period in which the expenses were incurred,

(i) the individual had other employment or was carrying on a business, or

(ii) where the employer is a designated educational institution (within the meaning assigned by subsection 118.6(1)), the duties of the individual's part-time employment were the provision in Canada of a service to the employer in the individual's capacity as a professor or teacher; and

(*b*) the duties of the individual's part-time employment were performed at a location not less than 80 kilometres from,

(i) where subparagraph (*a*)(i) applies, both the individual's ordinary place of residence and the place of the other employment or business referred to in that subparagraph, and

(ii) where subparagraph (*a*)(ii) applies, the individual's ordinary place of residence.

History: S. 81(3.1) was amended by S.C. 2001, c. 17, s. 60(2), applicable to the 1995 and subsequent taxation years and, notwithstanding subsections 152(4) to (5) of the Act, any assessment of an individual's tax payable under the Act for any taxation year that ends before 2000 shall be made that is necessary to take into account the application of that subsection 81(3.1). S. 81(3.1) formerly read:

"(3.1) *Travel expenses.* An amount received by an individual in respect of the individual's part-time employment by an employer with whom the individual was dealing at arm's length as an allowance for, or reimbursement of, travel expenses incurred during a period throughout which the individual had other employment or was carrying on a business shall not be included in computing the individual's income to the extent that it is paid by the employer and does not exceed a reasonable amount on account of travel expenses (other than expenses incurred in the performance of the duties of the individual's part-time employment) incurred by the individual in respect of that part-time employment, if the duties of the part-time employment are performed at a location not less than 80 kilometres from both the individual's ordinary place of residence and principal place of employment or business."

Related Sections: S. 6(1)(*b*) Personal or living expenses.
Interpretation Bulletins: *Secondary* — IT-522R Vehicle, Travel and Sales Expenses of Employees.

► 81(4) ◄

(4) Payments for volunteer services. Where

(*a*) an individual was employed or otherwise engaged in a taxation year by a government, municipality or public authority (in this subsection referred to as "the employer") and received in the year from the employer one or more amounts for the performance, as a volunteer, of the individual's duties as

(i) an ambulance technician,

(ii) a firefighter, or

(iii) a person who assists in the search or rescue of individuals or in other emergency situations, and

(*b*) if the Minister so demands, the employer has certified in writing that

(i) the individual was in the year a person described in paragraph (*a*), and

(ii) the individual was at no time in the year employed or otherwise engaged by the employer, otherwise than as a volunteer, in connection with the performance of any of the duties referred to in paragraph (*a*) or of similar duties,

there shall not be included in computing the individual's income derived from the performance of those duties the lesser of $1,000 and the total of those amounts.

History: S. 81(4) was added by S.C. 2001, c. 17, s. 60(2), applicable to the 1998 and subsequent taxation years. S. 81(4) was previously repealed by the former Act.

Interpretation Bulletins: *Secondary* — IT-495R3 Child care expenses.

► 81(5) ◄

(5) Election. Where a taxpayer or a person described in paragraph (1)(*g*.1) has acquired capital property under the circumstances described in that paragraph, the taxpayer or the person may, in the return of income of the taxpayer for the taxation year in which the taxpayer attains the age of 21 years, elect to treat any such capital property held by the taxpayer or person as having been disposed of on the day immediately preceding the day on which the taxpayer attained the age of 21 years for proceeds of disposition equal to the fair market value of the property on that day and the person or taxpayer making the election shall be deemed to have reacquired that property immediately thereafter at a cost equal to those proceeds.

Related Sections: S. 6(1)(*b*) Personal or living expenses; s. 248(1), "amount", "business", "corporation", "employer", "non-resident", "office", "prescribed", "property", "regulation", "share".

Subdivision h — Corporations Resident in Canada and Their Shareholders

SECTION 82:

► 82(1) ◄

(1) Taxable dividends received. In computing the income of a taxpayer for a taxation year, there shall be included the total of the following amounts:

(*a*) the amount, if any, by which

(i) the total of all amounts, other than eligible dividends and amounts described in paragraph (*c*), (*d*) or (*e*), received by the taxpayer in the taxation year from corporations resident in Canada as, on account of, in lieu of payment of or in satisfaction of, taxable dividends,

exceeds

(ii) if the taxpayer is an individual, the total of all amounts paid by the taxpayer in the taxation year that are deemed by subsection 260(5) to have been received by another person as taxable dividends (other than eligible dividends);

(*a*.1) the amount, if any, by which

(i) the total of all amounts, other than amounts included in computing the income of the taxpayer because of paragraph (*c*), (*d*) or (*e*), received by the taxpayer in the taxation year from corporations resident in Canada as, on account of, in lieu of payment of or in satisfaction of, eligible dividends,

exceeds

(ii) if the taxpayer is an individual, the total of all amounts paid by the taxpayer in the taxation year that are deemed by subsection 260(5) to have been received by another person as eligible dividends;

(*b*) if the taxpayer is an individual, other than a trust that is a registered charity, the total of

(i) 25% of the amount determined under paragraph (*a*) in respect of the taxpayer for the taxation year, and

(ii) the product of the amount determined under paragraph (*a.1*) in respect of the taxpayer for the taxation year multiplied by

(A) for the 2009 taxation year, 45%,

(B) for the 2010 taxation year, 44%,

(C) for the 2011 taxation year, 41%, and

(D) for taxation years after 2011, 38%;

(*c*) all taxable dividends received by the taxpayer in the taxation year, from corporations resident in Canada, under dividend rental arrangements of the taxpayer;

(*d*) all taxable dividends (other than taxable dividends described in paragraph (*c*)) received by the taxpayer in the taxation year from corporations resident in Canada that are not taxable Canadian corporations; and

(*e*) if the taxpayer is a trust, all amounts each of which is all or part of a taxable dividend (other than a taxable dividend described in paragraph (*c*) or (*d*)) that was received by the trust in the taxation year on a share of the capital stock of a taxable Canadian corporation and that can reasonably be considered to have been included in computing the income of a beneficiary under the trust who was non-resident at the end of the taxation year.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 82(1) of the *Income Tax Act*, as enacted by subsection 44(1) of [Bill C-28, S.C. 2007, c. 2], is replaced by the following:

SECTION 82:

(1) Taxable dividends received. In computing the income of a taxpayer for a taxation year, there shall be included the total of the following amounts:

(*a*) the amount, if any, by which

(i) the total of all amounts, other than eligible dividends and amounts described in paragraph (*c*), (*d*) or (*e*) received by the taxpayer in the taxation year from corporations resident in Canada as, on account of, in lieu of payment of or in satisfaction of, taxable dividends,

exceeds

(ii) if the taxpayer is an individual, the total of all amounts each of which is, or is deemed by paragraph 260(12)(*b*) to have been, paid by the taxpayer in the taxation year and deemed by subsection 260(5.1) to have been received by another person as a taxable dividend (other than an eligible dividend);

(*a*.1) the amount, if any, by which

(i) the total of all amounts, other than amounts included in computing the income of the taxpayer because of paragraph (*c*), (*d*) or (*e*), received by the taxpayer in the taxation year from corporations resident in Canada as, on account of, in lieu of payment of or in satisfaction of, eligible dividends,

exceeds

(ii) if the taxpayer is an individual, the total of all amounts each of which is, or is deemed by paragraph 260(12)(*b*) to have been, paid by the taxpayer in the taxation year and deemed by subsection 260(5.1) to have been received by another person as an eligible dividend;

(*b*) if the taxpayer is an individual, other than a trust that is a registered charity, the total of

(i) 25% of the amount determined under paragraph (*a*) in respect of the taxpayer for the taxation year, and

(ii) 45% of the amount determined under paragraph (*a.1*) in respect of the taxpayer for the taxation year;

(*c*) all taxable dividends received by the taxpayer in the taxation year, from corporations resident in Canada, under dividend rental arrangements of the taxpayer;

(*d*) all taxable dividends (other than taxable dividends described in paragraph (*c*)) received by the taxpayer in the taxation year from corporations resident in Canada that are not taxable Canadian corporations; and

(*e*) if the taxpayer is a trust, all amounts each of which is all or part of a taxable dividend (other than a taxable dividend described in paragraph (*c*) or (*d*)) that was received by the trust in the taxation year on a share of the capital stock of a taxable Canadian corporation and that can reasonably be considered to have been included in computing the income of a beneficiary under the trust who was non-resident at the end of the taxation year.

Applicable: Deemed to have come into force on January 1, 2006.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Clause 82(1)(*a*)(ii)(B) of the Act is replaced by the following [Editorial Note: This proposed technical amendment to clause 82(1)(*a*)(ii)(B) applies to s. 82(1) as it read prior to it being amended by Bill C-28, S.C. 2007, c. 2, and therefore does not apply to amounts received or paid after 2005.]:

(B) where the taxpayer is an individual, the total of all amounts each of which is, or is deemed by paragraph 260(12)(*b*) to have been, an amount paid by the taxpayer in the year and deemed by subsection 260(5.1) to have been received by another person as a taxable dividend,

Applicable:

(*a*) To amounts paid in respect of arrangements made after 2001, except that, in its application to amounts paid in respect of an arrangement made before December 21, 2002, clause 82(1)(*a*)(ii)(B) is to be read without reference to the expression "or is deemed by paragraph 260(12)(*b*) to have been" unless an election referred to in paragraph 187(25)(*b*) of this Act has been made in respect of the arrangement; and

(*b*) to amounts paid in respect of arrangements made after November 2, 1998 and before 2002, if the parties to the arrangement have made the election referred to in paragraph 187(25)(*b*) of this Act, except that in its application to those arrangements made before 2002, the reference to "subsection 260(5.1)" in clause 82(1)(*a*)(ii)(B) is to be read as a reference to "subsection 260(5)".

Explanatory Note: Clause 82(1)(*a*)(ii)(B) of the Act allows an individual who has entered into a securities lending arrangement to deduct, to the extent of the individual's dividend income, the dividend compensation payment paid by the individual.

Due to the amendments made to the securities lending arrangement rules in section 260 of the Act, clause 82(1)(*a*)(ii)(B) is amended in two ways. First, it is amended to apply in respect of an individual's specified proportion of a dividend compensation payment made by a partnership of which the individual is a member. Secondly, since new subsection 260(5.1) of the Act now sets out the treatment of dividend compensation payments, the clause is amended to replace the reference to "subsection 260(5)" with a reference to "subsection 260(5.1)".

Whether this amendment applies in respect of a particular securities lending arrangement depends on when the arrangement is made and, in the case of an arrangement made after November 2, 1998 and before December 21, 2002, whether the parties to the arrangement have elected to have the amended definition of "dividend rental arrangement" in subsection 248(1) of the Act apply. The following table shows these alternative results.

	Date Arrangement Was Made			
	Before November 3, 1998	*After November 2, 1998 and before 2002*	*After 2001 and before December 21, 2002*	*After December 20, 2002*
Election made	Election not available. Amendment does not apply	Amendment applies, but read reference to 260(5.1) as a reference to 260(5)	Amendment applies	Election not available. Amendment applies
Election not made	Election not available. Amendment does not apply	Amendment does not apply	Amendment applies, but ignore reference to 260(12)(*b*)	Election not available. Amendment applies

History: S. 82(1)(*b*)(ii) was replaced by S.C. 2008, c. 28, s. 8(1), applicable to the 2009 and subsequent taxation years. S. 82(1)(*b*)(ii) formerly read:

"(ii) 45% of the amount determined under paragraph (*a.1*) in respect of the taxpayer for the taxation year;"

S. 82(1) was replaced by S.C. 2007, c. 2, s. 44(1), applicable to amounts received or paid after 2005. S. 82(1) formerly read:

"S. 82. (1) *Taxable dividends received.* In computing the income of a taxpayer for a taxation year, there shall be included

(*a*) the total of

(i) all amounts each of which is a taxable dividend received by the taxpayer in the year as part of a dividend rental arrangement of the taxpayer from a corporation resident in Canada or a taxable dividend received by the taxpayer in the year from a corporation resident in Canada that is not a taxable Canadian corporation,

(i.1) where the taxpayer is a trust, all amounts each of which is all or part of a taxable dividend (other than a taxable dividend described in subparagraph (i)) that was received by the trust in the year on a share of the capital stock of a taxable Canadian corporation and that can reasonably be considered as having been included in computing the income of a beneficiary under the trust who was non-resident at the end of the year, and

(ii) the amount, if any, by which

(A) the total of all amounts received by the taxpayer in the year from corporations resident in Canada as, on account of, in lieu of payment of or in satisfaction of, taxable dividends, other than an amount included in computing the income of the taxpayer because of subparagraph (i) or (i.1)

exceeds

(B) where the taxpayer is an individual, the total of all amounts paid by the taxpayer in the year that are deemed by subsection 260(5) to have been received by another person as taxable dividends,

plus

(*b*) where the taxpayer is an individual, other than a trust that is a registered charity, 1/4 of the amount determined under subparagraph (*a*)(ii) in respect of the taxpayer for the year."

S. 82(1)(*a*), the portion at the end of subparagraph (i) was amended S.C. 1998, c. 19, s. 114(1), applicable to taxation years that end after April 26, 1995. It formerly read:

"(i) all amounts each of which is a taxable dividend received by the taxpayer in the year as part of a dividend rental arrangement of the taxpayer from a corporation resident in Canada or a taxable dividend received by the taxpayer in the year from a corporation resident in Canada that is not a taxable Canadian corporation, and"

S. 82(1)(*a*)(i.1) was added by S.C. 1998, c. 19, s. 114(1), applicable to taxation years that end after April 26, 1995.

S. 82(1)(*a*)(ii)(A) was amended by S.C. 1998, c. 19, s. 114(2), applicable to taxation years that end after April 26, 1995. It formerly read:

"(A) the total of all amounts received by the taxpayer in the year from corporations resident in Canada as, on account or in lieu of payment of, or in satisfaction of, taxable dividends, other than an amount included in computing the income of the taxpayer by reason of subparagraph (i),"

Editorial Note: The amount under paragraph 82(1)(*b*) is the so-called gross-up in respect of taxable dividends received by individuals from Canadian resident corporations. For "eligible dividends" (see the definition in subsection 89(1)) received after 2005 and before 2010, the gross-up is 45%, reducing to 44% for 2010, 41% for 2011, and 38% thereafter. The gross-up for non-eligible dividends is 25%. The dividend tax credit under section 121 equals 11/18 of the gross-up for eligible dividends received before 2010, 10/17 for those received in 2010, 13/23 in 2011, and 6/11 thereafter. The dividend tax credit for non-eligible dividends is two-thirds of the gross-up. The 2008 Federal Budget, which implemented these changes, noted that these changes were necessary as a result of the reduction in the general corporate tax rate, in order to more closely resemble full integration.

Related Sections: S. 12(1)(*j*) Dividends from resident corporations; s. 104(19) Taxable dividends; s. 112(1) Deduction of taxable dividends received by corporation resident in Canada; s. 121 Deduction for taxable dividends; s. 127.5 Obligation to pay minimum tax.

Regulations: Part II.

Interpretation Bulletins: *Secondary* — IT-67R3 Taxable dividends from corporations resident in Canada; IT-379R Employees Profit Sharing Plans — Allocations to Beneficiaries; IT-432R2 Benefits conferred on shareholders; IT-524 Trusts — Flow-through of taxable dividends to a beneficiary — After 1987.

Forms: T5 Sum.; T5.

Tax Topics: No. 1903, Tax Smart Investing; No. 1809, New Tax on Income Trusts and Public Partnerships, Trick or treat — a taxing announcement.

Tax Profile: October 2006 — New Rules for the Taxation of Dividends; October 2004 — Taxation of Dividends: A Survey in the Context of Private Corporations and Their Shareholders.

► 82(1.1) ◄

(1.1) Limitation as to subparagraph (1)(*a*)(i). An amount shall be included in the amounts described in

subparagraph (1)(*a*)(i) in respect of a taxable dividend received at any time as part of a dividend rental arrangement only where that dividend was received on a share acquired before that time and after April, 1989.

History: S. 82(1.1) was not part of the former Act.

Editorial Note: Dividends received under dividend rental arrangements are now described in paragraph 82(1)(*c*).

► 82(2) ◄

(2) Certain dividends received by taxpayer. Where by reason of subsection 56(4) or (4.1) or sections 74.1 to 75 of this Act or section 74 of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, there is included in computing a taxpayer's income for a taxation year a dividend received by another person, for the purposes of this Act, the dividend shall be deemed to have been received by the taxpayer.

Editorial Note: By deeming the dividend to be received by the taxpayer to whom one of the listed attribution rules applied, subsection 82(2) ensures, among other things, that the taxpayer will be entitled to the dividend tax credit in the case of an individual (section 121), or an inter-corporate dividend deduction in the case of a corporation (section 112 or 113).

Related Sections: S. 82(1) Taxable dividends received; s. 112(1) Deduction of taxable dividends received by corporation resident in Canada; s. 113(1) Deduction in respect of dividend received from foreign affiliate; s. 121 Deduction for taxable dividends.

Interpretation Bulletins: *Secondary* — IT-440R2 Transfer of rights to income.

► 82(3) ◄

(3) Dividends received by spouse or common-law partner. Where the amount that would, but for this subsection, be deductible under subsection 118(1) by reason of paragraph 118(1)(*a*) in computing a taxpayer's tax payable under this Part for a taxation year that is less than the amount that would be so deductible if no amount were required by subsection (1) to be included in computing the income for the year of the taxpayer's spouse or common-law partner and the taxpayer so elects in the taxpayer's return of income for the year under this Part, all amounts described in paragraph (1)(*a*) or (*a*.1) received in the year from taxable Canadian corporations by the taxpayer's spouse or common-law partner are deemed to have been so received by that taxpayer and not by the spouse or common-law partner.

History: S. 82(3) was replaced by S.C. 2007, c. 2, s. 44(2), applicable to amounts received or paid after 2005. S. 82(3) formerly read:

"(3) *Dividends received by spouse.* Where the amount that would, but for this subsection, be deductible under subsection 118(1) by reason of paragraph 118(1)(*a*) in computing a taxpayer's tax payable under this Part for a taxation year is less than the amount that would be so deductible if no amount were required by subsection (1) to be included in computing the income for the year of the taxpayer's spouse or common-law partner and the taxpayer so elects in the taxpayer's return of income for the year under this Part, all amounts described in paragraph (1)(*a*) received in the year from taxable Canadian corporations by the taxpayer's spouse or common-law partner shall be deemed to have been so received by the taxpayer and not by the spouse or common-law partner."

S. 82(3) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(y), applicable January 1, 2001, coming into force on July 31, 2000. S. 82(3) formerly read:

"(3) *Dividends received by spouse.* Where the amount that would, but for this subsection, be deductible under subsection 118(1) by reason of paragraph 118(1)(*a*) in computing a taxpayer's tax payable under this Part for a taxation year is less than the amount that would be so deductible if no amount were required by subsection (1) to be included in computing the income for the year of the taxpayer's spouse and the taxpayer so elects in the taxpayer's return of income for the year under this Part, all amounts described in paragraph (1)(*a*) received in the year from taxable Canadian corporations by the taxpayer's spouse shall be deemed to have been so received by the taxpayer and not by the spouse."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Editorial Note: Where a taxpayer's spouse (or common-law partner) receives taxable dividends in a taxation year that, if included in the spouse's income, would result in a reduction in the taxpayer's married tax credit for the year (paragraph 118(1)(*a*)), subsection 83(2) allows the taxpayer to elect to include the taxable dividends in income. By doing so, the taxpayer can maximize the married tax credit and utilize the dividend tax credit (section 121), which can result in less overall tax payable for the couple.

Related Sections: S. 89(1), "Canadian corporation", "taxable Canadian corporation", "taxable dividends"; s. 104(19) Taxable dividends; s. 220(3.2) Late, amended or revoked elections; s. 248(1), "amount", "corporation", "dividend", "individual"; s. 255 Canada.

Regulations: 600(b).

Interpretation Bulletins: *Primary* — IT-295R4 Taxable dividends received after 1987 by a spouse.

Information Circulars: IC 07-1 Taxpayer Relief Provisions.

Tax Profile: October 2004 — Taxation of Dividends: A Survey in the Context of Private Corporations and Their Shareholders.

Cases: When a taxpayer sought to deduct part of his spouse's dividend income before adding the grossed up balance to his own income the Minister assessed as if all the dividend income had been grossed up and added to the taxpayer's income. The Court ruled that either all or none of the spouse's dividend income must be added. Paragraph 109(1)(*a*) comes into operation only after the taxpayer's taxable income has been computed. *Gillis v. The Queen*, 77 DTC 5227 (F.C.T.D.).

SECTION 83:

► 83(1) ◄

(1) Qualifying dividends. Where a qualifying dividend has been paid by a public corporation to shareholders of a series of tax-deferred preferred shares of a class of the capital stock of the corporation that were outstanding on March 31, 1977, the following rules apply:

(*a*) no part of the qualifying dividend shall be included in computing the income of any shareholder of the corporation by virtue of this subdivision; and

(*b*) in computing the adjusted cost base to any shareholder of the corporation of any tax-deferred preferred share of the corporation owned by the shareholder, there shall be deducted in respect of the qualifying dividend an amount as provided by subparagraph 53(2)(*a*)(i).

Related Sections: S. 83(3) Late filed elections; s. 83(6) Definition of "qualifying dividend"; s. 89(1), "Canadian corporation"; s. 134 Non-resident-owned corporation not a Canadian corporation, etc; s. 185(1) Assessment of tax; s. 185(2) Payment of tax and interest.

Regulations: 2100.

Interpretation Bulletins: *Secondary* — IT-67R3 Taxable dividends from corporations resident in Canada; IT-146R4 Shares entitling shareholders to choose taxable or capital dividends; IT-379R Employees Profit Sharing Plan — Allocations to Beneficiaries; IT-465R Non-resident beneficiaries of trusts.

► 83(2) ◄

(2) Capital dividend. Where at any particular time after 1971 a dividend becomes payable by a private corporation to shareholders of any class of shares of its capital stock and the corporation so elects in respect of the full amount of the dividend, in prescribed manner and prescribed form and at or before the particular time or the first day on which any part of the dividend was paid if that day is earlier than the particular time, the following rules apply:

(*a*) the dividend shall be deemed to be a capital dividend to the extent of the corporation's capital dividend account immediately before the particular time; and

(*b*) no part of the dividend shall be included in computing the income of any shareholder of the corporation.

Editorial Note: The full amount of the elected dividend is excluded from the income of each resident shareholder, even if the total dividend exceeds the corporation's "capital dividend account" (subsection 89(1)) such that the excess is not a capital dividend. However, the corporation may be subject to a penalty tax in respect of the excess under subsection 184(2); alternatively, the corporation can elect under subsection 184(3) to have the excess treated as a separate taxable dividend. A capital dividend paid to a non-resident is subject to withholding tax under subsection 212(2).

Related Sections: S. 83(3) Late filed elections; s. 89(1), "capital dividend account"; s. 184(2) Tax on excessive elections; s. 184(3.2) Election to treat dividend as loan — capital dividend; s. 185 Assessment of tax.
Regulations: 2101.
Interpretation Bulletins: *Primary* — IT-66R6 Capital dividends. *Secondary* — IT-149R4 Winding-up dividend.
Information Circulars: IC 07-1 Taxpayer Relief Provisions.
Forms: T2054.
Tax Topics: No. 1857, Sham - As Bad As It Gets; No. 1489, Excess CDA Dividends and Options.
Tax Profile: July 2007 — Canadian Tax Traps; October 2004 — Taxation of Dividends: A Survey in the Context of Private Corporations and Their Shareholders; September 2004 — Review of Tax Implications of Corporate-Owned Life Insurance Buy-Sell Arrangements; November 2000 — Life Insurance Corporate Buy-Sell Arrangements.
Canadian Tax Foundation: Hoegner, "The Best Things in Life are (Tax-) Free: A Current Look at the Capital Dividend Account", *2002 Canadian Tax Journal*, No. 4, 1426.
Tax Window Files: Capital Dividend Received by Partnership, December 4, 2003, CRA Document No. 2003-0038595 [Corporate partner can include, in computing its capital dividend account, its share of a capital dividend received by the partnership at the time the partner becomes entitled to a share of the dividend]; Excess CDA Dividend, November 29, 2002, CRA Document No. 2002-0118665 [Person entitled to receive dividend but who does not own the shares at the time the dividend is received is "shareholder" for the purposes of subsection 83(2)]; Payment of Capital Dividend Account After Sale of Shares, September 20, 2002, CRA Document No. 2002-0143945 [Person entitled to receive dividend but who does not own the shares at the time the dividend is received is "shareholder" for the purposes of subsection 83(2)].

► 83(2.1) ◄

(2.1) Idem. Notwithstanding subsection (2), where a dividend that, but for this subsection, would be a capital dividend is paid on a share of the capital stock of a corporation and the share (or another share for which the share was substituted) was acquired by its holder in a transaction or as part of a series of transactions one of the main purposes of which was to receive the dividend,

(*a*) the dividend shall, for the purposes of this Act (other than for the purposes of Part III and computing the capital dividend account of the corporation), be deemed to be received by the shareholder and paid by the corporation as a taxable dividend and not as a capital dividend; and

(*b*) paragraph (2)(*b*) does not apply in respect of the dividend.

Related Sections: S. 83(2.2) Capital dividend — exception to anti-avoidance rule; s. 83(2.3) Capital dividend — exception to anti-avoidance rule; s. 83(2.4) Capital dividend — exception to anti-avoidance rule; s. 87(2)(*x*) Taxable dividends.
Interpretation Bulletins: *Primary* — IT-66R6 Capital dividends. *Secondary* — IT-149R4 Winding-up dividend.
Tax Profile: October 2004 — Taxation of Dividends: A Survey in the Context of Private Corporations and Their Shareholders.

► 83(2.2) ◄

(2.2) Where s. 83(2.1) does not apply. Subsection (2.1) does not apply in respect of a particular dividend, in respect of which an election is made under subsection (2), paid on a share of the capital stock of a particular corporation to an individual where it is reasonable to consider that all or substantially all of the capital dividend account of the particular corporation immediately before the particular dividend became payable consisted of amounts other than any amount

(*a*) added to that capital dividend account under paragraph (*b*) of the definition "capital dividend account" in subsection 89(1) in respect of a dividend received on a share of the capital stock of another corporation, which share (or another share for which the share was substituted) was acquired by the particular corporation in a transaction or as part of a series of transactions one of the main purposes of which was that the particular corporation receive the dividend, but not in respect of a dividend where it is reasonable to consider that the purpose of paying the dividend was to distribute an amount that was received by the other corporation and included in computing the other corporation's capital dividend account by reason of paragraph (*d*) of that definition;

(*b*) added to that capital dividend account under paragraph 87(2)(*z*.1) as a result of an amalgamation or winding-up or a series of transactions including the amalgamation or winding-up that would not have been so added had the amalgamation or winding-up occurred or the series of transactions been commenced after 4:00 p.m. Eastern Daylight Saving Time, September 25, 1987;

(*c*) added to that capital dividend account at a time when the particular corporation was controlled, directly or indirectly, in any manner whatever, by one or more non-resident persons; or

(*d*) in respect of a capital gain from a disposition of a property by the particular corporation or another corporation that may reasonably be considered as having accrued while the property (or another property for which it was substituted) was a property of a corporation that was controlled, directly or indirectly, in any manner whatever, by one or more non-resident persons.

Tax Profile: October 2004 — Taxation of Dividends: A Survey in the Context of Private Corporations and Their Shareholders.

► 83(2.3) ◄

(2.3) Idem. Subsection (2.1) does not apply in respect of a dividend, in respect of which an election is made under subsection (2), paid on a share of the capital stock of a corporation where it is reasonable to consider that the purpose of paying the dividend was to distribute an amount that was received by the corporation and included in computing its capital dividend account by reason of paragraph (*d*) of the definition "capital dividend account" in subsection 89(1).

Tax Profile: October 2004 — Taxation of Dividends: A Survey in the Context of Private Corporations and Their Shareholders.

► 83(2.4) ◄

(2.4) Idem. Subsection (2.1) does not apply in respect of a particular dividend, in respect of which an election is made under subsection (2), paid on a share of the capital stock of a particular corporation to a corporation (in this subsection referred to as the "related corporation") related (otherwise than by reason of a right referred to in paragraph 251(5)(*b*)) to the particular corporation where it is reasonable to consider that all or substantially all of the capital dividend account of the particular corpo-

ration immediately before the particular dividend became payable consisted of amounts other than any amount

(*a*) added to that capital dividend account under paragraph (*b*) of the definition "capital dividend account" in subsection 89(1) in respect of a dividend received on a share of the capital stock of another corporation if it is reasonable to consider that any portion of the capital dividend account of that other corporation immediately before that dividend became payable consisted of amounts added to that account under paragraph 87(2)(z.1) or paragraph (*b*) of that definition as a result of a transaction or a series of transactions that would not have been so added had the transaction occurred or the series of transactions been commenced after 4:00 p.m. Eastern Daylight Saving Time, September 25, 1987;

(*b*) that represented the capital dividend account of a corporation before it became related to the related corporation;

(*c*) added to the capital dividend account of the particular corporation at a time when that corporation was controlled, directly or indirectly, in any manner whatever, by one or more non-resident persons;

(*d*) in respect of a capital gain from a disposition of a property by the particular corporation or another corporation that may reasonably be considered as having accrued while the property (or another property for which it was substituted) was a property of a corporation that was controlled, directly or indirectly, in any manner whatever, by one or more non-resident persons; or

(*e*) in respect of a capital gain from a disposition of a property (or another property for which it was substituted) that may reasonably be considered as having accrued while the property or the other property was a property of a person that was not related to the related corporation.

Tax Profile: October 2004 — Taxation of Dividends: A Survey in the Context of Private Corporations and Their Shareholders.

► 83(3) ◄

(3) Late filed elections. Where at any particular time after 1974 a dividend has become payable by a corporation to shareholders of any class of shares of its capital stock, and subsection (1) or (2) would have applied to the dividend except that the election referred to therein was not made on or before the day on or before which the election was required by that subsection to be made, the election shall be deemed to have been made at the particular time or on the first day on which any part of the dividend was paid, whichever is the earlier, if

(*a*) the election is made in prescribed manner and prescribed form;

(*b*) an estimate of the penalty in respect of that election is paid by the corporation when that election is made; and

(*c*) the directors or other person or persons legally entitled to administer the affairs of the corporation have, before the time the election is made, authorized the election to be made.

Related Sections: S. 83(3.1) Request for election; s. 83(4) Penalty for late filed election; s. 83(5) Unpaid balance of penalty.
Regulations: Part XXI.
Interpretation Bulletins: *Secondary* — IT-66R6 Capital dividends.

► 83(3.1) ◄

(3.1) Request for election. The Minister may at any time, by written request served personally or by registered mail, request that an election referred to in subsection (3) be made by a taxpayer, and where the taxpayer on whom such a request is served does not comply therewith within 90 days of service thereof on the taxpayer, subsection (3) does not apply to such an election made by the taxpayer.

► 83(4) ◄

(4) Penalty for late filed election. For the purposes of this section, the penalty in respect of an election referred to in paragraph (3)(*a*) is an amount equal to the lesser of

(*a*) 1% per annum of the amount of the dividend referred to in the election for each month or part of a month during the period commencing with the time that the dividend became payable, or the first day on which any part of the dividend was paid if that day is earlier, and ending with the day on which that election was made, and

(*b*) the product obtained when $500 is multiplied by the proportion that the number of months or parts of months during the period referred to in paragraph (*a*) bears to 12.

Related Sections: S. 83(3) Late filed elections.
Interpretation Bulletins: *Secondary* — IT-66R6 Capital dividends.

► 83(5) ◄

(5) Unpaid balance of penalty. The Minister shall, with all due dispatch, examine each election referred to in paragraph (3)(*a*), assess the penalty payable and send a notice of assessment to the corporation and the corporation shall pay, forthwith to the Receiver General, the amount, if any, by which the penalty so assessed exceeds the total of all amounts previously paid on account of that penalty.

► 83(6) ◄

(6) Definition of "qualifying dividend". For the purposes of subsection (1), "qualifying dividend" means a dividend on shares of a series of a class of the capital stock of a public corporation that is prescribed to be a tax-deferred preferred series that became payable by the corporation after 1978 and not later than

(*a*) where the terms as at March 31, 1977 of the shares of that series entitled the holder of such a share to exchange it after a particular date for a share or shares of another series or class of preferred shares of the capital stock of the corporation, that particular date,

(*b*) where the terms as at March 31, 1977 of the shares of that series required the corporation to offer to purchase at a time not later than a particular date all of the shares of that series from all of the holders of those shares, that particular date, and

(*c*) in any other case, October 1, 1991,

whichever is applicable in respect of that series of shares, except that a dividend on shares of such a series that would otherwise be a qualifying dividend shall be deemed not to be a qualifying dividend if

(*d*) at the time that the dividend became payable, the terms of the shares of that series differ from the

terms as at March 31, 1977 of the shares of that series, or

(*e*) after March 31, 1977 the corporation issued additional shares of that series.

Regulations: 2107.

► 83(7) ◄

(7) Amalgamation where there are tax-deferred preferred shares. For the purposes of this section, where, after March 31, 1977, there has been an amalgamation within the meaning of section 87 and one or more of the predecessor corporations had a series of shares outstanding on March 31, 1977 that was prescribed to be a tax-deferred preferred series, the following rules apply:

(*a*) the series of shares of the capital stock of the predecessor corporation that was prescribed to be a tax-deferred preferred series shall be deemed to have been continued in existence in the form of the new shares; and

(*b*) the new corporation shall be deemed to be the same corporation as, and a continuation of, each such predecessor corporation.

Related Sections: S. 54, "adjusted cost base"; s. 83(2), "capital dividends"; s. 89(1), "Canadian corporation", "capital dividend account", "private corporation", "taxable dividend"; s. 133(1) Computation of income; s. 184(2) Tax on excessive elections; s. 185(1) Assessment of tax; s. 185(2) Payment of tax and interest; s. 248(1), "corporation", "dividend", "prescribed", "share", "shareholders".

SECTION 84:

► 84(1) ◄

(1) Deemed dividend. Where a corporation resident in Canada has at any time after 1971 increased the paid-up capital in respect of the shares of any particular class of its capital stock, otherwise than by

(*a*) payment of a stock dividend,

(*b*) a transaction by which

(i) the value of its assets less its liabilities has been increased, or

(ii) its liabilities less the value of its assets have been decreased,

by an amount not less than the amount of the increase in the paid-up capital in respect of the shares of the particular class,

(*c*) a transaction by which the paid-up capital in respect of the shares of all other classes of its capital stock has been reduced by an amount not less than the amount of the increase in the paid-up capital in respect of the shares of the particular class,

(*c.1*) where the corporation is an insurance corporation, any action by which it converts contributed surplus related to its insurance business into paid-up capital in respect of the shares of its capital stock,

(*c.2*) where the corporation is a bank, any action by which it converts any of its contributed surplus that arose on the issuance of shares of its capital stock into paid-up capital in respect of shares of its capital stock, or

(*c.3*) where the corporation is neither an insurance corporation nor a bank, any action by which it converts into paid-up capital in respect of a class of shares of its capital stock any of its contributed surplus that arose after March 31, 1977

(i) on the issuance of shares of that class or shares of another class for which the shares of that class were substituted (other than an issuance to which section 51, 66.3, 84.1, 85, 85.1, 86 or 87, subsection 192(4.1) or 194(4.1) or section 212.1 applied),

(ii) on the acquisition of property by the corporation from a person who at the time of the acquisition held any of the issued shares of that class or shares of another class for which shares of that class were substituted for no consideration or for consideration that did not include shares of the capital stock of the corporation, or

(iii) as a result of any action by which the paid-up capital in respect of that class of shares or in respect of shares of another class for which shares of that class were substituted was reduced by the corporation, to the extent of the reduction in paid-up capital that resulted from the action,

the corporation shall be deemed to have paid at that time a dividend on the issued shares of the particular class equal to the amount, if any, by which the amount of the increase in the paid-up capital exceeds the total of

(*d*) the amount, if any, of the increase referred to in subparagraph (*b*)(i) or the decrease referred to in subparagraph (*b*)(ii), as the case may be,

(*e*) the amount, if any, of the reduction referred to in paragraph (*c*), and

(*f*) the amount, if any, of the increase in the paid-up capital that resulted from a conversion referred to in paragraph (*c.1*), (*c.2*) or (*c.3*),

and a dividend shall be deemed to have been received at that time by each person who held any of the issued shares of the particular class immediately after that time equal to that proportion of the dividend so deemed to have been paid by the corporation that the number of the shares of the particular class held by the person immediately after that time is of the number of the issued shares of that class outstanding immediately after that time.

History: S. 84(1)(*c.3*) was amended by S.C. 1994, c. 21, s. 35(1), applicable with respect to actions occurring after July 13, 1990, except that for such actions occurring before December 21, 1992, subparagraph 84(1)(*c.3*)(iii) of the Act shall be read as follows:

"(iii) on the reduction by the corporation of the paid-up capital in respect of that class of shares or in respect of shares of another class for which shares of that class were substituted,"

S. 84(1)(*c.3*) formerly read:

"(*c.3*) where the corporation is neither an insurance corporation nor a bank, any action by which it converts into paid-up capital in respect of a class of shares of its capital stock any of its contributed surplus that arose after March 31, 1977

(i) on the issuance of shares of that class or shares of another class for which the shares of that class were substituted (other than an issuance to which section 51, 66.3, 84.1, 85, 85.1, 86 or 87, subsection 192(4.1) or 194(4.1) or section 212.1 applied),

(ii) on the acquisition of property by the corporation from a person who at the time of the acquisition held any of the issued shares of that class or shares of another class for which shares of that class were substituted for no consideration or for consideration that did not include shares of the capital stock of the corporation, or

(iii) on the reduction by the corporation of the paid-up capital in respect of that class of shares or in respect of shares of another class for which the shares of that class were substituted,"

S. 84(1)(*c.3*) was amended by S.C. 1994, c. 7, Sched. II, s. 62(1), applicable to actions occurring after July 13, 1990. S. 84(1)(*c.3*) formerly read:

"(*c.3*) where the corporation is a corporation other than an insurance corporation or a bank, any action by which it converts any of its contributed surplus that arose on the issuance, after March 31, 1977, of shares of a class of its capital stock (other than an issuance to which section 51, 66.3, 84.1, 85, 85.1, 86 or 87, subsection 192(4.1) or 194(4.1) or section 212.1 applied) into paid-up capital in respect of shares of that class of its capital stock,"

S. 84(1)(*f*) was added by S.C. 1994, c. 7, Sched. II, s. 62(2), applicable after 1985.

Editorial Note: Deemed dividends under subsection 84(1) in respect of a share are added in computing the adjusted cost base of the share under paragraph 53(1)(*b*). This ensures that the increases in paid-up capital referred to in subsection 84(1) are not subsequently taxed in the form of capital gains.

Related Sections: S. 15(1) Benefit conferred on shareholder; s. 53(1)(*b*) Adjustments to cost base — Deemed dividend; s. 53(1)(*c*) Adjustments to cost base — Contributions of capital; s. 84(6) Where s. (2) or (3) does not apply; s. 84(10) Reduction of contributed surplus; s. 84(11) Computation of contributed surplus; s. 85(2.1) Computing paid-up capital; s. 87(2)(*y*) Contributed surplus; s. 89(1), "paid-up capital"; s. 138(11.9) Computation of contributed surplus; s. 139.1(6) Paid-up capital — insurance corporation; s. 248(1), "bank", "insurance corporation".

Regulations: Part II.

Interpretation Bulletins: *Secondary* — IT-67R3 Taxable dividends from corporations resident in Canada; IT-291R3 Transfer of property to a corporation under subsection 85(1); IT-432R2 Benefits conferred on shareholders; IT-463R2 Paid-up Capital.

Advance Tax Rulings: ATR-33 Exchange of shares.

Forms: T5 Sum.; T5.

Tax Topics: No. 1820, Beware of Pitfalls in November 9, 2006 Technical Amendments When Crystallizing "Safe Income"!.

Tax Profile: December 2004 — Taxation of Dividends: A Survey in the Context of Private Corporations and Their Shareholders — Part 2; October 2004 — Taxation of Dividends: A Survey in the Context of Private Corporations and Their Shareholders; December 2000 — Increasing Paid-Up Capital.

Canadian Tax Foundation: Cardarelli, "Transactions Involving Paid-Up Capital", *2004 Conference Report*, 26:1-22; Smith and Devan, "Paid-Up Capital Planning", *Personal Tax Planning feature, 2003 Canadian Tax Journal*, No. 6, 2296.

Tax Window Files: Capital loss reduction under 112(3.2) for estate, May 30, 2007, CRA Document No. 2007-0224371I7; Ceasing to be an Insurance Corporation, 2006, CRA Document No. 2006-0173771R3; Return of Contributed Surplus to Shareholder, August 25, 2003, CRA Document No. 2003-0031585 [If contributed surplus is paid directly to a shareholder and is not converted into paid-up capital as per paragraph 84(1)(*c.3*), amount is included in shareholder's income either as dividend or benefit]; Transfer of Shares, February 17, 2003, CRA Document No. 2002-0176455 [Corporate reorganization in which the exception in subparagraph 84(1)(*b*)(i) could apply; increase in the value of the corporation's assets could offset the increase in its paid-up capital]; Contributed Surplus, October 30, 2002, CRA Document No. 2002-0146655 [Whether contributed surplus can arise as a consequence of the reduction in stated capital at a time when the corporation also has an accumulated deficit]; Deemed Dividend — Reorganization of Capital, May 28, 1991, CRA Document No. MA91_085.

► 84(2) ◄

(2) Distribution on winding-up, etc. Where funds or property of a corporation resident in Canada have at any time after March 31, 1977 been distributed or otherwise appropriated in any manner whatever to or for the benefit of the shareholders of any class of shares in its capital stock, on the winding-up, discontinuance or reorganization of its business, the corporation shall be deemed to have paid at that time a dividend on the shares of that class equal to the amount, if any, by which

(*a*) the amount or value of the funds or property distributed or appropriated, as the case may be,

exceeds

(*b*) the amount, if any, by which the paid-up capital in respect of the shares of that class is reduced on the distribution or appropriation, as the case may be,

and a dividend shall be deemed to have been received at that time by each person who held any of the issued shares at that time equal to that proportion of the amount of the excess that the number of the shares of that class held by the person immediately before that time is of the number of the issued shares of that class outstanding immediately before that time.

Editorial Note: The amount of a deemed dividend arising under subsection 84(2) or (3) on a redemption, acquisition, or cancellation of a shareholder's share is excluded from the proceeds of disposition of the share; see paragraph (*j*) of the definition of "proceeds of disposition" in section 54. Thus, if the shareholder's adjusted cost base of the share exceeds the paid-up capital in respect of the share, the deemed dividend will generally be accompanied by a capital loss on the disposition of the share. However, in contrast to subsection 84(3), subsection 84(2) can apply even if the share is not redeemed, acquired or cancelled, such that there is not resulting disposition of the share; see, for example, CRA document no. 2006-0184821R3. If there is a disposition of the share and a loss, the stop-loss rule of subsection 40(3.6) (shareholder and corporation affiliated immediately after disposition) or the loss reduction rules in subsections 112(3) through (3.2) (loss reduced generally by tax-free dividends received) may be relevant.

Related Sections: S. 40(3.6) Loss on shares; s. 54, "proceeds of disposition"; s. 69(5) Winding-up of corporation; s. 83(2) Capital dividend; s. 84(9) Shares disposed of on redemptions, etc; s. 88(1)(*d.1*) Winding-up; s. 88(2)(*b*) Winding-up of Canadian corporation; s. 89(1), "paid-up capital"; s. 112(3) Loss on share that is capital property; s. 112(3.1) Loss on share held by partnership; s. 112(3.2) Loss on share held by trust; s. 137(4.2) Deemed interest not a dividend; s. 248(1), "disposition".

Interpretation Bulletins: *Primary* — IT-126R2 Meaning of "winding-up". *Secondary* — IT-409 Winding-up of a non-profit organization [Archived by the CRA]; IT-444R Corporations — Involuntary Dissolutions; IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].

Tax Profile: October 2004 — Taxation of Dividends: A Survey in the Context of Private Corporations and Their Shareholders.

Canadian Tax Foundation: Smith and Devan, "Paid-Up Capital Planning", *Personal Tax Planning feature, 2003 Canadian Tax Journal*, No. 6, 2296; Roberts, "Winding Up: Part 1", *1996 Canadian Tax Journal*, No. 2, 533.

Tax Window Files: Meaning of "Reorganization" in 84(2), October 5, 2007, CRA Document No. 2007-0243221C6; PUC reduction by a public corporation, October 18, 2006, CRA Document No. 2006-0184821R3; Paid-Up Capital Reduction — Public Corporation, April 26, 2006, CRA Document No. 2005-0165091R3; Reorganization of a Business, March 29, 2006, CRA Document No. 2005-0149751R3; Distribution of Funds by a Public Corporation, August 31, 2005, CRA Document No. 2004-0067531R3; Shareholder/Manager Remuneration, May 31, 2005, CRA Document No. 2004-0106951I7 [Whether amounts paid to shareholders on winding-up are bonuses or deemed dividends]; Surplus Stripping Post-Geransky, October 10, 2003, CRA Document No. 2003-0029955.

Cases: Where taxpayers through a complicated series of transactions effected a distribution of the surplus of a company wound-up although not formally liquidated, they were taxed as deemed dividends under s. 81(1) and the Minister granted a dividend tax credit. This procedure was held a proper application of s. 81(1), and it was found unnecessary to express an opinion on s. 137(2), upon which the Minister had also relied. *Smythe et al. v. M.N.R.*, 69 DTC 5361 (S.C.C.), affirming 67 DTC 5334 (Ex. Ct.) as to the application of s. 81(1). The *Smythe* decision was followed in *Craddock et al. v. M.N.R.*, 69 DTC 5369 (S.C.C.), affirming 68 DTC 5254 (Ex. Ct.), where the company had been liquidated.

► 84(3) ◄

(3) Redemption, etc. Where at any time after December 31, 1977 a corporation resident in Canada has redeemed, acquired or cancelled in any manner whatever (otherwise than by way of a transaction described in subsection (2)) any of the shares of any class of its capital stock,

(*a*) the corporation shall be deemed to have paid at that time a dividend on a separate class of shares comprising the shares so redeemed, acquired or cancelled equal to the amount, if any, by which the amount paid by the corporation on the redemption, acquisition or cancellation, as the case may be, of those shares exceeds the paid-up capital in respect of those shares immediately before that time; and

(*b*) a dividend shall be deemed to have been received at that time by each person who held any of the shares of that separate class at that time equal to that portion of the amount of the excess determined under paragraph (*a*) that the number of those shares held by the person immediately before that time is of the total number of shares of that separate class that the corporation has redeemed, acquired or cancelled, at that time.

Editorial Note: The amount of a deemed dividend arising under subsection 84(2) or (3) on a redemption, acquisition, or cancellation of a shareholder's share is excluded from the proceeds of disposition of the share; see paragraph (*j*) of the definition of "proceeds of disposition" in section 54. Thus, if the shareholder's adjusted cost base of the share exceeds the paid-up capital in respect of the share, the deemed dividend will generally be accompanied by a capital loss on the disposition of the share. But see the stop-loss rule of subsection 40(3.6) (shareholder and corporation affiliated immediately after

disposition), and the loss reduction rules of subsections 112(3) through (3.2) (loss reduced generally by tax-free dividends received).

Related Sections: S. 40(3.6) Loss on shares; S. 51(1) Convertible property; s. 51(3) Computation of paid-up capital; s. 54, "proceeds of disposition"; s. 55(2) Deemed proceeds or capital gain; s. 66.3(2) Deductions from paid-up capital; s. 66.3(4) Paid-up capital; s. 84(9) Shares disposed of on redemptions, etc; s. 84.1(3) Addition to paid-up capital; s. 85(2.1) Computing paid-up capital; s. 85.1(2.1) Computation of paid-up capital; s. 86(1) Exchange of shares by a shareholder in course of reorganization of capital; s. 86(2.1) Computation of paid-up capital; s. 87(3) Computation of paid-up capital; s. 89(1), "paid-up capital"; s. 112(3) Loss on share that is capital property; s. 112(3.1) Loss on share held by partnership; s. 112(3.2) Loss on share held by trust; s. 137(4.2) Deemed interest not a dividend; s. 138(11.7) Computation of paid-up capital; s. 139.1(6) Paid-up capital — insurance corporation; s. 139.1(7) Paid-up capital — holding corporation; s. 212.1(2) Paid-up capital calculation after March 31, 1977.

Interpretation Bulletins: *Secondary* — IT-291R3 Transfer of property to a corporation under subsection 85(1).

Advance Tax Rulings: ATR-28 Redemption of capital stock of family farm corporation; ATR-35 Partitioning of assets to get specific ownership — "Butterfly"; ATR-58 Divisive reorganization.

Income Tax Technical News: Issue No. 33, Income Earned or Realized — The *Kruco* Case.

Tax Profile: December 2004 — Taxation of Dividends: A Survey in the Context of Private Corporations and Their Shareholders — Part 2; October 2004 — Taxation of Dividends: A Survey in the Context of Private Corporations and Their Shareholders; November 2000 — Life Insurance Corporate Buy-Sell Arrangements.

Canadian Tax Foundation: Smith and Devan, "Paid-Up Capital Planning", *Personal Tax Planning feature, 2003 Canadian Tax Journal*, No. 6, 2296.

Tax Window Files: Redemption of Shares — Balance of Purchase Price, October 28, 2005, CRA Document No. 2005-0145891E5; Interaction of 84(3) and 69(1)(b), October 8, 2004, CRA Document No. 2004-0086821C6; SAR Disposition, Shares, August 10, 2000, CRA Document No. 2000-0016875 [Stock option benefit where share redeemed]; Which Beneficiaries Entitled to Dividends, November 19, 1997, CRA Document No. 9718785; Deemed Dividend, July 22, 1997, CRA Document No. 9716825 [Calculation of dividend if paid in foreign currency]; Sale/redemption of shares by a U.S. resident, March 17, 1997, CRA Document No. 9621345; PUC shift on section 86 share exchange, May 8, 1996, CRA Document No. 9613115; Deemed Dividend — Reorganization of Capital, May 28, 1991, CRA Document No. MA91 .085.

Cases: The corporate taxpayer was deemed by s. 84(3) to have received a dividend upon the redemption of shares of G corporation. The same shareholders owned all of the shares of both the taxpayer and G. They subsequently sold their shares of G at arm's length. The redemption by G of its shares, and the sale by the shareholders of their G shares were part of a series of transactions coming within s. 55(2). *Granite Bay Charters Ltd. v. The Queen*, 2001 DTC 615 (T.C.C.).

► 84(4) ◄

(4) Reduction of paid-up capital. Where at any time after March 31, 1977 a corporation resident in Canada has reduced the paid-up capital in respect of any class of shares of its capital stock otherwise than by way of a redemption, acquisition or cancellation of any shares of that class or a transaction described in subsection (2) or (4.1),

(*a*) the corporation shall be deemed to have paid at that time a dividend on shares of that class equal to the amount, if any, by which the amount paid by it on the reduction of the paid-up capital, exceeds the amount by which the paid-up capital in respect of that class of shares of the corporation has been so reduced; and

(*b*) a dividend shall be deemed to have been received at that time by each person who held any of the issued shares at that time equal to that proportion of the amount of the excess referred to in paragraph (*a*) that the number of the shares of that class held by the person immediately before that time is of the number of the issued shares of that class outstanding immediately before that time.

Editorial Note: The amount paid out on the reduction of the paid-up capital in respect of the class of shares is received tax-free to the extent it does not exceed the reduction of paid-up capital in respect of the class, but such amount reduces the shareholder's adjusted cost base of the shares (subparagraph 53(2)(*a*)(ii)).

If the reduction causes the adjusted cost base of the share to become negative, the taxpayer will realize a capital gain (subsection 40(3)) and the adjusted cost base will be readjusted to nil (paragraph 53(1)(*a*)). However, to the extent that the paid-up capital reduction results in a dividend under subsection 84(4), the adjusted cost base is not reduced.

Related Sections: S. 53(2)(*a*)(ii) Amounts to be deducted; s. 84.1(3) Addition to paid-up capital; s. 89(1), "paid-up capital"; s. 137(4.2) Deemed interest not a dividend; s. 139.1(6) Paid-up capital — insurance corporation; s. 139.1(7) Paid-up capital — holding corporation; s. 212.1(2) Paid-up capital calculation after March 31, 1977.

Tax Topics: No. 1894, Negative Paid-Up Capital and Subsection 84(4) Reduction.

Tax Profile: October 2004 — Taxation of Dividends: A Survey in the Context of Private Corporations and Their Shareholders.

Canadian Tax Foundation: Smith and Devan, "Paid-Up Capital Planning", *Personal Tax Planning feature, 2003 Canadian Tax Journal*, No. 6, 2296.

Tax Window Files: Reduction of PUC, February 28, 2008, CRA Document No. 2008-0266181I7; Deemed Capital Gain on PUC Reduction, February 14, 2003, CRA Document No. 2002-0168815 [Where PUC reduction results in negative adjusted cost base]; Reduction of Stated Capital, March 6, 2001, CRA Document No. 2000-0059535.

► 84(4.1) ◄

(4.1) Deemed dividend on reduction of paid-up capital. Where at any time after April 10, 1978, a public corporation has reduced the paid-up capital in respect of any class of shares of its capital stock otherwise than by way of a redemption, acquisition or cancellation of any shares of that class or a transaction described in subsection (2) or section 86, any amount paid by it on the reduction of the paid-up capital shall be deemed to have been paid by the corporation and received by the person to whom it was paid, as a dividend.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 84(4.1) of the Act is replaced by the following:

(4.1) Deemed dividend on reduction of paid-up capital. Any amount paid by a public corporation on the reduction of the paid-up capital in respect of any class of shares of its capital stock, otherwise than by way of a redemption, acquisition or cancellation of any shares of that class or by way of a transaction described in subsection (2) or section 86, is deemed to have been paid by the corporation and received by the person to whom it was paid, as a dividend, unless

(*a*) the amount may reasonably be considered to be derived from proceeds of disposition realized by the public corporation, or by a person or partnership in which the public corporation had a direct or indirect interest at the time that the proceeds were realized, from a transaction that occurred

(i) outside the ordinary course of the business of the corporation, or of the person or partnership that realized the proceeds, and

(ii) within the period that commenced 24 months before the payment; and

(*b*) no amount that may reasonably be considered to be derived from those proceeds was paid by the public corporation on a previous reduction of the paid-up capital in respect of any class of shares of its capital stock.

Applicable: To amounts paid after 1996, except that in respect of those amounts paid before February 27, 2004, subsection 84(4.1) is to be read as follows:

"(4.1) Any amount paid by a public corporation on the reduction of the paid-up capital in respect of any class of shares of its capital stock, otherwise than by way of a redemption, acquisition or cancellation of any shares of that class or by way of a transaction described

in subsection (2) or in section 86, is deemed to have been paid by the corporation and received by the person to whom it was paid, as a dividend, unless the amount may reasonably be considered to be derived from proceeds of disposition realized by the public corporation, or by a person or partnership in which the public corporation had a direct or indirect interest at the time that the proceeds were realized, from a transaction that occurred outside the ordinary course of the business of the public corporation, or of the person or partnership that realized the proceeds."

Explanatory Note: Subsection 84(4.1) of the Act treats a payment on a reduction of paid-up capital by a public corporation as a dividend, except where the payment is made by way of a redemption, acquisition or cancellation of a share or in the course of a transaction described in subsection 84(2) or section 86 of the Act.

Subsection 84(4.1) is amended to introduce a new exception. Generally, this exception will apply where the amount paid on a reduction of paid-up capital may reasonably be considered to be a distribution of proceeds of disposition realized from a transaction that did not occur in the ordinary course of the corporation's business and those proceeds were derived from a transaction that occurred no more than 24 months before the return of the paid-up capital.

In the case of a transaction that funds the payment, generally relief from the deemed dividend rule in subsection 84(4.1) will apply if the paid-up capital distribution can be traced to proceeds of disposition realized in connection with a transaction that may reasonably be considered to be derived from a transaction that occurs outside of the ordinary course of the corporation's business. For example, a paid-up capital distribution paid out of proceeds realized on the sale of a business unit of a corporation, where the proceeds were not required for reinvestment, would generally not be considered to be a distribution from amounts realized in the ordinary course of the corporation's business. In general terms, this aspect of the amendment to subsection 84(4.1) is intended to ensure that only a return of corporate capital, as opposed to a distribution of earnings, is subject to the new exception to subsection 84(4.1).

In order to ensure that the proceeds from an extraordinary transaction are not used to fund a stream of regular or periodic distributions, only one return of paid-up capital will be permitted in respect of any particular extraordinary transaction and that return must occur within 24 months of the proceeds being realized. However, this one-time return rule and 24-month limitation will not apply to distributions of paid-up capital made after 1996 and before February 27, 2004.

Related Sections: S. 84.1(3) Addition to paid-up capital; s. 89(1), "paid-up capital"; s. 139.1(6) Paid-up capital — insurance corporation; s. 139.1(7) Paid-up capital — holding corporation; s. 212.1(2) Paid-up capital calculation after March 31, 1977.

Canadian Tax Foundation: Smith and Devan, "Paid-Up Capital Planning", *Personal Tax Planning feature, 2003 Canadian Tax Journal*, No. 6, 2296; Ahmed, "Corporate Distributions Other Than Butterfly Transactions", *1998 Conference Report*, 15:1.

► 84(4.2) ◄

(4.2) Deemed dividend on term preferred share. Where, at any time after November 16, 1978, the paid-up capital in respect of a term preferred share owned by a shareholder that is

(*a*) a specified financial institution, or

(*b*) a partnership or trust of which a specified financial institution or a person related to such an institution was a member or a beneficiary,

was reduced otherwise than by way of a redemption, acquisition or cancellation of the share or of a transaction described in subsection (2) or (4.1), the amount received by the shareholder on the reduction of the paid-up capital in respect of the share shall be deemed to be a dividend received by the shareholder at that time unless the share was not acquired in the ordinary course of the business carried on by the shareholder.

► 84(4.3) ◄

(4.3) Deemed dividend on guaranteed share. Where at any time after 1987 the paid-up capital in respect of a share of the capital stock of a particular corporation owned

(*a*) by a shareholder that is another corporation to which subsection 112(2.2) or (2.4) would, if the particular corporation were a taxable Canadian corporation, apply to deny the deduction under subsection 112(1) or (2) or 138(6) of a dividend received on the share, or

(*b*) by a partnership or trust of which the other corporation is a member or beneficiary, as the case may be,

was reduced otherwise than by way of a redemption, acquisition or cancellation of the share or of a transaction described in subsection (2) or (4.1), the amount received by the shareholder on the reduction of the paid-up capital in respect of the share shall be deemed to be a dividend received by the shareholder at that time.

► 84(5) ◄

(5) Amount distributed or paid where a share. Where

(*a*) the amount of property distributed by a corporation or otherwise appropriated to or for the benefit of its shareholders as described in paragraph (2)(*a*), or

(*b*) the amount paid by a corporation as described in paragraph (3)(*a*) or (4)(*a*),

includes a share of the capital stock of the corporation, for the purposes of subsections (2) to (4) the following rules apply:

(*c*) in computing the amount referred to in paragraph (*a*) at any time, the share shall be valued at an amount equal to its paid-up capital at that time, and

(*d*) in computing the amount referred to in paragraph (*b*) at any time, the share shall be valued at an amount equal to the amount by which the paid-up capital in respect of the class of shares to which it belongs has increased by virtue of its issue.

Related Sections: S. 51(3) Computation of paid-up capital; s. 85(2.1) Computing paid-up capital; s. 86(2.1) Computation of paid-up capital.

Interpretation Bulletins: *Secondary* — IT-291R3 Transfer of property to a corporation under subsection 85(1).

Tax Window Files: PUC shift on section 86 share exchange, May 8, 1996, CRA Document No. 9613115; Issue of New Shares in Connection with Redemption, September 15, 1995, CRA Document No. 9524085.

► 84(6) ◄

(6) Where s. (2) or (3) does not apply. Subsection (2) or (3), as the case may be, is not applicable

(*a*) in respect of any transaction or event, to the extent that subsection (1) is applicable in respect of that transaction or event; and

(*b*) in respect of any purchase by a corporation of any of its shares in the open market, if the corporation acquired those shares in the manner in which shares would normally be purchased by any member of the public in the open market.

Related Sections: S. 183.1(2) Tax payable.

Tax Window Files: Normal course issuer bid, January 7, 1998, CRA Document No. 9712655; Purchase of Shares — Open Market Test, November 1, 1990, CRA Document No. NV90-344.345.

► 84(7) ◄

(7) When dividend payable. A dividend that is deemed by this subsection or section 84.1, 128.1 or 212.1 to have been paid at a particular time is deemed, for the purposes of this subdivision and sections 131 and 133, to have become payable at that time.

Department of Finance Comfort Letter [Reference to "Deemed Dividend" in Subsection 84(7)]

April 8, 2003

Dear XXXX:

Thank you for your letter of January 27, 2003 to Kerry Harnish of this Division requesting that the phrase "deemed by this subsection" in subsection 84(7) of the *Income Tax Act* be replaced by the phrase "deemed by this section".

In particular, prior to an amendment in 1998, subsection 84(7) of the Act referred to certain dividends. The 1998 amendment added a reference to section 128.1 and replaced the words "deemed by this section" with the words "deemed by this subsection". You note that the change to refer to "this subsection" appears to have been inadvertent and ask that the matter be corrected by an amendment. Among other things, you note that the explanatory note accompanying the amendment refers to dividends deemed to have been paid under section 84 rather than under subsection 84(7), which does not deem any dividend to have been paid.

We agree that the reference to "this subsection" in subsection 84(7) of the Act should be a reference to "this section". Consequently, we are prepared to recommend that subsection 84(7) be amended to correct this deficiency and that the amendment apply after February 23, 1998, which is the application date of the 1998 amendment. We would anticipate including the recommended change in a future technical bill of amendments.

Thank you for bringing your concerns to my attention.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 84(7) was amended by S.C. 1999, c. 22, s. 23(1), applicable after February 23, 1998. S. 84(7) formerly read:

"(7) *When dividend payable.* A dividend that is deemed by this section or section 84.1 or 212.1 to have been paid at a particular time shall be deemed, for the purposes of this subdivision and sections 131 and 133, to have become payable at that time."

S. 84(7) was amended by S.C. 1994, c. 7, Sched. II, s. 62(3), applicable to dividends paid after 1988. S. 84(7) formerly read:

"(7) *When dividend payable.* A dividend that is deemed by this section or by section 212.1 to have been paid at a particular time shall be deemed, for the purposes of this subdivision, to have become payable at that time."

► 84(8) ◄

(8) Where s. (3) does not apply. Subsection (3) does not apply to deem a dividend to have been received by a shareholder of a public corporation where the shareholder is an individual resident in Canada who deals at arm's length with the corporation and the shares redeemed, acquired or cancelled are prescribed shares of the capital stock of the corporation.

Regulations: 6206.

► 84(9) ◄

(9) Shares disposed of on redemptions, etc. For greater certainty it is declared that where a shareholder of a corporation has disposed of a share of the capital stock of the corporation as a result of the redemption, acquisition or cancellation of the share by the corporation, the shareholder shall, for the purposes of this Act, be deemed to have disposed of the share to the corporation.

Editorial Note: The main purpose of subsection 84(9) is to ensure that where the shareholder and corporation do not deal at arm's length, the various provisions of the Act that deal with dispositions between non-arm's length persons will apply. See also the stop-loss rule in subsection 40(3.6) where the shareholder and corporation are affiliated immediately after the disposition. Subsection 84(9) does not expressly deem the corporation to have purchased or acquired the share; this issue may be relevant, for example, in respect of the potential application of subsection 116(5) to the corporation.

Related Sections: S. 40(3.6) Loss on shares; s. 69(1) Inadequate considerations; s. 84(2) Distribution on winding-up, etc; s. 84(3) Redemption, etc; s. 85(1) Transfer of property to corporation by shareholders; s. 86(1) Exchange of shares by a shareholder in course of reorganization of capital; s. 116(5) Liability of purchaser.

Interpretation Bulletins: *Secondary* — IT-484R2 Business investment losses.

► 84(10) ◄

(10) Reduction of contributed surplus. For the purpose of paragraph (1)(*c*.3), there shall be deducted in determining at any time a corporation's contributed surplus that arose after March 31, 1977 in any manner described in that paragraph the lesser of

(*a*) the amount, if any, by which the amount of a dividend paid by the corporation at or before that time and after March 31, 1977 and when it was a public corporation exceeded its retained earnings immediately before the payment of the dividend, and

(*b*) the amount of its contributed surplus immediately before the payment of the dividend referred to in paragraph (*a*) that arose after March 31, 1977.

History: S. 84(10) was added by S.C. 1994, c. 7, Sched. II, s. 62(4), applicable to the determination after July 13, 1990 of the contributed surplus of a corporation.

► 84(11) ◄

(11) Computation of contributed surplus. For the purpose of subparagraph (1)(*c*.3)(ii), where the property acquired by the corporation (in this subsection referred to as the "acquiring corporation") consists of shares (in this subsection referred to as the "subject shares") of any class of the capital stock of another corporation resident in Canada (in this subsection referred to as the "subject corporation") and, immediately after the acquisition of the subject shares, the subject corporation would be connected (within the meaning that would be assigned by subsection 186(4) if the references in that subsection to "payer corporation" and "particular corporation" were read as "subject corporation" and "acquiring corporation", respectively) with the acquiring corporation, the contributed surplus of the acquiring corporation that arose on the acquisition of the subject shares shall be deemed to be the lesser of

(*a*) the amount added to the contributed surplus of the acquiring corporation on the acquisition of the subject shares, and

(*b*) the amount, if any, by which the paid-up capital in respect of the subject shares at the time of the acquisition exceeded the fair market value of any consideration given by the acquiring corporation for the subject shares.

History: S. 84(11) was added by S.C. 1994, c. 21, s. 35(2), applicable with respect to actions occurring after December 20, 1992.

SECTION 84.1:

► 84.1(1) ◄

(1) Non-arm's length sale of shares. Where after May 22, 1985 a taxpayer resident in Canada (other than a corporation) disposes of shares that are capital property of the taxpayer (in this section referred to as the "subject shares") of any class of the capital stock of a corporation resident in Canada (in this section referred to as the "subject corporation") to another corporation (in this section referred to as the "purchaser corporation") with which the taxpayer does not deal at arm's length and, immediately after the disposition, the subject corporation would be connected (within the meaning assigned by subsection 186(4) if the references therein to "payer corporation" and to "particular corporation" were read as "subject corporation" and "purchaser corporation" respectively) with the purchaser corporation,

(*a*) where shares (in this section referred to as the "new shares") of the purchaser corporation have been issued as consideration for the subject shares, in computing the paid-up capital, at any particular time after the issue of the new shares, in respect of any particular class of shares of the capital stock of the purchaser corporation, there shall be deducted an amount determined by the formula

$$(A - B) \times \frac{C}{A}$$

where

A is the increase, if any, determined without reference to this section as it applies to the acquisition of the subject shares, in the paid-up capital in respect of all shares of the capital stock of the purchaser corporation as a result of the issue of the new shares,

B is the amount, if any, by which the greater of

(i) the paid-up capital, immediately before the disposition, in respect of the subject shares, and

(ii) subject to paragraphs (2)(*a*) and (*a*.1), the adjusted cost base to the taxpayer, immediately before the disposition, of the subject shares,

exceeds the fair market value, immediately after the disposition, of any consideration (other than the new shares) received by the taxpayer from the purchaser corporation for the subject shares, and

C is the increase, if any, determined without reference to this section as it applies to the acquisition of the subject shares, in the paid-up capital in respect of the particular class of shares as a result of the issue of the new shares; and

(*b*) for the purposes of this Act, a dividend shall be deemed to be paid to the taxpayer by the purchaser corporation and received by the taxpayer from the purchaser corporation at the time of the disposition in an amount determined by the formula

$$(A + D) - (E + F)$$

where

A is the increase, if any, determined without reference to this section as it applies to the acquisition of the subject shares, in the paid-up capital in respect of all shares of the capital stock of the purchaser corporation as a result of the issue of the new shares,

D is the fair market value, immediately after the disposition, of any consideration (other than the new shares) received by the taxpayer from the purchaser corporation for the subject shares,

E is the greater of

(i) the paid-up capital, immediately before the disposition, in respect of the subject shares, and

(ii) subject to paragraphs (2)(*a*) and (*a*.1), the adjusted cost base to the taxpayer, immediately before the disposition, of the subject shares, and

F is the total of all amounts each of which is an amount required to be deducted by the purchaser corporation under paragraph (*a*) in computing the paid-up capital in respect of any class of shares of its capital stock by virtue of the acquisition of the subject shares.

History: S. 84.1(1)(*b*), all that portion preceding the formula therein, was amended by S.C. 1994, c. 7, Sched. II, s. 63(1), applicable to dispositions occurring after May 22, 1985. That portion formerly read:

"(*b*) for the purposes of this Act, a dividend shall be deemed to have been paid to the taxpayer by the purchaser corporation at the time of the disposition in an amount determined by the formula"

Editorial Note: If the taxpayer does not receive non-share consideration from the purchaser corporation, the paid-up capital reduction in respect of the new shares under paragraph 84.1(1)(*a*) will normally equal the amount by which the fair market value of the subject shares exceeds the greater of the paid-up capital and the taxpayer's "hard cost" (determined with reference to paragraphs 84.1(2)(*a*) and (*a*.1) of the subject shares. Generally speaking, non-share consideration received by the taxpayer from the purchaser corporation will not generate a deemed dividend under paragraph 84.1(1)(*b*) to the extent it does not exceed the greater of the paid-up capital and the taxpayer's hard cost of the subject shares. However, such non-share consideration will serve to further reduce the paid-up capital of the new shares under paragraph 84.1(1)(*a*) (see amount B therein).

If the non-share consideration exceeds the greater of the paid-up capital and the hard cost of the subject shares, the excess will result in a deemed dividend, which will be excluded from the proceeds of disposition of the subject shares (section 54, paragraph (*k*) of "proceeds of disposition"). But any resulting capital loss will be denied, assuming that the taxpayer and the purchaser corporation are affiliated (e.g., as a superficial loss).

Note that in the case of a subsection 85(1) rollover, the paid-up capital adjustment under paragraph 84.1(1)(*a*), if applicable, takes precedence over the paid-up capital adjustment under subsection 85(2.1).

Related Sections: S. 54, "proceeds of disposition"; s. 82(1) Taxable dividends received; s. 89(1), "paid-up capital"; s. 212.1(1) Non-arm's length sales of shares by non-residents.

Interpretation Bulletins: *Primary* — IT-489R Non-arm's length sale of shares to a corporation.

Information Circulars: IC 88-2 General anti-avoidance rule — Section 245 of the Income Tax Act (para. 25, Supp. 1, paras. 4 and 9).

Advance Tax Rulings: ATR-27 Exchange and acquisition of interests in capital properties through rollovers and winding-up ("Butterfly"); ATR-32 Roll-over of fixed assets from Opco into Holdco; ATR-35 Partitioning of assets to get specific ownership — "Butterfly"; ATR-36 Estate freeze; ATR-42 Transfer of shares.

Tax Topics: No. 1780, Claude Desmarais: The Latest Float in the GAAR Parade; No. 1478, Restricted Meaning of "Connected" for Section 84.1.

Tax Profile: October 2004 — Taxation of Dividends: A Survey in the Context of Private Corporations and Their Shareholders.

Canadian Tax Foundation: Diksic, "Selected Issues in Purchase and Sale Transactions: Section 84.1 and Restrictive Covenants", *2005 Conference Report*, 43:1; Smith and Devan, "Paid-Up Capital Planning", *Personal Tax Planning feature, 2003 Canadian Tax Journal*, No. 6, 2296.

Tax Window Files: Interaction between 69(1)(b) and 84.1(1)(b), November 30, 2007, CRA Document No. 2007-0228281E5; Whether a Partnership is a Taxpayer, November 4, 1998, CRA Document No. 9801695; Dealing at Arm's Length, February 7, 1995, CRA Document No. 9421745 [Taxpayers acting in concert; see also CRA Document no. 9525030].

Cases: The reference in s. 84.1 of the Act to s. 186(4) incorporates the definition of the word "control" as found in s. 186(2). *The Queen v. Olsen*, 2002 DTC 6770 (F.C.A.), reversing 2000 DTC 2121 (T.C.C.).

► 84.1(2) ◄

(2) Idem. For the purposes of this section,

(*a*) where a share disposed of by a taxpayer was acquired by the taxpayer before 1972, the adjusted cost base to the taxpayer of the share at any time shall be deemed to be the total of

(i) the amount that would be its adjusted cost base to the taxpayer if the *Income Tax Application Rules* were read without reference to subsections 26(3) and (7) of that Act, and

(ii) the total of all amounts each of which is an amount received by the taxpayer after 1971 and before that time as a dividend on the share and in respect of which the corporation that paid the dividend has made an election under subsection 83(1);

(*a*.1) where a share disposed of by a taxpayer was acquired by the taxpayer after 1971 from a person with whom the taxpayer was not dealing at arm's length, was a share substituted for such a share or was a share substituted for a share owned by the taxpayer at the end of 1971, the adjusted cost base to the taxpayer of the share at any time shall be deemed to be the amount, if any, by which its adjusted cost base to the taxpayer, otherwise determined, exceeds the total of

(i) where the share or a share for which the share was substituted was owned at the end of 1971 by the taxpayer or a person with whom the taxpayer did not deal at arm's length, the amount in respect of that share equal to the amount, if any, by which

(A) the fair market value of the share or the share for which it was substituted, as the case may be, on valuation day (within the meaning assigned by section 24 of the *Income Tax Application Rules*)

exceeds the total of

(B) the actual cost (within the meaning assigned by subsection 26(13) of that Act) of the share or the share for which it was substituted, as the case may be, on January 1, 1972, to the taxpayer or the person with whom the taxpayer did not deal at arm's length, and

(C) the total of all amounts each of which is an amount received by the taxpayer or the person with whom the taxpayer did not deal at arm's length after 1971 and before that time as a dividend on the share or the share for which it was substituted and in respect of which the corporation that paid the dividend has made an election under subsection 83(1), and

(ii) the total of all amounts each of which is an amount determined after 1984 under subparagraph 40(1)(*a*)(i) in respect of a previous disposition of the share or a share for which the share was substituted (or such lesser amount as is established by the taxpayer to be the amount in respect of which a deduction under section 110.6 was claimed) by the taxpayer or an individual with whom the taxpayer did not deal at arm's length;

(*a*.2) [Repealed by 1998, c. 19, s. 115(1).]

(*b*) in respect of any disposition described in subsection (1) by a taxpayer of shares of the capital stock of a subject corporation to a purchaser corporation, the taxpayer shall, for greater certainty, be deemed not to deal at arm's length with the purchaser corporation if the taxpayer

(i) was, immediately before the disposition, one of a group of fewer than 6 persons that controlled the subject corporation, and

(ii) was, immediately after the disposition, one of a group of fewer than 6 persons that controlled the purchaser corporation, each member of which was a member of the group referred to in subparagraph (i); and

(*c*) [Repealed by 1998, c. 19, s. 115(2).]

(*d*) a trust and a beneficiary of the trust or a person related to a beneficiary of the trust shall be deemed not to deal with each other at arm's length.

(*e*) [Repealed by 1998, c. 19, s. 115(3).]

History: S. 84.1(2)(*a*.2) was repealed by S.C. 1998, c. 19, s. 115(1), applicable to the 1994 and subsequent taxation years. S. 84.1(2)(*a*.2) formerly read:

"(*a*.2) for the purposes of paragraph (*a*.1), where a corporation (in this paragraph referred to as the 'issuing corporation') issues previously unissued shares of a class of its capital stock (in this paragraph referred to as the 'new shares') to a taxpayer, the taxpayer and the issuing corporation shall be deemed not to have been dealing with each other at arm's length at the time the new shares were acquired by the taxpayer;"

S. 84.1(2)(*c*) was repealed by S.C. 1998, c. 19, s. 115(2), applicable to the 1994 and subsequent taxation years. It formerly read:

"(*c*) for the purposes of determining whether or not a taxpayer referred to in paragraph (*b*) was a member of a group of fewer than 6 persons that controlled a corporation at any time, any shares of the capital stock of that corporation owned at that time by

(i) the taxpayer's child (within the meaning assigned by subsection 70(10)), who is under 18 years of age, or the taxpayer's spouse,

(ii) a trust of which the taxpayer, a person described in subparagraph (i) or a corporation described in subparagraph (iii), is a beneficiary, or

(iii) a corporation controlled by the taxpayer, by a person described in subparagraph (i), by a trust described in subparagraph (ii) or by any combination thereof

shall be deemed to be owned at that time by the taxpayer and not by the person who actually owned the shares at that time;"

S. 84.1(2)(*e*) was repealed by S.C. 1998, c. 19, s. 115(3), applicable to the 1994 and subsequent taxation years. S. 84.1(2)(*e*) formerly read:

"(*e*) for the purpose of paragraph (*b*),

(i) a group of persons in respect of a corporation means any 2 or more persons each of whom owns shares of the capital stock of the corporation,

(ii) a corporation that is controlled by one or more members of a particular group of persons in respect of that corporation shall be considered to be controlled by that group of persons, and

(iii) a corporation may be controlled by a person or a particular group of persons notwithstanding that the corporation is also controlled or deemed to be controlled by another person or group of persons."

S. 84.1(2)(*e*) was added by S.C. 1994, c. 7, Sched. VIII, s. 34(1), applicable to dispositions occurring after December 20, 1991.

S. 84.1(2)(*d*) was added by S.C. 1994, c. 7, Sched. II, s. 63(3), applicable to dispositions occurring after July 13, 1990.

S. 84.1(2)(*c*)(i) to (iii) were amended by S.C. 1994, c. 7, Sched. II, s. 63(2), applicable to dispositions occurring after July 13, 1990. S. 84.1(2)(*c*)(i) to (iii) formerly read:

"(i) the taxpayer's spouse,

(ii) an *inter vivos* trust of which the taxpayer, the spouse, a corporation described in subparagraph (iii) or any combination thereof is a beneficiary, or

(iii) a corporation controlled by the taxpayer, the spouse, a trust described in subparagraph (ii) or any combination thereof"

Editorial Note: See also the deeming rules in subsections 84.1(2.01) through 84.1(2.2).

Tax Window Files: Capital Gains Exemption, July 25, 2000, CRA Document No. 2000-0031395 [Taxpayer designating which shares were previously acquired from non-arm's length person claiming capital gains exemption]; Application of Section 84.1, February 1, 2000, CRA Document No. 1999-0008625 [Shares acquired pursuant to divorce settlement where former spouse claims capital gains exemption]; Non-Arm's Length Sale of Shares, April 13, 1994, CRA Document No. 9405015 [See also subsection 84(2.2) regarding group control].

► 84.1(2.01) ◄

(2.01) Rules for par. 84.1(2)(a.1). For the purpose of paragraph (2)(*a*.1),

(*a*) where at any time a corporation issues a share of its capital stock to a taxpayer, the taxpayer and the corporation are deemed not to be dealing with each other at arm's length at that time;

(*b*) where a taxpayer is deemed by paragraph 110.6(19)(*a*) to have reacquired a share, the taxpayer is deemed to have acquired the share at the beginning of February 23, 1994 from a person with whom the taxpayer was not dealing at arm's length; and

(*c*) where a share owned by a particular person, or a share substituted for that share, has by one or more transactions or events between persons not dealing at arm's length become vested in another person, the particular person and the other person are deemed at all times not to be dealing at arm's length with each other whether or not the particular person and the other person coexisted.

History: S. 84.1(2.01) was added by S.C. 1998, c. 19, s. 115(4), applicable to the 1994 and subsequent taxation year, except for paragraph 84.1(2.01)(*c*). Paragraph 84.1(2.01)(*c*) of the Act applies in respect of the determination of the adjusted cost base of a share after June 20, 1996.

► 84.1(2.1) ◄

(2.1) Idem. For the purposes of subparagraph (2)(*a*.1)(ii), where the taxpayer or an individual with whom the taxpayer did not deal at arm's length (in this subsection referred to as the "transferor") disposes of a share in a taxation year and claims an amount under subparagraph 40(1)(*a*)(iii) in computing the gain for the year from the disposition, the amount in respect of which a deduction under section 110.6 was claimed in respect of the transferor's gain from the disposition shall be deemed to be equal to the lesser of

(*a*) the total of

(i) the amount claimed under subparagraph 40(1)(*a*)(iii) by the transferor for the year in respect of the disposition, and

(ii) twice the amount deducted under section 110.6 in computing the taxable income of the transferor for the year in respect of the taxable capital gain from the disposition, and

(*b*) twice the maximum amount that could have been deducted under section 110.6 in computing the taxable income of the transferor for the year in respect of the taxable capital gain from the disposition if

(i) no amount had been claimed by the transferor under subparagraph 40(1)(*a*)(iii) in computing the gain for the year from the disposition, and

(ii) all amounts deducted under section 110.6 in computing the taxable income of the transferor for the year in respect of taxable capital gains from dispositions of property to which this subsection does not apply were deducted before determining the maximum amount that could have been deducted under section 110.6 in respect of the taxable capital gain from the disposition,

and, for the purposes of subparagraph (ii), 1/2 of the total of all amounts determined under this subsection for the year in respect of other property disposed of before the disposition of the share shall be deemed to have been deducted under section 110.6 in computing the taxable income of the transferor for the year in respect of the taxable capital gain from the disposition of property to which this subsection does not apply,

and, for the purposes of this subsection, where more than one share to which this subsection applies is disposed of in the year, each such share shall be deemed to have been separately disposed of in the order designated by the taxpayer in the taxpayer's return of income under this Part for the year.

History: S. 84.1(2.1) was amended by S.C. 2001, c. 17, s. 61(1), by replacing the references to the expression "4/3 of" with references to the word "twice" and by replacing the reference to the fraction "3/4" with a reference to the fraction "1/2", applicable to taxation years that end after February 27, 2000 except that, for a taxation year of a taxpayer that includes February 28, 2000 or October 17, 2000, or began after February 28, 2000 and ended before October 17, 2000, the references to the word "twice" in subsection 84.1(2.1) of the Act shall be read as references to the expression "the fraction that is the reciprocal of the fraction in paragraph 38(*a*), as enacted by subsection 22(1) of the *Income Tax Amendments Act, 2000* [S.C. 2001, c. 17], that applies to the taxpayer for the year multiplied by" and the reference to the fraction "1/2" shall be read as a reference to the fraction in paragraph 38(*a*) of the Act that applies to the taxpayer for the year.

S. 84.1(2.1) was added by S.C. 1994, c. 7, Sched. II, s. 63(4), applicable to dispositions occurring after July 13, 1990.

► 84.1(2.2) ◄

(2.2) Rules for par. 84.1(2)(b). For the purpose of paragraph (2)(*b*),

(*a*) in determining whether or not a taxpayer referred to in that paragraph was a member of a group of fewer than 6 persons that controlled a corporation at any time, any shares of the capital stock of that corporation owned at that time by

(i) the taxpayer's child (as defined in subsection 70(10)), who is under 18 years of age, or the taxpayer's spouse or common-law partner,

(ii) a trust of which the taxpayer, a person described in subparagraph (i) or a corporation described in subparagraph (iii), is a beneficiary, or

(iii) a corporation controlled by the taxpayer, by a person described in subparagraph (i) or (ii) or by any combination of those persons or trusts

are deemed to be owned at that time by the taxpayer and not by the person who actually owned the shares at that time;

(*b*) a group of persons in respect of a corporation means any 2 or more persons each of whom owns shares of the capital stock of the corporation;

(*c*) a corporation that is controlled by one or more members of a particular group of persons in respect of that corporation is considered to be controlled by that group of persons; and

(*d*) a corporation may be controlled by a person or a particular group of persons even though the corporation is also controlled or deemed to be controlled by another person or group of persons.

History: S. 84.1(2.2)(*a*)(i) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z), applicable January 1, 2001, coming into force on July 31, 2000. S. 84.1(2.2)(*a*)(i) formerly read:

"(i) the taxpayer's child (as defined in subsection 70(10)), who is under 18 years of age, or the taxpayer's spouse,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 84.1(2.2) was added by S.C. 1998, c. 19, s. 115(5), applicable on Royal Assent, June 18, 1998.

► 84.1(3) ◄

(3) Addition to paid-up capital. In computing the paid-up capital at any time after May 22, 1985 in respect of any class of shares of the capital stock of a corporation, there shall be added an amount equal to the lesser of

(*a*) the amount, if any, by which

(i) the total of all amounts each of which is an amount deemed by subsection 84(3), (4) or (4.1) to be a dividend on shares of the class paid after May 22, 1985 and before that time by the corporation

exceeds

(ii) the total of such dividends that would be determined under subparagraph (i) if this Act were read without reference to paragraph (1)(*a*), and

(*b*) the total of all amounts required by paragraph (1)(*a*) to be deducted in computing the paid-up capital in respect of that class of shares after May 22, 1985 and before that time.

Related Sections: S. 212.1(2) Paid-up capital calculation after March 31, 1977.

SECTION 84.2:

► 84.2(1) ◄

(1) Computation of paid-up capital in respect of particular class of shares. In computing the paid-up capital in respect of any particular class of shares of the capital stock of a corporation at any particular time after March 31, 1977,

(*a*) there shall be deducted that proportion of the amount, if any, by which the paid-up capital in respect of all of the issued shares of the capital stock of the corporation on April 1, 1977, determined without reference to this section, exceeds the greater of

(i) the amount that the paid-up capital limit of the corporation would have been on March 31, 1977 if paragraph 89(1)(*d*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read at that date, were read without reference to clause 89(1)(*d*)(iv.1)(F) of that Act and without reference to all subparagraphs of paragraph 89(1)(*d*) of that Act except subparagraphs 89(1)(*d*)(iv.1) and (vii) of that Act, and

(ii) the paid-up capital limit of the corporation on March 31, 1977,

that the paid-up capital on April 1, 1977, determined without reference to this section, in respect of the particular class of shares is of the paid-up capital on April 1, 1977, determined without reference to this section, in respect of all of the issued and outstanding shares of the capital stock of the corporation; and

(*b*) there shall be added an amount equal to the lesser of

(i) the amount, if any, by which

(A) the total of all amounts each of which is an amount deemed by subsection 84(3) or (4) to be a dividend on shares of the particular class paid by the corporation after March 31, 1977 and before the particular time

exceeds

(B) the total that would be determined under clause (A) if this Act were read without reference to paragraph (*a*), and

(ii) the amount required by paragraph (*a*) to be deducted in computing the paid-up capital of shares of the particular class.

Related Sections: S. 84.1(1) Non-arm's length sale of shares; s. 89(1) Capital dividend account.
Interpretation Bulletins: *Secondary* — IT-463R2 Paid-up capital.

► 84.2(2) ◄

(2) Debt deficiency. In computing, after March 31, 1977, the adjusted cost base to an individual of a debt that was owing to the individual by a corporation on March 31, 1977, there shall be deducted the amount of any dividend that would have been deemed to have been received by the individual on that day if the corporation had paid the debt in full on that day.

Related Sections: S. 53(2) Amounts to be deducted; s. 84.2(3) Conversion of debt into shares.

► 84.2(3) ◄

(3) Idem. Where, after March 31, 1977 and before 1979, any debt referred to in subsection (2) owing by a corporation and held by an individual on March 31, 1977 and continuously after that date until conversion, is converted into shares of a particular class of the capital stock of the corporation,

(*a*) subsection (2) shall not apply in respect of the debt; and

(*b*) in computing the paid-up capital in respect of the shares of the particular class at any particular time after the conversion,

(i) there shall be deducted the amount by which the adjusted cost base to the taxpayer of the debt would, but for paragraph (*a*), have been reduced by virtue of subsection (2), and

(ii) there shall be added an amount equal to the lesser of

(A) the amount, if any, by which

(I) the total of all amounts deemed by subsection 84(3), (4) or (4.1) to be a dividend on shares of the particular class paid by the corporation after the conversion and before the particular time,

exceeds

(II) the total that would be determined under subclause (I) if this Act were read without reference to subparagraph (i), and

(B) the amount required by subparagraph (i) to be deducted in computing the paid-up capital of shares of the particular class.

SECTION 85:

► 85(1) ◄

(1) Transfer of property to corporation by shareholders. Where a taxpayer has, in a taxation year, disposed of any of the taxpayer's property that was eligible property to a taxable Canadian corporation for consideration that includes shares of the capital stock of the corporation, if the taxpayer and the corporation have jointly elected in prescribed form and in accordance with subsection (6), the following rules apply:

(*a*) the amount that the taxpayer and the corporation have agreed on in their election in respect of the property shall be deemed to be the taxpayer's proceeds of disposition of the property and the corporation's cost of the property;

(*b*) subject to paragraph (*c*), where the amount that the taxpayer and the corporation have agreed on in their election in respect of the property is less than the fair market value, at the time of the disposition, of the consideration therefor (other than any shares of the capital stock of the corporation or a right to receive any such shares) received by the taxpayer, the amount so agreed on shall, irrespective of the amount actually so agreed on by them, be deemed to be an amount equal to that fair market value;

(*c*) where the amount that the taxpayer and the corporation have agreed on in their election in respect of the property is greater than the fair market value, at the time of the disposition, of the property so disposed of, the amount so agreed on shall, irrespective of the amount actually so agreed on, be deemed to be an amount equal to that fair market value;

(*c*.1) where the property was inventory, capital property (other than depreciable property of a prescribed class), a NISA Fund No. 2 or a property that is eligible property because of paragraph (1.1)(*g*) or (*g*.1), and the amount that the taxpayer and corporation have agreed on in their election in respect of the property is less than the lesser of

(i) the fair market value of the property at the time of the disposition, and

(ii) the cost amount to the taxpayer of the property at the time of the disposition,

the amount so agreed on shall, irrespective of the amount actually so agreed on by them, be deemed to be an amount equal to the lesser of the amounts described in subparagraphs (i) and (ii);

(*c*.2) subject to paragraphs (*b*) and (*c*) and notwithstanding paragraph (*c*.1), where the taxpayer carries on a farming business the income from which is computed in accordance with the cash method and the property was inventory owned in connection with that business immediately before the particular time the property was disposed of to the corporation,

(i) the amount that the taxpayer and the corporation agreed on in their election in respect of inventory purchased by the taxpayer shall be deemed to be equal to the amount determined by the formula

$$(A \times \frac{B}{C}) + D$$

where

A is the amount that would be included because of paragraph 28(1)(*c*) in computing the taxpayer's income for the taxpayer's last taxation year beginning before the particular time if that year had ended immediately before the particular time,

B is the value (determined in accordance with subsection 28(1.2)) to the taxpayer immediately before the particular time of the purchased inventory in respect of which the election is made,

C is the value (determined in accordance with subsection 28(1.2)) of all of the inventory purchased by the taxpayer that was owned by the taxpayer in connection with that business immediately before the particular time, and

D is such additional amount as the taxpayer and the corporation designate in respect of the property,

(ii) for the purpose of subparagraph 28(1)(*a*)(i), the disposition of the property and the receipt of proceeds of disposition therefor shall be deemed to have occurred at the particular time and in the course of carrying on the business, and

(iii) where the property is owned by the corporation in connection with a farming business and the income from that business is computed in accordance with the cash method, for the purposes of section 28,

(A) an amount equal to the cost to the corporation of the property shall be deemed to have been paid by the corporation, and

(B) the corporation shall be deemed to have purchased the property for an amount equal to that cost,

at the particular time and in the course of carrying on that business;

(*d*) where the property was eligible capital property in respect of a business of the taxpayer and the amount that, but for this paragraph, would be the proceeds of disposition of the property is less than the least of

(i) 4/3 of the taxpayer's cumulative eligible capital in respect of the business immediately before the disposition,

(ii) the cost to the taxpayer of the property, and

(iii) the fair market value of the property at the time of the disposition,

the amount agreed on by the taxpayer and the corporation in their election in respect of the property shall, irrespective of the amount actually so agreed on by them, be deemed to be the least of the amounts described in subparagraphs (i) to (iii);

(*d*.1) for the purpose of determining after the time of the disposition the amount to be included under paragraph 14(1)(*b*) in computing the corporation's income, there shall be added to the amount otherwise determined for Q in the definition "cumulative eligible capital" in subsection 14(5) the amount determined by the formula

$$(A \times \frac{B}{C}) - 2(D - E)$$

where

A is the amount, if any, determined for Q in that definition in respect of the taxpayer's business immediately before the time of the disposition,

B is the fair market value immediately before that time of the eligible capital property disposed of to the corporation by the taxpayer,

C is the fair market value immediately before that time of all eligible capital property of the taxpayer in respect of the business,

D is the amount, if any, that would be included under subsection 14(1) in computing the taxpayer's income as a result of the disposition if the values determined for C and D in paragraph 14(1)(*b*) were zero, and

E is the amount, if any, that would be included under subsection 14(1) in computing the taxpayer's income as a result of the disposition if the value determined for D in paragraph 14(1)(b) were zero;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 85(1)(*d.1*) of the Act is replaced by the following:

(*d.1*) for the purpose of determining after the disposition time the amount to be included under paragraph 14(1)(*b*) in computing the corporation's income, there shall be added to the amount otherwise determined for C in that paragraph the amount determined by the formula

$$1/2 \times [(A \times B/C) - 2(D - E)] + F + G$$

where

A is the amount, if any, determined for Q in the definition "cumulative eligible capital" in subsection 14(5) in respect of the taxpayer's business immediately before the time of the disposition,

B is the fair market value immediately before the disposition time of the eligible capital property disposed of to the corporation by the taxpayer,

C is the total of the fair market value immediately before the disposition time of all eligible capital property of the taxpayer in respect of the business and each amount that was described in B in respect of an earlier disposition made after the taxpayer's adjustment time,

D is the amount, if any, that would be included under subsection 14(1) in computing the taxpayer's income as a result of the disposition if the values determined for C and D in paragraph 14(1)(*b*) were zero,

E is the amount, if any, that would be included under subsection 14(1) in computing the taxpayer's income as a result of the disposition if the value determined for D in paragraph 14(1)(*b*) were zero,

F is the total of all amounts, each of which is an amount determined under this paragraph as it applied to the taxpayer in respect of a disposition to the corporation on or before the disposition time, and

G is the total of all amounts, each of which is an amount determined under subparagraph 88(1)(*c.1*)(ii) as it applied to the taxpayer in respect of a winding-up before the disposition time;

Applicable: To taxation years of a corporation that end after December 20, 2002.

Explanatory Note: See the Explanatory Note following the addition of paragraphs 85(1)(*d.11*) and (*d.12*).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 85(1) of the Act is amended by adding the following after paragraph (*d.1*):

(*d.11*) for the purpose of determining after the time of the disposition (referred to in this paragraph and in paragraphs (*d.1*) and (*d.12*) as the "disposition time") the amount to be included under paragraph 14(1)(*a*) or (*b*) in computing the corporation's income, there shall be added to the amount otherwise determined for each of A and F in the definition "cumulative eligible capital" in subsection 14(5) the amount, if any, determined by the formula

$$(A \times B/C) + D + E$$

where

A is the amount, if any, that would be determined for F in that definition in respect of the taxpayer's business at the beginning of the taxpayer's following taxation year if the taxpayer's taxation year that includes the disposition time had ended immediately after the disposition time and if, in respect of the disposition, this Act were read without reference to paragraph (*d.12*),

B is the fair market value immediately before the disposition time of the eligible capital property disposed of to the corporation by the taxpayer,

C is the fair market value immediately before the disposition time of all eligible capital property of the taxpayer in respect of the business and each amount that was described in B in respect of an earlier disposition made after the taxpayer's adjustment time (within the meaning in subsection 14(5)),

D is the total of all amounts, each of which is an amount determined under this paragraph as it applied to the taxpayer in respect of a disposition to the corporation on or before the disposition time, and

E is the total of all amounts, each of which is an amount determined under subparagraph 88(1)(*c.1*)(i) as it applied to the taxpayer in respect of a winding-up before the disposition time;

(*d.12*) for the purpose of determining after the disposition time the amount to be included under paragraph 14(1)(*a*) or (*b*) in computing the taxpayer's income, the amount, if any, determined by the formula in paragraph (*d.11*) in respect of the disposition is to be deducted from each of the amounts otherwise determined

(i) by subparagraph 14(1)(*a*)(ii), and

(ii) for the description of B in paragraph 14(1)(*b*);

Applicable: In respect of the disposition of an eligible capital property by a taxpayer to a corporation unless

(*a*) the disposition by the taxpayer occurred before December 21, 2002; and

(*b*) the corporation disposed of the eligible capital property, before June 7, 2007 and in a taxation year of the corporation ending after February 27, 2000, to a person with whom the corporation was dealing at arm's length at the time of that disposition by the corporation.

Explanatory Note:

Transfer of Property to a Corporation By Shareholders

Subsection 85(1) of the Act provides a tax deferral for the transfer of various types of property by a taxpayer to a taxable Canadian corporation for consideration that includes shares of the corporation's capital stock. In general, tax deferral may be achieved if the taxpayer and the corporation jointly elect that the proceeds of disposition of the taxpayer and the eligible capital expenditure of, or cost to, the corporation are deemed to be less than the fair market value of the property transferred.

Paragraph 85(1)(*d.1*) generally reduces, for the corporation that has acquired an eligible capital property (ECP), the gain that would be included in income under paragraph 14(1)(*b*) of the Act on a subsequent disposition of the property. Paragraph 85(1)(*d.1*) adjusts the gain, in order to take into account the 1988 change of the rate of income inclusion and expenditure deductibility from 1/2 to 3/4, by adjusting the calculation of variable Q in the definition "cumulative eligible capital" in subsection 14(5) of the Act. Variable Q generally represents, for the period prior to the taxpayer's "adjustment time", the difference between ECP deductions claimed under paragraph 20(1)(*b*) of the Act and the total of recapture and gains from prior dispositions of eligible capital property by the taxpayer. Paragraph 85(1)(*d.1*) adjusts variable Q only for the purposes of calculating the amount to be included in a corporation's income under paragraph 14(1)(*b*), but not for the purpose of calculating the corporation's cumulative eligible capital balance for other purposes, such as the claiming of ECP deductions. Specifically, the adjustment of variable Q adjusts the value of variables A, B and C in the formula in paragraph 14(1)(*b*). Variables A and B are affected indirectly, since variable Q affects variable F in the calculation of the cumulative eligible capital balance.

Paragraph 85(1)(*d.1*) is amended concurrently with the addition of new paragraph 85(1)(*d.11*) of the Act. New paragraph 85(1)(*d.11*) generally applies to ensure that an amount that would have been recaptured ECP deductions to the taxpayer under subsection 14(1), if the taxpayer had disposed of the eligible capital property for an amount greater than the taxpayer's cumulative eligible capital at the time of the disposition, is subject to recapture in the hands of the corporation upon a subsequent sale of the property. This result is achieved by adding an allocation of the potential recapture to the taxpayer (i.e., variable F of the taxpayer) simultaneously to the corporation's eligible capital expenditures and aggregate ECP deductions (i.e., variables A and F respectively in the definition "cumulative eligible capital" of the corporation). This adjustment applies only for the purpose of calculating the amount to be included in income of the corporation under subsection 14(1) upon the subsequent disposition of eligible capital property. In this regard, variable F of the taxpayer is determined at the beginning of the taxpayer's following taxation year if the taxpayer's taxation year that included the transfer had ended immediately after the disposition time, determined without reference to new paragraph (*d.12*). Variable F of the taxpayer is apportioned to the corporation, by means of the quotient B/C in paragraph 85(1)(*d.11*), in the same proportion as the fair market value of the property transferred is to the fair market values of all such property transferred before that transfer and the fair market value of the total eligible capital property of the taxpayer immediately before the transfer.

Because new paragraph 85(1)(*d.11*) now accommodates variable F of the corporation, paragraph 85(1)(*d.1*) is amended to add 1/2 of the taxpayer's variable Q amount directly to the corporation's variable C amount in paragraph 14(1)(*b*), rather than adjusting variable Q of the corporation (and thus variable F as well). The quotient B/C in paragraph 85(1)(*d.1*) provides that this adjustment to the corporation is in the same proportion as the fair market value of the property transferred at a particular time is to the total of the fair market values of all such property transferred before that transfer and the fair market value of the total eligible capital property of the taxpayer immediately before the transfer.

New variables F and G of paragraph 85(1)(*d.1*) provide that the adjustments under this paragraph, and similar earlier adjustments to the taxpayer under paragraph 88(1)(*c.1*) of the Act, are not lost on a subsequent rollover.

New paragraph 85(1)(*d.12*) of the Act is added, concurrently with new paragraph 85(1)(*d.11*), to ensure that a subsequent disposition of other ECP by the taxpayer does not result in recapture of depreciation under paragraph 14(1)(*a*) when the resulting gain from that disposition should have been taxed at a lower rate under paragraph 14(1)(*b*). This could happen, for instance, if the taxpayer were to defer all of the recapture to the corporation, such that the taxpayer's cumulative eligible capital balance at the end of the taxation year that includes the rollover is nil. In this case, if in the next taxation year the taxpayer were to make another disposition of ECP, paragraph 85(1)(*d.12*) would reduce to nil the amounts that would be determined for the taxpayer by subparagraph 14(1)(*a*) and variable B of paragraph 14(1)(*b*).

These amendments generally apply in respect of dispositions by a corporation that occur after December 20, 2002.

Example of 85(1)(d.1) and (d.11)

Mr. X purchased an eligible capital property in 1984 (when the income inclusion rate for eligible capital property was one half) at a cost of $300,000. This was the first and only eligible capital property held in respect of his business. Mr. X claimed deductions of $40,650 under paragraph 20(1)(*b*) of the Act before his "adjustment time" (in the case of Mr. X, January 1, 1988), and of $11,482 subsequent to that time. Mr. X now transfers the property to a corporation in circumstances to which subsection 85(1) applies. Immediately before the time of the transfer, the fair market value of the property is $500,000. Mr. X and the corporation agree that the proceeds of disposition to Mr. X will be $203,391, which is 4/3 of the cumulative eligible capital balance of $152,543. The balance is calculated as follows:

Eligible capital expenditure	$ 300,000
Rate applicable in 1984	50%
	150,000
Depreciation before 1988	<40,650>
Cumulative eligible capital at adjustment time	109,350
"C" amount: 3/2 of 109,350	164,025
"D" amount: depreciation before 1988	40,650
"P" amount: depreciation after 1987	<11,482>
"Q" amount: depreciation before 1988	<40,650>
Cumulative eligible capital of Mr. X	$ 152,543

Upon the subsequent sale of the property by the corporation for actual proceeds of disposition of $500,000, the amount included in the corporation's income under subsection 14(1) is calculated as follows:

Agreed amount of eligible capital expenditure (4/3 of $152,543)		$203,391
Eligible capital expenditure rate		75%
"A" amount in cumulative eligible capital balance of corporation		152,543
14(1)(a) calculation for corporation:		
Proceeds	$500,000	
Rate applicable	75%	
"E" amount in cumulative eligible capital balance of corporation	375,000	
Excess	222,457	
"F" for corporation: bumped by 85(1)(*d.11*) ($40,650 + $11,482)	52,132	
14(1)(*a*) income: lesser of "F" and excess		$ 52,132
14(1)(b) calculation for corporation:		
Excess (as above)	$222,457	
Less: "B" amount: amount "F", as bumped by 85(1)(*d.11*)	<52,132>	
"C" amount: 1/2 of "Q" (above), as bumped by 85(1)(*d.1*)	<20,325>	
Net	150,000	
Multiply by	2/3	
14(1)(*b*) income		$100,000
Total 14(1) income inclusion to corporation		$152,132

(*e*) where the property was depreciable property of a prescribed class of the taxpayer and the amount that, but for this paragraph, would be the proceeds of disposition thereof is less than the least of

(i) the undepreciated capital cost to the taxpayer of all property of that class immediately before the disposition,

(ii) the cost to the taxpayer of the property, and

(iii) the fair market value of the property at the time of the disposition,

the amount agreed on by the taxpayer and the corporation in their election in respect of the property shall, irrespective of the amount actually so agreed on by them, be deemed to be the least of the amounts described in subparagraphs (i) to (iii);

(*e*.1) where two or more properties, each of which is a property described in paragraph (*d*) or each of which is a property described in paragraph (*e*), are disposed of at the same time, paragraph (*d*) or (*e*), as the case may be, applies as if each property so disposed of had been separately disposed of in the order designated by the taxpayer before the time referred to in subsection (6) for the filing of an election in respect of those properties or, if the taxpayer does not so designate any such order, in the order designated by the Minister;

(*e*.2) where the fair market value of the property immediately before the disposition exceeds the greater of

(i) the fair market value, immediately after the disposition, of the consideration received by the taxpayer for the property disposed of by the taxpayer, and

(ii) the amount that the taxpayer and the corporation have agreed on in their election in respect of the property, determined without reference to this paragraph,

and it is reasonable to regard any part of the excess as a benefit that the taxpayer desired to have conferred on a person related to the taxpayer (other than a corporation that was a wholly owned corporation of the taxpayer immediately after the disposition), the amount that the taxpayer and the corporation agreed on in their election in respect of the property shall, regardless of the amount actually so agreed on by them, be deemed (except for the purposes of paragraphs (*g*) and (*h*)) to be an amount equal to the total of the amount referred to in subparagraph (ii) and that part of the excess;

(*e*.3) where, under any of paragraphs (*c*.1), (*d*) and (*e*), the amount that the taxpayer and the corporation have agreed on in their election in respect of the property (in this paragraph referred to as "the elected amount") would be deemed to be an amount that is greater or less than the amount that would be deemed, subject to paragraph (*c*), to be the elected amount under paragraph (*b*), the elected amount shall be deemed to be the greater of

(i) the amount deemed by paragraph (*c*.1), (*d*) or (*e*), as the case may be, to be the elected amount, and

(ii) the amount deemed by paragraph (*b*) to be the elected amount;

(*e*.4) where

(i) the property is depreciable property of a prescribed class of the taxpayer and is a passenger vehicle the cost to the taxpayer of which was more than $20,000 or such other amount as may be prescribed, and

(ii) the taxpayer and the corporation do not deal at arm's length,

the amount that the taxpayer and the corporation have agreed on in their election in respect of the property shall be deemed to be an amount equal to the undepreciated capital cost to the taxpayer of the class immediately before the disposition, except that, for the purposes of subsection 6(2), the cost to the corporation of the vehicle shall be deemed to be an amount equal to its fair market value immediately before the disposition;

(*f*) the cost to the taxpayer of any particular property (other than shares of the capital stock of the corporation or a right to receive any such shares) received by the taxpayer as consideration for the disposition shall be deemed to be an amount equal to the lesser of

(i) the fair market value of the particular property at the time of the disposition, and

(ii) that proportion of the fair market value, at the time of the disposition, of the property disposed of by the taxpayer to the corporation that

(A) the amount determined under subparagraph (i)

is of

(B) the fair market value, at the time of the disposition, of all properties (other than shares of the capital stock of the corporation or a right to receive any such shares) received by the taxpayer as consideration for the disposition;

(*g*) the cost to the taxpayer of any preferred shares of any class of the capital stock of the corporation receivable by the taxpayer as consideration for the disposition shall be deemed to be the lesser of the fair market value of those shares immediately after the disposition and that proportion of the amount, if any, by which the proceeds of the disposition exceed the fair market value of the consideration (other than shares of the capital stock of the corporation or a right to receive any such shares) received by the taxpayer for the disposition, that

(i) the fair market value, immediately after the disposition, of those preferred shares of that class,

is of

(ii) the fair market value, immediately after the disposition, of all preferred shares of the capital stock of the corporation receivable by the taxpayer as consideration for the disposition;

(*h*) the cost to the taxpayer of any common shares of any class of the capital stock of the corporation receivable by the taxpayer as consideration for the disposition shall be deemed to be that proportion of the amount, if any, by which the proceeds of the disposition exceed the total of the fair market value, at the time of the disposition, of the consideration (other than shares of the capital stock of the corporation or a right to receive any such shares) received by the taxpayer for the disposition and the cost to

the taxpayer of all preferred shares of the capital stock of the corporation receivable by the taxpayer as consideration for the disposition, that

(i) the fair market value, immediately after the disposition, of those common shares of that class,

is of

(ii) the fair market value, immediately after the disposition, of all common shares of the capital stock of the corporation receivable by the taxpayer as consideration for the disposition; and

(*i*) where the property so disposed of is taxable Canadian property of the taxpayer, all of the shares of the capital stock of the Canadian corporation received by the taxpayer as consideration for the property shall be deemed to be taxable Canadian property of the taxpayer.

History: S. 85(1), the descriptions of D and E were amended by S.C. 2001, c. 17, s. 62(1), applicable in respect of taxation years that end after February 27, 2000. S. 85(1), the descriptions of D and E formerly read:

"D is the amount, if any, that would be included under subsection 14(1) in computing the taxpayer's income as a result of the disposition if

(i) the amounts determined for C and D in subparagraph 14(1)(*a*)(v) were zero, and

(ii) paragraph 14(1)(*b*) were read as follows:

'(*b*) in any other case, the excess shall be included in computing the taxpayer's income from that business for that year.', and

E is the amount, if any, that would be included under subsection 14(1) in computing the taxpayer's income as a result of the disposition if the amount determined for D in subparagraph 14(1)(*a*)(v) were zero;"

S. 85(1)(*c*.1), the portion before subparagraph (i), was amended by S.C. 1995, c. 21, s. 53(1), applicable to dispositions occurring after February 22, 1994. That part formerly read:

"(*c*.1) where the property of the taxpayer was inventory, capital property (other than depreciable property of a prescribed class), a NISA Fund No. 2 or a property (other than capital property or an inventory) of the taxpayer that is a security or debt obligation used in the year in, or held in the year in the course of, carrying on the business of insurance or lending money, and the amount that the taxpayer and corporation have agreed on in their election in respect of the property is less than the lesser of"

S. 85(1)(*d*.1) was amended by S.C. 1995, c. 3, s. 22(1), applicable to dispositions of property in respect of a business that occur in a fiscal period of the business that ends after February 22, 1994 otherwise than because of an election under subsection 25(1). S. 85(1)(*d*.1) formerly read:

"(*d*.1) for the purpose of determining after the time of the disposition the amount to be included under paragraph 14(1)(*b*) in computing the corporation's income, there shall be added to the amount otherwise determined for Q in the definition 'cumulative eligible capital' in subsection 14(5) the amount determined by the formula

$$(A \times \frac{B}{C}) - 2[(D + E) - (F + G)]$$

where

A is the amount, if any, determined for Q in that definition in respect of the taxpayer's business immediately before the time of the disposition,

B is the fair market value immediately before that time of the eligible capital property disposed of to the corporation by the taxpayer,

C is the fair market value immediately before that time of all eligible capital property of the taxpayer in respect of the business,

D is the amount, if any, that would be included under subsection 14(1) in computing the taxpayer's income as a result of the disposition if paragraph 14(1)(*b*) were read as follows:

'(*b*) in any other case, the excess shall be included in computing the taxpayer's income from that business for that year.',

E is the amount, if any, that would be deemed under subsection 14(1) to be a taxable capital gain of the taxpayer as a result of the disposition if clause 14(1)(*a*)(v)(B) were read as follows:

'(B) zero'

F is the amount, if any, included under subsection 14(1) in computing the taxpayer's income as a result of the disposition, and

G is the amount, if any, deemed under subsection 14(1) to be a taxable capital gain of the taxpayer as a result of the disposition;"

S. 85(1)(*d*.1) was amended by S.C. 1994, c. 21, s. 36(1), applicable to the disposition of property to a corporation occurring after the beginning of its first taxation year that begins after June 1988. S. 85(1)(*d*.1) formerly read:

"(*d*.1) for the purpose of determining after the time of the disposition the amount to be included under paragraph 14(1)(*b*) in computing the corporation's income, there shall be added to the amount otherwise determined for Q in the definition 'cumulative eligible capital' in subsection 14(5) the amount determined by the formula

$$A \times \frac{B}{C}$$

where

A is the amount, if any, determined for Q in that definition in respect of the taxpayer's business immediately before the time of the disposition,

B is the fair market value immediately before that time of the eligible capital property disposed of to the corporation by the taxpayer, and

C is the fair market value immediately before that time of all eligible capital property of the taxpayer in respect of the business;"

S. 85(1)(*c*.1), that portion preceding subparagraph (i), was amended by S.C. 1994, c. 7, Sched. VIII, s. 35(1), applicable to dispositions occurring after 1990. S. 85(1)(*c*.1), that portion preceding subparagraph (i), formerly read:

"(*c*.1) where the property was inventory or capital property (other than depreciable property of a prescribed class) of the taxpayer or a property (other than a capital property or an inventory) of the taxpayer that is a security or debt obligation used in the year in, or held in the year in the course of, carrying on the business of insurance or lending money, and the amount that the taxpayer and the corporation have agreed on in their election in respect of the property is less than the lesser of"

S. 85(1)(*d*.1) was added by S.C. 1994, c. 7, Sched. VIII, s. 35(2), applicable to the disposition of property to a corporation occurring after the beginning of its first taxation year beginning after June 1988.

S. 85(1)(*e*.2), that portion following subparagraph (ii), was amended by S.C. 1994, c. 7, Sched. II, s. 64(2), applicable to dispositions occurring after June 1988. That portion formerly read as follows:

"and it is reasonable to regard any part of the excess as a benefit that the taxpayer desired to have conferred on a person related to the taxpayer, the amount that the taxpayer and the corporation have agreed on in their election in respect of the property shall, irrespective of the amount actually so agreed on by them, be deemed (except for the purposes of paragraphs (*g*) and (*h*)) to be an amount equal to the total of the amount referred to in subparagraph (ii) and that part of the excess;"

S. 85(1)(*c*.2) was added by S.C. 1994, c. 7, Sched. II, s. 64(1), applicable to dispositions occurring after July 13, 1990.

Editorial Note: Subsection 85(1) provides the well-known "rollover" for the transfer of property to a taxable Canadian corporation for consideration that includes at least one share in the capital of the corporation. Property eligible for the rollover is described in subsection 85(1.1). Generally speaking, the transferor and the corporation make a joint election and the elected amount becomes the transferor's proceeds of disposition of the transferred property and the corporation's cost of the property (paragraph 85(1)(*a*)). The elected amount, less the fair market value of any non-share consideration received by the transferor, forms the transferor's cost of the shares received on the transfer (paragraphs 85(1)(*f*) through (*h*), the cost is allocated first to preference shares and then to common shares). In general terms, the elected amount cannot be less than the lesser of the fair market value and the cost or cost amount of the transferred property (e.g. paragraphs 85(1)(*c*.1), (*d*) and (*e*)); it cannot be less than the fair market value of the non-share consideration (paragraph 85(1)(*b*)); see paragraph 85(1)(*e*.3) regarding conflicts with the first-noted limitation); and it cannot exceed the fair market value of the transferred property (paragraph 85(1)(*d*), which supersedes paragraph 85(1)(*b*) in the case of a conflict with that provision). A loss on the transfer may be subject to the stop-loss rules of subsection 13(21.2), 14(12) or 40(3.4), or it may be a superficial loss (defined in section 54). Subsection 85(2) incorporates by reference the rules of subsection 85(1) when property is transferred by a partnership to a taxable Canadian corporation. Subsection 97(2) incorporates by reference most of the provisions of subsection 85(1), with changes as necessary, when property is transferred to a Canadian partnership by a person who is a member of the partnership immediately after the transfer.

Related Sections: S. 13(21) Definitions; s. 13(21.2) Loss on certain transfers; s. 14(12) Loss on certain transfers; s. 15(1) Benefit conferred on shareholder; s. 18(15) Loss on certain properties; s. 24(1) Ceasing to carry on business; s. 24(2) Business carried on by spouse or controlled corporation; s. 40(2)(*g*) Limitations; s. 40(3.4) Loss on certain properties; s. 44.1(6) Special rule — re eligible small business corporation share exchanges; s. 44.1(7) Special rule — re active business corporation share exchanges; s. 51(4) Application; s. 53(1)(*c*) Adjustments to cost base — Contributions of capital; s. 53(1)(*f*) Adjustments to cost base — Substituted property; s. 53(4) Recomputation of adjusted cost base on transfers and deemed dispositions; s. 54, "capital property", "eligible capital property"; s. 69(11) Deemed proceeds of disposition; s. 84.1(1)(*a*) Non-arm's length sale of shares; s. 85.1(2) Where s. (1) does not apply; s. 86(3) Application; s. 89(1), "taxable Canadian corporation"; s. 97(2) Rules where election by partners; s. 138(11.5) Transfer of insurance business by non-resident insurer; s. 142.6(6) Definition of "rollover transaction"; s. 142.7(3) Branch-establishment rollover; s. 248(1), "eligible capital property", "inventory", "taxable Canadian property". s. 248(4) Interest in real property; ITAR s. 20(1.2) Other transfers of depreciable property, s. 26(5.2) Transfer of capital property to a corporation.

Regulations: Part XI; Part LIII; 5905; 7307(1).

Interpretation Bulletins: *Primary* — IT-291R3 Transfer of property to a corporation under subsection 85(1). *Secondary* — IT-457R Election by professionals to exclude work in progress from income; IT-489R Non-arm's length sale of shares to a corporation.

Information Circulars: IC 76-19R3 Transfer of property to a corporation under section 85; IC 88-2 General anti-avoidance rule — Section 245 of the Income Tax Act (paras. 7, 9, 10, 13, 14, 22 and 23, Supp. 1, paras. 3 and 8); IC 89-3 Policy statement on business equity valuations.

Advance Tax Rulings: ATR-25 Estate freeze; ATR-27 Exchange and acquisition of interests in capital properties through rollovers and winding-up ("Butterfly"); ATR-32 Roll-over of fixed assets from Opco into Holdco; ATR-35 Partitioning of assets to get specific ownership — "Butterfly"; ATR-36 Estate freeze.

Forms: T2 SCH 44; T2057.

Income Tax Technical News: Issue No. 7, Rollovers of capital property (*Mara Properties*; Issue No. 3, Section 85 (*Dale* case).

Tax Topics: No. 1925, The Perils of "Rolling" Real Estate Inventory; No. 1690, Estate Planning In The 21st Century; No. 1525, Application of paragraph 85(1)(*b*); No. 1511, Changes in CCRA's position regarding paragraph 85(1)(*b*); No. 1493, Oops, I Made a Mistake . . . Part II.

Tax Profile: March 2009 — Sale of Businesses to Employees: The Leveraged Buy-Out — Part I; January 2008 — Tax Ramifications of Non-Resident Purchases of Canadian Businesses; October 2007 — Will Canadian Unlimited Liability Companies Survive?; July 2007 — Canadian Tax Traps; July 2006 — Asset Protection Planning; June 2001 — Double Tax Issues on Section 85 Rollovers; December 2000 — Preferred Share Design: Tax Free Reorganizations and Benefit Conferrals; June 2000 — Exchangeable Shares.

Canadian Tax Foundation: Tabuchi, ""Share Capital Reorganizations for Private Corporations", in Personal Tax Planning feature", *2003 Canadian Tax Journal*, No. 3, 1340; Moch and Ebel, "Basics of Corporate Reorganizations: Sections 51, 85, 85.1, and 86", *2002 Prairie Provinces Tax Conference*, 10:1; Moch And Ebel, "Share Reorganizations and Corporate Takeover Transactions - Using Tax Rollover Provisions", *2000 Conference Report*, 8:1.

Canadian Petroleum Tax Journal: The Recent Take-Over Phenomenon, D. Alan Ross and Stanley R. Ebel, Vol. 14 No. 1 2001; A Comparative Study of Canadian and U.S. Rules Regarding the Taxation of Corporate Reorganizations, Firoz Talakshi and Christy Palmer, Vol. 13 No. 1 2000.

Tax Window Files: Price adjustment clause, October 5, 2007, CRA Document No. 2007-0243251C6; Erroneous Elections in Statute-Barred Years, July 7, 2005, CRA Document No. 2005-0122191E5; Transfer of Property — Partnership, April 6, 2005, CRA Document No. 2004-0104291E5; Meaning of Disposition — Share-for-Share Exchange, November 10, 2004, CRA Document No. 2004-0092561E5 ["Exchange" of common shares of a corporation for preferred and commons shares of the corporation not a disposition of all of the common shares]; Price Adjustment Clause — Rollovers — Letter to the CRA, July 6, 2004, CRA Document No. 2004-0081631E5 [Comments on procedures for price adjustment clauses in rollover transactions]; Replacement Property Rules, May 28, 2004, CRA Document No. 2004-0066251E5 [Application of replacement property rules where the property acquired as a replacement was acquired by way of a subsection 85(1) rollover]; Contractors — Transfer of Holdbacks to a Corporation under Section 85, February 16, 2004, CRA Document No. 2003-0054091E5 [Rights to holdbacks in construction business considered eligible property for the purposes of section 85]; Application of Section 116 Where Rollover Applies, October 11, 2002, CRA Document No. 2002-0156945 [Section 116 certificate required where a rollover provision, such as section 51, 85 or 85.1, applies to the acquisition of shares from a non-resident].

Cases: To circumvent the prohibition against rolling over real estate inventory under s. 85, the real estate was rolled into a partnership under s. 97(2) and the partnership interest was then rolled over under s. 85. The s. 85 rollover was technically valid. *Loyens et al. v. The Queen*, 2003 DTC 355 (T.C.C.).

The applicants transferred their shares of a corporation to a second corporation, and took back a promissory note as consideration rather than shares of the second corporation. To avoid unintended tax consequences, a rectification order was granted to substitute shares of the second company for its promissory note. *A.G. Canada v. Juliar et al.*, 2000 DTC 6589 (Ont. CA), affirming 99 DTC 5743 (Ont. S.C.).

When a corporation's authorized capital had been amended retroactively to December 28, 1995, the shares issued thereafter for the transfer of an apartment building could be part of an election and of a capital dividend declaration. *Dale et al. v. The Queen*, 97 DTC 5252 (F.C.A.), reversing 94 DTC 1100 (T.C.C.).

A taxpayer transferred five properties to a taxable Canadian corporation and filed an election that rollover treatment apply. The election failed to mention four of the five properties, and the Minister assessed the taxpayer with a capital gain on the one property based on the full elected amount. The Court held that, although the failure to mention the four properties in the election was inadvertent, the rollover did not apply to them. The intention of the taxpayer was not sufficient where full information was not supplied. *Deconinck v. The Queen*, 90 DTC 6617 (F.C.A.), affirming 88 DTC 6410 (F.C.T.D.).

▶ 85(1.1) ◀

(1.1) Definition of "eligible property". For the purposes of subsection (1), "eligible property" means

(*a*) a capital property (other than real property, or an interest in or an option in respect of real property, owned by a non-resident person);

(*b*) a capital property that is real property, or an interest in or an option in respect of real property, owned by a non-resident insurer where that property and the property received as consideration for that property are designated insurance property for the year;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraphs 85(1.1)(*a*) and (*b*) of the Act are replaced by the following:

(*a*) a capital property (other than real or immovable property, an option in respect of such property, or an interest in real property or a real right in an immovable, owned by a non-resident person);

(*b*) a capital property that is real or immovable property, an option in respect of such property, or an interest in real property or a real right in an immovable, owned by a non-resident insurer where that property and the property received as consideration for that property are designated insurance property for the year;

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*c*) a Canadian resource property;

(*d*) a foreign resource property;

(*e*) an eligible capital property;

(*f*) an inventory (other than real property, an interest in real property or an option in respect of real property);

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 85(1.1)(*f*) of the Act is replaced by the following:

(*f*) an inventory (other than real or immovable property, an option in respect of such property, or an interest in real property or a real right in an immovable);

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*g*) a property that is a security or debt obligation used by the taxpayer in the year in, or held by it in the year in the course of, carrying on the business of insurance or lending money, other than

(i) a capital property,

(ii) inventory, or

(iii) where the taxpayer is a financial institution in the year, a mark-to-market property for the year;

(*g.1*) where the taxpayer is a financial institution in the year, a specified debt obligation (other than a mark-to-market property of the taxpayer for the year);

(*h*) a capital property that is real property, an interest in real property or an option in respect of real property, owned by a non-resident person (other than a non-resident insurer) and used in the year in a business carried on in Canada by that person; or

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 85(1.1)(*h*) of the Act is replaced by the following:

(*h*) a capital property that is real or immovable property, an option in respect of such property, or an interest in real property or a real right in an immovable, owned by a non-resident person (other than a non-resident insurer) and used in the year in a business carried on in Canada by that person; or

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*i*) a NISA Fund No. 2, if that property is owned by an individual.

History: S. 85(1.1)(*i*) was replaced by S.C. 2007, c. 35, s. 22(1), applicable to the balance in a NISA Fund No. 2 to the extent that that balance consists of contributions made to the fund, and amounts earned on those contributions, in the 2008 and subsequent taxation years. S. 85(1.1)(*i*) formerly read:

"(*i*) a NISA Fund No. 2."

S. 85(1.1)(*b*) was amended by S.C. 1997, c. 25, s. 17(1), applicable to dispositions that occur in an insurer's 1997 or subsequent taxation year. S. 85(1.1)(*b*) formerly read:

"(*b*) a capital property that is real property, or an interest in or an option in respect of real property, owned by a non-resident insurer where that property and the property received as consideration for that property are property used by it in the year in, or held by it in the year in the course of (within the meaning assigned by subsection 138(12)), carrying on an insurance business in Canada;"

S. 85(1.1)(*g.1*) was added by S.C. 1995, c. 21, s. 53(3), applicable to dispositions occurring after February 22, 1994.

S. 85(1.1)(g) was amended by S.C. 1995, c. 21, s. 53(2), applicable to dispositions occurring in taxation years that begin after October 1994. S. 85(1.1)(g) formerly read:

"(*g*) a property (other than a capital property or an inventory) that is a security or debt obligation used by the taxpayer in the year in, or held by it in the year in the course of, carrying on the business of insurance or lending money;"

S. 85(1.1)(*f*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 35(3), applicable to dispositions occurring after December 20, 1991. S. 85(1.1)(*f*) formerly read:

"(*f*) an inventory (other than real property);"

S. 85(1.1)(*i*) was added by S.C. 1994, c. 7, Sched. VIII, s. 35(4), applicable to dispositions occurring after 1990.

S. 85(1.1)(*h*) was added by S.C. 1994, c. 7, Sched. II, s. 64(3), applicable to

(*a*) dispositions occurring after 1989; and

(*b*) dispositions occurring after 1984 where the taxpayer is a resident of a country with which Canada has a tax treaty and a provision of that treaty that was prescribed for the purposes of section 115.1 of the Act was in effect at the time the disposition occurred.

Editorial Note: See subsection 85(1.2) regarding property described in paragraph 85(1.1)(*h*).

Related Sections: S. 54, "capital property", "eligible capital property"; s. 66(15), "Canadian resource property", "foreign resource property"; s. 85(1.4) Definitions; s. 138(12), "designated insurance property"; s. 248(1), "inventory"; "NISA Fund No. 2"; s. 248(4) Interest in real property.

Interpretation Bulletins: *Secondary* — IT-291R3 Transfer of property to a corporation under subsection 85(1).

Tax Window Files: Eligible Property — Right to Income, March 29, 1995, CRA Document No. 9502507

► 85(1.11) ◄

(1.11) Exception. Notwithstanding subsection (1.1), a foreign resource property, or an interest in a partnership that derives all or part of its value from one or more foreign resource properties, is not an eligible property of a taxpayer in respect of a disposition by the taxpayer to a corporation where

(*a*) the taxpayer and the corporation do not deal with each other at arm's length; and

(*b*) it is reasonable to conclude that one of the purposes of the disposition, or a series of transactions or events of which the disposition is a part, is to increase the extent to which any person may claim a deduction under section 126.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 85(1.11) of the Act is replaced by the following:

(1.11) Exception. Notwithstanding subsection (1.1), the following property is not an eligible property of a taxpayer in respect of a disposition of the property in a taxation year by the taxpayer to a corporation:

(*a*) a foreign resource property, or an interest in a partnership that derives all or part of its value from one or more foreign resource properties, if

(i) the taxpayer and the corporation do not deal with each other at arm's length, and

(ii) it is reasonable to conclude that one of the purposes of the disposition, or a series of transactions or events of which the disposition is a part, is to increase the extent to which any person may claim a deduction under section 126; and

(*b*) a specified participating interest.

Applicable: To taxation years that begin after 2006, except that that subsection also applies to a taxation year of a taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the taxpayer.

Explanatory Note: Subsection 85(1.1) of the Act describes the types of property (referred to as "eligible property") that may be transferred to a corporation under subsection 85(1). Subsection 85(1.11) provides that certain foreign resource property (or an interest in a partnership that derives all or part of its value from one or more foreign resource properties) is not an "eligible property" of a taxpayer in respect of a transfer to a corporation.

Subsection 85(1.11) is amended to provide that a specified participating interest is not an eligible property of a taxpayer in respect of a transfer to a corporation. The concept of a specified participating interest is generally relevant in the context of the foreign investment entity rules in sections 94.1 to 94.4. For more information on the definition "specified participating interest" in subsection 248(1), see the commentary on that definition.

This amendment applies to taxation years that begin after 2006.

History: S. 85(1.11) was added by S.C. 2001, c. 17, s. 62(2), applicable to dispositions that occur after December 21, 2000 other than a disposition by a taxpayer that occurs pursuant to an agreement in writing made by the taxpayer on or before that date.

Related Sections: S. 66(4) Foreign exploration and development expenses; s. 66.21(4) Deduction for cumulative foreign resource expense; s. 66.7(2) Successor of foreign exploration and development expenses; s. 66.7(2.3) Successor of foreign resource expenses; s. 126(9) Computation of qualifying incomes and losses.
Interpretation Bulletins: *Secondary* — IT-291R3 Transfer of property to a corporation under subsection 85(1).

► 85(1.2) ◄

(1.2) Application of subsection (1). Subsection (1) does not apply to a disposition by a taxpayer to a corporation of a property referred to in paragraph (1.1)(*h*) unless

(*a*) immediately after the disposition, the corporation is controlled by the taxpayer, a person or persons related (otherwise than because of a right referred to in paragraph 251(5)(*b*)) to the taxpayer or the taxpayer and a person or persons so related to the taxpayer;

(*b*) the disposition is part of a transaction or series of transactions in which all or substantially all of the property used in the business referred to in paragraph (1.1)(*h*) is disposed of by the taxpayer to the corporation; and

(*c*) the disposition is not part of a series of transactions that result in control of the corporation being acquired by a person or group of persons after the time that is immediately after the disposition.

History: S. 85(1.2) was added by S.C. 1994, c. 7, Sched. II, s. 64(4), applicable to

(*a*) dispositions occurring after 1989; and

(*b*) dispositions occurring after 1984 where the taxpayer is a resident of a country with which Canada has a tax treaty and a provision of that treaty that was prescribed for the purposes of section 115.1 of the Act was in effect at the time the disposition occurred.

Related Sections: S. 89(1), "taxable Canadian corporation", s. 256(7) Acquiring control.
Interpretation Bulletins: *Secondary* — IT-291R3 Transfer of property to a corporation under subsection 85(1).

► 85(1.3) ◄

(1.3) Meaning of "wholly owned corporation". For the purposes of this subsection and paragraph (1)(*e.2*), "wholly owned corporation" of a taxpayer means a corporation all the issued and outstanding shares of the capital stock of which (except directors' qualifying shares) belong to

(*a*) the taxpayer;

(*b*) a corporation that is a wholly owned corporation of the taxpayer; or

(*c*) any combination of persons described in paragraph (*a*) or (*b*).

History: S. 85(1.3) was added by S.C. 1994, c. 7, Sched. II, s. 64(4), applicable to dispositions occurring after June 1988.

Interpretation Bulletins: *Secondary* — IT-291R3 Transfer of property to a corporation under subsection 85(1).
Advance Tax Rulings: ATR-58 Divisive reorganization.

► 85(1.4) ◄

(1.4) Definitions. For the purpose of subsection (1.1), "financial institution", "mark-to-market property" and "specified debt obligation" have the meanings assigned by subsection 142.2(1).

History: S. 85(1.4) was added by S.C. 1995, c. 21, s. 53(4), applicable to dispositions occurring after February 22, 1994.

► 85(2) ◄

(2) Transfer of property to corporation from partnership. Where

(*a*) a partnership has disposed, to a taxable Canadian corporation for consideration that includes shares of the corporation's capital stock, of any partnership property that was

(i) a capital property (other than real property, or an interest in or an option in respect of real property, where the partnership was not a Canadian partnership at the time of the disposition),

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 85(2)(*a*)(i) of the Act is replaced by the following:

(i) a capital property (other than real or immovable property, an option in respect of such property, or an interest in real property or a real right in an immovable, where the partnership was not a Canadian partnership at the time of the disposition),

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(ii) a property described in any of paragraphs (1.1)(*c*) to (*f*), or

(iii) a property that would be described in paragraph (1.1)(*g*) or (*g.1*) if the references in those paragraphs to "taxpayer" were read as "partnership", and

(*b*) the corporation and all the members of the partnership have jointly so elected, in prescribed form and within the time referred to in subsection (6),

paragraphs (1)(*a*) to (*i*) are applicable, with such modifications as the circumstances require, in respect of the disposition as if the partnership were a taxpayer resident in Canada who had disposed of the property to the corporation.

History: S. 85(2), the portion before paragraph (*b*) was amended by S.C. 1998, c. 19, s. 116(1), applicable to dispositions that occur after June 20, 1996. It formerly read:

"(2) *Transfer of property to corporation from partnership.* Where, after May 6, 1974,

(*a*) a partnership has disposed of any partnership property that was a capital property (other than real property, or an interest in or an option in respect of real property, owned by a partnership that was not a Canadian partnership at the time of the disposition), a Canadian resource property, a foreign resource property, an eligible capital property, an inventory (other than real property) or a property (other than a capital property or an inventory) that is a security or debt obligation used by it in the year in, or held by it in the year in the course of, carrying on the business of insurance or lending money to a taxable Canadian corporation for consideration that includes shares of the capital stock of the corporation, and"

Editorial Note: See the editorial note under subsection 85(1). See subsection 85(3) where the partnership is wound up within 60 days of the disposition that is subject to subsection 85(2).

If a second partnership is a member of the partnership that disposes of the property to the corporation, for the purposes of paragraph 85(2)(*b*), the CRA

allows one partner of the second partnership who is authorized to act for its partners to make the election; see paragraph 4 of IT-378R.

Related Sections: S. 69(11) Deemed proceeds of disposition; s. 85(1.1) Definition of "eligible property"; s. 85(2.1) Computing paid-up capital; s. 85(3) Where partnership wound up; s. 85(5) Rules on transfers of depreciable property; s. 85(5.1) Acquisition of certain tools — capital cost and deemed depreciation; s. 86(3) Application; s. 102(1) Definition of "Canadian partnership"; ITAR s. 20(1.2) Other transfers of depreciable property.
Regulations: Part XI; Part LIII.
Interpretation Bulletins: *Secondary* — IT-378R Winding-up of a partnership; IT-457R Election by professionals to exclude work in progress from income.
Information Circulars: IC 76-19R3 Transfer of property to a corporation under section 85.
Forms: T2 SCH 44; T2058.
Tax Window Files: Transfer of Property to Corporation by Partnership, May 29, 2002, CRA Document No. 2001-0071495 [Application of subsection 85(2) where a partnership transfers assets to more than one corporation].

► 85(2.1) ◄

(2.1) Computing paid-up capital. Where subsection (1) or (2) applies to a disposition of property (other than a disposition of property to which section 84.1 or 212.1 applies) to a corporation by a person or partnership (in this subsection referred to as the "taxpayer"),

(*a*) in computing the paid-up capital in respect of any particular class of shares of the capital stock of the corporation at the time of, and at any time after, the issue of shares of the capital stock of the corporation in consideration for the disposition of the property, there shall be deducted an amount determined by the formula

$$(A - B) \times \frac{C}{A}$$

where

A is the increase, if any, determined without reference to this section as it applies to the disposition of the property, in the paid-up capital in respect of all the shares of the capital stock of the corporation as a result of the acquisition by the corporation of the property,

B is the amount, if any, by which the corporation's cost of the property, immediately after the acquisition, determined under subsection (1) or (2), as the case may be, exceeds the fair market value, immediately after the acquisition, of any consideration (other than shares of the capital stock of the corporation) received by the taxpayer from the corporation for the property, and

C is the increase, if any, determined without reference to this section as it applies to the disposition of the property, in the paid-up capital in respect of the particular class of shares as a result of the acquisition by the corporation of the property; and

(*b*) in computing the paid-up capital, at any time after November 21, 1985, in respect of any class of shares of the capital stock of a corporation, there shall be added an amount equal to the lesser of

(i) the amount, if any, by which

(A) the total of all amounts each of which is an amount deemed by subsection 84(3), (4) or (4.1) to be a dividend on shares of that class paid after November 21, 1985 and before that time by the corporation

exceeds

(B) the total of such dividends that would be determined under clause (A) if this Act were read without reference to paragraph (*a*), and

(ii) the total of all amounts required by paragraph (*a*) to be deducted in computing the paid-up capital in respect of that class of shares after November 21, 1985 and before that time.

History: S. 85(2.1), that portion before the formula in paragraph (*a*), was amended by S.C. 1994, c. 21, s. 36(2), applicable to dispositions occurring after November 21, 1985 and, notwithstanding subsections 152(4) to (5) of the Act, such assessments and determinations in respect of any taxation year may be made as are consequential on the application to dispositions occurring before 1993. S. 85(2.1), that portion before the formula in paragraph (*a*), formerly read:

"(2.1) *Computation of paid-up capital.* Where subsection (1) or (2) has been applicable in respect of a disposition to a corporation, after November 21, 1985, of property (other than a disposition of property in respect of which section 84.1 or 212.1 applies) by a person or partnership (in this subsection referred to as the 'taxpayer'), the following rules apply:

(*a*) in computing the paid-up capital, at any time after the disposition of the property, in respect of any particular class of shares of the capital stock of the corporation, there shall be deducted an amount determined by the formula"

Editorial Note: The paid-up capital grind in subsection 85(2.1) effectively means that the increase in the paid-up capital as a result of the issuance of the shares as consideration for the property transferred to the corporation is limited to the amount, if any, by which the elected amount under subsection 85(1) or (2) (the corporation's cost of the property) exceeds the fair market value of any non-share consideration received by the transferor from the corporation for the property. In the case of more than one class of shares, the paid-up capital grind occurs on a *pro-rata* basis (see the fraction C/A in the formula in paragraph (*a*)). Note that the paid-up capital adjustments under paragraphs 84.1(1)(*a*) and 212.1(1)(*b*), if applicable, take precedence over subsection 85(2.1).

Related Sections: S. 84(1) Deemed dividend; s. 84(5) Amount distributed or paid where a share; s. 89(1), "paid-up capital".
Interpretation Bulletins: *Secondary* — IT-291R3 Transfer of property to a corporation under subsection 85(1).
Advance Tax Rulings: ATR-32 Roll-over of fixed assets from Opco into Holdco; ATR-35 Partitioning of assets to get specific ownership — "Butterfly"; ATR-36 Estate freeze.

► 85(3) ◄

(3) Where partnership wound up. Where,

(*a*) in respect of any disposition of partnership property of a partnership to a corporation, subsection (2) applies,

(*b*) the affairs of the partnership were wound up within 60 days after the disposition, and

(*c*) immediately before the winding-up there was no partnership property other than money or property received from the corporation as consideration for the disposition,

the following rules apply:

(*d*) the cost to any member of the partnership of any property (other than shares of the capital stock of the corporation, or a right to receive any such shares) received by the member as consideration for the disposition of the member's partnership interest on the winding-up shall be deemed to be the fair market value of the property at the time of the winding-up,

(*e*) the cost to any member of the partnership of any preferred shares of any class of the capital stock of the corporation receivable by the member as consideration for the disposition of the member's partnership interest on the winding-up shall be deemed to be

(i) where any common shares of the capital stock of the corporation were also receivable by the

member as consideration for the disposition of the interest, the lesser of

(A) the fair market value, immediately after the winding-up, of the preferred shares of that class so receivable by the member, and

(B) that proportion of the amount, if any, by which the adjusted cost base to the member of the member's partnership interest immediately before the winding-up exceeds the total of the fair market value, at the time of the winding-up, of the consideration (other than shares of the capital stock of the corporation or a right to receive any such shares) received by the member for the disposition of the interest, that

(I) the fair market value, immediately after the winding-up, of the preferred shares of that class so receivable by the member,

is of

(II) the fair market value, immediately after the winding-up, of all preferred shares of the capital stock of the corporation receivable by the member as consideration for the disposition, and

(ii) in any other case, the amount determined under clause (i)(B),

(*f*) the cost to any member of the partnership of any common shares of any class of the capital stock of the corporation receivable by the member as consideration for the disposition of the member's partnership interest on the winding-up shall be deemed to be that proportion of the amount, if any, by which the adjusted cost base to the member of the member's partnership interest immediately before the winding-up exceeds the total of the fair market value, at the time of the winding-up, of the consideration (other than shares of the capital stock of the corporation or a right to receive any such shares) received by the member for the disposition of the interest and the cost to the member of all preferred shares of the capital stock of the corporation receivable by the member as consideration for the disposition of the interest, that

(i) the fair market value, immediately after the winding-up, of the common shares of that class so receivable by the member,

is of

(ii) the fair market value, immediately after the winding-up, of all common shares of the capital stock of the corporation so receivable by the member as consideration for the disposition,

(*g*) the proceeds of disposition of the partnership interest of any member of the partnership shall be deemed to be the cost to the member of all shares and property receivable or received by the member as consideration for the disposition of the interest plus the amount of any money received by the member as consideration for the disposition, and

(*h*) where the partnership has distributed partnership property referred to in paragraph (*c*) to a member of the partnership, the partnership shall be deemed to have disposed of that property for proceeds equal to the cost amount to the partnership of the property immediately before its distribution.

Editorial Note: When a partnership is to be incorporated, the shares of the corporation issued on the subsection 85(2) rollover are sometimes issued in the names of the partners instead of the name of the partnership. The CRA's view is that this procedure does not invalidate the application of subsection 85(2) or the subsequent application of subsection 85(3) if the intent is that the shares beneficially belong to the partnership and not to the partners themselves. See paragraph 2 of IT-378R.

The rollover under subsection 85(3) ensures that the partnership will have no gain or loss in respect of property, including the shares of the corporation, that is received from the corporation on the subsection 85(2) rollover and that is subsequently distributed to its partners on the winding-up of the partnership in consideration for the disposition of their partnership interests (paragraphs 85(3)(*c*) and (*h*)). The results to each partner, owing to the cost allocation rules of paragraphs 85(3)(*d*), (*e*) and (*f*) and the corresponding proceeds of disposition rules under paragraph (*g*), can be summarized as follows. If a partner receives only non-share property (property other than shares of the corporation) as consideration for the disposition of its partnership interest, the partner may realize a gain or loss, depending on whether the fair market value of the non-share property exceeds, or is less than, the partner's adjusted cost base of the partnership interest. A partner who receives non-share property plus any shares of the corporation may have a gain on the disposition of its partnership interest (if the fair market value of the non-share property exceeds the partner's adjusted cost base of the interest) but not a loss (since the proceeds of disposition will at least equal the partner's adjusted cost base of the interest). A partner who receives only shares of the corporation will have neither a gain nor a loss on the disposition of its partnership interest (since the proceeds of disposition will equal the partner's adjusted cost base of the interest).

Subsection 98(3), which can otherwise apply where a partnership ceases to exist and its property is distributed to its former partners, does not apply where subsection 85(3) applies (subsection 98(4)).

Related Sections: S. 98(2) Deemed proceeds; s. 98.1(1) Residual interest in partnership; s. 98(4) Where s. (3) does not apply; ITAR s. 20(1.2) Other transfers of depreciable property.

Interpretation Bulletins: *Primary* — IT-378R Winding-up of a partnership. *Secondary* — IT-338R2 Partnership interests — Effects on adjusted cost base resulting from the admission or retirement of a partner [Archived by the CRA]; IT-457R Election by professionals to exclude work in progress from income.

Tax Window Files: Farm Inventory and Partnership Wind Up, February 23, 2004, CRA Document No. 2004-0056471E5; Transfer of Property to Corporation by Partnership, May 29, 2002, CRA Document No. 2001-0071495.

► 85(4) ◄

(4) Loss from disposition to controlled corporation. [Repealed by S.C. 1998, c. 19, s. 116(3).]

History: S. 85(4) was repealed by S.C. 1998, c. 19, s. 116(3), applicable, to dispositions of property that occur after April 26, 1995, subject to section 247 of this Bill, (see Application below). S. 85(4) formerly read:

"(4) *Loss from disposition to controlled corporation.* Where a taxpayer or a partnership (in this subsection referred to as the 'taxpayer') disposes of any capital property (other than depreciable property of a prescribed class) of the taxpayer or eligible capital property in respect of a business of the taxpayer in respect of which the taxpayer would, but for this subsection, be permitted a deduction under paragraph 24(1)(*a*), to a corporation that immediately after the disposition is controlled, directly or indirectly in any manner whatever, by the taxpayer, by the spouse of the taxpayer or by a person or group of persons by whom the taxpayer is controlled, directly or indirectly in any manner whatever,

(*a*) notwithstanding any other provision of this Act,

(i) the capital loss therefrom, and

(ii) any deduction under paragraph 24(1)(*a*) in respect of the business in computing the taxpayer's income for the taxation year in which the taxpayer ceased to carry on the business

shall be deemed to be nil; and

(*b*) except where the property so disposed of was, immediately after the disposition, an obligation that was payable to the corporation by another corporation that is related to the corporation or by a corporation or a partnership that would be related to the corporation if paragraph 80(2)(*j*) applied for the purpose of this paragraph, in computing the adjusted cost base to the taxpayer of all shares of any particular class of the capital stock of the corporation owned by the taxpayer immediately after the disposition, there shall be added that proportion of the amount, if any, by which

(i) the cost amount to the taxpayer immediately before the disposition of the property so disposed of,

exceeds the total of

(ii) the taxpayer's proceeds of disposition of the property or, where the property is an eligible capital property, 4/3 of the taxpayer's eligible capital amount resulting from the disposition of the property, and

(ii.1) where the property disposed of by the taxpayer is a share of the capital stock of a corporation, the total of all amounts each of which is an amount that, but for paragraphs (*a*) and 40(2)(*e*), would be deducted

(A) under subsection 93(2) or 112(3) or (3.2) in computing a loss of the taxpayer from the disposition, or

(B) where the taxpayer is a partnership, by a corporation that is a member of the partnership under subsection 112(3.1) in computing its share of the loss of the partnership from the disposition,

that

(iii) the fair market value, immediately after the disposition, of all shares of that class so owned by the taxpayer,

is of

(iv) the fair market value, immediately after the disposition, of all shares of the capital stock of the corporation so owned by the taxpayer."

Sec. 247, Chap. 19, 1998

247. [*Exception to coming-into-force.*]

(1) Subsections 73(4), 74(5), subsection 18(13) of the Act, as enacted by subsection 79(2) and subsections 89(1), (2) and (6), 94(1) and (2), 95(1), 116(3) to (5), 120(1) and 124(1) and (2) do not apply to the disposition of property by a person or partnership (in this subsection and subsection (2) referred to as the "transferor") that occurred before 1996

(*a*) to a person who was obliged on April 26, 1995 to acquire the property pursuant to the terms of an agreement in writing made on or before that day; or

(*b*) in a transaction, or as part of a series of transactions, the arrangements for which, evidenced in writing, were substantially advanced before April 27, 1995, other than a transaction or series a main purpose of which can reasonably be considered to have been to enable an unrelated person to obtain the benefit of

(i) any deduction in computing income, taxable income, taxable income earned in Canada or tax payable under the Act, or

(ii) any balance of undeducted outlays, expenses or other amounts.

(2) Election. Notwithstanding subsection (1), subsection 18(13) of the Act, as enacted by subsection 79(2), and the other subsections of this Act referred to in subsection (1) apply to a disposition in respect of which the transferor has filed with the Minister of National Revenue before the end of the third month after the month in which this Act is assented to [Royal Assent June 18, 1998] an election in writing to have those subsections apply.

(3) Interpretation. For the purpose of subsection (1),

(*a*) a person shall be considered not to be obliged to acquire property where the person can be excused from the obligation if there is a change to the Act or if there is an adverse assessment under the Act;

(*b*) an "unrelated person" means any person who was not, or a partnership any member of which was not, related (otherwise than because of paragraph 251(5)(*b*) of the Act) to the transferor at the time of the disposition; and

(*c*) a person is deemed to be related to a partnership of which that person is a majority interest partner.

S. 85(4)(*b*)(ii) was added by S.C. 1998, c. 19, s. 116(2), applicable (a) in the case of a corporation, to dispositions by it of property that occur after the beginning of its first taxation year that begins after June 1988; and (b) in any other case, to dispositions of property in respect of a business that occur after the beginning of the first fiscal period, that begins after 1987, of the business. It formerly read:

"(ii) the taxpayer's proceeds of disposition of the property or, where the property is an eligible capital property, the taxpayer's eligible capital amount resulting from the disposition of the property, and"

S. 85(4)(*b*), that portion before subparagraph (i), was amended by S.C. 1995, c. 21, s. 28(1), applicable to property disposed of after July 12, 1994, other than property disposed of pursuant to an agreement in writing entered into before July 13, 1994. That part formerly read:

"(*b*) in computing the adjusted cost base to the taxpayer of all shares of any particular class of the capital stock of the corporation owned by the taxpayer immediately after the disposition, there shall be added that proportion of the amount, if any, by which"

S. 85(4)(*b*), that portion before subparagraph (i), was amended by S.C. 1994, c. 21, s. 36(3), applicable to:

(*a*) in the case of a corporation, to dispositions by it of property occurring after the beginning of its first taxation year that begins after June 1988; and

(*b*) in any other case, to dispositions of property in respect of a business occurring after the beginning of the first fiscal period, that begins after 1987, of the business. S. 85(4)(*b*), that portion before subparagraph (i), formerly read:

"(*b*) in computing the adjusted cost base to the taxpayer of all shares of any particular class of the capital stock of the corporation owned by the taxpayer immediately after the disposition, there shall be added, in the case of capital property, the amount that is equal to, and in the case of eligible capital property, 4/3 of the amount that is equal to, that proportion of the amount, if any, by which"

S. 85(4)(*b*), the part following subparagraph (i) and preceding subparagraph (iii) was amended by S.C. 1994, c. 7, Sched. II, s. 64(6), applicable to dispositions occurring after July 13, 1990. That portion formerly read:

"exceeds

(ii) the taxpayer's proceeds of disposition of the property or, where the property was an eligible capital property, the taxpayer's eligible capital amount, as a result of the disposition of that property

that"

S. 85(4), that portion preceding paragraph (*b*), was amended by S.C. 1994, c. 7, Sched. II, s. 64(5), applicable to dispositions occurring after July 13, 1990. That portion formerly read:

"(4) *Where loss from disposition of property to controlled corporation.* Where a taxpayer or a partnership (in this subsection referred to as the taxpayer) has, after May 6, 1974, disposed of any capital property or eligible capital property of the taxpayer to a corporation that, immediately after the disposition, was controlled, directly or indirectly in any manner whatever, by the taxpayer, by the spouse of the taxpayer or by a person or group of persons by whom the taxpayer was controlled, directly or indirectly in any manner whatever, and, but for this subsection, subsection 24(2) and paragraphs 40(2)(*e*) and (*g*), the taxpayer would have had a capital loss therefrom or a deduction pursuant to paragraph 24(1)(*a*) in computing the taxpayer's income for the taxation year in which the taxpayer ceased to carry on a business, as the case may be, the following rules apply:

(*a*) notwithstanding section 24 and paragraphs 40(2)(*e*) and (*g*), the taxpayer's capital loss therefrom, or the taxpayer's deduction pursuant to paragraph 24(1)(*a*) in computing the taxpayer's income for the taxation year in which the taxpayer ceased to carry on the business, as the case may be, otherwise determined shall be deemed to be nil; and"

Editorial Note: The former stop-loss rules in subsection 85(4) were effectively replaced by subsections 14(12) and 40(3.4).

Advance Tax Rulings: ATR-66 Non-arm's length transfer of debt followed by a winding-up and a sale of shares.

► 85(5) ◄

(5) Rules on transfers of depreciable property. Where subsection (1) or (2) has applied to a disposition at any time of depreciable property to a person (in this subsection referred to as the "transferee") and the capital cost to the transferor of the property exceeds the transferor's proceeds of disposition of the property, for the purposes of sections 13 and 20 and any regulations made for the purpose of paragraph 20(1)(*a*),

(*a*) the capital cost to the transferee of the property is deemed to be the amount that was its capital cost to the transferor; and

(*b*) the excess is deemed to have been deducted by the transferee under paragraph 20(1)(*a*) in respect of the property in computing income for taxation years that ended before that time.

History: S. 85(5) was amended by S.C. 1998, c. 19, s. 116(4), applicable to dispositions of property that occur after April 26, 1995. Subject to section 247 of this Bill, (see Application below). S. 85(5) formerly read:

"(5) *Rules on transfers of depreciable property.* Where subsection (1), (2) or (5.1) has applied in respect of a disposition of depreciable property to a person or partnership (in this subsection referred to as the 'transferee') and the capital cost to the transferor of the property exceeds the transferor's proceeds of disposition of the property, for the purposes of sections 13 and 20 and any regulations made under paragraph 20(1)(*a*),

(*a*) the capital cost of the property to the transferee shall be deemed to be the amount that was the capital cost of the property to the transferor; and

(*b*) the excess shall be deemed to have been allowed to the transferee in respect of the property under regulations made under paragraph 20(1)(*a*) in computing income for taxation years before the acquisition by the transferee of the property."

Sec. 247, Chap. 19, 1998

247. [*Exception to coming-into-force.*]

(1) Subsections 73(4), 74(5), subsection 18(13) of the Act, as enacted by subsection 79(2) and subsections 89(1), (2) and (6), 94(1) and (2), 95(1), 116(3) to (5), 120(1) and 124(1) and (2) do not apply to the disposition of property by a person or partnership (in this subsection and subsection (2) referred to as the "transferor") that occurred before 1996

(*a*) to a person who was obliged on April 26, 1995 to acquire the property pursuant to the terms of an agreement in writing made on or before that day; or

(*b*) in a transaction, or as part of a series of transactions, the arrangements for which, evidenced in writing, were substantially advanced before April 27, 1995, other than a transaction or series a main purpose of which can reasonably be considered to have been to enable an unrelated person to obtain the benefit of

(i) any deduction in computing income, taxable income, taxable income earned in Canada or tax payable under the Act, or

(ii) any balance of undeducted outlays, expenses or other amounts.

(2) Election. Notwithstanding subsection (1), subsection 18(13) of the Act, as enacted by subsection 79(2), and the other subsections of this Act referred to in subsection (1) apply to a disposition in respect of which the transferor has filed with the Minister of National Revenue before the end of the third month after the month in which this Act is assented to [Royal Assent June 18, 1998] an election in writing to have those subsections apply.

(3) Interpretation. For the purpose of subsection (1),

(*a*) a person shall be considered not to be obliged to acquire property where the person can be excused from the obligation if there is a change to the Act or if there is an adverse assessment under the Act;

(*b*) an "unrelated person" means any person who was not, or a partnership any member of which was not, related (otherwise than because of paragraph 251(5)(*b*) of the Act) to the transferor at the time of the disposition; and

(*c*) a person is deemed to be related to a partnership of which that person is a majority interest partner.

Editorial Note: Subsection 85(5) effectively ensures that any built-in recapture in respect of the transferred depreciable property (for example, where the fair market value of the property exceeds the transferor's proceeds of disposition of the property under subsection 85(1)) is not converted into a capital gain upon a disposition of the property by the transferee corporation.

Related Sections: S. 13(21), "undepreciated capital cost".
Regulations: 1100(1).
Interpretation Bulletins: *Secondary* — IT-291R3 Transfer of property to a corporation under subsection 85(1).
Tax Profile: June 2001 — Double Tax Issues on Section 85 Rollovers.
Tax Window Files: Interaction of Sections 13(7)(*e*), 110.6(19) and 85, March 3, 1999, CRA Document No. 9727195; Capital Cost — Capital Gain, November 10, 1993, CRA Document No. 9319915.

► 85(5.1) ◄

(5.1) Acquisition of certain tools — capital cost and deemed depreciation. If subsection (1) has applied in respect of the acquisition at any particular time of any depreciable property by a corporation from an individual, the cost of the property to the individual was included in computing an amount under paragraph 8(1)(*r*) or (*s*) in respect of the individual, and the amount that would be the cost of the property to the individual immediately before the transfer if this Act were read without reference to subsection 8(7) (which amount is in this subsection referred to as the "individual's original cost") exceeds the individual's proceeds of disposition of the property,

(*a*) the capital cost to the corporation of the property is deemed to be equal to the individual's original cost; and

(*b*) the amount by which the individual's original cost exceeds the individual's proceeds of disposition in respect of the property is deemed to have been deducted by the corporation under paragraph 20(1)(*a*) in respect of the property in computing income for taxation years that ended before that particular time.

History: S. 85(5.1), the portion before paragraph (*a*) was replaced by S.C. 2007, c. 2, s. 13(1), applicable to the 2006 and subsequent taxation years.

S. 85(5.1), the portion before paragraph (*a*) formerly read:

"(5.1) *Acquisition of apprentice tools, re capital cost and deemed depreciation.* If subsection (1) has applied in respect of the acquisition at any particular time of any depreciable property by a corporation from an individual, the cost of the property to the individual was included in computing an amount under paragraph 8(1)(*r*) in respect of the individual, and the amount that would be the cost of the property to the individual immediately before the transfer if this Act were read without reference to subsection 8(7) (which amount is in this subsection referred to as the 'individual's original cost') exceeds the individual's proceeds of disposition of the property,"

S. 85(5.1) was added by S.C. 2002, c. 9, s. 29(1), applicable to dispositions that occur after 2001.

S. 85(5.1) was repealed by S.C. 1998, c. 19, s. 116(5), applicable to dispositions of property that occur after April 26, 1995, subject to section 247 of this Bill, (see Application below). It formerly read:

"(5.1) *Idem.* Where a person or a partnership (in this subsection referred to as the 'taxpayer') has disposed of any depreciable property of a prescribed class of the taxpayer to a transferee that was

(*a*) a corporation that, immediately after the disposition, was controlled, directly or indirectly in any manner whatever, by the taxpayer, by the spouse of the taxpayer or by a person, group of persons or partnership by whom or which the taxpayer was controlled, directly or indirectly in any manner whatever,

(*b*) a person, spouse of a person, member of a group of persons or partnership who or that immediately after the disposition controlled the taxpayer, directly or indirectly in any manner whatever, or

(*c*) a partnership and, immediately after the disposition, the taxpayer's interest in the partnership as a member thereof is as described in paragraph 97(3.1)(*a*) or (*b*),

and the fair market value of the property at the time of the disposition is less than both the cost to the taxpayer of the property and the amount (in this subsection referred to as the 'proportionate amount') that is the proportion of the undepreciated capital cost to the taxpayer of all property of that class immediately before the disposition that the fair market value of the property at the time of the disposition is of the fair market value of all property of that class at the time of disposition, the following rules apply:

(*d*) subsections (1) and (2) and section 97 are not applicable with respect to the disposition,

(*e*) the lesser of the cost to the taxpayer of the property and the proportionate amount in respect of the property shall be deemed to be the taxpayer's proceeds of disposition and the transferee's cost of the property,

(*f*) where two or more depreciable properties of a prescribed class of the taxpayer are disposed of at the same time, paragraph (*e*) applies as if each property so disposed of had been separately disposed of in the order designated by the taxpayer or, if the taxpayer does not so designate any such order, in the order designated by the Minister, and

(*g*) the cost to the taxpayer of any particular property received by the taxpayer as consideration for the disposition shall be deemed to be an amount equal to the lesser of

(i) the fair market value of the particular property at the time of the disposition, and

(ii) that proportion of the fair market value, at the time of the disposition, of the property disposed of by the taxpayer that

(A) the amount determined under subparagraph (i)

is of

(B) the fair market value, at the time of the disposition, of all properties received by the taxpayer as consideration for the disposition."

Sec. 247, Chap. 19, 1998

247. [*Exception to coming-into-force.*]

(1) Subsections 73(4), 74(5), subsection 18(13) of the Act, as enacted by subsection 79(2) and subsections 89(1), (2) and (6), 94(1) and (2), 95(1), 116(3) to (5), 120(1) and 124(1) and (2) do not apply to the disposition of property by a person or partnership (in this subsection and subsection (2) referred to as the "transferor") that occurred before 1996

(*a*) to a person who was obliged on April 26, 1995 to acquire the property pursuant to the terms of an agreement in writing made on or before that day; or

(*b*) in a transaction, or as part of a series of transactions, the arrangements for which, evidenced in writing, were substantially advanced before April 27, 1995, other than a transaction or series a main purpose of which can reasonably be considered to have been to enable an unrelated person to obtain the benefit of

(i) any deduction in computing income, taxable income, taxable income earned in Canada or tax payable under the Act, or

(ii) any balance of undeducted outlays, expenses or other amounts.

(2) Election. Notwithstanding subsection (1), subsection 18(13) of the Act, as enacted by subsection 79(2), and the other subsections of this Act referred to in subsection (1) apply to a disposition in respect of which the transferor has filed with the Minister of National Revenue before the end of the third month after the month in which this Act is assented to [Royal Assent June 18, 1998] an election in writing to have those subsections apply.

(3) Interpretation. For the purpose of subsection (1),

(*a*) a person shall be considered not to be obliged to acquire property where the person can be excused from the obligation if there is a change to the Act or if there is an adverse assessment under the Act;

(*b*) an "unrelated person" means any person who was not, or a partnership any member of which was not, related (otherwise than because of paragraph 251(5)(*b*) of the Act) to the transferor at the time of the disposition; and

(*c*) a person is deemed to be related to a partnership of which that person is a majority interest partner.

Regulations: Part XI.
Interpretation Bulletins: *Secondary* — IT-291R3 Transfer of property to a corporation under subsection 85(1); IT-338R2 Partnership interests —

Effects on adjusted cost base resulting from the admission or retirement of a partner [Archived by the CRA].

► 85(6) ◄

(6) Time for election. Any election under subsection (1) or (2) shall be made on or before the day that is the earliest of the days on or before which any taxpayer making the election is required to file a return of income pursuant to section 150 for the taxation year in which the transaction to which the election relates occurred.

Editorial Note: Where subsection 85(2) applies, the election is made by the corporation and all of the members of the transferor partnership, so that the filing deadlines of all of the partners must be taken into account under subsection 85(6).

► 85(7) ◄

(7) Late filed election. Where the election referred to in subsection (6) was not made on or before the day on or before which the election was required by that subsection to be made and that day is after May 6, 1974, the election shall be deemed to have been made on that day if, on or before the day that is 3 years after that day,

(*a*) the election is made in prescribed form; and

(*b*) an estimate of the penalty in respect of that election is paid by the taxpayer or the partnership, as the case may be, when that election is made.

Information Circulars: IC 76-1R3 Transfer of property to a corporation under section 85.

► 85(7.1) ◄

(7.1) Special cases. Where, in the opinion of the Minister, the circumstances of a case are such that it would be just and equitable

(*a*) to permit an election under subsection (1) or (2) to be made after the day that is 3 years after the day on or before which the election was required by subsection (6) to be made, or

(*b*) to permit an election made under subsection (1) or (2) to be amended,

the election or amended election shall be deemed to have been made on the day on or before which the election was so required to be made if

(*c*) the election or amended election is made in prescribed form, and

(*d*) an estimate of the penalty in respect of the election or amended election is paid by the taxpayer or partnership, as the case may be, when the election or amended election is made,

and where this subsection applies to the amendment of an election, that election shall be deemed not to have been effective.

Information Circulars: IC 76-19R3 Transfer of property to a corporation under section 85.
Tax Window Files: Price Adjustment Clauses, July 6, 2004, CRA Document No. 2004-0081631E5.

► 85(8) ◄

(8) Penalty for late filed election. For the purposes of this section, the penalty in respect of an election or an amended election referred to in paragraph (7)(*a*) or (7.1)(*c*) is an amount equal to the lesser of

(*a*) 1/4 of 1% of the amount, if any, by which

(i) the fair market value of the property in respect of which that election or amended election was made, at the time the property was disposed of,

exceeds

(ii) the amount agreed on in the election or amended election by the taxpayer or partnership, as the case may be, and the corporation,

for each month or part of a month during the period commencing with the day on or before which the election is required by subsection (6) to be made and ending on the day the election or amended election is made, and

(*b*) an amount, not exceeding $8,000, equal to the product obtained by multiplying $100 by the number of months each of which is a month all or part of which is during the period referred to in paragraph (*a*).

► 85(9) ◄

(9) Unpaid balance of penalty. The Minister shall, with all due dispatch, examine each election and amended election referred to in paragraph (7)(*a*) or (7.1)(*c*), assess the penalty payable and send a notice of assessment to the taxpayer or partnership, as the case may be, and the taxpayer or partnership, as the case may be, shall pay forthwith to the Receiver General the amount, if any, by which the penalty so assessed exceeds the total of all amounts previously paid on account of that penalty.

SECTION 85.1:

► 85.1(1) ◄

(1) Share for share exchange. Where shares of any particular class of the capital stock of a Canadian corporation (in this section referred to as the "purchaser") are issued to a taxpayer (in this section referred to as the "vendor") by the purchaser in exchange for a capital property of the vendor that is shares of any particular class of the capital stock (in this section referred to as the "exchanged shares") of another corporation that is a taxable Canadian corporation (in this section referred to as the "acquired corporation"), subject to subsection (2),

(*a*) except where the vendor has, in the vendor's return of income for the taxation year in which the exchange occurred, included in computing the vendor's income for that year any portion of the gain or loss, otherwise determined, from the disposition of the exchanged shares, the vendor shall be deemed

(i) to have disposed of the exchanged shares for proceeds of disposition equal to the adjusted cost base to the vendor of those shares immediately before the exchange, and

(ii) to have acquired the shares of the purchaser at a cost to the vendor equal to the adjusted cost base to the vendor of the exchanged shares immediately before the exchange,

and where the exchanged shares were taxable Canadian property of the vendor, the shares of the purchaser so acquired by the vendor shall be deemed to be taxable Canadian property of the vendor; and

(*b*) the cost to the purchaser of each exchanged share, at any time up to and including the time the purchaser disposed of the share, shall be deemed to be the lesser of

(i) its fair market value immediately before the exchange, and

(ii) its paid-up capital immediately before the exchange.

History: S. 85.1(1), the portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 36(1), applicable to exchanges of shares occurring after December 20, 1991. S. 85.1(1), the portion preceding paragraph (*a*), formerly read:

"(1) Where shares of any particular class of the capital stock of a Canadian corporation (in this section referred to as the 'purchaser') have, after May 6, 1974, been issued to a taxpayer (in this section referred to as the 'vendor') by the purchaser in exchange for capital property of the vendor that is shares of any particular class of the capital stock (in this section referred to as the 'exchanged shares') of another corporation (in this section referred to as the 'acquired corporation'), subject to subsection (2), the following rules apply:"

Editorial Note: The rollover under paragraph 85.1(1)(*a*) is automatic for the vendor unless the vendor chooses to include any portion of the gain or loss otherwise determined. The deemed cost rule for the purchaser under paragraph 85.1(1)(*b*) applies regardless of whether the vendor claims the rollover or chooses to include a gain or loss. The provisions do not apply if the parties make a joint election under section 85 (subsection 85.1(2)(*c*)). A section 85 rollover could provide the purchaser with a higher adjusted cost base of the exchanged share relative to a section 85.1 rollover if the vendor's adjusted cost base of the share exceeded its paid-up capital.

Related Sections: S. 40(3.5) Deemed identical property; s. 89(1), "Canadian corporation", "paid-up capital"; s. 112(7) Rules where shares exchanged; s. 248(1), "Canadian corporation", "corporation", "taxable Canadian property"; ITAR 26(26).

Interpretation Bulletins: *Primary* — IT-450R Share for Share Exchange. *Secondary* — IT-113R4 Benefits to employees — Stock options; IT-291R3 Transfer of property to a corporation under subsection 85(1).

Advance Tax Rulings: ATR-26 Share exchange.

Tax Topics: No. 1494, Economic Statement Proposes Relief for Foreign Spin-offs and Cross-Border Share-for-Share Exchanges.

Tax Profile: January 2008 — Tax Ramifications of Non-Resident Purchases of Canadian Businesses; June 2006 — Tax Ramifications of Non-Resident Purchases of Canadian Businesses.

Canadian Tax Foundation: Moch and Ebel, "Basics of Corporate Reorganizations: Sections 51, 85, 85.1, and 86", *2002 Prairie Provinces Tax Conference*, 10:1; Moch And Ebel, "Share Reorganizations and Corporate Takeover Transactions — Using Tax Rollover Provisions", *2000 Conference Report*, 8:1.

Canadian Petroleum Tax Journal: The Recent Take-Over Phenomenon, D. Alan Ross and Stanley R. Ebel, Vol. 14 No. 1 2001; A Comparative Study of Canadian and US Rules Regarding the Taxation of Corporate Reorganizations, Firoz Talakshi and Christy Palmer, Vol. 13 No. 1 2000.

Tax Window Files: Application of Section 116 Where Rollover Applies, October 11, 2002, CRA Document No. 2002-0156945; Non-share Consideration, October 11, 2002, CRA Document No. 2002-0156865.

► 85.1(2) ◄

(2) Where s. (1) does not apply. Subsection (1) does not apply where

(*a*) the vendor and purchaser were, immediately before the exchange, not dealing with each other at arm's length (otherwise than because of a right referred to in paragraph 251(5)(*b*) that is a right of the purchaser to acquire the exchanged shares);

(*b*) the vendor or persons with whom the vendor did not deal at arm's length, or the vendor together with persons with whom the vendor did not deal at arm's length,

(i) controlled the purchaser, or

(ii) beneficially owned shares of the capital stock of the purchaser having a fair market value of more than 50% of the fair market value of all of the outstanding shares of the capital stock of the purchaser,

immediately after the exchange;

(*c*) the vendor and the purchaser have filed an election under subsection 85(1) or (2) with respect to the exchanged shares;

(*d*) consideration other than shares of the particular class of the capital stock of the purchaser was received by the vendor for the exchanged shares, notwithstanding that the vendor may have disposed of shares of the capital stock of the acquired corporation (other than the exchanged shares) to the purchaser for consideration other than shares of one class of the capital stock of the purchaser; or

(*e*) the vendor

(i) is a foreign affiliate of a taxpayer resident in Canada at the end of the taxation year of the vendor in which the exchange occurred, and

(ii) has included any portion of the gain or loss, otherwise determined, from the disposition of the exchanged shares in computing its foreign accrual property income for the taxation year of the vendor in which the exchange occurred.

History: S. 85.1(2)(*e*) was added by S.C. 2001, c. 17, s. 63(1), applicable to exchanges that occur after 1995.

S. 85.1(2)(*a*) was amended by S.C. 1994, c. 21, s. 37(1), applicable with respect to exchanges occurring after December 21, 1992. S. 85.1(2)(*a*) formerly read:

"(*a*) the vendor and purchaser were, immediately before the exchange, not dealing with each other at arm's length;"

Editorial Note: If the vendor does not deal at arm's length with the purchaser, the subsection 85.1(1) rollover does not apply (paragraph 85.1(2)(*a*)), although the parties could elect to use the section 85 rollover, in which case the rules of section 84.1 could also apply. Section 85 is also available if the parties deal at arm's length.

The requirement that no consideration other than shares of the purchaser be received by the vendor for the exchanged shares (paragraph 85.1(2)(*d*)) could be problematic where the vendor receives cash in lieu of a fractional share, or where the vendor receives shares and non-share consideration for the exchanged shares. However, in paragraphs 6 and 7 of IT-450R, the CRA indicates that section 85.1 can be utilized in these situations to provide at least a partial rollover. Alternatively, if the section 85 election is used, the vendor can claim a full rollover as long as the value of the non-share consideration does not exceed the vendor's adjusted cost base of the exchanged shares. However, the purchaser's cost of the exchanged shares under section 85 (the elected amount) would likely differ from that determined under section 85.1 (lesser of fair market value and paid-up capital immediately before the exchange; see paragraph 85.1(1)(*b*)).

Related Sections: S. 95(1), "foreign affiliate"; s. 251 Arm's length

Tax Window Files: Non-share Consideration, October 11, 2002, CRA Document No. 2002-0156865.

► 85.1(2.1) ◄

(2.1) Computation of paid-up capital. Where, at any time, a purchaser has issued shares of its capital stock as a result of an exchange to which subsection (1) applied, in computing the paid-up capital in respect of any particular class of shares of its capital stock at any particular time after that time

(*a*) there shall be deducted that proportion of the amount, if any, by which

(i) the increase, if any, as a result of the issue, in the paid-up capital in respect of all the shares of the capital stock of the purchaser, computed without reference to this subsection as it applies to the issue,

exceeds

(ii) the paid-up capital in respect of all the exchanged shares received as a result of the exchange

that

(iii) the increase, if any, as a result of the issue, in the paid-up capital in respect of the particular class of shares, computed without reference to this subsection as it applies to the issue,

is of

(iv) the amount, if any, determined in subparagraph (i) in respect of the issue; and

(*b*) there shall be added an amount equal to the lesser of

(i) the amount, if any, by which

(A) the total of all amounts each of which is an amount deemed by subsection 84(3), (4) or (4.1) to be a dividend on shares of that class paid by the purchaser before the particular time

exceeds

(B) the total that would be determined under clause (A) if this Act were read without reference to paragraph (*a*), and

(ii) the total of all amounts required by paragraph (*a*) to be deducted in respect of that particular class of shares before the particular time.

Editorial Note: The paid-up capital grind in paragraph 85.1(2.1) effectively means that the increase in the paid-up capital as a result of the issuance of the shares by the purchaser corporation is limited to the paid-up capital in respect of the exchanged shares.

Related Sections: S. 89(1), "paid-up capital".

Information Circulars: IC 88-2 General anti-avoidance rule — Section 245 of the Income Tax Act (para. 25).

► 85.1(3) ◄

(3) Disposition of shares of foreign affiliate. Where a taxpayer has disposed of capital property that was shares of the capital stock of a foreign affiliate of the taxpayer to any corporation that was, immediately following the disposition, a foreign affiliate of the taxpayer (in this subsection referred to as the "acquiring affiliate") for consideration including shares of the capital stock of the acquiring affiliate,

(*a*) the cost to the taxpayer of any property (other than shares of the capital stock of the acquiring affiliate) receivable by the taxpayer as consideration for the disposition shall be deemed to be the fair market value of the property at the time of the disposition;

(*b*) the cost to the taxpayer of any shares of any class of the capital stock of the acquiring affiliate receivable by the taxpayer as consideration for the disposition shall be deemed to be that proportion of the amount, if any, by which the total of the adjusted cost bases to the taxpayer, immediately before the disposition, of the shares disposed of exceeds the fair market value at that time of the consideration receivable for the disposition (other than shares of the capital stock of the acquiring affiliate) that

(i) the fair market value, immediately after the disposition, of those shares of the acquiring affiliate of that class

is of

(ii) the fair market value, immediately after the disposition, of all shares of the capital stock of the acquiring affiliate receivable by the taxpayer as consideration for the disposition;

(*c*) the taxpayer's proceeds of disposition of the shares shall be deemed to be an amount equal to the cost to the taxpayer of all shares and other property receivable by the taxpayer from the acquiring affiliate as consideration for the disposition; and

(*d*) the cost to the acquiring affiliate of the shares acquired from the taxpayer shall be deemed to be an amount equal to the taxpayer's proceeds of disposition referred to in paragraph (*c*).

Editorial Note: The CRA has indicated that subsection 85.1(3) can apply where a foreign affiliate of a taxpayer issues shares to the taxpayer in consideration for the acquisition of its own shares (that is, the foreign affiliate is also the "acquiring affiliate"); see CRA Document no. 9M19020, question 3.6.

Related Sections: S. 53(1)(*c*) Adjustments to cost base — Contributions of capital; s. 95(1), "foreign affiliate".

Tax Profile: July 2008 — International Tax Planning for the Owner-Manager.

Canadian Petroleum Tax Journal: A Comparative Study of Canadian and US Rules Regarding the Taxation of Corporate Reorganizations, Firoz Talakshi and Christy Palmer, Vol. 13 No. 1 2000.

► 85.1(4) ◄

(4) Exception. Subsection (3) is not applicable in respect of a disposition at any time by a taxpayer of a share of the capital stock of a foreign affiliate, all or substantially all of the property of which at that time was excluded property (within the meaning assigned by subsection 95(1)), to another foreign affiliate of the taxpayer where the disposition is part of a series of transactions or events for the purpose of disposing of the share to a person who, immediately after the series of transactions or events, was a person (other than a foreign affiliate of the taxpayer) with whom the taxpayer was dealing at arm's length.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 85.1(4) of the Act is replaced by the following:

(4) Exception. Subsection (3) does not apply in respect of a disposition at any time by a taxpayer of property that is

(*a*) a share of the capital stock of a foreign affiliate, all or substantially all of the property of which at that time was excluded property (within the meaning assigned by subsection 95(1)), to another foreign affiliate of the taxpayer where the disposition is part of a series of transactions or events for the purpose of disposing of the share to a person who, immediately after the series of transactions or events, was a person (other than a foreign affiliate of the taxpayer) with whom the taxpayer was dealing at arm's length; or

(*b*) a specified participating interest.

Applicable: To dispositions and exchanges that occur in taxation years that begin after 2006, except that those subsections also apply to dispositions or exchanges in respect of a taxpayer that occur in a taxation year of the taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the taxpayer.

Explanatory Note: Subsection 85.1(3) of the Act permits a taxpayer to transfer, on a tax-deferred "rollover" basis, the shares of a foreign affiliate of the taxpayer to another foreign affiliate of the taxpayer. Subsection 85.1(5) provides a similar rollover for shareholders who exchange shares of a foreign corporation for shares of another corporation. Subsections 85.1(4) and (6), respectively, identify circumstances in which subsection 85.1(3) or (5) will not apply.

Subsection 85.1(4) is amended to provide that subsection 85.1(3) does not apply to a disposition at any time by a taxpayer of a property that is a specified participating interest. Subsection 85.1(6) is similarly amended so that subsection 85.1(5) does not apply to an exchanged share that was, immediately before the exchange, a specified participating interest. The concept of a specified participating interest is generally relevant in the context of the foreign investment entity rules in sections 94.1 to 94.4. For more information on the definition "specified participating interest" in subsection 248(1), see the commentary on that definition.

These amendments apply to dispositions and exchanges that occur in taxation years that begin after 2006.

► 85.1(5) ◄

(5) Foreign share for foreign share exchange. Subject to subsections (3) and (6) and 95(2), where a corporation resident in a country other than Canada (in this section referred to as the "foreign purchaser") issues shares of its capital stock (in this section referred to as the "issued foreign shares") to a vendor in exchange for shares of the capital stock of another corporation resident in a country other than Canada (in this section referred to as the "exchanged foreign shares") that were immediately before the exchange capital property of the vendor, except where the vendor has, in the vendor's return of income for the taxation year in which the exchange occurred, included in computing the vendor's income for that year any portion of the gain or loss, otherwise determined, from the disposition of the exchanged foreign shares, the vendor is deemed

(*a*) to have disposed of the exchanged foreign shares for proceeds of disposition equal to the adjusted cost base to the vendor of those shares immediately before the exchange, and

(*b*) to have acquired the issued foreign shares at a cost to the vendor equal to the adjusted cost base to the vendor of the exchanged foreign shares immediately before the exchange,

and where the exchanged foreign shares were taxable Canadian property of the vendor, the issued foreign shares so acquired by the vendor are deemed to be taxable Canadian property of the vendor.

Department of Finance Comfort Letter [Shares Acquired in Foreign Share-for-Share Exchange]

December 16, 2005

Dear XXXX,

I am replying to your letters of July 14, 2005 and November 9, 2005, as well as your conversations with Davine Roach and Kerry Harnish of the Tax Legislation Division, concerning a corporate reorganization on July 20, 2005 of a widely-held foreign corporation the shares of which are listed on a prescribed stock exchange. During the reorganization, Canadian shareholders exchanged their shares of one of the foreign corporations in the corporate group for shares of another foreign corporation in the same corporate group.

As a general matter, subsection 85.1(5) of the *Income Tax Act* is meant to provide a rollover in respect of foreign share-for-share exchanges described in that subsection. Your enquiry relates to the requirement in subsection 85.1(5) that the foreign purchaser corporation "issue" its shares to the vendor shareholder in exchange for shares of the capital stock of another foreign corporation. Your concern, and that of the Canada Revenue Agency, is that the shares of the foreign purchaser corporation were not issued to the Canadian shareholders although those shareholders did acquire the shares in consideration for the disposed of shares. You therefore request that subsection 85.1(5) be clarified to accommodate the particular foreign share-for-share exchange.

Based on the information provided to us, we are prepared to recommend that subsection 85.1(5) be amended to replace the issuance requirement with a requirement that the vendor shareholder acquire the shares of the foreign purchaser corporation (which shares become listed on a prescribed stock exchange) solely in exchange for shares of another foreign corporation (that are listed on a prescribed stock exchange). We would also recommend that any such amendment apply to such share-for-share exchanges made on or after July 1, 2005. While we cannot, as you know, offer an assurance that either the Minister or Parliament will agree with our recommendation, I hope that this statement of our position is helpful to you.

Thank you for bringing your concerns to our attention.

Yours sincerely,

Len Farber
General Director
Tax Legislation Division
Tax Policy Branch

History: S. 85.1(5) was added by S.C. 2001, c. 17, s. 63(2), applicable to exchanges that occur after 1995.

Editorial Note: Subsection 85.1(5) effectively extends the subsection (1) tax-deferred rollover treatment to shareholders involved in foreign corporate takeovers, and in particular, where a shareholder-vendor disposes of shares of one foreign corporation to another foreign corporation (purchaser) in exchange for shares issued by the purchaser.

Related Sections: S. 248(1), "taxable Canadian property".

Canadian Tax Foundation: Steeves, "Foreign Share Exchanges and Foreign Spinoffs", *2001 Canadian Tax Journal*, No. 4, 1066.

Tax Window Files: Foreign Merger or Share-For-Share Exchange, April 18, 2002, CRA Document No. 2000-0055125.

► 85.1(6) ◄

(6) Where subsection (5) does not apply. Subsection (5) does not apply where

(*a*) the vendor and foreign purchaser were, immediately before the exchange, not dealing with each other at arm's length (otherwise than because of a right referred to in paragraph 251(5)(*b*) that is a right of the foreign purchaser to acquire the exchanged foreign shares);

(*b*) immediately after the exchange the vendor, persons with whom the vendor did not deal at arm's length or the vendor together with persons with whom the vendor did not deal at arm's length,

(i) controlled the foreign purchaser, or

(ii) beneficially owned shares of the capital stock of the foreign purchaser having a fair market value of more than 50% of the fair market value of all of the outstanding shares of the capital stock of the foreign purchaser;

(*c*) consideration other than issued foreign shares was received by the vendor for the exchanged foreign shares, notwithstanding that the vendor may have disposed of shares of the capital stock of the other corporation referred to in subsection (5) (other than the exchanged foreign shares) to the foreign purchaser for consideration other than shares of the capital stock of the foreign purchaser;

(*d*) the vendor

(i) is a foreign affiliate of a taxpayer resident in Canada at the end of the taxation year of the vendor in which the exchange occurred, and

(ii) has included any portion of the gain or loss, otherwise determined, from the disposition of the exchanged foreign shares in computing its foreign accrual property income for the taxation year of the vendor in which the exchange occurred; or

(*e*) the vendor is a foreign affiliate of a taxpayer resident in Canada at the end of the taxation year of the vendor in which the exchange occurred and the exchanged foreign shares are excluded property (within the meaning assigned by subsection 95(1)) of the vendor.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was

dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 85.1(6) of the Act is amended by striking out the word "or" at the end of paragraph (*d*), by adding the word "or" at the end of paragraph (*e*) and by adding the following after paragraph (*e*):

(*f*) the exchanged foreign shares were, immediately before the exchange, specified participating interests.

Applicable: To dispositions and exchanges that occur in taxation years that begin after 2006, except that those subsections also apply to dispositions or exchanges in respect of a taxpayer that occur in a taxation year of the taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the taxpayer.

Explanatory Note: See the Explanatory Note following the amendment to subsection 85.1(4).

Federal Budget Extract
Cross-Border Share-For-Share Exchanges

[Reproduced below is an excerpt from the February 23, 2005 Federal Budget that sets out the government's intention to release proposals concerning cross-border share-for-share exchanges. There was no mention of this measure in the 2006, 2007, or 2008 Federal Budget.]

The 2000 Economic Statement and Budget Update and subsequent budgets indicated the Government's intention to develop rules that would provide an explicit rollover for cross-border share-for-share exchanges while ensuring that the Canadian tax base was protected. A discussion draft of proposed income tax amendments to implement this initiative will be released in the near future.

Federal Budget Extract
Cross-Border Share-For-Share Exchanges

[Reproduced below is an excerpt from the March 23, 2004 Federal Budget that sets out the government's intention to release proposals concerning cross-border share-for-share exchanges]

Under the *Income Tax Act*, certain share-for-share exchanges can be undertaken on a tax-deferred basis where the corporations involved are all resident in Canada or are all non-residents. These rules do not apply, however, to a Canadian resident shareholder who exchanges shares of a domestic corporation for shares of a foreign corporation. While there may be other indirect means of accomplishing such an exchange on a tax-deferred basis, the resulting transactions can be complex and costly.

In the *October 2000 Economic Statement and Budget Update*, the Government undertook to consult with interested parties on the merits and technical design of a tax deferral provision that would, if implemented, apply in respect of cross-border share-for-share exchanges. Budget 2003 reiterated this plan.

It is intended that a detailed proposal be released for public comment in the coming months.

Federal Budget Extract
Cross-Border Share-For-Share Exchanges

[Reproduced below is an excerpt from the February 18, 2003 Federal Budget that sets out that the government plans to release draft legislation concerning share-for-share exchanges.]

Under the *Income Tax Act*, certain share-for-share exchanges can be undertaken on a tax-deferred basis where the corporations involved are all resident in Canada or are all non-residents. These rules do not apply, however, to a Canadian resident shareholder who exchanges shares of a domestic corporation for shares of a foreign corporation. While there may be other indirect means of accomplishing such an exchange on a tax-deferred basis, the resulting transactions can be complex and costly.

In the *October 2000 Economic Statement and Budget Update*, the Government undertook to consult with interested parties on a tax deferral provision that specifically address tax-deferred cross-border share-for-share exchanges. At the same time, the Government noted that a basic requirement for such a mechanism is that it protect Canada's tax base.

A draft of legislative proposals, designed to balance these objectives, will be released in the near future for public review and comment.

Federal Budget Extract
Economic Statement Proposes Canadian/Foreign Share-for-Share Exchanges

[Reproduced below is an excerpt from the October 18, 2000 Federal Economic Statement supplementary information that sets out a proposal to develop a rollover rule for Canadian/foreign share-for-share exchanges.]

Under the *Income Tax Act*, certain share-for-share exchanges can be effected on a tax-deferred basis where the corporations involved are all resident in Canada or are all non-residents. These rules do not apply, however, to a Canadian resident shareholder who exchanges shares of a domestic corporation for shares of a foreign corporation (or vice versa).

It is intended that a share-for-share exchange rollover rule be developed in consultation with the private sector to apply to cross-border share-for-share exchanges where a Canadian resident shareholder receives only share consideration on the exchange. To ensure the preservation of the Canadian income tax base, rules must be developed to provide for, among other things, cost base adjustments, paid-up capital adjustments, the preservation of taxable Canadian property status, and adjustments for tax benefits that could potentially arise because of the conversion of capital gains into dividends (or vice versa). Any such rollover rule would not take effect before the release of draft legislation for public discussion.

History: S. 85.1(6) was added by S.C. 2001, c. 17, s. 63(2), applicable to exchanges that occur after 1995.

Editorial Note: The CRA has indicated that its administrative position in paragraph 7 of IT-450R, which applies for the purposes of subsections 85.1(1) and (2) where the vendor receives both shares and non-share consideration from the purchaser corporation for the exchanged shares (see the editorial note to subsection 85.1(2)), similarly applies for the purposes of subsections 85.1(5) and (6). See CRA Document No. 2000-0000765.

Related Sections: S. 95(1), "foreign accrual property income", "foreign affiliate"; s. 251(1) Arm's length.

Tax Window Files: Non-share Consideration, October 11, 2002, CRA Document No. 2002-0156865; Foreign Share for Share Exchange, June 2, 2000, CRA Document No. 2000-0000765 [CRA administrative position regarding non-share consideration received by vendor].

► 85.1(7) ◄

(7) Application of subsection (8). Subsection (8) applies in respect of the disposition before 2013 by a taxpayer of SIFT wind-up entity equity (referred to [in] subsection (8) as the "particular unit") to a taxable Canadian corporation if

(*a*) the disposition occurs during a period (referred to in this subsection and subsection (8) as the "exchange period") of no more than 60 days at the end of which all of the equity in the SIFT wind-up entity is owned by the corporation;

(*b*) the taxpayer receives no consideration for the disposition other than a share (referred to in this subsection and subsection (8) as the "exchange share") of the capital stock of the corporation that is issued during the exchange period to the taxpayer by the corporation;

(*c*) neither of subsections 85(1) and (2) applies to the disposition; and

(*d*) all of the exchange shares issued to holders of equity in the SIFT wind-up entity are shares of a single class of the capital stock of the corporation.

History: S. 85.1(7) was added by S.C. 2009, c. 2, s. 18(1), applicable to
(*a*) dispositions that occur on or after July 14, 2008; and
(*b*) a disposition, by a taxpayer to a corporation, that occurs on or after December 20, 2007 and before July 14, 2008, if the corporation (jointly

with the taxpayer, if the taxpayer and the corporation have validly elected that subsection 85(1) or (2) apply to the disposition) elects in writing, filed with the Minister of National Revenue on or before the corporation's filing-due date for its taxation year that includes the day on which this Act is assented to [R.A. March 12, 2009], that subsections 85.1(7) and (8) apply to the disposition.

► 85.1(8) ◄

(8) Rollover on SIFT unit for share exchange. If this subsection applies in respect of a disposition by a taxpayer of a particular unit of a SIFT wind-up entity to a corporation for consideration that is an exchange share, the following rules apply:

(*a*) the taxpayer's proceeds of disposition of the particular unit, and cost of the exchange share, are deemed to be equal to the cost amount to the taxpayer of the particular unit immediately before the disposition;

(*b*) if the particular unit was immediately before the disposition taxable Canadian property of the taxpayer, the exchange share is deemed to be taxable Canadian property of the taxpayer;

(*c*) if the exchange share's fair market value immediately after the disposition exceeds the particular unit's fair market value at the time of the disposition, the excess is deemed to be an amount that section 15 requires to be included in computing the taxpayer's income for the taxpayer's taxation year in which the disposition occurs;

(*d*) if the particular unit's fair market value at the time of the disposition exceeds the exchange share's fair market value immediately after the disposition, and it is reasonable to regard any part of the excess as a benefit that the taxpayer desired to have conferred on a person, or partnership, with whom the taxpayer does not deal at arm's length, the excess is deemed to be an amount that section 15 requires to be included in computing the taxpayer's income for the taxpayer's taxation year in which the disposition occurs;

(*e*) the cost to the corporation of the particular unit is deemed to be the lesser of

(i) the fair market value of the particular unit immediately before the disposition, and

(ii) the amount determined for B in the formula in paragraph (*f*) in respect of the particular unit; and

(*f*) in computing the paid up capital in respect of each class of shares of the capital stock of the corporation at any time after the disposition there shall be deducted the amount determined by the formula

$$(A - B) \times C/A$$

where

A is the increase, if any, as a result of the disposition, in the paid-up capital in respect of all the shares of the capital stock of the corporation, computed without reference to this paragraph as it applies to the disposition,

B is the amount determined by the formula

$$D - E$$

where

D is

(i) unless subparagraph (ii) applies, the total of all amounts each of which is

(A) if the SIFT wind-up entity is a trust, the fair market value of property received by the SIFT wind-up entity on the issuance of the particular unit, or

(B) if the SIFT wind-up entity is a partnership,

(I) an amount that has at any time been added, in computing the adjusted cost base to any taxpayer of the particular unit on or before the disposition, because of subparagraph 53(1)(*e*)(iv) or (x), or

(II) an amount that would at any time have been added, in computing the adjusted cost base to any taxpayer of the particular unit on or before the disposition, because of subparagraph 53(1)(*e*)(i) if subsection 96(1) were read without reference to its paragraph (*d*) and the partnership deducted all amounts otherwise deductible because of that paragraph, and

(ii) if the SIFT wind-up entity has on or after the end of the exchange period issued a unit, nil, and

E is the total of all amounts each of which

(i) if the SIFT wind-up entity is a trust, has become payable by the SIFT wind-up entity, in respect of the particular unit, to any holder of the unit on or before the disposition, other than an amount that has become payable out of its income (determined without reference to subsection 104(6)) or capital gains, and

(ii) if the SIFT wind-up entity is a partnership,

(A) has at any time been deducted, in computing the adjusted cost base to any taxpayer of the particular unit on or before the disposition, because of subparagraph 53(2)(*c*)(iv) or (v), or

(B) would have at any time been deducted, in computing the adjusted cost base to any taxpayer of the particular unit on or before the disposition, because of subparagraph 53(2)(*c*)(i) if subsection 96(1) were read without reference to its paragraph (*d*) and the partnership deducted all amounts otherwise deductible because of that paragraph, and

C is the increase, if any, as a result of the disposition, in the paid-up capital in respect of the class of shares, computed without reference to this paragraph as it applies to the disposition.

History: S. 85.1(8) was added by S.C. 2009, c. 2, s. 18(1), applicable to

(*a*) dispositions that occur on or after July 14, 2008; and

(*b*) a disposition, by a taxpayer to a corporation, that occurs on or after December 20, 2007 and before July 14, 2008, if the corporation (jointly with the taxpayer, if the taxpayer and the corporation have validly elected that subsection 85(1) or (2) apply to the disposition) elects in writing, filed with the Minister of National Revenue on or before the corporation's filing-due date for its taxation year that includes the day on which this Act is assented to [R.A. March 12, 2009], that subsections 85.1(7) and (8) apply to the disposition.

SECTION 86:

► 86(1) ◄

(1) Exchange of shares by a shareholder in course of reorganization of capital. Where, at a particular time after May 6, 1974, in the course of a reorganization of the capital of a corporation, a taxpayer has disposed of capital property that was all the shares of any particular class of the capital stock of the corporation that were owned by the taxpayer at the particular time (in this section referred to as the "old shares"), and property is receivable from the corporation therefor that includes other shares of the capital stock of the corporation (in this section referred to as the "new shares"), the following rules apply:

(*a*) the cost to the taxpayer of any property (other than new shares) receivable by the taxpayer for the old shares shall be deemed to be its fair market value at the time of the disposition;

(*b*) the cost to the taxpayer of any new shares of any class of the capital stock of the corporation receivable by the taxpayer for the old shares shall be deemed to be that proportion of the amount, if any, by which the total of the adjusted cost bases to the taxpayer, immediately before the disposition, of the old shares exceeds the fair market value at that time of the consideration receivable for the old shares (other than new shares) that

(i) the fair market value, immediately after the disposition, of those new shares of that class,

is of

(ii) the fair market value, immediately after the disposition, of all new shares of the capital stock of the corporation receivable by the taxpayer for the old shares; and

(*c*) the taxpayer shall be deemed to have disposed of the old shares for proceeds of disposition equal to the cost to the taxpayer of all new shares and other property receivable by the taxpayer for the old shares.

Editorial Note: Subsection 86(1) allows a rollover where a taxpayer's shares in a corporation (old shares) are exchanged for other shares in the corporation (new shares) in the course of a reorganization of its capital. Note the requirement that all of the old shares of the class owned by the taxpayer must be exchanged. The taxpayer may receive non-share consideration as well as the new shares on the exchange. However, there will not be a complete rollover under subsection 86(1) if the value of the non-share consideration exceeds the adjusted cost base of the old shares. If the value of the non-share consideration exceeds the paid-up capital of the old shares, the excess will be a deemed dividend (subsection 84(3)), which will be excluded from the proceeds of disposition of the old shares (section 54, paragraph (*j*) of "proceeds of disposition").

If the value of the new shares plus any non-share consideration is less than the value of the old shares, and it is reasonable to consider the difference as being a gift to a person related to the taxpayer, subsection 86(2) may apply to limit the rollover and reduce the cost of the new shares. If the value of the non-share consideration and the new shares exceeds the value of the old shares, there may be a shareholder benefit under subsection 15(1).

Subsection 86(1) does not apply where the rollover in subsection 85(1) or (2) applies (subsection 86(3)), but it does take precedence over the rollover provisions of section 51 (subsection 51(4)).

Related Sections: S. 15(1) Benefit conferred on shareholder; s. 51(4) Application; s. 54, "proceeds of disposition"; s. 55(1), "permitted exchange"; s. 84(3) Redemption, etc; s. 84(4.1) Deemed dividend on reduction of paid-up capital; s. 84(5) Amount distributed or paid where a share.

Advance Tax Rulings: ATR-22R Estate freeze using share exchange; ATR-33 Exchange of shares.

Tax Profile: January 2008 — Tax Ramifications of Non-Resident Purchases of Canadian Businesses; October 2007 — Will Canadian Unlimited Liability Companies Survive?; July 2006 — Asset Protection Planning; July 2005 — Alberta Introduces Alberta Unlimited Liability Corporations; December 2000 — Preferred Share Design: Tax Free Reorganizations and Benefit Conferrals; June 2000 — Exchangeable Shares.

Canadian Tax Foundation: Tabuchi, ""Share Capital Reorganizations for Private Corporations", in Personal Tax Planning feature", *2003 Canadian Tax Journal*, No. 3, 1340; Moch and Ebel, "Basics of Corporate Reorganizations: Sections 51, 85, 85.1, and 86", *2002 Prairie Provinces Tax Conference*, 10:1; Moch And Ebel, "Share Reorganizations and Corporate Takeover Transactions - Using Tax Rollover Provisions", *2000 Conference Report*, 8:1; Ahmed, "Corporate Distributions Other Than Butterfly Transactions", *1998 Conference Report*, 15:1.

Canadian Petroleum Tax Journal: The Recent Take-Over Phenomenon, D. Alan Ross and Stanley R. Ebel, Vol. 14 No. 1 2001; A Comparative Study of Canadian and US Rules Regarding the Taxation of Corporate Reorganizations, Firoz Talakshi and Christy Palmer, Vol. 13 No. 1 2000.

Tax Window Files: Return of Capital by Foreign Affiliate, February 22, 2001, CRA Document No. 2000-0048075 [Section 86 applicable to share exchange involving foreign corporation, where returns of capital can only be affected by distributions of share premium or contributed surplus]; Benefit to Shareholder on Exchange of Shares, November 6, 1997, CRA Document No. 9728755 [Subsection 15(1) would apply where a shareholder exchanges shares in a corporation pursuant to subsection 86(1) for other shares in the corporation with greater fair market value]; Disposition, June 29, 1995, CRA Document No. 9406425 [Conversion of common shares into preferred shares and common shares not eligible for section 86 rollover]; Deemed Dividend — Reorganization of Capital, May 28, 1991, CRA Document No. MA91_085.

► 86(2) ◄

(2) Idem. Notwithstanding paragraphs (1)(*b*) and (*c*), where a taxpayer has disposed of old shares in circumstances described in subsection (1) and the fair market value of the old shares immediately before the disposition exceeds the total of

(*a*) the cost to the taxpayer of the property (other than new shares) receivable by the taxpayer for the old shares as determined under paragraph (1)(*a*), and

(*b*) the fair market value of the new shares, immediately after the disposition,

and it is reasonable to regard any portion of the excess (in this subsection referred to as the "gift portion") as a benefit that the taxpayer desired to have conferred on a person related to the taxpayer, the following rules apply:

(*c*) the taxpayer shall be deemed to have disposed of the old shares for proceeds of disposition equal to the lesser of

(i) the total of the cost to the taxpayer of the property as determined under paragraph (1)(*a*) and the gift portion

and

(ii) the fair market value of the old shares immediately before the disposition,

(*d*) the taxpayer's capital loss from the disposition of the old shares shall be deemed to be nil, and

(*e*) the cost to the taxpayer of any new shares of any class of the capital stock of the corporation receivable by the taxpayer for the old shares shall be deemed to be that proportion of the amount, if any, by which the total of the adjusted cost bases to the taxpayer, immediately before the disposition, of the old shares exceeds the total determined under subparagraph (*c*)(i) that

(i) the fair market value, immediately after the disposition, of the new shares of that class,

is of

(ii) the fair market value, immediately after the disposition, of all new shares of the capital stock of the corporation receivable by the taxpayer for the old shares.

Tax Window Files: Estate Freeze Trust, October 6, 2000, CRA Document No. 2000-0037905; Share for share exchange (wholly-owned), March 17, 1998, CRA Document No. 9727543; Benefit, March 24, 1993, CRA Document No. 9237915 [Redemption amount of new preferred shares less than redemption amount of old preferred shares].

► 86(2.1) ◄

(2.1) Computation of paid-up capital. Where subsection (1) applies to a disposition of shares of the capital stock of a corporation (in this subsection referred to as the "exchange"), in computing the paid-up capital in respect of a particular class of shares of the capital stock of the corporation at any particular time that is the time of, or any time after, the exchange,

(*a*) there shall be deducted the amount determined by the formula

$$(A - B) \times \frac{C}{A}$$

where

A is the total of all amounts each of which is the increase, if any, as a result of the exchange, in the paid-up capital in respect of a class of shares of the capital stock of the corporation, computed without reference to this subsection as it applies to the exchange,

B is the amount, if any, by which the paid-up capital in respect of the old shares exceeds the fair market value of the consideration (other than shares of the capital stock of the corporation) given by the corporation for the old shares on the exchange, and

C is the increase, if any, as a result of the exchange, in the paid-up capital in respect of the particular class of shares, computed without reference to this subsection as it applies to the exchange; and

(*b*) there shall be added an amount equal to the lesser of

(i) the amount, if any, by which

(A) the total of all amounts deemed by subsection 84(3), (4) or (4.1) to be a dividend on shares of that class paid by the corporation before the particular time

exceeds

(B) the total that would be determined under clause (A) if this Act were read without reference to paragraph (*a*), and

(ii) the total of all amounts required by paragraph (*a*) to be deducted in respect of that particular class of shares before the particular time.

History: S. 86(2.1) was added by S.C. 1994, c. 21, s. 38(1), applicable with respect to exchanges occurring after August 1992, other than an exchange occurring after August 1992 and before December 21, 1992 where the corporation issuing shares on the exchange so elects in writing and files the election with the Minister of National Revenue before the end of the sixth month after June 1994.

Editorial Note: See the editorial note under subsection 86(1) regarding the rollover where old shares in the capital of a corporation are exchanged for new shares in the capital of the corporation. The paid-up capital grind under paragraph 86(2.1)(*a*) ensures that the increase in the paid-up capital as a result of the issuance of the new shares will not exceed the amount, if any, by which the paid-up capital in respect of the old shares exceeds the value of any non-share consideration received on the exchange. However, the CRA has indicated that the provision does not prevent the "shifting" of paid-up capital — for example, where the aggregate paid-up capital of the old shares is effectively allocated amongst different classes of the new shares; see CRA document no. 9613115.

If subsection 85(1) applies to the exchange instead of subsection 86(1), the paid-up capital adjustment under subsection 85(2.1) will apply instead of subsection 86(2.1).

Tax Window Files: PUC shift on section 86 share exchange, May 8, 1996, CRA Document No. 9613115.

► 86(3) ◄

(3) Application. Subsections (1) and (2) do not apply in any case where subsection 85(1) or (2) applies.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 86(3) of the Act is replaced by the following:

(3) Application. Subsections (1) and (2) do not apply

(*a*) to any disposition to which subsection 85(1) or (2) applies; and

(*b*) to any disposition of property that was, immediately before the disposition, a specified participating interest.

Applicable: To dispositions that occur in taxation years that begin after 2006, except that that subsection also applies in respect of a taxpayer to dispositions that occur in a taxation year of the taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the taxpayer.

Explanatory Note: Subsection 86(1) applies where a corporation reorganizes its capital structure by issuing shares to a taxpayer as full or partial consideration for the surrender of all of the taxpayer's shares of the capital stock of the corporation. Where this is the case, the cost of the new shares is determined with reference to the adjusted cost base of the surrendered shares. Subsection 86(3) provides that subsection 86(1) does not apply in any case where subsection 85(1) or (2) applies.

Subsection 86(3) is amended to provide that subsection 86(1) also does not apply to any disposition of property that was, immediately before the disposition, a specified participating interest. The concept of a specified participating interest is generally relevant in the context of the foreign investment entity rules in sections 94.1 to 94.4. For more information on the definition "specified participating interest" in subsection 248(1), see the commentary on that definition.

This amendment applies to dispositions that occur in taxation years that begin after 2006.

History: S. 86(3) was amended by S.C. 1994, c. 21, s. 38(2), applicable with respect to reorganizations that begin after December 21, 1992. S. 86(3) formerly read:

"(3) *Where ss. (1) and (2) do not apply.* Subsections (1) and (2) are not applicable in any case where section 51 or any of subsections 85(1) to (3) is applicable."

► 86(4) ◄

(4) Computation of adjusted cost base. Where a taxpayer has disposed of old shares in circumstances described in subsection (1),

(*a*) there shall be deducted after the disposition in computing the adjusted cost base to the taxpayer of each new share the amount determined by the formula

$$A \times \frac{B}{C}$$

where

A is the amount, if any, by which

(i) the total of all amounts deducted under paragraph 53(2)(g.1) in computing the adjusted cost base to the taxpayer of the old shares immediately before the disposition

exceeds

(ii) the amount that would be the taxpayer's capital gain for the taxation year that includes the time of the disposition from the disposition of the old shares if paragraph 40(1)(*a*) were read without reference to subparagraph (iii) of that paragraph,

B is the fair market value of the new share at the time it was acquired by the taxpayer in consideration for the disposition of the old shares, and

C is the total of all amounts each of which is the fair market value of a new share at the time it was acquired by the taxpayer in consideration for the disposition of the old shares; and

(*b*) the amount determined under paragraph (*a*) in respect of the acquisition shall be added in computing the adjusted cost base to the taxpayer of the new share after the disposition.

History: S. 86(4) was added by S.C. 1995, c. 21, s. 29(1), applicable to taxation years that end after February 21, 1994.

Related Sections: S. 53(1)(*q*) Adjustments to cost base — Debt forgiveness.

SECTION 86.1: Foreign Spin-offs.

► 86.1(1) ◄

(1) Eligible distribution not included in income. Notwithstanding any other provision of this Part,

(*a*) the amount of an eligible distribution received by a taxpayer shall not be included in computing the income of the taxpayer; and

(*b*) subsection 52(2) does not apply to the eligible distribution received by the taxpayer.

History: S. 86.1(1) was added by S.C. 2001, c. 17, s. 64(1), applicable to distributions received after 1997.

Editorial Note: In general terms, section 86.1 allows a tax-deferred rollover where a non-resident corporation distributes its shares ("spin-off shares") in another corporation (typically a subsidiary) to its own shareholders. The rollover applies to a Canadian resident shareholder who receives the spin-off shares under an "eligible distribution" (subsection 86.1(2)). Among other things, the class of the "original shares" (the shares in the distributing non-resident corporation owned by the shareholder) must be widely held and actively traded on a designated stock exchange (but see the proposed amendment under subsection 86.1(2) regarding shares registered under the U.S. *Securities Exchange Act*), and a rollover must be available in the country in which the corporation is resident. The rollover is elective at the shareholder's option, unless the taxpayer is a deferred income plan subject to Part XI.

Income Tax Technical News: Issue No. 28, Section 86.1 — Foreign Spin-Offs with "Poison Pill" Shareholder Rights Plans.
Tax Topics: No. 1584, Foreign Spin-offs; No. 1572, Q&A Re Foreign Spin-offs; No. 1516, Foreign Spin-offs.
Canadian Tax Foundation: Fontaine and Kong, "The March 16, 2001 Draft Legislation: Thin Capitalization, Non-Resident-Owned Investment Corporations, and Foreign Spinoff Relief", *2001 Canadian Tax Journal*, No. 2, 383; Steeves, "Foreign Share Exchanges and Foreign Spinoffs", *2001 Canadian Tax Journal*, No. 4, 1066.
Tax Window Files: Distribution Ineligible for Benefits of Section 86.1, November 21, 2003, CRA Document No. 2003-0023925.

► 86.1(2) ◄

(2) Eligible distribution. For the purpose of this section, a distribution by a particular corporation that is received by a taxpayer is an eligible distribution if

(*a*) the distribution is with respect to all of the taxpayer's common shares of the capital stock of the particular corporation (in this section referred to as the "original shares");

(*b*) the distribution consists solely of common shares of the capital stock of another corporation that were owned by the particular corporation immediately before their distribution to the taxpayer (in this section referred to as the "spin-off shares");

(*c*) in the case of a distribution that is not prescribed,

(i) at the time of the distribution, both corporations are resident in the United States and were never resident in Canada,

(ii) at the time of the distribution, the shares of the class that includes the original shares are widely held and actively traded on a designated stock exchange in the United States, and

(iii) under the *United States Internal Revenue Code* applicable to the distribution, the shareholders of the particular corporation who are resident in the United States are not taxable in respect of the distribution;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraphs 86.1(2)(*c*)(ii) and (iii) of the Act are replaced by the following:

(ii) at the time of the distribution, the shares of the class that includes the original shares are widely held and

(A) are actively traded on a prescribed stock exchange in the United States, or

(B) are required, under the *Securities Exchange Act of 1934* of the United States, as amended from time to time, to be registered with the Securities and Exchange Commission of the United States and are so registered, and

(iii) under the provisions of the *Internal Revenue Code of 1986* of the United States, as amended from time to time, that apply to the distribution, the shareholders of the particular corporation who are resident in the United States are not taxable in respect of the distribution;

Applicable: To distributions made after 1999 except that, with respect to a distribution in respect of original shares described in clause 86.1(2)(*c*)(ii)(B),

(*a*) information referred to in paragraph 86.1(2)(*e*) is deemed to be provided to the Minister of National Revenue on a timely basis if it is provided to that Minister before the 90th day after the day on which this Act is assented to; and

(*b*) an election referred to in paragraph 86.1(2)(*f*) is deemed to be filed on a timely basis if it is filed with the Minister of National Revenue before the 90th day after the day on which this Act is assented to.

Editorial Note: S. 100(1) of S.C. 2007, c. 35, which is a coordinating amendment with Bill C-10, provides that if Bill C-10 receives royal assent, this Bill C-10 amendment applies as though Bill C-10 had received royal assent before S.C. 2007, c. 35.

Explanatory Note: Subsection 86.1(2) of the Act defines an "eligible distribution" for the purposes of the tax-deferral that applies with respect to distributions to Canadian resident shareholders of spin-off shares by a foreign corporation. Subsection 86.1(2) is amended in three respects.

First, subparagraph 86.1(2)(*c*)(ii) requires that a taxpayer's original shares be included in a class that is widely held and actively traded on a prescribed stock exchange in the United

States at the time of the distribution (section 3201 of the Regulations prescribes certain U.S. stock exchanges). The condition that the share be actively traded on a U.S. stock exchange is amended effective after 1999 to require that the taxpayer's original shares of the foreign corporation be, at the time of the distribution, widely held and

- actively traded on a prescribed stock exchange in the United States, or
- required, under the *Securities Exchange Act of 1934* of the United States, to be registered with the Securities and Exchange Commission (and are so registered).

In general, a class of shares of a U.S. corporation must be registered under the *Securities Exchange Act of 1934* with the Securities and Exchange Commission ("SEC") if more than 500 shareholders own shares of the class, the corporation has more than $10 million in assets and shares of the class will be traded on a national securities exchange. Thus this SEC registration requirement applies if it is expected that the shares will trade on a national securities exchange, with the SEC filing and public disclosure requirements thereafter applying to the corporation regardless of whether any of its issued shares trade in the future on the exchange.

Second, the references in subparagraphs 86.1(2)(*c*)(iii) and 86.1(2)(*e*)(vi) to the *United States Internal Revenue Code* are replaced by "the *Internal Revenue Code of 1986* of the United States, as amended from time to time".

Third, subparagraph 86.1(2)(*e*)(i) is amended consequential to the amendment to subparagraph 86.1(2)(*c*)(ii) described above.

(*d*) in the case of a distribution that is prescribed,

(i) at the time of the distribution, both corporations are resident in the same country, other than the United States, with which Canada has a tax treaty (in this section referred to as the "foreign country") and were never resident in Canada,

(ii) at the time of the distribution, the shares of the class that includes the original shares are widely held and actively traded on a designated stock exchange,

(iii) under the law of the foreign country, those shareholders of the particular corporation who are resident in that country are not taxable in respect of the distribution, and

(iv) the distribution is prescribed subject to such terms and conditions as are considered appropriate in the circumstances;

(*e*) before the end of the sixth month following the day on which the particular corporation first distributes a spin-off share in respect of the distribution, the particular corporation provides to the Minister information satisfactory to the Minister establishing

(i) that, at the time of the distribution, the shares of the class that includes the original shares are widely held and actively traded on a prescribed stock exchange,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 86.1(2)(*e*)(i) of the Act is replaced by the following:

(i) that, at the time of the distribution, the shares of the class that includes the original shares are shares described in subparagraph (*c*)(ii) or (*d*)(ii),

Applicable: To distributions made after 1999.

Explanatory Note: See the Explanatory Note following the amendment to subparagraphs 86.1(2)(*c*)(ii) and (iii).

(ii) that the particular corporation and the other corporation referred to in paragraph (*b*) were never resident in Canada,

(iii) the date of the distribution,

(iv) the type and fair market value of each property distributed to residents of Canada,

(v) the name and address of each resident of Canada that received property with respect to the distribution,

(vi) in the case of a distribution that is not prescribed, that the distribution is not taxable under the *United States Internal Revenue Code* applicable to the distribution,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 86.1(2)(*e*)(vi) of the Act is replaced by the following:

(vi) in the case of a distribution that is not prescribed, that the distribution is not taxable under the provisions of the *Internal Revenue Code of 1986* of the United States, as amended from time to time, that apply to the distribution,

Applicable: To distributions made after 1999.

Explanatory Note: See the Explanatory Note following the amendment to subparagraphs 86.1(2)(*c*)(ii) and (iii).

(vii) in the case of a distribution that is prescribed, that the distribution is not taxable under the law of the foreign country, and

(viii) such other matters that are required, in prescribed form; and

(*f*) the taxpayer elects in writing filed with the taxpayer's return of income for the taxation year in which the distribution occurs that this section apply to the distribution and provides information satisfactory to the Minister

(i) of the number, cost amount (determined without reference to this section) and fair market value of the taxpayer's original shares immediately before the distribution,

(ii) of the number, and fair market value, of the taxpayer's original shares and the spin-off shares immediately after the distribution of the spin-off shares to the taxpayer,

(iii) except where the election is filed with the taxpayer's return of income for the year in which the distribution occurs, concerning the amount of the distribution, the manner in which the distribution was reported by the taxpayer and the

details of any subsequent disposition of original shares or spin-off shares for the purpose of determining any gains or losses from those dispositions, and

(iv) of such other matters that are required, in prescribed form.

Department of Finance Comfort Letter [Prescribed Foreign Spin-Off Distribution]

September 11, 2007

Dear XXXX

I am writing to you concerning your submission of December 18, 2006 to the Canada Revenue Agency (the CRA) with regard to the Canadian income tax treatment of a spin-off distribution effected on June 12, 2006 and in which XXXX distributed to its shareholders shares of XXXX. You have requested that the spin-off distribution be prescribed for the purpose of the Canadian foreign spin-off tax deferral rules.

Shareholders of a non-U.S. foreign spin-off distribution qualify for a tax deferral in respect of the distribution if the spin-off distribution satisfies various technical requirements in section 86.1 of the *Income Tax Act* and the distribution is prescribed on the recommendation of the Minister of Finance. The CRA has confirmed to Departmental officials that the XXXX distribution satisfies the technical requirements of the Canadian foreign spin-off tax deferral rules.

Based on our review of the general scheme of the income tax law of Sweden applicable to tax deferred spin-off distributions, we are prepared to recommend to the Minister an amendment to the Income Tax Regulations to prescribe the June 12, 2006 XXXX spin-off of XXXX shares for the purpose of the foreign spin-off distribution tax deferral under section 86.1 of the *Income Tax Act*. If passed, the necessary regulation identifying the distribution of XXXX shares as a prescribed distribution would be published in the *Canada Gazette*. While I cannot offer any assurance that either the Minister or Treasury Board will agree with our recommendations, I hope that this statement of our intention is helpful.

Yours sincerely,

Brian Ernewein
General Director–Legislation
Tax Policy Branch

History: S. 86.1(2)(*c*)(ii) and (*d*)(ii) were amended by S.C. 2007, c. 35, s. 68(2), by replacing "prescribed stock exchange" with "designated stock exchange", applicable on and after December 14, 2007 [the day on which this Act received Royal Assent].

S. 86.1(2), the portion before paragraph (*a*) was replaced by S.C. 2005, c. 30, s. 3(1), applicable to distributions received after 2004. S. 86.1(2), the portion before paragraph (*a*) formerly read:

"(2) *Eligible distribution.* For the purposes of this section and Part XI, a distribution by a particular corporation that is received by a taxpayer is an eligible distribution if"

S. 86.1(2)(*f*), the portion before subparagraph (i) was replaced by S.C. 2005, c. 30, s. 3(2), applicable to distributions received after 2004. S. 86.1(2)(*f*), the portion before subparagraph (i) formerly read:

"(*f*) except where Part XI applies in respect of the taxpayer, the taxpayer elects in writing filed with the taxpayer's return of income for the taxation year in which the distribution occurs (or, in the case of a distribution received before October 18, 2000, filed with the Minister before July 2001) that this section apply to the distribution and provides information satisfactory to the Minister"

S. 86.1(2) was added by S.C. 2001, c. 17, s. 64(1), applicable to distributions received after 1997, except that

(*a*) information referred to in paragraph 86.1(2)(*e*) of the Act is deemed to be provided to the Minister of National Revenue on a timely basis if it is provided to that Minister before [September 12, 2001] the day that is 90 days after the day on which this Act receives royal assent [June 14, 2001]; and

(*b*) the election referred to in paragraph 86.1(2)(*f*) of the Act is deemed to be filed on a timely basis if it is filed with the Minister of National Revenue before [September 12, 2001] the day that is 90 days after the day on which this Act receives royal assent [June 14, 2001].

Related Sections: S. 206(3.1) Acquisition of qualifying security; s. 206(3.2) Qualifying security; s. 248(1), "cost amount".

Regulations: 600(*c*); 3201; 5600.

Cases: The taxpayer owned shares of a U.S. company. As a result of a reorganization, he received shares of a second U.S. company. Although this might have qualified as an "eligible distribution", the company failed to provide the CRA with sufficient information and the taxpayer failed to file an election. Since the statutory requirements weren't met, the value of the shares was included in his income. *Allen v. The Queen,* 2007 DTC 48 (T.C.C.).

► 86.1(3) ◄

(3) Cost adjustments. Where a spin-off share is distributed by a corporation to a taxpayer pursuant to an eligible distribution with respect to an original share of the taxpayer,

(*a*) there shall be deducted for the purpose of computing the cost amount to the taxpayer of the original share at any time the amount determined by the formula

$$A \times (B/C)$$

where

A is the cost amount, determined without reference to this section, to the taxpayer of the original share at the time that is immediately before the distribution or, if the original share is disposed of by the taxpayer, before the distribution, at the time that is immediately before its disposition,

B is the fair market value of the spin-off share immediately after its distribution to the taxpayer, and

C is the total of

(i) the fair market value of the original share immediately after the distribution of the spin-off share to the taxpayer, and

(ii) the fair market value of the spin-off share immediately after its distribution to the taxpayer; and

(*b*) the cost to the taxpayer of the spin-off share is the amount by which the cost amount of the taxpayer's original share was reduced as a result of paragraph (*a*).

History: S. 86.1(3) was added by S.C. 2001, c. 17, s. 64(1), applicable to distributions received after 1997.

Related Sections: S. 248(1), "cost amount".

► 86.1(4) ◄

(4) Inventory. For the purpose of calculating the value of the property described in an inventory of a taxpayer's business,

(*a*) an eligible distribution to the taxpayer of a spin-off share that is included in the inventory is deemed not to be an acquisition of property in the fiscal period of the business in which the distribution occurs; and

(*b*) for greater certainty, the value of the spin-off share is to be included in computing the value of the inventory at the end of that fiscal period.

History: S. 86.1(4) was added by S.C. 2001, c. 17, s. 64(1), applicable to distributions received after 1997.

► 86.1(5) ◄

(5) Reassessments. Notwithstanding subsections 152(4) to (5), the Minister may make at any time such assessments, reassessments, determinations and redeterminations that are necessary where information is obtained that the conditions in subparagraph (2)(*c*)(iii) or (*d*)(iii) are not, or are no longer, satisfied.

History: S. 86.1(5) was added by S.C. 2001, c. 17, s. 64(1), applicable to distributions received after 1997.

SECTION 87:

► 87(1) ◄

(1) Amalgamations. In this section, an amalgamation means a merger of two or more corporations each of which was, immediately before the merger, a taxable Canadian corporation (each of which corporations is referred to in this section as a "predecessor corporation") to form one corporate entity (in this section referred to as the "new corporation") in such a manner that

(*a*) all of the property (except amounts receivable from any predecessor corporation or shares of the capital stock of any predecessor corporation) of the predecessor corporations immediately before the merger becomes property of the new corporation by virtue of the merger,

(*b*) all of the liabilities (except amounts payable to any predecessor corporation) of the predecessor corporations immediately before the merger become liabilities of the new corporation by virtue of the merger, and

(*c*) all of the shareholders (except any predecessor corporation), who owned shares of the capital stock of any predecessor corporation immediately before the merger, receive shares of the capital stock of the new corporation because of the merger,

otherwise than as a result of the acquisition of property of one corporation by another corporation, pursuant to the purchase of that property by the other corporation or as a result of the distribution of that property to the other corporation on the winding-up of the corporation.

History: S. 87(1)(*c*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 37(1), applicable to amalgamations occurring after 1989. S. 87(1)(*c*) formerly read:

"(*c*) all of the shareholders (except any predecessor corporation) of the predecessor corporations immediately before the merger receive shares of the capital stock of the new corporation by virtue of the merger,"

Editorial Note: Section 87 provides rules that apply to an amalgamation of two or more predecessor taxable Canadian corporations. In general terms, section 87 provides a tax-free rollover of each predecessor's property and a carryover of various tax attributes and pools to the amalgamated corporation, such as the cost of properties, reserves, deferred amounts, prepaid amounts, surplus accounts, and investment tax credits.

Although paragraph 87(1)(*c*) provides that all of the shareholders of the predecessor corporations (except any predecessor corporation) must receive shares of the amalgamated corporation, the CRA has historically taken the position that an amalgamation will not be disqualified by reason only of certain shareholders of predecessor corporations receiving consideration other than shares of the amalgamated corporation, such as cash, by virtue of exercising a statutory right to dissent to the amalgamation (paragraph 5 of IT-474R2). In other cases where cash is to be provided to shareholders of a predecessor corporation, it is acceptable to issue redeemable preferred shares of the amalgamated corporation to such shareholders, who then redeem the shares for cash immediately after the amalgamation. In this regard, the CRA has stated that it will not apply the general anti-avoidance rule where preferred shares are issued by the amalgamated corporation solely for the purpose of meeting the requirements of paragraph 87(1)(*c*) (paragraph 28 of IC 88-2).

Related Sections: S. 37.1(5), "expenditure base"; s. 37.1(7) Certain corporations deemed to be associated; s. 66(6) Successor corporation's Canadian exploration and development expenses; s. 66(7) Second successor corporation's Canadian exploration and development expenses; s. 66.1(4) Successor corporation's Canadian exploration expense; s. 66.1(5) Second successor corporation's Canadian exploration expenses; s. 69(11) Deemed proceeds of disposition; s. 83(7) Amalgamation where there are tax-deferred preferred shares; s. 87(1.1) Shares deemed to have been received by virtue of merger; s. 87(9) Rules applicable in respect of certain mergers; s. 89(1), "taxable Canadian corporation"; s. 112(7) Rules where shares exchanged; s. 127(9.1) Control acquired before the end of the year; s. 134 Non-resident-owned corporation not a Canadian corporation, etc; s. 248(1), "corporation"; ITAR s. 26(21) Shares received on amalgamation.

Regulations: Part XI; 5905.

Interpretation Bulletins: *Primary* — IT-474R2 Amalgamations of Canadian corporations. *Secondary* — IT-52R4 Income bonds and income debentures [Archived by the CRA]; IT-121R3 Election to capitalize cost of borrowed money; IT-151R5 (Consolid.) — Scientific research and experimental development expenditures; IT-151R4 Scientific research and experimental development expenditures [Archived by the CRA]; IT-302R3 Losses of a corporation — The effect on their deductibility of changes in control, amalgamation and winding-up; IT-427R Livestock of Farmers; IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].

Information Circulars: IC 88-2 General anti-avoidance rule — Section 245 of the Income Tax Act (paras. 20, 21 and 28, Supp. 1, para. 9).

Forms: T2 SCH 24.

Canadian Tax Foundation: Heine and Legge, "Merger Building Blocks-Amalgamations and Windups", *2004 Conference Report*, 37:1; Brayley, "Merging Companies: A Practical Checklist For Amalgamations And Wind-Ups", *2000 Conference Report*, 6:1; Brayley, "Employee Stock Options: An Update", *2000 Canadian Tax Journal*, No. 3, 778; Richards, "Amalgamations", *1996 Canadian Tax Journal*, No. 1, 241.

Canadian Petroleum Tax Journal: A Comparative Study of Canadian and US Rules Regarding the Taxation of Corporate Reorganizations, Firoz Talakshi and Christy Palmer, Vol. 13 No. 1 2000.

► 87(1.1) ◄

(1.1) Shares deemed to have been received by virtue of merger. For the purposes of paragraph (1)(*c*) and the *Income Tax Application Rules*, where there is a merger of

(*a*) a corporation and one or more of its subsidiary wholly-owned corporations, or

(*b*) two or more corporations each of which is a subsidiary wholly-owned corporation of the same corporation

any shares of the capital stock of a predecessor corporation owned by a shareholder (except any predecessor corporation) immediately before the merger that were not cancelled on the merger shall be deemed to be shares of the capital stock of the new corporation received by the shareholder by virtue of the merger as consideration for the disposition of the shares of the capital stock of the predecessor corporations.

Editorial Note: Under corporate law statutes such as the *Canada Business Corporations Act*, a parent corporation may amalgamate with a subsidiary corporation (a vertical short-form amalgamation), and two or more subsidiary corporations of a parent corporation may amalgamate (a horizontal short-form amalgamation), without the issuance of new shares by the amalgamated corporation upon the amalgamation to persons who were shareholders of the predecessor corporations. Subsection 87(1.1) ensures that these types of short-form amalgamations can qualify under section 87 by deeming shareholders (other than predecessor corporations) of the predecessor corporations to have received shares of the amalgamated corporation by virtue of the merger for the purposes of paragraph 87(1)(*c*).

Related Sections: S. 87(1.4), "subsidiary wholly owned corporation".

► 87(1.2) ◄

(1.2) New corporation continuation of a predecessor. Where there has been an amalgamation of corporations described in paragraph (1.1)(*a*) or of two or more corporations each of which is a subsidiary wholly-owned corporation of the same person, the new corporation is, for the purposes of section 29 of the *Income Tax Application Rules*, subsection 59(3.3) and sections 66, 66.1, 66.2, 66.21, 66.4 and 66.7, deemed to be the same corporation as, and a continuation of, each predecessor corporation, except that this subsection does not affect the determination of any predecessor corporation's fiscal period, taxable income or tax payable.

History: S. 87(1.2) was amended by S.C. 2001, c. 17, s. 65(1), applicable to amalgamations that occur after 2000. S. 87(1.2) formerly read:

"(1.2) *New corporation continuation of a predecessor.* Where there has been an amalgamation of corporations described in paragraph (1.1)(*a*) or of 2 or more corporations each of which is a subsidiary wholly-owned corporation of the same person, the new corporation shall, for the purposes of section 29 of the *Income Tax Application Rules*, subsection 59(3.3) and sections 66, 66.1, 66.2, 66.4 and 66.7, be deemed to be the same corporation as, and a continuation of, each predecessor corporation, except that this subsection shall not affect the determination of any predecessor corporation's fiscal period, taxable income or tax payable."

S. 87(1.2) was amended by S.C. 1994, c. 21, s. 39(1), applicable to amalgamations occurring after December 21, 1992. S. 87(1.2) formerly read:

"(1.2) *New corporation continuation of predecessor.* Where there has been an amalgamation of corporations described in paragraph (1.1)(*a*) or (*b*), the new corporation shall, for the purposes of section 29 of the *Income Tax Application Rules*, subsection 59(3.3) and sections 66, 66.1, 66.2, 66.4 and 66.7, be deemed to be the same corporation as and a continuation of each predecessor corporation, except that this subsection shall in no respect affect the determination of any predecessor corporation's fiscal period, taxable income or tax payable."

Related Sections: S. 87(1.4), "subsidiary wholly-owned corporation".
Regulations: 1214(1).
Interpretation Bulletins: *Secondary*— IT-125R4 Disposition of resource properties.

► 87(1.3) ◄

(1.3) Shareholder corporation. [Repealed by 1985, c. 45, s. 42(1).]

► 87(1.4) ◄

(1.4) Definition of "subsidiary wholly-owned corporation". Notwithstanding subsection 248(1), for the purposes of this subsection and subsections (1.1), (1.2) and (2.11), "subsidiary wholly-owned corporation" of a person (in this subsection referred to as the "parent") means a corporation all the issued and outstanding shares of the capital stock of which belong to

(*a*) the parent;

(*b*) a corporation that is a subsidiary wholly-owned corporation of the parent; or

(*c*) any combination of persons each of which is a person described in paragraph (*a*) or (*b*).

History: S. 87(1.4) was amended by S.C. 1994, c. 21, s. 39(2), applicable to amalgamations occurring after December 21, 1992. S. 87(1.4) formerly read:

"(1.4) Notwithstanding subsection 248(1), for the purposes of this subsection and subsections (1.1), (1.2) and (2.11), 'subsidiary wholly-owned corporation' of a corporation (in this subsection referred to as the 'parent corporation') means a corporation all the issued and outstanding shares of the capital stock of which belong to

(*a*) the parent corporation;

(*b*) a corporation that is a subsidiary wholly-owned corporation of the parent corporation; or

(*c*) any combination of corporations each of which is a corporation described in paragraph (*a*) or (*b*)."

S. 87(1.4), that portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 37(2), applicable to amalgamations occurring after 1989. S. 87(1.4), that portion preceding paragraph (*a*), formerly read:

"(1.4) *Definition of 'subsidiary wholly-owned corporation'.* Notwithstanding subsection 248(1), for the purposes of this subsection and subsections (1.1) and (1.2), 'subsidiary wholly-owned corporation' of a corporation (in this subsection referred to as the 'parent corporation') means a corporation all the issued and outstanding shares of the capital stock of which belong to"

Editorial Note: The difference between the definition in subsection 87(1.4) and the definition in subsection 248(1) is that the former allows shares of the subsidiary to be owned by the parent or subsidiary wholly-owned corporations of the parent (or both), whereas the definition in subsection 248(1) provides that all of the shares of the subsidiary (except qualifying directors' shares) must be owned by the parent.

► 87(1.5) ◄

(1.5) Definitions. For the purpose of this section, "financial institution", "mark-to-market property" and "specified debt obligation" have the meanings assigned by subsection 142.2(1).

History: S. 87(1.5) was added by S.C. 1995, c. 21, s. 54(1), applicable to taxation years that end after February 22, 1994.

► 87(2) ◄

(2) Rules applicable. Where there has been an amalgamation of two or more corporations after 1971 the following rules apply:

Department of Finance Comfort Letter
[Definition of "Subsidiary Wholly-Owned Corporation"]

September 16, 2005

Dear XXXX,

I am writing in response to your letter of December 22, 2004 to Ms. Stephanie Smith of this Division. In that letter you refer to my letter to you dated December 6, 2004 regarding our intention to recommend to the Minister of Finance that the *Income Tax Act* (the "Act") be amended to provide that where one corporation (the "Parent") vertically amalgamates with a wholly-owned subsidiary under section 87 of the Act, any election made by the Parent under subsection 149(1.11) is deemed to have been made by the amalgamated corporation. You have asked for clarification in two respects: (i) the definition of "wholly-owned subsidiary" and (ii) the effective date for the proposed amendment.

The Act contains two definitions of the term "subsidiary wholly-owned corporation". You have requested that the proposed amendment (discussed above) refer to the definition contained in subsection 248(1) of the Act and not the more restrictive definition contained in subsection 87(1.4) of the Act. We understand that if the more restrictive definition in subsection 87(1.4) was used, XXXX would not benefit from the amendment as XXXX has issued directors' qualifying shares to meet a regulatory requirement in Ontario. It is our understanding that other than the directors' qualifying shares, XXXX wholly owns XXXX. Given the additional information that you have provided we will recommend that the amendment either refer to the definition of "subsidiary wholly-owned corporation" in subsection 248(1) or otherwise accommodate the situation where directors' qualifying shares have been issued.

We will further recommend that the amendment have application to amalgamations that occur after October 4, 2004, the date of your first letter to us on this matter. While we cannot offer any assurance that our recommendations in this matter will be accepted, we hope our statement of intent in this letter will be helpful in responding to your concern.

Yours sincerely

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

Department of Finance Comfort Letter
[Election Under Subsection 149(1.11) To Retain Taxable Status — Where Corporation Amalgamates with Wholly-Owned Subsidiary]

December 6, 2004

Dear XXXX

I am writing in response to your letter of October 4, 2004 to Mr. Denis Normand of the Business Income Tax Division and further to subsequent discussions with Stephanie Smith of the Tax Legislation Division concerning the election in subsection 149(1.11) of the *Income Tax Act* (the "Act"). You have asked us to amend the Act such that a new corporate entity formed as a result of an amalgamation, particularly in the case of a vertical amalgamation, is deemed to be the same corporation as, and a continuation of, a predecessor parent corporation with respect to any election made by that predecessor parent corporation pursuant to subsection 149(1.11) of the Act.

Subsection 149(1.11) was added to the Act following an amendment to paragraph 149(1)(*d*) and the addition of paragraphs 149(1)(*d.2*) to (*d.4*). Those amendments caused some entities that were previously taxable to become exempt. The result was appropriate from a tax policy standpoint, however, it may not have been beneficial for a limited number of entities since it would trigger the application of subsection 149(10). As a result, subsection 149(1.11) was added to allow an entity, that

became exempt because of any of paragraphs 149(1)(*d.2*) to (*d.4*), to elect in writing to retain its taxable status. Two conditions apply for the entity to retain its taxable status: (i) the election had to be made before 2002 and (ii) there can be no change in the direct or indirect control of the entity.

You have brought to our attention the situation of XXXX. XXXX holds a XXXX provincial insurers' licence and is licensed to conduct business in XXXX. XXXX was affected by the addition of paragraphs 149(1)(*d.2*) to (*d.4*). XXXX wanted to remain a taxable entity in order to obtain insurance licences in other provinces and therefore made an election in accordance with subsection 149(1.1 f). We assume that there has been no change in the direct or indirect control of XXXX since the election was made. XXXX wholly owns XXXX which holds an XXXX provincial insurers' licence. XXXX is a taxable entity.

XXXX would like to amalgamate with XXXX pursuant to subsection 87(1) of the Act, to improve the capitalization of XXXX for regulatory purposes, to reduce administrative costs and to utilize losses carried forward in the corporate group. Although a windup would achieve the same objectives, and allow the election made by XXXX under subsection 149(1.11) to remain intact, it is not feasible from a commercial standpoint because of the volume of contracts, licences, leases and other agreements that would have to be assigned.

In general, the Act treats an amalgamated corporation as a new corporation for tax purposes. There are some exceptions to this rule where, for specific purposes, the amalgamated corporation is deemed to be the same corporation as, and a continuation of, each predecessor corporation. Section 149 is not one of the exceptions.

XXXX is of the view that the amalgamated company needs to remain a taxable entity. XXXX is currently selling insurance in XXXX and XXXX and is looking to expand into other provinces. I understand that XXXX believes that being a tax-exempt entity would likely impair the current operations, and also hamper future expansion. Tax-exempt status may be considered by provincial regulators to be an unfair advantage over existing insurers currently operating in those jurisdictions.

As I trust you can appreciate, an important concern in respect of the application of section 149 is the maintenance of competitive equity in the commercial marketplace. We have carefully considered our situation and have concluded that, by allowing amalgamated XXXX and XXXX to remain taxable, our concern for competitive equity does not arise. As such, we are prepared to recommend to the Minister of Finance that the Act be amended to provide that where one corporation (the "Parent") vertically amalgamates with a wholly-owned subsidiary under section 87 of the Act, any election made by the Parent under subsection 149(1.11) is deemed to have been made by the amalgamated corporation.

While we cannot offer any assurance that our recommendation in this matter will be accepted, we hope our statement of intent in this letter will be helpful in responding to your concern.

Yours sincerely,
Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch
c.c.: Denis Normand
Business Income Tax
Department of Finance

Editorial Note: In general terms, subsection 87(2) provides that most of the assets and tax accounts of the predecessor corporations (including reserves, surplus accounts, deferred amounts, RDTOH, and so on) pass to the amalgamated corporation and without immediate tax consequences.

Related Sections: S. 88(1) Winding-up.
Information Circulars: IC 82-6R6 Clearance certificate; IC 88-2 General anti-avoidance rule — Section 245 of the Income Tax Act (para. 21).

► 87(2)(a) ◄

(a) Taxation year — for the purposes of this Act, the corporate entity formed as a result of the amalgamation shall be deemed to be a new corporation the first taxation year of which shall be deemed to have commenced at the time of the amalgamation, and a taxation year of a predecessor corporation that would otherwise have ended after the amalgamation shall be deemed to have ended immediately before the amalgamation;

Editorial Note: Paragraph 87(2)(*a*) deems the amalgamated corporation to be a new corporation for the purposes of the Act, notwithstanding that under most corporate legislation the amalgamated corporation is considered a continuation of the predecessor corporations. However, the rest of subsection 87(2) effectively flows through many of the tax costs of properties, and other tax attributes and pools of the predecessor corporations to the amalgamated corporation (often by deeming the amalgamated corporation to be the same corporation as, and a continuation of, each predecessor corporation with respect to those tax costs, tax attributes and pools).

Related Sections: S. 125(5) Special rules for business limit.
Interpretation Bulletins: *Secondary* — IT-179R Change of Fiscal Period.
Cases: Since par. 87(2)(*a*) did not apply to the computation of royalties but only to the computation of income under Division B, the taxpayer was in existence before the date of its amalgamation for the purpose of its claim under the Alberta Royalty Tax Credits program. *Canadian Roxy Petroleum Ltd v. The Queen*, 98 DTC 6313 (Alta. Q.B.).

Since a corporation formed through an amalgamation is deemed to be a new corporation, the transfer of properties by a parent corporation to its subsidiaries, and by them to the taxpayer formed through the amalgamation of P Ltd and another corporation did not allow it to stand in P Ltd's shoes and deduct the Canadian exploration and development expenses which P Ltd's predecessor corporations had not deducted, just as if the taxpayer had inherited P Ltd's "second successor corporation" status. *The Queen v. Pan Ocean Oil Ltd.*, 94 DTC 6412 (F.C.A.), reversing 93 DTC 5330 (F.C.T.D.).

► 87(2)(b) ◄

(b) Inventory — for the purpose of computing the income of the new corporation, where the property described in the inventory, if any, of the new corporation at the beginning of its first taxation year includes property that was described in the inventory of a predecessor corporation at the end of the taxation year of the predecessor corporation that ended immediately before the amalgamation (which taxation year of a predecessor corporation is referred to in this section as its "last taxation year"), the property so included shall be deemed to have been acquired by the new corporation at the beginning of its first taxation year for an amount determined in accordance with section 10 as the value thereof for the purpose of computing the income of the predecessor corporation for its last taxation year, except that where the income of the predecessor corporation for its last taxation year from a farming business was computed in accordance with the cash method, the amount so determined in respect of inventory owned in connection with that business shall be deemed to be the total of all amounts each of which is an amount included because of paragraph 28(1)(*b*) or (*c*) in computing that income for that year and, where the income of the new corporation from a farming business is computed in accordance with the cash method, for the purpose of section 28,

(i) an amount equal to that total shall be deemed to have been paid by the new corporation, and

(ii) the new corporation shall be deemed to have purchased the property for an amount equal to that total,

in its first taxation year and in the course of carrying on that business;

History: S. 87(2)(*b*) was amended by S.C. 1994, c. 7, Sched. II, s. 65(1), applicable to amalgamations occurring after 1988, except that, in its application to property acquired from a predecessor corporation the last taxation year of which began before 1989, the reference to "paragraph 28(1)(*b*) or (*c*)" in paragraph 87(2)(*b*) shall be read as "paragraph 28(1)(*b*)". S. 87(2)(*b*) formerly read:

"(*b*) *Inventory* — for the purpose of computing the income of the new corporation for its first taxation year, where the property described in the inventory, if any, of the new corporation at the commencement of that year includes

(i) property that was described in the inventory of a predecessor corporation at the end of the taxation year of the predecessor corporation that ended immediately before the amalgamation (which taxation year of a predecessor corporation is referred to in this section as its 'last taxation year'), or

(ii) property that would have been described in the inventory of the predecessor corporation at the end of its last taxation year if its income for that year had not been computed in accordance with the method authorized by subsection 28(1),

the property so included shall be deemed to have been acquired by the new corporation at the commencement of its first taxation year for an amount determined in accordance with section 10 as the value thereof for the purpose of computing the income of the predecessor corporation for its last taxation year, except that where the income of the predecessor corporation for its last taxation year was computed in accordance with the method authorized by subsection 28(1), the amount so determined shall be deemed to be the amount, if any, specified in respect of the predecessor corporation under paragraph 28(1)(*b*) for that year;"

► 87(2)(c) ◄

(c) Method adopted for computing income — in computing the income of the new corporation for a taxation year from a business or property

(i) there shall be included any amount received or receivable (depending on the method followed by the new corporation in computing its income for that year) by it in that year that would, if it had been received or receivable (depending on the method followed by the predecessor corporation in computing its income for its last taxation year) by the predecessor corporation in its last taxation year, have been included in computing the income of the predecessor corporation for that year, and

(ii) there may be deducted any amount paid or payable (depending on the method followed by the new corporation in computing its income for that year) by it in that year that would, if it had been paid or payable (depending on the method followed by the predecessor corporation in computing its income for its last taxation year) by the predecessor corporation in its last taxation year, have been deductible in computing the income of the predecessor corporation for that year;

► 87(2)(d) ◄

(d) Depreciable property — for the purposes of sections 13 and 20 and any regulations made under paragraph 20(1)(*a*),

(i) where depreciable property of a prescribed class has been acquired by the new corporation from a predecessor corporation, the capital cost of the property to the new corporation shall be deemed to be the amount that was the capital cost of the property to the predecessor corporation, and

(ii) in determining the undepreciated capital cost to the new corporation of depreciable property of a prescribed class at any time,

(A) there shall be added to the capital cost to the new corporation of depreciable property of the class acquired before that time the cost amount, immediately before the amalgamation, to a predecessor corporation of each property included in that class by the new corporation,

(B) there shall be subtracted from the capital cost to the new corporation of depreciable property of that class acquired before that time the capital cost to the new corporation of property of that class acquired by virtue of the amalgamation,

(C) a reference in subparagraph 13(5)(*b*)(ii) to amounts that would have been deducted in respect of property in computing a taxpayer's income shall be construed as including a reference to amounts that would have been deducted in respect of that property in computing a predecessor corporation's income, and

(D) where depreciable property that is deemed by subsection 37(6) to be a separate prescribed class has been acquired by the new corporation from a predecessor corporation, the property shall continue to be deemed to be of that same separate prescribed class;

History: S. 87(2)(*d*)(ii)(C) was amended by S.C. 1997, c. 25, s. 18(1), applicable to taxation years that begin after 1996. S. 87(2)(*d*)(ii)(C) formerly read:

"(C) a reference in subparagraph 13(5)(*b*)(ii) to amounts that would have been deducted by a taxpayer in respect of transferred property shall be construed as including a reference to amounts that would have been deducted by a predecessor corporation in respect of that property, and"

S. 87(2)(*d*)(ii)(C) was amended by S.C. 1994, c. 7, Sched. II, s. 65(2), applicable to taxation years beginning after June 17, 1987 that end after 1987. S. 87(2)(*d*)(ii)(C) formerly read:

"(C) a reference in subparagraph 13(5)(*a*)(ii) to amounts that would have been allowed to a taxpayer in respect of transferred property, at the rate that was allowed to the taxpayer in respect of property of a prescribed class, shall be construed as including a reference to amounts that would have been allowed to a predecessor corporation in respect of that property at the rate that was allowed to the predecessor corporation in respect of property of that prescribed class, and"

► 87(2)(d.1) ◄

(d.1) Depreciable property acquired from predecessor corporation — for the purposes of this Act, where depreciable property (other than property of a prescribed class) has been acquired by the new corporation from a predecessor corporation, the new corporation shall be deemed to have acquired the property before 1972 at an actual cost equal to the actual cost of the property to the predecessor corporation, and the new corporation shall be deemed to have been allowed the total of all amounts allowed to the predecessor corporation in respect of the property, under regulations made under paragraph 20(1)(*a*), in computing the income of the predecessor corporation;

Related Sections: S. 13(21) Definitions; s. 20(1)(*a*) Capital cost of property.

► 87(2)(e) ◄

(e) Capital property — subject to paragraph (*e*.4) and subsection 142.6(5), where a capital property (other than depreciable property or an interest in a partnership) has been acquired by the new corporation from a predecessor corporation, the cost of the property to the new corporation shall be deemed to be the amount that was the adjusted cost base of the property to the predecessor corporation immediately before the amalgamation;

History: S. 87(2)(*e*) was amended by S.C. 1995, c. 21, s. 54(2), applicable to taxation years that end after February 22, 1994. S. 87(2)(*e*) formerly read:

"(*e*) *Capital property* — where any capital property (other than depreciable property or an interest in a partnership) has been acquired by the new corporation from a predecessor corporation, the cost of the property to the new corporation shall be deemed to be the amount that was the adjusted cost base of the property to the predecessor corporation immediately before the amalgamation;"

► 87(2)(e.1) ◄

(e.1) Partnership interest — where a partnership interest that is capital property has been acquired from a predecessor corporation to which the new corporation was related, for the purposes of this Act, the cost of that partnership interest to the new corporation shall be deemed to be the amount that was the cost of that interest to the predecessor corporation and, in respect of that partnership interest, the new corporation shall be deemed to be the same corporation as and a continuation of the predecessor corporation;

► 87(2)(e.2) ◄

(e.2) Security or debt obligation — subject to paragraphs (*e*.3) and (*e*.4) and subsection 142.6(5), where a property that is a security or debt obligation (other than a capital property or an inventory) of a predecessor corporation used by it in the year in, or held by it in the year in the course of, carrying on the business of insurance or lending money in the taxation year ending immediately before the amalgamation has been acquired by the new corporation from the predecessor corporation, the cost of the property to the new corporation shall be deemed to be the amount that was the cost amount of the property to the predecessor corporation immediately before the amalgamation;

History: S. 87(2)(*e*.2) was amended by S.C. 1995, c. 21, s. 54(3), applicable to taxation years that end after February 22, 1994. S. 87(2)(*e*.2) formerly read:

"(*e*.2) *Security or debt obligation* — where any property that is a security or debt obligation (other than a capital property or an inventory) of a predecessor corporation used by it in the year in, or held by it in the year in the course of, carrying on the business of insurance or lending money in the taxation year ending immediately before the amalgamation has been acquired by the new corporation from the predecessor corporation, the cost of the property to the new corporation shall be deemed to be the amount that was the cost amount of the property to the predecessor corporation immediately before the amalgamation;"

► 87(2)(e.3) ◄

(e.3) Financial institutions — specified debt obligation — where the new corporation is a financial institution in its first taxation year, it shall be deemed, in respect of a specified debt obligation (other than a mark-to-market property) acquired from a predecessor corporation that was a financial institution in its last taxation year, to be the same corporation as, and a continuation of, the predecessor corporation;

History: S. 87(2)(*e*.3) was added by S.C. 1995, c. 21, s. 54(3), applicable to amalgamations occurring, and windings-up beginning, after February 22, 1994.

► 87(2)(e.4) ◄

(e.4) Financial institutions — mark-to-market property — where

(i) the new corporation is a financial institution in its first taxation year and a property acquired by the new corporation from a predecessor corporation is a mark-to-market property of the new corporation for the year, or

(ii) a predecessor corporation was a financial institution in its last taxation year and a property acquired by the new corporation from the predecessor corporation was a mark-to-market property of the predecessor corporation for the year,

the cost of the property to the new corporation shall be deemed to be the amount that was the fair market value of the property immediately before the amalgamation;

History: S. 87(2)(*e*.4) was added by S.C. 1995, c. 21, s. 54(3), applicable to amalgamations occurring after October 1994.

► 87(2)(e.5) ◄

(e.5) Financial institutions — mark-to-market property — for the purposes of subsections 112(5) to (5.2) and (5.4) and the definition "mark-to-market property" in subsection 142.2(1), the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation;

History: S. 87(2)(*e*.5) was added by S.C. 1995, c. 21, s. 54(3), applicable to amalgamations occurring at any time (including, for greater certainty, amalgamations occurring before June 22, 1995).

► 87(2)(f) ◄

(f) Eligible capital property — for the purposes of determining under this Act any amount relating to cumulative eligible capital, an eligible capital amount, an eligible capital expenditure or eligible capital property, the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation;

History: S. 87(2)(*f*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 37(3), applicable to amalgamations occurring after June 1988. S. 87(2)(*f*) formerly read:

"(*f*) *Cumulative eligible capital* — for the purposes of computing the cumulative eligible capital of the new corporation at any time in respect of a business, where a predecessor corporation carried on a business that is carried on by the new corporation, the amount of the cumulative eligible capital of the predecessor corporation immediately before the amalgamation in respect of that business shall be added to the amount determined for A in the definition 'cumulative eligible capital' in subsection 14(5) in respect of that business;"

Related Sections: S. 14(1) Eligible capital property — inclusion in income from business; s. 14(5), "cumulative eligible capital", "eligible capital expenditure"; s. 54, "eligible capital property"; s. 248(1), "corporation", "cumulative eligible capital", "eligible capital amount", "eligible capital expenditure", "eligible capital property".

► 87(2)(f.1) ◄

(f.1) Idem — [Repealed by S.C. 1994, c. 7, Sched. VIII, s. 37(3).]

History: S. 87(2)(*f*.1) was repealed by S.C. 1994, c. 7, Sched. VIII, s. 37(3), applicable to amalgamations occurring after June 1988. S. 87(2)(*f*.1) formerly read:

"(*f*.1) notwithstanding paragraph (*f*), for the purposes of computing the cumulative eligible capital of the new corporation at any time in respect of a business, where the last taxation year of a predecessor corporation commenced before July, 1988 and the predecessor corporation carried on a business that is carried on by the new corporation, 3/2 of the amount of the cumulative eligible capital of the predecessor corporation immediately before the amalgamation in respect of that business shall be added to the amount determined for A in the definition 'cumulative eligible capital' in subsection 14(5) in respect of that business;"

Related Sections: S. 14(5), "adjustment time".

► 87(2)(g) ◄

(g) Reserves — for the purpose of computing the income of the new corporation for a taxation year,

(i) any amount that has been deducted as a reserve in computing the income of a predecessor corporation for its last taxation year shall be deemed to have been deducted as a reserve in computing the income of the new corporation for a taxation year immediately preceding its first taxation year, and

(ii) any amount deducted under paragraph 20(1)(*p*) in computing the income of a predecessor corporation for its last taxation year or a previous taxation year shall be deemed to have been deducted under that paragraph in computing the income of

the new corporation for a taxation year immediately preceding its first taxation year;

► 87(2)(g.1) ◄

(g.1) Continuation — for the purposes of sections 12.3 and 12.4, subsection 20(26) and section 26, the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation;

► 87(2)(g.2) ◄

(g.2) Financial institution rules — for the purposes of paragraphs 142.4(4)(*c*) and (*d*) and subsections 142.5(5) and (7), 142.51(11) and 142.6(1), the new corporation is deemed to be the same corporation as, and a continuation of, each predecessor corporation;

History: S. 87(2)(*g.2*) was replaced by S.C. 2009, c. 2, s. 19(1), applicable to taxation years that begin after September 2006. S. 87(2)(*g.2*) formerly read:

"(*g.2*) *Financial institution rules* — for the purposes of paragraphs 142.4(4)(*c*) and (*d*) and subsections 142.5(5) and (7) and 142.6(1), the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation;"

S. 87(2)(*g.2*) was added by S.C. 1995, c. 21, s. 54(4), applicable to taxation years that end after February 22, 1994.

► 87(2)(g.3) ◄

(g.3) Superficial losses — for the purposes of applying subsections 13(21.2), 14(12), 18(15) and 40(3.4) to any property that was disposed of by a predecessor corporation before the amalgamation, the new corporation is deemed to be the same corporation as, and a continuation of, each predecessor corporation;

History: S. 87(2)(*g.3*) was added by S.C. 1998, c. 19, s. 117(1), applicable to amalgamations that occur, and windings-up that begin, after April 26, 1995.

► 87(2)(g.4) ◄

(g.4) Superficial losses — capital property — for the purpose of applying paragraph 40(3.5)(*c*) in respect of any share that was acquired by a predecessor corporation, the new corporation is deemed to be the same corporation as, and a continuation of, each predecessor corporation;

History: S. 87(2)(*g.4*) was added by S.C. 1998, c. 19, s. 117(1), applicable to amalgamations that occur, and windings-up that begin, after April 26, 1995.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 87(2) of the Act is amended by adding the following after paragraph (*g.4*):

(g.5) Patronage dividends — for the purpose of section 135, the new corporation is deemed to be the same corporation as, and a continuation of, each predecessor corporation;

Applicable: To amalgamations that occur, and to windings-up that begin, after 1997.

Explanatory Note:

Patronage Dividends

New paragraph 87(2)(*g.5*) of the Act deems a new corporation formed on an amalgamation to be the same corporation as and a continuation of each of the predecessor corporations for the purpose of section 135 of the Act. This paragraph, which applies to amalgamations that occur after 1997, ensures that the rules in section 135 concerning the deduction for and inclusion in income of patronage dividends continue to apply where a cooperative corporation or a customer of a cooperative corporation amalgamates with one or more other corporations between the time a cooperative corporation makes an allocation in proportion to patronage and the time that the patronage dividend is paid. This amendment ensures that payments made under subsection 135(1) by the new corporation in satisfaction of allocations made by a predecessor corporation will be deductible by the new corporation. In addition, new paragraph 87(2)(*g.5*) ensures that the deductibility of an amount paid to a new corporation formed on the amalgamation of the cooperative corporation's customer and another corporation will not be affected by the amalgamation.

► 87(2)(h) ◄

(h) Debts — for the purpose of computing a deduction from the income of the new corporation for a taxation year under paragraph 20(1)(*l*), (*l.1*) or (*p*)

(i) any debt owing to a predecessor corporation that was included in computing the income of the predecessor corporation for its last taxation year or a preceding taxation year,

(ii) where a predecessor corporation was an insurer or a corporation the ordinary business of which included the lending of money, any loan or lending asset made or acquired by the predecessor corporation in the ordinary course of its business of insurance or the lending of money, or

(iii) where a predecessor corporation was an insurer or a corporation the ordinary business of which included the lending of money, any instrument or commitment described in paragraph 20(1)(*l.1*) that was issued, made or assumed by the predecessor corporation in the ordinary course of its business of insurance or the lending of money,

and that by reason of the amalgamation, has been acquired by the new corporation, shall be deemed to be a debt owing to the new corporation that was included in computing its income for a preceding taxation year, a loan or lending asset made or acquired or an instrument or commitment that was issued, made or assumed by the new corporation in a preceding taxation year in the ordinary course of its business of insurance or the lending of money, as the case may be;

► 87(2)(h.1) ◄

(h.1) Debts — for the purposes of section 61.4, the description of F in subsection 79(3), the definition "forgiven amount" in subsection 80(1), subsection 80.03(7) and section 80.04, the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation;

History: S. 87(2)(*h.1*) was added by S.C. 1995, c. 21, s. 30(1), applicable to taxation years that end after February 21, 1994.

► 87(2)(i) ◄

(i) Special reserve — for the purpose of computing a deduction from the income of the new corporation for a taxation year under paragraph 20(1)(*n*), any amount included in computing the income of a predecessor corporation from a business for its last taxation year or a previous taxation year in respect of property sold in the course of the business shall be deemed to have been included in computing the income of the new corporation from the business for a previous year in respect of that property;

Interpretation Bulletins: *Secondary* — IT-154R Special reserves.

► 87(2)(j) ◄

(j) Special reserves — for the purposes of paragraphs 20(1)(*m*), (*m*.1) and (*m*.2), subsection 20(24) and section 34.2, the new corporation is deemed to be the same corporation as, and a continuation of, each predecessor corporation;

History: S. 87(2)(*j*) was amended by S.C. 1996, c. 21, s. 15(1), applicable to amalgamations that occur and windings-up that begin after 1994. S. 87(2)(*j*) formerly read:

"(*j*) *Idem* — for the purposes of paragraphs 20(1)(*m*), (*m*.1) and (*m*.2) and subsection 20(24), the new corporation shall be deemed to be the same corporation as, and a continuation of, the predecessor corporation;"

S. 87(2)(*j*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 37(4), applicable to amalgamations occurring and windings-up beginning after 1990. S. 87(2)(*j*) formerly read:

"(*j*) for the purpose of computing a deduction from the income of the new corporation for a taxation year under paragraph 20(1)(*m*), (*m*.1) or (*m*.2) or section 32, any amount included in computing the income of a predecessor corporation from a business for its last taxation year or a preceding taxation year by virtue of paragraph 12(1)(*a*) shall be deemed to have been included in computing the income of the new corporation from the business for a preceding taxation year by virtue of that paragraph;"

Related Sections: S. 248(1), "corporation".

Interpretation Bulletins: *Secondary* — IT-154R Special reserves.

► 87(2)(j.1) ◄

(j.1) Inventory adjustment — for the purposes of paragraph 20(1)(*ii*), an amount required by paragraph 12(1)(*r*) to be included in computing the income of a predecessor corporation for its last taxation year shall be deemed to be an amount required by paragraph 12(1)(*r*) to be included in computing the income of the new corporation for a taxation year immediately preceding its first taxation year;

► 87(2)(j.2) ◄

(j.2) Prepaid expenses and matchable expenditures — for the purposes of subsections 18(9) and (9.01), section 18.1 and paragraph 20(1)(*mm*), the new corporation is deemed to be the same corporation as, and a continuation of, each predecessor corporation;

History: S. 87(2)(*j*.2) was amended by S.C. 1998, c. 19, s. 117(2), applicable after November 17, 1996. It formerly read:

"(*j*.2) *Prepaid expenses* — for the purposes of subsections 18(9) and (9.01) and paragraph 20(1)(*mm*), the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation;"

S. 87(2)(*j*.2) was amended by S.C. 1995, c. 3, s. 23(1), applicable to the 1994 and subsequent taxation years. S. 87(2)(*j*.2) formerly read:

"(*j*.2) *Prepaid expenses* — for the purposes of subsection 18(9) and paragraph 20(1)(*mm*), the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation;"

► 87(2)(j.3) ◄

(j.3) Employee benefit plans, etc. — for the purposes of paragraphs 12(1)(*n*.1), (*n*.2) and (*n*.3) and 20(1)(*r*), (*oo*) and (*pp*), section 32.1, paragraph 104(13)(*b*) and Part XI.3, the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation;

History: S. 87(2)(*j*.3) was amended by S.C. 1994, c. 21, s. 39(3), applicable to taxation years that end after December 21, 1992. S. 87(2)(*j*.3) formerly read:

"(*j*.3) for the purposes of paragraphs 12(1)(*n*.2) and (*n*.3), 20(l)(*r*), (*oo*) and (*pp*), section 32.1 and Part XI.3, the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation;"

S. 87(2)(*j*.3) was amended by S.C. 1994, c. 7, Sched. II, s. 65(3), applicable to amalgamations occurring and windings-up beginning after 1985. S. 87(2)(*j*.3) formerly read:

"(*j*.3) for the purposes of paragraphs 12(1)(*n*.2) and (*n*.3), 20(1)(*r*) and (*oo*), section 32.1 and Part XI.3, the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation;"

Interpretation Bulletins: *Secondary* — IT-502 Employee benefit plans and employee trusts.

► 87(2)(j.4) ◄

(j.4) Accrual rules — for the purposes of subsections 12(3) and (9), section 12.2, subsection 20(19) and the definition "adjusted cost basis" in subsection 148(9) of this Act, and subsections 12(5) and (6) and paragraph 56(1)(*d*.1) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation;

► 87(2)(j.5) ◄

(j.5) Cancellation of lease — for the purposes of paragraphs 20(1)(*z*) and (*z*.1), the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation;

► 87(2)(j.6) ◄

(j.6) Continuing corporation — for the purposes of paragraphs 12(1)(*t*) and (*x*), subsections 12(2.2) and 13(7.1), (7.4) and (24), paragraphs 13(27)(*b*) and (28)(*c*), subsections 13(29) and 18(9.1), paragraphs 20(1)(*e*), (*e*.1) and (*hh*), sections 20.1 and 32, paragraph 37(1)(*c*), subsection 39(13), subparagraphs 53(2)(*c*)(vi) and (*h*)(ii), paragraph 53(2)(*s*), subsections 53(2.1), 66(11.4) and 66.7(11), section 139.1, subsection 152(4.3), the determination of D in the definition "undepreciated capital cost" in subsection 13(21) and the determination of L in the definition "cumulative Canadian exploration expense" in subsection 66.1(6), the new corporation is deemed to be the same corporation as, and a continuation of, each predecessor corporation;

History: S. 87(2)(*j*.6) was amended by S.C. 2000, c. 19, s. 13(1), applicable to amalgamations that occur, and windings-up that begin, after December 15, 1998. S. 87(2)(*j*.6) formerly read:

"(*j*.6) *Continuing corporation* — for the purposes of paragraphs 12(1)(*t*) and (*x*), subsections 12(2.2) and 13(7.1), (7.4) and (24), paragraphs 13(27)(*b*) and (28)(*c*), subsections 13(29) and 18(9.1), paragraphs 20(1)(*e*), (*e*.1) and (*hh*), sections 20.1 and 32, paragraph 37(1)(*c*), subsection 39(13), subparagraphs 53(2)(*c*)(vi) and (*h*)(ii), paragraph 53(2)(*s*), subsections 53(2.1), 66(11.4), 66.7(11) and 152(4.3), the determination of D in the definition 'undepreciated capital cost' in subsection 13(21) and the determination of L in the definition 'cumulative Canadian exploration expense' in subsection 66.1(6), the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation;"

S. 87(2)(*j*.6) was amended by S.C. 1994, c. 21, s. 39(4), applicable after January 1990, and

(*a*) in applying paragraph 87(2)(*j*.6) of the Act after 1987 and before February 1990, it shall be read as including a reference to paragraph 20(1)(*e*.1) of the Act; and

(*b*) in applying paragraph 87(2)(*j*.6) of the Act after January 1990 and before 1994, it shall be read as if the reference in it to "sections 20.1 and 32" were "section 32". S. 87(2)(*j*.6) formerly read:

"(*j*.6) *Continuing corporation* — for the purposes of paragraphs 12(1)(*t*) and (*x*), subsections 12(2.2) and 13(7.1), (7.4) and (24), paragraphs 13(27)(*b*) and (28)(*c*), subsections 13(29) and 18(9.1), paragraphs 20(1)(*e*) and (*hh*), section 32, paragraph 37(1)(*c*), subsection 39(13), subparagraphs 53(2)(*c*)(vi) and (*h*)(ii), paragraph 53(2)(*s*), subsections 53(2.1), 66(11.4), 66.7(11) and 152(4.3) and the determination of D in the definition 'undepreciated capital cost' in subsection 13(21) and of L in the definition 'cumulative Canadian exploration expense' in subsection 66.1(6), the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation;"

S. 87(2)(*j*.6) was amended by S.C. 1994, c. 7, Sched. VIII, s. 37(5), applicable after January 1990. S. 87(2)(*j*.6) formerly read:

"(*j*.6) *Continuation as to various subjects* — for the purposes of paragraphs 12(1)(*t*) and (*x*), subsections 13(7.1), (7.4) and (24), paragraphs 13(27)(*b*) and (28)(*c*), subsections 13(29) and 18(9.1), paragraphs 20(1)(*e*) and (*hh*),

section 32, paragraph 37(1)(*c*), subparagraphs 53(2)(*c*)(vi) and (*h*)(ii), paragraph 53(2)(*s*), subsections 53(2.1), 66(11.4) and 66.7(11) and the determination of D in the definition 'undepreciated capital cost' in subsection 13(21) and of L in the definition 'cumulative Canadian exploration expense' in subsection 66.1(6), the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation;"

S. 87(2)(*j.6*) was amended by S.C. 1994, c. 7, Sched. II, s. 65(4), applicable to amalgamations occurring and windings-up beginning after 1989. S. 87(2)(*j.6*) formerly read:

"(*j.6*) *Continuation as to various subjects* — for the purposes of paragraphs 12(1)(*t*) and (*x*), subsections 13(7.1), (7.4) and (24), paragraphs 20(1)(*e*) and (*hh*) and 37(1)(*c*), subparagraphs 53(2)(*c*)(vi) and (*h*)(ii), paragraph 53(2)(*s*), subsections 53(2.1), 66(11.4) and 66.7(11) and the determination of D in the definition 'undepreciated capital cost' in subsection 13(21) and of L in the definition 'cumulative Canadian exploration expense' in subsection (66.1)(6), the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation;"

► 87(2)(j.7) ◄

(j.7) Certain transfers and loans — for the purposes of sections 74.4 and 74.5, the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation;

► 87(2)(j.8) ◄

(j.8) International banking centre business — for the purposes of section 33.1, the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation;

► 87(2)(j.9) ◄

(j.9) Part VI and Part I.3 tax — for the purposes of determining the amount deductible by the new corporation for any taxation year under section 125.2 or 125.3, the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation;

► 87(2)(j.91) ◄

(j.91) Part I.3 and Part VI tax — for the purpose of determining the amount deductible under subsection 181.1(4) or 190.1(3) by the new corporation for any taxation year, the new corporation is deemed to be the same corporation as, and a continuation of, each predecessor corporation, except that this paragraph does not affect the determination of the fiscal period of any corporation or the tax payable by any predecessor corporation;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 87(2)(*j.91*) of the Act is replaced by the following:

(j.91) **Part I.3 and Part VI tax** — for the purpose of determining the amount deductible under subsection 181.1(4) or 190.1(3) by the new corporation for any taxation year, the new corporation is deemed to be the same corporation as, and a continuation of, each predecessor corporation, except that this paragraph does not affect the determination of the fiscal period of any corporation or the tax payable by any corporation for any taxation year that ends before the amalgamation;

Applicable: To amalgamations that occur, and to windings-up that begin, after December 20, 2002.

Explanatory Note:

Part I.3 and Part VI Tax

Subsection 88(1) of the Act sets out rules relating to the winding-up of a subsidiary into a parent corporation that owns at least 90% of each class of shares of the subsidiary. A number of the rules that apply to amalgamations under subsection 87(2) of the Act also apply to windings-up under subsection 88(1).

Paragraph 87(2)(*j.91*) allows a new corporation, or, in the case of a winding-up under subsection 88(1), a parent corporation, to be considered as a continuation of its predecessors or subsidiary, as the case may be, for the purposes of determining an amount deductible under subsection 181.1(4) or 190.1(3) of the Act. Those provisions relate, respectively, to the deduction from a corporation's tax otherwise payable under Part I.3 of the Act of an amount in respect of its Canadian surtax, and the deduction from a financial institution's tax otherwise payable under Part VI of the Act of an amount in respect of its tax under Part I of the Act.

Paragraph 87(2)(*j.91*) is amended to clarify that it does not affect the fiscal period of, or tax payable by, any corporation for any taxation year that ends prior to an amalgamation, or, by virtue paragraph 88(1)(*e.2*), the commencement of a winding-up under subsection 88(1).

This amendment to paragraph 87(2)(*j.91*) applies to amalgamations that occur, and windings-up that begin, after December 20, 2002.

History: S. 87(2)(*j.91*) was amended by S.C. 1998, c. 19, s. 117(3), applicable to amalgamations that occur, and windings-up that begin, after April 26, 1995. S. 87(2)(*j.91*) formerly read:

"(*j.91*) *Idem* — for the purposes of determining the amount deductible under subsection 181.1(4) or 190.1(3) by the new corporation for any taxation year, the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation;"

S. 87(2)(*j.91*) was added by S.C. 1994, c. 7, Sched. VIII, s. 37(6), applicable to amalgamations occurring and windings-up beginning after 1990.

► 87(2)(j.92) ◄

(j.92) Subsections 125(5.1) and 157.1(1) — for the purposes of subsection 125(5.1) and the definition "eligible corporation" in subsection 157.1(1), the new corporation is deemed to be the same corporation as, and a continuation of, each predecessor corporation;

History: S. 87(2)(*j.92*) was amended by S.C. 2002, c. 9, s. 30(1), applicable to taxation years that end after 2001. S. 87(2)(*j.92*) formerly read:

"(*j.92*) *Subsection 125(5.1)* — for the purposes of subsection 125(5.1), the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation;"

S. 87(2)(*j.92*) was added by S.C. 1995, c. 3, s. 23(2), applicable to taxation years that end after June 1994.

► 87(2)(j.93) ◄

(j.93) Mining reclamation trusts — for the purposes of paragraphs 12(1)(*z.1*) and (*z.2*) and 20(1)(*ss*) and (*tt*) and sections 107.3 and 127.41, the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation;

History: S. 87(2)(*j.93*) was added by S.C. 1995, c. 3, s. 23(2), applicable to amalgamations that occur and windings-up that begin after February 22, 1994.

► 87(2)(j.94) ◄

(j.94) Film or video productions — for the purposes of sections 125.4 and 125.5, the new corporation is deemed to be the same corporation as, and a continuation of, each predecessor corporation;

History: S. 87(2)(*j.94*) was amended by S.C. 1998, c. 19, s. 117(4), applicable to amalgamations that occur and windings-up that begin after October 1997. S. 87(2)(*j.94*) formerly read:

"(*j.94*) *Canadian film or video production tax credit* — for the purpose of section 125.4, the new corporation is deemed to be the same corporation as, and a continuation of, each predecessor corporation;"

S. 87(2)(*j.94*) was added by S.C. 1996, c. 21, s. 15(2), applicable to amalgamations that occur and windings-up that begin after 1994.

Related Sections: S. 125.4 Canadian Film or Video Production Tax Credit.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 87(2) of the Act is amended by adding the following after paragraph (*j*.94):

(*j*.95) **Non-resident trusts and foreign investment entities** — for the purposes of sections 94 to 94.4, the new corporation is deemed to be the same corporation as, and a continuation of, each predecessor corporation;

Applicable: To taxation years that begin after 2000.

Explanatory Note: Section 87 of the Act sets out rules that apply on the amalgamation of two or more taxable Canadian corporations. The amalgamated corporation is generally treated as a continuation of the predecessor corporations for the purposes of the Act.

New paragraph 87(2)(*j*.95) provides that, where there has been an amalgamation of two or more taxable Canadian corporations, the amalgamated corporation is deemed to be a continuation of its predecessor corporations for the purposes of sections 94 to 94.4, which relate to foreign trusts and foreign investment entities. Thus, for example, an amalgamated corporation will be considered to be a "contributor" (as defined in subsection 94(1)) to a trust if any predecessor corporation was a contributor to the trust. In addition, the new corporation's "deferral amount" (as defined in subsection 94.2(1)) in respect of an interest in a foreign investment entity will be determined in the same manner as a predecessor's "deferral amount" in respect of the same interest.

Because of the operation of paragraph 88(1)(*e*.2), new paragraph 87(2)(*j*.95) also applies to windings-up to which section 88 applies.

This amendment applies to taxation years that begin after 2000.

► 87(2)(k) ◄

(k) Certain payments to employees — for the purpose of subsection 6(3), any amount received by a person from the new corporation that would, if received by the person from a predecessor corporation, be deemed for the purpose of section 5 to be remuneration for that person's services rendered as an officer or during a period of employment, shall be deemed for the purposes of section 5 to be remuneration for services so rendered by the person;

► 87(2)(l) ◄

(l) Scientific research and experimental development — for the purposes of section 37 and Part VIII, the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation;

► 87(2)(l.1) ◄

(l.1) Idem — for the purposes of this paragraph, paragraph (*l*.2) and section 37.1,

(i) the base period for a particular taxation year of a new corporation that has fewer than 3 preceding taxation years shall be deemed to be the period

(A) commencing on the day that

(I) is the earliest of all days each of which is a day immediately before the commencement of a taxation year of a predecessor corporation in respect of the new corporation that ended after 1976, and

(II) is in the 3 year period ending on the day immediately before the commencement of the particular year, and

(B) ending immediately before the first day of the particular taxation year,

(ii) where subparagraph (i) applies,

(A) in determining the qualified expenditures made by the new corporation in its base period, there shall be included the total of all amounts each of which is the qualified expenditure made by a predecessor corporation in a taxation year that commenced in the base period of the new corporation, and

(B) in determining the total of the amounts paid to the new corporation by persons referred to in subparagraphs (*b*)(i) to (iii) of the definition "expenditure base" in subsection 37.1(5) in its base period, there shall be included the total of all such amounts paid to a predecessor corporation by a person referred to in those subparagraphs in a taxation year that commenced in the base period of the new corporation,

(iii) the capital cost to the new corporation of any property that was a research property of a predecessor corporation acquired by it from the predecessor corporation shall be deemed to be the capital cost thereof to the predecessor corporation and the property shall be deemed to be a research property of the new corporation, and

(iv) each amount determined in respect of the new corporation under subparagraph 37.1(3)(*b*)(i) or (iii), as the case may be, shall be deemed to be the total of the amount otherwise determined and the total of amounts each of which is the amount determined under subparagraph 37.1(3)(*b*)(i) or (iii), as the case may be, in respect of a predecessor corporation;

► 87(2)(l.2) ◄

(l.2) Definition of "predecessor corporation" — for the purposes of this paragraph and paragraph (*l*.1), "predecessor corporation" includes any corporation in respect of which a predecessor corporation was a new corporation;

► 87(2)(l.21) ◄

(l.21) Forgiven amount — for the purposes of section 61.3, the definition "unrecognized loss" in subsection 80(1) and subsection 80.01(10), the new corporation is deemed to be the same corporation as, and a continuation of, each predecessor corporation;

History: S. 87(2)(*l*.21) was amended by S.C. 1998, c. 19, s. 117(5), applicable to taxation years that end after February 21, 1994. S. 87(2)(*l*.21) formerly read:

"(*l*.21) *Forgiven amount* — for the purposes of section 61.3 and subsection 80.01(10), the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation;"

S. 87(2)(*l*.21) was added by S.C. 1995, c. 21, s. 30(2), applicable to taxation years that end after February 21, 1994.

► 87(2)(l.3) ◄

(l.3) Replacement property — where before the amalgamation property of a predecessor corporation was unlawfully taken, lost, destroyed or taken under statutory authority, or was a former business property of the predecessor corporation, for the purposes of

applying sections 13 and 44 and the definition "former business property" in subsection 248(1) to the new corporation in respect of the property and any replacement property acquired therefor, the new corporation shall be deemed to be the same corporation as, and a continuation of, the predecessor corporation;

History: S. 87(2)(l.3) was amended by S.C. 1994, c. 7, Sched. VIII, s. 37(7), applicable to amalgamations occurring and windings-up beginning after 1989. S. 87(2)(l.3) formerly read:

"(*l.3*) *Property lost, destroyed or taken* — if the amalgamation was after May 6, 1974 and a property of a predecessor corporation was unlawfully taken, lost, destroyed or taken under statutory authority prior to the amalgamation, sections 13 and 44 apply to the new corporation as though

(i) the new corporation had been in existence and owned that property at the time it was so lost, destroyed or taken,

(ii) the cost or capital cost, as the case may be, of that property to the new corporation were its cost or capital cost, as the case may be, to the predecessor corporation, and

(iii) where the predecessor corporation had acquired a replacement property for that property before the amalgamation, the new corporation had acquired that replacement property immediately after the amalgamation;"

Related Sections: S. 248(1), "corporation", "former business property", "property".

Interpretation Bulletins: *Secondary* — IT-259R4 Exchange of property.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 87(2) of the Act is amended by adding the following after paragraph (*l.3*):

(l.4) **Subsection 13(4.2) election** — for the purposes of subsection 13(4.3) and paragraph 20(16.1)(*b*), the new corporation is deemed to be the same corporation as, and a continuation of, each predecessor corporation;

Applicable: To amalgamations that occur, and to windings-up that begin, after December 20, 2002.

Explanatory Note:

Subsection 13(4.2) Election

New paragraph 87(2)(*l.4*) of the Act is added to provide that, for the purposes of the rules in new subsection 13(4.3) and paragraph 20(16.1)(*b*) of the Act in respect of which an election is made under new subsection 13(4.2), the new corporation is deemed to be the same corporation as, and a continuation of, each predecessor corporation. This new provision also applies in respect of the winding up of a corporation to which section 88 of the Act applies, as a result of the application of paragraph 88(1)(*e.2*). New paragraph 87(2)(*l.4*) applies to amalgamations that occur, and windings up that begin, after December 20, 2002.

► 87(2)(m) ◄

(m) **Reserves** — for the purpose of computing the income of the new corporation for a taxation year, any amount claimed under subparagraph 40(1)(*a*)(iii) or 44(1)(*e*)(iii) in computing a predecessor corporation's gain for its last taxation year from the disposition of any property shall be deemed

(i) to have been claimed under subparagraph 40(1)(*a*)(iii) or 44(1)(*e*)(iii), as the case may be, in computing the new corporation's gain for a taxation year immediately preceding its first taxation year from the disposition of that property by it before its first taxation year, and

(ii) to be the amount determined under subparagraph 40(1)(*a*)(i) or 44(1)(*e*)(i), as the case may be, in respect of that property;

History: S. 87(2)(m) was amended by S.C. 1994, c. 7, Sched. II, s. 65(5), applicable to amalgamations occurring and windings-up beginning after 1989. S. 87(2)(m) formerly read:

"(*m*) *Proceeds not due until after end of year* — for the purpose of computing the income of the new corporation for its first taxation year and any subsequent taxation year, any amount claimed under subparagraph 40(1)(*a*)(iii) in computing a predecessor corporation's gain for its last taxation year from the disposition of any property shall be deemed

(i) to have been claimed under that subparagraph in computing the new corporation's gain for a taxation year immediately preceding its first taxation year from the disposition of that property by it before its first taxation year, and

(ii) to be the amount determined under subparagraph 40(1)(*a*)(i) in respect of that property;"

► 87(2)(m.1) ◄

(m.1) **Gift of non-qualifying security** — for the purpose of computing the new corporation's gain under subsection 40(1.01) for any taxation year from the disposition of a property, the new corporation is deemed to be the same corporation as, and a continuation of, each predecessor corporation;

History: S. 87(2)(*m.1*) was added by S.C. 1998, c. 19, s. 15(1), applicable to the 1997 and subsequent taxation years.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 87(2) of the Act is amended by adding the following after paragraph (*m.1*):

(m.2) **Gift of predecessor's property** — for the purpose of computing the fair market value of property under subsection 248(35), the new corporation is deemed to be the same corporation as, and a continuation of, each predecessor corporation;

Applicable: In respect of gifts of property made after 6:00 p.m. (Eastern Standard Time) on December 4, 2003.

Explanatory Note:

Gift of Predecessor's Property

New subsection 248(35) of the Act contains rules regarding the value, for tax purposes, of a gift of property acquired within a certain period. New paragraph 87(2)(*m.2*) of the Act provides that the period that would have applied to a predecessor corporation, if the predecessor had made the gift, will continue to apply after it has been wound up into the parent corporation. New paragraph 87(2)(*m.2*) applies in respect of gifts made after December 3, 2003 [see revised date in Applicable above.].

► 87(2)(n) ◄

(n) **Outlays made pursuant to warranty** — for the purpose of section 42, any outlay or expense made or incurred by the new corporation in a taxation year, pursuant to or by virtue of an obligation described in that section incurred by a predecessor corporation, that would, if the outlay or expense had been made or incurred by the predecessor corporation in that year, have been deemed to be a loss of the predecessor corporation for that year from the disposition of a capital property shall be deemed to be a loss of the new corporation for that year from the disposition of a capital property;

Interpretation Bulletins: *Secondary* — IT-330R Dispositions of capital property subject to warranty, covenant, or other conditional or contingent obligations [Archived by the CRA].

► 87(2)(o) ◄

(o) Expiration of options previously granted — for the purpose of subsection 49(2), any option granted by a predecessor corporation that expires after the amalgamation shall be deemed to have been granted by the new corporation, and any proceeds received by the predecessor corporation for the granting of the option shall be deemed to have been received by the new corporation therefor;

► 87(2)(p) ◄

(p) Consideration for resource property disposition — for the purpose of computing a deduction from the income of the new corporation for a taxation year under section 64 of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, any amount that has been included in computing the income of a predecessor corporation for its last taxation year or a previous taxation year by reason of subsection 59(1) or paragraph 59(3.2)(*c*) of this Act, of subsection 59(3) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, or of subsection 83A(5ba) or (5c) of that Act as it read in its application to a taxation year before the 1972 taxation year, shall be deemed to have been included in computing the income of the new corporation for a previous year by virtue thereof;

► 87(2)(q) ◄

(q) Registered plans — for the purposes of sections 147, 147.1 and 147.2 and any regulations made under subsection 147.1(18), the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation;

► 87(2)(r) ◄

(r) 1971 capital surplus on hand or paid-up capital deficiency — [Repealed by 1977-78, c. 1, s. 42(2).]

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 87(2) of the Act is amended by adding the following after paragraph (*q*):

(*r*) Employees profit sharing plan — an election made under subsection 144(10) by a predecessor corporation is deemed to be an election made by the new corporation;

Applicable: To amalgamations that occur, and to windings-up that begin, after 1994.

Explanatory Note:

Employees Profit Sharing Plan

New paragraph 87(2)(*r*) of the Act preserves an election under subsection 144(10) in connection with an employees profit sharing plan that was made by a predecessor corporation before an amalgamation. Paragraph 88(1)(*e.2*) of the Act provides that this rule also applies, with appropriate modifications, for the purposes of the rules relating to the winding-up of a subsidiary corporation into its parent corporation.

This amendment applies to amalgamations that occur, and windings-up that begin, after 1994.

► 87(2)(s) ◄

(s) Tax deferred cooperative shares — for the purpose of section 135.1, if the new corporation is, at the beginning of its first taxation year, an agricultural cooperative corporation (within the meaning assigned by subsection 135.1(1)),

(i) the new corporation is deemed to be the same corporation as, and a continuation of, each predecessor corporation that was an agricultural cooperative corporation at the end of the predecessor corporation's last taxation year, and

(ii) if, on the amalgamation, the new corporation issues a share (in this subparagraph referred to as the "new share") that is described in all of paragraphs (*b*) to (*d*) of the definition "tax deferred cooperative share" in subsection 135.1(1) to a taxpayer in exchange for a share of a predecessor corporation (in this subparagraph referred to as the "old share") that was, at the end of the predecessor corporation's last taxation year, a tax deferred cooperative share within the meaning assigned by that definition, and the amount of paid-up capital, and the amount, if any, that the taxpayer is entitled to receive on a redemption, acquisition or cancellation, of the new share are equal to those amounts, respectively, in respect of the old share,

(A) the new share is deemed to have been issued at the time the old share was issued, and

(B) in applying subsection 135.1(2), the taxpayer is deemed to have disposed of the old share for nil proceeds;

History: S. 87(2)(*s*) was added by S.C. 2006, c. 4, s. 55(1), applicable after 2005. S. 87(2)(*s*) was previously repealed under the former Act.

► 87(2)(s.1) ◄

(s.1) Deemed SIFT wind-up corporation — if a predecessor corporation was a SIFT wind-up corporation immediately before the amalgamation, the new corporation is deemed to be a SIFT wind-up corporation;

History: S. 87(2)(*s.1*) was added by S.C. 2009, c. 2, s. 19(2), applicable after December 19, 2007.

► 87(2)(t) ◄

(t) Pre-1972 capital surplus on hand — for the purpose of subsection 88(2.1), any capital property owned by a predecessor corporation on December 31, 1971 that was acquired by the new corporation by virtue of the amalgamation shall be deemed to have been acquired by the new corporation before 1972 at an actual cost to it equal to the actual cost of the property to the predecessor corporation;

► 87(2)(u) ◄

(u) Shares of foreign affiliate — where one or more shares of the capital stock of a foreign affiliate of a predecessor corporation have, by virtue of the amalgamation, been acquired by the new corporation and as a result of the acquisition the affiliate has become a foreign affiliate of the new corporation,

(i) for the purposes of subsection 91(5) and paragraph 92(1)(*b*), any amount required by section 92 to be added or deducted, as the case may be, in computing the adjusted cost base of any such share to the predecessor corporation before the

amalgamation shall be deemed to have been so required to be added or deducted, as the case may be, in computing the adjusted cost base of the share to the new corporation, and

(ii) for the purposes of subsections 93(2) to (2.3), any exempt dividend received by the predecessor corporation on any such share is deemed to be an exempt dividend received by the new corporation on the share;

History: S. 87(2)(*u*)(ii) was amended by S.C. 2001, c. 17, s. 65(2), applicable after November 1999. S. 87(2)(*u*)(ii) formerly read:

"(ii) for the purpose of subsection 93(2), any exempt dividend received by the predecessor corporation on any such share shall be deemed to be an exempt dividend received by the new corporation on the share;"

Related Sections: S. 54, "adjusted cost base".

► 87(2)(v) ◄

(v) Gifts — for the purposes of section 110.1, the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation with respect to gifts;

Cases: A taxpayer company was created through amalgamation of three other companies under a Rhode Island statute which permitted the continued existence of the three constituent companies and permitted them to do business in consolidated form. The taxpayer company was not allowed to deduct the business losses suffered by two of the predecessor companies. The Court could not see how business losses sustained by two of the four corporate entities could become the losses of a different corporate entity. *Allendale Mutual Insurance Co.*, 73 DTC 5382 (F.C.T.D.).

► 87(2)(w) ◄

(w) Losses — [Repealed by 1983-84, c. 1, s. 38(3).]

► 87(2)(x) ◄

(x) Taxable dividends — for the purposes of subsections 112(3) to (4.22),

(i) any taxable dividend received on a share that was deductible from the predecessor corporation's income for a taxation year under section 112 or subsection 138(6) is deemed to be a taxable dividend received on the share by the new corporation that was deductible from the new corporation's income under section 112 or subsection 138(6), as the case may be,

(ii) any dividend (other than a taxable dividend) received on a share by the predecessor corporation is deemed to have been received on the share by the new corporation, and

(iii) a share acquired by the new corporation from a predecessor corporation is deemed to have been owned by the new corporation throughout any period of time throughout which it was owned by a predecessor corporation;

History: S. 87(2)(*x*) was amended by S.C. 1998, c. 19, s. 117(6), applicable to the 1994 and subsequent taxation years except that, in its application to dispositions of shares that occurred before April 27, 1995, paragraph 87(2)(*x*) of the Act shall be read as follows:

"(*x*) for the purposes of subsections 112(3) to (4.3),

(i) any taxable dividend received on a share that was deductible from the predecessor corporation's income for a taxation year under section 112 or subsection 138(6) is deemed to be a taxable dividend received on the share by the new corporation that was deductible from the new corporation's income under section 112 or 138(6), as the case may be,

(ii) any capital dividend or life insurance capital dividend received on a share by the predecessor corporation is deemed to be a capital dividend or life insurance capital dividend, as the case may be, received on the share by the new corporation, and

(iii) a share acquired by the new corporation from a predecessor corporation is deemed to have been owned by the new corporation throughout any period of time throughout which it was owned by a predecessor corporation;"

S. 87(2)(*x*) formerly read:

"(*x*) *Taxable dividends* — for the purposes of subsections 112(3) to (4.3),

(i) any taxable dividend received on a share that was deductible from the predecessor corporation's income for a taxation year under section 112 or subsection 138(6) shall be deemed to be a taxable dividend received on the share by the new corporation that was deductible from the new corporation's income for a taxation year under section 112 or subsection 138(6), as the case may be, and

(ii) any capital dividend or life insurance capital dividend received on a share by the predecessor corporation shall be deemed to be a capital dividend or life insurance capital dividend, as the case may be, received on the share by the new corporation;"

► 87(2)(y) ◄

(y) Contributed surplus — for the purposes of subsections 84(1) and (10), the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation;

History: S. 87(2)(*y*) was added by S.C. 1994, c. 7, Sched. II, s. 65(6), applicable after July 13, 1990.

► 87(2)(y.1) ◄

(y.1) Preferred-earnings amount — [Repealed by S.C. 1998, c. 19, s. 117(7).]

History: S. 87(2)(*y.1*) was repealed by S.C. 1998, c. 19, s. 117(7), applicable to taxes payable for taxation years that begin after 1986. S. 87(2)(*y.1*) formerly read:

"(*y.1*) *Preferred-earnings amount* — for the purpose of computing the preferred-earnings amount (within the meaning assigned by subsection 181(2)) of the new corporation, there shall be added to the new corporation's preferred-earnings amount at the end of its first taxation year the total of all amounts each of which is the amount, if any, by which

(i) a predecessor corporation's preferred-earnings amount at the end of its last taxation year

exceeds

(ii) the amount that would be determined under paragraph 181(2)(*c*) in respect of the predecessor corporation for its last taxation year if the references in that paragraph to 'the immediately preceding taxation year' and 'that year' were read as 'the year';"

► 87(2)(z) ◄

(z) Foreign tax carryover — for the purposes of determining the new corporation's unused foreign tax credit (within the meaning of subsection 126(7)) in respect of a country for any taxation year and determining the extent to which subsection 126(2.3) applies to reduce the amount that may be claimed by the new corporation under paragraph 126(2)(*a*) in respect of an unused foreign tax credit in respect of a country for a taxation year, the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation, except that this paragraph shall in no respect affect the determination of

(i) the fiscal period of the new corporation or any of its predecessor corporations, or

(ii) the tax payable under this Act by any predecessor corporation;

Interpretation Bulletins: *Secondary* — IT-520 (Consolid.) Unused foreign tax credits — Carryforward and carryback.

► 87(2)(z.1) ◄

(z.1) Capital dividend account — for the purposes of computing the capital dividend account of the new corporation, it shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation, other than a predecessor corporation to which subsection 83(2.1) would, if a dividend were paid immediately before the amalgamation and an election were made under subsection 83(2) in respect of the full amount of that dividend, apply to deem any portion of the dividend to be paid by the predecessor corporation as a taxable dividend;

History: S. 87(2)(z1) was amended by S.C. 1994, c. 7, Sched. II, s. 65(7), applicable to amalgamations occurring and windings-up beginning after July 13, 1990. S. 87(2)(z1) formerly read:

"(z1) for the purpose of computing at any particular time after the amalgamation the capital dividend account of a new corporation that has been a private corporation continuously from the time of the amalgamation to the particular time, there shall be added the amount of the capital dividend account of each predecessor corporation immediately before the amalgamation, except that the amount of the capital dividend account of any predecessor corporation immediately before the amalgamation shall be deemed to be nil where, had a dividend been paid by the predecessor corporation immediately before the amalgamation and an election been made under subsection 83(2) in respect of that dividend, subsection 83(2.1) would have applied to deem all or any portion of the dividend to be a taxable dividend;"

Related Sections: S. 89(1), "capital dividend account", "private corporation".

► 87(2)(z.2) ◄

(z.2) Application of Parts III and III.1 — for the purposes of Parts III and III.1, the new corporation is deemed to be the same corporation as, and a continuation of, each predecessor corporation;

History: S. 87(2)(z2) was replaced by S.C. 2007, c. 2, s. 45(1), applicable to amalgamations that occur, and to windings-up that begin, after 2005.

S. 87(2)(z2) formerly read:

"(z2) *Application of Part III* — for the purposes of Part III, the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation;"

► 87(2)(aa) ◄

(aa) Refundable dividend tax on hand — where the new corporation was a private corporation immediately after the amalgamation, for the purpose of computing the refundable dividend tax on hand (within the meaning assigned by subsection 129(3)) of the new corporation at the end of its first taxation year there shall be added to the total determined under subsection 129(3) in respect of the new corporation for the year the total of all amounts each of which is the amount, if any, by which the refundable dividend tax on hand of a predecessor corporation at the end of its last taxation year exceeds its dividend refund (within the meaning assigned by subsection 129(1)) for its last taxation year, except that no amount shall be added under this paragraph in respect of a predecessor corporation

(i) that was not a private corporation at the end of its last taxation year, or

(ii) where subsection 129(1.2) would have applied to deem a dividend paid by the predecessor corporation immediately before the amalgamation not to be a taxable dividend for the purpose of subsection 129(1);

History: S. 87(2)(aa) was amended by S.C. 1996, c. 21, s. 15(3), applicable to amalgamations that occur and windings-up that begin after June 1995. S. 87(2)(aa) formerly read:

"(aa) *Refundable dividend tax on hand* — where the new corporation was a private corporation continuously from the time of the amalgamation until the time immediately after the beginning of any taxation year, for the purpose of computing the refundable dividend tax on hand (within the meaning assigned by subsection 129(3)) of the new corporation at the end of that year there shall be added to the total determined under subsection 129(3) for that year, from which the total of amounts determined under paragraphs 129(3)(*c*) to (*e*) is subtracted, the total of all amounts each of which is the amount, if any, by which the refundable dividend tax on hand immediately before the amalgamation of a predecessor corporation that was a private corporation at that time exceeds its dividend refund (within the meaning assigned by subsection 129(1)) for its taxation year ending at that time, except that no amount shall be so added in respect of a predecessor corporation where subsection 129(1.2) would have applied to deem a dividend paid by the predecessor corporation immediately before the amalgamation not to be a taxable dividend for the purpose of subsection 129(1);"

S. 87(2)(aa) was amended by S.C. 1994, c. 7, Sched. VIII, s. 37(8), applicable to the computation of refundable dividend tax on hand (within the meaning assigned by subsection 129(3) of the Act, as amended by s. 73(3), c. 7, Sched. VIII, S.C. 1994) for the 1993 and subsequent taxation years. S. 87(2)(aa) formerly read:

"(aa) in the case of a new corporation that has been a private corporation continuously from the time of the amalgamation to the end of any taxation year, for the purposes of computing the refundable dividend tax on hand (within the meaning assigned by subsection 129(3)), of the new corporation at the end of the taxation year, where a predecessor corporation had refundable dividend tax on hand immediately before the amalgamation, the amount by which the refundable dividend tax on hand at that time exceeds any dividend refund (within the meaning assigned by subsection 129(1)) of the predecessor corporation for its taxation year ending immediately before the amalgamation shall be added to the total determined under subsection 129(3) from which the new corporation's dividend refunds are to be subtracted, except that the amount to be added to the total determined under subsection 129(3) shall be deemed to be nil where, had a dividend been paid by the predecessor corporation immediately before the amalgamation, subsection 129(1.2) would have applied to deem the dividend not to be a taxable dividend;"

Related Sections: S. 88(1) Winding-up; s. 89(1), "private corporation"; s. 129(1) Dividend refund to private corporation; s. 129(3) Definition of "refundable dividend tax on hand"; s. 131(5) Dividend refund to mutual fund corporation; s. 186(5) Deemed private corporation; s. 248(1), "amount", "corporation", "private corporation".

► 87(2)(bb) ◄

(bb) Mutual fund and investment corporations — where the new corporation is a mutual fund corporation or an investment corporation, there shall be added to

(i) the amount determined under each of paragraphs (*a*) and (*b*) of the definition "capital gains dividend account" in subsection 131(6), and

(ii) the values of A and B in the definition "refundable capital gains tax on hand" in that subsection

in respect of the new corporation at any time the amounts so determined and the values of those factors immediately before the amalgamation in respect of each predecessor corporation that was, immediately before the amalgamation, a mutual fund corporation or an investment corporation;

History: S. 87(2)(bb) was amended by S.C. 1998, c. 19, s. 117(8), applicable to amalgamations that occur after 1991 except that, for amalgamations that occurred after 1991 and before February 23, 1994, subparagraph 87(2)(bb)(i) of the Act shall be read as follows:

"(i) the amount determined under each of paragraphs (*a*) to (*g*) of the definition 'capital gains dividend account' in subsection 131(6), and"

S. 87(2)(bb) formerly read:

"(bb) *Mutual fund and investment corporations* — where the new corporation is a mutual fund corporation or an investment corporation, there shall be added to the amount determined for each of A, B, C and D in the definition 'capital gains dividend account' and A and B in the definition 'refundable capital gains tax on hand' in subsection 131(6) in respect of the new corporation at any time the amount so determined immediately before the amalgamation in respect of each predecessor corporation that was a mutual fund corporation or an investment corporation;"

S. 87(2)(bb) was amended by S.C. 1994, c. 7, Sched. II, s. 65(8), applicable to amalgamations occurring after July 13, 1990 and, where the corporation so elected by notifying the Minister of National Revenue in writing before 1993, with respect to amalgamations occurring after 1986. S. 87(2)(bb) formerly read:

"(bb) *Mutual fund corporation* — in the case of a new corporation that is a mutual fund corporation,

(i) for the purpose of computing its capital gains dividend account at any time, where a predecessor mutual fund corporation had a capital gains dividend account immediately before the amalgamation the amount thereof shall be added to the amount determined for A in the definition 'capital gains dividend account' in subsection 131(6), and

(ii) for the purpose of computing its refundable capital gains tax on hand at the end of any taxation year, where a predecessor mutual fund corporation had refundable capital gains tax on hand immediately before the amalgamation the amount thereof shall be added to the amount determined for A in the definition 'refundable capital gains on hand' in subsection 131(6);"

► 87(2)(bb.1) ◄

(bb.1) Flow-through entities — where a predecessor corporation was, immediately before the amalgamation, an investment corporation, a mortgage investment corporation or a mutual fund corporation and the new corporation is an investment corporation, a mortgage investment corporation or a mutual fund corporation, as the case may be, for the purpose of section 39.1, the new corporation is deemed to be the same corporation as, and a continuation of, the predecessor corporation;

History: S. 87(2)(*bb*.1) was added by S.C. 1998, c. 19, s. 117(8), applicable to amalgamations that occur after 1993.

Related Sections: S. 110.6(19) Election for property owned on February 22, 1994.

► 87(2)(cc) ◄

(cc) Non-resident-owned investment corporation — in the case of a new corporation that is a non-resident-owned investment corporation,

(i) for the purpose of computing its allowable refundable tax on hand (within the meaning assigned by subsection 133(9)) at any time, where a predecessor corporation had allowable refundable tax on hand immediately before the amalgamation, the amount thereof shall be added to the total determined for A in the definition "allowable refundable tax on hand" in subsection 133(9),

(ii) for the purpose of computing its capital gains dividend account (within the meaning assigned by subsection 133(8)) at any time, where a predecessor corporation had an amount in its capital gains dividend account immediately before the amalgamation, that amount shall be added to the amount determined under paragraph (*a*) of the description of A in the definition "capital gains dividend account" in subsection 133(8), and

(iii) for the purpose of computing its cumulative taxable income (within the meaning assigned by subsection 133(9)) at any time, where a predecessor corporation had cumulative taxable income immediately before the amalgamation, the amount thereof shall be added to the total determined for A in the definition "cumulative taxable income" in subsection 133(9);

Related Sections: S. 133(8) Definitions; s. 133(9) Definitions relating to definition of "allowable refund"; s. 248(1), "non-resident-owned investment corporation".

► 87(2)(dd) ◄

(dd) Tax in respect of ineligible investments — [Repealed by 1973-74, c. 14, s. 26(3).]

► 87(2)(ee) ◄

(ee) Preferred-rate amount — [Repealed by 1984, c. 45, s. 27(5).]

► 87(2)(ff) ◄

(ff) Application of Part VII — [Repealed by 1977-78, c. 1, s. 42(5).]

► 87(2)(gg) ◄

(gg) Designated surplus — [Repealed by 1977-78, c. 1, s. 42(5).]

► 87(2)(hh) ◄

(hh) 1971 undistributed income on hand — [Repealed by 1977-78, c. 1, s. 42(5).]

► 87(2)(ii) ◄

(ii) Public corporation — where a predecessor corporation was a public corporation immediately before the amalgamation, the new corporation shall be deemed to have been a public corporation at the commencement of its first taxation year;

► 87(2)(jj) ◄

(jj) Interest on certain obligations — for the purposes of paragraph 81(1)(*m*), the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation;

► 87(2)(kk) ◄

(kk) Disposition of shares of controlled corporation — for the purposes of paragraph 40(2)(*h*),

(i) where a corporation was controlled, directly or indirectly in any manner whatever, by a predecessor corporation immediately before the amalgamation and has, by reason of the amalgamation, become controlled, directly or indirectly in any manner whatever, by the new corporation, the new corporation shall be deemed to have acquired control of the corporation so controlled at the time control thereof was acquired by the predecessor corporation, and

(ii) where a predecessor corporation was immediately before the amalgamation controlled, directly or indirectly in any manner whatever, by a corporation that, immediately after the amalgamation, controlled, directly or indirectly in any manner whatever, the new corporation, the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation;

Related Sections: S. 256(5.1) Control in fact.

► 87(2)(ll) ◄

(ll) Para. 20(1)(n) and subpara. 40(1)(a)(iii) amounts — notwithstanding any other provision of this Act, where any property was disposed of by a predecessor corporation, the new corporation shall, in computing

(i) the amount of any deduction under paragraph 20(1)(*n*) as a reserve in respect of the property sold in the course of business, and

(ii) the amount of its claim under subparagraph 40(1)(*a*)(iii) or 44(1)(*e*)(iii) in respect of the disposition of the property,

be deemed to be the same corporation as, and a continuation of, the predecessor corporation;

History: S. 87(2)(*ll*)(ii) was amended by S.C. 1994, c. 7, Sched. II, s. 65(9), applicable to amalgamations occurring and windings-up beginning after 1989. S. 87(2)(*ll*)(ii) formerly read:

"(ii) the amount of its claim under subparagraph 40(1)(*a*)(iii) in respect of the disposition of the property,"

► 87(2)(mm) ◄

(mm) Idem — for the purposes of section 126.1, the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 87(2)(*mm*) of the Act is repealed.

(mm) Idem — [Repealed.]

Applicable: To amalgamations that occur, and to windings-up that begin, after March 20, 2003.

Explanatory Note:

UI Premium Tax Credit

Paragraph 87(2)(*mm*) of the Act ensures that an amalgamated corporation will be treated as a continuation of, and the same corporation as, each of its predecessor corporations for the purposes of the provisions relating to UI premium tax credit. That paragraph is repealed as a consequence of the repeal of the provisions relating to the UI premium tax credit. For additional information, see the commentary to section 126.1.

This change applies in respect of amalgamations that occur, and to windings-up that begin, after March 20, 2003.

History: S. 87(2)(mm) was added by S.C. 1994, c. 8, s. 9(1), applicable to amalgamations occurring, and windings-up beginning, after 1991.

► 87(2)(nn) ◄

(nn) Refundable Part VII tax on hand — for the purpose of computing the refundable Part VII tax on hand of the new corporation at the end of any taxation year, there shall be added to the total determined under paragraph 192(3)(*a*) the total of all amounts each of which is the amount, if any, by which

(i) a predecessor corporation's refundable Part VII tax on hand at the end of its last taxation year exceeds

(ii) the predecessor corporation's Part VII refund for its last taxation year;

► 87(2)(oo) ◄

(oo) Investment tax credit — for the purpose of applying subsection 127(10.2) to any corporation, the new corporation is deemed to have had

(i) a particular taxation year that

(A) where it was associated with another corporation in the new corporation's first taxation year, ended in the calendar year that precedes the calendar year in which that first year ends, and

(B) in any other case, immediately precedes that first year, and

(ii) taxable income for the particular year (determined before taking into consideration the specified future tax consequences for the particular year) equal to the total of all amounts each of which is a predecessor corporation's taxable income for its taxation year that ended immediately before the amalgamation (determined before taking into consideration the specified future tax consequences for that year);

History: S. 87(2)(*oo*) was amended by S.C. 1997, c. 25, s. 18(2), applicable to amalgamations that occur after 1995, except that, for amalgamations that occur in 1996, the expression "any corporation" in paragraph 87(2)(*oo*) shall be read as "the new corporation". S. 87(2)(*oo*) formerly read:

"(*oo*) *Investment tax credit* — for the purposes of applying subsection 127(10.1), paragraph 127.1(2)(*a*) and subparagraph 157(1)(*b*)(i) in respect of the first taxation year of the new corporation, the new corporation shall be deemed to have had a taxation year immediately preceding its first taxation year and to have had

(i) taxable income for that preceding taxation year equal to the total of amounts each of which is the taxable income of a predecessor corporation for its taxation year ending immediately before the amalgamation, and

(ii) a business limit for that preceding taxation year equal to the total of amounts each of which is the business limit of a predecessor corporation for its taxation year ending immediately before the amalgamation;"

Related Sections: S. 127(10.1) Additions to investment tax credit; s. 127(10.2) Expenditure limit determined; s. 127(16) Non-arm's length parties; s. 127.1(2) Definitions; s. 249(1) Definition of "taxation year".

► 87(2)(oo.1) ◄

(oo.1) Refundable investment tax credit and balance-due day — for the purpose of applying the definition "qualifying corporation" in subsection 127.1(2), and subparagraph (*d*)(i) of the definition "balance-due day" in subsection 248(1), to any corporation, the new corporation is deemed to have had

(i) a particular taxation year that

(A) where it was associated with another corporation in the new corporation's first taxation year, ended in the calendar year that precedes the calendar year in which that first year ends, and

(B) where clause (A) does not apply, immediately precedes that first year,

(ii) taxable income for the particular year (determined before taking into consideration the specified future tax consequences for the particular year) equal to the total of all amounts each of which is a predecessor corporation's taxable income for its taxation year that ended immediately before the amalgamation (determined before taking into consideration the specified future tax consequences for that year), and

(iii) a business limit for the particular year equal to the total of all amounts each of which is a predecessor corporation's business limit for its taxation year that ended immediately before the amalgamation;

History: S. 87(2)(*oo.*1), the portion before subparagraph (i) was amended by S.C. 2002, c. 9, s. 30(2), applicable to taxation years that end after 2001. S. 87(2)(*oo.*1), the portion before subparagraph (i) formerly read:

"(*oo.*1) *Refundable investment tax credit and balance-due day* — for the purpose of applying subparagraph 157(1)(*b*)(i) and the definition 'qualifying corporation' in subsection 127.1(2) to any corporation, the new corporation is deemed to have had"

S. 87(2)(*oo.*1) was added by S.C. 1997, c. 25, s. 18(3), applicable to amalgamations that occur after May 23, 1985, except that,

(*a*) for amalgamations that occur before 1997, the expression "any corporation" in paragraph 87(2)(*oo.*1) shall be read as "the new corporation";

(*b*) for the purpose of applying that paragraph for the purpose of the definition "qualifying corporation" in subsection 127.1(2) of the Act, the business limits referred to in that paragraph, for taxation years that ended after June 1994 and began before 1996, shall be determined under section 125 of the Act as that section read in its application to taxation years that ended before July 1994; and

(*c*) clause 87(2)(*oo.*1)(i)(A) does not apply

(i) for the purpose of applying the definition "qualifying corporation" in subsection 127.1(2) of the Act to taxation years that ended before July 1994, and

(ii) for the purpose of applying subparagraph 157(1)(*b*)(i) of the Act to taxation years that end before 1998.

Related Sections: S. 248(1), "specified future tax consequences".

► 87(2)(pp) ◄

(pp) Cumulative offset account computation — for the purpose of computing the cumulative offset

account (within the meaning assigned by subsection 66.5(2)) of the new corporation at any time, there shall be added to the total otherwise determined under paragraph 66.5(2)(*a*) the total of all amounts each of which is the amount, if any, by which

(i) a predecessor corporation's cumulative offset account at the end of its last taxation year

exceeds

(ii) the amount deducted under subsection 66.5(1) in computing the predecessor corporation's income for its last taxation year;

► 87(2)(qq) ◄

(qq) Continuation of corporation — for the purpose of computing the new corporation's investment tax credit at the end of any taxation year, the new corporation is deemed to be the same corporation as, and a continuation of, each predecessor corporation, except that this paragraph does not affect the determination of the fiscal period of any corporation or the tax payable by any predecessor corporation;

History: S. 87(2)(*qq*) was amended by S.C. 1998, c. 19, s. 117(9), applicable to amalgamations that occur after April 26, 1995. S. 87(2)(*qq*) formerly read:

"(*qq*) *Continuation of corporation* — for the purpose of computing the new corporation's investment tax credit and employment tax credit at the end of any taxation year, the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation;"

Related Sections: S. 127(5) Investment tax credit.

► 87(2)(rr) ◄

(rr) Tax on taxable preferred shares — for the purposes of subsections 112(2.9), 191(4), and 191.1(2) and (4), the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation;

► 87(2)(ss) ◄

(ss) Transferred liability for Part VI.1 tax — for the purposes of section 191.3, the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation;

► 87(2)(tt) ◄

(tt) Livestock — inclusion of deferred amount — for the purposes of subsections 80.3(3) and (5), the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation;

► 87(2)(uu) ◄

(uu) Fuel tax rebates — for the purposes of paragraph 12(1)(*x.1*), the description of D.1 in the definition "non-capital loss" in subsection 111(8), and subsections 111(10) and (11), the new corporation is deemed to be the same corporation as, and a continuation of, each predecessor corporation;

History: S. 87(2)(*uu*) was amended by S.C. 1997, c. 26, s. 83(1), applicable to the 1997 and subsequent taxation years. S. 87(2)(*uu*) formerly read:

"(*uu*) *Fuel tax rebates* — for the purposes of paragraph 12(1)(x.1), the description of D.1 in the definition 'non-capital loss' in subsection 111(8), clause 111(10)(*a*)(i)(B) and subsection 111(11), the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation."

S. 87(2)(*uu*) was added by S.C. 1994, c. 7, Sched. VI, s. 3(1), applicable to amalgamations occurring after 1991.

► 87(2)(vv) ◄

(vv) General rate income pool — if the new corporation is a Canadian-controlled private corporation or a deposit insurance corporation in its first taxation year, in computing its general rate income pool at the end of that first taxation year there shall be added the total of all amounts determined under subsection 89(5) in respect of the corporation for that first taxation year; and

History: S. 87(2)(*vv*) was added by S.C. 2007, c. 2, s. 45(2), applicable to amalgamations that occur, and to windings-up that begin, after 2005.

► 87(2)(ww) ◄

(ww) Low rate income pool — if the new corporation is neither a Canadian-controlled private corporation nor a deposit insurance corporation in its first taxation year, there shall be added in computing its low rate income pool at any time in that first taxation year the total of all amounts determined under subsection 89(9) in respect of the corporation for that first taxation year.

History: S. 87(2)(*ww*) was added by S.C. 2007, c. 2, s. 45(2), applicable to amalgamations that occur, and to windings-up that begin, after 2005.

► 87(2.01) ◄

(2.01) Application of s. 37.1(5). The definitions in subsection 37.1(5) apply to subsection (2).

History: S. 87(2.01) was not part of the former Act.

► 87(2.1) ◄

(2.1) Non-capital losses, etc., of predecessor corporations. Where there has been an amalgamation of two or more corporations, for the purposes only of

(*a*) determining the new corporation's non-capital loss, net capital loss, restricted farm loss, farm loss or limited partnership loss, as the case may be, for any taxation year, and

(*b*) determining the extent to which subsections 111(3) to (5.4) and paragraph 149(10)(*c*) apply to restrict the deductibility by the new corporation of any non-capital loss, net capital loss, restricted farm loss, farm loss or limited partnership loss, as the case may be,

the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation, except that this subsection shall in no respect affect the determination of

(*c*) the fiscal period of the new corporation or any of its predecessors,

(*d*) the income of the new corporation or any of its predecessors, or

(*e*) the taxable income of, or the tax payable under this Act by, any predecessor corporation.

History: S. 87(2.1)(*b*) was amended by S.C. 1998, c. 19, s. 117(10), applicable to a corporation that becomes or ceases to be exempt from tax under Part I of the Act after April 26, 1995. S. 87(2.1)(*b*) formerly read:

"(*b*) determining the extent to which subsections 111(3) to (5.4) and paragraph 149(10)(*d*) apply to restrict the deductibility by the new corporation of any non-capital loss, net capital loss, restricted farm loss, farm loss or limited partnership loss, as the case may be,"

Editorial Note: In general terms, subsection 87(2.1) permits non-capital losses, net capital losses, restricted farm losses, farm losses, and limited partnership losses of a predecessor corporation to be carried forward and utilized by the amalgamated corporation, subject to the various change-of-control rules. The provision does not allow losses of the amalgamated corporation to be carried back to a predecessor's taxation year. However, subsec-

tion 87(2.11) allows an amalgamated corporation's losses to be carried back to reduce a particular predecessor's taxable income under section 111 (certain unused tax credits may also be carried back), where the particular predecessor was a parent corporation that amalgamated with one or more of its wholly owned subsidiaries.

Related Sections: S. 111(1) Losses deductible; s. 249.1(1) Definition of "fiscal period"; s. 256(7) Acquiring control.
Interpretation Bulletins: *Primary* — IT-302R3 Losses of a corporation — The effect on their deductibility of changes in control, amalgamation and winding-up. *Secondary* — IT-232R3 Non-capital losses, net capital losses, restricted farm losses, farm losses and limited partnership losses — Their composition and deductibility in computing taxable income.
Cases: By bringing two corporations under common control prior to their amalgamation, the taxpayer had successfully avoided the acquisition of control restrictions and was able to transfer non-capital losses from one to the other. *Duha Printers (Western) Ltd. v. The Queen*, 98 DTC 6334 (S.C.C.), reversing 96 DTC 6323 (F.C.A.) and affirming 95 DTC 828 (T.C.C.).

► 87(2.11) ◄

(2.11) Vertical amalgamations. Where a new corporation is formed by the amalgamation of a particular corporation and one or more of its subsidiary wholly-owned corporations, the new corporation is deemed to be the same corporation as, and a continuation of, the particular corporation for the purposes of applying sections 111 and 126, subsections 127(5) to (26) and 181.1(4) to (7), Part IV and subsections 190.1(3) to (6) in respect of the particular corporation.

History: S. 87(2.11) was amended by S.C. 1998, c. 19, s. 117(11), applicable to amalgamations that occur after April 26, 1995. S. 87(2.11) formerly read:

"(2.11) *Losses, etc., on amalgamation with subsidiary wholly-owned corporation.* Where a new corporation is formed by the amalgamation of a particular corporation and one or more of its subsidiary wholly-owned corporations, the new corporation shall, for the purposes of applying section 111 and Part IV in respect of the particular corporation, be deemed to be the same corporation as, and a continuation of, the particular corporation."

S. 87(2.11) was added by S.C. 1994, c. 7, Sched. VIII, s. 37(9), applicable to amalgamations occurring after 1989.

Editorial Note: See the editorial note following subsection 87(2.1).

Related Sections: S. 87(1.4) Definition of "subsidiary wholly-owned corporation"; s. 248(1), "corporation".

► 87(2.2) ◄

(2.2) Amalgamation of insurers. Where there has been an amalgamation and one or more of the predecessor corporations was an insurer, the new corporation is, notwithstanding subsection (2), deemed, for the purposes of paragraphs 12(1)(*d*), (*e*), (*e.1*), (*i*) and (*s*), subsection 12.5(8), paragraphs 20(1)(*l*), (*l.1*), (*p*) and (*jj*) and 20(7)(*c*), subsections 20(22) and 20.4(4), sections 138, 138.1, 140, 142 and 148 and Part XII.3, to be the same corporation as, and a continuation of, each of those predecessor corporations.

History: S. 87(2.2) was replaced by S.C. 2009, c. 2, s. 19(3), applicable to taxation years that begin after September 2006. S. 87(2.2) formerly read:

"(2.2) *Amalgamation of insurers.* Where there has been an amalgamation and one or more of the predecessor corporations was an insurer, the new corporation is, notwithstanding subsection (2), deemed, for the purposes of paragraphs 12(1)(*d*), (*e*), (*e.1*), (*i*) and (*s*) and 20(1)(*l*), (*l.1*), (*p*) and (*jj*) and 20(7)(*c*), subsection 20(22), sections 138, 138.1, 140, 142 and 148 and Part XII.3, to be the same corporation as, and a continuation of, each of those predecessor corporations."

S. 87(2.2) was amended by S.C. 1997, c. 25, s. 18(4), applicable to amalgamations that occur after 1995. S. 87(2.2) formerly read:

"(2.2) *Amalgamation of insurance corporations.* Where there has been an amalgamation of two or more corporations and one or more of the predecessor corporations was an insurance corporation, the new corporation shall, notwithstanding subsection (2), be deemed, for the purposes of paragraphs 12(1)(*d*), (*e*), (*i*) and (*s*) and 20(1)(*l*), (*l.1*), (*p*) and (*jj*) and 20(7)(*c*), sections 138, 138.1, 140, 142 and 148 and Part XII.3 of this Act and section 33 of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, to be the same corporation as, and a continuation of, each such predecessor corporation."

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 87 of the Act is amended by adding the following after subsection (2.2):

(2.3) Quebec credit unions. For the purpose of applying this section to an amalgamation governed by section 689 of *An Act respecting financial services cooperatives*, R.S.Q., c. C-67.3, an investment deposit of a credit union is deemed to be a share of a separate class of the capital stock of a predecessor corporation in respect of the amalgamation the adjusted cost base and paid up capital of which to the credit union is equal to the adjusted cost base to the credit union of the investment deposit immediately before the amalgamation if

(*a*) immediately before the amalgamation, the investment deposit is an investment deposit to which section 425 of the *Savings and Credit Unions Act*, R.S.Q., c. C-4.1, applies to the investment fund of that predecessor corporation; and

(*b*) on the amalgamation the credit union disposes of the investment deposit for consideration that consists solely of shares of a class of the capital stock of the new corporation.

Applicable: To amalgamations that occur after June, 2001.

Explanatory Note:

Quebec Credit Unions

New subsection 87(2.3) of the Act provides a special rule that applies to an "investment deposit" of a Quebec credit union in another Quebec credit union (the "predecessor corporation"). This rule applies where the credit union's investment deposit in the predecessor corporation is disposed of because of an amalgamation of credit unions that includes the predecessor corporation with that amalgamation being governed by section 689 of the *Act Respecting Financial Services Cooperatives*, R.S.Q., 2001, c. C-67.3. The credit union's investment deposit will, if certain conditions are met, be deemed to be a share of the capital stock of the predecessor corporation having an adjusted cost base and paid up capital equal to the adjusted cost base of the investment deposit to the credit union. The conditions that must be met are that

- immediately before the amalgamation the investment deposit must be an investment deposit (to which section 425 of the *Savings and Credit Unions Act*, R.S.Q., 2001, c. C-4.1 applies) in an investment fund of the predecessor corporation; and
- on the amalgamation the credit union disposes of the investment deposit for consideration that consists solely of shares of the capital stock of the new corporation.

This amendment applies to amalgamations that occur after June 2001.

► 87(3) ◄

(3) Computation of paid-up capital. Subject to subsection (3.1), where there is an amalgamation or a merger of 2 or more Canadian corporations, in computing at any particular time the paid-up capital in respect of any particular class of shares of the capital stock of the new corporation,

(*a*) there shall be deducted that proportion of the amount, if any, by which the paid-up capital, determined without reference to this subsection, in respect of all the shares of the capital stock of the new corporation immediately after the amalgama-

tion or merger exceeds the total of all amounts each of which is the paid-up capital in respect of a share (except a share held by any other predecessor corporation) of the capital stock of a predecessor corporation immediately before the amalgamation or merger, that

(i) the paid-up capital, determined without reference to this subsection, of the particular class of shares of the capital stock of the new corporation immediately after the amalgamation or merger

is of

(ii) the paid-up capital, determined without reference to this subsection, in respect of all of the issued and outstanding shares of the capital stock of the new corporation immediately after the amalgamation or merger; and

(*b*) there shall be added an amount equal to the lesser of

(i) the amount, if any, by which

(A) the total of all amounts each of which is an amount deemed by subsection 84(3), (4) or (4.1) to be a dividend on shares of the particular class paid by the new corporation before the particular time

exceeds

(B) the total that would be determined under clause (A) if this Act were read without reference to paragraph (*a*), and

(ii) the amount required by paragraph (*a*) to be deducted in computing the paid-up capital of shares of the particular class.

History: S. 87(3), that portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 37(10), applicable to amalgamations occurring after 1990. S. 87(3), that portion preceding paragraph (*a*), formerly read:

"(3) *Computation of paid-up capital.* Where there has been an amalgamation or a merger after March 31, 1977 of two or more Canadian corporations, in computing, at any particular time the paid-up capital in respect of any particular class of shares of the capital stock of the new corporation"

Editorial Note: Although the paid-up capital reduction under paragraph 87(3)(*a*), if any, ensures that the aggregate paid-up capital (PUC) in respect of the shares of the amalgamated corporation does not exceed the aggregate PUC in respect of the shares of all of the predecessor corporations (except those shares owned by predecessor corporations), the provision does not prevent the "shifting" of PUC from the previous shareholders of one predecessor corporation to the previous shareholders of another predecessor corporation. The CRA has traditionally condoned such "shifting" of PUC; however, the CRA has also noted that the general anti-avoidance rule might apply where "... these schemes could be viewed as a subset of surplus stripping (see paragraph 47 of IT-474R2). Taxpayers undertake amalgamations to use subsection 87(3) to shift PUC from tax-indifferent shareholders to other shareholders". See the CTF 2001 Conference Report, 39:1-23, at 39:4.

Related Sections: S. 89(1), "Canadian corporation", "paid-up capital", s. 248(1), "Canadian corporation", "corporation".

Interpretation Bulletins: *Secondary* — IT-463R2 Paid-up capital.

► 87(3.1) ◄

(3.1) Election for non-application of subsection (3). Where,

(*a*) there is an amalgamation of 2 or more corporations,

(*b*) all of the issued shares, immediately before the amalgamation, of each class of shares (other than a class of shares all of the issued shares of which were cancelled on the amalgamation) of the capital stock of each predecessor corporation (in this subsection referred to as the "exchanged class") are converted into all of the issued shares, immediately after the amalgamation, of a separate class of shares of the capital stock of the new corporation (in this subsection referred to as the "substituted class"),

(*c*) immediately after the amalgamation, the number of shareholders of each substituted class, the number of shares of each substituted class owned by each shareholder, the number of issued shares of each substituted class, the terms and conditions of each share of a substituted class, and the paid-up capital of each substituted class determined without reference to the provisions of this Act are identical to the number of shareholders of the exchanged class from which the substituted class was converted, the number of shares of each such exchanged class owned by each shareholder, the number of issued shares of each such exchanged class, the terms and conditions of each share of such exchanged class, and the paid-up capital of each such exchanged class determined without reference to the provisions of this Act, respectively, immediately before the amalgamation, and

(*d*) the new corporation elects in its return of income filed in accordance with section 150 for its first taxation year to have the provisions of this subsection apply,

for the purpose of computing at any particular time the paid-up capital in respect of any particular class of shares of the capital stock of the new corporation,

(*e*) subsection (3) does not apply in respect of the amalgamation, and

(*f*) each substituted class shall be deemed to be the same as, and a continuation of, the exchanged class from which it was converted.

History: S. 87(3.1) was added by S.C. 1994, c. 7, Sched. VIII, s. 37(11), applicable to amalgamations occurring after 1990.

Editorial Note: In contrast to the "shifting" of PUC that can occur when subsection 87(3) applies, subsection 87(3.1) ensures that the PUC in respect of each class of shares of a predecessor corporation flows through to the class of shares of the amalgamated corporation into which it is converted.

Related Sections: S. 89(1), "paid-up capital"; s. 248(1), "corporation", "share", "shareholder".

► 87(4) ◄

(4) Shares of predecessor corporation. Where there has been an amalgamation of two or more corporations after May 6, 1974, each shareholder (except any predecessor corporation) who, immediately before the amalgamation, owned shares of the capital stock of a predecessor corporation (in this subsection referred to as the "old shares") that were capital property to the shareholder and who received no consideration for the disposition of those shares on the amalgamation, other than shares of the capital stock of the new corporation (in this subsection referred to as the "new shares"), shall be deemed

(*a*) to have disposed of the old shares for proceeds equal to the total of the adjusted cost bases to the shareholder of those shares immediately before the amalgamation, and

(*b*) to have acquired the new shares of any particular class of the capital stock of the new corporation at a cost to the shareholder equal to that proportion of the proceeds described in paragraph (*a*) that

(i) the fair market value, immediately after the amalgamation, of all new shares of that particular class so acquired by the shareholder,

is of

(ii) the fair market value, immediately after the amalgamation, of all new shares so acquired by the shareholder,

except that, where the fair market value of the old shares immediately before the amalgamation exceeds the fair market value of the new shares immediately after the amalgamation and it is reasonable to regard any portion of the excess (in this subsection referred to as the "gift portion") as a benefit that the shareholder desired to have conferred on a person related to the shareholder, the following rules apply:

(*c*) the shareholder shall be deemed to have disposed of the old shares for proceeds of disposition equal to the lesser of

(i) the total of the adjusted cost bases to the shareholder, immediately before the amalgamation, of the old shares and the gift portion, and

(ii) the fair market value of the old shares immediately before the amalgamation,

(*d*) the shareholder's capital loss from the disposition of the old shares shall be deemed to be nil, and

(*e*) the cost to the shareholder of any new shares of any class of the capital stock of the new corporation acquired by the shareholder on the amalgamation shall be deemed to be that proportion of the lesser of

(i) the total of the adjusted cost bases to the shareholder, immediately before the amalgamation, of the old shares, and

(ii) the total of the fair market value, immediately after the amalgamation, of all new shares so acquired by the shareholder and the amount that, but for paragraph (*d*), would have been the shareholder's capital loss from the disposition of the old shares

that

(iii) the fair market value, immediately after the amalgamation, of the new shares of that class so acquired by the shareholder

is of

(iv) the fair market value, immediately after the amalgamation, of all new shares so acquired by the shareholder,

and where the old shares were taxable Canadian property of the shareholder, the new shares shall be deemed to be taxable Canadian property of the shareholder.

Editorial Note: A conversion of shares of a predecessor corporation (old shares) into shares of the amalgamated corporation (new shares) will normally be considered a disposition of the old shares; see subparagraph (*b*)(iii) of the definition of "disposition" in subsection 248(1). Subsection 87(4) provides a rollover (deemed disposition for proceeds equal to the adjusted cost base of the old shares) where the shareholder of a predecessor corporation (other than a predecessor corporation) receives only new shares as consideration for the disposition of its old shares. The old shares must be capital property of the shareholder. The CRA has stated that it will not deny the rollover merely because the shareholder is required to receive cash or other consideration in lieu of a fraction of a new share of the amalgamated corporation; see paragraph 36 of IT-474R2 and CRA Document No. 2003-0013315. The rollover may be limited under paragraph 87(1)(*c*) if the fair market value of the shareholder's new shares is less than the fair market value of the shareholder's old shares and it is reasonable to regard the difference as a benefit that the shareholder desired to have conferred on a related person.

Draft paragraph (*n*) of the definition of "disposition" in subsection 248(1) generally excludes from that definition the cancellation, upon the amalgamation, of a share of a predecessor corporation held by another predecessor corporation. Therefore, there will be no proceeds of disposition of the share in such case. (See paragraph 41 of IT-474R2 regarding the CRA position prior to the introduction of draft paragraph (*n*) referred to above.) However, if the other corporation is a parent corporation and the amalgamation is a vertical amalgamation subject to subsection 87(11), the cancellation of the shares of the predecessor corporation held by the parent corporation is considered a disposition of those shares, and the deemed proceeds of disposition are determined under paragraph 88(1)(*b*).

See also subsection 7(1.5), which can apply if the old shares were acquired under an employee stock option and the resulting stock option benefit was deferred under subsection 7(1.1) or 7(8). For the purposes of the stock option rules, the employee/shareholder is deemed not to have disposed of the old shares, and the new shares are generally deemed to be the same as, and a continuation of, the old shares.

Related Sections: S. 7(1.5) Rules where securities exchanged; s. 54, "adjusted cost base", "capital property"; s. 87(5) Options to acquire shares of predecessor corporation; s. 87(8) Foreign merger; s. 87(9) Rules applicable in respect of certain mergers; s. 248(1), "disposition", "taxable Canadian property"; ITAR s. 26(21) Shares received on amalgamation.

Interpretation Bulletins: *Secondary* — IT-113R3 Benefits to employees — Stock options.

Tax Topics: No. 1870, CRA Reverts to Its Original Position in IT-474R2; No. 1869, Happy New Year! How the CRA Has Lengthened the Wait Time for Section 116 Clearance Certificates.

► 87(4.1) ◄

(4.1) Exchanged shares. For the purposes of the definition "term preferred share" in subsection 248(1), where there has been an amalgamation of two or more corporations after November 16, 1978 and a share of any class of the capital stock of the new corporation (in this subsection referred to as the "new share") was issued in consideration for the disposition of a share of any class of the capital stock of a predecessor corporation (in this subsection referred to as the "exchanged share") and the terms and conditions of the new share were the same as, or substantially the same as, the terms and conditions of the exchanged share,

(*a*) the new share shall be deemed to have been issued at the time the exchanged share was issued;

(*b*) if the exchanged share was issued under an agreement in writing, the new share shall be deemed to have been issued under that agreement; and

(*c*) the new corporation shall be deemed to be the same corporation as, and a continuation of, each such predecessor corporation.

Related Sections: S. 248(1), "term preferred share".

► 87(4.2) ◄

(4.2) Idem. Where there has been an amalgamation or merger of two or more corporations after November 27, 1986 and a share of any class of the capital stock of the new corporation (in this subsection referred to as the "new share") was issued to a shareholder in consideration for the disposition of a share by that shareholder of any class of the capital stock of a predecessor corporation (in this subsection referred to as the "exchanged share") and the terms and conditions of the new share were the same as, or substantially the same as, the terms and conditions of the exchanged share, for the purposes of applying the provisions of this subsection, subsections 112(2.2) and (2.4), Parts IV.1 and VI.1, section 258 and the definitions "grandfathered share", "short-term preferred share", "taxable preferred share" and "taxable RFI share" in subsection 248(1) to the new share, the following rules apply:

(*a*) the new share shall be deemed to have been issued at the time the exchanged share was issued;

(*b*) where the exchanged share was a share described in paragraph (*a*), (*b*), (*c*) or (*d*) of the definition "grandfathered share" in subsection 248(1), the new

share shall be deemed to be the same share as the exchanged share for the purposes of that definition;

(*c*) the new share shall be deemed to have been acquired by the shareholder at the time the exchanged share was acquired by the shareholder;

(*d*) the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation;

(*e*) an election made under subsection 191.2(1) by a predecessor corporation with respect to the class of shares of its capital stock to which the exchanged share belonged shall be deemed to be an election made by the new corporation with respect to the class of shares of its capital stock to which the new share belongs; and

(*f*) where the terms or conditions of the exchanged share or an agreement in respect of the exchanged share specify an amount in respect of the exchanged share for the purposes of subsection 191(4) and an amount equal to the amount so specified in respect of the exchanged share is specified in respect of the new share for the purposes of subsection 191(4),

(i) for the purposes of subparagraphs 191(4)(*d*)(i) and (*e*)(i), the new share shall be deemed to have been issued for the same consideration as that for which the exchanged share was issued and to have been issued for the purpose for which the exchanged share was issued,

(ii) for the purposes of subparagraphs 191(4)(*d*)(ii) and (*e*)(ii), the new share shall be deemed to be the same share as the exchanged share and to have been issued for the purpose for which the exchanged share was issued, and

(iii) where the shareholder received no consideration for the disposition of the exchanged share other than the new share, for the purposes of subsection 191(4),

(A) in the case of an exchanged share to which subsection 191(4) applies because of paragraph 191(4)(*a*), the new share shall be deemed to have been issued for consideration having a fair market value equal to the consideration for which the exchanged share was issued, and

(B) in the case of an exchanged share to which subsection 191(4) applies because of an event described in paragraph 191(4)(*b*) or (*c*), the consideration for which the new share was issued shall be deemed to have a fair market value equal to the fair market value of the exchanged share immediately before the time that event occurred.

History: S. 87(4.2)(*f*) was added by S.C. 1994, c. 7, Sched. II, s. 65(10), applicable to the 1988 and subsequent taxation years.

► 87(4.3) ◄

(4.3) Exchanged rights. Where there has been an amalgamation or merger of two or more corporations after June 18, 1987 and a right listed on a designated stock exchange to acquire a share of any class of the capital stock of the new corporation (in this subsection referred to as the "new right") was acquired by a shareholder in consideration for the disposition of a right described in paragraph (*d*) of the definition "grandfathered share" in subsection 248(1) to acquire a share of any class of the capital stock of a predecessor corporation (in this subsection referred to as the "exchanged right"), the new right shall be deemed to be the same right as the exchanged right for the purposes of paragraph (*d*) of the definition "grandfathered share" in subsection 248(1) where the terms and conditions of the new right were the same as, or substantially the same as, the terms and conditions of the exchanged right and the terms and conditions of the share receivable on an exercise of the new right were the same as, or substantially the same as, the terms and conditions of the share that would have been received on an exercise of the exchanged right.

History: S. 87(4.3) was amended by S.C. 2007, c. 35, s. 68(2), by replacing "prescribed stock exchange" with "designated stock exchange", applicable on and after December 14, 2007.

Related Sections: S. 262 Designated stock exchanges.
Regulations: 3200.

► 87(4.4) ◄

(4.4) Flow-through shares. Where

(*a*) there is an amalgamation of two or more corporations each of which is a principal-business corporation (within the meaning assigned by subsection 66(15)) or a corporation that at no time carried on business,

(*b*) a predecessor corporation entered into an agreement with a person at a particular time for consideration given by the person to the predecessor corporation,

(*c*) a share of the predecessor corporation

(i) that was a flow-through share (in this subsection having the meaning that would be assigned by subsection 66(15) if the definition "flow-through share" in that subsection were read without reference to the portion after paragraph (*b*) of that definition) was issued to the person before the amalgamation, or

(ii) that would (if it were issued) be a flow-through share, was to be issued to the person

for the consideration under the agreement, and

(*d*) the new corporation

(i) issues a share (in this subsection referred to as a "new share") of any class of its capital stock on the amalgamation to the person in consideration for the disposition of the flow-through share of the predecessor corporation and the terms and conditions of the new share are the same as, or substantially the same as, the terms and conditions of the flow-through share, or

(ii) is obliged after the amalgamation to issue a new share of any class of its capital stock to the person under the obligation of the predecessor corporation to issue a flow-through share of the predecessor corporation to the person and the new share would not, if issued, be a prescribed share referred to in the definition "flow-through share" in subsection 66(15),

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was

dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraphs 87(4.4)(c) and (d) of the Act are replaced by the following:

(c) for the consideration under the agreement

(i) a share (in this subsection referred to as the "old share") of the predecessor corporation that was a flow-through share (other than a right to acquire a share) was issued to the person before the amalgamation, or

(ii) a right was issued to the person before the amalgamation to acquire a share that would, if it were issued, be a flow-through share, and

(d) the new corporation

(i) issues, on the amalgamation and in consideration for the disposition of the old share, a share (in this subsection referred to as a "new share") of any class of its capital stock to the person (or to any person or partnership that subsequently acquired the old share) and the terms and conditions of the new share are the same as, or substantially the same as, the terms and conditions of the old share, or

(ii) is, because of the right referred to in subparagraph (c)(ii), obliged after the amalgamation to issue to the person a share of any class of the new corporation's capital stock that would, if it were issued, be a flow-through share,

Applicable: To amalgamations that occur after 1997.

Explanatory Note:

Flow-Through Shares

Subsection 87(4.4) of the Act applies where there is an amalgamation of two or more corporations and a predecessor corporation of the new corporation formed on the amalgamation had entered into a flow-through share agreement. The rules in subsection 87(4.4) generally enable the new corporation to renounce certain resource-related expenses incurred after the amalgamation to a flow-through shareholder.

Paragraph 87(4.4)(c) sets out certain conditions that must be satisfied for a new corporation to renounce expenses to a flow-through shareholder of a predecessor corporation. This paragraph is amended, effective for amalgamations that occur after 1997, to delete the unnecessary reference to the definition "flow-through share" in subsection 66(15) of the Act and to ensure that this paragraph is consistent with the amended definition "flow-through share" in subsection 66(15).

Paragraph 87(4.4)(d) sets out certain conditions that must be satisfied to qualify for the relief provided in subsection 87(4.4). Subparagraph 87(4.4)(d)(i) requires the new corporation to issue a new share to the flow-through share subscriber in consideration for the flow-through share. Current subparagraph 87(4.4)(d)(i) does not, however, contemplate the transfer of a flow-through share by the flow-through share subscriber ("original flow-through shareholder") prior to an amalgamation. Consequently, subsection 87(4.4) does not accommodate a renunciation by the new corporation to an original flow-through shareholder of expenses incurred by the new corporation if the original flow-through shareholder transferred those shares to another person. Subparagraph 87(4.4)(d)(i) is amended, effective for amalgamations that occur after 1997, to accommodate the issuance of a new share to a person other than the original flow-through shareholder. This amendment ensures that the new corporation may renounce resource expenses incurred after an amalgamation to an original flow-through shareholder on the same basis as if that person had owned the flow-through share at the time of the amalgamation.

for the purposes of subsection 66(12.66) and Part XII.6 and for the purposes of renouncing an amount under subsection 66(12.6), (12.601) or (12.62) in respect of Canadian exploration expenses or Canadian development expenses that would, but for the renunciation, be incurred by the new corporation after the amalgamation,

(e) the person shall be deemed to have given the consideration under the agreement to the new corporation for the issue of the new share,

(f) the agreement shall be deemed to have been entered into between the new corporation and the person at the particular time,

(g) the new share shall be deemed to be a flow-through share of the new corporation, and

(h) the new corporation shall be deemed to be the same corporation as, and a continuation of, the predecessor corporation.

History: The application of s. 87(4.4), the portion after paragraph (d) and before paragraph (e) was amended by S.C. 1998, c. 19, s. 308(1), deemed to have come into force on April 25, 1997. That application reads as follows:

Sec. 308(1), Chap. 19, 1998

(10) Subsection (5) applies to amalgamations that occur after 1995, except that the expression "subsection 66(12.6), (12.601) or (12.62) in respect of Canadian exploration expenses or Canadian development expenses" in subsection 87(4.4) of the Act, as enacted by subsection (5), shall be read as "subsection 66(12.6), (12.601), (12.62) or (12.64) in respect of Canadian exploration expenses, Canadian development expenses or Canadian oil and gas property expenses" in respect of amalgamations that occur before 1999.

S. 87(4.4), the portion after paragraph (d) and before paragraph (e), was amended by S.C. 1997, c. 25, s. 18(5), applicable to amalgamations that occur after 1995, except that the expression "subsection 66(12.6), (12.601) or (12.62)" in subsection 87(4.4) shall be read as "subsection 66(12.6), (12.601), (12.62) or (12.64)" in respect of amalgamations that occur before 1999. That part formerly read:

"for the purpose of subsection 66(12.66) and for the purposes of renouncing an amount under subsection 66(12.6), (12.601), (12.62) or (12.64) in respect of Canadian exploration expenses, Canadian development expenses or Canadian oil and gas property expenses that would, but for the renunciation, be incurred by the new corporation after the amalgamation,"

S. 87(4.4), that portion following paragraph (d) and preceding paragraph (e), was amended by S.C. 1994, c. 8, s. 9(2), applicable to amalgamations occurring after December 2, 1992. S. 87(4.4), that portion following paragraph (d) and preceding paragraph (e), formerly read:

"for the purpose of subsection 66(12.66) and for the purpose of renouncing an amount under subsection 66(12.6), (12.62) or (12.64) in respect of Canadian exploration expenses, Canadian development expenses or Canadian oil and gas property expenses that would, but for the renunciation, be incurred by the new corporation after the amalgamation,"

S. 87(4.4) was added by S.C. 1994, c. 7, Sched. II, s. 65(11), applicable to amalgamations occurring after February 1986.

Regulations: Part XII.6.

► 87(5) ◄

(5) Options to acquire shares of predecessor corporation. Where there has been an amalgamation of two or more corporations after May 6, 1974, each taxpayer (except any predecessor corporation) who immediately before the amalgamation owned a capital property that was an option to acquire shares of the capital stock of a predecessor corporation (in this subsection referred to as the "old option") and who received no consideration for the disposition of that option on the amalgamation, other than an option to acquire shares of the capital stock of the new corporation (in this subsection referred to as the "new option"), shall be deemed

(a) to have disposed of the old option for proceeds equal to the adjusted cost base to the taxpayer of that option immediately before the amalgamation, and

(b) to have acquired the new option at a cost to the taxpayer equal to the proceeds described in paragraph (a),

and where the old option was taxable Canadian property of the taxpayer, the new option shall be deemed to be taxable Canadian property of the taxpayer.

Editorial Note: See also subsection 7(1.4), which can apply if the "old option" is an option acquired under an employee stock option agreement referred to in subsection 7(1). Where subsection 7(1.4) applies, for the purposes of the stock option rules, the shareholder is deemed not to have disposed of the old option, and the "new option" is deemed to be the same as, and a continuation of, the old option.

Related Sections: S. 7(1.4) Exchange of options; s. 54, "adjusted cost base", "capital property", "proceeds of disposition".

► 87(5.1) ◄

(5.1) Adjusted cost base of option. Where the cost to a taxpayer of a new option is determined at any time under subsection (5),

(*a*) there shall be deducted after that time in computing the adjusted cost base to the taxpayer of the new option the total of all amounts deducted under paragraph 53(2)(*g*.1) in computing, immediately before that time, the adjusted cost base to the taxpayer of the old option; and

(*b*) the amount determined under paragraph (*a*) shall be added after that time in computing the adjusted cost base to the taxpayer of the new option.

History: S. 87(5.1) was added by S.C. 1995, c. 21, s. 30(3), applicable to taxation years that end after February 21, 1994.

► 87(6) ◄

(6) Obligations of predecessor corporation. Notwithstanding subsection (7), where there has been an amalgamation of two or more corporations after May 6, 1974, each taxpayer (except any predecessor corporation) who, immediately before the amalgamation, owned a capital property that was a bond, debenture, mortgage, hypothecary claim, note or other similar obligation of a predecessor corporation (in this subsection referred to as the "old property") and who received no consideration for the disposition of the old property on the amalgamation other than a bond, debenture, mortgage, hypothecary claim, note or other similar obligation respectively, of the new corporation (in this subsection referred to as the "new property") is, if the amount payable to the holder of the new property on its maturity is the same as the amount that would have been payable to the holder of the old property on its maturity, deemed

(*a*) to have disposed of the old property for proceeds equal to the adjusted cost base to the taxpayer of that property immediately before the amalgamation; and

(*b*) to have acquired the new property at a cost to the taxpayer equal to the proceeds described in paragraph (*a*).

History: S. 87(6), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 211, applicable on Royal Assent, June 14, 2001. S. 87(6), the portion before paragraph (*a*) formerly read:

"(6) *Obligations of predecessor corporation.* Notwithstanding subsection (7), where there has been an amalgamation of two or more corporations after May 6, 1974, each taxpayer (except any predecessor corporation) who, immediately before the amalgamation, owned a capital property that was a bond, debenture, mortgage, note or other similar obligation of a predecessor corporation (in this subsection referred to as the 'old property') and who received no consideration for the disposition of the old property on the amalgamation other than a bond, debenture, mortgage, note or other similar obligation respectively, of the new corporation (in this subsection referred to as the 'new property') shall, if the amount payable to the holder of the new property on its maturity is the same as the amount that would have been payable to the holder of the old property on its maturity, be deemed"

Related Sections: S. 54, "adjusted cost base", "capital property"; s. 87(7) Obligations of predecessor corporation — position of amalgamated corporation; s. 88(1) Winding-up.

► 87(6.1) ◄

(6.1) Adjusted cost base. Where the cost to a taxpayer of a particular property that is a bond, debenture or note is determined at any time under subsection (6) and the terms of the bond, debenture or note conferred upon the holder the right to exchange that bond, debenture or note for shares,

(*a*) there shall be deducted after that time in computing the adjusted cost base to the taxpayer of the bond, debenture or note the total of all amounts deducted under paragraph 53(2)(*g*.1) in computing, immediately before that time, the adjusted cost base to the taxpayer of the property for which the particular property was exchanged at that time; and

(*b*) the amount determined under paragraph (*a*) in respect of the particular property shall be added after that time in computing the adjusted cost base to the taxpayer of the particular property.

History: S. 87(6.1) was added by S.C. 1995, c. 21, s. 30(4), applicable to taxation years that end after February 21, 1994.

► 87(7) ◄

(7) Idem. Where there has been an amalgamation of two or more corporations after May 6, 1974 and

(*a*) a debt or other obligation of a predecessor corporation that was outstanding immediately before the amalgamation became a debt or other obligation of the new corporation on the amalgamation, and

(*b*) the amount payable by the new corporation on the maturity of the debt or other obligation, as the case may be, is the same as the amount that would have been payable by the predecessor corporation on its maturity,

the provisions of this Act

(*c*) shall not apply in respect of the transfer of the debt or other obligation to the new corporation, and

(*d*) shall apply as if the new corporation had incurred or issued the debt or other obligation at the time it was incurred or issued by the predecessor corporation under the agreement made on the day on which the predecessor corporation made an agreement under which the debt or other obligation was issued,

except that, for the purposes of the definition "income bond" or "income debenture" in subsection 248(1), paragraph (*d*) shall not apply to any debt or other obligation of the new corporation unless the terms and conditions thereof immediately after the amalgamation are the same as, or substantially the same as, the terms and conditions of the debt or obligation that was an income bond or income debenture of the predecessor corporation immediately before the amalgamation.

History: S. 87(7)(*a*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 37(12), effective June 10, 1993. S. 87(7)(*a*) formerly read:

"(*a*) a debt or other obligation of a predecessor corporation, other than any such debt or other obligation owed to any other predecessor corporation, was outstanding immediately before the amalgamation and became a debt or other obligation, as the case may be, of the new corporation on the amalgamation, and"

Related Sections: S. 87(6) Obligations of predecessor corporation — position of debtholder; s. 88(1) Winding-up; s. 248(1), "corporation".

► 87(8) ◄

(8) Foreign merger. Subject to subsection 95(2), where there has been a foreign merger in which a taxpayer's shares or options to acquire shares of the capital stock of a corporation that was a predecessor foreign corporation

immediately before the merger were exchanged for or became shares or options to acquire shares of the capital stock of the new foreign corporation or the foreign parent corporation, unless the taxpayer elects in the taxpayer's return of income for the taxation year in which the foreign merger took place not to have this subsection apply, subsections (4) and (5) apply to the taxpayer as if the references in those subsections to

(*a*) "amalgamation" were read as "foreign merger";

(*b*) "predecessor corporation" were read as "predecessor foreign corporation"; and

(*c*) "new corporation" were read as "new foreign corporation or the foreign parent corporation".

History: S. 87(8), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 65(3), applicable to mergers and combinations that occur after 1995 and, where a taxpayer notifies the Minister of National Revenue in writing before the taxpayer's filing-due date for the taxation year in which this Act receives royal assent that the taxpayer makes the election referred to in subsection 87(8) of the Act in respect of a merger or combination that occurred before 1999, the election is deemed to have been validly made in respect of the merger or combination. S. 87(8), the portion before paragraph (*a*) formerly read:

"(8) *Foreign Merger.* Where there has been a foreign merger in which a taxpayer's shares or options to acquire shares of the capital stock of a corporation that was a predecessor foreign corporation immediately before the merger were exchanged for or became shares or options to acquire shares of the capital stock of the new foreign corporation or the foreign parent corporation, unless the taxpayer elects in the taxpayer's return of income under this Part for the taxation year in which the foreign merger took place not to have this subsection apply, subsections (4) and (5) apply to the taxpayer as if the references in those subsections to"

S. 87(8) was amended by S.C. 1999, c. 22, s. 24(1), applicable to a taxpayer in respect of a merger or combination of foreign corporations

(*a*) that occurs after February 24, 1998, or

(*b*) that occurred

(i) before February 25, 1998 and in a taxation year of the taxpayer for which the taxpayer's normal reassessment period, as defined in subsection 152(3.1) of the Act, has not ended before 1999, or

(ii) after 1994 and before February 25, 1998 and in a taxation year of the taxpayer in which the taxpayer was exempt from tax under section 149 of the Act,

unless the taxpayer elects by notifying the Minister of National Revenue in writing, before the end of the sixth month that ends after the month in which this Act is assented to [Royal Assent June 17, 1999], that subsections (1) and (2) not apply to the taxpayer in respect of the merger or combination. S. 87(8) formerly read:

"(8) *Merger of foreign affiliate.* Where there has been a foreign merger in which the shares owned by a taxpayer of the capital stock of a corporation that was a predecessor foreign corporation immediately before the merger were exchanged for or became shares of the capital stock of the new foreign corporation, unless the taxpayer elects in the taxpayer's return of income under this Part for the taxation year in which the foreign merger took place not to have the provisions of this section apply, subsection (4) applies to the taxpayer as if the references therein to

(*a*) 'amalgamation' were read as 'foreign merger';

(*b*) 'predecessor corporation' were read as 'predecessor foreign corporation';

(*c*) 'new corporation' were read as 'new foreign corporation'; and

(*d*) 'May 6, 1974' were read as 'November 12, 1981'."

Related Sections: S. 95(1), "foreign affiliate"; s. 133(8), "non-resident-owned investment corporation"; s. 134 Non-resident-owned corporation not a Canadian corporation, etc; s. 248(1), "corporation", "property".

Canadian Tax Foundation: Swiderski and Lau, "Canadian Foreign Affiliate Implications Of Common U.S. Asset Transfers", *2000 Conference Report*, 15:1.

Tax Profile: July 2008 — International Tax Planning for the Owner-Manager.

Canadian Petroleum Tax Journal: A Comparative Study of Canadian and US Rules Regarding the Taxation of Corporate Reorganizations, Firoz Talakshi and Christy Palmer, Vol. 13 No. 1 2000.

► 87(8.1) ◄

(8.1) Definition of "foreign merger". For the purposes of this section, "foreign merger" means a merger or combination of two or more corporations each of which was, immediately before the merger or combination, resident in a country other than Canada (each of which is in this section referred to as a "predecessor foreign corporation") to form one corporate entity resident in a country other than Canada (in this section referred to as the "new foreign corporation") in such a manner that, and otherwise than as a result of the distribution of property to one corporation on the winding-up of another corporation,

(*a*) all or substantially all the property (except amounts receivable from any predecessor foreign corporation or shares of the capital stock of any predecessor foreign corporation) of the predecessor foreign corporations immediately before the merger or combination becomes property of the new foreign corporation as a consequence of the merger or combination;

(*b*) all or substantially all the liabilities (except amounts payable to any predecessor foreign corporation) of the predecessor foreign corporations immediately before the merger or combination become liabilities of the new foreign corporation as a consequence of the merger or combination; and

(*c*) all or substantially all of the shares of the capital stock of the predecessor foreign corporations (except any shares or options owned by any predecessor foreign corporation) are exchanged for or become, because of the merger or combination,

(i) shares of the capital stock of the new foreign corporation, or

(ii) if, immediately after the merger, the new foreign corporation was controlled by another corporation (in this section referred to as the "foreign parent corporation") that was resident in a country other than Canada, shares of the capital stock of the foreign parent corporation.

History: S. 87(8.1) was amended by S.C. 2001, c. 17, s. 65(4), applicable to mergers and combinations that occur after 1995. S. 87(8.1) formerly read:

"(8.1) *Definition of 'foreign merger'.* For the purposes of this section, 'foreign merger' means a merger or combination of two or more corporations each of which was, immediately before the merger or combination, resident in a country other than Canada (each of which is in this section referred to as a 'predecessor foreign corporation') to form one corporate entity resident in the country in which all the predecessor foreign corporations were resident (in this section referred to as the 'new foreign corporation') in such manner that

(*a*) all or substantially all the property (except amounts receivable from any predecessor foreign corporation or shares of the capital stock of any predecessor foreign corporation) of the predecessor foreign corporations immediately before the merger or combination becomes property of the new foreign corporation by virtue of the merger or combination,

(*b*) all or substantially all the liabilities (except amounts payable to any predecessor foreign corporation) of the predecessor foreign corporations immediately before the merger or combination become liabilities of the new foreign corporation by virtue of the merger or combination, and

(*c*) all or substantially all of the shares of the capital stock of the predecessor foreign corporations (except any shares or options owned by any predecessor foreign corporation) are exchanged for or become, because of the merger or combination,

(i) shares of the capital stock of the new foreign corporation, or

(ii) if, immediately after the merger, the new foreign corporation was controlled by another foreign corporation (in this section referred to as the 'foreign parent corporation') that was resident in the same country as the new foreign corporation, shares of the capital stock of the foreign parent corporation,

otherwise than as a result of the distribution of property to one corporation on the winding-up of another corporation."

S. 87(8.1)(*c*) was amended by S.C. 1999, c. 22, s. 24(2), applicable to a taxpayer in respect of a merger or combination of foreign corporations

(*a*) that occurs after February 24, 1998, or

(*b*) that occurred

(i) before February 25, 1998 and in a taxation year of the taxpayer for which the taxpayer's normal reassessment period, as defined in subsection 152(3.1) of the Act, has not ended before 1999, or

(ii) after 1994 and before February 25, 1998 and in a taxation year of the taxpayer in which the taxpayer was exempt from tax under section 149 of the Act,

unless the taxpayer elects by notifying the Minister of National Revenue in writing, before the end of the sixth month that ends after the month in which this Act is assented to [Royal Assent June 17, 1999], that subsections (1) and (2) not apply to the taxpayer in respect of the merger or combination. S. 87(8.1)(c) formerly read:

"(c) all or substantially all the shares of the capital stock of the predecessor foreign corporations (except any such shares owned by any predecessor foreign corporation) are exchanged for or become shares of the capital stock of the new foreign corporation by virtue of the merger or combination,"

Tax Profile: July 2008 — International Tax Planning for the Owner-Manager.

► 87(9) ◄

(9) Rules applicable in respect of certain mergers. Where there has been a merger of two or more taxable Canadian corporations to form a new corporation that was controlled, immediately after the merger, by a taxable Canadian corporation (in this subsection referred to as the "parent") and, on the merger, shares of the capital stock of the parent (in this subsection referred to as "parent shares") were issued by the parent to persons who were, immediately before the merger, shareholders of a predecessor corporation, the following rules apply:

(*a*) for the purposes of paragraph (1)(*c*), subsection (4) and the *Income Tax Application Rules*, any parent shares received by a shareholder of a predecessor corporation shall be deemed to be shares of the capital stock of the new corporation received by the shareholder by virtue of the merger;

(*a*.1) for the purposes of subsections (4.1) and (4.2), a parent share issued to a shareholder in consideration for the disposition of a share of a class of the capital stock of a predecessor corporation shall be deemed to be a share of a class of the capital stock of the new corporation that was issued in consideration for the disposition of a share of a class of the capital stock of a predecessor corporation by that shareholder;

(*a*.2) for the purposes of subsection (4.3), a right listed on a designated stock exchange to acquire a share of a class of the capital stock of the parent shall be deemed to be a right listed on a designated stock exchange to acquire a share of a class of the capital stock of the new corporation;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 87(9) of the Act is amended by adding the following after paragraph (*a*.2):

(*a*.21) for the purpose of paragraph (4.4)(*d*)

(i) each parent share received by a shareholder of a predecessor corporation is deemed to be a share of the capital stock of the new corporation issued to the shareholder by the new corporation on the merger, and

(ii) any obligation of the parent to issue a share of any class of its capital stock to a person in circumstances described in subparagraph (4.4)(*d*)(ii) is deemed to be an obligation of the new corporation to issue a share to the person;

Applicable: To amalgamations that occur after 1997.

Explanatory Note:

Rules Applicable in Respect of Certain Mergers — "Triangular Amalgamations"

Subsection 87(9) of the Act contains rules that apply on a "triangular amalgamation" — an amalgamation in which shares of the parent corporation are issued in exchange for shares of the amalgamating corporations.

New paragraph 87(9)(*a*.21), which is effective for amalgamations that occur after 1997, provides that a share of the parent issued to a shareholder on a triangular amalgamation is considered, for the purpose of paragraph 87(4.4)(*d*), to be a share issued by the new corporation and that a right to acquire a share of the parent issued to a person on a triangular amalgamation is deemed to be in consideration for a right to acquire a share of the new corporation. New paragraph 87(9)(*a*.21) therefore ensures that the requirements in subparagraphs 87(4.4)(*d*)(i) and (ii), that the new corporation issue a share or right to a person, are satisfied. As a result, a new corporation may renounce expenditures to a flow-through shareholder of a predecessor corporation in accordance with a flow-through share agreement concluded before the triangular amalgamation.

(*a*.3) for the purpose of applying subsection (5) in respect of the merger, the reference in that subsection to "the new corporation" shall be read as a reference to "the parent";

(*a*.4) for the purpose of paragraph (*c*), any shares of the new corporation acquired by the parent on the merger shall be deemed to be new shares;

(*a*.5) for the purpose of applying subsection (10) in respect of the merger,

(i) the reference in paragraph (10)(*b*) to "the new corporation" shall be read as a reference to "the new corporation or the parent, within the meaning assigned by subsection (9)", and

(ii) the references in paragraphs (10)(*c*) and (*f*) to "the new corporation" shall be read as references to "the public corporation described in paragraph (*b*)";

(*b*) in computing, at any particular time, the paid-up capital in respect of any particular class of shares of the capital stock of the parent that included parent shares immediately after the merger

(i) there shall be deducted that proportion of the amount, if any, by which the paid-up capital, determined without reference to this paragraph, in respect of all the shares of the capital stock of the parent immediately after the merger exceeds the total of all amounts each of which is the paid-up capital in respect of a share of the capital stock of the parent or a predecessor corporation (other than any share of a predecessor corporation owned by the parent or by another predecessor corporation and any share of a predecessor corporation owned by a shareholder other than the parent or another predecessor corporation that was not exchanged on the merger for parent shares) immediately before the merger that

(A) the paid-up capital, determined without reference to this paragraph, in respect of that partic-

ular class of shares of the capital stock of the parent immediately after the merger

is of

(B) the paid-up capital, determined without reference to this paragraph, in respect of all the issued and outstanding shares of the classes of the capital stock of the parent that included parent shares immediately after the merger, and

(ii) there shall be added an amount equal to the lesser of

(A) the amount, if any, by which

(I) the total of all amounts each of which is an amount deemed by subsection 84(3), (4) or (4.1) to be a dividend on shares of the particular class paid by the parent before the particular time

exceeds

(II) the total that would be determined under subclause (I) if this Act were read without reference to subparagraph (i), and

(B) the amount required by subparagraph (i) to be deducted in computing the paid-up capital of shares of the particular class; and

(*c*) notwithstanding paragraph (4)(*b*), the parent shall be deemed to have acquired the new shares of any particular class of the capital stock of the new corporation at a cost equal to the total of

(i) the amount otherwise determined under paragraph (4)(*b*) to be the cost of those shares, and

(ii) in any case where the parent owned, immediately after the merger, all the issued shares of the capital stock of the new corporation, such portion of

(A) the amount, if any, by which

(I) the amount by which the total of the money on hand of the new corporation and all amounts each of which is the cost amount to the new corporation of a property owned by it, immediately after the merger, exceeds the total of all amounts each of which is the amount of any debt owing by the new corporation, or of any other obligation of the new corporation to pay any amount, that was outstanding immediately after the merger,

exceeds

(II) the total of the adjusted cost bases to the parent of all shares of the capital stock of each predecessor corporation beneficially owned by it immediately before the merger

as is designated by the parent in respect of the shares of that particular class in its return of income under this Part for its taxation year in which the merger occurred, except that

(B) in no case shall the amount so designated in respect of the shares of a particular class exceed the amount, if any, by which the total fair market value, immediately after the merger, of the shares of that particular class issued by virtue of the merger exceeds the cost of those shares to the parent determined without reference to this paragraph, and

(C) in no case shall the total of the amounts so designated in respect of the shares of each class of the capital stock of the new corporation exceed the amount determined under clause (A).

History: S. 87(9)(*a*.2) was amended by S.C. 2007, c. 35, s. 68(2), by replacing "prescribed stock exchange" with "designated stock exchange", applicable on and after December 14, 2007.

S. 87(9)(*a*.5) was added by S.C. 1998, c. 19, s. 117(12), applicable to amalgamations that occur after April 26, 1995 except that, in its application to amalgamations that occurred before 1998, paragraph 87(9)(*a*.5) of the Act shall be read as follows:

"(*a*.5) for the purpose of applying subsection (10) in respect of the merger,

(i) any share issued by the parent on the merger is deemed to have been issued by the new corporation, and

(ii) the reference in paragraph (10)(*f*) to 'the new corporation' shall be read as a reference to 'the corporation that issued the share';"

Ss. 87(9)(*a*.3) and (*a*.4) were added by S.C. 1994, c. 7, Sched. VIII, s. 37(13), applicable to amalgamations and mergers occurring after December 20, 1991.

Ss. 87(9)(*a*.1) and (*a*.2) were added by S.C. 1994, c. 7, Sched. II, s. 65(12), applicable to amalgamations and mergers occurring after 1986.

Editorial Note: Subsection 87(9) applies to so-called triangular amalgamations, and effectively ensures that such amalgamations can qualify for the various rollovers provided under section 87. The type of triangular amalgamation contemplated by the provision is one in which two or more predecessor corporations are amalgamated, and upon the amalgamation (at least some) shareholders of the predecessor corporations are issued shares in the parent corporation that controls the amalgamated corporation immediately after the amalgamation. As an example, a parent corporation would own shares in each of predecessors Corporation X and Corporation Y, which would amalgamate such that their shareholders, other than the parent corporation, would acquire newly issued shares of the parent corporation on the amalgamation. The parent corporation would acquire shares of the amalgamated corporation on the amalgamation.

By deeming the shares of the parent received by persons who were shareholders of the predecessor corporations to be shares of the amalgamated corporation for the purposes of paragraph 87(1)(*c*) and subsection 87(4), paragraph 87(9)(*a*) ensures that the amalgamation qualifies as an amalgamation for the purposes of section 87, and that such persons can qualify for the subsection 87(4) rollover in respect of the disposition of their shares in the predecessor corporations. The parent can also qualify for the subsection 87(4) rollover in respect of the disposition of its shares in the predecessor corporations, and further may qualify for a "bump" in the cost of its shares in the amalgamated corporation under subparagraph 87(9)(*c*)(ii).

Note that the parent corporation does not have to own all of the shares of the amalgamated corporation in order for subsection 87(9) to apply; as noted, it only has to control the amalgamated corporation immediately after the amalgamation. However, in order for the parent to qualify for the "bump" under subparagraph 87(9)(*c*)(ii), the parent must own all of the shares of the amalgamated corporation immediately after the amalgamation.

Related Sections: S. 13(21), "undepreciated capital cost"; s. 14(5), "cumulative eligible capital"; s. 31(1), "restricted farm loss"; s. 39, "capital gain", "capital loss"; s. 54, "adjusted cost base", "capital property"; s. 83(2), "capital dividend"; s. 89(1), "Canadian corporation", "private corporation", "taxable Canadian corporation"; s. 248(1), "cost amount", "grandfathered share", "lending asset", "share", "short-term preferred share", "term preferred share".

Canadian Tax Foundation: Trossman, "Triangular Amalgamations", *2001 Annual Conference*, 22:1.

Canadian Petroleum Tax Journal: A Comparative Study of Canadian and US Rules Regarding the Taxation of Corporate Reorganizations, Firoz Talakshi and Christy Palmer, Vol. 13 No. 1 2000.

► 87(10) ◄

(10) Share deemed listed. Where

(*a*) a new corporation is formed as a result of an amalgamation,

(*b*) the new corporation is a public corporation,

(*c*) the new corporation issues a share (in this subsection referred to as the "new share") of its capital stock,

(*d*) the new share is issued in exchange for a share (in this subsection referred to as the "old share") of the capital stock of a predecessor corporation,

(*e*) immediately before the amalgamation, the old share was listed on a designated stock exchange, and

(*f*) the new share is redeemed, acquired or cancelled by the new corporation within 60 days after the amalgamation,

the new share is deemed, for the purposes of subsection 116(6), the definitions "qualified investment" in subsections 146(1), 146.1(1) and 146.3(1), in section 204 and in subsections 205(1) and 207.01(1), and the definition "taxable Canadian property" in subsection 248(1), to be listed on the exchange until the earliest time at which it is so redeemed, acquired or cancelled.

History: S. 87(10), the portion following paragraph (*f*) was replaced by S.C. 2008, c. 28, s. 9(1), applicable to the 2009 and subsequent taxation years. S. 87(10), the portion following paragraph (*f*) formerly read:

"the new share is deemed, for the purposes of subsection 116(6), the definitions 'qualified investment' in subsections 146(1), 146.1(1), 146.3(1), in section 204 and in subsection 205(1), and the definition 'taxable Canadian property' in subsection 248(1), to be listed on the exchange until the earliest time at which it is so redeemed, acquired or cancelled."

S. 87(10), the portion following paragraph (*f*) was replaced by S.C. 2007, c. 35, s. 108, applicable to the 2008 and subsequent taxation years. S. 87(10), the portion following paragraph (*f*) formerly read:

"the new share is deemed, for the purposes of subsection 116(6), the definitions 'qualified investment' in subsections 146(1), 146.1(1), and 146.3(1) and in section 204, and the definition 'taxable Canadian property' in subsection 248(1), to be listed on the exchange until the earliest time at which it is so redeemed, acquired or cancelled."

S. 87(10)(*e*) was amended by S.C. 2007, c. 35, s. 68(2), by replacing "prescribed stock exchange" with "designated stock exchange", applicable on and after December 14, 2007 [the day on which this Act is assented to].

S. 87(10), the portion after paragraph (*f*) was amended by S.C. 2001, c. 17, s. 65(5), applicable after October 1, 1996. S. 87(10), the portion after paragraph (*f*) formerly read:

"the new share is deemed, for the purposes of subsections 115(1) and 116(6) and the definitions 'qualified investment' in subsections 146(1), 146.1(1) and 146.3(1) and in section 204, to be listed on the exchange until the earliest time at which it is so redeemed, acquired or cancelled."

S. 87(10), the portion after paragraph (*f*), was amended by S.C. 1999, c. 22, s. 24(3), applicable after 1997. S. 87(10), the portion after paragraph (*f*), formerly read:

"the new share is deemed, for the purposes of subsections 115(1) and 116(6) and the definitions 'qualified investment' in subsections 146(1) and 146.3(1) and in section 204, to be listed on the exchange until the earliest time at which it is so redeemed, acquired or cancelled."

S. 87(10) was added by S.C. 1998, c. 19, s. 117(13), applicable to amalgamations that occur after April 26, 1995 except that, in its application to amalgamations that occurred before July 1996, that subsection 87(10) shall be read without reference to paragraph (*b*).

Regulations: 3200.

► 87(11) ◄

(11) Vertical amalgamations. Where at any time there is an amalgamation of a corporation (in this subsection referred to as the "parent") and one or more other corporations (each of which in this subsection is referred to as the "subsidiary") each of which is a subsidiary wholly-owned corporation of the parent,

(*a*) the shares of the subsidiary are deemed to have been disposed of by the parent immediately before the amalgamation for proceeds equal to the proceeds that would be determined under paragraph 88(1)(*b*) if subsections 88(1) and (1.7) applied, with any modifications that the circumstances require, to the amalgamation; and

(*b*) the cost to the new corporation of each capital property of the subsidiary acquired on the amalgamation is deemed to be the amount that would have been the cost to the parent of the property if the property had been distributed at that time to the parent on a winding-up of the subsidiary and subsections 88(1) and (1.7) had applied to the winding-up.

History: S. 87(11) was added by S.C. 1998, c. 19, s. 117(13), applicable, subject to subsection 117(27) of this Bill, (see Application below), to amalgamations that occur after 1994, and for the purpose of paragraph 87(11)(*b*) of the Act, any designation by a new corporation of an amount under paragraph 88(1)(*d*) of the Act that is filed with the Minister of National Revenue before the end of the third month after the month in which this Act is assented to [Royal Assent June 18, 1998] is deemed to have been made by the new corporation in its return of income under Part I of the Act for its first taxation year.

Sec. 117(27), Chap. 19, 1998

(27) Where the new corporation formed on an amalgamation that occurred before June 20, 1996 so elects in writing, filed with the Minister of National Revenue with the return of income under Part I of the Act for the parent's taxation year that ended immediately before the amalgamation, or within 90 days after any assessment or reassessment of tax payable under that Part for the year, subsection 87(11) of the Act, as enacted by subsection (13), does not apply to the amalgamation.

Editorial Note: Subsection 87(11) applies to a vertical amalgamation, that is, an amalgamation between a parent corporation and one or more of its subsidiaries each of which is a "subsidiary wholly-owned corporation" (defined in subsection 248(1)). Paragraph 87(11)(*a*) provides that the parent is deemed to have disposed of its shares in each subsidiary for proceeds determined under paragraph 88(1)(*b*). Therefore, if the lesser of the paid-up capital in respect of those shares and the parent's cost amount of the subsidiary's net assets (more particularly, the amount determined under subparagraph 88(1)(*d*)(i)) exceeds the parent's adjusted cost base of the shares, the parent will realize a capital gain. Otherwise, the disposition of the shares will result in a tax-free rollover. There can be no loss on the disposition.

Paragraph 87(11)(*b*) incorporates by reference the "bump" rule in subsection 88(1), which otherwise applies to a winding-up of a subsidiary into its parent corporation. The bump rule can apply to increase the parent's cost of non-depreciable capital properties of the subsidiary acquired by the parent on the amalgamation. The "bump" rule is summarized in the editorial note following subsection 88(1).

Tax Topics: No. 1701, "Bumping" Cost of Real Estate Inventory.
Tax Profile: January 2008 — Tax Ramifications of Non-Resident Purchases of Canadian Businesses.
Canadian Petroleum Tax Journal: The Recent Take-Over Phenomenon, D. Alan Ross and Stanley R. Ebel, Vol. 14 No. 1 2001; A Comparative Study of Canadian and US Rules Regarding the Taxation of Corporate Reorganizations, Firoz Talakshi and Christy Palmer, Vol. 13 No. 1 2000.

SECTION 88:

► 88(1) ◄

(1) Winding-up. Where a taxable Canadian corporation (in this subsection referred to as the "subsidiary") has been wound up after May 6, 1974 and not less than 90% of the issued shares of each class of the capital stock of the subsidiary were, immediately before the winding-up, owned by another taxable Canadian corporation (in this subsection referred to as the "parent") and all of the shares of the subsidiary that were not owned by the parent immediately before the winding-up were owned at that time by persons with whom the parent was dealing at arm's length, notwithstanding any other provision of this Act other than subsection 69(11), the following rules apply:

Editorial Note: Subsection 88(1) governs the winding-up of a taxable Canadian corporation (referred to therein as the "subsidiary"), where not less than 90% of the issued shares of each class of the subsidiary are held by another taxable Canadian corporation (referred to therein as the "parent"), and all the remaining shares of the subsidiary are owned by persons who deal at arm's length with the parent. Generally speaking, these rules provide a tax-free rollover upon the winding-up, including a carryover of most of the subsidiary's tax accounts to the parent such as reserves, deferred amounts, prepaid amounts, investment tax credits, and so on. Many of the amalgamation provisions are incorporated by reference for the purposes of the winding-up rules (paragraph 88(1)(*e.3*)).

One of the significant provisions of subsection 88(1) is the so-called "bump" rule of paragraph (*d*), which allows the parent to add certain amounts to the cost of the subsidiary's former capital property distributed to the parent on the winding-up (other than depreciable property and other "ineligible property", a lengthy definition found in paragraph (*d*)). The total bump for all such properties is generally limited to the amount by which the adjusted cost base of the parent's former shares in the subsidiary exceeds the total of the subsidiary's cost amounts of its properties and the money owned immediately before the winding-up (with certain further adjustments, as set out in subparagraphs (*d*)(i) and (ii)). Among other restrictions, the parent can bump up the cost of a particular capital property only to the extent that the fair market value of the property at the time the parent last acquired control of the subsidiary exceeds the cost amount of the property immediately before the winding-up. Furthermore, the property must have been owned by the subsidiary at the time the parent last acquired control of the subsidiary and

thereafter without interruption until it was distributed to the parent on the winding-up.

Related Sections: S. 12(1)(*e.1*) Negative reserves; s. 13(21), "proceeds of disposition"; s. 20(22) Deduction for negative reserves; s. 54, "adjusted cost base", "eligible capital property", "proceeds of disposition"; s. 55(3.3) Interpretation of "specified shareholder" changed; s. 59(2) Deduction under former s. 64 in preceding year; s. 66(15), "Canadian resource property", "foreign resource property"; s. 69(11) Deemed proceeds of disposition; s. 87(7) Obligations of predecessor corporation — position of amalgamated corporation; s. 89(1) Capital dividend account; s. 127(5) Investment tax credit; s. 127(9.1) Control acquired before the end of the year; s. 127(10.2) Expenditure limit determined; s. 127.1(2) Definitions; s. 129(1) Dividend refund to private corporation; s. 129(3) Definition of "refundable dividend tax on hand"; s. 186(2) When corporation controlled; s. 186(5) Deemed private corporation; s. 248(1), "dividend", "private corporation", "share", "specified future tax consequences", "taxable dividend"; s. 251 Arm's length; s. 252(2) Relationships.

Regulations: Part XI; Part LIII; 5905.

Interpretation Bulletins: *Primary* — IT-126R2 Meaning of "winding-up"; IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA]. *Secondary* — IT-142R3 Settlement of debts on the winding-up of a corporation; IT-151R5 (Consolid.) — Scientific research and experimental development expenditures; IT-151R4 Scientific research and experimental development expenditures [Archived by the CRA]; IT-259R4 Exchange of property; IT-321R Insurance agents and brokers — Unearned commissions [Archived by the CRA]; IT-474R2 Amalgamations of Canadian corporations; IT-520 (Consolid.) Unused foreign tax credits — Carryforward and carryback.

Information Circulars: IC 88-2 General anti-avoidance rule — Section 245 of the Income Tax Act (Supp. 1, para. 8).

Advance Tax Rulings: ATR-67 Increase in the cost of property on the winding-up of a wholly-owned subsidiary.

Income Tax Technical News: Issue No. 9, The backdoor butterfly rule — Paragraph 88(1)(c.3).

Forms: T2 SCH 24.

Tax Topics: No. 1798, Bumping Foreign Affiliate Shares under the February 27, 2004 Proposals; No. 1701, "Bumping" Cost of Real Estate Inventory; No. 1690, Estate Planning In The 21st Century; No. 1635, Estate Planning in the Twenty-First Century; No. 1626, Estate Planning in the 21st Century; No. 1609, Estate Planning in the 21st Century; No. 1570, Estate Planning in the 21st Century.

Tax Profile: February 2009 — Voting Shares — Premium for Control on Estate Freeze?; January 2008 — Tax Ramifications of Non-Resident Purchases of Canadian Businesses; August 2005 — The Bump Denial Rules in Practice: Getting Comfort for Problems You Didn't Know You Had?; June 2003 — The December 20, 2002 Technical Amendments to the Income Tax Act.

Canadian Tax Foundation: Ireland, C., "Selected Developments in Post Mortem Planning", *2005 Conference Report*, 13:1; Talakshi, "The Foreign Affiliate Proposals — An Update", *2005 Conference Report*, 14:1; Heine and Legge, "Merger Building Blocks-Amalgamations and Windups", *2004 Conference Report*, 37:1; Singh, "An Introduction to the "Bump" Rules", *2003 Conference Report*, 51:1; Ton-That, "The Bump Denial Rules: In History And In Practice", *2000 Conference Report*, 27:1; Brayley, "Merging Companies: A Practical Checklist For Amalgamations And Wind-Ups", *2000 Conference Report*, 6:1; Brayley, "Employee Stock Options: An Update", *2000 Canadian Tax Journal*, No. 3, 778; Woods and Wortzman, "The Bump Denial Rule in Subparagraph 88(1)(c)(vi)", *1998 Conference Report*, 14:1; Roberts, "Winding Up: Part 1", *1996 Canadian Tax Journal*, No. 2, 533.

Canadian Petroleum Tax Journal: The Recent Take-Over Phenomenon, D. Alan Ross and Stanley R. Ebel, Vol. 14 No. 1 2001; Recent Developments in Corporate Reorganizations and International Transactions, Doug Richardson and Edward Rowe, Vol. 13 No. 1 2000; A Comparative Study of Canadian and US Rules Regarding the Taxation of Corporate Reorganizations, Firoz Talakshi and Christy Palmer, Vol. 13 No. 1 2000; Canada Customs and Revenue Agency 1999 Roundtable Questions and Answers, Question 4, Vol. 13 No. 1 2000.

Cases: Land acquired by a real estate developer upon the winding-up of its subsidiary formed part of the developer's trading inventory. The developer was accordingly entitled to apply the deemed cost amount of the land to the subsidiary against its proceeds of disposition, and to claim the resulting loss. Ss. 9(1) and 18(1)(*a*) did not preclude it from using the rollover provisions of s. 88(1). S. 88(1) operates notwithstanding any other provisions of the Act. *Mara Properties Ltd. v. The Queen*, 96 DTC 6309 (S.C.C.), reversing 95 DTC 5168 (F.C.A.).

► 88(1)(a) ◄

(a) [Winding-up — Proceeds of disposition of subsidiary's property] — subject to paragraphs (*a.1*) and (*a.3*), each property (other than an interest in a partnership) of the subsidiary that was distributed to the parent on the winding-up shall be deemed to have been disposed of by the subsidiary for proceeds equal to

(i) in the case of a Canadian resource property, a foreign resource property or a right to receive production (as defined in subsection 18.1(1)) to which a matchable expenditure (as defined in subsection 18.1(1)) relates, nil, and

(ii) [Repealed by S.C. 1994, c. 7, Sched. VIII, s. 38(1).]

(iii) in the case of any other property, the cost amount to the subsidiary of the property immediately before the winding-up;

History: S. 88(1)(*a*)(i) was amended by S.C. 1998, c. 19, s. 118(1), applicable after November 17, 1996. S. 88(1)(*a*)(i) formerly read:

"(i) in the case of a Canadian resource property or foreign resource property, nil, and"

S. 88(1)(*a*), the portion before subparagraph (i), was amended by S.C. 1995, c. 21, s. 55(1), applicable to windings-up that begin after February 22, 1994. That part formerly read:

"(*a*) subject to paragraph (*a.1*), each property (other than an interest in a partnership) of the subsidiary that was distributed to the parent on the winding-up shall be deemed to have been disposed of by the subsidiary for proceeds equal to,"

S. 88(1)(*a*)(ii) was repealed by S.C. 1994, c. 7, Sched. VIII, s. 38(1), applicable to distributions of property on the winding-up of a subsidiary in a taxation year of the subsidiary beginning after June 1988. S. 88(1)(*a*)(ii) formerly read:

"(ii) in the case of any eligible capital property, an amount equal to 4/3 of the cost amount to the subsidiary of the property immediately before the winding-up, and"

S. 88(1)(*a*)(ii) was amended by S.C. 1994, c. 7, Sched. II, s. 66(1), applicable to distributions of property on the winding-up of a subsidiary in a taxation year of the subsidiary beginning after June 30, 1988. S. 88(1)(*a*)(ii) formerly read:

"(ii) in the case of any eligible capital property, an amount equal to twice the cost amount to the subsidiary of that property immediately before the winding-up, and"

► 88(1)(a.1) ◄

(a.1) [Winding-up — Pre-1972 capital surplus of subsidiary] — each property of the subsidiary that was distributed to the parent on the winding-up shall, for the purpose of paragraph (2.1)(*b*) or (*e*), be deemed not to have been disposed of;

► 88(1)(a.2) ◄

(a.2) [Winding-up — Partnership interest of subsidiary] — each interest of the subsidiary in a partnership that was distributed to the parent on the winding-up shall, except for the purpose of paragraph 98(5)(*g*), be deemed not to have been disposed of by the subsidiary;

History: S. 88(1)(*a.2*) was amended by S.C. 1994, c. 7, Sched. II, s. 66(2), applicable to windings-up beginning after January 15, 1987. S. 88(1)(*a.2*) formerly read:

"(*a.2*) each interest of the subsidiary in a partnership that was distributed to the parent on the winding-up shall be deemed not to have been disposed of by the subsidiary;"

► 88(1)(a.3) ◄

(a.3) [Winding-up — Specified debt obligations of financial institutions] — where

(i) the subsidiary was a financial institution in its taxation year in which its assets were distributed to the parent on the winding up, and

(ii) the parent was a financial institution in its taxation year in which it received the assets of the subsidiary on the winding up,

each specified debt obligation (other than a mark-to-market property) of the subsidiary that was distributed to the parent on the winding-up shall, except for the purpose of subsection 69(11), be deemed not to have been disposed of, and for the purpose of this paragraph, "financial institution", "mark-to-market property" and "specified debt obli-

gation" have the meanings assigned by subsection 142.2(1);

History: S. 88(1)(a.3) was added by S.C. 1995, c. 21, s. 55(2), applicable to windings-up that begin after February 22, 1994.

► 88(1)(b) ◄

(b) [Winding-up — Disposition of shares of subsidiary] — the shares of the capital stock of the subsidiary owned by the parent immediately before the winding-up shall be deemed to have been disposed of by the parent on the winding-up for proceeds equal to the greater of

(i) the lesser of the paid-up capital in respect of those shares immediately before the winding-up and the amount determined under subparagraph (*d*)(i), and

(ii) the total of all amounts each of which is an amount in respect of any share of the capital stock of the subsidiary so disposed of by the parent on the winding-up, equal to the adjusted cost base to the parent of the share immediately before the winding-up;

► 88(1)(c) ◄

(c) [Winding-up — Cost of property received by parent] — subject to paragraph 87(2)(*e*.3) (as modified by paragraph (*e*.2)), and notwithstanding paragraph 87(2)(*e*.1) (as modified by paragraph (*e*.2)), the cost to the parent of each property of the subsidiary distributed to the parent on the winding-up shall be deemed to be

(i) in the case of a property that is an interest in a partnership, the amount that but for this paragraph would be the cost to the parent of the property, and

(ii) in any other case, the amount, if any, by which

(A) the amount that would, but for subsection 69(11), be deemed by paragraph (*a*) to be the proceeds of disposition of the property

exceeds

(B) any reduction of the cost amount to the subsidiary of the property made because of section 80 on the winding-up,

plus, where the property was a capital property (other than an ineligible property) of the subsidiary at the time that the parent last acquired control of the subsidiary and was owned by the subsidiary thereafter without interruption until such time as it was distributed to the parent on the winding-up, the amount determined under paragraph (*d*) in respect of the property and, for the purposes of this paragraph, "ineligible property" means

(iii) depreciable property,

(iv) property transferred to the parent on the winding-up where the transfer is part of a distribution (within the meaning assigned by subsection 55(1)) made in the course of a reorganization in which a dividend was received to which subsection 55(2) would, but for paragraph 55(3)(*b*), apply,

(v) property acquired by the subsidiary from the parent or from any person or partnership that was not (otherwise than because of a right referred to in paragraph 251(5)(*b*)) dealing at arm's length with the parent, or any other property acquired by the subsidiary in substitution for it, where the acquisition was part of the series of transactions or events in which the parent last acquired control of the subsidiary, and

(vi) property distributed to the parent on the winding-up where, as part of the series of transactions or events that includes the winding-up,

(A) the parent acquired control of the subsidiary, and

(B) any property distributed to the parent on the winding-up or any other property acquired by any person in substitution therefor is acquired by

(I) a particular person (other than a specified person) that, at any time during the course of the series and before control of the subsidiary was last acquired by the parent, was a specified shareholder of the subsidiary,

(II) 2 or more persons (other than specified persons), if a particular person would have been, at any time during the course of the series and before control of the subsidiary was last acquired by the parent, a specified shareholder of the subsidiary if all the shares that were then owned by those 2 or more persons were owned at that time by the particular person, or

(III) a corporation (other than a specified person or the subsidiary)

1. of which a particular person referred to in subclause (I) is, at any time during the course of the series and after control of the subsidiary was last acquired by the parent, a specified shareholder, or

2. of which a particular person would be, at any time during the course of the series and after control of the subsidiary was last acquired by the parent, a specified shareholder if all the shares then owned by persons (other than specified persons) referred to in subclause (II) and acquired by those persons as part of the series were owned at that time by the particular person;

Department of Finance Comfort Letter
[Cost of Non-Depreciable Property on Winding Up — Subparagraph 88(1)(c)(vi)]

August 13, 2007

Dear XXXX

Thank you for your correspondence dated June 22, 2007 regarding the application of subsection 88(1) of the *Income Tax Act* (Act). In your correspondence, you asked us to consider an amendment to subparagraph 88(1)(*c*)(vi) of the Act that would ensure that the increase in the cost of non-depreciable capital property on the winding-up of a subsidiary would not be denied in the circumstances described below.

1. Vco is a taxable Canadian corporation that controls Target, another taxable Canadian corporation. Target owns all the shares of Subco and Sellco 1. Subco owns all the shares of Sellco 2.

2. Aco is a taxable Canadian corporation that deals at arm's length with Vco and Target.

3. Pco is a taxable Canadian corporation that is controlled by another corporation (Pco Holdings). Pco and Pco Holdings deal at arm's length with Vco, Target and Aco.

4. Aco incorporates a wholly-owned subsidiary (Asub) which acquires all the Target shares for cash.

5. Target is wound up into (or amalgamated with) Asub with the view to increasing the tax cost of the shares of Subco and Sellco 1, as provided by paragraphs 88(1)(*c*) and (d) of the Act.

6. Subco is then wound up into (or amalgamated with) Asub (or its successor) with a view to increasing the tax cost of the shares of Sellco 2, as provided by paragraphs 88(1)(*c*) and (*d*) of the Act.

7. Pco purchases the shares of Sellco I and Sellco 2 from Asub (or its successor) for cash.

Your concern is that subparagraph 88(1)(*c*)(vi) would preclude the increase in the cost of the shares of Subco and Sellco 1 on the winding-up (or amalgamation) of Target, as described in paragraph 5 above, and the increase in the cost of the shares of Sellco 2 on the winding-up (or amalgamation) of Subco, as described in paragraph 6 above.

Subparagraph 88(1)(*c*)(vi) operates to deny the increase in the cost of non-depreciable capital property distributed on the winding-up of a subsidiary if the distributed property or property substituted for the distributed property is acquired by a person or persons described in subclauses 88(1)(*c*)(vi)(B)(I) to (III). The purpose of the subparagraph is to deny that increase where one or more persons who had a significant interest in the subsidiary before the parent last acquired control of the subsidiary acquire a significant interest in the property, either directly or indirectly, as part of the series of transactions or events that includes the winding-up.

Your particular concern involves the inclusion in subclause 88(1)(*c*)(vi)(B)(III) of a corporation (other than a specified person or the subsidiary) of which a specified shareholder of the subsidiary is a specified shareholder. In your view, Pco would be a corporation described in this subclause in respect of the winding-up of Target and Subco because each of Sellco 1 and Sellco 2 will be a specified shareholder of Target and Subco prior to the acquisition of control of Target by Aco and will be a specified shareholder of Pco after Pco acquires the shares of Sellco 1 and Sellco 2. The reason that Sellco I and 2 will be specified shareholders of Target, Subco and Pco is that each of Sellco 1 and Sellco 2 is deemed to own the shares of Target and Subco owned by Vco and, following the acquisition of the shares of Sellco 1 and Sellco 2 by Pco, each is deemed to own the shares of Pco owned by Pco Holdings (see, in this respect, paragraph (*a*) of the definition "specified shareholder" in subsection 248(1)).

You submit that the denial of the cost base increase in these circumstances is contrary to the policy underlying subparagraph 88(1)(*c*)(vi). This provision is not intended to deny the cost base increase where the purchaser (in this case, Pco) is not a person described in subclauses 88(1)(*c*)(vi)(B)(I) to (III) prior to the acquisition of control of the subsidiary. In this respect, you note that Pco only becomes a person described in subclause 88(1)(*c*)(vi)(B)(III) because of the acquisition of the shares of Sellco 1 and Sellco 2. In the absence of this acquisition, Pco would not be a person described in subclause 88(1)(*c*)(vi)(B)(III).

We agree that, in the specific circumstances described above, Pco should not be a corporation described in subclause 88(1)(*c*)(vi)(B)(I11) in respect of Target or Subco. Accordingly, we are prepared to recommend to the Minister of Finance that the Act be amended to ensure this result for windings-up that begin after August 2004, coincident with other amendments to paragraph 88(1)(c.2) that we have, in a letter dated August 13, 2004, agreed to recommend.

While I cannot offer any assurance that either the Minister or Parliament will agree with our recommendation, I hope that this statement of our intentions is helpful to you.

Yours sincerely,

Brian Ernewein
General Director - Legislation
Tax Policy Branch

Department of Finance Comfort Letter [Ineligible Property on Winding-Up of Subsidiary]

September 1, 2006

Dear XXXX

I am writing in response to your correspondence dated August 24, 2006 in which you recommend a technical amendment to the rules in subsection 88(1) of the *Income Tax Act* (the "Act") governing the cost of property distributed to the parent corporation on the winding-up of a subsidiary.

Where subsection 88(1) of the Act applies, the parent corporation may elect to increase the cost of capital property (other than ineligible property) distributed on the winding-up within the limits set out in that subsection. Capital property will be ineligible property if, among other things, a person described, in any of subclauses 88(1)(*c*)(vi)(B)(I) to (III) (a "restricted person") acquires, as part of the series of transactions or events that includes the winding-up, property distributed to the parent on the winding-up or property substituted for such property.

Your concern relates to a series of proposed transactions in which a restricted person will acquire property to be distributed to the parent on the winding up; however, the restricted person will not own the property at any time after the acquisition of control of the subsidiary. You note that subparagraph 88(1)(*c*.3)(iv) of the Act deems property not to be property substituted for the property distributed on the winding-up if it is not owned by a restricted person at any time after the acquisition of control of the subsidiary. However, there is no similar provision dealing with acquisition of property distributed to the parent on the winding-up. Accordingly, the acquired property will be ineligible property.

We agree that ineligible property should not include property distributed to the parent on the winding-up of the subsidiary if a restricted person does not own the property at any time after the acquisition of control of the subsidiary. Accordingly, we will recommend to the Minister of Finance that an amendment be made to subsection 88(1) of the Act to ensure that such property is not treated as ineligible property.

We are prepared to recommend that the amendment apply to windings-up that begin after 2005. While we cannot offer any assurance that either the Minister or Parliament will agree with our recommendation, we hope that this statement of our position is helpful to you.

Yours sincerely,

Brian Ernewein
General Director — Legislation
Tax Policy Branch

History: S. 88(1)(*c*)(vi)(B)(III), the portion before sub-subclause 1 was amended by S.C. 2001, c. 17, s. 66(1), applicable to windings-up that begin after November 1994. S. 88(1)(*c*)(vi)(B)(III), the portion before sub-subclause 1 formerly read:

"(III) a corporation (other than a specified person)"

S. 88(1)(*c*)(v) was amended by S.C. 1998, c. 19, s. 118(2), applicable to windings-up that begin after 1996. S. 88(1)(*c*)(v) formerly read:

"(v) property transferred to the subsidiary by the parent or by any person or partnership that was not, otherwise than because of a right referred to in paragraph 251(5)(*b*), dealing at arm's length with the parent, and"

S. 88(1)(*c*)(vi), the portion before subclause (B)(I), was amended by S.C. 1998, c. 19, s. 118(3), applicable to windings-up that begin after June 20, 1996, other than windings-up that are part of an arrangement that was substantially advanced, as evidenced in writing, before June 21, 1996. S. 88(1)(*c*)(vi), the portion before subclause (B)(I), formerly read:

"(vi) property disposed of by the parent as part of the series of transactions or events that includes the winding-up where, as part of the series,

(A) the parent acquired control of the subsidiary, and

(B) the property or any other property acquired by any person in substitution therefor is acquired by"

S. 88(1)(*c*)(vi)(B)(III)2 was amended by S.C. 1998, c. 19, s. 118(4), applicable to windings-up that begin after November 1994. S. 88(1)(*c*)(vi)(B)(III)2 formerly read:

"2. of which a particular person would be, at any time during the course of the series and after control of the subsidiary was last

acquired by the parent, a specified shareholder if all the shares then owned by persons (other than specified persons) referred to in subclause (II) were owned at that time by the particular person;"

S. 88(1)(*c*)(ii)(B) was amended by S.C. 1995, c. 21, s. 31(1), applicable to windings-up that begin after July 13, 1990. S. 88(1)(*c*)(ii)(B) formerly read:

"(B) any reduction of the cost amount to the subsidiary of the property made because of paragraph 80(1)(*b*) on the winding-up,"

S. 88(1)(*c*), the portion before subparagraph (i), was amended by S.C. 1995, c. 21, s. 55(3), applicable to windings-up that begin after February 22, 1994. That part formerly read:

"(*c*) notwithstanding the reference to paragraph 87(2)(*e*.1) in paragraph (*e*.2), the cost to the parent of each property of the subsidiary distributed to the parent on the winding-up shall be deemed to be"

S. 88(1)(*c*), that portion after clause (ii)(B), was amended by S.C. 1995, c. 3, s. 24(1), applicable to windings-up that begin after February 21, 1994 except that, in its application to a winding-up that begins after February 21, 1994 and before December 1994, clause 88(1)(*c*)(vi)(B) shall be read as follows:

"(B) the property or any other property acquired by any person in substitution therefor is acquired by

(I) a particular person (other than a specified person) that, at any time during the course of the series and before control of the subsidiary was last acquired by the parent, was a specified shareholder of the subsidiary, or

(II) any person (other than a specified person) that at any time during the course of the series did not deal at arm's length with a particular person (other than a specified person) referred to in subclause (I);"

S. 88(1)(*c*), that portion after clause (ii)(B), formerly read:

"plus, where the property was a capital property (other than depreciable property) owned by the subsidiary at the time that the parent last acquired control of the subsidiary and thereafter without interruption until such time as it was distributed to the parent on the winding-up, the amount determined under paragraph (*d*) in respect thereof;"

S. 88(1)(*c*)(ii)(A) was amended by S.C. 1994, c. 7, Sched. VIII, s. 38(2), applicable to windings-up beginning after December 20, 1991. S. 88(1)(*c*)(ii)(A) formerly read:

"(A) the amount deemed by paragraph (*a*) to be the proceeds of disposition of the property"

S. 88(1)(*c*)(ii) was amended by S.C. 1994, c. 7, Sched. II, s. 66(3), applicable to windings-up beginning after July 13, 1990. S. 88(1)(*c*)(ii) formerly read:

"(ii) in any other case, the amount deemed by paragraph (*a*) to be the proceeds of disposition of the property,"

► 88(1)(c.1) ◄

(c.1) [Winding-up — Eligible capital property] — for the purpose of determining after the winding-up the amount to be included under paragraph 14(1)(*b*) in computing the parent's income in respect of the business carried on by the subsidiary immediately before the winding-up, there shall be added to the amount otherwise determined for Q in the definition "cumulative eligible capital" in subsection 14(5) the amount, if any, determined for Q in that definition in respect of that business immediately before the disposition;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 88(1)(*c.1*) of the Act is replaced by the following:

(c.1) for the purpose of determining after the winding-up the amount to be included under subsection 14(1) in computing the parent's income in respect of the business carried on by the subsidiary immediately before the winding-up

(i) there shall be added to the amount otherwise determined for each of the descriptions of A and F in the definition "cumulative eligible capital" in subsection 14(5), the total of all amounts, each of which is the amount, if any,

(A) determined for the description of F in that definition in respect of that business immediately before the winding up,

(B) determined under this subparagraph as it applied to the subsidiary in respect of a winding-up before that time, or

(C) determined under paragraph 85(1)(*d*.11) as it applied to the subsidiary in respect of a disposition to the subsidiary before that time, and

(ii) there shall be added to the amount determined for the description of C in the formula in paragraph 14(1)(*b*), the total of all amounts, each of which is an amount that is

(A) one-half of the amount, if any, determined for the description of Q in that definition in respect of that business immediately before the winding up,

(B) determined under this subparagraph as it applied to the subsidiary in respect of a winding-up before that time, or

(C) determined under paragraph 85(1)(*d*.1) as it applied to the subsidiary in respect of a disposition to the subsidiary before that time;

Applicable: In respect of the disposition of an eligible capital property by a subsidiary to a parent unless

(*a*) the disposition by the subsidiary occurred before December 21, 2002; and

(*b*) the parent disposed of the eligible capital property, before November 9, 2006 and in a taxation year of the parent ending after February 27, 2000, to a person with whom the parent did not deal at arm's length at the time of that disposition by the parent.

Explanatory Note: Section 88 of the Act deals with the tax consequences arising from the winding-up of a corporation. Subsection 88(1) provides rules that apply where a subsidiary has been wound up into its parent corporation in circumstances where both the parent and the subsidiary are taxable Canadian corporations and the parent owns at least 90% of the issued shares of each class of the capital stock of the subsidiary.

Paragraph 88(1)(c.1)

Subparagraph 88(1)(*a*)(iii) of the Act generally provides that property of a subsidiary corporation is deemed to have been disposed of on its winding-up for proceeds of disposition equal to its cost amount to the subsidiary immediately before the winding-up. Under subparagraph 88(1)(*c*)(ii) of the Act, the cost of such property to the parent corporation is equal to such proceeds of disposition. Paragraph 88(1)(*c*.1) applies similarly in the case of a winding-up as paragraph 85(1)(*d*.1) applies to a rollover of eligible capital property from a shareholder to a corporation. That is, it generally reduces, for the parent that has acquired an eligible capital property, the gain that would be included in income under paragraph 14(1)(*b*) of the Act on a subsequent disposition of the property. This adjustment takes into account the 1988 change of the rate of income inclusion and expenditure deductibility from 1/2 to 3/4, by adjusting the calculation of variable Q in the definition "cumulative eligible capital" in subsection 14(5) of the Act.

Paragraph 88(1)(*c*.1) is renumbered as subparagraph 88(1)(*c*.1)(ii), and is further amended to ensure that the adjustment, or an earlier adjustment to the subsidiary under paragraph 85(1)(*d*.1), is not lost on a subsequent disposition by way of winding-up.

Paragraph 88(1)(c.1) is further amended by the addition of new subparagraph (i), which applies similarly to the application of paragraph 85(1)(*d*.11) of the Act to a shareholder in respect of a disposition of an eligible capital property to a corporation. That is, new subparagraph 88(1)(*c*.1)(i) ensures that an amount that would have been recaptured depreciation to the subsidiary under subsection 14(1) of the Act, if the subsidiary had instead disposed of the eligible capital property for fair market value proceeds, is subject to possible recapture in the hands of the parent upon a subsequent sale of the property. Amounts claimed under paragraph 20(1)(*b*) of the Act by the subsidiary after its "adjustment time" (as defined in subsection 14(5) of the Act, i.e., generally the beginning of the first taxation year of the subsidiary that starts after June 30, 1988) are included in the amount subject to potential recapture, by means of an adjustment to variables A and F in the definition "cumulative eligible capital" in subsection 14(5), as it applies to the subsid-

iary for the purposes only of calculating any income or gain under subsection 14(1).

New subparagraph 88(1)(*c.1*)(i) also applies to ensure that the adjustment, or an earlier adjustment to the subsidiary under paragraph 85(1)(*d.11*), is not lost on a subsequent disposition by way of winding-up.

For additional information, refer to the commentary to paragraphs 85(1)(*d.1*) and (*d.11*) of the Act.

Amended paragraph 88(1)(*c.1*) generally applies in respect of dispositions by a parent corporation that occur after December 20, 2002.

History: S. 88(1)(*c.1*) was added by S.C. 1994, c. 7, Sched. VIII, s. 38(3), applicable to distributions of property on the winding-up of a subsidiary in a taxation year of the subsidiary beginning after June 1988.

► 88(1)(c.2) ◄

(c.2) [Winding-up — Specified person and specified shareholder] — for the purposes of this paragraph and subparagraph (*c*)(vi),

(i) "specified person" at any time means the parent and each person that would, if this Act were read without reference to paragraph 251(5)(*b*), be related to the parent at that time and, for this purpose, a person shall be deemed not to be related to the parent where it can reasonably be considered that one of the main purposes of one or more transactions or events was to cause the person to be related to the parent so as to prevent a property that was distributed to the parent on the winding-up from being an ineligible property for the purpose of paragraph (*c*),

(ii) where at any time a property is owned or acquired by a partnership or a trust,

(A) the partnership or the trust, as the case may be, shall be deemed to be a person that is a corporation having one class of issued shares, which shares have full voting rights under all circumstances,

(B) each member of the partnership or beneficiary under the trust, as the case may be, shall be deemed to own at that time the proportion of the number of issued shares of the capital stock of the corporation that

(I) the fair market value at that time of that member's interest in the partnership or that beneficiary's interest in the trust, as the case may be,

is of

(II) the fair market value at that time of all the members' interests in the partnership or beneficiaries' interests in the trust, as the case may be, and

(C) the property shall be deemed to have been owned or acquired at that time by the corporation; and

(iii) in determining whether a person is a specified shareholder of a corporation,

(A) the reference in the definition "specified shareholder" in subsection 248(1) to "the issued shares of any class of the capital stock of the corporation or of any other corporation that is related to the corporation" shall be read as "the issued shares of any class (other than a specified class) of the capital stock of the corporation or of any other corporation that is related to the corporation and that has a significant direct or indirect interest in any issued shares of the capital stock of the corporation", and

(B) a corporation is deemed not to be a specified shareholder of itself;

Department of Finance Comfort Letter
[Proposed Amendment to S. 88(1)(c.2)(i) — "Specified Person" Re Bump Denial]

February 23, 2007

Dear XXXX

I am writing further to your correspondence dated January 22, 2007 and further to your discussions with the Tax Legislation Division regarding the meaning of "specified person" in subparagraph 88(1)(*c.2*)(i) of the *Income Tax Act* (the "Act"). In your correspondence, you asked us to consider an amendment to that subparagraph that would clarify the meaning of specified person in the circumstances described below.

Subparagraph 88(1)(*c.2*)(i) of the Act defines "specified person" as the parent and each person related (other than because of paragraph 251(5)(*b*)) to the parent. The definition "specified person" is relevant for the purpose of paragraph 88(1)(*c*) of the Act in that a specified person may acquire property distributed to the parent on the winding-up of the subsidiary or property substituted for such property without engaging the bump denial rule in subparagraph 88(1)(*c*)(vi).

You are concerned that a person cannot be a specified person before the incorporation of the parent corporation. In your view, this could lead to the inappropriate application of the bump denial rule. In this respect, you asked us to consider the following series of transactions or events:

Prior to the incorporation of the parent corporation ("Parent"), a taxable Canadian corporation ("Grandparent") will acquire common shares of the subsidiary corporation ("Subco") from an arm's length person. Grandparent will acquire sufficient common shares of Subco to become a specified shareholder of Subco but not enough to acquire control of Subco. To fund the acquisition of those Subco common shares, Grandparent will issue shares and debt to a corporation that is related to it ("Related Corporation"). Grandparent will then cause the Parent to be incorporated and, following the incorporation, Parent will acquire the remaining common shares of Subco from arm's length persons, thereby acquiring control of Subco. Grandparent will transfer its Subco common shares to Parent such that, after the transfer, Subco is a wholly-owned subsidiary of Parent. As a final step, Parent would like to wind-up Subco and to increase (*i.e.*, bump) the adjusted cost base of certain non-depreciable capital property of Subco to be acquired by it on the winding-up as provided in paragraphs 88(1)(*c*)and (*d*) of the Act.

In the circumstances described above, the Related Corporation is a specified shareholder of Subco that will acquire substituted property (shares and debt of Grandparent) as part of the series of transactions or events that includes the winding-up of Subco. Therefore, the bump denial rule in paragraph 88(1)(*c*)(vi) of the Act will apply unless the Related Corporation is considered to be a specified person. In this respect, you note that subparagraph 88(1)(*c.2*)(i)defines "specified person" *at any time* to mean the parent and each person related to the parent *at that time*. Accordingly, you are concerned that the Related Corporation may not be a specified person because, at the time it acquired the shares and debt of Grandparent, Parent had not yet been incorporated. You submit that the denial of the bump in these circumstances would not be appropriate since the Related Corporation will be related to Parent from the time Parent was incorporated until the winding-up of Subco.

We agree that, in the circumstances described above, the Related Corporation should not be excluded from being a specified person before the incorporation of Parent solely because the Related Corporation and Parent did not co-exist during that time. Accordingly, we are prepared to recommend to the Minister that the definition "specified person" in subparagraph 88(1)(*c.2*)(i) be amended, applicable to windings-up that begin after 2006, so that, in respect of property acquired before the beginning of the winding-up of the subsidiary, a specified person would include a person that is related to the parent

(within the meaning of subparagraph 88(1)(*c.2*)(i)) from the time the parent was incorporated until the beginning of the winding-up of the subsidiary.

While I cannot offer any assurance that either the Minister or Parliament will agree with our recommendation, I hope that this statement of our intentions is helpful to you.

Yours sincerely,

Brian Ernewein
General Director - Legislation
Tax Policy Branch

Department of Finance Comfort Letter
[Proposed Amendment to Paragraph 88(1)(c.2)]

August 13, 2004

Dear XXXX

Thank you for your letter of May 31, 2004 concerning the availability of the addition to the cost of non-depreciable capital property under paragraphs 88(1)(*c*) and (*d*) of the *Income Tax Act* (the "Act") in the circumstances described below.

Your concern relates to a series of proposed transactions wherein a taxable Canadian corporation ("Bidco") will acquire control of another taxable Canadian corporation ("Subco") followed by a winding up of Subco into Bidco. Prior to the acquisition of control, Holdco will own all of the shares of Subco and Subco will own all the shares of another corporation ("Sellco"). As a condition of the sale of the Subco shares by Holdco to Bidco, Holdco and Subco/Bidco will enter into an agreement to sell ("purchase agreement") the shares of Sellco to an arm's length purchaser ("Pco"), which sale will occur shortly after the winding up of Subco. Prior to entering into the purchase agreement, Pco will not be a specified shareholder of Subco.

More specifically, you are concerned that the right to acquire the shares of Sellco under the purchase agreement would result in Pco being a specified shareholder of Subco, although Pco does not have, nor does it intend to acquire, any direct or indirect interest in the shares of Subco, Holdco or Bidco. Your concern relates to the application of the deeming rules in subsections 251(2), (3) and (5) combined with the definition of "specified shareholder" in subsection 248(1) of the Act.

In the circumstances described above, paragraph 251(5)(*b*) of the Act would deem Pco, for the purpose of subsection 251(2), to be in the same position in relation to the control of Sellco as if it owned the shares of Sellco. As a result, Pco would be related to Sellco after entering into the purchase agreement. As Pco and Holdco would be related to the same corporation, they would be deemed by subsection 251(3) to be related to each other. Under the definition of "specified shareholder"", Pco would be treated as owning all the shares of Subco owned by Holdco and, therefore, would be a specified shareholder of Subco before control of Subco is acquired by Bidco. Since Pco would be a specified shareholder of Subco and, since Pco will acquire the shares of Sellco as part of the series of transactions that includes the winding up of Subco, Bidco would be precluded from obtaining a bump in the adjusted cost base of the shares of Sellco acquired on the winding up of Subco.

We agree that where a person has a right to acquire a share of a corporation (the "downstream corporation") controlled by another corporation (the "upstream corporation") and the downstream corporation does not have a direct or indirect interest in any of the issued shares of the upstream corporation, the right should not, in and of itself, result in the person becoming a specified shareholder of the upstream corporation for the purpose of subparagraph 88(1)(*c*)(vi) of the Act. Accordingly, we are prepared to recommend to the Minister that paragraph 88(1)(*c.2*) of the Act be amended to exclude a right to acquire shares of a downstream corporation from being considered in determining if a person is a specified shareholder of the upstream corporation in circumstances where the downstream corporation does not have a direct or indirect interest in any of the issued shares of the upstream corporation.

We are prepared to recommend that the amendment apply to windings-up that begin after August 2004. While we cannot offer any assurance that either the Minister or Parliament will agree with our recommendation, we hope that this statement of our position is helpful to you.

Yours sincerely

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 88(1)(*c.2*)(iii)(A) was amended by S.C. 2001, c. 17, s. 66(2), applicable to windings-up that begin after November 1994. S. 88(1)(*c.2*)(iii)(A) formerly read:

"(A) the reference in the definition 'specified shareholder' in subsection 248(1) to 'or of any other corporation that is related to the corporation' shall be read as 'or of any other corporation that is related to the corporation and that has a significant direct or indirect interest in any issued shares of the capital stock of the corporation', and"

S. 88(1)(*c.2*)(iii) was added by S.C. 1998, c. 19, s. 118(5), applicable to windings-up that begin after November 1994.

S. 88(1)(*c.2*) was added by S.C. 1995, c. 3, s. 24(2), applicable to windings-up that begin after February 21, 1994.

► 88(1)(c.3) ◄

(c.3) [Winding-up — Substituted property] — for the purpose of clause (*c*)(vi)(B), property acquired by any person in substitution for particular property or properties distributed to the parent on the winding-up includes

(i) property (other than a specified property) owned by the person at any time after the acquisition of control referred to in clause (*c*)(vi)(A) the fair market value of which is, at that time, wholly or partly attributable to the particular property or properties, and

(ii) property owned by the person at any time after the acquisition of control referred to in clause (*c*)(vi)(A) the fair market value of which is, at that time, determinable primarily by reference to the fair market value of, or to any proceeds from a disposition of, the particular property or properties

but does not include

(iii) money,

(iv) property that was not owned by the person at any time after the acquisition of control referred to in clause (*c*)(vi)(A), or

(v) property described in subparagraph (i) if the only reason the property is described in that subparagraph is because a specified property described in any of subparagraphs (*c.4*)(i) to (iv) was received as consideration for the acquisition of a share of the capital stock of the subsidiary in the circumstances described in subparagraphs (*c.4*)(i) to (iv);

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 88(1)(*c.3*) of the Act is amended by striking out the word "or" at the end of subparagraph (iv) and by adding the following after subparagraph (v):

(vi) a share of the capital stock of the subsidiary or a debt owing by it, if the share or debt, as the case may be, was owned by the parent immediately before the winding-up, or

(vii) a share of the capital stock of a corporation or a debt owing by a corporation, if the fair market value of

the share or debt, as the case may be, was not, at any time after the beginning of the winding-up, wholly or partly attributable to property distributed to the parent on the winding-up;

Applicable: To windings-up that begin after 1997.

Explanatory Note: Paragraph 88(1)(*c*) of the Act generally provides that the cost to the parent of each property distributed to it on the winding-up of a subsidiary is equal to the subsidiary's proceeds of disposition plus, where the property is a capital property and is not an ineligible property, an amount determined under paragraph 88(1)(*d*) in respect of the property. "Ineligible property" is described in subparagraphs 88(1)(*c*)(iii) to (vi). Pursuant to subparagraph 88(1)(*c*)(vi), ineligible property includes any property distributed to the parent on the winding-up if, as part of the series of transactions or events that includes the winding-up, the parent acquired control of the subsidiary and the property or property acquired in substitution for such property was acquired by a person or persons described in clause 88(1)(*c*)(vi)(B). Property acquired in substitution for property distributed on the winding-up ("substituted property") has its ordinary meaning and an extended meaning found in paragraph 88(1)(*c.3*) of the Act.

Paragraph 88(1)(*c.3*) of the Act provides that substituted property includes property described in subparagraphs 88(1)(*c.3*)(i) and (ii) but excludes property described in subparagraphs 88(1)(*c.3*)(iii) to (v). Subparagraph 88(1)(*c.3*)(i) provides that, for the purpose of clause 88(1)(*c*)(vi)(B), substituted property includes property (other than a "specified property") owned by a person after the acquisition of control of the subsidiary where the fair market value of the property is wholly or partly attributable to property distributed to the parent on the winding-up. Subparagraph 88(1)(*c.3*)(iv) ensures that property that would be substituted property under the ordinary meaning of the term will not be substituted property if it is not owned by the person after the acquisition of control.

Example 1 of the explanatory notes to the introduction of paragraph 88(1)(*c.3*) [see the explanatory notes to S.C. 1998, c.19 (formerly Bill C-28)] describes a scenario under the heading *Safe Income Crystallization* that illustrates the application of subparagraph 88(1)(*c.3*)(iv) to a situation involving a safe income crystallization prior to a takeover. In that example, Sco, a taxable Canadian corporation, owns 15% of Tco, a publicly traded taxable Canadian corporation. Another corporation ("Pco") makes a takeover offer for all the shares of Tco. In anticipation of the sale of the Tco shares, Sco incorporates Newco and transfers, on a tax-deferred basis under section 85 of the Act, all of its Tco shares to Newco in exchange for Newco shares. The adjusted cost base and the paid-up capital of the Newco shares are then increased by the amount equal to the so-called "safe income" attributable to the Tco shares. Immediately thereafter, Sco sells the Newco shares to Pco for cash and Newco is wound up into Pco.

In the example, subparagraph 88(1)(*c.3*)(iv) ensures that the Newco shares are not substituted property since Sco did not own the Newco shares after the acquisition of control of Newco by Pco. However, assuming that Tco is subsequently wound up into Pco, the non-depreciable capital property ("bump property") owned by Tco at the time of the acquisition of control of Tco would be ineligible property since, as part of the series of transactions or events that includes the winding up of Tco, property substituted for the bump property (i.e., the 15% of the Tco shares) would have been acquired by a specified shareholder of Tco (i.e., Newco) and would have been owned by Newco after the acquisition of control of Tco.

New subparagraphs 88(1)(*c.3*)(vi) and (vii) of the Act, which apply to windings-up that begin after 1997, are enacted to ensure that certain shares or debt will not be substituted property even if they are owned by a specified shareholder after the acquisition of control of the subsidiary. Subparagraph 88(1)(*c.3*)(vi) provides that shares or debt of the subsidiary will not be substituted property if such shares or debt are owned by the parent immediately before the winding-up of the subsidiary. Thus, in the example discussed above, the Tco shares, which are owned by Pco immediately before the winding-up of Tco, would not be substituted property.

Subparagraph 88(1)(*c.3*)(vii) provides that a share or debt of a corporation will not be substituted property if the fair market value of the share or debt is not attributable, at any time after the winding-up process begins, to property acquired by the parent on the winding-up. This exemption would apply, for example, if an individual ("Mr. S"), who is a specified shareholder of Tco, incorporates Newco in contemplation of the takeover of Tco and transfers the Tco shares to Newco. Mr. S then transfers the Newco shares to Sco. Immediately after the increase in the adjusted cost base of the shares of Newco (i.e., following the safe income crystallization) Sco sells the Newco shares to Pco. In this scenario, the Sco shares owned by Mr. S after the sale would not be substituted property by reason of new subparagraph 88(1)(*c.3*)(vii).

Department of Finance Comfort Letter [Addition to Cost Base of Non-depreciable Capital Property on Winding-up of Subsidiary]

June 26, 2007

Dear XXXX

Further to our recent telephone conversations and your correspondence dated June 21, 2007, we are writing to confirm our public position as previously set out in our May 31, 2004 letter.

In this regard, we confirm that we are reviewing subparagraph 88(1)(*c.3*)(i) and the definition of "specified property" in paragraph 88(1)(*c.4*), of the *Income Tax Act*, with a view to identifying those amendments that are necessary to ensure that the addition to the cost base of non-depreciable capital property distributed on the winding-up of a subsidiary, as provided by paragraph 88(1)(c) of the Act, is not denied in inappropriate circumstances.

Yours sincerely,

Brian Ernewein
General Director - Legislation
Tax Policy Branch

Department of Finance Comfort Letter [Application of the Substituted Property Rules]

May 31, 2004

Dear XXXX

Thank you for your email of May 13, 2004 to Mr. Daryl Boychuk of this Division concerning the application of the substituted property rules in paragraphs 88(1)(*c.3*) and (*c.4*) of the *Income Tax Act* (the "Act").

In particular, your concern relates to a series of proposed transactions in which control of a taxable Canadian corporation ("Target") will be acquired. The controlling shareholders of Target (each of which is a "subsidiary wholly-owned corporation" of "Holdco1") will amalgamate with Target to create "Subco". Pursuant to the terms of the amalgamation, a wholly owned subsidiary of Holdco1 ("Parentco") will receive common shares of Subco and the public shareholders of Target will receive redeemable preferred shares that will be redeemed immediately after the amalgamation. Subco will then be wound-up into Parentco in circumstances described in subsection 88(1) of the Act.

You advised us that one of the shareholders of Target (the "Shareholder") owns less than 10% of the issued shares of any class of Target. However, there is a group of key employees of Target who are also shareholders and option holders of Target that, together with the Shareholder, may be viewed as a group described in subclause 88(1)(*c*)(vi)(B)(II).

To finance the acquisition of Target, Holdco1 will issue debt in the U.S. and Canadian markets. As part of its general investment strategy, the Shareholder would like to subscribe for a portion of the debt. The debt in question would be non-participating, interest-bearing debt and would not differ from the debt issued to other lenders.

You are concerned that the subscription for any portion of the debt by the Shareholder could be viewed as an acquisition of property substituted for property acquired by Parentco on the winding up of Subco within meaning of subparagraph 88(1)(*c.3*)(i). You note that the debt would not be "specified property" as defined in paragraph 88(1)(*c.4*) since it would not be issued as consideration for the acquisition of a share of the capital stock of a corporation described in subparagraphs 88(1)(*c.4*)(ii) or (iv). Accordingly, the addition to the adjusted

cost base of certain non-depreciable capital property of Subco provided in paragraphs 88(1)(*c*) and (*d*) (the "bump") may not be available on the winding-up of Subco into Parentco.

In your view, the denial of the bump in these circumstances would not be consistent with the tax policy underlying subparagraph 88(1)(*c*)(vi) in that the transactions do not facilitate a tax-deferred transfer of some assets of Target. Moreover, an amendment to paragraph 88(1)(*c.4*) to exclude a debt issued to a specified shareholder for consideration that consists solely of money would be consistent with the proposed amendment to subparagraph 88(1)(*c.4*)(i).

We understand your concerns regarding the denial the bump in the circumstances described in your letter and we do not dispute that the result appears to be inconsistent with the policy underlying subparagraph 88(1)(*c*)(vi). As discussed, we are reviewing subparagraph 88(1)(*c.3*)(i) and the definition of "specified property" in paragraph 88(1)(*c.4*) with a view to identifying those amendments that are necessary to ensure that the bump is not denied in appropriate circumstances. I trust that this letter is informative of our general position regarding your submission.

Yours sincerely,

Len Farber
General Director
Tax Legislation Division
Tax Policy Branch

Department of Finance Comfort Letter
[Inclusion of Employee Stock Options as Specified Property for Purposes of Paragraphs 88(1)(c.3) and (c.4)]

June 24, 2003

Dear XXXX:

Thank you for your letter of May 5, 2003 concerning the application of the substituted property rules in paragraphs 88(1)(*c.3*) and (*c.4*) of the *Income Tax Act* (the "Act").

In particular, your concern relates to the treatment of employee stock options in a series of proposed transactions wherein a taxable Canadian corporation that is a public corporation ("Acquireco") will acquire control of another taxable Canadian corporation that is also a public corporation ("Targetco").

Certain employees (including directors) of Targetco and other corporations related to Targetco (the "Optionholders") hold options to acquire Targetco Common Shares ("Targetco Options"). Under the terms of the takeover, Targetco Options that are unexercised on the date of the acquisition of Targetco will become options to acquire Acquireco common shares ("Acquireco Options") at a ratio that is consistent with the purchase price of the shares under the takeover transaction (the "Option Exchange"). Following the takeover, Targetco may be wound-up or amalgamated into Acquireco or a corporation related to Acquireco in circumstances where subsections 87(11) or 88(1) of the Act would apply. The Optionholders who receive Acquireco Options may in the aggregate be considered a "specified shareholder" of Targetco (as that term is applied in subparagraph 88(1)(*c*)(vi)).

Your concern is that the Optionholders may acquire "substituted property" as described in subparagraph 88(1)(*c.3*) as a consequence of the Option Exchange. Accordingly, the addition to the adjusted cost base of certain non-depreciable capital property of Targetco provided in paragraphs 88(1)(*c*) and (*d*) (the "bump") may be unavailable on the winding-up or amalgamation of Targetco into Acquireco or a corporation related to Acquireco.

You ask that we consider including, in the definition of specified property in paragraph 88(1)(*c.4*) of the Act, an option or right to acquire a share received in the circumstances described above. You argue that the Option Exchange is simply a proxy for an exchange of the underlying shares. Accordingly, you submit that there is no policy reason for treating the Option Exchange any differently from an exchange of Targetco shares for Acquireco shares.

Based on our understanding of the facts, we agree that the Option Exchange should not, in and of itself, result in the denial of the bump on the winding up of Targetco into Acquireco or a corporation related to Acquireco. Accordingly, we are prepared to recommend to the Minister of Finance that the Act be amended to ensure that the rights to acquire shares of Acquireco received by the Optionholders will not be substituted property within the meaning of subparagraph 88(1)(*c.3*)(i). We are also prepared to recommend that the amendment apply to windings-up that begin after 2001. If the above recommendation were acted upon, we would anticipate that the amendment would be included in a future technical bill.

Yours very truly,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

Department of Finance Comfort Letter
[Amendment to the Definition of "Substituted Property"]

May 2, 2002

Dear XXXX

Thank you for your letters dated March 1 and 5, 2002 concerning the application of the substituted property rules in paragraphs 88(1)(*c.3*) and (*c.4*) of the *Income Tax Act* (the "Act").

In particular, your concern relates to a series of proposed transactions wherein a taxable Canadian corporation ("Bidco") acquires more than $66^2/_3\%$ but less than 90% of the shares of another corporation ("Targetco") under a takeover bid. To complete the takeover, Bidco implements what is commonly referred to as an amalgamation squeeze out. On the amalgamation, a new corporation ("Amalco") will issue common shares to Bidco and redeemable preferred shares to the minority shareholders of Targetco. Amalco will redeem the redeemable preferred shares immediately after the amalgamation for consideration that includes common shares of Bidco, as required under the applicable securities law. Following the redemption, Amalco will be a wholly-owned subsidiary of Bidco. Amalco will then be wound-up into Bidco.

Your concern is that the redeemable preferred shares and the common shares of Bidco would not qualify as specified property as defined in paragraph 88(1)(*c.4*) of the Act and, therefore, such shares will be substituted property as defined in subparagraph 88(1)(*c.3*)(i) of the Act. Accordingly, the addition to the adjusted cost base of certain non-depreciable capital property of Amalco (the "bump") provided in paragraphs 88(1)(*c*) and (*d*) of the Act would be unavailable on the winding-up of Amalco into Bidco.

In your view, the redemption of the redeemable preferred shares for common shares of Bidco does not violate any policy objectives underlying the bump rules. You state that, if the minority shareholders had tendered their shares of Targetco to Bidco under the takeover bid, the Bidco common shares received by them would have been specified property and, as a result, would not have been substituted property for the purpose of subparagraph 88(1)(*c.3*)(i). Accordingly, you request that we consider amending the definition of specified property in paragraph 88(1)(*c.4*) to accommodate the redemption of the redeemable preferred shares of Amalco for common shares of Bidco.

We agree that the redemption of the redeemable preferred shares in consideration for common shares of Bidco should not, in the circumstances described above, affect the availability of the bump on the winding-up of Amalco into Bidco. Accordingly, we are prepared to recommend to the Minister of Finance that the Act be amended to ensure that the redeemable preferred shares of Amalco and the common shares of Bidco be considered specified property within the meaning of paragraph 88(1)(*c.4*). We are also prepared to recommend that the amendment apply to windings-up that begin after 2001. If the above recommendation were acted upon, we would anticipate that the amendment would be included in a future technical bill.

Your sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

Department of Finance Comfort Letter [Application of Substituted Property Rules]

April 22, 2002

Dear XXXX

Thank you for your letter of October 11, 2001 to Davine Roach of this Division concerning the application of the substituted property rules in paragraphs 88(1)(*c*.3) and (*c*.4) of the *Income Tax Act* (the "Act").

In particular, your concern relates to a series of proposed transactions wherein a taxable Canadian corporation ("Bidco") will acquire control of a public corporation ("Targetco"). Under the terms of the takeover, employees of Targetco will participate in the stock option plan of Bidco's parent corporation ("Parentco"). Parentco is a taxable Canadian corporation and owns all of the shares of Bidco. You indicate that a person ("Mr. X"), who is both an employee and specified shareholder of Targetco, holds options under Targetco's employee stock option plan. Concurrently with the closing of the takeover bid, Mr. X, along with other employees of Targetco, will exchange their Targetco options for Parentco options ("option exchange"). Mr. X is also a party to an arrangement with a trust that is governed by subsection 7(6) of the Act. Under that arrangement, Mr. X has an option to acquire Targetco shares ("trust option") from the trust. The trust will elect under the terms of the takeover bid to receive shares of Parentco and the trust option will be amended to reflect the substitution of the Targetco shares for Parentco shares. Following the takeover, Targetco will be wound-up into Bidco.

Your concern is that Mr. X may acquire property described in subparagraph 88(1)(*c*.3)(i) as a consequence of the option exchange and the amendment to the trust option. Accordingly, the addition to the adjusted cost base of certain non-depreciable capital property of Targetco provided in paragraphs 88(1)(*c*) and (*d*) (the "bump") may be unavailable on the winding-up of Targetco into Bidco.

You ask that we consider including, in the definition of specified property in paragraph 88(1)(*c*.4) of the Act, an option or right to acquire a share received in the circumstances described above. You argue that the option exchange and the amendment to the trust option is simply a proxy for an exchange of the underlying shares. Accordingly, you submit that there is no policy reason for treating the option exchange and the amendment to the trust option any differently from an exchange of Targetco shares for Parentco shares.

We agree that the option exchange and the amendment to the trust option described above, in and of themselves, should not result in the denial of the bump on the winding up of Targetco into Bidco. Accordingly, we are prepared to recommend to the Minister of Finance that the Act be amended to ensure that the rights to acquire shares of Parentco received by Mr. X will not be substituted property within the meaning of subparagraph 88(1)(*c*.3)(i). We are also prepared to recommend that the amendment apply to windings-up that begin after 2001. If the above recommendation were acted upon, we would anticipate that the amendment would be included in a future technical bill.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 88(1)(*c*.3) was added by S.C. 1998, c. 19, s. 118(6), applicable to windings-up that begin after February 21, 1994 except that, in its application to windings-up that began before June 21, 1996 and to windings-up that begin after June 20, 1996 that are part of an arrangement that was substantially advanced, as evidenced in writing, before June 21, 1996, paragraph 88(1)(*c*.3) of the Act shall be read as follows:

"(*c*.3) for the purpose of clause (*c*)(vi)(B), property acquired by any person in substitution for particular property or properties

(i) includes property owned by the person at any time after the acquisition of control referred to in clause (*c*)(vi)(A) the fair market value of which is, at that time, determinable primarily by reference to the fair market value of the particular property or properties or by reference to any proceeds from a disposition of the particular property or properties, but

(ii) does not include property that is money received as consideration for a disposition of the particular property or properties;"

► 88(1)(c.4) ◄

(c.4) [Winding-up — Specified property] — for the purposes of subparagraphs (*c*.3)(i) and (v), a specified property is

(i) a share of the capital stock of the parent that was received as consideration for the acquisition of a share of the capital stock of the subsidiary by the parent or by a corporation that was a specified subsidiary corporation of the parent immediately before the acquisition,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 88(1)(c.4)(i) of the Act is replaced by the following:

(i) a share of the capital stock of the parent that was

(A) received as consideration for the acquisition of a share of the capital stock of the subsidiary by the parent or by a corporation that was a specified subsidiary corporation of the parent immediately before the acquisition, or

(B) issued for consideration that consists solely of money,

Applicable: To windings-up that begin after 1997.

Explanatory Note: Paragraph 88(1)(*c*.4) of the Act defines "specified property" for the purposes of subparagraphs 88(1)(*c*.3)(i) and (v) of the Act. Specified property is excluded from the extended meaning of a substituted property found in subparagraph 88(1)(*c*.3)(i). Subparagraph 88(1)(*c*.4)(i) is amended to include, within the definition "specified property", shares of the parent issued for consideration that consists solely of money. This amendment, which applies to windings-up that begin after 1997, ensures that a specified shareholder that participates in a takeover by acquiring shares of the parent for cash consideration will not be considered to have acquired substituted property within the meaning assigned by subparagraph 88(1)(*c*.3)(i).

(ii) an indebtedness that was issued by the parent as consideration for the acquisition of a share of the capital stock of the subsidiary by the parent,

(iii) a share of the capital stock of a taxable Canadian corporation that was received as consideration for the acquisition of a share of the capital stock of the subsidiary by the taxable Canadian corporation or by the parent where the parent was a specified subsidiary corporation of the taxable Canadian corporation immediately before the acquisition,

(iv) an indebtedness of a taxable Canadian corporation that was issued by it as consideration for the acquisition of a share of the capital stock of the subsidiary by the taxable Canadian corporation or by the parent where the parent was a specified subsidiary corporation of the taxable Canadian corporation immediately before the acquisition,

(v) where the subsidiary was formed on the amalgamation of 2 or more predecessor corporations at least one of which was a subsidiary wholly-owned corporation of the parent, a share of the capital stock of the subsidiary

(A) that was issued on the amalgamation in exchange for a share of the capital stock of a predecessor corporation, and

(B) that was, immediately after the amalgamation, redeemed, acquired or cancelled by the subsidiary for money, and

(vi) where the subsidiary was formed on the amalgamation of 2 or more predecessor corporations at least one of which was a subsidiary wholly-owned corporation of the parent, a share of the capital stock of the parent

(A) that was issued on the amalgamation in exchange for a share of the capital stock of a predecessor corporation, and

(B) that was, immediately after the amalgamation, redeemed, acquired or cancelled by the parent for money;

Department of Finance Comfort Letter
[Proposed Amendment of Paragraph 88(1)(c.4) Re the Definition of "Specified Property"]

January 20, 2006

Dear XXXX,

Thank you for your letter of January 12, 2006 regarding the definition "specified property" in paragraph 88(1)(*c.4*) of the *Income Tax Act* (the "Act").

In particular, your concern relates to circumstances where there is an acquisition of property by a person in the course of an amalgamation squeeze-out. The squeeze-out would follow a takeover bid in which a taxable Canadian corporation ("Parent") acquired more than $66^2/_3$% but less than 90% of the shares of another taxable Canadian corporation ("Target"). The Parent would complete the squeeze-out by incorporating a subsidiary wholly-owned corporation, which would be amalgamated with Target in circumstances where the minority shareholders of Target would receive redeemable preferred shares of the amalgamated corporation. The preferred shares would then be redeemed and the redemption price would be satisfied by a combination of money and the delivery of shares of the Parent in the same proportions as the minority shareholders would have received if they had tendered their Target shares to the takeover bid.

In your letter, you note that subparagraph 88(1)(*c.4*)(v) of the Act includes, within the definition of specified property, preferred shares issued on an amalgamation squeeze-out if those shares are immediately redeemed, acquired or cancelled for money. In addition, you note that, in a letter issued on May 2, 2002, we stated that we would recommend that preferred shares issued on an amalgamation squeeze-out and shares of the Parent (delivered by the amalgamated corporation on the redemption of the preferred shares) be considered specified property within the meaning of paragraph 88(1)(*c.4*).

You note, however, that neither subparagraph 88(1)(*c.4*)(v) of the Act nor the proposed recommended amendment referred to in the May 2, 2002 letter specifically provide for the situation where the preferred shares of the amalgamated corporation are redeemed for consideration that consists of a combination of money and shares of the Parent. You point out that the same tax policy considerations that apply on the redemption of preferred shares of the amalgamated corporation for money or the redemption of preferred shares of the amalgamated corporation for shares of the Parent should also apply where the consideration received consists of a combination of money and shares of the Parent. Accordingly, you have asked us to consider an amendment to paragraph 88(1)(*c.4*) that would ensure that the preferred shares of the amalgamated corporation (that are redeemed for a combination of money and shares of the Parent) and the shares of the Parent that are acquired by the minority shareholders of the Target in partial consideration of the redemption of the preferred shares of the amalgamated corporation would, in the circumstances described above, be considered specified property within the meaning of paragraph 88(1)(*c.4*).

We agree that, in the circumstances outlined in your letter, both the preferred shares of the amalgamated corporation and the shares of the Parent should be specified property within the meaning of paragraph 88(1)(*c.4*). Accordingly, we are prepared to recommend to the Minister that, for windings-up that begin after 2005, the Act be amended to ensure this result. If the above recommendation were acted upon, we would anticipate that the amendment would be included in a future technical bill.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

Department of Finance Comfort Letter
[Definition of "Specified Property" in Paragraph 88(1)(c.4)]

September 22, 2005

Dear XXXX,

We are writing in reply to your correspondence of August 19 and 26, 2005 and further to our telephone discussions concerning the application of the substituted property rules in paragraph 88(1)(*c.3*) of the *Income Tax Act* (the "Act").

In particular, your concern relates to a series of proposed transactions involving the acquisition of property substituted for property distributed on the winding-up of a subsidiary under subsection 88(1) of the Act.

You have advised us that a taxable Canadian corporation ("Buyco") proposes to acquire all the shares of another taxable Canadian corporation ("Subco1") for money. The owner of the Subco1 shares ("Canco") will also sell the shares of another corporation ("Subco2") to a corporation ("Parentco") that owns all the shares of Buyco. In consideration for the Subco2 shares, Canco will receive money and common shares of Parentco. As part of the same series of transactions or events that includes the acquisition of Subco1 and Subco2, Buyco will cause Subco1 to be wound up in circumstances described in subsection 88(1) of the Act.

You are concerned that the fair market value of the shares of Parentco acquired by Canco will be wholly or partly attributable to property distributed to Buyco on the winding-up of Subco1 and will not be "specified property" as defined in paragraph 88(1)(*c.4*). As such, the Parentco shares acquired by Canco would be property acquired in substitution for property distributed to Buyco on the winding-up of Subco1 within the meaning of subparagraph 88(1)(*c.3*)(i). Accordingly, the addition to the adjusted cost base of certain non-depreciable capital property of Subco1 (the "bump") provided in paragraphs 88(1)(*c*) and (*d*) would not be available on the winding-up of Subco1 into Buyco.

In your view, the denial of the bump in these circumstances is not appropriate for two reasons. First, the shares of Subco1 will be acquired for money (which is not property substituted for the property distributed on the winding-up of Subco1). Second, the shares of Parentco will be issued in consideration for property (shares of Subco2) that does not, and will not, as part of the series of transactions or events that includes the winding-up of Subco1, derive any value from the property distributed to Buyco on the winding-up of Subco1.

Based on our understanding of the facts and circumstances described above, we agree that the shares of Parentco acquired by Canco in consideration for the shares of Subco2 should not be considered to be property described in subparagraph 88(1)(*c.3*)(i) in respect of the winding-up of Subco1 into Buyco. Accordingly, we are prepared to recommend to the Minister of Finance that the definition "specified property" in paragraph 88(1)(*c.4*) be amended to ensure this result.

We will also recommend that this amendment be effective for the winding-up of Subco1 described above, which you anticipate will occur in September 2005. While we cannot offer any assurance that either the Minister or Parliament will agree with our recommendations, we hope that this statement of our position is helpful to you.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

Department of Finance Comfort Letter [Options and Warrants — Specified Property]

April 15, 2005

Dear XXXX:

This is in reply to your letter dated March 16, 2005 and further to your discussions with Daryl Boychuk of this Division concerning the application of paragraphs 88(1)(*c*.3) and (*c*.4) of the *Income Tax Act* (the "Act"). In your letter, you asked us for clarification concerning the scope of certain proposed amendments referred to in correspondence released by the Tax Legislation Division. In particular, you have asked us to advise you whether these amendments, which relate to the meaning of specified property in paragraph 88(1)(*c*.4) of the Act and, by implication, to the meaning of substituted property in subparagraph 88(1)(*c*.3)(i) of the Act, will apply to shares and options of the parent corporation in the circumstances described below. In the alternative, you have asked us if we would be prepared to recommend amendments to the Act that would include such property within the meaning of specified property.

In addition, you asked us if we would be prepared to recommend an amendment to the Act that would ensure that certain publicly-traded warrants cancelled before the winding up of the subsidiary corporation, as described below, would not be substituted property within the meaning of subparagraph 88(1)(*c*)(vi).

In the situation described in your letter, a taxable Canadian corporation ("Parent") and its subsidiary wholly-owned corporation ("Subco") acquired control of another taxable Canadian corporation ("Target") by acquiring, pursuant to a takeover offer, more than 80% of the issued and outstanding common shares of Target. The only consideration issued for the Target shares was Parent shares. Although Target has outstanding options and warrants to acquire Target shares, the takeover offer did not extend to these options or warrants. All of the warrants ("Target Warrants") are listed on the Toronto Stock Exchange.

Parent intends to acquire the remaining Target shares through a plan of arrangement. Prior to entering into the plan of arrangement, Subco will be wound up into Parent and, as a result, the Target shares acquired by Subco pursuant to the takeover offer will be transferred to Parent. In furtherance of the plan of arrangement, Parent has incorporated a new subsidiary wholly-owned corporation ("Newco") under the laws of Ontario.

The Target shareholders will be asked to approve a plan of arrangement pursuant to which Target will amalgamate with Newco to form Amalco. On the amalgamation, the Target shareholders, other than Parent (and any dissenting shareholders) will receive Parent shares on the same basis as they would have received had they tendered their Target shares under the takeover offer. As a consequence of the amalgamation, Parent will become the sole shareholder of Amalco. Each person that owns a Target Warrant or Target option will, on the amalgamation, exchange that option or warrant for an option or warrant, respectively, to acquire that number of shares of Parent that such holder would have acquired if the Target Warrant or Target option had been exercised and the Target shares so required exchanged for Parent shares under the takeover offer. The option exchange will be governed by subsection 7(1.4) of the Act and the warrant exchange will be governed by subsection 87(5) of the Act, as modified by paragraph 87(9)(*a*.3) of the Act. Subsequent to the amalgamation, Parent intends to cause Amalco to be wound up with the intention of making designations under paragraph 88(1)(*d*) of the Act in respect of capital property, owned by Target at the time Parent acquired control of Target, that is not ineligible property as defined in paragraph 88(1)(*c*) of the Act.

In your letter, you refer to correspondence from the Tax Legislation Division dated May 2, 2002 and June 24, 2003. The letter dated May 2, 2002 states that we are prepared to recommend to the Minister that an amendment to the Act be made to ensure that certain redeemable preferred shares acquired on an amalgamation (and the shares of the parent corporation acquired on the redemption of those shares) would be specified property within the meaning of paragraph 88(1)(*c*.4) of the Act. The letter dated June 24, 2003 states that we are prepared to recommend to the Minister that the Act be amended to ensure that the right to acquire shares of the parent corporation would not, in the circumstances described in the letter, be substituted property within the meaning of subparagraph 88(1)(*c*.3)(i) of the Act.

You have asked us if the recommended amendments referred to in our letters dated May 2, 2002 and June 24, 2003, would ensure that the Parent shares received by the shareholders of Target and the Parent options or warrants received by the holders of Target options and Target Warrants on the amalgamation of Newco and Target would be specified property within the meaning of paragraph 88(1)(*c*.4) of the Act. Alternatively, you have asked us if we would be prepared to recommend amendments to the Act that would include such property within the meaning of specified property.

In addition, you stated in your letter that if a specified shareholder of Target acquires Target Warrants prior to the effective date of the plan of arrangement, such acquisition would result in the denial of the paragraph 88(1)(*c*) bump on the winding up of Amalco into Parent since the Target Warrants will be property substituted for property owned by Target for the purpose of paragraph 88(1)(*c*)(vi). In your view, the Target Warrants should not be considered substituted property since they will be cancelled on the amalgamation and, therefore, will not, at any time after the beginning of the winding up of Amalco, derive any value from the Amalco assets.

We confirm that the recommended amendment referred to in our letter of May 2, 2002, if enacted, will ensure that the Parent shares acquired by the Target shareholders, on the amalgamation described above, will be specified property within the meaning of paragraph 88(1)(*c*.4) of the Act. In addition, we confirm that we are prepared to recommend to the Minister that paragraph 88(1)(*c*.4) of the Act be amended so that the Parent options and warrants acquired on the amalgamation described above, will be specified property within the meaning of paragraph 88(1)(*c*.4) of the Act. Lastly, we are of the view that the Target Warrants acquired prior to the effective date of the plan of arrangement should not, in the circumstances described above, be substituted property for the purpose of paragraph 88(1)(*c*)(vi) solely because of subparagraph 88(1)(*c*.3)(i). Accordingly, we will recommend to the Minister that the Act be amended to ensure that the Target Warrants will be specified property within the meaning of paragraph 88(1)(*c*.4) of the Act.

If the above recommendations are accepted, the amendments would be applicable to windings-up that begin after 2001. While we cannot offer any assurance that either the Minister or Parliament will agree with our recommendations, we hope that this statement of our position is helpful to you.

Yours sincerely,

Len Farber
General Director
Tax Legislation Division
Tax Policy Branch

History: S. 88(1)(c.4) was added by S.C. 1998, c. 19, s. 118(6), applicable to windings-up that begin after February 21, 1994.

► 88(1)(c.5) ◄

(c.5) [Winding-up — Specified subsidiary corporation] — for the purpose of paragraph (*c*.4), a corporation is a specified subsidiary corporation of another corporation, at any time, where the other corporation holds, at that time, shares of the corporation

(i) that give the shareholder 90% or more of the votes that could be cast under all circumstances at an annual meeting of shareholders of the corporation, and

(ii) having a fair market value of 90% or more of the fair market value of all the issued shares of the capital stock of the corporation,

History: S. 88(1)(c.5) was added by S.C. 1998, c. 19, s. 118(6), applicable to windings-up that begin after February 21, 1994.

► 88(1)(c.6) ◄

(c.6) [Winding-up — Control acquired by way of articles of arrangement] — for the purpose of paragraph (*c*.3) and notwithstanding subsection 256(9), where control of a corporation is acquired by way of articles of arrangement, that control is deemed to have been acquired at the end of the day on which the arrangement becomes effective;

History: S. 88(1)(c.6) was added by S.C. 1998, c. 19, s. 118(6), applicable to windings-up that begin after June 20, 1996.

► 88(1)(c.7) ◄

(c.7) [Winding-up — Leasehold interests in and options for depreciable property] — for the purpose of subparagraph (*c*)(iii), a leasehold interest in a depreciable property and an option to acquire a depreciable property are depreciable properties;

History: S. 88(1)(c.7) was added by S.C. 1998, c. 19, s. 118(6), applicable to windings-up that begin after June 20, 1996.

► 88(1)(c.8) ◄

(c.8) [Winding-up — Specified class of capital stock] — for the purpose of clause (*c*.2)(iii)(A), a specified class of the capital stock of a corporation is a class of shares of the capital stock of the corporation where

(i) the paid-up capital in respect of the class was not, at any time, less than the fair market value of the consideration for which the shares of that class then outstanding were issued,

(ii) the shares are non-voting in respect of the election of the board of directors of the corporation, except in the event of a failure or default under the terms or conditions of the shares,

(iii) under neither the terms and conditions of the shares nor any agreement in respect of the shares are the shares convertible into or exchangeable for shares other than shares of a specified class of the capital stock of the corporation, and

(iv) under neither the terms and conditions of the shares nor any agreement in respect of the shares is any holder of the shares entitled to receive on the redemption, cancellation or acquisition of the shares by the corporation or by any person with whom the corporation does not deal at arm's length an amount (excluding any premium for early redemption) greater than the total of the fair market value of the consideration for which the shares were issued and the amount of any unpaid dividends on the shares;

History: S. 88(1)(c.8) was added by S.C. 2001, c. 17, s. 66(3), applicable to windings-up that begin after November 1994.

► 88(1)(d) ◄

(d) [Winding-up — Addition to cost of property acquired by parent (the "bump")] — the amount determined under this paragraph in respect of each property of the subsidiary distributed to the parent on the winding-up is such portion of the amount, if any, by which the total determined under subparagraph (*b*)(ii) exceeds the total of

(i) the amount, if any, by which

(A) the total of all amounts each of which is an amount in respect of any property owned by the subsidiary immediately before the winding-up, equal to the cost amount to the subsidiary of the property immediately before the winding-up, plus the amount of any money of the subsidiary on hand immediately before the winding-up,

exceeds the total of

(B) all amounts each of which is the amount of any debt owing by the subsidiary, or of any other obligation of the subsidiary to pay any amount, that was outstanding immediately before the winding-up, and

(C) the amount of any reserve (other than a reserve referred to in paragraph 20(1)(*n*), subparagraph 40(1)(*a*)(iii) or 44(1)(*e*)(iii) of this Act or in subsection 64(1) or (1.1) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as those two provisions read immediately before November 3, 1981) deducted in computing the subsidiary's income for its taxation year during which its assets were distributed to the parent on the winding-up, and

(i.1) the total of all amounts each of which is an amount in respect of any share of the capital stock of the subsidiary disposed of by the parent on the winding-up or in contemplation of the winding-up, equal to the total of all amounts received by the parent or by a corporation with which the parent was not dealing at arm's length (otherwise than because of a right referred to in paragraph 251(5)(*b*) in respect of the subsidiary) in respect of

(A) taxable dividends on the share or on any share (in this subparagraph referred to as a "replaced share") for which the share or a replaced share was substituted or exchanged to the extent that the amounts thereof were deductible from the recipient's income for any taxation year by virtue of section 112 or subsection 138(6) and were not amounts on which the recipient was required to pay tax under Part VII of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read on March 31, 1977, or

(B) capital dividends and life insurance capital dividends on the share or on any share (in this subparagraph referred to as a "replaced share") for which a share or a replaced share was substituted or exchanged,

as is designated by the parent in respect of that capital property in its return of income under this Part for its taxation year in which the subsidiary was so wound up, except that

(ii) in no case shall the amount so designated in respect of any such capital property exceed the amount, if any, by which the fair market value of the property at the time the parent last acquired control of the subsidiary exceeds the cost amount to the subsidiary of the property immediately before the winding-up, and

(iii) in no case shall the total of amounts so designated in respect of all such capital properties exceed the amount, if any, by which the total

determined under subparagraph (*b*)(ii) exceeds the total of the amounts determined under subparagraphs (i) and (i.1),

History: S. 88(1)(*d*), the portion after subparagraph (iii), was repealed by S.C. 1998, c. 19, s. 118(7), applicable to windings-up that begin after February 21, 1994. S. 88(1)(*d*), the portion after subparagraph (iii), formerly read:

"and for the purposes of this paragraph, where a parent corporation has been incorporated or otherwise formed after the time any other corporation (other than a corporation acquired by it from a person with whom it was dealing at arm's length) with which it did not deal at arm's length at any time prior to the winding-up was incorporated or otherwise formed, the parent corporation shall be deemed to have been in existence from the time of formation of the other corporation and to have been not dealing at arm's length with the other corporation from that time;"

S. 88(1)(*d*), that portion before subparagraph (i), was amended by S.C. 1995, c. 3, s. 24(3), applicable to windings-up that begin after February 21, 1994. S. 88(1)(*d*), that portion before subparagraph (i), formerly read:

"(*d*) the amount determined under this paragraph in respect of each property that was a capital property (other than property transferred in the course of a reorganization described in paragraph 55(3)(*b*) in the course of which a dividend was received by a corporation to which subsection 55(2) would, but for paragraph 55(3)(*b*), apply where the winding-up of the subsidiary was part of a transfer, directly or indirectly, of property of a particular corporation to a transferee, within the meaning assigned by paragraph 55(3)(*b*), property transferred to the subsidiary by the parent or by any person or partnership that was not, otherwise than because of a right referred to in paragraph 251(5)(*b*), dealing at arm's length with the parent, or a depreciable property) owned by the subsidiary at the time that the parent last acquired control of the subsidiary and thereafter without interruption until such time as it was distributed to the parent on the winding-up, is such portion of the amount, if any, by which the total determined under subparagraph (*b*)(ii) exceeds the total of"

S. 88(1)(*d*), that portion preceding subparagraph (i), was amended by S.C. 1994, c. 7, Sched. II, s. 66(4), applicable to windings-up beginning after September 1988, except that, in its application to windings-up beginning after September 1988 and before July 14, 1990, the portion of paragraph 88(1)(*d*) before subparagraph (i), shall be read as follows:

"(*d*) the amount determined under this paragraph in respect of each property that was a capital property (other than property transferred in the course of a reorganization described in paragraph 55(3)(*b*) in the course of which a dividend was received by a corporation to which subsection 55(2) would, but for paragraph 55(3)(*b*), apply where the winding-up of the subsidiary was part of a transfer, directly or indirectly, of property of a particular corporation to a transferee, within the meaning assigned by paragraph 55(3)(*b*), or a depreciable property) owned by the subsidiary at the time that the parent last acquired control of the subsidiary and thereafter without interruption until such time as it was distributed to the parent on the winding-up, is such portion of the amount, if any, by which the total determined under subparagraph (*b*)(ii) exceeds the total of"

That portion of s. 88(1)(*d*) previously read:

"(*d*) the amount determined under this paragraph in respect of each property that was a capital property (other than property transferred in the course of a series of transactions or events to which subsection 55(2) would, but for paragraph 55(3)(*b*), apply or a depreciable property) owned by the subsidiary at the time that the parent last acquired control of the subsidiary and thereafter without interruption until such time as it was distributed to the parent on the winding-up, is such portion of the amount, if any, by which the total determined under subparagraph (*b*)(ii) exceeds the total of"

S. 88(1)(*d*)(i)(C) was amended by S.C. 1994, c. 7, Sched. II, s. 66(5), applicable to windings-up beginning after 1989. S. 88(1)(*d*)(i)(C) formerly read:

"(C) the amount of any reserve (other than a reserve referred to in paragraph 20(1)(*n*) or subparagraph 40(1)(*a*)(iii) of this Act or subsection 64(1) or (1.1) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952) deducted in computing the subsidiary's income for its taxation year during which its assets were distributed to the parent on the winding-up, and"

S. 88(1)(*d*)(i.1), that portion preceding clause (A), was amended by S.C. 1994, c. 7, Sched. II, s. 66(6), applicable to windings-up beginning after 1986, except that, in its application to windings-up beginning before July 1988, the portion of subparagraph 88(1)(*d*)(i.1) before clause (A) shall be read without reference to the expression "or in contemplation of the winding-up" therein. That portion of s. 88(1)(*d*)(i.1) formerly read:

"(i.1) the total of all amounts each of which is an amount in respect of any share of the capital stock of the subsidiary disposed of by the parent on the winding-up or in contemplation of the winding-up, equal to the total of all amounts received by the parent or by a corporation with which the parent was not dealing at arm's length in respect of"

► 88(1)(d.1) ◄

(d.1) [Winding-up — Provisions not applicable] — subsection 84(2) and section 21 of the *Income Tax Application Rules* do not apply to the winding-up of the subsidiary, and subsections 13(21.2) and 14(12) do not apply to the winding-up of the subsidiary with respect to property acquired by the parent on the winding-up;

History: S. 88(1)(*d*.1) was amended by S.C. 1998, c. 19, s. 118(8), applicable to windings-up that begin after April 26, 1995 except that, in its application to windings-up that began before 1996, the reference in paragraph 88(1)(*d*.1) of the Act to "subsections 13(21.2) and 14(12)" shall be read as a reference to "subsections 13(21.2), 14(12) and 85(5.1)". S. 88(1)(*d*.1) formerly read:

"(*d*.1) subsections 84(2) and 85(5.1) and section 21 of the *Income Tax Application Rules* are not applicable to the winding-up of the subsidiary;"

► 88(1)(d.2) ◄

(d.2) [Winding-up — Timing of acquisition of control] — in determining, for the purposes of this paragraph and paragraphs (*c*) and (*d*), the time at which a person or group of persons (in this paragraph and paragraph (*d*.3) referred to as the "acquirer") last acquired control of the subsidiary, where control of the subsidiary was acquired from another person or group of persons (in this paragraph referred to as the "vendor") with whom the acquirer was not (otherwise than solely because of a right referred to in paragraph 251(5)(*b*)) dealing at arm's length, the acquirer is deemed to have last acquired control of the subsidiary at the earlier of

(i) the time at which the vendor last acquired control (within the meaning that would be assigned by subsection 186(2) if the reference in that subsection to "another corporation" were read as "a person" and the references in that subsection to "the other corporation" were read as "the person") of the subsidiary, and

(ii) the time at which the vendor was deemed for the purpose of this paragraph to have last acquired control of the subsidiary;

History: S. 88(1)(*d*.2) was amended by S.C. 1998, c. 19, s. 118(9), applicable to windings-up that begin after December 20, 1991. S. 88(1)(*d*.2) formerly read:

"(*d*.2) in determining, for the purposes of this paragraph and paragraphs (*c*) and (*d*), the time that a taxpayer last acquired control of the subsidiary, where control of the subsidiary was acquired from a person or group of persons (in this paragraph referred to as the 'vendor') with whom the taxpayer was not (otherwise than because of a right referred to in paragraph 251(5)(*b*)) dealing at arm's length, the taxpayer shall be deemed to have last acquired control at the earlier of the time that the vendor last acquired control (within the meaning that would be assigned by subsection 186(2) if the reference therein to 'another corporation' were read as 'a person' and the references therein to 'the other corporation' were read as 'the person') of the subsidiary and the time that the vendor was deemed by this subsection to have last acquired control, except that in determining the time that a particular person or group of persons last acquired control of a corporation where at any time control of the corporation is acquired by the particular person or group of persons because of a bequest or an inheritance of shares of the capital stock of the corporation, for the purposes of this paragraph and subsection 186(2) in its application to this paragraph, the particular person or group of persons shall be deemed at that time, and at any time before that time, to have dealt at arm's length with the person who bequeathed the shares, or from whom the shares were inherited, and each other person who is related to that person;"

S. 88(1)(*d*.2) was amended by S.C. 1994, c. 21, s. 40(1), applicable to windings-up that begin after December 20, 1991. S. 88(1)(*d*.2) formerly read:

"(*d*.2) in determining for the purposes of this paragraph and paragraphs (*c*) and (*d*) the time that a taxpayer last acquired control of the subsidiary, where control of the subsidiary was acquired from a person or group of persons (in this paragraph referred to as the 'vendor') with whom the taxpayer was not (otherwise than because of a right referred to in paragraph 251(5)(*b*)) dealing at arm's length, the taxpayer shall be deemed to have last acquired control at the earlier of the time that the vendor last acquired control (within the meaning that would be assigned by subsection 186(2) if the reference therein to 'another corporation' were read as a reference to 'a person' and the references therein to 'the other corporation' were read as references to 'the person') of the subsidiary and the

time that the vendor was deemed by this subsection to have last acquired control, except that, in determining the time that a particular taxpayer last acquired control of a corporation where at any time control of the corporation is acquired by the particular taxpayer because of a bequest or an inheritance of shares of the capital stock of the corporation, for the purposes of this paragraph and subsection 186(2) in its application to this paragraph, the particular taxpayer shall be deemed at that time, and at any time before that time, to have dealt at arm's length with the person who bequeathed the shares, or from whom the shares were inherited, and each other person who is related to that person;"

S. 88(1)(d.2) was amended by S.C. 1994, c. 7, Sched. VIII, s. 38(4), applicable to windings-up that begin after December 20, 1991. S. 88(1)(d.2) formerly read:

"(d.2) in determining for the purposes of this paragraph and paragraphs (c) and (d) the time that a taxpayer last acquired control of the subsidiary, where control of the subsidiary was acquired (otherwise than by way of bequest or inheritance) from a person or group of persons (in this paragraph referred to as the 'vendor') with whom the taxpayer was not (otherwise than by virtue of a right referred to in paragraph 251(5)(b)) dealing at arm's length, the taxpayer shall be deemed to have last acquired control at the earlier of the time that the vendor last acquired control (within the meaning assigned by subsection 186(2) if the reference therein to 'another corporation' were read as a reference to 'a person' and the references therein to 'the other corporation' were read as references to 'the person') of the subsidiary and the time that the vendor was deemed by this subsection to have last acquired control;"

► 88(1)(d.3) ◄

(d.3) [Winding-up — Control acquired as consequence of death] — for the purposes of paragraphs (c), (d) and (d.2), where at any time control of a corporation is last acquired by an acquirer because of an acquisition of shares of the capital stock of the corporation as a consequence of the death of an individual, the acquirer is deemed to have last acquired control of the corporation immediately after the death from a person who dealt at arm's length with the acquirer;

History: S. 88(1)(d.3) was added by S.C. 1998, c. 19, s. 118(9), applicable to windings up that begin after December 20, 1991.

Pending Amendment

Draft Legislation — Foreign Affiliates — February 27, 2004

Subsection 88(1) of the Act is amended by adding the following after paragraph (d.3):

(d.4) for the purpose of subparagraph (d)(ii),

(i) if, at the time immediately before the winding-up, the subsidiary holds one or more shares of a foreign affiliate of the subsidiary, there shall be added to the cost amount, at that time, of each of those shares (referred to in this subparagraph as the "particular share") the amount determined by the formula

$$A \times B/C$$

where

A is the total of all amounts each of which is the amount, if any, by which

(A) the amount of a dividend received on any share of the foreign affiliate (or any other share of the foreign affiliate for which that share is substituted property) held by the subsidiary immediately before the winding-up that was deductible under section 113 in computing the income of the subsidiary or of a corporation with which the subsidiary was not dealing at arm's length (otherwise than because of a right referred to in paragraph 251(5)(b) in respect of the foreign affiliate),

exceeds

(B) the portion of that dividend that may reasonably be considered to have reduced the foreign affiliate's exempt or taxable surplus in respect of the subsidiary that arose after the acquisition of control of the subsidiary by the parent (determined on the assumption that a dividend is paid out of the foreign affiliate's exempt or taxable surplus, as the case may be, in respect of the subsidiary, in the reverse order to that in which it was added to the foreign affiliate's exempt or taxable surplus in respect of the subsidiary),

B is the fair market value of the particular share immediately before the winding-up, and

C is the total of all amounts each of which is the fair market value of a share of the foreign affiliate held by the subsidiary immediately before the winding-up, and

(ii) if, at the time immediately before the winding-up, the subsidiary holds a partnership interest in a partnership (referred to in this subparagraph as a "holding partnership") which holds one or more shares of a foreign affiliate of the subsidiary, there shall be added to the cost amount, at that time, of the subsidiary's partnership interest in the holding partnership (referred to in this subparagraph as the "particular partnership interest"), the amount determined by the formula

$$D \times E/F$$

where

D is the total of all amounts each of which is the amount, if any, by which

(A) the amount of a dividend received on any share of the foreign affiliate (or any other share of the foreign affiliate for which that share is substituted property) held by the holding partnership immediately before the winding-up, that was deductible under section 113 in computing the income of the subsidiary or of a corporation with which the subsidiary was not dealing at arm's length (otherwise than because of a right referred to in paragraph 251(5)(b) in respect of the foreign affiliate),

exceeds

(B) the portion of that dividend that may reasonably be considered to have reduced the foreign affiliate's exempt or taxable surplus in respect of the subsidiary that arose after the acquisition of control of the subsidiary by the parent (determined on the assumption that a dividend is paid out of the foreign affiliate's exempt or taxable surplus, as the case may be, in respect of the subsidiary, in the reverse order to that in which it was added to the foreign affiliate's exempt or taxable surplus in respect of the subsidiary),

E is the fair market value of the particular partnership interest immediately before the winding-up, and

F is the total of all amounts each of which is the fair market value of a partnership interest in the holding partnership held by the subsidiary immediately before the winding-up;

Applicable: To amalgamations that occur, and to windings-up that begin, after February 27, 2004 and if the taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act is assented to, that subsection applies in respect of the taxpayer to all amalgamations that occur, and to all windings-up that begin, after December 20, 2002 and, notwithstanding subsections 152(4) to (5) of the Act, any assessment of the taxpayer's tax, interest and penalties payable under the Act for any taxation year that begins on or before February 27, 2004 shall be made that is necessary to take the election into account.

Explanatory Note: Subsection 88(1) of the Act provides rules that apply where a subsidiary has been wound up into its parent corporation where both corporations are taxable Canadian corporations and the parent owns at least 90% of the issued shares of each class of the capital stock of the subsidiary.

Subsection 88(1) is amended by adding proposed new paragraph (d.4) effective for amalgamations that occur after Feb-

ruary 27, 2004 and to windings-up that begin after February 27, 2004. Taxpayers may elect to have the provision apply to all amalgamations that occur, and all windings-up that begin, after December 20, 2002.

In general terms, proposed new paragraph 88(1)(*d.4*) applies for the purpose of subparagraph 88(1)(*d*)(ii) and increases, in certain circumstances, the cost amount to the subsidiary of a share of a foreign affiliate of the subsidiary or the cost amount of a partnership interest in a partnership that holds such a share, thereby limiting the amount of a increase in cost base of a property to the parent that is the share or the interest in the partnership that might otherwise occur on an amalgamation or a winding up of the subsidiary.

New paragraph 88(1)(*d.4*) provides that

- if, at the time immediately before the winding-up, the subsidiary holds one or more shares of a foreign affiliate of the subsidiary, there shall be added to the cost amount, at that time, of each of those shares (referred to here as the "particular share") the amount determined by the formula

$$\frac{A \times B}{C}$$

where

A is the total of all amounts each of which is the amount, if any, by which

(A) the amount of a dividend received on any share of the foreign affiliate (or any other share of the foreign affiliate for which that share is substituted property) held by the subsidiary immediately before the winding-up, that was deductible under section 113 in computing the income of the subsidiary or of a corporation with which the subsidiary was not dealing at arm's length (otherwise than because of a right referred to in paragraph 251(5)(*b*) in respect of the foreign affiliate),

exceeds

(B) the portion of that dividend that may reasonably be considered to have reduced the foreign affiliate's exempt or taxable surplus in respect of the subsidiary that arose after the acquisition of control of the subsidiary by the parent (determined on the assumption that a dividend is paid out of the foreign affiliate's exempt or taxable surplus, as the case may be, in respect of the subsidiary, in the reverse order to that in which it was added to the foreign affiliate's exempt or taxable surplus in respect of the subsidiary),

B is the fair market value of the particular share immediately before the winding-up, and

C is the total of all amounts each of which is the fair market value of a share of the foreign affiliate held by the subsidiary immediately before the winding-up, and

- if, at the time immediately before the winding-up, the subsidiary holds a partnership interest in a partnership (a "holding partnership") which holds one or more shares of a foreign affiliate of the subsidiary, there shall be added to the cost amount, at that time, of the subsidiary's partnership interest in the holding partnership (referred to as the "particular partnership interest"), the amount determined by the formula

$$\frac{D \times E}{F}$$

where

D is the total of all amounts each of which is the amount, if any, by which

(A) the amount of a dividend received on any share of the foreign affiliate (or any other share of the foreign affiliate for which that share is substituted property) held by a holding partnership immediately before the winding-up, that was deductible under section 113 in computing the income of the subsidiary or of a corporation with which the subsidiary was not dealing at arm's length (otherwise than because of a right referred to in paragraph 251(5)(b) in respect of the foreign affiliate),

exceeds

(B) the portion of that dividend that may reasonably be considered to have reduced the foreign affiliate's exempt or taxable surplus in respect of the subsidiary that arose after the acquisition of control of the subsidiary by the parent (determined on the assumption that a dividend is paid out of the foreign affiliate's exempt or taxable surplus, as the case may be, in respect of the subsidiary, in the reverse order to that in which it was added to the foreign affiliate's exempt or taxable surplus in respect of the subsidiary),

E is the fair market value of the particular partnership interest immediately before the winding-up, and

F is the total of all amounts each of which is the fair market value of a partnership interest in a holding partnership held by the subsidiary immediately before the winding-up.

(*e*) [Repealed by 1977-78, c. 1, s. 43(8).]

► 88(1)(e.1) ◄

(e.1) [Winding-up — Reserves for subsidiary] — the subsidiary may, for the purposes of computing its income for its taxation year during which its assets were transferred to, and its obligations were assumed by, the parent on the winding-up, claim any reserve that would have been allowed under this Part if its assets had not been transferred to, or its obligations had not been assumed by, the parent on the winding-up and notwithstanding any other provision of this Part, no amount shall be included in respect of any reserve so claimed in computing the income of the subsidiary for its taxation year, if any, following the year in which its assets were transferred to or its obligations were assumed by the parent;

► 88(1)(e.2) ◄

(e.2) [Winding-up — Application of amalgamation provisions] — paragraphs 87(2)(*c*), (*d.1*), (*e.1*), (*e.3*), (*g*) to (*l*), (*l.3*) to (*u*), (*x*), (*z.1*), (*z.2*), (*aa*), (*cc*), (*ll*), (*nn*), (*pp*), (*rr*) and (*tt*) to (*ww*), subsection 87(6) and, subject to section 78, subsection 87(7) apply to the winding-up as if the references in those provisions to

(i) "amalgamation" were read as "winding-up",

(ii) "predecessor corporation" were read as "subsidiary",

(iii) "new corporation" were read as "parent",

(iv) "its first taxation year" were read as "its taxation year during which it received the assets of the subsidiary on the winding-up",

(v) "its last taxation year" were read as "its taxation year during which its assets were distributed to the parent on the winding-up",

(vi) "predecessor corporation's gain" were read as "subsidiary's gain",

(vii) "predecessor corporation's income" were read as "subsidiary's income",

(viii) "new corporation's income" were read as "parent's income",

(ix) "subsection 89(5)" and "subsection 89(9)" were read as "subsection 89(6)" and "subsection 89(10)", respectively,

(x) "any predecessor private corporation" were read as "the subsidiary (if it was a private corporation at the time of the winding-up)",

(xi) [Repealed by S.C. 1994, c. 7, Sched. II, s. 66(8).]

(xii) [Repealed by S.C. 1994, c. 7, Sched. II, s. 66(8).]

(xiii) "two or more corporations" were read as "a subsidiary",

(xiv) [Repealed by S.C. 1998, c. 19, s. 118(1.1).]

(xv) [Repealed by S.C. 1998, c. 19, s. 118(11).]

(xvi) "the life insurance capital dividend account of any predecessor corporation immediately before the amalgamation" were read as "the life insurance capital dividend account of the subsidiary at the time the subsidiary was wound-up",

(xvii) "predecessor corporation's refundable Part VII tax on hand" were read as "subsidiary's refundable Part VII tax on hand",

(xviii) "predecessor corporation's Part VII refund" were read as "subsidiary's Part VII refund",

(xix) "predecessor corporation's refundable Part VIII tax on hand" were read as "subsidiary's refundable Part VIII tax on hand",

(xx) "predecessor corporation's Part VIII refund" were read as "subsidiary's Part VIII refund", and

(xxi) "predecessor corporation's cumulative offset account" were read as "subsidiary's cumulative offset account";

Department of Finance Comfort Letter [Deduction for Payment of Parent Against Parked Debt of Subsidiary After Wind-Up]

March 6, 2003

Dear XXXX:

Thank you for your letter of November 5, 2002, concerning the application of the debt forgiveness rule in section 80.01(10) of the *Income Tax Act* (Canada) (the "Act") in circumstances involving the wind-up of a subsidiary into its parent in accordance with subsection 88(1).

In your letter, you suggest making a retroactive change to paragraph 88(1)(*e*.2) of the Act in order to incorporate a reference to paragraph 87(2)(*l*.21). You point out that the current operation of section 87 specifically allows for a deduction under subsection 80.01(10) to a successor corporation when a subsequent payment is made against a parked debt of one of the preamalgamation corporations. You further state that no corresponding rule appears to exist for a parent making a subsequent payment against a parked debt issued by its subsidiary after the subsidiary is wound up under subsection 88(1).

Based on your submissions and our own internal analysis, we have concluded that, although the tax policy underlying amalgamations under section 87 and wind-ups under subsection 88(1) may not always coincide, in this case we agree that there does not appear to be any policy reason why paragraph 87(2)(*l*.21) should not be incorporated in paragraph 88(1)(*e*.2). Accordingly, we intend to recommend to the Minister of Finance that paragraph 88(1)(*e*.2) of the Act be amended to include a reference to paragraph 87(2)(*l*.21)in order to provide for the continuation of a subsidiary to its parent for the purposes of subsection 80.01(10).

It would be recommended that the amendment apply with respect to taxation years that end after 2001. If this recommendation is adopted, I would anticipate that the amendment would be included in a future technical bill and presented to Parliament for approval.

Thank you for writing.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 88(1)(*e*.2), the portion before subparagraph (i) was replaced by S.C. 2007, c. 2, s. 46(1), applicable to windings-up that begin after 2005.

S. 88(1)(*e*.2), the portion before subparagraph (i) formerly read:

"(*e*.2) paragraphs 87(2)(*c*), (*d*.1), (*e*.1), (*e*.3), (*g*) to (*l*), (*l*.3) to (*u*), (*x*), (*z*1), (*z*2), (*aa*), (*cc*), (*ll*), (*nn*), (*pp*), (*rr*), (*tt*) and (*uu*), subsection 87(6) and, subject to section 78, subsection 87(7) apply to the winding-up as if the references in those provisions to"

S. 88(1)(*e*.2)(ix) was added by S.C. 2007, c. 2, s. 46(2), applicable to windings-up that begin after 2005.

S. 88(1)(*e*.2), the portion before subparagraph (i), was amended by S.C. 1998, c. 19, s. 118(10), applicable to windings-up that begin after June 1995. S. 88(1)(*e*.2), the portion before subparagraph (i), formerly read:

"(*e*.2) paragraphs 87(2)(*c*), (*d*.1), (*e*.1), (*e*.3), (*g*) to (*l*), (*l*.3) to (*u*), (*x*), (*y*.1), (*z*1), (*z*2), (*aa*), (*cc*), (*ll*), (*nn*), (*pp*), (*rr*), (*tt*) and (*uu*), subsection 87(6) and, subject to section 78, subsection 87(7) apply to the winding-up as if the references therein to"

S. 88(1)(*e*.2)(xiv) was repealed by S.C. 1998, c. 19, s. 118(11), applicable to windings-up that begin after June 1995. S. 88(1)(*e*.2)(xiv) formerly read:

"(xiv) 'predecessor corporation's preferred-earnings amount' were read as 'subsidiary's preferred-earnings amount',"

S. 88(1)(*e*.2)(xv) was repealed by S.C. 1998, c. 19, s. 118(11), applicable to windings-up that begin after June 1995. S. 88(1)(*e*.2)(xv) formerly read:

"(xv) 'new corporation's preferred-earnings amount' were read as 'parent's preferred-earnings amount',"

S. 88(1)(*e*.2), that portion before subparagraph (i), was amended by S.C. 1996, c. 21, s. 16(1), applicable to windings-up that begin after June 1995.

S. 88(1)(*e*.2), the portion before subparagraph (i), was amended by S.C. 1995, c. 21, s. 55(4), applicable to windings-up that begin after February 22, 1994. That part formerly read:

"(*e*.2) paragraphs 87(2)(*c*), (*d*.1), (*e*.1), (*g*) to (*l*), (*l*.3) to (*u*), (*x*), (*y*.1), (*z*.1), (*z*.2), (*cc*), (*ll*), (*nn*), (*pp*), (*rr*), (*tt*) and (*uu*), subsection 87(6) and, subject to section 78, subsection 87(7) apply to the winding-up as if the references therein to"

S. 88(1)(*e*.2), the portion preceding subparagraph (i), was amended by S.C. 1994, c. 7, Sched. VI, s. 4(1), applicable to windings-up beginning after 1991. S. 88(1)(*e*.2), the portion preceding subparagraph (i), formerly read:

"(*e*.2) paragraphs 87(2)(*c*), (*d*.1), (*e*.1), (*g*) to (*l*), (*l*.3) to (*u*), (*x*), (*y*.1), (*z*.1), (*z*.2), (*cc*), (*ll*), (*nn*), (*pp*), (*rr*) and (*tt*), subsection 87(6) and, subject to section 78, subsection 87(7) apply to the winding-up as if the references therein to"

S. 88(1)(*e*.2), that portion preceding subparagraph (i), was amended by S.C. 1994, c. 7, Sched. II, s. 66(7), applicable to windings-up ending after June 18, 1987, except that

(*a*) in its application to windings-up beginning before 1988, paragraph 88(1)(*e*.2) shall be read without reference to "(*tt*)" therein; and

(*b*) in its application to windings-up beginning before May 1988, paragraph 88(*l*)(*e*.2) shall be read without reference to "(*z*.2)" therein.

S. 88(1)(*e*.2), that portion preceding subparagraph (i), formerly read:

"(*e*.2) paragraphs 87(2)(*c*), (*d*.1), (*e*.1), (*e*.2), (*g*) to (*l*), (*l*.3) to (*u*), (*x*), (*y*.1), (*z*1), (*z*.2), (*cc*), (*ll*), (*nn*), (*pp*), (*rr*) and (*tt*), subsection 87(6) and, subject to section 78, subsection 87(7) apply to the winding-up as if the references therein to"

S. 88(1)(*e*.2)(xi) and (xii) were repealed by S.C. 1994, c. 7, Sched. II, s. 66(8), applicable to the computation after July 13, 1990 of capital dividend accounts. S. 88(1)(*e*.2)(xi) and (xii) formerly read:

"(xi) 'predecessor corporation's capital dividend account' were read as 'subsidiary's capital dividend account',

(xii) 'the capital dividend account of any predecessor corporation immediately before the amalgamation' were read as 'the capital dividend account of the subsidiary at the time the subsidiary was wound up',"

► 88(1)(e.3) ◄

(e.3) [Winding-up — investment tax credit] — for the purpose of computing the parent's investment tax credit at the end of any particular taxation year ending after the subsidiary was wound up,

(i) property acquired or expenditures made by the subsidiary or an amount included in the investment tax credit of the subsidiary by virtue of paragraph (*b*) of the definition "investment tax credit" in subsection 127(9) in a taxation year (in this paragraph referred to as the "expenditure year") shall be deemed to have been acquired, made or included, as the case may be, by the parent in its taxation year in which the expenditure year of the subsidiary ended, and

(ii) there shall be added to the amounts otherwise determined for the purposes of paragraphs (*f*) to (*k*) of the definition "investment tax credit" in subsection 127(9) in respect of the parent for the particular year

(A) the amounts that would have been determined in respect of the subsidiary for the purposes of paragraph (*f*) of the definition "investment tax credit" in subsection 127(9) for its

taxation year in which it was wound up if the reference therein to "a preceding taxation year" were read as a reference to "the year or a preceding taxation year",

(B) the amounts determined in respect of the subsidiary for the purposes of paragraphs (*g*) to (*i*) and (*k*) of the definition "investment tax credit" in subsection 127(9) for its taxation year in which it was wound up, and

(C) the amount determined in respect of the subsidiary for the purposes of paragraph (*j*) of the definition "investment tax credit" in subsection 127(9) for its taxation year in which it was wound up except that, for the purpose of the calculation in this clause, where control of the subsidiary has been acquired by a person or group of persons (each of whom is referred to in this clause as the "purchaser") at any time (in this clause referred to as "that time") before the end of the taxation year in which the subsidiary was wound up, there may be added to the amount determined under subparagraph 127(9.1)(*d*)(i) in respect of the subsidiary the amount, if any, by which that proportion of the amount that, but for subsections 127(3) and (5) and sections 126, 127.2 and 127.3, would be the parent's tax payable under this Part for the particular year, that,

(I) where the subsidiary carried on a particular business in the course of which a property was acquired, or an expenditure was made, before that time in respect of which an amount was included in computing the subsidiary's investment tax credit for its taxation year in which it was wound up, and the parent carried on the particular business throughout the particular year, the amount, if any, by which the total of all amounts each of which is the parent's income for the particular year from the particular business, or the parent's income for the particular year from any other business substantially all the income of which was derived from the sale, leasing, rental or development of properties or the rendering of services similar to the properties sold, leased, rented or developed, or the services rendered, as the case may be, by the subsidiary in carrying on the particular business before that time, exceeds the total of the amounts, if any, deducted for the particular year under paragraph 111(1)(*a*) or (*d*) by the parent in respect of a non-capital loss or a farm loss, as the case may be, for a taxation year in respect of the particular business

is of the greater of

(II) the amount determined under subclause (I), and

(III) the parent's taxable income for the particular year

exceeds the amount, if any, calculated under subparagraph 127(9.1)(*d*)(i) in respect of the particular business or the other business, as the case may be, in respect of the parent at the end of the particular year

to the extent that those amounts determined in respect of the subsidiary may reasonably be considered to have been included in computing the parent's investment tax credit at the end of the particular year by virtue of subparagraph (i);

and, for the purposes of the definitions "first term shared-use-equipment" and "second term shared-use-equipment" in subsection 127(9), the parent shall be deemed to be the same corporation as, and a continuation of, the subsidiary;

History: S. 88(1)(*e.3*)(ii)(C)(I) was amended by S.C. 1994, c. 21, s. 40(2), applicable to windings-up that begin after December 21, 1992. S. 88(1)(*e.3*)(ii)(C)(I) formerly read:

"(I) where the subsidiary carried on a particular business in the course of which a property was acquired, or an expenditure was made, before that time in respect of which an amount was included in computing the subsidiary's investment tax credit for its taxation year in which it was wound up, the amount, if any, by which the total of all amounts each of which is the parent's income for the particular year from the particular business, or the parent's income for the particular year from any other business substantially all the income of which was derived from the sale, leasing, rental or development of properties or the rendering of services similar to the properties sold, leased, rented or developed, or the services rendered, as the case may be, by the subsidiary in carrying on the particular business before that time, exceeds the total of the amounts, if any, deducted by the parent under paragraph 111(1)(*a*) or (*d*) for the particular year in respect of a non-capital loss or a farm loss, as the case may be, for a taxation year in respect of the particular business"

S. 88(1)(*e.3*), that portion following subparagraph (ii), was added by S.C. 1994, c. 8, s. 10(1), applicable to taxation years that end after December 2, 1992.

► 88(1)(e.4) ◄

(e.4) [Winding-up — Employment tax credit] — for the purpose of computing the parent's employment tax credit at the end of any particular taxation year ending after the subsidiary was wound up,

(i) the subsidiary's taxpayer employment credits for any taxation year (in this paragraph referred to as the "employment year") and any amounts required to be added by virtue of subsection 127(15) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, in computing the subsidiary's employment tax credit at the end of the employment year shall be deemed to be taxpayer employment credits of the parent for, and amounts required to be added by virtue of that subsection in computing the parent's employment tax credit at the end of, its taxation year in which the employment year of the subsidiary ended, and

(ii) there shall be added to the amounts otherwise determined under paragraphs 127(16)(*c*) and (*d*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, in respect of the parent for the particular taxation year, the amounts that would have been determined under those paragraphs in respect of the subsidiary for its taxation year in which it was wound-up if the reference in paragraph 127(16)(*c*) of that Act to "the five immediately preceding taxation years" were read as a reference to "that taxation year or the five immediately preceding taxation years" to the extent that those amounts determined in respect of the subsidiary may reasonably be considered to

be in respect of a taxpayer employment credit or an amount required to be added by virtue of subsection 127(15) of that Act that is included in computing the parent's employment tax credit at the end of the particular year by virtue of subparagraph (i);

► 88(1)(e.5) ◄

(e.5) [Winding-up — Refundable dividend tax on hand] — [Repealed by S.C. 1996, c. 21, s. 16(2).]

History: S. 88(1)(*e.5*) was repealed by S.C. 1996, c. 21, s. 16(2), applicable to windings-up that begin after June 1995. S. 88(1)(*e.5*) formerly read:

"(*e.5*) for the purpose of computing the refundable dividend tax on hand (within the meaning assigned by subsection 129(3)) of the parent at the end of any particular taxation year ending after the subsidiary was wound up, the amount, if any, by which

(i) the subsidiary's refundable dividend tax on hand at the end of its taxation year during which it was wound up

exceeds

(ii) the subsidiary's dividend refund (within the meaning assigned by subsection 129(1)) for its taxation year referred to in subparagraph (i)

shall, if

(iii) the subsidiary was a private corporation at the end of the year during which it was wound up, and

(iv) the parent was a private corporation

(A) where the subsidiary was wound up in the particular year, at the time immediately after the winding-up, and

(B) in any other case, continuously from the time of the winding-up until the time immediately after the beginning of the particular year,

be added to the total determined for the particular year under subsection 129(3) from which the total of amounts determined under paragraphs 129(3)(*c*) to (*e*) is subtracted, except that no amount shall be so added in respect of the subsidiary where subsection 129(1.2) would have applied to deem a dividend paid by the subsidiary immediately before the winding-up not to be a taxable dividend for the purpose of subsection 129(1);"

S. 88(1)(*e.5*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 38(5), applicable to the computation of refundable dividend tax on hand (within the meaning assigned by subsection 129(3) of the Act, as amended by S.C. 1994, c. 7, Sched. VIII) for the 1993 and subsequent taxation years. S. 88(1)(*e.5*) formerly read:

"(*e.5*) for the purpose of computing the refundable dividend tax on hand (within the meaning assigned by subsection 129(3)) of the parent at the end of any taxation year ending after the subsidiary was wound up, the amount, if any, by which

(i) the subsidiary's refundable dividend tax on hand at the end of its taxation year during which it was wound up

exceeds

(ii) the subsidiary's dividend refund (within the meaning assigned by subsection 129(1)) for its taxation year referred to in subparagraph (i)

shall, if the parent has been a private corporation continuously from the time of the winding-up to the end of the taxation year, be added to the total determined under subsection 129(3) from which the parent's dividend refunds are to be subtracted, except that the amount to be added to the total determined under subsection 129(3) shall be deemed to be nil where, had a dividend been paid by the subsidiary immediately before the winding-up, subsection 129(1.2) would have applied to deem the dividend not to be a taxable dividend;"

► 88(1)(e.6) ◄

(e.6) [Winding-up — Charitable gifts] — where a subsidiary has made a gift in a taxation year (in this section referred to as the "gift year"), for the purposes of computing the amount deductible under section 110.1 by the parent for its taxation years ending after the subsidiary was wound up, the parent shall be deemed to have made a gift in each of its taxation years in which a gift year of the subsidiary ended equal to the amount, if any, by which the total of all gifts made by the subsidiary in the gift year exceeds the total of all amounts deducted by the subsidiary under section 110.1 of this Act or paragraph 110(1)(*a*), (*b*) or (*b.1*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, in respect of those gifts;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 88(1)(e.6) of the Act is replaced by the following:

(*e.6*) if a subsidiary has made a gift in a taxation year (in this section referred to as the "gift year"), for the purposes of computing the amount deductible under section 110.1 by the parent for its taxation years that end after the subsidiary was wound up, the parent is deemed to have made a gift, in each of its taxation years in which a gift year of the subsidiary ended, equal to the amount, if any, by which the total of all amounts, each of which is the amount of a gift or, in the case of a gift made after December 20, 2002, the eligible amount of the gift, made by the subsidiary in the gift year exceeds the total of all amounts deducted under section 110.1 by the subsidiary in respect of those gifts;

Applicable: To windings-up that begin after December 20, 2002.

Explanatory Note: Paragraph 88(1)(*e.6*) of the Act permits a parent corporation to deduct the amount of a subsidiary's charitable gifts, gifts to Her Majesty, gifts to certain cultural institutions and ecological gifts, to the extent that they were not deducted by the subsidiary prior to the time of its winding-up. Paragraph 88(1)(*e.6*) is amended, consequential to the addition of new subsection 248(31) of the Act, to allow the parent to deduct the eligible amount of a gift made after December 20, 2002 that was not deducted by the subsidiary. For additional details, see the commentary to new subsection 248(31).

► 88(1)(e.61) ◄

(e.61) [Winding-up — Donation of non-qualifying securities] — the parent is deemed for the purpose of section 110.1 to have made any gift deemed by subsection 118.1(13) to have been made by the subsidiary after the subsidiary ceased to exist;

History: S. 88(1)(*e.61*) was added by S.C. 1998, c. 19, s. 16(1), applicable after July 1997.

► 88(1)(e.7) ◄

(e.7) [Winding-up — Unused foreign tax credits of subsidiary] — for the purposes of

(i) determining the amount deductible by the parent under subsection 126(2) for any taxation year commencing after the commencement of the winding-up, and

(ii) determining the extent to which subsection 126(2.3) applies to reduce the amount that may be claimed by the parent under paragraph 126(2)(*a*),

any unused foreign tax credit (within the meaning of subsection 126(7)) of the subsidiary in respect of a country for a particular taxation year (in this section referred to as the "foreign tax year"), to the extent that it exceeds the total of all amounts each of which is claimed in respect thereof under paragraph 126(2)(*a*) in computing the tax payable by the subsidiary under this Part for any taxation year, shall be deemed to be an unused foreign tax credit of the parent for its taxation year in which the subsidiary's foreign tax year ended;

► 88(1)(e.8) ◄

(e.8) [Winding-up — Expenditure limit of parent or associated corporation] — for the purpose of applying subsection 127(10.2) to any corporation (other than the subsidiary)

(i) where the parent is associated with another corporation in a taxation year (in this paragraph referred to as the "current year") of the parent that begins after the parent received an asset of the subsidiary on the winding-up and that ends in a calendar year,

(A) the parent's taxable income for its last taxation year that ended in the preceding calendar year (determined before taking into consideration the specified future tax consequences for that last year) is deemed to be the total of

(I) its taxable income for that last year (determined before applying this paragraph to the winding-up and before taking into consideration the specified future tax consequences for that last year), and

(II) the total of the subsidiary's taxable incomes for its taxation years that ended in that preceding calendar year (determined without reference to clause (B) and before taking into consideration the specified future tax consequences for those years), and

(B) the subsidiary's taxable income for each of its taxation years that ends after the first time that the parent receives an asset of the subsidiary on the winding-up of the subsidiary is deemed to be nil, and

(ii) where the parent received an asset of the subsidiary on the winding-up before the current year and is not associated with any corporation in the current year, the parent's taxable income for its immediately preceding taxation year (determined before taking into consideration the specified future tax consequences for that preceding year) is deemed to be the total of

(A) its taxable income for that preceding taxation year (determined before applying this paragraph to the winding-up and before taking into consideration the specified future tax consequences for that preceding taxation year), and

(B) the total of the subsidiary's taxable incomes for its taxation years that ended in the calendar year in which that preceding taxation year ended (determined before taking into consideration the specified future tax consequences for those years);

History: S. 88(1)(*e.8*) was amended by S.C. 1997, c. 25, s. 19(1), applicable for the purpose of applying subsections 127(10.1) and (10.2) of the Act to taxation years that begin after 1995, except that, for taxation years that begin in 1996, the expression "any corporation (other than the subsidiary)" in paragraph 88(1)(*e.8*) shall be read as "the parent". For windings-up that begin after May 23, 1985, paragraph 88(1)(*e.8*) shall be read without reference to the expression "the definition 'qualifying corporation' in subsection 127.1(2) and subparagraph 157(1)(*b*)(i)". S. 88(1)(*e.8*) formerly read:

"(*e.8*) for the purposes of subsection 127(10.1), the definition 'qualifying corporation' in subsection 127.1(2) and subparagraph 157(1)(*b*)(i),

(i) the taxable income of the parent for its taxation year during which it received the assets of the subsidiary on the winding-up shall be deemed to be the total of its taxable income for that year as otherwise determined and the taxable incomes of the subsidiary for its taxation years ending in the calendar year in which that year ended, and

(ii) the business limit of the parent for that year shall be deemed to be the total of its business limit for that year as otherwise determined and the business limits of the subsidiary for its taxation years ending in the calendar year in which that year ended;"

S. 88(1)(*e.8*), that portion preceding subparagraph (i) was amended by S.C. 1994, c. 7, Sched. II, s. 66(9), applicable to windings-up beginning after May 23, 1985. That portion of s. 88(1)(*e.8*) formerly read:

"(*e.8*) for the purposes of subsection 127(10.1), paragraph 127.1(2)(*a*) and subparagraph 157(1)(*b*)(i),"

► 88(1)(e.9) ◄

(e.9) [Winding-up — Business limit and balance-due day of parent] — for the purpose of applying the definition "qualifying corporation" in subsection 127.1(2), and subparagraph (*d*)(i) of the definition "balance-due day" in subsection 248(1), to any corporation (other than the subsidiary)

(i) where the parent is associated with another corporation in a taxation year (in this paragraph referred to as the "current year") of the parent that begins after the parent received an asset of the subsidiary on the winding-up and ends in a calendar year,

(A) the parent's taxable income for its last taxation year that ended in the preceding calendar year (determined before taking into consideration the specified future tax consequences for that last year) is deemed to be the total of

(I) its taxable income for that last year (determined before applying this paragraph to the winding-up and before taking into consideration the specified future tax consequences for that last year), and

(II) the total of the subsidiary's taxable incomes for its taxation years that ended in that preceding calendar year (determined without reference to subparagraph (iii) and before taking into consideration the specified future tax consequences for those years), and

(B) the parent's business limit for that last year is deemed to be the total of

(I) its business limit (determined before applying this paragraph to the winding-up) for that last year, and

(II) the total of the subsidiary's business limits (determined without reference to subparagraph (iii)) for its taxation years that ended in that preceding calendar year,

(ii) where the parent received an asset of the subsidiary on the winding-up before the current year and subparagraph (i) does not apply,

(A) the parent's taxable income for its immediately preceding taxation year (determined before taking into consideration the specified future tax consequences for that preceding year) is deemed to be the total of

(I) its taxable income for that preceding taxation year (determined before applying this paragraph to the winding-up and before taking into consideration the specified future tax consequences for that preceding taxation year), and

(II) the total of the subsidiary's taxable incomes for the subsidiary's taxation years that end in the calendar year in which that

preceding taxation year ended (determined before taking into consideration the specified future tax consequences for those years), and

(B) the parent's business limit for that preceding taxation year is deemed to be the total of

(I) its business limit (determined before applying this paragraph to the winding-up) for that preceding taxation year, and

(II) the total of the subsidiary's business limits (determined without reference to subparagraph (iii)) for the subsidiary's taxation years that end in the calendar year in which that preceding taxation year ended, and

(iii) where the parent and the subsidiary are associated with each other in the current year, the subsidiary's taxable income and the subsidiary's business limit for each taxation year that ends after the first time that the parent receives an asset of the subsidiary on the winding-up are deemed to be nil;

History: S. 88(1)(*e.9*), the portion before subparagraph (i) was amended by S.C. 2002, c. 9, s. 31(1), applicable to taxation years that end after 2001. S. 88(1)(*e.9*), the portion before subparagraph (i) formerly read:

"(*e.9*) for the purpose of applying subparagraph 157(1)(*b*)(i) and the definition 'qualifying corporation' in subsection 127.1(2) to any corporation (other than the subsidiary)"

S. 88(1)(*e.9*) was added by S.C. 1997, c. 25, s. 19(2), applicable to windings-up that begin after May 23, 1985, except that

(*a*) the expression "any corporation (other than the subsidiary)" in paragraph 88(1)(*e.9*) shall be read as "the parent" with respect to windings-up that begin before 1997;

(*b*) for the purpose of applying that paragraph for the purpose of the definition "qualifying corporation" in subsection 127.1(2), the business limits referred to in that paragraph, for taxation years that ended after June 1994 and began before 1996, shall be determined under section 125 as that section read in its application to taxation years that ended before July 1994; and

(*c*) subparagraph 88(1)(*e.9*)(i) does not apply

(i) for the purpose of applying the definition "qualifying corporation" in subsection 127.1(2) to taxation years that ended before July 1994, and

(ii) for the purpose of applying subparagraph 157(1)(*b*)(i) to taxation years that end before 1998.

► 88(1)(f) ◄

(f) [Winding-up — Depreciable property] — where property that was depreciable property of a prescribed class of the subsidiary has been distributed to the parent on the winding-up and the capital cost to the subsidiary of the property exceeds the amount deemed by paragraph (*a*) to be the subsidiary's proceeds of disposition of the property, for the purposes of sections 13 and 20 and any regulations made under paragraph 20(1)(*a*),

(i) notwithstanding paragraph (*c*), the capital cost to the parent of the property shall be deemed to be the amount that was the capital cost of the property to the subsidiary, and

(ii) the excess shall be deemed to have been allowed to the parent in respect of the property under regulations made under paragraph 20(1)(*a*) in computing income for taxation years before the acquisition by the parent of the property;

► 88(1)(g) ◄

(g) [Winding-up — Insurance corporations] — where the subsidiary was an insurance corporation,

(i) for the purposes of paragraphs 12(1)(*d*), (*e*), (*e.1*), (*i*) and (*s*), subsection 12.5(8), paragraphs 20(1)(*l*), (*l.1*), (*p*) and (*jj*) and 20(7)(*c*), subsections 20(22) and 20.4(4), sections 138, 138.1, 140, 142 and 148 and Part XII.3, the parent is deemed to be the same corporation as, and a continuation of, the subsidiary, and

(ii) for the purpose of determining the amount of the gross investment revenue required to be included under subsection 138(9) in the income of the subsidiary and the parent and the amount of gains and losses of the subsidiary and the parent from property used by them in the year or held by them in the year in the course of carrying on an insurance business in Canada

(A) the subsidiary and the parent shall, in addition to their normal taxation years, be deemed to have had a taxation year ending immediately before the time when the property of the subsidiary was transferred to, and the obligations of the subsidiary were assumed by, the parent on the winding-up, and

(B) for the taxation years of the subsidiary and the parent following the time referred to in clause (A), the property transferred to, and the obligations assumed by, the parent on the winding-up shall be deemed to have been transferred or assumed, as the case may be, on the last day of the taxation year ending immediately before that time and the parent shall be deemed to be the same corporation as and a continuation of the subsidiary with respect to that property, those obligations and the insurance businesses carried on by the subsidiary;

History: S. 88(1)(*g*)(i) was replaced by S.C. 2009, c. 2, s. 20(1), applicable to taxation years that begin after September 2006. S. 88(1)(*g*)(i) formerly read:

"(i) for the purposes of paragraphs 12(1)(*d*), (*e*), (*e.1*), (*i*) and (*s*) and 20(1)(*l*), (*l.1*), (*p*) and (*jj*) and 20(7)(*c*), subsection 20(22), sections 138, 138.1, 140, 142 and 148 and Part XII.3, the parent is deemed to be the same corporation as, and a continuation of, the subsidiary, and"

S. 88(1)(*g*)(i) was amended by S.C. 1997, c. 25, s. 19(3), applicable to windings-up that begin after 1995. S. 88(1)(*g*) formerly read:

"(i) for the purposes of paragraphs 12(1)(*d*), (*e*), (*i*) and (*s*) and 20(1)(*l*), (*l.1*), (*p*) and (*jj*) and 20(7)(*c*), sections 138, 138.1, 140, 142 and 148 and Part XII.3 of this Act and section 33 of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, the parent shall, notwithstanding paragraph (*e.2*), be deemed to be the same corporation as, and a continuation of, the subsidiary, and"

► 88(1)(h) ◄

(h) [Winding-up — Stop-loss rules and mark-to-market property] — for the purposes of subsections 112(5) to (5.2) and (5.4) and the definition "mark-to-market property" in subsection 142.2(1), the parent shall be deemed, in respect of each property distributed to it on the winding-up, to be the same corporation as, and a continuation of, the subsidiary; and

History: S. 88(1)(*h*) was added by S.C. 1995, c. 21, s. 55(5), applicable to windings-up that begin at any time (including, for greater certainty, windings-up that began before June 22, 1995).

► 88(1)(i) ◄

(i) [Winding-up — Mark-to-market property] — for the purpose of subsection 142.5(2), the subsidiary's taxation year in which its assets were distributed to the parent on the winding-up shall be deemed to have ended immediately before the time when the assets were distributed.

History: S. 88(1)(*i*) was added by S.C. 1995, c. 21, s. 55(5), applicable to windings-up that begin after October 1994.

► 88(1.1) ◄

(1.1) Non-capital losses, etc., of subsidiary. Where a Canadian corporation (in this subsection referred to as the "subsidiary") has been wound up and not less than 90% of the issued shares of each class of the capital stock of the subsidiary were, immediately before the winding-up, owned by another Canadian corporation (in this subsection referred to as the "parent") and all the shares of the subsidiary that were not owned by the parent immediately before the winding-up were owned at that time by a person or persons with whom the parent was dealing at arm's length, for the purpose of computing the taxable income of the parent under this Part and the tax payable under Part IV by the parent for any taxation year commencing after the commencement of the winding-up, such portion of any non-capital loss, restricted farm loss, farm loss or limited partnership loss of the subsidiary as may reasonably be regarded as its loss from carrying on a particular business (in this subsection referred to as the "subsidiary's loss business") and any other portion of any non-capital loss or limited partnership loss of the subsidiary as may reasonably be regarded as being derived from any other source or being in respect of a claim made under section 110.5 for any particular taxation year of the subsidiary (in this subsection referred to as the "subsidiary's loss year"), to the extent that it

(*a*) was not deducted in computing the taxable income of the subsidiary for any taxation year of the subsidiary, and

(*b*) would have been deductible in computing the taxable income of the subsidiary for any taxation year beginning after the commencement of the winding-up, on the assumption that it had such a taxation year and that it had sufficient income for that year,

shall, for the purposes of this subsection, paragraphs 111(1)(*a*), (*c*), (*d*) and (*e*), subsection 111(3) and Part IV,

(*c*) in the case of such portion of any non-capital loss, restricted farm loss, farm loss or limited partnership loss of the subsidiary as may reasonably be regarded as its loss from carrying on the subsidiary's loss business, be deemed, for the taxation year of the parent in which the subsidiary's loss year ended, to be a non-capital loss, restricted farm loss, farm loss or limited partnership loss, respectively, of the parent from carrying on the subsidiary's loss business, that was not deductible by the parent in computing its taxable income for any taxation year that commenced before the commencement of the winding-up,

(*d*) in the case of any other portion of any non-capital loss or limited partnership loss of the subsidiary as may reasonably be regarded as being derived from any other source, be deemed, for the taxation year of the parent in which the subsidiary's loss year ended, to be a non-capital loss or a limited partnership loss, respectively, of the parent that was derived from the source from which the subsidiary derived the loss and that was not deductible by the parent in computing its taxable income for any taxation year that commenced before the commencement of the winding-up, and

(*d.1*) in the case of any other portion of any non-capital loss of the subsidiary as may reasonably be regarded as being in respect of a claim made under section 110.5, be deemed, for the taxation year of the parent in which the subsidiary's loss year ended, to be a non-capital loss of the parent in respect of a claim made under section 110.5 that was not deductible by the parent in computing its taxable income for any taxation year that commenced before the commencement of the winding-up,

except that

(*e*) where at any time control of the parent or subsidiary has been acquired by a person or group of persons, no amount in respect of the subsidiary's non-capital loss or farm loss for a taxation year ending before that time is deductible in computing the taxable income of the parent for a particular taxation year ending after that time, except that such portion of the subsidiary's non-capital loss or farm loss as may reasonably be regarded as its loss from carrying on a business and, where a business was carried on by the subsidiary in that year, such portion of the non-capital loss as may reasonably be regarded as being in respect of an amount deductible under paragraph 110(1)(*k*) in computing its taxable income for the year is deductible only

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of paragraph 88(1.1)(*e*) of the Act before subparagraph (i) is replaced by the following:

(*e*) where control of the parent has been acquired by a person or group of persons at any time after the commencement of the winding-up, or control of the subsidiary has been acquired by a person or group of persons at any time whatever, no amount in respect of the subsidiary's non-capital loss or farm loss for a taxation year ending before that time is deductible in computing the taxable income of the parent for a particular taxation year ending after that time, except that such portion of the subsidiary's non-capital loss or farm loss as may reasonably be regarded as its loss from carrying on a business and, where a business was carried on by the subsidiary in that year, such portion of the non-capital loss as may reasonably be regarded as being in respect of an amount deductible under paragraph 110(1)(*k*) in computing its taxable income for the year is deductible only

Applicable: To windings-up that begin after May 1996.

Explanatory Note:

Winding-up of a Corporation

Subsection 88(1.1) of the Act allows a parent corporation under certain circumstances to use losses of a subsidiary corporation that has been wound up. Paragraph 88(1.1)(*e*) limits the use that can be made of the former subsidiary's non-capital losses and farm losses where either the parent or the subsidiary has undergone an acquisition of control. In its current form, the paragraph applies these limits regardless of when the acquisition of control took place. This can produce results that are unnecessarily restrictive. If, for example, a newly-acquired corporation is made the parent of an existing subsidiary that has losses, but the subsidiary itself has not undergone an acquisition of control since it incurred those losses, there is no reason for paragraph 88(1.1)(*e*) to limit the use that the parent corporation can make of the subsidiary's losses after the winding-up.

To ensure that it applies more appropriately, paragraph 88(1.1)(*e*) is amended to distinguish between acquisitions of

control of the parent corporation and acquisitions of control of the subsidiary. In respect of the parent, the limits imposed by the provision will apply only where a person or group of persons has acquired control after the commencement of the winding-up. In respect of the subsidiary, those limits will continue to apply if control has been acquired at any time.

Amended paragraph 88(1.1)(*e*) applies to windings-up that begin after May 1996.

(i) if that business is carried on by the subsidiary or the parent for profit or with a reasonable expectation of profit throughout the particular year, and

(ii) to the extent of the total of the parent's income for the particular year from that business and, where properties were sold, leased, rented or developed or services rendered in the course of carrying on that business before that time, from any other business substantially all of the income of which was derived from the sale, leasing, rental or development, as the case may be, of similar properties or the rendering of similar services

and, for the purpose of this paragraph, where this subsection applied to the winding-up of another corporation in respect of which the subsidiary was the parent and this paragraph applied in respect of losses of that other corporation, the subsidiary shall be deemed to be the same corporation as, and a continuation of, that other corporation with respect to those losses, and

(*f*) any portion of a loss of the subsidiary that would otherwise be deemed by paragraph (*c*), (*d*) or (*d*.1) to be a loss of the parent for a particular taxation year beginning after the commencement of the winding-up shall be deemed, for the purpose of computing the parent's taxable income for taxation years beginning after the commencement of the winding-up, to be such a loss of the parent for its immediately preceding taxation year and not for the particular year, where the parent so elects in its return of income under this Part for the particular year.

History: S. 88(1.1), that portion following paragraph (*a*) and preceding paragraph (*c*) was amended by S.C. 1994, c. 7, Sched. II, s. 66(10), applicable in computing the taxable income of parent corporations for the 1985 and subsequent taxation years. That portion of s. 88(1.1) formerly read:

"(*b*) would have been deductible in computing the taxable income of the subsidiary for its first taxation year commencing after the commencement of the winding-up, on the assumption that it had such a taxation year and that it had sufficient income for that year,

shall, for the purposes of paragraphs 111(1)(*a*), (*c*), (*d*) and (*e*), subsection 111(3) and Part IV,"

S. 88(1.1)(*e*), that portion following subparagraph (ii), was added by S.C. 1994, c. 7, Sched. II, s. 66(11), applicable in computing taxable income for the 1990 and subsequent taxation years.

S. 88(1.1)(*f*) was added by S.C. 1994, c. 7, Sched. II, s. 66(12), applicable in computing the taxable income of parent corporations for the 1985 and subsequent taxation years, except that an election for the purpose of paragraph 88(1.1)(*f*) that was made by a parent corporation with respect to any of its 1985 to 1991 taxation years by so notifying the Minister of National Revenue in writing before June 18, 1992 shall be deemed to have been made in accordance with that paragraph with respect to the year or years, as the case may be.

Related Sections: S. 10(11) Acquisition of control; s. 88(1.3) Computation of income and tax of parent; s. 256(7) Acquiring control.

Interpretation Bulletins: *Primary* — IT-302R3 Losses of a corporation — The effect on their deductibility of changes in control, amalgamation and winding-up. *Secondary* — IT-232R3 Non-capital losses, net capital losses, restricted farm losses, farm losses and limited partnership losses — Their composition and deductibility in computing taxable income.

Tax Topics: No. 1490, Parent Corporation Receives Both ABIL and Subsidiary's Losses.

► 88(1.2) ◄

(1.2) Net capital losses of subsidiary. Where the winding-up of a Canadian corporation (in this subsection referred to as the "subsidiary") commenced after March 31, 1977 and not less than 90% of the issued shares of each class of the capital stock of the subsidiary were, immediately before the winding-up, owned by another Canadian corporation (in this subsection referred to as the "parent") and all the shares of the subsidiary that were not owned by the parent immediately before the winding-up were owned at that time by persons with whom the parent was dealing at arm's length, for the purposes of computing the taxable income of the parent for any taxation year commencing after the commencement of the winding-up, any net capital loss of the subsidiary for any particular taxation year of the subsidiary (in this subsection referred to as the "subsidiary's loss year"), to the extent that it

(*a*) was not deducted in computing the taxable income of the subsidiary for any taxation year of the subsidiary, and

(*b*) would have been deductible in computing the taxable income of the subsidiary for any taxation year beginning after the commencement of the winding-up, on the assumption that it had such a taxation year and that it had sufficient income and taxable capital gains for that year,

shall, for the purposes of this subsection, paragraph 111(1)(*b*) and subsection 111(3), be deemed to be a net capital loss of the parent for its taxation year in which the particular taxation year of the subsidiary ended, except that

(*c*) where at any time control of the parent or subsidiary has been acquired by a person or group of persons, no amount in respect of the subsidiary's net capital loss for a taxation year ending before that time is deductible in computing the parent's taxable income for a taxation year ending after that time, and

(*d*) any portion of a net capital loss of the subsidiary that would otherwise be deemed by this subsection to be a loss of the parent for a particular taxation year beginning after the commencement of the winding-up shall be deemed, for the purposes of computing its taxable income for taxation years beginning after the commencement of the winding-up, to be a net capital loss of the parent for its immediately preceding taxation year and not for the particular year, where the parent so elects in its return of income under this Part for the particular year.

History: S. 88(1.2), that portion following paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 66(13), applicable in computing the taxable income of parent corporations for the 1985 and subsequent taxation years, except that an election for the purpose of paragraph 88(1.2)(*d*), that was made by a parent corporation with respect to any of its 1985 to 1991 taxation years by so notifying the Minister of National Revenue in writing before June 18, 1992 shall be deemed to have been made in accordance with that paragraph with respect to the year or years, as the case may be. That portion of s. 88(1.2) formerly read:

"(*b*) would have been deductible in computing the taxable income of the subsidiary for its first taxation year commencing after the commencement of the winding-up, on the assumption that it had such a taxation year and that it had sufficient income and taxable capital gains for that year,

shall, for the purposes of paragraph 111(1)(*b*) and subsection 111(3), be deemed to be a net capital loss of the parent for the taxation year of the parent in which the particular taxation year of the subsidiary ended that was not deductible by the parent in computing its taxable income for any taxation year that commenced before the commencement of the winding-up, except that this subsection does not apply to permit the parent to deduct, for the purpose of computing its taxable income for a particular taxation year, the subsidiary's net capital loss for a taxation year if control of the parent or the subsidiary has been acquired, before the end of the parent's particular year, by a person or persons who did not, at the end of the subsidiary's loss year, control the parent or the subsidiary, as the case may be."

Related Sections: S. 88(1.3) Computation of income and tax of parent; s. 111(1)(*b*) Net capital losses; s. 256(7) Acquiring control.

Interpretation Bulletins: *Primary* — IT-302R3 Losses of a corporation — The effect on their deductibility of changes in control, amalgamation and winding-up. *Secondary* — IT-232R3 Non-capital losses, net capital losses, restricted farm losses, farm losses and limited partnership losses — Their composition and deductibility in computing taxable income.

► 88(1.3) ◄

(1.3) Computation of income and tax of parent. For the purpose of paragraphs (1)(*e.3*), (*e.6*) and (*e.7*), subsections (1.1) and (1.2), section 110.1, subsections 111(1) and (3) and Part IV, where a parent corporation has been incorporated or otherwise formed after the end of an expenditure year, gift year, foreign tax year or loss year, as the case may be, of a subsidiary of the parent, for the purpose of computing the taxable income of, and the tax payable under this Part and Part IV by, the parent for any taxation year,

(*a*) it shall be deemed to have been in existence during the particular period beginning immediately before the end of the subsidiary's first expenditure year, gift year, foreign tax year or loss year, as the case may be, and ending immediately after it was incorporated or otherwise formed;

(*b*) it shall be deemed to have had, throughout the particular period, fiscal periods ending on the day of the year on which its first fiscal period ended; and

(*c*) it shall be deemed to have been controlled, throughout the particular period, by the person or persons who controlled it immediately after it was incorporated or otherwise formed.

History: S. 88(1.3)(*a*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 38(6), applicable to windings-up beginning after 1988. S. 88(1.3)(*a*) formerly read:

"(*a*) it shall be deemed to have been in existence during the particular period commencing immediately before the end of the subsidiary's first foreign tax year, gift year or loss year, as the case may be, and ending immediately after it was incorporated or otherwise formed;"

Related Sections: S. 88(1.1) Non-capital losses, etc., of subsidiary; s. 88(1.2) Net capital losses of subsidiary; s. 111(1)(*b*) Net capital losses.

► 88(1.4) ◄

(1.4) Qualified expenditure of subsidiary. For the purposes of this subsection and section 37.1, where the rules in subsection (1) applied to the winding-up of a subsidiary, for the purpose of computing the income of its parent for any taxation year commencing after the subsidiary has been wound up, the following rules apply:

(*a*) where the parent's base period consists of fewer than three taxation years, its base period shall be determined on the assumption that it had taxation years in each of the calendar years preceding the year in which it was incorporated, each of which commenced on the same day of the year as the day of its incorporation;

(*b*) the qualified expenditure made by the parent in a particular taxation year in its base period shall be deemed to be the total of the amount thereof otherwise determined and the qualified expenditure made by the subsidiary in its taxation year ending in the same calendar year as the particular year;

(*c*) the total of the amounts paid to the parent by persons referred to in subparagraphs (*b*)(i) to (iii) of the definition "expenditure base" in subsection 37.1(5) in a particular taxation year in its base period shall be deemed to be the total otherwise determined and all those amounts paid to the subsidiary by a person referred to in those subparagraphs in the subsidiary's taxation year ending in the same calendar year as the particular year; and

(*d*) there shall be added to the total of the amounts otherwise determined in respect of the parent under subparagraphs 37.1(3)(*b*)(i) and (iii) respectively, the total of the amounts determined under those subparagraphs in respect of the subsidiary.

► 88(1.41) ◄

(1.41) Application of s. 37.1(5). The definitions in subsection 37.1(5) apply to subsection (1.4).

History: S. 88(1.41) was not part of the former Act.

► 88(1.5) ◄

(1.5) Parent continuation of subsidiary. For the purposes of section 29 of the *Income Tax Application Rules*, subsection 59(3.3) and sections 66, 66.1, 66.2, 66.21, 66.4 and 66.7, where the rules in subsection (1) applied to the winding-up of a subsidiary, its parent is deemed to be the same corporation as, and a continuation of, the subsidiary.

History: S. 88(1.5) was amended by S.C. 2001, c. 17, s. 66(4), applicable to windings-up that occur after 2000. S. 88(1.5) formerly read:

"(1.5) *Parent continuation of subsidiary.* For the purposes of section 29 of the *Income Tax Application Rules*, subsection 59(3.3) and sections 66, 66.1, 66.2, 66.4 and 66.7, where the rules in subsection (1) applied to the winding-up of a subsidiary, its parent shall be deemed to be the same corporation as, and a continuation of, the subsidiary."

Interpretation Bulletins: *Secondary* — IT-125R4 Disposition of resource properties; IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].

Regulations: 1214(1).

► 88(1.6) ◄

(1.6) Idem. Where a corporation that carries on a farming business and computes its income from that business in accordance with the cash method is wound up in circumstances to which subsection (1) applies and, at the time that is immediately before the winding-up of the corporation, owned inventory that was used in connection with that business,

(*a*) for the purposes of subparagraph (1)(*a*)(iii), the cost amount to the corporation at that time of property purchased by it that is included in that inventory shall be deemed to be the amount determined by the formula

$$(A \times \frac{B}{C}) + D$$

where

A is the amount, if any, that would be included under paragraph 28(1)(*c*) in computing the corporation's income for its last taxation year beginning before that time if that year had ended at that time,

B is the value (determined in accordance with subsection 28(1.2)) to the corporation at that time of the purchased inventory that is distributed to the parent on the winding-up,

C is the value (determined in accordance with subsection 28(1.2)) of all of the inventory purchased by the corporation that was owned by it in connection with that business at that time, and

D is the lesser of

(i) such additional amount as the corporation designates in respect of the property, and

(ii) the amount, if any, by which the fair market value of the property at that time exceeds the amount determined for A in respect of the property;

(*b*) for the purpose of subparagraph 28(1)(*a*)(i), the disposition of the inventory and the receipt of the proceeds of disposition therefor shall be deemed to have occurred at that time and in the course of carrying on the business; and

(*c*) where the parent carries on a farming business and computes its income therefrom in accordance with the cash method, for the purposes of section 28,

(i) an amount equal to the cost to the parent of the inventory shall be deemed to have been paid by it, and

(ii) the parent shall be deemed to have purchased the inventory for an amount equal to that cost,

in the course of carrying on that business and at the time it acquired the inventory.

History: S. 88(1.6) was added by S.C. 1994, c. 7, Sched. II, s. 66(14), applicable to windings-up beginning after July 13, 1990.

► 88(1.7) ◄

(1.7) Interpretation. For the purposes of paragraphs (1)(*c*) and (*d*), where a parent of a subsidiary did not deal at arm's length with another person (other than a corporation the control of which was acquired by the parent from a person with whom the parent dealt at arm's length) at any time before the winding-up of the subsidiary, the parent and the other person are deemed never to have dealt with each other at arm's length, whether or not the parent and the other person coexisted.

History: S. 88(1.7) was added by S.C. 1998, c. 19, s. 118(12), applicable to windings-up that begin after February 21, 1994.

► 88(2) ◄

(2) Winding-up of Canadian corporation. Where a Canadian corporation (other than a subsidiary to the winding-up of which the rules in subsection (1) applied) has been wound up after 1978 and, at a particular time in the course of the winding-up, all or substantially all of the property owned by the corporation immediately before that time was distributed to the shareholders of the corporation,

(*a*) for the purposes of computing the corporation's

(i) capital dividend account,

(i.1) capital gains dividend account (within the meaning assigned by subsection 131(6), where the corporation is an investment corporation,

(ii) capital gains dividend account (within the meaning assigned by section 133), and

(iii) pre-1972 capital surplus on hand,

at the time (in this paragraph referred to as the "time of computation") immediately before the particular time,

(iv) the taxation year of the corporation that otherwise would have included the particular time shall be deemed to have ended immediately before the time of computation, and a new taxation year shall be deemed to have commenced at that time, and

(v) each property of the corporation that was so distributed at the particular time shall be deemed to have been disposed of by the corporation immediately before the end of the taxation year so deemed to have ended for proceeds equal to the fair market value of the property immediately before the particular time,

(vi) [Repealed by S.C. 1994, c. 7, Sched. II, s. 66(16).]

(*b*) where the corporation is, by virtue of subsection 84(2), deemed to have paid at the particular time a dividend (in this paragraph referred to as the "winding-up dividend") on shares of any class of its capital stock, the following rules apply:

(i) such portion of the winding-up dividend as does not exceed the corporation's capital dividend account immediately before that time or capital gains dividend account immediately before that time, as the case may be, shall be deemed, for the purposes of an election in respect thereof under subsection 83(2), 131(1) (as that subsection applies for the purposes of section 130) or 133(7.1), as the case may be, and where the corporation has so elected, for all other purposes, to be the full amount of a separate dividend,

(ii) the portion of the winding-up dividend equal to the lesser of the corporation's pre-1972 capital surplus on hand immediately before that time and the amount by which the winding-up dividend exceeds

(A) the portion thereof in respect of which the corporation has made an election under subsection 83(2), or

(B) the portion thereof in respect of which the corporation has made an election under subsection 133(7.1),

as the case may be, shall be deemed not to be a dividend,

(iii) notwithstanding the definition "taxable dividend" in subsection 89(1), the winding-up dividend, to the extent that it exceeds the total of the portion thereof deemed by subparagraph (i) to be a separate dividend for all purposes and the portion deemed by subparagraph (ii) not to be a dividend, shall be deemed to be a separate dividend that is a taxable dividend, and

(iv) each person who held any of the issued shares of that class at the particular time shall be deemed to have received that proportion of any separate dividend determined under subparagraph (i) or (iii) that the number of shares of that class held by the person immediately before the particular time is of the number of issued shares of that class outstanding immediately before that time, and

(*c*) for the purpose of computing the income of the corporation for its taxation year that includes the

particular time, paragraph 12(1)(*t*) shall be read as follows:

"(t) the amount deducted under subsection 127(5) or (6) in computing the taxpayer's tax payable for the year or a preceding taxation year to the extent that it was not included under this paragraph in computing the taxpayer's income for a preceding taxation year or is not included in an amount determined under paragraph 13(7.1)(*e*) or 37(1)(*e*) or subparagraph 53(2)(*c*)(vi) or (*h*)(ii) or the amount determined for I in the definition 'undepreciated capital cost' in subsection 13(21) or L in the definition 'cumulative Canadian exploration expense' in subsection 66.1(6);".

History: S. 88(2)(*a*)(i.1) was added by S.C. 1994, c. 7, Sched. II, s. 66(15), applicable to windings-up beginning after 1988.

S. 88(2)(*a*)(vi) was repealed by S.C. 1994, c. 7, Sched. II, s. 66(16) applicable to windings-up beginning after 1987. S. 88(2)(*a*)(vi) formerly read:

"(vi) in calculating the income of the corporation for the taxation year so deemed to have ended, paragraph 12(1)(*t*) shall be read as follows:

'(t) the amount deducted under subsection 127(5) or (6) in computing the taxpayer's tax payable for the year or a preceding taxation year to the extent that it was not included in computing the taxpayer's income for a preceding taxation year under this paragraph or is not included in an amount determined under paragraph 13(7.1)(*e*) or 37(1)(*e*), or subparagraph 53(2)(*c*)(vi) or (*h*)(ii) or for I in the definition "undepreciated capital cost" in subsection 13(21) or L in the definition "cumulative Canadian exploration expense" in subsection 66.1(6);' and"

S. 88(2)(*b*)(i) was amended by S.C. 1994, c. 7, Sched. II, s. 66(17), applicable to windings-up beginning after 1988. S. 88(2)(*b*)(i) formerly read:

"(i) such portion of the winding-up dividend as does not exceed the corporation's capital dividend account immediately before that time or capital gains dividend account immediately before that time, as the case may be, shall be deemed, for the purposes of an election in respect thereof under subsection 83(2) or 133(7.1), as the case may be, and where the corporation has so elected, for all other purposes, to be the full amount of a separate dividend,"

S. 88(2)(*c*) was added by S.C. 1994, c. 7, Sched. II, s. 66(18), applicable to windings-up beginning after 1987.

Related Sections: S. 88(2.1) Definition of "pre-1972 capital surplus on hand"; s. 134 Non-resident-owned corporation not a Canadian corporation, etc.

Interpretation Bulletins: *Primary* — IT-149R4 Winding-up dividend. *Secondary* — IT-126R2 Meaning of "winding-up"; IT-444R Corporations — Involuntary Dissolutions.

Canadian Tax Foundation: Roberts, "Winding Up: Part 2", *1996 Canadian Tax Journal*, No. 3, 943.

► 88(2.1) ◄

(2.1) Definition of "pre-1972 capital surplus on hand". For the purposes of subsection (2), "pre-1972 capital surplus on hand" of a particular corporation at a particular time means the amount, if any, by which the total of

(*a*) the corporation's 1971 capital surplus on hand on December 31, 1978 within the meaning of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read on that date,

(*b*) the total of all amounts each of which is an amount in respect of a capital property of the corporation owned by it on December 31, 1971 and disposed of by it after 1978 and before the particular time, equal to the amount, if any, by which the lesser of its fair market value on valuation day (within the meaning assigned by section 24 of the *Income Tax Application Rules*) and the corporation's proceeds of disposition of that capital property exceeds its actual cost to the corporation determined without reference to the *Income Tax Application Rules* other than subsections 26(15), (17) and (21) to (27) of that Act,

(*c*) where before the particular time a subsidiary (to the winding-up of which the rules in subsection (1) applied) of the particular corporation has been wound up after 1978, an amount equal to the pre-1972 capital surplus on hand of the subsidiary immediately before the commencement of the winding-up, and

(*d*) where the particular corporation is a new corporation formed as a result of an amalgamation (within the meaning of section 87) after 1978 and before the particular time, the total of all amounts each of which is an amount in respect of a predecessor corporation, equal to the predecessor corporation's pre-1972 capital surplus on hand immediately before the amalgamation

exceeds

(*e*) the total of all amounts each of which is an amount in respect of a capital property (other than depreciable property) of the corporation owned by it on December 31, 1971 and disposed of by it after 1978 and before the particular time equal to the amount, if any, by which its actual cost to the corporation determined without reference to the *Income Tax Application Rules*, other than subsections 26(15), (17) and (21) to (27) of that Act, exceeds the greater of the fair market value of the property on valuation day (within the meaning assigned by section 24 of that Act) and the corporation's proceeds of disposition of the property.

Related Sections: S. 87(2)(*t*) Pre-1972 capital surplus on hand; s. 88(2.2) Determination of pre-1972 capital surplus on hand; s. 88(2.3) Actual cost of certain depreciable property.

Interpretation Bulletins: *Secondary* — IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].

► 88(2.2) ◄

(2.2) Determination of pre-1972 capital surplus on hand. For the purposes of determining the pre-1972 capital surplus on hand of any corporation at a particular time after 1978, the following rules apply:

(*a*) an amount referred to in paragraphs (2.1)(*b*) and (*e*) in respect of the corporation shall be deemed to be nil, where the property disposed of is

(i) a share of the capital stock of a subsidiary, within the meaning of subsection (1), that was disposed of on the winding-up of the subsidiary where that winding-up commenced after 1978,

(ii) a share of the capital stock of another Canadian corporation that was controlled, within the meaning assigned by subsection 186(2), by the corporation immediately before the disposition and that was disposed of by the corporation after 1978 to a person with whom the corporation was not dealing at arm's length immediately after the disposition, other than by a disposition referred to in paragraph (*b*), or

(iii) subject to subsection 26(21) of the *Income Tax Application Rules*, a share of the capital stock of a particular corporation that was disposed of by the corporation after 1978, on an amalgamation, within the meaning assigned by subsection 87(1), where the corporation controlled, within the

meaning assigned by subsection 186(2), both the particular corporation immediately before the amalgamation and the new corporation immediately after the amalgamation; and

(*b*) where another corporation that is a Canadian corporation owned a capital property on December 31, 1971 and subsequently disposed of it to the corporation in a transaction to which section 85 applied, the other corporation shall be deemed not to have disposed of that property in the transaction and the corporation shall be deemed to have owned that property on December 31, 1971 and to have acquired it at an actual cost equal to the actual cost of that property to the other corporation.

Interpretation Bulletins: *Secondary* — IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].

► 88(2.3) ◄

(2.3) Actual cost of certain depreciable property. For the purpose of subsection (2.1), the actual cost of the depreciable property that was acquired by a corporation before the commencement of its 1949 taxation year that is capital property referred to in that subsection shall be deemed to be the capital cost of that property to the corporation (within the meaning assigned by section 144 of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read in its application to the 1971 taxation year).

► 88(3) ◄

(3) Dissolution of foreign affiliate. Where on the dissolution of a controlled foreign affiliate (within the meaning assigned by subsection 95(1)) of a taxpayer (in this subsection referred to as the "disposing affiliate") one or more shares of the capital stock of another foreign affiliate of the taxpayer have been disposed of to the taxpayer,

(*a*) the disposing affiliate's proceeds of disposition of each such share and the cost thereof to the taxpayer shall be deemed to be an amount equal to the adjusted cost base to the disposing affiliate of the share immediately before the dissolution, or such greater amount as the taxpayer claims not exceeding the fair market value of the share immediately before the dissolution; and

(*b*) the taxpayer's proceeds of disposition of the shares of the disposing affiliate shall be deemed to be the amount, if any, by which the total of

(i) the cost to the taxpayer of the shares of the other foreign affiliate, as determined in paragraph (*a*), and

(ii) the fair market value of any property (other than the shares referred to in subparagraph (i)) disposed of by the disposing affiliate to the taxpayer on the dissolution,

exceeds

(iii) the total of all debts owing by the disposing affiliate, and of all amounts of other obligations of the disposing affiliate to pay amounts, otherwise than as or on account of a dividend owing by the disposing affiliate to the taxpayer or to persons with whom the taxpayer was not dealing at arm's length, that were outstanding immediately before the dissolution and that were assumed or cancelled by the taxpayer on the dissolution.

Pending Amendment

Draft Legislation — Foreign Affiliates — February 27, 2004

Subsection 88(3) of the Act is replaced by the following:

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(3) Distributions of property of a foreign affiliate. If, at any time, a taxpayer resident in Canada receives a property from a foreign affiliate of the taxpayer (the property received and the foreign affiliate from which the property was received being referred to in this subsection as the "distributed property" and the "disposing foreign affiliate", respectively), on a dissolution and a liquidation of the disposing foreign affiliate, on a redemption of shares of the capital stock of the disposing foreign affiliate, as a payment of a dividend by the disposing foreign affiliate, or as a distribution of property by the disposing foreign affiliate,

(*a*) where the distributed property was, immediately before that time, a share of the capital stock of another foreign affiliate of the taxpayer and an excluded property of the disposing foreign affiliate, the distributed property

(i) is deemed to have been disposed of, at that time, by the disposing foreign affiliate to the taxpayer for proceeds of disposition that are equal to

(A) unless a valid election is made under clause (B), the adjusted cost base to the disposing foreign affiliate of the distributed property, immediately before that time, and

(B) the amount that the taxpayer elects in the prescribed manner and in the prescribed time in respect of the distributed property, which amount may not be less than the adjusted cost base to the disposing foreign affiliate of the distributed property immediately before that time and may not exceed the fair market value, at that time, of the distributed property, and

(ii) is deemed to have been acquired, at that time, by the taxpayer at a cost equal to the amount, determined under subparagraph (i), to be the disposing foreign affiliate's proceeds of disposition of the distributed property;

(*b*) where the distributed property is property to which paragraph (*a*) does not apply, the distributed property is deemed

(i) to have been disposed of, at that time, by the disposing foreign affiliate to the taxpayer for proceeds of disposition that are equal to the fair market value, at that time, of the distributed property, and

(ii) to have been acquired, at that time, by the taxpayer at a cost equal to the amount, determined under subparagraph (i), to be the disposing foreign affiliate's proceeds of disposition of the distributed property;

(*c*) where the taxpayer disposed of shares of the capital stock of the disposing foreign affiliate on the dissolution and liquidation of the disposing foreign affiliate or on the redemption, acquisition or cancellation of shares of the disposing foreign affiliate, as the case may be, the taxpayer's proceeds of disposition of the shares are deemed to be the amount determined by the formula

$$A - B$$

where

A is the total of all amounts each of which is the cost to the taxpayer of a distributed property received by the taxpayer as consideration for the disposition of the shares, and

B is the total of all amounts each of which is the amount of a debt owing by the disposing foreign affiliate, or of an obligation of the disposing foreign affiliate to pay an amount, (other than a dividend payable to the taxpayer or to persons with whom the taxpayer does not deal at arm's length) that was assumed or cancelled by the taxpayer because of the dissolution and liquidation or because of the redemption, acquisition or cancellation;

(*d*) where the taxpayer received distributed property as a dividend or a distribution of property, the amount of the dividend paid by the disposing foreign affiliate or the amount of the distribution of property made by the disposing foreign affiliate to the taxpayer, as case may be, is deemed to be the amount determined by the formula

D – E

where

D is the total of all amounts each of which is the cost to the taxpayer of a distributed property received by the taxpayer from the disposing foreign affiliate as the payment of a dividend or as the distribution of property, as the case may be, and

E is the total of all amounts each of which is the amount of a debt owing by the disposing foreign affiliate or of an obligation of the disposing foreign affiliate to pay an amount (other than a dividend payable to the taxpayer or to persons with whom the taxpayer does not deal at arm's length) that was assumed or cancelled by the taxpayer because of the payment of the dividend or because of the distribution;

(*e*) the amount of a distribution of property made, at that time, by the disposing foreign affiliate to the taxpayer, is to be deducted in computing the taxpayer's adjusted cost base of a particular share of the capital stock of disposing foreign affiliate held by the taxpayer, at that time, to the extent that it is reasonable to consider the distribution to be a payment made by the disposing foreign affiliate to the taxpayer as

(i) a return of an amount that was received by the disposing foreign affiliate as consideration for the issuance of the particular share, or

(ii) a return of an amount of contributed surplus that was received by the disposing foreign affiliate before that time, as a contribution of capital to the disposing foreign affiliate by the shareholder that held the particular share at the time of the contribution; and

(*f*) the amount of a distribution of property made, at that time, by the disposing foreign affiliate to the taxpayer is to be included in computing the taxpayer's income as income from property that is the shares of the capital stock of the disposing foreign affiliate held at that time by the taxpayer, to the extent that it is not deducted, under paragraph (*e*), in computing the adjusted cost base of a particular share of the capital stock of the disposing foreign affiliate held by the taxpayer.

Applicable: To property received after February 27, 2004.

Explanatory Note:

Distributions of Property of a Foreign Affiliate

Subsection 88(3) of the Act provides for rules that apply on the dissolution of a controlled foreign affiliate (a "disposing affiliate") of a taxpayer resident in Canada. For example, shares of a foreign affiliate of a taxpayer that are transferred to the taxpayer on the dissolution of the disposing affiliate will be considered to have been disposed of by the controlled foreign affiliate, and to have been acquired by the taxpayer, for the adjusted cost base or such greater amount as the taxpayer claims not exceeding the fair market value of the shares. Also, in general terms, the taxpayer's proceeds of disposition of the taxpayer's shares of the capital stock of the controlled foreign affiliate disposed of on the dissolution are deemed to be the amount, if any, by which the total of all amounts each of which is the cost to the taxpayer of property received by the taxpayer from the controlled foreign affiliate on the dissolution exceeds the total of all debts of the controlled foreign affiliate that were assumed or cancelled by the taxpayer on the dissolution.

In general terms, subsection 88(3) is being amended to be applicable to property received, by a taxpayer resident in Canada from a foreign affiliate of a taxpayer resident in Canada, in the following circumstances:

- on a dissolution and liquidation of the foreign affiliate,
- on a redemption of shares by the foreign affiliate,
- as payment of a dividend by the foreign affiliate, or
- as a distribution of property by the foreign affiliate.

This amendment applies to property received after February 27, 2004.

Proposed subsection 88(3) provides for the following rules if, at any time (referred to in this commentary as the "distribution time"), a taxpayer resident in Canada receives, in the circumstances described above, a property from a foreign affiliate of the taxpayer (the property received and the foreign affiliate from which the property was received being referred to in this subsection as the "distributed property" and the "disposing foreign affiliate", respectively):

- If the distributed property was, immediately before the distribution time, a share of the capital stock of another foreign affiliate of the taxpayer and an excluded property of the disposing foreign affiliate,
  - the distributed property is deemed to have been disposed of, at the distribution time, by the disposing foreign affiliate to the taxpayer for proceeds of disposition that are equal to
    - unless a valid election referred to below is made, the adjusted cost base to the disposing foreign affiliate of the distributed property, immediately before that time, and
    - the amount that the taxpayer elects in the prescribed manner and in the prescribed time (see proposed new section 5919 of the Income Tax Regulations) in respect of the distributed property, which amount may not be less than the adjusted cost base to the disposing foreign affiliate of the distributed property immediately before that time and may not exceed the fair market value, at that time, of the distributed property, and
  - the distributed property is deemed to have been acquired, at that time, by the taxpayer at a cost equal to the amount determined to be the disposing foreign affiliate's proceeds of disposition of the distributed property.
- If the distributed property is not, immediately before the distribution time, both a share of the capital stock of another foreign affiliate of the taxpayer and an excluded property of the disposing foreign affiliate,
  - the distributed property is deemed to have been disposed of, at that time, by the disposing foreign affiliate to the taxpayer for proceeds of disposition that are equal to the fair market value, at that time, of the distributed property, and
  - the distributed property is deemed to have been acquired, at that time, by the taxpayer at a cost equal to the amount determined to be the disposing foreign affiliate's proceeds of disposition of the distributed property.
- If the taxpayer disposed of shares of the capital stock of the disposing foreign affiliate on the dissolution and liquidation of the disposing foreign affiliate or on the redemption, acquisition or cancellation of shares of the disposing foreign affiliate, as the case may be, the taxpayer's proceeds of disposition of the shares are deemed to be the amount determined by the formula

A – B

where

A is the total of all amounts each of which is the cost to the taxpayer of a distributed property received by the taxpayer as consideration for the disposition of the shares, and

B is the total of all amounts each of which is the amount of a debt owing by the disposing foreign affiliate or of an obligation of the disposing foreign affiliate to pay an amount (other than a dividend payable to the taxpayer or to persons with whom the taxpayer does not deal at arm's length) that was assumed or cancelled by the taxpayer because of the dissolution and liquidation or because of the redemption, acquisition or cancellation.

- If the taxpayer has received distributed property as a dividend or a distribution of property, the amount of the dividend paid by the disposing foreign affiliate or the amount of the distribution of property made by the dis-

posing foreign affiliate to the taxpayer, as case may be, is deemed to be the amount determined by the formula

D – E

where

D is the total of all amounts each of which is the cost to the taxpayer of a distributed property received by the taxpayer from the disposing foreign affiliate as the payment of a dividend or as the distribution of property, as the case may be, and

E is the total of all amounts each of which is the amount of a debt owing by the disposing foreign affiliate or of an obligation of the disposing foreign affiliate to pay an amount (other than a dividend payable to the taxpayer or to persons with whom the taxpayer does not deal at arm's length) that was assumed or cancelled by the taxpayer because of the payment of the dividend or because of the distribution.

- The amount of a distribution of property made, at the distribution time, by the disposing foreign affiliate to the taxpayer, is to be deducted in computing the taxpayer's adjusted cost base of a particular share of the capital stock of the disposing foreign affiliate held by the taxpayer, at that time, to the extent that it is reasonable to consider the distribution as a payment made by the disposing foreign affiliate to the taxpayer as
  - — a return of an amount that was received by the disposing foreign affiliate as consideration for the issuance of the particular share, or
  - — a return of an amount of contributed surplus that was received by the disposing foreign affiliate, before the distribution time, as a contribution of capital to the disposing foreign affiliate by the shareholder that held the particular share at that time of the contribution.
- The amount of a distribution of property made, at the distribution time, by the disposing foreign affiliate to the taxpayer is to be included in computing the taxpayer's income as income from property that is the shares of the capital stock of disposing foreign affiliate held at that time by the taxpayer, to the extent that it is not deducted in computing the adjusted cost base of a particular share of the capital stock of the disposing foreign affiliate held by the taxpayer.

Department of Finance Comfort Letter [Follow-up to Earlier Letters on Modifications to Proposed S. 88(3)]

March 19, 2009

Dear XXXX

Subject: Subsection 88(3) of the *Income Tax Act*

I am writing in response to your letter of February 13, 2009 concerning subsection 88(3) of the *Income Tax Act* (Act).

August 16, 2005 and April 12, 2006 letters

Firstly, in your letter you have asked for confirmation of the Department's intention to recommend to the Minister of Finance certain amendments to subsection 88(3) of the Act (the "88(3) Modifications") as described in letters dated August 16, 2005 and April 12, 2006 (the "Earlier Letters") from Mr . Brian Ernewein.

As you know, it was stated in the 2007 Budget documents, and confirmed in the 2008 Budget documents, that previously released proposals (the "2004 FA proposals") in respect of the taxation of income from foreign affiliates would be reviewed and evaluated in view of the international tax measures announced in the 2007 Budget. Certain of these 2004 FA proposals, as modified to take into account some of the 2007 Budget measures, were enacted by Bill C-28 that received Royal Assent on December 14, 2007. Certain other portions of these 2004 FA proposals were enacted by the Budget Implementation Act, 2009, which received Royal Assent on March 12, 2009. Furthermore, in the 2009 Budget documents, it was stated that the Government will consider the recommendations of the Advisory Panel on Canada's System of International Taxation that relate to foreign affiliates before proceeding with the remaining 2004 FA Proposals, as modified to take into account consultations and deliberations since their release.

The review, evaluation and consideration referred to in the 2007, 2008 and 2009 Budget documents is still in progress in respect of the remaining 2004 FA proposals. Accordingly, it is possible that further changes may be made in this area of the tax law. However, we would in that event recommend to the Minister of Finance that any further changes to the 88(3) Modifications incorporate appropriate transitional provisions to ensure that the changes do not impair any beneficial effect of those modifications for the period up to any announcement of revisions to those modifications.

"Relevant cost amount"

Secondly, in your letter you have asked for clarification of the intended meaning of the expression "relevant cost amount" as used in the Earlier Letters. As you have noted, the recommendations to the Minister of Finance set out in those letters include a recommendation to amend the Act such that a taxpayer resident in Canada (a "Canadian taxpayer") may elect in respect of a qualifying liquidation and dissolution of a foreign affiliate of the Canadian taxpayer (an "Elected QLAD") that the foreign affiliate be considered to have disposed of each of its properties for proceeds equal to the greater of the "relevant cost amount" to the foreign affiliate of each such property and such amount chosen by the Canadian taxpayer, in a further election, not exceeding the fair market value of the property. In those letters, the relevant cost amount is described as being "essentially the amount that would generally result in no gain or loss to the foreign affiliate in respect of the Canadian taxpayer in respect of the distribution of the distributed property".

In the example set out in your letter, at the time of an Elected QLAD, the foreign affiliate owns non-depreciable capital property that is non-treaty-protected taxable Canadian property ("TCP"), having an adjusted cost base of $10 and a fair market value of $100. In your example, you assume that the $90 of appreciation (pre-acquisition gain) occurred at a time when no person or partnership that held the property was a "specified person or partnership" in respect of the Canadian taxpayer (within the meaning of that term in subsection 95(1) of the Act). Thus, you argue that, for the purposes of the foreign accrual property income ("FAPI") rules in the Act, the foreign affiliate's proceeds of disposition of the property could be $100, without triggering a capital gain under paragraph 95(2)*(f)* of the Act, because that paragraph, in conjunction with paragraph 95(2)*(f.1)*, would exclude the pre-acquisition gain from the computation of the capital gain. You therefore suggest that, in this context, the relevant cost amount as described in the Earlier Letters would be $100.

On the other hand, for the purposes of determining the foreign affiliate's taxable income earned in Canada under subsection 115(1) of the Act, under your example, you conclude that the foreign affiliate will realize a capital gain to the extent that the foreign affiliate's proceeds of disposition of the property exceed $10. You therefore suggest that, in this context, the relevant cost amount as described in the Earlier Letters would be $10.

In light of these conflicting results, you have asked us to provide clarification as to the determination of the relevant cost amount of non-depreciable capital property that is non-treaty-protected TCP .

Let us first offer some general clarifying comments as to our intentions with respect to the concept of "relevant cost amount". This concept is meant to be tied directly to the so-called "carve-out" rule in paragraph 95(2)*(f.1)* of the Act. Thus, where a Canadian taxpayer acquires shares of a foreign affiliate from an arm's length party and that affiliate holds appreciated property, the fair market value of the property at the time of acquisition should generally be the affiliate's relevant cost amount as that is the amount of proceeds of disposition that it could receive for the property without causing it to have a FAPI gain or loss, after taking into account the carve-out rule. Thus, generally the relevant cost amount of the appreciated property would be $100, using the figures in your example.

However, in the more specific context of an Elected QLAD where the property of the foreign affiliate is non-treaty-protected TCP and thus is relevant from both a FAPI and a section 115 perspective, it is important that the proceeds of disposition of property distributed to the Canadian taxpayer be the same for all Canadian tax purposes given that those proceeds will

also be the cost to the Canadian taxpayer of that property going forward. It is also possible that certain Canadian taxpayers, in these circumstances, may wish their affiliates to realize gains for section 115 purposes, but rely on the carve-out rule to reduce or eliminate their FAPI inclusion.

On the basis of the foregoing, we are prepared to recommend to the Minister of Finance that, in the context of an Elected QLAD under the 88(3) Modifications, the Canadian taxpayer and the foreign affiliate be entitled to jointly elect that the relevant cost amount of a property that is non-treaty-protected TCP be the amount that causes no gain or loss in the computation of the affiliate's taxable income earned in Canada under section 115. This would mean that if, in your example, that election were made, the foreign affiliate's proceeds of disposition would be $10 such that the affiliate would have no gain for section 115 purposes. Furthermore, if that election were made, a similar result would obtain for FAPI purposes as paragraph 95(2)(*f*)would produce no gain, without the need to rely on the carve-out rule in paragraph 95(2)(*f.1*), and thus the Canadian taxpayer would have no FAPI inclusion. As a result, under the 88(3) Modifications, the Canadian taxpayer's cost of the property would be $10 for its future income tax determinations made under the Act.

While I cannot offer any assurance that either the Minister of Finance or Parliament will agree with our recommendations, I hope that this statement of our intentions is helpful to you. As stated above, it should also be kept in mind that if the 88(3) Modifications are further revised, it is possible that the recommendation herein may only apply for the period up to any announcement of any such revisions.

Thank you for writing.

Yours sincerely,

Gerard Lalonde
Director,
Tax Legislation Division
Tax Policy Branch

Department of Finance Comfort Letter [Proposed Modification to Subsection 88(3)]

April 1, 2008

Dear XXXX

I am writing in response to your letter of December 13, 2007 concerning subsection 88(3) of the *Income Tax Act* (Act). In your letter you have asked for confirmation of the Department's intention to recommend to the Minister of Finance certain amendments as described in letters dated August 16, 2005 and April 12, 2006 from Mr. Brian Ernewein.

As you know, it was stated in the 2007 Budget documents, and confirmed in the 2008 Budget, that previously released proposals (the "2004 FA proposals") in respect of the taxation of income from foreign affiliates would be reviewed and evaluated in view of the international tax measures announced in the 2007 Budget. Certain of these 2004 FA proposals, as modified to take into account some of the 2007 Budget measures, were enacted by Bill C-28 that received Royal Assent on December 14, 2007.

The review and evaluation referred to in the 2007 Budget documents is still in progress in respect of the remaining 2004 FA proposals, including the modifications to subsection 88(3) of the Act. Accordingly, it is possible that further changes may be made in this area of the tax law. However, we would in that event recommend to the Minister of Finance that any further changes to the proposed modifications to subsection 88(3) of the Act (including any recommended modifications as described in the letters referred to above) incorporated appropriate transitional provisions to ensure that the changes did not impair any beneficial effect of those proposed modifications for the period before the conclusion of the review.

While I cannot offer any assurance that either the Minister of Finance or Parliament will agree with our recommendations, I hope that this statement of our intentions is helpful to you.

Thank you for writing.

Yours sincerely.

Gerard Lalonde
Director,
Tax Legislation Division
Tax Policy Branch

Department of Finance Comfort Letter [Proposed Amendments to Subsection 88(3) and Paragraph 95(2)(e.1) Re Distribution Treated as Reduction of Foreign Paid-up Capital]

June 9, 2006

Dear XXXX

SUBJECT: Subsection 88(3) and Paragraph 95(2)(*e.1*) of the *Income Tax Act*

I am writing in response to your letter dated May 4, 2006 with respect to proposed subsection 88(3) and paragraph 95(2)(*e.1*) of the *Income Tax Act* (the "Act") as contained in the foreign affiliate proposals announced on February 27, 2004.

You were told, in our letter to you dated April 12, 2006, that we are considering modifications to proposed subsection 88(3) and paragraph 95(2)(*e.1*) of the Act that would characterize the amount of the distribution (determined in respect of a distribution of property in respect of a share of the capital stock of the disposing foreign affiliate) as a dividend paid on the share to the extent that the amount of the distribution exceeds the amount treated by the foreign affiliate as a reduction of the foreign paid-up capital in respect of the share.

You have asked, and we can confirm, that the portion of the amount of a distribution made in respect of a share that is treated by the foreign affiliate of a taxpayer as a reduction of the foreign paid-up capital in respect of the share (not exceeding the amount, immediately before the distribution, of the foreign paid-up capital in respect of the share) will not be a dividend under the foreign affiliate proposals and will reduce the shareholder's adjusted cost base of the share. The foreign affiliate will, therefore, be permitted to distribute property to the shareholder as a return of foreign paid-up capital in respect of a share determined in respect of the taxpayer prior to making distributions of property in respect of any existing surplus of the foreign affiliate determined in respect of the taxpayer.

The amount by which the amount of the distribution in respect of a share exceeds the portion of the amount of the distribution that is treated by the foreign affiliate as a reduction of the foreign paid-up capital in respect of the share is to be characterized as a dividend received by the shareholder on the share. The normal surplus distribution rules will apply to determine the portion of the dividend that is paid out of the various surplus pots of the foreign affiliate determined in respect of the taxpayer. To the extent that a dividend received on a share is paid out of the foreign affiliate's pre-acquisition surplus determined in respect of the taxpayer, the dividend will reduce the shareholder's adjusted cost base of the share.

I trust that these comments have provided the clarification requested. Thank you for writing.

Yours sincerely

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

Department of Finance Comfort Letter [Subsection 88(3) — Determination of Foreign Paid-up Capital of Shares of a Foreign Affiliate]

June 9, 2006

Dear XXXX

SUBJECT: Subsection 88(3) of the *Income Tax Act*

I am writing in response to your letter concerning proposed subsections 88(3) of the *Income Tax Act* (the "Act"), as contained in the foreign affiliate proposals announced on February 27, 2004. In your letter, you express your concern about the wording of draft subparagraphs 88(3)(*e*)(i) and (ii).

In your letter, you mention the situation where, prior to February 27, 2004, a corporation resident in Canada contributed cash, for no consideration, to a wholly-owned controlled foreign affiliate ("CFA") of the corporation as a contribution of capital

in respect of the ordinary shares (common shares) of CFA. Under the relevant foreign corporation law, that capital contribution resulted in contributed surplus of the CFA. Pursuant to paragraph 53(1)(*c*) of the Act, the taxpayer's adjusted cost base of the ordinary shares of CFA held by the taxpayer increased because of that capital contribution.

You have also indicated that CFA would like to return the contributed surplus to the holders of its ordinary shares. You maintain that, under that foreign corporate law, CFA must make a bonus issuance of ordinary shares in order to increase the legal share capital (in this case, the par value) of those shares and reduce the contributed surplus in respect of the ordinary shares by the amount of the contribution of capital referred to above. CPA must then pass a resolution to make a pro rata reduction of the par value of all its ordinary shares (including the bonus shares) the total of which would equal the amount of that contribution of capital.

You are concerned that the return of the par value in respect of a share would not meet the requirements under the February 2004 draft wording of proposed subparagraph 88(3)(*e*)(i) of the Act. This concern arises because the par value in respect of a share being returned to the holders of the ordinary shares was received by the CFA as a contribution of capital rather than on the issuance of ordinary shares.

We intend to recommend certain modifications to the proposed foreign affiliate amendments that, if acted upon, may address the concerns expressed. Under the modified rules, the taxpayer would be required to determine the foreign paid-up capital of each class of shares of a foreign affiliate of a taxpayer resident in Canada. The foreign paid-up capital of a particular share would be determined by dividing the foreign paid-up capital of the class by the number of issued and outstanding shares of the class. The total foreign paid-up capital of the foreign affiliate would be equal to the total foreign paid-up capital for all classes of shares of the foreign affiliate.

As well, the modifications will provide rules for the purposes of determining the foreign paid-up capital of a class of shares of a foreign affiliate of a taxpayer. The foreign paid-up capital of a class of shares of the foreign affiliate will, for example, be reduced by the amount of distributions made by the foreign affiliate as consideration for a return of the paid-up capital in respect of a share of the class. As well, rules are to be provided for the purpose of determining; the amounts to be added in computing the foreign paid-up capital in respect of a class of shares of the foreign affiliate in respect of property received by the foreign affiliate for the issuance of shares of the class or as a contribution of capital in respect of shares of the class.

A foreign affiliate that notifies its shareholders that it is making a distribution of property to them as a return of all or a portion of the amounts included in the foreign paid-up capital in respect of shares of a particular class of the foreign affiliate can treat the distribution as a reduction of the foreign paid-up capital in respect of those shares rather than as payment of a dividend on those shares, to the extent that the foreign paid-up capital in respect of those shares exists immediately before the distribution. The distribution must have the same character for all shareholders of that class.

For example, in the situation you describe in your letter and assuming that all of the ordinary shares (other than the bonus shares) were issued for cash, the foreign paid-up capital, at any particular time, of the class of shares to which the ordinary shares belong would be determined as follows. There would be added the total of all amounts received, before the particular time, by CFA on the issuance of ordinary shares or as a contribution of capital in respect of the ordinary shares from holders of the ordinary shares. There would be deducted the total of all amounts paid, before the particular time, by CFA to the holders of ordinary shares as a return of the foreign paid-up capital in respect of those ordinary shares. The foreign paid-up capital, at any particular time, of a particular ordinary share would be determined by dividing the foreign paid-up capital, at that time, of the class to which the particular ordinary share belongs by the number, at that time, of issued and outstanding ordinary shares of that class.

It will be recommended that the above-mentioned modifications would apply to distributions made after February 27, 2004. However, if the taxpayer makes an election that applies in respect of all of its foreign affiliates, there would be a transitional version of new subsection 88(3) that would include a provision that would generally determine the paid-up capital of a class of shares of a foreign affiliate of the taxpayer and of a share of that class by reference to the amounts added under the relevant foreign corporate law to the paid-up capital or the contributed surplus in respect of the class of shares.

Thank you for writing.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

Department of Finance Comfort Letter [Modifications to Proposed Amendments to Subsection 88(3) and Paragraph 95(2)(e.1)]

April 12, 2006

Dear XXXX,

SUBJECT: Subsection 88(3) and Paragraph 95(2)(*e*.1) of the *Income Tax Act*

I am writing in response to your letters dated December 12, 2005 and January 30, 2006 with respect to proposed subsection 88(3) and paragraph 95(2)(*e*.1) of the *Income Tax Act* (the "Act") as contained in the foreign affiliate proposals announced on February 27, 2004 by the Minister of Finance. You have requested confirmation of certain possible modifications to proposed subsection 88(3) and paragraph 95(2)(*e*.1) and certain other identified related provisions of the Act that would apply to a liquidation and dissolution, after February 27, 2004, of a foreign affiliate of a taxpayer resident in Canada.

Subsection 88(3) of the Act

As noted in your correspondence, existing subsection 88(3) of the Act provides that, where a property of a controlled foreign affiliate of a taxpayer resident in Canada that is a share of the capital stock of another foreign affiliate of the taxpayer is disposed of to the taxpayer on the dissolution of the controlled foreign affiliate (the "disposing foreign affiliate"), the disposing foreign affiliate's proceeds of disposition of the share are deemed to equal its adjusted cost base to the disposing foreign affiliate immediately before the dissolution (or such greater amount as the taxpayer claims not exceeding the fair market value of the share). The taxpayer's cost of the share is deemed to equal the disposing foreign affiliate's proceeds of disposition in respect of the share. In accordance with the results determined under section 69 of the Act, each other type of property of the disposing foreign affiliate that is disposed of by the disposing foreign affiliate to the taxpayer on the dissolution is treated as having been disposed of by the disposing foreign affiliate for proceeds, and to have been acquired by the taxpayer at a cost, equal to that property's fair market value. Existing subsection 88(3) also provides that the taxpayer's proceeds from the disposition of shares held by the taxpayer in the capital stock of the disposing foreign affiliate are deemed to equal the amount (if any) by which the total cost to the taxpayer of all the property disposed of to the taxpayer by the disposing foreign affiliate on the dissolution exceeds the total amount of debts and other obligations of the disposing foreign affiliate (other than dividends payable to the taxpayer or non-arm's length persons) that are assumed or cancelled by the taxpayer on the dissolution.

In your correspondence, you asked for confirmation of our intention to recommend that proposed subsection 88(3) be revised to provide an additional and distinct rule in circumstances where a foreign affiliate (the "disposing foreign affiliate") of a taxpayer resident in Canada distributes, in the course of its liquidation and dissolution, property to the taxpayer in respect of shares of the capital stock of the disposing foreign affiliate held by the taxpayer. Under such a revision, the taxpayer would be able to elect to treat the amount of the disposing foreign affiliate's proceeds of distribution for each property of the disposing foreign affiliate (not only excluded property) that is distributed by it to the taxpayer in such circumstances as being such a particular amount that would result in no gain or loss of the disposing foreign affiliate in respect of the distributed property, or to be such an amount (not exceeding the distributed property's fair market value) that would result in a

gain of the disposing foreign affiliate in respect of the distributed property. That particular amount would also be treated as the amount of the taxpayer's cost for that distributed property.

From a tax policy viewpoint, such an additional and distinct rule in subsection 88(3) would be supportable provided that the disposing foreign affiliate is wholly-owned or substantially wholly-owned by the taxpayer. It could, in those circumstances, be considered that no substantial change in the ultimate economic interests in the distributed property of the disposing foreign affiliate would occur by reason of the liquidation and dissolution of the disposing foreign affiliate. We note that subsection 88(1) requires ownership of not less than 90% of the shares of each class and, all things being equal, we would propose to apply the same threshold in the context of subsection 88(3). Based, however, on discussions with representatives of the tax community on this point, we are prepared to adopt a different test in connection with subsection 88(3) to determine whether the taxpayer meets the equity ownership threshold in the disposing foreign affiliate to qualify for such an additional and distinct rule in that subsection. The test would require the taxpayer to hold shares of the capital stock of the disposing foreign affiliate such that, in total, the taxpayer has at least 90% of the voting rights at a general meeting of the disposing foreign affiliate in all circumstances (immediately before the commencement of the liquidation and dissolution of the disposing foreign affiliate) and such that the fair market value of all properties distributed to the taxpayer, in respect of shares of the capital stock of the disposing foreign affiliate, by the disposing foreign affiliate in the course of the liquidation and dissolution is equal to at least 90% of the total fair market value of all properties distributed to all shareholders of the disposing foreign affiliate, in respect of shares of the capital stock of the disposing foreign affiliate, by the disposing foreign affiliate in the course of the liquidation and dissolution.

Although the technical details of the possible modifications to that proposed subsection 88(3) and to the related provisions of the Act are still being finalized, we can confirm, in general terms, our intention to recommend that modifications be made to that proposal and to the other relevant provisions of the Act. Those recommended modifications would treat a liquidation and dissolution of a foreign affiliate of a taxpayer resident in Canada as a qualifying liquidation and dissolution of that foreign affiliate of the taxpayer if the taxpayer meets the required equity ownership threshold in the foreign affiliate. In general terms, the recommended modifications would also provide for the following tax rules in respect of a qualifying liquidation and dissolution of a foreign affiliate of a taxpayer resident in Canada where the taxpayer so elects in writing to have those tax rules apply in respect of the qualifying liquidation and dissolution of the foreign affiliate:

1. the foreign affiliate would be deemed to have disposed of each property (the "distributed property") that is distributed, in the course of the qualifying liquidation and dissolution, by the foreign affiliate to the taxpayer in respect of shares of the capital stock of the foreign affiliate held by the taxpayer for proceeds of disposition (assuming that the foreign affiliate has not received consideration from the taxpayer in respect of the distributed property that exceeds the amount described below as the "relevant cost amount" of the distributed property) that are equal to the greater of

- the "relevant cost amount" of the distributed property to the foreign affiliate in respect of the taxpayer (being essentially the amount that would generally result in no gain or loss to the foreign affiliate in respect of the taxpayer in respect of the disposition of the distributed property), and
- where the foreign affiliate is a controlled foreign affiliate of that taxpayer, the amount elected by that taxpayer (not exceeding the fair market value of the particular distributed property);

2. any income or taxable capital gain of the foreign affiliate derived from the disposition of the distributed property would be included in computing the foreign affiliate's foreign accrual property income in respect of the taxpayer;

3. the taxpayer's cost of the distributed property would be deemed to be equal to the foreign affiliate's proceeds of disposition of that property;

4. the amount of the distribution made by the foreign affiliate to the taxpayer in respect of the distributed property would be deemed to be equal to the amount, if any, by which the cost to the taxpayer of the distributed property exceeds the total of all of the following amounts:

- the portion of an amount owing by or of an obligation of the foreign affiliate (other than dividends payable to the taxpayer or non-arm's length persons) that was assumed or cancelled by the taxpayer because of that distribution of the distributed property, and
- the cost to the foreign affiliate of a property that was received by the foreign affiliate from the taxpayer as consideration for that distribution by the foreign affiliate of the distributed property;

5. the portion of the amount of the distribution made by the foreign affiliate to the taxpayer in respect of the distributed property that relates to a particular share of the capital stock of the foreign affiliate would not be treated as proceeds of disposition of the foreign affiliate of the distributed property and would be treated as

- a return of the paid-up capital in respect of the particular share in respect of the taxpayer to the extent of the "foreign paid-up capital" in respect of the particular share in respect of the taxpayer, and
- a dividend paid by the foreign affiliate to the taxpayer resident in Canada in respect of the particular share to the extent that that portion of the amount of the distribution is not treated as a return of the paid-up capital in respect of the particular share in respect of the taxpayer;

6. any loss of the taxpayer resident in Canada from the disposition of a particular share of the foreign affiliate that was redeemed, acquired or cancelled by the foreign affiliate in the course of the liquidation and the dissolution would be deemed to be nil;

7. generally, the foreign paid-up capital of a particular share of the capital stock of the foreign affiliate of the taxpayer resident in Canada in respect of the taxpayer would be the particular share's portion of the foreign paid-up capital of the class of shares of the foreign affiliate's capital stock to which the particular share belongs;

8. generally, the foreign paid-up capital of a particular class of shares of the capital stock of the foreign affiliate of the taxpayer resident in Canada would be the total amounts contributed by the foreign affiliate's shareholders to the foreign affiliate in respect of the shares of the class to which the particular share belongs, provided that those shareholder contributions were in respect of shares issued to or held by those shareholders;

9. however, in computing the foreign paid-up capital of a particular class of shares of the capital stock of the foreign affiliate of the taxpayer resident in Canada in respect of the taxpayer, where property other than money is contributed to the foreign affiliate in respect of shares of the particular class of shares of the foreign affiliate, the amount added in respect of that contribution of property to the foreign paid-up capital of the particular class of shares of the foreign affiliate in respect of the taxpayer would be determined by reference to the cost to the foreign affiliate of that contributed property, except that, where the contributed property is shares of the capital stock of another foreign affiliate of the taxpayer, the amount added would be limited to the foreign paid-up capital in respect of the shares of the other foreign affiliate of the taxpayer in respect of the taxpayer; and

10. the amounts required to be determined under that proposed subsection 88(3) and the related provisions of the Act would be determined in Canadian dollars because those amounts are relevant for Canadian tax purposes.

We propose to recommend to the Minister of Finance that such revisions to proposed subsection 88(3) of the Act and to the other relevant provisions of the Act apply to a liquidation and dissolution, of a foreign affiliate of a taxpayer resident in Canada, that begins after February 27, 2004.

Paragraph 95(2)(e.1) of the Act

In your correspondence, you expressed your views about two of the conditions to the application of paragraph 95(2)(e.1) to a

liquidation and dissolution of a foreign affiliate (the "disposing foreign affiliate") of a taxpayer resident in Canada into another foreign affiliate of the taxpayer.

The first condition is the requirement that the taxpayer have a surplus entitlement percentage, in respect of the disposing foreign affiliate, of at least 90% immediately before the liquidation of the disposing foreign affiliate (the "90% SEP requirement"). You seek confirmation of our intention to recommend that, as an alternative to meeting the 90% SEP requirement, paragraph 95(2)(*e.1*)would be available where, immediately before the liquidation, a foreign affiliate of the taxpayer has a 90% or greater fair market value participating equity interest in the disposing foreign affiliate.

The second condition is the requirement that there be no gain or loss recognized, under the income tax laws of the country in which the disposing foreign affiliate was resident immediately before the liquidation, in respect of any property distributed by the disposing foreign affiliate in the course of the liquidation to another foreign affiliate of the taxpayer (the "non-recognition requirement"). You argue for the removal of the non-recognition requirement as a precondition to the application of paragraph 95(2)(*e.1*) so as to permit rollover treatment in respect of all property (rather than only excluded property) of the disposing foreign affiliate disposed of to any foreign affiliate of the taxpayer in the course of the liquidation and dissolution.

In your view, where proposed paragraph 95(2)(*e.1*) applies, that rollover treatment should be provided for by deeming the disposing foreign affiliate's proceeds of disposition of the property to be, subject to a relevant cost base election by the taxpayer, the cost amount of the property to the disposing foreign affiliate immediately before the liquidation.

From a tax policy viewpoint, we are sympathetic to the requests made for such revisions to the proposed paragraph 95(2)(*e.1*). Although the technical details of our intended recommendations for modifications in respect of proposed paragraph 95(2)(*e.1*) and to the February 2004 foreign affiliate proposals in general are still being finalized, we can confirm, in general terms, that our recommended modifications in respect of that proposed paragraph 95(2)(*e.1*) of the Act would include the following modifications.

First, the recommended modifications to proposed paragraph 95(2)(*e.1*) would remove the non-recognition requirement that is a condition to the application of that paragraph.

Second, proposed paragraph 95(2)(*e.1*) would be amended to provide that it apply to a liquidation and a dissolution of a foreign affiliate (the "disposing foreign affiliate") of a taxpayer resident in Canada if one of the two following alternative tests is met by the taxpayer resident in Canada:

- The taxpayer would, immediately before the time of the earliest distribution of property by the disposing foreign affiliate in respect of shares of the capital stock of the disposing foreign affiliate in the course of the liquidation and the dissolution of the disposing foreign affiliate, have a surplus entitlement percentage in respect of the disposing foreign affiliate of not less than 90% (on the assumption that shares of the capital stock of non-resident corporations owned by any taxpayers resident in Canada and related (otherwise than by virtue of paragraph 251(5)(*b*) of the Act) to the taxpayer were attributed to the taxpayer.
- A foreign affiliate of the taxpayer that is a shareholder of the disposing foreign affiliate has a 90% or greater fair market value participating equity interest in the disposing foreign affiliate. It would be met if the total fair market value of the properties distributed in the course of the liquidation and dissolution by the disposing foreign affiliate to the shareholder foreign affiliate was not less than 90% of the total fair market value of the properties distributed by the disposing foreign affiliate to all of its shareholders.

Third, the recommended modifications to that proposed paragraph 95(2)(*e.1*) would provide that, where that paragraph applies to a liquidation and a dissolution of the disposing foreign affiliate of the taxpayer resident in Canada, the following rules would apply (except to the extent that subsection 88(3) would apply to the disposing foreign affiliate and the shareholder of the disposing foreign affiliate in respect of the distribution of the property):

- the disposing foreign affiliate would be deemed to have disposed of each property distributed, in the course of the qualifying liquidation and dissolution, to a shareholder of the disposing foreign affiliate that was, immediately before the distribution, a "specified purchaser" (within the meaning to be assigned by draft subsection 95(3.5)) in respect of the taxpayer resident in Canada for proceeds equal to the greater of
  - the "relevant cost amount" of the distributed property to the disposing foreign affiliate in respect of the taxpayer resident in Canada (being essentially the amount that would generally result in no gain or loss to the disposing foreign affiliate in respect of the taxpayer in respect of the disposition of the distributed property), and
  - where the disposing foreign affiliate is a controlled foreign affiliate of the taxpayer resident in Canada, the amount elected by the taxpayer (not exceeding the fair market value of the particular distributed property);
- any gain under subsection 40(3) of the Act of the shareholder from the disposition of a particular share of the disposing foreign affiliate that was redeemed, acquired or cancelled by the disposing foreign affiliate in the course of the liquidation and the dissolution would be deemed to be nil;
- the amounts required to be determined under paragraph 95(2)(*e.1*) would be determined in Canadian dollars where those amounts are relevant for determining the foreign accrual property income of the disposing foreign affiliate in respect of the taxpayer resident in Canada; and
- the rules listed earlier in this letter numbered as 2 to 9 would apply with necessary changes to fit the context of the shareholders of the disposing foreign affiliate being specified purchasers in respect of the taxpayer resident in Canada rather than the taxpayer.

Fourth, the recommended modifications to paragraph 95(2)(*e.1*) would clarify that paragraph 95(2)(*e.1*) applies (except to the extent that subsection 88(3) applies), to the disposing foreign affiliate and its shareholders that are specified purchasers in respect of the taxpayer resident in Canada, in respect of the distribution of the distributed property for the purpose of computing

- the foreign accrual property income, the surplus and tax accounts (as defined in subsection 5907 of the Income Tax Regulations) and the foreign paid-up capital, of the disposing foreign affiliate or any foreign affiliate of the taxpayer resident in Canada or any taxpayer resident in Canada that does not deal at arm's length with that taxpayer resident in Canada that are shareholders of the disposing foreign affiliate, in respect of those taxpayers, and
- the income or capital gains of a taxpayer resident in Canada that, at the time of distribution, was a specified purchaser in respect of the taxpayer resident in Canada and a shareholder (or a member of a partnership that was the shareholder) of the disposing foreign affiliate.

We propose to recommend to the Minister of Finance that these modifications to proposed paragraph 95(2)(*e.1*) of the Act and the related provisions apply to a liquidation and dissolution of a foreign affiliate of a taxpayer resident in Canada that begins after December 20, 2002, except if the taxpayer makes an election that applies in respect of all liquidations and dissolutions of its foreign affiliates. If the taxpayer makes that election, generally the proposals issued on February 27, 2004 would apply.

Thank you for writing.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

Department of Finance Comfort Letter
[Liquidations and Dissolutions of Foreign Affiliates]

August 16, 2005

Dear XXXX,

SUBJECT: Subsection 88(3) of the *Income Tax Act*

I am writing in response to your letter dated July 11, 2005 with respect to proposed subsection 88(3) of the *Income Tax Act* as contained in the foreign affiliate proposals announced on February 27, 2004 by the Minister of Finance. You requested confirmation of certain possible modifications to that proposed subsection 88(3) and, presumably, certain other modifications to section 88 of the Act that would apply in the case of certain liquidations and dissolutions of foreign affiliates of a taxpayer resident in Canada.

As noted in your letter, existing subsection 88(3) of the Act provides that, where a property of a controlled foreign affiliate of a taxpayer resident in Canada that is a share (the "disposed share") of the capital stock of another foreign affiliate of the taxpayer is disposed of to the taxpayer on the dissolution of the controlled foreign affiliate (the "dissolved foreign affiliate"), the dissolved foreign affiliate's proceeds of disposition of the disposed share are deemed to equal its adjusted cost base to the dissolved foreign affiliate immediately before the dissolution (or such greater amount as the taxpayer claims not exceeding the fair market value of the disposed share). The taxpayer's cost of the disposed share is deemed to equal the disposed foreign affiliate's proceeds of disposition in respect of the disposed share. In accordance with the results determined under section 69 of the Act, each other type of property of the dissolved foreign affiliate that is disposed of by the dissolved foreign affiliate to the taxpayer on the dissolution is treated as having been disposed of by the dissolved foreign affiliate for proceeds, and to have been acquired by the taxpayer at a cost, equal to that property's fair market value. The taxpayer's proceeds from the disposition of the shares of the capital stock of the dissolved foreign affiliate are deemed to equal the amount (if any) by which the total cost to the taxpayer of all the property disposed of to the taxpayer by the dissolved foreign affiliate on the dissolution exceeds the total amount of debts and other obligations of the dissolved foreign affiliate (other than dividends payable to the taxpayer or non-arm's length persons) that are assumed or cancelled by the taxpayer on the dissolution.

As you know, proposed subsection 88(3), as contained in the February 2004 proposals, substantially changed the scope and operation of the rule. In particular, the scope of the rule was extended to cover all distributions of property by all foreign affiliates of the taxpayer to the taxpayer, whether or not the distribution was on the dissolution of the foreign affiliate or the foreign affiliate was a controlled foreign affiliate of the taxpayer. For example, a distribution of a property by a foreign affiliate of a taxpayer (the "distributing foreign affiliate") to the taxpayer as a dividend in kind receives the same treatment as the distribution of that property to the taxpayer on a share redemption made by the distributing foreign affiliate or in the course of a liquidation and dissolution of the distributing foreign affiliate. As well, in contrast to existing subsection 88(3), shares of the capital stock of another foreign affiliate of the taxpayer that are distributed by the distributing foreign affiliate to the taxpayer would be treated differently under the February 2004 proposals, depending on whether or not the shares are excluded property of the foreign affiliate. Where such a distributed share is an excluded property of the foreign affiliate, under the February 2004 proposals, the taxpayer is permitted to elect to treat the distributing foreign affiliate's proceeds of disposition of the share as being an amount that is equal to the adjusted cost base, immediately before the distribution, of the share or such greater amount that does not exceed the fair market value of the share immediately before the distribution. Where it is not, the share is treated, in accordance with the results that would be obtained under section 69, as having been disposed of by the distributing foreign affiliate for proceeds of disposition equal to the fair market value of the share immediately before the distribution.

In your letter, you suggest that proposed subsection 88(3) be revised to provide an additional and distinct rule in circumstances where a distributing foreign affiliate of a taxpayer, that is wholly-owned or substantially wholly-owned by the taxpayer, distributes, in the course of its liquidation and dissolution, property to the taxpayer in respect of shares of the capital stock of the distributing foreign affiliate held by the taxpayer. Under such a revision, the taxpayer would be able to elect the distributing foreign affiliate's proceeds of distribution and the taxpayer's cost for each property of the distributing foreign affiliate (not only excluded property) that is distributed by it to the taxpayer in such circumstances. The revision would provide that the taxpayer could elect an amount that would result in no gain or loss of the distributing foreign affiliate in respect of the distributed property, or such greater amount (not exceeding the distributed property's fair market value) that would result in a gain of the distributing foreign affiliate in respect of the distributed property.

From a tax policy viewpoint, we would support such an additional and distinct rule in subsection 88(3) provided that the distributing foreign affiliate is wholly-owned or substantially wholly-owned by the taxpayer. In those circumstances, it could be considered that no substantial change in the ultimate economic interests in the distributed property of the distributing foreign affiliate could occur by reason of the liquidation and dissolution of the distributing foreign affiliate. We note that subsection 88(1) requires ownership of not less than 90 percent of shares of each class and, all things being equal, we would propose to apply the same threshold in the context of subsection 88(3). Based, however, on discussions with representatives of the tax community on this point, we are prepared to adopt a different test in connection with subsection 88(3) to determine whether the taxpayer meets the equity ownership threshold in the foreign affiliate to qualify for such an additional and distinct rule in that subsection. The test would require the taxpayer to hold shares of the capital stock of the foreign affiliate such that, in total, the taxpayer has at least 90 percent of the voting rights at a general meeting of the foreign affiliate in all circumstances (immediately before the commencement of the liquidation and dissolution of the foreign affiliate) and such that the fair market value of all properties distributed to the taxpayer, in respect of shares of the capital stock of the foreign affiliate, by the foreign affiliate in the course of the liquidation and dissolution is equal to at least 90 percent of the total fair market value of all properties distributed to all shareholders of the foreign affiliate, in respect of shares of the capital stock of the foreign affiliate, by the foreign affiliate in the course of the liquidation and dissolution.

Although the technical details of the possible modifications to that proposed subsection 88(3) and to section 88 of the Act are still being finalized, we can confirm, in general terms, our intention to recommend that modifications be made to that proposal and to section 88 and other relevant provisions of the Act. Those recommended modifications would treat a liquidation and dissolution of a foreign affiliate of a taxpayer resident in Canada as a qualifying liquidation and dissolution of that foreign affiliate of the taxpayer if the taxpayer meets the required equity ownership threshold in the foreign affiliate. In general terms, the recommended modifications would also provide for the following tax rules in respect of a qualifying liquidation and dissolution of a foreign affiliate of a taxpayer resident in Canada where the taxpayer so elects in writing to have those tax rules apply in respect of the qualifying liquidation and dissolution of the foreign affiliate:

- the foreign affiliate would be deemed to have disposed of each property (the "distributed property") that is distributed, in the course of the qualifying liquidation and dissolution, by the foreign affiliate to the taxpayer in respect of shares of the capital stock of the foreign affiliate held by the taxpayer for proceeds of disposition (assuming that the foreign affiliate has not received consideration from the taxpayer in respect of the distributed property that exceeds the amount described below as the "relevant cost amount" of the distributed property) that are equal to the greater of
  - the "relevant cost amount" of the distributed property to the foreign affiliate in respect of the taxpayer (being essentially the amount that would generally result in no gain or loss to the foreign affiliate in respect of the taxpayer in respect of the disposition of the distributed property), and
  - the amount elected by that taxpayer (not exceeding the fair market value of the particular distributed property);
- any income or taxable capital gain of the foreign affiliate derived from the disposition of the distributed property would be included in computing the foreign affiliate's foreign accrual property income in respect of the taxpayer;

- the taxpayer's cost of the distributed property would be deemed to be equal to the foreign affiliate's proceeds of disposition of that property;
- the amount of the distribution made by the foreign affiliate to the taxpayer in respect of the distributed property would be deemed to be equal to the amount, if any, by which the cost to the taxpayer of the distributed property exceeds the total of all of the following amounts:
  - — the portion of an amount owing by or of an obligation of the foreign affiliate (other than dividends payable to the taxpayer or non-arm's length persons) that was assumed or cancelled by the taxpayer because of that distribution of the distributed property, and
  - — the cost to the foreign affiliate of a property that was received by the foreign affiliate from the taxpayer as consideration for that distribution by the foreign affiliate of the distributed property; and
- the portion of the amount of the distribution made by the foreign affiliate to the taxpayer in respect of the distributed property that relates to a particular share of the capital stock of the foreign affiliate would be treated as
  - — a return of the paid-up capital in respect of the particular share in respect of the taxpayer to the extent of the "foreign paid-up capital" in respect of the particular share in respect of the taxpayer (generally, the particular share's portion of the total amounts contributed by the foreign affiliate's shareholders to the foreign affiliate in respect of the shares of the class to which the particular share belongs, provided that those shareholder contributions were in respect of shares issued to or held by those shareholders), and
  - — a dividend paid by the foreign affiliate to the taxpayer resident in Canada in respect of the particular share to the extent that that portion of the amount of the distribution is not treated as a return of the paid-up capital in respect of the particular share in respect of the taxpayer.

We would recommend that such revisions to proposed subsection 88(3) of the Act and to section 88 and other relevant provisions of the Act apply to a liquidation and a dissolution, of a foreign affiliate of a taxpayer resident in Canada, that begins after February 27, 2004.

Thank you for writing.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

Department of Finance Comfort Letter [Proposed Subsection 88(3)]

January 19, 2005

Dear: XXXX

SUBJECT: Subsection 88(3) of the *Income Tax Act*

Thank you for your letter dated July 30, 2004 in connection with proposed subsection 88(3) of the *Income Tax Act* (the "Act"), as contained in the draft technical amendments released on February 27, 2004 by the Minister of Finance.

Your letter relates to the application of that proposed subsection 88(3) to a proposed distribution of money to a taxpayer resident in Canada by a foreign affiliate of the taxpayer made in respect of shares of the capital stock of the foreign affiliate held by the taxpayer. According to your letter, that distribution is in respect of amounts included in the shares' portion of the paid-up capital (determined under the relevant foreign corporation law) in respect of the class of shares of the capital stock of the foreign affiliate to which the shares belong.

Your concern is that the portion of a distribution that is not treated by proposed subsection 88(3) as a reduction to the adjusted cost base to the taxpayer of the shares would be treated by that proposed subsection as income from property (other than dividends) from the shares. You request that that proposed subsection 88(3) be revised so as to treat the amount of that distribution made to the taxpayer in respect of the shares, to the extent that the amount exceeds the total of the amounts of the reductions in respect of the distribution to the adjusted cost base to the taxpayer of the shares, as the payment of a dividend on the shares. You argue that such a revision to proposed subsection 88(3) would, where the taxpayer is a corporation, enable the taxpayer to benefit from the deductions permitted under section 113 of the Act in respect of dividends paid by the foreign affiliate that are prescribed by the Income Tax Regulations to be paid out of the foreign affiliate's exempt surplus in respect of the taxpayer.

From a tax policy perspective, we agree that, in the circumstances described in your letter, it would be appropriate to make the change you have requested. We are currently considering revisions to that proposed subsection 88(3) of the Act, and the requested revision to subsection 88(3) that is described in this letter is to be included in our recommendations to the Minister of Finance.

Thank you again for writing.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

Department of Finance Comfort Letter [Foreign Affiliate and Proposed Subsection 88(3)]

August 19, 2004

Dear XXXX

We are responding to your correspondence and related communications made on behalf of XXXX connection with proposed subsection 88(3) of the *Income Tax Act* (the "Act"), as contained in the draft technical amendments released on February 27, 2004 by the Minister of Finance, the Honourable Ralph Goodale.

In your correspondence and communications, you mention the case where a foreign affiliate of a taxpayer resident in Canada makes a payment to the taxpayer of an amount in respect of shares held by the taxpayer of a particular class of shares of the capital stock of the foreign affiliate. For the purposes of your submission, you ask us to assume that

- — the payment in question is not a dividend under the relevant foreign corporation law governing the foreign affiliate and is a reduction or a return to the taxpayer of the shares' portion of the paid-up capital in respect of the particular class of shares under that law, and
- — the amount of the payment in question does not exceed the taxpayer's pro-rata portion (based on the proportion that the number of shares of the particular class of shares held by the taxpayer is of the total number of outstanding shares of the particular class) of the amount of money that had been received by the foreign affiliate on the issuance of shares of the particular class or received by another foreign affiliate of the taxpayer on the issuance of shares of the capital stock of that other foreign affiliate that were exchanged for shares of the particular class.

Under the Act as it currently reads, the payment in question would be treated as a return of the paid-up capital of the shares of the particular class held by the taxpayer and would be deducted, under paragraph 53(2)(*b*), in computing the adjusted cost base to the taxpayer of the shares. No amount would, under the Act as it currently reads, be included in the income of the taxpayer in respect of the payment except amounts that may be required to be included in the taxpayer's income because of a gain that could arise, under subsection 40(3), in respect of the payment if the amount of the payment exceeded the taxpayer's adjusted cost base of those shares held by the taxpayer.

The proposed subsection 88(3) of the Act that was included in the February 27, 2004 draft technical amendments was not intended to change the tax outcome described above in respect of the payment made as a return of the paid-up capital of the shares of the foreign affiliate described above. Although our Branch is studying further revisions to that proposed subsection 88(3), it is not intended that any such revisions that we would recommend to the Minister of Finance would change that tax outcome in respect of such a payment. I can also confirm that the operation of that proposed subsection 88(3) is not intended

to be dependent upon the source of the funds used by the foreign affiliate of the taxpayer to make such a payment to the taxpayer.

I trust that the foregoing provides the clarifications sought.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 88(3)(*b*)(iii) was amended by S.C. 1994, c. 7, Sched. II, s. 66(19), applicable to dissolutions occurring after July 13, 1990. S. 88(3)(*b*)(iii) formerly read:

"(iii) the total of all amounts each of which is the amount of any debt owing by the disposing affiliate, or of any other obligation of the disposing affiliate to pay any amount, that was outstanding immediately before the dissolution and that was assumed or cancelled by the taxpayer on the dissolution."

Related Sections: S. 54, "adjusted cost base", "proceeds of disposition".

Canadian Tax Foundation: Turner, "Foreign Affiliate Liquidation and Merger Rollovers: Where Are We Now and Where Should We Be?", *2005 Canadian Tax Journal*, No. 3, 640; Slaats, "Repatriation from Foreign Affiliates: Selected Issues, in Corporate Tax Planning feature", *2005 Canadian Tax Journal*, No. 3, 858; Talakshi, "The Foreign Affiliate Proposals — An Update", *2005 Conference Report*, 14:1.

► 88(4) ◄

(4) Amalgamation deemed not to be acquisition of control. For the purposes of paragraphs (1)(*c*), (*c*.2), (*d*) and (*d*.2) and, for greater certainty, paragraphs (*c*.3) to (*c*.8) and (*d*.3),

(*a*) subject to paragraph (*c*), control of any corporation shall be deemed not to have been acquired because of an amalgamation;

(*b*) any corporation formed as a result of an amalgamation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation; and

(*c*) in the case of an amalgamation described in subsection 87(9), control of a predecessor corporation that was not controlled by the parent before the amalgamation shall be deemed to have been acquired by the parent immediately before the amalgamation.

History: S. 88(4), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 66(5), applicable to windings-up that begin after November 1994. S. 88(4), the portion before paragraph (*a*) formerly read:

"(4) *Amalgamation deemed not to be acquisition of control.* For the purposes of paragraphs (1)(*c*), (*d*) and (*d*.2),"

S. 88(4) was amended by S.C. 1994, c. 7, Sched. II, s. 66(20), applicable to windings-up beginning after March 1977. S. 88(4) formerly read:

"(4) *Amalgamation deemed not to be acquisition of control.* In determining, for the purposes of paragraphs (1)(*c*) and (*d*), whether control of any corporation has been acquired, control shall be deemed not to have been acquired by virtue of any amalgamation and any corporation formed as a result of any amalgamation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation and, in the case of a merger described in subsection 87(9), control of a predecessor corporation that was not controlled by the parent prior to such a merger shall be deemed to have been acquired by the parent immediately prior to the merger."

Related Sections: S. 13(21), "depreciable property"; s. 15(1) Benefit conferred on shareholder; s. 54, "capital property"; s. 84(2) Distribution on winding-up, etc; s. 89(1), "Canadian corporation", "capital dividend account"; s. 248(1), "adjusted cost base", "amount", "corporation", "cost amount", "insurance corporation", "property", "share"; s. 256(1.2) Control, etc.; ITAR s. 20(1.2) Other transfers of depreciable property.

Interpretation Bulletins: *Secondary* — IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].

SECTION 88.1: [SIFT trust wind-up event].

► 88.1(1) ◄

(1) Application. Subsection (2) applies to a trust's distribution of property to a taxpayer if

(*a*) the distribution is a SIFT trust wind-up event;

(*b*) the trust is

(i) a SIFT wind-up entity whose only beneficiary, at all times at which the trust makes a distribution that is a SIFT trust wind-up event, is a taxable Canadian corporation, or

(ii) a trust whose only beneficiary, at all times at which the trust makes a distribution that is a SIFT trust wind-up event, is another trust described by subparagraph (i);

(*c*) where the trust is a SIFT wind-up entity, the distribution occurs no more than 60 days after the earlier of

(i) the first SIFT trust wind-up event of the trust, and

(ii) the first distribution to the trust that is a SIFT trust wind-up event of another trust; and

(*d*) if the property is shares of the capital stock of a taxable Canadian corporation,

(i) the property was not acquired by the trust on a distribution to which subsection 107(3.1) applies, and

(ii) the trust elects in writing, filed with the Minister on or before the trust's filing-due date for its taxation year that includes the time of the distribution, that this section apply to the distribution.

History: S. 88.1(1) was added by S.C. 2009, c. 2, s. 21(1), applicable after July 14, 2008, except that subsection 88.1(1) is to be read without reference to its paragraph (*c*) in its application to a trust's distribution of property, if the distribution occurs no more than 60 days after this Act is assented to [R.A. March 12, 2009].

S. 88.1 was repealed by S.C. 1994, c. 21, s. 41(1), applicable after 1992 except that

(*a*) where a corporation elects in accordance with paragraph (*a*) of the history note to subsection 250(5.1), subsection (1) applies to the corporation from the corporation's time of continuation (within the meaning assigned by that paragraph); and

(*b*) where a corporation elects in accordance with paragraph (*b*) of the history note to subsection 250(5.1), subsection (1) applies to the corporation only after the corporation was granted the articles of continuance or similar constitutional documents in respect of which the election was made. S. 88.1 formerly read:

"S. 88.1. *Corporate emigration.* Where at any particular time after August 28, 1980 a corporation that was incorporated in Canada, other than a corporation that was not at any time resident in Canada,

(*a*) has been granted articles of continuance, or similar corporate constitutional documents, in a jurisdiction outside Canada, or

(*b*) has become resident in a jurisdiction outside Canada and would, as a consequence thereof, be exempt from tax under this Part on income from any source outside Canada derived by it after the particular time by virtue of any Act of Parliament or anything approved, made or declared to have the force of law under any Act of Parliament,

the following rules apply:

(*c*) the corporation's taxation year that would otherwise have included the particular time shall be deemed to have ended immediately before the particular time and a new taxation year of the corporation shall be deemed to have commenced at the particular time,

(*d*) the corporation shall be deemed not to be a Canadian corporation at the particular time and all subsequent times,

(*e*) each property owned by the corporation immediately before the particular time shall be deemed to have been disposed of by it immediately before that time for proceeds of disposition equal to its fair market value at that time and those proceeds shall be deemed to have become receivable and to have been received by it immediately before that time,

(*f*) section 48 does not apply to the corporation for the taxation year in which it is deemed by paragraph (*e*) to have disposed of its property, and

(*g*) each property deemed by paragraph (*e*) to have been disposed of by the corporation shall be deemed to have been reacquired by it immediately after the particular time at a cost equal to the proceeds of disposition of the property as determined in that paragraph."

► 88.1(2) ◄

(2) SIFT trust wind-up event. If this subsection applies to a trust's distribution of property to a taxpayer, subsections 88(1) to (1.7), and section 87 and paragraphs 256(7)(*a*) to (*e*) as they apply for the purposes of those

subsections, apply, with any modifications that the circumstances require, as if

(*a*) the trust were a taxable Canadian corporation (in this subsection referred to as the "subsidiary") that is not a private corporation;

(*b*) where the taxpayer is a SIFT wind-up entity, the taxpayer were a taxable Canadian corporation that is not a private corporation;

(*c*) the distribution were a winding-up of the subsidiary;

(*d*) the taxpayer's interest as a beneficiary under the trust were shares of a single class of shares of the capital stock of the subsidiary owned by the taxpayer;

(*e*) paragraph 88(1)(*b*) deemed the taxpayer's proceeds of disposition of the shares described in paragraph (*d*) and owned by the taxpayer immediately before the distribution to be equal to the adjusted cost base to the taxpayer of the taxpayer's interest as a beneficiary under the trust immediately before the distribution;

(*f*) each trust, a majority-interest beneficiary (in this subsection, within the meaning assigned by section 251.1) of which is another trust that is by operation of this subsection treated as if it were a corporation, were a corporation; and

(*g*) except for the purposes of subsections 88(1.1) and (1.2), the taxpayer last acquired control of the subsidiary and of each corporation (including a trust that is by operation of this subsection treated as if it were a corporation) controlled by the subsidiary at the time, if any, at which the taxpayer last became a majority-interest beneficiary of the trust.

History: S. 88.1(2) was added by S.C. 2009, c. 2, s. 21(1), applicable after July 14, 2008.

SECTION 89: [Capital dividend account].

► 89(1) ◄

(1) Definitions. In this subdivision,

History: The definitions contained in paragraphs 89(1)(*a*) through (*l*) of the former Act are now arranged alphabetically in subsection 89(1).

Interpretation Bulletins: *Secondary* — IT-474R2 Amalgamations of Canadian corporations.
Income Tax Technical News: Issue No. 10, Life insurance policy used as security for indebtedness.
Tax Topics: No. 1795, Eligible Dividends — The Good, the Bad, and the Ugly.

"*adjusted taxable income*" — "adjusted taxable income" of a corporation for a taxation year is the amount determined by the formula

A – B – C

where

A is

(*a*) unless paragraph (*b*) applies, the corporation's taxable income for the taxation year, and

(*b*) if the corporation is a deposit insurance corporation in the taxation year, nil,

B is the amount determined by multiplying the amount, if any, deducted by the corporation under subsection 125(1) for the taxation year by the quotient obtained by dividing 100 by the rate of the deduction provided under that subsection for the taxation year, and

C is

(*a*) if the corporation is a Canadian-controlled private corporation in the taxation year, the lesser of the corporation's aggregate investment income for the taxation year and the corporation's taxable income for the taxation year, and

(*b*) in any other case, nil;

History: S. 89(1), the definition "adjusted taxable income" was added by S.C. 2009, c. 2, s. 22(3), applicable to the 2006 and subsequent taxation years.

"*Canadian corporation*" — "Canadian corporation" at any time means a corporation that is resident in Canada at that time and was

(*a*) incorporated in Canada, or

(*b*) resident in Canada throughout the period that began on June 18, 1971 and that ends at that time,

and, for greater certainty, a corporation formed at any particular time by the amalgamation or merger of, or by a plan of arrangement or other corporate reorganization in respect of, 2 or more corporations (otherwise than as a result of the acquisition of property of one corporation by another corporation, pursuant to the purchase of the property by the other corporation or as a result of the distribution of the property to the other corporation on the winding-up of the corporation) is a Canadian corporation because of paragraph

(*a*) only if

(*c*) that reorganization took place under the laws of Canada or a province, and

(*d*) each of those corporations was, immediately before the particular time, a Canadian corporation;

History: S. 89(1), the definition "Canadian corporation", was amended by S.C. 1994, c. 21, s. 42(1), applicable from June 15, 1994. S. 89(1), the definition "Canadian corporation", formerly read:

" '*Canadian corporation*' — 'Canadian corporation' at any time means a corporation that was resident in Canada at that time and was

(*a*) incorporated in Canada, or

(*b*) resident in Canada throughout the period commencing June 18, 1971 and ending at that time;"

Editorial Note: "Canadian corporation" status is a prerequisite for "Canadian-controlled private corporation" and "taxable Canadian corporation" status. While the corporation must be resident in Canada at the particular time, and incorporated in Canada (or continuously resident in Canada since 1971), subsection 250(4) deems a corporation to be resident in Canada throughout a taxation year in certain circumstances, including if it was incorporated in Canada after April 26, 1965; see, however, subsections 250(5) (re residence under a treaty) and (5.1) (re continuance and residence).

Related Sections: S. 85.1(1) Share for share exchange; s. 88 Winding-up; s. 89(1), "taxable Canadian corporation"; s. 94(1)(*t*) Application of certain provisions to trusts not resident in Canada; s. 125(7), "Canadian-controlled private corporation"; s. 248(1), "Canadian corporation"; s. 250 Person deemed resident.
Regulations: Part XIII; 4900.
Interpretation Bulletins: *Secondary* — IT-98R2 Investment corporations [Archived by the CRA]; IT-291R3 Transfer of property to a corporation under subsection 85(1); IT-320R3 Registered retirement savings plans — Qualified investments; IT-458R2 Canadian-controlled private corporation.

"*capital dividend account*" — "capital dividend account" of a corporation at any particular time means the amount, if any, by which the total of

(*a*) the amount, if any, by which

(i) the total of all amounts each of which is the amount if any, by which

(A) the amount of the corporation's capital gain from a disposition (other than a disposition that is the making of a gift after December 8, 1997 that is not a gift described in subsection 110.1(1)) of a property in the period beginning at the beginning of its first taxation year (that

began after the corporation last became a private corporation and that ended after 1971) and ending immediately before the particular time (in this definition referred to as "the period")

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Clause (*a*)(i)(A) of the definition "capital dividend account" in subsection 89(1) of the Act is replaced by the following:

(A) the amount of the corporation's capital gain — computed without reference to subparagraphs 52(3)(*a*)(ii) and 53(1)(*b*)(ii) — from the disposition (other than a disposition that is the making of a gift after December 8, 1997 that is not a gift described in subsection 110.1(1)) of a property in the period beginning at the beginning of its first taxation year that began after the corporation last became a private corporation and that ended after 1971 and ending immediately before the particular time (in this definition referred to as "the period")

Applicable: In respect of a disposition that occurs on or after November 9, 2006.

Explanatory Note:

"capital dividend account"

Clauses (*a*)(i)(A) and (*a*)(ii)(A) of the definition "capital dividend account" are amended to provide that a corporation's capital gain or loss from the disposition of a property is computed for capital dividend account purposes without reference to subparagraph 52(3)(*a*)(ii) and 53(1)(*b*)(ii). In general, this amendment means that no capital dividend election may be made in respect of a corporation's capital gain from disposing of shares to the extent that gain arises because the cost of the shares does not include amounts described in those amended subparagraphs, which are more fully discussed in the commentary accompanying those amendments. Essentially, this amendment ensures that those subparagraphs cannot be used in conjunction with a capital dividend election to convert corporate surplus into capital gains upon which a capital dividend election could be made.

This amendment applies in respect of dispositions that occur on or after November 9, 2006.

The French versions of paragraphs (*f*) and (g) of the definition "capital dividend account" in subsection 89(1) of the Act are amended to clarify that the amounts described in those paragraphs relate to distributions from a trust. This technical change does not represent a change in policy.

These amendments apply to elections in respect of capital dividends that became payable after 1997.

exceeds the total of

(B) the portion of the capital gain referred to in clause (A) that is the corporation's taxable capital gain, and

(C) the portion of the amount, if any, by which the amount determined under clause (A) exceeds the amount determined under clause (B) from the disposition by it of a property that can reasonably be regarded as having accrued while the property, or a property for which it was substituted,

(I) except in the case of a disposition of a designated property, was a property of a corporation (other than a private corporation, an investment corporation, a mortgage investment corporation or a mutual fund corporation),

(II) where, after November 26, 1987, the property became a property of a Canadian-controlled private corporation (otherwise than by reason of a change in the residence of one or more shareholders of the corporation), was a property of a corporation controlled directly or indirectly in any manner whatever by one or more non-resident persons, or

(III) where, after November 26, 1987, the property became a property of a private corporation that was not exempt from tax under this Part on its taxable income, was a property of a corporation exempt from tax under this Part on its taxable income,

exceeds

(ii) the total of all amounts each of which is the amount, if any, by which

(A) the amount of the corporation's capital loss from a disposition (other than a disposition that is the making of a gift after December 8, 1997 that is not a gift described in subsection 110.1(1)) of a property in that period

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Clause (*a*)(ii)(A) of the definition "capital dividend account" in subsection 89(1) of the Act is replaced by the following:

(A) the amount of the corporation's capital loss — computed without reference to subparagraphs 52(3)(*a*)(ii) and 53(1)(*b*)(ii) — from the disposition (other than a disposition that is the making of a gift after December 8, 1997 that is not a gift described in subsection 110.1(1)) of a property in the period

Applicable: In respect of a disposition that occurs on or after November 9, 2006.

Explanatory Note: See the Explanatory Note following the amendment to clause (*a*)(i)(A) of the definition "capital dividend account" in subsection 89(1).

exceeds the total of

(B) the part of the capital loss referred to in clause (A) that is the corporation's allowable capital loss, and

(C) the portion of the amount, if any, by which the amount determined under clause (A) exceeds the amount determined under clause (B) from the disposition by it of a property that can reasonably be regarded as having accrued while the property, or a property for which it was substituted,

(I) except in the case of a disposition of a designated property, was a property of a corporation (other than a private corporation, an

investment corporation, a mortgage investment corporation or a mutual fund corporation),

(II) where, after November 26, 1987, the property became a property of a Canadian-controlled private corporation (otherwise than by reason of a change in the residence of one or more shareholders of the corporation), was a property of a corporation controlled directly or indirectly in any manner whatever by one or more non-resident persons, or

(III) where, after November 26, 1987, the property became a property of a private corporation that was not exempt from tax under this Part on its taxable income, was a property of a corporation exempt from tax under this Part on its taxable income,

(*b*) all amounts each of which is an amount in respect of a dividend received by the corporation on a share of the capital stock of another corporation in the period, which amount was, by virtue of subsection 83(2), not included in computing the income of the corporation,

(*c*) the total of all amounts each of which is an amount required to have been included under this paragraph as it read in its application to a taxation year that ended before February 28, 2000,

(*c*.1) the amount, if any, by which

(i) 1/2 of the total of all amounts each of which is an amount required by paragraph 14(1)(*b*) to be included in computing the corporation's income in respect of a business carried on by the corporation for a taxation year that is included in the period and that ended after February 27, 2000 and before October 18, 2000,

exceeds

(ii) where the corporation has deducted an amount under subsection 20(4.2) in respect of a debt established by it to have become a bad debt in a taxation year that is included in the period and that ended after February 27, 2000 and before October 18, 2000, or has an allowable capital loss for such a year because of the application of subsection 20(4.3), the amount determined by the formula:

$$V + W$$

where

V is 1/2 of the value determined for A under subsection 20(4.2) in respect of the corporation for the last such taxation year that ended in the period, and

W is 1/3 of the value determined for B under subsection 20(4.2) in respect of the corporation for the last such taxation year that ended in the period, and

(iii) in any other case, nil,

(*c*.2) the amount, if any, by which

(i) the total of all amounts each of which is an amount required by paragraph 14(1)(*b*) to be included in computing the corporation's income in respect of a business carried on by the corporation for a taxation year that is included in the period and that ends after October 17, 2000,

exceeds

(ii) where the corporation has deducted an amount under subsection 20(4.2) in respect of a debt established by it to have become a bad debt in a taxation year that is included in the period and that ends after October 17, 2000, or has an allowable capital loss for such a year because of the application of subsection 20(4.3), the amount determined by the formula

$$X + Y$$

where

X is the value determined for A under subsection 20(4.2) in respect of the corporation for the last such taxation year that ended in the period, and

Y is 1/3 of the value determined for B under subsection 20(4.2) in respect of the corporation for the last such taxation year that ended in the period, and

(iii) in any other case, nil,

(*d*) the amount, if any, by which the total of

(i) all amounts each of which is the proceeds of a life insurance policy of which the corporation was a beneficiary on or before June 28, 1982 received by the corporation in the period and after 1971 in consequence of the death of any person,

(ii) all amounts each of which is the proceeds of a life insurance policy of which the corporation was not a beneficiary on or before June 28, 1982 received by the corporation in the period and after May 23, 1985 in consequence of the death of any person

exceeds the total of all amounts each of which is the adjusted cost basis (within the meaning assigned by subsection 148(9)) of a policy referred to in subparagraph (i) or (ii) to the corporation immediately before that person's death, and

(*e*) the amount of the corporation's life insurance capital dividend account immediately before May 24, 1985,

(*f*) all amounts each of which is an amount in respect of a distribution made in the period by a trust to the corporation in respect of capital gains of the trust equal to the lesser of

(i) the amount, if any, by which

(A) the amount of the distribution,

exceeds

(B) the amount designated under subsection 104(21) by the trust (other than a designation to which subsection 104(21.4) applies) in respect of the net taxable capital gains of the trust attributable to those capital gains, and

(ii) the amount determined by the formula

$$A \times B$$

where

A is the fraction or whole number determined when 1 is subtracted from the reciprocal of

the fraction under paragraph 38(*a*) applicable to the trust for the year, and

B is the amount referred to in clause (i) (B), and

(g) all amounts, each of which is an amount in respect of a distribution made by a trust to the corporation in the period in respect of a dividend (other than a taxable dividend) paid on a share of the capital stock of another corporation resident in Canada to the trust during a taxation year of the trust throughout which the trust was resident in Canada equal to the lesser of

(i) the amount of the distribution, and

(ii) the amount designated under subsection 104(20) by the trust in respect of the corporation in respect of that dividend,

exceeds the total of all capital dividends that became payable by the corporation after the commencement of the period and before the particular time;

History: S. 89(1), clause (*a*)(i)(A) of the definition "capital dividend account" was amended by S.C. 2001, c. 17, s. 67(1), applicable to dispositions made after December 8, 1997, other than a disposition made under a written agreement made before December 9, 1997. S. 89(1), clause (*a*)(i)(A) of the definition "capital dividend account" formerly read:

"(A) the amount of the corporation's capital gain from a disposition (other than a disposition that is the making of a gift after December 8, 1997 that is not a gift described in subsection 110.1(1)) of a property in the period beginning at the beginning of its first taxation year (that began after the corporation last became a private corporation and that ended after 1971) and ending immediately before the particular time"

S. 89(1), paragraph (*c*) of the definition "capital dividend account" was amended, and paragraphs (*c.1*) and (*c.2*) were added, by S.C. 2001, c. 17, s. 67(2), applicable in respect of taxation years that end after February 27, 2000. 89(1), paragraph (*c*) of the definition "capital dividend account" formerly read:

"(*c*) all amounts each of which is an amount in respect of a business carried on by the corporation at any time in the period, equal to the amount, if any, by which the total of

(i) where the period commenced before the corporation's adjustment time, the amount, if any, by which

(A) the total of the amounts in respect of the business required to be included in the calculation of the corporation's cumulative eligible capital by reason of the description of E in the definition 'cumulative eligible capital' in subsection 14(5) with respect to that portion of the period preceding its adjustment time

exceeds the total of

(B) the cumulative eligible capital of the corporation in respect of the business at the commencement of the period, and

(C) 1/2 of the total of the eligible capital expenditures in respect of the business that were made or incurred by the corporation during that portion of the period preceding its adjustment time,

(ii) 1/3 of the total of the amounts in respect of the business required to be included in the calculation of the corporation's cumulative eligible capital by reason of the description of E in the definition 'cumulative eligible capital' in subsection 14(5) with respect to that portion of the period following its adjustment time, and

(iii) 1/3 of all amounts received in the period that were required to be included in the corporation's income by reason of paragraph 12(1)(*x.1*)

exceeds the total of

(iv) where the period commenced after the corporation's adjustment time, 1/3 of its cumulative eligible capital in respect of the business at the commencement of the period,

(v) 1/4 of the total of the eligible capital expenditures in respect of the business made or incurred by the corporation with respect to that portion of the period after its adjustment time,

(vi) where the period commenced before the corporation's adjustment time, 1/2 of the amount, if any, by which the total of the amounts determined in respect of the corporation under clauses (i)(B) and (C) exceeds the amount determined in respect of the corporation under clause (i)(A), and

(vii) 1/3 of all amounts deducted by the corporation under subsection 20(4.2) in respect of debts established by it to have become bad debts during the period,"

S. 89(1), paragraphs (*f*) and (*g*) of the definition "capital dividend account" were added by S.C. 2001, c. 17, s. 67(3), applicable to elections in respect of capital dividends that become payable after 1997.

S. 89(1), clause (*a*)(i)(A) of the definition "capital dividend account" was amended by S.C. 1998, c. 19, s. 17(1), applicable to dispositions made after December 8, 1997, other than a disposition made under a written agreement made before December 9, 1997. S. 89(1), clause (*a*)(i)(A) of the definition "capital dividend account" formerly read:

"(A) the amount of a capital gain of the corporation realized in the period commencing on the first day of the first taxation year commencing after the time the corporation last became a private corporation and ending after 1971, and ending immediately before the particular time"

S. 89(1), clause (*a*)(ii)(A) of the definition "capital dividend account" was amended by S.C. 1998, c. 19, s. 17(2), applicable to dispositions made after December 8, 1997, other than a disposition made under a written agreement made before December 9, 1997. S. 89(1), clause (*a*)(ii)(A) of the definition "capital dividend account" formerly read:

"(A) the amount of a capital loss of the corporation realized in that period"

S. 89(1), the definition "capital dividend account", that portion of clause (*a*)(i)(C) preceding subclause II, was amended by S.C. 1994, c. 7, Sched. II, s. 67(1), applicable to taxation years ending after November 26, 1987. That portion of s. 89(1)(*a*)(i)(C) formerly read:

"(C) the portion of the amount, if any, by which the amount determined under clause (A) exceeds the amount determined under clause (B) from the disposition by it of a property, other than a designated property, that may reasonably be regarded as having accrued while the property, or a property for which it was substituted,

(I) was a property of a corporation (other than a private corporation, an investment corporation, a mortgage investment corporation or a mutual fund corporation),"

S. 89(1), the definition of "capital dividend account", that portion of clause (*a*)(ii)(C) preceding subclause II, was amended by S.C. 1994, c. 7, Sched. II, s. 67(2), applicable to taxation years ending after November 26, 1987. That portion of s. 89(1)(*a*)(ii)(C) formerly read:

"(C) the portion of the amount, if any, by which the amount determined under clause (A) exceeds the amount determined under clause (B) from the disposition by it of a property, other than a designated property, that may reasonably be regarded as having accrued while the property, or a property for which it was substituted,

(I) was a property of a corporation (other than a private corporation, an investment corporation, a mortgage investment corporation or a mutual fund corporation),"

Editorial Note: The capital dividend account (CDA) enables the tax-free portion of qualifying corporate-level amounts to be distributed to individual shareholders free of tax. The primary components of CDA are net taxable capital gains (paragraph (*a*)), inter-corporate capital dividends (paragraph (*b*)), eligible capital receipts (paragraph (*c.2*)), insurance proceeds (to the extent such proceeds exceed the adjusted cost basis of the policy) (paragraph (*d*)), trust distributions for which designations are made to deem the distributions to maintain their character as capital gains or capital dividends (paragraphs (*f*) and (*g*)), less capital dividends payable (per the post-amble).

Currently 50% of both capital gains and eligible capital property sales (required to be included in income per paragraph 14(1)(*b*)) are added to a corporation's CDA. However, since under paragraph 38(*a.1*) no part of the gain arising from a donation of a listed security is taxable, it appears that the entire untaxed gain would be added to the corporation's CDA.

The various elements of the CDA definition are all cumulative and independent from one another such that since no component of the CDA calculation can produce a negative amount. For example, if a corporation has received CDA dividends from another corporation (paragraph (*b*)) it will be able to pay out CDA dividends to the extent of such CDA even if it has net capital losses (paragraph (*a*)). In addition, operating losses of a corporation will not restrict the ability to pay CDA dividends. However, where prior CDA dividends have been paid, the post-amble to the CDA definition will reduce the ability to pay CDA dividends to the extent of such previously paid CDA dividends.

Since income from eligible capital property is a year-end calculation, CDA from eligible capital property sales will materialize at year-end rather than at the time of sale unless an election is made under subsection 14(1.01) to treat the sale as a sale of ordinary capital property. However, this election will not be available in many cases, including sales of goodwill.

The CRA has indicated that, for purposes of calculating CDA, the portion of a capital gains reserve of a corporation claimed under subparagraph 40(1)(*a*)(iii) that is considered to be included in income of the corporation for a particular year is deemed to be included in the corporation's income on the first day of the corporation's taxation year (see, for example CRA Document No. 2004-0090461E5).

Regardless of the source of CDA earned by a partnership (capital gains, eligible capital property etc.), CDA is generally considered to be available to corporate partners after the year-end of the partnership rather than the year-end of the corporate partner.

It may be possible to "stream" CDA by paying dividends to one class of shares of a corporation to the exclusion of the corporation's other classes of shares, one notable example being where a corporation has non-resident

shareholders, as the payment of CDA to such shareholders would still be subject to withholding tax.

Related Sections: S. 14(1.01) Election re capital gain; s. 83(2) Capital dividend; s. 83(2.1) Capital dividend — anti-avoidance rule; s. 83(2.2) Capital dividend — exception to anti-avoidance rule; s. 83(2.3) Capital dividend — exception to anti-avoidance rule; s. 83(2.4) Capital dividend — exception to anti-avoidance rule; s. 87(2)(z.1) Capital dividend account; s. 88(2) Winding-up of Canadian corporation; s. 89(1.1) Capital dividend account where control acquired; s. 111(4) Acquisition of control; s. 184 Tax on excess of dividend paid over portion payable out of tax-paid undistributed surplus or 1971 capital surplus; s. 185 Assessment of tax; ITAR s. 57(9) Capital dividend account.

Proposed Related Sections: S. 94.2(19).

Regulations: 600.

Interpretation Bulletins: *Secondary* — IT-66R6 Capital dividends; IT-123R6 Transactions involving eligible capital property; IT-430R3 (Consolid.) — Life insurance proceeds received by a private corporation or a partnership as a consequence of death; IT-484R2 Business investment losses.

Tax Topics: No. 1489, Excess CDA Dividends and Options.

Tax Profile: October 2004 — Taxation of Dividends: A Survey in the Context of Private Corporations and Their Shareholders.

"designated property" — "designated property" means

(*a*) any property of a private corporation that last became a private corporation before November 13, 1981 and that was acquired by it

(i) before November 13, 1981, or

(ii) after November 12, 1981 pursuant to an agreement in writing entered into on or before that date,

(*b*) any property of a private corporation that was acquired by it from another private corporation with which the private corporation was not dealing at arm's length (otherwise than by virtue of a right referred to in paragraph 251(5)(*b*)) at the time the property was acquired, where the property was a designated property of the other private corporation,

(*c*) a share acquired by a private corporation in a transaction to which section 51, subsection 85(1) or section 85.1, 86 or 87 applied in exchange for another share that was a designated property of the corporation, or

(*d*) a replacement property (within the meaning assigned by section 44) for a designated property disposed of by virtue of an event referred to in paragraph (*b*), (*c*) or (*d*) of the definition "proceeds of disposition" in section 54;

Interpretation Bulletins: *Secondary* — IT-66R6 Capital dividends.

"eligible dividend" — "eligible dividend" means

(*a*) a taxable dividend that is received by a person resident in Canada, paid after 2005 by a corporation resident in Canada and designated, as provided under subsection (14), to be an eligible dividend, and

(*b*) in respect of a person resident in Canada, an amount that is deemed by subsection 96(1.11) or 104(16) to be a taxable dividend that is received by the person;

History: S. 89(1), the definition "eligible dividend" was replaced by S.C. 2007, c. 29, s. 6(1), deemed to have come into force on October 31, 2006. S. 89(1), the definition "eligible dividend" formerly read:

" *'eligible dividend'* — 'eligible dividend' means a taxable dividend that is received by a person resident in Canada, paid after 2005 by a corporation resident in Canada and designated, as provided under subsection (14), to be an eligible dividend;"

S. 89(1), the definition "eligible dividend" was added by S.C. 2007, c. 2, s. 47(1), applicable to taxation years that end after 2005.

Editorial Note: Eligible dividends will qualify for a 38% gross-up and a dividend tax credit of 6/11 of that amount, when the gross-up/credit rates are phased-in in 2012. Prior to this, more generous gross-up and tax credit rates will apply (see subsection 82(1) and section 121). CCPCs can pay eligible dividends without potential penalties to the extent that post-2005-taxation-year income is taxed at the general (business) corporate tax rate, as such income enlarges a CCPC's general rate income pool (GRIP); a special GRIP addition may apply to taxation years ending after 2000 and before 2006. Non-CCPCs (as well as SIFT partnerships and trusts) can pay eligible dividends without potential penalties, after they have exhausted their low rate income pool (LRIP) by paying ineligible dividends. Eligible dividends must be designated, per subsection 89(14), and received by a Canadian resident. See also the editorial notes to subsection 89(1), "excessive eligible dividend designation", "general rate income pool", "low rate income pool", subsections 89(7) and 89(11), section 185.1 and subsection 249(3.1) (regarding a change of status to/from a CCPC).

Related Sections: S. 82(1) Taxable dividends received; s. 82(3) Dividends received by spouse or common-law partner; s. 87(2)(z.2) Application of Parts III and III.1; s. 87(2)(*vv*) Losses; s. 87(2)(*ww*) Low rate income pool; s. 88(1)(*e.2*) Windings-up; s. 89(1), "excessive eligible dividend designation", "general rate income pool", "low rate income pool"; s. 89(4) GRIP addition — becoming CCPC – 89(15) Meaning of expression "deposit insurance corporation"; s. 96(1.11)(*b*) Deemed dividend of SIFT partnership; s. 104(16) SIFT deemed dividend; s. 121 Deduction for taxable dividends; s. 125(7), "Canadian-controlled private corporation", paragraph (*d*); s. 185.1 Tax on excessive eligible dividend designations; s. 185.2 Return; s. 248(1), "eligible dividend", "excessive eligible dividend designation", "general rate income pool", "low rate income pool"; s. 249(3.1) Year end on status change; s. 260(1.1) Eligible dividend; s. 260(5) Deemed dividend.

Tax Topics: No. 1903, Tax Smart Investing.

Tax Profile: January 2007 — Update on New Rules for the Taxation of Dividends; December 2006 — Major Changes to the Taxation of Income Trusts and Certain Flow-Through Entities.

"excessive eligible dividend designation" — "excessive eligible dividend designation", made by a corporation in respect of an eligible dividend paid by the corporation at any time in a taxation year, means

(*a*) unless paragraph (*c*) applies to the dividend, if the corporation is in the taxation year a Canadian-controlled private corporation or a deposit insurance corporation, the amount, if any, determined by the formula

$$(A - B) \times C/A$$

where

A is the total of all amounts each of which is the amount of an eligible dividend paid by the corporation in the taxation year,

B is the greater of nil and the corporation's general rate income pool at the end of the taxation year, and

C is the amount of the eligible dividend,

(*b*) unless paragraph (*c*) applies to the dividend, if the corporation is not a corporation described in paragraph (*a*), the amount, if any, determined by the formula

$$A \times B/C$$

where

A is the lesser of

(i) the total of all amounts each of which is an eligible dividend paid by the corporation at that time, and

(ii) the corporation's low rate income pool at that time,

B is the amount of the eligible dividend, and

C is the amount determined under subparagraph (i) of the description of A, and

(*c*) an amount equal to the amount of the eligible dividend, if it is reasonable to consider that the eligible dividend was paid in a transaction, or as part of a series of transactions, one of the main purposes of which was to artificially maintain or increase the corporation's general rate income pool,

or to artificially maintain or decrease the corporation's low rate income pool;

History: S. 89(1), the definition "excessive eligible dividend designation" was added by S.C. 2007, c. 2, s. 47(1), applicable to taxation years that end after 2005.

Editorial Note: Part III.1 of the Act imposes potential penalties on "excessive eligible dividend designations". For CCPCs, per paragraph (*a*) of the definition, this is the amount by which the total of eligible dividends paid in a taxation year exceeds the corporation's GRIP at the end of the year (the excess is pro-rated, based on the eligible dividend relative to all eligible dividends paid in the year). For non-CCPCs, per paragraph (*b*), it is based on the LRIP at the particular time or eligible dividend if less (i.e., LRIP effectively "blocks" eligible dividend benefits). Per paragraph (*c*), it is the entire amount of the eligible dividend if it is reasonable to consider that the eligible dividend was part of a series of transactions one of the main purposes of which is to artificially maintain or increase the corporation's GRIP, or maintain or decrease its LRIP; severe penalties then apply (see also the editorial note to subsection 185.1(1)).

Related Sections: S. 87(2)(*z.2*) Application of Parts III and III.1; s. 88(1)(*e.2*) Winding-up; s. 89(1), "eligible dividend", "general rate income pool", "low rate income pool"; s. 89(4) GRIP addition — becoming CCPC – 89(15) Meaning of expression "deposit insurance corporation"; s. 125(7), "Canadian-controlled private corporation", paragraph (*d*); s. 137.1, "deposit insurance corporation"; s. 185.1 Tax on excessive eligible dividend designations; s. 185.2 Return; s. 248(1), "eligible dividend", "excessive eligible dividend designation".
Forms: T2 Schedule 55.

"general rate factor" — "general rate factor" of a corporation for a taxation year is the total of

(*a*) that proportion of 0.68 that the number of days in the taxation year that are before 2010 is of the number of days in the taxation year,

(*b*) that proportion of 0.69 that the number of days in the taxation year that are in 2010 is of the number of days in the taxation year,

(*c*) that proportion of 0.70 that the number of days in the taxation year that are in 2011 is of the number of days in the taxation year, and

(*d*) that proportion of 0.72 that the number of days in the taxation year that are after 2011 is of the number of days in the taxation year;

History: S. 89(1), the definition "general rate factor" was added by S.C. 2009, c. 2, s. 22(3), applicable to the 2006 and subsequent taxation years.

"general rate income pool" — "general rate income pool" at the end of a particular taxation year, of a taxable Canadian corporation that is a Canadian-controlled private corporation or a deposit insurance corporation in the particular taxation year, is the positive or negative amount determined by the formula

$$A - B$$

where

A is the positive or negative amount that would, before taking into consideration the specified future tax consequences for the particular taxation year, be determined by the formula

$$C + D + E + F - G$$

where

C is the corporation's general rate income pool at the end of its preceding taxation year,

D is the amount, if any, that is the product of the corporation's general rate factor for the particular taxation year multiplied by its adjusted taxable income for the particular taxation year,

E is the total of all amounts each of which is

(*a*) an eligible dividend received by the corporation in the particular taxation year, or

(*b*) an amount deductible under section 113 in computing the taxable income of the corporation for the particular taxation year,

F is the total of all amounts determined under subsections (4) to (6) in respect of the corporation for the particular taxation year, and

G is

(*a*) unless paragraph (*b*) applies, the amount, if any, by which

(i) the total of all amounts each of which is the amount of an eligible dividend paid by the corporation in its preceding taxation year

exceeds

(ii) the total of all amounts each of which is an excessive eligible dividend designation made by the corporation in its preceding taxation year, or

(*b*) if subsection (4) applies to the corporation in the particular taxation year, nil, and

B is the amount determined by the formula

$$H \times (I - J)$$

where

H is the corporation's general rate factor for the particular taxation year,

I is the total of the corporation's full rate taxable incomes (as would be defined in the definition "full rate taxable income" in subsection 123.4(1), if that definition were read without reference to its subparagraphs (*a*)(i) to (iii)) for the corporation's preceding three taxation years, determined without taking into consideration the specified future tax consequences, for those preceding taxation years, that arise in respect of the particular taxation year, and

J is the total of the corporation's full rate taxable incomes (as would be defined in the definition "full rate taxable income" in subsection 123.4(1), if that definition were read without reference to its subparagraphs (*a*)(i) to (iii)) for those preceding taxation years;

History: S. 89(1), the definition "general rate income pool" was replaced by S.C. 2009, c. 2, s. 22(1), applicable to the 2006 and subsequent taxation years. S. 89(1), the definition "general rate income pool" formerly read:

" *'general rate income pool'* — 'general rate income pool' at the end of a particular taxation year, of a taxable Canadian corporation that is a Canadian-controlled private corporation or a deposit insurance corporation in the particular taxation year, is the positive or negative amount determined by the formula

$$A - B$$

where

A is the positive or negative amount that would, before taking into consideration the specified future tax consequences for the particular taxation year, be determined by the formula

$$C + 0.68(D - E - F) + G + H - I$$

where

C is the corporation's general rate income pool at the end of its preceding taxation year,

D is

(*a*) unless paragraph (*b*) applies, the corporation's taxable income for the particular taxation year, and

(*b*) if the corporation is a deposit insurance corporation in the particular taxation year, nil,

E is the amount determined by multiplying the amount, if any, deducted by the corporation under subsection 125(1) for the particular taxation year by the quotient obtained by dividing 100 by the rate of the deduction provided under that subsection for the particular taxation year,

F is

(*a*) if the corporation is a Canadian-controlled private corporation in the particular taxation year, the lesser of the corporation's aggregate investment income for the particular taxation year and the corporation's taxable income for the particular taxation year, and

(*b*) in any other case, nil,

G is the total of all amounts each of which is

(*a*) an eligible dividend received by the corporation in the particular taxation year, or

(*b*) an amount deductible under section 113 in computing the taxable income of the corporation for the particular taxation year,

H is the total of all amounts determined under subsections (4) to (6) in respect of the corporation for the particular taxation year, and

I is

(*a*) unless paragraph (*b*) applies, the amount, if any, by which

(i) the total of all amounts each of which is the amount of an eligible dividend paid by the corporation in its preceding taxation year

exceeds

(ii) the total of all amounts each of which is an excessive eligible dividend designation made by the corporation in its preceding taxation year, or

(*b*) if subsection (4) applies to the corporation in the particular taxation year, nil, and

B is 68% of the amount, if any, by which

(*a*) the total of the corporation's full rate taxable incomes (as would be defined in the definition 'full rate taxable income' in subsection 123.4(1), if that definition were read without reference to its subparagraphs (*a*)(i) to (iii)) for the corporation's preceding three taxation years, determined without taking into consideration the specified future tax consequences, for those preceding taxation years, that arise in respect of the particular taxation year,

exceeds

(*b*) the total of the corporation's full rate taxable incomes (as would be defined in the definition 'full rate taxable income' in subsection 123.4(1), if that definition were read without reference to its subparagraphs (*a*)(i) to (iii)) for those preceding taxation years;"

S. 89(1), the definition "general rate income pool" was added by S.C. 2007, c. 2, s. 47(1), applicable to taxation years that end after 2005.

Editorial Note: This tax account is relevant to eligible dividends paid by CCPCs. If dividends exceed the corporation's GRIP, the "excessive eligible dividend designation" penalty regime will apply. GRIP is a year-end calculation, where dividends can be paid without potential penalties at a time when there is no GRIP, provided that by year-end, there is enough GRIP to cover the dividend. Generally, and in simplified form, the following are components of the GRIP account of a CCPC (applicable to taxation years after 2005):

The description of A:

- GRIP at the end of the preceding taxation year (the description of C).
- Add 68% of taxable income (paragraph (*a*) of the description of D), less income subject to the small business deduction (the description of E) and investment income (the description of F).
- Add eligible dividends received by the corporation (paragraph (*a*) of the description of G), dividends which are deductible under section 113 (e.g., dividends from exempt surplus) (paragraph (*b*) of the description of G), and GRIP additions on becoming a CCPC or in respect of amalgamation or winding-up (the description of H).
- Less eligible dividends paid in the preceding taxation year (net of excessive eligible dividend designations) (the description of I).

Subsequent years' losses that are carried back to a particular year (and other "specified future tax consequences"), do not reduce that year's GRIP, but instead reduce GRIP at the end of the year in which the loss arises (the description of B). A CCPC may qualify for an addition to GRIP in respect of years prior to its 2006 taxation year, by virtue of subsection 89(7). Separate calculations apply upon becoming a CCPC (subsection 89(4)), to amalgamations, and to windings-up (subsections 89(5) and (6)). Dividends subject to subsection 55(2) as deemed capital gains to the recipient nonetheless deplete the GRIP of the payor — see CRA Document No. 2007-0233771C6.

To account for lower corporate tax rates, Bill C-10 will change the 68% amount (above) to 69% for 2010, 70% for 2011, and 72% for subsequent years (see the definition of "general rate factor" in subsection 89(1)). In addition, a number of mainly-clerical changes to the formula will be made: The descriptions of D, E and F will be moved to the definition of "adjusted taxable income" in subsection 89(1), so that the description of D is based on "general rate factor" multiplied by "adjusted taxable income", which cannot be negative. Corresponding changes to the lettering of subsequent descriptions will be made. The formula in B will refer to the "general rate factor" (the description of H), with descriptions in paragraphs (*a*) and (*b*) thereof redesignated as I and J but otherwise unchanged.

Related Sections: S. 87(2)(*vv*) General rate income pool; s. 88(1)(*e.2*) Winding-up; s. 89(1), "eligible dividend", "excessive eligible dividend designation", "low rate income pool"; s. 89(4) GRIP addition — becoming CCPC–89(15) Meaning of expression "deposit insurance corporation"; s. 125(7), "Canadian-controlled private corporation", paragraph (*d*); s. 248(1), "general rate income pool", "specified future tax consequences".

Forms: T2 Schedule 53.

Tax Profile: January 2007 — Update on New Rules for the Taxation of Dividends.

"Life insurance capital dividend account" — [Repealed by 1986, c. 6, s. 48(2).]

"low rate income pool" — "low rate income pool", at any particular time in a particular taxation year, of a corporation (in this definition referred to as the "non-CCPC") that is resident in Canada and is in the particular taxation year neither a Canadian-controlled private corporation nor a deposit insurance corporation, is the amount determined by the formula

$$(A + B + C + D + E + F) - (G + H)$$

where

A is the non-CCPC's low rate income pool at the end of its preceding taxation year,

B is the total of all amounts each of which is an amount deductible under section 112 in computing the non-CCPC's taxable income for the year in respect of a taxable dividend (other than an eligible dividend) that became payable, in the particular taxation year but before the particular time, to the non-CCPC by a corporation resident in Canada,

C is the total of all amounts determined under subsections (8) to (10) in respect of the non-CCPC for the particular taxation year,

D is

(*a*) if the non-CCPC would, but for paragraph (*d*) of the definition "Canadian-controlled private corporation" in subsection 125(7), be a Canadian-controlled private corporation in its preceding taxation year, 80% of its aggregate investment income for its preceding taxation year, and

(*b*) in any other case, nil,

E is

(*a*) if the non-CCPC was not a Canadian-controlled private corporation in its preceding taxation year, 80% of the amount determined by multiplying the amount, if any, deducted by the corporation under subsection 125(1) for that preceding taxation year by the quotient obtained by dividing 100 by the rate of the deduction provided under that subsection for that preceding taxation year, and

(*b*) in any other case, nil,

F is

(*a*) if the non-CCPC was an investment corporation in its preceding taxation year, four times the amount, if any, deducted by it under subsection 130(1) for its preceding taxation year, and

(*b*) in any other case, nil,

G is the total of all amounts each of which is a taxable dividend (other than an eligible dividend, a capital gains dividend within the meaning assigned by subsection 130.1(4) or 131(1) or a taxable dividend deductible by the non-CCPC under

subsection 130.1(1) in computing its income for the particular taxation year or for its preceding taxation year) that became payable, in the particular taxation year but before the particular time, by the non-CCPC, and

H is the total of all amounts each of which is an excessive eligible dividend designation made by the non-CCPC in the particular taxation year but before the particular time;

History: S. 89(1), the definition "low rate income pool" was added by S.C. 2007, c. 2, s. 47(1), applicable to taxation years that end after 2005 except that in applying that definition for taxation years that began before 2006, the description of B shall be read as follows:

"

B is the total of all amounts each of which is an amount deductible under section 112 in computing the non-CCPC's taxable income for the year in respect of a taxable dividend (other than an eligible dividend) that became payable, in the particular taxation year and after 2005, but before the particular time, to the non-CCPC by a corporation resident in Canada,"

Editorial Note: This tax account, which generally applies to non-CCPCs, must be "cleared-out" before such corporations can pay eligible dividends without potential penalties under the "excessive eligible dividend designation" regime. Unlike GRIP, which is a year-end calculation applying to CCPCs, LRIP is a point-in-time calculation.

Generally, and in simplified form, the following are the components of LRIP (applicable to taxation years after 2005):

- LRIP at the end of the preceding taxation year (the description of A).
- Add ineligible dividends payable before the particular time to the non-CCPC from a corporation resident in Canada (the description of B).
- Add LRIP additions on ceasing to be a CCPC or in respect of an amalgamation or winding-up (the description of C).
- Add 80% of investment income if the corporation would be a CCPC but for a change-of-status election (paragraph (*a*) of the description of D).
- Less eligible dividends payable in the taxation year before the particular time (net of excessive eligible dividend designations) (the descriptions of G and H — the descriptions of E and F apply to special status corporations).

Separate calculations apply upon ceasing to be a CCPC (subsection 89(8)), to amalgamations, and to windings-up (subsections 89(9) and 89(10)).

Related Sections: S. 87(2)(*ww*) Low rate income pool; s. 88(1)(*e.2*) Winding-up; s. 89(1), "eligible dividend", "excessive eligible dividend designation", "general rate income pool"; s. 89(4) GRIP addition — becoming CCPC–89(15) Meaning of expression "deposit insurance corporation"; s. 125(7), "Canadian-controlled private corporation", paragraph (*d*); s. 248(1), "low rate income pool".

Forms: T2 Schedule 54.

Tax Profile: January 2007 — Update on New Rules for the Taxation of Dividends.

"paid-up capital" — "paid-up capital" at any particular time means,

(*a*) in respect of a share of any class of the capital stock of a corporation, an amount equal to the paid-up capital at that time, in respect of the class of shares of the capital stock of the corporation to which that share belongs, divided by the number of issued shares of that class outstanding at that time,

(*b*) in respect of a class of shares of the capital stock of a corporation,

(i) where the particular time is before May 7, 1974, an amount equal to the paid-up capital in respect of that class of shares at the particular time, computed without reference to the provisions of this Act,

(ii) where the particular time is after May 6, 1974, and before April 1, 1977, an amount equal to the paid-up capital in respect of that class of shares at the particular time, computed in accordance with the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read on March 31, 1977, and

(iii) where the particular time is after March 31, 1977, an amount equal to the paid-up capital in respect of that class of shares at the particular time, computed without reference to the provisions of this Act except subsections 51(3) and 66.3(2) and (4), sections 84.1 and 84.2, subsections 85(2.1), 85.1(2.1) and (8), 86(2.1), 87(3) and (9), 128.1(2) and (3), 138(11.7), 139.1(6) and (7), 192(4.1) and 194(4.1) and section 212.1,

except that, where the corporation is a cooperative corporation (within the meaning assigned by subsection 136(2)) or a credit union and the statute by or under which it was incorporated does not provide for paid-up capital in respect of a class of shares, the paid-up capital in respect of that class of shares at the particular time, computed without reference to the provisions of this Act, shall be deemed to be the amount, if any, by which

(iv) the total of the amounts received by the corporation in respect of shares of that class issued and outstanding at that time

exceeds

(v) the total of all amounts each of which is an amount or part thereof described in subparagraph (iv) repaid by the corporation to persons who held any of the issued shares of that class before that time, and

(*c*) in respect of all the shares of the capital stock of a corporation, an amount equal to the total of all amounts each of which is an amount equal to the paid-up capital in respect of any class of shares of the capital stock of the corporation at the particular time;

History: S. 89(1), subparagraph (*b*)(iii) of the definition "paid-up capital" was replaced by S.C. 2009, c. 2, s. 22(2), applicable after December 19, 2007. S. 89(1), subparagraph (*b*)(iii) of the definition "paid-up capital" formerly read:

"(iii) where the particular time is after March 31, 1977, an amount equal to the paid-up capital in respect of that class of shares at the particular time, computed without reference to the provisions of this Act except subsections 51(3) and 66.3(2) and (4), sections 84.1 and 84.2, subsections 85(2.1), 85.1(2.1), 86(2.1), 87(3) and (9), 128.1(2) and (3), 138(11.7), 139.1(6) and (7), 192(4.1) and 194(4.1) and section 212.1,"

S. 89(1), subparagraph (*b*)(iii) of the definition "paid-up capital" was amended by S.C. 2000, c. 19, s. 14(1), applicable after December 15, 1998. S. 89(1), subparagraph (*b*)(iii) of the definition "paid-up capital" formerly read:

"(iii) where the particular time is after March 31, 1977, an amount equal to the paid-up capital in respect of that class of shares at the particular time, computed without reference to the provisions of this Act except subsections 51(3) and 66.3(2) and (4), sections 84.1 and 84.2, subsections 85(2.1), 85.1(2.1), 86(2.1), 87(3) and (9), 128.1(2) and (3), 138(11.7), 192(4.1) and 194(4.1) and section 212.1,"

S. 89(1), subparagraph (*b*)(iii) of the definition "paid-up capital", was amended by S.C. 1994, c. 21, s. 42(2), applicable to determinations of paid-up capital after August 1992 except that, in applying subparagraph (*b*)(iii) of the definition "paid-up capital" in subsection 89(1) of the Act before 1993, it shall be read without reference to "128.1(2) and (3)". S. 89(1), subparagraph (*b*)(iii) of the definition "paid-up capital", formerly read:

"(iii) where the particular time is after March 31, 1977, an amount equal to the paid-up capital in respect of that class of shares at the particular time, computed without reference to the provisions of this Act except subsections 66.3(2) and (4), sections 84.1 and 84.2, subsections 85(2.1), 85.1(2.1), 87(3) and (9), 138(11.7), 192(4.1) and 194(4.1) and section 212.1,"

S. 89(1), that portion following subparagraph (*b*)(iii) but preceding paragraph (*c*) of the definition "paid-up capital" was added by S.C. 1994, c. 7, Sched. II, s. 67(3), applicable after 1988.

Editorial Note: The paid-up capital of a class of shares is initially computed "without reference to the provisions of this Act", which is understood to mean the amount determined for corporate law purposes (the amount determined under corporate law is often referred to as the "stated capital" of the class of shares). The paid-up capital of the class of shares is then subject to

adjustments under specific provisions of the Act as set out in paragraph (*b*) of the definition.

Related Sections: S. 84(1) Deemed dividend.
Interpretation Bulletins: *Primary* — IT-463R2 Paid-up capital.
Tax Topics: No. 1894, Negative Paid-Up Capital and Subsection 84(4) Reduction.
Canadian Tax Foundation: Cardarelli, "Transactions Involving Paid-Up Capital", *2004 Conference Report*, 26:1; Smith and Devan, "Paid-Up Capital Planning", *Personal Tax Planning feature, 2003 Canadian Tax Journal*, No. 6, 2296; Lewin, "Tax Attributes: Cost or Capital Cost and Paid-up Capital", *1998 Conference Report*, 8:1; Durand, "Dealing with Paid-Up Capital", *1997 Corporate Management Tax Conference*, 17:1.

"*private corporation*" — "private corporation" at any particular time means a corporation that, at the particular time, is resident in Canada, is not a public corporation and is not controlled by one or more public corporations (other than prescribed venture capital corporations) or prescribed federal Crown corporations or by any combination thereof and, for greater certainty, for the purposes of determining at any particular time when a corporation last became a private corporation,

(*a*) a corporation that was a private corporation at the commencement of its 1972 taxation year and thereafter without interruption until the particular time shall be deemed to have last become a private corporation at the end of its 1971 taxation year, and

(*b*) a corporation incorporated after 1971 that was a private corporation at the time of its incorporation and thereafter without interruption until the particular time shall be deemed to have last become a private corporation immediately before the time of its incorporation;

History: S. 89(1), that portion of the definition "private corporation" preceding paragraph (*a*) was amended by S.C. 1994, c. 7, Sched. II, s. 67(4), applicable after July 13, 1990. S. 89(1), that portion of the definition "private corporation" preceding paragraph (*a*) formerly read:

"(*f*) '*private corporation*' — at any particular time means a corporation that, at the particular time, was resident in Canada, was not a public corporation, and was not controlled by one or more public corporations and for greater certainty for the purposes of determining, at any particular time, when a corporation last became a private corporation,"

Editorial Note: "Private corporation" status is a prerequisite for "Canadian-controlled private corporation" status, as well as obtaining dividend refunds and capital dividend elections. A private corporation must be resident in Canada, and cannot be a public corporation or a corporation controlled by one or more public corporations (other than prescribed venture capital corporations), prescribed federal Crown corporations, or a combination. (A private corporation may be controlled by a non-resident.) Subsection 250(4) deems a corporation to be resident in Canada throughout a taxation year in certain circumstances, including if it was incorporated in Canada after April 26, 1965; see, however, subsections 250(5) (re residence under a treaty) and (5.1) (re continuance and residence).

Related Sections: S. 15(2.5) When s. 15(2) not to apply — certain trusts; s. 55(5)(*b*) Applicable rules; s. 83(2) Capital dividend; s. 87(2)(*aa*) Refundable dividend tax on hand; s. 88(1)(*e.2*)(x) Winding-up; s. 89(1), "capital dividend account", "designated property", "public corporation"; s. 89(1.1) Capital dividend account where control acquired; s. 125(7), "Canadian-controlled private corporation"; s. 129 Dividend refund to private corporation; s. 186 Tax on assessable dividends; s. 187.1(1), "excepted dividend"; s. 248(1), "private corporation"; 250 Person deemed resident; ITAR s. 50(3) Designation by Minister.
Regulations: 2101; 6700; 7100.
Interpretation Bulletins: *Primary* — IT-391R Status of corporations. *Secondary* — IT-73R6 The small business deduction; IT-458R2 Canadian-controlled private corporation.

"*public corporation*" — "public corporation" at any particular time means

(*a*) a corporation that is resident in Canada at the particular time if at that time a class of shares of the capital stock of the corporation is listed on a designated stock exchange in Canada,

(*b*) a corporation (other than a prescribed labour-sponsored venture capital corporation) that is resident in Canada at the particular time if at any time after June 18, 1971 and

(i) before the particular time, it elected in prescribed manner to be a public corporation, and at the time of the election it complied with prescribed conditions relating to the number of its shareholders, the dispersal of ownership of its shares and the public trading of its shares, or

(ii) before the day that is 30 days before the day that includes the particular time it was, by notice in writing to the corporation, designated by the Minister to be a public corporation and at the time it was so designated it complied with the conditions referred to in subparagraph (i),

unless, after the election or designation, as the case may be, was made and before the particular time, it ceased to be a public corporation because of an election or designation under paragraph (*c*), or

(*c*) a corporation (other than a prescribed labour-sponsored venture capital corporation) that is resident in Canada at the particular time if, at any time after June 18, 1971 and before the particular time it was a public corporation, unless after the time it last became a public corporation and

(i) before the particular time, it elected in prescribed manner not to be a public corporation, and at the time it so elected it complied with prescribed conditions relating to the number of its shareholders, the dispersal of ownership of its shares and the public trading of its shares, or

(ii) before the day that is 30 days before the day that includes the particular time, it was, by notice in writing to the corporation, designated by the Minister not to be a public corporation and at the time it was so designated it complied with the conditions referred to in subparagraph (i),

and where a corporation has, on or before its filing-due date for its first taxation year, become a public corporation, it is, if it so elects in its return of income for the year, deemed to have been a public corporation from the beginning of the year until the time when it so became a public corporation;

History: S. 89(1), paragraph (*a*) of the definition "public corporation" was replaced by S.C. 2007, c. 35, s. 23(1), applicable on and after December 14, 2007. S. 89(1), paragraph (*a*) of the definition "public corporation" formerly read:

"(*a*) a corporation that is resident in Canada at the particular time if at that time a class of shares of the capital stock of the corporation is listed on a prescribed stock exchange in Canada,"

S. 89(1), the definition "public corporation" was amended by S.C. 1998, c. 19, s. 17(3), applicable to the 1995 and subsequent taxation years. S. 89(1), the definition "public corporation" formerly read:

"'*public corporation*' — 'public corporation' at any particular time means a corporation that was resident in Canada at the particular time, if

(*a*) at the particular time, a class or classes of shares of the capital stock of the corporation were listed on a prescribed stock exchange in Canada,

(*b*) at any time after June 18, 1971 and

(i) before the particular time, it elected in prescribed manner to be a public corporation, and at the time of the election it complied with prescribed conditions relating to the number of its shareholders, dispersal of ownership of its shares, public trading of its shares and size of the corporation, or

(ii) before a day 30 days before the particular time, it was, by notice in writing to the corporation, designated by the Minister to be a public corporation, and at the time it was so designated it complied with the conditions referred to in subparagraph (i),

unless subsequent to the election or designation, as the case may be, and before the particular time, it ceased to be a public corporation by virtue of paragraph (*c*), or

(*c*) at any time after June 18, 1971 and before the particular time, it was a public corporation, unless after the time it last became a public corporation and

(i) before the particular time, it elected in prescribed manner not to be a public corporation, and at the time it so elected it complied with prescribed conditions relating to the number of its shareholders, dispersal of ownership of its shares and public trading of its shares, or

(ii) before a day 30 days before the particular time, it was, by notice in writing to the corporation, designated by the Minister not to be a public corporation, and at the time it was so designated it complied with the conditions referred to in subparagraph (i),

in which case it shall be deemed thereupon to have ceased to be a public corporation,

except that where a corporation's first taxation year ended after 1971 and the corporation has, after 1971 and on or before the day on or before which it was required by section 150 to file its return of income for that year, become a public corporation, it shall, if it so elected in that return, be deemed to have been a public corporation from the commencement of that year until the day on which it so became a public corporation;"

Related Sections: S. 250 Person deemed resident; ITAR s. 50(3) Designation by Minister.
Regulations: 3200; 4800; 6700; 6701.
Interpretation Bulletins: *Secondary* — IT-73R6 The small business deduction; IT-98R2 Investment corporations [Archived by the CRA]; IT-320R3 Registered retirement savings plans — Qualified investments; IT-391R Status of corporations; IT-458R2 Canadian-controlled private corporation.
Forms: T2067; T2073.

"taxable Canadian corporation" — "taxable Canadian corporation" means a corporation that, at the time the expression is relevant,

(*a*) was a Canadian corporation, and

(*b*) was not, by virtue of a statutory provision, exempt from tax under this Part;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*b*) of the definition "taxable Canadian corporation" in subsection 89(1) of the Act is replaced by the following:

(*b*) was not, by reason of a statutory provision other than paragraph 149(1)(*t*), exempt from tax under this Part;

Applicable: In respect of taxation years that end after 1999.

Explanatory Note:

"taxable Canadian corporation"

Paragraph (*b*) of the definition "taxable Canadian corporation" in subsection 89(1) of the Act is amended to clarify that a farming or fishing insurer to which paragraph 149(1)(*t*) of the Act applies is a taxable Canadian corporation. This amendment applies in respect of taxation years that end after 1999.

Editorial Note: "Taxable Canadian corporation" status (i.e., a non-tax-exempt "Canadian corporation") is a prerequisite for many provisions including: the dividend tax credit (subsection 82(1) and section 121), a number of rollovers, including amalgamations (subsection 87(1)), wind-ups (subsection 88(1)), section 85 transfers (the transferee must have this status), and the subsection 112(1) deduction for intercorporate dividends (the payor must have this status unless it is controlled by the recipient).

Related Sections: S. 44.1 Reserve — property disposed of to a child; s. 53(1)(*f.1*) Adjustments to cost base — Previously denied capital loss; s. 80(1), "directed person"; s. 80.04(2) Eligible transferee; s. 82(1) Taxable dividends received; s. 85(1) Transfer of property to corporation by shareholders; s. 85(2) Transfer of property to corporation from partnership; s. 85.1 Share for share exchange; s. 87(1) Amalgamations; s. 87(9) Rules applicable in respect of certain mergers; s. 88(1) Winding-up; s. 89(1), "general rate income pool"; s. 91(6) Amounts deductible in respect of dividends received — shares acquired from another corporation; s. 96(1.11) Deemed dividend of SIFT partnership; s. 104(16) SIFT deemed dividend; s. 104(19) Taxable dividends; s. 112 Deduction of taxable dividends received by corporation resident in Canada; s. 121 Deduction for taxable dividends; s. 144 Definitions; s. 187.1 Definition of "excepted dividend"; s. 191 Definitions; s. 191.1 Tax on taxable dividends; s. 191.2 Election; s. 191.3 Agreement respecting liability for tax; s. 258 Deemed dividend on term preferred share.
Regulations: Part LI; 5905(5); 6203(1).

"taxable dividend" — "taxable dividend" means a dividend other than

(*a*) a dividend in respect of which the corporation paying the dividend has elected in accordance with subsection 83(1) as it read prior to 1979 or in accordance with subsection 83(2), and

(*b*) a qualifying dividend paid by a public corporation to shareholders of a prescribed class of tax-deferred preferred shares of the corporation within the meaning of subsection 83(1).

Interpretation Bulletins: *Secondary* — IT-67R3 Taxable dividends from corporations resident in Canada.

► 89(1.01) ◄

(1.01) Application of s. 138(12). The definitions in subsection 138(12) apply to this section.

History: S. 89(1.01) was not part of the former Act.

► 89(1.1) ◄

(1.1) Capital dividend account where control acquired. Where at any particular time after March 31, 1977 a corporation that was, at a previous time, a private corporation controlled directly or indirectly in any manner whatever by one or more non-resident persons becomes a Canadian-controlled private corporation (otherwise than by reason of a change in the residence of one or more of its shareholders), in computing the corporation's capital dividend account at and after the particular time there shall be deducted the amount of the corporation's capital dividend account immediately before the particular time.

Related Sections: S. 89(1), "capital dividend account", "private corporation"; s. 256(5.1) Control in fact.

► 89(1.2) ◄

(1.2) Capital dividend account of tax-exempt corporation. Where at any particular time after November 26, 1987 a corporation ceases to be exempt from tax under this Part on its taxable income, in computing the corporation's capital dividend account at and after the particular time there shall be deducted the amount of the corporation's capital dividend account (computed without reference to this subsection) immediately after the particular time.

► 89(2) ◄

(2) Where corporation is beneficiary. For the purposes of this section,

(*a*) where a corporation was a beneficiary under a life insurance policy on June 28, 1982, it shall be deemed not to have been a beneficiary under such a policy on or before June 28, 1982 where at any time after December 1, 1982 a prescribed premium has been paid under the policy or there has been a prescribed increase in any benefit on death under the policy; and

(*b*) where a corporation becomes a beneficiary under a life insurance policy by virtue of an amalgamation or a winding-up to which subsection 87(1) or 88(1) applies, it shall be deemed to have been a beneficiary under the policy throughout the period during which its predecessor or subsidiary, as the case may be, was a beneficiary under the policy.

Regulations: 309.
Interpretation Bulletins: *Secondary* — IT-66R6 Capital dividends; IT-87R2 Policyholders' income from life insurance policies.

► 89(3) ◄

(3) Simultaneous dividends. Where a dividend becomes payable at the same time on more than one class of shares of the capital stock of a corporation, for the purposes of sections 83, 84 and 88, the dividend on any such class of shares shall be deemed to become payable at a different time than the dividend on the other class or classes of shares and to become payable in the order designated

(*a*) by the corporation on or before the day on or before which its return of income for its taxation year in which such dividends become payable is required to be filed; or

(*b*) in any other case, by the Minister.

Related Sections: S. 13(21), "depreciable property"; s. 14(5), "cumulative eligible capital", "eligible capital expenditure"; s. 39, "capital loss"; s. 54, "capital property"; s. 83(2), "capital dividends"; s. 89(1), "Canadian corporation"; s. 125(7), "Canadian-controlled private corporation"; s. 248(1), "amount", "business", "corporation", "mortgage investment corporation", "mutual fund corporation", "prescribed", "property", "share", "shareholder"; s. 255 Canada.

► 89(4) ◄

(4) GRIP addition — becoming CCPC. If, in a particular taxation year, a corporation is a Canadian-controlled private corporation or a deposit insurance corporation but was, in its preceding taxation year, a corporation resident in Canada other than a Canadian-controlled private corporation or a deposit insurance corporation, there may be included in computing the corporation's general rate income pool at the end of the particular taxation year, the amount determined by the formula

$$A + B + C - D - E - F - G - H$$

where

A is the total of all amounts each of which is the cost amount to the corporation of a property immediately before the end of its preceding taxation year;

B is the amount of any money of the corporation on hand immediately before the end of its preceding taxation year;

C is the amount, if any, by which

(*a*) the total of all amounts that, if the corporation had had unlimited income for its preceding taxation year from each business carried on, and from each property held, by it in that preceding taxation year and had realized an unlimited amount of capital gains for that preceding taxation year, would have been deductible under subsection 111(1) in computing its taxable income for that preceding taxation year

exceeds

(*b*) the total of all amounts deducted under subsection 111(1) in computing the corporation's taxable income for that preceding taxation year;

D is the total of all amounts each of which is the amount of any debt owing by the corporation, or of any other obligation of the corporation to pay any amount, that was outstanding immediately before the end of its preceding taxation year;

E is the paid up capital, immediately before the end of its preceding taxation year, of all of the issued and outstanding shares of the capital stock of the corporation;

F is the total of all amounts each of which is a reserve deducted in computing the corporation's income for its preceding taxation year;

G is the corporation's capital dividend account, if any, immediately before the end of its preceding taxation year; and

H is the corporation's low rate income pool immediately before the end of its preceding taxation year.

History: S. 89(4) was added by S.C. 2007, c. 2, s. 47(2), applicable to taxation years that end after 2005.

► 89(5) ◄

(5) GRIP addition — post-amalgamation. If a Canadian-controlled private corporation or a deposit insurance corporation (in this subsection referred to as the "new corporation") is formed as a result of an amalgamation (within the meaning assigned by subsection 87(1)), there shall be included in computing the new corporation's general rate income pool at the end of its first taxation year the total of all amounts each of which is

(*a*) in respect of a predecessor corporation that was, in its taxation year that ended immediately before the amalgamation (in this paragraph referred to as its "last taxation year"), a Canadian-controlled private corporation or a deposit insurance corporation, the positive or negative amount determined in respect of the predecessor corporation by the formula

$$A - B$$

where

A is the predecessor corporation's general rate income pool at the end of its last taxation year, and

B is the amount, if any, by which

(i) the total of all amounts each of which is an eligible dividend paid by the predecessor corporation in its last taxation year

exceeds

(ii) the total of all amounts each of which is an excessive eligible dividend designation made by the predecessor corporation in its last taxation year; or

(*b*) in respect of a predecessor corporation (in this paragraph referred to as the "non-CCPC predecessor") that was, in its taxation year that ended immediately before the amalgamation (in this paragraph referred to as its "last taxation year"), not a Canadian-controlled private corporation or a deposit insurance corporation, the amount determined by the formula

$$A + B + C - D - E - F - G - H$$

where

A is the total of all amounts each of which is the cost amount to the non-CCPC predecessor of a property immediately before the end of its last taxation year,

B is the amount of any money of the non-CCPC predecessor on hand immediately before the end of its last taxation year,

C is the amount, if any, by which

(i) the total of all amounts that, if the non-CCPC predecessor had had unlimited

income for its last taxation year from each business carried on, and from each property held, by it in that last taxation year and had realized an unlimited amount of capital gains for that last taxation year, would have been deductible under subsection 111(1) in computing its taxable income for that last taxation year

exceeds

(ii) the total of all amounts deducted under subsection 111(1) in computing the non-CCPC predecessor's taxable income for its last taxation year,

D is the total of all amounts each of which is the amount of any debt owing by the non-CCPC predecessor, or of any other obligation of the non-CCPC predecessor to pay any amount, that was outstanding immediately before the end of its last taxation year,

E is the paid up capital, immediately before the end of its last taxation year, of all of the issued and outstanding shares of the capital stock of the non-CCPC predecessor,

F is the total of all amounts each of which is a reserve deducted in computing the non-CCPC predecessor's income for its last taxation year,

G is the non-CCPC predecessor's capital dividend account, if any, immediately before the end of its last taxation year, and

H is the non-CCPC predecessor's low rate income pool immediately before the end of its last taxation year.

History: S. 89(5) was added by S.C. 2007, c. 2, s. 47(2), applicable to taxation years that end after 2005.

► 89(6) ◄

(6) GRIP addition — post-winding-up. If subsection 88(1) applies to the winding-up of a subsidiary into a parent (within the meanings assigned by that subsection) that is a Canadian-controlled private corporation or a deposit insurance corporation, there shall be included in computing the parent's general rate income pool at the end of its taxation year that immediately follows the taxation year during which it receives the assets of the subsidiary on the winding-up

(*a*) if the subsidiary was, in its taxation year during which its assets were distributed to the parent on the winding-up (in this paragraph referred to as its "last taxation year"), a Canadian-controlled private corporation or a deposit insurance corporation, the positive or negative amount determined by the formula

A – B

where

A is the subsidiary's general rate income pool at the end of its last taxation year, and

B is the amount, if any, by which

(i) the total of all amounts each of which is an eligible dividend paid by the subsidiary in its last taxation year

exceeds

(ii) the total of all amounts each of which is an excessive eligible dividend designation made by the subsidiary in its last taxation year; and

(*b*) in any other case, the amount determined by the formula

A + B + C – D – E – F – G – H

where

A is the total of all amounts each of which is the cost amount to the subsidiary of a property immediately before the end of its taxation year during which its assets were distributed to the parent on the winding-up (in this paragraph referred to as its "last taxation year"),

B is the amount of any money of the subsidiary on hand immediately before the end of its last taxation year,

C is the amount, if any, by which

(i) the total of all amounts that, if the subsidiary had had unlimited income for its last taxation year from each business carried on, and from each property held, by it in that last taxation year and had realized an unlimited amount of capital gains for that last taxation year, would have been deductible under subsection 111(1) in computing its taxable income for that last taxation year

exceeds

(ii) the total of all amounts deducted under subsection 111(1) in computing the subsidiary's taxable income for its last taxation year,

D is the total of all amounts each of which is the amount of any debt owing by the subsidiary, or of any other obligation of the subsidiary to pay any amount, that was outstanding immediately before the end of its last taxation year,

E is the paid up capital, immediately before the end of its last taxation year, of all of the issued and outstanding shares of the capital stock of the subsidiary,

F is the total of all amounts each of which is a reserve deducted in computing the subsidiary's income for its last taxation year,

G is the subsidiary's capital dividend account, if any, immediately before the end of its last taxation year, and

H is the subsidiary's low rate income pool immediately before the end of its last taxation year.

History: S. 89(6) was added by S.C. 2007, c. 2, s. 47(2), applicable to taxation years that end after 2005.

► 89(7) ◄

(7) GRIP addition for 2006. If a corporation was (or, but for an election under subsection (11), would have been), throughout its first taxation year that includes any part of January 1, 2006, a Canadian-controlled private corporation, its general rate income pool at the end of its immediately preceding taxation year is deemed to be the greater of nil and the amount determined by the formula

A – B

where

A is the total of

(*a*) 63% of the total of all amounts each of which is the corporation's full rate taxable income (as defined in subsection 123.4(1)), for a taxation year of the corporation that ended after 2000 and before 2004, determined before taking into consideration the specified future tax consequences for that taxation year,

(*b*) 63% of the total of all amounts each of which is the corporation's full rate taxable income (as would be defined in subsection 123.4(1), if that definition were read without reference to its subparagraphs (*a*)(i) and (ii)), for a taxation year of the corporation that ended after 2003 and before 2006, determined before taking into consideration the specified future tax consequences for that taxation year, and

(*c*) all amounts each of which was deductible under subsection 112(1) in computing the corporation's taxable income for a taxation year of the corporation (in this paragraph referred to as the "particular corporation") that ended after 2000 and before 2006, and is in respect of a dividend received from a corporation (in this paragraph referred to as the "payer corporation") that was, at the time it paid the dividend, connected (within the meaning assigned by subsection 186(4)) with the particular corporation, to the extent that it is reasonable to consider, having regard to all the circumstances (including but not limited to other shareholders having received dividends from the payer corporation), that the dividend was attributable to an amount that is, or if this subsection applied to the payer corporation would be, described in this paragraph or in paragraph (*a*) or (*b*) in respect of the payer corporation; and

B is the total of all amounts each of which is a taxable dividend paid by the corporation in those taxation years.

History: S. 89(7) was added by S.C. 2007, c. 2, s. 47(2), applicable only to the first taxation year of a corporation that includes any part of January 1, 2006.

Editorial Note: Although GRIP generally pertains to taxation years ending after 2005, a special addition applies to corporations that are CCPCs throughout the first taxation year ending after January 1st, 2006. This is based on 63% of earnings subject to the general corporate tax rate for years ending after 2000 and before 2006 (ignoring loss carry backs and other "specified future tax consequences"), provided that the earnings have not been paid as a taxable dividend (the description of B). Income qualifying for the M&P deduction for taxation years ending after 2000 and before 2004 will not qualify for the addition (paragraph (*a*) of the description of A), but will after 2003 and before 2006 (paragraph (*b*) of the description of A). Dividends received by the corporation enlarge the addition, if received from a connected corporation or chain of connected corporations and are reasonably attributable to income tax at the general corporate rate (paragraph (*c*) of the description of A). The "reasonably attributable" test is on a cumulative basis; e.g., a dividend paid early in the period might exceed the accumulated full-rate income of the payor to the year of the dividend but fully increase the recipient's GRIP if the payor's cumulative high-rate income exceeded the dividend; see CRA Document Number 2007-0243051C6. It appears that GRIP on an amalgamation or winding-up of a corporation within the stub period is lost. Dividends paid/received after a corporation's 2005 taxation year but before 2006 appear to be ignored (see, for example, CRA Document Number 2007-0257721E5).

Related Sections: S. 89(1), "general rate income pool; s. 89(11) Election: non-CCPC; s. 112(1) Deduction of taxable dividends received by corporation resident in Canada; s. 123.4(1) Definitions; s. 125(7), "Canadian-controlled private corporation"; s. 248(1), "specified future tax consequences".

Forms: T2 Schedule 53.

► 89(8) ◄

(8) LRIP addition — ceasing to be CCPC. If, in a particular taxation year, a corporation is neither a Canadian-controlled private corporation nor a deposit insurance corporation but was, in its preceding taxation year, a Canadian-controlled private corporation or a deposit insurance corporation, there shall be included in computing the corporation's low rate income pool at any time in the particular taxation year the amount determined by the formula

$$A + B + C - D - E - F - G - H$$

where

A is the total of all amounts each of which is the cost amount to the corporation of a property immediately before the end of its preceding taxation year;

B is the amount of any money of the corporation on hand immediately before the end of its preceding taxation year;

C is the amount, if any, by which

(*a*) the total of all amounts that, if the corporation had had unlimited income for its preceding taxation year from each business carried on, and from each property held, by it in that preceding taxation year and had realized an unlimited amount of capital gains for that preceding taxation year, would have been deductible under subsection 111(1) in computing its taxable income for that preceding taxation year

exceeds

(*b*) the total of all amounts deducted under subsection 111(1) in computing the corporation's taxable income for its preceding taxation year;

D is the total of all amounts each of which is the amount of any debt owing by the corporation, or of any other obligation of the corporation to pay any amount, that was outstanding immediately before the end of its preceding taxation year;

E is the paid up capital, immediately before the end of its preceding taxation year, of all of the issued and outstanding shares of the capital stock of the corporation;

F is the total of all amounts each of which is a reserve deducted in computing the corporation's income for its preceding taxation year;

G is

(*a*) if the corporation is not a private corporation in the particular taxation year, the corporation's capital dividend account, if any, immediately before the end of its preceding taxation year, and

(*b*) in any other case, nil; and

H is the positive or negative amount determined by the formula

$$I - J$$

where

I is the corporation's general rate income pool at the end of its preceding taxation year, and

J is the amount, if any, by which

(*a*) the total of all amounts each of which is an eligible dividend paid by the corporation in its preceding taxation year

exceeds

(*b*) the total of all amounts each of which is an excessive eligible dividend designation made by the corporation in its preceding taxation year.

History: S. 89(8) was added by S.C. 2007, c. 2, s. 47(2), applicable to taxation years that end after 2005.

► 89(9) ◄

(9) LRIP addition — amalgamation. If a corporation that is resident in Canada and that is neither a Canadian-controlled private corporation nor a deposit insurance corporation (in this subsection referred to as the "new corporation") is formed as a result of the amalgamation or merger of two or more corporations one or more of which is a taxable Canadian corporation, there shall be included in computing the new corporation's low rate income pool at any time in its first taxation year the total of all amounts each of which is

(*a*) in respect of a predecessor corporation that was, in its taxation year that ended immediately before the amalgamation, neither a Canadian-controlled private corporation nor a deposit insurance corporation, the predecessor corporation's low rate income pool at the end of that taxation year; and

(*b*) in respect of a predecessor corporation (in this paragraph referred to as the "CCPC predecessor") that was, throughout its taxation year that ended immediately before the amalgamation (in this paragraph referred to as its "last taxation year"), a Canadian-controlled private corporation or a deposit insurance corporation, the amount determined by the formula

$$A + B + C - D - E - F - G - H$$

where

A is the total of all amounts each of which is the cost amount to the CCPC predecessor of a property immediately before the end of its last taxation year,

B is the amount of any money of the CCPC predecessor on hand immediately before the end of its last taxation year,

C is the amount, if any, by which

(i) the total of all amounts that, if the CCPC predecessor had had unlimited income for its last taxation year from each business carried on, and from each property held, by it in that last taxation year and had realized an unlimited amount of capital gains for that last taxation year, would have been deductible under subsection 111(1) in computing its taxable income for that last taxation year

exceeds

(ii) the total of all amounts deducted under subsection 111(1) in computing the CCPC predecessor's taxable income for its last taxation year,

D is the total of all amounts each of which is the amount of any debt owing by the CCPC predecessor, or of any other obligation of the CCPC predecessor to pay any amount, that was outstanding immediately before the end of its last taxation year,

E is the paid up capital, immediately before the end of its last taxation year, of all of the issued and outstanding shares of the capital stock of the CCPC predecessor,

F is the total of all amounts each of which is a reserve deducted in computing the CCPC predecessor's income for its last taxation year,

G is

(i) if the new corporation is not a private corporation in its first taxation year, the CCPC predecessor's capital dividend account, if any, immediately before the end of its last taxation year, and

(ii) in any other case, nil, and

H is the positive or negative amount determined by the formula

$$I - J$$

where

I is the CCPC predecessor's general rate income pool at the end of its last taxation year, and

J is the amount, if any, by which

(i) the total of all amounts each of which is an eligible dividend paid by the CCPC predecessor in its last taxation year

exceeds

(ii) the total of all amounts each of which is an excessive eligible dividend designation made by the CCPC predecessor in its last taxation year.

History: S. 89(9) was added by S.C. 2007, c. 2, s. 47(2), applicable to taxation years that end after 2005.

► 89(10) ◄

(10) LRIP addition — winding-up. If, in a particular taxation year, a corporation (in this subsection referred to as the "parent") is neither a Canadian-controlled private corporation nor a deposit insurance corporation and in the particular taxation year all or substantially all of the assets of another corporation (in this subsection referred to as the "subsidiary") were distributed to the parent on a dissolution or winding-up of the subsidiary, there shall be included in computing the parent's low rate income pool at any time in the particular taxation year that is at or after the end of the subsidiary's taxation year (in this subsection referred to as the subsidiary's "last taxation year") during which its assets were distributed to the parent on the winding-up,

(*a*) if the subsidiary was, in its last taxation year, neither a Canadian-controlled private corporation nor a deposit insurance corporation, the subsidiary's low rate income pool immediately before the end of that taxation year; and

(*b*) in any other case, the amount determined by the formula

$$A + B + C - D - E - F - G - H$$

where

A is the total of all amounts each of which is the cost amount to the subsidiary of a property

immediately before the end of its last taxation year,

B is the amount of any money of the subsidiary on hand immediately before the end of its last taxation year,

C is the amount, if any, by which

(i) the total of all amounts that, if the subsidiary had had unlimited income for its last taxation year from each business carried on, and from each property held, by it in that last taxation year and had realized an unlimited amount of capital gains for that last taxation year, would have been deductible under subsection 111(1) in computing its taxable income for that last taxation year

exceeds

(ii) the total of all amounts deducted under subsection 111(1) in computing the subsidiary's taxable income for its last taxation year,

D is the total of all amounts each of which is the amount of any debt owing by the subsidiary, or of any other obligation of the subsidiary to pay any amount, that was outstanding immediately before the end of its last taxation year,

E is the paid up capital, immediately before the end of its last taxation year, of all of the issued and outstanding shares of the capital stock of the subsidiary,

F is the total of all amounts each of which is a reserve deducted in computing the subsidiary's income for its last taxation year,

G is

(i) if the parent is not a private corporation in the particular taxation year, the subsidiary's capital dividend account, if any, immediately before the end of its last taxation year, and

(ii) in any other case, nil, and

H is the positive or negative amount determined by the formula

$$I - J$$

where

I is the subsidiary's general rate income pool at the end of its last taxation year, and

J is the amount, if any, by which

(i) the total of all amounts each of which is an eligible dividend paid by the subsidiary in its last taxation year

exceeds

(ii) the total of all amounts each of which is an excessive eligible dividend designation made by the subsidiary in its last taxation year.

History: S. 89(10) was added by S.C. 2007, c. 2, s. 47(2), applicable to taxation years that end after 2005.

► 89(11) ◄

(11) Election: non-CCPC. Subject to subsection (12), a corporation that files with the Minister on or before its filing-due date for a particular taxation year an election in prescribed form to have this subsection apply is deemed for the purposes described in paragraph (*d*) of the definition "Canadian-controlled private corporation" in subsection 125(7) not to be a Canadian-controlled private corporation at any time in or after the particular taxation year.

History: S. 89(11) was added by S.C. 2007, c. 2, s. 47(2), applicable to taxation years that end after 2005.

Editorial Note: This provision allows a corporation to give up its CCPC status for certain purposes — notably, eligibility for the small business deduction (see paragraph (*d*) of the definition of "Canadian-controlled private corporation" in subsection 125(7)). This will enable the corporation to pay eligible dividends by default, subject only to "LRIP blockage" (i.e., a corporation must deplete its LRIP account before it can pay eligible dividends without potential penalties). The election, which must be filed on or before the filing-due date for the particular year, does not change the year-end of the corporation; opening LRIP is calculated at the end of the preceding year (in essence, this account is calculated on a "tax balance sheet" approach). It is possible to revoke this election under subsection 89(12) but repeated elections and revocations require ministerial consent (see subsection 89(13)). A late-filed election will not be accepted under the "taxpayer relief provisions" (see subsection 220(3.2) and Regulation 600).

Related Sections: S. 89(1), "general rate income pool", "low rate income pool"; s. 89(4) GRIP addition — becoming CCPC–89(15) Meaning of expression "deposit insurance corporation"; s. 125(7), "Canadian-controlled private corporation", paragraph (*d*); s. 249(3.1) Year end on status change.
Regulations: 600.
Tax Profile: January 2007 — Update on New Rules for the Taxation of Dividends.

► 89(12) ◄

(12) Revoking election. If a corporation files with the Minister on or before its filing-due date for a particular taxation year a notice in prescribed form revoking, as of the end of the particular taxation year, an election described in subsection (11), the election ceases to apply to the corporation at the end of the particular taxation year.

History: S. 89(12) was added by S.C. 2007, c. 2, s. 47(2), applicable to taxation years that end after 2005.

► 89(13) ◄

(13) Repeated elections — consent required. If a corporation has, under subsection (12), revoked an election, any subsequent election under subsection (11) or subsequent revocation under subsection (12) is invalid unless

(*a*) the Minister consents in writing to the subsequent election or the subsequent revocation, as the case may be; and

(*b*) the corporation complies with any conditions imposed by the Minister.

History: S. 89(13) was added by S.C. 2007, c. 2, s. 47(2), applicable to taxation years that end after 2005.

► 89(14) ◄

(14) Dividend designation. A corporation designates a dividend it pays at any time to be an eligible dividend by notifying in writing at that time each person or partnership to whom it pays all or any part of the dividend that the dividend is an eligible dividend.

CRA Press Release
Designation of Eligible Dividends

[Reproduced below is a CRA release, dated December 20, 2006, concerning the requirement for shareholder notification of eligible dividends, as set out in subsection 89(14).]

A. Notification of Shareholders

For the 2006 Year — All Corporations

For 2006, we will accept designations based on identification of eligible dividends on the T3 and T5 slips. Other acceptable methods are posting a notice on the corporation's website, and in corporate reports or shareholder publications.

For 2007 and Subsequent Taxation Years

Public Corporations

For 2007 and subsequent taxation years, for public corporations, we will accept that notification has been made if, before or at the time the dividends are paid, a designation is made stating that all dividends are eligible dividends unless indicated otherwise. Acceptable methods of making a designation are posting a notice on the corporation's website, and in corporate quarterly or annual reports or shareholder publications. We will consider that a notice posted on a corporate website is notification that an eligible dividend is paid to shareholders until the notice is removed. Similarly, a notice in an annual or quarterly report that an eligible dividend has been paid is considered valid for that year or quarter, respectively. Alternatively, if a public corporation issues a press release announcing the declaration of a dividend, a statement in the press release indicating that the dividend is an eligible dividend will be sufficient proof that notification was given to each shareholder.

All Other Corporations:

For 2007 and subsequent taxation years, for all corporations other than public corporations, the notification requirements of proposed subsection 89(14) must be met each time a dividend is paid. Examples of notification could include identifying eligible dividends through letters to shareholders and dividend cheque stubs, or where all shareholders are Directors of a corporation, a notation in the Minutes.

Shareholders Whose Mailing Address is Outside the Country

Notification of a designation must be given to all shareholders who receive a dividend, including those whose mailing address is outside the country, and even if Part XIII tax is withheld from the payment. The address of record is not conclusive proof of residency.

A dividend received by a non-resident shareholder cannot qualify as an eligible dividend. If a corporation pays a dividend to a non-resident shareholder that would otherwise be an eligible dividend if paid to a resident shareholder, there is no impact on the eligibility of the dividends paid to other resident shareholders of the corporation.

B. Designation of Portion of Dividend Paid on Class of Shares

All shares of a particular class of shares have the same attributes and therefore, a designation of eligible dividends must include all the shareholders of that class. A designation will not be accepted in respect of the portion of the dividend paid to certain shareholders of a class of shares.

A designation will not be accepted if a corporation designates a fraction of a dividend paid to each shareholder to be an eligible dividend. However, because the legislation is retroactive to dividends paid before the announcement of the new measure, we will allow dividends to be designated as two separate dividends for all dividends paid in 2006. In addition, where a corporation designates two separate dividends, an ineligible dividend and an eligible dividend, these two separate dividends can be paid in one cheque.

C. Dividends Received by Trusts

Trusts will generally not know for some time whether dividends received by them in 2006 are eligible dividends. Where a trust has received from a corporation an amount of dividends paid in 2006 and that corporation has not, before the trust's deadline for issuing its own T3 slips, notified shareholders (using one or more of the methods described in section A above) of whether the dividends are eligible dividends, then the trust can make reasonable assumptions in determining whether to identify those dividends as eligible dividends. However, the trust accepts responsibility to re-issue proper T3 information slips and T3 returns promptly if the assumption proves to be inaccurate, except for amounts that are less than $100.

Many mutual fund trusts have a December 15 year-end. Dividends received by such trusts in the portion of their 2006 taxation year from December 16 to December 31, 2005, will not qualify as eligible dividends. Such trusts can use a reasonable method to estimate the amount of such dividends, e.g., $^{1}/_{24}$ of all dividends received by the trust in its 2006 taxation year. Dividends paid by a corporation in the 2005 calendar year (and, therefore, not eligible dividends) should have been reported by the corporation before the end of February 2006. In filing their T3 returns for 2005, trusts with Dec 15 years-end would be expected to have already determined (as part of filing their 2005 T3 returns) what portion, if any, of such reported dividends paid in 2005 were received in the last two weeks of 2005. These dividends received in the last two weeks of 2005 would have been held-over for reporting in their 2006 T3 returns and the trust would be expected to have a record of these amounts.

D. Dividends Received by Partnerships

Partnership law and the relevant partnership agreement dictate that dividends are allocated to the partners. If the dividends and partners meet the conditions in subsection 89(1) of the *Income Tax Act*, then a partner's share of such dividends would be eligible dividends received by that partner. Therefore, each partner's share of a dividend received by a partnership is considered, for the purposes of all provisions relating to an eligible dividend, to be a dividend received by the partner.

History: S. 89(14) was added by S.C. 2007, c. 2, s. 47(2), applicable to taxation years that end after 2005 except that in respect of a dividend paid before February 21, 2007, a designation under subsection 89(14) is deemed to have been made in a timely manner if it is made on or before May 22, 2007 [90 days after the day on which this Act is assented to].

Related Sections: S. 82(1) Taxable dividends received; s. 82(3) Dividends received by spouse or common-law partner; s. 87(2)(*z.2*) Application of Parts III and III.1; s. 87(2)(*vv*) General rate income pool; s. 87(2)(*ww*) Low rate income pool; s. 88(1)(*e.2*) Winding-up; s. 89(1), "excessive eligible dividend designation", "general rate income pool", "low rate income pool"; s. 89(4) GRIP addition — becoming CCPC–89(15) Meaning of expression "deposit insurance corporation"; s. 96(1.11)(*b*) Deemed dividend of SIFT partnership; s. 104(16) SIFT deemed dividend; s. 121 Deduction for taxable dividends; s. 125(7), "Canadian-controlled private corporation", paragraph (*d*); s. 185.1 Tax on excessive eligible dividend designations; s. 185.2 Return; s. 248(1), "eligible dividend", "excessive eligible dividend designation", "general rate income pool", "low rate income pool"; s. 249(3.1) Year end on status change; s. 260(1.1) Eligible dividend; s. 260(5) Deemed dividend.

Tax Topics: No. 1919-20, 2008 Canadian Tax Foundation Annual Conference — Department of Finance Presentation and CRA Round Table; No. 1814, 2006 Canadian Tax Foundation Annual Conference CRA Round Table.

Tax Profile: January 2007 — Update on New Rules for the Taxation of Dividends.

► 89(15) ◄

(15) Meaning of expression "deposit insurance corporation". For the purposes of paragraphs 87(2)(*vv*) and (*ww*) (including, for greater certainty, in applying those paragraphs as provided under paragraph 88(1)(*e.2*)), the definitions "excessive eligible dividend designation", "general rate income pool", and "low rate income pool" in subsection (1) and subsections (4) to (6) and (8) to (10), a corporation is a deposit insurance corporation if it would be a deposit insurance corporation as defined in the definition "deposit insurance corporation" in subsection 137.1(5) were that definition read without reference to its paragraph (*b*) and were this Act read without reference to subsection 137.1(5.1).

History: S. 89(15) was added by S.C. 2007, c. 2, s. 47(2), applicable to taxation years that end after 2005.

SECTION 89.1: Paid-up capital. [Repealed by 1977-78, c. 1, s. 45(1).]

Subdivision i — Shareholders of Corporations Not Resident in Canada

SECTION 90:

► 90(1) ◄

(1) Dividends received from non-resident corporation. In computing the income for a taxation year of a taxpayer resident in Canada, there shall be included any amounts received by the taxpayer in the year as, on account or in lieu of payment of, or in satisfaction of, dividends on a share owned by the taxpayer of the capital stock of a corporation not resident in Canada.

Editorial Note: Section 90 provides that dividends received by a Canadian-resident taxpayer from a corporation that is not a resident of Canada are included in computing the taxpayer's income for the taxation year in which the dividends are received. A deduction in computing taxable income in respect of the dividend may be available under s. 113(1)(*a*) (dividends prescribed to be paid from exempt surplus, s. 113(1)(*b*) (underlying foreign tax applicable to dividends prescribed to be paid from taxable surplus), s.113(1)(*c*) (non-business income tax applicable to dividends prescribed to be paid from taxable surplus), s. 113(1)(*d*) (dividends prescribed to be paid from pre-acquisition surplus) and s. 113(2) (certain foreign shares held by taxpayer at the end of 1975) where the dividends are paid by a foreign affiliate of a taxpayer that is a corporation resident in Canada. In any other case, the taxpayer may be entitled to a deduction under s. 20(11) or (12) or a foreign tax credit under s. 126(1) or (2).

Related Sections: S. 12(1)(*k*) Dividends from other corporations; s. 20(11) Foreign taxes on income from property exceeding 15%; s. 20(12) Foreign non-business income tax; s. 20(12.1) Foreign tax where no economic profit; s. 20(13) Dividend on share from foreign affiliate of taxpayer; s. 53(2)(*b*) Amounts to be deducted — Share of non-resident corporation; s. 74.4(2)(*f*) Amounts included under s. 90(1) decreases deemed interest on a transfer or loan to a corporation in certain circumstances; s. 91(5) Amounts deductible in respect of dividends received; s. 91(6) Amounts deductible in respect of dividends received — shares acquired from another corporation; s. 91(7) Shares acquired from a partnership; s. 92(1)(*b*) Adjusted cost base decrease to the extent of s. 91(5) deduction for dividends from controlled foreign affiliate; s. 93(1) Election re disposition of share in foreign affiliate; s. 112(2) Dividends received from non-resident corporation; s. 113(1)(*a*) Exempt surplus deduction; s. 113(1)(*b*) Deduction for underlying foreign tax applicable to taxable surplus; s. 113(1)(*c*) Deduction for non-business income tax applicable to taxable surplus; s. 113(1)(*d*) Pre-acquisition surplus deduction; s. 113(2) Additional deduction; s. 126(1) Foreign tax deduction — non-business income; s. 126(2) Foreign tax deduction — business income; s. 139.1(4)(*f*) Deemed dividends arising on de-mutualization; s. 139.1(4)(*g*) Deemed dividends arising on de-mutualization; s. 139.2 Mutual holding corporations; s. 248(1), "amount", "corporation", "dividend", "resident in Canada", "share", "taxpayer"; s. 249 Definition of "taxation year"; s. 255 Canada.

Interpretation Bulletins: *Secondary* — IT-451R Deemed disposition and acquisition on ceasing to be or becoming resident in Canada.

Income Tax Technical News: Issue No. 11, U.S. spin-offs (divestitures) — Dividends in kind.

Tax Topics: No. 1884, Amounts Received by Shareholders from Foreign Corporations in the Course of Winding Up.

Tax Profile: February 2007 — U.S. Limited Liability Companies — The Good, the Bad and the Ugly; January 2006 — Foreign Source Income: Outbound Structures and Foreign Tax Credit Planning — Part I; February 2006 — Foreign Source Income: Outbound Structures and Foreign Tax Credit Planning — Part II.

► 90(2) ◄

(2) Deduction permitted in respect of dividend from foreign affiliate. [Repealed by 1974-75-76, c. 26, s. 55(1).]

► 90(3) ◄

(3) Deduction in respect of portion of dividend paid out of pre-acquisition surplus of foreign affiliate. [Repealed by 1974-75-76, c. 26, s. 55(1).]

SECTION 91:

► 91(1) ◄

(1) Amounts to be included in respect of share of foreign affiliate. In computing the income for a taxation year of a taxpayer resident in Canada, there shall be included, in respect of each share owned by the taxpayer of the capital stock of a controlled foreign affiliate of the taxpayer, as income from the share, the percentage of the foreign accrual property income of any controlled foreign affiliate of the taxpayer, for each taxation year of the affiliate ending in the taxation year of the taxpayer, equal to that share's participating percentage in respect of the affiliate, determined at the end of each such taxation year of the affiliate.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 91(1) of the Act is replaced by the following:

SECTION 91:

(1) Amounts to be included in respect of share of foreign affiliate. In computing the income for a particular taxation year of a taxpayer resident in Canada, there shall be included, in respect of each share owned by the taxpayer of the capital stock of a controlled foreign affiliate of the taxpayer, as income from the share, the percentage of the foreign accrual property income of any controlled foreign affiliate of the taxpayer, for each taxation year of the affiliate that ends in the particular taxation year, equal to that share's participating percentage in respect of the affiliate determined

(*a*) at the end of each such taxation year of the affiliate; and

(*b*) without regard to each share in respect of which subsection 94.2(9) applies to the taxpayer for the particular taxation year.

Applicable: To taxation years that begin after 2006, except that that subsection also applies to a taxation year of a taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the taxpayer.

Explanatory Note: Subsection 91(1) of the Act provides that a taxpayer that is resident in Canada must include in computing income an amount in respect of each share owned by the taxpayer of the capital stock of a controlled foreign affiliate of the taxpayer.

Subsection 91(1) is amended so that it does not result in additional income for a taxpayer in respect of shares that are participating interests in a "tracking entity" to which the prescribed rate regime under section 94.1 or the mark-to-market regime under section 94.2 applies by reason of the application of subsection 94.2(9). The shares of a taxpayer in the capital stock of a corporation that is a controlled foreign affiliate of the taxpayer will generally be treated as "exempt interests" (as defined in new subsection 94.1(1)), and therefore not subject to the income inclusions under subsections 94.1(4), 94.2(4) or 94.3(4) of the Act. However, if subsection 94.2(9) applies in respect of those shares (in particular, note that paragraph 94.2(9)(*b*) does not exclude the application of subsection 94.2(9) to an exempt interest that is an interest in a controlled foreign affiliate) either of subsections 94.1(4) or 94.2(4) will apply generally to require an amount to be included in computing the income of the taxpayer. Because of subparagraph 94.3(2)(*b*)(i), the accrual regime in section 94.3 will not apply in respect of an interest to which subsection 94.2(9) applies. The exception provided for such shares under subsection 91(1) is intended solely to prevent any incidence of double taxation that might otherwise arise.

For more details on the application of sections 94.1 to 94.4, see the commentary on those provisions.

This amendment applies to taxation years that begin after 2006.

Editorial Note: Subsection 91(1) is the cornerstone of the foreign accrual property income (FAPI) rules in the Act. Generally speaking, FAPI is comprised of passive income and active business income that erodes the Canadian tax

base. The FAPI rules eliminate the deferral of Canadian tax that would otherwise arise on income earned by a foreign corporation that is resident in a low tax jurisdiction by imputing FAPI earned by the affiliate to the Canadian resident shareholder. More particularly, in computing a Canadian resident taxpayer's income for a taxation year, s. 91(1) includes, in respect of each share of a controlled foreign affiliate that is owned by the taxpayer, the percentage of the affiliate's FAPI for the affiliate's taxation years ending in the particular taxation year of the shareholder that is equal to the share's participating percentage in respect of the affiliate determined at the end of the affiliate's taxation year. See the editorial note accompanying the definition of "participating percentage" in s. 95(1).

Subsection 91(1) is accompanied by a number of mechanical rules in s. 91 and s. 92 that, in very general terms, operate to eliminate double taxation of FAPI under the Act. In brief, the amount of a controlled foreign affiliate's FAPI included in a taxpayer's income in respect of a share of the affiliate for a particular year under s. 91(1) is added to the taxpayer's adjusted cost base of that share under s. 91(2)(*a*). If foreign accrual tax is applicable to the income then s. 91(4) provides that the taxpayer may deduct an amount in respect of the foreign accrual tax, which provides an indirect foreign tax credit for the foreign tax paid. Any amount deducted under s. 91(4) is deducted from the taxpayer's adjusted cost base of the shares of the affiliate. Where an affiliate pays a dividend, the taxpayer may be entitled to a deduction under s. 91(5) which, in effect, allows the repatriation of FAPI that was previously included in the taxpayer's income and added to the taxpayer's adjusted cost base of the affiliate's shares.

Related Sections: S. 12(1)(*k*) Dividends from other corporations; s. 17(1)(*b*)(iii) S. 17(1) inclusion reduced by FAPI attributable to interest on amount owing; s. 53(1)(*d*) Adjustments to cost base — Share of foreign affiliate; s. 53(2)(*b*) Amounts to be deducted — Share of non-resident corporation; s. 91(2) Reserve where foreign exchange restriction; s. 91(3) Reserve for preceding year to be included; s. 91(4) Amounts deductible in respect of foreign taxes; s. 91(5) Amounts deductible in respect of dividends received; s. 91(6) Amounts deductible in respect of dividends received — shares acquired from another corporation; s. 91(7) Shares acquired from a partnership; s. 92(1)(*a*) Adjusted cost base increase to the extent of FAPI and foreign exchange reserve inclusion; s. 92(1)(*b*) Adjusted cost base decreased by deduction for foreign accrual tax, foreign exchange reserve and dividends paid by affiliate; s. 95(1), "controlled foreign affiliate", "foreign accrual property income", "participating percentage", "taxation year"; s. 152(6.1) Reassessment where amount included in income under subsection 91(1) is reduced; s. 248(1), "resident in Canada", "share", "taxpayer"; s. 249 Definition of "taxation year"; s. 255 Canada.

Interpretation Bulletins: *Primary* — IT-392 Meaning of the term "share" [Archived by the CRA]. *Secondary* — IT-451R Deemed disposition and acquisition on ceasing to be or becoming resident in Canada.

Information Circulars: IC 77-9R Books, records and other requirements for taxpayers having foreign affiliates.

Tax Topics: No. 1930, Budget 2009 Provides Initial Response to Final Report Issued by the Advisory Panel on Canada's System of International Taxation; No. 1810, FAPI and Tax Treaty Interpretation: *Canwest Mediaworks Inc. v. Her Majesty the Queen.*

Tax Profile: January 2009 — Enhancing Canada's International Tax Advantage; September 2006 — Canadian Acquisition of U.S. Real Estate; January 2006 — Foreign Source Income: Outbound Structures and Foreign Tax Credit Planning — Part I; February 2006 — Foreign Source Income: Outbound Structures and Foreign Tax Credit Planning — Part II.

Canadian Petroleum Tax Journal: Moving Forward With Mobile Income, Chris Roberge, CA, CPA, Vol. 14 No. 1 2001.

Canadian Tax Foundation: Lanthier, "Canadian Foreign Affiliate Rules", *1997 Conference Report*, 31:1.

Cases: The wholly-owned foreign subsidiary of the taxpayer received dividend income which was not taxable according to the foreign law. The taxpayer included the dividend as "foreign accrual property income" but was not allowed a deduction based on s. 91(4). The tax treaty with the foreign country provided that the treaty was not to be construed as preventing Canada from imposing tax on amounts included in the income of a Canadian resident according to s. 91. *Canada–Israel Development Ltd. v. M.N.R.*, 85 DTC 718 (T.C.C.).

► 91(2) ◄

(2) Reserve where foreign exchange restriction. Where an amount in respect of a share has been included in computing the income of a taxpayer for a taxation year by virtue of subsection (1) or (3) and the Minister is satisfied that, by reason of the operation of monetary or exchange restrictions of a country other than Canada, the inclusion of the whole amount with no deduction for a reserve in respect thereof would impose undue hardship on the taxpayer, there may be deducted in computing the taxpayer's income for the year such amount as a reserve in respect of the amount so included as the Minister deems reasonable in the circumstances.

Editorial Note: Subsection 91(2) permits the taxpayer to deduct in computing income for the year an amount in respect of a reserve that the Minister considers reasonable where the Minister is satisfied that the inclusion in income of the whole amount of FAPI under s. 91(1) (or the s. 91(2) exchange reserve for a prior year) would impose hardship on the taxpayer because of monetary exchange controls in a foreign country. A deduction under s. 92(2) results in a corresponding deduction from the taxpayer's adjusted cost base of the affiliate's shares under s. 92(1)(*b*)(i) and s. 53(2)(*b*). The amount of the s. 91(2) reserve deducted in a particular year is included in the following taxation year by s. 91(3), which results in a corresponding addition to the taxpayer's adjusted cost base of the affiliate's shares under s. 92(1)(*a*) and s. 53(1)(*d*).

Related Sections: S. 12(1)(*k*) Dividends from other corporations; s. 53(2)(*b*) Amounts to be deducted — Share of non-resident corporation; s. 91(1) Amounts to be included in respect of share of foreign affiliate; s. 91(3) Reserve for preceding year to be included; s. 91(6) Amounts deductible in respect of dividends received — shares acquired from another corporation; s. 91(7) Shares acquired from a partnership; s. 92(1)(*b*) Adjusted cost base decreased by deduction for foreign accrual tax, foreign exchange reserve and dividends paid by affiliate; s. 248(1), "amount", "Minister", "share", "taxpayer"; s. 249 Definition of "taxation year"; s. 255 Canada.

► 91(3) ◄

(3) Reserve for preceding year to be included. In computing the income of a taxpayer for a taxation year, there shall be included each amount in respect of a share that was deducted by virtue of subsection (2) in computing the taxpayer's income for the immediately preceding year.

Editorial Note: Subsection 91(3) includes in income the amount of a s. 91(2) foreign exchange reserve that was deducted in computing the taxpayer's income in the immediately preceding taxation year. Where an amount is included in income under s. 91(3), an equivalent amount is added to the taxpayer's adjusted cost base of the shares of the affiliate under paragraph 92(1)(*a*) and paragraph 53(1)(*d*).

Related Sections: S. 12(1)(*k*) Dividends from other corporations; s. 53(1)(*d*) Adjustments to cost base — Share of foreign affiliate; s. 91(2) Reserve where foreign exchange restriction; s. 91(6) Amounts deductible in respect of dividends received — shares acquired from another corporation; s. 91(7) Shares acquired from a partnership; s. 92(1)(*a*) Adjusted cost base increase to the extent of FAPI and foreign exchange reserve inclusion; s. 92(1)(*b*) Adjusted cost base decreased by deduction for foreign accrual tax, foreign exchange reserve and dividends paid by affiliates; s. 248(1), "amount", "share", "taxpayer"; s. 249 Definition of "taxation year".

► 91(4) ◄

(4) Amounts deductible in respect of foreign taxes. Where, by virtue of subsection (1), an amount in respect of a share has been included in computing the income of a taxpayer for a taxation year or for any of the 5 immediately preceding taxation years (in this subsection referred to as the "income amount"), there may be deducted in computing the taxpayer's income for the year the lesser of

(*a*) the product obtained when

(i) the portion of the foreign accrual tax applicable to the income amount that was not deductible under this subsection in any previous year

is multiplied by

(ii) the relevant tax factor, and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 91(4)(*a*)(ii) of the Act is replaced by the following:

(ii) the taxpayer's relevant tax factor for the year, and

Applicable: To the 2002 and subsequent taxation years.

Explanatory Note: Subsection 91(4) of the Act provides for a deduction in computing the income of a taxpayer resident in Canada. The deduction is available where the taxpayer has included an amount under subsection 91(1) in computing income in respect of a share of the capital stock of a controlled foreign affiliate of the taxpayer. The deduction is generally determined with reference to foreign taxes payable by the affiliate and a "relevant tax factor". The "relevant tax factor" for a resident taxpayer is designed to permit a deduction for the resident taxpayer that will result in tax relief that is a proxy for a foreign tax credit in respect of foreign taxes payable by a controlled foreign affiliate of the resident taxpayer.

Subsection 91(4) is amended to explicitly link the "relevant tax factor" to the resident taxpayer and the taxation year for which the deduction under subsection 91(4) is claimed. For more detail on the definition "relevant tax factor" in subsection 95(1), see the commentary on that provision.

This amendment applies to the 2002 and subsequent taxation years.

(*b*) the amount, if any, by which the income amount exceeds the total of the amounts in respect of that share deductible under this subsection in any of the 5 immediately preceding taxation years in respect of the income amount.

Editorial Note: Subsection 91(4) provides an indirect foreign tax credit for foreign taxes paid (foreign accrual tax) in respect of FAPI included in computing the taxpayer's income under s. 91(1) in the year or the five preceding taxation years. The indirect credit provided by s. 91(4) is in the form of a deduction in computing income equal to the lesser of: (i) a "grossed-up" amount of the foreign accrual tax applicable to the relevant amount included under s. 91(1); and (ii) the amount by which the amount included income under s. 91(1) in the year (or the previous five taxation years) exceeds the amounts deductible under s. 91(4) in the five preceding taxation years. The "grossed-up" amount is the amount that results from multiplying the foreign accrual tax by the relevant tax factor. The relevant tax factor limits the indirect credit available to the federal tax rate that is assumed would apply to the amount included in income under s. 91(1).

Where an amount is deducted under s. 91(4) a corresponding amount is deducted from the taxpayer's adjusted cost base of the share of the affiliate under s. 95(2)(*b*)(i) and s. 53(2)(*b*).

Related Sections: S. 53(2)(*b*) Amounts to be deducted — Share of non-resident corporation; s. 91(1) Amounts to be included in respect of share of foreign affiliate; s. 91(6) Amounts deductible in respect of dividends received — shares acquired from another corporation; s. 91(7) Shares acquired from a partnership; s. 92(1)(*b*) Adjusted cost base decrease to the extent of foreign accrual tax deduction; s. 95(1), "foreign accrual tax", "relevant tax factor"; s. 248(1), "amount", "share", "taxpayer"; s. 249 Definition of "taxation year".
Tax Profile: June 2008 — International Tax Planning for the Owner-Manager; February 2007 — U.S. Limited Liability Companies — The Good, the Bad and the Ugly; January 2006 — Foreign Source Income: Outbound Structures and Foreign Tax Credit Planning — Part I; February 2006 — Foreign Source Income: Outbound Structures and Foreign Tax Credit Planning — Part II.

► 91(5) ◄

(5) Amounts deductible in respect of dividends received. Where in a taxation year a taxpayer resident in Canada has received a dividend on a share of the capital stock of a corporation that was at any time a controlled foreign affiliate of the taxpayer, there may be deducted, in respect of such portion of the dividend as is prescribed to have been paid out of the taxable surplus of the affiliate, in computing the taxpayer's income for the year, the lesser of

(*a*) the amount by which that portion of the dividend exceeds the amount, if any, deductible in respect thereof under paragraph 113(1)(*b*), and

(*b*) the amount, if any, by which

(i) the total of all amounts required by paragraph 92(1)(*a*) to be added in computing the adjusted cost base to the taxpayer of the share before the dividend was so received by the taxpayer

exceeds

(ii) the total of all amounts required by paragraph 92(1)(*b*) to be deducted in computing the adjusted cost base to the taxpayer of the share before the dividend was so received by the taxpayer.

Editorial Note: Subsection 91(5) provides a deduction in respect of a dividend received from a controlled foreign affiliate to the extent that the dividend relates to FAPI included in income in respect of a share of the affiliate under s. 91(1). Specifically, a deduction is available where the dividend is prescribed to be paid from taxable surplus, and is limited to the lesser of: (i) the amount deductible in respect of the dividend under s. 113(1)(*b*) (underlying foreign tax applicable to taxable surplus dividend); and (ii) the amount by which the total of all amounts added to the adjusted cost base of the taxpayer's shares of the affiliate under s. 92(1)(*a*) exceeds the amounts deducted from the adjusted cost base of those shares under s. 92(1)(*b*). Note that in the case of an individual taxpayer, regulation 5900(3) provides that the amount of the dividend is the amount prescribed to be paid from taxable surplus.

Where an amount is deducted under s. 91(5), a corresponding amount is deducted from the taxpayer's adjusted cost base of the shares of the affiliate under s. 95(2)(*b*)(ii) and s. 53(2)(*b*).

Related Sections: S. 12(1)(*k*) Dividends from other corporations; s. 20(13) Dividend on share from foreign affiliate of taxpayer; s. 53(2)(*b*) Amounts to be deducted — Share of non-resident corporation; s. 90 Dividends received from non-resident corporation; s. 91(6) Amounts deductible in respect of dividends received — shares acquired from another corporation; s. 91(7) Shares acquired from a partnership; s. 92(1)(*a*) Adjusted cost base increase to the extent of FAPI and foreign exchange reserve inclusion; s. 92(1)(*b*) Adjusted cost base decreased by deduction for foreign accrual tax, foreign exchange reserve and dividends paid by affiliate; s. 95(1), "controlled foreign affiliate"; s. 113(1)(*b*) Deduction for underlying foreign tax applicable to taxable surplus; s. 248(1), "resident in Canada", "share", "taxpayer"; s. 249 Definition of "taxation year".
Regulations: 5900(3).
Tax Profile: February 2007 — U.S. Limited Liability Companies — The Good, the Bad and the Ugly; January 2006 — Foreign Source Income: Outbound Structures and Foreign Tax Credit Planning — Part I; February 2006 — Foreign Source Income: Outbound Structures and Foreign Tax Credit Planning — Part II.

► 91(5.1) ◄

(5.1) Deduction of dividend by shareholder. [Repealed by S.C. 2009, c. 2, s. 23(1).]

History: S. 91(5.1) was repealed by S.C. 2009, c. 2, s. 23(1), applicable after 2011. S. 91(5.1) was previously added by S.C. 2007, c. 35, s. 24(1), applicable after 2011. This subsection was consequential to s. 18.2, which was added and repealed for the same period. See the editorial note following s. 18.2.

► 91(5.2) ◄

(5.2) Deduction of dividend by member of partnership. [Repealed by S.C. 2009, c. 2, s. 23(1).]

History: S. 91(5.2) was repealed by S.C. 2009, c. 2, s. 23(1), applicable after 2011. S. 91(5.2) was previously added by S.C. 2007, c. 35, s. 24(1), applicable after 2011. This subsection was consequential to s. 18.2, which was added and repealed for the same period. See the editorial note following s. 18.2.

► 91(5.3) ◄

(5.3) Deduction of capital gain by member of partnership. [Repealed by S.C. 2009, c. 2, s. 23(1).]

History: S. 91(5.3) was repealed by S.C. 2009, c. 2, s. 23(1), applicable after 2011. S. 91(5.3) was previously added by S.C. 2007, c. 35, s. 24(1), applicable after 2011. This subsection was consequential to s. 18.2, which was added and repealed for the same period. See the editorial note following s. 18.2.

► 91(6) ◄

(6) Idem. Where a share of the capital stock of a foreign affiliate of a taxpayer that is a taxable Canadian corporation is acquired by the taxpayer from another corporation resident in Canada with which the taxpayer is not dealing at arm's length, for the purpose of subsection (5), any amount required by section 92 to be added or deducted, as the case may be, in computing the adjusted cost base to the other corporation of the share shall be

deemed to have been so required to be added or deducted, as the case may be, in computing the adjusted cost base to the taxpayer of the share.

History: S. 91(6) was added by S.C. 1994, c. 7, Sched. II, s. 68(1), applicable to the 1990 and subsequent taxation years.

Editorial Note: Where a taxpayer that is a taxable Canadian corporation acquires shares of a foreign affiliate from a non-arm's length Canadian-resident corporation, s. 91(6) provides that all amounts required by s. 92 to be added or deducted from the transferor's adjusted cost base of a share of a foreign affiliate are deemed to be required to be added or deducted by s. 92 to the adjusted cost base of the taxpayer. Subsection 91(6) applies for the limited purpose of the dividend deduction rule in s. 91(5).

► 91(7) ◄

(7) Shares acquired from a partnership. For the purpose of subsection (5), where a taxpayer resident in Canada acquires a share of the capital stock of a corporation that is immediately after the acquisition a foreign affiliate of the taxpayer from a partnership of which the taxpayer, or a corporation resident in Canada with which the taxpayer was not dealing at arm's length at the time the share was acquired, was a member (each such person referred to in this subsection as the "member") at any time during any fiscal period of the partnership that began before the acquisition,

(*a*) that portion of any amount required by subsection 92(1) to be added to the adjusted cost base to the partnership of the share of the capital stock of the foreign affiliate equal to the amount included in the income of the member because of subsection 96(1) in respect of the amount that was included in the income of the partnership because of subsection (1) or (3) in respect of the foreign affiliate and added to that adjusted cost base, and

(*b*) that portion of any amount required by subsection 92(1) to be deducted from the adjusted cost base to the partnership of the share of the capital stock of the foreign affiliate equal to the amount by which the income of the member from the partnership under subsection 96(1) was reduced because of the amount deducted in computing the income of the partnership under subsection (2), (4) or (5) and deducted from that adjusted cost base

is deemed to be an amount required by subsection 92(1) to be added or deducted, as the case may be, in computing the adjusted cost base to the taxpayer of the share.

History: S. 91(7) was added by S.C. 2001, c. 17, s. 68(1), applicable to shares acquired after November 1999.

Related Sections: S. 54, "adjusted cost base"; s. 95(1), "foreign affiliate"; s. 248(1), "foreign affiliate"; s. 251(1) Arm's length.

SECTION 92:

► 92(1) ◄

[Editorial note: S. 92(1) was replaced by S.C. 2009, c. 2, applicable after 2011. See the history note below for the reading of s. 92(1) prior to 2012.]

(1) Adjusted cost base of share of foreign affiliate. In computing, at any time in a taxation year, the adjusted cost base to a taxpayer resident in Canada of any share owned by the taxpayer of the capital stock of a foreign affiliate of the taxpayer,

(*a*) there shall be added in respect of that share any amount included in respect of that share under subsection 91(1) or (3) in computing the taxpayer's income for the year or any preceding taxation year (or that would have been required to have been so included in computing the taxpayer's income but for subsection 56(4.1) and sections 74.1 to 75 of this Act and section 74 of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952); and

(*b*) there shall be deducted in respect of that share

(i) any amount deducted by the taxpayer under subsection 91(2) or (4), and

(ii) any dividend received by the taxpayer before that time, to the extent of the amount deducted by the taxpayer, in respect of the dividend, under subsection 91(5)

in computing the taxpayer's income for the year or any preceding taxation year (or that would have been deductible by the taxpayer but for subsection 56(4.1) and sections 74.1 to 75 of this Act and section 74 of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952).

History: S. 92(1) was replaced by S.C. 2009, c. 2, s. 24(1), applicable after 2011. S. 92(1) had been replaced by S.C. 2007, c. 35, applicable after 2011, pursuant to the addition of s. 18.2. S.C. 2009, c. 2 replaced s. 92(1) to delete the reference to s. 18.2 (pursuant to the repeal of s. 18.2) and to revise the wording in paragraph (*a*) slightly. S. 92(1) formerly read:

"S. 92. (1) *Adjusted cost base of share of foreign affiliate.* In computing, at any time in a taxation year, the adjusted cost base to a taxpayer resident in Canada of any share owned by the taxpayer of the capital stock of a foreign affiliate of the taxpayer,

(*a*) there shall be added any amount required to be included in respect of that share by reason of subsection 91(1) or (3) in computing the taxpayer's income for the year or any preceding taxation year (or that would have been so required to be included but for subsection 56(4.1) and sections 74.1 to 75 of this Act and section 74 of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952); and

(*b*) there shall be deducted in respect of that share

(i) any amount deducted by the taxpayer by reason of subsection 91(2) or (4), and

(ii) any dividend received by the taxpayer before that time to the extent of the amount deducted by the taxpayer in respect thereof by reason of subsection 91(5)

in computing the taxpayer's income for the year or any preceding taxation year (or that would have been deductible by the taxpayer but for subsection 56(4.1) and sections 74.1 to 75 of this Act and section 74 of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952)."

Related Sections: S. 53(1) Adjustments to cost base; s. 53(2) Amounts to be deducted.

Interpretation Bulletins: *Secondary* — IT-392 Meaning of the term "share" [Archived by the CRA]; IT-451R Deemed disposition and acquisition on ceasing to be or becoming resident in Canada.

Information Circulars: IC 77-9R Books, records and other requirements for taxpayers having foreign affiliates.

Pending Amendment

Draft Legislation — Foreign Affiliates — February 27, 2004

Section 92 of the Act is amended by adding the following after subsection (1):

(1.1) Where subsection (1.3) applies. Subsection (1.3) applies to a holder of a share (referred to in this subsection and subsections (1.2) and (1.3) as the "relevant share") of a foreign affiliate (referred to in this subsection and subsection (1.2) as the "relevant foreign affiliate") of a particular corporation resident in Canada in computing at any time (referred to in this subsection and subsections (1.2) and (1.3) as the "computation time") the adjusted cost base to the holder of the relevant share, if, at the computation time, there is a specified section 93 election related to the relevant share.

(1.2) Specified section 93 election. An election made by the particular corporation resident in Canada under subsection 93(1) or (1.2), as the case may be, in respect of a share of a particular foreign affiliate of the particular corporation that is disposed of at a time (referred to in this subsection as the "election time") before the computation time is, at the computation time, a specified section 93 election related to the relevant share if

(*a*) the particular foreign affiliate has, at the election time, an equity percentage in the relevant foreign affiliate;

(*b*) the relevant foreign affiliate was, at the election time, a foreign affiliate of the particular corporation;

(*c*) throughout the period that begins at the election time and ends at the computation time,

(i) the holder held the relevant share, and

(ii) the holder was

(A) a foreign affiliate of the particular corporation,

(B) a foreign affiliate of a corporation resident in Canada that was related to the particular corporation,

(C) a partnership of which a foreign affiliate of the particular corporation was a member, or

(D) a partnership of which a foreign affiliate, of a corporation resident in Canada that was related to the particular corporation, was a member;

(*d*) the relevant share was, at the election time, excluded property of the holder (or would have been, at the election time, excluded property of the holder if the holder had been a foreign affiliate of the particular corporation); and

(*e*) the relevant share is, at the computation time, excluded property of the holder (or would have been, at the computation time, excluded property of the holder if the holder had been a foreign affiliate of the particular corporation or of a corporation resident in Canada that is related to the particular corporation).

(1.3) Adjustments to adjusted cost base. If this subsection applies, the following rules apply in determining the adjusted cost base to the holder of the relevant share for the purposes described in subsection (1.4):

(*a*) there shall be added, to the adjusted cost base to the holder of the relevant share, the amount prescribed in respect of the relevant share in respect of the specified section 93 election, and

(*b*) there shall be deducted, from the adjusted cost base to the holder of the relevant share, the amount prescribed in respect of the relevant share in respect of the specified section 93 election.

(1.4) Applicability of subsection (1.3). The purposes described in this subsection are

(*a*) the computation, at any time after the election time, of the exempt surplus or deficit, the taxable surplus or deficit, and the underlying foreign tax, of the holder, in respect of the particular corporation resident in Canada or in respect of any other person that would, at the time after the election time, and if the taxpayer referred to in subparagraphs 95(2)(*f*)(iv) to (vii) were the particular corporation, be described by any of those subparagraphs; and

(*b*) the application, at any time after the election time, of paragraphs 95(2)(*c*.1) to (*e*.6).

Applicable: In respect of elections made under subsection 93(1) or (1.2) of the Act in respect of dispositions that occur after December 20, 2002, except that [the addition of subsections 92(1.1)–(1.4)] does not apply in respect of an election made under subsection 93(1) or (1.2) of the Act in respect of a disposition by a vendor of a share

(*a*) that is required to be made under an agreement in writing made by the vendor on or before December 20, 2002;

(*b*) that occurs on or before February 27, 2004, if a valid election in respect of the vendor was made [as described in the application of proposed paragraphs 95(2)(*c*.1) to (*c*.6)] or if none of paragraphs 88(3)(*a*), 95(2)(*c*.2) and 95(2)(*d*) to (*e*.5) of the Act applies to the disposition; or

(*c*) that occurs after February 27, 2004 if that disposition is required to be made under an agreement in writing made by the vendor on or before February 27, 2004 and if none of paragraphs 88(3)(*a*), 95(2)(*c*.2) and 95(2)(*d*) to (*e*.5) of the Act applies to the disposition.

Explanatory Note:

Subsection 92(1.1) — Where Subsection 92(1.3) Applies

New subsection 92(1.1) of the Act provides that new subsection 92(1.3) of the Act will apply to the holder of a share of a foreign affiliate of a corporation resident in Canada in computing at any time the adjusted cost base of the share if there is a "specified section 93 election" related to the share. Subsection 92(1.1) defines that share as the "relevant share", and defines such a time as the "computation time", for the purposes of subsections 92(1.2) and (1.3). Also, subsection 92(1.1) defines that foreign affiliate as the "relevant foreign affiliate", for the purpose of subsection 92(1.2).

For information regarding the coming-into-force of this subsection, refer to the commentary regarding new subsection 92(1.4).

Subsection 92(1.2) — Specified Section 93 Election

New subsection 92(1.2) of the Act establishes, for the purposes of subsections 92(1.1) and (1.3), whether an election made under subsection 93(1) or (1.2) by a particular corporation resident in Canada in respect of a share of a particular foreign affiliate of the particular corporation that is disposed of at a time before the computation time is, at the computation time, a "specified section 93 election" related to the relevant share. The time of that disposition is referred to in subsection 92(1.2) as the "election time".

Such an election is, at the computation time, a "specified section 93 election" related to the relevant share for the purposes of subsections 92(1.1) and (1.3) if

- the particular foreign affiliate has, at the election time, an equity percentage in the relevant foreign affiliate;
- the relevant foreign affiliate was, at the election time, a foreign affiliate of the particular corporation;
- throughout the period that begins at the election time and ends at the computation time;
  - the holder held the relevant share, and
  - the holder was
    - a foreign affiliate of the particular corporation,
    - a foreign affiliate of a corporation resident in Canada that was related to the particular corporation,
    - a partnership of which a foreign affiliate of the particular corporation was a member, or
    - a partnership of which a foreign affiliate, of a corporation resident in Canada that was related to the particular corporation, was a member;
- the relevant share was, at the election time, excluded property of the holder (or would at that time have been excluded property of the holder if the holder had been a foreign affiliate of the particular corporation); and
- the relevant share is, at the computation time, excluded property of the holder (or would at that time have been excluded property of the holder if the holder had been a foreign affiliate of the particular corporation or of a corporation resident in Canada that is related to the particular corporation).

For information regarding the coming-into-force of this subsection, refer to the commentary regarding new subsection 92(1.4).

Subsection 92(1.3) — Adjustments to Adjusted Cost Base

New subsection 92(1.3) of the Act contains rules that require adjustments to the adjusted cost base to the holder of the "relevant share". See the commentary to new subsection 92(1.1) for information regarding the circumstances that make subsection 92(1.3) apply. The adjustments are for the purposes described in subsection 92(1.4).

Under the rules contained in subsection 92(1.3), there is to be added to, or deducted from, as the case may be, the adjusted cost base to the holder of the relevant share the amount prescribed in new section 5911 of the Income Tax Regulations in respect of the specified section 93 election related to the relevant share.

For information regarding the coming-into-force of this subsection, refer to the commentary regarding new subsection 92(1.4).

Subsection 92(1.4) — Applicability of Subsection 92(1.3)

New subsection 92(1.4) of the Act sets out the purposes for which the adjustments described in new subsection 92(1.3) are applicable.

Those purposes are

- the computation of the exempt surplus or deficit, the taxable surplus or deficit, and the underlying foreign tax, of the holder, in respect of the corporation resident in

Canada, or in respect of any other person referred to in subparagraphs 95(2)(*f*)(iv) to (vii) on the assumption that the taxpayer referred to in those subparagraphs were the particular corporation resident in Canada, and

the application of paragraphs 95(2)(*c*.1) to (*e*.6), at any time after the time of the election.

Coming-into-Force

New subsections 92(1.1) to (1.4) apply in respect of elections made under subsection 93(1) or (1.2) in respect of dispositions that occur after December 20, 2002.

However, new subsections 92(1.1) to (1.4) will not apply in respect of elections made under subsection 93(1) or (1.2) in respect of a disposition by a vendor of a share if one of the following conditions are met:

- the disposition was required to be made under an agreement in writing made by the vendor on or before December 20, 2002,
- the disposition occurs on or before February 27, 2004 and either
  - a valid election was made by the taxpayer to have new paragraphs 95(2)(*c*.1) to (*c*.6) of the Act not apply (and to have a modified version of the draft paragraphs 93(1.4) to (1.6) of the Act that were announced on December 20, 2002 apply) to dispositions made after December 20, 2002 and on or before February 27, 2004, or
  - none of new paragraphs 88(3)(*a*), 95(2)(*c*.2) and 95(2)(*d*) to (*e*.5) of the Act applies to the disposition, or
- the disposition occurs after February 27, 2004 and that disposition is required to be made under an agreement in writing made by the vendor on or before February 27, 2004, and none of paragraphs 88(3)(*a*), 95(2)(*c*.2) and 95(2)(*d*) to (*e*.5) of the Act applies to the disposition.

For information about the aforementioned election and the aforementioned modified version of subsections 93(1.4) to (1.6), refer to the commentary to new paragraphs 95(2)(*c*.1) to (*c*.6).

► 92(2) ◄

(2) Deduction in computing adjusted cost base. In computing, at any time in a taxation year,

(*a*) the adjusted cost base to a corporation resident in Canada (in this subsection referred to as an "owner") of any share of the capital stock of a foreign affiliate of the corporation, or

(*b*) the adjusted cost base to a foreign affiliate (in this subsection referred to as an "owner") of a person resident in Canada of any share of the capital stock of another foreign affiliate of that person,

there shall be deducted, in respect of any dividend received on the share before that time by the owner of the share, an amount equal to the amount, if any, by which

(*c*) such portion of the amount of the dividend so received as was deductible by virtue of paragraph 113(1)(*d*) from the income of the owner for the year in computing the owner's taxable income for the year or as would have been so deductible if the owner had been a corporation resident in Canada,

exceeds

(*d*) such portion of any income or profits tax paid by the owner to the government of a country other than Canada as may reasonably be regarded as having been paid in respect of the portion described in paragraph (*c*).

Related Sections: S. 113(1)(*d*) Deduction in respect of dividend received from foreign affiliate.

► 92(3) ◄

(3) Idem. In computing, at any time in a taxation year, the adjusted cost base to a corporation resident in Canada of any share of the capital stock of a foreign affiliate of the corporation, there shall be deducted an amount in respect of any dividend received on the share by the corporation before that time equal to such portion of the amount so received as was deducted under subsection 113(2) from the income of the corporation for the year or any preceding year in computing its taxable income.

Related Sections: S. 2(2) Taxable income; s. 53(2) Amounts to be deducted; s. 54, "adjusted cost base"; s. 95(1), "foreign affiliate"; s. 248(1), "amount", "corporation", "dividend", "share"; s. 255 Canada.

► 92(4) ◄

(4) Disposition of a partnership interest. Where a corporation resident in Canada or a foreign affiliate of a corporation resident in Canada has at any time disposed of all or a portion of an interest in a partnership of which it was a member, there shall be added, in computing the proceeds of disposition of that interest, the amount determined by the formula

$$(A - B) \times (C/D)$$

where

A is the amount, if any, by which

(*a*) the total of all amounts each of which is an amount that was deductible under paragraph 113(1)(*d*) by the member from its income in computing its taxable income for any taxation year of the member that began before that time in respect of any portion of a dividend received by the partnership, or would have been so deductible if the member were a corporation resident in Canada,

exceeds

(*b*) the total of all amounts each of which is the portion of any income or profits tax paid by the partnership or the member of the partnership to a government of a country other than Canada that can reasonably be considered as having been paid in respect of the member's share of the dividend described in paragraph (*a*);

B is the total of

(*a*) the total of all amounts each of which was an amount added under this subsection in computing the member's proceeds of a disposition before that time of another interest in the partnership, and

(*b*) the total of all amounts each of which was an amount deemed by subsection (5) to be a gain of the member from a disposition before that time of a share by the partnership;

C is the adjusted cost base, immediately before that time, of the portion of the member's interest in the partnership disposed of by the member at that time; and

D is the adjusted cost base, immediately before that time, of the member's interest in the partnership immediately before that time.

History: S. 92(4) was added by S.C. 2001, c. 17, s. 69(1), applicable to dispositions that occur after November 1999.

Related Sections: S. 54, "adjusted cost base"; s. 95(1), "foreign affiliate"; s. 248(1), "foreign affiliate".

► 92(5) ◄

(5) Deemed gain from the disposition of a share. Where a partnership has, at any time in a fiscal period of the partnership at the end of which a corporation resident in Canada or a foreign affiliate of a corporation resident in Canada was a member, disposed of a share of the capital stock of a corporation, the amount determined under subsection (6) in respect of such a member is deemed to be a gain of the member from the disposition of the share by the partnership for the member's taxation year in which the fiscal period of the partnership ends.

History: S. 92(5) was added by S.C. 2001, c. 17, s. 69(1), applicable to dispositions that occur after November 1999.

► 92(6) ◄

(6) Formula. The amount determined for the purposes of subsection (5) is the amount determined by the formula

A – B

where

A is the amount, if any, by which

(*a*) the total of all amounts each of which is an amount that was deductible under paragraph 113(1)(*d*) by the member from its income in computing its taxable income for a taxation year in respect of any portion of a dividend received by the partnership on the share in a fiscal period of the partnership that began before the time referred to in subsection (5) and ends in the member's taxation year, or would have been so deductible if the member were a corporation resident in Canada,

exceeds

(*b*) the total of all amounts each of which is the portion of any income or profits tax paid by the partnership or the member to a government of a country other than Canada that can reasonably be considered as having been paid in respect of the member's share of the dividend described in paragraph (*a*); and

B is the total of all amounts each of which is an amount that was added under subsection (4) in computing the member's proceeds of a disposition before the time referred to in subsection (5) of an interest in the partnership.

History: S. 92(6) was added by S.C. 2001, c. 17, s. 69(1), applicable to dispositions that occur after November 1999.

SECTION 93:

► 93(1) ◄

(1) Election re disposition of share in foreign affiliate. For the purposes of this Act, where a corporation resident in Canada so elects, in prescribed manner and within the prescribed time, in respect of any share of the capital stock of a foreign affiliate of the corporation disposed of by it or by another foreign affiliate of the corporation,

(*a*) the amount (in this subsection referred to as the "elected amount") designated by the corporation in its election not exceeding the proceeds of disposition of the share shall be deemed to have been a dividend received on the share from the affiliate by the disposing corporation or disposing affiliate, as the case may be, immediately before the disposition and not to have been proceeds of disposition; and

Pending Amendment

Draft Legislation — Foreign Affiliates — February 27, 2004

Paragraph 93(1)(*a*) of the Act is replaced by the following:

(*a*) the amount (which may not exceed the lesser of the proceeds of disposition of the share and the amount prescribed in respect of the share) designated by the corporation in its election (referred to in this subsection as the "elected amount") is deemed

(i) to have been a dividend received on the share from the affiliate by the disposing corporation or the disposing affiliate, as the case may be, immediately before the disposition, and

(ii) not to have been received as proceeds of disposition; and

Applicable: To dispositions that occur after December 20, 2002, except that those subsections do not apply to a disposition by a vendor of a share

(*a*) that is required to be made under an agreement in writing made by the vendor on or before December 20, 2002;

(*b*) that occurs on or before February 27, 2004, if a valid election in respect of the vendor was made [as described in the application of proposed paragraphs 95(2)(*c*.1) to (*c*.6)] or if none of paragraphs 88(3)(*a*), 95(2)(*c*.2) and 95(2)(*d*) to (*e*.5) of the Act applies to the disposition; or

(*c*) that occurs after February 27, 2004 if that disposition is required to be made under an agreement in writing made by the vendor on or before February 27, 2004 and if none of paragraphs 88(3)(*a*), 95(2)(*c*.2) and 95(2)(*d*) to (*e*.5) of the Act applies to the disposition.

Explanatory Note:

Election re Disposition of Share in Foreign Affiliate

Subsection 93(1) of the Act permits a corporation resident in Canada that disposes of a share of a foreign affiliate of the corporation to elect to receive the proceeds of disposition of the share as a dividend on the share rather than as proceeds of disposition of the share.

Paragraph 93(1)(*a*) of the Act provides that the amount elected in respect of the proceeds of disposition cannot exceed the proceeds of disposition of the share otherwise determined and that the amount elected is deemed to be a dividend received on the share and is deemed not to be proceeds of disposition. The amendments to subparagraph 93(1)(*a*) provide that the amount elected in respect of the proceeds of disposition of the share cannot exceed those proceeds of disposition otherwise determined, nor exceed the amount prescribed, under proposed new subsection 5902(6) of the Regulations, in respect of the share being disposed of.

Refer to the coming-into-force commentary below to determine the coming-into-force dates for these amendments.

Coming-into-Force (ITA 93(1)(a), 93(1.1), 93(1.2), (1.3) and (1.4))

The amendments to paragraph 93(1)(*a*), to subsection 93(1.1) and to subparagraph 93(1.2)(*a*)(i) apply to dispositions that occur after December 20, 2002.

However, those amendments will not apply in respect of dispositions by a vendor if one of the following conditions are met:

- the disposition is required to be made under an agreement in writing made by the vendor on or before December 20, 2002,
- the disposition occurs on or before February 27, 2004 and either
- a valid election was made by the taxpayer to have new paragraphs 95(2)(*c*.1) to (*c*.6) of the Act not apply (and to have a modified version of the draft paragraphs 93(1.4) to (1.6) of the Act that were announced on December 20, 2002 apply) to dispositions made after December 20, 2002 and on or before February 27, 2004, or
- none of new paragraphs 88(3)(*a*), 95(2)(*c*.2), and 95(2)(*d*) to (*e*.5) of the Act applies to the disposition, or
- the disposition occurs after February 27, 2004, that disposition is required to be made under an agreement in writing made by the vendor on or before February 27, 2004 and none of new paragraphs 88(3)(*a*), 95(2)(*c*.2) and 95(2)(*d*) to (*e*.5) of the Act applies to the disposition.

For information about the aforementioned election and the aforementioned modified version of subsections 93(1.4) to (1.6), refer to the commentary to new paragraphs 95(2)(*c*.1) to (*c*.6).

The amendment to the preamble of subsection 93(1.2) applies to dispositions that occur after November 1999.

New subsection 93(1.4) applies to dispositions that occur after February 27, 2004.

(*b*) where subsection 40(3) applies to the disposing corporation or disposing affiliate, as the case may be, in respect of the share,

(i) the amount deemed by that subsection to be the gain of the disposing corporation or disposing affiliate, as the case may be, from the disposition of the share shall, except for the purposes of paragraph 53(1)(*a*), be deemed to be equal to the amount, if any, by which

(A) the amount deemed by that subsection to be the gain from the disposition of the share determined without reference to this subparagraph

exceeds

(B) the elected amount, and

(ii) for the purposes of determining the exempt surplus, exempt deficit, taxable surplus, taxable deficit and underlying foreign tax of the affiliate in respect of the corporation resident in Canada (within the meanings assigned by Part LIX of the Income Tax Regulations), the affiliate is deemed to have redeemed at the time of the disposition shares of a class of its capital stock.

History: S. 93(1)(*b*)(ii) was amended by S.C. 2001, c. 17, s. 70(1), applicable to dispositions that occur after November 1999. S. 93(1)(*b*)(ii) formerly read:

"(ii) for the purposes of determining the exempt surplus, exempt deficit, taxable surplus, taxable deficit and underlying foreign tax of the affiliate in respect of the corporation resident in Canada (within the meanings assigned by the regulations for the purpose of section 95), the affiliate shall be deemed at the time of disposition to have redeemed shares of a class of its capital stock."

S. 93(1) was amended by S.C. 1994, c. 7, Sched. II, s. 69(1), applicable to the 1987 and subsequent taxation years. S. 93(1) formerly read:

"S. 93. *Election re disposition of share in foreign affiliate.*

(1) Where at any time a corporation resident in Canada has so elected, in prescribed manner and within the prescribed time, in respect of any share of the capital stock of a foreign affiliate of the corporation disposed of by it or by another foreign affiliate of the corporation, for the purposes of this Act, an amount equal to the lesser of

(*a*) the amount designated by the corporation in its election, and

(*b*) the proceeds of disposition of the share

shall be deemed to have been a dividend received on the share from the affiliate by the disposing corporation or disposing affiliate, as the case may be, immediately before the disposition and not to have been proceeds of disposition."

Related Sections: S. 53(2) Amounts to be deducted; s. 54, "adjusted cost base", "proceeds of disposition"; s. 87(2)(*u*) Shares of foreign affiliate; s. 95(1), "foreign affiliate".

Regulations: 5902.

Interpretation Bulletins: *Secondary* — IT-392 Meaning of the term "share" [Archived by the CRA].

Information Circulars: IC 76-19R3 Transfer of property to a corporation under section 85; IC 77-9R Books, records and other requirements for taxpayers having foreign affiliates.

Forms: T2107.

Tax Profile: December 2004 — Taxation of Dividends: A Survey in the Context of Private Corporations and Their Shareholders — Part 2; June 2003 — The December 20, 2002 Technical Amendments to the Income Tax Act; April 2002 — Tax Considerations for Canadian Businesses Expanding to the U.S.

Canadian Tax Foundation: Colborne and McLaren, "'Section 93 Elections", in International Tax Planning Feature", *2007 Canadian Tax Journal*, No. 4, 855; Nikolakakis, "The 1999-2000 Foreign Affiliate Amendments: Partnerships, Foreign Exchange Issues And The Use Of Losses", *2000 Conference Report*, 14:1.

Canadian Petroleum Tax Journal: Foreign Affiliate Surplus: Got Enough?, Talakshi and Samuel, Vol. 18 No. 1 2005.

► 93(1.1) ◄

(1.1) Idem. Where at any time shares of the capital stock of a foreign affiliate of a corporation resident in Canada that are excluded property are disposed of by another foreign affiliate of the corporation (other than a disposition to which paragraph 95(2)(*c*), (*d*) or (*e*) applies), the corporation shall be deemed to have made an election at that time under subsection (1) in respect of each such share disposed of and in the election to have designated an amount equal to such amount as is prescribed.

Pending Amendment

Draft Legislation — Foreign Affiliates — February 27, 2004

Subsection 93(1.1) of the Act is replaced by the following:

(1.1) Deemed election. If at any time shares of the capital stock of a foreign affiliate of a corporation resident in Canada are disposed of by another foreign affiliate of the corporation, the corporation is deemed

(*a*) to have made an election at that time under subsection (1) in respect of each of those shares; and

(*b*) to have designated, in the election, the amount prescribed in respect of each of those shares.

Applicable: To dispositions that occur after December 20, 2002, except that those subsections do not apply to a disposition by a vendor of a share

(*a*) that is required to be made under an agreement in writing made by the vendor on or before December 20, 2002;

(*b*) that occurs on or before February 27, 2004, if a valid election in respect of the vendor was made [as described in the application of proposed paragraphs 95(2)(*c*.1) to (*c*.6)] or if none of paragraphs 88(3)(*a*), 95(2)(*c*.2) and 95(2)(*d*) to (*e*.5) of the Act applies to the disposition; or

(*c*) that occurs after February 27, 2004 if that disposition is required to be made under an agreement in writing made by the vendor on or before February 27, 2004 and if none of paragraphs 88(3)(*a*), 95(2)(*c*.2) and 95(2)(*d*) to (*e*.5) of the Act applies to the disposition.

Explanatory Note:

Deemed Election

Subsection 93(1.1) of the Act provides that the rules in subsection 93(1) will automatically apply in respect of a disposition of a share of a foreign affiliate of a corporation resident in Canada by another foreign affiliate of the corporation, without the need for an election, where the share disposed of was "excluded property" (as defined in subsection 95(1)) of the vendor (other than a disposition of a share that is excluded property to which paragraph 95(2)(*c*), (*d*) or (*e*) applies). The amount of the deemed election in respect of the proceeds of disposition of the share is determined by the Regulations but will not in any event exceed the vendor's capital gain otherwise determined in respect of the disposition.

Subsection 93(1.1) is amended

- to remove the requirement that the shares be excluded property of the foreign affiliate of the corporation resident in Canada that disposed of the share, and
- to remove the rule that made the deemed election apply in respect of a disposition, of a share that is an excluded property, to which paragraph 95(2)(*c*), (*d*) or (*e*) applies. (Such a rule is no longer needed, as the excluded property requirement has been removed altogether.)

Refer to the coming-into-force commentary below to determine the coming-into-force dates for these amendments

[See the Explanatory Note following the amendment to paragraph 93(1)(*a*) for the coming-into-force commentary for paragraph 93(1)(*d*) and subsections 93(1.1), (1.2), (1.3) and (1.4).]

► 93(1.2) ◄

(1.2) Disposition of shares of a foreign affiliate held by a partnership. Where a particular corporation resident in Canada or a foreign affiliate of the particular corporation (each of which is referred to in this subsection as the "disposing corporation") would, but for this subsection, have a taxable capital gain from a disposition by a partnership, at any time, of shares of a class of the capital stock of a foreign affiliate of the particular corporation and the particular corporation so elects in prescribed manner in respect of the disposition,

Pending Amendment

Draft Legislation — Foreign Affiliates — February 27, 2004

The portion of subsection 93(1.2) of the Act before paragraph (*a*) is replaced by the following:

(1.2) Disposition of shares of a foreign affiliate held by a partnership. If a particular corporation resident in Canada or a foreign affiliate of the particular corporation (each of which is referred to in this subsection as the "disposing corporation") would, but for this subsection, have a taxable capital gain from a disposition by a partnership, at any time, of shares of a class of the capital stock of a foreign affiliate of the particular corporation and the particular corporation so elects in prescribed manner and within the prescribed time in respect of the disposition,

Applicable: To dispositions that occur after November 1999.

Explanatory Note: [See the Explanatory Note reproduced following the amendment to subparagraph 93(1.2)(*a*)(i).]

(*a*) twice

(i) the amount designated by the particular corporation (which amount shall not exceed the amount that is equal to the proportion of the taxable capital gain of the partnership that the number of shares of that class of the capital stock of the foreign affiliate, determined as the amount, if any, by which the number of those shares that were deemed to have been owned by the disposing corporation for the purposes of subsection 93.1(1) immediately before the disposition exceeds the number of those shares that were deemed to have been owned for those purposes by the disposing corporation immediately after the disposition, is of the number of those shares of the foreign affiliate that were owned by the partnership immediately before the disposition), or

Pending Amendment

Draft Legislation — Foreign Affiliates — February 27, 2004

Subparagraph 93(1.2)(*a*)(i) of the Act is replaced by the following:

(i) the amount that the particular corporation designates that may not exceed the lesser of

(A) the amount determined by the formula

$$K \times L/M$$

where

K is the taxable capital gain of the partnership,

L is the number of shares of that class of the capital stock of the foreign affiliate, determined as the amount, if any, by which the number of those shares that were deemed to have been owned by the disposing corporation for the purposes of subsection 93.1(1) immediately before the disposition exceeds the number of those shares that were deemed to have been owned for those purposes by the disposing corporation immediately after the disposition, and

M is the number of those shares of the foreign affiliate that were owned by the partnership immediately before the disposition, and

(B) the amount prescribed in respect of the share, or

Applicable: To dispositions that occur after December 20, 2002, except that those subsections do not apply to a disposition by a vendor of a share

(*a*) that is required to be made under an agreement in writing made by the vendor on or before December 20, 2002;

(*b*) that occurs on or before February 27, 2004, if a valid election in respect of the vendor was made [as described in the application of proposed paragraphs 95(2)(*c*.1) to (*c*.6)] or if none of paragraphs 88(3)(*a*), 95(2)(*c*.2) and 95(2)(*d*) to (*e*.5) of the Act applies to the disposition; or

(*c*) that occurs after February 27, 2004 if that disposition is required to be made under an agreement in writing made by the vendor on or before February 27, 2004 and if none of paragraphs 88(3)(*a*), 95(2)(*c*.2) and 95(2)(*d*) to (*e*.5) of the Act applies to the disposition.

Explanatory Note:

Disposition of a Share of a Foreign Affiliate Held by a Partnership

Subsection 93(1.2) of the Act provides that, where a particular corporation resident in Canada or a foreign affiliate of the particular corporation (each of which is referred to as the "disposing corporation") would, but for that subsection, have a taxable capital gain from a disposition by the partnership of a particular share of a class of the capital stock of a foreign affiliate of the corporation, and the disposing corporation elects in prescribed manner in respect of the gain, the amount designated in the election will reduce the taxable capital gain and will be grossed-up and treated as a dividend received on the particular share by the disposing corporation.

Subsection 93(1.2) is being amended in the following ways:

- The preamble of that section is amended to add a requirement that the election in respect of the disposition be filed "within the prescribed time".
- Subparagraph (*a*)(i) of that section is amended to provide that the amount designated by the corporation in the election cannot exceed the lesser of two amounts.
- The first amount is the amount determined by the following formula

$$K \times L/M$$

where

K is the taxable capital gain of the partnership,

L is the number of shares of that class of the capital stock of the foreign affiliate, determined as the amount, if any, by which the number of those shares that were deemed to have been owned by the disposing corporation for the purposes of subsection 93.1(1) immediately before the disposition exceeds the number of those shares that were deemed to have been owned for those purposes by the disposing corporation immediately after the disposition, and

M is the number of those shares of the foreign affiliate that were owned by the partnership immediately before the disposition; and

- the second amount is the amount prescribed in respect of the share (see new Regulation 5902(7)).

Refer to the coming-into-force commentary below to determine the coming-into-force dates for these amendments.

[See the Explanatory Note following the amendment to paragraph 93(1)(*a*) for the coming-into-force commentary for paragraph 93(1)(*d*) and subsections 93(1.1), (1.2), (1.3) and (1.4).]

(ii) where subsection (1.3) applies, the amount prescribed for the purpose of that subsection

in respect of those shares is deemed to have been a dividend received immediately before that time on the number of those shares of the foreign affiliate which shall be determined as the amount, if any, by which the number of those shares that the disposing corporation was deemed to own for the purpose of subsection 93.1(1) immediately before the disposition exceeds the number of those shares of the foreign affiliate that the disposing corporation was deemed to own for the purposes of subsection 93.1(1) immediately after the disposition;

(*b*) notwithstanding section 96, the disposing corporation's taxable capital gain from the disposition of those shares is deemed to be the amount, if any, by which the disposing corporation's taxable capital gain from the disposition of the shares otherwise

determined exceeds the amount designated by the particular corporation in respect of the shares;

(*c*) for the purpose of any regulation made under this subsection, the disposing corporation is deemed to have disposed of the number of those shares of the foreign affiliate which shall be determined as the amount, if any, by which the number of those shares that the disposing corporation was deemed to own for the purposes of subsection 93.1(1) immediately before the disposition exceeds the number of those shares that the disposing corporation was deemed to own for those purposes immediately after the disposition;

(*d*) for the purposes of section 113 in respect of the dividend referred to in paragraph (*a*), the disposing corporation is deemed to have owned the shares on which that dividend was received; and

(*e*) where the disposing corporation has a taxable capital gain from the partnership because of the application of subsection 40(3) to the partnership in respect of those shares, for the purposes of this subsection, the shares are deemed to have been disposed of by the partnership.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 70(11) of the Act [*Income Tax Amendments Act, 2000*, S.C. 2001, c. 17, application of amendments to subsections 93(1.2), 93(2) and 93(2.2) — but this revision only affects the application of the amendment to subsection 93(1.2)] is replaced by the following:

(11) Subsections (4), (5) and (7) apply to taxation years that end after February 27, 2000, except that, for a taxation year of a taxpayer that includes February 28, 2000 or October 17, 2000, or began after February 28, 2000 and ended before October 17, 2000, the references to "twice" in subsection 93(1.2) of the Act, as enacted by subsection (4), in subsection 93(2) of the Act, as enacted by subsection (5), and in subsection 93(2.2) of the Act, as enacted by subsection (7), are to be read as references to "the fraction that is the reciprocal of the fraction in paragraph 38(*a*) of the Act, as enacted by subsection 22(1) of the *Income Tax Amendments Act, 2000*, that applies to the taxpayer for the year, multiplied by".

Applicable: Deemed to have come into force on June 14, 2001.

Explanatory Note:

Disposition of Shares in a Foreign Affiliate

Section 93 of the *Income Tax Act* contains a number of rules relating to the disposition of shares of a foreign affiliate of a taxpayer resident in Canada.

Subsection 93(1.2) provides that, where a particular corporation resident in Canada or a foreign affiliate of the particular corporation (each of which is referred to as the "disposing corporation") would, but for this subsection, have a taxable capital gain from a partnership from the disposition by the partnership of shares of a class of the capital stock of a foreign affiliate of the corporation, and the disposing corporation so elects in prescribed manner in respect of the gain, the amount designated will reduce the taxable capital gain and will be grossed up and recharacterized as a dividend received on the share by the disposing corporation.

Paragraph 93(1.2)(*a*) provides that twice the amount designated by the disposing corporation in respect of the shares (or where subsection 93(1.3) applies, twice the amount determined under that subsection) will be treated as a dividend received on the shares by the disposing corporation from the foreign affiliate.

Before the present amendment, subsection 93(1.2) was applicable to taxation years that end after February 27, 2000. This amendment ensures that, for a taxation year of a taxpayer that includes either February 28, 2000 or October 17, 2000 or began after February 28, 2000 and ended before October 17, 2000, the reference to the word "twice" is to read as references to the reciprocal of the capital gains inclusion rate applicable to the corporation resident in Canada or to the foreign affiliate for the taxation year. This amendment corrects a technical deficiency.

History: S. 93(1.2) was amended by S.C. 2001, c. 17, s. 70(4), by replacing the reference to the expression "4/3 of" with a reference to the word "twice", applicable to taxation years that end after February 27, 2000.

S. 93(1.2) was added by S.C. 2001, c. 17, s. 70(2), applicable to dispositions that occur after November 1999.

Proposed Regulations: 5902(7).

► 93(1.3) ◄

(1.3) Deemed election. Where a foreign affiliate of a particular corporation resident in Canada has a gain from the disposition by a partnership at any time of shares of a class of the capital stock of a foreign affiliate of the particular corporation that are excluded property, the particular corporation is deemed to have made an election under subsection (1.2) in respect of the number of shares of the foreign affiliate which shall be determined as the amount, if any, by which the number of those shares that the disposing corporation was deemed to own for the purposes of subsection 93.1(1) immediately before the disposition exceeds the number of those shares that the disposing corporation was deemed to own for those purposes immediately after the disposition.

History: S. 93(1.3) was added by S.C. 2001, c. 17, s. 70(2), applicable to dispositions that occur after November 1999.

Pending Amendment

Draft Legislation — Foreign Affiliates — February 27, 2004

Section 93 of the Act is amended by adding the following after subsection (1.3):

(1.4) No election. Notwithstanding subsections (1) to (1.3), no election may be made under subsection (1) or (1.2) by a corporation in respect of a disposition of a share of the capital stock of a foreign affiliate of the corporation if any of paragraph 88(3)(*a*) and subparagraphs 95(2)(*d*)(i), (*d*.1)(i), (*e*)(i), (*e*.1)(i), (*e*.2)(i), (*e*.3)(i), (*e*.4)(i) and (*e*.5)(i) applies to the disposition.

Applicable: To dispositions that occur after February 27, 2004.

Explanatory Note:

No Election

New subsection 93(1.4) of the Act provides that, notwithstanding subsections 93(1) to (1.3), no election may be made under subsection 93(1) or (1.2) by a corporation in respect of a disposition of a share of the capital stock of a foreign affiliate of the corporation if any of paragraph 88(3)(*a*) and subparagraphs 95(2)(*d*)(i), (*d*.1)(i), (*e*)(i), (*e*.1)(i), (*e*.2)(i), (*e*.3)(i), (*e*.4)(i) and (*e*.5)(i) applies to the disposition.

Refer to the coming-into-force commentary below to determine the coming-into-force dates for this new subsection.

[See the Explanatory Note following the amendment to paragraph 93(1)(*a*) for the coming-into-force commentary for paragraph 93(1)(*d*) and subsections 93(1.1), (1.2), (1.3) and (1.4).]

► 93(2) ◄

(2) Loss limitation on disposition of share. Where

(*a*) a corporation resident in Canada has a loss from the disposition by it at any time of a share of the capital stock of a foreign affiliate of the corporation

(in this subsection referred to as the "affiliate share"), or

(*b*) a foreign affiliate of a corporation resident in Canada has a loss from the disposition by it at any time of a share of the capital stock of another foreign affiliate of the corporation resident in Canada that is not excluded property (in this subsection referred to as the "affiliate share"),

the amount of the loss is deemed to be the amount determined by the formula

$$A - (B - C)$$

Pending Amendment

Draft Legislation — Foreign Affiliates — February 27, 2004

The formula in subsection 93(2) of the Act is replaced by the following:

$$A - (B - C) + D$$

Applicable: To taxation years, of a foreign affiliate of a taxpayer, that begin after February 27, 2004, except that if the taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act is assented to, this amendment applies to taxation years of the taxpayer and of all the taxpayer's foreign affiliates that begin after 1994, and, notwithstanding subsections 152(4) to (5) of the Act, any assessment of the taxpayer's tax, interest and penalties payable under the Act for any of those taxation years that begin on or before February 27, 2004 shall be made that is necessary to take the election into account.

Explanatory Note:

Loss Limitation on Disposition of Share

Subsection 93(2) of the Act provides rules for the purpose of determining the loss of a corporation resident in Canada from the disposition of a share of a foreign affiliate of the corporation or the loss of a foreign affiliate of the corporation from a disposition of a share of the capital stock of another foreign affiliate of the corporation that is not excluded property to the foreign affiliate that disposed of the share.

The amount of the loss, determined without reference to this subsection, is reduced by exempt dividends received, on the share or a share for which the share was substituted, by the corporation resident in Canada, by another corporation resident in Canada that is related to the corporation or by a foreign affiliate of either of those corporations resident in Canada (to the extent that the exempt dividends have not already reduced losses or allowable capital losses of those corporations or foreign affiliates under subsection 93(2), (2.1), (2.2) or (2.3) of the Act). The term "exempt dividend" is defined in subsection 93(3) of the Act.

Subsection 93(2) of the Act is being amended to permit the corporation resident in Canada or its foreign affiliate to restore a loss from a disposition of a share of the capital stock of a foreign affiliate of the corporation resident in Canada to the extent of the lesser of two amounts.

- The first amount is the reduction of that loss which is attributable to exempt dividends.
- The second amount is the total of the following gains determined in respect of the corporation resident in Canada or the foreign affiliate, as the case may be, that disposed of the share:
  - The foreign exchange gain arising on the settlement or extinguishment of an obligation issued or incurred to acquire the share.
  - The foreign exchange gain arising on the redemption, acquisition or cancellation of shares issued to acquire the share.
  - The gain arising under an agreement that provides for the purchase, sale or exchange of a currency, or from the disposition of a currency, that was entered into or acquired for hedging the foreign exchange exposure arising in connection with the acquisition of the share.

First, the formula in subsection 93(2) is amended by adding the new variable "D" and will read as follows:

$$A - (B - C) + D$$

Second, the addition to the loss under new variable D will be determined as the lesser of

- The reduction of the loss in respect of exempt dividends (determined as (B – C) in the formula), and
- The total of the following amounts determined in respect of the corporation resident in Canada or the foreign affiliate of the corporation resident in Canada, as the case may be:
  - the amount of the capital gain determined under paragraph 39(2)(*a*) for the taxation year that includes that time in respect of
    - — the settlement or extinguishment of an obligation of the corporation resident in Canada or of the foreign affiliate of the corporation resident in Canada, as the case may be, that can reasonably be considered to have been issued or incurred in relation to the acquisition of the affiliate share by the corporation resident in Canada or by the foreign affiliate of the corporation resident in Canada, as the case may be, or
    - — the redemption, acquisition or cancellation of a share of the capital stock of a corporation resident in Canada or of the foreign affiliate of the corporation resident in Canada, as the case may be, that can reasonably be considered to have been issued in relation to the acquisition of the affiliate share by the corporation resident in Canada or by the foreign affiliate of the corporation resident in Canada, as the case may be, and
  - the amount of any gain realized by the corporation resident in Canada or by the foreign affiliate of the corporation resident in Canada, as the case may be, under an agreement that provides for the purchase, sale or exchange of currency, or from the disposition of a currency, which agreement or currency, as the case may be, can reasonably be considered to have been entered into or acquired, by the corporation resident in Canada or by the foreign affiliate resident in Canada, as the case may be, for the principal purpose of hedging the foreign exchange exposure arising in connection with the acquisition of the affiliate share.

Refer to the coming-into-force commentary below to determine the coming-into-force for this new subsection.

Coming-into-Force (ITA 93(2), 93(2.1), 93(2.2) and 93(2.3))

The amendments to subsections 93(2), 93(2.1), 93(2.2) and (2.3) of the Act apply to taxation years, of foreign affiliates of a taxpayer, that begin after February 27, 2004. However, if the taxpayer so elects in writing and files that election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxation year in which these amendments are assented to, the amendments will apply taxation years of the taxpayer and all foreign affiliates of the taxpayer that begin after 1994.

where

A is the amount of the loss determined without reference to this subsection,

B is the total of all amounts each of which is an amount received before that time, in respect of an exempt dividend on the affiliate share or on a share for which the affiliate share was substituted, by

(*a*) the corporation resident in Canada,

(*b*) a corporation related to the corporation resident in Canada,

(*c*) a foreign affiliate of the corporation resident in Canada, or

(*d*) a foreign affiliate of a corporation related to the corporation resident in Canada, and

C is the total of

(*a*) the total of all amounts each of which is the amount by which a loss (determined without reference to this section), from another disposition at or before that time by a corporation or foreign affiliate described in the description of B of the affiliate share or a share for which the affiliate share was substituted, was reduced under this subsection in respect of the exempt dividends referred to in the description of B,

(*b*) the total of all amounts each of which is twice the amount by which an allowable capital loss (determined without reference to this section), of a corporation or foreign affiliate described in the description of B from a previous disposition by a partnership of the affiliate share or a share for which the affiliate share was substituted, was reduced under subsection (2.1) in respect of the exempt dividends referred to in the description of B,

(*c*) the total of all amounts each of which is the amount by which a loss (determined without reference to this section), from a disposition at or before that time by a corporation or foreign affiliate described in the description of B of an interest in a partnership, was reduced under subsection (2.2) in respect of the exempt dividends referred to in the description of B, and

(*d*) the total of all amounts each of which is twice the amount by which an allowable capital loss (determined without reference to this section), of a corporation or foreign affiliate described in the description of B from a disposition at or before that time by a partnership of an interest in another partnership, was reduced under subsection (2.3) in respect of the exempt dividends referred to in the description of B.

Pending Amendment

Draft Legislation — Foreign Affiliates — February 27, 2004

Subsection 93(2) of the Act is amended by deleting the word "and" at the end of the description of B, by adding the word "and" at the end of the description of C and by adding the following after the description of C:

D is the lesser of

(*a*) the amount, if any, by which the amount determined for B exceeds the amount determined for C, and

(*b*) the total of the following amounts determined in respect of the corporation resident in Canada or the foreign affiliate of the corporation resident in Canada, as the case may be,

(i) the amount of the capital gain determined under paragraph 39(2)(*a*) for the taxation year that includes that time in respect of

(A) the settlement or extinguishment of an obligation of the corporation resident in Canada or of the foreign affiliate of the corporation resident in Canada, as the case may be, that can reasonably be considered to have been issued or incurred in relation to the acquisition of the affiliate share by the corporation resident in Canada or by the foreign affiliate of the corporation resident in Canada, as the case may be, or

(B) the redemption, acquisition or cancellation of a share of the capital stock of a corporation resident in Canada or of the foreign affiliate of the corporation resident in Canada, as the case may be, that can reasonably be considered to have been issued in relation to the acquisition of the affiliate share by the corporation resident in Canada or by the foreign affiliate of the corporation resident in Canada, as the case may be, and

(ii) the amount of any gain realized by the corporation resident in Canada or by the foreign affiliate of the corporation resident in Canada, as the case may be, under an agreement that provides for the purchase, sale or exchange of currency, or from the disposition of a currency, which agreement or currency, as the case may be, can reasonably be considered to have been entered into or acquired, by the corporation resident in Canada or by the foreign affiliate of the corporation resident in Canada, as the case may be, for the principal purpose of hedging the foreign exchange exposure arising in connection with the acquisition of the affiliate share.

Applicable: To taxation years, of a foreign affiliate of a taxpayer, that begin after February 27, 2004, except that if the taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act is assented to, this amendment applies to taxation years of the taxpayer and of all the taxpayer's foreign affiliates that begin after 1994, and, notwithstanding subsections 152(4) to (5) of the Act, any assessment of the taxpayer's tax, interest and penalties payable under the Act for any of those taxation years that begin on or before February 27, 2004 shall be made that is necessary to take the election into account.

Explanatory Note: [See the Explanatory Note reproduced following the amendment to the formula in subsection 93(2).]

History: S. 93(2) was amended by S.C. 2001, c. 17, s. 70(5), by replacing the references to the expression "4/3 of" with references to the word "twice", applicable to taxation years that end after February 27, 2000 except that, for a taxation year of a taxpayer that includes February 28, 2000 or October 17, 2000, or began after February 28, 2000 and ended before October 17, 2000, the references to the word "twice" in subsection 93(2) of the Act shall be read as references to the expression "the fraction that is the reciprocal of the fraction in paragraph 38(*a*), as enacted by subsection 22(1) of the *Income Tax Amendments Act, 2000* [S.C. 2001, c. 17], that applies to the taxpayer for the year, multiplied by".

S. 93(2) was amended by S.C. 2001, c. 17, s. 70(3), applicable to dispositions that occur after November 1999. S. 93(2) formerly read:

"(2) *Loss limitation on disposition of share.* Where

(*a*) a corporation resident in Canada has disposed of a share of the capital stock of any foreign affiliate of the corporation, or

(*b*) a foreign affiliate of a corporation resident in Canada has disposed of a share of the capital stock of another foreign affiliate of the corporation,

the amount of the loss of the disposing corporation from the disposition of the share shall be deemed to be the amount, if any, by which

(*c*) the amount that would be the loss of the disposing corporation therefrom if this Act were read without reference to this subsection

exceeds

(*d*) the amount, if any, by which

(i) the total of all amounts received before the disposition of the share in respect of exempt dividends on the share or a share for which the share was substituted by

(A) the disposing corporation,

(B) a corporation related to the disposing corporation,

(C) a foreign affiliate of the disposing corporation, or

(D) a foreign affiliate of a corporation related to the disposing corporation

exceeds

(ii) the total of all amounts each of which is the amount by which a loss from a previous disposition of the share or a share for which the share was substituted by a corporation referred to in any of clauses (i)(A) to (D) has been reduced because of this subsection."

S. 93(2), that portion following paragraph (*b*), was amended by S.C. 1994, c. 7, Sched. II, s. 69(2), applicable to the determination of losses arising in the 1985 and subsequent taxation years, except that, in its application to such losses from dispositions occurring before July 13, 1990, paragraph 93(2)(*d*) shall be read as follows:

"(*d*) the total of all amounts in respect of exempt dividends received by the disposing corporation on the share at any time before the disposition."

That portion of s. 93(2) formerly read:

"the amount of any capital loss of the disposing corporation from the disposition of the share shall be deemed to be the amount, if any, by which the amount of the capital loss therefrom otherwise determined exceeds the total of all amounts in respect of exempt dividends received by the disposing corporation on the share at any time before the disposition."

Related Sections: S. 87(2)(*u*) Shares of foreign affiliate; s. 93(3) Exempt dividends; s. 93(5) Late filed elections.

Canadian Tax Foundation: Lockwood, Maikawa And Pantaleo, "Proposed Technical Amendments To The FAPI And Foreign Affiliate Rules", *2000 Canadian Tax Journal*, No. 2, 456.

▶ 93(2.1) ◀

(2.1) Loss limitation — disposition of share by partnership. Where

(*a*) a corporation resident in Canada has an allowable capital loss from a disposition at any time by a partnership of a share of the capital stock of a foreign affiliate of the corporation (in this subsection referred to as the "affiliate share"), or

(*b*) a foreign affiliate of a corporation resident in Canada has an allowable capital loss from a disposition at any time by a partnership of a share of the capital stock of another foreign affiliate of the corporation resident in Canada that would not be excluded property of the affiliate if the affiliate owned the share immediately before it was disposed of (in this subsection referred to as the "affiliate share"),

the amount of the allowable capital loss is deemed to be the amount determined by the formula

$$A - (B - C)$$

Pending Amendment

Draft Legislation — Foreign Affiliates — February 27, 2004

The formula in subsection 93(2.1) of the Act is replaced by the following:

$$A - (B - C) + D$$

Applicable: To taxation years, of a foreign affiliate of a taxpayer, that begin after February 27, 2004, except that if the taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act is assented to, this amendment applies to taxation years of the taxpayer and of all the taxpayer's foreign affiliates that begin after 1994, and, notwithstanding subsections 152(4) to (5) of the Act, any assessment of the taxpayer's tax, interest and penalties payable under the Act for any of those taxation years that begin on or before February 27, 2004 shall be made that is necessary to take the election into account.

Explanatory Note:

Loss Limitation — Disposition of Partnership Interest

Subsection 93(2.1) of the Act provides rules for the purpose of determining the allowable capital loss of a corporation resident in Canada from the disposition by a partnership of a share of the capital stock of a foreign affiliate of the corporation and for the purpose of determining the allowable capital loss of a foreign affiliate of a corporation resident in Canada from a disposition by a partnership of a share of the capital stock of another foreign affiliate of the corporation that would not be excluded property of the foreign affiliate if the foreign affiliate owned the share immediately before it was disposed of.

The amount of the allowable capital loss otherwise determined is reduced by 1/2 of the exempt dividends received, on the share or a share for which the share was substituted, by the corporation resident in Canada, by another corporation resident in Canada that is related to the corporation resident in Canada, or by a foreign affiliate of either of those corporations resident in Canada (to the extent that the exempt dividends have not already reduced losses or allowable capital losses of those corporations or foreign affiliates under subsection 93(2), (2.1), (2.2) or (2.3) of the Act). The term "exempt dividend" is defined in subsection 93(3) of the Act.

Subsection 93(2.1) is being amended to permit the corporation resident in Canada or its foreign affiliate to restore an allowable capital loss from a disposition by a partnership of a share of the capital stock of a foreign affiliate of the corporation resident in Canada to the extent of the lesser of two amounts.

The addition to the loss under new variable "D" will be determined as the lesser of

- The first amount is the reduction of that allowable capital loss which is attributable to exempt dividends.
- The second amount is 1/2 of the total of the following gains determined in respect of the corporation resident in Canada or the foreign affiliate, as the case may be,
  - The foreign exchange gain arising on the settlement of an obligation issued or incurred to acquire the share.
  - The foreign exchange gain arising on the redemption, acquisition or cancellation of shares issued to acquire the share.
  - The gain arising under an agreement that provides for the purchase, sale or exchange of a currency, or from the disposition of a currency, that was entered into or acquired for hedging the foreign exchange exposure arising in connection with the acquisition of the share.

First, the formula in subsection 93(2.1) is amended by adding the new variable "D" and will read as follows:

$$A - (B - C) + D$$

Second, the addition to the allowable capital loss under new variable "D" will be determined as the lesser of:

- The reduction of the allowable capital loss in respect of exempt dividends (determined as (B – C) in the formula), and
- 1/2 of the total of the following amounts determined in respect of the corporation resident in Canada or the foreign affiliate of the corporation resident in Canada, as the case may be,
  - the amount of the capital gain of the corporation resident in Canada, of the foreign affiliate of the corporation resident in Canada, or of the partnership (to the extent that such a gain is reasonably attributable to the corporation resident in Canada, or to the foreign affiliate of the corporation resident in Canada, as the case may be) determined under paragraph 39(2)(*a*) for the taxation year that includes that time in respect of
    - the settlement or extinguishment of an obligation of the corporation resident in Canada, of the foreign affiliate of the corporation resident in Canada, or of the partnership, as the case may be, that can reasonably be considered to have been issued or incurred in relation to the acquisition of the affiliate share by the partnership, or
    - the redemption, acquisition or cancellation of a share of the capital stock of a corporation resident in Canada or of the foreign affiliate of the corporation resident in Canada, as the case may be, that can reasonably be considered to have been issued in relation to the acquisition of the affiliate share by the partnership, and
  - the amount of any gain realized by the partnership (to the extent that the gain is reasonably attributable to the corporation resident in Canada or to the foreign affiliate of the corporation resident in Canada, as the case may be), by the corporation resident in Canada or by the foreign affiliate of the corporation resident in Canada, as the case may be, under an agreement that provides for the purchase, sale or exchange of currency, or from the disposition of a currency, which agreement or currency, as the case may be, can reasonably be considered to have been entered into or acquired, by the partnership, by the corporation resident in Canada or by the foreign affiliate of the corporation resident in Canada, as the case may be, for the principal purpose of hedging the foreign exchange exposure arising in connection with the acquisition of the affiliate share.

Refer to the coming-into-force commentary below to determine the coming-into-force for this new subsection.

Coming-into-Force (ITA 93(2), 93(2.1), 93(2.2) and 93(2.3))

The amendments to subsections 93(2), 93(2.1), 93(2.2) and (2.3) of the Act apply to taxation years, of foreign affiliates of a taxpayer, that begin after February 27, 2004. However, if the taxpayer so elects in writing and files that election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxation year in which these amendments are assented to, the amendments will apply taxation years of the taxpayer and all foreign affiliates of the taxpayer that begin after 1994.

where

A is the amount of the allowable capital loss determined without reference to this subsection,

B is 1/2 of the total of all amounts each of which was received before that time, in respect of an exempt dividend on the affiliate share or on a share for which the affiliate share was substituted, by

(*a*) the corporation resident in Canada,

(*b*) a corporation related to the corporation resident in Canada,

(*c*) a foreign affiliate of the corporation resident in Canada, or

(*d*) a foreign affiliate of a corporation related to the corporation resident in Canada, and

C is the total of

(*a*) the total of all amounts each of which is the amount by which an allowable capital loss (determined without reference to this section), of a corporation or foreign affiliate described in the description of B from a disposition at or before that time by a partnership of the affiliate share or a share for which the affiliate share was substituted, was reduced under this subsection in respect of the exempt dividends referred to in the description of B,

(*b*) the total of all amounts each of which is 1/2 of the amount by which a loss (determined without reference to this section), of a corporation or foreign affiliate described in the description of B from another disposition at or before that time of the affiliate share or a share for which the affiliate share was substituted, was reduced under subsection (2) in respect of the exempt dividends referred to in the description of B,

(*c*) the total of all amounts each of which is 1/2 of the amount by which a loss (determined without reference to this section), from a disposition at or before that time by a corporation or foreign affiliate described in the description of B of an interest in a partnership, was reduced under subsection (2.2) in respect of the exempt dividends referred to in the description of B, and

(*d*) the total of all amounts each of which is the amount by which an allowable capital loss (determined without reference to this section), of a corporation or foreign affiliate described in the description of B from a disposition at or before that time by a partnership of an interest in another partnership, was reduced under subsection (2.3) in respect of exempt dividends referred to in the description of B.

Pending Amendment

Draft Legislation — Foreign Affiliates — February 27, 2004

Subsection 93(2.1) of the Act is amended by deleting the word "and" at the end of the description of B, by adding the word "and" at the end of the description of C, and by adding the following after the description of C:

D is the lesser of

(*a*) the amount, if any, by which the amount determined for B exceeds the amount determined for C, and

(*b*) one-half of the total of the following amounts determined in respect of the corporation resident in Canada or the foreign affiliate of the corporation resident in Canada, as the case may be,

(i) the amount of the capital gain of the corporation resident in Canada, of the foreign affiliate of the corporation resident in Canada, or of the partnership (to the extent that such a gain is reasonably attributable to the corporation resident in Canada, or to the foreign affiliate of the corporation resident in Canada, as the case may be) determined under paragraph 39(2)(*a*) for the taxation year that includes that time in respect of

(A) the settlement or extinguishment of an obligation of the corporation resident in Canada, of the foreign affiliate of the corporation resident in Canada, or of the partnership, as the case may be, that can reasonably be considered to have been issued or incurred in relation to the acquisition of the affiliate share by the partnership, or

(B) the redemption, acquisition or cancellation of a share of the capital stock of the corporation resident in Canada or of the foreign affiliate of the corporation resident in Canada, as the case may be, that can reasonably be considered to have been issued in relation to the acquisition of the affiliate share by the partnership, and

(ii) the amount of any gain realized by the partnership (to the extent that the gain is reasonably attributable to the corporation resident in Canada or to the foreign affiliate of the corporation resident in Canada, as the case may be), by the corporation resident in Canada or by the foreign affiliate of the corporation resident in Canada, as the case may be, under an agreement that provides for the purchase, sale or exchange of currency, or from the disposition of a currency, which agreement or currency, as the case may be, can reasonably be considered to have been entered into or acquired, by the partnership, by the corporation resident in Canada or by the foreign affiliate of the corporation resident in Canada, as the case may be, for the principal purpose of hedging the foreign exchange exposure arising in connection with the acquisition of the affiliate share.

Applicable: To taxation years, of a foreign affiliate of a taxpayer, that begin after February 27, 2004, except that if the taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act is assented to, this amendment applies to taxation years of the taxpayer and of all the taxpayer's foreign affiliates that begin after 1994, and, notwithstanding subsections 152(4) to (5) of the Act, any assessment of the taxpayer's tax, interest and penalties payable under the Act for any of

those taxation years that begin on or before February 27, 2004 shall be made that is necessary to take the election into account.

Explanatory Note: [See the Explanatory Note reproduced following the amendment to the formula in subsection 93(2.1).]

History: S. 93(2.1) was amended by S.C. 2001, c. 17, s. 70(6), by replacing the references to the fraction "3/4" with references to the fraction "1/2", applicable to taxation years that end after February 27, 2000 except that, for a taxation year of a taxpayer that includes February 28, 2000 or October 17, 2000, or began after February 28, 2000 and ended before October 17, 2000, the references to the fraction "1/2" in subsection 93(2.1) of the Act shall be read as references to the fraction in paragraph 38(*a*) of the Act that applies to the taxpayer for the year.

S. 93(2.1) was added by S.C. 2001, c. 17, s. 70(3), applicable to dispositions that occur after November 1999.

▶ 93(2.2) ◀

(2.2) Loss limitation — disposition of partnership interest. Where

(*a*) a corporation resident in Canada has a loss from the disposition by it at any time of an interest in a partnership (in this subsection referred to as the "partnership interest"), which has a direct or indirect interest in shares of the capital stock of a foreign affiliate of the corporation resident in Canada (in this subsection referred to as "affiliate shares"), or

(*b*) a foreign affiliate of a corporation resident in Canada has a loss from the disposition by it at any time of an interest in a partnership (in this subsection referred to as the "partnership interest"), which has a direct or indirect interest in shares of the capital stock of another foreign affiliate of the corporation resident in Canada that would not be excluded property if the shares were owned by the affiliate (in this subsection referred to as "affiliate shares")

the amount of the loss is deemed to be the amount determined by the formula

$$A - (B - C)$$

Pending Amendment

Draft Legislation — Foreign Affiliates — February 27, 2004

The formula in subsection 93(2.2) of the Act is replaced by the following:

$$A - (B - C) + D$$

Applicable: To taxation years, of a foreign affiliate of a taxpayer, that begin after February 27, 2004, except that if the taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act is assented to, this amendment applies to taxation years of the taxpayer and of all the taxpayer's foreign affiliates that begin after 1994, and, notwithstanding subsections 152(4) to (5) of the Act, any assessment of the taxpayer's tax, interest and penalties payable under the Act for any of those taxation years that begin on or before February 27, 2004 shall be made that is necessary to take the election into account.

Explanatory Note:

Loss Limitation — Disposition of Partnership Interest

Subsection 93(2.2) of the Act provides rules for the purpose of determining the loss of a corporation resident in Canada from the disposition of an interest in a partnership that holds interests in shares of the capital stock of a foreign affiliate of the corporation resident in Canada or the loss of a foreign affiliate of the corporation from a disposition of an interest in a partnership that holds interests in shares of the capital stock of another foreign affiliate of the corporation that would not be excluded property of the foreign affiliate if the foreign affiliate owned the share immediately before it was disposed of.

The amount of the loss otherwise determined is reduced by exempt dividends received on the shares, or shares for which the shares were substituted, by the corporation resident in Canada, by another corporation resident in Canada that is related to the corporation, or a by foreign affiliate of either of those corporations resident in Canada (to the extent that the exempt dividends have not already reduced losses or allowable capital losses of those corporations or foreign affiliates under subsection 93(2), (2.1), (2.2) or (2.3) of the Act). The term "exempt dividend" is defined in subsection 93(3) of the Act.

Subsection 93(2.2) is being amended to permit the corporation resident in Canada or its foreign affiliate to restore a loss arising on the disposition of an interest in a partnership that holds interests in shares of the capital stock of a foreign affiliate of the corporation resident in Canada to the extent of the lesser of two amounts.

- The first amount is the reduction of the loss attributable to exempt dividends.
- The second amount is the sum of the following gains determined in respect of the corporation or the foreign affiliate, as the case may be, that disposed of the partnership interest
  - The foreign exchange gain arising on the settlement of an obligation issued or incurred to acquire the share interests held by the partnership.
  - The foreign exchange gain arising on the redemption, acquisition or cancellation of shares issued to acquire share interests held by the partnership.
  - The gain arising under an agreement that provides for the purchase, sale or exchange of a currency, or from the disposition of a currency, that was entered into or acquired for hedging the foreign exchange exposure arising in connection with the acquisition of the share interests held by the partnership.

First, the formula in subsection 93(2.2) is being amended by adding the new variable "D" and will read as follows:

$$A - (B - C) + D$$

Second, the addition to the loss under new variable "D" will be determined as the lesser of

- The reduction of the loss in respect of exempt dividends (determined as (B – C) in the formula), and
- The total of the following amounts determined in respect of the corporation resident in Canada or the foreign affiliate of the corporation resident in Canada, as the case may be,
  - the amount of the capital gain of the corporation resident in Canada, of the foreign affiliate of the corporation resident in Canada, or of the partnership (to the extent that such a gain is reasonably attributable to the corporation resident in Canada, or to the foreign affiliate of the corporation resident in Canada, as the case may be) determined under paragraph 39(2)(*a*) for the taxation year that includes that time in respect of
    - — the settlement or extinguishment of an obligation of the corporation resident in Canada, of the foreign affiliate of the corporation resident in Canada, or of the partnership, as the case may be, that can reasonably be considered to have been issued or incurred in relation to the acquisition of the affiliate shares, or
    - — the redemption, acquisition or cancellation of a share of the corporation resident in Canada or of the foreign affiliate resident in Canada, as the case may be, or of an interest in the partnership that can reasonably be considered to have been issued in relation to the acquisition of the affiliate shares, and
  - the amount of any gain realized by the corporation resident in Canada or by the foreign affiliate of the corporation resident in Canada, as the case may be, under an agreement that provides for the purchase, sale or exchange of currency, or from the disposition of a currency, which agreement or currency, as the case may be, can reasonably be considered to have been entered into or acquired by the corporation resident in Canada, by the foreign affiliate of the corporation resident in Canada, or by the partnership, as the case may be, for the principal purpose of hedging the foreign exchange exposure arising in connection with the acquisition of the affiliate shares.

Refer to the coming-into-force commentary below to determine the coming-into-force dates for this new subsection.

Coming-into-Force (ITA 93(2), 93(2.1), 93(2.2) and 93(2.3))

The amendments to subsections 93(2), 93(2.1), 93(2.2) and (2.3) of the Act apply to taxation years, of foreign affiliates of a taxpayer, that begin after February 27, 2004. However, if the taxpayer so elects in writing and files that election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxation year in which these amendments are assented to, the amendments will apply taxation years of the taxpayer and all foreign affiliates of the taxpayer that begin after 1994.

where

A is the amount of the loss determined without reference to this subsection,

B is the total of all amounts each of which was received before that time, in respect of an exempt dividend on affiliate shares or on shares for which affiliate shares were substituted, by

(*a*) the corporation resident in Canada,

(*b*) a corporation related to the corporation resident in Canada,

(*c*) a foreign affiliate of the corporation resident in Canada, or

(*d*) a foreign affiliate of a corporation related to the corporation resident in Canada, and

C is the total of

(*a*) the total of all amounts each of which is the amount by which a loss (determined without reference to this section), from another disposition at or before that time by a corporation or foreign affiliate described in the description of B of affiliate shares or shares for which affiliate shares were substituted, was reduced under subsection (2) in respect of the exempt dividends referred to in the description of B,

(*b*) the total of all amounts each of which is twice the amount by which an allowable capital loss (determined without reference to this section), of a corporation or foreign affiliate described in the description of B from another disposition at or before that time by a partnership of affiliate shares or shares for which affiliate shares were substituted, was reduced under subsection (2.1) in respect of the exempt dividends referred to in the description of B,

(*c*) the total of all amounts each of which is the amount by which a loss (determined without reference to this section), from a disposition at or before that time by a corporation or foreign affiliate described in the description of B of an interest in a partnership, was reduced under this subsection in respect of the exempt dividends referred to in the description of B, and

(*d*) the total of all amounts each of which is twice the amount by which an allowable capital loss (determined without reference to this section), of a corporation or foreign affiliate described in the description of B from a disposition at or before that time by a partnership of an interest in another partnership, was reduced under subsection (2.3) in respect of the exempt dividends referred to in the description of B.

Pending Amendment

Draft Legislation — Foreign Affiliates — February 27, 2004

Subsection 93(2.2) of the Act is amended by deleting the word "and" at the end of the description of B, by adding the word "and" at the end of the description of C, and by adding the following after the description of C:

D is the lesser of

(*a*) the amount, if any, by which the amount determined for B exceeds the amount determined for C, and

(*b*) the total of the following amounts determined in respect of the corporation resident in Canada or the foreign affiliate of the corporation resident in Canada, as the case may be,

(i) the amount of the capital gain of the corporation resident in Canada, of the foreign affiliate of the corporation resident in Canada, or of the partnership (to the extent that such a gain is reasonably attributable to the corporation resident in Canada, or to the foreign affiliate of the corporation resident in Canada, as the case may be) determined under paragraph 39(2)(*a*) for the taxation year that includes that time in respect of

(A) the settlement or extinguishment of an obligation of the corporation resident in Canada, of the foreign affiliate of the corporation resident in Canada, or of the partnership, as the case may be, that can reasonably be considered to have been issued or incurred in relation to the acquisition of the affiliate shares, or

(B) the redemption, acquisition or cancellation of a share of the corporation resident in Canada or of the foreign affiliate resident in Canada, as the case may be, or of an interest in the partnership that can reasonably be considered to have been issued in relation to the acquisition of the affiliate shares, and

(ii) the amount of any gain realized by the corporation resident in Canada or by the foreign affiliate of the corporation resident in Canada, as the case may be, under an agreement that provides for the purchase, sale or exchange of currency, or from the disposition of a currency, which agreement or currency, as the case may be, can reasonably be considered to have been entered into or acquired by the corporation resident in Canada, by the foreign affiliate of the corporation resident in Canada, or by the partnership, as the case may be, for the principal purpose of hedging the foreign exchange exposure arising in connection with the acquisition of the affiliate shares.

Applicable: To taxation years, of a foreign affiliate of a taxpayer, that begin after February 27, 2004, except that if the taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act is assented to, this amendment applies to taxation years of the taxpayer and of all the taxpayer's foreign affiliates that begin after 1994, and, notwithstanding subsections 152(4) to (5) of the Act, any assessment of the taxpayer's tax, interest and penalties payable under the Act for any of those taxation years that begin on or before February 27, 2004 shall be made that is necessary to take the election into account.

Explanatory Note: [See the Explanatory Note reproduced following the amendment to the formula in subsection 93(2.2).]

History: S. 93(2.2) was amended by S.C. 2001, c. 17, s. 70(7), by replacing the references to the expression "4/3 of" with references to the word "twice", applicable to taxation years that end after February 27, 2000 except that, for a taxation year of a taxpayer that includes February 28, 2000 or October 17, 2000, or began after February 28, 2000 and ended before October 17, 2000, the references to the word "twice" in subsection 93(2.2) of the Act shall be read as references to the expression "the fraction that is the reciprocal of the fraction in paragraph 38(*a*), as enacted by subsection 22(1) of the *Income Tax Amendments Act, 2000* [S.C. 2001, c. 17], that applies to the taxpayer for the year, multiplied by".

S. 93(2.2) was added by S.C. 2001, c. 17, s. 70(3), applicable to dispositions that occur after November 1999.

▶ 93(2.3) ◀

(2.3) Loss limitation — disposition of partnership interest. Where

(*a*) a corporation resident in Canada has an allowable capital loss from a partnership from a disposition at any time of an interest in another partnership that has a direct or indirect interest in shares of the capital stock of a foreign affiliate of the corporation resident in Canada (in this subsection referred to as "affiliate shares"), or

(*b*) a foreign affiliate of a corporation resident in Canada has an allowable capital loss from a partnership from a disposition at any time by a partnership of an interest in another partnership that has a direct or indirect interest in shares of the capital stock of a foreign affiliate of the corporation resident in Canada that would not be excluded property of the affiliate if the affiliate owned the shares immediately before the disposition (in this subsection referred to as "affiliate shares"),

the amount of the allowable capital loss is deemed to be the amount determined by the formula

$$A - (B - C)$$

Pending Amendment

Draft Legislation — Foreign Affiliates — February 27, 2004

The formula in subsection 93(2.3) of the Act is replaced by the following:

$$A - (B - C) + D$$

Applicable: To taxation years, of a foreign affiliate of a taxpayer, that begin after February 27, 2004, except that if the taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act is assented to, this amendment applies to taxation years of the taxpayer and of all the taxpayer's foreign affiliates that begin after 1994, and, notwithstanding subsections 152(4) to (5) of the Act, any assessment of the taxpayer's tax, interest and penalties payable under the Act for any of those taxation years that begin on or before February 27, 2004 shall be made that is necessary to take the election into account.

Explanatory Note:

Loss Limitation — Disposition of Partnership Interest

Subsection 93(2.3) of the Act provides rules for the purpose of determining the allowable capital loss of a corporation resident in Canada from the disposition by a partnership of an interest in another partnership that has interests in shares of the capital stock of a foreign affiliate of the corporation resident in Canada and for determining the allowable capital loss of a foreign affiliate of the corporation resident in Canada from a disposition by a partnership of an interest in another partnership that has interests in shares of the capital stock of another foreign affiliate of the corporation resident in Canada that would not be excluded property if the shares were owned by the foreign affiliate.

The amount of the allowable capital loss otherwise determined is reduced by 1/2 of the exempt dividends received, on the share or a share for which the share was substituted, by the corporation resident in Canada, by another corporation resident in Canada that is related to the corporation, or by a foreign affiliate of either of those corporations resident in Canada (to the extent that the exempt dividends have not already reduced losses or allowable capital losses of those corporations or foreign affiliates under subsection 93(2), (2.1), (2.2) or (2.3) of the Act). The term "exempt dividend" is defined in subsection 93(3) of the Act.

Subsection 93(2.3) is being amended to permit the corporation resident in Canada or its foreign affiliate to restore an allowable capital loss from a disposition by a partnership of an interest in another partnership that has interests in shares of the capital stock of a foreign affiliate of the corporation resident in Canada to the extent of the lesser of two amounts.

- The first amount is the reduction of the allowable capital loss attributable to exempt dividends.
- The second amount is one-half of the total of the following gains determined in respect of the corporation resident in Canada or the foreign affiliate, as the case may be,
  - The foreign exchange gain arising on the settlement of an obligation issued or incurred to acquire the share.
  - The foreign exchange gain arising on the redemption, acquisition or cancellation of shares issued to acquire the share.
  - The gain arising under an agreement that provides for the purchase, sale or exchange of a currency, or from the disposition of a currency, that was entered into or acquired for hedging the foreign exchange exposure arising in connection with the acquisition of the share.

First, the formula in subsection 93(2.3) is being amended by adding the new variable "D" and will read as follows:

$$A - (B - C) + D$$

Second, the addition to the allowable capital loss under new variable D will be determined as the lesser of:

- The reduction of the allowable capital loss in respect of exempt dividends (determined as (B – C) in the formula), and
- 1/2 of the total of the following amounts determined in respect of the corporation resident in Canada or the foreign affiliate of the corporation resident in Canada, as the case may be,
  - the amount of the capital gain of the corporation resident in Canada, of the foreign affiliate of the corporation resident in Canada, or of the partnership (to the extent that such a gain is reasonably attributable to the corporation resident in Canada, or to the foreign affiliate of the corporation resident in Canada, as the case may be) determined under paragraph 39(2)(*a*) for the taxation year that includes that time in respect of
    - the settlement or extinguishment of an obligation of the corporation resident in Canada, of the foreign affiliate of the corporation resident in Canada, of the partnership or of the other partnership, as the case may be, that can reasonably be considered to have been issued or incurred in relation to the acquisition of the affiliate shares, or
    - the redemption, acquisition or cancellation of a share of the corporation resident in Canada or of the foreign affiliate of the corporation resident in Canada, as the case may be, or of an interest in the partnership or in the other partnership, as the case may be, that can reasonably be considered to have been issued in relation to the acquisition of the affiliate shares, and
  - the amount of any gain realized by a partnership (to the extent that such gain is reasonably attributable to the corporation resident in Canada or to the foreign affiliate of the corporation resident in Canada, as the case may be), by the corporation resident in Canada or by the foreign affiliate of the corporation resident in Canada, as the case may be, under an agreement that provides for the purchase, sale or exchange of currency, or from the disposition of a currency, which agreement or currency,

as the case may be, can reasonably be considered to have been entered into or acquired by the partnership, by the corporation resident in Canada or by the foreign affiliate of the corporation resident in Canada, as the case may be, for the principal purpose of hedging the foreign exchange exposure arising in connection with the acquisition of the affiliate shares.

Refer to the coming-into-force commentary below to determine the coming-into-force for this new subsection.

Coming-into-Force (ITA 93(2), 93(2.1), 93(2.2) and 93(2.3))

The amendments to subsections 93(2), 93(2.1), 93(2.2) and (2.3) of the Act apply to taxation years, of foreign affiliates of a taxpayer, that begin after February 27, 2004. However, if the taxpayer so elects in writing and files that election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxation year in which these amendments are assented to, the amendments will apply taxation years of the taxpayer and all foreign affiliates of the taxpayer that begin after 1994.

where

A is the amount of the allowable capital loss determined without reference to this subsection,

B is ½ of the total of all amounts each of which was received before that time, in respect of an exempt dividend on affiliate shares or on shares for which affiliate shares were substituted, by

(*a*) the corporation resident in Canada,

(*b*) a corporation related to the corporation resident in Canada,

(*c*) a foreign affiliate of the corporation resident in Canada, or

(*d*) a foreign affiliate of a corporation related to the corporation resident in Canada, and

C is the total of

(*a*) the total of all amounts each of which is ½ of the amount by which a loss (determined without reference to this section), of a corporation or foreign affiliate described in the description of B from another disposition at or before that time of affiliate shares or shares for which affiliate shares were substituted, was reduced under subsection (2) in respect of the exempt dividends referred to in the description of B,

(*b*) the total of all amounts each of which is the amount by which an allowable capital loss (determined without reference to this section), of a corporation or foreign affiliate described in the description of B from a disposition at or before that time by a partnership of affiliate shares or shares for which affiliate shares were substituted, was reduced under subsection (2.1) in respect of the exempt dividends referred to in the description of B,

(*c*) the total of all amounts each of which is ½ of the amount by which a loss (determined without reference to this section), from a disposition at or before that time by a corporation or foreign affiliate described in the description of B of an interest in a partnership, was reduced under subsection (2.2) in respect of the exempt dividends referred to in the description of B, and

(*d*) the total of all amounts each of which is the amount by which an allowable capital loss (determined without reference to this section), of a corporation or foreign affiliate described in the description of B from a disposition at or before that time by a partnership of an interest in another partnership, was reduced under this subsection in respect of the exempt dividends referred to in the description of B.

Pending Amendment

Draft Legislation — Foreign Affiliates — February 27, 2004

Subsection 93(2.3) of the Act is amended by deleting the word "and" at the end of the description of B, by adding the word "and" at the end of the description of C, and by adding the following after the description of C:

D is the lesser of

(*a*) the amount, if any, by which the amount determined for B exceeds the amount determined for C, and

(*b*) one-half of the total of the following amounts determined in respect of the corporation resident in Canada or the foreign affiliate of the corporation resident in Canada, as the case may be,

(i) the amount of the capital gain of the corporation resident in Canada, of the foreign affiliate of the corporation resident in Canada, or of the partnership (to the extent that such a gain is reasonably attributable to the corporation resident in Canada, or to the foreign affiliate of the corporation resident in Canada, as the case may be) determined under paragraph 39(2)(*a*) for the taxation year that includes that time in respect of

(A) the settlement or extinguishment of an obligation of the corporation resident in Canada, of the foreign affiliate of the corporation resident in Canada, of the partnership or of the other partnership, as the case may be, that can reasonably be considered to have been issued or incurred in relation to the acquisition of the affiliate shares, or

(B) the redemption, acquisition or cancellation of a share of the corporation resident in Canada or of the foreign affiliate of the corporation resident in Canada, as the case may be, or of an interest in the partnership or in the other partnership, as the case may be, that can reasonably be considered to have been issued in relation to the acquisition of the affiliate shares, and

(ii) the amount of any gain realized by a partnership (to the extent that such gain is reasonably attributable to the corporation resident in Canada or to the foreign affiliate of the corporation resident in Canada, as the case may be), by the corporation resident in Canada or by the foreign affiliate of the corporation resident in Canada, as the case may be, under an agreement that provides for the purchase, sale or exchange of currency, or from the disposition of a currency, which agreement or currency, as the case may be, can reasonably be considered to have been entered into or acquired by the partnership, by the corporation resident in Canada or by the foreign affiliate of the corporation resident in Canada, as the case may be, for the principal purpose of hedging the foreign exchange exposure arising in connection with the acquisition of the affiliate shares.

Applicable: To taxation years, of a foreign affiliate of a taxpayer, that begin after February 27, 2004, except that if the taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act is assented to, this amendment applies to taxation years of the taxpayer and of all the taxpayer's foreign affiliates that begin after 1994, and, notwithstanding subsections 152(4) to (5) of the Act, any assessment of the taxpayer's tax, interest and penalties payable under the Act for any of

those taxation years that begin on or before February 27, 2004 shall be made that is necessary to take the election into account.

Explanatory Note: [See the Explanatory Note reproduced following the amendment to the formula in subsection 93(2.3).]

History: S. 93(2.3) was amended by S.C. 2001, c. 17, s. 70(8), by replacing the references to the fraction "3/4" with references to the fraction "1/2", applicable to taxation years that end after February 27, 2000 except that, for a taxation year of a taxpayer that includes February 28, 2000 or October 17, 2000, or began after February 28, 2000 and ended before October 17, 2000, the references to the fraction "1/2" in subsection 93(2.3) of the Act shall be read as references to the fraction in paragraph 38(*a*) of the Act that applies to the taxpayer for the year.

S. 93(2.3) was added by S.C. 2001, c. 17, s. 70(3), applicable to dispositions that occur after November 1999.

► 93(3) ◄

(3) Exempt dividends. For the purposes of subsections (2) to (2.3),

(*a*) a dividend received by a corporation resident in Canada is an exempt dividend to the extent of the amount in respect of the dividend that is deductible from the income of the corporation for the purpose of computing the taxable income of the corporation because of paragraph 113(1)(*a*), (*b*) or (*c*); and

(*b*) a dividend received by a particular foreign affiliate of a corporation resident in Canada from another foreign affiliate of the corporation is an exempt dividend to the extent of the amount, if any, by which the portion of the dividend that was not prescribed to have been paid out of the pre-acquisition surplus of the other affiliate exceeds the total of such portion of the income or profits tax that can reasonably be considered to have been paid in respect of that portion of the dividend by the particular affiliate or by a partnership in which the particular affiliate had, at the time of the payment of the income or profits tax, a partnership interest, either directly or indirectly.

History: S. 93(3) was amended by S.C. 2001, c. 17, s. 70(9), applicable to dispositions that occur after November 1999. S. 93(3) formerly read:

"(3) *Exempt dividends.* For the purposes of subsection (2),

(*a*) a dividend received by a corporation resident in Canada is an exempt dividend to the extent of the amount in respect of the dividend that is deductible from the income of the corporation in computing its taxable income by virtue of paragraph 113(1)(*a*), (*b*) or (*c*); and

(*b*) a dividend received by a foreign affiliate of a corporation resident in Canada from another foreign affiliate of that corporation is an exempt dividend to the extent of the amount, if any, by which the portion of the dividend that was not prescribed to have been paid out of the pre-acquisition surplus of that other affiliate exceeds such portion of any income or profits tax paid by the first-mentioned affiliate as may reasonably be regarded as having been paid in respect of that portion of the dividend."

► 93(4) ◄

(4) Loss on disposition of shares of foreign affiliate. Where a taxpayer resident in Canada or a foreign affiliate of the taxpayer (in this subsection referred to as the "vendor") has acquired shares of a foreign affiliate of the taxpayer (in this subsection referred to as the "acquired affiliate") on the disposition of shares of any other foreign affiliate of the taxpayer (other than a disposition to which subsection 40(3.4) applies), the following rules apply:

(*a*) the capital loss therefrom otherwise determined shall be deemed to be nil; and

(*b*) in computing the adjusted cost base to the vendor of all shares of any particular class of the capital stock of the acquired affiliate owned by the vendor immediately after the disposition, there shall be added an amount determined by the formula

$$(A - B) \times \frac{C}{D}$$

where

A is the cost amount to the vendor immediately before the disposition of the shares disposed of,

B is the total of

(i) the proceeds of disposition of the shares disposed of, and

(ii) the total of all amounts deducted under paragraph (2)(*d*) in computing losses of the vendor from the dispositions of the shares disposed of,

C is the fair market value, immediately after the disposition, of all shares of that particular class owned by it at that time, and

D is the fair market value, immediately after the disposition, of all shares of the capital stock of the acquired affiliate owned by it at that time.

History: S. 93(4) before paragraph (*a*) was amended by S.C. 1998, c. 19, s. 120(1), subject to section 247 of this Bill (see Application below), applicable to dispositions of property that occur after April 26, 1995. S. 93(4) formerly read:

"(4) *Loss on disposition of shares of foreign affiliate.* Where a taxpayer resident in Canada or a foreign affiliate of the taxpayer (in this subsection referred to as the 'vendor') has acquired shares of a foreign affiliate of the taxpayer (in this subsection referred to as the 'acquired affiliate') on the disposition of shares of any other foreign affiliate of the taxpayer (other than a disposition to which subsection 85(4) applies), the following rules apply:"

Sec. 247, Chap. 19, 1998

247. [*Exception to coming-into-force.*]

(1) Subsections 73(4), 74(5), subsection 18(13) of the Act, as enacted by subsection 79(2) and subsections 89(1), (2) and (6), 94(1) and (2), 95(1), 116(3) to (5), 120(1) and 124(1) and (2) do not apply to the disposition of property by a person or partnership (in this subsection and subsection (2) referred to as the "transferor") that occurred before 1996

(*a*) to a person who was obliged on April 26, 1995 to acquire the property pursuant to the terms of an agreement in writing made on or before that day; or

(*b*) in a transaction, or as part of a series of transactions, the arrangements for which, evidenced in writing, were substantially advanced before April 27, 1995, other than a transaction or series a main purpose of which can reasonably be considered to have been to enable an unrelated person to obtain the benefit of

(i) any deduction in computing income, taxable income, taxable income earned in Canada or tax payable under the Act, or

(ii) any balance of undeducted outlays, expenses or other amounts.

(2) Election. Notwithstanding subsection (1), subsection 18(13) of the Act, as enacted by subsection 79(2), and the other subsections of this Act referred to in subsection (1) apply to a disposition in respect of which the transferor has filed with the Minister of National Revenue before the end of the third month after the month in which this Act is assented to [Royal Assent June 18, 1998] an election in writing to have those subsections apply.

(3) Interpretation. For the purpose of subsection (1),

(*a*) a person shall be considered not to be obliged to acquire property where the person can be excused from the obligation if there is a change to the Act or if there is an adverse assessment under the Act;

(*b*) an "unrelated person" means any person who was not, or a partnership any member of which was not, related (otherwise than because of paragraph 251(5)(*b*) of the Act) to the transferor at the time of the disposition; and

(*c*) a person is deemed to be related to a partnership of which that person is a majority interest partner.

S. 93(4)(*b*) was amended by S.C. 1994, c. 7, Sched. II, s. 69(3), applicable to dispositions of shares occurring after July 13, 1990. S. 93(4)(*b*) formerly read:

"(*b*) in computing the adjusted cost base to the vendor of all shares of any particular class of the capital stock of the acquired affiliate owned by it immediately after the disposition there shall be added the amount that is equal to that proportion of the amount, if any, by which

(i) the cost amount to it immediately before the disposition of the shares disposed of

exceeds

(ii) the proceeds of the disposition

that

(iii) the fair market value, immediately after the disposition, of all shares of that class owned by it at that time,

is of

(iv) the fair market value, immediately after the disposition, of all shares of the capital stock of the acquired affiliate owned by it at that time."

► 93(5) ◄

(5) Late filed elections. Where the election referred to in subsection (1) was not made on or before the day on or before which the election was required by that subsection to be made, the election shall be deemed to have been made on that day if, on or before the day that is 3 years after that day,

(*a*) the election is made in prescribed manner; and

(*b*) an estimate of the penalty in respect of that election is paid by the corporation when that election is made.

Forms: T2107.

► 93(5.1) ◄

(5.1) Special cases. Where, in the opinion of the Minister, the circumstances of a case are such that it would be just and equitable

(*a*) to permit an election under subsection (1) to be made after the day that is 3 years after the day on or before which the election was required by that subsection to be made, or

(*b*) to permit an election made under subsection (1) to be amended,

the election or amended election shall be deemed to have been made on the day on or before which the election was so required to be made if

(*c*) the election or amended election is made in prescribed form, and

(*d*) an estimate of the penalty in respect of the election or amended election is paid by the corporation when the election or amended election is made,

and where this subsection applies to the amendment of an election, that election shall be deemed not to have been effective.

► 93(6) ◄

(6) Penalty for late filed election. For the purposes of this section, the penalty in respect of an election or amended election referred to in paragraph (5)(*a*) or (5.1)(*c*) is an amount equal to the lesser of

(*a*) ¼ of 1% of the amount designated in the election or amended election for each month or part of a month during the period commencing with the day on or before which the election is required by subsection (1) to be made and ending on the day the election is made, and

(*b*) an amount, not exceeding $8,000, equal to the product obtained by multiplying $100 by the number of months each of which is a month all or part of which is during the period referred to in paragraph (*a*).

► 93(7) ◄

(7) Unpaid balance of penalty. The Minister shall, with all due dispatch, examine each election and amended election referred to in paragraph (5)(*a*) or (5.1)(*c*), assess the penalty payable and send a notice of assessment to the corporation, and the corporation shall pay forthwith to the Receiver General the amount, if any, by which the penalty so assessed exceeds the total of all amounts previously paid on account of that penalty.

Related Sections: S. 39, "capital gain", "capital loss"; s. 54, "adjusted cost base", "proceeds of disposition"; s. 95(1), "foreign affiliate"; s. 248(1), "amount", "corporation", "dividend", "prescribed", "share"; s. 255 Canada.

SECTION 93.1:

► 93.1(1) ◄

(1) Shares held by a partnership. For the purpose of determining whether a non-resident corporation is a foreign affiliate of a corporation resident in Canada for the purposes of subsections (2) and 20(12), sections 93 and 113, paragraph 128.1(1)(*d*), (and any regulations made for the purposes of those provisions), section 95 (to the extent that that section is applied for the purposes of those provisions) and section 126, where based on the assumptions contained in paragraph 96(1)(*c*), at any time shares of a class of the capital stock of a corporation are owned by a partnership or are deemed under this subsection to be owned by a partnership, each member of the partnership is deemed to own at that time that number of those shares that is equal to the proportion of all those shares that

(*a*) the fair market value of the member's interest in the partnership at that time

is of

(*b*) the fair market value of all members' interests in the partnership at that time.

History: S. 93.1(1) was added by S.C. 2001, c. 17, s. 71(1), applicable in determining whether a non-resident corporation is, at any time after November 1999, a foreign affiliate of a taxpayer and, where a taxpayer so elects and notifies the Minister of National Revenue in writing before 2002 of its election, that subsection also applies in determining (other than for the purposes of subsection 20(12) and section 126 of the Act) whether a non-resident corporation was, at any time after 1972 and before December 1999, a foreign affiliate of the taxpayer.

► 93.1(2) ◄

(2) Where dividends received by a partnership. Where, based on the assumptions contained in paragraph 96(1)(*c*), at any time shares of a class of the capital stock of a foreign affiliate of a corporation resident in Canada (in this subsection referred to as "affiliate shares") are owned by a partnership and at that time the affiliate pays a dividend on affiliate shares to the partnership (in this subsection referred to as the "partnership dividend"),

(*a*) for the purposes of sections 93 and 113 and any regulations made for the purposes of those sections, each member of the partnership is deemed to have received the proportion of the partnership dividend that

(i) the fair market value of the member's interest in the partnership at that time

is of

(ii) the fair market value of all members' interests in the partnership at that time;

(*b*) for the purposes of sections 93 and 113 and any regulations made for the purposes of those sections, the proportion of the partnership dividend deemed by paragraph (*a*) to have been received by a member of the partnership at that time is deemed to have been received by the member in equal proportions on each affiliate share that is property of the partnership at that time;

(*c*) for the purpose of applying section 113, in respect of the dividend referred to in paragraph (*a*), each affiliate share referred to in paragraph (*b*) is deemed to be owned by each member of the partnership; and

(*d*) notwithstanding paragraphs (*a*) to (*c*),

(i) where the corporation resident in Canada is a member of the partnership, the amount deductible by it under section 113 in respect of the dividend referred to in paragraph (*a*) shall not exceed the portion of the amount of the dividend included in its income pursuant to subsection 96(1), and

(ii) where another foreign affiliate of the corporation resident in Canada is a member of the partnership, the amount included in that other affiliate's income in respect of the dividend referred to in paragraph (*a*) shall not exceed the amount that would be included in its income pursuant to subsection 96(1) in respect of the partnership dividend received by the partnership if the value for H in the definition "foreign accrual property income" in subsection 95(1) were nil and this Act were read without reference to this subsection.

Department of Finance Comfort Letter [Modifications to Certain Foreign Affiliate Proposals]

April 19, 2006

Editorial Note: The issues described in the letter concerning paragraphs 95(2)(*a*) and (*o*) have been resolved by the the addition of paragraph 95(2)(*u*) in S.C. 2007, c. 35. Similarly, the issues outlined regarding subsection 95(2.2) have been resolved by the amendments to that subsection in S.C. 2007, c. 35. The issues described in the letter pertaining to 93.1(2) remain outstanding.

Dear XXXX,

SUBJECT: Subsections 93.1(2) and 95(2) and (2.2) of the *Income Tax Act* and Subsection 5907(1) of the *Income Tax Regulations*

I am writing in response to your many recent letters, e-mails and phone calls relating to certain narrow issues arising from the foreign affiliate proposals announced on February 27, 2004 by the Minister of Finance.

Draft paragraphs 95(2)(*a*) and (*o*) of the Act

Proposed paragraph 95(2)(*q*) of the *Income Tax Act* (the "Act") deems partnership interests in a particular partnership that are owned (or deemed by that paragraph to be owned) by another partnership to be owned by the members of that other partnership. Thus, those partnership interests deemed by draft paragraph 95(2)(*q*) to be owned by a member of the other partnership can be taken into account in applying the 1% and 10% ownership tests in draft subparagraph 95(2)(*o*)(ii) in determining, under paragraph 95(2)(*o*), whether that member is a "qualifying member" of the particular partnership.

You note, however, that the preamble of draft paragraph 95(2)(*o*) requires a person to be a member of the particular partnership in order to be considered to be a qualifying member of the particular partnership. Draft subparagraph 95(2)(*k*.7)(i) deems, for certain purposes, a member of any partnership that is a member of another partnership to be a member of that other partnership. However, paragraph 95(2)(*o*) is not identified as one of those purposes. We would thus recommend modifying draft subparagraph 95(2)(*k*.7)(i) so that, for the purposes of applying paragraph 95(2)(*o*), a person that is (or is deemed by paragraph 95(2)(*k*.7) to be) a member of any partnership that is a member of another partnership is deemed to be a member of that other partnership.

Similar issues exist with respect to a number of provisions in draft paragraph 95(2)(*a*) (such as subclause 95(2)(*a*)(ii)(A)(II)) that require a qualifying member of the partnership (referred to in those provisions) to be a member of the partnership. Consequently, it would be appropriate to modify draft subparagraph 95(2)(*k*.7)(i) so that, for the purposes of applying those provisions, a person or partnership that is (or is deemed by paragraph 95(2)(*k*.7) to be) a member of any partnership that is a member of another partnership is deemed to be a member of that other partnership.

It is contemplated that these recommended revisions to draft subparagraph 95(2)(*k*.7)(i) of the Act would have the same application date as the application date of that draft.

Subsection 5907(1) of the Regulations

Proposed subclause 95(2)(*a*)(ii)(D) of the Act uses a test for determining whether a non-resident corporation is considered to be subject to income taxation in a particular country. That test addresses situations where that corporation is a flow-through entity for tax purposes in the country.

You have identified a need for a similar test in proposed clause (*d*)(ii)(D) of the definition "exempt earnings" in subsection 5907(1) of the Income Tax Regulations (the "Regulations"). As well, similar issues exist in a number of other provisions in draft subparagraph (*d*)(ii) of the definition "exempt earnings", and a number of provisions in draft subparagraph (*c*)(ii) of the definition "exempt loss", in subsection 5907(1) of the Regulations.

We are prepared to recommend revisions to section 5907 of the Regulations to provide that, in applying subparagraph (*d*)(ii) of the definition "exempt earnings", and subparagraph (*c*)(ii) of the definition "exempt loss", in subsection 5907(1) of the Regulations, a test similar to the test used in clause 95(2)(*a*)(ii)(D) will be employed to determine whether or not a flow-through entity is subject to income taxation in a particular country.

Should our recommendations be acted upon, it is contemplated that the recommended new rule in section 5907 of the Regulations would have the same application date as that of draft subclauses 95(2)(*a*)(ii)(D)(III) to (V) of the Act.

References to "year"

Another issue raised relates to the reference in draft clause 95(2)(*a*)(ii)(A) of the Act to expenditures referred to in subclauses 95(2)(*a*)(ii)(A)(I) and (II) being deductible in the "year" or "a subsequent taxation year" by the non-resident corporation or the partnership referred to in those subclauses, if the non-resident corporation or the partnership, as the case may be, were a foreign affiliate, in computing the amounts prescribed to be its earnings or loss from an active business. The "year" is intended to be a taxation year of that non-resident corporation or that partnership, as the case may be. However, in terms of the text itself, the "year" could be read as referring to the taxation year of the "particular foreign affiliate" (i.e., the recipient of the payments) described in the preamble of draft paragraph 95(2)(*a*). The other uses of the expression "the year" in that draft clause 95(2)(*a*)(ii)(A) of the Act would remain as references to "the year" of the particular foreign affiliate. It would be appropriate to clarify those aspects of those provisions. As well, it would be appropriate to make comparable clarifying modifications to deal with similar issues in various other clauses in that draft subparagraph 95(2)(*a*)(ii) of the Act and in various provisions in draft subparagraph (*d*)(ii) of the definition "exempt earnings", and draft subparagraph (*c*)(ii) of the definition "exempt loss", in subsection 5907(1) of the Regulations.

It is contemplated that these revisions would have the same application date as that of draft subclauses 95(2)(*a*)(ii)(D)(III) to (V) of the Act.

Draft subsections 93.1(2) and 95(2.2) of the Act

Subsection 93.1(1) provides that, for the purpose of determining whether (for the limited purposes described in that subsection) a non-resident corporation is a foreign affiliate of a corporation resident in Canada, the shares of a non-resident corporation are deemed to be owned by the members of the partnership in the proportion that the fair market value of their interests in the partnership is of the fair market value of all members' interests in the partnership. That rule applies on an iterative basis, such that, where members of a partnership that owns (or is deemed by that rule to own) the shares of a non-resident corporation are themselves partnerships, those shares

are deemed to be owned by the members of those other partnerships using the same proportionality rule.

Subsection 93.1(2) applies where a corporation resident in Canada is a member of a partnership that owns shares of a non-resident corporation that is deemed by subsection 93.1(1) to be a foreign affiliate of the corporation resident in Canada. It provides, for the purposes of sections 93 and 113, that, where the non-resident corporation pays a dividend to the partnership, the corporation resident in Canada is deemed to receive a share of that dividend equal to the proportion that the fair market value of its interest in the partnership is of the fair market value of all interests in the partnership. Thus, the corporation resident in Canada can benefit from the deductions available under section 113 in respect of dividends on shares of a foreign affiliate of the corporation resident in Canada.

However, unlike subsection 93.1(1), subsection 93.1(2) is not an iterative rule that applies through a chain of partnerships; therefore, it does not apply where (as in the example that you provided in your February 28 letter) the corporation resident in Canada is a member of a partnership that is itself a member of the partnership that owns the shares in the non-resident corporation. As a result, in your example, the corporation resident in Canada would not be able to claim a deduction under subsection 113(1) in respect of dividends from the non-resident corporation that are included, because of subsection 96(1), in the income of the corporation resident in Canada.

You have also identified issues with respect to the application of current subsection 95(2.2) of the Act where the shares of the non-resident corporation are acquired by a partnership rather than by a person referred to in paragraph (*a*) of that subsection. For the purpose of subsection 95(2), paragraph 95(2.2)(*a*) deems that corporation to be a foreign affiliate of the taxpayer in respect of which the taxpayer has a qualifying interest throughout a year. That paragraph applies where that corporation either became or ceased to be a foreign affiliate of the taxpayer in the year and that corporation was, at the beginning of the year or the end of the year, a foreign affiliate of the taxpayer in respect of which the taxpayer has a qualifying interest.

You express the view that the reference, in paragraph 95(2.2)(*a*), to a "person" acquiring or disposing of shares of the capital stock of that corporation would not cover the case where the shares are acquired or disposed of by a partnership and the governing partnership law of the partnership is such that the members of the partnership are not considered to acquire or dispose of the shares. You make a similar observation with respect to applying the reference, in subparagraph 95(2.2)(*b*)(i), to "person" in the case where shares of that corporation or any other corporation are acquired or disposed of by a partnership.

A clarification of the intended application of subsections 93.1(2) and 95(2.2) is appropriate. Consequently, we will propose that

- section 93.1 be modified to provide a rule, for the purposes of subsection 93.1(2), that
  - where a particular partnership owns (or is deemed by that rule to own) at any time a partnership interest in another partnership, each member of the particular partnership is deemed to own, at that time, the partnership interest in the other partnership in the proportion that the fair market value at that time of the member's partnership interest in the particular partnership is of the fair market value at that time of all members' partnership interests in the particular partnership, and
  - a person or partnership that is a member (or is deemed by that rule to be a member) of a particular partnership that is a member of another partnership is deemed to be a member of the other partnership,
- subsection 93.1(1) be amended so that the rule in that amended subsection
  - applies for the purposes of subsection 95(2.2), and
  - continues to apply for the purposes of determining (for the limited purposes as presently referred to in that subsection) whether a non-resident corporation is a foreign affiliate of a corporation resident in Canada, and
- paragraphs 95(2.2)(*a*) and (*b*) be amended so that the expression "person" in subparagraphs 95(2)(*a*)(i) and (*b*)(i) is replaced by the expression "person or partnership".

It is contemplated that

- the new rule (referred to above) in section 93.1 would have effect for dividends received after November 1999, and
- the revisions to paragraphs 95(2.2)(*a*) and (*b*), and the revision to subsection 93.1(1) to extend the ambit of the rule in that subsection so that it applies for the purpose of subsection 95(2.2), would have effect for taxation years of a foreign affiliate of a taxpayer that end after 1999.

Thank you for writing.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 93.1(2) was added by S.C. 2001, c. 17, s. 71(1), applicable in respect of dividends received after November 1999.

SECTION 94:

► 94(1) ◄

(1) Application of certain provisions to trusts not resident in Canada. Where,

(*a*) at any time in a taxation year of a trust that is not resident in Canada or that, but for paragraph (*c*), would not be so resident, a person beneficially interested in the trust (in this section referred to as a "beneficiary") was

(i) a person resident in Canada,

(ii) a corporation or trust with which a person resident in Canada was not dealing at arm's length, or

(iii) a controlled foreign affiliate of a person resident in Canada, and

(*b*) at any time in or before the taxation year of the trust,

(i) the trust, or a non-resident corporation that would, if the trust were resident in Canada, be a controlled foreign affiliate of the trust, has, other than in prescribed circumstances, acquired property, directly or indirectly in any manner whatever, from

(A) a particular person who

(I) was the beneficiary referred to in paragraph (*a*), was related to that beneficiary or was the uncle, aunt, nephew or niece of that beneficiary,

(II) was resident in Canada at any time in the 18 month period before the end of that year or, in the case of a person who has ceased to exist, was resident in Canada at any time in the 18 month period before the person ceased to exist, and

(III) in the case of an individual, had before the end of that year been resident in Canada for a period of, or periods the total of which is, more than 60 months, or

(B) a trust or corporation that acquired the property, directly or indirectly in any manner whatever, from a particular person described in clause (A) with whom it was not dealing at arm's length

and the trust was not

(C) an *inter vivos* trust created at any time before 1960 by a person who at that time was a non-resident person,

(D) a testamentary trust that arose as a consequence of the death of an individual before 1976, or

(E) governed by a foreign retirement arrangement, or

(ii) all or any part of the interest of the beneficiary in the trust was acquired directly or indirectly by the beneficiary by way of

(A) purchase,

(B) gift, bequest or inheritance from a person referred to in clause (i)(A) or (B), or

(C) the exercise of a power of appointment by a person referred to in clause (i)(A) or (B),

the following rules apply for that taxation year of the trust:

(*c*) where the amount of the income or capital of the trust to be distributed at any time to any beneficiary of the trust depends on the exercise by any person of, or the failure by any person to exercise, any discretionary power,

(i) the trust is deemed for the purposes of this Part and sections 233.3 and 233.4 to be a person resident in Canada no part of whose taxable income is exempt because of section 149 from tax under this Part and whose taxable income for the year is the amount, if any, by which the total of

(A) the amount, if any, that would but for this subparagraph be its taxable income earned in Canada for the year,

(B) the amount that would be its foreign accrual property income for the year if

(I) except for the purpose of applying subsections 104(4) to (5.2) to days after 1998 that are determined under subsection 104(4), the trust were a non-resident corporation all the shares of which were owned by a person who was resident in Canada,

(II) the description of A in the definition "foreign accrual property income" in subsection 95(1) were, in respect of dividends received after 1998, read without reference to paragraph (*b*) of that description,

(III) the descriptions of B and E in that definition were, in respect of dispositions that occur after 1998, read without reference to "other than dispositions of excluded property to which none of paragraphs (2)(*c*), (*d*) and (*e*) apply",

(IV) the value of C in that definition were nil, and

(V) for the purposes of computing the trust's foreign accrual property income, the consequences of the application of subsections 104(4) to (5.2) applied in respect of days after 1998 that are determined under subsection 104(4),

(C) the amount, if any, by which the total of all amounts each of which is an amount required by subsection 91(1) or (3) to be included in computing its income for the year exceeds the total of all amounts each of which is an amount deducted by it for that year under subsection 91(2), (4) or (5), and

(D) the amount, if any, required by section 94.1 to be included in computing its income for the year,

exceeds

(E) the amount, if any, by which the total of all amounts each of which is an amount deducted by it under subsection 91(2), (4) or (5) in computing its income for the year exceeds the total of all amounts each of which is an amount included in computing its income for the year because of subsection 91(1) or (3), and

(ii) for the purposes of section 126,

(A) the amount that would be determined under subparagraph (i) in respect of the trust for the year, if that subparagraph were read without reference to clause (i)(A), is deemed to be income of the trust for the year from sources in the country other than Canada in which the trust would, but for subparagraph (i), be resident, and

(B) any income or profits tax paid by the trust for the year (other than any tax paid because of this section), to the extent that it can reasonably be regarded as having been paid in respect of that income, is deemed to be non-business income tax paid by the trust to the government of that country, and

(*d*) in any other case, for the purposes of subsections 91(1) to (4) and sections 95 and 233.4,

(i) the trust shall, with respect to any beneficiary under the trust the fair market value of whose beneficial interest in the trust is not less than 10% of the total fair market value of all beneficial interests in the trust, be deemed to be a non-resident corporation that is controlled by the beneficiary,

(ii) the trust shall be deemed to be a non-resident corporation having a capital stock of a single class divided into 100 issued shares, and

(iii) each beneficiary under the trust shall be deemed to own at any time the number of the issued shares that is equal to the proportion of 100 that

(A) the fair market value at that time of the beneficiary's beneficial interest in the trust

is of

(B) the fair market value at that time of all beneficial interests in the trust.

Editorial Note: See the pending amendment that replaces s. 94 following s. 94(7).

History: Ss. 94(1)(*c*)(i) and (ii) were amended by S.C. 2001, c. 17, s. 72(1), applicable to the 1999 and subsequent taxation years. Ss. 94(1)(*c*)(i) and (ii) formerly read:

"(i) the trust is deemed for the purposes of this Part and sections 233.3 and 233.4 to be a person resident in Canada no part of whose taxable income is exempt because of section 149 from Part I tax and whose taxable income for the taxation year is the total of

(A) the amount, if any, that would but for this subparagraph be its taxable income earned in Canada for that year,

(B) the amount that would, if it were a trust to which paragraph (*d*) applies, be its foreign accrual property income for that year, and

(C) the amount, if any, by which the amount required by section 91 to be included in computing its income for the year exceeds the amount deducted for that year by virtue of subsections 91(2), (4) and (5), and

(ii) for the purposes of section 126,

(A) the amounts referred to in clauses (i)(B) and (C) shall be deemed to be income of the trust from sources in the country other than Canada in which the trust would, but for subparagraph (i), be resident, and

(B) such part of any income or profits tax paid by the trust for the year (other than any tax paid by virtue of this section) that may reasonably be regarded as having been paid in respect of that income shall be deemed to be the non-business-income tax paid by the trust to the government of that country, and"

S. 94(1)(*c*), the portion before clause (A), was amended by S.C. 1997, c. 25, s. 20(1), applicable after 1995. That part formerly read:

"(i) the trust shall be deemed for the purposes of this Part to be a person resident in Canada not exempt from tax under section 149 whose taxable income for the taxation year is the total of"

S. 94(1)(*d*), the portion before subparagraph (i), was amended by S.C. 1997, c. 25, s. 20(2), applicable after 1995. That part formerly read:

"(*d*) in any other case, for the purposes of subsections 91(1) to (4) and section 95,"

S. 94(1)(*b*)(i)(E) was added by S.C. 1994, c. 7, Sched. II, s. 70(1), applicable to the 1990 and subsequent taxation years.

Related Sections: S. 91(1)–(5); s. 94(2)–(6); s. 233.3 Reporting requirements; s. 233.4 Reporting entity.
Regulations: 5909.
Interpretation Bulletins: *Secondary* — IT-447 Residence of a trust or estate.
Information Circulars: IC 77-9R Books, records and other requirements for taxpayers having foreign affiliates.
Income Tax Technical News: Issue No. 38, Canada-U.S. Treaty's Competent Authority Provision.
Forms: T2 SCH 22.
Tax Topics: No. 1915, Too Late and Too Early: No Relief for NRTs; No. 1867-68, 2007 Canadian Tax Foundation Annual Conference CRA Round Table; No. 1678, FEE, FIE, FOE, FUM: I Smell the Blood of a NERT.
Tax Profile: February 2004 — Non-Resident Trust Rules and Investment Funds; December 2003 — Non-Resident Trust Rules To Apply To Usufructs And Foundations; January 2003 — Non-Resident Trust Update; December 2002 — Update on Current CCRA GAAR Activity; October 2000 — Are Existing International Estate Freezes Grandfathered from the NRT Draft Legislation?; February 2000 — A Quick Reference Guide to Different Types of Trusts.
Canadian Tax Foundation: Gagnon, "The New Non-Resident Trust Rules", *2007 Conference Report*, 21:1; Roth, "Canadian Taxation of Non-Resident Trusts: A Critical Review of Section 94 of the Income Tax Act", *2004 Canadian Tax Journal*, No. 2, 329.
Cases: A trustee of a non-resident trust requested a determination of the trust's residence under Article IV(4) of the Canada–U.S. Tax Treaty, on the basis that it might be a deemed Canadian resident under s. 94(1) of the Act. The application was premature since it was based on a proposed amendment to s. 94. The trust was not a deemed Canadian resident under the existing s. 94(1), so there was no dual residency issue to settle. *Perry v. M.N.R. et al.*, 2008 DTC 6623 (F.C.A.), affirming 2007 DTC 5625 (F.C.).

► 94(2) ◄

(2) Rights and obligations. Where paragraph (1)(*c*) is applicable to a trust, each person described in clause (1)(*b*)(i)(A) or (B) shall jointly and severally with the trust have the rights and obligations of the trust by virtue of Divisions I and J and shall be subject to the provisions of Part XV, but no amount in respect of taxes, penalties, costs and other amounts payable under this Act shall be recoverable from any such person except to the extent of

(*a*) amounts paid to the person by the trust or the payment of which from the trust the person is entitled to enforce; and

(*b*) amounts received by the person on the disposition of an interest in the trust.

Editorial Note: See the pending amendment that replaces s. 94 following s. 94(7).

Related Sections: S. 94(1) Application of certain provisions to trusts not resident in Canada.
Tax Topics: No. 1705, NRT Rules: Harsher Than You Think.
Tax Profile: August 2000 — Non-Resident Trusts: Canadian Legislative Proposals; October 2000 — Are Existing International Estate Freezes Grandfathered from the NRT Draft Legislation?.

► 94(3) ◄

(3) Deduction in computing taxable income. In computing the amount of taxable income of a trust to which paragraph (1)(*c*) applies for any taxation year, there may be deducted such portion of the amount that would, but for this subsection, be included in computing the taxable income of the trust for the year by virtue of clauses (1)(*c*)(i)(B) and (C) as may reasonably be considered as having become an amount payable in the year within the meaning of subsection 104(24) to a beneficiary.

Editorial Note: See the pending amendment that replaces s. 94 following s. 94(7).

Related Sections: S. 94(1) Application of certain provisions to trusts not resident in Canada; s. 104(24) Amount payable.
Interpretation Bulletins: *Secondary* — IT-342R Trusts — Income payable to beneficiaries.
Tax Profile: August 2000 — Non-Resident Trusts: Canadian Legislative Proposals.

► 94(4) ◄

(4) Deduction from foreign accrual property income. In computing the foreign accrual property income of a trust to which paragraph (1)(*d*) applies for any taxation year, there may be deducted such portion of the amount that would, but for this subsection, be the foreign accrual property income of the trust as may reasonably be considered as having become an amount payable in the year within the meaning of subsection 104(24) to a beneficiary.

Editorial Note: See the pending amendment that replaces s. 94 following s. 94(7).

Related Sections: S. 94(1) Application of certain provisions to trusts not resident in Canada; s. 95(1), "foreign accrual property income".
Interpretation Bulletins: *Secondary* — IT-342R Trusts — Income payable to beneficiaries.

► 94(5) ◄

(5) Adjusted cost base of capital interest in trust. In computing, at any time in a taxation year, the adjusted cost base to a taxpayer resident in Canada of a capital interest in a trust to which paragraph (1)(*d*) applies,

(*a*) there shall be added any amount required by subsection 91(1) or (3) to be included in computing the taxpayer's income for the year or any preceding taxation year (or that would have been so required to be included but for subsection 56(4.1) and sections 74.1 to 75 of this Act and section 74 of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952) in respect of that interest; and

(*b*) there shall be deducted any amount deducted by the taxpayer by reason of subsection 91(2) or (4) in computing the taxpayer's income for the year or any preceding taxation year (or that would have been so deductible by the taxpayer but for subsection 56(4.1) and sections 74.1 to 75 of this Act and section 74 of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952) in respect of that interest.

Editorial Note: See the pending amendment that replaces s. 94 following s. 94(7).

Related Sections: S. 53(1) Adjustments to cost base; s. 53(2) Amounts to be deducted; s. 54, "adjusted cost base"; s. 74 Transfers to spouse; s. 91(1) — (4).

► 94(6) ◄

(6) Where financial assistance given. For the purposes of paragraph (1)(*b*), a trust or a non-resident corporation shall be deemed to have acquired property from any person who has given a guarantee on its behalf or from whom it has received any other financial assistance whatever.

Editorial Note: See the pending amendment that replaces s. 94 following s. 94(7).

► 94(7) ◄

(7) Beneficially interested. [Repealed by S.C. 1994, c. 7, Sched. VIII, s. 39(1).]

History: S. 94(7) was repealed by S.C. 1994, c. 7, Sched. VIII, s. 39(1), applicable after 1990. S. 94(7) formerly read:

"(7) *Beneficially interested.* For the purposes of this section, a person is beneficially interested in a trust if that person has any right (whether immediate or future, whether absolute or contingent or whether conditional on or subject to the exercise of a discretionary power by any person or persons) to receive any of the income or capital of the trust either directly from the trust or indirectly through one or more other trusts."

Related Sections: S. 104(1) Reference to trust or estate; s. 108(1), "capital interest", "income interest", "inter vivos trust"; s. 248(1), "corporation", "share"; s. 255 Canada.

Tax Profile: August 2000 — Non-Resident Trusts: Canadian Legislative Proposals.

Federal Budget Extract
Non-Resident Trusts and Foreign Investment Entities

[Reproduced below is an excerpt from the January 27, 2009 Federal Budget, which notes that the government plans to review the proposed legislation concerning non-resident trusts and foreign investment entities in light of various submissions received, before going ahead with these measures. The excerpt specifically refers to the recommendations of the Advisory Panel on Canada's System on International Taxation, which can be found at http://www.apcsit-gcrcfi.ca/07/index-eng.html.]

Outstanding proposals for non-resident trusts and foreign investment entities, first introduced in the 1999 Budget, apply in respect of arrangements under which Canadian residents seek to avoid Canadian tax through the use of foreign intermediaries under circumstances designed to circumvent the application of existing anti-avoidance rules. The Government has received submissions, including the Panel's recommendations, on these proposals; the Government supports the fundamental policy objective of ensuring that Canadian taxpayers should not be able to avoid paying their fair share of income tax through the use of foreign intermediaries, but will review the existing proposals in light of these submissions before proceeding with measures in this area.

Editorial Note: See Department of Finance Comfort Letters dated April 29, 2008 and April 2, 2008, following this pending amendment.

Pending Amendment
Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 94 of the Act is replaced by the following:

Treatment of Trusts with Canadian Contributors

SECTION 94:

(1) Definitions. The definitions in this subsection apply in this section.

"arm's length transfer" — "arm's length transfer", at any time by an entity (referred to in this definition as the "transferor") means a transfer or loan (which transfer or loan is referred to in this definition as the "transfer") of property (other than a restricted property) that is made at that time (referred to in this definition as the "transfer time") by the transferor to a particular entity (referred to in this definition as the "recipient") where

(*a*) it is reasonable to conclude that none of the reasons (determined by reference to all the circumstances including the terms of a trust, an intention, the laws of a country or the existence of an agreement, a memorandum, a letter of wishes or any other arrangement) for the transfer is the acquisition at any time by any entity of an interest as a beneficiary under a non-resident trust; and

(*b*) the transfer

(i) is a payment of interest, of a dividend, of rent, of a royalty or of any other return on investment, or any substitute for such a return on investment, in respect of a particular property held by the recipient, if

(A) the transfer is not a transfer described in paragraph (2)(*g*), or the transfer is a transfer described in paragraph (2)(*g*) that is an acquisition by the recipient of

(I) a unit of a mutual fund trust or of a trust that would be a mutual fund trust if section 4801 of the *Income Tax Regulations* were read without reference to paragraph 4801(*b*),

(II) a share of the capital stock of a mutual fund corporation, or

(III) a particular share of the capital stock of a corporation (other than a closely-held corporation) which particular share is identical to a share that is, at the transfer time, of a class that is listed on a prescribed stock exchange, and

(B) the fair market value of the property, at the transfer time, is not more than the amount that the transferor would have transferred at the transfer time in respect of the particular property to the recipient if the transferor dealt at arm's length with the recipient,

(ii) is a payment made by a corporation on a reduction of the paid-up capital in respect of shares of a class of its capital stock held by the recipient, if

(A) the transfer is not a transfer described in paragraph (2)(*g*), and

(B) the amount of the payment is not more than the lesser of the amount of the reduction and the consideration for which the shares were issued,

(iii) is a refund in whole or in part of a gift that the recipient made to the transferor, if the recipient is a trust and the transferor is at the transfer time a specified charity in respect of the recipient,

(iv) is a transfer

(A) in exchange for which, the recipient transfers or loans property (other than a restricted property) to the transferor, or becomes obligated to transfer or loan property (other than a restricted property) to the transferor, and

(B) for which it is reasonable to conclude

(I) having regard only to the transfer and the exchange, that the transferor would have been willing to make the transfer if the transferor dealt at arm's length with the recipient, and

(II) that the terms and conditions, and circumstances, under which the transfer was made would have been acceptable to the transferor if the transferor dealt at arm's length with the recipient,

(v) is made in satisfaction of an obligation that arose because of a transfer to which subparagraph (iv) applied, if

(A) the transfer is not a transfer described in paragraph (2)(*g*),

(B) the transferor would have been willing to make the transfer if the transferor dealt at arm's length with the recipient, and

(C) the terms and conditions, and circumstances, under which the transfer was made would have been acceptable to the transferor if the transferor dealt at arm's length with the recipient,

(vi) is a payment of an amount owing by the transferor under a written agreement the terms and conditions of which, when entered into, were terms and conditions that, having regard only to the amount owing and the agreement, persons dealing at arm's length with each other would have entered into, if the transfer is not a transfer described in paragraph (2)(*g*),

(vii) is a payment made before 2002 to a trust, to a corporation controlled by the trust or to a partnership of which the trust is a majority interest partner in repayment of or otherwise in respect of a particular loan made by the trust, corporation or partnership to the transferor, or

(viii) is a payment made after 2001 to a trust, to a corporation controlled by the trust or to a partnership of

which the trust is a majority interest partner, in repayment of or otherwise in respect of a particular loan made by the trust, corporation or partnership to the transferor and either

(A) they would have been willing to enter into the particular loan if they dealt at arm's length with each other and the payment is not a transfer described in paragraph (2)(*g*), or

(B) the payment is made before 2005 in accordance with fixed repayment terms agreed to before June 23, 2000.

"*beneficiary*" — "beneficiary", under a trust, includes

(*a*) an entity that is beneficially interested in the trust; and

(*b*) an entity that would be beneficially interested in the trust if

(i) each reference in subsection 248(25) to "person" were read as a reference to "entity (as defined by subsection 94(1))", and

(ii) the reference in subparagraph 248(25)(*b*)(ii) to

(A) "any arrangement in respect of the particular trust" were read as a reference to "any arrangement (including, for greater certainty, the terms or conditions of a share, or any arrangement in respect of a share, of the capital stock of a corporation that is beneficially interested in the particular trust) in respect of the particular trust", and

(B) "the particular person or partnership might" were read as a reference to "the particular person or partnership becomes (or could become on the exercise of any discretion by any entity), directly or indirectly, entitled to any amount derived, directly or indirectly, from the income or capital of the particular trust or might".

"*closely-held corporation*" — "closely-held corporation", at any time, means a corporation, other than a corporation in respect of which

(*a*) there is at least one class of shares of its capital stock that includes shares prescribed for the purpose of paragraph 110(1)(*d*);

(*b*) it is reasonable to conclude that at that time, in respect of each class of shares described by paragraph (*a*), shares of the class are held by at least 150 entities each of whom holds shares, of the class, that have a total fair market value of at least $500; and

(*c*) it is reasonable to conclude that at that time in no case does a particular entity (or the particular entity together with any other entity with whom the particular entity does not deal at arm's length) hold shares of the capital stock of the corporation

(i) that would give the particular entity (or the particular entity together with those other entities) 10% or more of the votes that could be cast under any circumstance at an annual meeting of shareholders of the corporation if the meeting were held at that time, or

(ii) that have a fair market value of 10% or more of the fair market value of all of the issued and outstanding shares of the corporation.

"*connected contributor*" — "connected contributor", to a trust at a particular time, means an entity (including an entity that has ceased to exist) that is a contributor to the trust at the particular time, other than an entity

(*a*) that is an individual (other than a trust) who was, at or before the particular time, resident in Canada for a period of, or periods the total of which is, not more than 60 months (but not including an individual who, before the particular time, was never non-resident); or

(*b*) all of whose contributions to the trust made at or before the particular time were made at a non-resident time of the entity.

"*contribution*" — "contribution", to a trust by a particular entity, means

(*a*) a transfer or loan (other than an arm's length transfer) of property to the trust by the particular entity;

(*b*) if a particular transfer or loan (other than an arm's length transfer) of property is made by the particular entity as part of a series of transactions or events that includes another transfer or loan (other than an arm's length transfer) of property to the trust by another entity, that other transfer or loan to the extent that it can reasonably be considered to have been made in respect of the particular transfer or loan; and

(*c*) if the particular entity becomes obligated to make a particular transfer or loan (other than a transfer or loan that would, if it were made, be an arm's length transfer) of property as part of a series of transactions or events that includes another transfer or loan (other than an arm's length transfer) of property to the trust by another entity, that other transfer or loan to the extent that it can reasonably be considered to have been made in respect of the obligation.

"*contributor*" — "contributor", to a trust at any time, means an entity (including an entity that has ceased to exist) that, at or before that time, has made a contribution to the trust.

"*eligible trust*" — "eligible trust", at any particular time, means a trust, other than a trust

(*a*) created or maintained for charitable purposes;

(*b*) governed by an employee benefit plan;

(*c*) described in paragraph (*a*.1) of the definition "trust" in subsection 108(1);

(*d*) governed by a salary deferral arrangement;

(*e*) operated for the purpose of administering or providing superannuation, pension, retirement or employee benefits;

(*f*) where the amount of income or capital that any entity may receive directly from the trust at any time as a beneficiary under the trust depends on the exercise by any entity of, or the failure by any entity to exercise, a discretionary power; or

(*g*) that has elected in writing filed with the Minister, on or before the trust's filing-due date for the particular taxation year of the trust that includes the particular time (or for an earlier taxation year that ended before the particular time), that the definition "exempt foreign trust" in this subsection not apply to it for the particular taxation year (or for the earlier taxation year) and for all of its subsequent taxation years.

"*entity*" — "entity" includes an association, a corporation, a fund, a natural person, a joint venture, an organization, a partnership, a syndicate and a trust.

"*excluded property*" — "excluded property", at any time, means a particular property held, loaned or transferred, as the case may be, at that time by a particular entity if at that time:

(*a*) the particular property is at that time

(i) a share of the capital stock of the corporation,

(ii) a specified fixed interest in the trust, or

(iii) an interest, as a member of the partnership, under which, by operation of any law governing the arrangement in respect of the partnership, the liability of the member as a member of the partnership is limited;

(*b*) there are at least 150 persons each of whom holds at that time property that at that time

(i) is identical to the particular property, and

(ii) has a total fair market value of at least $500;

(*c*) the total of all amounts each of which is the fair market value, at that time, of the particular property (or of identical property that is held, at that time, by the particular entity or an entity with whom the particular entity does not deal at arm's length) does not exceed 10% of the total of all amounts each of which is the fair market value, at that time, of the particular property or of identical property held by any entity;

(*d*) property that is identical to the particular property can normally be acquired by and sold by members of the public in the open market; and

(*e*) the particular property, or identical property, is listed on a prescribed stock exchange.

"*exempt amount*" — "exempt amount", in respect of a particular taxation year of a trust, means an amount that is

(*a*) paid or credited (in this definition within the meaning assigned by Part XIII) by the trust before 2004;

(*b*) paid or credited by the trust and referred to in paragraph 104(7.01)(*b*) in respect of the trust for the particular taxation year; or

(*c*) paid in the particular taxation year (or within 60 days after the end of the particular taxation year) by the trust

directly to a beneficiary (determined without reference to subsection 248(25)) under the trust, if

(i) the beneficiary is a natural person none of whose interests as a beneficiary under the trust was ever acquired for consideration,

(ii) the amount is described in subparagraph 212(1)(*c*)(i) and is not included in computing an exempt amount in respect of any other taxation year of the trust,

(iii) the trust was created before October 30, 2003, and

(iv) no contribution has been made to the trust on or after July 18, 2005.

"exempt foreign trust" — "exempt foreign trust", at a particular time, means

(*a*) a non-resident trust, if

(i) each beneficiary under the trust at the particular time is

(A) an individual who, at the time that the trust was created, was, because of mental or physical infirmity, dependent on an individual who is a contributor to the trust or on an individual related to such a contributor (which beneficiary is referred to in this paragraph as an "infirm beneficiary"), or

(B) a person who is entitled, only after the particular time, to receive or otherwise obtain the use of any of the trust's income or capital,

(ii) at the particular time there is at least one infirm beneficiary who suffers from a mental or physical infirmity that causes the beneficiary to be dependent on a person,

(iii) each infirm beneficiary is, at all times that the infirm beneficiary is a beneficiary under the trust during the trust's taxation year that includes the particular time, non-resident, and

(iv) each contribution to the trust made at or before the particular time can reasonably be considered to have been, at the time that the contribution was made, made to provide for the maintenance of an infirm beneficiary during the expected period of the beneficiary's infirmity;

(*b*) a non-resident trust, if

(i) the trust was created as a consequence of the breakdown of a marriage or common-law partnership of two particular individuals to provide for the maintenance of a beneficiary under the trust who was, during that marriage or common-law partnership, a child of both of those particular individuals (which beneficiary is referred to in this paragraph as a "child beneficiary"),

(ii) each beneficiary under the trust at the particular time is

(A) a child beneficiary under 21 years of age,

(B) a child beneficiary under 31 years of age who is enrolled at any time in the trust's taxation year that includes the particular time at an educational institution that is described in clause (v)(A) or (B), or

(C) a person who is entitled, only after the particular time, to receive or otherwise obtain the use of any of the trust's income or capital,

(iii) each child beneficiary is, at all times that the child beneficiary is a beneficiary under the trust during the trust's taxation year that includes the particular time, non-resident,

(iv) each contributor to the trust at the particular time was one of those particular individuals or a person related to one of those particular individuals, and

(v) each contribution to the trust, at the time that the contribution was made, was made to provide for the maintenance of a child beneficiary, while the child was either under 21 years of age, or was under 31 years of age and enrolled at an educational institution located outside Canada that is

(A) a university, college or other educational institution that provides courses at a post-secondary school level, or

(B) an educational institution that provides courses designed to furnish a person with skills for, or improve a person's skills in, an occupation;

(*c*) a non-resident trust, if

(i) at the particular time, the trust is an agency of the United Nations,

(ii) at the particular time, the trust owns and administers a university described in paragraph (*f*) of the definition "total charitable gifts" in subsection 118.1(1), or

(iii) at any time in the trust's taxation year that includes the particular time or at any time in the preceding calendar year, Her Majesty in right of Canada has made a gift to the trust;

(*d*) a non-resident trust

(i) that, throughout the particular period that began at the time it was created and ends at the particular time, would be non-resident if this Act were read without reference to subsection (1) as that subsection read in its application to taxation years that include December 31, 2000,

(ii) that was created exclusively for charitable purposes and has been operated, throughout the particular period, exclusively for charitable purposes,

(iii) if the particular time is more than 24 months after the day on which the trust was created, in respect of which, there is at the particular time a group of at least 20 persons (other than trusts) each of whom at the particular time

(A) is a contributor to the trust,

(B) exists, and

(C) deals with each of the others in the group at arm's length,

(iv) the income of which (determined in accordance with the laws described in subparagraph (v)) for each of its taxation years that ends at or before the particular time would, if the income were not distributed and the laws described in subparagraph (v) did not apply, be subject to an income or profits tax in the country in which it was resident in each of those taxation years, and

(v) that was, for each of its taxation years that ends at or before the particular time, exempt under the laws of the country in which it was resident from the payment of income or profits tax to the government of that country in recognition of the charitable purposes for which the trust is operated;

(*e*) a non-resident trust that, throughout the trust's taxation year that includes the particular time, is a trust governed by an employees profit sharing plan, a retirement compensation arrangement or a foreign retirement arrangement;

(*f*) a non-resident trust, if

(i) throughout the particular period that began when it was created and ends at the particular time it has been operated exclusively for the purpose of administering or providing employee benefits,

(ii) throughout the trust's taxation year that includes the particular time

(A) the trust is a trust governed by an employee benefit plan or is a trust described in paragraph (*a.1*) of the definition "trust" in subsection 108(1),

(B) the trust is maintained for the benefit of natural persons the majority of whom are non-resident, and

(C) where the particular time is after 2006, the trust holds no restricted property,

(iii) where the particular time is on or after November 9, 2006 and before 2007, throughout the trust's taxation year that includes the particular time the trust holds no restricted property other than property that was held by the trust as restricted property on the day before November 9, 2006, and

(iv) throughout the trust's taxation year that includes the particular time, no benefits are provided under the trust, other than benefits in respect of qualifying services;

(*g*) a non-resident trust (other than a prescribed trust or a trust described in paragraph (*a.1*) of the definition "trust" in subsection 108(1)) that, throughout the particular period that began when it was created and ends at the particular time,

(i) has been resident in a particular country (other than Canada) the laws of which have, throughout the particular period,

(A) imposed an income or profits tax, and

(B) exempted the trust from the payment of income tax and profits tax to the government of that particular country in recognition of the purposes for which the trust is operated, and

(ii) has been operated exclusively for the purpose of administering or providing superannuation or pension benefits that are primarily in respect of services rendered, in the particular country, by natural persons who were at the time those services were rendered non-resident;

(*h*) a non-resident trust that is, at the particular time, an eligible trust under which

(i) the only beneficiaries that may for any reason receive, at or after the particular time and directly from the trust, any of the income or capital of the trust are entities that are, at the particular time, qualifying investors in respect of the trust, and

(ii) either

(A) the following conditions are met, namely

(I) there are at least 150 qualifying investors in respect of the trust each of whose specified fixed interests in the trust have at the particular time a fair market value of at least $500, and

(II) if the total fair market value at the particular time of the interests, of any class of specified fixed interests in the trust, held by a resident contributor to the trust or by any other entity with whom the resident contributor does not deal at arm's length is more than 10% of the total fair market value of interests of that class, it is reasonable to conclude (determined by reference to all the circumstances including the terms of the trust, an intention, the laws of a country or the existence of an agreement, a memorandum, a letter of wishes or any other arrangement) that

1. where the resident contributor is at the particular time an indirect contributor to the trust, each other entity — that does not deal at arm's length with the resident contributor and that is at the particular time a qualifying investor in respect of the trust and referred to as such in applying paragraph (*c*) of the definition "indirect contributor" in this subsection in determining that the resident contributor is an indirect contributor to the trust — is at the particular time a specified contributor to the trust, or

2. in any other case, the resident contributor is at the particular time a specified contributor to the trust, or

(B) the following conditions are met, namely,

(I) a prescribed form and a copy of the terms of the trust that apply at the particular time have been filed with the Minister by or on behalf of the trust on or before its filing due date for its taxation year that includes the particular time (or a later date that is acceptable to the Minister),

(II) it is reasonable to conclude (determined by reference to all the circumstances including the terms of the trust, an intention, the laws of a country or the existence of an agreement, a memorandum, a letter of wishes or any other arrangement) that each resident contributor (other than an indirect contributor) to the trust at the particular time is a specified contributor to the trust at the particular time,

(III) where the particular time is on or after November 9, 2006 and before 2007, throughout the trust's taxation year that includes the particular time the trust holds no restricted property other than property that was held by the trust as restricted property on the day before November 9, 2006, and

(IV) where the particular time is after 2006, throughout the trust's taxation year that includes the particular time the trust holds no restricted property; or

(*i*) a trust that is, at the particular time, a prescribed trust or included in a prescribed class of trusts.

"*exempt service*" — "exempt service" means a service rendered at any time by an entity (referred to in this definition as the "service provider") to, for or on behalf of, another entity (referred to in this definition as a "recipient") if

(*a*) the recipient is at that time a trust and the service relates to the administration of the trust; or

(*b*) the following conditions apply in respect of the service, namely,

(i) the service is rendered in the service provider's capacity at that time as an employee or agent of the recipient,

(ii) in exchange for the service, the recipient transfers or loans property or becomes obligated to transfer or loan property, and

(iii) it is reasonable to conclude

(A) having regard only to the service and the exchange, that the service provider would be willing to carry out the service if the service provider were dealing at arm's length with the recipient, and

(B) that the terms, conditions and circumstances under which the service is provided would be acceptable to the service provider if the service provider were dealing at arm's length with the recipient.

"*exempt taxpayer*" — "exempt taxpayer", for a taxation year of the taxpayer, means

(*a*) a person whose taxable income for the taxation year is exempt from tax under this Part because of subsection 149(1) (otherwise than because of paragraph 149(1)(*q*.1), (*t*) or (z)); and

(*b*) an eligible trust that is resident in Canada at the end of the taxation year and under which

(i) the only beneficiaries that may for any reason receive, at any time and directly from the trust, any of the income or capital of the trust are persons that are qualifying investors in respect of the trust, and

(ii) each of those beneficiaries at each time in the taxation year is a person whose taxable income, for the period that includes all of those times in the taxation year, is exempt from tax under this Part because of subsection 149(1) (otherwise than because of paragraph 149(1)(*q*.1), (*t*) or (z)).

"*indirect contributor*" — "indirect contributor", to a trust at a particular time, means a particular entity that

(*a*) is at the particular time a contributor to the trust, but would not at the particular time be a contributor to the trust if this section were read without reference to paragraphs (*b*) and (*c*) of the definition "contribution" in this subsection and paragraphs (2)(*l*), (*n*) and (*o*);

(*b*) has at the particular time no rights (whether immediate or future, whether absolute or contingent or whether conditional on or subject to the exercise of any discretion by any entity) to receive directly from the trust any of the income or capital of the trust; and

(*c*) has at or before the particular time made a contribution to the trust

(i) because of a transfer of property to the trust by another entity that is at the particular time a qualifying investor in respect of the trust, in the case where the particular entity would not, at the particular time, be a contributor to the trust because of the transfer if this section were read without reference to paragraphs (*b*) and (*c*) of the definition "contribution" and to paragraph (2)(*l*), or

(ii) because of a transfer of property by another entity to the trust in exchange for property acquired from the trust if the acquisition was a transfer described in subparagraph (2)(*g*)(ii) or because of a contribution to the trust that is deemed by paragraph (2)(*q*) to have been made by another entity because of the acquisition by that other entity of a specified fixed interest in the trust in the case where

(A) the particular entity would not, at the particular time, be a contributor to the trust if this section

were read without reference to paragraphs (*b*) and (*c*) of the definition "contribution" in this subsection and paragraphs (2)(*n*) and (*o*),

(B) as a result of the transfer or contribution by the other entity, the other entity acquired a specific fixed interest in the trust, and

(C) the other entity is, at the particular time, a qualifying investor in the trust.

"non-resident time" — "non-resident time", of an entity in respect of a contribution to a trust and a particular time, means a time (referred to in this definition as the "contribution time") at which the entity made a contribution to a trust that is before the particular time and at which the entity was non-resident, where the entity was non-resident or not in existence throughout the period that began 60 months before the contribution time (or, if the entity is an individual and the trust arose on and as a consequence of the death of the individual, 18 months before the contribution time) and ends at the earliest of

(*a*) the time that is 60 months after the contribution time,

(*b*) if the entity is an individual, the date of death of the individual, and

(*c*) the particular time.

"promoter" — "promoter", of a trust at any time, means an entity that on or before that time establishes, organizes or substantially reorganizes the undertakings of the trust.

"qualifying investor" — "qualifying investor", in respect of a trust at a particular time, means an entity

(*a*) that is at the particular time a beneficiary (in this definition, determined without reference to subsection 248(25)) under the trust; and

(*b*) whose only interests as a beneficiary under the trust are, at all times that the interests exist during the trust's taxation year that includes the particular time, specified fixed interests of the entity in the trust.

"qualifying services" — "qualifying services" means services that are

(*a*) rendered to an employer by an employee of the employer, which employee was non-resident throughout the period during which the services were rendered;

(*b*) rendered to an employer by an employee of the employer, other than services that were

(i) rendered primarily in Canada,

(ii) rendered primarily in connection with a business carried on by the employer in Canada, or

(iii) a combination of services described in subparagraphs (i) and (ii);

(*c*) rendered in a particular calendar month to an employer by an employee of the employer, which employee

(i) was resident in Canada throughout no more than 60 months during the 72-month period that ends at the end of the particular month, and

(ii) became a member of, or a beneficiary under, the plan or trust under which benefits in respect of the services may be provided (or a similar plan or trust for which the plan or the trust was substituted) before the end of the calendar month following the month in which the employee became resident in Canada; or

(*d*) any combination of services that are qualifying services determined without reference to this paragraph.

"resident beneficiary" — "resident beneficiary", at any time under a particular trust, means an entity (other than an entity that is at that time a specified charity, or a successor beneficiary, in respect of the particular trust) that is, at that time, a beneficiary under the particular trust where, at that time,

(*a*) the entity is resident in Canada; and

(*b*) there is a connected contributor to the particular trust.

"resident contributor" — "resident contributor", to a particular trust at any time, means an entity that is, at that time, resident in Canada and a contributor to the particular trust, but does not include

(*a*) an individual (other than a trust) who has not, at that time, been resident in Canada for a period of, or periods the total of which is, more than 60 months (other than an individual who, before that time, was never non-resident); or

(*b*) an individual (other than a trust), if

(i) the particular trust is an *inter vivos* trust that was created before 1960 by a person who was non-resident when the trust was created, and

(ii) the individual has not, after 1959, made a contribution to the particular trust.

"restricted property" — "restricted property" means

(*a*) a particular share (or a particular right to acquire a share) of the capital stock of a particular closely-held corporation if the particular share (or the particular right), or a property for which the particular share (or the particular right) was substituted, was at any time acquired as part of a transaction or series of transactions or events under which

(i) a specified share of the capital stock of a closely-held corporation was acquired by any entity in exchange for, as consideration for, or upon conversion of, any property, or

(ii) a share (other than a specified share) of the capital stock of a closely-held corporation becomes a specified share of the capital stock of the corporation;

(*b*) an indebtedness (or a right to acquire an indebtedness) owing by another entity if

(i) the other entity is a closely-held corporation,

(ii) the indebtedness (or the right), or a property for which the indebtedness (or the right) was substituted, was at any time acquired as part of a transaction or series of transactions or events under which

(A) a specified share of the capital stock of a closely-held corporation was acquired by any entity in exchange for, as consideration for, or upon conversion of, any property, or

(B) a share (other than a specified share) of the capital stock of a closely-held corporation becomes a specified share of the capital stock of the corporation, and

(iii) the amount of any payment under a right (whether immediate or future, whether absolute or contingent or whether conditional on or subject to the exercise of any discretion by any entity) to receive, in any manner whatever and from any entity, amounts in respect of the indebtedness, or the value of such a right, is, directly or indirectly, determined primarily by one or more of the following criteria in respect of one or more properties of the other entity (or an entity with which the other entity does not deal at arm's length):

(A) the fair market value of the property, production from the property or use of the property,

(B) gains or profits from the disposition of the property,

(C) income from the property, profits from the property, revenue from the property, or cash flow from the property, or

(D) any other criterion similar to a criterion referred to in any of clauses (A) to (C); and

(*c*) any property the fair market value of which is derived in whole or in part, directly or indirectly, from a particular share, an indebtedness or a right described in paragraph (*a*) or (*b*).

"specified charity" — "specified charity", in respect of a trust at any particular time, means any person (referred to in this definition as the "charity") that at the particular time is a person described in any of paragraphs (*a*) to (*e*) and (g.1) of the definition "total charitable gifts" in subsection 118.1(1) other than

(*a*) a charity that does not, at the particular time, deal at arm's length with a specified entity in respect of the trust, and

(*b*) a charity that did not, at any specified prior time, deal at arm's length with a specified entity in respect of the trust,

where

(*c*) "specified prior time" in respect of a charity means any time, before the particular time, at which

(i) an amount was payable to the charity as a beneficiary under the trust,

(ii) an amount was received by the charity on the disposition of all or part of its interest as a beneficiary under the trust, or

(iii) a benefit was received or enjoyed by the charity from or under the trust, and

(*d*) "specified entity" in respect of a trust at any time means

(i) an entity that is at that time

(A) a beneficiary under the trust,

(B) a contributor to the trust,

(C) a person related to a contributor to the trust,

(D) a trustee of the trust,

(E) an entity that could reasonably be considered to have influence over the operation of the trust or the enforcement of its terms, or

(F) an entity that could reasonably be considered to have influence over the selection or appointment of an entity referred to in clause (A), (D) or (E), or

(ii) any group of entities at least one of which is described in subparagraph (i).

"specified contributor" — "specified contributor", to a trust at a particular time in a taxation year of a particular entity, means the particular entity, if

(*a*) the particular entity is, at the particular time, both a contributor to the trust and a beneficiary (in this definition, other than in clause (*d*)(ii)(B), determined without reference to subsection 248(25)) under the trust;

(*b*) at all times, after February 16, 1999 and on or before the particular time, when it is a beneficiary under the trust, the particular entity's interest as a beneficiary under the trust is or would, if the definition "specified fixed interest" applied at those times, have been a specified fixed interest of the par- ticular entity in the trust;

(*c*) it is reasonable to conclude that, at no time that is after February 16, 1999 and on or before the particular time, has

(i) the particular entity made a contribution of restricted property to the trust, or

(ii) another entity made a contribution of restricted property to the trust when that other entity was not dealing at arm's length with the particular entity; and

(*d*) where the particular entity is, at any time that is after February 16, 1999 and at or before the particular time, a beneficiary under the trust

(i) either

(A) a prescribed form has been filed with the Minister by or on behalf of the particular entity on or before the par- ticular entity's filing-due date for that taxation year (or a later date that is acceptable to the Minister), or

(B) a prescribed form and a copy of the terms of the trust that apply at the particular time have been filed with the Minister by or on behalf of the trust on or before its filing due date for its taxation year that includes the particular time (or a later date that is acceptable to the Minister), and

(ii) unless the particular entity is an exempt taxpayer for the taxation year, with respect to each particular contribution made after February 16, 1999 and at or before the particular time by the particular entity to the trust, it is reasonable to conclude that

(A) no consideration was received (other than property received by the particular entity that is the particular entity's interest as a beneficiary under the trust),

(B) none of the reasons (determined by reference to all the circumstances including the terms of the trust, an intention, the laws of a country or the existence of an agreement, a memorandum, a letter of wishes or any other arrangement) for the contribution is the acquisition at any time by any entity (other than the particular entity) of a right (whether immediate or future, whether absolute or contingent or whether conditional on or subject to the exercise of any discretion by any entity) as a beneficiary under the trust (other than the acquisition by any such entity of the particular entity's interest as a beneficiary under the trust that was acquired as a result of the contribution) to receive, at any time and directly from the trust, income or capital of the trust, and

(C) the fair market value of the particular contribution is equal to the fair market value, at the time of the par- ticular contribution, of the particular entity's interest as a beneficiary under the trust acquired as a result of the particular contribution.

"specified controlled foreign affiliate" — "specified controlled foreign affiliate", of a particular entity at any time, means an entity that would, at that time, be a controlled foreign affiliate of the particular entity if the particular entity were resident in Canada at that time.

"specified fixed interest" — "specified fixed interest", at any time of an entity in a trust, means an interest of the entity as a beneficiary under the trust if

(*a*) the interest includes, at that time, rights of the entity as a beneficiary under the trust to receive, at or after that time and directly from the trust, income and capital of the trust;

(*b*) the interest was issued by the trust, at or before that time, to an entity, in circumstances that are described by subparagraph (2)(*g*)(ii);

(*c*) the only manner in which any part of the interest may cease to be the entity's is by way of a transfer (determined as if subsection (2) were read only with reference to clauses (2)(*m*)(ii)(B) and (D)) of that part by the entity, which transfer is a disposition (determined without reference to paragraph (*i*) of the definition "disposition" in subsection 248(1) and paragraph 248(8)(*c*)) by the entity of that part; and

(*d*) no amount of income or capital of the trust that any entity may receive directly from the trust at any time as a beneficiary under the trust depends on the exercise by any entity of, or the failure by any entity to exercise, a discretionary power.

"specified party" — "specified party", in respect of a particular entity at any time, means an entity that is at that time

(*a*) an individual who is a spouse or common-law partner of the particular entity;

(*b*) a specified controlled foreign affiliate of

(i) the particular entity, or

(ii) if the particular entity is an individual, a spouse or common-law partner of the individual;

(*c*) an entity for which it is reasonable to conclude that the benefit referred to in subparagraph (8)(*a*)(iii) was conferred

(i) in contemplation of the entity becoming after that time a specified controlled foreign affiliate of an entity referred to in subparagraph (*b*)(i) or (ii), or

(ii) to avoid or minimize a liability under this Part that arose, or that would otherwise have arisen, because of the application of subsection (3) with respect to the particular entity; or

(*d*) a corporation in which the particular entity is a shareholder, if

(i) the corporation is on or before that time beneficially interested in a trust, and

(ii) the particular entity is a beneficiary under the trust solely because of the application of paragraph (*b*) of the definition "beneficiary" in this subsection to the particular entity in respect of the corporation.

"specified property" — "specified property" means

(*a*) a share of the capital stock of a corporation;

(*b*) an interest as a beneficiary under a trust;

(*c*) an interest in a partnership;

(*d*) an interest in any other entity;

(*e*) a right (whether immediate or future, whether absolute or contingent or whether conditional on or subject to the exercise of any discretion by any entity) to acquire property described in any of paragraphs (*a*) to (*d*); and

(*f*) any other property deriving its value primarily from property described in any of paragraphs (*a*) to (*e*).

"specified share" — "specified share" means a share of the capital stock of a corporation other than a share that is prescribed for the purpose of paragraph 110(1)(*d*).

"specified time" — "specified time", in respect of a trust for a taxation year of the trust, means

(*a*) if the trust exists at the end of the taxation year, the time that is the end of that taxation year; and

(*b*) in any other case, the time in that taxation year that is immediately before the time at which the trust ceases to exist.

"*successor beneficiary*" — "successor beneficiary", at any time in respect of a trust, means an entity that is a beneficiary under the trust solely because of a right of the beneficiary to receive any of the trust's income or capital, if under that right the entity may so receive that income or capital only on or after the death after that time of an individual who, at that time, is alive and

(*a*) is a contributor to the trust;

(*b*) is related to a contributor to the trust; or

(*c*) would have been related to a contributor to the trust if every individual who was alive before that time were alive at that time.

"*trust*" — "trust" includes, for greater certainty, an estate.

(2) Rules of application. In this section,

(*a*) an entity is deemed to have transferred, at any time, a property to a trust if

(i) at that time it transfers or loans property (other than by way of an arm's length transfer or a transfer or loan to which paragraph (*c*) applies) to another entity, and

(ii) because of that transfer or loan

(A) the fair market value of one or more properties held by the trust increases at that time, or

(B) a liability or potential liability of the trust decreases at that time;

(*b*) the fair market value at any time of a property deemed by paragraph (*a*) to be transferred at that time is deemed to be the amount of the absolute value of the increase or decrease, as the case may be, referred to in subparagraph (*a*)(ii) in respect of the property;

(*c*) an entity is deemed to have transferred, at any time, a property to a trust if

(i) at that time it transfers or loans property (other than by way of an arm's length transfer) to another entity, and

(ii) at or after that time, the trust holds property the fair market value of which is derived in whole or in part, directly or indirectly, from property held by the other entity;

(*d*) the fair market value at any time of a property deemed by paragraph (*c*) to be transferred at that time is deemed to be the fair market value of the property referred to in subparagraph (*c*)(i);

(*e*) if, at any time, a particular entity has given a guarantee on behalf of, or has provided any other financial assistance to, another entity,

(i) the particular entity is deemed to have transferred, at that time, property to that other entity, and

(ii) the property, if any, transferred to the particular entity from the other entity in exchange for the guarantee or other financial assistance is deemed to have been transferred to the particular entity in exchange for the property deemed by subparagraph (i) to have been transferred;

(*f*) if, at any time after June 22, 2000, a particular entity renders any service (other than an exempt service) to, for or on behalf of, another entity,

(i) the particular entity is deemed to have transferred, at that time, property to that other entity, and

(ii) the property, if any, transferred to the particular entity from the other entity in exchange for the service is deemed to have been transferred to the particular entity in exchange for the property deemed by subparagraph (i) to have been transferred;

(*g*) each of the following acquisitions of property by a particular entity is deemed to be a transfer of the property, at the time of the acquisition of the property, to the particular entity from the entity from which the property was acquired, namely, the acquisition by the particular entity of

(i) a share of the capital stock of a corporation from the corporation,

(ii) an interest as a beneficiary under a trust (otherwise than from a beneficiary under the trust),

(iii) an interest in a partnership (otherwise than from a member of the partnership),

(iv) an interest in an entity that is not a corporation, partnership or trust (otherwise than from an entity having an interest in the entity),

(v) a debt owing by an entity from the entity, and

(vi) a right (granted after June 22, 2000 by the entity from which the right was acquired) to acquire or to be loaned property;

(*h*) the fair market value at any time of a property deemed by subparagraph (*e*)(i) or (*f*)(i) to have been transferred at that time is deemed to be the fair market value, at that time, of the assistance or service, as the case may be, to which the property relates;

(*i*) a particular entity that at any time becomes obligated to do an act that would, if done, constitute the transfer or loan of a property to another entity is deemed to have become obligated at that time to transfer or loan, as the case may be, property to that other entity;

(*j*) in applying at any time the definition "non-resident time", if a trust acquires property of an individual as a consequence of the death of the individual, the individual is deemed to have transferred the property to the trust immediately before the individual's death;

(*k*) a transfer or loan of property at any time is deemed to be made at that time jointly by a particular entity and a second entity (referred to in this paragraph as the "specified entity") if

(i) the particular entity transfers or loans property at that time to another entity,

(ii) the transfer or loan is made at the direction, or with the acquiescence, of the specified entity, and

(iii) it is reasonable to conclude that one of the reasons the transfer or loan is made is to avoid or minimize the liability, of any entity, under this Part that arose, or that would otherwise have arisen, because of the application of subsection (3);

(*k*.1) a transfer or loan of property made at any time on or after November 9, 2006 is deemed to be made at that time jointly by a particular entity and a second entity (referred to in this paragraph as the "specified entity") if

(i) the particular entity transfers or loans property at that time to another entity, and

(ii) a purpose or effect of the transfer or loan may reasonably be considered to be to provide benefits in respect of services rendered by a person as an employee of the specified entity (whether the provision of the benefits is pursuant to a right that is immediate or future, absolute or contingent, or conditional on or subject to the exercise of any discretion by any entity);

(*l*) a transfer or loan of property at any time is deemed to be made at that time jointly by a particular entity and a second entity (referred to in this paragraph as the "specified entity") if

(i) the particular entity transfers or loans property at that time to another entity,

(ii) the transfer or loan is made at the direction, or with the acquiescence, of the specified entity,

(iii) that time is not, or would not be, if the transfer or loan were a contribution of the specified entity, a non-resident time of the specified entity, and

(iv) either

(A) the particular entity is, at that time, an entity that is a controlled foreign affiliate of the specified entity, or would at that time be a controlled foreign affiliate of the specified entity if the specified entity were at that time resident in Canada, or

(B) it is reasonable to conclude that the transfer or loan was made in contemplation of the particular entity becoming after that time a particular entity described in clause (A);

(*m*) a particular entity is deemed to have transferred, at a particular time, a particular property or particular part of it, as the case may be, to a corporation described in subparagraph (i) or a second entity described in subparagraph (ii) if

(i) the particular property is a share of the capital stock of a corporation held at the particular time by the particular entity, and as consideration for the disposition at or before the particular time of the share, the particular entity received at the particular time (or became entitled at the particular time to receive) from the corporation a share of the capital stock of the corporation, or

(ii) the particular property (or property for which the particular property is substituted) was acquired, before the particular time, from the second entity by any entity, in circumstances that are described by any of subparagraphs (g)(i) to (vi) (or would be so described if it applied at the time of that acquisition) and at the particular time,

(A) the terms or conditions of the particular property change,

(B) the second entity redeems, acquires or cancels the particular property or the particular part of it,

(C) where the particular property is a debt owing by the second entity, the debt or the particular part of it is settled or cancelled, or

(D) where the particular property is a right to acquire or to be loaned property, the particular entity exercises the right;

(*n*) a contribution made at any time by a particular trust to another trust is deemed to have been made at that time jointly by the particular trust and by each entity that is at that time a contributor to the particular trust;

(*o*) a contribution made at any time by a particular partnership to a trust is deemed to have been made at that time jointly by the particular partnership and by each entity that is at that time a member of the particular partnership (other than a member of the particular partnership where the liability of the member as a member of the particular partnership is limited by operation of any law governing the partnership arrangement);

(*p*) subject to paragraph (*q*) and subsection (9), the amount of a contribution to a trust at the time it was made is deemed to be the fair market value, at that time, of the property that was the subject of the contribution;

(*q*) an entity that at any time acquires a specified fixed interest in a trust (or a right, issued by the trust, to acquire a specified fixed interest in the trust) from another entity (other than the trust that issued the specified fixed interest or the right) is deemed to have made at that time a contribution to the trust and the amount of the contribution is deemed to be equal to the fair market value at that time of the specified fixed interest or right, as the case may be;

(*r*) a particular entity that has acquired a specified fixed interest in a trust as a consequence of making a contribution to the trust — or that has made a contribution to the trust as a consequence of having acquired a specified fixed interest in the trust or a right described in paragraph (*q*) — is, for the purpose of applying this section at any time after the time that the particular entity transfers the specified fixed interest or the right, as the case may be, to another entity (which transfer is referred to in this paragraph as the "sale"), deemed not to have made the contribution in respect of the specified fixed interest, or right, that is the subject of the sale where

(i) immediately before the sale, the particular entity would be a specified contributor to the trust if

(A) the definition "specified contributor" were read without reference to subparagraph (*d*)(i) of that definition,

(B) in applying paragraph (*b*) of that definition, a specified fixed interest included the right, and

(C) that definition applied immediately before the sale,

(ii) in exchange for the sale, the other entity transfers or loans, or becomes obligated to transfer or loan, property (which property is referred to in subparagraph (iii) as the "consideration") to the particular entity, and

(iii) it is reasonable to conclude

(A) having regard only to the sale and the consideration that the particular entity would be willing to make the sale if the particular entity were dealing at arm's length with the other entity, and

(B) that the terms and conditions made or imposed in respect of the exchange would be acceptable to the particular entity if the particular entity were dealing at arm's length with the other entity;

(*s*) a transfer to a trust by a particular entity is deemed not to be, at a particular time, a contribution to the trust if

(i) the particular entity has transferred, at or before the particular time and in the ordinary course of business of the particular entity, property to the trust,

(ii) the transfer is not an arm's length transfer, but would be an arm's length transfer if the definition "arm's length transfer" were read without reference to paragraph (*a*), and subparagraphs (*b*)(i) to (iii) and (v) to (viii), of that definition,

(iii) it is reasonable to conclude that the particular entity was the only entity that acquired, in respect of the transfer, an interest as a beneficiary under the trust,

(iv) the particular entity was required, under the securities law of a country or of a political subdivision of the country in respect of the issuance by the trust of interests as a beneficiary under the trust, to acquire an interest because of the particular entity's status at the time of the transfer as a manager or promoter of the trust,

(v) at the particular time the trust is not an exempt foreign trust, but would be at that time an exempt foreign trust if it had not made an election under paragraph (*g*) of the definition "eligible trust", and

(vi) the particular time is before the earliest of

(A) the first time at which the trust becomes an exempt foreign trust,

(B) the first time at which the particular entity ceases to be a manager or promoter of the trust, and

(C) the time that is 24 months after the first time at which the total fair market value of consideration received by the trust in exchange for interests as a beneficiary (other than the particular entity's interest referred to in subparagraph (iii)) under the trust is greater than $500,000;

(*t*) a transfer, by a Canadian corporation of particular property, that is at a particular time a contribution by the Canadian corporation to a trust, is deemed not to be, after the particular time, a contribution by the Canadian corporation to the trust if

(i) either

(A) the trust acquired the particular property before the particular time from the Canadian corporation in circumstances described in subparagraph (*g*)(i) or (v), or

(B) another entity acquired property before the particular time from the Canadian corporation in circumstances described in subparagraph (*g*)(i) or (v) and because of that acquisition the Canadian corporation was deemed by paragraph (*c*) to have transferred the particular property to the trust,

(ii) as a result of a transfer (which transfer is referred to in this paragraph as the "sale") at the particular time by any entity (referred to in this paragraph as the "seller") to another entity (referred to in this paragraph as the "buyer") the trust

(A) no longer holds any property that is shares of the capital stock of, or debt issued by, the Canadian corporation, and

(B) no longer holds any property that is property the fair market value of which is derived in whole or in part, directly or indirectly, from shares of the capital stock of, or debt issued by, the Canadian corporation,

(iii) the buyer deals at arm's length immediately before the particular time with the Canadian corporation, the trust and the seller,

(iv) in exchange for the sale, the buyer transfers or becomes obligated to transfer property (which property is referred to in this paragraph as the "consideration"), to the seller, and

(v) it is reasonable to conclude

(A) having regard only to the sale and the consideration that the seller would be willing to make the sale

if the seller were dealing at arm's length with the buyer,

(B) that the terms and conditions made or imposed in respect of the exchange would be acceptable to the seller if the seller were dealing at arm's length with the buyer, and

(C) that the value of the consideration is not, at or after the particular time, determined in whole or in part, directly or indirectly, by reference to shares of the capital stock of, or debt issued by, the Canadian corporation; and

(*u*) a transfer, before October 11, 2002, to a personal trust by an individual (other than a trust) of particular property is deemed not to be a contribution of the particular property by the individual to the trust if

(i) the individual identifies the trust in prescribed form filed with the Minister on or before the individual's filing-due date for the individual's 2003 taxation year (or a later date that is acceptable to the Minister), and

(ii) the Minister is satisfied that

(A) the individual (and any entity not dealing at any time at arm's length with the individual) has never loaned or transferred, directly or indirectly, restricted property to the trust,

(B) in respect of each contribution (determined without reference to this paragraph) made before October 11, 2002 by the individual to the trust, none of the reasons (determined by reference to all the circumstances including the terms of the trust, an intention, the laws of a country or the existence of an agreement, a memorandum, a letter of wishes or any other arrangement) for the contribution was to permit or facilitate, directly or indirectly, the conferral at any time of a benefit (for greater certainty, including an interest as a beneficiary under the trust) on

(I) the individual,

(II) a descendant of the individual, or

(III) any entity with whom the individual or descendant does not, at any time, deal at arm's length, and

(C) the total of all amounts each of which is the amount of a contribution (determined without reference to this paragraph) made before October 11, 2002 by the individual to the trust does not exceed the greater of

(I) 1% of the total of all amounts each of which is the amount of a contribution (determined without reference to this paragraph) made to the trust before October 11, 2002, and

(II) $500.

(3) Liabilities of non-resident trusts and others. Where at a specified time in a particular taxation year of a trust (other than a trust that is, at that time, an exempt foreign trust) the trust is non-resident (determined without reference to this subsection) and, at that time, there is a resident contributor to the trust or a resident beneficiary under the trust,

(*a*) the trust is deemed to be resident in Canada throughout the particular taxation year for the purposes of

(i) section 2,

(ii) computing the trust's income for the particular taxation year,

(iii) applying subsections 104(13.1) to (29) and 107(2.1), in respect of the trust and a beneficiary under the trust,

(iv) applying clause 53(2)(h)(i.1)(B), the definition "non-resident entity" in subsection 94.1(1), subsection 107(2.002) and section 115, in respect of a beneficiary under the trust,

(v) subsection 111(9),

(vi) determining an obligation of the trust to file a return under section 233.3 or 233.4,

(vii) determining the rights and obligations of the trust under Divisions I and J,

(viii) determining the liability of the trust for tax under Part I, and under Part XIII on amounts paid or credited (in this paragraph having the meaning assigned by Part XIII) to the trust,

(ix) applying Part XIII in respect of an amount (other than an exempt amount) paid or credited by the trust to any person, and

(x) determining whether a foreign affiliate of a taxpayer (other than the trust) is a controlled foreign affiliate of the taxpayer;

(*b*) in applying subsections 20(11) and (12) and section 126,

(i) in determining the non-business income tax (as defined by subsection 126(7)) paid by the trust for the particular taxation year to the government of a country other than Canada no amount shall be included to the extent that it can reasonably be regarded as attributable to income from a source in Canada, and

(ii) if the trust elects, by notifying the Minister in writing in its return of income for the particular taxation year, to have this paragraph apply,

(A) the trust's income for the particular taxation year (other than the portion of the income that is from sources inside Canada or that is from a source, outside Canada, that is a business carried on by the trust outside Canada) is deemed

(I) to be from sources (other than a business carried on by the trust) in the particular country (other than Canada) in which the trust is resident (determined without reference to this subsection), and

(II) not to be from any other source, and

(B) in determining the income or profits tax paid by the trust for the particular taxation year to the government of the particular country there shall be included only the total of all amounts each of which is the amount of an income or profits tax that was paid by the trust for the particular taxation year to the government of a country (other than Canada) and that can reasonably be regarded as a tax paid on the trust's income for the particular taxation year (other than the portion of the income that is from sources inside Canada or that is from a source, outside Canada, that is a business carried on by the trust outside Canada);

(*c*) if the trust was non-resident throughout its taxation year (referred to in this paragraph as the "preceding year") immediately preceding the particular taxation year, the trust is deemed to have

(i) immediately before the end of the preceding year, disposed of each property (other than property described in any of subparagraphs 128.1(1)(*b*)(i) to (iv)) held by the trust at that time for proceeds of disposition equal to its fair market value at that time, and

(ii) at the beginning of the particular taxation year, acquired each of those properties so disposed of at a cost equal to its proceeds of disposition;

(*d*) each entity that at any time in the particular taxation year is a resident contributor to the trust or a resident beneficiary under the trust

(i) has jointly and severally, or solidarily, with the trust and with each other such entity, the rights and obligations of the trust in respect of the particular taxation year under Divisions I and J, and

(ii) is subject to Part XV in respect of those rights and obligations; and

(*e*) each entity that at any time in the particular taxation year is a beneficiary under the trust and was a person from whom an amount would be recoverable at the end of 2006 (or, where this subsection applies to a taxation year of the trust that begins before 2007, at the end of the last taxation year of the trust that begins before the first such taxation year of the trust) under subsection (2) (as it read in its application to taxation years that began before 2007 or, where this subsection applies to a taxation year of the trust that begins before 2007, as it read in its application to taxation years of the trust that began before the first such taxation year) in respect of the trust if the entity had received before 2007 amounts described under paragraph (2)(*a*) or (*b*) in respect of the trust (as those paragraphs read in their application to taxation years that began before 2007 or, where this subsection applies to a taxation year of the trust that begins before 2007, as those paragraphs read in their application to

taxation years of the trust that began before the first such taxation year)

(i) has, to the extent of the entity's recovery limit for the year, jointly and severally, or solidarily, with the trust and with each other such entity, the rights and obligations of the trust in respect of the taxation years, of the trust, that began before 2007 (or, where this subsection applies to a taxation year of the trust that begins before 2007, in respect of the taxation years, of the trust, that began before the first such taxation year) under Divisions I and J, and

(ii) is, to the extent of the entity's recovery limit for the year, subject to Part XV in respect of those rights and obligations.

(4) Excluded provisions. Paragraph (3)(*a*) does not apply to deem a trust to be resident in Canada for the purposes of

(*a*) the definitions "arm's length transfer", "exempt foreign trust" and "exempt taxpayer" in subsection (1);

(*b*) paragraph (14)(*b*), subsections 70(6) and 73(1), the definition "Canadian partnership" in subsection 102(1), paragraph 107.4(1)(*c*) and paragraph (*a*) of the definition "mutual fund trust" in subsection 132(6);

(*c*) determining the liability of a person (other than the trust) that would arise under section 215;

(*d*) determining whether, in applying subsection 128.1(1), the trust becomes resident in Canada at a particular time;

(*e*) determining whether, in applying subsection 128.1(4), the trust ceases to be resident in Canada at a particular time;

(*f*) subparagraph (*f*)(i) of the definition "disposition" in subsection 248(1);

(*g*) determining whether subsection 107(5) applies to a distribution on or after July 18, 2005 of property to the trust; and

(*h*) determining whether subsection 75(2) applies to deem an amount to be an income, loss, taxable capital gain or allowable capital loss of the trust.

(5) Deemed cessation of residence. A trust is deemed to cease to be resident in Canada at the earliest time at which there is neither a resident contributor to the trust nor a resident beneficiary under the trust in a period that would, if this Act were read without reference to subsection 128.1(4), be a taxation year of the trust

(*a*) that immediately follows a taxation year of the trust throughout which it was resident in Canada;

(*b*) at the beginning of which there was a resident contributor to the trust or a resident beneficiary under the trust; and

(*c*) at the end of which the trust is non-resident.

(6) Becoming or ceasing to be an exempt foreign trust. If at any time a trust becomes or ceases to be an exempt foreign trust (otherwise than because of becoming resident in Canada),

(*a*) its taxation year that would otherwise include that time is deemed to have ended immediately before that time and a new taxation year of the trust is deemed to begin at that time; and

(*b*) for the purpose of determining the trust's fiscal period after that time, the trust is deemed not to have established a fiscal period before that time.

(7) Limit to amount recoverable. The maximum amount recoverable under the provisions referred to in paragraph (3)(*d*) at any particular time from an entity in respect of a trust (other than an entity that is deemed, under subsection (12) or (13), to be a contributor or a resident contributor to the trust) and a particular taxation year of the trust is the entity's recovery limit at the particular time in respect of the trust and the particular year if

(*a*) either

(i) the entity is liable under a provision referred to in paragraph (3)(*d*) in respect of the trust and the particular year solely because the entity was a resident beneficiary under the trust at a specified time in respect of the trust in the particular year, or

(ii) at a specified time in respect of the trust in the particular year, the total of all amounts each of which is the amount, at the time it was made, of a contribution to the trust made before the specified time by the entity, or by another entity not dealing at arm's length with the entity, is not more than the greater of

(A) $10,000, and

(B) 10% of the total of all amounts each of which was the amount, at the time it was made, of a contribution made to the trust before the specified time;

(*b*) except where the total determined in subparagraph (*a*)(ii) in respect of the entity and all entities not dealing at arm's length with it is $10,000 or less, the entity has filed on a timely basis under section 233.2 all information returns required to be filed by it before the particular time in respect of the trust (or on any later day that is acceptable to the Minister); and

(*c*) it is reasonable to conclude that for each transaction or event that occurred before the end of the particular year at the direction of, or with the acquiescence of, the entity

(i) none of the purposes of the transaction or event was to enable the entity to avoid or minimize any liability under a provision referred to in paragraph (3)(*d*) in respect of the trust, and

(ii) the transaction or event was not part of a series of transactions or events any of the purposes of which was to enable the entity to avoid or minimize any liability under a provision referred to in paragraph (3)(*d*) in respect of the trust.

(8) Recovery limit. The recovery limit referred to in paragraph (3)(*e*) and subsection (7) at a particular time of a particular entity in respect of a trust and a particular taxation year of the trust is the amount, if any, by which the greater of

(*a*) the total of all amounts each of which is

(i) an amount received or receivable after 2000 and before the particular time

(A) by the particular entity on the disposition of all or part of the particular entity's interest as a beneficiary under the trust, or

(B) by another entity (that was, when the amount became receivable, a specified party in respect of the particular entity) on the disposition of all or part of the specified party's interest as a beneficiary under the trust,

(ii) an amount (other than an amount described in subparagraph (i)) made payable by the trust after 2000 and before the particular time to

(A) the particular entity because of the interest of the particular entity as a beneficiary under the trust, or

(B) another entity (that was, when the amount became payable, a specified party in respect of the particular entity) because of the interest of the specified party as a beneficiary under the trust,

(iii) an amount (other than an amount described in subparagraph (i) or (ii)) that is the fair market value of a benefit received or enjoyed, after 2000 and before the particular time, from or under the trust by

(A) the particular entity, or

(B) another entity that was, when the benefit was received or enjoyed, a specified party in respect of the particular entity, or

(iv) the maximum amount that would be recoverable from the particular entity at the end of 2006 (or, where this subsection applies to a taxation year of the trust that begins before 2007, at the end of the last taxation year of the trust beginning before the first such taxation year) under subsection (2) (as it read in its application to taxation years that began before 2007, or, where this subsection applies to a taxation year of the trust that begins before 2007, in its application to taxation years of the trust that began before the first such taxation year) if the trust had tax payable under this Part at the end of 2006 and that tax payable exceeded the total of the amounts described in respect of the entity under paragraphs (2)(*a*) and (*b*) (as they read in their application to taxation years that began before 2007, or, where this subsection applies to a taxation year of the trust that begins before 2007, as they read in their application to taxation years of the trust that began before the first such taxation year), except to the extent that the amount so recoverable is

in respect of an amount that is included in the particular entity's recovery limit because of subparagraph (i) or (ii), and

(*b*) the total of all amounts each of which is the amount, when made, of a contribution to the trust before the particular time by the particular entity,

exceeds the total of all amounts each of which is

(*c*) an amount recovered before the particular time from the particular entity in connection with a liability of the particular entity (in respect of the trust and the particular year or a preceding taxation year of the trust) that arose because of the application of subsection (3) (or the application of this section as it read in its application to taxation years that began before 2007, or, where this subsection applies to a taxation year of the trust that begins before 2007, as it read in its application to taxation years of the trust that began before the first such taxation year),

(*d*) an amount (other than an amount in respect of which this paragraph has applied in respect of any other entity) recovered before the particular time from a specified party in respect of the particular entity in connection with a liability of the particular entity (in respect of the trust and the particular year or a preceding taxation year of the trust) that arose because of the application of subsection (3) (or the application of this section as it read in its application to taxation years that began before 2007, or, where this subsection applies to a taxation year of the trust that begins before 2007, as it read in its application to taxation years of the trust that began before the first such taxation year), or

(*e*) the amount, if any, by which the particular entity's tax payable under this Part for any taxation year in which an amount described in any of subparagraphs (*a*)(i) to (iii) was paid, became payable, was received, became receivable or was enjoyed by the particular entity exceeds the amount that would have been the particular entity's tax payable under this Part for that taxation year if no such amount were paid, became payable, were received, became receivable or were enjoyed by the particular entity in that taxation year.

(9) Determination of contribution amount — special case. If a contribution is made at any time by an entity to a trust as a consequence of a transaction that is, or as a consequence of a series of transactions or events that includes, the transfer at that time to the trust of a specified property, the amount of the contribution at that time is deemed, for the purposes of clause (2)(*u*)(ii)(C), subparagraph (7)(*a*)(ii) and subsection (8), to be the greater of

(*a*) the amount, determined without reference to this subsection, of the contribution at that time, and

(*b*) the amount that is the greatest fair market value of the specified property, or property substituted for it, in the period that

(i) begins immediately after that time, and

(ii) ends at the end of the third calendar year that ends after that time.

(10) Where contributor becomes resident in Canada within 60 months after contributing. In applying this section at each specified time, in respect of a taxation year of a trust, that is before the particular time at which a contributor to the trust becomes resident in Canada within 60 months after making a contribution to the trust, the contribution is deemed to have been made at a time other than a non-resident time of the contributor if

(*a*) in applying the definition "non-resident time" in subsection (1) at each of those specified times, the contribution was made at a non-resident time of the contributor; and

(*b*) in applying the definition "non-resident time" in subsection (1) immediately after the particular time, the contribution is made at a time other than a non-resident time of the contributor.

(11) Application of subsections (12) and (13). Subsections (12) and (13) apply to a trust or an entity in respect of a trust if

(*a*) at any time property of a trust (referred to in this subsection and subsections (12) and (13) as the "original trust") is transferred or loaned, directly or indirectly, in any manner, to another trust (referred to in this subsection and subsections (12) and (13) as the "transferee trust");

(*b*) the original trust

(i) is deemed to be resident in Canada immediately before that time because of paragraph (3)(*a*),

(ii) would be deemed to be resident in Canada immediately before that time because of paragraph (3)(*a*) if this section were read without reference to paragraph (*a*) of the definition "connected contributor" in subsection (1) and paragraph (*a*) of the definition "resident contributor" in that subsection,

(iii) was deemed to be resident in Canada immediately before that time because of subsection (1) as it read in its application to taxation years that began before 2007 (or, where this subsection applies to a taxation year of the trust that begins before 2007, as it read in its application to taxation years of the trust that began before the first such taxation year), or

(iv) would have been deemed to be resident in Canada immediately before that time because of subsection (1) as it read in its application to taxation years that began before 2007 (or, where this subsection applies to a taxation year of the trust that begins before 2007, as it read in its application to taxation years of the trust that began before the first such taxation year) if that subsection were read in that application without reference to subclause (*b*)(i)(A)(III) of that subsection; and

(*c*) it is reasonable to conclude that one of the reasons the transfer or loan is made is to avoid or minimize a liability under this Part that arose, or that would otherwise have arisen, because of the application of subsection (3) (or the application of this section as it read in its application to taxation years that began before 2007 or, where this subsection applies in respect of a taxation year of the trust that begins before 2007, as it read in its application to taxation years of the trust that began before the first such taxation year).

(12) Deemed resident contributor. The original trust described in subsection (11) (including a trust that has ceased to exist) is deemed to be, at and after the time of the transfer or loan referred to in that subsection, a resident contributor to the transferee trust for the purpose of applying this section in respect of the transferee trust.

(13) Deemed contributor. An entity (including any entity that has ceased to exist) that is, at the time of the transfer or loan referred to in subsection (11), a contributor to the original trust, is deemed to be at and after that time

(*a*) a contributor to the transferee trust; and

(*b*) a connected contributor to the transferee trust, if at that time the entity is a connected contributor to the original trust.

(14) Restricted property — exception. A particular property that is, or will be, at any time held, loaned or transferred, as the case may be, by an entity is not restricted property held, loaned or transferred, as the case may be, at that time by the entity if

(*a*) the particular property is a share of a specified class (as defined by subsection 256(1.1)) of the shares of the capital stock of a corporation and

(i) the particular property was acquired, as part of a transaction or series of transactions or events, from the corporation in exchange for, or as consideration for, property that is money only, and

(ii) no other property (other than property that is identical to the particular property) was acquired by any entity as part of that transaction or series of transactions or events;

(*b*) the particular property is identified in prescribed form, containing prescribed information, filed, by or on behalf of the entity, with the Minister on or before the entity's filing-due date (or another date that is acceptable to the Minister) for the entity's taxation year that includes that time, and

(i) the particular property (and property, if any, for which the particular property is, or is to be, substituted property) was not, and will not be, at any time acquired, held, loaned or transferred by the entity (or any entity with whom the entity does not at any time deal at arm's length) in whole or in part for the pur-

pose of permitting any change in the value of the property of a corporation (that is, at any time, a closely-held corporation) to accrue directly or indirectly in any manner whatever to the value of property held by a non-resident trust, and

(ii) the Minister is satisfied that the particular property (and property, if any, for which it is, or is to be, substituted) is described by subparagraph (i); or

(c) the property is at that time excluded property.

(15) Determining arm's length dealing and related entities. In determining whether an entity and another entity are related to each other or deal at arm's length with each other, a person referred to in section 251 includes an entity.

(16) Anti-avoidance — 150 entities. In applying this section,

(a) if it can reasonably be considered that one of the main reasons that an entity is at any time a shareholder of a corporation is to cause the condition in paragraph (b) of the definition "closely-held corporation" in subsection (1) to be satisfied in respect of the corporation, the condition is deemed not to have been satisfied at that time in respect of the corporation;

(b) if it can reasonably be considered that one of the main reasons that an entity holds at any time an interest in a trust is to cause the condition in subclause (h)(ii)(A)(I) of the definition "exempt foreign trust" in subsection (1) to be satisfied in respect of the trust, the condition is deemed not to have been satisfied at that time in respect of the trust; and

(c) if it can reasonably be considered that one of the main reasons that a person holds at any time a property is to cause the condition in paragraph (b) of the definition "excluded property" in subsection (1) to be satisfied in respect of the property or an identical property held by any person, the condition is deemed not to have been satisfied at that time in respect of the property or the identical property.

Applicable: To trust taxation years that begin after 2006, except that

(a) it also applies to taxation years that begin in each of 2001, 2002, 2003, 2004, 2005 and 2006 of a trust if the trust was created in 2001 and elects, in writing, to have section 94 apply to those taxation years by filing the election with the Minister of National Revenue on or before the trust's filing-due date for the trust's taxation year in which this Act is assented to;

(b) it also applies to taxation years that begin in each of 2002, 2003, 2004, 2005 and 2006 of a trust if the trust was created in 2002 and elects, in writing, to have section 94 apply to those taxation years by filing the election with the Minister of National Revenue on or before the trust's filing-due date for the trust's taxation year in which this Act is assented to;

(c) it also applies to taxation years that begin in each of 2003, 2004, 2005 and 2006 of a trust if the trust elects, in writing, to have section 94 apply to those taxation years by filing the election with the Minister of National Revenue on or before the trust's filing-due date for the trust's taxation year in which this Act is assented to;

(d) it also applies to taxation years that begin in each of 2004, 2005 and 2006 of a trust if the trust elects, in writing, to have section 94 apply to those taxation years by filing the election with the Minister of National Revenue on or before the trust's filing-due date for the trust's taxation year in which this Act is assented to;

(e) it also applies to taxation years that begin in 2005 and 2006 of a trust if the trust elects, in writing, to have section 94 apply to those taxation years by filing the election with the Minister of National Revenue on or before the trust's filing-due date for the trust's taxation year in which this Act is assented to;

(f) it also applies to taxation years that begin in 2006 of a trust if the trust elects, in writing, to have section 94 apply to those taxation years by filing the election with the Minister of National Revenue on or before the trust's filing-due date for the trust's taxation year in which this Act is assented to;

(g) any election or form referred to in section 94 that would otherwise be required to be filed before 120 days after the day on which this Act is assented to is deemed to have been filed with the Minister of National Revenue on a timely basis if it is filed with the Minister of National Revenue within 365 days after the day on which this Act is assented to;

(h) if a trust elects, by notifying the Minister of National Revenue in writing on or before its filing-due date for its taxation year that includes the day on which this Act is assented to, that this paragraph apply, in applying section 94 in respect of the trust the definition "arm's length transfer" in subsection 94(1) does not include a loan or other transfer of property that is identified in the election and that is made in a taxation year that begins before 2003;

(i) unless a trust elects, by notifying the Minister of National Revenue in writing on or before its filing-due date for its taxation year that includes the day on which this Act is assented to, that this paragraph not apply, paragraphs (a) and (b) of the definition "closely-held corporation" in subsection 94(1) are, in respect of the trust for its taxation years that begin on or before July 18, 2005, to be read as follows:

"(a) there are one or more classes of shares of its capital stock that are not a specified class within the meaning assigned by subsection 256(1.1); and

(b) it is reasonable to conclude that at that time

(i) the shares of those classes (other than such a specified class) are held by at least 150 entities each of whom holds shares that have a total fair market value of at least $500, and

(ii) the total number of issued and outstanding shares of a class (other than such a specified class) held by a particular entity or by any other entity with whom the particular entity does not deal at arm's length is not more than 10% of the total number of the issued and outstanding shares of that class."

(j) if a trust elects, by notifying the Minister of National Revenue in writing on or before its filing-due date for its taxation year that includes the day on which this Act is assented to, that this paragraph apply, paragraph (f) of the definition "eligible trust" in subsection 94(1) is, in respect of the trust for its taxation years that begin on or before July 18, 2005, to be read as follows:

"(f) that at or before that time was a personal trust; or"

(k) subparagraph (b)(i) of the definition "exempt foreign trust" in subsection 94(1) is, for taxation years that begin on or before July 18, 2005, to be read as follows:

"(i) the trust was created after the breakdown of a marriage or common-law partnership of two particular individuals to provide for the maintenance of a beneficiary under the trust who is a child of one of those particular individuals (which beneficiary is referred to in this paragraph as a 'child beneficiary'),"

(l) unless a trust elects, by notifying the Minister of National Revenue in writing on or before its filing-due date for its taxation year that includes the day on which this Act is assented to, that this paragraph not apply, paragraphs (f) and (g) of the definition "exempt foreign trust" in subsection 94(1) are, in respect of the trust for its taxation years that begin on or before July 18, 2005, to be read as follows:

"(f) a non-resident trust, if throughout the trust's taxation year that includes the par- ticular time

(i) the trust is a trust governed by an employee benefit plan or is a trust described in paragraph (a.1) of the definition 'trust' in subsection 108(1),

(ii) the trust is maintained primarily for the benefit of non-resident individuals,

(iii) the trust holds no restricted property, and

(iv) no benefits are provided under the trust, other than benefits in respect of

(A) services rendered to an employer by an employee of the employer, which employee was non-resident throughout the period during which the services were rendered,

(B) services rendered to an employer by an employee of the employer, other than services that were

(I) rendered primarily in Canada,

(II) rendered primarily in connection with a business carried on by the employer in Canada, or

(III) a combination of services described in subclauses (I) and (II),

(C) services rendered to an employer by an employee, of the employer, in a particular calendar month, which employee

(I) was resident in Canada throughout no more than 60 months during the 72-month period that ends at the end of the particular month, and

(II) became a member of, or a beneficiary under, the plan or trust under which benefits in respect of the services may be provided (or a similar plan or trust for which the plan or the trust was substituted) before the end of the calendar month following the month in which the employee became resident in Canada, or

(D) any combination of services described by clauses (A) to (C);

(g) a non-resident trust that, throughout the particular period that began at the time it was created and ends at the particular time,

(i) has been operated exclusively for the purpose of administering or providing superannuation, pension, retirement or employee benefits,

(ii) has

(A) been maintained for the benefit of persons all or substantially all of whom are non-resident individuals, or

(B) been maintained for the benefit of persons

(I) the majority of whom are non-resident individuals, and

(II) all or substantially all of whom are employed by one corporation or by two or more corporations each of which is related to each other, and

(iii) has

(A) been resident in a country (other than Canada) the laws of which impose an income or profits tax, and been exempt, under the laws of that country, from the payment of income tax and profits tax to the government of that country in recognition of the purposes for which the trust is operated, or

(B) held cash or shares of the capital stock of one or more corporations referred to in subclause (ii)(B)(II) the value of which at any time in the particular period represents all or substantially all of the value of its property at that time, held no restricted property, and been governed by terms that provide, in respect of each individual who is a beneficiary under the trust and was resident in Canada at any time while employed by one of those corporations, for a transfer of property to be made by the trust to the individual in satisfaction of a right (other than a right under an arrangement to which subsection 7(2) or (6) applies) of the individual as a beneficiary under the trust only on or after the satisfaction of the conditions, if any, attached to that right;"

(*m*) subparagraph (*f*)(iv) of the definition "exempt foreign trust" in subsection 94(1) is, in respect of a trust for its taxation years that end before 2009, to be read as follows:

"(iv) throughout the trust's taxation year that includes the particular time, no benefits are provided under the trust, other than benefits in respect of

(A) qualifying services,

(B) particular services rendered before November 9, 2006, to an employer by an employee of the employer if the employee had on November 8, 2006, a right (whether immediate or future or whether absolute or contingent) to receive the benefits in respect of the particular services pursuant to an agreement in writing

(I) that was entered into before November 9, 2006, and

(II) where the employee was resident in Canada on November 9, 2006, a copy of which was filed with a prescribed form with the Minister by or on behalf of the employer no later than April 30 of the first calendar year that begins after November 9, 2006, or

(C) any combination of services that are described in clause (A) or (B);"

(*n*) if a trust elects, by notifying the Minister of National Revenue in writing on or before its filing-due date for its taxation year that includes the day on which this Act is assented to, that this paragraph apply, paragraph (*h*) of the definition "exempt foreign trust" in subsection 94(1) is, in respect of the trust for its taxation years that begin on or before July 18, 2005, to be read as follows:

"(*h*) a non-resident trust that is, at the particular time, an eligible trust

(i) under which the interest of each beneficiary (in this subparagraph, determined without reference to subsection 248(25)) is, at all times that the interest exists during the trust's taxation year that includes the particular time, a specified fixed interest of the beneficiary in the trust, if at the particular time

(A) there are at least 150 beneficiaries each of whom holds a specified fixed interest in the trust with a fair market value of at least $500, and

(B) where in respect of a class of interests as a beneficiary under the trust, the total fair market value of interests of that class held by a resident contributor or by any other entity with whom the resident contributor does not deal at arm's length is more than 10% of the total fair market value of interests of that class, it is reasonable to conclude (determined by reference to all the circumstances including the terms of the trust, an intention, the laws of a country or the existence of an agreement, a memorandum, a letter of wishes or any other arrangement) that that resident contributor is a specified contributor to the trust, or

(ii) under which the interest of each beneficiary under the trust is, at all times that the interest exists during the trust's taxation year that includes the particular time, a specified fixed interest of the beneficiary in the trust, if in respect of the trust

(A) a prescribed form and a copy of the terms of the trust that apply at the particular time have been filed with the Minister by or on behalf of the trust on or before its filing due date for its taxation year that includes the particular time (or a later date that is acceptable to the Minister), and

(B) it is reasonable to conclude (determined by reference to all the circumstances including the terms of the trust, an intention, the laws of a country or the existence of an agreement, a memorandum, a letter of wishes or any other arrangement) that each resident con- tributor (other than an indirect contributor) to the trust at the particular time is a specified contributor to the trust at the particular time; or"

(*o*) the expression "if the entity is an individual and the trust arose on and as a consequence of the death of the individ- ual, 18 months before the contribution time" in the definition "non-resident time" in subsection 94(1) is, in respect of contributions made before June 23, 2000, to be read as the expression "if the contribution time is before June 23, 2000, 18 months before the end of the trust's taxation year that includes the contribution time";

(*p*) the portion of subparagraph (*b*)(iii) of the definition "restricted property" in subsection 94(1) before clause (A), is, for taxation years that begin on or before July 18, 2005, to be read as follows:

"(iii) the amount of any payment (under a right to receive, in any manner whatever and from any entity, amounts in respect of the indebtedness), or the value of such a right, is, directly or indirectly, determined primarily by one or more of the following criteria in respect of one or more properties of the other entity (or an entity with which the other entity does not deal at arm's length):"

(*q*) the definition "restricted property" in subsection 94(1) is, in respect of taxation years that begin on or before November 9, 2006, to be read without reference to its subparagraph (*a*)(ii) and its clause (*b*)(ii)(B);

(*r*) if a trust elects, by notifying the Minister of National Revenue in writing on or before its filing-due date for its taxation year that includes the day on which this Act is assented to, that this paragraph apply, in applying section 94 in respect of the trust the definition "specified fixed interest" in subsection 94(1) is, for its taxation years that begin on or before July 18, 2005, to be read as follows:

"'specified fixed interest', at any time of an entity in a trust, means a capital interest of the entity in the trust if

(*a*) the interest includes, at that time, a right of the entity as a beneficiary under the trust to receive, at or after that time and directly from the trust, income or capital of the trust;

(*b*) the interest was acquired, at or before that time, from the trust by any entity, in circumstances that are described by subparagraph (2)(*g*)(ii);

(*c*) no right of the entity as a beneficiary under the trust to income or capital of the trust may cease to be a right of the entity (or the entity's legal representatives) otherwise than because of

(i) a gift of that interest made by the entity, or

(ii) a transaction or event under which the entity (or the entity's legal representatives) is entitled to receive an amount equal to the fair market value, immediately before that cessation, of the right; and

(*d*) the trust was not at any time at or before that time a personal trust."

(*s*) paragraph (*e*) of the definition "specified property" in subsection 94(1) is, in respect of taxation years that begin on or before November 9, 2006, to be read as follows:

"(*e*) a right to acquire property described in any of paragraphs (*a*) to (*d*); and"

(*t*) if a trust ceased to exist before October 31, 2003, the definition "specified time" in subsection 94(1) is to be read in respect of the trust without reference to paragraph (*b*) of that definition;

(*u*) if subsection (1) applies to a trust for any taxation year that begins after 2000 and before 2007,

(i) paragraph 94(3)(*e*) and subparagraphs 94(8)(*a*)(iv) and (11)(*b*)(iii) and (iv) do not apply to the trust, and

(ii) paragraphs 94(8)(*c*) and (*d*) and (11)(*c*) in their application to the trust are to be read without reference to the expression "(or the application of this section as it read in its application to taxation years that began before 2007)";

(*v*) subparagraph 94(3)(*a*)(x) does not apply in determining, on or before July 18, 2005, whether a foreign affiliate is a controlled foreign affiliate of a taxpayer;

(*w*) paragraph 94(4)(*b*) is

(i) subject to subparagraph (ii), for taxation years that begin on or before July 18, 2005, to be read without reference to "the definition "Canadian partnership" in subsection 102(1),", and

(ii) to be read as follows in its application to a transfer, by a trust, that occurred before February 28, 2004:

"(*b*) subsections 70(6) and 73(1), paragraph 107.4(1)(*c*) other than subparagraph (i) of that paragraph and paragraph (*a*) of the definition 'mutual fund trust' in subsection 132(6);"

(*x*) if a trust was, for its last taxation year that began before 2007 (or, where section 94 applies to a taxation year of the trust that begins before 2007, for its last taxation year that began before the first such taxation year), deemed by paragraph 94(1)(*c*) (as it read in its application to that taxation year) to be resident in Canada, paragraphs 94(4)(*d*) and (*e*) do not apply to the trust for the period that starts immediately before the end of that last taxation year and that ends immediately after the beginning of its first taxation year that begins after 2006 (or, where section 94 applies to a taxation year of the trust that begins before 2007, for the period that starts immediately before the end of the last taxation year beginning before the first such taxation year and that ends immediately after the beginning of that first such

taxation year), unless during that period a change in the trustees of the trust occurred;

(*y*) paragraph 94(4)(*f*) is, in its application to a transfer by a trust that occurred before February 28, 2004, to be read as follows:

"(*f*) determining the residency of the transferee in applying subparagraph (*f*)(ii) of the definition 'disposition' in subsection 248(1);"

Editorial Note: S. 100(1) of S.C. 2007, c. 35, which is a coordinating amendment with former Bill C-10, provides that if former Bill C-10 receives royal assent, this former Bill C-10 amendment applies as though former Bill C-10 had received royal assent before S.C. 2007, c. 35. As well, the reference to "prescribed stock exchange" in the definitions of "arm's-length transfer" and "excluded property" in subsection 94(1) is replaced by a reference to "designated stock exchange" on December 14, 2007.

Explanatory Note:

Overview

Existing Rules

Section 94 of the Act sets out rules that tax certain income earned by certain non-resident trusts. Section 94 generally applies if a person resident in Canada has transferred or loaned property to a non-resident trust that has one or more beneficiaries that are resident in Canada.

Section 94 uses two different methods to impose tax, depending on the terms of the non-resident trust.

If the amount to be distributed to a beneficiary of the trust depends upon a discretionary power, paragraph 94(1)(*c*) deems the trust to be resident in Canada for the purposes of Part I of the Act and deems its taxable income for tax purposes to be the total of its Canadian source income and its foreign accrual property income, if any. Each beneficiary is jointly and severally liable to pay the Canadian tax of the trust. However, the liability can be enforced against a particular beneficiary only to the extent that the beneficiary has received a distribution from the trust or proceeds from the sale of an interest in the trust.

For other non-resident trusts to which section 94 applies, paragraph 94(1)(*d*) provides that it is to be treated in much the same manner that a non-resident corporation is treated. If a Canadian resident beneficiary holds an interest in the trust with a fair market value equal to 10% or more of the total fair market value of all beneficial interests in the trust, the trust is deemed to be a controlled foreign affiliate of the beneficiary. Consequently, the foreign accrual property income rules apply to the trust and the beneficiary, requiring the beneficiary to include a portion of the foreign accrual property income of the trust in income. On the other hand, beneficiaries whose beneficial interests are less than 10% of the total fair market value of all interests in the trust may be subject to tax under the offshore investment fund rules in section 94.1. If section 94.1 does not apply, such beneficiaries are taxed only if trust income becomes payable to them in the year in which it arises.

New Rules

New section 94 of the Act takes a different approach to the taxation of non-resident trusts (NRTs). In general, if a Canadian resident contributes property to a NRT, then the trust is deemed resident in Canada for a number of purposes, and the contributor, the NRT and certain Canadian resident beneficiaries of the trust may all become jointly and severally, or solidarily, liable to pay Canadian tax on the world-wide income of the trust. (The English-language expression "jointly and severally" no longer exists in the civil law of the province of Quebec and has been replaced in that civil law with the expression "solidarily". In the English-language version of section 94, the expression "solidarily" is added to the expression "jointly and severally", which latter expression is maintained for common-law purposes. The French-language version of new section 94 uses only the expression "*solidaire*" as this expression is appropriate for both the civil and common-law. These changes ensure that the Act appropriately reflects both the civil law of the province of Quebec and the law of other provinces.)

Except as indicated otherwise, the amendments to section 94 apply to trust taxation years that begin after 2006.

In addition,

- a trust created in 2001 may elect in writing (by filing the election with the Minister on or before the trust's filing-due date for the trust's taxation year in which the amending legislation is assented to) to have new section 94 of the Act apply to its taxation years that begin in 2001,
- a trust created in 2002 may elect in writing (by filing the election with the Minister on or before the trust's filing-due date for the trust's taxation year in which the amending legislation is assented to) to have new section 94 of the Act apply to its taxation years that begin in 2002,
- a trust created in 2003 may elect in writing (by filing the election with the Minister on or before the trust's filing-due date for the trust's taxation year in which the amending legislation is assented to) to have new section 94 of the Act apply to its taxation years that begin in 2003,
- a trust created in 2004 may elect in writing (by filing the election with the Minister on or before the trust's filing-due date for the trust's taxation year in which the amending legislation is assented to) to have new section 94 of the Act apply to its taxation years that begin in 2004,
- a trust created in 2005 may elect in writing (by filing the election with the Minister on or before the trust's filing-due date for the trust's taxation year in which the amending legislation is assented to) to have new section 94 of the Act apply to its taxation years that begin in 2005, and
- a trust created in 2006 may elect in writing (by filing the election with the Minister on or before the trust's filing-due date for the trust's taxation year in which the amending legislation is assented to) to have new section 94 of the Act apply to its taxation years that begin in 2006.

Note that, under the coming-into-force provision for new section 94, any election or form (but for greater certainty, not including returns of income) referred to in new section 94 that would otherwise be required to be filed before 120 days after Royal Assent is deemed to have been filed with the Minister of National Revenue on a timely basis if it is filed with the Minister of National Revenue within 365 days after Royal Assent.

For more detail on filing obligations regarding returns of income, contact the Canada Revenue Agency.

The following table briefly summarizes section 94 and related rules.

Issue	Summary	References
1. Which trusts are subject to the new NRT rules?	A. In general, a trust (other than an exempt foreign trust) will be subject to tax for a taxation year as a trust resident in Canada if a contribution was made to the trust by an entity (other than a recent immigrant to Canada) that is resident in Canada at a specified time (generally, the end of the year).	S. 94(3) "entity" — s. 94(1) "exempt foreign trust" — s. 94(1) "contribution" — s. 94(1) and (2) "resident contributor" — s. 94(1) "specified time" — s. 94(1)
	B. In addition, a trust (other than an exempt foreign trust) will generally be subject to Canadian tax for a taxation year if there is a resident beneficiary under the trust. More specifically if: ● a contribution was made by an entity when the entity was resident in Canada (or generally within a 60-month period before the entity became resident in Canada or within a 60-month period after the entity ceased to be resident in Canada), ● where the contributing entity is an individual (other than a trust), at the specified time the individual had been resident in Canada for more than 60 months, and ● at the specified time there is an entity (other than a specified charity or successor beneficiary) that is resident in Canada and is a beneficiary under the trust.	S. 94(3) and (10) "beneficiary" — s. 94(1) "contribution" — s. 94(1) and (2) "connected contributor" — s. 94(1) "entity" — s. 94(1) "non-resident time" — s. 94(1) "resident beneficiary" — s. 94(1) "specified charity" — s. 94(1) "specified time" — s. 94(1) "successor beneficiary" — s. 94(1)

2. Who is responsible for the tax payable by an NRT?	The trust is required to pay tax. If it fails to do so, each contributor referred to in 1(A) and/or each beneficiary referred to in 1(B) is jointly and severally or solidarily liable with the trust for the tax. However, the amount recoverable from an entity that is simply a beneficiary is limited to the beneficiary's recovery limit. Relief is also available in some cases for a contributor whose contribution to the trust is insignificant relative to other contributions made to the trust.	Jointly and severally, or solidarily, liable: paragraphs 94(3)(*d*) and (*e*) Limit to amount recoverable — 94(7) Recovery limit — 94(8) Determination of fair market value — 94(9) Definitions — 94(1)
3. Where the NRT rules apply to a trust for a taxation year, how will the trust's tax liabilities be calculated?	A. Canadian rules generally apply to the trust as if the trust were resident in Canada throughout the year for the purpose of computing the trust's income.	s. 94(3)(*a*) and 94(4)
	B. Explicit rule treats the trust as becoming resident in Canada, with resulting adjustment to cost amount of property.	s. 94(3)(*c*)
	C. Part XII.2 does not apply to the trust. Explicit exemption from Part XIII tax on amounts distributed to the trust, although payer must still withhold. Part XIII will generally apply to amounts (other than exempt amounts) paid or credited by the trust to non-resident beneficiaries	s. 94(3)(*a*)(viii) and (ix) and (4)(*c*) and 215 and 216(4.1) "exempt amount" — s. 94(1)
	D. Flow-through of income to resident and non-resident beneficiaries permitted, subject to special rules in the event that Canadian-source income is distributed to non-residents.	s. 94(3)(*a*)(ix) and 104(7.01) — special rules

Subsection 94(1) — Definitions

New subsection 94(1) of the Act defines a number of expressions that apply for the purpose of section 94.

"arm's length transfer"

A loan or transfer of property by an "entity" in respect of a trust will generally not be considered a "contribution" to the trust where the loan or transfer is an "arm's length transfer". In these circumstances, the transferor entity generally will not, because of that loan or transfer, be considered to be a "contributor" to the trust. Accordingly, subsection 94(3) does not apply to a non-resident trust as a consequence only of an "arm's length transfer" in respect of the trust unless a deemed contribution or deemed contributor rule applies. (For more information on the definitions "contribution", "contributor" and "entity" in subsection 94(1), see the commentary on those definitions.)

The definition "arm's length transfer" also is relevant in applying the rules in new paragraphs 94(2)(*a*) and (*c*). Under those rules, a loan or transfer of property made to an entity other than a particular trust may, in specified circumstances, result in a transfer of property being considered to have been made to the particular trust. (For more information, see the commentary on new subsection 94(2).)

If property transferred or loaned is "restricted property", the transfer or loan will not be an arm's length transfer. (For more information on the definition "restricted property", see the commentary on that definition.)

Under paragraph (*a*) of the definition, a transfer or loan will be an arm's length transfer only if it is reasonable to conclude that none of the reasons (determined by reference to all the circumstances including the terms of a trust, an intention, the laws of a country or the existence of an agreement, a memorandum, a letter of wishes or any other arrangement) for the transfer is the acquisition at any time by any entity of an interest as a beneficiary under a non-resident trust.

Under subparagraphs (*b*)(i) and (ii) of the definition, an arm's length transfer includes, in general terms, an arm's length return on investment (conferred by the entity in which the investment is made) and certain payments made by a corporation on a reduction of the paid up capital in respect of shares of a class of the corporation's capital stock.

Under subparagraph (*b*)(iii) of the definition, an arm's length transfer includes a transfer to a trust by a "specified charity" (as defined in new subsection 94(1)) in respect of the trust that is made by the specified charity for the purpose of refunding in whole or in part a gift previously made to the specified charity entity by the trust. For more information on the definition "specified charity", see the commentary on that definition.

Under subparagraph (*b*)(iv) of the definition, an arm's length transfer includes a transfer in exchange for which, the recipient transfers or loans property (other than a restricted property) to the transferor, or becomes obligated to so transfer or loan such property, and for which it is reasonable to conclude

- having regard only to the transfer and the exchange that the transferor would have been willing to make the transfer if the transferor dealt at arm's length with the recipient, and
- that the terms and conditions, and circumstances, under which the transfer was made would have been acceptable to the transferor if the transferor dealt at arm's length with the recipient,

Under subparagraph (*b*)(v) of the definition, an arm's length transfer includes a transfer that is made in satisfaction of an obligation that arose because of a transfer to which subparagraph (*b*)(iv) applied, if

- the transfer is not a transfer described in paragraph 94(2)(*g*),
- the transferor would have been willing to make the transfer if the transferor dealt at arm's length with the recipient, and
- the terms and conditions, and circumstances, under which the transfer was made would have been acceptable to the transferor if the transferor dealt at arm's length with the recipient.

Under subparagraph (*b*)(vi) of the definition, an arm's length transfer includes a transfer that is a payment of an amount owing by the transferor under a written agreement the terms and conditions of which, when entered into, were terms and conditions that, having regard only to the amount owing and the agreement, persons dealing at arm's length with each other would have entered into, if the transfer is not a transfer described in paragraph 94(2)(*g*).

Under subparagraph (*b*)(vii) of the definition, an arm's length transfer includes a transfer that is a payment made before 2002 to a trust, to a corporation controlled by the trust or to a partnership of which the trust is a majority interest partner, in repayment of or otherwise in respect of a particular loan made by the trust, corporation or partnership, as the case may be, to the transferor.

Finally, under subparagraph (*b*)(viii) of the definition, an arm's length transfer includes a transfer that is a payment made after 2001 to a trust, to a corporation controlled by the trust or to a partnership of which the trust is a majority interest partner, in repayment of or otherwise in respect of a particular loan made by the trust, corporation or partnership, as the case may be, to the transferor in circumstances where either

- they would have been willing to enter the particular loan if they dealt at arm's length with each other and the payment is not a transfer described in paragraph 94(2)(*g*), or
- the payment is made before 2005 in accordance with fixed repayment terms agreed to before June 23, 2000.

The definition "arm's length transfer" generally applies to trust taxation years that begin after 2006. However, where a trust elects, by notifying the Minister in writing on or before its filing-due date for its taxation year that includes the day on which the amending legislation introducing section 94 is assented to, the definition "arm's length transfer" will be read without reference to a loan or transfer of property that is made before 2003 and identified in the election. This electing provision recognizes that the definition "arm's length transfer" in the new rules does not have an equivalent under existing subsection 94(1) of the Act. In particular, a non-resident trust now considered resident by reason of existing subsection 94(1) might not be described in new subsection 94(3) and would no longer be considered resident, which would result in the change in

residency rules in subsection 128.1(4) applying. The election, which is found in the coming-into-force provision of the amending legislation, effectively permits a trust to continue to be deemed resident.

"beneficiary"

Under paragraph (*a*) of the new definition "beneficiary" in subsection 94(1), a beneficiary under a trust includes an entity beneficially interested in the trust.

Under paragraph (*b*) of that definition, a beneficiary under a trust also includes an entity (including a person) that would be beneficially interested in the trust if

- each reference in subsection 248(25) to a "person" were read as a reference to an "entity" (as defined by new section 94), and
- for greater certainty, the reference in subparagraph 248(25)(*b*)(ii) to
  - (A) "any arrangement in respect of the particular trust" were read as a reference to "any arrangement (including the terms or conditions of a share, or any arrangement in respect of a share, of the capital stock of a corporation that is beneficially interested in the particular trust) in respect of the particular trust", and
  - (B) "the particular person or partnership might" were read as a reference to "the particular person or partnership becomes (or could become on the exercise of any discretion by any entity), directly or indirectly, entitled to any amount derived, directly or indirectly, from the income or capital of the particular trust or might".

For the purposes of the Act, the expression "beneficially interested" has the meaning assigned by subsection 248(25) of the Act.

"closely-held corporation"

The definition "closely-held corporation" is relevant in applying subparagraph (*b*)(i) of the definition "arm's length transfer" and the definition "restricted property". (For more information on the definitions "arm's length transfer" and "restricted property" in subsection 94(1), see the commentary on those definitions.)

A closely-held corporation, at any time, means a corporation, other than a corporation in respect of which

- there is at least one class of shares of its capital stock that includes shares prescribed for the purpose of paragraph 110(1)(*d*);
- it is reasonable to conclude that at that time, in respect of each class of shares of the corporation's capital stock that are shares prescribed for the purpose of paragraph 110(1)(*d*), shares of the class are held by at least 150 entities each of whom holds shares, of the class, that have a total fair market value of at least $500 — i.e., in general terms, the shares must be widely-held; and
- it is reasonable to conclude that at that time in no case does a particular entity (or the particular entity together with any other entity with whom the particular entity does not deal at arm's length) hold shares of the capital stock of the corporation
  - that would give the particular entity (or the particular entity together with those other entities) 10% or more of the votes that could be cast under any circumstance at an annual meeting of shareholders of the corporation if the meeting were held at that time, or
  - that have a fair market value of 10% or more of the fair market value of all of the issued and outstanding shares of the corporation.

This amendment generally applies in respect of trusts for taxation years that begin after July 18, 2005. However, a trust may make a special election (provided for in the coming-into-force provision for new section 94) to have the definition as described above apply in respect of it for taxation years that begin after 2006 (or where the trust qualifies to so elect under the coming-into-force provision of new section 94, for its taxation years that begin after 2000, after 2001, after 2002, after 2003, after 2004, or after 2005). If the trust does not make the special election, then for its taxation years that begin on or before July 18, 2005, in respect of the trust a closely-held corporation at any time, means a corporation, other than a corporation in respect of which

- there is at least one class of shares of its capital stock that class is not a specified class (within the meaning assigned by subsection 256(1.1),
- it is reasonable conclude that at that time the shares of those classes (other than such a specified class) are held by at least 150 entities each of whom holds shares that have a total fair market value of at least $500, and
- it is reasonable conclude that the total number of issued and outstanding shares of a class (other than such a specified class) held by a particular entity or by any other entity with whom the particular entity does not deal at arm's length is not more than 10% of the total number of the issued and outstanding shares of that class.

Subsection 94(16) is an anti-avoidance provision that applies in determining whether a corporation is a closely-held corporation at any time. For more detail, see the commentary on that provision.

"connected contributor"

The definition "connected contributor" is relevant in determining whether a beneficiary is, at a particular time, a "resident beneficiary" (as defined in new subsection 94(1)) under a non-resident trust. Under new paragraph 94(3)(*d*) of the Act, such a resident beneficiary can, to an extent, be liable for the trust's income tax. For more information, see the commentary on subsections 94(3) and (7) to (10), subparagraph 152(4)(*b*)(vi) and subsections 160(2.1) and (3).

A connected contributor at a particular time is any entity, including an entity that has ceased to exist, that is a "contributor" (as defined in new subsection 94(1)) to the trust at that time, other than

- an individual who was resident in Canada for a period of, or periods the total of which is, not more than 60 months (but not including a trust or an individual who before that time was never non-resident), or
- an entity all of whose contributions to the trust made at or before that time occurred at a "non-resident time" (as defined in new subsection 94(1)) of the entity.

For more information on the definitions "contributor", "resident beneficiary" and "non-resident time" in subsection 94(1), see the commentary on those definitions.

In the context of the definition "connected contributor", reference should also be made to new paragraphs 94(2)(*a*) to (*m*) (which extend the circumstances in which a transfer is considered to occur for the purposes of section 94), new paragraphs 94(2)(*n*) to (*q*), subsections 94(11) to (13) (which generally extend the circumstances in which a contribution is considered to be made for the purposes of section 94 and may apply to deem an entity to be a connected contributor to a trust), and paragraphs 94(2)(*r*) to (*u*) (which generally narrow the circumstances in which a contribution is considered to be made for the purposes of section 94). Reference should also be made to new subsection 94(10), which applies where a contributor becomes resident in Canada within 60 months after making a contribution to a trust.

"contribution"

Where a "contribution" is made at or before a particular time to a non-resident trust by an entity, that entity will be considered to be a "contributor" at the particular time and, in certain cases, will be jointly and severally or solidarily liable under subsection 94(3) for the trust's income taxes. (For more detail on the expression "solidarily", please refer to the introductory commentary above on new section 94.) For more information on subsection 94(3), see the commentary on that subsection.

Under paragraph (*a*) of the definition, a "contribution" to a trust by a particular entity means a loan or transfer of property (in this commentary referred to as a "transfer") by the entity to the trust (other than an "arm's length transfer", as defined in new subsection 94(1)).

Under paragraphs (*b*) and (*c*) of the definition "contribution", a contribution is also considered to have been made by a particular entity where

- the particular entity makes a particular transfer (other than an "arm's length transfer") as part of a series of transactions or events that includes another transfer (other than an arm's length transfer), to the trust, by another entity; or
- the particular entity becomes obligated to make a particular transfer (other than a transfer that would, if it were made, be an "arm's length transfer") as part of a series of transactions or events that includes another transfer (other than an arm's length transfer), to the trust, by another entity.

In these circumstances, the other transfer is considered to be a contribution to the trust by the particular entity only to the extent that the other transfer can reasonably be considered to have been made in respect of the particular transfer or the particular entity's obligation to make the particular transfer, as the case may be. In either case, a contribution is considered to be made at the time of the other transfer.

There are a number of rules that have the effect of applying the definition "contribution" more broadly than would otherwise be the case. See the commentary on new paragraphs 94(2)(*a*) to (*m*) (which extend the circumstances in which a transfer is considered to occur for the purposes of section 94), new paragraphs 94(2)(*n*) to (*q*) and subsections 94(11) to (13) (which generally extend the circumstances in which a contribution is considered to be made for the purposes of section 94) and paragraphs 94(2)(*r*) to (*u*) (which generally narrow the circumstances in which a contribution is considered to be made for the purposes of section 94).

The definition "contribution" applies to all loans and transfers, irrespective of when made.

"contributor"

A "contributor" to a trust at any time means an "entity" (as defined in new subsection 94(1)), including an entity that has ceased to exist, that at or before that time has made a "contribution" (as defined in new subsection 94(1)) to the trust. The definition "contributor" is significant primarily for the purposes of the definitions "resident contributor" and "connected contributor" in new subsection 94(1). For more information, see the commentary on those definitions.

Reference should be made in this context to new paragraphs 94(2)(*a*) to (*m*) (which extend the circumstances in which a transfer is considered to occur for the purposes of section 94), new paragraphs 94(2)(*n*) to (*q*) and subsections 94(11) to (13) (which generally extend the circumstances in which a contribution is considered to be made for the purposes of section 94) and paragraphs 94(2)(*r*) to (*u*) (which generally narrow the circumstances in which a contribution is considered to be made for the purposes of section 94).

"eligible trust"

An "eligible trust" can qualify as an exempt foreign trust under paragraph (*h*) of the definition "exempt foreign trust" where it meets the conditions imposed by that paragraph. An eligible trust may also qualify as an "exempt taxpayer" under subsections 94(1) and 94.1(1). For more detail, see the commentary on those subsections.

An eligible trust at any time means a trust other than a trust

- created or maintained for charitable purposes,
- governed by an employee benefit plan,
- described in paragraph (*a*.1) of the definition "trust" in subsection 108(1),
- governed by a salary deferral arrangement,
- operated for the purpose of administering or providing superannuation, pension, retirement or employee benefits,
- the amount of income or capital that any entity may receive directly from the trust at any time as a beneficiary under which depends on the exercise by any entity of, or the failure by any entity to exercise, a discretionary power; however, note that, if a trust so elects, for its taxation years that begin on or before July 18, 2005, this description of the trust is replaced in respect of the trust with "a trust that has at or before that time been a personal trust", or
- has elected in writing filed with the Minister in a timely fashion that the definition "exempt foreign trust" not apply to it.

"entity"

The expression "entity" is defined to include an association, a corporation, a fund, a natural person, a joint venture, an organization, a partnership, a syndicate and a trust.

"excluded property"

The expression "excluded property" is relevant to determining whether a property is restricted property. In particular, paragraph 94(14)(*c*) suspends a property's status as restricted property where that property is an excluded property. For more detail on the definition "restricted property" and subsection (14), see the commentary on those provisions.

Excluded property, at any time, means a particular property held, loaned or transferred, as the case may be, at that time by a particular entity if at that time:

- the particular property is at that time a share of the capital stock of the corporation, a specified fixed interest in the trust, or an interest as a limited partner in the partnership;
- it is reasonable to conclude that there are at least 150 persons each of whom holds at that time property that at that time is identical to the particular property, and has a total fair market value of at least $500;
- the total of all amounts each of which is the fair market value, at that time, of the particular property (or of identical property that is held, at that time, by the particular entity or an entity with whom the particular entity does not deal at arm's length) does not exceed 10% of the fair market value, at that time, of the particular property or of identical property held by any entity; and
- the particular property or property that is identical to it is listed on a prescribed stock exchange and can normally be acquired by and sold by members of the public in the open market.

"exempt amount"

The expression "exempt amount" is relevant in determining whether Part XIII tax applies to a non-resident person in respect of an amount paid or credited after 2003 by a trust to which subsection 94(3) applies. In general terms, Part XIII tax will not apply to such amounts if they are exempt amounts.

Three kinds of amounts may qualify as an exempt amount in respect of a particular taxation year of a trust. The first is any amount paid or credited (within the meaning assigned by Part XIII) by the trust before 2004.

The second is an amount that is paid or credited by the trust and referred to in paragraph 104(7.01)(*b*) in respect of the trust for the particular taxation year. For more detail on paragraph 104(7.01)(*b*), see the commentary on that provision.

The third type of exempt amount arises only in respect of trusts created before October 30, 2003 and to which no contributions have been made on or after July 18, 2005. In respect of such trusts, an exempt amount also means an amount (other than an amount included in computing an exempt amount in respect of any other taxation year of the trust) that is described in subparagraph 212(1)(*c*)(i) and paid in the particular taxation year (or within 60 days after the end of the particular taxation year) by the trust directly to a qualifying beneficiary under the trust. In this regard, a qualifying beneficiary means a beneficiary (determined without reference to subsection 248(25)) who is a natural person none of whose interests as a beneficiary under the trust was ever acquired for consideration (determined by reference to subsection 108(7)).

For more detail on subsection 108(7), see the commentary on that provision.

"exempt foreign trust"

An "exempt foreign trust" includes a number of different types of non-resident trusts that are exempt from the application of new subsection 94(3). The expression refers to the following types of non-resident trusts:

(*a*) a non-resident trust the current income (determined with reference to amended subsection 108(3)) or capital from which can be provided only to one or more physically or mentally infirm dependent individuals, provided that each such individual is at all times that they are a beneficiary under the trust during the trust's current taxation year, non-resident and that any property settled on the trust could reasonably be considered, at the time it was settled, to be necessary for the maintenance of those individuals;

(*b*) a non-resident trust created as a consequence of the breakdown of a marriage or common-law partnership of two individuals, the current income (determined with reference to amended subsection 108(3)) or capital from which can be provided only for the maintenance of non-resident beneficiaries of the trust who were, during that marriage or common-law partnership, children of both of the individuals, if the beneficiaries are under 21 years of age (or under 31 years of age and enrolled in a specified educational institution) and each contribution (as defined in section 94) to the trust was to provide for the maintenance of those children — note the different description of the conditions in subparagraph (*b*)(i) of that definition that apply for taxation years that begin on or before July 18, 2005;

(*c*) certain non-resident trusts that own or administer a university described in paragraph (*f*) of the definition "total charitable gifts" in subsection 118.1(1) and that could qualify under

that definition as a recipient permitted for the purposes of the tax credit for charitable gifts;

(*d*) certain non-resident trusts established exclusively for charitable purposes (as those purposes are defined in the laws of Canada);

(*e*) a non-resident trust that is governed by an employee profit sharing plan (as defined in subsection 248(1)), by a retirement compensation arrangement (as defined in subsection 248(1), or by a foreign retirement arrangement (as defined in subsection 248(1));

(*f*) certain foreign trusteed employee benefit plans if

- at all times that the trust exists it is operated exclusively for the purposes of providing employee benefits,
- throughout the trust's current taxation year it is maintained for the benefit of natural persons, the majority of whom are non-resident,
- the only benefits provided by the trust are in respect of
  - qualifying services (as defined in subsection 94(1)),
  - (only in respect of taxation years ending before 2009) particular services rendered before November 9, 2006 to an employer by an employee if the employee had a right before November 9, 2006 to receive the benefits in respect of the particular services pursuant to a written agreement entered into before November 9, 2006, and (where the employee was resident in Canada on November 9, 2006), a copy of which was filed with the Minister, or
  - a combination of the two, and
- if the year is after 2006, the trust holds no restricted property throughout that year or, where the year is before 2007, the trust does not hold any restricted property in the year other than property that was restricted property of the trust before November 9, 2006.

(*g*) a non-resident trust (other than a trust described in paragraph (*a*.1) of the definition "trust" in subsection 108(1) or a prescribed trust) that at all times since it was created has been operated exclusively for the specific purposes described below, is resident in a particular country other than Canada and has been exempt — because it is operated for these specific purposes — from paying income tax to the government of that country. The specific purposes are administering or providing superannuation or pension benefits, where those benefits are primarily in respect of services rendered in that particular country by natural persons who were non-resident at the time the services were rendered — as a result, certain trusteed foreign pension plans or similar arrangements are intended to qualify as an exempt foreign trust under this provision;

(*h*) a non-resident trust that is an eligible trust (as defined in subsection 94(1)) and whose only beneficiaries with rights to receive income or capital directly from the trust are qualifying investors (as defined in subsection 94(1)) in respect of the trust if either

- there are at least 150 qualifying investors in respect of the trust each of whom holds specified fixed interests (as defined in subsection 94(1)) in the trust worth at least $500, and the only resident contributors (as defined in subsection 94(1)) to the trust that hold more than 10% of the interests of any class of specified fixed interests in the trust are specified contributors (as defined in subsection 94(1)) to the trust, or
- in any other case, each resident contributor (other than an "indirect contributor" as defined in subsection 94(1)) to the trust is a specified contributor to the trust, a copy of the current terms of the trust (and any other required information in prescribed form) has been filed with the Minister of National Revenue by or on behalf of the trust, and at no time in the current taxation year of the trust, where the time of determination is after 2006, does the trust hold restricted property (or if the time of determination is before 2007, the trust holds no restricted property that was not restricted property held by it before November 9, 2006); and

(*i*) a prescribed trust or prescribed class of trusts. (At the present time, it is not anticipated that any trust or class of trusts will be prescribed for this purpose).

A trust that qualifies as an exempt foreign trust under paragraph (*f*) of the definition "exempt foreign trust" will be a non-resident entity for purposes of the foreign investment entity rules in subsections 94.1 to 94.4. If the trust has not held restricted property at any time on or after July 18, 2005, it will qualify, under paragraph (*a*) of the definition "foreign investment entity" in subsection 94.1(1) for relief from treatment as a foreign investment entity ("FIE"). However, if the trust has held restricted property on or after July 18, 2005, then in order to avoid status as a FIE, it would have to rely upon paragraphs (*b*) or (*c*) of the "foreign investment entity" definition, as paragraph (*a*) of that definition would not apply to it. Where the trust is a FIE, a Canadian resident beneficiary (other than an "exempt taxpayer" within the meaning assigned by subsection 94.1(1)) under the trust would be expected to be a taxpayer to whom subsection 94.1(3) or 94.2(9) applies for a taxation year of the beneficiary in respect of their interest (i.e., "participating interest", as defined in subsection 94.1(1)) in the trust.

Paragraphs (*f*) and (g), as described in general terms above, of the definition "exempt foreign trust" apply in respect of a trust for its taxation years that begin after July 18, 2005, unless the trust elects under paragraph (*j*) of the coming-into-force provision of new section 94. Where this election is made, those paragraphs apply, as described in general terms above, to the trust for taxation years that begin after 2006 (or such earlier year as has been elected, under the coming into force provisions for new section 94, that section 94 apply to the trust). Where the election is not made, for taxation years that begin on or before July 18, 2005, paragraphs (*f*) and (*g*) apply to the trust at a particular time as set out in paragraph (*j*) of that coming-into-force provision, which in general terms is as follows:

- in the case of paragraph (*f*), throughout the taxation year that includes the particular time, the trust must be
  - a non-resident trust that is governed by an employee benefit plan (as defined in subsection 248(1)) or a trust described in paragraph (*a*.1) of the definition trust in subsection 108(1),
  - maintained primarily for the benefit of non-resident individuals,
  - hold no restricted property, and provides no benefits, other than benefits in respect of services described in clauses (iv)(A) to (D) of the definition;
- in the case of a paragraph (g), at all times from the time it was created until the particular time, the trust must be a non-resident trust
  - operated exclusively for the purpose of administering or providing superannuation, pension, retirement or employee benefits, and
  - that meets the conditions stipulated under paragraph (g) of the definition regarding its beneficiaries (and their rights), its property, its jurisdiction of residence, and its liability for tax under the laws of that jurisdiction;

Paragraph (*h*), as described in general terms above, of the definition "exempt foreign trust" applies in respect of a trust for its taxation years that begin after 2006 (or such earlier year as has been elected, under the coming into force provisions for new section 94, that section 94 apply to the trust). However, if the trust elects under paragraph (*w*) of the coming-into-force provision of new section 94, paragraph (*h*) of the definition applies to the trust, for its taxation years that begin on or before July 18, 2005, as described in paragraph (*w*) of that coming-into-force provision, which in general terms is as follows:

- under subparagraph (*h*)(i) of the definition, the trust must be a non-resident trust that is an "eligible trust" (as defined in subsection 94(1)) under which each beneficiary's (determined without regard to subsection 248(25)) interest is a specified fixed interest, under which there are at least 150 such beneficiaries each of whom holds a specified fixed interest in the trust worth at least $500, and to which the only "resident contributors" (as defined in subsection 94(1)) to the trust that hold more than 10% of the interests of any class of beneficial interests in the trust are "specified contributors" (as defined in subsection 94(1)) to the trust, and
- under subparagraph (*h*)(ii) of the definition, the trust must be a non-resident trust that is an eligible trust under which each beneficiary's interest is a specified fixed interest, each resident contributor (other than an indirect contributor) to which is a specified contributor and by or on behalf of which a copy of the current terms of the trust (and any other required information in prescribed form) has been filed with the Minister of National Revenue;

Paragraph (*h*) is intended to apply to non-resident investment trusts that are legitimately commercial. Such a trust is intended to be treated as a foreign investment entity under sections 94.1 to 94.4 of the Act. A Canadian resident investor (other than an "exempt taxpayer" within the meaning assigned by subsection

94.1(1)) in the trust would be expected to be a taxpayer to whom subsection 94.1(3) or 94.2(9) applies for a taxation year of the investor in respect of their investment in the trust.

For more detail on the expressions "specified fixed interest" and "qualifying investor" defined in subsection 94(1), and the definitions "foreign investment entity" and "participating interest," see the commentary on those provisions.

"exempt service"

The definition "exempt service" is relevant to new paragraph 94(2)(*f*), which deems the provision of certain services (other than exempt services) to be a transfer of property.

An exempt service means a service rendered at any time by an entity (the "service provider") to, for or on behalf of, another entity (a "recipient") if either

- the recipient is at that time a trust and the service relates to the administration of the trust, or
- the following conditions apply in respect of the service, namely
  - (i) the service is rendered in the service provider's capacity at that time as an employee or agent of the recipient,
  - (ii) in exchange for the service the recipient transfers or loans property, or becomes obligated to transfer or loan property, and
  - (iii) it is reasonable to conclude
  - (A) having regard only to the service and the exchange that the service provider would have been willing to carry out the service if the service provider had dealt at arm's length with the recipient, and
  - (B) that the terms and conditions, and circumstances, under which the service was provided would have been acceptable to the service provider if the service provider had dealt at arm's length with the recipient.

"exempt taxpayer"

The definition "exempt taxpayer" is relevant in determining whether a taxpayer is a "specified contributor" to a trust.

Except as indicated below, tax-exempt persons to which subsection 149(1) applies are generally qualifying exempt taxpayers. However, retirement compensation arrangements and qualifying environmental trusts for which alternative income tax rules are provided under Parts XI.3 and XII.4, and insurers to which paragraph 149(1)(*t*) applies, are not qualifying exempt taxpayers.

An exempt taxpayer also includes a Canadian resident trust (determined without reference to subsection 94(3)) that is an eligible trust (as defined in subsection 94(1)) under which the only beneficiaries that may for any reason receive, at or after the particular time and directly from the trust, any of the income or capital of the trust are persons that are both qualifying investors (as defined in subsection 94(1)) and qualifying exempt taxpayers described above.

For more detail on the definition "qualifying investor" in subsection 94(1), see the commentary on that provision.

"indirect contributor"

The definition "indirect contributor" in subsection 94(1) applies in determining whether certain foreign pooled fund investment trusts trust may qualify as exempt foreign trusts under paragraph (*h*) of the definition "exempt foreign trust" in subsection 94(1). Clause (*h*)(ii)(B) of the "exempt foreign trust" definition imposes upon a trust that seeks to so qualify the requirement that all of its resident contributors be specified contributors (as defined in subsection 94(1)); however, this requirement does not apply to indirect contributors to the trust.

An indirect contributor to a particular trust, at any time, means a particular entity that

- is, at that time, a contributor to the trust, but would not be a contributor to the trust if this section were read without reference to paragraphs (*b*) and (*c*) of the definition "contribution" (as defined in subsection 94(1)) and paragraphs (2)(*l*), (*n*) and (*o*) and has no rights to receive directly from the trust any of the income or capital of the trust; and
- has at or before that time made a contribution to the trust
  - because of a transfer of property to the trust by a another entity that is a qualifying investor in respect of the trust in the case where the particular entity would not, at that time, be a contributor to the trust because of that transfer if new section 94 were read without reference to paragraph 94(2)(*l*) at that time, or
  - because of a transfer of property by an entity to the trust in exchange for property acquired from the trust which acquisition was a transfer described in subparagraph 94(2)(*g*)(ii) or because of a transfer of property to the trust that is deemed by paragraph 94(2)(*q*) to have been made by an entity because of the acquisition by that entity of a specified fixed interest in the trust from another entity in the case where
    - the particular entity would not, at that time, be a contributor to the trust if section 94 were read without reference to paragraphs 94(2)(*n*) and (*o*) at that time, and
    - each interest as a beneficiary under the trust that is relevant in determining whether the particular entity is, at that time, a contributor to the trust is, at that time, a specified fixed interest in the trust that is held, at that time, by a qualifying investor in the trust.

"non-resident time"

The definition "non-resident time" is relevant in determining whether a contributor to a trust is a "connected contributor" and whether the "look-through" rule in paragraph 94(2)(*l*) applies in determining whether an entity has made a contribution (i.e., is a contributor).

The "non-resident time" of an entity in respect of a contribution to a trust and a particular time means a time (referred to in this commentary as the "contribution time") at which the entity made a contribution to a trust, that is before the particular time and at which the entity was non-resident. However, such a time will qualify as a non-resident time only if the entity was non-resident (or not in existence) throughout a specified period.

As indicated in the coming-into-force provision for new section 94 of the Act, where the contribution time occurs before June 23, 2000, the specified period is the period that begins 18 months before the end of the trust's taxation year that includes the contribution time and ends at the earliest of

- 60 months after the contribution time;
- where the entity is an individual, the date of the individual's death; and
- the particular time.

Where the contribution time occurs after June 22, 2000 and the trust arose on and as a consequence of the death of an individual, the specified period is the period that begins 18 months before the contribution time and ends at the earliest of

- 60 months after the contribution time;
- where the entity is an individual, the date of the individual's death; and
- the particular time.

Where the contribution time occurs after June 22, 2000 and the trust did not arise on and as a consequence of the death of an individual, the specified period is the period that begins 60 months before the contribution time and ends at the earliest of

- 60 months after the contribution time;
- where the entity is an individual, the date of the individual's death; and
- the particular time.

The measurement of the specified period by reference to any particular time is to ensure that the contributing entity and the trust may treat the contribution time as a non-resident time for the purposes of applying subsection 94(3) at a specified time (as defined in subsection 94(1)) in respect of the trust for a taxation year of the trust (generally, the end of that taxation year) if at the end of that particular year the contributor still has not become resident in Canada within the 60-month period after the contribution time.

However, new subsection 94(10) ensures that such a contributor will, for the purposes of the definition "connected contributor", be considered to have made the contribution at a time other than a non-resident time if the contributor becomes resident in Canada within the 60-month period after the contribution time. As a result, at each such specified time in respect of the trust for taxation year of the trust (generally, the end of that taxation year) following the contribution, there would be a connected contributor to the trust and, if there were a resident beneficiary under the trust, subsection 94(3) would also apply in respect of those years.

Amended subparagraph 152(4)(*b*)(vi) of the Act ensures that a reassessment of a taxpayer arising out of the application of subsection 94(10) may be undertaken by the Canada Revenue Agency within 3 years after the end of the taxpayer's normal reassessment period for the taxpayer's relevant taxation year.

For more information on new subsection 94(10) and amended subparagraph 152(4)(*b*)(vi), see the commentary on those provisions.

"promoter"

The definition "promoter" is relevant in applying new paragraph 94(2)(*s*), which provides that a transfer to a trust will not be considered a contribution where certain conditions, described in that paragraph, are met. For this purpose a promoter means an entity that establishes, organizes or substantially reorganizes the undertakings of the trust. For more information on paragraph 94(2)(*s*), see the commentary on that paragraph.

"qualifying investor"

The definition "qualifying investor" is relevant in applying paragraphs (*g*) and (*h*) of the definition "exempt foreign trust" in subsection 94(1), the definition "significant interest" in subsection 94.1(1), and the definitions "exempt taxpayer" in subsections 94(1) and 94.1(1).

A qualifying investor in respect of a trust at a particular time means an entity that is at the particular time a beneficiary (in this definition, determined without reference to subsection 248(25)) under the trust whose only interest as a beneficiary under the trust is, at all times that the interest exists during the trust's taxation year that includes the particular time, a specified fixed interest (as defined in subsection 94(1)) of the entity in the trust.

For more information on the definition "specified fixed interest" in subsection 94(1), see the commentary on that paragraph.

"qualifying services"

The definition "qualifying services" is relevant in applying paragraph (*f*) of the definition "exempt foreign trust" in subsection 94(1).

In general terms, "qualifying services" are

- services rendered by an employee of an employer while the employee was non-resident,
- services rendered to an employer other than services that were rendered primarily in Canada, in connection with a business carried on by an employer in Canada or a combination of these services,
- services rendered in a particular calendar month by an employee of the employer which employee
  - was resident in Canada no more than 60 months during the 72 month period that ends at the end of the particular month, and
  - became a member of, or a beneficiary under the plan or trust under which benefits in respect of the services may be provided (or a similar plan or trust for which the plan or the trust was substituted) before the end of the calendar month following the month in which the employee became resident in Canada, or
- any combination of services that are qualifying services described above.

"resident beneficiary"

Under new subsection 94(3), a particular trust is generally treated as resident in Canada for a particular taxation year of the trust if there is a "resident beneficiary" under the particular trust at a "specified time" (generally, the end of the particular year). Under new paragraph 94(3)(*d*), each resident beneficiary can be jointly and severally or solidarily liable with the particular trust for the particular trust's income tax liabilities under the Act for the particular year. (For further information with respect to the expression "solidarily", please refer to the introductory commentary on new section 94.) See also the commentary on subsection 94(3).

A resident beneficiary at a particular time under a trust is an entity (other than an entity that is at that time a "specified charity" or a "successor beneficiary" in respect of the trust) that, at that time, is a beneficiary under the trust, if, at that time,

- the entity is resident in Canada; and
- there is a "connected contributor" to the trust.

The expressions "connected contributor", "specified charity", "specified time" and "successor beneficiary" are defined in new subsection 94(1). For further information, see the commentary on those definitions.

"resident contributor"

Under new subsection 94(3), a trust is generally treated as resident in Canada for a particular taxation year of the trust if there is a "resident contributor" to the trust at a "specified time" in respect of the trust for the particular taxation year (generally, the end of the particular year). Under new paragraph 94(3)(*d*), a "resident contributor" can be jointly and severally or solidarily liable with the trust for the trust's income tax liabilities under the Act for the particular year. (For further information with respect to the expression "solidarily", please refer to the introductory commentary above on new section 94.)

A "resident contributor" at any time means an entity that is, at that time, resident in Canada and a "contributor" (as defined in new subsection 94(1)) to the trust. However, an exemption from treatment as a resident contributor is provided for a contributor who is:

- an individual who was resident in Canada for a period of, or periods the total of which is, not more than 60 months (but not including a trust or an individual who before that time was never non-resident); and
- an individual, if the trust is an *inter vivos* trust that was created before 1960 by a person who was non-resident when the trust was created and the individual made no contribution after 1959 to the trust.

In the context of this definition, reference should also be made to new paragraphs 94(2)(*a*) to (*m*) (which extend the circumstances in which a transfer is considered to occur for the purposes of section 94), new paragraphs 94(2)(*n*) to (*q*) and subsections 94(11) to (13) (which generally extend the circumstances in which a contribution is considered to be made for the purposes of section 94) and paragraphs 94(2)(*r*) to (*u*) (which generally narrow the circumstances in which a contribution is considered to be made for the purposes of section 94).

"restricted property"

The expression "restricted property" is relevant in applying a number of provisions in respect of non-resident trusts, including the definitions in subsection 94(1) of "arm's length transfer" and "exempt foreign trust". The definition "restricted property" is intended to serve as an anti-avoidance provision.

More specifically, restricted property means

- under paragraph (*a*) of the definition, a particular share (or a right to acquire a share) of the capital stock of a particular closely-held corporation if the particular share (or right), or a property for which the particular share (or right) was substituted, was at any time acquired as part of a transaction or series of transactions under which either a specified share of the capital stock of a closely-held corporation was acquired by any entity in exchange for, as consideration for, or upon conversion of any property or (effective for taxation years beginning after November 9, 2006) a share of a closely-held corporation that was not a specified share becomes a specified share;
- under paragraph (*b*) of the definition, an indebtedness (or a right to acquire indebtedness) owing by another entity if
  - the other entity is a closely-held corporation,
  - the indebtedness (or right), or a property for which the indebtedness (or right) was substituted, was at any time acquired as part of a transaction or series of transactions under which either a specified share of the capital stock of a closely-held corporation was acquired by any entity in exchange for, as consideration for, or upon conversion of any property or (effective for taxation years beginning after November 9, 2006) a share of a closely-held corporation that was not a specified share becomes a specified share, and
  - the amount of any payment under a right (for taxation years that begin after July 18, 2005, whether immediate or future, whether absolute or contingent or whether conditional on or subject to the exercise of any discretion by any entity or individual) to receive, in any manner whatever and from any entity, amounts in respect of the indebtedness), or the value of such a right, is, directly or indirectly, determined primarily by reference to any one or more of the criteria, in respect of one or more properties of the other entity (or an entity with which the other entity does not deal at arm's length), identified in any of clauses (*b*)(iii)(A) to (D) of the definition; and
- under paragraph (*c*) of the definition, any property the fair market value of which is derived in whole or in part, directly or indirectly, from a particular share, indebtedness or right described in paragraph (*a*) or (*b*) of the definition.

New subsection 94(14) may apply in some circumstances to suspend a property's characterization as restricted property. For more details, see the commentary on that provision. For more

detail on the definition "excluded property" in subsection 94(1), see the commentary on that provision.

"specified charity"

The expression "specified charity" is used in the definitions "arm's length transfer" and "resident beneficiary" in new subsection 94(1). An arm's length transfer includes a refund, from a specified charity in respect of a trust to the trust, of a gift previously made by the trust to the charity. A resident beneficiary under a trust does not include a specified charity. For more information, see the commentary on those definitions.

A specified charity in respect of a trust at any particular time means a person (in this commentary referred to as a "charity") that at that time is described in any of paragraphs (*a*) to (*e*) and (*g.1*) of the definition "total charitable gifts" in subsection 118.1(1). However, a specified charity does not include:

- a charity that does not, at a particular time, deal at arm's length with a "specified entity" in respect of the trust; or
- a charity that did not, at any "specified prior time" in respect of the charity, deal at arm's length with a specified entity in respect of the trust.

For this purpose, a "specified prior time" in respect of a charity is defined in paragraph (*c*) of the definition "specified charity" as meaning any time, before the particular time, at which

- an amount was payable to the charity as a beneficiary under the trust,
- an amount was received by the charity on the disposition of the charity's interest in the trust, or
- a benefit was received or enjoyed by the charity from or under the trust.

Paragraph (*d*) of the definition "specified charity" defines a "specified entity" in respect of a trust at any time to mean

- an entity that is at that time beneficially interested in the trust, a contributor to the trust, a person related to a contributor to the trust, a trustee of the trust, an entity that could reasonably be considered to have influence over the operation of the trust or the enforcement of its terms, or an entity that could reasonably be considered to have influence over the selection or appointment of an entity referred to above, or
- any group at least one of the members of which is described immediately above.

"specified contributor"

The expression "specified contributor" is used in paragraph 94(2)(*r*) and paragraph (*h*) of the definition "exempt foreign trust" in new subsection 94(1).

Paragraph (*h*) of the definition "exempt foreign trust" is intended to ensure that investors in commercial investment trusts are subject to the regime for foreign investment entities in new sections 94.1 to 94.4 of the Act. Where a particular investor in such a commercial investment trust sells or has redeemed a beneficial interest in the trust, paragraph 94(2)(*r*) may apply to ensure that the acquisition of that interest by the particular investor will, after the sale or redemption, not be treated as a contribution to the trust.

For taxation years in respect of which new section 94 applies to a trust, the definition is relevant in applying both paragraph 94(2)(*r*) and the definition "exempt foreign trust". For earlier taxation years, the definition "specified contributor" will generally only be relevant in determining whether an investor in the trust has ceased to be a contributor to the trust because of paragraph 94(2)(*r*).

An entity can only qualify as a specified contributor to a trust at any time if, at that time, it is both a beneficiary (generally determined without reference to subsection 248(25)) under, and a contributor to, the trust.

If this condition is met and that time is both before February 17, 1999 and immediately before a sale or redemption of the entity's interest as a beneficiary under the trust, then the entity will be a specified contributor in respect of that interest for the purpose of applying paragraph 94(2)(*r*) to that sale or redemption. If paragraph 94(2)(*r*) applies, then in applying section 94 to the entity after the sale or redemption, the entity is treated as not having made any contribution to the trust in respect of its acquisition of that interest.

For a particular entity that is a beneficiary under a trust at a particular time that is after February 16, 1999, the particular entity will be a specified contributor to the trust at the particular time only if

- it is, at the particular time, a contributor to the trust;
- at all times that it is a beneficiary under the trust, its interest as a beneficiary is a "specified fixed interest" (as defined in subsection 94(1)) in the trust;
- the trust is identified, in a timely fashion, by or on behalf of the particular entity, in prescribed form or a copy of the terms of the trust that apply at the particular time has, together with a prescribed form, been filed, in a timely fashion, with the Minister by or on behalf of the trust; and
- where the particular entity is not an "exempt taxpayer" (as defined in subsection 94(1)), it is reasonable to conclude, in respect of any contribution made by it to the trust after February 16, 1999 and on before the particular time, that
  - no consideration was received (other than property received by the particular entity that is the particular entity's interest as a beneficiary under the trust),
  - none of the reasons (determined by reference to all the circumstances including the terms of the trust, an intention, the laws of a country or the existence of an agreement, a memorandum, a letter of wishes or any other arrangement) for the contribution is the acquisition at any time by any entity (other than the particular entity) of a right as a beneficiary (here as defined generally in subsection 94(1)) under the trust (other than the acquisition by any such entity of an interest as a beneficiary under the trust from the particular entity for consideration equal to the fair market value of that interest) to receive, at any time and directly from the trust, income or capital of the trust, and
  - the fair market value of the particular contribution is equal to the fair market value, at the time of the particular contribution, of the particular entity's interest as a beneficiary under the trust acquired as a result of the particular contribution.

Where the particular entity qualifies at any time as a specified contributor, the sale or redemption, immediately after that time, of its interest as a beneficiary under the trust may result, as described above, in the application of paragraph 94(2)(*r*). In addition, if the particular entity is a resident contributor to a non-resident commercial investment trust, that was seeking to meet, at that time, the requirements of paragraph (*h*) of the definition "exempt foreign trust", the particular entity's contributions to the trust would not alone cause the trust to fail to meet those requirements (ignoring subsection 94(16) of the Act).

Note, however, that an entity will not qualify as a specified contributor to a trust if at any time after February 16, 1999, the entity (or another entity with which it does not deal at arm's length) contributes restricted property to the trust. As a result, even if the contribution of restricted property were in consideration for the acquisition of an interest as a beneficiary under the trust, paragraph 94(2)(*r*) would not apply, to expunge the contribution, upon the sale or redemption of the interest in the trust. Moreover, the entity's status as a resident contributor to the trust may jeopardize the trust's ability to qualify as an exempt foreign trust.

"specified controlled foreign affiliate"

A "specified controlled foreign affiliate" of a particular entity at any time means an entity that would, at that time, be a controlled foreign affiliate of the particular entity if the particular entity were resident in Canada at that time. The definition is used for the purpose of the definition "specified party".

"specified fixed interest"

The expression "specified fixed interest" is relevant in applying paragraphs 94(2)(*q*) and (*r*), the definition "specified contributor" in subsection 94(1), the definition "significant interest" in subsection 94.1(1), and the definition "qualifying investor" in subsection 94(1), which in turn is relevant in applying paragraph (*b*) of the definitions "exempt taxpayer" in subsections 94(1) and 94.1(1), and paragraph (*h*) of the definition "exempt foreign trust" in subsection 94(1). These provisions are intended to apply only to commercial investment trusts.

A specified fixed interest at any time of an entity in a trust means an interest of the entity as a beneficiary under the trust, if

- the interest was issued by the trust,
- the interest includes, at that that time, rights of the entity as a beneficiary under the trust to receive, at or after that time and directly from the trust, income and capital of the trust,

- no amount of income or capital of the trust that any entity may receive directly from the trust at any time as a beneficiary under the trust depends on the exercise by any entity of, or the failure by any entity to exercise, a discretionary power — in very general terms, no entity may hold a power to appoint beneficiaries under the trust, and
- the only manner in which any part of the interest may cease to be the entity's is by way of a disposition (determined without regard to paragraphs (*i*) of the definition "disposition" in subsection 248(1) and 248(8)(*c*)) of the interest resulting from a transfer (generally determined without reference to the extended transfer rules in section 94), including (under paragraph 94(2)(*m*)) a deemed transfer upon the redemption of the interest.

For taxation years that begin on or before July 18, 2005, a trust may elect to have an alternative definition of "specified fixed interest" apply in respect of the trust. Where that election is made, a specified fixed interest at any time of an entity in a trust means a capital interest (as defined in subsection 108(1) of the Act) of the entity in the trust, if

- the interest was issued by the trust;
- the interest includes, at that time, a right of the entity as a beneficiary under the trust to receive, at or after that time and directly from the trust, income or capital of the trust;
- no right of the entity as a beneficiary under the trust to income or capital of the trust may cease, other than because of a specified transaction or event, to be a right of the entity; and
- the trust has never been a personal trust.

"specified party"

New subsection 94(8) of the Act provides a rule for calculating an entity's recovery limit for the purpose of determining under subsection 94(7) of the Act the extent of an entity's limitation on liability arising under a provision referred to in new paragraph 94(3)(*d*). A "specified party" in respect of a particular entity at any time means an entity that is at that time:

- under paragraph (*a*) of the definition, an individual who is a spouse or common-law partner of the particular entity;
- under paragraph (*b*) of the definition, a "specified controlled foreign affiliate" (as described in the commentary immediately above) of the particular entity, or of a spouse or common-law partner of the particular entity;
- under paragraph (*c*) of the definition, an entity for which it is reasonable to conclude that the benefit referred to in subparagraph 94(8)(*a*)(iii) of the Act (i.e., a benefit received or enjoyed under a trust) was conferred either
  - in contemplation of the entity becoming after that time a "specified controlled foreign affiliate" of an entity referred to in subparagraph (*b*)(i) or (ii) of the definition, or
  - to avoid or minimize a liability under this Part that arose, or that would otherwise have arisen, because of the application of subsection (3) with respect to the particular entity; or
- under paragraph (*d*) of the definition, a corporation in which the particular entity is a shareholder, if the corporation is or was beneficially interested in a trust, and the particular entity is a beneficiary under the trust solely because of the application of paragraph (*b*) of the definition "beneficiary" in subsection 94(1) to the particular entity in respect of the corporation.

"specified property"

New subsection 94(9) can affect the calculation of the amount of a "contribution" (as defined in new section 94) to a trust of "specified property". For this purpose, "specified property" means:

- a share of the capital stock of a corporation, an interest as a beneficiary under a trust, an interest in a partnership, or an interest in any other entity;
- a right to acquire any of the above (effective for taxation years beginning after November 9, 2006, this definition has been amended to clarify that such right includes a right that is immediate or future, absolute or contingent, conditional or subject to the exercise of any discretion by any entity); or
- any other property deriving its value primarily from property described above.

"specified share"

A specified share means a share of the capital stock of a corporation other than a share that is prescribed for the purpose of paragraph 110(1)(*d*). This expression is relevant to the definition "restricted property" in subsection 94(1). For more information, see the commentary on the definition "restricted property".

"specified time"

A specified time, in respect of a trust for a taxation year of the trust, means

- if the trust exists at the end of the taxation year, the time that is the end of that taxation year; and
- if the trust ceases to exist after October 30, 2003, the time, in that taxation year that is immediately before the time at which the trust ceases to exist.

This expression is relevant in determining whether paragraph 94(3)(*a*) applies to deem the trust to be resident in Canada, for the taxation year, for a number of purposes. It also applies in respect of subsections 94(7) and (10). For more detail, see the commentary on those provisions.

"successor beneficiary"

The expression "successor beneficiary" is used in the definition "resident beneficiary" in new subsection 94(1). A resident beneficiary under a trust does not include a successor beneficiary. The interest of a successor beneficiary in a trust that is a foreign investment entity may, in certain circumstances, also be exempt from the application of those rules to the interest — for more detail, see the commentary on the definition "specified interest" in subsection 94.1(1).

A successor beneficiary in respect of a trust at a particular time means an entity that is a beneficiary under the trust solely because of a right of the beneficiary to receive any of the trust's income or capital, if under that right the entity may so receive that income or capital only on or after the death after that time of a specified individual. For this purpose a specified individual is an individual who is, at that time, alive and a contributor to the trust, an individual related to a contributor to the trust, or an individual who would have been related to a contributor to the trust if every individual who was alive before that time were alive at that time.

"trust"

A definition "trust" is provided for the purpose of applying section 94. The definition clarifies that a reference to a trust in that section includes an estate.

Subsection 94(2) — Rules of Application

New subsection 94(2) of the Act sets out a number of rules for use in applying section 94. These rules are primarily relevant for the purposes of determining whether a transaction constitutes a "contribution" of property to a trust. These rules are also relevant for the purposes of subsections 94(7) to (9) and the amended reporting rules in subsections 162(10.1) and 163(2.4) and section 233.2.

Paragraphs 94(2)(*a*) to (*m*) include rules that deem certain loans or transfers, the granting of options and the provision of services to be transfers of property to an entity. A deemed transfer will be considered to be a contribution to a trust if the transfer falls within the criteria of the definition "contribution" in subsection 94(1) or the deemed contribution rules. In this regard, it should be noted that a transfer or loan, unless it is deemed to be a contribution under a provision of section 94, will not be considered a contribution if it is an "arm's length transfer" (as defined in new subsection 94(1)). In addition, paragraphs 94(2)(*r*) to (*u*), may apply to deem certain transfers not to be contributions.

The rules in subsection 94(2) generally apply to taxation years of trusts that begin after 2006, but in some cases relief is provided with regard to transactions or events that occur before June 23, 2000 or October 11, 2002. In addition, trusts created in 2001, created in 2002, created in 2003, created in 2004, created in 2005 or created in 2006 may elect in writing (by filing the election with the Minister of National Revenue on or before the trust's filing-due date for the trust's taxation year in which the amending legislation is assented to) to have new section 94 of the Act apply to its taxation years that begin in 2001, 2002, 2003, 2004, 2005 and 2006, as the case may be.

Deemed Transfers

Paragraph 94(2)(*a*) of the Act generally applies to indirect loans or transfers of property to a trust through transfers to other entities. Paragraph (*a*) deems a transfer of property (other than an "arm's length transfer", as defined in new subsection 94(1) or a transfer to which paragraph 94(2)(*c*) applies) to be a direct transfer to a trust if the property is transferred from one entity to another and, as a result of the transfer, the fair market

value of the property of the trust increases or the liabilities of the trust decrease. Where paragraph (*a*) applies, paragraph 94(2)(*b*) deems the fair market value of property deemed transferred under paragraph 94(2)(*a*) to be the total of all amounts each of which is the absolute value of an increase in the fair market value of the trust property or a decrease in the liabilities of the trust because of the transfer.

Paragraph 94(2)(*c*) also applies to indirect loans or transfers of property to a trust. Paragraph (*c*) deems a transfer or loan of property (other than an "arm's length transfer") from an entity to another entity to be a direct transfer to a trust where the trust holds property the fair market value of which is derived from property held by the other entity. Paragraph 94(2)(*d*) deems the fair market value of property deemed transferred under paragraph 94(2)(*c*) to be the fair market value of the property referred to in subparagraph (2)(*c*)(i).

Paragraph 94(2)(*e*) deems a particular entity that provides a guarantee or other financial assistance to another entity to have transferred property to that other entity. Any property given to the particular entity by the other entity in exchange for the guarantee or other financial assistance is deemed to have been transferred to the particular entity in exchange for the property deemed by subparagraph (*e*)(i) to have been transferred. Under subparagraph 94(2)(*h*), the fair market value of the property deemed by subparagraph (*e*)(i) to have been transferred is deemed to be the fair market value of the assistance.

Paragraph 94(2)(*f*) applies where any service (other than an exempt service, as defined in subsection 94(1)) is rendered after June 22, 2000 by an entity to, for or on behalf of another entity. In these circumstances, the entity rendering the service is deemed to have transferred property to the other entity. Any property given to the particular entity by the other entity in exchange for the service is deemed to have been transferred to the particular entity in exchange for the property deemed by subparagraph (*f*)(i) to have been transferred. For more information on the definition "exempt service", see the commentary on that definition.

Under paragraph 94(2)(*h*), the fair market value of the property deemed under subparagraph 94(2)(*f*)(i) to have been transferred is deemed to be equal to the fair market value of the services rendered.

For greater certainty, paragraph 94(2)(*g*) provides that a corporation is considered to transfer shares that it issues. Similar rules, also contained in paragraph 94(2)(*g*), apply to interests in a trust acquired otherwise than from a beneficiary under the trust, interests in a partnership acquired otherwise than from a member of the partnership, or interests in an other entity acquired otherwise than from an entity having an interest in the other entity, as well as to debt issued to an entity by another entity and a right (granted after June 22, 2000 by the entity from which the right was acquired) to acquire or to be loaned property.

As noted above, paragraph 94(2)(*h*) is relevant to determining the fair market value of property deemed under subparagraphs 94(2)(*e*)(i) and (*f*)(i) to have been transferred.

Paragraph 94(2)(*i*) deems an entity to have become obligated at a particular time to transfer property to another entity where the entity becomes obligated to do an act (*e.g.*, the rendering of a service) that would constitute the transfer of a property to another entity if the act were to occur. This rule is generally relevant for the purposes of paragraph (*c*) of the definition "contribution" in subsection 94(1).

Paragraph 94(2)(*j*) applies, for the purpose of applying at any time the definition "non-resident time" in subsection (1), if a trust acquires property of an individual as a consequence of the death of the individual. In these circumstances, paragraph 94(2)(*j*) deems the individual to have transferred the property to the trust immediately before the individual's death.

Paragraph 94(2)(*k*) applies where a particular entity loans or transfers property to another entity at the direction of or with the acquiescence of a second entity (the "specified entity"). In these circumstances, if it is reasonable to conclude that one of the reasons for the transfer is to avoid or minimize a liability of any entity under Part I of the Act that arose, or that would otherwise have arisen, because of the application of subsection (3), the transfer is deemed to be a transfer made jointly by the particular entity and the specified entity.

Paragraph 94(2)(*k.1*) applies where a particular entity loans or transfers property, at any time after November 9, 2006, to another entity at the direction of or with the acquiescence of a second entity (the "specified entity"). In these circumstances, if it is reasonable to conclude that one of the reasons for the loan or transfer is to provide benefits in respect of services rendered by a person as an employee of the specified entity, the transfer is deemed to be a transfer made jointly by the particular entity and the specified entity.

Paragraph 94(2)(*l*) also applies where a particular entity loans or transfers property to another entity at the direction of or with the acquiescence of a specified entity. In these circumstances, the transfer is deemed to be a transfer made jointly by the particular entity and the specified entity if

- the transfer is made at a time that is not, or would not be, if the transfer or loan were a contribution of the specified entity, a "non-resident time" (as defined in new subsection 94(1)) of the specified entity, and
- either
  - the particular entity is at the time of the transfer a controlled foreign affiliate of the specified entity (or would be a controlled foreign affiliate of the specified entity if the specified entity were resident in Canada), or
  - it is reasonable to conclude that the transfer was made in contemplation of the particular entity becoming after the time of the transfer a controlled foreign affiliate of the specified entity (or a controlled foreign affiliate of the specified entity if the specified entity were resident in Canada).

The expression "controlled foreign affiliate" is defined in subsection 248(1) of the Act as having the meaning given in subsection 95(1).

Paragraph 94(2)(*m*) deems a particular entity to have transferred, at a particular time, a particular property or particular part of it, as the case may be, to a corporation or a second entity (described below) if

- the particular property is a share of the capital stock of a corporation held at the particular time by the particular entity, and as consideration for the disposition at or before the particular time of the share, the particular entity received at the particular time (or became entitled at the particular time to receive) from the corporation a share of the capital stock of the corporation, or
- the particular property (or property for which the particular property is substituted property) was acquired, before the particular time, from the second entity by any entity, in circumstances that are described by any of subparagraphs 94(*g*)(i) to (vi) (generally, the issuance by the second entity of a financial instrument) and at the particular time,
  - the terms or conditions of the particular property change,
  - the second entity redeems, acquires or cancels the particular property or the particular part of it,
  - where the particular property is a debt owing by the second entity, the debt or the particular part of it is settled or cancelled, or
  - where the particular property is a right to acquire or to be loaned property, the particular entity exercises the right.

Deemed Contributions

Paragraph 94(2)(*n*) applies where a particular trust makes a contribution to another trust. If this is the case, the contribution is deemed to have been made jointly by the particular trust and each other entity that is a contributor to the particular trust.

Paragraph 94(2)(*o*) applies where a partnership makes a contribution to a trust. Where this is the case, the contribution is deemed to have been made jointly by the partnership and by each entity that is a partnership member (other than a limited partner) at the time of the contribution. However, if a partnership has contributed to a trust, a limited partner of the partnership may also be considered to have made a contribution to the trust in respect of a transfer or loan made by the limited partner or another entity if any of the rules in subsection 94(2) so provide.

Paragraph 94(2)(*p*) provides, subject to paragraph 94(2)(*q*) and subsection 94(9), that the amount of a contribution to a trust at the time it was made is deemed to be the fair market value at that time of the property that was the subject of the contribution. The rule is useful for the purposes of new paragraph 94(2)(*u*), subsections 94(7) and (8), as well as the reporting penalty provisions in amended subsections 162(10.1) and 163(2.4). The rule is relevant because a contribution is defined by reference to a loan or transfer, rather than by reference to the property that was the subject of the transfer or loan.

Paragraphs 94(2)(*q*) and (*r*) apply to dealings in a "specified fixed interest" (as defined in new subsection 94(1)) in a trust and in a right, issued by the trust, to acquire such an interest. The rules for specified fixed interests apply in respect of commercial investment trusts. For more detail, see the commentary on the definitions "specified fixed interest" and "specified contributor" in subsection 94(1) and on paragraph (*h*) of the definition "exempt foreign trust" in subsection 94(1).

Paragraph 94(2)(*q*) deems an entity, that at any time acquires a specified fixed interest in a trust (or a right, issued by the trust, to acquire such an interest) from another entity (other than the trust), to have made a contribution to the trust at that time. The amount of the contribution is deemed to be the fair market value at that time of the specified fixed interest.

Transfers Deemed Not to be Contributions

Paragraph 94(2)(*r*) generally applies where a particular entity has made a contribution (e.g., because of paragraph 94(2)(*q*)) to a trust because of acquiring a specified fixed interest in the trust or a right to acquire such an interest, or has acquired a specified fixed interest in a trust as a consequence of making a contribution to the trust, and at a later time the interest or right, as the case may be, is transferred, for arm's length consideration, to another entity (i.e., upon a sale of the interest or right, of if the other entity is the trust that issued the interest or right, upon a redemption of the interest or right). In these circumstances, the particular entity is deemed, for the purpose of applying section 94 at any time after the later time, not to have made the contribution in respect of the specified fixed interest, or right, that is the subject of the sale if immediately before the later time (i.e., the time of the sale or redemption) the particular entity is specified contributor to the trust.

Paragraph 94(2)(*s*), in very general terms, provides that a transfer of property to a trust by a particular entity that is a manager or promoter of the trust, in exchange for an interest as a beneficiary under the trust, will not be considered a contribution of the particular entity to the trust while the beneficial interest is acquired and held by the particular entity because of a requirement imposed under securities laws. Paragraph 94(2)(*s*) will be relevant in the relatively rare circumstance that a commercial investment trust cannot rely on the exemption for exempt foreign trusts in order to avoid the application of subsection 94(3). Paragraph 94(2)(*s*) will apply in determining under that subsection whether the trust has a resident contributor or connected contributor (i.e., and hence, a resident beneficiary).

More specifically, under paragraph 94(2)(*s*), a transfer to a trust by a particular entity is deemed not to be, at a particular time, a contribution to the trust if

- the particular entity has transferred, at or before the particular time and in the ordinary course of business of the particular entity, property to the trust,
- the transfer is not an arm's length transfer, but would be an arm's length transfer if the definition "arm's length transfer" in subsection 94(1) were read without reference to paragraph (*a*), and subparagraphs (*b*)(i) to (iii) and (v) to (viii), of that definition,
- it is reasonable to conclude that the particular entity was the only entity that acquired, in respect of the transfer, an interest as a beneficiary under the trust,
- the particular entity was required, under the securities law of a country or of a political subdivision of the country in respect of the issuance of beneficial interests by the trust, to acquire the interest because of the particular entity's status at the time of the transfer as a manager or promoter (as defined in subsection 94(1)) of the trust,
- at the particular time the trust is not an exempt foreign trust, but would be at that time an exempt foreign trust if it had not made an election under paragraph (*g*) of the definition "eligible trust", and
- the particular time is before the earliest of
  - the first time at which the trust becomes an exempt foreign trust,
  - the first time at which the particular entity ceases to be a manager or promoter of the trust, and
  - the time that is 24 months after the first time at which the total fair market value of consideration received by the trust in exchange for beneficial interests (other than the particular entity's interest referred to in subparagraph 94(2)(*s*)(iii)) in the trust is greater than $500,000.

Paragraph 94(2)(*t*) generally expunges a contribution of shares or indebtedness of a Canadian corporation from the corporation to a trust if the corporation issued (in circumstances described in subparagraph 94(2)(*g*)(i) or (v)) the shares or the debt to the trust (or to another entity in circumstances that resulted in the Canadian corporation being deemed by paragraph 94(2)(*c*) to have transferred particular property to the trust) and the trust or the other entity later sells the shares or indebtedness in circumstances in which the parties to the sale deal with each other on an arm's length basis.

However, the application of 94(2)(*t*) will not effect the application of 94(2)(*c*) or (*g*) in respect of the original transfer by the corporation to the trust or the other entity: such transfers will continue to be treated as transfers under section 94. In addition, the application of 94(2)(*t*) will not expunge the status as a contribution to the trust of a transfer made by an entity and involving the corporation (e.g., an entity that transferred property to the corporation, and hence the trust, because of the application of paragraph 94(2)(*c*) and (*m*)).

More specifically, under paragraph 94(2)(*t*) a transfer, by a Canadian corporation of particular property (i.e., a share or debt), that is at a particular time a contribution by the Canadian corporation to a trust, is deemed not to be, after the particular time, a contribution by the Canadian corporation to the trust if

- either the trust acquired the particular property before the particular time from the Canadian corporation in circumstances described in subparagraph 94(2)(*g*)(i) or (v), or another entity acquired property before the particular time from the Canadian corporation in circumstances described in subparagraph 94(2)(*g*)(i) or (v) and because of that acquisition the Canadian corporation was deemed by paragraph 94(2)(*c*) to have transferred the particular property to the trust;
- as a result of a transfer (i.e., a sale of, or a redemption by the Canadian corporation of, the issued shares or debt) at the particular time by any entity (referred to in the paragraph as the "seller") to another entity (referred to in the paragraph as the "buyer") the trust ceases to hold all of its property that is shares of the capital stock of, or debt issued by, the Canadian corporation or the trust ceases to hold property that is property the fair market value of which is derived in whole or in part, directly or indirectly, from shares of the capital stock of, or debt issued by, the Canadian corporation;
- the purchaser deals at arm's length immediately before the particular time with the Canadian corporation, the trust and the seller;
- in exchange for the sale, the purchaser transfers or becomes obligated to transfer property (which property is referred to in the paragraph as the "consideration"), to the seller; and
- it is reasonable to conclude
  - having regard only to the sale and the consideration that the seller would have been willing to make the sale if the seller dealt at arm's length with the buyer,
  - that the terms and conditions made or imposed in respect of the exchange are terms and conditions that would have been acceptable to the seller if the seller dealt at arm's length with the buyer, and
  - that the value of the consideration is not, at or after the particular time, determined in whole or in part, directly or indirectly, by reference to shares of the capital stock of, or debt issued by, the Canadian corporation.

Paragraph 94(2)(*u*) applies to a transfer, before October 11, 2002, to a personal trust by an individual (other than a trust) of particular property. Where the conditions in subparagraphs 94(2)(*u*)(i) and (ii) are met, the transfer of the particular property is deemed not to be a contribution of the particular property by the individual to the trust. Paragraph 94(2)(*u*) is intended to provide relief to individuals that have transferred a relatively small amount of property to a trust (e.g., the initial settlement of a coin on the trust) where the individual can reasonably be considered not to have been involved with the use of the trust as part of what is commonly referred to as an estate freeze (i.e., see the condition in clause 94(2)(*u*)(ii)(A) that the trust never have acquired from the individual restricted property).

The conditions in subparagraphs 94(2)(*u*)(i) and (ii) are that

- the individual identifies the trust in prescribed form filed with the Minister on or before the individual's filing-due date for the individual's 2003 taxation year (or a later date that is acceptable to the Minister), and
- the Minister is satisfied that

- the individual (and any entity not dealing at any time at arm's length with the individual) has never loaned or transferred, directly or indirectly, restricted property to the trust,
- in respect of each contribution (determined without reference to paragraph 94(2)(*u*)) made before October 11, 2002 by the individual to the trust, none of the reasons (determined by reference to all the circumstances including the terms of the trust, an intention, the laws of a country or the existence of an agreement, a memorandum, a letter of wishes or any other arrangement) for the contribution was to permit or facilitate, directly or indirectly, the conferral at any time of a benefit (for greater certainty, including an interest as a beneficiary under the trust) on
  - (I) the individual,
  - (II) a descendant of the individual, or
  - (III) any entity with whom the individual or descendant does not, at any time, deal at arm's length, and
- the total of all amounts each of which is the amount of a contribution (determined without reference to paragraph 94(2)(*u*)) made before October 11, 2002 by the individual to the trust does not exceed the greater of
  - (I) 1% of the total of all amounts each of which is the amount of a contribution (determined without reference to paragraph 94(2)(*u*)) made to the trust before October 11, 2002, and
  - (II) $500.

The examples below illustrate the operation of subsection 94(2) and the definition "contribution" in subsection 94(1).

Example 1

Donald is a long-term resident of Canada. In 2007, Donald pays higher than fair market value consideration for a property acquired from a corporation. A non-resident trust holds shares in the corporation. The fair market value of those shares increases because of the transaction.

Results

1. Under paragraph 94(2)(*a*), Donald is considered to have transferred property to the trust in these circumstances. The exception for arm's length transfers does not apply.

2. As a consequence, Donald is considered to have made a contribution to the trust, which results in Donald being a contributor and a resident contributor to the trust.

Example 2

1. Lucie, a long-term resident of Canada, transfers property to Canco on condition that Canco direct Canco's wholly-owned foreign subsidiary (Foreignco-1) to transfer properties to another corporation (Foreignco-2) for consideration that is less than fair market value.

2. Shares of the capital stock of Foreignco-2 are held by a non-resident trust.

3. The fair market value of the Foreignco-2 shares increases as a result of the increase in the fair market value of the property owned by Foreignco-2.

Results

1. The transfers to Canco and to Foreignco-2 are part of the same series of transactions.

2. Because of paragraph 94(2)(*a*), the transfer to Foreignco-2 is considered to be a transfer by Foreignco-1 to the trust. Because of paragraph 94(2)(*l*), the transfer by Foreignco-1 to the trust is considered to be jointly made by Foreignco-1 and Canco. (This would also be the result under paragraph 94(2)(*k*), if it was intended to avoid or minimize a liability under Part I.) The exception for arm's length transfers does not apply.

3. Canco is considered to have made a contribution to the non-resident trust because of paragraph (*a*) of the definition "contribution" in new subsection 94(1). Lucie is considered to have made a contribution to the trust under paragraph (*b*) of that definition. Both Lucie and Canco are therefore contributors and resident contributors to the trust.

4. Foreignco-1 is also a "contributor" to the trust, but is not a "resident contributor" as long as it does not become resident in Canada.

Subsection 94(3) — Liabilities of Non-resident Trusts and Others

New subsection 94(3) of the Act applies to a non-resident trust (other than an "exempt foreign trust", as defined in subsection 94(1)) for a taxation year where, at a "specified time" in respect of the trust for the taxation year (generally, the end of the taxation year), there is a "resident contributor" to the trust or a "resident beneficiary" under the trust. All of these defined expressions are explained in detail in the commentary on new subsection 94(1).

Where subsection 94(3) applies to a non-resident trust for a taxation year, the trust is deemed to be resident in Canada throughout the year for the purposes specified in paragraph 94(3)(*a*). Except to the extent otherwise provided by subsection 94(4), a trust is deemed to be resident in Canada for a taxation year under subsection 94(3):

- for the purposes of applying section 2, in computing the trust's income for the year and computing the trust's liability for tax under Part I — with the result that the trust is subject to tax under that Part on its world-wide income for the year (including, for example, its income determined as a result of deemed dispositions under subsections 104(4) to (5.2) or 128.1(4) and, for example, in determining whether a foreign affiliate of the trust is its controlled foreign affiliate and whether it has FAPI);
- for the purpose of subsection 111(9), with the result that in determining the trust's losses for the taxation year, subsection 111(9) will not apply in computing its taxable income for the year;
- for the purpose of applying clause 53(2)(*h*)(i.1)(*B*) — with the result that the adjusted cost base to a beneficiary of the beneficiary's interest in a trust to which this clause applies is computed in the same way as for interests in trusts resident in Canada;
- for the purpose of applying the definition "non-resident entity" in subsection 94.1(1) — with the result that a beneficiary's interest in the trust is not treated as an interest of a beneficiary in a foreign investment entity for the purposes of new sections 94.1 to 94.4;
- for the purposes of applying subsections 104(13.1) to (29), and 107(2.1) and (2.002) and section 115 — with the result that the tax treatment of beneficiaries under the trust generally accords with the tax treatment available to beneficiaries under trusts that are resident in Canada;
- for the purposes of determining the obligation of the trust to file a return under sections 233.3 and 233.4 — with the result that the trust is required to file information returns under sections 233.3 (information return on foreign property holdings the total cost of which exceeds $100,000) and 233.4 (information return on foreign affiliates);
- for the purpose of determining the liability of the trust for tax under Part XIII — with the result that the trust is exempt from Part XIII tax on amounts paid or credited to it (for more detail, see the commentary to subsection 94(4));
- for the purpose of applying Part XIII in respect of an amount (other than an exempt amount) paid or credited by the trust to any person;
- for the purpose of determining after July 18, 2005 whether a foreign affiliate of a taxpayer (other than the trust) is a controlled foreign affiliate of the taxpayer; and
- for the purpose of determining the rights and obligations of the trust under sections 150 to 180 — with the result that various administrative provisions in the Act apply in the same way as to other trusts resident in Canada. (These provisions include those with regard to the filing of returns, assessments, tax payments, arrears interest, refund interest, instalment interest, penalties, refunds and appeals.)

A trust to which subsection 94(3) applies is deemed to be resident in Canada throughout the year for the above purposes, including the computation of its income and its taxable income and section 2 of the Act. Section 2 of the Act imposes on every person resident in Canada at any time in a taxation year an obligation to pay an income tax on that person's taxable income for the year.

Under paragraph 1 of the resident article in Canada's income tax treaties, a reference in such a treaty to a "resident of a Contracting State" means any person who, under the law of that State, is liable to taxation in that State by reason of the person's domicile, residence, place of management or any other criterion of a similar nature. A person, in this context, would generally include a trust because of the definition "person" in Canada's income tax treaties. Because a trust to which subsection 94(3) applies is deemed to be resident of Canada and is liable to tax in Canada on its taxable income, it will be considered a resident of Canada under paragraph 1 of the resident article in Canada's

income tax treaties, whether it is also considered to be resident, under the applicable treaty, in another country or not.

A trust that is also resident of the other contracting state under a particular treaty would be a dual resident under the treaty. In the event of dual residency under an income tax treaty, the tie-breaker rules in the resident article applicable to individuals would not apply. The Canada Revenue Agency has expressed the view that in this context, the term "individual" is to be interpreted to mean natural person and not a trust. The Agency has indicated that this interpretation would generally prevail across most if not all of Canada's income tax treaties if the definition "person" in the particular treaty under consideration makes reference to both an "individual" and a "trust". Even if a trust were considered an individual for the purpose of an income tax treaty, it is clear from the context of the tie-breaker rule applicable to individuals that it is intended to apply only to natural persons. This is because expressions such as "personal home", "centre of vital interest" and "habitual abode" used in the tie-breaker rules have meaning only in reference to natural persons and would not be of use in clarifying the residence of a trust for the purpose of a treaty.

In this regard, paragraph 94(3)(*b*) applies for the purposes of applying subsections 20(11) and (12) and section 126 in respect of the trust. Paragraph 94(3)(*b*) allows a trust to elect for the special rules in that paragraph to apply in determining the trust's eligibility for a foreign tax credit. If the trust elects for a taxation year,

- the trust's income for the taxation year (other than the portion of the income that is from sources inside Canada or that is from a source, outside Canada, that is a business carried on by the trust outside Canada) is deemed, for the purposes of subsections 20(11) and (12) and section 126,
  - to be income of the trust from sources (other than a business carried on by the trust) in a particular country (other than Canada) in which the trust is resident (determined without reference to this subsection), and
  - not to be from any other source; and
- in determining the income or profits tax paid by the trust for the taxation year to the government of the particular country the trust can pool the total of all amounts each of which is the amount of an income or profits tax that was paid by the trust for the particular taxation year to the government of a country (other than Canada) and that can reasonably be regarded as a tax paid on the trust's income for the taxation year (other than the portion of the income that is from sources inside Canada or that is from a source, outside Canada, that is a business carried on by the trust outside Canada).

Paragraph 94(3)(*b*) also provides that in determining the non-business income tax (as defined by subsection 126(7)) paid by the trust for a taxation year to the government of a country other than Canada no amount shall be included to the extent that it can reasonably be regarded as attributable to income from a source in Canada.

Paragraph 94(3)(*c*) provides that a non-resident trust that becomes subject to subsection 94(3) for a particular taxation year, after not being subject to either new subsection 94(3) or existing paragraph 94(1)(*c*) for the preceding year is deemed, immediately before the end of the preceding taxation year, to have disposed of each property (other than property described in any of subparagraphs 128.1(1)(*b*)(i) to (iv)) held by the trust at that time for proceeds of disposition equal to its fair market value at that time. The trust is also deemed to have, at the beginning of the particular taxation year, acquired each of those properties so disposed of at a cost equal to its proceeds of disposition.

Note, in this regard, that, because of paragraph 94(4)(*d*), subsection 128.1(1) will not apply in the preceding taxation year only because of the application of paragraph 94(3)(*a*).

Paragraph 94(3)(*c*) is intended to ensure — in a manner similar to that for taxpayers that migrate to Canada — that certain gains or losses that accrued on certain property of the trust while the trust was non-resident are not subject to taxation in Canada.

Paragraph 94(3)(*c*) also complements the rule in subsection 94(6), which applies where a non-resident trust ceases to be an "exempt foreign trust" (as defined in subsection 94(1)). In this case, subsection 94(6) establishes the beginning of a new "stub" taxation year. If subsection 94(3) applies for that "stub" year, paragraph 94(3)(*c*) would be applicable with regard to the properties held by the trust at the beginning of that "stub" year.

Example 1

A trust is created in 2007. The trust is not at any time an exempt foreign trust. At the end of its 2007 taxation year, the trust is non-resident and there are no resident contributors to the trust and no resident beneficiaries under the trust. On February 1, 2008, John makes a contribution to the trust. At the end of the trust's 2008 taxation year, John is a resident contributor to the trust, and the trust is non-resident. On July 1, 2009 the sole trustee of the trust moves to Canada, becomes resident in Canada at that time and remains resident in Canada throughout the remainder of the year. Immediately before the trustee became resident in Canada, the trustee was non-resident and John remained a resident contributor to the trust.

Results

Trust's 2007 Taxation Year

1. Subsection 94(3) does not apply to deem the trust to be resident in Canada in computing its income for its 2007 taxation year.

Trust's 2008 Taxation Year

2. Paragraph 94(3)(*a*) applies to deem the trust to be resident in Canada, throughout its 2008 taxation year, for a number of purposes, including the computation of its income. Because the trust was non-resident throughout its 2007 taxation year, paragraph 94(3)(*c*) also applies to deem the trust to have disposed of its property (other than certain properties described in subparagraphs 128.1(1)(*b*)(i) to (iv)) for fair market value proceeds immediately before the end of its last 2007 taxation year and to have reacquired those properties at a cost equal to that fair market value at the beginning of the 2008 taxation year. Because of paragraph 94(4)(*d*), the application of the deemed residency rule in paragraph 94(3)(*a*) will not cause the trust to become resident in Canada for purposes of subsection 128.1(1).

Trust's 2009 Taxation Year

3. Because the trustee of the trust becomes resident in Canada on July 1, 2009, paragraph 128.1(1)(*a*) will apply to deem the trust to have a taxation year-end immediately before the change of residency. At the end of this first 2009 taxation year of the trust, paragraph 94(3)(*a*) applies to deem the trust to be resident in Canada, throughout that first 2009 taxation year, for a number of purposes, including the computing of its income. However, paragraph 94(3)(*c*) will not apply because the trust was resident in Canada (i.e. because of the application of paragraph 94(3)(*a*) to the trust's 2008 taxation year) throughout the year preceding the 2009 taxation year.

4. Paragraph 128.1(1)(*a*) also applies to deem the trust to have a new taxation year at the time the trustee becomes resident in Canada on July 1, 2009. Because the trust is resident in Canada at the end of this second 2009 taxation year, paragraph 94(3)(*a*) does not apply to deem the trust to be resident in Canada in computing its income for that year.

5. As the trust is resident in Canada for the first 2009 taxation year (i.e., the 2009 taxation year discussed in #3 above), subsection 128.1(1.1) suspends the application of the deemed disposition and re-acquisition rules in paragraphs 128.1(1)(*b*) and (*c*) that would otherwise apply in respect of the end of that first 2009 taxation year because of the trust becoming resident in Canada on July 1, 2009. This ensures that the trust does not realize at the end of that first 2009 taxation year any accrued gains or losses of the trust solely because the basis of the trust's residency in Canada changes.

6. Note that where subsection 128.1(1.1) applies to a trust, it suspends only the application of paragraph 128.1(1)(*b*) (as a result paragraph 128.1(1)(*c*) also has no application) to the trust. If the trust becomes resident in Canada, it would continue to be subject to paragraph 128.1(1)(*a*). Also note that paragraph 94(4)(*d*) ensures that the application of paragraph 94(3)(*a*) to the trust will not affect the determination of whether the trust becomes resident in Canada for the purposes of subsection 128.1(1).

Paragraph 94(3)(*d*) imposes liabilities for a taxation year on entities who are "resident contributors" or "resident beneficiaries". Where subsection 94(3) applies to a trust for a taxation year, each of these entities is jointly and severally, or solidarily, liable with the trust in respect of the trust's obligations under sections 150 to 180. Typically, the most significant obligation in this context is the obligation to pay tax instalments pursuant to section 156. However, the extent of the liability imposed by paragraph 94(3)(*d*) is limited by new subsection 94(7). For more information, see the commentary on subsections 94(7) to (9).

The expression "solidarily liable" is added to ensure that the Act appropriately reflects both the civil law of the province of Quebec and the law of other provinces.

Paragraph 94(3)(*e*) imposes liabilities for a taxation year on each entity that is a beneficiary under the trust and was a person from whom an amount would be recoverable at the end of 2006 under subsection 94(2) (as it read in its application to taxation years that began before 2007) in respect of the trust if the entity had received before 2007 amounts described under paragraphs 94(2)(*a*) or (*b*) in respect of the trust (as those paragraphs read in their application to taxation years that began before 2007). Where subsection 94(3) applies to the trust for a taxation year, each of these entities is, to the extent of the entity's recovery limit for the year, jointly and severally, or solidarily, liable with the trust in respect of the trust's obligations under sections 150 to 180. Note that where a trust created in 2001, 2002, 2003, 2004, 2005 or 2006 has elected under the coming-into force of new section 94 to have new section 94 apply to it for its taxation years that begin in 2001, 2002, 2003, 2004, 2005 or 2006, as the case may be, paragraph 94(3)(*e*) does not apply to it (i.e., because "old" section 94 would never have applied to it).

Note that subsection 94(3) generally does not result in the creation of any obligations for a trust that is subject to subsection 94(3) to withhold tax under Part XIII or to pay any tax under Part XIII.2 in respect of distributions of income earned by the trust from Canadian sources to non-resident beneficiaries.

Instead, the rules in new subsection 104(7.01) are designed so that there will be a reasonable level of Part I tax in respect of Canadian-source income received by the trust in the event the trust also distributes that income to non-resident beneficiaries in their capacity as beneficiaries. For more information, see the commentary on subsection 104(7.01).

In addition, in the event that the trust pays or credits an amount to a non-resident and that amount is not referred to in paragraph 104(7.01)(*b*) in respect of the trust for the taxation year, the non-resident will continue to be liable for any Part XIII tax on the amount, except to the extent that the amount is described in paragraph (*b*) of the definition "exempt amount" in subsection 94(1), or paid or credited before 2004.

Subsection 94(4) — Excluded Provisions

New subsection 94(4) of the Act provides that the rules in paragraph 94(3)(*a*) treating non-resident trusts as resident in Canada do not apply for the purposes of:

- the definitions "arm's length transfer", "exempt taxpayer" and "exempt foreign trust" in subsection 94(1) — thus ensuring that there is no circularity in applying those definitions due to fact that those definitions impose a requirement that a trust be non-resident;
- subsections 70(6) and 73(1) and paragraph 107.4(1)(*c*) (other than, for transfers to trusts that occurred before February 28, 2004, subparagraph 107.4(1)(*c*)(i)), and paragraph (*f*) of the definition "disposition" in subsection 248(1) — thus ensuring that rules allowing in some cases for a rollover of property on transfers to a Canadian resident trust generally do not apply to transfers to a trust otherwise deemed to be resident in Canada by subsection 94(3));
- determining whether subsection 107(5) applies to a distribution on or after July 18, 2005 of property to the trust;
- in determining whether an amount can be attributed, under subsection 75(2), to the trust. (This rule had earlier been proposed through a modification to subsection 75(2));
- determining whether the exception, under paragraph 94(14)(*b*), to property that is restricted property is available in respect of property held by a non-resident trust;
- paragraph (*a*) of the definition "mutual fund trust" in subsection 132(6) — making it clear that a trust deemed to be resident in Canada by subsection 94(3) will not be treated as a mutual fund trust for any purpose;
- determining, for taxation years that begin after July 18, 2005, whether a partnership is a "Canadian partnership" (as defined in subsection 102(1) of the Act); and
- determining whether, in applying subsection 128.1(1), the trust becomes resident in Canada at a particular time and determining whether, in applying subsection 128.1(4), the trust ceases to be resident in Canada at a particular time — thus ensuring that the deeming of a trust to be resident under paragraph 94(3)(*a*) does not apply to affect a determination of whether a trust has changed residence at any time (e.g., upon a change of trustees or upon a change of residence of trustees).

Note that paragraphs 94(4)(*d*) and (*e*) are generally suspended, for a brief transitional period, in their application to a trust that is subject without interruption to "old" and "new" sections 94. That transitional period starts immediately before the end of the trust's last taxation year that began before 2007 and for which it was deemed resident by "old" section 94 and ends immediately after the beginning of the trust's first taxation year that begins after 2006 (i.e., its first taxation year in respect of which "new" section 94 applies). This is intended to ensure that section 128.1 does not apply to a trust solely because of the transition between the old and new NRT regimes. The suspension of paragraphs 94(4)(*d*) and (*e*) does not apply, however, where in the transitional period a change in the trustees of the trust occurred (e.g., the number of trustees changed, the residency of any of the trustees changed, or any of the trustees was replaced).

Furthermore, except as otherwise permitted under subsection 216(4.1) of the Act, paragraphs 94(3)(*a*) and 94(4)(*c*) do not relieve a payer of Canadian-source income from the obligation to withhold amounts under section 215 in connection with amounts paid to a trust deemed to be resident in Canada by subsection 94(3). This is so even though such a trust is not itself liable for Part XIII tax on amounts paid or credited to it, because of the application of subparagraph 94(3)(*a*)(viii). The trust would be expected to apply for a refund of such tax, which would be given, except to the extent that there are any outstanding liabilities of the trust with regard to Part I tax.

Subsection 94(5) — Deemed Cessation of Residence

New subsection 94(5) of the Act deems a trust to have ceased to be resident in Canada at the earliest time in a specified period at which there is neither a "resident contributor" to the trust nor a "resident beneficiary" under the trust. For this purpose, the specified period is the period that would (if the Act were read without reference to subsection 128.1(4)) be a taxation year of the trust

- that immediately follows a taxation year of the trust throughout which it was resident in Canada,
- at the beginning of which there was either a resident contributor to the trust or a resident beneficiary under the trust, and
- at the end of which the trust is non-resident.

For more information on the expressions "resident contributor" and "resident beneficiary", as defined in new subsection 94(1), see the commentary on those provisions.

Where subsection 94(5) applies, the cessation of residence in Canada of a trust results in the application of subsection 128.1(4). Under that subsection, a taxation year of the trust is deemed to have ended immediately before the earliest time in the specified period described above. At that deemed taxation year-end, the criteria in subsection 94(3) are satisfied. Accordingly, the trust will be subject to tax under Part I on its world-wide income for that year because it is considered under subsection 94(3) to be resident in Canada throughout that year. Under new paragraph 94(3)(*d*), each "resident beneficiary" or "resident contributor" at the time of that deemed taxation year end can be jointly and severally, or solidarily, liable with the trust for the trust's income tax liabilities under the Act for that year. (For more detail on the expression "solidarily", please refer to the introductory commentary above on new section 94.)

Subsection 94(6) — Becoming or Ceasing to be an Exempt Foreign Trust

New subsection 94(6) of the Act generally provides that, if a trust becomes or ceases to be an "exempt foreign trust" (as defined in new subsection 94(1)) at any time, the trust's taxation year is deemed to have ended immediately before that time, a new "stub" taxation year is deemed to have begun at that time and the trust is deemed not to have established a fiscal period before that time. However, subsection 94(6) does not apply where a trust ceases to be an exempt foreign trust because it becomes resident in Canada.

Subsection 94(3) may apply in respect of the later "stub" taxation year of the trust if the criteria set out in that subsection are satisfied at a "specified time" in respect of the trust for the taxation year (generally, the end of the taxation year). Where this is the case, the trust would be subject to tax under Part I on its world-wide income for that later "stub" year because it would be considered under subsection 94(3) to be resident in Canada for that year.

Subsections 94(7) and (8) — Limit to Amount Recoverable

New subsection 94(7) of the Act allows for a limitation of the amount that may be recovered from an entity that would otherwise be jointly, severally, or solidarily, liable for the entire amount of a trust's tax obligations under the Act. Subsection 94(7) applies to an entity (other than an entity that is deemed, by subsection 94(12) or (13), to be a contributor or a resident contributor to the trust) in respect of a particular taxation year of the trust where three conditions are satisfied.

The first condition is satisfied in respect of a particular taxation year of the trust:

- where, under subparagraph 94(7)(*a*)(i), the entity is jointly and severally, or solidarily, liable with the trust only because the entity was a "resident beneficiary" (as defined in new subsection 94(1)) under the trust at a specified time in respect of the trust for the particular year, or
- where, under subparagraph 94(7)(*a*)(ii), at a specified time in respect of the trust for, the total amount (determined with reference to paragraph 94(2)(*b*), (*d*), (*h*), (*p*) and (*q*) and subsection 94(9)) of contributions made to the trust by the entity (or by another entity not dealing at arm's length with the entity) is not more than the greater of $10,000 and 10% of the total amount of all contributions to the trust.

The second condition, under paragraph 94(7)(*b*), requires that the entity have filed on a timely basis all information returns required to be filed by the entity in respect of the trust under section 233.2 (or on any later day that is acceptable to the Minister of National Revenue). However, the second condition need not be satisfied if the first condition is satisfied because the total determined under subparagraph 94(7)(*a*)(ii) (in respect of the entity and all entities not dealing at arm's length with it) is $10,000 or less.

The third condition, under paragraph 94(7)(*c*), is satisfied in respect of an entity and a particular taxation year of the trust where it is reasonable to conclude that each transaction or event that occurred before the end of the particular year at the direction of, or with the acquiescence of, the entity satisfied the following conditions:

- none of the purposes of the transaction or event was to enable the entity to avoid or minimize any liability under a provision referred to in paragraph 94(3)(*d*) in respect of the trust, and
- the transaction or event was not part of a series of transactions or events any of the purposes of which was to enable the entity to avoid or minimize any liability under a provision referred to in paragraph 94(3)(*d*) in respect of the trust.

There are a number of transactions or events, or series of transactions or events, that may result in a failure to satisfy the third condition (e.g., an artificial dilution of an entity's relative contribution to the trust (i.e., below the 10% level); or corporate distributions that have the effect of avoiding or minimizing the impact of the three-year rule described in subsection 94(9)).

Reference should be made in this context to the definition "contribution" in subsection 94(1), as well as to related rules in subsection 94(2).

Where subsection 94(7) applies to an entity in respect of a taxation year of a trust, the amount recoverable at any time from the entity in respect of the year is limited to the person's "recovery limit", determined under subsection 94(8), in respect of the trust and the year.

Under subsection 94(8), the amount of the recovery limit that applies to a particular entity at any particular time is calculated as follows:

- ADD amounts received or receivable after 2000 and before the particular time by the particular entity on the disposition of all or part of the particular entity's interest as a beneficiary under the trust, or by another entity that was, at the time the amount became receivable, a specified party (as defined in subsection 94(1)) in respect of the particular entity on the disposition of all or part of the specified party's interest as a beneficiary under the trust;
- ADD an amount (other than an amount described in the paragraph above) made payable by the trust after 2000 and before the particular time to the particular entity because of the interest of the particular entity as a beneficiary under the trust, or another entity (that was, at the time the amount became payable, a specified party in respect of the particular entity) because of the interest of the specified party as a beneficiary under the trust;
- ADD the fair market value of benefits received or enjoyed, after 2000 and before the particular time, under the trust by the particular entity (or an entity that was, at the time the benefit was received or enjoyed, a specified party in respect of the particular entity), not otherwise taken into account above;
- ADD the maximum amount that would be recoverable from the particular entity at the end of 2006 under subsection 94(2) (as it read in its application to taxation years that began before 2007) if the trust had had tax payable under Part I of the Act at the end of 2006 in excess of the total of the amounts described in respect of the entity under paragraphs 94(2)(*a*) and (*b*) (as they read in their application to taxation years that began before 2005),
  - except to the extent that the amount so recoverable is in respect of an amount that is included in the particular entity's recovery limit because of subparagraph 94(8)(*a*)(i) or (ii), and
  - except where the trust was created in 2001, 2002, 2003, 2004, 2005 or 2006 and new section 94 applies to the trust for its 2001, 2002, 2003, 2004, 2005 and 2006 taxation years, as the case may be, because of an election by the trust in the coming-into-force provision;
- ADD the total amount (determined with reference to paragraphs 94(2)(*b*), (*d*), (*h*), (*p*) and (*q*) and subsection 94(9)) of contributions made to the trust by the particular entity, to the extent that this amount exceeds the total of the first four amounts;
- SUBTRACT previous recoveries by the Canada Revenue Agency ("CRA") under subsection 94(3) (or under subsection 94(1) as it read in its application to taxation years that began before 2007, except where the trust was created in 2001, 2002, 2003, 2004, 2005 or 2006 and new section 94 applies to the trust for its 2001, 2002, 2003, 2004, 2005 and 2006 taxation years, as the case may be, because of an election by the trust in the coming-into-force provision) from the particular entity in respect of the trust and the year or a preceding taxation year of the trust;
- SUBTRACT previous recoveries by the CRA under subsection 94(3) (or under subsection 94(1) as it read in its application to taxation years that began before 2007, except where the trust was created in 2001, 2002, 2003, 2004, 2005 or 2006 and new section 94 applies to the trust for its 2001, 2002, 2003, 2004, 2005 and 2006 taxation years, as the case may be, because of an election by the trust in the coming-into-force provision) from a specified party in respect of the particular entity in respect of the trust and the year or a preceding taxation year of the trust; and
- SUBTRACT the amount, if any, by which the particular entity's tax payable under this Part for any taxation year in which an amount described in any of subparagraphs 94(8)(*a*)(i) to (iii) was paid, became payable, was received, became receivable or was enjoyed by the particular entity exceeds the amount that would have been the particular entity's tax payable under this Part for that taxation year if no such amount were paid, became payable, were received, became receivable or were enjoyed by the particular entity in that taxation year.

For more information on subsections 94(11) to (13), or the expression "specified party" as defined in subsection 94(1), see the commentary on those provisions.

Subsection 94(9) — Determination of Contribution Amount

Subsection 94(9) affects the calculation of the amount of a "contribution" (as defined in new subsection 94(1)) to a trust of "specified property" (as defined in new subsection 94(11)) for the purpose of determining whether the "recovery limit" limitation applies to a contributor to the trust and of determining the amount of that recovery limit.

The amount of a contribution to a trust because of a transfer to the trust of specified property is deemed by subsection 94(9) to be the greater of:

- the amount, otherwise determined, at that time of the contribution; and
- the amount that is the greatest fair market value of the specified property (or of substituted property) in the period that begins immediately after that time and ends at the end of the third calendar year after that time.

For more information on the expression "specified property" as defined in new subsection 94(1), see the commentary on that provision.

Subsection 94(9) allows for a reasonable opportunity for recovery of tax by the CRA in the context of a transaction or series of transactions involving the transfer of specified property. Consider, for example, an estate freeze under which common shares in the capital stock of a corporation are transferred directly or indirectly to a non-resident trust. Because of the difficulties associated with valuing the common shares at the time of the transfer, it is appropriate to provide for a valuation as described above.

In conjunction with new subsection 94(9), subparagraph 152(4)(*b*)(vi) of the Act is amended to ensure that a reassessment of a taxpayer arising out of the application of subsection 94(9) can be undertaken by the CRA within 3 years after the normal reassessment period of the taxpayer in respect of the taxpayer's relevant taxation year.

Subsection 94(10) — Where Contributor Becomes Resident in Canada Within 60 Months after Contributing

New subsection 94(10) of the Act applies to determine whether there is a "connected contributor" (as defined in new subsection 94(1)) to a trust for the purposes of section 94, including in applying the definition "resident beneficiary" (as defined in new subsection 94(1)). Under new paragraph 94(3)(*d*) of the Act, a resident beneficiary can, to an extent, be liable for the trust's income tax under Part I of the Act. For more information, see the commentary on those definitions and subsections 94(3) and (7) to (9).

A "contribution" (as defined in new subsection 94(1)) to a trust by a contributor is considered to have been made at a time other than a "non-resident time" (as defined in subsection 94(1)) if the contributor becomes resident in Canada at any time within the period (referred to in this commentary as the "60-month post period") 60 months after the time of the contribution. However, to facilitate the administration of the definition "non-resident time", paragraph (*b*) of the definition "connected contributor" and subsection 94(3), the definition "non-resident time" is drafted so that such a contributor and the trust may, subject to subsection 94(10), treat the time of the contribution as a non-resident time for the purposes of applying the definition "connected contributor" and subsection 94(3) at a "specified time" (as defined in new subsection 94(1)) in respect of the trust for any particular trust taxation year if at the specified time the contributor still has not become resident in Canada within the 60-month post period.

Subsection 94(10) deems (for the purpose of applying section 94 at each specified time, in respect of a trust for a taxation year of the trust, that is before the particular time at which the contributor becomes resident in Canada within the 60-month post period) the contribution to have been made at a time other than a non-resident time of the contributor if:

- in applying the definition "non-resident time" as of each of those specified times, the particular contribution was made at a non-resident time of the contributor; and
- in applying the definition "non-resident time" at the particular time, the contribution is made at a time other than a non-resident time of the contributor.

Where subsection 94(10) applies, the contributor will be considered a "connected contributor" to the trust and, if, as a result, there was a "resident beneficiary" at a specified time in the relevant prior taxation year of the trust, the trust and the resident beneficiary would, because of subsection 94(3), generally be jointly and severally, or solidarily, liable for Part I tax on the trust's income for the year. (For more details on the expression "solidarily", please refer to the introductory commentary above on new section 94.)

Subparagraph 152(4)(*b*)(vi) of the Act is amended to ensure that a reassessment of a taxpayer arising out of the application of subsection 94(10) can be undertaken by the Canada Revenue Agency within 3 years after the normal reassessment period of the taxpayer in respect of the taxpayer's relevant taxation year.

Subsections 94(11) to (13) — Deemed Contributor or Resident Contributor

Subsections 94(11) to (13) provide a set of related anti-avoidance rules that apply where it is reasonable to conclude that one of the reasons for a loan or transfer of property from a trust (the "original trust"), that is deemed under paragraph 94(3)(*a*) to be resident in Canada (or, except where the trust was created in 2001, 2002, 2003, 2004, 2005 or 2006 and elects under the coming-into-force provision of new section 94 to have that section apply for its 2001, 2002, 2003, 2004, 2005 and 2006 taxation years, was deemed resident because of subsection (1) as it read in its application to taxation years that began before 2007 or would have been so deemed under either of those provisions if they had applied without regard to the period of time in which a contributor to the trust was resident in Canada), to another trust (the "transferee trust") is to avoid or minimize the liability, of any entity under Part I of the Act, that arose, or that would otherwise have arisen, because of the application of subsection (3) (or, except where the trust was created in 2001, 2002, 2003, 2004, 2005 or 2006 and elects under the coming-into-force provision of new section 94 to have that section apply for its 2001, 2002, 2003, 2004, 2005 and 2006 taxation years, as the case may be, because of subsection (1) as it read in its application to taxation years that began before 2007).

Where such a loan or transfer is made at a particular time, the original trust is deemed, under subsection 94(12), to be a resident contributor to the transferee trust for the purpose of applying this section in respect of the transferee trust.

Where such a loan or transfer is made at a particular time, an entity that is at that time a contributor to the original trust is deemed, under subsection 94(13), to be a contributor to the transferee trust and a connected contributor to the transferee trust (if at that time the entity is also a connected contributor to the original trust). For more information on the definitions "contributor" and "connected contributor" in subsection 94(1), see the commentary on those definitions.

Subsection 94(7) of the Act, generally provides that the liability of a "resident contributor" is limited by that contributor's recovery limit, as determined by reference to subsections 94(7) to (9). However, subsection 94(7) does not apply to an entity that is deemed, by subsection 94(12) or (13), to be a contributor or a resident contributor to the trust. For more information on the definition "resident contributor" or subsections 94(3) and (7) to (9), see the commentary on those provisions.

Subsection 94(14) — Restricted Property

Subsection 94(14) of the Act operates to suspend, in limited circumstances, a particular property's status as restricted property.

Paragraph 94(14)(*a*) is, in general terms, intended to apply only to preferred shares of the capital stock of a corporation that are issued by the corporation only for money. More specifically, paragraph 94(14)(*a*) provides that a particular property, that is or will be at any time held, loaned or transferred, as the case may be, by an entity, is not restricted property held, loaned or transferred, as the case may be, at that time by the entity if

- the particular property is a share of a specified class (as defined in subsection 256(1.1)) of shares of the capital stock of a corporation,
- the particular property was issued by the corporation in exchange for, or as consideration for, money and no other property, and
- no other property (other than identical shares issued by that corporation) was acquired by any entity as part of that issuance.

Paragraph 94(14)(*b*) provides that a particular property (identified in prescribed form filed with the Minister of National Revenue) that is at any time held, loaned or transferred by the entity will not be treated as restricted property held, loaned or transferred at that time by the entity if

- the particular property (or property for which the particular property is, or is to be, substituted property) was not, and will not be, at any time acquired, held, loaned or transferred by the entity (or any entity with whom the entity does not at any time deal at arm's length) in whole or in Part for the purpose of permitting any change in the value of the property of a corporation (that is, at any time, a closely-held corporation) to accrue directly or indirectly in any manner whatever to the value of property held by a non-resident trust; and
- the Minister is satisfied that this is the case with respect to the property (and property, if any, for which it is to be substituted).

The prescribed form in which the particular property is identified must be filed by the entity's filing-due date (or another date acceptable to the Minister) for the entity's taxation year that includes that time. The other date will generally be a date later than the entity's relevant filing due-date, but in circumstances in which the entity has no filing-due date, the other date is intended to provide the Minister with the ability to choose a filing deadline for the prescribed form.

Paragraph 94(14)(*c*) provides that property is not restricted property of an entity where it is, at that time, an excluded property.

For more details on the definitions "restricted property", "closely-held corporation" and "excluded property", see the commentary on those provisions.

Subsection 94(15) — Arm's Length Dealing and Related Persons

Subsection 94(15) of the Act ensures that the rules in section 251 are applicable in determining whether entities deal at arm's length with each other or are related to each other. The subsection provides in effect, that for the purposes of section 94, when determining whether a particular entity and another entity are related to each other or deal, at any time, with each other at arm's length, each reference in section 251 to the word "person" is to be read as a reference to the expression "entity" (as defined in subsection 94(1)).

Subsection 94(16) — Anti-Avoidance — 150 Entities or Persons

Subsection 94(16) is an anti-avoidance provision that is relevant to the application of the definition "closely-held corporation" in subsection 94(1), paragraph (*h*) of the definition "exempt foreign trust" in subsection 94(1), and the definition "excluded property" in subsection 94(1). These definitions, respectively, provide for different results based, in part, on the condition that there be at a particular time at least 150 shareholders of the capital stock of a corporation, at least 150 beneficiaries under a trust, or at least 150 persons that hold property (identical to a particular property) issued by a trust, corporation or limited partnership.

Subsection 94(16) provides that, if it can reasonably be considered that one of the main reasons that an entity is at any time a shareholder of a corporation, holds a capital interest in a trust, or holds a property is to cause the applicable above condition to be met in respect of the corporation, the trust or — in the case of the condition in the definition "excluded property" — the particular property (or an identical property), the condition is deemed not to have been met with respect to the corporation, the trust or the particular or identical property.

Where subsection 94(16) applies in respect of a particular time and in respect of the corporation or trust, in the case of the corporation, it would be treated at that time as a closely-held corporation and in the case of the trust, it would not be treated at that time as an exempt foreign trust. In the case of the definition "excluded property", the particular property and the identical property would not be excluded property.

For more detail on the definitions "closely-held corporation", "excluded property" and "exempt foreign trust", see the commentary on those definitions.

Department of Finance Comfort Letter [Former Bill C-10 — Letter to PIAC Re Clarification of Exemption for Certain Pension Entities]

April 29, 2008

Dear XXXX

This is further to your letter of April 21, in response to my letter of April 2, 2008, concerning Bill C-10 and, in particular, the application of the proposed income tax rules for non-resident trusts (NRTs) to investments made by pension entities in NRTs. I also acknowledge discussions between officials of this Department and representatives of your Association and the Investment Counsel Association of Canada.

In my previous letter, I confirmed that we were prepared to recommend amendments to the *Income Tax Act* following the passage of Bill C-10 that would exempt certain pension entities, including registered pension plans (RPPs), from resident contributor and resident beneficiary status under the NRT rules. You have expressed concern that the constraint on retirement compensation arrangement (RCA) related activities mentioned in my letter would apply to RPPs.

As noted in our discussions, it is intended that the exemption apply to the following "qualifying pension entities":

- an RPP, other than a "designated plan" (as defined in subsection 8500(1) of the Income Tax Regulations) or a plan that has fewer than 10 members;
- a trust (other than an "RCA trust" (as defined in subsection 207.5(1) of the Act)) or corporation (such as, for example, the Canada Pension Plan Investment Board, the Public Sector Pension Investment Board and the Caisse de dépôt et placement du Québec) established by federal or provincial legislation the principal activities of which are to administer, manage or invest the monies of one or more pension funds or plans established pursuant to such legislation; and
- certain Canadian intermediaries — corporations and trusts (including segregated fund trusts) — in which qualifying pension entities are the only beneficiaries and holders of participating debt.

I trust this addresses your concerns and look forward to receiving your confirmation to this effect.

Yours sincerely,

Brian Ernewein
General Director — Legislation
Tax Policy Branch

Department of Finance Comfort Letter [Former Bill C-10 — Letter to PIAC Re Non-Resident Trust Rules]

April 2, 2008

Editorial Note: The same letter, dated April 2, 2008, was sent to the Investment Counsel Association of Canada (ICAC).

Dear XXXX

Thank you for your correspondence, dated January 28, 2008, concerning Bill C-10.

Bill C-10 contains proposed amendments (the "NRT proposals") to the existing deemed residency rules in the *Income Tax Act* that apply in respect of non-resident trusts. The amended regime treats certain otherwise non-resident trusts as residents of Canada where the trust has either a "resident contributor" or a "resident beneficiary". Each resident contributor and resident beneficiary is generally liable together with the trust for any unpaid Canadian tax of the trust. The determination of whether an entity is a resident contributor or a resident beneficiary is made without regard to the tax status of the entity for purposes of the Act.

The statutory trust residence rule is suspended, however, where the trust is a non-resident commercial trust (as set out in the "exempt foreign trust" definition in proposed subsection 94(1) of the Act), in which case the foreign investment entity regime applies instead. The relevant provisions in the exempt foreign trust definition were developed after extensive consultations with taxpayers and representatives from the tax community and were understood to have accommodated investments of Canadians in foreign commercial trusts. Nonetheless, I appreciate from your submissions that PIAC is concerned with how the NRT proposals would apply in the context of investments made by registered pension plans, registered retirement savings plans and similar plans in non-resident commercial investment trusts.

I understand that PIAC is prepared to support the enactment of Bill C-10 but is seeking two amendments to these rules as soon as possible after the passage of Bill C-10. In general terms, the first amendment would involve an exemption from resident contributor and resident beneficiary status for most registered pension plans, the Canada Pension Plan Investment Board (and similar provincial pension funds), and certain Canadian intermediaries (trusts and corporations) in which these qualifying pension plans are the only holders of equity interests or participating debt. The exemption would not, however, apply to a plan that is a designated plan (as defined in subsection 8500(1) of the Income Tax Regulations), a plan that has fewer than 10 members (as defined in subsection 147.1(1) of the Act), or a trust or corporation any of the activities of which is to administer, manage or invest the monies of a retirement compensation arrangement.

The second amendment would modify the provisions of paragraph (*h*) of the exempt foreign trust definition to include a non-resident commercial investment trust, without regard to whether the trust holds restricted property, in which the only Canadian resident investors are Canadian mutual funds (as defined in sections 131 and 132 of the Act, and having at least 150 investors) whose investors are exclusively the pension plan entities that qualify for the exemption described above, regis-

tered retirement savings plans, and registered retirement income funds.

I am prepared to recommend to the Minister that these two amendments be made at the earliest opportunity following the passage of Bill C-10. It would also be my recommendation that these proposed changes apply to the 2007 and subsequent taxation years. While I cannot give any assurance that Parliament will agree with this recommendation, I hope that this statement of our position is helpful to you.

Sincerely,

Brian Ernewein
General Director
Tax Policy Branch

CRA Press Release

CRA Notice Re Non-Resident Trusts and Foreign Investment Entities

Reproduced below is a CRA notice, released on January 3, 2008, regarding the application of changes to the taxation of non-resident trusts and foreign investment entities.

The 1999 federal budget contained proposed changes to the taxation of non-resident trusts (NRTs) and their beneficiaries and to the taxation of Canadian taxpayers who hold interests in foreign investment entities. The proposed changes, which were to apply to tax years that began after 2002, are generally designed to ensure that income earned indirectly by Canadian taxpayers through foreign intermediaries is not taxed at a more favourable rate than would be the case were the income earned without the involvement of those intermediaries.

On November 9, 2006, legislation to implement those changes was tabled in Parliament. The legislation, included in Bill C-10, would generally apply to tax years that begin after 2006, instead of tax years that begin after 2002. However, as discussed in more detail below, provision has been made to allow taxpayers to elect an earlier application of the rules as far back as their first tax year beginning after 2002 (or, for certain non-resident trusts, beginning after 2000). As a result of this change in the proposed implementation date, taxpayers who filed based on the proposed changes for a tax year that began before 2007 will need to either elect an earlier application of the rules or amend their tax returns.

Taxpayers who have filed their returns based on the proposed legislation but who do not intend to make an election should write to the Canada Revenue Agency (CRA) as soon as possible to request an adjustment to their tax returns. Taxpayers should include the reasons for the reassessment and supporting documentation, along with amended information slips where applicable. Taxpayers who do not have the proper documentation to ask for a reassessment within the normal reassessment period and who need additional time to produce such documentation can file a waiver request to permit the CRA to reassess beyond the normal reassessment period. For more information, see Form T2029, *Waiver in Respect of The Normal Reassessment Period.*

NRTs may elect to apply the proposed legislation to any of their tax years that begin after 2002 (and before 2007) and subsequent tax years (or, where the trust was created in 2001 or 2002, the trust may elect to have the legislation apply for the tax year in which the trust was created and subsequent tax years). Taxpayers who hold interests in foreign investment entities may elect to apply the proposed legislation to any of their tax years that begin after 2002 (and before 2007) and subsequent tax years. To make an election, NRTs and taxpayers who hold interests in foreign investment entities will have to send a letter to the CRA on or before their filing due date for the tax year in which the legislation applies.

Adjustment requests and elections for NRTs should be sent to the International Tax Services Office. Adjustment requests and elections by taxpayers who hold interests in foreign investment entities should be sent to the local tax centre.

SECTION 94.1:

► 94.1(1) ◄

(1) Offshore investment fund property. Where in a taxation year a taxpayer, other than a non-resident-owned investment corporation, holds or has an interest in property (in this section referred to as an "offshore investment fund property")

(*a*) that is a share of the capital stock of, an interest in, or a debt of, a non-resident entity (other than a controlled foreign affiliate of the taxpayer or a prescribed non-resident entity) or an interest in or a right or option to acquire such a share, interest or debt, and

(*b*) that may reasonably be considered to derive its value, directly or indirectly, primarily from portfolio investments of that or any other non-resident entity in

(i) shares of the capital stock of one or more corporations,

(ii) indebtedness or annuities,

(iii) interests in one or more corporations, trusts, partnerships, organizations, funds or entities,

(iv) commodities,

(v) real estate,

(vi) Canadian or foreign resource properties,

(vii) currency of a country other than Canada,

(viii) rights or options to acquire or dispose of any of the foregoing, or

(ix) any combination of the foregoing,

and it may reasonably be concluded, having regard to all the circumstances, including

(*c*) the nature, organization and operation of any non-resident entity and the form of, and the terms and conditions governing, the taxpayer's interest in, or connection with, any non-resident entity,

(*d*) the extent to which any income, profits and gains that may reasonably be considered to be earned or accrued, whether directly or indirectly, for the benefit of any non-resident entity are subject to an income or profits tax that is significantly less than the income tax that would be applicable to such income, profits and gains if they were earned directly by the taxpayer, and

(*e*) the extent to which the income, profits and gains of any non-resident entity for any fiscal period are distributed in that or the immediately following fiscal period,

that one of the main reasons for the taxpayer acquiring, holding or having the interest in such property was to derive a benefit from portfolio investments in assets described in any of subparagraphs (*b*)(i) to (ix) in such a manner that the taxes, if any, on the income, profits and gains from such assets for any particular year are significantly less than the tax that would have been applicable under this Part if the income, profits and gains had been earned directly by the taxpayer, there shall be included in

computing the taxpayer's income for the year the amount, if any, by which

(*f*) the total of all amounts each of which is the product obtained when

(i) the designated cost to the taxpayer of the offshore investment fund property at the end of a month in the year

is multiplied by

(ii) the quotient obtained when the prescribed rate of interest for the period including that month is divided by 12

exceeds

(*g*) the taxpayer's income for the year (other than a capital gain) from the offshore investment fund property determined without reference to this subsection.

Editorial Note: See the pending amendment that replaces s. 94.1 following s. 94.1(3).

Regulations: 4301.

Interpretation Bulletins: *Secondary* — IT-451R Deemed disposition and acquisition on ceasing to be or becoming resident in Canada.

Tax Topics: No. 1678, FEE, FIE, FOE, FUM: I Smell the Blood of a NERT; No. 1655, New Rules for Foreign Investment Entities; No. 1604, FIE-ASCO Rules? - Part II; No. 1603, FIE-ASCO Rules? - Part I.

Tax Profile: March 2008 — International Tax Planning for the Owner-Manager; November 2006 — Structuring and Taxation of Canadian Hedge Funds; January 2006 — Foreign Source Income: Outbound Structures and Foreign Tax Credit Planning — Part I; December 2003 — The Foreign Investment Entity Rules: Round Four; March 2003 — Memorandum: Revised Foreign Investment Entities Proposals; September 2000 — Foreign Investment Entities: Analysis of June 22, 2000 Canadian Draft Legislation; October 2000 — New Effective Date for Foreign Investment Entity and Non-Resident Trust Legislation; October 2000 — The New Foreign Investment Entity Rules and Exchangeable Share Transaction; December 2000 — The Foreign Investment Entity Rules: Funds That Invest in Funds.

Canadian Tax Foundation: Baker, "Dealing with FIEs in Practice", *2007 Conference Report*, 20:1; Lockwood, "'Foreign Affiliates And The New Foreign Investment Entity Rules, Revisited' in 'International Tax Planning' feature", *2004 Canadian Tax Journal*, No. 2, 1186; Lockwood and Pantaleo, "Foreign Affiliates and the New Foreign Investment Entity Rules in International Tax Planning Feature", *2003 Canadian Tax Journal*, No. 1, 539.

Cases: The imputed income rules applied when one of the main reasons for interposing a Bermudian corporation between the taxpayer and the investments it held in two Bermudian open-ended investment corporations was to avoid the tax that would have been imposed had the taxpayer held those investments directly. *Walton v. The Queen*, 98 DTC 1780 (T.C.C.).

► 94.1(2) ◄

(2) Definitions. In this section,

Editorial Note: See the pending amendment that replaces s. 94.1 following s. 94.1(3).

"*designated cost*" — "designated cost" to a taxpayer at any time in a taxation year of an offshore investment fund property that the taxpayer holds or has an interest in means the amount determined by the formula

$$A + B + C + D$$

where

A is the cost amount to the taxpayer of the property at that time (determined without reference to paragraphs 53(1)(*m*) and (*q*), subparagraph 53(2)(*c*)(i.3), paragraphs 53(2)(*g*) and (*g.1*) and section 143.2),

B is, where an additional amount has been made available by a person to another person after 1984 and before that time, whether by way of gift, loan, payment for a share, transfer of property at less than its fair market value or otherwise, in circumstances such that it may reasonably be concluded that one of the main reasons for so making the additional amount available to the other person was to increase the value of the property, the total of all amounts each of which is the amount, if any, by which such an additional amount exceeds any increase in the cost amount to the taxpayer of the property by virtue of that additional amount,

C is the total of all amounts each of which is an amount included in respect of the offshore investment fund property by virtue of this section in computing the taxpayer's income for a preceding taxation year, and

D is

(*a*) where the taxpayer has held or has had the interest in the property at all times since the end of 1984, the amount, if any, by which the fair market value of the property at the end of 1984 exceeds the cost amount to the taxpayer of the property at the end of 1984, or

(*b*) in any other case, the total of

(i) the amount, if any, by which the fair market value of the property at the particular time the taxpayer acquired the property exceeds the cost amount to the taxpayer of the property at the particular time, and

(ii) the amount, if any, by which

(A) the total of all amounts each of which is an amount that would have been included in respect of the property because of this section in computing the taxpayer's income for a taxation year that began before June 20, 1996 if the cost to the taxpayer of the property were equal to the fair market value of the property at the particular time

exceeds

(B) the total of all amounts each of which is an amount that was included in respect of the property because of this section in computing the taxpayer's income for a taxation year that began before June 20, 1996,

except that the designated cost of an offshore investment fund property that is a prescribed offshore investment fund property is nil;

History: The description of A in the definition "designated cost" in s. 94.1(2) was amended by S.C. 1998, c. 19, s. 121(1), applicable after September 26, 1994, except that the description of A in the definition "designated cost" in s. 94.1(2) of the Act as it applies to taxation years that ended before April 27, 1995, shall be read as follows:

"A is the cost amount to the taxpayer of the property at that time (determined without reference to paragraph 53(1)(*m*), subparagraph 53(2)(*c*)(i.3) and section 143.2),"

The description of A in the definition "designated cost" in s. 94.1(2) formerly read:

"A is the cost amount to the taxpayer of the property at that time (determined without reference to paragraph 53(1)(*m*)),"

The description of D in the definition "designated cost" in s. 94.1(2) was amended by S.C. 1998, c. 19, s. 121(2), applicable to taxation years that begin after June 20, 1996. The description of D in the definition "designated cost" in s. 94.1(2) formerly read:

"D is, where the taxpayer held or had the interest in the property at the end of 1984, the amount, if any, by which the fair market value of the property at that time exceeds the cost amount to the taxpayer of the property at that time,"

Regulations: 6900.

"*non-resident entity*" — "non-resident entity" means a corporation that is not resident in Canada, a partnership, organization, fund or entity that is not resident or is

not situated in Canada or a trust with respect to which the rules in paragraph 94(1)(*c*) or (*d*) apply.

► 94.1(3) ◄

(3) Interpretation. Where subsection (1) is applied with respect to an offshore investment fund property that was

(*a*) held by the taxpayer on February 15, 1984,

(*b*) received as a stock dividend in respect of a share of the capital stock of a non-resident entity held by the taxpayer on February 15, 1984,

(*c*) received as a stock dividend in respect of a share of the capital stock of a non-resident entity that the taxpayer had previously received as described in paragraph (*b*), or

(*d*) substituted for a property held by the taxpayer on February 15, 1984 pursuant to an arrangement that existed on that date,

the reference to "1984" in the descriptions of B and D in the definition "designated cost" in subsection (2) shall be read as a reference to "1985".

Federal Budget Extract

Non-Resident Trusts and Foreign Investment Entities

[Reproduced below is an excerpt from the January 27, 2009 Federal Budget, which notes that the government plans to review the proposed legislation concerning non-resident trusts and foreign investment entities in light of various submissions received, before going ahead with these measures. The excerpt specifically refers to the recommendations of the Advisory Panel on Canada's System on International Taxation, which can be found at http://www.apcsit-gcrcfi.ca/07/index-eng.html.]

Outstanding proposals for non-resident trusts and foreign investment entities, first introduced in the 1999 Budget, apply in respect of arrangements under which Canadian residents seek to avoid Canadian tax through the use of foreign intermediaries under circumstances designed to circumvent the application of existing anti-avoidance rules. The Government has received submissions, including the Panel's recommendations, on these proposals; the Government supports the fundamental policy objective of ensuring that Canadian taxpayers should not be able to avoid paying their fair share of income tax through the use of foreign intermediaries, but will review the existing proposals in light of these submissions before proceeding with measures in this area.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 94.1 of the Act is replaced by the following:

Foreign Investment Entities — Imputed Income

SECTION 94.1:

(1) Definitions. The definitions in this subsection apply in this section and sections 94.2 to 94.4.

"arm's length interest" — "arm's length interest", at any time in respect of a taxpayer, means a particular participating interest, of the taxpayer, in a non-resident entity, if the following conditions are met:

(*a*) it is reasonable to conclude that

(i) there are at least 150 persons each of which holds at that time participating interests in the non-resident entity that, at that time,

(A) are identical to the particular participating interest, and

(B) have a total fair market value of at least $500, or

(ii) participating interests, in the non-resident entity, that are identical to the participating interest are listed on a prescribed stock exchange, and those identical participating interests were traded on at least 10 consecutive trading days on that stock exchange in the period that begins 30 days before that time;

(*b*) the total of all amounts each of which is the fair market value, at that time, of the particular participating interest (or of a participating interest in the non-resident entity that is identical to the particular participating interest and that is held, at that time, by the taxpayer or an entity or individual with whom the taxpayer does not deal at arm's length) does not exceed 10% of the total of all amounts each of which is the fair market value, at that time, of a participating interest in the non-resident entity that is held, at that time, by any entity or individual and that is identical to the particular participating interest; and

(*c*) it is reasonable to conclude that participating interests in the non-resident entity that are identical to the particular participating interest

(i) can normally be acquired by and sold by members of the public in the open market, or

(ii) can be acquired from and sold to the non-resident entity by members of the public.

"beneficiary" — "beneficiary" has, except for the purpose of paragraph 94.2(11)(*e*), the meaning assigned by subsection 94(1).

"carrying value" — "carrying value", at any time of property of a particular entity in respect of a taxpayer, means

(*a*) the fair market value at that time of the property, if

(i) the particular entity is an entity (referred to in this subparagraph as the "first entity") in which the taxpayer holds at that time a participating interest or is another entity in which the first entity holds at that time a direct or indirect interest,

(ii) the taxpayer elects, by notifying the Minister in writing in the taxpayer's return of income for the taxpayer's taxation year that includes that time to have this paragraph apply to all of the particular entity's property, and

(iii) the property is valued for the purpose of the particular entity's financial statements as of that time; and

(*b*) in any other case, the amount at which the property is valued for the purpose of the particular entity's financial statements as of that time.

"designated cost" — "designated cost", to a taxpayer at any time of a participating interest held, at that time, by the taxpayer in a non-resident entity, is the amount determined by the formula

$$A + B + C + D + E + F - G$$

where

A is the cost amount to the taxpayer of the participating interest at that time (determined without reference to subsection 47(1), paragraphs 53(1)(*m*) and (*q*) and 53(2)(*g*) and (*g.1*) and section 143.2);

B is an amount included in respect of the participating interest because of this section in computing the taxpayer's income for a taxation year that ends after 2006 (or, where this definition applies to the taxpayer in respect of a taxation year of the taxpayer that ends before 2007, for a taxation year of the taxpayer that ends on or after the first day of the first such taxation year in respect of which this definition applies) and before that time;

C is, if the participating interest was an offshore investment fund property (within the meaning assigned by this subsection as it read in its application to taxation

years that began before 2007 or, where this definition applies in respect of a taxation year of the taxpayer that begins before 2007, as it read in its application to taxation years of the taxpayer that began before the first such taxation year) of the taxpayer at the end of the taxpayer's last taxation year that began before 2007 (or, where this definition applies in respect of a taxation year of the taxpayer that began before 2007, at the end of the taxpayer's last taxation year that began before the first such taxation year in respect of which this definition applies), the total of all amounts each of which is the amount determined, in respect of the offshore investment fund property for that last taxation year, for B, C or D in the definition "designated cost" in subsection (2) as it read in its application to that last taxation year;

D is the amount, if any, by which the fair market value of the participating interest exceeds the cost amount to the taxpayer of the participating interest at the beginning of the first taxation year of the taxpayer in respect of which subsection (4) applied to the taxpayer in respect of the participating interest;

E is, if one or more particular amounts has been made available by a person to another person after the last 2006 taxation year of the non-resident entity (or, where this definition applies in respect of a taxation year of the taxpayer that begins before 2007, after the last taxation year of the non-resident entity that begins before the first taxation year of the taxpayer in respect of which this definition applies) and before that time (whether by way of gift, loan, payment for a share, transfer of property at less than its fair market value or otherwise) in circumstances in which it can reasonably be concluded that one of the main reasons for making the particular amount available to the other person was to increase the value of the participating interest, the total of all amounts each of which is the amount, if any, by which each particular amount exceeds any increase in the cost amount to the taxpayer of the participating interest because of that particular amount;

F is, if the participating interest is acquired by the taxpayer after 2006 (or, where this definition applies in respect of a taxation year of the taxpayer that begins before 2007, acquired on or after the first day of the first taxation year of the taxpayer in respect of which this definition applies), the amount, if any, by which the fair market value of the participating interest at the time it was so acquired exceeds the cost amount to the taxpayer of the participating interest at the time it was so acquired; and

G is the amount, if any, by which the cost amount to the taxpayer of the participating interest exceeds the fair market value of the participating interest at the beginning of the first taxation year of the taxpayer in respect of which subsection (4) applied to the taxpayer in respect of the participating interest.

"entity" — "entity" includes an association, a corporation, a fund, a joint venture, an organization, a partnership, a syndicate and a trust, but does not include a natural person.

"exempt business" — "exempt business", of an entity at any time, means a business — other than a business carried on by the entity principally with entities or individuals with whom the entity does not deal at arm's length, a business carried on by a trust that is an exempt foreign trust because of paragraph (*h*) of the definition "exempt foreign trust" in subsection 94(1) and a business carried on by the entity as a member of a partnership, which entity is not a qualifying member of the partnership or would not be such a qualifying member if the entity were a person — that is carried on by the entity at that time and that, throughout the period (in its taxation year that includes that time) during which the business was carried on by the entity, is

(*a*) carried on by the entity as a foreign bank, a trust company, a credit union or an insurance corporation, the activities of which business are regulated under

(i) the laws of

(A) in the case of each country in which the business is carried on through a permanent establishment, as defined by regulation, that country, or a political subdivision of that country, and

(B) the country, or the political subdivision of a country, under whose laws the entity is governed, and any of exists, was (unless the entity was continued in any jurisdiction) formed or organized, or was last continued,

(ii) the laws of the country, or of a political subdivision of the country, in which country the business is principally carried on, or

(iii) the laws (referred to in clause (B) as the "regulating laws") of a country that is a member of the European Union, or a political subdivision of that country, under whose laws another corporation is governed, and any of exists, was (unless the other corporation was continued in any jurisdiction) formed or organized, or was last continued, if

(A) the entity is a corporation that is related to the other corporation, and

(B) the business is principally carried on in a country, that is a member of the European Union, the laws of which, or the laws of a political subdivision of which, recognize the regulating laws; or

(*b*) a business the principal purpose of which is to derive income from

(i) the development and exploitation of Canadian resource property, of foreign resource property, of timber resource property or of any combination of them,

(ii) the leasing or licensing of property that the entity or another entity related to the entity manufactured, produced, developed or purchased and developed,

(iii) the leasing of machinery or equipment that is owned by the entity and that is used by the lessee principally for the purpose of manufacturing or processing goods,

(iv) the sale of real or immovable property developed by the entity, an entity related to the entity or a partnership of which the entity or the related entity is a qualifying member (or would be a qualifying member if the entity were a person),

(v) the rental of real or immovable property held by the entity or a partnership of which the entity is a qualifying member (or would be a qualifying member if the entity were a person), if the management, maintenance and other services in respect of the property are provided primarily by the employees of

(A) the entity,

(B) a corporation related to the entity,

(C) the partnership,

(D) a qualifying member (or an entity that would be a qualifying member if the entity were a person) of the partnership, or

(E) any combination of employers described in clauses (A) to (D), or

(vi) a combination of businesses described in subparagraphs (iv) and (v).

"exempt interest" — "exempt interest", of a taxpayer in a non-resident entity at any time, means a participating interest of the taxpayer, in the non-resident entity, if

(*a*) the non-resident entity is throughout the period, in the non-resident entity's taxation year that includes that time, during which the taxpayer held the participating interest,

(i) a controlled foreign affiliate of the taxpayer,

(ii) a qualifying entity that is a foreign affiliate (other than a controlled foreign affiliate) of the taxpayer in respect of which the taxpayer has a qualifying interest (within the meaning assigned by paragraph 95(2)(*m*)), or

(iii) a partnership;

(*b*) the taxpayer is, throughout its taxation year that includes that time, a financial institution (within the meaning assigned by subsection 142.2(1)) and the participating interest is, at that time,

(i) a mark-to-market property (within the meaning assigned by subsection 142.2(1)), or

(ii) a property described in an inventory of a business of the taxpayer, which inventory is valued, in computing the taxpayer's income for that taxation year from the business, in accordance with section 1801 of the *Income Tax Regulations*;

(*c*) the participating interest is throughout the period, in the non-resident entity's taxation year that includes that time, during which the taxpayer held the participating interest, a right

(i) under an agreement referred to in subsection 7(1), to acquire a share of the capital stock of the non-resident entity,

(ii) granted by the non-resident entity, or another entity with which the non-resident entity does not deal at arm's length, and

(iii) acquired by the taxpayer, at a time when the taxpayer dealt at arm's length with the entity that granted the right, solely because the taxpayer was an employee of an entity referred to in subparagraph (ii);

(*d*) both

(i) the non-resident entity is throughout the period, in the non-resident entity's taxation year that includes that time, during which the taxpayer held the participating interest, an entity (other than a trust that is an exempt foreign trust because of paragraph (*h*) of the definition "exempt foreign trust" in subsection 94(1)) all or substantially all of the carrying value of the property of which is attributable to the carrying value of properties that are shares of the capital stock of a corporation (that is not a foreign investment entity) that employs the taxpayer or that is related to another corporation that employs the taxpayer, and

(ii) an amount that is all or substantially all of the non-resident entity's payable net accounting income for its taxation year that includes that time becomes payable by it to its interest holders in that taxation year, or within 120 days after the end of that taxation year, and the taxpayer's share of that amount is included in computing the taxpayer's income for the taxpayer's taxation year that includes the time at which it became payable;

(*e*) it is reasonable to conclude that the taxpayer has, at that time, no tax avoidance motive in respect of the participating interest, and

(i) throughout the period, in the non-resident entity's taxation year that includes that time, during which the taxpayer held the participating interest,

(A) the participating interest is an arm's length interest of the taxpayer,

(B) the non-resident entity is resident in a country in which there is a prescribed stock exchange, and

(C) participating interests, in the non-resident entity, that are identical to the participating interest are listed on a prescribed stock exchange, or

(ii) both

(A) throughout that period the non-resident entity

(I) is governed by the laws of

1. a country (other than a prescribed country) with which Canada has entered into a tax treaty, or

2. a political subdivision of a country described by sub-subclause 1,

(II) exists, was (unless the entity was continued in any jurisdiction) formed or organized, or was last continued, under those laws, and

(III) while it is governed by the laws of a country, or of a political subdivision of a country, is under the tax treaty with that country resident in that country, and

(B) either

(I) throughout that period the participating interest is an arm's length interest of the taxpayer, or

(II) throughout that period the non-resident entity is, under the tax treaty with the United States of America, resident in the United States of America, and throughout the period, in the taxpayer's taxation year that includes that time, during which the taxpayer is resident in Canada, the taxpayer is a citizen of the United States of America and is liable for and subject to income tax in the United States of America for that taxation year because of that citizenship;

(*f*) throughout the period, in the non-resident entity's taxation year that includes that time, during which the taxpayer held the participating interest,

(i) the participating interest is a share of the capital stock of a corporation resident in Canada,

(ii) the participating interest would not be a participating interest, in the non-resident entity, if the definition "participating interest" were read without reference to paragraph (*d*) of that definition, and

(iii) the participating interest is convertible into, exchangeable for, or a right to acquire only property that, if the conversion, exchange or right were exercised by the taxpayer at that time, would be a share, of the capital stock of a non-resident corporation, that is at that time an exempt interest (determined without reference to this paragraph) of the taxpayer; or

(*g*) both

(i) the non-resident entity is throughout the period, in the non-resident entity's taxation year that includes that time, during which the taxpayer held the participating interest, a testamentary trust that is an estate that arose on and as a consequence of the death of an individual, and

(ii) that time is no more than 12 months after the death (or, where written application has been made to the Minister by the taxpayer within 12 months after that death, within any longer period that the Minister considers reasonable in the circumstances).

"*exempt property*" — "exempt property", of a particular entity at any time, means, in determining whether a particular taxpayer's interest in the particular entity is a participating interest in a foreign investment entity,

(*a*) a property, of the particular entity, that is at that time used or held principally in a business (other than a business that is at that time an investment business carried on by the particular entity or by another entity related, otherwise than by reason of a right referred to in paragraph 251(5)(*b*), to the particular entity) carried on by the particular entity or another entity related (otherwise than by reason of a right referred to in paragraph 251(5)(*b*)) to the particular entity;

(*b*) indebtedness owing by another entity (referred to in this paragraph as the "indebted entity"), if

(i) each of the particular entity and the indebted entity is, at that time,

(A) a foreign affiliate

(I) of the particular taxpayer, and

(II) in respect of which the particular taxpayer has a qualifying interest (within the meaning assigned by paragraph 95(2)(*m*)), or

(B) a foreign affiliate

(I) of another entity that is resident in Canada and of which the particular taxpayer is a controlled foreign affiliate, and

(II) in respect of which the other entity referred to in subclause (I) has a qualifying interest (within the meaning assigned by paragraph 95(2)(*m*)), and

(ii) the indebtedness would be excluded property (within the meaning of the definition "excluded property" in subsection 95(1)) of the particular entity, if

(A) the taxpayer referred to in that definition were the particular taxpayer and the foreign affiliate of the

taxpayer referred to in that definition were the particular entity, or

(B) the taxpayer referred to in that definition were the other entity described in subclause (i)(B)(I) and the foreign affiliate of the taxpayer referred to in that definition were the particular entity; and

(*c*) a particular property, if

(i) the particular property (or other property for which the particular property is substituted) was acquired by the particular entity at any time within the 36-month period that ends at the particular time (or within any longer period that ends at the particular time that the Minister considers reasonable if the particular entity applies, in writing, to the Minister within 36 months after the property was acquired by the particular entity) because the particular entity

(A) issued a debt or a participating interest in the particular entity,

(B) disposed of property used principally in a business, other than an investment business, carried on by the particular entity or an entity related (otherwise than by reason of a right referred to in paragraph 251(5)(*b*)) to the particular entity,

(C) disposed of a participating interest in another entity all or substantially all of the fair market value of the property of which is attributable to property used principally in a business, other than an investment business, carried on by the other entity or an entity related (otherwise than by reason of a right referred to in paragraph 251(5)(*b*)) to the other entity, or

(D) accumulated income of the particular entity derived from a business, other than an investment business, carried on by the particular entity or an entity related (otherwise than by reason of a right referred to in paragraph 251(5)(*b*)) to the particular entity, and

(ii) the issuance, disposition or accumulation referred to in subparagraph (i) was made or amassed for the purpose of

(A) acquiring property to be used principally in, or making expenditures for the purpose of earning income from, a business, other than an investment business, carried on by the particular entity or an entity related (otherwise than by reason of a right referred to in paragraph 251(5)(*b*)) to the particular entity, or

(B) acquiring a participating interest that is a significant interest in another entity all or substantially all of the fair market value of the property of which is attributable to property used principally in a business, other than an investment business, carried on by the other entity.

"exempt taxpayer" — "exempt taxpayer", for a taxation year of the taxpayer, means

(*a*) a person whose taxable income for a period that ends at the end of the taxation year is exempt from tax under this Part because of subsection 149(1) (otherwise than because of paragraph 149(1)(*q.1*), (*t*) or (*z*));

(*b*) an eligible trust (in this paragraph, as defined in subsection 94(1)) that is resident in Canada at the end of the taxation year and under which

(i) the only beneficiaries that may for any reason receive, at any time and directly from the trust, any of the income or capital of the trust are persons that are qualifying investors (as defined in subsection 94(1)) in respect of the trust, and

(ii) each such beneficiary at each time in the taxation year is a person whose taxable income, for the period that includes all of those times in the taxation year, is exempt from tax under this Part because of subsection 149(1) (otherwise than because of paragraph 149(1)(*q.1*), (*t*) or (*z*)); and

(*c*) an individual (other than a trust) who, before the end of the taxation year, was resident in Canada for a period of, or periods the total of which is, not more than 60 months, but not including an individual who, before the end of the taxation year, was never non-resident.

"financial statements" — "financial statements", of a particular entity for a particular taxation year of the entity and in respect of a taxpayer, means

(*a*) the balance sheet and the statement of income of the particular entity, if

(i) the particular entity is an entity (referred to in this subparagraph as the "first entity") in which the taxpayer holds, in the particular taxation year, a participating interest or is another entity in which the first entity has, in the particular taxation year, a direct or indirect interest,

(ii) the taxpayer elects (in the taxpayer's return of income for the taxpayer's taxation year in which the particular taxation year ends) to have this paragraph apply in respect of the particular entity and the participating interest, and

(iii) that balance sheet and statement of income would, but for any principles that require consolidation, be prepared in accordance with generally accepted accounting principles developed and established, or adopted, by the Accounting Standards Board of Canada for use in Canada for the particular year or in accordance with generally accepted accounting principles substantially similar to those principles; and

(*b*) in any other case, the balance sheet and statement of income of the particular entity, if that balance sheet and statement of income are prepared for the particular taxation year in accordance with generally accepted accounting principles developed and established, or adopted, by the Accounting Standards Board of Canada for use in Canada for the particular year or in accordance with generally accepted accounting principles substantially similar to those principles.

"foreign bank" — "foreign bank" has the meaning assigned by subsection 95(1).

"foreign investment entity" — "foreign investment entity", at any time, means an entity that is, at that time, a non-resident entity unless,

(*a*) at the end of its taxation year that includes that time, it is an exempt foreign trust (as defined in subsection 94(1)) because of any of paragraphs (*a*) to (*g*) of that definition;

(*b*) at the end of that taxation year, the carrying value of all of its investment property is not greater than one-half of the carrying value of all of its property; or

(*c*) throughout that taxation year, its principal undertaking was the carrying on of a business that is not an investment business.

"investment business" — "investment business", of an entity at any time, means a business (other than a business that is at that time an exempt business) carried on by the entity (including, for greater certainty, a business carried on by the entity as a member of a partnership) at that time, the principal purpose of which is to derive income or profits described in any of the following paragraphs:

(*a*) income (including interest, dividends, rents, royalties or any similar return on investment or any substitute for such a return) from property;

(*b*) income from the insurance or reinsurance of risks;

(*c*) income from the factoring of trade accounts receivable; or

(*d*) profits from the disposition of investment property.

"investment property" — "investment property", of a particular entity at any time, includes property of the particular entity that is at that time

(*a*) a share of the capital stock of a corporation,

(*b*) an interest as a member of a partnership,

(*c*) an interest as a beneficiary under a trust,

(*d*) an interest in any other entity,

(*e*) indebtedness,

(*f*) an annuity,

(*g*) a commodity (or commodity future) purchased or sold, directly or indirectly in any manner whatever, on a commodities or commodities futures exchange,

(*h*) real or immovable property,

(*i*) a Canadian resource property or a foreign resource property,

(*j*) currency,

(*k*) intellectual property within the meaning of article 2 of the Convention Establishing the World Intellectual Property Organization done at Stockholm on July 14, 1967, as amended from time to time,

(*l*) a derivative financial product, or

(*m*) an interest, an option or a right in respect of property that is investment property because of any of paragraphs (*a*) to (*l*),

but does not include

(*n*) except for the purpose of applying the definition investment business in this subsection or the definition "tracking entity" in subsection 94.2(1), property that is at that time exempt property of the particular entity,

(*o*) except for the purpose of applying the definition "qualifying entity", property that is at that time

(i) a share of the capital stock of the particular entity,

(ii) a share of the capital stock of a corporation that is, throughout the period, in the particular entity's taxation year that includes that time, during which the particular entity holds the share, a qualifying entity if the particular entity has at that time a significant interest in that qualifying entity or that qualifying entity has at that time a significant interest in the particular entity,

(iii) an interest in a partnership that is, throughout the period, in the particular entity's taxation year that includes that time, during which the particular entity is a member of the partnership, a qualifying entity if the particular entity has at that time a significant interest in that qualifying entity or that qualifying entity has at that time a significant interest in the particular entity, or

(iv) indebtedness owing by an entity that is, throughout the period, in the particular entity's taxation year that includes that time, during which the particular entity holds the indebtedness, a qualifying entity if the particular entity has at that time a significant interest in that qualifying entity or that qualifying entity has at that time a significant interest in the particular entity,

(*p*) a commodity (referred to in this paragraph and paragraph (*q*) as an "exempt commodity") that is manufactured, produced, grown, extracted or processed by the particular entity or a person related (otherwise than because of a right referred to in paragraph 251(5)(*b*)) to the particular entity,

(*q*) a commodity future in respect of an exempt commodity, and

(*r*) property that is, at that time, owned by a corporation resident in Canada.

"net accounting income" — "net accounting income", of an entity for a taxation year of the entity, means its net income, before income taxes and extraordinary items, for the year reported in its financial statements for the year.

"non-resident entity" — "non-resident entity", at any time, means

(*a*) a corporation or trust that is non-resident at that time; and

(*b*) any entity (other than a corporation or trust) that at that time

(i) exists, was (unless the entity was continued in any jurisdiction) formed or organized, or was last continued under the laws of a country or a political subdivision of a country other than Canada, or

(ii) is governed under the laws of a country or a political subdivision of a country other than Canada.

"participating interest" — "participating interest", of a particular entity or individual in a non-resident entity, means a property that is

(*a*) if the non-resident entity is a corporation with share capital, a share of the capital stock of the corporation;

(*b*) if the non-resident entity is a trust, a specified interest in the trust;

(*c*) if the non-resident entity is not a corporation with share capital or a trust, an interest in the non-resident entity; and

(*d*) under a contract, in equity or otherwise, either immediately or in the future and either absolutely or contingently, convertible into, exchangeable for, or a right to acquire, directly or indirectly,

(i) a property described in any of paragraphs (*a*) to (*c*), or

(ii) a property (other than money) the fair market value of which is determined primarily by reference to the fair market value of a property described in any of paragraphs (*a*) to (*c*).

"payable net accounting income" — "payable net accounting income", of an entity for a taxation year of the entity, means its net income, after income taxes and extraordinary items, for the year reported in its financial statements for the year.

"qualifying entity" — "qualifying entity", in a period, means a particular entity that is a corporation or partnership all or substantially all of the carrying value of the property of which is, throughout the period, attributable to the carrying value of particular property that is, throughout the portion of the period that the particular property is property of the particular entity,

(*a*) property other than investment property;

(*b*) investment property that is a participating interest in or debt issued by another entity if, throughout the portion of the period that the participating interest or debt is property of the particular entity,

(i) the principal undertaking of the other entity is the carrying on of a business that is not an investment business, and

(ii) either

(A) the particular entity has a significant interest in the other entity, or

(B) the particular entity

(I) actively participates in or exercises significant influence over the governance or the management of that other entity, directly or indirectly, by reason of its status as a holder of a significant number of participating interests in that other entity (when compared to the number of participating interests held by each other holder of interests in the corporation) or by reason of an agreement in writing between the particular entity and one or more other holders of a significant number of participating interests in that other entity, or

(II) carries out a plan of action that it has established for the purpose of obtaining its objective of actively participating in or exercising significant influence over the governance or the management of that other entity, directly or indirectly, by reason of its status as a holder of a significant number of participating interests in that other entity (when compared to the number of participating interests held by each other holder of interests in the particular entity) or by reason of an agreement in writing between the particular entity and one or more other holders of a significant number of participating interests in that other entity;

(*c*) investment property in respect of which the particular entity establishes that the property or proceeds from the disposition of the property is to be used by the particular entity for the purpose of acquiring property described in paragraph (*a*) or (*b*); or

(*d*) investment property that is a particular property held by the particular entity if

(i) the particular property (or other property for which the particular property is substituted property) was

last acquired by the particular entity within 36 months before the end of the period (or within any greater number of months that the Minister considers reasonable if the particular entity applies, in writing, to the Minister within 36 months after the property was acquired by the particular entity),

(ii) the particular property was so acquired by the particular entity because it

(A) issued a debt, or a participating interest in it,

(B) disposed of property described in any of paragraphs (*a*) to (*c*), or

(C) accumulated its income, and

(iii) the issuance, disposition or accumulation referred to in subparagraph (ii) was made or amassed for the purpose of acquiring property that, if owned by the particular entity, would be property described in any of paragraphs (*a*) to (*c*).

"significant interest" — "significant interest", of a particular entity in another entity at any particular time, means

(*a*) if the other entity is a corporation, a share of the capital stock of the corporation, if at the particular time the particular entity or the particular entity together with entities related (otherwise than by reason of a right referred to in paragraph 251(5)(*b*)) to the particular entity holds shares of the capital stock of the corporation

(i) that would give the particular entity, or the particular entity together with those related entities, 25% or more of the votes that could be cast under all circumstances at an annual meeting of shareholders of the corporation if the meeting were held at the particular time, and

(ii) that have a fair market value of 25% or more of the fair market value of all of the issued and outstanding shares of the corporation;

(*b*) if the other entity is a partnership, an interest of the particular entity as a member of the partnership, if at the particular time the particular entity, or the particular entity together with entities related (otherwise than by reason of a right referred to in paragraph 251(5)(*b*)) to the particular entity, holds interests as a member of the partnership that have a fair market value of 25% or more of the fair market value of all membership interests in the partnership; and

(*c*) if the other entity is a trust, an interest as a beneficiary under the trust, where at the particular time

(i) the only beneficiaries that may for any reason receive, at any time and directly from the trust, any of the income or capital of the trust are persons that are qualifying investors (as defined in subsection 94(1)) in respect of the trust, and

(ii) the particular entity, or the particular entity together with entities related (otherwise than by reason of a right referred to in paragraph 251(5)(*b*)) to the particular entity, holds such interests under the trust that have a fair market value of 25% or more of the fair market value of all the interests as beneficiaries under the trust.

"specified interest" — "specified interest", at any time of an entity or individual in a trust, means an interest of the entity or individual as a beneficiary under the trust if

(*a*) the trust is at that time an exempt foreign trust because of paragraph (*h*) of the definition "exempt foreign trust" in subsection 94(1); or

(*b*) the entity or individual may for any reason receive as a beneficiary under the trust, at or after that time, any of the income or capital of the trust directly from the trust, unless

(i) the entity or individual would at that time be a successor beneficiary (as defined in subsection 94(1)) under the trust if the reference in the definition "successor beneficiary" in that subsection to a contributor did not include each contributor whose total amount of contributions to the trust is 10% or less of the total of all amounts each of which was the amount, at the time it was received by the trust, of a contribution made to the trust, or

(ii) every amount of income and capital of the trust that the entity or individual may receive at or after that time depends at and after that time on the exercise — after that time, in favour of the entity or individual, and by any other entity or individual — of a discretionary power.

"specified party" — "specified party" in respect of a particular individual or particular entity, as the case may be, means another individual or other entity that does not deal at arm's length with the particular individual or the particular entity, as the case may be.

"taxation year" — "taxation year", of a non-resident entity that is not a corporation or an individual, means

(*a*) in respect of a business or property of the non-resident entity for which the accounts of the non-resident entity are ordinarily made up, the period that would be determined under section 249.1 in respect of the non-resident entity if the non-resident entity were a corporation; and

(*b*) in any other case, a calendar year.

"trust" — "trust" includes, for greater certainty, an estate.

(2) Rules of application. For the purposes of applying this section and sections 94.2 to 94.4 in respect of a particular participating interest, in a particular non-resident entity, held by a taxpayer in a particular taxation year of the taxpayer (and in respect of any other participating interests, in the particular non-resident entity, that are identical to the particular participating interest and that are held by the taxpayer in the particular taxation year),

(*a*) in determining whether the particular non-resident entity is a foreign investment entity, if the financial statements of an entity (referred to in this paragraph as the "first entity") for a taxation year (referred to in this paragraph as the "specified year") of the first entity reflect property, indebtedness, income or losses of another entity,

(i) the business and non-business activities for the specified year carried on by the other entity, the net accounting income for the specified year determined for the other entity from those activities and the property and indebtedness for the specified year owned by or owed by, as the case may be, the other entity are deemed for the specified year to be carried on by, determined for, owned by or owed by, as the case may be, the first entity, and

(ii) an exempt business of the other entity at any time in the specified year is, if it is a business the activities of which are deemed by subparagraph (i) to be carried on by the first entity, deemed to be an exempt business of the first entity at that time in the specified year;

(*b*) for greater certainty, generally accepted accounting principles as developed and established by either the Financial Accounting Standards Board of the United States of America or the International Accounting Standards Board, for use for a particular year, are substantially similar to those developed and established, or adopted, by the Accounting Standards Board of Canada for use in Canada for the particular year;

(*c*) in determining the designated cost to the taxpayer of the participating interest at any time in the particular taxation year, where the particular participating interest is an interest in a trust that is not an exempt foreign trust (as defined in subsection 94(1)), the designated cost to the taxpayer of the particular participating interest is deemed to be the greater of

(i) the designated cost, determined without reference to this paragraph, at that time to the taxpayer of the particular participating interest, and

(ii) the total of all amounts each of which is

(A) the fair market value, at that time, of a restricted property (within the meaning assigned by section 94) held by the trust to the extent that it is reasonable to consider that the restricted property is held, at that time, by the trust for the purpose of satis-

fying the rights (whether immediate or in the future, whether absolute or contingent or whether conditional on or subject to the discretion by any entity) of the taxpayer in respect of the participating interest, or

(B) the amount that would be the cost amount (as determined under paragraph (*b*) of the definition "cost amount" in subsection 108(1)) at that time to the taxpayer of the participating interest if

(I) a reference to property in the description of A in the formula in that definition were read without reference to property that is restricted property to which clause (A) applies,

(II) the value of B in the formula in that definition were nil,

(III) the value of C in the formula in that definition were 1, and

(IV) the value of D in the formula in that definition were the number of persons resident in Canada that hold a participating interest in the trust and that are identified in prescribed form filed by the taxpayer with the taxpayer's return of income for the particular taxation year;

(*d*) the reference in subsections (4) and 94.3(4) to "as income from property from a property that is the participating interest" is to be read as a reference to "as income from property from a property that is a source outside Canada that is the participating interest", if the taxpayer is a trust and the portion of the net accounting income of the particular non-resident entity, from sources outside Canada, for its last taxation year that ends in the particular taxation year exceeds 90% of the total net accounting income of the particular non-resident entity for that last taxation year;

(*e*) in determining whether the principal undertaking of an entity is, in a taxation year of the entity, the carrying on of a business that is not an investment business,

(i) subject to subparagraphs (ii) and (iii), that determination is to be by reference to all the facts and circumstances that relate to the undertakings of the entity and that are within the knowledge of the taxpayer or knowledge of which would, upon diligent inquiry by the taxpayer, be obtainable by the taxpayer,

(ii) subject to subparagraph (iii), where the taxpayer has, by notifying the Minister in writing in the taxpayer's return of income for the particular taxation year, elected to have either clause (A) or (B) apply in respect of the entity,

(A) the principal undertaking of the entity for the taxation year of the entity is deemed to be the carrying on of a business that is

(I) an investment business if the total net accounting income of the entity, for the entity's taxation year, derived from investment property (other than investment property used or held in the course of carrying on an investment business) and from investment businesses is equal to or greater than the total net accounting income of the entity for the entity's taxation year derived from businesses (other than investment businesses), and

(II) not an investment business if the total net accounting income of the entity for the entity's taxation year derived from investment property (other than investment property used or held in the course of carrying on an investment business) and from investment businesses is less than the total net accounting income of the entity for the entity's taxation year derived from businesses (other than investment businesses) carried on by the entity in the entity's taxation year, or

(B) the principal undertaking of the entity for the taxation year of the entity is deemed to be the carrying on of a business that is

(I) an investment business if the total gross revenue of the entity, for the entity's taxation year, derived from investment property (other than investment property used or held in the course of carrying on an investment business) and from investment businesses is equal to or greater than the total gross revenue of the entity for the entity's taxation year derived from businesses (other than investment businesses), and

(II) not an investment business if the total gross revenue of the entity for the entity's taxation year derived from investment property (other than investment property used or held in the course of carrying on an investment business) and from investment businesses is less than the total gross revenue of the entity for the entity's taxation year derived from businesses (other than investment businesses) carried on by the entity in the entity's taxation year, and

(iii) if the Minister sends a written demand to the taxpayer requesting additional information for the purpose of enabling the Minister to determine whether the principal undertaking of the entity is in the entity's taxation year the carrying on of an investment business, and information that may reasonably be considered to be sufficient to make the determination is not received by the Minister within 120 days (or within any longer period that is acceptable to the Minister) after the Minister sends the demand, the principal undertaking of the entity is deemed to be the carrying on of an investment business;

(*f*) in determining whether an entity or natural person and another entity or natural person are related to each other or deal at arm's length with each other, a person referred to in section 251 includes an entity;

(*g*) in applying subparagraph (*e*)(i) of the definition "exempt interest" in subsection (1), if the particular non-resident entity is not a corporation, a partnership or a trust, it is deemed not to be resident in a particular country, unless

(i) the particular country is a country other than a prescribed country,

(ii) the particular non-resident entity is governed, and any of exists, was (unless the entity was continued in any jurisdiction) formed or organized, or was last continued, under the laws of the particular country or of a political subdivision of the particular country, and

(iii) the particular non-resident entity is liable, under the laws of the particular country, to pay an income or profits tax imposed by the government of the particular country on all of the particular non-resident entity's income, profits or gains;

(*h*) subject to paragraph (*i*), a non-resident entity is deemed to be a controlled foreign affiliate of the taxpayer throughout the period that begins at the earliest time at which the non-resident entity is a foreign affiliate of the taxpayer, in the taxpayer's taxation year in the return of income for which the taxpayer elects in prescribed form to treat the non-resident entity as a controlled foreign affiliate of the taxpayer (referred to in this paragraph as the "taxpayer's election year"), and that ends at the earliest subsequent time at which it is not a foreign affiliate of the taxpayer, if

(i) at any time in the taxpayer's election year,

(A) the taxpayer holds a participating interest in the non-resident entity and a taxation year of the non-resident entity ends (or the first taxation year of the non-resident entity begins), or

(B) a controlled foreign affiliate of the taxpayer holds a participating interest in the non-resident entity, a taxation year of the controlled foreign affiliate ends and a taxation year of the non-resident entity ends (or the first taxation year of the non-resident entity begins) in that taxation year of the controlled foreign affiliate,

(ii) the non-resident entity is, at the end of its taxation years referred to in clause (i)(A) or (B), a foreign affiliate of the taxpayer in respect of which the taxpayer

has a qualifying interest (within the meaning assigned by paragraph 95(2)(*m*)), and

(iii) the taxpayer has not made any other election under this paragraph in respect of the non-resident entity;

(*i*) an election made by the taxpayer (or where the taxpayer is a partnership, by an entity that was at any time a member of the taxpayer) under paragraph (*h*) is, other than for the purposes of applying this paragraph and subparagraph (*h*)(iii), deemed never to have been made, if

(i) the Minister sends a written demand to the taxpayer requesting additional information for the purpose of enabling the Minister to determine an amount that would, if this Act were read without reference to this paragraph, be required to be added or deducted (otherwise than under subsection 104(13)) in computing the taxpayer's income for the year because of the application of section 91 and an election under paragraph (*h*) in respect of a foreign affiliate, and

(ii) information that may reasonably be considered to be satisfactory to make the determination is not received by the Minister within 120 days (or within any longer period that is acceptable to the Minister) after the Minister sends the demand;

(*j*) if the taxpayer has, by notifying the Minister in writing in the taxpayer's return of income for the particular taxation year, elected to have this paragraph apply in respect of the particular participating interest, the taxpayer files with that return of income prescribed information in prescribed form, an entity (referred to in this paragraph as the "specified entity") has a significant interest in another entity that is a corporation, partnership or trust, the particular non-resident entity is the specified entity or has, directly or indirectly, an interest in the specified entity, and the financial statements of the specified entity do not reflect property or indebtedness of the other entity, in determining only whether the particular non-resident entity is a foreign investment entity, and where the taxpayer so stipulates in that election, whether the particular non-resident entity is a qualifying entity

(i) each of the following is deemed to be nil:

(A) the carrying value of each

(I) participating interest held, at the time (referred to in this paragraph as the "specified time") that is the end of the particular non-resident entity's last taxation year that ends in the particular taxation year, by the specified entity in the other entity, and

(II) debt owing at the specified time to the specified entity by the other entity (other than a debt acquired in the ordinary course of a business that is not at the specified time an investment business carried on by the specified entity), and

(B) the net accounting income of the specified entity at the specified time derived from property of the specified entity the carrying value of which is deemed to be nil under clause (A),

(ii) each property that is (or that is deemed by this subparagraph in respect of the particular participating interest to be) at the specified time property of the other entity (other than a debt owing to the other entity by the specified entity where the other entity and the specified entity are related to each other at the specified time) and that is valued for the purpose of the other entity's financial statements for its taxation year that includes the specified time (or deemed by this subparagraph to have a carrying value to the other entity) is deemed to be at the specified time property of the specified entity and is deemed to have at the specified time a carrying value to the specified entity equal to the amount determined by the formula

$$A \times B/C$$

where

A is the carrying value at the specified time to the other entity of the property,

B is the total of all amounts each of which is

(A) the fair market value at the specified time of a participating interest in the other entity held at the specified time by the specified entity, and

(B) the fair market value at the specified time of a debt (other than a debt acquired in the ordinary course of a business that is not an investment business carried on by the specified entity) that the other entity owes at the specified time to the specified entity, and

C is the total of all amounts each of which is

(A) the fair market value at the specified time of a participating interest in the other entity held at the specified time by an individual or an entity, and

(B) the fair market value at the specified time of a debt owing at the specified time by the other entity to a holder of a participating interest in the other entity (other than a debt acquired in the ordinary course of a business that is not an investment business carried on by a holder of a participating interest in the other entity),

(iii) the specified entity is deemed

(A) to have carried on the proportion obtained for the formula B/C in subparagraph (ii) (in respect of the specified entity and the other entity) of the activities carried on at the specified time by the other entity in which it used the property referred to in subparagraph (ii), and

(B) to have that proportion of the net accounting income of the other entity for the period in the taxation year of the other entity ending at the specified time that was derived from the activities referred to in clause (A), and

(iv) an exempt business of the other entity at any time in the particular non-resident entity's last taxation year that ends in the particular taxation year is, to the extent that its activities are deemed by subparagraph (iii) to be carried on by the specified entity, deemed to be an exempt business of the specified entity at that time in that last year;

(*k*) subject to paragraphs (*m*) and (*n*), the taxpayer has a tax avoidance motive in respect of the particular participating interest (and any participating interests of the taxpayer in the particular non-resident entity that are identical to the particular participating interest), only if it is reasonable to conclude that the main reasons for the taxpayer acquiring, holding or having the particular participating interest include

(i) the derivation of a benefit the value of which can reasonably be attributed principally, directly or indirectly, to income derived from investment property, to profits or gains from the disposition of investment property or to an increase in value of investment property, and

(ii) the deferral or reduction of the amount of tax payable on that income or those profits or gains;

(*l*) in applying paragraph (*k*) in respect of the particular participating interest, the factors to be considered in determining the existence of a tax avoidance motive include

(i) the nature, organization and operation of

(A) the particular non-resident entity,

(B) any foreign investment entity in which the particular non-resident entity or a specified party in respect of the particular non-resident entity has a direct or indirect interest, and

(C) any foreign investment entity in which the taxpayer or a specified party in respect of the taxpayer has a direct or indirect interest,

(ii) the form of, and the terms and the conditions governing, the direct or indirect interests referred to in subparagraph (i),

(iii) the extent to which and the time at which the particular non-resident entity, or an entity in which a direct or indirect interest referred to in subparagraph (i) is held, is subject to an income or profits tax on its income, profits and gains,

(iv) the extent to which and the time at which the taxpayer, or an entity or individual that holds a direct or indirect interest referred to in subparagraph (i), is subject to an income or profits tax on the taxpayer's or entity's, as the case may be, share of the income, profits and gains of the entity in which the direct or indirect interest is held, and

(v) the amount of tax that would have been payable by the taxpayer under this Part had the taxpayer earned the income or realized the profits or gains in respect of the investment property referred to in subparagraph (*k*)(i) at the time that the income was earned, or the profits or gains were realized, by the entities that owned or held the investment property;

(*m*) the taxpayer does not have a tax avoidance motive in respect of the particular participating interest held by the taxpayer at any time in the particular taxation year if an amount that is all or substantially all of the payable net accounting income

(i) of the particular non-resident entity for each of its taxation years that ends in the particular taxation year becomes payable by it to its interest holders in, or within 120 days after, that taxation year of the particular non-resident entity, and the taxpayer's share of that amount is included in computing the taxpayer's income for the taxpayer's taxation year that includes the time at which the amount became payable, and

(ii) of each other foreign investment entity, in which the particular non-resident entity has a direct or indirect interest, for each of the other entity's taxation years that ends in the particular taxation year becomes payable by the other entity to its interest holders in, or within 120 days after, that taxation year of the other entity, and the particular non-resident entity's share of that amount is included in computing its payable net accounting income for its taxation year that includes the time at which the amount became payable;

(*n*) the taxpayer does not have a tax avoidance motive in respect of the particular participating interest, if throughout the period, in the particular taxation year, during which the taxpayer held the participating interest the particular non-resident entity was a "Regulated Investment Company" for the purposes of sections 851(b) and 852(a) of the United States *Internal Revenue Code of 1986* or a "Real Estate Investment Trust" for the purposes of sections 856(c) and 857(b) of that Code and the taxpayer includes, in computing the taxpayer's income for the particular taxation year, the amount of payable net accounting income that became payable by the particular non-resident entity to the taxpayer in the particular taxation year;

(*o*) in applying paragraph (*d*) of the definition "exempt interest" in subsection (1), paragraphs (*m*) and (*n*), the definition "mark-to-market formula" in subsection 94.2(1), and subsection 94.4(2), an amount is deemed not to have become payable at any time to an entity or individual, as the case may be, unless it was paid on or before that time to the entity or individual, as the case may be, or the entity or individual, as the case may be, was entitled on or before that time to enforce payment of it;

(*p*) the definition "exempt property" in subsection (1) does not apply in respect of a property of the particular non-resident entity if the Minister sends a written demand to the taxpayer requesting additional information for the purpose of enabling the Minister to determine whether property is an exempt property, and information that may reasonably be considered to be sufficient to make the determination is not received by the Minister within 120 days (or within any longer period that is acceptable to the Minister) after the Minister sends the demand;

(*q*) paragraphs (*a*) to (*c*) of the definition "foreign investment entity" in subsection (1) do not apply in respect of the particular non-resident entity if the Minister sends a written demand to the taxpayer requesting additional information for the purpose of enabling the Minister to determine whether the particular non-resident entity is a foreign investment entity, and information that may reasonably be considered to be sufficient to make the determination is not received by the Minister within 120 days (or within any longer period that is acceptable to the Minister) after the Minister sends the demand;

(*r*) the definition "qualifying entity" in subsection (1) does not apply if the Minister sends a written demand to the taxpayer requesting additional information for the purpose of enabling the Minister to determine whether an entity is a qualifying entity, and information that may reasonably be considered to be sufficient to make the determination is not received by the Minister within 120 days (or within any longer period that is acceptable to the Minister) after the Minister sends the demand;

(*s*) if at any time a taxpayer has a participating interest in a particular foreign investment entity and the taxpayer has at that time a participating interest (referred to in this paragraph as the "indirect participating interest") in another non-resident entity solely because the particular foreign investment entity has at that time a participating interest in that other non-resident entity, then the indirect participating interest is deemed (other than in applying this paragraph) not to be a participating interest of the taxpayer at that time;

(*t*) if the taxpayer is an authorized foreign bank, the taxpayer is deemed for the purposes of subsection (4) and of subsections 94.2(5) to (8) and (12), 94.3(4) and 94.4(2) to be resident in Canada throughout the particular taxation year;

(*u*) the dispositions, if any, in the particular taxation year of the particular participating interest and any participating interests of the taxpayer in the particular non-resident entity that are identical to the particular participating interest are deemed to occur in the order in which those participating interests were acquired (determined without reference to any other provision of this Act) by the taxpayer;

(*v*) if it can reasonably be considered that one of the main reasons that an entity or individual holds at any time a participating interest in a non-resident entity is to cause the condition in paragraph (*a*) of the definition "arm's length interest" in subsection (1) to be met at that time in respect of the participating interest or an identical participating interest held by any entity or individual, the condition is deemed not to have been satisfied at that time in respect of the participating interest or identical participating interest; and

(*w*) where the particular non-resident entity is a partnership, subparagraph (*a*)(iii) of the definition "exempt interest" in subsection (1) does not apply in respect of the taxpayer and the particular participating interest if

(i) the Minister sends a written demand to the taxpayer requesting additional information for the purpose of enabling the Minister to determine the application of this section and sections 94.2 to 94.4 to the partnership in respect of a participating interest of the partnership, and information that may reasonably be considered to be sufficient to make the determination is not received by the Minister within 120 days (or within any longer period that is acceptable to the Minister) after the Minister sends the demand, or

(ii) the taxpayer has elected — by notifying the Minister in writing in the taxpayer's return of income for the particular taxation year or for a preceding taxation year of the taxpayer — that subparagraph (*a*)(iii) of the definition "exempt interest" in subsection (1) not apply in respect of the particular participating interest or an identical participating interest held by the taxpayer at any time when the taxpayer held an identical participating interest to which the election applies.

(3) Conditions for application of tax regime for foreign investment entities. This subsection applies to a taxpayer for a particular taxation year of the taxpayer in respect of a participating interest in a non-resident entity if

(*a*) the taxpayer is not an exempt taxpayer for the particular taxation year;

(*b*) the participating interest is held by the taxpayer at the end of a taxation year of the non-resident entity that ends in the particular taxation year;

(*c*) at the end of that taxation year of the non-resident entity it is a foreign investment entity; and

(*d*) at the end of that taxation year of the non-resident entity the taxpayer's participating interest is not an exempt interest of the taxpayer.

(4) Income inclusion — imputed income regime. If subsection (3) or 94.2(9) applies to a taxpayer resident in Canada for a taxation year of the taxpayer in respect of a participating interest and subsections 94.2(3) and 94.3(3) do not apply to the taxpayer for the taxation year in respect of the participating interest, then this subsection applies to the taxpayer for the taxation year in respect of the participating interest and there shall be included (as income from property from a property that is the participating interest) in computing the taxpayer's income for that taxation year the total of all amounts each of which is the amount, in respect of each month in that taxation year, at the end of which month the taxpayer holds the participating interest, determined by the formula

$$A \times B$$

where

A is the designated cost, to the taxpayer of the participating interest, at the end of the month; and

B is the quotient obtained when the rate of interest prescribed, in respect of amounts required by this Act to be paid by the Minister, for the quarterly period that includes that month is divided by 12.

(5) Loss on disposition of interest — reconciliation. Notwithstanding any other provision of this Act, if, at a particular time in a particular taxation year, a taxpayer disposes of a participating interest of the taxpayer and subsection (4) applied to the taxpayer in respect of the participating interest to include an amount in computing the taxpayer's income for any taxation year of the taxpayer that began on or before the particular time

(*a*) there may be deducted in computing the taxpayer's income for the particular taxation year the lesser of

(i) the amount, if any, by which

(A) the total of all amounts each of which is an amount included in respect of the participating interest because of subsection (4) in computing the taxpayer's income for

(I) the particular taxation year, or

(II) any taxation year, of the taxpayer, that ends before the particular taxation year and after the taxpayer last acquired the participating interest

exceeds

(B) the total of all amounts each of which is an amount in respect of the participating interest that is deductible under paragraph 94.4(2)(*a*) in computing the taxpayer's income for any of those taxation years, and

(ii) the greater of

(A) the amount that would, if this Act were read without reference to this paragraph and subparagraph 40(2)(*g*)(i), be determined to be the capital loss of the taxpayer for the particular taxation year from the disposition of the participating interest, and

(B) where the participating interest is an interest in a trust that is not an exempt foreign trust (as defined in subsection 94(1)), the amount that would be determined, at the time of the disposition, to be the capital loss of the taxpayer for the particular taxation year from the disposition of the participating interest if, at the time of the disposition,

(I) the cost to the taxpayer of the participating interest were equal to the amount determined by the formula

$$A/B \times C$$

where

A is the amount, if any, by which

(*a*) the total of all amounts each of which is the cost amount, immediately before the disposition by the taxpayer of the participating interest in the trust, to the trust of a property (referred to in this subclause as a "distributed property") that was distributed by the trust to the taxpayer as consideration for the disposition by the taxpayer of the participating interest in the trust,

exceeds

(*b*) the total of all amounts each of which is an amount of a debt or obligation of the trust that was assumed by the taxpayer because a distributed property was distributed to the taxpayer by the trust as consideration for the disposition by the taxpayer of the participating interest in the trust,

B is the amount, if any, by which

(*a*) the total of all amounts each of which is the cost amount to the trust of a property held by the trust immediately before the time of the disposition of the taxpayer's participating interest in the trust,

exceeds

(*b*) the total of all amounts each of which is an amount of a debt or obligation of the trust immediately before the time of the disposition of the taxpayer's participating interest in the trust, and

C is the total of all amounts each of which was the cost amount, immediately after the time the property was acquired by the trust because of the contribution, to the trust of a property that was contributed to the trust at any time before the time of the disposition of the taxpayer's participating interest in the trust; and

(II) this Act were read without reference to this paragraph and subparagraph 40(2)(*g*)(i); and

(*b*) the taxpayer's capital loss for the taxation year from the disposition of the participating interest is the amount, if any, by which

(i) the amount that would, if this Act were read without reference to this paragraph and subparagraph 40(2)(*g*)(i), be the taxpayer's capital loss for the particular taxation year from the disposition of the participating interest

exceeds

(ii) the amount in respect of the participating interest deducted by the taxpayer under paragraph (*a*) in computing the taxpayer's income for the particular taxation year.

Applicable: To taxation years that begin after 2006, except that

(*a*) it also applies to

(i) taxation years of a taxpayer that begin after any of 2002, 2003, 2004 or 2005 if the taxpayer elects, in writing, to have sections 94.1 to 94.4 apply to the taxation years of the taxpayer that begin after the year specified in the election and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year in which this Act is assented to,

(ii) fiscal periods of a partnership that begin after any of 2002, 2003, 2004 or 2005 if a member of the partnership, who has authority to act for the partnership, elects, in writing, to have sections 94.1 to 94.4 apply to the fiscal periods of the partnership that begin after the year specified in the election and files the election with the Minister of National Revenue on or before the member's filing-due date for the member's taxation year in which this Act is assented to, and

(iii) taxation years of the foreign affiliates of a taxpayer that begin after any of 2002, 2003, 2004 or 2005 if the taxpayer elects, in writing, to have sections 94.1 to 94.4 apply to the taxation years of the foreign affiliates of the taxpayer that begin after the year specified in the election and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year in which this Act is assented to;

(*b*) any election or form referred to in any of sections 94.1 to 94.3 made by a taxpayer is deemed to have been filed with the Minister of National Revenue

(i) on a timely basis if it is filed with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act is assented to, and

(ii) in the taxpayer's return of income for the taxpayer's taxation year identified by the taxpayer in the election, if it is filed with the Minister of National Revenue in writing in the taxpayer's return of income for the taxpayer's taxation year that includes the day on which this Act is assented to;

(*c*) for taxation years that begin before October 30, 2003 (where sections 94.1 to 94.4 apply to the taxpayer for the taxation year), subparagraph (*a*)(ii) of the definition "exempt interest" in subsection 94.1(1) is to be read as follows:

"(ii) a qualifying entity, or"

(*d*) for taxation years that begin on or before July 18, 2005 (where sections 94.1 to 94.4 apply to the taxpayer for the taxation year), subparagraph (*a*)(ii) of the definition "exempt interest" in subsection 94.1(1) is to be read without reference to "(other than a controlled foreign affiliate)";

(*e*) for taxation years that begin on or before July 18, 2005 (where sections 94.1 to 94.4 apply to the taxpayer for the taxation year), the definition "investment property" in subsection 94.1(1) is to be read without reference to its paragraph (*k*);

(*f*) for taxation years that begin on or before July 18, 2005 (where sections 94.1 to 94.4 apply to the taxpayer for the taxation year), paragraph (*c*) of the definition "significant interest" in subsection 94.1(1) is to be read as follows:

"(*c*) if the other entity is a non-discretionary trust (as defined in subsection 17(15)), an interest as a beneficiary under the trust, if at that time the particular entity, or the particular entity together with entities related (otherwise than by reason of a right referred to in paragraph 251(5)(*b*)) to the particular entity, holds such interests under the trust that have a fair market value of 25% or more of the fair market value of all the interests as beneficiaries under the trust."

(*g*) for taxation years that begin on or before July 18, 2005 (where sections 94.1 to 94.4 apply to the taxpayer for the taxation year), subparagraph (*b*)(i) of the definition "specified interest" in subsection 94.1(1) is to be read as follows:

"(i) the entity or individual is at that time a successor beneficiary (as defined by subsection 94(1)) under the trust, or"

(*h*) for taxation years that end before November 9, 2006 (where sections 94.1 to 94.4 apply to the taxpayer for the taxation year), subparagraph (*b*)(ii) of the definition "specified interest" in subsection 94.1(1) is to be read as follows:

"(ii) every amount of income and capital of the trust that the entity or individual may receive at or after that time depends on the exercise by any entity or individual of, or the failure by any entity or individual to exercise, a discretionary power."

(*i*) paragraph 94.1(2)(*c*) does not apply, in respect of a taxpayer and a participating interest of the taxpayer in a trust for each of the taxpayer's taxation years that begin on or before July 18, 2005 (where sections 94.1 to 94.4 apply to the taxpayer for the taxation year), unless the taxpayer elects, by notifying the Minister of National Revenue in writing on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act is assented to, that this paragraph not apply in respect of the taxpayer and the participating interest;

(*j*) for taxation years that begin on or before July 18, 2005 (where sections 94.1 to 94.4 apply to the taxpayer for the taxation year), subsection 94.1(2) is to be read without reference to its paragraph (*t*);

(*k*) for taxation years that begin on or before November 9, 2006 (where sections 94.1 to 94.4 apply to the taxpayer for the taxation year), paragraph 94.1(2)(*w*) is to be read without reference to its subparagraph (i);

(*l*) for taxation years that begin on or before July 18, 2005 (where sections 94.1 to 94.4 apply to the taxpayer for the taxation year), paragraph 94.2(9)(*d*) is to be read without reference to the expression "(whether immediate or future, whether absolute or contingent or whether conditional on or subject to the exercise of any discretion by any entity or individual)";

(*m*) for taxation years that end before November 9, 2006 (where sections 94.1 to 94.4 apply to the taxpayer for the taxation year), paragraph 94.2(11)(*c*) is to be read as follows:

"(*c*) paragraphs (*a*) and (*b*) do not apply to the taxpayer for the particular taxation year in respect of the interest if

(i) the taxpayer is an individual and the interest was acquired by the individual more than 60 months before the individual last became resident in Canada unless, at any particular time in the period that begins 60 months before the day on which the individual first became resident in Canada and that ends at the end of the particular taxation year, the total amount of premiums paid in respect of the policy is more than the total amount of premiums that can reasonably be considered to have been contemplated — at the time the policy was first issued — to be paid in respect of the policy as of the particular time,

(ii) under the terms and conditions of the insurance policy, the taxpayer is entitled to receive only

(A) benefits payable as a consequence of the occurrence of risks insured under the policy,

(B) an experience-rated refund of premiums for a year, or

(C) a return of premiums previously paid upon the surrender, cancellation or termination of the insurance policy, or

(iii) the taxpayer can establish to the satisfaction of the Minister that

(A) the interest in the policy was, on the anniversary day of the policy that occurs in the particular taxation year,

(I) an exempt policy, or

(II) a prescribed annuity contract, or

(B) the taxpayer has included in computing the taxpayer's income for the particular taxation year the amount, if any, required under section 12.2 to be included in computing the taxpayer's income for the particular taxation year in respect of the interest;"

(*n*) for taxation years that begin on or before July 18, 2005 (where sections 94.1 to 94.4 apply to the taxpayer for the taxation year, the description of A in the definition "income allocation" in subsection 94.3(1) is to be read as if its paragraph (*f*) were replaced by the following:

"(*f*) this Act were read without reference to subsections 20(11) and (12) and 104(4) to (6),

(*f*.1) in the case where the particular taxpayer is a corporation resident in Canada, dividends received by the non-resident entity in the particular taxation year from a foreign affiliate of the particular taxpayer were included in computing the income of the non-resident entity for the particular taxation year only where

(i) the particular taxpayer did not have a qualifying interest (within the meaning assigned by paragraph 95(2)(*m*)) in the foreign affiliate at the time the dividends were received, or

(ii) taking into account the application of paragraphs (*a*) and (*h*), subsection 94.2(4) applied for the purpose of computing the non-resident entity's income for the particular taxation year in respect of the non-resident entity's participating interest in the foreign affiliate,"

(*o*) for taxation years that begin on or before July 18, 2005 (where sections 94.1 to 94.4 apply to the taxpayer for the taxation year), paragraph (*h*) of the description of A in the definition "income allocation" in subsection 94.3(1) is to be read as follows:

"(*h*) the expression 'controlled foreign affiliate' in paragraph (*a*) of the definition 'exempt interest' in subsection 94.1(1) referred to a controlled foreign affiliate of the particular taxpayer and not to a controlled foreign affiliate of the non-resident entity,"

(*p*) for taxation years that begin on or before July 18, 2005 (where sections 94.1 to 94.4 apply to the taxpayer for the taxation year), subparagraphs 94.3(2)(*b*)(v) to (viii) are to be read as follows:

"(v) subsection (3)

(A) applied for a taxation year (referred to in this subparagraph as the 'preceding taxation year') that ended before the particular taxation year of the taxpayer in respect of the particular participating interest, and

(B) did not apply for a taxation year of the taxpayer that was after the preceding taxation year and before the particular taxation year in respect of the particular participating interest, or

(vi) subsection 94.2(9) applies to the taxpayer for the particular taxation year in respect of the particular participating interest."

Editorial Note: S. 100(1) of S.C. 2007, c. 35, which is a coordinating amendment with former Bill C-10, provides that if former Bill C-10 receives royal assent, this former Bill C-10 amendment applies as though former Bill C-10 had received royal assent before S.C. 2007, c. 35. As well, the reference to "prescribed stock exchange" in the definitions of "arm's-length interest" and "exempt interest" in subsection 94.1(1) is replaced by a reference to "designated stock exchange" on December 14, 2007.

Explanatory Note:

Overview

Existing Rules

Existing section 94.1 of the Act applies where a taxpayer has invested in an offshore investment fund and one of the main reasons for the investment is to reduce or defer the tax liability that would have applied to the income generated from the underlying assets of the fund if such income had been earned directly by the taxpayer. In these circumstances, existing section 94.1 generally requires an amount to be included in computing the taxpayer's income from the investment. This amount is determined, in general terms, by multiplying the cost amount of the taxpayer's investment by a factor based on interest rates prescribed under Part XLIII of the *Income Tax Regulations*.

New Rules

Section 94.1 is replaced by provisions in new sections 94.1 to 94.4, which contain rules governing the tax treatment of interests in foreign investment entities (FIEs), tracking entities and foreign insurance policies.

In computing a taxpayer's income for a taxation year, new subsection 94.1(4) will generally require an amount to be included in computing the taxpayer's income from the investment. This amount will be determined, in general terms, by multiplying the designated cost of the taxpayer's investment by a factor based on interest rates prescribed under paragraph 4301(*b*) of the *Income Tax Regulations*.

If a taxpayer elects and has sufficient information to comply, either new subsection 94.2(4) or 94.3(4) will apply in place of the rules in subsection 94.1(4) for computing income from the investment. However, in the case of interest in a tracking entity, subsection 94.3(4) will not be available, and in the case of an interest in a foreign insurance policy, only subsection 94.2(4) will apply.

Under subsection 94.2(4), a taxpayer must take into account the annual increase or decrease in the fair market value of the taxpayer's interest in computing the taxpayer's income from the interest.

Under subsection 94.3(4), a taxpayer is required to include the taxpayer's share of the FIE's income for each FIE taxation year that ends in the taxpayer's taxation year.

Section 94.4 is designed to prevent double taxation with respect to amounts included in income under any of sections 94.1 to 94.3.

New sections 94.1 to 94.4 apply to taxation years that begin after 2006.

Note that under the coming-into-force provision for new sections 94.1 to 94.4, an election or form (but for greater certainty not including a return of income) referred to in any of new sections 94.1 to 94.3 of the Act made by a taxpayer is deemed to have been filed with the Minister of National Revenue

(i) on a timely basis if it is filed with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes the day of Royal Assent, and

(ii) in the taxpayer's return of income for the taxpayer's taxation year identified by the taxpayer in the election, if it is filed with the Minister of National Revenue in writing in the taxpayer's return of income for the taxpayer's taxation year that includes the day of Royal Assent.

For more detail on filing obligations in respect of returns of income, contact the Canada Revenue Agency.

The table below provides an overview of new sections 94.1 to 94.3 and related provisions.

Issue	Summary	References
1. Who is subject to the new FIE rules?	A. All taxpayers, except exempt taxpayers. Except as indicated in (C), below, FIE rules do not apply to non-resident taxpayers.	S. 94.1(3), 94.2(3), (9) and (11). "Exempt taxpayer" (s. 94.1(1)). Non-resident taxpayers: see also s. 94.1(3) and 94.2(5).
	B. Partnerships with members resident in Canada must allocate FIE income to those members.	Section 96, including exception in s. 96(1.9). See also s. 94.2(6) for application to cases where partnership members become resident in Canada.
	C. Controlled foreign affiliates.	New s. 95(2)(*g*.3).
2. What property is subject to the new FIE rules?	A. If subsection 94.1(3) applies, Participating interests (other than exempt interests) in foreign investment entities. However, if no taxation year of a FIE has ended in the taxpayer's taxation year, the FIE rules do not apply to the taxpayer for the taxpayer's year in respect of the FIE.	S. 94.1(3) and the following definitions in s. 94.1(1): "entity", "non-resident entity", "foreign investment entity", "exempt interest" and "participating interest".
	B. If 94.1(3) does not apply, interests in tracking entities for which subsection 94.2(9) applies. Section 94.3 not available for such interests.	S. 94.1(4) and 94.2(3) and (9). The definition "tracking entity" in 94.2(1) See also amended s. 91(1).
	C. Interests in certain foreign insurance policies. This property is subject only to s. 94.2, not s. 94.1, 94.3 and 94.4.	S. 94.2(3), (10) and (11).
3. What is the difference in the tax treatment of FIE interests between ss. 94.1, 94.2 and 94.3?	A. Section 94.1. Investor's income inclusion based on a prescribed rate of return.	S. 94.1(4).
	B. Section 94.2. Full appreciation/decline in fair market value of the investment is recognized on an annual basis.	S. 94.2(4). S. 94.2(20).
	C. Section 94.3. Investor includes its "share" of a FIE's income (e.g., does not include FIE's share of unrealized gains).	S. 94.3(4).
4. How will foreign affiliates of taxpayers resident in Canada be treated under new FIE rules?	Subject to s. 94.2(9) (interests in tracking entities), a taxpayer's share of the capital stock of a controlled foreign affiliate is exempt from the new FIE rules. In certain cases, a taxpayer can elect to have a foreign affiliate treated as a controlled foreign affiliate. Otherwise, the FIE rules will apply to the interest in the affiliate.	Paragraph (*a*) of the definition "exempt interest". Paragraphs 94.1(2)(*h*) and (*i*).
5. If a non-resident corporation that is a FIE pays out dividends, how are these dividends taxed?	A. General principle: existing rules apply.	Existing s. 90 and 113.
	B. Relief provided to prevent double taxation. This relief applies to taxable distribution from other FIEs (e.g., trusts).	S. 94.4.
6. In what circumstances is a taxpayer subject to any of sections 94.1 to 94.3, respectively?	A. Requirement to use s. 94.1 where insufficient information to use s. 94.2 or s. 94.3.	S. 94.1(4), 94.2(3), 94.3(3).
	B. Election to use s. 94.2 available — interest must have readily ascertainable fair market value.	S. 94.2(2) and (3).
	C. Requirement to use s. 94.2 in the case of interests in foreign insurance policies.	S. 94.2(3), (10) and (11).

	D. Election to use s. 94.3 available (but not if 94.2(9) applies to the interest) — must have sufficient information.	S. 94.3(2) and (3).

Subsection 94.1(1) — Definitions

New subsection 94.1(1) of the Act defines a number of expressions for the purpose of section 94.1. These definitions are also relevant for the purposes of sections 94.2 and 94.3.

"arm's length interest"

The definition "arm's length interest" is relevant in determining whether a taxpayer's particular participating interest is, under paragraph (*e*) of the definition "exempt interest" in subsection 94.1(1), an exempt interest and whether an interest has at any time a "readily obtainable fair market value" as defined in subsection 94.2(1). For more information, see the commentary on those definitions.

A particular participating interest in a particular non-resident entity is an arm's length interest at any time only if

- either
  - it is reasonable to conclude that there are at least 150 persons each of which holds participating interests in the particular non-resident entity that, at that time, are identical to the particular participating interest, and have a total fair market value of at least $500, or
  - participating interests, in the non-resident entity, that are identical to the participating interest are listed on a prescribed stock exchange, and those interests have, at that time, a "readily obtainable fair market value" (as that term is defined in subsection 94.2(1)),
- the total of all amounts each of which is the fair market value, at that time, of the particular participating interest or of a participating interest in the non-resident entity that is identical to the particular participating interest and that is held, at that time, by the taxpayer or an entity or individual with whom the taxpayer does not deal at arm's length does not exceed 10% of the total of all amounts each of which is the fair market value, at that time, of a participating interest in the non-resident entity that is held, at that time, by any entity or individual and that is identical to the particular participating interest, and
- it is reasonable to conclude that the participating interests in the non-resident entity that are identical to the particular participating interest can
  - normally be acquired and sold by members of the public in the open market, or
  - can be acquired from and sold to the non-resident entity by members of the public.

"beneficiary"

A reference in sections 94.1 to 94.4 to a "beneficiary" carries, except for the purpose of paragraph 94.2(11)(*e*) (i.e., a beneficiary in respect of an interest in an insurance policy), the meaning assigned by subsection 94(1). For more information, see the commentary on the definition "beneficiary" in subsection 94(1).

"carrying value"

In applying sections 94.1 to 94.4 in respect of a taxpayer, the "carrying value" of a property held by a particular entity at any time means:

- the fair market value of the property at that time, if
  - the particular entity is an entity (referred to in this note as the "first entity") in which the taxpayer holds at that time a participating interest or is another entity in which the first entity holds at that time a direct or indirect interest,
  - the taxpayer elects, by notifying the Minister in writing in the taxpayer's return of income for the taxpayer's taxation year that includes that time to have this paragraph apply to all of the particular entity's property, and
  - the property is property that is valued for the purpose of the entity's "financial statements" (as defined in subsection 94.1(1)) as of that time; and
- in any other case, the amount at which the property is valued for the purpose of the entity's financial statements as of that time.

The carrying value of property is relevant primarily for the purpose of determining whether a non-resident entity is a FIE. For more information, see the commentary on the definitions "foreign investment entity" and "financial statements".

It should also be noted that paragraph 94.1(2)(*j*) provides a "look-through" rule that can affect the properties considered to be owned by an entity and the carrying values of the entity's properties. In particular, the rule in paragraph 94.1(2)(*j*) can impute to an entity both ownership of property otherwise owned by certain other entities in which the entity has a significant interest, and the "net accounting income" (as defined in subsection 94.1(1)) and certain business activities of such other entities derived from such property. For the purposes of the look-through rule, the time at which the determination of carrying value is made is the end of the last "taxation year" (as defined in subsection 94.1(1)) of the first tier non-resident entity (whether lower tier entities share the same taxation year or not) that ends in a relevant taxation years of an electing taxpayer. For more information, see the commentary to new paragraph 94.1(2)(*j*) and the definition "taxation year".

"designated cost"

In computing a taxpayer's income for a taxation year from a participating interest of the taxpayer in a non-resident entity, where subsection 94.1(4) applies, the taxpayer will be required to include the amount, determined under that subsection, in computing the taxpayer's income from the investment. That amount is determined by multiplying the "designated cost" of the taxpayer's investment by a factor based on the interest rate prescribed under paragraph 4301(*b*) of the *Income Tax Regulations*.

The designated cost to a taxpayer at any time of a participating interest held at that time by the taxpayer in a non-resident entity, is determined, in general terms, as follows:

- ADD the cost amount to the taxpayer of the participating interest at that time (determined without reference to certain provisions of the Act),
- ADD the amount of any previous income inclusions, of the taxpayer in respect of the participating interest, arising because of the application of subsection 94.1(4) for a previous taxation year that ends after 2006,
- ADD, if the participating interest was an offshore investment fund property (as defined in subsection 94.1(1) as it read in its application to taxation years that began before 2007) of the taxpayer at the end of the taxpayer's last taxation year that began before 2007, certain amounts required to be included in computing the designated cost under "old" subsection 94.1(2),
- ADD, if the participating interest was acquired by the taxpayer before 2007, and was not an offshore investment fund property of the taxpayer at the end of the taxpayer's last taxation year that began before 2007, the amount, if any, by which the fair market value of the participating interest at the end of that last taxation year exceeds the cost amount to the taxpayer of the participating interest at the end of that last taxation year,
- ADD, if one or more particular amounts has been made available by a person to another person after the last 2006 taxation year of the non-resident entity and before that time for the main purpose of increasing the value of the taxpayer's participating interest, the total of all amounts each of which is the amount, if any, by which each particular amount exceeds any increase in the cost amount to the taxpayer of the participating interest because of that particular amount,
- ADD, if the participating interest is acquired by the taxpayer after 2006, the amount, if any, by which the fair market value of the participating interest at the time it was so acquired exceeds the cost amount to the taxpayer of the participating interest at the time it was so acquired, and
- SUBTRACT, if the participating interest was last acquired by the taxpayer before 2007, and was not an offshore investment fund property (as defined in subsection 94.1(1) as it read in its application to taxation years that began before 2007) of the taxpayer at the end of the taxpayer's last taxation year that began before 2007, the amount, if any, by which the cost amount to the taxpayer of the partici-

pating interest at the end of that last taxation year exceeds the fair market value of the participating interest at the end of that last taxation year.

"entity"

An entity includes an association, a corporation, a fund, a joint venture, an organization, a partnership, a syndicate and a trust. It does not include a natural person.

"exempt business"

The definition "exempt business" is relevant in determining whether a "non-resident entity" (as defined in subsection 94.1(1)) is carrying on an "investment business" (as defined in subsection 94.1(1)) and whether the non-resident is not a FIE. An investment business does not include an exempt business.

An exempt business of an entity at any time, in general terms, is a business — other than a business carried on by the entity principally with entities or individuals with whom the entity does not deal at arm's length, a business carried on by a trust that is an exempt foreign trust because of paragraph (*h*) of the definition "exempt foreign trust" in subsection 94(1), and a business carried on by the entity as a member of a partnership, that is not a qualifying member of the partnership, or that would not be such a qualifying member if the entity were a person — that is carried on by the entity at that time and that, throughout the period (in its taxation year that includes that time) is

- carried on by the entity as a foreign bank, a trust company, a credit union or an insurance corporation , or
- a business the principal purpose of which is to derive income from certain real estate businesses, certain leasing or licensing businesses, or businesses involved in the development of foreign and Canadian resource properties and timber resources.

The reference in this definition to a "permanent establishment" is intended to carry the meaning of that expression assigned by proposed section 8202 of the *Income Tax Regulations*. Proposed section 8202 of the Regulations was released in draft form as part of the February 27, 2004 release of draft technical amendments.

The reference in this definition to a "qualifying member" of a partnership is intended to carry the substantive meaning of that expression assigned by proposed subsection 248(1) of the Act, contained in the December 20, 2002 legislative proposals relating to income tax. For more detail on the proposed definition "qualifying member" in subsection 248(1) of the Act, see that provision and its commentary in the legislative proposals and explanatory notes published on February 27, 2004.

For more information generally, see the commentaries on the definitions "foreign investment entity" and "investment business" in subsection 94.1(1).

"exempt interest"

The FIE income inclusion rules under any of subsections 94.1(4), 94.2(4) or 94.3(4) apply to a taxpayer for a year generally only where subsection 94.1(3) applies to the taxpayer. Subsection 94.1(3) will not apply to a taxpayer for a particular taxation year of the taxpayer in respect of a participating interest of the taxpayer in a non-resident entity if at the end of a taxation year of the non-resident entity that ends in the particular taxation year the taxpayer's participating interest is an "exempt interest". An exempt interest of a taxpayer in a non-resident entity is defined to mean at any time a particular participating interest of the taxpayer in the non-resident entity if any of the following applies:

- the non-resident entity is a controlled foreign affiliate of the taxpayer (including an affiliate that is a controlled foreign affiliate because of an election under new paragraph 94.1(2)(*h*)), a "qualifying entity" (as defined in subsection 94.1(1)) that is a foreign affiliate (other than a controlled foreign affiliate) of the taxpayer in respect of which the taxpayer has a qualifying interest (within the meaning assigned by paragraph 95(2)(*m*)), or a partnership;
- the taxpayer is a financial institution (as defined in subsection 142.2(1)) and the participating interest is a mark-to-market property (as defined in that same subsection) or a property described in an inventory of a business of the taxpayer, which inventory is valued, in computing the taxpayer's income from the business, in accordance with section 1801 of the *Income Tax Regulations*;
- the participating interest is a right
  - under an agreement referred to in subsection 7(1), to acquire a share of the capital stock of the non-resident entity,
  - granted by the non-resident entity, or another entity with which the non-resident entity does not deal at arm's length,
  - acquired by the taxpayer, at a time when the taxpayer dealt at arm's length with the entity that granted the right, and
  - acquired by the taxpayer solely because the taxpayer was an employee of the non-resident entity, or another entity with which the non-resident entity does not deal at arm's length;
- the non-resident entity is an entity — other than a trust that is an exempt foreign trust because of paragraph (*h*) of the definition "exempt foreign trust" in subsection 94(1) — all or substantially all of the carrying value of the property of which is attributable to the carrying value of properties that are shares of the capital stock of a corporation (that is not a foreign investment entity) that employs the taxpayer or that is related to another corporation that employs the taxpayer, and an amount that is all or substantially all of the non-resident entity's "payable net accounting income" (as defined in subsection 94.1(1)) becomes payable (as determined under paragraph 94.1(2)(*o*)) by it to its interest holders within specified times, and the taxpayer's share of that amount is included in computing the taxpayer's income for the taxpayer's taxation year that includes the time at which it became payable;
- it is reasonable to conclude that the taxpayer had no tax avoidance motive (determined by reference to paragraphs 94.1(2)(*k*) to (*n*)) in respect of the particular participating interest, and
  - the particular participating interest is an "arm's length interest" (as defined in subsection 94.1(1)) of the taxpayer, the non-resident entity is resident (determined by reference to paragraph 94.1(2)(*g*)) in a country in which there is a prescribed stock exchange, and participating interests in the non-resident entity that are identical to the particular participating interest are listed on a prescribed stock exchange, or
  - the non-resident entity is governed by the laws of one or more countries (other than a prescribed country) with which Canada has entered into a tax treaty (or governed by the laws of a political subdivision of such a country), the non-resident entity exists, was (unless the entity was continued in any jurisdiction) formed or organized, or was last continued, under those laws, while it is governed by the laws of a country (or of is political subdivision), the non-resident entity is under the tax treaty with that country resident in that country, and either
    - (I) the participating interest is an arm's length interest of the taxpayer, or
    - (II) the non-resident entity is, under the tax treaty with the United States of America, resident in the United States of America, and throughout the period, in the taxpayer's taxation year that includes that time, during which the taxpayer is resident in Canada, the taxpayer is a citizen of the United States of America and is liable for and subject to income tax in the United States of America for that taxation year because of that citizenship;
- the taxpayer's participating interest is a share, of the capital stock of a corporation resident in Canada, the rights under which include a right to acquire a share in a non-resident corporation, such that the participating interest would not be a participating interest in a non-resident entity if paragraph (*d*) of the definition "participating interest" were read without reference to rights to acquire shares of the capital stock of a non-resident corporation. However, the taxpayer's participating interest will qualify as an exempt interest under this

provision only if the participating interest is convertible into, exchangeable for, or a right to acquire only property that, if the conversion, exchange or right were exercised by the taxpayer at that time, would be a participating interest, in the non-resident corporation, that is at that time an exempt interest (determined without reference to paragraph (*f*) of the definition "exempt interest") of the taxpayer, or

- the non-resident entity, is during the period in its taxation year that the taxpayer held the participating interest, a testamentary trust that is an estate that arose on and as a consequence of the death of an individual, and the time is no more than 12 months after the death (or, such time as the Minister considers reasonable in the circumstances, if the taxpayer applies to the Minister within the 12 months after the death of the individual).

The definition "exempt interest" is also relevant in applying subsection 94.2(9) in determining whether subsection 94.1(4) or 94.2(4) will apply to a taxpayer's interest in a "tracking entity" (as defined in subsection 94.2(1)). However, note that a taxpayer's interest in a controlled foreign affiliate, or a qualifying entity (other than a partnership), will not avoid being subject to subsection 94.2(9) solely because it is an exempt interest. For more information, see the commentary on those provisions.

"exempt property"

The definition "exempt property" is relevant in determining whether a property is an "investment property" (as defined in subsection 94.1(1)) and whether a "non-resident entity" (as defined in subsection 94.1(1)) is not a FIE. Except for the purposes of applying the definitions "investment business" in subsection 94.1(1) and "tracking entity" in subsection 94.2(1), investment property does not include exempt property.

In general terms, exempt property of a particular entity means at any time, in determining whether a particular taxpayer's interest in the particular entity is a participating interest in a FIE,

- under paragraph (*a*) of the definition, a property, of the particular entity, that is at that time used or held principally in a business (other than an investment business) carried on by the particular entity or a related entity,
- under paragraph (*b*) of the definition, indebtedness (that would be "excluded property", as defined in subsection 95(1), of the particular entity if certain assumptions applied) owing by a debtor to the particular entity, where the particular entity and the debtor are foreign affiliates of the taxpayer or of another entity of which the taxpayer is a controlled foreign affiliate and in respect of which the taxpayer or the other entity, as the case may be, has a qualifying interest (as defined in subsection 95(2)(*m*)).

In addition, under paragraph (*c*) of the definition, exempt property means a property acquired by the particular entity within the 36 months preceding that time (or where written application has been made to the Minister of National Revenue by the taxpayer within 36 months of having acquired the property, within such longer period as the Minister considers reasonable in the circumstances) as a result of qualified activities. Those activities are

- the issuance of a debt or a participating interest in the particular entity;
- the disposition of property used in a business (other than an investment business) carried on by the particular entity or an entity related (otherwise than by reason of a right referred to in paragraph 251(5)(*b*)) to the particular entity;
- the disposition of a participating interest in another entity all or substantially all of the fair market value of the property of which is attributable to property used principally in a business (other than an investment business) carried on by the other entity or an entity related (otherwise than by reason of a right referred to in paragraph 251(5)(*b*)) to the other entity; and
- the accumulation of income of the particular entity derived from a business (other than an investment business) carried on by the particular entity or an entity related (otherwise than by reason of a right referred to in paragraph 251(5)(*b*)) to the particular entity.

The qualified activities also must have been undertaken for the purpose of

- acquiring property to be used principally in or making expenditures for the purpose of earning income from a business (other than an investment business) carried on by the entity or an entity related to the entity, or
- acquiring a participating interest that is a significant interest in another entity all or substantially all of the fair market value of the property of which is attributable to property used or held principally in the course of earning income from a business, other than an investment business, carried on by the other entity.

"exempt taxpayer"

The rules in new sections 94.1 to 94.4 do not apply in respect of periods during which a taxpayer is an exempt taxpayer. For more information, see the commentary on paragraph 94.1(3)(*a*) and subsections 94.2(9) and (10).

An individual is an "exempt taxpayer" for a taxation year where the individual, before the end of the year, was a resident of Canada for a period of, or periods the total of which is, 60 months or less. (Individuals who have never been non-resident cannot fall within the 60-month exception.) This 60-month exemption for new immigrants to Canada is similar to an exemption in the rules for non-resident trusts in existing section 94.

Except as indicated below, tax-exempt entities to which subsection 149(1) applies are also exempt taxpayers. Retirement compensation arrangements and qualifying environmental trusts for which alternative income tax rules are provided under Parts XI.3 and XII.4 and insurers to which paragraph 149(1)(*t*) applies are not exempt taxpayers.

An exempt taxpayer also includes a Canadian resident pooled fund trust (including a trust deemed resident by subsection 94(3)) under which the only beneficiaries that may for any reason receive, at or after the particular time and directly from the trust, any of the income or capital of the trust are persons that are both qualifying investors (as defined in subsection 94(1)) and the qualifying exempt taxpayers. Qualifying exempt taxpayers are for this purpose, tax-exempt entities to which subsection 149(1) applies, other than retirement compensation arrangements and qualifying environmental trusts for which alternative income tax rules are provided under Parts XI.3 and XII.4 and insurers to which paragraph 149(1)(*t*) applies. For more detail on the definition "qualifying investor" in subsection 94(1), see the commentary on that provision.

The express reference to tax-exempt entities is generally of significance for the purposes of calculating Part I tax only in the context of the narrow circumstances to which new subsection 94.2(17) applies. That subsection contemplates a case where a taxpayer ceases to be an "exempt taxpayer" and subsequently becomes an "exempt taxpayer". However, the reference to tax-exempt entities may also be of significance in the context of Part XI (foreign property limits), given that the application of sections 94.1 to 94.4 has an impact on the cost amount of participating interests in FIEs.

"financial statements"

The definition "financial statements" is relevant primarily for the purpose of determining whether a non-resident entity is a FIE. For more information, see the commentary on the definitions "foreign investment entity" and "carrying value".

In general, the financial statements, for a taxation, of an entity will be the balance sheet and statement of income provided by the entity to its investors if they are prepared in accordance with generally accepted accounting principles used for the taxation year in Canada or in accordance with generally accepted accounting principles that are substantially similar (including by reference to paragraph 94.1(2)(*b*)) to those used for the taxation year in Canada. Taxpayers, will however, be allowed to elect to treat an unconsolidated balance sheet and statement of income of an entity as its financial statements if they are prepared in accordance with those principles (or would be so prepared if those principles did not require consolidation).

More precisely, in applying sections 94.1 to 94.4 to a taxpayer, the financial statements, of a particular entity for a particular taxation year of the entity, are

- the balance sheet and the statement of income of the particular entity, if
  - the particular entity is an entity (referred to in this note as the "first entity") in which the taxpayer holds, in the particular taxation year, a participating interest or is another entity in which the first entity has, in the particular taxation year, a direct or indirect interest,
  - the taxpayer elects (in the taxpayer's return of income for the taxpayer's taxation year in which the particular taxation year ends) to have this paragraph apply in respect of the particular entity and the participating interest, and
  - that balance sheet and statement of income would be prepared in accordance with generally accepted accounting principles used in Canada for the particular year or in accordance with generally accepted accounting principles that are substantially similar to those used in Canada if those principles did not require consolidation; and
- in any other case, the balance sheet and statement of income of the particular entity, if that balance sheet and statement of income are prepared for the particular taxation year in accordance with generally accepted accounting principles used for the taxation year in Canada or in accordance with generally accepted accounting principles that are substantially similar to those used for the taxation year in Canada.

"foreign bank"

The definition "foreign bank" has the same meaning as in subsection 95(1). The expression is used in the definition "exempt business".

"foreign investment entity"

Under subsection 94.1(3), the new tax regime for FIEs in sections 94.1 to 94.4 generally applies only to participating interests in a "foreign investment entity" as defined in subsection 94.1(1).

A non-resident entity (as defined in subsection 94.1(1)) at any time will be a FIE at that time, unless any one of the following exceptions applies to the non-resident entity:

- at the end of its taxation year that includes that time, it is an "exempt foreign trust" (as defined in new subsection 94(1)) other than a trust that is an exempt foreign trust because of any of paragraphs (*a*) to (*g*) of that definition,
- at the end of its taxation year that includes that time, the carrying value of all of its investment property is not greater than one-half of the carrying value of all of its property, or
- throughout its taxation year that includes that time, its principal undertaking was the carrying on of a business that is not an investment business.

The new rules are designed so that, in the case of partnerships, members' shares of incomes and losses are allocated in accordance with section 96 (including new subsection 96(1.9), described in the commentary below).

For more information generally, see the commentary on the definitions "entity", "exempt interest", "non-resident entity", "investment property" and "carrying value" in subsection 94.1(1) and "exempt foreign trust" in subsection 94(1). See also the commentary on paragraphs 94.1(2)(*a*), (*b*), (*e*) and (*h*) to (*j*) and paragraph 96(1)(*d*).

"investment business"

The expression "investment business" is relevant in determining whether a non-resident entity is a FIE or a "qualifying entity", as defined in subsection 94.1(1). An "investment business" of an entity at any time, means a business (other than a business that is at that time an exempt business) carried on by the entity (including, for greater certainty, a business carried on by the entity as a member of a partnership) at that time, if the principal purpose of the business is to derive any of the following income or profits:

- income (including interest, dividends, rents, royalties or any similar return on investment or any substitute for such a return) from property,
- income from the insurance or reinsurance of risks,
- income from the factoring of trade accounts receivable, or
- profits from the disposition of investment property.

"investment property"

The expression "investment property" includes a list of specified properties. Most of the specified properties (e.g., shares, partnership interests, real estate and resource properties) are also specified in the definition of the same expression in subsection 95(1). In addition to the properties also specified in the definition in subsection 95(1), "investment property" held by a particular entity includes:

- an interest in an organization, fund or other entity;
- intellectual property;
- most derivative financial products; and
- interests, options and rights in respect of the above properties.

It should be noted, however, that investment property of an entity does not include

- except for the purpose of applying the definition "investment business" in subsection 94.1(1) or the definition "tracking entity" in subsection 94.2(1), an "exempt property" (as defined in subsection 94.1(1)),
- except for the purpose of applying the definition "qualifying entity", a "significant interest" (as defined in subsection 94.1(1)) in a "qualifying entity" (as defined in subsection 94.1(1)), an interest in a qualifying entity that has a significant interest in the entity, and debt owing by qualifying entities in which the entity has a significant interest or by a qualifying entity that has a significant interest in the entity,
- certain exempt commodities and futures in respect of those exempt commodities, and
- property that is owned by a corporation resident in Canada.

The definition is relevant for the purpose of the determining whether a non-resident entity is a FIE. For more information, see the commentary on the definitions "investment business", "qualifying entity", "significant interest", and "exempt property" in subsection 94.1(1).

"net accounting income"

The net accounting income of an entity for a taxation year means the amount that is its net income, before income taxes and extraordinary items, for the year reported in its financial statements for the year. For more information, see the commentary on the definition "financial statements" in subsection 94.1(1).

"non-resident entity"

One of the requirements for an entity to be a FIE to which sections 94.1 to 94.4 apply is that the entity be a "non-resident entity". In this regard, it should be noted that, under proposed subparagraph 94(3)(*a*)(iv), certain trusts that would otherwise be non-resident are deemed (for certain limited purposes including the definition "non-resident entity") to be resident in Canada for taxation years in which the trust has a resident contributor or a resident beneficiary. For more information, see the commentary to new subsection 94(3).

In addition to non-resident corporations and trusts, a "non-resident entity" includes at any time any other type of entity that at that time

- exists, was (unless the entity was continued in any jurisdiction) formed or organized, or was last continued under the laws of a country or a political subdivision of a country other than Canada, or
- is governed under the laws of a country or a political subdivision of a country other than Canada.

"participating interest"

A "participating interest" in an entity means a share of the capital stock of corporation, a specified interest (as defined in subsection 94.1(1)) in a trust and an interest in any other type of entity.

It also includes a property that is (under a contract, in equity or otherwise, either immediately or in the future and either

absolutely or contingently) convertible into, exchangeable for, or confers a right to acquire

- such a share, specified interest or other interest, or
- a property (other than money) the fair market value of which is determined primarily by reference to the fair market value of such a share, interest as a beneficiary or other interest in an entity.

For a related rule that applies in determining whether an interest is a participating interest, see the commentary on paragraph 94.1(2)(*s*).

"payable net accounting income"

The payable net accounting income, of an entity for a taxation year of the entity, means its net income, after income taxes and extraordinary items, for the year reported in its "financial statements" (as defined in subsection 94.1(1)) for the year.

This definition is relevant in determining whether an interest in a non-resident entity is an "exempt interest" (as defined in subsection 94.1(1)) in the entity. In particular, it is relevant in applying paragraph (*d*) of the definition "exempt interest" in subsection 94.1(1) and paragraphs 94.1(2)(*m*) and (*n*).

"qualifying entity"

A "qualifying entity" in a period means a particular entity that is a partnership or a corporation all or substantially all of the "carrying value" (as defined in subsection 94.1(1)) of the property of which is, throughout the period, attributable to the carrying value of property that is:

- property other than "investment property" (as defined in subsection 94.1(1)),
- investment property that is a participating interest in or debt of another entity if the other entity is an entity whose principal undertaking is the carrying on of a business that is not an investment business and the particular entity has either a significant interest in the other entity or a strategic interest in the other entity,
- investment property in respect of which the particular entity establishes that the property or proceeds from the disposition of the property is to be used by the particular entity for the purpose of acquiring property described in the two paragraphs above, or
- investment property that is held by the particular entity if the particular property (or other property for which the particular property is substituted property) was last acquired by the particular entity within 36 months before the end of the period (or, where applicable conditions are met, within such longer period as the Minister considers reasonable in the circumstances), as a result of qualifying activities.

For this purpose, qualifying activities are

- the issuance of a debt or a participating interest in the entity,
- the disposition of property described in any of paragraphs (*a*) to (*c*) of the definition "qualifying entity", and
- the accumulation of income of the entity.

The qualifying activities must also have been made for the purpose of acquiring property that, if owned by the entity, would be property described in paragraph (*a*) to (*c*) of the definition of "qualifying entity".

For the purpose of applying this definition, an entity will be considered to have a strategic interest in another entity where the entity participates in or has established a plan of action for participating in the management and control of the other entity by reason of its status as a holder of a significant number (not to be confused with the "significant interest" definition) of participating interests in the other entity (in comparison with the number of participating interests held by each holder of interests in the entity) or an agreement with other such significant interest holders.

In establishing if an entity actively participates in or exercises a significant influence over the governance or the management of an other entity the following facts (among others) will be considered:

- whether the entity, alone or in alliance with others, appoints members of the board of directors and management;
- whether the entity, alone or in alliance with others, significantly influences the appointment of members of the board of directors and management; and
- whether the entity, alone or in alliance with others, is actively involved in the strategic planning for the entity.

In determining if an entity is carrying out a plan of action for the purpose of obtaining its objective of actively participating in or exercising significant influence over the governance or the management of another entity, all factors will be considered. For example, an entity's board-approved plan of action, board minutes, investment studies and other material relating to the strategic investment will be considered. As well, evidence that increasing numbers of shares of the other entity are being bought or that property is being sold in order to raise money to acquire such shares will be considered important factors. The entity's investment history and patterns will also be considered.

Finally, it should be noted that under paragraph 94.1(2)(*r*), the definition "qualifying entity" in subsection (1) does not apply in determining whether a taxpayer has a participating interest in a FIE, if the Minister sends a written demand to a taxpayer requesting additional information for the purpose of enabling the Minister to determine whether an entity is a qualifying entity, and information sufficient to make the determination is not received by the Minister within 120 days (or within such longer period as is acceptable to the Minister) after the Minister sends the demand.

For more information, see the commentary on paragraph 94.1(2)(*r*) and on the definitions "carrying value", "significant interest" and "investment property" in subsection 94.1(1).

"significant interest"

An entity is considered to have a significant interest in a corporation, partnership, or trust if the entity or a group of entities comprised of the entity and entities related to the entity holds shares or interests in the corporation, partnership or trust that have a fair market value equal to 25% or more of the fair market value of all the shares or interests in the corporation, partnership or trust and,

- in the case of a corporation, the entity or the group of entities comprised of the entity and the entities related to the entity has shares entitling the entity to cast at least 25% of votes at an annual shareholders' meeting of the corporation, or
- in the case of a trust, for taxation years that begin after November 9, 2006, the only beneficiaries that may for any reason receive, at any time and directly from the trust, any of the income or capital of the trust are persons that are qualifying investors (as defined by subsection 94(1)) in respect of the trust.

In these circumstances, the entity's significant interest will be its share of the capital stock of the corporation, its interest as a member of the partnership or its interest as a beneficiary under the trust, as the case may be. For more detail on the definition "qualifying investor" in subsection 94(1), see the commentary on that provision.

"specified interest"

The definition "specified interest" applies in determining whether an entity or individual has a "participating interest" (as defined in subsection 94.1(1)) in a non-resident entity that is a trust. A specified interest at any time of an entity or individual in a trust, means, an interest of the entity or individual as a beneficiary under the trust if

- The trust is at that time an exempt foreign trust because of paragraph (*h*) of the definition "exempt foreign trust" in subsection 94(1). As a result, an interest in a foreign commercial investment trust or in certain employee remuneration arrangements will generally be subject to the income computation requirements in sections 94.1 to 94.4 if the trusts are FIEs or tracking entities; or
- The entity or individual may for any reason receive, as a beneficiary under the trust, at or after that time any of the income or capital of the trust directly from the trust. However, such an interest will, under paragraph (*b*) of the definition "specified interest", not be treated as a participating interest if
  - the entity or individual would at that time be a successor beneficiary (as defined by subsection 94(1))

under the trust, if in applying the definition "successor beneficiary" to the entity or individual, as the case may be, contributors whose contributions were 10% or less of all contributions to the trust at that time were ignored, or

- every amount of income and capital of the trust that the entity or individual may receive at or after that time depends at and after that time on the exercise — after that time, in favour of the entity or individual, and by any other entity or individual — of a discretionary power.

"specified party"

The definition "specified party" is relevant in determining whether a taxpayer has an avoidance motive in respect of a participating interest in a FIE. This determination is relevant to applying the definition "exempt interest" in subsection 94.1(1). For more information, see the commentary on the definition "exempt interest".

A specified party in respect of a particular individual or particular entity, as the case may be, means another individual or other entity that does not deal at arm's length with the particular individual or the particular entity, as the case may be.

"taxation year"

The "taxation year" of a non-resident entity that is a corporation or an individual is generally determined in accordance with subsection 249(1) and paragraph 250.1(*a*). Where the non-resident entity is not an individual or a corporation, this definition provides that the entity's taxation year means:

- in respect of a business or property of the non-resident entity for which the accounts of the non-resident entity are ordinarily made up, the period that would be determined under section 249.1 in respect of the non-resident entity if the non-resident entity were a corporation, and
- in any other case, a calendar year.

"trust"

A definition of "trust" is provided for the purpose of applying section 94.1. The definition clarifies that a reference to a trust in that section includes an estate.

Subsection 94.1(2) — Rules of Application

Subsection 94.1(2) sets out a number of rules for the purposes of applying sections 94.1 to 94.4 in respect of a particular participating interest, in a particular non-resident entity, held by a taxpayer in a particular taxation year of the taxpayer (and in respect of any other participating interests in the particular non-resident entity that are identical to the participating interest and that are held by the taxpayer in the particular taxation year). These rules are relevant, for example, in determining whether the particular non-resident entity is a FIE and whether the particular participating interest is an "exempt interest".

Determining Whether Entity is a FIE

New paragraph 94.1(2)(*a*) contains rules for applying the financial statements (as defined in subsection 94.1(1)) of an entity in determining whether a particular non-resident entity, in which a taxpayer holds a particular participating interest, is a FIE.

If the financial statements of an entity (referred to in this note as the "first entity") for a taxation year (referred to in the commentary on paragraph 94.1(2)(*a*) as the "specified year") of the first entity reflect property, indebtedness, income or losses of another entity, then in determining whether a particular non-resident entity is a FIE:

- the business and non-business activities for the specified year carried on by the other entity, the net accounting income for the specified year determined for the other entity from those activities, and the property and indebtedness for the specified year owned by or owed by, as the case may be, the other entity are deemed for the specified year to be carried on by, determined for, owned by or owed by, as the case may be, the first entity, and
- an exempt business of the other entity at any time in the specified year is, if it is a business the activities of which are deemed by subparagraph 94.2(*a*)(i) to be carried on by the first entity, deemed to be an exempt business of the first entity at that time in the specified year.

Paragraph 94.1(2)(*a*) is relevant in applying, for example, the definition "carrying value" in subsection 94.1(1), when determining whether the non-resident entity is a FIE because of the carrying value of its investment property.

For more information, see the commentary on the definitions "carrying value", "foreign investment entity" and "investment property" in subsection 94.1(1). See also, the commentary on paragraph 94.1(2)(*b*), for more information on determining whether accounting principles are substantially similar to Canadian GAAP, and the commentary on paragraph 94.1(2)(*j*), for more information on the look-through rule for significant interests.

GAAP Substantially Similar to Canadian GAAP

Paragraph 94.1(2)(*b*) provides that generally accepted accounting principles used for a taxation year in the United States of America or in countries that are members of the European Union are, for greater certainty, considered to be substantially similar to those used in Canada for that taxation year.

Designated Cost

Paragraph 94.1(2)(*c*) applies in determining, at any time in a particular taxation year, the designated cost to a taxpayer of a participating interest of the taxpayer that is a specified interest (as defined by subsection 94.1(1)) in a trust. However, the rule only applies where the trust is not an exempt foreign trust (as defined by subsection 94(1)).

Under paragraph 94.1(2)(*c*), the designated cost to the taxpayer of a participating interest in a trust that is not an exempt foreign trust is deemed to be the greater of two amounts. The first amount is the designated cost, determined without reference to paragraph 94.1(2)(*c*), at that time to the taxpayer of the participating interest. The second amount is the total of all amounts each of which is

- in the case of property that is restricted property (within the meaning of section 94), held by the trust in respect of the particular participating interest, the fair market value of the restricted property, to the extent that it is reasonable to consider that the restricted property is held for the purpose of satisfying the rights of the taxpayer, or
- the amount that would be the cost amount (as determined under paragraph (*b*) of the definition "cost amount" in subsection 108(1)) at that time to the taxpayer of the participating interest if
  - a reference to property in the description of A in the formula in the definition of "cost amount" were read without reference to property that is restricted property held by the trust for the purpose of satisfying the rights of the taxpayer in respect of the particular participating interest,
  - the value of B in the formula in that definition were nil,
  - the value of C in the formula in that definition were 1, and
  - the value of D in the formula in that definition were the number of persons resident in Canada that hold a participating interest in the trust and that are identified by the taxpayer in the taxpayer's return of income for the particular taxation year.

Characterization of Income from FIE Interest

Paragraph 94.1(2)(*d*) provides a special rules for determining whether a taxpayer's income for a taxation year from the application of subsection 94.1(4) or 94.3(4) will be treated as income from a source outside Canada. Paragraph 94.1(2)(*d*) provides that in applying subsections 94.1(4) and 94.3(4) to a taxpayer (that is a trust) for a particular taxation year of the taxpayer and in respect of a participating interest of the taxpayer in a non-resident entity, the reference in those subsections to "as income from property from a property that is the participating interest" is to be read as a reference to the expression "as income from property from a property that is a source outside Canada that is the participating interest". However, this special rule applies only if the portion of the net accounting income of the non-resident entity, from sources outside Canada, for its last taxation year that ends in the particular taxation exceeds 90% of the

total net accounting income of the non-resident entity for that last taxation year.

Paragraphs 94.2(2)(*e*) and (*f*) provide similar rules that apply with respect to subsection 94.2(4). For more detail, see the commentary on those paragraphs.

The application of paragraph 94.1(2)(*d*) and paragraphs 94.2(2)(*e*) and (*f*) in respect of a participating interest of a taxpayer will not be relevant in determining a taxpayer's eligibility for a foreign tax credit under section 126 of the Act. In this regard, see the commentary below on subsections 94.3(2) and 126(1.2). Rather, these paragraphs provide relief to trusts resident in Canada that hold participating interests in a FIE and that make payable to their non-resident beneficiaries all or part of the trusts' incomes arising under any of subsections 94.1(4), 94.2(4) or 94.3(4). Where paragraph 94.1(2)(*d*) or 94.2(2)(*e*) or (*f*) applies and the terms of the trust permit amounts of deemed income of the trust to be made payable to beneficiaries, the amounts of such trust income arising under any of subsections 94.1(4), 94.2(4) or 94.3(4) and made payable to non-resident beneficiaries of the trust may qualify for reduced withholding if the non-resident beneficiary is resident in a country with which Canada has entered into a tax treaty and the tax treaty contains a provision permitting such a reduction in withholding.

Investment Business

Under paragraph 94.1(2)(*e*), a determination of whether the principal undertaking of an entity for a taxation year of the entity is the carrying on of a business that is not an investment business is made by reference to:

- subject to the rules below, all the relevant facts and circumstances that relate to the undertakings of the entity and that are within the knowledge of the taxpayer or knowledge of which would, upon diligent inquiry made by the taxpayer, be obtainable by the taxpayer,
- if the taxpayer elects, by reference to the entity's "net accounting income" (as defined in subsection 94.1(1)) from investment property and investment businesses, or
- if the taxpayer elects, by reference to the entity's gross revenue from investment property and investment businesses.

Under subparagraph 94.1(2)(*e*)(iii), if the Minister of National Revenue sends a written demand to the taxpayer requesting additional information for the purpose of enabling the Minister to determine whether the principal undertaking of the entity is in that taxation year the carrying on of a business that is an investment business, and information sufficient to make the determination is not received by the Minister within 120 days (or within such longer period as is acceptable to the Minister) after the Minister sends the demand, the principal undertaking of the entity for that taxation year is deemed to be the carrying on of a business that is an investment business.

Arm's Length and Related

Under paragraph 94.1(2)(*f*), in determining whether an entity or natural person and another entity or natural person are related to each other or deal at arm's length with each other, a person referred to in section 251 includes an entity.

Residence of an Entity — Special Case

New paragraph 94.1(2)(g) of the Act applies in determining whether a taxpayer's participating interest (as defined in subsection 94.1(1)) in a FIE is an "exempt interest" (as defined in subsection 94.1(1)). Paragraph 94.1(2)(g) provides that in applying subparagraph (*e*)(i) of the definition "exempt interest", if the FIE is not a corporation, a partnership or a trust, it is deemed not to be resident in a particular country, unless

- the particular country is a country other than a prescribed country,
- the FIE is governed, and exists, was (unless the FIE was continued in any jurisdiction) formed or organized, or was last continued under the laws of, the particular country or of a political subdivision of the particular country, and
- the FIE is liable, under the laws of the particular country, to pay an income or profits tax imposed by the government of the particular country on all of its income, profits or gains.

If the paragraph 94.1(2)(g) applies so that the FIE is not considered resident in a particular country for the purpose of subparagraph (*e*)(i) of the definition "exempt interest", then the taxpayer would not be able to rely upon that paragraph in order to qualify the participating interest as an exempt interest.

Entity Treated as Controlled Foreign Affiliate

New paragraph 94.1(2)(*h*) of the Act permits a taxpayer to make an irrevocable election to treat a foreign affiliate, of the taxpayer, that is a foreign investment entity (including an affiliate the shares of which are held by the taxpayer's controlled foreign affiliate) as a controlled foreign affiliate of the taxpayer for a particular taxation year and subsequent taxation years. This one-time election is available only if:

- the taxpayer elects in prescribed form in the taxpayer's tax return for the taxation year ("the election year") for which the election is to first take effect,
- either
  - the taxpayer holds a participating interest in the foreign affiliate and a taxation year of the foreign affiliate ends (or the first taxation year of the foreign affiliate begins) in the taxpayer's election year, or
  - a controlled foreign affiliate of the taxpayer holds a participating interest in the foreign affiliate and a taxation year of the foreign affiliate ends (or the first taxation year of the foreign affiliate begins) in a taxation year of the controlled foreign affiliate that ends in the taxpayer's election year,
- the taxpayer has a "qualifying interest" (as defined in paragraph 95(2)(*m*)) in the affiliate, and
- the taxpayer has not made any other election under paragraph (*h*) in respect of the foreign affiliate.

However, under paragraph 94.1(2)(*i*), described in the commentary below, the election may be rendered invalid in the event that the taxpayer cannot provide sufficient information to the Minister of National Revenue for the Minister to be able to determine amounts required to be included in the taxpayer's income under section 91. In addition, the election ceases to have effect if the corporation ceases to be a foreign affiliate of the taxpayer.

In the period during which an election under paragraph 94.1(2)(*h*) is effective, a foreign affiliate of a taxpayer is deemed to be a controlled foreign affiliate of the taxpayer. As a result, a share issued by the affiliate to the taxpayer would be an "exempt interest" under the definition in subsection 94.1(1). Sections 94.1 to 94.4 generally would not apply to the taxpayer's participating interest in the affiliate where that affiliate is a FIE. However, the foreign accrual property income (FAPI) rules would apply and the taxpayer would be required to include in income under section 91 a percentage of any FAPI derived by the affiliate in the year. In addition, notwithstanding an election under paragraph 94.1(2)(*h*), the FIE rules may still apply in the event that a taxpayer's interest in a controlled foreign affiliate is a participating interest to which subsection 94.2(9) applies.

Demand for Information — CFA election

Under paragraph 94.1(2)(*i*), an election made by a taxpayer (or in the case of a taxpayer that is a partnership, a member of it) under paragraph 94.1(2)(*h*) is, other than for the purposes of applying paragraph 94.1(2)(*i*) and subparagraph 94.1(2)(*h*)(iii), deemed never to have been made, if the Minister sends a written demand to the taxpayer requesting additional information for the purpose of enabling the Minister to make a determination referred to in one of those paragraphs, and information sufficient to make the determination is not received by the Minister within 120 days (or within such longer period as is acceptable to the Minister) after the Minister sends the demand.

The determination referred to in paragraph 94.1(2)(*i*) concerns an amount that would, if the Act were read without reference to that paragraph, be required to be added or deducted (otherwise than under subsection 104(13)) in computing the taxpayer's income for the year because of the application of section 91 and an election under paragraph 94.1(2)(*h*) in respect of a foreign affiliate.

Look-through Rule — Significant Interests

New paragraph 94.1(2)(*j*) applies in determining whether a particular non-resident entity is a foreign investment entity (FIE) and, in some circumstances, in determining whether the particular non-resident entity is a qualifying entity. A particular

non-resident entity is a FIE at any time if none of the exceptions found in paragraphs (*a*) to (*c*) of the definition "foreign investment entity" applies to it. In this regard, paragraph 94.1(2)(*j*) will be, where it applies, relevant in determining whether paragraphs (*b*) and (*c*) of that definition apply to a non-resident entity.

Paragraph 94.1(2)(*j*) will apply in respect of a taxpayer's participating interest in a particular non-resident entity if the taxpayer has made a valid election under 94.1(2)(*j*) in respect of the participating interest and a specified entity (i.e., the particular non-resident entity or another entity in which the particular non-resident entity has, directly or indirectly, an interest)) has a "significant interest" (as defined in subsection 94.1(1)) in another entity ("the other entity") that is a corporation, partnership or trust. In this case, and provided that the financial statements of the specified entity do not reflect property or indebtedness of the other entity, then in determining whether the particular non-resident entity is a FIE (and, where the taxpayer so stipulates in the election, a qualifying entity):

- In determining the carrying value of the specified entity's property, the carrying values of its participating interests in the other entity are deemed to be nil. Debt owing to the specified entity by the other entity (other than debt acquired in the ordinary course of a business other than an investment business of the specified entity) is also deemed to have a carrying value to the specified entity of nil, and the net accounting income of the specified entity is also deemed to be nil to the extent that it is derived from debt or participating interests of the specified entity that are deemed to be nil.
- The specified entity is deemed to own the property of the other entity. Each such deemed owned property is deemed to have a carrying value to the specified entity based on the product obtained by multiplying the property's carrying value to the other entity by the specified entity's proportional ownership of the other entity's property. In general terms, this proportional ownership is the quotient obtained by dividing:
  - the amount that is the fair market value of the specified entity's shares and certain debt issued by the other entity, by
  - the amount that is the total fair market value of shares and certain debt issued by the other entity.
- In general terms, the activities carried on by the other entity (including an exempt business of the other entity) using the property deemed to be owned by the specified entity, and the other entity's net accounting income derived from those activities, are deemed to be those of the specified entity to the extent of that proportional ownership.

If the taxpayer notifies the Minister of National Revenue in writing of its intention to value the specified entity's property at its fair market value in accordance with paragraph (*a*) of the definition "carrying value" in subsection 94.1(1), the property of the other entity must also be valued on that basis to the extent that paragraph 94.1(2)(*j*) applies to deem the property to be property of the specified entity.

If there are tiers of entities each of which has a significant interest in the other, paragraph 94.1(2)(*j*) operates to deem each higher tier entity to own properties of the immediately lower tier entities on an iterative basis. For example, assume a non-resident entity (Foreignco-1) owns 100% of the shares in Foreignco-2, which in turn owns 100% of shares in Foreignco-3 and that Foreignco-1, Foreignco-2 and Foreignco-3 have identical taxation year-ends. The carrying values from properties in Foreignco-3 would, under paragraph 94.1(2)(*j*), become the carrying values of properties in Foreignco-2. Because paragraph 94.1(2)(*j*) operates on an iterative basis, the carrying value of those properties would be considered to be the carrying values of properties held by Foreignco-1.

The example below illustrates the operation of paragraph 94.1(2)(*j*).

Example

1. Jean, who resides in Canada, holds shares in Foreignco, a non-resident corporation that is not a controlled foreign affiliate of Jean. Foreignco's principal activity is the carrying on of investment activities on behalf of its shareholders. Foreignco prepares its financial statements in accordance with accounting principles substantially similar to generally accepted accounting principles used in Canada.

2. The carrying values of Foreignco's assets at the end of its taxation year ending in Jean's year are as follows:

Guaranteed investment certificate	$10,000
Shares of XYZ Inc. in which Foreignco has a significant interest	$20,000
Shares of ABC Inc. in which Foreignco does not have a significant interest	$ 5,000
Cash	$ 4,000
Total assets	$39,000

3. XYZ Inc. owns assets at that time that are used in the course of carrying on an active business, with a carrying value of $80,000. It also has investment property with a carrying value of $15,000.

4. The fair market value of the shares of XYZ Inc. held by Foreignco is $40,000 while the fair market value of all the issued and outstanding shares of XYZ Inc. is $100,000 at that time.

Results

1. The guaranteed investment certificate, cash, and the shares of XYZ Inc. and ABC Inc. are all investment property by virtue of the definition "investment property" in subsection 94.1(1).

2. However, since Foreignco owns a significant interest in XYZ Inc., the special look-through rule in new paragraph 94.1(2)(*j*) applies. Under this look-through rule the carrying value of Foreignco's shares in XYZ Inc. is deemed to be nil. Instead, Foreignco is deemed to own a portion of the property that XYZ Inc. owns.

3. The carrying value of the XYZ property deemed to be owned by Foreignco is 40% of its carrying value to XYZ, since Foreignco's percentage ownership of shares is 40%.

4. Consequently, the carrying values of the investment property of Foreignco are:

Guaranteed investment certificate	$10,000
Shares of XYZ Inc.	nil
Shares of ABC Inc.	$ 5,000
Cash	$ 4,000
Investment property of XYZ Inc. (40% of $15,000)	$ 6,000
Total	$25,000

5. The total carrying value of the assets of Foreignco is:

Investment property (see above)	$25,000
Assets of XYZ Inc. (other than investment property) (40% of $80,000)	$32,000
Total	$57,000

6. As a result, Foreignco is not a FIE because less than 50% of the carrying value of its property is investment property.

Tax Avoidance Motive

New paragraph 94.1(2)(*k*) of the Act sets out the conditions under which a taxpayer will be considered to have a tax avoidance motive in respect of a participating interest in a FIE. Subject to new paragraphs 94.1(2)(*m*) and (*n*) (described in the commentary below), a tax avoidance motive will be considered to exist only if it is reasonable to conclude that the main reasons for the taxpayer acquiring, holding or having the particular participating interest were to permit the taxpayer to achieve the following two objectives:

- to derive a benefit the value of which can be attributed principally, directly or indirectly, to income derived from investment property, to profits or gains from the disposition of investment property, or to an increase in value of investment property, and
- the deferral or reduction of the amount of tax payable on that income or those profits or gains.

Factors Considered in Tax Avoidance Motive

New paragraph 94.1(2)(*l*) of the Act sets out factors to be considered in determining whether there is a tax avoidance motive for a taxpayer acquiring an interest in a non-resident entity. Those factors are similar to the ones in existing subsection 94.1(1). However, the form and the terms and conditions governing the taxpayer's interest in a non-resident entity are to be taken into account as well. Note that a tax avoidance motive

may exist whether the non-resident entity is resident in a "tax haven" or not. The factors are as follows:

- the nature, organization and operation of the non-resident entity and any FIE in which it or a specified party (as defined in subsection 94.1(1)) in respect of it has a direct or indirect interest,
- the nature, organization and operation of any FIE in which the taxpayer or a specified party in respect of the taxpayer has a direct or indirect interest,
- the form of and the terms and the conditions governing the direct or indirect interests described above,
- the extent to which and the time at which the particular non-resident entity, or an entity in which a direct or indirect interest described above is held, is subject to an income or profits tax on its income, profits and gains,
- the extent to which and the time at which an entity that holds a direct or indirect interest described above is subject to an income tax or profits tax on the entity's share of the income, profits and gains of the entity in which the direct or indirect interest is held, and
- the amount of tax that would have been payable by the taxpayer under this Part had the taxpayer earned the income or realized the profits or gains in respect of the investment property referred to in subparagraph 94.1(2)(*k*)(i) at the time that the income was earned, or the profits or gains were realized, by the entities that owned or held the investment property.

No Tax Avoidance Motive

New paragraphs 94.1(2)(*m*) and (*n*) provide two situations where a taxpayer will not be considered to have a tax avoidance motive in respect of a participating interest in a non-resident entity held by the taxpayer in a taxation year:

- if the non-resident entity (and each other foreign investment entity, in which the non-resident entity has a direct or indirect interest) makes payable (determined by reference to paragraph 94.1(2)(*o*)) all or substantially all of its "payable net accounting income" (as defined in subsection 94.1(1)) for its taxation year that ends in the particular taxation to its interest holders within 120 days after the end of its taxation year, and the taxpayer's share of that amount is included in computing the taxpayer's income, profit or gains for the taxpayer's taxation year that includes the time at which the amount became payable, and
- if the non-resident entity is a "Regulated Investment Company" for the purposes of sections 851(*b*) and 852(*a*) of the United States *Internal Revenue Code* or a "Real Estate Investment Trust" for the purposes of sections 856(*c*) and 857(*b*) of that Code, and the taxpayer includes, in computing the taxpayer's income for that taxation year of the taxpayer, the amount of income that became payable (determined by reference to paragraph 94.1(2)(*o*)) by the particular non-resident entity to the taxpayer in that taxation year of the taxpayer.

For more detail on the definition "payable net accounting income" in subsection 94.1(1), see the commentary on that definition.

Amounts Payable

Under paragraph 94.1(2)(*o*), an amount is deemed not to have become payable at any time to an entity or individual unless it was paid on or before that time to the entity or individual, as the case may be, or the entity or individual, as the case may be, was entitled on or before that time to enforce payment of it. This rule is relevant in applying paragraph (*d*) of the definition "exempt interest" in subsection 94.1(1), paragraphs 94.1(2)(*m*) and (*n*), the definition "mark-to-market formula" in subsection 94.2(1), and subsection 94.4(2).

Demands for Information

Under paragraphs 94.1(2)(*p*) to (*r*) a number of provisions in section 94.1 will not apply in respect of a taxpayer's participating interest in a non-resident entity, if the Minister sends a written demand to the taxpayer requesting additional information for the purpose of enabling the Minister to make a determination referred to in one of those paragraphs, and information sufficient to make the determination is not received by the Minister within 120 days (or within such longer period as is acceptable to the Minister) after the Minister sends the demand.

The determinations referred to in paragraph 94.1(2)(*p*) to (*r*) are in respect of the definitions "exempt property", "foreign investment entity" and "qualifying entity" in subsection 94.1(1), respectively.

Participating Interests — Special Case

Paragraph 94.1(2)(*s*) applies in determining whether an interest is a participating interest. Under that paragraph, if at any time a taxpayer has a participating interest in a particular foreign investment entity and the taxpayer has at that time a participating interest (referred to in that paragraph and this commentary as the "indirect participating interest") in another non-resident entity solely because the particular foreign investment entity has at that time a participating interest in that other non-resident entity, then the indirect participating interest is deemed not to be a participating interest of the taxpayer at that time.

Paragraph 94.1(2)(*s*) provides relief only where the conditions attached to a taxpayer's participating interest in a FIE are such that the interest may also be a participating interest in another non-resident entity in which the FIE holds an interest and in which the taxpayer does not directly hold an interest. Paragraph 94.1(2)(*s*) would not apply to a participating interest where the taxpayer holds the participating interest directly in the other non-resident entity — in these circumstances, the taxpayer would be required to determine whether the participating interest in the other non-resident entity is a participating interest in a FIE.

Application of the FIE Rules to Taxpayers That Are Authorized Foreign Banks

Paragraph 94.1(2)(*t*) applies to ensure that authorized foreign banks are subject to the FIE rules in computing their income. In particular, an authorized foreign bank that holds a participating interest in a non-resident entity at any time in a taxation year is deemed, for the purposes of subsections 94.1(4), 94.2(5) to (8) and (12), 94.3(4) and 94.4(2), to be resident in Canada throughout the taxation year. For more detail on a related amendment to section 115, see the commentary below on that provision.

Identical Properties

Paragraph 94.1(2)(*u*) provides that identical properties that were held and are disposed of by a taxpayer will be treated as having been disposed of in the order in which they were actually acquired by the taxpayer. As a result, various acquisitions that are deemed to occur under the Act (e.g., section 47) are not to be taken into account. This measure is relevant primarily for the purpose of determining the amount to be added or deducted from a taxpayer's income for a taxation year under subsection 94.2(4), especially with reference to the "deferral amount" referred to in the description of D in the "mark-to-market formula" for the year (as those expressions are defined in subsection 94.2(1)).

Anti-avoidance: 150 persons

Paragraph 94.1(2)(*v*) is an anti-avoidance provision that is relevant to the application of the definition "arm's length interest" in subsection 94.1(1). Paragraph (*a*) of that definition imposes the condition that at least 150 persons hold participating interests that are identical to a particular participating interest in order for the particular participating interest to be considered an arm's length interest in respect of a taxpayer.

Paragraph 94.1(2)(*v*) provides that, if it can reasonably be considered that one of the main reasons that an entity or individual holds, at any time, a participating interest is to cause the condition in paragraph (*a*) of the definition "arm's length interest" to be met at that time in respect of the participating interest or an identical participating interest, the condition is deemed not to have been met at that time in respect of the participating interest or identical participating interest.

For more detail on the definition "arm's length interest", see the commentary on that definition.

Qualification of Partnership Interest as Exempt Interest

New paragraph 94.1(2)(*w*) will deem a taxpayer's interest in a partnership (that would otherwise be an exempt interest

because of subparagraph (1)(*a*)(iii) of that term's definition in subsection 94.1(1)) not to be an exempt interest where either:

- the Minister sends a written demand to the taxpayer requesting additional information for the purpose of enabling the Minister to determine the application of sections 94.1 to 94.4 to the partnership in respect of a participating interest of the partnership, and information sufficient to make the determination is not received by the Minister within 120 days (or within any longer period that is acceptable to the Minister) after the Minister sends the demand, or
- the taxpayer has elected that subparagraph (*a*)(iii) of the definition "exempt interest" not apply.

Subsection 94.1(3) — Conditions for Application of Tax Regime for Foreign Investment Entities

New subsection 94.1(3) of the Act sets out the common conditions for the application of the FIE income inclusion rules in subsections 94.1(4) (prescribed rate of return regime), 94.2(4) (mark-to-market regime) and 94.3(4) (accrual regime). For the prescribed rate of return, accrual or mark-to-market regimes to apply to a taxpayer for a particular taxation year of the taxpayer in respect of a participating interest held in the particular year by the taxpayer in a non-resident entity (other than a tracking interest or a foreign insurance product — for more information see the commentary on subsection 94.2(3)), all of the following conditions set out in subsection 94.1(3) must be satisfied:

- the taxpayer is not an "exempt taxpayer" for the taxpayer's particular taxation year;
- the taxpayer held the participating interest at the end of a taxation year of the non-resident entity that ends in the taxpayer's particular taxation year; and
- at the end of that taxation year of the non-resident entity, the interest was a participating interest in a FIE and was not an exempt interest.

Subsection 94.1(4) — Income Inclusion — Prescribed Rate of Return Regime

Subsection 94.1(4) applies to a taxpayer resident in Canada for a taxation year of the taxpayer in respect of a participating interest in a non-resident entity if subsection 94.1(3) or 94.2(9) applies (and subsections 94.2(3) and 94.3(3) do not apply) to the taxpayer for the taxation year in respect of a participating interest.

Where subsection 94.1(4) applies, the taxpayer is required to include (as income from property from a property that is the participating interest) in computing the taxpayer's income for that taxation year the total of all amounts each of which, is in respect of each month in that taxation year, at the end of which month the taxpayer holds the participating interest, the product obtained by multiplying

- the designated cost (as defined in subsection 94.1(1)), to the taxpayer of the participating interest, at the end of the month,

by

- the quotient obtained when the rate of interest prescribed, in respect of amounts required by this Act to be paid by the Minister, for the quarterly period that includes that month is divided by 12.

For this purpose, the rate of interest will be that determined under paragraph 4301(*b*) of the Regulations. That rate, in very general terms, is the 3-month average Treasury bill rate + 2 percentage points.

For more information on the definition "designated cost" in subsection 94.1(1), see the commentary on that definition. For more information on subsection 94.2(3), see the commentary on that subsection.

Subsection 94.1(5)

New subsection 94.1(5) applies where a taxpayer disposes of an interest in a non-resident entity at a particular time in a particular taxation year. If subsection 94.1(4) applied, for the purpose of computing the taxpayer's income, for any taxation year of the taxpayer that began on or before the particular time, in respect of the participating interest, the taxpayer may be permitted to deduct an amount equal to the lesser of

- the amount, if any, by which the total of the taxpayer's income inclusions under subsection 94.1(4) in respect of the interest (since its last acquisition by the taxpayer) exceeds the total deductions available to the taxpayer in respect of the interest under paragraph 94.4(2)(*a*), and
- the greater of
  - the taxpayer's capital loss for the particular taxation year from the disposition of the participating interest (determined without reference to paragraph 94.1(5)(*a*) and subparagraph 40(2)(*g*)(i)), and
  - where the participating interest is not an interest in an exempt foreign trust, the capital loss of the taxpayer for the particular taxation year from the disposition of the participating interest if the adjusted cost base to the taxpayer of the participating interest were equal to the designated cost to the taxpayer of the participating interest determined under paragraph 94.1(2)(*c*) (determined without reference to paragraph 94.1(5)(*a*) and subparagraph 40(2)(*g*)(i)).

Where a deduction is claimed by the taxpayer under paragraph 94.1(5)(*a*) in computing the taxpayer's income for the particular taxation year, the taxpayer's capital loss for the taxation year from the disposition of the participating interest (determined without reference to paragraph 94.1(5)(*b*) and subparagraph 40(2)(*g*)(i)) is reduced by the amount of that deduction.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 94.2 of the Act is added:

Foreign Investment Entities — Mark-to-Market

SECTION 94.2:

(1) Definitions. The definitions in subsection 94.1(1), and the definitions in this subsection, apply in this section.

"deferral amount" — "deferral amount", of a taxpayer in respect of a participating interest in an entity, means, subject to subsections (6) and (14) to (18), the positive or negative amount determined by the formula

$$A \times (B - C)$$

where

A is

(*a*) if, immediately before the beginning of the taxpayer's first taxation year that began after 2006 (or, where this definition applies in respect of a taxation year of the taxpayer that begins before 2007, immediately before the beginning of the first taxation year of the taxpayer in respect of which this definition applies), the interest was capital property held by the taxpayer, 1/2, and

(*b*) in any other case, 1;

B is

(*a*) the fair market value of the interest at the first time in a particular taxation year of the taxpayer at which the taxpayer was resident in Canada where

(i) the taxpayer held the interest at the end of the preceding taxation year,

(ii) at the end of that preceding year, the taxpayer was resident in Canada or the interest was taxable Canadian property,

(iii) subsection (4) did not apply to the taxpayer for the purpose of computing the taxpayer's income in respect of the interest for any preceding taxation year, and

(iv) subsection (4) applies to the taxpayer for the purpose of computing the taxpayer's income in respect of the interest for the particular year, and

(*b*) in any other case, nil ; and

C is

(*a*) if paragraph (*a*) of the description of B applies in respect of the interest, the cost amount of the property immediately before the first time in the particular year at which the taxpayer was resident in Canada, and

(*b*) in any other case, nil.

"gross-up factor" — "gross-up factor", for a particular deferral amount, means

(*a*) if the amount determined for A in the definition "deferral amount" in respect of the particular deferral amount is 1/2, 2; and

(*b*) in any other case, 1.

"mark-to-market formula" — "mark-to-market formula", for a taxation year of a taxpayer in respect of a participating interest of the taxpayer in a non-resident entity, means the formula

$$(A + B + C + D) - (E + F + G)$$

where

A is the total of all amounts each of which is the taxpayer's proceeds of disposition from a disposition of the participating interest in the taxation year (other than from a disposition deemed to arise because of subsection 128.1(4) or 149(10));

B is

(*a*) if the taxpayer held the participating interest at the end of the taxation year, the fair market value (determined before taking into account any amount payable at the end of the taxation year by the non-resident entity in respect of the participating interest) at that time of the participating interest, and

(*b*) in any other case, nil;

C is the total of all amounts (other than an amount to which the description of A applies) each of which is an amount received by the taxpayer in the taxation year from the non-resident entity in respect of the participating interest;

D is

(*a*) the taxpayer's deferral amount in respect of the participating interest, if

(i) the deferral amount is a positive amount,

(ii) the participating interest was not disposed of by the taxpayer in the taxation year, and

(iii) the taxpayer so elects in respect of the participating interest in prescribed form filed with the Minister not later than the taxpayer's filing-due date for the taxation year,

(*b*) the taxpayer's deferral amount in respect of the participating interest if

(i) the taxpayer disposed of the participating interest in the taxation year, and

(ii) no election was made under paragraph (*a*) in respect of the participating interest by the taxpayer for a preceding taxation year, and

(*c*) in any other case, nil;

E is the total of all amounts each of which is

(*a*) the cost (other than an amount described in paragraph (*b*)) at which the taxpayer acquired the participating interest in the taxation year (otherwise than because of an acquisition deemed to arise under subsection 128.1(4) or 149(10)), or

(*b*) if the participating interest is an interest in a life insurance policy, the cost at which the taxpayer is deemed under paragraph (11)(*f*) to acquire in the taxation year a part of the interest in the policy;

F is

(*a*) if the taxpayer did not acquire the participating interest in the year and the taxpayer held the participating interest at a time that is the beginning of the taxation year, the fair market value at that time of the participating interest (determined before taking into account any amount payable at that time by the non-resident entity in respect of the participating interest), and

(*b*) in any other case, nil; and

G is

(*a*) if the participating interest was deemed by paragraph (11)(*b*) to be a participating interest in an entity for the preceding taxation year of the taxpayer, the amount that would be deductible under subparagraph (4)(*a*)(ii) in computing the taxpayer's income for the taxpayer's preceding taxation year in respect of the participating interest if that subparagraph were read without reference to clause (4)(*a*)(ii)(A), and

(*b*) in any other case, nil.

"proceeds of disposition" — "proceeds of disposition", from a disposition of a participating interest, includes

(*a*) where the participating interest is an interest in a life insurance policy, subject to paragraph (11)(*e*), proceeds of the disposition within the meaning assigned by subsection 148(9); and

(*b*) in any other case, proceeds of disposition within the meaning assigned by section 54.

"readily obtainable fair market value" — "readily obtainable fair market value", if any, at any time of a particular participating interest in a non-resident entity held at that time by a taxpayer, means the fair market value at that time of the participating interest if

(*a*) in respect of the particular participating interest

(i) the particular participating interest would, at that time, be an arm's length interest of the taxpayer if the definition "arm's length interest" in subsection 94.1(1) were read without reference to paragraph (*b*) of that definition,

(ii) participating interests that are identical to the particular participating interest are listed on a prescribed stock exchange throughout the period, in the taxpayer's taxation year that includes that time, during which the taxpayer held the particular participating interest,

(iii) the identical participating interests were traded on at least 10 consecutive trading days on that stock exchange in the period that begins 30 days before that time, and

(iv) the amount (or the average of the amounts) at which the identical participating interests were last traded on each trading day that is included in the latest of the 10 consecutive trading days in the period that begins 30 days before that time is published for public use; or

(*b*) in respect of the particular participating interest

(i) the participating interests in the non-resident entity that are identical to the particular participating interest have, throughout the period, in the taxpayer's taxation year that includes that time, during which the taxpayer held the particular participating interest, conditions attached that require the non-resident entity to accept at the demand of the holders of the participating interests (or that require the holders of the participating interests to accept, at the demand of the non-resident entity), at a price determined and payable in accordance with the conditions, the surrender in whole or in part of the participating interests, and

(ii) that price

(A) is determined by reference to the fair market value, at the time the participating interest is surrendered (or such other time that is set out in the terms of the participating interest at the time it was issued and that is within 60 days of the time that the participating interest is surrendered), of the property of the non-resident entity, and

(B) would have been acceptable to entities dealing at arm's length with one another.

"reconciliation amount" — "reconciliation amount", at a particular time in a taxation year of a taxpayer in respect of a

participating interest of the taxpayer, means the amount (including a negative amount) determined at the particular time by the formula

A – B

where

A is the amount determined by the formula

C – D

where

C is the amount that would be the cost at the particular time of the participating interest to the taxpayer if this Act were read without reference to this section, and

D is the taxpayer's proceeds of disposition from the taxpayer's last disposition of the participating interest in the taxation year; and

B is the amount determined by the formula

E + F – G

where

E is the total of all amounts each of which is an amount, in respect of the participating interest, that is deducted, or that would — if this Act were read without reference to subsection (20) — have been deducted, under subsection (4) in computing the taxpayer's income for the taxation year or a preceding taxation year,

F is the total of all amounts each of which is an amount, in respect of the participating interest, deducted under paragraph 94.4(2)(*a*) in computing the taxpayer's income for the taxation year or a preceding taxation year, and

G is the total of all amounts each of which is an amount, in respect of the participating interest, that is included, or that would — if this Act were read without reference to subsection (20) — have been included, under subsection (4) in computing the taxpayer's income for the taxation year or a preceding taxation year.

"tracking entity" — "tracking entity", in respect of a particular participating interest of a taxpayer in a particular non-resident entity at a particular time, means the particular non-resident entity if

(*a*) the tracked properties described in paragraph (9)(*d*) in respect of the participating interest are at that time owned by the particular non-resident entity, and

(i) the total fair market value at that time of those tracked properties is less than 90% of the total fair market value at that time of all property owned at that time by the particular non-resident entity, and

(ii) the total fair market value at that time of those tracked properties that are at that time investment property exceeds 50% of the total fair market value at that time of those tracked properties; or

(*b*) any tracked property described in paragraph (9)(*d*) in respect of the participating interest is not at that time owned by the particular non-resident entity, the particular non-resident entity (or an entity with which the particular non-resident entity does not deal at arm's length) owns property that is at that time investment property, and it is reasonable to conclude that that investment property (or property that may be substituted for that investment property) may be used, or give rise to property used, to satisfy, directly or indirectly, the right referred to in paragraph (9)(*d*) in respect of the particular participating interest.

"trading day" — "trading day", of a participating interest on a prescribed stock exchange, means a day on which the participating interest trades on that stock exchange.

(2) Rules of application. In this section,

(*a*) subsection 94.1(2) applies;

(*b*) in applying paragraph (*a*) of the definition "readily obtainable fair market value" in subsection (1) in respect of a particular participating interest, in a non-resident entity, held by a taxpayer in a taxation year, where participating interests, in the non-resident entity, that are identical to the particular participating interest are listed on more than one prescribed stock exchange, the references in that paragraph to a prescribed stock exchange shall be read as references to

(i) if the taxpayer so elects, by notifying the Minister in writing in the taxpayer's return of income for that taxation year or a preceding taxation year, the prescribed stock exchange identified by the taxpayer in that election, and

(ii) if the taxpayer has not filed an election in accordance with subparagraph (i) or if participating interests that are identical to the particular participating interest are no longer listed on the stock exchange identified in the election referred to in that subparagraph, the prescribed stock exchange chosen by the Minister;

(*c*) paragraph (3)(*b*) does not apply to a taxpayer for a particular taxation year in respect of a participating interest, in a non-resident entity, held in the particular taxation year by the taxpayer if

(i) subsection (3) applied, because of an election under paragraph (3)(*b*), for a taxation year (referred to in this paragraph as the "preceding taxation year") that ended before the particular taxation year of the taxpayer in respect of the participating interest (or in respect of any other participating interests, in the non-resident entity, that are identical to the participating interest), and

(ii) subsection (3) did not apply for a taxation year of the taxpayer that was after the preceding taxation year and before the particular taxation year in respect of the participating interest (or in respect of any of the other participating interests);

(*d*) paragraph (3)(*b*) does not apply to a taxpayer for a particular taxation year in respect of a participating interest, in a non-resident entity, held in the particular taxation year by the taxpayer if the Minister sends a written demand to the taxpayer requesting additional information for the purpose of enabling the Minister to determine whether the participating interest has a readily obtainable fair market value and information that may reasonably be considered to be satisfactory to make the determination is not received by the Minister within 120 days (or within any longer period that is acceptable to the Minister) after the Minister sends the demand;

(*e*) in applying subparagraph (4)(*a*)(i) to a taxpayer, that is a trust, for a particular taxation year of the taxpayer and in respect of a participating interest of the taxpayer in a non-resident entity, the reference in that subparagraph to "as income from property from a property that is the participating interest" is to be read as a reference to "as income from property that is a source outside Canada that is the participating interest", if the portion of the net accounting income of the non-resident entity, from sources outside Canada, for its last taxation year that ends in the particular taxation year exceeds 90% of the total net accounting income of the non-resident entity for that last taxation year; and

(*f*) in applying subparagraph (4)(*b*)(i) to a taxpayer, that is a trust, for a particular taxation year of the taxpayer and in respect of a participating interest of the taxpayer in a non-resident entity, the reference in that subparagraph to "a capital gain for the year" is to be read as a reference to "a capital gain for the year from a source outside Canada", if the portion of the net accounting income of the non-resident entity, from sources outside Canada, for its last taxation year that ends in the particular taxation year exceeds 90% of the total net accounting income of the non-resident entity for that last taxation year.

(3) Application of mark-to-market method. Subject to paragraphs (2)(*c*) and (*d*) and (5)(*b*), this subsection applies to a taxpayer for a particular taxation year of the taxpayer in respect of a participating interest held in the particular taxation year by the taxpayer

(*a*) if paragraph (11)(*a*) applies to the taxpayer for the particular taxation year in respect of the participating interest; or

(*b*) if

(i) subsection (9) or 94.1(3) applies to the taxpayer for the particular taxation year in respect of the participating interest,

(ii) the participating interest has, at all times in the particular taxation year at which the taxpayer held the participating interest, a readily obtainable fair market value,

(iii) either

(A) this subsection applied in respect of an identical participating interest that was held by the taxpayer at any time when the taxpayer held the participating interest, or

(B) the taxpayer has elected that this subsection apply in respect of the participating interest by notifying the Minister in writing in the taxpayer's return of income filed on or before the taxpayer's filing duedate for the first taxation year of the taxpayer for which

(I) subsection (9) or 94.1(3), as the case may be, applies to the taxpayer in respect of the participating interest, or

(II) subsection 94.1(3) applies to the taxpayer in respect of the participating interest and that immediately follows a taxation year of the taxpayer for which subsection (9) applied to the taxpayer in respect of the participating interest, and

(iv) subsection 94.3(3) has never applied to the taxpayer for a taxation year in respect of the participating interest or in respect of an identical participating interest that was held by the taxpayer at any time when the taxpayer held the participating interest.

(4) Income inclusion — mark-to-market regime. If subsection (3) applies to a taxpayer for a taxation year of the taxpayer in respect of a participating interest in a non-resident entity, this subsection applies and in computing the taxpayer's income for the taxation year in respect of the participating interest

(*a*) where subsection (20) does not apply for the taxation year in respect of the participating interest,

(i) there shall be added, as income from property from a property that is the participating interest, the positive amount, if any, determined by the mark-to-market formula for the taxation year in respect of the participating interest, and

(ii) there may be deducted, as a loss from property from a property that is the participating interest,

(A) if the participating interest was deemed by paragraph (11)(*b*) to be a participating interest in an entity for the year, nil, and

(B) in any other case, the absolute value of the negative amount, if any, determined by the mark-to-market formula for the taxation year in respect of the participating interest; and

(*b*) where subsection (20) applies for the taxation year in respect of the participating interest,

(i) the taxpayer is deemed to have a capital gain for the year from the disposition of capital property, that is the participating interest, in the taxation year equal to the amount, if any, by which the total of

(A) the positive amount, if any, determined by the mark-to-market formula for the taxation year in respect of the participating interest, and

(B) the positive amount, if any, that is the amount determined for D in applying the definition "mark-to-market formula" in subsection (1) for the taxation year in respect of the participating interest (where the gross-up factor for the deferral amount in respect of the participating interest is 2)

exceeds

(C) the absolute value of the negative amount, if any, that is the amount determined for D in applying the definition "mark-to-market formula" in subsection (1) for the taxation year in respect of the participating interest (where the gross-up factor for the deferral amount in respect of the participating interest is 2), and

(ii) the taxpayer is deemed to have a capital loss for the taxation year from the disposition of capital property, that is the participating interest, in the taxation year equal to the amount, if any, by which the total of

(A) the absolute value of the negative amount, if any, determined by the mark-to-market formula for the taxation year in respect of the participating interest, and

(B) the absolute value of the negative amount, if any, that is the amount determined for D in applying the definition "mark-to-market formula" in subsection (1) for the taxation year in respect of the participating interest (where the gross-up factor for the deferral amount in respect of the participating interest is 2)

exceeds

(C) the positive amount, if any, that is the amount determined for D in applying the definition "mark-to-market formula" in subsection (1) for the taxation year in respect of the participating interest (where the gross-up factor for the deferral amount in respect of the participating interest is 2).

(5) Non-resident periods excluded. If a taxpayer is non-resident at any time in a taxation year of the taxpayer

(*a*) in applying subsection (4) and the definition "mark-to-market formula" in subsection (1) (other than the description of D in that definition) in respect of a participating interest of the taxpayer, the taxation year is deemed to be the period, if any, that begins at the first time in the taxation year at which the taxpayer is resident in Canada and ends at the last time in the taxation year at which the taxpayer is resident in Canada;

(*b*) except for the purposes of paragraph (*c*) and subsection (4), subsection (3) does not apply to the taxpayer at that time; and

(*c*) where the taxpayer is an individual (other than a trust) who was non-resident throughout a particular period that is within a taxation year (determined under paragraph (*a*)) of the taxpayer, at any time in the particular period the individual holds a participating interest in a non-resident entity, and subsection (3) applies to the individual throughout the particular period in respect of the participating interest,

(i) for the purpose of section 114, the income or loss of the individual in respect of the participating interest for the particular period shall be determined without reference to this section, and

(ii) in computing the amount determined under paragraph 114(*a*) in respect of the individual for the taxation year

(A) there shall be deducted any amount that would be included under subparagraph (4)(*a*)(i) in computing the individual's income in respect of the participating interest for the particular period if

(I) the amount determined for D in applying the definition "mark-to-market formula" in subsection (1) for the taxation year in respect of the participating interest were nil, and

(II) the particular period were a taxation year, and

(B) there shall be added any amount that would be deductible under subparagraph (4)(*a*)(ii) in computing the individual's income in respect of the participating interest for the particular period if

(I) the amount determined for D in applying the definition "mark-to-market formula" in subsection (1) for the taxation year in respect of the participating interest were nil, and

(II) the particular period were a taxation year.

(6) Foreign partnership — member becoming resident. If, at a particular time in a fiscal period of a partnership, a person resident in Canada becomes a member of the partnership, or a person who is a member of the partnership becomes

resident in Canada, and immediately before the particular time no member of the partnership is resident in Canada,

(*a*) all amounts determined under this section shall be determined as if that fiscal period began at the first time in that fiscal period (determined without reference to this paragraph) at which a member of the partnership was resident in Canada;

(*b*) for the purpose of the definition "deferral amount" in subsection (1), as it applies in respect of dispositions that occur after the particular time and before the first subsequent time to which this subsection applies in respect of the partnership, subsection (4) is deemed not to have applied to the partnership for any preceding fiscal period; and

(*c*) where a negative deferral amount would, if this Act were read without reference to this paragraph, be determined in respect of a participating interest held by the partnership immediately before the particular time, the deferral amount in respect of the interest is deemed to be nil.

(7) Foreign partnership — member ceasing to be resident. If, at a particular time in a fiscal period of a partnership, a person resident in Canada ceases to be a member of the partnership, or a person who is a member of the partnership ceases to be resident in Canada and immediately after the particular time no member of the partnership is resident in Canada, all amounts determined under this section shall be determined as if that fiscal period ended at the last time in that fiscal period (determined without reference to this subsection) at which a member of the partnership was resident in Canada.

(8) Application of subsections (6) and (7). In subsections (6) and (7) and this subsection,

(*a*) if it can reasonably be considered that one of the main reasons that a member of a partnership is resident in Canada is to avoid the application of subsection (6) or (7), the member is deemed not to be resident in Canada; and

(*b*) if a particular partnership is a member of another partnership at any time,

(i) each person or partnership that is at that time a member of the particular partnership is deemed to be at that time a member of the other partnership,

(ii) each person or partnership that becomes at that time a member of the particular partnership is deemed to become at that time a member of the other partnership, and

(iii) each person or partnership that ceases at that time to be a member of the particular partnership is deemed to cease at that time to be a member of the other partnership.

(9) Tracking interests. This subsection applies to a taxpayer (other than an exempt taxpayer) for a particular taxation year of the taxpayer in respect of a particular participating interest, in a non-resident entity, held in the particular taxation year by the taxpayer (and in respect of any other participating interests that are identical to the particular participating interest and that are held by the taxpayer in the particular taxation year) only if

(*a*) subsection 94.1(3) does not apply to the taxpayer for the particular taxation year in respect of the particular participating interest;

(*b*) at the end of a taxation year of the non-resident entity that ends in the particular taxation year, the particular participating interest

(i) is held by the taxpayer, and

(ii) either

(A) is not an exempt interest in the non-resident entity, or

(B) would not be such an exempt interest if the definition "exempt interest" in subsection 94.1(1) were read without reference to subparagraph (*a*)(i) or (ii) of that definition;

(*c*) at the end of that taxation year of the non-resident entity, it is a tracking entity in respect of the particular participating interest;

(*d*) at any time in the particular taxation year, the amount of any payment under a right (whether immediate or future, whether absolute or contingent or whether conditional on or subject to the exercise of any discretion by any entity or individual) to receive, in any manner whatever and from any entity, amounts in respect of the particular participating interest or any identical interests, or the value of such a right, is, directly or indirectly, determined primarily by one or more of the following criteria in respect of one or more properties (such property or properties together referred to, in this subsection and the definition "tracking entity" in subsection (1), as "tracked property" or "tracked properties"):

(i) production from the property, use of the property, gains from the disposition of the property, profits from the disposition of the property or fair market value of the property,

(ii) income from the property, profits from the property, revenue from the property or cash flow from the property, or

(iii) any other criterion similar to a criterion referred to in subparagraph (i) or (ii); and

(*e*) throughout each taxation year of the non-resident entity that ends in the particular taxation year, all or substantially all of the fair market value of all the tracked properties in respect of the particular participating interest cannot be attributed, either directly or indirectly, to the fair market value of all tracked properties in respect of the particular participating interest (throughout the period that those properties are tracked properties in respect of the particular participating interest) that

(i) are shares of the capital stock of a particular foreign affiliate of the taxpayer that would, if those shares were held by the taxpayer throughout the period (referred to in this subparagraph as the "tracked property period") that those shares are tracked properties in respect of the particular participating interest, be

(A) throughout the tracked property period, a qualifying interest (within the meaning assigned by paragraph 95(2)(*m*)) of the taxpayer in the particular foreign affiliate, and

(B) throughout the tracked property period, a participating interest of the taxpayer in a qualifying entity, and

(ii) are not tracked properties in respect of a participating interest in a non-resident entity of an entity that is not related to the taxpayer.

(10) Treatment of foreign insurance policies. This subsection applies to a taxpayer for a particular taxation year of the taxpayer in respect of an interest in an insurance policy if

(*a*) the taxpayer is not an exempt taxpayer for the particular taxation year;

(*b*) the taxpayer holds, at any time in the particular taxation year, an interest in the insurance policy; and

(*c*) the insurance policy is not an insurance policy issued by an insurer in the course of carrying on an insurance business in Canada the income from which business is subject to tax under this Part.

(11) Treatment of foreign insurance policies. If subsection (10) applies to a taxpayer for a particular taxation year of the taxpayer in respect of an interest in an insurance policy

(*a*) subject to paragraph (*c*), this paragraph applies to the taxpayer for the particular taxation year in respect of the interest, and no amount shall be included or deducted, as the case may be, under section 12.2, paragraphs 56(1)(*d*) and (*j*) and 60(*a*) and (*s*) and sections 138.1 and 148 in respect of the interest for the purpose of computing the taxpayer's income for the particular taxation year;

(*b*) subject to paragraph (*c*), in applying subsections (1) to (3), paragraph (4)(*a*) and paragraph (*d.1*) of the definition "specified foreign property" in subsection 233.3(1) to the taxpayer in respect of the interest for the particular taxation year,

(i) the interest is deemed at each time in the particular taxation year that it is held by the taxpayer to be a participating interest in a non-resident entity, and

(ii) the amount determined for D in applying the definition "mark-to-market formula" in subsection (1) for the particular taxation year in respect of the interest is deemed to be nil;

(*c*) paragraphs (*a*) and (*b*) do not apply to the taxpayer for the particular taxation year in respect of the interest if

(i) the taxpayer has no rights (whether immediate or future, whether absolute or contingent or whether conditional on or subject to the exercise of any discretion by any entity) to receive an amount under the policy, other than rights to receive an amount of

(A) benefits payable as a consequence of the occurrence of risks insured under the policy,

(B) an experience-rated refund of premiums for a year, or

(C) a return of premiums previously paid upon the surrender, cancellation or termination of the insurance policy, or

(ii) the taxpayer can establish to the satisfaction of the Minister that

(A) the interest in the policy was, on the anniversary day of the policy that occurs in the particular taxation year,

(I) an exempt policy, or

(II) a prescribed annuity contract, or

(B) the taxpayer has included in computing the taxpayer's income for the particular taxation year the amount, if any, required under section 12.2 to be included in computing the taxpayer's income for the particular taxation year in respect of the interest;

(*d*) for the purpose of subsections (1) and (4), where the interest is held by the taxpayer at a particular time that is the beginning of the particular taxation year, subsection (4) applies for the purpose of computing the taxpayer's income for the particular taxation year in respect of the interest, and subsection (4) did not apply for the purpose of computing the taxpayer's income for the taxpayer's preceding taxation year in respect of the interest, the taxpayer is deemed to have acquired the interest at the particular time at a cost equal to

$$A + B$$

where

A is the fair market value at the particular time of the interest, and

B is, where the taxpayer elects in prescribed form filed with the taxpayer's return of income under this Part for the particular taxation year, the amount determined by the formula

$$C - D$$

where

C is the total of all amounts each of which is a premium paid before the particular time in respect of the interest by the taxpayer, to the extent that the premium was paid at a time when the taxpayer was resident in Canada and not an exempt taxpayer, cannot be refunded (otherwise than on termination or cancellation of the policy) and was not paid in respect of a benefit described in any of subparagraphs (*c*)(i) to (vii) of the definition "premium" in subsection 148(9), and

D is the total of

(i) the fair market value at the particular time of the interest, and

(ii) the total of all amounts each of which is an amount received before the particular time in respect of the interest by the taxpayer at a time when the taxpayer was resident in Canada and not an exempt taxpayer;

(*e*) for the purposes of this subsection and subsections (1) and (4), each of the following amounts in respect of the interest is to be determined without reference to benefits under the policy that are paid, payable or anticipated to be payable as a consequence only of the occurrence of the risks insured under the policy:

(i) the fair market value of the interest,

(ii) the proceeds of disposition of the interest, and

(iii) each amount paid to a beneficiary in respect of the interest;

(*f*) for the purposes of subsections (1) and (4),

(i) a payment of a premium under the policy by the taxpayer in the particular taxation year — to the extent that the premium cannot be refunded (otherwise than on termination or cancellation of the policy) and is not a premium in respect of a benefit described in any of subparagraphs (*c*)(i) to (vii) of the definition "premium" in subsection 148(9) — is deemed to be an acquisition in the particular taxation year by the taxpayer of a part of the interest in the policy at a cost equal to the amount so paid,

(ii) a payment made by the taxpayer in the particular taxation year in respect of the principal amount of a loan made under the policy in the particular taxation year (or a preceding taxation year of the taxpayer) — to the extent that the loan was included in the amount in respect of the interest determined for C in applying the definition "mark-to-market formula" in subsection (1) for the taxation year in which the loan was made — is deemed to be an acquisition in the particular taxation year by the taxpayer of a part of the interest in the policy at a cost equal to the amount so paid, and

(iii) an amount (other than an amount described in subparagraph (i) or (ii)) paid by the taxpayer in the particular taxation year, to an entity or individual other than the insurer that issued the policy, to acquire in the particular taxation year an interest in the policy from the entity or individual, is deemed to be an acquisition in the particular taxation year by the taxpayer of a part of the interest in the policy at a cost equal to the amount so paid;

(*g*) for the purposes of subsections (1) and (4), if paragraph (*d*) deems the taxpayer to have acquired the interest at a particular time in the particular taxation year or an earlier taxation year, in computing the taxpayer's proceeds of disposition from the taxpayer's first disposition of the interest after the particular time, the taxpayer is deemed — in addition to any other proceeds of disposition from the disposition of the interest — to be entitled to receive an amount of proceeds from the disposition of the interest equal to the amount determined by the formula

$$A - B$$

where

A is the total of

(i) the fair market value at the particular time of the interest, and

(ii) the total of all amounts each of which is an amount received before the particular time in respect of the interest by the taxpayer at a time when the taxpayer was resident in Canada and not an exempt taxpayer, and

B is the total of all amounts each of which is a premium paid before the particular time in respect of the interest by the taxpayer, to the extent that the premium was paid at a time when the taxpayer was resident in Canada and not an exempt taxpayer, cannot be refunded (otherwise than on termination or cancellation of the policy) and was not paid in respect of a benefit described in any of subparagraphs (*c*)(i) to (vii) of the definition "premium" in subsection 148(9); and

(*h*) if the interest is held by the taxpayer at a time that is the end of the particular taxation year, subsection (4) applies for the purpose of computing the taxpayer's income for the particular taxation year in respect of the interest, and subsection (4) does not apply for the purpose of computing the taxpayer's income for the taxpayer's following taxation year (in this paragraph referred to as "the following taxation year") in respect of

the interest, the cost to the taxpayer of the interest shall be determined at or after the particular time that is the beginning of the following taxation year as if the taxpayer had acquired the interest at the particular time at a cost equal to the amount determined by the formula

$$A + B - C$$

where

A is the fair market value at the end of the particular taxation year of the interest,

B is the amount that would be determined under subparagraph (4)(*a*)(ii) in respect of the interest for the particular taxation year if that subparagraph were read without reference to clause (A) of that subparagraph, and

C is the amount that would, if paragraph (*g*) had applied at the end of the particular taxation year in respect of the interest, be determined at the end of the particular taxation year in respect of the interest by the formula under that paragraph.

(12) Adjustments where mark-to-market system no longer applies. If a participating interest in a non-resident entity is held by a taxpayer at the end of a particular taxation year of the taxpayer, subsection (4) applies for the purpose of computing the taxpayer's income for the particular taxation year in respect of the participating interest, and that subsection does not apply (otherwise than solely because the taxpayer became an exempt taxpayer or ceased to reside in Canada) for the purpose of computing the taxpayer's income for the taxpayer's following taxation year (in this paragraph referred to as "the following taxation year") in respect of the participating interest

(*a*) the taxpayer's cost of the participating interest at any time after the end of the particular taxation year is deemed to be the amount determined by the formula

$$A + B - C$$

where

A is the amount that would, if this Act were read without reference to this section, be determined to be the taxpayer's cost of the participating interest at the end of the particular taxation year,

B is the amount, if any, by which the amount determined under subparagraph 94.4(2)(*a*)(ii) in respect of the taxpayer in respect of the participating interest for the particular taxation year exceeds the amount determined under paragraph 94.4(2)(*a*) in respect of the taxpayer in respect of the participating interest for the particular taxation year, and

C is the amount, if any, by which

(i) the total of

(A) the amount determined under paragraph 94.4(2)(*a*) in respect of the taxpayer in respect of the participating interest for the particular taxation year, and

(B) the amount determined under clause 94.4(2)(*a*)(ii)(B) in respect of the taxpayer in respect of the participating interest for the particular taxation year,

exceeds

(ii) the amount determined under clause 94.4(2)(*a*)(ii)(A) in respect of the taxpayer in respect of the participating interest for the particular taxation year; and

(*b*) in computing, at any time after the end of the particular taxation year, the adjusted cost base to the taxpayer of the participating interest, paragraph 94.4(2)(*b*) shall not apply to the taxpayer in respect of the participating interest.

(13) Cost adjustment where disposition in year mark-to-market system applies. If a taxpayer's participating interest in a non-resident entity is disposed of by the taxpayer at a particular time in a taxation year (other than a disposition deemed to arise because of subsection 128.1(4) or 149(10)) and subsection (4) applies for the purpose of computing the taxpayer's income for the taxation year in respect of the participating interest, the taxpayer's cost of the participating interest immediately before the particular time is deemed to be (except for the purpose of this section) its fair market value at the particular time.

(14) Deferral amount where same interest reacquired. Subject to subsections (15) to (18), if a taxpayer disposes of a participating interest in an entity at any time in a taxation year of the taxpayer and subsection (4) applies for the purpose of computing the taxpayer's income for the year in respect of the participating interest, in applying subsection (4) to a disposition after that time by the taxpayer of the participating interest, the deferral amount of the taxpayer in respect of the participating interest is nil.

(15) Deferral amount — fresh start re change of status of entity. If subsection (12) has applied to determine the cost at any particular time after the end of a particular taxation year to a taxpayer of a participating interest, in applying subsection (4) for the purpose of computing the taxpayer's income in respect of the participating interest for a taxation year that is after the particular taxation year, the deferral amount of the taxpayer in respect of the participating interest shall be determined

(*a*) for the purpose of subparagraph (*a*)(iii) of the description of B in the definition "deferral amount" in subsection (1), as if subsection (4) had not applied to the taxpayer in respect of the participating interest for taxation years that began before the particular time; and

(*b*) without reference to the application of subsection (14) with regard to dispositions that occurred before the particular time.

(16) Deferral amount — fresh start after emigration of taxpayer. If a taxpayer ceases at a particular time to be resident in Canada, in applying subsection (4) to a disposition after the particular time by the taxpayer of a participating interest and to an election made after the particular time by the taxpayer under subparagraph (*a*)(iii) of the description of D in the definition "mark-to-market formula" in subsection (1) for a taxation year in respect of the participating interest, the deferral amount of the taxpayer in respect of the participating interest shall be determined

(*a*) for the purpose of subparagraph (*a*)(iii) of the description of B in the definition "deferral amount" in subsection (1), as if subsection (4) had not applied to the taxpayer in respect of the participating interest for taxation years that began before the particular time; and

(*b*) without reference to the application of subsection (14) with regard to dispositions that occurred before the particular time.

(17) Deferral amount — fresh start on becoming an exempt taxpayer. If a taxpayer is an exempt taxpayer for a particular taxation year of the taxpayer because of the application of paragraph (*a*) or (*b*) of the definition "exempt taxpayer" in subsection 94.1(1), and the taxpayer was not an exempt taxpayer for the taxation year of the taxpayer that preceded the particular taxation year, in applying subsection (4) to a disposition after the particular taxation year by the taxpayer of a participating interest and to an election made after the particular taxation year by the taxpayer under subparagraph (*a*)(iii) of the description of D in the definition "mark-to-market formula" in subsection (1) for a taxation year in respect of the participating interest, the deferral amount of the taxpayer in respect of the participating interest shall be determined

(*a*) for the purpose of subparagraph (*a*)(iii) of the description of B in the definition "deferral amount" in subsection (1), as if subsection (4) had not applied to the taxpayer in respect of the participating interest for taxation years that ended before the particular taxation year; and

(*b*) without reference to the application of subsection (14) with regard to dispositions that occurred before the particular taxation year.

(18) Superficial dispositions. If a taxpayer disposes of a participating interest, the deferral amount in respect of the participating interest would otherwise be a negative amount, and the disposition would, if the participating interest were a capital property and a loss arose on the disposition, give rise to a superficial loss (within the meaning that would be assigned by section 54 if the definition "superficial loss" in that section

were read without the reference to subsection 40(3.4) in paragraph (*h*) of that definition),

(*a*) except for the purpose of applying paragraph (*b*) in respect of the disposition, the deferral amount of the taxpayer in respect of the participating interest is deemed to be nil; and

(*b*) the deferral amount of the taxpayer in respect of the property that would be the substituted property referred to in that definition if the assumptions described in this subsection applied is deemed to be equal to the deferral amount of the taxpayer in respect of the participating interest.

(19) Determination of capital dividend account. If an amount has been included or deducted under paragraph (4)(*a*) in computing the income of a corporation resident in Canada for a taxation year in respect of a participating interest, in computing the capital dividend account of the corporation

(*a*) the corporation is deemed to have

(i) a capital gain from a disposition at the end of the taxation year of property equal to twice the amount of the taxable capital gain determined under subparagraph (ii), and

(ii) a taxable capital gain from the disposition at the end of the taxation year of property equal to the lesser of

(A) the positive amount, if any, that is the amount determined for D in applying the definition "mark-to-market formula" in subsection (1) for the taxation year in respect of the participating interest (where the gross-up factor for the deferral amount in respect of the participating interest is 2), and

(B) the amount included in computing the income of the corporation for the taxation year under subsection (4); and

(*b*) the corporation is deemed to have

(i) a capital loss from a disposition at the end of the taxation year of property equal to twice the amount of the allowable capital loss determined under subparagraph (ii), and

(ii) an allowable capital loss from the disposition at the end of the taxation year of property equal to the lesser of

(A) the absolute value of the negative amount, if any, that is the amount determined for D in applying the definition "mark-to-market formula" in subsection (1) for the taxation year in respect of the participating interest (where the gross-up factor for the deferral amount in respect of the participating interest is 2), and

(B) the amount deducted in computing the income of the corporation for the taxation year under subsection (4).

(20) Application of paragraph (4)(*b*). This subsection applies for a taxation year of a taxpayer in respect of a participating interest, in a particular non-resident entity, held in the taxation year by the taxpayer, if

(*a*) the participating interest would, if paragraph 39(1)(*a*) and the definition "inventory" in subsection 248(1) were read without reference to this section, be a capital property of the taxpayer at the last time in the taxation year at which the taxpayer held the participating interest; and

(*b*) all or substantially all of the amount determined under the "mark-to-market formula" for the taxation year in respect of the participating interest can be attributed to

(i) capital gains or capital losses from the disposition of capital property (other than a participating interest in a foreign investment entity) by the particular non-resident entity or by any foreign investment entity in which the particular non-resident entity has a direct or indirect interest, and

(ii) increases or decreases in the fair market value of capital property (other than a participating interest in a foreign investment entity) of the particular non-resident entity or of any foreign investment entity in which the particular non-resident entity has a direct or indirect interest.

(21) Disposition of interest — reconciliation. If a taxpayer's participating interest in a non-resident entity is disposed of by the taxpayer at a particular time in a particular taxation year, and subsection (4) applies for the purpose of computing the taxpayer's income for the particular taxation year in respect of the participating interest, in computing that income

(*a*) where subsection (20) does not apply for the particular taxation year, and has never applied for a preceding taxation year, in respect of the participating interest,

(i) there may be deducted, as a loss from property from a property that is the participating interest, the positive reconciliation amount, if any, at that time in respect of the participating interest, and

(ii) there shall be included, as income from property from a property that is the participating interest, the absolute value of the negative reconciliation amount, if any, at that time in respect of the participating interest; and

(*b*) in any other case,

(i) the taxpayer is deemed to have a capital loss for the particular taxation year from the disposition of capital property that is the participating interest in the particular taxation year equal to the positive reconciliation amount, if any, at that time in respect of the participating interest, and

(ii) the taxpayer is deemed to have a capital gain for the particular taxation year from the disposition of capital property that is the participating interest in the particular taxation year equal to the absolute value of the negative reconciliation amount, if any, at that time in respect of the participating interest.

Applicable: See the Application following the proposed amendment to section 94.1.

Editorial Note: S. 100(1) of S.C. 2007, c. 35, which is a coordinating amendment with former Bill C-10, provides that if former Bill C-10 receives royal assent, this former Bill C-10 amendment applies as though former Bill C-10 had received royal assent before S.C. 2007, c. 35. As well, the reference to "prescribed stock exchange" in the definitions of "readily obtainable fair market value" and "trading day" in subsection 94.2(1) and in paragraph 94.2(2)(*b*) is replaced by a reference to "designated stock exchange" on December 14, 2007.

Explanatory Note:

Foreign Investment Entities — Mark-to-market

New section 94.2 of the Act sets out new rules for the taxation of interests in FIEs where subsections 94.1(4) and 94.3(3) do not apply.

Except as otherwise indicated, section 94.2 applies to taxation years that begin after 2006.

Subsection 94.2(1) — Definitions

New subsection 94.2(1) of the Act sets out a number of definitions and provides that those definitions and the definitions in subsection 94.1(1) apply for the purposes of section 94.2.

"deferral amount"

The deferral amount of a taxpayer generally represents the gain or loss (in the event that the interest was capital property, one half of the gain or loss) in respect of the interest accrued to the time when the interest first became subject to the rules in section 94.2. The expression "deferral amount" in respect of a participating interest of a taxpayer in an entity applies principally for the purpose of determining the value of D in the "mark-to-market formula" (as defined in subsection 94.2(1)) for a taxation year of the taxpayer in respect of the participating interest. That formula applies in determining, under subsection 94.2(4), a taxpayer's income or loss (or capital gain or capital loss) from the participating interest for a taxation year. Subsection 94.2(4) generally provides for the recognition of a deferral amount in respect of a participating interest on the disposition of the interest. Because of paragraph 94.1(2)(*u*), identical participating interests are considered to be disposed of in the order in which they were acquired.

For a participating interest, in a non-resident entity, acquired after the beginning of the taxpayer's first taxation year that began after 2006, the deferral amount will be nil in the typical cases where the rules in section 94.2 apply to the interest for the year in which the interests were acquired.

The deferral amount is calculated, in conjunction with subsections 94.2(5) and subsection 128.1(4), so that gains and losses accruing while a taxpayer is not resident in Canada are ignored for the purposes of section 94.2, except in the unusual case where an interest in a FIE is taxable Canadian property.

Additional rules affecting the calculation of the deferral amount are contained in subsections 94.2(6) and (14) to (18), as described in the commentary below.

"gross-up factor"

The definition "gross-up factor" for a particular deferral amount is 1, except where the 1/2 factor is relevant in computing the deferral amount because the property is capital property. In the latter case, the "gross-up factor" is 2 (i.e., the reciprocal of the 1/2 factor). For more information on the relevance of this definition, see the commentary on subsection 94.2(12).

"mark-to-market formula"

The definition "mark-to-market formula" provides a formula that applies, for a taxation year of a taxpayer in respect of a participating interest of the taxpayer, in determining, under subsection 94.2(4), a taxpayer's income or loss (or, where subsection 94.2(20) applies in respect of the participating interest, the capital gain or capital loss) from the participating interest for a taxation year.

The amount determined under the formula for a taxpayer's taxation year in respect of a participating interest in a non-resident entity is computed as follows:

- [A] ADD the proceeds of disposition in the year from any disposition by the taxpayer in the year of the interest (other than a disposition arising from the application of subsection 128.1(4) or 149(10), given that the value of B would take into account the fair market value of the interest at the time of such deemed dispositions);
- [B] ADD, where the taxpayer held the interest at the end of the year, the fair market value of the interest at that time (determined before taking into account the FIE's liability in respect of any amount payable from the FIE in respect of the interest);
- [C] ADD the total payments received by the taxpayer in the year from the FIE, other than payments included in the value of A;
- [D] ADD, where the taxpayer so elects for a year during which the taxpayer did not dispose of the interest, any positive deferral amount in respect of the interest;
- [D] ADD, where the taxpayer disposed of the interest in the year and the election referred to above has not been previously made, the deferral amount in respect of the interest — the value of D will reduce the amount determined under the formula in the event that the deferral amount is a negative amount;
- [E] SUBTRACT either
  - the cost of the interest on any acquisition in the year of the interest (disregarding acquisitions arising because of the application of subsection 128.1(4) or 149(10), given that these acquisitions are taken into account in the value of F), or
  - if the participating interest is an interest in a life insurance policy, the cost at which the taxpayer is deemed by paragraph (11)(*f*) to acquire the interest;
- [F] SUBTRACT, where the taxpayer acquired the interest before the beginning of the year, the fair market value of the interest at the beginning of the year.

Ignoring the descriptions of D and G, the mark-to-market formula in effect determines the net increase or decrease in the fair market value of a taxpayer's participating interest in a non-resident entity for a taxation year.

The value of D represents a taxpayer's accrued gain or loss when a participating interest first becomes subject to section 94.2. The amount of this accrued gain or loss (or one half of it, in the event so provided in paragraph (*b*) of the definition "deferral amount" in subsection 94.2(1)) is included in computing income under the description of D, but only for the taxation year in which the interest is disposed of unless the taxpayer elects for earlier recognition of a positive deferral amount. (An earlier recognition of a positive deferral amount may be beneficial for a taxpayer, particularly where section 94.4 applies.) Where the taxpayer is a trust, a disposition may occur as a consequence of the application of the 21-year deemed disposition rule. See, in this regard, new subsection 104(4.1).

For more detail, see the commentary on subsections 94.2(3) and (4) and the definitions "deferral amount" and "gross-up factor" in subsection 94.2(1).

"proceeds of disposition"

The definition "proceeds of disposition" has been added to clarify that, in the case of a disposition of an interest in a life insurance policy, proceeds of disposition are defined by subsection 148(9). In any other case, the proceeds of disposition are defined by section 54.

"readily obtainable fair market value"

The definition "readily obtainable fair market value" is relevant in determining whether a taxpayer may elect to have subsection 94.2(3) (and, as a result, subsection 94.2(4)) apply for a taxation year in respect of a particular participating interest (as defined in subsection 94.1(1)) of the taxpayer in a non-resident entity (as defined in subsection 94.1(1)).

In general terms, the readily obtainable fair market value of a particular participating interest is, if one of two sets of conditions is met, its fair market value.

The first set of conditions requires, in respect of the particular participating interest that:

- participating interests that are identical to the particular participating interest be listed on a prescribed stock exchange throughout the period, in the taxpayer's taxation year that includes that time, during which the taxpayer held the particular participating interest,
- the particular participating interest would, at that time, be an arm's length interest of the taxpayer (determined without regard to the 10% limitation that normally applies under paragraph (*b*) of the definition "arm's length interest" in subsection 94.1(1)),
- there be a regularly published price of the amount (or of the average of the amounts each of which is the amount) at which participating interests that are identical to the particular participating interest last traded on that stock exchange on each of the latest 10 consecutive "trading days" (as defined in subsection 94.2(1)) of the participating interests on that stock exchange, and
- within the 30-day period that begins before the particular time there are at least 10 trading days of the identical participating interests on that stock exchange.

Note that, under paragraph 94.2(2)(*b*), where the identical participating interests are listed on more than one prescribed stock exchange, the taxpayer may generally elect which of the exchanges will be used in applying the definition "readily obtainable fair market value". For more information, see the commentary on paragraph 94.2(2)(*b*).

Where the first set of conditions are not met, the second set of conditions requires that the identical participating interests have, throughout the period, in the taxpayer's taxation year that includes that time, during which the taxpayer held the particular participating interest, conditions attached that require the non-resident entity to accept at the demand of the holders of the participating interests (or that require the holders of the participating interests to accept, at the demand of the non-resident entity), at a price ("the redemption price") determined and payable in accordance with the conditions, the surrender in whole or in part of the participating interests. In addition, the second set of conditions requires that the redemption price be determined by reference to the fair market value, at the time the participating interest is surrendered (or such other time that is set out in the terms of the participating interest at the time it was issued and that is within 60 days of the time that the participating interest is surrendered), of the property of the non-resident entity, and be a price that would have been acceptable to entities dealing at arm's length with one another.

"reconciliation amount"

The reconciliation amount in respect of a participating interest of a taxpayer is relevant in determining what adjustments, if any, to the cost of the interest may be required under subsection 94.2(12) and what amounts, generally, may be included or deductible, under subsection 94.2(21), by the taxpayer in computing the taxpayer's income for a taxation year in

which the interest is disposed of. For more detail, see the commentary on subsections 94.2(12) and (21).

The reconciliation amount at a particular time in a taxation year of a taxpayer in respect of a participating interest of the taxpayer, means, in very general terms the amount (including a negative amount) that is the difference between the taxpayer's economic loss in respect of the interest (while the taxpayer held the interest and subsection 94.2(4) applied to it) and the taxpayer's deductions, in computing income, under sections 94.2 or 94.4 (net of income inclusions under section 94.2)) in respect of the interest.

More specifically, the reconciliation amount at a particular time in a taxation year in respect of a participating interest is the amount (including a negative amount) determined by the formula "A – B".

Under the formula, "A" is the positive amount (for more detail, see section 257 of the Act) determined by subtracting from the cost of the participating interest to the taxpayer (determined without reference to section 94.2) the proceeds of disposition from the last disposition in the taxation year by the taxpayer of the participating interest.

Variable "B" is the positive amount determined by

- ADDING all amounts, in respect of the participating interest, that are, in computing the taxpayer's income for the taxation year or a preceding year, deducted under paragraph 94.4(2)(*a*) or deducted (or that would, if this Act were read without reference to subsection 94.2(20), have been deducted) under subsection 94.2(4), and
- SUBTRACTING all amounts in respect of the participating interest, that are, in computing the taxpayer's income for the taxation year or a preceding year, included, or that would if this Act were read without reference to subsection 94.2(20) have been included, under subsection 94.2(4).

For this purpose, a specified year means, if paragraph 94.2(12)(*a*) deems the taxpayer to have acquired the participating interest at a time in the taxation year, a preceding taxation year, and in any other case, the taxation year that includes the particular time or a preceding taxation year.

For more detail, see the commentary on subsections 94.2(4), (12) and (21) and 94.4(2).

"tracking entity"

The definition "tracking entity" is relevant in determining whether subsections 94.1(4) and 94.2(4) will apply for a taxation year of a taxpayer in respect of a participating interest, held by the taxpayer at the end of the year, in a non-resident entity. If the non-resident entity is, at the end of a taxation year of the non-resident entity that ends in the taxpayer's year, a tracking entity, and the other conditions described in subsection 94.2(9) are met, such that subsection 94.2(9) applies, then either of subsections 94.1(4) or 94.2(4) would generally apply for the year. Subsection 94.3(4) will not apply for the year in respect of the interest.

A particular non-resident entity is a tracking entity in respect of a particular participating interest of a taxpayer in the non-resident entity if either of paragraph (*a*) or (*b*) of the definition applies.

Under paragraph (*a*) of the definition, the particular non-resident entity is a tracking entity if

- the tracked properties described in paragraph 94.2(9)(*d*) in respect of the particular participating interest are at that time owned by the particular non-resident entity,
- the total fair market value at that time of those tracked properties is less than 90% of the total fair market value at that time of all property owned at that time by the particular non-resident entity, and
- the total fair market value at that time of those tracked properties that are at that time investment property exceeds 50% of the total fair market value at that time of those tracked properties.

Under paragraph (*b*) of the definition, the particular non-resident entity will be a tracking entity if

- any of the tracked property described in paragraph 94.2(9)(*d*) in respect of the participating interest is not at that time owned by the particular non-resident entity,
- the particular non-resident entity (or an entity with which the particular non-resident entity does not deal at arm's length) owns property that is at that time investment property, and
- it is reasonable to conclude that that investment property (or property that may be substituted for that investment property) may be used, or give rise to property used, to satisfy, directly or indirectly, the right referred to in paragraph 94.2 (9)(*d*) in respect of the particular participating interest.

Note that an election under paragraph 94.1(2)(*j*) is relevant only in determining whether an entity is a "foreign investment entity"(and where stipulated, a "qualifying entity"), as those expressions are defined in subsection 94.1(1). Thus the determination of whether property is owned or not by an entity is made, for the purposes of the definition "tracking entity", without regard to that election.

Note also that the exclusion of "exempt property" from being treated as "investment property" (as those expressions are defined in subsection 94.1(1)) does not apply for the purposes of the definition "tracking entity".

For more information on the application of this definition, see the commentary on subsections 94.1(4) and 94.2(3) and (9). For more information on paragraph 94.2(1)(*j*) and the definitions "exempt property" and "investment property" in subsection 94.1(1), see the commentary on those provisions.

"trading day"

The definition "trading day" is relevant in applying paragraph (*a*) of the definition "readily obtainable fair market value" in subsection 94.2(1). A trading day of a participating interest on a prescribed stock exchange, means a day on which the participating interest trades on that stock exchange.

Subsection 94.2(2) — Rules of Application

New subsection 94.2(2) of the Act provides rules of application for the purpose of section 94.2.

Application

Paragraph 94.2(2)(*a*) provides that the rules in subsection 94.1(2) also apply for the purposes of section 94.2.

Readily Obtainable Fair Market Value

Paragraph 94.2(2)(*b*) applies for the purpose of paragraph (*a*) of the definition "readily obtainable fair market value" in subsection 94.2(1), referred to in the commentary above, in respect of a particular participating interest in a non-resident entity held by a taxpayer in a taxation year. Where participating interests in the non-resident entity that are identical to the particular participating interest are listed on more than one prescribed stock exchange, the references in that definition to a prescribed stock exchange shall be read as a reference to the prescribed stock exchange in respect of which the taxpayer files an election with the Minister of National Revenue.

If the taxpayer does not so elect or participating interests that are identical to the particular participating interest are no longer listed on the stock exchange identified in the taxpayer's election referred, the references in that definition to a prescribed stock exchange shall be read as a reference to the prescribed stock exchange chosen by the Minister of National Revenue.

Restrictions on Application of Mark-to-market Rules

Paragraph 94.2(2)(*c*) provides that the mark-to-market regime in subsection 94.2(4) will not apply to a taxpayer in respect of certain participating interests of the taxpayer. The rule applies if the taxpayer has been subject to subsection 94.2(4) in respect of a participating interest because of an election in respect of the interest where the interest has a readily obtainable fair market value and subsection 94.2(3) ceases to apply. For example, paragraph 94.2(2)(*c*) would apply where the interest (other than a foreign insurance policy) ceases to have a readily obtainable fair market value or the Minister fails to receive, in response to a demand under paragraph 94.2(2)(*d*), information satisfactory to make a determination of whether the interest has a readily obtainable fair market value.

Where paragraph 94.2(2)(*c*) applies the taxpayer will become subject to 94.1(4) in respect of the participating interest if 94.1(3) continues to apply to the taxpayer in respect of the participating interest.

Note that if, subsection 94.2(4) applies to a taxpayer for a taxation year in respect of a participating interest in a tracking entity and in the immediately following year the interest ceases to be an interest in a tracking entity and becomes subject to subsection 94.1(3), then the taxpayer may elect to have subsection 94.2(4) apply for that immediately following year. In this regard, see the commentary on clause 94.2(3)(*b*)(ii)(B).

Paragraph 94.2(2)(*d*) provides that paragraph 94.2(3)(*b*) does not apply to a taxpayer for a particular taxation year in respect of a participating interest held in the particular taxation year by the taxpayer in a non-resident entity if the Minister sends a written demand to the taxpayer requesting additional information for the purpose of enabling the Minister to determine whether the participating interest has a readily obtainable fair market value and information sufficient to make the determination is not received by the Minister within 120 days (or within such longer period as is acceptable to the Minister) after the Minister sends the demand.

Characterization of Income from FIE Interest

Paragraphs 94.2(2)(*e*) and (*f*) provide special rules for determining whether a taxpayer's income for a taxation year from the application of subsection 94.2(4) will be treated as income from a source outside Canada. Paragraph 94.2(2)(*e*) provides that in applying subparagraph 94.2(4)(*a*)(i) to a taxpayer (that is a trust) for a particular taxation year of the taxpayer and in respect of a participating interest of the taxpayer in a non-resident entity, the reference in that paragraph to "as income from property that is the participating interest" shall be read as a reference to "as income from property that is a source outside Canada that is the participating interest". However, this special rule applies only if the portion of the net accounting income of the non-resident entity, from sources outside Canada, for its last taxation year that ends in the particular taxation exceeds 90% of the total net accounting income of the non-resident entity for that last taxation year.

Paragraph 94.2(2)(*f*) provides that in applying subparagraph 94.2(4)(*b*)(i) to a taxpayer (that is a trust) for a particular taxation year of the taxpayer and in respect of a participating interest of the taxpayer in a non-resident entity, the reference in that paragraph to "a capital gain for the year"shall be read as a reference to "a capital gain for the year from a source outside Canada and". However, this special rule applies only if the portion of the net accounting income of the non-resident entity, from sources outside Canada, for its last taxation year that ends in the particular taxation year exceeds 90% of the total net accounting income of the non-resident entity for that last taxation year.

The application of paragraphs 94.2(2)(*e*) and (*f*) (and a related rule in paragraph 94.1(2)(*d*)) in respect of a participating interest of a taxpayer will not be relevant in determining a taxpayer's eligibility for a foreign tax credit under section 126 of the Act. In this regard, see the commentary below on subsections 94.3(2) and 126(1.2). Rather, paragraph 94.2(2)(*e*) and (*f*) provide relief to trusts resident in Canada that hold participating interests in a FIE and that make payable to their non-resident beneficiaries all or part of the trusts' incomes arising under subsection 94.2(4). Where paragraph 94.2(2)(*e*) or (*f*) applies and the terms of the trust permit amounts of deemed income of the trust to be made payable to beneficiaries, the amounts of such trust income arising under subsection 94.2(4) that become payable to non-resident beneficiaries of the trust may qualify for reduced withholding if the non-resident beneficiary is resident in a country with which Canada has entered a tax treaty and the tax treaty contains a provision permitting such a reduction in withholding.

Where paragraphs 94.2(2)(*e*) and (*f*) do not apply, income and capital gains arising under subsection 94.2(4) are from a source inside Canada.

Subsections 94.2(3) and (4) — Mark-to-market

Subsection 94.2(3) of the Act sets out those circumstances where, subject to paragraphs 94.2(2)(*c*) and (*d*) and 94.2(5)(*b*), subsection 94.2(4) applies to a taxpayer in respect of a participating interest in a non-resident entity. For the mark-to-market regime in subsection 94.2(4) to apply for a taxation year, subsection 94.2(3) must apply for the year.

Except as described above, subsection 94.2(3) will apply to a taxpayer for a particular taxation year in respect of a participating interest, in a non-resident entity, held by the taxpayer in the year if either:

- paragraph 94.2(11)(*a*) (foreign insurance policies) applies to the taxpayer for the year in respect of the interest; or
- subsection 94.1(3) or 94.2(9) (interests in tracking entities) applies to the taxpayer in respect of the interest, the interest has at all times in the year at which the taxpayer held it a readily obtainable fair market value (as defined in subsection 94.2(1)), subsection 94.3(3) has never applied to the taxpayer for a taxation year in respect of the participating interest or in respect of an identical participating interest that was held by the taxpayer at any time when the taxpayer held the participating interest and either
  - the taxpayer elects, generally in the first taxation year of the taxpayer in which the taxpayer is subject to subsection 94.1(3) or 94.2(9) in respect of the participating interest (or an identical interest), to have subsection 94.2(3) apply to the participating interest or identical interest, or
  - subsection 94.2(3) applied in respect of an identical participating interest that was held by the taxpayer at any time when the taxpayer held the participating interest.

In effect, where a taxpayer has validly elected for the mark-to-market regime to apply to a participating interest for a taxation year, that regime will continue to apply to the interest and to any identical interests that are held by the taxpayer in that taxation year or a future taxation year until either all of the interests are no longer held by the taxpayer or any one of the conditions for applying subsection 94.2(3) to the interests is not met (e.g., subsection 94.1(3) and 94.2(9) no longer apply in respect of the interests or the interests no longer have a readily obtainable fair market value).

Example

1. Libby acquires 101 shares of the capital stock of ABC Inc. in 2008. At all times ABC is a FIE (and not a tracking entity) and shares of its capital stock are participating interests that do not qualify as exempt interests. ABC's taxation years end on December 30. ABC has issued only one class of shares, the shares of which are identical to each other. Libby is not an exempt taxpayer.

2. Subsection 94.1(3) applies to Libby in respect of her ABC shares for each of her taxation years at the end of which she holds the shares. Assume that the shares have a readily obtainable FMV. In her return of income for her 2008 taxation year, Libby elects under clause 94.2(3)(*b*)(iii)(B) to have the rules in section 94.2 apply to the shares. Assume that subsection 94.2(20) does not apply in respect of the ABC shares at any time.

3. In February 2009, Libby sells 100 of her ABC shares and continues to hold the remaining 1 share on December 30, 2009.

4. In January 2010, Libby acquires another 200 shares of the capital stock of ABC.

5. In November 2011, Libby disposes of all (i.e., 201) of her ABC shares and holds no ABC shares on December 30, 2011.

6. In July 2012, Libby buys 1000 shares of the capital stock of ABC. Libby continues to hold the shares on December 30, 2012.

Results

1. For her 2008 taxation year, Libby reports as income from property the amount determined under subsection 94.2(4) for the year in respect of her 100 ABC shares.

2. For her 2009 taxation year, clause 94.2(3)(*b*)(iii)(A) applies in respect of her remaining ABC share and Libby must report as income from property the amount determined under subsection 94.2(4) for the year in respect of that share.

3. For her 2010 taxation year, clause 94.2(3)(*b*)(iii)(A) applies in respect of Libby's 201 ABC shares and she reports as income from property the amount determined under subsection 94.2(4) for the year in respect of those shares.

4. For her 2011 taxation year, subsection 94.2(3) does not apply to Libby (because Libby holds no shares in ABC at ABC's taxation year-end that ends in Libby's 2011 taxation year) in respect of the shares that she sold in November 2011.

5. For her 2012 taxation year, clause 94.2(3)(*b*)(iii)(A) will not apply in respect of any of the 1000 ABC shares she acquired in 2012. Libby must elect under clause 94.2(3)(*b*)(iii)(B) if she wishes to have the mark-to-market regime apply in respect of the shares.

Note that under subclause 94.2(3)(*b*)(iii)(B)(II) a taxpayer may elect, to have subsection 94.2(3) apply, in a year other than the first taxation year in which subsection 94.1(3) or 94.2(9) applies to the taxpayer in respect of the participating interest or an identical interest, if the election is made in the taxpayer's return of income for a taxation year in which subsection 94.1(3) applies and that taxation year immediately follows a taxation year for which the interest is subject to subsection 94.2(9) (i.e., an interest of the taxpayer in a tracking entity).

Where subsection 94.2(3) applies (and subsection 94.2(20) does not apply) to a taxpayer's participating interest in a non-resident entity, subparagraph 94.2(4)(*a*)(i) requires the taxpayer to include in computing income as income from property (in this regard, see the commentary on paragraph 94.2(2)(*e*)) from a property that is the participating interest the positive amount resulting from the operation of the mark-to-market formula for the taxation year in respect of the participating interest. Under subparagraph 94.2(4)(*a*)(ii), the absolute value of any negative amount resulting from the operation of the same formula may be deducted in computing the taxpayer's income as a loss from property from a property that is the participating interest. (Note, however, that losses in respect of foreign insurance polices are denied because of clause 94.2(4)(*a*)(ii)(A). Instead, as described in the commentary to the definition "mark-to-market formula" in subsection 94.2(1), the denied losses are carried forward to offset later income inclusions.)

Where both subsections 94.2(3) and 94.2(20) apply to a taxpayer's participating interest in a non-resident entity, subparagraph 94.2(4)(*b*)(i) deems the taxpayer to have a capital gain for the year from the disposition of capital property (in this regard, see the commentary on paragraph 94.2(2)(*f*)), that is the participating interest, in the taxation year equal to the positive amount determined under the mark-to-market formula for the taxation year in respect of the participating interest plus or minus the positive or negative deferral amount included in "D" in that same formula in respect of the participating interest for the year. Subparagraph 94.2(4)(*b*)(ii) deems the taxpayer to have capital losses in the year equal to the negative amount determined under the mark-to-market formula for the taxation year in respect of the participating interest plus or minus the negative or positive deferral amount included in "D" in that same formula in respect of the participating interest for the year.

The example below illustrates the operation of subsection 94.2(4) and the mark-to-market formula for a taxation year in respect of a participating interest.

Example

1. Leonard acquires a 1% interest in ABC Inc. in 2001 for $500. On December 31, 2002, it is capital property to Leonard. ABC is not a FIE in respect of the taxpayer at any time before 2008. Subsection 94.2(20) does not apply at any time in respect of the interest. ABC's taxation year-end is June 30.

2. ABC becomes a FIE in April 2008 and remains a FIE at all subsequent times. Leonard elects under subparagraph 94.2(3)(*b*)(iii) to have the rules in section 94.2 apply. Leonard's interest in ABC does not qualify as an "exempt interest".

3. The fair market values of Leonard's participating interest at the beginning and at the end of 2008 are $800 and $1,000 respectively.

4. Leonard disposes of his shares on December 15, 2009 for $1,200. ABC does not make any distributions to Leonard during his period of ownership.

Results

1. No amount is included in Leonard's income for 2007 under any of sections 94.1 to 94.3. For 2008, Leonard is required to include $200 in income under subparagraph 94.2(4)(*a*)(i).

2. The $200 inclusion is determined under the mark-to-market formula and subparagraph 94.2(4)(*a*)(i) as follows:

- "A" is nil, since no participating interest in ABC is disposed of in 2008,
- "B" is $1,000, the fair market value of the participating interest at the end of 2008,
- "C" is nil since no payments are received in 2008,
- "D" is nil since no participating interest is disposed of in 2008 and no election was otherwise made,
- "E" is nil since no participating interest in ABC is acquired in 2008, and
- "F" is $800, the fair market value of the participating interest at the beginning of 2008.

3. Although Leonard's participating interest has appreciated by $500 since the time of its acquisition, only $200 is required to be included in income under section 94.2 for 2008.

4. For 2009, the amount included in income under the mark-to-market formula and subparagraph 94.2(4)(*a*)(i) is $350, computed as follows:

- "A" is $1,200, the proceeds of disposition of the participating interest,
- "B" is nil since Leonard does not own any participating interest in ABC at the end of 2009,
- "C" is nil since no payments or distributions were received in 2009,
- "D" is $150, the deferral amount in respect of the interest — the "deferral amount" is one half (the one-half factor applies because Leonard's interest in ABC is capital property held by Leonard on December 31, 2006) of the amount by which $800 (the fair market value of the interest at the beginning of 2006 which is the first year in respect of which section 94.2 applies to the interest) exceeds $500 (the cost amount of the interest),
- "E" is nil since no participating interest in ABC is acquired in 2009, and
- "F" is $1,000, the fair market value of the participating interest at the beginning of 2009.

Subsection 94.2(5) — Non-resident Periods Excluded

New subsection 94.2(5) of the Act provides special rules dealing with the application of section 94.2 for a taxation year to persons who are not resident in Canada throughout the year.

Under paragraph 94.2(5)(*a*), the amounts determined under section 94.2 are generally determined as if the taxation year of the taxpayer excludes the period in the year during which the taxpayer is not resident in Canada. This rule, in conjunction with section 128.1, generally ensures that the increases and decreases in fair market values that are relevant in determining income inclusions and deductions under section 94.2 are the increases and decreases occurring while the taxpayer is resident in Canada. However, this rule does not affect the calculation of the taxpayer's deferral amount: paragraph (*b*) of the definition "deferral amount" in subsection 94.2(1) (in conjunction with subsection 128.1(1)) already ensures that gains or losses accruing prior to becoming resident in Canada are not taken into account for the purposes of computing a taxpayer's deferral amount in respect of a participating interest in a FIE, except in the unusual case where the FIE interest is taxable Canadian property.

Paragraph 94.2(5)(*a*) also ensures that subsection 94.2(4) does not apply to a taxpayer for a taxation year throughout which the taxpayer is not resident in Canada.

Under paragraph 94.2(5)(*b*), subsection 94.2(3) generally does not apply to a taxpayer at a particular time if the taxpayer is not resident in Canada at the particular time. This has relevance for the purposes of a number of new provisions, including subparagraph 39(1)(*a*)(ii.3). This subparagraph has the effect of excluding, from a taxpayer's capital property, a property in respect of which subsection 94.2(3) applies (and subsection 94.2(20) does not apply). Paragraph 94.2(5)(*b*) ensures that a non-resident taxpayer cannot claim that a taxable Canadian property consisting of a FIE interest is not capital property on the basis of subparagraph 39(1)(*a*)(ii.3). (Note: non-resident taxpayers are generally subject to Canadian income tax on taxable capital gains from their dispositions of taxable Canadian properties.)

Paragraph 94.2(5)(*c*) applies in the unusual case where an individual changes his or her Canadian residence status more than once in the same calendar year. For example, an individual might cease to be resident in Canada near the beginning of a calendar year but become resident in Canada later in the same year. In the event that such an individual is considered not to

reside in Canada during a period in the calendar year, the individual's period of non-residence would be included within the individual's taxation year and the rule in paragraph 94.2(5)(*a*) would have no effect. In order to not tax gains accrued while an individual was non-resident and to not provide relief for losses accrued during the same period, paragraph 94.2(5)(*c*) provides that:

- for the *purposes* of section 114, the individual's income or loss from the individual's period of non-residence is determined without reference to section 94.2, and
- in *computing* the individual's taxable income under section 114,
  - there is to be deducted the increase in the fair market value of an interest in a FIE to which subsection 94.2(4) applies during the non-resident period (this fair market value appreciation would be reflected in the amount determined under the mark-to-market formula (as defined in subsection 94.1(1)) in respect of the interest in computing the taxpayer's income), and
  - there is to be added the decline in the fair market value of an interest in a FIE to which subsection 94.2(4) applies that accrued during the non-resident period (this fair market value decline would be reflected in the amount determined under the mark-to-market formula in respect of the interest in computing the taxpayer's income).

The example below illustrates the operation of paragraph 94.2(5)(*c*).

Example

Bernard emigrates from Canada on February 1, 2007 in order to start permanent employment elsewhere. Due to unexpected changes in circumstances, he returns to Canada on December 1, 2007. Bernard owns an interest in a FIE to which section 94.2 applies. The fair market value of the interest in 2007 increases from $100 (January 1, 2007), to $105 (February 1, 2007), to $108 (December 1, 2007) and to $107 (December 31, 2007). It is assumed that Bernard establishes that he did not reside in Canada from February 1, 2007 to December 1, 2007.

Results

1. Under section 94.2(4), the amount included in computing Bernard's income for 2007 is equal to $7 (B = 107, F = 100).

2. Paragraph 94.2(5)(*c*) permits a deduction for the purposes of paragraph 114(*a*) equal to $3 (i.e., $108 – $105) equal to the appreciation in the fair market value of the interest while Bernard was not resident in Canada. As a consequence, Bernard's taxable income in respect of the FIE interest for 2007 is $4 (i.e., $7 minus $3).

Subsections 94.2(6) to (8) — Foreign Partnerships — Change of Residence of Member

New subsections 94.2(6) to (8) of the Act provide special rules for partnerships having non-resident members. These subsections are analogous to rules in existing subsections 96(8) and (9) and are designed, in general terms, to prevent partnership losses that accrue while no partnership member is resident in Canada from being used in Canada. A further rule for partnership members is set out in new subsection 96(1.9).

More specifically, subsection 94.2(6) applies where a partnership begins to have members who reside in Canada. Under subsection 94.2(7), a corresponding rule applies in a similar fashion where a partnership ceases to have members who reside in Canada. In either case, for the purposes of determining amounts under section 94.2 portions of the fiscal period of the partnership in which no member is resident in Canada will generally be disregarded.

Where subsection 94.2(6) applies to a partnership at any time, the deferral amount for a FIE interest held by the partnership immediately before that time is computed with reference to the fair market value and the cost amount of the interest. However, if a negative deferral amount is otherwise determined with respect to the interest, the deferral amount is deemed to be nil.

As a consequence of subsections 94.2(6) and (7), amounts added or deductible under subsection 94.2(4) for a partnership in respect of a FIE interest will generally reflect increases or decreases in fair market value while the partnership has members resident in Canada. However, once the interest is disposed of, an amount reflecting gains accruing before any member became resident in Canada will be recognized because of the application of subsection 94.2(4).

Subsection 94.2(8) contains an anti-avoidance rule, which is aimed at preventing the insertion of nominal Canadian resident partners for tax planning purposes. This rule is parallel to the rule in existing subsection 96(9).

Subsection 94.2(8) also contains a "look-through" rule. It allows for the "look-through" of one or more tiers of partnerships for the purposes of determining whether a person is a member of a partnership.

Subsection 94.2(9) — Participating Interests in a Tracking Entity

New subsection 94.2(9) of the Act is an anti-avoidance rule intended to prevent the circumvention of subsection 94.1(3) through the use of a participating interest in a "tracking entity" (as defined in subsection 94.2(1)). Where subsection 94.2(9) applies with regard to an interest in a tracking entity for a taxation year, subsection 94.1(4) will apply to the taxpayer for that year unless subsection 94.2(3) applies for that year in respect of the interest.

Subsection 94.2(9) applies to a taxpayer (other than an exempt taxpayer, as defined in subsection 94.1(1)) for a particular taxation year of the taxpayer in respect of a particular participating interest of the taxpayer in a non-resident entity (and any participating interests of the taxpayer in the non-resident entity that are identical to the particular participating interest) if

- *subsection* 94.1(3) does not apply to the taxpayer for the particular taxation year in respect of the particular participating interest;
- the particular participating interest is, at the end of a taxation year of the non-resident entity that ends in the particular taxation year, held by the taxpayer, and generally not an "exempt interest" (as defined in subsection 94.1(1)); however, note that an interest of a taxpayer in a controlled foreign affiliate of the taxpayer or a "qualifying entity" (as defined in subsection 94.1(1)) will not qualify as an exempt interest for this purpose, with the result that subsection 94.2(9) may apply to such interests;
- the non-resident entity is, at the end of that taxation year of the non-resident entity, a "tracking entity" (as defined in subsection 94.2(1)) in respect of the particular participating interest;
- at any time in the particular taxation year, the amount of any payment under a right (whether immediate or future, whether absolute or contingent or whether conditional on or subject to the exercise of any discretion by any entity or individual) to receive, in any manner whatever and from any entity, amounts in respect of the particular participating interest or any identical interests, or the value of such a right, is, directly or indirectly, determined primarily by one or more of the following criteria in respect of one or more properties (such property or properties together referred to in subsection 94.2(9) and the definition "tracking entity" in subsection 94.2(1) as "tracked property" or "tracked properties"):
  - production from the property, use of the property, gains from the disposition of the property, profits from the disposition of the property, fair market value of the property,
  - income from the property, profits from the property, revenue from the property, cash flow from the property, or
  - any other criterion similar to any of the above criteria; and
- throughout each taxation year of the non-resident entity that ends in the particular taxation year, all or substantially all of the fair market value of all the tracked properties in respect of the particular participating interest cannot be attributed, either directly or indirectly, to the fair market value of all tracked properties in respect of the particular participating interest (throughout the period that those properties are tracked properties in respect of the particular participating interest) that:

- are shares of the capital stock of a particular foreign affiliate of the taxpayer that would, if those shares were held by the taxpayer throughout the period (the "tracked property period") that those shares are tracked properties in respect of the particular participating interest, be, throughout the tracked property period, a qualifying interest (within the meaning assigned by paragraph 95(2)(*m*)) of the taxpayer in the particular foreign affiliate, and a participating interest of the taxpayer in a qualifying entity, and
- are not tracked properties in respect of a participating interest in a non-resident entity of an entity that is not related to the taxpayer.

It should be noted that tracked properties can include any property, whether owned by the non-resident entity or not. For example, if the fair market value of shares issued by a non-resident entity were tracked to the worldwide price of gold bullion, the tracked properties in question would be the worldwide supply of gold bullion. Whether subsection 94.2(9) applies in this case or not would typically depend on whether the non-resident entity is a tracking entity, as defined in subsection 94.2(1).

Subsections 94.2(10) and (11) — Treatment of Foreign Insurance Policies

New subsection 94.2(10) of the Act applies if a taxpayer (other than an exempt taxpayer, as defined in subsection 94.1(1)) holds, at any time in a particular taxation year of the taxpayer, an interest in a foreign insurance policy. For this purpose, a foreign insurance policy is one that is not issued by an insurer in the course of carrying on in Canada a business the income from which is subject to tax under Part I.

Subsection 94.2(11) sets out the treatment under section 94.2 of an interest in the foreign insurance policy. Where subsection 94.2(10) applies, paragraph 94.2(11)(*a*) provides, subject to paragraph 94.2(11)(*c*), that

- it applies to the interest, with the result that, in conjunction with paragraph 94.2(3)(*a*), the mark-to-market rules in subsection 94.2(4) apply to the interest, and
- no amount shall be included or deducted, as the case may be, under section 12.2, paragraphs 56(1)(*d*) and (j) and 60(*a*) and (*s*) and sections 138.1 and 148 in respect of the interest for the purpose of computing the taxpayer's income for the particular taxation year.

Paragraph 94.2(11)(*b*) generally provides that, where a taxpayer (other than an exempt taxpayer) holds an interest in a foreign insurance policy, for the purposes of subsections 94.2(1) to (3) and paragraph (4)(*a*) (and a corresponding foreign property reporting rule in subsection 233.3(1)) the particular interest is deemed to be a participating interest in a non-resident entity. However, the mark-to-market regime under subsection 94.2(4) applies differently to insurance policies in three respects:

- first, no deferral amount is calculated with regard to insurance policies,
- second, losses are not deductible, but instead can be used to offset future income amounts otherwise arising under subsection 94.2(4) (as to the treatment of losses, see the commentary on the definition "mark-to-market formula" in subsection 94.2(1)), and
- third, the interest will not be a participating interest for the purposes of subsection 94.2(20), so that paragraph 94.4(2)(*b*) will not apply to amounts determined under the mark-to-market formula in respect of the interest.

Paragraph 94.2(11)(*b*) applies to treat an interest in an insurance policy as a participating interest only for the limited purposes identified in that paragraph (i.e., subsections 94.2(1) to (3), paragraph (4)(*a*) and the corresponding foreign property reporting rule in subsection 233.3(1)). For example, the interest will not be a participating interest for the purpose of subsection 94.2(19) or, as mentioned above, for the purpose of 94.2(20).

Paragraph 94.2(11)(*c*) provides that paragraphs 94.2(11)(*a*) and (*b*) do not apply to a taxpayer in respect of an insurance policy in the following situations:

- Where the taxpayer is an individual and the interest in the policy was acquired more than five years before the taxpayer became resident in Canada. However, this exception does not apply if premiums in excess of the level originally contemplated under the policy have been paid within 5 years of the policyholder becoming resident in Canada or while the policyholder was resident in Canada.
- Under the terms and conditions of the policy, the policyholder is entitled to receive only benefits payable as a consequence of the occurrence of the risks insured under the policy, an experience rated refund of premiums for a year and a return of premiums previously paid upon the surrender, cancellation or termination of the policy.
- The taxpayer can establish to the satisfaction of the Minister of National Revenue that
  - the interest in the policy was, on the anniversary day (as defined in subsection 12.2(11)) of the policy that occurs in the taxation year, an exempt policy (as defined in subsection 12.2(11)) or a prescribed annuity contract (as defined in section 304 of the *Income Tax Regulations* — in this regard, it is intended that amendments be proposed to section 304 of the Regulations to reflect this change), or
  - an appropriate amount of income has been included in the taxpayer's income under section 12.2 in respect of the policy.

In the event that subsection (4) applies to a taxpayer for a particular taxation year in respect of an interest in an insurance policy held by the taxpayer at the beginning of the particular taxation year and subsection (4) did not apply to that taxpayer in respect of that interest in the taxpayer's preceding taxation year, paragraph 94.2(11)(*d*) provides that the taxpayer is deemed to have acquired the interest in the insurance policy at the beginning of the particular taxation year at a cost equal to the fair market value of the interest at the beginning of the particular taxation year plus (where the taxpayer elects) the amount by which

- the total of all amounts each of which is a premium paid before the beginning of the particular taxation year in respect of the interest by the taxpayer, to the extent that the premium was
  - paid at a time when the taxpayer was resident in Canada and not an exempt taxpayer,
  - cannot be refunded (otherwise than on termination or cancellation of the policy), and
  - not paid in respect of a benefit described in any of subparagraphs (*c*)(i) to (vii) of the definition "premium",

exceeds

- the total of
  - the fair market value at the beginning of the particular taxation year of the interest, and
  - the total of all amounts each of which is an amount received before the beginning of the particular taxation year in respect of the interest by the taxpayer at a time when the taxpayer was resident in Canada and not an exempt taxpayer.

New paragraph 94.2(11)(*e*) provides that for the purposes of the subsection and subsections 94.2(1) to (4), certain amounts in respect of an interest in an insurance policy are to be determined without reference to benefits under the policy that are paid, payable or anticipated to be payable as a consequence only of the occurrence of the risks insured under the policy. Those amounts are

- the fair market value of the interest,
- the proceeds of disposition of the interest, and
- each amount paid to a beneficiary in respect of the interest.

Paragraph 94.2(11)(*f*) provides, for the purposes of subsection 94.2(1) to (4) that:

- a payment of a premium under an insurance policy by the taxpayer is deemed to be an acquisition of a Part of an interest in the policy to the extent that the premium cannot be refunded and is not a premium in respect of a benefit described in any of subparagraphs (*c*)(i) to (vii) of the definition premium in subsection 148(9),

- a payment made by the taxpayer in respect of a principal amount of a loan made under the policy is deemed to be an acquisition of a part of an interest in the policy to the extent that the loan was included in the amount in respect of the interest determined for (*c*) in applying the definition mark-to-market formula in subsection (1) for the year in which the loan was made, and
- any other amount paid by the taxpayer to acquire an interest in an insurance policy from any other entity or individual is deemed to be an acquisition of an interest in an insurance policy.

Paragraph 94.2(11)(g) provides that for the purposes of subsections 94.2(1) and (4), if paragraph 94.2(11)(*d*) has deemed the taxpayer to have acquired an interest at a particular time, in computing the taxpayer's proceeds of disposition from the taxpayer's first disposition of the interest after the particular time, the taxpayer is deemed, in addition to any other proceeds of disposition from the disposition of the interest, to be entitled to receive an amount of proceeds from the disposition of the interest equal to the amount by which

- the total of the fair market value of the interest at the particular time and the total of all amounts received before the particular time in respect of the interest by the taxpayer at a time when the taxpayer was resident in Canada and not an exempt taxpayer,

exceeds

- the total of all premiums paid before the particular time in respect of the interest by the taxpayer (to the extent that the premiums were paid at a time when the taxpayer was resident in Canada and not an exempt taxpayer, cannot be refunded and were not paid in respect of a benefit described in any of subparagraphs (*c*)(i) to (vii) of the definition "premium" in subsection 148(9).

Paragraph 94.2(11)(*h*) provides that if the interest in an insurance policy is held by the taxpayer at the end of a particular taxation year, subsection 94.2(4) applies for the purpose of computing the taxpayer's income for the particular taxation year in respect of the interest and subsection 94.2(4) does not apply for the following taxation year, the cost to the taxpayer of the participating interest at or after the beginning of the following taxation year shall be determined as if the taxpayer had acquired the participating interest at the beginning of the following taxation year at a cost equal to the amount by which

- the sum of
  - the fair market value at the end of the particular taxation year of the interest, and
  - the amount determined under subparagraph 94.2(4)(*a*)(ii) in respect of the interest for the particular taxation year if that subparagraph were read without its clause (A),

exceeds

- the amount that would, if paragraph 94.2(11)(*g*) had applied at the end of the particular taxation year in respect of the interest, be determined at the end of the particular taxation year in respect of the interest by the formula under that paragraph.

Subsections 94.2(10) and (11) apply for taxation years that begin after 2006.

Example

Assume that David, a long-term resident of Canada, pays premiums of $10,000 to an offshore insurer for a life insurance policy in 2002. The policy's fair market value is $9,000 and $10,700 at the end of 2007 and 2008 (respectively).

Results

1. For 2007, no income amount is determined under paragraph 94.2(4)(*a*) because the cost of the policy exceeds the fair market value at the end of 2007. The cost to David of the policy is deemed to be $10,000 ($9,000 + $1,000).

2. The loss for the year 2007 is $1,000. ($9,000 – $10,000). No claim in respect of the loss is permitted under clause 94.2(4)(*a*)(ii)(A) of the Act. The amount of the denied loss is equal to $1,000 and is included under G in the mark-to-market formula in subsection 94.2(1) in year 2008.

3. For 2008, the amount included in income under paragraph 94.2(4)(*a*) (after the application of the mark-to-market formula) is $700 (= $10,700 ("B"), minus $9,000 ("F"), minus $1,000 ("G")). It is possible that the cash surrender value of a policy may be less than its fair market value.

Subsection 94.2(12) — Change of Status

New subsection 94.2(12) of the Act provides rules for determining the cost of a participating interest held by a taxpayer in a non-resident entity where the taxpayer holds the participating interest at the end of a particular taxation year and subsection 94.2(4) applied for the purpose of computing the taxpayer's income for that particular taxation year in respect of the participating interest and subsection 94.2(4) does not apply for the purpose of computing the taxpayer's income for the following taxation year in respect of the participating interest. In general terms, the cost of the participating interest is the amount that would be the taxpayer's cost plus or minus the amounts included or deducted in computing the taxpayer's income in respect of the participating interest under the foreign investment entity rules.

More specifically, where subsection 94.2(12) applies, the cost of the participating interest to the taxpayer, at all relevant times in the future, is deemed to be the amount, if any, by which

- the total of
  - the cost of the participating interest to the taxpayer, otherwise determined, and
  - the amount, if any, by which the amount determined under subparagraph 94.4(2)(*a*)(ii) in respect of the participating interest for the taxpayer's last taxation year to which subsection 94.2(4) applies to the participating interest exceeds the amount determined under paragraph 94.4(2)(*a*) in respect of the particular interest for the particular taxation year,

exceeds

- the amount, if any, by which
  - the total of the amount determined under paragraph 94.4(2)(*a*) and clause 94.4(2)(*a*)(ii)(B) for the particular year in respect of the participating interest,

exceeds

- the amount determined under clause 94.4(2)(*a*)(ii)(A) for the particular year in respect of the participating interest.

In addition, subsection 94.2(12) provides that in computing, after the end of the particular year in respect of the participating interest, the adjusted cost base to the taxpayer of the particular interest, paragraph 94.4(2)(*b*) shall not apply to the taxpayer in respect of the particular interest.

For more detail, see the commentary on paragraphs 53(1)(*m*.1) and 53(2)(*w*), the definitions "deferral amount", "mark-to-market formula" and "reconciliation amount" in subsection 94.2(1), and subsection 94.2(4).

Subsection 94.2(13) — Cost of Participating Interest

New subsection 94.2(13) provides a rule for determining the cost of a participating interest in an entity that is disposed of (other than a disposition deemed to arise because of subsection 128.1(4) or 149(10)) by the taxpayer in a taxation year. This new subsection applies in cases where subsection 94.2(4) applies to the taxpayer in respect of the participating interest for the taxation year in which the participating interest is disposed of.

New subsection 94.2(13) provides that the cost of the participating interest to the taxpayer is deemed to be (except for the purpose of section 94.2) the fair market value of the property at the time of the disposition. In identifying property for these purposes, identical properties of a taxpayer are considered to be disposed of on a "first in, first out" basis, as a consequence of the application of paragraph 94.1(2)(*u*). Where a participating interest is disposed of in a taxation year and subsection 94.2(4) does not apply to the taxpayer in respect of the participating interest for that taxation year, the cost to the taxpayer of the participating interest is determined under subsection 94.2(12).

Under new paragraph (*c*.2) of the definition "cost amount" in subsection 248(1), the cost determined at a particular time for a property under subsection 94.2 (13) is also the "cost amount" of the property at the particular time.

Subsection 94.2(14) — Deferral Amount where Same Interest Reacquired

New subsection 94.2(14) of the Act generally provides that a "deferral amount" in respect of a property of a taxpayer is

deemed to be nil, after the property has been disposed of by the taxpayer at a time when the mark-to-market rules in subsection 94.2(4) applied to the property. This is of relevance to property that is reacquired by a taxpayer. However, subsection 94.2(14) is subject to the rules in subsections 94.2(15) to (18).

It should be noted that identical properties of a taxpayer are considered to be disposed of on a "first in, first out" basis as a consequence of the application of paragraph 94.1(2)(*u*).

Subsection 94.2(15) — Fresh-start re Change of Status of Entity

New subsection 94.2(15) of the Act applies where a taxpayer's participating interest in an entity was initially subject to the rules in subsection 94.2(4) and ceases to be subject to those rules (otherwise than because of the taxpayer having become an "exempt taxpayer"). For example, subsection 94.2(15) could apply where an entity ceases to be a FIE.

In these circumstances, the deferral amount in respect of the participating interest is determined without reference to previous applications of subsections 94.2(4) and (14). This rule is relevant only in the event that the same participating interest of the taxpayer again becomes subject to the rules in subsection 94.2(4).

Parallel "fresh-start" rules are contained in subsection 94.2(16) and (17). All of these "fresh-start" rules are expected to be only rarely involved, given that more than one change in status of an investment or a taxpayer is required for the rules to become relevant. For more information on the "deferral amount" defined in subsection 94.2(1), see the commentary on that definition.

Subsection 94.2(16) — Fresh-start after Emigration of Taxpayer

New subsection 94.2(16) of the Act affects the calculation of the "deferral amount" in respect of a participating interest in an entity for a taxpayer who has ceased to reside in Canada. It is relevant in the event that, at a subsequent time, the taxpayer becomes resident in Canada again.

In these circumstances, the deferral amounts in respect of the taxpayer's FIE interests are determined without reference to the previous application of subsections 94.2(4) and (14).

For further detail, see the commentary on the related fresh-start rule in subsection 94.2(15).

Subsection 94.2(17) — Fresh-start re Change of Status of Tax-exempt Entity

New subsection 94.2(17) of the Act affects the calculation of the "deferral amount" in respect of an interest in an entity for a taxpayer that initially was not an "exempt taxpayer" under paragraph (*a*) or (*b*) of that definition in subsection 94.1(1) and then subsequently obtains that status.

In these circumstances, the deferral amounts in respect of the FIE interests of the taxpayer are determined without reference to previous applications of subsections 94.2(4) and (14).

For further context, see the commentary on the related fresh-start rule in subsection 94.2(15). In addition, it should be noted that amended subsection 149(10) applies to changes of tax-exempt status for taxpayers that are corporations. Where subsection 149(10) applies, the rules in subsection 94.2(17) do not apply.

Subsection 94.2(18) — Superficial Dispositions

New subsection 94.2(18) of the Act applies where a taxpayer disposes of a participating interest in an entity in respect of which a negative amount is determined under the description of D in the formula in subsection 94.2(4). This would be the case where there is a negative deferral amount associated with the interest. In these circumstances, the deferral amount is instead generally deemed to be nil if, during the period beginning 30 days before the disposition and ending 30 days after the disposition, identical property is acquired by the taxpayer or certain related persons.

Subsection 94.2(18) operates in a manner similar to the "superficial loss" rules for capital properties and is intended to prevent the premature realization of losses in respect of a property in which a taxpayer effectively retains an economic interest. "Superficial loss" has the same meaning as assigned in section 54, except that the definition for the purposes of subsection 94.2(18) does not contain the exception for transactions covered by subsection 40(3.4).

Property substituted for the particular property is, in these circumstances, considered to have the deferral amount associated with the property disposed of.

Subsection 94.2(19) — Determination of Capital Dividend Account

New subsection 94.2(19) provides rules that deem a positive or negative deferral amount in respect of a disposition of what would, but for section 94.2, be a capital property of a taxpayer that is a corporation resident in Canada, to be a taxable capital gain or an allowable capital loss, as the case may be, and twice such an amount to be a capital gain or capital loss of the corporation, as the case may be, for the purposes of computing the capital dividend account of the corporation. This rule ensures that 1/2 of a capital gain or a capital loss that is attributable to a deferral amount is reflected in the capital dividend account of a corporation.

Subsection 94.2(20) — Application of Paragraph 94.3(4)(*b*)

New subsection 94.2(20) of the Act provides a special rule that requires a taxpayer to report, as capital gains or losses under paragraph 94.2(4)(*b*) rather than as income or losses from property under paragraph 94.2(4)(*a*), amounts determined under the "mark-to-market formula" for a particular year in respect of a participating interest of the taxpayer in a non-resident entity.

This rule applies where two conditions are met. The first condition is that the participating interest of the taxpayer would, if the Act were read without reference to section 94.2, be a capital property of the taxpayer at the last time in the particular taxation year at which the taxpayer held the participating interest.

The second condition is that all or substantially all of the amount required to be added or deducted under the mark-to-market formula for the taxation year in respect of the participating interest, in a particular non-resident entity, can be attributed to

- capital gains or capital losses from the disposition of capital property (other than a participating interest in a foreign investment entity) by the particular non-resident entity or by any foreign investment entity in which the particular non-resident entity has a direct or indirect interest, and
- increases or decreases in the fair market value of capital property (other than a participating interest in a foreign investment entity) of the particular non-resident entity or of any foreign investment entity in which the particular non-resident entity has a direct or indirect interest.

In the event that any entity in a chain or tier of entities holds capital properties that are particular participating interests in foreign investment entities, changes in value of the particular participating interests and gains or losses from the disposition of those interests are ignored in applying the "all or substantially all" requirement. Instead, the requirement would be computed with regard to gains or losses from the disposition of, or changes in value in, capital properties of the foreign investment entities. This is intended to prevent the use of intermediary entities, contrary to the intent of subsection 94.2(20), as a means of triggering the application of paragraph 94.2(4)(*b*).

Subsection 94.2(21) — Reconciliation

New subsection 94.2(21) applies where a taxpayer disposes of an interest in a non-resident entity at a particular time in a particular taxation year. If subsection 94.2(4) applies for the purpose of computing the taxpayer's income for the particular taxation year in respect of the participating interest, in computing that income the taxpayer may be required to include an amount of income (or to have capital gains) or may be permitted to deduct as a loss (or to have capital losses) determined with regard to the reconciliation amount (as defined in subsection 94.1(1)) at that time in respect of the participating interest.

More specifically, under paragraph 94.2(21)(*a*), where paragraph 94.2(4)(*a*) applies for the particular taxation year, and subsection 94.2(20) has never applied for a preceding taxation year, in respect of the participating interest,

- there may be deducted, as a loss from property from a property that is the participating interest, the positive reconciliation amount, if any, at that time in respect of the participating interest, and

- there shall be included, as income from property from a property that is the participating interest, the absolute value of the negative reconciliation amount, if any, at that time in respect of the participating interest.

In any other case where subsection 94.2(4) applies for the purpose of computing the taxpayer's income for the particular taxation year in respect of the participating interest, paragraph 94.2(21)(*b*) provides that

- the taxpayer is deemed to have a capital loss for the taxation year from the disposition in the taxation year of capital property that is the participating interest equal to the positive reconciliation amount, if any, in respect of the participating interest, and
- the taxpayer is deemed to have a capital gain for the taxation year from the disposition in the taxation year of capital property that is the participating interest equal to the absolute value of the negative reconciliation amount, if any, in respect of the participating interest.

Where a taxpayer disposes of a participating interest in a taxation year of the taxpayer and subsection 94.2(21) does not apply (i.e., because subsection 94.2(4) does not apply for the purpose of computing the taxpayer's income for the particular taxation year in respect of the participating interest), subsection 94.2(12) may apply to adjust, with reference to the reconciliation amount in respect of the interest, the taxpayer's adjusted cost base (or cost) of the interest.

For more detail, see the commentary on subsection 94.2(12) and the definition "reconciliation amount" in subsection 94.2(1).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 94.3 of the Act is added:

Foreign Investment Entities — Accrual

SECTION 94.3:

(1) Definitions. The definitions in subsections 94.1(1) and 94.2(1), and the definitions in this subsection, apply in this section.

"fresh-start year" — "fresh-start year", of a non-resident entity in respect of a taxpayer, means a taxation year of the non-resident entity

(*a*) that ends in a taxation year of the taxpayer that begins after 2006 (or, where this definition applies in respect of a taxation year of the taxpayer that begins before 2007, that ends in a taxation year of the taxpayer that begins on or after the first day of the first taxation year of the taxpayer in respect of which this definition applies) if, at the end of the taxation year of the non-resident entity, the non-resident entity is a foreign investment entity and the taxpayer holds a participating interest, other than an exempt interest, in the non-resident entity; and

(*b*) that begins immediately after a preceding taxation year of the non-resident entity at the end of which the non-resident entity was not a foreign investment entity or the taxpayer did not hold a participating interest in the non-resident entity.

"income allocation" — "income allocation", of a particular taxpayer in respect of a particular participating interest, in a non-resident entity, held by the particular taxpayer at the end of a particular taxation year of the non-resident entity that ends in a taxation year of the particular taxpayer, means the amount determined by the formula

$$A \times B/C$$

where

A is the amount that would be the income of the non-resident entity for the particular taxation year if

(*a*) except for the purposes of subparagraph (2)(*b*)(ii), section 91, subsection 107.4(1) and paragraph (*f*) of the definition "disposition" in subsection 248(1), the non-resident entity had been a taxpayer resident in Canada throughout its existence,

(*b*) each property held by the non-resident entity at the particular time that is the beginning of a fresh-start year of the non-resident entity in respect of the particular taxpayer had been

(i) disposed of by the non-resident entity immediately before the particular time for proceeds equal to its fair market value at the particular time, and

(ii) reacquired by the non-resident entity at the particular time at a cost equal to that fair market value,

(*c*) for a fresh-start year of the non-resident entity in respect of the particular taxpayer and for each following taxation year of the non-resident entity, each deduction in computing the non-resident entity's income that is contingent on a claim by the non-resident entity had been claimed by the non-resident entity to the extent, and only to the extent, designated by the particular taxpayer in prescribed form filed with the Minister with the particular taxpayer's return of income for the particular taxpayer's taxation year in which that fresh-start year or the following year, as the case may be, ends,

(*d*) the non-resident entity had deducted the greatest amounts that it could have claimed or deducted as a reserve under sections 20, 138 and 140 for its taxation year that precedes a fresh-start year of the non-resident entity in respect of the particular taxpayer,

(*e*) in applying sections 37, 65 to 66.4 and 66.7, the non-resident entity had not existed before a fresh-start year of the non-resident entity in respect of the particular taxpayer,

(*f*) this Act were read without reference to subsections 20(11) and (12) and 104(4) to (6),

(*g*) where the non-resident entity holds at any time in the particular taxation year a participating interest in another non-resident entity, the description of D in the definition "mark-to-market formula" in subsection 94.2(1) did not apply in respect of that interest,

(*h*) paragraph (*a*) of the definition "exempt interest" in subsection 94.1(1) were read without reference to subparagraph (i) of that paragraph,

(*i*) the amount included in computing the non-resident entity's income for the particular taxation year in respect of capital gains were the amount, if any, by which the amount determined under subparagraph 3(*b*)(i) exceeds the amount determined under subparagraph 3(*b*)(ii) in respect of the non-resident entity for the particular taxation year,

(*j*) the amount deducted in computing the non-resident entity's income for the particular taxation year in respect of capital losses (other than business investment losses) were the amount, if any, by which the amount determined under subparagraph 3(*b*)(ii) exceeds the amount determined under subparagraph 3(*b*)(i) in respect of the non-resident entity for the particular taxation year, and

(*k*) the amount deducted in computing the non-resident entity's income for the particular taxation year in respect of business investment losses were the amount of its allowable business investment losses for the particular taxation year;

B is the amount that is the fair market value, at the end of the particular taxation year, of the particular participating interest; and

C is the fair market value, at the end of the particular taxation year, of all of the participating interests in the non-resident entity (other than an interest that would not be a participating interest, in the non-resident entity, if the definition "participating interest" in sub-

section 94.1(1) were read without reference to paragraph (*d*) of that definition).

"loss allocation" — "loss allocation", of a particular taxpayer in respect of a participating interest, in a non-resident entity, held by the taxpayer at the end of a particular taxation year of the non-resident entity that ends in a taxation year of the taxpayer, means the amount determined by the formula

$$(A - B) \times C/D$$

where

A is the total of all amounts each of which is

(*a*) an amount that would, if paragraphs (*a*) to (*h*) of the description of A in the definition "income allocation" applied in respect of the particular taxpayer and the participating interest, be a loss of the non-resident entity for the particular taxation year from a business or property,

(*b*) the amount, if any, by which the amount determined under subparagraph 3(*b*)(ii) exceeds the amount determined under subparagraph 3(*b*)(i) in respect of the non-resident entity for the particular taxation year, or

(*c*) an allowable business investment loss of the non-resident entity for the particular taxation year;

B is the amount that would, if paragraphs (*a*) to (*h*) of the description of A in the definition "income allocation" applied in respect of the particular taxpayer and the participating interest, be determined under paragraph 3(*c*) in respect of the entity for the particular taxation year;

C is the amount that is the fair market value, at the end of the particular taxation year, of the participating interest; and

D is the fair market value, at the end of the particular taxation year, of all of the participating interests in the non-resident entity (other than an interest that would not be a participating interest, in the non-resident entity, if the definition "participating interest" in subsection 94.1(1) were read without reference to paragraph (*d*) of that definition).

"specified tax allocation" — "specified tax allocation", of a taxpayer in respect of a participating interest, in a non-resident entity, held by the taxpayer at the end of a particular taxation year of the non-resident entity that ends in a taxation year of the taxpayer, means the total of all amounts each of which is the amount determined, in respect of the particular taxation year, by the formula

$$A \times (B/C) \times D$$

where

A is

(*a*) if that taxation year of the taxpayer begins after 2006 (or, where this definition applies in respect of a taxation year of the taxpayer that begins before 2007, if that taxation year of the taxpayer begins on or after the first day of the first taxation year of the taxpayer in respect of which this definition applies), the income or profits tax paid by the non-resident entity in respect of the particular taxation year, to the extent that that tax can reasonably be considered to be in respect of the income or profits of the non-resident entity included in computing the amount determined in respect of the non-resident entity and the participating interest under the description of A in the definition "income allocation" for the particular taxation year or any of the five taxation years of the non-resident entity that precede the particular taxation year and that end after 2006, and

(*b*) in any other case, nil;

B is the amount that is the fair market value, at the end of the particular taxation year, of the participating interest;

C is the fair market value, at the end of the particular taxation year, of all of the participating interests in the non-resident entity (other than an interest that would not be a participating interest, in the non-resident entity, if the definition "participating interest" in subsection 94.1(1) were read without reference to paragraph (*d*) of that definition); and

D is the taxpayer's relevant tax factor (as defined by subsection 95(1)) for that taxation year of the taxpayer.

(2) Rules of application. In this section,

(*a*) subsection 94.1(2) applies; and

(*b*) subsection (3) does not apply to a taxpayer for a particular taxation year of the taxpayer in respect of a particular participating interest, in a non-resident entity, held in the particular taxation year by the taxpayer (and in respect of any other participating interests, in the non-resident entity, that are identical to the particular participating interest and that are held in the particular taxation year by the taxpayer) if

(i) subsection 94.2(3) applies to the taxpayer for the particular taxation year in respect of the particular participating interest,

(ii) the taxpayer is a foreign investment entity at the end of the particular taxation year,

(iii) the Minister sends a written demand to the taxpayer requesting additional information for the purpose of enabling the Minister to determine whether an amount with respect to the particular participating interest would be required under subsection (4) to be added (or permitted under subsection (4) to be deducted) in computing the income of the taxpayer for the particular taxation year, and information that may reasonably be considered to be satisfactory to make the determination is not received by the Minister within 120 days (or within any longer period that is acceptable to the Minister) after the Minister sends the demand,

(iv) the particular participating interest is an interest that would not, at each time in the particular taxation year at which the taxpayer held the particular participating interest (or any of the other participating interests) and at which a taxation year of the non-resident entity ends, be a participating interest, in the non-resident entity, if the definition "participating interest" in subsection 94.1(1) were read without reference to paragraph (*d*) of that definition,

(v) subsection (3)

(A) applied for a taxation year (referred to in this subparagraph as the "preceding taxation year") that ended before the particular taxation year of the taxpayer in respect of the particular participating interest, and

(B) did not apply for a taxation year of the taxpayer that was after the preceding taxation year and before the particular taxation year in respect of the particular participating interest,

(vi) subsection 94.2(9) applies to the taxpayer for the particular taxation year in respect of the particular participating interest,

(vii) any of the participating interests in the non-resident entity (other than an interest that would not be a participating interest, in the non-resident entity, if the definition "participating interest" in subsection 94.1(1) were read without reference to paragraph (*d*) of that definition) are not identical to the particular participating interest, or

(viii) where the non-resident entity is a trust, any amount of income or capital of the trust that any entity or individual may receive directly from the trust at any time as a beneficiary under the trust depends on the exercise by any entity or individual of, or the failure by any entity or individual to exercise, a discretionary power.

(3) Where accrual method applies. Subject to paragraph (2)(*b*), this subsection applies to a taxpayer for a particular taxation year of the taxpayer in respect of a particular participating interest, in a non-resident entity, held in the particular taxation year by the taxpayer if

(*a*) subsection 94.1(3) applies to the taxpayer for the particular taxation year in respect of the particular participating interest;

(*b*) either

(i) this subsection applied in respect of an identical participating interest that was held by the taxpayer at any time when the taxpayer held the particular participating interest, or

(ii) the taxpayer has elected that this subsection apply in respect of the particular participating interest, by notifying the Minister in writing in the taxpayer's return of income filed on or before the taxpayer's filing-due date for the first taxation year of the taxpayer for which

(A) subsection 94.1(3) applies to the taxpayer in respect of the particular participating interest, or

(B) subsection 94.2(9) does not apply to the taxpayer in respect of the particular participating interest and that immediately follows a taxation year for which subsection 94.2(9) applied to the taxpayer in respect of the particular participating interest;

(*c*) neither subsection 94.1(4) nor 94.2(3) applied to the taxpayer for a taxation year (referred to in this paragraph as the "preceding taxation year") that ended before the particular taxation year in respect of the particular participating interest (or in respect of an identical participating interest that was held by the taxpayer at any time when the taxpayer held the particular participating interest), unless subsection 94.2(9) applied for that preceding taxation year to the taxpayer in respect of the particular participating interest (or the identical participating interest);

(*d*) the particular participating interest is, at each time in the particular taxation year at which the taxpayer held the particular participating interest and at which a taxation year of the non-resident entity ends, capital property of the taxpayer; and

(*e*) the taxpayer files, with the taxpayer's return of income filed on or before the taxpayer's filing-due date for the particular taxation year, prescribed information in prescribed form.

(4) Income inclusion or deduction — accrual method. If subsection (3) applies to a taxpayer resident in Canada for a particular taxation year of the taxpayer in respect of a participating interest in a non-resident entity, in computing the taxpayer's income for the particular taxation year

(*a*) there shall be added, as income from property from a property that is the participating interest, the positive amount, if any, determined by the formula

$$A - B - C - D$$

where

A is the total of all amounts each of which is the taxpayer's income allocation in respect of the participating interest for each taxation year of the non-resident entity that ends in the particular taxation year,

B is the total of all amounts each of which is the taxpayer's loss allocation in respect of the participating interest for each taxation year of the non-resident entity that ends in the particular taxation year,

C is the total of all amounts each of which is the specified tax allocation of the taxpayer in respect of the participating interest for each taxation year of the non-resident entity that ends in the particular taxation year, and

D is the amount, if any, by which

(i) the amount determined under subparagraph (*b*)(i) in respect of the taxpayer and the participating interest for the taxation year (referred to in this paragraph as the "preceding taxation year") of the taxpayer that immediately preceded the particular taxation year

exceeds

(ii) the amount determined under subparagraph (*b*)(ii) in respect of the taxpayer and the participating interest for the preceding taxation year; and

(*b*) there may be deducted, as a loss from a property that is the participating interest, the lesser of

(i) the absolute value of the negative amount, if any, determined by the formula in paragraph (*a*) in respect of the taxpayer and the participating interest for the particular taxation year, and

(ii) the amount, if any, by which

(A) the total of all amounts added under paragraph (*a*) in computing the taxpayer's income, from a property that is the participating interest, for a taxation year of the taxpayer that ended before the particular taxation year

exceeds

(B) the total of all amounts deductible under this paragraph in computing the taxpayer's income, from a property that is the participating interest, for a taxation year of the taxpayer that ended before the particular taxation year.

(5) Adjusted cost base. In computing at any time the adjusted cost base to a taxpayer of a participating interest in a non-resident entity

(*a*) there shall be added the total of all amounts each of which is

(i) the amount added (or that would have been added if this Act were read without reference to subsection 56(4.1) and sections 74.1 to 75), as income from a property that is the participating interest, under paragraph (4)(*a*) in computing the taxpayer's income for a taxation year of the taxpayer that ended before, or includes, that time, and

(ii) the product obtained when the amount determined under paragraph (*i*) of the description of A in the definition "income allocation" in subsection (1) in respect of the taxpayer and the participating interest for a particular taxation year of the non-resident entity that ended in a taxation year of the taxpayer that ended before, or includes, that time and at the end of which particular taxation year the taxpayer held the participating interest is multiplied by the amount that is determined by the fraction B/C described in the formula in that definition and that was used in computing the taxpayer's income allocation in respect of the participating interest for the particular taxation year; and

(*b*) there shall be deducted the total of all amounts each of which is

(i) the amount deducted (or that would have been deducted if this Act were read without reference to subsection 56(4.1) and sections 74.1 to 75), as a loss from a property that is the participating interest, under paragraph (4)(*b*) in computing the taxpayer's income for a taxation year of the taxpayer that ended before, or includes, that time,

(ii) the product obtained when the amount determined under paragraph (*j*) of the description of A in the definition "income allocation" in subsection (1) in respect of the taxpayer and the participating interest for a particular taxation year of the non-resident entity that ended in a taxation year of the taxpayer that ended before, or includes, that time and at the end of which particular taxation year the taxpayer held the participating interest is multiplied by the amount that is determined by the fraction C/D described in the formula in the definition "loss allocation" in subsection (1) that was used in computing the taxpayer's loss allocation in respect of the participating interest for the particular taxation year, and

(iii) the product obtained when the amount determined under paragraph (*k*) of the description of A in the definition "income allocation" in subsection (1) in respect of the taxpayer and the participating interest for a particular taxation year of the non-resident entity that ended in a taxation year of the taxpayer that ended before, or includes, that time and at the end of which particular taxation year the taxpayer held the participating interest is multiplied by the amount determined by the fraction C/D described in the formula in the definition "loss allocation" in subsec-

tion (1) that was used in computing the taxpayer's loss allocation in respect of the participating interest for the particular taxation year.

Applicable: See the Application following the proposed amendment to section 94.1.

Explanatory Note:

Foreign Investment Entities — Accrual

New section 94.3 of the Act sets out new rules for the taxation of interests in FIEs where subsections 94.1(4) and 94.2(3) do not apply.

Section 94.3 applies to taxation years that begin after 2006.

Subsection 94.3(1) — Definitions

New subsection 94.3(1) of the Act sets out a number of definitions and provides that those definitions and the definitions in subsections 94.1(1) and 94.2(1) apply for the purposes of section 94.2.

"fresh-start year"

The definition "fresh-start year" is relevant to calculating a taxpayer's "income allocation" (as defined in subsection 94.3(1)) in respect of a non-resident entity. In general terms, a fresh-start year of an entity in respect of a taxpayer that holds a participating interest in the entity means a taxation year of the entity at the end of which it becomes an entity in respect of which subsection 94.1(3) may apply to the taxpayer in respect of the participating interest.

For more detail, see the commentary on subsection 94.3(4) and on the definition "income allocation" in subsection 94.3(1).

"income allocation"

The definition "income allocation" applies in determining the amount to be included, under "A" of the formula in subsection 94.3(4), in computing a taxpayer's income or loss for the taxpayer's taxation year in respect of a property that is a participating interest of the taxpayer in a non-resident entity.

A taxpayer's income allocation (in respect of a participating interest in a non-resident entity held by the taxpayer at the end of a particular taxation year of the non-resident entity that ends in a taxation year of the taxpayer) is determined by the formula set out in that definition. In general terms, the taxpayer's income allocation is the proportion of the non-resident entity's income for the particular taxation year ("A" in the formula) that the fair market value of the interest ("B" in the formula) is of the fair market value of all participating interests in the non-resident entity ("C" in the formula). (Note that subsection 94.3(4) is unavailable in respect of a particular interest that would not be a participating interest if the definition "participating interest" in subsection 94.1(1) were read without reference to its paragraph (*d*).)

The calculation of a taxpayer's income allocation in respect of a non-resident entity depends on a calculation of income for the non-resident entity in accordance with rules set out in paragraphs (*a*) to (*l*) of "A" in the formula. This permits taxpayers to make independent calculations of a non-resident entity 's income for the purpose of determining income allocations under section 94.3 for the non-resident entity's "fresh-start year" (as defined in subsection 94.3(1)) in respect of the taxpayer and subsequent years.

The special rules that apply in calculating a non-resident entity's income in respect of a taxpayer that is a participating interest holder for the non-resident entity's fresh-start year and subsequent years are as follows:

(a) Subject to three exceptions, the non-resident entity is generally treated as having been a taxpayer resident of Canada throughout its existence. First, this rule does not apply for the purposes of subsection 107.4(1) and paragraph (*f*) of the definition "disposition" in subsection 248(1), with the result that where the non-resident entity is a trust, property that is transferred to the non-resident entity is considered to have been transferred to the non-resident entity under subsection 69(1) at its fair market value. Second, this rule does not apply for the purpose of section 91, with the result that the non-resident entity will not itself be required to include an amount in respect of foreign accrual property income in computing the non-resident entity's income under the "income allocation" definition. It should be noted, however, that the non-resident entity will not be able to rely on subparagraph (*a*)(i) of the definition "exempt interest" in section 94.1 as a basis for an exemption from the FIE regime for a participating interest of the non-resident entity in a controlled foreign affiliate of it or of the investor taxpayer. Thus the non-resident entity will have FIE income for purposes of the "income allocation" definition in respect of its participating interest in the controlled foreign affiliate. Third, this rule does not apply for the purpose of subparagraph 94.3(2)(*b*)(ii) with the result that subsection 94.1(4) or 94.2(4) (rather than section 94.3) potentially applies in computing its income in the event that the non-resident entity owns a participating interest in another non-resident entity that is a FIE.

(b) Each property held by the non-resident entity at the beginning of the fresh-start year is deemed to have been disposed of for its fair market value immediately before that time and reacquired for the same amount at that time.

(c) Each discretionary deduction permitted in computing the non-resident entity's income for its fresh-start year and subsequent taxation years is deemed to have been claimed to the extent designated by the investor taxpayer. Thus, in calculating an income allocation in respect of the non-resident entity, the investor taxpayer will be permitted to claim deductions such as capital cost allowance.

(d) The non-resident entity is assumed to have deducted the greatest amounts permissible, for its taxation year preceding the fresh-start year, under sections 20, 138 and 140. These amounts are added in computing the non-resident entity's income for the fresh-start year, but appropriate deductions under these sections can be claimed for the fresh-start year and subsequent taxation years. In the context of the reserve for life insurers under subsection 138(3), it is intended that paragraph (*c*) of the definition "reported reserve" in subsection 1408(1) of the Regulations be amended so that the non-resident entity can have a "reported reserve".

(e) The non-resident entity is deemed not to have been in existence before the fresh-start year for the purposes of sections 37, 65 to 66.4 and 66.7. As a consequence, the scientific research and resource expenditure pools to which these sections refer are ignored, to the extent that these pools were generated before the fresh-start year.

(f) The non-resident entity is not permitted to deduct any amount under subsection 20(11) or (12) in respect of its foreign tax. However, foreign tax will be taken into account because the non-resident entity's specified tax allocation (as defined under subsection 94.3(1)) can offset amounts otherwise included in income under subsection 94.3(4). Further, if the non-resident entity is a trust, no amount is considered deductible under subsection 104(6) in determining its income for the year. Double taxation for the investor taxpayer is avoided through the application of new section 94.4. In addition, no deemed disposition day under subsection 104(4) is determined in respect of the trust, whether the non-resident entity falls outside the restricted meaning of "trust" for this purpose under subsection 108(1) or not.

(g) Where the non-resident entity has an interest in another non-resident entity, there is no "deferral amount" taken into account in computing the non-resident entity 's income pursuant to new subsection 94.2(4). (The fresh-start rule described above eliminates the need for a "deferral amount".)

(h) Participating interests in controlled foreign affiliates of the investor taxpayer or of the non-resident entity are not treated as "exempt interests" of the non-resident entity. As a result, the FIE rules and not the FAPI rules apply in respect of such interests in computing the non-resident's income under the income allocation rules.

(i) Where the non-resident entity has net capital gains for the particular taxation year, the amount to be included in computing the non-resident entity's income in respect of the capital gains is the amount, if any, by which the

amount determined under subparagraph 3(*b*)(i) exceeds the amount determined under subparagraph 3(*b*)(ii) in respect of the non-resident entity for the year.

(j) Where the non-resident entity has net capital losses for the particular taxation year the amount deductible in computing the non-resident entity's income in respect of capital losses (other business investment losses) is the amount, if any, by which the amount determined under subparagraph 3(*b*)(ii) exceeds the amount determined under subparagraph 3(*b*)(i) in respect of the non-resident entity for the year.

(k) Where the non-resident entity has business investment losses for the year the amount deducted in computing the non-resident entity's income for the year in respect of business investment losses is the amount of its allowable business investment losses for the year.

For further details, see the related commentary on the definitions "foreign investment entity", "non-resident entity" and "exempt interest" in subsection 94.1(1) and "loss allocation" and "specified tax allocation" in subsection 94.3(1).

"loss allocation"

The definition "loss allocation" applies in determining the amount to be included, under "B" of the formula in subsection 94.3(4), in computing a taxpayer's income or loss for the taxpayer's taxation year in respect of a property that is a participating interest of the taxpayer in a non-resident entity. A taxpayer is entitled, under the formula in subsection 94.3(4), to deduct the taxpayer's loss allocation in respect the participating interest.

In general, a taxpayer's loss allocation in respect of a participating interest, in a non-resident entity, held by the taxpayer at the end of a particular taxation year of the non-resident entity that ends in a taxation year of the taxpayer, is the proportion of the non-resident entity's net loss for the particular taxation year that the fair market value of the taxpayer's participating interest in the non-resident entity is of the fair market value of all participating interests in the non-resident entity. More specifically, a taxpayer's loss allocation is determined as follows:

- ADD the amount of the entity's total losses for the particular taxation year from businesses and properties, the amount, if any, by which the amount determined under subparagraph 3(*b*)(ii) exceeds the amount determined under subparagraph 3(*b*)(i) in respect of the entity for the particular taxation year, and the amount of the entity's allowable business investment losses for the particular taxation year,
- SUBTRACT the amount determined under paragraph 3(*c*) for the entity for the particular taxation year (i.e., the total amount of its income from businesses and properties and taxable capital gains in excess of allowable capital losses, for the particular taxation year), and
- MULTIPLY any positive remainder by the percentage that the fair market value of the interest represents of the fair market value of all participating interests in the entity. (Note that subsection 94.3(4) is unavailable in respect of a particular interest that would not be a participating interest if the definition "participating interest" in subsection 94.1(1) were read without reference to its paragraph (*d*).)

The determination of a taxpayer's loss allocation is subject to the same special rules that apply for the purposes of computing a taxpayer's "income allocation" (as defined in subsection 94.3(1)). For more detail, see the commentary on the definition "income allocation".

"specified tax allocation"

The definition "specified tax allocation" applies in determining the amount to be included, under "C" of the formula in subsection 94.3(4), in computing a taxpayer's income or loss for the taxpayer's taxation year in respect of a property that is a participating interest of the taxpayer in a non-resident entity. A taxpayer is entitled to deduct, under C of the formula in subsection 94.3(4), the taxpayer's specified tax allocation in respect of the participating interest.

A taxpayer's specified tax allocation in respect of a participating interest, in a non-resident entity, held by the taxpayer at the end of a particular taxation year of the non-resident entity that ends in a taxation year of the taxpayer, means the total of all amounts each of which is the amount determined, in respect of the particular taxation year, by the formula set out in the definition.

More specifically, the taxpayer's specified tax allocation is the product obtained by the following:

- MULTIPLY, if the taxation year of the taxpayer begins after 2006, the income or profits tax paid by the non-resident entity in respect of the particular taxation year, to the extent that that tax can reasonably be considered to be in respect of the income or profits of the non-resident entity included in computing the amount determined in respect of the non-resident entity and the participating interest under the description of "A" in the definition "income allocation" for the particular taxation year or any of the 5 taxation years of the non-resident entity that precede the particular taxation year and that end after 2006, BY
- the percentage that the fair market value of the interest represents of the fair market value of all participating interests in the entity. (Note that subsection 94.3(4) is unavailable in respect of a particular interest that would not be a participating interest if the definition "participating interest" in subsection 94.1(1) were read without reference to its paragraph (*d*), AND
- MULTIPLY any positive remainder by the taxpayer's relevant tax factor (as defined by subsection 95(1)) for that taxation year of the taxpayer.

Income or profits tax is normally expected to be tax that is paid by an entity to a foreign government. However, it could also include income tax paid to the government of Canada or a province with respect to income earned by the entity from Canadian sources. In each case, only income or profits tax payable for taxation years of entities that end in a taxation year of a taxpayer that begins after 2006 is taken into account.

Subsection 94.3(2) — Rules of Application

New subsection 94.3(2) of the Act sets out rules that apply in applying section 94.3 of the Act.

Paragraph 94.3(2)(*a*) provides that the rules of application in subsection 94.1(2) apply in section 94.3.

Paragraph 94.3(2)(*b*) identifies a number of circumstances in which subsection 94.3(3) (and hence subsection 94.3(4)) is not available, even though the conditions in paragraphs 94.3(3)(*a*) to (*e*) may be met, for a particular taxation year of a taxpayer in respect of a particular participating interest, in a non-resident entity, held in the particular taxation year by the taxpayer. More specifically those circumstances are:

- where, either of subsection 94.2(3) or subsection 94.2(9) (tracked interests) applies to the taxpayer in respect of the particular participating interest for the particular taxation year,
- where the taxpayer is itself a FIE,
- where the Minister of National Revenue sends a written demand to the taxpayer requesting additional information for the purpose of enabling the Minister to determine if an amount with respect to the particular participating interest would be required under subsection 94.3(4) to be added (or permitted under that subsection to be deducted) in computing the income of the taxpayer for the taxation year, and information sufficient to make the determination is not received by the Minister within 120 days (or within such longer period as is acceptable to the Minister) after the Minister sends the demand,
- where the particular participating interest is an interest that would not, at each time at which a taxation year of the non-resident entity ends, be a participating interest, in the non-resident entity, if the definition "participating interest" were read without reference to paragraph (*d*) of that definition — that is, without reference to the rule which deems a property that is convertible into, exchangeable for, or confers a right to acquire a participating interest in a FIE or a property the fair market value of which is determined primarily by reference to the fair market value of participating interests in the FIE, to be a participating interest,

- where subsection 94.3(3) applied for a taxation year (the "preceding taxation year") that ended before the particular taxation year of the taxpayer in respect of the particular participating interest, and did not apply for a taxation year of the taxpayer that was after the preceding taxation year and before the particular taxation year in respect of the particular participating interest. For example, where a taxpayer has sufficient information to apply the accrual regime in one year and in the subsequent year does not. The accrual regime would be unavailable to the taxpayer in respect of the interest and any identical interests in the subsequent year (because of paragraph 94.3(3)(*e*)) and any of the following years (because of subparagraph 94.3(2)(*b*)(v)),
- where any of the participating interests in the non-resident entity in respect of which the accrual regime might otherwise be available are not identical to the particular participating interest — that is, the accrual regime is available in respect of participating interests in a non-resident entity only to the extent that all participating interests in the non-resident entity are identical (ignoring interests that are participating interests in the non-resident entity solely because of paragraph (*d*) of the definition "participating interest" in subsection 94.1(1)), or
- where any amount of income or capital of the trust that any entity or individual may receive directly from the trust at any time as a beneficiary under the trust depends on the exercise by any entity or individual of, or the failure by any entity or individual to exercise, a discretionary power.

Subsections 94.3(3) and (4) — Accrual

Subsection 94.3(3) provides that the accrual regime is available, subject to the limitations set out in paragraph 94.3(2)(*b*), to a taxpayer for a particular taxation year of the taxpayer in respect of a particular participating interest, in a non-resident entity, held in the particular taxation year by the taxpayer if

- subsection 94.1(3) applies to the taxpayer for the particular taxation year in respect of the particular participating interest;
- either
  - subsection 94.3(3) applied in respect of an identical participating interest that was held by the taxpayer at any time when the taxpayer held the particular participating interest, or
  - the taxpayer has elected that subsection 94.3(3) apply in respect of the particular participating interest, by notifying the Minister in writing in the taxpayer's return of income filed on or before the taxpayer's filing-due date for the first taxation year of the taxpayer for which
    - subsection 94.1(3) applies to the taxpayer in respect of the particular participating interest, or
    - subsection 94.2(9) does not apply to the taxpayer in respect of the particular participating interest and that immediately follows a taxation year for which subsection 94.2(9) applied to the taxpayer in respect of the particular participating interest;
- neither subsection 94.1(4) (i.e., the prescribed rate regime) nor 94.2(3) (i.e., the mark-to-market regime) applied to the taxpayer for a taxation year (referred to in this commentary as the "preceding taxation year") that ended before the particular taxation year in respect of the particular participating interest (or in respect of an identical participating interest that was held by the taxpayer at any time when the taxpayer held the particular participating interest), unless subsection 94.2(9) applied for that preceding taxation year to the taxpayer in respect of the particular participating interest (or the identical participating interests);
- the particular participating interest is, at each time in the particular taxation year at which the taxpayer held the particular participating interest and at which a taxation year of the non-resident entity ends, capital property of the taxpayer; and
- the taxpayer files, with the taxpayer's return of income filed on or before the taxpayer's filing-due date for the particular taxation year, prescribed information in prescribed form. It is contemplated that the prescribed information required would include: the entity's financial statements (as defined in subsection 94.1(1)); capital cost allowance schedules; capital gains and capital loss calculations; a detailed calculation of the taxpayer's specified tax allocation and any income allocation or loss allocation; a reconciliation of the entity's income reported in its financial statement income with its income computed under "A" of the formula in the "income allocation" provisions; and a description of reserves claimed.

If subsection (3) applies to a taxpayer resident in Canada for a particular taxation year of the taxpayer in respect of a participating interest in a non-resident entity, in computing the taxpayer's income for the particular taxation year, subsection 94.3(4) will apply in computing the taxpayer's income or loss for the particular taxation year from property from a property that is the participating interest. More specifically, under paragraph 94.3(4)(*a*), the taxpayer's income from property from a property that is the participating interest, is the positive amount, if any, determined as follows:

- ADD the taxpayer's "income allocation" in respect of the participating interest for each taxation year of the non-resident entity that ends in the particular taxation year;
- SUBTRACT the taxpayer's "loss allocation" in respect of the participating interest for each taxation year of the non-resident entity that ends in the particular taxation year;
- SUBTRACT the taxpayer's specified tax allocation in respect of the participating interest for each taxation year of the non-resident entity that ends in the particular taxation year; and
- SUBTRACT the net cumulative positive balance determined under paragraph 94.3(4)(*b*) in respect of the taxpayer for such property in respect of preceding taxation years of the non-resident entity.

Where a negative amount results in applying the formula under paragraph 94.3(4)(*a*), paragraph 94.3(4)(*b*) may permit a deduction of the negative amount, as a loss from property from a property that is the participating interest, in computing the taxpayer's income for the particular taxation year. However, the deduction is limited by net cumulative positive balance determined under subparagraph 94.3(4)(*b*)(ii) in respect of the taxpayer for such property in respect of preceding taxation years of the non-resident entity.

An unused loss allocation is treated as a loss from property and is carried forward to offset the total amount otherwise required to be included in computing the taxpayer's income from property under subsection 94.3(4) for a subsequent taxation year of the non-resident entity. For more detail, see the commentary on the definition "loss allocation" in subsection 94.3(1).

The following examples illustrate the operation of subsection 94.3(4).

Example 1

Canco owns shares in the capital stock of FIE-1, which like Canco has a calendar taxation year. Canco's income (loss) allocations for 2007, 2008, 2009, 2010 and 2011 are ($100), $25, $90, ($20) and $50, respectively. FIE-1 pays no income or profits taxes.

Results

1. The amount included under paragraph 94.3(4)(*a*) in Canco's income for 2007 is nil (B = $100). The amount determined under paragraph 94.3(4)(*b*) for 2007 is $100, which can be carried forward to 2008.

2. The amount included under paragraph 94.3(4)(*a*) in Canco's income for 2008 is nil (A = $25, D = $100). The amount determined under paragraph 94.3(4)(*b*) for 2008 is $75, which can be carried forward to 2009.

3. The amount included under paragraph 94.3(4)(*a*) in Canco's income for 2009 is $15 (A = $90, D = $75). The amount determined under paragraph 94.3(4)(*b*) for 2009 is nil.

4. The amount included under paragraph 94.3(4)(*a*) in Canco's income for 2010 is nil (B = $20, D = $0). The amount deductible under paragraph 94.3(4)(*b*) is $15 (= the lesser of $20 and $15). The remaining $5 unused loss allocation can be carried forward to 2011.

5. The amount included under paragraph 94.3(4)(*a*) in Canco's income for 2011 is $45 (A = $50, D = $5).

Example 2

Canco owns shares in the capital stock of FIE-1, which like Canco has a calendar taxation year. Canco's income (loss) allocations for, 2007, 2008, 2009, 2010 and 2011 are: ($100), ($125), ($175), $300 and $150. FIE-1 pays no income or profits taxes.

Results

1. The amount included under paragraph 94.3(4)(*a*) in Canco's income for 2007 is nil (B = $100). The amount determined under subparagraph 94.3(4)(*b*)(i) for 2007 is $100 (= B), which can be carried forward to 2008.

2. The amount included under paragraph 94.3(4)(*a*) in Canco's income for 2008 is nil (B = $125,D = $100). The amount determined under subparagraph 94.3(4)(*b*)(i) for 2008 is $225 (= B+D), which can be carried forward to 2009.

3. The amount included under paragraph 94.3(4)(*a*) in Canco's income for 2009 is nil (B = $175, D = $225). The amount determined under subparagraph 94.3(4)(*b*)(i) for 2009 is $400 (= B+D).

4. The amount included under paragraph 94.3(4)(*a*) in Canco's income for 2010 is nil (A = $300, D = $400). The amount deductible under paragraph 94.3(4)(*b*) is nil (= the lesser of $100 and nil). The remaining $100 unused loss allocation (= D – A) can be carried forward to 2011.

5. The amount included under paragraph 94.3(4)(*a*) in Canco's income for 2011 is $50 (A = $150, D = $100).

Example 3

1. Canco, FIE-1 and ABC Inc. each have taxation years that coincide with calendar years and each issue only one class of shares.

2. Canco is a corporation resident in Canada that holds 20% of the shares of the capital stock of FIE-1.

3. FIE-1 owns 75% of the shares of the capital stock of ABC Inc.

4. ABC Inc. is not a FIE, but would be a controlled foreign affiliate of FIE-1 if FIE-1 were resident in Canada. Although ABC Inc. is a foreign affiliate of Canco, it is not a controlled foreign affiliate of Canco.

5. FIE-1 earns $5,000 in interest income in 2007. It also receives a dividend of $1,000 from ABC Inc. FIE-1 pays no income or profits taxes.

6. The fair market value of FIE-1's shares in ABC Inc. increases by $6,500 in 2007.

Results

1. Under the definition "income allocation" in subsection 94.3(1), Canco is required to compute its share of FIE-1's income. For this purpose, FIE-1's income is generally computed as if FIE-1 were resident in Canada. Canco is required, under "A" of the formula in paragraph 94.3(4)(*a*), to include in computing income its income allocation in respect of its shares in the capital stock of FIE-1.

2. FIE-1's income, in computing Canco's income allocation, includes the $5,000 of interest income (as per paragraph 12(1)(*c*)). However, the $1,000 dividend from ABC Inc. is disregarded because of paragraph (g) of "A" in the definition "income allocation".

3. Section 91 of the Act is not applicable in computing Canco's income allocation in respect of its shares in FIE-1 because of paragraph (*a*) of "A" in the definition "income allocation".

4. Since ABC Inc. is not a FIE, sections 94.1 to 94.4 are not applicable to FIE-1's interest in ABC Inc. in computing Canco's income allocation in respect of is shares in FIE-1.

5. Canco's income allocation, therefore, is $1,000 (i.e., 20% × $5,000). This amount is included under "A" of the formula in paragraph 94.3(4)(*a*).

Example 4

Same facts as in example 3, except that ABC Inc. is itself a FIE.

Results

1. Because of subparagraph 94.3(2)(*b*)(ii), the accrual regime will not apply in the calculation of FIE-1's income in respect of its interest in ABC Inc. Instead, FIE-1 may rely upon subsections 94.2(3) and (4), and if not applicable, subsection 94.1(4). Assume that FIE-1 qualifies, and so elects, to have subsection 94.2(3) apply to it in respect of its interest in ABC Inc. Thus, the mark-to-market regime under subsection 94.2(4) will apply to determine its FIE income from the interest.

2. For the purpose of computing Canco's income allocation in respect of its shares in FIE-1, FIE-1's income would include the $5,000 of interest (as per example 3), but not include any share of foreign accrual property income (as per example 3). However, FIE-1's income would include the $1,000 dividend paid in addition to its gain determined under subsection 94.2(4) in respect of its participating interest in ABC Inc. This gain so determined is $7,500, which is equal to the $6,500 increase in the value of the shares plus the $1,000 dividend paid. However, for the purposes of computing Canco's income allocation, a deduction for the $1,000 dividend is permitted for FIE-1 because section 94.4 would have permitted the deduction if FIE-1 had been resident in Canada.

3. Consequently, Canco's income allocation in respect of its shares of the capital stock of FIE-1 is equal to $2,500 [i.e., ($5,000 + $7,500 + $1,000 – $1,000) × 20%)]. This amount is required to be included in computing Canco's income under subsection 94.3(4).

Example 5

In 1999, Mireille (a resident of Canada) purchased a 30% participating interest in an entity (FIE-1) that is a FIE. The rate of foreign tax applicable to FIE-1's income is 20%. FIE-1's taxation years coincide with calendar years. For the purposes of computing Mireille's income or loss in respect of the interest under subsection 94.3(4), the income (loss) and the foreign tax of FIE-1 for taxation years 2007 to 2010 are as follows:

Year	*2007*	*2008*	*2009*	*2010*	*Total*
Income (loss)	$100,000	($120,000)**	$95,000	$130,000	$205,000
Foreign tax paid*	$20,000	Nil	Nil	$21,000	$41,000

* Assume foreign tax paid in the same taxation year as liability arose.

** Assume that an equivalent amount is carried forward under the laws of the relevant foreign jurisdiction to reduce FIE-1's tax liabilities after 2008.

Results

Mireille's income allocations, loss allocations and specified tax allocations are shown in the table below, as are the resulting income inclusions and deductions under subsection 94.3(4). The specified tax allocations in the table below are obtained by multiplying the related figures in the above table by 30% (Mireille's percentage interest) and 2.2 (specified tax factor for Mireille). For example, for 2007, Mireille's specified tax allocation is $13,200 ($20,000 × 30% × 2.2)

Year	*2007*	*2008*	*2009*	*2010*
A. Income/Loss allocation	$30,000	($36,000)	$28,500	$39,000
B. Specified tax allocation	($13,200)	nil	nil	($13,800)
C. Loss allocation (used)	nil	($16,800)	nil	nil
D. Carry-forward offset used	nil	nil	($19,200)	nil
E. Loss allocation/ tax allocation to carry-forward	nil	($19,200)	nil	nil

Amount included in income under subsection 94.3(4) (A B - C – D)	$16,800	nil	$9,300	$25,200
Amount deducted in computing income under subsection 94.3(4) (D + C + B – A)	nil	($16,800)	nil	nil

Subsection 94.3(5) — Adjusted Cost Base

New subsection 94.3(5) of the Act provides for adjustments to the adjusted cost base (ACB) of a participating interest in an entity held by a taxpayer.

Paragraph 94.3(5)(*a*) provides for an addition to the ACB of a taxpayer of a participating interest, in a non-resident entity, at any time of the amount that is the total of the amount included in computing the taxpayer's income under paragraph 94.3(4)(*a*) for a taxation year of the taxpayer that ended before that time and the product obtained when the amount determined under paragraph (*i*) of the description of "A" in the definition "income allocation" in subsection 94.3(1) (taxable capital gains of the non-resident entity) in respect of the taxpayer and the participating interest for a particular taxation year of the non-resident entity that ended in a taxation year of the taxpayer that ended before that time and at the end of which particular taxation year the taxpayer held the participating interest is multiplied by the percentage that the fair market value of the interest represents of the fair market value of all participating interests in the entity.

Conversely, paragraph 94.3(5)(*b*) provides for a reduction to the ACB of a taxpayer of a participating interest, in a non-resident entity, at any time, of the total of three amounts. The first is the amount deducted, as a loss from a property that is the participating interest, under paragraph (4)(*b*) in computing the taxpayer's income for a taxation year of the taxpayer that ended before that time. The second and third amounts are the product obtained when the amount determined under paragraph (*j*) or (*k*), as the case may be, of the description of A in the definition "income allocation" (allowable capital losses of the non-resident entity and allowable business investment losses of the non-resident entity) in respect of the taxpayer and the participating interest for a particular taxation year of the non-resident entity that ended in a taxation year of the taxpayer that ended before that time and at the end of which particular taxation year the taxpayer held the participating interest is multiplied by the percentage that the fair market value of the interest represents of the fair market value of all participating interests in the entity.

For more information, see the commentary on new paragraphs 53(1)(*m*.1) and 53(2)(*w*).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 94.4 of the Act is added:

Foreign Investment Entities — Relief from Double Taxation

SECTION 94.4:

(1) Definitions and rules of application. In this section,

(*a*) the definitions in subsections 94.1(1) and 94.2(1) apply; and

(*b*) subsection 94.1(2) applies.

(2) Prevention of double taxation. If one or more amounts become, at a particular time in a particular taxation year of a taxpayer that begins after 2006 (or, where this subsection applies in respect of a taxation year of the taxpayer that begins before 2007, in a particular taxation year of the taxpayer that begins on or after the first day of the first taxation year of the taxpayer in respect of which this subsection applies) or in a preceding taxation year of the taxpayer that begins after 2006 (or, where this subsection applies to the taxpayer in respect of a taxation year of the taxpayer that begins before 2007, in a preceding taxation year of the taxpayer that begins on or after the first day of the first taxation year of the taxpayer in respect of which this subsection applies), payable or allocated to the taxpayer by a particular entity or another entity in respect of a participating interest in the particular entity (other than an amount that is proceeds of disposition from a disposition of the participating interest or of a part of it), and the taxpayer is at the particular time resident in Canada,

(*a*) there may be deducted in computing the taxpayer's income for the particular taxation year in respect of the participating interest the lesser of

(i) the amount, if any, by which

(A) the total of all amounts each of which is an amount that is in respect of any of those amounts payable or allocated and that is included (otherwise than because of the description of C in the definition "mark-to-market formula" in subsection 94.2(1)) in computing the taxpayer's income for any of those taxation years

exceeds

(B) the total of all amounts each of which is an amount, in respect of the participating interest,

(I) that is deducted under this paragraph in computing the taxpayer's income for any of those preceding taxation years, or

(II) where subsection 94.3(3) applied to the taxpayer in respect of the participating interest for any of those taxation years, that would, if the amount determined for D in applying the definition "specified tax allocation" in subsection 94.3(1) were the taxpayer's relevant tax factor (as defined in subsection 95(1)) minus 1, be the specified tax allocation of the taxpayer in respect of the participating interest for each taxation year of the particular entity that ends in one of those taxation years for which subsection 94.3(3) applied to the taxpayer in respect of the participating interest, and

(ii) the amount, if any, by which

(A) the total of all amounts each of which is

(I) an amount, in respect of the participating interest, that is, or would have been, if this Act were read without reference to subsection 94.2(20), included under subsection 94.1(4) or 94.2(4) in computing the taxpayer's income for any of those taxation years, or

(II) the amount required by paragraph 94.3(5)(*a*) to be added in computing at the particular time the adjusted cost base to the taxpayer of the participating interest,

exceeds

(B) the total of all amounts each of which is

(I) the amount required by paragraph 94.3(5)(*b*) to be deducted in computing at the particular time the adjusted cost base to the taxpayer of the participating interest,

(II) an amount, in respect of the participating interest that is, or would have been, if this Act were read without reference to subsection 94.2(20), deducted under subsection 94.2(4) in computing the taxpayer's income for any of those taxation years,

(III) an amount, in respect of the participating interest that is deducted under this paragraph in computing the taxpayer's income for any of those preceding taxation years, or

(IV) the total of all amounts, each of which is an amount that was claimed by the taxpayer under paragraph (4)(*a*) or (*b*) in respect of the participating interest for any of those taxation years; and

(*b*) in computing after the particular time the adjusted cost base to the taxpayer of the participating interest there shall be deducted the amount deductible under paragraph (a) in computing the taxpayer's income for the particular taxation year in respect of the participating interest.

(3) Prevention of double taxation — foreign tax credit unavailable. If one or more particular amounts become payable or allocated to a taxpayer in a particular taxation year of the taxpayer, the taxpayer includes the particular amounts in computing its income for the particular taxation year, and the particular amounts are included in computing, in respect of a particular participating interest of the taxpayer, an amount deducted by the taxpayer under subsection (2) in computing its income for the particular taxation year, the taxpayer may deduct in computing the taxpayer's income for the particular taxation year in respect of the participating interest the amount determined by the formula

$$A \times B$$

where

A is

(*a*) nil, if the taxpayer is a corporation and the particular amounts are income from a share of the capital stock of a foreign affiliate of the taxpayer, and

(*b*) the taxpayer's relevant tax factor (as defined by subsection 95(1)) for the particular taxation year, in any other case; and

B is the lesser of

(*a*) 15% of the total of all amounts, if any, determined under subparagraph (2)(*a*)(ii) in computing the amount deductible by the taxpayer, in respect of the particular participating interest and the particular amounts, under subsection (2) in computing its income for the particular taxation year, and

(*b*) the amount that

(i) is the part of the non-business income tax (as defined by subsection 126(7)) paid by the taxpayer for the particular taxation year to a government of a country other than Canada that is in respect of the particular amounts, and

(ii) would be deductible under subsection 126(1) by the taxpayer from the tax for the particular taxation year otherwise payable under this Part (within the meaning assigned by paragraph (*a*) of the definition "tax for the taxation year otherwise payable under this Part" in subsection 126(7)) by the taxpayer if

(A) the taxpayer had not deducted an amount, in respect of the particular amounts, under subsection (2), and

(B) paragraph 126(1.2)(*a*) did not apply.

(4) Transitional. If subsection 94.1(4), 94.2(4) or 94.3(4) (as that subsection read in its application to taxation years beginning after 2006) applied to a taxpayer in computing the taxpayer's income for a particular taxation year of the taxpayer that began before 2007 (each such year referred to in this subsection as a "pre-2007 taxation year") in respect of a participating interest of the taxpayer in a foreign investment entity

(*a*) there may be deducted, in computing the taxpayer's income for the taxpayer's first taxation year beginning after 2006, such amount as the taxpayer may claim not exceeding the amount, if any, by which

(i) the total of all amounts each of which is an amount included in computing the taxpayer's income in a pre-2007 taxation year in respect of the participating interest because of subsection 94.1(4), 94.2(4) or 94.3(4)

exceeds

(ii) the total of all amounts each of which is an amount deducted in computing the taxpayer's income in a pre-2007 taxation year in respect of the participating interest because of subsection 94.2(4), 94.3(4) or 94.4(2) or (3);

(*b*) there may be added, in computing the taxpayer's capital loss from the disposition of a capital property for the taxpayer's first taxation year beginning after 2006, such amount as the taxpayer may claim not exceeding the amount, if any, by which

(i) the total of all amounts each of which is an amount included in computing the taxpayer's capital gain for a pre-2007 taxation year in respect of the participating interest because of subsection 94.2(4)

exceeds

(ii) the total of

(A) the total of all amounts each of which is an amount included in computing the taxpayer's capital loss in a pre-2007 taxation year in respect of the participating interest because of subsection 94.2(4), and

(B) the amount, if any, by which the amount determined under subparagraph (*a*)(ii) exceeds the amount determined under subparagraph (*a*)(i) in respect of the participating interest; and

(*c*) in computing the adjusted cost base to the taxpayer at any time after the taxpayer's first taxation year beginning after 2006, there is to be deducted the total of all amounts each of which is an amount claimed by the taxpayer under paragraph (*a*) or (*b*) to the extent that the amount claimed was deducted in computing the taxpayer's income or added in computing the taxpayer's capital loss from the disposition of a capital property.

Applicable: See the Application following the proposed amendment to section 94.1.

Explanatory Note:

Prevention of Double Taxation

New section 94.4 provides rules to eliminate double taxation of income where an amount of income of a non-resident entity, in respect of which any of sections 94.1 to 94.3 has applied in calculating the income for a year of a holder of an interest in the non-resident entity, becomes payable (determined by reference to paragraph 94.1(2)(*o*)) to that interest holder.

Subsection 94.4(1) provides that the definitions in subsections 94.1(1) and 94.2(1), and the rules of application in subsection 94.1(2), apply in section 94.4.

Under subsection 94.4(2), where an amount becomes payable (at a particular time in a particular taxation year of a taxpayer that begins after 2006 or in a preceding taxation year of the taxpayer that begins after 2006) to the taxpayer from a non-resident entity in respect of a participating interest in the entity held by the taxpayer (otherwise than as consideration for the disposition of the interest), and the taxpayer is resident in Canada at the particular time, a deduction is permitted to offset (against any income included in respect of the interest under subsection 94.1(4), 94.2(4) or 94.3(4)) any net income inclusion resulting from the amount payable.

The permitted deduction under subsection 94.4(2) for the taxpayer's taxation year is equal to the lesser of two amounts. The first amount is the amount, if any, by which the total of those amounts payable that are included in computing the

taxpayer's income for any of those years, exceeds the total of all amounts each of which

- is deductible in respect of the participating interest in any of those preceding years under paragraph 94.4(2)(*a*), or
- would, if subsection 94.3(3) applies to the taxpayer in respect of the participating interest for any of those taxation years, and the value of D in the definition "specified tax allocation" in subsection 94.3(1) were the taxpayer's relevant tax factor (as defined by subsection 95(1)) minus 1, be the specified tax allocation of the taxpayer in respect of the participating interest for each taxation year of the particular entity that ends in one of those taxation years for which subsection 94.3(3) applied to the taxpayer in respect of the participating interest.

As a result, in computing the portion of the amounts payable that may be used in computing a deduction under subsection 94.4(2), an adjustment is made to account for the extent to which the accrual system under the FIE regime has already recognized a possible incidence of taxation at Canadian-equivalent rates in the non-resident entity.

The second amount is the amount, if any, by which the total of

- the amounts included (or that, but for subsection 94.2(20), would have been included) in respect of the participating interest under subsection 94.1(4) or 94.2(4) in computing the taxpayer's income for the taxation year or a preceding taxation year, and
- the amounts required by paragraph 94.3(5)(*a*) to be added in computing at the particular time the adjusted cost base to the taxpayer of the participating interest

exceeds the total of all amounts each of which is an amount, in respect of the participating interest,

- that is required by paragraph 94.3(5)(*b*) to be deducted in computing at the particular time the adjusted cost base to the taxpayer of the participating interest,
- that is deducted (or that, but for subsection 94.2(20), would have been deducted) under subsection 94.2(4) in computing the taxpayer's income for any of those taxation years, or
- that is deducted under paragraph 94.4(2)(*a*) in computing the taxpayer's income for any of those preceding taxation years.

The amount deductible from income under paragraph 94.4(2)(*a*) in respect of the interest must also be deducted in computing after the particular time the adjusted cost base of the interest. For more information, see the commentary on new paragraph 53(2)(*w*).

The example below illustrates the operation of subsection 94.4(2).

Example

1. A taxpayer resident in Canada, Canco, purchases a 20% interest in Foreignco, a non-resident corporation. Foreignco is a FIE. Participating interests in Foreignco do not qualify as "exempt interests". Both Canco and Foreignco have taxation years that coincide with calendar years. Subsection 94.1(4) applies to Canco in respect of the interest.

2. Canco's income under subsection 94.1(4) in respect of its participating interest in Foreignco for 2007 is $100,000. Foreignco pays a dividend of $50,000 to Canco in 2007. Canco includes the dividend in income pursuant to section 90 and claims a deduction of $20,000 in computing its taxable income pursuant to subsection 113(1). No foreign withholding taxes were paid by Canco on the $50,000 dividend.

Results

1. Canco's deduction from income under subsection 94.4(2) is equal to $50,000, being the lesser of the income inclusion as a result of the payment ($50,000) and the amount of the income inclusion under subsection 94.1(4) ($100,000).

2. The result would generally be the same if the $50,000 dividend were instead paid in a subsequent year.

Example

1. A taxpayer resident in Canada, Canco, purchases a 20% interest in Foreignco, a non-resident corporation. Foreignco is a FIE. Participating interests in Foreignco do not qualify as "exempt interests". Both Canco and Foreignco have taxation years that coincide with calendar years. Subsection 94.1(4) applies to Canco in respect of the interest.

2. Canco's income under subsection 94.1(4) in respect of its participating interest in Foreignco for 2007 is $100,000. Foreignco pays a dividend of $50,000 to Canco in 2007. Canco includes the dividend in income pursuant to section 90 and claims a deduction of $20,000 in computing its taxable income pursuant to subsection 113(1). No foreign withholding taxes were paid by Canco on the $50,000 dividend.

Results

1. Canco's deduction from income under subsection 94.4(2) is equal to $50,000, being the lesser of the income inclusion as a result of the payment ($50,000) and the amount of the income inclusion under subsection 94.1(4) ($100,000).

2. The result would generally be the same if the $50,000 dividend were instead paid in a subsequent year.

Subsection 94.4(3) is designed to provide relief in circumstances where — because of having made, in computing its income for a taxation year, a deduction under subsection 94.4(2) in respect of a distribution from a FIE — a taxpayer does not have sufficient Part I tax payable for the year against which to claim a foreign tax credit under subsection 126(1) in respect of taxes paid to the government of a foreign country on that amount distributed from the FIE. Subsection 94.4(3) is applicable if

- one or more particular amounts become payable to a taxpayer in a taxation year of the taxpayer,
- the taxpayer includes the particular amounts in computing its income for the taxation year, and
- the particular amounts are included in computing, in respect of a participating interest of the taxpayer, an amount deducted by the taxpayer under subsection 94.4(2) in computing the taxpayer's income for the taxation year.

Where these conditions are met, subsection 94.4(3) provides that the taxpayer may deduct in computing the taxpayer's income for the taxation year the amount of the product determined by the formula "A x B" set out in subsection 94.4(3).

Under the formula, A will generally be the taxpayer's relevant tax factor (as defined by subsection 95(1)) for the taxation year. However, A is nil where the taxpayer is a corporation and the particular amounts are income from a share of the capital stock of a foreign affiliate of the taxpayer; in effect, the deduction under subsection 94.4(3) is not available in these circumstances, as the extent of any relief available to the taxpayer is not otherwise determined under section 126, but rather section 113.

Variable B in the formula is the lesser of two amounts. The first amount is 15% of the total of all amounts, if any, determined under subparagraph (2)(*a*)(ii) in computing the amount deductible by the taxpayer, in respect of the particular participating interest and the particular amounts, under subsection (2) in computing the taxpayer's income for the taxation year. In general terms, this will be the amount by which, in respect of the participating interest, income inclusions under the FIE regime for the taxation year exceed deductions from income made under the FIE regime for the taxation year. The second amount is the portion of the foreign tax paid in respect of the particular amounts that would — if the taxpayer had not made a deduction under subsection 94.4(2) — otherwise have been creditable by the taxpayer under subsection 126(1) for the taxation year.

Subsection 94.4(3) is relevant where a FIE distribution is made in respect of a taxpayer's participating interest and the distribution is subject to non-business income tax imposed by the government of a country in which the FIE is resident. Because of new subsection 126(1.2) of the Act, described in the commentary below, a taxpayer is not entitled to a tax credit under subsection 126(1) in respect of non-business income tax paid by a taxpayer in respect of the distribution if the taxpayer made a deduction under subsection 94.4(3) in respect of the amount distributed.

SECTION 95: [Foreign accrual property income].

Department of Finance Press Release
Government of Canada Eases Tax Compliance Burden for Internationally-Engaged Canadian Businesses

[Reproduced below is an excerpt from Department of Finance News Release No. 2008-048, dated June 27, 2008, which announces an extension of the elections for foreign affiliates, enacted by Bill C-28 (S.C. 2007, c. 35). A portion of the accompanying Annex describing this change is also reproduced below.]

The Honourable Jim Flaherty, Minister of Finance, today proposed changes to the *Income Tax Act* for Canadian businesses with foreign affiliates and those that report earnings in a foreign currency.

* * *

Foreign Affiliates

Bill C-28, the second Budget 2007 implementation bill, ... which received Royal Assent on December 14, 2007, implemented a number of amendments to the *Income Tax Act* relating to foreign affiliates.

Included in the bill were provisions which allow taxpayers to elect retroactive application of some of these foreign affiliate amendments. However, in response to concerns that the deadline for filing these elections is too tight — for example, a taxpayer with a December 31, 2007 year-end must file these elections by June 30, 2008 — the Government is proposing to extend the filing deadline for these elections by 18 months. These proposals are set out in more detail in the attached annex.

Annex

Foreign Affiliates

Bill C-28, which received Royal Assent on December 14, 2007, included a number of amendments to the *Income Tax Act* that implement various foreign affiliate proposals announced in Budget 2007 as well as related foreign affiliate proposals announced on February 27, 2004.

In this context, Bill C-28 contains a one-time election (commonly referred to as the "Global Election") which allows taxpayers to elect retroactive application of a block of foreign affiliate amendments. In addition to the Global Election, there are various other foreign affiliate amendments in Bill C-28 that allow for separate one-time elections. In the case of both of the Global Election and the separate elections, the elections apply to all foreign affiliates of the particular taxpayer.

As enacted, Bill C-28 requires that a taxpayer wishing to make the Global Election or a separate election must do so by filing the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which the bill received Royal Assent. Since corporate filing-due dates are generally six months after year-end, this means that a taxpayer with a December 31, 2007 year-end must file these elections by June 30, 2008.

The Government has received comments from stakeholders, in respect of both the Global Election and the separate elections, expressing concern with the current election deadline. To address these concerns, it is proposed that the filing deadline for both the Global Election and the separate elections be extended by 18 months.

► 95(1) ◄

(1) Definitions for this subdivision. In this subdivision,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 95(1) of the Act before the definition "active business" is replaced by the following:

SECTION 95:

(1) Definitions re foreign affiliates. In this subdivision (other than in sections 94 to 94.4),

Applicable: To taxation years, of a foreign affiliate of a taxpayer, that begin after 2006, except that the definitions also apply to a taxation year of a foreign affiliate of a taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the foreign affiliate.

Explanatory Note: Section 95 of the Act defines a number of terms and provides certain rules relating to the taxation of resident shareholders of foreign affiliates.

Subsection 95(1) — Definitions

Subsection 95(1) of the Act sets out definitions that are relevant for the purposes of sections 90 to 95.

Subsection 95(1) is amended so that these definitions do not apply for the purposes of sections 94 to 94.4, except where the definition applies for the purposes of the Act as a whole because of subsection 248(1). This amendment applies to taxation years that begin after 2006.

As set out below, various definitions in subsection 95(1) are also being amended.

Regulations: 5905; 5907.
Proposed Regulations: 5910.
Interpretation Bulletins: *Secondary* — IT-392 Meaning of the term "share" [Archived by the CRA]; IT-451R Deemed disposition and acquisition on ceasing to be or becoming resident in Canada.

"*active business*" — "active business", of a foreign affiliate of a taxpayer means any business carried on by the foreign affiliate other than

(*a*) an investment business carried on by the foreign affiliate,

(*b*) a business that is deemed by subsection (2) to be a business other than an active business carried on by the foreign affiliate, or

(*c*) a non-qualifying business of the foreign affiliate;

History: S. 95(1), the definition "active business" was replaced by S.C. 2007, c. 35, s. 26(1), applicable in respect of taxation years, of a foreign affiliate of a taxpayer, that begin after 2008. S. 95(1), the definition "active business" formerly read:

"'*active business*' — 'active business' of a foreign affiliate of a taxpayer means any business carried on by the affiliate other than

(*a*) an investment business carried on by the affiliate, or

(*b*) a business that is deemed by subsection (2) to be a business other than an active business carried on by the affiliate;"

S. 95(1), the application of the definition "active business" was amended by S.C. 1998, c. 19, s. 305(1), deemed to have come into force on June 22, 1995. That application reads as follows:

Sec. 305(1), Chap. 19, 1998

(8) Subsections 46(1) to 46(6) [of 1995, c. 21] apply to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, subsections (1) to (6) apply to taxation years of the foreign affiliate that end after 1994, unless

(*a*) the foreign affiliate had requested the change in writing before February 22, 1994 from the income taxation authority of the country in which the foreign affiliate was resident and subject to income taxation; or

(*b*) the foreign affiliate's first taxation year that began after 1994 began at a time in 1995 that is earlier than the time at which that taxation year would have begun if the change had not occurred.

The definition "active business" in s. 95(1) was added by S.C. 1995, c. 21, s. 46(3), applicable to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, the definition "active business" applies to taxation years of such foreign affiliate of the taxpayer that end after 1994, unless

(*a*) such foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation; or

(*b*) the first taxation year of such foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time that that taxation year would have begun if there had not been that change in the taxation year of such foreign affiliate.

Editorial Note: The term "active business" as defined in subsection 95(1) is central to the application of the foreign affiliate rules contained in Subdivision i of the Act and the supporting rules in Part LIX of the Regulations. In particular, income earned by a foreign affiliate that is sourced from an active business will not be included in a foreign affiliate's foreign accrual property income (FAPI) and therefore such income will not be subject to Canadian taxation as earned by the affiliate. In addition, income earned by a foreign affiliate that is sourced from an active business will be included in the affiliate's "exempt earnings" or "taxable earnings" and therefore "exempt surplus" or "taxable surplus", respectively (see the definitions in regulation 5907(1)) depending on the affiliate's residence and the location of the business from which the income was earned.

Related Sections: S. 17(8) Exception; s. 95(1), "excluded property", "foreign accrual property income", "income from an active business", "income from property"; s. 95(2) Determination of certain components of foreign accrual property income; s. 248(1), "business", "taxpayer".

Regulations: 5906(1) Where active business carried on; 5907(1), "active business" — Meaning assigned by s. 95(1), "earnings", "exempt earnings", "exempt loss", "loss", "net earnings", "net loss", "taxable earnings", "taxable loss"; 5907(2) Adjustment to earnings; 5907(2.1), (2.2), (2.3) and (2.6) Election for depreciable property; 5907(2.7), (2.8) and (2.9) Adjustment to earnings; 5907(5.1) [proposed repeal] Earnings computation on disposition of capital property; 5907(10) Tax sparing.

Cases: Where the taxpayer's commercial undertakings went beyond mere passive investment in property, interest was held to be income from active business which did not constitute FAPI under s. 95(1)(b), as it then read. *The Queen v. Canada Trustco Mortgage Company,* 99 DTC 5094 (F.C.T.D.), affirming 91 DTC 1312 (T.C.C.).

"*antecedent corporation*" — "antecedent corporation" of a particular corporation means

(*a*) a predecessor corporation (within the meaning assigned by subsection 87(1)) in respect of an amalgamation to which subsection 87(11) applied and by which the particular corporation was formed,

(*b*) a predecessor corporation (within the meaning of subsection 87(1)) of the corporation (referred to in this definition as the "first amalco") that was formed on an amalgamation of the predecessor corporation and another corporation, where

(i) shares of the capital stock of the predecessor corporation that were not owned by the other corporation, or by a corporation of which the other corporation is a subsidiary wholly-owned corporation, were exchanged on the amalgamation for shares of the capital stock of the first amalco that were, during the series of transactions or events that includes the amalgamation, redeemed, acquired or cancelled by the first amalco for money,

(ii) the first amalco was a predecessor corporation (within the meaning assigned by subsection 87(1)) in respect of an amalgamation to which subsection 87(11) applied and by which the particular corporation was formed, and

(iii) the amalgamation referred to in subparagraph (i) occurred in a series of transactions or events that included the amalgamation referred to in subparagraph (ii),

(*c*) a corporation that was wound-up into the particular corporation in a winding-up to which subsection 88(1) applied, or

(*d*) an antecedent corporation of an antecedent corporation of the particular corporation;

History: S. 95(1), the definition "antecedent corporation" was added by S.C. 2009, c. 2, s. 25(1), applicable to taxation years of a foreign affiliate of a taxpayer that begin after October 2, 2007. However, if the taxpayer elects in writing in respect of all of its foreign affiliates and files the election with the Minister of National Revenue on or before the taxpayer's election day, the definition "antecedent corporation" also applies to taxation years of a foreign affiliate of the taxpayer that begin before October 2, 2007 and after the date chosen by the taxpayer as described below.

The taxpayer's election day is the later of (i) the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act is assented to [R.A. March 12, 2009] and (ii) the day that is one year after the day on which this Act is assented to [March 12, 2010].

To be valid, an election [described above] must include the identification by the taxpayer of its choice of one of the following dates:

(*i*) December 31, 1994,

(*ii*) December 20, 2002, or

(*iii*) February 27, 2004.

Notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take into account this provision and any election made with respect to it.

"*calculating currency*" — "calculating currency" for a taxation year of a foreign affiliate of a taxpayer means

(*a*) the currency of the country in which the foreign affiliate is resident at the end of the taxation year, or

(*b*) any currency that the taxpayer demonstrates to be reasonable in the circumstances;

History: S. 95(1), the definition "calculating currency" was added by S.C. 2009, c. 2, s. 25(1), applicable to taxation years of a foreign affiliate of a taxpayer that begin after October 2, 2007. However, if the taxpayer elects in writing in respect of all of its foreign affiliates and files the election with the Minister of National Revenue on or before the taxpayer's election day, the definition "calculating currency" also applies to taxation years of a foreign affiliate of the taxpayer that begin before October 2, 2007 and after the date chosen by the taxpayer as described below.

The taxpayer's election day is the later of (i) the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act is assented to [R.A. March 12, 2009] and (ii) the day that is one year after the day on which this Act is assented to [March 12, 2010].

To be valid, an election [described above] must include the identification by the taxpayer of its choice of one of the following dates:

(*i*) December 31, 1994,

(*ii*) December 20, 2002, or

(*iii*) February 27, 2004.

Notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take into account this provision and any election made with respect to it.

"*controlled foreign affiliate*" — "controlled foreign affiliate", at any time, of a taxpayer resident in Canada, means

(*a*) a foreign affiliate of the taxpayer that is, at that time, controlled by the taxpayer, or

(*b*) a foreign affiliate of the taxpayer that would, at that time, be controlled by the taxpayer if the taxpayer owned

(i) all of the shares of the capital stock of the foreign affiliate that are owned at that time by the taxpayer,

(ii) all of the shares of the capital stock of the foreign affiliate that are owned at that time by persons who do not deal at arm's length with the taxpayer,

(iii) all of the shares of the capital stock of the foreign affiliate that are owned at that time by the persons (each of whom is referred to in this definition as a "relevant Canadian shareholder"), in any set of persons not exceeding four (which set of persons shall be determined without reference to the existence of or the absence of any relationship, connection or action in concert between those persons), who

(A) are resident in Canada,

(B) are not the taxpayer or a person described in subparagraph (ii), and

(C) own, at that time, shares of the capital stock of the foreign affiliate, and

(iv) all of the shares of the capital stock of the foreign affiliate that are owned at that time by persons who do not deal at arm's length with any relevant Canadian shareholder;

Coordinating Amendment

S.C. 2007 c. 35 (Bill C-28) — Coordinating Amendments With Former Bill C-10 — Income Tax Amendments Act, 2006 — December 14, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The following applies if former Bill C-10, introduced in the 2nd session of the 39th Parliament and entitled the *Income Tax Amendments Act, 2006* (referred to as the "other Act"), receives royal assent: If this Act [Bill C-28, S.C. 2007, c. 35] receives royal assent before the other Act receives royal assent, subsection 19(2) of the other Act [the amendment to the definition of "controlled foreign affiliate" in subsection 95(1)] is repealed. The definition of "controlled foreign affiliate" as amended by S.C. 2007 c. 35 is replaced by the following:

"controlled foreign affiliate" — "controlled foreign affiliate", at any time, of a taxpayer resident in Canada, means

(*a*) a foreign affiliate of the taxpayer that is, at that time, controlled by the taxpayer,

(*b*) a foreign affiliate of the taxpayer that would, at that time, be controlled by the taxpayer if the taxpayer owned

(i) all of the shares of the capital stock of the foreign affiliate that are owned at that time by the taxpayer,

(ii) all of the shares of the capital stock of the foreign affiliate that are owned at that time by persons who do not deal at arm's length with the taxpayer,

(iii) all of the shares of the capital stock of the foreign affiliate that are owned at that time by the persons (each of whom is referred to in this definition as a "relevant Canadian shareholder"), in any set of persons not exceeding four (which set of persons shall be determined without reference to the existence of or the absence of any relationship, connection or action in concert between those persons), who

(A) are resident in Canada,

(B) are not the taxpayer or a person described in subparagraph (ii), and

(C) own, at that time, shares of the capital stock of the foreign affiliate, and

(iv) all of the shares of the capital stock of the foreign affiliate that are owned at that time by persons who do not deal at arm's length with any relevant Canadian shareholder, or

(*c*) a foreign affiliate of the taxpayer that is, at that time, a controlled foreign affiliate of the taxpayer because of paragraph 94.1(2)(*h*);

Applicable: To taxation years, of a foreign affiliate of a taxpayer, that begin after 1995, except that

(*a*) for taxation years, of a foreign affiliate of a taxpayer, that begin after 2002 and on or before February 27, 2004, the definition "controlled foreign affiliate" in subsection 95(1) of the *Income Tax Act*, is to be read as follows:

" 'controlled foreign affiliate', at any time, of a taxpayer resident in Canada, means

(*a*) a foreign affiliate of the taxpayer that is, at that time, controlled

(i) by the taxpayer,

(ii) by the taxpayer and not more than four other persons resident in Canada, or

(iii) by not more than four persons resident in Canada, other than the taxpayer,

(*b*) a foreign affiliate of the taxpayer that would, at that time, be controlled by the taxpayer if the taxpayer owned

(i) all of the shares of the capital stock of the foreign affiliate that are owned at that time by the taxpayer,

(ii) all of the shares of the capital stock of the foreign affiliate that are owned at that time by persons who do not deal at arm's length with the taxpayer,

(iii) all of the shares of the capital stock of the foreign affiliate that are owned at that time by the persons (each of whom is referred to in this definition as a 'relevant Canadian shareholder'), in any set of persons not exceeding four (which set of persons shall be determined without reference to the existence of or the absence of any relationship, connection or action in concert between those persons), who

(A) are resident in Canada,

(B) are not the taxpayer or a person described in subparagraph (ii), and

(C) own, at that time, shares of the capital stock of the foreign affiliate, and

(iv) all of the shares of the capital stock of the foreign affiliate that are owned at that time by persons who do not deal at arm's length with any relevant Canadian shareholder, or

(*c*) a foreign affiliate of the taxpayer that is, at that time, a controlled foreign affiliate of the taxpayer because of paragraph 94.1(2)(*h*);"

(*b*) for taxation years, of a foreign affiliate of a taxpayer, that begin after 1995 and before 2003, the definition "controlled foreign affiliate" in subsection 95(1) of the *Income Tax Act*, is to be read as follows:

" 'controlled foreign affiliate', at any time of a taxpayer resident in Canada, means a foreign affiliate of the taxpayer that

(*a*) is, at that time, controlled

(i) by the taxpayer,

(ii) by the taxpayer and not more than four other persons resident in Canada, or

(iii) by not more than four persons resident in Canada, other than the taxpayer, or

(*b*) would, at that time, be controlled by the taxpayer if the taxpayer owned

(i) each share of the capital stock of a corporation that is owned at that time by the taxpayer and each share of the capital stock of a corporation that is owned at that time by any of not more than four other persons resident in Canada,

(ii) each share of the capital stock of a corporation that is owned at that time by any of not more than four persons resident in Canada (other than the taxpayer), and

(iii) each share of the capital stock of a corporation that is owned at that time by the taxpayer and each share of the capital stock of a corporation that is owned at that time by any person with whom the taxpayer does not deal at arm's length."

History: S. 95(1), the definition "controlled foreign affiliate" was replaced by S.C. 2007, c. 35, s. 26(1), applicable to taxation years, of a foreign affiliate of a taxpayer, that begin after 1995, except that

(*a*) for taxation years, of a foreign affiliate of a taxpayer, that begin after 2002 and on or before February 27, 2004, the definition "controlled foreign affiliate" is to be read as follows:

" 'controlled foreign affiliate', at any time, of a taxpayer resident in Canada, means

(*a*) a foreign affiliate of the taxpayer that is, at that time, controlled

(i) by the taxpayer,

(ii) by the taxpayer and not more than four other persons resident in Canada, or

(iii) by not more than four persons resident in Canada, other than the taxpayer, or

(*b*) a foreign affiliate of the taxpayer that would, at that time, be controlled by the taxpayer if the taxpayer owned

(i) all of the shares of the capital stock of the foreign affiliate that are owned at that time by the taxpayer,

(ii) all of the shares of the capital stock of the foreign affiliate that are owned at that time by persons who do not deal at arm's length with the taxpayer,

(iii) all of the shares of the capital stock of the foreign affiliate that are owned at that time by the persons (each of whom is referred to in this definition as a 'relevant Canadian shareholder'), in any set of persons not exceeding four (which set of persons shall be determined without reference to the existence of or the absence of

any relationship, connection or action in concert between those persons), who

(A) are resident in Canada,

(B) are not the taxpayer or a person described in subparagraph (ii), and

(C) own, at that time, shares of the capital stock of the foreign affiliate, and

(iv) all of the shares of the capital stock of the foreign affiliate that are owned at that time by persons who do not deal at arm's length with any relevant Canadian shareholder;"

(*b*) for taxation years, of a foreign affiliate of a taxpayer, that begin after 1995 and before 2003, the definition "controlled foreign affiliate" is to be read as follows:

" 'controlled foreign affiliate', at any time of a taxpayer resident in Canada, means a foreign affiliate of the taxpayer that

(*a*) is, at that time, controlled

(i) by the taxpayer,

(ii) by the taxpayer and not more than four other persons resident in Canada, or

(iii) by not more than four persons resident in Canada, other than the taxpayer, or

(*b*) would, at that time, be controlled by the taxpayer if the taxpayer owned

(i) each share of the capital stock of a corporation that is owned at that time by the taxpayer and each share of the capital stock of a corporation that is owned at that time by any of not more than four other persons resident in Canada,

(ii) each share of the capital stock of a corporation that is owned at that time by any of not more than four persons resident in Canada (other than the taxpayer), and

(iii) each share of the capital stock of a corporation that is owned at that time by the taxpayer and each share of the capital stock of a corporation that is owned at that time by any person with whom the taxpayer does not deal at arm's length;"

S. 95(1), the definition "controlled foreign affiliate" formerly read:

" '*controlled foreign affiliate*' — 'controlled foreign affiliate', at any time, of a taxpayer resident in Canada means a foreign affiliate of the taxpayer that was, at that time, controlled by

(*a*) the taxpayer,

(*b*) the taxpayer and not more than four other persons resident in Canada,

(*c*) not more than 4 persons resident in Canada, other than the taxpayer,

(*d*) a person or persons with whom the taxpayer does not deal at arm's length, or

(*e*) the taxpayer and a person or persons with whom the taxpayer does not deal at arm's length;"

S. 95(1), the definition "controlled foreign affiliate", paragraph (*c*) was amended and paragraphs (*d*) and (*e*) were added by S.C. 1994, c. 7, Sched. II, s. 71(1), applicable to taxation years beginning after July 13, 1990. Paragraph (*c*) formerly read:

"(*c*) a related group of which the taxpayer was a member;"

Editorial Note: A Canadian-resident taxpayer is required to include an amount in income pursuant to subsection 91(1) in respect of the "foreign accrual property income" (FAPI) as defined in subsection 95(1) earned by a "controlled foreign affiliate" of the taxpayer. See the editorial note accompanying subsection 91(1) for a discussion of the amount to be included in income. Generally, a foreign affiliate of a Canadian-resident taxpayer will be a controlled foreign affiliate of the taxpayer where the taxpayer is able to exercise *de jure* control over the affiliate. For the purposes of determining *de jure* control the definition of "controlled foreign affiliate" contains rules that deem the taxpayer to own shares of the affiliate held by other persons.

Related Sections: S. 17(3) Exception to anti-avoidance rule — indirect loan; s. 17(8) Exception; s. 17(8.1) Borrowed money; s. 17(8.2) Deemed use; s. 17(10) Determination of whether related and controlled foreign affiliate status; s. 17(12) Determination of controlled foreign affiliate status; s. 17(13) Extended definition of controlled foreign affiliate; s. 17(15) Definitions; s. 53(1)(*m*) Adjustments to cost base — Offshore investment fund property; s. 88(3) Dissolution of foreign affiliate; s. 91(1) Amounts to be included in respect of share of foreign affiliate; s. 91(5) Amounts deductible in respect of dividends received; s. 94(1)(*a*)(iii) Non-resident trusts; s. 94.1(1)(*a*) Exclusion from offshore investment fund rules; s. 95(1), "foreign accrual property income" element C, "participating percentage"; s. 95(2)(*a*) FAPI recharacterization; s. 95(2)(*f*)(i) Computation of capital gains and capital losses; s. 95(2)(*g*) Determination of foreign exchange gains and losses; s. 95(2)(*g.2*) Foreign spin-off election; s. 95(2)(*z*) Foreign affiliate as a partner; s. 95(2.01) Rules for the definition "controlled foreign affiliate"; s. 95(2.02) Rule against double-counting; s. 128.1(1)(*d*) Foreign affiliate; s. 162(10.2) Shares or debt owned by controlled foreign affiliate; s. 162(10.3) Application to partnerships; s. 162(10.4) Application to non-resident trusts; s. 163(2.5) Shares or debt owned by controlled foreign affiliate; s. 163(2.6) Application to partnerships; s. 163(2.91) Application to non-resident trusts; s. 233.2 Non-resident trust reporting; s. 233.4 Reporting entity; s. 233.5 Due diligence exception; s. 247(7) Exclusion for loans to certain controlled foreign affiliates; s. 248(1), "controlled foreign affiliate", "taxpayer"; s. 248(25)(*b*)(iii)(A)(IV) and (V) Meaning of "beneficially interested"; s. 256(6) Saving provision — controlled corporations; s. 256(6.1) Simultaneous control; Canada–US Income Tax Convention Article XXIX(5)(*a*)–US S-corporation deemed to be a controlled foreign affiliate.

Proposed Related Sections: S. 53(1)(*m.1*) Adjusted cost base of interest in FIE; s. 53(2)(*w*) Adjusted cost base of interest in FIE; s. 94(1), "specified controlled foreign affiliate"; s. 94(2)(*l*) Transfer or loan of property; s. 94(3)(*a*)(x) Application to deemed resident trust; s. 94.1(1), "exempt interest" subpara. (*a*)(i) FIE rules not applicable to a share of a controlled foreign affiliate; s. 94.1(1), "exempt property" para. (*b*); s. 94.1(2)(*h*) Election by FIE to be a controlled foreign affiliate; s. 95(2)(*c.2*)(i)(B) Gain suspension regime (shares); s. 95(2)(*f.4*)(i)(B) Gain suspension regime (property other than shares); s. 95(2)(*g.3*)(ii)(B), (iv)(B)(III), (iv)(D) Interest in FIE and deemed controlled foreign affiliate for FAPI computation.

Regulations: 5903(1) and (2) Deductible loss computation; 5904(1), (2) and (3) Determination of participating percentage; 5907(1), "controlled foreign affiliate" — Meaning assigned by s. 95(1).

Tax Profile: March 2008 — International Tax Planning for the Owner-Manager.

Canadian Petroleum Tax Journal: Selected Income Tax Considerations When Structuring Foreign Resource Ventures, William A. Brebber, Vol. 15 No. 1 2002.

"*designated acquired corporation*" — "designated acquired corporation" of a taxpayer means a particular antecedent corporation of the taxpayer if

(*a*) the taxpayer or another antecedent corporation of the taxpayer acquired control of

(i) the particular antecedent corporation, or

(ii) a corporation (referred to in this definition as a "successor corporation") of which the particular antecedent corporation is an antecedent corporation, and

(*b*) immediately before the acquisition of control or a series of transactions or events that includes the acquisition of control, the taxpayer, the other antecedent corporation or a corporation resident in Canada of which the taxpayer or the other antecedent corporation is a subsidiary wholly-owned corporation, as the case may be, dealt at arm's length (otherwise than because of a right referred to in paragraph 251(5)(*b*)) with the particular antecedent corporation or the successor corporation, as the case may be;

History: S. 95(1), the definition "designated acquired corporation" was added by S.C. 2009, c. 2, s. 25(1), applicable to taxation years of a foreign affiliate of a taxpayer that begin after October 2, 2007. However, if the taxpayer elects in writing in respect of all of its foreign affiliates and files the election with the Minister of National Revenue on or before the taxpayer's election day, the definition "designated acquired corporation" also applies to taxation years of a foreign affiliate of the taxpayer that begin before October 2, 2007 and after the date chosen by the taxpayer as described below.

The taxpayer's election day is the later of (i) the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act is assented to [R.A. March 12, 2009] and (ii) the day that is one year after the day on which this Act is assented to [March 12, 2010].

To be valid, an election [described above] must include the identification by the taxpayer of its choice of one of the following dates:

(*i*) December 31, 1994,

(*ii*) December 20, 2002, or

(*iii*) February 27, 2004.

Notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take into account this provision and any election made with respect to it.

"*eligible trust*" — "eligible trust", at any time, means a trust, other than a trust

(*a*) created or maintained for charitable purposes,

(*b*) governed by an employee benefit plan,

(*c*) described in paragraph (*a.1*) of the definition "trust" in subsection 108(1),

(*d*) governed by a salary deferral arrangement,

(*e*) operated for the purpose of administering or providing superannuation, pension, retirement or employee benefits, or

(*f*) where the amount of income or capital that any entity may receive directly from the trust at any time as a beneficiary under the trust depends on the exercise by any entity of, or the failure by any entity to exercise, a discretionary power;

History: S. 95(1), the definition "eligible trust" was added by S.C. 2007, c. 35, s. 26(9), applicable after February 27, 2004.

Editorial Note: The term "eligible trust" is relevant to the definition of "exempt trust" in subsection 95(1). See the editorial note accompanying the definition of "exempt trust". Generally, an "eligible trust" is a trust other than certain enumerated trusts, including a trust: maintained for charitable purposes; governed by an employee benefit plan or a salary deferral arrangement; operated to administer pension and retirement benefits; or that is a discretionary trust.

Related Sections: S. 95(1), "entity", "exempt trust" para. (*a*) — Requirement to be an exempt trust; s. 108(1), "trust" para. (*a.1*); s. 248(1), "employee benefit plan", "salary deferral arrangement".

"entity" — "entity" includes an association, a corporation, a fund, a natural person, a joint venture, an organization, a partnership, a syndicate and a trust;

History: S. 95(1), the definition "entity" was added by S.C. 2007, c. 35, s. 26(9), applicable in respect of taxation years, of a foreign affiliate of a taxpayer, that begin after 1994.

Related Sections: S. 95(1), "eligible trust", "foreign bank", "specified fixed interest", "specified purchaser"; s. 95(2)(*u*) Tiers of partnerships.

"excluded property" — "excluded property", at a particular time, of a foreign affiliate of a taxpayer means any property of the foreign affiliate that is

(*a*) used or held by the foreign affiliate principally for the purpose of gaining or producing income from an active business carried on by it,

(*b*) shares of the capital stock of another foreign affiliate of the taxpayer where all or substantially all of the fair market value of the property of the other foreign affiliate is attributable to property, of that other foreign affiliate, that is excluded property,

(*c*) property all or substantially all of the income from which is, or would be, if there were income from the property, income from an active business (which, for this purpose, includes income that would be deemed to be income from an active business by paragraph (2)(*a*) if that paragraph were read without reference to subparagraph (v)), or

(*c.1*) property arising under or as a result of an agreement that

(i) provides for the purchase, sale or exchange of currency, and

(ii) either

(A) can reasonably be considered to have been made by the affiliate to reduce its risk, with respect to an amount that was receivable under an agreement that relates to the sale of excluded property or with respect to an amount that was receivable and was a property described in paragraph (*c*), of fluctuations in the value of the currency in which the amount receivable was denominated, or

(B) can reasonably be considered to have been made by the affiliate to reduce its risk, with respect to any of the following amounts, of fluctuations in the value of the currency in which that amount was denominated:

(I) an amount that was payable under an agreement that relates to the purchase of property that (at all times between the time of the acquisition of the property and the particular time) is excluded property of the affiliate,

(II) an amount of indebtedness, to the extent that the proceeds derived from the issuance or incurring of the indebtedness can reasonably be considered to have been used to acquire property that (at all times between the time of the acquisition of that property and the particular time) is excluded property of the affiliate, or

(III) an amount of indebtedness, to the extent that the proceeds derived from the issuance or incurring of the indebtedness can reasonably be considered to have been used to repay the outstanding balance of

1. an amount that, immediately before the time of that repayment, is described by subclause (I),

2. an amount of indebtedness of the affiliate that, immediately before the time of that repayment, is described by subclause (II), or

3. an amount of indebtedness of the affiliate that, immediately before the time of that repayment, is described by this subclause,

and, for the purposes of the definitions "foreign affiliate" in this subsection and "direct equity percentage" in subsection (4) as they apply to this definition, where at any time a foreign affiliate of a taxpayer has an interest in a partnership,

(*d*) the partnership shall be deemed to be a non-resident corporation having capital stock of a single class divided into 100 issued shares, and

(*e*) the affiliate shall be deemed to own at that time that proportion of the issued shares of that class that

(i) the fair market value of the affiliate's interest in the partnership at that time

is of

(ii) the fair market value of all interests in the partnership at that time;

History: S. 95(1), the portion of the definition "excluded property" before paragraph (*a*) and paragraphs (*a*) to (*c*) were replaced, and paragraph (*c.1*) was added, by S.C. 2007, c. 35, s. 26(2), applicable, subject to the election below, to taxation years, of a foreign affiliate of a taxpayer that begin after December 20, 2002.

[Global Section 95 Election] If a taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2007, paragraphs (*a*), (*c*) and (*c.1*) of the definition "excluded property" apply to taxation years, of all foreign affiliates of the taxpayer, that begin after 1994. **[Editorial Note:** See Department of Finance News Release No. 2008-048, dated June 27, 2008, reproduced before s. 95(1), regarding a proposed extension of the election deadline.]

If a taxpayer has made what would be a valid election described above ("Global Section 95 Election"), and the taxpayer has, on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2010, filed with the Minister of National Revenue a notice in writing to revoke the election, the election is deemed, otherwise than for the purpose of this revocation, never to have been made.

Notwithstanding subsections 152(4) to (5), any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take an election referred to above, or a revocation referred to above, into account.

S. 95(1), the portion of the definition "excluded property" before paragraph (*a*) and paragraphs (*a*) to (*c*) formerly read:

"*'excluded property'* — 'excluded property' of a foreign affiliate of a taxpayer means any property of the foreign affiliate that is

(*a*) used or held by the foreign affiliate principally for the purpose of gaining or producing income from an active business,

(*b*) shares of the capital stock of another foreign affiliate of the taxpayer where all or substantially all of the property of the other foreign affiliate is excluded property, or

(*c*) an amount receivable the interest on which is, or would be if interest were payable thereon, income from an active business by virtue of subparagraph (2)(*a*)(ii),"

S. 95(1), that portion of the definition "excluded property" following paragraph (*c*) was amended by S.C. 1994, c. 7, Sched. II, s. 71(2), applicable after 1989. That portion formerly read:

"and for the purpose of this definition, where a foreign affiliate of a taxpayer has an interest in a partnership and the fair market value of the interest is equal to or greater than 10% of the fair market value of all interests in the partnership, the partnership shall be deemed to be another foreign affiliate of the taxpayer and the interest of the foreign affiliate in the partnership shall be deemed to be shares of the capital stock of that other foreign affiliate;"

Editorial Note: The classification of property held by a foreign affiliate as "excluded property" is relevant for the purposes of computing the affiliate's "foreign accrual property income" (FAPI), if any, realized on the disposition of the property. Generally, taxable capital gains realized, and allowable capital losses incurred, on the disposition of excluded property are not included in the computation of a foreign affiliate's FAPI. More specifically, taxable capital gains realized by a foreign affiliate on the disposition of property are included in the affiliate's FAPI unless the property is excluded property and none of the foreign affiliate reorganization rules in paragraphs 95(2)(*c*), (*d*) and (*e*) apply to the disposition (see element B of the definition of "FAPI" in subsection 95(1)). Similarly, allowable capital losses incurred by a foreign affiliate on the disposition of property are deducted in computing the affiliate's FAPI unless the property is excluded property (see element E of the definition of "FAPI"). In either case, taxable capital gains and allowable capital losses will only be included in the computation of the foreign affiliate's FAPI to the extent that the gains and losses can reasonably be considered to have accrued after the affiliate's 1975 taxation year.

Related Sections: S. 85.1(4) Exception; s. 85.1(6) Where subsection (5) does not apply; s. 93(1.1) Deemed s. 93(1) election; s. 93(1.3) Deemed s. 93(1) election; s. 93(2) Loss limitation on disposition of share; s. 93(2.1) Loss limitation — disposition of share by partnership; s. 93(2.2) Loss limitation — disposition of partnership interest; s. 93(2.3) Loss limitation — disposition of partnership interest; s. 94(1)(*c*)(i)(B)(III) Non-resident trust rules; s. 95(1), "foreign accrual property income" (elements B and E), "investment property"; s. 95(2)(*a*)(ii)(D) and s. 95(2)(*a*)(v) FAPI recharacterization; s. 95(2)(*f*)(i) Computation of capital gains and capital losses; s. 95(2)(*g.02*) Foreign exchange gains and losses; s. 95(2)(*i*) Deemed gain or loss from the disposition of excluded property; s. 248(1), "taxpayer".

Proposed Related Sections: S. 88(3) Distributions by first tier foreign affiliates; s. 92(1.2) Adjusted cost base adjustments; s. 94.1(1), "exempt property" subpara. (*b*)(ii); s. 95(1), "foreign accrual property income" element B; s. 95(2)(*c.1*) Gain suspension regime (shares); s. 95(2)(*d*)(i)(A), (iii)(A) and (vi)(B) Foreign merger; s. 95(2)(*e*)(i)(A) and (v) Winding-up; s. 95(2)(*e.3*)(i)(A) and (iv) Gain suspension regime (dividend or distribution on a share); s. 95(2)(*e.4*)(i)(A) and (iv) Gain suspension regime (dividend-like redemption); s. 95(2)(*e.5*)(i)(A) and (v) Gain suspension regime (redemption, acquisition or cancellation); s. 95(2)(*f.3*)(ii) Gain suspension regime (property other than shares); s. 95(2)(*h*)(i) Loss suspension regime; s. 95(2)(*k.2*)(iv) Fresh start rules; s. 95(3.2), "dividend-like redemption"; s. 95(3.8) Computation of exempt surplus.

Regulations: 5907(1), "exempt earnings" clause (d)(ii)(H), "net earnings" para. (d), "net loss" para. (d), "taxable earnings" subpara. (b)(v), "taxable loss" subpara. (b)(iv).

"exempt trust" — "exempt trust", at a particular time in respect of a taxpayer resident in Canada, means a trust that, at that time, is a trust under which the interest of each beneficiary under the trust is, at all times that the interest exists during the trust's taxation year that includes the particular time, a specified fixed interest of the beneficiary in the trust, if at the particular time

(*a*) the trust is an eligible trust,

(*b*) there are at least 150 beneficiaries each of whom holds a specified fixed interest, in the trust, that has a fair market value of at least $500, and

(*c*) the total of all amounts each of which is the fair market value of an interest as a beneficiary under the trust held by a specified purchaser in respect of the taxpayer is not more than 10% of the total fair market value of all interests as a beneficiary under the trust;

History: S. 95(1), the definition "exempt trust" was added by S.C. 2007, c. 35, s. 26(9), applicable after February 27, 2004.

Editorial Note: The term "exempt trust" is relevant for subsection 95(2.01). Generally, an "exempt trust" is defined as an "eligible trust" under which the interest of each beneficiary is a "specified fixed interest" if the trust has at least 150 beneficiaries each of whom owns a specified fixed interest in the trust with a fair market value of at least $500. Even if a trust would otherwise be an exempt trust, such a trust will not be an exempt trust if the total fair market value of all beneficial interests in the trust held by a "specified purchaser" exceeds 10% of the fair market value of all beneficial interests in the trust. Each of "eligible trust", "specified fixed interest" and "specified purchaser" is defined in subsection 95(1).

Related Sections: S. 95(1), "eligible trust", "specified purchaser" para. (*d*) — Exclusion; s. 95(2.01)(*c*) and (*d*) Determination of controlled foreign affiliate status where shares held by trust; s. 248(1), "taxpayer".

"foreign accrual property income" — "foreign accrual property income" of a foreign affiliate of a taxpayer, for any taxation year of the affiliate, means the amount determined by the formula

$$(A + A.1 + A.2 + B + C) - (D + E + F + G + H)$$

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The formula in the definition "foreign accrual property income" in subsection 95(1) of the Act is replaced by the following:

$$(A + A.1 + A.2 + B) - (D + E + F + G + H)$$

Applicable: To taxation years, of a foreign affiliate of a taxpayer, that begin after 2006, except that the formula in the definition "foreign accrual property income" in subsection 95(1) also applies to a taxation year of a foreign affiliate of a taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the foreign affiliate.

Explanatory Note:

"foreign accrual property income"

The FAPI of a controlled foreign affiliate of a taxpayer resident in Canada must be allocated to the taxpayer in accordance with subsection 91(1) of the Act. Under its definition in subsection 95(1), FAPI includes certain amounts that would be included in the affiliate's income under existing subsection 94.1(1) if that subsection were read in the manner specified in the description of C of the definition.

Existing section 94.1 is being repealed. Accordingly, the description of C in the definition "foreign accrual property income" is also repealed. There are, however, special rules in new paragraph 95(2)(g.3) with regard to the application of sections 94.1 to 94.4 to a foreign affiliate. Amounts determined under paragraph 95(2)(g.3) will be included in FAPI under the description of "A" in the definition "foreign accrual property income". For detail on paragraph 95(2)(g.3), see the commentary on that paragraph.

This amendment applies to taxation years that begin after 2006.

where

A is the amount that would, if section 80 did not apply to the affiliate for the year or a preceding taxation year, be the total of all amounts, each of which is the affiliate's income for the year from property, the affiliate's income for the year from a business other than an active business or the affiliate's income for the year from a non-qualifying

business of the affiliate, in each case that amount being determined as if each amount described in clause (2)(*a*)(ii)(D) that was paid or payable, directly or indirectly, by the affiliate to another foreign affiliate of the taxpayer or of a person with whom the taxpayer does not deal at arm's length were nil where an amount in respect of the income derived by the other foreign affiliate from that amount that was paid or payable to it by the affiliate was added in computing its income from an active business, other than

(*a*) interest that would, by virtue of paragraph 81(1)(*m*), not be included in computing the income of the affiliate if it were resident in Canada,

(*b*) a dividend from another foreign affiliate of the taxpayer,

(*c*) a taxable dividend to the extent that the amount thereof would, if the dividend were received by the taxpayer, be deductible by the taxpayer under section 112, or

(*d*) any amount included because of subsection 80.4(2) in the affiliate's income in respect of indebtedness to another corporation that is a foreign affiliate of the taxpayer or of a person resident in Canada with whom the taxpayer does not deal at arm's length,

A.1 is twice the total of all amounts included in computing the affiliate's income from property or businesses (other than active businesses) for the year because of subsection 80(13),

A.2 is the amount determined for G in respect of the affiliate for the preceding taxation year,

B is such portion of the affiliate's taxable capital gains for the year from dispositions of property, other than dispositions of excluded property to which none of paragraphs (2)(*c*), (*d*) and (*e*) apply, as may reasonably be considered to have accrued after its 1975 taxation year,

Federal Budget Extract
2004 Foreign Affiliate Proposals

[Reproduced below is an excerpt from the January 27, 2009 Federal Budget, which notes that the government plans to consider the recommendations in the report of the Advisory Panel on Canada's System of International Taxation (which can be found at http://www.apcsit-gcrcfi.ca/07/index-eng.html) in deciding how to proceed with the remaining foreign affiliate proposals released on February 27, 2004 that have not yet been enacted.]

The Government will consider the Panel's recommendations relating to foreign affiliates before proceeding with the remaining foreign affiliate measures announced in February 2004, as modified to take into account consultations and deliberations since their release.

Pending Amendment

Draft Legislation — Foreign Affiliates — February 27, 2004

The description of B in the formula in the definition "foreign accrual property income" in subsection 95(1) of the Act is replaced by the following:

B is the portion of the affiliate's income (to the extent that the income is not included under the description of A), or of the affiliate's taxable capital gains that can reasonably be considered to have accrued after its 1975 taxation year, as the case may be, for the year

(*a*) from the dispositions of property other than dispositions of excluded property,

(*b*) from dispositions of excluded property to which any of paragraphs (2)(*c*), (*c.2*), (*d*), (*d.1*), (*e*), (*e.1*), (*e.3*) to (*e.5*) and (*f.4*) and 88(3)(a) applies, or

(*c*) arising because of a gain under subsection 40(3) in respect of a share because of a dividend on the share referred to in subparagraph (2)(*e.3*)(iv) or (*e.4*)(v),

Applicable: In respect of taxation years, of a foreign affiliate of a taxpayer, that end on or after December 20, 2002.

Explanatory Note:

"foreign accrual property income"

The definition "foreign accrual property income" in subsection 95(1) of the Act is relevant for the purposes of section 91 of the Act and for the purposes of computing the tax surpluses and deficits of the foreign affiliate of a taxpayer. Section 91 of the Act provides rules for determining amounts that a taxpayer resident in Canada is to include in computing that taxpayer's income for a particular year as income from a share of a controlled foreign affiliate of that taxpayer.

The description of B in the definition "foreign accrual property income" in subsection 95(1) is amended to include income (other than income included in the description of A in the definition "foreign accrual property income") and capital gains, as the case may be,

- from dispositions of excluded property where any of paragraphs 88(3)(*a*) and 95(2)(*c*), (*c.2*), (*d*), (*d.1*), (*e*), (*e.1*), (*e.3*) to (*e.5*) and (*f.4*) of the Act applies in respect of the disposition and, and
- gains arising under subsection 40(3) in respect of a share because of a dividend referred to in subparagraph 95(2)(*e.3*)(iv) or (*e.4*)(v) on the share,

which income or capital gain can reasonably be considered to have accrued after the affiliate's 1975 taxation year.

This amendment applies to taxation years, of a foreign affiliate of a taxpayer, that end on or after December 20, 2002.

C is, where the affiliate is a controlled foreign affiliate of the taxpayer, the amount that would be required to be included in computing its income for the year if

(*a*) subsection 94.1(1) were applicable in computing that income,

(*b*) the words "earned directly by the taxpayer" in that subsection were replaced by the words "earned by the person resident in Canada in respect of whom the taxpayer is a foreign affiliate",

(*c*) the words "other than a controlled foreign affiliate of the taxpayer or a prescribed non-resident entity" in paragraph 94.1(1)(*a*) were replaced by the words "other than a prescribed non-resident entity or a controlled foreign affiliate of a person resident in Canada of whom the taxpayer is a controlled foreign affiliate", and

(*d*) the words "other than a capital gain" in paragraph 94.1(1)(*g*) were replaced by the words "other than any income that would not be included in the taxpayer's foreign accrual property income for the year if the value of C in the definition 'foreign accrual property income' in

subsection 95(1) were nil and other than a capital gain",

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The description of C in the definition "foreign accrual property income" in subsection 95(1) of the Act is repealed.

C [Repealed.]

Applicable: To taxation years, of a foreign affiliate of a taxpayer, that begin after 2006, except that the description of C in the definition "foreign accrual property income" in subsection 95(1) also applies to a taxation year of a foreign affiliate of a taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the foreign affiliate.

Explanatory Note: See the Explanatory Note following the amendment to the formula in the definition "foreign accrual property income" in subsection 95(1).

D is the total of all amounts, each of which is the affiliate's loss for the year from property, the affiliate's loss for the year from a business other than an active business of the affiliate or the affiliate's loss for the year from a non-qualifying business of the affiliate, in each case that amount being determined as if there were not included in the affiliate's income any amount described in any of paragraphs (*a*) to (*d*) of the description of A and as if each amount described in clause (2)(*a*)(ii)(D) that was paid or payable, directly or indirectly, by the affiliate to another foreign affiliate of the taxpayer or of a person with whom the taxpayer does not deal at arm's length were nil where an amount in respect of the income derived by the other foreign affiliate from that amount that was paid or payable to it by the affiliate was added in computing its income from an active business,

E is the amount of the affiliate's allowable capital losses for the year from dispositions of property (other than excluded property) that can reasonably be considered to have accrued after its 1975 taxation year,

F is the amount claimed by the taxpayer, which amount may not be greater than the amount prescribed to be the deductible loss of the affiliate for the year,

G is the amount, if any, by which

(*a*) the total of amounts determined for A.1 and A.2 in respect of the affiliate for the year

exceeds

(*b*) the total of all amounts determined for D to F in respect of the affiliate for the year,

H is

(*a*) where the affiliate was a member of a partnership at the end of the fiscal period of the partnership that ended in the year and the partnership received a dividend at a particular time in that fiscal period from a corporation that was, for the purposes of sections 93 and 113, a foreign affiliate of the taxpayer at that particular time, the portion of the amount of that dividend that is included in the value of A in respect of the affiliate for the year and that is deemed by paragraph 93.1(2)(a) to have been received by the affiliate for the purposes of sections 93 and 113, and

(*b*) in any other case, nil;

History: S. 95(1), the portion of the description of A before paragraph (*a*) in the definition "foreign accural property income" was replaced by S.C. 2007, c. 35, s. 26(3), applicable in respect of taxation years, of a foreign affiliate of a taxpayer, that begin after 2008. S. 95(1), the portion of the description of A before paragraph (*a*) in the definition "foreign accural property income" formerly read:

"A is the amount that would, if section 80 did not apply to the affiliate for the year or a preceding taxation year, be the total of the affiliate's incomes for the year from property and businesses (other than active businesses) determined as if each amount described in clause (2)(*a*)(ii)(D) that was paid or payable, directly or indirectly, by the affiliate to another foreign affiliate of either the taxpayer or a person with whom the taxpayer does not deal at arm's length were nil where an amount in respect of the income derived by the other foreign affiliate from that amount that was paid or payable to it by the affiliate was added in computing its income from an active business, other than"

S. 95(1), the description of D in the definition "foreign accural property income" was replaced by S.C. 2007, c. 35, s. 26(4), applicable in respect of taxation years, of a foreign affiliate of a taxpayer, that begin after 2008. S. 95(1), the description of D in the definition "foreign accural property income" formerly read:

"D is the total of the affiliate's losses for the year from property and businesses (other than active businesses) determined as if there were not included in the affiliate's income any amount described in any of paragraphs (*a*) to (*d*) of the description of A and as if each amount described in clause (2)(*a*)(ii)(D) that was paid or payable, directly or indirectly, by the affiliate to another foreign affiliate of either the taxpayer or a person with whom the taxpayer does not deal at arm's length were nil where an amount in respect of the income derived by the other foreign affiliate from that amount that was paid or payable to it by the affiliate was added in computing its income from an active business,"

S. 95(1), the description of E in the definition "foreign accural property income" was replaced by S.C. 2007, c. 35, s. 26(5), applicable in respect of taxation years, of a foreign affiliate of a taxpayer, that end on or after December 20, 2002. S. 95(1), the description of E in the definition "foreign accural property income" formerly read:

"E is such portion of the affiliate's allowable capital losses for the year from dispositions of property, other than dispositions of excluded property to which none of paragraphs (2)(*c*), (*d*) and (*e*) apply, as may reasonably be considered to have accrued after its 1975 taxation year,"

S. 95(1), the formula in the definition "foreign accrual property income" was amended by S.C. 2001, c. 17, s. 73(1), applicable after November 1999. S. 95(1), the formula in the definition "foreign accrual property income" formerly read:

"(A + A.1 + A.2 + B + C) – (D + E + F + G)"

S. 95(1), the description of A.1 in the definition "foreign accrual property income" was amended by S.C. 2001, c. 17, s. 73(2), by replacing the reference to the expression "4/3 of" with a reference to the word "twice", applicable to taxation years that end after February 27, 2000 except that, where a taxation year of a foreign affiliate of a taxpayer includes February 28, 2000 or October 17, 2000, or began after February 28, 2000 and ended before October 17, 2000, the reference to the word "twice" in the description of A.1 in the definition "foreign accrual property income" in subsection 95(1) of the Act shall be read as a reference to the expression "the fraction that is the reciprocal of the fraction in paragraph 38(*a*), as enacted by subsection 22(1) of the *Income Tax Amendments Act, 2000* [S.C. 2001, c. 17], that applies to the foreign affiliate for the year, multiplied by".

S. 95(1), the description of F in the definition "foreign accrual property income" was amended by S.C. 2001, c. 17, s. 73(3), applicable to taxation years of foreign affiliates that begin after November 1999. S. 95(1), the description of F in the definition "foreign accrual property income" formerly read:

"F is the amount prescribed to be the deductible loss of the affiliate for the year and the five immediately preceding taxation years, and"

S. 95(1), the description of H in the definition "foreign accrual property income" was added by S.C. 2001, c. 17, s. 73(4), applicable after November 1999.

S. 95(1), the application of the description of D in the definition "foreign accrual property income" was amended by S.C. 1998, c. 19, s. 305(1), deemed to have come into force on June 22, 1995. That application reads as follows:

Sec. 305(1), Chap. 19, 1998

(8) Subsections 46(1) to 46(6) [of 1995, c. 21] apply to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, subsections (1) to (6) apply to taxation years of the foreign affiliate that end after 1994, unless

(*a*) the foreign affiliate had requested the change in writing before February 22, 1994 from the income taxation authority of the country in which the foreign affiliate was resident and subject to income taxation; or

(*b*) the foreign affiliate's first taxation year that began after 1994 began at a time in 1995 that is earlier than the time at which that taxation year would have begun if the change had not occurred.

Paragraphs *c* and *d* were added to the description of C in the definition "foreign accrual property income" in s. 95(1) by S.C. 1998, c. 19, s. 122(2), applicable to taxation years that end after November 1991, except that paragraph (*d*) of the description of C in the definition "foreign accrual property income" in s. 95(1) of the Act does not apply to taxation years that began before June 20, 1996.

The formula in the definition "foreign accrual property income" in s. 95(1) was amended by S.C. 1995, c. 21, s. 32(1), applicable to taxation years that end after February 21, 1994. That formula formerly read:

"(A + B + C) – (D + E + F)"

The description of A.1 in the definition "foreign accrual property income" in s. 95(1) was added by S.C. 1995, c. 21, s. 32(2), applicable to taxation years that end after February 21, 1994.

The description of A.2 in the definition "foreign accrual property income" in s. 95(1) was added by S.C. 1995, c. 21, s. 32(2), applicable to taxation years that end after February 21, 1994.

The description of G in the definition "foreign accrual property income" in s. 95(1) was added by S.C. 1995, c. 21, s. 32(3), applicable to taxation years that end after February 21, 1994.

The description of D in the definition "foreign accrual property income" in s. 95(1) was amended by S.C. 1995, c. 21, s. 46(2), applicable to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, the description of "D" in the definition "foreign accrual property income" applies to taxation years of such foreign affiliate of the taxpayer that end after 1994, unless

(*a*) such foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation; or

(*b*) the first taxation year of such foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time that that taxation year would have begun if there had not been that change in the taxation year of such foreign affiliate.

That description formerly read:

"D is the total of the affiliate's losses for the year from property and businesses (other than active businesses) determined as if there were not included in the affiliate's income any amount described in any of paragraphs (*a*) to (*d*) of the description of A,"

The portion of the description of A in the definition "foreign accrual property income" in s. 95(1) before paragraph (*a*) was amended by S.C. 1995, c. 21, s. 78(1), applicable to taxation years that end after February 21, 1994. That part formerly read:

"A is the total of the affiliate's incomes for the year from property and businesses other than active businesses, other than"

The portion of the description of A in the definition "foreign accrual property income" in s. 95(1) before paragraph (*a*) was amended by S.C. 1995, c. 21, s. 78(2), applicable to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, that portion of the description of A before paragraph (*a*) applies to taxation years of such foreign affiliate of the taxpayer that end after 1994, unless

(*a*) such foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation; or

(*b*) the first taxation year of such foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time that that taxation year would have begun if there had not been that change in the taxation year of such foreign affiliate.

That part formerly read:

"A is the amount that would, if section 80 did not apply to the affiliate for the year or a preceding taxation year, be the total of the affiliate's incomes for the year from property and businesses (other than active businesses), other than"

S. 95(1), paragraph (*d*) was added to the description of A of the definition "foreign accrual property income" by S.C. 1994, c. 7, Sched. II, s. 71(3), applicable to the 1987 and subsequent taxation years.

S. 95(1), the description of D in the definition of "foreign accrual property income" was amended by S.C. 1994, c. 7, Sched. II, s. 71(4), applicable to the 1987 and subsequent taxation years. That portion formerly read:

"D is the total of the affiliate's losses for the year from property and businesses other than active businesses determined as if there were not included in the affiliate's income any amount described in paragraph (*a*), (*b*) or (*c*) of the description of A,"

Editorial Note: A Canadian-resident taxpayer is required to include an amount in income pursuant to subsection 91(1) in respect of the "foreign accrual property income" (FAPI) earned by a controlled foreign affiliate of the taxpayer. See the editorial note accompanying subsection 91(1) for a discussion of the amount to be included in income. The additions to a foreign affiliate's FAPI that are most commonly encountered include income from property under general principles, "income from property" as defined in s. 95(1), income deemed by s. 95(2) to be from a business other than an active business, and certain taxable capital gains. Other additions are also present.

Related Sections: S. 17(3) Exception to anti-avoidance rule — indirect loan; s. 17(8) Exception; s. 40(3)(*d*) Deemed gain where adjusted cost base is reduced below nil; s. 53(1)(*m*) Adjustments to cost base — Offshore investment fund property; s. 85.1(2)(*e*) Limitation to s. 85.1(1) tax-deferred share exchange; s. 85.1(6) Where subsection (5) does not apply; s. 91(1) Amounts to be included in respect of share of foreign affiliate; s. 93.1(2)(*d*)(ii) Dividends received by partnerships; s. 94(1)(*c*)(i)(B) Non-resident trust rules; s. 94(4) Deduction from foreign accrual property income; s. 95(1), "participating percentage"; s. 95(2)(*b*)(i)(B) Recharacterization rules; s. 95(2)(*d.1*)(ii) Foreign merger; s. 95(2)(*e.1*)(ii) Winding-up; s. 95(2)(*g.1*) FAPI and the debt forgiveness rules; s. 95(2)(*g.2*) FAPI and s. 86.1(2)(*f*) election; s. 95(2)(*n*) Meaning of "qualifying interest"; s. 95(2)(*z*) Foreign affiliate as a partner; s. 128.1(1)(*d*) Foreign affiliate; s. 152(6.1) Reassessment where amount included in income under subsection 91(1) is reduced; s. 248(1), " foreign accrual property income", "taxpayer"; s. 257 Negative amounts; Canada–U.S. Income Tax Convention Article XXIX(5)(b) — Income of U.S. S-corporation deemed to be FAPI.

Proposed Related Sections: S. 53(1)(*m.1*) Adjusted cost base of interest in FIE; s. 53(2)(*w*) Adjusted cost base of interest in FIE; s. 95(2)(*d.1*)(ii)(A) Foreign merger; s. 95(2)(*e.1*)(ii)(A) Winding-up; s. 95(2)(*f.91*) Eligible capital property and depreciable property; s. 95(2)(*g.3*) FAPI and interest in FIE; s. 95(2)(*k.3*)(iii) Fresh start rules; s. 96(1)(*d*)(iii)(B) Interest in a FIE held by a partnership.

Regulations: 1102(3) Capital cost allowance rules; 5903 Prescribed deductible loss for FAPI (element F); 5907(1), "exempt earnings" subpara. (a)(i), "exempt loss" subparas. (a)(i),(b)(ii), "net earnings" para. (b), "net loss" para. (b), "taxable earnings" subpara. (b)(ii), "taxable loss" subpara. (b)(ii); 5907(2)(*c*) and (*i*) Adjustment to earnings; 5907(12) Adjusted cost base of partnership interest; 5907(13) Prescribed amount on immigration.

Tax Topics: No. 1930, Budget 2009 Provides Initial Response to Final Report Issued by the Advisory Panel on Canada's System of International Taxation.

Tax Profile: January 2009 — Enhancing Canada's International Tax Advantage; March 2008 — International Tax Planning for the Owner-Manager; February 2007 — U.S. Limited Liability Companies — The Good, the Bad and the Ugly.

Canadian Tax Foundation: Lagios and Minassian, "Foreign Accrual Property Income: Pitfalls for the Unwary", *1999 Conference Report*, 3:1; Lockwood, "Foreign Affiliates and FAPI: Problems and Tax-Planning Opportunities Resulting from the 1995 Changes", *1998 Canadian Tax Journal*, No. 2, 377; Lanthier, "Canadian Foreign Affiliate Rules", *1997 Conference Report*, 31:1.

"foreign accrual tax" — "foreign accrual tax" applicable to any amount included in computing a taxpayer's income by virtue of subsection 91(1) for a taxation year in respect of a particular foreign affiliate of the taxpayer means

(*a*) the portion of any income or profits tax that was paid by

(i) the particular affiliate, or

(ii) any other foreign affiliate of the taxpayer in respect of a dividend received from the particular affiliate

and that may reasonably be regarded as applicable to that amount, and

(*b*) any amount prescribed in respect of the particular affiliate to be foreign accrual tax applicable to that amount;

Editorial Note: The term "foreign accrual tax" is relevant for the subsection 91(4) deduction in respect of foreign taxes applicable to an amount included

in a Canadian-resident taxpayer's income pursuant to subsection 91(1) (i.e., current imputation of "foreign accrual property income" (FAPI) earned by a "controlled foreign affiliate", each as defined in subsection 95(1) of the taxpayer). See the editorial notes accompanying subsections 91(1) and (4). Generally, the foreign accrual tax applicable to an amount included in income pursuant to subsection 91(1) is the income or profits tax paid by the affiliate that earned the FAPI or paid by another foreign affiliate of the taxpayer in respect of a dividend paid by the affiliate that earned the FAPI. Application rules aid the determination where the affiliate that earned the FAPI is a member of a consolidated group or a party to a loss consolidation arrangement.

Related Sections: S. 91(1) Amounts to be included in respect of share of foreign affiliate; s. 91(4) Amounts deductible in respect of foreign taxes; s. 248(1), "taxpayer".
Regulations: 5907(1.3) Prescribed amount.
Proposed Regulations: 5907(1.4) Prescribed amount.

"foreign affiliate" — "foreign affiliate", at any time, of a taxpayer resident in Canada means a non-resident corporation in which, at that time,

(*a*) the taxpayer's equity percentage is not less than 1%, and

(*b*) the total of the equity percentages in the corporation of the taxpayer and of each person related to the taxpayer (where each such equity percentage is determined as if the determinations under paragraph (*b*) of the definition "equity percentage" in subsection (4) were made without reference to the equity percentage of any person in the taxpayer or in any person related to the taxpayer) is not less than 10%,

except that a corporation is not a foreign affiliate of a non-resident-owned investment corporation;

History: S. 95(1), the application of the definition "foreign affiliate" was amended by S.C. 1998, c. 19, s. 305(1), deemed to have come into force on June 22, 1995. The application reads as follows:

Sec. 305(1), Chap. 19, 1998

(8) Subsections 46(1) to 46(6) [of 1995, c. 21] apply to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, subsections (1) to (6) apply to taxation years of the foreign affiliate that end after 1994, unless

(*a*) the foreign affiliate had requested the change in writing before February 22, 1994 from the income taxation authority of the country in which the foreign affiliate was resident and subject to income taxation; or

(*b*) the foreign affiliate's first taxation year that began after 1994 began at a time in 1995 that is earlier than the time at which that taxation year would have begun if the change had not occurred.

The definition "foreign affiliate" in s. 95(1) was amended by S.C. 1995, c. 21, s. 46(1), applicable to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, the definition "foreign affiliate" applies to taxation years of such foreign affiliate of the taxpayer that end after 1994, unless

(*a*) such foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation; or

(*b*) the first taxation year of such foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time that that taxation year would have begun if there had not been that change in the taxation year of such foreign affiliate.

That definition formerly read:

" *'foreign affiliate'* — 'foreign affiliate', at any time, of a taxpayer (other than a non-resident-owned investment corporation) resident in Canada means a corporation (other than a corporation resident in Canada) in which, at that time, the taxpayer's equity percentage was not less than 10%;"

Editorial Note: The term "foreign affiliate" has significance for three broadly stated reasons. First, "foreign accrual property income" (FAPI) earned by a foreign affiliate of a Canadian-resident taxpayer that is a "controlled foreign affiliate" of the taxpayer will be subject to current imputation pursuant to s. 91(1) (see the editorial notes accompanying the definition of "controlled foreign affiliate" and subsection 91(1); each of "FAPI" and "controlled foreign affiliate" are defined in subsection 95(1)). Second, dividends received by a Canadian-resident corporate taxpayer from a foreign affiliate of the taxpayer are eligible for the deductions in paragraph 113(1)(*a*) (dividends prescribed to be paid from exempt surplus), paragraphs 113(1)(*b*) and (*c*) (dividends prescribed to be paid from taxable surplus) and paragraph 113(1)(*d*) (dividends prescribed to be paid from pre-acquisition surplus). Finally, certain tax-deferred reorganization rules will be available to a non-resident corporation that is a foreign affiliate of a Canadian-resident taxpayer (see s. 85.1(3), s. 88(3), s. 95(2)(*c*), (*d*), (*d.1*), (*e*) and (*e.1*)).

Related Sections: S. 12(1)(*k*) Dividends from other corporations; s. 15(2.1) Persons connected with a shareholder; s. 17(3) Exception to anti-avoidance rule — indirect loan; s. 17(8) Exception; s. 17(15), "controlled foreign affiliate", "exempt loan or transfer"; s. 20(12) Foreign non-business income tax; s. 20(12.1) Foreign tax where no economic profit; s. 20(13) Dividend on share from foreign affiliate of taxpayer; s. 53(1)(*c*) Adjustments to cost base — Contributions of capital; s. 53(1)(*d*) Adjustments to cost base — Share of foreign affiliate; s. 53(1)(*m*) Adjustments to cost base — Offshore investment fund property; s. 55(5)(*d*) Safe income of foreign affiliate; s. 80.1(1)(*a*) Expropriation of foreign affiliate shares; s. 80.1(4) Assets acquired from foreign affiliate of taxpayer as dividend in kind or as benefit to shareholder; s. 80.1(5) Assets acquired from foreign affiliate of taxpayer as consideration for settlement, etc., of debt; s. 80.1(6) Assets acquired from foreign affiliate of taxpayer on winding-up, etc; s. 80.4(8) Persons connected with a shareholder; s. 85.1(2)(*e*) Limitation to s. 85.1(1) tax-deferred exchange; s. 85.1(3) Disposition of shares of foreign affiliate; s. 85.1(4) Exception; s. 85.1(6) Where subsection (5) does not apply; s. 87(2)(*u*) Shares of foreign affiliate; s. 87(8) Foreign merger; s. 87(8.1) Definition of "foreign merger"; s. 90(1) Dividends received from non-resident corporation; s. 91(1) Amounts to be included in respect of share of foreign affiliate; s. 91(5) Amounts deductible in respect of dividends received; s. 91(5.1) Deduction of dividend by shareholder [effective 2012]; s. 91(5.2) Deduction of dividend by member of partnership [effective 2012]; s. 91(6) Amounts deductible in respect of dividends received — shares acquired from another corporation; s. 91(7) Shares acquired from a partnership; s. 92 Adjusted cost base of share of foreign affiliate; s. 93(1) Election re disposition of share in foreign affiliate; s. 93(1.1) No election necessary re disposition of excluded property; s. 93(1.2) Disposition of shares of a foreign affiliate held by a partnership; s. 93(1.3) Deemed election; s. 93(2) Loss limitation on disposition of share; s. 93(2.1) Loss limitation — disposition of share by partnership; s. 93(2.2) Loss limitation — disposition of partnership interest; s. 93(2.3) Loss limitation — disposition of partnership interest; s. 93(3) Exempt dividends; s. 93(4) Loss on disposition of shares of foreign affiliate; s. 93.1(1) Shares held by a partnership; s. 93.1(2) Where dividends received by a partnership; s. 95(1), "calculating currency", "controlled foreign affiliate", "foreign affiliate"; s. 95(2)(*a*), (*a.1*), (*a.2*), (*a.3*), (*a.4*), and (*b*) FAPI recharacterization rules; s. 95(2)(*c*) Foreign affiliate share exchange; s. 95(2)(*d*) and (*d.1*) Foreign merger; s. 95(2)(*e*) and (*e.1*) Winding-up of foreign affiliate; s. 95(2)(*f*) Capital gains and losses; s. 95(2)(*f.1*) Income computation; s. 95(2)(*f.12*) [Determination of FAPI — Use of calculating currency]; s. 95(2)(*g*) Foreign exchange gains and losses of foreign affiliate; s. 95(2)(*g.01*), (*g.02*) and (*g.03*) Foreign exchange gains and losses of foreign affiliate; s. 95(2)(*g.1*) Debt forgiveness and foreign affiliate; s. 95(2)(*g.2*) FAPI and s.86.1(2)(*f*) election; s. 95(2)(*i*) Deemed gain or loss from the disposition of excluded property; s. 95(2)(*j*) Adjusted cost base of interest in partnership held by foreign affiliate; s. 95(2)(*k*) Fresh start rules; s. 95(2)(*l*) FAPI recharacterization rules; s. 95(2)(*m*) and (*n*) Meaning of "qualifying interest"; s. 95(2)(*r*) Foreign affiliate as a "qualifying member" of a partnership; s. 95(2)(*s*) Meaning of "designated corporation"; s. 95(2)(*t*) Meaning of "designated partnership"; s. 95(2)(*w*) [effective 2009] Location of foreign affiliate business; s. 95(2)(*x*) [effective 2009] Computation of loss; s. 95(2)(*y*) Shares held by partnership; s. 95(2)(*z*) Foreign affiliate as partner; s. 95(2.02) Rule against double-counting; s. 95(2.1) Rule for definition "investment business"; s. 95(2.2) Rule re subsection (2) [effective 2009]; s. 95(2.21) Rule re subsection (2.2) [effective 2009]; s. 95(2.3) Application of paragraph (2)(a.1); s. 95(2.4) Application of paragraph (2)(a.3); s. 95(2.41) Application of paragraph (2)(a.3); s. 95(2.42) Exception re paragraph (2)(a.3); s. 95(2.5) Definitions for paragraph (2)(a.3); s. 95(2.6) Rule for the definition "specified person or partnership"; s. 95(3.1) Designated property — subparagraph (2)(a.1)(i); s. 95(4), "relevant cost base"; s. 95(7) Stock dividends from foreign affiliates; s. 108(1), "cost amount"; s. 112(2) Dividends received from non-resident corporation; s. 113(1) Deduction in respect of dividend received from foreign affiliate; s. 113(2) Additional deduction; s. 113(4) Portion of dividend deemed paid out of exempt surplus; s. 115(2)(*e*)(i)(B) Taxation of non-resident person; s. 122.3(2), "specified employer"; s. 126(1) Foreign tax deduction — non-business income; s. 128.1(1)(*c.2*) Deemed dividend to shareholder of immigrating corporation; s. 128.1(1)(*d*) Foreign affiliate; s. 133(8), "non-resident-owned investment corporation"; s. 152(6.1) Reassessment where amount included in income under subsection 91(1) is reduced; s. 162(10.1)(*f*) Penalties; s. 162(10.2) Shares or debt owned by controlled foreign affiliate; s. 162(10.3) Application to partnerships; s. 162(10.4) Application to non-resident trusts; s. 163(2.4)(*d*) Penalties; s. 163(2.5) Shares or debt owned by controlled foreign affiliate; s. 163(2.6) Application to partnerships; s. 163(2.91) Application to non-resident trusts; s. 187.1 Definition of "excepted dividend" para. (a); s. 233.2 Non-resident trust reporting; s. 233.4 Reporting entity; s. 233.5 Due diligence exception; s. 248(1), "foreign affiliate" — Meaning assigned by s. 95(1), taxpayer"; s. 249(4) Year end on change of control; s. 261(4)(*g*) Functional currency reporting; ITAR s. 26(8.3) Foreign affiliate shares owned on June 18 and December 31, 1971; s. 26(8.4) Foreign affiliate shares acquired after June

18, 1971 and owned on December 31, 1971; s. 26(11.1) Fair market value of share of foreign affiliate s. 26(11.2) Fair market value of share of foreign affiliate; s. 35 Foreign affiliates; s. 59(2) Non-resident-owned investment corporation.

Proposed Related Sections: S. 53(1)(*m.1*) Adjusted cost base of interest in a foreign investment entity (FIE); s. 88(1)(*d.4*) Winding-up of subsidiary that holds foreign affiliate; s. 88(3) Distributions by first tier foreign affiliates; s. 92(1.1), (1.2), (1.3) and (1.4) Specified section 93 elections; s. 93(1.1) Deemed election on disposition of foreign affiliate share; s. 93(1.2) Election on disposition of foreign affiliate share held by partnership; s. 93(1.4) Denial of s.93(1) and (1.2) election; s. 93(2), (2.1), (2.2) and (2.3) Loss denial rules; s. 94(3)(*a*)(x) Application to deemed resident trust; s. 94.1(1), "exempt interest" subpara. (*a*)(ii) Exclusion from FIE rules; s. 94.1(1), "exempt property" para. (*b*); s. 94.1(2)(*h*),(*i*) Election by FIE to be a controlled foreign affiliate; s. 94.2(9)(*e*) Tracked property rules; s. 94.4(3)A(a) Prevention of double taxation; s. 95(2)(*c.1*) to (*c.6*) Gain suspension regime (shares); s. 95(2)(*d*) and (d.1) Foreign merger; s. 95(2)(*e*) and (*e.1*) Winding-up; s. 95(2)(*e.3*) Gain suspension regime (dividend or distribution on a share); s. 95(2)(*e.4*) Gain suspension regime (dividend-like redemption); s. 95(2)(*e.5*) Gain suspension regime (redemption, acquisition or cancellation); s. 95(2)(*e.6*) Application rules; s. 95(2)(*f.3*) to (*f.9*) Gain suspension regime (property other than shares); s. 95(2)(*f.91*) Eligible capital property and depreciable property; s. 95(2)(*f.92*) Cumulative eligible capital; s. 95(2)(*f.93*) Depreciable property; s. 95(2)(*f.94*) Application rule; s. 95(2)(*g.3*) FAPI and interests in a FIE; s. 95(2)(*h*) to (*h.5*) Loss suspension regime; s. 95(2)(*j.1*), (*j.2*) Foreign affiliate carrying on insurance business; s. 95(2)(*k*) to (*k.6*) Fresh start rules; s. 95(3.2), "dividend-like redemption", "specified vendor"; s. 95(3.3), "contributed property", "specified discontinuance", "triggering disposition"; s. 95(3.5), "specified vendor"; s. 95(3.6) Deemed ownership of shares held by partnership and trust; s. 95(3.8) Computation of exempt surplus.

Regulations: 1408(1), "reported reserve"; 5900(1) Dividends paid from exempt surplus, taxable surplus and pre-acquisition surplus; 5900(2) Election to treat dividend from exempt surplus as dividend from taxable surplus; 5900(3) Application of s. 91(5) to individual; 5901(1) Order of surplus distributions; 5901(2) 90-day rule; 5901(3) Interaction of 5900(2) and 5901(1); 5902 Application rules where s. 93(1) election; 5903 Deductible loss computation; 5904 Determination of participating percentage; 5905 Surplus adjustment rules; 5906 Location of foreign affiliate business; 5907(1) Definitions; 5907(2), (2.1), (2.2), (2.3), (2.4), (2.6), (2.7) and (2.8) Adjustment to earnings; 5907(2.9) Fresh start rules; 5907(3) Foreign affiliate on January 1, 1972; 5907(4) Meaning of "government of a country"; 5907(5) Computation of capital gains and losses; 5907(5.1) [proposed repeal] No gain or loss recognized by foreign country; 5907(6) Calculating currency; 5907(7) Amount of stock dividend; 5907(7.1); 5907(8) Deemed year end on foreign merger; 5907(9) Dissolution of foreign affiliate; 5907(10) Tax sparing; 5907(11) and (11.1) Meaning of "designated treaty country"; 5907(11.2) Residence of foreign affiliate; 5907(12) Adjusted cost base of partnership interest; 5907(13) Prescribed amount on immigration.

Proposed Regulations: It is proposed that many of the regulations noted above will be amended to accord with proposed statutory amendments.

Interpretation Bulletins: *Primary* — IT-343R Meaning of the term corporation.

Tax Profile: March 2008 — International Tax Planning for the Owner-Manager.

Canadian Petroleum Tax Journal: Selected Income Tax Considerations When Structuring Foreign Resource Ventures, William A. Brebber, Vol. 15 No. 1 2002.

"foreign bank" — "foreign bank" means an entity that would be a foreign bank within the meaning assigned by the definition of that expression in section 2 of the *Bank Act* if

(*a*) that definition were read without reference to the portion thereof after paragraph (g) thereof, and

(*b*) the entity had not been exempt under section 12 of that Act from being a foreign bank;

History: S. 95(1), the application of the definition "foreign bank" was amended by S.C. 1998, c. 19, s. 305(1), deemed to have come into force on June 22, 1995. That application reads as follows:

Sec. 305(1), Chap. 19, 1998

(8) Subsections 46(1) to 46(6) [of 1995, c. 21] apply to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, subsections (1) to (6) apply to taxation years of the foreign affiliate that end after 1994, unless

(*a*) the foreign affiliate had requested the change in writing before February 22, 1994 from the income taxation authority of the country in which the foreign affiliate was resident and subject to income taxation; or

(*b*) the foreign affiliate's first taxation year that began after 1994 began at a time in 1995 that is earlier than the time at which that taxation year would have begun if the change had not occurred.

The definition "foreign bank" in s. 95(1) was added by S.C. 1995, c. 21, s. 46(3), applicable to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, the definition "foreign bank" applies to taxation years of such foreign affiliate of the taxpayer that end after 1994, unless

(*a*) such foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation; or

(*b*) the first taxation year of such foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time that that taxation year would have begun if there had not been that change in the taxation year of such foreign affiliate.

Editorial Note: The term "foreign bank" is relevant for the determination of whether a business carried on by a foreign affiliate constitutes an "investment business" as defined in s. 95(1). See the editorial note accompanying the definition of the term "investment business". The term "foreign bank" is also relevant for the foreign accrual property income recharacterization rules in s. 95(2)(*a.1*), (*a.3*) and (*l*).

Related Sections: S. 94.1(1), "exempt business" para. (a); s. 95(1), "investment business" subpara. (a)(i); s. 95(2)(*l*)(iii) FAPI recharacterization; s. 95(2.3)(*b*) Application of s. 95(2)(a.1); s. 95(2.4) Application of paragraph (2)(a.3); s. 95(2.5), "indebtedness" subpara. (c)(ii).

"income from an active business" — "income from an active business" of a foreign affiliate of a taxpayer for a taxation year includes the foreign affiliate's income for the taxation year that pertains to or is incident to that active business but does not include

(*a*) the foreign affiliate's income from property for the taxation year,

(*b*) the foreign affiliate's income for the taxation year from a business that is deemed by subsection (2) to be a business other than an active business of the foreign affiliate, or

(*c*) the foreign affiliate's income from a non-qualifying business of the foreign affiliate for the taxation year;

History: S. 95(1), the definition "income from an active business" was replaced by S.C. 2007, c. 35, s. 26(1), applicable in respect of taxation years, of a foreign affiliate of a taxpayer, that begin after 2008. S. 95(1), the definition "income from an active business" formerly read:

" *'income from an active business'* — 'income from an active business' of a foreign affiliate of a taxpayer for a taxation year includes, for greater certainty, any income of the affiliate for the year that pertains to or is incident to that business but does not include

(*a*) other income that is its income from property for the year, or

(*b*) its income for the year from a business that is deemed by subsection (2) to be a business other than an active business carried on by the affiliate;"

S. 95(1), the application of the definition "income from an active business" was amended by S.C. 1998, c. 19, s. 305(1), deemed to have come into force on June 22, 1995. That application reads as follows:

Sec. 305(1), Chap. 19, 1998

(8) Subsections 46(1) to 46(6) [of 1995, c. 21] apply to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, subsections (1) to (6) apply to taxation years of the foreign affiliate that end after 1994, unless

(*a*) the foreign affiliate had requested the change in writing before February 22, 1994 from the income taxation authority of the country in which the foreign affiliate was resident and subject to income taxation; or

(*b*) the foreign affiliate's first taxation year that began after 1994 began at a time in 1995 that is earlier than the time at which that taxation year would have begun if the change had not occurred.

The definition "income from an active business" in s. 95(1) was added by S.C. 1995, c. 21, s. 46(3), applicable to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, the definition "income from an active business" applies

to taxation years of such foreign affiliate of the taxpayer that end after 1994, unless

(*a*) such foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation; or

(*b*) the first taxation year of such foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time that that taxation year would have begun if there had not been that change in the taxation year of such foreign affiliate.

Editorial Note: See the editorial note accompanying the definition of the expression "active business" in subsection 95(1).

Related Sections: S. 17(8) Exception; s. 95(1), "excluded property", "foreign accrual property income", "income from property"; s. 95(2) Determination of certain components of foreign accrual property income; s. 95(2.5), "specified deposit"; s. 248(1), "taxpayer".

Regulations: 5907(1), "exempt earnings" para. (d), "net earnings" para. (c), "net loss" para. (c), "taxable earnings" subpara. (b)(iv), "taxable loss" subpara. (b)(iii); 5907(2.8) Computations where s. 95(2)(a)(ii)(D) applies; 5907(5.1) [proposed repeal] Earnings computation on disposition of capital property.

Tax Profile: April 2008 — International Tax Planning for the Owner-Manager.

"income from a non-qualifying business" — "income from a non-qualifying business" of a foreign affiliate of a taxpayer resident in Canada for a taxation year includes the foreign affiliate's income for the taxation year that pertains to or is incident to that non-qualifying business, but does not include

(*a*) the foreign affiliate's income from property for the taxation year, or

(*b*) the foreign affiliate's income for the taxation year from a business that is deemed by subsection (2) to be a business other than an active business of the foreign affiliate;

History: S. 95(1), the definition "income from a non-qualifying business" was added by S.C. 2007, c. 35, s. 26(9), applicable in respect of taxation years, of a foreign affiliate of a taxpayer, that begin after 2008.

Editorial Note: The expression "income from a non-qualifying business" is effective for taxation years beginning after 2008. See the editorial note accompanying the definition of the expression "non-qualifying business" in subsection 95(1). A foreign affiliate's income from a non-qualifying business will be included in the affiliate's "foreign accrual property income" (FAPI) (see element A of the definition of "FAPI") and will not be considered "income from an active business". (Each of "FAPI" and "income from an active business" is defined in subsection 95(1)).

Related Sections: S. 95(1), "foreign accrual property income" (description of A) [effective 2009], "income from an active business" para. (c) [effective 2009], "income from property"; s. 248(1), "taxpayer".

"income from property" — "income from property" of a foreign affiliate of a taxpayer for a taxation year includes the foreign affiliate's income for the taxation year from an investment business and the foreign affiliate's income for the taxation year from an adventure or concern in the nature of trade, but does not include

(*a*) the foreign affiliate's income for the taxation year from a business that is deemed by subsection (2) to be a business other than an active business of the foreign affiliate, or

(*b*) the foreign affiliate's income for the taxation year that pertains to or is incident to

(i) an active business of the foreign affiliate, or

(ii) a non-qualifying business of the foreign affiliate;

History: S. 95(1), the definition "income from property" was replaced by S.C. 2007, c. 35, s. 26(1), applicable in respect of taxation years, of a foreign affiliate of a taxpayer, that begin after 2008. S. 95(1), the definition "income from property" formerly read:

" *'income from property'* — 'income from property' of a foreign affiliate of a taxpayer for a taxation year includes its income for the year from an investment business and its income for the year from an adventure or concern in the nature of trade, but, for greater certainty, does not include its income for the year that is because of subsection (2) included in its income from an active business or in its income from a business other than an active business;"

S. 95(1), the application of the definition "income from property" was amended by S.C. 1998, c. 19, s. 305(1), deemed to have come into force on June 22, 1995. That application reads as follows:

Sec. 305(1), Chap. 19, 1998

(8) Subsections 46(1) to 46(6) [of 1995, c. 21] apply to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, subsections (1) to (6) apply to taxation years of the foreign affiliate that end after 1994, unless

(*a*) the foreign affiliate had requested the change in writing before February 22, 1994 from the income taxation authority of the country in which the foreign affiliate was resident and subject to income taxation; or

(*b*) the foreign affiliate's first taxation year that began after 1994 began at a time in 1995 that is earlier than the time at which that taxation year would have begun if the change had not occurred.

The definition "income from property" in s. 95(1) was added by S.C. 1995, c. 21, s. 46(3), applicable to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, the definition "income from property" applies to taxation years of such foreign affiliate of the taxpayer that end after 1994, unless

(*a*) such foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation; or

(*b*) the first taxation year of such foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time that that taxation year would have begun if there had not been that change in the taxation year of such foreign affiliate.

Editorial Note: The expression "income from property" as defined in subsection 95(1) is relevant in determining the "foreign accrual property income" (FAPI) as defined in subsection 95(1) earned by a foreign affiliate. In particular, a foreign affiliate's income from property will be included in the affiliate's FAPI (see element A of the definition of "FAPI") and will not be considered "income from an active business" as defined in subsection 95(1). Subject to specific exclusions intended to prevent duplication of amounts added to a foreign affiliate's FAPI, "income from property" is defined to include income from an "investment business" as defined in subsection 95(1) and income from an adventure or concern in the nature of trade. Note that the definition of "income from property" is inclusive, and therefore, income from a source that is property under common law principles will be included.

Related Sections: S. 9(1) Income; s. 95(1), "foreign accrual property income", "income from an active business", "income from a non-qualifying business", "investment business"; s. 95(2)(*f*) Income from trading or dealing in debt; s. 95(2.5), "specified deposit"; s. 248(1), "business", "taxpayer".

"investment business" — "investment business" of a foreign affiliate of a taxpayer means a business carried on by the foreign affiliate in a taxation year (other than a business deemed by subsection (2) to be a business other than an active business carried on by the foreign affiliate and other than a non-qualifying business of the foreign affiliate) the principal purpose of which is to derive income from property (including interest, dividends, rents, royalties or any similar returns or substitutes for such interest, dividends, rents, royalties or returns), income from the insurance or reinsurance of risks, income from the factoring of trade accounts receivable, or profits from the disposition of investment property, unless it is established by the taxpayer or the foreign affiliate that, throughout the period in the taxation year during which the business was carried on by the foreign affiliate,

(*a*) the business (other than any business conducted principally with persons with whom the affiliate does not deal at arm's length) is

(i) a business carried on by it as a foreign bank, a trust company, a credit union, an insurance corporation or a trader or dealer in securities or commodities, the activities of which are regulated under the laws

(A) of each country in which the business is carried on through a permanent establishment (as

defined by regulation) in that country and of the country under whose laws the affiliate is governed and any of exists, was (unless the affiliate was continued in any jurisdiction) formed or organized, or was last continued,

(B) of the country in which the business is principally carried on, or

(C) if the affiliate is related to a non-resident corporation, of the country under whose laws that non-resident corporation is governed and any of exists, was (unless that non-resident corporation was continued in any jurisdiction) formed or organized, or was last continued, if those regulating laws are recognized under the laws of the country in which the business is principally carried on and all of those countries are members of the European Union, or

(ii) the development of real estate for sale, the lending of money, the leasing or licensing of property or the insurance or reinsurance of risks,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph (*a*)(ii) of the definition "investment business" in subsection 95(1) of the Act is replaced by the following:

(ii) the development of real property or immovables for sale, the lending of money, the leasing or licensing of property or the insurance or reinsurance of risks, and

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*b*) either

(i) the affiliate (otherwise than as a member of a partnership) carries on the business (the affiliate being, in respect of those times, in that period of the year, that it so carries on the business, referred to in paragraph (*c*) as the "operator"), or

(ii) the affiliate carries on the business as a qualifying member of a partnership (the partnership being, in respect of those times, in that period of the year, that the affiliate so carries on the business, referred to in paragraph (*c*) as the "operator"), and

(*c*) the operator employs

(i) more than five employees full time in the active conduct of the business, or

(ii) the equivalent of more than five employees full time in the active conduct of the business taking into consideration only

(A) the services provided by employees of the operator, and

(B) the services provided outside Canada to the operator by any one or more persons each of whom is, during the time at which the services were performed by the person, an employee of

(I) a corporation related to the affiliate (otherwise than because of a right referred to in paragraph 251(5)(*b*)),

(II) in the case where the operator is the affiliate,

1. a corporation (referred to in this subparagraph as a "providing shareholder") that is a qualifying shareholder of the affiliate,
2. a designated corporation in respect of the affiliate, or
3. a designated partnership in respect of the affiliate, and

(III) in the case where the operator is the partnership described in subparagraph (*b*)(ii),

1. any person (referred to in this subparagraph as a "providing member") who is a qualifying member of that partnership,
2. a designated corporation in respect of the affiliate, or
3. a designated partnership in respect of the affiliate,

if the corporations referred to in subclause (B)(I) and the designated corporations, designated partnerships, providing shareholders or providing members referred to in subclauses (B)(II) and (III) receive compensation from the operator for the services provided to the operator by those employees the value of which is not less than the cost to those corporations, partnerships, shareholders or members of the compensation paid or accruing to the benefit of those employees that performed the services during the time at which the services were performed by those employees;

History: S. 95(1), the portion of the definition "investment business" before paragraph (*a*) was replaced by S.C. 2007, c. 35, s. 26(6), applicable in respect of taxation years, of a foreign affiliate of a taxpayer, that begin after 2008. S. 95(1), the portion of the definition "investment business" before paragraph (*a*) formerly read:

" '*investment business*' — 'investment business' of a foreign affiliate of a taxpayer means a business carried on by the affiliate in a taxation year (other than a business deemed by subsection (2) to be a business other than an active business carried on by the affiliate) the principal purpose of which is to derive income from property (including interest, dividends, rents, royalties or any similar returns or substitutes therefor), income from the insurance or reinsurance of risks, income from the factoring of trade accounts receivable, or profits from the disposition of investment property, unless it is established by the taxpayer or the affiliate that, throughout the period in the year during which the business was carried on by the affiliate,"

S. 95(1), subparagraph (*a*)(i) of the definition "investment business" was replaced by S.C. 2007, c. 35, s. 26(7), applicable to taxation years, of a foreign affiliate of a taxpayer, that begin after 1999. S. 95(1), subparagraph (*a*)(i) of the definition "investment business" formerly read:

"(i) a business carried on by it as a foreign bank, a trust company, a credit union, an insurance corporation or a trader or dealer in securities or commodities, the activities of which are regulated in the country in which the business is principally carried on, or"

S. 95(1), paragraph (*b*) of the definition "investment business" was replaced, and paragraph (*c*) was added, by S.C. 2007, c. 35, s. 26(8), applicable, subject to the election below, to taxation years, of a foreign affiliate of a taxpayer, that end after 1999.

[Global Section 95 Election] If a taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2007, paragraphs (*b*) and (*c*) of the definition "investment business" in subsection 95(1) apply to taxation years, of all foreign affiliates of the taxpayer, that begin after 1994. [**Editorial Note:** See Department of Finance News

Release No. 2008-048, dated June 27, 2008, reproduced before s. 95(1), regarding a proposed extension of the election deadline.]

If a taxpayer has made what would be a valid election described above ("Global Section 95 Election"), and the taxpayer has, on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2010, filed with the Minister of National Revenue a notice in writing to revoke the election, the election is deemed, otherwise than for the purpose of this revocation, never to have been made.

Notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take an election referred to above, or a revocation referred to above, into account.

S. 95(1), paragraph (*b*) of the definition "investment business" formerly read:

"(*b*) the affiliate or, where the affiliate carries on the business as a member of a partnership (except where the affiliate is a specified member of the partnership in a fiscal period of the partnership that ends in the year), the partnership employs

(i) more than 5 employees full time in the active conduct of the business, or

(ii) the equivalent of more than 5 employees full time in the active conduct of the business taking into consideration only the services provided by its employees and the services provided outside Canada to the affiliate or the partnership by the employees of

(A) a corporation related to the affiliate (otherwise than because of a right referred to in paragraph 251(5)(*b*)), or

(B) members of the partnership (other than a member of the partnership that was a specified member of the partnership in a fiscal period of the partnership that ends in the year)

where the corporation or members referred to in clause (A) or (B) receive compensation from the affiliate or the partnership for the services provided to the affiliate or the partnership by those employees the value of which is not less than the cost to such corporation or members of the compensation paid or accruing to the benefit of those employees that performed the services during the time the services were performed by those employees;"

S. 95(1), the application of the definition "investment business" was amended by S.C. 1998, c. 19, s. 305(1), deemed to have come into force on June 22, 1995. That application reads as follows:

Sec. 305(1), Chap. 19, 1998

(8) Subsections 46(1) to 46(6) [of 1995, c. 21] apply to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, subsections (1) to (6) apply to taxation years of the foreign affiliate that end after 1994, unless

(*a*) the foreign affiliate had requested the change in writing before February 22, 1994 from the income taxation authority of the country in which the foreign affiliate was resident and subject to income taxation; or

(*b*) the foreign affiliate's first taxation year that began after 1994 began at a time in 1995 that is earlier than the time at which that taxation year would have begun if the change had not occurred.

The definition "investment business" in s. 95(1) was added by S.C. 1995, c. 21, s. 46(3), applicable to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, the definition "investment business" applies to taxation years of such foreign affiliate of the taxpayer that end after 1994, unless

(*a*) such foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation; or

(*b*) the first taxation year of such foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time that that taxation year would have begun if there had not been that change in the taxation year of such foreign affiliate.

Editorial Note: Income earned by a foreign affiliate from a business that is considered an "investment business" will be included in the affiliate's "income from property" and therefore, its "foreign accrual property income", each as defined in subsection 95(1). An investment business is, generally, any business the principal purpose of which is to derive income from property, income from the disposition of "investment property" as defined in subsection 95(1) and income from other enumerated passive sources. However, the definition of "investment business" excludes a business that would otherwise be included if two conditions are met. The first condition requires that the business be carried on by an entity that is regulated under the laws of a specific jurisdiction, or that the business is one of an enumerated list (i.e., development of real estate for sale, "lending of money" as defined in subsection 95(1), leasing or "licensing of property" as defined in subsection 95(1), or insurance or reinsurance of risks). The second condition requires more than five full-time employees actively engaged in the conduct of the business. See CRA Document No. 2008-029916117, December 14, 2008, confirming that the CRA will apply the decision in *489599 B.C. Ltd.* (2008 DTC 4107 (T.C.C.)) to allow five full-time and one part-time employee to meet this second condition. Many international financing structures plan into the exception to the definition of "investment business" in subsection 95(1).

Related Sections: S. 95(1), "active business", "income from property", "non-qualifying business"; s. 95(2)(*k*) Fresh start rules; s. 95(2)(*l*) Income from trading or dealing in debt; s. 95(2)(*s*) Meaning of "designated corporation"; s. 95(2)(*t*) Meaning of "designated partnership"; s. 95(2)(*u*) Tiers of partnerships; s. 95(2.1) Rule for definition "investment business"; s. 248(1), "taxpayer".

Tax Profile: March 2008 — International Tax Planning for the Owner-Manager.

"*investment property*" — "investment property" of a foreign affiliate of a taxpayer includes

(*a*) a share of the capital stock of a corporation other than a share of another foreign affiliate of the taxpayer that is excluded property of the affiliate,

(*b*) an interest in a partnership other than an interest in a partnership that is excluded property of the affiliate,

(*c*) an interest in a trust other than an interest in a trust that is excluded property of the affiliate,

(*d*) indebtedness or annuities,

(*e*) commodities or commodities futures purchased or sold, directly or indirectly in any manner whatever, on a commodities or commodities futures exchange (except commodities manufactured, produced, grown, extracted or processed by the affiliate or a person to whom the affiliate is related (otherwise than because of a right referred to in paragraph 251(5)(*b*)) or commodities futures in respect of such commodities),

(*f*) currency,

(*g*) real estate,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (g) of the definition "investment property" in subsection 95(1) of the Act is replaced by the following:

(g) real property or immovables,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*h*) Canadian and foreign resource properties,

(*i*) interests in funds or entities other than corporations, partnerships and trusts, and

(*j*) interests or options in respect of property that is included in any of paragraphs (*a*) to (*i*);

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*j*) of the definition "investment property" in subsection 95(1) of the Act is replaced by the following:

(*j*) interests in, or for civil law rights in, or options in respect of, property that is included in any of paragraphs (*a*) to (*i*);

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

History: S. 95(1), the application of the definition "investment property" was amended by S.C. 1998, c. 19, s. 305(1), deemed to have come into force on June 22, 1995. That application reads as follows:

Sec. 305(1), Chap. 19, 1998

(8) Subsections 46(1) to 46(6) [of 1995, c. 21] apply to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, subsections (1) to (6) apply to taxation years of the foreign affiliate that end after 1994, unless

(*a*) the foreign affiliate had requested the change in writing before February 22, 1994 from the income taxation authority of the country in which the foreign affiliate was resident and subject to income taxation; or

(*b*) the foreign affiliate's first taxation year that began after 1994 began at a time in 1995 that is earlier than the time at which that taxation year would have begun if the change had not occurred.

The definition "investment property" in s. 95(1) was added by S.C. 1995, c. 21, s. 46(3), applicable to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, the definition "investment property" applies to taxation years of such foreign affiliate of the taxpayer that end after 1994, unless

(*a*) such foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation; or

(*b*) the first taxation year of such foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time that that taxation year would have begun if there had not been that change in the taxation year of such foreign affiliate.

Editorial Note: The expression "investment property" is relevant in determining whether a foreign affiliate carries on an "investment business" as defined in subsection 95(1). See the editorial note accompanying the definition of "investment business".

Related Sections: S. 66(15), "Canadian resource property", "foreign resource property"; s. 95(1), "investment business"; s. 95(2.5), "specified deposit"; s. 248(1), "foreign resource property", "taxpayer".

"lease obligation" — "lease obligation" of a person includes an obligation under an agreement that authorizes the use of or the production or reproduction of property including information or any other thing;

History: S. 95(1), the application of the definition "lease obligation" was amended by S.C. 1998, c. 19, s. 305(1), deemed to have come into force on June 22, 1995. That application reads as follows:

Sec. 305(1), Chap. 19, 1998

(8) Subsections 46(1) to 46(6) [of 1995, c. 21] apply to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, subsections (1) to (6) apply to taxation years of the foreign affiliate that end after 1994, unless

(*a*) the foreign affiliate had requested the change in writing before February 22, 1994 from the income taxation authority of the country in which the foreign affiliate was resident and subject to income taxation; or

(*b*) the foreign affiliate's first taxation year that began after 1994 began at a time in 1995 that is earlier than the time at which that taxation year would have begun if the change had not occurred.

The definition "lease obligation" in s. 95(1) was added by S.C. 1995, c. 21, s. 46(3), applicable to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, the definition "lease obligation" applies to taxation years of such foreign affiliate of the taxpayer that end after 1994, unless

(*a*) such foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation; or

(*b*) the first taxation year of such foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time that that taxation year would have begun if there had not been that change in the taxation year of such foreign affiliate.

Editorial Note: The term "lease obligation" is relevant for paragraph 95(2)(*a.3*).

Related Sections: S. 95(2)(*a.3*) Foreign accrual property income recharacterization; s. 95(2.42) Exception re paragraph (2)(a.3); s. 95(2.5), "excluded income", "excluded revenue"; s. 248(1), "person".

"lending of money" — "lending of money" by a person (for the purpose of this definition referred to as the "lender") includes

(*a*) the acquisition by the lender of trade accounts receivable (other than trade accounts receivable owing by a person with whom the lender does not deal at arm's length) from another person or the acquisition by the lender of any interest in any such accounts receivable,

(*b*) the acquisition by the lender of loans made by and lending assets (other than loans or lending assets owing by a person with whom the lender does not deal at arm's length) of another person or the acquisition by the lender of any interest in such a loan or lending asset,

(*c*) the acquisition by the lender of a foreign resource property (other than a foreign resource property that is a rental or royalty payable by a person with whom the lender does not deal at arm's length) of another person, and

(*d*) the sale by the lender of loans or lending assets (other than loans or lending assets owing by a person with whom the lender does not deal at arm's length) or the sale by the lender of any interest in such loans or lending assets;

and for the purpose of this definition, the definition "lending asset" in subsection 248(1) shall be read without the words "but does not include a prescribed property";

History: S. 95(1), the application of the definition "lending of money" was amended by S.C. 1998, c. 19, s. 305(1), deemed to have come into force on June 22, 1995. That application reads as follows:

Sec. 305(1), Chap. 19, 1998

(8) Subsections 46(1) to 46(6) [of 1995, c. 21] apply to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, subsections (1) to (6) apply to taxation years of the foreign affiliate that end after 1994, unless

(*a*) the foreign affiliate had requested the change in writing before February 22, 1994 from the income taxation authority of the country in which the foreign affiliate was resident and subject to income taxation; or

(*b*) the foreign affiliate's first taxation year that began after 1994 began at a time in 1995 that is earlier than the time at which that taxation year would have begun if the change had not occurred.

The definition "lending of money" in s. 95(1) was amended by S.C. 1998, c. 19, s. 122(3), applicable to taxation years of foreign affiliates of taxpayers that begin after 1994, but where there was a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, subsection (3) applies to taxation years of the foreign affiliate that end after 1994 unless

(*a*) the foreign affiliate had requested the change in writing before February 22, 1994 from the income taxation authority of the country in which the foreign affiliate was resident and subject to income taxation, or

(*b*) the foreign affiliate's first taxation year that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if the change had not occurred,

except that, for taxation years of a foreign affiliate that ended before October 1997, the portion of the definition "lending of money" in subsection 95(1) of the Act after paragraph (*d*) shall be read as follows:

"and for the purpose of this definition, the definition 'lending asset' in subsection 248(1) shall be read without the words 'but does not include a prescribed security';"

The definition "lending of money" in s. 95(1) formerly read:

" *'lending of money'* — 'lending of money' by a person (for the purpose of this definition referred to as the 'lender') includes

(*a*) the acquisition by the lender of trade accounts receivable (other than trade accounts receivable owing by a person with whom the lender does not deal at arm's length) from another person or the acquisition by the lender of any interest in any such accounts receivable,

(*b*) the acquisition by the lender of loans made by and lending assets (other than loans or lending assets owing by a person with whom the lender does not deal at arm's length) of another person or the acquisition by the lender of any interest in such a loan or lending asset,

(*c*) the acquisition by the lender of a foreign resource property (other than a foreign resource property that is a rental or royalty payable by a person with whom the lender does not deal at arm's length) of another person, and

(*d*) the sale by the lender of loans or lending assets (other than loans or lending assets owing by a person with whom the lender does not deal at arm's length) or the sale by the lender of any interest in such loans or lending assets;"

The definition "lending of money" in s. 95(1) was added by S.C. 1995, c. 21, s. 46(3), applicable to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, the definition "lending of money" applies to taxation years of such foreign affiliate of the taxpayer that end after 1994, unless

(*a*) such foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation; or

(*b*) the first taxation year of such foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time that that taxation year would have begun if there had not been that change in the taxation year of such foreign affiliate.

Editorial Note: The term "lending of money" is relevant in determining whether a foreign affiliate carries on an "investment business" as defined in subsection 95(1). See the editorial note accompanying the definition of "investment property".

Related Sections: S. 66(15), "foreign resource property"; s. 95(1), "investment business" subpara. (*a*)(ii); s. 248(1), "foreign resource property", "lending asset", "person".

"licensing of property" — "licensing of property" includes authorizing the use of or the production or reproduction of property including information or any other thing;

History: S. 95(1), the application of the definition "licensing of property" was amended by S.C. 1998, c. 19, s. 305(1), deemed to have come into force on June 22, 1995. That application reads as follows:

Sec. 305(1), Chap. 19, 1998

(8) Subsections 46(1) to 46(6) [of 1995, c. 21] apply to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, subsections (1) to (6) apply to taxation years of the foreign affiliate that end after 1994, unless

(*a*) the foreign affiliate had requested the change in writing before February 22, 1994 from the income taxation authority of the country in which the foreign affiliate was resident and subject to income taxation; or

(*b*) the foreign affiliate's first taxation year that began after 1994 began at a time in 1995 that is earlier than the time at which that taxation year would have begun if the change had not occurred.

The definition "licensing of property" in s. 95(1) was added by S.C. 1995, c. 21, s. 46(3), applicable to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, the definition "licensing of property" applies to taxation years of such foreign affiliate of the taxpayer that end after 1994, unless

(*a*) such foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation; or

(*b*) the first taxation year of such foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time that that taxation year would have begun if there had not been that change in the taxation year of such foreign affiliate.

Editorial Note: The term "licensing of property" is relevant in determining whether a foreign affiliate carries on an "investment business" as defined in subsection 95(1). See the editorial note accompanying the definition of "investment property" in subsection 95(1).

Related Sections: S. 95(1), "investment business" subpara. (*a*)(ii).

"non-qualifying business" — "non-qualifying business" of a foreign affiliate of a taxpayer at any time means a business carried on by the foreign affiliate through a permanent establishment in a jurisdiction that, at the end of the foreign affiliate's taxation year that includes that time, is a non-qualifying country, other than

(*a*) an investment business of the foreign affiliate, or

(*b*) a business that is deemed by subsection (2) to be a business other than an active business of the foreign affiliate;

History: S. 95(1), the definition "non-qualifying business" was added by S.C. 2007, c. 35, s. 26(9), applicable in respect of taxation years, of a foreign affiliate of a taxpayer, that begin after 2008.

Editorial Note: For taxation years that begin after 2008, the expression "non-qualifying business" is relevant in determining whether income earned by a foreign affiliate constitutes "foreign accrual property income" (FAPI) as defined in subsection 95(1). More specifically, a foreign affiliate's "income from a non-qualifying business" as defined in subsection 95(1) will be included in the affiliate's FAPI. See the editorial note accompanying the definition of "income from a non-qualifying business". Subject to specific exclusions intended to prevent duplication of amounts added to a foreign affiliate's FAPI, a "non-qualifying business" is defined to be a business carried on by a foreign affiliate through a permanent establishment in a "non-qualifying country" as defined in subsection 95(1).

Related Sections: S. 95(1), "income from a non-qualifying business", investment business", "non-qualifying country"; s. 95(2) Determination of certain components of foreign accrual property income; s. 248(1), "taxpayer".

"non-qualifying country" — "non-qualifying country" at any time means a country or other jurisdiction with which

(*a*) Canada neither has a tax treaty at that time nor has, before that time, signed an agreement that will, on coming into effect, be a tax treaty,

(*b*) Canada does not have a comprehensive tax information exchange agreement that is in force and has effect at that time, and

(*c*) Canada has, more than 60 months before that time, either

(i) begun negotiations for a comprehensive tax information exchange agreement (unless that time is before 2014 and Canada was, on March 19, 2007, in the course of negotiating a comprehensive tax information exchange agreement with that jurisdiction), or

(ii) sought, by written invitation, to enter into negotiations for a comprehensive tax information exchange agreement (unless that time is before 2014 and Canada was, on March 19, 2007, in the course of negotiating a comprehensive tax information exchange agreement with that jurisdiction);

History: S. 95(1), the definition "non-qualifying country" was added by S.C. 2007, c. 35, s. 26(9), applicable in respect of taxation years, of a foreign affiliate of a taxpayer, that begin after 2008.

Editorial Note: For taxation years that begin after 2008, the term "non-qualifying country" is relevant in determining whether a foreign affiliate carries on a "non-qualifying business" as defined in subsection 95(1). See the editorial note accompanying the definition of "non-qualifying business". Generally, a non-qualifying country is a country that has not entered into a tax treaty with Canada and has not entered into a tax information exchange agreement within Canada within five years after being invited to do so.

Related Sections: S. 95(1), "non-qualifying business".

"participating percentage" — "participating percentage" of a particular share owned by a taxpayer of the capital stock of a corporation in respect of any foreign affil-

iate of the taxpayer that was, at the end of its taxation year, a controlled foreign affiliate of the taxpayer is

(*a*) where the foreign accrual property income of the affiliate for that year is $5,000 or less, nil, and

(*b*) where the foreign accrual property income of the affiliate for that year exceeds $5,000,

(i) where the affiliate and each corporation that is relevant to the determination of the taxpayer's equity percentage in the affiliate has only one class of issued shares at the end of that taxation year of the affiliate, the percentage that would be the taxpayer's equity percentage in the affiliate at that time on the assumption that the taxpayer owned no shares other than the particular share (but in no case shall that assumption be made for the purpose of determining whether or not a corporation is a foreign affiliate of the taxpayer), and

(ii) in any other case, the percentage determined in prescribed manner;

Editorial Note: The term "participating percentage" is relevant to the subsection 91(1) imputation of "foreign accrual property income" (FAPI) earned by a "controlled foreign affiliate" of a Canadian-resident taxpayer. (Each of "FAPI" and "controlled foreign affiliate" is defined in subsection 95(1)). See the editorial note accompanying subsection 91(1). Four observations pertaining to the definition of "participating percentage" should be made. First, the participating percentage of a share of a non-resident corporation held by a Canadian-resident taxpayer is determined in respect of a foreign affiliate of the taxpayer (which is consistent with the imputation regime in subsection 91(1) which attributes in respect of a share of a first-tier affiliate the FAPI earned by each controlled foreign affiliate in which the first tier affiliate has an "equity percentage" as defined in subsection 95(4)). Second, the participating percentage of a share in respect of a particular foreign affiliate will not be determinable unless the foreign affiliate is a controlled foreign affiliate of the Canadian-resident taxpayer at the end of the affiliate's taxation year that ends in the taxation year of the taxpayer. Third, the definition of "participating percentage" contains a $5,000 *de minimis* threshold. Finally, the determination of a share's participating percentage is dependent on the number of classes of issued shares.

Related Sections: S. 91(1) Amounts to be included in respect of share of foreign affiliate; s. 95(1), "foreign accrual property income", "foreign affiliate"; s. 95(4), "equity percentage"; s. 248(1), "taxpayer".

Regulations: 5904 Prescribed participating percentage (where more than one issued class of shares).

"relevant tax factor" — "relevant tax factor" means

(*a*) where the taxpayer is an individual, 2, or

(*b*) where the taxpayer is a corporation, the quotient obtained when one is divided by the percentage set out in paragraph 123(1)(*a*);

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The definition "relevant tax factor" in subsection 95(1) of the Act is replaced by the following:

"relevant tax factor" — "relevant tax factor", of a person or partnership for a taxation year, means

(*a*) in the case of a corporation, or of a partnership all the members of which, other than non-resident persons, are corporations, the quotient obtained by the formula

1/(A – B)

where

A is the percentage set out in paragraph 123(1)(*a*), and

B is

(i) in the case of a corporation, the percentage that is the corporation's general rate reduction percentage (as defined by section 123.4) for the taxation year, and

(ii) in the case of a partnership, the percentage that would be determined under subparagraph (i) in respect of the partnership if the partnership were a corporation whose taxation year is the partnership's fiscal period, and

(*b*) in any other case, 2.2;

Applicable: To the 2002 and subsequent taxation years.

Explanatory Note:

"relevant tax factor"

The definition "relevant tax factor" in subsection 95(1) of the Act is used in determining the Canadian tax relief provided in respect of foreign taxes imposed on the earnings of a foreign affiliate of a taxpayer or a foreign investment entity in which the taxpayer has a "participating interest" (as defined in subsection 94.1(1)). The existing definition provides that the relevant tax factor for a corporation (or a partnership all the resident members of which are corporations) is the reciprocal of the basic corporate tax rate (i.e., 1/.38, or 2.63). The factor for individuals and other partnerships is 2.

As part of a series of amendments reflecting recent and planned reductions in income tax rates, the definition "relevant tax factor" is amended. The relevant tax factor for a corporation (or a partnership all the resident members of which are corporations) will take account of the "general rate reduction percentage" provided in section 123.4 of the Act. For example, if a corporation's taxation year is the calendar year, its relevant tax factor for 2003 will be 1/(.38 – .05), or 3.03.

Similarly, to take account of decreasing personal income tax rates, the relevant tax factor for individuals and other partnerships is increased to 2.2.

These amendments apply to the 2002 and subsequent taxation years.

Editorial Note: The term "relevant tax factor" is relevant for the subsection 91(4) deduction in respect of foreign taxes. See the editorial note accompanying subsection 91(4) for a discussion of the relevance of that section. The relevant tax factor is currently 2 where the taxpayer is an individual (under proposed law it will be 2.2) and, where the taxpayer is a corporation, it is generally the reciprocal of the Canadian corporate tax rate. Under proposed law, the Canadian corporate tax rate for purposes of the determination of the relevant tax factor will take into account the rate reductions provided for in section 123.4.

Under current law, the relevant tax factor is 2.6316 (i.e., 1/0.38). Under proposed law the relevant tax factor for a corporation for the 2004 to 2007 taxation years is 3.2259 (i.e., 1/(0.38-0.07)), for the 2008 taxation year is 3.3898 (i.e., 1/(0.38-0.085)), and for 2009 it will be 3.4483 (i.e., 1/(0.38-0.09)).

Related Sections: S. 91(4) Amounts deductible in respect of foreign taxes; s. 113(1)(*b*), (*c*) Deduction in respect of dividends prescribed to be paid from taxable surplus; s. 113(3), "relevant tax factor"; s. 123(1)(*a*) Corporate tax rate; s. 248(1), "taxpayer".

Proposed Related Sections: S. 94.3(1), "specified tax allocation"; s. 94.4(2)(*a*)(i)(B)(II) Foreign investment entity (FIE) rules and prevention of double taxation; s. 94.4(3) FIE rules and prevention of double taxation.

Regulations: 5907(13) Prescribed amount on immigration.

"specified fixed interest" — "specified fixed interest", at any time, of an entity in a trust, means an interest of the entity as a beneficiary under the trust if

(*a*) the interest includes, at that time, rights of the entity as a beneficiary under the trust to receive, at or after that time and directly from the trust, income and capital of the trust,

(*b*) the interest was issued by the trust, at or before that time, to an entity, in exchange for consideration and the fair market value, at the time at which the interest was issued, of that consideration was equal to the fair market value, at the time at which it was issued, of the interest,

(*c*) the only manner in which any part of the interest may cease to be the entity's is by way of a disposition (determined without reference to paragraph (*i*) of the definition "disposition" in subsection 248(1) and paragraph 248(8)(*c*)) by the entity of that part, and

(*d*) no amount of income or capital of the trust that any entity may receive directly from the trust at any time as a beneficiary under the trust depends on the exercise by any entity of, or the failure by any entity to exercise, a discretionary power;

History: S. 95(1), the definition "specified fixed interest" was added by S.C. 2007, c. 35, s. 95(1), applicable after February 27, 2004.

Editorial Note: The expression "specified fixed interest" is relevant for the definition of "exempt trust" in subsection 95(1). See the editorial note accompanying the definition of "exempt trust". Generally, an interest in a trust will be a specified fixed interest if the interest was issued by the trust for fair market value consideration; the holder of the interest controls its disposition; and the interest provides the holder with a right to receive income and capital from the trust which right is not dependent on the exercise of, or the failure to exercise, a discretionary power.

Related Sections: S. 95(1), "entity", "exempt trust".

"*specified person or partnership*" — "specified person or partnership", in respect of a taxpayer, at any time means the taxpayer or a person (other than a designated acquired corporation of the taxpayer), or a partnership, that is at that time

(*a*) a person (other than a partnership) that is resident in Canada and does not, at that time, deal at arm's length with the taxpayer,

(*b*) a specified predecessor corporation of the taxpayer or of a specified person or partnership in respect of the taxpayer,

(*c*) a foreign affiliate of

(i) the taxpayer,

(ii) a person that is at that time a specified person or partnership in respect of the taxpayer under this definition because of paragraph (*a*) or (*b*), or

(iii) a partnership that is at that time a specified person or partnership in respect of the taxpayer under this definition because of paragraph (*d*), or

(*d*) a partnership a member of which is at that time a specified person or partnership in respect of the taxpayer under this definition;

History: S. 95(1), the definition "specified person or partnership" was added by S.C. 2009, c. 2, s. 25(1), applicable to taxation years of a foreign affiliate of a taxpayer that begin after October 2, 2007. However, if the taxpayer elects in writing in respect of all of its foreign affiliates and files the election with the Minister of National Revenue on or before the taxpayer's election day, the definition "specified person or partnership" also applies to taxation years of a foreign affiliate of the taxpayer that begin before October 2, 2007 and after the date chosen by the taxpayer as described below.

The taxpayer's election day is the later of (i) the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act is assented to [R.A. March 12, 2009] and (ii) the day that is one year after the day on which this Act is assented to [March 12, 2010].

To be valid, an election [described above] must include the identification by the taxpayer of its choice of one of the following dates:

(*i*) December 31, 1994,

(*ii*) December 20, 2002, or

(*iii*) February 27, 2004.

Notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take into account this provision and any election made with respect to it.

"*specified predecessor corporation*" — "specified predecessor corporation" of a particular corporation means

(*a*) an antecedent corporation of the particular corporation,

(*b*) a predecessor corporation (within the meaning assigned by subsection 87(1)) in respect of an amalgamation by which the particular corporation was formed, or

(*c*) a specified predecessor corporation of a specified predecessor corporation of the particular corporation;

History: S. 95(1), the definition "specified predecessor corporation" was added by S.C. 2009, c. 2, s. 25(1), applicable to taxation years of a foreign affiliate of a taxpayer that begin after October 2, 2007. However, if the taxpayer elects in writing in respect of all of its foreign affiliates and files the election with the Minister of National Revenue on or before the taxpayer's election day, the definition "specified predecessor corporation" also applies to taxation years of a foreign affiliate of the taxpayer that begin before October 2, 2007 and after the date chosen by the taxpayer as described below.

The taxpayer's election day is the later of (i) the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act is assented to [R.A. March 12, 2009] and (ii) the day that is one year after the day on which this Act is assented to [March 12, 2010].

To be valid, an election [described above] must include the identification by the taxpayer of its choice of one of the following dates:

(*i*) December 31, 1994,

(*ii*) December 20, 2002, or

(*iii*) February 27, 2004.

Notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take into account this provision and any election made with respect to it.

"*specified purchaser*" — "specified purchaser", at any time, in respect of a particular taxpayer resident in Canada, means an entity that is, at that time,

(*a*) the particular taxpayer,

(*b*) an entity resident in Canada with which the particular taxpayer does not deal at arm's length,

(*c*) a foreign affiliate of an entity described in any of paragraphs (*a*) and (*b*) and (*d*) to (*f*),

(*d*) a trust (other than an exempt trust) in which an entity described in any of paragraphs (*a*) to (*c*) and (*e*) and (*f*) is beneficially interested,

(*e*) a partnership of which an entity described in any of paragraphs (*a*) to (*d*) and (*f*) is a member, or

(*f*) an entity (other than an entity described in any of paragraphs (*a*) to (*e*)) with which an entity described in any of paragraphs (*a*) to (*e*) does not deal at arm's length;

History: S. 95(1), the definition "specified purchaser" was added by S.C. 2007, c. 35, s. 26(9), applicable after February 27, 2004, except that, after February 27, 2004 and before October 2, 2007, the definition "specified purchaser" shall be read as follows:

" 'specified purchaser', at any time in respect of a particular taxpayer resident in Canada, means a person or partnership that is, at that time,

(*a*) the particular taxpayer;

(*b*) a taxpayer resident in Canada with which the particular taxpayer does not deal at arm's length;

(*c*) a foreign affiliate of a person described in paragraph (*a*) or (*b*);

(*d*) a non-resident person with which a person described in any of paragraphs (*a*) to (*c*) does not deal at arm's length;

(*e*) a trust (other than an exempt trust) in which a person or partnership described in any of paragraphs (*a*) to (*d*) and (*f*) is beneficially interested; and

(*f*) a partnership of which a person or partnership described in any of paragraphs (*a*) to (*e*) is a member."

Editorial Note: The expression "specified purchaser" is relevant for the definition of "exempt trust" in subsection 95(1). See the editorial note accompanying the definition of "exempt trust". Generally, a specified purchaser in respect of a Canadian-resident taxpayer includes the taxpayer; an "entity" as defined in s. 95(1) that does not deal at arm's length with the taxpayer; and certain other entities, trusts and partnerships.

Related Sections: S. 95(1), "entity", "exempt trust"; s. 248(1), "taxpayer".

"surplus entitlement percentage" — "surplus entitlement percentage", at any time, of a taxpayer in respect of a foreign affiliate has the meaning assigned by regulation;

Editorial Note: The definition of the term "surplus entitlement percentage" (SEP) has the meaning prescribed by Regulation. See, in this regard, regulations 5905(10) to (13) which provide a set of rules to determine the SEP of a Canadian-resident corporate taxpayer in respect of a foreign affiliate. SEP is only relevant to a Canadian-resident taxpayer that is a corporation.

Where a foreign affiliate and each corporation that is relevant to the determination of the Canadian-resident corporate taxpayer's "equity percentage" (as defined in subsection 95(4)) in the affiliate have only one class of issued shares, the SEP of the taxpayer in respect of the affiliate is the taxpayer's equity percentage in the affiliate.

In any other case, the determination is more complicated. Generally, in any other case, the SEP of a Canadian-resident corporate taxpayer in respect of a foreign affiliate (the "particular affiliate") represents the percentage of the "net surplus" (as defined in regulation 5907(1)) of the particular affiliate in respect of the taxpayer that would be received by the taxpayer if the particular affiliate paid dividends equal to its net surplus. For the purpose of determining the particular affiliate's net surplus in respect of the taxpayer it is assumed that each foreign affiliate of the taxpayer in which the particular affiliate held an equity percentage had paid a dividend equal to its particular net surplus in respect of the taxpayer immediately before its immediate shareholder paid such a dividend. The effect of the regulations is that the lowest-tier affiliate is assumed to pay a dividend equal to its net surplus in respect of the taxpayer before its shareholder is assumed to pay such a dividend, and so on. In the result, for the purposes of determining the taxpayer's SEP of the particular affiliate, the net surplus of the particular affiliate in respect of the taxpayer will represent the net surplus of the group of affiliates in which the particular affiliate holds an interest.

The determination of a taxpayer's SEP in respect of a particular foreign affiliate is important for two reasons. First, the tax deferred reorganization rules in paragraph 95(2)(*d.1*) and (*e.1*) will only apply to reorganizations of affiliates in respect of which the taxpayer's SEP is not less than 90%. Second, if the taxpayer's SEP of a Canadian corporation in respect of a particular affiliate changes, the surplus, deficit and underlying foreign tax accounts of the affiliate and all other affiliates in which the particular affiliate has an equity percentage may have to be adjusted. See, in this regard, regulation 5905.

Related Sections: S. 95(2)(*d.1*) Foreign merger; s. 95(2)(*e.1*) Winding-up; s. 248(1), "taxpayer".

Proposed Related Sections: S. 95(2)(*d.1*) Foreign merger; s. 95(2)(*e.1*) Winding-up; s. 95(2)(*e.2*) Deemed winding-up; s. 95(2)(*f.94*) Application rule; s. 95(3.2), "dividend-like redemption".

Regulations: 5903(3) Deductible loss computation; 5905(1), (2), (3), (4), (6), (8), (9) and (13) Surplus adjustment rules; 5907(1), "underlying foreign tax applicable".

Proposed Regulations: 5903(5) and (6) Continuation of corporate personality on foreign merger or winding-up for purposes of deductible loss rules; 5905(15) Ownership of shares by partnership; 5905(16) Meaning of "exempt deficit allocation"; 5905(17) Meaning of "exempt deficit reduction"; 5905(19) Meaning of "taxable deficit allocation"; 5905(20) Meaning of "taxable deficit reduction"; 5905(23) Meaning of "specified adjustment factor"; 5907(2.83), "specified adjustment factor"; 5912(1) and (2) Gain suspension regime (shares); 5913(1) and (2) Gain suspension regime (property other than shares); 5914(1) and (2) Loss suspension regime.

"taxation year" — "taxation year" in relation to a foreign affiliate of a taxpayer means the period for which the accounts of the foreign affiliate have been ordinarily made up, but no such period may exceed 53 weeks.

Editorial Note: The "taxation year" of a foreign affiliate of a taxpayer is defined to mean the period for which the affiliate's accounts are made up (no period to exceed 53 weeks).

Related Sections: S. 90(1) Dividends received from non-resident corporation; s. 91 Amounts to be included in respect of share of foreign affiliate; s. 92(1) Adjusted cost base of share of foreign affiliate; s. 92(2) Deduction in computing adjusted cost base; s. 92(3) Computation of adjusted cost base; s. 92(4) Disposition of a partnership interest; s. 92(5) Deemed gain from the disposition of a share; s. 92(6) Formula; s. 94 Non-resident trust rules; s. 94.1 Offshore investment fund rules; s. 95(1), "calculating currency", "exempt trust", "foreign accrual property income", "foreign accrual tax", "income from an active business", "income from a non-qualifying business", "income from property", "investment business", "non-qualifying business", "participating percentage"; s. 95(2)(*a*), (*a.1*), (*a.2*), (*a.3*) and (*a.4*) FAPI recharacterization; s. 95(2)(*g*) Determination of foreign exchange gains and losses; s. 95(2)(*g.2*) Foreign spin-off election; s. 95(2)(*i*) Deemed gain or loss from the disposition of excluded property; s. 95(2)(*k*) Fresh start rules; s. 95(2)(*l*) FAPI recharacterization; s. 95(2)(*m*) Meaning of "qualifying interest"; s. 95(2)(*p*) Meaning of "qualifying shareholder"; s. 95(2)(*t*) Meaning of "designated partnership"; s. 95(2)(*x*) [effective 2009] Computation of loss; s. 95(2)(*z*) Foreign affiliate as a partner; s. 95(2.2) Rule re subsection (2) [effective 2009]; s. 95(2.21) Rule re subsection (2.2) [effective 2009] s. 95(2.41) Application of paragraph (2)(a.3); s. 95(2.42) Exception re paragraph (2)(a.3); s. 95(2.5), "excluded income", "excluded revenue".

Proposed Related Sections: s. 95(2)(*c.2*) Gain suspension regime (shares); s. 95(2)(*d*) Foreign merger; s. 95(2)(*e*) Winding-up; s. 95(2)(*f.4*) Gain suspension regime (property other than shares); s. 95(2)(*f.91*) Eligible capital property and depreciable property; s. 95(2)(*f.92*) Cumulative eligible capital; s. 95(2)(*f.93*) Depreciable property; s. 95(2)(*j.1*) and (*j.2*) Foreign affiliate carrying on an insurance business; s. 95(2)(*k*),(*k.1*), (*k.2*), (*k.3*), (*k.5*) and (*k.6*) Fresh start rules.

Regulations: 5900(2) Election to treat dividend from exempt surplus as dividend from taxable surplus; 5901(1) Order of surplus distributions; 5901(2) 90-day rule; 5902(5) Application rules where s. 93(1) election made; 5903(1) and 5903(2) Deductible loss computation; 5904(1), 5904(2) and 5904(3) Determination of participating percentage; 5905(1), 5905(2), 5905(3), 5905(4), 5905(6), 5905(7), 5905(8), 5905(9) and 5905(12) Surplus adjustment rules; 5907(1), "earnings", "exempt earnings", "exempt loss", "exempt surplus", "loss", "net earnings", "net loss", "taxable earnings", "taxable loss", "taxable surplus", "underlying foreign tax", "underlying foreign tax applicable"; 5907(1.02), "meaning of "qualifying interest"", "related"; 5907(1.1) Foreign affiliate as a member of consolidated group; 5907(1.2) Loss transfer regime; 5907(1.3) Prescribed amount for the purposes of "foreign accrual tax"; 5907(2) Adjustment to earnings; 5907(2.1), 5907(2.2), 5907(2.3) and 5907(2.6) Election for depreciable property; 5907(2.7), 5907(2.8) and 5907(2.9) Adjustment to earnings; 5907(7.1); 5907(8) Deemed year end on foreign merger; 5907(9) Dissolution of foreign affiliate; 5907(10) Tax sparing; 5907(11) and 5907(11.1) Meaning of "designated treaty country"; 5907(12) Adjusted cost base of partnership interest; 5907(13) Prescribed amount on immigration.

Proposed Regulations: It is proposed that many of the regulations noted above will be amended to accord with proposed statutory amendments.

Tax Topics: No. 1889, Taxation Year of a Foreign Affiliate.

"trust company" — "trust company" includes a corporation that is resident in Canada and that is a loan company as defined in subsection 2(1) of the *Canadian Payments Association Act*.

History: The definition "trust company" in s. 95(1) was added by S.C. 1998, c. 19, s. 122(4) applicable to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there was a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, subsection (4) applies to taxation years of the foreign affiliate that end after 1994 unless

(*a*) the foreign affiliate had requested the change in writing before February 22, 1994 from the income taxation authority of the country in which the foreign affiliate was resident and subject to income taxation; or

(*b*) the foreign affiliate's first taxation year that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if the change had not occurred.

Editorial Note: The term "trust company" is relevant for the determination of whether a business carried on by a foreign affiliate constitutes an "investment business" as defined in s. 95(1). See the editorial note accompanying the definition of the term "investment business". The term "trust company" is also relevant for the foreign accrual property income recharacterization rules in s. 95(2)(*a.1*), (*a.3*) and (*l*).

Related Sections: S. 95(2)(*l*)(iii) and (iv) Exclusion from "foreign accrual property income" (FAPI) recharacterization rule; s. 95(2.1) Rule for definition "investment business"; s. 95(2.3)(*a*) Application of s. 95(2)(*a.1*); s. 95(2.4)(*a*) Application of s. 95(2)(*a.3*); s. 95(2.5), "indebtedness" paras. (*b*),(*c*).

► 95(2) ◄

(2) Determination of certain components of foreign accrual property income. For the purposes of this subdivision,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 95(2) of the Act before paragraph (*a*) is replaced by the following:

(2) **Application — foreign affiliates.** For the purposes of this subdivision (other than sections 94 to 94.4),

Applicable: To taxation years, of a foreign affiliate of a taxpayer, that begin after 2006, except that they also apply to a taxation year of a foreign affiliate of a taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the foreign affiliate.

Explanatory Note: Subsection 95(2) of the Act provides rules for determining the income of a foreign affiliate of a taxpayer resident in Canada. Subsection 95(2) is amended to clarify that these rules do not apply in applying sections 94 to 94.4 of the Act.

► 95(2)(a) ◄

(a) **[Determination of FAPI — Property income deemed active business income]** — in computing the income or loss from an active business for a taxation year of a particular foreign affiliate of a taxpayer in respect of which the taxpayer has a qualifying interest throughout the year or that is a controlled foreign affiliate of the taxpayer throughout the year, there shall be included any income or loss of the particular foreign affiliate for the year from sources in a country other than Canada that would otherwise be income or loss from property of the particular foreign affiliate for the year to the extent that

(i) the income or loss

(A) is derived by the particular foreign affiliate from activities that can reasonably be considered to be directly related to active business activities carried on in a country other than Canada by

(I) another foreign affiliate of the taxpayer in respect of which the taxpayer has a qualifying interest throughout the year, or

(II) a life insurance corporation that is resident in Canada throughout the year and that is

1. the taxpayer,
2. a person who controls the taxpayer,
3. a person controlled by the taxpayer, or
4. a person controlled by a person who controls the taxpayer, and

(B) would be included in computing the amount prescribed to be the earnings or loss, from an active business carried on in a country other than Canada, of

(I) that other foreign affiliate referred to in subclause (A)(I) if the income were earned by it, or

(II) the life insurance corporation referred to in subclause (A)(II) if that life insurance corporation were a foreign affiliate of the taxpayer and the income were earned by it,

(ii) the income or loss is derived from amounts that were paid or payable, directly or indirectly, to the particular foreign affiliate or a partnership of which the particular foreign affiliate was a member

(A) by a life insurance corporation that is resident in Canada and that is the taxpayer, a person who controls the taxpayer, a person controlled by the taxpayer or a person controlled by a person who controls the taxpayer, to the extent that those amounts that were paid or payable were for expenditures that are deductible in a taxation year of the life insurance corporation by the life insurance corporation in computing its income or loss for a taxation year from carrying on its life insurance business outside Canada and are not deductible in computing its income or loss for a taxation year from carrying on its life insurance business in Canada,

(B) by

(I) another foreign affiliate of the taxpayer in respect of which the taxpayer has a qualifying interest throughout the year, to the extent that those amounts that were paid or payable are for expenditures that were deductible by that other foreign affiliate in computing the amounts prescribed to be its earnings or loss for a taxation year from an active business (other than an active business carried on in Canada), or

(II) a partnership of which another foreign affiliate of the taxpayer (in respect of which other foreign affiliate the taxpayer has a qualifying interest throughout the year) is a qualifying member throughout each period, in the fiscal period of the partnership that ends in the year, in which that other foreign affiliate was a member of the partnership, to the extent that those amounts that were paid or payable are for expenditures that are deductible by the partnership in computing that other foreign affiliate's share of any income or loss of the partnership, for a fiscal period, that is included in computing the amounts prescribed to be that other foreign affiliate's earnings or loss for a taxation year from an active business (other than an active business carried on in Canada),

(C) by a partnership of which the particular foreign affiliate is a qualifying member throughout each period, in the fiscal period of the partnership that ends in the year, in which the particular foreign affiliate was a member of the partnership, to the extent that those amounts that were paid or payable are for expenditures that are deductible by the partnership in computing the particular foreign affiliate's share of any income or loss of the partnership, for a fiscal period, that is included in computing the amounts prescribed to be the particular foreign affiliate's earnings or loss for a taxation year from an active business (other than an active business carried on in Canada), or

(D) by another foreign affiliate (referred to in this clause as the "second affiliate") of the taxpayer — in respect of which the taxpayer has a qualifying interest throughout the year — to the extent that the amounts are paid or payable by

the second affiliate, in respect of any particular period in the year,

(I) under a legal obligation to pay interest on borrowed money used for the purpose of earning income from property, or

(II) on an amount payable for property acquired for the purpose of gaining or producing income from property

where

(III) the property is, throughout the particular period, excluded property of the second affiliate that is shares of the capital stock of a corporation (referred to in this clause as the "third affiliate") which is, throughout the particular period, a foreign affiliate (other than the particular foreign affiliate) of the taxpayer in respect of which the taxpayer has a qualifying interest,

(IV) the second affiliate and the third affiliate are resident in the same country for each of their taxation years (each of which taxation years is referred to in subclause (V) as a "relevant taxation year" of the second affiliate or of the third affiliate, as the case may be) that end in the year, and

(V) in respect of each of the second affiliate and the third affiliate for each relevant taxation year of that affiliate, either

1. that affiliate is subject to income taxation in that country in that relevant taxation year, or

2. the members or shareholders of that affiliate (which, for the purpose of this subsubclause, includes a person that has, directly or indirectly, an interest, or for civil law a right, in a share of the capital stock of, or in an equity interest in, the affiliate) at the end of that relevant taxation year are subject to income taxation in that country on, in aggregate, all or substantially all of the income of that affiliate for that relevant taxation year in their taxation years in which that relevant taxation year ends,

(iii) the income or loss is derived by the particular foreign affiliate from the factoring of trade accounts receivable acquired by the particular foreign affiliate, or a partnership of which the particular foreign affiliate was a member, from another foreign affiliate of the taxpayer in respect of which the taxpayer has a qualifying interest throughout the year to the extent that the accounts receivable arose in the course of an active business carried on in a country other than Canada by that other foreign affiliate,

(iv) the income or loss is derived by the particular foreign affiliate from loans or lending assets acquired by the particular foreign affiliate, or a partnership of which the particular foreign affiliate was a member, from another foreign affiliate of the taxpayer in respect of which the taxpayer has a qualifying interest throughout the year, to the extent that the loans or lending assets arose in the course of an active business carried on in a country other than Canada by that other foreign affiliate,

(v) the income or loss is derived by the particular foreign affiliate from the disposition of excluded property that is not capital property, or

(vi) the income or loss is derived by the particular foreign affiliate under or as a result of an agreement that provides for the purchase, sale or exchange of currency and that can reasonably be considered to have been made by the particular foreign affiliate to reduce

(A) its risk — with respect to an amount that increases the amount required by this paragraph to be included in computing the particular foreign affiliate's income for a taxation year from an active business or that decreases the amount required by this paragraph to be included in computing the particular foreign affiliate's loss for a taxation year from an active business — of fluctuations in the value of the currency in which the amount was denominated, or

(B) its risk — with respect to an amount that decreases the amount required by this paragraph to be included in computing the particular foreign affiliate's income for a taxation year from an active business or that increases the amount required by this paragraph to be included in computing the particular foreign affiliate's loss for a taxation year from an active business — of fluctuations in the value of the currency in which the amount was denominated;

History: S. 95(2)(*a*) was replaced by S.C. 2007, c. 35, s. 26(10). Subject to the application below, this amendment applies to taxation years, of a foreign affiliate of a taxpayer, that end after 1999. However,

(*a*) subject to the application in paragraph (*b*) below, paragraph 95(2)(*a*) shall, for taxation years, of a foreign affiliate of a taxpayer, that end after 1999 and begin before 2009, be read as follows:

"(*a*) in computing the income or loss from an active business for a taxation year of a particular foreign affiliate of a taxpayer in respect of which the taxpayer has a qualifying interest throughout the year or that is a controlled foreign affiliate of the taxpayer throughout the year, there shall be included any income or loss of the particular foreign affiliate for that year from sources in a country other than Canada that would otherwise be income or loss from property of the particular foreign affiliate for the year to the extent that

(i) the income or loss

(A) is derived by the particular foreign affiliate from activities that can reasonably be considered to be directly related to active business activities carried on in a country other than Canada by

(I) another corporation

1. that is a non-resident corporation to which the particular foreign affiliate and the taxpayer are related throughout the year, or

2. that is a foreign affiliate of the taxpayer in respect of which the taxpayer has a qualifying interest throughout the year, or

(II) a life insurance corporation that is resident in Canada throughout the year and that is

1. the taxpayer,

2. a person who controls the taxpayer,

3. a person controlled by the taxpayer, or

4. a person controlled by a person who controls the taxpayer, and

(B) would be included in computing the amount prescribed to be the earnings or loss, from an active business carried on in a country other than Canada, of

(I) the non-resident corporation referred to in sub-subclause (A)(I)1 or the life insurance corporation referred to in sub-clause (A)(II), if that non-resident corporation or that life insurance corporation were a foreign affiliate of the taxpayer and the income were earned by it, or

(II) the foreign affiliate referred to in sub-subclause (A)(I)2, if the income were earned by it,

(ii) the income or loss is derived from amounts that were paid or payable, directly or indirectly, to the particular foreign affiliate or a partnership of which the particular foreign affiliate was a member

(A) by

(I) a non-resident corporation to which the particular foreign affiliate and the taxpayer are related throughout the year, or

(II) a partnership of which a non-resident corporation to which the particular foreign affiliate and the taxpayer are related throughout the year is a qualifying member throughout each period, in the fiscal period of the partnership that ends in the year, in which that non-resident corporation was a member of the partnership

to the extent that those amounts that were paid or payable are for expenditures that would, if the non-resident corporation or the partnership were a foreign affiliate of the taxpayer, be deductible by it in computing the amounts prescribed to be its earnings or loss for a taxation year from an active business (other than an active business carried on in Canada),

(B) by

(I) another foreign affiliate of the taxpayer in respect of which the taxpayer has a qualifying interest throughout the year, or

(II) a partnership of which another foreign affiliate of the taxpayer — in respect of which other foreign affiliate the taxpayer has a qualifying interest throughout the year or to which other foreign affiliate the particular foreign affiliate and the taxpayer are related throughout the year — is a qualifying member throughout each period, in the fiscal period of the partnership that ends in the year, in which that other foreign affiliate was a member of the partnership

to the extent that those amounts that were paid or payable are for expenditures that were deductible by the other foreign affiliate or would (if the partnership were a foreign affiliate of the taxpayer) be deductible by the partnership in computing the amounts prescribed to be its earnings or loss for a taxation year from an active business (other than an active business carried on in Canada),

(C) by a partnership of which the particular foreign affiliate is a qualifying member throughout each period, in the fiscal period of the partnership that ends in the year, in which the particular foreign affiliate was a member of the partnership, to the extent that those amounts that were paid or payable were for expenditures that would, if the partnership were a foreign affiliate of the taxpayer, be deductible in computing the amounts prescribed to be its earnings or loss for a taxation year from an active business (other than an active business carried on in Canada),

(D) by another foreign affiliate (referred to in this clause as the 'second affiliate') of the taxpayer — in respect of which the taxpayer has a qualifying interest throughout the year or to which the particular foreign affiliate and the taxpayer are related throughout the year — to the extent that the amounts are paid or payable by the second affiliate, in respect of any particular period in the year,

(I) under a legal obligation to pay interest on borrowed money used for the purpose of earning income from property, or

(II) on an amount payable for property acquired for the purpose of gaining or producing income from property

where

(III) the property is, throughout the particular period, excluded property of the second affiliate that is shares of the capital stock of a corporation (referred to in this clause as the 'third affiliate') which is, throughout the particular period, a foreign affiliate (other than the particular foreign affiliate) of the taxpayer in respect of which the taxpayer has a qualifying interest or to which the particular foreign affiliate and the taxpayer are related,

(IV) the second affiliate and the third affiliate are resident in the same country for each of their taxation years (each of which taxation years is referred to in subclause (V) as a 'relevant taxation year' of the second affiliate or of the third affiliate, as the case may be) that end in the year, and

(V) in respect of each of the second affiliate and the third affiliate for each relevant taxation year of that affiliate, either

1. that affiliate is subject to income taxation in that country in that relevant taxation year, or

2. the members or shareholders of that affiliate (which, for the purpose of this sub-subclause, includes a person that has, directly or indirectly, an interest, or for civil law a right, in a share of the capital stock of, or in an equity interest in, the affiliate) at the end of that relevant taxation year are subject to income taxation in that country on, in aggregate, all or substantially all of the income of that affiliate for that relevant taxation year in their taxation years in which that relevant taxation year ends, or

(E) by a life insurance corporation that is resident in Canada and that is the taxpayer, a person who controls the taxpayer, a person controlled by the taxpayer or a person controlled by a person who controls the taxpayer, to the extent that those amounts that were paid or payable were for expenditures that are deductible by the life insurance corporation in computing its income or loss for a taxation year from carrying on its life insurance business outside Canada and are not deductible in computing its income or loss for a taxation year from carrying on its life insurance business in Canada,

(iii) the income or loss is derived by the particular foreign affiliate from the factoring of trade accounts receivable acquired by the particular foreign affiliate, or a partnership of which the particular foreign affiliate was a member, from a non-resident corporation to which the particular foreign affiliate and the taxpayer are related throughout the year to the extent that the accounts receivable arose in the course of an active business carried on in a country other than Canada by the non-resident corporation,

(iv) the income or loss is derived by the particular foreign affiliate from loans or lending assets acquired by the particular foreign affiliate, or a partnership of which the particular foreign affiliate was a member, from a non-resident corporation to which the particular foreign affiliate and the taxpayer are related throughout the year to the extent that the loans or lending assets arose in the course of an active business carried on in a country other than Canada by the non-resident corporation,

(v) the income or loss is derived by the particular foreign affiliate from the disposition of excluded property that is not capital property, or

(vi) the income or loss is derived by the particular foreign affiliate under or as a result of an agreement that provides for the purchase, sale or exchange of currency and that can reasonably be considered to have been made by the particular foreign affiliate to reduce

(A) its risk — with respect to an amount that increases the amount required by this paragraph to be included in computing the particular foreign affiliate's income for a taxation year from an active business or that decreases the amount required by this paragraph to be included in computing the particular foreign affiliate's loss for a taxation year from an active business — of fluctuations in the value of the currency in which the amount was denominated, or

(B) its risk — with respect to an amount that decreases the amount required by this paragraph to be included in computing the particular foreign affiliate's income for a taxation year from an active business or that increases the amount required by this paragraph to be included in computing the particular foreign affiliate's loss for a taxation year from an active business — of fluctuations in the value of the currency in which the amount was denominated;"

(*b*) if a taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2007, [**Editorial Note:** See Department of Finance News Release No. 2008-048, dated June 27, 2008, reproduced before s. 95(1), regarding a proposed extension of the election deadline.]

(i) subclauses 95(2)(*a*)(ii)(D)(III) to (V) as required to be read by paragraph (*a*), also apply to taxation years, of all foreign affiliates of the taxpayer, that begin after 1994 and end before 2000, except that the references in those subclauses, as those subclauses apply to those taxation years of a foreign affiliate of a taxpayer, to "particular foreign affiliate" shall be read as references to "particular affiliate"; and

(ii) where the taxpayer has not validly made the election described below (the Global Section 95 Election), clauses 95(2)(*a*)(ii)(A) to (C) and (E), as required to be read by paragraph (*a*) of the application above, also apply to taxation years, of all foreign affiliates of the taxpayer, that begin after 1994 and end before 2000, except that the references in those clauses 95(2)(*a*)(ii)(A) to (C), as those clauses apply to those taxation years of a foreign affiliate of a taxpayer, to "particular foreign affiliate" shall be read as references to "particular affiliate" and

(A) subclause (II) of that clause 95(2)(*a*)(ii)(A) shall be read as follows:

"(II) a partnership of which a non-resident corporation to which the particular affiliate and the taxpayer are related throughout the year is a member and of which that non-resident corporation is not a specified member at any time in a fiscal period of the partnership that ends in the year"

(B) subclause (II) of that clause 95(2)(*a*)(ii)(B) shall be read as follows:

"(II) a partnership of which another foreign affiliate of the taxpayer in respect of which the taxpayer has a qualifying interest throughout the year is a member and of which that other foreign affiliate is not a specified member at any time in a fiscal period of the partnership that ends in the year"

(C) that clause 95(2)(*a*)(ii)(C) shall be read as follows:

"(C) by a partnership of which the particular affiliate is a member and of which the particular affiliate is not a specified member at any time in a fiscal period of the partnership that ends in the year, to the extent that those amounts that were paid or payable were for expenditures that would be, if the partnership were a foreign affiliate of the taxpayer, deductible in a taxation year in computing the amounts prescribed to its earnings or loss from an active business carried on by it outside Canada,"

[Global Section 95 Election] If a taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2007, [**Editorial Note:** See Department of Finance News Release No. 2008-048, dated June 27, 2008, reproduced before s. 95(1), regarding a proposed extension of the election deadline.]

- subparagraph 95(2)(*a*)(i), read in the manner described in paragraph (*a*) of the application, but read without reference to sub-subclause 95(2)(*a*)(i)(A)(I)2, subclause 95(2)(*a*)(i)(B)(II) and the word "or" at the end of subclause 95(2)(*a*)(i)(B)(I), also applies to taxation years, of all foreign affiliates of the taxpayer, that begin after 1994 and end before 2000;
- clauses 95(2)(*a*)(ii)(A) to (C) and (E) of the Act and subparagraphs 95(2)(*a*)(v) and (vi) read in the manner described in paragraph (*a*) of the application above, also apply to taxation years, of all foreign affiliates of the taxpayer, that begin after 1994 and end before 2000, except that the references to "income or loss" in that subparagraph 95(2)(*a*)(v) and that portion of subparagraph 95(2)(*a*)(vi) before clause (A) of that subparagraph 95(2)(*a*)(vi), as those subparagraphs apply to those taxation years of a foreign affiliate of the taxpayer, shall be replaced by a reference to "income".

If a taxpayer has made what would be a valid Global Section 95 election described above (Global Section 95 Election), and the taxpayer has, on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2010, filed with the Minister of National Revenue a notice in writing to revoke the election, the election is deemed, otherwise than for the purpose of this revocation, never to have been made.

Notwithstanding subsections 152(4) to (5), any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take an election referred to above, or a revocation referred to above, into account.

S. 95(2)(*a*) formerly read:

"(*a*) in computing the income from an active business for a taxation year of a particular foreign affiliate of a taxpayer in respect of which the taxpayer has a qualifying interest throughout the year there shall be included any income of the affiliate for that year from sources in a country other than Canada that would otherwise be income from property of the affiliate for the year to the extent that

(i) the income

(A) is derived by the particular affiliate from activities that can reasonably be considered to be directly related to the active business activities carried on in a country other than Canada by

(I) any other non-resident corporation to which the particular affiliate and the taxpayer are related throughout the year, or

(II) the taxpayer, where the taxpayer is a life insurance corporation resident in Canada throughout the year, and

(B) would be included in computing the amount prescribed to be the earnings or loss from an active business carried on in a country other than Canada of

(I) the non-resident corporation to which the particular affiliate and the taxpayer are related throughout the year, or

(II) the taxpayer, where the taxpayer is a life insurance corporation resident in Canada throughout the year

if it were a foreign affiliate of the taxpayer and the income were earned by it,

(ii) the income is derived from amounts that were paid or payable, directly or indirectly, to the particular affiliate or a partnership of which the particular affiliate was a member

(A) by

(I) a non-resident corporation to which the particular affiliate and the taxpayer are related throughout the year, or

(II) a partnership of which a non-resident corporation to which the particular affiliate and the taxpayer are related throughout the year is a member and of which that non-resident corporation is not a specified member at any time in a fiscal period of the partnership that ends in the year

to the extent that those amounts that were paid or payable are for expenditures that would, if the non-resident corporation or the partnership were a foreign affiliate of the taxpayer, be deductible by it in the year or a subsequent year in computing the amounts prescribed to be its earnings or loss from an active business, other than an active business carried on in Canada,

(B) by

(I) another foreign affiliate of the taxpayer in respect of which the taxpayer has a qualifying interest throughout the year, or

(II) a partnership of which another foreign affiliate of the taxpayer in respect of which the taxpayer has a qualifying interest throughout the year is a member and of which that other affiliate is not a specified member at any time in a fiscal period of the partnership that ends in the year

to the extent that those amounts that were paid or payable are for expenditures that were or would be, if the partnership were a foreign affiliate of the taxpayer, deductible in the year or a subsequent taxation year by the other affiliate or the partnership in computing the amounts prescribed to be its earnings or loss from an active business, other than an active business carried on in Canada,

(C) by a partnership of which the particular affiliate is a member and of which the particular affiliate is not a specified member at any time in a fiscal period of the partnership that ends in the year to the extent that those amounts that were paid or payable were for expenditures that would be, if the partnership were a foreign affiliate of the taxpayer, deductible in the year or a subsequent year in computing the amounts prescribed to be its earnings or loss from an active business carried on by it outside Canada,

(D) by another foreign affiliate of the taxpayer (in this clause referred to as the 'second affiliate') to which the particular affiliate and the taxpayer are related throughout the year to the extent that the amounts are paid or payable by the second affiliate

(I) under a legal obligation to pay interest on borrowed money used for the purpose of earning income from property, or

(II) on an amount payable for property acquired for the purpose of gaining or producing income from property

where

(III) the property is excluded property of the second affiliate that is shares of a foreign affiliate (other than the particular affiliate) of the taxpayer in respect of which the taxpayer has a qualifying interest throughout the year (in this clause referred to as the 'third affiliate'),

(IV) the second and third affiliates are resident in and subject to income taxation in the same country, and

(V) the amounts paid or payable are relevant in computing the liability for income taxes in that country of the members of a group of corporations composed of the second affiliate and one or more other foreign affiliates of the taxpayer (the shares of which are excluded property) that are resident and subject to income taxation in that country and in respect of which the taxpayer has a qualifying interest throughout the year, or

(E) by the taxpayer, where the taxpayer is a life insurance corporation resident in Canada (in this clause referred to as the 'insurer'), to the extent that those amounts that were paid or payable were for expenditures that are deductible in the year or a subsequent taxation year by the insurer in computing its income or loss from carrying on its life insurance business outside Canada and are not deductible in the year or a subsequent taxation year in computing its income or loss from carrying on its life insurance business in Canada,

(iii) the income is derived by the particular affiliate from the factoring of trade accounts receivable acquired by the particular affiliate or a partnership of which the particular affiliate was a member from a non-resident corporation to which the particular affiliate and the taxpayer are related throughout the year to the extent that the accounts receivable arose in the course of an active business carried on in a country other than Canada by the non-resident corporation, or

(iv) the income is derived by the particular affiliate from loans or lending assets acquired by the particular affiliate or a partnership of which the particular affiliate was a member from a non-resident corporation to which the particular affiliate and the taxpayer are related throughout the year to the extent that the loans or lending assets arose in the course of an active business carried on in a country other than Canada by the non-resident corporation;"

S. 95(2), the application of paragraphs (*a*) to (*a.4*) and (*k*) to (*m*) were amended by S.C. 1998, c. 19, s. 305(1), deemed to have come into force on June 22, 1995. That application reads as follows:

Sec. 305(1), Chap. 19, 1998

(8) Subsections 46(1) to 46(6) [of 1995, c. 21] apply to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, subsections (1) to (6) apply to taxation years of the foreign affiliate that end after 1994, unless

(*a*) the foreign affiliate had requested the change in writing before February 22, 1994 from the income taxation authority of the country in

which the foreign affiliate was resident and subject to income taxation; or

(*b*) the foreign affiliate's first taxation year that began after 1994 began at a time in 1995 that is earlier than the time at which that taxation year would have begun if the change had not occurred.

S. 95(2)(*a*) was amended by S.C. 1995, c. 21, s. 46(4), applicable to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, paragraph 95(2)(*a*) applies to taxation years of such foreign affiliate of the taxpayer that end after 1994, unless

(*a*) such foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation; or

(*b*) the first taxation year of such foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time that that taxation year would have begun if there had not been that change in the taxation year of such foreign affiliate.

S. 95(2)(*a*) formerly read:

"(*a*) in computing the income from an active business of a foreign affiliate of a taxpayer there shall be included

(i) any income from sources in a country other than Canada that would otherwise be income from property or a business other than an active business, to the extent that it pertains to or is incident to an active business carried on in a country other than Canada by the affiliate or any other non-resident corporation with which the taxpayer does not deal at arm's length, and

(ii) any amount paid or payable to the affiliate by, and, where the affiliate is a member of a partnership, the affiliate's share of any amount paid or payable to the partnership by,

(A) another foreign affiliate of the taxpayer, or

(B) any other non-resident corporation with which the taxpayer does not deal at arm's length

to the extent that, in computing the amount prescribed to be its earnings from an active business other than a business carried on by it in Canada, that amount is deductible or would be deductible if the non-resident corporation were a foreign affiliate of the taxpayer;"

S. 95(2)(*a*)(ii), that portion preceding clause (A), was amended by S.C. 1994, c. 7, Sched. II, s. 71(5), applicable to the 1987 and subsequent taxation years. That portion of s. 95(2)(*a*)(ii) formerly read:

"(ii) any amount paid or payable to the affiliate by"

Editorial Note: Paragraph 95(2)(*a*) is an income recharacterization rule that applies for the purposes of the foreign affiliate rules in Subdivision i and the supporting rules in Part LIX of the Regulations.

Generally, where s. 95(2)(*a*) applies, it will, in effect, deem non-Canadian-source income (or loss) from property earned by a foreign affiliate of a Canadian-resident taxpayer to be income (or loss) from an active business of that affiliate. See the editorial notes accompanying the definitions of "income from property" and "income from an active business" in subsection 95(1). Where s. 95(2)(*a*) applies the recharacterized income will not be included in an affiliate's foreign accrual property income (FAPI) and therefore will not be subject to the FAPI imputation regime in subsection 91(1). See the editorial notes accompanying subsection 91(1) and the definition of FAPI in subsection 95(1).

Paragraph 95(2)(*a*) will apply to recharacterize non-Canadian-source income (or loss) from property earned by a foreign affiliate of a Canadian-resident taxpayer to be income (or loss) from an active business of that affiliate only if: (i) the taxpayer has a "qualifying interest" (as defined in s. 95(2)(*m*)) in that affiliate throughout the affiliate's taxation year or if the affiliate is a controlled foreign affiliate of the taxpayer throughout that taxation year (see s. 95(2.2) and (2.21)); and (ii) the income (or loss) is derived in the manner set out in any of subparagraphs 95(2)(*a*)(i) through (vi).

Note that where the rule applies it only deems the income to be income from an active business. The rule does not deem the business itself to be an active business.

Any income (or loss) from property earned by a foreign affiliate of a Canadian-resident taxpayer that is deemed by s. 95(2)(*a*) to be income (or loss) from an active business of that affiliate will also be included in the affiliate's "earnings" (see paragraph (*b*) of the definition of "earnings" in regulation 5907(1)). In consequence, the income will be included in the affiliate's "exempt earnings" or "taxable earnings" and therefore "exempt surplus" or "taxable surplus", respectively (see the definitions in regulation 5907(1)).

Paragraph 95(2)(*a*) was amended by s. 26(10) of the *Budget and Economic Statement Implementation Act, 2007* (Bill C-28; S.C. 2007, c. 35). Reference should be made to s. 26(35) and (46) of S.C. 2007, c. 35 which provide for the application of an earlier version of s. 95(2)(*a*) for taxation years that end after 1999 and begin before 2009.

See also the Department of Finance comfort letter, dated September 13, 2007, reproduced following the definition "exempt earnings" in Regulation 5907(1) concerning property income of foreign affiliate life insurance corporations. The issue was resolved by amendments to s. 95(2)(*a*)(i) and (ii) by S.C. 2007, c. 35, but remains outstanding for the definitions of "exempt earnings" and "exempt loss" in Regulation 5907(1).

Related Sections: S. 20(3) Borrowed money; s. 95(1), "active business", "foreign accrual property income", "foreign affiliate", "income from an active business", "income from property"; s. 95(2)(*f*) to (*f.15*) — Currency computation rules. s. 95(2)(*m*) Qualifying interest; s. 95(2)(*n*) Qualifying interest; s. 95(2)(*o*) Qualifying member; s. 95(2)(*q*) Qualifying member; s. 95(2)(*r*) Qualifying member; s. 95(2)(*u*) Look through rule for partnerships; s. 95(2)(*x*) Losses of a foreign affiliate; s. 95(2)(*y*) Qualifying interest; s. 95(2.2), (2.21) — Qualifying interest deeming rule; s. 95(6) Where rights or shares issued, acquired or disposed of to avoid tax; s. 248(1), "business", "taxpayer"; s. 249(1) Definition of "taxation year"; s. 253 Extended meaning of "carrying on business".

Regulations: 5906 Location of foreign affiliate business; 5907(1), "earnings", "exempt earnings", "taxable earnings"; 5907(1.02) Qualifying interest; 5907(2.7), (2.8) Adjustment to earnings.

Proposed Regulations: 5907(1), "earnings", "exempt earnings", "exempt loss", "loss", "taxable loss"; 5907(2.7), (2.8), (2.81), (2.82), (2.83).

Forms: T2 SCH 25.

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Canadian Petroleum Tax Journal: Selected Income Tax Considerations When Structuring Foreign Resource Ventures, William A. Brebber, Vol. 15 No. 1 2002; Moving Forward With Mobile Income, Chris Roberge, CA, CPA, Vol. 14 No. 1 2001; High Tech in the Oil Patch: Planning Considerations For Transferring Technology Offshore, Derek A. Kurrant, Vol. 13 No. 1 2000.

► 95(2)(a.1) ◄

(a.1) [Determination of FAPI — income from sale of property] — in computing the income from a business other than an active business for a taxation year of a foreign affiliate of a taxpayer there shall be included the income of the affiliate for the year from the sale of property (which, for the purposes of this paragraph, includes the income of the affiliate for the year from the performance of services as an agent in relation to a purchase or sale of property) where

(i) it is reasonable to conclude that the cost to any person of the property (other than property that is designated property) is relevant in computing

the income from a business carried on by the taxpayer or by a person resident in Canada with whom the taxpayer does not deal at arm's length or is relevant in computing the income from a business carried on in Canada by a non-resident person with whom the taxpayer does not deal at arm's length, and

(ii) the property was neither

(A) manufactured, produced, grown, extracted or processed in the country

(I) under whose laws the affiliate is governed and any of exists, was (unless the affiliate was continued in any jurisdiction) formed or organized, or was last continued, and

(II) in which the affiliate's business is principally carried on, nor

(B) an interest in real property, or a real right in an immovable, located in, or a foreign resource property in respect of, the country

(I) under whose laws the affiliate is governed and any of exists, was (unless the affiliate was continued in any jurisdiction) formed or organized, or was last continued, and

(II) in which the affiliate's business is principally carried on,

unless more than 90% of the gross revenue of the affiliate for the year from the sale of property is derived from the sale of such property (other than a property described in subparagraph (ii) the cost of which to any person is a cost referred to in subparagraph (i)) to persons with whom the affiliate deals at arm's length (which, for this purpose, includes a sale of property to a non-resident corporation with which the affiliate does not deal at arm's length for sale to persons with whom the affiliate deals at arm's length) and, where this paragraph applies to include income of the affiliate from the sale of property in the income of the affiliate from a business other than an active business,

(iii) the sale of such property shall be deemed to be a separate business, other than an active business, carried on by the affiliate, and

(iv) any income of the affiliate that pertains to or is incident to that business shall be deemed to be income from a business other than an active business;

History: S. 95(2)(*a.1*)(i) and (ii) were replaced by S.C. 2007, c. 35, s. 26(11). Subject to the application below, this amendment applies to taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002.

However, if a taxpayer elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2007, this amendment applies to taxation years, of all its foreign affiliates, that begin after 1994. [**Editorial Note:** See Department of Finance News Release No. 2008-048, dated June 27, 2008, reproduced before s. 95(1), regarding a proposed extension of the election deadline.]

Notwithstanding subsections 152(4) to (5), any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take an election referred to above into account.

S. 95(2)(*a.1*)(i) and (ii) formerly read:

"(i) it is reasonable to conclude that the cost to any person of the property (other than property that was manufactured, produced, grown, extracted or processed in Canada by the taxpayer or a person with whom the taxpayer does not deal at arm's length in the course of carrying on a business in Canada and that was sold to non-resident persons other than the affiliate or sold to the affiliate for sale to non-resident persons) is relevant in computing the income from a business carried on by the taxpayer or a person resident in Canada with whom the taxpayer does not deal at arm's length or is relevant in computing the income from a business carried on in Canada by a non-resident person with whom the taxpayer does not deal at arm's length, and

(ii) the property was not manufactured, produced, grown, extracted or processed in the country under whose laws the affiliate was formed or continued and exists and is governed and in which the affiliate's business is principally carried on,"

S. 95(2), the application of paragraphs (*a*) to (*a.4*) and (*k*) to (*m*) were amended by S.C. 1998, c. 19, s. 305(1), deemed to have come into force on June 22, 1995. That application reads as follows:

Sec. 305(1), Chap. 19, 1998

(8) Subsections 46(1) to 46(6) [of 1995, c. 21] apply to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, subsections (1) to (6) apply to taxation years of the foreign affiliate that end after 1994, unless

(*a*) the foreign affiliate had requested the change in writing before February 22, 1994 from the income taxation authority of the country in which the foreign affiliate was resident and subject to income taxation; or

(*b*) the foreign affiliate's first taxation year that began after 1994 began at a time in 1995 that is earlier than the time at which that taxation year would have begun if the change had not occurred.

S. 95(2)(*a.1*) was added by S.C. 1995, c. 21, s. 46(4), applicable to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, paragraph 95(2)(*a.1*) applies to taxation years of such foreign affiliate of the taxpayer that end after 1994, unless

(*a*) such foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation; or

(*b*) the first taxation year of such foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time that that taxation year would have begun if there had not been that change in the taxation year of such foreign affiliate.

Editorial Note: Paragraph 95(2)(*a.1*) is an income recharacterization rule that applies for the purposes of the foreign affiliate rules in Subdivision i and the supporting rules in Part LIX of the Regulations.

Paragraph 95(2)(*a.1*) deems certain income earned by a foreign affiliate of a Canadian-resident taxpayer from a business consisting of the sale of property (including the provision of services as an agent in relation to the purchase or sale of property) to be income from a separate business other than an active business. Where s. 95(2)(*a.1*) applies the recharacterized income will be included in an affiliate's foreign accrual property income (FAPI) and will, if the affiliate is a controlled foreign affiliate, be subject to the FAPI imputation regime in subsection 91(1). See the editorial notes accompanying s. 91(1) and the definition of FAPI (specifically element A) in s. 95(1).

Any income earned by a foreign affiliate that is deemed by s. 95(2)(*a.1*) to be income from a business other than an active business will be included in the affiliate's "net earnings" from FAPI (see paragraph (*b*) of the definition of "net earnings" in regulation 5907(1)). In consequence, the income will be included in the affiliate's "taxable earnings" and therefore "taxable surplus" (see the definitions in regulation 5907(1)).

Related Sections: S. 66(15), "foreign resource property"; s. 95(1), "active business", "foreign accrual property income", "foreign affiliate", "income from an active business"; s. 95(2)(*k*) Fresh start rules; s. 95(2)(*u*) Partnership look through rule; s. 95(2.3) Application of paragraph (2)(a.1); s. 95(3.1) Designated property — subparagraph (2)(a.1)(i); s. 248(1), "business", "foreign resource property", "gross revenue", "taxpayer"; s. 249(1) Definition of "taxation year" s. 251 Arm's length; s. 253 Extended meaning of "carrying on business".
Regulations: 5907(1), "net earnings", "taxable earnings".

► 95(2)(a.2) ◄

(a.2) [Determination of FAPI — Income from insurance of Canadian risks] — in computing the income from a business other than an active business for a taxation year of a foreign affiliate of a taxpayer there shall be included the income of the affiliate for the year from the insurance of a risk (which, for the purposes of this paragraph, includes income of the affiliate for the year from the reinsurance of a risk) where the risk was in respect of

(i) a person resident in Canada,

(ii) a property situated in Canada, or

(iii) a business carried on in Canada

unless more than 90% of the gross premium revenue of the affiliate for the year from the insurance of risks (net of reinsurance ceded) was in respect of the insurance of risks (other than risks in respect of a person, a property or a business described in subparagraphs (i) to (iii)) of persons with whom the affiliate deals at arm's length and, where this paragraph applies to include income of the affiliate from the insurance of risks in the income of the affiliate from a business other than an active business,

(iv) the insurance of those risks shall be deemed to be a separate business, other than an active business, carried on by the affiliate, and

(v) any income of the affiliate that pertains to or is incident to that business shall be deemed to be income from a business other than an active business;

History: S. 95(2), the application of paragraphs (*a*) to (*a.4*) and (*k*) to (*m*) were amended by S.C. 1998, c. 19, s. 305(1), deemed to have come into force on June 22, 1995. That application reads as follows:

Sec. 305(1), Chap. 19, 1998

(8) Subsections 46(1) to 46(6) [of 1995, c. 21] apply to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, subsections (1) to (6) apply to taxation years of the foreign affiliate that end after 1994, unless

(*a*) the foreign affiliate had requested the change in writing before February 22, 1994 from the income taxation authority of the country in which the foreign affiliate was resident and subject to income taxation; or

(*b*) the foreign affiliate's first taxation year that began after 1994 began at a time in 1995 that is earlier than the time at which that taxation year would have begun if the change had not occurred.

S. 95(2)(*a.2*) was added by S.C. 1995, c. 21, s. 46(4), applicable to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, paragraph 95(2)(*a.2*) applies to taxation years of such foreign affiliate of the taxpayer that end after 1994, unless

(*a*) such foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation; or

(*b*) the first taxation year of such foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time that that taxation year would have begun if there had not been that change in the taxation year of such foreign affiliate.

Editorial Note: Paragraph 95(2)(*a.2*) is an income recharacterization rule that applies for the purposes of the foreign affiliate rules in Subdivision i and the supporting rules in Part LIX of the Regulations.

Paragraph 95(2)(*a.2*) deems certain income earned by a foreign affiliate of a Canadian-resident taxpayer from the insurance and reinsurance of Canadian-source risks to be income from a separate business other than an active business. The application of s. 95(2)(*a.2*) gives rise to the same result as that which occurs where s. 95(2)(*a.1*) applies. See the editorial notes accompanying s. 95(2)(*a.1*).

Related Sections: S. 95(1), "active business", "foreign accrual property income", "foreign affiliate", "income from an active business"; s. 95(2)(*k*) Fresh start rules; s. 95(2)(*u*) Partnership look through rule; s. 95(2.41) Application of paragraph (2)(a.3); s. 248(1), "business", "gross revenue", "taxpayer"; s. 249(1) Definition of "taxation year"; s. 251 Arm's length; s. 253 Extended meaning of "carrying on business".

Regulations: 5907(1), "net earnings", "taxable earnings".

► 95(2)(a.3) ◄

(a.3) [Determination of FAPI — Income from indebtedness and lease obligations] — in computing the income from a business other than an active business for a taxation year of a foreign affiliate of a taxpayer there shall be included the income of the affiliate for the year derived directly or indirectly from indebtedness and lease obligations (which, for the purposes of this paragraph, includes the income of the affiliate for the year from the purchase and sale of indebtedness and lease obligations on its own account, but does not include excluded income)

(i) of persons resident in Canada, or

(ii) in respect of businesses carried on in Canada

unless more than 90% of the gross revenue of the affiliate derived directly or indirectly from indebtedness and lease obligations (other than excluded revenue) was derived directly or indirectly from indebtedness and lease obligations of non-resident persons with whom the affiliate deals at arm's length and, where this paragraph applies to include income of the affiliate for the year in the income of the affiliate from a business other than an active business,

(iii) those activities carried out to earn such income shall be deemed to be a separate business, other than an active business, carried on by the affiliate, and

(iv) any income of the affiliate that pertains to or is incident to that business shall be deemed to be income from a business other than an active business;

Department of Finance Comfort Letter [Foreign Affiliates — Paragraph 95(2)(a.3) and Definition of "Exempt Earnings"]

July 17, 2006

Dear XXXX

SUBJECT: Foreign accrual property income rules in the *Income Tax Act* and the *Income Tax Regulations*

I am writing in response to your letters with respect to paragraph 95(2)(*a.3*) of the *Income Tax Act* (the "Act") and clause (*d*)(ii)(B)of the definition "exempt earnings" in subsection 5907(1) of the Income Tax Regulations (the "Regulations").

Paragraph 95(2)(a.3) of the Act

In your correspondence, you express a concern with respect to the scope of paragraph 95(2)(*a.3*) in light of clause 95(2)(*a*)(ii)(E) of the Act.

Paragraph 95(2)(*a.3*) provides generally that the income for a taxation year of a foreign affiliate of a taxpayer resident in Canada derived from indebtedness or lease obligations of persons resident in Canada (or in respect of businesses carried on in Canada) is not to be treated as active business income unless more than 90% of the foreign affiliate's gross revenue for the year from indebtedness or lease obligations is derived from indebtedness and lease obligations of non-resident persons with whom the foreign affiliate deals at arm's length.

In the example provided in your correspondence, you point out that, where the requirements for the application of clause 95(2)(*a*)(ii)(E) of the Act are met, that clause would treat, as active business income of the foreign affiliate of a taxpayer resident in Canada, the income of the foreign affiliate derived from the interest paid to the foreign affiliate by the taxpayer on a debt of the taxpayer in respect of the taxpayer's foreign insurance business. You point out that paragraph 95(2)(*a.3*) would, however, result in that same income being included in the foreign accrual property income of the foreign affiliate. You identify the inclusion, because of paragraph 95(2)(*a.3*), of that income of the foreign affiliate in the foreign accrual property income of the foreign affiliate as being inconsistent with the inclusion of that income of the foreign affiliate in the active business income of the foreign affiliate because of clause 95(2)(*a*)(ii)(E).

We agree that it would be inappropriate to include an amount of income of a foreign affiliate in its foreign accrual property income because of paragraph 95(2)(*a.3*) when that same amount of income is included in its active business income under clause 95(2)(*a*)(ii)(E). Therefore, we are prepared to recommend that

paragraph 95(2)(*a.3*) be amended to provide for consistent treatment of that income as active business income. The recommended amendment to paragraph 95(2)(*a.3*) would ensure that any particular income of the foreign affiliate derived from indebtedness and lease obligations will not be included, because of paragraph 95(2)(*a.3*), in computing the foreign affiliate's income from a business other than an active business if the taxpayer is the taxpayer referred to in clause 95(2)(*a*)(ii)(E) and the particular income would, because of clause 95(2)(*a*)(ii)(E), be included in computing the income of the foreign affiliate from an active business.

It will be recommended that such an amendment apply to taxation years, of a foreign affiliate of a taxpayer, that end after February 27, 2004.

Clause (d)(ii)(B) of the definition "exempt earnings" in subsection 5907(1)of the Regulations

You have also expressed a concern with respect to draft amended clause (*d*)(ii)(B) of the definition "exempt earnings" in subsection 5907(1) of the Regulations, as contained in the proposals announced on February 27, 2004.

Existing subclause 95(2)(*a*)(i)(A)(II) of the Act provides, if certain conditions are met, for the recharacterization of property income of a foreign affiliate of a taxpayer resident in Canada as active business income where the taxpayer is a life insurance corporation and the property income is derived from active business activities carried on in a country outside Canada by a foreign branch of the taxpayer. The version of subclause 95(2)(*a*)(i)(A)(II) of the Act contained in the February 2004 proposals expands the scope of that subclause to refer not only to a life insurance corporation resident in Canada that is the taxpayer (as at present in the Act) but also to refer, alternatively, to a life insurance corporation resident in Canada that controls, or is controlled by, the taxpayer.

In your correspondence, you note that the draft version of clause (*d*)(ii)(B) of the definition "exempt earnings" in subsection 5907(1) of the Regulations refers to a life insurance corporation resident in Canada that is the particular corporation resident in Canada. You suggest that, consistent with draft subclause 95(2)(*a*)(i)(A)(II) of the Act in the February 2004 proposals, draft clause (*d*)(ii)(B) of the definition "exempt earnings" in subsection 5907(1) of the Regulations should be revised to also refer, alternatively, to a life insurance corporation resident in Canada that controls, or is controlled by, the corporation resident in Canada.

As clause (*d*)(ii)(B) of the definition "exempt earnings" in subsection 5907(1) of the Regulations is a rule to determine what portion (if any) of the foreign affiliate's active business earnings because of subclause 95(2)(*a*)(i)(A)(II) of the Act are to be included in the foreign affiliate's exempt earnings, we agree that the wording of that clause (*d*)(ii)(B) of the definition "exempt earnings" in subsection 5907(1) of the Regulations in the February 2004 proposals should be made consistent with the wording of draft subclause 95(2)(*a*)(i)(A)(II) of the Act in those proposals. Accordingly, we are prepared to recommend that draft clause (*d*)(ii)(B) of the definition "exempt earnings" in subsection 5907(1) of the Regulations be revised so that

- that clause will apply where the particular corporation is a life insurance corporation resident in Canada (the "insurer"), a corporation controlled by the insurer or a corporation that controls the insurer and the particular foreign affiliate is a foreign affiliate in respect of which the particular corporation has a qualifying interest throughout the taxation year, and
- where that clause applies and the conditions described in the preamble of paragraph (*d*) of the exempt earnings definition are met, the amount calculated by that clause for inclusion in the particular affiliate's exempt earnings for the year will be equal to the amounts included in computing the particular affiliate's income from an active business for the year because of subparagraph 95(2)(*a*)(i) of the Act that are derived by the particular affiliate from activities directly related to an active business carried on by the insurer in a country other than Canada, the income or loss from which would, if the insurer were a foreign affiliate of another corporation and were resident in the country other than Canada in which that active business of the insurer is carried on, be included in computing the insurer's exempt earnings or loss.

Draft clause (*c*)(ii)(B) of the definition "exempt loss" in subsection 5907(1) of the Regulations, as contained in the February 2004 proposals, is the exempt loss definition's equivalent of clause (*d*)(ii)(B) of the exempt earnings definition in subsection 5907(1). As we note that similar concerns arise in connection with that draft clause of the exempt loss definition, a recommendation will be made that that draft clause of the exempt loss definition be revised in an analogous fashion.

It will be recommended that those draft clauses of the exempt earnings and exempt loss definitions, including those aforementioned revisions, have the application dates that are provided in the February 2004 proposals for those draft clauses.

Thank you for writing.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 95(2)(*a.3*), the portion before subparagraph (iii) was amended by S.C. 2001, c. 17, s. 73(5), applicable to taxation years of foreign affiliates that begin after 1999 except that, where a taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxation year that includes the day on which this Act receives royal assent [June 14, 2001], paragraph 95(2)(*a.3*) of the Act apply to taxation years, of all of the taxpayer's foreign affiliates, that begin after 1994 except that, where there has been a change in the taxation year of a particular foreign affiliate of a taxpayer in 1994 and after February 22, 1994, the enacted provisions apply to taxation years of the particular foreign affiliate of the taxpayer that end after 1994, unless

(*a*) the particular foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation; or

(*b*) the first taxation year of the particular foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time that it would have begun if there had not been that change in the taxation year of the particular foreign affiliate,

and, notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax payable under the Act for any of those taxation years shall be made that is necessary to take into account the application of subsections (5) and (10).

S. 95(2)(*a.3*), the portion before subparagraph (iii) formerly read:

"(*a.3*) in computing the income from a business other than an active business for a taxation year of a foreign affiliate of a taxpayer there shall be included the income of the affiliate for the year derived directly or indirectly from indebtedness (other than a specified deposit with a prescribed financial institution) and lease obligations (which, for the purposes of this paragraph, includes the income of the affiliate for the year from the purchase and sale of indebtedness and lease obligations on its own account)

(i) of persons resident in Canada, or

(ii) in respect of businesses carried on in Canada

unless more than 90% of the gross revenue of the affiliate derived directly or indirectly from indebtedness (other than a specified deposit with a prescribed financial institution) and lease obligations was derived directly or indirectly from indebtedness and lease obligations of non-resident persons with whom the affiliate deals at arm's length and, where this paragraph applies to include income of the affiliate for the year in the income of the affiliate from a business other than an active business,"

S. 95(2), the application of paragraphs (*a*) to (*a.4*) and (*k*) to (*m*) were amended by S.C. 1998, c. 19, s. 305(1), deemed to have come into force on June 22, 1995. That application reads as follows:

Sec. 305(1), Chap. 19, 1998

(8) Subsections 46(1) to 46(6) [of 1995, c. 21] apply to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, subsections (1) to (6) apply to taxation years of the foreign affiliate that end after 1994, unless

(*a*) the foreign affiliate had requested the change in writing before February 22, 1994 from the income taxation authority of the country in which the foreign affiliate was resident and subject to income taxation; or

(*b*) the foreign affiliate's first taxation year that began after 1994 began at a time in 1995 that is earlier than the time at which that taxation year would have begun if the change had not occurred.

S. 95(2)(*a.3*) was added by S.C. 1995, c. 21, s. 46(4), applicable to taxation years of foreign affiliates of taxpayers that begin after 1994 except that,

where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, paragraph 95(2)(*a.3*) applies to taxation years of such foreign affiliate of the taxpayer that end after 1994, unless

(*a*) such foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation; or

(*b*) the first taxation year of such foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time that that taxation year would have begun if there had not been that change in the taxation year of such foreign affiliate.

Editorial Note: Paragraph 95(2)(*a.3*) is an income recharacterization rule that applies for the purposes of the foreign affiliate rules in Subdivision i and the supporting rules in Part LIX of the Regulations.

Paragraph 95(2)(*a.3*) deems certain income earned by a foreign affiliate of a Canadian-resident taxpayer derived from "indebtedness" and "lease obligations" (including income from the purchase and sale of indebtedness and lease obligations) to be income from a separate business other than an active business. See the editorial notes accompanying the definition of "indebtedness" in s. 95(2.5) and the definition of "lease obligation" in s. 95(1). The application of s. 95(2)(*a.3*) gives rise to the same result as that which occurs where s. 95(2)(*a.1*) applies. See the editorial notes accompanying s. 95(2)(*a.1*).

Related Sections: S. 95(1), "active business", "foreign accrual property income", "foreign affiliate", "income from an active business", "lease obligation"; s. 95(2)(*k*) Fresh start rules; s. 95(2)(*u*) Partnership look through rule; s. 95(2.4), (2.41) Application rules; s. 95(2.5) Definitions for paragraph (2)(a.3); s. 248(1), "business", "gross revenue", taxpayer"; s. 249(1) Definition of "taxation year"; s. 251 Arm's length; s. 253 Extended meaning of "carrying on business".

Regulations: 5907(1), "net earnings", "taxable earnings"; 7900 Meaning of "prescribed financial institution".

► 95(2)(a.4) ◄

(a.4) [Determination of FAPI — Income from indebtedness and lease obligations in respect of partnership business] — in computing the income from a business other than an active business for a taxation year of a foreign affiliate of a taxpayer there shall be included (to the extent not included under paragraph (*a.3*) in such income of the affiliate for the year) that proportion of the income of the affiliate for the year derived directly or indirectly from indebtedness and lease obligations (which, for the purposes of this paragraph, includes the income of the affiliate for the year from the purchase and sale of indebtedness and lease obligations on its own account) in respect of a business carried on outside Canada by a partnership (any portion of the income or loss of which for fiscal periods of the partnership that end in the year is included or would, if the partnership had an income or loss for such fiscal periods, be included directly or indirectly in computing the income or loss of the taxpayer or a person resident in Canada with whom the taxpayer does not deal at arm's length) that

(i) the total of all amounts each of which is the income or loss of the partnership for fiscal periods of the partnership that end in the year that are included directly or indirectly in computing the income or loss of the taxpayer or a person resident in Canada with whom the taxpayer does not deal at arm's length

is of

(ii) the total of all amounts each of which is the income or loss of the partnership for fiscal periods of the partnership that end in the year

unless more than 90% of the gross revenue of the affiliate derived directly or indirectly from indebtedness and lease obligations was derived directly or indirectly from indebtedness and lease obligations of non-resident persons with whom the affiliate deals at arm's length (other than indebtedness and lease obligations of a partnership described in this paragraph) and where this paragraph applies to include a proportion of the income of the affiliate for the year in the income of the affiliate from a business other than an active business

(iii) those activities carried out to earn such income of the affiliate for the year shall be deemed to be a separate business, other than an active business, carried on by the affiliate, and

(iv) any income of the affiliate that pertains to or is incident to that business shall be deemed to be income from a business other than an active business

and for the purpose of this paragraph, where the income or loss of a partnership for a fiscal period that ends in the year is nil, the proportion of the income of the affiliate that is to be included in the income of the affiliate for the year from a business other than an active business shall be determined as if the partnership had income of $1,000,000 for that fiscal period;

History: S. 95(2), the application of paragraphs (*a*) to (*a.4*) and (*k*) to (*m*) were amended by S.C. 1998, c. 19, s. 305(1), deemed to have come into force on June 22, 1995. That application reads as follows:

Sec. 305(1), Chap. 19, 1998

(8) Subsections 46(1) to 46(6) [of 1995, c. 21] apply to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, subsections (1) to (6) apply to taxation years of the foreign affiliate that end after 1994, unless

(*a*) the foreign affiliate had requested the change in writing before February 22, 1994 from the income taxation authority of the country in which the foreign affiliate was resident and subject to income taxation; or

(*b*) the foreign affiliate's first taxation year that began after 1994 began at a time in 1995 that is earlier than the time at which that taxation year would have begun if the change had not occurred.

S. 95(2)(*a.4*) was added by S.C. 1995, c. 21, s. 46(4), applicable to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, paragraph 95(2)(*a.4*) applies to taxation years of such foreign affiliate of the taxpayer that end after 1994, unless

(*a*) such foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation; or

(*b*) the first taxation year of such foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time that that taxation year would have begun if there had not been that change in the taxation year of such foreign affiliate.

Editorial Note: Paragraph 95(2)(*a.4*) is an income recharacterization rule that applies for the purposes of the foreign affiliate rules in Subdivision i and the supporting rules in Part LIX of the Regulations.

Paragraph 95(2)(*a.4*) deems certain income earned by a foreign affiliate of a Canadian-resident taxpayer derived from "indebtedness" and "lease obligations" (including income from the purchase and sale of indebtedness and lease obligations) in respect of a business carried on outside Canada by a partnership to be income from a separate business other than an active business. See the editorial notes accompanying the definition of "indebtedness" in s. 95(2.5) and the definition of "lease obligation" in s. 95(1). The application of s. 95(2)(*a.4*) gives rise to the same result as that which occurs where s. 95(2)(*a.1*) applies. See the editorial notes accompanying s. 95(2)(*a.1*).

Related Sections: S. 95(1), "active business", "foreign accrual property income", "foreign affiliate", "income from an active business", "lease obligation"; s. 95(2)(*k*) Fresh start rules; s. 95(2)(*u*) Partnership look through rule; s. 95(2.4) Application of paragraph (2)(a.3); (2.41) Application rules; s. 95(2.5) Definitions for paragraph (2)(a.3); s. 96 Partnerships — General rules; s. 248(1), "business", "gross revenue", taxpayer"; s. 249(1) Definition of "taxation year"; s. 249.1 Definition of "fiscal period" s. 251 Arm's length; s. 253 Extended meaning of "carrying on business".

Regulations: 5907(1), "net earnings", "taxable earnings".

► 95(2)(b) ◄

(b) [Determination of FAPI — Provision of services] — the provision, by a foreign affiliate of a taxpayer, of services or of an undertaking to provide services

(i) is deemed to be a separate business, other than an active business, carried on by the affiliate, and any income from that business or that pertains to or is incident to that business is deemed to be income from a business other than an active business, to the extent that the amounts paid or payable in consideration for those services or for the undertaking to provide services

(A) are deductible, or can reasonably be considered to relate to amounts that are deductible, in computing the income from a business carried on in Canada, by

(I) any taxpayer of whom the affiliate is a foreign affiliate, or

(II) another taxpayer who does not deal at arm's length with

1. the affiliate, or

2. any taxpayer of whom the affiliate is a foreign affiliate, or

(B) are deductible, or can reasonably be considered to relate to an amount that is deductible, in computing the foreign accrual property income of a foreign affiliate of

(I) any taxpayer of whom the affiliate is a foreign affiliate, or

(II) another taxpayer who does not deal at arm's length with

1. the affiliate, or

2. any taxpayer of whom the affiliate is a foreign affiliate, and

(ii) is deemed to be a separate business, other than an active business, carried on by the affiliate, and any income from that business or that pertains to or is incident to that business is deemed to be income from a business other than an active business, to the extent that the services are, or are to be, performed by

(A) any taxpayer of whom the affiliate is a foreign affiliate,

(B) another taxpayer who does not deal at arm's length with

(I) the affiliate, or

(II) any taxpayer of whom the affiliate is a foreign affiliate,

(C) a partnership any member of which is a person described in clause (A) or (B), or

(D) a partnership in which any person or partnership described in any of clauses (A) to (C) has, directly or indirectly, a partnership interest;

History: S. 95(2)(*b*) was replaced by S.C. 2007, c. 35, s. 26(12), applicable to taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002, except that, in applying paragraph 95(2)(*b*) to taxation years, of a foreign affiliate of the taxpayer, that begin after December 20, 2002 and before February 28, 2004, that paragraph shall be read as follows:

"(*b*) the provision, by a foreign affiliate of a taxpayer, of services or of an undertaking to provide services is deemed to be a separate business, other than an active business, carried on by the affiliate, and any income from that business or that pertains to or is incident to that business is deemed to be income from a business other than an active business, if

(i) the amount paid or payable in consideration for those services or for the undertaking to provide those services

(A) is deductible, or can reasonably be considered to relate to an amount that is deductible, in computing the income from a business carried on in Canada, by

(I) any taxpayer of whom the affiliate is a controlled foreign affiliate, or

(II) another person who is related to any taxpayer of whom the affiliate is a controlled foreign affiliate, or

(B) is deductible, or can reasonably be considered to relate to an amount that is deductible, in computing the foreign accrual property income of a controlled foreign affiliate of

(I) any taxpayer of whom the affiliate is a controlled foreign affiliate, or

(II) another person who is related to any taxpayer of whom the affiliate is a controlled foreign affiliate, or

(ii) the services are, or are to be, performed by

(A) any taxpayer of whom the affiliate is a controlled foreign affiliate and who is an individual resident in Canada, or

(B) another person who is related to any taxpayer of whom the affiliate is a controlled foreign affiliate and who is an individual resident in Canada."

S. 95(2)(*b*) formerly read:

"(*b*) where a controlled foreign affiliate of a taxpayer provides services or an undertaking to provide services and

(i) the amount paid or payable in consideration therefor

(A) is deductible in computing the income from a business carried on in Canada by any person in relation to whom the affiliate is a controlled foreign affiliate or by a person related to that person, or

(B) was paid or payable by a person other than the taxpayer and can reasonably be considered to relate to an amount that was deductible by the taxpayer or a person related to the taxpayer in computing the income of that taxpayer or person from a business carried on in Canada, or

(ii) the services are performed or are to be performed by any person referred to in subparagraph (i) who is an individual resident in Canada,

the provision of those services or the undertaking to provide those services shall be deemed to be a separate business, other than an active business, carried on by the affiliate, and any income from that business or that pertains to or is incident to that business shall be deemed to be income from a business other than an active business;"

S. 95(2)(*b*) was amended by S.C. 1994, c. 7, Sched. II, s. 71(6), applicable to taxation years beginning after July 13, 1990. S. 95(2)(*b*) formerly read:

"(*b*) the income of a controlled foreign affiliate of a taxpayer from services or an undertaking to provide services shall be deemed to be income from a business other than an active business if

(i) the amount paid or payable in consideration therefor

(A) is deductible in computing the income from a business carried on in Canada by any person in relation to which the affiliate is a controlled foreign affiliate or by a person related to that person, or

(B) was paid or payable by a person other than the taxpayer and may reasonably be considered to relate to an amount that was deductible by the taxpayer or a person related to the taxpayer in computing the income of that taxpayer or person from a business carried on in Canada, or

(ii) the services are performed or are to be performed by any person referred to in subparagraph (i) who is an individual resident in Canada;"

Editorial Note: Paragraph 95(2)(*b*) is an income recharacterization rule that applies for the purposes of the foreign affiliate rules in Subdivision i and the supporting rules in Part LIX of the Regulations.

Paragraph 95(2)(*b*) deems certain income earned by a foreign affiliate of a Canadian-resident taxpayer from the provision of services to be income from a business other than an active business. For this purpose, "services" is defined s. 95(3). See the editorial notes accompanying the definition of "services" in s. 95(3). The application of s. 95(2)(*b*) gives rise to the same result as that which occurs where s. 95(2)(*a.1*) applies. See the editorial notes accompanying s. 95(2)(*a.1*).

Paragraph 95(2)(*b*) was amended by s. 26(12) of the *Budget and Economic Statement Implementation Act, 2007* (Bill C-28; S.C. 2007, c. 35). Reference should be made to s. 26(36) of S.C. 2007, c. 35 which section provides for the application of an earlier version of s. 95(2)(*b*) for taxation years that begin after December 20, 2002 and before February 28, 2004.

Related Sections: S. 95(1), "active business", "foreign accrual property income", "foreign affiliate", "income from an active business", "lease obligation"; s. 95(2)(*u*) Partnership look through rule; s. 95(3) Definition of "services"; s. 96 Partnerships — General rules; s. 248(1), "business", taxpayer"; s. 249(1) Definition of "taxation year" s. 249.1 Definition of "fiscal period" s. 251 Arm's length; s. 253 Extended meaning of "carrying on business".
Proposed Related Sections: S. 95(2)(*k*) to (*k.6*) Fresh start rules.
Regulations: 5907(1), "net earnings", "taxable earnings".

► 95(2)(c) ◄

(c) [Determination of FAPI — Transfer of shares] — where a foreign affiliate of a taxpayer (in this paragraph referred to as the "disposing affiliate") has disposed of capital property that was shares of the capital stock of another foreign affiliate of the taxpayer (in this paragraph referred to as the "shares disposed of") to any corporation that was, immediately following the disposition, a foreign affiliate of the taxpayer (in this paragraph referred to as the "acquiring affiliate") for consideration including shares of the capital stock of the acquiring affiliate,

(i) the cost to the disposing affiliate of any property (other than shares of the capital stock of the acquiring affiliate) receivable by the disposing affiliate as consideration for the disposition shall be deemed to be the fair market value of the property at the time of the disposition,

(ii) the cost to the disposing affiliate of any shares of any class of the capital stock of the acquiring affiliate receivable by the disposing affiliate as consideration for the disposition shall be deemed to be that proportion of the amount, if any, by which the total of the relevant cost bases to it, immediately before the disposition, of the shares disposed of exceeds the fair market value at that time of the consideration receivable for the disposition (other than shares of the capital stock of the acquiring affiliate) that

(A) the fair market value, immediately after the disposition, of those shares of the acquiring affiliate of that class

is of

(B) the fair market value, immediately after the disposition, of all shares of the capital stock of the acquiring affiliate receivable by the disposing affiliate as consideration for the disposition,

(iii) the disposing affiliate's proceeds of disposition of the shares shall be deemed to be an amount equal to the cost to it of all shares and other property receivable by it from the acquiring affiliate as consideration for the disposition, and

(iv) the cost to the acquiring affiliate of the shares acquired from the disposing affiliate shall be deemed to be an amount equal to the disposing affiliate's proceeds of disposition referred to in subparagraph (iii);

Editorial Note: Paragraph 95(2)(*c*) is a foreign affiliate reorganization rule that is the foreign affiliate equivalent of the domestic share for share exchange rollover rule in s. 85.1(3).

Paragraph 95(2)(*c*) applies where a foreign affiliate of a Canadian-resident taxpayer (FA1) transfers capital property that is a share of another foreign affiliate of the taxpayer (FA2) to any corporation that is, immediately after the disposition, a foreign affiliate of the taxpayer (FA3) for consideration including shares of FA3.

Similar to its domestic counterpart in s. 85.1(3), paragraph 95(2)(*c*) will permit FA1 to transfer the FA2 share to FA3 in a tax-deferred manner provided that the fair market value of the property other than shares received by FA1 in consideration for the transfer does not exceed the adjusted cost base to FA1 of the share of FA2.

Related Sections: S. 53(1)(*c*) Adjustments to cost base — Contributions of capital; s. 93(1.1) No election necessary re disposition of excluded property; s. 95(1), "foreign accrual property income"; "foreign affiliate", s. 95(2)(*u*) Partnership look through rule; s. 248(1), "business", "taxpayer"; s. 249(1) Definition of "taxation year"; s. 251 Arm's length; s. 253 Extended meaning of "carrying on business"

Proposed Related Sections: S. 95(2)(*c.1*)(iv) S. 95(2)(*c.2*) does not apply where s. 95(2)(*c*) does; s. 95(2)(*f.6*) Internal disposition of excluded property.

Regulations: 5907(1), "net earnings", "net loss", "taxable earnings", "taxable loss"; s. 5907(5) Capital gain and loss computation rule.

► 95(2)(d) ◄

(d) [Determination of FAPI — Foreign merger] — where there has been a foreign merger in which the shares owned by a foreign affiliate of a taxpayer of the capital stock of a corporation that was a predecessor foreign corporation immediately before the merger were exchanged for or became shares of the capital stock of the new foreign corporation or the foreign parent corporation, subsection 87(4) applies to the foreign affiliate as if the references in that subsection to

(i) "amalgamation" were read as "foreign merger",

(ii) "predecessor corporation" were read as "predecessor foreign corporation",

(iii) "new corporation" were read as "new foreign corporation or the foreign parent corporation", and

(iv) "adjusted cost base" were read as "relevant cost base";

Editorial Note: See the Pending Amendment after s. 95(2)(*e.1*).

History: S. 95(2)(*d*) was amended by S.C. 1999, c. 22, s. 25(1), applicable to a taxpayer in respect of a merger or combination of foreign corporations

(*a*) that occurs after February 24, 1998, or

(*b*) that occurred

(i) before February 25, 1998 and in a taxation year of the taxpayer for which the taxpayer's normal reassessment period, as defined in subsection 152(3.1) of the Act, has not ended before 1999, or

(ii) after 1994 and before February 25, 1998 and in a taxation year of the taxpayer in which the taxpayer was exempt from tax under section 149 of the Act,

unless the taxpayer elects by notifying the Minister of National Revenue in writing, before the end of the sixth month that ends after the month in which this Act is assented to [Royal Assent June 17, 1999], that subsections (1) and (2) not apply to the taxpayer in respect of the merger or combination. S. 95(2)(*d*) formerly read:

"(*d*) where there has been a foreign merger in which the shares owned by a foreign affiliate of a taxpayer of the capital stock of a corporation that was a predecessor foreign corporation immediately before the merger were exchanged for or became shares of the capital stock of the new foreign corporation, subsection 87(4) applies to the foreign affiliate as if the references in that subsection to

(i) 'amalgamation' were read as 'foreign merger',

(ii) 'predecessor corporation' were read as 'predecessor foreign corporation',

(iii) 'new corporation' were read as 'new foreign corporation',

(iv) 'adjusted cost base' were read as 'relevant cost base', and

(v) 'May 6, 1974' were read as 'November 12, 1981';"

► 95(2)(d.1) ◄

(d.1) [Determination of FAPI — Foreign merger — surplus entitlement percentage of 90% or more] — where there has been a foreign merger of two or more predecessor foreign corporations, in respect of each of which a taxpayer's surplus entitlement percentage was not less than 90% immediately before the merger, to form a new foreign corporation in respect of which the taxpayer's surplus entitlement percentage immediately after the merger was not less than 90%, other than a foreign merger where, under the income tax law of the country in which the predecessor foreign corporations were resident immediately before the merger, a gain or loss was recognized in respect of any capital property of a predecessor foreign corporation that became capital

property of the new foreign corporation in the course of the merger,

(i) each capital property of the new foreign corporation that was a capital property of a predecessor foreign corporation immediately before the merger shall be deemed to have been disposed of by the predecessor foreign corporation immediately before the merger for proceeds of disposition equal to the cost amount of the property to the predecessor foreign corporation at that time, and

(ii) for the purposes of this subsection and the definition "foreign accrual property income" in subsection (1), the new foreign corporation shall, with respect to any disposition by it of any capital property to which subparagraph (i) applied, be deemed to be the same corporation as, and a continuation of, the predecessor foreign corporation that owned the property immediately before the merger,

but for greater certainty nothing in this paragraph shall affect the determination of whether any property of a predecessor foreign corporation is disposed of on a foreign merger other than one to which this paragraph applies;

Editorial Note: See the Pending Amendment after s. 95(2)(*e.1*).

Department of Finance Comfort Letter [Modifications to Proposed Paragraph 95(2)(d.1)]

June 9, 2006

Dear XXXX

SUBJECT: Proposed Paragraph 95(2)(*d*.1) of the *Income Tax Act*

I am writing in response to your letter concerning proposed paragraph 95(2)(*d*.1) of the *Income Tax Act* (the "Act") as contained in the foreign affiliate proposals announced on February 27, 2004. Proposed paragraph 95(2)(*d*.1) would be applicable to foreign mergers (within the meaning of subsection 87(8.1)) of predecessor foreign corporations that occur after December 20, 2004. You requested confirmation of certain possible modifications in respect of that proposed paragraph that we have under consideration.

Although the technical details of our intended recommendations for modifications to the foreign affiliate proposals are still being finalized, we can confirm, in general terms, that our recommended modifications in respect of proposed paragraph 95(2)(*d*.1) would include the following modifications.

First, the 90% surplus entitlement percentage requirement and the foreign tax law non-recognition requirement would no longer be preconditions to the application of proposed paragraph 95(2)(*d*.1). However, as the paragraph is intended as a rule in the foreign affiliates context, it would not apply unless

- a "specified vendor" (as defined in proposed subsection 95(3.2)) in respect of the taxpayer resident in Canada was, immediately before the foreign merger, a predecessor foreign corporation or a shareholder of a predecessor foreign corporation, and
- the foreign corporation formed on the merger was, immediately after the merger, a "specified purchaser" (as defined in proposed subsection 95(3.2)) in respect of the taxpayer.

Second, proposed paragraph 95(2)(*d*.1) would not apply unless the shares of the capital stock of each predecessor foreign corporation that, in the course of the foreign merger, are exchanged for or become shares of the capital stock of the new foreign corporation or the foreign parent corporation have a total fair market value equal to at least 90% of the total fair market value of all shares of the capital stock of the predecessor foreign corporation (other than shares owned by any predecessor foreign corporation that, in the course of the merger, are not exchanged for or become shares of the capital stock of the new foreign corporation or the foreign parent corporation) that are issued and outstanding shares of the capital stock of the predecessor foreign corporation immediately before the merger.

Third, proposed paragraph 95(2)(*d*.1) would provide that, if a predecessor foreign corporation is a specified vendor in respect of the taxpayer resident in Canada and the new foreign corporation is a specified purchaser in respect of the taxpayer, each property of the new foreign corporation that was, immediately before the foreign merger, a property of the predecessor foreign corporation would be deemed to have been disposed by the predecessor foreign affiliate for proceeds of disposition and acquired by the new foreign corporation at a cost equal to

- the predecessor foreign corporation's "relevant cost base" (as described below) of the property, where the property is an excluded property of the predecessor foreign corporation,
- the predecessor foreign corporation's "relevant cost amount" (as described below), where the property is not an excluded property of the predecessor foreign corporation and the predecessor foreign corporation's relevant cost amount of the property is greater than the fair market value of the property, and
- the predecessor foreign corporation's relevant cost base of the property, in any other case.

Fourth, proposed paragraph 95(2)(*d*.1) would provide that, if a predecessor foreign corporation is not a specified vendor in respect of the taxpayer resident in Canada and, immediately after the foreign merger, the new foreign corporation is a specified purchaser in respect of the taxpayer, each property of the new foreign corporation that, immediately before the merger, was a property of the predecessor foreign corporation would be deemed to have been acquired by the new foreign corporation at a cost equal to the fair market value of the property.

Fifth, proposed paragraph 95(2)(*d*.1) would be modified so that subsection 87(4), read in the manner provided by that paragraph, would apply to any specified vendor in respect of the taxpayer resident in Canada where the specified vendor holds shares of the capital stock of the predecessor foreign corporation immediately before the foreign merger. That subparagraph would also be modified so that, in applying subsection 87(4), the references in that subsection to "adjusted cost base" would be read as references to the specified vendor's relevant cost amount (rather than relevant cost base) of those shares.

Sixth, proposed paragraph 95(2)(*d*.1) would provide that any income or profits taxes paid by or refunded to a predecessor foreign corporation that is a specified vendor in respect of the taxpayer resident in Canada in respect of income, gains or losses computed in accordance with foreign tax laws that arise from the dispositions of property in the course of the foreign merger are not income or profit taxes paid by or refunded to the predecessor foreign corporation. An exception from this rule would be provided to the extent that those taxes paid by or refunded to the predecessor foreign corporation relate to income, gains or losses included in determining the amounts prescribed to be the predecessor foreign corporation's exempt or taxable earnings in respect of the taxpayer.

Finally, the rules in section 95 of the Act would be modified so that, in applying paragraph 95(2)(*d*.1),

- the predecessor foreign corporation's "relevant cost amount" of the distributed property in respect of the taxpayer resident in Canada would be essentially the amount that would generally result in no gain or loss to the predecessor foreign corporation in respect of the taxpayer in respect of the distribution, and
- the predecessor foreign corporation's "relevant cost base" of the distributed property in respect of the taxpayer would be essentially the greater of
  - the predecessor foreign corporation's relevant cost amount of the distributed property in respect of the taxpayer, and
  - where the predecessor foreign corporation is a controlled foreign affiliate of the taxpayer, the amount elected by the taxpayer (not exceeding the fair market value of the distributed property).

We propose to recommend that the above-mentioned modifications in respect of proposed paragraph 95(2)(*d*.1) be effective

for foreign mergers that occur after December 20, 2002. A taxpayer resident in Canada could, by so electing in respect of all foreign mergers of all its foreign affiliates, opt not to have the first modification described above apply to foreign mergers that occur after December 20, 2002 and during a transition period.

Thank you for writing.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 95(2)(*d*.1), that portion preceding subparagraph (i), was amended by S.C. 1994, c. 7, Sched. II, s. 71(7), applicable to foreign mergers occurring after 1989. That portion formerly read:

"(*d*.1) where there has been a foreign merger of two or more predecessor foreign corporations in respect of each of which a taxpayer's surplus entitlement percentage was not less than 90% immediately before the merger to form a new foreign corporation in respect of which the taxpayer's surplus entitlement percentage immediately after the merger was not less than 90% and, under the income tax law of the country in which the predecessor foreign corporations were resident immediately before the merger, no gain or loss was recognized in respect of any capital property of a predecessor foreign corporation that became capital property of the new foreign corporation in the course of the merger, the following rules apply:"

► 95(2)(e) ◄

(e) [Determination of FAPI — Dissolution of foreign affiliate] — except as otherwise provided in paragraph (*e*.1), where on the dissolution of a foreign affiliate of a taxpayer (in this paragraph referred to as the "disposing affiliate") one or more shares of the capital stock of another foreign affiliate of the taxpayer have been disposed of to a shareholder that is another foreign affiliate of the taxpayer,

(i) the disposing affiliate's proceeds of disposition of each such share and the cost thereof to the shareholder shall be deemed to be an amount equal to the relevant cost base to the disposing affiliate of the share immediately before the dissolution, and

(ii) the shareholder's proceeds of disposition of the shares of the disposing affiliate shall be deemed to be the amount, if any, by which the total of

(A) the cost to the shareholder of the shares of the other foreign affiliate, as determined in subparagraph (i), and

(B) the fair market value of any property (other than the shares referred to in clause (A)) disposed of by the disposing affiliate to the shareholder on the dissolution,

exceeds

(C) the total of all amounts each of which is the amount of any debt owing by the disposing affiliate, or of any other obligation of the disposing affiliate to pay any amount, that was outstanding immediately before the dissolution and that was assumed or cancelled by the shareholder on the dissolution;

Editorial Note: See the Pending Amendment after s. 95(2)(*e*.1).

► 95(2)(e.1) ◄

(e.1) [Determination of FAPI — Dissolution of foreign affiliate — surplus entitlement percentage of 90% or more] — where there has been a liquidation and a dissolution of a foreign affiliate (in this paragraph referred to as the "disposing affiliate") of a taxpayer in respect of which, immediately before the liquidation, the taxpayer's surplus entitlement percentage was not less than 90%, other than a liquidation and a dissolution where, under the income tax law of the country in which the disposing affiliate was resident immediately before the liquidation, a gain or loss was recognized by the disposing affiliate in respect of any capital property distributed by it in the course of the liquidation to another foreign affiliate of the taxpayer resident in that country, the following rules apply:

(i) each capital property of the disposing affiliate that was so distributed to another foreign affiliate of the taxpayer shall be deemed to have been disposed of by the disposing affiliate for proceeds of disposition equal to the cost amount of the property to the disposing affiliate immediately before the distribution,

(ii) for the purposes of this subsection and the definition "foreign accrual property income" in subsection (1), the other affiliate shall, with respect to any disposition by it of capital property to which subparagraph (i) applied, be deemed to be the same corporation as, and a continuation of, the disposing affiliate, and

(iii) the other affiliate's proceeds of disposition of the shares of the capital stock of the disposing affiliate disposed of in the course of the liquidation shall be deemed to be the adjusted cost base of those shares to the other affiliate immediately before the disposition;

History: S. 95(2)(*e*.1), that portion preceding subparagraph (i), was amended by S.C. 1994, c. 7, Sched. II, s. 71(8), applicable to liquidations beginning after 1989. That portion formerly read:

"(*e*.1) where there has been a liquidation and a dissolution of a foreign affiliate (in this paragraph referred to as the 'disposing affiliate') of a taxpayer in respect of which, immediately before the liquidation, the taxpayer's surplus entitlement percentage was not less than 90% and, under the income tax law of the country in which the disposing affiliate was resident immediately before the liquidation, no gain or loss was recognized by the disposing affiliate in respect of any capital property distributed by it in the course of the liquidation to another foreign affiliate of the taxpayer resident in that country, the following rules apply:"

Federal Budget Extract

2004 Foreign Affiliate Proposals

[Reproduced below is an excerpt from the January 27, 2009 Federal Budget, which notes that the government plans to consider the recommendations in the report of the Advisory Panel on Canada's System of International Taxation (which can be found at http://www.apcsit-gcrcfi.ca/07/index-eng.html) in deciding how to proceed with the remaining foreign affiliate proposals released on February 27, 2004 that have not yet been enacted.]

The Government will consider the Panel's recommendations relating to foreign affiliates before proceeding with the remaining foreign affiliate measures announced in February 2004, as modified to take into account consultations and deliberations since their release.

Pending Amendment

Draft Legislation — Foreign Affiliates — February 27, 2004

Paragraphs 95(2)(*d*) to (*e*.1) of the Act are replaced by the following:

(*c*.1) paragraph (*c*.2) applies to a specified vendor, in respect of a particular corporation resident in Canada referred to in the definition "specified vendor" in subsec-

tion (3.2), (which specified vendor is referred to in this paragraph and paragraph (*c.2*) as the "vendor") if

(i) the vendor disposes at any time of a share of the capital stock of a foreign affiliate, of the particular corporation, (which share is referred to in this paragraph, paragraphs (*c.2*) to (*c.4*) and subsection (3.3) as the "specified share", which time is referred to in this paragraph and paragraphs (*c.2*) to (*c.4*) as the "original disposition time" of the specified share and which foreign affiliate is referred to in paragraphs (*c.4*) and (*c.6*) and in subsection (3.3) as the "disposed foreign affiliate") to a person or partnership (referred to in this paragraph as the "purchaser") that is, immediately after that time, a specified purchaser in respect of the particular corporation,

(ii) immediately before the original disposition time, the specified share is excluded property of the vendor (or would be excluded property of the vendor if the vendor were, immediately before the original disposition time, a foreign affiliate of the particular corporation),

(iii) the vendor would, were this Act read without reference to paragraph (*c.2*), have a taxable capital gain from the disposition of the specified share, and

(iv) none of paragraphs (2)(*c*), (*d*) to (*e.1*) and (*e.3*) to (*e.5*) and 88(3)(*a*) applies to the vendor in respect of the disposition of the share;

(*c.2*) if this paragraph applies to a vendor, the following rules apply:

(i) where the vendor is not a partnership, the vendor's proceeds of disposition (determined without reference to subsection 93(1)) from the disposition of the specified share are deemed to be an amount that is equal to

(A) if clause (B) does not apply to the vendor in respect of the disposition, the total of the vendor's adjusted cost base of the specified share and the amount, if any, that would be designated under subsection 93(1) because of subsection 93(1.1) in respect of the specified share if the specified share was disposed of for consideration equal to its fair market value at the original disposition time of the specified share, or

(B) if the vendor is a controlled foreign affiliate of the particular corporation resident in Canada at the end of the vendor's taxation year that includes the original disposition time of the specified share and the particular corporation so elects in respect of the disposition in prescribed manner and within the prescribed time, the greater of

(I) the amount determined by clause (A) in respect of the specified share, and

(II) the amount that is the lesser of the fair market value of the consideration received by the vendor in respect of the disposition and the amount that the particular corporation designates in the election,

(ii) where the vendor is a partnership of which a particular foreign affiliate of the particular corporation referred to in the definition "specified vendor" in subsection (3.2) is a member, for the purpose of computing the particular foreign affiliate's taxable capital gain from the disposition by the partnership of the specified share, the vendor's proceeds of disposition from the disposition of the specified share are deemed to be an amount that is equal to

(A) if clause (B) does not apply to the vendor in respect of the disposition, the total of the vendor's adjusted cost base of the specified share and the amount of a dividend, if any, that would be deemed by subsection 93(1.2) to have been received immediately before the original disposition time because of subsection 93(1.3) in respect of the specified share in respect of the particular foreign affiliate on the assumptions that

(I) the specified share is a share referred to in subsection 93(1.3) in respect of the particular foreign affiliate,

(II) no other share of the disposed foreign affiliate was disposed of at the original disposition time of the specified share,

(III) the particular foreign affiliate was the only member of the partnership, and

(IV) the specified share was disposed of for consideration equal to its fair market value at the original disposition time of the specified share, or

(B) if the particular foreign affiliate is a controlled foreign affiliate of the particular corporation resident in Canada at the end of particular foreign affiliate's taxation year that includes the original disposition time of the specified share and the particular corporation so elects in respect of the disposition in prescribed manner and within the prescribed time, the greater of

(I) the amount determined by clause (A) in respect of the specified share, and

(II) the amount that is the lesser of the fair market value of the consideration received by the vendor in respect of the disposition and the amount that the particular corporation designates in the election,

(iii) the purchaser's cost of the specified share is deemed to be an amount that is equal to the fair market value, at the original disposition time, of the specified share,

(iv) the vendor's cost of a property that was received as consideration for the disposition of the specified share is deemed to be an amount that is equal to the fair market value of the property at the original disposition time of the specified share, and

(v) the vendor that is a foreign affiliate of the particular corporation resident in Canada or a foreign affiliate of the particular corporation resident in Canada that is a member of a partnership that is the vendor (which vendor or foreign affiliate is referred to in this subparagraph and paragraph (*c.3*) as the "relevant foreign affiliate") is deemed to have an unadjusted suspended gain in respect of a specified share disposed of, at the original disposition time, by the vendor that is equal to twice the amount, if any, by which

(A) the amount that would, but for the application of this paragraph, have been the relevant foreign affiliate's taxable capital gain in respect of that disposition, if the vendor's proceeds of disposition in respect of that disposition were equal to the fair market value of the consideration received by the vendor in respect of that disposition,

exceeds

(B) the amount of the relevant foreign affiliate's taxable capital gain in respect of that disposition;

(*c.3*) the relevant foreign affiliate referred to in paragraph (*c.2*) is deemed to have a capital gain from the disposition of the specified share equal to the amount prescribed to be the adjusted suspended gain in respect of the specified share and to have paid to the government of a country an amount equal to the amount prescribed to be the adjusted allocable tax in respect of the adjusted suspended gain in respect of the specified share at the earlier of

(i) the first time, after the original disposition time, that a specified purchaser in respect of the particular corporation that holds, immediately before that first time, the specified share makes a triggering disposition of the specified share, and

(ii) the first time, after the original disposition time, that a specified purchaser in respect of the particular corporation (which specified purchaser is referred to in this subparagraph as the "current holder") that holds, immediately before that first time, the specified share ceases to be a specified purchaser in respect of the particular corporation otherwise than because of a specified discontinuance of the current holder;

(*c.4*) for the purpose of paragraph (*c.3*), if a specified purchaser (referred to in this paragraph as the "current

holder") in respect of a particular corporation resident in Canada holds the specified share and that share is redeemed, acquired or cancelled (otherwise than on a dividend-like redemption of that share) by the disposed foreign affiliate, the specified share is deemed to continue to exist, and the current holder is deemed to continue to hold that share, until the time that the current holder ceases to be a specified purchaser in respect of the particular corporation otherwise than because of a specified discontinuance of the current holder;

(*c*.5) for the purpose of paragraph (*c*.3), if a specified purchaser (referred to in this paragraph as a "current holder") in respect of a particular corporation resident in Canada holds a specified share in respect of the particular corporation and the specified share ceases to exist as a result of a dissolution, winding-up, cessation of existence, merger or combination described in paragraph (*a*) or (*b*) of the definition "specified discontinuance" in subsection (3.3) or subparagraph (*a*)(i) or (ii) of the definition "triggering disposition" in subsection (3.3), the specified share is deemed to continue to exist, and the current holder is deemed to continue to hold that share, until the time that the current holder ceases to be a specified purchaser in respect of the particular corporation otherwise than because of a specified discontinuance of the current holder;

(*c*.6) for the purpose of paragraph (*c*.3), where a specified share in respect of a particular corporation resident in Canada is exchanged for another share of the disposed foreign affiliate, the other share is deemed to be the specified share in respect of the corporation resident in Canada;

(*d*) if there has been a foreign merger (within the meaning of subsection 87(8.1)) of two or more predecessor foreign corporations (other than a foreign merger to which paragraph (*d*.1) applies) to form a new foreign corporation that was, immediately after the foreign merger, a foreign affiliate of a corporation resident in Canada, and a particular foreign predecessor corporation to the foreign merger was, immediately before the foreign merger, a foreign affiliate of the corporation resident in Canada, the following rules apply:

(i) each property of the new foreign corporation that was a property of the particular foreign predecessor corporation immediately before the foreign merger is deemed to have been disposed by the particular foreign predecessor corporation to the new foreign corporation for proceeds of disposition equal to

(A) where the property was excluded property of the particular foreign predecessor corporation immediately before the foreign merger, an amount that is equal to the relevant cost base, immediately before the foreign merger, of the property to the particular foreign predecessor corporation, or

(B) in any other case, an amount equal to the fair market value, immediately before the foreign merger, of the property,

(ii) the cost of the property to the new foreign corporation immediately after the foreign merger is deemed to be an amount equal to the particular foreign predecessor corporation's proceeds of disposition of the property determined by subparagraph (i),

(iii) each shareholder of the particular foreign predecessor corporation that was, immediately before the foreign merger, a specified vendor in respect of the corporation resident in Canada

(A) is deemed to have disposed, on the foreign merger, of each share of the particular foreign predecessor corporation that, immediately before the foreign merger, was held by the shareholder and was excluded property of the shareholder, for proceeds of disposition that are equal to

(I) unless a valid election is made under subclause (II), the adjusted cost base, immediately before the foreign merger, of the share, to the shareholder, and

(II) the amount that the corporation resident in Canada elects in respect of the disposition in the prescribed manner and in the prescribed time, which amount may not be less than the adjusted cost base, immediately before the foreign merger, of the share, to the shareholder and may not be greater than the fair market value, immediately before the foreign merger, of the share, and

(B) is deemed to have acquired each share of the new foreign corporation received on the foreign merger by the shareholder in exchange for a share described in clause (A) at a cost equal to the amount determined by the formula

$$A \times B/C$$

where

A is the total of all amounts each of which is the shareholder's proceeds of disposition of a share described in clause (A),

B is the fair market value, immediately after the foreign merger, of the particular share of the new foreign corporation, and

C is the fair market value, immediately after the foreign merger, of all shares of the new foreign corporation received on the foreign merger by the shareholder, and

(iv) the new foreign corporation is deemed to be the same person as, and a continuation of, the particular foreign predecessor corporation

(A) for the purposes of paragraphs (*c*.1) to (*c*.6), in respect of the disposition of a specified share received on the foreign merger by the new foreign corporation and disposed of, on the foreign merger, to the new foreign corporation by the particular foreign predecessor corporation,

(B) for the purposes of paragraphs (*f*.3) to (*f*.93), in respect of the disposition of a specified property received on the foreign merger by the new foreign corporation and disposed of, on the foreign merger, to the new foreign corporation by the particular foreign predecessor corporation, and

(C) for the purposes of paragraphs (*h*) to (*h*.5), in respect of the disposition of a specified property received on the foreign merger by the new foreign corporation and disposed of, on the foreign merger, to the new foreign corporation by the particular foreign predecessor corporation,

(v) the taxation year of the particular predecessor foreign corporation that would otherwise include the time of the foreign merger is deemed to have ended immediately before that time, and

(vi) where the fair market value of the share referred to in clause (iii)(A), immediately before the foreign merger, exceeds the fair market value of the share referred to in clause (iii)(B), immediately after the foreign merger, and it can reasonably be considered that all or any portion of the excess is a benefit that that shareholder desired to have conferred on another shareholder of the new corporation,

(A) the amount of the benefit is deemed to be income from property that is the shares of the new foreign corporation of the other shareholder on whom the benefit was conferred that was received, immediately after the foreign merger, and

(B) where the shares of the new foreign corporation held by the other shareholder on whom the benefit is conferred are excluded property to that shareholder or would be excluded property to that shareholder if that shareholder were a foreign affiliate of the corporation resident in Canada, the amount of the benefit is to be added, immediately after the foreign merger, in computing the adjusted cost base of the shares of the new corporation held at that time by that shareholder;

(*d*.1) if there has been a foreign merger (within the meaning of subsection 87(8.1)) of two or more prede-

cessor foreign corporations, in respect of each of which a taxpayer's surplus entitlement percentage was not less than 90% immediately before the merger, to form a new foreign corporation in respect of which the taxpayer's surplus entitlement percentage immediately after the merger was not less than 90% (other than a foreign merger where, under the income tax law of the country in which the predecessor foreign corporations were resident immediately before the merger, any income, gain or loss was recognized in respect of any property of a predecessor foreign corporation that became property of the new foreign corporation in the course of the merger)

(i) each property of the new foreign corporation that was a property of a predecessor foreign corporation immediately before the merger is deemed to have been disposed of by the predecessor foreign corporation immediately before the merger for proceeds of disposition equal to the cost amount of the property to the predecessor foreign corporation at that time,

(ii) the new foreign corporation is deemed to be the same corporation as, and a continuation of, the predecessor foreign corporation for the purposes of

(A) this subsection and the definition "foreign accrual property income" in subsection (1), with respect to any disposition by the new foreign corporation of property owned by the predecessor corporation immediately before the merger, and

(B) paragraphs (*c*.1) to (*c*.6), (*f*.1) to (*f*.93) and (*h*) to (*h*.5),

(iii) for greater certainty, nothing in this paragraph affects the determination of whether any property of a predecessor foreign corporation is disposed of on a foreign merger other than a foreign merger to which this paragraph applies, and

(iv) subsection 87(4) applies to each foreign affiliate of the taxpayer that, immediately before the merger, owned shares of the capital stock of a predecessor foreign corporation as if the reference in that subsection to

(A) the word "amalgamation" were a reference to the expression "foreign merger" and with any other modifications that the circumstances require,

(B) the expression "predecessor corporation" were a reference to the expression "predecessor foreign corporation" and with any other modifications that the circumstances require,

(C) the expression "new corporation" were a reference to the expression "new foreign corporation" and with any other modifications that the circumstances require, and

(D) the expression "adjusted cost base" were a reference to the expression "relevant cost base" and with any other modifications that the circumstances require;

(*e*) if, at a particular time, a shareholder (other than a person resident in Canada) of a foreign affiliate (referred to in this paragraph as the "disposed foreign affiliate") of a particular corporation resident in Canada that is a specified purchaser in respect of the particular corporation receives, in the course of a liquidation and dissolution (other than a liquidation and dissolution to which paragraph (*e*.1) applies) of the disposed foreign affiliate, a property from the disposed foreign affiliate, the following rules apply:

(i) the disposed foreign affiliate's proceeds of disposition of the property are deemed to be

(A) if the property is excluded property of the disposed foreign affiliate at the particular time, an amount that is equal to the relevant cost base, immediately before the particular time, of the property to the disposed foreign affiliate, or

(B) in any other case, an amount equal to the fair market value, immediately before the particular time, of the property,

(ii) the cost of the property to the shareholder immediately after the particular time is deemed to be an amount equal to the disposed foreign affiliate's proceeds of disposition of the property determined by subparagraph (i),

(iii) the property is deemed to have been received by the shareholder as proceeds of disposition of shares of the disposed foreign affiliate disposed of by the shareholder in the course of the liquidation and dissolution,

(iv) each particular share of the disposed foreign affiliate disposed of by the shareholder in the course of the liquidation and dissolution is deemed to have been disposed of for proceeds that are equal to the amount determined by the formula

$$(A - B) \times C/D$$

where

A is the total of all amounts each of which is the cost to the shareholder, immediately after the particular time, of a property received by the shareholder as consideration for the disposition of the shares of the disposed foreign affiliate disposed of in the course of the liquidation and dissolution,

B is the total of all amounts each of which is the amount of a debt that was owing by the disposed foreign affiliate, or any other obligation of the disposed foreign affiliate to pay an amount that was outstanding, immediately before it was assumed or cancelled, as the case may be, by the shareholder,

C is the fair market value, immediately before the commencement of the liquidation and dissolution, of the particular share, and

D is the fair market value, immediately before the commencement of the liquidation and dissolution, of all the shares of the disposed foreign affiliate disposed of by that shareholder,

(v) any gain from the disposition of the shares of the disposed foreign affiliate disposed of by the shareholder in the course of the liquidation and dissolution that, but for this subparagraph, would be a gain from the disposition of excluded property of the shareholder, is deemed to be the lesser of

(A) the amount of the gain as otherwise determined, and

(B) such amount, not exceeding the amount referred to in clause (A), as the particular corporation resident in Canada elects in prescribed manner and within the prescribed time, and

(vi) the shareholder is deemed to be the same person as, and a continuation of, the disposed foreign affiliate

(A) for the purposes of paragraphs (*c*.1) to (*c*.6), in respect of the disposition of a specified share received by the shareholder and disposed of, to the shareholder, by the disposed foreign affiliate in the course of the liquidation and dissolution,

(B) for the purposes of paragraphs (*f*.3) to (*f*.93), in respect of the disposition of a specified property received by the shareholder and disposed of, to the shareholder, by the disposed foreign affiliate in the course of the liquidation and dissolution, and

(C) for the purposes of paragraphs (*h*) to (*h*.5), in respect of the disposition of a specified property received by the shareholder and disposed of, to the shareholder, by the disposed foreign affiliate in the course of the liquidation and dissolution, and

(vii) the taxation year of the disposed foreign affiliate that would otherwise include the time that the disposed foreign affiliate is dissolved is deemed to have ended immediately before that time;

(*e*.1) if there has been a liquidation and a dissolution of a foreign affiliate (in this paragraph referred to as the "disposing affiliate") of a taxpayer in respect of which, immediately before the liquidation, the taxpayer's surplus entitlement percentage was not less than 90% (other than a liquidation and a dissolution where, under the income tax law of the country in which the disposing

affiliate was resident immediately before the liquidation, any income, gain or loss was recognized by the disposing affiliate in respect of any property distributed by it in the course of the liquidation to another foreign affiliate of the taxpayer):

(i) each property of the disposing affiliate that was so distributed to another foreign affiliate of the taxpayer is deemed to have been disposed of by the disposing affiliate for proceeds of disposition equal to the cost amount of the property to the disposing affiliate immediately before the distribution,

(ii) the other affiliate is deemed to be the same corporation as, and a continuation of, the disposing affiliate for the purposes of

(A) this subsection and the definition "foreign accrual property income" in subsection (1), with respect to any disposition by the other affiliate of property owned by the disposing affiliate immediately before the liquidation, and

(B) paragraphs (*c*.1) to (*c*.6), (*f*.1) to (*f*.93) and (*h*) to (*h*.5), and

(iii) the other affiliate's proceeds of disposition of the shares of the capital stock of the disposing affiliate disposed of in the course of the liquidation is deemed to be the adjusted cost base of those shares to the other affiliate immediately before the disposition;

(*e*.2) for the purpose of paragraph (*e*.1), a redemption, an acquisition or a cancellation of shares of a foreign affiliate of a corporation resident in Canada is deemed to be a liquidation and a dissolution of the foreign affiliate, if

(i) the surplus entitlement percentage of the corporation resident in Canada, in respect of the foreign affiliate, immediately before the redemption, acquisition or cancellation, is more than 90%, the surplus entitlement percentage of the corporation resident in Canada, in respect of the foreign affiliate is, immediately after the redemption, acquisition or cancellation, nil, and the foreign affiliate has no issued and outstanding shares immediately after the redemption, acquisition or cancellation, or

(ii) in the course of the redemption, acquisition or cancellation, property that has a fair market value equal to or greater than 90% of the fair market value, immediately before the redemption, acquisition or cancellation, of the property owned by the foreign affiliate is, because of the redemption, acquisition or cancellation, distributed to the shareholders of the foreign affiliate;

(*e*.3) if, at a particular time, a shareholder (other than a person resident in Canada), of a foreign affiliate of a particular corporation resident in Canada, that is a specified purchaser in respect of the particular corporation receives (otherwise than in the course of a liquidation and a dissolution of the foreign affiliate or a merger or combination of corporations involving the foreign affiliate) a property from the foreign affiliate as a dividend or distribution on a share of the foreign affiliate, notwithstanding subsection 52(2), the following rules apply:

(i) the foreign affiliate's proceeds of disposition of the property are deemed to be

(A) if the property is excluded property of the foreign affiliate at the particular time, an amount that is equal to the relevant cost base of the property to the foreign affiliate immediately before the particular time, or

(B) in any other case, an amount equal to the fair market value, immediately before the particular time, of the property,

(ii) the cost of the property to the shareholder immediately after the particular time is deemed to be an amount equal to the foreign affiliate's proceeds of disposition of the property determined by subparagraph (i),

(iii) the amount of that dividend or distribution, in respect of the property, is deemed to be equal to the amount of the foreign affiliate's proceeds of disposition of the property determined by subparagraph (i), and

(iv) where, but for this subparagraph, the shareholder would, because of subsection 40(3), have a gain in respect of the share because of the dividend or distribution and the share is excluded property of the shareholder (or would be excluded property of the shareholder if the shareholder were a foreign affiliate of the particular corporation), for the purpose of applying subsection 40(3), the amount prescribed by paragraph 5900(1)(*c*) of the Regulations to have been paid out of the pre-acquisition surplus of the particular corporation's foreign affiliate from which the property was received, otherwise determined, in respect of the dividend or distribution in respect of the share is deemed to be the lesser of

(A) the amount that, but for this subparagraph, would be so prescribed, and

(B) the amount, not exceeding the amount referred to in clause (A), that the particular corporation elects in prescribed manner and within the prescribed time;

(*e*.4) if, at a particular time, a shareholder (other than a person resident in Canada), of a foreign affiliate of a particular corporation resident in Canada, that is a specified purchaser in respect of the particular corporation receives (otherwise than in the course of the liquidation and dissolution of the foreign affiliate or a merger or combination of corporations that includes the foreign affiliate) a property from the foreign affiliate as consideration in respect of a dividend-like redemption of a share of the foreign affiliate by the foreign affiliate, the following rules apply:

(i) the foreign affiliate's proceeds of disposition of the property are deemed to be

(A) where the property is excluded property of the foreign affiliate at the particular time, an amount that is equal to the relevant cost base of the property to the foreign affiliate immediately before the particular time, or

(B) in any other case, an amount equal to the fair market value, immediately before the particular time, of the property,

(ii) the cost immediately after the particular time of the property to the shareholder is deemed to be an amount equal to the amount of the foreign affiliate's proceeds of disposition of the property determined by subparagraph (i),

(iii) the property is deemed to have been received by the shareholder as a dividend on the share and the amount of that dividend, in respect of the property, is deemed to be equal to the amount of the proceeds of disposition of the property determined by subparagraph (i),

(iv) if the share is excluded property of the shareholder (or would be excluded property of the shareholder if the shareholder were a foreign affiliate of the particular corporation), the shareholder is deemed to have disposed of the share for proceeds of disposition of an amount equal to the cost amount of the share to the shareholder immediately before the disposition, and

(v) where, but for this subparagraph, the shareholder would, because of subsection 40(3), have a gain in respect of the share referred to in subparagraph (iv) because of the dividend referred to in subparagraph (iii) received by the shareholder in respect of the redemption of the share, for the purposes of applying subsection 40(3), the amount prescribed by paragraph 5900(1)(*c*) of the Regulations to have been paid out of the pre-acquisition surplus of the foreign affiliate — of the corporation resident in Canada — from which the property was received, otherwise determined, in respect of the dividend referred to in subparagraph (iii) in respect of the share is deemed to be the lesser of

(A) the amount that, but for this subparagraph, would be so prescribed, and

(B) the amount, not exceeding the amount referred to in clause (A), that the corporation resident in Canada elects in prescribed manner and within the prescribed time;

(*e.5*) if, at a particular time, a shareholder (other than a person resident in Canada), of a foreign affiliate of a corporation resident in Canada, that is a specified purchaser in respect of the corporation resident in Canada receives (otherwise than in the course of a dividend-like redemption, a liquidation and dissolution of the foreign affiliate or a merger or combination of corporations that includes the foreign affiliate) a property from the foreign affiliate as consideration in respect of a redemption, acquisition or cancellation (in this paragraph referred to as the "particular redemption") of a particular share of the foreign affiliate by the foreign affiliate as part of a redemption, acquisition or cancellation (in this paragraph referred to as the "total redemption") of one or more shares (including the particular share) of the foreign affiliate held by the shareholder, the following rules apply:

(i) the foreign affiliate's proceeds of disposition of the property are deemed to be

(A) where the property is excluded property of the foreign affiliate at the particular time, an amount that is equal to the relevant cost base, immediately before the particular time, of the property to the foreign affiliate, or

(B) in any other case, an amount equal to the fair market value, immediately before the particular time, of the property,

(ii) the cost of the property to the shareholder immediately after the particular time is deemed to be an amount equal to the foreign affiliate's proceeds of disposition of the property determined by subparagraph (i),

(iii) the property is deemed to have been received by the shareholder as proceeds of disposition of shares of the foreign affiliate disposed of by the shareholder in the course of the particular redemption,

(iv) the particular share disposed of to the foreign affiliate because of the particular redemption is deemed to have been disposed of for proceeds that are equal to the amount determined by the formula

$$(A - B) \times C/D$$

where

A is the total of all amounts each of which is the cost, determined in subparagraph (ii), to the shareholder, of a property received by the shareholder as consideration for the disposition by the shareholder of a share or shares of the foreign affiliate redeemed in the course of the total redemption,

B is the total of all amounts each of which the amount of a debt that was owing by the foreign affiliate, or any other obligation of the foreign affiliate to pay an amount that was outstanding, immediately before it was assumed or cancelled, as the case may be, by the shareholder in respect of the total redemption,

C is

(A) where the particular share was held by the shareholder at the time immediately before the commencement of the total redemption, the fair market value, at that time, of the particular share, and

(B) where the particular share was acquired by the shareholder after the commencement of the total redemption, the fair market value, at the time of its acquisition, of the particular share, and

D is the total of

(A) the fair market value, immediately before the commencement of the total redemption, of all shares of the foreign affiliate held by the shareholder before the commencement of the total redemption and redeemed as part of the total redemption while held by the shareholder, and

(B) the total of all amounts each of which is the fair market value at the time of acquisition of a share of the foreign affiliate acquired after the commencement of the total redemption by the shareholder and redeemed as part of the total redemption while held by the shareholder, and

(v) any gain from the disposition of a particular share of the foreign affiliate disposed of by the shareholder in the course of the total redemption that, but for this subparagraph, would be a gain from the disposition of excluded property of the shareholder, is deemed to be the lesser of

(A) the amount of the gain as otherwise determined, and

(B) the amount, not exceeding the amount referred to in clause (A), that the corporation resident in Canada elects in prescribed manner and within the prescribed time;

(*e.6*) for the purposes of paragraphs (*e*) and (*e.3*) to (*e.5*), if the shareholder is a partnership, and a foreign affiliate of a corporation resident in Canada is, at any time, a member of the partnership, for the purposes of determining the foreign affiliate's income from the partnership

(i) shares of a foreign affiliate of the corporation resident in Canada that are property of the partnership, or are deemed under this paragraph to be property of the partnership, are deemed to be owned at that time by each member of the partnership in a proportion equal to the proportion of the shares that

(A) the fair market value, at that time, of the member's partnership interest in the partnership

is of

(B) the fair market value, at that time, of all partnership interests in the partnership,

(ii) each amount determined under any of paragraphs (*e*) and (*e.3*) to (*e.5*) in respect of the partnership in respect of the shares of the foreign affiliate described in subparagraph (i) is deemed to be the amount determined under that paragraph in respect of the foreign affiliate in respect of those shares, and

(iii) the income, gain or loss derived by the partnership, while the foreign affiliate is a member of the partnership, in respect of the shares deemed by subparagraph (i) to be owned by the foreign affiliate

(A) is to be determined as if the partnership were the foreign affiliate, and

(B) is deemed to be an income or a loss or a taxable capital gain or an allowable capital loss, as the case may be, of the foreign affiliate from the partnership and not to be an income or a loss or a taxable capital gain or an allowable capital loss of any other member of the partnership;

Applicable: Paragraphs 95(2)(*c.1*) to (*c.6*) apply to dispositions that occur after December 20, 2002 (other than dispositions required to be made under an agreement in writing made by a vendor on or before December 20, 2002), except that if, in respect of all of the foreign affiliates of a taxpayer, the taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act is assented

(*a*) those paragraphs do not apply, in respect of the taxpayer, to dispositions that occur after December 20, 2002 and on or before February 27, 2004; and

(*b*) with respect to the dispositions referred to in paragraph (*a*), the Act shall, in respect of the taxpayer, be read as though it contained subsections 93(1.4) to (1.6) that read as follows:

"(1.4) *Disposition of foreign affiliate shares* — If a specified vendor, in respect of a particular corporation resident in Canada, disposes of a share of the capital stock of a foreign affiliate of the particular corporation to a specified purchaser that would otherwise result in a capital gain to the specified vendor,

(*a*) the share is deemed not to be excluded property of the vendor unless any of subsection 88(3) or paragraphs

95(2)(*c*), (*d*) and (*e*) applied to the disposition of the share; and

(*b*) the cost amount of the share to the purchaser is deemed to be equal to the proceeds of disposition of the share to the vendor.

(1.5) *Specified vendors — foreign affiliates* — A specified vendor referred to in subsection (1.4) is

(*a*) a foreign affiliate of the particular corporation; or

(*b*) a partnership of which a foreign affiliate of the particular corporation is a member.

(1.6) *Specified purchasers — foreign affiliates* — A specified purchaser referred to in subsection (1.4) is

(*a*) the particular corporation;

(*b*) a corporation resident in Canada with which the particular corporation does not deal at arm's length;

(*c*) a foreign affiliate of either of those corporations; or

(*d*) a partnership any member of which is described in any of paragraphs (*a*) to (*c*)."

Notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take the election into account.

Paragraph 95(2)(*d*) applies to foreign mergers that occur after February 27, 2004.

Paragraph 95(2)(*d*.1) applies to foreign mergers that occur after December 20, 2002.

Paragraph 95(2)(*e*) applies to liquidations that begin after February 27, 2004.

Paragraph 95(2)(*e*.1) applies to liquidations that begin after December 20, 2002.

Paragraph 95(2)(*e*.2) applies to redemptions, acquisitions and cancellations that occur after February 27, 2004 other than a redemption, an acquisition or a cancellation of shares of a holder of shares that are required to be made under an agreement in writing made by the holder on or before February 27, 2004.

Paragraphs 95(2)(*e*.3) to (*e*.6) apply to a receipt, after February 27, 2004, from the foreign affiliate of property as a dividend or distribution on a share of the foreign affiliate, or as consideration in respect of a redemption, purchase or acquisition of a share of the foreign affiliate, other than property received because of a legal obligation, of the foreign affiliate, that arose on or before February 27, 2004 to pay the dividend or make the distribution, redemption, purchase or acquisition.

Explanatory Note: New paragraphs 95(2)(*c*.1) to (*c*.6) of the Act put into place a regime that, in general terms, is intended to suspend the recognition of the capital gain that would have arisen upon an internal disposition by a foreign affiliate of a corporation resident in Canada (or a partnership of which the foreign affiliate is a member) of a share of another foreign affiliate of a corporation resident in Canada that is excluded property to the vendor (or would be excluded property to the vendor if the vendor were a foreign affiliate of the taxpayer) if such a disposition would otherwise result in a gain. Generally, this "suspended gain" is recognized when there is an external disposition of the share. See the definitions "specified vendor" and "specified purchaser" in proposed new subsection 95(3.2) to determine when a disposition of a share of the capital stock of a foreign affiliate of a corporation resident in Canada is an internal disposition. These provisions replace proposed subsections 93(1.4) to (1.6) of the Act that were found in the December 20, 2002 proposals.

New paragraphs 95(2)(*c*.1) to (*c*.6) will apply to dispositions that occur after December 20, 2002. However, those paragraphs will not apply to a disposition of a share of the capital stock of a foreign affiliate of a corporation resident in Canada by a vendor

- if the disposition of the share is required to be made under an agreement in writing made by the vendor on or before December 20, 2002, or
- if the disposition of the share occurs on or before February 27, 2004 and a valid election in respect of the vendor is made under subsection 133(40) of the enacting legislation.

Where such an election is made, the special rules set out under subsection 133(40) of the enacting legislation will apply. Generally, a modified version of the proposed subsections 93(1.4) to (1.6) that were part of the December 20, 2002 proposals will apply. For details about the election and about those special rules, see the draft enacting legislation that this commentary accompanies. Note also that this current set of proposals provides that, notwithstanding subsections 152(4) to (5) of the Act, the Minister of National Revenue can make any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year that is necessary to take such an election into account.

Paragraph 95(2)(c.1)

New paragraph 95(2)(*c*.1) of the Act sets out the circumstances under which new paragraph 95(2)(*c*.2) will apply. Generally, new paragraph 95(2)(*c*.2) applies to a specified vendor (defined in new subsection 95(3.2)), in respect of a corporation resident in Canada, if:

- the specified vendor disposes of, at any time, a share of the capital stock of a foreign affiliate of the corporation resident in Canada, (referred to here as the "specified share", and which time is referred to here as the "original disposition time" of the specified share and which foreign affiliate is referred to here as the "disposed foreign affiliate") to a person or partnership that is, immediately after that time, a specified purchaser (defined in new subsection 95(3.2)) in respect of the corporation resident in Canada);
- immediately before the original disposition time, the specified share is excluded property of the specified vendor (or would be excluded property of the specified vendor if the specified vendor were, immediately before the original disposition time, a foreign affiliate of the corporation resident in Canada);
- if the Act were read without reference to paragraph 95(2)(*c*.2), the specified vendor would have a taxable capital gain from the disposition of the specified share; and
- none of paragraphs 88(3)(*a*) and 95(2)(*c*), (*d*) to (*e*.1) and (*e*.3) to (*e*.5) applies to the specified vendor in respect of the disposition of the share.

Paragraph 95(2)(c.2)

New paragraph 95(2)(*c*.2) of the Act sets out various rules that will apply to the specified vendor and the specified purchaser in respect of the corporation resident in Canada. The rules can be summarized as follows:

- Where the specified vendor is not a partnership, the proceeds of disposition (determined without reference to subsection 93(1)) from the disposition of the specified share (referred to in new subsection 95(2)(c.1)) are deemed to be an amount equal to one of the following two amounts:
  - — the total of the specified vendor's adjusted cost base of the specified share and the amount, if any, that would be designated under subsection 93(1) because of subsection 93(1.1) in respect of the specified share if the specified share was disposed of for consideration equal to its fair market value at the original disposition time (referred to in new subsection 95(2)(*c*.1)) of the specified share (such aggregate referred to here as the "specified amount"), or
  - — if the specified vendor is a controlled foreign affiliate of the particular corporation resident in Canada at the end of the specified vendor's taxation year that includes the original disposition time of the specified share and the particular corporation elects in prescribed manner and within the prescribed time (see proposed new section 5915 of the Regulations), the greater of the specified amount and the amount that is the lesser of the fair market value of the consideration received by the specified vendor in respect of the disposition and the amount that the particular corporation designates in the election.
- Where the specified vendor is a partnership of which a particular foreign affiliate of the particular corporation referred to in the definition "specified vendor" in new subsection 95(3.2) is a member, in computing the particular foreign affiliate's taxable capital gain from the disposition by the partnership of the specified share, the specified vendor's proceeds of disposition from the disposition of the specified share are deemed to be an amount that is equal to one of the following amounts:
  - — the total of the specified vendor's adjusted cost base of the specified share and the amount of a dividend, if any, that would be deemed by subsection 93(1.2) to have been received immediately before the original

disposition time because of subsection 93(1.3) in respect of the specified share in respect of the particular foreign affiliate on the assumptions that the specified share is a share referred to in subsection 93(1.3) in respect of the particular foreign affiliate, no other share of the disposed foreign affiliate was disposed of at the original disposition time of the specified share, the particular foreign affiliate was the only member of the partnership, and the specified share was disposed of for consideration equal to its fair market value at the original disposition time of the specified share (referred to here as the "clause (A) amount"), or

— if the particular foreign affiliate is a controlled foreign affiliate of the particular corporation resident in Canada at the end of the particular foreign affiliate's taxation year that includes the original disposition time of the specified share and the particular corporation elects in prescribed manner and within the prescribed time (see proposed section 5915 of the Regulations), the greater of the Clause (A) amount and the amount that is the lesser of the fair market value of the consideration received by the vendor in respect of the disposition and the amount that the particular corporation designates in the election.

- The specified purchaser's cost of the specified share is deemed to be the fair market value at the original disposition time of the specified share.
- The specified vendor's cost of property received as consideration for the disposition of the specified share is deemed to be the fair market value of the property at the original disposition time of the specified share.
- The specified vendor that is a foreign affiliate of the particular corporation resident in Canada or a foreign affiliate of the particular corporation resident in Canada that is a member of a partnership that is the specified vendor (here and in the commentary to paragraph 95(2)(*c*.3) referred to as the "relevant foreign affiliate") is deemed to have an unadjusted suspended gain in respect of a specified share disposed of, at the original disposition time, by the specified vendor that is equal to twice the amount, if any, by which

— the amount of the taxable capital gain that, but for the application of this paragraph, would have been realized by the relevant foreign affiliate in respect of that disposition, if the specified vendor's proceeds of disposition in respect of that disposition were equal to the fair market value of the consideration received by the specified vendor in respect of the disposition,

exceeds

— the amount of the taxable capital gain that was realized by the relevant foreign affiliate in respect of that disposition.

Paragraph 95(2)(c.3)

New subsection 95(2)(*c*.3) of the Act deems the specified vendor referred to in paragraph 95(2)(*c*.1) to have a capital gain from the disposition of the specified share (defined in new paragraph 95(2)(*c*.1)) equal to the amount of the adjusted suspended gain (see new section 5912 of the Regulations) in respect of the specified share and to have paid to the government of a country an amount equal to the adjusted allocable tax (see new section 5912 of the Regulations) in respect of the adjusted suspended gain at the earlier of

- the first time, after the original disposition time (defined in new paragraph 95(2)(*c*.1)), that a specified purchaser (defined in new subsection 95(3.2)) in respect of the particular corporation that holds, immediately before that first time, the specified share makes a triggering disposition (defined in new subsection 95(3.3)) of the specified share; and
- the first time, after the original disposition time, that a specified purchaser (the "current holder") in respect of the particular corporation that holds, immediately before that first time, the specified share ceases to be a specified purchaser in respect of the particular corporation otherwise than because of a specified discontinuance (defined in new subsection 95(3.2)) of the current holder.

Paragraph 95(2)(c.4)

New paragraph 95(2)(c.4) of the Act provides, for the purpose of paragraph 95(2)(*c*.3), that — if a specified purchaser (defined in new subsection 95(3.2) and referred to here as a "current holder") in respect of a corporation resident in Canada holds the specified share (defined in paragraph 95(2)(*c*.1)) and that share is redeemed, acquired or cancelled (otherwise than on a "dividend-like redemption" of that share defined in new subsection 95(3.2)) by the disposed foreign affiliate (defined in new paragraph 95(2)(*c*.1)) — the specified share is deemed to continue to exist, and the current holder is deemed to continue to hold the share, until the time that the current holder ceases to be a specified purchaser in respect of the corporation resident in Canada otherwise than because of a specified discontinuance (defined in new subsection 95(3.3)) of the current holder.

Paragraph 95(2)(c.5)

New paragraph 95(2)(*c*.5) of the Act provides, for the purpose of paragraph 95(2)(*c*.3), that — if a specified purchaser (defined in new subsection 95(3.2) and referred to here as a "current holder") in respect of a corporation resident in Canada holds a specified share (described in new paragraph 95(2)(*c*.1)) in respect of the corporation resident in Canada and the specified share ceases to exist as a result of a dissolution, winding-up, cessation of existence, merger or combination described in paragraph (*a*) or (*b*) of the definition "specified discontinuance" in subsection 95(3.3) or subparagraph (*a*)(i) or (ii) of the definition "triggering disposition" in subsection 95(3.3) — the specified share is deemed to continue to exist, and the current holder is deemed to continue to hold the share, until the current holder ceases to be a specified purchaser in respect of the corporation resident in Canada otherwise than because of a specified discontinuance of the current holder.

Paragraph 95(2)(c.6)

New paragraph 95(2)(*c*.6) of the Act provides, for the purpose of paragraph 95(2)(*c*.3), that if a specified share (described in new paragraph 95(2)(*c*.1)) in respect of a corporation resident in Canada is exchanged for another share of the disposed foreign affiliate (described in new paragraph 95(2)(*c*.1)) the other share is deemed to be the specified share in respect of the corporation resident in Canada.

Paragraph 95(2)(d)

Paragraph 95(2)(*d*) of the Act provides rules that apply to a foreign affiliate of a taxpayer that is a shareholder of another foreign affiliate (a "predecessor foreign affiliate") of the taxpayer that participates in a foreign merger and that shareholder receives shares of a new foreign corporation formed on the foreign merger or the foreign parent corporation, as the case may be, in exchange for its shares in the predecessor foreign affiliate.

Paragraph 95(2)(*d*) is amended to provide the following rules in cases where there has been a foreign merger (other than a foreign merger to which proposed paragraph 95(2)(*d*.1) applies) of two or more predecessor foreign corporations to form a new foreign corporation that was, immediately after the foreign merger, a foreign affiliate of a corporation resident in Canada, and a particular foreign predecessor corporation to the foreign merger was, immediately before the foreign merger, a foreign affiliate of the corporation resident in Canada.

- each property of the particular foreign predecessor corporation that became property of the new foreign corporation as a result of the foreign merger is deemed to have been disposed by the particular foreign predecessor corporation to the new foreign corporation for proceeds of disposition equal to

— if the property is excluded property of the particular foreign predecessor corporation immediately before the foreign merger, an amount that is equal to the relevant cost base, immediately before the foreign merger, of the property to the particular foreign predecessor corporation, or

— in any other case, an amount equal to the fair market value, immediately before the foreign merger, of the property,

- the cost of the property to the new foreign corporation, immediately after the foreign merger, is deemed to be equal to the amount so determined to be the particular foreign predecessor corporation's proceeds of disposition of the property,
- each shareholder of the particular foreign predecessor corporation that was, immediately before the foreign merger, a specified vendor in respect of the corporation resident in Canada
  - is deemed to have disposed, on the foreign merger, of each share of the particular foreign predecessor corporation that, immediately before the foreign merger, was held by the shareholder and was excluded property of the shareholder, for proceeds of disposition that are equal to such amount as the corporation resident in Canada elects, in prescribed manner and within the prescribed time (see proposed section 5916 of the Regulations), in respect of the share, that is not less than the adjusted cost base, immediately before the foreign merger, of the share, to the shareholder and is not more than the fair market value, immediately before the foreign merger, of the share,
  - is deemed to have acquired each particular share of the new foreign corporation received on the foreign merger by the shareholder in exchange for a share described in clause (A) for a cost equal to the amount determined by the formula

$$A \times B/C$$

where

A is the total of all amounts each of which is the proceeds of disposition of a share of the predecessor determined above,

B is the fair market value, immediately after the foreign merger, of the particular share of the new foreign corporation, and

C is the fair market value, immediately after the foreign merger, of all shares of the new foreign corporation received on the foreign merger by the shareholder,

- the new foreign corporation is deemed to be the same person as, and a continuation of, the particular foreign predecessor corporation
  - for the purposes of paragraphs 95(2)(*c*.1) to (*c*.6), in respect of the disposition of a specified share received on the foreign merger by the new foreign corporation and disposed of, on the foreign merger, to the new foreign corporation by the particular foreign predecessor corporation,
  - for the purposes of paragraphs 95(2)(*f*.3) to (*f*.93), in respect of the disposition of a specified property received on the foreign merger by the new foreign corporation and disposed of, on the foreign merger, to the new foreign corporation by the particular foreign predecessor corporation, and
  - for the purposes of paragraphs 95(2)(*h*) to (*h*.5), in respect of the disposition of a specified property received on the foreign merger by the new foreign corporation and disposed of, on the foreign merger, to the new foreign corporation by the particular foreign predecessor corporation,
- the taxation year of the particular predecessor foreign corporation that would otherwise include the time of the foreign merger is deemed to have ended immediately before that time, and
- where the fair market value of the share of the predecessor corporation exchanged by the shareholder on the foreign merger exceeds the fair market value of the share of the new foreign corporation received on the foreign merger for the exchanged share and it is reasonable to consider all or any portion of the excess as a benefit that the shareholder desired to have conferred on another shareholder of the new foreign corporation, the amount of the benefit
  - is deemed to be income from property that is the shares of the new foreign corporation of the other shareholder, and
  - is to be added to the adjusted cost base of the shares of the new foreign corporation of the other shareholder if they are excluded property.

New paragraph 95(2)(*d*) applies to foreign mergers that occur after February 27, 2004.

Paragraph 95(2)(d.1)

Paragraph 95(2)(*d*.1) of the Act provides for the rollover of capital property on a foreign merger where certain conditions have been met. One of these conditions (referred to as the "non-recognition condition") is that no gain or loss was recognized, under the income tax law of the country in which the predecessor foreign corporations were resident, in respect of any capital property of a predecessor foreign corporation that became capital property of the new foreign corporation in the course of the foreign merger.

Paragraph 95(2)(*d*.1) is amended in a number of ways.

First, paragraph 95(2)(*d*.1) is amended to provide for the rollover of property (including, but not restricted to capital property) on a foreign merger where certain conditions have been met. In addition, the non-recognition condition is amended to require that no income, gain or loss was recognized, under the income tax law of the country in which the predecessor foreign corporations were resident, in respect of any property of a predecessor foreign corporation that became property of the new foreign corporation in the course of the foreign merger.

Second, the amendments to subparagraph 95(2)(*d*.1)(ii) treat (for the purposes of paragraphs 95(2)(*c*.1) to (*c*.6), (*f*.1) to (*f*.93) and (*h*) to (*h*.5)) the new foreign corporation as the same corporation as and as a continuation of the predecessor foreign corporation.

Third, new subparagraph 95(2)(*d*.1)(iv) is a consequential to the amendments to paragraph 95(2)(*d*) and makes subsection 87(4) applicable to the shareholders of the predecessor foreign corporation that are foreign affiliates of the corporation resident in Canada.

The amendments to paragraph 95(2)(*d*.1) apply to foreign mergers that occur after December 20, 2002.

Paragraph 95(2)(e)

Paragraph 95(2)(*e*) of the Act provides rules for determining foreign accrual property income that apply when a foreign affiliate of a taxpayer dissolves and, on the dissolution, disposes of shares of a foreign affiliate of the taxpayer a to another foreign affiliate of the taxpayer.

Paragraph 95(2)(*e*) is amended to provide for the following rules if, at a particular time, a shareholder (other than a person resident in Canada) of a foreign affiliate (referred to in this paragraph as the "disposed foreign affiliate") of a particular corporation resident in Canada that is a specified purchaser in respect of the particular corporation receives, in the course of a liquidation and dissolution (other than a liquidation and dissolution to which paragraph 95(2)(e.1) applies) of the disposed foreign affiliate, a property from the disposed foreign affiliate:

- the disposed foreign affiliate's proceeds of disposition of the property are deemed to be
  - if the property is excluded property of the disposed foreign affiliate at the particular time, an amount that is equal to the relevant cost base (defined in current subsection 95(4)), immediately before the particular time, of the property to the disposed foreign affiliate, or
  - in any other case, an amount equal to the fair market value, immediately before the particular time, of the property,
- the cost of the property to the shareholder immediately after the particular time is deemed to be an amount equal to the disposed foreign affiliate's proceeds of disposition of the property determined above,
- the property is deemed to have been received by the shareholder as proceeds of disposition of shares of the disposed foreign affiliate disposed of by the shareholder in the course of the liquidation and dissolution,
- each particular share of the disposed foreign affiliate disposed of by the shareholder in the course of the

liquidation and dissolution is deemed to have been disposed of for proceeds that are equal to the amount determined by the formula

$$(A - B) \times C/D$$

where

A is the total of all amounts each of which is the cost to the shareholder, immediately after the particular time, of a property received by the shareholder as consideration for the disposition of the shares of the disposed foreign affiliate disposed of in the course of the liquidation and dissolution,

B is the total of all amounts each of which is the amount of a debt that was owing by the disposed foreign affiliate, or any other obligation of the disposed foreign affiliate to pay an amount that was outstanding, immediately before it was assumed or cancelled, as the case may be, by the shareholder,

C is the fair market value, immediately before the commencement of the liquidation and dissolution, of the particular share, and

D is the fair market value, immediately before the commencement of the liquidation and dissolution, of all the shares of the disposed foreign affiliate disposed of by that shareholder,

- any gain from the disposition of the shares of the disposed foreign affiliate disposed of by the shareholder in the course of the liquidation and dissolution that, but for this subparagraph, would be a gain from the disposition of excluded property of the shareholder, is deemed to be the lesser of
  - — the amount of the gain as otherwise determined , and
  - — such amount, not exceeding the amount of the gain as otherwise determined, as the particular corporation resident in Canada elects in prescribed manner and within the prescribed time (see proposed new section 5916 of the Regulations), and
- the shareholder is deemed to be the same person as, and a continuation of, the disposed foreign affiliate
  - — for the purposes of paragraphs 95(2)(*c*.1) to (*c*.6), in respect of the disposition of a specified share received by the shareholder and disposed of, to the shareholder, by the disposed foreign affiliate in the course of the liquidation and dissolution,
  - — for the purposes of paragraphs 95(2)(*f*.3) to (*f*.93), in respect of the disposition of a specified property received by the shareholder and disposed of, to the shareholder, by the disposed foreign affiliate in the course of the liquidation and dissolution, and
  - — for the purposes of paragraphs 95(2)(*h*) to (*h*.5), in respect of the disposition of a specified property received by the shareholder and disposed of, to the shareholder, by the disposed foreign affiliate in the course of the liquidation and dissolution, and
- the taxation year of the disposed foreign affiliate that would otherwise include the time that the disposed foreign affiliate is dissolved is deemed to have ended immediately before that time.

A "specified purchaser" in respect of a corporation resident in Canada is defined in proposed new subsection 95(3.2) of the Act.

The amendments to paragraph 95(2)(*e*) apply to liquidations that begin after February 27, 2004.

Paragraph 95(2)(e.1)

Paragraph 95(2)(*e*.1) of the Act provides for the rollover of capital property on a liquidation and a dissolution of a foreign affiliate of a taxpayer where certain conditions have been met. One of these conditions (referred to as the "non-recognition condition") is that no gain or loss was recognized, under the income tax law of the country in which the disposing affiliate was resident, by the disposing affiliate in respect of any property of the disposing affiliate that was distributed by the disposing affiliate in the course of the liquidation to another foreign affiliate, of the taxpayer, resident in that country.

Paragraph 95(2)(*e*.1) is amended in the following ways.

First, paragraph 95(2)(*e*.1) is amended to provide for the rollover of property (including, but not restricted to, capital property) on a liquidation and a dissolution of a foreign affiliate of a taxpayer where certain conditions have been met.

Second, the non-recognition condition in paragraph 95(2)(*e*.1) is amended to require that no income, gain or loss was recognized, under the income tax law of the country in which the disposing affiliate was resident, by the disposing affiliate in respect of any property of the disposing affiliate that was distributed by the disposing affiliate in the course of the liquidation and dissolution to another foreign affiliate of the taxpayer. The non-recognition condition no longer requires that this other foreign affiliate be resident in the same country as the disposing affiliate.

Third, the amendments to subparagraph 95(2)(*e*.1)(ii) treat (for the purposes of paragraphs 95(2)(*c*.1) to (*c*.6), (*f*.1) to (*f*.93) and (*h*) to (*h*.5)) the shareholder of the disposing affiliate as the same corporation as the disposing affiliate.

New paragraph 95(2)(*e*.1) applies to liquidations that begin after December 20, 2002.

Paragraph 95(2)(e.2)

New paragraph 95(2)(*e*.2) of the Act provides that, for the purpose of new paragraph 95(2)(*e*.1), a redemption, acquisition or cancellation of the shares of a foreign affiliate of a corporation resident in Canada will be treated as a liquidation and a dissolution of the foreign affiliate if:

- the surplus entitlement percentage of the corporation resident in Canada, in respect of the foreign affiliate, immediately before the redemption, acquisition or cancellation is more than 90%, and the surplus entitlement percentage of the corporation resident in Canada, in respect of the foreign affiliate is, immediately after the redemption, acquisition or cancellation, nil, and the foreign affiliate has no issued and outstanding shares immediately after the redemption, acquisition or cancellation; or
- in the course of the redemption, acquisition or cancellation, property having a fair market value equal to or greater than 90% of the fair market value, immediately before the redemption, acquisition or cancellation, of the property owned by the foreign affiliate is, because of the redemption, acquisition or cancellation, distributed to the shareholders of the foreign affiliate.

New paragraph 95(2)(*e*.2) applies to redemptions, acquisitions or cancellations that occur after February 27, 2004 other than a redemption, an acquisition or a cancellation of shares of a holder of shares that are required to be made under an agreement in writing made by the holder on or before February 27, 2004.

Paragraphs 95(2)(e.3) to (e.6)

New paragraphs 95(2)(*e*.3) to (*e*.6) of the Act put into place a regime that, in general terms, is intended to provide to a foreign affiliate of a corporation resident in Canada the possibility of rollover treatment (and avoidance of gains that will be included in foreign accrual property income) for dispositions of excluded property of the foreign affiliate to a specified purchaser in respect of the corporation resident in Canada. A "specified purchaser" in respect of a corporation resident in Canada is defined in proposed new subsection 95(3.2) of the Act.

Paragraphs 95(2)(*e*.3) to (*e*.6) apply to a receipt, after February 27, 2004, by a specified purchaser in respect of the corporation resident in Canada from a foreign affiliate of the corporation resident in Canada of property as a dividend or distribution in respect of a share of the foreign affiliate, or as consideration in respect of a redemption, purchase or acquisition of a share of the foreign affiliate. The paragraphs do not apply where the property was received because of a legal obligation of the foreign affiliate that arose on or before February 27, 2004 to pay the dividend or make the distribution, redemption, purchase or acquisition.

Paragraph 95(2)(e.3)

New paragraph 95(2)(*e*.3) of the Act provides for the following rules (notwithstanding subsection 52(2)), if, at a particular time, a shareholder (other than a person resident in Canada), of a foreign affiliate of a corporation resident in Canada, that is a specified purchaser (defined in new subsection 95(3.2)) in

respect of the corporation resident in Canada receives (otherwise than in the course of a liquidation and dissolution of the foreign affiliate or a merger or combination of corporations involving the foreign affiliate) a property from the foreign affiliate as a dividend or distribution on a share of the foreign affiliate.

- The foreign affiliate's proceeds of disposition of the property are deemed to be:
  - if the property is excluded property of the foreign affiliate at the particular time, an amount that is equal to the relevant cost base (defined in subsection 95(4) of the Act) of the property to the foreign affiliate immediately before the particular time; or
  - in any other case, an amount that is equal to the fair market value, immediately before the particular time, of the property.
- The cost of the property to the shareholder, immediately after the particular time, is deemed to be an amount equal to the foreign affiliate's proceeds of disposition of the property determined above.
- The amount of that dividend or distribution, in respect of the property, is deemed to be equal to the foreign affiliate's proceeds of disposition of the property determined above.
- Where, but for subparagraph 95(2)(*e.3*)(iv) (the provision described by this paragraph), the shareholder would, because of subsection 40(3), have a gain in respect of the share of the foreign affiliate on or in respect of which the dividend or distribution was received and the share of the foreign affiliate is excluded property of the shareholder (or would be excluded property of the shareholder if the shareholder were a foreign affiliate of the particular corporation), for the purposes of applying subsection 40(3), the amount prescribed by paragraph 5900(1)(*c*) of the Regulations to have been paid out of the pre-acquisition surplus of the particular foreign corporation's foreign affiliate from which the property was received, otherwise determined, in respect of the dividend or distribution in respect of the share shall be deemed to be the lesser of:
  - the amount that, if subparagraph 95(2)(*e.3*)(iv) did not exist, would be so prescribed; and
  - the amount — not exceeding the amount that would, if subparagraph 95(2)(*e.3*)(iv) did not exist, be so prescribed — that the particular corporation elects in prescribed manner and within the prescribed time (see proposed new section 5916 of the Regulations).

Paragraph 95(2)(e.4)

New subparagraph 95(2)(*e.4*) of the Act provides for the following rules if, at a particular time, a shareholder (other than a person resident in Canada), of a foreign affiliate of a corporation resident in Canada, that is a specified purchaser in respect of the corporation resident in Canada, receives (otherwise than in the course of the liquidation and dissolution of the foreign affiliate or a merger or combination of corporations that includes the foreign affiliate) a property from the foreign affiliate as consideration in respect of a dividend-like redemption (defined in subsection 95(3.2)) of a share of the foreign affiliate by the foreign affiliate.

- The foreign affiliate's proceeds of disposition of the property are deemed to be
  - where the property is excluded property of the foreign affiliate at the particular time, an amount that is equal to the relevant cost base (defined in subsection 95(4) of the Act) of the property to the foreign affiliate immediately before the particular time, or
  - in any other case, an amount equal to the fair market value, immediately before the particular time, of the property.
- The cost of the property immediately after the particular time to the shareholder is deemed to be an amount equal to the amount of the foreign affiliate's proceeds of disposition of the property determined above.
- The property is deemed to have been received by the shareholder as a dividend on the share and the amount of that dividend, in respect of the property, is deemed to be equal to the amount of the foreign affiliate's proceeds of disposition of the property determined above.
- Where the share of the foreign affiliate redeemed is excluded property of the shareholder (or would be excluded property of the shareholder if the shareholder were a foreign affiliate of the particular corporation), the shareholder is deemed to have disposed of the share for proceeds of disposition equal to the cost amount of the share to the shareholder immediately before the disposition.
- Where, but for subparagraph 95(2)(*e.4*)(v) (the provision described by this paragraph), the shareholder would, because of subsection 40(3), have a gain in respect of the share of the foreign affiliate because of the dividend received by the shareholder in respect of the redemption of the share, for the purposes of applying subsection 40(3), the amount prescribed by paragraph 5900(1)(c) of the Regulations to have been paid out of the pre-acquisition surplus of the foreign affiliate - of the corporation resident in Canada - from which the property was received, otherwise determined, in respect of the deemed dividend described above in respect of the share is deemed to be the lesser of
  - the amount that, but for subparagraph 95(2)(*e.4*)(v), would be so prescribed, and
  - the amount — not exceeding the amount that, but for subparagraph 95(2)(*e.4*)(v), would be so prescribed — that the corporation resident in Canada elects in prescribed manner and within the prescribed time (see proposed new subsection 5916 of the Regulations).

Paragraph 95(2)(e.5)

New paragraph 95(2)(*e.5*) of the Act provides the following rules if, at a particular time, a shareholder (other than a person resident in Canada), of a foreign affiliate of a corporation resident in Canada, that is a specified purchaser (defined in new paragraph *sic.* 95(3.2)) in respect of the corporation resident in Canada receives (otherwise than in the course of a dividend-like redemption (defined in subsection 95(3.2)), a liquidation and dissolution of the foreign affiliate, or a merger or combination of corporations that includes the foreign affiliate) a property from the foreign affiliate as consideration in respect of a redemption, acquisition or cancellation (the "particular redemption") of a particular share of the foreign affiliate by the foreign affiliate as part of a redemption, acquisition or cancellation (the "total redemption") of one or more shares (including the particular share) of the foreign affiliate held by the shareholder.

- The foreign affiliate's proceeds of disposition of the property are deemed to be:
  - if the property is excluded property of the foreign affiliate at the particular time, an amount that is equal to the relevant cost base (defined in subsection 95(4)), immediately before the particular time, of the property to the foreign affiliate; or
  - in any other case, an amount that is equal to the fair market value, immediately before the particular time, of the property.
- The cost of the property to the shareholder immediately after the particular time is deemed to be the foreign affiliate's proceeds of disposition of the property. (Subparagraph 95(2)(*e.5*)(ii))
- The property is deemed to have been received by the shareholder as proceeds of disposition of shares of the foreign affiliate disposed of by the shareholder in the course of the particular redemption.
- The particular share disposed of to the foreign affiliate because of the particular redemption is deemed to have been disposed of for proceeds that are equal to the amount determined by the formula

$$(A - B) \times C/D$$

where

A is the total of all amounts each of which is the cost, determined in subparagraph 95(2)(*e.5*)(ii), to the shareholder, of a property received by the shareholder as consideration for the disposition by the shareholder of a share or shares of

the foreign affiliate redeemed in the course of the total redemption;

B is the total of all amounts each of which the amount of a debt that was owing by the foreign affiliate, or any other obligation of the foreign affiliate to pay an amount that was outstanding, immediately before it was assumed or cancelled by the shareholder in respect of the total redemption;

C is

— if the particular share was held by the shareholder at the time immediately before the commencement of the total redemption, the fair market value, at that time, of the particular share; and

— if the particular share was acquired by the shareholder after the commencement of the total redemption, the fair market value, at the time of its acquisition, of the particular share.

D is the total of

— the fair market value, immediately before the commencement of the total redemption, of all shares of the foreign affiliate held by the shareholder before the commencement of the total redemption and redeemed as part of the total redemption while held by the shareholder; and

— the total of all amounts each of which is the fair market value at the time of acquisition of a share of the foreign affiliate acquired after the commencement of the total redemption by the shareholder and redeemed as part of the total redemption while held by the shareholder.

- Any gain from the disposition of a particular share of the foreign affiliate disposed of by the shareholder in the course of the total redemption that, but for subparagraph 95(2)(*e.5*)(v) (the provision described by this bullet), would be a gain from the disposition of excluded property of the shareholder, is deemed to be the lesser of:

— the amount of the gain as otherwise determined ; and

— such amount, not exceeding the amount of the gain as otherwise determined, as the corporation resident in Canada elects in prescribed manner and within the prescribed time (see proposed section 5916 of the Regulations).

Paragraph 95(2)(e.6)

New paragraph 95(2)(*e.6*) of the Act provides the following rules, for the purposes of applying paragraphs 95(2)(*e*) and (*e.3*) to (*e.5*) for the purposes of determining a foreign affiliate's income from the partnership, if the shareholder of the foreign affiliate of the corporation resident in Canada referred to in those paragraphs is the partnership and the foreign affiliate of the corporation resident in Canada is a member of the partnership.

- Shares of a foreign affiliate of the corporation resident in Canada referred to in those paragraphs that are property of the partnership, or are deemed under paragraph 95(2)(*e.6*) to be property of the partnership, are deemed to be owned at that time by each member of the partnership in a proportion equal to the proportion of the shares that:

— the fair market value at that time of the member's partnership interest in the partnership

is of

— the fair market value at that time of all members' partnership interests in the partnership.

- Each amount determined under any of paragraphs 95(2)(*e*) and (*e.3*) to (*e.5*) in respect of the partnership in respect of the shares of the foreign affiliate deemed above to be owned by a member of the partnership that is a foreign affiliate of the corporation resident in Canada is deemed to be the amount determined under that paragraph in respect of the member in respect of those shares.
- The income, gain or loss derived by the partnership, while a foreign affiliate of the corporation resident in Canada is a member of the partnership, in respect of the shares deemed above to be owned by the foreign affiliate

— is to be determined as if the partnership were the foreign affiliate, and

— is deemed to be an income or a loss or a taxable capital gain or an allowable capital loss, as the case may be, of the foreign affiliate from the partnership and not to be an income or a loss or a taxable capital gain or an allowable capital loss of any other member of the partnership.

Department of Finance Comfort Letter [Proposed Amendments to Subsection 88(3) and Paragraph 95(2)(e.1) Re Distribution Treated as Reduction of Foreign Paid-up Capital]

June 9, 2006

Dear XXXX

SUBJECT: Subsection 88(3) and Paragraph 95(2)(*e.1*) of the *Income Tax Act*

I am writing in response to your letter dated May 4, 2006 with respect to proposed subsection 88(3) and paragraph 95(2)(*e.1*) of the *Income Tax Act* (the "Act") as contained in the foreign affiliate proposals announced on February 27, 2004.

You were told, in our letter to you dated April 12, 2006, that we are considering modifications to proposed subsection 88(3) and paragraph 95(2)(*e.1*) of the Act that would characterize the amount of the distribution (determined in respect of a distribution of property in respect of a share of the capital stock of the disposing foreign affiliate) as a dividend paid on the share to the extent that the amount of the distribution exceeds the amount treated by the foreign affiliate as a reduction of the foreign paid-up capital in respect of the share.

You have asked, and we can confirm, that the portion of the amount of a distribution made in respect of a share that is treated by the foreign affiliate of a taxpayer as a reduction of the foreign paid-up capital in respect of the share (not exceeding the amount, immediately before the distribution, of the foreign paid-up capital in respect of the share) will not be a dividend under the foreign affiliate proposals and will reduce the shareholder's adjusted cost base of the share. The foreign affiliate will, therefore, be permitted to distribute property to the shareholder as a return of foreign paid-up capital in respect of a share determined in respect of the taxpayer prior to making distributions of property in respect of any existing surplus of the foreign affiliate determined in respect of the taxpayer.

The amount by which the amount of the distribution in respect of a share exceeds the portion of the amount of the distribution that is treated by the foreign affiliate as a reduction of the foreign paid-up capital in respect of the share is to be characterized as a dividend received by the shareholder on the share. The normal surplus distribution rules will apply to determine the portion of the dividend that is paid out of the various surplus pots of the foreign affiliate determined in respect of the taxpayer. To the extent that a dividend received on a share is paid out of the foreign affiliate's pre-acquisition surplus determined in respect of the taxpayer, the dividend will reduce the shareholder's adjusted cost base of the share.

I trust that these comments have provided the clarification requested. Thank you for writing.

Yours sincerely

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

Department of Finance Comfort Letter [Proposed Paragraphs 95(2)(e.3) and (f.4) — Dispositions of Excluded Property]

June 6, 2006

Dear XXXX

SUBJECT: Proposed paragraphs 95(2)(*e.3*) and (*f.4*) of the *Income Tax Act*

I am writing in response to your letter dated March 31, 2006 in connection with proposed paragraphs 95(2)(*e.3*) and (*f.4*) of the *Income Tax Act*, as contained in the foreign affiliate proposals announced on February 27, 2004.

You raise issues concerning the tax results that may occur, because of draft subparagraph 95(2)(*e.3*)(i) or (*f.4*)(i) of the foreign affiliate proposals, when there is a disposition of a depreciable property, an eligible capital property or a foreign resource property of a foreign affiliate of a taxpayer resident in Canada or a partnership of which a foreign affiliate of a taxpayer resident in Canada is a member. Under those proposed subparagraphs, the property is treated as having been disposed of for proceeds of disposition equal to the holder's adjusted cost base of the property (or such greater amount as the taxpayer is permitted to elect). Any income, gain or loss arising from the disposition would be included in computing the foreign affiliate's foreign accrual property income in respect of the taxpayer.

Your concern arises from the fact that, in the case of depreciable property, foreign accrual property income may arise on a disposition to which those provisions apply since the adjusted cost base of the property to the holder may exceed the cost amount of the property to the holder and the taxpayer is not permitted to elect proceeds of disposition for the holder that are equal to the holder's cost amount of the property in order to avoid this undesired result. We also noted your uncertainty as to how those provisions would apply to property (such as resource property or eligible capital property) that is not capital property.

We have previously identified these issues and intend to recommend modifications to the foreign affiliate proposals that would eliminate them. The revisions to proposed subparagraph 95(2)(*c.3*)(i) or (*f.4*)(i) would (except where the taxpayer elects otherwise) permit the foreign affiliate to treat its proceeds of disposition in respect of a disposition of an excluded property to be equal to an amount that would result in no immediate income, gain, loss, surplus or deficit in respect of the disposition. The income, gain, loss, surplus or deficit amount that has not been recognized at the time of the disposition would be recognized when the appropriate circumstances occur. It is anticipated that these revisions to draft subparagraphs 95(2)(*e.3*)(i) and (*f.4*)(i) would have the same application date as the application date of the draft subparagraph.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

Department of Finance Comfort Letter [Modifications to Proposed Amendments to Subsection 88(3) and Paragraph 95(2)(e.1)]

April 12, 2006

Dear XXXX,

SUBJECT: Subsection 88(3) and Paragraph 95(2)(*e.1*) of the *Income Tax Act*

I am writing in response to your letters dated December 12, 2005 and January 30, 2006 with respect to proposed subsection 88(3) and paragraph 95(2)(*e.1*) of the *Income Tax Act* (the "Act") as contained in the foreign affiliate proposals announced on February 27, 2004 by the Minister of Finance. You have requested confirmation of certain possible modifications to proposed subsection 88(3) and paragraph 95(2)(*e.1*) and certain other identified related provisions of the Act that would apply to a liquidation and dissolution, after February 27, 2004, of a foreign affiliate of a taxpayer resident in Canada.

Subsection 88(3) of the Act

As noted in your correspondence, existing subsection 88(3) of the Act provides that, where a property of a controlled foreign affiliate of a taxpayer resident in Canada that is a share of the capital stock of another foreign affiliate of the taxpayer is disposed of to the taxpayer on the dissolution of the controlled foreign affiliate (the "disposing foreign affiliate"), the disposing foreign affiliate's proceeds of disposition of the share are deemed to equal its adjusted cost base to the disposing foreign affiliate immediately before the dissolution (or such greater amount as the taxpayer claims not exceeding the fair market value of the share). The taxpayer's cost of the share is deemed to equal the disposing foreign affiliate's proceeds of disposition in respect of the share. In accordance with the results determined under section 69 of the Act, each other type of property of the disposing foreign affiliate that is disposed of by the disposing foreign affiliate to the taxpayer on the dissolution is treated as having been disposed of by the disposing foreign affiliate for proceeds, and to have been acquired by the taxpayer at a cost, equal to that property's fair market value. Existing subsection 88(3) also provides that the taxpayer's proceeds from the disposition of shares held by the taxpayer in the capital stock of the disposing foreign affiliate are deemed to equal the amount (if any) by which the total cost to the taxpayer of all the property disposed of to the taxpayer by the disposing foreign affiliate on the dissolution exceeds the total amount of debts and other obligations of the disposing foreign affiliate (other than dividends payable to the taxpayer or non-arm's length persons) that are assumed or cancelled by the taxpayer on the dissolution.

In your correspondence, you asked for confirmation of our intention to recommend that proposed subsection 88(3) be revised to provide an additional and distinct rule in circumstances where a foreign affiliate (the "disposing foreign affiliate") of a taxpayer resident in Canada distributes, in the course of its liquidation and dissolution, property to the taxpayer in respect of shares of the capital stock of the disposing foreign affiliate held by the taxpayer. Under such a revision, the taxpayer would be able to elect to treat the amount of the disposing foreign affiliate's proceeds of distribution for each property of the disposing foreign affiliate (not only excluded property) that is distributed by it to the taxpayer in such circumstances as being such a particular amount that would result in no gain or loss of the disposing foreign affiliate in respect of the distributed property, or to be such an amount (not exceeding the distributed property's fair market value) that would result in a gain of the disposing foreign affiliate in respect of the distributed property. That particular amount would also be treated as the amount of the taxpayer's cost for that distributed property.

From a tax policy viewpoint, such an additional and distinct rule in subsection 88(3) would be supportable provided that the disposing foreign affiliate is wholly-owned or substantially wholly-owned by the taxpayer. It could, in those circumstances, be considered that no substantial change in the ultimate economic interests in the distributed property of the disposing foreign affiliate would occur by reason of the liquidation and dissolution of the disposing foreign affiliate. We note that subsection 88(1) requires ownership of not less than 90% of the shares of each class and, all things being equal, we would propose to apply the same threshold in the context of subsection 88(3). Based, however, on discussions with representatives of the tax community on this point, we are prepared to adopt a different test in connection with subsection 88(3) to determine whether the taxpayer meets the equity ownership threshold in the disposing foreign affiliate to qualify for such an additional and distinct rule in that subsection. The test would require the taxpayer to hold shares of the capital stock of the disposing foreign affiliate such that, in total, the taxpayer has at least 90% of the voting rights at a general meeting of the disposing foreign affiliate in all circumstances (immediately before the commencement of the liquidation and dissolution of the disposing foreign affiliate) and such that the fair market value of all properties distributed to the taxpayer, in respect of shares of the capital stock of the disposing foreign affiliate, by the disposing foreign affiliate in the course of the liquidation and dissolution is equal to at least 90% of the total fair market value of all properties distributed to all shareholders of the disposing foreign affiliate, in respect of shares of the capital stock of the disposing foreign affiliate, by the disposing foreign affiliate in the course of the liquidation and dissolution.

Although the technical details of the possible modifications to that proposed subsection 88(3) and to the related provisions of the Act are still being finalized, we can confirm, in general terms, our intention to recommend that modifications be made to that proposal and to the other relevant provisions of the Act. Those recommended modifications would treat a liquidation and dissolution of a foreign affiliate of a taxpayer resident in Canada as a qualifying liquidation and dissolution of that foreign affiliate of the taxpayer if the taxpayer meets the required equity ownership threshold in the foreign affiliate. In general

terms, the recommended modifications would also provide for the following tax rules in respect of a qualifying liquidation and dissolution of a foreign affiliate of a taxpayer resident in Canada where the taxpayer so elects in writing to have those tax rules apply in respect of the qualifying liquidation and dissolution of the foreign affiliate:

1. the foreign affiliate would be deemed to have disposed of each property (the "distributed property") that is distributed, in the course of the qualifying liquidation and dissolution, by the foreign affiliate to the taxpayer in respect of shares of the capital stock of the foreign affiliate held by the taxpayer for proceeds of disposition (assuming that the foreign affiliate has not received consideration from the taxpayer in respect of the distributed property that exceeds the amount described below as the "relevant cost amount" of the distributed property) that are equal to the greater of

- the "relevant cost amount" of the distributed property to the foreign affiliate in respect of the taxpayer (being essentially the amount that would generally result in no gain or loss to the foreign affiliate in respect of the taxpayer in respect of the disposition of the distributed property), and
- where the foreign affiliate is a controlled foreign affiliate of that taxpayer, the amount elected by that taxpayer (not exceeding the fair market value of the particular distributed property);

2. any income or taxable capital gain of the foreign affiliate derived from the disposition of the distributed property would be included in computing the foreign affiliate's foreign accrual property income in respect of the taxpayer;

3. the taxpayer's cost of the distributed property would be deemed to be equal to the foreign affiliate's proceeds of disposition of that property;

4. the amount of the distribution made by the foreign affiliate to the taxpayer in respect of the distributed property would be deemed to be equal to the amount, if any, by which the cost to the taxpayer of the distributed property exceeds the total of all of the following amounts:

- the portion of an amount owing by or of an obligation of the foreign affiliate (other than dividends payable to the taxpayer or non-arm's length persons) that was assumed or cancelled by the taxpayer because of that distribution of the distributed property, and
- the cost to the foreign affiliate of a property that was received by the foreign affiliate from the taxpayer as consideration for that distribution by the foreign affiliate of the distributed property;

5. the portion of the amount of the distribution made by the foreign affiliate to the taxpayer in respect of the distributed property that relates to a particular share of the capital stock of the foreign affiliate would not be treated as proceeds of disposition of the foreign affiliate of the distributed property and would be treated as

- a return of the paid-up capital in respect of the particular share in respect of the taxpayer to the extent of the "foreign paid-up capital" in respect of the particular share in respect of the taxpayer, and
- a dividend paid by the foreign affiliate to the taxpayer resident in Canada in respect of the particular share to the extent that that portion of the amount of the distribution is not treated as a return of the paid-up capital in respect of the particular share in respect of the taxpayer;

6. any loss of the taxpayer resident in Canada from the disposition of a particular share of the foreign affiliate that was redeemed, acquired or cancelled by the foreign affiliate in the course of the liquidation and the dissolution would be deemed to be nil;

7. generally, the foreign paid-up capital of a particular share of the capital stock of the foreign affiliate of the taxpayer resident in Canada in respect of the taxpayer would be the particular share's portion of the foreign paid-up capital of the class of shares of the foreign affiliate's capital stock to which the particular share belongs;

8. generally, the foreign paid-up capital of a particular class of shares of the capital stock of the foreign affiliate of the taxpayer resident in Canada would be the total amounts contributed by the foreign affiliate's shareholders to the foreign affiliate in respect of the shares of the class to which the particular share belongs, provided that those shareholder contributions were in respect of shares issued to or held by those shareholders;

9. however, in computing the foreign paid-up capital of a particular class of shares of the capital stock of the foreign affiliate of the taxpayer resident in Canada in respect of the taxpayer, where property other than money is contributed to the foreign affiliate in respect of shares of the particular class of shares of the foreign affiliate, the amount added in respect of that contribution of property to the foreign paid-up capital of the particular class of shares of the foreign affiliate in respect of the taxpayer would be determined by reference to the cost to the foreign affiliate of that contributed property, except that, where the contributed property is shares of the capital stock of another foreign affiliate of the taxpayer, the amount added would be limited to the foreign paid-up capital in respect of the shares of the other foreign affiliate of the taxpayer in respect of the taxpayer; and

10. the amounts required to be determined under that proposed subsection 88(3) and the related provisions of the Act would be determined in Canadian dollars because those amounts are relevant for Canadian tax purposes.

We propose to recommend to the Minister of Finance that such revisions to proposed subsection 88(3) of the Act and to the other relevant provisions of the Act apply to a liquidation and dissolution, of a foreign affiliate of a taxpayer resident in Canada, that begins after February 27, 2004.

Paragraph 95(2)(e.1) of the Act

In your correspondence, you expressed your views about two of the conditions to the application of paragraph 95(2)(*e.1*) to a liquidation and dissolution of a foreign affiliate (the "disposing foreign affiliate") of a taxpayer resident in Canada into another foreign affiliate of the taxpayer.

The first condition is the requirement that the taxpayer have a surplus entitlement percentage, in respect of the disposing foreign affiliate, of at least 90% immediately before the liquidation of the disposing foreign affiliate (the "90% SEP requirement"). You seek confirmation of our intention to recommend that, as an alternative to meeting the 90% SEP requirement, paragraph 95(2)(*e.1*)would be available where, immediately before the liquidation, a foreign affiliate of the taxpayer has a 90% or greater fair market value participating equity interest in the disposing foreign affiliate.

The second condition is the requirement that there be no gain or loss recognized, under the income tax laws of the country in which the disposing foreign affiliate was resident immediately before the liquidation, in respect of any property distributed by the disposing foreign affiliate in the course of the liquidation to another foreign affiliate of the taxpayer (the "non-recognition requirement"). You argue for the removal of the non-recognition requirement as a precondition to the application of paragraph 95(2)(*e.1*) so as to permit rollover treatment in respect of all property (rather than only excluded property) of the disposing foreign affiliate disposed of to any foreign affiliate of the taxpayer in the course of the liquidation and dissolution.

In your view, where proposed paragraph 95(2)(*e.1*) applies, that rollover treatment should be provided for by deeming the disposing foreign affiliate's proceeds of disposition of the property to be, subject to a relevant cost base election by the taxpayer, the cost amount of the property to the disposing foreign affiliate immediately before the liquidation.

From a tax policy viewpoint, we are sympathetic to the requests made for such revisions to the proposed paragraph 95(2)(*e.1*). Although the technical details of our intended recommendations for modifications in respect of proposed paragraph 95(2)(*e.1*) and to the February 2004 foreign affiliate proposals in general are still being finalized, we can confirm, in general terms, that our recommended modifications in respect of that proposed paragraph 95(2)(*e.1*) of the Act would include the following modifications.

First, the recommended modifications to proposed paragraph 95(2)(*e.1*) would remove the non-recognition requirement that is a condition to the application of that paragraph.

Second, proposed paragraph 95(2)(*c*.1) would be amended to provide that it apply to a liquidation and a dissolution of a foreign affiliate (the "disposing foreign affiliate") of a taxpayer resident in Canada if one of the two following alternative tests is met by the taxpayer resident in Canada:

- The taxpayer would, immediately before the time of the earliest distribution of property by the disposing foreign affiliate in respect of shares of the capital stock of the disposing foreign affiliate in the course of the liquidation and the dissolution of the disposing foreign affiliate, have a surplus entitlement percentage in respect of the disposing foreign affiliate of not less than 90% (on the assumption that shares of the capital stock of non-resident corporations owned by any taxpayers resident in Canada and related (otherwise than by virtue of paragraph 251(5)(*b*) of the Act) to the taxpayer were attributed to the taxpayer.
- A foreign affiliate of the taxpayer that is a shareholder of the disposing foreign affiliate has a 90% or greater fair market value participating equity interest in the disposing foreign affiliate. It would be met if the total fair market value of the properties distributed in the course of the liquidation and dissolution by the disposing foreign affiliate to the shareholder foreign affiliate was not less than 90% of the total fair market value of the properties distributed by the disposing foreign affiliate to all of its shareholders.

Third, the recommended modifications to that proposed paragraph 95(2)(*e*.1) would provide that, where that paragraph applies to a liquidation and a dissolution of the disposing foreign affiliate of the taxpayer resident in Canada, the following rules would apply (except to the extent that subsection 88(3) would apply to the disposing foreign affiliate and the shareholder of the disposing foreign affiliate in respect of the distribution of the property):

- the disposing foreign affiliate would be deemed to have disposed of each property distributed, in the course of the qualifying liquidation and dissolution, to a shareholder of the disposing foreign affiliate that was, immediately before the distribution, a "specified purchaser" (within the meaning to be assigned by draft subsection 95(3.5)) in respect of the taxpayer resident in Canada for proceeds equal to the greater of
  - the "relevant cost amount" of the distributed property to the disposing foreign affiliate in respect of the taxpayer resident in Canada (being essentially the amount that would generally result in no gain or loss to the disposing foreign affiliate in respect of the taxpayer in respect of the disposition of the distributed property), and
  - where the disposing foreign affiliate is a controlled foreign affiliate of the taxpayer resident in Canada, the amount elected by the taxpayer (not exceeding the fair market value of the particular distributed property);
- any gain under subsection 40(3) of the Act of the shareholder from the disposition of a particular share of the disposing foreign affiliate that was redeemed, acquired or cancelled by the disposing foreign affiliate in the course of the liquidation and the dissolution would be deemed to be nil;
- the amounts required to be determined under paragraph 95(2)(*e*.1) would be determined in Canadian dollars where those amounts are relevant for determining the foreign accrual property income of the disposing foreign affiliate in respect of the taxpayer resident in Canada; and
- the rules listed earlier in this letter numbered as 2 to 9 would apply with necessary changes to fit the context of the shareholders of the disposing foreign affiliate being specified purchasers in respect of the taxpayer resident in Canada rather than the taxpayer.

Fourth, the recommended modifications to paragraph 95(2)(*e*.1) would clarify that paragraph 95(2)(*e*.1) applies (except to the extent that subsection 88(3) applies), to the disposing foreign affiliate and its shareholders that are specified purchasers in respect of the taxpayer resident in Canada, in respect of the distribution of the distributed property for the purpose of computing

- the foreign accrual property income, the surplus and tax accounts (as defined in subsection 5907 of the Income Tax Regulations) and the foreign paid-up capital, of the disposing foreign affiliate or any foreign affiliate of the taxpayer resident in Canada or any taxpayer resident in Canada that does not deal at arm's length with that taxpayer resident in Canada that are shareholders of the disposing foreign affiliate, in respect of those taxpayers, and
- the income or capital gains of a taxpayer resident in Canada that, at the time of distribution, was a specified purchaser in respect of the taxpayer resident in Canada and a shareholder (or a member of a partnership that was the shareholder) of the disposing foreign affiliate.

We propose to recommend to the Minister of Finance that these modifications to proposed paragraph 95(2)(*e*.1) of the Act and the related provisions apply to a liquidation and dissolution of a foreign affiliate of a taxpayer resident in Canada that begins after December 20, 2002, except if the taxpayer makes an election that applies in respect of all liquidations and dissolutions of its foreign affiliates. If the taxpayer makes that election, generally the proposals issued on February 27, 2004 would apply.

Thank you for writing.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

► 95(2)(f) ◄

(f) [Determination of FAPI — Deemed residence in Canada] — except as otherwise provided in this subdivision and except to the extent that the context otherwise requires, a foreign affiliate of a taxpayer is deemed to be at all times resident in Canada for the purposes of determining, in respect of the taxpayer for a taxation year of the foreign affiliate, each amount that is the foreign affiliate's

(i) capital gain, capital loss, taxable capital gain or allowable capital loss from a disposition of a property, or

(ii) income or loss from a property, from a business other than an active business or from a non-qualifying business;

Department of Finance Comfort Letter [Follow-up to Earlier Letters on Modifications to Proposed S. 88(3)]

March 19, 2009

Dear XXXX

Subject: Subsection 88(3) of the *Income Tax Act*

I am writing in response to your letter of February 13, 2009 concerning subsection 88(3) of the *Income Tax Act* (Act).

August 16, 2005 and April 12, 2006 letters

Firstly, in your letter you have asked for confirmation of the Department's intention to recommend to the Minister of Finance certain amendments to subsection 88(3) of the Act (the "88(3) Modifications") as described in letters dated August 16, 2005 and April 12, 2006 (the "Earlier Letters") from Mr. Brian Ernewein.

As you know, it was stated in the 2007 Budget documents, and confirmed in the 2008 Budget documents, that previously released proposals (the "2004 FA proposals") in respect of the taxation of income from foreign affiliates would be reviewed and evaluated in view of the international tax measures announced in the 2007 Budget. Certain of these 2004 FA proposals, as modified to take into account some of the 2007 Budget measures, were enacted by Bill C-28 that received Royal

Assent on December 14, 2007. Certain other portions of these 2004 FA proposals were enacted by the Budget Implementation Act, 2009, which received Royal Assent on March 12, 2009. Furthermore, in the 2009 Budget documents, it was stated that the Government will consider the recommendations of the Advisory Panel on Canada's System of International Taxation that relate to foreign affiliates before proceeding with the remaining 2004 FA Proposals, as modified to take into account consultations and deliberations since their release.

The review, evaluation and consideration referred to in the 2007, 2008 and 2009 Budget documents is still in progress in respect of the remaining 2004 FA proposals. Accordingly, it is possible that further changes may be made in this area of the tax law. However, we would in that event recommend to the Minister of Finance that any further changes to the 88(3) Modifications incorporate appropriate transitional provisions to ensure that the changes do not impair any beneficial effect of those modifications for the period up to any announcement of revisions to those modifications.

"Relevant cost amount"

Secondly, in your letter you have asked for clarification of the intended meaning of the expression "relevant cost amount" as used in the Earlier Letters. As you have noted, the recommendations to the Minister of Finance set out in those letters include a recommendation to amend the Act such that a taxpayer resident in Canada (a "Canadian taxpayer") may elect in respect of a qualifying liquidation and dissolution of a foreign affiliate of the Canadian taxpayer (an "Elected QLAD") that the foreign affiliate be considered to have disposed of each of its properties for proceeds equal to the greater of the "relevant cost amount" to the foreign affiliate of each such property and such amount chosen by the Canadian taxpayer, in a further election, not exceeding the fair market value of the property. In those letters, the relevant cost amount is described as being "essentially the amount that would generally result in no gain or loss to the foreign affiliate in respect of the Canadian taxpayer in respect of the distribution of the distributed property".

In the example set out in your letter, at the time of an Elected QLAD, the foreign affiliate owns non-depreciable capital property that is non-treaty-protected taxable Canadian property ("TCP"), having an adjusted cost base of $10 and a fair market value of $100. In your example, you assume that the $90 of appreciation (pre-acquisition gain) occurred at a time when no person or partnership that held the property was a "specified person or partnership" in respect of the Canadian taxpayer (within the meaning of that term in subsection 95(1) of the Act). Thus, you argue that, for the purposes of the foreign accrual property income ("FAPI") rules in the Act, the foreign affiliate's proceeds of disposition of the property could be $100, without triggering a capital gain under paragraph 95(2)(*f*) of the Act, because that paragraph, in conjunction with paragraph 95(2)(*f.1*), would exclude the pre-acquisition gain from the computation of the capital gain. You therefore suggest that, in this context, the relevant cost amount as described in the Earlier Letters would be $100.

On the other hand, for the purposes of determining the foreign affiliate's taxable income earned in Canada under subsection 115(1) of the Act, under your example, you conclude that the foreign affiliate will realize a capital gain to the extent that the foreign affiliate's proceeds of disposition of the property exceed $10. You therefore suggest that, in this context, the relevant cost amount as described in the Earlier Letters would be $10.

In light of these conflicting results, you have asked us to provide clarification as to the determination of the relevant cost amount of non-depreciable capital property that is non-treaty-protected TCP.

Let us first offer some general clarifying comments as to our intentions with respect to the concept of "relevant cost amount". This concept is meant to be tied directly to the so-called "carve-out" rule in paragraph 95(2)(*f.1*) of the Act. Thus, where a Canadian taxpayer acquires shares of a foreign affiliate from an arm's length party and that affiliate holds appreciated property, the fair market value of the property at the time of acquisition should generally be the affiliate's relevant cost amount as that is the amount of proceeds of disposition that it could receive for the property without causing it to have a FAPI gain or loss, after taking into account the carve-out rule. Thus, generally the relevant cost amount of the appreciated property would be $100, using the figures in your example.

However, in the more specific context of an Elected QLAD where the property of the foreign affiliate is non-treaty-protected TCP and thus is relevant from both a FAPI and a section 115 perspective, it is important that the proceeds of disposition of property distributed to the Canadian taxpayer be the same for all Canadian tax purposes given that those proceeds will also be the cost to the Canadian taxpayer of that property going forward. It is also possible that certain Canadian taxpayers, in these circumstances, may wish their affiliates to realize gains for section 115 purposes, but rely on the carve-out rule to reduce or eliminate their FAPI inclusion.

On the basis of the foregoing, we are prepared to recommend to the Minister of Finance that, in the context of an Elected QLAD under the 88(3) Modifications, the Canadian taxpayer and the foreign affiliate be entitled to jointly elect that the relevant cost amount of a property that is non-treaty-protected TCP be the amount that causes no gain or loss in the computation of the affiliate's taxable income earned in Canada under section 115. This would mean that if, in your example, that election were made, the foreign affiliate's proceeds of disposition would be $10 such that the affiliate would have no gain for section 115 purposes. Furthermore, if that election were made, a similar result would obtain for FAPI purposes as paragraph 95(2)(*f*)would produce no gain, without the need to rely on the carve-out rule in paragraph 95(2)(*f.1*), and thus the Canadian taxpayer would have no FAPI inclusion. As a result, under the 88(3) Modifications, the Canadian taxpayer's cost of the property would be $10 for its future income tax determinations made under the Act.

While I cannot offer any assurance that either the Minister of Finance or Parliament will agree with our recommendations, I hope that this statement of our intentions is helpful to you. As stated above, it should also be kept in mind that if the 88(3) Modifications are further revised, it is possible that the recommendation herein may only apply for the period up to any announcement of any such revisions.

Thank you for writing.

Yours sincerely,

Gerard Lalonde
Director,
Tax Legislation Division
Tax Policy Branch

History: S. 95(2)(*f*) was replaced by S.C. 2009, c. 2, s. 25(2), applicable to taxation years of a foreign affiliate of a taxpayer that begin after October 2, 2007. However, for taxation years of a foreign affiliate that begin before 2009, subparagraph 95(2)(*f*)(ii) shall be read as follows:

"(ii) income or loss from a property or from a business other than an active business;"

If the taxpayer elects in writing in respect of all of its foreign affiliates and files the election with the Minister of National Revenue on or before the taxpayer's election day, s. 95(2)(*f*) also applies to taxation years of a foreign affiliate of the taxpayer that begin before October 2, 2007 and after the date chosen by the taxpayer as described below, except that subparagraph 95(2)(*f*)(ii) shall be read in its application to those taxation years in the manner described above.

The taxpayer's election day is (i) the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act is assented to [R.A. March 12, 2009] and (ii) the day that is one year after the day on which this Act is assented to [March 12, 2010].

To be valid, an election [described above] must include the identification by the taxpayer of its choice of one of the following dates:

(*i*) December 31, 1994,
(*ii*) December 20, 2002, or
(*iii*) February 27, 2004.

Notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take into account this provision and any election made with respect to it.

S. 95(2)(*f*) formerly read:

"(*f*) *[Determination of FAPI — Capital gains and losses]* — except as otherwise provided in this subsection, each taxable capital gain and each allowable capital loss of a foreign affiliate of a taxpayer from the disposition of property shall be computed in accordance with Part I, read without reference to section 26 of the *Income Tax Application Rules*, as though the affiliate were resident in Canada

(i) where that gain or loss is the gain or loss of a controlled foreign affiliate from the disposition of property to which paragraph (*c*), (*d*) or (*e*) or 88(3)(*a*) applies or from any other disposition of property (other than excluded property), in Canadian currency, and

(ii) in any other case, on the assumption that the currency of the country in which the affiliate is resident or such other currency as is reasonable in the circumstances (in this subparagraph referred to as the 'calculating currency') were the currency of Canada and, where subsection 39(2) is applicable, on the further assumptions that

(A) the reference in that subsection to 'the currency or currencies of one or more countries other than Canada relative to Canadian currency' were read as a reference to 'one or more currencies other than the calculating currency relative to the calculating currency', and

(B) the references therein to 'of a country other than Canada' were read as references to 'of a country other than the country of the calculating currency',

except that in computing any such gain or loss from the disposition of property owned by the affiliate at the time it last became a foreign affiliate of the taxpayer there shall not be included such portion of the gain or loss, as the case may be, as may reasonably be considered to have accrued during the period that the affiliate was not a foreign affiliate of

(iii) the taxpayer,

(iv) any person with whom the taxpayer was not dealing at arm's length,

(v) any person with whom the taxpayer would not have been dealing at arm's length if the person had been in existence after the taxpayer came into existence,

(vi) any predecessor corporation (within the meaning assigned by subsection 87(1)) of the taxpayer or of a person described in subparagraph (iv) or (v), or

(vii) any predecessor corporation (within the meaning assigned by paragraph 87(2)(*l.2*)) of the taxpayer or of a person described in subparagraph (iv) or (v);"

S. 95(2)(*f*)(i) was amended by S.C. 1994, c. 7, Sched. II, s. 71(9), applicable to dispositions of property occurring after July 13, 1990. S. 95(2)(*f*)(i) formerly read:

"(i) where that gain or loss is the gain or loss of a controlled foreign affiliate from the disposition of property other than excluded property, in Canadian currency, and"

► 95(2)(f.1) ◄

(f.1) [Determination of FAPI — Exclusion of amounts] — in computing an amount described in paragraph (*f*) in respect of a property or a business, there is not to be included any portion of that amount that can reasonably be considered to have accrued, in respect of the property (including for the purposes of this paragraph any property for which the property was substituted) or the business, while no person or partnership that held the property or carried on the business was a specified person or partnership in respect of the taxpayer referred to in paragraph (*f*);

History: S. 95(2)(*f.1*) was added by S.C. 2009, c. 2, s. 25(2), applicable to taxation years of a foreign affiliate of a taxpayer that begin after October 2, 2007. However, if the taxpayer elects in writing in respect of all of its foreign affiliates and files the election with the Minister of National Revenue on or before the taxpayer's election day, s. 95(2)(*f.1*) also applies to taxation years of a foreign affiliate of the taxpayer that begin before October 2, 2007 and after the date chosen by the taxpayer as described below.

The taxpayer's election day is (i) the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act is assented to [R.A. March 12, 2009] and (ii) the day that is one year after the day on which this Act is assented to [March 12, 2010].

To be valid, an election [described above] must include the identification by the taxpayer of its choice of one of the following dates:

(*i*) December 31, 1994,

(*ii*) December 20, 2002, or

(*iii*) February 27, 2004.

Notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take into account this provision and any election made with respect to it.

► 95(2)(f.11) ◄

(f.11) [Determination of FAPI — Application of other provisions] — in determining an amount described in paragraph (*f*) for a taxation year of a foreign affiliate of a taxpayer,

(i) if the amount is described in subparagraph (*f*)(i), this Act is to be read without reference to section 26 of the *Income Tax Application Rules*, and

(ii) if the amount is described in subparagraph (*f*)(ii),

(A) this Act is to be read without reference to subsections 14(1.01) to (1.03), 17(1) and 18(4) and section 91, except that, where the foreign affiliate is a member of a partnership, section 91 is to be applied to determine the income or loss of the partnership and for that purpose subsection 96(1) is to be applied to determine the foreign affiliate's share of that income or loss of the partnership, and

(B) if the foreign affiliate has, in the taxation year, disposed of a foreign resource property in respect of a country, it is deemed to have designated, in respect of the disposition and in accordance with subparagraph 59(1)(*b*)(ii) for the taxation year, the amount, if any, by which

(I) the amount determined under paragraph 59(1)(*a*) in respect of the disposition

exceeds

(II) the amount determined under subparagraph 59(1)(*b*)(i) in respect of the disposition;

History: S. 95(2)(*f.11*) was added by S.C. 2009, c. 2, s. 25(2), applicable to taxation years of a foreign affiliate of a taxpayer that begin after October 2, 2007. However, if the taxpayer elects in writing in respect of all of its foreign affiliates and files the election with the Minister of National Revenue on or before the taxpayer's election day, s. 95(2)(*f.11*) also applies to taxation years of a foreign affiliate of the taxpayer that begin before October 2, 2007 and after the date chosen by the taxpayer as described below.

The taxpayer's election day is the later of (i) the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act is assented to [R.A. March 12, 2009] and (ii) the day that is one year after the day on which this Act is assented to [March 12, 2010].

To be valid, an election [described above] must include the identification by the taxpayer of its choice of one of the following dates:

(*i*) December 31, 1994,

(*ii*) December 20, 2002, or

(*iii*) February 27, 2004.

Notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take into account this provision and any election made with respect to it.

► 95(2)(f.12) ◄

(f.12) [Determination of FAPI — Use of calculating currency] — a foreign affiliate of a taxpayer shall determine each of the following amounts using its calculating currency for a taxation year:

(i) subject to paragraph (*f.13*), each capital gain, capital loss, taxable capital gain and allowable capital loss of the foreign affiliate for the taxation year from the disposition, at any time, of a property that, at that time, was an excluded property of the foreign affiliate,

(ii) its income or loss for the taxation year from each active business carried on by it in the taxation year in a country, and

(iii) its income or loss that is included in computing its income or loss from an active business for the taxation year because of paragraph (*a*);

History: S. 95(2)(*f.12*) was added by S.C. 2009, c. 2, s. 25(2), applicable to taxation years of a foreign affiliate of a taxpayer that begin after October 2, 2007. However, if the taxpayer elects in writing in respect of all of its foreign affiliates and files the election with the Minister of National Revenue on or before the taxpayer's election day, s. 95(2)(*f.12*) also applies to taxation years of a foreign affiliate of the taxpayer that begin before October 2, 2007 and after the date chosen by the taxpayer as described below.

The taxpayer's election day is the later of (i) the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act is assented to [R.A. March 12, 2009] and (ii) the day that is one year after the day on which this Act is assented to [March 12, 2010].

To be valid, an election [described above] must include the identification by the taxpayer of its choice of one of the following dates:

(*i*) December 31, 1994,
(*ii*) December 20, 2002, or
(*iii*) February 27, 2004.

Notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take into account this provision and any election made with respect to it.

► 95(2)(f.13) ◄

(f.13) [Determination of FAPI — Conversion to Canadian currency] — where the calculating currency of a foreign affiliate of a taxpayer is a currency other than Canadian currency, the foreign affiliate shall determine the amount included in computing its foreign accrual property income, in respect of the taxpayer for a taxation year of the foreign affiliate, attributable to its capital gain or taxable capital gain, from the disposition of an excluded property in the taxation year, in Canadian currency by converting the amount of the capital gain, or taxable capital gain, otherwise determined under subparagraph (*f.12*)(i) using its calculating currency for the taxation year into Canadian currency using the rate of exchange quoted by the Bank of Canada at noon on the day on which the disposition was made;

History: S. 95(2)(*f.13*) was added by S.C. 2009, c. 2, s. 25(2), applicable to taxation years of a foreign affiliate of a taxpayer that begin after October 2, 2007. However, if the taxpayer elects in writing in respect of all of its foreign affiliates and files the election with the Minister of National Revenue on or before the taxpayer's election day, s. 95(2)(*f.13*) also applies to taxation years of a foreign affiliate of the taxpayer that begin before October 2, 2007 and after the date chosen by the taxpayer as described below.

The taxpayer's election day is the later of (i) the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act is assented to [R.A. March 12, 2009] and (ii) the day that is one year after the day on which this Act is assented to [March 12, 2010].

To be valid, an election [described above] must include the identification by the taxpayer of its choice of one of the following dates:

(*i*) December 31, 1994,
(*ii*) December 20, 2002, or
(*iii*) February 27, 2004.

Notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take into account this provision and any election made with respect to it.

► 95(2)(f.14) ◄

(f.14) [Determination of FAPI — Use of Canadian currency] — a foreign affiliate of a taxpayer shall determine using Canadian currency each amount of its income, loss, capital gain, capital loss, taxable capital gain or allowable capital loss for a taxation year, other than an amount to which paragraph (*f.12*) or (*f.13*) applies;

History: S. 95(2)(*f.14*) was added by S.C. 2009, c. 2, s. 25(2), applicable to taxation years of a foreign affiliate of a taxpayer that begin after October 2, 2007. However, if the taxpayer elects in writing in respect of all of its foreign affiliates and files the election with the Minister of National Revenue on or before the taxpayer's election day, s. 95(2)(*f.14*) also applies to taxation years of a foreign affiliate of the taxpayer that begin before October 2, 2007 and after the date chosen by the taxpayer as described below.

The taxpayer's election day is the later of (i) the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act is assented to [R.A. March 12, 2009] and (ii) the day that is one year after the day on which this Act is assented to [March 12, 2010].

To be valid, an election [described above] must include the identification by the taxpayer of its choice of one of the following dates:

(*i*) December 31, 1994,
(*ii*) December 20, 2002, or
(*iii*) February 27, 2004.

Notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take into account this provision and any election made with respect to it.

► 95(2)(f.15) ◄

(f.15) [Determination of FAPI — Currency for s. 39(2)] — for the purpose of applying subparagraph (*f.12*)(i), the reference in subsection 39(2) to "the currency or currencies of one or more countries other than Canada relative to Canadian currency" is to be read as a reference to "one or more currencies other than the calculating currency relative to the calculating currency" and the references in that subsection to "of a country other than Canada" are to be read as references to "other than the calculating currency";

History: S. 95(2)(*f.15*) was added by S.C. 2009, c. 2, s. 25(2), applicable to taxation years of a foreign affiliate of a taxpayer that begin after October 2, 2007. However, if the taxpayer elects in writing in respect of all of its foreign affiliates and files the election with the Minister of National Revenue on or before the taxpayer's election day, s. 95(2)(*f.15*) also applies to taxation years of a foreign affiliate of the taxpayer that begin before October 2, 2007 and after the date chosen by the taxpayer as described below.

The taxpayer's election day is the later of (i) the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act is assented to [R.A. March 12, 2009] and (ii) the day that is one year after the day on which this Act is assented to [March 12, 2010].

To be valid, an election [described above] must include the identification by the taxpayer of its choice of one of the following dates:

(*i*) December 31, 1994,
(*ii*) December 20, 2002, or
(*iii*) February 27, 2004.

Notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take into account this provision and any election made with respect to it.

Federal Budget Extract
2004 Foreign Affiliate Proposals

[Reproduced below is an excerpt from the January 27, 2009 Federal Budget, which notes that the government plans to consider the recommendations in the report of the Advisory Panel on Canada's System of International Taxation (which can be found at http://www.apcsit-gcrcfi.ca/07/index-eng.html) in deciding how to proceed with the remaining foreign affiliate proposals released on February 27, 2004 that have not yet been enacted.]

The Government will consider the Panel's recommendations relating to foreign affiliates before proceeding with the remaining foreign affiliate measures announced in February 2004, as modified to take into account consultations and deliberations since their release.

Pending Amendment

Draft Legislation — Foreign Affiliates — February 27, 2004

Paragraphs 95(2)(*f.3*) to (*f.94*) are added:

(*f.3*) paragraph (*f.4*) applies to a specified vendor in respect of a particular corporation resident in Canada referred to in the definition "specified vendor" in subsection (3.2), (which specified vendor is referred to in this paragraph and paragraphs (*f.4*), (*f.8*) and (*f.9*) as the "vendor") if

(i) the vendor disposes at any time of a property (which property is referred to in this paragraph and paragraphs (*f.4*) and (*f.5*) and (*f.7*) to (*f.9*) as the "speci-

fied property" and which time is referred to in this paragraph and paragraphs (*f*.4), (*f*.5), (*f*.8) and (*f*.9) as the "original disposition time" of the specified property) to a person or partnership (in this paragraph referred to as the "purchaser") that is, immediately after that time, a specified purchaser in respect of the particular corporation,

(ii) immediately before the original disposition time, the specified property is excluded property of the vendor (or would be excluded property of the vendor if the vendor were, immediately before the original disposition time, a foreign affiliate of the particular corporation), and

(iii) the vendor would, were this Act read without reference to paragraph (*f*.4), have income or a taxable capital gain from the disposition of the specified property;

(*f*.4) if this paragraph applies to a vendor in respect of a particular disposition of specified property referred to in paragraph (*f*.3), the following rules apply:

(i) the vendor's proceeds from the disposition of the specified property are deemed to be

(A) if clause (B) does not apply to the vendor in respect of the disposition, an amount equal to the vendor's adjusted cost base of the specified property at the original disposition time, or

(B) if the vendor that is a foreign affiliate of the particular corporation resident in Canada is a controlled foreign affiliate of the particular corporation resident in Canada at the end of that vendor's taxation year that includes the original disposition time of the specified property and the particular corporation so elects in respect of the disposition in prescribed manner and within the prescribed time, the greater of

(I) the amount determined by clause (A) in respect of the specified property, and

(II) the amount that is the lesser of the fair market value of the consideration received by that vendor in respect of the disposition and the amount that the particular corporation designates in the election,

(ii) the purchaser's cost of the specified property is deemed to be an amount that is equal to the fair market value of the specified property at the original disposition time,

(iii) the vendor's cost of a particular property that was received as consideration for the disposition of the specified property is deemed to be the fair market value of the particular property at the original disposition time, and

(iv) the vendor that is a foreign affiliate of the particular corporation resident in Canada or a foreign affiliate of the particular corporation resident in Canada that is a member of a partnership that is the vendor (which vendor or foreign affiliate is referred to in this subparagraph and subparagraph (*f*.5) as the "relevant foreign affiliate") is deemed to have an unadjusted suspended income or gain in respect of a specified property disposed of, at the original disposition time, by the specified vendor that is equal to the amount, if any, by which

(A) the amount that is the income or twice the amount of the taxable capital gain, as the case may be, that, but for the application of this paragraph, would have been realized by the relevant foreign affiliate in respect of that disposition,

exceeds

(B) the amount that is the income or twice the amount of the taxable capital gain, as the case may be, that was realized by the relevant foreign affiliate in respect of that disposition;

(*f*.5) the relevant foreign affiliate referred to in subparagraph (*f*.4)(iv) is deemed to have income or a capital gain from the disposition of the specified property equal to the amount prescribed to be the adjusted suspended income or gain in respect of the specified property and to have paid to the government of a country an amount equal to the amount prescribed to be the adjusted allocable tax in respect of the adjusted suspended income or gain in respect of the specified property at the earlier of

(i) the first time, after the original disposition time, that a specified purchaser in respect of the particular corporation that holds, immediately before that first time, the specified property makes a triggering disposition of the specified property, and

(ii) the first time, after the original disposition time, that a specified purchaser in respect of the particular corporation (which specified purchaser is referred to in this paragraph and paragraphs (*f*.8) and (*f*.9) as the "current holder") that holds, immediately before that first time, the specified property ceases to be a specified purchaser in respect of the particular corporation otherwise than because of a specified discontinuance of the current holder;

(*f*.6) paragraph (*f*.3) does not apply to a disposition of a property by a person or partnership if

(i) any of paragraphs (2)(*c*), (*c*.2), (*d*), (*d*.1), (*e*), (*e*.1), and (*e*.3) to (*e*.5) and subsections 85.1(5) and 88(3) applies to the person or partnership in respect of the disposition of the property, or

(ii) the property was disposed of

(A) in the ordinary course of an active business of the person or partnership, or

(B) as an adventure or concern in the nature of trade;

(*f*.7) for the purposes of paragraphs (*f*.3) to (*f*.6) and (*f*.8) and (*f*.9) and subsection (3.4), a designated replacement property referred to in clause (*b*)(ii)(A), (B) or (C) of the definition "triggering disposition" in subsection (3.4) is deemed to be the same property as and a continuation of the specified property referred to in that clause;

(*f*.8) for the purposes of paragraphs (*f*.3) to (*f*.7) and (*f*.9) and subsection (3.4), if, at any time, part of a specified property (which specified property is referred to in this paragraph as the "initial specified property") is disposed of by a current holder and the remaining part of the specified property is retained by the current holder,

(i) the part (referred to in this paragraph as the "part interest") of the initial specified property disposed of, at that time, is deemed to be a specified property of the current holder,

(ii) the portion of the unadjusted suspended income or gain attributable to the part interest is deemed to be that proportion of the adjusted suspended income or gain in respect of the whole of the initial specified property that the fair market value at that time of the part interest is of the fair market value at that time of the initial specified property,

(iii) the part (referred to in this paragraph as the "remaining interest") of the initial specified property not disposed of at that time is deemed to be a specified property of the current holder that was disposed of at the original disposition time, and

(iv) the amount of income or gain that would have been realized on the disposition of the remaining interest at the original disposition time is deemed to be the amount, if any, by which the unadjusted suspended income or gain in respect of the initial specified property exceeds the amount determined by subparagraph (ii) to be the unadjusted suspended income or gain in respect of the part interest;

(*f*.9) for the purposes of paragraphs (*f*.3) to (*f*.8), if a current holder disposes, at a particular time, of the whole of a specified property (referred to in this paragraph as the "initial specified property") and as part of a transaction, or series of transactions or events, that includes the disposition of the initial specified property, a specified purchaser in respect of the particular corporation acquires a designated replacement property in respect of the initial specified property,

(i) the designated replacement property (referred to in this paragraph as the "remaining interest") is deemed

to be a specified property of the current holder that was disposed of at the original disposition time,

(ii) the unadjusted suspended income or gain in respect of the remaining interest is deemed to be that proportion of the unadjusted suspended income or gain in respect of the whole of the initial specified property (determined without reference to subparagraph (iii)) that the fair market value of the remaining interest, at the time it was acquired, is of the fair market value, at the particular time, of the initial specified property, and

(iii) the unadjusted suspended income or gain in respect of the initial specified property is deemed to be the amount, if any, by which the unadjusted suspended income or gain in respect of the initial specified property (determined without reference to this subparagraph) exceeds the amount determined by subparagraph (ii) to be the unadjusted suspended income or gain in respect of the remaining interest;

(*f*.91) if, at a particular time, a non-resident corporation that, immediately before the particular time, was not a foreign affiliate of a particular taxpayer resident in Canada, or of a person or partnership that would — if the particular taxpayer were a taxpayer referred to in paragraphs (2)(*f*)(iii) to (viii) — be described by any of those subparagraphs (the particular taxpayer or each of those persons or partnerships being referred to in this paragraph and paragraphs (*f*.92), (*f*.93) and (*f*.94) as a "particular Canadian shareholder", the non-resident corporation being referred to in this paragraph and paragraph (*f*.92) as a "particular foreign affiliate" in respect of the particular Canadian shareholder and the particular time being referred to in this paragraph and paragraph (*f*.92) as the "status change time" in respect of the particular foreign affiliate of the particular Canadian shareholder) becomes a foreign affiliate of the particular Canadian shareholder, the following rules apply in computing the particular foreign affiliate's foreign accrual property income in respect of the particular Canadian shareholder or a person or partnership that would — if the person or partnership were a taxpayer referred to in subparagraphs (2)(*f*)(iii) to (viii) — be described by any of those subparagraphs (the particular Canadian shareholder or each of those persons or partnerships is referred to in paragraph (*f*.92) as a "relevant shareholder") for any taxation year of the particular foreign affiliate that ends after the status change time:

(i) for the purpose of determining the cumulative eligible capital of the particular foreign affiliate, at the beginning of its taxation year that includes the status change time in respect of the particular foreign affiliate in respect of the particular Canadian shareholder, in respect of each business other than an active business carried on by the particular foreign affiliate in that taxation year, the particular foreign affiliate is deemed to have disposed, immediately before the beginning of that taxation year, of each eligible property at that time of the particular foreign affiliate in respect of each business carried on by the particular foreign affiliate that is, at that time, a business other than an active business, for proceeds equal to the cost to the particular foreign affiliate of the eligible property at the time of that disposition,

(ii) for the purpose of determining the cost of eligible property to the particular foreign affiliate, and the cumulative eligible capital of the particular foreign affiliate, for its taxation year that includes the status change time in respect of the particular foreign affiliate in respect of the particular Canadian shareholder and for each subsequent taxation year, in respect of each business other than an active business carried on by the particular foreign affiliate in that taxation year or subsequent taxation year, the particular foreign affiliate is deemed to have acquired, immediately after the beginning of its particular taxation year that includes the status change time in respect of the particular foreign affiliate in respect of the particular Canadian shareholder, each eligible property of the particular foreign affiliate, immediately before the beginning of the particular year, in respect of each business carried on by the particular foreign affiliate that is immediately before the beginning of the particular year a business, other than an active business, at a cost equal to the lesser of

(A) the fair market value of the eligible property at the status change time, and

(B) the cost to the particular foreign affiliate of the eligible property immediately before the beginning of the particular year,

(iii) eligible property, in respect of a business carried on by the particular foreign affiliate, means a property, right or thing in respect of which the particular foreign affiliate has, after 1971 and before the status change time, made an eligible capital expenditure in respect of the business,

(iv) for the purpose of determining the undepreciated capital cost to the particular foreign affiliate, at the beginning of its taxation year that includes the status change time in respect of the particular foreign affiliate in respect of the particular Canadian shareholder, of its depreciable capital property used or held in the course of carrying on a business, other than an active business, of the particular foreign affiliate in that taxation year,

(A) the particular foreign affiliate is deemed to have disposed, immediately before the beginning of that taxation year, of each depreciable capital property of the particular foreign affiliate, held by the particular foreign affiliate and used or held in the course of carrying on a business of the particular foreign affiliate that is a business other than an active business immediately before the beginning of that year, for proceeds equal to the capital cost to the particular foreign affiliate of the depreciable property at the beginning of that year, and

(B) at the time that is immediately after the time of that disposition, the particular foreign affiliate's undepreciated capital cost of its depreciable capital property, in respect of each such business that is a business other than an active business, is deemed to be nil, and

(v) for the purpose of determining the capital cost and undepreciated capital cost to the particular foreign affiliate of its depreciable capital property used or held in the course of carrying on each business other than an active business carried on by the particular foreign affiliate, for its taxation year that includes the status change time in respect of the particular foreign affiliate in respect of the particular Canadian shareholder and for subsequent taxation years, the particular foreign affiliate is deemed to have acquired, at the time that is immediately after the beginning of its particular taxation year that includes the status change time in respect of the particular foreign affiliate in respect of the particular Canadian shareholder, each depreciable capital property (each such depreciable capital property referred to in this subparagraph and paragraph (*f*.93) as a "specified depreciable property") that was owned by the particular foreign affiliate and used or held by the particular foreign affiliate, at the time that is immediately before the beginning of the particular taxation year, in the course of the carrying on of a business, other than an active business, of the particular foreign affiliate, at that time, at a capital cost equal to the lesser of

(A) the fair market value of the specified depreciable property at the status change time, and

(B) the capital cost to the particular foreign affiliate of the specified depreciable property at the time immediately before the beginning of the particular taxation year;

(*f*.92) in applying paragraph (*a*) of the description of E in the definition "cumulative eligible capital" in subsection 14(5) in respect of a particular disposition, that occurs after the beginning of the taxation year of a particular

foreign affiliate of a relevant shareholder that includes the status change time in respect of the particular foreign affiliate in respect of the particular Canadian shareholder, by the particular foreign affiliate of a relevant shareholder, in respect of which a particular consideration (that was eligible property that was in existence at the time immediately before the status change time) was provided by the particular foreign affiliate, the particular foreign affiliate's proceeds from the particular disposition, are deemed to be the amount, if any, determined by the formula

$$A - (B + C)$$

where

A is the particular foreign affiliate's proceeds from the particular disposition, as otherwise determined,

B is the lesser of

(i) the amount, if any, by which

(A) the fair market value, of the eligible property, immediately before the status change time in respect of the particular Canadian shareholder

exceeds

(B) the particular foreign affiliate's cost, of the eligible property, immediately before the particular disposition, and

(ii) the amount, if any, by which the particular foreign affiliate's proceeds from the particular disposition, as otherwise determined, exceeds the particular foreign affiliate's cost of the eligible property immediately before the particular disposition, and

C is the lesser of

(i) the amount, if any, by which

(A) the particular foreign affiliate's cost, of the eligible property, immediately before the beginning of the taxation year of the particular foreign affiliate that included the status change time in respect of the particular Canadian shareholder

exceeds

(B) the fair market value of the eligible property immediately before the status change time in respect of the particular Canadian shareholder, and

(ii) the amount, if any, by which the particular foreign affiliate's proceeds from the particular disposition, as otherwise determined, exceeds the particular foreign affiliate's cost of the eligible property immediately before the particular disposition;

(*f*.93) if, at any time after the beginning of the taxation year of the particular foreign affiliate that includes the status change time in respect of the particular foreign affiliate in respect of the particular Canadian shareholder, the particular foreign affiliate disposes of a particular specified depreciable property, the particular foreign affiliate's proceeds from the disposition of the particular specified depreciable property are deemed to be the amount, if any, determined by the formula

$$A - (B + C)$$

where

A is the particular foreign affiliate's proceeds of disposition in respect of the disposition of the particular specified depreciable property, as otherwise determined,

B is the lesser of

(i) the amount, if any, by which

(A) the fair market value, of the particular specified depreciable property, immediately before the status change time in respect of the particular Canadian shareholder

exceeds

(B) the particular foreign affiliate's capital cost of the particular specified depreciable property, immediately before the disposition, and

(ii) the amount, if any, by which the particular foreign affiliate's proceeds from the disposition of the particular specified depreciable property, as otherwise determined, exceed the particular foreign affiliate's capital cost of the specified depreciable property at the time immediately before the time of the disposition, and

C is the lesser of

(i) the amount, if any, by which

(A) the particular foreign affiliate's capital cost of the particular specified depreciable property immediately before the beginning of the taxation year of the particular foreign affiliate that includes the status change time in respect of the particular Canadian shareholder

exceeds

(B) the fair market value of the particular specified depreciable property at the time immediately before the status change time in respect of the particular Canadian shareholder, and

(ii) the amount, if any, by which the particular foreign affiliate's proceeds from the disposition of the particular specified depreciable property, as otherwise determined, exceed the particular foreign affiliate's capital cost of the particular specified depreciable property, immediately before the disposition;

(*f*.94) for the purposes of paragraphs (*f*.5) and (*f*.91) to (*f*.93), if the relevant foreign affiliate referred to in paragraph (*f*.5) or the particular foreign affiliate referred to in any of paragraphs (*f*.91) to (*f*.93) (which relevant foreign affiliate or particular foreign affiliate, as the case may be, is referred to in this paragraph as the "specified foreign affiliate") has been wound up into another non-resident corporation (referred to in this paragraph as the "foreign parent corporation") or merged or combined with one or more other non-resident corporations to form one non-resident corporate entity (referred to in this paragraph as the "new foreign corporation"), the foreign parent corporation or the new foreign corporation, as the case may be, is deemed to be the same corporation as and a continuation of the specified foreign affiliate, if

(i) the surplus entitlement percentage of the particular corporation resident in Canada, immediately before the merger or combination or the winding-up, in respect of the specified foreign affiliate is not less than 90%, and

(ii) the surplus entitlement percentage of the particular corporation resident in Canada, immediately after the merger or combination or the winding-up, in respect of the foreign parent corporation or new foreign corporation, as the case may be, is not less than 90%;

Applicable: Paragraphs 95(2)(*f*.3) to (*f*.9) apply to a disposition of property that occur after February 27, 2004, except that those paragraphs do not apply in respect of a disposition of property that is required to be made under an agreement in writing made by the vendor of the property on or before February 27, 2004.

Paragraphs 95(2)(*f*.91) to (*f*.93) apply in respect of non-resident corporations that become foreign affiliates after February 27, 2004.

Paragraph 95(2)(*f*.94) of the Act applies after February 27, 2004.

Explanatory Note:

Paragraph 95(2)(f.3) to (f.9)

New paragraphs 95(2)(*f*.3) to (*f*.9) of the Act put into place a regime that, in general terms, is designed to suspend the recognition of the income or capital gain that would otherwise arisen upon an internal disposition of an excluded property. Generally, this suspended gain is recognized at the time the property is disposed of in an external disposition. This regime replaces the rules found in existing subsection 5907(5.1) of the Regulations and the rules found in proposed subsections 5907(5.1) to (5.3) of the Regulations that were part of the December 20, 2002 proposals.

New paragraphs 95(2)(*f*.3) to (*f*.9) will apply to dispositions of property that occur after February 27, 2004. However, those paragraphs will not apply to a disposition by a vendor that is

required to be made under an agreement in writing made by the vendor on or before February 27, 2004.

Paragraph 95(2)(f.3)

New paragraph 95(2)(*f.3*) of the Act provides the circumstances under which new paragraph 95(2)(*f.4*) applies to a specified vendor (defined in new subsection 95(3.2)) in respect of a particular corporation resident in Canada if the following conditions are met:

- the specified vendor disposes at any time of a property that, at that time, is excluded property of the vendor (or would be excluded property of the vendor if the vendor were, at that time, a foreign affiliate of the particular corporation) to a person or partnership that is, immediately after that time, a specified purchaser (defined in new subsection 95(3.2)) in respect of the particular corporation, and
- if this Act were read without reference to paragraph 95(2)(f.4), the specified vendor would have income or a taxable capital gain from the disposition of the property.

In new paragraphs 95(2)(*f.4*) and (*f.5*) and (*f.7*) to (*f.9*), the specified vendor is referred to as the "vendor", the time of the disposition of the excluded property is referred to as the "original disposition time" and the property is referred to as the "specified property".

Paragraph 95(2)(f.4)

New paragraph 95(2)(*f.4*) of the Act sets out rules that apply to a vendor and a purchaser in respect of a particular disposition of specified property referred to in new paragraph 95(2)(*f.3*). In new paragraph 95(2)(*f.4*), the specified vendor is referred to as the "vendor", the time of the disposition of the excluded property is referred to as the "original disposition time" and the property is referred to as the "specified property". The rules can be summarized as follows:

- The vendor's proceeds from the disposition of the specified property are deemed to be equal to the vendor's adjusted cost base of the specified property at the original disposition time (referred to in here in this commentary as the "relevant ACB amount") or, if the vendor that is a foreign affiliate of the particular corporation resident in Canada is a controlled foreign affiliate of the particular corporation resident in Canada at the end of that vendor's taxation year that includes the original disposition time of the specified property and the particular corporation resident in Canada so elects in prescribed manner and within the prescribed time (see proposed new section 5916 of the Regulations), the proceeds from the disposition of the property can be equal to an amount greater than the relevant ACB amount, but cannot exceed the fair market value of the specified property at the original disposition time.
- The cost to the purchaser of the specified property is deemed to be equal to the fair market value of the specified property at the original disposition time.
- The cost to the vendor of a particular property that was received as consideration for the disposition of the specified property is deemed to be the fair market value of the particular property at the original disposition time.
- The foreign affiliate of the particular corporation resident in Canada that is the vendor or that is a member of a partnership that is the vendor (which foreign affiliate is referred to in subparagraph 95(2)(*f.4*)(iv) and in paragraph 95(2)(*f.5*) as the "relevant foreign affiliate") is deemed to have an unadjusted suspended income or gain in respect of a specified property disposed of, at the original disposition time, equal to the amount, if any, by which

  — the amount that is the income or twice the amount of the taxable capital gain, as the case may be, that, but for the application of this paragraph, would have been realized by the relevant foreign affiliate in respect of that disposition,

  exceeds

  — the amount that is the income or twice the amount of the taxable capital gain, as the case may be, that was realized by the relevant foreign affiliate in respect of that disposition.

Paragraph 95(2)(f.5)

New paragraph 95(2)(*f.5*) of the Act deems the relevant foreign affiliate referred to in subparagraph 95(2)(*f.4*)(iv) to have income or a taxable capital gain from the disposition of the specified property equal to the amount prescribed to be the adjusted suspended income or gain (see proposed new subsection 5913(1) of the Regulations) in respect of the specified property and to have paid to the government of a country an amount equal to the amount prescribed by regulation to be the adjusted allocable tax (see proposed new subsection 5913(2) of the Regulations) in respect of the adjusted suspended income or gain in respect of the specified property at the earlier of

- the first time, after the original disposition time, that a specified purchaser in respect of the particular corporation that holds, immediately before that first time, the specified property and makes a triggering disposition (see definition in subsection 95(3.4)) of the specified property, or
- the first time, after the original disposition time, that a specified purchaser in respect of the particular corporation (which specified purchaser is referred to here and in paragraphs 95(2)(*f.8*) and (*f.9*) as the "current holder") that holds, immediately before that first time, the specified property, and ceases, at that first time, to be a specified purchaser in respect of the particular corporation otherwise than because of a specified discontinuance of the current holder.

Paragraph 95(2)(f.6)

New paragraph 95(2)(*f.6*) of the Act ensures that paragraph 95(2)(*f.3*) will not apply to a disposition of a property by a person or partnership if

- any of subsections 85.1(5) and 88(3) and paragraphs 95(2)(*c*), (*c.2*), (d), (*d.1*), (*e*), (*e.1*), (*e.3*), (*e.4*) and (*e.5*) applies to the person or partnership in respect of the disposition of the property, or
- the property was disposed of in the ordinary course of an active business of the person or partnership or was disposed of as an adventure or concern in the nature of trade.

Paragraph 95(2)(f.7)

New paragraph 95(2)(*f.7*) of the Act provides that for the purposes of paragraphs 95(2)(*f.3*) to (*f.6*) and (*f.8*) and (*f.9*) and subsection 95(3.4), a designated replacement property referred to in clause (*b*)(ii)(A), (B) or (C) of the definition "triggering disposition" in new subsection 95(3.4) is deemed to be the same property as the specified property referred to in that clause.

Paragraph 95(2)(f.8)

New paragraph 95(2)(*f.8*) of the Act provides that for the purposes of paragraph 95(2)(*f.3*) to (*f.7*) and (*f.9*) and subsection 95(3.4), where, at any time, part of a specified property (referred to here as the initial specified property) is disposed of by a current holder (defined in new paragraph 95(2)(*f.5*)) and the remaining part of the specified property is retained by the current holder, the following rules apply:

- The part (referred to here as the "part interest") of the initial specified property disposed of, at that time, is deemed to be a specified property of the current holder.
- The portion of the unadjusted suspended income or gain attributable to the part interest is deemed to be that proportion of the adjusted suspended income or gain in respect of the whole of the initial specified property that the fair market value at that time of the part interest is of the fair market value at that time of the initial specified property.
- The part (referred to here as the "remaining interest") of the initial specified property not disposed of at that time is deemed to be a specified property of the current holder that was disposed of at the original disposition time.
- The amount of income or gain that would have been realized on the disposition of the remaining interest at

the original disposition time is deemed to be the amount, if any, by which the unadjusted suspended income or gain in respect of the initial specified property exceeds the amount determined to be the unadjusted suspended income or gain in respect of the part interest.

Paragraph 95(2)(f.9)

New paragraph 95(2)(*f.9*) of the Act provides that for the purposes of paragraphs 95(2)(*f.3*) to (*f.8*), if a current holder (defined in new paragraph 95(2)(*f.5*)) disposes, at any particular time, of the whole of a specified property (referred to here as the "initial specified property") and as part of a transaction, or series of transactions or events, that includes the disposition of the initial specified property, a specified purchaser (defined in new subsection 95(3.2)) in respect of the particular corporation acquires a designated replacement property (referred to here as the "remaining interest") in respect of the initial specified property, the following rules apply:

- The remaining interest is deemed to be a specified property of the current holder that was disposed of at the original disposition time. (Subparagraph 95(2)(*f.9*)(i))
- The unadjusted suspended income or gain in respect of the remaining interest is deemed to be that portion of the unadjusted suspended income or gain in respect of the whole of the initial specified property (determined without reference to subparagraph 95(2)(*f.9*)(iii)) that the fair market value of the remaining interest, at the time it was acquired, is of the fair market value, at the particular time, of the initial specified property. (Subparagraph 95(2)(*f.9*)(ii))
- The unadjusted suspended income or gain in respect of the initial specified property is deemed to be the amount, if any, by which the unadjusted suspended income or gain in respect of the initial specified property (determined without reference to subparagraph 95(2)(*f.9*)(iii)) exceeds the amount determined by subparagraph 95(2)(*f.9*)(ii) to be the unadjusted suspended income or gain in respect of the remaining interest. (Subparagraph 95(2)(*f.9*)(iii))

Paragraphs 95(2)(f.91) to (f.93)

In general terms, new paragraphs 95(2)(*f.91*) to (*f.93*) of the Act introduce rules relating to the determination of the cost of eligible capital property, and the capital cost and the undepreciated capital cost of depreciable capital property, of a non-resident corporation that becomes a foreign affiliate of a taxpayer resident in Canada for the purposes of computing the foreign affiliate's foreign accrual property income in respect of the taxpayer resident in Canada or in respect of a specified party in respect of the taxpayer resident in Canada. These rules complement the rules in new paragraph 95(2)(*f.2*) and are comparable to but not the same as the rules, in existing subsections 111(5.1) and (5.2) of the Act, that apply when control of a corporation has been acquired.

Paragraph 95(2)(f.91)

New paragraph 95(2)(*f.91*) of the Act provides certain additional rules for computing the foreign accrual property income of a foreign affiliate of a taxpayer in respect of the taxpayer.

New paragraph 95(2)(*f.91*) applies if, at a particular time, a non-resident corporation that, immediately before the particular time, was not a foreign affiliate of a particular taxpayer resident in Canada, or of a person or partnership that would — if the particular taxpayer were a taxpayer referred to in paragraphs 95(2)(*f*)(iii) to (viii) — be described by any of those subparagraphs (the particular taxpayer or each of those persons or partnerships being referred to in this paragraph and new paragraphs 95(2)(*f.92*), (*f.93*) and (*f.94*) as a "particular Canadian shareholder") becomes a foreign affiliate of the particular Canadian shareholder.

The non-resident corporation is referred to in this paragraph and paragraph 95(2)(*f.92*) as a "particular foreign affiliate" in respect of the particular Canadian shareholder. The particular time is referred to in this paragraph and in paragraph 95(2)(f.92) as the "status change time" in respect of the particular foreign affiliate of the particular Canadian shareholder.

New paragraph 95(2)(*f.91*) provides rules that apply in computing the particular foreign affiliate's foreign accrual property income in respect of the particular Canadian shareholder or a person or partnership that would — if the person or partnership were a taxpayer referred to in subparagraphs 95(2)(*f*)(iii) to (viii) — be described by any of those subparagraphs (the particular Canadian shareholder or each of those persons or partnerships being referred to in paragraph 95(2)(*f.92*) as a "relevant shareholder") for any taxation year of the particular foreign affiliate that ends after the status change time.

Those rules can be summarized as follows:

- For the purpose of determining the cumulative eligible capital of the particular foreign affiliate in respect of the particular Canadian shareholder, at the beginning of the particular foreign affiliate's taxation year that includes the status change time, in respect of each business (other than an active business) carried on by the particular foreign affiliate in that taxation year, the particular affiliate is deemed to have disposed, immediately before the beginning of that taxation year, of each "eligible property" (see third paragraph, below) of the particular foreign affiliate, at the time of that disposition, in respect of each business (other than an active business) carried on by the particular foreign affiliate at the time of that disposition, for proceeds equal to the cost to the particular foreign affiliate of the eligible property at the time of that disposition.
- For the purpose of determining the cost of eligible property to the particular foreign affiliate in respect of the particular Canadian shareholder, and the cumulative eligible capital of the particular foreign affiliate in respect of the particular Canadian shareholder, for its taxation year that includes the status change time in respect of the particular foreign affiliate in respect of the particular Canadian shareholder and for each subsequent taxation year, in respect of each business (other than an active business) of the particular foreign affiliate in that taxation year or subsequent taxation year, the particular foreign affiliate is deemed to have acquired, immediately after the beginning of its particular taxation year that includes the status change time in respect of the particular foreign affiliate in respect of the particular Canadian shareholder, each eligible property of the particular foreign affiliate, immediately before the beginning of the particular year, in respect of each business carried on by the particular foreign affiliate that is, immediately before the beginning of the particular year, a business (other than an active business) of the particular foreign affiliate, at a cost equal to the lesser of
  - the fair market value of the eligible property at the status change time, and
  - the cost to the particular foreign affiliate of the eligible property immediately before the beginning of the particular year.
- "Eligible property" in respect of a business carried on by the particular foreign affiliate is a property, right or thing in respect of which the particular foreign affiliate has, after 1971 and before the status change time, made an eligible capital expenditure in respect of the business.
- For the purpose of determining, at the beginning of the particular foreign affiliate's taxation year that includes the status change time in respect of the foreign affiliate in respect of the particular Canadian shareholder, the undepreciated capital cost to the particular foreign affiliate of a depreciable capital property used or held by the particular foreign affiliate in the course of carrying on a business other than an active business of the particular foreign affiliate in that taxation year,
  - the particular foreign affiliate is deemed to have disposed, immediately before the beginning of that taxation year, of each depreciable capital property of the particular foreign affiliate, held by the particular foreign affiliate and used or held in the course of carrying on a business of the particular foreign affiliate that is a business (other than an active business) immediately before the beginning of that taxation year, for proceeds equal to the capital cost to the particular foreign affiliate of the depreciable property at the beginning of that year, and

— at the time that is immediately after the time of that disposition, the particular foreign affiliate's undepreciated capital cost of its depreciable capital property, in respect of each such business that is a business other than an active business, is deemed to be nil.

- For the purpose of determining the capital cost and undepreciated capital cost to the particular foreign affiliate in respect of the particular Canadian shareholder of its depreciable capital property used or held in the course of carrying on each business (other than an active business) carried on by the particular foreign affiliate, for the particular foreign affiliate's taxation year that includes the status change time in respect of the particular foreign affiliate in respect of the particular Canadian shareholder and for its subsequent taxation years, the particular foreign affiliate is deemed to have acquired, at the time that is immediately after the beginning of its taxation year that includes the status change time, each depreciable capital property (each such depreciable capital property referred to in this subparagraph and paragraph 95(2)(*f*.93) as a "specified depreciable property") that was owned by the particular foreign affiliate and used or held by the particular foreign affiliate, immediately before the beginning of the foreign affiliate's taxation year that includes the status change time, in the course of carrying on a business of the particular foreign affiliate other than an active business, at a capital cost equal to the lesser of

  — the fair market value of the specified depreciable property at the status change time, and

  — the capital cost to the particular foreign affiliate of the specified depreciable property immediately before the beginning of the foreign affiliate's taxation year that includes the status change time.

New paragraph 95(2)(*f*.91) applies in respect of non-resident corporations that become foreign affiliates of a particular taxpayer resident in Canada after February 27, 2004.

Paragraph 95(2)(f.92)

New paragraph 95(2)(*f*.92) of the Act is consequential to new paragraph 95(2)(*f*.91). It provides that, in applying paragraph (*a*) of the description of E in the definition "cumulative eligible capital" in subsection 14(5) in respect of a particular disposition that occurs after the beginning of the taxation year of a the particular foreign affiliate that includes the status change time (defined in paragraph 95(2)(*f*.91)) in respect of the particular foreign affiliate in respect of the particular Canadian shareholder, (defined in paragraph 95(2)(*f*.91)), by the particular foreign affiliate (defined in paragraph 95(2)(*f*.91)) of a relevant shareholder (defined in paragraph 95(2)(*f*.91)), in respect of which a particular consideration (that was eligible property defined in paragraph 95(2)(*f*.91) that was in existence at the time immediately before the status change time was provided by the particular foreign affiliate, the particular foreign affiliate's proceeds from the particular disposition, are deemed to be the amount, if any, determined by the formula

A – (B + C)

where

A is the particular foreign affiliate's proceeds from the particular disposition, as otherwise determined,

B is the lesser of

— the amount, if any, by which

- the fair market value, of the eligible property, immediately before the status change time in respect of the particular Canadian shareholder

exceeds

- the particular foreign affiliate's cost, of the eligible property, immediately before the particular disposition, and

— the amount, if any, by which the particular foreign affiliate's proceeds from the particular disposition, as otherwise determined, exceeds the particular foreign affiliate's cost of the eligible property, immediately before the particular disposition, and

C is the lesser of

— the amount, if any, by which

- the particular foreign affiliate's cost, of the eligible property, immediately before the beginning of the taxation year of the particular foreign affiliate that included the status change time in respect of the particular Canadian shareholder

exceeds

- the fair market value, of the eligible property, immediately before the status change time in respect of the particular Canadian shareholder, and

— the amount, if any, by which the particular foreign affiliate's proceeds from the particular disposition, as otherwise determined, exceeds the particular foreign affiliate's cost of the eligible property, immediately before the disposition.

New paragraph 95(2)(f.92) applies in respect of non-resident corporations that become foreign affiliates after February 27, 2004.

Paragraph 95(2)(f.93)

New paragraph 95(2)(*f*.93) of the Act is consequential to new paragraph 95(2)(*f*.91). It provides that if, at any time after the beginning of the taxation year of the particular foreign affiliate (defined in paragraph 95(2)(*f*.91)) that includes the status change time (defined in paragraph 95(2)(*f*.91)) in respect of the particular foreign affiliate in respect of the particular Canadian shareholder (defined in paragraph 95(2)(*f*.91)), the particular foreign affiliate disposes of a particular specified depreciable property (defined in paragraph 95(2)(*f*.91)), the particular foreign affiliate's proceeds from the disposition of the particular specified depreciable property are deemed to be the amount, if any, determined by the formula

A – (B + C)

where

A is the particular foreign affiliate's proceeds of disposition in respect of the disposition of the particular specified depreciable property, as otherwise determined,

B is the lesser of

— the amount, if any, by which

- the fair market value, of the particular specified depreciable property, immediately before the status change time in respect of the particular Canadian shareholder

exceeds

- the particular foreign affiliate's capital cost of the particular specified depreciable property, immediately before the disposition, and

— the amount, if any, by which the particular foreign affiliate's proceeds from the disposition of the particular specified depreciable property, as otherwise determined, exceed the particular foreign affiliate's capital cost of the particular specified depreciable property immediately before the time of the disposition, and

C is the lesser of

— the amount, if any, by which

- the particular foreign affiliate's capital cost of the particular specified depreciable property immediately before the beginning of the taxation year of the particular foreign affiliate that includes the status change time in respect of the particular Canadian shareholder

exceeds

- the fair market value of the particular specified depreciable property at the time immediately before the status change time in respect of the particular Canadian shareholder, and

— the amount, if any, by which the particular foreign affiliate's proceeds from the disposition of the particular specified depreciable property, as otherwise determined, exceed the particular foreign affiliate's capital cost of the particular specified depreciable property, immediately before the disposition.

New paragraph 95(2)(*f*.93) applies in respect of non-resident corporations that become foreign affiliates after February 27, 2004.

Paragraph 95(2)(f.94)

New paragraph 95(2)(*f*.94) of the Act provides that, for the purposes of paragraphs 95(2)(*f*.5) and (*f*.91) to (*f*.93), if the relevant foreign affiliate referred to in paragraph 95(2)(*f*.5) or the particular foreign affiliate referred to in any of paragraphs 95(2)(*f*.91) to (*f*.93) (in either case, the "specified foreign affiliate") has been wound up into another non-resident corporation (the "foreign parent corporation") or merged or combined with one or more other non-resident corporations to form one non-resident corporate entity (the "new foreign corporation"), the foreign parent corporation or the new foreign corporation, as the case may be, is deemed to be the same corporation as and a continuation of the specified foreign affiliate, if

- the surplus entitlement percentage of the particular corporation resident in Canada, immediately before the merger or combination or the winding-up, in respect of the specified foreign affiliate is not less than 90%, and
- the surplus entitlement percentage of the particular corporation resident in Canada, immediately after the merger or combination or the winding-up, in respect of the foreign parent corporation or new foreign corporation, as the case may be, is not less than 90%.

New paragraph 95(2)(*f*.94) applies after February 27, 2004.

Department of Finance Comfort Letter [Proposed Paragraphs 95(2)(e.3) and (f.4) — Dispositions of Excluded Property]

June 6, 2006

Dear XXXX

SUBJECT: Proposed paragraphs 95(2)(*e*.3) and (*f*.4) of the *Income Tax Act*

I am writing in response to your letter dated March 31, 2006 in connection with proposed paragraphs 95(2)(*e*.3) and (*f*.4) of the *Income Tax Act*, as contained in the foreign affiliate proposals announced on February 27, 2004.

You raise issues concerning the tax results that may occur, because of draft subparagraph 95(2)(*e*.3)(i) or (*f*.4)(i) of the foreign affiliate proposals, when there is a disposition of a depreciable property, an eligible capital property or a foreign resource property of a foreign affiliate of a taxpayer resident in Canada or a partnership of which a foreign affiliate of a taxpayer resident in Canada is a member. Under those proposed subparagraphs, the property is treated as having been disposed of for proceeds of disposition equal to the holder's adjusted cost base of the property (or such greater amount as the taxpayer is permitted to elect). Any income, gain or loss arising from the disposition would be included in computing the foreign affiliate's foreign accrual property income in respect of the taxpayer.

Your concern arises from the fact that, in the case of depreciable property, foreign accrual property income may arise on a disposition to which those provisions apply since the adjusted cost base of the property to the holder may exceed the cost amount of the property to the holder and the taxpayer is not permitted to elect proceeds of disposition for the holder that are equal to the holder's cost amount of the property in order to avoid this undesired result. We also noted your uncertainty as to how those provisions would apply to property (such as resource property or eligible capital property) that is not capital property.

We have previously identified these issues and intend to recommend modifications to the foreign affiliate proposals that would eliminate them. The revisions to proposed subparagraph 95(2)(*c*.3)(i) or (*f*.4)(i) would (except where the taxpayer elects otherwise) permit the foreign affiliate to treat its proceeds of disposition in respect of a disposition of an excluded property to be equal to an amount that would result in no immediate income, gain, loss, surplus or deficit in respect of the disposition. The income, gain, loss, surplus or deficit amount that has not been recognized at the time of the disposition would be recognized when the appropriate circumstances occur. It is anticipated that these revisions to draft subparagraphs 95(2)(*e*.3)(i) and (*f*.4)(i) would have the same application date as the application date of the draft subparagraph.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

► 95(2)(g) ◄

(g) [Determination of FAPI — Foreign currency fluctuations] — income earned, a loss incurred or a capital gain or capital loss realized, as the case may be, in a taxation year by a particular foreign affiliate of a taxpayer in respect of which the taxpayer has a qualifying interest throughout the taxation year or a particular foreign affiliate of a taxpayer that is a controlled foreign affiliate of the taxpayer throughout the taxation year, because of a fluctuation in the value of the currency of a country other than Canada relative to the value of Canadian currency, is deemed to be nil if it is earned, incurred or realized in reference to any of the following sources:

(i) a debt obligation that was owing to

(A) another foreign affiliate of the taxpayer in respect of which the taxpayer has a qualifying interest throughout the year (which other foreign affiliate is referred to in this paragraph as a "qualified foreign affiliate") by the particular affiliate, or

(B) the particular affiliate by a qualified foreign affiliate,

(ii) the redemption, cancellation or acquisition of a share of the capital stock of, or the reduction of the capital of, the particular affiliate or a qualified foreign affiliate (which particular affiliate or which qualified foreign affiliate is referred to in this subparagraph as the "issuing corporation") by the issuing corporation, or

(iii) the disposition to a qualified foreign affiliate of a share of the capital stock of another qualified foreign affiliate;

History: S. 95(2)(*g*) was replaced by S.C. 2007, c. 35, s. 26(13), applicable, subject to the application below, to taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002, except that, for taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002 and before 2009, paragraph 95(2)(*g*) shall be read as follows:

"(*g*) income earned, a loss incurred or a capital gain or capital loss realized, as the case may be, in a taxation year by a particular foreign affiliate of a taxpayer in respect of which the taxpayer has a qualifying interest throughout the taxation year or that is a controlled foreign affiliate of the taxpayer throughout the taxation year, because of a fluctuation in the value of the currency of a country other than Canada relative to the value of Canadian currency, is deemed to be nil if it is earned, incurred or realized in reference to any of the following sources:

(i) a debt obligation that was owing to

(A) another foreign affiliate of the taxpayer in respect of which the taxpayer has a qualifying interest throughout the year or any other non-resident corporation to which the particular affiliate and the taxpayer are related throughout the year (which other foreign affiliate or other non-resident corporation is referred to in this paragraph as a 'qualified foreign corporation'), or

(B) the particular affiliate by a qualified foreign corporation,

(ii) the redemption, cancellation or acquisition of a share of the capital stock of, or the reduction of the capital of, the particular affiliate or a qualified foreign corporation (which particular affiliate or which qualified foreign affiliate is referred to in this subparagraph as the 'issuing corporation')by the issuing corporation, or

(iii) the disposition to a qualified foreign corporation of a share of the capital stock of another qualified foreign corporation;"

[Global Section 95 Election] If a taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2007, paragraph 95(2)(*g*) being read in the manner described in the application above, applies to taxation years, of all foreign affiliates of the taxpayer, that begin after 1994 and before December 21, 2002. [**Editorial Note:** See Department of Finance News Release No. 2008-048, dated June 27, 2008,

reproduced before s. 95(1), regarding a proposed extension of the election deadline.]

If a taxpayer has made what would be a valid Global Section 95 Election described above, and the taxpayer has, on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2010, filed with the Minister of National Revenue a notice in writing to revoke the election, the election is deemed, otherwise than for the purpose of this revocation, never to have been made.

Notwithstanding subsections 152(4) to (5), any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take an election referred to above, or a revocation referred to above, into account.

S. 95(2)(*g*) formerly read:

"(*g*) where, because of a fluctuation in the value of the currency of a country other than Canada relative to the value of Canadian currency, a particular foreign affiliate of a taxpayer in respect of which the taxpayer has a qualifying interest throughout a taxation year of the particular affiliate has earned income or incurred a loss or realized a capital gain or a capital loss in the year, in reference to

(i) a debt obligation that was owing to

(A) another foreign affiliate of the taxpayer in respect of which the taxpayer has a qualifying interest throughout the year or any other non-resident corporation to which the particular affiliate and the taxpayer are related throughout the year (referred to in this paragraph as a 'qualified foreign corporation'), or

(B) the particular affiliate by a qualified foreign corporation,

(ii) the redemption, cancellation or acquisition of a share of the capital stock of, or the reduction of the capital of, the particular affiliate or another foreign affiliate of the taxpayer in respect of which the taxpayer has a qualifying interest throughout the year, or

(iii) the disposition to a qualified foreign corporation of a share of the capital stock of another foreign affiliate of the taxpayer in respect of which the taxpayer has a qualifying interest throughout the year,

that income, gain or loss, as the case may be, is deemed to be nil;"

S. 95(2)(*g*) was amended by S.C. 2001, c. 17, s. 73(6), applicable to taxation years of a foreign affiliate of a taxpayer that begin after November 1999 except that, where the taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the day of the taxpayer's filing-due date for the taxation year that includes the day on which this Act receives royal assent [June 14, 2001], paragraph 95(2)(*g*), as amended, applies to taxation years, of all of its foreign affiliates, that began after 1994 and, notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax payable under the Act for any of those taxation years shall be made that is necessary to take into account this application. S. 95(2)(*g*) formerly read:

"(*g*) where, by virtue of a fluctuation in the value of the currency of a country other than Canada relative to the value of the Canadian dollar, a foreign affiliate of a taxpayer has realized a taxable capital gain or an allowable capital loss in a taxation year on the settlement of a debt that was owing to

(i) another foreign affiliate of the taxpayer or any other non-resident corporation with which the taxpayer does not deal at arm's length, or

(ii) the affiliate by another foreign affiliate of the taxpayer or any other non-resident corporation with which the taxpayer does not deal at arm's length,

that gain or loss, as the case may be, shall be deemed to be nil;"

► 95(2)(g.01) ◄

(g.01) [Determination of FAPI — Currency hedging agreements] — any income, loss, capital gain or capital loss, derived by a foreign affiliate of a taxpayer under or as a result of an agreement that provides for the purchase, sale or exchange of currency and that can reasonably be considered to have been made by the foreign affiliate to reduce its risk (with respect to any source, any particular income, gain or loss determined in reference to which is deemed by paragraph (g) to be nil) of fluctuations in the value of currency, is, to the extent of the absolute value of the particular income, gain or loss, deemed to be nil;

History: S. 95(2)(*g*.01) was added by S.C. 2007, c. 35, s. 26(13), applicable, subject to the application below, to taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002

[Global Section 95 Election] If a taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2007, paragraph 95(2)(*g.01*) applies to taxation years, of all foreign affiliates of the taxpayer, that begin after 1994. [**Editorial Note:** See Department of Finance News Release No. 2008-048, dated June 27, 2008, reproduced before s. 95(1), regarding a proposed extension of the election deadline.]

If a taxpayer has made what would be a valid Global Section 95 Election described above, and the taxpayer has, on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2010, filed with the Minister of National Revenue a notice in writing to revoke the election, the election is deemed, otherwise than for the purpose of this revocation, never to have been made.

Notwithstanding subsections 152(4) to (5), any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take an election referred to above, or a revocation referred to above, into account.

► 95(2)(g.02) ◄

(g.02) [Determination of FAPI — Application of s. 39(2)] — in applying subsection 39(2) for the purpose of this subdivision (other than sections 94 and 94.1), the gains and losses of a foreign affiliate of a taxpayer in respect of excluded property are to be computed in respect of the taxpayer separately from the gains and losses of the foreign affiliate in respect of property that is not excluded property;

Coordinating Amendment

S.C. 2007 c. 35 (Bill C-28) — Coordinating Amendments With Former Bill C-10 — Income Tax Amendments Act, 2006 — December 14, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The following applies if former Bill C-10, introduced in the 2nd session of the 39th Parliament and entitled the *Income Tax Amendments Act, 2006* receives royal assent: Paragraph 95(2)(g.02) of the Act, as enacted by subsection 26(13) of S.C. 2007, c. 35, is replaced by the following:

(g.02) in applying subsection 39(2) for the purpose of this subdivision (other than sections 94 to 94.4), the gains and losses of a foreign affiliate of a taxpayer in respect of excluded property are to be computed in respect of the taxpayer separately from the gains and losses of the foreign affiliate in respect of property that is not excluded property;

Applicable: To taxation years, of a foreign affiliate of a taxpayer, that begin after 2002.

History: S. 95(2)(*g*.02) was added by S.C. 2007, c. 35, s. 26(13), applicable, subject to the application below, to taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002.

[Global Section 95 Election] If a taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2007, paragraph 95(2)(*g.02*) applies to taxation years, of all foreign affiliates of the taxpayer, that begin after 1994. [**Editorial Note:** See Department of Finance News Release No. 2008-048, dated June 27, 2008, reproduced before s. 95(1), regarding a proposed extension of the election deadline.]

If a taxpayer has made what would be a valid Global Section 95 Election described above, and the taxpayer has, on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2010, filed with the Minister of National Revenue a notice in writing to revoke the election, the election is deemed, otherwise than for the purpose of this revocation, never to have been made.

Notwithstanding subsections 152(4) to (5), any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take an election referred to above, or a revocation referred to above, into account.

► 95(2)(g.03) ◄

(g.03) [Determination of FAPI — Foreign currency fluctuations where member of partnership] — if at any time a particular foreign affiliate referred to in paragraph (g) is a member of a partnership or a

qualified foreign affiliate referred to in that paragraph is a member of a partnership,

(i) in applying this paragraph, where a debt obligation is owing at that time by a debtor to the partnership of which the particular foreign affiliate is a member, the debt obligation is deemed to be owing at that time by the debtor to the particular foreign affiliate in the proportion that the particular foreign affiliate shared in any income earned, loss incurred or capital gain or capital loss realized by the partnership in respect of the debt obligation,

(ii) in applying this paragraph, where a debt obligation is owing at that time to a creditor by the partnership of which the particular foreign affiliate is a member, the debt obligation is deemed to be owing at that time to the creditor by the particular foreign affiliate in the proportion that the particular foreign affiliate shared in any income earned, loss incurred or capital gain or capital loss realized by the partnership in respect of the debt obligation,

(iii) in applying paragraph (*g*) and this paragraph, where a debt obligation is owing at that time by a debtor to the partnership of which the qualified foreign affiliate is a member, the debt obligation is deemed to be owing at that time by the debtor to the qualified foreign affiliate in the proportion that the qualified foreign affiliate shared in any income earned, loss incurred or capital gain or capital loss realized by the partnership in respect of the debt obligation,

(iv) in applying paragraph (*g*) and this paragraph, where a debt obligation is owing at that time to a creditor by the partnership of which the qualified foreign affiliate is a member, the debt obligation is deemed to be owing at that time to the creditor by the qualified foreign affiliate in the proportion that the qualified foreign affiliate shared in any income earned, loss incurred or capital gain or capital loss realized by the partnership in respect of the debt obligation, and

(v) in computing the particular foreign affiliate's income or loss from a partnership, any income earned, loss incurred or capital gain or capital loss realized, as the case may be, by the partnership — in respect of the portion of a debt obligation owing to or owing by the partnership that is deemed by any of subparagraphs (i) to (iv) to be a debt obligation owing to or owing by the particular foreign affiliate (referred to in this subparagraph as the "allocated debt obligation") — because of a fluctuation in the value of the currency of a country other than Canada relative to the value of Canadian currency, that is attributable to the allocated debt obligation is deemed to be nil to the extent that paragraph (*g*) would, if the rules in subparagraphs (i) to (iv) were applied, have applied to the particular foreign affiliate, to deem to be nil the income earned, loss incurred or capital gain or capital loss realized, as the case may be, by the particular foreign affiliate in respect of the allocated debt obligation, because of a fluctuation in the value of the currency of a country other than Canada relative to the value of Canadian currency;

History: S. 95(2)(*g*.03) was added by S.C. 2007, c. 35, s. 26(13), applicable to taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002.

► 95(2)(g.1) ◄

(g.1) [Determination of FAPI — Debt forgiveness rules] — in computing the foreign accrual property income of a foreign affiliate of a taxpayer the Act shall be read

(i) as if the expression "income, taxable income or taxable income earned in Canada, as the case may be" in the definition "commercial debt obligation" in subsection 80(1) were read as "foreign accrual property income (within the meaning assigned by subsection 95(1))", and

(ii) without reference to subsections 80(3) to (12) and (15) and 80.01(5) to (11) and sections 80.02 to 80.04;

History: S. 95(2)(*g*).1(ii) was amended by S.C. 1998, c. 19, s. 122(5), applicable to taxation years that end after February 21, 1994. S. 95(2)(*g*).1(ii) formerly read:

"(ii) without reference to subsections 80(3) to (12), (15) and (17) and 80.01(5) to (11) and sections 80.02 to 80.04;"

S. 95(2)(*g*.1) was added by S.C. 1995, c. 21, s. 32(4), applicable to taxation years that end after February 21, 1994.

► 95(2)(g.2) ◄

(g.2) [Determination of FAPI — Elections for foreign spin-off rules] — for the purpose of computing the foreign accrual property income of a foreign affiliate of any taxpayer resident in Canada for a taxation year of the affiliate, an election made pursuant to paragraph 86.1(2)(*f*) in respect of a distribution received by the affiliate in a particular taxation year of the affiliate is deemed to have been filed under that paragraph by the affiliate if

(i) where there is only one taxpayer resident in Canada in respect of whom the affiliate is a controlled foreign affiliate, the election is filed by the taxpayer with the taxpayer's return of income for the taxpayer's taxation year in which the particular year of the affiliate ends, and

(ii) where there is more than one taxpayer resident in Canada in respect of whom the affiliate is a controlled foreign affiliate, all of those taxpayers jointly elect in writing and each of them files the joint election with the Minister with their return of income for their taxation year in which the particular year of the affiliate ends;

History: S. 95(2)(*g*.2) was added by S.C. 2001, c. 17, s. 73(7), applicable to distributions received after 1997 except that the election referred to in paragraph 95(2)(*g*.2) of the Act is deemed to be filed on a timely basis if it is filed with the Minister of National Revenue before September 12, 2001 [the day that is 90 days after the day on which this Act receives royal assent (June 14, 2001)].

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 95(2) of the Act is amended by adding the following after paragraph (g.2):

(g.3) if, in a particular taxation year of a particular foreign affiliate of a particular taxpayer that ends in a taxation year of the particular taxpayer the particular foreign affiliate holds a participating interest in a particular non-resident entity (in this paragraph as defined by subsection 94.1(1)), in computing the foreign accrual property income of the particular foreign affiliate in respect of the particular taxpayer for the particular taxation year, sections 94.1 to 94.4 apply to the particular foreign affiliate in respect of the participating interest as if

(i) the particular foreign affiliate were a taxpayer resident in Canada throughout the particular taxation year,

(ii) subparagraph (*a*)(i) of the definition "exempt interest" in subsection 94.1(1) applied to the particular foreign affiliate in respect of the participating interest only where

(A) the particular foreign affiliate is a controlled foreign affiliate of the particular taxpayer at the end of the particular taxation year, and

(B) the particular non-resident entity is a controlled foreign affiliate of the particular taxpayer at the end of the particular non-resident entity's taxation year that ends in the particular taxation year,

(iii) an exempt interest (in this paragraph, as defined by subsection 94.1(1)) of the particular foreign affiliate in a non-resident entity included a participating interest

(A) that is held, in the particular taxation year, by the particular foreign affiliate, and

(B) that is, throughout the period, in the particular taxation year, during which the particular foreign affiliate held the participating interest, property used or held by the particular foreign affiliate principally for the purpose of gaining or producing income from a business that is not an investment business,

(iv) the definition "fresh-start year" in subsection 94.3(1) did not apply and a reference in section 94.3 to a fresh-start year, of the particular non-resident entity in respect of the particular foreign affiliate, were a reference to a taxation year of the particular non-resident entity

(A) that ends in a taxation year of the particular foreign affiliate that begins after 2006,

(B) that begins immediately after a preceding taxation year of the particular non-resident entity at the end of which

(I) the particular non-resident entity was not a foreign investment entity,

(II) the particular foreign affiliate did not hold a participating interest in the particular non-resident entity (other than an exempt interest), or

(III) the particular foreign affiliate was not a controlled foreign affiliate of the particular taxpayer,

(C) at the end of which the particular non-resident entity is a foreign investment entity in which the particular foreign affiliate holds a participating interest that is not an exempt interest, and

(D) at any time in which the particular foreign affiliate is a controlled foreign affiliate of the particular taxpayer,

(v) an election for the particular taxation year made under paragraph (*a*) of the definition "carrying value", or paragraph (*a*) of the definition "financial statements", in subsection 94.1(1), paragraph 94.1(2)(*e*), (*h*) or (*j*), subparagraph (*a*)(iii) of the description of D in the definition "mark-to-market formula" in subsection 94.2(1), subparagraph 94.2(2)(*b*)(i) or 94.2(3)(*b*)(iii) or paragraph 94.3(3)(*b*) were required to be filed under that provision in respect of the particular foreign affiliate for the purpose of computing the particular foreign affiliate's foreign accrual property income in respect of the particular taxpayer, by, and only by, the particular taxpayer, with the Minister on or before the filing-due date of the particular taxpayer for the particular taxpayer's taxation year in which the particular taxation year ends,

(vi) the Minister were required, in sending a written demand under subparagraph 94.1(2)(*e*)(iii), any of paragraphs 94.1(2)(*i*) or (*p*) to (*r*) or 94.2(2)(*d*), or subparagraph 94.3(2)(*b*)(iii), to send the demand to the particular taxpayer,

(vii) the amount determined under the definition "deferral amount" in subsection 94.2(1) did not include the portion of that amount that can reasonably be considered to have accrued during the period that the particular foreign affiliate was not a foreign affiliate of any person described in any of subparagraphs (*f*)(iii) to (vii),

(viii) the reference in subsection 94.2(19) to "in computing the capital dividend account of the corporation" were read in respect of the particular foreign affiliate as a reference to "and the corporation is a foreign affiliate, of a taxpayer, to which paragraph 95(2)(*g.3*) applies, in computing the amount prescribed to be the foreign affiliate's exempt surplus and taxable surplus in respect of the taxpayer",

(ix) any form, information or notification, in respect of a participating interest in a non-resident entity held in the particular taxation year by the particular foreign affiliate, that is required under any of sections 94.1 to 94.4 to be filed or included with the particular foreign affiliate's return of income for the particular taxation year were required to be filed or included with, and only with, the particular taxpayer's return of income for the particular taxpayer's taxation year in which the particular taxation year ends, and

(x) designations and notifications made, and information provided, by the particular taxpayer in a form referred to in subparagraph (ix) were made or provided by the particular foreign affiliate;

Applicable: To taxation years, of a foreign affiliate of a taxpayer, that begin after 2006, except that paragraph 95(2)(*g.3*) also applies to a taxation year of a foreign affiliate of a taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the foreign affiliate.

Explanatory Note: New paragraph 95(2)(*g.3*) provides rules for the purpose of computing the foreign accrual property income of a particular foreign affiliate of a particular taxpayer for a particular taxation year of the particular foreign affiliate, in respect of the particular taxpayer if the particular foreign affiliate holds a property that is a participating interest in a particular non-resident entity in the particular taxation year. In this case, the amount required under sections 94.1 to 94.4 to be included (or that may be deducted) in computing the particular foreign affiliate's foreign accrual property income, in respect of the particular taxpayer, from a property that is the participating interest, is to be computed as if

- the particular affiliate were a taxpayer resident in Canada throughout the particular year,
- subparagraph (*a*)(i) of the definition "exempt interest" in subsection 94.1(1) applied to the particular foreign affiliate in respect of the participating interest only where
  - the particular foreign affiliate is a controlled foreign affiliate of the particular taxpayer at the end of the particular taxation year, and
  - the particular non-resident entity is a controlled foreign affiliate of the particular taxpayer at the end of the particular non-resident entity's taxation year that ends in the particular year,
- an exempt interest of a particular affiliate in a non-resident entity included a participating interest
  - that is held, in the particular taxation year, by the particular foreign affiliate, and
  - that is, throughout the period in the particular year during which the particular affiliate held the participating interest, used or held by the particular foreign affiliate principally for the purpose of gaining or pro-

ducing income from a business that is not an investment business,

- a "fresh-start year" (relevant in computing the foreign affiliate's "income allocation" and "loss allocation" under the accrual regime in section 94.3) of the particular non-resident entity in respect of the particular affiliate were its taxation year (at the end of which the particular affiliate holds an interest in it and it is a foreign investment entity and at any time in which the particular affiliate is a CFA of the Canadian taxpayer) that ends in a taxation year of the particular affiliate that begins after 2006 and that immediately follows a taxation year of the particular non-resident entity in respect of which subsection 94.1(3) would not have been applicable to the foreign affiliate,
- the Canadian taxpayer (rather than the particular affiliate) were required to make a number of the elections, designations, notifications and provisions of information under sections 94.1 to 94.4 in connection with the particular affiliate's participating interests in foreign investment entities. In addition, the Minister in sending a demand for information to the particular affiliate under subparagraph 94.1(2)(*e*)(iii) or 94.3(2)(*b*)(iii), or any of paragraphs 94.1(2)(*i*) or (*p*) to (*r*) or 94.2(2)(*d*), is required to send the demand also to the Canadian taxpayer in connection with the particular affiliate's participating interests in foreign investment entities,
- the particular affiliate's "deferral amount" determined under the definition of that expression in subsection 94.2(1) does not include the portion of the amount that can reasonably be considered to have accrued during the period that the particular affiliate was not a foreign affiliate of the Canadian taxpayer and certain other specified persons, and
- the reference in subsection 94.2(19) to the expression "in computing the capital dividend account of the corporation" were read in respect of the affiliate as a reference to the expression "in computing the amount prescribed to be the particular affiliate's exempt surplus and taxable surplus in respect of the taxpayer".

This amendment applies to taxation years that begin after 2006.

► 95(2)(h) ◄

(h) [Gain or loss on currency fluctuations] — [Repealed by S.C. 2001, c. 17, s. 73(8).]

Federal Budget Extract

2004 Foreign Affiliate Proposals

[Reproduced below is an excerpt from the January 27, 2009 Federal Budget, which notes that the government plans to consider the recommendations in the report of the Advisory Panel on Canada's System of International Taxation (which can be found at http://www.apcsit-gcrcfi.ca/07/index-eng.html) in deciding how to proceed with the remaining foreign affiliate proposals released on February 27, 2004 that have not yet been enacted.]

The Government will consider the Panel's recommendations relating to foreign affiliates before proceeding with the remaining foreign affiliate measures announced in February 2004, as modified to take into account consultations and deliberations since their release.

Pending Amendment

Draft Legislation — Foreign Affiliates — February 27, 2004

Paragraphs 95(2)(*h*) to (*h.5*) of the Act are added:

(*h*) paragraph (*h.1*) applies to a specified vendor in respect of a particular taxpayer resident in Canada (which specified vendor is referred to in this paragraph and paragraphs (*h.1*) and (*h.2*) as the "vendor") if

(i) the vendor disposes at any time of a property (which property is referred to in this paragraph and paragraphs (*h.1*) to (*h.5*) as the "specified property" and which time is referred to in this paragraph and paragraphs (*h.1*) to (*h.5*) as the "original disposition time" of the specified property) that, at that time, is not depreciable property, eligible capital property or an excluded property, of the vendor (or would not be excluded property of the vendor if the vendor were, at that time, a foreign affiliate of the particular taxpayer) to a person or partnership (referred to in paragraph (*h.1*) as the "purchaser") that is, immediately after that time, a specified purchaser in respect of the particular taxpayer, and

(ii) the vendor would, were this Act read without reference to paragraph (*h.1*), have a loss or allowable capital loss from the disposition of the specified property;

(*h.1*) if this paragraph applies to a vendor in respect of a disposition of specified property referred to in paragraph (*h*), the following rules apply:

(i) the vendor's proceeds from the disposition of the specified property are deemed to be an amount that is equal to the vendor's adjusted cost base of the specified property at the original disposition time,

(ii) the purchaser's cost of the specified property is deemed to be an amount that is equal to the fair market value of the specified property at the original disposition time,

(iii) the vendor's cost of a particular property that was received as consideration for the disposition of the specified property is deemed to be the fair market value of the particular property at the original disposition time,

(iv) the vendor that is a foreign affiliate of the particular taxpayer resident in Canada or a foreign affiliate of the particular taxpayer resident in Canada that is a member of a partnership that is the vendor (which vendor or foreign affiliate is referred to in this subparagraph as the "relevant foreign affiliate") is deemed to have an unadjusted suspended loss or capital loss in respect of the specified property disposed of, at the original disposition time, by the vendor that is equal to the amount, that is the loss or twice the amount of the allowable capital loss, as the case may be, that, but for the application of this paragraph, would have been realized by the relevant foreign affiliate in respect of that disposition, and

(v) notwithstanding subsection 40(3.3), subsection 40(3.4) does not apply to the vendor in respect of the disposition of the specified property;

(*h.2*) the relevant foreign affiliate referred to in paragraph (*h.1*) is deemed to have a loss or capital loss from the disposition of the specified property equal to the amount prescribed to be the adjusted suspended loss or capital loss in respect of the specified property and to have received from the government of a country an amount equal to the amount prescribed to be the adjusted allocable tax refund in respect of the adjusted suspended loss or capital loss in respect of the specified property at the earlier of

(i) the first time, after the original disposition time, that a specified purchaser in respect of the particular taxpayer (which specified purchaser is referred to in paragraphs (*h.4*) and (*h.5*) as the "current vendor") that holds, immediately before that first time, the specified property makes a triggering disposition of the specified property, and

(ii) the first time, after the original disposition time, that a specified purchaser in respect of the particular taxpayer (which specified purchaser is referred to in this subparagraph as the "current holder") that holds, immediately before that first time, the specified property ceases to be a specified purchaser in respect of the particular taxpayer otherwise than because of a specified discontinuance of the current holder;

(*h.3*) for the purposes of paragraphs (*h.1*), (*h.2*), (*h.4*) and (*h.5*) and subsection (3.5), a designated replacement property referred to in clause (*b*)(ii)(A), (B) or (C) of the

definition "triggering disposition" in subsection (3.5) is deemed to be the specified property referred to in that clause;

(*h*.4) for the purposes of paragraphs (*h*.1) to (*h*.3) and (*h*.5) and subsection (3.5) if, at any time, part of a specified property (which specified property is referred to in this paragraph as the "initial specified property") is disposed of by a current vendor and the remaining part of the specified property is retained by the current vendor,

(i) the part (referred to in this paragraph as the "part interest") of the initial specified property disposed of, at that time, is deemed to be a specified property of the current vendor,

(ii) the portion of the unadjusted suspended loss or capital loss attributable to the part interest is deemed to be that proportion of the adjusted suspended loss or capital loss in respect of the whole of the initial specified property that the fair market value at that time of the part interest is of the fair market value at that time of the initial specified property,

(iii) the part (referred to in this paragraph as the "remaining interest") of the initial specified property not disposed of at that time is deemed to be a specified property of the current vendor that was disposed of at the original disposition time, and

(iv) the amount of loss or capital loss that would have been realized on the disposition of the remaining interest at the original disposition time is deemed to be the amount, if any, by which the unadjusted suspended loss or capital loss in respect of the initial specified property exceeds the amount determined by subparagraph (ii) to be the unadjusted suspended loss or capital loss in respect of the part interest;

(*h*.5) for the purposes of paragraphs (*h*.1) to (*h*.4) and subsection (3.5), if a current vendor disposes, at any particular time, of the whole of a specified property (referred to in this paragraph as the "initial specified property") and as part of a transaction, or series of transactions or events, that includes the disposition of the initial specified property, a specified purchaser in respect of the particular taxpayer acquires a designated replacement property in respect of the initial specified property,

(i) the designated replacement property (referred to in this paragraph as the "remaining interest") is deemed to be a specified property of the current vendor that was disposed of at the original disposition time,

(ii) the unadjusted suspended loss or capital loss in respect of the remaining interest is deemed to be that proportion of the unadjusted suspended loss or capital loss in respect of the whole of the initial specified property (determined without reference to subparagraph (iii)) that the fair market value of the remaining interest, at the time it was acquired, is of the fair market value, at the particular time, of the initial specified property, and

(iii) the unadjusted suspended loss or capital loss in respect of the initial specified property is deemed to be the amount, if any, by which the unadjusted suspended loss or capital loss in respect of the initial specified property (determined without reference to this subparagraph) exceeds the amount determined by subparagraph (ii) to be the unadjusted suspended loss or capital loss in respect of the remaining interest;

Applicable: Paragraphs 95(2)(*h*) to (*h*.5) apply to a disposition of property that occurs after February 27, 2004, except that those paragraphs do not apply in respect of a disposition of property that is required to be made under an agreement in writing made by the vendor of the property on or before February 27, 2004.

Explanatory Note: New paragraphs 95(2)(*h*) to (*h*.5) of the Act put into place a regime that, in general terms, is designed to suspend the recognition of the loss that would otherwise be incurred upon an internal disposition of a property that is not an excluded property, a depreciable property or an eligible capital property. Generally, this "suspended loss" is recognized at the time the property is disposed of in an external disposition. The rules are comparable to but not the same as the rules found in subsection 40(3.4) of the Act. See the definitions "specified vendor" and "specified purchaser" in proposed new subsection 95(3.5) to determine when a disposition is an internal disposition.

New paragraphs 95(2)(*h*) to (*h*.5) apply to dispositions of property after February 27, 2004 other than where the disposition of property is required to be made under a written agreement made by the vendor of the property on or before February 27, 2004.

Paragraph 95(2)(h)

New paragraph 95(2)(*h*) of the Act provides that new paragraph 95(2)(*h*.1) applies to a specified vendor in respect of a particular taxpayer resident in Canada (see definition of "specified vendor" in subsection 95(3.5) and such specified vendor referred in here and paragraph (*h*.1) as the "vendor") if

- the vendor disposes at any time (referred to here and in paragraphs 95(2)(*h*.1) to (*h*.5) as the original disposition time) of a property (referred to here and in paragraphs 95(2)(*h*.1) to (*h*.5) as the "specified property") that, at that time, is not a depreciable property, eligible capital property or an excluded property of the vendor (or would not be excluded property of the vendor if the vendor were, at that time, a foreign affiliate of the particular taxpayer) to a person or partnership (referred to here as the "purchaser") that is, immediately after that time, a specified purchaser in respect of the particular taxpayer, and
- the vendor would have a loss or an allowable capital loss from the disposition of the specified property, if this Act were read without reference to paragraph 95(2)(*h*.1).

The expressions "original disposition time", "specified property", "vendor" and "purchaser" are described in new paragraph 95(2)(*h*) and are then referred to throughout new paragraphs 95(2)(*h*.1) to 95(2)(*h*.5).

Paragraph 95(2)(h.1)

New paragraph 95(2)(h.1) of the Act provides the following rules for the vendor in respect of the disposition of the specified property.

- The vendor's proceeds from the disposition of the specified property are deemed to be an amount that is equal to the vendor's adjusted cost base of the specified property at the original disposition time (see paragraph 95(2)(*h*)).
- The purchaser's cost of the specified property is deemed to be an amount that is equal to the fair market value of the specified property at the original disposition time.
- The vendor's cost of a particular property that was received as consideration for the disposition of the specified property is deemed to be the fair market value of the particular property at the original disposition time.
- The vendor that is a foreign affiliate of the particular taxpayer or a foreign affiliate of the particular taxpayer that is a member of a partnership that is the vendor (referred to here as the "relevant foreign affiliate") is deemed to have an unadjusted suspended loss or capital loss in respect of the specified property, at the original disposition time, by the vendor that is equal to the amount, that, but for the application of this paragraph, would have been the relevant foreign affiliate's loss or twice the amount of the allowable capital loss, as the case may be, in respect of that disposition, if the vendor's proceeds of disposition in respect of that disposition were equal to the fair market value of the specified property.
- Notwithstanding subsection 40(3.3), subsection 40(3.4) does not apply to the vendor in respect of the disposition of the specified property.

Paragraph 95(2)(h.2)

New paragraph 95(2)(*h*.2) of the Act provides that the relevant foreign affiliate referred to in paragraph 95(2)(*h*.1) is deemed to have a loss or capital loss from the disposition of the specified property equal to the amount prescribed by regulation to be the adjusted suspended loss or capital loss (see proposed new subsection 5914(1) of the Regulations) in respect of the specified property. New paragraph 95(2)(*h*.2) also provides that the rele-

vant foreign affiliate referred to in paragraph 95(2)(*h.1*) is deemed to have received from the government of a country an amount equal to the amount prescribed by regulation to be the adjusted allocable tax refund (see proposed new subsection 5914(2) of the Regulations) in respect of the adjusted suspended loss or capital loss in respect of the specified property. The adjusted suspended loss or capital loss and the adjusted allocable tax refund will arise at the earlier of

- the first time, after the original disposition time, that a specified purchaser (see subsection 95(3.5)) in respect of the particular taxpayer (referred to in paragraphs 95(2)(*h.4*) and (*h.5*) as the "current vendor") that holds, immediately before that first time, the specified property makes a triggering disposition (see subsection 95(3.5)) of the specified property.

or

- the first time, after the original disposition time, that a specified purchaser in respect of the particular taxpayer (referred to here as the "current holder") that holds, immediately before that first time, the specified property, ceases at that time to be a specified purchaser in respect of the particular taxpayer otherwise than because of a specified discontinuance (see subsection 95(3.5)) of the current holder.

Paragraph 95(2)(h.3)

New paragraph 95(2)(*h.3*) of the Act provides that for the purposes of paragraphs 95(2)(*h.1*), (*h.2*), (*h.4*) and (*h.5*) and subsection 95(3.5), a designated replacement property referred to in clause (*b*)(ii)(A), (B) or (C) of the definition "triggering disposition" in subsection 95(3.5) is deemed to be the same property as the specified property referred to in that clause.

Paragraph 95(2)(h.4)

New paragraph 95(2)(*h.4*) of the Act provides that for the purposes of paragraphs 95(2)(*h.1*) to (*h.3*) and (*h.5*) and subsection 95(3.5), where at any time, part of a specified property (referred to here as the "initial specified property") is disposed of by a current vendor and the remaining part of the specified property is retained by the current vendor, the following rules apply:

- The part (referred to here as the "part interest") of the initial specified property disposed of, at that time, shall be deemed to be a specified property of the current vendor.
- The portion of the unadjusted suspended loss or capital loss attributable to the part interest is deemed to be that proportion of the adjusted suspended loss or capital loss in respect of the whole of the initial specified property that the fair market value at that time of the part interest is of the fair market value at that time of the initial specified property. (Subparagraph 95(2)(*h.4*)(ii))
- The part (referred to here as the "remaining interest") of the initial specified property not disposed of at that time is deemed to be a specified property of the current vendor that was disposed of at the original disposition time.
- The amount of loss or capital loss that would have been realized on the disposition of the remaining interest at the original disposition time is deemed to be the amount, if any, by which the unadjusted suspended loss or capital loss in respect of the initial specified property exceeds the amount determined by subparagraph 95(2)(*h.4*)(ii) to be the unadjusted suspended loss or capital loss in respect of the part interest.

Paragraph 95(2)(h.5)

New paragraph 95(2)(*h.5*) of the Act provides that for the purposes of paragraphs 95(2)(*h.1*) to (*h.4*) and subsection 95(3.5), if a current vendor disposes, at any particular time, of the whole of a specified property (referred to here as the "initial specified property") and as part of a transaction, or series of transactions or events, that includes the disposition of the initial specified property, a specified purchaser in respect of the taxpayer acquires a designated replacement property (see the definition "triggering disposition" in subsection 95(3.5)) in respect of the initial specified property, the following rules apply:

- The designated replacement property (referred to here as the "remaining interest") is deemed to be a specified property of the current vendor that was disposed of at the original disposition time. (Subparagraph 95(2)(*h.5*)(i))
- The unadjusted suspended loss or capital loss in respect of the remaining interest is deemed to be that portion of the unadjusted suspended loss or capital loss in respect of the whole of the initial specified property (determined without reference to subparagraph 95(2)(*h.5*)(iii)) that the fair market value of the remaining interest, at the time it was acquired, is of the fair market value, at the particular time, of the initial specified property. (Subparagraph 95(2)(*h.5*)(ii))
- The unadjusted suspended loss or capital loss in respect of the initial specified property is deemed to be the amount, if any, by which the unadjusted suspended loss or capital loss in respect of the initial specified property (determined without reference to subparagraph 95(2)(*h.5*)(iii)) minus the amount determined by subparagraph 95(2)(*h.5*)(ii) to be the unadjusted suspended loss or capital loss in respect of the remaining interest. (Subparagraph 95(2)(*h.5*)(iii))

History: S. 95(2)(*h*) was repealed by S.C. 2001, c. 17, s. 73(8), applicable to taxation years of a foreign affiliate of a taxpayer that begin after November 1999 except that, where the taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the day of the taxpayer's filing-due date for the taxation year that includes the day on which this Act receives royal assent [June 14, 2001], the repeal of paragraph 95(2)(*h*) applies to taxation years, of all of its foreign affiliates, that began after 1994 and, notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax payable under the Act for any of those taxation years shall be made that is necessary to take into account the application of the repeal of paragraph 95(2)(*h*). S. 95(2)(*h*) formerly read:

"(*h*) where, by virtue of a fluctuation in the value of the currency of a country other than Canada relative to the value of the Canadian dollar, a foreign affiliate of a taxpayer has realized a taxable capital gain or an allowable capital loss in a taxation year on

(i) the redemption, cancellation or acquisition of a share of the capital stock of, or the reduction of the capital of, another foreign affiliate of the taxpayer, or

(ii) the disposition to a person with whom the taxpayer does not deal at arm's length of a share of the capital stock of another foreign affiliate of the taxpayer,

that gain or loss, as the case may be, shall be deemed to be nil;"

S. 95(2)(*h*)(i) was amended by S.C. 1994, c. 21, s. 43(1), applicable to redemptions, cancellations, acquisitions and reductions occurring after December 21, 1992.

S. 95(2)(*h*)(i) formerly read:

"(i) the redemption, cancellation or acquisition of shares of the capital stock of, or the reduction of the capital of, the affiliate or another foreign affiliate of the taxpayer, or"

► 95(2)(i) ◄

(i) [Determination of FAPI — Settlement of debt or currency hedging agreement] — any income, gain or loss of a foreign affiliate of a taxpayer or of a partnership of which a foreign affiliate of a taxpayer is a member (which foreign affiliate or partnership is referred to in this paragraph as the "debtor"), for a taxation year or fiscal period of the debtor, as the case may be, is deemed to be income, a gain or a loss, as the case may be, from the disposition of an excluded property of the debtor, if the income, gain or loss is

(i) derived from the settlement or extinguishment of a debt of the debtor all or substantially all of the proceeds from which

(A) were used to acquire property, if at all times after the time at which the debt became debt of the debtor and before the time of that settlement or extinguishment, the property (or property substituted for the property) was property of the debtor and was, or would if the debtor

were a foreign affiliate of the taxpayer be, excluded property of the debtor,

(B) were used at all times to earn income from an active business carried on by the debtor, or

(C) were used by the debtor for a combination of the uses described in clause (A) or (B),

(ii) derived from the settlement or extinguishment of a debt of the debtor all or substantially all of the proceeds from which were used to settle or extinguish a debt referred to in subparagraph (i) or in this subparagraph, or

(iii) derived under or as a result of an agreement that provides for the purchase, sale or exchange of currency and that can reasonably be considered to have been made by the debtor to reduce its risk, with respect to a debt referred to in subparagraph (i) or (ii), of fluctuations in the value of the currency in which the debt was denominated;

History: S. 95(2)(*i*) was replaced by S.C. 2007, c. 35, s. 26(14). Subject to the application below, this amendment applies to taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002, except that paragraph 95(2)(*i*) shall, in respect of settlements and extinguishments of debt held by a foreign affiliate of the taxpayer that occur in those taxation years and before October 2, 2007, be read as follows:

"(*i*) any gain or loss determined in accordance with subsection 39(2) of a foreign affiliate of a taxpayer is deemed to be a gain or loss, as the case may be, from the disposition of an excluded property if the gain or loss is

(i) derived from the settlement or extinguishment of a debt all or substantially all of the proceeds from which were used at all times to acquire excluded property or to earn income from an active business or for a combination of those uses, or

(ii) derived under or as a result of an agreement that provides for the purchase, sale or exchange of currency and that can reasonably be considered to have been made by the affiliate to reduce its risk, with respect to a debt referred to in subparagraph (i), of fluctuations in the value of the currency in which the debt was denominated;"

[Global Section 95 Election] If a taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2007, paragraph 95(2)(*i*) as required by the application above to be read, in respect of settlements and extinguishments of debt held by a foreign affiliate of the taxpayer that occur before October 2, 2007 in taxation years, of the foreign affiliate of the taxpayer, that begin after December 20, 2002, also applies in respect of settlements and extinguishments of debt held by a foreign affiliate of the taxpayer that occur in taxation years, of the foreign affiliate of the taxpayer, that begin after 1994 and before December 21, 2002. **[Editorial Note:** See Department of Finance News Release No. 2008-048, dated June 27, 2008, reproduced before s. 95(1), regarding a proposed extension of the election deadline.]

If a taxpayer has made what would be a valid Global Section 95 Election described above, and the taxpayer has, on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2010, filed with the Minister of National Revenue a notice in writing to revoke the election, the election is deemed, otherwise than for the purpose of this revocation, never to have been made.

Notwithstanding subsections 152(4) to (5), any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take an election referred to above, or a revocation referred to above, into account.

S. 95(2)(*i*) formerly read:

"(*i*) any gain or loss of a foreign affiliate of a taxpayer from the settlement or extinguishment of a debt that related at all times to the acquisition of excluded property shall be deemed to be a gain or loss from the disposition of excluded property;"

► 95(2)(j) ◄

(j) [Determination of FAPI — ACB of partnership interest] — the adjusted cost base to a foreign affiliate of a taxpayer of an interest in a partnership at any time shall be such amount as is prescribed by regulation;

► 95(2)(k) ◄

(k) [Determination of FAPI — Fresh start rules] — where, in a particular taxation year, a foreign affiliate of a taxpayer

(i) carries on an investment business outside Canada and, in the preceding taxation year, that business was not an investment business of the affiliate (or the definition "investment business" in subsection (1) did not apply in respect of the business in the preceding taxation year), or

(ii) is deemed by paragraph (*a*.1), (*a*.2), (*a*.3) or (*a*.4) to carry on a separate business, other than an active business, and, in the preceding taxation year, that paragraph did not apply to deem the affiliate to be carrying on that separate business,

for the purpose of computing the income of the affiliate from the investment business or the separate business as the case may be (in this subsection referred to as the "foreign business") for the particular year and each subsequent taxation year in which the foreign business is carried on,

(iii) the affiliate shall be deemed

(A) to have begun to carry on the foreign business in Canada at the later of the time the particular year began or the time that it began to carry on the foreign business, and

(B) to have carried on the foreign business in Canada throughout that part of the particular year and each such subsequent taxation year in which the foreign business was carried on by it,

(iv) where the foreign business of the affiliate is a business in respect of which, if the foreign business were carried on in Canada, the affiliate would be required by law to report to a regulating authority in Canada such as the Superintendent of Financial Institutions or a similar authority of a province, the affiliate shall be deemed to have been required by law to report to and to have been subject to the supervision of such regulating authority, and

(v) paragraphs 138(11.91)(*c*) to (*f*) apply to the affiliate for the particular year in respect of the foreign business as if

(A) the affiliate were the insurer referred to in subsection 138(11.91),

(B) the particular year of the affiliate were the particular year of the insurer referred to in that subsection, and

(C) the foreign business of the affiliate were the business of the insurer referred to in that subsection;

History: The application of paragraphs 95(2)(*a*) to (*a*.4) and (*k*) to (*m*) were amended by S.C. 1998, c. 19, s. 305(1), deemed to have come into force on June 22, 1995. That application reads as follows:

Sec. 305(1), Chap. 19, 1998

(8) Subsections 46(1) to 46(6) [of 1995, c. 21] apply to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, subsections (1) to (6) apply to taxation years of the foreign affiliate that end after 1994, unless

(*a*) the foreign affiliate had requested the change in writing before February 22, 1994 from the income taxation authority of the country in which the foreign affiliate was resident and subject to income taxation; or

(*b*) the foreign affiliate's first taxation year that began after 1994 began at a time in 1995 that is earlier than the time at which that taxation year would have begun if the change had not occurred.

S. 95(2)(*k*) was added by S.C. 1995, c. 21, s. 46(5), applicable to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, paragraph 95(2)(*k*) applies to taxation years of such foreign affiliate of the taxpayer that end after 1994, unless

(*a*) such foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation; or

(*b*) the first taxation year of such foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time that that taxation year would have begun if there had not been that change in the taxation year of such foreign affiliate.

Federal Budget Extract

2004 Foreign Affiliate Proposals

[Reproduced below is an excerpt from the January 27, 2009 Federal Budget, which notes that the government plans to consider the recommendations in the report of the Advisory Panel on Canada's System of International Taxation (which can be found at http://www.apcsit-gcrcfi.ca/07/index-eng.html) in deciding how to proceed with the remaining foreign affiliate proposals released on February 27, 2004 that have not yet been enacted.]

The Government will consider the Panel's recommendations relating to foreign affiliates before proceeding with the remaining foreign affiliate measures announced in February 2004, as modified to take into account consultations and deliberations since their release.

Pending Amendment

Draft Legislation — Foreign Affiliates — February 27, 2004

Paragraph 95(2)(*k*) of the Act is replaced by the following:

(*j*.1) paragraph (*j*.2) applies in respect of a particular taxation year of a foreign affiliate of a taxpayer and in respect of a particular fiscal period of a partnership at the end of which a foreign affiliate of a taxpayer is a member of the partnership (which foreign affiliate or partnership is referred to in this paragraph and paragraph (*j*.2) as the "operator" and which particular taxation year or particular fiscal period is referred to in this paragraph and paragraph (*j*.2) as the "specified taxation year") if in the specified taxation year

(i) the operator carries on a business (referred to in this paragraph and paragraph (*j*.2) as a "foreign business"),

(ii) the foreign business includes the insuring of risks,

(iii) the foreign business is not, at any time, a taxable Canadian business,

(iv) the foreign business is

(A) an investment business, or

(B) a business whose activities include activities deemed by paragraph (*a*.2) or (*b*) to be a separate business, other than an active business, carried on by the affiliate, and

(v) in respect of the foreign business, the operator would, were it a corporation carrying on the foreign business in Canada, be required by law to report to, and be subject to the supervision of, a regulatory authority that is the Superintendent of Financial Institutions or a similar authority of a province;

(*j*.2) if this paragraph applies in respect of a specified taxation year of an operator, in computing the operator's income or loss from the foreign business for the specified taxation year and each subsequent taxation year or fiscal period in which the foreign business is carried on by the operator

(i) the operator is deemed to carry on the foreign business in Canada throughout that part of the specified taxation year, and of each of those subsequent taxation years or fiscal periods, in which the foreign business is carried on by the operator, and

(ii) for the purposes of Part XIV of the Regulations,

(A) the operator is deemed to be required by law to report to, and to have been subject to the supervision of, the regulatory authority referred to in subparagraph (*j*.1)(v), and

(B) where the operator is a life insurer and the foreign business is a life insurance business, the life insurance policies issued in the conduct of that business are deemed to be life insurance policies in Canada;

(*k*) paragraph (*k*.1) applies in respect of a particular taxation year of a foreign affiliate of a taxpayer and in respect of a particular fiscal period of a partnership at the end of which a foreign affiliate of a taxpayer is a member of the partnership (which foreign affiliate or partnership is referred to in this paragraph and paragraph (*k*.1) as the "operator" and which particular taxation year or particular fiscal period is referred to in this paragraph and paragraph (*k*.1) as the "specified taxation year") if

(i) in the specified taxation year, the operator carries on a business (referred to in this paragraph and, subject to paragraph (*k*.6), in paragraph (*k*.1), as a "foreign business"),

(ii) the foreign business is not, at any time in the specified taxation year, a taxable Canadian business,

(iii) in the specified taxation year, the foreign business is

(A) an investment business,

(B) a business whose activities include activities deemed by any of paragraphs (*a*.1) to (*b*) to be a separate business, other than an active business, carried on by the affiliate, or

(C) a business the income from which is included by paragraph (*l*) in computing the affiliate's income from property for the specified taxation year, and

(iv) in the taxation year of the affiliate or the fiscal period of the partnership that includes the day that is immediately before the beginning of the specified taxation year,

(A) the affiliate or partnership carried on the foreign business,

(B) the foreign business was not, at any time, a taxable Canadian business, and

(C) the foreign business was not described in any of clauses (iii)(A) to (C);

(*k*.1) if this paragraph applies in respect of a specified taxation year of an operator, in computing the operator's income or loss from the foreign business, and in computing the operator's capital gain or capital loss from the disposition of property used or held in the course of carrying on the foreign business, for the specified taxation year and each subsequent taxation year or fiscal period in which the foreign business is carried on by the operator

(i) the operator is deemed

(A) to have begun to carry on the foreign business in Canada at the beginning of the specified taxation year, and

(B) to carry on the foreign business in Canada throughout that part of the specified taxation year, and of each of those subsequent taxation years or fiscal periods, in which the foreign business is carried on by the operator,

(ii) where, in respect of the foreign business, the operator would, if it were a corporation carrying on the foreign business in Canada, be required by law to report to, and be subject to the supervision of, a regulatory authority that is the Superintendent of Financial Institutions or a similar authority of a province,

(A) the operator is deemed to be required by law to report to, and to have been subject to the supervision of, such regulating authority, and

(B) if the operator is a life insurer and the foreign business is a life insurance business, the life insurance policies issued in the conduct of that business are deemed to be life insurance policies in Canada,

(iii) paragraphs 138(11.91)(*c*) to (*e*) apply to the operator for the specified taxation year in respect of the foreign business as if

(A) the operator were the insurer referred to in subsection 138(11.91),

(B) the specified taxation year of the operator were the particular taxation year of the insurer referred to in that subsection,

(C) the foreign business of the operator were the business of the insurer referred to in that subsection, and

(D) the reference in paragraph 138(11.91)(*e*) to "property owned by it at that time that is designated insurance property in respect of the business" were read as a reference to "property owned or held by it at that time that is used or held by it in the particular taxation year in the course of carrying on the insurance business", and

(iv) if a particular property is deemed, because of the application of subparagraph (iii) and paragraph 138(11.91)(*e*), to have been disposed of in the preceding taxation year by the operator (which disposition is referred to in this subparagraph as a "particular disposition" of the particular property),

(A) the amount of the foreign affiliate's income, gain or loss (which income, gain or loss is referred to in this subparagraph as the "deferred amount") derived from the operator's income, gain or loss from the particular disposition of the particular property

(I) is to be included in computing the foreign affiliate's income, gain or loss for its taxation year that includes the last day of the operator's taxation year or fiscal period in which the particular property is disposed of by the operator in a disposition that is not the particular disposition, and

(II) is not to be included in computing the foreign affiliate's income, gain or loss for its taxation year that includes the last day of the operator's taxation year that includes the time of the particular disposition of the particular property, and

(B) the portion of the income taxes paid by the foreign affiliate to, or recovered by the foreign affiliate from, the government of a country other than Canada that may reasonably be considered to relate to the deferred amount is not to be included in determining income taxes paid to or recovered in respect of any other income, gain or loss of the foreign affiliate;

(*k*.2) paragraph (*k*.3) applies in respect of a particular taxation year of a foreign affiliate of a taxpayer or in respect of a particular fiscal period of a partnership at the end of which a foreign affiliate of a taxpayer is a member of the partnership (which foreign affiliate or partnership is referred to in this paragraph and paragraph (*k*.3) as the "operator" and which particular taxation year or particular fiscal period is referred to in this paragraph and paragraph (*k*.3) as the "specified taxation year") if

(i) in the taxation year of the affiliate, or fiscal period of the partnership, (which taxation year or fiscal period is referred to in this paragraph and paragraph (*k*.3) as "the preceding taxation year") that includes the day immediately before the beginning of the specified taxation year, the affiliate or partnership carried on a business (which is referred to in this paragraph and, subject to paragraph (*k*.6), in paragraph (*k*.3), as a "foreign business"),

(ii) the foreign business was not, at any time in the preceding taxation year, a taxable Canadian business,

(iii) in the preceding taxation year, the foreign business was

(A) an investment business,

(B) a business whose activities included activities deemed by any of paragraphs (*a*.1) to (*b*) to be a separate business, other than an active business, carried on by the affiliate, or

(C) a business the income from which is included by paragraph (*l*) in computing the affiliate's income from property for the preceding taxation year, and

(iv) either

(A) at any time in the specified taxation year, the operator carries on the foreign business and

(I) the foreign business is an active business that is not a taxable Canadian business, or

(II) all or substantially all of the fair market value of the property of the operator used or held by the operator in the course of carrying on the foreign business is attributable to property of the operator that is excluded property, or

(B) at no time in the specified taxation year does the operator carry on the foreign business;

(*k*.3) if this paragraph applies in respect of a specified taxation year of an operator, in computing the operator's income or loss from the foreign business, and in computing the operator's capital gain or capital loss from the disposition of property used or held in the course of carrying on the foreign business, for the preceding taxation year or fiscal period referred to in paragraph (*k*.2) and for the specified taxation year of the operator and the operator's subsequent taxation years or fiscal periods

(i) the operator is deemed to have ceased to carry on the foreign business in Canada at the beginning of the specified taxation year,

(ii) subject to subparagraph (iii), paragraphs 138(11.91)(*c*) to (*e*) apply to the operator for the specified taxation year in respect of the foreign business as if

(A) the operator were the insurer referred to in subsection 138(11.91),

(B) the specified taxation year of the operator were the particular taxation year of the insurer referred to in that subsection,

(C) the foreign business of the operator were the business of the insurer referred to in that subsection,

(D) the reference in paragraph 138(11.91)(*e*) to "property owned by it at that time that is designated insurance property in respect of the business" were read as a reference to "property owned or held by it at that time that is used or held by it in the particular taxation year in the course of carrying on the insurance business", and

(iii) where the taxpayer so elects, in prescribed manner and within the prescribed time, to have this subparagraph apply in respect of each property that is deemed, because of the application of subparagraph (ii) and paragraph 138(11.91)(*e*), to have been disposed of in the specified taxation year by the operator (each such property referred to in this subparagraph as a "particular property" and each such disposition of a particular property referred to in this subparagraph as a "particular disposition" of the particular property)

(A) the amount of the foreign affiliate's income, gain or loss (which income, gain or loss is referred to in this subparagraph as the "deferred amount") derived from the operator's income, gain or loss from a particular disposition of a particular property

(I) is to be included in computing the foreign affiliate's foreign accrual property income in respect of the taxpayer for the foreign affiliate's taxation year that includes the last day of the operator's taxation year or fiscal period in which the particular property is disposed of by the operator in a

disposition that is not the particular disposition, and

(II) is not to be included in computing the foreign affiliate's foreign accrual property income in respect of the taxpayer for the foreign affiliate's taxation year that includes the last day of the operator's taxation year or fiscal period that includes the time of the particular disposition of the particular property, and

(B) the portion of the income taxes paid by the foreign affiliate to, or recovered by the foreign affiliate from, the government of a country other than Canada that may reasonably be considered to relate to the deferred amount is not to be included in determining income taxes paid to or recovered in respect of any other income, gain or loss of the foreign affiliate;

(*k*.4) if at any time a foreign affiliate of a taxpayer resident in Canada, or a partnership at the end of the fiscal period of which includes that time a foreign affiliate of a taxpayer resident in Canada is a member of the partnership, (which foreign affiliate or partnership is referred to in this paragraph as the "operator"), carries on a business both outside Canada and in Canada and income from the particular part of that business that is carried on in Canada is income from a taxable Canadian business, the following rules apply for the purposes of paragraphs (*k*) to (*k*.3):

(i) the particular part of the business is deemed to be, at that time, a separate business,

(ii) the assets used, or held, at that time primarily in the course of carrying on the particular part of the business are deemed to be, at that time, used or held in the course of carrying on the separate business,

(iii) any liability incurred, and any reserve established, at that time in the course of carrying on the particular part of the business are deemed to be, at that time, incurred or established in the course of carrying on the separate business, and

(iv) the transactions conducted at that time in the particular part of the business are deemed to be transactions conducted, at that time, in the separate business;

(*k*.5) paragraph (*k*.6) applies for the purposes of paragraphs (*k*.1) and (*k*.3) in respect of a particular business of an operator if

(i) the particular business is the operator's foreign business for the specified taxation year described in paragraph (*k*) or for the preceding taxation year described in subparagraph (*k*.2)(i), and

(ii) the activities of the particular business for that specified or preceding taxation year include particular activities deemed by any of paragraphs (*a*.1) to (*b*) to be a separate business, other than an active business, carried on by the foreign affiliate for that specified or preceding taxation year and the particular activities were not all the activities of the particular business in that specified or preceding taxation year;

(*k*.6) if this paragraph applies in respect of the particular business of the operator, in applying paragraphs (*k*.1) and (*k*.3),

(i) that part of the particular business that consists of activities deemed by any of paragraphs (*a*.1) to (*b*) to be a separate business, other than an active business, carried on by the foreign affiliate for a taxation year or for a fiscal period, referred to in paragraph (*k*.1) or (*k*.3), of the operator, is deemed to be the operator's foreign business carried on in that taxation year or fiscal period,

(ii) the assets used or held by the operator primarily in the course of carrying on activities deemed by any of paragraphs (*a*.1) to (*b*) to be a separate business, other than an active business, carried on by the foreign affiliate for a taxation year or for a fiscal period, referred to in paragraph (*k*) or (*k*.2), of the operator, are deemed to be assets used or held by the operator in the course of carrying on the foreign business in that taxation year or fiscal period,

(iii) the portion of the liabilities incurred, and the portion of the reserves established, in the course of carrying on activities deemed by any of paragraphs (*a*.1) to (*b*) to be a separate business, other than an active business, carried on by the foreign affiliate for a taxation year or for a fiscal period, referred to in paragraph (*k*) or (*k*.2), of the operator, are deemed to be liabilities incurred and reserves established in the course of carrying on the foreign business in that taxation year or fiscal period, and

(iv) subject to subparagraphs (ii) and (iii), the transactions conducted in the course of carrying on activities deemed by any of paragraphs (*a*.1) to (*b*) to be a separate business, other than an active business, carried on by the foreign affiliate for a taxation year or for a fiscal period, referred to in paragraph (*k*) or (*k*.2), of the operator, are, to the extent that those transactions relate to those activities, deemed to be transactions conducted in the course of carrying on the foreign business in that taxation year or fiscal period;

(*k*.7) if a person is (or is deemed by this paragraph to be) a member of a partnership and that partnership is a member of another partnership,

(i) in applying paragraphs (*a*.1) to (*b*), (*j*.1) to (*k*.6) and (*l*) and the definition "taxable Canadian business" in subsection (1), the person is deemed to be a member of the other partnership, and

(ii) in applying the definition "taxable Canadian business" in subsection (1), the person's share of the income or loss of the other partnership is deemed to be equal to the portion of that income or loss to which the person is directly or indirectly entitled;

Applicable: To taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002, except that

(*a*) in applying paragraph 95(2)(*k*.1), for taxation years, of a foreign affiliate of the taxpayer, that begin on or before February 27, 2004, that paragraph is to be read without reference to its subparagraph (iv); and

(*b*) in applying paragraph 95(2)(*k*.2), for taxation years, of a foreign affiliate of the taxpayer, that begin on or before February 27, 2004, that paragraph is to be read without reference to its subclause (iv)(A)(II).

If a taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing due-date that includes the day on which this Act is assented to ("Fresh Start Section 95 Election"), paragraphs 95(2)(*j*.1) to (*k*.1) and (*k*.4) to (*k*.7) apply to taxation years, of all foreign affiliates of the taxpayer, that begin after 1994, except that in applying clause 95(2)(*k*)(iv)(C) for taxation years, of all foreign affiliates of the taxpayer, that begin before December 21, 2002, that clause is to be read in respect of those affiliates as follows:

"(C) either

(I) the foreign business was not described in any of clauses (iii)(A) to (C), or

(II) the definition "investment business" in subsection (1) did not apply in respect of the foreign business in the specified taxation year;" and

in applying paragraph 95(2)(*k*.1) for taxation years, of a foreign affiliate of the taxpayer, that begin on or before February 27, 2004, that paragraph is to be read without reference to its subparagraph (iv).

In applying subparagraph 95(2)(*k*)(iv) of the Act, as enacted by subsection 46(5) of *An Act to amend the Income Tax Act, the Income Tax Application Rules and related Acts*, Statutes of Canada, 1995, chapter 21, as amended by subsection 305(1) of the *Income Tax Amendments Act, 1997*, Statutes of Canada, 1998, chapter 19, to taxation years, of foreign affiliates of a taxpayer, that end after 1999 and begin before December 21, 2002, that subparagraph is, unless the taxpayer makes a valid election under the Fresh Start Section 95 Election [described above], to be read as follows:

"(iv) if the foreign business of the affiliate is a business in respect of which the affiliate would, if the foreign business were carried on in Canada, be required by law to report to a regulating authority in Canada such as the Superintendent of Financial Institutions or a similar authority of a province,

(A) the affiliate is deemed to be required by law to report to and to be subject to the supervision of such regulating authority, and

(B) if the affiliate is a life insurer and the foreign business of the affiliate is a life insurance business, the life insurance

policies issued in the conduct of that business are deemed to be life insurance policies in Canada, and"

Revocation of "Fresh Start Section 95 Election" If a taxpayer has made what would, but for this subsection, be a valid election under the Fresh Start Section 95 Election [described above], and the taxpayer has, on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes the day that is the third anniversary of the day on which this Act is assented to, filed with the Minister of National Revenue a notice in writing to revoke the election, the election is deemed, otherwise than for the purpose of this subsection, never to have been made.

Assessment Where Election Made or Revoked Notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take a Fresh Start Section 95 Election, or a revocation of this elections into account.

Explanatory Note: New paragraphs 95(2)(*j*.1) and (*j*.2) of the Act ensure that a foreign affiliate of a taxpayer resident in Canada that carries on an insurance business is eligible to claim certain policy reserves in connection with an insurance business in computing its foreign accrual property income.

New paragraph 95(2)(*j*.1) provides that new paragraph 95(2)(*j*.2) applies in respect of a particular taxation year of a foreign affiliate of a taxpayer and in respect of a particular fiscal period of a partnership at the end of which a foreign affiliate of a taxpayer is a member of the partnership (which foreign affiliate or partnership is referred to as the "operator" and which particular taxation year or particular fiscal period is referred to as the "specified taxation year") if in the specified taxation year

- the operator carries on a business (referred to as a "foreign business"),
- the foreign business includes the insuring of risks,
- the foreign business is not, at any time, a "taxable Canadian business" (as newly defined in subsection 95(1) of the Act),
- the foreign business is
  - an investment business, or
  - a business the activities of which include activities deemed by paragraph 95(2)(*a*.2) or (*b*) to be a separate business, other than an active business, carried on by the affiliate, and
- in respect of the foreign business, the operator would, if it were a corporation carrying on the foreign business in Canada, be required by law to report to, and be subject to the supervision of, a regulatory authority that is the Superintendent of Financial Institutions or a similar authority of a province.

New paragraph 95(2)(*j*.2) provides that in computing an operator's income or loss from the foreign business for the specified taxation year and each subsequent taxation year or fiscal period in which the foreign business is carried on by the operator

- the operator is deemed to carry on the foreign business in Canada throughout that part of the specified taxation year, and of each of those subsequent taxation years or fiscal periods, in which the foreign business is carried on by the operator, and
- for the purposes of Part XIV of the Regulations,
  - the operator is deemed to be required by law to report to, and to have been subject to the supervision of, the regulatory authority referred to in subparagraph 95(2)(*j*.1)(*v*), and
  - if the operator is a life insurer and the foreign business is a life insurance business, the life insurance policies issued in the conduct of that business are deemed to be life insurance policies in Canada.

For information about the new definition "taxable Canadian business", see the commentary to subsection 95(1).

In connection with the application of these new paragraphs, note the rule in new paragraph 95(2)(*k*.7). For detail, see the commentary for paragraph 95(2)(*k*.7).

These new paragraphs apply to taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002. These amendments are included in the Fresh Start Section 95 Election package [described below].

Absent a Fresh Start Section 95 Election by a taxpayer resident in Canada in respect of the taxpayer's foreign affiliate, subsection 1402(2) of the Regulations (which was repealed by P.C. 1999-1154, SOR/99-269, dated June 23, 1999) ensures, if the foreign affiliate of the taxpayer resident in Canada itself is the operator, that a result similar to the result afforded the foreign affiliate by new paragraphs 95(2)(*j*.1) and (*j*.2) is afforded the foreign affiliate for the 1995 and prior taxation years of the foreign affiliate of the taxpayer resident in Canada.

Fresh Start Section 95 Election

This set of proposals contains a number of amendments to section 95 of the Act, and to section 5907 of the Regulations, that apply to taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002. However, where a taxpayer so elects in writing and files the election (referred to in this commentary as the "Fresh Start Section 95 Election") with the Minister of National Revenue before the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which these amendments are assented to, all of those amendments apply to taxation years of all foreign affiliates, of the taxpayer, that begin after 1994. This set of proposals provides that, notwithstanding subsections 152(4) to (5) of the Act, the Minister of National Revenue can make any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year that is necessary to take the election into account.

Note that the Global Section 95 Election and the Fresh Start Section 95 Election are separate elections.

The following amendments to the Act and to the Regulations are covered by the Fresh Start Section 95 Election package:

- the definition "taxable Canadian business" in subsection 95(1),
- paragraphs 95(2)(*j*.1) and (*j*.2) and 95(2)(*k*), (*k*.1) and (*k*.4) to (*k*.7), and
- subsections 5907(2.9) and (2.91) of the Regulations .

See the commentary to paragraph 95(2)(*k*) for additional information with respect to transitional provisions.

Note that this set of proposals provides for the possibility of a total revocation of the Fresh Start Section 95 Election. If a taxpayer has made what would otherwise be a valid Fresh Start Section 95 Election, and the taxpayer has, on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes the day that is the third anniversary of the day on which the amending legislation enacting this set of proposals is assented to, filed with the Minister of National Revenue a notice in writing to revoke the election, the election is deemed never to have been made. This set of proposals provides that, notwithstanding subsections 152(4) to (5) of the Act, the Minister of National Revenue can make any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year that is necessary to take the revocation into account.

Paragraphs 95(2)(k) and (k.1)

Paragraph 95(2)(*k*) of the Act provides fresh start rules that, in general terms, are triggered if there is one of two types of changes to the business activities of a foreign affiliate of a taxpayer resident in Canada, namely:

- in a particular taxation year, the foreign affiliate of the taxpayer resident in Canada carries on an investment business outside Canada and, in the preceding taxation year, that business was not an investment business (as defined in subsection 95(1) of the Act) of the foreign affiliate, or
- in a particular taxation year, the foreign affiliate of the taxpayer resident in Canada is deemed by paragraph 95(2)(*a*.1), (*a*.2), (*a*.3) or (*a*.4) to carry on a separate business, other than an active business, and, in the preceding taxation year, the foreign affiliate was not deemed by that paragraph to be carrying on that separate business.

Paragraph 95(2)(*k*) refers to that investment business or that separate business as the foreign business.

The fresh start rules, set out in paragraph 95(2)(*k*), also apply where a foreign affiliate of a taxpayer resident in Canada begins to carry on a particular business in the particular year and the particular business was an investment business of the foreign affiliate (or was comprised of activities deemed by paragraph 95(2)(*a*.1), (*a*.2), (*a*.3) or (*a*.4) to be a separate business, other than an active business, carried on by the foreign affiliate).

These fresh start rules apply for the purpose of computing the foreign accrual property income (FAPI), of a foreign affiliate of a taxpayer resident in Canada in respect of the taxpayer, from a foreign business for a particular taxation year of the foreign affiliate and for each subsequent taxation year in which the foreign business is considered to be carried on. In general terms, the fresh start rules provide for the following in computing the foreign affiliate's FAPI in respect of the taxpayer from the foreign business for those years:

- The foreign affiliate is deemed to have begun to carry on the foreign business in Canada at the later of the time the particular taxation year began and the time the foreign affiliate began carrying on the foreign business. The foreign affiliate is also deemed to have carried on the foreign business in Canada throughout that part of the particular taxation year and each subsequent taxation year in which the foreign business is considered to be carried on by the foreign affiliate.
- Where the foreign business is a business in respect of which the foreign affiliate would, if the foreign business were carried on in Canada, be required by law to report to a regulating authority such as the federal Superintendent of Financial Institutions or a similar authority of a province, the foreign affiliate is deemed to have been subject to the supervision of such a regulating authority.
- Paragraphs 138(11.91)(*c*) to (*f*) of the Act apply to the foreign affiliate in respect of the foreign business as if the foreign affiliate were the insurer referred to in subsection 138(11.91), the particular taxation year were the particular year referred to in those paragraphs and the foreign business were the business of the insurer referred to in those paragraphs.

The fresh start rules in subparagraph 95(2)(*k*) ensure that the income of the foreign affiliate from the foreign business is calculated using Canadian tax rules. For example, the rule deeming the foreign affiliate to be subject to the supervision of a regulating authority permits the foreign affiliate to claim certain reserves in respect of insurance policies in connection with the foreign business. As well, there is a deemed disposition and reacquisition of property used or held in the foreign business immediately before the beginning of the particular taxation year. The fresh start rules ensure that income or losses accruing in prior periods do not enter into the income calculations for the foreign business in the particular taxation year or in subsequent taxation years.

A number of amendments are made to these fresh start rules. Note that paragraph 95(2)(*k*) is being divided into amended paragraph 95(2)(*k*) and new paragraph 95(2)(*k*.1). Amended paragraph 95(2)(*k*) defines the circumstances to which the fresh start rules apply, and new paragraph 95(2)(*k*.1) contains the substantive provisions of the fresh start rules.

Amended paragraph 95(2)(*k*) provides that new paragraph 95(2)(*k*.1) applies in respect of a particular taxation year of a foreign affiliate of a taxpayer resident in Canada and in respect of a particular fiscal period of a partnership at the end of which a foreign affiliate of a taxpayer resident in Canada is a member of the partnership (which foreign affiliate or partnership is referred to as the "operator" and which particular taxation year or particular fiscal period is referred to as the "specified taxation year") if the following four conditions are met:

- in the specified taxation year, the operator carries on a business (referred to in amended paragraph 95(2)(*k*) and, subject to new paragraph 95(2)(*k*.6), in new paragraph 95(2)(*k*.1), as a "foreign business"),
- the foreign business is not, at any time in the specified taxation year, a "taxable Canadian business",
- in the specified taxation year, the foreign business is
  - an investment business (clause 95(2)(*k*)(iii)(A)),
  - a business the activities of which include activities deemed by any of paragraphs 95(2)(*a*.1) to (*b*) to be a separate business, other than an active business, carried on by the foreign affiliate (clause 95(2)(*k*)(iii)(B)), or
  - a business the income from which is included by paragraph 95(2)(l) in computing the foreign affiliate's income from property for the specified taxation year (clause 95(2)(*k*)(iii)(C)),

and

- in the taxation year of the foreign affiliate, or fiscal period of the partnership, that includes the day that is immediately before the beginning of the specified taxation year)
  - the foreign affiliate or the partnership carried on the foreign business,
  - the foreign business was not, at any time, a "taxable Canadian business", and
  - the foreign business was not described in any of clauses 95(2)(k)(iii)(A), (B) and (C).

In connection with the first of these conditions, see the commentary to new subparagraph 95(2)(*k*.6).

New paragraph 95(2)(*k*.1) provides that, in computing the operator's income or loss from the foreign business, and in computing the operator's capital gain or capital loss from the disposition of property used or held in the course of carrying on the foreign business, for the specified taxation year and each subsequent taxation year or fiscal period in which the foreign business is carried on by the operator,

- the operator is deemed
  - to have begun to carry on the foreign business in Canada at the beginning of the specified taxation year, and
  - to carry on the foreign business in Canada throughout that part of the specified taxation year, and of each of those subsequent taxation years or fiscal periods, in which the foreign business is carried on by the operator,

(subparagraph 95(2)(k.1)(i))

- where, in respect of the foreign business, the operator would, if it were a corporation carrying on the foreign business in Canada, be required by law to report to, and be subject to the supervision of, a regulatory authority that is the Superintendent of Financial Institutions or a similar authority of a province,
  - the operator is deemed to have been required by law to report to, and to have been subject to the supervision of, such regulating authority, and
  - if the operator is a life insurer and the foreign business is a life insurance business, the life insurance policies issued in the conduct of that business are deemed to be life insurance policies in Canada,

(subparagraph 95(2)(*k*.1)(ii))

- paragraphs 138(11.91)(*c*) to (*e*) of the Act apply to the operator for the specified taxation year in respect of the foreign business as if
  - the operator were the insurer referred to in subsection 138(11.91),
  - the specified taxation year of the operator were the particular taxation year of the insurer referred to in that subsection,
  - the foreign business of the operator were the business of the insurer referred to in that subsection, and
  - the reference in paragraph 138(11.91)(*e*) to "property owned by it at that time is designated insurance property in respect of the business" were read as a reference to property owned or held by it at that time used or held by it in the particular taxation year in the course of carrying on the insurance business, (subparagraph 95(2)(*k*.1)(iii))

and

- if a particular property is deemed, because of the application of subparagraph 95(2)(*k*.1)(iii) and paragraph 138(11.91)(*e*), to have been disposed of in the preceding taxation year by the operator (which disposition is referred to in this subparagraph as a "particular disposition" of the particular property),
  - the amount of the foreign affiliate's income, gain or loss (which income, gain or loss is referred to in this subparagraph as the "deferred amount") derived from the operator's income, gain or loss from the particular disposition of the particular property
- is to be included in computing the foreign affiliate's income, gain or loss for its taxation year that includes the last day of the operator's taxation year or fiscal

period in which the particular property is disposed of by the operator in a disposition that is not the particular disposition, and

- is not to be included in computing the foreign affiliate's income, gain or loss for its taxation year that includes the last day of the operator's taxation year that includes the time of the particular disposition of the particular property, and

— the portion of the income taxes paid by the foreign affiliate to, or recovered by the foreign affiliate from, the government of a country other than Canada that may reasonably be considered to relate to the deferred amount is not to be included in determining income taxes paid to or recovered in respect of any other income, gain or loss of the foreign affiliate.

(subparagraph 95(2)(*k*.1)(iv))

In general terms, the amendments to paragraphs 95(2)(*k*) and (*k*.1) can be summarized as follows:

First, the amendments ensure that the fresh start rules apply not only if the particular business is carried on by a foreign affiliate of a taxpayer resident in Canada, but also if the particular business is carried on by a partnership of which a foreign affiliate of a taxpayer resident in Canada is a member. These amendments ensure, in the case of partnerships, that the fresh start rules will work on the basis of fiscal periods of the partnership and will therefore be relevant in the computation of the foreign affiliate's foreign accrual property income for the foreign affiliate's taxation year that includes a fiscal period to which the fresh start rules apply. In amended paragraph 95(2)(*k*) and new paragraph 95(2)(*k*.1), the expression "operator" refers to the foreign affiliate (if the foreign affiliate directly carries on the particular business) or to the partnership (if the foreign affiliate carries on the particular business through the partnership).

Second, the amendments ensure that the fresh start rules are no longer triggered if the operator begins to carry on the particular business in the specified taxation year and did not carry on the particular business in the preceding taxation year. However, it is possible that, in such a situation, new paragraphs 95(2)(*j*.1) and (*j*.2) may apply. For further detail, see the commentary to new paragraphs 95(2)(*j*.1) and (*j*.2).

Third, the amendments ensure that the type of change in business activities that triggers the fresh start rules is a change that meets the following conditions:

- in the specified taxation year, the operator carries on a business (a "foreign business"),
- in the specified taxation year, the foreign business is
  - — an investment business,
  - — a business whose activities include activities deemed by any of paragraphs 95(2)(*a*.1) to (*b*) to be a separate business (other than an active business) carried on by the foreign affiliate, or
  - — a business the income from which is included by paragraph 95(2)(i) in computing the foreign affiliate's income from property for the specified taxation year,
- in the preceding taxation year or fiscal period, the foreign affiliate or the partnership carried on the foreign business, and
- in that preceding taxation year or fiscal period, the foreign business was not described in any of clauses 95(2)(*k*)(iii)(A), (B) and (C).

Fourth, new paragraph 95(2)(*k*) provides that, in order for the fresh start rules to be triggered, the foreign business of the operator

- cannot, at any time in the specified taxation year, be a taxable Canadian business of the operator, and
- cannot, at any time in the preceding taxation year or fiscal period, have been a taxable Canadian business of the foreign affiliate or the partnership.

For more detail, see the commentary to the new definition "taxable Canadian business" in subsection 95(1) of the Act.

Fifth, new paragraph 95(2)(*k*.1) provides that life insurance policies issued by a foreign business of a foreign affiliate of a taxpayer resident in Canada in the conduct of that business are deemed to be life insurance policies in Canada if

- the operator would be required by law to report to the Superintendent of Financial Institutions or to a similar authority of a province in respect of the foreign business if the operator were a corporation carrying on the foreign business,
- the foreign business is a life insurance business, and
- the operator is a life insurer.

This new rule ensures that the operator is eligible to claim certain policy reserves in connection with the life insurance business.

Sixth, new paragraph 95(2)(*k*.1) makes it clear that, in applying paragraph 138(11.91)(*e*) of the Act to the fresh start rules, the reference in paragraph 138(11.91)(*e*) to "property owned by it at that time that is designated insurance property in respect of the business" is to be read as a reference to "property owned or held by it at that time that is used or held by the insurer in the particular taxation year in the course of carrying on the insurance business".

Seventh, consequential to the repeal of paragraph 138(11.91)(*f*) of the Act, the reference, in the fresh start rules, to "paragraphs 138(11.91)(*c*) to (*f*)" is changed to read "paragraphs 138(11.91)(*c*) to (*e*)". For more detail, see the commentary to subsection 138(11.91).

Eighth, subparagraph 95(2)(*k*.1)(iv) provides that the income, gain or loss from the deemed disposition of a particular property under subparagraph 95(2)(*k*.1)(iii) is only to be included in computing the foreign affiliate's income, gain or loss in the taxation year in which the property is disposed of in a transaction other than the deemed disposition. The recognition of foreign income tax recoveries paid or recovered that is related to the deferred income, gain or loss is to matched with the recognition of that income, gain or loss.

New paragraphs 95(2)(*k*) and (*k*.1) apply to taxation years of foreign affiliates of a taxpayer resident in Canada that begin after December 20, 2002. These amendments are included in the Fresh Start Section 95 Election package described at the beginning of the commentary to section 95.

However, note that this set of proposals sets out a number of transitional rules with respect to the application of paragraphs 95(2)(*k*) and (*k*.1).

First, in applying new paragraph 95(2)(*k*.1) for taxation years, of a foreign affiliate of the taxpayer, that begin on or before February 27, 2004, that paragraph is to be read without reference to subparagraph 95(2)(*k*.1)(iv).

Second, in the case where the taxpayer has made a valid Fresh Start Section 95 Election, in applying new clause 95(2)(*k*)(iv)(C) of the Act, for taxation years, of all foreign affiliates of the taxpayer, that begin before December 21, 2002, that clause is to be read in respect of those affiliates as follows:

"(C) either

(I) the foreign business was not described in any of clauses (iii)(A) to (C), or

(II) the definition investment business in subsection (1) did not apply in respect of the foreign business in the specified taxation year;"

Third, in applying existing subparagraph 95(2)(k)(iv) of the Act to taxation years, of foreign affiliates of a taxpayer, that end after 1999 and begin before December 21, 2002, that subparagraph is, unless the taxpayer makes a valid Fresh Start Section 95 Election, to be read as follows:

"(iv) if the foreign business of the affiliate is a business in respect of which the affiliate would, if the foreign business were carried on in Canada, be required by law to report to a regulating authority in Canada such as the Superintendent of Financial Institutions or a similar authority of a province,

(A) the affiliate is deemed to be required by law to report to and to be subject to the supervision of such regulating authority, and

(B) if the affiliate is a life insurer and the foreign business of the affiliate is a life insurance business, the life insurance policies issued in the conduct of that business are deemed to be life insurance policies in Canada, and"

Example

Facts

Forco, a wholly-owned foreign affiliate of Canco, is deemed to carry on an investment business. The principal purpose of Forco's business is to derive income from trading or dealing in securities. The particular taxation year of Forco in respect of which paragraphs 95(2)(*k*) and (*k*.1) apply to the investment business is its taxation year ended December 31, 1995 (its 1995 taxation year). Forco had acquired only one security for $10 million. The fair market value of the security was $12 million at the end of its taxation year that ended on December 31, 1994 (its 1994 taxation year). Assume, for the purposes of this example, that Canco has made a valid Fresh Start Section 95 Election.

Application of paragraphs 95(2)(k) and (k.1)

Forco is deemed to have, at the end of its 1994 taxation year, disposed of all the securities used or held by it in respect of the investment business. The amount of $2 million (i.e., $12 million minus $10 million) would be added to the earnings of Forco in the taxation year in which it disposed of the securities. Following the deemed reacquisition of the securities at the beginning of its 1995 taxation year, Forco would have $12 million as the cost of its securities for the purposes of computing its income from the investment business. For additional detail, refer to the commentary to subsection 5907(2.9) of the Regulations.

Paragraphs 95(2)(k.2) and (k.3)

New paragraphs 95(2)(*k*.2) and (*k*.3) of the Act operate together and, in general terms, provide for fresh start rules that are triggered if a business carried on that is not an active business of a foreign affiliate of a taxpayer resident in Canada (or a business of a partnership of which the foreign affiliate is a member) becomes, in a particular taxation year of the foreign affiliate or in a particular fiscal period of the partnership (as the case may be), an active business. These fresh start rules apply in computing the foreign affiliate's foreign accrual property income (FAPI) in respect of the taxpayer from that business for the preceding taxation year or fiscal period.

Paragraph 95(2)(*k*.2) provides that paragraph 95(2)(k.3) applies in respect of a particular taxation year of a foreign affiliate of a taxpayer or in respect of a particular fiscal period of a partnership at the end of which a foreign affiliate of a taxpayer is a member of the partnership (which foreign affiliate or partnership is referred to as the operator and which particular taxation year or particular fiscal period is referred to as the "specified taxation year") if the following four conditions are met:

- in the preceding taxation year of the foreign affiliate or fiscal period of the partnership (which taxation year or fiscal period is referred to in this paragraph and paragraph (*k*.3) as the "receding taxation year") that includes the day immediately before the beginning of the specified taxation year, the foreign affiliate or the partnership carried on a business (which is referred to in paragraph 95(2)(*k*.2) and, subject to paragraph (k.6), in paragraph 95(2)(*k*.3), as the foreign business),
- the foreign business was not, at any time in the preceding taxation year, a "taxable Canadian business",
- in the preceding taxation year, the foreign business was
  - an investment business (clause 95(2)(k.2)(iii)(A)),
  - a business whose activities included activities deemed by any of paragraphs 95(2)(*a*.1) to (*b*) to be a separate business, other than an active business, carried on by the affiliate (clause 95(2)(*k*.2)(iii)(B)), or
  - a business the income from which is included by paragraph 95(2)(l) in computing the affiliate's income from property for that preceding taxation year or fiscal period (clause 95(2)(*k*.2)(iii)(C)), and
- either
  - at any time in the specified taxation year the operator carries on the foreign business, and
    - the foreign business is an active business that is not a "taxable Canadian business" (subclause 95(2)(*k*.2)(iv)(A)(I), or
    - all or substantially all of the fair market value of the property of the operator used or held by the operator in the course of carrying on the foreign business is attributable to property of the operator that is excluded property (subclause 95(2)(*k*.2)(iv)(A)(II)), or
  - at no time in the specified taxation year does the operator carry on the foreign business.

In connection with the first of these four conditions, see the commentary on new subparagraph 95(2)(*k*.6).

For detail on the new definition "taxable Canadian business", see the commentary to subsection 95(1) of the Act.

The fresh start rules in paragraph 95(2)(*k*.3) provide that, in computing the operator's income or loss from the foreign business and in computing the operator's capital gain or capital loss from the disposition of property used or held in the course of carrying on the foreign business, for the preceding taxation year or fiscal period referred to in paragraph 95(2)(*k*.2) and for the specified taxation year of the operator and the operator's subsequent taxation years or fiscal periods,

- the operator is deemed to have ceased to carry on the foreign business in Canada at the beginning of the specified taxation year, and
- subject to subparagraph 95(2)(*k*.3)(iii), paragraphs 138(11.91)(c) to (e) of the Act apply to the operator for the specified taxation year in respect of the foreign business as if
  - the operator were the "insurer" referred to in subsection 138(11.91),
  - the specified taxation year of the operator were the "particular taxation year" of the insurer referred to in that subsection,
  - the foreign business of the operator were the business of the insurer referred to in that subsection,
  - the reference in paragraph 138(11.91)(*e*) to "property owned by it at that time that is designated insurance property in respect of the business" were read as a reference to "property owned or held by it at that time that is used or held by the insurer in the particular taxation year in the course of carrying on the insurance business", and
  - where, under subparagraph 95(2)(*k*.3)(iii), the taxpayer elects in prescribed manner and within the prescribed time (see proposed new section 5918 of the Regulations), to have that subparagraph apply in respect of every property that is deemed, because of the application of subparagraph 95(2)(*k*.3)(ii) and paragraph 138(11.91)(*e*), to have been disposed of in the specified taxation year by the operator (each such property referred to as the "particular property" and each such disposition referred to as the "particular disposition" of the "particular property"), the following rules apply:
    - the amount of the foreign affiliate's income, gain or loss (which income, gain or loss is referred to as the "deferred amount") derived from the operator's income, gain or loss from a particular disposition of a particular property
      - is to be included in computing the foreign affiliate's foreign accrual property income in respect of the taxpayer for the foreign affiliate's taxation year that includes the last of the operator's taxation year or fiscal period in which the particular property is disposed of by the operator in a disposition that is not the particular disposition, and
      - is not to be included in computing the foreign affiliate's foreign accrual property income in respect of the taxpayer for the foreign affiliate's taxation year that includes the last day of the operator's taxation year or fiscal period that includes the time of the particular disposition of the particular property, and
    - the portion, of the income taxes paid by the foreign affiliate to, or recovered by the foreign affiliate from, the government of a country other than Canada that may reasonably be considered to relate to the deferred amount is not to be

included in determining income taxes paid to or recovered in respect of any other income, gain or loss of the foreign affiliate.

Paragraphs 95(2)(*k*.2) and (*k*.3) ensure that, if a foreign business that is an active business in the specified taxation year was not an active business in the immediately preceding taxation year or fiscal period, as the case may be, any accrued gains will be included in computing the FAPI of the foreign affiliate in that preceding taxation year or fiscal period. The active business income of the foreign affiliate will reflect income, gains and losses accruing in the specified taxation year and in subsequent taxation years or fiscal periods, as the case may be. The reference, in subsection 95(2)(*k*.3), to paragraphs 138(11.91)(*c*) to (*e*), ensures that, immediately before the beginning of the specified taxation year, there is a deemed disposition and deemed reacquisition of property used or held in the foreign business.

New paragraphs 95(2)(*k*.2) and (*k*.3) apply to taxation years of a foreign affiliate of a taxpayer that begin after December 20, 2002. However, this set of proposals provides that, in applying new paragraph 95(2)(*k*.2) for taxation years, of a foreign affiliate of the taxpayer, that begin on or before February 27, 2004, that paragraph is to be read without reference to subclause 95(2)(*k*.2)(iv)(A)(II).

Example

Facts

Forco, a wholly-owned foreign affiliate of Canco, carried on a particular business that was an investment business throughout its taxation year that ended December 31, 2004. Forco is resident in a country that is a designated treaty country for the purposes of Part LIX of the Regulations. In its taxation year that ended December 31, 2005 (its "2005 taxation year"), business activities constitute an active business.

At the end of its 2004 taxation year, Forco owned capital property with a cost amount of $6 million, and inventory with a cost amount of $2 million, that was property used or held in the course of carrying on this business. At the end of that taxation year, the fair market value of Forco's capital property was $10 million and the fair market value of its inventory was $4 million.

Application of paragraphs 95(2)(k.2) and (k.3)

Forco would be deemed to have, immediately before the end of its 2004 taxation year, disposed of all of its property for proceeds equal to fair market value of that property at that time.

In connection with the deemed disposition of the capital property, Forco would be deemed to have a capital gain of $4 million (i.e., $10 million minus $6 million). Therefore, the taxable capital gain would be $2 million. Subject to a taxpayer election described below, the $2 million of taxable capital gains will be included in computing Forco's FAPI for the 2004 taxation year. Following the deemed reacquisition of the capital property at the end of its 2004 taxation year, Forco would have a cost in the amount of $10 million for the capital property.

Subject to a taxpayer election described below, in connection with the deemed disposition of the inventory, Forco would be deemed to have income of $2 million that would be included in computing the foreign accrual property income of Forco for its 2004 taxation year. Following the deemed reacquisition of the inventory at the end of its 2004 taxation year, Forco would have a cost in the amount of $4 million for the inventory.

For fresh starts in taxation years of a foreign affiliate of a taxpayer resident in Canada commencing after December 20, 2002, where the taxpayer elects (subparagraph 95(2)(*k*.3)(iv)), the gain and income arising because of the application of paragraph 95(2)(*k*.3) can be recognized by the foreign affiliate in the year the property is disposed of by foreign affiliate in a disposition other a disposition deemed, because of the application of subparagraph 95(2)(*k*.3)(ii) and paragraph 138(11.91)(*e*), to have occurred.

Paragraph 95(2)(k.4)

The fresh start rules provided for in new paragraphs 95(2)(*k*) and (*k*.1) and in new paragraphs 95(2)(*k*.2) and (*k*.3), respectively, of the Act do not apply to a business the income from which is subject to tax under Part I of the Act. New paragraph 95(2)(*k*.4) provides for a rule to deal with the situation where income from part of the business is subject to tax under Part I of the Act.

New paragraph 95(2)(*k*.4) provides that, if at any time a foreign affiliate of a taxpayer resident in Canada, or a partnership at the end of the fiscal period of which includes that time a foreign affiliate of a taxpayer resident in Canada is a member of the partnership, (which foreign affiliate or partnership is referred to as the operator), carries on a business both outside Canada and in Canada and income from that particular part of that business that is carried on in Canada is income from a taxable Canadian business, the following rules apply for the purposes of paragraphs 95(2)(*k*) to (*k*.3):

- the particular part of the business is deemed to be, at that time, a separate business,
- the assets used, or held, at that time primarily in the course of carrying on the particular part of the business are deemed to be, at that time, used or held in the course of carrying on the separate business,
- any liability incurred, and any reserve established, at that time in the course of carrying on the particular part of the business are deemed to be, at that time, incurred or established in the course of carrying on the separate business, and
- the transactions conducted at that time in the particular part of the business are deemed to be transactions conducted, at that time, in the separate business.

New paragraph 95(2)(*k*.4) applies to taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002. This new paragraph is included in the Fresh Start Section 95 Election package [described above].

Paragraphs 95(2)(k.5) and (k.6)

New paragraph 95(2)(*k*.6) of the Act, in combination with new paragraph 95(2)(k.5), provides application rules for the purposes of new paragraphs 95(2)(*k*.1) and (*k*.3).

New paragraph 95(2)(*k*.5) provides that new paragraph 95(2)(k.6) applies for the purpose of paragraphs 95(2)(*k*.1) and (*k*.3) in respect of a particular business of an operator if

- the particular business is the operator's foreign business for that specified or preceding taxation year, and
- the activities of the particular business for that specified or preceding taxation year include particular activities deemed by any of paragraphs 95(2)(*a*.1) to (*b*) to be a separate business, other than an active business, carried on by the foreign affiliate and the particular activities were not all the activities of the particular business in that specified or preceding taxation year.

New subparagraph 95(2)(*k*.6) provides that, in applying paragraphs 95(2)(*k*.1) and (*k*.3),

- the part of the particular business that consists of activities deemed by any of paragraphs 95(2)(*a*.1) to (*b*) to be a separate business, other than an active business, carried on by the foreign affiliate for a taxation year or fiscal period referred to in paragraph 95(2)(*k*.1) or (*k*.3), of the operator, is deemed to be the operator's foreign business carried on in that taxation year or fiscal period (subparagraph 95(2)(*k*.6)(i)),
- the assets used or held by the operator primarily in the course of carrying on activities deemed by any of paragraphs 95(2)(*a*.1) to (*b*) to be a separate business, other than an active business, carried on by the foreign affiliate for a taxation year or fiscal period, referred to in paragraph 95(2)(*k*) or (*k*.2), of the operator, are deemed to be assets used or held by the operator in the course of carrying on the foreign business in that taxation year or fiscal period (subparagraph 95(2)(*k*.6)(ii)),
- the portion of the liabilities incurred and the portion of the reserves established, in the course of carrying on activities deemed by any of paragraphs 95(2)(*a*.1) to (*b*) to be a separate business, other than an active business, carried on by the foreign affiliate for a taxation year or fiscal period, referred to in paragraph 95(2)(*k*) or (*k*.2), of the operator, are deemed to be liabilities incurred and reserves established in the course of carrying on the foreign business in that taxation year or fiscal period (subparagraph 95(2)(*k*.6)(iii)), and

- subject to subparagraphs 95(2)(*k.6*)(ii) and (iii), the transactions conducted in the course of carrying on activities deemed by any of paragraphs (*a*.1) to (*b*) to be a separate business, other than an active business, carried on by the foreign affiliate for a taxation year or fiscal period, referred to in paragraph 95(2)(*k*) or (*k*.2), of the operator, are, to the extent that those transactions relate to those activities, deemed to be transactions conducted in the course of carrying on the foreign business in that taxation year or fiscal period (subparagraph 95(2)(*k.6*)(iv)).

New paragraphs 95(2)(*k.5*) and (*k.6*) apply to taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002. These new paragraphs are included in the Fresh Start Section 95 Election package [described above].

Paragraph 95(2)(k.7)

New paragraph 95(2)(*k.7*) of the Act contains rules for the purposes of applying paragraphs 95(2)(*a*.1) to (*b*), (*j*.1) and (*j*.2), (*k*) to (*k*.6) and (l) and the definition "taxable Canadian business" in subsection 95(1).

This new paragraph provides that, if a person is (or is deemed by that paragraph to be) a member of a partnership and that partnership is a member of another partnership,

(i) in applying paragraphs 95(2)(*a*.1) to (*b*), (*j*.1) and (*j*.2), (*k*) to (*k*.6) and (*l*) and the definition "taxable Canadian business" in subsection 95(1), the person is deemed to be a member of the other partnership, and

(ii) in applying the definition "taxable Canadian business" in subsection 95(1), the person's share of the income or loss of the other partnership is deemed to be equal to the portion of that income or loss to which the person is directly or indirectly entitled.

Note that these deeming rules do not deem the actual or previously-deemed member not to be a member, nor do they deem such a member not to have the share of the income or loss.

New paragraph 95(2)(*k.7*) applies to taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002. This new paragraph is included in the Fresh Start Section 95 Election package described [described above].

► 95(2)(l) ◄

(l) [Determination of FAPI — Trading or dealing in indebtedness] — in computing the income from property for a taxation year of a foreign affiliate of a taxpayer there shall be included the income of the affiliate for the year from a business (other than an investment business of the affiliate) the principal purpose of which is to derive income from trading or dealing in indebtedness (which for the purpose of this paragraph includes the earning of interest on indebtedness) other than

(i) indebtedness owing by persons with whom the affiliate deals at arm's length who are resident in the country in which the affiliate was formed or continued and exists and is governed and in which the business is principally carried on, or

(ii) trade accounts receivable owing by persons with whom the affiliate deals at arm's length,

unless

(iii) the business is carried on by the affiliate as a foreign bank, a trust company, a credit union, an insurance corporation or a trader or dealer in securities or commodities, the activities of which are regulated under the laws

(A) of each country in which the business is carried on through a permanent establishment (as defined by regulation) in that country and of the country under whose laws the affiliate is governed and any of exists, was (unless the affiliate was continued in any jurisdiction) formed or organized, or was last continued,

(B) of the country in which the business is principally carried on, or

(C) if the affiliate is related to a non-resident corporation, of the country under whose laws that non-resident corporation is governed and any of exists, was (unless that non-resident corporation was continued in any jurisdiction) formed or organized, or was last continued, if those regulating laws are recognized under the laws of the country in which the business is principally carried on and all of those countries are members of the European Union, and

(iv) the taxpayer is

(A) a bank, a trust company, a credit union, an insurance corporation or a trader or dealer in securities or commodities resident in Canada, the business activities of which are subject by law to the supervision of a regulating authority such as the Superintendent of Financial Institutions or a similar authority of a province,

(B) a subsidiary wholly-owned corporation of a corporation described in clause (A), or

(C) a corporation of which a corporation described in clause (A) is a subsidiary wholly-owned corporation;

History: S. 95(2)(*l*)(iii) was replaced by S.C. 2007, c. 35, s. 26(15), applicable to taxation years, of a foreign affiliate of a taxpayer, that begin after 1999. S. 95(2)(*l*)(iii) formerly read:

"(iii) the business is carried on by the affiliate as a foreign bank, a trust company, a credit union, an insurance corporation or a trader or dealer in securities or commodities, the activities of which are regulated in the country under whose laws the affiliate was formed or continued and exists and is governed and in which the business is principally carried on, and"

The application of paragraphs 95(2)(*a*) to (*a*.4) and (*k*) to (*m*) were amended by S.C. 1998, c. 19, s. 305(1), deemed to have come into force on June 22, 1995. That application reads as follows:

Sec. 305(1), Chap. 19, 1998

(8) Subsections 46(1) to 46(6) [of 1995, c. 21] apply to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, subsections (1) to (6) apply to taxation years of the foreign affiliate that end after 1994, unless

(*a*) the foreign affiliate had requested the change in writing before February 22, 1994 from the income taxation authority of the country in which the foreign affiliate was resident and subject to income taxation; or

(*b*) the foreign affiliate's first taxation year that began after 1994 began at a time in 1995 that is earlier than the time at which that taxation year would have begun if the change had not occurred.

S. 95(2)(*l*) was added by S.C. 1995, c. 21, s. 46(5), applicable to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, paragraph 95(2)(*l*) applies to taxation years of such foreign affiliate of the taxpayer that end after 1994, unless

(*a*) such foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation; or

(*b*) the first taxation year of such foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time that that taxation year would have begun if there had not been that change in the taxation year of such foreign affiliate.

► 95(2)(m) ◄

(m) [Determination of FAPI — Qualifying interest in foreign affiliate] — a taxpayer has a qualifying interest in respect of a foreign affiliate of the taxpayer at any time if, at that time, the taxpayer owned

(i) not less than 10% of the issued and outstanding shares (having full voting rights under all circumstances) of the affiliate, and

(ii) shares of the affiliate having a fair market value of not less than 10% of the fair market value of all the issued and outstanding shares of the affiliate

and for the purpose of this paragraph

(iii) where, at any time, shares of a corporation are owned or are deemed for the purposes of this paragraph to be owned by another corporation (in this paragraph referred to as the "holding corporation"), those shares shall be deemed to be owned at that time by each shareholder of the holding corporation in a proportion equal to the proportion of all such shares that

(A) the fair market value of the shares of the holding corporation owned at that time by the shareholder

is of

(B) the fair market value of all the issued shares of the holding corporation outstanding at that time,

(iv) where, at any time, shares of a corporation are property of a partnership or are deemed for the purposes of this paragraph to be property of a partnership, those shares shall be deemed to be owned at that time by each member of the partnership in a proportion equal to the proportion of all such shares that

(A) the member's share of the income or loss of the partnership for its fiscal period that includes that time

is of

(B) the income or loss of the partnership for its fiscal period that includes that time

and for the purpose of this subparagraph, where the income and loss of the partnership for its fiscal period that includes that time are nil, that proportion shall be computed as if the partnership had income for the period in the amount of $1,000,000, and

(v) where, at any time, a person is a holder of convertible property issued by the affiliate before June 23, 1994 the terms of which confer on the holder the right to exchange the convertible property for shares of the affiliate and the taxpayer elects in its return of income for its first taxation year that ends after 1994 to have the provisions of this subparagraph apply to the taxpayer in respect of all the convertible property issued by the affiliate and outstanding at that time, each holder shall, in respect of the convertible property held by it at that time, be deemed to have, immediately before that time,

(A) exchanged the convertible property for shares of the affiliate, and

(B) acquired shares of the affiliate in accordance with the terms and conditions of the convertible property;

History: The application of paragraphs 95(2)(*a*) to (*a.4*) and (*k*) to (*m*) were amended by S.C. 1998, c. 19, s. 305(1), deemed to have come into force on June 22, 1995. That application reads as follows:

Sec. 305(1), Chap. 19, 1998

(8) Subsections 46(1) to 46(6) [of 1995, c. 21] apply to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, subsections (1) to (6) apply to taxation years of the foreign affiliate that end after 1994, unless

(*a*) the foreign affiliate had requested the change in writing before February 22, 1994 from the income taxation authority of the country in which the foreign affiliate was resident and subject to income taxation; or

(*b*) the foreign affiliate's first taxation year that began after 1994 began at a time in 1995 that is earlier than the time at which that taxation year would have begun if the change had not occurred.

S. 95(2)(*m*) was added by S.C. 1995, c. 21, s. 46(5), applicable to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, paragraph 95(2)(*m*) applies to taxation years of such foreign affiliate of the taxpayer that end after 1994, unless

(*a*) such foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation; or

(*b*) the first taxation year of such foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time that that taxation year would have begun if there had not been that change in the taxation year of such foreign affiliate.

► 95(2)(n) ◄

(n) [Determination of FAPI — Foreign affiliate and qualifying interest] — in applying paragraphs (*a*) and (*g*) and subsections (2.2) and (2.21), in applying paragraph (*b*) of the description of A in the formula in the definition "foreign accrual property income" in subsection (1) and in applying paragraph (*d*) of the definition "exempt earnings", and paragraph (*c*) of the definition "exempt loss", in subsection 5907(1) of the Regulations, a non-resident corporation is deemed to be, at any time, a foreign affiliate of a particular corporation resident in Canada, and a foreign affiliate of the particular corporation in respect of which the particular corporation has a qualifying interest, if at that time

(i) the non-resident corporation is a foreign affiliate of another corporation that is resident in Canada and that is related (otherwise than because of a right referred to in paragraph 251(5)(*b*)) to the particular corporation, and

(ii) that other corporation has a qualifying interest in respect of the non-resident corporation;

History: S. 95(2)(*n*) was added by S.C. 2007, c. 35, s. 26(16), applicable to taxation years, of a foreign affiliate of a taxpayer, that end after 1999. However, if a taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2007, paragraph 95(2)(*n*) applies to taxation years, of all foreign affiliates of the taxpayer, that begin after 1994. [**Editorial Note:** See Department of Finance News Release No. 2008-048, dated June 27, 2008, reproduced before s. 95(1), regarding a proposed extension of the election deadline.]

Notwithstanding subsections 152(4) to (5), any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take an election referred to above, into account.

► 95(2)(o) ◄

(o) [Determination of FAPI — Qualifying member of partnership] — a particular person is a qualifying member of a partnership at a particular time if, at that time, the particular person is a member of the partnership and

(i) throughout the period, in the fiscal period of the partnership that includes the particular time, during which the member was a member of the

partnership, the particular person is, on a regular, continuous and substantial basis

(A) actively engaged in those activities, of the principal business of the partnership carried on in that fiscal period by the partnership, that are other than activities connected with the provision of or the acquisition of funds required for the operation of that principal business, or

(B) actively engaged in those activities, of a particular business carried on in that fiscal period by the particular person (otherwise than as a member of a partnership) that is similar to the principal business carried on in that fiscal period by the partnership, that are other than activities connected with the provision of or the acquisition of funds required for the operation of the particular business, or

(ii) throughout the period, in the fiscal period of the partnership that includes the particular time, during which the particular person was a member of the partnership

(A) the total of the fair market value of all partnership interests in the partnership owned by the particular person was equal to or greater than 1% of the total of the fair market value of all partnership interests in the partnership owned by all members of the partnership, and

(B) the total of the fair market value of all partnership interests in the partnership owned by the particular person or persons (other than trusts) related to the particular person was equal to or greater than 10% of the total of the fair market value of all partnership interests in the partnership owned by all members of the partnership;

History: S. 95(2)(*o*) was added by S.C. 2007, c. 35, s. 26(16). Subject to the Global Section 95 Election below, paragraph 95(2)(*o*) applies to taxation years that end after 1999.

[Global Section 95 Election] If a taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2007, paragraph 95(2)(*o*) applies to taxation years, of all foreign affiliates of the taxpayer, that begin after 1994. [**Editorial Note:** See Department of Finance News Release No. 2008-048, dated June 27, 2008, reproduced before s. 95(1), regarding a proposed extension of the election deadline.]

If a taxpayer has made what would be a valid Global Section 95 Election described above, and the taxpayer has, on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2010, filed with the Minister of National Revenue a notice in writing to revoke the election, the election is deemed, otherwise than for the purpose of this revocation, never to have been made.

Notwithstanding subsections 152(4) to (5), any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take an election or a revocation, referred to above, into account.

► 95(2)(p) ◄

(p) [Determination of FAPI — Qualifying shareholder] — a particular person is a qualifying shareholder of a corporation at any time if throughout the period, in the taxation year of the corporation that includes that time, during which the particular person was a shareholder of the corporation

(i) the particular person owned 1% or more of the issued and outstanding shares (having full voting rights under all circumstances) of the capital stock of the corporation,

(ii) the particular person, or the particular person and persons (other than trusts) related to the particular person, owned 10% or more of the issued and outstanding shares (having full voting rights under all circumstances) of the capital stock of the corporation,

(iii) the total of the fair market value of all the issued and outstanding shares of the capital stock of the corporation owned by the particular person is 1% or more of the total fair market value of all the issued and outstanding shares of the capital stock of the corporation, and

(iv) the total of the fair market value of all the issued and outstanding shares of the capital stock of the corporation owned by the particular person or by persons (other than trusts) related to the particular person is 10% or more of the total fair market value of all the issued and outstanding shares of the capital stock of the corporation;

History: S. 95(2)(*p*) was added by S.C. 2007, c. 35, s. 26(16). Subject to the Global Section 95 Election below, paragraph 95(2)(*p*) applies to taxation years, of a foreign affiliate of a taxpayer, that end after 1999.

[Global Section 95 Election] If a taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2007, paragraph 95(2)(*p*) applies to taxation years, of all foreign affiliates of the taxpayer, that begin after 1994. [**Editorial Note:** See Department of Finance News Release No. 2008-048, dated June 27, 2008, reproduced before s. 95(1), regarding a proposed extension of the election deadline.]

If a taxpayer has made what would be a valid Global Section 95 Election described above, and the taxpayer has, on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2010, filed with the Minister of National Revenue a notice in writing to revoke the election, the election is deemed, otherwise than for the purpose of this revocation, never to have been made.

Notwithstanding subsections 152(4) to (5), any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take an election or a revocation, referred to above, into account.

► 95(2)(q) ◄

(q) [Determination of FAPI — Look-through rules] — in applying paragraphs (*o*) and (*p*),

(i) where interests in any partnership or shares of the capital stock of any corporation (which interests or shares are referred to in this subparagraph as "equity interests") are, at any time, property of a particular partnership or are deemed under this paragraph to be, at any time, property of the particular partnership, the equity interests are deemed to be owned at that time by each member of the particular partnership in a proportion equal to the proportion of the equity interests that

(A) the fair market value, at that time, of the member's partnership interest in the particular partnership

is of

(B) the fair market value, at that time, of all members' partnership interests in the particular partnership, and

(ii) where interests in a partnership or shares of the capital stock of a corporation (which interests or shares are referred to in this subparagraph as "equity interests") are, at any time, property of a non-discretionary trust (within the meaning

assigned by subsection 17(15)) or are deemed under this paragraph to be, at any time, property of such a non-discretionary trust, the equity interests are deemed to be owned at that time by each beneficiary under that trust in a proportion equal to that proportion of the equity interests that

(A) the fair market value, at that time, of the beneficiary's beneficial interest in the trust

is of

(B) the fair market value, at that time, of all beneficial interests in the trust;

History: S. 95(2)(*q*) was added by S.C. 2007, c. 35, s. 26(16). Subject to the Global Section 95 Election below, paragraph 95(2)(*q*) applies to taxation years that end after 1999.

[Global Section 95 Election] If a taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2007, paragraph 95(2)(*q*) applies to taxation years, of all foreign affiliates of the taxpayer, that begin after 1994. [**Editorial Note:** See Department of Finance News Release No. 2008-048, dated June 27, 2008, reproduced before s. 95(1), regarding a proposed extension of the election deadline.]

If a taxpayer has made what would be a valid Global Section 95 Election described above, and the taxpayer has, on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2010, filed with the Minister of National Revenue a notice in writing to revoke the election, the election is deemed, otherwise than for the purpose of this revocation, never to have been made.

Notwithstanding subsections 152(4) to (5), any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take an election or a revocation, referred to above, into account.

► 95(2)(r) ◄

(r) [Determination of FAPI — Deemed qualifying member of partnership] — in applying paragraph (*a*) and in applying paragraph (*d*) of the definition "exempt earnings", and paragraph (*c*) of the definition "exempt loss", in subsection 5907(1) of the Regulations, a partnership is deemed to be, at any time, a partnership of which a foreign affiliate — of a particular corporation resident in Canada and in respect of which foreign affiliate the particular corporation has a qualifying interest — is a qualifying member, if at that time

(i) a particular foreign affiliate — of another corporation that is resident in Canada and that is related (otherwise than because of a right referred to in paragraph 251(5)(*b*)) to the particular corporation — is a member of the partnership,

(ii) that other corporation has a qualifying interest in respect of the particular foreign affiliate, and

(iii) the particular foreign affiliate is a qualifying member of the partnership;

History: S. 95(2)(*r*) was added by S.C. 2007, c. 35, s. 26(16). Subject to the Global Section 95 Election below, paragraph 95(2)(*r*) applies to taxation years, of a foreign affiliate of a taxpayer, that end after 1999.

[Global Section 95 Election] If a taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2007, paragraph 95(2)(*r*) applies to taxation years, of all foreign affiliates of the taxpayer, that begin after 1994. [**Editorial Note:** See Department of Finance News Release No. 2008-048, dated June 27, 2008, reproduced before s. 95(1), regarding a proposed extension of the election deadline.]

If a taxpayer has made what would be a valid Global Section 95 Election described above, and the taxpayer has, on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2010, filed with the Minister of National Revenue a notice in writing to revoke the election, the election is deemed, otherwise than for the purpose of this revocation, never to have been made.

Notwithstanding subsections 152(4) to (5), any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take an election or a revocation, referred to above, into account.

► 95(2)(s) ◄

(s) [Determination of FAPI — Designated corporation] — in applying the definition "investment business" in subsection (1), a particular corporation is, at any time, a designated corporation in respect of a foreign affiliate of a taxpayer, if at that time

(i) a qualifying shareholder of the foreign affiliate or a person related to such a qualifying shareholder is a qualifying shareholder of the particular corporation,

(ii) the particular corporation

(A) is controlled by a qualifying shareholder of the foreign affiliate, or

(B) would be controlled by a particular qualifying shareholder of the foreign affiliate if the particular qualifying shareholder of the foreign affiliate owned each share of the capital stock of the particular corporation that is owned by a qualifying shareholder of the foreign affiliate or by a person related to a qualifying shareholder of the foreign affiliate, and

(iii) the total of all amounts each of which is the fair market value of a share of the capital stock of the particular corporation owned by a qualifying shareholder of the foreign affiliate or by a person related to a qualifying shareholder of the foreign affiliate is greater than 50% of the total fair market value of all the issued and outstanding shares of the capital stock of the particular corporation;

History: S. 95(2)(*s*) was added by S.C. 2007, c. 35, s. 26(16). Subject to the Global Section 95 Election below, paragraph 95(2)(*s*) applies to taxation years, of a foreign affiliate of a taxpayer, that end after 1999.

[Global Section 95 Election] If a taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2007, paragraph 95(2)(*s*) applies to taxation years, of all foreign affiliates of the taxpayer, that begin after 1994. [**Editorial Note:** See Department of Finance News Release No. 2008-048, dated June 27, 2008, reproduced before s. 95(1), regarding a proposed extension of the election deadline.]

If a taxpayer has made what would be a valid Global Section 95 Election described above, and the taxpayer has, on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2010, filed with the Minister of National Revenue a notice in writing to revoke the election, the election is deemed, otherwise than for the purpose of this revocation, never to have been made.

Notwithstanding subsections 152(4) to (5), any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take an election or a revocation, referred to above, into account.

► 95(2)(t) ◄

(t) [Determination of FAPI — Designated partnership] — in applying the definition "investment business" in subsection (1) in respect of a business carried on by a foreign affiliate of a taxpayer in a taxation year, a particular partnership is, at any time, a designated partnership in respect of the foreign affiliate of the taxpayer, if at that time

(i) the foreign affiliate or a person related to the foreign affiliate is a qualifying member of the particular partnership, and

(ii) the total of all amounts — each of which is the fair market value of a partnership interest in the

particular partnership held by the foreign affiliate, by a person related to the foreign affiliate or (where the foreign affiliate carries on, at that time, the business as a qualifying member of another partnership) by a qualifying member of the other partnership — is greater than 50% of the total fair market value of all partnership interests in the particular partnership owned by all members of the particular partnership;

History: S. 95(2)(*t*) was added by S.C. 2007, c. 35, s. 26(16). Subject to the Global Section 95 Election below, paragraph 95(2)(*t*) applies to taxation years, of a foreign affiliate of a taxpayer, that end after 1999.

[Global Section 95 Election] If a taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2007, paragraph 95(2)(*t*) applies to taxation years, of all foreign affiliates of the taxpayer, that begin after 1994. [**Editorial Note:** See Department of Finance News Release No. 2008-048, dated June 27, 2008, reproduced before s. 95(1), regarding a proposed extension of the election deadline.]

If a taxpayer has made what would be a valid Global Section 95 Election described above, and the taxpayer has, on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2010, filed with the Minister of National Revenue a notice in writing to revoke the election, the election is deemed, otherwise than for the purpose of this revocation, never to have been made.

Notwithstanding subsections 152(4) to (5), any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take an election or a revocation, referred to above, into account.

► 95(2)(u) ◄

(u) **[Determination of FAPI — Tiered partnerships]** — if any entity is (or is deemed by this paragraph to be) a member of a particular partnership that is a member of another partnership,

(i) the entity is deemed to be a member of the other partnership for the purpose of

(A) subparagraph (ii),

(B) applying the reference, in paragraph (*a*), to "a member" of a partnership,

(C) paragraphs (*a.1*) to (*b*), (*g.03*) and (*o*), and

(D) paragraphs (*b*) and (*c*) of the definition "investment business" in subsection (1), and

(ii) in applying paragraph (*g.03*), the entity is deemed to have, directly, rights to the income or capital of the other partnership, to the extent of the entity's direct and indirect rights to that income or capital;

History: S. 95(2)(*u*) was added by S.C. 2007, c. 35, s. 26(16), applicable in respect of taxation years, of foreign affiliates of a taxpayer, that end after 1999. However, if a taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2007, paragraph 95(2)(*u*) applies in respect of taxation years, of all foreign affiliates of the taxpayer, that begin after 1994. [**Editorial Note:** See Department of Finance News Release No. 2008-048, dated June 27, 2008, reproduced before s. 95(1), regarding a proposed extension of the election deadline.]

Notwithstanding subsections 152(4) to (5), any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take an election referred to above, into account.

► 95(2)(v) ◄

(v) **[Determination of FAPI — Look-through rule for s. 95(2)(p)]** — in applying paragraph (*p*),

(i) where shares of the capital stock of any corporation (referred to in this paragraph as the "issuing corporation") are, at any time, owned by a corporation (referred to in this paragraph as the "holding corporation") or are deemed under this paragraph to be, at any time, owned by a corporation (referred to in this paragraph as the "holding corporation"), those shares are deemed to be owned at that time by each shareholder of the holding corporation in a proportion equal to the proportion of those shares that

(A) the fair market value, at that time, of the shares of the capital stock of the issuing corporation that are owned by the shareholder

is of

(B) the fair market value, at that time, of all the issued and outstanding shares of the capital stock of the issuing corporation, and

(ii) a person who is deemed by subparagraph (i) to own, at any time, shares of the capital stock of a corporation is deemed to be, at that time, a shareholder of the corporation;

History: S. 95(2)(*v*) was added by S.C. 2007, c. 35, s. 26(16), applicable to taxation years, of a foreign affiliate of a taxpayer, that end after 1999.

► 95(2)(w) ◄

(w) **[Determination of FAPI — Where business carried on]** — where a foreign affiliate of a corporation resident in Canada carries on an active business in more than one country,

(i) where the business is carried on in a country other than Canada, it is deemed to carry on that business in that country only to the extent that the profit or loss from that business can reasonably be attributed to a permanent establishment situated in that country, and

(ii) where the business is carried on in Canada, it is deemed to carry on that business in Canada only to the extent that the income from the active business is subject to tax under this Part;

History: S. 95(2)(*w*) was added by S.C. 2007, c. 35, s. 26(16), applicable in respect of taxation years, of a foreign affiliate of a taxpayer, that begin after 2008.

► 95(2)(x) ◄

(x) **[Determination of FAPI — Determination of losses]** — the loss from an active business, from a non-qualifying business or from property (as the case may be) of a foreign affiliate of a taxpayer resident in Canada for a taxation year is the amount of that loss, if any, that is computed by applying the provisions in this subdivision with respect to the computation of income from the active business, from the non-qualifying business or from property (as the case may be) of the foreign affiliate for the taxation year with any modifications that the circumstances require;

History: S. 95(2)(*x*) was added by S.C. 2007, c. 35, s. 26(16), applicable in respect of taxation years, of a foreign affiliate of a taxpayer, that begin after 2008.

► 95(2)(y) ◄

(y) **[Determination of FAPI — Qualifying interest in foreign affiliate — property of partnership]** — in determining — for the purpose of paragraph (*a*) and for the purpose of applying subsections (2.2) and (2.21) for the purpose of applying that paragraph — whether a non-resident corporation is, at any time, a foreign affiliate of a taxpayer in respect of which the taxpayer has a qualifying interest, where interests in any partnership or shares of the capital stock of any corporation (which interests or shares are referred

to in this paragraph as "equity interests") are, at that time, property of a particular partnership or are deemed under this paragraph to be, at any time, property of the particular partnership, the equity interests are deemed to be owned at that time by each member of the particular partnership in a proportion equal to the proportion of the equity interests that

(i) the fair market value, at that time, of the member's partnership interest in the particular partnership

is of

(ii) the fair market value, at that time, of all members' partnership interests in the particular partnership; and

History: S. 95(2)(*y*) was added by S.C. 2007, c. 35, s. 26(16), applicable to taxation years, of a foreign affiliate of a taxpayer, that end after 1999.

Federal Budget Extract

2004 Foreign Affiliate Proposals

[Reproduced below is an excerpt from the January 27, 2009 Federal Budget, which notes that the government plans to consider the recommendations in the report of the Advisory Panel on Canada's System of International Taxation (which can be found at http://www.apcsit-gcrcfi.ca/07/index-eng.html) in deciding how to proceed with the remaining foreign affiliate proposals released on February 27, 2004 that have not yet been enacted.]

The Government will consider the Panel's recommendations relating to foreign affiliates before proceeding with the remaining foreign affiliate measures announced in February 2004, as modified to take into account consultations and deliberations since their release.

Pending Amendment

Draft Legislation — Foreign Affiliates — February 27, 2004

Paragraph 95(2)(*y*) is added:

Editorial Note: [Proposed s. 95(2)(*y*) from February 27, 2004 concerns different subject matter than s. 95(2)(*y*) added by S.C. 2007, c. 35. If implemented, presumably proposed s. 95(2)(*y*) would be renumbered.]

(*y*) in paragraphs (*c*.3), (*f*.5) and (*h*.2) and clauses (*k*.1)(iv)(B) and (*k*.3)(iii)(B), the expression "government of a country" includes the government of a province, state or other political subdivision of that country.

Applicable: After December 20, 2002.

Explanatory Note:

Paragraph 95(2)(*y*)

New paragraph 95(2)(*y*) of the Act provides that, in new paragraphs 95(2)(*c*.3), (*f*.5) and (*h*.2) and new clauses 95(2)(*k*.1)(iv)(B) and (*k*.3)(iii)(B), the expression "government of a country" includes the government of a province, state or other political subdivision of that country.

New paragraph 95(2)(*y*) applies after December 20, 2002.

► 95(2)(z) ◄

(z) [Determination of FAPI — Member of partnership] — where a particular foreign affiliate of a taxpayer — in respect of which the taxpayer has a qualifying interest or that is a controlled foreign affiliate of the taxpayer — is a member of a partnership, the particular foreign affiliate's foreign accrual property income or loss in respect of the taxpayer for a taxation year shall not include any income or loss of the partnership to the extent that the income or loss

(i) is attributable to the foreign accrual property income or loss of a foreign affiliate of the partnership that is also a foreign affiliate of the taxpayer (referred to in this paragraph as the "second foreign affiliate") in respect of which the taxpayer has a qualifying interest or that is a controlled foreign affiliate of the taxpayer, and

(ii) is, because of paragraph (*a*) as applied in respect of the taxpayer, included in computing the income or loss from an active business of the second foreign affiliate for a taxation year.

History: S. 95(2)(*z*) was added by S.C. 2007, c. 35, s. 26(16). Subject to the Global Section 95 Election below, paragraph 95(2)(*z*) applies to taxation years, of a foreign affiliate of a taxpayer, that end after 1999.

[Global Section 95 Election] If a taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2007, paragraphs 95(2)(*z*) applies to taxation years, of all foreign affiliates of the taxpayer, that begin after 1994. **[Editorial Note:** See Department of Finance News Release No. 2008-048, dated June 27, 2008, reproduced before s. 95(1), regarding a proposed extension of the election deadline.]

If a taxpayer has made what would be a valid Global Section 95 Election described above, and the taxpayer has, on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2010, filed with the Minister of National Revenue a notice in writing to revoke the election, the election is deemed, otherwise than for the purpose of this revocation, never to have been made.

Notwithstanding subsections 152(4) to (5), any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take an election or a revocation, referred to above, into account.

► 95(2.01) ◄

(2.01) Rules for the definition "controlled foreign affiliate". In applying paragraph (*b*) of the definition "controlled foreign affiliate" in subsection (1) and in applying this subsection,

(*a*) shares of the capital stock of a corporation that are at any time owned by, or that are deemed by this subsection to be at any time owned by, another corporation are deemed to be, at that time, owned by, or property of, as the case may be, each shareholder of the other corporation in the proportion that

(i) the fair market value at that time of the shares of the capital stock of the other corporation that, at that time, are owned by, or are property of, the shareholder

is of

(ii) the fair market value at that time of all the issued and outstanding shares of the capital stock of the other corporation;

(*b*) shares of the capital stock of a corporation that are, or are deemed by this subsection to be, at any time, property of a partnership, are deemed to be, at that time, owned by, or property of, as the case may be, each member of the partnership in the proportion that

(i) the fair market value at that time of the member's partnership interest in the partnership

is of

(ii) the fair market value at that time of all partnership interests in the partnership;

(*c*) shares of the capital stock of a corporation that are at any time owned by, or that are deemed by this subsection to be at any time owned by, a non-discre-

tionary trust (within the meaning assigned by subsection 17(15)) other than an exempt trust (within the meaning assigned by subsection (1)) are deemed to be, at that time, owned by, or property of, as the case may be, each beneficiary of the trust in the proportion that

(i) the fair market value at that time of the beneficiary's beneficial interest in the trust

is of

(ii) the fair market value at that time of all beneficial interests in the trust; and

(*d*) all of the shares of the capital stock of a corporation that are at any time owned by, or that are deemed by this subsection to be at any time owned by, a particular trust (other than an exempt trust within the meaning assigned by subsection (1) or a non-discretionary trust within the meaning assigned by subsection 17(15)) are deemed to be, at that time, owned by, or property of, as the case may be,

(i) each beneficiary of the particular trust at that time, and

(ii) each settlor (within the meaning assigned by subsection 17(15)) in respect of the particular trust at that time.

History: S. 95(2.01) was added by S.C. 2007, c. 35, s. 26(17), applicable to taxation years, of a foreign affiliate of a taxpayer, that begin after February 27, 2004.

Tax Profile: March 2008 — International Tax Planning for the Owner-Manager.

► 95(2.02) ◄

(2.02) Rule against double-counting. In applying the assumption in paragraph (*b*) of the definition "controlled foreign affiliate" in subsection (1) in respect of a taxpayer resident in Canada to determine whether a foreign affiliate of the taxpayer is at any time a controlled foreign affiliate of the taxpayer, nothing in that paragraph or in subsection (2.01) is to be read or construed as requiring an interest, or for civil law a right, in a share of the capital stock of the foreign affiliate of the taxpayer owned at that time by the taxpayer to be taken into account more than once.

History: S. 95(2.02) was added by S.C. 2007, c. 35, s. 26(17), applicable to taxation years, of a foreign affiliate of a taxpayer, that begin after February 27, 2004.

► 95(2.1) ◄

(2.1) Rule for definition "investment business". For the purposes of the definition "investment business" in subsection (1), a foreign affiliate of a taxpayer, the taxpayer and, where the taxpayer is a corporation all the issued shares of which are owned by a corporation described in subparagraph (*a*)(i), such corporation described in subparagraph (*a*)(i) shall be considered to be dealing with each other at arm's length in respect of the entering into of agreements that provide for the purchase, sale or exchange of currency and the execution of such agreements where

(*a*) the taxpayer is

(i) a bank, a trust company, a credit union, an insurance corporation or a trader or dealer in securities or commodities resident in Canada, the business activities of which are subject by law to the supervision of a regulating authority such as the Superintendent of Financial Institutions or a similar authority of a province, or

(ii) a subsidiary wholly-owned corporation of a corporation described in subparagraph (i);

(*b*) the agreements are swap agreements, forward purchase or sale agreements, forward rate agreements, futures agreements, options or rights agreements or similar agreements;

(*c*) the affiliate entered into the agreements in the course of a business carried on by the affiliate, if

(i) the business is carried on by the affiliate principally in a country (other than Canada) and principally with persons with whom the affiliate deals at arm's length, and

(ii) the business activities of the affiliate are regulated in that country; and

(*d*) the terms and conditions of such agreements are substantially the same as the terms and conditions of similar agreements made by persons dealing at arm's length.

History: S. 95(2.1)(*c*) was replaced by S.C. 2007, c. 35, s. 26(18). Subject to the election below, this amendment applies to taxation years, of a foreign affiliate of a taxpayer, that begin after 1999.

[Global Section 95 Election] If a taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2007, this amendment applies to taxation years, of all foreign affiliates of the taxpayer, that begin after 1994. [**Editorial Note:** See Department of Finance News Release No. 2008-048, dated June 27, 2008, reproduced before s. 95(1), regarding a proposed extension of the election deadline.]

If a taxpayer has made what would be a valid Global Section 95 Election described above, and the taxpayer has, on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2010, filed with the Minister of National Revenue a notice in writing to revoke the election, the election is deemed, otherwise than for the purpose of this revocation, never to have been made.

Notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take an election referred to above, or a revocation referred to above, into account.

S. 95(2.1)(*c*) formerly read:

"(*c*) the agreements are entered in the course of a business carried on by the affiliate principally with persons with whom the affiliate deals at arm's length in the country under whose laws the affiliate was formed or continued and exists and is governed and in which the business is principally carried on; and"

The application of s. 95(2.1) was amended by S.C. 1998, c. 19, s. 305(1), deemed to have come into force on June 22, 1995. That application reads as follows:

Sec. 305(1), Chap. 19, 1998

(8) Subsections 43(1) to 43(6) [of 1995, c. 21] apply to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, subsections (1) to (6) apply to taxation years of the foreign affiliate that end after 1994, unless

(*a*) the foreign affiliate had requested the change in writing before February 22, 1994 from the income taxation authority of the country in which the foreign affiliate was resident and subject to income taxation; or

(*b*) the foreign affiliate's first taxation year that began after 1994 began at a time in 1995 that is earlier than the time at which that taxation year would have begun if the change had not occurred.

S. 95(2.1) was added by S.C. 1995, c. 21, s. 46(6), applicable to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, subsection 95(2.1) applies to taxation years of such foreign affiliate of the taxpayer that end after 1994, unless

(*a*) such foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation; or

(*b*) the first taxation year of such foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time that that taxation year would have begun if there had not been that change in the taxation year of such foreign affiliate.

Tax Profile: March 2008 — International Tax Planning for the Owner-Manager.

► 95(2.2) ◄

(2.2) Qualifying interest throughout year. For the purposes of paragraphs (2)(*a*) and (*g*), a non-resident corporation that is not a foreign affiliate of a taxpayer in respect of which the taxpayer has a qualifying interest throughout a particular taxation year is deemed to be a foreign affiliate of the taxpayer in respect of which the taxpayer has a qualifying interest throughout that particular taxation year if

(*a*) a person or partnership has, in that particular taxation year, acquired or disposed of shares of the capital stock of that non-resident corporation or of any other corporation and, because of that acquisition or disposition, that non-resident corporation becomes or ceases to be a foreign affiliate of the taxpayer in respect of which the taxpayer has a qualifying interest, and

(*b*) at the beginning of that particular taxation year or at the end of that particular taxation year, the non-resident corporation is a foreign affiliate of the taxpayer in respect of which the taxpayer has a qualifying interest.

Editorial Note: See the Department of Finance comfort letter, dated April 19, 2006, reproduced following s. 93.1(2), concerning modifications to certain foreign affiliate proposals, including those affecting s. 95(2.2) resolved by Bill C-28 amendments (S.C. 2007, c. 35).

History: S. 95(2.2), the portion before paragraph (*a*) was replaced by S.C. 2009, c. 2, s. 25(3), applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994. However, the portion of s. 95(2.2) before paragraph (*a*) shall, in its application to taxation years of a foreign affiliate that begin after 1994 and before 2009, be read as follows:

"(2.2) For the purposes of paragraphs (2)(*a*) and (*g*),"

[**Editorial Note:** See the application below for s. 95(2.2) as enacted by S.C. 2007, c. 35, s. 26(19) for the reading of s. 95(2.2) for years that end after 1999 and begin before 2009, both where an election is not made and where an election is made.]

Notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take into account this amendment.

S. 95(2.2), the portion before paragraph (*a*) formerly read:

"(2.2) *Rule re subsection (2).* For the purpose of subsection (2), other than paragraph (2)(*f*), a non-resident corporation that is not a foreign affiliate of a taxpayer in respect of which the taxpayer had a qualifying interest throughout a particular taxation year is deemed to be a foreign affiliate of the taxpayer in respect of which the taxpayer has a qualifying interest throughout that particular taxation year if"

S. 95(2.2) was replaced by S.C. 2007, c. 35, s. 26(19), applicable to taxation years, of a foreign affiliate of a taxpayer, that end after 1999. However,

(*a*) subsection 95(2.2) shall be read as follows for taxation years, of a foreign affiliate of a taxpayer, that end after 1999 and begin before 2009:

"(2.2) For the purpose of subsection (2), other than paragraph (2)(*f*),

(*a*) a non-resident corporation that was not a foreign affiliate of a taxpayer in respect of which the taxpayer had a qualifying interest throughout a particular taxation year shall be deemed to be a foreign affiliate of the taxpayer in respect of which the taxpayer had a qualifying interest throughout that year where

(i) a person or partnership has, in that year, acquired or disposed of shares of the capital stock of that non-resident corporation or any other corporation and, because of that acquisition or disposition, that non-resident corporation became or ceased to be a foreign affiliate of the taxpayer in respect of which the taxpayer had a qualifying interest, and

(ii) at the beginning of that year or at the end of that year, the non-resident corporation was a foreign affiliate of the taxpayer in respect of which the taxpayer had a qualifying interest; and

(*b*) a non-resident corporation that was not related to a taxpayer or to a taxpayer and a foreign affiliate of the taxpayer, as the case may be, throughout a particular taxation year is deemed to be related to the taxpayer or to the taxpayer and the foreign affiliate of the taxpayer throughout that year if

(i) a person or partnership has, in that year, acquired or disposed of shares of the capital stock of the non-resident corporation or any other corporation and, because of that acquisition or disposition, the non-resident corporation became (or would have become, if paragraph 251(5)(*b*) did not apply to rights contained in the agreement under which the person acquired the shares), or ceased to be, a non-resident corporation that was related to the taxpayer or to the taxpayer and the foreign affiliate of the taxpayer, and

(ii) at the beginning, or at the end, of that year, the non-resident corporation was related to the taxpayer or to the taxpayer and the foreign affiliate of the taxpayer."

(*b*) if a taxpayer elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2007, subsection 95(2.2) also applies to taxation years, of all its foreign affiliates, that begin after 1994 and end before 2000, as though subsection 95(2.2) read as follows: [**Editorial Note:** See Department of Finance News Release No. 2008-048, dated June 27, 2008, reproduced before s. 95(1), regarding a proposed extension of the election deadline.]

"(2.2) For the purpose of subsection (2), other than paragraph (2)(*f*),

(*a*) a non-resident corporation that was not a foreign affiliate of a taxpayer in respect of which the taxpayer had a qualifying interest throughout a particular taxation year shall be deemed to be a foreign affiliate of a taxpayer in respect of which the taxpayer had a qualifying interest throughout that year where

(i) a person has, in that year, acquired or disposed of shares of the capital stock of that non-resident corporation or any other corporation and, because of that acquisition or disposition, that non-resident corporation became or ceased to be a foreign affiliate of the taxpayer in respect of which the taxpayer had a qualifying interest, and

(ii) at the beginning of that year or at the end of that year, the non-resident corporation was a foreign affiliate of the taxpayer in respect of which the taxpayer had a qualifying interest; and

(*b*) a non-resident corporation that was not related to a taxpayer or to a taxpayer and a foreign affiliate of the taxpayer, as the case may be, throughout a particular taxation year is deemed to be related to the taxpayer or to the taxpayer and the foreign affiliate of the taxpayer throughout that year if

(i) a person has, in that year, acquired or disposed of shares of the capital stock of the non-resident corporation or any other corporation and, because of that acquisition or disposition, that non-resident corporation became or ceased to be, a non-resident corporation that was related to the taxpayer or to the taxpayer and the foreign affiliate of the taxpayer, and

(ii) at the beginning, or at the end, of that year, the non-resident corporation was related to the taxpayer or to the taxpayer and the foreign affiliate of the taxpayer."

Notwithstanding subsections 152(4) to (5), any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take an election referred to above into account.

S. 95(2.2) formerly read:

"(2.2) *Rule for subsection (2).* For the purpose of subsection (2),

(*a*) a non-resident corporation that was not a foreign affiliate of a taxpayer in respect of which the taxpayer had a qualifying interest throughout a particular taxation year shall be deemed to be a foreign affiliate of a taxpayer in respect of which the taxpayer had a qualifying interest throughout that year where

(i) a person has, in that year, acquired or disposed of shares of that non-resident corporation or any other corporation and, because of that acquisition or disposition, that non-resident corporation became or ceased to be a foreign affiliate of the taxpayer in respect of which the taxpayer had a qualifying interest, and

(ii) at the beginning of that year or at the end of that year, the non-resident corporation was a foreign affiliate of the taxpayer in respect of which the taxpayer had a qualifying interest; and

(*b*) a non-resident corporation that was not related to a foreign affiliate of a taxpayer and the taxpayer throughout a particular taxation year shall be deemed to be related to the foreign affiliate of the taxpayer and that taxpayer throughout that year where

(i) a person has, in that year, acquired or disposed of shares of that non-resident corporation or any other corporation and, because of that acquisition or disposition, that non-resident corporation became or ceased to be a non-resident corporation that was related to the foreign affiliate of the taxpayer and the taxpayer, and

(ii) at the beginning of that year or at the end of that year, the non-resident corporation was related to the foreign affiliate of the taxpayer and the taxpayer."

S. 95(2.2), the portion before paragraph (*a*), was amended by S.C. 2001, c. 17, s. 73(9), applicable to taxation years of a foreign affiliate of a taxpayer that begin after November 1999 except that, where the taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the day of the taxpayer's filing-due date for the taxation year that includes the day on which this Act receives royal assent, those subsections apply to taxation years, of all of its foreign affiliates, that began after 1994

and, notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax payable under the Act for any of those taxation years shall be made that is necessary to take into account the application of subsections (6), (8) and (9). S. 95(2.2), the portion before paragraph (*a*) formerly read:

"(2.2) *Rule for paragraph (2)(a).* For the purpose of paragraph (2)(*a*),"

The application of s. 95(2.2) was amended by S.C. 1998, c. 19, s. 305(1), deemed to have come into force on June 22, 1995. That application reads as follows:

Sec. 305(1), Chap. 19, 1998

(8) Subsections 46(1) to 46(6) [of 1995, c. 21] apply to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, subsections (1) to (6) apply to taxation years of the foreign affiliate that end after 1994, unless

(*a*) the foreign affiliate had requested the change in writing before February 22, 1994 from the income taxation authority of the country in which the foreign affiliate was resident and subject to income taxation; or

(*b*) the foreign affiliate's first taxation year that began after 1994 began at a time in 1995 that is earlier than the time at which that taxation year would have begun if the change had not occurred.

S. 95(2.2) was added by S.C. 1995, c. 21, s. 46(6), applicable to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, subsection 95(2.2) applies to taxation years of such foreign affiliate of the taxpayer that end after 1994, unless

(*a*) such foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation; or

(*b*) the first taxation year of such foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time that that taxation year would have begun if there had not been that change in the taxation year of such foreign affiliate.

Regulations: 1104(2); 7500.

► 95(2.201) ◄

(2.201) Controlled foreign affiliate throughout year. For the purposes of paragraphs (2)(*a*) and (*g*), a non-resident corporation is deemed to be a controlled foreign affiliate of a taxpayer throughout a taxation year of the non-resident corporation if

(*a*) in the taxation year, a person or partnership acquires or disposes of shares of the capital stock of a corporation and, because of the acquisition or disposition, the non-resident corporation becomes or ceases to be a controlled foreign affiliate of the taxpayer; and

(*b*) at either or both of the beginning and end of the taxation year, the non-resident corporation is a controlled foreign affiliate of the taxpayer.

History: S. 95(2.201) was added by S.C. 2009, c. 2, s. 25(4), applicable to taxation years of a foreign affiliate of a taxpayer that end after 1999. However,

(*a*) subject to paragraph (*b*) [below], for taxation years of a foreign affiliate that begin before December 21, 2002, the reference to "for the purposes of paragraphs (2)(*a*) and (*g*)" in subsection 95(2.201) shall be read as a reference to "for the purpose of paragraph (2)(*a*)"; and

(*b*) if the taxpayer has made a valid Global Section 95 Election under subsection 26(46) of the *Budget and Economic Statement Implementation Act, 2007*, [S.C. 2007, c. 35], subsection 95(2.201) applies to taxation years of a foreign affiliate of the taxpayer that begin after 1994. [**Editorial Note:** See Department of Finance News Release No. 2008-048, dated June 27, 2008, regarding a proposed extension of the election deadline.]

Notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take into account this provision and any election made with respect to it.

► 95(2.21) ◄

(2.21) Rule re subsection (2.2). Subsection (2.2) does not apply for the purpose of paragraph (2)(*a*) in respect of any income or loss referred to in that paragraph, of a particular foreign affiliate of the taxpayer, to the extent that that income or loss can reasonably be considered to have been realized or to have accrued before the earlier of

(*a*) the time at which the particular affiliate became, as determined without reference to subsection (2.2), a foreign affiliate of the taxpayer in respect of which the taxpayer had a qualifying interest, and

(*b*) the time at which the particular affiliate became, as determined without reference to subsection (2.2), a foreign affiliate of another person resident in Canada in respect of which the other person resident in Canada had a qualifying interest, where

(i) the taxpayer is a corporation,

(ii) the taxpayer did not exist at the beginning of the taxation year,

(iii) the particular affiliate became a foreign affiliate of the taxpayer in the taxation year because of a disposition, in the taxation year, of shares of the capital stock of the particular affiliate to the taxpayer by the other person resident in Canada, and

(iv) the other person resident in Canada was, immediately before that disposition, related to the taxpayer.

History: S. 95(2.21) was added by S.C. 2007, c. 35, s. 26(19), applicable to taxation years, of a foreign affiliate of a taxpayer, that end after 1999. However,

(*a*) for taxation years, of a foreign affiliate of a taxpayer, that end after 1999 and begin before 2009, subsection 95(2.21) is to be read as follows:

"(2.21) Subsection (2.2) does not apply for the purpose of paragraph (2)(*a*) in respect of any income or loss referred to in that paragraph, of a particular foreign affiliate of the taxpayer in respect of which the taxpayer has a qualifying interest throughout the taxation year of the particular affiliate or to which the taxpayer is related throughout the taxation year, to the extent that that income or loss can reasonably be considered to have been realized or to have accrued

(*a*) before the earlier of

(i) the time at which the particular affiliate became, as determined without reference to subsection (2.2), a foreign affiliate of the taxpayer in respect of which the taxpayer had a qualifying interest or to which the taxpayer is related, and

(ii) the time at which the particular affiliate became, as determined without reference to subsection (2.2), a foreign affiliate of another person resident in Canada in respect of which the other person resident in Canada had a qualifying interest or to which the other person resident in Canada is related, where

(A) the taxpayer is a corporation,

(B) the taxpayer did not exist at the beginning of the taxation year,

(C) the particular affiliate became a foreign affiliate of the taxpayer in the taxation year because of a disposition, in the taxation year, of shares of the capital stock of the particular affiliate to the taxpayer by the other person resident in Canada, and

(D) the other person resident in Canada was, immediately before that disposition, related to the taxpayer; or

(*b*) before the earlier of

(i) the time at which a non-resident corporation (other than the particular affiliate), or a foreign affiliate of the taxpayer (other than the particular affiliate), referred to in paragraph (2.2)(*a*) became, as determined without reference to subsection (2.2),

(A) a foreign affiliate of the taxpayer in respect of which the taxpayer had a qualifying interest, or

(B) related to the taxpayer and to the particular affiliate, and

(ii) the time at which a non-resident corporation (other than the particular affiliate), or a foreign affiliate of the taxpayer (other than the particular affiliate), referred to in paragraph (2.2)(*a*) became, as determined without reference to subsection (2.2), a foreign affiliate, of another person resident in Canada, in respect of which the other person resident in Canada had a qualifying interest (or became, as determined without reference to subsection (2.2), related to the other person resident in Canada and to the particular affiliate), where

(A) the taxpayer is a corporation,

(B) the taxpayer did not exist at the beginning of the taxation year,

(C) the particular affiliate became a foreign affiliate of the taxpayer in the taxation year because of a disposition, in the taxation

year, of shares of the capital stock of the particular affiliate to the taxpayer by the other person resident in Canada, and

(D) the other person resident in Canada was, immediately before that disposition, related to the taxpayer."

(*b*) if a taxpayer makes a valid election in the application of subsection 95(2.2) for taxation years of foreign affiliates that begin after 1994 and before 2000, in respect of all its foreign affiliates, subsection 95(2.21) being read in the manner described in paragraph (*a*) of the application above, also applies to taxation years, of all its foreign affiliates, that begin after 1994 and end before 2000.

► 95(2.3) ◄

(2.3) Application of paragraph (2)(*a.1*). Paragraph (2)(*a.1*) does not apply to a foreign affiliate of a taxpayer in respect of a sale or exchange of property that is currency or a right to purchase, sell or exchange currency where

(*a*) the taxpayer is

(i) a bank, a trust company, a credit union, an insurance corporation or a trader or dealer in securities or commodities resident in Canada, the business activities of which are subject by law to the supervision of a regulating authority such as the Superintendent of Financial Institutions or a similar authority of a province, or

(ii) a subsidiary wholly-owned corporation of a corporation described in subparagraph (i);

(*b*) the sale or exchange was made by the affiliate in the course of a business conducted principally with persons with whom the affiliate deals at arm's length, if

(i) the business is principally carried on in the country (other than Canada) under whose laws the affiliate is governed and any of exists, was (unless the affiliate was continued in any jurisdiction) formed or organized, or was last continued, or

(ii) the affiliate is a foreign bank, a trust company, a credit union, an insurance corporation or a trader or dealer in securities or commodities and the activities of the business are regulated

(A) under the laws of the country under whose laws the affiliate is governed and any of exists, was (unless the affiliate was continued in any jurisdiction) formed or organized, or was last continued, and under the laws of each country in which the business is carried on through a permanent establishment (as defined by regulation) in that country,

(B) under the laws of the country (other than Canada) in which the business is principally carried on, or

(C) if the affiliate is related to a corporation, under the laws of the country under the laws of which that related corporation is governed and any of exists, was (unless that related corporation was continued in any jurisdiction) formed or organized, or was last continued, if those regulating laws are recognized under the laws of the country in which the business is principally carried on and all of those countries are members of the European Union; and

(*c*) the terms and conditions of the sale or exchange of such property are substantially the same as the terms and conditions of similar sales or exchanges of such property by persons dealing at arm's length

History: S. 95(2.3)(*b*) was replaced by S.C. 2007, c. 35, s. 26(20), applicable to taxation years, of a foreign affiliate of a taxpayer, that begin after 1999. S. 95(2.3)(*b*) formerly read:

"(*b*) the sale or exchange was made in the course of a business carried on by the affiliate principally with persons with whom the affiliate deals at arm's length in the country under whose laws the affiliate was formed or continued and exists and is governed and in which the business is principally carried on by it; and"

The application of s. 95(2.3) was amended by S.C. 1998, c. 19, s. 305(1), deemed to have come into force on June 22, 1995. That application reads as follows:

Sec. 305(1), Chap. 19, 1998

(8) Subsections 46(1) to 46(6) [of 1995, c. 21] apply to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, subsections (1) to (6) apply to taxation years of the foreign affiliate that end after 1994, unless

(*a*) the foreign affiliate had requested the change in writing before February 22, 1994 from the income taxation authority of the country in which the foreign affiliate was resident and subject to income taxation; or

(*b*) the foreign affiliate's first taxation year that began after 1994 began at a time in 1995 that is earlier than the time at which that taxation year would have begun if the change had not occurred.

S. 95(2.3) was added by S.C. 1995, c. 21, s. 46(6), applicable to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, subsection 95(2.3) applies to taxation years of such foreign affiliate of the taxpayer that end after 1994, unless

(*a*) such foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation; or

(*b*) the first taxation year of such foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time that that taxation year would have begun if there had not been that change in the taxation year of such foreign affiliate.

► 95(2.4) ◄

(2.4) Application of paragraph (2)(*a.3*). Paragraph (2)(*a.3*) does not apply to a foreign affiliate of a taxpayer in respect of its income derived directly or indirectly from indebtedness to the extent that

(*a*) the income is derived by the affiliate in the course of a business conducted principally with persons with whom the affiliate deals at arm's length carried on by it as a foreign bank, a trust company, a credit union, an insurance corporation or a trader or dealer in securities or commodities, the activities of which are regulated under the laws

(i) of the country under whose laws the affiliate is governed and any of exists, was (unless the affiliate was continued in any jurisdiction) formed or organized, or was last continued and of each country in which the business is carried on through a permanent establishment (as defined by regulation) in that country,

(ii) of the country in which the business is principally carried on, or

(iii) if the affiliate is related to a corporation, of the country under the laws of which that related corporation is governed and any of exists, was (unless that related corporation was continued in any jurisdiction) formed or organized, or was last continued, if those regulating laws are recognized under the laws of the country in which the business is principally carried on and all of those countries are members of the European Union, and

(*b*) the income is derived by the affiliate from trading or dealing in the indebtedness (which, for this pur-

pose, consists of income from the actual trading or dealing in the indebtedness and interest earned by the affiliate during a short term holding period on indebtedness acquired by it for the purpose of the trading or dealing) with persons (in this subsection referred to as "regular customers") with whom it deals at arm's length who were resident in a country other than Canada in which it and any competitor (which is resident in the country in which the affiliate is resident and regulated in the same manner the affiliate is regulated in the country under whose laws the affiliate was formed or continued and exists and is governed and in which its business is principally carried on) compete and have a substantial market presence,

and, for the purpose of this subsection, an acquisition of indebtedness from the taxpayer shall be deemed to be part of the trading or dealing in indebtedness described in paragraph (*b*) where the indebtedness is acquired by the affiliate and sold to regular customers and the terms and conditions of the acquisition and the sale are substantially the same as the terms and conditions of similar acquisitions and sales made by the affiliate in transactions with persons with whom it deals at arm's length.

History: S. 95(2.4)(*a*) was replaced by S.C. 2007, c. 35, s. 26(21), applicable to taxation years, of a foreign affiliate of a taxpayer, that begin after 1999. S. 95(2.4)(*a*) formerly read:

"(*a*) the income is derived by the affiliate in the course of a business conducted principally with persons with whom the affiliate deals at arm's length carried on by it as a foreign bank, a trust company, a credit union, an insurance corporation or a trader or dealer in securities or commodities, the activities of which are regulated in the country under whose laws the affiliate was formed or continued and exists and is governed and in which the business is principally carried on, and"

The application of s. 95(2.4) was amended by S.C. 1998, c. 19, s. 305(1), deemed to have come into force on June 22, 1995. That application reads as follows:

Sec. 305(1), Chap. 19, 1998

(8) Subsections 46(1) to 46(6) [of 1995, c. 21] apply to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, subsections (1) to (6) apply to taxation years of the foreign affiliate that end after 1994, unless

(*a*) the foreign affiliate had requested the change in writing before February 22, 1994 from the income taxation authority of the country in which the foreign affiliate was resident and subject to income taxation; or

(*b*) the foreign affiliate's first taxation year that began after 1994 began at a time in 1995 that is earlier than the time at which that taxation year would have begun if the change had not occurred.

S. 95(2.4) was added by S.C. 1995, c. 21, s. 46(6), applicable to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, subsection 95(2.4) applies to taxation years of such foreign affiliate of the taxpayer that end after 1994, unless

(*a*) such foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation; or

(*b*) the first taxation year of such foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time that that taxation year would have begun if there had not been that change in the taxation year of such foreign affiliate.

► 95(2.41) ◄

(2.41) Application of paragraph (2)(*a.3*). Paragraph (2)(*a.3*) does not apply to a foreign affiliate of a taxpayer resident in Canada in respect of the foreign affiliate's income for a taxation year derived, directly or indirectly, from indebtedness of persons resident in Canada or from indebtedness in respect of businesses carried on in Canada (referred to in this subsection as the "Canadian indebtedness") if

(*a*) the taxpayer is, at the end of the foreign affiliate's taxation year

(i) a life insurance corporation resident in Canada, the business activities of which are subject by law to the supervision of the Superintendent of Financial Institutions or a similar authority of a province, or

(ii) a corporation resident in Canada that is a subsidiary controlled corporation of a corporation described in subparagraph (i);

(*b*) the Canadian indebtedness is used or held by the foreign affiliate, throughout the period in the taxation year that that Canadian indebtedness was used or held by the foreign affiliate, in the course of carrying on a business (referred to in this subsection as the "foreign life insurance business") that is a life insurance business carried on outside Canada (other than a business deemed by paragraph (2)(*a.2*) to be a separate business other than an active business), the activities of which are regulated

(i) under the laws of the country under whose laws the foreign affiliate is governed and any of exists, was (unless the foreign affiliate was continued in any jurisdiction) formed or organized, or was last continued, and

(ii) under the laws of the country, if any, in which the business is principally carried on;

(*c*) more than 90% of the gross premium revenue of the foreign affiliate for the taxation year in respect of the foreign life insurance business was derived from the insurance or reinsurance of risks (net of reinsurance ceded) in respect of persons

(i) that were non-resident at the time at which the policies in respect of those risks were issued or effected, and

(ii) that were at that time dealing at arm's length with the foreign affiliate, the taxpayer and all persons that were related at that time to the foreign affiliate or the taxpayer; and

(*d*) it is reasonable to conclude that the foreign affiliate used or held the Canadian indebtedness

(i) to fund a liability or reserve of the foreign life insurance business, or

(ii) as capital that can reasonably be considered to have been required for the foreign life insurance business.

History: S. 95(2.41) was added by S.C. 2007, c. 35, s. 26(22), applicable, subject to the Global Section 95 Election below, to taxation years, of a foreign affiliate of a taxpayer, that begin after 1999.

[Global Section 95 Election] If a taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2007, this amendment applies to taxation years, of all foreign affiliates of the taxpayer, that begin after 1994. [**Editorial Note:** See Department of Finance News Release No. 2008-048, dated June 27, 2008, reproduced before s. 95(1), regarding a proposed extension of the election deadline.]

If a taxpayer has made what would be a valid election described above (Global Section 95 Election), and the taxpayer has, on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2010, filed with the Minister of National Revenue a notice in writing to revoke the election, the election is deemed, otherwise than for the purpose of this revocation, never to have been made.

Notwithstanding subsections 152(4) to (5), any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take an election referred to above, or a revocation referred to above, into account.

► 95(2.42) ◄

(2.42) Exception re paragraph (2)(*a.3*). If, at any time in a taxation year of a foreign affiliate of a taxpayer referred to in paragraph (2)(*a.3*), a life insurance corporation resident in Canada is the taxpayer referred to in paragraph (2)(*a.3*) or is a person who controls, or is controlled by, such a taxpayer, a particular indebtedness or a particular lease obligation of the life insurance corporation is, for the purposes of that paragraph, deemed, at that time, not to be an indebtedness or a lease obligation of a person resident in Canada, to the extent of the portion of the particular indebtedness or lease obligation that can reasonably be considered to have been issued by the life insurance corporation to the foreign affiliate

(*a*) in respect of the life insurance corporation's life insurance business carried on outside Canada; and

(*b*) not in respect of

(i) the life insurance corporation's life insurance business carried on in Canada, or

(ii) any other use.

History: S. 95(2.42) was added by S.C. 2007, c. 35, s. 26(22), applicable, subject to the Global Section 95 Election below, to taxation years, of a foreign affiliate of a taxpayer, that begin after 1999.

[Global Section 95 Election] If a taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2007, this amendment applies to taxation years, of all foreign affiliates of the taxpayer, that begin after 1994. [**Editorial Note:** See Department of Finance News Release No. 2008-048, dated June 27, 2008, reproduced before s. 95(1), regarding a proposed extension of the election deadline.]

If a taxpayer has made what would be a valid election described above (Global Section 95 Election), and the taxpayer has, on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2010, filed with the Minister of National Revenue a notice in writing to revoke the election, the election is deemed, otherwise than for the purpose of this revocation, never to have been made.

Notwithstanding subsections 152(4) to (5), any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take an election referred to above, or a revocation referred to above, into account.

► 95(2.5) ◄

(2.5) Definitions for paragraph (2)(*a.3*). For the purpose of paragraph (2)(*a.3*),

"*excluded income*" and "*excluded revenue*" — "excluded income" and "excluded revenue" for a taxation year in respect of a foreign affiliate of a taxpayer mean, respectively, income or revenue, that is

(*a*) derived directly or indirectly from a specified deposit with a prescribed financial institution,

(*b*) derived directly or indirectly from a lease obligation of a person (other than the taxpayer or a person that does not deal at arm's length with the taxpayer) relating to the use of property outside Canada, or

(*c*) included in computing the affiliate's income for the year from carrying on a business through a permanent establishment in Canada;

Department of Finance Comfort Letter
[Foreign Affiliates — Definitions of "Excluded Income" and "Excluded Revenue"]

July 17, 2006

Dear XXXX

SUBJECT: Paragraph 95(2)(*a.3*) of the *Income Tax Act*

I am writing in response to correspondence to Mr. Wallace Conway in which you express your concern with respect to the wording of paragraph (*b*) of the definitions "excluded income" and "excluded revenue" for the purpose of paragraph 95(2)(*a.3*) of the *Income Tax Act*, which are set out in subsection 95(2.5) of the Act.

Paragraph 95(2)(*a.3*) includes, in computing the income from a business other than an active business of a foreign affiliate of a taxpayer resident in Canada, the foreign affiliate's income (other than excluded income) derived directly or indirectly from most forms of indebtedness or lease obligations of persons resident in Canada or in respect of businesses carried on in Canada. That paragraph goes on to provide for a *de minimis* test so that such income from indebtedness or lease obligations is not included in computing the foreign affiliate's income from a business other than an active business if more than 90% of the foreign affiliate's gross revenue (other than excluded revenue) derived directly or indirectly from indebtedness or lease obligations was from non-resident persons with whom the foreign affiliate deals at arm's length.

Paragraph (*b*) of the definitions "excluded income" and "excluded revenue" in subsection 95(2.5) provides that the foreign affiliate's income or revenue, respectively, is excluded income or excluded revenue where it is derived directly or indirectly from a lease obligation of a person (other than the taxpayer or a person that does not deal at arm's length with the taxpayer) relating to the use of property outside Canada.

In the example provided in your correspondence, a controlled foreign affiliate (Forco) of a corporation resident in Canada (Canco) carries on an active business of leasing property throughout the world. As well, 95 percent of Forco'a gross revenue ("good revenue") derived from indebtedness or lease obligations is derived from lease obligations of non-resident corporations, with which Forco deals at arm's length, relating to the use of property outside Canada and 5 percent ("bad revenue") is derived from lease obligations of persons resident in Canada relating to the use of property in Canada. For the purposes of this letter, we presume that all of those lease obligations of those non-resident corporations relate to the use of the leased property outside Canada in the course of a business carried on by those non-residents through a permanent establishment outside Canada.

You argue that, in the circumstances of that example, Canco should be entitled to rely on the *de minimis* rule in paragraph 95(2)(*a.3*), since more than 90% of Forco's gross revenue from indebtedness or lease obligations is derived from lease obligations of non-resident persons with whom Forco deals at arm's length relating to the use (in the course of carrying on a business outside Canada) of property outside Canada. You note that, based on the wording of paragraph (*b*) of the "excluded revenue" definition, it would appear that the *de minimis* rule would not apply, as all of Forco's "good revenue" would be "excluded revenue".

From a tax policy perspective, we agree with you that Forco should, in the circumstances of that example, be entitled to rely on the de minimis rule in paragraph 95(2)(*a.3*) of the Act. Accordingly, we are prepared to recommend that paragraph (*b*) of the definitions "excluded income" and "excluded revenue" in subsection 95(2.5) be amended so that income or revenue, respectively, of a foreign affiliate of a taxpayer resident in Canada is described by paragraph (*b*) of those definitions only if it is income or revenue of the foreign affiliate that is derived directly or indirectly from a particular person resident in Canada (other than the taxpayer or a person that does not deal at arm's length with the taxpayer) relating to the use of property outside Canada in the course of a business carried on by the particular person through a permanent establishment outside Canada.

We will recommend that such an amendment to the Act be effective for taxation years of foreign affiliates of a taxpayer that begin after the announcement date of draft legislation incorporating that amendment. However, if a taxpayer so elects in respect of all its foreign affiliates, the taxpayer would be permitted to have that amendment apply with the same coming-into-force as provided for the excluded income and excluded revenue definitions in subsection 95(2.5) as enacted by statutory amendment in 2001.

Thank you for writing.
Yours sincerely,
Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 95(2.5), the definition "excluded income" and "excluded revenue" was added by S.C. 2001, c. 17, s. 73(10), applicable to taxation years of foreign affiliates that begin after 1999 except that, where a taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing- due date for the taxation year that includes the day on which this Act receives royal assent, subsection 95(2.5) of the Act apply to taxation years, of all of the taxpayer's foreign affiliates, that begin after 1994 except that, where there has been a change in the taxation year of a particular foreign affiliate of a taxpayer in 1994 and after February 22, 1994, the enacted provisions apply to taxation years of the particular foreign affiliate of the taxpayer that end after 1994, unless

(*a*) the particular foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation; or

(*b*) the first taxation year of the particular foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time that it would have begun if there had not been that change in the taxation year of the particular foreign affiliate,

and, notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax payable under the Act for any of those taxation years shall be made that is necessary to take into account the application of subsections (5) and (10).

Regulations: 8201.

"*indebtedness*" — "indebtedness" does not include obligations of a particular person under agreements with non-resident corporations providing for the purchase, sale or exchange of currency where

(*a*) the agreements are swap agreements, forward purchase or sale agreements, forward rate agreements, futures agreements, options or rights agreements, or similar agreements,

(*b*) the particular person is a bank, a trust company, a credit union, an insurance corporation or a trader or dealer in securities or commodities resident in Canada, the business activities of which are subject by law to the supervision of a regulating authority in Canada such as the Superintendent of Financial Institutions or a similar authority of a province,

(*c*) the agreements are entered into by the non-resident corporation in the course of a business conducted principally with persons with whom the non-resident corporation deals at arm's length, if

(i) the business is principally carried on in the country (other than Canada) under whose laws the non-resident corporation is governed and any of exists, was (unless the non-resident corporation was continued in any jurisdiction) formed or organized, or was last continued, or

(ii) the non-resident corporation is a foreign affiliate of the particular person, or of a person related to the particular person, and

(A) the non-resident corporation is a foreign bank, a trust company, a credit union, an insurance corporation or a trader or dealer in securities or commodities, and

(B) the activities of the business are regulated

(I) under the laws of the country under whose laws the non-resident corporation is governed and any of exists, was (unless the non-resident corporation was continued in any jurisdiction) formed or organized, or was last continued and under the laws of each country in which the business is carried on through a permanent establishment (as defined by regulation) in that country,

(II) under the laws of the country (other than Canada) in which the business is principally carried, or

(III) if the affiliate is related to a corporation, under the laws of the country under the laws of which a corporation related to the non-resident corporation is governed and any of exists, was (unless that related corporation was continued in any jurisdiction) formed or organized, or was last continued, if those regulating laws are recognized under the laws of the country in which the business is principally carried on and all of those countries are members of the European Union, and

(*d*) the terms and conditions of such agreements are substantially the same as the terms and conditions of similar agreements made by persons dealings (*sic*) at arm's length;

History: S. 95(2.5), the definition "indebtedness" was replaced by S.C. 2007, c. 35, s. 26(23), applicable to taxation years, of a foreign affiliate of a taxpayer, that begin after 1999. S. 95(2.5), the definition "indebtedness" formerly read:

"'*indebtedness*'— 'indebtedness' does not include obligations of a person under agreements with non-resident corporations providing for the purchase, sale or exchange of currency where

(*a*) the agreements are swap agreements, forward purchase or sale agreements, forward rate agreements, futures agreements, options or rights agreements, or similar agreements,

(*b*) the person is a bank, a trust company, a credit union, an insurance corporation or a trader or dealer in securities or commodities resident in Canada, the business activities of which are subject by law to the supervision of a regulating authority in Canada such as the Superintendent of Financial Institutions or a similar authority of a province,

(*c*) the agreements are entered into by the non-resident corporation in the course of a business carried on by it principally with persons with which it deals at arm's length in the country under whose laws the non-resident corporation was formed or continued and exists and is governed and in which the business is principally carried on by it, and

(*d*) the terms and conditions of such agreements are substantially the same as the terms and conditions of similar agreements made by persons dealing at arm's length;"

S. 95(2.5), the application of the definition "indebtedness" was amended by S.C. 1998, c. 19, s. 305(1), deemed to have come into force on June 22, 1995. That application reads as follows:

Sec. 305(1), Chap. 19, 1998

(8) Subsections 46(1) to 46(6) [of 1995, c. 21] apply to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, subsections (1) to (6) apply to taxation years of the foreign affiliate that end after 1994, unless

(*a*) the foreign affiliate had requested the change in writing before February 22, 1994 from the income taxation authority of the country in which the foreign affiliate was resident and subject to income taxation; or

(*b*) the foreign affiliate's first taxation year that began after 1994 began at a time in 1995 that is earlier than the time at which that taxation year would have begun if the change had not occurred.

S. 95(2.5), the definition "indebtedness" was added by S.C. 1995, c. 21, s. 46(6), applicable to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, the definition "indebtedness" applies to taxation years of such foreign affiliate of the taxpayer that end after 1994, unless

(*a*) such foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation; or

(*b*) the first taxation year of such foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time that that taxation year would have begun if there had not been that change in the taxation year of such foreign affiliate.

"*specified deposit*" — "specified deposit" means a deposit of a foreign affiliate of a taxpayer resident in Canada with a prescribed financial institution resident in Canada where

(*a*) the income from the deposit is income of the affiliate for the year that would, but for paragraph (2)(*a*.3), be income from an active business carried on by it in a country other than Canada (other than a business the principal purpose of which is to derive income from property including interest, dividends, rents, royalties or similar returns or substitutes therefor or profits from the disposition of investment property), or

(*b*) the income from the deposit is income of the affiliate for the year that would, but for paragraph (2)(*a*.3), be income from an active business carried on by the affiliate principally with persons with whom the affiliate deals at arm's length in the country under whose laws the affiliate was formed or continued and exists and is governed and in which the business is principally carried on by it and the deposit was held by the affiliate in the course of carrying on that part of the business conducted with non-resident persons with whom the affiliate deals at arm's length or that part of the business conducted with a person with whom the affiliate was related where it can be demonstrated that the related person used or held the funds deposited in the course of a business carried on by the related person with non-resident persons with whom the related person and the affiliate deal at arm's length.

History: S. 95(2.5), the application of the definition "specified deposit" was amended by S.C. 1998, c. 19, s. 305(1), deemed to have come into force on June 22, 1995. That application reads as follows:

Sec. 305(1), Chap. 19, 1998

(8) Subsections 46(1) to 46(6) [of 1995, c. 21] apply to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, subsections (1) to (6) apply to taxation years of the foreign affiliate that end after 1994, unless

(*a*) the foreign affiliate had requested the change in writing before February 22, 1994 from the income taxation authority of the country in which the foreign affiliate was resident and subject to income taxation; or

(*b*) the foreign affiliate's first taxation year that began after 1994 began at a time in 1995 that is earlier than the time at which that taxation year would have begun if the change had not occurred.

S. 95(2.5), the definition "specified deposit" was added by S.C. 1995, c. 21, s. 46(6), applicable to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, the definition "specified deposit" applies to taxation years of such foreign affiliate of the taxpayer that end after 1994, unless

(*a*) such foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation; or

(*b*) the first taxation year of such foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time that that taxation year would have begun if there had not been that change in the taxation year of such foreign affiliate.

Related Sections: S. 125(7), "specified investment business".

► 95(2.6) ◄

(2.6) Rule for the definition "specified person or partnership". For the purposes of paragraphs (*a*) to (*d*) of the definition "specified person or partnership" in subsection (1), if a person or partnership (referred to in this subsection as the "taxpayer") is not dealing at arm's length with another person or partnership (referred to in this subsection as the "particular person") at a particular time, the taxpayer is deemed to have existed and not to have dealt at arm's length with the particular person, nor with each specified predecessor corporation of the particular person, throughout the period that began when the particular person or the specified predecessor corporation, as the case may be, came into existence and that ends at the particular time.

History: S. 95(2.6) was added by S.C. 2009, c. 2, s. 25(5), applicable to taxation years of a foreign affiliate of a taxpayer that begin after October 2, 2007. However, if the taxpayer elects in writing in respect of all of its foreign affiliates and files the election with the Minister of National Revenue on or before the day (referred to as the taxpayer's "election day") that is the later of (i) the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act is assented to [R.A. March 12, 2009] and (ii) the day that is one year after the day on which this Act is assented to [March 12, 2010], s. 95(2.6) shall, in its application to a taxation year of a foreign affiliate of the taxpayer that begins after October 2, 2007 and before July 14, 2008, be read as follows:

"(2.6) For the purposes of paragraphs (*a*) to (*d*) of the definition 'specified person or partnership' in subsection (1), in determining whether, at a particular time, a person was not, at a time (referred to in this subsection as the 'prior time') that is before the particular time and at which that person did not exist, dealing at arm's length with another person, where the person exists at the particular time but did not exist at the prior time

(*a*) the person is deemed to exist at the prior time; and

(*b*) where the person is related to another person at the particular time, the person is deemed to have been related to that other person at the prior time."

If the taxpayer elects in writing in respect of all of its foreign affiliates and files the election with the Minister of National Revenue on or before the taxpayer's election day, s. 95(2.6) also applies to taxation years of a foreign affiliate of the taxpayer that begin before October 2, 2007 and after the date chosen by the taxpayer as described below.

To be valid, an election [described above] must include the identification by the taxpayer of its choice of one of the following dates:

(*i*) December 31, 1994,

(*ii*) December 20, 2002, or

(*iii*) February 27, 2004.

Notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take into account this provision and any election made with respect to it.

► 95(3) ◄

(3) Definition of "services". For the purposes of paragraph (2)(*b*), "services" includes the insurance of Canadian risks but does not include

(*a*) the transportation of persons or goods;

(*b*) services performed in connection with the purchase or sale of goods.

(*c*) the transmission of electronic signals or electricity along a transmission system located outside Canada; or

(*d*) the manufacturing or processing outside Canada, in accordance with the taxpayer's specifications and under a contract between the taxpayer and the affiliate, of tangible property, or for civil law corporeal property, that is owned by the taxpayer if the property resulting from the manufacturing or processing is used or held by the taxpayer in the ordinary course of the taxpayer's business carried on in Canada.

History: S. 95(3)(*c*) and (*d*) were added by S.C. 2007, c. 35, s. 26(24). Subject to the application below, this amendment applies to the 2001 and subsequent taxation years of a foreign affiliate of a taxpayer. However, if a taxpayer elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2007, this amendment applies to taxation years, of all its foreign affiliates, that begin after 1994.

[Global Section 95 Election] If a taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2007, paragraph 95(3)(*d*) applies to taxation years, of all foreign affiliates of the taxpayer, that begin after 1994. [**Editorial Note:** See Department of

Finance News Release No. 2008-048, dated June 27, 2008, reproduced before s. 95(1), regarding a proposed extension of the election deadline.]

If a taxpayer has made what would be a valid Global Section 95 Election described above, and the taxpayer has, on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2010, filed with the Minister of National Revenue a notice in writing to revoke the election, the election is deemed, otherwise than for the purpose of this revocation, never to have been made.

Notwithstanding subsections 152(4) to (5), any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take an election referred to above, or a revocation referred to above, into account.

Related Sections: S. 95(2) Determination of certain components of foreign accrual property income.

▶ 95(3.1) ◀

(3.1) Designated property — subparagraph (2)(*a.1*)(i). Designated property referred to in subparagraph (2)(*a.1*)(i) is property that is described in the portion of paragraph (2)(*a.1*) that is before subparagraph (i) that is

(*a*) property that was sold to non-resident persons other than the affiliate, or sold to the affiliate for sale to non-resident persons, and

(i) that

(A) was — in the course of carrying on a business in Canada — manufactured, produced, grown, extracted or processed in Canada by the taxpayer, or by a person with whom the taxpayer does not deal at arm's length, or

(B) was — in the course of a business carried on by a foreign affiliate of the taxpayer outside Canada — manufactured or processed from tangible property, or for civil law corporeal property, that, at the time of the manufacturing or processing, was owned by the taxpayer or by a person related to the taxpayer and used or held by the owner in the course of carrying on a business in Canada, if the manufacturing or processing was in accordance with the specifications of the owner of that tangible or corporeal property and under a contract between that owner and that foreign affiliate,

(ii) that was acquired, in the course of carrying on a business in Canada, by a purchaser from a vendor, if

(A) the purchaser is the taxpayer or is a person resident in Canada with whom the taxpayer does not deal at arm's length, and

(B) the vendor is a person

(I) with whom the taxpayer deals at arm's length,

(II) who is not a foreign affiliate of the taxpayer, and

(III) who is not a foreign affiliate of a person resident in Canada with whom the taxpayer does not deal at arm's length, or

(iii) that was acquired by a purchaser from a vendor, if

(A) the purchaser is the taxpayer or is a person resident in Canada with whom the taxpayer does not deal at arm's length,

(B) the vendor is a foreign affiliate of

(I) the taxpayer, or

(II) a person resident in Canada with whom the taxpayer does not deal at arm's length, and

(C) that property was manufactured, produced, grown, extracted or processed in the country

(I) under whose laws the vendor is governed and any of exists, was (unless the vendor was continued in any jurisdiction) formed or organized, or was last continued, and

(II) in which the vendor's business is principally carried on; or

(*b*) property that is an interest in real property, or a real right in an immovable, located in, or a foreign resource property in respect of, the country

(i) under whose laws the affiliate is governed and any of exists, was (unless the affiliate was continued in any jurisdiction) formed or organized, or was last continued, and

(ii) in which the affiliate's business is principally carried on.

History: S. 95(3.1) was added by S.C. 2007, c. 35, s. 26(25), applicable to taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002. However, if a taxpayer elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes December 14, 2007, this subsection applies to taxation years, of all its foreign affiliates, that begin after 1994. [**Editorial Note:** See Department of Finance News Release No. 2008-048, dated June 27, 2008, reproduced before s. 95(1), regarding a proposed extension of the election deadline.]

Notwithstanding subsections 152(4) to (5), any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year shall be made that is necessary to take an election referred to above, into account.

Editorial Note: See Department of Finance comfort letters, dated July 17, 2006 and May 11, 2005, following this pending amendment.

Federal Budget Extract

2004 Foreign Affiliate Proposals

[Reproduced below is an excerpt from the January 27, 2009 Federal Budget, which notes that the government plans to consider the recommendations in the report of the Advisory Panel on Canada's System of International Taxation (which can be found at http://www.apcsit-gcrcfi.ca/07/index-eng.html) in deciding how to proceed with the remaining foreign affiliate proposals released on February 27, 2004 that have not yet been enacted.]

The Government will consider the Panel's recommendations relating to foreign affiliates before proceeding with the remaining foreign affiliate measures announced in February 2004, as modified to take into account consultations and deliberations since their release.

Pending Amendment

Draft Legislation — Foreign Affiliates — February 27, 2004

Section 95 of the Act is amended by adding the following after subsection (3.1):

(3.2) Definitions. The following definitions apply for the purposes of this subsection and paragraphs (2)(*c.1*) to (*c.6*), (*e.2*) to (*e.5*) and (*f.3*) to (*f.7*) and subsections (3.3) to (3.6).

"dividend-like redemption" — "dividend-like redemption", of a share of the capital stock of a foreign affiliate (referred to in this definition as the "issuing foreign affiliate") of a corporation resident in Canada, means a redemption, an acquisition or a cancellation (in this definition referred to as the "redemption") of the share if

(*a*) the share is (or would, if held by a foreign affiliate of the corporation resident in Canada, be) excluded property of another foreign affiliate of the corporation resident in Canada that, immediately before the redemption, held the share; and

(*b*) the surplus entitlement percentage of the corporation resident in Canada, in respect of the issuing foreign affiliate, immediately before the redemption, is equal to the surplus entitlement percentage of the corporation resident in Canada, in respect of the issuing foreign affiliate, immediately after the redemption.

"eligible trust" — "eligible trust", at any time, means a trust other than

(*a*) a trust created or maintained for charitable purposes;

(*b*) a trust governed by an employee benefit plan;

(*c*) a trust described in paragraph (*a*.1) of the definition "trust" in subsection 108(1);

(*d*) a trust governed by a salary deferral arrangement;

(*e*) a trust operated for the purpose of administering or providing superannuation, pension, retirement or employee benefits; or

(*f*) a trust that at or before that time was a personal trust.

"exempt trust" — "exempt trust", at a particular time in respect of a taxpayer resident in Canada, means a trust that, at that time, is a trust under which the interest of each beneficiary (in this definition determined without reference to subsection 248(25)) under the trust is, at all times that the interest exists during the trust's taxation year that includes the particular time, a specified fixed interest of the beneficiary in the trust, if at the particular time

(*a*) the trust is an eligible trust;

(*b*) there are at least 150 beneficiaries each of whom holds a specified fixed interest in the trust with a fair market value of at least $500; and

(*c*) the total of all amounts each of which is the fair market value of an interest as a beneficiary under the trust held by a specified purchaser in respect of the taxpayer resident in Canada is not more than 10% of the total fair market value of all interests as a beneficiary under the trust.

"participating interest" — "participating interest", in an entity, means

(*a*) if the entity is a corporation, a share of the capital stock of the corporation;

(*b*) if the entity is a trust, an interest as a beneficiary under the trust;

(*c*) if the entity is a partnership, a partnership interest in the partnership; and

(*d*) a property that is, under a contract, in equity or otherwise, either immediately or in the future, and absolutely or contingently, convertible into, exchangeable for, or a right to acquire, directly or indirectly,

(i) a share or interest described in any of paragraphs (*a*) to (*c*), or

(ii) a property (other than money) the fair market value of which is determined primarily by reference to the fair market value of those shares or interests.

"specified fixed interest" — "specified fixed interest", at a particular time in a trust, means a capital interest in the trust if

(*a*) the interest includes, at the particular time, a right of the interest holder as a beneficiary under the trust to receive, at or after the particular time and directly from the trust, income or capital of the trust;

(*b*) the interest was acquired, at or before the particular time, from the trust by any interest holder for consideration equal to its fair market value at the time of the acquisition; and

(*c*) no right of the interest holder as a beneficiary under the trust to any income or capital of the trust may cease to be a right of the interest holder otherwise than because of a disposition of the interest for consideration equal to the fair market value of the interest at the time of disposition or because of the disposition of the interest as a gift.

"specified purchaser" — "specified purchaser", at any time in respect of a particular corporation resident in Canada, means a person or partnership that is, at that time,

(*a*) the particular corporation;

(*b*) a taxpayer resident in Canada with which the particular corporation does not deal at arm's length;

(*c*) a foreign affiliate of a person described in paragraph (*a*) or (*b*);

(*d*) a non-resident person with which a person described in any of paragraphs (*a*) to (*c*) does not deal at arm's length;

(*e*) a trust (other than an exempt trust) in which a person or partnership described in any of paragraphs (*a*) to (*d*) and (*f*) is beneficially interested; or

(*f*) a partnership in which a person or partnership described in any of paragraphs (*a*) to (*e*) has, directly or indirectly in any manner whatever, a partnership interest.

"specified vendor" — "specified vendor", at any time in respect of a particular corporation resident in Canada, means a person or partnership that is, at that time,

(*a*) a foreign affiliate of the particular corporation;

(*b*) a foreign affiliate of a partnership of which the particular corporation is a member;

(*c*) a partnership a member of which is a person described in paragraph (*a*) or (*b*); or

(*d*) a partnership in which a person or partnership described in any of paragraphs (*a*) to (*c*) has, directly or indirectly in any manner whatever, a partnership interest.

(3.3) Definitions for paragraphs (2)(c.1) to (c.6). The following definitions apply for the purposes of this subsection and paragraphs (2)(*c*.1) to (*c*.6).

"contributed property" — "contributed property" means a property

(*a*) that was held by the disposed foreign affiliate at the original disposition time, and was held by a person or partnership that was not a specified purchaser in respect of the particular corporation resident in Canada immediately after a transaction or an event that is, or a series of transactions or events that includes,

(i) a particular disposition described in clause (*a*)(i)(A) or (ii)(B) of the definition "triggering disposition",

(ii) the dissolution, winding-up, or cessation of the existence, described in paragraph (*a*) of the definition "specified discontinuance", or

(iii) a merger or combination described in paragraph (*b*) of the definition "specified discontinuance"; and

(*b*) for which it is reasonable to conclude that one of the main reasons for holding the property at the original disposition time was

(i) to avoid the disqualification of the particular disposition as a triggering disposition, or

(ii) to avoid the characterization of a particular dissolution, winding-up, or cessation of the existence, of a specified purchaser in respect of a particular corporation resident in Canada as a specified discontinuance.

"specified discontinuance" — "specified discontinuance", of a current holder in respect of a particular corporation resident in Canada, means

(*a*) a dissolution, winding-up, or cessation of the existence, of a corporation or partnership if, immediately after a transaction or an event that is, or a series of transactions or events that includes, the dissolution, winding-up or cessation, a person or partnership that is a specified purchaser, in respect of the particular corporation resident in Canada,

(i) holds the specified share, or

(ii) holds property that, immediately before the commencement of the transaction or event or of the series, was property (or property substituted for such property) of the disposed foreign affiliate that, immediately before that commencement, had a total fair market value that was greater than 50% of the total fair market value, immediately before that commencement, of all

of the property (other than contributed property) of the disposed foreign affiliate;

(*b*) a merger or combination of corporations or partnerships if, immediately after a transaction or an event that is, or a series of transactions or events that includes, the merger or combination, a specified purchaser in respect of the particular corporation resident in Canada

(i) holds the specified share, or

(ii) holds property that, immediately before the commencement of the transaction or event or of the series, was property (or property substituted for such property) of the disposed foreign affiliate that, immediately before that commencement, had a total fair market value that was greater than 50% of the total fair market value, immediately before that commencement, of all of the property (other than contributed property) of the disposed foreign affiliate; or

(*c*) a disposition of a participating interest in the current holder if, in the course of a transaction or an event that is, or a series of transactions or events that includes, the disposition of the participating interest, the specified share (or any portion of the specified share) or a right to, or an interest in, the specified share (or any portion of the interest in the specified share) becomes property of a person or partnership that is a specified purchaser in respect of the particular corporation resident in Canada.

"triggering disposition" — "triggering disposition", of a specified share in respect of a particular corporation resident in Canada, means the first disposition, after the original disposition time, of the specified share to a person or partnership that is, immediately after that first disposition, not a specified purchaser in respect of the particular corporation resident in Canada, but does not include

(*a*) a disposition of the specified share in respect of the particular corporation resident in Canada that arises in the course of

(i) a dissolution, winding-up, or cessation of the existence, of

(A) the disposed foreign affiliate if, immediately after a transaction or an event that is, or a series of transactions or events that includes, the dissolution, winding-up or cessation, a specified purchaser in respect of the particular corporation resident in Canada holds property that, immediately before the commencement of the transaction or event or of the series, was property (or property substituted for such property) of the disposed foreign affiliate that, immediately before that commencement, had a total fair market value that was greater than 50% of the total fair market value, immediately before that commencement, of all of the property (other than contributed property) of the disposed foreign affiliate, or

(B) a current holder in respect of the particular corporation resident in Canada if, immediately after a transaction or an event that is, or a series of transactions or events that includes, the dissolution, winding-up or cessation, a specified purchaser in respect of the particular corporation resident in Canada holds the specified share (or any portion of the specified share) or a right to, or an interest in, the specified share (or any portion of the right to or interest in the specified share), or

(ii) a merger or combination of corporations or partnerships if, immediately after a transaction or an event that is, or a series of transactions or events that includes, the merger or combination, a specified purchaser in respect of the particular corporation resident in Canada holds

(A) the specified share (or any portion of the specified share) or a right to, or an interest in, the specified share (or any portion of the right to or interest in the specified share), or

(B) property that, immediately before the commencement of the transaction or event or of the series, was property (or property substituted for such property) of the disposed foreign affiliate that, immediately before that commencement, had a total fair market value that was greater than 50% of the total fair market value, immediately before that commencement, of all of the property (other than contributed property) of the disposed foreign affiliate;

(*b*) a disposition of the specified share in respect of the particular corporation resident in Canada that is part of a series of transactions or events that includes

(i) the disposition of the specified share to a person or partnership that is not a specified purchaser in respect of the particular corporation resident in Canada, and

(ii) the acquisition, by a specified purchaser in respect of the particular corporation resident in Canada, of

(A) the specified share (or any portion of the specified share) or a right to, or an interest in, the specified share (or any portion of the right to or interest in the specified share),

(B) a share, a right to a share, or a right to acquire a share (which share or right is referred to in this subparagraph as a "substituted share") of the same or a substantially similar class of shares of the capital stock of the disposed foreign affiliate as the specified share or a substituted share, or

(C) a property the fair market value of which is determined primarily by reference to property that is the specified share (or a substituted share) or to property that, at the original disposition time, was property (or property substituted for it) of the disposed foreign affiliate, or to any combination of those properties; or

(*c*) a particular disposition of the specified share in respect of the particular corporation resident in Canada if, immediately after a transaction or an event that is, or a series of transactions or events that includes, the particular disposition

(i) a specified purchaser in respect of the particular corporation resident in Canada holds property (other than contributed property) the fair market value of which is derived primarily from property that was, immediately before the original disposition time,

(A) property of the disposed foreign affiliate,

(B) property from which property of the disposed foreign affiliate primarily derived its fair market value,

(C) properties substituted for properties described in clause (A) or (B), or

(D) any combination of properties described in any of clauses (A) to (C), and

(ii) the fair market value of the properties described in subparagraph (i) is greater than 50% of the fair market value, immediately before the original disposition time, of all of the property of the disposed foreign affiliate.

(3.4) Definitions for paragraphs (2)(f.3) to (f.9). The following definitions apply for the purposes of this subsection and paragraphs (2)(*f.3*) to (*f.9*),

"specified discontinuance" — "specified discontinuance", of a current holder described in paragraph (2)(*f.5*), means

(*a*) a dissolution, winding-up, or cessation of the existence, of a corporation or partnership if, immediately after a transaction or an event that is, or a series of transactions or events that includes, the dissolution, winding-up or cessation, a specified purchaser, in respect of the particular corporation, holds the specified property;

(*b*) a merger or combination of corporations or partnerships if, immediately after a transaction or an event that is, or a series of transactions or events that includes, the merger or combination, a person or partnership that is a specified purchaser, in respect of the particular corporation, holds the specified property; or

(*c*) a disposition of a participating interest in the current holder if, in the course of a transaction or an event that is, or a series of transactions or events that includes, the disposition of the participating interest, the specified property (or any portion of the specified property) or a right to, or an interest in, the specified property (or any

portion of the specified property) becomes property of a specified purchaser in respect of the particular corporation.

"triggering disposition" — "triggering disposition", of a specified property in respect of a particular corporation resident in Canada, means the first disposition, after the original disposition time, of the specified property to a person or partnership that is, immediately after that first disposition, not a specified purchaser in respect of the particular corporation resident in Canada, but does not include

(*a*) a disposition of the specified property in respect of the particular corporation resident in Canada that occurs in the course of

(i) a dissolution, winding-up, or cessation of the existence, of a corporation or partnership if, immediately after a transaction or an event that is, or a series of transactions or events that includes, the dissolution, winding-up or cessation, a specified purchaser in respect of the particular corporation holds the specified property, or

(ii) a merger or combination of corporations or partnerships if, immediately after a transaction or an event that is, or a series of transactions or events that includes, the merger or combination, a specified purchaser in respect of the particular corporation holds the specified property; or

(*b*) a disposition of the specified property in respect of the particular corporation resident in Canada that is part of a series of transactions or events that includes

(i) the disposition of the specified property to a person or partnership that is not a specified purchaser in respect of the particular corporation resident in Canada, and

(ii) the acquisition, by a specified purchaser in respect of the particular corporation resident in Canada, of

(A) the specified property (or any portion of the specified property) or a right to, or an interest in, the specified property (or any portion of the right to or interest in the specified property) (which right, interest or portion is referred to for the purposes of paragraphs (2)(*f.7*) and (*f.9*) as a "designated replacement property"),

(B) a property or a right to acquire a property (which property or right is referred to in this clause and for the purposes of paragraphs (2)(*f.7*) and (*f.9*) as a "designated replacement property") that is substantially similar to the specified property or to the designated replacement property, or

(C) a property (referred to for the purposes of paragraphs (2)(*f.7*) and (*f.9*) as a "designated replacement property") the fair market value of which is determined primarily by reference to property that is the specified property or properties from which the specified property primarily derived its fair market value at the original disposition time.

(3.5) Definitions for paragraphs (2)(h) to (h.5). The following definitions apply for the purposes of this subsection and paragraphs (2)(*h*) to (*h.5*).

"specified discontinuance" — "specified discontinuance", of a current holder described in paragraph (2)(*h.2*), means

(*a*) a dissolution, winding-up, or cessation of the existence, of a corporation or partnership if, immediately after a transaction or an event that is, or a series of transactions or events that includes, the dissolution, winding-up or cessation, a specified purchaser in respect of the particular taxpayer holds the specified property;

(*b*) a merger or combination of corporations or partnerships if, immediately after a transaction or an event that is, or a series of transactions or events that includes, the merger or combination, a specified purchaser in respect of the particular taxpayer holds the specified property; or

(*c*) a disposition of a participating interest in the current holder if, in the course of a transaction or an event that is, or a series of transactions or events that includes, the disposition of the participating interest, the specified property (or any portion of the specified property) or a right to, or an interest in, the specified property (or any portion of the specified property) becomes property of a specified purchaser in respect of the particular taxpayer.

"specified purchaser" — "specified purchaser", at any time in respect of a particular taxpayer resident in Canada, means a person or partnership that is, at that time,

(*a*) the particular taxpayer;

(*b*) a taxpayer resident in Canada with which the particular taxpayer does not deal at arm's length;

(*c*) a foreign affiliate of a person described in paragraph (*a*) or (*b*);

(*d*) a non-resident taxpayer with which a person described in any of paragraphs (*a*) to (*c*) does not deal at arm's length;

(*e*) a trust (other than an exempt trust) in which a person or partnership described in any of paragraphs (*a*) to (*d*) and (*f*) is beneficially interested; or

(*f*) a partnership in which a person or partnership described in any of paragraphs (*a*) to (*e*) has, directly or indirectly in any manner whatever, a partnership interest.

"specified vendor" — "specified vendor", at any time in respect of a particular taxpayer resident in Canada, means a person or partnership that is, at that time,

(*a*) a foreign affiliate of the particular taxpayer;

(*b*) a foreign affiliate of a partnership of which the particular taxpayer is a member;

(*c*) a partnership a member of which is a person described in paragraph (*a*) or (*b*); or

(*d*) a partnership in which a person or partnership described in any of paragraphs (*a*) to (*c*) has, directly or indirectly in any manner whatever, a partnership interest.

"triggering disposition" — "triggering disposition", of a specified property in respect of a particular taxpayer resident in Canada, means the first disposition, after the original disposition time, of the specified property, to a person or partnership that is, immediately after that first disposition, not a specified purchaser in respect of the particular taxpayer, but does not include

(*a*) a disposition of the specified property in respect of the particular taxpayer resident in Canada that occurs in the course of

(i) a dissolution, winding-up, or cessation of the existence, of a corporation or partnership if, immediately after a transaction or an event that is, or a series of transactions or events that includes, the dissolution, winding-up or cessation, a specified purchaser in respect of the particular taxpayer holds the specified property, or

(ii) a merger or combination of corporations or partnerships if, immediately after a transaction or an event that is, or a series of transactions or events that includes, the merger or combination, a specified purchaser in respect of the particular taxpayer holds the specified property; or

(*b*) a disposition of the specified property in respect of the particular taxpayer resident in Canada that is part of a series of transactions or events that includes

(i) the disposition of the specified property to a person or partnership that is not a specified purchaser in respect of the particular taxpayer resident in Canada, and

(ii) the acquisition, by a specified purchaser in respect of the particular taxpayer resident in Canada, of

(A) the specified property (or any portion of the specified property) or a right to, or an interest in, the specified property (or any portion of the right to or interest in the specified property) (which right, interest or portion is referred to for the purposes of paragraphs (2)(*h.3*) and (*h.5*) as a "designated replacement property"),

(B) a property or a right to acquire a property (which property or right is referred to in this clause and for the purposes of paragraphs (2)(*h.3*) and (*h.5*) as a

"designated replacement property") that is substantially similar to the specified property or to the designated replacement property, or

(C) a property (which property is referred to for the purposes of paragraphs (2)(*h*.3) and (*h*.5) as a "designated replacement property") the fair market value of which is determined primarily by reference to property that is the specified property or properties from which the specified property primarily derived its fair market value at the original disposition time.

(3.6) Partnerships and trusts. For the purposes of paragraphs (2)(*c*.1) to (*c*.5), (*e*.3) to (*e*.5), (*f*.3) to (*f*.9) and (*h*) to (*h*.5) and subsections (3.2) to (3.5), in determining if a non-resident corporation is a foreign affiliate of a particular corporation resident in Canada or of a particular taxpayer resident in Canada, as the case may be, in circumstances where, at any time, a person or partnership (referred to in this subsection as the "holder") is a member of a partnership, or has a beneficial interest in a trust (other than an exempt trust),

(*a*) the partnership or the trust, as the case may be, is deemed to be a non-resident corporation having capital stock of a single class divided into 100 issued shares;

(*b*) the holder is deemed to own at that time that proportion of the issued shares of that class that

(i) the fair market value, at that time, of the holder's partnership interest in the partnership or of the holder's beneficial interest in the trust, as the case may be,

is of

(ii) the fair market value, at that time, of all partnership interests in the partnership or of all beneficial interests in the trust; and

(*c*) for the purpose of paragraph (*b*), the fair market value, at any time, of the holder's beneficial interest in a trust (other than a non-discretionary trust within the meaning assigned by subsection 17(15)) is deemed to be the fair market value, at that time, of all beneficial interests in the trust.

(3.7) Anti-avoidance — 150 beneficiaries. If it can be reasonably considered that one of the main reasons that an entity holds, at any time, a capital interest in a trust is to cause the trust to satisfy the condition in paragraph (*b*) of the definition "exempt trust" in subsection (3.2), the trust is deemed not to have satisfied at that time that condition.

(3.8) Computing exempt surplus. No amount is to be included in computing the exempt surplus of a foreign affiliate (other than a controlled foreign affiliate) of a particular corporation resident in Canada in respect of a gain of that foreign affiliate arising on a disposition, described in any of paragraphs (2)(*d*) and (*e*) and (*e*.3) to (*e*.5), of excluded property if it may reasonably be considered that one of the main reasons for the claiming of a relevant cost base, or for electing proceeds of disposition, in excess of the adjusted cost base of the excluded property disposed of was the creation of exempt surplus of that foreign affiliate in respect of the particular corporation resident in Canada (or in respect of a corporation resident in Canada with which the particular corporation resident in Canada does not deal at arm's length), having regard to, amongst other things, the following:

(*a*) the amount of any foreign income tax paid by that foreign affiliate in respect of the gain arising on the disposition;

(*b*) the amount of any distribution made, or dividend paid, on or after the disposition, to the particular corporation resident in Canada or a corporation resident in Canada with which the particular corporation resident in Canada does not deal at arm's length; and

(*c*) the amount of any election under section 93 made in respect of a disposition of a share of a foreign affiliate of the particular corporation resident in Canada or of a share of a foreign affiliate of a corporation resident in Canada with which the particular corporation resident in Canada does not deal at arm's length.

Applicable: Subsections 95(3.2) to (3.7) apply after December 20, 2002.

Subsection 95(3.8) applies to dispositions that occur after February 27, 2004.

Explanatory Note:

Subsection 95(3.2)

New subsection 95(3.2) of the Act provides definitions for the purposes of new subsections 95(3.2), (3.3) to (3.6) and new paragraphs 95(2)(*c*.1) to (*c*.6), (*e*.2) to (*e*.5), and (*f*.3) to (*f*.9).

See the commentary for those proposed new subsections and paragraphs for further detail.

Note also that the expression "exempt trust", as defined in subsection 95(3.2), is also used in new paragraphs 95(2)(*w*) and (*x*) by reference. For detail, see the commentary to those paragraphs.

"dividend-like redemption"

"Dividend-like redemption" of a share of a foreign affiliate (referred to here as the "issuing foreign affiliate") of a corporation resident in Canada is a redemption, an acquisition or a cancellation (referred to here as the "redemption") of the share if

- the share is excluded property (or would be excluded property if the holder of the share were a foreign affiliate of the corporation resident in Canada) of another foreign affiliate, of the corporation resident in Canada, that, immediately before the redemption, held the share, and
- the surplus entitlement percentage of the corporation resident in Canada, in respect of the issuing foreign affiliate, immediately before the redemption, is equal to the surplus entitlement percentage of the corporation resident in Canada, in respect of the issuing foreign affiliate, immediately after the redemption.

"eligible trust"

"Eligible trust", at any time, is a trust other than

- a trust created or maintained for charitable purposes,
- a trust governed by an employee benefit plan,
- a trust described in paragraph (*a*.1) of the definition trust in subsection 108(1),
- a trust governed by a salary deferral arrangement,
- a trust established for the purpose of administering a superannuation, pension, retirement, or employee benefits plan, or
- a trust that, at or before the time, was a personal trust.

"exempt trust"

"Exempt trust", at a particular time, in respect of a taxpayer resident in Canada, is a trust that, at that time, is a trust under which the interest of each beneficiary (in this definition determined without reference to subsection 248(25)) under the trust is, at all times that the interest exists during the trust's taxation year that includes the particular time, a specified fixed interest of the beneficiary in the trust, if at the particular time

- the trust is an eligible trust,
- there are at least 150 beneficiaries each of whom holds a specified fixed interest in the trust with a fair market value of at least $500, and
- the total of all amounts each of which is the fair market value of an interest as a beneficiary under the trust held by a specified purchaser in respect of the taxpayer resident in Canada is not more than 10% of the total fair market value of all interests as a beneficiary under the trust.

"participating interest"

"Participating interest" in a corporation, trust or partnership, as the case may be, (referred to here as the entity) is a property that is

- where the entity is a corporation, a share of the capital stock of that corporation,
- where the entity is a trust, an interest as a beneficiary under that trust,
- where the entity is a partnership, an interest in that partnership, and
- under a contract, in equity or otherwise, either immediately or in the future, and absolutely or contingently,

convertible into, exchangeable for or a right to acquire, directly or indirectly, a property described in paragraphs (*a*) to (*c*) of this definition, or a property the fair market value of which is determined principally by reference to those properties.

The expression "entity" is defined in new amended subsection 95(1). See the commentary to subsection 95(1) for more detail.

"specified fixed interest"

"Specified fixed interest", at a particular time, in a trust is a capital interest in the trust if

- the interest includes, at the particular time, a right of the interest holder as a beneficiary under the trust to receive, at or after the particular time and directly from the trust, income or capital of the trust,
- the interest was acquired, at or before the particular time, from the trust by any interest holder for consideration equal to its fair market value at the time of that acquisition, and
- no right as a beneficiary under the trust to any income or capital of the trust may cease to be a right of the interest holder otherwise than because of a disposition of the interest for consideration equal to the fair market value of the interest at the time of disposition or because of the disposition of the interest as a gift.

"specified purchaser"

"Specified purchaser", at any time, in respect of a particular corporation resident in Canada is a person or partnership that is, at that time,

- the particular corporation,
- a taxpayer resident in Canada with which the particular corporation does not deal at arm's length,
- a foreign affiliate of a person described above,
- a non-resident taxpayer with which a person described above does not deal at arm's length,
- a trust (other than an exempt trust) in which any person or partnership described above or below has a beneficial interest, or
- a partnership in which a person or partnership described above has, directly or indirectly, in any manner whatever, a partnership interest.

"specified vendor"

"Specified vendor", at any time, in respect of a particular corporation resident in Canada, is a person or partnership that is, at that time,

- a foreign affiliate of the particular corporation,
- a foreign affiliate of a partnership of which the particular corporation is a member,
- a partnership a member of which is a person described above, or
- a partnership in which any person or partnership described above has, directly or indirectly, in any manner whatever, a partnership interest.

Subsection 95(3.2) applies after December 20, 2002.

Subsection 95(3.3) — Definitions for paragraphs 95(2)(c.1) to (c.6)

New subsection 95(3.3) of the Act provides definitions for the purposes of subsection 95(3.3) and paragraphs (2)(*c*.1) to (*c*.6). See the commentary for those proposed new paragraphs for further detail.

"contributed property"

"Contributed property" is a property

- that was held by the disposed foreign affiliate at the original disposition time, and was held by a person or partnership that was not a specified purchaser in respect of the particular corporation resident in Canada immediately after a transaction or event, or series of transactions or events that includes,
  - a particular disposition described in clauses (*a*)(i)(A) and (ii)(B) of the definition "triggering disposition",
  - the dissolution, winding-up, or cessation of the existence, described in paragraph (a) of the definition "specified discontinuance", or
  - a merger or combination described in paragraph (*b*) of the definition "specified discontinuance", and
- for which it is reasonable to conclude that one of the main reasons for holding the property at the original disposition time was
  - to avoid the disqualification of the particular disposition as a triggering disposition, or
  - to avoid the characterization of a particular dissolution, winding-up, or cessation of the existence, of a specified purchaser in respect of a particular corporation resident in Canada as a specified discontinuance.

"specified discontinuance"

"specified discontinuance" of a current holder in respect of a particular corporation resident in Canada is

- a dissolution, winding-up, or a cessation of the existence, of a corporation or partnership if, immediately after a transaction or event, or series of transactions or events that includes the dissolution, winding-up or cessation, a person or partnership that is a specified purchaser in respect of the particular corporation resident in Canada,
  - holds the specified share, or
  - holds property that, immediately after the commencement of the transaction or event or of the series, was property (or property substituted for such property) of the disposed foreign affiliate that, immediately before that commencement, had a total fair market value that was greater than 50% of the total fair market value, immediately before that commencement, of all of the property (other than contributed property) of the disposed foreign affiliate,
- a merger or combination of corporations or partnerships if, immediately after a transaction or event that is, or series of transactions or events that includes, the merger or combination, a person or partnership that is a specified purchaser in respect of the particular corporation resident in Canada,
  - holds the specified share, or
  - holds property that, immediately before the commencement of the transaction or event or of the series, was property (or property substituted for such property) of the disposed foreign affiliate that, immediately before that commencement, had a total fair market value that was greater than 50% of the total fair market value of all of the property (other than contributed property) of the disposed foreign affiliate, or
- a disposition of a participating interest in the current holder if, in the course of a transaction or event that is, or series of transactions or events that includes, the disposition of the participating interest, the specified share (or any portion of the specified share) or a right to or an interest in the specified share (or any portion of the interest in the specified share) becomes property of a person or partnership that is a specified purchaser in respect of the particular corporation resident in Canada.

Note that the expression "contributed property" is defined in new subsection 95(3.3).

"triggering disposition"

"Triggering disposition" of a specified share in respect of a particular corporation resident in Canada is the first disposition, after the original disposition time, of the specified share to a person or partnership that is, immediately after that first disposition, not a specified purchaser in respect of the particular corporation resident in Canada, but does not include

- a disposition of the specified share in respect of the particular corporation resident in Canada that arises in the course of
  - a dissolution, winding-up, or a cessation of the existence, of
    - the disposed foreign affiliate if, immediately after a transaction or event that is, or series of transactions or events that includes, the dissolution, winding-up or cessation, a specified purchaser in respect of the

particular corporation resident in Canada holds property that, immediately before the commencement of the transaction or event or of the series, was property (or property substituted for such property) of the disposed foreign affiliate that, immediately before that commencement, had a total fair market value that was greater than 50% of the total fair market value, immediately before that commencement, of all the property (other than contributed property) of the disposed foreign affiliate, or

- a current holder in respect of the particular corporation resident in Canada if, immediately after a transaction or event that is, or series of transactions or events that includes, the dissolution, winding-up or cessation, a specified purchaser in respect of the particular corporation resident in Canada holds the specified share (or any portion of the specified share) or a right to or an interest in the specified share (or any portion of the right to or interest in the specified share), or

— a merger or combination of corporations or partnerships if, immediately after a transaction or event that is, or series of transactions or events that includes, the merger or combination, a specified purchaser in respect of the particular corporation resident in Canada holds

- the specified share (or any portion of the specified share) or a right to or an interest in the specified share (or any portion of the right to or interest in the specified share), or
- property that, immediately before the commencement of the transaction or event or of the series, was property (or property substituted for such property) of the disposed foreign affiliate that, immediately before that commencement, had a total fair market value that was greater than 50% of the total fair market value, immediately before that commencement, of all of the property (other than contributed property) of the disposed foreign affiliate;

- a disposition of the specified share in respect of the particular corporation resident in Canada that is part of a series of transactions or events that includes

— the disposition of the specified share to a person or partnership that is not an a specified purchaser in respect of the particular corporation resident in Canada, and

— the acquisition, by a specified purchaser in respect of the particular corporation resident in Canada, of

- the specified share (or any portion of the specified share) or a right to or an interest in the specified share (or any portion of the right to or interest in the specified share),
- a share, a right to a share, or a right to acquire a share (which share or right is referred to here as a substituted share) of the same or a substantially similar class of shares of the disposed foreign affiliate as the specified share or a substituted share, or
- a property the fair market value of which is determined primarily by reference to property that is the specified share (or a substituted share) or to property that, at the original disposition time, was property (or property substituted for it) of the disposed foreign affiliate, or to any combination of those properties; or

- a particular disposition of the specified share in respect of the particular corporation resident in Canada if, immediately after a transaction or event that is, or series of transactions or events that includes, the particular disposition,

— a specified purchaser in respect of the particular corporation resident in Canada holds property (other than contributed property) the fair market value of which is derived primarily from property that was, immediately before the original disposition time,

- property of the disposed foreign affiliate,
- property from which property of the disposed foreign affiliate primarily derived its fair market value, or
- any combinations of such properties or properties substituted for such properties, and

— the fair market value of those properties is greater than 50% of the fair market value, immediately before the original disposition time, of all of the property the disposed foreign affiliate.

Subsection 95(3.3) applies after December 20, 2002.

Subsection 95(3.4) — Definitions for paragraphs 95(2)(f.3) to (f.9)

New subsection 95(3.4) of the Act provides definitions for the purposes of proposed new paragraphs 95(2)(*f.3*) to (*f.9*). See the commentary for those proposed new paragraphs for further detail.

"specified discontinuance"

"Specified discontinuance" of a current holder described in paragraph 95(2)(*f.5*) is

— a dissolution, winding-up, or cessation of the existence, of a corporation or partnership if, immediately after a transaction or event that is, or series of transactions or events that includes, the dissolution, winding-up or cessation, a specified purchaser, in respect of the particular corporation, holds the specified property,

— a merger or combination of corporations or partnerships if, immediately after a transaction or event that is, or series of transactions or events that includes, the merger or combination, a specified purchaser, in respect of the particular corporation, holds the specified property, or

— a disposition of a participating interest in the current holder if, in the course of a transaction or event that is, or series of transactions or events that includes, the disposition of the participating interest, the specified property (or any portion of the specified property) or a right to or an interest in the specified property (or any portion of the specified property) becomes property of a specified purchaser in respect of the particular corporation.

"triggering disposition"

"Triggering disposition", of a specified property in respect of a particular corporation resident in Canada, is the first disposition, after the original disposition time, of the specified property to a person or partnership that is, immediately after that first disposition, not a specified purchaser in respect of the particular corporation, but does not include

- a disposition of the specified property in respect of the particular corporation resident in Canada that arises in the course of

— a dissolution, winding-up, or cessation of the existence, of a corporation or partnership if, immediately after a transaction or event that is, or series of transactions or events that includes, the dissolution, winding-up or cessation, a specified purchaser in respect of the particular corporation holds the specified property, and

— a merger or combination of corporations or partnerships if, immediately after a transaction or event that is, or series of transactions or events that includes, the merger or combination, a specified purchaser in respect of the particular corporation holds the specified property, or

- a disposition of the specified property in respect of the particular corporation resident in Canada that is part of a series of transactions or events that includes

— the disposition of the specified property to a person or partnership other than a specified purchaser in respect of the particular corporation resident in Canada, and

— the acquisition, by a specified purchaser in respect of the particular corporation, of

- the specified property (or any portion of the specified property) or a right to or an interest in the specified property (or any portion of the right to or interest in the specified property) (which right, interest or portion is referred to for the purposes of paragraphs 95(2)(*f*.7) and (*f*.9) as a designated replacement property),
- a property or a right to acquire a property (which property or right is referred to here and for the purposes of paragraphs 95(2)(*f*.7) and (*f*.9) as a designated replacement property) that is substantially similar to the specified property or to the designated replacement property, or
- a property (referred to for the purposes of paragraphs 95(2)(*f*.7) and (*f*.9) as a designated replacement property) the fair market value of which is determined primarily by reference to property that is the specified property or properties from which the specified property primarily derived its fair market value at the original disposition time.

Subsection 95(3.4) applies after December 20, 2002.

Definitions for paragraphs 95(2)(h) to (h.5)

New subsection 95(3.5) of the Act provides definitions for the purposes of paragraphs 95(2)(*h*) to (*h*.5). See the commentary for those proposed new paragraphs for further detail.

"specified discontinuance"

"Specified discontinuance", of a current holder described in paragraph 95(2)(*h*.2), is

— a dissolution, winding-up, or cessation of the existence, of a corporation or partnership if, immediately after a transaction or event that is, or series of transactions or events that includes, the dissolution, winding-up or cessation, a specified purchaser in respect of the particular taxpayer holds the specified property,

— a merger or combination of corporations or partnerships if, immediately after a transaction or event that is, or series of transactions or events that includes, the merger or combination, a person or partnership that is a specified purchaser in respect of the particular taxpayer holds the specified property, or

— a disposition of a participating interest in the current holder if, in the course of a transaction or event that is, or series of transactions or events that includes, the disposition of the participating interest, the specified property (or any portion of the specified property) or a right to, or an interest in, the specified property (or any portion of the specified property) becomes property of a specified purchaser in respect of the particular taxpayer.

"specified purchaser"

"Specified purchaser", at any time, in respect of a particular taxpayer resident in Canada, is a person or partnership that is, at that time,

- the particular taxpayer,
- a taxpayer resident in Canada with which the particular taxpayer does not deal at arm's length,
- a foreign affiliate of a person described above,
- a non-resident taxpayer with which a person described above does not deal at arm's length,
- a trust (other than an exempt trust) in which a person or partnership described above or below is beneficially interested, or
- a partnership in which a person or partnership described above has, directly or indirectly in any manner whatever, a partnership interest.

"specified vendor"

"Specified vendor", at any time, in respect of a particular taxpayer resident in Canada, is a person or partnership that is, at that time,

- a foreign affiliate of the particular taxpayer,
- a foreign affiliate of a partnership of which the particular taxpayer is a member,
- a partnership a member of which is a person described above, or
- a partnership in which any person or partnership described above has, directly or indirectly in any manner whatever, a partnership interest.

"triggering disposition"

"Triggering disposition", of a specified property in respect of a particular taxpayer resident in Canada, is the first disposition, after the original disposition time, of the specified property, to a person or partnership that is, immediately after that first disposition, not a specified purchaser in respect of the particular taxpayer, but does not include

- a disposition of the specified property in respect of the particular taxpayer resident in Canada that occurs in the course of
  - — a dissolution, winding-up, or cessation of the existence, of a corporation or partnership if, immediately after a transaction or event that is, or series of transactions or events that includes, the dissolution, winding-up or cessation, a specified purchaser in respect of the particular taxpayer holds the specified property, or
  - — a merger or combination of corporations or partnerships if, immediately after a transaction or event that is, or series of transactions or events that includes, the merger or combination, a specified purchaser in respect of the particular taxpayer holds the specified property, and
- a disposition of the specified property in respect of the particular taxpayer resident in Canada that is part of a series of transactions or events that includes
  - — the disposition of the specified property to a person or partnership other than a specified purchaser in respect of the particular taxpayer resident in Canada, and
  - — the acquisition by, a specified purchaser in respect of the particular taxpayer resident in Canada, of
- the specified property (or any portion of the specified property) or a right to or an interest in the specified property (or any portion of the right to or interest in the specified property) (which right, interest or portion is referred to for the purposes of paragraphs 95(2)(*h*.3) and (*h*.5) as a "designated replacement property"),
- a property or a right to acquire a property (which property or right is referred to here and for the purposes of paragraphs 95(2)(*h*.3) and (*h*.5) as a "designated replacement property") that is substantially similar to the specified property or to the designated replacement property, or
- a property (which property is referred to for the purposes of paragraphs 95(2)(*h*.3) and (*h*.5) as a "designated replacement property") the fair market value of which is determined primarily by reference to property that is the specified property or properties from which the specified property primarily derived its fair market value at the original disposition time.

Subsection 95(3.5) applies after December 20, 2002.

Subsection 95(3.6) — Partnerships and trusts

New subsection 95(3.6) of the Act provides rules to be used in determining if a non-resident corporation is a foreign affiliate of a particular corporation resident in Canada or of a particular taxpayer resident in Canada for the purposes of paragraphs 95(2)(*c*.1) to (*c*.5), (*e*.3) to (*e*.5), (*f*.3) to (*f*.9) and (*h*) to (*h*.5) and subsections 95(3.2) to (3.5) where a person or partnership is a member of a partnership or a beneficiary under a trust.

New subsection 95(3.6) provides that in determining if a non-resident corporation is a foreign affiliate of a particular corporation resident in Canada or of a particular taxpayer resident in Canada, as the case may be, in circumstances where, at any time, a person or partnership (which person or partnership is referred to here as the holder) is a member of a partnership, or has a beneficial interest in a trust (other than an exempt trust),

- the partnership or trust, as the case may be, is deemed to be a non-resident corporation having capital stock of a single class divided into 100 issued shares,
- the holder is deemed to own at that time that proportion of the issued shares of that class that the fair market value of the holder's partnership interest in the partner-

ship or of the holder's beneficial interest in the trust, as the case may be, is of the fair market value at that time of all partnership interests in the partnership or of all beneficial interests in the trust, as the case may be, and

- the fair market value, at any time, of the holder's beneficial interest in a trust (other than a non-discretionary trust within the meaning assigned by subsection 17(15)) is deemed to be the fair market value, at that time, of all beneficial interests in the trust.

Subsection 95(3.6) applies after December 20, 2002.

Subsection 95(3.7) — Anti-avoidance — 150 beneficiaries

New subsection 95(3.7) of the Act provides that if it can be reasonably considered that one of the main reasons that an entity holds, at any time, a capital interest in a trust is to cause the trust to satisfy the condition in paragraph (*b*) of the definition exempt trust in subsection 95(3.2), the trust is deemed not to have satisfied at that time that condition.

Subsection 95(3.7) applies after December 20, 2002.

Subsection 95(3.8) — Computing Exempt Surplus

New subsection 95(3.8) of the Act is an anti-avoidance rule to prevent the premature recognition of exempt surplus (the non-taxable portion of a capital gain) on an internal sale of excluded property to which any of proposed new paragraphs 95(2)(*d*) and (*e*) and (*e.3*) to (*e.5*) applies. Although capital gains on internal sales of excluded property, to which those paragraphs apply, create foreign accrual property income, where the foreign affiliate is not a controlled foreign affiliate of the particular corporation resident in Canada the particular corporation resident in Canada is not subjected to Canadian tax on that foreign accrual property income. Therefore, the particular corporation resident in Canada can be advantaged on an internal disposition of excluded property by claiming a relevant cost base, or electing proceeds of disposition, greater than the adjusted cost base of the property disposed of, in particular where the foreign jurisdiction does not tax capital gains. Where the foreign jurisdiction does tax capital gains, the particular corporation resident in Canada may wish to recognize gains because of the foreign taxes paid and the desire to create taxable surplus to match the related taxes, which would be appropriate where the amount of tax reflects Canadian tax rates on capital gains.

New subsection 95(3.8) provides that no amount may be added to the exempt surplus of a foreign affiliate of a particular corporation resident in Canada in respect of the gain arising on the internal disposition of excluded property if it is reasonable to conclude that one of the main reasons for claiming a relevant cost base, or electing proceeds of disposition, greater than the adjusted cost base of the property disposed of on that internal disposition was the creation of exempt surplus in respect of the particular corporation resident in Canada or in respect of a corporation resident in Canada with which the particular corporation resident in Canada does not deal at arm's length.

The factors to consider in making this determination include the following:

- the amount of foreign income tax paid,
- the amount of distribution made, or dividend paid, to the particular corporation resident in Canada or to a corporation resident in Canada with which the particular corporation resident in Canada does not deal at arm's length, and
- the amount of any election under section 93 made in respect of a disposition of a share of a foreign affiliate of the particular corporation resident in Canada or of a share of a foreign affiliate of a corporation resident in Canada with which the particular corporation resident in Canada does not deal at arm's length.

Subsection 95(3.8) applies after December 20, 2002.

Department of Finance Comfort Letter
[Foreign Affiliates — Definition of "Specified Discontinuance"]

July 17, 2006

Dear XXXX

SUBJECT: Definition "specified discontinuance" in proposed subsection 95(3.3) of the *Income Tax Act*

I am writing in response to your letter dated April 13, 2006 concerning the definition "specified discontinuance" in proposed subsection 95(3.3) of the *Income Tax Act* (the "Act"), as contained in the foreign affiliate proposals that were announced on February 27, 2004.

In the example provided in your letter, a foreign affiliate (FA1) of a corporation resident in Canada (Canco) holds shares of another foreign affiliate (FA2) of Canco that are excluded property of FA1. FA1 disposes of those shares to another foreign affiliate (FA3) of Canco or to a Canadian subsidiary ("Cansub") of Canco, as the case may be, (the "internal purchaser"). You also indicate that, as part of a series of transactions that includes that internal disposition of FA2 shares by FA1, the shares of the internal purchaser are being disposed of by Canco to persons that are not specified purchasers in respect of Canco. You also mention that, at the end of that series, the internal purchaser will cease to be a specified purchaser in respect of Canco.

As you noted, proposed paragraph 95(2)(*c.2*) would, for surplus purposes, defer the recognition of FA1's gain realized on the disposition of the FA2 shares until, in accordance with proposed paragraph 95(2)(*c.3*), there is a triggering disposition (as defined in proposed subsection 95(3.3)) of those shares or until the internal purchaser ceases to be a specified purchaser in respect of Canco (otherwise than because of a "specified discontinuance" of the internal purchaser).

In your example, the internal purchaser will cease to be a specified purchaser in respect of Canco since, as part of a series of transactions or events that includes the disposition of the FA2 shares to the internal purchaser, the shares of the internal purchaser are to be sold to an external purchaser. Consequently, you are of the view that FA1's gain from the disposition of the FA2 shares to the internal purchaser should be recognized when the shares of the internal purchaser are sold. However, under paragraph (*c*) of the definition "specified discontinuance" in proposed subsection 95(3.3), there will be a specified discontinuance of the internal purchaser because the sale of the shares of the internal purchaser by Canco to the external purchaser is part of a series of transactions or events that includes the disposition of the shares of FA2 to the internal purchaser.

We agree with your conclusion that, in the example provided, there should not be a specified discontinuance of the internal purchaser since, at the end of the series of transactions or events in which the shares of FA2 and the internal purchaser are sold, the internal purchaser is no longer a specified purchaser of Canco (and the FA2 shares are no longer held within the group). We are, therefore, prepared to recommend that the test in paragraph (*c*) of the proposed definition "specified discontinuance" in subsection 95(3.3) be modified. The modified test would treat a disposition of participating interests (such as the shares of the internal purchaser in your example) in the current holder in respect of the corporation resident in Canada as a specified discontinuance of the current holder only if, after the disposition, any entity that is a specified purchaser in respect of the corporation resident in Canada holds any right or interest in respect of the specified shares (the FA2 shares in your example) or the participating interests (the shares of the internal purchaser in your example) or any property that tracks the value of the specified shares or the participating interests. If our recommendation is acted upon, the revisions to the definition "specified discontinuance" in proposed subsection 95(3.3) would have the same application date as the application date of that definition.

We note that similar issues arise with respect to paragraph (*c*) of the definitions of "specified discontinuance" in proposed subsections 95(3.4) and (3.5) and we would thus recommend a comparable change to paragraph (*c*) of those definitions.

Thank you for writing.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

Department of Finance Comfort Letter
[Foreign Affiliate Proposals — "Triggering Disposition"]

May 11, 2005

Dear XXXX:

SUBJECT: February 27, 2004 Foreign Affiliate Proposals — "Triggering Disposition"

I am writing in response to your correspondence dated April 4, 2005 to Mr. Wallace Conway in which you express your concern with respect to the wording of the definition "triggering disposition" in proposed subsection 95(3.3) of the *Income Tax Act*. That proposed subsection is contained in the proposals announced by the Minister of Finance on February 27, 2004 in connection with foreign affiliates.

In the example provided in your correspondence, a foreign affiliate (FA1) of a corporation resident in Canada holds shares ("specified shares" within the meaning of proposed paragraph 95(2)(*c*.1) of the Act) of the capital stock of another foreign affiliate (FA2) of the corporation resident in Canada that are excluded property. FA1 disposes of those specified shares of FA2 to another foreign affiliate (FA3) of the corporation resident in Canada. As part of the same series of transactions that includes that first disposition (the internal disposition), those specified shares of FA2 are disposed of by FA3 to an arm's length party (the external disposition) that is not a "specified purchaser" in respect of the corporation resident in Canada.

As you note in your correspondence, the internal disposition of the specified shares (i.e., the disposition by FA1 to FA3) would be subject to the rules in proposed paragraphs 95(2)(*c*.2) and (*c*.3) which suspend, in certain circumstances, gains that, but for those paragraphs, would have otherwise been derived from the internal disposition of the specified shares. You indicate that the external disposition of the specified shares (i.e., the disposition by FA3 to the arm's length party) should be a "triggering disposition" in respect of the internal disposition. However, you are concerned that the current wording of paragraph (*b*) of the definition "triggering disposition" in proposed subsection 95(3.3) would not produce that result. That paragraph results in a particular disposition of a specified share not being a triggering disposition of the specified share if that particular disposition of the specified share is part of a series of transactions or events that includes the acquisition, by a specified purchaser in respect of the particular corporation resident in Canada, of the specified share. Since, in your example, the internal disposition by FA1 to FA3 of the specified shares and the external disposition by FA3 to the arm's length party of the specified shares are part of the same series of transactions or events, the external disposition would be disqualified from being a triggering disposition in respect of the internal disposition that would permit the release of the suspended gains. You submit that such a result would not be appropriate if, as in your example, at the end of that series of transactions or events, the arm's length party is the holder of the specified shares and is not a specified purchaser in respect of the corporation resident in Canada and, at that time, no entity that is a specified purchaser in respect of the corporation resident in Canada holds any right or interest in respect of the specified shares or any property the value of which tracks the value of the specified shares.

From a tax policy perspective, we agree that, in the circumstances described in your example, the external disposition of the specified shares by FA3 to the arm's length party should qualify as a triggering disposition and result in a release of the suspended gains in respect of the internal disposition of the specified shares. Accordingly, we are prepared to recommend that paragraph (*b*) of the definition "triggering disposition" contained in proposed subsection 95(3.3) of the Act be revised. Under our recommendation, the revised wording of that paragraph (which describes a non-triggering disposition) would include a requirement that, at the end of the series of transactions or events that includes the internal and external dispositions of the specified shares, a specified purchaser (in respect of the particular corporation resident in Canada referred to in that paragraph) holds the specified shares or, in general terms, some other right or interest in respect of the specified shares or any property the value of which tracks the value of the specified shares.

In your correspondence, you also note that similar concerns arise in connection with paragraph (*b*) of the definitions of "triggering disposition" in proposed subsections 95(3.4) and (3.5) of the Act in the February 2004 proposals. A recommendation will be made that those definitions be revised in the same fashion.

Yours sincerely,
Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

▶ 95(4) ◀

(4) Definitions. In this section,

"direct equity percentage" — "direct equity percentage" at any time of any person in a corporation is the percentage determined by the following rules:

(*a*) for each class of the issued shares of the capital stock of the corporation, determine the proportion of 100 that the number of shares of that class owned by that person at that time is of the total number of issued shares of that class at that time, and

(*b*) select the proportion determined under paragraph (*a*) for that person in respect of the corporation that is not less than any other proportion so determined for that person in respect of the corporation at that time,

and the proportion selected under paragraph (*b*), when expressed as a percentage, is that person's direct equity percentage in the corporation at that time;

"equity percentage" — "equity percentage" at any time of a person, in any particular corporation, is the total of

(*a*) the person's direct equity percentage at that time in the particular corporation, and

(*b*) all percentages each of which is the product obtained when the person's equity percentage at that time in any corporation is multiplied by that corporation's direct equity percentage at that time in the particular corporation

except that for the purposes of the definition "participating percentage" in subsection (1), paragraph (*b*) shall be read as if the reference to "any corporation" were a reference to "any corporation other than a corporation resident in Canada";

"relevant cost base" — "relevant cost base" to a foreign affiliate of property at any time means the adjusted cost base to the affiliate of the property at that time or such greater amount as the taxpayer claims not exceeding the fair market value of the property at that time.

Related Sections: S. 95(5) Income bonds or debentures issued by foreign affiliates.

▶ 95(4.1) ◀

(4.1) Application of s. 87(8.1). In this section, the expressions "foreign merger", "predecessor foreign corporation", "new foreign corporation" and "foreign parent corporation" have the meanings assigned by subsection 87(8.1).

History: S. 95(4.1) was amended by S.C. 1999, c. 22, s. 25(2), applicable to a taxpayer in respect of a merger or combination of foreign corporations

(*a*) that occurs after February 24, 1998, or

(*b*) that occurred

(i) before February 25, 1998 and in a taxation year of the taxpayer for which the taxpayer's normal reassessment period, as defined in subsection 152(3.1) of the Act, has not ended before 1999, or

(ii) after 1994 and before February 25, 1998 and in a taxation year of the taxpayer in which the taxpayer was exempt from tax under section 149 of the Act,

unless the taxpayer elects by notifying the Minister of National Revenue in writing, before the end of the sixth month that ends after the month in which this Act is assented to [Royal Assent June 17, 1999], that subsections (1) and (2) not apply to the taxpayer in respect of the merger or combination. S. 95(4.1) formerly read:

"(4.1) *Application of s. 87(8.1).* In this section, the expressions 'foreign merger', 'predecessor foreign corporation' and 'new foreign corporation' have the meanings assigned by subsection 87(8.1)."

► 95(5) ◄

(5) Income bonds or debentures issued by foreign affiliates. For the purposes of this subdivision, an income bond or income debenture issued by a corporation (other than a corporation resident in Canada) shall be deemed to be a share of the capital stock of the corporation unless any interest or other similar periodic amount paid by the corporation on or in respect of the bond or debenture was, under the laws of the country in which the corporation was resident, deductible in computing the amount for the year on which the corporation was liable to pay income or profits tax imposed by the government of that country.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 95(5) of the Act is replaced by the following:

(5) **Income bonds or debentures issued by foreign affiliates.** For the purposes of this subdivision (other than sections 94 to 94.4), an income bond or income debenture issued by a non-resident corporation is deemed to be a share of the capital stock of the corporation unless any interest or other similar periodic amount paid by the corporation on or in respect of the bond or debenture was, under the laws of the country in which the corporation was resident, deductible in computing the amount on which the corporation was liable to pay income or profits tax imposed by the government of that country.

Applicable: To taxation years of a foreign affiliate of a taxpayer that begin after 2006, except that subsection 95(5) also applies to a taxation year of a foreign affiliate of a taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the foreign affiliate.

Explanatory Note:

Application Rules — Foreign Affiliates

Subsections 95(5) to (7) of the Act contain special rules of application that apply for purposes of the foreign affiliate and controlled foreign affiliate regimes.

These subsections are amended so that they do not apply for purposes of the non-resident trust and foreign investment entity regimes in new sections 94 to 94.4.

These amendments apply to taxation years that begin after 2006

Related Sections: S. 95(6) Where rights or shares issued, acquired or disposed of to avoid tax.

Interpretation Bulletins: *Primary* — IT-388 Income bonds issued by foreign corporations [Archived by the CRA].

► 95(6) ◄

(6) Where rights or shares issued, acquired or disposed of to avoid tax. For the purposes of this subdivision (other than section 90),

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 95(6) of the Act before paragraph (*a*) is replaced by the following:

(6) **Where rights or shares issued, acquired or disposed of to avoid tax.** For the purposes of this subdivision (other than sections 90 and 94 to 94.4),

Applicable: To taxation years of a foreign affiliate of a taxpayer that begin after 2006, except that the portion of subsection 95(6) before paragraph (*a*) also applies to a taxation year of a foreign affiliate of a taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the foreign affiliate.

Explanatory Note: See the Explanatory Note following the amendment to subsection 95(5).

(*a*) where any person or partnership has a right under a contract, in equity or otherwise, either immediately or in the future and either absolutely or contingently, to, or to acquire, shares of the capital stock of a corporation or interests in a partnership and

(i) it can reasonably be considered that the principal purpose for the existence of the right is to cause 2 or more corporations to be related for the purpose of paragraph (2)(*a*), those corporations shall be deemed not to be related for that purpose, or

(ii) it can reasonably be considered that the principal purpose for the existence of the right is to permit any person to avoid, reduce or defer the payment of tax or any other amount that would otherwise be payable under this Act, those shares or partnership interests, as the case may be, are deemed to be owned by that person or partnership; and

(*b*) where a person or partnership acquires or disposes of shares of the capital stock of a corporation or interests in a partnership, either directly or indirectly, and it can reasonably be considered that the principal purpose for the acquisition or disposition is to permit a person to avoid, reduce or defer the payment of tax or any other amount that would otherwise be payable under this Act, that acquisition or disposition is deemed not to have taken place, and where the shares or partnership interests were unissued by the corporation or partnership immediately before the acquisition, those shares or partnership interests, as the case may be, are deemed not to have been issued.

History: S. 95(6)(*a*), the portion before subparagraph (i) was amended by S.C. 2001, c. 17, s. 73(11), applicable after November 1999. S. 95(6)(*a*), the portion before subparagraph (i) formerly read:

"(*a*) where any person or partnership has a right under a contract, in equity or otherwise, either immediately or in the future and either absolutely or contingently, to, or to acquire, shares of the capital stock of a corporation and"

S. 95(6)(*a*)(ii) was amended by S.C. 2001, c. 17, s. 73(12), applicable after November 1999. S. 95(6)(*a*)(ii) formerly read:

"(ii) it can reasonably be considered that the principal purpose for the existence of the right is to permit any person to avoid, reduce or defer the payment of tax or any other amount that would otherwise be

payable under this Act, those shares shall be deemed to be owned by that person or partnership; and"

S. 95(6)(*b*) was amended by S.C. 2001, c. 17, s. 73(13), applicable after November 1999. S. 95(6)(*b*) formerly read:

"(*b*) where a person or partnership acquires or disposes of shares of the capital stock of a corporation, either directly or indirectly, and it can reasonably be considered that the principal purpose for the acquisition or disposition of the shares is to permit a person to avoid, reduce or defer the payment of tax or any other amount that would otherwise be payable under this Act, those shares shall be deemed not to have been acquired or disposed of, as the case may be, and where the shares were unissued by the corporation immediately prior to the acquisition, those shares shall be deemed not to have been issued."

The application of s. 95(6) was amended by S.C. 1998, c. 19, s. 305(1), deemed to have come into force on June 22, 1995. That application reads as follows:

Sec. 305(1), Chap. 19, 1998

(9) Subsection 46(7) applies to rights acquired and shares acquired or disposed of in taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, subsection (7) applies to rights acquired and shares acquired or disposed of in taxation years of the foreign affiliate that end after 1994, unless

(*a*) the foreign affiliate had requested the change in writing before February 22, 1994 from the income taxation authority of the country in which the foreign affiliate was resident and subject to income taxation; or

(*b*) the foreign affiliate's first taxation year that began after 1994 began at a time in 1995 that is earlier than the time at which that taxation year would have begun if the change had not occurred.

S. 95(6) was amended by S.C. 1995, c. 21, s. 46(7), applicable to taxation years of foreign affiliates of taxpayers that begin after 1994 except that, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after February 22, 1994, subsection 95(6) applies to taxation years of such foreign affiliate of the taxpayer that end after 1994, unless

(*a*) such foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation; or

(*b*) the first taxation year of such foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time that that taxation year would have begun if there had not been that change in the taxation year of such foreign affiliate.

S. 95(6) formerly read:

"(6) *Where rights or shares issued to avoid tax.* For the purposes of this subdivision,

(*a*) where any person has a right under a contract, in equity or otherwise, either immediately or in the future and either absolutely or contingently, to, or to acquire, shares of the capital stock of a corporation, those shares shall, if one of the main reasons for the existence of the right may reasonably be considered to be the reduction or postponement of the amount of taxes that would otherwise be payable under this Act, be deemed to be owned by that person; and

(*b*) where any foreign affiliate of a taxpayer or any non-resident corporation controlled, directly or indirectly in any manner whatever, by the taxpayer or by a related group of which the taxpayer was a member has issued shares of a class of its capital stock and one of the main reasons for the existence or issuance of one or more of the shares of that class may reasonably be considered to be the reduction or postponement of the amount of taxes that would otherwise be payable under this Act, those shares shall be deemed not to have been issued."

Related Sections: S. 95(5) Income bonds or debentures issued by foreign affiliates.

Income Tax Technical News: Issue No. 38, Application of Paragraph 95(6)(*b*); Issue No. 36, Paragraph 95(6)(b); Issue No. 34, Update on Subsection 95(6); Issue No. 32, Subsection 95(6): Scope of Application.

Tax Topics: No. 1867-68, 2007 Canadian Tax Foundation Annual Conference CRA Round Table; No. 1814, 2006 Canadian Tax Foundation Annual Conference CRA Round Table; No. 1700, 2004 Canadian Tax Foundation Conference - CRA Round Table.

Tax Profile: July 2008 — International Tax Planning for the Owner-Manager; May 2007 — The CRA's Newest Weapon; S. 95(6)(b); November 2004 — Subsection 95(6) — Scope of Application.

Cases: The taxpayer, Univar, was a subsidiary of UC. Univar incorporated B, a Barbadian subsidiary. B used the money received from Univar's share subscription to purchase a debt from UC. After paying 2.5% Barbadian tax on interest received on this debt, B paid dividends to Univar. The Minister could not use s. 95(6) and s. 245 to re-characterize these dividends as interest since his premise that the debt was purchased by Univar, rather than by B, was not true. *Univar Canada Ltd. v. The Queen*, 2005 DTC 1478 (T.C.C.).

► 95(7) ◄

(7) Stock dividends from foreign affiliates. For the purposes of this subdivision and subsection 52(3), the amount of any stock dividend paid by a foreign affiliate of a corporation resident in Canada shall, in respect of the corporation, be deemed to be nil.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 95(7) of the Act is replaced by the following:

(7) Stock dividends from foreign affiliates. For the purposes of subsection 52(3) and this subdivision (other than sections 94 to 94.4), the amount of any stock dividend paid by a foreign affiliate of a corporation resident in Canada is deemed to be, in respect of the corporation, nil.

Applicable: To taxation years, of a foreign affiliate of a taxpayer, that begin after 2006, except that subsection 95(7) also applies to a taxation year of a foreign affiliate of a taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the foreign affiliate.

Explanatory Note: See the Explanatory Note following the amendment to subsection 95(5).

Related Sections: S. 52(3) Cost of stock dividend; s. 54, "adjusted cost base"; s. 95(1), "foreign affiliate"; s. 248(1), "amount", "corporation", "business", "dividend", "income bond", "prescribed", "principal amount", "property", "share", "shareholder", "stock dividend"; s. 255 Canada.

Interpretation Bulletins: *Secondary* — IT-88R2 Stock dividends.

Subdivision j — Partnerships and their Members

SECTION 96:

► 96(1) ◄

(1) General rules. Where a taxpayer is a member of a partnership, the taxpayer's income, non-capital loss, net capital loss, restricted farm loss and farm loss, if any, for a taxation year, or the taxpayer's taxable income earned in Canada for a taxation year, as the case may be, shall be computed as if

(*a*) the partnership were a separate person resident in Canada;

(*b*) the taxation year of the partnership were its fiscal period;

(*c*) each partnership activity (including the ownership of property) were carried on by the partnership as a separate person, and a computation were made of the amount of

(i) each taxable capital gain and allowable capital loss of the partnership from the disposition of property, and

(ii) each income and loss of the partnership from each other source or from sources in a particular place,

for each taxation year of the partnership;

(*d*) each income or loss of the partnership for a taxation year were computed as if

(i) this Act were read without reference to section 34.1, subsection 59(1), paragraph 59(3.2)(*c*.1) and subsections 66.1(1), 66.2(1) and 66.4(1), and

(ii) no deduction were permitted under any of section 29 of the *Income Tax Application Rules*, subsections 34.2(4) and 65(1) and sections 66, 66.1, 66.2, 66.21 and 66.4;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 96(1)(*d*) of the Act is amended by striking out the word "and" at the end of subparagraph (i), by adding the word "and" at the end of subparagraph (ii) and by adding the following after subparagraph (ii):

(iii) where at any time in the taxation year (in this subparagraph referred to as the "particular taxation year") the partnership's property includes a participating interest in a particular non-resident entity (in this subparagraph as defined by subsection 94.1(1)), sections 94.1 to 94.4 apply to the partnership for the particular taxation year in respect of the participating interest

(A) where the taxpayer is resident in Canada and, at the end of the particular non-resident entity's taxation years that end in the particular taxation year of the partnership, the particular non-resident entity is not a controlled foreign affiliate of the partnership, as if the participating interest were not an exempt interest that is described by subparagraph (*a*)(i) of the definition "exempt interest" in subsection 94.1(1),

(B) where the taxpayer is a foreign affiliate (referred to in this clause as the "foreign affiliate") of another taxpayer resident in Canada at the end of the foreign affiliate's taxation years that end in a particular taxation year of the other taxpayer, as if, in computing the foreign accrual property income of the foreign affiliate in respect of the other taxpayer for those taxation years of the foreign affiliate,

(I) subparagraph (*a*)(i) of the definition "exempt interest" in subsection 94.1(1) applied only where

1. the foreign affiliate is a controlled foreign affiliate of the other taxpayer at the end of the foreign affiliate's taxation years that end in the particular taxation year of the other taxpayer, and

2. the particular non-resident entity is a controlled foreign affiliate of the partnership at the end of the particular non-resident entity's taxation years that end in the foreign affiliate's taxation years that end in the other taxpayer's particular taxation year, and

(II) where the participating interest is, throughout the period, in the particular taxation year, during which the participating interest was the partnership's property, property used or held by the partnership principally for the purpose of gaining or producing income from a business that is not an investment business (in this subclause, within the meaning assigned by section 95), the participating interest were an exempt interest (in this subclause, as defined by subsection 94.1(1)) of the partnership,

(C) as if the definition "fresh-start year" in subsection 94.3(1) did not apply and a reference in section 94.3 to a fresh-start year, of the particular non-resident entity in respect of the partnership, were a reference to a taxation year of the particular non-resident entity

(I) that ends in a taxation year of the partnership that begins after 2006 (or, where sections 94.1 to 94.4 apply to a taxation year of the partnership that begins before 2007, that ends in a taxation year of the partnership that begins on or after the first day of the first taxation year of the partnership to which sections 94.1 to 94.4 apply),

(II) that begins immediately after a preceding taxation year of the particular non-resident entity, at the end of which the particular non-resident entity was not a foreign investment entity or at the end of which the partnership property did not include a participating interest in the particular non-resident entity (other than an exempt interest, in this subparagraph as defined in subsection 94.1(1) as modified by this subparagraph), and

(III) at the end of which the particular non-resident entity is a foreign investment entity in which the partnership owns a participating interest that is not an exempt interest,

(D) as if the expression "in the return of income for which the taxpayer elects" in paragraph 94.1(2)(*h*) were replaced by the expression "in respect of which a member of the taxpayer elects",

(E) as if subparagraph 94.1(2)(*h*)(ii) were replaced by the following:

"(ii) the non-resident entity is

(A) where the taxpayer is a partnership and an election under this paragraph is being made for the purpose of computing the income from the partnership of a member of the partnership that is a taxpayer resident in Canada, a foreign affiliate of the partnership and of the member in respect of which the partnership and the member has a qualifying interest (within the meaning assigned by paragraph 95(2)(*m*)) at the end of the

non-resident entity's taxation years referred to in clause 96(1)(*d*)(iii)(A), or

(B) where the taxpayer is a partnership and an election under this paragraph is being made for the purpose of computing the income from the partnership of a member of the partnership that is a foreign affiliate of another taxpayer resident in Canada, a foreign affiliate of the partnership and of the other taxpayer resident in Canada in respect of which the partnership and the other taxpayer has a qualifying interest (within the meaning assigned by paragraph 95(2)(*m*)) at the end of the non-resident entity's taxation years referred to in clause 96(1)(*d*)(iii)(B),"

(F) as if subparagraph 94.1(2)(*h*)(iii) were replaced by the following:

"(iii) an entity that was at any time a member of the taxpayer has not made in respect of the taxpayer any other election under this paragraph in respect of the non-resident entity;"

(G) as if an election for a particular taxation year of the partnership made under paragraph (*a*) of the definition "carrying value" or paragraph (*a*) of the definition "financial statements" in subsection 94.1(1), paragraph 94.1(2)(*e*), (*h*) or (*j*), subparagraph (*a*)(iii) of the description of D in the definition "mark-to-market formula" in subsection 94.2(1), subparagraph 94.2(2)(*b*)(i) or 94.2(3)(*b*)(iii), or paragraph 94.3(3)(*b*), were required to be filed under that provision in respect of the partnership by the taxpayer with the Minister on or before the taxpayer's filing-due date for the taxpayer's taxation year in which the particular taxation year ends,

(H) as if the Minister were required, in sending a written demand under subparagraph 94.1(2)(*e*)(iii), any of paragraphs 94.1(2)(*i*), (*p*) to (*r*) or (*w*) or 94.2(2)(*d*), or subparagraph 94.3(2)(*b*)(iii), to send the demand to the taxpayer,

(I) as if any form, information or notification, in respect of a participating interest, in a non-resident entity, that is partnership property in the particular taxation year, that is required under any of sections 94.1 to 94.4 to be filed or included with a return of income were required to be filed or included with the taxpayer's return of income for the taxpayer's taxation year in which the particular taxation year ends, and

(J) as if designations and notifications made, and information provided, by the taxpayer in the form referred to in clause (I) were made or provided by the partnership;

Applicable: To fiscal periods that begin after 2006, except that those subsections also apply to a fiscal period of a partnership that begins before 2007 if sections 94.1 to 94.4 apply to that fiscal period of the partnership.

Explanatory Note:

Computing Partnership Income

Under subsection 96(1), the income earned and losses incurred by a partnership are generally calculated at the partnership level and attributed to partners in accordance with their respective interests in the partnership.

Paragraph 96(1)(*d*) is amended by adding a new subparagraph (iii). The new subparagraph applies where partnership property includes a participating interest in a particular non-resident entity. Pursuant to that subparagraph, sections 94.1 to 94.4 are to apply to the partnership for the particular taxation year in respect of the participating interest

- where the taxpayer is resident in Canada and, at the end of the particular non-resident entity's taxation years that end in the particular taxation year of the partnership, the particular non-resident entity is not a controlled foreign affiliate of the partnership, as if the participating interest were not an exempt interest that is described by subparagraph (*a*)(i) of the definition "exempt interest" in subsection 94.1(1),
- where the taxpayer is a foreign affiliate (the "foreign affiliate") of another taxpayer resident in Canada at the end of the foreign affiliate's taxation years that end in a particular taxation year of the other taxpayer, as if, in computing the foreign accrual property income of the foreign affiliate in respect of the other taxpayer for those taxation years of the foreign affiliate,
  - subparagraph (*a*)(i) of the definition "exempt interest" in subsection 94.1(1) applied only where
    - the foreign affiliate is a controlled foreign affiliate of the other taxpayer at the end of the foreign affiliate's taxation years that end in the particular taxation year of the other taxpayer, and
    - the particular non-resident entity is a controlled foreign affiliate of the partnership at the end of the particular non-resident entity's taxation years that end in the foreign affiliate's taxation years that end in the other taxpayer's particular taxation year, and
  - where the participating interest is, throughout the period, in the particular taxation year, during which the participating interest was the partnership's property, property used or held by the partnership principally for the purpose of gaining or producing income from a business that is not an investment business (within the meaning assigned by section 95), the participating interest were an exempt interest (as defined by subsection 94.1(1)) of the partnership;
- as if the "fresh-start year" (relevant in computing the partnership's "income allocation" and "loss allocation" under the accrual regime in section 94.3) of the particular non-resident entity in respect of the partnership were its taxation year (at the end of which the partnership holds an interest in it and it is a foreign investment entity)
  - that ends in a taxation year of the particular affiliate that begins after 2006,
  - that begins immediately after the preceding taxation year of the particular non-resident entity, at the end of which the particular non-resident entity was not a foreign investment entity or at the end of which the partnership property did not include a participating interest in the particular non-resident entity (other than an exempt interest), and
  - at the end of which the particular non-resident entity is a foreign investment entity in which the partnership owns a participating interest that is not an exempt interest;
- as if an election under paragraph 94.1(2)(*h*) — to treat a foreign affiliate of the partnership as its controlled foreign affiliate — is to be made by a member of the partnership and not by the partnership;
- as if subparagraph 94.1(2)(*h*)(ii) were read as:
  - the non-resident entity is
    - where the taxpayer is a partnership and an election under paragraph 94.1(2)(*h*) is being made for the purpose of computing the income from the partnership of a member of the partnership that is a taxpayer resident in Canada, a foreign affiliate of the partnership and of the member in respect of which the partnership and the member has a qualifying interest (within the meaning assigned by paragraph 95(2)(*m*)) at the end of the non-resident entity's taxation years referred to in clause 96(1)(*d*)(iii)(A), or
    - where the taxpayer is a partnership and an election under paragraph 94.1(2)(*h*) is being made for the purpose of computing the income from the partnership of a member of the partnership that is a foreign affiliate of another taxpayer resident in Canada, a foreign affiliate of the partnership and of the other taxpayer resident in Canada in respect of which the partnership and the other taxpayer has a qualifying interest (within the meaning assigned by paragraph 95(2)(*m*)) at the end of the non-resident entity's taxation years referred to in clause 96(1)(*d*)(iii)(B);
- as if the requirement in subparagraph 94.1(2)(*h*)(iii) were the requirement that an entity that was at any time a

member of the taxpayer not having made, in respect of the taxpayer, any other election under paragraph 94.1(2)(*h*) in respect of the non-resident entity;

- as if a member of the partnership (rather than the partnership) is required to make a number of the elections, designations, notifications and provisions of information under sections 94.1 to 94.4 in connection with the partnership's participating interests in non-resident entities. In addition, the Minister in sending a demand for information to the particular affiliate under subparagraph 94.1(2)(*e*)(iii) or 94.3(2)(*b*)(iii), or any of paragraphs 94.1(2)(*i*), (*p*) to (*r*), (*w*) or 94.2(2)(*d*), is required to send the demand also to the member in connection with the partnership's participating interests in non-resident entities.

This amendment applies to fiscal periods that begin after 2006.

(*e*) each gain of the partnership from the disposition of land used in a farming business of the partnership were computed as if this Act were read without reference to paragraph 53(1)(*i*);

(*e.1*) the amount, if any, by which

(i) the total of all amounts determined under paragraphs 37(1)(*a*) to (*c.1*) in respect of the partnership at the end of the taxation year

exceeds

(ii) the total of all amounts determined under paragraphs 37(1)(*d*) to (*g*) in respect of the partnership at the end of the year

were deducted under subsection 37(1) by the partnership in computing its income for the year;

(*f*) the amount of the income of the partnership for a taxation year from any source or from sources in a particular place were the income of the taxpayer from that source or from sources in that particular place, as the case may be, for the taxation year of the taxpayer in which the partnership's taxation year ends, to the extent of the taxpayer's share thereof; and

(*g*) the amount, if any, by which

(i) the loss of the partnership for a taxation year from any source or sources in a particular place,

exceeds

(ii) in the case of a specified member (within the meaning of the definition "specified member" in subsection 248(1) if that definition were read without reference to paragraph (*b*) thereof) of the partnership in the year, the amount, if any, deducted by the partnership by virtue of section 37 in calculating its income for the taxation year from that source or sources in the particular place, as the case may be, and

(iii) in any other case, nil

were the loss of the taxpayer from that source or from sources in that particular place, as the case may be, for the taxation year of the taxpayer in which the partnership's taxation year ends, to the extent of the taxpayer's share thereof.

History: S. 96(1)(*d*)(i) was replaced by S.C. 2003, c. 28, s. 10(1), applicable to taxation years that begin after 2006. S. 96(1)(*d*)(i) formerly read:

"(i) this Act were read without reference to paragraphs 12(1)(z5) and 20(1)(*v.1*), section 34.1, subsection 59(1), paragraph 59(3.2)(*c.1*) and subsections 66.1(1), 66.2(1) and 66.4(1), and"

S. 96(1)(*d*) was amended by S.C. 2001, c. 17, s. 74(1), applicable to fiscal periods that begin after 2000. S. 96(1)(*d*) formerly read:

"(*d*) each income or loss of the partnership for a taxation year were computed as if this Act were read without reference to paragraphs 12(1)(z5) and 20(1)(*v.1*), section 34.1 and subsections 66.1(1), 66.2(1) and 66.4(1) and as if no deduction were permitted under any of section 29 of the *Income Tax Application Rules*, subsections 34.2(4) and 65(1) and sections 66, 66.1, 66.2 and 66.4;"

S. 96(1)(*d*) was amended by S.C. 1997, c. 25, s. 21(3), applicable to fiscal periods that begin after 1996. S. 96(1)(*d*) formerly read:

"(*d*) each income or loss of the partnership for a taxation year were computed as if this Act were read without reference to paragraph 20(1)(*v.1*), section 34.1 and subsections 66.1(1), 66.2(1) and 66.4(1) and as if no deduction were permitted under any of section 29 of the *Income Tax Application Rules*, subsections 34.2(4) and 65(1) and sections 66, 66.1, 66.2 and 66.4;"

S. 96(1)(*d*) was amended S.C. 1996, c. 21, s. 17(1), applicable after 1994. S. 96(1)(*d*) formerly read:

"(*d*) each income or loss of the partnership for a taxation year were computed as if this Act were read without reference to paragraph 20(1)(*v.1*) and subsections 66.1(1), 66.2(1) and 66.4(1) and as if no deduction were permitted by section 29 of the *Income Tax Application Rules*, subsection 65(1) or section 66, 66.1, 66.2 or 66.4;"

S. 96(1)(*d*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 40(1), applicable to partnership fiscal periods beginning after December 20, 1991. S. 96(1)(*d*) formerly read:

"(*d*) each income or loss of the partnership for a taxation year were computed as if this Act were read without reference to subsections 66.1(1), 66.2(1) and 66.4(1) and as if no deduction were permitted by section 29 of the *Income Tax Application Rules*, subsection 65(1) or section 66, 66.1, 66.2 or 66.4;"

Editorial Note: Partnerships are not taxable entities. In general terms, partnership income or loss is computed at the partnership level for its fiscal period, and the income or loss, including its source, flows through to the partners who report such amounts in their taxation year in which the fiscal period ends. Amounts included in a partner's income are generally added to the adjusted cost base of the partner's interest (including the whole amount of any capital gain), and losses claimed by the partner are generally deducted from the adjusted cost base of the partner's interest (including the whole amount of any capital loss). (See also paragraphs 53(1)(*e*) and 53(2)(*c*)). Tax credits are generally claimed at the partner level (see, for example, subsection 127(8), regarding the investment tax credit). Losses may be restricted for limited partners under subsection 96(2.1).

Related Sections: S. 12(1)(*l*) Partnership income; s. 12(1)(z5) Former TFSA; s. 20(1)(*v.1*) Resource allowance; s. 34.1 Alternative method of reporting income; s. 34.2 Reserve for December 31, 1995 income; s. 37(1) Scientific research and experimental development; s. 53(1)(*e*) Adjustments to cost base — Interest in a partnership; s. 53(2)(*c*) Amounts to be deducted — Interest in a partnership; s. 59(1) Consideration for foreign resource property; s. 59(1.1) Partnerships; s. 59(3.2)(*c.1*) Recovery of exploration and development expenses; s. 65(1) Allowance for oil or gas well, mine or timber limit; s. 66.1 Cumulative Canadian exploration expenses; s. 66.2 Cumulative Canadian development expenses; s. 66.21 Cumulative foreign resource expense; s. 66.4 Canadian oil and gas property expense; s. 66.8 Resource expenses of limited partner; s. 96(1.1) Allocation of share of income to retiring partner; s. 96(2.1) Limited partnership losses; s. 98(1) Disposition of partnership property; s. 98.1(1) Residual interest in partnership; s. 103(1) Agreement to share income, etc., so as to reduce or postpone tax otherwise payable; s. 103(1.1) Agreement to share income, etc., in unreasonable proportions; s. 120.4 Tax on split income; s. 212(13.1) Application of Part XIII tax where payer or payee is a partnership; s. 248(1), "specified member"; s. 249 Definition of "taxation year"; s. 249.1 Definition of "fiscal period".

Interpretation Bulletins: *Primary* — IT-81R Partnerships — Income of non-resident partners; IT-90 What is a partnership? *Secondary* — IT-151R5 (Consolid.) — Scientific research and experimental development expenditures; IT-151R4 Scientific research and experimental development expenditures [Archived by the CRA]; IT-259R4 Exchange of property; IT-278R2 Death of a partner or of a retired partner; IT-346R Commodity futures and certain commodities; IT-353R2 Partnership interests — Some adjustments to cost base [Archived by the CRA].

Information Circulars: IC 73-13 Investment clubs.

Income Tax Technical News: Issue No. 30, Computation/Allocation of Partnership Income and Losses; Issue No. 25, Partnership Issues; Issue No. 20, Delaware Revised Uniform Partnership Act; Issue No. 3, Use of partner's assets by a partnership; Issue No. 6, Expenses personally paid by partner.

Tax Topics: No. 1932, The Thin Blue Line Between Expressions of Interest and True Partnerships; No. 1657, Can a Partnership Pay a Salary to a Partner? *Archbold* Revisited.

Tax Profile: September 2006 — Canadian Acquisition of U.S. Real Estate; July 2002 — Doing Business in Canada; April 2001 — Canada-U.S. Hybrids; November 2000 — Canada views Delaware Partnership as a Corporation.

Canadian Tax Foundation: Cherniawsky, "Use of Partnerships and Joint Ventures for Owner-Manager Business", *2005 Prairie Provinces Tax Conference*, 14:1; McQuillan, "Some Important Issues in Partnerships in the Past Year", *2002 Conference Report*, 1:1; Krahn, "Taxation of Partners", *2001 British Columbia Tax Conference*, 7:1; Manoochehri and Nurmohamed, "'Increasing Taxpayer Certainty in Using Partnerships,' in 'Corporate Tax Planning' feature", *2002 Canadian Tax Journal*, No. 1, 387; McQuillan, "Partnerships — The Most Significant Developments of The Past 12 Months", *2001*

Annual Conference, 4:1; Ewens, "Tax Issues Affecting Partnerships", *1997 Conference Report*, 8:1.

Canadian Petroleum Tax Journal: Partnerships and other Dangerous Liaisons, Mar and Rowe, Vol. 171 No. 1 2008; Recent Developments in Corporate Reorganizations and International Transactions, Doug Richardson and Edward Rowe, Vol. 13 No. 1 2000; Recent Developments in Relation to Partnerships, Michael J. Flatters, Vol. 10 No. 1 1997.

Tax Window Files: Partnership Income — Preference Units, January 10, 2008, CRA Document No. 2007-0227191E5; Foreign Exchange Gains and Losses — Conversion of Advances into Partnership Interests, August 29, 2007, CRA Document No. 2007-021993117; Gift of Life Insurance Policies to Limited Partnerships, June 5, 2007, CRA Document No. 2007-023729117; Wind-Up of Partnership — Flow-Through Shares, June 27, 2006, CRA Document No. 2006-017419117; Roll-Over Provisions and Partnership, December 16, 2005, CRA Document No. 2005-0150411E5; Interest Incurred by U.S. Limited Partnership, May 25, 2004, CRA Document No. 2003-0039231E5 [Canadian partners of U.S. limited partnership may be considered to be the payers of interest paid by the partnership to a non-resident person]; Limited Partnership Losses of Tier Partnership, May 14, 2004, CRA Document No. 2004-0062801E5 [Allocation of losses of limited partnership unavailable to members of top partnership that is partner of limited partnership]; Capital Dividend Received by Partnership, December 4, 2003, CRA Document No. 2003-0038595 [Corporate partner can include, in computing its capital dividend account, its share of a capital dividend received by the partnership at the time the partner becomes entitled to a share of the dividend]; Allocation of Income — Deceased Partner, October 30, 2003, CRA Document No. 2003-0020545 [Partnership had income up to the date of partner's death but nil income for the entire year; allocation of income to the deceased partner would be nil]; Salary Paid to Member of Partnership, May 23, 2002, CRA Document No. 2002-0132797 ["Salary" paid to partner not deductible expense of partnership; allocation of partnership income and loss to spouse partners may not be reasonable as per subsection 103(1.1)]; Allocation of Partnership Income, February 19, 1998, CRA Document No. 9639785 [Computation of income of a partner not dependent on amounts paid to the partner by the partnership].

Cases: The taxpayer was a retired partner in a national accounting firm with offices in Quebec. Although he had never lived or worked in Quebec, his retirement benefits represented a share of partnership profits and were subject to tax under the deeming provisions of the Quebec *Taxation Act*. *Dunne v. Quebec (Dep. Min. Revenue)*, 2007 DTC 5248 (S.C.C.), affirming 2007 DTC 5237 (Que. C.A.), reversing 2007 DTC 5234 (Court of Quebec).

Through a series of transactions, the taxpayers effectively paid $1.2 million to acquire $10.4 million in tax losses along with an apartment complex which they managed profitably after its acquisition. They were allowed to deduct partnership losses because, although the primary purpose in acquiring the partnership interest was to obtain a tax loss, they did have a secondary intention to acquire and retain an income-producing asset, by which they could continue to carry on business in common with a view to profit. *Spire Freezers Ltd. et al. v. The Queen*, 2001 DTC 5158 (S.C.C.), reversing 99 DTC 5297 (F.C.A.) and 98 DTC 1287 (T.C.C.).

The taxpayers acquired partnership interests for the sole purpose of acquiring potential tax losses. They also purchased interests in two other ventures but spent only nominal time, attention and labour on them. The partnership losses were denied since the taxpayers were not carrying on a business with a view to a profit. Also, they could not claim to be partners by assignment, because the criteria for a valid partnership must be reaffirmed in order for the partnership to continue in its new form. *Backman v. The Queen*, 2001 DTC 5149 (S.C.C.), affirming 99 DTC 5602 (F.C.A.) and 97 DTC 1468 (T.C.C.).

Nine taxpayers paid $320,000 for somewhat less than full ownership of a partnership whose only asset was a computer which had a value of $7,000, and a large historical cost. The partnership losses were denied since the taxpayers did not intend to carry on any business involving the computer. They simply intended to create a large tax loss. In addition, the partnership could not suffer a terminal loss since the partnership came to an end when the majority interest was transferred to new partners. *Duncan et al. v. The Queen*, 2001 DTC 96 (T.C.C.).

The fact that the taxpayer had sought tax benefits as its predominant purpose for the creation of a partnership did not negate the fact that the parties also had the ancillary purpose of sharing profit and therefore met the requirements for a partnership. *Continental Bank Leasing Corporation v. The Queen et al.*, 98 DTC 6505 (S.C.C.), reversing 96 DTC 6355 (F.C.A.), which reversed 94 DTC 1858 (T.C.C.).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 96 of the Act is amended by adding the following after subsection (1):

(1.01) Income allocation to former member. If, at any time in a fiscal period of a partnership, a taxpayer ceases to be a member of the partnership

(*a*) for the purposes of subsection (1) and sections 34.1, 34.2, 101, 103 and 249.1, and notwithstanding paragraph 98.1(1)(*d*), the taxpayer is deemed to be a member of the partnership at the end of the fiscal period; and

(*b*) for the purposes of the application of paragraph (2.1)(*b*) and subparagraphs 53(1)(*e*)(i) and (viii) and (2)(*c*)(i) to the taxpayer, the fiscal period of the partnership is deemed to end

(i) immediately before the time at which the taxpayer is deemed by subsection 70(5) to have disposed of the interest in the partnership, where the taxpayer ceased to be a member of the partnership because of the taxpayer's death, and

(ii) immediately before the time that is immediately before the time that the taxpayer ceased to be a member of the partnership, in any other case.

Applicable: In respect of a taxpayer

(*a*) in the case where the taxpayer ceases to be a member of a partnership because of the taxpayer's death, to the 2003 and subsequent taxation years; and

(*b*) in any other case, to the 1995 and subsequent taxation years.

Explanatory Note:

Income Allocation to Former Member

New subsection 96(1.01) of the Act generally applies to the 1995 and subsequent taxation years. Paragraph 96(1.01)(*a*) deems a taxpayer who is a former member of a partnership to be a member at the end of the fiscal period in which the taxpayer ceased to be a member, for the purpose of allocating partnership income or loss for that period. This new provision clarifies that, although a taxpayer may have ceased to be a member of a partnership before the end of the partnership's fiscal period, an amount of the income or loss of the partnership is allocable to the taxpayer under subsection 96(1) of the Act. The amount so allocated is relevant to certain calculations relating to partnership income or loss, including the calculation of the adjusted cost base of the former member of the partnership immediately before the taxpayer ceased to be member.

New subsection 96(1.01) applies notwithstanding the rule in paragraph 98.1(1)(*d*) of the Act that would otherwise deem a former partnership member with a residual interest not to be a member of the partnership for the purposes of certain provisions of the Act.

New paragraph 96(1.01)(*a*) does not require that partnership income or loss be calculated immediately after a member leaves the partnership. The income or loss allocation, including that of the former member, continues to be calculated after the end of the partnership's fiscal period. In some circumstances the fiscal period of a partnership may end in a taxation year of the former member that is after the taxation year in which the partnership interest was disposed of. It is, therefore, possible that a member will not be required to report a partnership income allocation until the taxation year following that in which a capital gain or loss on the disposition of the partnership interest is required to be reported.

New paragraph 96(1.01)(*b*) clarifies that an income or loss allocation for the "stub period" during which a taxpayer was a member is included in the calculation of the adjusted cost base of the partnership interest at the time the former member disposes of the interest or a residual interest. The income or loss allocation will affect the calculation of a capital loss under paragraph 98.1(1)(*c*) or subsection 100(2) of the Act. Subsection 96(1.01) may ameliorate certain situations where, under the existing provisions of the Act, a former member may have been required to report a capital gain in the year that the person left the partnership, only to be offset by a capital loss in a subsequent year.

Example

Ms. Brown was a partner in XYZ Partnership until June 30. The fiscal period of the partnership ends December 31. The

adjusted cost base of her partnership interest on January 1 was Nil. From January to June 30 she withdrew $16,000 in capital.

Just before the end of the partnership's fiscal period, all the partners agree that Ms. Brown's share of income for the period was $20,000. On December 30 she was paid $4,000 in satisfaction of her residual interest.

A summary of Ms. Brown's adjusted cost base is as follows:

	Adjusted Cost Base	
January 1, Year 1		Nil
January 31, Drawings	$ <16,000>	<16,000>
Retirement of Ms. Brown, June 30		
December 30		
— Share of income for 6 months	20,000	4,000
— Payout of rights to equity	4,000	Nil
December 31 — Fiscal period ends		

In the result, Ms. Brown is allocated $20,000 income under subsection 96(1.01). The adjusted cost base of her interest immediately before she retired on June 30 was $4,000 (i.e., $20,000 less $16,000). She is deemed by paragraph 98.1(1)(b) to have disposed of her residual interest on December 31 for proceeds of disposition of $4,000, such that she has no capital gain or loss on the disposition.

Subparagraph 53(1)(*e*)(v) of the Act requires that "rights or things" (referred to in subsection 70(2) of the Act) in respect of the partnership interest of a deceased partner be included in the adjusted cost base of the partnership interest of the deceased. This provision is no longer relevant to income of the partnership to which a partner is entitled at the time of death, since new subsection 96(1.01) applies to the allocation of partnership income for the fiscal period in which the taxpayer dies. However, subparagraph 53(1)(*e*)(v) continues to apply in respect of other rights or things, if any, to which the deceased taxpayer is entitled through the partnership that are required to be included in the income of the deceased taxpayer under subsection 70(2).

► 96(1.1) ◄

(1.1) Allocation of share of income to retiring partner. For the purposes of subsection (1) and sections 34.1, 34.2, 101, 103 and 249.1,

(*a*) where the principal activity of a partnership is carrying on a business in Canada and its members have entered into an agreement to allocate a share of the income or loss of the partnership from any source or from sources in a particular place, as the case may be, to any taxpayer who at any time ceased to be a member of

(i) the partnership, or

(ii) a partnership that at any time has ceased to exist or would, but for subsection 98(1), have ceased to exist, and either

(A) the members of that partnership, or

(B) the members of another partnership in which, immediately after that time, any of the members referred to in clause (A) became members

have agreed to make such an allocation

or to the taxpayer's spouse, common-law partner, estate or heirs or to any person referred to in subsection (1.3), the taxpayer, spouse, common-law partner, estate, heirs or person, as the case may be, shall be deemed to be a member of the partnership; and

(*b*) all amounts each of which is an amount equal to the share of the income or loss referred to in this subsection allocated to a taxpayer from a partnership in respect of a particular fiscal period of the partnership shall, notwithstanding any other provision of this Act, be included in computing the taxpayer's income for the taxation year in which that fiscal period of the partnership ends.

History: S. 96(1.1)(*a*), the portion after subparagraph (ii) was amended by S.C. 2000, c. 12, Sched. 2, s. 8(b), applicable January 1, 2001, coming into force on July 31, 2000. S. 96(1.1)(*a*), the portion after subparagraph (ii) formerly read:

"or to the taxpayer's spouse, estate or heirs or to any person referred to in subsection (1.3), the taxpayer, spouse, estate, heirs or person, as the case may be, shall be deemed to be a member of the partnership; and"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 96(1.1), that portion before paragraph (*a*), was amended by S.C. 1996, c. 21, s. 17(2), applicable after 1994. That portion formerly read:

"(1.1) *Allocation of share of income to retiring partner.* For the purposes of subsection (1) and sections 101 and 103,"

Editorial Note: Although subsection 96(1.1) generally applies to taxpayers who are retired or former partners, it can also apply to the former partner's spouse, common-law partner, estate or heir. The amount allocated to the taxpayer (or spouse etc.) of the partnership income or loss is included in computing the taxpayer's income in the taxation year in which the partnership fiscal period ends. The amount of the income or loss is not subject to the addition or deduction rules of paragraphs 53(1)(*e*) and 53(2)(*c*) (which otherwise apply to the adjusted cost base of a partner's interest).

Related Sections: S. 98.1(1) Residual interest in partnership.

Interpretation Bulletins: *Secondary* — IT-242R Retired partners; IT-278R2 Death of a partner or of a retired partner; IT-338R2 Partnership interests — Effects on adjusted cost base resulting from the admission or retirement of a partner [Archived by the CRA].

Cases: The taxpayer ceased to be a member of an accounting partnership in November of 1972. The remaining partners allocated to him a share of partnership profits for the fiscal period ended in January of 1973, which share the Minister included in 1973 income. The inclusion was overturned by the Court on the basis that there was no evidence supporting the allocation of partnership profits. *Dacen v. The Queen*, 89 DTC 5297 (F.C.T.D.), reversing 79 DTC 732 (T.R.B.).

Tax Window Files: Payments to Widow of Retired Partner, November 29, 2006, CRA Document No. 2005-0140621E5; Allocation of Income to Retired Partners, May 29, 2006, CRA Document No. 2005-0160581E5; Arrangement to Satisfy SEC, November 9, 2005, CRA Document No. 2003-0011341R3 [Arrangement did not result in partnership assets funding retirement benefits, subsection 96(1.1) not applicable]; Late Filing Penalty, November 30, 2004, CRA Document No. 2004-0095511I7; Allocation of Income to Retiring Partner's Spouse, April 29, 2003, CRA Document No. 2003-0006465 [Subsection 96(1.1) permits retired partner to direct some or all of the allocation of income to spouse]; Allocation of Partnership Income, October 13, 1998, CRA Document No. 9801445 [Allocation to non-resident constituted allocation of business profits of partnership; subsections 96(1.1) and (1.6) applicable].

► 96(1.11) ◄

(1.11) Deemed dividend of SIFT partnership. If a SIFT partnership is liable to tax for a taxation year under Part IX.1,

(*a*) paragraph (1)(*f*) is to be read as if the expression "the amount of the income of the partnership for a taxation year from any source or from sources in a particular place" were read as "the amount, if any, by which the income of the partnership for a taxation year from any source or from sources in a particular place exceeds, in respect of each such source, the portion of the partnership's taxable non-portfolio earnings for the taxation year that is applicable to that source"; and

(*b*) the partnership is deemed to have received a dividend in the taxation year from a taxable Canadian corporation equal to the amount by which the partnership's taxable non-portfolio earnings for the tax-

ation year exceeds the tax payable by the partnership for the taxation year under Part IX.1.

History: S. 96(1.11) was added by S.C. 2007, c. 29, s. 7(1), deemed to have come into force on October 31, 2006.

Editorial Note: Part IX.1 imposes a tax on the "taxable non-portfolio earnings" of a "SIFT partnership" or specified investment flow-through partnership (defined in subsection 197(1)) at a rate that approximates the general corporate tax rate. Paragraph 96(1.11)(*b*) provides that the SIFT partnership is deemed to have received a taxable dividend in the taxation year from a taxable Canadian corporation equal to the amount by which the partnership's taxable non-portfolio earnings for the year exceeds the partnership's Part IX.1 tax payable for the year. The taxable dividend is included as an eligible dividend in the income of the partners under the general provisions of subsection 96(1).

Related Sections: S. 89(1), "eligible dividend", "taxable dividend"; s. 197(1), "non-portfolio earnings", "SIFT partnership", "taxable non-portfolio earnings"; s. 197(2) Tax on partnership income.

► 96(1.2) ◄

(1.2) Disposal of right to share in income, etc. Where in a taxation year a taxpayer who has a right to a share of the income or loss of a partnership under an agreement referred to in subsection (1.1) disposes of that right,

(*a*) there shall be included in computing the taxpayer's income for the year the proceeds of the disposition; and

(*b*) for greater certainty, the cost to the taxpayer of each property received by the taxpayer as consideration for the disposition is the fair market value of the property at the time of the disposition.

Editorial Note: The amount included under subsection 96(1.2) (net of any deduction under subsection (1.3)) is not a capital gain, but rather ordinary income; see also subsection 96(1.4) which provides that the right is deemed not to be capital property.

Related Sections: S. 54, "proceeds of disposition".

► 96(1.3) ◄

(1.3) Deductions. Where, by virtue of subsection (1.1) or (1.2), an amount has been included in computing a taxpayer's income for a taxation year, there may be deducted in computing the taxpayer's income for the year the lesser of

(*a*) the amount so included in computing the taxpayer's income for the year, and

(*b*) the amount, if any, by which the cost to the taxpayer of the right to a share of the income or loss of a partnership under an agreement referred to in subsection (1.1) exceeds the total of all amounts in respect of that right that were deductible by virtue of this subsection in computing the taxpayer's income for previous taxation years.

Editorial Note: See the note under subsection 96(1.5) regarding the CRA position on the cost of the right to a beneficiary of a deceased former partner.

Interpretation Bulletins: *Secondary* — IT-278R2 Death of a partner or of a retired partner; IT-338R2 Partnership interests — Effects on adjusted cost base resulting from the admission or retirement of a partner [Archived by the CRA].

► 96(1.4) ◄

(1.4) Right deemed not to be capital property. For the purposes of this Act, a right to a share of the income or loss of a partnership under an agreement referred to in subsection (1.1) shall be deemed not to be capital property.

Related Sections: S. 54, "capital property".

Interpretation Bulletins: *Secondary* — IT-338R2 Partnership interests — Effects on adjusted cost base resulting from the admission or retirement of a partner [Archived by the CRA].

► 96(1.5) ◄

(1.5) Disposition by virtue of death of taxpayer. Where, at the time of a taxpayer's death, the taxpayer has a right to a share of the income or loss of a partnership under an agreement referred to in subsection (1.1), subsections 70(2) to (4) apply.

Editorial Note: The right is considered a "right or thing", and therefore, either included in the deceased taxpayer's income under subsection 70(2) or the taxpayer's beneficiary's income under subsection 70(3). In the latter case, the CRA takes the position that the amount so included is considered to be the beneficiary's cost of the interest, such that it may be deducted under subsection 96(1.3) from the subsection 96(1.1) inclusion, so as to prevent double taxation; see paragraph 15 of Interpretation Bulletin IT-278R2.

Related Sections: S. 70(2)–(4).

Interpretation Bulletins: *Secondary* — IT-212R3 Income of deceased persons — Rights or things; IT-278R2 Death of a partner or of a retired partner.

► 96(1.6) ◄

(1.6) Members of partnership deemed to be carrying on business in Canada. Where a partnership carries on a business in Canada at any time, each taxpayer who is deemed by paragraph (1.1)(*a*) to be a member of the partnership at that time is deemed to carry on the business in Canada at that time for the purposes of subsection 2(3), sections 34.1 and 150 and (subject to subsection 34.2(7)) section 34.2.

History: S. 96(1.6) was amended by S.C. 1996, c. 21, s. 17(3), applicable after 1993. S. 96(1.6) formerly read:

"(1.6) *Members of partnership deemed to be carrying on business in Canada.* Where a partnership carries on a business in Canada in a taxation year, each taxpayer who is deemed by paragraph (1.1)(*a*) to be a member of the partnership shall, for the purposes of subsection 2(3), be deemed to carry on that business in Canada in that year."

Related Sections: S. 2(3) Tax payable by non-resident persons; s. 96(1.1) Allocation of share of income to retiring partner; s. 249.1(4) Alternative method.

Tax Window Files: Payment to Widow of Retired Partner, November 29, 2006, CRA Document No. 2005-0140621E5; Partnership Income — Retired Non-Resident Partner, April 18, 2001, CRA Document No. 2001-0075877.

► 96(1.7) ◄

(1.7) Gains and losses. Notwithstanding subsection (1) or section 38, where in a particular taxation year of a taxpayer, the taxpayer is a member of a partnership with a fiscal period that ends in the particular year, the amount of a taxable capital gain (other than that part of the amount that can reasonably be attributed to an amount deemed under subsection 14(1.1) to be a taxable capital gain of the partnership), allowable capital loss or allowable business investment loss of the taxpayer for the particular year determined in respect of the partnership is the amount determined by the formula

$$A \times \frac{B}{C}$$

where

A is the amount of the taxpayer's taxable capital gain (other than that part of the amount that can be attributed to an amount deemed under subsection 14(1.1) to be a taxable capital gain of the partnership), allowable capital loss or allowable business investment loss, as the case may be, for the particular year otherwise determined under this section in respect of the partnership;

B is the relevant fraction that applies under paragraph 38(*a*), (*a.1*), (*a.2*), (*b*) or (*c*) for the particular year in respect of the taxpayer; and

C is the fraction that was used under section 38 for the fiscal period of the partnership.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Application

(5) If a taxpayer, who is a member of a partnership at the end of a particular fiscal period, of the partnership, that ends in the taxpayer's 2000 taxation year, so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year in which this Act is assented to,

(*a*) subsection 96(1.7) does not apply to the taxpayer's 2000 taxation year;

(*b*) the taxpayer is deemed to have a capital gain, a capital loss or a business investment loss in respect of the partnership for the particular fiscal period equal to the amount of the taxable capital gain, the allowable capital loss or the allowable business investment loss in respect of the partnership for the particular fiscal period, as the case may be, multiplied by the reciprocal of the fraction in paragraph 38(*a*) that applies to the partnership for the particular fiscal period;

(*c*) the amount of a capital gain, a capital loss or a business investment loss determined under paragraph (*b*) is deemed to be a capital gain, a capital loss or a business investment loss, as the case may be, of the taxpayer from a disposition of a capital property on the day that the particular fiscal period ends; and

(*d*) except as provided by this subsection, no amount shall be included in computing the taxpayer's taxable capital gains, allowable capital losses and allowable business investment losses in respect of the taxable capital gains, allowable capital losses and allowable business investment losses of the partnership for the particular fiscal period.

Applicable: Royal Assent.

Explanatory Note:

Election by Partnership Member for 2000 Taxation Year

The calculation of the capital gains inclusion rate of a taxpayer for the 2000 taxation year takes into account the net capital gains or losses of the taxpayer for the year 2000 other than those allocated by a partnership. It is the inclusion rate of the taxpayer, determined without reference to the allocated partnership gains, that is applied to the taxpayer's share of the partnership gains in determining the taxable capital gains of the taxpayer derived from the partnership capital gains. As a result, taxpayers with different inclusion rates report different amounts of taxable capital gains in respect of capital gains allocated to the taxpayer by a partnership.

Subclause 91(5) of the *Income Tax Amendment Act, 2006* introduces a special transitional rule under which members of a partnership may elect to treat capital gains and losses allocated to them by a partnership as their own capital gains and losses for the purpose of calculating the taxpayer's capital gains inclusion rate for the year 2000. The gains and losses will be considered to have been realized by the taxpayer on the day on which the fiscal period of the partnership ends.

If a taxpayer so elects, subsection 96(1.7) of the Act will not apply. The taxpayer will be deemed to have realized (on the day on which the fiscal period of the partnership ends in the taxpayer's 2000 taxation year) a capital gain, a capital loss or a business investment loss in respect of the partnership equal to the amount of the taxable capital gain, the allowable capital loss or the allowable business investment loss, as the case may be, of the partnership allocated to the taxpayer, multiplied by the reciprocal of the fraction in paragraph 38(*a*) of the Act that applied to the partnership for the particular fiscal period. Where the inclusion rate for the partnership cannot be determined, the rules in subsection 96(1.7) apply to determine the inclusion rate of the partnership. This capital gain, capital loss or business investment loss is deemed to be a capital gain, capital loss or business investment loss, as the case may be, of the taxpayer from a disposition of a capital property on the day that the particular fiscal period ends.

History: S. 96(1.7), the portion before the formula was amended by S.C. 2001, c. 17, s. 74(2), applicable to taxation years that end after February 27, 2000. S. 96(1.7), the portion before the formula formerly read:

"(1.7) *Gains and losses.* Notwithstanding subsection (1) or section 38, where in a particular taxation year of a taxpayer (other than an individual who is not a testamentary trust) commencing before 1990, the taxpayer is a member of a partnership with a fiscal period ending in the particular year, the amount of its taxable capital gain (other than that part of the amount that can be attributed to an amount deemed under subsection 14(1) to be a taxable capital gain of the partnership), allowable capital loss or allowable business investment loss for the particular year determined in respect of the partnership shall be the amount determined by the formula"

S. 96(1.7), the descriptions of A and B were amended, by S.C. 2001, c. 17, s. 74(3), applicable to fiscal periods that begin after 2000. S. 96(1.7), the descriptions of A and B formerly read:

"A is the amount of the taxpayer's taxable capital gain (other than that part of the amount that can be attributed to an amount deemed under subsection 14(1) to be a taxable capital gain of the partnership) allowable capital loss or allowable business investment loss, as the case may be, for the particular year otherwise determined under this section in respect of the partnership;

B is the fraction that would be used under section 38 for the particular year in respect of the taxpayer if the taxpayer had a capital gain for the particular year; and"

Related Sections: S. 108(1), "testamentary trust".

► 96(1.71) ◄

(1.71) Application. Where the fraction referred to in the description of C in subsection (1.7) cannot be determined by a taxpayer in respect of a fiscal period of a partnership that ended before February 28, 2000, or includes February 28, 2000 or October 17, 2000, for the purposes of subsection (1.7), the fraction is deemed to be

(*a*) where the fiscal period ended before or began before February 28, 2000, 3/4;

(*b*) where the fiscal period began after February 27, 2000 and before October 18, 2000, 2/3; and

(*c*) in any other case, 1/2.

History: S. 96(1.71) was added by S.C. 2001, c. 17, s. 74(4), applicable to fiscal periods that begin after 2000.

► 96(1.8) ◄

(1.8) Loan of property. For the purposes of subsection 56(4.1) and sections 74.1 and 74.3, where an individual has transferred or lent property, either directly or indirectly, by means of a trust or by any other means whatever, to a person and the property or property substituted therefor is an interest in a partnership, the person's share of the amount of any income or loss of the partnership for a fiscal period in which the person was a specified member of the partnership shall be deemed to be income or loss, as the case may be, from the property or substituted property.

Editorial Note: Subsection 96(1.8) effectively provides that the income attribution rules can apply to income or loss from a transferred or lent partnership interest, by deeming the income or loss therefrom to be from the property rather than the underlying partnership source.

Related Sections: S. 249.1(1) Definition of "fiscal period".

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 96 of the Act is amended by adding the following after subsection (1.8):

(1.9) Application of sections 94.1 to 94.4. If an exempt taxpayer (as defined in subsection 94.1(1)) for a taxation year is a member of a partnership at any time in the year, in applying paragraphs (1)(*f*) and (*g*) and 53(1)(*e*) and (2)(*c*) to the taxpayer for a fiscal period of the partnership that ends in the year this Act is to be read without reference to sections 94.1 to 94.4.

Applicable: To fiscal periods that begin after 2006, except that those subsections also apply to a fiscal period of a partnership that begins before 2007 if sections 94.1 to 94.4 apply to that fiscal period of the partnership.

Explanatory Note:

Application of sections 94.1 and 94.2

New subsection 96(1.9) of the Act is relevant where an "exempt taxpayer" (in general, an individual who has been resident in Canada for fewer than 60 months or certain persons exempted by subsection 149(1) from tax on their taxable incomes) is a member of a partnership and the partnership invests in a foreign investment entity. In these circumstances, the exempt taxpayer's share of the partnership's income or loss is computed without regard to sections 94.1 to 94.4. For further details on the application of section 94.2 to partnerships, see the commentary on new subsections 94.2(6) to (8).

This amendment applies to fiscal periods of partnerships that begin after 2006.

► 96(2) ◄

(2) Construction. The provisions of this subdivision shall be read and construed as if each of the assumptions in paragraphs (1)(*a*) to (*g*) were made.

► 96(2.1) ◄

(2.1) Limited partnership losses. Notwithstanding subsection (1), where a taxpayer is, at any time in a taxation year, a limited partner of a partnership, the amount, if any, by which

(*a*) the total of all amounts each of which is the taxpayer's share of the amount of any loss of the partnership, determined in accordance with subsection (1), for a fiscal period of the partnership ending in the taxation year from a business (other than a farming business) or from property

exceeds

(*b*) the amount, if any, by which

(i) the taxpayer's at-risk amount in respect of the partnership at the end of the fiscal period

exceeds the total of

(ii) the amount required by subsection 127(8) in respect of the partnership to be added in computing the investment tax credit of the taxpayer for the taxation year,

(iii) the taxpayer's share of any losses of the partnership for the fiscal period from a farming business, and

(iv) the taxpayer's share of

(A) the foreign resource pool expenses, if any, incurred by the partnership in the fiscal period,

(B) the Canadian exploration expense, if any, incurred by the partnership in the fiscal period,

(C) the Canadian development expense, if any, incurred by the partnership in the fiscal period, and

(D) the Canadian oil and gas property expense, if any, incurred by the partnership in the fiscal period,

shall

(*c*) not be deducted in computing the taxpayer's income for the year,

(*d*) not be included in computing the taxpayer's non-capital loss for the year, and

(*e*) be deemed to be the taxpayer's limited partnership loss in respect of the partnership for the year.

History: S. 96(2.1)(*b*)(iv)(A) was amended by S.C. 2001, c. 17, s. 74(5), applicable to fiscal periods that begin after 2000. S. 96(2.1)(*b*)(iv)(A) formerly read:

"(A) the foreign exploration and development expenses, if any, incurred by the partnership in the fiscal period,"

Editorial Note: See subsection 96(2.2) regarding the calculation of the at-risk amount and subsection 96(2.4) regarding the definition of "limited partner". The amount of the loss that is not deductible by virtue of subsection 96(2.1) is added to the taxpayer's limited partnership loss, which can be carried forward indefinitely under paragraph 111(1)(*e*), subject again to the taxpayer's (future) at-risk amount in respect of the partnership.

Related Sections: S. 40(3.1) Deemed gain for certain partners; s. 66.8(1) Resource expenses of limited partner; s. 96(2.2) At-risk amount; s. 96(2.4) Limited partner; s. 111(1)(*e*) Limited partnership losses; s. 127(8.1) Investment tax credit of limited partner; s. 143.2(6) Amount of expenditure; s. 249.1(1) Definition of "fiscal period".

Interpretation Bulletins: *Secondary* — IT-232R3 Losses — Their deductibility in the loss year or in other years.

Advance Tax Rulings: ATR-59 Financing exploration and development through limited partnerships.

Tax Topics: No. 1921, Ontario Limited Liability Partnerships — A Hidden Danger for Many Inventory.

Tax Window Files: Limited Partnership Losses of Tier Partnership, May 14, 2004, CRA Document No. 2004-0062801E5 [Allocation of losses of limited partnership unavailable to members of top partnership that was member of limited partnership].

Cases: A limited partner was entitled to deduct its proportionate share of partnership losses without restriction as to its capital contribution where such losses were incurred in 1974 and 1975 prior to the introduction of provisions restricting such losses. *Signum Communications Inc. v. The Queen*, 91 DTC 5360 (F.C.A.), affirming 88 DTC 6427 (F.C.T.D.).

► 96(2.2) ◄

(2.2) At-risk amount. For the purposes of this section and sections 111 and 127, the at-risk amount of a taxpayer, in respect of a partnership of which the taxpayer is a limited partner, at any particular time is the amount, if any, by which the total of

(*a*) the adjusted cost base to the taxpayer of the taxpayer's partnership interest at that time, computed in accordance with subsection (2.3) where applicable,

(*b*) where the particular time is the end of the fiscal period of the partnership, the taxpayer's share of the income of the partnership from a source for that fiscal period computed under the method described in subparagraph 53(1)(*e*)(i), and

(*b*.1) where the particular time is the end of the fiscal period of the partnership, the amount referred to in subparagraph 53(1)(*e*)(viii) in respect of the taxpayer for that fiscal period

exceeds the total of

(*c*) all amounts each of which is an amount owing at that time to the partnership, or to a person or partnership not dealing at arm's length with the partnership, by the taxpayer or by a person or partnership not dealing at arm's length with the taxpayer, other than any amount deducted under subparagraph 53(2)(*c*)(i.3) in computing the adjusted cost base, or under section 143.2 in computing the cost, to the taxpayer of the taxpayer's partnership interest at that time, and

(*d*) any amount or benefit that the taxpayer or a person not dealing at arm's length with the taxpayer is entitled, either immediately or in the future and either absolutely or contingently, to receive or to obtain, whether by way of reimbursement, compen-

sation, revenue guarantee, proceeds of disposition, loan or any other form of indebtedness or in any other form or manner whatever, granted or to be granted for the purpose of reducing the impact, in whole or in part, of any loss that the taxpayer may sustain because the taxpayer is a member of the partnership or holds or disposes of an interest in the partnership, except to the extent that the amount or benefit is included in the determination of the value of J in the definition "cumulative Canadian exploration expense" in subsection 66.1(6), of M in the definition "cumulative Canadian development expense" in subsection 66.2(5) or of I in the definition "cumulative Canadian oil and gas property expense" in subsection 66.4(5) in respect of the taxpayer, or the entitlement arises

(i) by virtue of a contract of insurance with an insurance corporation dealing at arm's length with each member of the partnership under which the taxpayer is insured against any claim arising as a result of a liability incurred in the ordinary course of carrying on the partnership business,

(ii) [Repealed by 1996, c. 21, s. 17(4).]

(iii) as a consequence of the death of the taxpayer,

(iv) [Repealed by S.C. 1998, c. 19, s. 123(3).]

(v) [Repealed by S.C. 1998, c. 19, s. 123(3).]

(vi) in respect of an amount not included in the at-risk amount of the taxpayer determined without reference to this paragraph, or

(vii) because of an excluded obligation (as defined in subsection 6202.1(5) of the *Income Tax Regulations*) in relation to a share issued to the partnership by a corporation,

and, for the purposes of this subsection,

(*e*) where the amount or benefit to which the taxpayer or the person is entitled at any time is provided by way of an agreement or other arrangement under which the taxpayer or the person has a right, either immediately or in the future and either absolutely or contingently (otherwise than as a consequence of the death of the taxpayer), to acquire other property in exchange for all or any part of the partnership interest, for greater certainty the amount or benefit to which the taxpayer or the person is entitled under the agreement or arrangement is considered to be not less than the fair market value of the other property at that time, and

(*f*) where the amount or benefit to which the taxpayer or the person is entitled at any time is provided by way of a guarantee, security or similar indemnity or covenant in respect of any loan or other obligation of the taxpayer or the person, for greater certainty the amount or benefit to which the taxpayer or the person is entitled under the guarantee or indemnity at any particular time is considered to be not less than the total of the unpaid amount of the loan or obligation at that time and all other amounts outstanding in respect of the loan or obligation at that time.

History: S. 96(2.2)(*c*) was amended by S.C. 1998, c. 19, s. 123(1), applicable after November 1994. S. 96(2.2)(*c*) formerly read:

"(*c*) the total of all amounts each of which is an amount owing at that time to the partnership or to a person or partnership with whom or which the partnership does not deal at arm's length by the taxpayer or by a person or partnership with whom or which the taxpayer does not deal at arm's length other than any such amount deducted under subparagraph 53(2)(*c*)(i.3) in computing the adjusted cost base to the taxpayer of the taxpayer's partnership interest at that time; and"

The portion of paragraph S. 96(2.2)(*d*) before subparagraph (i) was amended by S.C. 1998, c. 19, s. 123(2), applicable after November 1994. S. 96(2.2)(*d*) before subparagraph (i) formerly read:

"(*d*) where the taxpayer or a person with whom the taxpayer does not deal at arm's length is entitled, either immediately or in the future and either absolutely or contingently, to receive or obtain any amount or benefit, whether by way of reimbursement, compensation, revenue guarantee or proceeds of disposition or in any other form or manner whatever, granted or to be granted for the purpose of reducing the impact, in whole or in part, of any loss that the taxpayer may sustain because the taxpayer is a member of the partnership or holds or disposes of an interest in the partnership, the amount or benefit, as the case may be, that the taxpayer or the person is or will be so entitled to receive or obtain, except to the extent that the amount or benefit is included in the determination of J in the definition 'cumulative Canadian exploration expense' in subsection 66.1(6), of M in the definition 'cumulative Canadian development expense' in subsection 66.2(5) or of I in the definition 'cumulative Canadian oil and gas property expense' in subsection 66.4(5) in respect of the taxpayer or the entitlement arises"

SS. 96(2.2)(*d*)(iv) and (v) were repealed by S.C. 1998, c. 19, s. 123(3), applicable to partnership interests acquired by a taxpayer after April 26, 1995, other than where

(*a*) the interest in the partnership is acquired by the taxpayer under the terms of an agreement in writing entered into by the taxpayer before April 27, 1995, or the interest was acquired by the taxpayer

(i) before 1996 where

(A) all or substantially all of the property of the partnership is

(I) a film production prescribed for the purpose of subparagraph 96(2.2)(*d*)(ii) of the Act, or

(II) an interest in one or more partnerships all or substantially all of the property of which is a film production prescribed for the purpose of subparagraph 96(2.2)(*d*)(ii) of the Act,

(B) the principal photography of the production began before 1996, or, in the case of a production that is a television series, the principal photography of one episode of the series began before 1996, and

(C) the principal photography of the production was completed before March 1996,

(ii) before 1996 where it can reasonably be considered that the funds raised by the partnership through the issue of the interest were used by the partnership to acquire before 1996 property included in Class 24, 27 or 34 in Schedule II to the *Income Tax Regulations* and the property was

(A) acquired under an agreement in writing entered into by the partnership before April 27, 1995, or

(B) under construction by or on behalf of the partnership on April 26, 1995,

(iii) before July 1995 under the terms of a document that is a prospectus, preliminary prospectus or registration statement filed before April 27, 1995 with a public authority in Canada under and in accordance with the securities legislation of Canada or of any province and, where required by law, accepted for filing by the public authority, and the funds so raised were expended before 1996 on expenditures contemplated by the document, or

(iv) before July 1995 under the terms of an offering memorandum distributed as part of an offering of securities where

(A) the memorandum contained a complete or substantially complete description of the securities contemplated in the offering as well as the terms and conditions of the offering,

(B) the memorandum was distributed before April 27, 1995,

(C) solicitations in respect of the sale of the securities contemplated by the memorandum were made before April 27, 1995,

(D) the sale of the securities was substantially in accordance with the memorandum, and

(E) the funds were spent before 1996 in accordance with the memorandum; and

(*b*) the following conditions are met:

(i) in the case of an interest

(A) acquired by the taxpayer under the terms of an agreement in writing entered into by the taxpayer before April 27, 1995, or

(B) to which subparagraph (*a*)(iii) or (iv) applies

that is a tax shelter for which section 237.1 of the Act requires an identification number to be obtained, an identification number was obtained before April 27, 1995, and

(ii) there is no agreement or other arrangement under which the taxpayer's obligations with respect to the interest can be changed, reduced or waived if there is a change to the Act or if there is an adverse assessment under the Act.

SS. 96(2.2)(*d*)(iv) and (v) formerly read:

"(iv) by virtue of an agreement under which the taxpayer may dispose of the partnership interest for an amount not exceeding its fair market value, determined without reference to the agreement, at the time of the disposition,

(v) by virtue of a revenue guarantee or other agreement in respect of which gross revenue is earned by the partnership except to the extent that the revenue guarantee or other agreement may reasonably be considered to ensure that the taxpayer or person will receive a return of a portion of the taxpayer's investment,"

The portion of S. 96(2.2) after paragraph (*d*) was amended by S.C. 1998, c. 19, s. 123(4), applicable to partnership interests acquired by a taxpayer after April 26, 1995, except that it does not apply where

(*a*) the interest was acquired by the taxpayer

(i) under the terms of an agreement in writing entered into by the taxpayer before April 27, 1995,

(ii) before July 1995 under the terms of a document that is a prospectus, preliminary prospectus or registration statement filed before April 27, 1995 with a public authority in Canada under and in accordance with the securities legislation of Canada or of any province and, where required by law, accepted for filing by the public authority, and the funds so raised were expended before 1996 on expenditures contemplated by the document, or

(iii) before July 1995 under the terms of an offering memorandum distributed as part of an offering of securities where

(A) the memorandum contained a complete or substantially complete description of the securities contemplated in the offering as well as the terms and conditions of the offering,

(B) the memorandum was distributed before April 27, 1995,

(C) solicitations in respect of the sale of the securities contemplated by the memorandum were made before April 27, 1995,

(D) the sale of the securities was substantially in accordance with the memorandum, and

(E) the funds were spent before 1996 in accordance with the memorandum; and

(*b*) the following conditions are met:

(i) in the case of an interest that is a tax shelter for which section 237.1 of the Act requires an identification number to be obtained, an identification number was obtained before April 27, 1995, and

(ii) there is no agreement or other arrangement under which the taxpayer's obligations with respect to the interest can be changed, reduced or waived if there is a change to the Act or if there is an adverse assessment under the Act.

The portion of S. 96(2.2) after paragraph (*d*) formerly read:

"and, for the purposes of this subsection, where the amount or benefit to which the taxpayer is at any time entitled is provided

(*e*) by way of an agreement or other arrangement under which the taxpayer has a right, either absolutely or contingently (otherwise than as a consequence of the death of the taxpayer), to acquire other property in exchange for all or any part of the partnership interest, for greater certainty the amount or benefit to which the taxpayer is entitled under the agreement or arrangement shall be not less than the fair market value of that other property at that time, or

(*f*) by way of a guarantee, security or similar indemnity or covenant in respect of any loan or other obligation of the taxpayer, by the partnership or a person or partnership with whom or which the partnership does not deal at arm's length, for greater certainty the amount or benefit to which the taxpayer is entitled under the guarantee or indemnity at any particular time shall not be less than the total of the unpaid amount of the loan or obligation at that time and all other amounts outstanding in respect of the loan or obligation at that time."

S. 96(2.2)(*d*)(ii) was repealed by S.C. 1996, c. 21, s. 17(4), applicable to revenue guarantees granted after 1995. S. 96(2.2)(*d*)(ii) formerly read:

"(ii) by virtue of a prescribed revenue guarantee in respect of a prescribed film production,"

S. 96(2.2)(*c*) was amended by S.C. 1995, c. 3, s. 25(1), applicable after September 26, 1994. S. 96(2.2)(*c*) formerly read:

"(*c*) the total of all amounts each of which is an amount owing at that time to the partnership or to a person or partnership with whom or which the partnership does not deal at arm's length by the taxpayer or by a person with whom the taxpayer does not deal at arm's length, and"

S. 96(2.2)(*d*), that portion preceding subparagraph (i), was amended by S.C. 1994, c. 7, Sched. II, s. 72(1), applicable to taxation years ending after June 17, 1987. That portion of s. 96(2.2)(*d*) formerly read:

"(*d*) where the taxpayer or a person with whom the taxpayer does not deal at arm's length is entitled, either immediately or in the future, either absolutely or contingently, to receive or obtain any amount or benefit, whether by way of reimbursement, compensation, revenue guarantee or proceeds of disposition or in any other form or manner whatever, granted or to be granted for the purpose of reducing the impact, in whole or in part, of any loss that the taxpayer may sustain by virtue of the taxpayer's being a member of the partnership or by virtue of the taxpayer's holding or disposing of the taxpayer's partnership interest, the amount or benefit, as the case may be, that the taxpayer or the person is or will be so entitled to receive or obtain, except to the extent that the entitlement arises"

S. 96(2.2)(*d*)(vii) was added by S.C. 1994, c. 7, Sched. II, s. 72(2), applicable to taxation years ending after June 17, 1987.

Related Sections: S. 40(3.1) Deemed gain for certain partners; s. 53(1)(*e*) Adjustments to cost base — Interest in a partnership; s. 53(2)(*c*) Amounts to be deducted — Interest in a partnership; s. 54 Definitions; s. 143.2(2) At-risk adjustment.

Regulations: Part LXXV.

Advance Tax Rulings: ATR-59 Financing exploration and development through limited partnerships.

Tax Profile: July 2003 — New Law for Software Tax Shelters.

Tax Window Files: Limited Partnership; Call Option, December 5, 2001, CRA Document No. 2001-0069213 [Call option not benefit under paragraph 96(2.2)(*d*)].

Cases: The taxpayer's contribution to a partnership consisted of a cash payment of $4000 per unit and assumption of a proportionate share of a promissory note in the amount of $6000 per unit. However, since an amending agreement provided for the retraction of the taxpayer's partnership units for $8,000 each, only $2000 per unit was at risk. *Brown v. The Queen*, 2003 DTC 5298 (F.C.A.), affirming, in part, unreported (T.C.C.).

► 96(2.3) ◄

(2.3) Idem. For the purposes of subsection (2.2), where a taxpayer has acquired the taxpayer's partnership interest at any time from a transferor other than the partnership, the adjusted cost base to the taxpayer of that interest shall be computed as if the cost to the taxpayer of the interest were the lesser of

(*a*) the taxpayer's cost otherwise determined, and

(*b*) the greater of

(i) the adjusted cost base of that interest to the transferor immediately before that time, and

(ii) nil,

and where the adjusted cost base of the transferor cannot be determined, it shall be deemed to be equal to the total of the amounts determined in respect of the taxpayer under paragraphs (2.2)(*c*) and (*d*) immediately after that time.

► 96(2.4) ◄

(2.4) Limited partner. For the purposes of this section and sections 111 and 127, a taxpayer who is a member of a partnership at a particular time is a limited partner of the partnership at that time if the member's partnership interest is not an exempt interest (within the meaning assigned by subsection (2.5)) at that time and if, at that time or within 3 years after that time,

(*a*) by operation of any law governing the partnership arrangement, the liability of the member as a member of the partnership is limited (except by operation of a provision of a statute of Canada or a province that limits the member's liability only for debts, obligations and liabilities of the partnership, or any member of the partnership, arising from negligent acts or omissions or misconduct that another member of the partnership or an employee, agent or representative of the partnership commits in the course of the partnership business while the partnership is a limited liability partnership);

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 96(2.4)(*a*) of the English version of the Act is replaced by the following:

(*a*) by operation of any law governing the partnership arrangement, the liability of the member as a member of the partnership is limited (except by operation of a provision of a statute of Canada or a province that limits the member's liability only for debts, obligations and liabilities of the partnership, or any member of the partnership, arising from negligent acts or omissions, from misconduct or from fault of another member of the partnership or an employee, an agent or a representative of the partnership in the course of the partnership business while the partnership is a limited liability partnership);

Applicable: After June 20, 2001.

Explanatory Note:

Limited Partner

Subsection 96(2.4) of the Act provides an extended definition of "limited partner" for the purpose of applying the limited partnership at-risk rules in subsection 96(2.2).

Paragraph 96(2.4)(*a*) provides that a member of a partnership is a "limited partner" if, by operation of law governing the partnership agreement, the liability of the member as a member is limited. However, paragraph 96(2.4)(*a*) does not apply in cases where a member's liability is limited by operation of a statutory provision of Canada or of a province that limits the member's liability only for the debts, obligations and liabilities of a limited liability partnership (or of any member of the partnership) arising from negligent acts or omissions of another member of the partnership (or of an employee, agent or representative of the partnership) in the course of the partnership business and while the partnership is a limited liability partnership.

The Province of Quebec has amended its legislation concerning partnerships to allow partners to carry on their activities within a limited liability partnership. That legislation refers to the civil law concept of "fault/fautes". The English version of paragraph 96(2.4)(*a*) does not refer to the civil law concept of "fault" and is amended to do so, effective after June 20, 2001.

(*b*) the member or a person not dealing at arm's length with the member is entitled, either immediately or in the future and either absolutely or contingently, to receive an amount or to obtain a benefit that would be described in paragraph (2.2)(*d*) if that paragraph were read without reference to subparagraphs (ii) and (vi);

(*c*) one of the reasons for the existence of the member who owns the interest

(i) can reasonably be considered to be to limit the liability of any person with respect to that interest, and

(ii) cannot reasonably be considered to be to permit any person who has an interest in the member to carry on that person's business (other than an investment business) in the most effective manner; or

(*d*) there is an agreement or other arrangement for the disposition of an interest in the partnership and one of the main reasons for the agreement or arrangement can reasonably be considered to be to attempt to avoid the application of this subsection to the member.

Department of Finance Comfort Letter
[Adjustment to ACB of Full Shield Limited Liability Partnership]

July 11, 2003

Dear XXXX:

Re: Limited Liability Partnerships

I am replying to your letter of October 3, 2002 and follow-up discussions with Departmental officials concerning the definition "limited partner" in the *Income Tax Act*. Your client is concerned that this definition does not provide an exception for all types of professional limited liability partnerships ("LLPs").

As you know, the definition "limited partner" in the *Income Tax Act* was amended in 2001, to provide an exception for partners of an LLP (applicable after 1997) in cases where the LLP legislation protects the partner from liability arising because of the negligence of another member of the LLP. You described such partnerships as "partial" shield LLPs. You note that another statutory model for LLPs exists under which LLP partners are provided a "full" shield from partnership liabilities (for example, from partnership account payables). You ask that the definition "limited partner" for income tax purposes be amended to provide an exception for partners who benefit from full shield LLP legislation.

As mentioned in our discussions, we have difficulty supporting your proposal. In particular, a partner's personal liability with respect to the operation of a full shield LLP business, including general debts of the LLP, is limited. As well, the partner can withdraw capital (or be allocated losses) such that the partner's interest in the LLP can become negative. It is precisely such circumstances to which the negative adjusted cost base rule and limited partnership at-risk loss rules are intended to apply. From a tax policy perspective, therefore, we see no basis for distinguishing between the income tax treatment accorded a partner of a full shield professional LLP and that accorded a limited partner of another partnership.

However, in our discussions you also asked that, if we are unable to agree to your original request, that we consider allowing for an adjustment to the adjusted cost base (the "ACB") of a partner's interest in a full shield LLP for the income (loss) allocation made at the end of a fiscal period of the LLP rather than the current approach under which the adjustment is made immediately after the end of the fiscal period. The advantage of such a change for full shield LLP partners would be that an income allocation would be included in the ACB of a partner's LLP interest at the end of the fiscal period of the LLP for the purpose of applying the negative adjusted cost base rule in subsection 40(3.1) of the *Income Tax Act*.

In this regard, we are prepared to recommend to the Minister of Finance that, for the purposes of applying the negative adjusted cost base rule in subsection 40(3.1) of the *Income Tax Act*, the Act be amended to provide that the ACB of a full shield professional LLP be adjusted at the end of the fiscal period of the LLP to reflect income (loss) allocations made by the LLP at that time. If enacted, we would anticipate that such a change would apply to allocations of income (loss) made by full shield LLPs on or after December 1, 2001.

I trust that your client is in agreement with this approach to the matter and thank you for bringing this matter to my attention.

Yours sincerely,

Len Farber
General Director
Tax Legislation Division
Tax Policy Branch

History: S. 96(2.4)(*a*) was amended by S.C. 2001, c. 17, s. 74(6), applicable after 1997. S. 96(2.4)(*a*) formerly read:

"(*a*) by operation of any law governing the partnership arrangement, the liability of the member as a member of the partnership is limited;"

S. 96(2.4) was amended by S.C. 1998, c. 19, s. 123(5), applicable to fiscal periods that end after November 1994. S. 96(2.4) formerly read:

"(2.4) *Limited partner.* For the purposes of this section and sections 111 and 127, a taxpayer who is a member of a partnership at a particular time is a limited partner of that partnership at that time if the taxpayer's partnership interest is not an exempt interest at that time (within the meaning assigned by subsection (2.5)) and if, at that time or within three years after that time,

(*a*) by operation of any law which governs the partnership arrangement, the liability of the taxpayer in the taxpayer's capacity as a member of the partnership, is limited;

(*b*) the taxpayer or a person with whom the taxpayer does not deal at arm's length is entitled to receive an amount or obtain a benefit that would be described in paragraph (2.2)(*d*) if it were read without reference to subparagraphs (2.2)(*d*)(ii) and (vi);

(*c*) one of the reasons for the existence of the taxpayer who owns the interest

(i) may reasonably be considered to be to limit the liability of any other person with respect to that interest, and

(ii) may not reasonably be considered to be to permit any person who has an interest in the taxpayer to carry on that person's business (other than an investment business) in the most effective manner; or

(*d*) there is an agreement or other arrangement for the disposition of an interest in the partnership and one of the main reasons for the agreement or arrangement may reasonably be considered to be to attempt to avoid the application of this subsection to the taxpayer."

Related Sections: S. 40(3.14) Limited partner; s. 96(2.5) Exempt interest.
Interpretation Bulletins: *Secondary* — IT-232R3 Losses — Their deductibility in the loss year or in other years.
Tax Topics: No. 1921, Ontario Limited Liability Partnerships — A Hidden Danger for Many Inventory.
Tax Window Files: Alberta Limited Liability Partnership, June 29, 2000, CRA Document No. 2000-0026775.
Cases: An amending agreement which provided partners with the right to redeem partnership units for $8000 per unit came into effect within the three-year period after the taxpayer sought to deduct his partnership losses. Hence, the taxpayer was a deemed limited partner to whom the at risk rules applied. *Brown v. The Queen,* 2003 DTC 5298 (F.C.A.), affirming, in part, unreported (T.C.C.).

► 96(2.5) ◄

(2.5) Exempt interest. For the purposes of subsection (2.4), an exempt interest in a partnership at any time means a prescribed partnership interest or an interest in a partnership that was actively carrying on business on a regular and a continuous basis immediately before February 26, 1986 and continuously thereafter until that time or that was earning income from the rental or leasing of property immediately before February 26, 1986 and continuously thereafter until that time, where there has not after February 25, 1986 and before that time been a substantial contribution of capital to the partnership or a substantial increase in the indebtedness of the partnership and, for this purpose, an amount will not be considered to be substantial where

(*a*) the amount was used by the partnership to make an expenditure required to be made pursuant to the terms of a written agreement entered into by it before February 26, 1986, or to repay a loan, debt or contribution of capital that had been received or incurred in respect of any such expenditure,

(*b*) the amount was raised pursuant to the terms of a prospectus, preliminary prospectus or registration statement filed before February 26, 1986 with a public authority in Canada pursuant to and in accordance with the securities legislation of Canada or of any province, and, where required by law, accepted for filing by that public authority, or

(*c*) the amount was used for the activity that was carried on by the partnership on February 25, 1986 but was not used for a significant expansion of the activity

and, for the purposes of this subsection,

(*d*) a partnership in respect of which paragraph (*b*) applies shall be considered to have been actively carrying on a business on a regular and a continuous basis immediately before February 26, 1986 and continuously thereafter until the earlier of the closing date, if any, stipulated in the document referred to in that paragraph and January 1, 1987, and

(*e*) an expenditure shall not be considered to have been required to be made pursuant to the terms of an agreement where the obligation to make the expenditure is conditional in any way on the consequences under this Act relating to the expenditure and the condition has not been satisfied or waived before June 12, 1986.

► 96(2.6) ◄

(2.6) Artificial transactions. For the purposes of paragraph (2.2)(*c*), where at any time an amount owing by a taxpayer or a person with whom the taxpayer does not deal at arm's length is repaid and it is established, by subsequent events or otherwise, that the repayment was made as part of a series of loans or other transactions and repayments, the amount owing shall be deemed not to have been repaid.

► 96(2.7) ◄

(2.7) Idem. For the purposes of paragraph (2.2)(*a*), where at any time a taxpayer makes a contribution of capital to a partnership and the partnership or a person or partnership with whom or which the partnership does not deal at arm's length makes a loan to the taxpayer or to a person with whom the taxpayer does not deal at arm's length or repays the contribution of capital, and it is established, by subsequent events or otherwise, that the loan or repayment, as the case may be, was made as part of a series of loans or other transactions and repayments, the contribution of capital shall be deemed not to have been made to the extent of the loan or repayment, as the case may be.

► 96(3) ◄

(3) Agreement or election of partnership members. Where a taxpayer who was a member of a partnership at any time in a fiscal period has, for any purpose relevant to the computation of the taxpayer's income from the partnership for the fiscal period, made or executed an agreement, designation or election under or in respect of the application of any of subsections 13(4) and (16) and 14(6), section 15.2, subsections 20(9) and 21(1) to (4), section 22, subsection 29(1), section 34, clause 37(8)(*a*)(ii)(B), subsections 44(1) and (6), 50(1) and 80(5), (9), (10) and (11), section 80.04, subsections 86.1(2), 97(2), 139.1(16) and (17) and 249.1(4) and (6) that, but for this subsection, would be a valid agreement, designation or election,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 96(3) of the Act before paragraph (*a*) is replaced by the following:

(3) Agreement or election of partnership members. If a taxpayer who was a member of a partnership at any time in a fiscal period has, for any purpose relevant to the computation of the taxpayer's income from the partnership for the fiscal period, made or executed an agreement, designation or election under or in respect of the application of any of subsections 13(4), (4.2) and (16) and 14(1.01), (1.02) and (6), section 15.2, subsections 20(9) and 21(1) to (4), section 22, subsection 29(1), section 34, clause 37(8)(*a*)(ii)(B), subsections 44(1) and (6), 50(1) and 80(5) and (9) to (11), section 80.04, subsection 86.1(2), sections 94.1 to 94.3, paragraph 95(2)(*g.3*) and subsections 97(2), 139.1(16) and (17) and 249.1(4) and (6) that, if this Act were read without reference to this subsection, would be a valid agreement, designation or election,

Applicable: To taxation years that end after February 27, 2000. However, subsection 96(3) is

(*a*) before December 21, 2002, to be read without reference to "(4.2)"; and

(*b*) before 2007 (or, where sections 94.1 to 94.4 apply to a fiscal period of the partnership that begins before 2007, before the first day of the first fiscal period of the partnership to which sections 94.1 to 94.4 of the Act, as enacted by subsection 18(1), apply), to be read without reference to "sections 94.1 to 94.3, paragraph 95(2)(*g.3*)".

Explanatory Note:

Agreement or Election of Partnership Members

Subsection 96(3) of the Act provides rules that apply if a member of a partnership makes an election under certain provisions of the Act for a purpose that is relevant to the computation of the member's income from the partnership. In such a case, the election will be valid only if it is made on behalf of all the members of the partnership and the member had authority to act for the partnership.

Subsection 96(3) is amended, generally for taxation years that end after February 27, 2000, to apply for the purposes of an election under subsections 14(1.01) and (1.02) of the Act in respect of the disposition of an eligible capital property.

Subsection 96(3) is also amended so that

- after 2004, it applies for the purposes of elections under new sections 94.1 to 94.3 and paragraph 95(2)(*g.3*), and
- after December 20, 2002, it applies for the purposes of elections under subsection 13(4.2) of the Act.

(*a*) the agreement, designation or election is not valid unless

(i) it was made or executed on behalf of the taxpayer and each other person who was a member of the partnership during the fiscal period, and

(ii) the taxpayer had authority to act for the partnership;

(*b*) unless the agreement, designation or election is invalid because of paragraph (*a*), each other person who was a member of the partnership during the fiscal period shall be deemed to have made or executed the agreement, designation or election; and

(*c*) notwithstanding paragraph (*a*), any agreement, designation or election deemed by paragraph (*b*) to have been made or executed by any person shall be deemed to be a valid agreement, designation or election made or executed by that person.

History: S. 96(3), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 74(7), applicable after 1999. S. 96(3), the portion before paragraph (*a*) formerly read:

"(3) *Agreement or election of partnership members.* Where a taxpayer who was a member of a partnership during a fiscal period has, for any purpose relevant to the computation of the taxpayer's income from the partnership for the fiscal period, made or executed an agreement, designation or an election under or in respect of the application of any of subsections 13(4), (15) and (16) and 14(6), section 15.2, subsections 20(9) and 21(1) to (4), section 22, subsection 29(1), section 34, clause 37(8)(*a*)(ii)(B), subsections 44(1) and (6), 50(1) and 80(5), (9), (10) and (11), section 80.04 and subsections 97(2), 139.1(16) and (17) and 249.1(4) and (6) that, but for this subsection, would be a valid agreement, designation or election,"

S. 96(3), the portion before paragraph (*a*) was amended by S.C. 2000, c. 19, s. 15(1), applicable to fiscal periods that end after December 15, 1998. S. 96(3), the portion before paragraph (*a*) formerly read:

"(3) *Agreement or election of partnership members.* Where a taxpayer who was a member of a partnership during a fiscal period has, for any purpose relevant to the computation of the taxpayer's income from the partnership for the fiscal period, made or executed an agreement, designation or an election under or in respect of the application of any of subsections 13(4), (15) and (16) and 14(6), section 15.2, subsections 20(9) and 21(1) to (4), section 22, subsection 29(1), section 34, clause 37(8)(*a*)(ii)(B), subsections 44(1) and (6), 50(1) and 80(5), (9), (10) and (11), section 80.04 and subsections 97(2) and 249.1(4) and (6) that, but for this subsection, would be a valid agreement, designation or election,"

S. 96(3), that portion before paragraph (*a*), was amended by S.C. 1998, c. 19, s. 123(6), applicable to fiscal periods that end after December 2, 1992, except that

(*a*) with respect to fiscal periods that ended after that day and before February 22, 1994, the portion of subsection 96(3) of the Act shall be read as follows:

"(3) Where a taxpayer who was a member of a partnership during a fiscal period has, for any purpose relevant to the computation of the taxpayer's income from the partnership for the fiscal period, made or executed an election under or in respect of the application of any of subsections 13(4), (15) and 14(6), section 15.2, subsections 20(9) and 21(1) to (4), section 22, subsection 29(1), section 34, clause 37(8)(*a*)(ii)(B) and subsections 44(1) and (6), 50(1) and 97(2) that, but for this subsection, would be a valid election,"

and

(*b*) before 1995, the portion of subsection 96(3) of the Act shall be read without reference to subsections 249.1(4) and (6) of the Act.

That part formerly read

"(3) *Agreement or election of partnership members.* Where a taxpayer who was a member of a partnership in a fiscal period has, for any purpose relevant to the computation of the taxpayer's income from the partnership for the fiscal period, made or executed an agreement, a designation or an election under or in respect of the application of any of subsections 13(4), (15) and (16), 14(6), 20(9) and 21(1) to (4), section 22, subsection 29(1), section 34, clause 37(8)(*a*)(ii)(B), subsections 44(1) and (6), 50(1) and 80(5), (9), (10) and (11), section 80.04 and subsections 97(2) and 249.1(4) and (6) that, but for this subsection, would be a valid agreement, designation or election,"

S. 96(3), that portion before paragraph (*a*), was amended by S.C. 1996, c. 21, s. 17(5), applicable after 1994.

S. 96(3) was amended by S.C. 1995, c. 21, s. 33(1), applicable to fiscal periods that end after February 21, 1994. S. 96(3) formerly read:

"(3) *Election by members.* Where a taxpayer who was a member of a partnership during a fiscal period has, for any purpose relevant to the computation of the taxpayer's income from the partnership for the fiscal period, made or executed an election under or in respect of the application of any of subsections 13(4), (15) and (16), 14(6), 20(9) and 21(1) to (4), section 22, subsection 29(1), section 34, clause 37(8)(*a*)(ii)(B) and subsections 44(1) and (6), 50(1) and 97(2) that, but for this subsection, would be a valid election,

(*a*) the election is not valid unless

(i) it was made or executed on behalf of the taxpayer and each other person who was a member of the partnership during the fiscal period, and

(ii) the taxpayer had authority to act for the partnership;

(*b*) unless the election is invalid by virtue of paragraph (*a*), each other person who was a member of the partnership during the fiscal period shall be deemed to have made or executed the election; and

(*c*) notwithstanding paragraph (*a*), any election deemed by paragraph (*b*) to have been made or executed by any person shall be deemed to be a valid election made or executed by that person."

S. 96(3), that portion preceding paragraph (*a*), was amended by S.C. 1994, c. 8, s. 11(1), applicable to fiscal periods that end after December 2, 1992. That part formerly read:

"(3) *Election by members.* Where a taxpayer who was a member of a partnership during a fiscal period has, for any purpose relevant to the computation of the taxpayer's income from the partnership for the fiscal period, made or executed an election under or in respect of the application of any of subsections 13(4), (15) and (16) and 14(6), section 15.2, subsections 20(9) and 21(1) to (4), section 22, subsection 29(1), section 34 and subsections 44(1) and (6), 50(1) and 97(2) that, but for this subsection, would be a valid election,"

S. 96(3), that portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 40(2), applicable after February 25, 1992. That part formerly read:

"(3) *Election by members.* Where a taxpayer who was a member of a partnership during a fiscal period has, for any purpose relevant to the computation of the taxpayer's income from the partnership for the fiscal period, made or executed an election under or in respect of the application of any of subsections 13(4), (15) and (16), 14(6), 20(9) and 21(1) to (4), section 22, subsection 29(1), section 34 and subsections 44(1) and (6), 50(1) and 97(2) that, but for this subsection, would be a valid election, the following rules apply:"

S. 96(3), that portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 72(3), applicable to dispositions occurring after July 13, 1990 and with respect to elections made in respect of the application of subsection 50(1) of the Act, to the 1985 to 1989 taxation years and, notwithstanding subsections 152(4) to (5), such assessments of tax, interest and penalties payable for the 1985 to 1989 taxation years shall be made as are necessary to give effect to those elections. That portion of s. 96(3) formerly read:

"(3) *Election by members.* Where a taxpayer who was a member of a partnership during a fiscal period thereof that ended after 1971 has, for any purpose relevant to the computation of the taxpayer's income from the partnership for the fiscal period, made or executed an election under any of subsections 13(4), (15) and (16), 14(6), 20(9) and 21(1) to (4), section 22, subsection 29(1), section 34 and subsections 39(4), 44(1) and (6) and 97(2) that, but for this subsection, would be a valid election, the following rules apply:"

Related Sections: S. 14(1) Eligible capital property — inclusion in income from business; s. 14(5), "cumulative eligible capital", "eligible capital expenditure"; s. 24(3) Where partnership has ceased to exist; s. 54, "eligible capital property"; s. 248(1), "business", "cost amount", "cumulative eligible capital", "eligible capital amount", "eligible capital expenditure", "eligible capital property", "property"; s. 249.1(4) Alternative method.

Interpretation Bulletins: *Primary* — IT-413R Election by members of a partnership under subsection 97(2); *Secondary* — IT-278R2 Death of a partner or of a retired partner; IT-457R Election by professionals to exclude work in progress from income.
Tax Window Files: Partnership, September 3, 1997, CRA Document No. 9710907 [Election to use alternative method of reporting partnership income with non-calendar year fiscal period].

► 96(4) ◄

(4) Election. Any election under subsection 97(2) or 98(3) shall be made on or before the day that is the earliest of the days on or before which any taxpayer making the election is required to file a return of income pursuant to section 150 for the taxpayer's taxation year in which the transaction to which the election relates occurred.

Interpretation Bulletins: *Secondary* — IT-413R Election by members of a partnership under subsection 97(2).
Forms: T2060.

► 96(5) ◄

(5) Late filing. Where an election referred to in subsection (4) was not made on or before the day on or before which the election was required by that subsection to be made and that day was after May 6, 1974, the election shall be deemed to have been made on that day if, on or before the day that is 3 years after that day,

(*a*) the election is made in prescribed form; and

(*b*) an estimate of the penalty in respect of that election is paid by the taxpayer referred to in subsection 97(2) or by the persons referred to in subsection 98(3), as the case may be, when that election is made.

Related Sections: S. 14(5), "cumulative eligible capital"; s. 24(3) Where partnership has ceased to exist; s. 54, "eligible capital property"; s. 96(4) Election; s. 97(2) Rules where election by partners; s. 98(3) Rules applicable where partnership ceases to exist; s. 248(1), "amount", "business", "cost amount", "cumulative eligible capital", "eligible capital property", "property".
Interpretation Bulletins: *Secondary* — IT-413R Election by members of a partnership under subsection 97(2).

► 96(5.1) ◄

(5.1) Special cases. Where, in the opinion of the Minister, the circumstances of a case are such that it would be just and equitable

(*a*) to permit an election under subsection 97(2) or 98(3) to be made after the day that is 3 years after the day on or before which the election was required by subsection (4) to be made, or

(*b*) to permit an election made under subsection 97(2) to be amended,

the election or amended election shall be deemed to have been made on the day on or before which the election was so required to be made if

(*c*) the election or amended election is made in prescribed form, and

(*d*) an estimate of the penalty in respect of the election or amended election is paid by the taxpayer referred to in subsection 97(2) or by the persons referred to in subsection 98(3), as the case may be, when the election or amended election is made,

and where this subsection applies to the amendment of an election, that election shall be deemed not to have been effective.

Interpretation Bulletins: *Secondary* — IT-413R Election by members of a partnership under subsection 97(2).

► 96(6) ◄

(6) Penalty for late-filed election. For the purposes of this section, the penalty in respect of an election or an amended election referred to in paragraph (5)(*a*) or (5.1)(*c*) is

(*a*) where the election or amended election is made under subsection 97(2), an amount equal to the lesser of

(i) 1/4 of 1% of the amount by which the fair market value of the property disposed of by the taxpayer referred to therein at the time of disposition exceeds the amount agreed on by the taxpayer and the members of the partnership in the election or amended election, for each month or part of a month during the period commencing with the day on or before which the election is required by subsection (4) to be made and ending on the day the election or amended election is made, and

(ii) an amount, not exceeding $8,000, equal to the product obtained by multiplying $100 by the number of months each of which is a month all or part of which is during the period referred to in subparagraph (i); and

(*b*) where the election is made under subsection 98(3), an amount equal to the lesser of

(i) 1/4 of 1% of the amount by which

(A) the total of all amounts of money and the fair market value of partnership property received by the persons referred to therein as consideration for their interests in the partnership at the time that the partnership ceased to exist

exceeds

(B) the total of each such person's proceeds of disposition of that person's interest in the partnership as determined under paragraph 98(3)(*a*),

for each month or part of a month during the period commencing with the day on or before which the election is required by subsection (4) to be made and ending on the day the election or amended election is made, and

(ii) an amount, not exceeding $8,000, equal to the product obtained by multiplying $100 by the number of months each of which is a month all or part of which is during the period referred to in subparagraph (i).

Related Sections: S. 96(5) Late filing; s. 97(2) Rules where election by partners; s. 98(3) Rules applicable where partnership ceases to exist.
Interpretation Bulletins: *Secondary* — IT-413R Election by members of a partnership under subsection 97(2).
Tax Window Files: Price Adjustment Clauses, July 6, 2004, CRA Document No. 2004-0081631E5; Penalties, February 7, 1992, CRA Document No. 9131795.

► 96(7) ◄

(7) Unpaid balance of penalty. The Minister shall, with all due dispatch, examine each election and amended election referred to in paragraph (5)(*a*) or (5.1)(*c*), assess the penalty payable and send a notice of assessment to the taxpayer or persons, as the case may be, and the taxpayer or persons, as the case may be, shall pay forthwith to the Receiver General the amount, if any, by which the penalty so assessed exceeds the total of all amounts previously paid on account of that penalty.

Related Sections: S. 96(5) Late filing; s. 111(8), "net capital loss", "non-capital loss".

► 96(8) ◄

(8) Foreign partnerships. For the purposes of this Act, where at a particular time a person resident in Canada becomes a member of a partnership, or a person who is a member of a partnership becomes resident in Canada, and immediately before the particular time no member of the partnership is resident in Canada, the following rules apply for the purpose of computing the partnership's income for fiscal periods ending after the particular time:

(*a*) where, at or before the particular time, the partnership held depreciable property of a prescribed class (other than taxable Canadian property),

(i) no amount shall be included in determining the amounts for any of A, C, D and F to I in the definition "undepreciated capital cost" in subsection 13(21) in respect of the acquisition or disposition before the particular time of the property, and

(ii) where the property is the partnership's property at the particular time, the property shall be deemed to have been acquired, immediately after the particular time, by the partnership at a capital cost equal to the lesser of its fair market value and its capital cost to the partnership otherwise determined;

(*b*) in the case of the partnership's property that is inventory (other than inventory of a business carried on in Canada) or non-depreciable capital property (other than taxable Canadian property) of the partnership at the particular time, its cost to the partnership shall be deemed to be, immediately after the particular time, equal to the lesser of its fair market value and its cost to the partnership otherwise determined;

(*c*) any loss in respect of the disposition of a property (other than inventory of a business carried on in Canada or taxable Canadian property) by the partnership before the particular time shall be deemed to be nil; and

(*d*) where 4/3 of the cumulative eligible capital in respect of a business carried on at the particular time outside Canada by the partnership exceeds the total of the fair market value of each eligible capital property in respect of the business at that time, the partnership shall be deemed to have, immediately after that time, disposed of an eligible capital property in respect of the business for proceeds equal to the excess and to have received those proceeds.

History: S. 96(8) was added by S.C. 1994, c. 21, s. 44(1), applicable to a particular partnership where a person or partnership becomes a member of the particular partnership after December 21, 1992, or where a member of the particular partnership becomes resident in Canada after August 30, 1993, except that before May 1994, subsection 96(8) of the Act shall be read without reference to paragraph (*d*).

► 96(9) ◄

(9) Idem. For the purpose of applying subsection (8), where it can reasonably be considered that one of the main reasons that there is a member of the partnership who is resident in Canada is to avoid the application of that subsection, the member shall be deemed not to be resident in Canada.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 96(9) of the Act is replaced by the following:

(9) Application of foreign partnership rule. For the purposes of applying subsection (8) and this subsection,

(*a*) where it can reasonably be considered that one of the main reasons that a member of a partnership is resident in Canada is to avoid the application of subsection (8), the member is deemed not to be resident in Canada; and

(*b*) where at any time a particular partnership is a member of another partnership,

(i) each person or partnership that is, at that time, a member of the particular partnership is deemed to be a member of the other partnership at that time,

(ii) each person or partnership that becomes a member of the particular partnership at that time is deemed to become a member of the other partnership at that time, and

(iii) each person or partnership that ceases to be a member of the particular partnership at that time is deemed to cease to be a member of the other partnership at that time.

Applicable: To fiscal periods that begin after June 22, 2000.

Explanatory Note:

Application of Foreign Partnership Rule

Subsection 96(8) of the Act provides rules that apply where, at a particular time, a Canadian resident becomes a member of a partnership, or a person who is a member of such a partnership becomes a resident of Canada. Where, immediately before the particular time no member of the partnership was resident in Canada, these rules apply in computing the income of the partnership for fiscal periods ending after the particular time. In general terms, the rules in subsection 96(8) are designed to prevent losses accrued while a partnership had no Canadian resident partners from being used to reduce Canadian income tax liabilities.

Subsection 96(9) provides that, where one of the main reasons that there is a member of the partnership who is resident in Canada is to avoid the application of subsection 96(8), that member will, for the purpose of applying subsection 96(8), be considered not to be resident in Canada.

Subsection 96(9) is amended to provide an explicit look-through rule for the purposes of subsection 96(8) so that members of partnerships may be identified through one or more tiers of partnerships that are members of other partnerships. Amended subsection 96(9) is consistent with new subsection 94.2(8).

This amendment applies to partnership fiscal periods that begin after June 22, 2000.

History: S. 96(9) was added by S.C. 1994, c. 21, s. 44(1), applicable to a particular partnership where a person or partnership becomes a member of the particular partnership after December 21, 1992, or where a member of the particular partnership becomes resident in Canada after August 30, 1993, except that before May 1994, subsection 96(8) of the Act shall be read without reference to paragraph (*d*).

SECTION 97:

► 97(1) ◄

(1) Contribution of property to partnership. Where at any time after 1971 a partnership has acquired property from a taxpayer who was, immediately after that time, a member of the partnership, the partnership shall be

deemed to have acquired the property at an amount equal to its fair market value at that time and the taxpayer shall be deemed to have disposed of the property for proceeds equal to that fair market value.

Editorial Note: The rule in subsection 97(1) is subject to the rollover provisions of subsection 97(2).

Interpretation Bulletins: *Secondary* — IT-338R2 Partnership interests — Effects on adjusted cost base resulting from the admission or retirement of a partner [Archived by the CRA]; IT-457R Election by professionals to exclude work in progress from income.

Income Tax Technical News: Issue No. 3, Use of partner's assets by a partnership.

► 97(2) ◄

(2) Rules where election by partners. Notwithstanding any other provision of this Act other than subsection 13(21.2), where a taxpayer at any time disposes of any property that is a capital property, Canadian resource property, foreign resource property, eligible capital property or inventory of the taxpayer to a partnership that immediately after that time is a Canadian partnership of which the taxpayer is a member, if the taxpayer and all the other members of the partnership jointly so elect in prescribed form within the time referred to in subsection 96(4), the following rules apply:

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 97(2) of the Act before paragraph (*a*) is replaced by the following:

(2) Rules where election by partners. Notwithstanding any other provision of this Act other than subsection 13(21.2), where a taxpayer at any time in a taxation year disposes of any property (other than a specified participating interest) that is a capital property, Canadian resource property, foreign resource property, eligible capital property or inventory of the taxpayer to a partnership that immediately after that time is a Canadian partnership of which the taxpayer is a member, if the taxpayer and all the other members of the partnership jointly so elect in prescribed form within the time referred to in subsection 96(4),

Applicable: To dispositions that occur in taxation years that begin after 2006, except that subsection 97(2) also applies to dispositions of a taxpayer that occur in a taxation year of the taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the taxpayer.

Explanatory Note: Subsection 97(2) of the Act provides rules that allow a person to transfer certain types of property on a tax-deferred "rollover" basis to a partnership.

Subsection 97(2) is amended so that it does not apply to a transfer of property that is a specified participating interest. The concept of a specified participating interest is generally relevant in the context of the foreign investment entity rules in sections 94.1 to 94.4. For more information on the definition "specified participating interest" in subsection 248(1), see the commentary on that definition.

This amendment applies to dispositions that occur in taxation years that begin after 2006.

(*a*) the provisions of paragraphs 85(1)(*a*) to (*f*) apply to the disposition as if

(i) the reference therein to "corporation's cost" were read as a reference to "partnership's cost",

(ii) the references therein to "other than any shares of the capital stock of the corporation or a right to receive any such shares" and to "other than shares of the capital stock of the corporation or a right to receive any such shares" were read as references to "other than an interest in the partnership",

(iii) the references therein to "shareholder of the corporation" were read as references to "member of the partnership",

(iv) the references therein to "the corporation" were read as references to "all the other members of the partnership", and

(v) the references therein to "to the corporation" were read as references to "to the partnership";

(*b*) in computing, at any time after the disposition, the adjusted cost base to the taxpayer of the taxpayer's interest in the partnership immediately after the disposition,

(i) there shall be added the amount, if any, by which the taxpayer's proceeds of disposition of the property exceed the fair market value, at the time of the disposition, of the consideration (other than an interest in the partnership) received by the taxpayer for the property, and

(ii) there shall be deducted the amount, if any, by which the fair market value, at the time of the disposition, of the consideration (other than an interest in the partnership) received by the taxpayer for the property so disposed of by the taxpayer exceeds the fair market value of the property at the time of the disposition; and

(*c*) where the property so disposed of by the taxpayer to the partnership is taxable Canadian property of the taxpayer, the interest in the partnership received by the taxpayer as consideration therefor shall be deemed to be taxable Canadian property of the taxpayer.

History: S. 97(2), that portion preceding paragraph (*a*) was amended by S.C. 1998, c. 19, s. 124(1), applicable, subject to section 247 of this Bill, (see Application below), to dispositions of property that occur after April 26, 1995. That part formerly read:

"(2) *Rules where election by partners.* Notwithstanding any other provision of this Act, other than subsection 85(5.1), where at any time after November 12, 1981 a taxpayer has disposed of any capital property, a Canadian resource property, a foreign resource property, an eligible capital property or an inventory to a partnership that immediately after that time was a Canadian partnership of which the taxpayer was a member, if the taxpayer and all the other members of the partnership have jointly so elected in prescribed form and within the time referred to in subsection 96(4), the following rules apply:"

Sec. 247, Chap. 19, 1998

247. [*Exception to coming-into-force.*]

(1) Subsections 73(4), 74(5), subsection 18(13) of the Act, as enacted by subsection 79(2) and subsections 89(1), (2) and (6), 94(1) and (2), 95(1), 116(3) to (5), 120(1) and 124(1) and (2) do not apply to the disposition of property by a person or partnership (in this subsection and subsection (2) referred to as the "transferor") that occurred before 1996

(*a*) to a person who was obliged on April 26, 1995 to acquire the property pursuant to the terms of an agreement in writing made on or before that day; or

(*b*) in a transaction, or as part of a series of transactions, the arrangements for which, evidenced in writing, were substantially advanced before April 27, 1995, other than a transaction or series a main purpose of which can reasonably be considered to have been to enable an unrelated person to obtain the benefit of

(i) any deduction in computing income, taxable income, taxable income earned in Canada or tax payable under the Act, or

(ii) any balance of undeducted outlays, expenses or other amounts.

(2) Election. Notwithstanding subsection (1), subsection 18(13) of the Act, as enacted by subsection 79(2), and the other subsections of this Act referred to in subsection (1) apply to a disposition in respect of which the transferor has filed with the Minister of National Revenue before the end of

the third month after the month in which this Act is assented to [Royal Assent June 18, 1998] an election in writing to have those subsections apply.

(3) Interpretation. For the purpose of subsection (1),

(*a*) a person shall be considered not to be obliged to acquire property where the person can be excused from the obligation if there is a change to the Act or if there is an adverse assessment under the Act;

(*b*) an "unrelated person" means any person who was not, or a partnership any member of which was not, related (otherwise than because of paragraph 251(5)(*b*) of the Act) to the transferor at the time of the disposition; and

(*c*) a person is deemed to be related to a partnership of which that person is a majority interest partner.

Editorial Note: Subsection 97(2) provides an elective rollover where property is transferred by an existing or new member of a partnership to the partnership. The provision incorporates by reference the rollover provisions of subsection 85(1), which otherwise applies to transfers of property by an existing or new shareholder to a corporation. Subject to certain limits (see the editorial note to subsection 85(1)), the elective rollover can be a full rollover, such that no gain arises on the transfer, or a partial rollover, such some gain arises on the transfer.

Related Sections: S. 40(3.3) When subsection (3.4) applies; s. 54, "superficial loss"; s. 69(11) Deemed proceeds of disposition; s. 85(1) Transfer of property to corporation by shareholders; s. 85(2) Transfer of property to corporation from partnership; s. 85(3) Where partnership wound up; s. 97(4) Where capital cost to partner exceeds proceeds of disposition; s. 102(1) Definition of "Canadian partnership"; ITAR s. 20(1.2) Other transfers of depreciable property.

Regulations: Part XI.

Interpretation Bulletins: *Primary* — IT-413R Election by members of a partnership under subsection 97(2). *Secondary* — IT-457R Election by professionals to exclude work in progress from income; IT-471R Merger of partnerships.

Information Circulars: IC 76-19R3 Transfer of property to a corporation under section 85; IC 88-2 General anti-avoidance rule — Section 245 of the Income Tax Act (paras. 12 and 22).

Income Tax Technical News: Issue No. 16, Continental Bank.

Forms: T2059.

Tax Topics: No. 1925, The Perils of "Rolling" Real Estate Inventory.

Tax Profile: March 2009 — Sale of Businesses to Employees: The Leveraged Buy-Out — Part I.

Canadian Tax Foundation: Ewens, "Tax Issues Affecting Partnerships", *1997 Conference Report*, 8:1.

Tax Window Files: Transfer of Property — Partnership, April 6, 2005, CRA Document No. 2004-0104291E5; Price Adjustment Clause — Rollovers — Letter to the CRA, July 6, 2004, CRA Document No. 2004-0081631E5 [Comments on procedures for price adjustment clauses in rollover transactions]; 97(2) and Retired Partners, June 30, 2004, CRA Document No. 2004-0073351E5; Assumption of Mortgages by Partnership, March 10, 2004, CRA Document No. 2003-0047905 [Assumption of excess mortgages by a general partnership was consideration for properties transferred under an election pursuant to subsection 97(2)]; Transfer of Property to Partnership, June 9, 2003, CRA Document No. 2003-0004835 [Partnership not considered a person related to taxpayer solely because the taxpayer is a majority interest partner; paragraph 85(1)(*e.2*) (see paragraph 97(2)(*a*)) not applicable if taxpayer contributes assets to the partnership in exchange for a nominal incremental partnership interest]; Exchange of Partnership Units, March 21, 2003, CRA Document No. 2002-0180005 [Subsection 97(2) could apply to exchange of limited partnership units for general partnership units of the same partnership].

Cases: The fact that the taxpayer had sought the tax benefits as its predominant purpose for the creation of a partnership did not negate the fact that the parties also had the ancillary purpose of sharing profit and there was otherwise a "partnership" under provincial law into which the taxpayer could rollover its assets under s. 97(2). *Continental Bank Leasing Corporation v. The Queen*, 98 DTC 6505 (S.C.C.), reversing 96 DTC 6355 (F.C.A.). See also *The Queen v. Continental Bank of Canada*, 98 DTC 6501 (S.C.C.) for the Crown's appeal on the capital gains versus income issue.

Since the amounts credited to the taxpayer's capital account comprised proceeds of disposition of the assets rolled over to its partnership, the taxpayer's elected amount was revised upwards to reflect the fair market value of the consideration paid for the rollover. *Vantem Holdings Ltd. et al. v. The Queen*, 98 DTC 1335 (T.C.C.).

► 97(3) ◄

(3) Where property acquired from majority interest partner. [Repealed by S.C. 1998, c. 19, s. 124(2).]

History: S. 97(3) was repealed by S.C. 1998, c. 19, s. 124(2), applicable, subject to section 247 of this Bill, (see Application below), to dispositions of property that occur after April 26, 1995. S. 97(3) formerly read:

"(3) *Where property acquired from majority interest partner.* Where, at any time after November 12, 1981, a taxpayer has disposed of any capital property to a partnership and, immediately after the disposition, the taxpayer was a majority interest partner of the partnership and, but for this subsection, the taxpayer would have had a capital loss therefrom, the following rules apply:

(*a*) notwithstanding any other provision of this Act, the taxpayer's capital loss therefrom shall be deemed to be nil; and

(*b*) except where the property so disposed of was, immediately after the disposition, an obligation that was payable to the partnership by a corporation that is related to the taxpayer or by a corporation or partnership that would be related to the taxpayer if paragraph 80(2)(*j*) applied for the purposes of this paragraph, in computing at any time after the disposition the adjusted cost base to the taxpayer of the taxpayer's interest in the partnership immediately after the disposition, there shall be added the amount, if any, by which

(i) the cost amount to the taxpayer, immediately before the disposition, of the property

exceeds

(ii) the taxpayer's proceeds of disposition of the property."

Sec. 247, Chap. 19, 1998

247. [*Exception to coming-into-force.*]

(1) Subsections 73(4), 74(5), subsection 18(13) of the Act, as enacted by subsection 79(2) and subsections 89(1), (2) and (6), 94(1) and (2), 95(1), 116(3) to (5), 120(1) and 124(1) and (2) do not apply to the disposition of property by a person or partnership (in this subsection and subsection (2) referred to as the "transferor") that occurred before 1996

(*a*) to a person who was obliged on April 26, 1995 to acquire the property pursuant to the terms of an agreement in writing made on or before that day; or

(*b*) in a transaction, or as part of a series of transactions, the arrangements for which, evidenced in writing, were substantially advanced before April 27, 1995, other than a transaction or series a main purpose of which can reasonably be considered to have been to enable an unrelated person to obtain the benefit of

(i) any deduction in computing income, taxable income, taxable income earned in Canada or tax payable under the Act, or

(ii) any balance of undeducted outlays, expenses or other amounts.

(2) Election. Notwithstanding subsection (1), subsection 18(13) of the Act, as enacted by subsection 79(2), and the other subsections of this Act referred to in subsection (1) apply to a disposition in respect of which the transferor has filed with the Minister of National Revenue before the end of the third month after the month in which this Act is assented to [Royal Assent June 18, 1998] an election in writing to have those subsections apply.

(3) Interpretation. For the purpose of subsection (1),

(*a*) a person shall be considered not to be obliged to acquire property where the person can be excused from the obligation if there is a change to the Act or if there is an adverse assessment under the Act;

(*b*) an "unrelated person" means any person who was not, or a partnership any member of which was not, related (otherwise than because of paragraph 251(5)(*b*) of the Act) to the transferor at the time of the disposition; and

(*c*) a person is deemed to be related to a partnership of which that person is a majority interest partner.

S. 97(3)(*b*), the portion before subparagraph (i), was amended by S.C. 1995, c. 21, s. 34(1), applicable to property disposed of after July 12, 1994, other than property disposed of pursuant to an agreement in writing entered into before July 13, 1994. That part formerly read:

"(*b*) in computing at any time after the disposition the adjusted cost base to the taxpayer of the taxpayer's interest in the partnership immediately after the disposition, there shall be added the amount, if any, by which"

Related Sections: S. 97(3) Where property acquired from majority interest partner; s. 98(5) Where partnership business carried on as sole proprietorship.

► 97(3.1) ◄

(3.1) Deemed majority interest partner. [Repealed by S.C. 1998, c. 19, s. 124(2).]

History: S. 97(3.1) was repealed by S.C. 1998, c. 19, s. 124(2), applicable, subject to section 247 of this Bill, (see Application below), to dispositions of property that occur after April 26, 1995. S. 97(3.1) formerly read:

"(3.1) *Deemed majority interest partner.* For the purposes of subsection (3), a taxpayer shall be deemed to be a majority interest partner of a partnership at any time if

(*a*) the total of the taxpayer's share, the share of the taxpayer's spouse and the share of a person or group of persons that, directly or indirectly in any matter whatever, controlled or was controlled by the taxpayer, of the income of the partnership from any source for the fiscal period of the partnership that includes that time exceeds 1/2 of the income of the partnership from the source for that period; or

(*b*) the total of the taxpayer's share, the share of the taxpayer's spouse and the share of a person or group of persons that, directly or indirectly in any manner whatever, controlled or was controlled by the taxpayer, of the total amount that would be paid to all members of the partnership (otherwise than as the share of any income of the partnership) if it were wound up at that time exceeds 1/2 of that amount."

Sec. 247, Chap. 19, 1998

247. [*Exception to coming-into-force.*]

(1) Subsections 73(4), 74(5), subsection 18(13) of the Act, as enacted by subsection 79(2) and subsections 89(1), (2) and (6), 94(1) and (2), 95(1), 116(3) to (5), 120(1) and 124(1) and (2) do not apply to the disposition of property by a person or partnership (in this subsection and subsection (2) referred to as the "transferor") that occurred before 1996

(*a*) to a person who was obliged on April 26, 1995 to acquire the property pursuant to the terms of an agreement in writing made on or before that day; or

(*b*) in a transaction, or as part of a series of transactions, the arrangements for which, evidenced in writing, were substantially advanced before April 27, 1995, other than a transaction or series a main purpose of which can reasonably be considered to have been to enable an unrelated person to obtain the benefit of

(i) any deduction in computing income, taxable income, taxable income earned in Canada or tax payable under the Act, or

(ii) any balance of undeducted outlays, expenses or other amounts.

(2) Election. Notwithstanding subsection (1), subsection 18(13) of the Act, as enacted by subsection 79(2), and the other subsections of this Act referred to in subsection (1) apply to a disposition in respect of which the transferor has filed with the Minister of National Revenue before the end of the third month after the month in which this Act is assented to [Royal Assent June 18, 1998] an election in writing to have those subsections apply.

(3) Interpretation. For the purpose of subsection (1),

(*a*) a person shall be considered not to be obliged to acquire property where the person can be excused from the obligation if there is a change to the Act or if there is an adverse assessment under the Act;

(*b*) an "unrelated person" means any person who was not, or a partnership any member of which was not, related (otherwise than because of paragraph 251(5)(*b*) of the Act) to the transferor at the time of the disposition; and

(*c*) a person is deemed to be related to a partnership of which that person is a majority interest partner.

► 97(4) ◄

(4) Where capital cost to partner exceeds proceeds of disposition. Where subsection (2) has been applicable in respect of the acquisition of any depreciable property by a partnership from a taxpayer who was, immediately after the taxpayer disposed of the property, a member of the partnership and the capital cost to the taxpayer of the property exceeds the taxpayer's proceeds of the disposition, for the purposes of sections 13 and 20 and any regulations made under paragraph 20(1)(*a*)

(*a*) the capital cost to the partnership of the property shall be deemed to be the amount that was the capital cost thereof to the taxpayer; and

(*b*) the excess shall be deemed to have been allowed to the partnership in respect of the property under regulations made under paragraph 20(1)(*a*) in computing income for taxation years before the acquisition by the partnership of the property.

Editorial Note: Subsection 97(4) ensures that any inherent recapture is preserved on a rollover of depreciable property to a partnership under subsection 97(2), namely where the partnership's deemed cost of the property is less than the transferor's capital cost of the property.

Related Sections: S. 13(21), "depreciable property"; s. 85(5) Rules on transfers of depreciable property; s. 111(8), "net capital loss", "non-capital loss".

Regulations: 1100(1).

► 97(5) ◄

(5) Acquisition of certain tools — capital cost and deemed depreciation. If subsection (2) has applied in respect of the acquisition at any particular time of any depreciable property by a partnership from an individual, the cost of the property to the individual was included in computing an amount under paragraph 8(1)(*r*) or (*s*) in respect of the individual, and the amount that would be the cost of the property to the individual immediately before the transfer if this Act were read without reference to subsection 8(7) (which amount is in this subsection referred to as the "individual's original cost") exceeds the individual's proceeds of disposition of the property,

(*a*) the capital cost to the partnership of the property is deemed to be equal to the individual's original cost; and

(*b*) the amount by which the individual's original cost exceeds the individual's proceeds of disposition in respect of the property is deemed to have been deducted by the partnership under paragraph 20(1)(*a*) in respect of the property in computing income for taxation years that ended before that particular time.

History: S. 97(5), the portion before paragraph (*a*) was replaced by S.C. 2007, c. 2, s. 14(1), applicable to the 2006 and subsequent taxation years.

S. 97(5), the portion before paragraph (*a*) formerly read:

"(5) *Acquisition of apprentice tools, re capital cost and deemed depreciation.* If subsection (2) has applied in respect of the acquisition at any particular time of any depreciable property by a partnership from an individual, the cost of the property to the individual was included in computing an amount under paragraph 8(1)(*r*) in respect of the individual, and the amount that would be the cost of the property to the individual immediately before the transfer if this Act were read without reference to subsection 8(7) (which amount is in this subsection referred to as the 'individual's original cost') exceeds the individual's proceeds of disposition of the property,"

S. 97(5) was added by S.C. 2002, c. 9, s. 32(1), applicable to dispositions that occur after 2001.

SECTION 98:

► 98(1) ◄

(1) Disposition of partnership property. For the purposes of this Act, where, but for this subsection, at any time after 1971 a partnership would be regarded as having ceased to exist, the following rules apply:

(*a*) until such time as all the partnership property and any property substituted therefor has been distributed to the persons entitled by law to receive it, the partnership shall be deemed not to have ceased to exist, and each person who was a partner shall be deemed not to have ceased to be a partner,

(*b*) the right of each such person to share in that property shall be deemed to be an interest in the partnership, and

(*c*) notwithstanding subsection 40(3), where at the end of a fiscal period of the partnership, in respect of an interest in the partnership,

(i) the total of all amounts required by subsection 53(2) to be deducted in computing the adjusted cost base to the taxpayer of the interest at that time

exceeds

(ii) the total of the cost to the taxpayer of the interest determined for the purpose of computing the adjusted cost base to the taxpayer of that interest at that time and all amounts required by subsection 53(1) to be added to the cost to the taxpayer of the interest in computing the adjusted cost base to the taxpayer of that interest at that time,

the amount of the excess shall be deemed to be a gain of the taxpayer for the taxpayer's taxation year that includes that time from a disposition at that time of that interest.

History: S. 98(1)(*c*), that portion following subparagraph (ii), was amended by S.C. 1995, c. 3, s. 26(1), applicable to the 1994 and subsequent taxation years except that, in its application to the 1994 and 1995 taxation years, the portion of paragraph 98(1)(*c*) after subparagraph (ii) shall be read as follows: "the amount of the excess shall be deemed to be a gain of the taxpayer for the taxpayer's taxation year that includes that time from a disposition at that

time of that interest and, for the purposes of section 110.6, that interest shall be deemed to have been disposed of by the taxpayer at that time."

S. 98(1)(*c*), that portion following subparagraph (ii), formerly read:

"the amount of the excess shall be deemed to be a gain of the taxpayer for the taxation year of the taxpayer that includes that time from a disposition at that time of that interest and, for the purposes of section 110.6, that interest shall be deemed to have been disposed of by the taxpayer in that year."

S. 98(1)(*c*), that portion following subparagraph (ii), was amended by S.C. 1994, c. 7, Sched. II, s. 73(1), applicable to the 1985 and subsequent taxation years. That portion formerly read:

"the amount of the excess shall be deemed to be a gain of the taxpayer for the year from a disposition at that time of that interest and, for the purposes of section 110.6, that interest shall be deemed to have been disposed of by the taxpayer in the year."

Related Sections: S. 98.1(2) Continuation of original partnership; s. 99(1) Fiscal period of terminated partnership; s. 99(2) Fiscal period of terminated partnership for individual member; s. 249.1(1) Definition of "fiscal period".

Interpretation Bulletins: *Primary* — IT-338R2 Partnership interests — Effects on adjusted cost base resulting from the admission or retirement of a partner [Archived by the CRA]; *Secondary* — IT-474R2 Amalgamations of Canadian corporations.

Tax Window Files: Time Partnership Ceases to Exist, November 5, 2003, CRA Document No. 2003-0037485.

Cases: A taxpayer partner remaining in possession of farming property following termination of a farming partnership, was not a partner and had no partnership income after 1978 where it was the intention of the partners to terminate the business in 1978. *Howatt v. M.N.R.*, 89 DTC 215 (T.C.C.).

► 98(1.1) ◄

(1.1) Continuing partnership interest. [Repealed by 1974-75-76, c. 26, s. 62(1).]

► 98(2) ◄

(2) Deemed proceeds. Subject to subsections (3) and (5) and 85(3), where at any time after 1971 a partnership has disposed of property to a taxpayer who was, immediately before that time, a member of the partnership, the partnership shall be deemed to have disposed of the property for proceeds equal to its fair market value at that time and the taxpayer shall be deemed to have acquired the property at an amount equal to that fair market value.

Interpretation Bulletins: *Secondary* — IT-457R Election by professionals to exclude work in progress from income.

► 98(3) ◄

(3) Rules applicable where partnership ceases to exist. Where at any particular time after 1971 a Canadian partnership has ceased to exist and all the partnership property has been distributed to persons who were members of the partnership immediately before that time so that immediately after that time each such person has, in each such property, an undivided interest that, when expressed as a percentage (in this subsection referred to as that person's "percentage") of all undivided interests in the property, is equal to the person's undivided interest, when so expressed, in each other such property, if each such person has jointly so elected in respect of the property in prescribed form and within the time referred to in subsection 96(4), the following rules apply:

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 98(3) of the Act before paragraph (*a*) is replaced by the following:

(3) Rules applicable where partnership ceases to exist. Where at any particular time after 1971 a Canadian partnership has ceased to exist and all the partnership property has been distributed to persons who were members of the partnership immediately before that time so that immediately after that time each such person has, in each such property, an undivided interest, or for civil law an undivided right (which undivided interest or undivided right is referred to in this subsection as an "undivided interest or right", as the case may be) that, when expressed as a percentage (referred to in this subsection as that person's "percentage") of all undivided interests or rights in the property, is equal to the person's undivided interest or right, when so expressed, in each other such property, if each such person has jointly so elected in respect of the property in prescribed form and within the time referred to in subsection 96(4), the following rules apply:

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*a*) each such person's proceeds of the disposition of the person's interest in the partnership shall be deemed to be an amount equal to the greater of

(i) the adjusted cost base to the person, immediately before the particular time, of the person's interest in the partnership, and

(ii) the amount of any money received by the person on the cessation of the partnership's existence, plus the person's percentage of the total of amounts each of which is the cost amount to the partnership of each such property immediately before its distribution;

(*b*) the cost to each such person of that person's undivided interest in each such property shall be deemed to be an amount equal to the total of

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of paragraph 98(3)(*b*) before subparagraph (i) of the Act is replaced by the following:

(*b*) the cost to each such person of that person's undivided interest or right in each such property shall be deemed to be an amount equal to the total of

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(i) that person's percentage of the cost amount to the partnership of the property immediately before its distribution,

(i.1) where the property is eligible capital property, that person's percentage of 4/3 of the amount, if any, determined for F in the definition "cumulative eligible capital" in subsection 14(5) in respect of the partnership's business immediately before the particular time, and

(ii) where the amount determined under subparagraph (*a*)(i) exceeds the amount determined under subparagraph (*a*)(ii), the amount determined under paragraph (*c*) in respect of the person's undivided interest in the property;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 98(3)(*b*)(ii) of the Act is replaced by the following:

(ii) where the amount determined under subparagraph (*a*)(i) exceeds the amount determined under subparagraph (*a*)(ii), the amount determined under paragraph (*c*) in respect of the person's undivided interest or right in the property;

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*c*) the amount determined under this paragraph in respect of each such person's undivided interest in each such property that was a capital property (other than depreciable property) of the partnership is such portion of the excess, if any, described in subparagraph (*b*)(ii) as is designated by the person in respect of the property, except that

(i) in no case shall the amount so designated in respect of the person's undivided interest in any such property exceed the amount, if any, by which the person's percentage of the fair market value of the property immediately after its distribution exceeds the person's percentage of the cost amount to the partnership of the property immediately before its distribution, and

(ii) in no case shall the total of amounts so designated in respect of the person's undivided interests in all such capital properties (other than depreciable property) exceed the excess, if any, described in subparagraph (*b*)(ii);

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 98(3)(*c*) of the Act is replaced by the following:

(*c*) the amount determined under this paragraph in respect of each such person's undivided interest or right in each such property that was a capital property (other than depreciable property) of the partnership is such portion of the excess, if any, described in subparagraph (*b*)(ii) as is designated by the person in respect of the property, except that

(i) in no case shall the amount so designated in respect of the person's undivided interest or right in any such property exceed the amount, if any, by which the person's percentage of the fair market value of the property immediately after its distribution exceeds the person's percentage of the cost amount to the partnership of the property immediately before its distribution, and

(ii) in no case shall the total of amounts so designated in respect of the person's undivided interest or right in all such capital properties (other than depreciable property) exceed the excess, if any, described in subparagraph (*b*)(ii);

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*d*) [Repealed by 1986, c. 55, s. 26(2).]

(*e*) where the property so distributed by the partnership was depreciable property of the partnership of a prescribed class and any such person's percentage of the amount that was the capital cost to the partnership of that property exceeds the amount determined under paragraph (*b*) to be the cost to the person of the person's undivided interest in the property, for the purposes of sections 13 and 20 and any regulations made under paragraph 20(1)(*a*)

(i) the capital cost to the person of the person's undivided interest in the property shall be deemed to be the person's percentage of the amount that was the capital cost to the partnership of the property, and

(ii) the excess shall be deemed to have been allowed to the person in respect of the property under regulations made under paragraph 20(1)(*a*) in computing income for taxation years before the acquisition by the person of the undivided interest;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 98(3)(*e*) of the Act is replaced by the following:

(*e*) where the property so distributed by the partnership was depreciable property of the partnership of a prescribed class and any such person's percentage of the amount that was the capital cost to the partnership of that property exceeds the amount determined under paragraph (*b*) to be the cost to the person of the person's undivided interest or right in the property, for the purposes of sections 13 and 20 and any regulations made under paragraph 20(1)(*a*)

(i) the capital cost to the person of the person's undivided interest or right in the property shall be deemed to be the person's percentage of the amount that was the capital cost to the partnership of the property, and

(ii) the excess shall be deemed to have been allowed to the person in respect of the property under regulations made under paragraph 20(1)(*a*) in computing income for taxation years before the acquisition by the person of the undivided interest or right;

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*f*) the partnership shall be deemed to have disposed of each such property for proceeds equal to the cost amount to the partnership of the property immediately before its distribution; and

(*g*) where the property so distributed by the partnership was eligible capital property in respect of the business,

(i) for the purposes of determining under this Act any amount relating to cumulative eligible capital, an eligible capital amount, an eligible capital expenditure or eligible capital property, each such person shall be deemed to have continued to carry on the business, in respect of which the property was eligible capital property and that was previously carried on by the partnership, until the time that the person disposes of the person's undivided interest in the property,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 98(3)(g)(i) of the Act is replaced by the following:

(i) for the purposes of determining under this Act any amount relating to cumulative eligible capital, an eligible capital amount, an eligible capital expenditure or eligible capital property, each such person shall be deemed to have continued to carry on the business, in respect of which the property was eligible capital property and that was previously carried on by the partnership, until the time that the person disposes of the person's undivided interest or right in the property,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(ii) for the purposes of determining the person's cumulative eligible capital in respect of the business, an amount equal to 3/4 of the amount determined under subparagraph (*b*)(i.1) in respect of the business shall be added to the amount otherwise determined in respect thereof for P in the definition "cumulative eligible capital" in subsection 14(5), and

(iii) for the purpose of determining after the particular time the amount required by paragraph 14(1)(*b*) to be included in computing the person's income in respect of any subsequent disposition of property of the business, the value determined for Q in the definition "cumulative eligible capital" in subsection 14(5) is deemed to be the amount, if any, of that person's percentage of the value determined for Q in that definition in respect of the partnership's business immediately before the particular time.

History: S. 98(3)(*g*)(iii) was amended by S.C. 2001, c. 17, s. 75(1), applicable in respect of taxation years that end after February 27, 2000. S. 98(3)(*g*)(iii) formerly read:

"(iii) for the purposes of determining after the particular time

(A) the amount deemed under subparagraph 14(1)(*a*)(v) to be the person's taxable capital gain, and

(B) the amount to be included under subparagraph 14(1)(*a*)(v) or paragraph 14(1)(*b*) in computing the person's income

in respect of any subsequent disposition of the property of the business, the amount determined for Q in the definition 'cumulative eligible capital' in subsection 14(5) shall be deemed to be the amount, if any, of that person's percentage of the amount determined under that clause in respect of the partnership's business immediately before the particular time."

S. 98(3)(*g*)(iii)(B) was amended by S.C. 1995, c. 3, s. 26(2), applicable to acquisitions of property that occur after February 22, 1994. S. 98(3)(*g*)(iii)(B) formerly read:

"(B) the amount to be included under paragraph 14(1)(*b*) in computing the income of the person"

S. 98(3)(*b*), that portion preceding subparagraph (ii), was amended by S.C. 1994, c. 7, Sched. VIII, s. 41(1), applicable to acquisitions of property occurring as a consequence of a partnership ceasing to exist after the beginning of its first fiscal period beginning after 1987. That part formerly read:

"(*b*) the cost to each such person of the person's undivided interest in each such property shall be deemed to be an amount equal to

(i) the person's percentage of the cost amount to the partnership of the property immediately before its distribution

plus"

S. 98(3)(*g*) was added by S.C. 1994, c. 7, Sched. VIII, s. 41(2), applicable to acquisitions of property occurring as a consequence of a partnership ceasing to exist after the beginning of its first fiscal period beginning after 1987.

Related Sections: S. 24(3) Where partnership has ceased to exist; s. 53(4) Recomputation of adjusted cost base on transfers and deemed dispositions; s. 69(11) Deemed proceeds of disposition; s. 80.03(3)(*c*) Surrender of capital property; s. 85(3) Where partnership wound up; s. 88(1)(*a*.2) Winding-up; s. 96(4) Election; s. 96(5) Late filing; s. 96(5.1) Special cases; s. 96(6) Penalty for late-filed election; s. 96(7) Unpaid balance of penalty; s. 98(2) Deemed proceeds; s. 98(4) Where s. (3) does not apply; ITAR s. 20(1.2) Other transfers of depreciable property.

Regulations: Part XI; Part XLVI.

Interpretation Bulletins: *Primary* — IT-471R Merger of partnerships. *Secondary* — IT-442R Bad Debts and Reserves for Doubtful Bad Debts; IT-457R Election by professionals to exclude work in progress from income.

Information Circulars: IC 76-19R3 Transfer of property to a corporation under section 85.

Forms: T2060.

Tax Window Files: Application of Subsection 98(3), February 14, 2006, CRA Document No. 2005-0141981E5 [Election not revocable]; Canadian Partnership — Interest Held by Another Partnership, September 5, 2002, CRA Document No. 2002-0147315 [Subsection 98(3) may apply if one or all of the members of the partnership (that ceased to exist) are partnerships]; Rollover on Death of Partner, April 29, 2002, CRA Document No. 2001-0109805 [Estate of deceased partner was not a member of the partnership before it ceased to exist, so that subsection 98(3) not applicable]; Wind-Up of Partnership — Partner with 0% Interest, 2000, CRA Document No. 2000-0028423 [For the purposes of subsection 98(3), each partner's share of income of partnership for fiscal period ending immediately before dissolution was added to adjusted cost base of the partner's interest in the partnership; other general comments regarding subsection 98(3) dissolution].

► 98(4) ◄

(4) Where s. (3) does not apply. Subsection (3) is not applicable in any case in which subsection (5) or 85(3) is applicable.

Related Sections: S. 85(3) Where partnership wound up; s. 98(5) Where partnership business carried on as sole proprietorship.

► 98(5) ◄

(5) Where partnership business carried on as sole proprietorship. Where at any particular time after 1971 a Canadian partnership has ceased to exist and within 3 months after the particular time one, but not more than one, of the persons who were, immediately before the particular time, members of the partnership (which person is in this subsection referred to as the "proprietor", whether an individual, a trust or a corporation) carries on alone the business that was the business of the partnership and continues to use, in the course of the business, any property that was, immediately before the particular time, partnership property and that was received by the proprietor as proceeds of disposition of the proprietor's interest in the partnership, the following rules apply:

(*a*) the proprietor's proceeds of disposition of the proprietor's interest in the partnership shall be deemed to be an amount equal to the greater of

(i) the total of the adjusted cost base to the proprietor, immediately before the particular time, of the proprietor's interest in the partnership, and

the adjusted cost base to the proprietor of each other interest in the partnership deemed by paragraph (*g*) to have been acquired by the proprietor at the particular time, and

(ii) the total of

(A) the cost amount to the partnership, immediately before the particular time, of each such property so received by the proprietor, and

(B) the amount of any other proceeds of the disposition of the proprietor's interest in the partnership received by the proprietor;

(*b*) the cost to the proprietor of each such property shall be deemed to be an amount equal to the total of

(i) the cost amount to the partnership of the property immediately before that time,

(i.1) where the property is eligible capital property, 4/3 of the amount, if any, determined for F in the definition "cumulative eligible capital" in subsection 14(5) in respect of the partnership's business immediately before the particular time, and

(ii) where the amount determined under subparagraph (*a*)(i) exceeds the amount determined under subparagraph (*a*)(ii), the amount determined under paragraph (*c*) in respect of the property;

(*c*) the amount determined under this paragraph in respect of each such property so received by the proprietor that is a capital property (other than depreciable property) of the proprietor is such portion of the excess, if any, described in subparagraph (*b*)(ii) as is designated by the proprietor in respect of the property, except that

(i) in no case shall the amount so designated in respect of any such property exceed the amount, if any, by which the fair market value of the property immediately after the particular time exceeds the cost amount to the partnership of the property immediately before that time, and

(ii) in no case shall the total of amounts so designated in respect of all such capital properties (other than depreciable property) exceed the excess, if any, described in subparagraph (*b*)(ii);

(*d*) [Repealed by 1986, c. 55, s. 26(4).]

(*e*) where any such property so received by the proprietor was depreciable property of a prescribed class of the partnership and the amount that was the capital cost to the partnership of that property exceeds the amount determined under paragraph (*b*) to be the cost to the proprietor of the property, for the purposes of sections 13 and 20 and any regulations made under paragraph 20(1)(*a*)

(i) the capital cost to the proprietor of the property shall be deemed to be the amount that was the capital cost to the partnership of the property, and

(ii) the excess shall be deemed to have been allowed to the proprietor in respect of the property under regulations made under paragraph 20(1)(*a*) in computing income for taxation years before the acquisition by the proprietor of the property;

(*f*) the partnership shall be deemed to have disposed of each such property for proceeds equal to the cost amount to the partnership of the property immediately before the particular time;

(*g*) where, at the particular time, all other persons who were members of the partnership immediately before that time have disposed of their interests in the partnership to the proprietor, the proprietor shall be deemed at that time to have acquired partnership interests from those other persons and not to have acquired any property that was property of the partnership; and

(*h*) where the property so received by the proprietor is eligible capital property in respect of the business,

(i) for the purpose of determining the proprietor's cumulative eligible capital in respect of the business, an amount equal to 3/4 of the amount determined under subparagraph (*b*)(i.1) in respect of the business shall be added to the amount otherwise determined in respect thereof for P in the definition "cumulative eligible capital" in subsection 14(5), and

(ii) for the purpose of determining after the particular time the amount required by paragraph 14(1)(*b*) to be included in computing the proprietor's income in respect of any subsequent disposition of property of the business, the value determined for Q in the definition "cumulative eligible capital" in subsection 14(5) is deemed to be the value, if any, determined for Q in that definition in respect of the partnership's business immediately before the particular time.

History: S. 98(5)(*h*)(ii) was amended by S.C. 2001, c. 17, s. 75(2), applicable in respect of taxation years that end after February 27, 2000. S. 98(5)(*h*)(ii) formerly read:

"(ii) for the purposes of determining after the particular time

(A) the amount deemed under subparagraph 14(1)(*a*)(v) to be the proprietor's taxable capital gain, and

(B) the amount to be included under subparagraph 14(1)(*a*)(v) or paragraph 14(1)(*b*) in computing the proprietor's income

in respect of any subsequent disposition of property of the business, the amount determined for Q in the definition 'cumulative eligible capital' in subsection 14(5) shall be deemed to be the amount, if any, determined for Q in that definition in respect of the partnership's business immediately before the particular time."

S. 98(5)(*h*)(ii)(B) was amended by S.C. 1995, c. 3, s. 26(3), applicable to acquisitions of property that occur after February 22, 1994. S. 98(5)(*h*)(ii)(B) formerly read:

"(B) the amount to be included under paragraph 14(1)(*b*) in computing the proprietor's income"

S. 98(5)(*b*), that portion preceding subparagraph (ii), was amended by S.C. 1994, c. 7, Sched. VIII, s. 41(3), applicable to acquisitions of property occurring as a consequence of a partnership ceasing to exist after the beginning of its first fiscal period beginning after 1987. That part formerly read:

"(*b*) the cost to the proprietor of each such property so received by the proprietor shall be deemed to be an amount equal to

(i) the cost amount to the partnership of the property immediately before that time,

plus"

S. 98(5)(*h*) was added by S.C. 1994, c. 7, Sched. VIII, s. 41(4), applicable to acquisitions of property occurring as a consequence of a partnership ceasing to exist after the beginning of its first fiscal period beginning after 1987.

S. 98(5)(*a*)(i) was amended by S.C. 1994, c. 7, Sched. II, s. 73(2), applicable to partnerships ceasing to exist after January 15, 1987. S. 98(5)(*a*)(i) formerly read:

"(i) the total of the adjusted cost base to the proprietor, immediately before the particular time, of the proprietor's interest in the partnership, and the cost to the proprietor of all interests in the partnership deemed by paragraph (*g*) to have been acquired by the proprietor at the particular time, and"

Related Sections: S. 24(3) Where partnership has ceased to exist; s. 53(4) Recomputation of adjusted cost base on transfers and deemed dispositions; s. 69(11) Deemed proceeds of disposition; s. 80.03(3)(*c*) Surrender of capital property; s. 88(1)(*a.2*) Winding-up; s. 98(2) Deemed proceeds; ITAR s. 20(1.2) Other transfers of depreciable property.

Regulations: Part XI.
Interpretation Bulletins: *Secondary* — IT-457R Election by professionals to exclude work in progress from income.
Information Circulars: IC 88-2 General Anti-Avoidance Rule (para. 22).
Tax Window Files: Partnerships — Property Rollover to Former Partner, February 17, 2004, CRA Document No. 2003-004698117 [General comments on whether subsection 98(5) would apply in different scenarios]; Rollover on Dissolution of Partnership, January 26, 2001, CRA Document No. 2000-0060725 [Subsection 98(5) not applicable where business is carried on by a partnership that was a member of the partnership that ceased to exist].

► 98(6) ◄

(6) Continuation of predecessor partnership by new partnership. Where a Canadian partnership (in this subsection referred to as the "predecessor partnership") has ceased to exist at any particular time after 1971 and, at or before that time, all of the property of the predecessor partnership has been transferred to another Canadian partnership (in this subsection referred to as the "new partnership") the only members of which were members of the predecessor partnership, the new partnership shall be deemed to be a continuation of the predecessor partnership and any member's partnership interest in the new partnership shall be deemed to be a continuation of the member's partnership interest in the predecessor partnership.

Related Sections: S. 54, "capital property", "proceeds of disposition"; s. 102 Definition of "Canadian partnership"; s. 248(1), "amount", "cost amount", "property".
Interpretation Bulletins: *Secondary* — IT-457R Election by professionals to exclude work in progress from income.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 98 of the Act is amended by adding the following after subsection (6):

(7) Where a partnership property is a specified participating interest. If at a particular time a partnership ceases to exist, the partnership is, at the time (in this subsection referred to as the "disposition time") that is immediately before the time that is immediately before the time that is immediately before the particular time, deemed

(*a*) to have disposed of each of its properties that is at the disposition time a specified participating interest for proceeds of disposition equal to the property's fair market value at the disposition time; and

(*b*) to have acquired the property immediately after the disposition time at a cost equal to that fair market value.

Applicable: To fiscal periods that begin after 2006, except that that subsection also applies to a fiscal period of a partnership that begins before 2007 if sections 94.1 to 94.4 apply to that fiscal period of the partnership.

Explanatory Note: New subsection 98(7) of the Act applies if at a particular time a partnership ceases to exist. In this case, the partnership is, at a time (the "disposition time") that is three instants before the particular time, deemed

- to have disposed of each of its properties that is at the disposition time a specified participating interest for proceeds of disposition equal to the property's fair market value at the disposition time; and
- to have acquired the property immediately after the disposition time at a cost equal to that fair market value.

This amendment applies to fiscal periods that begin after 2006.

SECTION 98.1:

► 98.1(1) ◄

(1) Residual interest in partnership. Where, but for this subsection, at any time after 1971 a taxpayer has ceased to be a member of a partnership of which the taxpayer was a member immediately before that time, the following rules apply:

(*a*) until such time as all the taxpayer's rights (other than a right to a share of the income or loss of the partnership under an agreement referred to in subsection 96(1.1)) to receive any property of or from the partnership in satisfaction of the taxpayer's interest in the partnership immediately before the time at which the taxpayer ceased to be a member of the partnership are satisfied in full, that interest (in this section referred to as a "residual interest") is, subject to sections 70, 110.6 and 128.1 but notwithstanding any other section of this Act, deemed not to have been disposed of by the taxpayer and to continue to be an interest in the partnership;

(*b*) where all of the taxpayer's rights described in paragraph (*a*) are satisfied in full before the end of the fiscal period of the partnership in which the taxpayer ceased to be a member thereof, the taxpayer shall, notwithstanding paragraph (*a*), be deemed not to have disposed of the taxpayer's residual interest until the end of that fiscal period;

(*c*) notwithstanding subsection 40(3), where at the end of a fiscal period of the partnership, in respect of a residual interest in the partnership,

(i) the total of all amounts required by subsection 53(2) to be deducted in computing the adjusted cost base to the taxpayer of the residual interest at that time

exceeds

(ii) the total of the cost to the taxpayer of the residual interest determined for the purpose of computing the adjusted cost base to the taxpayer of that interest at that time and all amounts required by subsection 53(1) to be added to the cost to the taxpayer of the residual interest in computing the adjusted cost base to the taxpayer of that interest at that time

the amount of the excess shall be deemed to be a gain of the taxpayer, for the taxpayer's taxation year that includes that time, from a disposition at that time of that residual interest; and

(*d*) where a taxpayer has a residual interest

(i) by reason of paragraph (*b*), the taxpayer shall, except for the purposes of subsections 110.1(4) and 118.1(8), be deemed not to be a member of the partnership, and

(ii) in any other case, the taxpayer shall, except for the purposes of subsection 85(3), be deemed not to be a member of the partnership.

History: S. 98.1(1)(*d*)(i) was replaced by S.C. 2006, c. 9, s. 63, in force on January 1, 2007 but does not apply in respect of monetary contributions made before that day.

S. 98.1(1)(*d*)(i) formerly read:

"(i) by reason of paragraph (*b*), the taxpayer shall, except for the purposes of subsections 110.1(4), 118.1(8) and 127(4.2), be deemed not to be a member of the partnership, and"

S. 98.1(1)(*a*) was amended by S.C. 1998, c. 19, s. 125(1) applicable to the 1994 and subsequent taxation years. S. 98.1(4)(*a*) formerly read:

"(*a*) until such time as all the taxpayer's rights (other than a right to a share of the income or loss of the partnership under an agreement referred to in subsection 96(1.1)) to receive any property of or from the partnership in satisfaction of the taxpayer's interest in the partnership immediately before the time that the taxpayer ceased to be a member of the partnership are satisfied in full, that interest (in this section referred to as a 'residual interest') shall, subject to sections 70 and 128.1 but notwithstanding any other section of this Act, be deemed not to have been disposed of by the taxpayer and to continue to be an interest in the partnership;"

S. 98.1(1)(*c*), the portion following subparagraph (ii), was amended by S.C. 1995, c. 3, s. 27(1), applicable to the 1994 and subsequent taxation years except that, in its application to the 1994 and 1995 taxation years, the portion of paragraph 98.1(1)(*c*) after subparagraph (ii) shall be read as follows:

"the amount of the excess shall be deemed to be a gain of the taxpayer, for the taxpayer's taxation year that includes that time, from a disposition at that time of that residual interest and, for the purposes of section 110.6, the residual interest shall be deemed to have been disposed of by the taxpayer at that time; and"

S. 98.1(1)(*c*), the portion following subparagraph (ii), formerly read:

"the amount of the excess shall be deemed to be a gain of the taxpayer, for the taxation year of the taxpayer that includes that time, from a disposition at that time of that residual interest and, for the purposes of section 110.6, the residual interest shall be deemed to have been disposed of by the taxpayer in that year; and"

S. 98.1(1)(*a*) was amended by S.C. 1994, c. 21, s. 45(1), applicable after 1992 except that, where a corporation elects in accordance with paragraph 111(4)(*a*), it is applicable to the corporation from the corporation's time of continuation (within the meaning assigned by that paragraph).

S. 98.1(1)(*a*) formerly read:

"(*a*) until such time as all the taxpayer's rights (other than a right to a share of the income or loss of the partnership under an agreement referred to in subsection 96(1.1)) to receive any property of or from the partnership in satisfaction of the taxpayer's interest in the partnership immediately before the time that the taxpayer ceased to be a member of the partnership are satisfied in full, that interest (in this section referred to as a 'residual interest') shall, subject to sections 48 and 70 but notwithstanding any other section of this Act, be deemed not to have been disposed of by the taxpayer and to continue to be an interest in the partnership;"

S. 98.1(1)(*c*), that portion following subparagraph (ii), was amended by S.C. 1994, c. 7, Sched. II, s. 74(1), applicable to the 1985 and subsequent taxation years. That portion formerly read:

"the amount of the excess shall be deemed to be a gain of the taxpayer for the year from a disposition at that time of that residual interest; and"

Related Sections: S. 98.2 Transfer of interest on death; s. 250(5.1) Continued corporation.

Interpretation Bulletins: *Primary* — IT-242R Retired partners; IT-278R2 Death of a partner or of a retired partner.

Tax Window Files: Late Filing Penalty, November 30, 2004, CRA Document No. 2004-009551117; ACB of Partnership Interest, October 29, 2002, CRA Document No. 2002-0146335

► 98.1(2) ◄

(2) Continuation of original partnership. Where a partnership (in this subsection referred to as the "original partnership") has or would but for subsection 98(1) have ceased to exist at a time when a taxpayer had rights described in paragraph (1)(*a*) in respect of that partnership and the members of another partnership agree to satisfy all or part of those rights, that other partnership shall, for the purposes of that paragraph, be deemed to be a continuation of the original partnership.

SECTION 98.2: Transfer of interest on death.

Where by virtue of the death of an individual a taxpayer has acquired a property that was an interest in a partnership to which, immediately before the individual's death, section 98.1 applied,

(*a*) the taxpayer shall be deemed to have acquired a right to receive partnership property and not to have acquired an interest in a partnership;

(*b*) the taxpayer shall be deemed to have acquired the right referred to in paragraph (*a*) at a cost equal to the amount determined to be the proceeds of disposition of the interest in the partnership to the deceased individual by virtue of paragraph 70(5)(*a*) or (6)(*d*), as the case may be; and

(*c*) section 43 is not applicable to the right.

Related Sections: S. 70(5)(*a*) Capital property of a deceased taxpayer; s. 70(6)(d) Where transfer or distribution to spouse or spouse trust; s. 98.1 Residual interest in partnership.

Interpretation Bulletins: *Secondary* — IT-242R Retired partners; IT-278R2 Death of a partner or of a retired partner; IT-349R3 Intergenerational transfers of farm property on death.

SECTION 99:

► 99(1) ◄

(1) Fiscal period of terminated partnership. Except as provided in subsection (2), where, at any time in a fiscal period of a partnership, the partnership would, but for subsection 98(1), have ceased to exist, the fiscal period shall be deemed to have ended immediately before that time.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 99(1) of the Act is replaced by the following:

SECTION 99:

(1) Fiscal period of terminated partnership. Subject to subsection (2), if, at any particular time in a fiscal period of a partnership, the partnership would, if this Act were read without reference to subsection 98(1), have ceased to exist, the fiscal period is deemed to have ended immediately before the time that is immediately before that particular time.

Applicable: Royal Assent.

Explanatory Note: Subsection 99(1) of the Act provides that, generally, a fiscal period of a partnership is considered to end immediately before the particular time that the partnership ceases to exist. In order to accommodate the calculation of adjusted cost base immediately before the particular time, under section 53 of the Act, subsection 99(1) is amended to provide that fiscal period of a partnership is considered to end immediately before the time that is immediately before the particular time. This amendment applies on Royal Assent.

Related Sections: S. 249 Definition of "taxation year"; s. 249.1 Definition of "fiscal period".

► 99(2) ◄

(2) Fiscal period of terminated partnership for individual member. Where an individual was a member of a partnership that, at any time in a fiscal period of a partnership, has or would have, but for subsection 98(1), ceased to exist, for the purposes of computing the individual's income for a taxation year the partnership's fiscal period may, if the individual so elects and subsection 249.1(4) does not apply in respect of the partnership, be deemed to have ended immediately before the time when the fiscal period of the partnership would have ended if the partnership had not so ceased to exist.

History: S. 99(2) was amended by S.C. 1996, c. 21, s. 17.1(1), applicable to fiscal periods that begin after 1994. S. 99(2) formerly read:

"(2) *Fiscal period for individual member of terminated partnership.* Where an individual was a member of a partnership that, at any time in a fiscal period of a partnership, has or would have, but for subsection 98(1), ceased to exist, for the purposes of computing the individual's income for a taxation year the partnership's fiscal period may, if the individual so elects, be deemed

to have ended immediately before the time when the fiscal period of the partnership would have ended if the partnership had not so ceased to exist."

Related Sections: S. 249 Definition of "taxation year"; s. 249.1 Definition of "fiscal period".
Interpretation Bulletins: *Secondary*— IT-179R Change of Fiscal Period; IT-287R2 Sale of inventory.
Information Circulars: IC 76-19R3 Transfer of property to a corporation under section 85.

► 99(3) ◄

(3) Validity of election. An election under subsection (2) is not valid unless the individual was resident in Canada at the time when the fiscal period of the partnership would, if the election were valid, be deemed to have ended.

► 99(4) ◄

(4) Idem. An election under subsection (2) is not valid if, for the individual's taxation year in which a fiscal period of the partnership would not, if the election were valid, be deemed to have ended but in which it would otherwise have ended, the individual elects to have applicable the rules set out in the *Income Tax Application Rules* that apply when two or more fiscal periods of a partnership end in the same taxation year.

Related Sections: S. 248(1), "individual"; s. 249.1(1) Definition of "fiscal period"; s. 255 Canada.

SECTION 100:

► 100(1) ◄

(1) Disposition of an interest in a partnership. Notwithstanding paragraph 38(*a*), a taxpayer's taxable capital gain for a taxation year from the disposition of an interest in a partnership to any person exempt from tax under section 149 shall be deemed to be

(*a*) 1/2 of such portion of the taxpayer's capital gain for the year therefrom as may reasonably be regarded as attributable to increases in the value of any partnership property of the partnership that is capital property other than depreciable property,

plus

(*b*) the whole of the remaining portion of that capital gain.

History: S. 100(1)(*a*) was amended by S.C. 2001, c. 17, s. 76(1), by replacing the reference to the fraction "3/4" with a reference to the fraction "1/2", applicable to taxation years that end after February 27, 2000 except that, where a taxation year of a taxpayer includes February 28, 2000 or October 17, 2000, or began after February 28, 2000 and ended before October 17, 2000, the reference to the fraction "1/2" in paragraph 100(1)(*a*) of the Act shall be read as a reference to the fraction in paragraph 38(*a*) of the Act that applies to the taxpayer for the year.

Related Sections: S. 13(21), "depreciable property"; s. 38, "taxable capital gain"; s. 39, "capital gain"; s. 54, "adjusted cost base", "capital property"; s. 100(2) Gain from disposition of interest in partnership; s. 248(1), "amount".
Tax Window Files: Transfer of Mutual Fund Limited Partnership, May 14, 1996, CRA Document No. 9612117.

► 100(2) ◄

(2) Gain from disposition of interest in partnership. In computing a taxpayer's gain for a taxation year from the disposition of an interest in a partnership, there shall be included, in addition to the amount thereof determined under subsection 40(1), the amount, if any, by which

(*a*) the total of all amounts required by subsection 53(2) to be deducted in computing the adjusted cost base to the taxpayer, immediately before the disposition, of the interest in the partnership,

exceeds

(*b*) the total of

(i) the cost to the taxpayer of the interest in the partnership determined for the purpose of computing the adjusted cost base to the taxpayer of that interest at that time, and

(ii) all amounts required by subsection 53(1) to be added to the cost to the taxpayer of that interest in computing the adjusted cost base to the taxpayer of that interest at that time.

Interpretation Bulletins: *Secondary*— IT-268R4 Inter vivos transfer of farm property to child; IT-268R3 (SR) Inter vivos transfer of farm property to child [Archived by the CRA]; IT-278R2 Death of a partner or of a retired partner.
Tax Window Files: Capital Gains Reserve, June 23, 2005, CRA Document No. 2005-0116081E5.

► 100(2.1) ◄

(2.1) Idem. Where, as a result of an amalgamation or merger, an interest in a partnership owned by a predecessor corporation has become property of the new corporation formed as a result of the amalgamation or merger and the predecessor corporation was not related to the new corporation, the predecessor corporation shall be deemed to have disposed of the interest in the partnership to the new corporation immediately before the amalgamation or merger for proceeds of disposition equal to the adjusted cost base to the predecessor corporation of the interest in the partnership at the time of the disposition and the new corporation shall be deemed to have acquired the interest in the partnership from the predecessor corporation immediately after that time at a cost equal to the proceeds of disposition.

Interpretation Bulletins: *Secondary*— IT-474R2 Amalgamations of Canadian corporations.

► 100(3) ◄

(3) Transfer of interest on death. Where by virtue of the death of an individual a taxpayer has acquired a property that was an interest in a partnership immediately before the individual's death (other than an interest to which, immediately before the individual's death, section 98.1 applied) and the taxpayer is not a member of the partnership and does not become a member of the partnership by reason of that acquisition,

(*a*) the taxpayer shall be deemed to have acquired a right to receive partnership property and not to have acquired an interest in a partnership;

(*b*) the taxpayer shall be deemed to have acquired the right referred to in paragraph (*a*) at a cost equal to the amount determined to be the proceeds of disposition of the interest in the partnership to the deceased individual by virtue of paragraph 70(5)(*a*) or (6)(*d*), as the case may be; and

(*c*) section 43 is not applicable to the right.

Interpretation Bulletins: *Secondary*— IT-349R2 Intergenerational transfers of farm property on death; IT-278R2 Death of a partner or of a retired partner.

► 100(4) ◄

(4) Loss re interest in partnership. Notwithstanding paragraph 39(1)(*b*), the capital loss of a taxpayer from the disposition at any time of an interest in a partnership is deemed to be the amount of the loss otherwise determined minus the total of all amounts each of which is the amount by which the taxpayer's share of the partnership's loss, in respect of a share of the capital stock of a corporation that was property of a particular partnership

at that time, would have been reduced under subsection 112(3.1) if the fiscal period of every partnership that includes that time had ended immediately before that time and the particular partnership had disposed of the share immediately before the end of that fiscal period for proceeds equal to its fair market value at that time.

History: S. 100(4) was amended by S.C. 1998, c. 19, s. 126(1) applicable to dispositions that occur after April 26, 1995. S. 100(4) formerly read:

"(4) *Loss re interest in partnership.* Notwithstanding paragraph 39(1)(*b*), the capital loss of a corporation from the disposition at any time of an interest in a partnership shall be deemed to be the amount of the loss otherwise determined minus the total of all amounts each of which is the amount by which the corporation's share of the partnership's loss, in respect of a share of the capital stock of a corporation that was property of the partnership at that time, would have been reduced pursuant to subsection 112(3.1) or (4.2) had the fiscal period of the partnership ended immediately before that time and had the partnership disposed of the share immediately before the end of that fiscal period for its fair market value at that time."

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 100 of the Act is amended by adding the following after subsection (4):

(5) **Replacement of partnership capital.** A taxpayer who pays an amount at any time in a taxation year is deemed to have a capital loss from a disposition of property for the year if

(*a*) the taxpayer disposed of an interest in a partnership before that time or, because of subsection (3), acquired before that time a right to receive property of a partnership;

(*b*) that time is after the disposition or acquisition, as the case may be;

(*c*) the amount would have been described in subparagraph 53(1)(*e*)(iv) had the taxpayer been a member of the partnership at that time; and

(*d*) the amount is paid pursuant to a legal obligation of the taxpayer to pay the amount.

Applicable: To the 1995 and subsequent taxation years.

Explanatory Note: Section 100 of the Act contains rules relevant to the calculation of capital gains and losses in respect of an interest in a partnership. There may be circumstances under which a former member of a partnership or an heir of a deceased member is required to pay an amount to the partnership to cover a deficit in the former member's equity account. Such a situation could arise, for instance, where the partnership has a net loss for the partnership's fiscal period in which the taxpayer ceased to be a member. The former member may have been deemed to have realized a capital gain under subsection 100(2) of the Act upon disposition of the partnership interest, if the former member had at that time a "negative" adjusted cost base under section 54 of the Act (if such a negative balance were allowed under that section).

New subsection 100(5) of the Act, which generally applies to the 1995 and subsequent taxation years, deems a taxpayer to have a capital loss from the payment by the taxpayer of an amount after the time of disposition of the partnership interest, if that amount would have been a capital contribution to the partnership if the taxpayer had still been a member at the time of the payment. The loss is available to the former member or to an heir who has been deemed by subsection 100(3) of the Act to have acquired a right to acquire partnership property.

Example

Mr. Green was a partner in XYZ Partnership until June 30. The fiscal period end of the partnership was December 31. The adjusted cost base of his partnership interest on January 1 was Nil. From January to June 30 he withdrew $16,000 in capital.

Shortly after the fiscal period end, all the partners agree that Mr. Green's share of the partnership loss for the period was $20,000. During the following year he paid $36,000 owing by him to the partnership in satisfaction of his obligation.

A summary of Mr. Green's adjusted cost base is as follows:

		Adjusted Cost Base
January 1, Year 1:		Nil
January 31, Drawings	$ <16,000>	<16,000>
Retirement of Mr. Green, June 30		
December 31, Year 1, Share of loss for 6 months	<20,000>	<36,000>
March 31 — Repayment of partnership capital	36,000	Nil

Mr. Green is entitled to claim a partnership loss of $20,000 for the taxation year in which he retired ("Year 1"). He had a $36,000 "negative" adjusted cost base for his partnership interest as at the time that he left the partnership, giving rise to a deemed capital gain under subsection 100(2) of the Act for Year 1. However, he will be allowed a $36,000 capital loss under subsection 100(5) for the taxation year in which he repaid the deficit.

SECTION 101: Disposition of farmland by partnership.

Where a taxpayer was a member of a partnership at the end of a taxation year of the partnership in which the partnership disposed of land used in a farming business of the partnership, there may be deducted in computing the taxpayer's income for the taxpayer's taxation year in which the taxation year of the partnership ended, 1/2 of the total of all amounts each of which is an amount in respect of that taxation year of the taxpayer or any preceding taxation year of the taxpayer ending after 1971, equal to the taxpayer's loss, if any, for the year from the farming business, to the extent that the loss

(*a*) was, by virtue of section 31, not deductible in computing the taxpayer's income for the year;

(*b*) was not deducted for the purpose of computing the taxpayer's taxable income for the taxpayer's taxation year in which the partnership's taxation year in which the land was disposed of ended, or for any preceding taxation year of the taxpayer;

(*c*) did not exceed that proportion of the total of

(i) taxes (other than income or profits taxes or taxes imposed by reference to the transfer of the property) paid by the partnership in its taxation year ending in the year or payable by it in respect of that taxation year to a province or a Canadian municipality in respect of the property, and

(ii) interest paid by the partnership in its taxation year ending in the year or payable by it in respect of that taxation year, pursuant to a legal obligation to pay interest on borrowed money used to acquire the property or on any amount as consideration payable for the property,

(to the extent that the taxes and interest were included in computing the loss of the partnership for that taxation year from the farming business), that

(iii) the taxpayer's loss from the farming business for the year

is of

(iv) the partnership's loss from the farming business for its taxation year ending in the year; and

(*d*) did not exceed the remainder obtained when

(i) the total of each of the taxpayer's losses from the farming business for taxation years preceding the year (to the extent that those losses are included in computing the amount determined under this section in respect of the taxpayer)

is deducted from

(ii) twice the amount of the taxpayer's taxable capital gain from the disposition of the land.

History: S. 101 was amended by S.C. 2001, c. 17, s. 77(1), by replacing the reference to the fraction "3/4" with a reference to the fraction "1/2" and by replacing the reference to the expression "4/3 of" with a reference to the word "twice", applicable to taxation years that end after February 27, 2000 except that, in applying section 101 of the Act to a taxpayer's taxation year that includes February 28, 2000 or October 17, 2000, or began after February 28, 2000 and ended before October 17, 2000,

(*a*) the reference to the fraction "1/2" in section 101 of the Act shall be read as a reference to the fraction in paragraph 38(a) of the Act, as enacted by subsection 22(1), that applies to the taxpayer for the year; and

(*b*) the reference to the word "twice" in section 101 of the Act shall be read as a reference to the expression "the fraction that is the reciprocal of the fraction in paragraph 38(*a*), as enacted by subsection 22(1) of the *Income Tax Amendments Act, 2000* [S.C. 2001, c. 17], that applies to the taxpayer for the year, multiplied by".

Related Sections: S. 53(1)(i) Adjustments to cost base — Land used in farming; s. 96(1.1) Allocation of share of income to retiring partner; s. 111(7) Loss (from farming business) deemed not to be a loss in certain cases; s. 248(1), "amount", "business", "farming", "property", "province", "taxable income"; s. 249 Definition of "taxation year".

SECTION 102:

► 102(1) ◄

(1) Definition of "Canadian partnership". In this subdivision, "Canadian partnership" means a partnership all of the members of which were, at any time in respect of which the expression is relevant, resident in Canada.

Interpretation Bulletins: *Secondary* — IT-338R2 Partnership interests — Effects on adjusted cost base resulting from the admission or retirement of a partner [Archived by the CRA].
Tax Topics: No. 1802, Non-Resident Partners and Canadian Real Estate.
Tax Profile: September 2006 — Canadian Acquisition of U.S. Real Estate.

► 102(2) ◄

(2) Member of a partnership. In this subdivision, a reference to a person or a taxpayer who is a member of a particular partnership shall include a reference to another partnership that is a member of the particular partnership.

Related Sections: S. 255 Canada.
Interpretation Bulletins: *Secondary* — IT-413R Election by members of a partnership under subsection 97(2).

SECTION 103:

► 103(1) ◄

(1) Agreement to share income, etc., so as to reduce or postpone tax otherwise payable. Where the members of a partnership have agreed to share, in a specified proportion, any income or loss of the partnership from any source or from sources in a particular place, as the case may be, or any other amount in respect of any activity of the partnership that is relevant to the computation of the income or taxable income of any of the members thereof, and the principal reason for the agreement may reasonably be considered to be the reduction or postponement of the tax that might otherwise have been or become payable under this Act, the share of each member of the partnership in the income or loss, as the case may be, or in that other amount, is the amount that is reasonable having regard to all the circumstances including the proportions in which the members have agreed to share profits and losses of the partnership from other sources or from sources in other places.

Interpretation Bulletins: *Secondary* — IT-338R2 Partnership interests — Effects on adjusted cost base resulting from the admission or retirement of a partner [Archived by the CRA].
Income Tax Technical News: Issue No. 30, Computation/Allocation of Partnership Income and Losses.
Tax Topics: No. 1841, Recent Decisions Affecting Allocations in Partnerships — Part 2; No. 1840, Recent Decisions Affecting Allocations in Partnerships — Part 1; No. 1657, Can a Partnership Pay a Salary to a Partner? *Archbold* Revisited.
Tax Profile: November 2003 — Revenue Canada Round Table.
Canadian Petroleum Tax Journal: Partnerships and other Dangerous Liaisons, Mar and Rowe, Vol. 171 No. 1 2008; Recent Developments in Relation to Partnerships, Michael J. Flatters, Vol. 10 No. 1 1997.
Tax Window Files: Estate Freeze and Partnerships, June 28, 2004, CRA Document No. 2004-0070001C6; Large Corporations Tax — Allocation of Partnership Capital, June 20, 2002, CRA Document No. 2002-0117125 [Allocation of partnership capital for purposes of Part I.3 tax where one partner allocated the first $100,000 of partnership income and the balance of income or loss divided equally]; Allocation of Partnership Income, February 19, 1998, CRA Document No. 9639785 [Computation of income of a partner not dependent on amounts paid to the partner by the Partnership].
Cases: W, a company with significant accumulated losses, joined the taxpayers' existing partnership in March 1992. In July 1992, the partnership sold one of its properties for over $10 million and allocated 80% of the profits to W. Most of this amount was reallocated to the taxpayers since the 80% allocation was unreasonable and the principal reason for bringing W into the partnership was the reduction of tax. *XCO Investments Ltd. et al. v. The Queen,* 2007 DTC 5146 (F.C.A.), affirming 2005 DTC 1731 (T.C.C.).

The way in which G and M shared their workload in 1979, together with their testimony as to what had transpired during that year, led to the conclusion that G's partnership share was 70% and that M's was 30%, such that the 1979 losses were apportioned between them in these proportions. *Graves et al. v. The Queen,* 90 DTC 6300 (F.C.T.D.), reversing in part 83 DTC 548 (T.C.C.).

► 103(1.1) ◄

(1.1) Agreement to share income, etc., in unreasonable proportions. Where two or more members of a partnership who are not dealing with each other at arm's length agree to share any income or loss of the partnership or any other amount in respect of any activity of the partnership that is relevant to the computation of the income or taxable income of those members and the share of any such member of that income, loss or other amount is not reasonable in the circumstances having regard to the capital invested in or work performed for the partnership by the members thereof or such other factors as may be relevant, that share shall, notwithstanding any agreement, be deemed to be the amount that is reasonable in the circumstances.

Interpretation Bulletins: *Primary* — IT-231R2 Partnerships — Partners not dealing at arm's length.
Canadian Tax Foundation: Ewens, "Tax Issues Affecting Partnerships", *1997 Conference Report,* 8:1.
Tax Window Files: Allocation of Partnership Income Between Spouse Partners, January 14, 2004, CRA Document No. 2003-0029571E5 [Partnership income allocation method did not appear to be reasonable considering the amount of net capital invested and work performed by each spouse/partner]; Salary Paid to Member of Partnership, May 23, 2002, CRA Document No. 2002-0132797 ["Salary" paid to partner not deductible expense of partnership; allocation of partnership income and loss to spouse partners may not be reasonable as per subsection 103(1.1)].

► 103(2) ◄

(2) Definition of "losses". For the purposes of this section, the word "losses" when used in the expression "profits and losses" means losses determined without reference to other provisions of this Act.

Related Sections: S. 4, "income or loss from a source in a place"; s. 103(1) Agreement to share income, etc., so as to reduce or postpone tax otherwise payable; s. 248(1), "amount", "assessment".

Subdivision k — Trusts and their Beneficiaries

SECTION 104:

► 104(1) ◄

(1) Reference to trust or estate. In this Act, a reference to a trust or estate (in this subdivision referred to as a "trust") shall, unless the context otherwise requires, be read to include a reference to the trustee, executor, administrator, liquidator of a succession, heir or other legal representative having ownership or control of the trust property, but, except for the purposes of this subsection, subsection (1.1), subparagraph (*b*)(v) of the definition "disposition" in subsection 248(1) and paragraph (*k*) of that definition, a trust is deemed not to include an arrangement under which the trust can reasonably be considered to act as agent for all the beneficiaries under the trust with respect to all dealings with all of the trust's property unless the trust is described in any of paragraphs (*a*) to (*e*.1) of the definition "trust" in subsection 108(1).

History: S. 104(1) was amended by S.C. 2001, c. 17, s. 78(1), applicable to the 1998 and subsequent taxation years except that, in connection with transfers of property that occur before December 24, 1998, subsection 104(1) of the Act shall be read as follows:

"S. 104.

(1) In this Act, a reference to a trust or estate (in this subdivision referred to as a 'trust') shall, unless the context otherwise requires, be read to include a reference to the trustee, executor, administrator, liquidator of the succession, heir or other legal representative having ownership or control of the trust property."

S. 104(1) formerly read:

"S. 104. *Reference to trust or estate.*

(1) In this Act, a reference to a trust or estate (in this subdivision referred to as a 'trust') shall be read as a reference to the trustee or the executor, administrator, heir or other legal representative having ownership or control of the trust property."

Editorial Note: The reference to an agency arrangement in subsection 104(1) is meant to exclude so-called bare trusts from the trust provisions of the Act. In trust law, a trust need not be established by means of a written trust instrument. However, in the absence of such, it may be difficult to persuade the CRA of the existence of a trust.

Related Sections: S. 75(2) Trusts; s. 94(1) Application of certain provisions to trusts not resident in Canada; s. 108(1), "accumulating income", "beneficiary", "inter vivos trust", "testamentary trust"; "trust"; s. 132(6) Meaning of "mutual fund trust"; s. 149(5) Exception re investment income of certain clubs; s. 248(1), "employee benefit plan", "individual", "non-resident", "property", "share"; s. 249 Definition of "taxation year"; s. 251(1)(*b*) Arm's length; s. 256(7) Acquiring control.

Interpretation Bulletins: *Primary* — IT-85R2 Health and welfare trusts for employees. *Secondary* — IT-320R3 Losses of a corporation — The effect that acquisitions of control, amalgamations, and windings-up have on their deductibility — After January 15, 1987 (see para. 10); IT-447 Residence of a trust or estate; IT-493 Agency cooperative corporations [Archived by the CRA]; IT-502 Employee benefit plans and employee trusts.

Income Tax Technical News: Issue No. 7, Bare trusts.

Canadian Tax Foundation: Hoffstein, "Alter Ego Trusts/Joint Partner Trusts — Tips, Traps & Planning", *2004 Ontario Tax Conference*, 12A:1; Stephan and van der Wissel, "Advising the Personal Representative of a Deceased Taxpayer: Selected Post Mortem Issues", *2004 Conference Report*, 36:1-45; Schusheim, "Trust Basics: An Overview", *1998 Conference Report*, 32:1; Cullity, "Using Trusts In Estate And Tax Planning", *1991 Ontario Tax Conference*, 5:1-49.

Tax Window Files: Existence of trust, November 7, 2007, CRA Document No. 2007-0256521E5 [Whether trust exists where trustee and beneficiary same person; question of fact, but probably not]; Distribution from bare trust, September 11, 2006, CRA Document No. 2006-0185601C6 [No disposition arises on the distribution of the trust's property to the contributor who is the beneficiary of the bare trust]; Estates — Affiliated Persons, March 30, 2006, CRA Document No. 2004-0105471E5 [Deceased person not affiliated with his or her estate]; Acquisition of Control — Replacement of Trustees, May 24, 2005, CRA Document No. 2004-0087761E5 [Whether control of corporation acquired when trustee of trust holding the shares of the corporation is replaced]; Trusts — Ownership and Control of Trust Property, April 28, 2004, CRA Document No. 2004-0071191I7 [Expression "having ownership or control of the trust property" relates to all parties listed in subsection 104(1) and not just legal representative]; In Trust Accounts, July 21, 2003, CRA Document No. 2002-017676 [Legal nature of "in trust" accounts depends on the facts]; Treatment of Deposit Receipts, 2001, CRA Document No. 2001-0086333 [Custodian of shares was agent for shareholders under deposit agreement; arrangement not a trust (except for certain purposes) pursuant to subsection 104(1)].

Cases: *Thibodeau Family Trust v. The Queen*, (F.C.T.D.) 78 DTC 6376 is the leading case on the determination of the residence of a trust. The Court held that the trust was a resident in Bermuda because the majority of the trustees were resident in Bermuda and the trust document permitted a majority decision on all matters of trustee discretion. In *Holden v. M.N.R.*, 1 DTC 243 (T.C.C.), the Privy Council agreed with the Supreme Court of Canada that the residence of the beneficiaries of an estate was irrelevant in determining residence of the estate.

An express trust must manifest the "three certainties": certainty of intent; certainty of subject matter; and certainty of objects. There have been several instances where the courts have looked at trust arrangements and disregarded them because of a lack of one of the three certainties. See *Kingsdale Securities Co. Limited v. M.N.R.*, 74 DTC 6674 (F.C.A.); *Atinco Paper Products Limited v. The Queen*, 78 DTC 6387 (F.C.A.); *Ablan Leon (1964) Limited v. M.N.R.*, 76 DTC 6280 (F.C.A.). It remains true that the courts may uphold undocumented trusts — see, for instance, *Joseph Blum v. M.N.R.*, 99 DTC 290 (T.C.C.) and *Koons v. Quibell* (1998) 164 Sask. R. 149. In *Fraser v. The Queen*, 95 DTC 5684 (F.C.A.), affirming 91 DTC 5123 (F.C.T.D.) a pooled mortgage fund was held to possess the three certainties.

The courts will be inclined to disregard a trust established for tax planning purposes if the paperwork and accounting are "sloppy" — see *Romkey et al. v. The Queen*, 2000 DTC 6047 (F.C.A.), affirming 97 DTC 719 (T.C.C.).

The beneficial tax treatment of an estate as a testamentary trust cannot be prolonged artificially. When the administration of an estate (and the distribution of its assets) ought to be complete, the estate will lose its status as a testamentary trust — *Grayson v. M.N.R.*, 90 DTC 1108 (T.C.C.).

► 104(1.1) ◄

(1.1) Restricted meaning of "beneficiary". Notwithstanding subsection 248(25.1) and for the purposes of subsection (1), paragraph (4)(*a*.4), subparagraph 73(1.02)(*b*)(ii) and paragraph 107.4(1)(*e*), a person or partnership is deemed not to be a beneficiary under a trust at a particular time where the person or partnership is beneficially interested in the trust at the particular time solely because of

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 104(1.1) of the Act before paragraph (*a*) is replaced by the following:

(1.1) Restricted meaning of "beneficiary". Notwithstanding subsection 248(25), for the purposes of subsection (1), paragraph (4)(*a*.4), subparagraph 73(1.02)(*b*)(ii) and paragraph 107.4(1)(*e*), a person or partnership is deemed not to be a beneficiary under a trust at a particular time if the person or partnership is beneficially interested in the trust at the particular time solely because of

Applicable: To the 1998 and subsequent taxation years.

Explanatory Note:

Restricted Meaning of "beneficiary"

Subsection 104(1.1) of the Act applies for the purpose of identifying beneficiaries under a trust for the purposes of subsection 104(1), subparagraph 73(1.02)(*b*)(ii) and paragraphs 104(4)(*a*.4) and 107.4(1)(*e*) of the Act.

Subsection 104(1.1) is amended to clarify that it applies notwithstanding subsection 248(25) of the Act. Subsection 248(25) of the Act describes, for other purposes of the Act, the circumstances in which a person or partnership is considered to be "beneficially interested" in a trust.

This amendment applies to the 1998 and subsequent taxation years.

(*a*) a right that may arise as a consequence of the terms of the will or other testamentary instrument

of an individual who, at the particular time, is a beneficiary under the trust;

(*b*) a right that may arise as a consequence of the law governing the intestacy of an individual who, at that time, is a beneficiary under the trust;

(*c*) a right as a shareholder under the terms of the shares of the capital stock of a corporation that, at the particular time, is a beneficiary under the trust;

(*d*) a right as a member of a partnership under the terms of the partnership agreement, where, at the particular time, the partnership is a beneficiary under the trust; or

(*e*) any combination of rights described in paragraphs (*a*) to (*d*).

History: S. 104(1.1) was added by S.C. 2001, c. 17, s. 78(1), applicable to the 1998 and subsequent taxation years.

Editorial Note: The restricted meaning of "beneficiary" in subsection 104(1.1) applies mainly for the purposes of a trust to which property is transferred without a change in the beneficial ownership of the property and in which no one but the settlor has a right as a beneficiary. The provision ensures that so-called self-benefit trusts and protective trusts can qualify for the rollover in subsection 73(1) (or in some cases subsection 107.4(3)) where a person other than the settlor holds only a right or potential right in the trust as described in paragraphs (*a*) through (*e*) of the provision.

Related Sections: S. 73(1.02) Exception for transfers; s. 107.4(1) Qualifying disposition; s. 107.4(4) Fair market value of vested interest in trust; s. 248(25) Beneficially interested.

Tax Profile: February 2002 — Transferring Property to a Trust After the Enactment of Bill C-22.

Tax Window Files: Transfer of Property to Trust, May 24, 2001, CRA Document No. 2000-0048735 [A general power of appointment retained by the contributor exercisable only through his will did not result in the creation of any absolute or contingent rights as a beneficiary for the purpose of 73(1.02)(*b*)(ii) or 107.4(1)(*e*) because of 104(1.1)].

► 104(2) ◄

(2) Taxed as individual. A trust shall, for the purposes of this Act, and without affecting the liability of the trustee or legal representative for that person's own income tax, be deemed to be in respect of the trust property an individual, but where there is more than one trust and

(*a*) substantially all of the property of the various trusts has been received from one person, and

(*b*) the various trusts are conditioned so that the income thereof accrues or will ultimately accrue to the same beneficiary, or group or class of beneficiaries,

such of the trustees as the Minister may designate shall, for the purposes of this Act, be deemed to be in respect of all the trusts an individual whose property is the property of all the trusts and whose income is the income of all the trusts.

Editorial Note: S. 104(2) deems a trust (which includes an estate) to be an individual and therefore a separate taxpayer. S. 117(2) provides that testamentary trusts are taxed according to the same progressive marginal tax rates applicable to natural individuals. Accordingly, creating multiple testamentary trusts can result in advantageous post-mortem income-splitting. However, s. 104(2) provides that the Minister may, given certain circumstances, tax several trusts as a single taxpayer. The CRA's administrative position is that the discretion accorded the Minister under s. 104(2) will not be exercised where a testator creates a separate trust for each of his or her children (see CRA Document No. 9304865).

The CRA's position is that "substantially all" means 90% or more.

Related Sections: S. 7(1.11) Non-arm's length relationship with trusts; s. 12(1)(*m*) Benefits from trusts; s. 127.53(1) Basic exemption; s. 127.54(2) Foreign tax credit; s. 149(5) Exception re investment income of certain clubs; s. 150(1)(*c*) Filing returns of income — general rule; s. 248(1), "individual".

Regulations: Part II.

Interpretation Bulletins: *Secondary* — IT-406R2 Tax payable by an inter vivos trust; IT-447 Residence of a trust or estate.

Forms: T3.

Guides: T4013 T3 Guide and Trust Return.

Canadian Tax Foundation: Reiss, "Testamentary Trust Planning: Dying is Harder Than You Think", *2005 Canadian Tax Journal*, No. 4, 1090–1110.

Tax Window Files: Application of 104(2), December 13, 2005, CRA Document No. 2004-0090941E5 [Members of the same family may constitute a "group or class of beneficiaries" for purposes of s. 104(2)]; Whether a Trust Is an Individual for Purposes of A Tax Convention, November 28, 2001, CRA Document No. 2001-0108517 [A trust is generally not an individual for the purposes of Canada's income tax conventions]; Multiple Trusts, May 20, 1993, CRA Document No. 9304865 [Where parent settles two trusts, one for each child, the trusts are not treated as one individual under subsection 104(2)].

Cases: S. 104(2) was not applicable regarding four trusts where the beneficiary of each trust was a different child of the settlor. *Mitchell v. M.N.R.*, 56 DTC 521 (T.A.B.).

► 104(3) ◄

(3) Deduction not permitted. [Repealed by 1988, c. 55, s. 71(1).]

► 104(4) ◄

(4) Deemed disposition by trust. Every trust is, at the end of each of the following days, deemed to have disposed of each property of the trust (other than exempt property) that was capital property (other than excluded property or depreciable property) or land included in the inventory of a business of the trust for proceeds equal to its fair market value (determined with reference to subsection 70(5.3)) at the end of that day and to have reacquired the property immediately after that day for an amount equal to that fair market value, and for the purposes of this Act those days are

(*a*) where the trust

(i) is a trust that was created by the will of a taxpayer who died after 1971 and that, at the time it was created, was a trust,

(i.1) is a trust that was created by the will of a taxpayer who died after 1971 to which property was transferred in circumstances to which paragraph 70(5.2)(*b*) or (*d*) or (6)(*d*) applied and that, immediately after any such property vested indefeasibly in the trust as a consequence of the death of the taxpayer, was a trust,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 104(4)(*a*)(i.1) of the Act is replaced by the following:

(i.1) is a trust that was created by the will of a taxpayer who died after 1971 to which property was transferred in circumstances to which paragraph 70(5.2)(*b*) or (*d*) (as that paragraph read in its application to taxation years that began before 2007 or, where sections 94.1 to 94.4 apply to a taxation year of a taxpayer that begins before 2007, as that paragraph read in its application to taxation years of the taxpayer that began before the first day of the first such taxation year) or paragraph (5.2)(*c*) or (6)(*d*) applied and that, immediately after any such property vested indefeasibly in the trust as a consequence of the death of the taxpayer, was a trust,

Applicable: To trust taxation years that begin after 2006, as well as to a taxation year of a trust that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the trust.

Explanatory Note: Subsection 104(4) of the Act sets out what is generally referred to as the "21-year deemed realization rule" for trusts. The purpose of subsection 104(4) is to prevent the use of trusts to defer indefinitely the recognition for tax purposes of gains accruing on capital property. Subsection 104(4) generally treats capital property of a trust (other than certain trusts for the benefit of a spouse or common-law partner) as having been disposed of and reacquired by the trust every 21 years at the property's fair market value.

Subparagraph 104(4)(*a*)(i.1) is amended to apply to a trust to which property is transferred in circumstances to which paragraph 70(5.2)(*c*) applied. It is also amended to ensure that it continues to apply to a trust to which property was transferred in circumstances to which paragraph 70(5.2)(*b*) or (*d*) applied as those paragraphs read in their application to taxation years that began before 2007.

Paragraph 104(4)(*a*.5) is introduced to provide for a deemed disposition day for a trust that is deemed by subsection 94(3) to be resident in Canada for a taxation year for the purpose of computing the trust's income for the year. The deemed disposition day is the day (in that taxation year) on which, because a "contributor" (as defined in subsection 94(1) of the Act) to the trust either ceases to be resident in Canada or ceases to be a contributor to the trust because of the application at any time of paragraph 94(2)(*t*), there is no resident contributor to the trust (or the only resident contributors to the trust are entities each of which is an entity the maximum amount recoverable from which under the provisions referred to in paragraph 94(3)(*d*) is limited to the entities' recovery limits determined under subsection 94(8)). However, no deemed disposition will occur under paragraph 104(4)(*a*.5) if subsection 94(5) applies in respect of the contributor ceasing on that day to be a resident contributor of the trust. For more information on section 94, see the commentary on that section.

Paragraph 104(4)(*c*) is amended so that there is not a deemed disposition day for a trust 21 years after any day determined under new paragraph 104(4)(*a*.5). In effect, the time from which 21 years is counted under paragraph 104(4)(*c*) is determined without regard to days determined without regard to days determined under any of paragraphs 104 (4)(*a*) to (*a*.5)

These amendments apply to trust taxation years that begin after 2006. They also apply to trust taxation years that begin after 2000, after 2001, after 2002, after 2003, after 2004 or after 2005 if the trust makes the appropriate election under the coming into-force provision for new section 94 of the Act.

(ii) is a trust that was created after June 17, 1971 by a taxpayer during the taxpayer's lifetime that, at any time after 1971, was a trust, or

(ii.1) is a trust (other than a trust the terms of which are described in clause (iv)(A) that elects in its return of income under this Part for its first taxation year that this subparagraph not apply) that was created after 1999 by a taxpayer during the taxpayer's lifetime and that, at any time after 1999, was a trust

under which

(iii) the taxpayer's spouse or common-law partner was entitled to receive all of the income of the trust that arose before the spouse's or common-law partner's death and no person except the spouse or common-law partner could, before the spouse's or common-law partner's death, receive or otherwise obtain the use of any of the income or capital of the trust, or

(iv) in the case of a trust described in subparagraph (ii.1) created by a taxpayer who had attained 65 years of age at the time the trust was created,

(A) the taxpayer was entitled to receive all of the income of the trust that arose before the taxpayer's death and no person except the taxpayer could, before the taxpayer's death, receive or otherwise obtain the use of any of the income or capital of the trust,

(B) the taxpayer or the taxpayer's spouse was, in combination with the spouse or the taxpayer, as the case may be, entitled to receive all of the income of the trust that arose before the later of the death of the taxpayer and the death of the spouse and no other person could, before the later of those deaths, receive or otherwise obtain the use of any of the income or capital of the trust, or

(C) the taxpayer or the taxpayer's common-law partner was, in combination with the common-law partner or the taxpayer, as the case may be, entitled to receive all of the income of the trust that arose before the later of the death of the taxpayer and the death of the common-law partner and no other person could, before the later of those deaths, receive or otherwise obtain the use of any of the income or capital of the trust,

the day on which the death or the later death, as the case may be, occurs;

(*a*.1) where the trust is a pre-1972 spousal trust on January 1, 1993 and the spouse or common-law partner referred to in the definition "pre-1972 spousal trust" in subsection 108(1) in respect of the trust was

(i) in the case of a trust created by the will of a taxpayer, alive on January 1, 1976, and

(ii) in the case of a trust created by a taxpayer during the taxpayer's lifetime, alive on May 26, 1976,

the day that is the later of

(iii) the day on which that spouse or common-law partner dies, and

(iv) January 1, 1993;

(*a*.2) where the trust makes a distribution to a beneficiary in respect of the beneficiary's capital interest in the trust, it is reasonable to conclude that the distribution was financed by a liability of the trust and one of the purposes of incurring the liability was to avoid taxes otherwise payable under this Part as a consequence of the death of any individual, the day on which the distribution is made (determined as if a day ends for the trust immediately after the time at which each distribution is made by the trust to a beneficiary in respect of the beneficiary's capital interest in the trust);

(*a*.3) where property (other than property described in any of subparagraphs 128.1(4)(*b*)(i) to (iii)) has been transferred by a taxpayer after December 17, 1999 to the trust in circumstances to which subsection 73(1) applied, it is reasonable to conclude that the property was so transferred in anticipation that the taxpayer would subsequently cease to reside in Canada and the taxpayer subsequently ceases to reside in Canada, the first day after that transfer during which the taxpayer ceases to reside in Canada (determined as if a day ends for the trust immediately after each time at which the taxpayer ceases to be resident in Canada);

(*a*.4) where the trust is a trust to which property was transferred by a taxpayer who is an individual (other than a trust) in circumstances in which section 73 or subsection 107.4(3) applied, the transfer did not result in a change in beneficial ownership of that property and no person (other than the taxpayer) or partnership has any absolute or contingent right as a beneficiary under the trust (determined with reference to subsection (1.1)), the day on which the death of the taxpayer occurs;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 104(4) of the Act is amended by adding the following after paragraph (*a*.4):

(*a*.5) where the trust is deemed by subsection 94(3) to be resident in Canada for a taxation year for the purpose of computing the trust's income for the taxation year, the day (in that taxation year) on which, because a contributor (in this paragraph, as defined by subsection 94(1)) either ceases to be resident in Canada or ceases to be a contributor to the trust because of the application at any time of paragraph 94(2)(*t*), there is no resident contributor (in this paragraph, as defined by subsection 94(1)) to the trust (or the only resident contributors to the trust are entities (in this paragraph, as defined by subsection 94(1)) each of which is an entity the maximum amount recoverable from which under the provisions referred to in paragraph 94(3)(*d*) is limited to the entities' recovery limits determined under subsection 94(8)), unless subsection 94(5) applies in respect of the contributor ceasing on the day to be a resident contributor to the trust;

Applicable: To trust taxation years that begin after 2006. [This amendment] also applies to trust taxation years that begin

(*a*) after 2000, if the trust makes a valid election under paragraph [(*a*) of the application for new proposed section 94];

(*b*) after 2001, if the trust makes a valid election under paragraph [(*a*) or (*b*) of the application for new proposed section 94];

(*c*) after 2002, if the trust makes a valid election under any of paragraphs [(*a*) to (*c*) of the application for new proposed section 94];

(*d*) after 2003, if the trust makes a valid election under any of paragraphs [(*a*) to (*d*) of the application for new proposed section 94];

(*e*) after 2004, if the trust makes a valid election under any of paragraphs [(*a*) to (*e*) of the application for new proposed section 94]; and

(*f*) after 2005, if the trust makes a valid election under any of paragraphs [(*a*) to (*f*) of the application for new proposed section 94].

Explanatory Note: See the Explanatory Note following the amendment to subparagraph 104(4)(*a*)(i.1).

(*b*) the day that is 21 years after the latest of

(i) January 1, 1972,

(ii) the day on which the trust was created, and

(iii) where applicable, the day determined under paragraph (*a*), (*a*.1) or (*a*.4) as those paragraphs applied from time to time after 1971; and

(*c*) the day that is 21 years after any day (other than a day determined under any of paragraphs (*a*) to (*a*.4)) that is, because of this subsection, a day on which the trust is deemed to have disposed of each such property.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 104(4)(*c*) of the Act is replaced by the following:

(*c*) the day that is 21 years after any day (other than a day determined under any of paragraphs (*a*) to (*a*.5)) that is, because of this subsection, a day on which the trust is deemed to have disposed of each such property.

Applicable:

To trust taxation years that begin after 2006. [This amendment] also applies to trust taxation years that begin

(*a*) after 2000, if the trust makes a valid election under paragraph [(*a*) of the application for new proposed section 94];

(*b*) after 2001, if the trust makes a valid election under paragraph [(*a*) or (*b*) of the application for new proposed section 94];

(*c*) after 2002, if the trust makes a valid election under any of paragraphs [(*a*) to (*c*) of the application for new proposed section 94];

(*d*) after 2003, if the trust makes a valid election under any of paragraphs [(*a*) to (*d*) of the application for new proposed section 94];

(*e*) after 2004, if the trust makes a valid election under any of paragraphs [(*a*) to (*e*) of the application for new proposed section 94]; and

(*f*) after 2005, if the trust makes a valid election under any of paragraphs [(*a*) to (*f*) of the application for new proposed section 94].

Explanatory Note: See the Explanatory Note following the amendment to subparagraph 104(4)(*a*)(i.1).

History: S. 104(4), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 78(2), applicable to days after December 23, 1998 that are determined in respect of a trust under subsection 104(4) of the Act, as enacted by this section; and

(*b*) for the purpose of determining the cost amount to a trust after December 23, 1998 of property, to days after 1992 that are determined in respect of the trust under subsection 104(4) of the Act, as enacted by this section.

S. 104(4), the portion before paragraph (*a*) formerly read:

"(4) *Deemed disposition by trust.* Every trust shall, at the end of each of the following days, be deemed to have disposed of each property of the trust that was capital property (other than excluded property or depreciable property) or land included in the inventory of the trust for proceeds equal to its fair market value at the end of that day and to have reacquired the property immediately thereafter for an amount equal to that fair market value, and for the purposes of this Act those days are"

S. 104(4)(*a*), the portion after subparagraph (ii) was amended by S.C. 2001, c. 17, s. 78(3), applicable to the 2000 and subsequent taxation years except that, with regard to a trust created by a taxpayer at a particular time in 2000 for the benefit of another individual,

(*a*) subparagraph 104(4)(*a*)(iii) of the Act shall be read without reference to the words "or common-law partner" and "or common-law partner's"; and

(*b*) subparagraph 104(4)(*a*)(iv) of the Act shall be read without reference to clause (C),

unless, because of an election made under section 144 of the *Modernization of Benefits and Obligations Act*, sections 130 to 142 of that Act applied at the particular time to the taxpayer and the other individual.

S. 104(4)(*a*), the portion after subparagraph (ii) formerly read:

"under which

(iii) the taxpayer's spouse or common-law partner was entitled to receive all of the income of the trust that arose before the spouse's or common-law partner's death, and

(iv) no person except the spouse or common-law partner could, before the spouse's or common-law partner's death, receive or otherwise obtain the use of any of the income or capital of the trust,

the day on which the spouse or common-law partner dies;"

S. 104(4)(*a*.2) was added by S.C. 2001, c. 17, s. 78(4), applicable to days after December 17, 1999 that are determined in respect of the trust under subsection 104(4) of the Act, as enacted by this section.

S. 104(4)(*a*.3) was added by S.C. 2001, c. 17, s. 78(4), applicable to days after December 17, 1999 that are determined in respect of the trust under subsection 104(4) of the Act, as enacted by this section.

S. 104(4)(*a*.4) was added by S.C. 2001, c. 17, s. 78(4), applicable to the 2000 and subsequent taxation years, and, where a trust elects in writing and files the election with the Minister of National Revenue on or before March 31, 2001 (or at any later time that is acceptable to the Minister), both of those provisions apply after December 23, 1998.

S. 104(4)(*b*)(iii) was amended by S.C. 2001, c. 17, s. 78(5), applicable to the 2000 and subsequent taxation years, and, where a trust elects in writing and files the election with the Minister of National Revenue on or before March 31, 2001 (or at any later time that is acceptable to the Minister), both of those provisions apply after December 23, 1998. S. 104(4)(*b*)(iii) formerly read:

"(iii) where applicable, the day determined under paragraph (*a*) or (*a*.1) as those paragraphs applied from time to time after 1971; and"

S. 104(4)(*c*) was amended by S.C. 2001, c. 17, s. 78(6), applicable to the 2000 and subsequent taxation years. S. 104(4)(*c*) formerly read:

"(*c*) the day that is 21 years after any day (other than a day determined under paragraph (*a*) or (*a*.1)) that is, because of this subsection, a day on which the trust is deemed to have disposed of each such property."

S. 104(4)(*a*)(iii) and (iv) were amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.1) and 7(f), applicable January 1, 2001, coming into force on July 31, 2000. S. 104(4)(*a*)(iii) and (iv) formerly read:

"(iii) the taxpayer's spouse was entitled to receive all of the income of the trust that arose before the spouse's death, and

(iv) no person except the spouse could, before the spouse's death, receive or otherwise obtain the use of any of the income or capital of the trust,"

S. 104(4)(*a*), the portion after subparagraph (iv), was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.1), applicable January 1, 2001, coming into force on July 31, 2000. S. 104(4)(*a*), the portion after subparagraph (iv) formerly read:

"the day on which the spouse dies;"

S. 104(4)(*a*.1), the portion before subparagraph (i), was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.1), applicable January 1, 2001, coming into force on July 31, 2000. S. 104(4)(*a*.1), the portion before subparagraph (i) formerly read:

"(*a*.1) where the trust is a pre-1972 spousal trust on January 1, 1993 and the spouse referred to in the definition 'pre-1972 spousal trust' in subsection 108(1) in respect of the trust was"

S. 104(4)(*a*.1)(iii) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.1), applicable January 1, 2001, coming into force on July 31, 2000. S. 104(4)(*a*.1)(iii) formerly read:

"(iii) the day on which that spouse dies, and"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 104(4)(*a*)(i.1) was amended by S.C. 1998, c. 19, s. 127(1), applicable to acquisitions and dispositions that occur after 1992. S. 104(4)(*a*)(i.1) formerly read:

"(i.1) is a trust that was created by the will of a taxpayer who died after 1971 to which property was transferred in circumstances to which paragraph 70(5.2)(*d*) or (*f*) or (6)(*d*) applied and that, immediately after any such property vested indefeasibly in the trust as a consequence of the death of the taxpayer, was a trust, or"

S. 104(4)(*a*.1) was amended by S.C. 1996, c. 21, s. 18(1), applicable to trust taxation years that end after February 11, 1991. S. 104(4)(*a*.1) formerly read:

"(*a*.1) where the trust is a pre-1972 spousal trust on January 1, 1993, the day that is the later of

(i) the day on which the spouse referred to in the definition 'pre-1972 spousal trust' in subsection 108(1) in respect of the trust dies, and

(ii) January 1, 1993;"

S. 104(4)(*b*)(iii) was amended by S.C. 1996, c. 21, s. 18(2), applicable to trust taxation years that end after February 11, 1991. S. 104(4)(*b*)(iii) formerly read:

"(iii) where applicable, the day determined under paragraph (*a*) or (*a*.1); and"

S. 104(4) was amended by S.C. 1994, c. 7, Sched. VIII, s. 42(1), applicable to taxation years of trusts ending after February 11, 1991, except that paragraph 104(4)(*a*) does not apply in respect of any trust described in paragraph 104(4)(*a*) because of subparagraph (i.1) where the spouse who was the beneficiary of that trust died before December 21, 1991. S. 104(4) formerly read:

"(4) *Deemed disposition by a trust.* Every trust shall, on each of the following days, be deemed to have disposed of each property of the trust that was capital property (other than depreciable property) or land included in the inventory of the trust for proceeds equal to its fair market value on that day and to have reacquired the property immediately thereafter for an amount equal to that fair market value, and for the purposes of this Act those days are

(*a*) where the trust

(i) is a trust created by the will of a taxpayer who died after December 31, 1971 and that, at the time it was created, was a trust, or

(ii) is a trust created by a taxpayer during the taxpayer's lifetime, other than a trust described in subsection 122(2), that, at any time after 1971, was a trust

under which

(iii) the taxpayer's spouse was entitled to receive all of the income of the trust that arose before the spouse's death; and

(iv) no person except the spouse could, before the spouse's death, receive or otherwise obtain the use of any of the income or capital of the trust,

the day on which the spouse dies;

(*b*) the day that is 21 years after the latest of

(i) January 1, 1972,

(ii) the day on which the trust was created; and

(iii) where applicable, the day referred to in paragraph (*a*); and

(*c*) the day that is 21 years after any day that is, by virtue of this subsection, a day on which the trust is deemed to have disposed of each such property."

Editorial Note: Subsection 104(4) provides the so-called 21-year deemed disposition rule for trusts, generally ensuring that the recognition of accrued capital gains of a trust cannot be deferred beyond 21 years after the creation of the trust. Trusts excepted from the initial 21-year deemed disposition include post-1971 spousal or common-law partner trusts, whose initial deemed disposition takes place at the death of the spouse or common-law partner beneficiary under the trust. Depreciable property is subject to a similar deemed disposition rule under subsection 104(5); see also subsection 104(5.2) regarding resource properties.

The deemed disposition of the trust's property can be avoided by distributing the trust property to its capital beneficiaries prior to the 21st anniversary of the trust's creation. Generally, this can be done on a rollover basis by virtue of s. 107(2). Such a distribution may require a variation of the terms of the trust which may require an application to be brought under the appropriate provincial *Variation of Trusts Act*; therefore, planning for the trust's 21st anniversary should commence well in advance of the actual anniversary date.

The 21-year deemed disposition rule is often conflated with the common-law rule against perpetuities. There is, however, no connection between the two rules. The rule against perpetuities provides that an interest in a trust must vest within a life or lives in being at the time the trust is created, plus 21 years. If, at the time the trust is created, there is any possibility that the interest will not vest within the perpetuity period, the interest is void from the outset. By contrast, the 21-year deemed disposition rule has no bearing on the validity of a trust or interests therein.

Related Sections: S. 13(21) Definitions; s. 54 Definitions; s. 70(6.1) Transfer or distribution of NISA to spouse or trust; s. 104(1) Reference to trust or estate; s. 104(5) Depreciable property; s. 104(15) Allocable amount for preferred beneficiary; s. 107(4) Trusts in favour of spouse, common-law partner or self; s. 108(1), "exempt property", "excluded property", "pre-1972 spousal trust", "trust"; s. 108(3) Income of a trust in certain provisions; s. 108(4) Trust not disqualified; s. 108(6) Variation of trusts; s. 110.6(12) Trust deduction; s. 139.1(4)(*h*) Consequences of demutualization; s. 139.1(5) Fair market value of ownership rights; s. 248(1), "amount", "common-law partner", "depreciable property", "property", "trust"; s. 248(9.2) Vested indefeasibly; s. 252(3) Extended meaning of "spouse" and "former spouse".

Interpretation Bulletins: *Secondary* — IT-120R6 Principal Residence; IT-286R2 Trusts — Amount payable; IT-370 Trusts — Capital property owned on December 31, 1971 [Archived by the CRA]; IT-381R3 Trusts — Deduction of amounts paid or payable to beneficiaries and flow-through of taxable capital gains to beneficiaries; IT-394R2 Preferred beneficiary election; IT-465R Non-resident beneficiaries of trusts.

Forms: T1055.

Canadian Tax Foundation: Kandev and Purkey, "Practical Applications of Trusts", *2004 Conference Report*, 40:1-39; Rajan and Brown, "Personal Trusts 2000: Taxation and Planning in the New Millennium", *2000 Conference Report*, 28:1-40.

Tax Window Files: First Deemed Disposition for a Spousal Trust, April 17, 2007, CRA Document No. 2006-0187741E5 [First deemed disposition of a post-71 spousal or common law partner trust will be the date on which the primary beneficiary dies (rather than 21 years after creation) regardless of whether the property was received on a rollover basis]; Carry Back of a Capital Loss, December 21, 2006, CRA Document No. 2006-0216261I7; Income — Alter Ego, Joint Spousal or Common-law Partner Trust, July 11, 2002, CRA Document No. 2001-0114045 [Gain on deemed disposition for alter ego trust under subsection 104(4) must be included in trust's income; if subsequently paid to residual beneficiary, designation under subsection 104(13.2) possible to avoid double taxation]; Disposition and Reacquisition of Shares by Spousal Trust, November 21, 2000, CRA Document No. 2000-0017625 [Application of subsection 104(4) to spousal trust owning shares in corporation does not result in an acquisition of control of the corporation]; U.S. Estate Tax — Property Held by Trust, December 15, 1997,

CRA Document No. 9729556 [Interaction of deemed dispositions under subsection 104(4) with provisions of Canada–U.S. income tax convention].

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 104 of the Act is amended by adding the following after subsection (4):

(4.1) **Mark-to-market property.** In determining whether property is capital property for the purpose of subsection (4), this Act is to be read without reference to subparagraph 39(1)(*a*)(ii.3).

Applicable: To trust taxation years that begin after 2006.

Explanatory Note: New subsection 104(4.1) of the Act provides that, for the purposes of the deemed disposition rule in subsection 104(4), a property's status as capital property is determined without reference to new subparagraph 39(1)(*a*)(ii.3). As a result, if subsection 94.2(3) applies for a taxation year to a taxpayer that is a trust in respect of a participating interest of the trust and the trust is deemed to have disposed of the interest because of the application of subsection 104(4), there is a recognition of the "deferral amount" in applying subsection 94.2(4).

This amendment applies to trust taxation years that begin after 2006.

► 104(5) ◄

(5) Depreciable property. Every trust is, at the end of each day determined under subsection (4) in respect of the trust, deemed to have disposed of each property of the trust (other than exempt property) that was a depreciable property of a prescribed class of the trust for proceeds equal to its fair market value at the end of that day and to have reacquired the property immediately after that day at a capital cost (in this subsection referred to as the "deemed capital cost") equal to that fair market value, except that

(*a*) where the amount that was the capital cost to the trust of the property immediately before the end of the day (in this paragraph referred to as the "actual capital cost") exceeds the deemed capital cost to the trust of the property, for the purpose of sections 13 and 20 and any regulations made for the purpose of paragraph 20(1)(*a*) as they apply in respect of the property at any subsequent time,

(i) the capital cost to the trust of the property on its reacquisition shall be deemed to be the amount that was the actual capital cost to the trust of the property, and

(ii) the excess shall be deemed to have been allowed under paragraph 20(1)(*a*) to the trust in respect of the property in computing its income for taxation years that ended before the trust reacquired the property;

(*b*) for the purposes of this subsection, the reference to "at the end of a taxation year" in subsection 13(1) shall be read as a reference to "at the particular time a trust is deemed by subsection 104(5) to have disposed of depreciable property of a prescribed class"; and

(*c*) for the purpose of computing the excess, if any, referred to in subsection 13(1) at the end of the taxation year of a trust that included a day on which the trust is deemed by this subsection to have disposed of a depreciable property of a prescribed class, any amount that, on that day, was included in the trust's income for the year under subsection 13(1) as it reads because of paragraph (*b*), shall be deemed to be an amount included under section 13 in the trust's income for a preceding taxation year.

History: S. 104(5), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 78(5), applicable to days after December 23, 1998 that are determined under subsection 104(4) of the Act. S. 104(5), the portion before paragraph (*a*) formerly read:

"(5) *Idem.* Every trust shall, at the end of each day determined under subsection (4) in respect of the trust, be deemed to have disposed of each property of the trust that was a depreciable property of a prescribed class of the trust for proceeds equal to its fair market value at the end of that day and to have reacquired the property immediately thereafter at a capital cost (in this subsection referred to as the 'deemed capital cost') equal to that fair market value, except that"

S. 104(5)(*a*), subparagraphs (i) and (ii), were amended by S.C. 1994, c. 21, s. 46(1), applicable to days determined under subsection 104(4) of the Act that are after 1992. Ss. 104(5)(*a*)(i) and (ii) formerly read:

"(i) the capital cost to the trust of the property shall be deemed to be the amount that was the actual capital cost to the trust of the property, and

(ii) the excess shall be deemed to have been allowed to the trust in respect of the property under paragraph 20(1)(*a*) in computing income for taxation years before the reacquisition by the trust of the property, and any other amount allowed to the trust in respect of the property under that paragraph in computing income for those years shall be deemed to be nil;"

S. 104(5) was amended by S.C. 1994, c. 7, Sched. VIII, s. 42(1), applicable to taxation years of trusts ending after February 11, 1991, except that with respect to those days determined under subsection 104(4), that are before 1993, subsection 104(5) of the Act shall be read without reference to subsection (1), and the portion of subsection 104(5) of the Act before paragraph (*c*) shall be read as follows:

"(5) Every trust shall, at the end of each day determined under subsection (4) in respect of the trust, be deemed to have disposed of all depreciable property of a prescribed class of the trust for proceeds equal to

(*a*) where the fair market value of that property at the end of the day exceeds the undepreciated capital cost thereof to the trust at the end of the day, the amount of that undepreciated capital cost plus 1/2 of the excess, and

(*b*) in any other case, the fair market value of that property at the end of that day plus 1/2 of the amount, if any, by which the undepreciated capital cost thereof to the trust at the end of that day exceeds that fair market value,

and to have reacquired each such depreciable property of that class immediately thereafter at a capital cost (in this subsection referred to as the 'deemed capital cost') equal to that proportion of the proceeds determined under paragraph (*a*) or (*b*), as the case may be, that the amount that was the fair market value of that property is of the total of the amounts that were the fair market values of all properties of that class at the end of that day, except that"

S. 104(5) formerly read:

"(5) *Idem.* Every trust shall, on each day determined under subsection (4) in respect of the trust, be deemed to have disposed of all depreciable property of a prescribed class of the trust for proceeds equal to,

(*a*) where the fair market value of that property on that day exceeds the undepreciated capital cost thereof to the trust on that day, the amount of that undepreciated capital cost plus 1/2 of the amount of the excess, and

(*b*) in any other case, the fair market value of that property on that day plus 1/2 of the amount, if any, by which the undepreciated capital cost thereof to the trust on that day exceeds that fair market value,

and to have reacquired each such depreciable property of that class immediately thereafter at a capital cost (in this subsection referred to as the 'deemed capital cost') equal to that proportion of the proceeds determined under paragraph (*a*) or (*b*), as the case may be, that the amount that was the fair market value of that property on that day is of the total of the amounts that were the fair market values of all properties of that class on that day, except that

(*c*) where the amount that was the capital cost to the trust of any particular property of that class exceeds the deemed capital cost to the trust of the property, for the purposes of sections 13 and 20 and any regulations made under paragraph 20(1)(*a*) as they apply in respect of the property at any subsequent time,

(i) the capital cost to the trust of the property shall be deemed to be the amount that was the capital cost to the trust of the property, and

(ii) the excess shall be deemed to have been allowed to the trust in respect of the property under paragraph 20(1)(*a*) in computing income for taxation years before the reacquisition by the trust of the property,

and any other amount allowed to the trust in respect of the property under that paragraph in computing income for those years shall be deemed to be nil,

(*d*) for the purposes of this subsection, the words 'at the end of a taxation year,' in subsection 13(1) shall be deemed to read 'at the particular time a trust is deemed by subsection 104(5) to have disposed of depreciable property of a prescribed class', and

(*e*) for the purpose of computing the excess, if any, referred to in subsection 13(1) at the end of the taxation year of a trust that included a day on which the trust is deemed by this subsection to have disposed of all depreciable property of a prescribed class, any amount that, on that day, was included in the trust's income for the year by virtue of subsection 13(1) as it reads by virtue of paragraph (*d*), shall be deemed to be an amount included in the taxpayer's income by virtue of section 13 for a prior taxation year."

Editorial Note: The deemed disposition of depreciable property is covered by s. 104(5) rather than by s. 104(4). S. 104(5) deems each trust (other than a trust described in paragraphs (*f*) and (*g*) of the definition of "trust" in s. 108(1)) to have realized a deemed disposition at the end of each day determined under s. 104(4) in respect of that trust. On deemed disposition day, a trust is deemed to have disposed of each property (other than exempt property) that was depreciable property of each prescribed class for proceeds equal to fair market value and to have re-acquired it generally at a capital cost equal to the same amount. On the deemed disposition day, the trust may realize capital gains or recapture. No capital loss may be realized on a deemed disposition of depreciable property.

Related Sections: S. 13(21) Definitions; s. 104(1) Reference to trust or estate; s. 104(6) Deduction in computing income of trust; s. 104(15) Allocable amount for preferred beneficiary; s. 108(1), "exempt property", "trust"; s. 108(6) Variation of trusts; s. 248(1), "amount", "depreciable property", "property", "trust".

Interpretation Bulletins: *Secondary* — IT-286R2 Trusts — Amount payable; IT-381R3 Trusts — Capital gains and losses and the flow-through of taxable capital gains to beneficiaries; IT-394R3 Preferred beneficiary election; IT-465R Non-resident beneficiaries of trusts.

Tax Window Files: 104(4)(a.3) & 104(5) Pertains to Depreciable Property, November 4, 2005, CRA Document No. 2004-0104951E5 [Whether there is a deemed disposition on depreciable property used in a business by a trust where the business has been transferred to a spousal trust in anticipation of the emigration of the settlor and his spouse].

▶ 104(5.1) ◀

(5.1) Idem. Every trust that holds an interest in a NISA Fund No. 2 that was transferred to it in circumstances to which paragraph 70(6.1)(*b*) applied shall be deemed, at the end of the day on which the spouse or common-law partner referred to in that paragraph dies (in this subsection referred to as the "spouse or common-law partner"), to have been paid an amount out of the fund equal to the amount, if any, by which

(*a*) the balance at the end of that day in the fund so transferred

exceeds

(*b*) such portion of the amount described in paragraph (*a*) as is deemed by subsection (14.1) to have been paid to the spouse or common-law partner.

History: S. 104(5.1), the portion before paragraph (*a*), was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.1), applicable January 1, 2001, coming into force on July 31, 2000. S. 104(5.1), the portion before paragraph (*a*) formerly read:

"(5.1) *Idem.* Every trust that holds an interest in a NISA Fund No. 2 that was transferred to it in circumstances to which paragraph 70(6.1)(*b*) applied shall be deemed, at the end of the day on which the spouse referred to in that paragraph dies (in this subsection referred to as the 'spouse'), to have been paid an amount out of the fund equal to the amount, if any, by which"

S. 104(5.1)(*b*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.1), applicable January 1, 2001, coming into force on July 31, 2000. S. 104(5.1)(*b*) formerly read:

"(*b*) such portion of the amount described in paragraph (*a*) as is deemed by subsection (14.1) to have been paid to the spouse,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 104(5.1) was added by S.C. 1994, c. 7, Sched. VIII, s. 42(2), applicable to the 1991 and subsequent taxation years.

Related Sections: S. 104(1) Reference to trust or estate; s. 248(1), "amount", "common-law partner", "NISA Fund No. 2", "trust"; s. 252(3) Extended meaning of "spouse" and "former spouse".

▶ 104(5.2) ◀

(5.2) Resource property. Where at the end of a day determined under subsection (4) in respect of a trust, the trust owns a Canadian resource property (other than an exempt property) or a foreign resource property (other than an exempt property),

(*a*) for the purposes of determining the amounts under subsection 59(1), paragraphs 59(3.2)(*c*) and (*c*.1), subsections 66(4) and 66.2(1), the definition "cumulative Canadian development expense" in subsection 66.2(5), the definition "cumulative foreign resource expense" in subsection 66.21(1), subsection 66.4(1) and the definition "cumulative Canadian oil and gas property expense" in subsection 66.4(5), the trust is deemed

(i) to have a taxation year (in this subsection referred to as the "old taxation year") that ended at the end of that day and a new taxation year that begins immediately after that day, and

(ii) to have disposed, immediately before the end of the old taxation year, of each of those properties for proceeds that became receivable at that time equal to its fair market value at that time and to have reacquired, at the beginning of the new taxation year, each such property for an amount equal to that fair market value; and

(*b*) for the particular taxation year of the trust that included that day, the trust shall

(i) include in computing its income for the particular taxation year the amount, if any, determined under paragraph 59(3.2)(*c*) in respect of the old taxation year and the amount so included shall, for the purposes of the determination of B in the definition "cumulative Canadian development expense" in subsection 66.2(5), be deemed to have been included in computing its income for a preceding taxation year,

(i.1) include in computing its income for the particular taxation year the amount, if any, determined under paragraph 59(3.2)(*c*.1) in respect of the old taxation year and the amount so included is, for the purpose of determining the value of B in the definition "cumulative foreign resource expense" in subsection 66.21(1), deemed to have been included in computing its income for a preceding taxation year, and

(ii) deduct in computing its income for the particular taxation year the amount, if any, determined under subsection 66(4) in respect of the old taxation year and the amount so deducted shall, for the purposes of paragraph 66(4)(*a*), be deemed to have been deducted for a preceding taxation year.

History: S. 104(5.2), the portion before paragraph (*b*) was amended by S.C. 2001, c. 17, s. 78(8), applicable to days after December 23, 1998 that are determined under subsection 104(4) of the Act except that in applying paragraph 104(5.2)(*a*) of the Act to days that are in taxation years that begin before 2001 and that are determined under subsection 104(4) of the Act, that paragraph shall be read without the references to paragraph 59(3.2)(*c*.1) of the Act and the definition "cumulative foreign resource expense" in subsection 66.21(1) of the Act. S. 104(5.2), the portion before paragraph (*b*) formerly read:

"(5.2) *Rules for trusts.* Where on a day determined under subsection (4) in respect of a trust the trust owns a Canadian resource property or a foreign resource property, the following rules apply:

(*a*) for the purpose of determining the amounts under subsection 59(1), paragraph 59(3.2)(*c*), subsections 66(4) and 66.2(1), the definition 'cumulative Canadian development expense' in subsection 66.2(5), subsection 66.4(1) and the definition 'cumulative Canadian oil and gas property expense' in subsection 66.4(5), the trust shall be deemed

(i) to have a taxation year (in this subsection referred to as the 'old taxation year') that ended on that day and a new taxation year (in this subsection referred to as the 'new taxation year') that commenced immediately after that day, and

(ii) to have disposed, immediately before the end of the old taxation year, of each of its Canadian resource properties and foreign resource properties for proceeds that become receivable at that time equal to its fair market value at that time and to have reacquired, at the beginning of the new taxation year, each such property for an amount equal to that fair market value; and"

S. 104(5.2)(*b*)(i.1) was added by S.C. 2001, c. 17, s. 78(9), applicable to taxation years that begin after 2000.

Related Sections: S. 104(6) Deduction in computing income of trust; s. 108(1), "exempt property"; s. 108(6) Variation of trusts; s. 248(1), "Canadian resource property", "foreign resource property".

Interpretation Bulletins: *Secondary* — IT-381R3 Trusts — Deduction of amounts paid or payable to beneficiaries and flow-through of taxable capital gains to beneficiaries; IT-394R2 Preferred beneficiary election.

► 104(5.3) ◄

(5.3) Election. Where a trust files an election under this subsection in prescribed form with the Minister within 6 months after the end of a taxation year of the trust that includes a day before 1999 (in this subsection referred to as the "disposition day") that would, but for this subsection, be determined in respect of the trust under paragraph (4)(*a*.1) in the case of a trust described in that paragraph, or under paragraph (4)(*b*) in any other case, and there is an exempt beneficiary under the trust on the disposition day,

(*a*) for the purposes of subsections (4) to (5.2), paragraph (6)(*b*) and subsection 159(6.1), the day determined under paragraph (4)(*a*.1) or (*b*), as the case may be, in respect of the trust is deemed to be the earlier of

(i) January 1, 1999, and

(ii) the first day of the trust's first taxation year that begins after the first day after the disposition day throughout which there is no exempt beneficiary under the trust;

(*b*) subsection 107(2) does not apply to a distribution made by the trust during the period

(i) beginning immediately after the disposition day, and

(ii) ending at the end of the first day after the disposition day that is determined in respect of the trust under subsection (4)

to any beneficiary (other than an individual who is an exempt beneficiary under the trust immediately before the time of the distribution);

(*b*.1) where the trust filed the form before March 1995, paragraph (*b*) does not apply to distributions made by the trust after February 1995; and

(*c*) subsection 107.4(3) does not apply to a disposition by the trust during the period

(i) beginning immediately after the disposition day, and

(ii) ending at the end of the first day after the disposition day that is determined in respect of the trust under subsection (4); and

(*d*) [Repealed by S.C. 2001, c. 17, s. 78(11).]

History: S. 104(5.3)(*c*), the portion before subparagraph (i) was amended by S.C. 2001, c. 17, s. 78(10), applicable to transfers made after December 23, 1998. S. 104(5.3)(*c*), the portion before subparagraph (i) formerly read:

"(*c*) subject to paragraph (*d*), paragraph (*e*) of the definition 'disposition' in section 54 does not apply to a transfer by the trust after the disposition day during the period"

S. 104(5.3)(*d*) was repealed by S.C. 2001, c. 17, s. 78(11), applicable to transfers made after December 23, 1998. S. 104(5.3)(*d*) formerly read:

"(*d*) where

(i) property is transferred from the trust to another trust in circumstances to which paragraph (*e*) of the definition 'disposition' in section 54 would, but for paragraph (*c*), apply,

(ii) the other trust held no property immediately before the transfer, and

(iii) the terms of the trust immediately before the transfer are identical to the terms of the other trust immediately after the transfer,

paragraph (*e*) of the definition 'disposition' in section 54 applies to the transfer and the other trust shall be deemed to be the same trust as, and a continuation of, the trust."

S. 104(5.3), that portion before paragraph (*b*), was amended by S.C. 1996, c. 21, s. 18(3), applicable after February 11, 1991. That portion formerly read:

"(5.3) *Election.* Where a trust so elects in prescribed form filed with the Minister within 6 months after the end of a taxation year of the trust that includes a day (in this subsection referred to as the 'disposition day') that would, but for this subsection, be determined in respect of the trust under paragraph (4)(*a*.1) in the case of a trust described in that paragraph, or under paragraph (4)(*b*) in any other case, and there is an exempt beneficiary under the trust on the disposition day,

(*a*) for the purposes of subsections (4) to (5.2), paragraph (6)(*b*) and subsection 159(6.1), the day determined under paragraph (4)(*a*.1) or (*b*), as the case may be, in respect of the trust shall be deemed to be the first day of the first taxation year of the trust beginning after the first day after the disposition day throughout which there is no exempt beneficiary under the trust;"

S. 104(5.3)(*b*.1) was added by S.C. 1996, c. 21, s. 18(4), applicable after February 11, 1991.

S. 104(5.3) was added by S.C. 1994, c. 7, Sched. VIII, s. 42(3), applicable after February 11, 1991.

Editorial Note: Given that this election is no longer available, recourse is typically made to a rollout of trust assets under s. 107(2) as a means of addressing the 21-year deemed disposition rule.

Related Sections: S. 104(1) Reference to trust or estate; s. 104(5.31) Revocation of election; s. 104(5.4) Exempt beneficiary; s. 107(2) Distribution by personal trust; s. 220(3.2) Late, amended or revoked elections; s. 248(1), "individual", "property", "trust".

Regulations: 600(b).

Interpretation Bulletins: *Secondary* — IT-394R2, Preferred Beneficiary Election.

Information Circulars: IC 07-1 Taxpayer Relief Provisions.

► 104(5.31) ◄

(5.31) Revocation of election. Where a trust that has filed an election under subsection (5.3) before July 1995 applies before 1997 to the Minister in writing for permission to revoke the election and the Minister grants permission to revoke the election,

(*a*) the election is deemed, otherwise than for the purposes of this subsection, never to have been made;

(*b*) the trust is not liable to any penalty under this Act to the extent that the liability would, but for this paragraph, have increased because of the revocation of the election; and

(*c*) notwithstanding subsections 152(4) to (5), such assessments of tax, interest and penalties under this Act shall be made as are necessary to take into account the consequences of the revocation of the election.

History: S. 104(5.31) was added by S.C. 1996, c. 21, s. 18(5), applicable on Royal Assent, June 20, 1996.

► 104(5.4) ◄

(5.4) Exempt beneficiary. For the purpose of subsection (5.3), an "exempt beneficiary" under a trust at a particular time is an individual who is alive and a beneficiary under the trust at the particular time, where

(*a*) in the case of a trust that was created after February 11, 1991, the individual, or an individual who, otherwise than because of subsection 252(2), is the brother or sister of the individual, was alive at the earlier of

(i) the time the trust was created, and

(ii) the earliest of all times each of which is the time that another trust was created that, before the particular time and the end of the day that would, but for subsection (5.3), be determined in respect of the trust under paragraph (4)(*a*.1) or (*b*), transferred property to the trust either

(A) directly, or

(B) indirectly through one or more trusts,

in circumstances in which subsection (5.8) applies; and

(*b*) the individual or the individual's spouse or common-law partner or former spouse or common-law partner was

(i) the designated contributor in respect of the trust, or

(ii) a grandparent, parent, brother, sister, child, niece or nephew

(A) of the designated contributor in respect of the trust, or

(B) of the spouse or common-law partner or former spouse or common-law partner of the designated contributor in respect of the trust.

History: S. 104(5.4)(*b*), the portion before subparagraph (i) was amended by S.C. 2000, c. 12, Sched. 2, s. 2(e), applicable January 1, 2001, coming into force on July 31, 2000. S. 104(5.4)(*b*), the portion before subparagraph (i) formerly read:

"(*b*) the individual or the individual's spouse or former spouse was"

S. 104(5.4)(*b*)(ii)(B) was amended by S.C. 2000, c. 12, Sched. 2, s. 2(e), applicable January 1, 2001, coming into force on July 31, 2000. S. 104(5.4)(*b*)(ii)(B) formerly read:

"(B) of the spouse or former spouse of the designated contributor in respect of the trust."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 104(5.4) was added by S.C. 1994, c. 7, Sched. VIII, s. 42(3), applicable after February 11, 1991.

Related Sections: S. 248(1), "common-law partner", "individual"; s. 252(1) Extended meaning of "child"; s. 252(2) Relationships; s. 252(3) Extended meaning of "spouse" and "former spouse".

► 104(5.5) ◄

(5.5) Beneficiary. For the purpose of subsection (5.4), a beneficiary under a trust is an individual who is beneficially interested in the trust, except that an individual shall be deemed not to be a beneficiary under a trust at a particular time

(*a*) where

(i) the interests in the trust at the particular time of all individuals who would, if this Act were read without reference to this paragraph, be exempt beneficiaries under the trust are conditional on or subject to the exercise of a discretionary power by a person,

(ii) by the exercise of (or the failure to exercise) such power under the terms of the trust after the particular time, all interests in the trust of

(A) those individuals, and

(B) other individuals who are children of deceased individuals who, if this Act were read without reference to this paragraph, would have been exempt beneficiaries under the trust at any time before the particular time

may terminate before the time at which the last of those individuals and the other individuals dies and without any of those individuals or the other individuals enjoying any benefit under the trust after the particular time, and

(iii) the trust was created after February 11, 1991 or subparagraph (ii) applies in respect of the trust because of a variation of the terms of the trust occurring after February 11, 1991; or

(*b*) where it is reasonable to consider that one of the main purposes for the creation of the interest of the individual in the trust was to defer the day determined under paragraph (4)(*a*.1) or (*b*) in respect of the trust.

History: S. 104(5.5) was added by S.C. 1994, c. 7, Sched. VIII, s. 42(3), applicable after February 11, 1991.

Related Sections: S. 104(1) Reference to trust or estate; s. 104(5.3) Election; s. 248(1), "individual", "trust"; s. 252(1) Extended meaning of "child".

► 104(5.6) ◄

(5.6) Designated contributor. For the purpose of subsection (5.4), a designated contributor in respect of a trust is

(*a*) where the trust is described in paragraph (4)(*a*) or was, on December 20, 1991, a pre-1972 spousal trust, the individual who created (or whose will created) the trust;

(*b*) where paragraph (*a*) does not apply and the trust is a testamentary trust at the end of the taxation year for which it makes an election under subsection (5.3), the individual as a consequence of whose death the trust was created; and

(*c*) in the case of any other trust, the individual who was, or who was related to, an individual beneficially interested in the trust and who is designated by the trust in its election under subsection (5.3)

(i) where, at each time in the relevant period, the total amount of property transferred or loaned before that time by the designated individual (either directly or through another trust) to the trust

(A) exceeded the total amount of property so transferred or loaned before that time by each other individual who was born before the designated individual and who, at any time, was related to any individual beneficially interested in the trust, and

(B) was not less than the total amount of property so transferred or loaned before that time by each other individual who was born after the designated individual and who, at any time, was

related to any individual beneficially interested in the trust,

(ii) where

(A) no individual may be designated in respect of the trust because of subparagraph (i),

(B) the designated individual transferred or loaned property (either directly or through another trust) to the trust at any time before the end of the relevant period, and

(C) the designated individual was born before all other individuals who

(I) at any time were related to any individual beneficially interested in the trust or to any individual who transferred or loaned property to the trust before the end of the relevant period, and

(II) transferred or loaned property (either directly or through another trust) to the trust at any time before the end of the relevant period, or

(iii) where throughout the relevant period the property of the trust consisted primarily of

(A) shares of the capital stock of a corporation

(I) controlled, on the day that the trust was created or at the beginning of the relevant period, by the designated individual or by the designated individual and one or more other individuals born after, and related to, the designated individual, or

(II) all or substantially all of the value of which throughout the relevant period derived from property transferred to the corporation by the designated individual or by the designated individual and one or more other individuals born after, and related to, the designated individual,

(B) shares of the capital stock of a corporation all or substantially all of the value of which, throughout the part of the relevant period throughout which the shares were held by the trust, derived from shares described in clause (A),

(C) property substituted for the shares described in clause (A) or (B),

(D) property attributable to profits, gains or distributions in respect of property described in clause (A), (B) or (C), or

(E) any combination of the properties described in clauses (A) to (D).

History: S. 104(5.6) was added by S.C. 1994, c. 7, Sched. VIII, s. 42(3), applicable after February 11, 1991.

Related Sections: S. 104(1) Reference to trust or estate; s. 248(1), "amount", "corporation", "individual", "property", "trust".

► 104(5.7) ◄

(5.7) Idem. For the purpose of subsection (5.6),

(*a*) the relevant period in respect of a trust is the period that begins one year after the day on which the trust was created and ends at the end of the day that would, but for the election of the trust under subsection (5.3), be determined in respect of the trust under paragraph (4)(*a*.1) or (*b*), as the case may be;

(*b*) 2 individuals shall be deemed to be related to each other where one of them is the aunt, great aunt, uncle or great uncle of the other individual;

(*c*) an individual shall be deemed not to be a designated contributor in respect of a trust where it is reasonable to consider that one of the main purposes of a series of transactions or events that includes

(i) an individual becoming a trustee in respect of trust property, or

(ii) an acquisition of property or a borrowing by any individual

was to defer the day determined under paragraph (4)(*b*) in respect of the trust; and

(*d*) in determining whether all or substantially all of the value of shares of the capital stock of a corporation is derived from other property, the other property shall be deemed to include property substituted for the other property and property attributable to profits, gains or distributions in respect of the other property and the substituted property.

History: S. 104(5.7) was added by S.C. 1994, c. 7, Sched. VIII, s. 42(3), applicable after February 11, 1991.

Editorial Note: Paragraph 104(5.7)(*b*) clarifies that individuals will be considered to be related to each other for purposes of s. 104(5.6) if one of them is the aunt or uncle of the other. Paragraph 104(5.7)(*c*) provides that an individual will not be considered to be a designated contributor where it is reasonable to consider that one of the main purposes of a series of transactions or events — which includes an individual becoming a trustee with respect to trust property, or an acquisition of property or a borrowing by any individual — was to defer the 21-year deemed realization date.

Related Sections: S. 104(1) Reference to trust or estate; s. 248(1), "individual", "property", "share", "trust"; s. 252(2) Relationships.

► 104(5.8) ◄

(5.8) Trust transfers. Where capital property (other than excluded property), land included in inventory, Canadian resource property or foreign resource property is transferred at a particular time by a trust (in this subsection referred to as the "transferor trust") to another trust (in this subsection referred to as the "transferee trust") in circumstances in which subsection 107(2) or 107.4(3) or paragraph (*f*) of the definition "disposition" in subsection 248(1) applies,

(*a*) for the purposes of applying subsections (4) to (5.2) after the particular time,

(i) subject to paragraphs (*b*) to (*b*.3), the first day (in this subsection referred to as the "disposition day") that ends at or after the particular time that would, if this section were read without reference to paragraphs (4)(*a*.2) and (*a*.3), be determined in respect of the transferee trust is deemed to be the earliest of

(A) the first day ending at or after the particular time that would be determined under subsection (4) in respect of the transferor trust without regard to the transfer and any transaction or event occurring after the particular time,

(B) the first day ending at or after the particular time that would otherwise be determined under subsection (4) in respect of the transferee trust without regard to any transaction or event occurring after the particular time,

(C) the first day that ends at or after the particular time, where

(I) the transferor trust is a joint spousal or common-law partner trust, a post-1971 spousal or common-law partner trust or a trust described in the definition "pre- 1972 spousal trust" in subsection 108(1), and

(II) the spouse or common-law partner referred to in paragraph (4)(*a*) or in the definition "pre-1972 spousal trust" in subsection 108(1) is alive at the particular time,

(C.1) the first day that ends at or after the particular time, where

(I) the transferor trust is an *alter ego* trust, a trust to which paragraph (4)(*a*.4) applies or a joint spousal or common-law partner trust, and

(II) the taxpayer referred to in paragraph (4)(*a*) or (*a*.4), as the case may be, is alive at the particular time, and

(D) where

(I) the disposition day would, but for the application of this subsection to the transfer, be determined under paragraph (5.3)(*a*) in respect of the transferee trust, and

(II) the particular time is after the day that would, but for subsection (5.3), be determined under paragraph (4)(*b*) in respect of the transferee trust,

the first day ending at or after the particular time, and

(ii) where the disposition day determined in respect of the transferee trust under subparagraph (i) is earlier than the day referred to in clause (i)(B) in respect of the transferee trust, subsections (4) to (5.2) do not apply to the transferee trust on the day referred to in clause (i)(B) in respect of the transferee trust;

(*b*) paragraph (*a*) does not apply in respect of the transfer where

(i) the transferor trust is a post-1971 spousal or common-law partner trust or a trust described in the definition "pre-1972 spousal trust" in subsection 108(1),

(ii) the spouse or common-law partner referred to in paragraph (4)(*a*) or in the definition "pre-1972 spousal trust" in subsection 108(1) is alive at the particular time, and

(iii) the transferee trust is a post-1971 spousal or common-law partner trust or a trust described in the definition "pre-1972 spousal trust" in subsection 108(1);

(*b*.1) paragraph (*a*) does not apply in respect of the transfer where

(i) the transferor trust is an *alter ego* trust,

(ii) the taxpayer referred to in paragraph (4)(*a*) is alive at the particular time, and

(iii) the transferee trust is an *alter ego* trust;

(*b*.2) paragraph (*a*) does not apply in respect of the transfer where

(i) the transferor trust is a joint spousal or common-law partner trust,

(ii) either the taxpayer referred to in paragraph (4)(*a*), or the spouse or common-law partner referred to in that paragraph, is alive at the particular time, and

(iii) the transferee trust is a joint spousal or common-law partner trust;

(*b*.3) paragraph (*a*) does not apply in respect of the transfer where

(i) the transferor trust is a trust to which paragraph (4)(*a*.4) applies,

(ii) the taxpayer referred to in paragraph (4)(*a*.4) is alive at the particular time, and

(iii) the transferee trust is a trust to which paragraph (4)(*a*.4) applies; and

(*c*) for the purposes of subsection (5.3), unless a day ending before the particular time has been determined under paragraph (4)(*a*.1) or (*b*) or would, but for subsection (5.3), have been so determined, a day determined under subparagraph (*a*)(i) shall be deemed to be a day determined under paragraph (4)(*a*.1) or (*b*), as the case may be, in respect of the transferee trust.

History: S. 104(5.8), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 78(12), applicable to transfers made after February 11, 1991 except that, for transfers made before December 24, 1998, the portion of subsection 104(5.8) of the Act before paragraph (*a*) shall be read as follows:

"(5.8) Where capital property (other than excluded property), land included in inventory, Canadian resource property or foreign resource property is transferred at a particular time by a trust (in this subsection referred to as the 'transferor trust') to another trust (in this subsection referred to as the 'transferee trust') in circumstances in which paragraph (*e*) of the definition 'disposition' in section 54 or subsection 107(2) applies and the transferee trust is not described in paragraph (*g*) of the definition 'trust' in subsection 108(1),"

S. 104(5.8), the portion before paragraph (*a*) formerly read:

"(5.8) *Trust transfers.* Where capital property (other than excluded property), land included in inventory, Canadian resource property or foreign resource property is transferred at a particular time by a trust (in this subsection referred to as the 'transferor trust') to another trust (in this subsection referred to as the 'transferee trust') in circumstances in which paragraph (*e*) of the definition 'disposition' in section 54 or subsection 107(2) applies,"

S. 104(5.8)(*a*)(i), the portion before clause (A) was amended by S.C. 2001, c. 17, s. 78(13), applicable to transfers made after December 17, 1999. S. 104(5.8)(*a*)(i), the portion before clause (A) formerly read:

"(i) subject to paragraph (*b*), the first day (in this subsection referred to as the 'disposition day') ending at or after the particular time determined under subsection (4) in respect of the transferee trust shall be deemed to be the earliest of"

S. 104(5.8)(*a*)(i)(C) was amended, and clause (C.1) was added, by S.C. 2001, c. 17, s. 78(14), applicable to transfers made after 1999. S. 104(5.8)(*a*)(i)(C) formerly read:

"(C) where the transferor trust is a trust that is described in paragraph (4)(*a*) or the definition 'pre-1972 spousal trust' in subsection 108(1) and the spouse or common-law partner referred to in that paragraph or definition is alive at the particular time, the first day ending at or after the particular time, and"

S. 104(5.8)(*b*) was amended, and paragraphs (*b*.1), (*b*.2) and (*b*.3) were added, by S.C. 2001, c. 17, s. 78(15), applicable to transfers made after 1999. S. 104(5.8)(*b*) formerly read:

"(*b*) where the transferor trust is a trust (in this paragraph referred to as an 'eligible trust') that is described in paragraph (4)(*a*) or the definition 'pre-1972 spousal trust' in subsection 108(1) and the spouse or common-law partner referred to in that paragraph or definition is alive at the particular time, paragraph (*a*) does not apply in respect of the transfer where the transferee trust is an eligible trust; and"

S. 104(5.8)(*a*)(i)(C) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.1), applicable January 1, 2001, coming into force on July 31, 2000. S. 104(5.8)(*a*)(i)(C) formerly read:

"(C) where the transferor trust is a trust that is described in paragraph (4)(*a*) or the definition 'pre-1972 spousal trust' in subsection 108(1) and the spouse referred to in that paragraph or definition is alive at the particular time, the first day ending at or after the particular time, and"

S. 104(5.8)(*b*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.1), applicable January 1, 2001, coming into force on July 31, 2000. S. 104(5.8)(*b*) formerly read:

"(*b*) where the transferor trust is a trust (in this paragraph referred to as an 'eligible trust') that is described in paragraph (4)(*a*) or the definition 'pre-1972 spousal trust' in subsection 108(1) and the spouse referred to in that paragraph or definition is alive at the particular time, paragraph (*a*) does not apply in respect of the transfer where the transferee trust is an eligible trust; and"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 104(5.8) was added by S.C. 1994, c. 7, Sched. VIII, s. 42(3), applicable in respect of property transferred after February 11, 1991, except that paragraph 104(5.8)(*b*), as it applies to property transferred before December 21, 1991, shall be read as follows:

"(*b*) where the transferor trust or the transferee trust is a trust that is described in paragraph (4)(*a*) or the definition 'pre-1972 spousal trust' in subsection 108(1) and the spouse referred to therein is alive at the particular time, paragraph (*a*) does not apply in respect of the transfer; and"

Editorial Note: S. 104(5.8) is designed to prevent the avoidance of the 21-year deemed disposition rule by the use of trust-to-trust transfers that do not involve dispositions of property at FMV (e.g., where there is no change in beneficial ownership). Essentially, this provision provides for a transferee trust to assume the next deemed disposition day of the transferor, if that day is earlier than the transferee's next deemed disposition day. With regard to *alter ego* trusts, where the settlor of an *alter ego* trust is still alive, or, in the case of a joint partner trust, where the settlor or the spouse or partner is still alive, a deemed disposition may occur as soon as the transfer is completed, unless the transferee trust also qualifies as an *alter ego* trust or a joint partner trust, as the case may be, and the settlor, or, in the case of a joint partner trust, either the settlor or the spouse or partner, is alive.

Related Sections: S. 54, "capital property"; s. 66(15); "Canadian resource property", "foreign resource property"; s. 104(1) Reference to trust or estate; s. 108(1), "excluded property"; s. 248(1), "Canadian resource property", "capital property", "common-law partner", "foreign resource property", "inventory", "trust"; s. 248(25.1) Trust-to-trust transfers.

Tax Window Files: Creation of Testamentary Trust, June 8, 2007, CRA Document No. 2007-0233721C6 [While successive trusts established in the will of the decedent may qualify as testamentary, the deemed disposition date of the new trusts under the 21-year deemed disposition rule will be determined in accordance with the rules set out in subsection 104(5.8)]; Merging of 3 identical family trusts, 2006, CRA Document No. 2006-0191431R3 [S. 104(5.8) applied on merging of family trusts]; Divide Family Trust Into Separate Trusts, June 4, 2003, CRA Document No. 2002-0180473 [Application of s. 104(5.8) to division of family trust into separate trusts]; Trust for Minor, November 24, 1998, CRA Document No. 9733825 [Application of s. 104(5.8) to trust for minor].

► 104(6) ◄

(6) Deduction in computing income of trust. For the purposes of this Part, there may be deducted in computing the income of a trust for a taxation year

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 104(6) of the Act before paragraph (*a*) is replaced by the following:

(6) Deduction in computing income of trust. Subject to subsections (7) to (7.1), for the purposes of this Part, there may be deducted in computing the income of a trust for a taxation year

Applicable:

To trust taxation years that begin after 2006. [This amendment] also applies to trust taxation years that begin

(*a*) after 2000, if the trust makes a valid election under paragraph [(*a*) of the application for new proposed section 94];

(*b*) after 2001, if the trust makes a valid election under paragraph [(*a*) or (*b*) of the application for new proposed section 94];

(*c*) after 2002, if the trust makes a valid election under any of paragraphs [(*a*) to (*c*) of the application for new proposed section 94];

(*d*) after 2003, if the trust makes a valid election under any of paragraphs [(*a*) to (*d*) of the application for new proposed section 94];

(*e*) after 2004, if the trust makes a valid election under any of paragraphs [(*a*) to (*e*) of the application for new proposed section 94]; and

(*f*) after 2005, if the trust makes a valid election under any of paragraphs [(*a*) to (*f*) of the application for new proposed section 94].

Explanatory Note: Subsection 104(6) of the Act generally permits a trust to deduct, in computing income for a taxation year, any income payable to a beneficiary under the trust.

Subsection 104(6) is amended so that it is expressly subject to subsections 104(7) to 104(7.1).

This amendment applies to trust taxation years that begin after 2006. It also applies to trust taxation years that begin after 2000, after 2001, after 2002, after 2003, after 2004 or after 2005 if the trust makes the appropriate election under the coming-into-force provision for new section 94 of the Act.

(*a*) in the case of an employee trust, the amount by which the amount that would, but for this subsection, be its income for the year exceeds the amount, if any, by which

(i) the total of all amounts each of which is its income for the year from a business

exceeds

(ii) the total of all amounts each of which is its loss for the year from a business;

(*a*.1) in the case of a trust governed by an employee benefit plan, such part of the amount that would, but for this subsection, be its income for the year as was paid in the year to a beneficiary;

(*a*.2) where the taxable income of the trust for the year is subject to tax under this Part because of paragraph 146(4)(*c*) or subsection 146.3(3.1), the part of the amount that, but for this subsection, would be the income of the trust for the year that was paid in the year to a beneficiary; and

(*a*.3) in the case of an *inter vivos* trust deemed by subsection 143(1) to exist in respect of a congregation that is a constituent part of a religious organization, such part of its income for the year as became payable in the year to a beneficiary; and

(*b*) in any other case, such amount as the trust claims not exceeding the amount, if any, by which

(i) such part (in this section referred to as the trust's "adjusted distributions amount" for the taxation year) of the amount that, but for

(A) this subsection,

(B) subsections (5.1), (12), and 107(4),

(C) the application of subsections (4), (5) and (5.2) in respect of a day determined under paragraph (4)(*a*), and

(D) subsection 12(10.2), except to the extent that that subsection applies to amounts paid to a trust described in paragraph 70(6.1)(*b*) and before the death of the spouse or common-law partner referred to in that paragraph,

would be its income for the year as became payable in the year to a beneficiary or was included

under subsection 105(2) in computing the income of a beneficiary

exceeds

(ii) where the trust

(A) is a post-1971 spousal or common-law partner trust that was created after December 20, 1991, or

(B) would be a post-1971 spousal or common-law partner trust if the reference in paragraph (4)(*a*) to "at the time it was created" were read as "on December 20, 1991",

and the spouse or common-law partner referred to in paragraph (4)(*a*) in respect of the trust is alive throughout the year, such part of the amount that, but for

(C) this subsection,

(D) subsections (12) and 107(4), and

(E) subsection 12(10.2), except to the extent that that subsection applies to an amount paid to a trust described in paragraph 70(6.1)(*b*) and before the death of the spouse or common-law partner referred to in that paragraph,

would be its income for the year as became payable in the year to a beneficiary (other than the spouse or common-law partner) or was included under subsection 105(2) in computing the income of a beneficiary (other than the spouse or common-law partner),

(ii.1) where the trust is an *alter ego* trust or a joint spousal or common-law partner trust and the death or later death, as the case may be, referred to in subparagraph (4)(*a*)(iv) has not occurred before the end of the year, such part of the amount that, but for this subsection and subsections (12), 12(10.2) and 107(4), would be its income as became payable in the year to a beneficiary (other than a taxpayer, spouse or common-law partner referred to in clause (4)(*a*)(iv)(A), (B) or (C)) or was included under subsection 105(2) in computing the income of a beneficiary (other than such a taxpayer, spouse or common-law partner),

(iii) where the trust is an *alter ego* trust, a joint spousal or common-law partner trust, a trust to which paragraph (4)(*a*.4) applies or a post-1971 spousal or common-law partner trust and the death or the later death, as the case may be, referred to in paragraph (4)(a) or (*a*.4) in respect of the trust occurred on a day in the year, the amount, if any, by which

(A) the maximum amount that would be deductible under this subsection in computing the trust's income for the year if this subsection were read without reference to this subparagraph

exceeds the total of

(B) the amount that, but for this subsection and subsections (12), 12(10.2) and 107(4), would be its income that became payable in the year to the taxpayer, spouse or common-law partner referred to in subparagraph (4)(*a*)(iii), clause (4)(*a*)(iv)(A), (B) or (C) or paragraph (4)(*a*.4), as the case may be, and

(C) the amount that would be the trust's income for the year if that income were computed without reference to this subsection and subsection (12) and as if the year began immediately after the end of the day, and

(iv) where the trust is a SIFT trust for the taxation year, the amount, if any, by which

(A) its adjusted distributions amount for the taxation year

exceeds

(B) the amount, if any, by which

(I) the amount that would, if this Act were read without reference to this subsection, be its income for the taxation year

exceeds

(II) its non-portfolio earnings for the taxation year.

History: S. 104(6)(*b*)(i), the portion before clause (A) was replaced by S.C. 2007, c. 29, s. 8(1), deemed to have come into force on October 31, 2006. S. 104(6)(*b*)(i), the portion before clause (A) formerly read:

"(i) such part of the amount that, but for"

S. 104(6)(*b*)(iv) was added by S.C. 2007, c. 29, s. 8(2), deemed to have come into force on October 31, 2006.

S. 104(6)(*a*.3) was amended by S.C. 2001, c. 17, s. 78(16), applicable to the 1998 and subsequent taxation years.

Ss. 104(6)(*b*)(ii)(A) and (B) were amended by S.C. 2001, c. 17, s. 78(17), applicable to the 2000 and subsequent taxation years. Ss. 104(6)(*b*)(ii)(A) and (B) formerly read:

"(A) is described in paragraph (4)(*a*) and was created after December 20, 1991,

(B) would be described in paragraph (4)(*a*) if the reference therein to 'at the time it was created' were read as 'on December 20, 1991'"

S. 104(6)(*b*)(ii.1) was added, and subparagraph (iii) was amended by S.C. 2001, c. 17, s. 78(18), applicable to the 2000 and subsequent taxation years. S. 104(6)(*b*)(iii) formerly read:

"(iii) where the trust is described in paragraph (4)(*a*) and the spouse or common-law partner referred to in paragraph (4)(*a*) in respect of the trust died on a day in the year, the part of the amount that, but for

(A) this subsection, and

(B) subsections (12) and 107(4)

would be the part of its income for the year that became payable in the year to a beneficiary (other than the spouse or common-law partner) and as is attributable to one or more dispositions by the trust before the end of that day of capital properties (other than excluded properties), land described in an inventory of the trust, Canadian resource properties or foreign resource properties."

S. 104(6)(*b*)(i)(D) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.1), applicable January 1, 2001, coming into force on July 31, 2000. S. 104(6)(*b*)(i)(D) formerly read:

"(D) subsection 12(10.2), except to the extent that that subsection applies to amounts paid to a trust described in paragraph 70(6.1)(*b*) and before the death of the spouse referred to in that paragraph,"

S. 104(6)(*b*)(ii), the portion after clause (B) and before clause (C), was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.1), applicable January 1, 2001, coming into force on July 31, 2000. S. 104(6)(*b*)(ii), the portion after clause (B) and before clause (C) formerly read:

"and the spouse referred to in paragraph (4)(*a*) in respect of the trust is alive throughout the year, such part of the amount that, but for"

S. 104(6)(*b*)(ii)(E) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.1), applicable January 1, 2001, coming into force on July 31, 2000. S. 104(6)(*b*)(ii)(E) formerly read:

"(E) subsection 12(10.2), except to the extent that that subsection applies to an amount paid to a trust described in paragraph 70(6.1)(*b*) and before the death of the spouse referred to in that paragraph,"

S. 104(6)(*b*)(ii), the portion after clause (E), was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.1), applicable January 1, 2001, coming into force on July 31, 2000. S. 104(6)(*b*)(ii), the portion after clause (E), formerly read:

"would be its income for the year as became payable in the year to a beneficiary (other than the spouse) or was included under subsection 105(2) in computing the income of a beneficiary (other than the spouse),"

S. 104(6)(*b*)(iii) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.1), applicable January 1, 2001, coming into force on July 31, 2000. S. 104(6)(*b*)(iii) formerly read:

"(iii) where the trust is described in paragraph (4)(*a*) and the spouse referred to in paragraph (4)(*a*) in respect of the trust died on a day in the year, the part of the amount that, but for

(A) this subsection, and

(B) subsections (12) and 107(4)

would be the part of its income for the year that became payable in the year to a beneficiary (other than the spouse) and as is attributable to one or more dispositions by the trust before the end of that day of capital properties (other than excluded properties), land described in an inventory of the trust, Canadian resource properties or foreign resource properties."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 104(6)(*a.2*) was added by S.C. 1998, c. 19, s. 127(2), applicable to the 1996 and subsequent taxation years.

S. 104(6)(*b*)(iii) was added by S.C. 1996, c. 21, s. 18(6), applicable to trust taxation years that end after July 19, 1995.

S. 104(6)(*b*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 42(4), applicable to the 1991 and subsequent taxation years except that, for taxation years of trusts ending after 1990 and before December 21, 1991, paragraph 104(6)(*b*) shall be read as follows:

"(*b*) in any other case, such amount as the trust claims not exceeding such part of the amount that, but for

(i) this subsection,

(ii) subsections (5.1) and (12),

(iii) subsections (4), (5) and (5.2) and 107(4), where the trust is a trust described in paragraph (4)(*a*), and

(iv) subsection 12(10.2), except to the extent that that subsection applies to amounts paid to a trust described in paragraph 70(6.1)(*b*) and before the death of the spouse referred to in that paragraph,

would be its income for the year as became payable in the year to a beneficiary or was included under subsection 105(2) in computing the income of a beneficiary."

S. 104(6)(*b*) formerly read:

"(*b*) in any other case, such amount as the trust may claim not exceeding such part of the amount that, but for this subsection, subsection (12) and, where the trust is a trust described in paragraph (4)(*a*), subsections (4), (5), (5.2) and 107(4), would be its income for the year as became payable in the year to a beneficiary or was included in computing the income of a beneficiary for the year by reason of subsection 105(2)."

Editorial Note: S. 104(6) enables a trust to deduct from its income certain amounts that would otherwise be included in its income for a year and that become payable in the year to a beneficiary in accordance with the terms of the trust agreement.

S. 104(24) states that, for purposes of s. 104(6), an amount shall be deemed not to have become payable to a beneficiary in a taxation year unless it was paid in the year to the beneficiary or the beneficiary was entitled in the year to enforce payment of the amount.

For many amounts paid or payable to a beneficiary that are not deductible by the trust owing to the restrictions in paragraph 104(6)(*b*), an election is available under either subsection 104(13.1) or (13.2) to avoid the inclusion of such amounts in the beneficiary's income. S. 104(24) is overruled by 104(18) (trusts for minors) where certain conditions are met.

Related Sections: S. 6(1)(*h*) Employee trust; s. 104(1) Reference to trust or estate; s. 104(4) Deemed disposition by trust; s. 104(5) Depreciable property; s. 104(5.1) Interest in NISA Fund No. 2; s. 104(5.2) Resource property; s. 104(10) Where property owned for non-residents; s. 104(12) Deduction of amounts included in preferred beneficiaries' incomes; s. 104(16) SIFT deemed dividend; s. 104(18) Trust for minor; s. 104(24) Amount payable; s. 105(2) Upkeep, etc; s. 107(4) Trusts in favour of spouse, common-law partner or self; s. 107.1 Distribution by employee trust, employee benefit plan or similar trust; s. 122.1(1), "SIFT trust", "non-portfolio earnings"; s. 143(1) Communal organizations; s. 143(2) Election in respect of income; s. 248(1), "amount", "common-law partner", "trust".

Interpretation Bulletins: *Primary* — IT-381R3 Trusts — Deduction of amounts paid or payable to beneficiaries and flow-through of taxable capital gains to beneficiaries. *Secondary* — IT-286R2 Trusts — Amount payable; IT-342R Trusts — Income payable to beneficiaries; IT-394R2 Preferred beneficiary election; IT-465R Non-resident beneficiaries of trusts; IT-500R Registered retirement savings plans — Death of an annuitant.

Income Tax Technical News: Issue No. 11, Payments made by a trust for the benefit of a minor beneficiary.

Forms: T3 SCH 9.

Canadian Tax Foundation: Christian, "Trust Planning: Documentation Requirements (2004)", *vol. 4, no. 3 Tax for the Owner-Manager*, 2–4.

Tax Window Files: Innovative Instrument, April 19, 2006, CRA Document No. 2005-0145921R3 [S. 104(7.1) not applying to deny a deduction to the Trust under s. 104(6)(*b*) of amounts payable to its unit holders]; Transfer from unit trust to master trust, 2006, CRA Document No. 2005-0151121R3 [Where unit trust to redeem all its units and distribute all its assets to a master trust, s. 104(6)(*b*) will permit the unit trust to deduct the portion of any income or gains that become payable to the master trust]; Distribution of Gain by Deemed Resident Trust, March 5, 2004, CRA Document No. 2003-0024621I7 [Non-resident trust deemed resident in Canada under paragraph 94(1)(*c*) not entitled to a deduction in computing income under 104(6) for an amount payable to a non-resident beneficiary in respect of a taxable capital gain on taxable Canadian property]; Payment by Trust for Benefit of Minor, January 13, 1998, CRA Document No. 9708735 [Trust not entitled to deduction under paragraph 104(6)(*b*) for payments made to a second trust which complies with the criteria set out in subsection 104(18)].

Cases: Notwithstanding certain comments in *Langer Family Trust v. MNR*, 2002 DTC 1055 (T.C.C.) suggesting payments to third parties may not be deductible, in *Cockeram et al. v. The Queen*, 2004 DTC 2829 (T.C.C.), aff'd. 2005 DTC 5707 (F.C.A.), the Court suggested that it would not disallow payments to third parties : "If I had concluded that the property was or had become an asset of the Trust ... I see no reason ... why payments to third parties which benefit beneficiaries by preserving an asset of the Trust, may not be deducted pursuant to these provisions, where properly documented."

► 104(7) ◄

(7) Non-resident beneficiary. No deduction may be made under subsection (6) in computing the income for a taxation year of a trust in respect of such part of an amount that would otherwise be its income for the year as became payable in the year to a beneficiary who was, at any time in the year, a designated beneficiary of the trust (as that expression applies for the purposes of section 210.3) unless, throughout the year, the trust was resident in Canada.

Editorial Note: The main intent of subsection 104(7) is to prevent a non-resident trust from earning income from sources in Canada and in turn flowing out the income to its non-resident beneficiary (or other "designated beneficiary") without the imposition of the appropriate amount of Canadian tax.

Related Sections: S. 104(24) Amount payable; s. 210, "designated beneficiary".

Tax Window Files: Deemed Resident Trust-Deductions, March 5, 2004, CRA Document No. 2003-0024621I7 [Non-resident trust deemed resident in Canada under s. 94(1)(*c*) not entitled to a deduction in computing income under s. 104(6) for an amount payable to a non-resident beneficiary re a taxable capital gain on taxable Canadian property].

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 104 of the Act is amended by adding the following after subsection (7):

(7.01) Trusts deemed to be resident in Canada. If a trust is deemed by subsection 94(3) to be resident in Canada for a taxation year for the purpose of computing the trust's income for the year, the maximum amount deductible under subsection (6) in computing its income for the year is the amount, if any, by which

(*a*) the maximum amount that, if this Act were read without reference to this subsection, would be deductible under subsection (6) in computing its income for the year,

exceeds

(*b*) the total of

(i) the portion of the trust's designated income for the year (within the meaning assigned by section 210) that became payable in the year to a non-resident beneficiary under the trust in respect of an interest of the non-resident as a beneficiary under the trust, and

(ii) all amounts each of which is determined by the formula

$$A \times B$$

where

'A' is an amount (other than an amount described in subparagraph (i)) that

(A) is paid or credited (having the meaning assigned by Part XIII) in the year to the trust,

(B) would, if this Act were read without reference to subparagraph 94(3)(*a*)(viii), paragraph 212(2)(*b*) and sections 216 and 217, be an amount as a consequence of the payment or crediting of which the trust would have been liable to tax under Part XIII, and

(C) becomes payable in the year by the trust to a non-resident beneficiary under the trust in respect of an interest of the non-resident as a beneficiary under the trust, and

B is

(A) 0.35, if the trust can establish to the satisfaction of the Minister that the non-resident beneficiary to whom the amount described in the description of A is payable is resident in a country with which Canada has a tax treaty under which the income tax that Canada may impose on the beneficiary in respect of the amount is limited, and

(B) 0.6, in any other case.

Applicable:

To trust taxation years that begin after 2006. [This amendment] also applies to trust taxation years that begin

(*a*) after 2000, if the trust makes a valid election under paragraph [(*a*) of the application for new proposed section 94];

(*b*) after 2001, if the trust makes a valid election under paragraph [(*a*) or (*b*) of the application for new proposed section 94];

(*c*) after 2002, if the trust makes a valid election under any of paragraphs [(*a*) to (*c*) of the application for new proposed section 94];

(*d*) after 2003, if the trust makes a valid election under any of paragraphs [(*a*) to (*d*) of the application for new proposed section 94];

(*e*) after 2004, if the trust makes a valid election under any of paragraphs [(*a*) to (*e*) of the application for new proposed section 94]; and

(*f*) after 2005, if the trust makes a valid election under any of paragraphs [(*a*) to (*f*) of the application for new proposed section 94].

Explanatory Note: Subsection 104(6) generally permits a trust to deduct, in computing income for a taxation year, an amount not exceeding the portion of its income for the year that becomes payable in the year to a beneficiary under the trust. Because of subsection 104(24), trust income is deemed not to have become payable in the year to a beneficiary unless it is paid in the year to the beneficiary or the beneficiary was entitled in the year to enforce payment of the amount.

New subsection 104(7.01) of the Act restricts the amount that a trust, that is deemed by subsection 94(3) to be resident in Canada (referred to in this commentary as a "subsection 94(3) trust"), can deduct under subsection 104(6) in computing its income in the event that the trust has Canadian-source income and makes distributions to beneficiaries not resident in Canada.

In effect, subsection 104(7.01) acts as a proxy for taxes under Parts XII.2 and XIII of the Act in connection with Canadian-source income earned by a subsection 94(3) trust that has become payable by the trust to its non-resident beneficiaries.

New subsection 94(3) deems a trust to which it applies to be resident in Canada for certain purposes, not including Part XII.2. Accordingly, a trust that is resident in Canada solely because of the deeming provision in subsection 94(3) would generally be non-resident for purposes of Part XII.2. Because of an existing exemption for non-resident trusts in Part XII.2, a tax under that Part does not apply to such a trust.

A subsection 94(3) trust is also exempt from Part XIII withholding obligations on Canadian-source income earned by it that becomes payable by it in the year to non-resident persons.

However, to ensure that subsection 94(3) trusts are not inappropriately used to distribute Canadian-source income free of tax to non-resident beneficiaries, subsection 104(7.01) limits the amount of any trust deduction under subsection 104(6) for such distributions, thereby ensuring the income is subject to Part I tax in the trust.

(It should also be noted that persons that pay or credit an amount to a subsection 94(3) trust are still liable for a withholding obligation under section 215 of the Act notwithstanding that the trust itself is exempt from Part XIII tax. This is because new paragraph 94(4)(*c*) provides that the deemed Canadian residence under subsection 94(3) does not apply for the purposes of determining withholding obligations under section 215. The Canada Revenue Agency will hold the withholding taxes paid and apply them on account of the trust's Part I tax liability, but only to the extent the amount on which Part XIII tax is paid is an amount included in the trust's income. The existing provisions of the Act do not expressly give a Part XIII exemption in this regard to trusts that are subject to existing subsection 94(1). Instead, existing subparagraph 94(1)(*c*)(ii) allows a tax credit to be claimed by those trusts under section 126 in connection with Part XIII tax on payments made to those trusts.)

As mentioned above, subsection 104(7.01) reduces the maximum deduction under subsection 104(6). More specifically, the amount by which the maximum deduction under subsection 104(6) for a taxation year is reduced under subsection 104(7.01) is equal to the total of:

- the portion of the trust's "designated income" for the year (as defined in Part XII.2) that became payable in the year to a non-resident beneficiary under the trust in respect of an interest of the non-resident as a beneficiary under the trust, and
- all amounts each of which is the product obtained by multiplying a specified factor by each particular amount that is paid or credited in the year to the trust that would, disregarding express provisions to the contrary in the Act, be subject to Part XIII tax and that is payable in the year to a non-resident beneficiary under the trust in respect of an interest of the non-resident as a beneficiary under the trust.

The specified factor in respect of each particular amount described in the second paragraph above is 0.35, if the trust can establish to the satisfaction of the Minister of National Revenue that the non-resident beneficiary to whom the particular amount is payable is resident in a country with which Canada has a tax treaty under which the income tax that Canada may impose on the beneficiary in respect of the amount is limited. In any other case, the specified factor is 0.6.

This amendment applies to trust taxation years that begin after 2006. It also applies to trust taxation years that begin after 2000, after 2001, after 2002 after 2003 after 2004 or after 2005 if the trust makes the appropriate election under the coming-into-force provision for new section 94 of the Act.

The example below illustrates the operation of new subsection 104(7.01).

Example

1. Trust X is an offshore trust established by Stefan, a long-term resident of Canada. The primary beneficiaries under the trust are Linda (a resident of Canada), Tim (a resident of non-Treatyland) and Bart (a resident of the United States).

2. Trust X receives $1,600 of income in its 2007 taxation year. This income consists of $400 of taxable dividends received from a taxable Canadian corporation. The remaining $1,200 of income is from other sources, none of which is "designated income" (as defined in Part XII.2) of the trust.

3. $1,050 of Trust X's income for 2007 is made payable in the year to Bart. Of this amount, $100 represents the taxable dividends. Trust X makes payable $200 of its income to Tim. Of this amount, $200 represents the taxable dividends. The remaining $350 of the trust's income is made payable in the year to Linda. Of this amount, $100 represents the taxable dividends.

4. Trust X is assumed to have designated the $400 of taxable dividends under subsection 104(19). (Where a designation under subsection 104(19) is available and the designation is made, the designated portion of the dividend income of the trust will, for the purposes of the Act (other than Part XIII), maintain its character as dividend income, in the hands of the beneficiary.)

Results

1. Because Trust X has a resident contributor at the end of its 2007 taxation year, the trust is deemed by new subsection 94(3) to be resident in Canada for the purposes of computing its income.

2. Before taking into account any deduction under subsection 104(6), Trust X's income is $1,600. Note that the $400 in dividends is included in computing the trust's income.

3. Before taking into account new subsection 104(7.01), the maximum deduction under subsection 104(6) is also $1,600.

4. Because of subsection 104(7.01), the maximum deduction under subsection 104(6) is reduced to $1,445 (i.e., $1,600 minus the total of: nil + ((.60 × $200) and (0.35 × $100))).

5. Assuming that the trust claims a deduction of $1,445 under subsection 104(6), the trust would consequently have income of $155. If a tax rate of 42.92% were assumed (i.e., combined federal rates of 29% (because of subsections 122(1) and 117(2) and 13.92% (because of subsection 120(1)), the trust would be liable for Canadian income tax of approximately $67. Note that the trust is exempt from having to collect a Part XIII tax in respect of the amounts made payable to Bart and Tim that are referred to in paragraph 104(7.01)(*b*) in respect of the trust for the particular taxation year, because these are exempt amounts for the purposes of subparagraph 94(3)(*a*)(ix). Disregarding this exemption, the Part XIII tax that would have had to have been collected by the trust in respect of the amounts made payable to Bart and Tim would have been $65 (i.e., 25% of $200 and 15% of $100).

► 104(7.1) ◄

(7.1) Capital interest greater than income interest. Where it is reasonable to consider that one of the main purposes for the existence of any term, condition, right or other attribute of an interest in a trust (other than a personal trust) is to give a beneficiary a percentage interest in the property of the trust that is greater than the beneficiary's percentage interest in the income of the trust, no amount may be deducted under paragraph (6)(*b*) in computing the income of the trust.

Related Sections: S. 104(7.2) Avoidance of s. (7.1).

Interpretation Bulletins: *Secondary* — IT-381R3 Trusts — Deduction of amounts paid or payable to beneficiaries and flow-through of taxable capital gains to beneficiaries.

Advance Tax Rulings: ATR-65 Reduction to management fees for large investments in a mutual fund.

Tax Profile: August 2000 — Non-Resident Trusts: Canadian Legislative Proposals.

Tax Window Files: Allocation of Gains to Redeeming Unitholders, May 23, 2001, CRA Document No. 2000-0041363 [S. 104(7.1) may deny a trust a deduction under s. 104(6)(*b*) where the main purpose of the existence of any term, condition, right or other attribute of the trust is to give a beneficiary a percentage interest in the property of the trust that is greater than the beneficiary's percentage interest in the income of the trust. See also: Document no.: 9820753, May 10, 1999 — Reclassification; Document no: 9700733, September 19, 1997 — Pension fund — Pooling vehicles; Document no: 2004-0075461R3, October 6, 2004 — Amendment of Mutual Fund Trust Agreements].

► 104(7.2) ◄

(7.2) Avoidance of s. (7.1). Notwithstanding any other provision of this Act, where

(*a*) a taxpayer has acquired a right to or to acquire an interest in a trust, or a right to or to acquire a property of a trust, and

(*b*) it is reasonable to consider that one of the main purposes of the acquisition was to avoid the application of subsection (7.1) in respect of the trust,

on a disposition of the right (other than pursuant to the exercise thereof), the interest or the property, there shall be included in computing the income of the taxpayer for the taxation year in which the disposition occurs the amount, if any, by which

(*c*) the proceeds of disposition of the right, interest or property, as the case may be,

exceed

(*d*) the cost amount to the taxpayer of the right, interest or property, as the case may be.

► 104(8) ◄

(8) Limitation on deduction. [Repealed by 1988, c. 55, s. 71(4).]

► 104(9) ◄

(9) Idem. [Repealed by 1974-75-76, c. 26, s. 65(1).]

► 104(10) ◄

(10) Where property owned for non-residents. Where all the property of a trust is owned by the trustee for the benefit of non-resident persons or their unborn issue, in addition to the amount that may be deducted under subsection (6), there may be deducted in computing the income of the trust for a taxation year for the purposes of this Part, such part of the dividends and interest received by the trust in a year from a non-resident-owned investment corporation as are not deductible under that subsection in computing the income of the trust for the year.

Related Sections: S. 104(11) Dividend received from non-resident-owned investment corporation.

► 104(11) ◄

(11) Dividend received from non-resident-owned investment corporation. Where any part of the dividends received in a taxation year by a trust described in subsection (10) from a non-resident-owned investment corporation are deductible under that subsection in computing the income of the trust for the year, for the purposes of Part XIII the trust shall be deemed to have paid to a non-resident person on the last day of the year an amount equal to that part, as income of the non-resident person from the trust.

► 104(12) ◄

(12) Deduction of amounts included in preferred beneficiaries' incomes. There may be deducted in computing the income of a trust for a taxation year the lesser of

(*a*) the total of all amounts designated under subsection (14) by the trust in respect of the year, and

(*b*) the accumulating income of the trust for the year.

History: S. 104(12) was amended by S.C. 1996, c. 21, s. 18(7), applicable to trust taxation years that begin after 1995. S. 104(12) formerly read:

"(12) *Deduction of part of accumulating income included in preferred beneficiary's income.* For the purposes of this Part, there may be deducted in computing the income of a trust for a taxation year such part of its accumulating income for the year as was required by subsection (14) to be included in computing the income of a preferred beneficiary."

Related Sections: S. 104(6) Deduction in computing income of trust; s. 104(8) Limitation on deduction; s. 104(13) Income of beneficiary; s. 104(22) Designation of foreign source income by trust; s. 108(1) Definitions.

Interpretation Bulletins: *Secondary* — IT-381R3 Trusts — Deduction of amounts paid or payable to beneficiaries and flow-through of taxable capital gains to beneficiaries; IT-394R2 Preferred beneficiary election; IT-465R Non-resident beneficiaries of trusts.

Advance Tax Rulings: ATR-34 Preferred beneficiary's election.

► 104(13) ◄

(13) Income of beneficiary. There shall be included in computing the income for a particular taxation year of a beneficiary under a trust such of the following amounts as are applicable:

(*a*) in the case of a trust (other than a trust referred to in paragraph (*a*) of the definition "trust" in subsection 108(1)), such part of the amount that, but for subsections (6) and (12), would be the trust's income for the trust's taxation year that ended in the particular year as became payable in the trust's year to the beneficiary; and

(*b*) in the case of a trust governed by an employee benefit plan to which the beneficiary has contributed as an employer, such part of the amount that, but for subsections (6) and (12), would be the trust's income for the trust's taxation year that ended in the

particular year as was paid in the trust's year to the beneficiary.

History: S. 104(13) was amended by S.C. 2001, c. 17, s. 78(19), applicable to the 2000 and subsequent taxation years. S. 104(13) formerly read:

"(13) *Income of beneficiary.* There shall be included in computing the income for a taxation year of a beneficiary under a trust such of the following amounts as are applicable:

(*a*) in the case of a trust (other than a trust referred to in paragraph (*a*) of the definition 'trust' in subsection 108(1)) that was resident in Canada throughout its particular taxation year that ended in the year, such part of the amount that, but for subsections (6) and (12), would be the trust's income for the particular year as became payable in the particular year to the beneficiary;

(*b*) in the case of a trust governed by an employee benefit plan to which the beneficiary has contributed as an employer, such part of the amount that, but for subsections (6) and (12), would be the income of the trust for its particular taxation year that ended in the year as was paid in the particular year to the beneficiary; and

(*c*) in the case of a trust (other than a trust referred to in paragraph (*a*) or paragraph (*a*) of the definition 'trust' in subsection 108(1)), all amounts that became payable in the year by the trust to the beneficiary in respect of the beneficiary's interest in the trust, otherwise than

(i) as proceeds of disposition of the beneficiary's interest or part thereof, or

(ii) an amount paid as a distribution of capital by a personal trust."

Editorial Note: See subsections 104(18) and (24) regarding the "payable" requirement.

Related Sections: S. 6(1)(*h*) Employee trust; s. 104(13.1) Amounts deemed not paid; s. 104(13.2) Amounts designated by trust; s. 104(16) SIFT deemed dividend; s. 104(18) Trust for minor; s. 104(19) Taxable dividends; s. 104(21) Taxable capital gains; s. 104(22) Designation of foreign source income by trust; s. 105(1) Benefits under trust; s. 105(2) Upkeep, etc; s. 106(1) Income interest in trust; s. 107.1 Distribution by employee trust, employee benefit plan or similar trust; s. 108(5) Interpretation; s. 120.4 Tax on split income; s. 143(2) Election in respect of income; s. 212(1)(*c*) Estate or trust income; s. 214(3) Deemed payments.

Interpretation Bulletins: *Primary* — IT-342R Trusts — Income payable to beneficiaries. *Secondary* — IT-75R4 Scholarships, Fellowships, Bursaries, Prizes, Research Grants and Financial Assistance; IT-286R2 Trusts — Amount payable; IT-381R3 Trusts — Deduction of amounts paid or payable to beneficiaries and flow-through of taxable capital gains to beneficiaries; IT-465R Non-resident beneficiaries of trusts; IT-500R Registered retirement savings plans — Death of an annuitant; IT-524 Trusts — Flow-through of taxable dividends to a beneficiary — After 1987.

Income Tax Technical News: Issue No. 11, Payments made by a trust for the benefit of a minor beneficiary.

Tax Window Files: Timing of Income Inclusion For Trust Beneficiary, March 6, 2006, CRA Document No. 2005-015908117 [Income amounts must be recognized by the beneficiary in the beneficiary's taxation year in which the relevant trust taxation year ends; the relevant trust taxation year being that in which the amounts became payable by the trust to the beneficiary]; Allocation of Income Earned by an Estate, January 16, 2006, CRA Document No. 2005-0116041E5 [Where the will is silent on the matter, the even-hand principle would suggest that, to the extent that the income can be distributed to the beneficiaries, it must be distributed proportionately, according to each beneficiary's share]; Transfer from unit trust to master trust, 2006, CRA Document No. 2005-0151121R3 [Income payable to the master trust unit trust be included in the income of the master trust pursuant to s 104(13)].

► 104(13.1) ◄

(13.1) Amounts deemed not paid. Where a trust, in its return of income under this Part for a taxation year throughout which it was resident in Canada and not exempt from tax under Part I by reason of subsection 149(1), designates an amount in respect of a beneficiary under the trust, not exceeding the amount determined by the formula

$$\frac{A}{B} \times (C - D - E)$$

where

A is the beneficiary's share of the income of the trust for the year computed without reference to this Act,

B is the total of all amounts each of which is a beneficiary's share of the income of the trust for the year computed without reference to this Act,

C is the total of all amounts each of which is an amount that, but for this subsection or subsection (13.2), would be included in computing the income of a beneficiary under the trust by reason of subsection (13) or 105(2) for the year,

D is the amount deducted under subsection (6) in computing the income of the trust for the year, and

E is equal to the amount determined by the trust for the year and used as the value of C for the purposes of the formula in subsection (13.2) or, if no amount is so determined, nil,

the amount so designated shall be deemed, for the purposes of subsections (13) and 105(2), not to have been paid or to have become payable in the year to or for the benefit of the beneficiary or out of income of the trust.

Editorial Note: Subsection 104(13.1) allows the trust to include in its income such amounts that are paid or payable to a beneficiary and that would otherwise be included in the beneficiary's income. The purpose of the provision is two-fold. First, it allows the trust to include such income at the trust level for the purpose of utilizing the trust's losses, or, in the case of a testamentary trust, to save tax in those cases where the trust's marginal rate or tax is lower than the beneficiary's rate. Second, it avoids double taxation in those cases where the trust is denied a deduction of such amounts (for example, owing to the restrictions found in paragraph 104(6)(*b*)). Subsection (13.2) serves a similar purpose for the trust's taxable capital gains paid or payable to a beneficiary.

The designation under subsection 104(13.1) or (13.2) may be beneficial where a trust is set up in a province that has lower tax rates than the beneficiary's province of residence. However, Quebec has enacted rules to limit the tax benefits in inter-provincial trust structures. Generally, a Quebec-resident beneficiary of a trust resident in another province will be required to include the trust's designated amount in income, notwithstanding that the trust will also include the amount in income as a result of the designation. (An exception applies where the beneficiary's share of the income in the trust in a year is less than $5,000 or where the beneficiary's interest represents less than 10% of the interests in the trust.) The beneficiary will be entitled to a credit for Quebec tax purposes, generally equal to the provincial tax the trust paid to the other province in respect of the designated amount, but not more than the amount it would have paid in respect of that amount had the trust been subject to Quebec provincial tax in respect of the amount (see section 671.5 of the *Taxation Act* (Quebec)).

The election under s. 104(13.1) (or (13.2)) may be appropriate where an estate is wound up within its first 12 months, in which case designations under s. 104(13.1) and (13.2) can be used to ensure that income and taxable capital gains are taxed within the estate and not as income to the beneficiaries.

Related Sections: S. 53(2)(*h*) Amounts to be deducted — Capital interest in a trust; s. 220(3.2) Late, amended or revoked elections.

Interpretation Bulletins: *Secondary* — IT-342R Trusts — Income payable to beneficiaries; IT-381R3 Trusts — Deduction of amounts paid or payable to beneficiaries and flow-through of taxable capital gains to beneficiaries; IT-394R2 Preferred Beneficiary Election.

Tax Profile: February 2008 — Income Splitting A–Z.

Canadian Tax Foundation: Chan and Morin, "Distributions by Canadian Testamentary Trusts", *2005 Canadian Tax Journal*, No. 4, 1090.

Tax Window Files: Amended Trust Designations, September 29, 2000, CRA Document No. 2000-0000385 [Designation under subsection 104(13.1) or subsection 14(13.2) can be amended, late-filed or revoked. The CRA responds to the *Lussier* decision]; Designation under Subsection 104(13.1), May 13, 1998, CRA Document No. 9718325 [Designation under subsection 104(13.1) available with respect to amounts deemed payable pursuant to subsection 104(18)].

Cases: There is no time limit for making a designation under s. 104(13.1); it may be made retroactively on an amended return. *Lussier v. The Queen*, 2000 DTC 1677 (T.C.C.).

► 104(13.2) ◄

(13.2) Idem. Where a trust, in its return of income under this Part for a taxation year throughout which it was resident in Canada and not exempt from tax under Part I by reason of subsection 149(1), designates an amount in respect of a beneficiary under the trust, not exceeding the amount determined by the formula

$$\frac{A}{B} \times C$$

where

A is the amount designated by the trust for the year in respect of the beneficiary under subsection (21),

B is the total of all amounts each of which has been designated for the year in respect of a beneficiary of the trust under subsection (21), and

C is the amount determined by the trust and used in computing all amounts each of which is designated by the trust for the year under this subsection, not exceeding the amount by which

(i) the total of all amounts each of which is an amount that, but for this subsection or subsection (13.1), would be included in computing the income of a beneficiary under the trust by reason of subsection (13) or 105(2) for the year

exceeds

(ii) the amount deducted under subsection (6) in computing the income of the trust for the year,

the amount so designated shall

(*a*) for the purposes of subsections (13) and 105(2) (except in the application of subsection (13) for the purposes of subsection (21)), be deemed not to have been paid or to have become payable in the year to or for the benefit of the beneficiaries or out of income of the trust; and

(*b*) except for the purposes of subsection (21) as it applies for the purposes of subsections (21.1) and (21.2), reduce the amount of the taxable capital gains of the beneficiary otherwise included in computing the beneficiary's income for the year by reason of subsection (21).

Editorial Note: See the editorial note following subsection 104(13.1).

Related Sections: S. 53(2)(*h*) Amounts to be deducted — Capital interest in a trust.

Interpretation Bulletins: *Secondary* — IT-342R Trusts — Income payable to beneficiaries; IT-381R3 Trusts — Deduction of amounts paid or payable to beneficiaries and flow-through of taxable capital gains to beneficiaries.

Canadian Tax Foundation: Chan and Morin, "Distributions by Canadian Testamentary Trusts", *2005 Canadian Tax Journal*, No. 4, 1090.

Tax Window Files: Income — Alter Ego, Joint Spousal or Common-law Partner Trust, July 11, 2002, CRA Document No. 2001-0114045 [Gain on deemed disposition for alter ego trust under subsection 104(4) must be included in trust's income; if paid to residual beneficiary, designation under subsection 104(13.2) possible to avoid double taxation]; Amended Trust Designations, September 29, 2000, CRA Document No. 2000-0000385 [Designation under subsection 104(13.1) or subsection 14(13.2) can be amended, late-filed or revoked].

► 104(14) ◄

(14) Election by trust and preferred beneficiary. Where a trust and a preferred beneficiary under the trust for a particular taxation year of the trust jointly so elect in respect of the particular year in prescribed manner, such part of the accumulating income of the trust for the particular year as is designated in the election, not exceeding the allocable amount for the preferred beneficiary in respect of the trust for the particular year, shall be included in computing the income of the preferred beneficiary for the beneficiary's taxation year in which the particular year ended and shall not be included in computing the income of any beneficiary of the trust for a subsequent taxation year.

History: S. 104(14) was amended by S.C. 1996, c. 21, s. 18(8), applicable to trust taxation years that begin after 1995. S. 104(14) formerly read:

"(14) *Election by trust and preferred beneficiary.* Where a trust and a preferred beneficiary thereunder jointly so elect in respect of a taxation year in prescribed manner and within prescribed time, such part of the accumulating income of the trust for the year as is designated in the election, not exceeding the preferred beneficiary's share therein, shall be included in computing the income of the preferred beneficiary for the year, and shall not be included in computing the income of any beneficiary of the trust for a subsequent year in which it was paid."

Editorial Note: The preferred beneficiary election allows a trust to retain any of its accumulating income in a particular year while shifting the tax liability thereon to a preferred beneficiary. When that same income is ultimately distributed to a beneficiary (which need not be the preferred beneficiary), there is no further tax payable by the recipient beneficiary. Thus, the election allows income splitting. The term "preferred beneficiary" is defined in s. 108(1). Preferred beneficiaries are restricted to the settlor of the trust; the spouse or common-law partner of the settlor; and the child, grandchild, or great-grandchild of the settlor or the spouse or common-law partner of any such person. A preferred beneficiary must either qualify for the disability tax credit, or be 18 years of age or over and dependant upon another individual by reason of mental or physical infirmity (s. 108(1), "preferred beneficiary").

Related Sections: S. 104(12) Deduction of amounts included in preferred beneficiaries' incomes; s. 104(15) Allocable amount for preferred beneficiary; s. 104(16) SIFT deemed dividend; s. 104(19) Taxable dividends; s. 104(21) Taxable capital gains; s. 104(22) Designation of foreign source income by trust; s. 108(1), "trust"; s. 220(3.2) Late, amended or revoked elections.

Regulations: 600(b); 2800(1), (2), (2.1).

Interpretation Bulletins: *Primary* — IT-394R2 Preferred beneficiary election. *Secondary* — IT-381R3 Trusts — Deduction of amounts paid or payable to beneficiaries and flow-through of taxable capital gains to beneficiaries; IT-500R Registered retirement savings plans — Death of an annuitant; IT-524 Trusts — Flow-through of taxable dividends to a beneficiary — After 1987.

Information Circulars: IC 07-1 Taxpayer Relief Provisions.

Advance Tax Rulings: ATR-30 Preferred beneficiary election on accumulating income of estate; ATR-34 Preferred beneficiary's election.

Cases: A preferred beneficiary election filed 9 days late, not signed by the trustees or any beneficiary and not disclosing any information concerning the provisions of the trust and its administration was held to be invalid. *Muzich Family Trust v. M.N.R.*, 93 DTC 314 (T.C.C.). See also *Degrace Family Trust v. The Queen*, 99 DTC 453 (T.C.C.).

► 104(14.01) ◄

(14.01) Late, amended or revoked election. A trust and a preferred beneficiary under the trust may jointly make an election, or amend or revoke an election made, under subsection (14) where the election, amendment or revocation

(*a*) is made solely because of an election or revocation to which subsection 110.6(25), (26) or (27) applies; and

(*b*) is filed in prescribed manner with the Minister when the election or revocation referred to in paragraph (*a*) is filed.

History: S. 104(14.01) was added by S.C. 1998, c. 19, s. 127(3), applicable to taxation years that include February 22, 1994.

► 104(14.02) ◄

(14.02) Late, amended or revoked election. Where a trust and a preferred beneficiary under the trust have made an election or amended or revoked an election in accordance with subsection (14.01),

(*a*) the election or the amended election, as the case may be, is deemed to have been made on time for the purpose of subsection (14); and

(*b*) the election that was revoked is deemed, otherwise than for the purposes of this subsection and subsection (14.01), never to have been made.

History: S. 104(14.02) was added by S.C. 1998, c. 19, s. 127(3), applicable to taxation years that include February 22, 1994.

► 104(14.1) ◄

(14.1) NISA election. Where, at the end of the day on which a taxpayer dies and as a consequence of the death, an amount would, but for this subsection, be deemed by subsection (5.1) to have been paid to a trust out of the trust's interest in a NISA Fund No. 2 and the trust and the legal representative of the taxpayer so elect in prescribed manner, such portion of the amount as is desig-

nated in the election shall be deemed to have been paid to the taxpayer out of a NISA Fund No. 2 of the taxpayer immediately before the end of the day and, for the purpose of paragraph (*a*) of the description of B in subsection 12(10.2) in respect of the trust, the amount shall be deemed to have been paid out of the trust's NISA Fund No. 2 immediately before the end of the day.

History: S. 104(14.1) was added by S.C. 1994, c. 7, Sched. VIII, s. 42(5), applicable to the 1991 and subsequent taxation years.

Related Sections: S. 12(10.2) NISA receipts; s. 104(1) Reference to trust or estate; s. 248(1), "amount", "NISA Fund No. 2", "trust".

► 104(15) ◄

(15) Allocable amount for preferred beneficiary. For the purpose of subsection (14), the allocable amount for a preferred beneficiary under a trust in respect of the trust for a taxation year is

(*a*) where the trust is an *alter ego* trust, a joint spousal or common-law partner trust, a post-1971 spousal or common-law partner trust or a trust described in the definition "pre-1972 spousal trust" in subsection 108(1) at the end of the year and a beneficiary, referred to in paragraph (4)(*a*) or in that definition, is alive at the end of the year, an amount equal to

(i) if the preferred beneficiary is a beneficiary so referred to, the trust's accumulating income for the year, and

(ii) in any other case, nil;

(*b*) where paragraph (*a*) does not apply and the preferred beneficiary's interest in the trust is not solely contingent on the death of another beneficiary who has a capital interest in the trust and who does not have an income interest in the trust, the trust's accumulating income for the year; and

(*c*) in any other case, nil.

History: Ss. 104(15)(*a*) and (*b*) were amended by S.C. 2001, c. 17, s. 78(20), applicable to the 2000 and subsequent taxation years. Ss. 104(15)(*a*) and (*b*) formerly read:

"(*a*) where the trust is a trust described in the definition 'pre-1972 spousal trust' in subsection 108(1) at the end of the year or a trust described in paragraph (4)(*a*) and the taxpayer's spouse or common-law partner referred to in that definition or paragraph is alive at the end of the year, an amount equal to

(i) if the beneficiary is that spouse or common-law partner, the trust's accumulating income for the year, and

(ii) in any other case, nil;

(*b*) where paragraph (*a*) does not apply and the beneficiary's interest in the trust is not solely contingent on the death of another beneficiary who has a capital interest in the trust and who does not have an income interest in the trust, the trust's accumulating income for the year; and"

S. 104(15)(*a*), the portion before subparagraph (ii), was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.1), applicable January 1, 2001, coming into force on July 31, 2000. S. 104(15)(*a*), the portion before subparagraph (ii) formerly read:

"(*a*) where the trust is a trust described in the definition 'pre-1972 spousal trust' in subsection 108(1) at the end of the year or a trust described in paragraph (4)(*a*) and the taxpayer's spouse referred to in that definition or paragraph is alive at the end of the year, an amount equal to

(i) if the beneficiary is that spouse, the trust's accumulating income for the year, and"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 104(15) was amended by S.C. 1996, c. 21, s. 18(9), applicable to trust taxation years that begin after 1995. S. 104(15) formerly read:

"(15) *Preferred beneficiary's share.* The share of a particular preferred beneficiary under a trust in the accumulating income of the trust for a taxation year is,

(*a*) where the trust is a trust described in the definition 'pre-1972 spousal trust' in subsection 108(1) at the end of the year or a trust described in paragraph (4)(*a*) and the taxpayer's spouse referred to in that definition or paragraph is alive at the end of the year, an amount equal to

(i) if the particular preferred beneficiary is the taxpayer's spouse, the trust's accumulating income for the year, and

(ii) in any other case, nil;

(*b*) in any case not referred to in paragraph (*a*), where the shares in which the accumulating income of the trust would be payable to the beneficiaries thereunder do not depend on the exercise by any person of, or the failure by any person to exercise, any discretionary power,

(i) if at the end of the year the particular beneficiary was a member of a class of beneficiaries under the trust each of whom was entitled, as a member of that class, to share equally in any income of the trust, the portion of the trust's accumulating income for the year that may reasonably be regarded as having been earned for the benefit of beneficiaries of that class, divided by the number of beneficiaries (other than registered charities) of that class in existence at the end of the year, and

(ii) in any other case, the portion of the trust's accumulating income for the year that may reasonably be regarded as having been earned for the benefit of the particular preferred beneficiary;

(*c*) in any case not referred to in paragraph (*a*) or (*b*), where each beneficiary under the trust whose share of the accumulating income of the trust depends on the exercise by any person of, or the failure by any person to exercise, any discretionary power, is a preferred beneficiary, or would be a preferred beneficiary if the beneficiary were resident in Canada, or is a registered charity, the portion of the trust's accumulating income for the year equal to the amount determined in prescribed manner to be the beneficiary's discretionary share of the trust's accumulating income for the year; and

(*d*) in any case not referred to in paragraph (*a*), (*b*) or (*c*), nil."

S. 104(15)(*a*), that portion preceding subparagraph (i), was amended by S.C. 1994, c. 7, Sched. VIII, s. 42(6), applicable to taxation years of trusts ending after December 20, 1991. S. 104(15)(*a*), that portion preceding subparagraph (i), formerly read:

"(*a*) where the trust is a trust described in paragraph (4)(*a*) and the taxpayer's spouse referred to in that paragraph is alive at the end of the year, an amount equal to,"

Related Sections: S. 104(1) Reference to trust or estate; s. 104(4) Deemed disposition by trust; s. 104(12) Deduction of amounts included in preferred beneficiaries' incomes; s. 108(1), "common-law partner", "pre-1972 spousal trust", "trust"; s. 248(1), "trust".

Regulations: 2800(3), (4).

Interpretation Bulletins: *Secondary* — IT-394R2 Preferred beneficiary election.

Advance Tax Rulings: ATR-30 Preferred beneficiary election on accumulating income of estate; ATR-34 Preferred beneficiary's election.

► 104(16) ◄

(16) SIFT deemed dividend. If an amount (in this subsection and section 122 referred to as the trust's "non-deductible distributions amount" for the taxation year) is determined under subparagraph (6)(*b*)(iv) in respect of a SIFT trust for a taxation year

(*a*) each beneficiary under the SIFT trust to whom at any time in the taxation year an amount became payable by the trust is deemed to have received at that time a taxable dividend that was paid at that time by a taxable Canadian corporation;

(*b*) the amount of a dividend described in paragraph (*a*) as having been received by a beneficiary at any time in a taxation year is equal to the amount determined by the formula

$$A/B \times C$$

where

A is the amount that became payable at that time by the SIFT trust to the beneficiary,

B is the total of all amounts, each of which became payable in the taxation year by the

SIFT trust to a beneficiary under the SIFT trust, and

C is the SIFT trust's non-deductible distributions amount for the taxation year;

(*c*) the amount of a dividend described in paragraph (*a*) in respect of a beneficiary under the SIFT trust is deemed for the purpose of subsection (13) not to be an amount payable to the beneficiary; and

(*d*) for the purposes of applying Part XIII in respect of each dividend described in paragraph (*a*), the SIFT trust is deemed to be a corporation resident in Canada that paid the dividend.

History: S. 104(16) was added by S.C. 2007, c. 29, s. 8(3), deemed to have come into force on October 31, 2006.

Editorial Note: The amount of the dividend deemed to have been received by a beneficiary of the SIFT trust under subsection 104(16) is considered an "eligible dividend" (subsection 89(1)). As such, if the beneficiary is a Canadian resident individual, the beneficiary will be entitled to the enhanced dividend tax credit under paragraph 121(*b*). If the beneficiary is a Canadian corporation, it will be eligible for the intercorporate dividend deduction under subsection 112(1). If the beneficiary is non-resident, paragraph 104(16)(*d*) provides that the deemed dividend is treated as a taxable dividend received from a corporation resident in Canada for the purposes of the Part XIII withholding tax, which may be reduced by income tax treaty.

Related Sections: S. 89(1), "eligible dividend", "taxable dividend"; s. 112(1) Deduction of taxable dividends received by corporation resident in Canada; s. 122.1(1), "SIFT trust", "non-portfolio earnings".

Tax Profile: September 2007 — U.S. and Canadian Tax Considerations in Acquiring Canadian Income Trusts; June 2007 — Canadian Income Trusts for Sale.

► 104(17) ◄

(17) Depletion allowance. [Repealed by 1988, c. 55, s. 71(6).]

► 104(17.1) ◄

(17.1) Determination, etc., ineffective. [Repealed by 1988, c. 55, s. 71(6).]

► 104(17.2) ◄

(17.2) Idem. [Repealed by 1988, c. 55, s. 71(6).]

► 104(18) ◄

(18) Trust for minor. Where any part of the amount that, but for subsections (6) and (12), would be the income of a trust for a taxation year throughout which it was resident in Canada

(*a*) has not become payable in the year,

(*b*) was held in trust for an individual who did not attain 21 years of age before the end of the year,

(*c*) the right to which vested at or before the end of the year otherwise than because of the exercise by any person of, or the failure of any person to exercise, any discretionary power, and

(*d*) the right to which is not subject to any future condition (other than a condition that the individual survive to an age not exceeding 40 years),

notwithstanding subsection (24), that part of the amount is, for the purposes of subsections (6) and (13), deemed to have become payable to the individual in the year.

History: S. 104(18) was amended by S.C. 1996, c. 21, s. 18(10), applicable to trust taxation years that begin after 1995. S. 104(18) formerly read:

"(18) *Trust for minor.* Where all or any part of the income of a trust for a taxation year has not become payable in the year and was held in trust for a minor whose right thereto has vested and the only reason that it has not become payable in the year was that the beneficiary was a minor, it shall, for the purposes of subsections (6) and (13) be deemed to have become payable to the minor in the year."

Editorial Note: A trust satisfying the conditions of s. 104(18) is sometimes referred to as an "Age 40 Trust" because such a trust allows income to "vest" in the beneficiary (but be retained in the trust) until age 21, whereupon income is distributed to the beneficiary; but amounts that vested up to age 21 can continue to be withheld until the beneficiary reaches age 40. An "Age 40 Trust" may be testamentary or *inter vivos*; however, the ability to have trust income taxed in the hands of the beneficiary (until he or she reaches age 21) will be particularly significant in the case of *inter vivos* trusts. Note that for s. 104(18) to apply, it suffices that the individual's interest has "vested"; it does not have to have "vested indefeasibly" (e.g., the interest may be subject to divestment if the individual does not reach a certain age — the latter not being more than age 40).

Interpretation Bulletins: *Secondary* — IT-286R2 Trusts — Amount payable; IT-342R Trusts — Income payable to beneficiaries; IT-381R3 Trusts — Deduction of amounts paid or payable to beneficiaries and flow-through of taxable capital gains to beneficiaries; IT-394R2 Preferred beneficiary election.

Canadian Tax Foundation: Rosenberg, "Inter-Vivos Trusts", *2004 Prairie Provinces Tax Conference, (Toronto: Canadian Tax Foundation, 2004)*, 15:1-45.

Tax Window Files: Trust for Benefit of Minor, November 2, 2005, CRA Document No. 2004-0093601E5 (in French only) [The CRA commented on the interpretation of s 104(18) when a trust has certain characteristics regarding the distribution of its capital and the allocation or payment of its income]; Discretionary Trust for Minor, June 5, 2000, CRA Document No. 1999-0012305 [Amount deposited into a segregated trust account by a discretionary trust for the benefit of a minor beneficiary did not qualify as an amount payable to that beneficiary]; Trust for Minor, March 12, 1999, CRA Document No. 9807495 [Trustees' discretion to use the income or capital of the trust for the benefit of the minor beneficiaries would not preclude subsection 104(18) to apply when each beneficiary's share in the capital is to be determined at the time of the testator's death]; Designation under Subsection 104(13.1), May 13, 1998, CRA Document No. 9718325 [Designation under subsection 104(13.1) available with respect to amounts deemed payable pursuant to subsection 104(18)]; Payment by Trust for Benefit of Minor, January 13, 1998, CRA Document No. 9708735 [Trust not entitled to deduction under paragraph 104(6)(*b*) for payments made to a second trust which complies with the criteria set out in subsection 104(18)].

► 104(19) ◄

(19) Taxable dividends. Such portion of a taxable dividend received by a trust in a taxation year throughout which it was resident in Canada on a share of the capital stock of a taxable Canadian corporation as

(*a*) may reasonably be considered (having regard to all the circumstances including the terms and conditions of the trust arrangement) to be part of the amount that, by reason of subsection (13) or (14) or section 105, as the case may be, was included in computing the income for a particular taxation year of a beneficiary under the trust, and

(*b*) was not designated by the trust in respect of any other beneficiary under the trust

is, if so designated by the trust in respect of the beneficiary in its return of income for the year, deemed, for the purposes of paragraphs 82(1)(*b*) and 107(1)(*c*) and (*d*) and section 112, not to have been received by the trust, and for the purposes of this Act (other than Part XIII), to be a taxable dividend on the share received by the beneficiary in the particular year from the corporation.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 104(19) of the Act is replaced by the following:

(19) Designation in respect of taxable dividends. A portion of a taxable dividend received by a trust, in a particular taxation year of the trust, on a share of the capital stock of a taxable Canadian corporation is, for the purposes of this Act other than Part XIII, deemed to be a taxable dividend on the share received by a taxpayer, in the taxpayer's taxation year in which the particular taxation year ends, and is, for the purposes

of paragraphs 82(1)(*b*) and 107(1)(*c*) and (*d*) and section 112, deemed not to have been received by the trust, if

(*a*) an amount equal to that portion

(i) is designated by the trust, in respect of the taxpayer, in the trust's return of income under this Part for the particular taxation year, and

(ii) may reasonably be considered (having regard to all the circumstances including the terms and conditions of the trust) to be part of the amount that, because of paragraph (13)(*a*) or subsection (14) or section 105, was included in computing the income for that taxation year of the taxpayer;

(*b*) the taxpayer is in the particular taxation year a beneficiary under the trust;

(*c*) the trust is, throughout the particular taxation year, resident in Canada; and

(*d*) the total of all amounts each of which is an amount designated, under this subsection, by the trust in respect of a beneficiary under the trust in the trust's return of income under this Part for the particular taxation year is not greater than the total of all amounts each of which is the amount of a taxable dividend, received by the trust in the particular taxation year, on a share of the capital stock of a taxable Canadian corporation.

Applicable: To taxation years that end after February 27, 2004, except that, for taxation years that end on or before July 18, 2005, the reference to "paragraph (13)(*a*)" in subparagraph 104(19)(*a*)(ii) is to be read as a reference to "subsection (13)".

Explanatory Note:

Designation in Respect of Taxable Dividends

Subsection 104(19) of the Act permits a trust to designate a taxable dividend received by it in a taxation year on the share of a taxable Canadian corporation. Where the designation is made in respect of a beneficiary under the trust, the dividend is treated, for the purposes of the Act (other than Part XIII), as a taxable dividend received by the beneficiary from the corporation, and is treated, for the purposes of the dividend gross-up in paragraph 82(1)(*b*) and stop-loss rules in paragraphs 107(1)(*c*) and (*d*) and section 112, as not having been received by the trust.

Subsection 104(19) is amended to clarify that where a designation, in respect of a taxpayer, is made by a trust in respect of a taxable dividend received by the trust in a particular taxation year of the trust, on a share of the capital stock of a taxable Canadian corporation, the portion of the dividend in respect of which the designation is made is

- for the purposes of paragraphs 82(1)(*b*) and 107(1)(*c*) and (*d*) and section 112, deemed not to have been received by the trust, and
- for the purposes of the Act other than Part XIII, deemed to be a taxable dividend on the share received by the taxpayer in the taxpayer's taxation year in which the particular taxation year of the trust ends.

These deeming rules do not apply, however, unless a number of conditions are met. One of these conditions — that a designated amount not be made in respect of more than one beneficiary under the trust — is replaced with a new requirement that the total of all amounts designated by the trust under subsection 104(19) for the particular taxation year of the trust not exceed the total of all amounts each of which is the amount of a taxable dividend received by the trust in the particular taxation year on a share of the capital stock of a taxable Canadian corporation.

The deeming rules under subsection 104(19) apply, in respect of a beneficiary under the trust, only to the portion of the amount, designated under that subsection, that may reasonably be considered (having regard to all the circumstances including the terms and conditions of the trust arrangement) to be part of the amount that, by reason of subsection 104(13) or (14) or section 105, as the case may be, was included in computing the income for a particular taxation year of a beneficiary under the trust. This condition is also amended and now provides that the portion of a taxable dividend designated by a trust is deemed to be a taxable dividend of a taxpayer who is a beneficiary of the trust (and not to be a dividend received by the trust) only if an amount equal to the amount of the designated portion may reasonably be considered (having regard to all the circumstances including the terms and conditions of the trust) to be part of the amount that, because of paragraph 104(13)(*a*) or subsection 104(14) or section 105, was included in computing the income of that taxpayer (*i.e.*, the taxpayer in respect of whom the amount is designated).

The amended reference in the above rule to paragraph 104(13)(*a*), instead of subsection 104(13), applies to taxation years that end after July 18, 2005. This change clarifies that the deeming rules do not apply to taxable dividends received by a trust governed by an employee benefit plan and paid to an employer under the plan. This is intended to ensure the appropriate characterization of such amounts for purposes of the rules relating to employee benefit plans. For taxation years that end after February 27, 2004 and on or before July 18, 2005, the referenced provision is subsection 104(13).

Except as noted above, these amendments apply to taxation years that end after February 27, 2004.

History: S. 104(19), the portion after paragraph (*b*) was amended by S.C. 2001, c. 17, s. 78(21), applicable to taxation years that end after 2000. S. 104(19), the portion after paragraph (*b*) formerly read:

"shall, if so designated by the trust in respect of the beneficiary in the return of its income for the year under this Part, be deemed, for the purposes of this Act, other than Part XIII, not to have been received by the trust and to be a taxable dividend on the share received by the beneficiary in the particular year from the corporation."

Editorial Note: The designation under subsection 104(19) will allow a beneficiary who is a Canadian resident individual to claim the dividend tax credit in respect of the amount designated and deemed to be a taxable dividend received from the taxable Canadian corporation. If the beneficiary is a Canadian resident corporation, it will be eligible for the inter-corporate dividend deduction under subsection 112(1). If the beneficiary is another Canadian resident trust, it can either claim the dividend tax credit or pay out and designate the amount under subsection 104(19) to its own beneficiaries.

Related Sections: S. 82(1) Taxable dividends received; s. 107(1)(*c*) Disposition by taxpayer of capital interest; s. 112(3.2) Loss on share held by trust; s. 112(4.3) Loss on share that is not capital property of trust.

Interpretation Bulletins: *Primary* — IT-524 Trusts — Flow-through of taxable dividends to a beneficiary — After 1987. *Secondary* — IT-328R3 Losses on shares on which dividends have been received.

Tax Window Files: Allocation of Income — Fully Discretionary Trust, April 4, 2002, CRA Document No. 2001-0112945 [Subsection 104(19) designation for fully discretionary trust]; Allocation by Trust of Deemed Dividend on Share Redemption, November 19, 1997, CRA Document No. 9718785 [Subsection 104(19) and subsection 84(3) deemed dividends].

► 104(20) ◄

(20) Designation in respect of non-taxable dividends. The portion of the total of all amounts, each of which is the amount of a dividend (other than a taxable dividend) paid on a share of the capital stock of a corporation resident in Canada to a trust during a taxation year of the trust throughout which the trust was resident in Canada, that can reasonably be considered (having regard to all the circumstances including the terms and conditions of the trust arrangement) to be part of an amount that became payable in the year to a particular beneficiary under the trust shall be designated by the trust in respect of the particular beneficiary in the return of the trust's income for the year for the purposes of subclause 53(2)(*h*)(i.1)(B)(II), paragraphs 107(1)(*c*) and (*d*) and subsections 112(3.1), (3.2), (3.31) and (4.2).

History: S. 104(20) was amended by S.C. 1998, c. 19, s. 127(4), applicable after April 26, 1995. S. 104(20) formerly read:

"(20) *Designation in respect of non-taxable dividends.* Such portion of the total of all amounts each of which is the amount of a dividend (other than a taxable dividend) paid on a share of the capital stock of a corporation resident in Canada to a trust during a taxation year of the trust throughout which the trust was resident of Canada as may reasonably be considered (having regard to all the circumstances including the terms and conditions of the trust arrangement) to be part of an amount that became payable in the year to a particular beneficiary under the trust, shall be designated by the trust in respect of the particular beneficiary in the return of the trust's income for the year for the purposes of subclause 53(2)(*h*)(i.1)(B)(II), paragraph 107(1)(*c*) and subsections 112(3.2) and (4.3)."

Editorial Note: A trust resident in Canada must designate a reasonable portion of non-taxable dividends received from a corporation resident in

Canada as part of an amount payable to a particular beneficiary. This portion of a dividend is then excluded by the beneficiary in computing income.

Related Sections: S. 83(2) Capital dividend; s. 104(24) Amount payable; s. 105(1) Benefits under trust; s. 132(3) Application of s. 104(20).
Interpretation Bulletins: *Secondary* — IT-328R3 Losses on shares on which dividends have been received.

► 104(21) ◄

(21) Taxable capital gains. Such portion of the net taxable capital gains of a trust for a taxation year throughout which it was resident in Canada as

(*a*) may reasonably be considered (having regard to all the circumstances including the terms and conditions of the trust arrangement) to be part of the amount that, by virtue of subsection (13) or (14) or section 105, as the case may be, was included in computing the income for the taxation year of

(i) a particular beneficiary under the trust, if the trust is a mutual fund trust, or

(ii) a particular beneficiary under the trust who is resident in Canada, if the trust is not a mutual fund trust, and

(*b*) was not designated by the trust in respect of any other beneficiary under the trust,

shall, if so designated by the trust in respect of the particular beneficiary in the return of its income for the year under this Part, be deemed, for the purposes of sections 3 and 111, except as they apply for the purpose of section 110.6, and subject to paragraph 132(5.1)(*b*), to be a taxable capital gain for the year of the particular beneficiary from the disposition by that beneficiary of capital property.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 104(21) of the Act is replaced by the following:

(21) Designation in respect of taxable capital gains. For the purposes of sections 3 and 111, except as they apply for the purposes of section 110.6, and subject to paragraph 132(5.1)(*b*), an amount in respect of a trust's net taxable capital gains for a particular taxation year of the trust is deemed to be a taxable capital gain, for the taxation year of a taxpayer in which the particular taxation year ends, from the disposition by the taxpayer of capital property if

(*a*) the amount

(i) is designated by the trust, in respect of the taxpayer, in the trust's return of income under this Part for the particular taxation year, and

(ii) may reasonably be considered (having regard to all the circumstances including the terms and conditions of the trust) to be part of the amount that, because of paragraph (13)(*a*) or subsection (14) or section 105, was included in computing the income for that taxation year of the taxpayer;

(*b*) the taxpayer is

(i) in the particular taxation year, a beneficiary under the trust, and

(ii) resident in Canada, unless the trust is, throughout the particular taxation year, a mutual fund trust;

(*c*) the trust is, throughout the particular taxation year, resident in Canada; and

(*d*) the total of all amounts each of which is an amount designated, under this subsection, by the trust in respect of a beneficiary under the trust in the trust's return of income under this Part for the particular taxation year is not greater than the trust's net taxable capital gains for the particular taxation year.

Applicable: To taxation years that end after February 27, 2004, except that, for taxation years that end on or before July 18, 2005, the reference to "paragraph (13)(*a*)" in subparagraph 104(21)(*a*)(ii) is to be read as a reference to "subsection (13)".

Explanatory Note:

Designation in Respect of Taxable Capital Gains

Subsection 104(21) of the Act permits a trust to designate, in respect of a beneficiary under the trust, a portion of its net taxable capital gains. Where the designation is made, the amount designated is deemed, for the purposes of sections 3 and 111 (except as they apply for the purposes of determining whether a beneficiary is entitled to claim a capital gains exemption under section 110.6 and subject to paragraph 132(5.1)(*b*)), to be a taxable capital gain for the year of the beneficiary from the disposition of capital property.

Subsection 104(21) is amended to clarify that where a designation, in respect of a taxpayer, is made by a trust in respect of its net taxable capital gains for a particular taxation year of the trust, the designated amount is deemed to be a taxable capital gain, for the taxation year of the taxpayer in which the particular taxation year ends, from the disposition by the taxpayer of capital property.

The deeming rule does not apply, however, unless a number of conditions are met. One of these conditions — that a designated amount not be made in respect of more than one beneficiary under the trust — is replaced with a new requirement that the total amounts designated under subsection 104(21) by the trust for a particular taxation year of the trust not exceed the trust's net taxable capital gains for the particular taxation year.

The deeming rule under subsection 104(21) applies, in respect of a beneficiary under a trust, only to the portion of the net taxable gains of the trust that may reasonably be considered (having regard to all the circumstances including the terms and conditions of the trust arrangement) to be part of the amount that, by reason of subsection 104(13) or 104(14) or section 105, as the case may be, was included in computing the income of a beneficiary under the trust. This condition is also amended and now provides that an amount, in respect of the trust's net taxable capital gains, is deemed to be a taxable capital gain from the disposition by a taxpayer of capital property only if the amount may reasonably be considered (having regard to all the circumstances including the terms and conditions of the trust) to be part of the amount that, because of paragraph 104(13)(*a*) or subsection 104(14) or section 105, was included in computing the income of that taxpayer (*i.e.*, the taxpayer in respect of whom the amount is designated).

The amended reference in the above rule to paragraph 104(13)(*a*), instead of subsection 104(13), applies to taxation years that end after July 18, 2005. This change clarifies that the deeming rule does not apply to employee benefit plan trusts and ensures consistency with amended subsection 104(19). For taxation years that end after February 27, 2004 and on or before July 18, 2005, the referenced provision is subsection 104(13).

Subsection 104(21) is also amended to clarify that the deeming rule does not apply to a designation made by a trust, for a particular taxation year of the trust, in respect of a non-resident beneficiary, unless the trust is a mutual fund trust throughout the particular taxation year.

Except as provided above, these amendments apply to taxation years that end after February 27, 2004.

Department of Finance Comfort Letter
[Capital Gains Received by a Mutual Fund Corporation from a Trust]

November 9, 2005

Dear XXXX,

I am responding to your facsimile to Grant Nash of June 18, 2004 and the attached letter dated November 15, 2001 concerning the definition of "capital gains dividend account" for mutual fund corporations (MFCs).

In general, the definition of "capital gains dividend account" in subsection 131(6) of the *Income Tax Act* (the "Act") includes all capital gains and all capital losses realized by a MFC from the disposition of capital property. Where a MFC holds units of a trust that makes a distribution out of its realized capital gains, and the trust makes an election under 104(21) of the Act in favour of the MFC, the MFC will be deemed to have realized a taxable capital gain, not a capital gain. As a result, it appears that no amount of this distribution will be included in the capital gains dividend account of the mutual fund corporation.

From a tax policy perspective it is intended that a mutual fund corporation will be a "flow-through entity" with respect to realized capital gains. This is generally achieved by refunding to the MFC its tax paid on taxable capital gains, to the extent that it distributes its capital gains to shareholders by way of a capital gains dividend, or through the redemption of shares. As such, there does not appear to be any policy reason why a MFC should not be entitled to flow-through capital gains received from a trust that has made an election under 104(21) in favour of the MFC. We note that a similar amendment was previously made to the definition of "capital dividend account" in subsection 89(1) of the Act to provide for the inclusion in a corporation's capital dividend account of an amount in respect of the non-taxable portion of capital gains distributed by a trust to the corporation.

We are therefore prepared to recommend an amendment to the Act to allow a MFC to flow-through capital gains received from a trust that has made an election under 104(21) in favour of the MFC. We will also recommend that this amendment be made effective for 2005 and subsequent taxation years.

We cannot offer any assurance that either the Minister of Finance or Parliament will agree with the recommendations that we intend to make in this regard. Nonetheless, we trust that this statement of our position is helpful.

Your sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 104(21), the portion following paragraph (*b*), was replaced by S.C. 2005, c. 19, s. 17(2), applicable after March 22, 2004. S. 104(21), the portion following paragraph (*b*) formerly read:

" shall, if so designated by the trust in respect of the particular beneficiary in the return of its income for the year under this Part, be deemed, for the purposes of sections 3 and 111 except as they apply for the purposes of section 110.6, to be a taxable capital gain for the year of the particular beneficiary from the disposition by that beneficiary of capital property."

Editorial Note: S. 104(21) allows the net taxable capital gains of a Canadian resident trust (being its taxable capital gains for the year net of its allowable capital losses for the year and its capital loss carryovers deducted in the year) to be allocated to trust beneficiaries. However, the amount designated under s. 104(21) does not automatically qualify for the capital gains exemption under s. 110.6. A separate additional designation subject to special rules must be made under s. 104(21.2) to designate capital gains eligible for the capital gains exemption. The subsection 104(21) designation can be made in respect of a non-resident beneficiary only if the trust is a mutual fund trust.

Note that, for trust taxation years beginning after 2000, allowable business investment losses (ABILs) will be disregarded in the computation of a trust's allowable capital losses. As a result, ABILs will not result in a reduction of taxable capital gains which may be flowed through to beneficiaries under trusts and against which allowable capital losses can be claimed.

Related Sections: S. 38 Taxable capital gain and allowable capital loss; s. 104(21.2) Beneficiaries' taxable capital gain; s. 104(21.3) Net taxable capital gains of trust determined; s. 127.52(1)(*g*) Adjusted taxable income determined; s. 212(1)(*c*) Estate or trust income.

Interpretation Bulletins: *Primary* — IT-381R3 Trusts — Deduction of amounts paid or payable to beneficiaries and flow-through of taxable capital gains to beneficiaries. *Secondary* — IT-342R Trusts — Income payable to beneficiaries; IT-394R2 Preferred beneficiary election; IT-465R Non-resident beneficiaries of trusts.

Advance Tax Rulings: ATR-34 Preferred beneficiary's election.

Forms: T3 SCH 4.

Tax Window Files: Distribution of Non-Taxable Portion of Capital Gains — Trust Units Held on Income Account, April 5, 2002, CRA Document No. 1999-001243A [Distributions of non-taxable portion of capital gains realized by a mutual fund trust can be received tax-free by a taxpayer that holds its units in the trust on income account]; Designation of Taxable Capital Gains by Trust, June 24, 1998, CRA Document No. 8m17920 [Beneficiary's entitlement to only the taxable portion of trust's capital gain would not affect the amount available to be designated to that beneficiary under subsection 104(21)].

► 104(21.01) ◄

(21.01) Late, amended or revoked designation. A trust that has filed its return of income for its taxation year that includes February 22, 1994 may subsequently designate an amount under subsection (21), or amend or revoke a designation made under that subsection where the designation, amendment or revocation

(*a*) is made solely because of an increase or decrease in the net taxable capital gains of the trust for the year that results from an election or revocation to which subsection 110.6(25), (26) or (27) applies; and

(*b*) is filed with the Minister, with an amended return of income for the year, when the election or revocation referred to in paragraph (*a*) is filed with the Minister.

History: S. 104(21.01) was added by S.C. 1998, c. 19, s. 127(5), applicable to taxation years that include February 22, 1994.

► 104(21.02) ◄

(21.02) Late, amended or revoked designation. A designation, amendment or revocation under subsection (21.01) that affects an amount determined in respect of a beneficiary under subsection (21.2) may be made only where the trust

(*a*) designates an amount, or amends or revokes a designation made, under subsection (21.2) in respect of the beneficiary; and

(*b*) files the designation, amendment or revocation referred to in paragraph (*a*) with the Minister when required by paragraph (21.01)(*b*).

History: S. 104(21.02) was added by S.C. 1998, c. 19, s. 127(5), applicable to taxation years that include February 22, 1994.

► 104(21.03) ◄

(21.03) Late, amended or revoked designation. Where a trust designates an amount, or amends or revokes a designation, under subsection (21) or (21.2) in accordance with subsection (21.01),

(*a*) the designation or amended designation, as the case may be, is deemed to have been made in the trust's return of income for the trust's taxation year that includes February 22, 1994; and

(*b*) the designation that was revoked is deemed, other than for the purposes of this subsection and subsections (21.01) and (21.02), never to have been made.

History: S. 104(21.03) was added by S.C. 1998, c. 19, s. 127(5), applicable to taxation years that include February 22, 1994.

► 104(21.1) ◄

(21.1) Beneficiary's taxable capital gain. Notwithstanding subsection (21) or section 38, where in a particular taxation year, commencing before 1990, of a taxpayer (other than an individual who is not a testamentary trust) the taxpayer is a beneficiary of a trust with a taxation year ending in the particular year, the amount (other than that part of the amount that can be attributed to an amount deemed under subsection 14(1) to be a taxable capital gain of the trust) deemed by subsection (21) to be a taxable capital gain of the taxpayer for the particular year in respect of the trust shall be the amount determined by the formula

$$A \times \frac{B}{C}$$

where

A is the amount, if any, by which the amount (other than that part of the amount that can be attributed to an amount deemed under subsection 14(1) to be a taxable capital gain of the trust) deemed by subsection (21) to be the taxpayer's taxable capital gain for the particular year in respect of the trust exceeds the amount (other than that part of the amount that can be attributed to an amount deemed under subsection 14(1) to be a taxable capital gain of the trust) designated by the trust for the particular year in respect of the taxpayer under subsection (13.2);

B is the fraction that would be used under section 38 for the particular year in respect of the taxpayer if the taxpayer had a capital gain for the particular year; and

C is the fraction that is used under section 38 for the year of the trust.

Interpretation Bulletins: *Secondary* — IT-381R3 Trusts — Deduction of amounts paid or payable to beneficiaries and flow-through of taxable capital gains to beneficiaries.
Forms: T3 SCH 3.

► 104(21.2) ◄

(21.2) Beneficiaries' taxable capital gain. Where, for the purposes of subsection (21), a personal trust or a trust referred to in subsection 7(2) designates an amount in respect of a beneficiary in respect of its net taxable capital gains for a taxation year (in this subsection referred to as the "designation year"),

(*a*) the trust shall in its return of income under this Part for the designation year designate an amount in respect of its eligible taxable capital gains, if any, for the designation year in respect of the beneficiary equal to the amount determined in respect of the beneficiary under each of subparagraphs (*b*)(i) and (ii); and

(*b*) the beneficiary is, for the purposes of sections 3, 74.3 and 111 as they apply for the purposes of section 110.6,

(i) deemed to have disposed of the capital property referred to in clause (ii)(A), (B) or (C) if a taxable capital gain is determined in respect of the beneficiary for the beneficiary's taxation year in which the designation year ends under those clauses, and

(ii) deemed to have a taxable capital gain for the beneficiary's taxation year in which the designation year ends

(A) from a disposition of a capital property that is qualified farm property (as defined for the purpose of section 110.6) of the beneficiary equal to the amount determined by the formula

$$(A \times B \times C)/(D \times E)$$

(B) from a disposition of a capital property that is a qualified small business corporation share (as defined for the purpose of section 110.6) of the beneficiary equal to the amount determined by the formula

$$(A \times B \times F)/(D \times E)$$

and

(C) from a disposition of a capital property that is a qualified fishing property (as defined for the purpose of section 110.6) of the beneficiary equal to the amount determined by the formula

$$(A \times B \times I)/(D \times E)$$

where

A is the lesser of

(I) the amount determined by the formula

$$G - H$$

where

G is the total of amounts designated under subsection (21) for the designation year by the trust, and

H is the total of amounts designated under subsection (13.2) for the designation year by the trust, and

(II) the trust's eligible taxable capital gains for the designation year,

B is the amount, if any, by which the amount designated under subsection (21) for the designation year by the trust in respect of the beneficiary exceeds the amount designated under subsection (13.2) for the year by the trust in respect of the beneficiary for the taxation year,

C is the amount, if any, that would be determined under paragraph 3(*b*) for the designation year in respect of the trust's capital gains and capital losses if the only properties referred to in that paragraph were qualified farm properties of the trust disposed of by it after 1984,

D is the total of all amounts each of which is the amount determined for B for the designation year in respect of a beneficiary under the trust,

E is the total of the amounts determined for C, F and I for the designation year in respect of the beneficiary,

F is the amount, if any, that would be determined under paragraph 3(*b*) for the designation year in respect of the trust's capital gains and capital losses if the only properties referred to in that paragraph were qualified small business corporation shares of the trust, other than qualified farm property, disposed of by it after June 17, 1987, and

I is the amount, if any, that would be determined under paragraph 3(*b*) for the designation year in respect of the trust's capital gains and capital losses if the only properties referred to in that paragraph were qualified fishing properties of the trust disposed of by it on or after May 2, 2006,

and for the purposes of section 110.6, those capital properties shall be deemed to have been disposed of by the beneficiary in that taxation year of the beneficiary.

History: S. 104(21.2)(*b*) was replaced by S.C. 2007, c. 2, s. 15(1), applicable to taxation years of a trust that end on or after May 2, 2006.

S. 104(21.2)(*b*) formerly read:

"(*b*) the beneficiary shall, for the purposes of sections 3, 74.3 and 111 as they apply for the purposes of section 110.6, be deemed to have a taxable capital gain for the beneficiary's taxation year in which the designation year ends

(i) from a disposition of capital property that is qualified farm property of the beneficiary equal to the amount determined by the formula

$$\frac{A \times B \times C}{D \times E}$$

and

(ii) from a disposition of capital property that is a qualified small business corporation share of the beneficiary equal to the amount determined by the formula

$$\frac{A \times B \times F}{D \times E}$$

where

A is the lesser of

(iii) the amount determined by the formula

$$G - H$$

where

G is the total of amounts designated under subsection (21) for the designation year by the trust, and

H is the total of amounts designated under subsection (13.2) for the designation year by the trust, and

(iv) the trust's eligible taxable capital gains for the designation year,

B is the amount, if any, by which the amount designated under subsection (21) for the designation year by the trust in respect of the beneficiary exceeds the amount designated under subsection (13.2) for the year by the trust in respect of the beneficiary,

C is the amount, if any, that would be determined under paragraph 3(*b*) for the designation year in respect of the trust's capital gains and capital losses if the only properties referred to in that paragraph were qualified farm properties of the trust disposed of by it after 1984,

D is the total of all amounts each of which is the amount determined for B for the designation year in respect of a beneficiary under the trust,

E is the total of the amounts determined for C and F for the designation year in respect of the beneficiary, and

F is the amount, if any, that would be determined under paragraph 3(*b*) for the designation year in respect of the trust's capital gains and capital losses if the only properties referred to in that paragraph were qualified small business corporation shares of the trust, other than qualified farm property, disposed of by it after June 17, 1987,"

S. 104(21.2), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 78(22), applicable to taxation years, of trusts, that begin after February 22, 1994. S. 104(21.2), the portion before paragraph (*a*) formerly read:

"(21.2) *Beneficiaries' taxable capital gains.* Where, for the purposes of subsection (21), a personal trust designates an amount in respect of a beneficiary in respect of its net taxable capital gains for a taxation year (in this subsection referred to as the 'designation year'),"

S. 104(21.2) was amended by S.C. 1995, c. 3, s. 28(1). For its application, see S.C. 1995, c. 3, s. 28(2) below.

S. 104(21.2) formerly read:

"(21.2) *Beneficiary's taxable capital gain from trust.* Where a trust has, for the purposes of subsection (21), designated an amount (in this subsection referred to as the 'designated amount') in respect of a beneficiary of the trust in respect of its net taxable capital gains for a taxation year (in this subsection referred to as the 'designation year') and by virtue thereof the designated amount is deemed, for the purposes described in that subsection, to be a taxable capital gain for the year of the beneficiary from the disposition by the beneficiary of capital property,

(*a*) the trust shall in its return of income for the designation year designate an amount in respect of its eligible taxable capital gains for the designation year in respect of the beneficiary equal to the amount determined in respect of the beneficiary under each of subparagraphs (*b*)(i), (ii) and (iii), and

(*b*) the beneficiary shall, for the purposes of sections 3, 74.3 and 111 as they apply for the purposes of section 110.6, be deemed to have a taxable capital gain for the year

(i) from the disposition of capital property that is qualified farm property of the beneficiary equal to the amount determined by the formula

$$(A \times \frac{B}{C}) \times \frac{D}{G}$$

(ii) from the disposition of capital property that is a qualified small business corporation share of the beneficiary equal to the amount determined by the formula

$$(A \times \frac{B}{C}) \times \frac{E}{G}$$

and

(iii) from the disposition of capital property, other than properties referred to in subparagraphs (i) or (ii), equal to the amount determined by the formula

$$(A \times \frac{B}{C}) \times \frac{F}{G}$$

where

A is the eligible taxable capital gains of the trust for the designation year,

B is the amount, if any, by which the designated amount exceeds the amount designated in respect of the beneficiary for the designation year under subsection (13.2),

C is the greater of

(i) the total of all amounts each of which is the amount used for B under this paragraph in respect of a beneficiary of the trust for the designation year, and

(ii) the amount, if any, by which the net taxable capital gains of the trust for the designation year exceed the amount, if any, by which

(A) the investment expense (within the meaning assigned by subsection 110.6(1)) of the trust for the designation year

exceeds

(B) the investment income (within the meaning assigned by subsection 110.6(1)) of the trust for the designation year,

D is the amount, if any, that would be determined in respect of the trust for the designation year under paragraph 3(*b*) in respect of capital gains and capital losses if the only properties referred to in that paragraph were qualified farm properties of the trust disposed of by it after 1984,

E is the amount, if any, that would be determined in respect of the trust for the designation year under paragraph 3(*b*) in respect of capital gains and capital losses if the only properties referred to in that paragraph were qualified small business corporation shares of the trust, other than qualified farm property, disposed of by it after June 17, 1987,

F is the lesser of

(i) the amount, if any, that would be determined under paragraph 3(*b*) in respect of capital gains and capital losses in respect of the trust for the designation year if

(A) the only properties referred to in that paragraph were properties disposed of by it after 1984, other than qualified farm properties and other than qualified small business corporation shares disposed of by it after June 17, 1987, and

(B) the trust's capital gains and capital losses for the year from dispositions of non-qualifying real property of the trust were equal to its eligible real property gains and eligible real property losses, respectively, for the year from those dispositions, and

(ii) the amount that would be determined under subparagraph (i) if that subparagraph were read without reference to clause (i)(B), and

G is the total of the amounts used for D, E and F under this paragraph in respect of the beneficiary for the year,

and for the purposes of section 110.6, those capital properties shall be deemed to have been disposed of by the beneficiary in the year."

S. 104(21.2)(*b*), the description of "F", was amended by S.C. 1994, c. 7, Sched. VIII, s. 42(7), applicable to the 1992 and subsequent taxation years. S. 104(21.2)(*b*), the description of "F", formerly read:

"F is the amount, if any, that would be determined in respect of the trust for the designation year under paragraph 3(*b*) in respect of capital gains and capital losses if the only properties referred to in that paragraph were properties disposed of by it after 1984, other than qualified farm properties and other than qualified small business corporation shares disposed of by it after June 17, 1987, and"

S. 104(21.2)(*b*), the description of "C", was amended by S.C. 1994, c. 7, Sched. II, s. 75(1), applicable to the 1988 and subsequent taxation years. S. 104(21.2)(*b*), the description of "C", formerly read:

"C is the net taxable capital gains of the trust for the designation year,"

Related Sections: S. 38 Taxable capital gain and allowable capital loss; s. 39 Meaning of capital gain and capital loss; s. 104(1) Reference to trust or estate; s. 104(21.3) Net taxable capital gains of trust determined; s. 108(1), "eligible real property gain", "eligible taxable capital gains", "non-qualifying real property", "qualified farm property", "qualified small business corporation share"; s. 110.6(1), "eligible real property gain", "non-qualifying real property", "qualified farm property", "qualified small business corporation share"; s. 248(1), "amount", "property", "trust".

Interpretation Bulletins: *Primary* — IT-381R3 Trusts — Deduction of amounts paid or payable to beneficiaries and flow-through of taxable capital gains to beneficiaries. *Secondary* — IT-484R2 Business investment losses.

Advance Tax Rulings: ATR-34 Preferred beneficiary's election.

Sec. 28(2), Chap. 3, S.C. 1995

Sec. 28. [Application of subsection 104(21.2).]

(2) Subsection 104(21.2) applies to trusts' taxation years that begin after February 22, 1994 and, in applying subsection 104(21.2) to a trust's taxation year that includes that day,

(*a*) the portion of subsection 104(21.2) before paragraph (*a*) shall be read as follows:

"**(21.2)** Where, for the purposes of subsection (21), a trust (other than a mutual fund trust) designates an amount in respect of a beneficiary in respect of its net taxable capital gains for a taxation year (in this subsection referred to as the 'designation year'),"

(*b*) the descriptions of A, B and C in paragraph 104(21.2)(*b*) shall be read as follows:

"A is the lesser of

(i) the amount determined by the formula

H – I

where

H is the total of amounts designated under subsection (21) for the designation year by the trust, and

I is the total of amounts designated under subsection (13.2) for the designation year by the trust, and

(ii) the trust's eligible taxable capital gains for the designation year,

B is the amount, if any, by which the amount designated under subsection (21) for the designation year by the trust in respect of the beneficiary exceeds the amount designated under subsection (13.2) for the year by the trust in respect of the beneficiary,

C is the total of all amounts each of which is the amount determined for B for the designation year in respect of a beneficiary under the trust,"

and

(*c*) the portion of subsection 104(21.2) after paragraph (*b*) shall be read as follows:

"and for the purposes of section 110.6, each such taxable capital gain of a beneficiary shall be deemed to be a taxable capital gain of the beneficiary for the beneficiary's taxation year in which the designation year ends from the disposition of a property that occurred on February 22, 1994."

► 104(21.21) ◄

(21.21) Beneficiaries' taxable capital gain — QFP taxable capital gain. If clause (21.2)(*b*)(ii)(A) applies to deem, for the purpose of section 110.6, the beneficiary to have a taxable capital gain (referred to in this subsection as the "QFP taxable capital gain") from a disposition of capital property that is qualified farm property of the beneficiary, for the beneficiary's taxation year that includes March 19, 2007 and in which the designation year of the trust ends, for the purpose of subsection 110.6(2.3), the beneficiary is, where the trust complies with the requirements of subsection (21.24), deemed to have a taxable capital gain from the disposition of qualified farm property of the beneficiary on or after March 19, 2007 equal to the amount determined by the formula

$$A \times B/C$$

where

A is the amount of the QFP taxable capital gain;

B is, where the designation year of the trust includes March 19, 2007, the amount that would be determined in respect of the trust for the designation year under paragraph 3(*b*) in respect of capital gains and capital losses if the only properties referred to in paragraph 3(*b*) were qualified farm property of the trust that were disposed of by the trust on or after March 19, 2007; and

C is, where the designation year of the trust includes March 19, 2007, the amount that would be determined in respect of the trust for the designation year under paragraph 3(*b*) in respect of capital gains and capital losses if the only properties referred to in paragraph 3(*b*) were qualified farm property.

History: S. 104(21.21) was added by S.C. 2007, c. 35, s. 27(1), applicable to taxation years of trusts that end on or after March 19, 2007.

► 104(21.22) ◄

(21.22) Beneficiaries' taxable capital gain — QSBC taxable capital gain. If clause (21.2)(*b*)(ii)(B) applies to deem, for the purpose of section 110.6, the beneficiary to have a taxable capital gain (referred to in this subsection as the "QSBC taxable capital gain") from a disposition of capital property that is a qualified small business corporation share of the beneficiary, for the beneficiary's taxation year in which the designation year of the trust ends, for the purpose of subsection 110.6(2.3), the beneficiary, where the trust complies with requirements of subsection (21.24), is deemed to have a taxable capital gain from the disposition of a qualified small business corporation share of the beneficiary on or after March 19, 2007 equal to the amount determined by the formula

$$A \times B/C$$

where

A is the amount of the QSBC taxable capital gain;

B is, where the designation year of the trust includes March 19, 2007, the amount that would be determined in respect of the trust for the designation year under paragraph 3(*b*) in respect of capital gains and capital losses if the only properties referred to in paragraph 3(*b*) were qualified small business corporation shares of the trust that were disposed of by the trust on or after March 19, 2007; and

C is, where the designation year of the trust includes March 19, 2007, the amount that would be determined in respect of the trust for the designation year under paragraph 3(*b*) in respect of capital gains and capital losses if the only properties referred to in paragraph 3(*b*) were qualified small business corporation shares of the trust.

History: S. 104(21.22) was added by S.C. 2007, c. 35, s. 27(1), applicable to taxation years of trusts that end on or after March 19, 2007.

► 104(21.23) ◄

(21.23) Beneficiaries' taxable capital gain — QFFP taxable capital gain. If clause (21.2)(b)(ii)(C) applies to deem, for the purpose of section 110.6, the beneficiary to have a taxable capital gain (referred to in this subsection as the "QFFP taxable capital gain"), from a disposition of capital property that is qualified fishing property of the beneficiary, for the beneficiary's taxation year in which the designation year of the trust ends, for the purpose of subsection 110.6(2.3), the beneficiary, where the trust complies with requirements of subsection (21.24), is deemed to have a taxable capital gain from the disposition of qualified fishing property on or after March 19, 2007 equal to the amount determined by the formula

$$A \times B/C$$

where

A is the amount of the QFFP taxable capital gain;

B is, where the designation year of the trust includes March 19, 2007, the amount that would be determined in respect of the trust for the designation year under paragraph 3(*b*) in respect of capital gains and capital losses if the only properties referred to in paragraph 3(*b*) were qualified fishing property that were

disposed of by the trust on or after March 19, 2007; and

(*c*) is, where the designation year of the trust includes March 19, 2007, the amount that would be determined in respect of the trust for the designation year under paragraph 3(*b*) in respect of capital gains and capital losses if the only properties referred to in paragraph 3(*b*) were qualified fishing property of the trust.

History: S. 104(21.23) was added by S.C. 2007, c. 35, s. 27(1), applicable to taxation years of trusts that end on or after March 19, 2007.

► 104(21.24) ◄

(21.24) Trusts to designate amounts. A trust shall determine and designate, in its return of income under this part for a designation year of the trust, the following amounts in respect of a beneficiary:

(*a*) the amount that is, under subsection (21.21), determined to be the beneficiary's taxable capital gain from the disposition, on or after March 19, 2007, of qualified farm property of the beneficiary,

(*b*) the amount that is, under subsection (21.22), determined to be the beneficiary's taxable capital gain from the disposition, on or after March 19, 2007, of qualified small business corporation share of the beneficiary, and

(*c*) the amount that is, under subsection (21.23), determined to be the beneficiary's taxable capital gain from the disposition, on or after March 19, 2007, of qualified fishing property of the beneficiary.

History: S. 104(21.24) was added by S.C. 2007, c. 35, s. 27(1), applicable to taxation years of trusts that end on or after March 19, 2007.

► 104(21.3) ◄

(21.3) Net taxable capital gains of trust determined. For the purposes of this section, the net taxable capital gains of a trust for a taxation year is the amount, if any, by which the total of the taxable capital gains of the trust for the year exceeds the total of

(*a*) its allowable capital losses for the year, and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 104(21.3)(*a*) of the Act is replaced by the following:

(*a*) the total of all amounts each of which is an allowable capital loss (other than an allowable business investment loss) of the trust for the year from the disposition of a capital property, and

Applicable: To trust taxation years that begin after 2000.

Explanatory Note: Subsection 104(21.3) of the Act defines the expression "net taxable capital gains". The expression is used in subsections 104(21) and (21.2), which permit a trust to flow through its taxable capital gains realized in a year to a beneficiary to whom an amount of the trust's income for the year has been made payable. The trust can flow through its taxable capital gains to beneficiaries only to the extent of its net taxable capital gains for the year.

Under subsection 104(21.3), the amount of a trust's net taxable capital gains for a taxation year equals the amount, if any, by which its total taxable capital gains for the year exceeds the total of two amounts:

- its total allowable capital losses for the year, and
- the amount deducted by it under paragraph 111(1)(*b*) in computing its taxable income for the year (i.e., deduction of carried-over net capital losses for preceding years and for the three following years).

Subsection 104(21.3) is amended so that allowable business investment losses (ABILs) are disregarded for the purpose of the first of the two amounts. Accordingly, ABILs will not result in a reduction of taxable capital gains that may be flowed through to beneficiaries under trusts and against which allowable capital losses can be claimed.

This amendment applies to trust taxation years that begin after 2000.

(*b*) the amount, if any, deducted under paragraph 111(1)(*b*) in computing its taxable income for the year.

Interpretation Bulletins: *Primary* — IT-381R3 Trusts — Deduction of amounts paid or payable to beneficiaries and flow-through of taxable capital gains to beneficiaries.

► 104(21.4) ◄

(21.4) Deemed gains. Where an amount is designated in respect of a beneficiary by a trust for a particular taxation year of the trust that includes February 28, 2000 or October 17, 2000 and that amount is, because of subsection (21), deemed to be a taxable capital gain of the beneficiary from the disposition of capital property for the taxation year of the beneficiary in which the particular taxation year of the trust ends (in this subsection referred to as the "allocated gain"),

(*a*) the beneficiary is deemed to have realized capital gains (in this subsection referred to as the "deemed gains") from the disposition of capital property in the beneficiary's taxation year in which the particular taxation year ends equal to the amount, if any, by which

(i) the amount determined when the amount of the allocated gain is divided by the fraction in paragraph 38(*a*) that applies to the trust for the particular taxation year

exceeds

(ii) the amount claimed by the beneficiary not exceeding the beneficiary's exempt capital gains balance for the year in respect of the trust;

(*b*) notwithstanding subsection (21) and except as a consequence of the application of paragraph (*a*), the amount of the allocated gain shall not be included in computing the beneficiary's income for the beneficiary's taxation year in which the particular taxation year ends;

(*c*) the trust shall disclose to the beneficiary in prescribed form the portion of the deemed gains that are in respect of capital gains realized on dispositions of property that occurred before February 28, 2000, after February 27, 2000 and before October 18, 2000, and after October 17, 2000 and, if it does not do so, the deemed gains are deemed to be in respect of capital gains realized on dispositions of property that occurred before February 28, 2000; and

(*d*) where a trust so elects under this paragraph in its return of income for the year,

(i) the portion of the deemed gains that are in respect of capital gains from dispositions of property that occurred before February 28, 2000 is

deemed to be that proportion of the deemed gains that the number of days that are in the particular year and before February 28, 2000 is of the number of days that are in the particular year,

(ii) the portion of the deemed gains that are in respect of capital gains from dispositions of property that occurred in the year and in the period that began at the beginning of February 28, 2000 and ended at the end of October 17, 2000, is deemed to be that proportion of the deemed gains that the number of days that are in the year and in that period is of the number of days that are in the particular year, and

(iii) the portion of the deemed gains that are in respect of capital gains from dispositions of property that occurred in the year and in the period that begins at the beginning of October 18, 2000 and ends at the end of the particular year, is deemed to be that proportion of the deemed gains that the number of days that are in the year and in that period is of the number of days that are in the particular year; and

(*e*) no amount may be claimed by the beneficiary under subsection 39.1(3) in respect of the allocated gain.

History: S. 104(21.4) was added by S.C. 2001, c. 17, s. 78(23), applicable to taxation years that end after February 27, 2000.

Related Sections: S. 6(1)(*g*) Employee benefit plan benefits; s. 6(1)(*h*) Employee trust; s. 12(1)(*m*) Benefits from trusts; s. 38 Taxable capital gain and allowable capital loss; s. 54, "capital property"; s. 89(1) Capital dividend account; s. 104(21) Taxable capital gains; s. 104(21.2) Beneficiaries' taxable capital gain; s. 104(23) Testamentary trusts; s. 108(1) Definitions; s. 110.6 Capital gains exemption; s. 212(1)(*c*) Estate or trust income; s. 248(1), "amount", "beneficiary", "disposition", "exempt capital gains balance", "property", "taxable capital gain", "trust"; s. 249(1) Definition of "taxation year".

Interpretation Bulletins: *Secondary* — IT-381R3 Deduction of amounts paid or payable to beneficiaries and flow-through of taxable capital gains to beneficiaries.

► 104(21.5) ◄

(21.5) Deemed gains. Where no amount is designated by a trust under subsection (21) in respect of its net taxable capital gains for a taxation year that includes February 28, 2000 or October 17, 2000, the trust has net capital gains or net capital losses from the disposition of property in the year, and the trust so elects under this subsection in its return of income for the year

(*a*) the portion of the net capital gains or net capital losses that are in respect of capital gains and losses from dispositions of property that occurred before February 28, 2000 is deemed to be that proportion of the net capital gains or net capital losses, as the case may be, that the number of days that are in the year and before February 28, 2000 is of the number of days that are in the year,

(*b*) the portion of the net capital gains or net capital losses that are in respect of capital gains and losses from dispositions of property that occurred in the year and in the period that began at the beginning of February 28, 2000 and ended at the end of October 17, 2000, is deemed to be that proportion of the net capital gains or net capital losses, as the case may be, that the number of days that are in the year and in that period is of the number of days that are in the year, and

(*c*) the portion of the net capital gains or net capital losses that are in respect of capital gains and losses from dispositions of property that occurred in the year and in the period that began at the beginning of October 18, 2000 and ended at the end of the year, is deemed to be that proportion of the net capital gains or net capital losses, as the case may be, that the number of days that are in the year and in that period is of the number of days that are in the year,

and, for the purpose of this subsection,

(*d*) the net capital gains of a trust from dispositions of property in a year is the amount, if any, by which the trust's capital gains from dispositions of property in the year exceeds the trust's capital losses from dispositions of property in the year, and

(*e*) the net capital losses of a trust from dispositions of property in a year is the amount, if any, by which the trust's capital losses from dispositions of property in the year exceeds the trust's capital gains from dispositions of property in the year.

History: S. 104(21.5) was added by S.C. 2001, c. 17, s. 78(23), applicable to taxation years that end after February 27, 2000.

Related Sections: S. 104(21) Taxable capital gains; s. 104(21.3) Net taxable capital gains of trust determined; s. 108(1) Definitions; s. 111(8) Definitions; s. 248(1), "amount", "disposition", "net capital losses", "property", "trust"; s. 249 Definition of "taxation year".

► 104(21.6) ◄

(21.6) Deemed gains — subsection (21.4) applies. Where a taxpayer is deemed by subsection (21.4) to have realized capital gains from the disposition of capital property in a taxation year of the taxpayer in respect of dispositions of property by a trust of which the taxpayer is a beneficiary,

(*a*) if the deemed gains are in respect of capital gains of the trust from dispositions of property before February 28, 2000 and the taxation year of the taxpayer includes February 27, 2000, the deemed gains are deemed to be a capital gain of the taxpayer from the disposition by the taxpayer of capital property in the taxpayer's taxation year and before February 28, 2000;

(*b*) if the deemed gains are in respect of capital gains of the trust from dispositions of property before February 28, 2000 and the taxation year of the taxpayer began after February 27, 2000 and ended before October 18, 2000, 9/8 of the deemed gains is deemed to be a capital gain of the taxpayer from the disposition by the taxpayer of capital property in the taxpayer's taxation year;

(*c*) if the deemed gains are in respect of capital gains of the trust from dispositions of property before February 28, 2000 and the taxation year of the taxpayer began after February 27, 2000 and ended after October 17, 2000, 9/8 of the deemed gains is deemed to be a capital gain of the taxpayer from the disposition by the taxpayer of capital property in the taxpayer's taxation year and before October 18, 2000;

(*d*) if the deemed gains are in respect of capital gains of the trust from dispositions of property before February 28, 2000 and the taxation year of the taxpayer began after October 17, 2000, 3/2 of the deemed gains is deemed to be a capital gain of the taxpayer from the disposition by the taxpayer of capital property in the taxpayer's taxation year;

(*e*) if the deemed gains are in respect of capital gains of the trust from dispositions of property after February 27, 2000 and before October 18, 2000, and the taxation year of the taxpayer began after October 17, 2000, 4/3 of the deemed gains is deemed to be a capital gain of the taxpayer from the disposition by the taxpayer of capital property in the taxpayer's taxation year;

(*f*) if the deemed gains are in respect of capital gains of the trust from dispositions of property after February 27, 2000 and before October 18, 2000 and the taxation year of the taxpayer includes February 28, 2000 and October 17, 2000, the deemed gains are deemed to be a capital gain of the taxpayer from the disposition by the taxpayer of capital property in the taxpayer's taxation year and in the period that began after February 27, 2000 and ended before October 18, 2000;

(*g*) if the deemed gains are in respect of capital gains of the trust from dispositions of property after February 27, 2000 and before October 17, 2000 and the taxation year of the taxpayer began after February 27, 2000 and ended before October 17, 2000, the deemed gains are deemed to be a capital gain of the taxpayer from the disposition by the taxpayer of capital property in the taxpayer's taxation year; and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 104(21.6)(g) of the Act is replaced by the following:

(*f*.1) if the deemed gains are in respect of capital gains of the trust from dispositions of property after February 27, 2000 and before October 17, 2000 and the taxation year of the taxpayer began after February 27, 2000 and ended after October 17, 2000, the deemed gains are deemed to be a capital gain of the taxpayer from the disposition by the taxpayer of capital property in the taxpayer's taxation year and in the period that began after February 27, 2000 and ended before October 18, 2000;

Applicable: To taxation years that end after February 27, 2000.

(*g*) if the deemed gains are in respect of capital gains of the trust from dispositions of property after February 27, 2000 and before October 17, 2000 and the taxation year of the taxpayer began after February 27, 2000 and ended before October 18, 2000, the deemed gains are deemed to be a capital gain of the taxpayer from the disposition by the taxpayer of capital property in the taxpayer's taxation year; and

Applicable: To trust taxation years that end after December 20, 2002.

Explanatory Note:

Deemed Gains — Subsection (21.4) Applies

Subsection 104(21.6) of the Act provides rules for the determination of the inclusion rate to be used by a taxpayer for capital gains realized by a trust in 2000. This subsection applies to a taxpayer who has a taxation year that begins after October 17, 2000 and who is deemed by subsection 104(21.4) to have capital gains from the disposition of capital property in the year in respect of dispositions of property by a trust of which the taxpayer is a beneficiary.

This subsection ensures that the inclusion rate for capital gains realized on property disposed of by a trust prior to February 27, 2000 is 3/4, and is 2/3 in respect of property disposed of by a trust after February 27, 2000 and before October 18, 2000.

Subsection 104(21.6) is amended by adding new paragraph (*f*.1) to ensure that where the deemed gains are in respect of capital gains from dispositions of property by the trust that occurred after February 27, 2000 and before October 17, 2000 in circumstances where the taxation year of the taxpayer began after February 27, 2000 and ended after October 17, 2000, the gains are deemed to be a capital gain of the taxpayer from the disposition by the taxpayer of capital property in the taxpayer's taxation year and in the period that began after February 27, 2000 and ended before October 18, 2000. This amendment applies to taxation years that end after February 27, 2000.

Paragraph 104(21.6)(g) is amended to correct a technical deficiency in a reference to a date. The reference to "October 17, 2000" is changed to "October 18, 2000" which reflects the date on which the reduction of the capital gain inclusion rate from 2/3 to 1/2 was announced. This amendment applies to trust taxation years that end after December 20, 2002.

(*h*) in any other case, the deemed gains are deemed to be a capital gain of the taxpayer from the disposition of capital property by the taxpayer in the taxpayer's taxation year and after October 17, 2000.

History: S. 104(21.6) was added by S.C. 2001, c. 17, s. 78(23), applicable to taxation years that end after February 27, 2000.

Related Sections: S. 39(1) Meaning of capital gain and capital loss; s. 39.1(1) Exempt capital gains balance in respect of flow-through entity; s. 248(1), "beneficiary", "capital gain", "disposition", "exempt capital gains balance", "property"; s. 249 Definition of "taxation year".

► 104(21.7) ◄

(21.7) Deemed gains — subsection (21.4) does not apply. Where an amount is designated under subsection (21) in respect of a beneficiary by a trust for a particular taxation year of the trust that ends in a taxation year of the beneficiary that includes February 28, 2000 or October 17, 2000 and subsection (21.4) does not apply in respect of the designated amount,

(*a*) notwithstanding subsection (21) and except as a consequence of the application of paragraph (*b*), the designated amount shall not be included in computing the beneficiary's income;

(*b*) the beneficiary is deemed to have a capital gain from the disposition by the beneficiary of capital property on the day on which the particular taxation year ends equal to the amount, if any, by which

(i) the amount determined by dividing the designated amount by the fraction in paragraph 38(*a*) that applies to the trust for the particular taxation year

exceeds

(ii) the amount claimed by the beneficiary, which amount may not be greater than the beneficiary's exempt capital gains balance for the year in respect of the trust; and

(*c*) no amount may be claimed under subsection 39.1(3) by the beneficiary in respect of the designated amount.

History: S. 104(21.7) was added by S.C. 2001, c. 17, s. 78(23), applicable to taxation years that end after February 27, 2000.

Related Sections: S. 39 Meaning of capital gain and capital loss; s. 39.1(1) Exempt capital gains balance in respect of flow-through entity; s. 54, "capital property"; s. 104(21) Taxable capital gains; s. 104(23) Testamentary trusts; s. 108(1) Definitions; s. 248(1), "amount", "beneficiary", "disposition", "trust".

▶ 104(22) ◀

(22) Designation of foreign source income by trust. For the purposes of this subsection, subsection (22.1) and section 126, such portion of a trust's income for a taxation year (in this subsection referred to as "that year") throughout which it is resident in Canada from a source in a country other than Canada as

(*a*) can reasonably be considered (having regard to all the circumstances including the terms and conditions of the trust arrangement) to be part of the income that, because of subsection (13) or (14), was included in computing the income for a particular taxation year of a particular beneficiary under the trust, and

(*b*) is not designated by the trust in respect of any other beneficiary thereunder

shall, if so designated by the trust in respect of the particular beneficiary in its return of income under this Part for that year, be deemed to be the particular beneficiary's income for the particular year from that source.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 104(22) of the Act is replaced by the following:

(22) Designation in respect of foreign source income. For the purposes of this subsection, subsection (22.1) and section 126, an amount in respect of a trust's income for a particular taxation year of the trust from a source in a country other than Canada is deemed to be income of a taxpayer, for the taxation year of the taxpayer in which the particular taxation year ends, from that source if

(*a*) the amount

(i) is designated by the trust, in respect of the taxpayer, in the trust's return of income under this Part for the particular taxation year, and

(ii) may reasonably be considered (having regard to all the circumstances including the terms and conditions of the trust) to be part of the amount that, because of paragraph (13)(*a*) or subsection (14), was included in computing the income for that taxation year of the taxpayer;

(*b*) the taxpayer is in the particular taxation year a beneficiary under the trust;

(*c*) the trust is, throughout the particular taxation year, resident in Canada; and

(*d*) the total of all amounts each of which is an amount designated, under this subsection in respect of that source, by the trust in respect of a beneficiary under the trust in the trust's return of income under this Part for the particular taxation year is not greater than the trust's income for the particular taxation year from that source.

Applicable: To taxation years that end after February 27, 2004, except that, for taxation years that end on or before July 18, 2005, the reference to "paragraph (13)(*a*)" in subparagraph 104(22)(*a*)(ii) is to be read as a reference to "subsection (13)".

Explanatory Note:

Designation in Respect of Foreign Income

Subsection 104(22) of the Act permits a trust to designate, in respect of a beneficiary under the trust, an amount of its foreign income. Such a designation is made by the trust on a source-by-source basis. Where the designation is made, the amount designated is deemed, for the purpose of subsections 104(22) and (22.1) and section 126, to be the beneficiary's income for the year from that source.

Subsection 104(22) is amended to clarify that where an amount is designated, in respect of a taxpayer, by a trust in respect of the trust's income for a particular taxation year of the trust from a source in a country other than Canada, the designated amount is deemed to be income of the taxpayer, for the taxation year of the taxpayer in which the particular taxation year of the trust ends, from that source.

The deeming rule does not apply, however, unless a number of conditions are met. One of these conditions — that a designated amount not be made in respect of more than one beneficiary under the trust — is replaced with a new requirement that the total amounts designated, in respect of the trust's income from a particular foreign source, under subsection 104(22) by the trust for a particular taxation year of the trust not exceed the trust's income for the particular taxation year from that source.

The deeming rule under subsection 104(22) applies, in respect of a beneficiary under a trust, only to the portion of the trust's income, from a source in a country other than Canada, that may reasonably be considered (having regard to all the circumstances including the terms and conditions of the trust arrangement) to be part of the amount that, by reason of subsection 104(13) or 104(14) or section 105, as the case may be, was included in computing the income of a beneficiary under the trust. This condition is also amended and now provides that an amount, in respect of the trust's income from a source in a country other than Canada, is deemed to be income, from that source, only if the amount may reasonably be considered (having regard to all the circumstances including the terms and conditions of the trust) to be part of the amount that, because of paragraph 104(13)(*a*) or subsection 104(14) or section 105, was included in computing the income of that taxpayer (*i.e.*, the taxpayer in respect of whom the amount is designated).

The amended reference in the above rule to paragraph 104(13)(*a*), instead of subsection 104(13), applies to taxation years that end after July 18, 2005. This change clarifies that the deeming rule does not apply to employee benefit plan trusts and ensures consistency with amended subsection 104(19). For taxation years that end after February 27, 2004 and on or before July 18, 2005, the referenced provision is subsection 104(13).

Except as provided above, these amendments apply to taxation years that end after February 27, 2004.

History: S. 104(22) was amended by S.C. 1994, c. 21, s. 46(2), applicable to taxation years that end after November 12, 1981 except that, with respect to taxation years of trusts that began before 1988, the portion of subsection 104(22) of the Act before paragraph (*a*) shall be read as follows:

"(22) For the purposes of this subsection, subsection (22.1) and section 126, such portion of a trust's income for a taxation year (in this subsection referred to as 'that year') from a source in a country other than Canada as"

S. 104(22) formerly read:

"(22) *Deduction for foreign taxes.* For the purposes of this subsection and section 126, the following rules apply:

(*a*) such portion of the income of a trust for a taxation year throughout which it was resident in Canada (before making any deduction under subsection (6) or (12)) from sources in a foreign country as

(i) may reasonably be considered (having regard to all the circumstances including the terms and conditions of the trust arrangement) to be part of the income that, by virtue of subsection (13) or (14), as the case may be, was included in computing the income for a taxation year of a particular beneficiary under the trust, and

(ii) was not designated by the trust in respect of any other beneficiary thereunder,

shall, if so designated by the trust in respect of the particular beneficiary in its return of income for the year under this Part, be deemed to be income of the particular beneficiary for the taxation year from sources in that country;

(*b*) a beneficiary under a trust shall be deemed to have paid as income tax for a taxation year, on the income that the beneficiary is deemed by paragraph (*a*) to have for the year from sources in a foreign country, to the government of that country an amount equal to that proportion of the income or profits tax paid by the trust for the year to the government of that country or to the government of a state, province or other political subdivision of that country (except such portion of that tax as was deductible under subsection 20(11) or deducted under subsection 20(12) in computing its income for the year) that

(i) such portion of the amount included in computing the beneficiary's income for the year by virtue of subsection (13) or (14), as the case

may be, as is deemed by paragraph (*a*) to be income for the year from sources in that country,

is of

(ii) the income of the trust for the year from sources in that country (before making any deduction under subsection (6) or (12));

(*c*) the income of a trust from sources in a foreign country for a taxation year shall be deemed to be its actual income from those sources for the year minus the total of the amounts deemed by paragraph (*a*) to be the income therefrom for the year of all beneficiaries under the trust; and

(*d*) a trust shall be deemed to have paid as income tax to the government of a foreign country for a taxation year an amount equal to the income or profits tax actually paid by it for the year to the government of that country, or to the government of a state, province or other political subdivision of that country (except such portion of that tax as was deductible under subsection 20(11) or deducted under subsection 20(12) in computing its income for the year), minus the total of amounts deemed by paragraph (*b*) to have been paid to the government of that country for the year by all beneficiaries under the trust."

Editorial Note: Subsection 104(22) allows a trust to designate its foreign source income that is included in a beneficiary's income under either subsection 104(13) or (14). The designated amount is deemed to be income of the beneficiary from the foreign source for the purposes of the foreign tax credit provisions. The beneficiary is similarly deemed to have paid the tax paid by the trust on the designated amount for the purposes of the foreign tax credit (see also subsections 104(22) through (22.3)).

Related Sections: S. 126(1) Foreign tax deduction — non-business income; Canada–United States Income Tax Convention, Article XXI, s. 6.

Interpretation Bulletins: *Primary* — IT-201R2 Foreign tax credit — Trust and beneficiaries. *Secondary* — IT-506 Foreign income taxes as a deduction from income.

► 104(22.1) ◄

(22.1) Foreign tax deemed paid by beneficiary. Where a taxpayer is a beneficiary under a trust, for the purposes of this subsection and section 126, the taxpayer shall be deemed to have paid as business-income tax or non-business-income tax, as the case may be, for a particular taxation year in respect of a source the amount determined by the formula

$$A \times \frac{B}{C}$$

where

A is the amount that, but for subsection (22.3), would be the business-income tax or non-business-income tax, as the case may be, paid by the trust in respect of the source for a taxation year (in this subsection referred to as "that year") of the trust that ends in the particular year;

B is the amount deemed, because of a designation under subsection (22) for that year by the trust, to be the taxpayer's income from the source; and

C is the trust's income for that year from the source.

History: S. 104(22.1) was added by S.C. 1994, c. 21, s. 46(2), applicable to taxation years that end after November 12, 1981.

► 104(22.2) ◄

(22.2) Recalculation of trust's foreign source income. For the purpose of section 126, there shall be deducted in computing a trust's income from a source for a taxation year the total of all amounts deemed, because of designations under subsection (22) by the trust for the year, to be income of beneficiaries under the trust from that source.

History: S. 104(22.2) was added by S.C. 1994, c. 21, s. 46(2), applicable to taxation years that end after November 12, 1981.

► 104(22.3) ◄

(22.3) Recalculation of trust's foreign tax. For he purpose of section 126, there shall be deducted in computing the business-income tax or non-business-income tax paid by a trust for a taxation year in respect of a source the total of all amounts deemed, because of designations under subsection (22) by the trust for the year, to be paid by beneficiaries under the trust as business-income tax or non-business-income tax, as the case may be, in respect of the source.

History: S. 104(22.3) was added by S.C. 1994, c. 21, s. 46(2), applicable to taxation years that end after November 12, 1981.

► 104(22.4) ◄

(22.4) Definitions. For the purposes of subsections (22) to (22.3), the expressions "business-income tax" and "non-business-income tax" have the meanings assigned by subsection 126(7).

History: S. 104(22.4) was added by S.C. 1994, c. 21, s. 46(2), applicable to taxation years that end after November 12, 1981.

► 104(23) ◄

(23) Testamentary trusts. In the case of a testamentary trust, notwithstanding any other provision of this Act, the following rules apply:

(*a*) the taxation year of the trust is the period for which the accounts of the trust are made up for purposes of assessment under this Act, but no such period may exceed 12 months and no change in the time when such a period ends may be made for the purposes of this Act without the concurrence of the Minister;

(*b*) when a taxation year is referred to by reference to a calendar year, the reference is to the taxation year or years coinciding with, or ending in, that year;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraphs 104(23)(*a*) and (*b*) of the Act are repealed.

(*a*) [Repealed.]

(*b*) [Repealed.]

Applicable: After December 20, 2002.

Explanatory Note:

Testamentary Trusts

Subsection 104(23) of the Act provides special rules that apply to testamentary trusts. Paragraph 104(23)(*a*) defines the taxation year of a testamentary trust to be the period for which the accounts of the trust are made up for purposes of assessment under the Act. For this purpose, that paragraph also provides that no such period may exceed 12 months and no change in the time when such a period ends may be made for the purposes of the Act without the concurrence of the Minister of National Revenue. Paragraph 104(23)(*b*) provides that, in the case of a testamentary trust when a taxation year is referred to by reference to a calendar year, the reference is to the taxation year or years coinciding with, or ending in, that year.

Paragraphs 104(23)(*a*) and (*b*) are repealed.

This amendment applies after December 20, 2002. For a related set of amendments, see the commentary on section 249 and the definition "testamentary trust" in subsection 108(1).

(*c*) the income of a person for a taxation year from the trust shall be deemed to be the person's benefits from or under the trust for the taxation year or years of the trust that ended in the year determined as provided by this section and section 105;

(*d*) where an individual having income from the trust died after the end of a taxation year of the trust but

before the end of the calendar year in which the taxation year ended, the individual's income from the trust for the period commencing immediately after the end of the taxation year and ending at the time of death shall be included in computing the individual's income for the individual's taxation year in which the individual died unless the individual's legal representative has elected otherwise, in which case the legal representative shall file a separate return of income for the period under this Part and pay the tax for the period under this Part as if

(i) the individual were another person,

(ii) the period were a taxation year,

(iii) that other person's only income for the period were the individual's income from the trust for that period, and

(iv) subject to sections 114.2 and 118.93, that other person were entitled to the deductions to which the individual was entitled under sections 110, 118 to 118.7 and 118.9 for the period in computing the individual's taxable income or tax payable under this Part, as the case may be, for the period; and

(*e*) in lieu of making the payments required by sections 155, 156 and 156.1, the trust shall pay to the Receiver General within 90 days after the end of each taxation year, the tax payable under this Part by it for the year.

History: S. 104(23)(*a*) was amended by S.C. 1996, c. 21, s. 18(11), applicable after 1994. S. 104(23)(*a*) formerly read:

"(*a*) the taxation year of the trust is the period for which the accounts of the trust have been ordinarily made up and accepted for purposes of assessment under this Act and, in the absence of an established practice, the period adopted by the trust for that purpose (but no such period may exceed 12 months and a change in a usual and accepted period may not be made for the purpose of this Act without the concurrence of the Minister);"

S. 104(23)(*e*) was amended by S.C. 1994, c. 8, s. 12(1), applicable to the 1994 and subsequent taxation years. S. 104(23)(*e*) formerly read:

"(*e*) in lieu of making the payments required by section 156, the trust shall pay to the Receiver General within 90 days from the end of each taxation year, the tax for the year as estimated under section 151."

Editorial Note: Trusts are generally required by s. 249(1)(b) to have a taxation year that ends on December 31; however, s. 104(23)(a) permits an estate to effectively choose any date for its first year-end, provided that the taxation year is not more than 12 months long. Therefore, for example, if a testator died on February 1, 2006, January 31, 2007 could be chosen as the trust's taxation year-end. If the trust designated income payable to beneficiaries or made income distributions during its first taxation year, such amounts would be taxable to the beneficiaries in their taxation year ending December 31, 2007. However, the flexibility to select a short first taxation year may be also be useful; for example, where a large sum of income is expected at a future date which is within the 12-month period following the date of death. By choosing an appropriate fiscal year-end for the estate, the personal representative can defer taxation of that income until the estate's next taxation year. Moreover, selecting a short first taxation year may serve to reduce the total tax payable by splitting between two taxation years income that would otherwise be included in one.

Related Sections: S. 114.2 Deductions in separate returns; s. 118.93 Credits in separate returns; s. 127.55 Application of s. 127.5.
Proposed Related Sections: S. 249(1)(*c*); s. 249(5); s. 249(6).
Interpretation Bulletins: *Secondary* — IT-179R Change of Fiscal Period; IT-326R3 Returns of deceased persons as "another person".
Canadian Tax Foundation: Kay E. Gray, CGA, "Review of Tax Filings Required as a Result of the Death of a Taxpayer", *2003 British Columbia Tax Conference, (Vancouver: Canadian Tax Foundation, 2003)*, 8:1-30.
Tax Window Files: Retroactive Change in Year-End — Capital Losses Realized by an Estate, May 23, 2000, CRA Document No. 2000-0023575 [An estate cannot retroactively change the period for which its accounts were made up, so as to take advantage of s.164(6)]; Deceased Taxpayer — Income from Testamentary Trust, October 2, 1996, CRA Document No. 962292A [Multiple returns cannot be filed under 104(23)(d) for one deceased taxpayer].

▶ 104(24) ◀

(24) Amount payable. For the purposes of subsections (6), (7), (13), (16) and (20) and subparagraph 53(2)(*h*)(i.1), an amount is deemed not to have become payable to a beneficiary in a taxation year unless it was paid in the year to the beneficiary or the beneficiary was entitled in the year to enforce payment of it.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 104(24) of the Act is replaced by the following:

(24) Amount payable. For the purposes of subparagraph 53(2)(*h*)(i.1), paragraph (*c*) of the definition "specified charity" in subsection 94(1), subsection 94(8) and subsections (6), (7), (7.01), (13) and (20), an amount is deemed not to have become payable to a beneficiary in a taxation year unless it was paid in the year to the beneficiary or the beneficiary was entitled in the year to enforce payment of it.

Applicable: To trust taxation years that begin after 2006. [This amendment] also applies to trust taxation years that begin

(*a*) after 2000, if the trust makes a valid election under paragraph [(*a*) of the application for new proposed section 94];

(*b*) after 2001, if the trust makes a valid election under paragraph [(*a*) or (*b*) of the application for new proposed section 94];

(*c*) after 2002, if the trust makes a valid election under any of paragraphs [(*a*) to (*c*) of the application for new proposed section 94];

(*d*) after 2003, if the trust makes a valid election under any of paragraphs [(*a*) to (*d*) of the application for new proposed section 94];

(*e*) after 2004, if the trust makes a valid election under any of paragraphs [(*a*) to (*e*) of the application for new proposed section 94]; and

(*f*) after 2005, if the trust makes a valid election under any of paragraphs [(*a*) to (*f*) of the application for new proposed section 94].

Editorial Note: A coordinating amendment in Bill C-52 (S.C. 2007, c. 29) provides that if Bill C-33 receives Royal Assent, subsection 104(24) as amended by Bill C-10 will include a reference to subsection 104(16), applicable in respect of taxation years of a trust that begin after 2006.

Explanatory Note: The determination of when an amount becomes payable in a taxation year is relevant for a number of purposes, including the determination of the amount deductible under subsection 104(6) of the Act. Under subsection 104(24), an amount is deemed not to have become payable in the year to a beneficiary unless it was paid in the year to the beneficiary or the beneficiary was entitled in the year to enforce payment of the amount.

Subsection 104(24) is amended so that it also applies for the purposes of paragraph (*c*) of the definition "specified charity" in subsection 94(1), subsection 94(8) and subsection 104(7.01). For more information, see the commentary on those provisions.

This amendment applies to trust taxation years that begin after 2006. It also applies to trust taxation years that begin after 2000, after 2001, after 2002 after 2003 after 2004 or after 2005, if the trust makes the appropriate election under the coming-into-force provision for new section 94 of the Act.

History: S. 104(24) was replaced by S.C. 2007, c. 29, s. 8(4), deemed to have come into force on October 31, 2006. S. 104(24) formerly read:

"(24) *Amount payable.* For the purposes of subparagraph 53(2)(*h*)(i.1) and subsections (6), (7), (13) and (20), an amount shall be deemed not to have become payable to a beneficiary in a taxation year unless it was paid in the year to the beneficiary or the beneficiary was entitled in the year to enforce payment of the amount."

Editorial Note: Where a trust is discretionary, a beneficiary will normally be entitled to enforce payment of an amount of the trust's income in a year if

the trustees exercise their discretion in the year and provide notice of the exercise to the beneficiary. Payment of that amount by a cheque cashable on the date of issue or a demand promissory note payable on demand without restriction should be made by the trust once the amount is known. Note that a trust may elect under s. 104(13.1) to have an amount treated as not having been paid or become payable to a beneficiary for certain purposes. And, where its conditions are met, s. 104(18) overrides s. 104(24).

Interpretation Bulletins: *Primary* — IT-286R2 Trusts — Amount payable. *Secondary* — IT-342R Trusts — Income payable to beneficiaries; IT-381R3 Trusts — Deduction of amounts paid or payable to beneficiaries and flow-through of taxable capital gains to beneficiaries.

Income Tax Technical News: Issue No. 11, Payments Made for the benefit of a minor beneficiary.

Tax Window Files: Phantom Income, June 21, 2004, CRA Document No. 2004-0069951C6 ["Phantom income" (e.g., resulting from a deemed disposition) cannot be defined as income for trust law purposes, therefore, unless, under the terms of the trust, income is defined as income under the Act, or authorizes the trustee to allocate a deemed receipt as if it were an actual receipt, the deemed receipt cannot be allocated to a beneficiary]; Post-1971 Spousal or Common-Law Partner Trust — Entitlement to Income, June 2, 2003, CRA Document No. 2003-0014515 [Spouse beneficiary of spousal trust directs that income of the trust remain in the trust for a particular year; trust income still payable to the spouse in the year within the meaning of subsection 104(24)]; Discretionary Trust for Minor, June 5, 2000, CRA Document No. 1999-0012305 [Amount deposited into a segregated trust account by a discretionary trust for the benefit of a minor beneficiary did not qualify as an amount payable to that beneficiary]; Trusts — Amount Payable to Beneficiary —, August 1, 1996, CRA Document No. 9604555 [If terms of trust provide the beneficiary with the legal right to enforce payment in a year, the fact that the specific amount may not be known at year-end because of a delay in obtaining the information required to determine the trust's income will not, in itself, mean that the beneficiary did not have an enforceable right to demand payment of the amount in that year].

Cases: A trust kept no records, made no regular reconciliations of its income and maintained no bank accounts. Accordingly, there was no way in which to prove that certain of the amounts which it had sought to deduct were ever "paid" or "payable" and such amounts were not deductible. *The Howard Langer Family Trust v. M.N.R.*, 92 DTC 1055 (T.C.C.); appealed to F.C.T.D. (April 16, 1992), File T-907-92.

► 104(25) ◄

(25) Excess amount. [Repealed by 1988, c. 55, s. 71(15).]

► 104(25.1) ◄

(25.1) Idem. [Repealed by 1988, c. 55, s. 71(15).]

► 104(26) ◄

(26) Portion of interest deemed interest of beneficiary. [Repealed by 1988, c. 55, s. 71(16).]

► 104(27) ◄

(27) Pension benefits. Where a testamentary trust has, in a taxation year throughout which it was resident in Canada, received a superannuation or pension benefit or a benefit out of or under a foreign retirement arrangement and has designated, in the return of its income for the year under this Part, an amount in respect of a beneficiary under the trust equal to such portion (in this subsection referred to as the "beneficiary's share") of the benefit as

(*a*) may reasonably be considered (having regard to all the circumstances including the terms and conditions of the trust arrangement) to be part of the amount that, by reason of subsection (13), was included in computing the income for a particular taxation year of the beneficiary, and

(*b*) was not designated by the trust in respect of any other beneficiary under the trust,

the following rules apply:

(*c*) where

(i) the benefit is an amount described in subparagraph (*a*)(i) of the definition "pension income" in subsection 118(7), and

(ii) the beneficiary was a spouse or common-law partner of the settlor of the trust,

the beneficiary's share of the benefit shall be deemed, for the purposes of subsections 118(3) and (7), to be a payment described in subparagraph (*a*)(i) of the definition "pension income" in subsection 118(7) that is included in computing the beneficiary's income for the particular year,

(*d*) where the benefit

(i) is a single amount (within the meaning assigned by subsection 147.1(1)), other than an amount that relates to an actuarial surplus, paid by a registered pension plan to the trust as a consequence of the death of the settlor of the trust who was, at the time of death, a spouse or common-law partner of the beneficiary, or

(ii) would be an amount included in the total determined under paragraph 60(*j*) in respect of the beneficiary for the taxation year of the beneficiary in which the benefit was received by the trust if the benefit had been received by the beneficiary at the time it was received by the trust,

the beneficiary's share of the benefit is, for the purposes of paragraph 60(*j*), an eligible amount in respect of the beneficiary for the particular year, and

(*e*) where the benefit is a single amount (within the meaning assigned by subsection 147.1(1)) paid by a registered pension plan to the trust as a consequence of the death of the settlor of the trust,

(i) if the beneficiary was, immediately before the settlor's death, a child or grandchild of the settlor who, because of mental or physical infirmity, was financially dependent on the settlor for support, the beneficiary's share of the benefit (other than any portion of it that relates to an actuarial surplus) is deemed, for the purposes of paragraph 60(*l*), to be an amount from a registered pension plan included in computing the beneficiary's income for the particular year as a payment described in clause 60(*l*)(v)(B.01), and

(ii) if the beneficiary was, at the time of the settlor's death, under 18 years of age and a child or grandchild of the settlor, the beneficiary's share of the benefit (other than any portion of it that relates to an actuarial surplus) is deemed, for the purposes of paragraph 60(*l*), to be an amount from a registered pension plan included in computing the beneficiary's income for the particular year as a payment described in subclause 60(*l*)(v)(B.1)(II).

History: S. 104(27)(*e*) was replaced by S.C. 2003, c. 15, s. 72(2), applicable in respect of deaths that occur after 2002. S. 104(27)(*e*) formerly read:

"(*e*) where the benefit is a single amount (within the meaning assigned by subsection 147.1(1)) paid by a registered pension plan to the trust as a consequence of the death of the settlor of the trust and the beneficiary was, at the time of the settlor's death, under 18 years of age and a child or grandchild of the settlor, the beneficiary's share of the benefit (other than any portion thereof that relates to an actuarial surplus) shall be deemed, for the purposes of paragraph 60(*l*), to be an amount from a registered pension plan included in computing the beneficiary's income for the particular year as a payment described in subclause 60(*l*)(v)(B.1)(II)."

S. 104(27)(*c*)(ii) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.1), applicable January 1, 2001, coming into force on July 31, 2000. S. 104(27)(*c*)(ii) formerly read:

"(ii) the beneficiary was a spouse of the settlor of the trust,"

S. 104(27)(*d*)(i) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.1), applicable January 1, 2001, coming into force on July 31, 2000. S. 104(27)(*d*)(i) formerly read:

"(i) is a single amount (within the meaning assigned by subsection 147.1(1)), other than an amount that relates to an actuarial surplus, paid by a registered pension plan to the trust as a consequence of the death of the settlor of the trust who was, at the time of death, a spouse of the beneficiary, or"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 104(27)(*c*) and (*d*) were amended by S.C. 1994, c. 7, Sched. VIII, s. 42(8), applicable after 1992. S. 104(27)(*c*) and (*d*) formerly read:

"(*c*) where

(i) the benefit is an amount described in subparagraph (*a*)(i) of the definition 'pension income' in subsection 118(7), and

(ii) the beneficiary was a spouse (in this subsection having the meaning assigned by subsection 146(1.1)) of the settlor of the trust,

the beneficiary's share of the benefit shall be deemed, for the purposes of subsections 118(3) and (7), to be a payment described in subparagraph (*a*)(i) of the definition 'pension income' in subsection 118(7) that is included in computing the beneficiary's income for the particular year,

(*d*) where the benefit

(i) is a single amount (within the meaning assigned by subsection 147.1(1)), other than an amount that relates to an actuarial surplus, paid by a registered pension plan to the trust as a consequence of the death of the settlor of the trust who was, at the time of the settlor's death, a spouse of the beneficiary, or

(ii) would be an amount included in the total determined under paragraph 60(*j*) in respect of the beneficiary for the taxation year of the beneficiary in which the benefit was received by the trust if the benefit had been received by the beneficiary at the time it was received by the trust,

the beneficiary's share of the benefit is, for the purposes of paragraph 60(*j*), an eligible amount in respect of the beneficiary for the particular year, and"

S. 104(27), all that portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 75(2), applicable to the 1990 and subsequent taxation years. That portion of s. 104(27) formerly read:

"(27) *Pension benefits.* Where a testamentary trust has received a superannuation or pension benefit in a taxation year throughout which it was resident in Canada and has designated, in the return f its income for the year under this Part, an amount in respect of a beneficiary under the trust equal to such portion (in this subsection referred to as the 'beneficiary's share') of the benefit as"

Editorial Note: S. 104(27) permits superannuation, pension and foreign retirement arrangement benefits received by a testamentary trust resident in Canada to be treated as superannuation or pension benefits received by a beneficiary of the testamentary trust for certain purposes where it is reasonable to consider that these amounts were part of the amounts included in the income of the beneficiary under subsection 104(13). The trust must make a designation in its income tax return under Part I.

Related Sections: S. 60(*j*) Transfer of superannuation benefits; s. 104(1) Reference to trust or estate; s. 118(7), "pension income"; s. 146(1.1) Restriction — financially dependent; s. 147.1(1), "single amount"; s. 248(1), "amount", "common-law partner", "registered pension plan", "trust".

Interpretation Bulletins: *Primary* — IT-528 Transfers of Funds Between Registered Plans. *Secondary* — IT-124R6 Contributions to registered retirement savings plans; IT-517R Pension tax credit [Archived by the CRA].

Forms: T3 SCH 7.

► 104(27.1) ◄

(27.1) DPSP benefits. Where

(*a*) a testamentary trust has received in a taxation year (in this subsection referred to as the "trust year") throughout which it was resident in Canada an amount from a deferred profit sharing plan as a consequence of the death of the settlor of the trust,

(*b*) the settlor was an employee of an employer who participated in the plan on behalf of the settlor, and

(*c*) the amount is not part of a series of periodic payments,

such portion of the amount as

(*d*) is included under subsection 147(10) in computing the income of the trust for the trust year,

(*e*) can reasonably be considered (having regard to all the circumstances including the terms and conditions of the trust arrangement) to be part of the amount that was included under subsection (13) in computing the income for a particular taxation year of a beneficiary under the trust who was, at the time of the settlor's death, a spouse or common-law partner of the settlor, and

(*f*) is designated by the trust in respect of the beneficiary in the trust's return of income under this Part for the trust year

is, for the purposes of paragraph 60(*j*), an eligible amount in respect of the beneficiary for the particular year.

History: S. 104(27.1)(*e*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.1), applicable January 1, 2001, coming into force on July 31, 2000. S. 104(27.1)(*e*) formerly read:

"(*e*) can reasonably be considered (having regard to all the circumstances including the terms and conditions of the trust arrangement) to be part of the amount that was included under subsection (13) in computing the income for a particular taxation year of a beneficiary under the trust who was, at the time of the settlor's death, a spouse of the settlor, and"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 104(27.1)(*e*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 42(9), applicable after 1992. S. 104(27.1)(*e*) formerly read:

"(*e*) may reasonably be considered (having regard to all the circumstances including the terms and conditions of the trust arrangement) to be part of the amount that, by reason of subsection (13), was included in computing the income for a particular taxation year of a beneficiary under the trust who was, at the time of the settlor's death, a spouse (within the meaning assigned by subsection 146(1.1)) of the settlor, and"

Editorial Note: Analogous to s. 104(27), s. 104(27.1) permits a flow-through of amounts received by a testamentary trust from a DPSP as a consequence of the death of the settlor. Where it may reasonably be considered to be part of the amount that was included in the income of a beneficiary pursuant to s. 104(13) who was the spouse or common-law partner of the settlor, then such amounts will be eligible for a rollover by the spouse or common-law partner pursuant to s. 60(*j*). The trust must make a designation of the amounts in respect of the spouse or common-law partner in its income return for the year in which it receives the amounts.

Related Sections: S. 60(*j*) Transfer of superannuation benefits; s. 248(1), "amount", "common-law partner", "trust"; s. 252(4) Extended meaning of spouse.

Interpretation Bulletins: *Primary* — IT-528 Transfers of Funds Between Registered Plans. *Secondary* — IT-124R6 Contributions to registered retirement savings plans.

► 104(28) ◄

(28) Idem. Such portion of any amount received by a testamentary trust in a taxation year on or after the death of an employee in recognition of the employee's service in an office or employment as may reasonably be considered (having regard to all the circumstances including the terms and conditions of the trust arrangement) to be paid or payable at a particular time to a particular beneficiary under the trust shall be deemed to be an amount received by the particular beneficiary at the particular time on or after the death of the employee in recognition of the employee's service in an office or employment and not to have been received by the trust.

Editorial Note: Under s. 104(28), a death benefit received by a testamentary trust, which is paid or payable to a beneficiary, is deemed to be received by the beneficiary and not by the trust. Where s. 104(28) applies, the death

benefit is included in the beneficiary's income under s. 56(1)(*a*)(iii). (And only the amount in excess of $10,000 would be included in income.) Note that, there is no requirement that the trust designate the amount as payable to a beneficiary for the death benefit to retain its character.

Where a death benefit is paid or payable to a beneficiary such that s. 104(28) applies, the trust does not have the option of designating the amount for the purposes of s. 104(13.1). S. 104(13.1) allows the trust to designate amounts, which have been included in the income of the trust, and have been paid or are payable to beneficiaries of the trust. Where s. 104(28) applies, the death benefit is not included in the income of the trust.

Related Sections: S. 56(1)(*a*)(iii) Amounts to be included in income for year; s. 104(13.1) Amounts deemed not paid; s. 248(1), "death benefit".

Tax Window Files: Death benefit and 104(13.1), November 14, 1996, CRA Document No. 9606825 [If the terms of the trust do not specify that a death benefit received by a trust is income, it will be treated as capital under trust law; with the result that, s. 104(28) would not apply unless the trustees have the power to encroach on capital under the terms of the trust and distribute all or part of the death benefit to a capital beneficiary].

► 104(29) ◄

(29) Amounts deemed payable to beneficiaries. [Repealed by S.C. 2003, c. 28, s. 11(2).]

History: S. 104(29) was repealed by S.C. 2003, c. 28, s. 11(2), applicable to trust taxation years that begin after 2006. S. 104(29) formerly read:

"(29) *Amounts deemed payable to beneficiaries.* For the purposes of this section, an amount designated by a trust in its return of income for a taxation year throughout which it was resident in Canada is deemed to have become, in the proportions that the trust designates in that return of income, payable by the trust to particular beneficiaries under the trust in the year if

(*a*) the designated amount does not exceed the amount determined by the formula

(A – B) × C/D

where

A is the total of all amounts each of which is

(i) an amount that is not deductible in computing the trust's income for the year, but that would be deductible in computing that income if this Act were read without reference to paragraph 18(1)(*m*),

(ii) an amount that is required by paragraph 12(1)(*o*) or by subsection 69(6) or (7) to be included in computing that income, or

(iii) an amount that is required to be included in computing that income because of an amount designated under this subsection by another trust,

B is the total of all amounts each of which is

(i) an amount that is deductible (otherwise than because of the membership of the trust in a partnership) under paragraph 20(1)(*v.1*) in computing the trust's income for the year, or

(ii) an amount that is not included in computing that income, but that would be included in computing that income if this Act were read without reference to section 80.2,

C is the total of all amounts each of which is a portion of the trust's income for the year computed without reference to the provisions of this Act (in this subsection referred to as the 'trust-purpose income of the trust for the year') that

(i) was payable in the year to a beneficiary under the trust, or

(ii) was required by subsection 105(2) to be included in computing the income of a beneficiary under the trust, and

D is the trust-purpose income of the trust for the year; and

(*b*) the designated proportions are reasonable having regard to the portions of the trust-purpose income of the trust for the year that are included in computing the beneficiaries' incomes for the year."

S. 104(29) was replaced by S.C. 2003, c. 28, s. 11(1), applicable to trust taxation years that end after December 20, 2002. S. 104(29) formerly read:

"(29) *Amounts deemed payable to beneficiaries.* Where a trust, in its return of income under this Part for a taxation year throughout which it was resident in Canada, designates an amount not exceeding the proportion of the amount, if any, by which

(*a*) the total of all amounts each of which is an amount that would, but for paragraph 18(1)(*l.1*) or (*m*), be deductible in computing the income of the trust for the year or that is required to be included in computing its income for the year by reason of paragraph 12(1)(*o*) or subsection 69(6) or (7)

exceeds

(*b*) the total of all amounts each of which is an amount that is deductible (otherwise than because of the membership of the trust in a partnership) under paragraph 20(1)(*v.1*) in computing the income of the trust for the year or that would, but for section 80.2, be included in computing its income for the year,

that

(*c*) the total of all amounts each of which is a part of the income of the trust for the year computed without reference to the provisions of this Act (in this subsection referred to as the 'trust-purpose income' for the year) that was payable in the year to a beneficiary of the trust or was included in computing the income of a beneficiary of the trust for the year by virtue of subsection 105(2)

is of

(*d*) the trust-purpose income of the trust for the year,

that designated amount shall, for the purposes of this section, be deemed to have become payable by the trust to particular beneficiaries of the trust in the year in such proportions as are designated by the trust in that return of income, provided that those proportions are reasonable having regard to the shares of the trust-purpose income of the trust for the year included in computing their incomes for the year."

S. 104(29)(*b*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 42(10), applicable to taxation years ending after December 20, 1991. S. 104(29)(*b*) formerly read:

"(*b*) the total of all amounts each of which is an amount deductible in computing the income of the trust for the year under paragraph 20(1)(*v.1*) or that would, but for section 80.2, be included in computing its income for the year,"

Related Sections: S. 12(1)(*o*) Royalties, etc.; s. 18(1)(*m*) Royalties, etc.; s. 20(1)(*v.1*) Resource allowance; s. 80.2 Reimbursement by taxpayer; s. 105(2) Upkeep, etc; s. 248(1), "amount", "trust".

Interpretation Bulletins: *Secondary* — IT-342R Trusts — Income payable to beneficiaries.

► 104(30) ◄

(30) Tax under Part XII.2. For the purposes of this Part, there shall be deducted in computing the income of a trust for a taxation year the tax paid by the trust for the year under Part XII.2.

Editorial Note: S. 104(30) prevents the trust from having to pay Part I tax on its income used to pay Part XII.2 tax.

Interpretation Bulletins: *Secondary* — IT-342R Trusts — Income payable to beneficiaries.

► 104(31) ◄

(31) Idem. The amount in respect of a taxation year of a trust that is deemed under subsection 210.2(3) to have been paid by a beneficiary under the trust on account of the beneficiary's tax under this Part shall, for the purposes of subsection (13), be deemed to be an amount in respect of the income of the trust for the year that has become payable by the trust to the beneficiary at the end of the year.

Editorial Note: In combination with s. 104(30), s. 104(31) produces the same result that would transpire if the amount of the trust's Part XII.2 tax that is deemed to have been paid by beneficiaries had been trust income payable to them for the purposes of ss. 104(6) and (13).

Interpretation Bulletins: *Secondary* — IT-342R Trusts — Income payable to beneficiaries.

SECTION 105:

► 105(1) ◄

(1) Benefits under trust. The value of all benefits to a taxpayer during a taxation year from or under a trust, irrespective of when created, shall, subject to subsection (2), be included in computing the taxpayer's income for the year except to the extent that the value

(*a*) is otherwise required to be included in computing the taxpayer's income for a taxation year; or

(*b*) has been deducted under paragraph 53(2)(*h*) in computing the adjusted cost base of the taxpayer's interest in the trust or would be so deducted if that paragraph

(i) applied in respect of the taxpayer's interest in the trust, and

(ii) were read without reference to clause 53(2)(*h*)(i.1)(B).

Editorial Note: Basically, s. 105(1) provides that the value of all benefits (other than a distribution or payment of capital) to a taxpayer during a taxation year from or under a trust shall be included in computing the income of the taxpayer for the year. "Benefit" is not defined in the Act, therefore, its ordinary (very broad) usage applies. However, it is the CRA's administrative policy that a taxable benefit from a trust under s. 105(1) is not assessed re personal-use property (including real property) owned by the trust primarily for the use and enjoyment of a beneficiary or a person related thereto (CRA Document Nos. 970317 and 2006-017326117).

Subsection 105(1) does not apply to amounts included in the beneficiary's income under subsection 104(13) or (14) or 105(2), which is significant

because these latter amounts are deductible in computing the trust's income whereas amounts included in a beneficiary's income under subsection 105(1) are not deductible. By virtue of subparagraph 105(1)(*b*)(ii), amounts such as capital dividends and the one-half non-taxable portion of capital gains paid out to a beneficiary are not included as benefits.

Related Sections: S. 53(2)(*h*) Amounts to be deducted — Capital interest in a trust; s. 104(1) Reference to trust or estate; s. 104(6) Deduction in computing income of trust; s. 104(19) Taxable dividends; s. 104(21) Taxable capital gains; s. 108(1), "beneficiary", "income interest", "trust"; s. 248(1), "amount", "property".

Interpretation Bulletins: *Secondary* — IT-75R4 Scholarships, Fellowships, Bursaries, Prizes, Research Grants and Financial Assistance; IT-342R Trusts — Income payable to beneficiaries; IT-381R3 Trusts — Deduction of amounts paid or payable to beneficiaries and flow-through of taxable capital gains to beneficiaries; IT-524 Trusts — Flow-through of taxable dividends to a beneficiary — After 1987.

Forms: T3; T3SUM.

Income Tax Technical News: Issue No. 11, Payments made by a trust for the benefit of a minor beneficiary; Issue No. 11, Taxable benefit for use of personal-use property.

Tax Window Files: Payment by a Trustee of Income Taxes Owed by a Trust, March 20, 2007, CRA Document No. 2006-0173711E5 [S. 105(1) judged not to apply re payment of trust taxes by trustee]; Advantage Conferred by Trust, October 19, 2006, CRA Document No. 2006-0173261I7 [CRA policy is not to assess re personal-use of trust]; Rent-Free Occupancy of Residence, February 27, 2001, CRA Document No. 2000-0046755 [No benefit under either 105(1) or (2) was imposed on a beneficiary of an estate for living "rent free" in property of the deceased where the property would have qualified as the beneficiary's principal residence if she had owned it, the upkeep and other expenses being paid out of capital]; Income Distribution Reinvestment Plan, February 24, 2000, CRA Document No. 9911853 [s. 105(1) applied to income distribution reinvestment plans of REITM]; Amounts Payable to Minor Beneficiaries and Taxable Benefits from a Trust, August 26, 1997, CRA Document No. 970317 [CRA will generally not assess a benefit re the use of personal-use property of a trust by a beneficiary or a person related thereto]; Benefit from Trust, March 31, 1993, CRA Document No. 9238075 [The value of benefits received from a trust may be taxed under subsection 105(1) whether or not the recipient is a beneficiary of the trust. However, where a house is owned by a trust and is used by the parents of a beneficiary, no subsection 105(1) benefit would be assessed].

Cases: An interest-free loan made to a beneficiary of a testamentary trust to enable him to purchase a house was not a taxable benefit. *Cooper v. M.N.R.*, 88 DTC 6525 (F.C.T.D.), reversing 87 DTC 194 (T.C.C.).

► 105(2) ◄

(2) Upkeep, etc. Such part of an amount paid by a trust out of income of the trust for the upkeep, maintenance or taxes of or in respect of property that, under the terms of the trust arrangement, is required to be maintained for the use of a tenant for life or a beneficiary as is reasonable in the circumstances shall be included in computing the income of the tenant for life or other beneficiary from the trust for the taxation year for which it was paid.

Editorial Note: S. 105(2) requires a beneficiary to include in his income that portion of the trust's annual income paid by the trust for the upkeep and maintenance of, or taxes on, property to the extent that the trust is required under the terms of the trust arrangements to make those payments for the use of that property by the beneficiary. S. 104(6) provides a deduction to the trust for any such amounts. Note that mortgage payments do not constitute payments for "upkeep, maintenance or taxes".

Related Sections: S. 104(6) Deduction in computing income of trust; s. 105(1) Benefits under trust; s. 120.4 Tax on split income.

Interpretation Bulletins: *Secondary* — IT-342R Trusts — Income payable to beneficiaries; IT-465R Non-resident beneficiaries of trusts; IT-524 Trusts — Flow-through of taxable dividends to a beneficiary — After 1987.

Income Tax Technical News: Issue No. 11, Taxable benefit for use of personal-use property.

Cases: For s. 105(2) to apply, the trust instrument must stipulate that the property is to be maintained for the use of the life tenant or other beneficiary; it is not sufficient if this is done in some other instrument or contract. *Blackstein v. the Queen*, 98 DTC 3371 (T.C.C.).

SECTION 106:

► 106(1) ◄

(1) Income interest in trust. Where an amount in respect of a taxpayer's income interest in a trust has been included in computing the taxpayer's income for a taxation year by reason of subsection (2) or 104(13), except to the extent that an amount in respect of that income interest has been deducted in computing the taxpayer's taxable income pursuant to subsection 112(1) or 138(6), there may be deducted in computing the taxpayer's income for the year the lesser of

(*a*) the amount so included in computing the taxpayer's income for the year, and

(*b*) the amount, if any, by which the cost to the taxpayer of the income interest exceeds the total of all amounts in respect of the interest that were deductible under this subsection in computing the taxpayer's income for previous taxation years.

Editorial Note: If the beneficiary has a "hard" cost of the income interest (see subsection 106(1.1)), the beneficiary can deduct the cost from any trust income included in the beneficiary's income under subsection 104(13), or, alternatively, in computing the income inclusion under subsection 106(2) upon a disposition of the interest to a third party.

Related Sections: S. 108(1), "trust"; s. 115(1) Non-resident's taxable income in Canada.

► 106(1.1) ◄

(1.1) Cost of income interest in a trust. The cost to a taxpayer of an income interest of the taxpayer in a trust is deemed to be nil unless

(*a*) any part of the interest was acquired by the taxpayer from a person who was the beneficiary in respect of the interest immediately before that acquisition; or

(*b*) the cost of any part of the interest would otherwise be determined not to be nil under paragraph 128.1(1)(*c*) or (4)(*c*).

History: S. 106(1.1) was amended by S.C. 2001, c. 17, s. 79(1), applicable to the 2000 and subsequent taxation years. S. 106(1.1) formerly read:

"(1.1) *Cost of income interest in a trust.* For the purposes of subsection (1) and notwithstanding paragraph 69(1)(*c*), the cost to a taxpayer of an income interest in a trust, other than an interest acquired by the taxpayer from a person who was the beneficiary in respect of the interest immediately before the acquisition thereof by the taxpayer, shall be deemed to be nil."

Editorial Note: Applicable for the 2000 and subsequent taxation years, s. 106(1.1) was expanded so that the cost to the beneficiary of an income interest in a trust is nil, except where the interest was acquired from a beneficiary under the trust, or where part of the interest was ever determined not to be nil under the taxpayer migration rules in s. 128.1.

► 106(2) ◄

(2) Disposition by taxpayer of income interest. Where in a taxation year a taxpayer disposes of an income interest in a trust,

(*a*) except where subsection (3) applies to the disposition, there shall be included in computing the taxpayer's income for the year the amount, if any, by which

(i) the proceeds of disposition

exceed

(ii) where that interest includes a right to enforce payment of an amount by the trust, the amount in respect of that right that has been included in computing the taxpayer's income for a taxation year because of subsection 104(13);

(*b*) any taxable capital gain or allowable capital loss of the taxpayer from the disposition shall be deemed to be nil; and

(*c*) for greater certainty, the cost to the taxpayer of each property received by the taxpayer as consideration for the disposition is the fair market value of the property at the time of the disposition.

History: S. 106(2)(*a*) was amended by S.C. 2001, c. 17, s. 79(2), applicable to the 2000 and subsequent taxation years. S. 106(2)(*a*) formerly read:

"(*a*) except when subsection (3) is applicable, there shall be included in computing the taxpayer's income for the year the proceeds of the disposition;"

Editorial Note: A taxpayer who assigns or disposes of an income interest in a trust in favour of another person will be subject to s. 106(2) and must include in income the proceeds of disposition. If the transaction is not at arm's length and the proceeds are less than FMV, the taxpayer will be deemed by s. 69(1)(*b*) to have received proceeds of disposition equal to the FMV of the interest disposed of. Where the taxpayer disposes of an income interest by gift *inter vivos*, the proceeds of disposition are deemed to be the FMV of the income interest.

If the disposition of the interest results from a distribution of trust property in satisfaction of the interest (see also subsection 106(3)), there is no income inclusion in respect of the disposition under subsection 106(2).

Related Sections: S. 61(2) Income-averaging annuity — eligible income; s. 106(1) Income interest in trust; s. 115(1) Non-resident's taxable income in Canada.
Interpretation Bulletins: *Primary* — IT-385R2 Disposition of an income interest in a trust.
Advance Tax Rulings: ATR-3 Winding-up of an estate.
Canadian Tax Foundation: Rajan and Brown, " Personal Trusts 2000: Taxation and Planning in the New Millennium, Report of Proceedings of Fifty-Second Tax Conference ", *2000 Tax Conference (Toronto: Canadian Tax Foundation, 2001)*, 28:1-40.
Tax Window Files: Renunciation of Testamentary Spouse Trust Income and Capital, May 9, 2007, CRA Document No. 2006-0189931E5 [S. 69(1) and s. 106(2) not applicable re renunciation of interest in testamentary spousal trust]; Charitable Donation — Surrender of Capital Interest in Estate, May 23, 2001, CRA Document No. 2000-0059963 [Taxpayer not considered to have received proceeds of disposition for the purposes of s. 106(2) where the taxpayer releases or surrenders, for no consideration, an income interest in a trust in respect of future payments]; Surrender of Interest in Trust, 1997, CRA Document No. 9706043 [Nil proceeds of disposition on release or surrender of an income interest in a trust where no direction was given concerning who was entitled to receive the benefits under the trust].

► 106(3) ◄

(3) Proceeds of disposition of income interest. For greater certainty, where at any time any property of a trust has been distributed by the trust to a taxpayer who was a beneficiary under the trust in satisfaction of all or any part of the taxpayer's income interest in the trust, the trust shall be deemed to have disposed of the property for proceeds of disposition equal to the fair market value of the property at that time.

Editorial Note: Although there is no capital gain or loss in respect of the beneficiary's disposition of the income interest, the beneficiary will arguably include in its income any gain or income "paid" to the beneficiary upon the distribution of the property (that is, where the fair market value of the property exceeds the trust's cost of the property). In such case, it appears that the designations under subsections 104(13.1) and (13.2) could be made by the trust in order to have the income or gain taxed at the trust level.

Related Sections: S. 38 Taxable capital gain and allowable capital loss; s. 104(1) Reference to trust or estate; s. 106(2) Disposition by taxpayer of income interest; s. 108(1), "beneficiary", "income interest", "trust"; s. 248(1), "amount", "property".
Interpretation Bulletins: *Secondary* — IT-385R2 Disposition of an income interest in a trust.
Information Circulars: IC 82-6R6 Clearance certificate.

SECTION 107:

► 107(1) ◄

(1) Disposition by taxpayer of capital interest. Where a taxpayer has disposed of all or any part of the taxpayer's capital interest in a trust,

(*a*) where the trust is a personal trust or a prescribed trust, for the purpose of computing the taxpayer's capital gain, if any, from the disposition, the adjusted cost base to the taxpayer of the interest or the part of the interest, as the case may be, immediately before the disposition is, unless any part of the interest has ever been acquired for consideration and, at the time of the disposition, the trust is non-resident, deemed to be the greater of

(i) its adjusted cost base, otherwise determined, to the taxpayer immediately before the disposition, and

(ii) the amount, if any, by which

(A) its cost amount to the taxpayer immediately before the disposition

exceeds

(B) the total of all amounts deducted under paragraph 53(2)(*g.1*) in computing its adjusted cost base to the taxpayer immediately before the disposition;

(*b*) [Repealed by S.C. 2001, c. 17, s. 80(2).]

(*c*) where the taxpayer is not a mutual fund trust, the taxpayer's loss from the disposition is deemed to be the amount, if any, by which the amount of that loss otherwise determined exceeds the amount, if any, by which

(i) the total of all amounts each of which was received or would, but for subsection 104(19), have been received by the trust on a share of the capital stock of a corporation before the disposition (and, where the trust is a unit trust, after 1987) and

(A) where the taxpayer is a corporation,

(I) was a taxable dividend designated under subsection 104(19) by the trust in respect of the taxpayer, to the extent of the amount of the dividend that was deductible under section 112 or subsection 115(1) or 138(6) in computing the taxpayer's taxable income or taxable income earned in Canada for any taxation year, or

(II) was an amount designated under subsection 104(20) by the trust in respect of the taxpayer,

(B) where the taxpayer is another trust, was an amount designated under subsection 104(19) or (20) by the trust in respect of the taxpayer, and

(C) where the taxpayer is not a corporation, trust or partnership, was an amount designated under subsection 104(20) by the trust in respect of the taxpayer

exceeds

(ii) the portion of the total determined under subparagraph (i) that can reasonably be considered to have resulted in a reduction, under this paragraph, of the taxpayer's loss otherwise determined from a previous disposition of an interest in the trust, and

(*d*) where the taxpayer is a partnership, the share of a person (other than another partnership or a mutual fund trust) of any loss of the partnership from the disposition is deemed to be the amount, if any, by which that loss otherwise determined exceeds the amount, if any, by which

(i) the total of all amounts each of which is a dividend that was received or would, but for subsection 104(19), have been received by the trust on a share of the capital stock of a corporation before

the disposition (and, where the trust is a unit trust, after 1987) and

(A) where the person is a corporation,

(I) was a taxable dividend that was designated under subsection 104(19) by the trust in respect of the taxpayer, to the extent of the amount of the dividend that was deductible under section 112 or subsection 115(1) or 138(6) in computing the person's taxable income or taxable income earned in Canada for any taxation year, or

(II) was a dividend designated under subsection 104(20) by the trust in respect of the taxpayer and was an amount received by the person,

(B) where the person is an individual other than a trust, was a dividend designated under subsection 104(20) by the trust in respect of the taxpayer and was an amount received by the person, and

(C) where the person is another trust, was a dividend designated under subsection 104(19) or (20) by the trust in respect of the taxpayer and was an amount received by the person (or that would have been received by the person if this Act were read without reference to subsection 104(19)),

exceeds

(ii) the portion of the total determined under subparagraph (i) that can reasonably be considered to have resulted in a reduction, under this paragraph, of the person's loss otherwise determined from a previous disposition of an interest in the trust.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 107(1) of the Act is amended by striking out the word "and" at the end of paragraph (*c*), by adding the word "and" at the end of paragraph (*d*) and by adding the following after paragraph (*d*):

(*e*) if the capital interest is not a capital property of the taxpayer, notwithstanding the definition "cost amount" in subsection 108(1), its cost amount is deemed to be the amount, if any, by which

(i) the amount that would, if this Act were read without reference to this paragraph and the definition "cost amount" in subsection 108(1), be its cost amount

exceeds

(ii) the total of all amounts, each of which is an amount in respect of the capital interest that has become payable to the taxpayer before the disposition and that would be described in subparagraph 53(2)(*h*)(i.1) if that subparagraph were read without reference to its subclause (B)(I).

Applicable: To dispositions that occur, and valuations made, (*a*) after 2001 in respect of qualified trust units, as defined in subsection 260(1), in respect of which an amount described in paragraph 260(5.1)(*b*), or that would have been so described had no election been made with respect to subsection 260(5.1), is paid after 2001 and before February 28, 2004, except that subparagraph 107(1)(*e*)(ii) shall, with respect to amounts described in subclause 53(2)(*h*)(i.1)(B)(I) that were payable on or before 2002, be read without reference to the words "if that subparagraph were read without reference to its subclause (B)(I)"; and (*b*) in any other case, after February 27, 2004, except that, subject to paragraph (*a*),

(i) paragraph 107(1)(*e*) does not apply to a disposition by a taxpayer after February 27, 2004 and before 2005 pursuant to an agreement in writing made by the taxpayer on or before February 27, 2004, and

(ii) subparagraph 107(1)(*e*)(ii) and paragraph 107(1.2)(*b*) shall, with respect to amounts described in subclause 53(2)(*h*)(i.1)(B)(I) that were payable on or before February 27, 2004, be read without reference to the words "if that subparagraph were read without reference to its subclause (B)(I)".

Explanatory Note:

Cost Reduction Rule

Subsection 107(1) of the Act contains special rules applicable to the disposition of an interest in a trust. A trust can distribute non-taxable amounts, such as returns of capital and the non-taxable portion of a capital gain, to the holders of interests in the trust. Currently, the Act requires a return of capital to be accounted for by reducing the recipient's adjusted cost base of the interest in the trust. While the effect of this general rule is clear where the interest is held as capital property, it is not as clear where the property is held as inventory.

New paragraph 107(1)(*e*) applies when a taxpayer disposes of an interest in a trust that is not held as capital property. The paragraph deems the taxpayer's cost amount of that interest to be the cost amount used for inventory valuation purposes less the total of all returns of capital and non-taxable capital gains payable to the taxpayer, in respect of the interest, prior to the disposition. This is to recognize that all receipts for a property held on income account should be treated as either income or a reduction in the cost of the property to the holder.

The new paragraph applies to dispositions after 2001 if the trust interest is a qualified security, as defined in subsection 260(1) of the Act, and an SLA compensation payment or a dealer compensation payment, as defined in subsection 260(1) of the Act has been paid in respect of the trust unit after 2001 and before February 27, 2004. Otherwise, the new rule applies to dispositions after February 27, 2004, except that it will not apply to a disposition that took place after February 27, 2004 and before 2005, if the taxpayer had on or before February 27, 2004 entered into an agreement in writing for the disposition of the interest.

There is a further exception to the application of the new paragraph. Distributions of the non-taxable portion of capital gains will reduce the cost amount of an interest in a trust only if those distributions took place after the new paragraph came into effect — that is, in the case of a trust interest that was the subject of a security lending arrangement (SLA) that was made between January 1, 2002 and February 27, 2004, after 2001, and, in all other cases, after February 27, 2004.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 80(19) of the Act [*Income Tax Amendments Act, 2000*, S.C. 2001, c. 17, the application of the amendments to subsection 107(1)] is replaced by the following:

(19) Subsections (1) to (4) apply to the 2000 and subsequent taxation years except that, in respect of transfers after 1999 and before 2007, for the purposes of subsection 107(1) of the Act, as enacted by this section, the residence of a transferee trust shall be determined without reference to section 94 of the

Act, as it read in its application to taxation years that began before 2007.

Applicable: Deemed to have come into force on June 14, 2001.

Explanatory Note:

Disposition by Taxpayer of Capital Interest, S.C. 2001, c. 17, s. 80(19)

Paragraph 107(1)(*a*) of the *Income Tax Act* applies for the purpose of computing a taxpayer's taxable capital gain from the disposition of a capital interest in a personal trust (or a prescribed trust described in section 4800.1 of the *Income Tax Regulations*), except where the interest was an interest in a non-resident *inter vivos* trust purchased by the taxpayer and the disposition was not by way of a distribution to which subsection 107(2) applies. For this purpose the residency of the trust is to be determined without reference to section 94 as it read before 2002.

This amendment to the *Income Tax Amendments Act, 2000*, ensures that, in applying subsection 107(1) in respect of transfers that occur after 1999 and before 2007, the residence of a transferee trust will be determined without reference to section 94 of the Act, as it reads in its application to taxation years that began before 2007.

This amendment is deemed to come into force on June 14, 2001.

History: S. 107(1)(*a*), the portion before subparagraph (i) was amended by S.C. 2001, c. 17, s. 80(1), applicable to the 2000 and subsequent taxation years except that, in respect of transfers in 2000 or 2001, for the purposes of subsection 107(1) of the Act, the residence of a transferee trust shall be determined without reference to section 94 of the Act, as it read before 2002. S. 107(1)(*a*), the portion before subparagraph (i) formerly read:

"(*a*) where the trust is a personal trust or a prescribed trust, for the purpose of computing the taxpayer's taxable capital gain, if any, from the disposition, the adjusted cost base to the taxpayer of the interest, or the part of the interest, as the case may be, immediately before the disposition shall be deemed to be the greater of"

S. 107(1)(*b*) was repealed by S.C. 2001, c. 17, s. 80(2), applicable to the 2000 and subsequent taxation years except that, in respect of transfers in 2000 or 2001, for the purposes of subsection 107(1) of the Act the residence of a transferee trust shall be determined without reference to section 94 of the Act, as it read before 2002. S. 107(1)(*b*) formerly read:

"(*b*) for greater certainty, for the purposes of computing the taxpayer's allowable capital loss, if any, from the disposition of the interest or part thereof, as the case may be, the adjusted cost base to the taxpayer of the interest or part thereof immediately before the disposition is the adjusted cost base to the taxpayer thereof immediately before that time as determined under this Act without reference to paragraph (*a*),"

S. 107(1), the portion after paragraph (*d*) was repealed by S.C. 2001, c. 17, s. 80(3), applicable to the 2000 and subsequent taxation years except that, in respect of transfers in 2000 or 2001, for the purposes of subsection 107(1) of the Act the residence of a transferee trust shall be determined without reference to section 94 of the Act, as it read before 2002. S. 107(1), the portion after paragraph (*d*) formerly read:

"except that where the interest was an interest in an *inter vivos* trust not resident in Canada that was purchased by the taxpayer, paragraph (*a*) does not apply in respect of the disposition of all or any part thereof except where subsection (2) is applicable in respect of any distribution of property by the trust to the taxpayer in satisfaction of that interest or that part thereof, as the case may be."

S. 107(1)(*c*) was amended by S.C. 1998, c. 19, s. 128(1), applicable to dispositions that occur after April 26, 1995 except that, for dispositions that occur before 1998, the first reference to "loss" in paragraph 107(1)(*c*) of the Act shall be read as "capital loss". S. 107(1)(*c*) formerly read:

"(*c*) where the taxpayer is a corporation and the interest is not an interest in a prescribed trust, its capital loss from the disposition at any time of the interest or part thereof shall be deemed to be the amount, if any, by which the amount of its loss otherwise determined exceeds the amount, if any, by which

(i) the total of all amounts each of which was received by the trust before that time (and, where the trust is a unit trust, after 1987) and designated by it under subsection 104(19) or (20) in respect of the corporation

exceeds

(ii) such portion of the total referred to in subparagraph (i) as can reasonably be considered to have resulted in a reduction under this paragraph of its capital loss otherwise determined from the disposition before that time of an interest in the trust,"

S. 107(1)(*d*) was added by S.C. 1998, c. 19, s. 128(1), applicable to dispositions that occur after April 26, 1995.

S. 107(1)(*a*) was amended by S.C. 1995, c. 21, s. 35(1), applicable to taxation years that end after February 21, 1994. S. 107(1)(*a*) formerly read:

"(*a*) where the trust is a personal trust or a prescribed trust, for the purposes of computing the taxpayer's taxable capital gain, if any, from the disposition of the interest or part thereof, as the case may be, the adjusted cost base to the taxpayer thereof immediately before the disposition shall be deemed to be an amount equal to the greater of the adjusted cost base to the taxpayer thereof otherwise determined immediately before that time and the cost amount to the taxpayer thereof immediately before that time,"

S. 107(1)(*c*) was amended by S.C. 1994, c. 21, s. 47(1), applicable to the 1988 and subsequent taxation years. S. 107(1)(*c*) formerly read:

"(*c*) where the taxpayer is a corporation and the interest is not an interest in a prescribed trust, its capital loss from the disposition at any time of the interest or part thereof shall be deemed to be the amount of its loss otherwise determined minus the total of all amounts each of which is an amount received by the trust before that time and designated by it in respect of the corporation under subsection 104(19) or (20),"

S. 107(1)(*a*) was amended by S.C. 1994, c. 7, Sched. II, s. 76(1), applicable to dispositions occurring after 1987, other than a disposition of an interest in a trust, the units of which were listed on October 1, 1987 on a prescribed stock exchange, occurring before the earlier of

(*a*) January 1, 1991, and

(*b*) any day after October 1, 1987 on which a beneficial interest in the trust was or is issued.

S. 107(1)(*a*) formerly read:

"(*a*) where the trust is a personal trust, for the purposes of computing the taxpayer's taxable capital gain, if any, from the disposition of the interest or part thereof, as the case may be, the adjusted cost base to the taxpayer of the interest or part thereof immediately before the disposition shall be deemed to be an amount equal to the greater of the adjusted cost base to the taxpayer thereof otherwise determined immediately before that time and the cost amount to the taxpayer thereof immediately before that time,"

Editorial Note: Where s. 107(1)(*a*) applies, the ACB to the taxpayer of a trust capital interest for capital gains purposes is generally equal to the greater of the ACB otherwise determined and the cost amount of the interest. The cost amount of a capital interest is determined based on the amount of the trust's money and the cost amount of the trust's other property. This provision does not apply to dispositions of capital interests in unit trusts, nor to dispositions of any interests acquired for consideration in non-resident trusts and in non-resident discretionary trusts deemed resident in Canada, as they were settled by a person in Canada for the benefit of related Canadian beneficiaries.

Related Sections: S. 13(21), "depreciable property"; s. 38 Taxable capital gain and allowable capital loss; s. 53(2)(*h*)(i) Amounts to be deducted — Capital interest in a trust; s. 54, "adjusted cost base", "capital property"; s. 104(1) Reference to trust or estate; s. 108(1), "beneficiary", "capital interest", "cost amount", "inter vivos trust", "trust"; s. 112(4) Loss on share that is not capital property; s. 115(1), "taxable Canadian property"; s. 248(1), "amount", "insurance corporation", "non-resident", "prescribed", "property", "regulation"; s. 255 Canada.

Regulations: 4800.1.

Advance Tax Rulings: ATR-38 Distribution of all of the property of an estate.

Tax Profile: February 2002 — Transferring Property to a Trust After the Enactment of Bill C-22.

Canadian Tax Foundation: Brown, "Alter Ego, Joint Conjugal, and Self-Benefit Trusts Revisited: Some Troubling Tax Issues and a Search for Better Alternatives", *Canadian Tax Journal*, No. 1, 224-244; Rajan and Brown, "Personal Trusts 2000: Taxation and Planning in the New Millennium", *2000 Conference Report*, 28:1-40.

Tax Window Files: Deemed Disposition of Interest in Trust on Emigration from Canada, February 27, 2004, CRA Document No. 2004-0061841E5 [Calculation of capital gain upon deemed disposition of interest in trust on emigration from Canada]; Variation of Trust, 1997, CRA Document No. 9624583 [Variation of trust did not result in disposition of beneficiary's interest in trust or trust's property].

► 107(1.1) ◄

(1.1) Cost of capital interest in a trust. The cost to a taxpayer of a capital interest of the taxpayer in a personal trust or a prescribed trust is deemed to be,

(*a*) where the taxpayer elected under subsection 110.6(19) in respect of the interest and the trust does not elect under that subsection in respect of any property of the trust, the taxpayer's cost of the interest determined under paragraph 110.6(19)(*a*); and

(*b*) in any other case, nil, unless

(i) any part of the interest was acquired by the taxpayer from a person who was the beneficiary in respect of the interest immediately before that acquisition, or

(ii) the cost of any part of the interest would otherwise be determined not to be nil under section 48 as it read in its application before 1993 or under paragraph 111(4)(*e*) or 128.1(1)(*c*) or (4)(*c*).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 107(1.1)(*b*) of the Act is amended by striking out the word "or" at the end of subparagraph (i), by adding the word "or" at the end of subparagraph (ii) and by adding the following after subparagraph (ii):

(iii) at a time in a taxation year at which that cost is relevant, the interest is a participating interest in respect of which subsection 94.1(3) or 94.2(9) applies to the taxpayer for that taxation year.

Applicable: To taxation years that begin after 2006, except that paragraph 107(1.1)(*b*) also applies to a taxation year of a taxpayer that begins before 2007 if sections 94.1 to 94.4 of the Act apply to that taxation year of the taxpayer.

Explanatory Note: Subsection 107(1.1) of the Act provides rules for computing the cost to a taxpayer of a capital interest in a personal trust or a prescribed trust. Paragraph 107(1.1)(*b*) provides that the cost is nil, except where certain conditions apply.

Paragraph 107(1.1)(*b*) is amended so that if a capital interest in a personal trust or prescribed trust is a participating interest in a foreign investment entity, the cost of the capital interest will not be deemed by that paragraph to be nil. For more details, see the commentary on new sections 94.1 to 94.4.

This amendment applies to taxation years that begin after 2006.

History: S. 107(1.1) was amended by S.C. 2001, c. 17, s. 80(4), applicable to the 2000 and subsequent taxation years. S. 107(1.1) formerly read:

"(1.1) *Cost of capital interest in a trust.* For the purpose of subsection (1) and notwithstanding paragraph 69(1)(*c*), the cost to a taxpayer of a capital interest in a trust, other than an interest acquired by the taxpayer from a person who was the beneficiary in respect of the interest immediately before its acquisition by the taxpayer or an interest issued to the taxpayer for consideration paid by the taxpayer that is equal to the fair market value of the interest at the time of issuance, is deemed to be

(*a*) where the taxpayer elects under subsection 110.6(19) in respect of the interest and the trust does not elect under that subsection in respect of any property of the trust, the taxpayer's cost of the interest determined under paragraph 110.6(19)(*a*); and

(*b*) in any other case, nil."

S. 107(1.1) was amended by S.C. 1998, c. 19, s. 128(2), applicable to the 1994 and subsequent taxation years. S. 107(1.1) formerly read:

"(1.1) *Cost of capital interest in a trust.* For the purposes of subsection (1) and notwithstanding paragraph 69(1)(*c*), the cost to a taxpayer of a capital interest in a trust, other than an interest acquired by the taxpayer from a person who was the beneficiary in respect of the interest immediately before the acquisition thereof by the taxpayer or an interest issued to the taxpayer for consideration paid by the taxpayer that is equal to the fair market value thereof at the time of issuance, shall be deemed to be nil."

Editorial Note: The cost of a capital interest in a personal or prescribed trust (regulation 4800.1) is deemed to be nil unless the beneficiary acquired the interest from another beneficiary or the interest was subject to the deemed disposition and acquisition provisions of section 128.1.

Related Sections: S. 70(5) Capital property of a deceased taxpayer; s. 107(1) Disposition by taxpayer of capital interest.
Regulations: 4800.1.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 107 of the Act is amended by adding the following after subsection (1.1):

(1.2) Deemed fair market value — non-capital property. For the purpose of section 10, the fair market value at any time of a capital interest in a trust is deemed to be equal to the amount that is the total of

(*a*) the amount that would, if this Act were read without reference to this subsection, be its fair market value at that time, and

(*b*) the total of all amounts, each of which is an amount that would be described, in respect of the capital interest, in subparagraph 53(2)(*h*)(i.1) if that subparagraph were read without reference to its subclause (B)(I), that has become payable to the taxpayer before that time.

Applicable: To dispositions that occur, and valuations made,

(*a*) after 2001 in respect of qualified trust units, as defined in subsection 260(1), in respect of which an amount described in paragraph 260(5.1)(*b*), or that would have been so described had no election been made with respect to subsection 260(5.1), is paid after 2001 and before February 28, 2004, except that paragraph 107(1.2)(*b*) shall, with respect to amounts described in subclause 53(2)(*h*)(i.1)(B)(I) of the Act that were payable on or before 2002, be read without reference to the words "if that subparagraph were read without reference to its subclause (B)(I)"; and

(*b*) in any other case, after February 27, 2004, except that, subject to paragraph (*a*), paragraph 107(1.2)(*b*) shall, with respect to amounts described in subclause 53(2)(*h*)(i.1)(B)(I) that were payable on or before February 27, 2004, be read without reference to the words "if that subparagraph were read without reference to its subclause (B)(I)".

Explanatory Note:

Inventory Valuation — Deemed Fair Market Value

Where an interest in a trust is held as an inventory, the fair market value of the interest at valuation for the purpose of section 10 of the Act can be affected by non-taxable distributions from the trust, potentially producing a tax loss to the holder of the interest even though the holder had suffered no economic loss (thanks to the non-taxable distribution the holder has already received).

New subsection 107(1.2) requires that at any particular valuation time the fair market value of an interest in a trust be deemed to be the total of the fair market value otherwise determined and the sum of any returns of capital and non-taxable capital gains payable before that time.

The new subsection applies to valuations of trust interest that take place after February 27, 2004, and to valuations after 2001 if the trust interest in question is a qualified security, as defined in subsection 260(1) of the Act, and an SLA compensation payment or a dealer compensation payment, as defined in subsection 260(1) of the Act, has been paid in respect of the trust unit after 2001 and before February 27, 2004.

There is an exception to the application of the new subsection. Distributions of the non-taxable portion of capital gains will be added to the fair market value of an interest in a trust only if those distributions took place after the new subsection came into effect — that is, in the case of a trust interest that was the subject of a security lending arrangement (SLA) that was made between January 1, 2002 and February 27, 2004, after 2001, and, in all other cases, after February 27, 2004.

► 107(2) ◄

(2) Distribution by personal trust. Subject to subsections (2.001), (2.002) and (4) to (5), if at any time a

property of a personal trust or a prescribed trust is distributed (otherwise than as a SIFT trust wind-up event) by the trust to a taxpayer who was a beneficiary under the trust and there is a resulting disposition of all or any part of the taxpayer's capital interest in the trust,

(*a*) the trust shall be deemed to have disposed of the property for proceeds of disposition equal to its cost amount to the trust immediately before that time;

(*b*) subject to subsection (2.2), the taxpayer is deemed to have acquired the property at a cost equal to the total of its cost amount to the trust immediately before that time and the specified percentage of the amount, if any, by which

(i) the adjusted cost base to the taxpayer of the capital interest or part of it, as the case may be, immediately before that time (determined without reference to paragraph (1)(*a*))

exceeds

(ii) the cost amount to the taxpayer of the capital interest or part of it, as the case may be, immediately before that time;

(*b*.1) for the purpose of paragraph (*b*), the specified percentage is,

(i) where the property is capital property (other than depreciable property), 100%,

(ii) where the property is eligible capital property in respect of a business of the trust, 100%, and

(iii) in any other case, 75%;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 107(2)(*b*.1)(iii) of the Act is replaced by following:

(iii) in any other case, 50%;

Applicable: To distributions made after December 20, 2002.

Explanatory Note:

Distribution by Personal Trust

Subsection 107(2) of the Act applies where a personal trust or a prescribed trust described in section 4800.1 of the Regulations distributes property to a beneficiary and there is a resulting disposition of Part or all of the beneficiary's capital interest in the trust. Under paragraph 107(2)(*a*), the trust is deemed to have disposed of the property for proceeds of disposition equal to the property's cost amount. Under paragraph 107(2)(*b*), the property is deemed to have been acquired by the beneficiary for an amount equal to the total of the amount described in paragraph 107(2)(*a*) and a "bump" equal to the specified percentage of any excess of the adjusted cost base to the beneficiary of the capital interest over its cost amount (as defined by subsection 108(1) of the Act) to the beneficiary of the interest. Under subparagraph 107(2)(*b*.1)(iii), the specified percentage for property (other than non-depreciable capital property and eligible capital property) is 75%. Where subsection 107(2) applies, paragraph 107(2)(*c*) provides that the beneficiary is deemed to have disposed of all or part, as the case may be, of the capital interest for proceeds equal to the amount determined under that paragraph.

Subparagraph 107(2)(*b*.1)(iii) is amended to replace the reference to 75% with a reference to 50%, consistent with the current capital gains inclusion rate.

This amendment applies to distributions, from a trust, made after December 20, 2002.

Paragraph 107(2)(*c*) is amended to clarify that it applies to determine a taxpayer's proceeds of disposition of the capital interest in a trust (or of the part of it) disposed of by the taxpayer on a distribution, to which subsection 107(2) applies, of property by the trust.

This amendment applies to distributions, from a trust, made after 1999.

Paragraph 107(2)(*d*.1) determines the tax consequences of the disposition of taxable Canadian property by a trust to a non-resident beneficiary before October 2, 1996. In the event that the property was explicitly deemed to have been taxable Canadian property under a number of specified provisions of the Act, paragraph 107(2)(*d*.1) ensures that it continues to be taxable Canadian property of the beneficiary.

Paragraph 107(2)(*d*.1) is amended by adding to the list of specified provisions, that explicitly deem property to be taxable Canadian property, a reference to subsection 85.1(5) of the Act.

This amendment applies in determining after October 1, 1996 whether property is taxable Canadian property.

(*c*) the taxpayer is deemed to have disposed of all or part, as the case may be, of the capital interest for proceeds equal to the amount, if any, by which

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of paragraph 107(2)(*c*) of the Act before subparagraph (i) is replaced by the following:

(*c*) the taxpayer's proceeds of disposition of the capital interest in the trust (or of the part of it) disposed of by the taxpayer on the distribution are deemed to be equal to the amount, if any, by which

Applicable: To distributions made after 1999.

Explanatory Note: See the Explanatory Note following the amendment to subparagraph 107(2)(*b*.1)(iii).

(i) the cost at which the taxpayer would be deemed by paragraph (*b*) to have acquired the property if the specified percentage referred to in that paragraph were 100%

exceeds

(ii) the total of all amounts each of which is an eligible offset at that time of the taxpayer in respect of the capital interest or the part of it;

(*d*) where the property so distributed was depreciable property of a prescribed class of the trust and the amount that was the capital cost to the trust of that property exceeds the cost at which the taxpayer is deemed by this section to have acquired the property, for the purposes of sections 13 and 20 and any regulations made under paragraph 20(1)(*a*)

(i) the capital cost to the taxpayer of the property shall be deemed to be the amount that was the capital cost of the property to the trust, and

(ii) the excess shall be deemed to have been allowed to the taxpayer in respect of the property under regulations made under paragraph 20(1)(*a*) in computing income for taxation years before the acquisition by the taxpayer of the property;

(*d*.1) the property is deemed to be taxable Canadian property of the taxpayer where

(i) the taxpayer is non-resident at that time,

(ii) that time is before October 2, 1996, and

(iii) the property was deemed by paragraph 51(1)(*f*), 85(1)(*i*) or 85.1(1)(*a*), subsection 87(4) or (5) or paragraph 97(2)(*c*) to be taxable Canadian property of the trust; and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 107(2)(*d*.1)(iii) of the Act is replaced by the following:

(iii) the property was deemed by paragraph 51(1)(*f*), 85(1)(*i*) or 85.1(1)(*a*), subsection 85.1(5) or 87(4) or (5) or paragraph 97(2)(*c*) to be taxable Canadian property of the trust; and

Applicable: In determining after October 1, 1996 whether property is taxable Canadian property.

Explanatory Note: See the Explanatory Note following the amendment to subparagraph 107(2)(*b*.1)(iii).

(*e*) [Repealed by S.C. 1994, c. 7, Sched. VIII, s. 43(1).]

(*f*) where the property so distributed was eligible capital property of the trust in respect of a business of the trust,

(i) where the eligible capital expenditure of the trust in respect of the property exceeds the cost at which the taxpayer is deemed by this subsection to have acquired the property, for the purposes of sections 14, 20 and 24,

(A) the eligible capital expenditure of the taxpayer in respect of the property shall be deemed to be the amount that was the eligible capital expenditure of the trust in respect of the property, and

(B) 3/4 of the excess shall be deemed to have been allowed under paragraph 20(1)(*b*) to the taxpayer in respect of the property in computing income for taxation years ending

(I) before the acquisition by the taxpayer of the property, and

(II) after the adjustment time of the taxpayer in respect of the business, and

(ii) for the purpose of determining after that time the amount required by paragraph 14(1)(*b*) to be included in computing the taxpayer's income in respect of any subsequent disposition of property of the business, there shall be added to the value otherwise determined for Q in the definition "cumulative eligible capital" in subsection 14(5) the amount determined by the formula

$$A \times \frac{B}{C}$$

where

A is the amount, if any, determined for Q in that definition in respect of the business of the trust immediately before the distribution,

B is the fair market value of the property so distributed immediately before the distribution, and

C is the fair market value immediately before the distribution of all eligible capital property of the trust in respect of the business.

History: S. 107(2), the portion before paragraph (*a*) was replaced by S.C. 2009, c. 2, s. 26(1), applicable after July 14, 2008. S. 107(2), the portion before paragraph (*a*) formerly read:

"(2) *Distribution by personal trust.* Subject to subsections (2.001), (2.002) and (4) to (5), where at any time a property of a personal trust or a prescribed trust is distributed by the trust to a taxpayer who was a beneficiary under the trust and there is a resulting disposition of all or any part of the taxpayer's capital interest in the trust,"

S. 107(2), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 80(6), applicable to distributions made after 1999. S. 107(2), the portion before paragraph (*a*) formerly read:

"(2) *Distribution by personal trust.* Subject to subsection (2.001), where at any time a property of a personal trust or a prescribed trust is distributed by the trust to a taxpayer who was a beneficiary under the trust in satisfaction of all or any part of the taxpayer's capital interest in the trust,"

S. 107(2), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 80(5), applicable to distributions made after October 1, 1996. S. 107(2), the portion before paragraph (*a*) formerly read:

"(2) *Capital interest distribution by personal or prescribed trust.* Where at any time any property of a personal trust or a prescribed trust has been distributed by the trust to a taxpayer who was a beneficiary under the trust in satisfaction of all or any part of the taxpayer's capital interest in the trust, the following rules apply:"

Ss. 107(2)(*b*) and (*c*) were amended, and paragraph (*b*.1) was added, by S.C. 2001, c. 17, s. 80(7), applicable to distributions made after 1999. Ss. 107(2)(*b*) and (*c*) formerly read:

"(*b*) the taxpayer is, subject to subsection (2.2), deemed to have acquired the property at a cost equal to the total of its cost amount to the trust immediately before that time and the amount, if any, by which

(i) the adjusted cost base to the taxpayer of the capital interest or part thereof, as the case may be, immediately before that time as determined for the purposes of paragraph (1)(*b*)

exceeds

(ii) the cost amount to the taxpayer of the capital interest or part thereof, as the case may be, immediately before that time;

(*c*) the taxpayer shall be deemed to have disposed of all or part, as the case may be, of the capital interest for proceeds equal to the cost at which the taxpayer is deemed by paragraph (*b*) to have acquired the property, minus the amount of any debt assumed by the taxpayer or of any other legal obligation assumed by the taxpayer to pay any amount, if the distribution of the property to the taxpayer was conditional on the assumption by the taxpayer of the debt or obligation;"

S. 107(2)(*d*.1) was added by S.C. 2001, c. 17, s. 80(8), applicable in determining after October 1, 1996 whether property is taxable Canadian property.

S. 107(2)(*f*)(ii), the portion before the formula was amended by S.C. 2001, c. 17, s. 80(9), applicable to taxation years that end after February 27, 2000. S. 107(2)(*f*)(ii), the portion before the formula formerly read:

"(ii) for the purposes of determining after that time

(A) the amount deemed under subparagraph 14(1)(*a*)(v) to be the taxpayer's taxable capital gain, and

(B) the amount to be included under subparagraph 14(1)(*a*)(v) or paragraph 14(1)(*b*) in computing the taxpayer's income

in respect of any subsequent disposition of the property of the business, there shall be added to the amount otherwise determined for Q in the definition 'cumulative eligible capital' in subsection 14(5) the amount determined by the formula"

S. 107(2)(*b*), the portion before subparagraph (i) was amended by S.C. 1998, c. 19, s. 128(3), applicable to distributions made after 1993. S. 107(2)(*b*) formerly read:

"(*b*) the taxpayer shall be deemed to have acquired the property at a cost equal to the total of its cost amount to the trust immediately before that time and the amount, if any, by which"

S. 107(2)(*f*)(ii)(B) was amended by S.C. 1995, c. 3, s. 29(1), applicable to distributions of property made after February 22, 1994. S. 107(2)(*f*)(ii)(B) formerly read:

"(B) the amount to be included under paragraph 14(1)(*b*) in computing the income of the taxpayer"

S. 107(2)(*e*) was repealed by S.C. 1994, c. 7, Sched. VIII, s. 43(1), applicable to distributions occurring after July 13, 1990. S. 107(2)(*e*) formerly read:

"(*e*) where the property so distributed was eligible capital property of the trust in respect of a business of the trust,

(i) the references to 'its cost amount' in paragraphs (*a*) and (*b*) shall be read as references to '4/3 of its cost amount', and

(ii) where the eligible capital expenditure of the trust in respect of the property exceeds the cost at which the taxpayer is deemed by this subsection to have acquired the property, for the purposes of sections 14, 20 and 24,

(A) the eligible capital expenditure of the taxpayer in respect of the property shall be deemed to be the amount that was the eligible capital expenditure of the trust in respect of the property, and

(B) 3/4 of the excess shall be deemed to have been allowed to the taxpayer in respect of the property under paragraph 20(1)(*b*) in computing income for taxation years ending

(I) before the acquisition by the taxpayer of the property, and

(II) after the adjustment time of the taxpayer in respect of the business."

S. 107(2)(*f*) was added by S.C. 1994, c. 7, Sched. VIII, s. 43(2), applicable to distributions occurring after 1987.

S. 107(2)(*e*) was added by S.C. 1994, c. 7, Sched. II, s. 76(2), applicable to distributions made after July 13, 1990.

Editorial Note: In general terms, subsection 107(2) provides a tax-deferred rollover where property is distributed from a trust to a beneficiary in satisfaction of all or part of the beneficiary's capital interest. The beneficiary will not realize a capital gain and normally will not realize a capital loss, although under certain circumstances a capital loss may be realized (in particular, a loss may be realized if there is an "eligible offset" — see subparagraph 107(2)(*c*)(ii)). If the beneficiary's adjusted cost base of the capital interest (with regard to subsection 107(1.1) but not paragraph 107(1)(*a*)) exceeds the cost amount of the distributed property, the cost of the property to the beneficiary will normally be bumped up (paragraph 107(2)(*b*)).

Subsection 107(2.1) applies, and the rollover under subsection 107(2) does not apply, if the trust or beneficiary elects out of the rollover under subsection 107(2.001) or (2.002), or if any of subsections 107(4), (4.1) or (5) apply.

Related Sections: S. 14(1) Eligible capital property — inclusion in income from business; s. 20(1)(*b*) Cumulative eligible capital amount; s. 54, "eligible capital property"; s. 104(5.3)(*b*) Election; s. 107(1) Disposition by taxpayer of capital interest; s. 107(3) Cost of property other than non-depreciable capital property; s. 107(4) Trusts in favour of spouse, common-law partner or self; s. 107(5) Distribution to non-resident; s. 108(1), "cost amount"; s. 248(1), "amount", "business", "disposition", "eligible capital expenditure", "eligible capital property", "property", "trust"; ITAR s. 20(1.2) Other transfers of depreciable property; s. 36 Application of paras. 107(2)(b) and (d) of amended Act.

Regulations: 4800.1.

Interpretation Bulletins: *Secondary* — IT-120R6 Principal Residence; IT-209R Inter-vivos gifts of capital property to individuals directly or through trusts; IT-349R3 Intergenerational transfers of farm property on death.

Advance Tax Rulings: ATR-38 Distribution of all of the property of an estate.

Tax Profile: February 2002 — Transferring Property to a Trust After the Enactment of Bill C-22.

Canadian Tax Foundation: Chan and Morin, "Distributions by Canadian Testamentary Trusts", *2005 Canadian Tax Journal*, No. 4, 1090; Rajan And Brown, "Personal Trusts 2000: Taxation And Planning In The New Millennium", *2000 Conference Report*, 28:1; Webb, "The New Proposals For Trust Distributions And Related Issues ", *1999 Conference Report*, 34:1.

Tax Window Files: Bargain Purchase Under a Will, August 1, 2007, CRA Document No. 2007-0232421R3 [S. 107(2) applied where a beneficiary of an estate acquired property from the estate at less than fair market value]; Trust Roll-Out Trust Roll-Out, June 22, 2004, CRA Document No. 2004-0069901C6 [S. 107(2) will generally apply to a distribution of property to a beneficiary of a discretionary personal trust]; Assumption of Liability in Connection with Distribution of Property By Trust, April 30, 2003, CRA Document No. 2002-0156045 [Assumption of trust's debt by beneficiary not contribution to trust, may qualify as eligible offset]; Property Inherited From Non-Resident, January 23, 2003, CRA Document No. 2002-0133410 [Relationship between subsections 70(5) and 107(2) when property received by beneficiary from estate]; Distributions from Personal Trust, November 2, 2001, CRA Document No. 2000-0033785 [Subsection 107(2) can apply to distribution by trust to other trusts, the beneficiaries of which are the beneficiaries of distributing trust]; Variation of Trust, 1997, CRA Document No. 9624583 [Variation of trust does not result in disposition of beneficiary's interest in trust or trust's property].

Cases: The taxpayer sued the trustees of a trust of which he was the beneficiary. He accepted a cash settlement and disclaimed his beneficial interest in the trust property. The taxpayer failed to demonstrate that the cash he received had come out of the trust. As a result, there was no evidence that trust property had been distributed to the taxpayer so as to allow him to invoke the provisions of s. 107(2). *Chan v. The Queen*, 2001 DTC 5570 (F.C.A.), affirming 99 DTC 1215 (T.C.C.).

► 107(2.001) ◄

(2.001) No rollover on election by a trust. Where a trust makes a distribution of a property to a beneficiary of the trust in full or partial satisfaction of the beneficiary's capital interest in the trust and so elects in prescribed form filed with the Minister with the trust's return of income for its taxation year in which the distribution occurred, subsection (2) does not apply to the distribution if

(*a*) the trust is resident in Canada at the time of the distribution;

(*b*) the property is taxable Canadian property; or

(*c*) the property is capital property used in, eligible capital property in respect of, or property described in the inventory of, a business carried on by the trust through a permanent establishment (as defined by regulation) in Canada immediately before the time of the distribution.

History: S. 107(2.001) was added by S.C. 2001, c. 17, s. 80(10), applicable to distributions made after October 1, 1996 except that, for distributions made from a trust before the particular day on which this Act receives royal assent [June 14, 2001], an election under that subsection 107(2.001) is deemed to have been made in a timely manner if it is made on or before the trust's filing-due date for the taxation year that includes the particular day.

Editorial Note: S. 107(2.001) may be effective in the context of post-mortem planning aimed at avoiding the application of s. 40(3.6). The election, which is made on a property-by-property basis, may also be useful where the trust is to be wound up and has capital losses being carried forward from prior dispositions of trust property, or where it has realized capital gains in prior years and wishes to carry back an allowable capital loss and recover previously paid tax. Where the election is made, the tax consequences of the distribution are determined pursuant to s. 107(2.1). Notwithstanding the reference to making the election in the prescribed form, none has yet been issued.

Related Sections: S. 54, "capital property", "eligible capital property"; s. 107(2.1) Other distributions; s. 108(1), "beneficiary", "capital interest", "trust"; s. 248(1), "inventory", "property", "taxable Canadian property"; s. 250 Person deemed resident.

Regulations: 400(2); 600(2).

Interpretation Bulletins: *Primary* — IT-447 Residence of trust or estate.

Tax Topics: No. 1690, Estate Planning In The 21st Century; No. 1582, Estate Planning in the 21st Century; No. 1573, Non-rollover Distributions to Capital Beneficiaries of Trusts.

► 107(2.002) ◄

(2.002) No rollover on election by a beneficiary. Where a non-resident trust makes a distribution of a property (other than a property described in paragraph (2.001)(*b*) or (*c*)) to a beneficiary of the trust in full or partial satisfaction of the beneficiary's capital interest in the trust and the beneficiary makes an election under this subsection in prescribed form filed with the Minister with the beneficiary's return of income for the beneficiary's taxation year in which the distribution occurred,

(*a*) subsection (2) does not apply to the distribution; and

(*b*) for the purpose of subparagraph (1)(*a*)(ii), the cost amount of the interest to the beneficiary is deemed to be nil.

History: S. 107(2.002) was added by S.C. 2001, c. 17, s. 80(10), applicable to distributions made after 1999 except that, for distributions made to a beneficiary before the particular day on which this Act receives royal assent [June 14, 2001], an election under subsection 107(2.002) of the Act is deemed to have been made in a timely manner if it is made on or before the beneficiary's filing-due date for the taxation year that includes the particular day.

Editorial Note: The election under s. 107(2.002) is unlikely to be of interest in most situations. However, it may make sense to make this election where the trust property is depreciable capital property (in order to increase capital allowance available), or where the Canadian resident beneficiary has offsetting capital losses.

Related Sections: S. 107(2.1) Other distributions; s. 108(1), "beneficiary", "capital interest", "cost amount", "trust"; s. 233.6(1) Returns respecting distributions from non-resident trusts; s. 248(1), "non-resident", "property.

Interpretation Bulletins: *Primary* — IT-447 Residence of trust or real estate.

Tax Window Files: Property Inherited From Non-Resident, January 23, 2003, CRA Document No. 2002-0133410 [Absent an election under s. 107(2.002), the cost of a property acquired by a non-resident estate, as a consequence of the death of a non-resident individual would be determined in accordance with s. 70(5)(*b*)].

► 107(2.01) ◄

(2.01) Distribution of principal residence. Where property that would, if a personal trust had designated the property under paragraph (*c*.1) of the definition "principal residence" in section 54, be a principal residence (within the meaning of that definition) of the trust for a taxation year, is at any time (in this subsection referred to as "that time") distributed by the trust to a taxpayer in circumstances in which subsection (2) applies and the trust so elects in its return of income for the taxation year that includes that time,

(*a*) the trust shall be deemed to have disposed of the property immediately before the particular time that is immediately before that time for proceeds of disposition equal to the fair market value of the property at that time; and

(*b*) the trust shall be deemed to have reacquired the property at the particular time at a cost equal to that fair market value.

History: S. 107(2.01), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 80(11), applicable to distributions made after 1999. S. 107(2.01), the portion before paragraph (*a*) formerly read:

"(2.01) *Distribution of principal residence.* Where a property that would, if a personal trust had designated the property under paragraph (c.1) of the definition 'principal residence' in section 54, be a principal residence (within the meaning of that definition) of the trust for a taxation year, is at any time (in this subsection referred to as 'that time') distributed by the trust to a taxpayer in circumstances to which subsection (2) applies and subsection (4) does not apply and the trust so elects in its return of income under this Part for the taxation year that includes that time,"

S. 107(2.01), that portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 43(3), applicable to distributions occurring after 1990, except where a trust (other than a trust described in subsection 70(6) or 73(1) of the Act) elected to have subsection 107(2.01) of the Act, apply to a distribution by the trust occurring after 1990 and before June 11, 1993 by notifying the Minister of National Revenue in writing before December 11, 1993. S. 107(2.01), that portion preceding paragraph (*a*), formerly read:

"(2.01) *Principal residence distribution by spousal trust.* Where at any time (in this subsection referred to as 'that time') a property has been distributed by a trust described in subsection 70(6) or 73(1) to a taxpayer in circumstances in which subsection (2) applies and subsection (4) does not apply and the property would, if the trust had designated the property under paragraph 54(*g*), be a principal residence (within the meaning assigned by that paragraph) of the trust for a taxation year, the following rules apply where the trust so elects in its return of income under this Part for the taxation year that includes that time:"

S. 107(2.01) was added by S.C. 1994, c. 7, Sched. II, s. 76(3), applicable to distributions occurring after May 9, 1985, except that an election for the purpose of subsection 107(2.01) that was made by a trust, in respect of a distribution by the trust occurring after May 9, 1985 and before December 18, 1991, by the trust so notifying the Minister of National Revenue in writing before April 1992 shall be deemed to have been made in accordance with the said subsection 107(2.01), and notwithstanding subsections 152(4) to (5) of the Act, such assessments of tax, interest and penalties shall be made as are necessary to give effect to the election.

Editorial Note: The deemed disposition and reacquisition of the residence at fair market value under subsection 107(2.01) occur immediately before the subsequent distribution under subsection 107(2), meaning that the rollover under subsection 107(2) takes place at the stepped-up cost (the fair market value) of the residence. The purpose of the subsection 107(2.01) election is to allow the trust to claim its available principal residence exemption in respect of the gain accruing up to the time of the distribution of the residence to the beneficiary. The election must be made in the trust's return of income for the taxation year that includes the time of the distribution.

Related Sections: S. 54, "principal residence"; s. 104(1) Reference to trust or estate; s. 248(1), "property", "trust".

Interpretation Bulletins: *Secondary* — IT-120R6 Principal Residence.

► 107(2.1) ◄

(2.1) Other distributions. Where at any time a property of a trust is distributed by the trust to a beneficiary under the trust, there would, if this Act were read without reference to paragraphs (*h*) and (*i*) of the definition "disposition" in subsection 248(1), be a resulting disposition of all or any part of the beneficiary's capital interest in the trust (which interest or part, as the case may be, is in this subsection referred to as the "former interest") and the rules in subsections (2) and (3.1) and sections 88.1 and 132.2 do not apply in respect of the distribution,

(*a*) the trust is deemed to have disposed of the property for proceeds equal to its fair market value at that time;

(*b*) the beneficiary is deemed to have acquired the property at a cost equal to the proceeds determined under paragraph (*a*);

(*c*) subject to paragraph (*e*), the beneficiary's proceeds of disposition of the portion of the former interest disposed of by the beneficiary on the distribution are deemed to be equal to the amount, if any, by which

(i) the proceeds determined under paragraph (*a*) (other than the portion, if any, of the proceeds that is a payment to which paragraph (*h*) or (*i*) of the definition "disposition" in subsection 248(1) applies)

exceed the total of

(ii) where the property is not a Canadian resource property or foreign resource property, the amount, if any, by which

(A) the fair market value of the property at that time

exceeds the total of

(B) the cost amount to the trust of the property immediately before that time, and

(C) the portion, if any, of the excess that would be determined under this subparagraph if this subparagraph were read without reference to this clause that represents a payment to which paragraph (*h*) or (*i*) of the definition "disposition" in subsection 248(1) applies, and

(iii) all amounts each of which is an eligible offset at that time of the taxpayer in respect of the former interest;

(*d*) notwithstanding paragraphs (*a*) to (*c*), where the trust is non-resident at that time, the property is not described in paragraph (2.001)(*b*) or (*c*) and, if this Act were read without reference to this paragraph, there would be no income, loss, taxable capital gain or allowable capital loss of a taxpayer in respect of the property because of the application of subsection 75(2) to the disposition at that time of the property,

(i) the trust is deemed to have disposed of the property for proceeds equal to the cost amount of the property,

(ii) the beneficiary is deemed to have acquired the property at a cost equal to the fair market value of the property, and

(iii) the beneficiary's proceeds of disposition of the portion of the former interest disposed of by the

beneficiary on the distribution are deemed to be equal to the amount, if any, by which

(A) the fair market value of the property

exceeds the total of

(B) the portion, if any, of the amount of the distribution that is a payment to which paragraph (*h*) or (*i*) of the definition "disposition" in subsection 248(1) applies, and

(C) all amounts each of which is an eligible offset at that time of the taxpayer in respect of the former interest; and

(*e*) where the trust is a mutual fund trust, the distribution occurs in a taxation year of the trust before its 2003 taxation year, the trust has elected under subsection (2.11) in respect of the year and the trust so elects in respect of the distribution in prescribed form filed with the trust's return of income for the year,

(i) this subsection shall be read without reference to paragraph (*c*), and

(ii) the beneficiary's proceeds of disposition of the portion of the former interest disposed of by the beneficiary on the distribution are deemed to be equal to the amount determined under paragraph (*a*).

History: S. 107(2.1), the portion before paragraph (*a*) was replaced by S.C. 2009, c. 2, s. 26(2), applicable after July 14, 2008. S. 107(2.1), the portion before paragraph (*a*) formerly read:

"(2.1) *Other distributions.* Where at any time a property of a trust is distributed by the trust to a beneficiary under the trust, there would, if this Act were read without reference to paragraphs (*h*) and (*i*) of the definition 'disposition' in subsection 248(1), be a resulting disposition of all or any part of the beneficiary's capital interest in the trust (which interest or part, as the case may be, is in this subsection referred to as the 'former interest') and the rules in subsection (2) and section 132.2 do not apply in respect of the distribution,"

S. 107(2.1) was amended by S.C. 2001, c. 17, s. 80(12), applicable to distributions made after 1999, except that

(*a*) it does not apply to distributions made before March 2000 in satisfaction of rights described in subsection 52(6) of the Act that were acquired before 2000; and

(*b*) for distributions made from a trust before the particular day on which this Act receives royal assent [June 14, 2001], an election under that subsection 107(2.1) is deemed to have been made in a timely manner if it is made on or before the trust's filing-due date for the taxation year that includes the particular day.

S. 107(2.1) formerly read:

"(2.1) *Other distributions.* Where at any time any property of a trust is distributed by the trust to a beneficiary under the trust in satisfaction of all or any part of the beneficiary's capital interest in the trust or in satisfaction of a right described in subsection 52(6), and subsection (2) does not apply in respect of the distribution, notwithstanding any other provision of this Act other than section 132.2,

(*a*) the trust shall be deemed to have disposed of the property for proceeds equal to its fair market value at that time;

(*b*) the beneficiary shall be deemed to have acquired the property at a cost equal to that fair market value; and

(*c*) the beneficiary shall be deemed to have disposed of the interest or part thereof in the trust or the right, as the case may be, for proceeds of disposition equal to the cost at which the beneficiary is deemed by paragraph (*b*) to have acquired the property."

S. 107(2.1), the portion before paragraph (*a*) was amended by S.C. 1998, c. 19, s. 128(4), applicable to distributions made after June 1994. S. 107(2.1) formerly read:

"(2.1) *Other distributions.* Where at any time any property of a trust has been distributed by the trust to a beneficiary under the trust in satisfaction of all or any part of the beneficiary's capital interest in the trust or in satisfaction of a right described in subsection 52(6) and subsection (2) is not applicable in respect of the distribution, notwithstanding any other provision of this Act, the following rules apply:"

Editorial Note: Subsection 107(2.1) is an exception to the rollover rule in subsection 107(2) that otherwise applies to distributions of property by a trust to a beneficiary in satisfaction of the beneficiary's capital interest in the trust. See the editorial comment following subsection 107(2).

Related Sections: S. 13(21), "proceeds of disposition"; s. 54, "capital property", "proceeds of disposition"; s. 66(15), "Canadian resource property", "foreign resource property"; s. 104(1) Reference to trust or estate; s. 104(4) Deemed disposition by trust; s. 107(5) Distribution to non-resident; s. 248(1), "Canadian resource property", "capital property", "foreign resource property", "inventory", "property", "trust".

Tax Topics: No. 1911, Estate Distributions to Non-Residents; No. 1573, Non-rollover Distributions to Capital Beneficiaries of Trusts.

Canadian Tax Foundation: Chan and Morin, "Distributions by Canadian Testamentary Trusts", *2005 Canadian Tax Journal*, No. 4, 1090.

► 107(2.11) ◄

(2.11) Gains not distributed to beneficiaries. Where a trust makes one or more distributions of property in a taxation year in circumstances in which subsection (2.1) applies (or, in the case of property distributed after October 1, 1996 and before 2000, in circumstances in which subsection (5) applied)

(*a*) where the trust is resident in Canada at the time of each of those distributions and has so elected in prescribed form filed with the trust's return for the year or a preceding taxation year, the income of the trust for the year (determined without reference to subsection 104(6)) shall, for the purposes of subsections 104(6) and (13), be computed without regard to all of those distributions to non-resident persons (including a partnership other than a Canadian partnership); and

(*b*) where the trust is resident in Canada at the time of each of those distributions and has so elected in prescribed form filed with the trust's return for the year or a preceding taxation year, the income of the trust for the year (determined without reference to subsection 104(6)) shall, for the purposes of subsections 104(6) and (13), be computed without regard to all of those distributions.

Department of Finance Comfort Letter
[Distribution of Property by a Mutual Fund Trust]

March 15, 2002

Dear XXXX

Thank you for your letters of April 4, 2001 and October 19, 2001, concerning the application of the *Income Tax Act* ("the Act") to a distribution of property by a mutual fund trust. I would also like to acknowledge your conversations with Mr. Grant Nash of this Division.

You have raised an issue concerning the possible taxation of income at the trust level where a trust, that has elected under subsection 107(2.11) in respect of the distribution of its property, makes a cash payment to unitholders out of the trust's income or capital gains. You submit that the effect of the election under subsection 107(2.11) extends to all of the trust's distributions, including cash payments to beneficiaries out of trust income or capital gains. If, as a result of subsection 107(2.11), the payments out of income or capital gains were ignored for the purposes of subsection 104(6) and (13), you submit that the corresponding amounts of income and capital gains would be recognized at the trust level. We confirm that such a result would be unintended.

The purpose of subsection 107(2.11) is to provide trusts with a mechanism of ensuring that capital gains, that arguably would otherwise be considered to be paid out to a unitholder upon a distribution of property from the trust to the unitholder, are not paid out on the distribution. Given this policy, the provision should generally apply only to distributions of property that would be expected to result in the realization at the trust level of such capital gains. Accordingly, the effect of an election under subsection 107(2.11) should not extend to distributions of cash denominated in Canadian dollars.

We are prepared to recommend amendments to subsection 107(2.11) of the Act to clarify its intended application in the

circumstances described above. In addition, we are prepared to recommend that such an amendment apply to distributions of property made by a mutual fund trust after 2001, and, where the trust so elects, to distributions made by a mutual fund trust after 1999.

Thank you for writing.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 107(2.11) was added by S.C. 2001, c. 17, s. 80(12), applicable to distributions made after October 1, 1996 except that, for distributions made from a trust before June 14, 2001, an election under that subsection 107(2.11) is deemed to have been made in a timely manner if it is made on or before the trust's filing-due date for the taxation year that includes the particular day.

Editorial Note: The main purpose of subsection 107(2.11) is to ensure that any accrued gains in respect of distributed trust property under subsection 107(2.1) are included in the trust's income, and are not "payable" to the beneficiaries to whom the property is distributed for the purposes of subsection 104(13).

Related Sections: S. 102(1), "Canadian partnership"; s. 104(23) Testamentary trusts; s. 108(1), "trust"; s. 248(1), "non-resident", "property"; s. 249(1) Definition of "taxation year"; s. 250 Person deemed resident.

Interpretation Bulletins: *Primary* — IT-465R Non-resident beneficiaries of trusts.

Tax Topics: No. 1573, Non-rollover Distributions to Capital Beneficiaries of Trusts.

Tax Window Files: Capital Distribution to Non-Resident Beneficiary, June 24, 2003, CRA Document No. 2003-0000695 [In the absence of an election under s.107(2.11), the accrued gain realized by a trust on the distribution of property to non-resident beneficiary is considered payable to that beneficiary].

► 107(2.12) ◄

(2.12) Election — Subsection (2.11). An election made under subsection (2.11) by a mutual fund trust is deemed, for the trust's 2003 and subsequent taxation years, not to have been made if

(*a*) the election is made after December 20, 2000 and applies to any taxation year that ends before 2003; and

(*b*) the proceeds of disposition of a beneficiary's interest in the trust have been determined under paragraph (2.1)(*e*).

History: S. 107(2.12) was added by S.C. 2001, c. 17, s. 80(12), in force on Royal Assent, June 14, 2001.

Related Sections: S. 54, "proceeds of disposition"; s. 104(23) Testamentary trusts; s. 108(1), "trust"; s. 132(6) Meaning of "mutual fund trust"; s. 248(1), "mutual fund trust"; s. 249(1) Definition of "taxation year".

► 107(2.2) ◄

(2.2) Flow-through entity. Where at any time before 2005 a beneficiary under a trust described in paragraph (*h*), (*i*) or (*j*) of the definition "flow-through entity" in subsection 39.1(1) received a distribution of property from the trust in satisfaction of all or a portion of the beneficiary's interests in the trust and the beneficiary files with the Minister on or before the beneficiary's filing-due date for the taxation year that includes that time an election in respect of the property in prescribed form, there shall be included in the cost to the beneficiary of a particular property (other than money) received by the beneficiary as part of the distribution of property the least of

(*a*) the amount, if any, by which the beneficiary's exempt capital gains balance (as defined in subsection 39.1(1)) in respect of the trust for the beneficiary's taxation year that includes that time exceeds the total of all amounts each of which is

(i) an amount by which a capital gain is reduced under section 39.1 in the year because of the beneficiary's exempt capital gains balance in respect of the trust,

(ii) twice an amount by which a taxable capital gain is reduced under section 39.1 in the year because of the beneficiary's exempt capital gains balance in respect of the trust, or

(iii) an amount included in the cost to the beneficiary of another property received by the beneficiary at or before that time in the year because of this subsection,

(*b*) the amount by which the fair market value of the particular property at that time exceeds the adjusted cost base to the trust of the particular property immediately before that time, and

(*c*) the amount designated in respect of the particular property in the election.

History: S. 107(2.2)(*a*)(ii) was amended by S.C. 2001, c. 17, s. 80(13), by replacing the reference to the expression "4/3 of" with a reference to the word "twice", applicable to taxation years that end after February 27, 2000 except that, for a beneficiary's taxation year that includes either February 28, 2000 or October 17, 2000 or began after February 28, 2000 and ended before October 17, 2000, the reference to the word "twice" in subparagraph 107(2.2)(*a*)(ii) of the Act shall be read as a reference to the expression "the fraction that is the reciprocal of the fraction in paragraph 38(*a*), as enacted by subsection 22(1) of the *Income Tax Amendments Act, 2000* [S.C. 2001, c. 17], that applies to the beneficiary for the year, multiplied by".

S. 107(2.2) was added by S.C. 1998, c. 19, s. 128(5), applicable to distributions made after 1993, and a prescribed form filed under subsection 107(2.2) of the Act before the end of the sixth month [December 1998] after the month in which this Act is assented to [June 1998] is deemed to be filed on time.

Related Sections: S. 53(1)(*p*) Adjustments to cost base — Flow-through entity, after 2004; s. 53(1)(*r*) Adjustments to cost base — Flow-through entity, before 2005; s. 110.6(19) Election for property owned on February 22, 1994.

► 107(3) ◄

(3) Application of subsection (3.1). Subsection (3.1) applies to a trust's distribution of property to a taxpayer if

(*a*) the distribution is a SIFT trust wind-up event to which section 88.1 does not apply;

(*b*) the property is a share and the only shares distributed on any SIFT trust wind-up event of the trust are of a single class of the capital stock of a taxable Canadian corporation; and

(*c*) where the trust is a SIFT wind-up entity, the distribution occurs no more than 60 days after the earlier of

(i) the first SIFT trust wind-up event of the trust, and

(ii) the first distribution to the trust that is a SIFT trust wind-up event of another trust.

History: S. 107(3) was added by S.C. 2009, c. 2, s. 26(3), applicable after July 14, 2008, except that

(*a*) paragraph 107(3)(*b*) is to be read without reference to "of a single class" in its application to a trust's distribution of property before February 3, 2009; and

(*b*) subsection 107(3) is to be read without reference to its paragraph (*c*) in its application to a trust's distribution of property, if the distribution occurs no more than 60 days after the day on which this Act is assented to [R.A. March 12, 2009].

S. 107(3) was repealed by S.C. 2001, c. 17, s. 80(14), applicable to distributions made after 1999. S. 107(3) formerly read:

"(3) *Cost of property other than non-depreciable capital property.* Where the property referred to in subsection (2) that was distributed by a trust to a taxpayer was property other than capital property that was not depreciable property, for the purpose of determining the cost to the taxpayer of the property under paragraph (2)(*b*) (except for the purposes of that paragraph as it applies to determine the taxpayer's proceeds of disposition of the taxpayer's capital interest under paragraph (2)(*c*)), the reference in paragraph (2)(*b*) to 'the amount' shall be read as a reference to '1/2 of the amount'."

► 107(3.1) ◄

(3.1) SIFT trust wind-up event. If this subsection applies to a trust's distribution of property, the following rules apply:

(*a*) the trust is deemed to have disposed of the property for proceeds of disposition equal to the adjusted cost base to the trust of the property immediately before the distribution;

(*b*) the taxpayer is deemed to have disposed of the taxpayer's interest as a beneficiary under the trust for proceeds of disposition equal to the cost amount to the taxpayer of the interest immediately before the distribution;

(*c*) the taxpayer is deemed to have acquired the property at a cost equal to

(i) if, at all times at which the trust makes a distribution that is a SIFT trust wind-up event, the taxpayer is the only beneficiary under the trust and is a SIFT wind-up entity or a taxable Canadian corporation, the adjusted cost base to the trust of the property immediately before the distribution, and

(ii) in any other case, the cost amount to the taxpayer of the taxpayer's interest as a beneficiary under the trust immediately before the distribution;

(*d*) if the taxpayer's interest as a beneficiary under the trust was immediately before the disposition taxable Canadian property of the taxpayer, the property is deemed to be taxable Canadian property of the taxpayer; and

(*e*) if a liability of the trust becomes as a consequence of the distribution a liability of the corporation described in paragraph (3)(*b*) in respect of the distribution, and the amount payable by the corporation on the maturity of the liability is the same as the amount that would have been payable by the trust on its maturity,

(i) the transfer of the liability by the trust to the corporation is deemed not to have occurred, and

(ii) the liability is deemed

(A) to have been incurred or issued by the corporation at the time at which, and under the agreement under which, it was incurred or issued by the trust, and

(B) not to have been incurred or issued by the trust.

History: S. 107(3.1) was added by S.C. 2009, c. 2, s. 26(3), applicable after July 14, 2008.

► 107(4) ◄

(4) Trusts in favour of spouse, common-law partner or self. Subsection (2.1) applies (and subsection (2) does not apply) at any time to property distributed to a beneficiary by a trust described in paragraph 104(4)(*a*) where

(*a*) the beneficiary is not

(i) in the case of a post-1971 spousal or common-law partner trust, the spouse or common-law partner referred to in paragraph 104(4)(*a*),

(ii) in the case of an alter ego trust, the taxpayer referred to in paragraph 104(4)(*a*), and

(iii) in the case of a joint spousal or common-law partner trust, the taxpayer, spouse or common-law partner referred to in paragraph 104(4)(*a*); and

(*b*) a taxpayer, spouse or common-law partner referred to in subparagraph (*a*)(i), (ii) or (iii), as the case may be, is alive on the day of the distribution.

History: S. 107(4) was amended by S.C. 2001, c. 17, s. 80(15), applicable to distributions made after 1999. S. 107(4) formerly read:

"(4) *Where trust in favour of spouse.* Where

(*a*) at any time property of a trust is distributed by the trust to a beneficiary in circumstances to which subsection (2) would, but for this subsection, apply,

(*a.1*) the trust is described in paragraph 104(4)(*a*),

(*a.2*) the property so distributed by the trust was capital property, a Canadian resource property, a foreign resource property or property that was land included in the inventory of the trust,

(*b*) the taxpayer to whom the property is so distributed is a person other than the spouse or common-law partner referred to in paragraph 104(4)(*a*) in respect of the trust, and

(*c*) that spouse or common-law partner is alive on the day the property is so distributed,

notwithstanding paragraphs (2)(*a*) to (*c*), the following rules apply:

(*d*) the trust shall be deemed to have disposed of the property and to have received proceeds of disposition therefor equal to its fair market value at that time,

(*e*) the taxpayer shall be deemed to have acquired the property at a cost equal to those proceeds, and

(*f*) the taxpayer shall be deemed to have disposed of all or part, as the case may be, of the taxpayer's capital interest in the trust for proceeds of disposition equal to the cost at which, but for this subsection, the taxpayer would be deemed by paragraph (2)(*b*) to have acquired the property, minus the amount of any debt assumed by the taxpayer or of any other legal obligation assumed by the taxpayer to pay any amount, if the distribution of the property to the taxpayer was conditional on the assumption by the taxpayer of the debt or obligation."

S. 107(4)(*b*) and (*c*) were amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.2), applicable January 1, 2001, coming into force on July 31, 2000. S. 107(4)(*b*) and (*c*) formerly read:

"(*b*) the taxpayer to whom the property is so distributed is a person other than the spouse referred to in paragraph 104(4)(*a*) in respect of the trust, and

(*c*) that spouse is alive on the day the property is so distributed,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 107(4), that portion preceding paragraph (*e*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 43(4), applicable to distributions occurring after December 20, 1991, except that paragraph 107(4)(*d*) does not apply to distributions occurring before 1993. S. 107(4), that portion preceding paragraph (*e*), formerly read:

"(4) *Where trust in favour of spouse.* Where the trust referred to in subsection (2) was a trust described in paragraph 104(4)(*a*) and

(*a*) the property so distributed by the trust was capital property, a Canadian resource property, a foreign resource property or property that was land included in the inventory of the trust,

(*b*) the taxpayer to whom the property was so distributed was a person other than the spouse, and

(*c*) the spouse was alive at the time the property was so distributed,

notwithstanding paragraphs (2)(*a*) to (*c*), the following rules apply:

(*d*) the trust shall be deemed to have disposed of the property and to have received proceeds of disposition therefor equal to,

(i) where the property was depreciable property of the trust of a prescribed class and the fair market value of that property at that time exceeds its cost amount to the trust at that time, the amount of that cost amount plus 1/2 of the amount of the excess,

(ii) where the property was depreciable property of the trust of a prescribed class and the cost amount of that property to the trust at that time exceeds its fair market value at that time, the amount of that fair market value plus 1/2 of the amount of the excess, and

(iii) in any other case, its fair market value at that time,"

Editorial Note: Subsection 107(4) ensures that property of a spousal trust cannot be rolled out to another beneficiary during the lifetime of the spouse that is the beneficiary of the trust. (Upon the death of the spouse, there will be a deemed disposition of the trust property at fair market value; see para-

graph 104(4)(*a*)). The provision applies in a similar fashion to joint spousal trusts and *alter ego* trusts.

Interpretation Bulletins: *Secondary* — IT-120R6 Principal Residence; IT-286R2 Trusts — Amount payable; IT-381R3 Trusts — Deduction of amounts paid or payable to beneficiaries and flow-through of taxable capital gains to beneficiaries; IT-394R2 Preferred beneficiary election; IT-465R Non-resident beneficiaries of trusts.
Information Circulars: IC 82-6R6 Clearance certificate.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 107 of the Act is amended by adding the following after subsection (4):

(4.01) Specified participating interest. Subsection (2.1) applies (and subsection (2) does not apply) at any time to a distribution to a beneficiary by a trust of a property that is at that time a specified participating interest.

Applicable: To distributions that occur in taxation years that begin after 2006, except that subsection 107(4.1) also applies to distributions that occur in a taxation year of the taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the taxpayer.

Explanatory Note: New subsection 107(4.01) of the Act provides that subsection 107(2.1) applies (and subsection 107(2) does not apply) to a distribution to a beneficiary by a trust of a property that is a specified participating interest. The concept of a specified participating interest is generally relevant in the context of the foreign investment entity rules in sections 94.1 to 94.4. For more information on the definition "specified participating interest" in subsection 248(1), see the commentary on that definition.

This amendment applies to distributions that occur in taxation years that begin after 2006.

► 107(4.1) ◄

(4.1) Where subsection 75(2) applicable to trust. Subsection (2.1) applies (and subsection (2) does not apply) in respect of a distribution of any property of a particular personal trust or prescribed trust by the particular trust to a taxpayer who was a beneficiary under the particular trust where

(*a*) the distribution was in satisfaction of all or any part of the taxpayer's capital interest in the particular trust;

(*b*) subsection 75(2) was applicable at a particular time in respect of any property of

(i) the particular trust, or

(ii) a trust the property of which included a property that, through one or more dispositions to which subsection 107.4(3) applied, became a property of the particular trust, and the property was not, at any time after the particular time and before the distribution, the subject of a disposition for proceeds of disposition equal to the fair market value of the property at the time of the disposition;

(*c*) the taxpayer was neither

(i) the person (other than a trust described in subparagraph (*b*)(ii)) from whom the particular trust directly or indirectly received the property, or property for which the property was substituted, nor

(ii) an individual in respect of whom subsection 73(1) would be applicable on the transfer of capital property from the person described in subparagraph (i); and

(*d*) the person described in subparagraph (*c*)(i) was in existence at the time the property was distributed.

Department of Finance Comfort Letter [Application of Subsection 107(4.1) to Trusts Created Before 1989]

October 19, 2007

Dear XXXX

I am writing in connection with your letter, and subsequent discussions with officials of the Tax Policy Branch, concerning the application of subsection 107(4.1) of the *Income Tax Act*. In your view, subsection 107(4.1) is inappropriately broad in its effect on distributions from trusts, particularly where the trust was created before the provision's introduction.

You have provided an example of an *inter vivos* trust that was settled in 1986 through the gift of a gold coin with nominal value. Because the terms of the trust set out that decisions of the trust are to be determined by a majority that includes the settlor of the trust, subsection 75(2) of the Act may apply to attribute any income earned on the gold coin back to the settlor. As a result of the application of subsection 75(2) to the gold coin, subsection 107(4.1) will also apply to distributions of property from the trust. The effect of the application of subsection 107(4.1) will be to have subsection 107(2.1) of the Act apply to the distributions of property and thus prevent a rollover of the trust's properties to the beneficiaries (other than the settlor). Unlike subsection 75(2), which applies only in respect of the property contributed to the trust by the settlor, subsection 107(4.1) will apply not just to the gold coin, but to all of the properties of the trust that are distributed to beneficiaries. In your view, because the trust was established before 1989 (the year in which distributions were first subject to subsection 107(4.1)) it would be appropriate to allow some form of relief to the trust, particularly in respect of the property of the trust to which subsection 75(2) has never applied.

Having regard to your submission, we are prepared to recommend to the Minister of Finance that subparagraph 107(4.1)(*b*)(ii) of the Act be amended so as not to apply in determining whether subsection 107(2.1) applies in respect of a trust distribution that occurs after 2001 and before 2009 where

(a) the distribution is of property to which subsection 75(2) had not applied at any time while the property was held by any of the trusts referred to in subparagraph 107(4.1)(*b*)(ii),

(b) one of the trusts referred to in subparagraph 107(4.1)(*b*)(ii),

- was created before 1989, and
- held, at a time before 1989, particular property that was, at that time, subject to subsection 75(2), and

(c) none of the trusts referred to in subparagraph 107(4.1)(*b*)(ii)held any property (other than the particular property) that was subject to subsection 75(2).

While I cannot offer any assurance that Parliament will agree with our recommendation, I hope that this statement of our intentions is helpful to you.

Yours sincerely,

Brian Ernewein
General Director — Legislation
Tax Policy Branch

History: S. 107(4.1) was amended by S.C. 2001, c. 17, s. 80(17), applicable to distributions made on or after March 16, 2001. S. 107(4.1) formerly read:

"(4.1) *Where s. 75(2) applicable to trust.* Where any property of a personal trust or a prescribed trust is distributed by the trust to a taxpayer who was a beneficiary under the trust in satisfaction of all or any part of the taxpayer's capital interest in the trust and

(*a*) subsection 75(2) was applicable at any time in respect of any property of the trust,

(*b*) the taxpayer was a person other than

(i) the person from whom the trust directly or indirectly received the property, or property for which the property was substituted, or

(ii) an individual in respect of whom subsection 73(1) would be applicable on the transfer of capital property from the person described in subparagraph (i), and

(*c*) the person described in subparagraph (*b*)(i) was alive at the time the property was distributed,

subsection (2.1) applies (and subsection (2) does not apply) in respect of the distribution."

S. 107(4.1), the portion after paragraph (*c*) was amended by S.C. 2001, c. 17, s. 80(16), applicable to distributions made after 1999. S. 107(4.1), the portion after paragraph (*c*) formerly read:

"notwithstanding paragraphs (2)(*a*) to (*c*), the rules described in paragraphs (4)(*d*) to (*f*) apply."

Editorial Note: Note that subsection 107(4.1) continues to apply even if subsection 75(2) no longer applies to the trust, and it applies to all the property of the trust and not just that to which subsection 75(2) applies (or had applied). The provision does not apply to a distribution made to the person who contributed the property that was subject to 75(2) or to that person's spouse or common-law partner. It does not apply after the death of the contributor.

Where s. 107(4.1) applies to exclude s. 107(2), s. 107(2.1) applies instead, with the result that: (i) The trust is deemed to have disposed of the property distributed to the beneficiary for proceeds equal to its fair market value at the time of distribution. As a result, the trust will realize a capital gain or loss at the time of distribution. (ii) The beneficiary is deemed to have acquired the trust property at a cost equal to its fair market value.

Regulations: 4800.1.

Tax Window Files: Distribution of Property by Reversionary Trust, August 1, 2002, CRA Document No. 1999-0013085 [Subsection 107(4.1) applicable to distribution of property other than the property that was subject to subsection 75(2)]; Transfer of Property from Reversionary Trust to New Trust, January 3, 2002, CRA Document No. 2001-0067955 [When property transferred from a subsection 75(2) trust to a second trust, subsection 75(2) does not necessarily apply to second trust; however, subsection 107(4.1) can apply to distributions from the second trust].

► 107(5) ◄

(5) Distribution to non-resident. Subsection (2.1) applies (and subsection (2) does not apply) in respect of a distribution of a property (other than a share of the capital stock of a non-resident-owned investment corporation or property described in any of subparagraphs 128.1(4)(*b*)(i) to (iii)) by a trust resident in Canada to a non-resident taxpayer (including a partnership other than a Canadian partnership) in satisfaction of all or part of the taxpayer's capital interest in the trust.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 107(5) of the Act is replaced by the following:

(4.2) Distribution of property received on qualifying disposition. Subsection (2.1) applies (and subsection (2) does not apply) at any time to property distributed after December 20, 2002 to a beneficiary by a personal trust or a trust prescribed for the purpose of subsection (2), if

(*a*) at a particular time before December 21, 2002 there was a qualifying disposition (within the meaning assigned by subsection 107.4(1)) of the property, or of other property for which the property is substituted, by a particular partnership or a particular corporation, as the case may be, to a trust; and

(*b*) the beneficiary is neither the particular partnership nor the particular corporation.

Applicable: To distributions made after December 20, 2002.

(5) Distribution to non-resident. Subsection (2.1) applies (and subsection (2) does not apply) in respect of a distribution of a property (other than a share of the capital stock of a non-resident-owned investment corporation or property described in any of subparagraphs 128.1(4)(*b*)(i) to (iii)) by a trust to a non-resident taxpayer (including a partnership other than a Canadian partnership) in satisfaction of all or part of the taxpayer's capital interest in the trust.

Applicable: To distributions made after February 27, 2004.

Explanatory Note:

Subsection 107(4.2) — Distribution of Property Received on Qualifying Disposition

New subsection 107(4.2) of the Act prevents a tax-deferred distribution of property after December 20, 2002 from a personal trust or a trust prescribed for the purpose of subsection 107(2) of the Act to a beneficiary of the trust if specified conditions are met. The specified conditions are that:

- at a particular time before December 21, 2002 there was a qualifying disposition (within the meaning assigned by subsection 107.4(1) of the Act) of the property, or of other property for which the property is substituted, by a particular partnership or a particular corporation, as the case may be, to any trust; and
- the beneficiary is neither the particular partnership nor the particular corporation.

Where the specified conditions are met, subsection 107(2.1) will apply so that the trust is deemed to have disposed of the property for proceeds equal to the property's fair market value at the time of distribution.

This amendment applies to distributions, from a trust, that are made after December 20, 2002.

Subsection 107(5) — Distribution of Property to a Non-Resident Beneficiary

Subsection 107(5) of the Act applies to the distribution of property (other than shares in non-resident-owned investment corporations or property described in any of subparagraphs 128.1(4)(*b*)(i) to (iii)) of the Act) by a trust resident in Canada to a non-resident beneficiary (note that new paragraph 94(3)(*a*) of the Act does not apply in determining the residency of the beneficiary where it is a trust). In these circumstances, the rollover under subsection 107(2) is not available and instead subsection 107(2.1) of the Act will apply to determine the Canadian income tax consequences of the distribution to the trust and the beneficiary.

Subsection 107(5) is amended so that it applies whether the trust making the distribution is resident in Canada or not.

This amendment applies to distributions made after February 27, 2004.

History: S. 107(5) was amended by S.C. 2001, c. 17, s. 80(18), applicable to distributions made after October 1, 1996 except that, for distributions made after October 1, 1996 and before 2000, subsection 107(5) of the Act shall be read as follows:

"(5) Where subsection (2) applies to a distribution at any time by a trust resident in Canada of a property (other than a share of the capital stock of a non-resident-owned investment corporation or property described in any of subparagraphs 128.1(4)(*b*)(i) to (iii)) to a non-resident taxpayer (including a partnership other than a Canadian partnership) who is a beneficiary under the trust in satisfaction of the taxpayer's capital interest in the trust, notwithstanding paragraphs (2)(*a*) to (*c*),

(*a*) the trust is deemed to have disposed of the property for proceeds equal to its fair market value at that time;

(*b*) the taxpayer is deemed to have acquired the property at a cost equal to that fair market value; and

(*c*) the taxpayer is deemed to have disposed of all or part, as the case may be, of the taxpayer's capital interest in the trust, for proceeds of disposition equal to the adjusted cost base to the taxpayer of that interest or part of the interest, as the case may be, immediately before that time."

S. 107(5) formerly read:

"(5) *Distribution to non-resident.* Where subsection (2) applies to the distribution by a trust of any property (other than a Canadian resource property, excluded property or property that would, if at no time in the taxation year of the trust in which it is so distributed the trust is resident in Canada, be taxable Canadian property) to a non-resident taxpayer (including a partnership other than a Canadian partnership) who is a beneficiary under the trust, notwithstanding paragraphs (2)(*a*) to (*c*),

(*a*) the trust shall be deemed to have disposed of the property for proceeds equal to its fair market value at that time;

(*b*) the taxpayer shall be deemed to have acquired the property at a cost equal to that fair market value; and

(*c*) the taxpayer shall be deemed to have disposed of all or part, as the case may be, of the taxpayer's interest in the trust, for proceeds of disposition equal to the adjusted cost base to the taxpayer of the interest or part thereof, as the case may be, immediately before the property was so distributed."

S. 107(5), that portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 43(5), applicable to distributions occurring after 1991. S. 107(5), that portion preceding paragraph (*a*), formerly read:

"(5) *Distribution to non-resident.* Where subsection (2) is applicable in respect of the distribution by a trust of any property (other than a Canadian resource property or property that is or would, if at no time in the taxation year of the trust in which it was so distributed the trust had been resident in Canada, be taxable Canadian property) to a non-resident taxpayer (including a partnership other than a Canadian partnership) who was a beneficiary under the trust, notwithstanding paragraphs (2)(*a*) to (*c*), the following rules apply:"

Editorial Note: Where a personal trust makes a distribution of property to a non-resident taxpayer in satisfaction of all or part of the taxpayer's capital interest in the trust, the "roll-out" under s. 107(2) is not available and will not apply and the Canadian tax consequences to both the trust and the non-resident taxpayer will be determined by s. 107(2.1).

Related Sections: S. 66(15), "Canadian resource property"; s. 104(1) Reference to trust or estate; s. 108(1), "excluded property"; s. 212(10) Trust beneficiaries residing outside of Canada; s. 248(1), "Canadian resource property", "property", "taxable Canadian property", "trust".

Tax Topics: No. 1911, Estate Distributions to Non-Residents.

Tax Profile: October 2007 — Will Canadian Unlimited Liability Companies Survive?; July 2005 — Alberta Introduces Alberta Unlimited Liability Corporations.

Canadian Tax Foundation: Rajan and Brown, "Personal Trusts 2000: Taxation And Planning In The New Millennium", *2000 Conference Report*, 28:1; Webb, "The New Proposals For Trust Distributions And Related Issues ", *1999 Conference Report*, 34:1.

► 107(5.1) ◄

(5.1) Instalment interest. Where, solely because of the application of subsection (5), paragraphs (2)(*a*) to (*c*) do not apply to a distribution in a taxation year of taxable Canadian property by a trust, in applying sections 155, 156 and 156.1 and subsections 161(2), (4) and (4.01) and any regulations made for the purpose of those provisions, the trust's total taxes payable under this Part and Part I.1 for the year are deemed to be the lesser of

(*a*) the trust's total taxes payable under this Part and Part I.1 for the year, determined before taking into consideration the specified future tax consequences for the year, and

(*b*) the amount that would be determined under paragraph (*a*) if subsection (5) did not apply to each distribution in the year of taxable Canadian property to which the rules in subsection (2) do not apply solely because of the application of subsection (5).

History: S. 107(5.1) was added by S.C. 2001, c. 17, s. 80(18), applicable to distributions made after October 1, 1996.

Related Sections: S. 104(23) Testamentary trusts; s. 108(1), "trust"; s. 220(4.6) Security for tax on distributions of taxable Canadian property to non-resident beneficiaries; s. 220(4.61) Limit; s. 220(4.62) Inadequate security; s. 220(4.63) Extension of time; s. 248(1), "taxable Canadian property", "specified future tax consequences"; s. 249(1) Definition of "taxation year".

► 107(6) ◄

(6) Loss reduction. Notwithstanding any other provision of this Act, where a person or partnership (in this subsection referred to as the "vendor") has disposed of property and would, but for this subsection, have had a loss from the disposition, the vendor's loss otherwise determined in respect of the disposition shall be reduced by such portion of that loss as may reasonably be considered to have accrued during a period in which

(*a*) the property or property for which it was substituted was owned by a trust; and

(*b*) neither the vendor nor a person that would, if section 251.1 were read without reference to the definition "controlled" in subsection 251.1(3), be affiliated with the vendor had a capital interest in the trust.

History: S. 107(6)(*b*) was amended by S.C. 1998, c. 19, s. 128(6), applicable after April 26, 1995. S. 107(6)(*b*) formerly read:

"(*b*) neither

(i) the vendor, nor

(ii) any person related to the vendor, nor

(iii) any partnership of which the vendor or a person related to the vendor was a majority interest partner (within the meaning assigned by subsection 97(3.1))"

Related Sections: S. 13(21.2) Loss on certain transfers; s. 14(12) Loss on certain transfers; s. 14(13) Deemed identical property; s. 40(3.3) When subsection (3.4) applies; s. 40(3.4) Loss on certain properties.

SECTION 107.1: Distribution by employee trust, employee benefit plan or similar trust.

Where at any time any property of an employee trust, a trust governed by an employee benefit plan or a trust described in paragraph (*a*.1) of the definition "trust" in subsection 108(1) has been distributed by the trust to a taxpayer who was a beneficiary under the trust in satisfaction of all or any part of the taxpayer's interest in the trust, the following rules apply:

(*a*) in the case of an employee trust or a trust described in paragraph (*a*.1) of the definition "trust" in subsection 108(1),

(i) the trust shall be deemed to have disposed of the property immediately before that time for proceeds of disposition equal to its fair market value at that time, and

(ii) the taxpayer shall be deemed to have acquired the property at a cost equal to its fair market value at that time;

(*b*) in the case of a trust governed by an employee benefit plan,

(i) the trust shall be deemed to have disposed of the property for proceeds of disposition equal to its cost amount to the trust immediately before that time, and

(ii) the taxpayer shall be deemed to have acquired the property at a cost equal to the greater of

(A) its fair market value at that time, and

(B) the adjusted cost base to the taxpayer of the taxpayer's interest or part thereof, as the case may be, immediately before that time;

(*c*) the taxpayer shall be deemed to have disposed of the taxpayer's interest or part thereof, as the case may be, for proceeds of disposition equal to the adjusted cost base to the taxpayer of that interest or part thereof immediately before that time; and

(*d*) where the property was depreciable property of a prescribed class of the trust and the amount that was the capital cost to the trust of that property exceeds the cost at which the taxpayer is deemed by this section to have acquired the property, for the purposes of sections 13 and 20 and any regulations made under paragraph 20(1)(*a*),

(i) the capital cost to the taxpayer of the property shall be deemed to be the amount that was the capital cost of the property to the trust, and

(ii) the excess shall be deemed to have been allowed to the taxpayer in respect of the property under regulations made under paragraph 20(1)(*a*) in computing income for taxation years before the acquisition by the taxpayer of the property.

History: S. 107.1, the portion before subparagraph (*a*)(i) was amended by S.C. 2001, c. 17, s. 81(1), applicable to the 1999 and subsequent taxation years. S. 107.1, the portion before subparagraph (*a*)(i) formerly read:

"S. 107.1. *Distribution by employee trust or employee benefit plan.* Where at any time any property of an employee trust or a trust governed by an employee benefit plan has been distributed by the trust to a taxpayer who was a beneficiary under the trust in satisfaction of all or any part of the taxpayer's interest in the trust, the following rules apply:

(*a*) in the case of an employee trust,"

Related Sections: S. 6(1)(*h*) Employee trust; s. 12(1)(*n*) Employees profit sharing plan; s. 18(1)(*o*) Employee benefit plan contributions; s. 32.1 Employee benefit plan contributions; s. 104(6) Deduction in computing income of trust; s. 104(13) Income of beneficiary; s. 248(1), "employee benefit plan", "employee trust".

Interpretation Bulletins: *Secondary* — IT-502 Employee benefit plans and employee trusts.

SECTION 107.2: Distribution by a retirement compensation arrangement

Where, at any time, any property of a trust governed by a retirement compensation arrangement has been distributed by the trust to a taxpayer who was a beneficiary under the trust in satisfaction of all or any part of the taxpayer's interest in the trust, for the purposes of this Part and Part XI.3, the following rules apply:

(*a*) the trust shall be deemed to have disposed of the property for proceeds of disposition equal to its fair market value at that time;

(*b*) the trust shall be deemed to have paid to the taxpayer as a distribution an amount equal to that fair market value;

(*c*) the taxpayer shall be deemed to have acquired the property at a cost equal to that fair market value;

(*d*) the taxpayer shall be deemed to have disposed of the taxpayer's interest or part thereof, as the case may be, for proceeds of disposition equal to the adjusted cost base to the taxpayer of that interest or part thereof immediately before that time; and

(*e*) where the property was depreciable property of a prescribed class of the trust and the amount that was the capital cost to the trust of that property exceeds the cost at which the taxpayer is deemed by this section to have acquired the property, for the purposes of sections 13 and 20 and any regulations made under paragraph 20(1)(*a*),

(i) the capital cost to the taxpayer of the property shall be deemed to be the amount that was the capital cost of the property to the trust, and

(ii) the excess shall be deemed to have been allowed to the taxpayer in respect of the property under regulations made under paragraph 20(1)(*a*) in computing the taxpayer's income for taxation years before the acquisition by the taxpayer of the property.

Editorial Note: S. 107.2 sets out rules governing the distribution of property by an RCA trust. Generally, the RCA must recognize any gain or loss based on the fmv of the property when it is distributed. The RCA is considered to have made a distribution equal to the FMV of the property and the recipient to have received the property at FMV.

Related Sections: S. 56(1)(*x*) Retirement compensation arrangement — employee recipient; s. 56(2) Indirect payments; s. 248(1), "retirement compensation arrangement".

Guides: T4041 Retirement Compensation Arrangements Guide.

Tax Window Files: Wind-up of Retirement Compensation Arrangement, February 21, 1996, CRA Document No. 9532467 [Sole property of the RCA was an exempt life insurance policy].

SECTION 107.3:

► 107.3(1) ◄

(1) Treatment of beneficiaries under qualifying environmental trusts. Where a taxpayer is a beneficiary under a qualifying environmental trust in a taxation year of the trust (in this subsection referred to as the "trust's year") that ends in a particular taxation year of the taxpayer,

(*a*) subject to paragraph (*b*), the taxpayer's income, non-capital loss and net capital loss for the particular year shall be computed as if the amount of the income or loss of the trust for the trust's year from any source or from sources in a particular place were the income or loss of the taxpayer from that source or from sources in that particular place for the particular year, to the extent of the portion thereof that can reasonably be considered to be the taxpayer's share of such income or loss; and

(*b*) if the taxpayer is non-resident at any time in the particular year and an income or loss described in paragraph (*a*) or an amount to which paragraph 12(1)(z.1) or (z.2) applies would not otherwise be included in computing the taxpayer's taxable income or taxable income earned in Canada, as the case may be, notwithstanding any other provision of this Act, the income, the loss or the amount shall be attributed to the carrying on of business in Canada by the taxpayer through a fixed place of business located in the province in which the site to which the trust relates is situated.

History: S. 107.3(1), the portion before paragraph (*a*) was amended by S.C. 1998, c. 19, s. 18(1), applicable to taxation years that end after February 18, 1997. S. 107.3(1), the portion before paragraph (*a*) formerly read:

"S. 107.3. *Treatment of beneficiaries under mining reclamation trusts.*

(1) Where a taxpayer is a beneficiary under a mining reclamation trust in a taxation year of the trust (in this subsection referred to as the 'trust's year') that ends in a particular taxation year of the taxpayer,"

S. 107.3(1)(*b*) was amended by S.C. 1998, c. 19, s. 18(2), applicable to taxation years that end after February 18, 1997. S. 107.3(1)(*b*) formerly read:

"(*b*) where the taxpayer is non-resident at any time in the particular year and an income or loss described in paragraph (*a*) or an amount to which paragraph 12(1)(z1) or (z2) applies would not otherwise be included in computing the taxpayer's taxable income or taxable income earned in Canada, as the case may be, notwithstanding any other provision of this Act the income, the loss or the amount shall be attributed to the carrying on of business in Canada by the taxpayer through a fixed place of business located in the province in which the mine to which the trust relates is situated."

S. 107.3(1) was added by S.C. 1995, c. 3, s. 30(1), applicable to taxation years that end after February 22, 1994.

Editorial Note: The beneficiary will generally be eligible for a credit under section 127.41 in respect of the tax paid by the trust under section 211.6.

Related Sections: S. 12(1)(z.1) Qualifying environmental trusts; s. 20(1)(*ss*) Qualifying environmental trusts; s. 20(1)(*tt*) Acquisition of interests in qualifying environmental trusts; s. 75(3) Exceptions; s. 127.41 Part XII.4 tax credit; s. 211.6(1) Tax on qualifying environmental trusts; s. 149(1)(*z*) Qualifying environmental trust; s. 248(1), "qualifying environmental trust"; s. 250(7) Residence of a qualifying environmental trust.

Canadian Tax Foundation: Frankovic, "The Case for 'Reverse Depreciation' of Reclamation Costs", *2004 Canadian Tax Journal*, No. 1, 1.

► 107.3(2) ◄

(2) Transfers to beneficiaries. Where property of a qualifying environmental trust is transferred at any time to a beneficiary under the trust in satisfaction of all or any part of the beneficiary's interest as a beneficiary under the trust,

(*a*) the trust shall be deemed to have disposed of the property at that time for proceeds of disposition equal to its fair market value at that time; and

(*b*) the beneficiary shall be deemed to have acquired the property at that time at a cost equal to its fair market value at that time.

History: S. 107.3(2), the portion before paragraph (*a*) was amended by S.C. 1998, c. 19, s. 18(3), applicable to taxation years that end after February 18, 1997. S. 107.3(2), the portion before paragraph (*a*) formerly read:

"(2) *Transfers to beneficiaries.* Where property of a mining reclamation trust is transferred at any time to a beneficiary under the trust in satisfaction of all or any part of the beneficiary's interest as a beneficiary under the trust,"

S. 107.3(2) was added by S.C. 1995, c. 3, s. 30(1), applicable to taxation years that end after February 22, 1994.

► 107.3(3) ◄

(3) Ceasing to be a qualifying environmental trust. Where a trust ceases at any time to be a qualifying environmental trust,

(*a*) the taxation year of the trust that would otherwise have included that time is deemed to have ended immediately before that time and a new taxation year of the trust is deemed to have begun at that time;

(*b*) the trust shall be deemed to have disposed immediately before that time of each property held by the trust immediately after that time for proceeds of disposition equal to its fair market value at that time and to have reacquired immediately after that time each such property for an amount equal to that fair market value;

(*c*) each beneficiary under the trust immediately before that time shall be deemed to have received at that time from the trust an amount equal to the percentage of the fair market value of the properties of the trust immediately after that time that can reasonably be considered to be the beneficiary's interest in the trust; and

(*d*) each beneficiary under the trust shall be deemed to have acquired immediately after that time an interest in the trust at a cost equal to the amount deemed by paragraph (*c*) to have been received by the beneficiary from the trust.

History: S. 107.3(3), the portion before paragraph (*b*), was amended by S.C. 1998, c. 19, s. 18(4), applicable to taxation years that end after February 18, 1997. S. 107.3(3), the portion before paragraph (*b*) formerly read:

"(3) *Ceasing to be a mining reclamation trust.* Where a trust ceases at any time to be a mining reclamation trust,

(*a*) the taxation year of the trust that would otherwise have included that time shall be deemed to have ended at that time and a new taxation year of the trust shall be deemed to have begun immediately after that time;"

S. 107.3(3) was added by S.C. 1995, c. 3, s. 30(1), applicable to taxation years that end after February 22, 1994.

► 107.3(4) ◄

(4) Application. Subsection 104(13) and sections 105 to 107 do not apply to a trust with respect to a taxation year during which it is a qualifying environmental trust.

History: S. 107.3(4) was amended by S.C. 1998, c. 19, s. 18(5), applicable to taxation years that end after February 18, 1997. S. 107.3(4) formerly read:

"(4) *Application.* Subsection 104(13) and sections 105 to 107 do not apply to a trust with respect to a taxation year during which it is a mining reclamation trust."

S. 107.3(4) was added by S.C. 1995, c. 3, s. 30(1), applicable to taxation years that end after February 22, 1994.

SECTION 107.4:

► 107.4(1) ◄

(1) Qualifying disposition. For the purpose of this section, a "qualifying disposition" of a property means a disposition of the property by a person or partnership (in this subsection referred to as the "contributor") as a result of a transfer of the property to a particular trust where

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 107.4(1) of the Act before paragraph (*a*) is replaced by the following:

SECTION 107.4:

(1) Qualifying disposition. In this section, a "qualifying disposition" of a property means a disposition of the property before December 21, 2002 by a person or partnership, and a disposition of property after December 20, 2002 by an individual, (which person, partnership or individual is referred to in this subsection as the "contributor") as a result of a transfer of the property to a particular trust where

Applicable: Deemed to have come into force on December 20, 2002.

Explanatory Note: Subsection 107.4(3) of the Act generally provides for a rollover of property to a trust where the property is transferred to the trust by way of a qualifying disposition. For this purpose, subsection 107.4(1) defines "qualifying disposition" to be a disposition of property to a trust that does not result in any change in the beneficial ownership of the property and that otherwise meets the conditions set out in that subsection. A partnership, corporation or individual (including a trust) are all qualified transferors for the purpose of applying the definition "qualifying disposition" in subsection 107.4(1). Where the transferee trust is a non-resident trust, a qualifying disposition will occur only where the conditions in paragraph 107.4(1)(*c*) are satisfied. Another condition that must be met for there to be a qualifying disposition is found in paragraph 107.4(1)(*d*), which requires that the disposition not be by a partnership, if the disposition is part of a series of transactions or events that begins after December 17, 1999 and includes the cessation of the partnership's existence and a subsequent distribution from a personal trust to a former member of the partnership in circumstances to which subsection 107(2) of the Act applies.

Subsection 107.4(1) is amended so that after December 20, 2002 only an individual (including a trust) may make a qualifying disposition to a trust. As a result, paragraph 107.4(1)(*d*) is repealed.

These amendments are deemed to come into force on December 20, 2002. For a related amendment, see the commentary to new subsection 107(4.2) of the Act.

In addition, paragraph 107.4(1)(*c*) is amended so that a qualifying disposition can only be made where the transferee trust is resident in Canada at the time of the transfer. This amendment applies to dispositions that occur after February 27, 2004. For this purpose, the residency of a trust is determined without regard to new paragraph 94(3)(*a*). For more detail, see the commentary to new paragraph 94(4)(*b*) of the Act.

(*a*) the disposition does not result in a change in the beneficial ownership of the property;

(*b*) the proceeds of disposition would, if this Act were read without reference to this section and sections 69 and 73, not be determined under any provision of this Act;

(*c*) if the particular trust is non-resident, the disposition is not

(i) by a person resident in Canada or by a partnership (other than a partnership each member of which is non-resident), or

(ii) a transfer of taxable Canadian property from a non-resident person who was resident in Canada in any of the ten calendar years preceding the transfer;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 107.4(1)(*c*) of the Act is replaced by the following:

(*c*) the particular trust is resident in Canada at the time of the transfer;

Applicable: To dispositions that occur after February 27, 2004.

Explanatory Note: See the Explanatory Note following the amendment to subsection 107.4(1) before paragraph (*a*).

(*d*) the contributor is not a partnership, if the disposition is part of a series of transactions or events that begin after December 17, 1999 that includes the cessation of the partnership's existence and a subsequent distribution from a personal trust to a former member of the partnership in circumstances to which subsection 107(2) applies;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 107.4(1)(*d*) of the Act is repealed.

(*d*) [Repealed.]

Applicable: Deemed to have come into force on December 20, 2002.

Explanatory Note: See the Explanatory Note following the amendment to subsection 107.4(1) before paragraph (*a*).

(*e*) unless the contributor is a trust, there is immediately after the disposition no absolute or contingent right of a person or partnership (other than the contributor or, where the property was co-owned, each of the joint contributors) as a beneficiary (determined with reference to subsection 104(1.1)) under the particular trust;

(*f*) the contributor is not an individual (other than a trust described in any of paragraphs (*a*) to (*e*.1) of the definition "trust" in subsection 108(1)), if the particular trust is described in any of paragraphs (*a*) to (*e*.1) of the definition "trust" in subsection 108(1);

(*g*) the disposition is not part of a series of transactions or events

(i) that begins after December 17, 1999 and that includes the subsequent acquisition, for consideration given to a personal trust, of a capital interest or an income interest in the trust,

(ii) that begins after December 17, 1999 and that includes the disposition of all or part of a capital interest or an income interest in a personal trust, other than a disposition solely as a consequence of a distribution from a trust to a person or partnership in satisfaction of all or part of that interest, or

(iii) that begins after June 5, 2000 and that includes the transfer to the particular trust of particular property as consideration for the acquisition of a capital interest in the particular trust, if the particular property can reasonably be considered to have been received by the particular trust in order to fund a distribution (other than a distribution that is proceeds of disposition of a capital interest in the particular trust);

(*h*) the disposition is not, and is not part of, a transaction

(i) that occurs after December 17, 1999, and

(ii) that includes the giving to the contributor, for the disposition, of any consideration (other than consideration that is an interest of the contributor as a beneficiary under the particular trust or that is the assumption by the particular trust of debt for which the property can, at the time of the disposition, reasonably be considered to be security);

(*i*) subsection 73(1) does not apply to the disposition and would not apply to the disposition if

(i) no election had been made under that subsection, and

(ii) section 73 were read without reference to subsection 73(1.02); and

(*j*) if the contributor is an amateur athlete trust, a cemetery care trust, an employee trust, an *inter vivos* trust deemed by subsection 143(1) to exist in respect of a congregation that is a constituent part of a religious organization, a related segregated fund trust (as defined by section 138.1), a trust described in paragraph 149(1)(*o.4*) or a trust governed by an eligible funeral arrangement, an employees profit sharing plan, a registered disability savings plan, a registered education savings plan, a registered supplementary unemployment benefit plan or a TFSA, the particular trust is the same type of trust; and

Editorial Note: The word "and" at the end of paragraph (*j*) was included in the Bill C-50 (S.C. 2008, c. 28) amendment. Until paragraph (*k*) is enacted by former Bill C-10, subsection 107.4(1) ends after paragraph (*j*).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 107.4(1) of the Act is amended by striking out the word "and" at the end of paragraph (*i*),

by adding the word "and" at the end of paragraph (*j*) and by adding the following after paragraph (*j*):

(*k*) the property is not, immediately before the disposition, a specified participating interest.

Applicable: To dispositions that occur in taxation years that begin after 2006, except that paragraph 107.4(1)(*k*) also applies to dispositions that occur in a taxation year of the taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the taxpayer.

Explanatory Note: Subsection 107.4(1) of the Act defines a qualifying disposition of property to a trust to be a disposition of property to the trust that does not result in any change in the beneficial ownership of the property and that otherwise meets the conditions set out in that subsection. Under subsection 107.4(3), a qualifying disposition generally qualifies for a tax-deferred "rollover" of the property to the trust.

New paragraph 107.4(1)(*k*) provides that a disposition of property to a trust does not include a disposition of property that is, immediately before the disposition, a specified participating interest.

This amendment applies to dispositions that occur in taxation years that begin after 2006.

History: S. 107.4(1)(*j*) was replaced by S.C. 2008, c. 28, s. 10(1), applicable to the 2009 and subsequent taxation years. S. 107.4(1)(*j*) formerly read:

"(*j*) if the contributor is an amateur athlete trust, a cemetery care trust, an employee trust, an *inter vivos* trust deemed by subsection 143(1) to exist in respect of a congregation that is a constituent part of a religious organization, a related segregated fund trust (as defined by section 138.1), a trust described in paragraph 149(1)(*o.4*) or a trust governed by an eligible funeral arrangement, an employees profit sharing plan, a registered disability savings plan, a registered education savings plan or a registered supplementary unemployment benefit plan, the particular trust is the same type of trust."

S. 107.4(1)(*j*) was replaced by S.C. 2007, c. 35, s. 109, applicable to the 2008 and subsequent taxation years. S. 107.4(1)(*j*) formerly read:

"(*j*) if the contributor is an amateur athlete trust, a cemetery care trust, an employee trust, an *inter vivos* trust deemed by subsection 143(1) to exist in respect of a congregation that is a constituent part of a religious organization, a related segregated fund trust (as defined by section 138.1), a trust described in paragraph 149(1)(*o.4*) or a trust governed by an eligible funeral arrangement, an employees profit sharing plan, a registered education savings plan or a registered supplementary unemployment benefit plan, the particular trust is the same type of trust."

S. 107.4(1) was added by S.C. 2001, c. 17, s. 82(1), applicable to dispositions that occur after December 23, 1998; and in respect of the 1993 and subsequent taxation years, to transfers of capital property that occurred before December 24, 1998 except that, in its application to transfers before December 24, 1998, subsection 107.4(1) of the Act shall be read as follows:

"S. 107.4.

(1) For the purpose of this section, a 'qualifying disposition' of a property means a transfer of the property to a particular trust that was not a disposition of the property for the purpose of subdivision c because of paragraph (*e*) of the definition 'disposition' in section 54, except where

(*a*) if the transfer is from another trust to the particular trust,

(i) each trust can reasonably be considered to act as agent for the same beneficiary or beneficiaries in respect of the property transferred, or

(ii) the transferee trust can reasonably be considered to act as agent for the transferor trust in respect of the property transferred; and

(*b*) in any other case, it is reasonable to consider that the particular trust acts as agent in respect of the property transferred."

Editorial Note: S. 107.4(1) sets out the conditions for a transfer of property to a trust to qualify as a "qualifying disposition". S. 107.4(3) generally provides for the rollover of property on a qualifying disposition, while s.107.4(4) generally provides that the proceeds of disposition on a subsequent disposition of the capital interest are not less than the fair market value of the net assets of the trust attributable to the capital interest.

Generally, a transfer of property to a trust will constitute a "qualifying disposition" where:

— There is a change in legal title but no change in beneficial ownership;

— The proceeds of disposition would not be determined under any other provision of the Act (disregarding s. 69 and s.73);

— The disposition is not by a person resident in Canada to a non-resident trust, or a transfer of taxable Canadian property from a non-resident person (who was resident in Canada in any of the 10 calendar years preceding the transfer) to the non-resident trust;

— The disposition is not by a person resident in Canada to a non-resident trust;

— The transfer is not by a partnership (other than a partnership all the partners of which are non-residents) to a non-resident trust; and

— The transfer is not by an individual to a trust described in paragraphs (*a*) to (*e.1*) of the definition of "trust" in s. 108(1).

Note that a transfer to a trust with contingent or discretionary beneficiaries is considered to result in a change in beneficial ownership; accordingly, in such a case, the settlor will be considered to have disposed of the property for proceeds of disposition equal to fair market value.

Related Sections: S. 54, "proceeds of disposition"; s. 69(1)(*b*) Inadequate considerations; s. 104(1.1), "beneficiary"; s. 106(2) Disposition by taxpayer of income interest; s. 106(3) Proceeds of disposition of income interest; s. 107(1) Disposition by taxpayer of capital interest; s. 108(1), "beneficiary", "capital interest", "income interest", "trust"; s. 143.1(1), "amateur athlete trust"; s. 144(1), "employees profit sharing plan"; s. 145(1), "registered supplementary unemployment benefit plan"; s. 146(1), "annuitant", "registered education savings plan"; s. 146.1(1), "registered education savings plan"; s. 146.3(1), "annuitant", "registered retirement income fund"; s. 146.4(1), "registered disability savings plan"; s. 148.1(1), "cemetery care trust", "eligible funeral arrangement"; s. 248(1), "disposition", "employee trust", "individual", "non-resident", "property", "taxable Canadian property"; s. 248(25.2) Trusts to ensure obligations fulfilled; s. 248(25.4) Where acquisition by another of right to enforce.

Tax Profile: February 2002 — Transferring Property to a Trust After the Enactment of Bill C-22.

Canadian Tax Foundation: Brown, "Alter Ego, Joint Conjugal, and Self-Benefit Trusts Revisited: Some Troubling Tax Issues and a Search for Better Alternatives, in Personal Tax Planning feature", *2005 Canadian Tax Journal*, No. 1, 224.

Cases: Very broad interpretation given to meaning of "beneficial ownership"; among other things, the fact that a "self-benefit trust" could be amended to allow for a distribution to persons other than the settlor did not mean there had been a change in beneficial ownership. *Williams v. the Queen*, 2005 DTC 1228 (T.C.C.).

► 107.4(2) ◄

(2) Application of paragraph (1)(a). For the purpose of paragraph (1)(*a*),

(*a*) except where paragraph (*b*) applies, where a trust (in this paragraph and subsection (2.1) referred to as the "transferor trust"), in a period that does not exceed one day, disposes of one or more properties in the period to one or more other trusts, there is deemed to be no resulting change in the beneficial ownership of those properties if

(i) the transferor trust receives no consideration for the disposition, and

(ii) as a consequence of the disposition, the value of each beneficiary's beneficial ownership at the beginning of the period under the transferor trust in each particular property of the transferor trust (or group of two or more properties of the transferor trust that are identical to each other) is the same as the value of the beneficiary's beneficial ownership at the end of the period under the transferor trust and the other trust or trusts in each particular property (or in property that was immediately before the disposition included in the group of identical properties referred to above); and

(*b*) where a trust (in this paragraph referred to as the "transferor") governed by a registered retirement savings plan or by a registered retirement income fund transfers a property to a trust (in this paragraph referred to as the "transferee") governed by a registered retirement savings plan or by a registered retirement income fund, the transfer is deemed not to result in a change in the beneficial ownership of the property if the annuitant of the plan or fund that governs the transferor is also the annuitant of the plan or fund that governs the transferee.

History: S. 107.4(2) was added by S.C. 2001, c. 17, s. 82(1), applicable to dispositions that occur after December 23, 1998.

Related Sections: S. 104(1.1), "beneficiary"; s. 108(1), "beneficiary", "trust"; s. 146(1), "annuitant", "registered retirement savings plan"; s. 146.3(1), "annuitant", "registered retirement income fund"; s. 248(1), "property", "disposition".

Tax Profile: February 2002 — Transferring Property to a Trust After the Enactment of Bill C-22.

Tax Window Files: Merging of 3 identical family trusts, November 1, 2006, CRA Document No. 2006-019143R3 [On the merging of three trusts into one single trust where the terms of each trust were virtually identical, s. 107.4(2)(*a*) applied ensure that there was no change in beneficial ownership and the transfer was a qualifying disposition. See also, "Split assets of 3 trusts into 5 separate trusts", November 1, 2006, Document No. 2005-0143361R3 and "Divide Family Trust Into Separate Trusts", June 4, 2003, Document no. 2002-0180473].

► 107.4(2.1) ◄

(2.1) Fractional interests. For the purpose of applying paragraph (2)(*a*) in respect of a transfer by a transferor trust of property that includes a share and money, the other trust or trusts referred to in that paragraph may receive, in lieu of a transfer of a fractional interest in a share that would otherwise be required, a disproportionate amount of money or interest in the share (the value of which does not exceed the lesser of $200 and the fair market value of the fractional interest).

History: S. 107.4(2.1) was added by S.C. 2001, c. 17, s. 82(1), applicable to dispositions that occur after December 23, 1998.

Related Sections: S. 108(1), "trust"; s. 248(1), "amount", "property", "share".

► 107.4(3) ◄

(3) Tax consequences of qualifying dispositions. Where at a particular time there is a qualifying disposition of a property by a person or partnership (in this subsection referred to as the "transferor") to a trust (in this subsection referred to as the "transferee trust"),

(*a*) the transferor's proceeds of disposition of the property are deemed to be

(i) where the transferor so elects in writing and files the election with the Minister on or before the transferor's filing-due date for its taxation year that includes the particular time, or at any later time that is acceptable to the Minister, the amount specified in the election that is not less than the cost amount to the transferor of the property immediately before the particular time and not more than the fair market value of the property at the particular time, and

(ii) in any other case, the cost amount to the transferor of the property immediately before the particular time;

(*b*) the transferee trust's cost of the property is deemed to be the amount, if any, by which

(i) the proceeds determined under paragraph (*a*) in respect of the qualifying disposition

exceed

(ii) the amount by which the transferor's loss otherwise determined from the qualifying disposition would be reduced because of subsection 100(4), paragraph 107(1)(*c*) or (*d*) or any of subsections 112(3) to (4.2), if the proceeds determined under paragraph (*a*) were equal to the fair market value of the property at the particular time;

(*c*) [Repealed.]

(*d*) if the property was depreciable property of a prescribed class of the transferor and its capital cost to the transferor exceeds the cost at which the transferee trust is deemed by this subsection to have acquired the property, for the purposes of sections 13 and 20 and any regulations made for the purpose of paragraph 20(1)(*a*),

(i) the capital cost of the property to the transferee trust is deemed to be the amount that was the capital cost of the property to the transferor, and

(ii) the excess is deemed to have been allowed to the transferee trust in respect of the property under regulations made for the purpose of paragraph 20(1)(*a*) in computing income for taxation years that ended before the particular time;

(*e*) if the property was eligible capital property of the transferor in respect of a business of the transferor,

(i) where the eligible capital expenditure of the transferor in respect of the property exceeds the cost at which the transferee trust is deemed by this subsection to have acquired the property, for the purposes of sections 14, 20 and 24,

(A) the eligible capital expenditure of the transferee trust in respect of the property is deemed to be the amount that was the eligible capital expenditure of the transferor in respect of the property, and

(B) 3/4 of the excess is deemed to have been allowed under paragraph 20(1)(*b*) to the transferee trust in respect of the property in computing income for taxation years that ended

(I) before the particular time, and

(II) after the adjustment time of the transferee trust in respect of the business, and

(ii) for the purpose of determining after the particular time the amount required by paragraph 14(1)(*b*) to be included in computing the transferee trust's income in respect of any subsequent disposition of the property of the business, there shall be added to the value otherwise determined for Q in the definition "cumulative eligible capital" in subsection 14(5) the amount determined by the formula

$$A \times (B/C)$$

where

A is the amount, if any, determined for Q in that definition in respect of the business of the transferor immediately before the particular time,

B is the fair market value of the property immediately before the particular time, and

C is the fair market value immediately before the particular time of all eligible capital property of the transferor in respect of the business;

(*f*) if the property was deemed to be taxable Canadian property of the transferor by this paragraph or paragraph 44.1(2)(*c*), 51(1)(*f*), 85(1)(*i*) or 85.1(1)(*a*) or (8)(*b*), subsection 85.1(5) or 87(4) or (5) or paragraph 97(2)(*c*) or 107(2)(*d.1*) or (3.1)(*d*), the property is deemed to be taxable Canadian property of the transferee trust;

(*g*) where the transferor is a related segregated fund trust (in this paragraph having the meaning assigned by section 138.1),

(i) paragraph 138.1(1)(*i*) does not apply in respect of a disposition of an interest in the transferor that occurs in connection with the qualifying disposition, and

(ii) in computing the amount determined under paragraph 138.1(1)(*i*) in respect of a subsequent disposition of an interest in the transferee trust where the interest is deemed to exist in connection with a particular life insurance policy, the acquisition fee (as defined by subsection 138.1(6)) in respect of the particular policy shall be determined as if each amount determined under any of paragraphs 138.1(6)(*a*) to (*d*) in respect of the policyholder's interest in the transferor had been determined in respect of the policyholder's interest in the transferee trust;

(*h*) if the transferor is a trust to which property had been transferred by an individual (other than a trust),

(i) where subsection 73(1) applied in respect of the property so transferred and it is reasonable to consider that the property was so transferred in anticipation of the individual ceasing to be resident in Canada, for the purposes of paragraph 104(4)(*a.3*) and the application of this paragraph to a disposition by the transferee trust after the particular time, the transferee trust is deemed after the particular time to be a trust to which the individual had transferred property in anticipation of the individual ceasing to reside in Canada and in circumstances to which subsection 73(1) applied, and

(ii) for the purposes of paragraph (*j*) of the definition "excluded right or interest" in subsection 128.1(10) and the application of this paragraph to a disposition by the transferee trust after the particular time, where the property so transferred was transferred in circumstances to which this subsection would apply if subsection (1) were read without reference to paragraphs (1)(*h*) and (*i*), the transferee trust is deemed after the particular time to be a trust an interest in which was acquired by the individual as a consequence of a qualifying disposition;

(*i*) if the transferor is a trust (other than a personal trust or a trust prescribed for the purposes of subsection 107(2)), the transferee trust is deemed to be neither a personal trust nor a trust prescribed for the purposes of subsection 107(2);

(*j*) if the transferor is a trust and a taxpayer disposes of all or part of a capital interest in the transferor because of the qualifying disposition and, as a consequence, acquires a capital interest or part of it in the transferee trust

(i) the taxpayer is deemed to dispose of the capital interest or part of it in the transferor for proceeds equal to the cost amount to the taxpayer of that interest or part of it immediately before the particular time, and

(ii) the taxpayer is deemed to acquire the capital interest or part of it in the transferee trust at a cost equal to the amount, if any, by which

(A) that cost amount

exceeds

(B) the amount by which the taxpayer's loss otherwise determined from the disposition referred to in subparagraph (i) would be reduced because of paragraph 107(1)(*c*) or (*d*) if the proceeds under that subparagraph were equal to the fair market value of the capital interest or part of it in the transferor immediately before the particular time;

(*k*) where the transferor is a trust, a taxpayer's beneficial ownership in the property ceases to be derived from the taxpayer's capital interest in the transferor because of the qualifying disposition and no part of the taxpayer's capital interest in the transferor was disposed of because of the qualifying disposition, there shall, immediately after the particular time, be added to the cost otherwise determined of the taxpayer's capital interest in the transferee trust, the amount determined by the formula

$$A \times [(B - C)/B] - D$$

where

A is the cost amount to the taxpayer of the taxpayer's capital interest in the transferor immediately before the particular time,

B is the fair market value immediately before the particular time of the taxpayer's capital interest in the transferor,

C is the fair market value at the particular time of the taxpayer's capital interest in the transferor (determined as if the only property disposed of at the particular time were the particular property), and

D is the lesser of

(i) the amount, if any, by which the cost amount to the taxpayer of the taxpayer's capital interest in the transferor immediately before the particular time exceeds the fair market value of the taxpayer's capital interest in the transferor immediately before the particular time, and

(ii) the maximum amount by which the taxpayer's loss from a disposition of a capital interest otherwise determined could have been reduced because of paragraph 107(1)(*c*) or (*d*) if the taxpayer's capital interest in the transferor had been disposed of immediately before the particular time;

(*l*) where paragraph (*k*) applies to the qualifying disposition in respect of a taxpayer, the amount that would be determined under that paragraph in respect of the qualifying disposition if the amount determined for D in that paragraph were nil shall, immediately after the particular time, be deducted in computing the cost otherwise determined of the taxpayer's capital interest in the transferor;

(*m*) where paragraphs (*j*) and (*k*) do not apply in respect of the qualifying disposition, the transferor is deemed to acquire the capital interest or part of it in the transferee trust that is acquired as a consequence of the qualifying disposition

(i) where the transferee trust is a personal trust, at a cost equal to nil, and

(ii) in any other case, at a cost equal to the excess determined under paragraph (*b*) in respect of the qualifying disposition; and

(*n*) if the transferor is a trust and a taxpayer disposes of all or part of an income interest in the transferor because of the qualifying disposition and, as a consequence, acquires an income interest or a part of an income interest in the transferee trust, for the purpose of subsection 106(2), the taxpayer is deemed not to dispose of any part of the income interest in the transferor at the particular time.

History: S. 107.4(3)(*f*) was replaced by S.C. 2009, c. 2, s. 27(1), applicable

(*a*) to dispositions that occur after December 23, 1998; and

(*b*) in respect of the 1996 and subsequent taxation years, to transfers of capital property that occurred before December 24, 1998.

S. 107.4(3)(*f*) formerly read:

"(*f*) if the property was deemed to be taxable Canadian property of the transferor by this paragraph or paragraph 51(1)(*f*), 85(1)(*i*) or 85.1(1)(*a*), subsection 87(4) or (5) or paragraph 97(2)(*c*) or 107(2)(*d*.1), the property is deemed to be taxable Canadian property of the transferee trust;"

S. 107.4(3)(*b*), the portion before subparagraph (i) was replaced by S.C. 2005, c. 30, s. 4(1), applicable to dispositions that occur after 2004. S. 107.4(3)(*b*), the portion before subparagraph (i) formerly read:

"(*b*) except as otherwise provided under paragraph (*c*), the transferee trust's cost of the property is deemed to be the amount, if any, by which"

S. 107.4(3)(*c*) was repealed by S.C. 2005, c. 30, s. 4(2), applicable to dispositions that occur after 2004. S. 107.4(3)(*c*) formerly read:

"(*c*) notwithstanding subsection 206(4), for the purposes of Part XI and regulations made for the purposes of that Part, the transferee trust's cost of the property is deemed to be

(i) the cost amount to the transferor immediately before the particular time where

(A) the particular time is before 2000,

(B) the transferor is a trust governed by a registered retirement savings plan or a registered retirement income fund,

(C) the transferee trust is governed by a registered retirement savings plan or a registered retirement income fund,

(D) the transferee trust files a written election with the Minister on or before the later of March 31, 2001 and its filing-due date for its taxation year that includes the particular time (or at such later date that is acceptable to the Minister) that this subparagraph apply, and

(E) it can reasonably be considered that the election was not made for the purpose of avoiding tax under Part XI,

(ii) the fair market value of the property at the particular time where

(A) subparagraph (iii) does not apply,

(B) the transferee trust files a written election with the Minister on or before the later of March 31, 2001 and its filing-due date for its taxation year that includes the particular time (or at such later date that is acceptable to the Minister) that this subparagraph apply, and

(C) it can reasonably be considered that the election was not made for the purpose of avoiding tax under Part XI,

(iii) the fair market value of the property at the particular time where

(A) subparagraph (i) does not apply to the qualifying disposition,

(B) the particular time is before 2000,

(C) the transferor is a trust governed by a registered retirement savings plan or a registered retirement income fund, and

(D) the transferee trust is governed by a registered retirement savings plan or a registered retirement income fund, and

(iv) the cost amount to the transferor of the property immediately before the particular time, in any other case;"

S. 107.4(3) was added by S.C. 2001, c. 17, s. 82(1), applicable

(*a*) to dispositions that occur after December 23, 1998 except that, in its application to dispositions that occurred in taxation years that ended before February 28, 2000, the reference to "paragraph 14(1)(b)" in subparagraph 107.4(3)(*e*)(ii) shall be read as a reference to "subparagraph 14(1)(*a*)(v) or paragraph 14(1)(*b*)"; and

(*b*) in respect of the 1993 and subsequent taxation years, to transfers of capital property that occurred before December 24, 1998 except that, in its application to transfers before December 24, 1998,

(i) the portion of subsection 107.4(3) of the Act before paragraph (*a*) shall be read as follows:

"(3) Where at a particular time there is a qualifying disposition of a property by a person or partnership (in this subsection referred to as the 'transferor') to a trust (in this subsection referred to as the 'transferee trust'), except for the purposes of Part XI and regulations made for the purposes of that Part"

(ii) subsection 107.4(3) of the Act shall be read without reference to paragraphs 107.4(3)(*a*), (*c*), (*g*) and (*h*) of the Act

(iii) paragraph 107.4(3)(*b*) of the Act, shall be read as follows:

"(*b*) the transferee trust's cost of the property is deemed to be the cost amount to the transferor of the property immediately before the particular time;"

(iv) subsection 107.4(3) of the Act shall be read as if each amount determined under clause 107.4(3)(*j*)(ii)(B) of the Act and the description of D in paragraph 107.4(3)(*k*) of the Act were nil, and

(v) subparagraph 107.4(3)(*m*)(ii) of the Act shall be read as follows:

"(ii) in any other case, at a cost equal to the amount determined under paragraph (*b*) in respect of the qualifying disposition; and"

Editorial Note: Basically, the provisions of s. 107.4(3) ensure that the transferee trust is in the same position as the transferor on any subsequent disposition of the property. Unless the transferor elects otherwise, the transferor's proceeds of disposition are deemed to be the cost amount of the property. Generally, the transferee trust's proceeds will also be considered to be the cost amount of the property to the transferor, subject to a reduction if the fair market value of the transferred property is less than its cost amount. Special provisions (paralleling those in s. 107(2)) apply to distributions of depreciable property and eligible capital property.

Related Sections: S. 13(21), "depreciable property"; s. 14(5), "adjustment time", "eligible capital expenditure"; s. 53(4) Recomputation of adjusted cost base on transfers and deemed dispositions; s. 54, "eligible capital property", "proceeds of disposition"; s. 104(4)(*a*.4) Deemed disposition by trust; s. 104(5.8) Trust transfers; s. 104(6) Deduction in computing income of trust; s. 104(23)(*a*) Testamentary trusts; s. 107(4.1) Where subsection 75(2) applicable to trust; s. 107.4(1), "qualifying disposition"; s. 108(1), "capital interest", "cost amount", "trust"; s. 128.1(10) Definitions; s. 138(12), "life insurance policy"; s. 146(1), "registered retirement savings plan"; s. 146.3(1), "registered retirement income fund"; s. 248(1), "amount", "cost amount", "disposition", "filing-due date", "property", "taxable Canadian property"; s. 248(9.2) Vested indefeasibly; s. 249(1)(*b*) Definition of "taxation year".

Regulations: 1105; Schedule II.

Income Tax Technical News: Issue No. 16, No Tax Consequences on Transfer to Bare Trust or Protective Trust.

Tax Profile: February 2002 — Transferring Property to a Trust After the Enactment of Bill C-22.

► 107.4(4) ◄

(4) Fair market value of vested interest in trust. Where

(*a*) a particular capital interest in a trust is held by a beneficiary at any time,

(*b*) the particular interest is vested indefeasibly at that time,

(*c*) the trust is not described in any of paragraphs (*a*) to (*e*.1) of the definition "trust" in subsection 108(1), and

(*d*) interests under the trust are not ordinarily disposed of for consideration that reflects the fair market value of the net assets of the trust,

the fair market value of the particular interest at that time is deemed to be not less than the amount determined by the formula

$$(A - B) \times (C/D)$$

where

A is the total fair market value at that time of all properties of the trust,

B is the total of all amounts each of which is the amount of a debt owing by the trust at that time or the amount of any other obligation of the trust to pay any amount that is outstanding at that time,

C is the fair market value at that time of the particular interest (determined without reference to this subsection), and

D is the total fair market value at that time of all interests as beneficiaries under the trust (determined without reference to this subsection).

History: S. 107.4(4) was added by S.C. 2001, c. 17, s. 82(1), applicable to dispositions that occur after December 23, 1998.

Editorial Note: Subsection 107.4(4) provides a formula that may be relevant in determining the fair market value of a capital interest in a trust that has vested indefeasibly in a beneficiary, generally where the interests in the trust "are not ordinarily disposed of for consideration that reflects the fair market value of the net assets of the trust". In general terms, it provides that the fair market value of the capital interest is deemed to be not less than the fair market value of the net assets of the trust attributable to the capital interest (thus, the deeming rule will not affect the fair market value of the capital interest if it is otherwise equal to or more than the fair market value of the net assets of the trust attributable to the capital interest). This deeming rule may be relevant, for example, upon a fair market value deemed disposition of the interest on the beneficiary's death under subsection 70(5) or a disposition subject to subsection 69(1).

Related Sections: S. 104(1.1), "beneficiary"; s. 108(1), "beneficiary", "capital interest", "trust"; s. 248(1), "amount", "property"; s. 248(9.2) Vested indefeasibly.

SECTION 108: [Trusts].

► 108(1) ◄

(1) Definitions. In this subdivision,

History: The definitions contained in paragraphs 108(1)(*a*) through (*j*) of the former Act are now arranged alphabetically in subsection 108(1).

Related Sections: S. 70(6.1) Transfer or distribution of NISA to spouse or trust; s. 104(1) Reference to trust or estate; s. 104(4) Deemed disposition by trust; s. 104(5) Depreciable property; s. 104(5.1) Interest in NISA Fund No. 2; s. 104(5.2) Resource property; s. 104(5.3) Election; s. 104(12) Deduction of amounts included in preferred beneficiaries' incomes; s. 107(4) Trusts in favour of spouse, common-law partner or self; s. 108(1), "pre-1972 spousal trust"; s. 144(1), "employees profit sharing plan"; s. 145(1), "registered supplementary unemployment benefit plan"; s. 146(1), "registered retirement savings plan"; s. 146.1(1), "registered education savings plan"; s. 146.3(1), "registered retirement income fund"; s. 147(1), "deferred profit sharing plan"; s. 248(1), "amount", "employee benefit plan", "employee trust", "individual", "property", "trust".

Advance Tax Rulings: ATR-38 Distribution of all of the property of an estate.

Tax Window Files: Testamentary Trust, April 18, 2005, CRA Document No. 2004-0093821E5 [If the direction by the beneficiary spouse occurs before the trust income becomes payable to the spouse, the direction will not result in a contribution of property and therefore will not result in the trust losing its testamentary trust status].

"accumulating income" — "accumulating income" of a trust for a taxation year means the amount that would be the income of the trust for the year if that amount were computed

(*a*) without reference to paragraphs 104(4)(*a*) and (*a*.1) and subsections 104(5.1), (5.2) and (12) and 107(4),

(*b*) as if the greatest amount that the trust was entitled to claim under subsection 104(6) in computing its income for the year were so claimed, and

(*c*) without reference to subsection 12(10.2), except to the extent that that subsection applies to amounts paid to a trust to which paragraph 70(6.1)(*b*) applies and before the death of the spouse or common-law partner referred to in that paragraph;

History: S. 108(1), the definition "accumulating income" was amended by S.C. 2001, c. 17, s. 83(1), applicable to the 2000 and subsequent taxation years. S. 108(1), the definition "accumulating income" formerly read:

"*'accumulating income'* — 'accumulating income' of a trust for a taxation year means the amount that would be the income of the trust for the year if that amount were

(*a*) computed without reference to subsections 104(5.1) and (12),

(*b*) computed as if the greatest amount that the trust was entitled to claim under subsection 104(6) in computing its income for the year were so claimed,

(*c*) where the trust

(i) is a pre-1972 spousal trust at the end of the year,

(ii) is described in paragraph 104(4)(*a*), or

(iii) elected under subsection 104(5.3) for a preceding taxation year,

computed without reference to subsections 104(4), (5) and (5.2) and 107(4),

(*d*) where the trust is described in paragraph 104(4)(*a*) and the taxpayer's spouse or common-law partner referred to in that paragraph died on a day in that year, computed as if any disposition by the trust before the end of that day of capital property, land described in an inventory of the trust, Canadian resource property or foreign resource property had not occurred, and

(*e*) computed without reference to subsection 12(10.2), except to the extent that that subsection applies to amounts paid to a trust to which paragraph 70(6.1)(*b*) applies and before the death of the spouse or common-law partner referred to in that paragraph;"

S. 108(1), paragraphs (*d*) and (*e*) of the definition "accumulating income" was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.3), applicable January 1, 2001, coming into force on July 31, 2000. S. 108(1), paragraphs (*d*) and (*e*) of the definition "accumulating income" formerly read:

"(*d*) where the trust is described in paragraph 104(4)(*a*) and the taxpayer's spouse referred to in that paragraph died on a day in that year, computed as if any disposition by the trust before the end of that day of capital property, land described in an inventory of the trust, Canadian resource property or foreign resource property had not occurred, and

(*e*) computed without reference to subsection 12(10.2), except to the extent that that subsection applies to amounts paid to a trust to which paragraph 70(6.1)(*b*) applies and before the death of the spouse referred to in that paragraph;"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 108(1), the definition "accumulating income" was amended by S.C. 1996, c. 21, s. 19(1), applicable to trust taxation years that end after July 19, 1995. That definition formerly read:

"*'accumulating income'* — 'accumulating income' of a trust for a taxation year means the amount that would be the income of the trust for the year if this Act were read without reference to

(*a*) subsections 104(5.1) and (12),

(*b*) where the trust

(i) is a pre-1972 spousal trust at the end of the year,

(ii) is described in paragraph 104(4)(*a*), or

(iii) elected under subsection 104(5.3) for a preceding taxation year,

subsections 104(4), (5), (5.2) and 107(4), and

(*c*) subsection 12(10.2), except to the extent that that subsection applies to amounts paid to a trust to which paragraph 70(6.1)(*b*) applies and before the death of the spouse referred to in that paragraph;"

S. 108(1), the definition "accumulating income", was amended by S.C. 1994, c. 7, Sched. VIII, s. 44(1), applicable to the 1991 and subsequent taxation years. S. 108(1), the definition "accumulating income", formerly read:

"(*a*) *'accumulating income'* — of a trust for a taxation year means the amount that would, but for subsection 104(12) and, where the trust is a trust described in paragraph 104(4)(*a*), subsections 104(4), (5) and (5.2) and 107(4), be its income for the year;"

Editorial Note: Accumulating income generally means a trust's income (including net capital gains) for the taxation year after deductions under s. 104(6), but without regard to amounts elected under preferred beneficiary elections. Income held by a trust for a minor beneficiary deemed to be "payable" under s. 104(18) is deductible by the trust under s. 104(6) and thus reduces its accumulating income.

Interpretation Bulletins: *Secondary* — IT-381R3 Trusts — Deduction of amounts paid or payable to beneficiaries and flow-through of taxable capital gains to beneficiaries; IT-394R2 Preferred beneficiary election.

Advance Tax Rulings: ATR-34 Preferred beneficiary's election.

Tax Window Files: Capital Encroachment and Accumulating Income of Trust, March 13, 1997, CRA Document No. 9531165 [Accumulating income reduced by the amount of the taxable capital gain where a capital encroachment power is exercised and the property or substituted property is distributed to a beneficiary in the same year as the gain is realized].

"beneficiary" — "beneficiary" under a trust includes a person beneficially interested therein;

Related Sections: S. 104(1.1) Restricted meaning of "beneficiary"; s. 248(25) Beneficially interested.

"capital interest" — "capital interest" of a taxpayer in a trust means all rights of the taxpayer as a beneficiary under the trust, and after 1999 includes a right (other than a right acquired before 2000 and disposed of before March 2000) to enforce payment of an amount by the trust that arises as a consequence of any such right, but does not include an income interest in the trust;

History: S. 108(1), the definition "capital interest" was amended by S.C. 2001, c. 17, s. 83(2), applicable after 1999. S. 108(1), the definition "capital interest" formerly read:

" *'capital interest'* — ' capital interest' of a taxpayer in a trust means

(*a*) in the case of a personal trust or a prescribed trust, a right (whether immediate or future and whether absolute or contingent) of the taxpayer as a beneficiary under the trust to, or to receive, all or any part of the capital of the trust, and

(*b*) in any other case, a right of the taxpayer as a beneficiary under the trust;"

Regulations: 4800.1.

"cost amount" — " cost amount" to a taxpayer at any time of a capital interest or part of it, as the case may be, in a trust, means (notwithstanding subsection 248(1) and except for the purposes of subsection 107(3.1) and section 107.4 and except in respect of a capital interest in a trust that is at that time a foreign affiliate of the taxpayer),

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of the definition "cost amount" in subsection 108(1) before paragraph (*a*) is replaced by the following:

"cost amount" — " cost amount " to a taxpayer at any time of a capital interest or part of it, as the case may be, in a trust, means (notwithstanding subsection 248(1) and except for the purposes of section 107.4 and, if that time is in a taxation year of the trust that began before 2007 (or, where sections 94.1 to 94.4 apply to a taxation year of the trust that begins before 2007, if that time is in a taxation year of the trust that began before the first day of the first such taxation year to which those sections apply), except in respect of a capital interest in a trust that is at that time a foreign affiliate of the taxpayer),

Applicable: To trust taxation years that begin after 2006, as well as to trust taxation years that begin before 2007 if sections 94.1 to 94.4 apply to that taxation year of the trust.

Explanatory Note:

"cost amount"

The definition "cost amount" in subsection 108(1) of the Act applies, for the purposes of sections 104 to 108 (except section 107.4), in determining the cost amount to a taxpayer of the taxpayer's capital interest (and any Part of it relevant in the circumstances) in a trust. However, where the trust is a foreign affiliate of the taxpayer this definition of "cost amount" does not apply. (A trust may be a foreign affiliate of a taxpayer because of the operation of paragraph 94(1)(*d*) of the Act, which can deem a trust to be in certain circumstances a non-resident corporation in which the taxpayer own shares.)

The definition "cost amount" in subsection 108(1) of the Act is amended to reflect the repeal of paragraph 94(1)(*d*).

Note that, while the cost amount to a taxpayer of its capital interest in a trust may be relevant in applying sections 94.1 to 94.4 to the taxpayer where the trust is a "foreign investment entity" (as defined in new subsection 94.1(1)) in which the taxpayer's capital interest is a "participating interest" (as defined in new subsection 94.1(1)), the definition cost amount in subsection 108(1) does not apply for these purposes.

This amendment applies to taxation years that begin after 2006.

(*a*) where any money or other property of the trust has been distributed by the trust to the taxpayer in satisfaction of all or part of the taxpayer's capital interest (whether on the winding-up of the trust or otherwise), the total of

(i) the money so distributed, and

(ii) all amounts each of which is the cost amount to the trust, immediately before the distribution, of each such other property,

(*a*.1) where that time is immediately before the time of the death of the taxpayer and subsection 104(4) or (5) deems the trust to dispose of property at the end of the day that includes that time, the amount that would be determined under paragraph (*b*) if the taxpayer had died on a day that ended immediately before that time, and

(*b*) in any other case, the amount determined by the formula

$$(A - B) \times \frac{C}{D}$$

where

A is the total of

(i) all money of the trust on hand immediately before that time, and

(ii) all amounts each of which is the cost amount to the trust, immediately before that time, of each other property of the trust,

B is the total of all amounts each of which is the amount of any debt owing by the trust, or of any other obligation of the trust to pay any amount, that was outstanding immediately before that time,

C is the fair market value at that time of the capital interest or part thereof, as the case may be, in the trust, and

D is the fair market value at that time of all capital interests in the trust;

History: S. 108(1), the portion of the definition "cost amount" before paragraph (*a*) was replaced by S.C. 2009, c. 2, s. 28(1), applicable after July 14, 2008. S. 108(1), the portion of the definition "cost amount" before paragraph (*a*) formerly read:

" *'cost amount'* — ' cost amount' to a taxpayer at any time of a capital interest or part of the interest, as the case may be, in a trust (other than a trust that is a foreign affiliate of the taxpayer) means, except for the purposes of section 107.4 and notwithstanding subsection 248(1),"

S. 108(1), the portion of the definition "cost amount" before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 83(4), applicable to the 1993 and subsequent taxation years. S. 108(1), the portion of the definition "cost amount" before paragraph (*a*) formerly read:

" *'cost amount'* — ' cost amount' to a taxpayer at any time of a capital interest or part thereof, as the case may be, in a trust (other than a trust that is a foreign affiliate of the taxpayer) means, notwithstanding the definition 'cost amount' in subsection 248(1),"

S. 108(1), paragraph (*a*.1) of the definition "cost amount" was added by S.C. 2001, c. 17, s. 83(5), applicable to deaths that occur after 1999 and, where a day before the 2000 taxation year is determined under paragraph 104(4)(*a*.4) of the Act, in respect of a trust, it applies to deaths that occur after December 23, 1998.

S. 108(1), the description of A in paragraph (*b*) of the definition "cost amount" was amended by S.C. 1994, c. 21, s. 48(3), applicable after July 13, 1990. S. 108(1), the description of A in paragraph (*b*) of the definition "cost amount" formerly read:

"A is the total of

(i) all money of the trust on hand immediately before that time,

(ii) all amounts each of which is the cost amount to the trust, immediately before that time, of each other property of the trust (other than eligible capital property in respect of a business of the trust), and

(iii) 4/3 of the total of all amounts each of which is the cumulative eligible capital of the trust, immediately before that time, in respect of a business of the trust,"

S. 108(1), subparagraph (*a*)(ii) of the definition "cost amount", was amended and subparagraph (*a*)(iii) was repealed by S.C. 1994, c. 21, s. 48(2), applicable after July 13, 1990. S. 108(1), subparagraphs (*a*)(ii) and (*a*)(iii) of the definition "cost amount" formerly read:

"(ii) all amounts each of which is the cost amount to the trust, immediately before the distribution, of each such other property (other than eligible capital property in respect of a business of the trust), and

(iii) all amounts each of which is 4/3 of the cost amount to the trust, immediately before the distribution, of each such other property that is eligible capital property in respect of a business of the trust, and"

S. 108(1), paragraphs (*a*) and (*b*) of the definition "cost amount" were amended by S.C. 1994, c. 7, Sched. II, s. 77(1), applicable after July 13, 1990. S. 108(1), paragraphs (*a*) and (*b*) of the definition "cost amount" formerly read:

"(*a*) in any case where any money or property of the trust has been distributed by the trust to the taxpayer in satisfaction of the whole or part of the taxpayer's capital interest, as the case may be (whether on the winding-up of the trust or otherwise), the total of the money so distributed and all amounts each of which is the cost amount to the trust, immediately before the distribution, of a property so distributed to the taxpayer, and

(*b*) in any other case, that proportion of the amount, if any, by which the total of all money of the trust on hand immediately before that time and all amounts each of which is the cost amount to the trust, immediately before that time, of a property of the trust exceeds the total of all amounts each of which is the amount of a debt owing by the trust, or of any other obligation of the trust to pay any amount, that was outstanding immediately before that time, that

(i) the fair market value at that time of the capital interest or part thereof, as the case may be, in the trust,

is of

(ii) the fair market value at that time of all capital interests in the trust;"

Tax Window Files: Alter Ego Trusts, May 15, 2000, CRA Document No. 1999-0013165 [Where s. 70(5) applies to deem the individual to have disposed of his or her capital interest in the alter ego trust immediately before death, the definition of cost amount in s. 108(1) provides that the cost amount of the individual's capital interest is adjusted to take into account the deemed disposition of the alter ego trust's property under s. 104(4). This ensures that the deceased individual is not subject to tax on the deemed gain that will be subject to tax in the alter ego trust].

"eligible offset" — "eligible offset" at any time of a taxpayer in respect of all or part of the taxpayer's capital interest in a trust is the portion of any debt or obligation that is assumed by the taxpayer and that can reasonably be considered to be applicable to property distributed at that time in satisfaction of the interest or part of the interest, as the case may be, if the distribution is conditional upon the assumption by the taxpayer of the portion of the debt or obligation;

History: S. 108(1), the definition "eligible offset" was added by S.C. 2001, c. 17, s. 83(8), applicable after 1999.

"eligible real property gain" — [Repealed by S.C. 1995, c. 3, s. 31(1).]

History: S. 108(1), the definition "eligible real property gain", was repealed by S.C. 1995, c. 3, s. 31(1), applicable to taxation years that begin after February 22, 1994. That definition formerly read:

" *'eligible real property gain'* — 'eligible real property gain' of a trust has the meaning that would be assigned by the definition of that expression in subsection 110.6(1) if the reference in that definition to 'non-qualifying real property' were read as 'non-qualifying real property as defined in subsection 108(1)';"

S. 108(1), the definition "eligible real property gain" was amended by S.C. 1994, c. 21, s. 48(1), applicable to the 1992 and subsequent taxation years. S. 108(1), the definition "eligible real property gain" formerly read:

" *'eligible real property gain'* — 'eligible real property gain' of a trust has the meaning assigned by subsection 110.6(1);"

S. 108(1), the definition "eligible real property gain" was added by S.C. 1994, c. 7, Sched. VIII, s. 44(2), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 104(1) Reference to trust or estate; s. 110.6(1), "eligible real property gain"; s. 248(1), "trust".

"eligible real property loss" — [Repealed by S.C. 1995, c. 3, s. 31(1).]

History: S. 108(1), the definition "eligible real property loss", was repealed by S.C. 1995, c. 3, s. 31(1), applicable to taxation years that begin after February 22, 1994. That definition formerly read:

" *'eligible real property loss'* — 'eligible real property loss' of a trust has the meaning that would be assigned by the definition of that expression in subsection 110.6(1) if the reference in that definition to 'non-qualifying real property' were read as 'non-qualifying real property as defined in subsection 108(1)';"

S. 108(1), the definition "eligible real property loss" was amended by S.C. 1994, c. 21, s. 48(1), applicable to the 1992 and subsequent taxation years. S. 108(1), the definition "eligible real property loss" formerly read:

" *'eligible real property loss'* — 'eligible real property loss' of a trust has the meaning assigned by subsection 110.6(1);"

S. 108(1), the definition "eligible real property loss" was added by S.C. 1994, c. 7, Sched. VIII, s. 44(2), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 104(1) Reference to trust or estate; s. 110.6(1), "eligible real property gain"; s. 248(1), "trust".

"eligible taxable capital gains" — "eligible taxable capital gains" of a personal trust for a taxation year means the lesser of

(*a*) its annual gains limit (within the meaning assigned by subsection 110.6(1)) for the year, and

(*b*) the amount determined by the formula

A – B

where

A is its cumulative gains limit (within the meaning assigned by subsection 110.6(1)) at the end of the year, and

B is the total of all amounts designated under subsection 104(21.2) by the trust in respect of beneficiaries for taxation years before that year;

History: S. 108(1), the definition "eligible taxable capital gains", was amended by S.C. 1995, c. 3, s. 31(2), applicable to taxation years that begin after February 22, 1994. That definition formerly read:

" *'eligible taxable capital gains'* — 'eligible taxable capital gains' of a trust for a taxation year means the lesser of

(*a*) its annual gains limit for the year (within the meaning that would be assigned by the definition of that expression in subsection 110.6(1) if the reference in that definition to 'non-qualifying real property' were read as 'non-qualifying real property as defined in subsection 108(1)', and

(*b*) the amount determined by the formula

A – B

where

A is its cumulative gains limit at the end of the year (within the meaning that would be assigned by the definition of that expression in subsection 110.6(1) if the reference in that definition to 'non-qualifying real property' were read as 'non-qualifying real property as defined in subsection 108(1)', and

B is the total of all amounts designated under subsection 104(21.2) by the trust in respect of beneficiaries in taxation years before that year;"

S. 108(1), the definition "eligible taxable capital gains" was amended by S.C. 1994, c. 21, s. 48(1), applicable to the 1992 and subsequent taxation years. That definition formerly read:

" *'eligible taxable capital gains'* — 'eligible taxable capital gains' of a trust for a taxation year means the lesser of

(*a*) the annual gains limit (within the meaning assigned by subsection 110.6(1)) of the trust for the year, and

(*b*) the amount determined by the formula

A – B

where

A is the cumulative gains limit (within the meaning assigned by the definition of that expression in subsection 110.6(1) if that definition were read without reference to paragraph (*c*) thereof) of the trust at the end of the year, and

B is the total of all amounts each of which is an amount designated by the trust under subsection 104(21.2) in respect of a beneficiary in a taxation year preceding that year;"

Related Sections: S. 110.6(1) Definitions — fair market value of NISA.

Interpretation Bulletins: *Secondary* — IT-381R3 Trusts — Deduction of amounts paid or payable to beneficiaries and flow-through of taxable capital gains to beneficiaries.

"excluded property" — "excluded property" means a share of the capital stock of a non-resident-owned investment corporation that is not taxable Canadian property;

History: S. 108(1), the definition "excluded property" was amended by S.C. 1998, c. 19, s. 129(1), applicable after April 26, 1995. The definition "excluded property" formerly read:

" *'excluded property'* — 'excluded property' at a particular time means a share of the capital stock of a non-resident-owned investment corporation if, on the first day of the first taxation year of the corporation that ends at or after the particular time, the corporation does not own property referred to in any of clauses 115(1)(*b*)(v)(A) to (D);"

S. 108(1), the definition "excluded property" was added by S.C. 1994, c. 7, Sched. VIII, s. 44(2), applicable after February 11, 1991.

Related Sections: S. 115(1) Non-resident's taxable income in Canada; s. 133(8) Definitions; s. 248(1), "corporation", "non-resident owned investment corporation", "property".

"exempt property" — "exempt property" of a taxpayer at any time means property any income or gain from the disposition of which by the taxpayer at that time would, because the taxpayer is non-resident or because of a provision contained in a tax treaty, not cause an increase in the taxpayer's tax payable under this Part;

History: S. 108(1), the definition "exempt property" was added by S.C. 2001, c. 17, s. 83(8), applicable after 1992 except that, before 1999, the words "tax treaty" in that definition shall be read as "convention or agreement with another country that has the force of law in Canada".

"income interest" — "income interest" of a taxpayer in a trust means a right (whether immediate or future and whether absolute or contingent) of the taxpayer as a beneficiary under a personal trust to, or to receive, all or any part of the income of the trust and, after 1999, includes a right (other than a right acquired before 2000 and disposed of before March 2000) to enforce payment of an amount by the trust that arises as a consequence of any such right;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The definition "income interest" in subsection 108(1) of the Act is replaced by the following:

"income interest" — "income interest", of a taxpayer in a trust, means a right (whether immediate or future and whether absolute or contingent) of the taxpayer as a beneficiary under a personal trust to, or to receive, all or any part of the income of the trust and, at any timeafter 1999

(*a*) subject to paragraph (*b*), includes a right (other than a right acquired before 2000 and disposed of before March 2000) to enforce payment of an amount by the trust that arises as a consequence of any such right; and

(*b*) does not include a participating interest in respect of which subsection 94.1(3) or 94.2(9) applies to the taxpayer for the taxpayer's taxation year that includes that time;

Applicable: To trust taxation years that begin after 2006, as well as to trust taxation years that begin before 2007 if sections 94.1 to 94.4 apply to that taxation year of the trust.

Explanatory Note:

"income interest"

Subsection 108(1) of the Act contains the definition "income interest". It is defined as a right of a taxpayer as a beneficiary under a personal trust to, or to receive, all or any part of the income of the trust and after 1999 includes a right (other than a right acquired before 2000 and disposed of before March 2000) to enforce payment by the trust that arises as a consequence of a right that is an income interest.

Under subsection 108(3), "income" for this purpose is determined without reference to the provisions of the Act.

The definition "income interest" is amended to provide that it does not include, at any time, a participating interest in respect of which subsection 94.1(3) or 94.2(9) applies for the year that includes that time. For more details on foreign investment entities, see the commentary on sections 94.1 to 94.4.

This amendment applies to trust taxation years that begin after 2006.

History: S. 108(1), the definition "income interest" was amended by S.C. 2001, c. 17, s. 83(3), applicable in respect of interests created or materially altered after January 1987 that were acquired after 10 p.m. Eastern Standard Time, February 6, 1987. S. 108(1), the definition "income interest" formerly read:

" *'income interest'* — 'income interest' of a taxpayer in a trust means a right (whether immediate or future and whether absolute or contingent) of the taxpayer as a beneficiary under a personal trust to, or to receive, all or any part of the income of the trust;"

Related Sections: S. 108(3) Income of a trust in certain provisions.
Interpretation Bulletins: *Secondary* — IT-385R2 Disposition of an income interest in a trust.

"inter vivos trust" — "inter vivos trust" means a trust other than a testamentary trust;

"non-qualifying real property" — [Repealed by S.C. 1995, c. 3, s. 31(1).]

History: S. 108(1), the definition "non-qualifying real property", was repealed by S.C. 1995, c. 3, s. 31(1), applicable to taxation years that begin after February 22, 1994. That definition formerly read:

" *'non-qualifying real property'* — 'non-qualifying real property'

(*a*) of a trust that is a personal trust has the meaning assigned by subsection 110.6(1), and

(*b*) of a trust that is not a personal trust has the meaning assigned by subsection 131(6);"

S. 108(1), the definition "non-qualifying real property" was added by S.C. 1994, c. 7, Sched. VIII, s. 44(2), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 104(1) Reference to trust or estate; s. 131(6) Definitions relating to mutual fund corporations; s. 248(1), "trust".

"pre-1972 spousal trust" — "pre-1972 spousal trust" at a particular time means a trust that was

(*a*) created by the will of a taxpayer who died before 1972, or

(*b*) created before June 18, 1971 by a taxpayer during the taxpayer's lifetime

that, throughout the period beginning at the time it was created and ending at the earliest of January 1, 1993, the day on which the taxpayer's spouse or common-law partner died and the particular time, was a trust under which the taxpayer's spouse or common-law partner was entitled to receive all of the income of the trust that arose before the spouse's or common-law partner's death, unless a person other than the spouse or common-law partner received or otherwise obtained the use of any of the income or capital of the trust before the end of that period;

History: S. 108(1), the portion of the definition "pre-1972 spousal trust" after paragraph (*b*) was amended by S.C. 2001, c. 17, s. 241, applicable to the 2001 and following taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act* [See Sec. 144, Chap. 12, S.C. 2000, reproduced below.], in respect of the 1998, 1999 or 2000 taxation years, the portion of the definition "pre-1972 spousal trust" after paragraph (*b*) in s. 108(1) applies to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years. S. 108(1), the portion of the definition "pre-1972 spousal trust" after paragraph (*b*) formerly read:

"that, throughout the period beginning at the time it was created and ending at the earliest of January 1, 1993, the day on which the taxpayer's spouse or common-law partner died and the particular time, was a trust under which the taxpayer's spouse or common-law partner was entitled to receive all of the income of the trust that arose before the spouse's death, unless a person other than the spouse or common-law partner received or otherwise obtained the use of any of the income or capital of the trust before the end of that period;"

S. 108(1), the portion of the definition "pre-1972 spousal trust" after paragraph (*b*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.3), applicable January 1, 2001, coming into force on July 31, 2000. S. 108(1), the portion of the definition "pre-1972 spousal trust" after paragraph (*b*) formerly read: "that, throughout the period beginning at the time it was created and ending at the earliest of January 1, 1993, the day on which the taxpayer's spouse died and the particular time, was a trust under which the taxpayer's spouse was entitled to receive all of the income of the trust that arose before the spouse's death, unless a person other than the spouse received or otherwise obtained the use of any of the income or capital of the trust before the end of that period;"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the

taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 108(1), the definition "pre-1972 spousal trust" was added by S.C. 1994, c. 7, Sched. VIII, s. 44(2), applicable after February 11, 1991.

Related Sections: S. 104(1) Reference to trust or estate; s. 104(4) Deemed disposition by trust; s. 104(15) Allocable amount for preferred beneficiary; s. 108(3) Income of a trust in certain provisions; s. 108(4) Trust not disqualified; s. 248(1), "common-law partner", "trust"; s. 252(3) Extended meaning of "spouse" and "former spouse".

"preferred beneficiary" — "preferred beneficiary" under a trust for a particular taxation year of the trust means a beneficiary under the trust at the end of the particular year who is resident in Canada at that time if

(*a*) the beneficiary is

(i) an individual in respect of whom paragraphs 118.3(1)(*a*) to (*b*) apply for the individual's taxation year (in this definition referred to as the "beneficiary's year") that ends in the particular year, or

(ii) an individual

(A) who attained the age of 18 years before the end of the beneficiary's year, was a dependant (within the meaning assigned by subsection 118(6)) of another individual for the beneficiary's year and was dependent on the other individual because of mental or physical infirmity, and

(B) whose income (computed without reference to subsection 104(14)) for the beneficiary's year does not exceed the amount used under paragraph (*c*) of the description of B in subsection 118(1) for the year, and

(*b*) the beneficiary is

(i) the settlor of the trust,

(ii) the spouse or common-law partner or former spouse or common-law partner of the settlor of the trust, or

(iii) a child, grandchild or great grandchild of the settlor of the trust or the spouse or common-law partner of any such person;

History: S. 108(1), clause (*a*)(ii)(B) of the definition "preferred beneficiary" was amended by S.C. 2000, c. 19, s. 16(1), applicable to the 1998 and subsequent taxation years, except that the reference to "the amount used under paragraph (*c*) of the description of B in subsection 118(1) for the year" in clause (*a*)(ii)(B) of the definition "preferred beneficiary" in subsection 108(1) of the Act, as enacted by subsection (1), shall be read as a reference to

(*a*) "$6,956" for the 1998 taxation year; and

(*b*) "$7,044" for the 1999 taxation year.

S. 108(1), clause (*a*)(ii)(B) of the definition "preferred beneficiary" formerly read:

"(B) whose income (computed without reference to subsection 104(14)) for the beneficiary's year does not exceed $6,456, and"

S. 108(1), subparagraphs (*b*)(ii) and (iii) of the definition "preferred beneficiary" were amended by S.C. 2000, c. 12, Sched. 2, s. , applicable January 1, 2001, coming into force on July 31, 2000. S. 108(1), subparagraphs (*b*)(ii) and (iii) of the definition "preferred beneficiary" formerly read:

"(ii) the spouse or former spouse of the settlor of the trust, or

(iii) a child, grandchild or great grandchild of the settlor of the trust or the spouse of any such person;"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 108(1), the definition "preferred beneficiary", was amended by S.C. 1998, c. 19, s. 19(1), applicable to trust taxation years that end after 1996. S. 108(1), the definition "preferred beneficiary" formerly read:

"*'preferred beneficiary'* — 'preferred beneficiary' under a trust for a particular taxation year of the trust means an individual

(*a*) who is resident in Canada and a beneficiary under the trust at the end of the particular year,

(*b*) in respect of whom paragraphs 118.3(1)(*a*) to (*b*) apply for the individual's taxation year in which the particular year ends, and

(*c*) who is

(i) the settlor of the trust,

(ii) the spouse or former spouse of the settlor of the trust, or

(iii) a child, grandchild or great grandchild of the settlor of the trust, or the spouse of any such person;"

S. 108(1), the definition "preferred beneficiary", was amended by S.C. 1996, c. 21, s. 19(2), applicable to trust taxation years that begin after 1995. That definition formerly read:

"*'preferred beneficiary'* — 'preferred beneficiary' under any trust means an individual resident in Canada who is a beneficiary under the trust and is

(*a*) the settlor of the trust,

(*b*) the spouse or former spouse of the settlor of the trust, or

(*c*) a child, grandchild or great grandchild of the settlor of the trust, or the spouse of any such person;"

Editorial Note: For trust taxation years ending after 1996, a preferred beneficiary generally means a beneficiary who is eligible for a disability tax credit or an adult beneficiary for whom a dependant tax credit can be claimed by another individual because of the beneficiary's mental or physical infirmity.

Interpretation Bulletins: *Secondary* — IT-374 Meaning of "settlor" [Archived by the CRA]; IT-394R2 Preferred beneficiary election.

"qualified farm property" — "qualified farm property" of an individual has the meaning assigned by subsection 110.6(1);

"qualified fishing property" — "qualified fishing property" of an individual has the meaning assigned by subsection 110.6(1);

History: S. 108(1), the definition "qualified fishing property" was added by S.C. 2007, c. 2, s. 16(1), applicable after May 1, 2006.

"qualified small business corporation share" — "qualified small business corporation share" of an individual has the meaning assigned by subsection 110.6(1);

"settlor" — "settlor",

(*a*) in relation to a testamentary trust, means the individual referred to in the definition "testamentary trust" in this subsection, and

(*b*) in relation to an *inter vivos* trust,

(i) if the trust was created by the transfer, assignment or other disposition of property thereto (in this definition referred to as property "contributed") by not more than one individual and the fair market value of such of the property of the trust as was contributed by the individual at the time of the creation of the trust or at any subsequent time exceeds the fair market value of such of the property of the trust as was contributed by any other person or persons at any subsequent time (such fair market values being determined at the time of the making of any such contribution), means that individual, and

(ii) if the trust was created by the contribution of property thereto jointly by an individual and the individual's spouse or common-law partner and by no other person and the fair market value of such of the property of the trust as was contributed by them at the time of the creation of the trust or at any subsequent time exceeds the fair market value of such of the property of the trust as was contributed by any other person or persons at any subsequent time (such fair market values being determined at the time of the making

of any such contribution), means that individual and the spouse or common-law partner;

History: S. 108(1), subparagraph (*b*)(ii) of the definition "settlor" was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.3), applicable January 1, 2001, coming into force on July 31, 2000. S. 108(1), subparagraph (*b*)(ii) of the definition "settlor" formerly read:

"(ii) if the trust was created by the contribution of property thereto jointly by an individual and the individual's spouse and by no other person and the fair market value of such of the property of the trust as was contributed by them at the time of the creation of the trust or at any subsequent time exceeds the fair market value of such of the property of the trust as was contributed by any other person or persons at any subsequent time (such fair market values being determined at the time of the making of any such contribution), means that individual and the spouse;"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Editorial Note: The definition of "settlor" is relevant in the context of the preferred beneficiary election because a "preferred beneficiary" is defined in relation to the settlor. On the other hand, in relation to the 21-year deemed disposition rule, reference should be made to the definition of "designated contributor".

Related Sections: S. 104(5.6) Designated contributor; s. 108(1), "preferred beneficiary".

Interpretation Bulletins: *Primary* — IT-374 Meaning of "settlor" [Archived by the CRA]. *Secondary* — IT-394R2 Preferred beneficiary election.

"*testamentary trust*" — "testamentary trust" in a taxation year means a trust or estate that arose on and as a consequence of the death of an individual (including a trust referred to in subsection 248(9.1)), other than

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of the definition "testamentary trust" in subsection 108(1) of the Act before paragraph (*a*) is replaced by the following:

"*testamentary trust*" — "testamentary trust", in a taxation year, means a trust that arose on and as a consequence of the death of an individual (including a trust referred to in subsection 248(9.1)), other than

Applicable: To taxation years that end after December 20, 2002.

Explanatory Note:

"testamentary trust"

Subsection 108(1) of the Act defines "testamentary trust" generally as a trust or estate that arose on and in consequence of the death of an individual, and provides some exceptions to that definition.

Subsection 104(1) of the Act provides that references to a "trust" in subdivision k of the Act (i.e., sections 104 to 108) of Division B of Part I of the Act include a trust or estate. The definition "testamentary trust" in subsection 108(1) is therefore amended to remove the reference to "estate" because the references in that definition to a "trust" include an estate.

New paragraph (*d*) of the definition "testamentary trust" is an anti-avoidance rule. That new paragraph provides that a testamentary trust in a taxation year does not include a trust (in the commentary on this amendment, references to "trust" include an estate) that incurs, after December 20, 2002 and before the end of the taxation year, a debt or any other obligation to pay an amount to, or guaranteed by, a beneficiary or any other person or partnership (referred to in this commentary as the "specified party") with whom any beneficiary of the trust does not deal at arm's length. However, such a debt will not affect the status of the trust as a testamentary trust if it is a debt or other obligation owed to the specified party and

- it is incurred by the trust in satisfaction of the specified party's right as a beneficiary under the trust to enforce payment of an amount of income or capital gains payable by the trust to the specified party or to otherwise receive any part of the capital of the trust,
- it arose because of a service (for greater certainty, not including any transfer or loan of property) rendered by the specified party to, for or on behalf of the trust; for example, this would include debts or other obligations arising in respect of services rendered in a person's capacity as an executor or administrator of an estate, as a liquidator of succession or as a trustee of a trust, or
- it arose because of a payment made by the specified party for or on behalf of (but not to) the trust; for example, a payment of funeral expenses on behalf of the deceased's estate. However, to qualify under this provision, additional conditions must be satisfied. In very general terms, these conditions are that the trust fully reimburse the specified party within a year of the specified party making the payment. More precisely, in exchange for the payment the trust must transfer property (the fair market value of which is not less than the principal amount of that debt or other obligation that arose because of the payment) to the specified party within 12 months after the specified party made the payment (or, where written application has been made to the Minister by the trust within that 12 months, within any longer period that the Minister considers reasonable in the circumstances). A transfer of property, within the required period by the trust to the specified party, which does not result in the settlement or cancellation of that debt or obligation would not satisfy this requirement. It must also be reasonable to conclude that the specified party would have been willing to make the payment if the specified party dealt at arm's length with the trust. This third requirement is suspended, however, where the trust is an individual's estate and the payment giving rise to the debt or obligation was made within the first 12 months after the individual's death (or, where written application has been made to the Minister of National Revenue by the estate within that 12 months, within any longer period that the Minister considers reasonable in the circumstances).

These amendments apply to trust taxation years that end after December 20, 2002. However, a transfer that is required, by clause (*d*)(iii)(B) of the definition "testamentary trust" in subsection 108(1) to be made within 12 months after a payment was made, is deemed to have been made in a timely manner if it is made no later than 12 months after this amended definition receives Royal Assent. In effect, the deadline imposed by that clause for the full reimbursement of the specified party by the trust or estate is extended, without need for written application, provided that the full reimbursement is made within 12 months after Royal Assent.

In addition, for taxation years that end before Royal Assent, the exception from the arm's length condition for obligations owed by an estate (which condition and exception are set out in clause (*d*)(iii)(C) of the definition) will apply so that a payment that is made by a specified party for or on behalf of the estate and that is described in clause (*d*)(iii)(A) will not be subject to the arm's length requirement where the payment is made at any time after the individual's death and not later than 12 months after Royal Assent. For these taxation years, if such a qualifying payment is not made within 12 months after Royal Assent, then the Minister may grant a further extension of the period, beyond 12 months after Royal Assent, if written application is made to the Minister by the estate within 12 months after Royal Assent.

(*a*) a trust created by a person other than the individual,

(*b*) a trust created after November 12, 1981 if, before the end of the taxation year, property has been contributed to the trust otherwise than by an individual

on or after the individual's death and as a consequence thereof, and

(*c*) a trust created before November 13, 1981 if

(i) after June 28, 1982 property has been contributed to the trust otherwise than by an individual on or after the individual's death and as a consequence thereof, or

(ii) before the end of the taxation year, the total fair market value of the property owned by the trust that was contributed to the trust otherwise than by an individual on or after the individual's death and as a consequence thereof and the property owned by the trust that was substituted for such property exceeds the total fair market value of the property owned by the trust that was contributed by an individual on or after the individual's death and as a consequence thereof and the property owned by the trust that was substituted for such property, and for the purposes of this subparagraph the fair market value of any property shall be determined as at the time it was acquired by the trust;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The definition "testamentary trust" in subsection 108(1) of the Act is amended by striking out the word "and" at the end of paragraph (*b*), by adding the word "and" at the end of paragraph (*c*) and by adding the following after paragraph (*c*):

(*d*) a trust that, at any time after December 20, 2002 and before the end of the taxation year, incurs a debt or any other obligation owed to, or guaranteed by, a beneficiary or any other person or partnership (which beneficiary, person or partnership is referred to in this paragraph as the "specified party") with whom any beneficiary of the trust does not deal at arm's length, other than a debt or other obligation

(i) incurred by the trust in satisfaction of the specified party's right as a beneficiary under the trust

(A) to enforce payment of an amount of the trust's income or capital gains payable at or before that time by the trust to the specified party, or

(B) to otherwise receive any part of the capital of the trust,

(ii) owed to the specified party, if the debt or other obligation arose because of a service (for greater certainty, not including any transfer or loan of property) rendered by the specified party to, for or on behalf of the trust, or

(iii) owed to the specified party, if

(A) the debt or other obligation arose because of a payment made by the specified party for or on behalf of the trust,

(B) in exchange for the payment, the trust transfers property, the fair market value of which is not less than the principal amount of that debt or other obligation, to the specified party within 12 months after the payment was made (or, where written application has been made to the Minister by the trust within that 12 months, within any longer period that the Minister considers reasonable in the circumstances), and

(C) it is reasonable to conclude that the specified party would have been willing to make the payment if the specified party dealt at arm's length with the trust, except where the trust is the individual's estate and that payment was made within the first 12 months after the individual's death (or, where written application has been made to the Minister by the estate within that 12 months, within any longer period that the Minister considers reasonable in the circumstances);

Applicable: To taxation years that end after December 20, 2002, except that

(*a*) a transfer that is required, by clause (*d*)(iii)(B) of the definition "testamentary trust" in subsection 108(1) to be made within 12 months after a payment was made is deemed to be made in a timely manner if it is made no later than 12 months after this Act is assented to; and

(*b*) for those taxation years that end before the day on which this Act is assented to, the reference to "within the first 12 months after the individual's death" in clause (*d*)(iii)(C) of the definition "testamentary trust" in subsection 108(1) shall be read as a reference to "after the individual's death and no later than 12 months after the day on which the *Income Tax Amendments Act, 2006* is assented to".

Explanatory Note: See the Explanatory Note following the amendment to the portion of the definition "testamentary trust" in subsection 108(1) before paragraph (*a*).

History: S. 108(1), that portion of the definition "testamentary trust" before paragraph (*a*), was amended by S.C. 1994, c. 21, s. 48(4), applicable to the 1990 and subsequent taxation years. S. 108(1), that portion of the definition "testamentary trust" before paragraph (*a*), formerly read:

" 'testamentary trust' in a taxation year means a trust or estate that arose on and in consequence of the death of an individual (including a trust referred to in subsection 70(6.1)), other than"

Editorial Note: Basically, a testamentary trust is a trust or estate created as a consequence of a person's death. The terms of a testamentary trust are typically established in the will of the deceased. (A testamentary trust may also be created by means of a court order under provincial or territorial dependant's relief or support statutes.) Generally, a testamentary trust does not include a trust if any property was contributed to it other than by a deceased. Furthermore, under proposed legislation, for taxation years ending after December 20, 2002, if the trust incurs a debt or other obligation to pay an amount to, or guaranteed by, a beneficiary or other person or partnership with whom any beneficiary of the trust does not deal at arm's length (all of whom will be referred to here as the beneficiary), the testamentary trust may become an *inter vivos* trust. If the assets are not distributed to the beneficiaries according to the terms of the will, a testamentary trust may become an *inter vivos* trust.

A trust that is not a testamentary trust is an *inter vivos* trust. The death of the settlor of an *inter vivos* trust does not cause it to become a testamentary trust. A testamentary trust is a personal trust (as defined in s. 248(1)). S. 122(1.1) precludes a personal trust from claiming the tax credits set out in section 118. On the other hand, paragraph (c.1) of the definition of "principal residence" in section 54 allows the exemption in regard thereto to be claimed by a personal trust.

Related Sections: S. 104(1) Reference to trust or estate; s. 104(2) Taxed as individual; s. 104(23) Testamentary trusts; s. 117(2) Rates for years after 2000; s. 127.53(1) Basic exemption; s. 152(4.2) Reassessment with taxpayer's consent; s. 248(8) Occurrences as a consequence of death; s. 249.1(1) Definition of "fiscal period".

Interpretation Bulletins: *Secondary* — IT-381R3 Trusts — Capital gains and losses and the Flow-Through of Taxable Capital Gains to Beneficiaries.

Tax Topics: No. 1684, Testamentary Trusts — Not a Dead Issue — Use Them But Don't Abuse Them.

Tax Profile: June 2004 — Planning For Aging Parents.

Canadian Tax Foundation: Reiss, "Testamentary Trust Planning: Dying is Harder Than You Think", *2004 Prairie Provinces Tax Conference*, 16:1-29; Chan and Morin, "Distributions by Canadian Testamentary Trusts", *2005 Canadian Tax Journal, vol. 53, no. 4*, 1090-1110.

Tax Window Files: Designation of Testamentary Trust as RRSP Beneficiary, April 6, 2005, CRA Document No. 2005-0116491E5 [A testamentary trust may be funded by proceeds from the deceased's RRSP (or RRIF) provided certain conditions are met]; Testamentary Trust, April 18, 2005, CRA Document No. 2004-0093821E5 [If the direction by the beneficiary spouse occurs before the trust income becomes payable to the spouse, the direction will not result in a contribution of property and therefore will not result in the trust losing its testamentary trust status]; Retention of Income by Spousal Trust, December 1, 2004, CRA Document No. 2003-0046171E5 [If the direction by the beneficiary spouse occurs before the trust income becomes payable to the spouse, the direction will not result in a contribution of property and therefore will not result in the trust losing its testamentary trust status]; Alter Ego and Testamentary Trusts, March 23, 2001, CRA Document

No. 2000-0005135 [Trust created as a consequence of death not a testamentary trust if it receives property from an alter ego trust]; Definition of Testamentary Trust — Successive Trusts, September 22, 1998, CRA Document No. 9801035 [Successive trusts for second generation beneficiaries qualify as testamentary].

Cases: Voluntary transfer by beneficiary aimed at increasing the trust's capital resulted in loss of status as testamentary trust. *Greenberg Estate v. The Queen*, 97 DTC 1380 (T.C.C.).

"*trust*" — "trust" includes an *inter vivos* trust and a testamentary trust but in subsections 104(4), (5), (5.2), (12), (13.1), (13.2), (14) and (15) and sections 105 to 107 does not include

(*a*) an amateur athlete trust, an employee trust, a trust described in paragraph 149(1)(*o.4*) or a trust governed by a deferred profit sharing plan, an employee benefit plan, an employees profit sharing plan, a foreign retirement arrangement, a registered disability savings plan, a registered education savings plan, a registered pension plan, a registered retirement income fund, a registered retirement savings plan, a registered supplementary unemployment benefit plan or a TFSA,

(*a*.1) a trust, other than a trust described in paragraph (*a*) or (*d*), all or substantially all of the property of which is held for the purpose of providing benefits to individuals each of whom is provided with benefits in respect of, or because of, an office or employment or former office or employment of any individual,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*a.1*) of the definition "trust" in subsection 108(1) of the Act is replaced by the following:

(*a*.1) a trust (other than a trust described in paragraph (*a*) or (*d*), a trust to which subsection 7(2) or (6) applies or a trust prescribed for the purpose of subsection 107(2)) all or substantially all of the property of which is held for the purpose of providing benefits to individuals each of whom is provided with benefits in respect of, or because of, an office or employment or former office or employment of any individual,

Applicable: To trust taxation years that begin after 2006. [This amendment] also applies to trust taxation years that begin

(*a*) after 2000, if the trust makes a valid election under paragraph [(*a*) of the application for new proposed section 94];

(*b*) after 2001, if the trust makes a valid election under paragraph [(*a*) or (*b*) of the application for new proposed section 94];

(*c*) after 2002, if the trust makes a valid election under any of paragraphs [(*a*) to (*c*) of the application for new proposed section 94];

(*d*) after 2003, if the trust makes a valid election under any of paragraphs [(*a*) to (*d*) of the application for new proposed section 94];

(*e*) after 2004, if the trust makes a valid election under any of paragraphs (*a*) to (*e*) of the application for new proposed section 94]; and

(*f*) after 2005, if the trust makes a valid election under any of paragraphs [(*a*) to (*f*) of the application for new proposed section 94].

Explanatory Note:

"trust"

Subsection 108(1) of the Act defines "trust", for the purposes of the 21-year deemed disposition rule and other specified measures, to exclude certain listed trusts.

Paragraph (*a*.1) of that definition is amended to clarify that its intended application should be limited to health and welfare trusts.

This amendment applies to trust taxation years that begin after 2006. It also applies to trust taxation years that begin after 2000, after 2001, after 2002 after 2003 after 2004 or after 2005 if the trust makes the appropriate election under the coming-into-force provision for new section 94 of the Act.

(*b*) a related segregated fund trust (within the meaning assigned by section 138.1),

(*c*) an *inter vivos* trust deemed by subsection 143(1) to exist in respect of a congregation that is a constituent part of a religious organization,

(*d*) an RCA trust (within the meaning assigned by subsection 207.5(1)),

(*e*) a trust each of the beneficiaries under which was at all times after it was created a trust referred to in paragraph (*a*), (*b*) or (*d*) or a person who is a beneficiary of the trust only because of being a beneficiary under a trust referred to in any of those paragraphs, or

(*e*.1) a cemetery care trust or a trust governed by an eligible funeral arrangement,

and, in applying subsections 104(4), (5), (5.2), (12), (14) and (15) and section 106 at any time, does not include

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of the definition "trust" in subsection 108(1) of the Act after paragraph (*e*.1) and before paragraph (*f*) is replaced by the following:

and, in applying subsections 104(4), (5), (5.2), (12), (14) and (15) at any time, does not include

Applicable: To the 1998 and subsequent taxation years.

Explanatory Note:

"trust"

For the purposes of the 21-year deemed disposition rule and other specified measures, subsection 108(1) of the Act defines "trust" to exclude certain listed trusts.

For these purposes, paragraph (*f*) of the definition excludes unit trusts (as defined in subsection 108(2) of the Act) and paragraph (g) excludes, except as specified, trusts all interests in which have vested indefeasibly.

This definition is amended so that section 106 of the Act is not a provision for the purposes of which paragraphs (*f*) and (g) of the definition apply. Section 106 provides rules in respect of an "income interest" (as defined in subsection 108(1) of the Act) in a "personal trust" (as defined in subsection 248(1) of the Act). As a result of this amendment, for the purpose of section 106, references to a trust will include a trust described in paragraph (g) of the definition "trust" in subsection 108(1). (As the definition "personal trust" expressly excludes a unit trust, paragraph (*f*) of the definition "trust" in subsection 108(1) is not relevant for this purpose.)

This amendment applies to the 1998 and subsequent taxation years.

(*f*) a trust that, at that time, is a unit trust, or

(*g*) a trust all interests in which, at that time, have vested indefeasibly, other than

(i) an *alter ego* trust, a joint spousal or common-law partner trust, a post-1971 spousal or common-law partner trust or a trust to which paragraph 104(4)(*a.4*) applies,

(ii) a trust that has elected under subsection 104(5.3),

(iii) a trust that has, in its return of income under this Part for its first taxation year that ends after 1992, elected that this paragraph not apply,

(iv) a trust that is at that time resident in Canada where the total fair market value at that time of all interests in the trust held at that time by beneficiaries under the trust who at that time are non-resident is more than 20% of the total fair market value at that time of all interests in the trust held at that time by beneficiaries under the trust,

(v) a trust under the terms of which, at that time, all or part of a person's interest in the trust is to be terminated with reference to a period of time (including a period of time determined with reference to the person's death), otherwise than as a consequence of terms of the trust under which an interest in the trust is to be terminated as a consequence of a distribution to the person (or the person's estate) of property of the trust if the fair market value of the property to be distributed is required to be commensurate with the fair market value of that interest immediately before the distribution, or

(vi) a trust that, before that time and after December 17, 1999, has made a distribution to a beneficiary in respect of the beneficiary's capital interest in the trust, if the distribution can reasonably be considered to have been financed by a liability of the trust and one of the purposes of incurring the liability was to avoid taxes otherwise payable under this Part as a consequence of the death of any individual.

History: S. 108(1), paragraph (*a*) of the definition "trust" was replaced by S.C. 2008, c. 28, s. 11(1), applicable to the 2009 and subsequent taxation years. S. 108(1), paragraph (*a*) of the definition "trust" formerly read:

"(*a*) an amateur athlete trust, an employee trust, a trust described in paragraph 149(1)(*o.4*) or a trust governed by a deferred profit sharing plan, an employee benefit plan, an employees profit sharing plan, a foreign retirement arrangement, a registered disability savings plan, a registered education savings plan, a registered pension plan, a registered retirement income fund, a registered retirement savings plan or a registered supplementary unemployment benefit plan,"

S. 108(1), paragraph (*a*) of the definition "trust" was replaced by S.C. 2007, c. 35, s. 110, applicable to the 2008 and subsequent taxation years. S. 108(1), paragraph (*a*) of the definition "trust" formerly read:

"(*a*) an amateur athlete trust, an employee trust, a trust described in paragraph 149(1)(*o.4*) or a trust governed by a deferred profit sharing plan, an employee benefit plan, an employees profit sharing plan, a foreign retirement arrangement, a registered education savings plan, a registered pension plan, a registered retirement income fund, a registered retirement savings plan or a registered supplementary unemployment benefit plan,"

S. 108(1), paragraph (*a.1*) of the definition "trust" was added by S.C. 2001, c. 17, s. 83(6), applicable to the 1999 and subsequent taxation years.

S. 108(1), the portion of the definition "trust" after paragraph (*e.1*), and paragraphs (*f*) and (*g*) were amended by S.C. 2001, c. 17, s. 83(7), applicable to the 1998 and subsequent taxation years, except that

(*a*) [the portion of the definition "trust" in subsection 108(1) of the Act after paragraph (*e.1*)] does not apply for the purpose of applying subparagraph (*g*)(iv) of the definition "trust" in subsection 108(1) of the Act, before December 24, 1998; and

(*b*) where the trust so elects in writing and files the election with the Minister of National Revenue on or before the trust's filing-due date for the taxation year of the trust that includes the day on which this Act receives royal assent [June 14, 2001] (or any later day that is acceptable to that Minister), subparagraph (*g*)(v) of that definition as it applies before 2001, shall be read as follows:

"(v) a trust any interest in which may become effective in the future, or"

S. 108(1), the portion of the definition "trust" after paragraph (*e.1*), and paragraphs (*f*) and (*g*) formerly read:

"and, in subsections 104(4), (5), (5.2), (12), (14) and (15), does not include

(*f*) a unit trust, or

(*g*) a trust (other than a trust described in paragraph 104(4)(*a*), a trust that has elected under subsection 104(5.3), or a trust that, in its return of income under this Part for its first taxation year ending after 1992, has elected that this subparagraph not apply) all interests in which have vested indefeasibly and no interest in which may become effective in the future."

S. 108(1), paragraph (*e.1*) in the definition "trust" was amended by S.C. 1998, c. 19, s. 129(2), applicable to the 1993 and subsequent taxation years. S. 108(1), paragraph (*e.1*) in the definition "trust" formerly read:

"(*e.1*) a trust governed by an eligible funeral arrangement,"

S. 108(1), paragraph (*e.1*) in the definition "trust" was added by S.C. 1995, c. 21, s. 61(1), applicable to the 1993 and subsequent taxation years.

S. 108(1), that portion of the definition "trust" preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 44(4), applicable to the 1993 and subsequent taxation years. That portion of the definition "trust" preceding paragraph (*a*) formerly read:

"(*j*) *'trust'* — includes an *inter vivos* trust and a testamentary trust but, in subsections 104(4), (5), (5.2), (12), (14) and (15), does not include a unit trust and, in subsections 104(4), (5), (5.2), (12), (13.1), (13.2), (14) and (15) and sections 105 to 107, does not include"

S. 108(1), paragraph (*a*) of the definition "trust" was amended by S.C. 1994, c. 7, Sched. VIII, s. 44(5), applicable to the 1988 and subsequent taxation years except that, in its application to the 1988 and 1989 taxation years, paragraph (*a*) of the definition "trust" shall be read without reference to the expression "a foreign retirement arrangement". Paragraph (*a*) of the definition "trust" formerly read:

"(*a*) a trust governed by a registered pension plan, a foreign retirement arrangement, an employees profit sharing plan, a registered supplementary unemployment benefit plan, a registered retirement savings plan, a deferred profit sharing plan, a registered education savings plan, a registered retirement income fund, an employee benefit plan, an employee trust or a trust described in paragraph 149(1)(*o.4*),"

S. 108(1), paragraphs (*e*), (*f*) and (*g*) of the definition "trust" were added by S.C. 1994, c. 7, Sched. VIII, s. 44(6), applicable to the 1993 and subsequent taxation years.

S. 108(1), paragraph (*a*) of the definition "trust" was amended by S.C. 1994, c. 7, Sched. II, s. 77(2), applicable to the 1990 and subsequent taxation years. S. 108(1), paragraph (*a*) of the definition "trust" formerly read:

"(*a*) a trust governed by a registered pension plan, an employees profit sharing plan, a registered supplementary unemployment benefit plan, a registered retirement savings plan, a deferred profit sharing plan, a registered education savings plan, a registered retirement income fund, an employee benefit plan or an employee trust, or a trust described in paragraph 149(1)(*o.4*),"

Editorial Note: The Act contains no definition as to what constitutes a "trust" *per se*; accordingly, recourse is made to the common law (or, in Quebec, to the fourth book of the *Civil Code of Québec*). In essence, a trust is created where a settlor transfers property to a trustee in circumstances such that the property is to be held for the benefit of others. The general exclusion of agency relations from qualifying as trusts does not apply to the trusts listed in paragraphs (*a*) to (*e.1*) of the definition of "trust" in s. 108(1); these include amateur athlete trusts, certain employee trusts, related segregated fund trusts, certain trusts for religious organizations, retirement compensation arrangement trusts, cemetery care trusts, and trusts governing an eligible funeral arrangement. The income designations under s. 104(13.1) and (13.2) are not available to these trusts; and s. 105 and s. 107 dealing with benefits under trusts and distributions from trusts are also not applicable.

Related Sections: S. 146.2(3) TFSA; s. 148.1(1), "Cemetery care trust", "eligible funeral arrangement"; s. 149(1)(*s.2*) Cemetery care trust; s. 248(1), "foreign retirement arrangement", "cemetery care trust".

Interpretation Bulletins: *Secondary* — IT-394R2 Preferred beneficiary election; IT-502 Employee benefit plans and employee trusts.

Tax Window Files: Application of 75(2), June 10, 2002, CRA Document No. 2002-0118255 [Given the definition of "trust" in s. 108(1) the right to use the property would constitute a "capital interest" of the trust, and consequently s. 75(2)(*a*)(i) might apply].

Cases: *Meade v. M.N.R.*, 63 DTC 997-33 (T.A.B.); *Andrews Estate v. M.N.R.*, 66 DTC 798 (T.A.B.); *Kingsdale Securities Co. Limited v. M.N.R.*, 74 DTC 6674 (F.C.A.); *Atinco Paper Products Limited v. The Queen*, 78 DTC 6387 (F.C.A.).

► 108(2) ◄

(2) When trust is a unit trust. For the purposes of this Act, a trust is a unit trust at any particular time if, at that time, it was an *inter vivos* trust the interest of each

beneficiary under which was described by reference to units of the trust, and

(*a*) the issued units of the trust included

(i) units having conditions attached thereto that included conditions requiring the trust to accept, at the demand of the holder thereof and at prices determined and payable in accordance with the conditions, the surrender of the units, or fractions or parts thereof, that are fully paid, or

(ii) units qualified in accordance with prescribed conditions relating to the redemption of the units by the trust,

and the fair market value of such of the units as had conditions attached thereto that included such conditions or as were so qualified, as the case may be, was not less than 95% of the fair market value of all of the issued units of the trust (such fair market values being determined without regard to any voting rights attaching to units of the trust);

(*b*) each of the following conditions was satisfied:

(i) throughout the taxation year that includes the particular time (in this paragraph referred to as the "current year"), the trust was resident in Canada,

(ii) throughout the period or periods (in this paragraph referred to as the "relevant periods") that are in the current year and throughout which the conditions in paragraph (*a*) are not satisfied in respect of the trust, its only undertaking was

(A) the investing of its funds in property (other than real property or an interest in real property),

(B) the acquiring, holding, maintaining, improving, leasing or managing of any real property or an interest in real property, that is capital property of the trust, or

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Clauses 108(2)(*b*)(ii)(A) and (B) of the Act are replaced by the following:

(A) the investing of its funds in property (other than real property or an interest in real property or an immovable or a real right in an immovable),

(B) the acquiring, holding, maintaining, improving, leasing or managing of any real property or an interest in real property, or of any immovable or a real right in immovables, that is capital property of the trust, or

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(C) any combination of the activities described in clauses (A) and (B),

(iii) throughout the relevant periods at least 80% of its property consisted of any combination of

(A) shares,

(B) any property that, under the terms or conditions of which or under an agreement, is convertible into, is exchangeable for or confers a right to acquire, shares,

(C) cash,

(D) bonds, debentures, mortgages, hypothecary claims, notes and other similar obligations,

(E) marketable securities,

(F) real property situated in Canada and interests in real property situated in Canada, and

(G) rights to and interests in any rental or royalty computed by reference to the amount or value of production from a natural accumulation of petroleum or natural gas in Canada, from an oil or gas well in Canada or from a mineral resource in Canada,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Clauses 108(2)(*b*)(iii)(F) and (G) of the Act are replaced by the following:

(F) real property situated in Canada, and interests in such real property, or immovables situated in Canada and real rights in such immovables, and

(G) rights to and interests in — or, for civil law, rights in or to — any rental or royalty computed by reference to the amount or value of production from a natural accumulation of petroleum or natural gas in Canada, from an oil or gas well in Canada or from a mineral resource in Canada,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(iv) either

(A) not less than 95% of its income for the current year (computed without regard to subsections 49(2.1) and 104(6)) was derived from, or from the disposition of, investments described in subparagraph (iii), or

(B) not less than 95% of its income for each of the relevant periods (computed without regard to subsections 49(2.1) and 104(6) and as though each of those periods were a taxation year) was derived from, or from the disposition of, investments described in subparagraph (iii),

(v) throughout the relevant periods, not more than 10% of its property consisted of bonds, securities or shares in the capital stock of any one corporation or debtor other than Her Majesty in right of Canada or a province or a Canadian municipality, and

(vi) where the trust would not be a unit trust at the particular time if this paragraph were read without reference to this subparagraph and subparagraph (iii) were read without reference to clause (F), the units of the trust are listed at any time in the current year or in the following taxa-

tion year on a designated stock exchange in Canada, or

(*c*) the fair market value of the property of the trust at the end of 1993 was primarily attributable to real property (or an interest in real property), the trust was a unit trust throughout any calendar year that ended before 1994 and the fair market value of the property of the trust at the particular time is primarily attributable to property described in paragraph (*a*) or (*b*) of the definition "qualified investment" in section 204, real property (or an interest in real property) or any combination of those properties.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 108(2)(*c*) of the Act is replaced by the following:

(*c*) the fair market value of the property of the trust at the end of 1993 was primarily attributable to real property or an interest in real property — or to immovables or a real right in immovables — and the trust was a unit trust throughout any calendar year that ended before 1994 and the fair market value of the property of the trust at the particular time is primarily attributable to property described in paragraph (*a*) or (*b*) of the definition "qualified investment" in section 204, real property or an interest in real property — or immovables or a real right in immovables — or any combination of those properties.

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

Department of Finance Comfort Letter [Computation of Income for Purposes of Qualifying as a Unit Trust]

March 7, 2003

Dear XXXX:

Thank you for your letter of October 17, 2002, concerning the interaction of paragraph 108(2)(*b*) and subsection 39(2) of the *Income Tax Act*.

As you know, if the issued units of a trust do not meet the conditions of paragraph 108(2)(*a*) of the Act, the trust must at that time meet the requirements of paragraph 108(2)(*b*) or (*c*) in order to qualify at any time as a "unit trust" under the Act. For a trust that relies upon paragraph 108(2)(*b*), subparagraph 108(2)(*b*)(iii) imposes upon the trust the condition that at least 80% of the trust's property consist of any combination of property described in clauses 108(2)(*b*)(iii)(A) to (G). Subparagraph 108(2)(*b*)(iv) requires, in general terms, that at least 95% of the trust's income over certain periods of time be derived from investments, or dispositions of investments, in property described in subparagraph (iii).

Subsection 39(2) of the Act deems certain gains resulting from the fluctuation in value of foreign currency to be capital gains from the disposition of foreign currency.

In your letter, you describe a trust that seeks to rely on paragraph 108(2)(*b*) to qualify as a unit trust. Some of the trust's property may consist of foreign investments. The trust may seek to minimize its risk of foreign currency fluctuations by funding its foreign investments with debt denominated in the foreign currency in which those foreign investments are denominated. We assume that the trust carries on, at all relevant times, these activities in a manner that permits it to satisfy the limitations, in subparagraph 108(2)(*b*)(ii), on its undertaking.

You are concerned that the portion, if any, of the trust's income in a given year that arises from the application of subsection 39(2) would not be income derived from investments, or the disposition of investments, described in subparagraph 108(2)(*b*)(iii), such that the trust might not be able to satisfy the conditions of subparagraph 108(2)(*b*)(iv). As a result, you are seeking an amendment to subparagraph 108(2)(*b*)(iv) so that the trust's income would be computed without regard to subsection 39(2).

In our view, the deemed capital gains that arise because of the application of subsection 39(2) should not be included in computing the income of a trust for the purpose of subparagraph 108(2)(*b*)(iv). We are, therefore, prepared to recommend a clarifying amendment to the Act so that, in applying subparagraph 108(2)(*b*)(iv), the trust's income would be computed without regard to subsection 39(2). We will also recommend that such an amendment apply for the 2003 and subsequent taxation years.

Of course, we cannot offer any assurance that either the Minister of Finance or Parliament will agree with the recommendation that we intend to make in this regard. Nonetheless, we trust that this statement of our position is helpful.

Thank you for writing.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 108(2)(*b*)(vi) was replaced by S.C. 2007, c. 35, s. 28(1), applicable on and after December 14, 2007. S. 108(2)(*b*)(vi) formerly read:

"(vi) where the trust would not be a unit trust at the particular time if this paragraph were read without reference to this subparagraph and subparagraph (iii) were read without reference to clause (F), the units of the trust are listed at any time in the current year or in the following taxation year on a prescribed stock exchange in Canada, or"

S. 108(2)(*b*) was amended by S.C. 2001, c. 17, s. 83(9), applicable to the 1998 and subsequent taxation years. S. 108(2)(*b*) formerly read:

"(*b*) throughout the taxation year in which the particular time occurred

(i) it was resident in Canada,

(ii) its only undertaking was

(A) the investing of its funds in property (other than real property or an interest in real property),

(B) the acquiring, holding, maintaining, improving, leasing or managing of any real property, or interest in real property, that is capital property of the trust, or

(C) any combination of the activities described in clauses (A) and (B),

(iii) at least 80% of its property consisted of any combination of

(A) shares,

(B) any property that, under the terms or conditions of which or under an agreement, is convertible into, is exchangeable for or confers a right to acquire, shares,

(C) cash,

(D) bonds, debentures, mortgages, notes and other similar obligations,

(E) marketable securities,

(F) real property situated in Canada and interests in such property, and

(G) rights to and interests in any rental or royalty computed by reference to the amount or value of production from a natural accumulation of petroleum or natural gas in Canada, from an oil or gas well in Canada or from a mineral resource in Canada,

(iv) not less than 95% of its income (determined without reference to subsections 49(2.1) and 104(6)) for the year was derived from, or from the disposition of, investments described in subparagraph (iii), and

(v) not more than 10% of its property consisted of bonds, securities or shares in the capital stock of any one corporation or debtor other than Her Majesty in right of Canada or a province or a Canadian municipality,

and, where the trust would not be a unit trust at the particular time if subparagraph (iii) were read without reference to the words 'real property (or interests in real property) situated in Canada', the units of the trust are listed at any time in the year or in the following taxation year on a prescribed stock exchange in Canada, or"

S. 108(2)(*b*)(ii)(A) was amended by S.C. 1998, c. 19, s. 129(3), applicable to the 1994 and subsequent taxation years. S. 108(2)(*b*)(ii)(A) formerly read:

"(A) the investing of its funds in property (other than real property),"

S. 108(2)(*b*)(ii)(B) was amended by S.C. 1998, c. 19, s. 129(3), applicable to the 1994 and subsequent taxation years. S. 108(2)(*b*)(ii)(B) formerly read:

"(B) the acquiring, holding, maintaining, improving, leasing or managing of any real property that is capital property of the trust, or"

S. 108(2)(*b*)(iii) was amended by S.C. 1998, c. 19, s. 129(4), applicable to the 1994 and subsequent taxation years. S. 108(2)(*b*)(iii) formerly read:

"(iii) at least 80% of its property consisted of any combination of shares, bonds, mortgages, marketable securities, cash, real property situated in Canada or rights to or interests in any rental or royalty computed by reference to the amount or value of production from a natural accumulation of petroleum or natural gas in Canada, from an oil or gas well in Canada or from a mineral resource in Canada,"

S. 108(2)(*b*) after subparagraph (v) was amended by S.C. 1998, c. 19, s. 129(5), applicable to the 1994 and subsequent taxation years. S. 108(2)(*b*) after subparagraph (v) formerly read:

"and, where the trust would not be a unit trust at the particular time if subparagraph (iii) were read without reference to the words 'real property situated in Canada', the units of the trust are listed at any time in the year or in the following taxation year on a prescribed stock exchange in Canada."

S. 108(2)(*c*) was added by S.C. 1998, c. 19, s. 129(6), applicable to the 1994 and subsequent taxation years.

S. 108(2)(*b*) was amended by S.C. 1995, c. 21, s. 66(1), applicable to the 1994 and subsequent taxation years. S. 108(2)(*b*) formerly read:

"(*b*) throughout the taxation year in which the particular time occurred it complied with the following conditions:

(i) it was resident in Canada,

(ii) its only undertaking was the investing of funds of the trust,

(iii) at least 80% of its property throughout the year consisted of shares, bonds, mortgages, marketable securities, cash or rights to or interests in any rental or royalty computed by reference to the amount or value of production from a natural accumulation of petroleum or natural gas in Canada, from an oil or gas well in Canada or from a mineral resource in Canada,

(iv) not less than 95% of its income (determined without reference to subsections 49(2.1) and 104(6)) for the year was derived from, or from dispositions of, investments described in subparagraph (iii),

(v) at no time in the year did more than 10% of its property consist of shares, bonds or securities of any one corporation or debtor other than Her Majesty in right of Canada or a province or a Canadian municipality, and

(vi) where there were prescribed for the purposes of this subparagraph conditions relating to the number of unit holders, dispersal of ownership of its units or public trading of its units, all holdings of and transactions in its units accorded with those conditions."

S. 108(2)(*b*)(iv) was amended by S.C. 1994, c. 7, Sched. II, s. 77(3), applicable to the 1990 and subsequent taxation years. S. 108(2)(*b*)(iv) formerly read:

"(iv) not less than 95% of its income for the year was derived from, or from dispositions of, investments described in subparagraph (iii),"

Related Sections: S. 131(8) Meaning of "mutual fund corporation"; s. 132(6) Meaning of "mutual fund trust"; s. 248(4) Interest in real property; s. 253.1 Investments in limited partnerships.

Income Tax Technical News: Issue No. 6, Mutual funds trading in futures contracts and forward contracts.

Tax Profile: April 2004 — 2004 Budget Imposes Restrictions on Pension Funds Investing in Business Income Trusts; April 2004 — Cross-Border Income Trusts — New Variations.

Canadian Petroleum Tax Journal: Taxation Issues Relating to Royalty Trusts and Income Funds, Robert D. Penner, Vol. 10 No. 1 1997.

Tax Window Files: Unit Trust — Suspension of Redemption Rights, January 11, 2006, CRA Document No. 2005-0152491R3 [Suspension of Redemption Rights — the trust would not cease to qualify as a unit trust as a result of the temporary suspension of the right to redeem the units of the trust].

► 108(3) ◄

(3) Income of a trust in certain provisions. For the purposes of the definition "income interest" in subsection (1), the income of a trust is its income computed without reference to the provisions of this Act and, for the purposes of the definition "pre-1972 spousal trust" in subsection (1) and paragraphs 70(6)(*b*) and (6.1)(*b*), 73(1.01)(*c*) and 104(4)(*a*), the income of a trust is its income computed without reference to the provisions of this Act, minus any dividends included in that income

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 108(3) of the Act before paragraph (*a*) is replaced by the following:

(3) Income of a trust in certain provisions. For the purposes of the definitions "income interest" in subsection (1), "lifetime benefit trust" in subsection 60.011(1) and "exempt foreign trust" in subsection 94(1), the income of a trust is its income computed without reference to the provisions of this Act and, for the purposes of the definition "pre-1972 spousal trust" in subsection (1) and paragraphs 70(6)(*b*) and (6.1)(*b*), 73(1.01)(*c*) and 104(4)(*a*), the income of a trust is its income computed without reference to the provisions of this Act, minus any dividends included in that income

Applicable: To trust taxation years that begin after 2000.

Explanatory Note:

Income of a Trust in Certain Provisions

Subsection 108(3) of the Act provides that, for the purposes of the definition "income interest" in subsection 108(1), the income of a trust is its income computed without reference to the provisions of the Act.

Subsection 108(3) is amended so that the rule described above also applies for the purposes of the definitions "life-time benefit trust" in subsection 60.011(1) and "exempt foreign trust" in new subsection 94(1).

This amendment applies to trust taxation years that begin after 2000.

(*a*) that are amounts not included by reason of section 83 in computing the income of the trust for the purposes of the other provisions of this Act;

(*b*) that are described in subsection 131(1); or

(*c*) to which subsection 131(1) applies by reason of subsection 130(2).

History: S. 108(3), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 83(10), applicable to the 2000 and subsequent taxation years, except for the purpose of applying section 73 of the Act to transfers that occur before 2000. S. 108(3), the portion before paragraph (*a*) formerly read:

"(3) *Meaning of 'income' of trust.* For the purposes of the definition 'income interest' in subsection (1), the income of a trust is its income computed without reference to the provisions of this Act and, for the purposes of the definition 'pre-1972 spousal trust' in subsection (1) and paragraphs 70(6)(*b*) and (6.1)(*b*), 73(1)(*c*) and 104(4)(*a*), the income of a trust is its income computed without reference to the provisions of this Act, minus any dividends included therein"

S. 108(3), that portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 44(7), applicable to the 1991 and subsequent taxation years. S. 108(3), that portion preceding paragraph (*a*), formerly read:

"(3) *Income of a trust in certain provisions.* For the purposes of the definition 'income interest' in subsection (1), the income of a trust is its income computed without reference to the provisions of this Act and, for the purposes of subparagraphs 70(6)(*b*)(i), 73(1)(*c*)(i) and 104(4)(*a*)(iii), the income of a trust is its income computed without reference to the provisions of this Act, minus any dividends included therein"

Editorial Note: The trust's "income computed without reference to the provisions of this Act" is understood to mean the trust's income for trust law purposes. At trust law, dividends are classified as income or capital pursuant to the "form rule".

Related Sections: S. 104(1) Reference to trust or estate; s. 248(1), "dividend", "trust".

Interpretation Bulletins: *Secondary* — IT-305R4 Testamentary spouse trusts.

Canadian Tax Foundation: Chan and Morin, "Distributions by Canadian Testamentary Trusts", *2005 Canadian Tax Journal, Vol. 53, No. 4*, 1090-1110; Hoffstein, "Selected Non-Tax Considerations in Estate Planning", *2000 Tax Conference*, 31:1-68.

Tax Window Files: Capital Dividend Received by a Spousal Trust, September 17, 2004, CRA Document No. 2004-0060161E5 [Dividends: distinguishing income from capital].

Cases: In determining whether a corporate distribution is to be considered income or capital by the trust receiving it, "form is substance". *Waters v. Toronto General Trusts Corporation et al.*, 56 DTC 1113 [1956] S.C.R. 889 [S.C.C.].

► 108(4) ◄

(4) Trust not disqualified. For the purposes of the definition "pre-1972 spousal trust" in subsection (1), subparagraphs 70(6)(*b*)(ii) and (6.1)(*b*)(ii) and paragraphs 73(1.01)(*c*) and 104(4)(*a*), where a trust was created by a taxpayer whether by the taxpayer's will or otherwise, no person is deemed to have received or otherwise obtained or to be entitled to receive or otherwise obtain the use of any income or capital of the trust solely because of the payment, or provision for payment, as the case may be, by the trust of

(*a*) any estate, legacy, succession or inheritance duty payable, in consequence of the death of the taxpayer, or a spouse or common-law partner of the taxpayer who is a beneficiary under the trust, in respect of any property of, or interest in, the trust; or

(*b*) any income or profits tax payable by the trust in respect of any income of the trust.

History: S. 108(4) was amended by S.C. 2001, c. 17, s. 83(11), applicable to the 2000 and subsequent taxation years, except for the purpose of applying section 73 of the Act to transfers that occur before 2000. S. 108(4) formerly read:

"(4) *Trust not disqualified.* For the purposes of the definition 'pre-1972 spousal trust' in subsection (1) and subparagraphs 70(6)(*b*)(ii) and (6.1)(*b*)(ii), 73(1)(*c*)(ii) and 104(4)(*a*)(iv), where a trust was created by a taxpayer whether by the taxpayer's will or otherwise, a person, other than the taxpayer's spouse or common-law partner, shall be deemed not to have received or otherwise obtained or to be entitled to receive or otherwise obtain the use of any income or capital of the trust solely because of the payment, or provision for payment, as the case may be, by the trust of

(*a*) any estate, legacy, succession or inheritance duty payable, in consequence of the taxpayer's death, in respect of any property of, or interest in, the trust; or

(*b*) any income or profits tax payable by the trust in respect of any income of the trust."

S. 108(4), the portion before paragraph (*a*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.3), applicable January 1, 2001, coming into force on July 31, 2000. S. 108(4), the portion before paragraph (*a*) formerly read:

"(4) *Trust not disqualified.* For the purposes of the definition 'pre-1972 spousal trust' in subsection (1) and subparagraphs 70(6)(*b*)(ii) and (6.1)(*b*)(ii), 73(1)(*c*)(ii) and 104(4)(*a*)(iv), where a trust was created by a taxpayer whether by the taxpayer's will or otherwise, a person, other than the taxpayer's spouse, shall be deemed not to have received or otherwise obtained or to be entitled to receive or otherwise obtain the use of any income or capital of the trust solely because of the payment, or provision for payment, as the case may be, by the trust of"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 108(4), that portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 44(8), applicable to the 1991 and subsequent taxation years. S. 108(4), that portion preceding paragraph (*a*), formerly read:

"(4) *Trust not disqualified by reason only of payment of certain duties and taxes.* For greater certainty, for the purposes of subparagraphs 70(6)(*b*)(ii), 73(1)(*c*)(ii) and 104(4)(*a*)(iv), where a trust has been created by a taxpayer whether by the taxpayer's will or otherwise, a person, other than the taxpayer's spouse, shall be deemed not to have received or otherwise obtained or to be entitled to receive or otherwise obtain the use of any of the income or capital of the trust, by reason only of the payment, or provision for payment, by the trust of"

Editorial Note: S. 108(4) prevents a spouse trust from being disqualified as such solely because of a provision in the trust instrument for payment of any estate, legacy, succession or inheritance duty or any income or profits tax.

Related Sections: S. 104(1) Reference to trust or estate; s. 248(1), "common-law partner", "trust", s. 248(8) Occurrences as a consequence of death; s. 248(9) Definitions.

Interpretation Bulletins: *Secondary* — IT-305R4 Testamentary spouse trust.

Tax Window Files: Spousal Trust, December 7, 1990, CRA Document No. DC90_208.209 [By virtue of s. 108(4)(*b*), payment by a trust of the income tax liability resulting from taxable capital gains realized by it would not be contrary to the provisions of s. 70(6)(*b*)(ii)].

► 108(5) ◄

(5) Interpretation. Except as otherwise provided in this Part,

(*a*) an amount included in computing the income for a taxation year of a beneficiary of a trust under subsection 104(13) or (14) or section 105 shall be deemed to be income of the beneficiary for the year from a property that is an interest in the trust and not from any other source, and

(*b*) an amount deductible in computing the amount that would, but for subsections 104(6) and (12), be the income of a trust for a taxation year shall not be deducted by a beneficiary of the trust in computing the beneficiary's income for a taxation year,

but, for greater certainty, nothing in this subsection shall affect the application of subsection 56(4.1), sections 74.1 to 75 and 120.4 and subsection 160(1.2) of this Act and section 74 of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952.

History: S. 108(5), the portion after paragraph (*b*) was amended by S.C. 2000, c. 19, s. 16(2), applicable to the 2000 and subsequent taxation years. S. 108(5), the portion after paragraph (*b*) formerly read:

"but, for greater certainty, nothing in this subsection shall affect the application of subsection 56(4.1) and sections 74.1 to 75 of this Act and section 74 of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952."

Editorial Note: Except as otherwise provided in Part I, s. 108(5) deems amounts received by a beneficiary from a trust to be income from property. Thus, generally, an amount received by a beneficiary of a trust loses its original character and identity as a particular type of income. There are several exceptions to s. 108(5)(*a*) which allow the income of the trust resident in Canada to retain its character. These exceptions can be found in s. 104(19) (taxable dividend), s. 104(20) (dividend other than taxable dividend), s. 104(21) (taxable capital gains), s. 104(22) (foreign source income), s. 104(27) (pension benefits), and s. 127(7) (investment tax credit), etc. These provisions are generally referred to as the flow-through provisions.

S. 108(5) does not affect the attribution rules in ss. 74.1 to 75; so, income from property (i.e., interest and dividend income) and the capital gains of the trust keep their nature for the purposes of these rules. Similarly, s. 108(5) does not affect the tax on split income of minor children imposed under s. 120.4.

Interpretation Bulletins: *Secondary* — IT-243R4, Dividend Refund to Private Corporations.

Tax Window Files: Property Held in Trust for Corporation, October 8, 2004, CRA Document No. 2004-0086931C6 [Income from the rental property held by the trust would be included in Holdco's income under s. 104(13) and would be deemed by s. 108(5) to be income from property that is an interest in the trust].

► 108(6) ◄

(6) Variation of trusts. Where at any time the terms of a trust are varied

(*a*) for the purposes of subsections 104(4), (5) and (5.2) and subject to paragraph (*b*), the trust is, at and after that time, deemed to be the same trust as, and a continuation of, the trust immediately before that time;

(*b*) for greater certainty, paragraph (*a*) does not affect the application of paragraph 104(4)(*a*.1); and

(*c*) for the purposes of paragraph 53(2)(*h*), subsection 107(1), paragraph (*j*) of the definition "excluded right or interest" in subsection 128.1(10) and the definition "personal trust" in subsection 248(1), no interest of a beneficiary under the trust before it was varied is considered to be consideration for the interest of the beneficiary in the trust as varied.

History: S. 108(6) was amended by S.C. 2001, c. 17, s. 83(12), applicable to the 2000 and subsequent taxation years. S. 108(6) formerly read:

"(6) *Variation of trusts.* For the purposes of subsections 104(4), (5) and (5.2), where at any time the terms of a trust are varied, the trust shall at and after that time be deemed to be the same trust as, and a continuation of, the trust immediately before that time, but, for greater certainty, nothing in this subsection affects the application of paragraph 104(4)(*a.1*)."

S. 108(6) was added by S.C. 1994, c. 7, Sched. VIII, s. 44(9), applicable to variations occurring after February 11, 1991.

Editorial Note: Essentially, this anti-avoidance rule provides that, for purposes of the 21-year deemed realization rules, a trust will not be treated as a separate trust by reason of a variation of its terms. The purpose of this provision is to ensure that a trust may not delay the application of the deemed realization rules by means of a variation of its terms. An exception is made re pre-1972 spousal trusts.

Related Sections: S. 104(1) Reference to trust or estate; s. 248(1), "trust".

► 108(7) ◄

(7) Interests acquired for consideration. For the purposes of paragraph 53(2)(*h*), subsection 107(1), paragraph (*j*) of the definition "excluded right or interest" in subsection 128.1(10) and the definition "personal trust" in subsection 248(1),

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 108(7) of the Act before paragraph (*a*) is replaced by the following:

(7) Interests acquired for consideration. For the purposes of paragraph 53(2)(*h*), paragraph (*b*) of the definition "exempt amount" in subsection 94(1), subsection 107(1), paragraph (*j*) of the definition "excluded right or interest" in subsection 128.1(10) and paragraph (*b*) of the definition "personal trust" in subsection 248(1),

Applicable: In determining after 2006 (or, where section 94 applies to a taxation year of the trust that begins before 2007, on or after the first day of the first such taxation year to which that section applies), whether an interest in a trust has been acquired for consideration.

Explanatory Note:

Interests Acquired for Consideration

Subsection 108(7) of the Act contains a rule that, in general terms, provides that a person (or two or more related persons) can make a contribution to a trust and retain an interest under the trust without the interest being considered to have been acquired for consideration. This rule applies for the purposes of paragraph 53(2)(*h*), subsection 107(1), paragraph (*j*) of the definition "excluded right or interest" in subsection 128.1(10) and the definition "personal trust" in subsection 248(1).

Subsection 108(7) is amended so that it also applies for the purpose of paragraph (*b*) of the definition "exempt amount" in subsection 94(1). For more detail on that definition, see the commentary above.

This amendment applies in determining after 2006 whether an interest in a trust has been acquired for consideration.

(*a*) an interest in a trust is deemed not to be acquired for consideration solely because it was acquired in satisfaction of any right as a beneficiary under the trust to enforce payment of an amount by the trust; and

(*b*) where all the beneficial interests in a particular *inter vivos* trust acquired by way of the transfer, assignment or other disposition of property to the particular trust were acquired by

(i) one person, or

(ii) two or more persons who would be related to each other if

(A) a trust and another person were related to each other, where the other person is a beneficiary under the trust or is related to a beneficiary under the trust, and

(B) a trust and another trust were related to each other, where a beneficiary under the trust is a beneficiary under the other trust or is related to a beneficiary under the other trust,

any beneficial interest in the particular trust acquired by such a person is deemed to have been acquired for no consideration.

History: S. 108(7) was added by S.C. 2001, c. 17, s. 83(12), applicable after December 23, 1998.

Editorial Note: S. 108(7) provides that an individual who contributes property to the trust and who is also a beneficiary of the trust will not be considered to have acquired such interest for consideration provided that all other beneficial interests in the trust that were acquired by way of a transfer, assignment or other disposition of property to the trust were acquired by persons related to that individual. This permits such a trust to qualify as personal trust.

Related Sections: S. 108(1), "beneficiary", "inter vivos trust", "trust"; s. 248(1), "amount", "disposition", "property"; s. 251(2) Definition of "related persons"; s. 251(3) Corporations related through a third corporation; s. 251(3.1) Relation where amalgamation or merger; s. 251(3.2) Amalgamation of related corporations; s. 251(4) Definitions concerning groups; s. 251(5) Control by related groups, options, etc; s. 251(6) Blood relationship, etc.

Tax Window Files: Qualified Small Business Corporation Share — Holding Period Test, February 4, 2002, CRA Document No. 2001-0110035 [Per s. 108(7) a self-directed RRSP qualified as a personal trust; accordingly, the holding period requirement in the definition of qualified small business corporation shares includes time that the individual held shares in his self directed RRSO].

DIVISION C — Computation of Taxable Income

SECTION 109: Deductions permitted by individuals.

[Section 109 (except as noted below) was repealed by 1988, c. 55, s. 76. Paragraph 109(1)(*i*) was repealed by 1976-77, c. 4, s. 42(2). Subsection 109(3) was repealed by S.C. 1985, c. 45, s. 53(3)].

SECTION 110:

► 110(1) ◄

(1) Deductions permitted. For the purpose of computing the taxable income of a taxpayer for a taxation year, there may be deducted such of the following amounts as are applicable:

Related Sections: S. 111.1 Order of applying provisions; s. 127.5 Obligation to pay minimum tax.

Interpretation Bulletins: *Secondary* — IT-151R5 (Consolid.) — Scientific research and experimental development expenditures; IT-151R4 Scientific research and experimental development expenditures [Archived by the CRA]; IT-171R2 Non-resident individuals — Computation of taxable income earned in Canada and non-refundable tax credits [Archived by the CRA]; IT-232R3 Losses — Their Deductibility in the Loss Year or in Other Years [Archived by the CRA].

► 110(1)(a) ◄

(a) Charitable gifts — [Repealed by 1988, c. 55, s. 77(1).]

► 110(1)(b) ◄

(b) Gifts to Her Majesty — [Repealed by 1988, c. 55, s. 77(1).]

► 110(1)(b.1) ◄

(b.1) Gifts to institutions — [Repealed by 1988, c. 55, s. 77(1).]

► 110(1)(c) ◄

(c) Medical expenses — [Repealed by 1988, c. 55, s. 77(1).]

► 110(1)(d) ◄

(d) Employee options — an amount equal to ½ of the amount of the benefit deemed by subsection 7(1) to have been received by the taxpayer in the year in respect of a security that a particular qualifying person has agreed after February 15, 1984 to sell or issue under an agreement, or in respect of the transfer or other disposition of rights under the agreement, if

(i) the security

(A) is a prescribed share at the time of its sale or issue, as the case may be,

(B) would have been a prescribed share if it were issued or sold to the taxpayer at the time the taxpayer disposed of rights under the agreement,

(C) would have been a unit of a mutual fund trust at the time of its sale or issue if those units issued by the trust that were not identical to the security had not been issued, or

(D) would have been a unit of a mutual fund trust if

(I) it were issued or sold to the taxpayer at the time the taxpayer disposed of rights under the agreement, and

(II) those units issued by the trust that were not identical to the security had not been issued,

(ii) where rights under the agreement were not acquired by the taxpayer as a result of a disposition of rights to which subsection 7(1.4) applied,

(A) the amount payable by the taxpayer to acquire the security under the agreement is not less than the amount by which

(I) the fair market value of the security at the time the agreement was made

exceeds

(II) the amount, if any, paid by the taxpayer to acquire the right to acquire the security, and

(B) at the time immediately after the agreement was made, the taxpayer was dealing at arm's length with

(I) the particular qualifying person,

(II) each other qualifying person that, at the time, was an employer of the taxpayer and was not dealing at arm's length with the particular qualifying person, and

(III) the qualifying person of which the taxpayer had, under the agreement, a right to acquire a security, and

(iii) where rights under the agreement were acquired by the taxpayer as a result of one or more dispositions to which subsection 7(1.4) applied,

(A) the amount payable by the taxpayer to acquire the security under the agreement is not less than the amount that was included, in respect of the security, in the amount determined under subparagraph 7(1.4)(*c*)(ii) with respect to the most recent of those dispositions,

(B) at the time immediately after the agreement the rights under which were the subject of the first of those dispositions (in this subparagraph referred to as the "original agreement") was made, the taxpayer was dealing at arm's length with

(I) the qualifying person that made the original agreement,

(II) each other qualifying person that, at the time, was an employer of the taxpayer and was not dealing at arm's length with the qualifying person that made the original agreement, and

(III) the qualifying person of which the taxpayer had, under the original agreement, a right to acquire a security,

(C) the amount that was included, in respect of each particular security that the taxpayer had a right to acquire under the original agreement, in the amount determined under subparagraph 7(1.4)(*c*)(iv) with respect to the first of those

dispositions was not less than the amount by which

(I) the fair market value of the particular security at the time the original agreement was made

exceeded

(II) the amount, if any, paid by the taxpayer to acquire the right to acquire the security, and

(D) for the purpose of determining if the condition in paragraph 7(1.4)(*c*) was satisfied with respect to each of the particular dispositions following the first of those dispositions,

(I) the amount that was included, in respect of each particular security that could be acquired under the agreement the rights under which were the subject of the particular disposition, in the amount determined under subparagraph 7(1.4)(*c*)(iv) with respect to the particular disposition

was not less than

(II) the amount that was included, in respect of the particular security, in the amount determined under subparagraph 7(1.4)(*c*)(ii) with respect to the last of those dispositions preceding the particular disposition;

History: S. 110(1)(*d*), the portion before subparagraph (i) was amended by S.C. 2001, c. 17, s. 84(1), applicable to the 2000 and subsequent taxation years except that, for the 2000 taxation year, the reference to the fraction "1/2" in the portion of paragraph 110(1)(*d*) of the Act before subparagraph 110(1)(*d*)(i) shall be read as a reference to the fraction "1/4", if the transaction, event or circumstance as a result of which a benefit is deemed by subsection 7(1) of the Act to have been received by a taxpayer occurred before February 28, 2000, and the fraction 1/3, if the transaction, event or circumstance as a result of which a benefit is deemed by subsection 7(1), to have been received by a taxpayer occurred after February 27, 2000 and before October 18, 2000. S. 110(1)(*d*), the portion before subparagraph (i) formerly read:

"(*d*) *Employee options* — an amount equal to 1/4 of the amount of the benefit deemed by subsection 7(1) to have been received by the taxpayer in the year in respect of a security that a particular qualifying person has agreed after February 15, 1984 to sell or issue under an agreement, or in respect of the transfer or other disposition of rights under the agreement, if"

Ss. 110(1)(*d*)(ii) and (iii) were amended by S.C. 2001, c. 17, s. 84(2), applicable to the 1998 and subsequent taxation years. Ss. 110(1)(*d*)(ii) and (iii) formerly read:

"(ii) where rights under the agreement were not acquired by the taxpayer as a result of the disposition of rights to which subsection 7(1.4) applied,

(A) the amount payable by the taxpayer to acquire the security under the agreement (determined without reference to any change in the value of a currency of a country other than Canada relative to Canadian currency during the period between the time the agreement was made and the time the security was acquired) is not less than the amount by which

(I) the fair market value of the security at the time the agreement was made

exceeds

(II) the amount, if any, paid by the taxpayer to acquire the right to acquire the security, and

(B) immediately after the agreement was made, the taxpayer was dealing at arm's length with the particular person and with each qualifying person with which the particular person was not dealing at arm's length, and

(iii) where rights under the agreement were acquired by the taxpayer as a result of one or more dispositions to which subsection 7(1.4) applied,

(A) the amount payable by the taxpayer, to acquire the old security under the exchanged option in respect of the first of those dispositions (determined without reference to any change in the value of a currency of a country other than Canada relative to Canadian currency during the period between the time the agreement was made and the time the security was acquired), was not less than the amount by which

(I) the fair market value of the old security at the time the agreement in respect of the exchanged option was made

exceeds

(II) the amount, if any, paid by the taxpayer to acquire the right to acquire the old security, and

(B) immediately after each of those dispositions, the taxpayer was dealing at arm's length with

(I) the qualifying person with whom the taxpayer entered into an agreement to receive consideration in respect of the disposition, and

(II) each qualifying person with which the qualifying person described in subclause (I) did not deal at arm's length;"

S. 110(1)(*d*) was amended by S.C. 1999, c. 22, s. 26(1), applicable to the 1998 and subsequent taxation years. S. 110(1)(*d*) formerly read:

"(*d*) *Employee stock options* — where, after February 15, 1984,

(i) a corporation has agreed to sell, issue or cause to be issued to the taxpayer a share of its capital stock or of the capital stock of another corporation with which it does not deal at arm's length,

(ii) the share was a prescribed share at the time of its sale or issue, as the case may be, or, where the taxpayer has disposed of rights under the agreement, the share would have been a prescribed share if it were issued or sold to the taxpayer at the time the taxpayer disposed of such rights,

(iii) the amount payable by the taxpayer to acquire the share under the agreement (determined without reference to any change in the value of a currency of a country other than Canada relative to Canadian currency during the period between the time the agreement was made and the time the share was acquired) is not less than the amount by which

(A) the fair market value of the share at the time the agreement was made

exceeds

(B) the amount, if any, paid by the taxpayer to acquire the right to acquire the share,

or where the rights under the agreement were acquired by the taxpayer as a result of one or more dispositions of rights to which subsection 7(1.4) applied, the amount payable by the taxpayer to acquire the old share under the original option (determined without reference to any change in the value of a currency of a country other than Canada relative to Canadian currency during the period between the time the agreement was made and the time the share was acquired) that was disposed of in consideration for a new option in the first such disposition was not less than the amount by which

(C) the fair market value of the old share at the time the agreement in respect of the original option was made

exceeds

(D) the amount, if any, paid by the taxpayer to acquire the right to acquire the old share, and

(iv) at the time immediately after the agreement was made and, where the rights under the agreement were acquired by the taxpayer as a result of one or more dispositions to which subsection 7(1.4) applied, at the time the agreement in respect of the original option was made and at the time immediately after each disposition, the taxpayer was dealing at arm's length with the corporation, the other corporation and the corporation of which the taxpayer is an employee,

an amount equal to 1/4 of the amount of the benefit deemed by subsection 7(1) to have been received by the taxpayer in the year in respect of the share or the transfer or other disposition of the rights under the agreement;"

S. 110(1)(*d*)(iii) was amended by S.C. 1994, c. 21, s. 49(1), applicable to the 1992 and subsequent taxation years. S. 110(1)(*d*)(iii) formerly read:

"(iii) the amount payable by the taxpayer to acquire the share under the agreement is not less than the amount by which

(A) the fair market value of the share at the time the agreement was made

exceeds

(B) the amount, if any, paid by the taxpayer to acquire the right to acquire the share,

or where the rights under the agreement were acquired by the taxpayer as a result of one or more dispositions of rights to which subsection 7(1.4) applied, the amount payable by the taxpayer to acquire the old share under the original option that was disposed of in consideration for a new option in the first such disposition was not less than the amount by which

(C) the fair market value of the old share at the time that the agreement in respect of the original option was made

exceeds

(D) the amount, if any, paid by the taxpayer to acquire the right to acquire the old share, and"

S. 110(1)(*d*) was amended by S.C. 1994, c. 7, Sched. II, s. 78(1), applicable to the 1988 and subsequent taxation years, except that, in the application of paragraph 110(1)(*d*) with respect to shares acquired or rights in respect of shares transferred or otherwise disposed of before 1990, the reference therein to "1/4" shall be read as "1/3". S. 110(1)(*d*) formerly read:

"(*d*) *Employee stock options* — where, after February 15, 1984,

(i) a corporation has agreed to sell or issue to the taxpayer a share of its capital stock or the capital stock of another corporation with which it does not deal at arm's length,

(ii) the share was a prescribed share at the time of its sale or issue, as the case may be, or, in circumstances where the taxpayer has disposed of the taxpayer's rights under the agreement, the share would have been a prescribed share if it were issued or sold to the taxpayer at the time the taxpayer disposed of those rights,

(iii) the amount payable by the taxpayer to acquire the share under the agreement is not less than the fair market value of the share at the time the agreement was made, and

(iv) at the time immediately after the agreement was made the taxpayer was dealing at arm's length with the corporation, the other corporation and the corporation of which the taxpayer is an employee,

an amount equal to 1/4 of the amount of the benefit deemed by subsection 7(1) to have been received by the taxpayer in the year in respect of the share or the transfer or other disposition of the rights under the agreement;"

Editorial Note: The deduction under paragraph 110(1)(*d*) effectively means the security option benefit is taxed at the capital gains inclusion rate. Typically, the deduction is allowed if the security is a prescribed share or a unit of a mutual fund trust, the option exercise price (plus the amount paid to acquire the option, if any) was not less than the fair market value of the security at the time the option was granted, and the employee was dealing at arm's length with the employer (and the corporation or mutual fund that granted the option, if it was not the employer).

Related Sections: S. 7(1.4) Exchange of options; s. 7(1.5) Rules where securities exchanged; s. 7(9) Meaning of "qualifying acquisition"; s. 7(14) Deferral deemed valid; s. 110(1)(*d.01*) Charitable donation of employee option securities; s. 110(1)(*d.1*) Employee options for CCPC shares; s. 110(1.5) Determination of amounts relating to employee security options; s. 110(2.1) Charitable donation — proceeds of disposition of employee option securities; s. 115(1) Non-resident's taxable income in Canada; s. 127.52(1)(*h*) Adjusted taxable income determined; s. 164(6.1) Realization of deceased employees' options.

Regulations: 6204.

Interpretation Bulletins: *Secondary* — IT-113R4 Benefits to employees — Stock options.

Income Tax Technical News: Issue No. 19, Securities Option Plan — Disposal of Securities Option Rights for Shares; Issue No. 7, Stock options plans — receipt of cash in lieu of shares.

Tax Topics: No. 1613, Technical Amendments Allow Reduction in Exercise Price of Employee Stock Options; No. 1483, Taxation of Stock Options; No. 1482, Taxation of Stock Options.

Tax Profile: March 2006 — Some Tax Considerations for Investing in Silicon Valley North.

Canadian Tax Foundation: Ebel and Stewart, "Update on Employee Stock Options and Employee Benefits", *2002 Conference Report*, 27:1; Sandler, "The Tax Treatment of Employee Stock Options: Generous to a Fault", *2001 Canadian Tax Journal*, No 2, 259; Addison And Korn, "Employee Stock Options: An Update", *2000 Canadian Tax Journal*, No. 3, 778.

Canadian Petroleum Tax Journal: Attracting and Retaining Executives and Employees with Tax-Efficient Incentives, Julie Y. Lee, Vol. 14 No. 1 2001.

Tax Window Files: Employee Stock Option — Prescribed Shares, October 12, 2007, CRA Document No. 2007-0251101E5; Employee Stock Option Deduction — Prescribed Shares, August 29, 2005, CRA Document No. 2005-0125811E5; Employee Share Purchase Plan (ESPP), April 25, 2005, CRA Document No. 2005-0112901E5; Stock Options — Exchange, December 1, 2004, CRA Document No. 2004-0058171R3; Reduction in Exercise Price of Security Options, October 29, 2004, CRA Document No. 2004-0093241E5; Employee Stock Option Deduction, May 31, 2004, CRA Document No. 2004-0077341I7; Employee Stock Option — Election To Receive/Pay Cash, December 23, 2003, CRA Document No. 2003-0049927; Stock Option Exercised by Corporation, March 8, 2001, CRA Document No. 2001-0070445.

► 110(1)(d.01) ◄

(d.01) Charitable donation of employee option securities — subject to subsection (2.1), if the taxpayer disposes of a security acquired in the year by the taxpayer under an agreement referred to in subsection 7(1) by making a gift of the security to a qualified donee, an amount in respect of the disposition of the security equal to 1/2 of the lesser of the benefit deemed by paragraph 7(1)(*a*) to have been received by the taxpayer in the year in respect of the acquisition of the security and the amount that would have been that benefit had the value of the security at the time of its acquisition by the taxpayer been equal to the value of the security at the time of the disposition, if

(i) the security is a security described in subparagraph 38(*a.1*)(i),

(ii) [Repealed by S.C. 2002, c. 9, s. 33(1).]

(iii) the gift is made in the year and on or before the day that is 30 days after the day on which the taxpayer acquired the security, and

(iv) the taxpayer is entitled to a deduction under paragraph (*d*) in respect of the acquisition of the security;

History: S. 110(1)(*d.01*), the portion before subparagraph (i), was replaced by S.C. 2007, c. 35, s. 29(1), applicable in respect of gifts made on or after March 19, 2007. S. 110(1)(*d.01*), the portion before subparagraph (i) formerly read:

"(*d.01*) *Charitable donation of employee option securities* — subject to subsection (2.1), where the taxpayer disposes of a security acquired in the year by the taxpayer under an agreement referred to in subsection 7(1) by making a gift of the security to a qualified donee (other than a private foundation), an amount in respect of the disposition of the security equal to 1/2 of the lesser of the benefit deemed by paragraph 7(1)(*a*) to have been received by the taxpayer in the year in respect of the acquisition of the security and the amount that would have been that benefit had the value of the security at the time of its acquisition by the taxpayer been equal to the value of the security at the time of the disposition, if"

S. 110(1)(*d.01*), the portion before subparagraph (i), was replaced by S.C. 2006, c. 4, s. 56(1), applicable to gifts made after May 1, 2006. S. 110(1)(*d.01*), the portion before subparagraph (i), formerly read:

"(*d.01*) *Charitable donation of employee option securities* — subject to subsection (2.1), where the taxpayer disposes of a security acquired in the year by the taxpayer under an agreement referred to in subsection 7(1) by making a gift of the security to a qualified donee (other than a private foundation), an amount in respect of the disposition of the security equal to 1/4 of the lesser of the benefit deemed by paragraph 7(1)(*a*) to have been received by the taxpayer in the year in respect of the acquisition of the security and the amount that would have been that benefit had the value of the security at the time of its acquisition by the taxpayer been equal to the value of the security at the time of the disposition, if"

S. 110(1)(*d.01*)(ii) was amended by S.C. 2002, c. 9, s. 33(1), applicable to dispositions that occur after 2001. S. 110(1)(*d.01*)(ii) formerly read:

"(ii) the taxpayer acquired the security after February 27, 2000 and before 2002,"

S. 110(1)(*d.01*) was added by S.C. 2001, c. 17, s. 84(3), applicable to the 2000 and subsequent taxation years except that, for the 2000 taxation year, the reference to the fraction "1/4" in the portion of paragraph 110(1)(*d.01*) of the Act before subparagraph 110(1)(*d.01*)(i) shall be read as a reference to the fraction "1/3" if the transaction, event or circumstance as a result of which a benefit is deemed by subsection 7(1) of the Act to have been received by a taxpayer occurred after February 27, 2000 and before October 18, 2000.

Editorial Note: Paragraph 110(1)(*d.01*) provides a deduction from the employee benefit in subsection 7(1) where an employee makes a charitable donation of a security acquired under an employee stock option agreement. The combination of this deduction and the deduction under paragraph 110(1)(*d*) provides that the employment benefit is taxed at the reduced capital gains inclusion rate for donations of employee stock option securities (paragraph 38(*a.1*)). For such a donation, the inclusion rate is zero for gifts made after May 1, 2006.

Related Sections: S. 7(1.3) Order of disposition of securities; s. 7(1.5) Rules where securities exchanged; s. 7(2) Securities held by trustee; s. 7(6) Sale to trustee for employees; s. 7(7) Definitions; s. 110(1)(*d*) Employee options; s. 110(2.1) Charitable donation — proceeds of disposition of employee option securities; s. 127.52(1)(*h*) Adjusted taxable income determined.

Registered Charities Newsletters: No. 28, Capital Gains Exemption on Gifts of Securities.

Tax Profile: May 2002 — Update on Charitable Giving.

► 110(1)(d.1) ◄

(d.1) Idem — where the taxpayer

(i) is deemed, under paragraph 7(1)(*a*) by virtue of subsection 7(1.1), to have received a benefit in the year in respect of a share acquired by the taxpayer after May 22, 1985,

(ii) has not disposed of the share (otherwise than as a consequence of the taxpayer's death) or

exchanged the share within two years after the date the taxpayer acquired it, and

(iii) has not deducted an amount under paragraph (*d*) in respect of the benefit in computing the taxpayer's taxable income for the year,

an amount equal to 1/2 of the amount of the benefit;

History: S. 110(1)(*d*.1) was amended by S.C. 2001, c. 17, s. 84(4), by replacing the reference to the fraction "1/4" with a reference to the fraction "1/2", applicable in respect of dispositions and exchanges that occur after February 27, 2000 except that, for dispositions and exchanges that occurred after February 27, 2000 and before October 18, 2000, the reference to the fraction "1/2" in paragraphs 110(1)(*d*.1) to (*d*.3) of the Act shall be read as a reference to the fraction "1/3".

Editorial Note: Unlike the deduction under paragraph 110(1)(*d*), there is no requirement under paragraph 110(1)(*d*.1) that the option exercise price be equal to or greater than the fair market value of the securities at the time the option was granted. Note that the two-year holding period is waived in the case of a deemed disposition upon the taxpayer's death (which will occur under subsection 70(5) or (6)).

Related Sections: S. 7(1.1) Employee stock options; s. 7(1.3) Order of disposition of securities; s. 7(1.5) Rules where securities exchanged; s. 7(1.6) Emigrant; s. 7(2) Securities held by trustee; s. 7(6) Sale to trustee for employees; s. 8(12) Forfeiture of securities by employee.

Interpretation Bulletins: *Secondary* — IT-113R4 Benefits to employees — Stock options.

Tax Profile: March 2006 — Some Tax Considerations for Investing in Silicon Valley North.

Canadian Petroleum Tax Journal: Attracting and Retaining Executives and Employees with Tax-Efficient Incentives, Julie Y. Lee, Vol. 14 No. 1 2001.

Tax Window Files: Exchange of CCPC Options, August 30, 2000, CRA Document No. 2000-0032525; Transfer of Stock Option to RRSP, October 21, 1996, CRA Document No. 9633215; Stock Option Benefit — CCPC Shares Purchased for Cancellation, February 10, 2000, CRA Document No. 1999-0008425

► 110(1)(d.2) ◄

(d.2) Prospector's and grubstaker's shares — where the taxpayer has, under paragraph 35(1)(*d*), included an amount in the taxpayer's income for the year in respect of a share received after May 22, 1985, an amount equal to 1/2 of that amount unless that amount is exempt from income tax in Canada by reason of a provision contained in a tax convention or agreement with another country that has the force of law in Canada;

History: S. 110(1)(*d*.2) was amended by S.C. 2001, c. 17, s. 84(4), by replacing the reference to the fraction "1/4" with a reference to the fraction "1/2", applicable in respect of dispositions and exchanges that occur after February 27, 2000 except that, for dispositions and exchanges that occurred after February 27, 2000 and before October 18, 2000, the reference to the fraction "1/2" in paragraphs 110(1)(*d*.1) to (*d*.3) of the Act shall be read as a reference to the fraction "1/3".

► 110(1)(d.3) ◄

(d.3) Employer's shares — where the taxpayer has, under subsection 147(10.4), included an amount in computing the taxpayer's income for the year, an amount equal to 1/2 of that amount;

History: S. 110(1)(*d*.3) was amended by S.C. 2001, c. 17, s. 84(4), by replacing the reference to the fraction "1/4" with a reference to the fraction "1/2", applicable in respect of dispositions and exchanges that occur after February 27, 2000 except that, for dispositions and exchanges that occurred after February 27, 2000 and before October 18, 2000, the reference to the fraction "1/2" in paragraphs 110(1)(*d*.1) to (*d*.3) of the Act shall be read as a reference to the fraction "1/3".

► 110(1)(e) ◄

(e) Mental or physical impairment — [Repealed by 1988, c. 55, s. 77(6).]

► 110(1)(e.1) ◄

(e.1) Dependant having impairment — [Repealed by 1988, c. 55, s. 77(6).]

► 110(1)(e.2) ◄

(e.2) Deduction transfer — [Repealed by 1986, c. 6, s. 55(5).]

► 110(1)(f) ◄

(f) Deductions for payments — any social assistance payment made on the basis of a means, needs or income test and included because of clause 56(1)(*a*)(i)(A) or paragraph 56(1)(*u*) in computing the taxpayer's income for the year or any amount that is

(i) an amount exempt from income tax in Canada because of a provision contained in a tax convention or agreement with another country that has the force of law in Canada,

(ii) compensation received under an employees' or workers' compensation law of Canada or a province in respect of an injury, disability or death, except any such compensation received by a person as the employer or former employer of the person in respect of whose injury, disability or death the compensation was paid,

(iii) income from employment with a prescribed international organization,

(iv) the taxpayer's income from employment with a prescribed international non-governmental organization, where the taxpayer

(A) was not, at any time in the year, a Canadian citizen,

(B) was a non-resident person immediately before beginning that employment in Canada, and

(C) if the taxpayer is resident in Canada, became resident in Canada solely for the purpose of that employment, or

(v) the lesser of

(A) the employment income earned by the taxpayer as a member of the Canadian Forces, or as a police officer, while serving on

(I) a deployed operational mission (as determined by the Department of National Defence) that is assessed for risk allowance at level 3 or higher (as determined by the Department of National Defence),

(II) a prescribed mission that is assessed for risk allowance at level 2 (as determined by the Department of National Defence), or

(III) any other mission that is prescribed, and

(B) the employment income that would have been so earned by the taxpayer if the taxpayer had been paid at the maximum rate of pay that applied, from time to time during the mission, to a non-commissioned member of the Canadian Forces;

to the extent that it is included in computing the taxpayer's income for the year;

History: S. 110(1)(*f*)(v) was added by S.C. 2005, c. 19, s. 18(1), applicable to the 2004 and subsequent taxation years.

S. 110(1)(*f*)(iv) was added by S.C. 1994, c. 21, s. 49(3), applicable to the 1993 and subsequent taxation years.

S. 110(1)(*f*)(ii) was amended by S.C. 1994, c. 21, s. 49(2), applicable to the 1991 and subsequent taxation years. S. 110(1)(*f*)(ii) formerly read:

"(ii) compensation received under an employees' or workers' compensation law of Canada or a province in respect of an injury, disability or death, except any such compensation received by a person as the employer or former employer of the person in respect of whose injury, disability or death the compensation was paid, or"

S. 110(1)(*f*)(iii) was added by S.C. 1994, c. 7, Sched. VIII, s. 45(1), applicable to the 1991 and subsequent taxation years.

S. 110(1)(*f*) was amended by S.C. 1994, c. 7, Sched. II, s. 78(2), applicable to the 1991 and subsequent taxation years. S. 110(1)(*f*) formerly read:

"(*f*) *Deductions for payments* — any amount that is

(i) an amount exempt from income tax in Canada by virtue of a provision contained in a tax convention or agreement with another country that has the force of law in Canada,

(ii) compensation received under an employees' or workers' compensation law of Canada or a province in respect of an injury, disability or death, except any such compensation received by a person as the employer or former employer of the person in respect of whose injury, disability or death the compensation was paid, or

(iii) a social assistance payment made on the basis of a means, needs or income test by a registered charity or under a program (other than a prescribed program) provided for by an Act of Parliament or a law of a province where the payment is received by the individual in respect of whom the social assistance was provided or by a person who, at the time the payment was made, resided with the individual;"

Related Sections: S. 56(1)(*u*) Social assistance payments; s. 56(1)(*v*) Worker's compensation; s. 126(3) Employees of international organizations; s. 127.52(1)(*h*) Adjusted taxable income determined; s. 212(1)(*h*) Pension benefits.

Regulations: 232; 7500; 8900.

Interpretation Bulletins: *Primary* — IT-202R2 Employees' or workers' compensation. *Secondary* — IT-528 Transfers of Funds Between Registered Plans.

Income Tax Technical News: Issue No. 35, Treaty Residence — Resident of Convenience.

Cases: An RCMP officer who volunteered to participate in a U.N. peace mission in Haiti was denied a s. 110(1)(*f*) deduction since he was employed by the RCMP, not the U.N., during the mission. *Lalancette v. The Queen*, 2002 DTC 7391 (F.C.A.), affirming 2001 DTC 352 (T.C.C.).

► 110(1)(g) ◄

(g) Financial assistance — any amount that

(i) is received by the taxpayer in the year under a program referred to in subparagraph 56(1)(*r*)(ii) or (iii), a program established under the authority of the *Department of Human Resources and Skills Development Act* or a prescribed program,

(ii) is financial assistance for the payment of tuition fees of the taxpayer that are not included in computing an amount deductible under subsection 118.5(1) in computing the taxpayer's tax payable under this Part for any taxation year,

(iii) is included in computing the taxpayer's income for the year, and

(iv) is not otherwise deductible in computing the taxpayer's taxable income for the year;

History: S. 110(1)(*g*)(i) was amended by S.C. 2005, c. 34, s. 81, by replacing "*Department of Human Resources Development Act*" with "*Department of Human Resources and Skills Development Act*", in force on October 5, 2005.

S. 110(1)(*g*) was added by S.C. 2002, c. 9, s. 33(2), applicable to the 1997 and subsequent taxation years and, notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax, interest or penalty for any taxation year shall be made that is necessary to give effect to that paragraph.

Related Sections: S. 60(*n*) Repayment of pension or benefits.

Interpretation Bulletins: *Secondary* — IT-75R4 Scholarships, Fellowships, Bursaries, Prizes, Research Grants and Financial Assistance.

► 110(1)(h) ◄

(h) Taxpayer supporting student — [Repealed by 1988, c. 55, s. 77(8).]

► 110(1)(i) ◄

(i) Unemployment insurance benefit repayment — [Repealed by S.C. 1994, c. 7, Sched. II, s. 78(3).]

History: S. 110(1)(*i*) was repealed by S.C. 1994, c. 7, Sched. II, s. 78(3), applicable to the 1989 and subsequent taxation years. S. 110(1)(*i*) formerly read:

"(*i*) *Unemployment insurance benefit repayment* — any benefit repayment payable by the taxpayer under Part VII of the *Unemployment Insurance Act* on or before April 30 of the following year to the extent that the amount was not deductible in computing the taxpayer's taxable income for any previous taxation year;"

► 110(1)(j) ◄

(j) Home relocation loan — where the taxpayer has, by virtue of section 80.4, included an amount in the taxpayer's income for the year in respect of a benefit received by the taxpayer in respect of a home relocation loan, the least of

(i) the amount of the benefit that would have been deemed to have been received by the taxpayer under section 80.4 in the year if that section had applied only in respect of the home relocation loan,

(ii) the amount of interest for the year that would be computed under paragraph 80.4(1)(*a*) in respect of the home relocation loan if that loan were in the amount of $25,000 and were extinguished on the earlier of

(A) the day that is five years after the day on which the home relocation loan was made, and

(B) the day on which the home relocation loan was extinguished, and

(iii) the amount of the benefit deemed to have been received by the taxpayer under section 80.4 in the year; and

Editorial Note: Effectively, paragraph 110(1)(*j*) provides that, in computing taxable income, the deemed interest benefit in respect of the first $25,000 of a home relocation loan is nil for up to the first five years of the loan. See also the editorial note under subsection 80.4(4) regarding the interest rate "cap", under which the deemed benefit is computed using the lower of the prescribed rate of interest at the time the loan was made and the prescribed rate in effect during the relevant quarter.

Related Sections: S. 6(19) Benefit re housing loss; s. 6(20) Benefit re eligible housing loss; s. 6(23) Employer-provided housing subsidies; s. 62(1) Moving expenses; s. 80.4(1.1) Loan or debt from office or employment; s. 110(1.4) Replacement of home relocation loan; s. 248(1), "home relocation loan".

► 110(1)(k) ◄

(k) Part VI.1 tax — 9/4 of the tax payable under subsection 191.1(1) by the taxpayer for the year.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 110(1)(*k*) of the Act is replaced by the following:

(k) Part VI.1 tax — three times the tax payable under subsection 191.1(1) by the taxpayer for the year.

Applicable: To the 2003 and subsequent taxation years.

Explanatory Note:

Part VI.1 Tax

Paragraph 110(1)(*k*) of the Act provides a deduction in computing a corporation's taxable income equal to a multiple of the amount of any tax payable by it for the year under Part VI.1 of the Act on dividends it paid on taxable preferred shares. The deduction approximates the income that would have generated an amount of income tax equal to the Part VI.1 tax. The multiple used to produce this result is currently 9/4, which implies a total federal and provincial income tax rate of 44.44%.

As part of a series of amendments reflecting recent and planned reductions in income tax rates, the multiple in paragraph 110(1)(*k*) is increased to 3. This amendment, which applies for the 2003 and subsequent taxation years, implies a total tax rate of 33.3%.

Related Sections: S. 111(5) Deduction of non-capital or farm losses.
Tax Profile: June 2003 — The December 20, 2002 Technical Amendments to the *Income Tax Act*

► 110(1.1) ◄

(1.1) Deemed payment of medical expenses. [Repealed by 1988, c. 55, s. 77(10).]

► 110(1.2) ◄

(1.2) Time of gift. [Repealed by 1988, c. 55, s. 77(10).]

► 110(1.3) ◄

(1.3) Nature of impairment. [Repealed by 1988, c. 55, s. 77(10).]

► 110(1.4) ◄

(1.4) Replacement of home relocation loan. For the purposes of paragraph (1)(*j*), a loan received by a taxpayer that is used to repay a home relocation loan shall be deemed to be the same loan as the relocation loan and to have been made on the same day as the relocation loan.

► 110(1.5) ◄

(1.5) Determination of amounts relating to employee security options. For the purpose of paragraph (1)(*d*),

(*a*) the amount payable by a taxpayer to acquire a security under an agreement referred to in subsection 7(1) shall be determined without reference to any change in the value of a currency of a country other than Canada, relative to Canadian currency, occurring after the agreement was made;

(*b*) the fair market value of a security at the time an agreement in respect of the security was made shall be determined on the assumption that all specified events associated with the security that occurred after the agreement was made and before the sale or issue of the security or the disposition of the taxpayer's rights under the agreement in respect of the security, as the case may be, had occurred immediately before the agreement was made; and

(*c*) in determining the amount that was included, in respect of a security that a qualifying person has agreed to sell or issue to a taxpayer, in the amount determined under subparagraph 7(1.4)(*c*)(ii) for the purpose of determining if the condition in paragraph 7(1.4)(*c*) was satisfied with respect to a particular disposition, an assumption shall be made that all specified events associated with the security that occurred after the particular disposition and before the sale or issue of the security or the taxpayer's subsequent disposition of rights under the agreement in respect of the security, as the case may be, had occurred immediately before the particular disposition.

History: S. 110(1.5) was amended by S.C. 2001, c. 17, s. 84(5), applicable to the 1998 and subsequent taxation years. S. 110(1.5) formerly read:

"(1.5) *Value of share under stock option.* For the purpose of subparagraph (1)(*d*)(iii), the fair market value of a share of the capital stock of a corporation at the time an agreement in respect of the share was made shall be determined on the assumption that

(*a*) any subdivision or consolidation of shares of the capital stock of the corporation,

(*b*) any reorganization of share capital of the corporation, and

(*c*) any stock dividend of the corporation

occurring after the agreement was made and before the share was acquired had taken place immediately before the agreement was made."

S. 110(1.5) was added by S.C. 1994, c. 7, Sched. II, s. 78(4), applicable to the 1988 and subsequent taxation years.

Related Sections: S. 7(7) Definitions; s. 110(1.6) Meaning of "specified event"; s. 110(1.7) Definitions in subsection 7(7).

► 110(1.6) ◄

(1.6) Meaning of "specified event". For the purpose of subsection (1.5), a specified event associated with a security is

(*a*) where the security is a share of the capital stock of a corporation,

(i) a subdivision or consolidation of shares of the capital stock of the corporation,

(ii) a reorganization of share capital of the corporation, and

(iii) a stock dividend of the corporation; and

(*b*) where the security is a unit of a mutual fund trust,

(i) a subdivision or consolidation of the units of the trust, and

(ii) an issuance of units of the trust as payment, or in satisfaction of a person's right to enforce payment, out of the trust's income (determined before the application of subsection 104(6)) or out of the trust's capital gains.

History: S. 110(1.6) was added by S.C. 2001, c. 17, s. 84(5), applicable to the 1998 and subsequent taxation years.

Related Sections: S. 7(7) Definitions.

► 110(1.7) ◄

(1.7) Definitions in subsection 7(7). The definitions in subsection 7(7) apply for the purposes of subsections (1.5) and (1.6).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 110(1.7) of the Act is replaced by the following:

(1.7) Reduction in exercise price. If the amount payable by a taxpayer to acquire securities under an agreement referred to in subsection 7(1) is reduced at any particular time and the conditions in subsection (1.8) are satisfied in respect of the reduction,

(*a*) the rights (referred to in this subsection and subsection (1.8) as the "old rights") that the taxpayer had under the agreement immediately before the particular time are deemed to have been disposed of by the taxpayer immediately before the particular time;

(*b*) the rights (referred to in this subsection and subsection (1.8) as the "new rights") that the taxpayer has under the agreement at the particular time are deemed to be acquired by the taxpayer at the particular time; and

(*c*) the taxpayer is deemed to receive the new rights as consideration for the disposition of the old rights.

(1.8) Conditions for subsection (1.7) to apply. The following are the conditions in respect of the reduction:

(*a*) that the taxpayer would not be entitled to a deduction under paragraph (1)(*d*) if the taxpayer acquired securities under the agreement immediately after the particular time and this section were read without reference to subsection (1.7); and

(*b*) that the taxpayer would be entitled to a deduction under paragraph (1)(*d*) if the taxpayer

(i) disposed of the old rights immediately before the particular time,

(ii) acquired the new rights at the particular time as consideration for the disposition, and

(iii) acquired securities under the agreement immediately after the particular time.

Applicable: To reductions that occur after 1998.

An election by a taxpayer under subsection 7(10) to have subsection 7(8) apply is deemed to have been filed in a timely manner if

(*a*) it is filed on or before the 60th day after the day on which this Act is assented to;

(*b*) it is in respect of a security acquired by the taxpayer before the day on which this Act is assented to;

(*c*) the taxpayer is entitled to a deduction under paragraph 110(1)(*d*) in respect of the acquisition; and

(*d*) the taxpayer would not have been so entitled if subsection 110(1.7) did not apply.

Explanatory Note:

Taxable Income — Employee Security Options Deduction

Subsection 110(1.7) of the Act provides that the definitions in subsection 7(7) of the Act relating to employee security options also apply for the purposes of subsections 110(1.5) and 110(1.6) of the Act. Since subsection 7(7) also provides for the definitions to so apply, existing subsection 110(1.7) is unnecessary and is repealed.

A new subsection 110(1.7) is added that applies in circumstances where there is a reduction in the amount (referred to in these notes as the "exercise price") payable by an employee to acquire securities under an employee security option and the conditions in new subsection 110(1.8) of the Act are satisfied.

This new subsection ensures that a reduction in the exercise price under an employee security option does not disqualify the employee from claiming the security option deduction under paragraph 110(1)(*d*) of the Act, if the reduction could have been effected by way of an exchange of options without jeopardizing the employee's eligibility for the deduction.

Paragraph 110(1)(*d*) of the Act provides a deduction in computing taxable income in circumstances where subsection 7(1) of the Act deems an employee to have received a benefit from employment in connection with the exercise or disposition of rights under an employee option agreement. The deduction is currently equal to one-half of the amount of the employment benefit, and the effect of the deduction is to tax the benefit at a rate equivalent to the capital gains inclusion rate.

Paragraph 110(1)(*d*) sets out certain conditions that must be satisfied in order to qualify for the security option deduction. These conditions include a minimum exercise price requirement under the option giving rise to the benefit under subsection 7(1) and, if that option was acquired as a consequence of one or more qualifying exchanges of options, under each of the previous options. Thus, if a reduction in the exercise price under an employee security option causes the exercise price to fall below the minimum threshold established under paragraph 110(1)(*d*) for that option, the employee will not be entitled to claim the security option deduction.

However, there are situations in which an otherwise disqualifying reduction in an option exercise price could be effected by way of an exchange of options without jeopardizing the employee's eligibility for the deduction. This would be the case, for example, if the exercise price had originally been set at the fair market value (FMV) of the underlying securities at the time of grant, there is a subsequent decline in the FMV of the securities and the exercise price is adjusted to that lower FMV. The combined effect of subsections 110(1.7) and (1.8) is to deem such a reduction to have been effected by way of an exchange, thus ensuring that the employee remains eligible for the security option deduction.

In particular, new subsection 110(1.7) provides that, where there is a reduction in the exercise price under an employee security option and the conditions in subsection 110(1.8) are satisfied, the employee is deemed to have disposed of the rights under the option immediately before the reduction and to have acquired the amended rights immediately thereafter as consideration for the disposition.

New subsection 110(1.8) sets out two conditions that must be satisfied in order for new subsection 110(1.7) to apply.

- First, the employee would not qualify for the security option deduction if the option were exercised immediately after the exercise price reduction (and subsection 110(1.7) were disregarded).
- Second, the employee would have been eligible for the deduction had there, in fact, been an exchange of options and the employee exercised the option immediately after the exchange.

These conditions ensure that the provisions of subsection 110(1.7) apply only where an otherwise disqualifying reduction in the exercise price under an employee security option could have been effected by way of an exchange of options without so disqualifying the employee.

Example:

Pierre is granted an option to acquire ten shares of Company A at an exercise price of $100 a share, which is the FMV of such a share at that time. After a downturn of the business, the Company amends the option to reduce the exercise price to $30 a share, which is the new FMV of such a share.

Results:

Without the benefit of subsection 110(1.7), paragraph 110(1)(*d*) would require that the exercise price under the option at the time of exercise be no less than the FMV of the underlying share at the time the option was granted. Since the exercise price of $30 would be less than the FMV of $100 at the time the option was issued, this condition would not be met and Pierre would not be eligible for the security option deduction.

If the reduction had been effected by way of an exchange of options, there would have been no increase in the net benefit associated with the option (i.e., the difference between the FMV of the shares under the "new option" and the "new exercise price" ($300 – $300 = $0) would have been no greater than the difference between the FMV of the shares under the "old option" and the "old exercise price" ($300 – $1,000 = $0)). Thus, the exchange would have been an exchange to which subsection 7(1.4) applied.

If Pierre had exercised the new option immediately after the exchange, paragraph 110(1)(*d*) would have required that the following exercise price tests be met:

- The exercise price under the old option at the time it was disposed of would have to be not less than the FMV of the underlying shares when the option was granted. Since the exercise price of $100 was equal to the FMV at the date of grant, this condition would have been met.
- The exercise price under the new option at the time of exercise would have to be not less than the exercise price set when the new option was acquired. Since Pierre would have paid $30 a share on exercise, which was the exercise price established when the new option was acquired, this condition would have been met.

Thus, if the reduction had been effected by way of an exchange and Pierre had exercised the option immediately after the exchange, he would have been eligible for the security option deduction.

Since the requirements of subsection 110(1.8) are satisfied, subsection 110(1.7) applies to deem the reduction to have been effected by way of an exchange. Consequently, the reduction will not disqualify Pierre from claiming the stock option deduction.

New subsections 110(1.7) and (1.8) apply to exercise price reductions that occur after 1998.

Extended Deadline for Deferral Election

Where certain conditions are satisfied, subsection 7(8) of the Act allows an employee to defer taxation of a security option benefit to the year in which the employee disposes of the security. One condition is that the employee be eligible to claim the deduction under paragraph 110(1)(*d*) in respect of the benefit. Another condition is that the employee files an election to defer before January 16th of the year following the year in which the option is exercised (or before August 14, 2001 for securities acquired in 2000).

The coming-into-force provisions for subsections 110(1.7) and (1.8) extend the deferral election deadline for securities which are acquired before this legislation receives Royal Assent, and which become qualified for the deduction under paragraph

110(1)(*d*) only by reason of amended subsection 110(1.7), to the later of

- the election deadline that would otherwise apply, and
- the day that is 60 days after Royal Assent.

History: S. 110(1.7) was added by S.C. 2001, c. 17, s. 84(5), applicable to the 1998 and subsequent taxation years.

Income Tax Technical News: Issue No. 38, Employee Stock Option Deduction.

► 110(2) ◄

(2) Charitable gifts. Where an individual is, during a taxation year, a member of a religious order and has, as such, taken a vow of perpetual poverty, the individual may deduct in computing the individual's taxable income for the year an amount equal to the total of the individual's superannuation or pension benefits and the individual's earned income for the year (within the meaning assigned by section 63) if, of the individual's income, that amount is paid in the year to the order.

Related Sections: S. 63(3), "earned income"; s. 143(2) Election in respect of income.
Interpretation Bulletins: *Primary* — IT-86R Vow of perpetual poverty.
Registered Charities Newsletters: No. 18, Did you know?.
Cases: Where a taxpayer gave only part of his income to the Society of Jesus under a vow of poverty, he was held not entitled to a deduction under the former s. 27(2) [now s. 110(2)]. *Aubry v. The Queen*, 76 DTC 6343 (F.C.T.D.).

► 110(2.1) ◄

(2.1) Charitable donation — proceeds of disposition of employee option securities. Where a taxpayer, in exercising a right to acquire a security that a particular qualifying person has agreed to sell or issue to the taxpayer under an agreement referred to in subsection 7(1), directs a broker or dealer appointed or approved by the particular qualifying person (or by a qualifying person that does not deal at arm's length with the particular qualifying person) to immediately dispose of the security and pay all or a portion of the proceeds of disposition of the security to a qualified donee,

(*a*) if the payment is a gift, the taxpayer is deemed, for the purpose of paragraph (1)(*d*.01), to have disposed of the security by making a gift of the security to the qualified donee at the time the payment is made; and

(*b*) the amount deductible under paragraph (1)(*d*.01) by the taxpayer in respect of the disposition of the security is the amount determined by the formula

$$A \times B/C$$

where

A is the amount that would be deductible under paragraph (1)(*d*.01) in respect of the disposition of the security if this subsection were read without reference to this paragraph,

B is the amount of the payment, and

C is the amount of the proceeds of disposition of the security.

History: S. 110(2.1) was added by S.C. 2001, c. 17, s. 84(6), applicable to the 2000 and subsequent taxation years. S. 110(2.1) was previously repealed by the former Act.

Editorial Note: In order to qualify for the deduction under paragraph 110(1)(*d*.01), the payment of the proceeds of disposition must be made to the qualified donee within 30 days of the acquisition of the security (see the timing rule in paragraph 110(1)(*d*.01)). The deduction is prorated if less than all of the proceeds are donated (paragraph 110(2.1)(*b*)).

Related Sections: S. 7(1.3) Order of disposition of securities; s. 7(7) Definitions.

(2.2)–(9) [Repealed by 1985, c. 45, s. 54(8) and 1988, c. 55, s.77(12).]

SECTION 110.1:

► 110.1(1) ◄

(1) Deduction for gifts. For the purpose of computing the taxable income of a corporation for a taxation year, there may be deducted such of the following amounts as the corporation claims:

History: S. 110.1(1) was amended by S.C. 1998, c. 19, s. 20(1), applicable to taxation years that begin after 1996. S. 110.1(1) formerly read:

"S. 110.1. *Deduction for gifts.*

(1) For the purpose of computing the taxable income of a corporation for a taxation year, there may be deducted such of the following amounts as are applicable:"

S. 110.1(1) was amended by S.C. 1994, c. 7, Sched. II, s. 79(1), applicable after December 11, 1988. S. 110.1(1), the portion preceding paragraph (*a*), formerly read:

"(1) For the purpose of computing the taxable income of a corporation for a taxation year, there may be deducted such of the following amounts as are applicable:"

Editorial Note: The 2003 Federal Budget set out proposals to amend the *Income Tax Act* to limit the tax benefits that arise from charitable donations made within tax shelters, and to address the issue of charitable donation arrangements that use limited-recourse debt. The Department of Finance released draft legislation on December 5, 2003 to amend the rules in these areas. This legislation was included in former Bill C-10, *Income Tax Amendments Act, 2006*, which ceased to exist when Parliament was dissolved in September 2008. If the government is to proceed with these proposals, legislation will have to be reintroduced in a future bill. See proposed subsections 143.2(6.1) and 248(30) to (41), as well as the proposed amendments to subsections 127(3) and 143.2(13) and the definition of "gifting arrangement" in subsection 237.1(1).

Related Sections: S. 37(5) Where no deduction allowed under ss. 110.1 and 118.1; s. 54, "adjusted cost base", "capital property"; s. 118.1(1), "total gifts"; s. 127.52(1)(*d*) Adjusted taxable income determined; s. 149.1(6.4) National arts service organizations; s. 248(1), "registered Canadian amateur athletic association", "registered charity"; s. 249 Definition of "taxation year".
Regulations: Part XXXV.
Interpretation Bulletins: *Primary* — IT-110R3 Deductible gifts and official donation receipts; IT-226R Gift to a charity of a residual interest in real property or an equitable interest in a trust; IT-297R2 Gifts in kind to charity and others. *Secondary* — IT-151R5 (Consolid.) — Scientific research and experimental development expenditures; IT-151R4 Scientific research and experimental development expenditures [Archived by the CRA]; IT-232R3 Losses — Their deductibility in the loss year or in other years; IT-288R2 Gifts of capital properties to a charity and others; IT-410R Debt obligations — Accrued interest on transfer [Archived by the CRA].
Information Circulars: IC 84-3R5 Gifts to certain charitable organizations outside Canada.
Income Tax Technical News: Issue No. 26, Proposed Guidelines on Split-Receipting.
Forms: T2 SCH 2.
Registered Charities Newsletters: No. 7, Fundraising golf tournaments and fundraising auctions.
Tax Profile: May 2002 — Update on Charitable Giving.

► 110.1(1)(a) ◄

(a) Charitable gifts — the total of all amounts each of which is the fair market value of a gift (other than a gift described in paragraph (*b*), (*c*) or (*d*)) made by the corporation in the year or in any of the 5 preceding taxation years to

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of paragraph 110.1(1)(*a*) of the Act before subparagraph (i) is replaced by the following:

(a) Charitable gifts — the total of all amounts each of which is the eligible amount of a gift (other than a gift described in paragraph (*b*), (*c*) or (*d*)) made by the corpo-

ration in the year or in any of the five preceding taxation years to

Applicable: To gifts made after December 20, 2002.

Explanatory Note: Section 110.1 of the Act provides a deduction in computing taxable income in respect of gifts made by corporations to registered charities and to certain other entities. Section 110.1 is amended to expand the entities referred to in this section to include municipal or public bodies performing a function of government in Canada. This amendment is in response to the Quebec Court of Appeal decision in *Tawich Development Corporation v. Deputy Minister of Revenue of Quebec*, 2001 D.T.C. 5144. For additional information, see the commentary to paragraph 149(1)(*d.5*).

Section 110.1 is also amended as a consequence of the addition of new subsections 248(30) to (38) of the Act. Generally, those subsections clarify the circumstances under which a transfer of property will be considered a gift notwithstanding that the transferor may be entitled to receive an advantage or benefit in respect of the property. New subsection 248(31) generally provides that the "eligible amount" of the gift is the excess of the fair market value of a property transferred by way of gift over the value of the advantage or benefit, if any, to which the transferor is entitled. For additional information, see the commentary to new subsections 248(30) to (39).

Subsection 110.1(1) — Deduction for Gifts

Paragraphs 110.1(1)(*a*) to (*d*) of the Act provide, respectively, for the deduction by a corporation of amounts in respect of "charitable gifts", "gifts to Her Majesty", "gifts to institutions" and "ecological gifts". The amount deductible by the corporation is generally the fair market value of the gift. These paragraphs are amended, consequential to the addition of new subsection 248(31) of the Act, to provide that the amount deductible by the corporation is generally the "eligible amount" of a gift.

In addition, paragraphs 110.1(1)(*a*) and 110.1(1)(*d*) are expanded to provide that a deduction is available in respect of gifts made by corporations to municipal or public bodies performing a function of government in Canada.

Paragraph 110.1(1)(*d*) is also amended to clarify its application to "real servitudes" under the *Civil Code of Quebec*.

The amendments to subsection 110.1(1) apply in respect of gifts made after December 20, 2002, except that the amendments to subparagraphs 110.1(1)(*a*)(iv.1) and 110.1(1)(*d*)(iii) apply in respect of gifts made after May 8, 2000.

(i) a registered charity,

(ii) a registered Canadian amateur athletic association,

(iii) a corporation resident in Canada and described in paragraph 149(1)(*i*),

(iv) a municipality in Canada,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 110.1(1)(*a*) of the Act is amended by adding the following after subparagraph (iv):

(iv.1) a municipal or public body performing a function of government in Canada,

Applicable: To gifts made after May 8, 2000.

Explanatory Note: See the Explanatory Note following the amendment to the portion of paragraph 110.1(1)(*a*) before subparagraph (i).

(v) the United Nations or an agency thereof,

(vi) a university outside Canada that is prescribed to be a university the student body of which ordinarily includes students from Canada,

(vii) a charitable organization outside Canada to which Her Majesty in right of Canada has made a gift in the year or in the 12-month period preceding the year, or

(viii) Her Majesty in right of Canada or a province,

not exceeding the lesser of the corporation's income for the year and the amount determined by the formula

$$0.75A + 0.25 (B + C + D)$$

where

A is the corporation's income for the year computed without reference to subsection 137(2),

B is the total of all amounts each of which is a taxable capital gain of the corporation for the year from a disposition that is the making of a gift made by the corporation in the year and described in this paragraph,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The description of B in paragraph 110.1(1)(*a*) of the Act is replaced by the following:

B is the total of all amounts, each of which is that proportion of the corporation's taxable capital gain for the taxation year in respect of a gift made by the corporation in the taxation year (in respect of which gift an eligible amount is described in this paragraph for the taxation year) that the eligible amount of the gift is of the corporation's proceeds of disposition in respect of the gift,

Applicable: To gifts made after December 20, 2002.

Explanatory Note: See the Explanatory Note following the amendment to the portion of paragraph 110.1(1)(*a*) before subparagraph (i).

C is the total of all amounts each of which is a taxable capital gain of the corporation for the year, because of subsection 40(1.01), from a disposition of a property in a preceding taxation year, and

D is the total of all amounts each of which is determined in respect of the corporation's depreciable property of a prescribed class and equal to the lesser of

(A) the amount included under subsection 13(1) in respect of the class in computing the corporation's income for the year, and

(B) the total of all amounts each of which is determined in respect of a disposition that is the making of a gift of property of the class made by the corporation in the year that is described in this paragraph and equal to the lesser of

(I) the proceeds of disposition of the property minus any outlays and expenses to the extent that they were made or incurred by the corporation for the purpose of making the disposition, and

(II) the capital cost to the corporation of the property;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Clause (B) in the description of D in paragraph 110.1(1)(*a*) of the Act is replaced by the following:

(B) the total of all amounts each of which is determined in respect of a disposition that is the making of a gift of property of the class by the corporation in the year (in respect of which gift an eligible amount is described in this paragraph for the taxation year) equal to the lesser of

(I) that proportion, of the amount by which the proceeds of disposition of the property exceeds any outlays and expenses, to the extent that they were made or incurred by the corporation for the purpose of making the disposition, that the eligible amount of the gift is of the corporation's proceeds of disposition in respect of the gift, and

(II) that proportion, of the capital cost to the corporation of the property, that the eligible amount of the gift is of the corporation's proceeds of disposition in respect of the gift;

Applicable: To gifts made after December 20, 2002.

Explanatory Note: See the Explanatory Note following the amendment to the portion of paragraph 110.1(1)(*a*) before subparagraph (i).

History: S. 110.1(1)(*a*) was amended by S.C. 1998, c. 19, s. 20(1), applicable to taxation years that begin after 1996. S. 110.1(1)(*a*) formerly read:

"(*a*) *Charitable gifts* — the total of all amounts each of which is the fair market value of a gift made by the corporation in the year (or in any of the 5 immediately preceding taxation years to the extent that the amount thereof was not deducted in computing its taxable income for any preceding taxation year) to

(i) a registered charity,

(ii) a registered Canadian amateur athletic association,

(iii) a housing corporation resident in Canada and exempt from tax under this Part because of paragraph 149(1)(*i*),

(iv) a Canadian municipality,

(v) the United Nations or an agency thereof,

(vi) a university outside Canada that is prescribed to be a university the student body of which ordinarily includes students from Canada, or

(vii) a charitable organization outside Canada to which Her Majesty in right of Canada has made a gift during the corporation's taxation year or the 12 months immediately preceding that taxation year,

not exceeding the amount determined by the formula

0.5(A + B)

where

A is its income for the year computed without reference to subsection 137(2), and

B is the total of all amounts each of which is the amount of a taxable capital gain from a gift of property made by it in the year to a donee described in this paragraph;"

S. 110.1(1)(*a*) was amended by S.C. 1997, c. 25, s. 22(1), applicable to the 1996 and subsequent taxation years. S. 110.1(*a*) formerly read:

" not exceeding 20% of its income for the year computed without reference to subsection 137(2);"

S. 110.1(1)(*a*) was amended by S.C. 1994, c. 7, Sched. II, s. 79(1), applicable after December 11, 1988. S. 110.1(1)(*a*) formerly read:

"(*a*) *Charitable gifts* — the total of gifts made by the corporation in the year (and in the 5 immediately preceding taxation years to the extent of the amount thereof that was not deducted in computing its taxable income for any preceding taxation year) to

(i) registered charities,

(ii) registered Canadian amateur athletic associations,

(iii) housing corporations resident in Canada and exempt from tax under this Part by paragraph 149(1)(*i*),

(iv) Canadian municipalities,

(v) the United Nations or agencies thereof,

(vi) universities outside Canada prescribed to be universities the student body of which ordinarily includes students from Canada, and

(vii) charitable organizations outside Canada to which Her Majesty in right of Canada has made a gift during the corporation's taxation year or the 12 months immediately preceding that taxation year,

not exceeding 20% of its income for the year computed without reference to subsection 137(2);"

Related Sections: S. 110.1(1)(*b*) Gifts to Her Majesty; s. 110.1(1)(*c*) Gifts to institutions; s. 110.1(3) Gifts of capital property.

Regulations: 3501(1.1); 3503; Schedule VIII.

Information Circulars: IC 84-3R5 Gifts to certain charitable organizations outside Canada.

Income Tax Technical News: Issue No. 17, Loan of property as a gift.

Registered Charities Newsletters: No. 29, Tax shelter gifting arrangements; No. 22, Rent-free accommodations; No. 18, Did you know?; No. 16, Donations of items of a speculative value; No. 14, Gifts by direct designation; No. 9, What is a Donor Benefit?; No. 9, How Do You Establish the Value of Gifts in Kind?; No. 8, Gifts of art; No. 7, Canadian charities and their U.S. donors; No. 4, Issuing receipts for gifts of art; No. 3, Gifts of property other than cash; No. 1, Donation of services.

Guides: RC4142 Tax Advantages of Donating to Charity.

Tax Topics: No. 1654, Tax Shelters - Past, Present and Future.

Tax Profile: December 2005 — Fair Market Value — What the Appraiser Thinks Doesn't Matter; June 2004 — Planning For Aging Parents; April 2004 — The Battle of the Art Donation Cases Continues.

Cases: The taxpayers each purchased a group of limited edition prints, donated them to charities and received donation receipts for approximately three times the purchase price. Since the prints were acquired and donated in groups, FMV should be determined on a group basis and was equal to the highest price that the art vendor charged for each group of prints. *A.G. of Canada v. Nash et al.*, 2005 DTC 5696 (F.C.A.), reversing 2004 DTC 3391 (T.C.C.), 2004 DTC 3328 and 2004 DTC 3360.

► 110.1(1)(a.1) ◄

(a.1) Gifts of medicine — the total of all amounts in respect of property that is the subject of an eligible medical gift made by the corporation in the taxation year or in any of the five preceding taxation years, each of which is the lesser of

(i) the cost to the corporation of the property, and

(ii) 50% of the amount, if any, by which the corporation's proceeds of disposition of the property in respect of the gift exceeds the cost to the corporation of the property.

Coordinating Amendment

S.C. 2007 c. 35 (Bill C-28) — Coordinating Amendments With Former Bill C-10 — Income Tax Amendments Act, 2006 — December 14, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The following applies if former Bill C-10, introduced in the 2nd session of the 39th Parliament and entitled the *Income Tax Amendments Act, 2006*, receives royal assent: Paragraph 110.1(1)(*a*.1) of the Act, as enacted by subsection 30(1) of S.C. 2007, c. 35, is replaced by the following:

(a.1) Gifts of medicine — the total of all amounts each of which is an amount, in respect of property that is the subject of an eligible medical gift made by the corpora-

tion in the taxation year or in any of the 5 preceding taxation years, determined by the formula

$$A \times B/C$$

where

A is the lesser of

(*a*) the cost to the corporation of the property, and

(*b*) 50 per cent of the amount, if any, by which the corporation's proceeds of disposition of the property in respect of the gift exceeds the cost to the corporation of the property;

B is the eligible amount of the gift; and

C is the corporation's proceeds of disposition of the property in respect of the gift.

Applicable: Royal Assent.

History: S. 110.1(1)(*a*.1) was added by S.C. 2007, c. 35, s. 30(1), applicable in respect of gifts of property made after March 18, 2007.

► 110.1(1)(b) ◄

(b) Gifts to Her Majesty — the total of all amounts each of which is the fair market value of a gift (other than a gift described in paragraph (*c*) or (*d*)) made by the corporation to Her Majesty in right of Canada or a province

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of paragraph 110.1(1)(*b*) of the Act before subparagraph (i) is replaced by the following:

(b) Gifts to Her Majesty — the total of all amounts each of which is the eligible amount of a gift (other than a gift described in paragraph (*c*) or (*d*)) made by the corporation to Her Majesty in right of Canada or of a province

Applicable: To gifts made after December 20, 2002.

Explanatory Note: See the Explanatory Note following the amendment to the portion of paragraph 110.1(1)(*a*) before subparagraph (i).

(i) in the year or in any of the 5 preceding taxation years, and

(ii) before February 19, 1997 or under a written agreement made before that day;

History: S. 110.1(1)(*b*) was amended by S.C. 1998, c. 19, s. 20(1), applicable to taxation years that begin after 1996. S. 110.1(1)(*b*) formerly read:

"(*b*) *Gifts to Her Majesty* — the total of all amounts each of which is the fair market value of a gift made by the corporation in the year (or in any of the 5 immediately preceding taxation years to the extent that the amount thereof was not deducted in computing its taxable income for any preceding taxation year) to Her Majesty in right of Canada or a province, not exceeding the amount remaining, if any, after the amount deducted for the year under paragraph (*a*) by the corporation is deducted in computing its taxable income for the year;"

S. 110.1(1)(*b*) was amended by S.C. 1994, c. 7, Sched. II, s. 79(1), applicable after December 11, 1988. S. 110.1(1)(*b*) formerly read:

"(*b*) *Gifts to Her Majesty* — the total of gifts made by the corporation in the year (and in the 5 immediately preceding taxation years to the extent of the amount thereof that was not deducted in computing its taxable income for any preceding taxation year) to Her Majesty in right of Canada and Her Majesty in right of the provinces, not exceeding the amount remaining, if any, when the amount deducted for the year under paragraph (*a*) by the corporation is deducted from its income for the year; and"

Regulations: 3501(1.1).
Advance Tax Rulings: ATR-63 Donations to agents of the Crown.
Registered Charities Newsletters: No. 6, The "art" of issuing official donation receipts; No. 4, Issuing receipts for gifts of art.

► 110.1(1)(c) ◄

(c) Gifts to institutions — the total of all amounts each of which is the fair market value of a gift (other than a gift described in paragraph (*d*)) of an object that the Canadian Cultural Property Export Review Board has determined meets the criteria set out in paragraphs 29(3)(*b*) and (*c*) of the *Cultural Property Export and Import Act*, which gift was made by the corporation in the year or in any of the 5 preceding taxation years to an institution or a public authority in Canada that was, at the time the gift was made, designated under subsection 32(2) of that Act either generally or for a specified purpose related to that object; and

Editorial Note: For the pending amendment for paragraph 110.1(1)(*c*), see the pending amendment reproduced after paragraph 110.1(1)(*d*).

History: S. 110.1(1)(*c*) was amended by S.C. 1998, c. 19, s. 20(1), applicable to taxation years that begin after 1996. S. 110.1(1)(*c*) formerly read:

"(*c*) *Gifts to institutions* — the total of all amounts each of which is the fair market value of a gift (other than a gift in respect of which an amount is or was deducted under paragraph (*a*) or (*b*)) of an object that the Canadian Cultural Property Export Review Board has determined meets the criteria set out in paragraphs 29(3)(*b*) and (*c*) of the *Cultural Property Export and Import Act*, which gift was made by the corporation in the year (or in any of the 5 immediately preceding taxation years to the extent that the amount thereof was not deducted in computing its taxable income for any preceding taxation year) to an institution or a public authority in Canada that was, at the time the gift was made, designated under subsection 32(2) of that Act either generally or for a specified purpose related to that object, not exceeding the amount remaining, if any, after the amounts deducted for the year under paragraphs (*a*) and (*b*) by the corporation are deducted in computing its taxable income for the year; and"

S. 110.1(1)(*c*) was amended by S.C. 1994, c. 7, Sched. II, s. 79(1), applicable after December 11, 1988. S. 110.1(1)(*c*) formerly read:

"(*c*) *Gifts to institutions* — the total of gifts (other than gifts in respect of which amounts are or were deducted under paragraph (*a*) or (*b*)) of objects that the Canadian Cultural Property Export Review Board has determined meet all of the criteria set out in paragraphs 29(3)(*b*) and (*c*) of the *Cultural Property Export and Import Act*, which gifts were made by the corporation in the year (and in the 5 immediately preceding taxation years to the extent of the amount thereof not deducted under this Act in computing its taxable income for any preceding taxation year) to institutions or public authorities in Canada that were, at the time the gifts were made, designated under subsection 32(2) of that Act either generally or for a purpose related to those objects, not exceeding the amount remaining, if any, when the amounts deducted for the year under paragraphs (*a*) and (*b*) by the corporation are deducted from its income for the year."

Related Sections: S. 118.1(7.1) Gifts of cultural property.
Regulations: 3501(1.1).
Interpretation Bulletins: *Secondary* — IT-407R4 (Consolid.) Dispositions of cultural property to designated Canadian institutions.
Registered Charities Newsletters: No. 6, The "art" of issuing official donation receipts; No. 4, Issuing receipts for gifts of art.

► 110.1(1)(d) ◄

(d) Ecological gifts — the total of all amounts each of which is the fair market value of a gift of land, including a servitude for the use and benefit of a dominant land, a covenant or an easement, the fair market value of which is certified by the Minister of the Environment and that is certified by that Minister, or by a person designated by that Minister, to be ecologically sensitive land, the conservation and protection of which is, in the opinion of that Minister, or that person, important to the preservation of Canada's environmental heritage, which gift was made by the corporation in the year or in any of the five preceding taxation years to

(i) Her Majesty in right of Canada or a province or a municipality in Canada, or

(ii) a registered charity one of the main purposes of which is, in the opinion of that Minister, the conservation and protection of Canada's environmental heritage, and that is approved by that Minister or that person in respect of the gift.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraphs 110.1(1)(c) and (d) of the Act are replaced by the following:

(c) **Gifts to institutions** — the total of all amounts each of which is the eligible amount of a gift (other than a gift described in paragraph (*d*)) of an object that the Canadian Cultural Property Export Review Board has determined meets the criteria set out in paragraphs 29(3)(*b*) and (*c*) of the *Cultural Property Export and Import Act*, which gift was made by the corporation in the year or in any of the five preceding taxation years to an institution or a public authority in Canada that was, at the time the gift was made, designated under subsection 32(2) of that Act either generally or for a specified purpose related to that object; and

(d) **Ecological gifts** — the total of all amounts each of which is the eligible amount of a gift of land (including a covenant or an easement to which land is subject or, in the case of land in the Province of Quebec, a real servitude) if

(i) the fair market value of the gift is certified by the Minister of the Environment,

(ii) the land is certified by that Minister, or by a person designated by that Minister, to be ecologically sensitive land, the conservation and protection of which is, in the opinion of that Minister or the designated person, important to the preservation of Canada's environmental heritage, and

(iii) the gift was made by the corporation in the year or in any of the five preceding taxation years to

(A) Her Majesty in right of Canada or of a province,

(B) a municipality in Canada,

(C) a municipal or public body performing a function of government in Canada, or

(D) a registered charity one of the main purposes of which is, in the opinion of that Minister, the conservation and protection of Canada's environmental heritage, and that is approved by that Minister or the designated person in respect of the gift.

Applicable: To gifts made after December 20, 2002.

For gifts made after May 8, 2000 and before December 21, 2002, subparagraph 110.1(1)(*d*)(i) is to be read as follows:

"(i) Her Majesty in right of Canada or of a province, a municipality in Canada or a municipal or public body performing a function of government in Canada, or"

Explanatory Note: See the Explanatory Note following the amendment to the portion of paragraph 110.1(1)(*a*) before subparagraph (i).

History: S. 110.1(1)(*d*), the portion before subparagraph (i) was amended by S.C. 2001, c. 17, s. 85(1), applicable in respect of gifts made after February 27, 2000. S. 110(1)(*d*), the portion before subparagraph (i) formerly read:

"(*d*) *Ecological gifts* — the total of all amounts each of which is the fair market value of a gift of land, including a servitude for the use and benefit of a dominant land, a covenant or an easement, that is certified by the Minister of the Environment, or a person designated by that Minister, to be ecologically sensitive land, the conservation and protection of which is, in the opinion of that Minister, or that person, important to the preservation of Canada's environmental heritage, which gift was made by the corporation in the year or in any of the 5 preceding taxation years to"

S. 110.1(1)(*d*) was amended by S.C. 1998, c. 19, s. 20(1), applicable to taxation years that begin after 1996. S. 110.1(1)(*d*) formerly read:

"(*d*) *Ecological gifts* — the total of all amounts each of which is the fair market value of a gift (other than a gift in respect of which an amount is or was deducted under paragraph (*a*), (*b*) or (*c*)) of land, including a servitude for the use and benefit of a dominant land, a covenant or an easement, that is certified by the Minister of the Environment, or a person designated by that Minister, to be ecologically sensitive land, the conservation and protection of which is, in the opinion of that Minister, or that person, important to the preservation of Canada's environmental heritage, which gift was made by the corporation in the year (or in any of the 5 immediately preceding taxation years to the extent that the amount was not deducted in computing its taxable income for any preceding taxation year) to

(i) a Canadian municipality, or

(ii) a registered charity one of the main purposes of which is, in the opinion of the Minister of the Environment, the conservation and protection of Canada's environmental heritage, and that is approved by that Minister, or that person, in respect of that gift,

and not exceeding the amount remaining, if any, after the amounts deducted for the year under paragraphs (*a*), (*b*) and (*c*) are deducted in computing the corporation's taxable income for the year."

S. 110.1(1)(*d*) was added by S.C. 1996, c. 21, s. 20(1), applicable to gifts made after February 27, 1995.

Related Sections: S. 118.1(1), "total ecological gifts"; s. 118.1(10.2) Request for determination by the Minister of the Environment; s. 118.1(10.3) Duty of Minister of the Environment; s. 118.1(10.4) Ecological gifts — redetermination; s. 118.1(10.5) Certificate of Fair Market Value; s. 169(1.1) Ecological gifts; s. 207.31 Tax payable by recipient of an ecological gift; s. 207.4(1) Return and payment of tax.

Registered Charities Newsletters: No. 22, Ecological gifts.

► 110.1(1.1) ◄

(1.1) Limitation on deductibility. For the purpose of determining the amount deductible under subsection (1) in computing a corporation's taxable income for a taxation year,

(*a*) an amount in respect of a gift is deductible only to the extent that it exceeds amounts in respect of the gift deducted under that subsection in computing the corporation's taxable income for preceding taxation years; and

(*b*) no amount in respect of a gift made in a particular taxation year is deductible under any of paragraphs (1)(*a*) to (*d*) until amounts deductible under that paragraph in respect of gifts made in taxation years preceding the particular year have been deducted.

History: S. 110.1(1.1) was added by S.C. 1998, c. 19, s. 20(1), applicable to taxation years that begin after 1996.

Related Sections: S. 118.1(2.1) Ordering.

► 110.1(1.2) ◄

(1.2) Where control acquired. Notwithstanding paragraph 88(1)(*e.6*), if control of a particular corporation is acquired at any time by a person or group of persons,

(*a*) no amount is deductible under any of paragraphs (1)(*a*) to (*d*) in computing any corporation's taxable income for a taxation year that ends on or after that time in respect of a gift made by the particular corporation before that time; and

(*b*) no amount is deductible under any of paragraphs (1)(*a*) to (*d*) in computing any corporation's taxable income for a taxation year that ends on or after that time in respect of a gift made by any corporation on or after that time if the property that is the subject of the gift was acquired by the particular corporation under an arrangement under which it was expected that control of the particular corporation would be so acquired by a person or group of persons, other than a qualified donee that received the gift, and the gift would be so made.

History: S. 110.1(1.2) was added by S.C. 2005, c. 19, s. 19(1), applicable in respect of gifts made after March 22, 2004.

► 110.1(2) ◄

(2) Proof of gift. A gift shall not be included for the purpose of determining a deduction under subsection (1) unless the making of the gift is proven by filing with the Minister

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 110.1(2) of the Act before paragraph (*a*) is replaced by the following:

(2) Proof of gift. An eligible amount of a gift shall not be included for the purpose of determining a deduction under subsection (1) unless the making of the gift is evidenced by filing with the Minister

Applicable: To gifts made after December 20, 2002.

Explanatory Note:

Proof of Gift

Subsection 110.1(2) of the Act provides that a corporation may not deduct an amount in respect of a gift unless the gift is evidenced by a receipt containing prescribed information. The subsection is amended, concurrently with subsection 110.1(1) of the Act, to refer to the "eligible amount" of a gift.

It is proposed that subsections 3501(1), (1.1) and (6) of the Regulations be amended to provide that every official receipt issued by a registered organization in respect of a gift contain, in addition to the information already prescribed, the amount of the advantage, if any, and the eligible amount of the gift.

For additional details, see the commentary to new subsections 248(31) and (32) of the Act regarding the eligible amount and the amount of the advantage in respect of a gift.

These amendments to subsection 110.1(2) of the Act and subsections 3501(1), (1.1) and (6) of the Regulations are to be effective in respect of gifts made after December 20, 2002.

(*a*) a receipt for the gift that contains prescribed information;

(*b*) in the case of a gift described in paragraph (1)(*c*), the certificate issued under subsection 33(1) of the *Cultural Property Export and Import Act*; and

(*c*) in the case of a gift described in paragraph (1)(*d*), both certificates referred to in that paragraph.

History: S. 110.1(2) was amended by S.C. 2001, c. 17, s. 85(2), applicable in respect of gifts made after February 27, 2000, except that subsection 110.1(2) of the Act shall be read without reference to paragraph 110.1(2)(*b*) in respect of gifts made before December 21, 2000. S. 110.1(2) formerly read:

"(2) *Proof of gift.* A gift shall not be included for the purpose of determining a deduction under subsection (1) unless the making of the gift is proven by filing with the Minister a receipt therefor that contains prescribed information."

Regulations: 3501(1).

Income Tax Technical News: Issue No. 26, Proposed Guidelines on Split Receipting.

Registered Charities Newsletters: No. 31, Reminders; No. 31, Top 3 Compliance Issues; No. 31, Split Receipting; No. 31, Questions and Answers — Correcting Errors and Making Changes; No. 29, Valuating donations; No. 23, New requirements for official donation receipts; No. 23, Golf tournaments; No. 17, Questions and Answers on Split Receipting; No. 11, Audit of Tax Preparer Lands Registered Charities and Executive Director in Hot Water; No. 8, Questions on golf tournaments; No. 4, Issuing receipts for gifts of art; No. 2, Issuing official donation receipts where there are prizes; No. 1, Donation of services.

► 110.1(3) ◄

(3) Gifts of capital property. Where at any time

(*a*) a corporation makes a gift of

(i) capital property to a donee described in paragraph (1)(*a*), (*b*) or (*d*), or

(ii) in the case of a corporation not resident in Canada, real property situated in Canada to a prescribed donee who provides an undertaking, in a form satisfactory to the Minister, to the effect that the property will be held for use in the public interest, and

(*b*) the fair market value of the property at that time exceeds its adjusted cost base to the corporation,

such amount, not greater than the fair market value otherwise determined and not less than the adjusted cost base to the corporation of the property at that time, as the corporation designates in its return of income under section 150 for the year in which the gift is made is, if the making of the gift is proven by filing with the Minister a receipt containing prescribed information, deemed to be its proceeds of disposition of the property and, for the purposes of subsection (1), the fair market value of the gift made by the corporation.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 110.1(3) of the Act is replaced by the following:

(2.1) Where subsection (3) applies. Subsection (3) applies in circumstances where

(*a*) a corporation makes a gift at any time of

(i) capital property to a donee described in paragraph (1)(*a*), (*b*) or (*d*), or

(ii) in the case of a corporation not resident in Canada, real or immovable property situated in Canada to a prescribed donee who provides an undertaking, in a form satisfactory to the Minister, to the effect that the property will be held for use in the public interest; and

(*b*) the fair market value of the property otherwise determined at that time exceeds

(i) in the case of depreciable property of a prescribed class, the lesser of the undepreciated capital cost of that class at the end of the taxation year of the corporation that includes that time (determined without reference to the proceeds of disposition designated in respect of the property under subsection (3)) and the adjusted cost base to the corporation of the property immediately before that time, and

(ii) in any other case, the adjusted cost base to the corporation of the property immediately before that time.

(3) Gifts of capital property. If this subsection applies in respect of a gift by a corporation of property, and the corporation designates an amount in respect of the gift in its return of income under section 150 for the year in which the gift is made, the amount so designated is deemed to be its proceeds of disposition of the property and, for the purpose of subsection 248(31), the fair market value of the gift, but the amount so designated may not exceed the fair market value of the property otherwise determined and may not be less than the greater of

(*a*) in the case of a gift made after December 20, 2002, the amount of the advantage, if any, in respect of the gift, and

(*b*) the amount determined under subparagraph (2.1)(*b*)(i) or (ii), as the case may be, in respect of the property.

Applicable: To gifts made after 1999 except that, for gifts made after 1999 and before December 21, 2002, the reference to "subsection 248(31)" in subsection 110.1(3) is to be read as a reference to "subsection (1)".

Explanatory Note:

Gifts of Capital Property

Subsection 110.1(3) of the Act provides that, if a corporation donates capital property to a charity, it may designate a value between the adjusted cost base and the fair market value of the donated property to be treated both as the proceeds of disposition for the purpose of calculating its capital gain and the amount of the gift for the purpose of the deduction allowed for charitable donations under subsection 110.1(1) of the Act.

Subsection 110.1(3) is restructured as new subsection 110.1(2.1) and revised subsection 110.1(3). New subsection 110.1(2.1) describes the circumstances under which amended subsection 110.1(3), which remains generally unchanged, will apply. However, where the property is depreciable property, subsection 110.1(2.1) includes those situations where the actual value of the gifted property is between the undepreciated capital cost of that class at the end of the taxation year of the corporation and the fair market value of the donated property.

Amended subsection 110.1(3) provides for the amount that may be designated by the corporation. As with the former provision, the amount designated is considered to be the corporation's proceeds of disposition of the gift. The subsection also continues to provide that the amount designated is treated as the fair market value of the property transferred by way of gift. However, under the amended version, this is for the purpose of new subsection 248(31) of the Act instead of for subsection 110.1(1). New subsection 248(31) generally provides that the "eligible amount" of a gift is the excess of the fair market value of a property transferred by way of gift over the value of the advantage or benefit, if any, to which the transferor is entitled. The "eligible amount" is relevant to the determination of the amount deductible under subsection 110.1(1) by the corporation.

Finally, amended subsection 110.1(3) allows a corporation to reduce the amount of recaptured depreciation that might otherwise be calculated in respect of a gift of depreciable property, with a corresponding reduction to the eligible amount deductible under subsection 110.1(1) in respect of the gift. However, the designated amount may not be lower than the amount of any actual proceeds of disposition in respect of the property (or, more specifically, the amount of the advantage in respect of the gift, as defined in new subsection 248(32) of the Act).

In particular, the amount designated by the corporation in respect of the property transferred may not exceed the fair market value of the property otherwise determined, and may not be less than the greater of

- the amount of the advantage, if any, in respect of the gift, and
- the adjusted cost base of the property or, if the property is depreciable property of the corporation, the undepreciated capital cost of the class of the property at the end of the corporation's taxation year (determined without reference to the proceeds of disposition designated in respect of the property).

See also the example in the commentary to subsections 118.1(5.4) and (6) of the Act, which apply similarly to individuals as do subsections 110.1(2.1) and (3) to corporations.

Subsections 110.1(2.1) and (3) of the Act (as amended) generally apply in respect of gifts made after 1999. For additional details regarding the eligible amount and the amount of the advantage in respect of a gift, see the commentary to new subsections 248(31) and (32) of the Act.

History: S. 110.1(3), the portion after paragraph (*b*) was amended by S.C. 2001, c. 17, s. 85(3), applicable in respect of gifts made after February 27, 1995. S. 110.1(3), the portion after paragraph (*b*) formerly read:

"such amount, not greater than the fair market value and not less than the adjusted cost base to the corporation of the property at that time, as the corporation designates in its return of income under section 150 for the year in which the gift is made shall, if the making of the gift is proven by filing with the Minister a receipt containing prescribed information, be deemed to be its proceeds of disposition of the property and, for the purposes of subsection (1), the fair market value of the gift made by the corporation."

S. 110.1(3)(*a*)(i) was amended by S.C. 1996, c. 21, s. 20(2), applicable to gifts made after February 27, 1995. S. 110.1(3)(*a*)(i) formerly read:

"(i) capital property to a donee described in paragraph (1)(*a*) or (*b*), or"

S. 110.1(3), that portion following paragraph (*b*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 46(1), applicable to gifts made after December 11, 1988. S. 110.1(3), that portion following paragraph (*b*), formerly read:

"such amount, not greater than the fair market value and not less than the adjusted cost base to the corporation of the property at that time, as is designated by the corporation in its return of income under section 150 for the year in which the gift is made shall, if payment thereof is proven by filing with the Minister a receipt containing prescribed information, be deemed to be its proceeds of disposition of the property and the amount of the gift made by the corporation."

Related Sections: S. 13(21), "proceeds of disposition"; s. 54, "proceeds of disposition".
Interpretation Bulletins: *Primary* — IT-288R2 Gifts of capital properties to a charity and others.
Regulations: 3501(1), (1.1); 3504.
Registered Charities Newsletters: No. 12, Valuing Gifts of Public Securities; No. 6, The "art" of issuing official donation receipts; No. 4, Issuing receipts for gifts of art; No. 3, Gifts of property other than cash.

► 110.1(4) ◄

(4) Gifts made by partnership. Where a corporation is, at the end of a fiscal period of a partnership, a member of the partnership, its share of any amount that would, if the partnership were a person, be a gift made by the partnership to any donee shall, for the purposes of this section, be deemed to be a gift made to that donee by the corporation in its taxation year in which the fiscal period of the partnership ends.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 110.1(4) of the Act is replaced by the following:

(4) Gifts made by partnership. If at the end of a fiscal period of a partnership a corporation is a member of the partnership, its share of any amount that would, if the partnership were a person, be the eligible amount of a gift made by the partnership to any donee is, for the purpose of this section, deemed to be the eligible amount of a gift made to that donee by the corporation in its taxation year in which the fiscal period of the partnership ends.

Applicable: To gifts made after December 20, 2002.

Explanatory Note:

Gifts Made by a Partnership

Subsection 110.1(4) of the Act allows the attribution of gifts made by a partnership to its corporate members, according to each member's share in the partnership. Subsection 110.1(4) is amended, consequential to the addition of new subsection 248(31) of the Act, in respect of gifts made by a partnership after December 20, 2002, to refer to the "eligible amount" of a gift made because of a corporation's membership in a partnership.

► 110.1(5) ◄

(5) Ecological gifts. For the purposes of applying subparagraph 69(1)(*b*)(ii), this section and section 207.31 in respect of a gift described in paragraph (1)(*d*) that is made by a taxpayer, the amount that is the fair market value (or, for the purpose of subsection (3), the fair market value otherwise determined) of the gift at the time the gift was made and, subject to subsection (3), the taxpayer's proceeds of disposition of the gift, is deemed to be the amount determined by the Minister of the Environment to be

(*a*) where the gift is land, the fair market value of the gift; or

(*b*) where the gift is a servitude, covenant or easement to which land is subject, the greater of

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of paragraph 110.1(5)(*b*) of the Act before subparagraph (i) is replaced by the following:

(*b*) where the gift is a covenant or an easement to which land is subject or, in the case of land in the Province of Quebec, a real servitude, the greater of

Applicable: To gifts made after December 20, 2002.

Explanatory Note:

Ecological Gifts

Subsection 110.1(5) of the Act provides that the fair market value of a gift of ecologically sensitive land (or a covenant, easement or servitude in respect of ecologically sensitive land) is deemed to be the amount determined by the Minister of the Environment. Paragraph 110.1(5)(*b*) provides that the amount so determined in respect of a covenant, easement or servitude will not be considered to be less than the decrease in value of the subject land that resulted from the making of the gift.

Paragraph 110.1(5)(*b*) is amended to clarify its application to "real servitudes" under the *Civil Code of Quebec*.

This amendment applies to gifts made after December 20, 2002.

(i) the fair market value otherwise determined of the gift, and

(ii) the amount by which the fair market value of the land is reduced as a result of the making of the gift.

History: S. 110.1(5) was amended by S.C. 2001, c. 17, s. 85(5), applicable in respect of gifts made after February 27, 2000. S. 110.1(5) formerly read:

"(5) *Ecological gifts.* For the purposes of applying subparagraph 69(1)(*b*)(ii), section 207.31 and this section in respect of a gift described in paragraph (1)(*d*) that is made by a taxpayer and that is a servitude, covenant or easement to which land is subject, the greater of

(*a*) the fair market value otherwise determined of the gift, and

(*b*) the amount by which the fair market value of the land is reduced as a result of the making of the gift

is deemed to be the fair market value (or, for the purpose of subsection (3), the fair market value otherwise determined) of the gift at the time the gift was made and, subject to subsection (3), to be the taxpayer's proceeds of disposition of the gift."

S. 110.1(5) was amended by S.C. 2001, c. 17, s. 85(4), applicable in respect of gifts made after February 27, 1995 and before February 28, 2000. S. 110.1(5) formerly read:

"(5) *Ecological gifts.* For the purposes of paragraph (1)(*d*) and section 207.31, the fair market value of a gift of a servitude, a covenant or an easement to which land is subject is deemed to be the greater of its fair market value otherwise determined and the amount by which the fair market value of the land is reduced as a consequence of the making of the gift."

S. 110.1(5) was added by S.C. 1998, c. 19, s. 20(2), applicable to gifts made after February 27, 1995.

Related Sections: S. 118.1(10.2) Request for determination by the Minister of the Environment; s. 118.1(10.3) Duty of Minister of the Environment; s. 118.1(10.4) Ecological gifts — redetermination; s. 118.1(10.5) Certificate of Fair Market Value; s. 118.1(12) Ecological gifts; s. 169(1.1) Ecological gifts; s. 207.31 Tax payable by recipient of an ecological gift.

► 110.1(6) ◄

(6) Non-qualifying securities. Subsections 118.1(13), and (14) and (16) to (20) apply to a corporation as if the references in those subsections to an individual were read as references to a corporation and as if a non-qualifying security of a corporation included a share (other than a share listed on a designated stock exchange) of the capital stock of the corporation.

History: S. 110.1(6) was amended by S.C. 2007, c. 35, s. 68(2), by replacing "prescribed stock exchange" with "designated stock exchange", applicable on and after December 14, 2007.

S. 110.1(6) was added by S.C. 1998, c. 19, s. 20(2), applicable after July 1997.

► 110.1(7) ◄

(7) Corporation ceasing to exist. If, but for this subsection, a corporation (other than a corporation that was a predecessor corporation in an amalgamation to which subsection 87(1) applied or a corporation that was wound up in a winding-up to which subsection 88(1) applied) would be deemed by subsection 118.1(13) to have made a gift after the corporation ceased to exist, for the purpose of this section, the corporation is deemed to have made the gift in its last taxation year, except that the amount of interest payable under any provision of this Act is the amount that it would be if this subsection did not apply to the gift.

History: S. 110.1(7) was added by S.C. 1998, c. 19, s. 20(2), applicable after July 1997.

Sec. 33, Chap. 22, 1999

For the purposes of the Act, if

(*a*) a taxpayer made a gift at any particular time before February 1998, and after the end of a taxation year that ended after November 15, 1997 and before 1998, that would be deductible under section 110.1 or 118.1 of the Act in computing the taxpayer's taxable income or tax payable under Part I of the Act for the year if it were made immediately before the end of the year,

(*b*) the gift was a gift of tangible property (other than real property) or a gift by cash, cheque, credit card or money order,

(*c*) the gift was not made

(i) through a payroll deduction, or

(ii) where the taxpayer died after 1997, by the taxpayer's will, and

(*d*) the taxpayer so elects in the taxpayer's return of income under the Act for the year or by notifying the Minister of National Revenue in writing before 1999,

the taxpayer is deemed to have made the gift and, in the case of a gift of tangible property, to have disposed of the property immediately before the end of the taxpayer's taxation year that ended before 1998 and not to have done so at the particular time.

► 110.1(8) ◄

(8) Eligible medical gift. For the purpose of paragraph (1)(*a.1*), a gift referred to in paragraph (1)(*a*) is an eligible medical gift of a corporation if

(*a*) the corporation has directed the donee to apply the gift to charitable activities outside of Canada;

(*b*) the property that is the subject of the gift is a medicine that is available for the donee's use at least six months prior to its expiration date, within the meaning of the *Food and Drug Regulations*;

(*c*) the medicine qualifies as a drug, within the meaning of the *Food and Drugs Act*, and the drug

(i) meets the requirements of that Act, or would meet those requirements if that Act were read without reference to its subsection 37(1), and

(ii) is not a food, cosmetic or device (as those terms are defined in that Act), a natural health product

(as defined in the *Natural Health Products Regulations*) or a veterinary drug;

(*d*) the property was, immediately before the making of the gift, described in an inventory in respect of a business of the corporation; and

(*e*) the donee is a registered charity that, in the opinion of the Minister for International Cooperation (or, if there is no such Minister, the Minister responsible for the Canadian International Development Agency) meets conditions prescribed by regulation.

History: S. 110.1(8)(*e*) was replaced by S.C. 2009, c. 2, s. 29(1), applicable in respect of gifts made after June 2008. S. 110.1(8)(*e*) formerly read:

"(*e*) the donee is a registered charity that, in the opinion of the Minister of International Cooperation (or, if there is no such Minister, the Minister responsible for the Canadian International Development Agency) meets prescribed conditions."

S. 110.1(8)(*b*) and (*c*) were replaced by S.C. 2008, c. 28, s. 12(1), applicable in respect of gifts made on or after July 1, 2008. S. 110.1(8)(*b*) and (*c*) formerly read:

"(*b*) in the case of a gift made on or before October 2, 2007, the property that is the subject of the gift is medicine;

(*c*) in the case of a gift made after October 2, 2007, the property that is the subject of the gift is a medicine that qualifies as a drug, within the meaning of the *Food and Drugs Act*, and the drug

(i) meets the requirements of that Act, or would meet those requirements if that Act were read without reference to its subsection 37(1), and

(ii) is not a food, cosmetic or device (as those terms are defined in that Act), a natural health product (as defined in the *Natural Health Products Regulations*) or a veterinary drug;"

S. 110.1(8)(*e*) was replaced by S.C. 2008, c. 28, s. 12(2), applicable in respect of gifts made on or after July 1, 2008. S. 110.1(8)(*e*) formerly read:

"(*e*) the donee is a registered charity that has received a disbursement under a program of the Canadian International Development Agency."

S. 110.1(8) was added by S.C. 2007, c. 35, s. 30(2), applicable in respect of gifts of property made after March 18, 2007.

Related Sections: S. 149.1(15) Information may be communicated.
Regulations: 3505.

► 110.1(9) ◄

(9) Rules governing international medical charities. For the purpose of paragraph (8)(*e*),

(*a*) for greater certainty, nothing in paragraph (8)(*b*) modifies the application to a registered charity of the prescribed conditions referred to in paragraph (8)(*e*);

(*b*) if, in respect of a registered charity, the Minister referred to in paragraph (8)(*e*) is of the opinion described in that paragraph

(i) that Minister may also designate a period of time during which that opinion is valid, and

(ii) notwithstanding subparagraph (i), the opinion may be revoked at any time by that Minister if

(A) that Minister is of the opinion that the registered charity no longer meets prescribed conditions referred to in paragraph (8)(*e*), or

(B) any person has made any misrepresentation that is attributable to neglect, carelessness or wilful default for the purpose of obtaining the opinion; and

(*c*) a revocation referred to in subparagraph (*b*)(ii) is effective as of the time that notice, in writing, of the revocation is issued by that Minister to the registered charity.

History: S. 110.1(9) was added by S.C. 2009, c. 2, s. 29(2), applicable in respect of gifts made after June 2008.

Lump-sum Payments

SECTION 110.2:

► 110.2(1) ◄

(1) Definitions. The definitions in this subsection apply in this section and section 120.31.

History: S. 110.2(1) was added by S.C. 2000, c. 19, s. 17(1), applicable to amounts received by an individual after 1994 (other than an amount in respect of which tax has been remitted to the individual under subsection 23(2) of the *Financial Administration Act*) and, notwithstanding subsections 152(4) to (5) of the *Income Tax Act*, any assessment of the individual's tax payable under that Act for any taxation year that ended before 1999 shall be made as is necessary to take into account the application of subsection (1).

"eligible taxation year" — "eligible taxation year" in respect of a qualifying amount received by an individual, means a taxation year

(*a*) that ended after 1977 and before the year in which the individual received the qualifying amount;

(*b*) throughout which the individual was resident in Canada;

(*c*) that did not end in a calendar year in which the individual became a bankrupt; and

(*d*) that was not included in an averaging period, within the meaning assigned by section 119 (as it read in its application to the 1987 taxation year), pursuant to an election that was made and not revoked by the individual under that section.

History: S. 110.2(1), the definition "eligible taxation year" was added by S.C. 2000, c. 19, s. 17(1), applicable to amounts received by an individual after 1994 (other than an amount in respect of which tax has been remitted to the individual under subsection 23(2) of the *Financial Administration Act*) and, notwithstanding subsections 152(4) to (5) of the *Income Tax Act*, any assessment of the individual's tax payable under that Act for any taxation year that ended before 1999 shall be made as is necessary to take into account the application of subsection (1).

"qualifying amount" — "qualifying amount" received by an individual in a taxation year means an amount (other than the portion of the amount that can reasonably be considered to be received as, on account of, in lieu of payment of or in satisfaction of, interest) that is included in computing the individual's income for the year and is

(*a*) an amount

(i) that is received pursuant to an order or judgment of a competent tribunal, an arbitration award or a contract by which the payor and the individual terminate a legal proceeding, and

(ii) that is

(A) included in computing the individual's income from an office or employment, or

(B) received as, on account of, in lieu of payment of or in satisfaction of, damages in respect of the individual's loss of an office or employment,

(*b*) a superannuation or pension benefit (other than a benefit referred to in clause 56(1)(*a*)(i)(B)) received on account of, in lieu of payment of or in satisfaction of, a series of periodic payments (other than payments that would have otherwise been made in the year or in a subsequent taxation year),

(*c*) an amount described in paragraph 6(1)(*f*), subparagraph 56(1)(*a*)(iv) or paragraph 56(1)(*b*), or

(*d*) a prescribed amount or benefit,

except to the extent that the individual may deduct for the year an amount under paragraph 8(1)(*b*), (*n*) or (*n*.1), 60(*n*) or (*o*.1) or 110(1)(*f*) in respect of the amount so included.

History: S. 110.2(1), the definition "qualifying amount" was added by S.C. 2000, c. 19, s. 17(1), applicable to amounts received by an individual after 1994 (other than an amount in respect of which tax has been remitted to the individual under subsection 23(2) of the *Financial Administration Act*) and, notwithstanding subsections 152(4) to (5) of the *Income Tax Act*, any assessment of the individual's tax payable under that Act for any taxation year that ended before 1999 shall be made as is necessary to take into account the application of subsection (1).

"*specified portion*" — "specified portion", in relation to an eligible taxation year, of a qualifying amount received by an individual means the portion of the qualifying amount that relates to the year, to the extent that the individual's eligibility to receive the portion existed in the year.

History: S. 110.2(1), the definition "specified portion" was added by S.C. 2000, c. 19, s. 17(1), applicable to amounts received by an individual after 1994 (other than an amount in respect of which tax has been remitted to the individual under subsection 23(2) of the *Financial Administration Act*) and, notwithstanding subsections 152(4) to (5) of the *Income Tax Act*, any assessment of the individual's tax payable under that Act for any taxation year that ended before 1999 shall be made as is necessary to take into account the application of subsection (1).

► 110.2(2) ◄

(2) Deduction for lump-sum payments. There may be deducted in computing the taxable income of an individual (other than a trust) for a particular taxation year the total of all amounts each of which is a specified portion of a qualifying amount received by the individual in the particular year, if that total is $3,000 or more.

History: S. 110.2(2) was added by S.C. 2000, c. 19, s. 17(1), applicable to amounts received by an individual after 1994 (other than an amount in respect of which tax has been remitted to the individual under subsection 23(2) of the *Financial Administration Act*) and, notwithstanding subsections 152(4) to (5) of the *Income Tax Act*, any assessment of the individual's tax payable under that Act for any taxation year that ended before 1999 shall be made as is necessary to take into account the application of subsection (1).

Related Sections: S. 111.1 Order of applying provisions; s. 120.31(2) Addition to tax payable.
Forms: T1198.

SECTION 110.3: Transfer of unused deductions.

[Repealed by 1988, c. 55, s. 79(1).]

SECTION 110.4: Forward averaging.

[Subsections 110.4(1), (3) and (6) were repealed by 1988, c. 55, s. 80; subsections 110.4(2), (4), (5), (6.1) and (8) were repealed by 2000, c. 19, s. 18(1); and subsection 110.4(7) was repealed by 1985, c. 45, s. 55(2).]

History: S. 110.4(2) was repealed by S.C. 2000, c. 19, s. 18(1), applicable to the 1998 and subsequent taxation years. S. 110.4(2) formerly read:

"(2) *Election.* Where an individual files with the individual's return under this Part for a taxation year ending before 1998 and throughout which the individual was resident in Canada an election in prescribed form on or before the day on or before which the individual was, or would have been if tax had been payable under this Part by the individual for the year, required to file a return of income under this Part for the year, there shall be added in computing the individual's taxable income for the year the amount, if any, by which

(*a*) such portion of the individual's accumulated averaging amount at the end of the immediately preceding taxation year as is specified by the individual in the election

exceeds

(*b*) the total of amounts that would be the individual's farm loss or non-capital loss for the year if the amount determined for B in the definition 'farm loss' or for C in the definition 'non-capital loss' in subsection 111(8) were zero."

S. 110.4(4) was repealed by S.C. 2000, c. 19, s. 18(1), applicable to the 1998 and subsequent taxation years. S. 110.4(4) formerly read:

"(4) *Death of a taxpayer.* For the purposes of subsection (2), where an individual was resident in Canada throughout the period beginning on the first day of the taxation year in which the individual died and ending at the time of the individual's death, the individual shall be deemed to have been resident in Canada throughout that year."

S. 110.4(5) was repealed by S.C. 2000, c. 19, s. 18(1), applicable to the 1998 and subsequent taxation years. S. 110.4(5) formerly read:

"(5) *Exception.* Subsection (2) does not apply with respect to a return of income filed under subsection 70(2) or 150(4) or paragraph 104(23)(*d*)."

S. 110.4(6.1) was repealed by S.C. 2000, c 19, s. 18(1), applicable to the 1998 and subsequent taxation years. S. 110.4(6.1) formerly read:

"(6.1) *Revocation of election.* An election filed by an individual under subsection (2) for a taxation year may be revoked,

(*a*) where the individual died in the year in which the election was filed, by the individual or the individual's legal representative filing with the Minister a notice of revocation in writing not later than the day on or before which the individual's return of income for the year of death is required to be filed, or would be required to be filed if tax under this Part were payable for the year of death; and

(*b*) in any other case, by the individual or the legal representative filing with the Minister a notice of revocation in writing not later than the 30th day following the day of mailing of a notice of assessment of an amount payable by the individual under this Part for the year."

S. 110.4(8) was repealed by S.C. 2000, c. 19, s. 18(1), applicable to the 1998 and subsequent taxation years. S. 110.4(8) formerly read:

"(8) *Accumulated averaging amount.* In this section and section 120.1, the accumulated averaging amount of an individual

(*a*) at the end of any taxation year before 1998 (other than a taxation year in which the individual dies) is the product obtained when

(i) the amount, if any, by which

(A) the individual's accumulated averaging amount at the end of the immediately preceding taxation year

exceeds

(B) the amount specified under subsection (2) by the individual in the individual's election for the year

is multiplied by

(ii) the ratio (adjusted in such manner as may be prescribed and rounded to the nearest one-thousandth or, where the ratio is equidistant from two consecutive one-thousandths, to the higher thereof) that the Consumer Price Index of the 12 month period that ended on September 30 of that year bears to the Consumer Price Index for the 12 month period that ended on September 30 of the immediately preceding year;

(*b*) at the end of the taxation year before 1998 and in which the individual dies is

(i) nil, where the individual's tax payable under this Part for the year is computed under section 119, or

(ii) the amount determined under subparagraph (*a*)(i) for the year, in any other case; and

(*c*) at any time after 1997 is nil."

S. 110.4(8)(*b*)(ii) was amended by S.C. 1994, c. 7, Sched. II, s. 80(1), applicable to the 1988 and subsequent taxation years. S. 110.4(8)(*b*)(ii) formerly read:

"(ii) the amount determined under paragraph (*a*) for the year, in any other case; and"

Interpretation Bulletins: *Secondary* — IT-212R3 Income of deceased persons — Rights or things; IT-519R2 (Consolid.) Medical expense and disability tax credits and attendant care expense deduction.
Information Circulars: IC 07-1 Taxpayer Relief Provisions.
Cases: A taxpayer was not allowed to amend his forward averaging election to increase the amount of income following the disallowance by the Minister of his RRSP deduction. Allowing the amendment to the original election, either as part of the assessment process or after reassessment, would require an inadmissible reading of the *Income Tax Act*. *Miller v. The Queen*, 93 DTC 5035 (F.C.A.), reversing 90 DTC 6335 (F.C.T.D.) and 85 DTC 318 (T.C.C.).

SECTION 110.5: Additions for foreign tax deductions.

There shall be added to a corporation's taxable income otherwise determined for a taxation year such amount as the corporation may claim to the extent that the addition thereof

(*a*) increases any amount deductible by the corporation under subsection 126(1) or (2) for the year; and

(*b*) does not increase an amount deductible by the corporation under any of sections 125, 125.1, 127, 127.2 and 127.3 for the year.

Related Sections: S. 88(1.1) Non-capital losses, etc., of subsidiary; s. 127.5 Obligation to pay minimum tax.
Interpretation Bulletins: *Secondary* — IT-232R3 Losses — Their Deductibility in the Loss Year or in Other Years; IT-270R3 Foreign tax credit; IT-302R3 Losses of a corporation — the effect that acquisitions of control, amalgamations, and windings-up have on their deductibility — After January 15, 1987.

Tax Profile: January 2006 — Foreign Source Income: Outbound Structures and Foreign Tax Credit Planning — Part I.

SECTION 110.6: [Capital gains exemption].

► 110.6(1) ◄

(1) Definitions. For the purposes of this section,

"annual gains limit" — "annual gains limit" of an individual for a taxation year means the amount determined by the formula

A – B

where

A is the lesser of

(*a*) the amount determined in respect of the individual for the year under paragraph 3(*b*) in respect of capital gains and capital losses, and

(*b*) the amount that would be determined in respect of the individual for the year under paragraph 3(*b*) in respect of capital gains and losses if the only properties referred to in that paragraph were qualified farm properties disposed of by the individual after 1984, qualified small business corporation shares disposed of by the individual after June 17, 1987 and qualified fishing properties disposed of by the individual on or after May 2, 2006, and

B is the total of

(*a*) the amount, if any, by which

(i) the individual's net capital losses for other taxation years deducted under paragraph 111(1)(*b*) in computing the individual's taxable income for the year

exceeds

(ii) the amount, if any, by which the amount determined in respect of the individual for the year under paragraph 3(*b*) in respect of capital gains and capital losses exceeds the amount determined for A in respect of the individual for the year, and

(*b*) all of the individual's allowable business investment losses for the year;

History: S. 110.6(1), paragraph (*b*) of the description of A in the definition "annual gains limit" was replaced by S.C. 2007, c. 2, s. 17(2), applicable to dispositions of property that occur on or after May 2, 2006. S. 110.6(1), paragraph (*b*) of the description of A in the definition "annual gains limit" formerly read:

"(b) the amount that would be determined in respect of the individual for the year under paragraph 3(*b*) in respect of capital gains and losses if the only properties referred to in that paragraph were qualified farm properties disposed of by the individual after 1984 and qualified small business corporation shares disposed of by the individual after June 17, 1987, and"

S. 110.6(1), paragraph (*b*) of the description of A in the definition "annual gains limit", was amended by S.C. 1995, c. 3, s. 32(2), applicable to the 1994 and subsequent taxation years, with certain exceptions. See S.C. 1995, c. 3, s. 32(14) below.

S. 110.6(1), paragraph (*b*) of the definition "annual gains limit" formerly read:

"(*b*) the amount that would be determined in respect of the individual for the year under paragraph 3(*b*) in respect of capital gains and capital losses if

(i) the only properties referred to in paragraph 3(*b*) were properties disposed of by the individual after 1984, and

(ii) the individual's capital gains and capital losses for the year from dispositions of non-qualifying real property of the individual were equal to the individual's eligible real property gains and eligible real property losses, respectively, for the year from those dispositions, and"

S. 110.6(1), the definition "annual gains limit", was amended by S.C. 1994, c. 21, s. 50(1), applicable to the 1985 and subsequent taxation years except that, in its application to the 1985 to 1991 taxation years, paragraph (*b*) of the description of A shall be read as follows:

"(*b*) the amount that would be determined in respect of the individual for the year under paragraph 3(*b*) in respect of capital gains and capital losses if the only properties referred to in paragraph 3(*b*) were properties disposed of by the individual after 1984, and

and, notwithstanding subsections 152(4) to (5) of the Act, such assessments and determinations in respect of any taxation years may be made as are necessary to give effect to this amended definition."

S. 110.6(1), the definition "annual gains limit", formerly read:

"'annual gains limit' of an individual for a taxation year means the amount determined by the formula

A – B

where

A is the lesser of

(*a*) the amount determined in respect of the individual for the year under paragraph 3(*b*) in respect of capital gains and capital losses, and

(*b*) the amount that would be determined in respect of the individual for the year under paragraph 3(*b*) in respect of capital gains and capital losses if

(i) the only properties referred to in paragraph 3(*b*) were properties disposed of by the individual after 1984, and

(ii) the individual's capital gains and capital losses for the year from dispositions of non-qualifying real property of the individual were equal to the individual's eligible real property gains and eligible real property losses, respectively, for the year from those dispositions, and

B is the total of

(*a*) the amount, if any, by which

(i) the individual's net capital losses for other taxation years deducted under paragraph 111(1)(*b*) in computing the individual's taxable income for the year

exceeds

(ii) the amount, if any, by which the amount determined in respect of the individual for the year under paragraph 3(*b*) in respect of capital gains and capital losses exceeds the amount determined for A in respect of the individual for the year, and

(*b*) all of the individual's allowable business investment losses for the year;"

S. 110.6(1), the definition "annual gains limit", was amended by S.C. 1994, c. 7, Sched. VIII, s. 47(1), applicable to the 1988 and subsequent taxation years except that, in its application to the 1988 to 1991 taxation years, paragraph (*b*) of the description of A in the definition "annual gains limit" shall be read as follows:

"(*b*) the amount that would be determined under paragraph 3(*b*) in respect of the individual for the year in respect of capital gains and capital losses if the only properties referred to in paragraph 3(*b*) were properties disposed of by the individual after 1984"

S. 110.6(1), the definition "annual gains limit", formerly read:

"'annual gains limit' of an individual for a taxation year means the amount, if any, by which

(*a*) the amount that would be determined in respect of the individual for the year under paragraph 3(*b*) in respect of capital gains and capital losses if the only properties referred to in that paragraph were properties disposed of by the individual after 1984

exceeds the total of

(*b*) the amount of the individual's net capital losses for other taxation years deducted in computing the individual's taxable income for the year under paragraph 111(1)(*b*), and

(*c*) the total of all the individual's allowable business investment losses for the year;"

Related Sections: S. 3 Income for taxation year; s. 38 Taxable capital gain and allowable capital loss; s. 39(1) Meaning of capital gain and capital loss; s. 110.6(1), "eligible real property gain", "eligible real property loss", "non-qualifying real property"; s. 111(1)(*b*) Net capital losses; s. 248(1), "amount", "individual", "property".

Interpretation Bulletins: *Secondary* — IT-120R6 Principal Residence; IT-236R4 Reserves — Disposition of Capital Property [Archived by the CRA]; IT-278R2 Death of a partner or of a retired partner; IT-373R2 (Consolid.) Woodlots.

Sec. 32(14), Chap. 3, S.C. 1995

Sec. 32. [Application of para. (b) to the 1994, 1995 taxation years.]

(14) This amendment applies to the 1994 and subsequent taxation years except that, for the 1994 and 1995 taxation years, that paragraph shall be read as follows:

"(*b*) the amount that would be determined in respect of the individual for the year under paragraph 3(*b*) in respect of capital gains and capital losses if

(i) the only properties referred to in paragraph 3(*b*) were properties disposed of by the individual after 1984 and, except where the property was at the time of the disposition a qualified small business corporation share or qualified farm property of the individual, before February 23, 1994,

(i.1) no amount were included under paragraph 3(*b*) in respect of

(A) a taxable capital gain of the individual that resulted from an election made under subsection (19) by a personal trust unless the individual was a beneficiary under the trust on February 22, 1994, and

(B) that portion of a taxable capital gain referred to in clause (A) that can reasonably be regarded as being in respect of an amount that is included in computing the individual's income because of an interest in the trust that was acquired by the individual after February 22, 1994,

(i.2) except for the purpose of determining the individual's share of a taxable capital gain of a partnership for its fiscal period that includes February 22, 1994 or a taxable capital gain of the individual resulting from a designation made under section 104 by a trust for its taxation year that includes that day, in determining the individual's taxable capital gain for the 1995 taxation year from the disposition of a property (other than a qualified small business corporation share or qualified farm property), this Act were read without reference to subparagraphs 40(1)(*a*)(ii) and 44(1)(*e*)(ii), and

(ii) the individual's capital gains and capital losses for the year from dispositions of non-qualifying real property of the individual were equal to the individual's eligible real property gains and eligible real property losses, respectively, for the year from those dispositions, and"

"child" — "child" has the meaning assigned by subsection 70(10);

"cumulative gains limit" — "cumulative gains limit" of an individual at the end of a taxation year means the amount, if any, by which

(*a*) the total of all amounts determined in respect of the individual for the year or preceding taxation years that end after 1984 for A in the definition "annual gains limit"

exceeds the total of

(*b*) all amounts determined in respect of the individual for the year or preceding taxation years that end after 1984 for B in the definition "annual gains limit",

(*c*) the amount, if any, deducted under paragraph 3(*e*) in computing the individual's income for the 1985 taxation year,

(*d*) all amounts deducted under this section in computing the individual's taxable incomes for preceding taxation years, and

(*e*) the individual's cumulative net investment loss at the end of the year;

History: S. 110.6(1), the definition "cumulative gains limit", was amended by S.C. 1994, c. 21, s. 50(1), applicable to the 1985 and subsequent taxation years. S. 110.6(1), the definition of "cumulative gains limit", formerly read:

" 'cumulative gains limit' of an individual at the end of a taxation year means the amount, if any, by which

(*a*) the total of all amounts each of which is

(i) the amount determined in respect of the individual for the year or a preceding taxation year ending after 1987 for A in the definition 'annual gains limit', or

(ii) the amount determined in respect of the individual for a preceding taxation year ending after 1984 and before 1988 under paragraph (*a*) of the definition 'annual gains limit' as it read in its application to those years

exceeds the total of

(*b*) all amounts each of which is

(i) the amount determined in respect of the individual for the year or a preceding taxation year ending after 1987 under paragraph (*a*) or (*b*) of the description of B in the definition 'annual gains limit',

(ii) the amount determined in respect of the individual for a preceding taxation year ending after 1984 and before 1988 under paragraph (*b*) or (*c*) of the definition 'annual gains limit' as it read in its application to those years, or

(iii) an amount deducted under paragraph 3(*e*) by the individual for the individual's 1985 taxation year,

(*c*) all amounts deducted under this section in computing the individual's taxable income for a preceding taxation year, and

(*d*) the individual's cumulative net investment loss at the end of the year;"

S. 110.6(1), the definition "cumulative gains limit", was amended by S.C. 1994, c. 7, Sched. VIII, s. 47(1), applicable to the 1988 and subsequent taxation years. S. 110.6(1), the definition "cumulative gains limit", formerly read:

" 'cumulative gains limit' of an individual at the end of a taxation year means the amount, if any, by which

(*a*) the total of all amounts each of which is the amount determined in respect of the individual for the year or a preceding taxation year ending after 1984 under paragraph (*a*) of the definition 'annual gains limit' in this subsection

exceeds the total of

(*b*) the total of all amounts each of which is the amount determined in respect of the individual for the year or a preceding taxation year ending after 1984 under paragraph (*b*) or (*c*) of the definition 'annual gains limit' in this subsection or an amount deducted by the individual under paragraph 3(*e*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, for the individual's 1985 taxation year,

(*c*) the total of all amounts each of which is an amount deducted by the individual under this section in computing the individual's taxable income for a preceding taxation year, and

(*d*) the individual's cumulative net investment loss at the end of the year;"

Related Sections: S. 3 Income for taxation year; s. 110.6(1), "annual gains limit", "Cumulative net investment loss"; s. 248(1), "amount", "individual".

"cumulative net investment loss" — "cumulative net investment loss" of an individual at the end of a taxation year means the amount, if any, by which

(*a*) the total of all amounts each of which is the investment expense of the individual for the year or a preceding taxation year ending after 1987

exceeds

(*b*) the total of all amounts each of which is the investment income of the individual for the year or a preceding taxation year ending after 1987;

Forms: T936.

"eligible real property gain" — [Repealed by 1995, c. 3, s. 32(1).]

History: S. 110.6(1), the definition "eligible real property gain", was repealed by S.C. 1995, c. 3, s. 32(1), applicable after 1995. That definition formerly read:

" *'eligible real property gain'* — 'eligible real property gain' of an individual for a taxation year from a disposition of a non-qualifying real property of the individual means the amount determined by the formula

$$A \times \frac{B}{C}$$

where

A is the individual's capital gain for the year from the disposition,

B is the number of calendar months in the period that begins with the later of the calendar month in which the property was last acquired by the individual and January 1972 and ends with February 1992, and

C is the number of calendar months in the period that begins with the later of the calendar month in which the property was last acquired by the individual and January 1972 and ends with the calendar month in which the property was disposed of by the individual;"

S. 110.6(1), the definition "eligible real property gain" was added by S.C. 1994, c. 7, Sched. VIII, s. 47(6), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 39 Meaning of capital gain and capital loss; s. 110.6(17) Order of deduction; s. 248(1), "amount", "individual", "property".

"eligible real property loss" — [Repealed by 1995, c. 3, s. 32(1).]

History: S. 110.6(1), the definition "eligible real property loss", was repealed by S.C. 1995, c. 3, s. 32(1), applicable after 1995. That definition formerly read:

" *'eligible real property loss'* — 'eligible real property loss' of an individual for a taxation year from a disposition of a non-qualifying real property of the individual means the amount determined by the formula

$$A \times \frac{B}{C}$$

where

A is the individual's capital loss for the year from the disposition,

B is the number of calendar months in the period that begins with the later of the calendar month in which the property was last acquired by the individual and January 1972 and ends with February 1992, and

C is the number of calendar months in the period that begins with the later of the calendar month in which the property was last acquired by the individual and January 1972 and ends with the calendar month in which the property was disposed of by the individual;"

S. 110.6(1), the definition "eligible real property loss" was added by S.C. 1994, c. 7, Sched. VIII, s. 47(6), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 39 Meaning of capital gain and capital loss; s. 248(1), "individual", "property".

"interest in a family farm partnership" — "interest in a family farm partnership" of an individual (other than a trust that is not a personal trust) at any time means a partnership interest owned by the individual at that time if

(*a*) throughout any 24-month period ending before that time, more than 50% of the fair market value of the property of the partnership was attributable to

(i) property that was used principally in the course of carrying on the business of farming in Canada in which the individual, a beneficiary referred to in clause (C) or a spouse, common-law partner, child or parent of the individual or of a beneficiary referred to in clause (C) was actively engaged on a regular and continuous basis, by

(A) the partnership,

(B) the individual,

(C) where the individual is a personal trust, a beneficiary of the trust,

(D) a spouse, common-law partner, child or parent of the individual or of a beneficiary referred to in clause (C),

(E) a corporation, a share of the capital stock of which was a share of the capital stock of a family farm corporation of the individual, a beneficiary referred to in clause (C) or a spouse, common-law partner, child or parent of the individual or of a beneficiary referred to in clause (C), or

(F) a partnership, a partnership interest of which was an interest in a family farm partnership of the individual, a beneficiary referred to in clause (C) or a spouse, common-law partner, child or parent of the individual or of a beneficiary referred to in clause (C),

(ii) shares of the capital stock or indebtedness of one or more corporations all or substantially all of the fair market value of the property of which was attributable to properties described in subparagraph (iv),

(iii) a partnership interest in or indebtedness of one or more partnerships all or substantially all of the fair market value of the property of which was attributable to properties described in subparagraph (iv), or

(iv) properties described in any of subparagraph [sic] (i) to (iii), and

(*b*) at that time, all or substantially all of the fair market value of the property of the partnership was attributable to properties described in subparagraph (*a*)(iv);

History: S. 110.6(1), the definition "interest in a family farm partnership" was replaced by S.C. 2007, c. 2, s. 17(1), applicable to dispositions of property that occur on or after May 2, 2006. S. 110.6(1), the definition "interest in a family farm partnership" formerly read:

" *'interest in a family farm partnership'* — 'interest in a family farm partnership' of an individual (other than a trust that is not a personal trust) at any time means an interest owned by the individual at that time in a partnership where

(*a*) throughout any 24-month period ending before that time, more than 50% of the fair market value of the property of the partnership was attributable to

(i) property that was used by

(A) the partnership,

(B) the individual,

(C) where the individual is a personal trust, a beneficiary of the trust,

(D) a spouse, common-law partner, child or parent of the individual or of a beneficiary referred to in clause (C), or

(E) a corporation a share of the capital stock of which was a share of the capital stock of a family farm corporation of the individual, a beneficiary referred to in clause (C) or a spouse, common-law partner, child or parent of the individual or of a beneficiary referred to in clause (C),

principally in the course of carrying on the business of farming in Canada in which the individual, a beneficiary referred to in clause (C) or a spouse, common-law partner, child or parent of the individual or of a beneficiary referred to in clause (C) was actively engaged on a regular and continuous basis,

(ii) shares of the capital stock or indebtedness of one or more corporations all or substantially all of the fair market value of the property of which was attributable to properties described in subparagraph (iii), or

(iii) properties described in either subparagraph (i) or (ii), and

(*b*) at that time, all or substantially all of the fair market value of the property of the partnership was attributable to

(i) property that was used principally in the course of carrying on the business of farming in Canada by the partnership or a person referred to in subparagraph (*a*)(i),

(ii) shares of the capital stock or indebtedness of one or more corporations described in subparagraph (*a*)(ii), or

(iii) properties described in subparagraph (i) or (ii)."

S. 110.6(1), subparagraph (*a*)(i) of the definition "interest in a family farm partnership" was amended by S.C. 2001, c. 17, s. 242, applicable to the 2001 and following taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act* [See Sec. 144, Chap. 12, S.C. 2000, reproduced below.], in respect of the 1998, 1999 or 2000 taxation years, subparagraph (*a*)(i) of the definition "interest in a family farm partnership" in s. 110.6(1) applies to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years. S. 110.6(1), subparagraph (*a*)(i) of the definition "interest in a family farm partnership" formerly read:

"principally in the course of carrying on the business of farming in Canada in which the individual, a beneficiary referred to in clause (C) or a spouse, common-law partner, child or parent of the individual or of a beneficiary referred to in clause (C) was actively engaged on a regular and continuous basis,"

S. 110.6(1), clauses (*a*)(i)(D) and (E) of the definition "interest in a family farm partnership" was amended by S.C. 2000, c. 12, Sched. 2, s. 8(c), applicable January 1, 2001, coming into force on July 31, 2000. S. 110.6, clauses (*a*)(i)(D) and (E) of the definition "interest in a family farm partnership" formerly read:

"(D) a spouse, child or parent of the individual or of a beneficiary referred to in clause (C), or

(E) a corporation a share of the capital stock of which was a share of the capital stock of a family farm corporation of the individual, a beneficiary referred to in clause (C) or a spouse, child or parent of the individual or of a beneficiary referred to in clause (C),"

S. 110.6(1), the portion of the definition "interest in a family farm partnership" after clause (*a*)(i)(E) was amended by S.C. 2000, c. 12, Sched. 2, s. 8(c), applicable January 1, 2001, coming into force on July 31, 2000. S. 110.6(1), the portion of the definition "interest in a family farm partnership" after clause (*a*)(i)(E) formerly read:

"principally in the course of carrying on the business of farming in Canada in which the individual, a beneficiary referred to in clause (C) or a spouse, child

or parent of the individual or of a beneficiary referred to in clause (C) was actively engaged on a regular and continuous basis,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 110.6(1), the definition "interest in a family farm partnership", was amended by S.C. 1994, c. 7, Sched. VIII, s. 47(2), applicable to the 1992 and subsequent taxation years. S. 110.6(1), the definition "interest in a family farm partnership", formerly read:

" 'interest in a family farm partnership' of an individual (other than a trust that is not a personal trust) at any time means an interest owned by the individual at that time in a partnership where,

(*a*) throughout any 24-month period ending before that time, more than 50% of the fair market value of the property of the partnership was attributable to property used by

(i) the partnership,

(ii) the individual,

(iii) where the individual is a personal trust, a beneficiary of the trust,

(iv) a spouse, child or parent of the individual or of a beneficiary referred to in subparagraph (iii), or

(v) a corporation a share of the capital stock of which was a share of the capital stock of a family farm corporation of the individual, a beneficiary referred to in subparagraph (iii) or a spouse, child or parent of the individual or of such a beneficiary

principally in the course of carrying on the business of farming in Canada in which the individual, a beneficiary referred to in subparagraph (iii) or a spouse, child or parent of the individual or of such a beneficiary was actively engaged on a regular and continuous basis, and

(*b*) at that time, all or substantially all of the fair market value of the property of the partnership was attributable to property that has been used principally in the course of carrying on the business of farming in Canada by the partnership or a person referred to in paragraph (*a*);"

S. 110.6(1), the definition "interest in a family farm partnership" was amended by S.C. 1994, c. 7, Sched. II, s. 81(1), applicable to the 1988 and subsequent taxation years. S. 110.6(1), the definition of "interest in a family farm partnership" formerly read:

" 'interest in a family farm partnership' of an individual (other than a trust that is not a personal trust) at any time means an interest owned by the individual at that time in a partnership all or substantially all of the property of which was, at that time, property used by

(*a*) the partnership,

(*b*) the individual,

(*c*) where the individual is a personal trust, a beneficiary of the trust,

(*d*) a spouse, child or parent of a person referred to in paragraph (*b*) or (*c*), or

(*e*) a corporation, a share of the capital stock of which was a share of the capital stock of a family farm corporation of an individual referred to in paragraph (*b*), (*c*) or (*d*)

throughout a period of at least 24 months before that time in the course of carrying on the business of farming in Canada in which any individual referred to in paragraph (*b*), (*c*) or (*d*) was actively engaged on a regular and continuous basis;"

Related Sections: S. 104(1) Reference to trust or estate; s. 248(1), "business", "common-law partner", "corporation", "farming", "individual", "property", "trust"; s. 252(1) Extended meaning of "child"; s. 252(2) Relationships.

"*interest in a family fishing partnership*" — "interest in a family fishing partnership" of an individual (other than a trust that is not a personal trust) at any time means a partnership interest owned by the individual at that time if

(*a*) throughout any 24-month period ending before that time, more than 50% of the fair market value of the property of the partnership was attributable to

(i) property that was used principally in the course of carrying on the business of fishing in Canada in which the individual, a beneficiary referred to in clause (C) or a spouse or common-law partner, child or parent of the individual or of a beneficiary referred to in clause (C) was actively engaged on a regular and continuous basis, by

(A) the partnership,

(B) the individual,

(C) where the individual is a personal trust, a beneficiary of the trust,

(D) a spouse, common-law partner, child or parent of the individual or of a beneficiary referred to in clause (C),

(E) a corporation, a share of the capital stock of which was a share of the capital stock of a family fishing corporation of the individual, a beneficiary referred to in clause (C) or a spouse, common-law partner, child or parent of the individual or of a beneficiary referred to in clause (C), or

(F) a partnership, a partnership interest of which was an interest in a family fishing partnership of the individual, a beneficiary referred to in clause (C) or a spouse, common-law partner, child or parent of the individual or of a beneficiary referred to in clause (C),

(ii) shares of the capital stock or indebtedness of one or more corporations all or substantially all of the fair market value of the property of which was attributable to properties described in subparagraph (iv),

(iii) a partnership interest in or indebtedness of one or more partnerships all or substantially all of the fair market value of the property of which was attributable to properties described in subparagraph (iv), or

(iv) properties described in any of subparagraph (i) to (iii), and

(*b*) at that time, all or substantially all of the fair market value of the property of the partnership was attributable to property described in subparagraph (*a*)(iv);

History: S. 110.6(1), the definition "interest in a family fishing partnership" was added by S.C. 2007, c. 2, s. 17(4), applicable to dispositions of property that occur on or after May 2, 2006.

"*investment expense*" — "investment expense" of an individual for a taxation year means the total of

(*a*) all amounts deducted in computing the individual's income for the year from property (except to the extent that the amounts were otherwise taken into account in computing the individual's investment expense or investment income for the year) other than any amounts deducted under

(i) paragraph 20(1)(*c*), (*d*), (*e*) or (*e*.1) of this Act or paragraph 20(1)(*k*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, in respect of borrowed money that was used by the individual, or that was used to acquire property that was used by the individual,

(A) to make a payment as consideration for an income-averaging annuity contract,

(B) to pay a premium under a registered retirement savings plan, or

(C) to make a contribution to a registered pension plan or a deferred profit sharing plan, or

(ii) paragraph 20(1)(*j*) or subsection 65(1), 66(4), 66.1(3), 66.2(2), 66.21(4) or 66.4(2),

(*b*) the total of

(i) all amounts deducted under paragraph 20(1)(*c*), (*d*), (*e*), (*e.1*), (*f*) or (*bb*) of this Act or paragraph 20(1)(*k*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952 in computing the individual's income for the year from a partnership of which the individual was a specified member in the fiscal period of the partnership ending in the year, and

(ii) all amounts deducted under subparagraph 20(1)(*e*)(vi) in computing the individual's income for the year in respect of an expense incurred by a partnership of which the individual was a specified member in the fiscal period of the partnership ending immediately before it ceased to exist,

(*c*) the total of

(i) all amounts (other than allowable capital losses) deducted in computing the individual's income for the year in respect of the individual's share of the amount of any loss of a partnership of which the individual was a specified member in the partnership's fiscal period ending in the year, and

(ii) all amounts each of which is an amount deducted under paragraph 111(1)(*e*) in computing the individual's taxable income for the year,

(*d*) 50% of the total of all amounts each of which is an amount deducted under subsection 66(4), 66.1(3), 66.2(2), 66.21(4) or 66.4(2) in computing the individual's income for the year in respect of expenses

(i) incurred and renounced under subsection 66(12.6), (12.601), (12.62) or (12.64) by a corporation, or

(ii) incurred by a partnership of which the individual was a specified member in the fiscal period of the partnership in which the expense was incurred, and

(*e*) the total of all amounts each of which is the amount of the individual's loss for the year from

(i) property, or

(ii) renting or leasing a rental property (within the meaning assigned by subsection 1100(14) of the *Income Tax Regulations*) or a property described in Class 31 or 32 of Schedule II to the *Income Tax Regulations*

owned by the individual or by a partnership of which the individual was a member, other than a partnership of which the individual was a specified member in the partnership's fiscal period ending in the year, and

(*f*) the amount, if any, by which the total of the individual's net capital losses for other taxation years deducted under paragraph 111(1)(*b*) in computing the individual's taxable income for the year exceeds the amount determined in respect of the individual for the year under paragraph (*a*) of the description of B in the definition "annual gains limit";

History: S. 110.6(1), subparagraph (*a*)(ii) of the definition "investment expense" was amended by S.C. 2001, c. 17, s. 86(1), applicable to taxation years that begin after 2000. S. 110.6(1), subparagraph (*a*)(ii) of the definition "investment expense" formerly read:

"(ii) paragraph 20(1)(*j*) or subsection 65(1), 66(4), 66.1(3), 66.2(2) or 66.4(2),"

S. 110.6(1), paragraph (*d*) of the definition "investment expense" was amended by S.C. 2001, c. 17, s. 86(2), applicable to taxation years that begin after 2000. S. 110.6(1), paragraph (*d*) of the definition "investment expense" formerly read:

"(*d*) 50% of the total of all amounts each of which is an amount deducted under subsection 66(4), 66.1(3), 66.2(2) or 66.4(2) in computing the individual's income for the year in respect of expenses incurred and renounced under subsection 66(12.6), (12.601), (12.62) or (12.64) by a corporation or incurred by a partnership of which the individual was a specified member in the fiscal period of the partnership in which the expense was incurred,"

S. 110.6(1), paragraph (*d*) of the definition "investment expense", was amended by S.C. 1994, c. 8, s. 13(1), applicable to the 1992 and subsequent taxation years. S. 110.6(1), paragraph (*d*) of the definition "investment expense", formerly read:

"(*d*) 50% of the total of all amounts each of which is an amount deducted under subsection 66(4), 66.1(3), 66.2(2) or 66.4(2) in computing the individual's income for the year in respect of expenses incurred and renounced under subsection 66(12.6), (12.62) or (12.64) by a corporation or incurred by a partnership of which the individual was a specified member in the fiscal period of the partnership in which the expense was incurred,"

S. 110.6(1), paragraph (*f*) of the definition "investment expense", was added by S.C. 1994, c. 7, Sched. VIII, s. 47(3), applicable to the 1992 and subsequent taxation years.

S. 110.6(1), paragraphs (*a*) and (*b*) of the definition "investment expense" were amended by S.C. 1994, c. 7, Sched. II, s. 81(2), applicable to the 1988 and subsequent taxation years, except that

(*a*) paragraph (*a*) of the definition "investment expense" in subsection 110.6(1) does not apply before 1989 to amounts deducted under paragraph 20(1)(*a*) of the Act in respect of a certified production (within the meaning assigned by subsection 1104(2) of the *Income Tax Regulations*) of a taxpayer or a partnership that is property included in paragraph (*n*) in Class 12 of Schedule II to the *Income Tax Regulations*; and

(*b*) in its application to a taxpayer who so elected by notifying the Minister of National Revenue in writing before 1993, subparagraph (*a*)(ii) of the definition "investment expense" shall, in respect of the taxpayer's 1988 and 1989 taxation years, be read as follows:

"(ii) paragraph 20(1)(*j*), to the extent that the total of all amounts deducted under that paragraph by the taxpayer in the year or a preceding taxation year ending after 1987 exceeds the total of all amounts each of which is an amount that

(A) was included in the taxpayer's investment income for the taxpayer's 1988 or 1989 taxation year, and

(B) was included under subsection 15(2) in the taxpayer's income for the taxpayer's 1988 or 1989 taxation year,

or subsection 65(1), 66(4), 66.1(3), 66.2(2) or 66.4(2),"

S. 110.6(1), paragraphs (*a*) and (*b*) of the definition of "investment expense" formerly read:

"(*a*) the total of all amounts each of which is an amount (other than an amount deducted under subsection 65(1), 66(4), 66.1(3), 66.2(2) or 66.4(2)) deducted in computing the individual's income for the year from property, except to the extent that the amount was included in computing the individual's investment expense for the year under paragraph (*b*), (*c*) or (*e*),

(*b*) the total of all amounts each of which is an amount deducted under paragraph 20(1)(*c*), (*d*), (*e*), (*f*) or (*bb*) of this Act or paragraph 20(1)(*k*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, in computing the individual's income for the year from a partnership of which the individual was a specified member in the fiscal period of the partnership ending in the year,"

S. 110.6(1), subparagraph (*c*)(i) of the definition of "investment expense" was amended by S.C. 1994, c. 7, Sched. II, s. 81(3), applicable to the 1988 and subsequent taxation years. S. 110.6(1), paragraph (*c*)(i) of the definition of "investment expense" formerly read:

"(i) all amounts each of which is an amount deducted in computing the individual's income for the year as the individual's share of the amount of any loss of a partnership of which the individual was a specified member in the fiscal period of the partnership ending in the year, and"

S. 110.6(1), all that portion of paragraph (*e*) of the definition of "investment expense" following subparagraph (ii), was amended by S.C. 1994, c. 7, Sched. II, s. 81(4), applicable to the 1988 and subsequent taxation years, except that the amendment to paragraph (*e*) does not apply before 1989 to amounts deducted under paragraph 20(1)(*a*) of the Act in respect of a certified production (within the meaning assigned by subsection 1104(2) of the *Income Tax Regulations*) of a taxpayer or a partnership that is property included in paragraph (*n*) in Class 12 of Schedule II to the *Income Tax Regulations*.

S. 110.6(1), all that portion of paragraph (*e*) of the definition of "investment expense" following subparagraph (ii), formerly read:

"owned by the individual or by a partnership of which the individual was a member, except to the extent that the amount was included in computing the individual's investment expense for the year under paragraph (*c*);"

Related Sections: S. 110.6(1), "annual gains limit"; s. 111(1)(*b*) Net capital losses; s. 248(1), "amount", "individual".

"*investment income*" — "investment income" of an individual for a taxation year means the total of

(*a*) all amounts included in computing the individual's income for the year from property (other than an amount included under subsection 15(2) or paragraph 56(1)(*d*) of this Act or paragraph 56(1)(*d*.1) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada 1952), including, for greater certainty, any amount so included under subsection 13(1) in respect of a property any income from which would be income from property (except to the extent that the amount was otherwise taken into account in computing the individual's investment income or investment expense for the year),

(*b*) all amounts (other than taxable capital gains) included in computing the individual's income for the year in respect of the individual's share of the income of a partnership of which the individual was a specified member in the partnership's fiscal period ending in the year, including, for greater certainty, the individual's share of all amounts included under subsection 13(1) in computing the income of the partnership,

(*c*) 50% of all amounts included under subsection 59(3.2) in computing the individual's income for the year,

(*d*) all amounts each of which is the amount of the individual's income for the year from

(i) a property, or

(ii) renting or leasing a rental property (within the meaning assigned by subsection 1100(14) of the *Income Tax Regulations*) or a property described in Class 31 or 32 of Schedule II to the *Income Tax Regulations*

owned by the individual or by a partnership of which the individual was a member (other than a partnership of which the individual was a specified member in the partnership's fiscal period ending in the year), including, for greater certainty, any amount included under subsection 13(1) in computing the individual's income for the year in respect of a rental property of the individual or the partnership or in respect of a property any income from which would be income from property,

(*e*) the amount, if any, by which

(i) the total of all amounts (other than amounts in respect of income-averaging annuity contracts or annuity contracts purchased under deferred profit sharing plans or plans referred to in subsection 147(15) as revoked plans) included under paragraph 56(1)(*d*) of this Act or paragraph 56(1)(*d*.1) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, in computing the individual's income for the year

exceeds

(ii) the total of all amounts deducted under paragraph 60(*a*) in computing the individual's income for the year, and

(*f*) the amount, if any, by which the total of all amounts included under paragraph 3(*b*) in respect of capital gains and capital losses in computing the individual's income for the year exceeds the amount determined in respect of the individual for the year for A in the definition "annual gains limit";

History: S. 110.6(1), paragraph (*f*) of the definition "investment income" was added by S.C. 1994, c. 7, Sched. VIII, s. 47(4), applicable to the 1992 and subsequent taxation years.

S. 110.6(1), the definition "investment income" was amended by S.C. 1994, c. 7, Sched. II, s. 81(5), applicable to the 1988 and subsequent taxation years, except that in its application to a taxpayer who so elected by notifying the Minister of National Revenue in writing before 1993, paragraph (*a*) of the definition "investment income" shall be read without reference to "subsection 15(2) or" in respect of the taxpayer's 1988 and 1989 taxation years. S. 110.6(1), the definition of "investment income" formerly read:

" 'investment income' of an individual for a taxation year means the total of

(*a*) the total of all amounts included in computing the individual's income for the year from property, including, for greater certainty, any amount included under subsection 13(1) in respect of a property the income from which would be income from property, except to the extent that the amount was included in computing the individual's investment income for the year under paragraph (*b*) or (*d*),

(*b*) the total of all amounts each of which is an amount included in computing the individual's income for the year as the individual's share of the income of a partnership of which the individual was a specified member in the fiscal period of the partnership ending in the year, including, for greater certainty, the individual's share of all amounts included under subsection 13(1) in computing the income of the partnership,

(*c*) 50% of the total of all amounts included in computing the individual's income for the year under subsection 59(3.2), and

(*d*) the total of all amounts each of which is an amount included in computing the individual's income for the year from

(i) property, or

(ii) renting or leasing a rental property (within the meaning assigned by subsection 1100(14) of the *Income Tax Regulations*) or a property described in Class 31 or 32 of Schedule II to the *Income Tax Regulations*

owned by the individual or by a partnership of which the individual was a member, except to the extent that the amount was included in computing the individual's investment income for the year under paragraph (*b*), including, for greater certainty, any amount included under subsection 13(1) in computing the individual's income for the year in respect of rental property or in respect of a property the income from which would be income from property;"

Related Sections: S. 3 Income for taxation year; s. 110.6(1), "annual gains limit"; s. 248(1), "amount".

"*non-qualifying real property*" — [Repealed by S.C. 1995, c. 3, s. 32(1).]

History: S. 110.6(1), the definition "non-qualifying real property", was repealed by S.C. 1995, c. 3, s. 32(1), applicable after 1995. That definition formerly read:

" '*non-qualifying real property*' ... 'non-qualifying real property' of an individual (other than a trust that is not a personal trust) means property disposed of after February 1992 by the individual, or a partnership any of the income of which is required to be included in computing the income of the individual, that at the time of its disposition (in this definition referred to as the 'determination time') is

(*a*) real property, other than

(i) qualified farm property of the individual,

(ii) real property owned by the individual or the individual's spouse that was used

(A) throughout that part of the 24-month period preceding the determination time during which it was owned by the individual or the individual's spouse, or

(B) throughout all or substantially all of the time in the period preceding the determination time during which it was owned by the individual or the individual's spouse,

principally in an active business carried on by

(C) the individual (otherwise than as a member of a partnership),

(D) where the individual is a personal trust, a preferred beneficiary (within the meaning assigned by subsection 108(1)) under the trust (otherwise than as a member of a partnership),

(E) a spouse, child or parent of the individual or of a preferred beneficiary described in clause (D) (otherwise than as a member of a partnership),

(F) a corporation (otherwise than as a member of a partnership) where shares representing all or substantially all of the fair market value of all the issued and outstanding shares of its capital stock were owned by one or more persons described in this subparagraph,

(G) one or more persons as members of a partnership where interests representing all or substantially all of the fair market value of all partnership interests in the partnership were owned by one or more persons described in this subparagraph, or

(H) a personal trust (otherwise than as a member of a partnership) where interests representing all or substantially all of the fair market value of all beneficial interests in the trust were owned by one or more persons described in this subparagraph, and

(iii) real property of the partnership (except where the individual is a specified member of the partnership or, if a taxable capital gain of the individual's spouse from the disposition of property of the partnership would be a taxable capital gain of the individual, the individual's spouse is a specified member of the partnership) that was used

(A) throughout that part of the 24-month period preceding the determination time during which it was property of the partnership, the individual or the individual's spouse, or

(B) throughout all or substantially all of the time in the period preceding the determination time during which it was property of the partnership, the individual or the individual's spouse,

principally in an active business carried on by

(C) the individual,

(D) where the individual is a personal trust, a preferred beneficiary (within the meaning assigned by subsection 108(1)) under the trust,

(E) a spouse, child or parent of the individual or of a preferred beneficiary described in clause (D),

(F) a corporation where shares representing all or substantially all of the fair market value of all the issued and outstanding shares of its capital stock were owned by one or more persons described in this subparagraph, or

(G) a personal trust where interests representing all or substantially all of the fair market value of all beneficial interests in the trust were owned by one or more persons described in this subparagraph,

(*b*) a share of the capital stock of a corporation (other than a qualified small business corporation share of the individual or a share of the capital stock of a family farm corporation of the individual) the fair market value of which is derived principally from real property, other than real property that was used

(i) throughout that part of the 24-month period preceding the determination time during which it was owned by the corporation or by persons described in any of clauses (*a*)(ii)(C) to (H), or

(ii) throughout all or substantially all of the time in the period preceding the determination time during which it was owned by the corporation or by persons described in any of clauses (*a*)(ii)(C) to (H),

principally in an active business carried on by the corporation or by persons described in any of clauses (*a*)(ii)(C) to (H), but not including a share of the capital stock of a corporation the fair market value of which is derived principally from real property owned by another corporation, a partnership or a trust, or any combination thereof, the shares of the capital stock of which, or the interests in which, as the case may be, would, if they were disposed of at the determination time by the individual, not be non-qualifying real property of the individual,

(*c*) an interest in a partnership (other than an interest in a family farm partnership of the individual) the fair market value of which is derived principally from real property, other than real property that was used

(i) throughout that part of the 24-month period preceding the determination time during which it was property of the partnership or persons described in any of clauses (*a*)(ii)(C) to (H), or

(ii) throughout all or substantially all of the time in the period preceding the determination time during which it was property of the partnership or persons described in any of clauses (*a*)(ii)(C) to (H),

principally in an active business carried on by one or more persons as members of the partnership or by persons described in any of clauses (*a*)(ii)(C) to (H), but not including an interest in a partnership the fair market value of which is derived principally from real property owned by another partnership, a corporation or a trust, or any combination thereof, the shares of the capital stock of which or the interests in which, as the case may be, would, if they were disposed of at the determination time by the individual, not be non-qualifying real property of the individual,

(*d*) an interest in a trust the fair market value of which is derived principally from real property, other than real property that was used

(i) throughout that part of the 24-month period preceding the determination time during which it was owned by the trust or persons described in any of clauses (*a*)(ii)(C) to (H), or

(ii) throughout all or substantially all of the time in the period preceding the determination time during which it was owned by the trust or persons described in any of clauses (*a*)(ii)(C) to (H),

principally in an active business carried on by the trust or by persons described in any of clauses (*a*)(ii)(C) to (H), but not including an interest in a trust the fair market value of which is derived principally from real property owned by another trust, a corporation or a partnership, or any combination thereof, the shares of the capital stock of which or the interests in which, as the case may be, would, if they were disposed of at the determination time by the individual, not be non-qualifying real property of the individual, or

(*e*) an interest or an option in respect of property described in any of paragraphs (*a*) to (*d*);

and, for the purpose of this definition, an 'active business' carried on by a person at any time means any business carried on by the person at that time other than a business (other than a business carried on by a credit union or a business of leasing property that is not real property) the principal purpose of which is to derive income from property (including interest, dividends, rents or royalties), unless the person or, where the person carries on the business as a member of a partnership, the partnership

(*f*) employs in the business at that time more than 5 individuals on a full-time basis, or

(*g*) in the course of carrying on the business has managerial, administrative, financial, maintenance or other similar services provided to it at that time and the person or partnership could reasonably be expected to require more than 5 full-time employees if those services had not been so provided;"

S. 110.6(1), that portion of paragraph (*b*) after subparagraph (ii) of the definition "non-qualifying real property", was amended by S.C. 1994, c. 21, s. 50(2), applicable to the 1992 and subsequent years.

S. 110.6(1), that portion of paragraph (*b*) after subparagraph (ii) of the definition "non-qualifying real property", formerly read:

"principally in an active business carried on by the corporation or by persons described in any of clauses (*a*)(ii)(C) to (H),"

S. 110.6(1), that portion of paragraph (*c*) after subparagraph (ii) of the definition "non-qualifying real property", was amended by S.C. 1994, c. 21, s. 50(3), applicable to the 1992 and subsequent years. S. 110.6(1), that portion of paragraph (*c*) after subparagraph (ii) of the definition "non-qualifying real property", formerly read:

"principally in an active business carried on by one or more persons as members of the partnership or by persons described in any of clauses (*a*)(ii)(C) to (H),"

S. 110.6(1), that portion of paragraph (*d*) after subparagraph (ii) of the definition "non-qualifying real property", was amended by S.C. 1994, c. 21, s. 50(4), applicable to the 1992 and subsequent years. S. 110.6(1), that portion of paragraph (*d*) after subparagraph (ii) of the definition "non-qualifying real property", formerly read:

"principally in an active business carried on by the trust or by persons described in any of clauses (*a*)(ii)(C) to (H), or"

S. 110.6(1), the definition "non-qualifying real property" was added by S.C. 1994, c. 7, Sched. VIII, s. 47(6), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 38 Taxable capital gain and allowable capital loss; s. 104(1) Reference to trust or estate; s. 108(1), "preferred beneficiary"; s. 110.6(1), "interest in a family farm partnership", "qualified farm property", "share of the capital stock of a family farm corporation"; s. 248(1), "active business", "corporation", "individual", "property", "share", "trust"; s. 252(1) Extended meaning of "child"; s. 252(2) Relationships; s. 252(4) Extended meaning of spouse.

"qualified farm property" — "qualified farm property" of an individual (other than a trust that is not a personal trust) at any time means a property owned at that time by the individual, the spouse or common-law partner of the individual or a partnership, an interest in which is an interest in a family farm partnership of the individual or the individual's spouse or common-law partner that is

(*a*) real or immovable property that was used principally in the course of carrying on the business of farming in Canada by,

(i) the individual,

(ii) if the individual is a personal trust, a beneficiary of the trust that is entitled to receive directly from the trust any income or capital of the trust,

(iii) a spouse, common-law partner, child or parent of a person referred to in subparagraph (i) or (ii),

(iv) a corporation, a share of the capital stock of which is a share of the capital stock of a family farm corporation of an individual referred to in any of subparagraphs (i) to (iii), or

(v) a partnership, an interest in which is an interest in a family farm partnership of an individual referred to in any of subparagraphs (i) to (iii),

(*b*) a share of the capital stock of a family farm corporation of the individual or the individual's spouse or common-law partner,

(*c*) an interest in a family farm partnership of the individual or the individual's spouse or common-law partner, or

(*d*) an eligible capital property (which is deemed to include capital property to which paragraph 70(5.1)(*b*) or 73(3.1)(*f*) applies) used by a person or partnership referred to in any of subparagraphs (*a*)(i) to (v), or by a personal trust from which the individual acquired the property, in the course of carrying on the business of farming in Canada;

Department of Finance Comfort Letter
[Proposal to Remove the Word "Principally" in s. 110.6(1), "Qualified Farm Property"]

March 20, 2008

Dear XXXX

Subject: Subsection 110.6(1) of the *Income Tax Act*

I am writing in response to your letter of December 20, 2007 in which you identified an issue with respect to a change in the application of the definition of "qualified farm property" in subsection 110.6(1) of the *Income Tax Act* (Act). In your letter you noted that the addition of the word "principally" in paragraph (*a*) of the definition of "qualified farm property" may result in an overly restrictive interpretation of the definition of "qualified farm property" under the Act.

We agree with your concern that the new definition of "qualified farm property" in subsection 110.6(1) of the Act may be overly restrictive with regard to the circumstances under which property will meet the definition of "qualified farm property" under the Act. As such, we are prepared to recommend to the Minister that paragraph (*a*) of the definition of "qualified farm property" in subsection 110.6(1) of the Act be amended to remove the word "principally". If our recommendation is acted upon, we anticipate that the amendments would be included in a future technical bill and would apply with respect to taxation years that end on or after May 6, 2006. While I cannot offer any assurance that the Minister will agree with our recommendation, I hope that this statement of our intentions is helpful to you.

Yours sincerely,
Gerard Lalonde
Director
Tax Legislation Division
Tax Policy Branch

History: S. 110.6(1), the definition "qualified farm property" was replaced by S.C. 2007, c. 2, s. 17(1), applicable to dispositions of property that occur on or after May 2, 2006. S. 110.6(1), the definition "qualified farm property" formerly read:

" '*qualified farm property*' — 'qualified farm property' of an individual (other than a trust that is not a personal trust) at any particular time means a property owned at that time by the individual, the spouse or common-law partner of the individual or a partnership, an interest in which is an interest in a family farm partnership of the individual or the individual's spouse or common-law partner that is

(*a*) real property that was used by

(i) the individual,

(ii) where the individual is a personal trust, a beneficiary referred to in paragraph 104(21.2)(*b*) of the trust,

(iii) a spouse, common-law partner, child or parent of a person referred to in subparagraph (i) or (ii),

(iv) a corporation, a share of the capital stock of which is a share of the capital stock of a family farm corporation of an individual referred to in any of subparagraphs (i) to (iii), or

(v) a partnership, an interest in which is an interest in a family farm partnership of an individual referred to in any of subparagraphs (i) to (iii),

in the course of carrying on the business of farming in Canada and, for the purpose of this paragraph, property will not be considered to have been used in the course of carrying on the business of farming in Canada unless

(vi) the property or property for which the property was substituted (in this subparagraph referred to as 'the property') was owned by a person who was the individual, a beneficiary referred to in subparagraph (ii) or a spouse, common-law partner, child or parent of the individual or of such a beneficiary, by a personal trust from which the individual acquired the property or by a partnership referred to in subparagraph (v) throughout the period of at least 24 months immediately preceding that time and

(A) in at least 2 years while the property was so owned the gross revenue of such a person, or of a personal trust from which the individual acquired the property, from the farming business carried on in Canada in which the property was principally used and in which such a person or, where the individual is a personal trust, a beneficiary of the trust was actively engaged on a regular and continuous basis exceeded the income of the person from all other sources for the year, or

(B) the property was used by a corporation referred to in subparagraph (iv) or a partnership referred to in subparagraph (v) principally in the course of carrying on the business of farming in Canada throughout a period of at least 24 months during which time the individual, a beneficiary referred to in subparagraph (ii) or a spouse, common-law partner, child or parent of the individual or of such a beneficiary was actively engaged on a regular and continuous basis in the farming business in which the property was used, or

(vii) where the property is a property last acquired by the individual or partnership before June 18, 1987, or after June 17, 1987 under an agreement in writing entered into before that date, the property or property for which the property was substituted (in this subparagraph referred to as 'the property') was used by the individual, a beneficiary referred to in subparagraph (ii) or a spouse, common-law partner, child or parent of the individual or of such a beneficiary, a corporation referred to in subparagraph (iv) or a partnership referred to in subparagraph (v) or by a personal trust from which the individual acquired the property principally in the course of carrying on the business of farming in Canada

(A) in the year the property was disposed of by the individual, or

(B) in at least 5 years during which the property was owned by the individual, a beneficiary referred to in subparagraph (ii) or a spouse, common-law partner, child or parent of the individual or of such a beneficiary, by a personal trust from which the individual acquired the property or by a partnership referred to in subparagraph (v),

(*b*) a share of the capital stock of a family farm corporation of the individual or the individual's spouse or common-law partner,

(*c*) an interest in a family farm partnership of the individual or the individual's spouse or common-law partner, or

(*d*) an eligible capital property used by a person or partnership referred to in any of subparagraphs (*a*)(i) to (v), or by a personal trust from which the individual acquired the property, in the course of carrying on the business of farming in Canada and, for the purpose of this paragraph, eligible capital property

(i) will not be considered to have been used in the course of carrying on the business of farming in Canada unless the conditions set out in subparagraph (*a*)(vi) or (vii), as the case may be, are met, and

(ii) shall be deemed to include capital property to which paragraph 70(5.1)(*b*) or 73(3)(*d*.1) applies;"

S. 110.6(1), the portion of the definition "qualified farm property" before paragraph (*a*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.4), applicable January 1, 2001, coming into force on July 31, 2000. S. 110.6(1), the portion of the definition "qualified farm property" before paragraph (*a*) formerly read:

" '*qualified farm property*' — 'qualified farm property' of an individual (other than a trust that is not a personal trust) at any particular time means a property owned at that time by the individual, the spouse of the individual or a partnership, an interest in which is an interest in a family farm partnership of the individual or the individual's spouse that is"

S. 110.6(1), paragraphs (*b*) and (*c*) of the definition "qualified farm property" were amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.4), applicable January 1, 2001, coming into force on July 31, 2000. S. 110.6(1), paragraphs (*b*) and (*c*) of the definition "qualified farm property" formerly read:

"(*b*) a share of the capital stock of a family farm corporation of the individual or the individual's spouse,

(*c*) an interest in a family farm partnership of the individual or the individual's spouse, or"

S. 110.6(1), subparagraph (*a*)(iii) of the definition "qualified farm property" was amended by S.C. 2000, c. 12, Sched. 2, s. 8(c), applicable January 1, 2001, coming into force on July 31, 2000. S. 110.6(1), subparagraph (*a*)(iii) of the definition "qualified farm property" formerly read:

"(iii) a spouse, child or parent of a person referred to in subparagraph (i) or (ii),"

S. 110.6(1), subparagraph (vi) of the definition "qualified farm property" was amended by S.C. 2000, c. 12, Sched. 2, s. 8(c), applicable January 1, 2001, coming into force on July 31, 2000. S. 110.6(1), subparagraph (vi) of the definition "qualified farm property" formerly read:

"(vi) the property or property for which the property was substituted (in this subparagraph referred to as 'the property') was owned by a person who was the individual, a beneficiary referred to in subparagraph (ii) or a spouse, child or parent of the individual or of such a beneficiary, by a personal trust from which the individual acquired the property or by a partnership referred to in subparagraph (v) throughout the period of at least 24 months immediately preceding that time and

(A) in at least 2 years while the property was so owned the gross revenue of such a person, or of a personal trust from which the individual acquired the property, from the farming business carried on in Canada in which the property was principally used and in which such a person or, where the individual is a personal trust, a beneficiary of the trust was actively engaged on a regular and continuous basis exceeded the income of the person from all other sources for the year, or

(B) the property was used by a corporation referred to in subparagraph (iv) or a partnership referred to in subparagraph (v) principally in the course of carrying on the business of farming in Canada throughout a period of at least 24 months during which time the individual, a beneficiary referred to in subparagraph (ii) or a spouse, child or parent of the individual or of such a beneficiary was actively engaged on a regular and continuous basis in the farming business in which the property was used, or"

S. 110.6(1), subparagraph (*a*)(vii) of the definition "qualified farm property" was amended by S.C. 2000, c. 12, Sched. 2, s. 8(c), applicable January 1, 2001, coming into force on July 31, 2000. S. 110.6(1), subparagraph (*a*)(vii) of the definition "qualified farm property" formerly read:

"(vii) where the property is a property last acquired by the individual or partnership before June 18, 1987, or after June 17, 1987 under an agreement in writing entered into before that date, the property or property for which the property was substituted (in this subparagraph referred to as 'the property') was used by the individual, a beneficiary referred to in subparagraph (ii) or a spouse, child or parent of the individual or of such a beneficiary, a corporation referred to in subparagraph (iv) or a partnership referred to in subparagraph (v) or by a personal trust from which the individual acquired the property principally in the course of carrying on the business of farming in Canada

(A) in the year the property was disposed of by the individual, or

(B) in at least 5 years during which the property was owned by the individual, a beneficiary referred to in subparagraph (ii) or a spouse, child or parent of the individual or of such a beneficiary, by a personal trust from which the individual acquired the property or by a partnership referred to in subparagraph (v),"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 110.6(1), that portion of paragraph (*a*) of the definition of "qualified farm property" that precedes subparagraph (i), was amended by S.C. 1994, c. 7, Sched. II, s. 81(6), applicable to the 1988 and subsequent taxation years. S. 110.6(1), that portion of paragraph (*a*) of the definition of "qualified farm property" that precedes subparagraph (i), formerly read:

"(*a*) real property used by"

S. 110.6(1), that portion of paragraph (*a*) of the definition of "qualified farm property" following subparagraph (v), was amended by S.C. 1994, c. 7, Sched. II, s. 81(7), applicable to the 1988 and subsequent taxation years. S. 110.6(1), that portion of paragraph (*a*) of the definition of "qualified farm property" following subparagraph (v), formerly read:

" in the course of carrying on the business of farming in Canada and, for the purposes of this paragraph, property will not be considered to have been used in the course of carrying on the business of farming in Canada at that time unless

(vi) where the property is a property other than a property referred to in subparagraph (vii), the property or property for which the property was substituted was used by a person or partnership referred to in any of subparagraphs (i) to (v) or by a personal trust from which the individual acquired the property in the course of carrying on the business of farming in Canada

(A) in the year the property was disposed of by the individual, or

(B) in at least five years during which the property was owned by an individual referred to in any of subparagraphs (i) to (iii), by a personal trust from which the individual acquired the property or by a partnership referred to in subparagraph (v),

(vii) where the property is a property acquired by the individual or a partnership after June 17, 1987 otherwise than pursuant to an agreement in writing entered into on or before that date, the property or property for which the property was substituted was owned by an individual referred to in any of subparagraphs (i) to (iii), by a personal trust from which the individual acquired the property or by a partnership referred to in subparagraph (v) throughout the period of at least 24 months immediately preceding that time and

(A) in at least 2 years while the property was so owned, the gross revenue of an individual referred to in any of subparagraphs (i) to (iii) or of a personal trust from which the individual acquired the property from the farming business carried on in Canada in which the individual used the property and in which the individual or, where the individual is a personal trust, a beneficiary of the trust was actively engaged on a regular and continuous basis exceeded the individual's income from all other sources for the year, or

(B) the property was used by a corporation referred to in subparagraph (iv) or a partnership referred to in subparagraph (v) in the course of carrying on the business of farming in Canada throughout a period of at least 24 months during which time an individual referred to in any of subparagraphs (i) to (iii) was actively engaged on a regular and continuous basis in the farming business in which the property was used,"

S. 110.6(1), paragraph (*d*) of the definition of "qualified farm property" was amended by S.C. 1994, c. 7, Sched. II, s. 81(8), applicable to the 1988 and subsequent taxation years. S. 110.6(1), paragraph (*d*) of the definition of "qualified farm property" formerly read:

"(*d*) an eligible capital property used by a person or partnership referred to in any of subparagraphs (*a*)(i) to (v) or by a personal trust from which the individual acquired the property in the course of carrying on the business of farming in Canada and, for the purpose of this definition, eligible capital property will not be considered to have been used in the course of carrying on the business of farming in Canada unless the conditions set out in subparagraph (*a*)(vi) or (vii), as the case may be, are met;"

"qualified fishing property" — "qualified fishing property" of an individual (other than a trust that is not a personal trust) at any time means a property owned at that time by the individual, the spouse or common-law partner of the individual or a partnership, an interest in which is an interest in a family fishing partnership of the individual or the individual's spouse or common-law partner that is

(*a*) real or immovable property or a fishing vessel that was used principally in the course of carrying on the business of fishing in Canada by,

(i) the individual,

(ii) if the individual is a personal trust, a beneficiary of the trust that is entitled to receive directly from the trust any income or capital of the trust,

(iii) a spouse, common-law partner, child or parent of a person referred to in subparagraph (i) or (ii),

(iv) a corporation, a share of the capital stock of which is a share of the capital stock of a family fishing corporation of an individual referred to in any of subparagraphs (i) to (iii), or

(v) a partnership, an interest in which is an interest in a family fishing partnership of an individual referred to in any of subparagraphs (i) to (iii),

(*b*) a share of the capital stock of a family fishing corporation of the individual or the individual's spouse or common-law partner,

(*c*) an interest in a family fishing partnership of the individual or the individual's spouse or common-law partner, or

(*d*) an eligible capital property (which is deemed to include capital property to which paragraph 70(5.1)(*b*) or 73(3.1)(*f*) applies) used by a person or partnership referred to in any of subparagraphs (*a*)(i) to (v), or by a personal trust from which the individual acquired the property, in the course of carrying on the business of fishing in Canada;

History: S. 110.6(1), the definition "qualified fishing property" was added by S.C. 2007, c. 2, s. 17(4), applicable to dispositions of property that occur on or after May 2, 2006.

"qualified small business corporation share" — "qualified small business corporation share" of an individual (other than a trust that is not a personal trust) at any time (in this definition referred to as the "determina-

tion time") means a share of the capital stock of a corporation that,

(*a*) at the determination time, is a share of the capital stock of a small business corporation owned by the individual, the individual's spouse or common-law partner or a partnership related to the individual,

(*b*) throughout the 24 months immediately preceding the determination time, was not owned by anyone other than the individual or a person or partnership related to the individual, and

(*c*) throughout that part of the 24 months immediately preceding the determination time while it was owned by the individual or a person or partnership related to the individual, was a share of the capital stock of a Canadian-controlled private corporation more than 50% of the fair market value of the assets of which was attributable to

(i) assets used principally in an active business carried on primarily in Canada by the corporation or by a corporation related to it,

(ii) shares of the capital stock or indebtedness of one or more other corporations that were connected (within the meaning of subsection 186(4) on the assumption that each of the other corporations was a "payer corporation" within the meaning of that subsection) with the corporation where

(A) throughout that part of the 24 months immediately preceding the determination time that ends at the time the corporation acquired such a share or indebtedness, the share or indebtedness was not owned by anyone other than the corporation, a person or partnership related to the corporation or a person or partnership related to such a person or partnership, and

(B) throughout that part of the 24 months immediately preceding the determination time while such a share or indebtedness was owned by the corporation, a person or partnership related to the corporation or a person or partnership related to such a person or partnership, it was a share or indebtedness of a Canadian-controlled private corporation more than 50% of the fair market value of the assets of which was attributable to assets described in subparagraph (iii), or

(iii) assets described in either of subparagraph (i) or (ii)

except that

(*d*) where, for any particular period of time in the 24-month period ending at the determination time, all or substantially all of the fair market value of the assets of a particular corporation that is the corporation or another corporation that was connected with the corporation cannot be attributed to assets described in subparagraph (*c*)(i), shares or indebtedness of corporations described in clause (*c*)(ii)(B), or any combination thereof, the reference in clause (*c*)(ii)(B) to "more than 50%" shall, for the particular period of time, be read as a reference to "all or substantially all" in respect of each other corporation that was connected with the particular corporation and, for the purpose of this paragraph, a corporation is connected with another corporation only where

(i) the corporation is connected (within the meaning of subsection 186(4) on the assumption that the corporation was a "payer corporation" within the meaning of that subsection) with the other corporation, and

(ii) the other corporation owns shares of the capital stock of the corporation and, for the purpose of this subparagraph, the other corporation shall be deemed to own the shares of the capital stock of any corporation that are owned by a corporation any shares of the capital stock of which are owned or are deemed by this subparagraph to be owned by the other corporation,

(*e*) where, at any time in the 24-month period ending at the determination time, the share was substituted for another share, the share shall be considered to have met the requirements of this definition only where the other share

(i) was not owned by any person or partnership other than a person or partnership described in paragraph (*b*) throughout the period beginning 24 months before the determination time and ending at the time of substitution, and

(ii) was a share of the capital stock of a corporation described in paragraph (*c*) throughout that part of the period referred to in subparagraph (i) during which such share was owned by a person or partnership described in paragraph (*b*), and

(*f*) where, at any time in the 24-month period ending at the determination time, a share referred to in subparagraph (*c*)(ii) is substituted for another share, that share shall be considered to meet the requirements of subparagraph (*c*)(ii) only where the other share

(i) was not owned by any person or partnership other than a person or partnership described in clause (*c*)(ii)(A) throughout the period beginning 24 months before the determination time and ending at the time of substitution, and

(ii) was a share of the capital stock of a corporation described in paragraph (*c*) throughout that part of the period referred to in subparagraph (i) during which the share was owned by a person or partnership described in clause (*c*)(ii)(A);

History: S. 110.6(1), paragraph (*a*) of the definition "qualified small business corporation share" was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.4), applicable January 1, 2001, coming into force on July 31, 2000. S. 110.6(1), paragraph (*a*) of the definition "qualified small business corporation share" formerly read:

"(*a*) at the determination time, is a share of the capital stock of a small business corporation owned by the individual, the individual's spouse or a partnership related to the individual,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 110.6(1), subparagraphs (*c*)(i) and (ii) of the definition "qualified small business corporation share", were amended by S.C. 1994, c. 7, Sched. II, s. 81(9), applicable to dispositions of shares occurring after June 17, 1987. S. 110.6(1), subparagraphs (*c*)(i) and (ii) of the definition "qualified small business corporation share", formerly read:

"(i) assets used in an active business carried on primarily in Canada by the corporation or by a corporation related to it,

(ii) shares of the capital stock of or bonds, debentures, bills, notes, mortgages or similar obligations issued by one or more other corporations that were connected with the corporation (within the meaning of subsection 186(4) on the assumption that in each case the connected other corporation was at that time a 'payer corporation' within the meaning of that subsection) where

(A) throughout that part of the 24 months immediately preceding the determination time that ends at the time the corporation acquired those shares or obligations, the shares or obligations were not owned by anyone other than the corporation or a person or partnership related to it, and

(B) throughout that part of the 24 months immediately preceding the determination time while those shares or obligations were owned by the corporation or a person or partnership related to it, they were shares or obligations of Canadian-controlled private corporations more than 50% of the fair market value of the assets of which was attributable to assets described in subparagraph (iii), or"

S. 110.6(1), paragraphs (*d*) to (*f*) of the definition "qualified small business corporation share", were amended by S.C. 1994, c. 7, Sched. II, s. 81(10), applicable to dispositions of shares occurring after June 17, 1987. S. 110.6(1), paragraphs (*d*) to (*f*) of the definition "qualified small business corporation share", formerly read:

"(*d*) where, for any period of time in the 24 month period ending at the determination time, all or substantially all of the fair market value of the assets of a corporation cannot be attributed to assets described in subparagraph (*c*)(i) or shares or obligations of corporations described in clause (*c*)(ii)(B), the reference in clause (*c*)(ii)(B) to 'more than 50%' shall, for that period of time, be read as a reference to 'all or substantially all' in respect of other corporations connected with the corporation (within the meaning of subsection 186(4) on the assumption that in each case the connected other corporation was at that time a 'payer corporation' within the meaning of that subsection),

(*e*) where, at any time in the 24 month period ending at the determination time, the share was substituted for another share, the share shall be considered to have met the requirements of this definition only where the other share

(i) was not owned by any person or partnership other than a person or partnership described in paragraph (*b*), and

(ii) was a share of the capital stock of a corporation described in paragraph (*c*),

throughout that part of that 24 month period ending at the determination time that ends at the time of substitution, and

(*f*) where, at any time in the 24 month period ending at the determination time, a share referred to in subparagraph (*c*)(ii) was substituted for another share, that share shall be considered to have met the requirements of that subparagraph only where the other share

(i) was not owned by any person or partnership other than a person or partnership described in clause (*c*)(ii)(A), and

(ii) was a share of the capital stock of a corporation described in paragraph (*c*),

throughout that part of that 24 month period ending at the determination time that ends at the time of substitution;"

Editorial Note: To qualify for the capital gains exemption, throughout a period of 24 months immediately preceding the time of disposition, the shares must not have been owned by any person or partnership other than the individual or a person or partnership that was related to the individual. Subsection 110.6(14) provides special rules for determining when a person or partnership is related to the individual for this purpose, which may permit shareholders of new small business corporations to have access to the exemption.

Generally, a corporation must use more than 50% of the fair market value of its assets directly in an active business carried on primarily in Canada throughout the required holding period. However, where the corporation holds shares or debt of a connected corporation, the following conditions must be met: (1) The shares or debt of a connected corporation must not have been held by anyone other than specified related parties throughout the relevant part of the 24-month period that precedes the time qualifying status is determined. (2) Throughout the relevant part of the 24-month period, the connected corporation must have been a CCPC that used more than 50% of the fair market value of its assets in an active business as defined above. However, during any time where all or substantially all of the corporation's assets are neither assets used in an active business carried on primarily in Canada by the corporation or a related corporation nor are shares or debt of connected corporations that meet the 50% active business test, the connected corporations must use all or substantially all of their assets in an active business.

Related Sections: S. 110.6(1.1) Idem; s. 110.6(2.1) Capital gains deduction — qualified small business corporation shares; s. 110.6(16) Personal trust; s. 125(7), "Canadian-controlled private corporation"; s. 248(1), "small business corporation".

Information Circulars: IC 88-2 General anti-avoidance rule — Section 245 of the Income Tax Act (para. 15).

Tax Window Files: Undivided Interest in Shares, June 9, 2005, CRA Document No. 2004-0092001E5 [Undivided interest in shares could qualify for the capital gains exemption]; Capital Gains Exemption — Qualified Small Business Corporation Shares, October 18, 2004, CRA Document No. 2004-0077151E5 [Purported unfairness of 24-month ownership rule for newly issued QSBC shares when compared to exception in paragraph 110.6(14), where rule waived if unincorporated business transferred to corporation for newly issued shares]; Assets Used in Active Business — Vacant Land Held for Resale, July 20, 2004, CRA Document No. 2004-0062031E5 [Whether holding vacant land for resale is active business carried on by corporation]; Qualified Small Business Corporation Share — Cash Accumulated to Pay Shareholder Bonus, March 7, 2002, CRA Document No. 2001-0091785 [Whether cash/near cash accumulated to pay bonus per established company policy, as well as income derived therefrom, are assets used in active business]; Qualified Small Business Corporation Share — Holding Period Test, February 4, 2002, CRA Document No. 2001-0110035 [Holding period requirement in the definition of QSBC shares includes time that the individual holds shares in his self-directed RRSP]; Assets Used by Partnership, May 25, 2000, CRA Document No. 2000-0006435 [Active business test where corporation carries on business through a partnership]; Active Business Assets — Marketable Security Held as Security for Loan, July 26, 1995, CRA Document No. 9514695 [When marketable securities held by a corporation as security for a line of credit constitute active business assets].

Cases: A corporation spent several years trying to develop a river's hydroelectric potential. The fact that they were never able to reach an agreement for the sale of the electricity did not mean that they were not carrying on an active business during the years of preparation. Accordingly, its shares were eligible for a QSBC deduction. *Hudon et al. v. The Queen*, 2001 DTC 5630 (F.C.A.), reversing Harquail v. The Queen 99 DTC 1318 (T.C.C.).

Since the term deposits it maintained were not required as a form of self insurance in the event of crop failure and it was not relying on them as an integral aspect of its business operations, a corporation did not meet the "all or substantially all" test and hence was not a qualified small business corporation for the purpose of the capital gains deduction. *Skidmore et al. v. The Queen*, 2000 DTC 6186 (F.C.A.), affirming 98 DTC 1135 (T.C.C.).

"share of the capital stock of a family farm corporation" — "share of the capital stock of a family farm corporation" of an individual (other than a trust that is not a personal trust) at any time means a share of the capital stock of a corporation owned by the individual at that time if

(*a*) throughout any 24-month period ending before that time, more than 50% of the fair market value of the property owned by the corporation was attributable to

(i) property that was used principally in the course of carrying on the business of farming in Canada in which the individual, a beneficiary referred to in clause (C) or a spouse or common-law partner, child or parent of the individual or of a beneficiary referred to in clause (C) was actively engaged on a regular and continuous basis, by

(A) the corporation,

(B) the individual,

(C) where the individual is a personal trust, a beneficiary of the trust,

(D) a spouse, common-law partner, child or parent of the individual or of a beneficiary referred to in clause (C),

(D.1) another corporation that is related to the corporation and of which a share of the capital stock was a share of the capital stock of a family farm corporation of the individual, a beneficiary referred to in clause (C) or a spouse or common-law partner, child or parent of the individual or of a beneficiary referred to in clause (C), or

(E) another corporation that is related to the corporation and of which a share of the capital stock was a share of the capital stock of a family

farm corporation of the individual, a beneficiary referred to in clause (C) or a spouse, common-law partner, child or parent of the individual or of a beneficiary referred to in clause (C), or

(F) a partnership, an interest in which was an interest in a family farm partnership of the individual, a beneficiary referred to in clause (C) or a spouse, common-law partner, child or parent of the individual or of such a beneficiary,

(ii) shares of the capital stock or indebtedness of one or more corporations all or substantially all of the fair market value of the property of which was attributable to property described in subparagraph (iv),

(iii) a partnership interest in or indebtedness of one or more partnerships all or substantially all of the fair market value of the property of which was attributable to properties described in subparagraph (iv), or

(iv) properties described in any of subparagraphs (i) to (iii), and

(*b*) at that time, all or substantially all of the fair market value of the property owned by the corporation was attributable to property described in subparagraph (*a*)(iv);

History: S. 110.6(1), clause (*a*)(i)(D.1) of the definition "share of the capital stock of a family farm corporation" was added by S.C. 2007, c. 2, s. 17(3), applicable to dispositions of property that occur after 2001 and before May 2, 2006.

S. 110.6(1), the definition "share of the capital stock of a family farm corporation" was replaced by S.C. 2007, c. 2, s. 17(1), applicable to dispositions of property that occur on or after May 2, 2006. S. 110.6(1), the definition "share of the capital stock of a family farm corporation" formerly read:

"'*share of the capital stock of a family farm corporation*' — 'share of the capital stock of a family farm corporation' of an individual (other than a trust that is not a personal trust) at any time means a share of the capital stock of a corporation owned by the individual at that time where

(*a*) throughout any 24-month period ending before that time, more than 50% of the fair market value of the property owned by the corporation was attributable to

(i) property that was used by

(A) the corporation,

(B) the individual,

(C) where the individual is a personal trust, a beneficiary of the trust,

(D) a spouse, common-law partner, child or parent of the individual or of a beneficiary referred to in clause (C), or

(E) a partnership, an interest in which was an interest in a family farm partnership of the individual, a beneficiary referred to in clause C or a spouse, common-law partner, child or parent of the individual or of such a beneficiary,

principally in the course of carrying on the business of farming in Canada in which the individual, a beneficiary referred to in clause C or a spouse, common-law partner, child or parent of the individual or of such a beneficiary, was actively engaged on a regular and continuous basis,

(ii) shares of the capital stock or indebtedness of one or more corporations all or substantially all of the fair market value of the property of which was attributable to property described in subparagraph (iii), or

(iii) properties described in either subparagraph (i) or (ii), and

(*b*) at that time, all or substantially all of the fair market value of the property owned by the corporation was attributable to

(i) property that was used principally in the course of carrying on the business of farming in Canada by the corporation or a person or partnership referred to in subparagraph (*a*)(i),

(ii) shares of the capital stock or indebtedness of one or more corporations all or substantially all of the fair market value of the property of which was attributable to property described in subparagraph (iii), or

(iii) properties described in either subparagraph (i) or (ii)."

S. 110.6(1), the portion of the definition "share of the capital stock of a family farm corporation" after clause (*a*)(i)(C) was amended by S.C. 2000, c. 12, Sched. 2, s. 8(c), applicable January 1, 2001, coming into force on July 31, 2000. S. 110.6(1), the portion of the definition "share of the capital stock of a family farm corporation" after clause (*a*)(i)(C) formerly read:

"(D) a spouse, child or parent of the individual or of a beneficiary referred to in clause (C), or

(E) a partnership, an interest in which was an interest in a family farm partnership of the individual, a beneficiary referred to in clause C or a spouse, child or parent of the individual or of such a beneficiary, principally in the course of carrying on the business of farming in Canada in which the individual, a beneficiary referred to in clause C or a spouse, child or parent of the individual or of such a beneficiary, was actively engaged on a regular and continuous basis,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 110.6(1), subparagraph (*a*)(i) of the definition "share of the capital stock of a family farm corporation", was amended by S.C. 1994, c. 7, Sched. VIII, s. 47(5), applicable to the 1992 and subsequent taxation years. Subparagraph (*a*)(i) of the definition "share of the capital stock of a family farm corporation", formerly read:

"(i) property used by"

S. 110.6(1), the definition "share of the capital stock of a family farm corporation" was amended by S.C. 1994, c. 7, Sched. II, s. 81(11), applicable to the 1988 and subsequent taxation years. S. 110.6(1), the definition of "share of the capital stock of a family farm corporation" formerly read:

"'*share of the capital stock of a family farm corporation*' — 'share of the capital stock of a family farm corporation' of an individual (other than a trust that is not a personal trust) at any time means a share of the capital stock of a corporation owned by the individual at that time where, at that time, all or substantially all of the property owned by the corporation was

(*a*) property used by

(i) the corporation,

(ii) the individual,

(iii) where the individual is a personal trust, a beneficiary of the trust,

(iv) a spouse, child or parent of an individual referred to in subparagraph (ii) or (iii), or

(v) a partnership, an interest in which was an interest in a family farm partnership of an individual referred to in subparagraph (ii), (iii) or (iv)

throughout a period of at least 24 months before that time in the course of carrying on the business of farming in Canada in which any individual referred to in subparagraph (ii), (iii) or (iv) was actively engaged on a regular and continuous basis,

(*b*) shares of the capital stock of one or more corporations all or substantially all of the property of which was property described in paragraph (*a*) or bonds, debentures, bills, notes, mortgages or similar obligations issued by such a corporation, or

(*c*) properties described in either of paragraph (*a*) or (*b*)."

Related Sections: S. 39(1), "capital gain", "capital loss"; s. 70(9.8) Leased farm and fishing property; s. 70(10), "share of the capital stock of a family farm corporation"; s. 110.6(1.1) Idem; s. 110.6(2) Capital gains deduction — qualified farm property; s. 248(1), "active business", "Canadian-controlled private corporation", "farming", "property", "small business corporation", "specified member"; s. 251 Arm's length.

Interpretation Bulletins: *Secondary* — IT-232R3 Losses — Their deductibility in the loss year or in other years; IT-268R4 Inter vivos transfer of farm property to child; IT-268R3 Inter vivos transfer of farm property to child; IT-330R Dispositions of capital property subject to warranty, covenant, or other conditional or contingent obligations [Archived by the CRA]; IT-369R Attribution of trust income to settlor; IT-381R3 Trusts — Deduction of amounts paid or payable to beneficiaries and flow-through of taxable capital gains to beneficiaries; IT-451R Deemed disposition and acquisition on ceasing to be or becoming resident in Canada; IT-484R2 Business investment losses; IT-504R2 (Consolid.) Visual artists and writers.

Advance Tax Rulings: ATR-34 Preferred beneficiary's election.

Forms: T657; T936.

"share of the capital stock of a family fishing corporation" — "share of the capital stock of a family fishing corporation" of an individual (other than a trust that is not a personal trust) at any time means a share of the capital stock of a corporation owned by the individual at that time if

(*a*) throughout any 24-month period ending before that time, more than 50% of the fair market value of the property owned by the corporation was attributable to

(i) property that was used principally in the course of carrying on the business of fishing in Canada

in which the individual, a beneficiary referred to in clause (C) or a spouse or common-law partner, child or parent of the individual or of a beneficiary referred to in clause (C), was actively engaged on a regular and continuous basis, by

(A) the corporation,

(B) the individual,

(C) where the individual is a personal trust, a beneficiary of the trust,

(D) a spouse, common-law partner, child or parent of the individual or of a beneficiary referred to in clause (C),

(E) another corporation that is related to the corporation and of which a share of the capital stock was a share of the capital stock of a family fishing corporation of the individual, a beneficiary referred to in clause (C) or a spouse, common-law partner, child or parent of the individual or of a beneficiary referred to in clause (C), or

(F) a partnership, an interest in which was an interest in a family fishing partnership of the individual, a beneficiary referred to in clause (C) or a spouse, common-law partner, child or parent of the individual or of such a beneficiary,

(ii) shares of the capital stock or indebtedness of one or more corporations all or substantially all of the fair market value of the property of which was attributable to property described in subparagraph (iv),

(iii) a partnership interest in or indebtedness of one or more partnerships all or substantially all of the fair market value of the property of which was attributable to properties described in subparagraph (iv), or

(iv) properties described in any of subparagraphs (i) to (iii), and

(*b*) at that time, all or substantially all of the fair market value of the property owned by the corporation was attributable to property described in subparagraph (*a*)(iv).

History: S. 110.6(1), the definition "share of the capital stock of a family fishing corporation" was added by S.C. 2007, c. 2, s. 17(4), applicable to dispositions of property that occur on or after May 2, 2006.

► 110.6(1.1) ◄

(1.1) Idem. For the purposes of the definitions "qualified small business corporation share" and "share of the capital stock of a family farm corporation" in subsection (1), the fair market value of a net income stabilization account shall be deemed to be nil.

History: S. 110.6(1.1) was added by S.C. 1994, c. 7, Sched. VIII, s. 47(7), applicable to the 1991 and subsequent taxation years.

► 110.6(1.2) ◄

(1.2) Property used in a fishing business. For the purposes of applying the definition "qualified fishing property", in subsection (1), of an individual, at any time, a property owned at that time by the individual, the spouse or common-law partner of the individual, or a partnership, an interest in which is an interest in a family fishing partnership of the individual or of the individual's spouse or common-law partner, will not be considered to have been used in the course of carrying on the business of fishing in Canada, unless

(*a*) throughout the period of at least 24 months immediately preceding that time, the property or property for which the property was substituted (in this paragraph referred to as "the property") was owned, by any one or more of

(i) the individual, or a spouse, common-law partner, child or parent of the individual,

(ii) a partnership, an interest in which is an interest in a family fishing partnership of the individual or of the individual's spouse or common-law partner,

(iii) if the individual is a personal trust, the individual from whom the trust acquired the property or a spouse, common-law partner, child or parent of that individual, or

(iv) a personal trust from which the individual or a child or parent of the individual acquired the property; and

(*b*) either

(i) in at least two years while the property was owned by the one or more persons referred to in paragraph (*a*),

(A) the gross revenue of a person (in this clause referred to as the "operator") referred to in paragraph (*a*) from the fishing business referred to in clause (B) for the period during which the property was owned by a person described in paragraph (*a*) exceeded the income of the operator from all other sources for that period, and

(B) the property was used principally in a fishing business carried on in Canada in which an individual referred to in paragraph (*a*), or where the individual is a personal trust, a beneficiary of the trust, was actively engaged on a regular and continuous basis, or

(ii) throughout a period of at least 24 months while the property was owned by one or more persons or partnerships referred to in paragraph (*a*), the property was used by a corporation referred to in subparagraph (*a*)(iv) of the definition "qualified fishing property" in subsection (1) or by a partnership referred to in paragraph (*a*)(v) of that definition in a fishing business in which an individual referred to in any of subparagraphs (*a*)(i) to (iii) of that definition was actively engaged on a regular and continuous basis.

History: S. 110.6(1.2) was added by S.C. 2007, c. 2, s. 17(5), applicable to dispositions of property that occur on or after May 2, 2006.

► 110.6(1.3) ◄

(1.3) Property used in a farming business. For the purposes of applying the definition "qualified farm property", in subsection (1), of an individual, at any time, a property owned at that time by the individual, the spouse or common-law partner of the individual, or a partnership, an interest in which is an interest in a family farm partnership of the individual or of the individual's spouse or common-law partner, will not be considered to have been used in the course of carrying on the business of farming in Canada, unless

(*a*) throughout the period of at least 24 months immediately preceding that time, the property or property for which the property was substituted (in this paragraph referred to as "the property") was owned, by any one or more of

(i) the individual, or a spouse, common-law partner, child or parent of the individual,

(ii) a partnership, an interest in which is an interest in a family farm partnership of the individual or of the individual's spouse or common-law partner,

(iii) if the individual is a personal trust, the individual from whom the trust acquired the property or a spouse, common-law partner, child or parent of that individual, or

(iv) a personal trust from which the individual or a child or parent of the individual acquired the property;

(*b*) if paragraph (*c*) does not apply, either

(i) in at least two years while the property was owned by the one or more persons referred to in paragraph (*a*),

(A) the gross revenue of a person (in this clause referred to as the "operator") referred to in paragraph (*a*) from the farming business referred to in clause (B) for the period during which the property was owned by a person described in paragraph (*a*) exceeded the income of the operator from all other sources for that period, and

(B) the property was used principally in a farming business carried on in Canada in which an individual referred to in paragraph (*a*), or where the individual is a personal trust, a beneficiary of the trust, was actively engaged on a regular and continuous basis, or

(ii) throughout a period of at least 24 months while the property was owned by one or more persons or partnerships referred to in paragraph (*a*), the property was used by a corporation referred to in subparagraph (*a*)(iv) of the definition "qualified farm property" in subsection (1) or by a partnership referred to in subparagraph (*a*)(v) of that definition in a farming business in which an individual referred to in any of subparagraphs (*a*)(i) to (iii) of that definition was actively engaged on a regular and continuous basis; or

(*c*) if the property or property for which the property was substituted was last acquired by the individual or partnership before June 18, 1987 or after June 17, 1987 under an agreement in writing entered into before that date,

(i) in the year the property was disposed of by the individual, the property was used principally in the course of carrying on the business of farming in Canada by

(A) the individual, or a spouse, common-law partner, child or parent of the individual,

(B) a beneficiary referred to in subparagraph (*a*)(ii) in the definition "qualified farm property" in subsection (1) or a spouse, common-law partner, child or parent of that beneficiary,

(C) a corporation referred to in subparagraph (*a*)(iv) in the definition "qualified farm property" in subsection (1),

(D) a partnership referred to in subparagraph (*a*)(v) in the definition "qualified farm property" in subsection (1), or

(E) a personal trust from which the individual acquired the property, or

(ii) in at least five years during which the property was owned by a person described in clauses (A) to (E), the property was used principally in the course of carrying on the business of farming in Canada by

(A) the individual, or a spouse, common-law partner, child or parent of the individual,

(B) a beneficiary referred to in subparagraph (*a*)(ii) in the definition "qualified farm property" in subsection (1) or a spouse, common-law partner, child or parent of that beneficiary,

(C) a corporation referred to in subparagraph (*a*)(iv) in the definition "qualified farm property" in subsection (1),

(D) a partnership referred to in subparagraph (*a*)(v) in the definition "qualified farm property" in subsection (1), or

(E) a personal trust from which the individual acquired the property.

History: S. 110.6(1.3) was added by S.C. 2007, c. 2, s. 17(5), applicable to dispositions of property that occur on or after May 2, 2006.

► 110.6(2) ◄

(2) Capital gains deduction — qualified farm property. In computing the taxable income for a taxation year of an individual (other than a trust) who was resident in Canada throughout the year and who disposed of qualified farm property in the year or a preceding taxation year ending after 1984, there may be deducted such amount as the individual may claim not exceeding the least of

(*a*) the amount determined by the formula

$$[\$375{,}000 - (A + B + C + D)] \times E$$

where

A is the total of all amounts each of which is an amount deducted under this section in computing the individual's taxable income for a preceding taxation year that ended

(i) before 1988, or

(ii) after October 17, 2000,

B is the total of all amounts each of which is

(i) 3/4 of an amount deducted under this section in computing the individual's taxable income for a preceding taxation year that ended after 1987 and before 1990 (other than amounts deducted under this section for a taxation year in respect of an amount that was included in computing an individual's income for that year because of subparagraph 14(1)(*a*)(v) as that subparagraph applied for taxation years that ended before February 28, 2000), or

(ii) 3/4 of an amount deducted under this section in computing the individual's taxable

income for a preceding taxation year that began after February 27, 2000 and ended before October 18, 2000,

C is 2/3 of the total of all amounts each of which is an amount deducted under this section in computing the individual's taxable income

(i) for a preceding taxation year that ended after 1989 and before February 28, 2000, or

(ii) in respect of an amount that was included because of subparagraph 14(1)(*a*)(v) (as that subparagraph applied for taxation years that ended before February 28, 2000) in computing the individual's income for a taxation year that began after 1987 and ended before 1990, and

D is the product obtained when the reciprocal of the fraction determined for E that applied to the taxpayer for a preceding taxation year that began before and included February 28, 2000 or October 17, 2000 is multiplied by the amount deducted under this subsection in computing the individual's taxable income for that preceding year,

E is

(i) in the case of a taxation year that includes February 28, 2000 or October 17, 2000, the amount determined by the formula

$$2 \times (F + G)/H$$

where

F is the amount deemed by subsection 14(1.1) to be a taxable capital gain of the taxpayer for the taxation year;

G is the amount by which the amount determined in respect of the taxpayer for the year under paragraph 3(*b*) exceeds the amount determined for F; and

H is the total of

(A) the amount deemed by subsection 14(1.1) to be a taxable capital gain of the taxpayer for the taxation year multiplied by

(I) where that amount is determined by reference to paragraph 14(1.1)(*a*), the reciprocal of the fraction obtained by multiplying the fraction 3/4 by the fraction in paragraph 14(1)(*b*) that applies to the taxpayer for the taxation year,

(II) where that amount is determined by reference to paragraph 14(1.1)(*b*), and the taxation year does not end after February 27, 2000 and before October 18, 2000, 2, and

(III) where that amount is determined by reference to paragraph 14(1.1)(*b*), and the taxation year ends after February 27, 2000 and before October 18, 2000, 3/2, and

(B) the amount determined for G multiplied by the reciprocal of the fraction in paragraph 38(*a*) that applies to the taxpayer for the taxation year; and

(ii) in any other case, 1,

(*b*) the individual's cumulative gains limit at the end of the year,

(*c*) the individual's annual gains limit for the year, and

(*d*) the amount that would be determined in respect of the individual for the year under paragraph 3(*b*) in respect of capital gains and capital losses if the only properties referred to in that paragraph were qualified farm properties of the individual disposed of after June 17, 1987.

History: S. 110.6(2)(*a*), the formula was replaced by S.C. 2007, c. 35, s. 31(1), applicable to taxation years that begin after March 19, 2007. S. 110.6(2)(*a*), the formula formerly read:

"[$250,000 – (A + B + C + D)] × E

„

S. 110.6(2)(*a*), the description of A was replaced by S.C. 2007, c. 2, s. 17(6), applicable to preceding taxation years that end after October 17, 2000. S. 110.6(2)(*a*), the description of A formerly read:

"A is the total of all amounts each of which is an amount deducted under this section in computing the individual's taxable income for a preceding taxation year that ended before 1988,"

S. 110.6(2)(*d*) was replaced by S.C. 2007, c. 2, s. 17(7), applicable to taxation years that end on or after May 2, 2006. S. 110.6(2)(*d*) formerly read:

"(*d*) the amount that would be determined in respect of the individual for the year under paragraph 3(*b*) in respect of capital gains and capital losses if the only properties referred to in that paragraph were qualified farm properties disposed of by the individual after 1984."

S. 110.6(2)(*a*) was amended by S.C. 2001, c. 17, s. 86(3), applicable to taxation years that end after February 27, 2000. S. 110.6(2)(*a*) formerly read:

"(*a*) the amount, if any, by which $375,000 exceeds the total of

(i) the total of all amounts each of which is an amount deducted by the individual under this section in computing the individual's taxable income for a preceding taxation year,

(ii) where the taxation year ended after 1987, 1/3 of the total of all amounts each of which is an amount deducted under this section in computing the individual's taxable income for a taxation year ending before 1988, and

(iii) where the taxation year ended after 1989, 1/8 of the total of

(A) all amounts deducted under this section in computing the individual's taxable income for a taxation year ending before 1990 (other than amounts deducted under this section for a taxation year in respect of an amount that was included in computing the individual's income for that year because of subparagraph 14(1)(*a*)(v)), and

(B) the amount determined under subparagraph (ii) in respect of the individual for the year,"

See S.C. 1995, c. 3, s. 32(15) below for the reading of s. 110.6(2)(*d*) when applied to the 1994 and 1995 taxation years.

S. 110.6(2)(*a*)(iii)(A) was amended by S.C. 1994, c. 7, Sched. VIII, s. 47(8), applicable to the 1990 and subsequent taxation years. S. 110.6(2)(*a*)(iii)(A) formerly read:

"(A) the total of all amounts each of which is an amount deducted under this section in computing the individual's taxable income for a taxation year ending before 1990, and"

Editorial Note: Section 110.6 provides for a lifetime $500,000 exemption for capital gains realized on the disposition of qualified farm property (subsection 110.6(2)), qualified small business corporation shares (subsection 110.6(2.1)), and qualified fishing property (subsection 110.6(2.2)). Prior to February 23, 1994, capital gains realized with respect to other property also qualified for the exemption — see the history notes for details. The exemption may be claimed by Canadian resident individuals, including, in limited circumstances, trusts (see subsection 110.6(12)). A special rule in subsection 110.6(5) applies where an individual ceases to be a resident in the year.

The terms "qualified farm property", "qualified small business corporation share", and "qualified fishing property", as well as other terms, are defined in subsection 110.6(1). The definitions of "qualified farm property" and "qualified fishing property" impose a use test and a holding period test which are critical to whether or not the property qualifies for the exemption (see also subsections 110.6(1.2) and (1.3)). Although the person who claims the exemption is not required to carry on the farming business, he or she must generally be related to the person who did carry on the business. Similarly, the definition of a qualified small business corporation share requires the assets of the corporation to be used in an active business, and generally imposes a 24-month holding period test for the shares.

The exemption is limited by the individual's annual gain limit, as defined, which takes into account the capital gains realized in the current year on QFP and QSBC shares, the net capital losses claimed, and the allowable business investment losses. The exemption is also limited by the taxpayer's cumulative gains limit, as defined, which tracks the annual gains limit from prior years,

the exemption previously claimed, and the taxpayer's cumulative net investment loss (investment expenses in excess of investment income). Various anti-avoidance rules also apply to restrict the exemption.

Related Sections: S. 14(1) Eligible capital property — inclusion in income from business; s. 38 Taxable capital gain and allowable capital loss; s. 39 Meaning of capital gain and capital loss; s. 110.6(4) Maximum capital gains deduction; s. 110.6(6)–(8); s. 111.1 Order of applying provisions; s. 126(5.1) Deductions for specified capital gains; s. 248(1), "amount", "individual".

Interpretation Bulletins: *Secondary* — IT-426R Shares sold subject to an earnout agreement.

Advance Tax Rulings: ATR-28 Redemption of capital stock of family farm corporation.

Forms: T3 SK (CG); T1237; T657.

Sec. 32(15), Chap. 3, S.C. 1995

Sec. 32. [Application of s. 110.6(2)(d) and 110.6(2.1)(d) to the 1994 and 1995 taxation years.]

(15) In applying the Act to the 1994 and 1995 taxation years,

(*a*) paragraph 110.6(2)(*d*) of the Act shall be read as follows:

"(*d*) the amount that would be determined in respect of the individual for the year under paragraph 3(*b*) in respect of capital gains and capital losses if the only properties referred to in that paragraph were qualified farm properties disposed of by the individual after 1984 otherwise than because of an election made under subsection (19)."

and

(*b*) paragraph 110.6(2.1)(*d*) of the Act shall be read as follows:

"(*d*) the amount that would be determined in respect of the individual for the year under paragraph 3(*b*) (other than an amount included in determining the amount in respect of the individual under paragraph (2)(*d*)) in respect of capital gains and capital losses if the only properties referred to in paragraph 3(*b*) were qualified small business corporation shares disposed of by the individual after June 17, 1987 otherwise than because of an election made under subsection (19)."

► 110.6(2.1) ◄

(2.1) Capital gains deduction — qualified small business corporation shares. In computing the taxable income for a taxation year of an individual (other than a trust) who was resident in Canada throughout the year and who disposed of a share of a corporation in the year or a preceding taxation year and after June 17, 1987 that, at the time of disposition, was a qualified small business corporation share of the individual, there may be deducted such amount as the individual may claim not exceeding the least of

(*a*) the amount determined by the formula in paragraph (2)(*a*) in respect of the individual for the year,

(*b*) the amount, if any, by which the individual's cumulative gains limit at the end of the year exceeds the amount deducted under subsection (2) in computing the individual's taxable income for the year,

(*c*) the amount, if any, by which the individual's annual gains limit for the year exceeds the amount deducted under subsection (2) in computing the individual's taxable income for the year, and

(*d*) the amount that would be determined in respect of the individual for the year under paragraph 3(*b*) (to the extent that that amount is not included in computing the amount determined under paragraph (2)(*d*) or (2.2)(*d*) in respect of the individual) in respect of capital gains and capital losses if the only properties referred to in paragraph 3(*b*) were qualified small business corporation shares of the individual disposed of after June 17, 1987.

History: S. 110.6(2.1)(*d*) was replaced by S.C. 2007, c. 2, s. 17(8), applicable to taxation years that end on or after May 2, 2006. S. 110.6(2.1)(*d*) formerly read:

"(*d*) the amount that would be determined in respect of the individual for the year under paragraph 3(*b*) (other than an amount included in determining the amount in respect of the individual under paragraph (2)(*d*)) in respect of capital gains and capital losses if the only properties referred to in paragraph 3(*b*) were qualified small business corporation shares disposed of by the individual after June 17, 1987."

S. 110.6(2.1)(*a*) was amended by S.C. 2001, c. 17, s. 86(4), applicable to taxation years that end after February 27, 2000. S. 110.6(2.1)(*a*) formerly read:

"(*a*) the amount, if any, by which $375,000 exceeds the total of

(i) the total of all amounts each of which is an amount deducted by the individual under this section in computing the individual's taxable income for a preceding taxation year,

(ii) where the taxation year ended after 1987, the amount determined under subparagraph (2)(*a*)(ii) in respect of the individual for the year, and

(iii) where the taxation year ended after 1989, the amount determined under subparagraph (2)(*a*)(iii) in respect of the individual for the year,"

S. 110.6(2.1)(*d*) was amended by S.C. 1998, c. 19, s. 130(1), applicable to the 1996 and subsequent taxation years. S. 110.6(2.1)(*d*) formerly read:

"(*d*) the amount that would be determined in respect of the individual for the year under paragraph 3(*b*) (other than an amount included in determining the amount in respect of the individual under paragraph (2)(*d*)) in respect of capital gains and capital losses if the only properties referred to in that paragraph were qualified small business corporation shares disposed of by the individual after June 17, 1987."

See S.C. 1995, c. 3, s. 32(15) above for the reading of s. 110.6(2.1)(*d*) when applied to the 1994 and 1995 taxation years.

Editorial Note: To qualify for the exemption (available only to Canadian resident individuals other than trusts) the corporation must be a "small business corporation" (per subsection 248(1)) at time of disposition and the share must be a "qualified small business corporation share", which entails the corporation meeting certain requirements with respect to assets in the preceding 24 months (see definition in subsection 110.6(1) for further comments). The exemption is limited to the amount in excess of cumulative net investment losses. If ABILs have been incurred in the year or a previous year, the exemption is limited to the excess of such amounts; conversely the exemption limits future year claims. The exemption may be reduced to the extent that deductions are claimed under the former $100,000 exemption, or the qualifying farm property exemption.

Circumstances in which the exemption may be denied include where the taxpayer did not report the gain or failed to file a return within one year of its deadline (knowingly or under gross negligence — subsection 110.6(6)); where the exemption is part of a series involving a proportional butterfly or asset acquisition by a corporation or partnership at less than fair market value (subsection 110.6(7)); where the corporation issued "low-dividend preferred shares" (subsections 110.6(8) and (9)); or where a flow-through entity has allocated a qualifying gain which is disproportionately large relative to the individual's income interest (subsection 110.6(11)). A non-proportional tax deferred "spin-out" of some of the corporation's assets will generally not be available as part of a series of transactions where the exemption is claimed on a sale or other disposition of assets to an unrelated purchaser or a transaction that increases such person's interest in a corporation.

Related Sections: S. 38 Taxable capital gain and allowable capital loss; s. 39 Meaning of capital gain and capital loss; s. 48.1 Gain when small business corporation becomes public; s. 84.1 Non-arm's length sale of shares; s. 110.6(4)–(8); s. 111.1 Order of applying provisions; s. 126(5.1) Deductions for specified capital gains; s. 248(1), "small business corporation".

Interpretation Bulletins: *Secondary* — IT-426R Shares sold subject to an earnout agreement.

Information Circulars: IC 88-2 General anti-avoidance rule — Section 245 of the Income Tax Act (para. 15; Supp. 1, paras. 3 and 4).

Advance Tax Rulings: ATR-42 Transfer of shares.

Tax Topics: No. 1881, Parallel Universe: La Survivance and the Capital Gains Exemption; No. 1879, Interaction of Subsections 110.6(2.1) and 256(9).

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Tax Window Files: Undivided Interest in Shares, June 9, 2005, CRA Document No. 2004-0092001E5 [Undivided interest in shares could qualify for the capital gains exemption]; Capital Loss Realized by Estate, November 24, 2004, CRA Document No. 2004-0088061I7 [Capital losses on QSBC shares of an estate carried back under subsection 164(6) netted against the deceased's capital gains on QSBC shares in terminal year].

► 110.6(2.2) ◄

(2.2) Capital gains deduction — qualified fishing property. In computing the taxable income for a taxation year of an individual (other than a trust) who was resident in Canada throughout the year and who, in the year or a preceding year, disposed of a property that was, at the time of disposition, a qualified fishing property of the individual, there may be deducted the amount that the individual claims not exceeding the least of

(*a*) the amount determined by the formula in paragraph (2)(*a*) in respect of the individual for the year;

(*b*) the amount, if any, by which the individual's cumulative gains limit at the end of that year exceeds the total of all amounts each of which is an amount deducted under subsection (2) or (2.1) in computing the individual's taxable income for the year;

(*c*) the amount, if any, by which the individual's annual gains limit for the year exceeds the total of all amounts each of which is an amount deducted under subsection (2) or (2.1) in computing the individual's taxable income for the year; and

(*d*) the amount that would be determined in respect of the individual for the year under paragraph 3(*b*) in respect of capital gains and capital losses if the only properties referred to in that paragraph were qualified fishing properties of the individual disposed of on or after May 2, 2006.

History: S. 110.6(2.2) was added by S.C. 2007, c. 2, s. 17(9), applicable to taxation years that end on or after May 2, 2006.

► 110.6(2.3) ◄

(2.3) Additional capital gains deduction — taxation year that includes March 19, 2007. In computing the taxable income of an individual (other than a trust) for the individual's taxation year that includes March 19, 2007 (referred to in this subsection as the "transition year"), there may be deducted, where that individual was resident in Canada throughout the transition year and that individual disposed of in the transition year, and on or after March 19, 2007, a qualified small business corporation share of the individual, a qualified farm property of the individual, or a qualified fishing property of the individual, such amount as the individual may claim not exceeding the least of

(*a*) $125,000,

(*b*) the amount, if any, by which the individual's cumulative gains limit at the end of the transition year exceeds the total of all amounts each of which is an amount deducted by the individual under subsection (2), (2.1) or (2.2) in computing the individual's taxable income for the transition year,

(*c*) the amount, if any, by which the individual's annual gains limit for the transition year exceeds the total of all amounts each of which is an amount deducted by the individual under subsection (2), (2.1) or (2.2) in computing the individual's taxable income for the transition year, and

(*d*) the amount that would be determined in respect of the individual for the transition year under paragraph 3(*b*) in respect of capital gains and capital losses if the only properties referred to in that paragraph were qualified small business corporation shares of the individual, qualified farm properties of the individual, and qualified fishing properties of the individual, disposed of by the individual on or after March 19, 2007.

History: S. 110.6(2.3) was added by S.C. 2007, c. 35, s. 31(2), applicable to taxation years that end on or after March 19, 2007.

► 110.6(3) ◄

(3) Capital gains deduction — other property. [Repealed by S.C. 1995, c. 3, s. 32(3).]

History: S. 110.6(3) was repealed by S.C. 1995, c. 3, s. 32(3), applicable to the 1996 and subsequent taxation years and, in applying subsection 110.6(3) of the Act to the 1994 and 1995 taxation years, the portion of subsection 110.6(3) before paragraph (*a*) shall be read as follows:

"(3) In computing the taxable income for a taxation year of an individual (other than a trust) who was resident in Canada throughout the year and who disposed of property (other than property the capital gain or capital loss from the disposition of which is included in determining an amount under paragraph (2)(*d*) or (2.1)(*d*)) there may be deducted such amount as the individual claims, not exceeding the least of"

S. 110.6(3) formerly read:

"(3) *Capital gains deduction — other property.* In computing the taxable income for a taxation year of an individual (other than a trust) who was resident in Canada throughout the year and who disposed of property (other than a disposition of property to which subsection (2) or (2.1) applies) there may be deducted such amount as the individual may claim not exceeding the least of

(*a*) the amount, if any, by which $75,000 exceeds the total of

(i) the total of all amounts each of which is an amount deducted by the individual under this subsection in computing the individual's taxable income for a preceding taxation year,

(ii) where the taxation year ended after 1987, 1/3 of the total of all amounts each of which is an amount deducted under this subsection in computing the individual's taxable income for a taxation year ending before 1988, and

(iii) where the taxation year ended after 1989, 1/8 of the total of

(A) all amounts deducted under this subsection in computing the individual's taxable income for a taxation year ending before 1990 (other than amounts deducted under this subsection for a taxation year in respect of an amount that was included in computing the individual's income for that year because of subparagraph 14(1)(*a*)(v)), and

(B) the amount determined under subparagraph (ii) in respect of the individual for the year,

(*b*) the amount, if any, by which the individual's cumulative gains limit at the end of the year exceeds the total of all amounts each of which is an amount deducted under subsection (2) or (2.1) in computing the individual's taxable income for the year, and

(*c*) the amount, if any, by which the individual's annual gains limit for the year exceeds the total of all amounts each of which is an amount deducted under subsection (2) or (2.1) in computing the individual's taxable income for the year."

S. 110.6(3)(*a*)(iii)(A) was amended by S.C. 1994, c. 7, Sched. VIII, s. 47(9), applicable to the 1990 and subsequent taxation years. S. 110.6(3)(*a*)(iii)(A) formerly read:

"(A) the total of all amounts each of which is an amount deducted under this subsection in computing the individual's taxable income for a taxation year ending before 1990, and"

Related Sections: S. 14(1) Eligible capital property — inclusion in income from business; s. 38 Taxable capital gain and allowable capital loss; s. 39 Meaning of capital gain and capital loss; s. 110.6(4)–(8); s. 110.6(13) Determination under paragraph 3(b); s. 110.6(17) Order of deduction; s. 126(5.1) Deductions for specified capital gains; s. 248(1), "amount", "individual".
Interpretation Bulletins: *Secondary* — IT-297R2 Gifts in kind to charity and others.

► 110.6(4) ◄

(4) Maximum capital gains deduction. Notwithstanding subsections (2), (2.1) and (2.2), the total amount that may be deducted under this section in computing an individual's income for a taxation year shall not exceed the total of the amount determined by the formula in para-

graph 2(*a*) and the amount that may be deducted under subsection (2.3), in respect of the individual for the year.

History: S. 110.6(4) was replaced by S.C. 2007, c. 35, s. 31(3), applicable to taxation years that end on or after March 19, 2007. S. 110.6(4) formerly read:

"(4) *Maximum capital gains deduction.* Notwithstanding subsections (2), (2.1) and (2.2), the total amount that may be deducted under this section in computing an individual's income for a taxation year shall not exceed the amount determined by the formula in paragraph (2)(*a*) in respect of the individual for the year."

S. 110.6(4) was replaced by S.C. 2007, c. 2, s. 17(10), applicable to taxation years that end on or after May 2, 2006. S. 110.6(4) formerly read:

"(4) *Maximum capital gains deduction.* Notwithstanding subsection (2) and (2.1), the total amount that may be deducted under this section in computing an individual's income for a taxation year shall not exceed the amount determined by the formula in paragraph (2)(*a*) in respect of the individual for the year."

S. 110.6(4) was amended by S.C. 2001, c. 17, s. 86(5), applicable to taxation years that end after February 27, 2000. S. 110.6(4) formerly read:

"(4) *Maximum capital gains deduction.* Notwithstanding subsections (2) and (2.1), the total amount that may be deducted under this section in computing an individual's taxable income for a taxation year shall not exceed the amount, if any, by which $375,000 exceeds the total of

(*a*) the total of all amounts each of which is an amount deducted by the individual under this section in computing the individual's taxable income for a preceding taxation year,

(*b*) where the taxation year ended after 1987, the amount determined under subparagraph (2)(*a*)(ii) in respect of the individual for the year, and

(*c*) where the taxation year ended after 1989, the amount determined under subparagraph (2)(*a*)(iii) in respect of the individual for the year."

S. 110.6(4), that portion preceding paragraph (*a*), was amended by S.C. 1995, c. 3, s. 32(4), applicable to the 1996 and subsequent taxation years. That part formerly read:

"(4) *Maximum capital gains deduction.* Notwithstanding subsections (2), (2.1) and (3), the total amount that may be deducted under this section in computing the taxable income of an individual for a taxation year shall not exceed the amount, if any, by which $375,000 exceeds the total of"

► 110.6(5) ◄

(5) Deemed resident in Canada. For the purposes of subsections (2) to (2.3), an individual is deemed to have been resident in Canada throughout a particular taxation year if

(*a*) the individual was resident in Canada at any time in the particular taxation year; and

(*b*) the individual was resident in Canada throughout the immediately preceding taxation year or throughout the immediately following taxation year.

History: S. 110.6(5), the portion before paragraph (*a*) was replaced by S.C. 2007, c. 35, s. 31(4), applicable to taxation years that end on or after March 19, 2007. S. 110.6(5), the portion before paragraph (*a*) formerly read:

"(5) *Deemed resident in Canada.* For the purposes of subsections (2), (2.1) and (2.2), an individual is deemed to have been resident in Canada throughout a particular taxation year if"

S. 110.6(5) was replaced by S.C. 2007, c. 2, s. 17(10), applicable to taxation years that end on or after May 2, 2006. S. 110.6(5) formerly read:

"(5) *Deemed resident in Canada.* Where an individual was resident in Canada at any time in a particular taxation year and throughout

(*a*) the immediately preceding taxation year, or

(*b*) the immediately following taxation year,

for the purposes of subsections (2) and (2.1) the individual shall be deemed to have been resident in Canada throughout the particular year."

S. 110.6(5), that portion following paragraph (*b*), was amended by S.C. 1995, c. 3, s. 32(5), applicable to the 1996 and subsequent taxation years. That part formerly read:

"for the purposes of subsections (2), (2.1) and (3) the individual shall be deemed to have been resident in Canada throughout the particular year."

Related Sections: S. 110.6(13) Determination under paragraph 3(b).

► 110.6(6) ◄

(6) Failure to report capital gain. Notwithstanding subsections (2) to (2.3), no amount may be deducted under this section in respect of a capital gain of an individual for a particular taxation year in computing the individual's taxable income for the particular taxation year, if

(*a*) the individual knowingly or under circumstances amounting to gross negligence

(i) fails to file the individual's return of income for the particular taxation year within one year after the taxpayer's filing-due date for the particular taxation year, or

(ii) fails to report the capital gain in the individual's return of income for the particular taxation year; and

(*b*) the Minister establishes the facts justifying the denial of such an amount under this section.

History: S. 110.6(6), the portion before paragraph (*a*) was replaced by S.C. 2007, c. 35, s. 31(5), applicable to taxation years that end on or after March 19, 2007. S. 110.6(6), the portion before paragraph (*a*) formerly read:

"(6) *Failure to report capital gain.* Notwithstanding subsections (2), (2.1) and (2.2), no amount may be deducted under this section in respect of a capital gain of an individual for a particular taxation year in computing the individual's taxable income for the particular taxation year, if"

S. 110.6(6) was replaced by S.C. 2007, c. 2, s. 17(10), applicable to taxation years that end on or after May 2, 2006. S. 110.6(6) formerly read:

"(6) *Failure to report capital gain.* Notwithstanding subsections (2) and (2.1), where an individual has a capital gain for a taxation year from the disposition of a capital property and knowingly or under circumstances amounting to gross negligence

(*a*) fails to file a return of the individual's income for the year within one year after the day on or before which the individual is required to file a return of the individual's income for the year pursuant to section 150, or

(*b*) fails to report the capital gain in the individual's return of income for the year required to be filed pursuant to section 150,

no amount may be deducted under this section in respect of the capital gain in computing the individual's taxable income for that or any subsequent taxation year and the burden of establishing the facts justifying the denial of such an amount under this section is on the Minister."

S. 110.6(6), that portion preceding paragraph (*a*), was amended by S.C. 1995, c. 3, s. 32(6), applicable to 1996 and subsequent taxation years. That part formerly read:

"(6) *Failure to report capital gain.* Notwithstanding subsections (2), (2.1) and (3), where an individual has a capital gain for a taxation year from the disposition of a capital property and knowingly or under circumstances amounting to gross negligence"

Forms: T657.

► 110.6(7) ◄

(7) Deduction not permitted. Notwithstanding subsections (2) to (2.3), no amount may be deducted under this section in computing an individual's taxable income for a taxation year in respect of a capital gain of the individual for the taxation year if the capital gain is from a disposition of property which disposition is part of a series of transactions or events

(*a*) that includes a dividend received by a corporation to which dividend subsection 55(2) does not apply but would apply if this Act were read without reference to paragraph 55(3)(*b*); or

(*b*) in which any property is acquired by a corporation or partnership for consideration that is significantly less than the fair market value of the property at the time of acquisition (other than an acquisition as the result of an amalgamation or merger of corporations or the winding-up of a corporation or partnership or a distribution of property of a trust in satisfaction of all or part of a corporation's capital interest in the trust).

History: S. 110.6(7), the portion before paragraph (*b*) was replaced by S.C. 2007, c. 35, s. 31(6), applicable to taxation years that end after May 1, 2006, except that for taxation years that end before March 19, 2007, the portion of subsection 110.6(7) before paragraph (*a*) shall be read as follows:

"(7) Notwithstanding subsections (2) to (2.2), no amount may be deducted under this section in computing an individual's taxable income for a taxation year in respect of a capital gain of the individual for the taxation year, if the capital gain is from a disposition of property which disposition is part of a series of transactions or events"

S. 110.6(7), the portion before paragraph (*b*) formerly read:

"(7) *Deduction not permitted.* Notwithstanding subsections (2), (2.1) and (2.2), no amount may be deducted under this section in computing an indi-

vidual's taxable income for a taxation year in respect of a capital gain of the individual for the taxation year, if the capital gain is from a disposition of property which disposition is part of a series of transactions or events

(*a*) to which subsection 55(2) would apply if this Act were read without reference to paragraph 55(3)(*b*); or"

S. 110.6(7) was replaced by S.C. 2007, c. 2, s. 17(10), applicable to taxation years that end on or after May 2, 2006. S. 110.6(7) formerly read:

"(7) *Deduction not permitted.* Notwithstanding subsections (2) and (2.1), where an individual has a capital gain for a taxation year from the disposition of property as part of a series of transactions or events

(*a*) to which subsection 55(2) would, but for paragraph 55(3)(*b*), apply, or

(*b*) in which any property is acquired by a corporation or partnership for consideration that is significantly less than the fair market value of the property at the time of acquisition (other than an acquisition as the result of an amalgamation or merger of corporations or the winding-up of a corporation or partnership or a distribution of property of a trust in satisfaction of all or part of a corporation's capital interest in the trust),

no amount in respect of that capital gain shall be deducted under this section in computing the individual's taxable income for the year."

S. 110.6(7), that portion preceding paragraph (*a*), was amended by S.C. 1995, c. 3, s. 32(7), applicable to 1996 and subsequent taxation years. That part formerly read:

"(7) *Where deduction not permitted.* Notwithstanding subsections (2), (2.1) and (3), where an individual has a capital gain for a taxation year from the disposition of property as part of a series of transactions or events each of which is effected or to be effected after November 21, 1985"

► 110.6(8) ◄

(8) Deduction not permitted. Notwithstanding subsections (2) to (2.3), where an individual has a capital gain for a taxation year from the disposition of a property and it can reasonably be concluded, having regard to all the circumstances, that a significant part of the capital gain is attributable to the fact that dividends were not paid on a share (other than a prescribed share) or that dividends paid on such a share in the taxation year or in any preceding taxation year were less than 90% of the average annual rate of return on that share for that year, no amount in respect of that capital gain shall be deducted under this section in computing the individual's taxable income for the year.

History: S. 110.6(8) was replaced by S.C. 2007, c. 35, s. 31(7), applicable to taxation years that end on or after March 19, 2007. S. 110.6(8) formerly read:

"(8) *Deduction not permitted.* Notwithstanding subsections (2), (2.1) and (2.2), where an individual has a capital gain for a taxation year from the disposition of a property and it can reasonably be concluded, having regard to all the circumstances, that a significant part of the capital gain is attributable to the fact that dividends were not paid on a share (other than a prescribed share) or that dividends paid on such a share in the taxation year or in any preceding taxation year were less than 90% of the average annual rate of return on that share for that year, no amount in respect of that capital gain shall be deducted under this section in computing the individual's taxable income for the year."

S. 110.6(8) was replaced by S.C. 2007, c. 2, s. 17(10), applicable to taxation years that end on or after May 2, 2006. S. 110.6(8) formerly read:

"(8) *Deduction not permitted.* Notwithstanding subsections (2) and (2.1), where an individual has a capital gain for a taxation year from the disposition of a property and it can reasonably be concluded, having regard to all the circumstances, that a significant part of the capital gain is attributable to the fact that dividends were not paid on a share (other than a prescribed share) or that dividends paid on such a share in the year or in any preceding taxation year were less than 90% of the average annual rate of return thereon for that year, no amount in respect of that capital gain shall be deducted under this section in computing the individual's taxable income for the year."

S. 110.6(8) was amended by S.C. 1995, c. 3, s. 32(8), applicable to 1996 and subsequent taxation years. S. 110.6(8) formerly read:

"(8) *Idem.* Notwithstanding subsections (2), (2.1) and (3), where an individual has a capital gain for a taxation year from the disposition, after November 21, 1985, of a property and it may reasonably be concluded, having regard to all the circumstances, that a significant part of the capital gain is attributable to the fact that dividends were not paid on a share (other than a prescribed share) of a corporation or that dividends paid on such a share in the year or in any preceding taxation year were less than 90% of the average annual rate of return thereon for that year, no amount in respect of that capital gain shall be deducted under this section in computing the individual's taxable income for the year."

Editorial Note: Subsection 110.6(8) — pertaining to "deficient dividends" — is operative to deny the capital gains exemption where it may reasonably be considered that either a significant portion of the capital gain is attributable to dividends not being paid on a share, or dividends paid on such a share were less than 90% of an amount determined by subsection 110.6(9) — based on the return a "knowledgeable and prudent investor" would expect to receive. Conceptually, at least, these provisions can potentially apply in a very wide range of circumstances, and are not explicitly premised on an intent to enlarge capital gains exemption claims. Regulation 6205 contains detailed provisions that deal with the requirements for a "prescribed share", which is exempt from the provisions. Among other things, the regulations potentially enable shares in typical freeze structures to qualify.

Related Sections: S. 110.6(9) Average annual rate of return; s. 183.1(7) Where s. 110.6(8) does not apply.

Regulations: 6205.

► 110.6(9) ◄

(9) Average annual rate of return. For the purpose of subsection (8), the average annual rate of return on a share (other than a prescribed share) of a corporation for a taxation year is the annual rate of return by way of dividends that a knowledgeable and prudent investor who purchased the share on the day it was issued would expect to receive in that year, other than the first year after the issue, in respect of the share if

(*a*) there was no delay or postponement of the payment of dividends and no failure to pay dividends in respect of the share;

(*b*) there was no variation from year to year in the amount of dividends payable in respect of the share (other than where the amount of dividends payable is expressed as an invariant percentage of or by reference to an invariant difference between the dividend expressed as a rate of interest and a generally quoted market interest rate); and

(*c*) the proceeds to be received by the investor on the disposition of the share are the same amount the corporation received as consideration on the issue of the share.

Regulations: 6205.

► 110.6(10) ◄

(10) Gain from extension or renewal of option. [Repealed by 1988, c. 55, s. 81(13).]

► 110.6(11) ◄

(11) Where deduction not permitted. Where it is reasonable to consider that one of the main reasons for an individual acquiring, holding or having an interest in a partnership or trust (other than an interest in a personal trust) or a share of an investment corporation, mortgage investment corporation or mutual fund corporation, or for the existence of any terms, conditions, rights or other attributes of the interest or share, is to enable the individual to receive or have allocated to the individual a percentage of any capital gain or taxable capital gain of the partnership, trust or corporation that is larger than the individual's percentage of the income of the partnership, trust or corporation, as the case may be, notwithstanding any other provision of this Act,

(*a*) no amount may be deducted under this section by the individual in respect of any such gain allocated or distributed to the individual after November 21, 1985; and

(*b*) where the individual is a trust, any such gain allocated or distributed to it after November 21, 1985 shall not be included in computing its eligible taxable capital gain (within the meaning assigned by subsection 108(1)).

► 110.6(12) ◄

(12) Trust deduction. Notwithstanding any other provision of this Act, a trust described in paragraph

104(4)(*a*) or (*a*.1) (other than a trust that elected under subsection 104(5.3), an *alter ego* trust or a joint spousal or common-law partner trust) may, in computing its taxable income for its taxation year that includes the day determined under paragraph 104(4)(*a*) or (*a*.1), as the case may be, in respect of the trust, deduct under this section an amount equal to the least of

(*a*) the amount, if any, by which the eligible taxable capital gains (within the meaning assigned by subsection 108(1)) of the trust for that year exceeds the amount, if any, by which

(i) the total of all amounts each of which is the amount, if any, determined under paragraph (*b*) or (*d*) of the definition "cumulative gains limit" in subsection (1) in respect of the taxpayer's spouse or common-law partner at the end of the taxation year in which the spouse or common-law partner died

exceeds

(ii) the amount if any, determined under paragraph (*a*) of the definition "cumulative gains limit" in subsection (1) in respect of the taxpayer's spouse or common-law partner at the end of the taxation year in which the spouse or common-law partner died,

(*b*) the amount, if any, that would be determined in respect of the trust for that year under paragraph 3(*b*) in respect of capital gains and capital losses if the only properties referred to in that paragraph were qualified farm properties disposed of by it after 1984, qualified small business corporation shares disposed of by it after June 17, 1987 and qualified fishing properties disposed of by it on or after May 2, 2006, and

(*c*) the amount, if any, by which the amount determined by the formula in paragraph (2)(*a*) in respect of the taxpayer's spouse or common-law partner for the taxation year in which that spouse or common-law partner died exceeds the amount deducted under this section for that taxation year by that spouse or common-law partner.

History: S. 110.6(12)(*b*) was replaced by S.C. 2007, c. 2, s. 17(11), applicable to taxation years that end on or after May 2, 2006. S. 110.6(12)(*b*) formerly read:

"(*b*) the amount, if any, that would be determined in respect of the trust for that year under paragraph 3(*b*) in respect of capital gains and capital losses if the only properties referred to in that paragraph were qualified farm properties disposed of by it after 1984 and qualified small business corporation shares disposed of by it after June 17, 1987, and"

S. 110.6(12), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 86(6), applicable to the 2000 and subsequent taxation years. S. 110.6(12), the portion before paragraph (*a*) formerly read:

"(12) *Spousal trust deduction.* Notwithstanding any other provision of this Act, a trust described in paragraph 104(4)(*a*) or (*a*.1) (other than a trust that elected under subsection 104(5.3)) may, in computing its taxable income for its taxation year that includes the day determined under paragraph 104(4)(*a*) or (*a*.1), as the case may be, in respect of the trust, deduct under this section an amount equal to the least of"

S. 110.6(12)(*c*) was amended by S.C. 2001, c. 17, s. 86(7), applicable to taxation years that end after February 27, 2000, except that the amount determined under paragraph 110.6(12)(*c*) in computing a trust's taxable income for its particular taxation year that includes February 28, 2000 or October 17, 2000 or began after February 28, 2000 and ended before October 17, 2000, is deemed to be equal to the amount determined under that paragraph (without reference to this subsection) multiplied by the quotient obtained when the fraction in paragraph 38(*a*) of the Act that applies to the trust for its particular year is divided by the fraction in paragraph 38(*a*) of the Act that applies to the taxpayer's spouse or common-law partner for the taxation year in which the spouse or common-law partner died. S. 110.6(12)(*c*) formerly read:

"(*c*) the amount, if any, by which $375,000 exceeds the total of

(i) the total of all amounts each of which is an amount deducted by the taxpayer's spouse or common-law partner under this section for the taxation year in which the spouse or common-law partner died or a preceding taxation year, and

(ii) the total of all amounts each of which is an amount determined under subparagraph (2)(*a*)(ii) or (iii) in respect of the taxpayer's spouse or common-law partner for the taxation year in which the spouse or common-law partner died."

S. 110.6(12)(*a*)(i) and (ii) were amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.4), applicable January 1, 2001, coming into force on July 31, 2000. S. 110.6(12)(*a*)(i) and (ii) formerly read:

"(i) the total of all amounts each of which is the amount, if any, determined under paragraph (*b*) or (*d*) of the definition 'cumulative gains limit' in subsection (1) in respect of the taxpayer's spouse at the end of the taxation year in which the spouse died

exceeds

(ii) the amount if any, determined under paragraph (*a*) of the definition 'cumulative gains limit' in subsection (1) in respect of the taxpayer's spouse at the end of the taxation year in which the spouse died,"

S. 110.6(12)(*c*)(i) and (ii) were amended by S.C. 2000, c. 12, Sched. 2, s. , applicable to the 2001 and subsequent taxation years, and deemed to have come into force on a day or days to be fixed by order of the Governor in Council. S. 110.6(12)(*c*)(i) and (ii) formerly read:

"(i) the total of all amounts each of which is an amount deducted by the taxpayer's spouse under this section for the taxation year in which the spouse died or a preceding taxation year, and

(ii) the total of all amounts each of which is an amount determined under subparagraph (2)(*a*)(ii) or (iii) in respect of the taxpayer's spouse for the taxation year in which the spouse died."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 110.6(12)(*b*) was amended by S.C. 1995, c. 3, s. 32(9), applicable to taxation years that end after February 22, 1994. For its application to taxation years that end after that day and before 1997, see S.C. 1995, c. 3, s. 32(17) below.

Sec. 32(17), Chap. 3, S.C. 1995

32. [*Application of s. 110.6(12)(b) to taxation years that end after that day and before 1997.*]

(17) Subsection (9) applies to taxation years that end after February 22, 1994 except that, for taxation years that end after that day and before 1997, paragraph 110.6(12)(*b*) shall be read as follows:

"(*b*) the total of

(i) the least of

(A) the amount, if any, determined in respect of the trust for that year under paragraph 3(*b*) in respect of capital gains and losses,

(A.1) the amount, if any, that would be determined in respect of the trust for that year under paragraph 3(*b*) in respect of capital gains and losses if

(I) the only properties referred to in that paragraph were properties (other than properties referred to in subparagraph (ii)) disposed of by it after 1984 and before February 23, 1994,

(II) the trust's capital gains and capital losses for the year from dispositions of non-qualifying real property of the trust were equal to its eligible real property gains and eligible real property losses, respectively, for that year from those dispositions,

(III) no amount were included under paragraph 3(*b*) in respect of a capital gain of the trust that resulted from an election made under subsection (19) by another trust unless the trust was a beneficiary under the other trust on February 22, 1994, and

(IV) except for the purpose of determining the trust's share of a taxable capital gain of a partnership for the partnership's fiscal period that includes February 22, 1994 or a taxable capital gain of the trust resulting from a designation made under section 104 by another trust for the other trust's taxation year that includes that day, in determining the trust's taxable capital gain for a taxation year that begins after that day from the disposition of a property (other than a qualified small business corporation share or qualified farm property), this Act were read without reference to subparagraphs 40(1)(*a*)(ii) and 44(1)(*e*)(ii), and

(B) the amount, if any, by which $75,000 exceeds the total of

(I) the total of all amounts each of which is an amount deducted under subsection (3) in computing the taxable income of the taxpayer's spouse for the taxation year in which the spouse died or a preceding taxation year, and

(II) the total of all amounts each of which is an amount determined under subparagraph (3)(*a*)(ii) or (iii) in respect of the taxpayer's spouse for the taxation year in which the spouse died, and

(ii) the amount, if any, that would be determined in respect of the trust for that year under paragraph 3(*b*) in respect of capital gains and losses if the only properties referred to in that paragraph were qualified farm properties disposed of by it after 1984 and qualified small business corporation shares disposed of by it after June 17, 1987; and"

S. 110.6(12)(*b*) formerly read:

"(*b*) the total of

(i) the least of

(A) the amount, if any, determined under paragraph 3(*b*) in respect of the trust for that year in respect of capital gains and capital losses,

(A.1) the amount, if any, that would be determined under paragraph 3(*b*) in respect of the trust for that year in respect of capital gains and capital losses if

(I) the only properties referred to in that paragraph were properties disposed of by it after 1984, other than properties referred to in subparagraph (ii), and

(II) the trust's capital gains and capital losses for that year from dispositions of non-qualifying real property of the trust were equal to its eligible real property gains and eligible real property losses, respectively, for that year from those dispositions, and

(B) the amount, if any, by which $75,000 exceeds the total of

(I) the total of all amounts each of which is an amount deducted by the taxpayer's spouse under subsection (3) for the taxation year in which the spouse died or a preceding taxation year, and

(II) the total of all amounts each of which is an amount determined under subparagraph (3)(*a*)(ii) or (iii) in respect of the taxpayer's spouse for the taxation year in which the spouse died, and

(ii) the amount, if any, that would be determined in respect of the trust for that year under paragraph 3(*b*) in respect of capital gains and capital losses if the only properties referred to in that paragraph were qualified farm properties disposed of by it after 1984 and qualified small business corporation shares disposed of by it after June 17, 1987, and"

S. 110.6(12), that portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 47(10), applicable to the 1993 and subsequent taxation years. S. 110.6(12), that portion preceding paragraph (*a*), formerly read:

"(12) *Spousal trust deduction.* Notwithstanding any other provision of this Act, a trust described in paragraph 104(4)(*a*) may, in computing its taxable income for its taxation year in which the taxpayer's spouse referred to in that paragraph died, deduct under this section an amount equal to the least of"

S. 110.6(12)(*b*), that portion preceding clause (B), was amended by S.C. 1994, c. 7, Sched. VIII, s. 47(11), applicable to the 1992 and subsequent taxation years. S. 110.6(12)(*b*), that portion preceding clause (B), formerly read:

"(*b*) the total of

(i) the lesser of

(A) the amount, if any, that would be determined in respect of the trust for that year under paragraph 3(*b*) in respect of capital gains and capital losses if the only properties referred to in that paragraph were properties disposed of by it after 1984, other than properties referred to in subparagraph (ii), and"

Editorial Note: Subsection 110.6(12) is an exception to the general exclusions in subsections 110.6(2), (2.1) and (2.2) that otherwise would prevent trusts from claiming the capital gains exemption. Under subsection 110.6(12), the exemption may generally be claimed by a trust for the benefit of a spouse or common-law partner for the year of the trust in which the spouse or common-law partner dies. The exemption claimed by the trust cannot exceed the unused exemption of the deceased spouse or common-law partner beneficiary. The exemption is not available if the trust elected under subsection 104(5.3) or if the trust is an *alter ego* trust or a joint spousal or common-law partner trust.

Related Sections: S. 3(*b*) Net taxable capital gains; s. 39 Meaning of capital gain and capital loss; s. 54, "disposition of property"; s. 104(4) Deemed disposition by trust; s. 104(5.3) Election; s. 110.6(1), "eligible real property gain", "eligible real property loss", "non-qualifying real property"; s. 248(1), "amount", "property".
Forms: T3 SCH 4; T3 SCH 5.

► 110.6(13) ◄

(13) Determination under paragraph 3(*b*). For the purposes of this section, the amount determined under paragraph 3(*b*) in respect of an individual for a period throughout which the individual was not resident in Canada is nil.

► 110.6(14) ◄

(14) Related persons, etc. For the purposes of the definition "qualified small business corporation share" in subsection (1),

(*a*) a taxpayer shall be deemed to have disposed of shares that are identical properties in the order in which the taxpayer acquired them;

(*b*) in determining whether a corporation is a small business corporation or a Canadian-controlled private corporation at any time, a right referred to in paragraph 251(5)(*b*) shall not include a right under a purchase and sale agreement relating to a share of the capital stock of a corporation;

(*c*) a personal trust shall be deemed

(i) to be related to a person or partnership for any period throughout which the person or partnership was a beneficiary of the trust, and

(ii) in respect of shares of the capital stock of a corporation, to be related to the person from whom it acquired those shares where, at the time the trust disposed of the shares, all of the beneficiaries (other than registered charities) of the trust were related to that person or would have been so related if that person were living at that time;

(*d*) a partnership shall be deemed to be related to a person for any period throughout which the person was a member of the partnership;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 110.6(14) of the Act is amended by adding the following after paragraph (*d*):

(*d*.1) a person who is a member of a partnership that is a member of another partnership is deemed to be a member of the other partnership;

Applicable:

(*a*) To dispositions that occur after December 20, 2002; and

(*b*) to dispositions made by a taxpayer after 1999, if the taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year in which this Act is assented to.

Explanatory Note:

Related Persons, etc.

Subsection 110.6(14) of the Act provides certain rules that apply for the purposes of the definition "qualified small business corporation share" in subsection 110.6(1) and the capital gains exemption in respect of such shares. This subsection is amended to add new paragraph 110.6(14)(*d*.1).

New paragraph 110.6(14)(*d*.1) deems a person who is a member of a partnership that is a member of another partnership (a lower-tiered partnership) to be a member of the lower-tiered partnership. This amendment will permit such a taxpayer to have access to the deduction for taxable capital gains arising on the disposition of a qualified small business corporation share by the lower-tiered partnership.

This amendment applies to dispositions that occur after December 20, 2002 and, if a taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation

year in which this amendment is assented to, to dispositions made by the taxpayer after 1999.

(*e*) where a corporation acquires shares of a class of the capital stock of another corporation from any person, it shall be deemed in respect of those shares to be related to the person where all or substantially all the consideration received by that person from the corporation in respect of those shares was common shares of the capital stock of the corporation;

(*f*) shares issued after June 13, 1988 by a corporation to a particular person or partnership shall be deemed to have been owned immediately before their issue by a person who was not related to the particular person or partnership unless the shares were issued

(i) as consideration for other shares,

(ii) as part of a transaction or series of transactions in which the person or partnership disposed of property to the corporation that consisted of

(A) all or substantially all the assets used in an active business carried on by that person or the members of that partnership, or

(B) an interest in a partnership all or substantially all the assets of which were used in an active business carried on by the members of the partnership; or

(iii) as payment of a stock dividend; and

(*g*) where, immediately before the death of an individual, or, in the case of a deemed transfer under subsection 248(23), immediately before the time that is immediately before the death of an individual, a share would, but for paragraph (*a*) of the definition "qualified small business corporation share" in subsection (1), be a qualified small business corporation share of the individual, the share shall be deemed to be a qualified small business corporation share of the individual if it was a qualified small business corporation share of the individual at any time in the 12-month period immediately preceding the death of the individual.

History: S. 110.6(14)(*f*)(iii) was added by S.C. 1998, c. 19, s. 130(2), applicable to dispositions of shares that occur after June 17, 1987.

S. 110.6(14)(*c*) was amended by S.C. 1994, c. 7, Sched. II, s. 81(12), applicable to the 1988 and subsequent taxation years. S. 110.6(14)(*c*) formerly read:

"(*c*) a personal trust shall be deemed to be related to a person or partnership for any period throughout which the person or partnership was a beneficiary of the trust;"

S. 110.6(14)(*g*) was added by S.C. 1994, c. 7, Sched. II, s. 81(13), applicable to the 1988 and subsequent taxation years.

Related Sections: S. 110.6(16) Personal trust.

Tax Window Files: Capital Gains Exemption — Qualified Small Business Corporation Shares, October 18, 2004, CRA Document No. 2004-0077151E5 [Purported unfairness of 24-month ownership rule for newly issued QSBC shares when compared to exception in paragraph 110.6(14), where rule waived if unincorporated business transferred to corporation for newly issued shares]; Qualified Small Business Corporation Share — Holding Period Test, April 23, 2003, CRA Document No. 2003-0012695 [Paragraph 110.6(14)(*g*) exception not applicable where unincorporated business split up and assets transferred to various separate corporations]; Qualified Small Business Corporation Share — Holding Period Test, February 4, 2002, CRA Document No. 2001-0110035 [Holding period requirement in the definition of QSBC shares includes time that the individual holds shares in his self-directed RRSP, which is related to individual as per paragraph 110.6(14)(*c*)].

► 110.6(15) ◄

(15) Value of assets of corporations. For the purposes of the definitions "qualified small business corporation share" and "share of the capital stock of a family farm corporation" in subsection (1), the definition "share of the capital stock of a family farm corporation" in subsection 70(10) and the definition "small business corporation" in subsection 248(1),

(*a*) where a person (in this subsection referred to as the "insured"), whose life was insured under an insurance policy owned by a particular corporation, owned shares of the capital stock (in this subsection referred to as the "subject shares") of the particular corporation, any corporation connected with the particular corporation or with which the particular corporation is connected or any corporation connected with any such corporation or with which any such corporation is connected (within the meaning of subsection 186(4) on the assumption that the corporation referred to in this subsection was a payer corporation within the meaning of that subsection),

(i) the fair market value of the life insurance policy shall, at any time before the death of the insured, be deemed to be its cash surrender value (within the meaning assigned by subsection 148(9)) at that time, and

(ii) the total fair market value of assets (other than assets described in subparagraph (*c*)(i), (ii) or (iii) of the definition "qualified small business corporation share" in subsection (1), subparagraph (*b*)(i), (ii) or (iii) of the definition "share of the capital stock of a family farm corporation" in subsection (1) or paragraph (*a*), (*b*) or (*c*) of the definition "small business corporation" in subsection 248(1), as the case may be) of any of those corporations that are

(A) the proceeds, the right to receive the proceeds or attributable to the proceeds, of the life insurance policy of which the particular corporation was a beneficiary, and

(B) used, directly or indirectly, within the 24-month period beginning at the time of the death of the insured or, where written application therefor is made by the particular corporation within that period, within such longer period as the Minister considers reasonable in the circumstances, to redeem, acquire or cancel the subject shares owned by the insured immediately before the death of the insured,

not in excess of the fair market value of the assets immediately after the death of the insured, shall, until the later of

(C) the redemption, acquisition or cancellation, and

(D) the day that is 60 days after the payment of the proceeds under the policy,

be deemed not to exceed the cash surrender value (within the meaning assigned by subsection 148(9)) of the policy immediately before the death of the insured; and

(*b*) the fair market value of an asset of a particular corporation that is a share of the capital stock or indebtedness of another corporation with which the particular corporation is connected shall be deemed to be nil and, for the purpose of this para-

graph, a particular corporation is connected with another corporation only where

(i) the particular corporation is connected (within the meaning assigned by paragraph (*d*) of the definition "qualified small business corporation share" in subsection (1)) with the other corporation, and

(ii) the other corporation is not connected (within the meaning of subsection 186(4) as determined without reference to subsection 186(2) and on the assumption that the other corporation is a payer corporation within the meaning of subsection 186(4)) with the particular corporation,

except that this paragraph applies only in determining whether a share of the capital stock of another corporation with which the particular corporation is connected is a qualified small business corporation share or a share of the capital stock of a family farm corporation and in determining whether the other corporation is a small business corporation.

History: S. 110.6(15) was amended by S.C. 1994, c. 21, s. 50(5), applicable to dispositions occurring after 1991. S. 110.6(15) formerly read:

"(15) *Life insurance policy of corporation.* For the purposes of the definitions 'qualified small business corporation share' and 'share of the capital stock of a family farm corporation' in subsection (1) and the definition 'small business corporation' in subsection 248(1), where a person (in this subsection referred to as the 'insured'), whose life was insured under an insurance policy owned by a particular corporation, owned shares of the capital stock (in this subsection referred to as the 'subject shares') of the particular corporation, any corporation connected with the particular corporation or with which the particular corporation is connected or any corporation connected with any such corporation or with which any such corporation is connected (within the meaning of subsection 186(4) on the assumption that the corporation referred to in this subsection was a payer corporation within the meaning of that subsection),

(*a*) the fair market value of the life insurance policy shall, at any time before the death of the insured, be deemed to be its cash surrender value (within the meaning assigned by subsection 148(9)) at that time; and

(*b*) the total fair market value of assets (other than assets described in subparagraph (*c*)(i), (ii) or (iii) of the definition 'qualified small business corporation share' in subsection (1), subparagraph (*b*)(i), (ii) or (iii) of the definition 'share of the capital stock of a family farm corporation' in subsection (1) or paragraph (*a*), (*b*) or (*c*) of the definition 'small business corporation' in subsection 248(1), as the case may be) of any of those corporations that are

(i) the proceeds, the right to receive the proceeds or attributable to the proceeds, of the life insurance policy of which the particular corporation was a beneficiary, and

(ii) used, directly or indirectly, within the 24-month period beginning at the time of the death of the insured or, where written application therefor is made by the particular corporation within that period, within such longer period as the Minister considers reasonable in the circumstances, to redeem, acquire or cancel the subject shares owned by the insured immediately before the death of the insured,

not in excess of the fair market value of the assets immediately after the death of the insured shall, until the later of

(iii) the redemption, acquisition or cancellation, and

(iv) the date that is 60 days after the payment of the proceeds under the policy,

be deemed not to exceed the cash surrender value (within the meaning assigned by subsection 148(9)) of the policy immediately before the death of the insured."

S. 110.6(15) was added by S.C. 1994, c. 7, Sched. II, s. 81(14), applicable to dispositions occurring after June 17, 1987, except that, with respect to dispositions occurring before July 13, 1990, the reference to "within the 24-month period beginning at the time of the death of the insured or, where written application therefor is made by the particular corporation within that period, within such longer period" in subparagraph 110.6(15)(*b*)(ii), shall be read as "before July 13, 1991 or, where written application therefor is made by the particular corporation before that date, before that date".

Tax Profile: September 2004 — Review of Tax Implications of Corporate-Owned Life Insurance Buy-Sell Arrangements.

► 110.6(16) ◄

(16) Personal trust. For the purposes of the definition "qualified small business corporation share" in subsection (1) and of paragraph (14)(*c*), a personal trust shall be deemed to include a trust described in subsection 7(2).

History: S. 110.6(16) was added by S.C. 1994, c. 7, Sched. II, s. 81(14), applicable to dispositions occurring after June 17, 1987.

Related Sections: S. 7(2) Securities held by trustee; s. 110.6(1), "qualified small business corporation share"; s. 110.6(14) Related persons, etc; s. 248(1) "personal trust".

► 110.6(17) ◄

(17) Order of deduction. For the purpose of clause (2)(*a*)(iii)(A), amounts deducted under this section in computing an individual's taxable income for a taxation year that ended before 1990 shall be deemed to have first been deducted in respect of amounts that were included in computing the individual's income under this Part for the year because of subparagraph 14(1)(*a*)(v) before being deducted in respect of any other amounts that were included in computing the individual's income under this Part for the year.

History: S. 110.6(17) was amended by S.C. 1995, c. 3, s. 32(10), applicable to the 1996 and subsequent taxation years. S. 110.6(17) formerly read:

"(17) *Order of deduction.* For the purposes of clauses (2)(*a*)(iii)(A) and (3)(*a*)(iii)(A), amounts deducted by an individual under this section in computing the individual's taxable income for a taxation year ending before 1990 shall be deemed to have first been deducted in respect of any amounts that were included in computing the individual's income for that year because of paragraph 14(1)(*a*)(v) before being deducted in respect of any other amounts that were included in computing the individual's income for that year."

S. 110.6(17) was added by S.C. 1994, c. 7, Sched. VIII, s. 47(12), applicable to the 1990 and subsequent taxation years.

Related Sections: S. 14(1) Eligible capital property — inclusion in income from business; s. 248(1), "amount", "individual".

► 110.6(18) ◄

(18) Eligible real property gains and losses. [Repealed by S.C. 1995, c. 3, s. 32(11).]

History: S. 110.6(18) was repealed by S.C. 1995, c. 3, s. 32(11), applicable to 1996 and subsequent taxation years. S. 110.6(18) formerly read:

"(18) *Eligible real property gains and losses.* For the purposes of the definitions 'eligible real property gain' and 'eligible real property loss' in subsection (1),

(*a*) an individual shall be deemed to have disposed of identical properties in the order in which they were acquired;

(*b*) where paragraph 74.2(2)(*b*) applies for the purposes of this section to deem a property disposed of by another person to have been disposed of by an individual in a taxation year, the individual shall be deemed to have last acquired that property at the time at which the other person last acquired it and to have disposed of it at the time at which the other person disposed of it;

(*c*) where an individual is deemed by subsection 70(6), (9), (9.1), (9.2) or (9.3), 73(1), (3) or (4), 98(3) or (5) or 107(2) to have acquired property for an amount that is not greater than the adjusted cost base to the person or partnership from whom it was acquired, the individual shall be deemed to have acquired the property at the time it was last acquired by the person or partnership;

(*d*) the number of calendar months in a period shall be determined without reference to any such month that is in a taxation year of the individual or the individual's spouse for which the property in respect of which the eligible real property gain or eligible real property loss is computed was a principal residence (within the meaning assigned by section 54) of the individual or the individual's spouse; and

(*e*) where the eligible real property gain or eligible real property loss of an individual is computed in respect of a gain or loss from a disposition of property by a partnership, the individual shall be deemed to have last acquired the property at the time it was last acquired by the partnership and to have disposed of the property at the time it was disposed of by the partnership except that, where the individual had disposed of that property to the partnership and an election had been filed under subsection 97(2) in respect of that disposition, the individual shall be deemed to have last acquired the property at the time it was last acquired by the individual before that disposition if the amount agreed on in that election in respect of the property was not greater than the adjusted cost base to the individual of the property at the time of that disposition."

S. 110.6(18) was added by S.C. 1994, c. 7, Sched. VIII, s. 47(12), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 47(1) Identical properties; s. 54, "adjusted cost base", "principal residence"; s. 70(6) Where transfer or distribution to spouse or spouse trust; s. 70(9) When subsection (9.01) applies; s. 70(9.1) When subsection (9.11) applies; s. 70(9.2) When subsection (9.21) applies; s. 70(9.3)

When subsection (9.31) applies; s. 73(1) Inter vivos transfers by individuals; s. 73(3) When subsection (3.1) applies; s. 73(4) When subsection (4.1) applies; s. 97(2) Rules where election by partners; s. 98(3) Rules applicable where partnership ceases to exist; s. 98(5) Where partnership business carried on as sole proprietorship; s. 107(2) Distribution by personal trust; s. 110.6(1), "eligible real property gain", "eligible real property loss"; s. 248(1), "adjusted cost base", "amount", "individual", "property"; s. 252(4) Extended meaning of spouse.

► 110.6(19) ◄

(19) Election for property owned on February 22, 1994. Subject to subsection (20), where an individual (other than a trust) or a personal trust (each of which is referred to in this subsection and subsections (20) to (29) as the "elector"), elects in prescribed form to have the provisions of this subsection apply in respect of

(*a*) a capital property (other than an interest in a trust referred to in any of paragraphs (*f*) to (*j*) of the definition "flow-through entity" in subsection 39.1(1)) owned at the end of February 22, 1994 by the elector, the property shall be deemed, except for the purposes of sections 7 and 35 and subparagraph 110(1)(*d.1*)(ii),

(i) to have been disposed of by the elector at that time for proceeds of disposition equal to the greater of

(A) the amount determined by the formula

A – B

where

A is the amount designated in respect of the property in the election, and

B is the amount, if any, that would, if the disposition were a disposition for the purpose of section 7 or 35, be included under that section as a result of the disposition in computing the income of the elector, and

(B) the adjusted cost base to the elector of the property immediately before the disposition, and

(ii) to have been reacquired by the elector immediately after that time at a cost equal to

(A) where the property is an interest in or a share of the capital stock of a flow-through entity (within the meaning assigned by subsection 39.1(1)) of the elector, the cost to the elector of the property immediately before the disposition referred to in subparagraph (i),

(B) where an amount would, if the disposition referred to in subparagraph (i) were a disposition for the purpose of section 7 or 35, be included under that section as a result of the disposition in computing the income of the elector, the lesser of

(I) the elector's proceeds of disposition of the property determined under subparagraph (i), and

(II) the amount determined by the formula

A – B

where

A is the amount, if any, by which the fair market value of the property at that time exceeds the amount that would, if the disposition referred to in subparagraph (i) were a disposition for the purpose of section 7 or 35, be included under that section as a result of the disposition in computing the income of the elector, and

B is the amount that would be determined by the formula in subclause (C)(II) in respect of the property if clause (C) applied to the property, and

(C) in any other case, the lesser of

(I) the designated amount, and

(II) the amount, if any, by which the fair market value of the property at that time exceeds the amount determined by the formula

A – 1.1B

where

A is the designated amount, and

B is the fair market value of the property at that time;

(*b*) a business carried on by the elector (otherwise than as a member of a partnership) on February 22, 1994,

(i) the amount that would be determined under subparagraph 14(1)(*a*)(v) at the end of that day in respect of the elector if

(A) all the eligible capital property owned at that time by the elector in respect of the business were disposed of by the elector immediately before that time for proceeds of disposition equal to the amount designated in the election in respect of the business, and

(B) the fiscal period of the business ended at that time

shall be deemed to be a taxable capital gain of the elector for the taxation year in which the fiscal period of the business that includes that time ends from the disposition of a particular property and, for the purposes of this section, the particular property shall be deemed to have been disposed of by the elector at that time, and

(ii) for the purpose of paragraph 14(3)(*b*), the amount of the taxable capital gain determined under subparagraph (i) shall be deemed to have been claimed, by a person who does not deal at arm's length with each person or partnership that does not deal at arm's length with the elector, as a deduction under this section in respect of a disposition at that time of the eligible capital property; and

(*c*) an interest owned at the end of February 22, 1994 by the elector in a trust referred to in any of paragraphs (*f*) to (*j*) of the definition "flow-through entity" in subsection 39.1(1), the elector shall be deemed to have a capital gain for the year from the disposition on February 22, 1994 of property equal to the lesser of

(i) the total of amounts designated in elections made under this subsection by the elector in respect of interests in the trust, and

(ii) 4/3 of the amount that would, if all of the trust's capital properties were disposed of at the end of February 22, 1994 for proceeds of disposition equal to their fair market value at that time and

that portion of the trust's capital gains and capital losses or its net taxable capital gains, as the case may be, arising from the dispositions as can reasonably be considered to represent the elector's share thereof were allocated to or designated in respect of the elector, be the increase in the annual gains limit of the elector for the 1994 taxation year as a result of the dispositions.

History: S. 110.6(19) was added by S.C. 1995, c. 3, s. 32(12), applicable to the 1994 and subsequent taxation years.

Editorial Note: The special election under subsection 110.6(19) was available for properties held on February 22, 1994. The provision allowed the taxpayer to trigger gain on properties held on that date in order to claim the exemption.

Related Sections: S. 53(1)(*p*) Adjustments to cost base — Flow-through entity, after 2004; s. 53(1)(*r*) Adjustments to cost base — Flow-through entity, before 2005; s. 87(2)(*bb*.1) Flow-through entities; s. 107(2.2) Flow-through entity; s. 144(1), "unused portion of a beneficiary's exempt capital gains balance".

Interpretation Bulletins: *Secondary* — IT-120R6 Principal Residence; IT-379R Employees Profit Sharing Plans — Allocations to Beneficiaries.

► 110.6(20) ◄

(20) Application of subsection (19). Subsection (19) applies to a property or to a business, as the case may be, of an elector only if

(*a*) where the elector is an individual (other than a trust),

(i) its application to all of the properties in respect of which elections were made under that subsection by the elector or a spouse or common-law partner of the elector and to all the businesses in respect of which elections were made under that subsection by the elector

(A) would result in an increase in the amount deductible under subsection (3) in computing the taxable income of the elector or a spouse or common-law partner of the elector, and

(B) in respect of each of the 1994 and 1995 taxation years,

(I) where no part of the taxable capital gain resulting from an election by the elector is included in computing the income of a spouse or common-law partner of the elector, would not result in the amount determined under paragraph (3)(*a*) for the year in respect of the elector being exceeded by the lesser of the amounts determined under paragraphs (3)(*b*) and (*c*) for the year in respect of the elector, and

(II) where no part of the taxable capital gain resulting from an election by the elector is included in computing the income of the elector, would not result in the amount determined under paragraph (3)(*a*) for the year in respect of a spouse or common-law partner of the elector being exceeded by the lesser of the amounts determined under paragraphs (3)(*b*) and (*c*) for the year in respect of the spouse or common-law partner,

(ii) the amount designated in the election in respect of the property exceeds $^{11}/_{10}$ of its fair market value at the end of February 22, 1994, or

(iii) the amount designated in the election in respect of the business is $1.00 or exceeds $^{11}/_{10}$ of the fair market value at the end of February 22, 1994 of all the eligible capital property owned at that time by the elector in respect of the business; and

(*b*) where the elector is a personal trust, its application to all of the properties in respect of which an election was made under that subsection by the elector would result in

(i) an increase in the amount deemed by subsection 104(21.2) to be a taxable capital gain of an individual (other than a trust) who was a beneficiary under the trust at the end of February 22, 1994 and resident in Canada at any time in the individual's taxation year in which the trust's taxation year that includes that day ends, or

(ii) where subsection (12) applies to the trust for the trust's taxation year that includes that day, an increase in the amount deductible under that subsection in computing the trust's taxable income for that year.

History: S. 110.6(20)(*a*)(i) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.4), applicable January 1, 2001, coming into force on July 31, 2000. S. 110.6(20)(*a*)(i) formerly read:

"(i) its application to all of the properties in respect of which elections were made under that subsection by the elector or a spouse of the elector and to all the businesses in respect of which elections were made under that subsection by the elector

(A) would result in an increase in the amount deductible under subsection (3) in computing the taxable income of the elector or a spouse of the elector, and

(B) in respect of each of the 1994 and 1995 taxation years,

(I) where no part of the taxable capital gain resulting from an election by the elector is included in computing the income of a spouse of the elector, would not result in the amount determined under paragraph (3)(*a*) for the year in respect of the elector being exceeded by the lesser of the amounts determined under paragraphs (3)(*b*) and (*c*) for the year in respect of the elector, and

(II) where no part of the taxable capital gain resulting from an election by the elector is included in computing the income of the elector, would not result in the amount determined under paragraph (3)(*a*) for the year in respect of a spouse of the elector being exceeded by the lesser of the amounts determined under paragraphs (3)(*b*) and (*c*) for the year in respect of the spouse,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 110.6(20) was added by S.C. 1995, c. 3, s. 32(12), applicable to the 1994 and subsequent taxation years.

► 110.6(21) ◄

(21) Effect of election on non-qualifying real property. Where an elector is deemed by subsection (19) to have disposed of a non-qualifying real property,

(*a*) in computing the elector's taxable capital gain from the disposition, there shall be deducted the amount determined by the formula

$$0.75(A - B)$$

where

A is the elector's capital gain from the disposition, and

B is the elector's eligible real property gain from the disposition; and

(*b*) in determining at any time after the disposition the capital cost to the elector of the property where it is a depreciable property and the adjusted cost base to the elector of the property in any other case (other than where the property was at the end of February

22, 1994 an interest in or a share of the capital stock of a flow-through entity within the meaning assigned by subsection 39.1(1)), there shall be deducted 4/3 of the amount determined under paragraph (*a*) in respect of the property.

History: S. 110.6(21) was added by S.C. 1995, c. 3, s. 32(12), applicable to the 1994 and subsequent taxation years.

► 110.6(22) ◄

(22) Adjusted cost base. Where an elector is deemed by paragraph (19)(*a*) to have reacquired a property, there shall be deducted in computing the adjusted cost base to the elector of the property at any time after the reacquisition the amount, if any, by which

(*a*) the amount determined by the formula

$$A - 1.1B$$

where

A is the amount designated in the election under subsection (19) in respect of the property, and

B is the fair market value of the property at the end of February 22, 1994

exceeds

(*b*) where the property is an interest in or a share of the capital stock of a flow-through entity (within the meaning assigned by subsection 39.1(1)), 4/3 of the taxable capital gain that would have resulted from the election if the amount designated in the election were equal to the fair market value of the property at the end of February 22, 1994 and, in any other case, the fair market value of the property at the end of February 22, 1994.

History: S. 110.6(22) was added by S.C. 1995, c. 3, s. 32(12), applicable to the 1994 and subsequent taxation years.

► 110.6(23) ◄

(23) Disposition of partnership interest. Where an elector is deemed by subsection (19) to have disposed of an interest in a partnership, in computing the adjusted cost base to the elector of the interest immediately before the disposition

(*a*) there shall be added the amount determined by the formula

$$(A - B) \times \frac{C}{D} + E$$

where

A is the total of all amounts each of which is the elector's share of the partnership's income (other than a taxable capital gain from the disposition of a property) from a source or from sources in a particular place for its fiscal period that includes February 22, 1994,

B is the total of all amounts each of which is the elector's share of the partnership's loss (other than an allowable capital loss from the disposition of a property) from a source or from sources in a particular place for that fiscal period,

C is the number of days in the period that begins the first day of that fiscal period and ends February 22, 1994,

D is the number of days in that fiscal period, and

E is 4/3 of the amount that would be determined under paragraph 3(*b*) in computing the elector's income for the taxation year in which that fiscal period ends if the elector had no taxable capital gains or allowable capital losses other than those arising from dispositions of property by the partnership that occurred before February 23, 1994; and

(*b*) there shall be deducted the amount that would be determined under paragraph (*a*) if the formula in that paragraph were read as

$$"(B - A) \times \frac{C}{D} - E"$$

History: S. 110.6(23) was added by S.C. 1995, c. 3, s. 32(12), applicable to the 1994 and subsequent taxation years.

► 110.6(24) ◄

(24) Time for election. An election made under subsection (19) shall be filed with the Minister

(*a*) where the elector is an individual (other than a trust),

(i) if the election is in respect of a business of the elector, on or before the individual's filing-due date for the taxation year in which the fiscal period of the business that includes February 22, 1994 ends, and

(ii) in any other case, on or before the individual's balance-due day for the 1994 taxation year; and

(*b*) where the elector is a personal trust, on or before March 31 of the calendar year following the calendar year in which the taxation year of the trust that includes February 22, 1994 ends.

History: S. 110.6(24)(*a*)(i) was amended by S.C. 1996, c. 21, s. 21(1), applicable to the 1995 and subsequent taxation years. S. 110.6(24)(*a*)(i) formerly read:

"(i) if the election is in respect of a business of the elector, on or before the individual's balance-due day for the taxation year in which the fiscal period of the business that includes February 22, 1994 ends, and"

S. 110.6(24) was added by S.C. 1995, c. 3, s. 32(12), applicable to the 1994 and subsequent taxation years.

Related Sections: S. 248(1), "filing-due date".

► 110.6(25) ◄

(25) Revocation of election. Subject to subsection (28), an elector may revoke an election made under subsection (19) by filing a written notice of the revocation with the Minister before 1998.

History: S. 110.6(25) was added by S.C. 1995, c. 3, s. 32(12), applicable to the 1994 and subsequent taxation years.

► 110.6(26) ◄

(26) Late election. Where an election made under subsection (19) is filed with the Minister after the day (referred to in this subsection and subsections (27) and (29) as the "election filing date") on or before which the election is required by subsection (24) to have been filed and on or before the day that is 2 years after the election filing date, the election shall be deemed for the purposes of this section (other than subsection (29)) to have been filed on the election filing date if an estimate of the penalty in respect of the election is paid by the elector when the election is filed with the Minister.

History: S. 110.6(26) was added by S.C. 1995, c. 3, s. 32(12), applicable to the 1994 and subsequent taxation years.

► 110.6(27) ◄

(27) Amended election. Subject to subsection (28), an election under subsection (19) in respect of a property

or a business is deemed to be amended and the election, as amended, is deemed for the purpose of this section (other than subsection (29)) to have been filed on the election filing date if

(*a*) an amended election in prescribed form in respect of the property or the business is filed with the Minister before 1998; and

(*b*) an estimate of the penalty, if any, in respect of the amended election is paid by the elector when the amended election is filed with the Minister.

History: S. 110.6(27), the portion before paragraph (*a*), was amended by S.C. 1998, c. 19, s. 130(3), applicable to the 1994 and subsequent taxation years. That part formerly read:

"(27) *Amended election.* Subject to subsection (28), an election made under subsection (19) in respect of a property or a business shall be deemed to be amended and the election, as amended, shall be deemed to have been filed on the election filing date if"

S. 110.6(27) was added by S.C. 1995, c. 3, s. 32(12), applicable to the 1994 and subsequent taxation years.

► 110.6(28) ◄

(28) Election that cannot be revoked or amended. An election under subsection (19) cannot be revoked or amended where the amount designated in the election exceeds $^{11}/_{10}$ of

(*a*) if the election is in respect of a property other than an interest in a partnership, the fair market value of the property at the end of February 22, 1994;

(*b*) if the election is in respect of an interest in a partnership, the greater of $1 and the fair market value of the property at the end of February 22, 1994; and

(*c*) if the election is in respect of a business, the greater of $1 and the fair market value at the end of February 22, 1994 of all the eligible capital property owned at that time by the elector in respect of the business.

History: S. 110.6(28) was amended by S.C. 1998, c. 19, s. 130(4), applicable to the 1994 and subsequent taxation years. S. 110.6(28) formerly read:

"(28) *Election that cannot be revoked or amended.* An election made under subsection (19) cannot be revoked or amended where the amount designated in the election exceeds $^{11}/_{10}$ of

(*a*) if the election is in respect of a property, the fair market value of the property at the end of February 22, 1994; and

(*b*) if the election is in respect of a business, the fair market value at the end of February 22, 1994 of all the eligible capital property owned at hat time by the elector in respect of the business."

S. 110.6(28) was added by S.C. 1995, c. 3, s. 32(12), applicable to the 1994 and subsequent taxation years.

► 110.6(29) ◄

(29) Amount of penalty. The penalty in respect of an election to which subsection (26) or (27) applies is the amount determined by the formula

$$\frac{A \times B}{300}$$

where

A is the number of months each of which is a month all or part of which is during the period that begins the day after the election filing date and ends the day the election or amended election is filed with the Minister; and

B is the total of all amounts each of which is the taxable capital gain of the elector or a spouse or common-law partner of the elector that results from the application of subsection (19) to the property or the business in respect of which the election is made less, where subsection (27) applies to the election, the total of all amounts each of which would, if the Act were read without reference to subsections (20) and (27), be the taxable capital gain of the elector or a spouse or common-law partner of the elector that resulted from the application of subsection (19) to the property or the business.

History: S. 110.6(29), the description of B, was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.4), applicable January 1, 2001, coming into force on July 31, 2000. S. 110.6(29), the description of B formerly read:

"B is the total of all amounts each of which is the taxable capital gain of the elector or a spouse of the elector that results from the application of subsection (19) to the property or the business in respect of which the election is made less, where subsection (27) applies to the election, the total of all amounts each of which would, if the Act were read without reference to subsections (20) and (27), be the taxable capital gain of the elector or a spouse of the elector that resulted from the application of subsection (19) to the property or the business."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 110.6(29) was added by S.C. 1995, c. 3, s. 32(12), applicable to the 1994 and subsequent taxation years.

► 110.6(30) ◄

(30) Unpaid balance of penalty. The Minister shall, with all due dispatch, examine each election to which subsection (26) or (27) applies, assess the penalty payable and send a notice of assessment to the elector who made the election, and the elector shall pay forthwith to the Receiver General the amount, if any, by which the penalty so assessed exceeds the total of all amounts previously paid on account of that penalty.

History: S. 110.6(30) was added by S.C. 1995, c. 3, s. 32(12), applicable to the 1994 and subsequent taxation years.

► 110.6(31) ◄

(31) Conditions for the application of subsection (32). Subsection (32) applies to an individual for a taxation year that begins after March 19, 2007 if

(*a*) in the taxation year the individual has a taxable capital gain from the disposition, before March 19, 2007, of a qualified small business corporation share of the individual, a qualified farm property of the individual or a qualified fishing property of the individual; and

(*b*) the total of all amounts each of which is an amount of a taxable capital gain of the individual described in paragraph (*a*) exceeds the amount that would be determined under paragraph (2)(*a*) in respect of the individual for the taxation year were the reference to "$375,000" in that paragraph read as a reference to "$250,000" (the amount of which excess is referred to in subsection (32) as the "denied excess").

History: S. 110.6(31) was added by S.C. 2007, c. 35, s. 31(8), applicable to taxation years that end on or after March 19, 2007.

► 110.6(32) ◄

(32) Deduction denied. Notwithstanding subsections (2) to (2.3), if this subsection applies to an individual for a taxation year, no amount may be deducted under this section for the taxation year by the individual in respect of the individual's taxable capital gains for the year described in paragraph (31)(*a*) to the extent of the denied excess.

History: S. 110.6(32) was added by S.C. 2007, c. 35, s. 31(8), applicable to taxation years that end on or after March 19, 2007.

SECTION 110.7:

► 110.7(1) ◄

(1) Residing in prescribed zone. Where, throughout a period (in this section referred to as the "qualifying period") of not less than 6 consecutive months beginning or ending in a taxation year, a taxpayer who is an individual has resided in one or more particular areas each of which is a prescribed northern zone or prescribed intermediate zone for the year and files for the year a claim in prescribed form, there may be deducted in computing the taxpayer's taxable income for the year

(*a*) the total of all amounts each of which is the product obtained by multiplying the specified percentage for a particular area for the year in which the taxpayer so resided by an amount received, or the value of a benefit received or enjoyed, in the year by the taxpayer in respect of the taxpayer's employment in the particular area by a person with whom the taxpayer was dealing at arm's length in respect of travel expenses incurred by the taxpayer or another individual who was a member of the taxpayer's household during the part of the year in which the taxpayer resided in the particular area, to the extent that

(i) the amount received or the value of the benefit, as the case may be,

(A) does not exceed a prescribed amount in respect of the taxpayer for the period in the year in which the taxpayer resided in the particular area,

(B) is included and is not otherwise deducted in computing the taxpayer's income for the year or any other taxation year, and

(C) is not included in determining an amount deducted under subsection 118.2(1) for the year or any other taxation year,

(ii) the travel expenses were incurred in respect of trips made in the year by the taxpayer or another individual who was a member of the taxpayer's household during the part of the year in which the taxpayer resided in the particular area, and

(iii) neither the taxpayer nor a member of the taxpayer's household is at any time entitled to a reimbursement or any form of assistance (other than a reimbursement or assistance included in computing the income of the taxpayer or the member) in respect of travel expenses to which subparagraph (ii) applies; and

(*b*) the lesser of

(i) 20% of the taxpayer's income for the year, and

(ii) the total of all amounts each of which is the product obtained by multiplying the specified percentage for a particular area for the year in which the taxpayer so resided by the total of

(A) $8.25 multiplied by the number of days in the year included in the qualifying period in which the taxpayer resided in the particular area, and

(B) $8.25 multiplied by the number of days in the year included in that portion of the qualifying period throughout which the taxpayer maintained and resided in a self-contained domestic establishment in the particular area (except any day included in computing a deduction claimed under this paragraph by another person who resided on that day in the establishment).

History: S. 110.7(1)(*b*)(ii)(A) and (B) were replaced by S.C. 2008, c. 28, s. 13(1), applicable to the 2008 and subsequent taxation years. S. 110.7(1)(*b*)(ii)(A) and (B) formerly read:

"(A) $7.50 multiplied by the number of days in the year included in the qualifying period in which the taxpayer resided in the particular area, and

(B) $7.50 multiplied by the number of days in the year included in that portion of the qualifying period throughout which the taxpayer maintained and resided in a self-contained domestic establishment in the particular area (except any day included in computing a deduction claimed under this paragraph by another person who resided on that day in the establishment)."

S. 110.7(1)(*a*)(iii) was added by S.C. 1994, c. 7, Sched. VIII, s. 48(1), applicable to the 1992 and subsequent taxation years.

S. 110.7(1) was amended by S.C. 1994, c. 7, Sched. II, s. 82(1). For the application see s. 82(2), c. 7, Sched. II, S.C. 1994, reproduced below. S. 110.7(1) formerly read:

"S. 110.7. *Residing in prescribed area.*

(1) In computing the taxable income for a taxation year of an individual who, throughout a period of not less than 6 months commencing or ending in the year, resided in an area that was a prescribed area for the year or for one of the 2 preceding taxation years and who files a claim in prescribed form with the individual's return of income for the year pursuant to section 150, there may be deducted

(*a*) where the area was a prescribed area for the year, 100%,

(*b*) where the area was not a prescribed area for the year but was a prescribed area for the immediately preceding taxation year, 2/3, and

(*c*) where the area was not a prescribed area for the year or the immediately preceding taxation year but was a prescribed area for the second preceding taxation year, 1/3

of such of the following amounts as are applicable:

(*d*) an amount received, or the value of a benefit received or enjoyed, in the year by the individual in respect of the individual's employment in the area by a person with whom the individual was dealing at arm's length in respect of travel expenses incurred by the individual, to the extent that

(i) the amount received or the value of the benefit, as the case may be,

(A) does not exceed a prescribed amount,

(B) is included and is not otherwise deducted in computing the individual's income for the year, and

(C) is not included in determining an amount deducted under subsection 118.2(1) for the year or any other taxation year, and

(ii) the travel expenses were incurred in connection with

(A) a trip made in the year for the purpose of obtaining medical services not available in the locality in which the individual resided, or

(B) not more than two trips made in the year for a purpose other than to obtain medical services not available in the locality in which the individual resided, and

(*e*) subject to subsection (2), the lesser of

(i) 20% of the individual's income for the year, and

(ii) the total of

(A) $450 multiplied by the quotient obtained when the number of days in the year included in that portion of the period throughout which the individual maintained and resided in a self-contained domestic establishment (except any day included in computing a deduction claimed under this paragraph by another person who resided on that day in the establishment) is divided by 30, and

(B) $225 multiplied by the amount, if any, by which

(I) the quotient obtained when the number of days in the year included in the period is divided by 30 exceeds

(II) the quotient determined under clause (A)."

Editorial Note: Individuals residing in a prescribed northern zone or a prescribed intermediate zone (see the definition in Regulation 7303.1) for a period of at least six consecutive months beginning or ending in the taxation year may enclose a Form T2222 with their tax return to claim a northern residents deduction in respect of the period. The deduction has two components.

(1) A travel deduction for travel benefits received from an arm's length employer in respect of trips for obtaining medical services not available locally or a maximum of two annual non-medical trips provided the following conditions are met: (i) the trips are taken by the individual or by members of the individual's household, and (ii) the travel benefits are included in the individual's income, are not deductible from income, are not taken into account to calculate the medical expenses tax credit, and do not exceed prescribed amounts described in Regulation 7304.

(2) A residency deduction for living expenses incurred by the individual and his or her family in the prescribed zone that would include the lesser of: (i) 20% of the individual's annual income and (ii) the total of $8.25 per day of residence in the prescribed zone, and an extra $8.25 for each day for which

they resided in a self-contained domestic establishment and no other individual claimed the basic $8.25 deduction.

Residents of the prescribed northern zone may claim the full northern residents deduction while residents of the prescribed intermediate zone may claim only 50% of it. Individuals with their principal place residence located outside the prescribed zones but residing at a special work site located in one of them may not claim both the exemption in s. 6(6) and the northern residents deduction in s. 110.7(1). For a list of the various places located in each prescribed zone, see Guide T1039.

Related Sections: S. 111.1 Order of applying provisions; s. 248(1), "self-contained domestic establishment".
Regulations: 7303.1; 7304.
Forms: T2222.
Guides: RC4054 Ceiling Amounts for Housing Benefits Paid in Prescribed Zones; T4039 Northern Residents Deductions; T4130 Employers Guide to Payroll Deductions – Taxable Benefits.

Sec. 82(2), Sched. II, Chap. 7, S.C. 1994

(2) [Application of sec. 110.7 for the 1988 to 1990 taxation years.] Section 110.7, as amended by subsection (1), is applicable to the 1988 and subsequent taxation years, except that

(*a*) for the 1988 to 1990 taxation years,

(i) paragraph 110.7(1)(*b*) shall be read as follows:

"(*b*) subject to subsections (4) and (6), the total of all amounts each of which is the product obtained by multiplying the specified percentage for a particular area for the year in which the taxpayer so resided by the lesser of

(i) 20% of the taxpayer's income for the year, and

(ii) the total of

(A) $450 multiplied by the quotient obtained when the number of days in the year included in that portion of the qualifying period throughout which the taxpayer maintained and resided in a self-contained domestic establishment in the particular area (except any day included in computing a deduction claimed under this paragraph by another person who resided on that day in the establishment) is divided by 30, and

(B) $225 multiplied by the amount, if any, by which

(I) the quotient obtained when the number of days in the year included in the qualifying period in which the taxpayer resided in the particular area is divided by 30

exceeds

(II) the quotient determined under clause (A),"

and

(ii) section 110.7 shall be read as including the following subsections:

"**(6)** Subject to subsection (7), where a quotient determined under paragraph (1)(*b*) is not a whole number, it shall be rounded to the nearest whole number or, where it is equidistant from 2 such consecutive whole numbers, it shall be rounded to the higher thereof.

(7) Where, in a taxation year, a taxpayer resided in more than one particular area each of which is an area referred to in subsection (2) for the year, for the purpose of computing the amount deductible under subsection (1) in computing the taxpayer's taxable income for the year, the total of all amounts each of which is a quotient determined under paragraph (1)(*b*) in respect of any such area for the year shall not exceed the total of such amounts that would have been obtained for the year if the taxpayer had resided in only one such area throughout the portion of the qualifying period included in the year.

(8) Where 2 or more taxpayers not dealing with each other at arm's length resided in the same self-contained domestic establishment for periods in a taxation year, for the purpose of computing the amounts deductible under subsection (1) in computing the taxable incomes of those taxpayers for the year, the total of all quotients determined for the year under clause (1)(*b*)(ii)(A) in respect of the establishment shall not exceed the amount that would be the quotient determined under that clause in respect of the establishment for the year if the establishment had been maintained by only one such taxpayer for the total of those periods." and

(*b*) for the 1988 to 1994 taxation years,

(i) the portion of subsection 110.7(1) preceding paragraph (*a*) thereof shall be read as follows:

"**(1)** Where, throughout a period (in this section referred to as the 'qualifying period') of not less than 6 consecutive months beginning or ending in a taxation year, a taxpayer who is an individual has resided in one or more particular areas each of which is a prescribed area for the year or for one of the 2 preceding taxation years or a prescribed northern zone or prescribed intermediate zone for the year, and the taxpayer files for the year a claim in prescribed form, there may be deducted in computing the taxpayer's taxable income for the year,"

(ii) subsection 110.7(2) shall be read as follows:

"**(2)** For the purpose of subsection (1), the specified percentage for a particular area for a taxation year is

(*a*) where the area is a prescribed area for the year or a prescribed northern zone for the year, 100%;

(*b*) except as otherwise provided in paragraph (*a*), where the area was a prescribed area for the immediately preceding taxation year, 66⅔%;

(*c*) except as otherwise provided in paragraph (*a*) or (*b*), where the area is a prescribed intermediate zone for the year, 50%; and

(*d*) except as otherwise provided in paragraph (*a*), (*b*) or (*c*), where the area was a prescribed area for the second preceding taxation year, 33⅓%." and

(iii) paragraph 110.7(4)(*b*) shall be read as follows:

"(*b*) can reasonably be considered to be attributable to that portion of the qualifying period that is in the year and during which the taxpayer maintained a self-contained domestic establishment as the taxpayer's principal place of residence in an area other than a prescribed area, prescribed northern zone or prescribed intermediate zone for the year."

► 110.7(2) ◄

(2) Specified percentage. For the purpose of subsection (1), the specified percentage for a particular area for a taxation year is

(*a*) where the area is a prescribed northern zone for the year, 100%; and

(*b*) where the area is a prescribed intermediate zone for the year, 50%.

History: S. 110.7(2) was amended by S.C. 1994, c. 7, Sched. II, s. 82(1), applicable to the 1988 and subsequent taxation years, but see the special application rules applicable to the 1988 to 1994 taxation years in S.C. 1994, c. 7, Sched. II, s. 82(2) above. S. 110.7(2) formerly read:

"(2) *Restriction.* The amount deductible under paragraph (1)(*e*) shall not exceed the amount by which the total determined under that paragraph exceeds the value of, or an allowance in respect of expenses incurred by the individual referred to in subsection (1) for, the individual's board and lodging

(*a*) that would, but for subparagraph 6(6)(*a*)(i), be included in computing the individual's income for the year; and

(*b*) that can reasonably be considered to be attributable to that portion of the period referred to in subsection (1) during which the individual maintained a self-contained domestic establishment as the individual's principal place of residence in an area other than a prescribed area."

► 110.7(3) ◄

(3) Restriction. The total determined under paragraph (1)(*a*) for a taxpayer in respect of travel expenses incurred in a taxation year in respect of an individual shall not be in respect of more than 2 trips made by the individual in the year, other than trips to obtain medical services that are not available in the locality in which the taxpayer resided.

History: S. 110.7(3) was amended by S.C. 1994, c. 7, Sched. II, s. 82(1), applicable to the 1988 and subsequent taxation years. S. 110.7(3) formerly read:

"(3) *Whole number.* For the purposes of subparagraph (1)(*e*)(ii), where a quotient is not a whole number, it shall be rounded to the nearest whole number or where it is equidistant from two consecutive whole numbers, it shall be rounded to the higher thereof."

► 110.7(4) ◄

(4) Board and lodging allowances, etc. The amount determined under subparagraph (1)(*b*)(ii) for a particular area for a taxpayer for a taxation year shall not exceed the amount by which the amount otherwise determined under that subparagraph for the particular area for the year exceeds the value of, or an allowance in respect of expenses incurred by the taxpayer for, the taxpayer's board and lodging in the particular area (other than at a work site described in paragraph 67.1(2)(*e*)) that

(*a*) would, but for subparagraph 6(6)(*a*)(i), be included in computing the taxpayer's income for the year; and

(*b*) can reasonably be considered to be attributable to that portion of the qualifying period that is in the year and during which the taxpayer maintained a self-contained domestic establishment as the taxpayer's principal place of residence in an area other than a prescribed northern zone or a prescribed intermediate zone for the year.

History: S. 110.7(4), the portion before paragraph (*a*), was amended by S.C. 1999, c. 22, s. 27(1), applicable to the 1998 and subsequent taxation years. S. 110.7(4), the portion before paragraph (*a*) formerly read:

"(4) *Idem.* The amount determined under subparagraph (1)(*b*)(ii) for a particular area for a taxpayer for a taxation year shall not exceed the amount by which the amount otherwise determined under that subparagraph for the particular area for the year exceeds the value of, or an allowance in respect of expenses incurred by the taxpayer for, the taxpayer's board and lodging in the particular area that"

S. 110.7(4) was added by S.C. 1994, c. 7, Sched. II, s. 82(1), applicable to the 1988 and subsequent taxation years. For the application of paragraph (*b*) to the 1988 to 1994 taxation years see S.C. 1994, c. 7, Sched. II, s. 82(2) above.

► 110.7(5) ◄

(5) Idem. Where on any day an individual resides in more than one particular area referred to in subsection (1), for the purpose of that subsection, the individual shall be deemed to reside in only one such area on that day.

History: S. 110.7(5) was added by S.C. 1994, c. 7, Sched. II, s. 82(1), applicable to the 1988 and subsequent taxation years.

Cases: Even if the words "prescribed area" could in 1988 refer to the new concepts of "prescribed northern zone" or "prescribed intermediate zone", the taxpayers had not lived in such an area and their claims for the deduction had to be disallowed despite the fact that the Minister had allowed it in 1987. *Catton et al. v. The Queen,* 93 DTC 117 (T.C.C.).

SECTION 111:

► 111(1) ◄

(1) Losses deductible. For the purpose of computing the taxable income of a taxpayer for a taxation year, there may be deducted such portion as the taxpayer may claim of the taxpayer's

Related Sections: S. 2(2) Taxable income; s. 2(3) Tax payable by non-resident persons; s. 3 Income for taxation year; s. 9 Income or loss from business or property; s. 31 Loss from farming where chief source of income not farming; s. 87(2.1) Non-capital losses, etc., of predecessor corporations; s. 87(2.11) Vertical amalgamations; s. 88(1.1) Non-capital losses, etc., of subsidiary; s. 88(1.2) Net capital losses of subsidiary; s. 88(1.3) Computation of income and tax of parent; s. 89(4) GRIP addition — becoming CCPC; s. 89(5) GRIP addition — post-amalgamation; s. 89(6) GRIP addition — post-winding-up; s. 89(7) GRIP addition for 2006; s. 89(8) LRIP addition — ceasing to be CCPC; s. 89(9) LRIP addition — amalgamation; s. 89(10) LRIP addition — winding-up; s. 89(11) Election: non-CCPC; s. 96(2.2) At-risk amount; s. 111(3) Limitation on deductibility; s. 111(8) Definitions; s. 111.1 Order of applying provisions; s. 114 Individual resident in Canada for only part of year; s. 115(1) Non-resident's taxable income in Canada; s. 164(5) Effect of carryback of loss, etc. s. 256(7) Acquiring control; s. 256(8) Deemed exercise of right.

Interpretation Bulletins: *Primary* — IT-232R3 Losses — Their deductibility in the loss year or in other years. *Secondary* — IT-151R5 (Consolid.) — Scientific research and experimental development expenditures; IT-151R4 Scientific research and experimental development expenditures [Archived by the CRA]; IT-171R2 Non-resident individuals — Computation of taxable income earned in Canada and non-refundable tax credits [Archived by the CRA]; IT-262R2 Losses of non-residents and part-year residents; IT-302R3 Losses of a corporation — The effect that acquisitions of control, amalgamations, and windings-up have on their deductibility — After January 15, 1987; IT-322R Farm losses; IT-381R3 Trusts — Deduction of amounts paid or payable to beneficiaries and flow-through of taxable capital gains to beneficiaries; IT-474R2 Amalgamations of Canadian corporations.

Income Tax Technical News: Issue No. 30, Corporate Loss Utilization Transactions.

Forms: T1A; T2 SCH 4; T3A.

► 111(1)(a) ◄

(a) Non-capital losses — non-capital losses for the 20 taxation years immediately preceding and the 3 taxation years immediately following the year;

History: S. 111(1)(*a*) was replaced by S.C. 2006, c. 4, s. 57(1), applicable in respect of losses that arise in the 2006 and subsequent taxation years.

S. 111(1)(*a*) formerly read:

"(*a*) *Non-capital losses* — non-capital losses for the 10 taxation years immediately preceding and the 3 taxation years immediately following the year;"

S. 111(1)(*a*) was replaced by S.C. 2005, c. 19, s. 20(1), applicable in respect of losses that arise in taxation years that end after March 22, 2004. S. 111(1)(*a*) formerly read:

"(*a*) *Non-capital losses* — non-capital losses for the 7 taxation years immediately preceding and the 3 taxation years immediately following the year;"

Editorial Note: Historically, allowable business investment losses (ABILs) formed part of a taxpayer's non-capital loss until the expiration of the carryforward period in paragraph 111(1)(*a*). However, for the 2006 and subsequent taxation years, the non-capital loss carryforward period was extended from 10 years to 20 years, while the corresponding ABIL carryforward period was not extended beyond 10 years (subsection 111(8) "non-capital loss"). Therefore, ABILs remain part of a taxpayer's non-capital losses in the year in which they are sustained and in the following 10 years to the extent they are not utilized. If they are not utilized within the 10-year period, they become net capital losses subject to the indefinite carryforward period in paragraph 111(1)(*b*), although in such case they are only deductible against taxable capital gains (subject to the year of death rules in subsection 111(2)).

Related Sections: S. 80(3) Reductions of non-capital losses; s. 80(4) Reductions of capital losses; s. 87(2.1) Non-capital losses, etc., of predecessor corporations; s. 87(2.11) Vertical amalgamations; s. 88(1.1) Non-capital losses, etc., of subsidiary; s. 88(1.2) Net capital losses of subsidiary; s. 88(1.3) Computation of income and tax of parent; s. 111(3) Limitation on deductibility; s. 111(5) Deduction of non-capital or farm losses; s. 111(5.4) Non-capital loss; s. 111(8), "non-capital loss"; s. 111(9) Exception; s. 111(7.2) Non-capital loss of life insurer; s. 111(8) Definitions; s. 125.3(3) Acquisition of

control; s. 127(9.1) Control acquired before the end of the year; s. 127(9.2) Control acquired after the end of the year; s. 152(1.1) Determination of losses; s. 152(1.2) Provisions applicable; s. 152(1.3) Determination binding; s. 186(1) Tax on assessable dividends; s. 190.1(6) Acquisition of control; s. 256(7) Acquiring control; s. 256(8) Deemed exercise of right.

Interpretation Bulletins: *Secondary* — IT-484R Business investment losses.

Information Circulars: IC 88-2 General anti-avoidance rule — Section 245 of the Income Tax Act (para. 8).

Forms: T3A.

Tax Profile: March 2004 — Loss Planning.

Tax Window Files: Consequential Assessments — Non-Capital Loss Carryover, February 7, 2006, CRA Document No. 2005-0122381E5; Bonus to Shareholder/Manager — Loss Carryback, July 21, 2004, CRA Document No. 2004-0072741R3.

► 111(1)(b) ◄

(b) **Net capital losses** — net capital losses for taxation years preceding and the three taxation years immediately following the year;

Editorial Note: Allowable business investment losses (ABILs) that are not utilized as non-capital losses in the year in which they are sustained or in the following 10 years become net capital losses; see the definitions of "net capital loss" and "non-capital loss" in subsection 111(8).

Related Sections: S. 3(*b*) Income for taxation year; s. 38 Taxable capital gain and allowable capital loss; s. 41(2) Determination of net gain; s. 80(4) Reductions of capital losses; s. 87(2.1) Non-capital losses, etc., of predecessor corporations; s. 87(2.11) Vertical amalgamations; s. 88(1.2) Net capital losses of subsidiary; s. 88(1.3) Computation of income and tax of parent; s. 104(21.3) Net taxable capital gains of trust determined; s. 110.6(1), "annual gains limit; s. 111(1.1) Net capital losses; s. 111(2) Year of death; s. 111(3) Limitation on deductibility; s. 111(4) Acquisition of control; s. 111(8) Definitions; s. 111(9) Exception; s. 126(1) Foreign tax deduction — non-business income; s. 129(3) Definition of "refundable dividend tax on hand"; s. 129(4), "aggregate investment income"; s. 152(1.1) Determination of losses; s. 152(1.2) Provisions applicable; s. 152(1.3) Determination binding; s. 164(6) Where disposition of property by legal representative of deceased taxpayer; s. 256(7) Acquiring control; s. 256(8) Deemed exercise of right.

Interpretation Bulletins: *Secondary* — IT-98R2 Investment corporations [Archived by the CRA]; IT-395R2 Foreign tax credit — Foreign-source capital gains and losses.

Forms: T3A.

Tax Window Files: Carry Back of Capital Losses by Estate, December 21, 2006, CRA Document No. 2006-0216261I7.

► 111(1)(c) ◄

(c) **Restricted farm losses** — restricted farm losses for the 20 taxation years immediately preceding and the 3 taxation years immediately following the year, but no amount is deductible for the year in respect of restricted farm losses except to the extent of the taxpayer's incomes for the year from all farming businesses carried on by the taxpayer;

History: S. 111(1)(*c*) was replaced by S.C. 2006, c. 4, s. 57(2), applicable in respect of losses that arise in the 2006 and subsequent taxation years.

S. 111(1)(*c*) formerly read:

"(*c*) *Restricted farm losses* — restricted farm losses for the 10 taxation years immediately preceding and the 3 taxation years immediately following the year, but no amount is deductible for the year in respect of restricted farm losses except to the extent of the taxpayer's incomes for the year from all farming businesses carried on by the taxpayer;"

Editorial Note: "Restricted farm loss" is defined in subsection 31(1.1).

Related Sections: S. 31 Loss from farming where chief source of income not farming; s. 80(3) Reductions of non-capital losses; s. 87(2.1) Non-capital losses, etc., of predecessor corporations; s. 88(1.1) Non-capital losses, etc., of subsidiary; s. 111(3) Limitation on deductibility; s. 111(5) Deduction of non-capital or farm losses; s. 111(9) Exception; s. 152(1.1) Determination of losses; s. 152(1.2) Provisions applicable; s. 152(1.3) Determination binding; s. 256(7) Acquiring control; s. 256(8) Deemed exercise of right.

Forms: T3A.

Guides: RC4408 Farming Income and the CAIS Program Harmonized Guide.

► 111(1)(d) ◄

(d) **Farm losses** — farm losses for the 20 taxation years immediately preceding and the 3 taxation years immediately following the year; and

History: S. 111(1)(*d*) was replaced by S.C. 2006, c. 4, s. 57(2), applicable in respect of losses that arise in the 2006 and subsequent taxation years.

S. 111(1)(*d*) formerly read:

"(*d*) *Farm losses* — farm losses for the 10 taxation years immediately preceding and the 3 taxation years immediately following the year; and"

Related Sections: S. 28(1) Farming or fishing business; s. 80(3) Reductions of non-capital losses; s. 87(2.1) Non-capital losses, etc., of predecessor corporations; s. 88(1.1) Non-capital losses, etc., of subsidiary; s. 111(3) Limitation on deductibility; s. 111(5) Deduction of non-capital or farm losses; s. 111(8), "farm loss"; s. 111(9) Exception; s. 152(1.1) Determination of losses; s. 152(1.2) Provisions applicable; s. 152(1.3) Determination binding; s. 186(1) Tax on assessable dividends; s. 256(7) Acquiring control; s. 256(8) Deemed exercise of right.

Forms: T3A.

Guides: RC4408 Farming Income and the CAIS Program Harmonized Guide.

► 111(1)(e) ◄

(e) **Limited partnership losses** — limited partnership losses in respect of a partnership for taxation years preceding the year, but no amount is deductible for the year in respect of a limited partnership loss except to the extent of the amount by which

(i) the taxpayer's at-risk amount in respect of the partnership (within the meaning assigned by subsection 96(2.2)) at the end of the last fiscal period of the partnership ending in the taxation year

exceeds

(ii) the total of all amounts each of which is

(A) the amount required by subsection 127(8) in respect of the partnership to be added in computing the investment tax credit of the taxpayer for the taxation year,

(B) the taxpayer's share of any losses of the partnership for that fiscal period from a business or property, or

(C) the taxpayer's share of

(I) the foreign resource pool expenses, if any, incurred by the partnership in that fiscal period,

(II) the Canadian exploration expense, if any, incurred by the partnership in that fiscal period,

(III) the Canadian development expense, if any, incurred by the partnership in that fiscal period, and

(IV) the Canadian oil and gas property expense, if any, incurred by the partnership in that fiscal period.

History: S. 111(1)(*e*)(ii)(C)(I) was amended by S.C. 2001, c. 17, s. 87(1), applicable to taxation years that begin after 2000. S. 111(1)(*e*)(ii)(C)(I) formerly read:

"(I) the foreign exploration and development expenses, if any, incurred by the partnership in that fiscal period,"

Editorial Note: Limited partnership losses can be carried forward indefinitely but are subject to the taxpayer's at-risk amount in respect of the partnership that gave rise to the losses. Limited partnership losses cannot be carried back.

Related Sections: S. 53(2)(*c*) Amounts to be deducted — Interest in a partnership; s. 87(2.1) Non-capital losses, etc., of predecessor corporations; s. 88(1.1) Non-capital losses, etc., of subsidiary; s. 96(2.1) Limited partnership losses; s. 96(2.2) At-risk amount; s. 96(2.4) Limited partner; s. 111(3) Limitation on deductibility; s. 111(9) Exception; s. 127.52(1)(i) Adjusted taxable income determined; s. 152(1.1) Determination of losses; s. 152(1.2) Provisions applicable; s. 152(1.3) Determination binding; s. 248(1), "foreign resource pool expenses".

Tax Window Files: Limited Partnership Losses of Tier Partnership, May 14, 2004, CRA Document No. 2004-0062801E5.

► 111(1.1) ◄

(1.1) Net capital losses. Notwithstanding paragraph (1)(*b*), the amount that may be deducted under that paragraph in computing a taxpayer's taxable income for a particular taxation year is the total of

(*a*) the lesser of

(i) the amount, if any, determined under paragraph 3(*b*) in respect of the taxpayer for the particular year, and

(ii) the total of all amounts each of which is an amount determined by the formula

$$A \times \frac{B}{C}$$

where

A is the amount claimed under paragraph (1)(*b*) for the particular year by the taxpayer in respect of a net capital loss for a taxation year (in this paragraph referred to as the "loss year"),

B is the fraction that would be used for the particular year under section 38 in respect of the taxpayer if the taxpayer had a capital loss for the particular year, and

C is the fraction required to be used under section 38 in respect of the taxpayer for the loss year; and

(*b*) where the taxpayer is an individual, the least of

(i) $2,000,

(ii) the taxpayer's pre-1986 capital loss balance for the particular year, and

(iii) the amount, if any, by which

(A) the amount claimed under paragraph (1)(*b*) in respect of the taxpayer's net capital losses for the particular year

exceeds

(B) the total of the amounts in respect of the taxpayer's net capital losses that, using the formula in subparagraph (*a*)(ii), would be required to be claimed under paragraph (1)(*b*) for the particular year to produce the amount determined under paragraph (*a*) for the particular year.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 111(1.1) of the Act is amended by striking out the word "and" at the end of paragraph (*a*), by adding the word "and" at the end of paragraph (*b*) and by adding the following after paragraph (*b*):

(*c*) the amount, if any, that the Minister determines to be reasonable in the circumstances, after considering the application of subsections 104(21.6), 130.1(4), 131(1) and 138.1(3.2) to the taxpayer for the particular year.

Applicable: To the 2000 and subsequent taxation years.

Explanatory Note:

Net Capital Losses

Subsection 111(1.1) of the Act determines the amount that a taxpayer may deduct in respect of a net capital loss claimed under paragraph 111(1)(*b*). The 2000 Budget and the 2000 Economic Statement provided for the reduction of the capital gains inclusion rate from 3/4 to 2/3 and then to 1/2, respectively. This reduction in the inclusion rate gave rise to changes to the adjusting factors in subsection 111(1.1). An additional amendment is made to subsection 111(1.1) to permit the Minister of National Revenue to determine a reasonable amount of deduction in respect of net capital loss carryovers where the other rules in that subsection produce inappropriate results.

The amendment to subsection 111(1.1) applies to the 2000 and subsequent taxation years.

History: S. 111(1.1) was amended by S.C. 1994, c. 7, Sched. II, s. 83(1), applicable to the computation of taxable income for the 1985 and subsequent taxation years. S. 111(1.1) formerly read:

"(1.1) Notwithstanding paragraph (1)(*b*), where a taxpayer has claimed an amount under that paragraph for a particular taxation year in respect of the taxpayer's net capital losses, the amount that may be deducted under that paragraph in respect of those losses for that year is the lesser of

(*a*) the total of

(i) the amount, if any, determined under paragraph 3(*b*) in respect of the taxpayer for the particular year, and

(ii) where the taxpayer is an individual, the lesser of

(A) $2,000, and

(B) the taxpayer's pre-1986 capital loss balance for the particular year, and

(*b*) the total of all amounts each of which is an amount determined by the formula

$$A \times \frac{B}{C}$$

where

A is the amount of a net capital loss for a taxation year (in this paragraph referred to as a 'loss year') claimed under paragraph (1)(*b*),

B is the fraction that would be used for the particular year under section 38 in respect of the taxpayer if the taxpayer had a capital loss for that year, and

C is the fraction required to be used under section 38 in respect of the taxpayer for the loss year."

Editorial Note: If a taxpayer's ordinary loss for a year would otherwise be deducted under paragraph 3(*d*) against the taxpayer's taxable capital gains for the year, and the taxpayer has a net capital loss carryforward available, the taxpayer can instead utilize the net capital loss carryforward to offset the taxable capital gains, which will have the effect of preserving the unused ordinary loss as a non-capital loss; see also amounts E and F in subsection 111(8) "non-capital loss", and paragraph 25 of IT-232R3 for an example of this scenario.

Related Sections: S. 3 Income for taxation year; s. 70(5) Capital property of a deceased taxpayer; s. 111(2) Year of death; s. 111(8), "non-capital loss".

► 111(2) ◄

(2) Year of death. Where a taxpayer dies in a taxation year, for the purpose of computing the taxpayer's taxable income for that year and the immediately preceding taxation year, the following rules apply:

(*a*) paragraph (1)(*b*) shall be read as follows:

"(*b*) the taxpayer's net capital losses for all taxation years not claimed for the purpose of computing the taxpayer's taxable income for any other taxation year;"; and

(*b*) paragraph (1.1)(*b*) shall be read as follows:

"(*b*) the amount, if any, by which

(i) the amount claimed under paragraph (1)(*b*) in respect of the taxpayer's net capital losses for the particular year

exceeds the total of

(ii) all amounts in respect of the taxpayer's net capital losses that, using the formula in subparagraph (*a*)(ii), would be required to be claimed under paragraph (1)(*b*) for the particular year to produce the amount determined under paragraph (*a*) for the particular year, and

(iii) all amounts each of which is an amount deducted under section 110.6 in computing the taxpayer's taxable income for a taxation year, except to the extent that, where the particular year is the year in which the taxpayer died, the amount, if

any, by which the amount determined under subparagraph (i) in respect of the taxpayer for the immediately preceding taxation year exceeds the amount so determined under subparagraph (ii)."

History: S. 111(2) was amended by S.C. 1994, c. 7, Sched. II, s. 83(1), applicable with respect to the computation of taxable income for the 1985 and subsequent taxation years. S. 111(2) formerly read as follows:

"(2) Where a taxpayer dies in a taxation year, for the purposes of computing the taxpayer's taxable income for that year and the immediately preceding taxation year, subsection (1.1) shall be read as follows:

'(1.1) Notwithstanding paragraph (1)(*b*), where a taxpayer has claimed an amount under that paragraph for a particular year in respect of the taxpayer's net capital losses, the amount that may be deducted under that paragraph in respect of those losses (to the extent they are not deducted in computing the taxpayer's income for any other taxation year) for that year is the total of

(*a*) an amount not exceeding the amount, if any, determined under paragraph 3(*b*) in respect of the taxpayer for the particular year, equal to the total of all amounts each of which is an amount determined by the formula

$$A \times \frac{B}{C}$$

where

A is the net capital losses for a taxation year (in this paragraph referred to as a "loss year") claimed under paragraph (1)(*b*),

B is the fraction that would be used for the particular year under section 38 in respect of the taxpayer if the taxpayer had a capital loss for that year, and

C is the fraction required to be used under section 38 in respect of the taxpayer for the loss year, and

(*b*) the amount, if any, by which

(i) the amount of the taxpayer's net capital losses claimed under paragraph (1)(*b*) for the particular year

exceeds the total of

(ii) the amount of the taxpayer's net capital losses claimed under paragraph (1)(*b*) that was determined under paragraph (*a*) for the particular year, and

(iii) the total of all amounts each of which is an amount deducted by the taxpayer under section 110.6 in computing the taxpayer's taxable income for a taxation year.'"

Editorial Note: Subsection 111(2) provides an exception to the general rule that net capital losses can only be deducted against taxable capital gains. The provision allows net capital losses, after they are utilized to offset taxable capital gains, and net of any capital gains exemption claimed for any taxation year, to be deducted against all forms of income in the year of an individual's death and the immediately preceding year.

► 111(3) ◄

(3) Limitation on deductibility. For the purposes of subsection (1),

(*a*) an amount in respect of a non-capital loss, restricted farm loss, farm loss or limited partnership loss, as the case may be, for a taxation year is deductible, and an amount in respect of a net capital loss for a taxation year may be claimed, in computing the taxable income of a taxpayer for a particular taxation year only to the extent that it exceeds the total of

(i) amounts deducted under this section in respect of that non-capital loss, restricted farm loss, farm loss or limited partnership loss in computing taxable income for taxation years preceding the particular taxation year,

(i.1) the amount that was claimed under paragraph (1)(*b*) in respect of that net capital loss for taxation years preceding the particular taxation year, and

(ii) amounts claimed in respect of that loss under paragraph 186(1)(*c*) for the year in which the loss was incurred or under paragraph 186(1)(*d*) for the particular taxation year and taxation years preceding the particular taxation year, and

(*b*) no amount is deductible in respect of a non-capital loss, net capital loss, restricted farm loss, farm loss or limited partnership loss, as the case may be, for a taxation year until

(i) in the case of a non-capital loss, the deductible non-capital losses,

(ii) in the case of a net capital loss, the deductible net capital losses,

(iii) in the case of a restricted farm loss, the deductible restricted farm losses,

(iv) in the case of a farm loss, the deductible farm losses, and

(v) in the case of a limited partnership loss, the deductible limited partnership losses,

for preceding taxation years have been deducted.

History: S. 111(3)(*a*), all that portion preceding subparagraph (i), was amended by S.C. 1994, c. 7, Sched. II, s. 83(2), applicable with respect to the computation of taxable income for the 1985 and subsequent taxation years. S. 111(3)(*a*), all that portion preceding subparagraph (i), formerly read:

"(*a*) an amount in respect of a non-capital loss, net capital loss, restricted farm loss, farm loss or limited partnership loss, as the case may be, for a taxation year is deductible by a taxpayer in computing taxable income for a particular taxation year only to the extent that it exceeds the total of"

Editorial Note: The ordering rule in subsection 111(3) provides that losses of a particular category must be utilized in the order in which they arose (i.e. prior years' losses must be deducted first). However, there is no similar rule that dictates the order of years to which the losses must be carried forward or back.

Related Sections: S. 41(2) Determination of net gain; s. 46(4) Decrease in value of personal-use property of corporation, etc; s. 87(2.1) Non-capital losses, etc., of predecessor corporations; s. 88(1.1) Non-capital losses, etc., of subsidiary; s. 88(1.2) Net capital losses of subsidiary; s. 88(1.3) Computation of income and tax of parent; s. 111(8) Definitions; s. 245 General anti-avoidance rule.

Interpretation Bulletins: *Primary* — IT-302R3 Losses of a corporation — The effect that acquisitions of control, amalgamations, and windings-up have on their deductibility — After January 15, 1987.

► 111(4) ◄

(4) Acquisition of control. Notwithstanding subsection (1), where, at any time (in this subsection referred to as "that time"), control of a corporation has been acquired by a person or group of persons

(*a*) no amount in respect of a net capital loss for a taxation year ending before that time is deductible in computing the corporation's taxable income for a taxation year ending after that time, and

(*b*) no amount in respect of a net capital loss for a taxation year ending after that time is deductible in computing the corporation's taxable income for a taxation year ending before that time,

and where, at that time, the corporation neither became nor ceased to be exempt from tax under this Part on its taxable income,

(*c*) in computing the adjusted cost base to the corporation at and after that time of each capital property, other than a depreciable property, owned by the corporation immediately before that time, there shall be deducted the amount, if any, by which the adjusted cost base to the corporation of the property immediately before that time exceeds its fair market value immediately before that time,

(*d*) each amount required by paragraph (*c*) to be deducted in computing the adjusted cost base to the corporation of a property shall be deemed to be a capital loss of the corporation for the taxation year that ended immediately before that time from the disposition of the property,

(*e*) each capital property owned by the corporation immediately before that time (other than a property in respect of which an amount would, but for this paragraph, be required by paragraph (*c*) to be deducted in computing its adjusted cost base to the corporation or a depreciable property of a prescribed class to which, but for this paragraph, subsection (5.1) would apply) as is designated by the corporation in its return of income under this Part for the taxation year that ended immediately before that time or in a prescribed form filed with the Minister on or before the day that is 90 days after the day on which a notice of assessment of tax payable for the year or notification that no tax is payable for the year is mailed to the corporation, shall be deemed to have been disposed of by the corporation immediately before the time that is immediately before that time for proceeds of disposition equal to the lesser of

(i) the fair market value of the property immediately before that time, and

(ii) the greater of the adjusted cost base to the corporation of the property immediately before the disposition and such amount as is designated by the corporation in respect of the property,

and shall be deemed to have been reacquired by it at that time at a cost equal to the proceeds of disposition thereof, except that, where the property is depreciable property of the corporation the capital cost of which to the corporation immediately before the disposition time exceeds those proceeds of disposition, for the purposes of sections 13 and 20 and any regulations made for the purpose of paragraph 20(1)(*a*),

(iii) the capital cost of the property to the corporation at that time shall be deemed to be the amount that was its capital cost immediately before the disposition, and

(iv) the excess shall be deemed to have been allowed to the corporation in respect of the property under regulations made for the purpose of paragraph 20(1)(*a*) in computing its income for taxation years ending before that time, and

(*f*) each amount that by virtue of paragraph (*d*) or (*e*) is a capital loss or gain of the corporation from a disposition of a property for the taxation year that ended immediately before that time shall, for the purposes of the definition "capital dividend account" in subsection 89(1), be deemed to be a capital loss or gain, as the case may be, of the corporation from the disposition of the property immediately before the time that a capital property of the corporation in respect of which paragraph (*e*) would be applicable would be deemed by that paragraph to have been disposed of by the corporation.

History: See the applications for s. 111(8), "exchange rate" and "foreign currency debt" and s. 111(12), enacted by S.C. 2009, c. 2, regarding a timely designation under s. 111(4)(*e*).

S. 111(4)(*e*) was amended by S.C. 1994, c. 7, Sched. II, s. 83(3), applicable to acquisitions of control occurring after July 13, 1990, other than acquisitions of control where the persons acquiring control were obliged on that day to acquire control under the terms of agreements in writing entered into on or before that day. S. 111(4)(*e*) formerly read as follows:

"(*e*) each capital property owned by the corporation immediately before that time, other than a property in respect of which an amount would, but for this paragraph, be required by paragraph (*c*) to be deducted in computing its adjusted cost base to the corporation, as is designated by the corporation in its return of income under this Part for the taxation year that ended immediately before that time or in a prescribed form filed with the Minister on or before the day that is 90 days after the day on which a notice of assessment of tax payable for the year or notification that no tax is payable for the year is mailed to the corporation, shall be deemed to have been disposed of by the corporation immediately before the time that is immediately before that time for proceeds of disposition equal to the greater of

(i) the adjusted cost base to the corporation of the property immediately before that time, and

(ii) the lesser of the fair market value of the property immediately before that time and such amount as is designated by the corporation in respect of the property

and shall be deemed to have been reacquired by it at that time at a cost equal to the proceeds of disposition thereof, and"

Editorial Note: Subsection 111(4) ensures that net capital losses of a corporation cannot be carried forward or back after a change of control of the corporation. Similarly, accrued capital losses cannot be utilized beyond the change of control, owing to the "write-down" of cost to fair market value under paragraph 111(4)(*c*). This write-down will generate capital losses in the year ending immediately before the change of control (paragraph (*d*)). The corporation can elect under paragraph (*e*) to generate a deemed disposition of other capital property — for example, for the purpose of generating capital gains that can be offset by the capital losses triggered by the write-down. See subsection 111(5.1) regarding accrued terminal losses in respect of depreciable property.

Related Sections: S. 13(7)(*f*) Rules applicable; s. 53(2)(*b.2*) Amounts to be deducted — Non-depreciable capital property of a corporation; s. 53(4) Recomputation of adjusted cost base on transfers and deemed dispositions; s. 87(2.1) Non-capital losses, etc., of predecessor corporations; s. 107(1.1) Cost of capital interest in a trust; s. 111(5.1) Computation of undepreciated capital cost; s. 111(8) Definitions; s. 249(4) Year end on change of control; s. 256(7) Acquiring control; 256(8).

Interpretation Bulletins: *Primary* — IT-302R3 Losses of a corporation — The effect that acquisitions of control, amalgamations, and windings-up have on their deductibility — After January 15, 1987.

Forms: T2 SCH 6.

Tax Topics: No. 1798, Bumping Foreign Affiliate Shares under the February 27, 2004 Proposals.

Tax Profile: March 2009 — Sale of Businesses to Employees: The Leveraged Buy-Out — Part I; January 2008 — Tax Ramifications of Non-Resident Purchases of Canadian Businesses; June 2006 — Tax Ramifications of Non-Resident Purchases of Canadian Businesses; March 2004 — Loss Planning.

Tax Window Files: Elected Deemed Disposition of Property on Acquisition of Control, July 10, 1997, CRA Document No. 971585; Cost of Capital Interest in Trust, June 13, 1997, CRA Document No. 9706125; Disposition of Property to Loss Corporation, December 5, 1996, CRA Document No. 9639150.

► 111(5) ◄

(5) Idem. Where, at any time, control of a corporation has been acquired by a person or group of persons, no amount in respect of its non-capital loss or farm loss for a taxation year ending before that time is deductible by the corporation for a taxation year ending after that time and no amount in respect of its non-capital loss or farm loss for a taxation year ending after that time is deductible by the corporation for a taxation year ending before that time except that

(*a*) such portion of the corporation's non-capital loss or farm loss, as the case may be, for a taxation year ending before that time as may reasonably be regarded as its loss from carrying on a business and, where a business was carried on by the corporation in that year, such portion of the non-capital loss as may reasonably be regarded as being in respect of an amount deductible under paragraph 110(1)(*k*) in computing its taxable income for the year is deductible by the corporation for a particular taxation year ending after that time

(i) only if that business was carried on by the corporation for profit or with a reasonable expectation of profit throughout the particular year, and

(ii) only to the extent of the total of the corporation's income for the particular year from that business and, where properties were sold, leased, rented or developed or services rendered in the course of carrying on that business before that time, from any other business substantially all the income of which was derived from the sale, leasing, rental or development, as the case may be, of similar properties or the rendering of similar services; and

(*b*) such portion of the corporation's non-capital loss or farm loss, as the case may be, for a taxation year ending after that time as may reasonably be regarded as its loss from carrying on a business and, where a business was carried on by the corporation in that year, such portion of the non-capital loss as may reasonably be regarded as being in respect of an amount deductible under paragraph 110(1)(*k*) in computing its taxable income for the year is deductible by the corporation for a particular year ending before that time

(i) only if throughout the taxation year and in the particular year that business was carried on by the corporation for profit or with a reasonable expectation of profit, and

(ii) only to the extent of the corporation's income for the particular year from that business and, where properties were sold, leased, rented or developed or services rendered in the course of carrying on that business before that time, from any other business substantially all the income of which was derived from the sale, leasing, rental or development, as the case may be, of similar properties or the rendering of similar services.

Editorial Note: Subsection 111(5) prohibits the carryforward or carryback of non-capital losses and farm losses of a corporation after a change in the control of the corporation. An exception is made under the "streaming rules" under paragraphs (*a*) and (*b*), which can apply to allow the losses if the corporation continues to carry on the pre-change of control business for profit or with a reasonable expectation of profit, and generally to the extent of income from that business and similar businesses in the year in which the loss is claimed.

Related Sections: S. 10(11) Acquisition of control; s. 87(2.1) Non-capital losses, etc., of predecessor corporations; s. 111(8) Definitions; s. 249(4) Year end on change of control; s. 256(7) Acquiring control.

Interpretation Bulletins: *Primary* — IT-302R3 Losses of a corporation — The effect that acquisitions of control, amalgamations, and windings-up have on their deductibility — After January 15, 1987. *Secondary* — IT-206R Separate businesses.

Advance Tax Rulings: ATR-7 Amalgamation involving losses and control.

Income Tax Technical News: Issue No. 34, Loss Consolidation — Unanimous Shareholder Agreements; Issue No. 34, Sale of Tax Losses; Issue No. 34, Loss Consolidation — Provincial Tax; Issue No. 25, Refreshing Losses; Issue No. 16, Duha (Western) Printers Ltd. v. The Queen.

Tax Topics: No. 1490, Parent Corporation Receives Both ABIL and Subsidiary's Losses.

Tax Profile: March 2009 — Sale of Businesses to Employees: The Leveraged Buy-Out — Part I; March 2004 — Loss Planning.

Cases: The explosives division sold by the taxpayer was not a separate business, therefore, the taxpayer was not subject to recapture of capital cost allowance or an increased s. 14(1) income inclusion. Indicators of integration included centralized financing and credit management, centralized purchasing, and common research facilities. *Du Pont Canada Inc. v. The Queen,* 2001 DTC 5269 (F.C.A.), reversing 99 DTC 1132 (T.C.C.).

A corporation acquired a competitor for the purpose of eliminating competition and then amalgamated the two corporations to form the corporate taxpayer. The successor corporation was not entitled to deduct the predecessor corporation's losses since the successor did not continue to carry on any significant portion of the predecessor's business "for profit or with a reasonable expectation of profit", *Garage Montplaisir Inc. v. The Queen,* 2000 DTC 6216 (F.C.A.), affirming 96 DTC 6557 (F.C.T.D.) and 92 DTC 2317 (T.C.C.).

Although the parent company did not have *de facto* over both corporations, it did have *de jure* control, and that was sufficient to allow the non-capital losses to be transferred from one corporation to the other. *Duha Printers (Western) Ltd.,* 98 DTC 6334 (S.C.C.), reversing 96 DTC 6323 (F.C.A.), which reversed 95 DTC 828 (T.C.C.).

Although its predecessor corporation's panels were used in the trailers sold by the taxpayer, they were not "similar" properties under the "substantially all" income test so that the taxpayer was not entitled to carryforward its predecessor's non-capital losses after their merger. *Manac Inc. Corp. v. The Queen,* 98 DTC 6352 (F.C.A.), affirming 97 DTC 1715 (T.C.C.).

► 111(5.1) ◄

(5.1) Computation of undepreciated capital cost. Where, at any time, control of a corporation (other than a corporation that at that time became or ceased to be exempt from tax under this Part on its taxable income) has been acquired by a person or group of persons and, if this Act were read without reference to subsection 13(24), the undepreciated capital cost to the corporation of depreciable property of a prescribed class immediately before that time would have exceeded the total of

(*a*) the fair market value of all the property of that class immediately before that time, and

(*b*) the amount in respect of property of that class otherwise allowed under regulations made under paragraph 20(1)(*a*) or deductible under subsection 20(16) in computing the corporation's income for the taxation year ending immediately before that time,

the excess shall be deducted in computing the income of the corporation for the taxation year ending immediately before that time and shall be deemed to have been allowed in respect of property of that class under regulations made under paragraph 20(1)(*a*).

Editorial Note: Paragraph 111(4)(*e*) allows an elective "write-up" for depreciable property, generally where the fair market value of the property exceeds the cost amount of the property. The election could be advisable if any resulting recapture could be offset by the deduction in respect of accrued losses under subsection 111(5.1).

Related Sections: S. 111(4)(*e*) Acquisition of control; s. 249(4) Year end on change of control; s. 256(7) Acquiring control.

Interpretation Bulletins: *Secondary* — IT-302R3 Losses of a corporation — The effect that acquisitions of control, amalgamations, and windings-up have on their deductibility — After January 15, 1987.

► 111(5.2) ◄

(5.2) Computation of cumulative eligible capital. Where, at any time, control of a corporation (other than a corporation that at that time became or ceased to be exempt from tax under this Part on its taxable income) has been acquired by a person or group of persons and immediately before that time the corporation's cumulative eligible capital in respect of a business exceeded the total of

(*a*) 3/4 of the fair market value of the eligible capital property in respect of the business, and

(*b*) the amount otherwise deducted under paragraph 20(1)(*b*) in computing the corporation's income from the business for the taxation year ending immediately before that time,

the excess shall be deducted under paragraph 20(1)(*b*) in computing the corporation's income from the business for the taxation year ending immediately before that time.

Related Sections: S. 249(4) Year end on change of control; s. 256(7) Acquiring control.

Interpretation Bulletins: *Secondary* — IT-302R3 Losses of a corporation — The effect that acquisitions of control, amalgamations, and windings-up have on their deductibility — After January 15, 1987.

► 111(5.3) ◄

(5.3) Doubtful debts and bad debts. Where, at any time, control of a corporation (other than a corporation that at that time became or ceased to be exempt from tax

under this Part on its taxable income) has been acquired by a person or group of persons, no amount may be deducted under paragraph 20(1)(*l*) in computing the corporation's income for its taxation year ending immediately before that time and each amount that is the greatest amount that would, but for this subsection and subsection 26(2) of this Act and subsection 33(1) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, have been deductible under paragraph 20(1)(*l*) in respect of a debt owing to the corporation immediately before that time shall be deemed to be a separate debt and shall, notwithstanding any other provision of this Act, be deducted as a bad debt under paragraph 20(1)(*p*) in computing the corporation's income for the year and the amount by which the debt exceeds that separate debt shall be deemed to be a separate debt incurred at the same time and under the same circumstances as the debt was incurred.

Related Sections: S. 12(1)(*i*) Bad debts recovered; s. 249(4) Year end on change of control; s. 256(7) Acquiring control.

Interpretation Bulletins: *Secondary* — IT-302R3 Losses of a corporation — The effect that acquisitions of control, amalgamations, and windings-up have on their deductibility — After January 15, 1987.

► 111(5.4) ◄

(5.4) Non-capital loss. Where, at any time, control of a corporation has been acquired by a person or persons, such portion of the corporation's non-capital loss for a taxation year ending before that time as

(*a*) was not deductible in computing the corporation's income for a taxation year ending before that time, and

(*b*) can reasonably be considered to be a non-capital loss of a subsidiary corporation (in this subsection referred to as the "former subsidiary corporation") from carrying on a particular business (in this subsection referred to as the "former subsidiary corporation's loss business") that was deemed by subsection 88(1.1) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read on November 12, 1981 to be the non-capital loss of the corporation for the taxation year of the corporation in which the former subsidiary corporation's loss year ended

shall be deemed to be a non-capital loss of the corporation from carrying on the former subsidiary corporation's loss business.

Interpretation Bulletins: *Primary* — IT-302R3 Losses of a corporation — The effect that acquisitions of control, amalgamations, and windings-up have on their deductibility — After January 15, 1987.

► 111(5.5) ◄

(5.5) Restriction. Where control of a corporation has been acquired by a person or group of persons and it may reasonably be considered that the main reason for the acquisition of control was to cause paragraph (4)(*d*) or subsection (5.1), (5.2) or (5.3) to apply with respect to the acquisition,

(*a*) that provision and paragraph (4)(*e*), and

(*b*) where that provision is paragraph (4)(*d*), paragraph (4)(*c*)

shall not apply with respect to the acquisition.

Tax Profile: March 2004 — Loss Planning.

► 111(6) ◄

(6) Limitation. For the purposes of this section and paragraph 53(1)(*i*), any loss of a taxpayer for a taxation year from a farming business shall, after the taxpayer disposes of the land used in that farming business and to the extent that the amount of the loss is required by paragraph 53(1)(*i*) to be added in computing the adjusted cost base to the taxpayer of the land immediately before the disposition, be deemed not to be a loss.

► 111(7) ◄

(7) Idem. For the purposes of this section, any loss of a taxpayer for a taxation year from a farming business shall, to the extent that the loss is included in the amount of any deduction permitted by section 101 in computing the taxpayer's income for any subsequent taxation year, be deemed not to be a loss of the taxpayer for the purpose of computing the taxpayer's taxable income for that subsequent year or any taxation year subsequent thereto.

► 111(7.1) ◄

(7.1) Effect of election by insurer under s. 138(9) in respect of 1975 taxation year. Where an insurer has made an election under subsection 138(9) in respect of its 1975 taxation year, for the purpose of determining the amount deductible in computing its taxable income for its 1977 and subsequent taxation years in respect of the non-capital loss, if any, for the 1972 and each subsequent taxation year ending before 1977, a portion of the non-capital loss for each such year equal to the lesser of

(*a*) the portion of the non-capital loss for the year (determined without reference to this subsection) that would be deductible in computing the insurer's taxable income for its 1977 taxation year if the insurer had sufficient income for that year, and

(*b*) the amount, if any, by which

(i) its 1975 branch accounting election deficiency exceeds

(ii) the total of

(A) the amount determined under subparagraph 138(4.1)(*d*)(ii) in respect of the insurer,

(B) the total of all amounts each of which is an amount determined under paragraph 13(22)(*b*) with respect to depreciable property of a prescribed class of the insurer, and

(C) the total of all amounts each of which is the portion determined under this subsection in respect of the non-capital loss for a taxation year after 1971 and preceding the year

shall, for the purposes of this section, be deemed to have been deductible under this section in computing the insurer's taxable income for a taxation year ending before 1977.

Related Sections: S. 138(12) Definitions.

► 111(7.11) ◄

(7.11) Application of s. 138(12). The definitions in subsection 138(12) apply to subsection (7.1).

History: S. 111(7.11) was not part of the former Act.

► 111(7.2) ◄

(7.2) Non-capital loss of life insurer. Notwithstanding paragraph (1)(*a*), in the case of a life insurer the amount deductible in computing its taxable income for its 1978 and subsequent taxation years,

(*a*) in respect of its non-capital loss for each taxation year ending before 1977 shall be deemed to be nil; and

(*b*) in respect of its non-capital loss for its 1977 taxation year shall be deemed to be the amount, if any, by which

(i) the amount referred to in subparagraph 138(4.2)(*a*)(iv)

exceeds the total of

(ii) the amount of the reserve determined for the purpose of subparagraph 138(4.2)(*a*)(i),

(iii) in any case where subparagraph 138(4.2)(*a*)(ii) applies, the total of amounts referred to in that subparagraph, and

(iv) in any case where subparagraph 138(4.2)(*a*)(iii) applies, the amount referred to in that subparagraph.

► 111(8) ◄

(8) Definitions. In this section,

"*exchange rate*" — "exchange rate" at any time in respect of a currency of a country other than Canada means the rate of exchange between that currency and Canadian currency quoted by the Bank of Canada at noon on the day that includes that time or, if that day is not a business day, on the day that immediately precedes that day, or a rate of exchange acceptable to the Minister;

History: S. 111(8), the definition "exchange rate" was added by S.C. 2009, c. 2, s. 30(1), applicable to any acquisition of control of a corporation that occurs

(*a*) after March 7, 2008, other than an acquisition of control that occurs before 2009 under the terms of an agreement made in writing on or before March 7, 2008; or

(*b*) after 2005, if the corporation so elects in writing and files the election with the Minister of National Revenue on or before the corporation's filing-due date for the corporation's taxation year that includes the day on which this Act is assented to [R.A. March 12, 2009].

If an election under paragraph (*b*) [above] is made by the corporation in respect of an acquisition of control, a designation under paragraph 111(4)(*e*) by the corporation for its taxation year that ended immediately before the acquisition of control is deemed to have been made in a timely manner if that designation is made on or before the corporation's filing-due date for its taxation year that includes the day on which this Act is assented to [R.A. March 12, 2009].

"*farm loss*" — "farm loss" of a taxpayer for a taxation year means the amount determined by the formula

A – C

where

A is the lesser of

(*a*) the amount, if any, by which

(i) the total of all amounts each of which is the taxpayer's loss for the year from a farming or fishing business

exceeds

(ii) the total of all amounts each of which is the taxpayer's income for the year from a farming or fishing business, and

(*b*) the amount that would be the taxpayer's non-capital loss for the year if each of the amounts determined for C and D in the definition "non-capital loss" in this subsection were zero,

C is the total of all amounts by which the farm loss of the taxpayer for the year is required to be reduced because of section 80;

History: S. 111(8), the formula in the definition "farm loss" was amended by S.C. 2000, c. 19, s. 19(1), applicable to the 1998 and subsequent taxation years. S. 111(8), the formula in the definition "farm loss" formerly read:

"A – B – C"

S. 111(8), the description of B in the definition "farm loss" was repealed by S.C. 2000, c. 19, s. 19(2), applicable to the 1998 and subsequent taxation years. S. 111(8), the description of B formerly read:

"B is the amount, if any, by which any amount specified by the taxpayer in the taxpayer's election for the year under subsection 110.4(2) exceeds the amount that would be the taxpayer's non-capital loss for the year if the amount determined for C in the definition 'non-capital loss' in this subsection were zero, and"

The formula in the definition "farm loss" in s. 111(8) was amended by S.C. 1995, c. 21, s. 36(1), applicable to taxation years that end after February 21, 1994. That formula formerly read:

"A – B"

The description of C in the definition "farm loss" in s. 111(8) was added by S.C. 1995, c. 21, s. 36(2), applicable to taxation years that end after February 21, 1994.

Related Sections: S. 111(1)(*d*) Farm losses.

Interpretation Bulletins: *Secondary* — IT-302R3 Losses of a corporation — The effect that acquisitions of control, amalgamations, and windings-up have on their deductibility — After January 15, 1987.

"*foreign currency debt*" — "foreign currency debt" means a debt obligation denominated in a currency of a country other than Canada;

History: S. 111(8), the definition "foreign currency debt" was added by S.C. 2009, c. 2, s. 30(1), applicable to any acquisition of control of a corporation that occurs

(*a*) after March 7, 2008, other than an acquisition of control that occurs before 2009 under the terms of an agreement made in writing on or before March 7, 2008; or

(*b*) after 2005, if the corporation so elects in writing and files the election with the Minister of National Revenue on or before the corporation's filing-due date for the corporation's taxation year that includes the day on which this Act is assented to [R.A. March 12, 2009].

If an election under paragraph (*b*) [above] is made by the corporation in respect of an acquisition of control, a designation under paragraph 111(4)(*e*) by the corporation for its taxation year that ended immediately before the acquisition of control is deemed to have been made in a timely manner if that designation is made on or before the corporation's filing-due date for its taxation year that includes the day on which this Act is assented to [R.A. March 12, 2009].

"*net capital loss*" — "net capital loss" of a taxpayer for a taxation year means the amount determined by the formula

A – B + C – D

where

A is the amount, if any, determined under subparagraph 3(*b*)(ii) in respect of the taxpayer for the year,

B is the lesser of the total determined under subparagraph 3(*b*)(i) in respect of the taxpayer for the year and the amount determined for A in respect of the taxpayer for the year,

C is the least of

(*a*) the amount of the allowable business investment losses of the taxpayer for the taxpayer's tenth preceding taxation year,

(*b*) the amount, if any, by which the amount of the non-capital loss of the taxpayer for the taxpayer's tenth preceding taxation year exceeds the total of all amounts in respect of that non-capital loss deducted in computing the taxpayer's taxable income or claimed by the taxpayer under paragraph 186(1)(*c*) or (*d*) for the year or for any preceding taxation year, and

(*c*) if the taxpayer is a corporation the control of which was acquired by a person or group of persons before the end of the year and after the end of the taxpayer's tenth preceding taxation year, nil, and

D is the total of all amounts by which the net capital loss of the taxpayer for the year is required to be reduced because of section 80;

History: S. 111(8), the description of C in the definition "net capital loss" was replaced by S.C. 2005, c. 19, s. 20(2), applicable in respect of losses that arise in taxation years that end after March 22, 2004, except that, for a taxation year of a taxpayer before the taxpayer's eighth taxation year that ends after that date, paragraph (*c*) of the description of C in the definition "net capital loss" in subsection 111(8) of the Act is to be read as follows:

"(*c*) where the taxpayer is a corporation the control of which was acquired by a person or group of persons before the end of the year and after the end of the taxpayer's seventh preceding taxation year, nil, and"

S. 111(8), the description of C in the definition "net capital loss" formerly read:

"C is the least of

(*a*) the amount of the allowable business investment losses of the taxpayer for the taxpayer's seventh preceding taxation year,

(*b*) the amount, if any, by which the amount of the non-capital loss of the taxpayer for the taxpayer's seventh preceding taxation year exceeds the total of all amounts in respect of that non-capital loss deducted in computing the taxpayer's taxable income or claimed by the taxpayer under paragraph 186(1)(*c*) or (*d*) for the year or for any preceding taxation year, and

(*c*) where the taxpayer is a corporation the control of which was acquired by a person or group of persons before the end of the year and after the end of the taxpayer's seventh preceding taxation year, nil, and"

The definition "net capital loss" in s. 111(8) was amended by S.C. 1995, c. 21, s. 36(3), applicable to taxation years that end after February 21, 1994. That definition formerly read:

"'*net capital loss*' — 'net capital loss' of a taxpayer for a taxation year means the total of

(*a*) the amount determined by the formula

A – B

where

A is the amount, if any, determined under subparagraph 3(*b*)(ii) in respect of the taxpayer for the year, and

B is the total determined under subparagraph 3(*b*)(i) in respect of the taxpayer for the year, and

(*b*) the amount that is equal to the lesser of

(i) the amount of the allowable business investment losses of the taxpayer for the taxpayer's seventh preceding taxation year, and

(ii) the amount, if any, by which the amount of the non-capital loss of the taxpayer for the taxpayer's seventh preceding taxation year exceeds the total of amounts in respect of that non-capital loss deducted by the taxpayer in computing the taxpayer's taxable income or claimed by the taxpayer under paragraph 186(1)(*c*) or (*d*) for the year or for any preceding taxation year

except that where the taxpayer is a corporation the control of which was acquired by a person or group of persons before the end of the year and after the end of the taxpayer's seventh preceding taxation year, the amount determined under this paragraph in respect of the taxpayer for the year shall be deemed to be nil;"

Related Sections: S. 111(1)(*b*) Net capital losses.

Interpretation Bulletins: *Secondary* — IT-302R3 Losses of a corporation — The effect that acquisitions of control, amalgamations, and windings-up have on their deductibility — After January 15, 1987.

"non-capital loss" — "non-capital loss" of a taxpayer for a taxation year means, at any time, the amount determined by the formula

(A + B) – (D + D.1 + D.2)

where

A is the amount determined by the formula

E – F

where

E is the total of all amounts each of which is (*a*) the taxpayer's loss for the year from an office, employment, business or property, (*b*) an amount deducted under paragraph (1)(*b*) or section 110.6, or deductible under any of paragraphs 110(1)(*d*) to (*d*.3), (*f*), (*g*), (*j*) and (*k*), section 112 and subsections 113(1) and 138(6), in computing the taxpayer's taxable income for the year, or (*c*) if that time is before the taxpayer's eleventh following taxation year, the taxpayer's allowable business investment loss for the year, and

Pending Amendment

Interest Deductibility — October 31, 2003

The description of E in the definition "non-capital loss" in subsection 111(8) of the Act is replaced by the following:

E is the total of all amounts each of which is the taxpayer's loss for the year from a source that is an office, employment, business or property, the taxpayer's allowable business investment loss for the year, an amount deducted under paragraph (1)(*b*) or section 110.6 in computing the taxpayer's taxable income for the year or an amount that may be deducted under any of paragraphs 110(1)(*d*) to (*d*.3), (*f*), (*g*), (*j*) and (*k*), section 112 and subsections 113(1) and 138(6) in computing the taxpayer's taxable income for the year, and

Applicable: To taxation years that begin after 2004.

Explanatory Note:

Paragraph 3(d) and Description of "E" in the Definition of "Non-Capital Loss" in Subsection 111(8)

Both of these changes [the amendments to paragraph 3(*d*) and the description of "E" in the definition of "non-capital loss" in subsection 111(8)] are consequential amendments to proposed new subsection 3.1(1) of the Act, and clarify that it is only losses that are from a source that may be deducted in computing a taxpayer's income or considered to be non-capital losses under subsection 111(8) of the Act.

[**Editorial Note:** This amendment is part of the amendments released October 31, 2003 concerning the deductibility of interest and other expenses. Please refer to the notes accompanying proposed section 3.1.]

F is the amount determined under paragraph 3(*c*) in respect of the taxpayer for the year,

B is the amount, if any, determined in respect of the taxpayer for the year under section 110.5 or subparagraph 115(1)(*a*)(vii),

D is the amount that would be the taxpayer's farm loss for the year if the amount determined for B in the definition "farm loss" in this subsection were zero,

D.1 is the total of all amounts deducted under subsection (10) in respect of the taxpayer for the year, and

D.2 is the total of all amounts by which the non-capital loss of the taxpayer for the year is required to be reduced because of section 80;

History: S. 111(8), the portion of the definition "non-capital loss" in subsection 111(8) of the Act before the description of F was replaced by S.C. 2006, c. 4, s. 57(3), applicable in respect of losses that arise in the 2006 and subsequent taxation years.

S. 111(8), the portion of the definition "non-capital loss" in subsection 111(8) of the Act before the description of F formerly read:

"'*non-capital loss*' — 'non-capital loss' of a taxpayer for a taxation year means the amount determined by the formula

(A + B) - (D + D.1 + D.2)

where

A is the amount determined by the formula

E – F

where

E is the total of all amounts each of which is the taxpayer's loss for the year from an office, employment, business or property, the taxpayer's allowable business investment loss for the year, an amount deducted under paragraph (1)(*b*) or section 110.6 in computing the taxpayer's taxable income for the year or an amount that may be

deducted under any of paragraphs 110(1)(*d*) to (*d*.3), (*f*), (*g*), (*j*) and (*k*), section 112 and subsections 113(1) and 138(6) in computing the taxpayer's taxable income for the year, and"

S. 111(8), the description of E in the definition "non-capital loss" was amended by S.C. 2002, c. 9, s. 34(1), applicable to the 1997 and subsequent taxation years and, notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax, interest or penalty for any taxation year shall be made that is necessary to give effect to the amendment to the description of E in the definition "non-capital loss" in subsection 111(8). S. 111(8), the description of E in the definition "non-capital loss" formerly read:

"E is the total of all amounts each of which is the taxpayer's loss for the year from an office, employment, business or property, the taxpayer's allowable business investment loss for the year, an amount deducted under paragraph (1)(*b*) or section 110.6 in computing the taxpayer's taxable income for the year or an amount that may be deducted under any of paragraphs 110(1)(*d*) to (*d*.3), (*f*), (*j*) and (*k*), section 112 and subsections 113(1) and 138(6) in computing the taxpayer's taxable income for the year, and"

S. 111(8), the description of B in the definition "non-capital loss" was amended by S.C. 2001, c. 17, s. 87(3), applicable after June 27, 1999. S. 111(8), the description of B in the definition "non-capital loss" formerly read:

"B is the amount, if any, determined in respect of the taxpayer for the year under section 110.5,"

S. 111(8), the description of E in the definition "non-capital loss" was amended by S.C. 2001, c. 17, s. 87(2), applicable to the 2000 and subsequent taxation years. S. 111(8), the description of E in the definition "non-capital loss" formerly read:

"E is the total of all amounts each of which is the taxpayer's loss for the year from an office, employment, business or property, the taxpayer's allowable business investment loss for the year, an amount deducted under paragraph (1)(*b*) or section 110.6 in computing the taxpayer's taxable income for the year or an amount that may be deducted under paragraph 110(1)(*d*), (*d*.1), (*d*.2), (*d*.3), (*f*), (*j*) or (*k*), section 112 or subsection 113(1) or 138(6) in computing the taxpayer's taxable income for the year"

S. 111(8), the description of C in the definition "non-capital loss" was repealed by S.C. 2000, c. 19, s. 19(4), applicable to the 1998 and subsequent taxation years. S. 111(8), the description of C in the definition "non-capital loss" formerly read:

"C is any amount specified by the taxpayer in the taxpayer's election for the year under subsection 110.4(2),"

S. 111(8), the first formula in the definition "non-capital loss" was amended by S.C. 2000, c. 19, s. 19(3), applicable to the 1998 and subsequent taxation years. S. 111(8), the first formula in the definition "non-capital loss" formerly read:

"(A + B) – (C + D + D.1 + D.2)"

The first formula in the definition "non-capital loss" in s. 111(8) was amended by S.C. 1995, c. 21, s. 36(4), applicable to taxation years that end after February 21, 1994. That formula formerly read:

"(A + B) – (C + D + D.1)"

The description of D.2 in the definition "non-capital loss" in s. 111(8) was added by S.C. 1995, c. 21, s. 36(5), applicable to taxation years that end after February 21, 1994.

The description of E in the definition of "non-capital loss" in s. 111(8) was amended by S.C. 1994, c. 7, Sched. VIII, s. 49(1), applicable to the 1991 and subsequent taxation years. The description of E formerly read:

"E is the total of all amounts each of which is the taxpayer's loss for the year from an office, employment, business or property, the taxpayer's allowable business investment loss for the year, an amount deducted under section 110.6 or an amount deductible under paragraph 110(1)(*d*), (*d*.1), (*d*.2), (*d*.3), (*f*), (*j*) or (*k*), section 112 or subsection 113(1) or 138(6) in computing the taxpayer's taxable income for the year, and"

The first formula in the definition of "non-capital loss" in s. 111(8) was amended by S.C. 1994, c. 7, Sched. VI, s. 5(1), applicable to amounts received after 1991. It formerly read:

"(A + B) – (C + D)"

The description of D.1 in the definition of "non-capital loss" in s. 111(8) was added by S.C. 1994, c. 7, Sched. VI, s. 5(1.1), applicable to amounts received after 1991.

Related Sections: S. 3 Income for taxation year; s. 9(2) Loss; s. 38 Taxable capital gain and allowable capital loss; s. 111(1)(*a*) Non-capital losses. s. 248(1), "allowable business investment loss".

Interpretation Bulletins: *Secondary* — IT-232R3 Losses — Their Deductibility in the Loss Year or in Other Years; IT-302R3 Losses of a corporation — The effect that acquisitions of control, amalgamations, and windings-up have on their deductibility — After January 15, 1987; IT-484R2 Business investment losses.

"pre-1986 capital loss balance" — "pre-1986 capital loss balance" of an individual for a particular taxation year means the amount determined by the formula

$$(A + B) - (C + D + E + E.1)$$

where

A is the total of all amounts each of which is an amount determined by the formula

$$F - G$$

where

F is the individual's net capital loss for a taxation year ending before 1985, and

G is the total of all amounts claimed under this section by the individual in respect of that loss in computing the individual's taxable income for taxation years preceding the particular taxation year, and

B is the amount determined by the formula

$$H - I$$

where

H is the lesser of

(*a*) the amount of the individual's net capital loss for the 1985 taxation year, and

(*b*) the amount, if any, by which the amount determined under subparagraph 3(*e*)(ii) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, in respect of the individual for the 1985 taxation year exceeds the amount deductible by reason of paragraph 3(*e*) of that Act in computing the individual's taxable income for the 1985 taxation year, and

I is the total of all amounts claimed under this section by the individual in respect of the individual's net capital loss for the 1985 taxation year in computing the individual's taxable income for taxation years preceding the particular taxation year,

C is the total of all amounts deducted under section 110.6 in computing the individual's taxable income for taxation years that end before 1988 or after October 17, 2000,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The description of C in the definition "pre-1986 capital loss balance" in subsection 111(8) of the Act is replaced by the following:

C is the total of all amounts deducted under section 110.6 in computing the individual's taxable income for taxation years that ended before 1988 or begin after October 17, 2000,

Applicable: To the 2000 and subsequent taxation years.

Explanatory Note:

Definitions

Subsection 111(8) of the Act contains definitions that apply for the purposes of section 111.

"pre-1986 capital loss balance"

An individual's "pre-1986 capital loss balance" for a taxation year is relevant for the purpose of paragraph 111(1.1)(*b*) and represents the individual's unused pre-1986 capital losses that the individual can deduct, to a maximum of $2,000 per year,

from income other than capital gains of the individual. The reference in the description of C in the definition to "taxation years that end before 1988 or after October 17, 2000" is corrected to refer to "taxation years that end before 1988 or begin after October 17, 2000". The amended definition is applicable to the 2000 and subsequent taxation years.

D is 3/4 of the total of all amounts each of which is an amount deducted under section 110.6 in computing the individual's taxable income for a taxation year, preceding the particular year, that

(*a*) ended after 1987 and before 1990, or

(*b*) began after February 27, 2000 and ended before October 18, 2000,

E is 2/3 of the total of all amounts deducted under section 110.6 in computing the individual's taxable income for taxation years, preceding the particular year, that ended after 1989 and before February 28, 2000, and

E.1 is the amount determined by the formula

$$J \times (0.5/K)$$

where

J is the amount deducted by the individual under section 110.6 for a taxation year of the individual, preceding the particular year, that includes February 28, 2000 or October 17, 2000, and

K is the fraction in paragraph 38(*a*) that applies to the individual for the individual's taxation year referred to in the description of J.

History: S. 111(8), the portion of the definition "pre-1986 capital loss balance" after the description of B was amended by S.C. 2001, c. 17, s. 87(5), applicable to taxation years that end after February 27, 2000. S. 111(8), the portion of the definition "pre-1986 capital loss balance" after the description of B formerly read:

"C is the total of all amounts deducted under section 110.6 in computing the individual's taxable income for taxation years preceding 1988,

D is 3/4 of the total of all the amounts deducted under section 110.6 in computing the individual's taxable income for taxation years preceding the particular year and ending after 1987 and before 1990, and

E is 2/3 of the total of all the amounts deducted under section 110.6 in computing the individual's taxable income for taxation years preceding the particular year and ending after 1989."

S. 111(8), the first formula in the definition "pre-1986 capital loss balance" was amended by S.C. 2001, c. 17, s. 87(4), applicable to taxation years that end after February 27, 2000. S. 111(8), the first formula in the definition "pre-1986 capital loss balance" formerly read:

"(A + B) – (C + D + E)"

The description of G in the definition of "pre-1986 capital loss balance" in s. 111(8) was amended by S.C. 1994, c. 7, Sched. II, s. 83(4), applicable to the computation of taxable income for the 1985 and subsequent taxation years. It formerly read:

"G is the total of all amounts deducted by the individual under this section in respect of that loss in computing the individual's taxable income for taxation years preceding the particular taxation year,"

The description of I in the definition of "pre-1986 capital loss balance" in s. 111(8) was amended by S.C. 1994, c. 7, Sched. II, s. 83(5), applicable to the computation of taxable income for the 1985 and subsequent taxation years. It formerly read:

"I is the total of all amounts deducted by the individual under this section in respect of the individual's net capital loss for the 1985 taxation year in computing the individual's taxable income for taxation years preceding the particular taxation year,"

► 111(9) ◄

(9) Exception. In this section, a taxpayer's non-capital loss, net capital loss, restricted farm loss, farm loss and limited partnership loss for a taxation year during which the taxpayer was not resident in Canada shall be determined as if

(*a*) in the part of the year throughout which the taxpayer was non-resident, if section 114 applies to the taxpayer in respect of the year, and

(*b*) throughout the year, in any other case,

the taxpayer had no income other than income described in any of subparagraphs 115(1)(*a*)(i) to (vi), the taxpayer's only taxable capital gains, allowable capital losses and allowable business investment losses were from dispositions of taxable Canadian property (other than treaty-protected property) and the taxpayer's only other losses were losses from the duties of an office or employment performed by the taxpayer in Canada and businesses (other than treaty-protected businesses) carried on by the taxpayer in Canada.

History: S. 111(9)(*a*) was amended by S.C. 2001, c. 17, s. 87(6), applicable to the 1998 and subsequent taxation years. S. 111(9)(*a*) formerly read:

"(*a*) throughout the portion of the year referred to in paragraph 114(*b*), where section 114 applies to the taxpayer in respect of the year, and"

S. 111(9), the portion after paragraph (*b*), was amended by S.C. 1999, c. 22, s. 28(1), applicable for the purpose of computing taxable income and taxable income earned in Canada for the 1998 and subsequent taxation years. S. 111(9), the portion after paragraph (*b*) formerly read:

"the taxpayer had no income other than income described in subparagraphs 115(1)(*a*)(i) to (vi), the taxpayer's only taxable capital gains and allowable capital losses were taxable capital gains and allowable capital losses from the disposition of taxable Canadian property and the taxpayer's only losses were allowable business investment losses and losses from duties of an office or employment performed by the taxpayer in Canada and businesses carried on by the taxpayer in Canada."

The portion of subsection 111(9) of the Act after paragraph (*b*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 49(2), applicable to the 1991 and subsequent taxation years and with respect to the computation of taxable income and taxable income earned in Canada for those years. It formerly read:

"the taxpayer had no income other than income described in subparagraphs 115(1)(*a*)(i) to (vi), the taxpayer's only taxable capital gains and allowable capital losses were taxable capital gains and allowable capital losses from the disposition of taxable Canadian property and the taxpayer's only losses were losses from businesses carried on by the taxpayer in Canada."

Related Sections: S. 2(3) Tax payable by non-resident persons; s. 111(1)(*a*) Non-capital losses; s. 111(1)(*b*) Net capital losses; s. 111(1)(*c*) Restricted farm losses; s. 111(1)(*d*) Farm losses; s. 111(1)(*e*) Limited partnership losses; s. 248(1), "taxable Canadian property", "treaty-protected business", "treaty-protected property".

Tax Window Files: Losses of Non-resident, July 2, 2003, CRA Document No. 2003-0007967; Losses — Treaty-Protected Business, January 8, 2001, CRA Document No. 1999-0008185.

► 111(10) ◄

(10) Fuel tax rebate loss abatement. Where in a particular taxation year a taxpayer received an amount (in this subsection referred to as a "rebate") as a fuel tax rebate under subsection 68.4(2) or (3.1) of the *Excise Tax Act*, in computing the taxpayer's non-capital loss for a taxation year (in this subsection referred to as the "loss year") that is one of the 7 taxation years preceding the particular year, there shall be deducted the lesser of

(*a*) the amount determined by the formula

$$10(A - B) - C$$

where

A is the total of all rebates received by the taxpayer in the particular year,

B is the total of all amounts, in respect of rebates received by the taxpayer in the particular year, repaid by the taxpayer under subsection 68.4(7) of that Act, and

C is the total of all amounts, in respect of rebates received in the particular year, deducted under this subsection in computing the taxpayer's non-capital losses for other taxation years; and

(*b*) such amount as the taxpayer claims, not exceeding the portion of the taxpayer's non-capital loss for the loss year (determined without reference to this subsection) that would be deductible in computing the taxpayer's taxable income for the particular year if

the taxpayer had sufficient income for the particular year from businesses carried on by the taxpayer in the particular year.

History: S. 111(10), the portion before paragraph (*b*), was amended by S.C. 1997, c. 26, s. 84(1), applicable to the 1997 and subsequent taxation years. That part formerly read:

"(10) *Fuel tax rebate loss abatement.* Where, in a particular taxation year, a taxpayer received an amount (in this subsection referred to as a 'rebate') as a fuel tax rebate under subsection 68.4(2) of the *Excise Tax Act*, in computing the amount of the taxpayer's non-capital loss for a taxation year (in this subsection referred to as the 'loss year') that is one of the 7 taxation years preceding the particular year, there shall be deducted the lesser of

(*a*) the amount, if any, by which

(i) 10 times the amount, if any, by which

(A) the total of all rebates received by the taxpayer in the particular year

exceeds

(B) the total of all amounts, in respect of rebates received by the taxpayer in the particular year, repaid by the taxpayer under subsection 8.4(7) of that Act

exceeds

(ii) the total of all amounts, in respect of rebates received in the particular year, deducted under this subsection in computing the taxpayer's non-capital losses for other taxation years, and"

S. 111(10) was added by S.C. 1994, c. 7, Sched. VI, s. 5(2), applicable with respect to amounts received after 1991. S. 111(10) was s. 111(9) in the former Act.

► 111(11) ◄

(11) Fuel tax rebate — partnerships. Where a taxpayer was a member of a partnership at any time in a fiscal period of the partnership during which it received a fuel tax rebate under subsection 68.4(2), (3) or (3.1) of the *Excise Tax Act*, the taxpayer is deemed

(*a*) to have received at that time as a rebate under subsection 68.4(2), (3) or (3.1), as the case may be, of that Act an amount equal to that proportion of the amount of the rebate received by the partnership that the member's share of the partnership's income or loss for that fiscal period is of the whole of that income or loss, determined without reference to any rebate under section 68.4 of that Act; and

(*b*) to have paid as a repayment under subsection 68.4(7) of that Act an amount equal to that proportion of all amounts repaid under subsection 68.4(7) of that Act in respect of the rebate that the member's share of the partnership's income or loss for that fiscal period is of the whole of that income or loss, determined without reference to any rebate under section 68.4 of that Act.

History: S. 111(11), the portion before paragraph (*b*), was amended by S.C. 1997, c. 26, s. 84(2), applicable to the 1997 and subsequent taxation years. That part formerly read:

"(11) *Idem — partnerships.* Where a taxpayer was a member of a partnership at any time in a fiscal period during which the partnership received a fuel tax rebate under subsection 68.4(2) or (3) of the *Excise Tax Act*, the taxpayer is deemed

(*a*) to have received at that time as a rebate under subsection 68.4(2) or (3), as the case may be, of that Act an amount equal to that proportion of the amount of the rebate received by the partnership that the member's share of the partnership's income or loss for that fiscal period is of the whole of that income or loss, determined without reference to any rebate under section 68.4 of that Act; and"

S. 111(11) was added by S.C. 1994, c. 7, Sched. VI, s. 5(2), applicable with respect to amounts received after 1991. S. 111(11) was s. 111(10) in the former Act.

► 111(12) ◄

(12) Foreign currency debt on acquisition of control. For the purposes of subsection (4), if at any time a corporation owes a foreign currency debt in respect of which the corporation would have had, if the foreign currency debt had been repaid at that time, a capital loss or gain, the corporation is deemed to own at the time (in this subsection referred to as the "measurement time") that is immediately before that time a property

(*a*) the adjusted cost base of which at the measurement time is the amount determined by the formula

$$A + B - C$$

where

A is the amount of principal owed by the corporation under the foreign currency debt at the measurement time, calculated, for greater certainty, using the exchange rate applicable at the measurement time,

B is the portion of any gain, previously recognized in respect of the foreign currency debt because of this section, that is reasonably attributable to the amount described in A, and

C is the portion of any capital loss previously recognized in respect of the foreign currency debt because of this section, that is reasonably attributable to the amount described in A; and

(*b*) the fair market value of which is the amount that would be the amount of the principal owed by the corporation under the foreign currency debt at the measurement time if that amount were calculated using the exchange rate applicable at the time of the original borrowing.

History: S. 111(12) was added by S.C. 2009, c. 2, s. 30(2), applicable to any acquisition of control of a corporation that occurs

(*a*) after March 7, 2008, other than an acquisition of control that occurs before 2009 under the terms of an agreement made in writing on or before March 7, 2008; or

(*b*) after 2005, if the corporation so elects in writing and files the election with the Minister of National Revenue on or before the corporation's filing-due date for the corporation's taxation year that includes the day on which this Act is assented to [R.A. March 12, 2009].

If an election under paragraph (*b*) [above] is made by the corporation in respect of an acquisition of control, a designation under paragraph 111(4)(*e*) by the corporation for its taxation year that ended immediately before the acquisition of control is deemed to have been made in a timely manner if that designation is made on or before the corporation's filing-due date for its taxation year that includes the day on which this Act is assented to [R.A. March 12, 2009].

Editorial Note: Subsection 111(12) provides that a foreign currency debt owed by a corporation at any time that would otherwise generate a capital gain or loss if repaid at that time — namely, a foreign currency capital gain or loss — is deemed to a property owned by the corporation for the purposes of the accrued loss write-down rules of subsection 111(4) that apply upon an acquisition of control of the corporation. Accordingly, a foreign currency debt with an accrued loss will be subject to the write-down rule, and the loss will be realized by the corporation in its taxation year ending immediately before the acquisition of control. Note that the election in paragraph 111(4)(*e*) can apply to a foreign currency debt obligation of the corporation with an accrued foreign exchange gain immediately before the acquisition of control.

Related Sections: S. 40(10) Application; s. 40(11) Gain or loss on foreign currency debt; s. 111(4) Acquisition of control; s. 111(8), "exchange rate", "foreign currency debt".

SECTION 111.1: Order of applying provisions.

In computing an individual's taxable income for a taxation year, the provisions of this Division shall be applied in the following order: sections 110, 110.2, 111, 110.6 and 110.7.

History: S. 111.1 was amended by S.C. 2000, c. 19, s. 20(1), applicable to the 1998 and subsequent taxation years.

"S. 111.1. *Order of applying provisions.* In computing the taxable income of an individual for a taxation year, the provisions of this Division shall be applied in the following order: subsection 110.4(2) and sections 110, 111, 110.6 and 110.7."

Interpretation Bulletins: *Primary* — IT-523 Order of provisions applicable in computing an individual's taxable income and tax payable. *Secondary* — IT-232R3 Losses — Their deductibility in the loss year or in other years.

Advance Tax Rulings: ATR-27 Exchange and acquisition of interests in capital properties through rollovers and winding-up ("Butterfly"); ATR-32 Roll-over of fixed assets from Opco into Holdco.

SECTION 112:

► 112(1) ◄

(1) Deduction of taxable dividends received by corporation resident in Canada. Where a corporation in a taxation year has received a taxable dividend from

(*a*) a taxable Canadian corporation, or

(*b*) a corporation resident in Canada (other than a non-resident-owned investment corporation or a corporation exempt from tax under this Part) and controlled by it,

an amount equal to the dividend may be deducted from the income of the receiving corporation for the year for the purpose of computing its taxable income.

Related Sections: S. 112(2.1) Where no deduction permitted; s. 112(2.2) Guaranteed shares; s. 138(6) Deduction for dividends from taxable corporations; s. 186(1) Tax on assessable dividends; s. 192(1) Corporation to pay tax.
Interpretation Bulletins: *Secondary* — IT-98R2 Investment corporations [Archived by the CRA]; IT-232R3 Losses — Their deductibility in the loss year or in other years; IT-269R4 Part IV tax on taxable dividends received by a private corporation or a subject corporation; IT-524 Trusts — Flow-through of taxable dividends to a beneficiary — After 1987.
Information Circulars: IC 88-2 General anti-avoidance rule — Section 245 of the Income Tax Act (para. 13).
Advance Tax Rulings: ATR-16 Inter-company dividends and interest expense; ATR-18 Term preferred shares; ATR-27 Exchange and acquisition of interests in capital properties through rollovers and winding-up ("Butterfly"); ATR-32 Roll-over of fixed assets from Opco into Holdco; ATR-35 Partitioning of assets to get specific ownership — "Butterfly"; ATR-58 Divisive reorganization.
Tax Profile: October 2004 — Taxation of Dividends: A Survey in the Context of Private Corporations and Their Shareholders.

► 112(2) ◄

(2) Dividends received from non-resident corporation. Where a taxpayer that is a corporation has, in a taxation year, received a dividend from a corporation (other than a foreign affiliate of the taxpayer) that was taxable under subsection 2(3) for the year and that has, throughout the period from June 18, 1971 to the time when the dividend was received, carried on a business in Canada through a permanent establishment as defined by regulation, an amount equal to that proportion of the dividend that the paying corporation's taxable income earned in Canada for the immediately preceding year is of the whole of the amount that its taxable income for that year would have been if it had been resident in Canada throughout that year, may be deducted from the income of the receiving corporation for the taxation year for the purpose of computing its taxable income.

Related Sections: S. 55(2) Deemed proceeds or capital gain; s. 95(1), "foreign affiliate"; s. 112(2.1) Where no deduction permitted; s. 112(2.2) Guaranteed shares; s. 247(1) Transfer pricing — definitions.
Regulations: Part LI; 400(2); 8201.

► 112(2.1) ◄

(2.1) Where no deduction permitted. No deduction may be made under subsection (1) or (2) in computing the taxable income of a specified financial institution in respect of a dividend received by it on a share that was, at the time the dividend was paid, a term preferred share, other than a dividend paid on a share of the capital stock of a corporation that was not acquired in the ordinary course of the business carried on by the institution, and for the purposes of this subsection, where a restricted financial institution received the dividend on a share of the capital stock of a mutual fund corporation or an investment corporation at any time after that mutual fund corporation or investment corporation has elected pursuant to subsection 131(10) not to be a restricted financial institution, the share shall be deemed to be a term preferred share acquired in the ordinary course of business.

Editorial Note: This provision, which may deny normal deductions for intercorporate dividends, applies to a specified financial institution ("SFI") which acquires a term preferred share (both terms being defined in subsection 248(1)) outside the ordinary course of business. An SFI includes a corporation whose principal business is arm's length money lending and/or purchasing of debt obligations, as well as related corporations. Because of this surprisingly wide definition, it may be necessary to rely on the outside-the-ordinary-course-of-business exception, a concept on which there has been comparatively little authority in Canadian tax law.

Related Sections: S. 191(4) Deemed dividends; s. 248(1), "amount", "term preferred share"; s. 248(14) Related corporations; s. 258(2) Deemed dividend on term preferred share.
Interpretation Bulletins: *Secondary* — IT-52R4 Income bonds and income debentures [Archived by the CRA].
Advance Tax Rulings: ATR-10 Issue of term preferred shares; ATR-16 Inter-company dividends and interest expense; ATR-18 Term preferred shares.
Tax Profile: October 2004 — Taxation of Dividends: A Survey in the Context of Private Corporations and Their Shareholders.
Canadian Tax Foundation: Moskowitz, "The Preferred Share Rules: Yes, They Can Apply to You!", *1997 Conference Report*, 9:1.
Cases: The taxpayer acquired preferred shares that included the right to convert to common shares at a ratio determined at the time of conversion. The conversion right did not constitute a "form of guarantee, security or similar indemnity or covenant". Therefore the shares were not "term preferred shares" and the taxpayer was entitled to deduct the dividends received thereon. *The Queen v. Citibank Canada*, 2002 DTC 6876 (F.C.A.), affirming 2001 DTC 111 (T.C.C.).

The taxpayer's philosophy had been to acquire investments in ordinary shares in order to perform what it saw to be its role as an active partner in the management of a limited number of development businesses. The term preferred shares in issue were acquired upon the conversion of its original debenture holding. This was an exceptional situation not occurring within the "ordinary course" of its business. *Société d'Investissement Desjardins v. M.N.R.*, 91 DTC 373 (T.C.C.), 393.

► 112(2.2) ◄

(2.2) Guaranteed shares. No deduction may be made under subsection (1), (2) or 138(6) in computing the taxable income of a particular corporation in respect of a dividend received on a share of the capital stock of a corporation that was issued after 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987 where

(*a*) a person or partnership (in this subsection and subsection (2.21) referred to as the "guarantor") that is a specified financial institution or a specified person in relation to any such institution, but that is not the issuer of the share or an individual other than a trust, is, at or immediately before the time the dividend is paid, obligated, either absolutely or contingently and either immediately or in the future, to effect any undertaking (in this subsection and subsections (2.21) and (2.22) referred to as a "guarantee agreement"), including any guarantee, covenant or agreement to purchase or repurchase the share and including the lending of funds to or the placing of amounts on deposit with, or on behalf of, the particular corporation or any specified person in relation to the particular corporation given to ensure that

(i) any loss that the particular corporation or a specified person in relation to the particular corporation may sustain by reason of the ownership, holding or disposition of the share or any other property is limited in any respect, or

(ii) the particular corporation or a specified person in relation to the particular corporation will derive earnings by reason of the ownership,

holding or disposition of the share or any other property, and

(*b*) the guarantee agreement was given as part of a transaction or event or a series of transactions or events that included the issuance of the share.

History: S. 112(2.2) was amended by S.C. 2001, c. 17, s. 88(1), applicable in respect of dividends received after 1998. S. 112(2.2) formerly read:

"(2.2) *Idem.* No deduction may be made under subsection (1), (2) or 138(6) in computing the taxable income of a particular corporation in respect of a dividend received on a share of the capital stock of a corporation that was issued after 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987 where a person or partnership (other than the issuer of the share or an individual other than a trust) that is a specified financial institution or a specified person in relation to any such institution was, at or immediately before the time the dividend was paid, obligated, either absolutely or contingently and either immediately or in the future, to effect any undertaking (in this subsection referred to as a 'guarantee agreement'), including any guarantee, covenant or agreement to purchase or repurchase the share and including the lending of funds to or the placing of amounts on deposit with, or on behalf of, the particular corporation or any specified person in relation to the particular corporation given to ensure that

(*a*) any loss that the particular corporation or a specified person in relation to the particular corporation may sustain by reason of the ownership, holding or disposition of the share or any other property is limited in any respect, or

(*b*) the particular corporation or a specified person in relation to the particular corporation will derive earnings by reason of the ownership, holding or disposition of the share or any other property,

and the guarantee agreement was given as part of a transaction or event or a series of transactions or events that included the issuance of the share, except that this subsection does not apply to a dividend received on

(*c*) a share that was at the time the dividend was received a share described in paragraph (*e*) of the definition 'term preferred share' in subsection 248(1) during the applicable time period referred to in that paragraph,

(*d*) a grandfathered share, a taxable preferred share issued before December 16, 1987 or a prescribed share, or

(*e*) a taxable preferred share issued after December 15, 1987 and of a class of the capital stock of a corporation that is listed on a prescribed stock exchange where all guarantee agreements in respect of the share were given by the issuer of the share, by one or more persons that would be related to the issuer if this Act were read without reference to paragraph 251(5)(*b*) or by the issuer and one or more such persons unless at the time the dividend is received the shareholder or the shareholder and specified persons in relation to the shareholder receive dividends in respect of more than 10 per cent of the issued and outstanding shares to which the guarantee agreement applies,

and for the purposes of this subsection

(*f*) where a guarantee agreement in respect of a share is given at any particular time after 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987, otherwise than pursuant to a written arrangement to do so entered into before 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987, the share shall be deemed to have been issued at the particular time and the guarantee agreement shall be deemed to have been given as part of a series of transactions that included the issuance of the share, and

(*g*) 'specified person' has the meaning assigned by paragraph (*h*) of the definition 'taxable preferred share' in subsection 248(1)."

Editorial Note: This provision, which may deny normal deductions for intercorporate dividends, applies where, as part of the series of transactions involving the issuance of shares, a specified financial institution ("SFI") or a "specified person" in relation thereto enters into certain arrangements (referred to as "guarantee agreements") to ensure earnings or limit losses in respect thereof. An SFI, per subsection 248(1), includes a corporation whose principal business is arm's length money lending and/or purchasing of debt obligations, as well as related corporations. "Specified person" (per paragraph (*h*) of the taxable preferred share definition in subsection 248(1)) includes a person who is non-arm's length with the SFI or with certain associated partnerships or trusts. An exclusion will apply where the share and guarantee agreement are acquired/given in the ordinary course of business and the issuer is related to the particular corporation.

Related Sections: S. 84(4.3) Deemed dividend on guaranteed share; s. 87(4.2) Exchanged shares — amalgamations after November 27, 1986; s. 112(2.21) Exceptions; s. 112(2.22) Interpretation; s. 187.1 Definition of "excepted dividend"; s. 191(1), "private holding corporation"; s. 248(1), "amount"; "specified financial institution"; s. 248(10) Series of transactions; s. 248(14) Related corporations; s. 258(3) Deemed interest on preferred shares; s. 258(5) Deemed interest on certain shares.

Regulations: 3200; 6201(3); 6201(8).

Advance Tax Rulings: ATR-16 Inter-company dividends and interest expense.

Tax Profile: October 2004 — Taxation of Dividends: A Survey in the Context of Private Corporations and Their Shareholders.

► 112(2.21) ◄

(2.21) Exceptions. Subsection (2.2) does not apply to a dividend received by a particular corporation on

(*a*) a share that is at the time the dividend is received a share described in paragraph (*e*) of the definition "term preferred share" in subsection 248(1);

(*b*) a grandfathered share, a taxable preferred share issued before December 16, 1987 or a prescribed share;

(*c*) a taxable preferred share issued after December 15, 1987 and of a class of the capital stock of a corporation that is listed on a designated stock exchange where all guarantee agreements in respect of the share were given by one or more of the issuer of the share and persons that are related (otherwise than because of a right referred to in paragraph 251(5)(*b*)) to the issuer unless, at the time the dividend is paid to the particular corporation, dividends in respect of more than 10 per cent of the issued and outstanding shares to which the guarantee agreement applies are paid to the particular corporation or the particular corporation and specified persons in relation to the particular corporation; or

(*d*) a share

(i) that was not acquired by the particular corporation in the ordinary course of its business,

(ii) in respect of which the guarantee agreement was not given in the ordinary course of the guarantor's business, and

(iii) the issuer of which is, at the time the dividend is paid, related (otherwise than because of a right referred to in paragraph 251(5)(*b*)) to both the particular corporation and the guarantor.

History: S. 112(2.21)(*c*) was amended by S.C. 2007, c. 35, s. 68(2), by replacing "prescribed stock exchange" with "designated stock exchange", applicable on and after December 14, 2007 [the day on which this Act is assented to].

S. 112(2.21) was added by S.C. 2001, c. 17, s. 88(1), applicable in respect of dividends received after 1998.

Related Sections: S. 248(1), "grandfathered share".

► 112(2.22) ◄

(2.22) Interpretation. For the purposes of subsections (2.2) and (2.21),

(*a*) where a guarantee agreement in respect of a share is given at any particular time after 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987, otherwise than under a written arrangement to do so entered into before 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987, the share is deemed to have been issued at the particular time and the guarantee agreement is deemed to have been given as part of a series of transactions that included the issuance of the share; and

(*b*) "specified person" has the meaning assigned by paragraph (*h*) of the definition "taxable preferred share" in subsection 248(1).

History: S. 112(2.22) was added by S.C. 2001, c. 17, s. 88(1), applicable in respect of dividends received after 1998.

► 112(2.3) ◄

(2.3) Idem. No deduction may be made under subsection (1) or (2) or 138(6) in computing the taxable income of a particular corporation in respect of a dividend received on a share of the capital stock of a corporation as part of a dividend rental arrangement of the particular corporation.

Editorial Note: This provision, which may deny normal deductions for intercorporate dividends, applies to a "dividend rental arrangement". Per subsection 248(1), this includes an arrangement where it can reasonably be considered that the main reason for entering into the arrangement was to enable the person to receive a dividend, and under the arrangement someone other than that person bears the risk of loss or enjoys the opportunity for gain or profit with respect to the share in any material respect. This surprisingly wide definition can potentially apply to many situations where there is short-lived ownership of a share on which dividends are received.

Related Sections: S. 248(1), "dividend rental arrangement".
Tax Profile: October 2004 — Taxation of Dividends: A Survey in the Context of Private Corporations and Their Shareholders.

► 112(2.4) ◄

(2.4) Where no deduction permitted. No deduction may be made under subsection (1) or (2) or subsection 138(6) in computing the taxable income of a particular corporation in respect of a dividend received on a share (in this subsection referred to as the "subject share"), other than an exempt share, of the capital stock of another corporation where

(*a*) any person or partnership was obligated, either absolutely or contingently, to effect an undertaking, including any guarantee, covenant or agreement to purchase or repurchase the subject share, under which an investor is entitled, either immediately or in the future, to receive or obtain any amount or benefit for the purpose of reducing the impact, in whole or in part, of any loss that an investor may sustain by virtue of the ownership, holding or disposition of the subject share, and any property is used, in whole or in part, either directly or indirectly in any manner whatever, to secure the undertaking; or

(*b*) the consideration for which the subject share was issued or any other property received, either directly or indirectly, by an issuer from an investor, or any property substituted therefor, is or includes

(i) an obligation of an investor to make payments that are required to be included, in whole or in part, in computing the income of the issuer, other than an obligation of a corporation that, immediately before the subject share was issued, would be related to the corporation that issued the subject share if this Act were read without reference to paragraph 251(5)(*b*), or

(ii) any right to receive payments that are required to be included, in whole or in part, in computing the income of the issuer where that right is held on condition that it or property substituted therefor may revert or pass to an investor or a person or partnership to be determined by an investor,

where that obligation or right was acquired by the issuer as part of a transaction or event or a series of transactions or events that included the issuance or acquisition of the subject share, or a share for which the subject share was substituted.

History: Subparagraph 112(2.4)(*b*)(i) of the Act was amended by S.C. 1994, c. 7, Sched. II, s. 84(1), applicable after 5:00 p.m. Eastern Standard Time, November 27, 1986. Subparagraph 112(2.4)(*b*)(i) formerly read:

"(i) an obligation of an investor to make payments that are required to be included, in whole or in part, in computing the income of the issuer, other than an obligation of a corporation, that immediately before the subject share was issued, would be related to the corporation that issued the subject share if this Act were read without reference to paragraph 251(5)(*b*), or"

Editorial Note: This provision, which may deny normal deductions for intercorporate dividends, is directed against arrangements designed to protect share investments in corporations with undeducted balances (e.g., where an investor corporation injects investment income into a "Lossco", and expects to receive tax-free dividends on shares taken back from the Lossco/issuer). It is therefore reminiscent of subsection 69(11).

The provision may apply where the investor may be entitled to obtain an amount or benefit from the issuer or a third party for the purpose of reducing the impact of any loss that it may sustain from the shares (including any guarantee, covenant or agreement to purchase the share), and the undertaking is secured (see paragraph (a)). Alternatively, subsection 112(2.4) may apply where (as part of the series involving the issuance or acquisition of the share or substituted share) consideration for the share includes either an obligation of an investor to make payments included in the issuer's income, or the right to receive payments included in the issuer's income with reversionary rights relating to the investor (see paragraph (b)).

Per 112(2.5), the denial will apply only where the share was issued in a transaction that enabled any corporation (usually the issuer) to earn "investment income" or "substituted" income, and as a result, the taxes of the corporation were lower than if this were its only income (e.g., it did not have loss balances).

Related Sections: S. 69(11) Deemed proceeds of disposition; s. 112(2.5)–s. 112(2.9); s. 258(5) Deemed interest on certain shares.
Tax Profile: October 2004 — Taxation of Dividends: A Survey in the Context of Private Corporations and Their Shareholders.

► 112(2.5) ◄

(2.5) Application of s. (2.4). Subsection (2.4) applies only in respect of a dividend on a share where, having regard to all the circumstances, it may reasonably be considered that the share was issued or acquired as part of a transaction or event or a series of transactions or events that enabled any corporation to earn investment income, or any income substituted therefor, and, as a result, the amount of its taxes payable under this Act for a taxation year is less than the amount that its taxes payable under this Act would be for the year if that investment income were the only income of the corporation for the year and all other taxation years and no amount were deductible under subsections 127(5) and 127.2(1) in computing its taxes payable under this Act.

► 112(2.6) ◄

(2.6) Definitions. For the purposes of this subsection and subsection (2.4),

"*exempt share*" — "exempt share" means

(*a*) a prescribed share,

(*b*) a share of the capital stock of a corporation issued before 5:00 p.m. Eastern Standard Time, November 27, 1986, other than a share held at that time

(i) by the issuer, or

(ii) by any person or partnership where the issuer may become entitled to receive any amount after that time by way of subscription proceeds or contribution of capital with respect to that share pursuant to an agreement made before that time, or

(*c*) a share that was, at the time the dividend referred to in subsection (2.4) was received, a share described in paragraph (*e*) of the definition "term preferred share" in subsection 248(1) during the applicable period referred to in that paragraph;

History: S. 112(2.6), the definition of "exempt share", was amended to add paragraph (*c*), by S.C. 1994, c. 21, s. 51(1), applicable after December 21, 1992.

"investor" — "investor" means the particular corporation referred to in subsection (2.4) and a person with whom that corporation does not deal at arm's length and any partnership or trust of which that corporation, or a person with whom that corporation does not deal at arm's length, is a member or beneficiary, but does not include the other corporation referred to in that subsection;

"issuer" — "issuer" means the other corporation referred to in subsection (2.4) and a person with whom that corporation does not deal at arm's length and any partnership or trust of which that corporation, or a person with whom that corporation does not deal at arm's length, is a member or beneficiary, but does not include the particular corporation referred to in that subsection.

► 112(2.7) ◄

(2.7) Change in agreement or condition. For the purposes of the definition "exempt share" in subsection (2.6), where at any time after 5:00 p.m. Eastern Standard Time, November 27, 1986 the terms or conditions of a share of the capital stock of a corporation have been changed or any agreement in respect of the share has been changed or entered into by the corporation, the share shall be deemed to have been issued at that time.

► 112(2.8) ◄

(2.8) Loss sustained by investor. For the purposes of paragraph (2.4)(*a*), any loss that an investor may sustain by virtue of the ownership, holding or disposition of the subject share referred to in that paragraph shall be deemed to include any loss with respect to an obligation or share that was issued or acquired as part of a transaction or event or a series of transactions or events that included the issuance or acquisition of the subject share, or a share for which the subject share was substituted.

► 112(2.9) ◄

(2.9) Related corporations. For the purposes of subparagraph (2.4)(*b*)(i), where it may reasonably be considered having regard to all the circumstances that a corporation has become related to any other corporation for the purpose of avoiding any limitation on the deduction of a dividend under subsection (1), (2) or 138(6), the corporation shall be deemed not to be related to the other corporation.

Advance Tax Rulings: ATR-58 Divisive reorganization.

► 112(3) ◄

(3) Loss on share that is capital property. Subject to subsections (5.5) and (5.6), the amount of any loss of a taxpayer (other than a trust) from the disposition of a share that is capital property of the taxpayer (other than a share that is property of a partnership) is deemed to be the amount of the loss determined without reference to this subsection minus,

(*a*) where the taxpayer is an individual, the lesser of

(i) the total of all amounts each of which is a dividend received by the taxpayer on the share in respect of which an election was made under subsection 83(2) where subsection 83(2.1) does not deem the dividend to be a taxable dividend, and

(ii) the loss determined without reference to this subsection minus all taxable dividends received by the taxpayer on the share; and

(*b*) where the taxpayer is a corporation, the total of all amounts received by the taxpayer on the share each of which is

(i) a taxable dividend, to the extent of the amount of the dividend that was deductible under this section or subsection 115(1) or 138(6) in computing the taxpayer's taxable income or taxable income earned in Canada for any taxation year,

(ii) a dividend in respect of which an election was made under subsection 83(2) where subsection 83(2.1) does not deem the dividend to be a taxable dividend, or

(iii) a life insurance capital dividend.

History: Subsections 112(3) to (3.32) were amended by S.C. 1998, c. 19, s. 131(1). Under S.C. 1998, c. 19, s. 131(11), as subsequently amended by S.C. 2001, c. 17, s. 251(1), effective for the 2000 and subsequent taxation years, subsections 112(3) to (3.32) apply to dispositions that occur after April 26, 1995 other than

(*a*) a disposition that occurs pursuant to an agreement in writing made before April 27, 1995;

(*b*) a disposition of a share of the capital stock of a corporation that is made to the corporation if

(i) on April 26, 1995 the share was owned by an individual (other than a trust) or by a particular trust under which an individual (other than a trust) was a beneficiary,

(ii) on April 26, 1995 a corporation, or a partnership of which a corporation is a member, was a beneficiary of a life insurance policy that insured the life of the individual or the individual's spouse,

(iii) it was reasonable to conclude on April 26, 1995 that a main purpose of the life insurance policy was to fund, directly or indirectly, in whole or in part, a redemption, acquisition or cancellation of the share by the corporation that issued the share, and

(iv) the disposition is made by

(A) the individual or the individual's spouse or common-law partner,

(B) the estate of the individual or of the individual's spouse or common-law partner within the estate's first taxation year,

(C) the particular trust where it is a post-1971 spousal or common-law partner trust or a trust described in paragraph 104(4)(a.1) of the *Income Tax Act*, the individual's spouse or common-law partner, as the case may be, is the beneficiary referred to in subparagraph (i) and the disposition occurs before the end of the trust's third taxation year that begins after the death of the individual's spouse or common-law partner, as the case may be, or

(D) a trust described in paragraph 73(1.01)(*c*) of that Act created by the individual, or a trust described in paragraph 70(6)(*b*) of that Act created by the individual's will in respect of the individual's spouse or common-law partner, before the end of the trust's third taxation year that begins after the death of the individual or the individual's spouse or common-law partner, as the case may be;

(*c*) a disposition of a share of the capital stock of a corporation owned by an individual on April 26, 1995 that was made by the individual's estate before 1997;

(*d*) a disposition of a share of the capital stock of a corporation owned by an estate on April 26, 1995, the first taxation year of which ended after that day, that was made by the estate before 1997; or

(*e*) a disposition of a share of the capital stock of a corporation owned by an individual on April 26, 1995 where the individual is a trust described in paragraph 104(4)(*a*) or (a.1) of the Act in respect of a spouse, that was made by the trust after the spouse's death and before 1997.

Subsection 131(12) of S.C. 1998, c. 19 provides the following: For the purposes of paragraph (11)(*b*) [(*b*) above] and this subsection, a share of the capital stock of a corporation acquired in exchange for another share in a transaction to which section 51, 85, 86 or 87 of the Act applies is deemed to be the same share as the other share.

Subsection 251(2) of S.C. 2001, c. 17 provides that:

(*a*) In respect of the 1998 and 1999 taxation years, where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998 or 1999 taxation year jointly elect under section 144 of the *Modernization of Benefits and Obligations Act* [S.C. 2000, c. 12] to have sections 130 to 142 of that Act apply, if applicable, to the 1998 or 1999 taxation year, subparagraph 131(11)(*b*)(iv) of the *Income Tax Amendments Act, 1997* [S.C. 1998, c. 19], reproduced above, shall be read as follows for the applicable year:

"(iv) the disposition is made by

(A) the individual or the individual's spouse or common-law partner,

(B) the estate of the individual or of the individual's spouse or common-law partner within the estate's first taxation year,

(C) the particular trust where it is a trust described in paragraph 104(4)(*a*) or (*a*.1) of the *Income Tax Act* in respect of a spouse or common-law partner, the spouse or common-law partner is the beneficiary referred to in subparagraph (i) and the disposition occurs before the end of the trust's third taxation year that begins after the death of the spouse or common-law partner, or

(D) a trust described in paragraph 73(1)(*c*) of that Act created by the individual in respect of the individual's spouse or common-law partner, or a trust described in paragraph 70(6)(*b*) of that Act created by the individual's will in respect of the individual's spouse or common-law partner, before the end of the trust's third taxation year that begins after the death of the spouse or common-law partner;"

(*b*) In respect of the 2000 taxation year, where a joint election has not been filed by the taxpayer and a person who would have been the taxpayer's common-law partner in the year 2000 to have sections 130 to 142 of the *Modernization of Benefits and Obligations Act* [S.C. 2000, c. 12] apply to the year 2000, subparagraph 131(11)(*b*)(iv) of the *Income Tax Amendments Act, 1997* [S.C. 1998, c. 19], reproduced above, shall be read as follows for that year, namely;

"(iv) the disposition is made by

(A) the individual or the individual's spouse,

(B) the estate of the individual or of the individual's spouse within the estate's first taxation year,

(C) the particular trust where it is a post-1971 spousal or common-law partner trust or a trust described in paragraph 104(4)(*a*.1) of the *Income Tax Act*, the individual or the individual's spouse, as the case may be, is the beneficiary referred to in subparagraph (i) and the disposition occurs before the end of the trust's third taxation year that begins after the death of the individual or the individual's spouse, as the case may be, or

(D) a trust described in paragraph 73(1.01)(*c*) of that Act created by the individual, or a trust described in paragraph 70(6)(*b*) of that Act created by the individual's will in respect of the individual's spouse, before the end of the trust's third taxation year that begins after the death of the individual or the individual's spouse, as the case may be;"

Subsection 131(11) of S.C. 1998, c. 19, reproduced above, formerly read as follows:

"(*a*) a disposition that occurs pursuant to an agreement in writing made before April 27, 1995;

(*b*) a disposition of a share of the capital stock of a corporation that is made to the corporation if

(i) on April 26, 1995 the share was owned by an individual (other than a trust) or by a particular trust under which an individual (other than a trust) was a beneficiary,

(ii) on April 26, 1995 a corporation, or a partnership of which a corporation is a member, was a beneficiary of a life insurance policy that insured the life of the individual or the individual's spouse,

(iii) it was reasonable to conclude on April 26, 1995 that a main purpose of the life insurance policy was to fund, directly or indirectly, in whole or in part, a redemption, acquisition or cancellation of the share by the corporation that issued the share, and

(iv) the disposition is made by

(A) the individual or the individual's spouse,

(B) the estate of the individual or of the individual's spouse within the estate's first taxation year,

(C) the particular trust where it is a trust described in paragraph 104(4)(*a*) or (*a*.1) of the Act in respect of a spouse, the spouse is the beneficiary referred to in subparagraph (i) and the disposition occurs before the end of the trust's third taxation year that begins after the spouse's death, or

(D) a trust described in paragraph 73(1)(*c*) of the Act created by the individual in respect of the individual's spouse, or a trust described in paragraph 70(6)(*b*) of the Act created by the individual's will in respect of the individual's spouse, before the end of the trust's third taxation year that begins after the spouse's death;

(*c*) a disposition of a share of the capital stock of a corporation owned by an individual on April 26, 1995 that was made by the individual's estate before 1997;

(*d*) a disposition of a share of the capital stock of a corporation owned by an estate on April 26, 1995, the first taxation year of which ended after that day, that was made by the estate before 1997; or

(*e*) a disposition of a share of the capital stock of a corporation owned by an individual on April 26, 1995 where the individual is a trust described in paragraph 104(4)(*a*) or (*a*.1) of the Act in respect of a spouse, that was made by the trust after the spouse's death and before 1997."

S. 112(3) formerly read:

"(3) *Loss on share that is capital property.* Subject to subsections (5.5) and (5.6), where a corporation owns a share that is a capital property and receives a taxable dividend, a capital dividend or a life insurance capital dividend in respect of that share, the amount of any loss of the corporation arising from transactions with reference to the share on which the dividend was received shall, unless it is established by the corporation that

(*a*) the corporation owned the share 365 days or longer before the loss was sustained, and

(*b*) the corporation and persons with whom the corporation was not dealing at arm's length did not, at the time the dividend was received, own in the aggregate more than 5% of the issued shares of any class of the capital stock of the corporation from which the dividend was received,

be deemed to be the amount of that loss otherwise determined, minus the total of all amounts each of which is an amount received by the corporation in respect of

(*c*) a taxable dividend on the share to the extent that the amount of the dividend was deductible from the corporation's income for any taxation year by virtue of this section or subsection 138(6) and was not an amount on which the corporation was required to pay tax under Part VII of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read on March 31, 1977,

(*d*) a capital dividend on the share, or

(*e*) a life insurance capital dividend on the share."

S. 112(3), the portion before paragraph (*a*), was amended by S.C. 1995, c. 21, s. 56(1), applicable to dispositions occurring after October 30, 1994. That part formerly read:

"(3) *Loss on share that is capital property.* Where a corporation owns a share that is a capital property and receives a taxable dividend, a capital dividend or a life insurance capital dividend in respect of that share, the amount of any loss of the corporation arising from transactions with reference to the share on which the dividend was received shall, unless it is established by the corporation that"

Editorial Note: Subsection 112(3) is a stop-loss rule which may deny a portion of a capital loss on the disposition of a share of a corporation by a natural person (i.e., an individual other than a trust, to which separate provisions apply), or by a corporation, as a result of the receipt of tax-advantaged dividends (including by virtue of deemed dividends on a share redemption, which may trigger the loss itself).

In the case of a natural person, the loss is reduced by the total amount of capital dividends received on the share (more precisely, a dividend on which a capital dividend election has been made including excessive elections, but not including a separate taxable dividend per a subsection 184(3) election or a would-be capital dividend subject to the capital dividend anti-avoidance rules in subsection 83(2.1)). However, the amount subject to the stop-loss is reduced if the loss otherwise determined, less taxable dividends received on the share, is less than this amount; in other words, taxable dividends can enlarge the loss that can be claimed (paragraph 112(3)(*a*)).

In the case of a corporation, the capital loss on a disposition of a share in another corporation is reduced by: (i) tax-free intercorporate dividends (e.g., dividends deductible under section 112, but not under section 113); (ii) capital dividends (as described above); and (iii) life insurance capital dividends received on the share (paragraph 112(3)(*b*)).

Dividends which would otherwise enlarge the disallowed loss are ignored in computing the amount of the denied losses, per a "5/365 exception" (per subsection 112(3.01)), which applies if the dividend was received when the shareholder and non-arm's length persons did not own more than 5% of the shares of any class (or series) in the corporation, and the shares were owned throughout the 365-day period before the disposition (subsection 112(3.01)). This means that the stop-loss rules will not apply if a taxpayer and non-arm's length persons did not hold more than 5% of the class (or series) of shares, if held for the 365 day period.

Subsection 112(7) preserves the continuity of the stop-loss rules through specified reorganizations; subsection 112(6) contains some definitions relevant to section 112.

Fairly similar stop-loss rules apply to shares held by partnerships (subsection 112(3.1)), trusts (subsections 112(3.2)–(3.32)), shares that are not capital property (subsections 112(4)–(4.22)) and shares held by financial institutions (subsections 112(5)–(5.6)). Where a shareholder and the corporation redeeming its shares are affiliated immediately afterward, subsection 40(3.6) potentially applies as well; while the denied loss per this provision is added to the cost base of the shareholder per paragraph 53(1)(*f.2*), this is calculated after the effect of subsection 112(3).

Related Sections: S. 40(1) Gains and losses; s. 40(3.6) Loss on shares; s. 40(3.7) Losses of non-resident; s. 53(1)(*f*) Adjustments to cost base — Substituted property; s. 53(1)(*f.2*) Adjustments to cost base — Denied loss on transfer of shares to corporation; s. 54, "capital property"; s. 83(2) Capital dividend; s. 83(2.1) Capital dividend — anti-avoidance rule; s. 87(2)(*x*) Taxable dividends; s. 89(1), "capital dividend account"; s. 112(3.01) Loss on share that is capital property — excluded dividends; s. 112(3.1) Loss on share held by partnership; s. 112(3.2) Loss on share held by trust; s. 112(3.3) Loss on share held by trust — special cases; s. 112(3.31) Loss on share held by trust — excluded dividends; s. 112(3.32) Loss on share held by trust — excluded dividends; s. 112(4) Loss on share that is not capital property; s. 112(4.01) Loss on share that is not capital property — excluded dividends; s. 112(4.1) Fair market value of shares held as inventory; s. 112(4.11) Fair market value of shares held as inventory — excluded dividends; s. 112(4.2) Loss on share held by trust; s. 112(4.21) Loss on share held by trust — excluded dividends;

s. 112(4.22) Loss on share held by trust — excluded dividends; s. 112(5) Disposition of share by financial institution; s. 112(5.1) Share held for less than one year; s. 112(5.2) Adjustment re dividends; s. 112(5.21) Subsection (5.2) — excluded dividends; s. 112(5.3) Adjustment not applicable; s. 112(5.4) Deemed dispositions; s. 112(5.5) Stop-loss rules not applicable; s. 112(5.6) Stop-loss rules restricted; s. 112(6) Meaning of certain expressions; s. 112(7) Rules where shares exchanged; s. 115(1) Non-resident's taxable income in Canada; s. 138(6) Deduction for dividends from taxable corporations; s. 248(6) "Class" of shares issued in series; s. 251 Arm's length.

Interpretation Bulletins: *Primary* — IT-328R3 Losses on shares from which dividends have been received.

Advance Tax Rulings: ATR-58 Divisive reorganization.

Tax Profile: October 2004 — Taxation of Dividends: A Survey in the Context of Private Corporations and Their Shareholders; May 2004 — The Stop-Loss Rules.

Canadian Tax Foundation: Suarez, "The Capital Property Dividend Stop-Loss Rules, in Corporate Tax Planning feature", *2005 Canadian Tax Journal*, No. 1; 269; Everett and Ireland, "Impact of the Proposed New Stop-Loss Rules", *1997 Conference Report*, 17:1; Burpee, "The New Stop-Loss Rules: Grandfathered Shares", *1998 Canadian Tax Journal*, No. 3, 678.

► 112(3.01) ◄

(3.01) Loss on share that is capital property — excluded dividends. A dividend shall not be included in the total determined under subparagraph (3)(*a*)(i) or paragraph (3)(*b*) where the taxpayer establishes that

(*a*) it was received when the taxpayer and persons with whom the taxpayer was not dealing at arm's length did not own in total more than 5% of the issued shares of any class of the capital stock of the corporation from which the dividend was received; and

(*b*) it was received on a share that the taxpayer owned throughout the 365-day period that ended immediately before the disposition.

History: S. 112(3.01) was added by S.C. 1998, c. 19, s. 131(1). Please see the history note following s. 112(3) for the application.

Editorial Note: See the editorial note to subsection 112(3).

Related Sections: S. 112(3.11) Loss on share held by partnership — excluded dividends; s. 112(3.31) Loss on share held by trust — excluded dividends; s. 112(3.32) Loss on share held by trust — excluded dividends; s. 112(4.01) Loss on share that is not capital property — excluded dividends; s. 112(4.11) Fair market value of shares held as inventory — excluded dividends; s. 112(4.21) Loss on share held by trust — excluded dividends; s. 112(4.22) Loss on share held by trust — excluded dividends; s. 112(5.21) Subsection (5.2) — excluded dividends; s. 251 Arm's length.

► 112(3.1) ◄

(3.1) Loss on share held by partnership. Subject to subsections (5.5) and (5.6), where a taxpayer (other than a partnership or a mutual fund trust) is a member of a partnership, the taxpayer's share of any loss of the partnership from the disposition of a share that is held by a particular partnership as capital property is deemed to be that share of the loss determined without reference to this subsection minus,

(*a*) where the taxpayer is an individual, the lesser of

(i) the total of all amounts each of which is a dividend received by the taxpayer on the share in respect of which an election was made under subsection 83(2) where subsection 83(2.1) does not deem the dividend to be a taxable dividend, and

(ii) that share of the loss determined without reference to this subsection minus all taxable dividends received by the taxpayer on the share;

(*b*) where the taxpayer is a corporation, the total of all amounts received by the taxpayer on the share each of which is

(i) a taxable dividend, to the extent of the amount of the dividend that was deductible under this section or subsection 115(1) or 138(6) in computing the taxpayer's taxable income or taxable income earned in Canada for any taxation year,

(ii) a dividend in respect of which an election was made under subsection 83(2) where subsection 83(2.1) does not deem the dividend to be a taxable dividend, or

(iii) a life insurance capital dividend; and

(*c*) where the taxpayer is a trust, the total of all amounts each of which is

(i) a taxable dividend, or

(ii) a life insurance capital dividend

received on the share and designated under subsection 104(19) or (20) by the trust in respect of a beneficiary that was a corporation, partnership or trust.

History: S. 112(3.1) was amended by S.C. 1998, c. 19, s. 131(1). Please see the history note following s. 112(3) for the application.

S. 112(3.1) formerly read:

"(3.1) *Loss on share that is capital property of partnership.* Subject to subsections (5.5) and (5.6), where a corporation is a member of a partnership and the corporation receives a taxable dividend, a capital dividend or a life insurance capital dividend in respect of a share that is a capital property of the partnership, the corporation's share of any loss of the partnership arising with respect to the share on which the dividend was received shall, unless it is established by the corporation that

(*a*) the partnership held the share 365 days or longer before the loss was sustained, and

(*b*) the partnership, the corporation and persons with whom the corporation was not dealing at arm's length did not, at the time the dividend was received, hold in the aggregate more than 5% of the issued shares of any class of the capital stock of the corporation from which the dividend was received,

be deemed to be the amount of that loss otherwise determined, minus the total of all amounts each of which is an amount received by the corporation in respect of

(*c*) a taxable dividend on the share to the extent that the amount of the dividend was deductible from the corporation's income for any taxation year by virtue of this section or subsection 138(6) and was not an amount on which the corporation was required to pay tax under Part VII of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read on March 31, 1977,

(*d*) a capital dividend on the share, or

(*e*) a life insurance capital dividend on the share."

S. 112(3.1), the portion before paragraph (*a*), was amended by S.C. 1995, c. 21, s. 56(2), applicable to dispositions occurring after October 30, 1994. That part formerly read:

"(3.1) *Idem.* Where a corporation is a member of a partnership and the corporation receives a taxable dividend, a capital dividend or a life insurance capital dividend in respect of a share that is a capital property of the partnership, the corporation's share of any loss of the partnership arising with respect to the share on which the dividend was received shall, unless it is established by the corporation that"

Editorial Note: This provision may deny a portion of a capital loss from the disposition of a share held by a partnership in respect of taxpayers (other than partnerships and mutual fund trusts) who are partners. The determination of the amount of the denied loss is made at the partner level, including through multiple-tier partnerships. The loss is based on the partner's share of the loss, less the following amounts:

- In the case of an individual, including a trust, the total amount of capital dividends received on the share (more precisely, a dividend on which a capital dividend election has been made, including excessive elections, but not including a separate taxable dividend per a subsection 184(3) election or a would-be capital dividend subject to the capital dividend anti-avoidance rules in subsection 83(2.1)). However, the amount subject to the stop-loss is reduced if the individual's share of the loss otherwise determined, less taxable dividends received on the share, is less than this amount; in other words, taxable dividends can enlarge the loss that can be claimed (paragraph 112(3.1)(*a*)).
- In the case of a corporation: (i) tax-free intercorporate dividends (e.g., dividends deductible under section 112, but not under section 113); (ii) capital dividends (as described above); and (iii) life insurance capital dividends received on the share (paragraph 112(3.1)(*b*)).
- Where the partner is a trust, the loss will be further reduced by the total amounts of taxable or life insurance capital dividends designated by the trust to flow through to a beneficiary that is a corporation, partnership or trust (paragraph 112(3)(*c*)). (There is an exception in the last two

cases where the dividend is established to be ultimately received by a natural person (see subsection 112(3.12)).

As is the case with subsection 112(3), dividends which would otherwise enlarge the disallowed loss are ignored under a "5/365 exception": very basically, if holdings of a class (or series) of shares do not exceed 5% at the time received, and the shares were held throughout the 365-day period before the disposition — see subsection 112(3.11).

Clause 53(2)(*c*)(i)(C) reduces the ACB of a partnership interest to include the disallowed loss per subsection 112(3.1). Subsection 100(4) is a complimentary provision which reduces the loss from the disposition of a partnership interest by the amount by which the partner's share of the partnership's loss in respect of a share held by the partnership would have been reduced under subsection 112(3.1) (on the assumption that the partnership's year had ended immediately before the time of disposition and the partnership had disposed of the shares immediately before the end of the fiscal period).

Related Sections: S. 40(1) General rules; s. 53(2)(*c*)(i)(C) Amounts to be deducted — interest in a partnership; s. 100(4) Loss re interest in partnership; s. 104(20) Designation in respect of non-taxable dividends; s. 112(3) Loss on share that is capital property; s. 112(3.11) Loss on share held by partnership — excluded dividends; s. 112(3.12) Loss on share held by partnership — excluded dividends; s. 112(4) Loss on share that is not capital property; s. 112(6) Meaning of certain expressions; s. 112(7) Rules where shares exchanged; s. 251 Arm's length.

Interpretation Bulletins: *Primary* — IT-328R3 Losses on shares from which dividends have been received.

Canadian Tax Foundation: Suarez, "The Capital Property Dividend Stop-Loss Rules, in Corporate Tax Planning feature", *2005 Canadian Tax Journal*, No. 1, 269.

► 112(3.11) ◄

(3.11) Loss on share held by partnership — excluded dividends. A dividend shall not be included in the total determined under subparagraph (3.1)(*a*)(i) or paragraph (3.1)(*b*) or (*c*) where the taxpayer establishes that

(*a*) it was received when the particular partnership, the taxpayer and persons with whom the taxpayer was not dealing at arm's length did not hold in total more than 5% of the issued shares of any class of the capital stock of the corporation from which the dividend was received; and

(*b*) it was received on a share that the particular partnership held throughout the 365-day period that ended immediately before the disposition.

History: S. 112(3.11) was added by S.C. 1998, c. 19, s. 131(1). Please see the history note following s. 112(3) for the application.

► 112(3.12) ◄

(3.12) Loss on share held by partnership — excluded dividends. A taxable dividend received on a share and designated under subsection 104(19) by a particular trust in respect of a beneficiary that was a partnership or trust shall not be included in the total determined under paragraph (3.1)(*c*) where the particular trust establishes that the dividend was received by an individual (other than a trust).

History: S. 112(3.12) was added by S.C. 1998, c. 19, s. 131(1). Please see the history note following s. 112(3) for the application.

► 112(3.2) ◄

(3.2) Loss on share held by trust. Subject to subsections (5.5) and (5.6), the amount of any loss of a trust (other than a mutual fund trust) from the disposition of a share of the capital stock of a corporation that is capital property of the trust is deemed to be the amount of the loss determined without reference to this subsection minus the total of

(*a*) the amount, if any, by which the lesser of

(i) the total of all amounts each of which is a dividend received by the trust on the share in respect of which an election was made under subsection 83(2) where subsection 83(2.1) does not deem the dividend to be a taxable dividend, and

(ii) the loss determined without reference to this subsection minus the total of all amounts each of which is the amount of a taxable dividend

(A) received by the trust on the share,

(B) received on the share and designated under subsection 104(19) by the trust in respect of a beneficiary who is an individual (other than a trust), or

(C) received on the share and designated under subsection 104(19) by the trust in respect of a beneficiary that was a corporation, partnership or another trust where the trust establishes that

(I) it owned the share throughout the 365-day period that ended immediately before the disposition, and

(II) the dividend was received while the trust, the beneficiary and persons not dealing at arm's length with the beneficiary owned in total less than 5% of the issued shares of any class of the capital stock of the corporation from which the dividend was received

exceeds

(iii) where the trust is an individual's estate, the share was acquired as a consequence of the individual's death and the disposition occurs during the trust's first taxation year, ½ of the lesser of

(A) the loss determined without reference to this subsection, and

(B) the individual's capital gain from the disposition of the share immediately before the individual's death, and

(*b*) the total of all amounts each of which is

(i) a taxable dividend, or

(ii) a life insurance capital dividend

received on the share and designated under subsection 104(19) or (20) by the trust in respect of a beneficiary that was a corporation, partnership or trust.

History: S. 112(3.2)(*a*)(iii) was amended by S.C. 2001, c. 17, s. 88(2), by replacing the reference to the fraction "1/4" with a reference to the fraction "1/2", applicable to dispositions that occur after February 27, 2000 except that, for dispositions that occurred before October 18, 2000, the reference to the fraction "1/2" in subparagraph 112(3.2)(*a*)(iii) shall be read as a reference to the fraction "1/3".

S. 112(3.2) was amended by S.C. 1998, c. 19, s. 131(1). Please see the history note following s. 112(3) for the application.

S. 112(3.2) formerly read:

"(3.2) *Loss on share that is capital property of trust.* Subject to subsections (5.5) and (5.6), where a corporation is a beneficiary of a trust (other than a prescribed trust) that owns a share that is capital property and the corporation receives a taxable dividend in respect of that share pursuant to a designation under subsection 104(19) or the trust has made a designation under subsection 104(20) in respect of the corporation for a capital dividend or a life insurance capital dividend on that share, the amount of any loss of the trust arising with respect to the share on which the dividend was subject to a designation shall, unless it is established by the corporation that

(*a*) the trust owned the share 365 days or longer before the loss was sustained, and

(*b*) the trust, the corporation and persons with whom the corporation was not dealing at arm's length did not, at the time the dividend was received, own in the aggregate more than 5% of the issued shares of any class of the capital stock of the corporation from which the dividend was received,

be deemed to be the amount of that loss otherwise determined, minus the total of all amounts each of which is a taxable dividend, a capital dividend or a life insurance capital dividend in respect of that share that was designated under subsection 104(19) or (20) in respect of a beneficiary that was a corporation."

S. 112(3.2), the portion before paragraph (*a*), was amended by S.C. 1995, c. 21, s. 56(3), applicable to dispositions occurring after October 30, 1994. That part formerly read:

"(3.2) *Idem.* Where a corporation is a beneficiary of a trust (other than a prescribed trust) that owns a share that is capital property and the corporation receives a taxable dividend in respect of that share pursuant to a designation under subsection 104(19) or the trust has made a designation under subsection 104(20) in respect of the corporation for a capital dividend or a life insurance capital dividend on that share, the amount of any loss of the trust arising with respect to the share on which the dividend was subject to a designation shall, unless it is established by the corporation that"

Editorial Note: Subsection 112(3.2) is a stop-loss rule which may deny a portion of a capital loss on the disposition of a share in a corporation by a trust (including an estate, but not a mutual fund trust) as a result of the receipt of tax-advantaged dividends (including by virtue of deemed dividends on a redemption which may trigger the loss itself).

The loss is reduced to the extent of dividends received by the trust on which a capital dividend election has been made (paragraph 112(3.2)(*a*)(i) — see also editorial note to subsection 112(3)). A lesser reduction will apply if the loss otherwise determined, less qualifying taxable dividends received by the trust (see below), is less than this amount; in other words, qualifying taxable dividends may enlarge the loss that can be claimed (paragraph 112(3.2)(*a*)(ii)). However, the amount of the loss will be reduced further by the total amounts of taxable or life insurance capital dividends designated by the trust in respect of a beneficiary that is a corporation, partnership or trust — see paragraph 112(3.2)(*b*) (certain exceptions apply — see subsection 112(3.32)). As is the case for subsection 112(3), dividends which would otherwise enlarge the disallowed loss are ignored under a "5/365 exception": very basically, if holdings do not exceed 5% of a class (or series) of shares at the time of the dividend, and the shares were held throughout the 365 day period before the disposition — see subsection 112(3.31). Paragraphs 107(1)(*c*) and (*d*) provide somewhat similar stop-loss rules in respect of dispositions of capital interests in trusts at a loss. (The "qualifying taxable dividends" referred to above are those: received and taxed in the trust; designated to a beneficiary who is a natural person; or designated to a beneficiary that is a corporation, partnership or trust and a "5/365 exception" is met (in the last case, there is no exception if dividends are ultimately received by a natural person (clause 112(3.2)(*a*)(ii)(C)).)

In the case of an individual's estate, there is a "safe harbour" rule where the share is acquired as a consequence of the individual's death and the disposition occurs during the estate's first taxation year, whereby the amount of the disallowed loss determined under paragraph 112(3.2)(*a*) will be reduced, based on one-half of the lesser of the loss otherwise determined, or the terminal-period gain (subparagraph 112(3.2)(*a*)(iii)). This usually means that the full amount of the loss may be applied against the terminal period gain as long as the amount of the capital dividend received by the estate does not exceed these limits; accordingly, there should be an equal amount of taxable and capital dividends to avoid the denial of losses.

These stop-loss rules are subject to grandfathering provisions which can be found in the "History" after subsection 112(3). These exceptions may apply to qualifying corporate-owned insurance structures, so that there would be no stop-loss on the capital dividend account generated on the death of the insured individual. In simplistic terms, "Branch (a)" of the grandfathering rules may apply where the shares in question are disposed of to a corporation pursuant to an agreement in writing between the taxpayer and the corporation, entered into before April 27th, 1995; "Branch (b)" may apply where the corporation was a beneficiary under a life insurance policy on April 26th, 1995 and it is reasonable to conclude that a main purpose of the life insurance was to fund a redemption, acquisition or cancellation of the share by the corporation that issued the share. For further discussion, see CRA Technical News No. 12 (February 11, 1998).

Where a shareholder and the corporation redeeming its shares are affiliated immediately afterward, subsection 40(3.6) potentially applies as well; however, in the case of an estate which triggers a loss to be applied to a terminal period return under subsection 164(6), subsection 40(3.61) may override subsection 40(3.6), to the extent of the loss so applied.

Related Sections: S. 40(1) General rules; s. 40(3.6) Loss on shares; s. 40(3.61) Exception — estate loss carried back; S. 40(3.7) Losses of non-resident; s. 53(1)(*f*) Adjustments to cost base — Substituted property; s. 53(1)(*f.2*) Adjustments to cost base — Denied loss on transfer of shares to corporation; s. 70(5) Capital property of a deceased taxpayer; s. 83(2) Capital dividend; s. 83(2.1) Capital dividend — anti-avoidance rule; s. 87(2)(*x*) Taxable dividends; s. 107(1)(*c*) and (*d*) Disposition by taxpayer of capital interest; s. 107.4(3)(*b*)(ii) Tax consequences of qualifying dispositions; s. 112(3.3) Loss on share held by trust — special cases; s. 112(3.31) Loss on share held by trust — excluded dividends; s. 112(3.32) Loss on share held by trust — excluded dividends; s. 112(4) Loss on share that is not capital property; s. 112(4.01) Loss on share that is not capital property — excluded dividends; s. 112(4.1) Fair market value of shares held as inventory; s. 112(4.11) Fair market value of shares held as inventory — excluded dividends; s. 112(4.2) Loss on share held by trust; s. 112(4.21) Loss on share held by trust — excluded dividends; s. 112(4.22) Loss on share held by trust — excluded dividends. s. 112(5) Disposition of share by financial institution; s. 112(5.1) Share held for less than one year; s. 112(5.2) Adjustment re dividends; s. 112(5.21) Subsection (5.2) — excluded dividends; s. 112(5.3) Adjustment not applicable; s. 112(5.4) Deemed dispositions; s. 112(5.5) Stop-loss rules not applicable; s. 112(5.6) Stop-loss rules restricted; s. 112(6) Meaning of certain expressions; s. 112(7) Rules where shares exchanged; s. 164(6) Where disposition of property by legal representative of deceased taxpayer; s. 251 Arm's length.

Interpretation Bulletins: *Primary* — IT-328R3 Losses on shares from which dividends have been received.

Tax Topics: No. 1690, Estate Planning In The 21st Century; No. 1682, Life Insurance: Exploring the Corporate Edge — Part II; No. 1681, Life Insurance: Exploring the Corporate Edge — Part I; No. 1582, Estate Planning in the 21st Century.

Tax Profile: September 2004 — Review of Tax Implications of Corporate-Owned Life Insurance Buy-Sell Arrangements.

Canadian Tax Foundation: Suarez, "The Capital Property Dividend Stop-Loss Rules, in Corporate Tax Planning feature", *2005 Canadian Tax Journal*, No. 1; 269; Sibson, "Private Companies", *2001 Annual Conference*, 5:1; Cuperfain, "Got Me Those Capital Gain, High Dividend Tax, Stop-loss Rules, Estate Planning Blues", *2001 Canadian Tax Journal*, No. 3, 764.

► 112(3.3) ◄

(3.3) Loss on share held by trust — special cases. Notwithstanding subsection (3.2), where a trust has at any time acquired a share of the capital stock of a corporation because of subsection 104(4), the amount of any loss of the trust from a disposition after that time is deemed to be the amount of the loss determined without reference to subsection (3.2) and this subsection minus the total of

(*a*) the amount, if any, by which the lesser of

(i) the total of all amounts each of which is a dividend received after that time by the trust on the share in respect of which an election was made under subsection 83(2) where subsection 83(2.1) does not deem the dividend to be a taxable dividend, and

(ii) the loss determined without reference to subsection (3.2) and this subsection minus the total of all amounts each of which is the amount of a taxable dividend

(A) received by the trust on the share after that time,

(B) received on the share after that time and designated under subsection 104(19) by the trust in respect of a beneficiary who is an individual (other than a trust), or

(C) received on the share after that time and designated under subsection 104(19) by the trust in respect of a beneficiary that was a corporation, partnership or another trust where the trust establishes that

(I) it owned the share throughout the 365-day period that ended immediately before the disposition, and

(II) the dividend was received when the trust, the beneficiary and persons not dealing at arm's length with the beneficiary owned in total less than 5% of the issued shares of any class of the capital stock of the corporation from which the dividend was received

exceeds

(iii) ½ of the lesser of

(A) the loss from the disposition, determined without reference to subsection (3.2) and this subsection, and

(B) the trust's capital gain from the disposition immediately before that time of the share because of subsection 104(4), and

(*b*) the total of all amounts each of which is a taxable dividend received on the share after that time and designated under subsection 104(19) by the trust in respect of a beneficiary that was a corporation, partnership or trust.

History: S. 112(3.3)(*a*)(iii) was amended by S.C. 2001, c. 17, s. 88(3), by replacing the reference to the fraction "1/4" with a reference to the fraction "1/2", applicable to dispositions that occur after February 27, 2000 except that, for dispositions that occurred before October 18, 2000, the reference to the fraction "1/2" in subparagraph (3.3)(*a*)(iii) of the Act shall be read as a reference to the fraction "1/3".

S. 112(3.3) was added by S.C. 1998, c. 19, s. 131(1). Please see the history note following s. 112(3) for the application.

Editorial Note: Subsection 112(3.3) is a variation of the stop-loss rule in subsection 112(3.2) applying to a trust (including an estate), which applies where there has previously been a deemed disposition/acquisition by the trust under subsection 104(4), generally on the death of a spouse who was the beneficiary under a spouse trust or by virtue of the 21st anniversary of a trust. The provision is similar to subsection 112(3.2), a notable exception being that dividends are relevant in the determination of the denied losses only after the time of the deemed acquisition.

Like subsection 112(3.2), the provision also contains a "50% safe-harbour" rule which is based on one-half of the lesser of the loss otherwise determined and the capital gain pursuant to subsection 104(4). Subject to the foregoing, the post-deemed-disposition capital loss from a redemption or other disposition by the trust can be applied (including within the normal three-year carryback period) to the trust's year in which the deemed disposition occurs. However, in order to obtain the loss, the shares in question must remain in the trust or estate, rather than being distributed to beneficiaries.

Where a shareholder and the corporation redeeming its shares are affiliated immediately afterward, subsection 40(3.6) potentially applies as well; while the denied loss per this provision is added to the cost base of the shareholder per paragraph 53(1)(*f.2*), it appears that this is calculated after the effect of subsection 112(3.3). (Where there is a deemed disposition by virtue of subsection 104(4), subsection 40(3.61) does not override subsection 40(3.6).)

Related Sections: S. 40(1) General rules; s. 40(3.6) Loss on shares; s. 40(3.61) Exception — estate loss carried back; s. 40(3.7) Losses of non-resident; s. 53(1)(*f*) Adjustments to cost base — Substituted property; s. 53(1)(*f.2*) Adjustments to cost base — Denied loss on transfer of shares to corporation; s. 70(6) Where transfer or distribution to spouse or spouse trust; s. 73(1.01)(*c*) Qualifying transfers; s. 83(2) Capital dividend; s. 83(2.1) Capital dividend — anti-avoidance rule; s. 87(2)(*x*) Taxable dividends; s. 104(4) Deemed disposition by trust; s. 107.4(3)(*b*)(ii) Tax consequences of qualifying dispositions; s. 112(3.2) Loss on share held by trust; s. 112(3.31) Loss on share held by trust — excluded dividends; s. 112(3.32) Loss on share held by trust — excluded dividends; s. 112(4) Loss on share that is not capital property; s. 112(4.01) Loss on share that is not capital property — excluded dividends; s. 112(4.1) Fair market value of shares held as inventory; s. 112(4.11) Fair market value of shares held as inventory — excluded dividends; s. 112(4.2) Loss on share held by trust; s. 112(4.21) Loss on share held by trust — excluded dividends; s. 112(4.22) Loss on share held by trust — excluded dividends; s. 112(5) Disposition of share by financial institution; s. 112(5.1) Share held for less than one year; s. 112(5.2) Adjustment re dividends; s. 112(5.21) Subsection (5.2) — excluded dividends; s. 112(5.3) Adjustment not applicable; s. 112(5.4) Deemed dispositions; s. 112(5.5) Stop-loss rules not applicable; s. 112(5.6) Stop-loss rules restricted; s. 112(6) Meaning of certain expressions; s. 112(7) Rules where shares exchanged; s. 251 Arm's length.

Tax Topics: No. 1690, Estate Planning In The 21st Century.

► 112(3.31) ◄

(3.31) Loss on share held by trust — excluded dividends. No dividend received by a trust shall be included under subparagraph (3.2)(*a*)(i) or (*b*)(ii) or (3.3)(*a*)(i) where the trust establishes that the dividend

(*a*) was received,

(i) in any case where the dividend was designated under subsection 104(19) or (20) by the trust, when the trust, the beneficiary and persons with whom the beneficiary was not dealing at arm's length did not own in total more than 5% of the issued shares of any class of the capital stock of the corporation from which the dividend was received, or

(ii) in any other case, when the trust and persons with whom the trust was not dealing at arm's length did not own in total more than 5% of the issued shares of any class of the capital stock of the corporation from which the dividend was received, and

(*b*) was received on a share that the trust owned throughout the 365-day period that ended immediately before the disposition.

History: S. 112(3.31) was added by S.C. 1998, c. 19, s. 131(1). Please see the history note following s. 112(3) for the application.

Editorial Note: Subsections 112(3.31) and (3.32) contain variations of the (beneficial) "5/365 exception" applicable to the stop-loss rules pertaining to trusts (subsections 112(3.2) and (3.3)). Subsection 112(3.31) applies to capital dividends and life insurance capital dividends, which would otherwise enlarge the denied loss. Where such dividends have flowed-though to beneficiaries (under subsection 104(19) or (20)) they won't count in enlarging the amount of the stopped-loss if received when the trust, the beneficiary, and persons not at arm's length with the beneficiary did not own more than 5% of the shares of any class (or series) in the corporation; if dividends are not flowed out, only the trust and persons not at arm's length with the trust are relevant in determining the 5% threshold (paragraph 112(3.31)(*a*)). However, to qualify for the exception, the trust must own the shares throughout the 365-day period before the disposition (paragraph 112(3.31)(*b*)).

Subsection 112(3.32) applies to taxable dividends flowed out to a beneficiary that is a corporation, trust or partnership, which would otherwise enlarge the disallowed loss under paragraph 112(3.2)(*b*) or (3.3)(*b*). Such dividends will be ignored where it is established that the dividend was ultimately received by a natural person, or the dividend was received when the trust, beneficiary and persons not at arm's length with the beneficiary did not own more than 5% of any class (or series) of shares (paragraph 112(3.32)(*a*)). However, to qualify for the exception, the trust must own the shares throughout the 365-day period before the disposition (paragraph 112(3.32)(*b*)).

Related Sections: S. 112(3.01) Loss on share that is capital property — excluded dividends; s. 112(3.11) Loss on share held by partnership — excluded dividends; s. 112(3.32) Loss on share held by trust — excluded dividends; s. 112(4.01) Loss on share that is not capital property — excluded dividends; s. 112(4.11) Fair market value of shares held as inventory — excluded dividends; s. 112(4.21) Loss on share held by trust — excluded dividends; s. 112(4.22) Loss on share held by trust — excluded dividends; s. 112(5.21) Subsection (5.2) — excluded dividends; s. 251 Arm's length.

► 112(3.32) ◄

(3.32) Loss on share held by trust — excluded dividends. No taxable dividend received on the share and designated under subsection 104(19) by the trust in respect of a beneficiary that was a corporation, partnership or trust shall be included under paragraph (3.2)(*b*) or (3.3)(*b*) where the trust establishes that the dividend was received by an individual (other than a trust), or

(*a*) was received when the trust, the beneficiary and persons with whom the beneficiary was not dealing at arm's length did not own in total more than 5% of the issued shares of any class of the capital stock of the corporation from which the dividend was received; and

(*b*) was received on a share that the trust owned throughout the 365-day period that ended immediately before the disposition.

History: S. 112(3.32) was added by S.C. 1998, c. 19, s. 131(1). Please see the history note following s. 112(3) for the application.

Editorial Note: See the editorial note to subsection 112(3.31).

Related Sections: S. 112(3.01) Loss on share that is capital property — excluded dividends; s. 112(3.11) Loss on share held by partnership — excluded dividends; s. 112(3.31) Loss on share held by trust — excluded dividends; s. 112(4.01) Loss on share that is not capital property — excluded dividends; s. 112(4.11) Fair market value of shares held as inventory — excluded dividends; s. 112(4.21) Loss on share held by trust — excluded dividends; s. 112(4.22) Loss on share held by trust — excluded dividends; s. 112(5.21) Subsection (5.2) — excluded dividends; s. 251 Arm's length.

► 112(4) ◄

(4) Loss on share that is not capital property. Subject to subsections (5.5) and (5.6), the amount of any loss of a taxpayer (other than a trust) from the disposition of a

share of the capital stock of a corporation that is property (other than capital property) of the taxpayer is deemed to be the amount of the loss determined without reference to this subsection minus,

(*a*) where the taxpayer is an individual and the corporation is resident in Canada, the total of all dividends received by the individual on the share;

(*b*) where the taxpayer is a partnership, the total of all dividends received by the partnership on the share; and

(*c*) where the taxpayer is a corporation, the total of all amounts received by the taxpayer on the share each of which is

(i) a taxable dividend, to the extent of the amount of the dividend that was deductible under this section, section 113 or subsection 115(1) or 138(6) in computing the taxpayer's taxable income or taxable income earned in Canada for any taxation year, or

(ii) a dividend (other than a taxable dividend).

History: S. 112(4) was amended by S.C. 1998, c. 19, s. 131(1), applicable to dispositions that occur after April 26, 1995. S. 112(4) formerly read:

"(4) *Loss on share that is not capital property.* Subject to subsections (5.5) and (5.6), where a taxpayer owns a share that is not a capital property and receives a dividend in respect of that share, the amount of any loss of the taxpayer arising from transactions with reference to the share on which the dividend was received shall, unless it is established by the taxpayer that

(*a*) the taxpayer owned the share 365 days or longer before the loss was sustained, and

(*b*) the taxpayer and persons with whom the taxpayer was not dealing at arm's length, did not, at the time the dividend was received, own in the aggregate more than 5% of the issued shares of any class of the capital stock of the corporation from which the dividend was received,

be deemed to be the amount of that loss otherwise determined, minus

(*c*) where the taxpayer is an individual and the corporation is a taxable Canadian corporation, the total of all amounts each of which is a dividend (other than a capital gains dividend within the meaning assigned by subsection 131(1)) on the share received by the taxpayer,

(*d*) where the taxpayer is a corporation, the total of all amounts each of which is

(i) a taxable dividend, to the extent of the amount thereof that was deductible under this section or subsection 115(1) or 138(6) in computing the taxpayer's taxable income or taxable income earned in Canada for any taxation year, or

(ii) a dividend (other than a taxable dividend or a dividend deemed by subsection 131(1) to be a capital gains dividend),

on the share received by the taxpayer, and

(*e*) in any other case, nil."

S. 112(4), the portion before paragraph (*a*), was amended by S.C. 1995, c. 21, s. 56(4), applicable to dispositions occurring after October 30, 1994. That part formerly read:

"(4) *Loss on share that is not capital property.* Where a taxpayer owns a share that is not a capital property and receives a dividend in respect of that share, the amount of any loss of the taxpayer arising from transactions with reference to the share on which the dividend was received shall, unless it is established by the taxpayer that"

S. 112(4)(*d*)(ii) was amended by S.C. 1994, c. 21, s. 51(2), applicable to the determination of losses arising in the 1990 and subsequent taxation years and, where a taxpayer elected under subsection 84(6) of *An Act to amend the Income Tax Act, the Canada Pension Plan, the Cultural Property Export and Import Act, the Income Tax Conventions Interpretation Act, the Tax Court of Canada Act, the Unemployment Insurance Act, the Canada-Newfoundland Atlantic Accord Implementation Act, the Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation Act and certain related Acts*, being chapter 49 of the Statutes of Canada, 1991, in the taxpayer's 1985 to 1989 taxation years, in which case, notwithstanding subsections 152(4) to (5) of the *Income Tax Act*, such assessments and determinations in respect of the taxpayer's 1985 to 1989 taxation years shall be made as are necessary to give effect to subparagraph 112(4)(*d*)(ii).

S. 112(4)(*d*)(ii) formerly read:

"(ii) a dividend, other than a taxable dividend,"

The application provision of S.C. 1994, c. 7, Sched. II, s. 84(2) below was amended by S.C. 1994, c. 7, Sched. VIII, s. 159, which reads "where an election or request referred to" in the application provision (below) "was made before December 11, 1993, the election or request will be deemed to have been made before 1992".

The portion of s. 112(4) of the Act after paragraph (*b*) was amended by S.C. 1994, c. 7, Sched. II, s. 84(2), applicable to the determination of losses arising

(*a*) in the 1990 and subsequent taxation years, and

(*b*) where a taxpayer so elected by notifying the Minister of National Revenue in writing before 1992, in the taxpayer's 1985 to 1989 taxation years, in which case, notwithstanding subsections 152(4) to (5) of the Act, such assessments of tax, interest and penalties shall be made as are necessary to give effect to the election,

except that subsection 112(4) of the Act does not apply to the amount of a dividend received by a taxpayer on which the taxpayer was required to pay tax under Part VII of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read on March 31, 1977.

S. 112(4), the portion after paragraph (*b*), formerly read:

"be deemed to be the amount of that loss otherwise determined, minus the total of all amounts received by the taxpayer in respect of dividends (other than capital gains dividends within the meaning assigned by subsection 131(1)) on the share to the extent that the amounts of those dividends were not amounts on which the taxpayer was required to pay tax under Part VII of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read on March 31, 1977."

Editorial Note: Subsection 112(4) is a stop-loss rule which applies to a share that is not capital property, if held by a taxpayer other than a trust. For an individual, the loss will be reduced by all dividends received, taxable or otherwise, from the corporation, if resident in Canada. For a partnership, the loss is reduced by all dividends received, taxable or otherwise. (Note that the loss restriction is made at the partnership level; this differs from the stop-loss rule applying to shares which are capital property — see subsection 112(3.1).) For a corporation, the loss is reduced by dividends which are deductible in computing taxable income (e.g., under section 112 or 113) as well as non-taxable dividends. A "5/365 exception" for dividends applies by virtue of 112(4.01). However, for non-capital property, the 365-day hold requirement may often not be met.

For rules applicable to trusts that hold shares that are not capital property, see subsections 112(4.2)–(4.22). To prevent the avoidance of these rules through the application of the lower of cost and market rule, subsections 112(4.1) and (4.11) impose rules similar to the foregoing applicable to shares held as inventory, i.e., for the purpose of section 10, which adds the amount of dividends specified in subsection 112(4.1) to the value of shares held as closing inventory, so as to eliminate the recognition of accrued losses to the extent attributable to such dividends.

Related Sections: S. 54, "capital property"; s. 87(2)(*x*) Taxable dividends; s. 107(1)(*d*) Disposition by taxpayer of capital interest; s. 112(4.01) Loss on share that is not capital property — excluded dividends; s. 112(4.1) Fair market value of shares held as inventory; s. 112(4.11) Fair market value of shares held as inventory — excluded dividends; s. 112(4.2) Loss on share held by trust; s. 112(4.21) Loss on share held by trust — excluded dividends; s. 112(4.22) Loss on share held by trust — excluded dividends; s. 112(5) Disposition of share by financial institution; s. 112(5.1) Share held for less than one year; s. 112(5.2) Adjustment re dividends; s. 112(5.21) Subsection (5.2) — excluded dividends; s. 112(5.3) Adjustment not applicable; s. 112(5.4) Deemed dispositions; s. 112(5.5) Stop-loss rules not applicable; s. 112(5.6) Stop-loss rules restricted; s. 112(6) Meaning of certain expressions; s. 112(7) Rules where shares exchanged; s. 251 Arm's length.

Interpretation Bulletins: *Primary* — IT-328R3 Losses on shares from which dividends have been received.

► 112(4.01) ◄

(4.01) Loss on share that is not capital property — excluded dividends. A dividend shall not be included in the total determined under paragraph (4)(*a*), (*b*) or (*c*) where the taxpayer establishes that

(*a*) it was received when the taxpayer and persons with whom the taxpayer was not dealing at arm's length did not own in total more than 5% of the issued shares of any class of the capital stock of the corporation from which the dividend was received; and

(*b*) it was received on a share that the taxpayer owned throughout the 365-day period that ended immediately before the disposition.

History: S. 112(4.01) was added by S.C. 1998, c. 19, s. 131(1), applicable to dispositions that occur after April 26, 1995.

► 112(4.1) ◄

(4.1) Fair market value of shares held as inventory. For the purpose of section 10, the fair market value at any

time of a share of the capital stock of a corporation is deemed to be equal to the fair market value of the share at that time, plus

(*a*) where the shareholder is a corporation, the total of all amounts received by the shareholder on the share before that time each of which is

(i) a taxable dividend, to the extent of the amount of the dividend that was deductible under this section, section 113 or subsection 115(1) or 138(6) in computing the shareholder's taxable income or taxable income earned in Canada for any taxation year, or

(ii) a dividend (other than a taxable dividend);

(*b*) where the shareholder is a partnership, the total of all amounts each of which is a dividend received by the shareholder on the share before that time; and

(*c*) where the shareholder is an individual and the corporation is resident in Canada, the total of all amounts each of which is a dividend received by the shareholder on the share before that time (or, where the shareholder is a trust, that would have been so received if this Act were read without reference to subsection 104(19)).

History: S. 112(4.1) was amended by S.C. 1998, c. 19, s. 131(1), applicable to taxation years that end after April 26, 1995. S. 112(4.1) formerly read:

"(4.1) *Fair market value of share that is not capital property.* Where a taxpayer (other than a prescribed trust) or partnership (in this subsection referred to as the 'holder') holds a share that is not a capital property and a dividend is received in respect of that share, for the purpose of subsection 10(1) and any regulations made under that subsection, the fair market value of the share at any particular time after November 12, 1981 shall, unless it is established by the holder that

(*a*) the holder held the share 365 days or longer before the particular time, and

(*b*) the holder and persons with whom the holder was not dealing at arm's length did not, at the time the dividend was received, hold in the aggregate more than 5% of the issued shares of any class of the capital stock of the corporation from which the dividend was received,

be deemed to be an amount equal to the fair market value of that share at the particular time otherwise determined, plus

(*c*) where the holder is an individual and the corporation is a taxable Canadian corporation, the total of all amounts each of which is a dividend (other than a capital gains dividend within the meaning assigned by subsection 131(1)) on the share received before the particular time by the holder or that would have been so received if this Act were read without reference to subsection 104(19),

(*d*) where the holder is a corporation, the total of all amounts each of which is

(i) a taxable dividend, to the extent of the amount thereof that was deductible under this section, section 113 or subsection 115(1) or 138(6) in computing the holder's taxable income or taxable income earned in Canada for any taxation year, or

(ii) a dividend (other than a taxable dividend or a dividend deemed by subsection 131(1) to be a capital gains dividend),

on the share received before the particular time by the holder,

(*e*) where the holder is a partnership, the total of all amounts each of which is a dividend (other than a capital gains dividend within the meaning assigned by subsection 131(1) on the share received before the particular time by the holder, and

(*f*) in any other case, nil."

S. 112(4.1)(*d*)(ii) was amended by S.C. 1994, c. 21, s. 51(3), applicable to the 1990 and subsequent taxation years and, where a taxpayer elected under subsection 84(7) of *An Act to amend the Income Tax Act, the Canada Pension Plan, the Cultural Property Export and Import Act, the Income Tax Conventions Interpretation Act, the Tax Court of Canada Act, the Unemployment Insurance Act, the Canada-Newfoundland Atlantic Accord Implementation Act, the Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation Act and certain related Acts*, being chapter 49 of the Statutes of Canada, 1991, to the taxpayer's 1985 to 1989 taxation years, in which case, notwithstanding subsections 152(4) to (5) of the *Income Tax Act*, such assessments and determinations in respect of the taxpayer's 1985 to 1989 taxation years shall be made as are necessary to give effect to subparagraph 112(4.1)(*d*)(ii).

S. 112(4.1)(*d*)(ii) formerly read:

"(ii) a dividend, other than a taxable dividend,"

The application provision of S.C. 1994, c. 7, Sched. II, s. 84(3) below was amended by S.C. 1994, c. 7, Sched. VIII, s. 159, which reads "where an election or request referred to" in the application provision (below) "was made before December 11, 1993, the election or request will be deemed to have been made before 1992".

The portion of s. 112(4.1) of the Act after paragraph (*b*) was amended by S.C. 1994, c. 7, Sched. II, s. 84(3), applicable

(*a*) to the 1990 and subsequent taxation years, and

(*b*) where a taxpayer so elected by notifying the Minister of National Revenue in writing before 1992, to the taxpayer's 1985 to 1989 taxation years, in which case, notwithstanding subsections 152(4) to (5) of the Act, such assessments of tax, interest and penalties shall be made as are necessary to give effect to the election,

except that subsection 112(4.1) of the Act does not apply to the amount of a dividend received by a holder on which the holder was required to pay tax under Part VII of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read on March 31, 1977.

The portion of s. 112(4.1) after paragraph (*b*) formerly read:

"be deemed to be the total of the fair market value of the share at the particular time otherwise determined and all amounts received before the particular time by the holder in respect of dividends (other than capital gains dividends within the meaning assigned by subsection 131(1)) on the share determined as if this Act were read without reference to subsection 104(19)."

Editorial Note: See the editorial note to subsection 112(4).

Related Sections: S. 54, "capital property".

Interpretation Bulletins: *Primary* — IT-328R3 Losses on shares from which dividends have been received.

► 112(4.11) ◄

(4.11) Fair market value of shares held as inventory — excluded dividends. A dividend shall not be included in the total determined under paragraph (4.1)(*a*), (*b*) or (*c*) where the shareholder establishes that

(*a*) it was received while the shareholder and persons with whom the shareholder was not dealing at arm's length did not hold in total more than 5% of the issued shares of any class of the capital stock of the corporation from which the dividend was received; and

(*b*) it was received on a share that the shareholder held throughout the 365-day period that ended at the time referred to in subsection (4.1).

History: S. 112(4.11) was added by S.C. 1998, c. 19, s. 131(1), applicable to taxation years that end after April 26, 1995.

► 112(4.2) ◄

(4.2) Loss on share held by trust. Subject to subsections (5.5) and (5.6), the amount of any loss of a trust from the disposition of a share that is property (other than capital property) of the trust is deemed to be the amount of the loss determined without reference to this subsection minus

(*a*) the total of all amounts each of which is a dividend received by the trust on the share, to the extent that the amount was not designated under subsection 104(20) in respect of a beneficiary of the trust; and

(*b*) the total of all amounts each of which is a dividend received on the share that was designated under subsection 104(19) or (20) by the trust in respect of a beneficiary of the trust.

History: S. 112(4.2) was amended by S.C. 1998, c. 19, s. 131(1), applicable to dispositions that occur after April 26, 1995. S. 112(4.2) formerly read:

"(4.2) *Loss on share that is not capital property of partnership.* Subject to subsections (5.5) and (5.6), where a taxpayer is a member of a partnership and the taxpayer receives a dividend in respect of a share that is not a capital property of the partnership, the taxpayer's share of any loss of the partnership arising with respect to the share on which the dividend was received shall, unless it is established by the taxpayer that

(*a*) the partnership held the share 365 days or longer before the loss was sustained, and

(*b*) the partnership, the taxpayer and persons with whom the taxpayer was not dealing at arm's length did not, at the time the dividend was received, hold in the aggregate more than 5% of the issued shares of any class of the capital stock of the corporation from which the dividend was received,

be deemed to be the amount of that loss otherwise determined, minus

(*c*) where the taxpayer is an individual and the corporation is a taxable Canadian corporation, the total of all amounts each of which is a dividend (other than a capital gains dividend within the meaning assigned by subsection 131(1)) on the share received by the taxpayer,

(*d*) where the taxpayer is a corporation, the total of all amounts each of which is

(i) a taxable dividend, to the extent of the amount thereof that was deductible under this section or subsection 115(1) or 138(6) in computing the taxpayer's taxable income or taxable income earned in Canada for any taxation year, or

(ii) a dividend (other than a taxable dividend or a dividend deemed by subsection 131(1) to be a capital gains dividend),

on the share received by the taxpayer, and

(*e*) in any other case, nil."

S. 112(4.2), the portion before paragraph (*a*), was amended by S.C. 1995, c. 21, s. 56(5), applicable to dispositions occurring after October 30, 1994. That part formerly read:

"(4.2) *Where no deduction permitted.* Where a taxpayer is a member of a partnership and the taxpayer receives a dividend in respect of a share that is not a capital property of the partnership, the taxpayer's share of any loss of the partnership arising with respect to the share on which the dividend was received shall, unless it is established by the taxpayer that"

S. 112(4.2)(*d*)(ii) was amended by S.C. 1994, c. 21, s. 51(4), applicable to the determination of losses arising in the 1990 and subsequent taxation years and, where a taxpayer elected under subsection 84(6) of *An Act to amend the Income Tax Act, the Canada Pension Plan, the Cultural Property Export and Import Act, the Income Tax Conventions Interpretation Act, the Tax Court of Canada Act, the Unemployment Insurance Act, the Canada-Newfoundland Atlantic Accord Implementation Act, the Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation Act and certain related Acts*, being chapter 49 of the Statutes of Canada, 1991, in the taxpayer's 1985 to 1989 taxation years, in which case, notwithstanding subsections 152(4) to (5) of the *Income Tax Act*, such assessments and determinations in respect of the taxpayer's 1985 to 1989 taxation years shall be made as are necessary to give effect to subparagraph 112(4.2)(*d*)(ii).

The application provision of S.C. 1994, c. 7, Sched. II, s. 84(4) below was amended by S.C. 1994, c. 7, Sched. VIII, s. 159, which reads "where an election or request referred to" in the application provision (below) "was made before December 11, 1993, the election or request will be deemed to have been made before 1992".

S. 112(4.2), that portion following paragraph (*b*), was amended by S.C. 1994, c. 7, Sched. II, s. 84(4), applicable with respect to the determination of losses arising:

(*a*) in the 1990 and subsequent taxation years, and

(*b*) where a taxpayer so elected by notifying the Minister of National Revenue in writing before 1992, in the taxpayer's 1985 to 1989 taxation years, in which case, notwithstanding subsections 152(4) to (5) of the Act, such assessments of tax, interest and penalties shall be made as are necessary to give effect to the election,

except that subsection 112(4.2) of the Act does not apply to the amount of a dividend received by a taxpayer on which the taxpayer was required to pay tax under Part VII of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read on March 31, 1977.

S. 112(4.2), that portion following paragraph (*b*), formerly read as follows: "be deemed to be the amount of the loss otherwise determined, minus the total of all amounts each of which is an amount received by the taxpayer in respect of

(*c*) a dividend (other than capital gains dividends within the meaning assigned by subsection 131(1)) on the share to the extent that the amount of that dividend was not an amount on which the taxpayer was required to pay tax under Part VII of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read on March 31, 1977."

Editorial Note: Subsection 112(4.2) is a stop-loss rule which applies to a share that is not capital property held by a trust (including an estate). The loss is reduced by all dividends (whether or not taxable) either if taxable to the trust or flowed-through to beneficiaries. A "5/365 exemption" applies to dividends received — very basically, if holdings do not exceed 5% of a class (or series) of shares at the time, and the shares were held throughout the 365-day period before the disposition — see subsections 112(4.21) and (4.22). Subsections 112(4.1) and (4.11) impose similar rules applicable to shares held as inventory — see the editorial note to subsection 112(4).

Related Sections: S. 107(1)(*c*) and (*d*) Disposition by taxpayer of capital interest; s. 112(4) Loss on share that is not capital property; s. 112(4.21) Loss on share held by trust — excluded dividends; s. 112(4.22) Loss on share held by trust — excluded dividends; s. 251 Arm's length.

Interpretation Bulletins: *Primary* — IT-328R3 Losses on shares from which dividends have been received.

► 112(4.21) ◄

(4.21) Loss on share held by trust — excluded dividends. A dividend shall not be included in the total determined under paragraph (4.2)(*a*) where the taxpayer establishes that

(*a*) it was received when the trust and persons with whom the trust was not dealing at arm's length did not own in total more than 5% of the issued shares of any class of the capital stock of the corporation from which the dividend was received; and

(*b*) it was received on a share that the trust owned throughout the 365-day period that ended immediately before the disposition.

History: S. 112(4.21) was added by S.C. 1998, c. 19, s. 131(1), applicable to dispositions that occur after April 26, 1995.

► 112(4.22) ◄

(4.22) Loss on share held by trust — excluded dividends. A dividend shall not be included in the total determined under paragraph (4.2)(*b*) where the taxpayer establishes that

(*a*) it was received when the trust, the beneficiary and persons with whom the beneficiary was not dealing at arm's length did not own in total more than 5% of the issued shares of any class of the capital stock of the corporation from which the dividend was received; and

(*b*) it was received on a share that the trust owned throughout the 365-day period that ended immediately before the disposition.

History: S. 112(4.22) was added by S.C. 1998, c. 19, s. 131(1), applicable to dispositions that occur after April 26, 1995.

► 112(4.3) ◄

(4.3) Loss on share that is not capital property of trust. [Repealed by S.C. 1998, c. 19, s. 131(2).]

History: S. 112(4.3) was repealed by S.C. 1998, c. 19, s. 131(2), applicable to dispositions that occur after April 26, 1995. S. 112(4.3) formerly read:

"(4.3) *Loss on share that is not capital property of trust.* Subject to subsections (5.5) and (5.6), where a taxpayer is a beneficiary of a trust (other than a prescribed trust) that owns a share that is not capital property and the taxpayer receives a taxable dividend in respect of that share pursuant to a designation under subsection 104(19) or the trust has made a designation under subsection 104(20) in respect of the taxpayer for a dividend other than a taxable dividend on that share, the amount of any loss of the trust arising with respect to the share on which the dividend was subject to a designation shall, unless it is established by the taxpayer that

(*a*) the trust owned the share 365 days or longer before the loss was sustained, and

(*b*) the trust, the taxpayer and persons with whom the taxpayer was not dealing at arm's length did not, at the time the dividend was received, own in the aggregate more than 5% of the issued shares of any class of the capital stock of the corporation from which the dividend was received,

be deemed to be the amount of that loss otherwise determined, minus the total of all amounts each of which is a dividend (other than a capital gains dividend within the meaning assigned by subsection 131(1)) in respect of that share that was designated under subsection 104(19) or (20) in respect of the taxpayer."

S. 112(4.3), the portion before paragraph (*a*), was amended by S.C. 1995, c. 21, s. 56(6), applicable to dispositions occurring after October 30, 1994. That part formerly read:

"(4.3) *Idem.* Where a taxpayer is a beneficiary of a trust (other than a prescribed trust) that owns a share that is not capital property and the taxpayer receives a taxable dividend in respect of that share pursuant to a designation under subsection 104(19) or the trust has made a designation under subsection 104(20) in respect of the taxpayer for a dividend other than a taxable dividend on that share, the amount of any loss of the trust arising with respect to the share on which the dividend was subject to a designation shall, unless it is established by the taxpayer that"

Interpretation Bulletins: *Primary* — IT-328R3 Losses on shares from which dividends have been received.

► 112(5) ◄

(5) Disposition of share by financial institution. Subsection (5.2) applies to the disposition of a share by a taxpayer in a taxation year where

(*a*) the taxpayer is a financial institution in the year;

(*b*) the share is a mark-to-market property for the year; and

(*c*) the taxpayer received a dividend on the share at a time when the taxpayer and persons with whom the taxpayer was not dealing at arm's length held in total more than 5% of the issued shares of any class of the capital stock of the corporation from which the dividend was received.

History: S. 112(5) was added by S.C. 1995, c. 21, s. 56(7), applicable to dispositions in taxation years that begin after October 1994.

► 112(5.1) ◄

(5.1) Share held for less than one year. Subsection (5.2) applies to the disposition of a share by a taxpayer in a taxation year where

(*a*) the disposition is an actual disposition;

(*b*) the taxpayer did not hold the share throughout the 365-day period that ended immediately before the disposition; and

(*c*) the share was a mark-to-market property of the taxpayer for a taxation year that begins after October 1994 and in which the taxpayer was a financial institution.

History: S. 112(5.1)(*b*) was amended by S.C. 1998, c. 19, s. 131(3), applicable to dispositions that occur after April 26, 1995. S. 112(5.1)(*b*) formerly read:

"(*b*) the taxpayer held the share for less than 365 days; and"

S. 112(5.1) was added by S.C. 1995, c. 21, s. 56(7), applicable to dispositions in taxation years that begin after October 1994.

► 112(5.2) ◄

(5.2) Adjustment re dividends. Subject to subsection (5.3), where subsection (5) or (5.1) provides that this subsection applies to the disposition of a share by a taxpayer at any time, the taxpayer's proceeds of disposition shall be deemed to be the amount determined by the formula

$$A + B - (C - D)$$

where

A is the taxpayer's proceeds determined without reference to this subsection,

B is the lesser of

(*a*) the loss, if any, from the disposition of the share that would be determined before the application of this subsection if the cost of the share to any taxpayer were determined without reference to

(i) paragraphs 87(2)(*e.2*) and (*e.4*), 88(1)(*c*), 138(11.5)(*e*) and 142.5(2)(*b*),

(ii) subsection 85(1), where the provisions of that subsection are required by paragraph 138(11.5)(*e*) to be applied, and

(iii) paragraph 142.6(1)(*d*), and

(*b*) the total of all amounts each of which is

(i) where the taxpayer is a corporation, a taxable dividend received by the taxpayer on the share, to the extent of the amount that was deductible under this section or subsection 115(1) or 138(6) in computing the taxpayer's taxable income or taxable income earned in Canada for any taxation year,

(ii) where the taxpayer is a partnership, a taxable dividend received by the taxpayer on the share, to the extent of the amount that was deductible under this section or subsection 115(1) or 138(6) in computing the taxable income or taxable income earned in Canada for any taxation year of members of the partnership,

(iii) where the taxpayer is a trust, an amount designated under subsection 104(19) in respect of a taxable dividend on the share, or

(iv) a dividend (other than a taxable dividend) received by the taxpayer on the share,

C is the total of all amounts each of which is the amount by which

(*a*) the taxpayer's proceeds of disposition on a deemed disposition of the share before that time were increased because of this subsection,

(*b*) where the taxpayer is a corporation or trust, a loss of the taxpayer on a deemed disposition of the share before that time was reduced because of subsection (3), (3.2), (4) or (4.2), or

(*c*) where the taxpayer is a partnership, a loss of a member of the partnership on a deemed disposition of the share before that time was reduced because of subsection (3.1) or (4.2), and

D is the total of all amounts each of which is the amount by which the taxpayer's proceeds of disposition on a deemed disposition of the share before that time were decreased because of this subsection.

History: S. 112(5.2), subparagraph (*b*)(iv) of the description of B, was amended by S.C. 1998, c. 19, s. 131(4), applicable to dispositions that occur after April 26, 1995. Subparagraph (*b*)(iv) of the description of B formerly read:

"(iv) a dividend (other than a taxable dividend or a dividend deemed by subsection 131(1) to be a capital gains dividend) received by the taxpayer on the share,"

S. 112(5.2), paragraph (*b*) of the description of C, was amended by S.C. 1998, c. 19, s. 131(5), applicable to dispositions that occur after April 26, 1995. Paragraph (*b*) of the description of C formerly read:

"(*b*) where the taxpayer is a corporation or trust, a loss of the taxpayer on a deemed disposition of the share before that time was reduced because of subsection (3), (3.2), (4) or (4.3), or"

S. 112(5.2) was added by S.C. 1995, c. 21, s. 56(7), applicable to dispositions in taxation years that begin after October 1994.

► 112(5.21) ◄

(5.21) Subsection (5.2) — excluded dividends. A dividend shall not be included in the total determined under paragraph (*b*) of the description of B in subsection (5.2) unless

(*a*) the dividend was received when the taxpayer and persons with whom the taxpayer did not deal at arm's length held in total more than 5% of the issued shares of any class of the capital stock of the corporation from which the dividend was received; or

(*b*) the share was not held by the taxpayer throughout the 365-day period that ended immediately before the disposition.

History: S. 112(5.21) was added by S.C. 1998, c. 19, s. 131(6), applicable to dispositions that occur after April 26, 1995.

Related Sections: S. 112(3.01) Loss on share that is capital property — excluded dividends; s. 112(3.11) Loss on share held by partnership — excluded dividends; s. 112(3.31) Loss on share held by trust — excluded dividends; s. 112(3.32) Loss on share held by trust — excluded dividends; s. 112(4.01) Loss on share that is not capital property — excluded dividends; s. 112(4.11) Fair market value of shares held as inventory — excluded dividends; s. 112(4.21) Loss on share held by trust — excluded dividends; s. 112(4.22) Loss on share held by trust — excluded dividends.

► 112(5.3) ◄

(5.3) Adjustment not applicable. For the purpose of determining the cost of a share to a taxpayer on a deemed reacquisition of the share after a deemed disposi-

tion of the share, the taxpayer's proceeds of disposition shall be determined without regard to subsection (5.2).

History: S. 112(5.3) was added by S.C. 1995, c. 21, s. 56(7), applicable to dispositions in taxation years that begin after October 1994.

► 112(5.4) ◄

(5.4) Deemed dispositions. Where a taxpayer disposes of a share at any time,

(*a*) for the purpose of determining whether subsection (5.2) applies to the disposition, the conditions in subsections (5) and (5.1) shall be applied without regard to a deemed disposition and reacquisition of the share before that time; and

(*b*) total amounts under subsection (5.2) in respect of the disposition shall be determined from the time when the taxpayer actually acquired the share.

History: S. 112(5.4) was added by S.C. 1995, c. 21, s. 56(7), applicable to dispositions in taxation years that begin after October 1994.

► 112(5.5) ◄

(5.5) Stop-loss rules not applicable. Subsections (3) to (4) and (4.2) do not apply to the disposition of a share by a taxpayer in a taxation year that begins after October 1994 where

(*a*) the share is a mark-to-market property for the year and the taxpayer is a financial institution in the year; or

(*b*) subsection (5.2) applies to the disposition.

History: S. 112(5.5), the portion before paragraph (*a*), was amended by S.C. 1998, c. 19, s. 131(7), applicable to dispositions that occur after April 26, 1995. That part formerly read:

"(5.5) *Stop-loss rules not applicable.* Subsections (3) to (4), (4.2) and (4.3) do not apply to the disposition of a share by a taxpayer in a taxation year that begins after October 1994 where"

S. 112(5.5) was added by S.C. 1995, c. 21, s. 56(7), applicable to dispositions in taxation years that begin after October 1994.

► 112(5.6) ◄

(5.6) Stop-loss rules restricted. In determining whether any of subsections (3) to (4) and (4.2) apply to reduce a loss of a taxpayer from the disposition of a share, this Act shall be read without reference to paragraphs (3.01)(*b*) and (3.11)(*b*), subclauses (3.2)(*a*)(ii)(C)(I) and (3.3)(*a*)(ii)(C)(I) and paragraphs (3.31)(*b*), (3.32)(*b*), (4.01)(*b*), (4.21)(*b*) and (4.22)(*b*) where

(*a*) the disposition occurs

(i) because of subsection 142.5(2) in a taxation year that includes October 31, 1994, or

(ii) because of paragraph 142.6(1)(*b*) after October 30, 1994; or

(*b*) the share was a mark-to-market property of the taxpayer for a taxation year that begins after October 1994 in which the taxpayer was a financial institution.

History: S. 112(5.6), the portion before paragraph (*a*), was amended by S.C. 1998, c. 19, s. 131(8), applicable to dispositions that occur after April 26, 1995. That part formerly read:

"(5.6) *Stop-loss rules restricted.* In determining whether any of subsections (3) to (4), (4.2) and (4.3) apply to the disposition of a share by a taxpayer, each of those subsections shall be read without reference to paragraph (*a*) of the subsection where"

S. 112(5.6) was added by S.C. 1995, c. 21, s. 56(7), applicable to dispositions occurring after October 30, 1994.

► 112(6) ◄

(6) Meaning of certain expressions. For the purposes of this section,

(*a*) "dividend" and "taxable dividend" do not include a capital gains dividend (within the meaning assigned by subsection 131(1)) or any dividend received by a taxpayer on which the taxpayer was required to pay tax under Part VII of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read on March 31, 1977;

(*b*) one corporation is controlled by another corporation if more than 50% of its issued share capital (having full voting rights under all circumstances) belongs to the other corporation, to persons with whom the other corporation does not deal at arm's length, or to the other corporation and persons with whom the other corporation does not deal at arm's length; and

(*c*) "financial institution" and "mark-to-market property" have the meanings assigned by subsection 142.2(1).

History: S. 112(6)(*a*) was amended by S.C. 1998, c. 19, s. 131(9), applicable after April 26, 1995. S. 112(6)(*a*) formerly read:

"(*a*) 'taxable dividend' does not include a capital gains dividend within the meaning assigned by subsection 131(1);"

S. 112(6)(*c*) was added by S.C. 1995, c. 21, s. 56(8), applicable to taxation years that begin after October 1994.

Editorial Note: This provision provides for the meaning of certain expressions in section 112. In particular, a dividend or taxable dividend does not include a capital gains dividend or dividend from designated surplus.

Related Sections: S. 131(1) Election re capital gains dividend; s. 251(1) Arm's length.

► 112(7) ◄

(7) Rules where shares exchanged. Where a share (in this subsection referred to as the "new share") has been acquired in exchange for another share (in this subsection referred to as the "old share") in a transaction to which section 51, 85.1, 86 or 87 applies, for the purposes of the application of any of subsections (3) to (3.32) in respect of a disposition of the new share, the new share is deemed to be the same share as the old share, except that

(*a*) any dividend received on the old share is deemed for those purposes to have been received on the new share only to the extent of the proportion of the dividend that

(i) the shareholder's adjusted cost base of the new share immediately after the exchange

is of

(ii) the shareholder's adjusted cost base of all new shares immediately after the exchange acquired in exchange for the old share; and

(*b*) the amount, if any, by which a loss from the disposition of the new share is reduced because of the application of this subsection shall not exceed the proportion of the shareholder's adjusted cost base of the old share immediately before the exchange that

(i) the shareholder's adjusted cost base of the new share immediately after the exchange

is of

(ii) the shareholder's adjusted cost base of all new shares, immediately after the exchange, acquired in exchange for the old share.

History: S. 112(7) was amended by S.C. 1998, c. 19, s. 131(10), applicable to dispositions that occur after April 26, 1995. S. 112(7) formerly read:

"(7) *Rules where shares exchanged.* Where at a particular time a share (in this subsection referred to as the 'new share') has been acquired by a corporation, partnership or trust (in this subsection referred to as the 'holder') in exchange for another share (in this subsection referred to as the 'old share') by means of a transaction to which section 51, 85.1, 86 or 87 applies, any reference in subsection (3), (3.1) or (3.2) to a share shall be deemed to include a reference to the new share and the old share as though they were the same share, except that the total of the amounts to be deducted from a loss otherwise determined on any new share of the holder,

in respect of dividends received, or designated by the holder, in respect of the share, shall be deemed to be the total of

(*a*) the total of all amounts each of which is an amount that would be determined under subsection (3), (3.1) or (3.2) in respect of a taxable dividend, a capital dividend or a life insurance capital dividend received or designated by the holder in respect of the new share only, and

(*b*) the amount determined by the formula

$$A \times \frac{B}{C}$$

where

A is the total of all amounts each of which is the amount determined in respect of an old share exchanged by the holder at the particular time equal to the lesser of

(i) the total of all amounts each of which is received or designated by the holder in respect of a taxable dividend, a capital dividend or a life insurance capital dividend on the old share, and

(ii) the adjusted cost base to the holder of the old share immediately before the particular time,

B is the adjusted cost base to the holder of the new share immediately after the exchange, and

C is the adjusted cost base to the holder of all new shares immediately after the exchange,

to the extent that those amounts were not amounts on which the holder was required to pay tax under Part VII of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read on March 31, 1977."

Paragraph 112(7)(*b*) was amended by S.C. 1994, c. 21, s. 51(5), applicable to losses arising in the 1992 and subsequent taxation years. Paragraph 112(7)(*b*) formerly read:

"(*b*) that proportion of the total of all amounts each of which is an amount received or designated by the holder in respect of a taxable dividend, a capital dividend or a life insurance capital dividend on all the old shares exchanged at the particular time that

(i) the adjusted cost base to the holder of the new share immediately after the exchange

is of

(ii) the adjusted cost base to the holder of all new shares immediately after the exchange"

Editorial Note: Subsection 112(7) provides continuity of the stop-loss rules in subsections 112(3) to (3.2) through reorganizations (conversions, share exchanges, capital reorganizations and amalgamations) by deeming "new" shares received on such a reorganization to be the "old" shares. Dividends received on the old shares therefore carry over (paragraph 112(7)(*a*)), as does the cost base of the old shares (paragraph 112(7)(*b*)), both pro-rated based on ACB of shares. The provision also applies to preserve the grandfathering rules in respect of corporate-owned life insurance notwithstanding such reorganizations (i.e., in determining whether the taxpayer owned the share on April 26th, 1995 and whether a main purpose of life insurance policy was intended to fund a redemption — see the editorial note to subsection 112(3.2)).

Related Sections: S. 112(3) Loss on share that is capital property; s. 112(3.1) Loss on share held by partnership; s. 112(3.2) Loss on share held by trust.

Interpretation Bulletins: *Primary* — IT-328R3 Losses on shares from which dividends have been received.

SECTION 113:

► 113(1) ◄

(1) Deduction in respect of dividend received from foreign affiliate. Where in a taxation year a corporation resident in Canada has received a dividend on a share owned by it of the capital stock of a foreign affiliate of the corporation, there may be deducted from the income for the year of the corporation for the purpose of computing its taxable income for the year, an amount equal to the total of

(*a*) an amount equal to such portion of the dividend as is prescribed to have been paid out of the exempt surplus, as defined by regulation (in this Part referred to as "exempt surplus") of the affiliate,

(*b*) an amount equal to the lesser of

(i) the product obtained when the foreign tax prescribed to be applicable to such portion of the dividend as is prescribed to have been paid out of the taxable surplus, as defined by regulation (in this Part referred to as "taxable surplus") of the affiliate is multiplied by the amount by which

(A) the relevant tax factor

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Clause 113(1)(*b*)(i)(A) of the Act is replaced by the following:

(A) the corporation's relevant tax factor for the year

Applicable: After 2000.

Explanatory Note: Subsection 113(1) of the Act permits a resident corporation to deduct specified amounts in respect of dividends received from a foreign affiliate out of the exempt, taxable and pre-acquisition surplus of the foreign affiliate. The amounts so deductible are determined largely with reference to Part LIX of the *Income Tax Regulations*. The deductions under paragraphs 113(1)(*b*) and (*c*) with regard to dividends out of taxable surplus are also determined with reference to the resident corporation's "relevant tax factor".

Subsection 113(1) is amended to explicitly link the "relevant tax factor" to the resident corporation receiving the dividends and the taxation year in which the dividends are received.

This amendment applies after 2000.

exceeds

(B) one, and

(ii) that portion of the dividend,

(*c*) an amount equal to the lesser of

(i) the product obtained when

(A) the non-business-income tax paid by the corporation applicable to such portion of the dividend as is prescribed to have been paid out of the taxable surplus of the affiliate

is multiplied by

(B) the relevant tax factor, and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Clause 113(1)(*c*)(i)(B) of the Act is replaced by the following:

(B) the corporation's relevant tax factor for the year, and

Applicable: After 2000.

Explanatory Note: See the Explanatory Note following the amendment to clause 113(1)(*b*)(i)(A).

(ii) the amount by which such portion of the dividend as is prescribed to have been paid out of the taxable surplus of the affiliate exceeds the deduction in respect thereof referred to in paragraph (*b*), and

(*d*) an amount equal to such portion of the dividend as is prescribed to have been paid out of the pre-acquisition surplus of the affiliate,

and for the purposes of this subsection and subdivision i of Division B, the corporation may make such elections as may be prescribed.

Related Sections: S. 93(3) Exempt dividends; s. 95(1) Foreign affiliate; s. 111(8) Definitions; s. 125(6) Corporate partnerships; s. 126(7) Definitions; s. 143(1) Communal organizations; s. 186(1) Tax on assessable dividends.
Regulations: 5900(1), (2); 5907.
Interpretation Bulletins: *Secondary* — IT-98R2 Investment corporations [Archived by the CRA]; IT-232R3 Non-capital losses, net capital losses, restricted farm losses, farm losses and limited partnership losses — Their composition and deductibility in computing taxable income; IT-269R4 Part IV tax on taxable dividends received by a private corporation or a subject corporation.
Information Circulars: IC 77-9R Books, records and other requirements for taxpayers having foreign affiliates.
Tax Topics: No. 1930, Budget 2009 Provides Initial Response to Final Report Issued by the Advisory Panel on Canada's System of International Taxation.
Tax Profile: January 2009 — Enhancing Canada's International Tax Advantage; June 2008 — International Tax Planning for the Owner-Manager; July 2008 — International Tax Planning for the Owner-Manager; April 2008 — International Tax Planning for the Owner-Manager; May 2007 — Impact of 2007 Federal Budget on Cross-Border Transactions; February 2007 — U.S. Limited Liability Companies — The Good, the Bad and the Ugly; September 2006 — Canadian Acquisition of U.S. Real Estate; February 2006 — Foreign Source Income: Outbound Structures and Foreign Tax Credit Planning — Part II; December 2004 — Taxation of Dividends: A Survey in the Context of Private Corporations and Their Shareholders — Part 2; April 2001 — Canada-U.S. Hybrids.
Canadian Tax Foundation: Minassian and Selby, "Computation of Surplus Accounts", *2002 Conference Report*, 43:1.
Canadian Petroleum Tax Journal: Foreign Affiliate Surplus: Got Enough?, Talakshi and Samuel, Vol. 18 No. 1 2005; High Tech in the Oil Patch: Planning Considerations For Transferring Technology Offshore, Derek A. Kurrant, Vol. 13 No. 1 2000.

► 113(2) ◄

(2) Additional deduction. Where, at any particular time in a taxation year ending after 1975, a corporation resident in Canada has received a dividend on a share owned by it at the end of its 1975 taxation year of the capital stock of a foreign affiliate of the corporation, there may be deducted from the income for the year of the corporation for the purpose of computing its taxable income for the year, an amount in respect of the dividend equal to the lesser of

(*a*) the amount, if any, by which the amount of the dividend so received exceeds the total of

(i) the deduction in respect of the dividend permitted by subsection 91(5) in computing the corporation's income for the year, and

(ii) the deduction in respect of the dividend permitted by subsection (1) from the income for the year of the corporation for the purpose of computing its taxable income, and

(*b*) the amount, if any, by which

(i) the adjusted cost base to the corporation of the share at the end of its 1975 taxation year

exceeds the total of

(ii) [Repealed by 1979, c. 5, s. 37(1).]

(iii) such amounts in respect of dividends received by the corporation on the share after the end of its 1975 taxation year and before the particular time as are deductible under paragraph (1)(*d*) in computing the taxable income of the corporation for taxation years ending after 1975,

(iii.1) the total of all amounts received by the corporation on the share after the end of its 1975 taxation year and before the particular time on a reduction of the paid-up capital of the foreign affiliate in respect of the share, and

(iv) the total of all amounts deducted under this subsection in respect of dividends received by the corporation on the share before the particular time.

Related Sections: S. 92(1) Adjusted cost base of share of foreign affiliate; s. 92(3) Computation of adjusted cost base; s. 113(1) Deduction in respect of dividend received from foreign affiliate.
Tax Profile: December 2004 — Taxation of Dividends: A Survey in the Context of Private Corporations and Their Shareholders — Part 2.

► 113(3) ◄

(3) Definitions. In this section,

"*non-business-income tax*" — "non-business-income tax" paid by a taxpayer has the meaning assigned by subsection 126(7);

"*relevant tax factor*" — "relevant tax factor" has the meaning assigned by subsection 95(1).

► 113(4) ◄

(4) Portion of dividend deemed paid out of exempt surplus. Such portion of any dividend received at any time in a taxation year by a corporation resident in Canada on a share owned by it of the capital stock of a foreign affiliate of the corporation, that was received after the 1971 taxation year of the affiliate and before the affiliate's 1976 taxation year, as exceeds the amount deductible in respect of the dividend under paragraph (1)(*d*) in computing the corporation's taxable income for the year shall, for the purposes of paragraph (1)(*a*), be deemed to be the portion of the dividend prescribed to have been paid out of the exempt surplus of the affiliate.

Related Sections: S. 95(1)(*b*) Foreign affiliate; s. 113(1) Deduction in respect of dividend received from foreign affiliate.
Regulations: 5900.
Cases: Considering the distinction between "listed" and "unlisted" countries and the fact that Puerto Rico had to be taken as being distinct from the U.S., a tax exemption received by the taxpayer's foreign affiliate from the Puerto Rican government was an "export incentive" so that its dividends did not qualify for the deduction under s. 113(1)(*a*). *The Queen v. Old HW-GW Ltd.*, 93 DTC 5199 (F.C.A.), reversing 91 DTC 5327 (F.C.T.D.).

► 113(5) ◄

(5) Limitation on foreign accrual tax where treaty. [Repealed by 1974-75-76, c. 26, s. 73(4).]

► 113(6) ◄

(6) Construction of other provisions. [Repealed by 1974-75-76, c. 26, s. 73(4).]

► 113(7) ◄

(7) Meaning of "foreign accrual tax applicable". [Repealed by 1974-75-76, c. 26, s. 73(4).]

SECTION 114: Individual resident in Canada for only part of year.

Notwithstanding subsection 2(2), the taxable income for a taxation year of an individual who is resident in Canada throughout part of the year and non-resident throughout another part of the year is the amount, if any, by which

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of section 114 of the Act before paragraph (*a*) is replaced by the following:

SECTION 114: Individual resident in Canada for only part of year.

Notwithstanding subsection 2(2) and subject to subsection 94.2(5), the taxable income for a taxation year of an individual who is resident in Canada throughout part of the year and non-resident throughout another part of the year is the amount, if any, by which

Applicable: To taxation years that begin after 2006, except that section 114 also applies to a taxation year of a taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the taxpayer.

Explanatory Note: Section 114 of the Act provides rules for computing the taxable income of an individual who is resident in Canada for a period or periods in a taxation year, and is non-resident for the rest of the year.

Section 114 is amended so that it is subject to paragraph 94.2(5)(*c*), a rule that applies in connection with a participating interest, in a foreign investment entity, in respect of which the mark-to-market regime under section 94.2 applies to a taxpayer. Paragraph 94.2(5)(*c*) is, however, only relevant to an individual who ceases to be, and later becomes, resident in Canada in the same taxation year. For further information, see the commentary on new subsection 94.2(5).

This amendment applies to taxation years that begin after 2006.

(*a*) the amount that would be the individual's income for the year if the individual had no income or losses, for the part of the year throughout which the individual was non-resident, other than

(i) income or losses described in paragraphs 115(1)(*a*) to (*c*), and

(ii) income that would have been included in the individual's taxable income earned in Canada for the year under subparagraph 115(1)(*a*)(v) if the part of the year throughout which the individual was non-resident were the whole taxation year,

exceeds the total of

(*b*) the deductions permitted by subsection 111(1) and, to the extent that they relate to amounts included in computing the amount determined under paragraph (*a*), the deductions permitted by any of paragraphs 110(1)(*d*) to (*d.2*) and (*f*), and

(*c*) any other deduction permitted for the purpose of computing taxable income to the extent that

(i) it can reasonably be considered to be applicable to the part of the year throughout which the individual was resident in Canada, or

(ii) if all or substantially all of the individual's income for the part of the year throughout which the individual was non-resident is included in the amount determined under paragraph (*a*), it can reasonably be considered to be applicable to that part of the year.

History: S. 114 was amended by S.C. 2001, c. 17, s. 89(1), applicable to the 1998 and subsequent taxation years. S. 114 formerly read:

"S. 114. *Individual resident in Canada for only part of year.* Notwithstanding subsection 2(2), where an individual is resident in Canada throughout part of a taxation year, and throughout another part of the year is non-resident, the individual's taxable income for the year is the amount, if any, by which the total of

(*a*) the individual's income for the period or periods in the year throughout which the individual is resident in Canada, computed without regard to section 61.2 and as though that period or those periods were the whole taxation year, and

(*b*) the amount that would be the individual's taxable income earned in Canada for the year if at no time in the year the individual had been resident in Canada, computed as though the part of the year that is not in the period or periods referred to in paragraph (*a*) were the whole taxation year,

exceeds

(*c*) the total of

(i) such of the deductions permitted for the purpose of computing taxable income as can reasonably be considered wholly applicable, and

(ii) such part of any other of those deductions as can reasonably be considered applicable

to the period or periods referred to in paragraph (*a*),

except that the total of all amounts included in computing the total determined under paragraph (*c*) and all amounts deducted because of paragraphs 115(1)(*d*) to (*f*) in respect of the individual for the year shall not exceed the total of the amounts that would have been deductible in computing the individual's taxable income for the year had the individual been resident in Canada throughout the year."

S. 114(*a*) was amended by S.C. 1995, c. 21, s. 37(1), applicable to taxation years that end after February 21, 1994. S. 114(*a*) formerly read:

"(*a*) the individual's income for the period or periods in the year throughout which the individual is resident in Canada, computed as though that period or those periods were the whole taxation year, and"

Section 114, that portion before paragraph (*b*), was amended by S.C. 1994, c. 21, s. 52(1), applicable to the 1992 and subsequent taxation years, except that, where a taxpayer so elects by notifying the Minister of National Revenue in writing before the end of the sixth month after the month in which this Act is assented to (June 15, 1994), the portion preceding paragraph 114(*b*) does not apply to the taxpayer's 1992 taxation year. Section 114, that portion before paragraph (*b*), formerly read:

"S. 114. Notwithstanding subsection 2(2), where an individual is resident in Canada during part of a taxation year, and during some other part of the year is not resident in Canada, is not employed in Canada and is not carrying on business in Canada, for the purposes of this Part, the individual's taxable income for the year is the amount, if any, by which the total of

(*a*) the individual's income for the period or periods in the year throughout which the individual is resident in Canada, is employed in Canada or is carrying on business in Canada, computed as though that period or those periods were the whole taxation year and as though any disposition of property deemed by subsection 48(1) to have been made because the individual ceased to be resident in Canada were made in that period or those periods, and"

S. 114 of the Act was amended by S.C. 1994, c. 7, Sched. II, s. 85(1), applicable to the 1988 and subsequent taxation years.

S. 114 formerly read:

"S. 114. *Individual resident in Canada during only part of year.* Notwithstanding subsection 2(2), where an individual was resident in Canada during part of a taxation year, and during some other part of the year was not resident in Canada, was not employed in Canada and was not carrying on business in Canada, for the purpose of this Part, the individual's taxable income for the taxation year is the total of

(*a*) the individual's income for the period or periods in the year throughout which the individual was resident in Canada, was employed in Canada or was carrying on business in Canada, computed as though that period or those periods were the whole taxation year and as though any disposition of property deemed by subsection 48(1) to have been made by reason of the individual having ceased to be resident in Canada were made in the period or periods, and

(*b*) the amount that would be the individual's taxable income earned in Canada for the year if at no time in the year the individual had been resident in Canada, computed as though the portion of the year that is not in the period or periods referred to in paragraph (*a*) were the whole taxation year,

minus the total of such of the deductions permitted for the purpose of computing taxable income as may reasonably be considered wholly applicable to the period or periods referred to in paragraph (*a*) and of such part of any other of those deductions as may reasonably be considered applicable to the period or periods."

Related Sections: S. 2(2) Taxable income; s. 8(10) Certificate of employer; s. 28(4) Non-resident; s. 111(8) Definitions; s. 120(3) Definition of "the individual's income for the year"; s. 122.3 Deduction from tax payable where employment out of Canada; s. 126(1) Foreign tax deduction — non-business income; s. 126(2) Foreign tax deduction — business income; s. 126(3) Employees of international organizations; s. 248(1), "amount", "business", "individual", "property", "taxable income earned in Canada"; s. 249 Definition of "taxation year"; s. 255 Canada.

Regulations: 2606; 2606(2).

Interpretation Bulletins: *Primary* — IT-262R2 Losses of non-residents and part-year residents. *Secondary* — IT-420R3 Non-residents — Income earned in Canada; IT-497R4 Overseas employment tax credit.

Tax Profile: December 2008 — Tax Planning for Emigration from Canada to the United States.

Cases: Days before emigrating from Canada, the taxpayers executed a departure trade designed to create a $1.7 million interest deduction. Since the interest was payable one day after they became non-residents, it couldn't be deducted under s. 114(*a*). It wasn't deductible under s. 114(*c*) either since the phrase, "any other deduction permitted for the purpose of computing

taxable income" is restricted to Division C deductions, which excludes a s. 20(1)(*c*) interest deduction. *Grant et al. v. The Queen,* 2007 DTC 5351 (F.C.A.), affirming 2006 DTC 3071 (T.C.C.).

A taxpayer was not resident in Canada for a certain period although his family was temporarily resident there, and although he visited them on several occasions. *Kallos v. M.N.R.,* (T.R.B.) 72 DTC 1099. Similarly, a taxpayer living in France for 246 days while training for a position with a Canadian subsidiary was held resident in Canada. *Queen v. Reeder,* 75 DTC 5160 (F.C.T.D.), reversing 75 DTC 17 (T.R.B.).

Guides: T4055 Newcomers to Canada; T4056 Emigrants and Income Tax.

SECTION 114.1: Application of s. 115(2). [Repealed by S.C. 2001, c. 17, s. 89(1).]

History: S. 114.1 was repealed by S.C. 2001, c. 17, s. 89(1), applicable to the 1998 and subsequent taxation years. S. 114.1 formerly read:

"S. 114.1. *Application of s. 115(2).* In applying section 115 for the purposes of section 114, the references in paragraphs 115(2)(*b*), (*b*.1) and (*c*) to 'who had, in any previous year, ceased to be resident in Canada' shall be read as references to 'who has, in the year, or had, in any previous year, ceased to be resident in Canada'."

Regulations: Part I.

SECTION 114.2: Deductions in separate returns.

Where a separate return of income with respect to a taxpayer is filed under subsection 70(2), 104(23) or 150(4) for a particular period and another return of income under this Part with respect to the taxpayer is filed for a period ending in the calendar year in which the particular period ends, for the purpose of computing the taxable income under this Part of the taxpayer in those returns, the total of all deductions claimed in all those returns under section 110 shall not exceed the total that could be deducted under that section for the year with respect to the taxpayer if no separate returns were filed under subsections 70(2), 104(23) and 150(4).

Interpretation Bulletins: *Primary* — IT-326R3 Returns of deceased persons as "another person". *Secondary* — IT-212R3 Income of deceased persons — Rights or things.

DIVISION D — Taxable Income Earned in Canada by Non-Residents

SECTION 115:

► 115(1) ◄

(1) Non-resident's taxable income in Canada. For the purposes of this Act, the taxable income earned in Canada for a taxation year of a person who at no time in the year is resident in Canada is the amount, if any, by which the amount that would be the non-resident person's income for the year under section 3 if

(*a*) the non-resident person had no income other than

(i) incomes from the duties of offices and employments performed by the non-resident person in Canada and, if the person was resident in Canada at the time the person performed the duties, outside Canada,

(ii) incomes from businesses carried on by the non-resident person in Canada which, in the case of the Canadian banking business of an authorized foreign bank, is, subject to this Part, the profit from that business computed using the bank's branch financial statements (within the meaning assigned by subsection 20.2(1),

(iii) taxable capital gains from dispositions described in paragraph (*b*),

(iii.1) the amount by which the amount required by paragraph 59(3.2)(*c*) to be included in computing the non-resident person's income for the year exceeds any portion of that amount that was included in computing the non-resident person's income from a business carried on by the non-resident person in Canada,

(iii.2) amounts required by section 13 to be included in computing the non-resident person's income for the year in respect of dispositions of properties to the extent that those amounts were not included in computing the non-resident person's income from a business carried on by the non-resident person in Canada,

(iii.21) the total of all amounts, each of which is an amount included under subparagraph 56(1)(*r*)(v) or section 56.3 in computing the non-resident person's income for the year,

(iii.3) in any case where, in the year, the non-resident person carried on a business in Canada described in any of paragraphs (*a*) to (*g*) of the definition "principal-business corporation" in subsection 66(15), all amounts in respect of a Canadian resource property that would be required to be included in computing the non-resident person's income for the year under this Part if the non-resident person were resident in Canada at any time in the year, to the extent that those amounts are not included in computing the non-resident person's income by virtue of subparagraph (ii) or (iii.1),

(iv) the amount, if any, by which any amount required by subsection 106(2) to be included in computing the non-resident person's income for the year as proceeds of the disposition of an income interest in a trust resident in Canada exceeds the amount in respect of that income interest that would, if the non-resident person had been resident in Canada throughout the year, be deductible under subsection 106(1) in computing the non-resident person's income for the year,

(iv.1) the amount, if any, by which any amount required by subsection 96(1.2) to be included in computing the non-resident person's income for the year as proceeds of the disposition of a right to a share of the income or loss under an agreement referred to in paragraph 96(1.1)(*a*) exceeds the amount in respect of that right that would, if the non-resident person had been resident in Canada throughout the year, be deductible under subsection 96(1.3) in computing the non-resident person's income for the year,

(v) in the case of a non-resident person described in subsection (2), the total determined under paragraph (2)(*e*) in respect of the non-resident person,

(vi) the amount that would have been required to be included in computing the non-resident person's income in respect of a life insurance policy in Canada by virtue of subsection 148(1) or (1.1) if the non-resident person had been resident in Canada throughout the year, and

(vii) in the case of an authorized foreign bank, the amount claimed by the bank to the extent that the inclusion of the amount in income

(A) increases any amount deductible by the bank under subsection 126(1) for the year, and

(B) does not increase an amount deductible by the bank under section 127 for the year,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 115(1)(*a*)(vii) of the Act is replaced by the following:

(vii) in the case of an authorized foreign bank,

(A) the amount claimed by the bank to the extent that the inclusion of the amount in income

(I) increases any amount deductible by the bank under subsection 126(1) for the year, and

(II) does not increase an amount deductible by the bank under section 127 for the year, and

(B) all amounts required by paragraph 12(1)(*k*) to be included in computing the bank's income, except to the extent that

(I) subparagraph (ii) or clause (A) applies to those amounts, or

(II) those amounts are in respect of a business of the bank that is not its Canadian banking business,

Applicable: To taxation years that begin after July 18, 2005.

Explanatory Note: Section 115 of the Act determines the amount of a non-resident person's income that is subject to tax under Part I of the Act. This amount is referred to as the non-resident's "taxable income earned in Canada". Subsection

115(1) provides general rules to be applied in calculating a non-resident's "taxable income earned in Canada". Paragraphs 115(1)(*a*) to (*c*) set out special assumptions that are applied in computing the taxable income earned in Canada of a non-resident taxpayer. Subparagraph 115(1)(*a*)(vii) includes in the taxable income earned in Canada of an authorized foreign bank the amount claimed by the bank to the extent that the inclusion increases the bank's usable foreign tax credit under subsection 126(1) but does not increase any amount deductible by the bank under section 127.

Subparagraph 115(1)(*a*)(vii) of the Act is amended so that, in computing the taxable income earned in Canada of an authorized foreign bank, there must also be included amounts (not otherwise included in computing its taxable income earned in Canada) that are required by paragraph 12(1)(*k*) to be included in computing the bank's income, but only to the extent that the income is earned in its Canadian banking business.

This amendment is made in conjunction with paragraph 94.1(2)(*t*), which ensures that an authorized foreign bank is subject to the FIE rules in respect of participating interests held by it in a FIE.

This amendment applies to taxation years that begin after July 18, 2005.

(*b*) the only taxable capital gains and allowable capital losses referred to in paragraph 3(*b*) were taxable capital gains and allowable capital losses from dispositions, other than dispositions deemed under subsection 218.3(2), of taxable Canadian properties (other than treaty-protected properties), and

(*b*.1) [Repealed by S.C. 2001, c. 17, s. 90(4).]

(*c*) the only losses for the year referred to in paragraph 3(*d*) were losses from duties of an office or employment performed by the person in Canada and businesses (other than treaty-protected businesses) carried on by the person in Canada and allowable business investment losses in respect of property any gain from the disposition of which would, because of this subsection, be included in computing the person's taxable income earned in Canada,

exceeds the total of

(*d*) the deductions permitted by subsection 111(1) and, to the extent that they relate to amounts included in computing the amount determined under any of paragraphs (*a*) to (*c*), the deductions permitted by any of paragraphs 110(1)(*d*) to (*d*.2) and (*f*) and subsection 110.1(1),

(*d*.1) [Repealed by S.C. 1999, c. 22, s. 29(2).]

(*e*) the deductions permitted by any of subsections 112(1) and (2) and 138(6) in respect of a dividend received by the non-resident person, to the extent that the dividend is included in computing the non-resident person's taxable income earned in Canada for the year,

(*e*.1) the deduction permitted by subsection (4.1), and

(*f*) where all or substantially all of the non-resident person's income for the year is included in computing the non-resident person's taxable income earned in Canada for the year, such of the other deductions permitted for the purpose of computing taxable income as may reasonably be considered wholly applicable.

Department of Finance Comfort Letter
[Follow-up to Earlier Letters on Modifications to Proposed S. 88(3)]

March 19, 2009

Dear XXXX

Subject: Subsection 88(3) of the *Income Tax Act*

I am writing in response to your letter of February 13, 2009 concerning subsection 88(3) of the *Income Tax Act* (Act).

August 16, 2005 and April 12, 2006 letters

Firstly, in your letter you have asked for confirmation of the Department's intention to recommend to the Minister of Finance certain amendments to subsection 88(3) of the Act (the "88(3) Modifications") as described in letters dated August 16, 2005 and April 12, 2006 (the "Earlier Letters") from Mr. Brian Ernewein.

As you know, it was stated in the 2007 Budget documents, and confirmed in the 2008 Budget documents, that previously released proposals (the "2004 FA proposals") in respect of the taxation of income from foreign affiliates would be reviewed and evaluated in view of the international tax measures announced in the 2007 Budget. Certain of these 2004 FA proposals, as modified to take into account some of the 2007 Budget measures, were enacted by Bill C-28 that received Royal Assent on December 14, 2007. Certain other portions of these 2004 FA proposals were enacted by the Budget Implementation Act, 2009, which received Royal Assent on March 12, 2009. Furthermore, in the 2009 Budget documents, it was stated that the Government will consider the recommendations of the Advisory Panel on Canada's System of International Taxation that relate to foreign affiliates before proceeding with the remaining 2004 FA Proposals, as modified to take into account consultations and deliberations since their release.

The review, evaluation and consideration referred to in the 2007, 2008 and 2009 Budget documents is still in progress in respect of the remaining 2004 FA proposals. Accordingly, it is possible that further changes may be made in this area of the tax law. However, we would in that event recommend to the Minister of Finance that any further changes to the 88(3) Modifications incorporate appropriate transitional provisions to ensure that the changes do not impair any beneficial effect of those modifications for the period up to any announcement of revisions to those modifications.

"Relevant cost amount"

Secondly, in your letter you have asked for clarification of the intended meaning of the expression "relevant cost amount" as used in the Earlier Letters. As you have noted, the recommendations to the Minister of Finance set out in those letters include a recommendation to amend the Act such that a taxpayer resident in Canada (a "Canadian taxpayer") may elect in respect of a qualifying liquidation and dissolution of a foreign affiliate of the Canadian taxpayer (an "Elected QLAD") that the foreign affiliate be considered to have disposed of each of its properties for proceeds equal to the greater of the "relevant cost amount" to the foreign affiliate of each such property and such amount chosen by the Canadian taxpayer, in a further election, not exceeding the fair market value of the property. In those letters, the relevant cost amount is described as being "essentially the amount that would generally result in no gain or loss to the foreign affiliate in respect of the Canadian taxpayer in respect of the distribution of the distributed property".

In the example set out in your letter, at the time of an Elected QLAD, the foreign affiliate owns non-depreciable capital property that is non-treaty-protected taxable Canadian property ("TCP"), having an adjusted cost base of $10 and a fair market value of $100. In your example, you assume that the $90 of appreciation (pre-acquisition gain) occurred at a time when no person or partnership that held the property was a "specified person or partnership" in respect of the Canadian taxpayer (within the meaning of that term in subsection 95(1) of the Act). Thus, you argue that, for the purposes of the foreign accrual property income ("FAPI") rules in the Act, the foreign affiliate's proceeds of disposition of the property could be $100, without triggering a capital gain under paragraph 95(2)(*f*) of the Act, because that paragraph, in conjunction with paragraph 95(2)(*f*.1), would exclude the pre-acquisition gain from the computation of the capital gain. You therefore suggest that, in this context, the relevant cost amount as described in the Earlier Letters would be $100.

On the other hand, for the purposes of determining the foreign affiliate's taxable income earned in Canada under subsection 115(1) of the Act, under your example, you conclude that the foreign affiliate will realize a capital gain to the extent that

the foreign affiliate's proceeds of disposition of the property exceed $10. You therefore suggest that, in this context, the relevant cost amount as described in the Earlier Letters would be $10.

In light of these conflicting results, you have asked us to provide clarification as to the determination of the relevant cost amount of non-depreciable capital property that is non-treaty-protected TCP .

Let us first offer some general clarifying comments as to our intentions with respect to the concept of "relevant cost amount". This concept is meant to be tied directly to the so-called "carve-out" rule in paragraph 95(2)*(f.1)* of the Act. Thus, where a Canadian taxpayer acquires shares of a foreign affiliate from an arm's length party and that affiliate holds appreciated property, the fair market value of the property at the time of acquisition should generally be the affiliate's relevant cost amount as that is the amount of proceeds of disposition that it could receive for the property without causing it to have a FAPI gain or loss, after taking into account the carve-out rule. Thus, generally the relevant cost amount of the appreciated property would be $100, using the figures in your example.

However, in the more specific context of an Elected QLAD where the property of the foreign affiliate is non-treaty-protected TCP and thus is relevant from both a FAPI and a section 115 perspective, it is important that the proceeds of disposition of property distributed to the Canadian taxpayer be the same for all Canadian tax purposes given that those proceeds will also be the cost to the Canadian taxpayer of that property going forward. It is also possible that certain Canadian taxpayers, in these circumstances, may wish their affiliates to realize gains for section 115 purposes, but rely on the carve-out rule to reduce or eliminate their FAPI inclusion.

On the basis of the foregoing, we are prepared to recommend to the Minister of Finance that, in the context of an Elected QLAD under the 88(3) Modifications, the Canadian taxpayer and the foreign affiliate be entitled to jointly elect that the relevant cost amount of a property that is non-treaty-protected TCP be the amount that causes no gain or loss in the computation of the affiliate's taxable income earned in Canada under section 115. This would mean that if, in your example, that election were made, the foreign affiliate's proceeds of disposition would be $10 such that the affiliate would have no gain for section 115 purposes. Furthermore, if that election were made, a similar result would obtain for FAPI purposes as paragraph 95(2)*(f)* would produce no gain, without the need to rely on the carve-out rule in paragraph 95(2)*(f.1)*, and thus the Canadian taxpayer would have no FAPI inclusion. As a result, under the 88(3) Modifications, the Canadian taxpayer's cost of the property would be $10 for its future income tax determinations made under the Act.

While I cannot offer any assurance that either the Minister of Finance or Parliament will agree with our recommendations, I hope that this statement of our intentions is helpful to you. As stated above, it should also be kept in mind that if the 88(3) Modifications are further revised, it is possible that the recommendation herein may only apply for the period up to any announcement of any such revisions.

Thank you for writing.

Yours sincerely,

Gerard Lalonde
Director,
Tax Legislation Division
Tax Policy Branch

History: S. 115(1)*(a)*(iii.21) was replaced by S.C. 2009, c. 2, s. 31(1), applicable to the 2008 and subsequent taxation years. S. 115(1)*(a)*(iii.21) formerly read:

"(iii.21) the amount, if any, included under section 56.3 in computing the non-resident person's income for the year,"

S. 115(1)*(b)* was replaced by S.C. 2005, c. 19, s. 21(1), applicable after 2004. S. 115(1)*(b)* formerly read:

"(*b*) the only taxable capital gains and allowable capital losses referred to in paragraph 3(*b*) were taxable capital gains and allowable capital losses from dispositions of taxable Canadian properties (other than treaty-protected properties), and"

S. 115(1)*(a)*(i) was amended by S.C. 2001, c. 17, s. 90(1), applicable to the 1998 and subsequent taxation years except that, if an individual who ceased at any time after 1992 and before October 2, 1996 to be resident in Canada elects under subsection 124(1) in respect of that cessation of residence, subparagraph 115(1)*(a)*(i) of the Act applies to income received by the individual after that cessation of residence. S. 115(1)*(a)*(i) formerly read:

"(i) incomes from the duties of offices and employments performed by the non-resident person in Canada,"

S. 115(1)*(a)*(ii) was amended by S.C. 2001, c. 17, s. 90(2), applicable after June 27, 1999. S. 115(1)*(a)*(ii) formerly read:

"(ii) incomes from businesses carried on by the non-resident person in Canada,"

S. 115(1)*(a)*(vii) was added by S.C. 2001, c. 17, s. 90(3), applicable after June 27, 1999.

Ss. 115(1)*(b)* and (*b*.1) were amended by S.C. 2001, c. 17, s. 90(4), applicable after October 1, 1996 except that, in its application to dispositions that occurred before the 1998 taxation year, paragraph 115(1)*(b)* of the Act shall be read as follows:

"(*b*) the only taxable capital gains and allowable capital losses referred to in paragraph 3(*b*) were taxable capital gains and allowable capital losses from dispositions of taxable Canadian properties, and"

Ss. 115(1)*(b)* and (*b*.1) formerly read:

"(*b*) the only taxable capital gains and allowable capital losses referred to in paragraph 3(*b*) were taxable capital gains and allowable capital losses from dispositions at any time in the year of property or an interest therein (in this Act referred to as 'taxable Canadian property') that was

(i) real property situated in Canada,

(ii) a capital property used by the non-resident person in carrying on a business in Canada, other than

(A) property used in carrying on an insurance business, and

(B) ships and aircraft used principally in international traffic and personal property pertaining to their operation if the country in which the non-resident person is resident grants substantially similar relief for the year to persons resident in Canada,

(iii) where the non-resident person is an insurer, any capital property that is its designated insurance property for the year,

(iv) a share of the capital stock of a corporation (other than a mutual fund corporation) resident in Canada that is not listed on a prescribed stock exchange,

(v) a share of the capital stock of a non-resident corporation that is not listed on a prescribed stock exchange where, at any particular time during the 12-month period that ends at that time,

(A) the fair market value of all of the properties of the corporation each of which was

(I) a taxable Canadian property,

(II) a Canadian resource property,

(III) a timber resource property,

(IV) an income interest in a trust resident in Canada, or

(V) an interest in or option in respect of a property described in any of subclauses (II) to (IV), whether or not the property exists,

was more than 50% of the fair market value of all of its properties, and

(B) more than 50% of the fair market value of the share is derived directly or indirectly from one or any combination of

(I) real property situated in Canada,

(II) Canadian resource properties, and

(III) timber resource properties,

(vi) a share otherwise described in subparagraph (iv) or (v) that is listed on a prescribed stock exchange, or a share of the capital stock of a mutual fund corporation, if, at any time during the 5-year period that ends at that time, the non-resident person, persons with whom the non-resident person did not deal at arm's length, or the non-resident person together with all such persons owned 25% or more of the issued shares of any class of the capital stock of the corporation that issued the share,

(vii) an interest in a partnership where, at any particular time during the 12-month period that ends at that time, the fair market value of all of the properties of the partnership each of which was

(A) a taxable Canadian property,

(B) a Canadian resource property,

(C) a timber resource property,

(D) an income interest in a trust resident in Canada, or

(E) an interest in or option in respect of a property described in clauses (B) to (D), whether or not that property exists,

was more than 50% of the fair market value of all of its properties,

(viii) a capital interest in a trust (other than a unit trust) resident in Canada,

(ix) a unit of a unit trust (other than a mutual fund trust) resident in Canada,

(x) a unit of a mutual fund trust if, at any particular time during the 5-year period that ends at that time, not less than 25% of the issued units of the trust belonged to the non-resident person, to persons with whom the non-resident person did not deal at arm's length, or to the non-resident person and persons with whom the non-resident person did not deal at arm's length,

(xi) an interest in a non-resident trust where, at any particular time during the 12-month period that ends at that time,

(A) the fair market value of all of the properties of the trust each of which was
(I) a taxable Canadian property,
(II) a Canadian resource property,
(III) a timber resource property,
(IV) an income interest in a trust resident in Canada, or
(V) an interest in or option in respect of a property described in subclauses (II) to (IV), whether or not the property exists,
was more than 50% of the fair market value of all of its properties, and
(B) more than 50% of the fair market value of the interest is derived directly or indirectly from one or any combination of
(I) real property situated in Canada,
(II) Canadian resource properties, and
(III) timber resource properties, or
(xii) a property deemed by any provision of this Act to be taxable Canadian property,
but does not include a share of the capital stock of a non-resident-owned investment corporation if, on the first day of the year, the corporation did not own taxable Canadian property, Canadian resource property, timber resource property nor an income interest in a trust resident in Canada,

(*b*.1) notwithstanding paragraph (*b*), the taxable capital gains and allowable capital losses referred to in paragraph 3(*b*) did not include taxable capital gains and allowable capital losses from dispositions at any time in the year of taxable Canadian property that was treaty-protected property of the non-resident at that time, and"

S. 115(1)(*d*) was amended by S.C. 2001, c. 17, s. 90(5), applicable to the 2000 and subsequent taxation years. S. 115(1)(*d*) formerly read:

"(*d*) the deductions permitted by subsection 111(1) and, to the extent that they relate to amounts included in computing the amount determined under any of paragraphs (*a*) to (*c*), the deductions permitted by any of paragraphs 110(1)(*d*), (*d*.1), (*d*.2) and (*f*) and subsection 110.1(1),"

S. 115(1)(*e*.1) was added by S.C. 2001, c. 17, s. 90(6), applicable to taxation years that begin after February 27, 2000.

S. 115(1)(*b*.1) was added, paragraphs (*c*), (*d*) and (*e*) were amended, and paragraph (*d*.1) was repealed, by S.C. 1999, c. 22, s. 29(2), applicable to the 1998 and subsequent taxation years. S. 115(1)(*c*) to (*e*) formerly read:

"(*c*) the only losses for the year referred to in paragraph 3(*d*) were losses from duties of an office or employment performed by the person in Canada and businesses carried on by the person in Canada and allowable business investment losses in respect of property any gain from the disposition of which would, because of this subsection, be included in computing the person's taxable income earned in Canada,

minus the total of

(*d*) the deductions permitted by paragraphs 110(1)(*d*), (*d*.1), (*d*.2) and (*f*) and subsection 110.1(1),

(*d*.1) the deductions permitted by subsections 112(1) and (2) and 138(6), to the extent that a dividend or portion thereof has been included in computing the non-resident person's taxable income earned in Canada,

(*e*) such of the deductions from income permitted by section 111 as may reasonably be considered to be applicable to the duties of an office or employment performed by the non-resident person in Canada, a business carried on by the non-resident person in Canada or a disposition of property, any profit or gain on which would have been required by this subsection to be included in computing the non-resident person's taxable income earned in Canada, and"

S. 115(1), the portion before paragraph (*a*), was amended by S.C. 1999, c. 22, s. 29(1), applicable to the 1998 and subsequent taxation years. S. 115(1), the portion before paragraph (*a*) formerly read:

"S. 115. *Non-resident's taxable income in Canada.*

(1) For the purposes of this Act, the taxable income earned in Canada for a taxation year of a person who at no time in the year is resident in Canada is the amount of the non-resident person's income for the year that would be determined under section 3 if"

S. 115(1)(*b*) was amended by S.C. 1998, c. 19, s. 132(1), applicable after April 26, 1995, except in respect of the disposition of a property before 1996

(*a*) to a person who was obliged on April 26, 1995 to acquire the property pursuant to the terms of an agreement in writing made on or before that day (and, for this purpose, a person shall be considered not to be obliged to acquire property where the person can be excused from the obligation if there is a change to the Act or if there is an adverse assessment under the Act), or

(*b*) pursuant to a prospectus or similar document filed with the relevant securities authority before April 27, 1995.

S. 115(1)(*b*) formerly read:

"(*b*) the only taxable capital gains and allowable capital losses referred to in paragraph 3(*b*) were taxable capital gains and allowable capital losses from dispositions of property each of which was a disposition of property or an interest therein (in this Act referred to as a 'taxable Canadian property') that was
(i) real property situated in Canada,
(ii) any capital property used by the non-resident person in carrying on a business (other than an insurance business) in Canada,
(ii.1) where the non-resident person is an insurer, any capital property that is its designated insurance property for the year,
(iii) a share of the capital stock of a corporation resident in Canada (other than a public corporation),
(iv) a share of the capital stock of a public corporation if at any time during such part of the period of 5 years immediately preceding the disposition thereof as is after 1971, not less than 25% of the issued shares of any class of the capital stock of the corporation belonged to the non-resident person, to persons with whom the non-resident person did not deal at arm's length, or to the non-resident person and persons with whom the non-resident person did not deal at arm's length,
(v) an interest in a partnership, if, at any time during the 12 months immediately preceding the disposition thereof, the fair market value of such of the partnership property as was, at that time,
(A) a Canadian resource property,
(B) a timber resource property,
(C) an income interest in a trust resident in Canada, or
(D) any other property described in this paragraph
was not less than 50% of the total of
(E) the fair market value at that time of all of the partnership property, and
(F) the amount of any money of the partnership on hand at that time,
(vi) a capital interest in a trust (other than a unit trust) resident in Canada,
(vii) a unit of a unit trust (other than a mutual fund trust) resident in Canada,
(viii) a unit of a mutual fund trust, if at any time during such part of the period of 5 years immediately preceding the disposition thereof as is after 1971, not less than 25% of the issued units of the trust belonged to the non-resident person, to persons with whom the non-resident person did not deal at arm's length, or to the non-resident person and persons with whom the non-resident person did not deal at arm's length, or
(ix) any other property deemed by any provision of this Act to be taxable Canadian property,
but not including a share of the capital stock of a non-resident-owned investment corporation, if, on the first day of the taxation year of the corporation in which the disposition was made, the corporation did not own any property that was property referred to in clauses (v)(A) to (D), and"

S. 115(1)(*b*)(ii.1) was amended by S.C. 1997, c. 25, s. 23(1), applicable to the 1997 and subsequent taxation years. S. 115(1)(*b*)(ii.1) formerly read:

"(ii.1) where the non-resident person is an insurer, any capital property that is property used by it in the year in, or held by it in the year in the course of, carrying on an insurance business in Canada,"

S. 115(1)(*a*)(iii.21) was added by S.C. 1995, c. 21, s. 38(1), applicable to taxation years that end after February 21, 1994.

S. 115(1)(*c*) of the Act was amended by S.C. 1994, c. 7, Sched. VIII, s. 50(1), applicable to the 1991 and subsequent taxation years. S. 115(1)(*c*) formerly read:

"(*c*) the only losses referred to in paragraph 3(*d*) were losses from businesses carried on by the non-resident person in Canada,"

S. 115(1)(*d*) of the Act was amended by S.C. 1994, c. 7, Sched. II, s. 86(1), applicable to the 1988 and subsequent taxation years. S. 115(1)(*d*) formerly read:

"(*d*) the deductions permitted by paragraphs 110(1)(*d*), (*d*.1), (*d*.2), (*f*) and (*i*) and subsection 110.1(1),"

S. 115(1)(*d*.1) was added by S.C. 1994, c. 7, Sched. II, s. 86(2), applicable to the 1983 and subsequent taxation years.

Editorial Note: A non-resident's taxable income earned in Canada may be exempt or reduced by an income tax treaty (see also paragraph 110(1)(*f*)). Most forms of Canadian-sourced passive investment income received by a non-resident (including interest, dividends, royalties and rent that is income from property) do not constitute taxable income earned in Canada, and are instead subject to Part XIII withholding tax.

Related Sections: S. 13(21) Definitions; s. 38 Taxable capital gain and allowable capital loss; s. 39(1)(*c*) Meaning of capital gain and capital loss; s. 40(9) Additions to taxable Canadian property; s. 116(1) Disposition by non-resident person of certain property; s. 116(3) Notice to Minister; s. 116(5) Liability of purchaser; s. 141(5) Exclusion from taxable Canadian property; s. 216 Alternatives re rents and timber royalties; s. 217 Alternative re Canadian benefits; s. 248(1), "business", "disposition", "employment", "office", "property", "taxable income earned in Canada", "treaty-protected business", "treaty-protected property"; s. 250 Person deemed resident; s. 251(1) Arm's length; s. 255 Canada.

Regulations: Part VIII; Part XXVI.

Interpretation Bulletins: *Primary* — IT-171R2 Non-resident individuals — Computation of taxable income earned in Canada and non-refundable tax credits [Archived by the CRA]; IT-176R2 Taxable Canadian property — Interests in and options on real property and shares; IT-262R2 Losses of non-residents and part-year residents; IT-420R3 Non-residents — Income earned in Canada. *Secondary* — IT-81R Partnerships — Income of non-resident partners; IT-150R2 Acquisition from a non-resident of certain property on death or mortgage foreclosure or by virtue of a deemed disposition [Archived by the CRA]; IT-168R3 Athletes and players employed by football, hockey and similar clubs; IT-393R2 Election re tax on rents and timber royalties — Non-

residents; IT-434R Rental of real property by individual; IT-451R Deemed disposition and acquisition on ceasing to be or becoming resident in Canada; IT-465R Non-resident beneficiaries of trusts.

Information Circulars: IC 72-17R5 Procedures concerning the disposition of taxable Canadian property by non-residents of Canada — Section 116; IC 88-2 General anti-avoidance rule — Section 245 of the Income Tax Act.

Income Tax Technical News: Issue No. 35, Treaty Residence — Resident of Convenience; Issue No. 18, *Dudney v. The Queen.*

Forms: T2Sch97; T1248; T2061A.

Guides: T4058 Non-Residents and Income Tax.

Tax Profile: August 2007 — Professionals and Other Service Providers Beware — A Canadian Trap.

Canadian Tax Foundation: Raizenne and Nikolakakis, "Taxable Canadian Property", *1996 Conference Report,* Vol. 2, 46:1.

Canadian Petroleum Tax Journal: Taxable Canadian Property, Tony Van Rooyen, Vol. 13 No. 1 2000.

Cases: Rental income derived by a non-resident from a single family dwelling in Canada was income from property and not income from a business. There was no merit in the taxpayer's argument that inconsistency existed between the Minister's assessments under s. 155 and Part XIII. The onus was on the taxpayer to demonstrate that these two assessments cover the same income and he failed to do so. *Gupta v. The Queen,* 2000 DTC 6326 (F.C.A.), affirming 99 DTC 224 (T.C.C.).

A U.S. resident performing services in Canada under contract was not subject to Canadian tax under Article XIV of the Convention because he did not have a "fixed base" in Canada. The expression "fixed base" is to be given a liberal interpretation. However, there is little difference in meaning between a "fixed base" and a "permanent establishment". *Dudney v. The Queen,* 2000 DTC 6169 (F.C.A.), affirming 99 DTC 147 (T.C.C.).

Since the capital gain from the deemed disposition by a U.S. resident of an Ontario cottage first began to accrue on Valuation Day, its exempt portion under the Canada-U.S. Convention could not take into account any months prior to December 31, 1971. *A. G. of Canada v. Estate of W.F. Kubicek,* 97 DTC 5454 (F.C.A.), reversing 97 DTC 1551 (T.C.C.).

A non-resident was precluded under ss. 115(1)(*c*) and (*e*) from deducting the rental loss he had not incurred "from carrying on a business in Canada" when he was merely collecting rental income from a passive investment in a condominium and was performing the activities of a simple owner. *Matlas v. The Queen,* 94 DTC 1591 (T.C.C.).

Although the taxpayer was a non-resident of Canada, he was not entitled to the protection of article 15(1) of the *Canada–U.K. Tax Convention,* since the amounts in issue — (i) money realized from the exercise of share purchase option rights under an executive share option plan he had while employed in Canada and (ii) director's fees received in Canada — did not fall within the purview of the expression "salaries, wages, and other remuneration" appearing in that article. *Hale v. The Queen,* 92 DTC 6473 (F.C.A.), affirming 90 DTC 6481 (F.C.T.D.).

► 115(2) ◄

(2) Idem. Where, in a taxation year, a non-resident person was

(*a*) a student in full-time attendance at an educational institution in Canada that is a university, college or other educational institution providing courses at a post-secondary school level in Canada,

(*b*) a student attending, or a teacher teaching at, an educational institution outside Canada that is a university, college or other educational institution providing courses at a post-secondary school level, who in any preceding taxation year ceased to be resident in Canada in the course of or subsequent to moving to attend or to teach at the institution,

(*b*.1) an individual who in any preceding taxation year ceased to be resident in Canada in the course of or subsequent to moving to carry on research or any similar work under a grant received by the individual to enable the individual to carry on the research or work,

(*c*) an individual

(i) who had, in any previous year, ceased to be resident in Canada,

(ii) who received, in the taxation year, salary or wages or other remuneration in respect of an office or employment that was paid to the individual directly or indirectly by a person resident in Canada, and

(iii) who was, under an agreement or a convention with one or more countries that has the force of law in Canada, entitled to an exemption from an income tax otherwise payable in any of those countries in respect of the salary or wages or other remuneration, or

(*c*.1) a person who received in the year an amount, under a contract, that was or will be deductible in computing the income of a taxpayer subject to tax under this Part and the amount can, irrespective of when the contract was entered into or the form or legal effect of the contract, reasonably be regarded as having been received, in whole or in part,

(i) as consideration or partial consideration for entering into a contract of service or an agreement to perform a service where any such service is to be performed in Canada, or for undertaking not to enter into such a contract or agreement with another party, or

(ii) as remuneration or partial remuneration from the duties of an office or employment or as compensation or partial compensation for services to be performed in Canada,

the following rules apply:

(*d*) for the purposes of subsection 2(3) the non-resident person shall be deemed to have been employed in Canada in the year,

(*e*) for the purposes of subparagraph (1)(*a*)(v), the total determined under this paragraph in respect of the non-resident person is the total of

(i) any remuneration in respect of an office or employment that was paid to the non-resident person directly or indirectly by a person resident in Canada and was received by the non-resident person in the year, except to the extent that the remuneration is attributable to the duties of an office or employment performed by the non-resident person anywhere outside Canada and

(A) is subject to an income or profits tax imposed by the government of a country other than Canada, or

(B) is paid in connection with the selling of property, the negotiating of contracts or the rendering of services for the non-resident person's employer, or a foreign affiliate of the employer, or any other person with whom the employer does not deal at arm's length, in the ordinary course of a business carried on by the employer, that foreign affiliate or that person,

(ii) amounts that would be required by paragraph 56(1)(*n*) or (*o*) to be included in computing the non-resident person's income for the year if the non-resident person were resident in Canada throughout the year and the reference in the applicable paragraph to "received by the taxpayer in the year" were read as a reference to "received by the taxpayer in the year from a source in Canada",

(iii) [Repealed by S.C. 1994, c. 7, Sched. VII, s. 5(2).]

(iv) amounts that would be required by paragraph 56(1)(*q*) to be included in computing the non-resident person's income for the year if the non-resident person were resident in Canada throughout the year, and

(v) amounts described in paragraph (*c*.1) received by the non-resident person in the year, except to the extent that they are otherwise required to be included in computing the non-resident person's taxable income earned in Canada for the year, and

(*f*) there may be deducted in computing the taxable income of the non-resident person for the year the amount that would be deductible in computing the non-resident person's income for the year by virtue of section 62 if

(i) the definition "eligible relocation" in subsection 248(1) were read without reference to subparagraph (*a*)(i) of that definition, and

(ii) the amounts described in subparagraph 62(1)(*c*)(ii) were the amounts described in subparagraph (*e*)(ii) of this subsection.

(iii) [Repealed by S.C. 1999, c. 22, s. 29(4).]

History: Ss. 115(2)(*b*) and (*b*.1) were amended by S.C. 2001, c. 17, s. 90(7), applicable to the 1998 and subsequent taxation years. Ss. 115(2)(*b*) and (*b*.1) formerly read:

"(*b*) a student attending, or a teacher teaching at, an educational institution outside Canada that is a university, college or other educational institution providing courses at a post-secondary school level, who had, in any previous year, ceased to be resident in Canada in the course of or subsequent to moving to attend or to teach at, as the case may be, that institution,

(*b*.1) an individual who had, in any previous year, ceased to be resident in Canada in the course of or subsequent to moving to carry on research or any similar work under a grant received by the individual to enable the individual to carry on that research or work,"

S. 115(2)(*c*) was amended by S.C. 1999, c. 22, s. 29(3), applicable to the 1998 and subsequent taxation years. S. 115(2)(*c*) formerly read:

"(*c*) an individual who had, in any previous year, ceased to be resident in Canada and who was, in the taxation year, in receipt of remuneration in respect of an office or employment that was paid to the individual directly or indirectly by a person resident in Canada, or"

S. 115(2)(*f*)(i) and (ii) were amended, and subparagraph (iii) was repealed, by S.C. 1999, c. 22, s. 29(4), applicable after 1997. They formerly read:

"(i) that section were read without reference to paragraph 62(1)(*a*),

(ii) that section were applicable in computing the taxable income of non-resident persons, and

(iii) the amounts described in subparagraph 62(1)(*f*)(ii) were the amounts described in subparagraph (*e*)(ii) of this subsection."

S. 115(2)(*e*)(iii) was repealed by S.C. 1994, c. 7, Sched. VII, s. 5(2), applicable with respect to the 1993 and subsequent taxation years. S. 115(2)(*e*)(iii) formerly read:

"(iii) amounts that would be required by subsection 56(5) to be included in computing the non-resident person's income for the year if the non-resident person were resident in Canada throughout the year,"

S. 115(2)(*e*)(iii) was amended by S.C. 1994, c. 7, Sched. VII, s. 5(1), applicable to the 1990 and subsequent taxation years. S. 115(2)(*e*)(iii) formerly read:

"(iii) amounts that would be required by subsection 56(5) of this Act or subsection 56(8) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, to be included in computing the non-resident person's income for the year if the non-resident person were resident in Canada throughout the year,"

Interpretation Bulletins: *Primary* — IT-161R3 Non-residents — Exemption from tax deductions at source on employment income. *Secondary* — IT-75R4 Scholarships, fellowships, bursaries, prizes, research grants and financial assistance; IT-178R3 (Consolid.) Moving expenses.
Regulations: 104; Part XXVI.
Cases: A bursary of $14,749 granted by McGill University to a Chinese student who had entered Canada on a visitor's visa but had applied for and received a landed immigrant status sometime in 1990 after his marriage to a Canadian was included in his income for 1990 and was not tax exempt under the Tax Agreement with China since his presence in Canada was no longer a temporary one. *Li v. The Queen*, 94 DTC 6059 (F.C.A.).

► 115(2.1) ◄

(2.1) Non-resident actors. Notwithstanding subsection (1), where a non-resident person is liable to tax under subsection 212(5.1), or would if this Act were read without reference to subsection 212(5.2) be so liable, in respect of an amount paid, credited or provided in a particular taxation year, the amount shall not be included in computing the non-resident person's taxable income earned in Canada for any taxation year unless a valid election is made under subsection 216.1(1) in respect of the non-resident person for the particular year.

History: S. 115(2.1) was added by S.C. 2001, c. 17, s. 90(8), applicable in respect of amounts paid, credited or provided after 2000.

► 115(2.2) ◄

(2.2) Deferred payment by actor's corporation. Where a corporation is liable to tax under subsection 212(5.1) in respect of a corporation payment (within the meaning assigned by subsection 212(5.2)) made in a taxation year in respect of an actor and, in a subsequent year, the corporation makes an actor payment (within the meaning assigned by subsection 212(5.2)) to or for the benefit of the actor, the amount of the actor payment is not deductible in computing the income of the corporation for any taxation year and is not included in computing the taxable income earned in Canada of the actor for any taxation year.

History: S. 115(2.2) was added by S.C. 2001, c. 17, s. 90(8), applicable in respect of amounts paid, credited or provided after 2000.

► 115(2.3) ◄

(2.3) Non-resident persons — 2010 Olympic and Paralympic Winter Games. Notwithstanding subsection (1), no amount is to be included in computing the taxable income earned in Canada for any taxation year of a non-resident person, in respect of any amount paid or payable to that person in respect of activities performed in Canada by that person in connection with the 2010 Olympic Winter Games or the 2010 Paralympic Winter Games, after 2009 and before April 2010, if that person is

(*a*) an athlete who represents a country other than Canada;

(*b*) a member of an officially registered support staff associated with a team from a country other than Canada;

(*c*) a person who serves as a games official;

(*d*) the International Olympic Committee;

(*e*) the International Paralympic Committee;

(*f*) an international sports federation that is a member of the General Association of International Sports Federations;

(*g*) an accredited foreign media organization; or

(*h*) an individual, other than a trust, who is an employee, an officer or a member of a person described in any one or more of paragraphs (*a*) to (*g*), or who provides services under contract with one or more persons described in those paragraphs.

History: S. 115(2.3) was added by S.C. 2007, c. 35, s. 32, in force on Royal Assent, December 14, 2007.

► 115(3) ◄

(3) Property deemed to include interests and options. [Repealed by S.C. 2001, c. 17, s. 90(9).]

History: S. 115(3) was repealed by S.C. 2001, c. 17, s. 90(9), applicable after October 1, 1996. S. 115(3) formerly read:

"(3) *Property deemed to include interests and options.* For the purpose of this section, a property described in subparagraphs (1)(*b*)(i) to (xii) is deemed to include any interest therein or option in respect thereof, whether or not such property is in existence."

S. 115(3) was amended by S.C. 1998, c. 19, s. 132(2), applicable after April 26, 1995, except in respect of the disposition of a property before 1996

(*a*) to a person who was obliged on April 26, 1995 to acquire the property pursuant to the terms of an agreement in writing made on or before that day (and, for this purpose, a person shall be considered not to be obliged to acquire property where the person can be excused from the obligation if there is a change to the Act or if there is an adverse assessment under the Act), or

(*b*) pursuant to a prospectus or similar document filed with the relevant securities authority before April 27, 1995. S. 115(3) formerly read:

"(3) For the purpose of this section, a property described in subparagraphs (1)(*b*)(i) to (ix) shall be deemed to include any interest therein or option in respect thereof, whether or not such property is in existence."

S. 115(3) was amended by S.C. 1994, c. 7, Sched. II, s. 86(3), applicable after July 13, 1990. S. 115(3) formerly read:

"(3) *Property deemed to include option.* For the purposes of this section, a property described in subparagraphs (1)(*b*)(i) to (ix) shall be deemed to include an option in respect of such a property whether or not the property is in existence."

Interpretation Bulletins: *Secondary* — IT-176R2 Taxable Canadian property — Interests in and options on real property and shares.

► 115(4) ◄

(4) Non-resident's income from Canadian resource property. Where a non-resident person ceases at any particular time in a taxation year to carry on such of the businesses described in any of paragraphs (*a*) to (*g*) of the definition "principal business corporation" in subsection 66(15) as were carried on by the non-resident person immediately before that time at one or more fixed places of business in Canada and either does not commence after that time and during the year to carry on any business so described at a fixed place of business in Canada or disposes of Canadian resource property at any time in the year during which the non-resident person was not carrying on any business so described at a fixed place of business in Canada, the following rules apply:

(*a*) the taxation year of the non-resident person that would otherwise have included the particular time shall be deemed to have ended at that time and a new taxation year shall be deemed to have commenced immediately thereafter;

(*b*) the non-resident person or any partnership of which the non-resident person was a member immediately after the particular time shall be deemed, for the purpose only of computing the non-resident person's income earned in Canada for the taxation year that is deemed to have ended, to have disposed immediately before the particular time of each Canadian resource property that was owned by the non-resident person or by the partnership immediately after the particular time and to have received therefor immediately before the particular time proceeds of disposition equal to the fair market value thereof at the particular time; and

(*c*) the non-resident person or any partnership of which the non-resident person was a member immediately after the particular time shall be deemed, for the purpose only of computing the non-resident person's income earned in Canada for a taxation year commencing after the particular time, to have reacquired immediately after the particular time, at a cost equal to the amount deemed by paragraph (*b*) to have been received by the non-resident person or the partnership as the proceeds of disposition therefor, each property deemed by that paragraph to have been disposed of.

Related Sections: S. 66.2(7) Exception; s. 66.4(7) Exception; s. 115(5) Interpretation of "partnership".

Regulations: Part XXVI.

Interpretation Bulletins: *Secondary* — IT-125R4 Disposition of resource properties.

► 115(4.1) ◄

(4.1) Foreign resource pool expenses. Where a taxpayer ceases at any time after February 27, 2000 to be resident in Canada, a particular taxation year of the taxpayer ends after that time and the taxpayer was non-resident throughout the period (in this subsection referred to as the "non-resident period") that begins at that time and ends at the end of the particular year,

(*a*) in computing the taxpayer's taxable income earned in Canada for the particular year, there may be deducted each amount that would be permitted to be deducted in computing the taxpayer's income for the particular year under subsection 66(4) or 66.21(4) if

(i) subsection 66(4) were read without reference to the words "who is resident throughout a taxation year in Canada" and as if the amount determined under subparagraph 66(4)(*b*)(ii) were nil, and

(ii) subsection 66.21(4) were read without reference to the words "throughout which the taxpayer is resident in Canada" and as if the amounts determined under subparagraph 66.21(4)(*a*)(ii) and paragraph 66.21(4)(*b*) were nil; and

(*b*) an amount deducted under this subsection in computing the taxpayer's taxable income earned in Canada for the particular year is deemed, for the purpose of applying subsection 66(4) or 66.21(4), as the case may be, to a subsequent taxation year, to have been deducted in computing the taxpayer's income for the particular year.

History: S. 115(4.1) was added by S.C. 2001, c. 17, s. 90(10), applicable to taxation years that begin after February 27, 2000.

► 115(5) ◄

(5) Interpretation of "partnership". For the purposes of subsection (4), "partnership" does not include a prescribed partnership.

Related Sections: S. 2(2) Taxable income; s. 4(1) Income or loss from a source or from sources in a place; s. 38, "allowable capital losses", "taxable capital gains"; s. 54, "capital property"; s. 89(1), "public corporation"; s. 102 Definition of "Canadian partnership"; s. 104(1) Reference to trust or estate; s. 108(1), "capital interest", "income interest"; s. 108(2) When trust is a unit trust; s. 115(1) Non-resident's taxable income in Canada; s. 120(3) Definition of "the individual's income for the year"; s. 132(6) Meaning of "mutual fund trust"; s. 248(1), "amount", "business", "corporation", "employment", "individual", "non-resident", "office", "property", "taxable Canadian property"; s. 249 Definition of "taxation year"; s. 255 Canada.

► 115(6) ◄

(6) Application of s. 138(12). The definitions in subsection 138(12) apply to this section.

History: S. 115(6) was not part of the former Act.

SECTION 115.1:

► 115.1(1) ◄

(1) Competent authority agreements. Notwithstanding any other provision of this Act, where the Minister and another person have, under a provision contained in a tax convention or agreement with another country that has the force of law in Canada, entered into an agreement with respect to the taxation of the other person, all determina-

tions made in accordance with the terms and conditions of the agreement shall be deemed to be in accordance with this Act.

History: S. 115.1 was amended by S.C. 1994, c. 7, Sched. VIII, s. 51(1), applicable after 1984. S. 115.1 formerly read:

"S. 115.1. *Disposition of property by non-resident person.* Where a non-resident person or partnership (in this section referred to as 'the vendor') has in a taxation year disposed of property to another person or partnership (in this section referred to as 'the purchaser') and

(*a*) the Minister has agreed, pursuant to a prescribed tax treaty provision, to defer the taxation in Canada of the gain or income in respect of the disposition, and

(*b*) the vendor and the purchaser jointly so elect in prescribed form and within the prescribed time in accordance with terms and conditions satisfactory to the Minister,

notwithstanding any other provision of this Act, the following rules apply:

(*c*) the amount that the vendor, the purchaser and the Minister have agreed on in respect of the property shall be deemed to be the vendor's proceeds of disposition of the property and the purchaser's cost of the property,

(*d*) where the property was, at the time of its disposition, depreciable property of a prescribed class to the vendor and the vendor's capital cost of the property immediately before the disposition exceeds the agreed amount in respect of the property, for the purposes of sections 13 and 20 and any regulations made under paragraph 20(1)(*a*),

(i) the capital cost of the property to the purchaser shall be deemed to be the amount that was the capital cost thereof to the vendor immediately before the disposition, and

(ii) the excess shall be deemed to have been allowed to the purchaser in respect of the property under regulations made under paragraph 20(1)(*a*) in computing income for taxation years ending before the acquisition by the purchaser of the property, and

(*e*) where the property was, at the time of its disposition, a capital property, a Canadian resource property, a foreign resource property, an eligible capital property or an inventory to the vendor, that property shall be deemed to be such a property of the purchaser and the purchaser shall be deemed to have acquired that property and used it for the same purposes as that for which the property was used by the vendor immediately before that time."

Related Sections: S. 255 Canada.

Interpretation Bulletins: *Secondary* — IT-173R2 Capital gains derived in Canada by residents of the United States; IT-270R3 Foreign tax credit.

Canadian Petroleum Tax Journal: Taxable Canadian Property, Tony Van Rooyen, Vol. 13 No. 1 2000.

► 115.1(2) ◄

(2) Transfer of rights and obligations. Where rights and obligations under an agreement described in subsection (1) have been transferred to another person with the concurrence of the Minister, that other person shall be deemed, for the purpose of subsection (1), to have entered into the agreement with the Minister.

History: S. 115.1(2) was added by S.C. 1994, c. 7, Sched. VIII, s. 51(1), applicable after 1984.

Information Circulars: IC 71-17R5 Guidance on competent authority assistance under Canada's tax conventions.

Non-Residents with Canadian Investment Service Providers

SECTION 115.2:

► 115.2(1) ◄

(1) Definitions. The definitions in this subsection apply in this section.

History: S. 115.2(1) was added by S.C. 2000, c. 19, s. 21(1), applicable to taxation years that end after 1998.

"Canadian investor" — "Canadian investor", at any time in respect of a non-resident person, means a person that the non-resident person knows, or ought to know after reasonable inquiry, is at that time resident in Canada.

History: S. 115.2(1), the definition "Canadian investor" was added by S.C. 2002, c. 9, s. 35(4), applicable to the 1999 and subsequent taxation years except that, in applying the definition "Canadian investor", as enacted by that subsection, to taxation years that end after 1998 and before 2002, that definition shall be read as follows:

" 'Canadian investor', at any time in respect of a qualified non-resident, means

(*a*) a person that the non-resident knows, or ought to know after reasonable inquiry, is at that time resident in Canada; and

(*b*) a partnership that the non-resident knows, or ought to know after reasonable inquiry, has a member that is at that time resident in Canada."

"Canadian service provider" — "Canadian service provider" means a corporation resident in Canada, a trust resident in Canada or a Canadian partnership.

History: S. 115.2(1), the definition "Canadian service provider" was added by S.C. 2000, c. 19, s. 21(1), applicable to taxation years that end after 1998.

Related Sections: S. 102 Definition of "Canadian partnership".

"designated investment services" — "designated investment services" provided to a person or partnership means any one or more of the services described in the following paragraphs:

(*a*) investment management and advice with respect to qualified investments, regardless of whether the manager has discretionary authority to buy or sell;

(*b*) purchasing and selling qualified investments, exercising rights incidental to the ownership of qualified investments such as voting, conversion and exchange, and entering into and executing agreements with respect to such purchasing and selling and the exercising of such rights;

(*c*) investment administration services, such as receiving, delivering and having custody of investments, calculating and reporting investment values, receiving subscription amounts from, and paying distributions and proceeds of disposition to, investors in and beneficiaries of the person or partnership, record keeping, accounting and reporting to the person or partnership and its investors and beneficiaries; and

(*d*) in the case of a corporation, trust or partnership the only undertaking of which is the investing of its funds in qualified investments, marketing investments in the corporation, trust or partnership to non-resident investors.

History: S. 115.2(1), the definition "designated investment services" was amended by S.C. 2002, c. 9, s. 35(2), applicable to the 2002 and subsequent taxation years. S. 115.2(1), the definition "designated investment services" formerly read:

" '*designated investment services*' — 'designated investment services' provided to a qualified non-resident means any one or more of the services described in the following paragraphs:

(*a*) investment management and advice with respect to qualified investments, regardless of whether the manager has discretionary authority to buy or sell;

(*b*) purchasing and selling qualified investments, exercising rights incidental to the ownership of qualified investments such as voting, conversion and exchange, and entering into and executing agreements with respect to such purchasing and selling and the exercising of such rights;

(*c*) investment administration services, such as receiving, delivering and having custody of investments, calculating and reporting investment values, receiving subscription amounts from, and paying distributions and proceeds of disposition to, investors in and beneficiaries of the qualified non-resident, record keeping, accounting and reporting to the qualified non-resident and its investors and beneficiaries; and

(*d*) if the qualified non-resident is a corporation, trust or partnership the only undertaking of which is the investing of its funds in qualified investments, marketing investments in the qualified non-resident to non-resident investors."

S. 115.2(1), the definition "designated investment services" was added by S.C. 2000, c. 19, s. 21(1), applicable to taxation years that end after 1998.

"promoter" — "promoter" of a corporation, trust or partnership means a particular person or partnership that initiates or directs the founding, organization or substantial reorganization of the corporation, trust or

partnership, and a person or partnership that is affiliated with the particular person or partnership.

History: S. 115.2(1), the definition "promoter" was amended by S.C. 2002, c. 9, s. 35(2), applicable to the 2002 and subsequent taxation years. S. 115.2(1), the definition "promoter" formerly read:

"*'promoter'* — 'promoter' of a qualified non-resident that is a corporation, trust or partnership means a person or partnership that initiates or directs the founding, organization or substantial reorganization of the non-resident, or a person or partnership affiliated with such a person or partnership."

S. 115.2(1), the definition "promoter" was added by S.C. 2000, c. 19, s. 21(1), applicable to taxation years that end after 1998.

"*qualified investment*" — "qualified investment" of a person or partnership means

(*a*) a share of the capital stock of a corporation, or an interest in a partnership, trust, entity, fund or organization, other than a share or an interest

(i) that is either

(A) not listed on a designated stock exchange, or

(B) listed on a designated stock exchange, if the person or partnership, together with all persons with whom the person or partnership does not deal at arm's length, owns 25% or more of the issued shares of any class of the capital stock of the corporation or of the total value of interests in the partnership, entity, trust, fund or organization, as the case may be, and

(ii) of which more than 50% of the fair market value is derived from one or more of

(A) real property situated in Canada,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Clause (*a*)(ii)(A) of the definition "qualified investment" in subsection 115.2(1) of the Act is replaced by the following:

(A) real or immovable property situated in Canada,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(B) Canadian resource property, and

(C) timber resource property;

(*b*) indebtedness;

(*c*) annuities;

(*d*) commodities or commodities futures purchased or sold, directly or indirectly in any manner whatever, on a commodities or commodities futures exchange;

(*e*) currency; and

(*f*) options, interests, rights and forward and futures agreements in respect of property described in any of paragraphs (*a*) to (*e*) or this paragraph, and agreements under which obligations are derived from interest rates, from the price of property described in any of those paragraphs, from payments made in respect of such a property by its issuer to holders of the property, or from an index reflecting a composite measure of such rates, prices or payments, whether or not the agreement creates any rights in or obligations regarding the referenced property itself.

History: S. 115.2(1), clauses (*a*)(i)(A) and (B) of the definition "qualified investment" were amended by S.C. 2007, c. 35, s. 68(2), by replacing "prescribed stock exchange" with "designated stock exchange", applicable on and after December 14, 2007 [the day on which this Act is assented to].

S. 115.2(1), the portion of the definition "qualified investment" before subparagraph (*a*)(ii) was amended by S.C. 2002, c. 9, s. 35(3), applicable to the 2002 and subsequent taxation years. S. 115.2(1), the portion of the definition "qualified investment" before subparagraph (*a*)(ii) formerly read:

"*'qualified investment'* — 'qualified investment' of a qualified non-resident means

(*a*) a share of the capital stock of a corporation, or an interest in a partnership, trust, entity, fund or organization, other than a share or an interest

(i) that is either

(A) not listed on a prescribed stock exchange, or

(B) listed on a prescribed stock exchange, if the qualified non-resident, together with all persons with whom the non-resident does not deal at arm's length, owns 25% or more of the issued shares of any class of the capital stock of the corporation or of the total value of interests in the partnership, entity, trust, fund or organization, as the case may be, and"

S. 115.2(1), the definition "qualified investment" was added by S.C. 2000, c. 19, s. 21(1), applicable to taxation years that end after 1998.

Related Sections: S. 13(21), "timber resource property"; s. 66(15), "Canadian resource property"; s. 248(1), "annuity".

Regulations: S. 3200; s. 3201.

"*qualified non-resident*" — [Repealed by S.C. 2002, c. 9, s. 35(1).]

History: S. 115.2(1), the definition "qualified non-resident" was repealed by S.C. 2002, c. 9, s. 35(1), applicable to the 2002 and subsequent taxation years. S. 115.2(1), the definition "qualified non-resident" formerly read:

"*'qualified non-resident'* — 'qualified non-resident' means a non-resident person or a partnership no member of which is resident in Canada."

S. 115.2(1), the definition "qualified non-resident" was added by S.C. 2000, c. 19, s. 21(1), applicable to taxation years that end after 1998.

► 115.2(2) ◄

(2) Not carrying on business in Canada. For the purposes of subsection 115(1) and Part XIV, a non-resident person is not considered to be carrying on business in Canada at any particular time solely because of the provision to the person, or to a partnership of which the person is a member, at the particular time of designated investment services by a Canadian service provider if

(*a*) in the case of services provided to a non-resident individual other than a trust, the individual is not affiliated at the particular time with the Canadian service provider;

(*b*) in the case of services provided to a non-resident person that is a corporation or trust,

(i) the person has not, before the particular time, directly or through its agents,

(A) directed any promotion of investments in itself principally at Canadian investors, or

(B) sold an investment in itself that is outstanding at the particular time to a person who was a Canadian investor at the time of the sale and who is a Canadian investor at the particular time,

(ii) the person has not, before the particular time, directly or through its agents, filed any document with a public authority in Canada in accordance with the securities legislation of Canada or of any province in order to permit the distribution of interests in the person to persons resident in Canada, and

(iii) when the particular time is more than one year after the time at which the person was created, the total of the fair market value, at the particular time, of investments in the person that are beneficially owned by persons and partnerships (other than a designated entity in respect of the Canadian service provider) that are affiliated with the Canadian service provider does not exceed 25% of the fair market value, at the particular time, of all investments in the person; and

(*c*) in the case of services provided to a partnership of which the non-resident person is a member,

(i) the particular time is not more than one year after the partnership was formed, or

(ii) the total of the fair market value, at the particular time, of investments in the partnership that are beneficially owned by persons and partnerships (other than a designated entity in respect of the Canadian service provider) that are affiliated with the Canadian service provider does not exceed 25% of the fair market value, at the particular time, of all investments in the partnership.

Department of Finance Comfort Letter
[Application of Definition of "Taxable Canadian Property" to Non-Resident Partnerships]

April 28, 2008

Dear XXXX

I am writing in response to your correspondence of January 2 and 16, 2008 in which you express a number of concerns, as summarized below, in respect of section 115.2 of the *Income Tax Act* (Act).

Services Causing a Partnership Interest to be Taxable Canadian Property

As you know, section 115.2 is an interpretive rule for the purposes of subsection 115(1) and Part XIV of the Act; it ensures that, if certain conditions are met, the provision of designated investment services by a Canadian service provider to a non-resident person does not by itself cause the non-resident person to be considered to be carrying on business in Canada.

You are concerned that the interpretive rule in section 115.2 applies only for the purposes of subsection 115(1) and Part XIV of the Act and not for the purposes of applying the definition "taxable Canadian property" in subsection 248(1) of the Act. In particular, you are concerned that the receipt of Canadian investment management services by a non-resident partnership may still result in the partnership being considered, for the purposes of applying the "taxable Canadian property" definition, to be carrying on business in Canada and that an interest in the partnership would therefore, because of the combined effect of paragraphs (*b*) and (*g*) of the definition "taxable Canadian property", be considered taxable Canadian property.

In your view, this result is not appropriate from a tax policy viewpoint. We agree with you and, therefore, we are prepared to recommend to the Minister of Finance that subsection 115.2(2) of the Act be amended to ensure that, if the condition in paragraph (*c*) of the subsection is met (which paragraph requires that the time of the provision of the designated investment services to the partnership by the Canadian service provider be not more than one year after the partnership was formed and that the condition in subparagraph 115.2(2)(*c*)(ii) placing a 25 percent limit on investments held in the partnership by persons who are affiliated with the Canadian service provider be satisfied), property of a partnership shall, for the purposes of determining whether the non-resident's partnership interest in the partnership is "taxable Canadian property" as defined in subsection 248(1) of the Act, not be considered to be used or held by the partnership in a business carried on in Canada. We will recommend that this amendment be made applicable for taxation years that end after 2007.

Partnership information returns

Similarly, you are concerned that the interpretive rule in section 115.2 may not apply for the purposes of section 229 of the *Income Tax Regulations* (Regulations), which requires members of a partnership that carries on business in Canada to file information returns. You are, therefore, concerned that non-resident members of a partnership who are entitled to benefit from the protection of section 115.2 may nonetheless be required to file a partnership information return in Canada solely because of the provision of designated investment services to the partnership by a Canadian service provider.

You suggest that amendments be made to eliminate the requirement for non-resident members of a partnership to make a partnership information return for a partnership in respect of which section 115.2 applies. You argue that such a change would be consistent with the purpose of section 115.2; that it would be consistent with the comfort letter dated November 26, 2002 and signed by Mr. Brian Ernewein in which he indicated the intention of this Division to recommend to the Minister a change to section 115.2 to broaden that section such that it applies also for the purpose of the filing requirements of a corporation under section 150 of the Act; and that it would reduce the administrative burden and costs incurred in respect of the preparation of partnership information returns.

While we are in general agreement with the substance of your request, I should note that in one important respect your analysis seems to misinterpret the policy basis of section 115.2. You imply that, because this provision applies in respect of a partnership, the partnership is not carrying on business in Canada, and therefore its members should be excused from having to file information returns. In fact, section 115.2 provides only the assurance that the activities it describes do not in themselves cause a non-resident to carry on business in Canada. A given person or partnership may be the beneficiary of the section and still, as a result of its other activities, be carrying on business in Canada.

That said, we agree that expanding the application of section 115.2 of the Act such that it applies for the purpose of section 229 of the Regulations is consistent with the general policy intent of section 115.2: i.e., to ensure that the use of a Canadian service provider does not, by itself, cause non-residents to be treated as though they are carrying on business in Canada. Accordingly, we are prepared to recommend to the Minister that subsection 115.2(2) of the Act be amended so that it applies also for the purposes of section 229 of the Regulations. We will recommend that this amendment be made applicable for taxation years that end after 2007.

Marketing partnership interests to Canadian residents

Paragraph (*d*) of the definition "designated investment services" in subsection 115.2(1) applies in the case of a corporation, trust, or partnership the only undertaking of which is the investing of its funds in qualified investments; it includes, in designated investment services, the marketing of investments in the corporation, trust or partnership to non-resident investors. You argue that the scope of paragraph (*d*) is too narrow in that section 115.2 offers protection to non-resident members of a partnership regardless of whether the partnership has a combination of Canadian resident and non-resident members, yet paragraph (*d*) requires that the Canadian service provider not market investments in the partnership to Canadian residents. You also argue that such a requirement hinders the ability of Canadian asset managers to compete internationally. You therefore propose that paragraph (*d*) of the definition "designated investment services" in subsection 115.2(1) be broadened to permit Canadian service providers to market investments in the partnership to Canadian residents. We understand your concern; however, we are not prepared to recommend any change at this time. We will keep this matter under consideration.

While we cannot offer any assurance that either the Minister of Finance or Parliament will agree with our recommendations in respect of the first two matters, we hope that this statement of our intentions is helpful.

Thank you for writing.

Yours sincerely,
Gerard Lalonde
Director
Tax Legislation Division
Tax Policy Branch

Department of Finance Comfort Letter [Filing Requirements Under Section 115.2]

November 26, 2002

I am writing further to your letter of August 20, 2002 and your discussions with Ryan Hall, of this Division, concerning section 115.2 of the *Income Tax Act*. In particular, you ask that the section, which currently applies only for the purposes of subsection 115(1) and Part XIV of the Act, be broadened to apply also for the purposes of the corporate filing requirements under section 150 of the Act.

As you know, section 115.2 is an interpretive rule which ensures that, provided certain conditions are met, the receipt of Canadian investment management services does not by itself cause a non-resident person to be considered to be carrying on business in Canada. (However, it should be noted that the section does not protect from Canadian taxation non-residents who for other reasons would be considered to be earning income from carrying on business in Canada.)

You explain that a non-resident corporation that is entitled to benefit from the protection of section 115.2 may in some cases be required to file a return in Canada solely because of the provision of designated investment services to the non-resident by a Canadian investment manager. Technical Interpretation 2001-0089875, a copy of which you attached to your letter and to which you refer, makes it clear that section 253 will deem a non-resident to be carrying on business in Canada if, for example, the non-resident carries on business outside Canada and receives designated investment services from a Canadian investment manager. Unlike section 115.2, section 253 applies for the purposes of the Act, and, as a result, the non-resident in the example would be required to file a return in Canada under section 150, which requires corporations to file returns if at any time in the year they carry on business in Canada.

You suggest that the filing requirement deters non-resident investment, and that this result is inconsistent with the policy behind section 115.2. While we are not in a position to judge its effect on non-resident investors, we recognize that the requirement adds another step and cost to non-residents who wish to invest through a Canadian investment manager. It is worth noting that the requirement to file under section 150 does not necessarily mean that a corporation entitled to benefit from the protection of section 115.2 will be taxed as if it were carrying on business in Canada. Rather, the corporation is being treated for filing purposes as if it were carrying on business in Canada. That said, expanding the application of section 115.2 to apply for the purposes of section 150 would appear to be consistent with the general policy intent of the section 115.2: to ensure that the use of a Canadian investment manager does not, by itself, cause non-residents to be treated as though they are carrying on business in Canada.

We are therefore prepared to recommend amendments to the Act along the foregoing lines. As you suggest, we will recommend that these amendments be made effective as of the original effective date of section 115.2, namely for taxation years that end after 1998.

Of course, we cannot offer any assurance that either the Minister of Finance or Parliament will agree with the recommendations that we intend to make in this regard. Nonetheless, we trust that this statement of our position is helpful.

Yours sincerely,
Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

Department of Finance Comfort Letter [Application of Paragraph 115.2(2)(c) to Non-Residents Who Are Members of a Partnership]

June 4, 2002

Dear XXXX

I am writing further to discussions you and your colleague, XXXX, have had with Ryan Hall of this Division and your letter of April 8, 2002, in which you raise a concern about the application of paragraph 115.2(2)(*c*) of the *Income Tax Act* to non-resident persons who are members of a partnership of which residents of Canada are also members, and you request that certain amendments be made to address this concern.

As you know, section 115.2 is an interpretive rule which ensures that, provided certain conditions are met, the receipt of Canadian investment management services does not by itself cause a non-resident person to be considered to be carrying on business in Canada. (However, it should be noted that the section does not protect from Canadian taxation non-residents who for other reasons would be considered to be earning income from carrying on business in Canada.)

This section was recently amended so that it applies to all non-resident persons, including those who are members of a partnership of which one or more members are resident in Canada. As a result, the rule no longer applies to partnerships *per se*, but rather to the partners themselves. Paragraph 115.2(2)(*c*) sets out the circumstances under which the rule applies where investment services are not directly provided to non-residents but to a partnership, of which the non-residents are members.

Your concern is that the restriction in subparagraph 115.2(2)(*c*)(ii), which places a 25% limit on investments held in a partnership by persons who are affiliated with the Canadian service provider, may in some cases lead to consequences which are inconsistent with the Government's stated policy objectives.

You note in your letter that the explanatory notes for the amendments to section 115.2 explain that the restrictions found in subparagraphs 115.2(2)(*c*)(i) and (ii) are comparable to those found in subparagraph 115.2(2)(*b*)(iii), but you express the view that these two restrictions are not analogous. Although we consider the mechanics of the provisions to be comparable, it would appear that the two rules differ substantively: paragraph (*b*) applies to limit investments in non-residents (in that paragraph, corporations and trusts) to which subsection 115.2(2) applies whereas paragraph (*c*) does not operate to restrict investments in non-residents who benefit from that subsection, but rather in partnerships of which they are members.

The underlying policy for the investment restrictions in subsection 115.2(2) is to ensure that a reasonable measure of independence exists between non-resident persons who benefit from section 115.2 and their service providers. Making section 115.2 available in those cases where a non-resident is a member of a partnership, of which 25% of the investments are held by persons and partnerships which are affiliated with a service provider but not with the non-resident, would not appear to compromise this policy objective. In short, it seems that the limitation found in paragraph (*c*) may not be an accurate proxy for gauging the level of independence between any given non-resident and a service provider who supplies investment services to a partnership of which the non-resident is a member.

Given the foregoing, the Government's policy objectives — both to treat partnerships as flow-through entities for the purposes of section 115.2 and to ensure a reasonable measure of independence exists between non-resident persons who avail themselves of the benefit of this section and their service providers — would likely be met by replacing the restriction found in paragraph (*c*) with a limitation that better relates to the measure of independence *vis-à-vis* a non-resident person and a service provider who provides investment services to a partnership of which the non-resident is a member.

We therefore intend to recommend two things: that subsection 115.2(2) be amended so that a non-resident who is a member of a partnership which receives investment services will not be denied the benefit of section 115.2 because other persons or partnerships, which are affiliated with the service provider but not with the non-resident, hold more than 25% of the fair market value of the interests in the partnership; and that, in keeping with the principle of applying section 115.2 at the partner rather than at the partnership level, the 25% investment limit apply to the non-resident partners themselves. We are prepared to recommend that these amendments apply to the 2002 and subsequent taxation years, if the non-resident so chooses.

Of course, we cannot offer any assurance that either the Minister of Finance or Parliament will agree with the recommendation that we intend to make in this regard. Nonetheless, we trust that this statement of our position is helpful.

Your sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 115.2(2) was amended by S.C. 2002, c. 9, s. 35(5), applicable to the 2002 and subsequent taxation years. S. 115.2(2) formerly read:

"(2) *Not carrying on business in Canada.* For the purposes of subsection 115(1) and Part XIV, a qualified non-resident is not considered to be carrying on business in Canada at any particular time solely because of the provision to the non-resident at the particular time of designated investment services by a Canadian service provider if

(*a*) in the case of a non-resident who is an individual other than a trust, the non-resident is not affiliated at the particular time with the Canadian service provider; and

(*b*) in the case of a non-resident that is a corporation, trust or partnership,

(i) the non-resident has not, before the particular time, directly or through its agents, directed any promotion of investments in itself principally at, or sold such investments to, persons that the non-resident knew or ought to have known after reasonable enquiry were resident in Canada or partnerships that the non-resident knew or ought to have known after reasonable enquiry had members that were resident in Canada,

(ii) the non-resident has not, before the particular time, directly or through its agents, filed any document with a public authority in Canada in accordance with the securities legislation of Canada or of any province in order to permit the distribution of interests in the non-resident to persons resident in Canada, and

(iii) when the particular time is more than one year after the time at which the non-resident was created, the total of the fair market value, at the particular time, of investments in the non-resident that are beneficially owned by persons and partnerships (other than a designated entity in respect of the Canadian service provider) that are affiliated with the Canadian service provider does not exceed 25% of the fair market value, at the particular time, of all investments in the non-resident."

The application of subparagraph 115.2(2)(*b*)(i) was amended by S.C. 2002, c. 9, s. 35(9), as follows:

In applying subparagraph 115.2(2)(*b*)(i) of the Act, as enacted by subsection 21(1) of the *Income Tax Amendments Act*, 1999, chapter 19 of the Statutes of Canada, 2000, to taxation years that end after 1998 and before 2002, that subparagraph shall be read as follows:

"(i) the non-resident has not, before the particular time, directly or through its agents,

(A) directed any promotion of investments in itself principally at Canadian investors, or

(B) sold an investment in itself that is outstanding at the particular time to a person who was a Canadian investor at the time of the sale and who is a Canadian investor at the particular time,"

S. 115.2(2) was added by S.C. 2000, c. 19, s. 21(1), applicable to taxation years that end after 1998.

Related Sections: S. 115.2(3) Interpretation; s. 251.1(1) Definition of "affiliated persons"; s. 251.1(2) Affiliation where amalgamation or merger; s. 251.1(3) Definitions; s. 251.1(4) Interpretation.

► 115.2(3) ◄

(3) Interpretation. For the purpose of subparagraph (2)(*b*)(iii) and this subsection,

(*a*) the fair market value of an investment in a corporation, trust or partnership shall be determined without regard to any voting rights attaching to that investment; and

(*b*) a person or partnership is, at a particular time, a designated entity in respect of a Canadian service provider if the total of the fair market value at the particular time, of investments in the entity that are beneficially owned by persons and partnerships (other than another designated entity in respect of the Canadian service provider) that are affiliated with the Canadian service provider does not exceed 25% of the fair market value, at the particular time, of all investments in the entity.

History: S. 115.2(3) was added by S.C. 2000, c. 19, s. 21(1), applicable to taxation years that end after 1998.

► 115.2(4) ◄

(4) Transfer pricing. For the purpose of section 247, where subsection (2) applies in respect of services provided to a person that is a corporation or trust or to a partnership, if the Canadian service provider referred to in that subsection does not deal at arm's length with the promoter of the person or of the partnership, the service provider is deemed not to deal at arm's length with the person or partnership.

History: S. 115.2(4) was amended by S.C. 2002, c. 9, s. 35(6), applicable to the 2002 and subsequent taxation years. S. 115.2(4) formerly read:

"(4) *Transfer pricing.* For the purpose of section 247, where subsection (2) applies to a qualified non-resident, if the Canadian service provider referred to in that subsection does not deal at arm's length with the promoter of the qualified non-resident; the service provider is deemed not to deal at arm's length with the non-resident."

S. 115.2(4) was added by S.C. 2000, c. 19, s. 21(1), applicable to taxation years that end after 1998.

SECTION 116:

► 116(1) ◄

(1) Disposition by non-resident person of certain property. If a non-resident person proposes to dispose of any taxable Canadian property (other than property described in subsection (5.2) and excluded property) the non-resident person may, at any time before the disposition, send to the Minister a notice setting out

(*a*) the name and address of the person to whom he proposes to dispose of the property (in this section referred to as the "proposed purchaser");

(*b*) a description of the property sufficient to identify it;

(*c*) the estimated amount of the proceeds of disposition to be received by the non-resident person for the property; and

(*d*) the amount of the adjusted cost base to the non-resident person of the property at the time of the sending of the notice.

Department of Finance Comfort Letter [Mutual Fund Merger Rules]

February 14, 2006

Dear XXXX,

I am writing in response to your letter of January 31, 2006 requesting that we recommend several technical amendments to the mutual fund merger rules in section 132.2 of the *Income Tax Act* (the "Act"). These rules are already the subject of extensive proposed amendments, and all section references in this letter refer to the proposed legislation released in draft on July 18, 2005.

1. Timing

You note that there appears to be an inconsistency in the time periods referred to in the definition of "qualifying exchange" in subsection 132.2(1) and in the preamble of paragraph 132.2(3)(g). The definition of "qualifying exchange" requires that all or substantially all of the shares or units of the Transferor (as defined in section 132.2 of the Act) be disposed of to the Transferor within 60 days after the "transfer time", which is defined to be the time when all or substantially all of the property of the Transferor is transferred to the Transferee (as defined in section 132.2 of the Act). The preamble to paragraph 132.2(3)(g) requires that the exchange of shares or units of the Transferor back to the Transferor in exchange for units of the Transferee occur on a tax-deferred basis only if the exchange takes place within 60 days after *the day that includes* the transfer time.

You have requested that the Act be amended to clarify that the two 60-day periods start at the same time. We note that the time period in paragraph 132.2(3)(*f*) also refers to an event within 60 days after *the day that includes* the transfer time. We

can confirm that in both instances it was not intended by the addition of the words "the day that includes" to refer to a commencement date on the day following the day that includes the transfer time; rather it has always been intended that the commencement date be the day that includes the transfer time.

To clarify that all of the references to a 60-day period in section 132.2 are intended to refer to the same time period, and that the period is to commence on the day that includes the transfer time, we intend to recommend to the Minister of Finance that the references to "the day that includes" in paragraphs 132.2(3)(*f*) and (*g*) be deleted. We will also recommend that these changes be applicable to qualifying exchanges that occur after 1998 — the date that the proposed amendments that include the addition of the words "the day that includes" are proposed to come into effect.

2. Application of Section 116

You have noted that there is a concern that where a Transferor acquires its own shares or units in exchange for units of a Transferee in the course of a qualifying exchange, section 116 of the Act may apply to impose a reporting and withholding obligation. Section 116 generally applies when a non-resident person disposes of taxable Canadian property that is not excluded property. If the Transferor is a mutual fund trust or a mutual fund corporation at the time of the exchange by a non-resident unitholder or shareholder of the Transferor, the shares or units of the Transferor that the unitholder disposes of will generally not be taxable Canadian property at that time and therefore section 116 would not be applicable. However, your concern arises because paragraph 132.2(3)(*n*) deems the Transferor not to be a mutual fund corporation or a mutual fund trust, as the case may be, for its taxation years beginning after the transfer time. Pursuant to paragraph 132.2(3)(*b*), the first taxation year of the Transferor after the transfer time begins immediately after the "acquisition time". Given that the Act provides that the exchange may occur within 60 days after the transfer time, it is possible that the exchange will occur after the acquisition time — generally the time that the Transferee is treated as having acquired the property (other than depreciable property) transferred to it by the Transferor — and thus that the shares or units of the Transferor will be taxable Canadian property.

From a policy perspective it is not intended that the exchange of units or shares of a Transferor for units of the Transferee by a non-resident in the course of a qualifying exchange should be subject to section 116. As a result, we are prepared to recommend that the Act be amended to ensure that such a transaction is not subject to section 116. Given that this is an unintended technical deficiency in the Act, we will recommend that the amendment be applicable to qualifying exchanges that occur after June 1994, the date the mutual fund merger rules were introduced.

3. Application of Part XIII.2

You have also noted that there is a concern that where a Transferor acquires its own shares or units in exchange for units of a Transferee in the course of a qualifying exchange, Part XIII.2 of the Act may apply to impose a 15% tax. Unlike the discussion above, the concern arises only if the exchange occurs prior to the acquisition time, when the Transferor is a mutual fund trust or a mutual fund corporation. In general, Part XIII.2 will apply only if the units or shares of the Transferor are listed on a prescribed stock exchange and their value is primarily attributable to real property in Canada, Canadian resource property or timber resource property. If the units or shares meet those conditions, a 15% tax will apply to any amount that is paid or credited to a non-resident investor that is not otherwise subject to tax under Part I or Part XIII.2.

From a policy perspective it is not intended that the exchange of units or shares of a Transferor for units of the Transferee by a non-resident in the course of a qualifying exchange should be subject to Part XIII.2. As a result, we are prepared to recommend that the Act be amended to ensure that such a transaction is not subject to Part XIII.2. We will recommend that the amendment be applicable to qualifying exchanges that occur after 2004, the date Part XIII.2 was introduced.

In conclusion, we will recommend to the Minister of Finance that the Act be amended as discussed above to clarify the commencement of the 60-day period and to clarify that the exchange of units or shares of a Transferor for units of the Transferee by a non-resident in the course of a qualifying exchange is not subject to section 116 or Part XIII.2.

While we cannot offer any assurance that the Minister or Parliament will agree with our recommendation in this regard, I hope that this statement of our position is helpful to you.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 116(1), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 91(1), applicable after October 1, 1996. S. 116(1), the portion before paragraph (*a*) formerly read:

"S. 116. *Disposition by non-resident person of certain property.*

(1) Where a non-resident person proposes to dispose of any property that would, if the non-resident person disposed of it, be taxable Canadian property of that person (other than property described in subsection (5.2) and excluded property) the non-resident person may, at any time before the disposition, send to the Minister a notice setting out"

S. 116(1), that portion preceding paragraph (*a*), was amended by S.C. 1998, c. 19, s. 133(1), applicable after April 26, 1995. That portion formerly read:

"(1) Where a non-resident person proposes to dispose of any property that would, if the non-resident person disposed of it, be taxable Canadian property of that person (other than depreciable property or excluded property), the non-resident person may, at any time before the disposition, send to the Minister a notice setting out"

Editorial Note: Non-resident vendors of taxable Canadian property (other than property described in subsection 116(5.2) or excluded property as defined in subsection 116(6)) have two options under section 116. First, they may file a prescribed form with the CRA before the disposition under subsection 116(1), and upon paying the 25% tax on the estimated gain (or providing adequate security), will be issued the certificate under subsection (2). Alternatively, they may file a prescribed form within 10 days after the disposition under subsection 116(3), and upon paying the 25% tax on the actual gain (or providing adequate security), will be issued the certificate under subsection (4). (The subsection 116(3) filing is not required if the subsection 116(1) route was chosen, generally if the estimated gain was equal to or greater than the actual gain.) Failure to obtain the certificate will normally result in the purchaser being liable to pay the tax on behalf of the non-resident vendor under subsection 116(5) and being entitled to withhold such amount from the purchase price of the property. If the capital gain is treaty-exempt, the CRA will normally waive the requirement that the tax be paid or the security provided; see paragraphs 25 to 29 of Information Circular 72-17R5. For transfers of taxable Canadian property to a corporation under the rollover provisions of section 85, see paragraphs 31 and 32 of the same circular. See subsections 116(5.2) and (5.3) for similar provisions dealing with a non-resident's disposition of a life insurance policy in Canada, a Canadian resource property, land inventory in Canada, a timber resource property, or a depreciable property that is a taxable Canadian property.

Related Sections: S. 115(1)(*b*) Non-resident's taxable income in Canada; s. 227(9) Penalty; s. 248(1), "taxable Canadian property".

Interpretation Bulletins: *Primary* — IT-150R2 Acquisition from a non-resident of certain property on death or mortgage foreclosure or by virtue of a deemed disposition [Archived by the CRA]. *Secondary* — IT-474R2 Amalgamations of Canadian corporations.

Information Circulars: IC 72-17R5 Procedures concerning the disposition of taxable Canadian property by non-residents of Canada — Section 116.

Income Tax Technical News: Issue No. 38, Anti-Discrimination Provisions.

Forms: T2 SCH 97; T1248; T1261; T2062; T2062A; T2062A SCH 1.

Guides: T4058 Non-Residents and Income Tax.

Tax Topics: No. 1911, Estate Distributions to Non-Residents; No. 1870, CRA Reverts to Its Original Position in IT-474R2; No. 1869, Happy New Year! How the CRA Has Lengthened the Wait Time for Section 116 Clearance Certificates; No. 1802, Non-Resident Partners and Canadian Real Estate; No. 1779, Application of Section 116 to Distributions by Canadian Resident Trusts to Non-Resident Beneficiaries; No. 1576, CCRA's Comments on Section 116 Issues.

Tax Profile: February 2009 — Section 116 Certificates — New Legislation Enacted; January 2009 — Enhancing Canada's International Tax Advantage; November 2008 — 2008 Cross-Border Developments in Canada; August 2008 — Fifth Protocol to the Canada–U.S. Tax Convention; A Canadian Perspective; January 2008 — Tax Ramifications of Non-Resident Purchases of Canadian Businesses; December 2007 — Non-Resident Investment in Canadian Real Estate; November 2007 — Section 116 Certificates — A Canadian Nightmare; May 2007 — Why Canada Should End Roadblock to Foreign Private Equity; December 2005 — Sales of Shares of Real Estate Companies by a Non-Resident of Canada — Canadian Tax Consequences; June 2000 — Exchangeable Shares.

Canadian Petroleum Tax Journal: Taxable Canadian Property, Tony Van Rooyen, Vol. 13 No. 1 2000.

Tax Window Files: Deemed Disposition of Property By Non-Resident, June 13, 2005, CRA Document No. 2005-0113981E5 [Section 116 certificate not required for conversion by non-resident of personal-use property to income-earning property if subsection 45(2) or (3) election made; if no election, deemed disposition and certificate required]; Distribution of Property by Non-Resident Estate, February 1, 2005, CRA Document No. 2004-0083201E5 [Section 116 certificate required for distribution of taxable Canadian property from non-resident trust to non-resident beneficiary]; Application of Section 116 Where Rollover Applies, October 11, 2002, CRA Document No. 2002-0156945 [Section 116 certificate required where a rollover provision, such as section 51, 85 or 85.1, applies to disposition of taxable Canadian property]; Section 116 — Disposition of Interest In Trust, October 5, 2001, CRA Document No. 2001-0093155 [Section 116 certificate required when Canadian resident trust distributes property to non-resident beneficiary in satisfaction of capital interest in trust (resulting in disposition of the capital interest)].

Cases: The non-resident taxpayer sold its shares of a Canadian corporation and the purchaser paid $5,350,603 to the Receiver General in escrow under s. 116. The taxpayer's assessment (and refund) was delayed by a GAAR audit. The taxpayer's application for an order of *mandamus* requiring such assessment together with the release of the $5,350,603 was dismissed because the GAAR audit constituted "special circumstances" justifying the Minister's delay in issuing the assessment. *Merlis Investments Limited v. The Queen*, 2000 DTC 6634 (F.C.T.D.).

► 116(2) ◄

(2) Certificate in respect of proposed disposition. Where a non resident person who has sent to the Minister a notice under subsection (1) in respect of a proposed disposition of any property has

(*a*) paid to the Receiver General, as or on account of tax under this Part payable by the non-resident person for the year, 25% of the amount, if any, by which the estimated amount set out in the notice in accordance with paragraph (1)(*c*) exceeds the amount set out in the notice in accordance with paragraph (1)(*d*), or

(*b*) furnished the Minister with security acceptable to the Minister in respect of the proposed disposition of the property,

the Minister shall forthwith issue to the non-resident person and the proposed purchaser a certificate in prescribed form in respect of the proposed disposition, fixing therein an amount (in this section referred to as the "certificate limit") equal to the estimated amount set out in the notice in accordance with paragraph (1)(*c*).

History: S. 116(2) was amended by S.C. 2001, c. 17, s. 91(2), by replacing the reference to the percentage "33 1/3%" with a reference to the percentage "25%", applicable to taxation years that end after February 27, 2000 except that, for a taxation year that ended after February 27, 2000 and before October 18, 2000, the reference in subsection 116(2) of the Act to the percentage "25%" shall be read as a reference to the percentage "30%".

Tax Profile: June 2000 — Exchangeable Shares.

► 116(3) ◄

(3) Notice to Minister. Every non-resident person who in a taxation year disposes of any taxable Canadian property of that person (other than property described in subsection (5.2) and excluded property) shall, not later than 10 days after the disposition, send to the Minister, by registered mail, a notice setting out

(*a*) the name and address of the person to whom the non-resident person disposed of the property (in this section referred to as the "purchaser"),

(*b*) a description of the property sufficient to identify it, and

(*c*) a statement of the proceeds of disposition of the property and the amount of its adjusted cost base to the non-resident person immediately before the disposition,

unless the non-resident person has, at any time before the disposition, sent to the Minister a notice under subsection (1) in respect of any proposed disposition of that property and

(*d*) the purchaser was the proposed purchaser referred to in that notice,

(*e*) the estimated amount set out in that notice in accordance with paragraph (1)(*c*) is equal to or greater than the proceeds of disposition of the property, and

(*f*) the amount set out in that notice in accordance with paragraph (1)(*d*) does not exceed the adjusted cost base to the non-resident person of the property immediately before the disposition.

History: S. 116(3), that portion preceding paragraph (*a*) was amended by S.C. 1998, c. 19, s. 133(2), applicable after April 26, 1995. S. 116(3) formerly read:

"(3) *Notice to Minister.* Every non-resident person who in a taxation year has made a disposition of any taxable Canadian property of that person (other than depreciable property or excluded property) shall, not later than 10 days after the day on which the disposition was made, send to the Minister, by registered mail, a notice setting out"

Related Sections: S. 54, "adjusted cost base", "proceeds of disposition"; s. 238(1) Offences and punishment.

Information Circulars: IC 72-17R5 Procedures concerning the disposition of taxable Canadian property by non-residents of Canada — Section 116.

Income Tax Technical News: Issue No. 38, Anti-Discrimination Provisions.

Forms: T2062; T2062A; T2062A SCH 1.

Tax Topics: No. 1911, Estate Distributions to Non-Residents.

Tax Profile: February 2009 — Section 116 Certificates — New Legislation Enacted; January 2009 — Enhancing Canada's International Tax Advantage; November 2008 — 2008 Cross-Border Developments in Canada; August 2008 — Fifth Protocol to the Canada–U.S. Tax Convention: A Canadian Perspective; December 2007 — Non-Resident Investment in Canadian Real Estate; November 2007 — Section 116 Certificates — A Canadian Nightmare; December 2005 — Sales of Shares of Real Estate Companies by a Non-Resident of Canada — Canadian Tax Consequences; June 2000 — Exchangeable Shares.

Tax Window Files: Deemed Disposition of Property By Non-Resident, June 13, 2005, CRA Document No. 2005-0113981E5 [Section 116 certificate not required for conversion by non-resident of personal-use property to income-earning property if subsection 45(2) or (3) election made; if no election, deemed disposition and certificate required]; Distribution of Property by Non-Resident Estate, February 1, 2005, CRA Document No. 2004-0083201E5 [Section 116 certificate required for distribution of taxable Canadian property from non-resident trust to non-resident beneficiary]; Application of Section 116 Where Rollover Applies, October 11, 2002, CRA Document No. 2002-0156945 [Section 116 certificate required where a rollover provision, such as section 51, 85 or 85.1, applies to disposition of taxable Canadian property]; Section 116 — Disposition of Interest In Trust, October 5, 2001, CRA Document No. 2001-0093155 [Section 116 certificate required when Canadian resident trust distributes property to non-resident beneficiary in satisfaction of capital interest in trust (resulting in disposition of the capital interest)].

► 116(4) ◄

(4) Certificate in respect of property disposed of. Where a non-resident person who has sent to the Minister a notice under subsection (3) in respect of a disposition of any property has

(*a*) paid to the Receiver General, as or on account of tax under this Part payable by the non-resident person for the year, 25% of the amount, if any, by which the proceeds of disposition of the property exceed the adjusted cost base to the non-resident person of the property immediately before the disposition, or

(*b*) furnished the Minister with security acceptable to the Minister in respect of the disposition of the property,

the Minister shall forthwith issue to the non-resident person and the purchaser a certificate in prescribed form in respect of the disposition.

History: S. 116(4) was amended by S.C. 2001, c. 17, s. 91(2), by replacing the reference to the percentage "33 1/3%" with a reference to the percentage

"25%", applicable to taxation years that end after February 27, 2000 except that, for a taxation year that ended after February 27, 2000 and before October 18, 2000, the reference in subsection 116(4) of the Act to the percentage "25%" shall be read as a reference to the percentage "30%".

Information Circulars: IC 72-17R5 Procedures concerning the disposition of taxable Canadian property by non-residents of Canada — Section 116.
Tax Profile: June 2000 — Exchangeable Shares.
Cases: Furnishing the Minister with security did not constitute the actual payment of tax. *King v. M.N.R.*, 91 DTC 651 (T.C.C.).

► 116(5) ◄

(5) Liability of purchaser. Where in a taxation year a purchaser has acquired from a non-resident person any taxable Canadian property (other than depreciable property or excluded property) of the non-resident person, the purchaser, unless

(*a*) after reasonable inquiry the purchaser had no reason to believe that the non-resident person was not resident in Canada,

(*a.1*) subsection (5.01) applies to the acquisition, or

(*b*) a certificate under subsection (4) has been issued to the purchaser by the Minister in respect of the property,

is liable to pay, and shall remit to the Receiver General within 30 days after the end of the month in which the purchaser acquired the property, as tax under this Part for the year on behalf of the non-resident person, 25% of the amount, if any, by which

(*c*) the cost to the purchaser of the property so acquired

exceeds

(*d*) the certificate limit fixed by the certificate, if any, issued under subsection (2) in respect of the disposition of the property by the non-resident person to the purchaser,

and is entitled to deduct or withhold from any amount paid or credited by the purchaser to the non-resident person or otherwise recover from the non-resident person any amount paid by the purchaser as such a tax.

History: S. 116(5)(*a.1*) was added by S.C. 2008, c. 28, s. 14(1), applicable in respect of dispositions of property that occur after 2008.

S. 116(5) was amended by S.C. 2001, c. 17, s. 91(2), by replacing the reference to the percentage "33 1/3%" with a reference to the percentage "25%", applicable to taxation years that end after February 27, 2000 except that, for a taxation year that ended after February 27, 2000 and before October 18, 2000, the reference in subsection 116(5) of the Act to the percentage "25%" shall be read as a reference to the percentage "30%".

Related Sections: S. 227(9) Penalty.
Information Circulars: IC 72-17R5 Procedures concerning the disposition of taxable Canadian property by non-residents of Canada — Section 116.
Tax Topics: No. 1892, Proposed Changes to Section 116 of the *Income Tax Act*; No. 1779, Application of Section 116 to Distributions by Canadian Resident Trusts to Non-Resident Beneficiaries.
Tax Profile: June 2000 — Exchangeable Shares.

► 116(5.01) ◄

(5.01) Treaty-protected property. This subsection applies to the acquisition of a property by a person (referred to in this subsection as the "purchaser") from a non-resident person if

(*a*) the purchaser concludes after reasonable inquiry that the non-resident person is, under a tax treaty that Canada has with a particular country, resident in the particular country;

(*b*) the property would be treaty-protected property of the non-resident person if the non-resident person were, under the tax treaty referred to in paragraph (*a*), resident in the particular country; and

(*c*) the purchaser provides notice under subsection (5.02) in respect of the acquisition.

History: S. 116(5.01) was added by S.C. 2008, c. 28, s. 14(2), applicable in respect of dispositions of property that occur after 2008.
Editorial Note: Effective after 2008, a purchaser will not be required to remit 25% of the purchase price to the Receiver General if subsection 116(5.01) applies to the acquisition of taxable Canadian property. Subsection 116(5.01) applies to such acquisition if (a) the purchaser concludes after reasonable inquiry that the vendor is resident in a treaty jurisdiction; (b) the property would be treaty-protected property of the non-resident person if the non-resident person were resident in the treaty jurisdiction; and (c) the purchaser provides notice under subsection 116(5.02). There is currently no guidance about what will constitute a reasonable inquiry as to whether the vendor is resident in a country with which Canada has a tax treaty. There is no reasonable inquiry defense for the determination of whether the property is treaty-protected property. This means that if the purchaser incorrectly concludes that the property is treaty-protected property, the purchaser would be liable for the 25% tax. In most cases, it is unlikely that an arm's length purchaser would be able to verify that the property is treaty-protected property. As such, it is doubtful that an arm's length purchaser would be willing to assume this risk and therefore, would most likely withhold the 25% tax. It is expected that subsection 116(5.01) will significantly reduce the number of applications for section 116 clearance certificates for transfers of taxable Canadian property between non-arm's length parties but that the effect on the number of applications between arm's length parties will be minimal.

► 116(5.02) ◄

(5.02) Notice by purchaser in respect of an acquisition of property. A person (referred to in this subsection as the "purchaser") who acquires property from a non-resident person provides notice under this subsection in respect of the acquisition if the purchaser sends to the Minister, on or before the day that is 30 days after the date of the acquisition, a notice setting out

(*a*) the date of the acquisition;

(*b*) the name and address of the non-resident person;

(*c*) a description of the property sufficient to identify it;

(*d*) the amount paid or payable, as the case may be, by the purchaser for the property; and

(*e*) the name of the country with which Canada has concluded a tax treaty under which the property is a treaty-protected property for the purposes of subsection (5.01) or (6.1), as the case may be.

History: S. 116(5.02) was added by S.C. 2008, c. 28, s. 14(2), applicable in respect of dispositions of property that occur after 2008.

► 116(5.1) ◄

(5.1) Gifts, etc. If a non-resident person has disposed of or proposes to dispose of a life insurance policy in Canada, a Canadian resource property or a taxable Canadian property other than

(*a*) excluded property, or

(*b*) property that has been transferred or distributed on or after the non-resident person's death and as a consequence thereof

to any person by way of gift *inter vivos* or to a person with whom the non-resident person was not dealing at arm's length for no proceeds of disposition or for proceeds of disposition less than the fair market value of the property at the time the non-resident person so disposed of it or proposes to dispose of it, as the case may be, the following rules apply:

(*c*) the reference in paragraph (1)(*c*) to "the proceeds of disposition to be received by the non-resident person for the property" shall be read as a reference to "the fair market value of the property at the time the non-resident person proposes to dispose of it";

(*d*) the references in subsections (3) and (4) to "the proceeds of disposition of the property" shall be read as references to "the fair market value of the property immediately before the disposition",

(*e*) the references in subsection (5) to "the cost to the purchaser of the property so acquired" shall be read as references to "the fair market value of the property at the time it was so acquired", and

(*f*) the reference in subsection (5.3) to "the amount payable by the taxpayer for the property so acquired" shall be read as a reference to "the fair market value of the property at the time it was so acquired".

History: S. 116(5.1), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 91(3), applicable after October 1, 1996. S. 116(5.1), the portion before paragraph (*a*) formerly read:

"(5.1) *Idem.* Where a non-resident person has disposed of or proposes to dispose of a life insurance policy in Canada, a Canadian resource property or any property that is or would, if the non-resident person disposed of it, be taxable Canadian property of the non-resident person other than"

Editorial Note: Subsection 116(5.1) provides special rules for *inter vivos* gifts and non-arm's length transactions which take place at less than fair market value. Where the property is a life insurance policy in Canada, a Canadian resource property or any taxable Canadian property, the transferor is required to report the fair market value of the property rather than the actual proceeds of disposition and the liability for taxes payable under subsection 116(4) or 116(5) is based on the fair market value of the property and not the actual proceeds of disposition. These rules do not apply when the property transferred is excluded property as defined in subsection 116(6) or where property is transferred or distributed on or as a consequence of a person's death.

Related Sections: S. 54, "proceeds of disposition"; s. 248(1), "non-resident", "taxable Canadian property"; s. 251(1) Arm's length.

Forms: T2062B; T2062B SCH 1.

► 116(5.2) ◄

(5.2) Certificates for dispositions. If a non-resident person has, in respect of a disposition or proposed disposition to a taxpayer in a taxation year of property (other than excluded property) that is a life insurance policy in Canada, a Canadian resource property, a property (other than capital property) that is real property situated in Canada, a timber resource property, depreciable property that is a taxable Canadian property or any interest in or option in respect of a property to which this subsection applies (whether or not that property exists),

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 116(5.2) of the Act before paragraph (*a*) is replaced by the following:

(5.2) Certificates for dispositions. If a non-resident person has, in respect of a disposition, or a proposed disposition, in a taxation year to a taxpayer of property (other than excluded property) that is a life insurance policy in Canada, a Canadian resource property, a property (other than capital property) that is real property, or an immovable, situated in Canada, a timber resource property, depreciable property that is a taxable Canadian property, eligible capital property that is a taxable Canadian property or any interest in, or for civil law any right in, or any option in respect of, a property to which this subsection applies (whether or not that property exists),

Applicable: After December 23, 1998.

Explanatory Note: Section 116 of the Act sets out rules that apply when a non-resident person disposes of any of certain types of property. Subsection 116(5.2) allows a non-resident vendor to obtain what is commonly known as a "clearance certificate" in respect of the disposition or proposed disposition of, among other things, depreciable property that is a taxable Canadian property. Subsection 116(5.2) is amended to include among the types of property to which it applies eligible capital property that is a taxable Canadian property. This amendment applies after December 23, 1998, which is when the definition "taxable Canadian property" in subsection 248(1) of the Act first included eligible capital property used in carrying on a business in Canada.

(*a*) paid to the Receiver General, as or on account of tax under this Part payable by the non-resident person for the year, such amount as is acceptable to the Minister in respect of the disposition or proposed disposition of the property, or

(*b*) furnished the Minister with security acceptable to the Minister in respect of the disposition or proposed disposition of the property,

the Minister shall forthwith issue to the non-resident person and to the taxpayer a certificate in prescribed form in respect of the disposition or proposed disposition fixing therein an amount equal to the proceeds of disposition, proposed proceeds of disposition or such other amount as is reasonable in the circumstances.

History: S. 116(5.2), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 91(4), applicable after October 1, 1996. S. 116(5.2), the portion before paragraph (*a*) formerly read:

"(5.2) *Certificates for dispositions.* Where a non-resident person has, in respect of a disposition or proposed disposition to a taxpayer in a taxation year of property (other than excluded property) that is a life insurance policy in Canada, a Canadian resource property, a property (other than capital property) that is real property situated in Canada, a timber resource property, depreciable property that is or would, if the non-resident person disposed of it, be a taxable Canadian property of the non-resident person or any interest in, or option in respect of, a property to which this subsection applies (whether or not the property exists),"

S. 116(5.2), that portion preceding paragraph (*a*), was amended by S.C. 1998, c. 19, s. 133(3), applicable to dispositions that occur after 1996. That portion formerly read:

"(5.2) Where a non-resident person has, in respect of a disposition or proposed disposition to a taxpayer in a taxation year of a life insurance policy in Canada of the non-resident person, a Canadian resource property of the non-resident person, a property (other than capital property) that is real property situated in Canada of the non-resident person (including any interest therein or option in respect thereof, whether or not the property is in existence), a timber resource property of the non-resident person or any interest therein or option in respect thereof, or depreciable property that is or would, if the non-resident person disposed of it, be a taxable Canadian property of the non-resident person,"

S. 116(5.2), all that portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 87(1), applicable with respect to dispositions occurring after February 20, 1990, other than dispositions under agreements in writing entered into before February 21, 1990. S. 116(5.2), all that portion preceding paragraph (*a*), formerly read as follows:

"(5.2) *Certificate for dispositions.* Where a non-resident person has, in respect of a disposition or proposed disposition to a taxpayer in a taxation year of a life insurance policy in Canada of the non-resident person, a Canadian resource property of the non-resident person or depreciable property that is or would, if the non-resident person disposed of it, be taxable Canadian property of the non-resident person,"

Forms: T2062B.

► 116(5.3) ◄

(5.3) Liability of purchaser in certain cases. Where in a taxation year a taxpayer has acquired from a non-resident person property referred to in subsection (5.2),

(*a*) the taxpayer, unless subsection (5.01) applies to the acquisition or unless after reasonable inquiry the taxpayer had no reason to believe that the non-resident person was not resident in Canada, is liable to pay, as tax under this Part for the year on behalf of the non-resident person, 50% of the amount, if any, by which

(i) the amount payable by the taxpayer for the property so acquired

exceeds

(ii) the amount fixed in the certificate, if any, issued under subsection (5.2) in respect of the disposition of the property by the non-resident person to the taxpayer

and is entitled to deduct or withhold from any amount paid or credited by the taxpayer to the non-resident person or to otherwise recover from the non-resident person any amount paid by the taxpayer as such a tax; and

(*b*) the taxpayer shall, within 30 days after the end of the month in which the taxpayer acquired the property, remit to the Receiver General the tax for which the taxpayer is liable under paragraph (*a*).

History: S. 116(5.3)(*a*), the portion before subparagraph (i) was replaced by S.C. 2008, c. 28, s. 14(3), applicable in respect of dispositions of property that occur after 2008. S. 116(5.3)(*a*), the portion before subparagraph (i) formerly read:

"(*a*) the taxpayer, unless after reasonable inquiry the taxpayer had no reason to believe that the non-resident person was not resident in Canada, is liable to pay, as tax under this Part for the year on behalf of the non-resident person, 50% of the amount, if any, by which"

Information Circulars: IC 72-17R5 Procedures concerning the disposition of taxable Canadian property by non-residents of Canada — Section 116.
Tax Topics: No. 1892, Proposed Changes to Section 116 of the *Income Tax Act*

► 116(5.4) ◄

(5.4) Presumption. Where there has been a disposition by a non-resident of a life insurance policy in Canada by virtue of subsection 148(2) or any of paragraphs (*a*) to (*c*) and (*e*) of the definition "disposition" in subsection 148(9), the insurer under the policy shall, for the purposes of subsections (5.2) and (5.3) be deemed to be the taxpayer who acquired the property for an amount equal to the proceeds of disposition as determined under section 148.

► 116(6) ◄

(6) Definition of "excluded property". For the purposes of this section, "excluded property" of a non-resident person means

(*a*) a property that is a taxable Canadian property solely because a provision of this Act deems it to be a taxable Canadian property;

(*a*.1) a property (other than real property situated in Canada, a Canadian resource property or a timber resource property) that is described in an inventory of a business carried on in Canada by the person;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 116(6)(*a*.1) of the Act is replaced by the following:

(*a*.1) a property (other than real or immovable property situated in Canada, a Canadian resource property or a timber resource property) that is described in an inventory of a business carried on in Canada by the person;

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*b*) a security that is

(i) listed on a recognized stock exchange, and

(ii) either

(A) a share of the capital stock of a corporation, or

(B) SIFT wind-up entity equity;

(*c*) a unit of a mutual fund trust;

(*d*) a bond, debenture, bill, note, mortgage, hypothecary claim or similar obligation;

(*e*) property of a non-resident insurer that

(i) is licensed or otherwise authorized under the laws of Canada or a province to carry on an insurance business in Canada,

(ii) carries on an insurance business, within the meaning of subsection 138(1) of the Act, in Canada;

(*f*) property of an authorized foreign bank that is used or held in the course of the bank's Canadian banking business;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 116(6)(*f*) of the Act is replaced by the following:

(*f*) property of an authorized foreign bank that carries on a Canadian banking business;

Applicable: After June 27, 1999.

Explanatory Note:

Excluded Property — Authorized Foreign Banks

Subsection 116(6) of the Act defines "excluded property" for the purposes of section 116 of the Act. Paragraph 116(6)(*f*) defines the "excluded property" of an authorized foreign bank.

Paragraph 116(6)(*f*) currently treats as an excluded property any property of an authorized foreign bank that is used or held in the bank's "Canadian banking business" (defined in subsection 248(1) of the Act). The paragraph is amended to treat as excluded property all of the property of an authorized foreign bank that carries on a Canadian banking business. As a result, the treatment of authorized foreign banks will in this respect be comparable to the treatment of non-resident insurers.

This amendment applies to dispositions that occur after June 27, 1999.

(*g*) an option in respect of property referred to in any of paragraphs (*a*) to (*f*) whether or not such property is in existence;

(*h*) an interest in property referred to in any of paragraphs (*a*) to (*g*); and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 116(6)(*h*) of the Act is replaced by the following:

(*h*) an interest, or for civil law a right, in property referred to in any of paragraphs (*a*) to (*g*).

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*i*) a property that is, at the time of its disposition, a treaty-exempt property of the person.

History: S. 116(6)(*b*) was replaced by S.C. 2009, c. 2, s. 32(1), applicable after July 14, 2008. S. 116(6)(*b*) formerly read:

"(*b*) a share of a class of shares of the capital stock of a corporation that is listed on a recognized stock exchange;"

S. 116(6)(*i*) was added by S.C. 2008, c. 28, s. 14(4), applicable in respect of dispositions of property that occur after 2008.

S. 116(6)(*b*) was amended by S.C. 2007, c. 35, s. 33(1), by replacing "prescribed stock exchange" with "recognized stock exchange", applicable on and after December 14, 2007.

Ss. 116(6)(*a*) and (*b*) were amended, and paragraph (*a*.1) was added by S.C. 2001, c. 17, s. 91(5). Ss. 116(6)(*a*) and (*a*.1) are applicable after October 1, 1996. Ss. 116(6)(*b*) is applicable after June 27, 1999. Ss. 116(6)(*a*) and (*b*) formerly read:

"(*a*) property described in subparagraph 115(1)(*b*)(xii);

(*b*) a share of a class of the capital stock of a corporation that is listed on a prescribed stock exchange, or an interest in the share;"

S. 116(6)(*d*) was amended by S.C. 2001, c. 17, s. 212, applicable on Royal Assent, June 14, 2001. S. 116(6)(*d*) formerly read:

"(*d*) a bond, debenture, bill, note, mortgage or similar obligation;"

S. 116(6)(*e*) was amended, and paragraphs (*f*), (*g*) and (*h*) were added by S.C. 2001, c. 17, s. 91(6), applicable after June 27, 1999. S. 116(6)(*e*) formerly read:

"(*e*) any other property that is prescribed to be excluded property."

S. 116(6), paragraphs (*a*) and (*b*), were amended by S.C. 1998, c. 19, s. 133(4), applicable after April 26, 1995, except in respect of the disposition of a property before 1996

(*a*) to a person who was obliged on April 26, 1995 to acquire the property pursuant to the terms of an agreement in writing made on or before that day (and, for the purpose of this paragraph, a person shall be considered not to be obliged to acquire property where the person can be excused from the obligation if there is a change to the Act or if there is an adverse assessment under the Act); or

(*b*) pursuant to a prospectus or similar document filed with the relevant securities authority before April 27, 1995. Paragraphs (*a*) and (*b*) formerly read:

"(*a*) property described in subparagraph 115(1)(*b*)(ix);

(*b*) a share of the capital stock of a public corporation, or an interest therein;"

Related Sections: S. 54, "adjusted cost base"; s. 248(1), "non-resident", "property", "taxable Canadian property"; s. 249 Definition of "taxation year"; s. 255 Canada.

Regulations: 810.

Tax Topics: No. 1892, Proposed Changes to Section 116 of the *Income Tax Act*.

Tax Profile: November 2008 — 2008 Cross-Border Developments in Canada.

► 116(6.1) ◄

(6.1) Treaty-exempt property. For the purpose of subsection (6), a property is a treaty-exempt property of a non-resident person, at the time of the non-resident person's disposition of the property to another person (referred to in this subsection as the "purchaser"), if

(*a*) it is, at that time, a treaty-protected property of the non-resident person; and

(*b*) where the purchaser and the non-resident person are related at that time, the purchaser provides notice under subsection (5.02) in respect of the disposition.

History: S. 116(6.1) was added by S.C. 2008, c. 28, s. 14(5), applicable in respect of dispositions of property that occur after 2008.

Editorial Note: Subsection 116(6.1), effective beginning after 2008, provides that property is a "treaty-exempt property" of a non-resident person if it is a "treaty-protected property" (defined in subsection 248(1)) of the non-resident person. Where the vendor and the purchaser are related, a property will be a treaty-exempt property if it is a "treaty-protected property" and the purchaser provides notice under subsection (5.02) in respect of the disposition.

► 116(7) ◄

(7) Application of s. 138(12). The definitions in subsection 138(12) apply to this section.

History: S. 116(7) was added in the revised Act.

DIVISION E — Computation of Tax
Subdivision a — Rules Applicable to Individuals

SECTION 117:

► 117(1) ◄

(1) Tax payable under this Part. For the purposes of this Division, except section 120 (other than subparagraph (*a*)(ii) of the definition "tax otherwise payable under this Part" in subsection 120(4)), tax payable under this Part, tax otherwise payable under this Part and tax under this Part shall be computed as if this Part were read without reference to Division E.1.

History: S. 117(1) was amended by S.C. 2000, c. 19, s. 22(1), applicable to the 1998 and subsequent taxation years except that, in its application to the 1998 and 1999 taxation years, the reference to "subparagraph (*a*)(ii)" in subsection 117(1) of the Act shall be read as a reference to "paragraph (*b*)". S. 117(1) formerly read:

"(1) For the purposes of this Division, except section 120 (other than paragraph (*b*) of the definition 'tax otherwise payable under this Part' in subsection 120(4)) and section 120.1 (other than subsection 120.1(2)), tax payable under this Part, tax otherwise payable under this Part and tax under this Part shall be computed as if this Part were read without reference to Division E.1."

► 117(2) ◄

(2) Rates for taxation years after 2008. The tax payable under this Part by an individual on the individual's taxable income or taxable income earned in Canada, as the case may be (in this subdivision referred to as the "amount taxable") for a taxation year is

(*a*) 15% of the amount taxable, if the amount taxable is equal to or less than the amount determined for the taxation year in respect of $40,726;

(*b*) if the amount taxable is greater than $40,726 and is equal to or less than $81,452, the maximum amount determinable in respect of the taxation year under paragraph (*a*), plus 22% of the amount by which the amount taxable exceeds $40,726 for the year;

(*c*) if the amount taxable is greater than $81,452, but is equal to or less than $126,264, the maximum amount determinable in respect of the taxation year under paragraph (*b*), plus 26% of the amount by which the amount taxable exceeds $81,452 for the year; and

(*d*) if the amount taxable is greater than $126,264, the maximum amount determinable in respect of the taxation year under paragraph (*c*), plus 29% of the amount by which the amount taxable exceeds $126,264 for the year.

CRA Press Release

2.5% Indexation Factor for 2009

See CRA Fact Sheet, dated December 8, 2008, that is reproduced following subsection 117.1(1). This release announces a 2.5% indexation factor applicable for 2009 tax bracket thresholds, personal amounts and other amounts relating to non-refundable credits, as well as the refundable medical expense supplement and Old Age Security repayment threshold. Increases to the Canada Child Tax Benefit (including the National Child Benefit supplement and the Child Disability Benefit) and the Goods and Services Tax Credit will take effect as of July 1, 2009.

History: S. 117(2) was replaced by S.C. 2009, c. 2, s. 33(1), applicable to the 2009 and subsequent taxation years. S. 117(2) formerly read:

"(2) *Rates for taxation years after 2006.* The tax payable under this Part by an individual on the individual's taxable income or taxable income earned in Canada, as the case may be (in this subdivision referred to as the "amount taxable") for a taxation year is

(*a*) 15% of the amount taxable, if the amount taxable is equal to or less than the amount determined for the taxation year in respect of $36,378;

(*b*) if the amount taxable is greater than the amount determined for the year in respect of $36,378 and is equal to or less than the amount determined for the year in respect of $72,756, the amount determined in respect of the taxation year under paragraph (*a*) plus 22% of the amount by which the amount taxable exceeds the amount determined in respect of $36,378 for the year;

(*c*) if the amount taxable is greater than the amount determined for the year in respect of $72,756, but is equal to or less than the amount determined for the year in respect of $118,285, the total of the amounts determined in respect of the taxation year under paragraphs (*a*) and (*b*) plus 26% of the amount by which the amount taxable exceeds the amount determined in respect of $72,756; and

(*d*) if the amount taxable is greater than the amount that would be determined for the year in respect of $118,285, the total of the amounts determined in respect of the taxation year under paragraphs (*a*), (*b*) and (*c*) plus 29% of the amount by which the amount taxable exceeds the amount determined in respect of $118,285."

S. 117(2)(*a*) was replaced by S.C. 2007, c. 35, s. 179(1), applicable to the 2007 and subsequent taxation years. S. 117(2)(*a*) formerly read:

"(*a*) 15.5% of the amount taxable, if the amount taxable is equal to or less than the amount determined for the taxation year in respect of $36,378;"

S. 117(2)(*c*) and (*d*) were replaced by S.C. 2007, c. 2, s. 18(1), applicable to the 2007 and subsequent taxation years. S. 117(2)(*c*) and (*d*) formerly read:

"(*c*) if the amount taxable is greater than the amount determined for the year in respect of $72,756, but is equal to or less than the amount determined for the year in respect of $118,825, the total of the amounts determined in respect of the taxation year under paragraphs (*a*) and (*b*) plus 26% of the amount by which the amount taxable exceeds the amount determined in respect of $72,756; and

(*d*) if the amount taxable is greater than the amount that would be determined for the year in respect of $118,825, the total of the amounts determined in respect of the taxation year under paragraphs (*a*), (*b*) and (*c*) plus 29% of the amount by which the amount taxable exceeds the amount determined in respect of $118,825."

S. 117(2) was replaced by S.C. 2006, c. 4, s. 58(3), applicable to the 2007 and subsequent taxation years. S. 117(2) formerly read:

"(2) *Rates for the 2006 taxation year.* The tax payable under this Part by an individual on the individual's taxable income or taxable income earned in Canada, as the case may be (in this subdivision referred to as the "amount taxable") for the 2006 taxation year is

(*a*) 15.25% of the amount taxable, if the amount taxable is equal to or less than $36,378;

(*b*) $5,548 plus 22% of the amount by which the amount taxable exceeds $36,378, if the amount taxable is greater than $36,378 and is equal to or less than $72,756;

(*c*) $13,551 plus 26% of the amount by which the amount taxable exceeds $72,756 if the amount taxable is greater than $72,756 and is equal to or less than $118,285; and

(*d*) $25,388 plus 29% of the amount by which the amount taxable exceeds $118,285, if the amount taxable is greater than $118,285."

S. 117(2) was replaced by S.C. 2006, c. 4, s. 58(2), applicable to the 2006 taxation year. S. 117(2) formerly read:

"(2) *Rates for the 2005 taxation year.* The tax payable under this Part by an individual on the individual's taxable income or taxable income earned in Canada, as the case may be (in this subdivision referred to as the "amount taxable") for the 2005 taxation year is

(*a*) 15% of the amount taxable, if the amount taxable is equal to or less than $35,595;

(*b*) $5,339 plus 22% of the amount by which the amount taxable exceeds $35,595, if the amount taxable is greater than $35,595 and is equal to or less than $71,190;

(*c*) $13,170 plus 26% of the amount by which the amount taxable exceeds $71,190, if the amount taxable is greater than $71,190 and is equal to or less than $115,739; and

(*d*) $24,753 plus 29% of the amount by which the amount taxable exceeds $115,739, if the amount taxable is greater than $115,739."

S. 117(2) was replaced by S.C. 2006, c. 4, s. 58(1), applicable to the 2005 taxation year. S. 117(2) formerly read:

"(2) *Rates for years after 2000.* The tax payable under this Part by an individual on the individual's taxable income or taxable income earned in Canada, as the case may be, (in this subdivision referred to as the 'amount taxable') for a taxation year is

(*a*) 16% of the amount taxable, if the amount taxable does not exceed $30,754;

(*b*) $4,921 plus 22% of the amount by which the amount taxable exceeds $30,754, if the amount taxable exceeds $30,754 and does not exceed $61,509;

(*b.1*) $11,687 plus 26% of the amount by which the amount taxable exceeds $61,509, if the amount taxable exceeds $61,509 and does not exceed $100,000; and

(*c*) $21,695 plus 29% of the amount by which the amount taxable exceeds $100,000, if the amount taxable exceeds $100,000."

S. 117(2) was amended by S.C. 2001, c. 17, s. 92(2), applicable to the 2001 and subsequent taxation years. S. 117(2) formerly read:

"(2) *Rate for 2000.* The tax payable under this Part by an individual on the individual's taxable income or taxable income earned in Canada, as the case may be, (in this subdivision referred to as the 'amount taxable') for the 2000 taxation year is

(*a*) 17% of the amount taxable, if the amount taxable does not exceed $30,004;

(*b*) $5,101 plus 25% of the amount by which the amount taxable exceeds $30,004, if the amount taxable exceeds $30,004 and does not exceed $60,009; and

(*c*) $12,602 plus 29% of the amount by which the amount taxable exceeds $60,009, if the amount taxable exceeds $60,009."

S. 117(2) was amended by S.C. 2001, c. 17, s. 92(1), applicable to the 2000 taxation year. S. 117(2) formerly read:

"(2) *1988 and subsequent taxation years rates.* The tax payable under this Part by an individual on the individual's taxable income or taxable income earned in Canada, as the case may be, (in this subdivision referred to as the 'amount taxable') for the 1988 and subsequent taxation years is

(*a*) 17% of the amount taxable if the amount taxable does not exceed $27,500;

(*b*) $4,675 plus 26% of the amount by which the amount taxable exceeds $27,500 if the amount taxable exceeds $27,500 and does not exceed $55,000; and

(*c*) $11,825 plus 29% of the amount by which the amount taxable exceeds $55,000."

Related Sections: S. 117.1(1) Tax payable under this Part.
Interpretation Bulletins: *Secondary* — IT-519R2 (Consolid.) Medical expense and disability tax credits and attendant care expense deduction.

► 117(2.1) ◄

(2.1) Tax payable — WITB advance payment. The tax payable under this Part on the individual's taxable income for a taxation year, as computed under subsection (2), is deemed to be the total of the amount otherwise computed under that subsection and, except for the purposes of sections 118 to 118.9, 120.2, 121, 122.3 and subdivision c, the total of all amounts received by the individual in respect of the taxation year under subsection 122.7(7).

History: S. 117(2.1) was added by S.C. 2007, c. 35, s. 34(1), applicable to the 2008 and subsequent taxation years.

Editorial Note: The working income tax benefit (WITB) advance payments received by a taxpayer for a taxation year are deemed under s. 117(2.1) to be included in the individual's tax payable for the year. The individual is required to file a tax return for the year, and to pay interest on the tax payable on the advance payments. For example, if the individual ceases to qualify for a WITB after having filed an application with the CRA, he or she may have to refund and to pay interest on a portion of those advance payments. The advance payments are not part of the tax payable for the purpose of calculating the minimum tax carryover and most tax credits claimed on the tax return.

Related Sections: S. 150(1) Filing returns of income — general rule s. 150(1.1)(*b*)(i) Exception; s. 161(1) Interest.
Guides: RC4227 Working Income Tax Benefit.

► 117(3) ◄

(3) Minimum thresholds for 2004. Each of the amounts of $30,754, $61,509 and $100,000 referred to in subsection (2) is deemed, for the purposes of applying subsection (2) to the 2004 taxation year, to be the greater of

(*a*) the amount that would be used for the 2004 taxation year if this section were read without reference to this subsection; and

(*b*) in the case of

(i) the amount of $30,754, $35,000,

(ii) the amount of $61,509, $70,000, and

(iii) the amount of $100,000, $113,804.

History: S. 117(3) was added by S.C. 2001, c. 17, s. 92(2), applicable on Royal Assent. S. 117(3) was previously repealed by the former Act.

(4)–(5.1) [Repealed by 1985, c. 45, s. 62(1).]

► 117(5.2) ◄

(5.2) 1982 and subsequent taxation years rates. [Repealed by 1988, c. 55, s. 90(3).]

► 117(6) ◄

(6) Special table. [Repealed by S.C. 2000, c. 19, s. 22(2).]

History: S. 117(6) was repealed by S.C. 2000, c. 19, s. 22(2), applicable to the 1998 and subsequent taxation years. S. 117(6) formerly read:

"(6) *Special table.* An individual (other than an individual of a prescribed class) whose amount taxable for a taxation year does not exceed a prescribed amount may use a table prepared for that year in accordance with prescribed rules in computing the amount of the individual's tax payable under Part I.1 and the amount that, but for prescribed provisions of this Act, would be the individual's tax payable under this Part for the year."

Regulations: 2500; 2501.

► 117(7) ◄

(7) Notch provision. [Repealed by S.C. 1994, c. 7, Sched. VII, s. 6(1).]

History: S. 117(7) was repealed by S.C. 1994, c. 7, Sched. VII, s. 6(1), applicable with respect to the 1993 and subsequent taxation years. S. 117(7) formerly read:

"(7) *Notch provision.* Where the tax otherwise payable under this Part for a taxation year by an individual is greater than the total of

(*a*) the tax that would be so payable if, in computing the individual's tax payable under this Part for the year, the individual could deduct under section 118.2 payments described in that section made in respect of a person who, had the person's income for the year been nil, would have been a dependant in respect of whom the individual could have deducted an amount under section 118 in computing the individual's tax payable under this Part for the year, and

(*b*) 68% of the amount by which the income for the year of the person referred to in paragraph (*a*) exceeds $6,000,

the tax otherwise payable under this Part for the year may be reduced to that total."

Related Sections: S. 12(4) Interest from investment contract; s. 248(1), "amount", "individual", "prescribed", "taxable income earned in Canada".
Interpretation Bulletins: *Secondary* — IT-519R2 (Consolid.) Medical expense and disability tax credits and attendant care expense deduction.

Annual Adjustment of Deductions and Other Amounts

SECTION 117.1:

► 117.1(1) ◄

(1) Annual adjustment. The amount of $1,000 referred to in the formula in paragraph 8(1)(*s*), each of the amounts expressed in dollars in subparagraph 6(1)(*b*)(v.1), subsection 117(2), the description of B in subsection 118(1), subsection 118(2), paragraph (*a*) of the description of B in subsection 118(10), subsection 118.01(2), the descriptions of C and F in subsection 118.2(1), subsections 118.3(1), 122.5(3) and 122.51(1) and (2), the amounts of $500 and $1,000 referred to in the description of A, and the amounts of $9,500 and $14,500 referred to in the description of B, in the formula in subsection 122.7(2), the amount of $250 referred to in the description of C, and the amounts of $12,833 and $21,167 referred to in the description of D, in the formula in subsection 122.7(3), and each of the amounts expressed in dollars in Part I.2 in relation to tax payable under this Part or Part I.2 for a taxation year shall be adjusted so that the amount to be used under those provisions for the year is the total of

(*a*) the amount that would, but for subsection (3), be the amount to be used under those provisions for the preceding taxation year, and

(*b*) the product obtained by multiplying

(i) the amount referred to in paragraph (*a*)

by

(ii) the amount, adjusted in such manner as may be prescribed and rounded to the nearest one-thousandth, or, where the result obtained is equidistant from two consecutive one-thousandths, to the higher thereof, that is determined by the formula

$$(A/B) - 1$$

where

A is the Consumer Price Index for the 12 month period that ended on September 30 next before that year, and

B is the Consumer Price Index for the 12 month period immediately preceding the period mentioned in the description of A.

CRA Press Release
2.5% Indexation Factor for 2009

[Reproduced below is a CRA Fact Sheet, released on December 8, 2008, that sets out a 2.5% indexation factor for various figures relating to personal income tax, including the 2009 income tax thresholds, personal credit amounts, the Canada Child Tax Benefit and the Goods and Services Tax Credit. After the release of this Fact Sheet, the 2009 Federal Budget legislation (S.C. 2009, c. 2) increased the basic personal amount, the spouse or common-law partner amount, and the eligible dependant amount to $10,320, increased the age credit amount to $6,408, and increased the two lowest personal income tax brackets to $40,726 and 81,452, respectively, all for 2009. The chart below has been revised by CCH to reflect these increased amounts.]

Each year, certain personal income tax amounts are indexed to inflation using the Consumer Price Index data, as reported by Statistics Canada.

Increases to tax bracket thresholds, amounts relating to non-refundable credits, and most other amounts will take effect on January 1, 2009. However, increases to the Canada Child Tax Benefit (including the National Child Benefit Supplement and the Child Disability Benefit) and the goods and services tax credit will take effect on July 1, 2009, to coincide with the beginning of the program year for payment of these benefits.

The following chart compares the indexed amounts for the 2008 and 2009 tax years. It reflects an indexation increase of 2.5% for 2008.

	2009 ($)	2008 ($)
Tax Bracket Thresholds		
Taxable income above which the 22% bracket begins	[40,726]	37,885
Taxable income above which the 26% bracket begins	[81,452]	75,769
Taxable income above which the 29% bracket begins	126,264	123,184
Amounts relating to non-refundable tax credits		
Basic personal amount **(See footnote below)**	[10,320]	9,600
Age amount	[6,408]	5,276
Net income threshold	32,312	31,524
Spouse or common-law partner amount (maximum) **(See footnote below)**	[10,320]	9,600
Amount for an eligible dependant (maximum) **(See footnote below)**	[10,320]	9,600
Amount for children under age 18 (maximum per child)	2,089	2,038
Canada employment amount (maximum)	1,044	1,019
Infirm dependant amount (maximum per dependant)	4,198	4,095
Net income threshold	5,956	5,811
Caregiver amount (maximum per dependant)	4,198	4,095
Net income threshold	14,336	13,986
Disability amount	7,196	7,021
Supplement for children with disabilities (maximum)	4,198	4,095
Threshold relating to allowable child care and attendant care expenses	2,459	2,399
Adoption expenses (maximum per adoption)	10,909	10,643
Medical expense tax credit — 3% of net income ceiling	2,011	1,962
Refundable medical expense supplement		
Maximum supplement	1,067	1,041
Minimum earnings threshold	3,116	3,040
Family net income threshold	23,633	23,057
Old Age Security repayment threshold	66,335	64,718
Certain board and lodging allowances paid to players on sports teams or members of recreation programs		
Income exclusion (maximum per month)	313	306
Tradesperson's tools deduction		
Threshold amount relating to cost of eligible tools	1,044	1,019
Goods and Services Tax Credit		
Adult maximum	248	242
Child maximum	130	127
Single supplement	130	127
Phase-in threshold for the single supplement	8,047	7,851
Family net income at which credit begins to phase out	32,312	31,524
Canada Child Tax Benefit		
Base benefit	1,340	1,307
Additional benefit for third child	93	91
Family net income at which base benefit begins to phase out	38,832	37,885
National Child Benefit (NCB) Supplement		
First child	2,076	2,025
Second child	1,837	1,792
Third child	1,747	1,704
Family net income at which NCB supplement begins to phase out	21,816	21,287
Family net income at which NCB supplement phase-out is complete	38,832	37,885
Child Disability Benefit		
Maximum benefit	2,455	2,395
Family net income at which benefit begins to phase out	38,832	37,885
Child Special Allowance (CSA)		
CSA base amount	3,416	3,332

Note:

Under changes announced on October 30, 2007, in the 2007 Economic Statement, the basic personal amount, the maximum spouse or common-law partner amount, and the maximum amount for an eligible dependant were increased to $9,600 for the 2007 and 2008 tax years, and [pursuant to the 2009 Federal Budget, are further increased to $10,320 for 2009].

As announced in the 2007 Federal Budget, the net income threshold has been eliminated for the 2007 and subsequent tax years. The spouse or common-law partner amount and the amount for an eligible dependant are calculated by subtracting the net income of the spouse or common-law partner or the dependant, as applicable, from the maximum amount ([pursuant to the 2009 Federal Budget, $10,320 for 2009], $9,600 for 2007 and 2008).

History: S. 117.1(1), the portion before paragraph (*a*) was replaced by S.C. 2007, c. 35, s. 35(1), applicable to the 2008 and subsequent taxation years. S. 117.1(1), the portion before paragraph (*a*) formerly read:

"S. 117.1. (1) *Annual adjustment (indexing).* The amount of $1,000 referred to in the formula in paragraph 8(1)(*s*) and each of the amounts expressed in dollars in subparagraph 6(1)(*b*)(v.1), subsection 117(2), the description of B in subsection 118(1), subsection 118(2), paragraph (*a*) of the description of B in subsection 118(10), subsection 118.01(2), the descriptions of C and F in subsection 118.2(1), subsections 118.3(1), 122.5(3) and 122.51(1) and (2) and Part I.2 in relation to tax payable under this Part or Part I.2 for a taxation year shall be adjusted so that the amount to be used under those provisions for the year is the total of"

S. 117.1(1), the portion before paragraph (*a*) was replaced by S.C. 2007, c. 16, s. 4, in force on June 22, 2007. The reference to subparagraph 6(1)(*b*)(v.1) applies to taxation years that end after June 22, 2007. The references to paragraph 8(1)(*s*) and subsection 118(10) apply to 2008 and subsequent taxation years. S. 117.1(1), the portion before paragraph (*a*) was to have read:

"S. 117.1. (1) *Annual adjustment (indexing).* The amount of $1,000 referred to in the formula in paragraph 8(1)(*s*) and each of the amounts expressed in dollars in subsection 117(2), the description of B in subsection 118(1), subsection 118(2), paragraph (*a*) of the description of B in subsection 118(10), subsection 118.01(2), the descriptions of C and F in subsection 118.2(1), subsections 118.3(1), 122.5(3) and 122.51(1) and (2) and Part I.2 in relation to tax payable under this Part or Part I.2 for a taxation year shall be adjusted so that the amount to be used under those provisions for the year is the total of"

S. 117.1(1), the portion before paragraph (*a*) was replaced by S.C. 2007, c. 2, s. 19(1), scheduled to be applicable to the 2008 and subsequent taxation years, replaced as noted above before it became applicable. S. 117.1(1), the portion before paragraph (*a*) formerly read:

"S. 117.1. (1) *Annual adjustment (indexing).* Each of the amounts expressed in dollars in subsection 117(2), the description of B in subsection 118(1), subsections 118(2) and 118.01(2), the descriptions of C and F in subsection 118.2(1), subsections 118.3(1), 122.5(3) and 122.51(1) and (2) and Part I.2 in relation to tax payable under this Part or Part I.2 for a taxation year shall be adjusted so that the amount to be used under those provisions for the year is the total of"

S. 117.1(1), the portion before paragraph (*a*) was replaced by S.C. 2006, c. 4, s. 59(1), applicable to the 2006 and subsequent taxation years.

S. 117.1(1), the portion before paragraph (*a*) formerly read:

"S. 117.1. (1) *Annual adjustment.* Each of the amounts expressed in dollars in subsection 117(2), the description of B in subsection 118(1), subsection 118(2), the descriptions of C and F in subsection 118.2(1), subsections 118.3(1), 122.5(3) and 122.51(1) and (2) and Part I.2 in relation to tax payable under this Part or Part I.2 for a taxation year shall be adjusted so that the amount to be used under those provisions for the year is the total of"

S. 117.1(1), the portion before paragraph (*a*) was replaced by S.C. 2005, c. 19, s. 22(1), applicable to the 2004 and subsequent taxation years. S. 117.1(1), the portion before paragraph (*a*) formerly read:

"S. 117.1. (1) *Annual adjustment.* Each of the amounts expressed in dollars in subsection 117(2), the description of B in subsection 118(1), subsections 118(2), 118.2(1), 118.3(1), 122.5(3) and 122.51(1) and (2) and Part I.2 in relation to tax payable under this Part or Part I.2 for a taxation year shall be adjusted so that the amount to be used under those provisions for the year is the total of"

S. 117.1(1), the portion before subparagraph (*d*)(ii) was amended by S.C. 2000, c. 19, s. 23(1), applicable to the 2001 and subsequent taxation years. S. 117.1(1), the portion before subparagraph (*d*)(ii) formerly read:

"(1) Each of

(*a*) the amount of $6,456 referred to in clause (*a*)(ii)(B) of the definition 'preferred beneficiary' in subsection 108(1) in relation to a beneficiary's income (computed without reference to subsection 104(14)) for a taxation year,

(*b*) the amounts expressed in dollars in subsection 117(2), paragraphs (*b*.1) to (*d*) of the description of B in subsection 118(1), subsections 118(2), 118.2(1) and 118.3(1) and Part I.2 in relation to tax payable under this Part or Part I.2 for a taxation year,

(*b*.1) the amounts of $5,000 and $6,000 referred to in subsection (2) and paragraphs (*a*) and (*b*) of the description of B in subsection 118(1) in relation to tax payable under this Part for a taxation year, and

(*b*.2) the amounts expressed in dollars in subsections 122.5(3) and 122.51(1) and (2) in relation to tax payable under this Part for a taxation year

shall be adjusted so that the amount to be used under those provisions for the year is the total of

(*c*) the amount that would, but for subsection (3), be the amount to be used under those provisions for the immediately preceding taxation year, and

(*d*) the product obtained by multiplying

(i) the amount referred to in paragraph (*c*)

by"

The formula in s. 117.1(1) was amended by S.C. 2000, c. 14, s. 37, applicable to the 2000 and subsequent taxation years. The formula in s. 117.1(1) formerly read:

"

$$\frac{A}{B} - 1.03$$

"

S. 117.1(1)(*b*) was amended by S.C. 1999, c. 22, s. 30(1), applicable

(*a*) to the 2000 and subsequent taxation years for amounts referred to in paragraph (*b*.1) of the description of B in subsection 118(1) of the Act; and

(*b*) to the 1999 and subsequent taxation years for amounts referred to in paragraph (*c*.1) of the description of B in subsection 118(1) of the Act, as enacted by subsection 31(2). S. 117.1(1)(*b*) formerly read:

"(*b*) the amounts expressed in dollars in subsection 117(2), paragraphs (*c*) and (*d*) of the description of B in subsection 118(1), subsections 118(2), 118.2(1) and 118.3(1) and Part I.2 in relation to tax payable under this Part or Part I.2 for a taxation year,"

S. 117.1(1), the portion before paragraph (*c*) was amended by S.C. 1998, c. 19, s. 21(1), applicable to the 1997 and subsequent taxation years except that, in applying paragraph 117.1(1)(*b*.2) of the Act to the 1997 taxation year, the reference in that paragraph to "subsections 122.5(3) and 122.51(1) and (2)" shall be read as "subsection 122.5(3)". That portion formerly read:

"S. 117.1. *Annual adjustment.*

(1) Each of

(*a*) the amounts of $5,000 and $6,000 referred to in subsection (2) and paragraphs (*a*) and (*b*) of the description of B in subsection 118(1),

(*a*.1) the amounts expressed in dollars in subsection 122.5(3), and

(*b*) the amounts expressed in dollars in subsection 117(2), paragraphs (*c*) and (*d*) of the description of B in subsection 118(1), subsections 118(2), 118.2(1) and 118.3(1) and Part I.2

shall be adjusted, for each taxation year after 1996 for amounts referred to in paragraph (*d*) of the description of B in subsection 118(1), for each taxation year after 1990 for amounts referred to in subsection 122.5(3) and for each taxation year after 1988 in any other case, so that the amount to be used under those provisions for the year is an amount equal to the total of"

Sec. 21(3), Chap. 19, 1998

(3) For the purpose of paragraph 117.1(1)(*c*) of the Act, the amount to be used under clause (*a*)(ii)(B) of the definition "preferred beneficiary" in subsection 108(1) of the Act, as enacted by subsection 19(1), in relation to income for the 1996 taxation year is deemed to be $6,456.

S. 117.1(1)(*a*) was amended by S.C. 1997, c. 25, s. 24(1), applicable April 25, 1997. S. 117.1(1)(*a*) formerly read:

"(*a*) the amounts of $5,000 and $6,000 referred to in subsection (2) and paragraphs 118(1)(*a*) and (*b*),"

S. 117.1(1), the portion after paragraph (*b*) and before paragraph (*c*), was amended by S.C. 1997, c. 25, s. 24(2), applicable to the 1996 and subsequent taxation years. That part formerly read:

"shall be adjusted, for each taxation year after 1990 for amounts referred to in subsection 122.5(3) and for each taxation year after 1988 in any other case, so that the amount to be used under those provisions for the year is an amount equal to the total of"

S. 117.1(1)(*b*) was amended by S.C. 1996, c. 21, s. 22(1), applicable to the 1996 and subsequent taxation years. S. 117.1(1)(*b*) formerly read:

"(*b*) the amounts expressed in dollars in subsection 117(2), paragraphs (*c*) and (*d*) of the description of B in subsection 118(1) and subsections 118(2), 118.2(1), 118.3(1) and 180.2(1)"

S. 117.1(1)(*b*) was amended by S.C. 1994, c. 7, Sched. VII, s. 7(1), applicable with respect to the 1993 and subsequent taxation years. S. 117.1(1)(*b*) formerly read:

"(*b*) the amounts expressed in dollars in subsections 117(2) and (7), paragraphs 118(1)(*c*) and (*d*) and subsections 118(2), 118.2(1), 118.3(1), 122.2(1), 164.1(1) and 180.2(1)"

Related Sections: S. 117.1(4) Consumer Price Index; s. 249(1) Definition of "taxation year".

Interpretation Bulletins: *Secondary* — IT-513R Personal tax credits; IT-519R2 (Consolid.) Medical expense and disability tax credits and attendant care expense deduction.

► 117.1(1.1) ◄

(1.1) Adjustment of certain amounts. Notwithstanding any other provision of this section, for the purpose of making the adjustment provided under subsection (1) for the 2000 taxation year, the amounts used for the 1999 taxation year

(*a*) in respect of the amounts of $6,000, $5,000 and $500 referred to in paragraphs (*a*), (*b*,) and (*c*) of the description of B in subsection 118(1) and the amount of $625 referred to in subparagraph 180.2(4)(*a*)(ii) are deemed to be $7,131, $6,055, $606 and $665, respectively; and

(*b*) in respect of the amounts of $6,456 and $4,103 referred to in paragraph (*d*) of the description of B in subsection 118(1) are deemed to be $7,131 and $4,778, respectively.

History: S. 117.1(1.1) was added by S.C. 2000, c. 14, s. 37(2), applicable to the 2000 taxation year. S. 117.1(1.1) was previously repealed by S.C. 1988, c. 55.

► 117.1(2) ◄

(2) Idem. [Repealed by S.C. 2000, c. 19, s. 23(2).]

History: S. 117.1(2) was repealed by S.C. 2000, c. 19, s. 23(2), applicable to the 1999 and subsequent taxation years. S. 117.1(2) formerly read:

"(2) *Idem.* The amount of $500 referred to in subparagraphs (*a*)(ii) and (*b*)(iv) of the description of B in subsection 118(1) shall be adjusted for each taxation year after 1988 so that the amount to be used under those subparagraphs for the year is the amount determined by the formula

$$\frac{1}{2} \times (\$6{,}000 - \$5{,}000)$$

"

S. 117.1(2) was amended by S.C. 1997, c. 25, s. 24(3), applicable April 25, 1997. S. 117.1(2) formerly read:

"(2) *Idem.* The amount of $500 referred to in subparagraphs 118(1)(*a*)(ii) and (*b*)(iv) shall be adjusted for each taxation year after 1988 so that the amount to be used under those subparagraphs for the year is the amount determined by the formula

$$\frac{1}{2} \times (\$6{,}000 - \$5{,}000)$$

"

Related Sections: S. 117.1(1) Annual adjustment (indexing).

► 117.1(3) ◄

(3) Rounding. Where an amount referred to in this section, when adjusted as provided in this section, is not a multiple of one dollar, it shall be rounded to the nearest multiple of one dollar or, where it is equidistant from two such consecutive multiples, to the higher thereof.

► 117.1(4) ◄

(4) Consumer Price Index. In this section, the Consumer Price Index for any 12 month period is the result arrived at by

(*a*) aggregating the Consumer Price Index for Canada, as published by Statistics Canada under the authority of the *Statistics Act*, adjusted in such manner as is prescribed, for each month in that period;

(*b*) dividing the aggregate obtained under paragraph (*a*) by twelve; and

(*c*) rounding the result obtained under paragraph (*b*) to the nearest one-thousandth or, where the result obtained is equidistant from two consecutive one-thousandths, to the higher thereof.

History: S. 117.1(4)(*a*) was amended by S.C. 2000, c. 14, s. 37(3), applicable to the 2000 and subsequent taxation years. S. 117.1(4)(*a*) formerly read:

"(*a*) aggregating the Consumer Price Index, as published by Statistics Canada under the authority of the *Statistics Act*, adjusted in such manner as may be prescribed, for each month in that period;"

► 117.1(5) ◄

(5) Idem. [Repealed by 1986, c. 6, s. 65(5).]

► 117.1(6) ◄

(6) Rounding of amounts. [Repealed by 1988, c. 55, s. 91(1).]

► 117.1(7) ◄

(7) Determination of "Consumer Price Index for a 12 month period". [Repealed by 1988, c. 55, s. 91(1).]

► 117.1(7.1) ◄

(7.1) Annual adjustment of amounts expressed in dollars. [Repealed by 1985, c. 45, s. 63(3).]

► 117.1(8) ◄

(8) Limitation. [Repealed by 1986, c. 6, s. 65(7).]

SECTION 118:

► 118(1) ◄

(1) Personal credits. For the purpose of computing the tax payable under this Part by an individual for a taxation year, there may be deducted an amount determined by the formula

$$A \times B$$

where

A is the appropriate percentage for the year, and

B is the total of,

Related Sections: S. 117 Tax payable under this Part; s. 117.1(1) Annual adjustment (indexing); s. 248(1), "amount", "appropriate percentage", "self-contained domestic establishment"; s. 249 Definition of "taxation year".

Interpretation Bulletins: *Primary* — IT-513R Personal tax credits. *Secondary* — IT-171R2 Non-resident individuals — Computation of taxable income earned in Canada and non-refundable tax credits [Archived by the CRA]; IT-295R4 Taxable dividends received after 1987 by a spouse; IT-394R2 Preferred Beneficiary Election; IT-495R3 Child care expenses; IT-515R2 Education tax credit; IT-516R2 Tuition tax credit; IT-519R2 (Consolid.) Medical expense and disability tax credits and attendant care expense deduction.

Information Circulars: IC 07-1 Taxpayer Relief Provisions.

Forms: TD1; TD1-WS.

Cases: Although s. 118(1) provides a greater benefit to a tax-paying couple with a child cohabiting common-law than to a married couple, such benefit cannot be characterized as discrimination based on religion. Nor could the inequality in benefit be said to have arisen simply by reason of the taxpayer's marital status. A finding of discrimination under s. 15 of the Charter requires the existence of a discrete and insular minority and it was not possible in the context of s. 118(1) to define the discrete and insular minority in terms of women. *Schachtschneider v. The Queen*, 93 DTC 5298 (F.C.A.).

► 118(1)(a) ◄

(a) Married or common-law partnership status — in the case of an individual who at any time in the year is a married person or a person who is in a common-law partnership who supports the individual's spouse or common-law partner and is not living separate and apart from the spouse or common-law partner by reason of a breakdown of their marriage or common-law partnership, an amount equal to the total of

(i) $10,320, and

(ii) the amount determined by the formula

$$\$10{,}320 - C$$

where

C is the income of the individual's spouse or common-law partner for the year or, where the individual and the individual's spouse or common-law partner are living separate and apart at the end of the year because of a breakdown of their marriage or common-law partnership, the spouse's or common-law partner's income for the year while married to, or in a common-law partnership with, the individual and not so separated,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The description of C in subparagraph (*a*)(ii) of the description of B in subsection 118(1) of the English version of the Act is replaced by the following:

Editorial Note: Paragraph 118(1)(a) was amended by Bill C-52 (S.C. 2007, c. 29) to eliminate the net income threshold described in variable C for the 2007 and subsequent taxation years. See also 118(3.2) for the amount used to calculate the credit for 2007–2009.

C is the greater of $606 and the income of the individual's spouse or common-law partner for the year or, where the individual and the individual's spouse or common-law partner are living separate and apart at the end of the year because of a breakdown of their marriage or common-law partnership, the spouse's or common-law partner's income for the year while married or in a common-law partnership and not so separated,

Applicable: To the 2001 and subsequent taxation years except that, if a taxpayer and a person have jointly elected under section 144 of the *Modernization of Benefits and Obligations Act*, in respect of the 1998, 1999 or 2000 taxation years, the description of C in subparagraph (*a*)(ii) of the description of B in subsection 118(1) applies to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years. **Editorial Note:** A coordinating amendment in Bill C-52 (S.C. 2007, c. 29) provides that if former Bill C-10 receives Royal Assent, this amendment is deemed to have come into force before the amendment to paragraph (*a*) of the description of B in s. 118(1) contained in Bill C-52 (S.C. 2007, c. 29).

Explanatory Note:

Married Status

Paragraph 118(1)(*a*) of the Act deals with the tax credit to persons who are married or in a common-law partnership. In 2000, the Act was amended to include common-law partners, but some provisions, including the English version of paragraph 118(1)(*a*), were overlooked. This paragraph is therefore amended to correct this omission. The amendment applies, in general, to the 2001 and subsequent taxation years. However, it may apply as of 1998 if the common-law partners jointly choose to be deemed as such, beginning in that year, for the purposes of the application of the Act.

CRA Press Release

2.5% Indexation Factor for 2009

See CRA Fact Sheet, dated December 8, 2008, that is reproduced following subsection 117.1(1). This release announces a 2.5% indexation factor applicable for 2009 tax bracket thresholds, personal amounts and other amounts relating to non-refundable credits, as well as the refundable medical expense supplement and Old Age Security repayment threshold. Increases to the Canada Child Tax Benefit (including the National Child Benefit supplement and the Child Disability Benefit) and the Goods and Services Tax Credit will take effect as of July 1, 2009.

History: S. 118(1), the portion of paragraph (*a*) of the description of B before the description of C was replaced by S.C. 2009, c. 2, s. 34(1), applicable to the 2009 and subsequent taxation years. S. 118(1), the portion of paragraph (*a*) of the description of B before the description of C formerly read:

"(*a*) *Married or common-law partnership status* — in the case of an individual who at any time in the year is a married person or a person who is in a common-law partnership who supports the individual's spouse or common-law partner and is not living separate and apart from the spouse or common-law partner by reason of a breakdown of their marriage or common-law partnership, an amount equal to the total of

(i) $7,131, and

(ii) the amount determined by the formula

$6,055 – C

where"

S. 118(1), the description of C in subparagraph (*a*)(ii) of the description of B was replaced by S.C. 2009, c. 2, s. 34(2), applicable to the 2009 and subsequent taxation years. S. 118(1), the description of C in subparagraph (*a*)(ii) of the description of B formerly read:

"C is the income of the individual's spouse or common-law partner for the year or, where the individual and the individual's spouse or common-law partner are living separate and apart at the end of the year because of a breakdown of their marriage or common-law partnership, the spouse's income for the year while married to, or in a common-law partnership with, the individual and not so separated,"

S. 118(1), paragraph (*a*) of the description of B was replaced by S.C. 2007, c. 29, s. 9(1), applicable to the 2007 and subsequent taxation years. S. 118(1), paragraph (*a*) of the description of B formerly read:

"(*a*) *Married status* — in the case of an individual who at any time in the year is a married person or a person who is in a common-law partnership who supports the individual's spouse or common-law partner and is not living separate and apart from the spouse or common-law partner by reason of a breakdown of their marriage or common-law partnership, an amount equal to the total of

(i) $7,131, and

(ii) the amount determined by the formula

$6,055 – (C – $606)

where

C is the greater of $606 and the income of the individual's spouse or common-law partner for the year or, where the individual and the individual's spouse or common-law partner are living separate and apart at the end of the year because of a breakdown of their marriage or common-law partnership, the spouse's income for the year while married or in a common-law partnership and not so separated,"

S. 118(1), paragraph (*a*) of the description of B was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.5), 9(g), 11(a) and 13(b), applicable January 1, 2001, coming into force on July 31, 2000. S. 118(1), paragraph (*a*) of the description of B formerly read:

"(*a*) *Married status* — in the case of an individual who at any time in the year is a married person who supports the individual's spouse and is not living separate and apart from the spouse by reason of a breakdown of their marriage, an amount equal to the total of

(i) $7,131, and

(ii) the amount determined by the formula

$6,055 – (C – $606)

where

C is the greater of $606 and the income of the individual's spouse for the year or, where the individual and the individual's spouse are living separate and apart at the end of the year because of a breakdown of their marriage, the spouse's income for the year while married and not so separated,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 118(1)(*a*), subparagraphs (i) and (ii) of the description of B were amended by S.C. 2000, c. 19, s 24(1), applicable to the 1999 and subsequent taxation years except that, in their application to the 1999 taxation year, the references to "$7,131", "$6,055", "$606" and "$4,778" in subparagraphs (*a*)(i) and (ii) and (*b*)(iii) and (iv) and paragraphs (*c*) and (*d*) of the description of B in subsection 118(1) of the Act, shall be read as references to "$6,794", "$5,718", "$572" and "$4,441", respectively. S. 118(1)(*a*), subparagraphs (i) and (ii) of the description of B formerly read:

"(i) $6,000, and

(ii) an amount determined by the formula

$5,000 – (C – $500)

where

C is the greater of $500 and the income of the individual's spouse for the year or, where the individual and the individual's spouse are living separate and apart at the end of the year by reason of a breakdown of their marriage, the spouse's income for the year while married and not so separated,"

S. 118(1), the portion of paragraph (*a*) of the description of B before subparagraph (i), was amended by S.C. 1997, c. 25, s. 25(2), applicable to the 1997 and subsequent taxation years. That part formerly read:

"(*a*) *Married status* — in the case of an individual who at any time in the year is a married person who supports the individual's spouse, an amount equal to the total of"

Related Sections: S. 60(*b*) Support; s. 60(*c*) Pension income reallocation; s. 82(3) Dividends received by spouse or common-law partner; s. 118(3.1) Additions to personal credits — basic personal amount; s. 118(3.2) Additions to personal credits — spouse or common-law partner or wholly dependent person; s. 118(4) Limitations re s. (1); s. 118(5) Support; s. 118(5.1) Where subsection (5) does not apply; s. 248(1), "common-law partner", and "common-law partnership".

Cases: Prior to 1993, common-law spouses were not considered married for purposes of the *Income Tax Act*. See *No. 673 v. M.N.R.*, 60 DTC 21 (T.A.B.); *Schapira v. M.N.R.*, 66 DTC 157 (T.A.B.); and *Sokil v. M.N.R.*, 68 DTC 314 (T.A.B.).

► 118(1)(b) ◄

(b) **Wholly dependent person** — in the case of an individual who does not claim a deduction for the year because of paragraph (*a*) and who, at any time in the year,

(i) is

(A) a person who is unmarried and who does not live in a common-law partnership, or

(B) a person who is married or in a common-law partnership, who neither supported nor lived with their spouse or common law-partner and who is not supported by that spouse or common-law partner, and

(ii) whether alone or jointly with one or more other persons, maintains a self-contained domestic establishment (in which the individual lives) and actually supports in that establishment a person who, at that time, is

(A) except in the case of a child of the individual, resident in Canada,

(B) wholly dependent for support on the individual, or the individual and the other person or persons, as the case may be,

(C) related to the individual, and

(D) except in the case of a parent or grandparent of the individual, either under 18 years of age or so dependent by reason of mental or physical infirmity,

an amount equal to the total of

(iii) $10,320, and

(iv) the amount determined by the formula

$$\$10,320 - D$$

where

D is the dependent person's income for the year,

CRA Press Release

2.5% Indexation Factor for 2009

See CRA Fact Sheet, dated December 8, 2008, that is reproduced following subsection 117.1(1). This release announces a 2.5% indexation factor applicable for 2009 tax bracket thresholds, personal amounts and other amounts relating to non-refundable credits, as well as the refundable medical expense supplement and Old Age Security repayment threshold. Increases to the Canada Child Tax Benefit (including the National Child Benefit supplement and the Child Disability Benefit) and the Goods and Services Tax Credit will take effect as of July 1, 2009.

History: S. 118(1), subparagraphs (*b*)(iii) and (iv) of the description of B were replaced by S.C. 2009, c. 2, s. 34(4), applicable to the 2009 and subsequent taxation years. S. 118(1), subparagraphs (*b*)(iii) and (iv) of the description of B formerly read:

"(iii) $7,131, and

(iv) the amount determined by the formula

$$\$6,055 - D$$

where

D is the dependent person's income for the year,"

S. 118(1)(*b*), subparagraph (iv) of the description of B was replaced by S.C. 2007, c. 29, s. 9(3), applicable to the 2007 and subsequent taxation years. S. 118(1)(*b*), subparagraph (iv) of the description of B formerly read:

"(iv) the amount determined by the formula

$$\$6,055 - (D - \$606)$$

where

D is the greater of $606 and the dependent person's income for the year,"

S. 118(1)(*b*), subparagraphs (iii) and (iv) of the description of B were amended by S.C. 2000, c. 19, s. 24(2), applicable to the 1999 and subsequent taxation years except that, in their application to the 1999 taxation year, the references to "$7,131", "$6,055", "$606" and "$4,778" in subparagraphs (*a*)(i) and (ii) and (*b*)(iii) and (iv) and paragraphs (*c*) and (*d*) of the description of B in subsection 118(1) of the Act, shall be read as references to "$6,794", "$5,718", "$572" and "$4,441", respectively.

"(iii) $6,000, and

(iv) an amount determined by the formula

$$\$5,000 - (D - \$500)$$

where

D is the greater of $500 and the income for the year of the dependent person,"

S. 118(1)(*b*)(i) of the description of B was amended by S.C. 2000, c. 12, s. 131(1), applicable January 1, 2001, coming into force on July 31, 2000. S. 118(1)(*b*)(i) of the description of B formerly read:

"(i) is an unmarried person or a married person who neither supported nor lived with the married person's spouse and is not supported by the spouse, and"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 118(1), the portion of paragraph (*b*) of the description of B before subparagraph (i), was amended by S.C. 1997, c. 25, s. 25(3), applicable to the 1997 and subsequent taxation years. That part formerly read:

"(*b*) *Wholly dependent person* — in the case of an individual not entitled to a deduction by reason of paragraph (*a*) who, at any time in the year,"

Related Sections: S. 118(1)(*e*) Additional amount; s. 118(3.1) Additions to personal credits — basic personal amount; s. 118(3.2) Additions to personal credits — spouse or common-law partner or wholly dependent person; s. 118(4) Limitations re s. (1); s. 118(5) Support; s. 118(5.1) Where subsection (5) does not apply; s. 248(1), "self-contained domestic establishment"; s. 252(1) Extended meaning of "child"; s. 252(2) Relationships.

Forms: T1 SCH 5.

► 118(1)(b.1) ◄

(b.1) **Child amount** — where

(i) a child of the individual ordinarily resides throughout the taxation year with the individual together with another parent of the child, $2,000 for each such child who is under the age of 18 years at the end of the taxation year, or

(ii) except where subparagraph (i) applies, the individual may deduct an amount under paragraph (*b*) in respect of the individual's child who is under the age of 18 years at the end of the taxation year, or could deduct such an amount in respect of that child if paragraph 118(4)(*a*) did not apply to the individual for the taxation year and if the child had no income for the year, $2,000 for each such child.

CRA Press Release

2.5% Indexation Factor for 2009

See CRA Fact Sheet, dated December 8, 2008, that is reproduced following subsection 117.1(1). This release announces a 2.5% indexation factor applicable for 2009 tax bracket thresholds, personal amounts and other amounts relating to non-refundable credits, as well as the refundable medical expense supplement and Old Age Security repayment threshold. Increases to the Canada Child Tax Benefit (including the National Child Benefit supplement and the Child Disability Benefit) and the Goods and Services Tax Credit will take effect as of July 1, 2009.

History: S. 118(1), subparagraph (*b.1*)(ii) of the description of B was replaced by S.C. 2007, c. 35, s. 36(1), applicable to the 2007 and subsequent taxation years. S. 118(1), subparagraph (*b.1*)(ii) of the description of B formerly read:

"(ii) except where subparagraph (i) applies, the individual may deduct an amount under paragraph (*b*) in respect of the individual's child who is under the age of 18 years at the end of the taxation year, or could deduct such an amount in respect of that child if paragraph 118(4)(*a*)

did not apply to the individual for the taxation year, $2,000 for each such child,"

S. 118(1), paragraph (*b.1*) of the description of B was added by S.C. 2007, c. 29, s. 9(4), applicable to the 2007 and subsequent taxation years.

S. 118(1), paragraph (*b.1*) of the description of B was repealed by S.C. 2000, c. 19, s. 24(4), applicable to the 2000 and subsequent taxation years. S. 118(1), paragraph (*b.1*) of the description of B formerly read:

"(*b.1*) *Supplementary amount* — for each individual (other than a trust), 1/2 of the amount, if any, by which the total of

(i) $500, and

(ii) if an amount is deducted under paragraph (*a*) or (*b*) by the individual for the year in respect of another individual (or would be so deducted if the other individual had no income for the year), the lesser of

(A) $500, and

(B) the amount, if any, by which

(I) the total of $500 and the amount used under paragraph (*c*) for the year

exceeds

(II) the other individual's income for the year or, where the other individual is the individual's spouse and both persons are living separate and apart at the end of the year by reason of a breakdown of their marriage, the other individual's income for the year while married and not so separated

exceeds

(iii) 4% of the amount, if any, by which

(A) the individual's income for the year

exceeds

(B) the total of $500, the amount used under paragraph (*c*) for the year and, if subparagraph (ii) applies for the year to the individual, the amount determined under clause (ii)(B) for the year,"

[Please note that where an election is made under the Transitional Provision for S.C. 2000, c. 12, described below, references to spouse, marriage, and married are to be read as spouse or common-law partner, marriage or common-law partnership and married or in a common-law partnership.]

S. 118.1(1), the portion of paragraph (*b.1*) of the description of B before subparagraph (i) was amended by S.C. 2000, c. 19, s. 24(3), applicable to the 1999 taxation year. S. 118.1(1), the portion of paragraph (*b.1*) of the description of B before subparagraph (i) formerly read:

"(*b.1*) *Supplementary amount* — for each individual (other than a trust), the amount, if any, by which the total of"

S. 118(1), paragraph (*b.1*) of the description of B, was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.5), 10(b) and 11(a), applicable January 1, 2001, coming into force on July 31, 2000. S. 118(1), paragraph (*b.1*) of the description of B, formerly read:

"(*b.1*) *Supplementary amount* — for each individual (other than a trust), the amount, if any, by which the total of

(i) $500, and

(ii) if an amount is deducted under paragraph (*a*) or (*b*) by the individual for the year in respect of another individual (or would be so deducted if the other individual had no income for the year), the lesser of

(A) 1/2 of $500, and

(B) the amount, if any, by which

(I) the total of $500 and the amount used under paragraph (*c*) for the year

exceeds

(II) the other individual's income for the year or, where the other individual is the individual's spouse and both persons are living separate and apart at the end of the year by reason of a breakdown of their marriage, the other individual's income for the year while married and not so separated

exceeds

(iii) 4% of the amount, if any, by which

(A) the individual's income for the year

exceeds

(B) the total of $500, the amount used under paragraph (*c*) for the year and, if subparagraph (ii) applies for the year to the individual, the amount determined under clause (ii)(B) for the year,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 118(1), paragraph (*b.1*) of the description of B, was added by S.C 1999, c. 22, s. 31(1), applicable to the 1998 and subsequent taxation years except that, in its application to the 1998 taxation year, the reference to "the amount" in the portion of paragraph (*b.1*) of the description of B in subsection 118(1) of the Act before subparagraph (i), as enacted by subsection (1), shall be read as a reference to "50% of the amount".

Editorial Note: The non-refundable Child Tax Credit is based on $2,000 (indexed after 2007, see s. 117.1(1)) per child calculated by reference to the lowest marginal tax rate for the taxation year. There is no earnings-based clawback or reduction. The credit can be claimed by either parent where the child resides with both parents and in other circumstances, can be claimed by that parent entitled to claim the dependent person credit for the taxation year. Unused tax credits are transferable by a parent to the parent's spouse or common-law partner.

Related Sections: S. 117.1(1) Annual adjustment (indexing); s. 118(3.1) Additions to personal credits — basic personal amount; s. 118(4) Limitations re s. (1); s. 118(5) Support; s. 118(5.1) Where subsection (5) does not apply; s. 118.8 Transfer of unused credits to spouse or common-law partner. s. 118(9.1) Child tax credit.

► 118(1)(c) ◄

(c) Single status — except in the case of an individual entitled to a deduction because of paragraph (*a*) or (*b*), $10,320,

CRA Press Release

2.5% Indexation Factor for 2009

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History: S. 118(1), paragraph (*c*) of the description of B was replaced by S.C. 2009, c. 2, s. 34(5), applicable to the 2009 and subsequent taxation years. S. 118(1), paragraph (*c*) of the description of B formerly read:

"(*c*) *Single status* — except in the case of an individual entitled to a deduction because of paragraph (*a*) or (*b*), $7,131,"

S. 118(1), paragraph (*c*) of the description of B, was amended by S.C. 2000, c. 19, s. 24(5), applicable to the 1999 and subsequent taxation years except that, in their application to the 1999 taxation year, the references to "$7,131", "$6,055", "$606" and "$4,778" in subparagraphs (*a*)(i) and (ii) and (*b*)(iii) and (iv) and paragraphs (*c*) and (*d*) of the description of B in subsection 118(1) of the Act, shall be read as references to "$6,794", "$5,718", "$572" and "$4,441", respectively. S. 118(1), paragraph (*c*) of the description of B formerly read:

"(*c*) *Single status* — except in the case of an individual entitled to a deduction by reason of paragraph (*a*) or (*b*), $6,000,"

S. 118(1), paragraph (*c*) of the description of B, was amended by S.C. 1997, c. 25, s. 25(4) to remove the word "and" at the end of the paragraph, applicable to the 1996 and subsequent taxation years.

Related Sections: S. 118(3.1) Additions to personal credits — basic personal amount.

► 118(1)(c.1) ◄

(c.1) In-home care of relative — in the case of an individual who, at any time in the year alone or jointly with one or more persons, maintains a self-contained domestic establishment which is the ordinary place of residence of the individual and of a particular person

(i) who has attained the age of 18 years before that time,

(ii) who is

(A) the individual's child or grandchild, or

(B) resident in Canada and is the parent, grandparent, brother, sister, aunt, uncle, nephew or niece of the individual or of the individual's spouse or common-law partner, and

(iii) who is

(A) the individual's parent or grandparent and has attained the age of 65 years before that time, or

(B) dependent on the individual because of the particular person's mental or physical infirmity,

the amount determined by the formula

$15,453 – D.1

where

D.1 is the greater of $11,953 and the particular person's income for the year,

CRA Press Release

2.5% Indexation Factor for 2009

See CRA Fact Sheet, dated December 8, 2008, that is reproduced following subsection 117.1(1). This release announces a 2.5% indexation factor applicable for 2009 tax bracket thresholds, personal amounts and other amounts relating to non-refundable credits, as well as the refundable medical expense supplement and Old Age Security repayment threshold. Increases to the Canada Child Tax Benefit (including the National Child Benefit supplement and the Child Disability Benefit) and the Goods and Services Tax Credit will take effect as of July 1, 2009.

History: S. 118(1)(c.1) after subparagraph (iii) was amended by S.C. 2001, c. 17, s. 93(2), applicable to the 2001 and subsequent taxation years. S. 118(1)(c.1), the portion after subparagraph (iii) formerly read:

"the amount determined by the formula

$13,853 – D.1

where

D.1is the greater of $11,500 and the particular person's income for the year,"

S. 118(1), clause (c.1)(ii)(B) of the description of B was amended by S.C. 2001, c. 17, s. 93(1), applicable to the 1998 and subsequent taxation years, except that clause (c.1)(ii)(B) of the description of B in subsection 118(1) of the Act shall be read without reference to "or common-law partner" for any taxation year that ends before 2001 unless a valid election is made by the taxpayer under section 144 of the *Modernization of Benefits and Obligations Act*, that that Act apply to the taxpayer in respect of one or more taxation years that includes the year. S. 118(1), clause (c.1)(ii)(B) of the description of B formerly read:

"(B) resident in Canada and is the individual's parent, grandparent, brother, sister, aunt, uncle, nephew or niece, and"

S. 118(1), paragraph (c.1) of the description of B, was added by S.C. 1999, c. 22, s. 31(2), applicable to the 1998 and subsequent taxation years.

Related Sections: S. 118(1)(e) Additional amount; s. 118(4) Limitations re s. (1); s. 248(1), "self-contained domestic establishment".

Forms: T1 SCH 5.

► 118(1)(d) ◄

(d) Dependants — for each dependant of the individual for the year who

(i) attained the age of 18 years before the end of the year, and

(ii) was dependent on the individual because of mental or physical infirmity,

the amount determined by the formula

$8,466 – E

where

E is the greater of $4,966 and the dependant's income for the year, and

CRA Press Release

2.5% Indexation Factor for 2009

See CRA Fact Sheet, dated December 8, 2008, that is reproduced following subsection 117.1(1). This release announces a 2.5% indexation factor applicable for 2009 tax bracket thresholds, personal amounts and other amounts relating to non-refundable credits, as well as the refundable medical expense supplement and Old Age Security repayment threshold. Increases to the Canada Child Tax Benefit (including the National Child Benefit supplement and the Child Disability Benefit) and the Goods and Services Tax Credit will take effect as of July 1, 2009.

History: S. 118(1), the portion of paragraph (d) of the description of B after subparagraph (ii) was amended by S.C. 2001, c. 17, s. 93(3), applicable to the 2001 and subsequent taxation years. S. 118(1), the portion of paragraph (d) of the description of B after subparagraph (ii) formerly read:

"the amount determined by the formula

$7,131 – E

where

E is the greater of $4,778 and the dependant's income for the year, and"

S. 118(1), the portion of paragraph (d) of the description of B after subparagraph (ii) was amended by S.C. 2000, c. 19, s. 24(6), applicable to the 1999 and subsequent taxation years except that, in their application to the 1999 taxation year, the references to "$7,131", "$6,055", "$606" and "$4,778" in subparagraphs (a)(i) and (ii) and (b)(iii) and (iv) and paragraphs (c) and (d) of the description of B in subsection 118(1) of the Act, shall be read as references to "$6,794", "$5,718", "$572" and "$4,441", respectively. S. 118(1), the portion of paragraph (d) of the description of B after subparagraph (ii) formerly read:

"the amount determined by the formula

$6,456 - E

where

E is the greater of $4,103 and the income for the year of the dependant, and"

S. 118(1), the portion of paragraph (d) of the description of B after subparagraph (ii), was amended by S.C. 1997, c. 25, s. 25(5), applicable to the 1996 and subsequent taxation years. That part formerly read:

"an amount determined by the formula

$1,471 – (E – $2,500)

where

E is the greater of $2,500 and the income for the year of the dependant."

S. 118(1)(d) was amended by S.C. 1994, c. 7, Sched. VII, s. 8(1), applicable with respect to the 1993 and subsequent taxation years. S. 118(1)(d) formerly read:

"(d) *Dependants* — for each dependant of the individual for the year, an amount equal to

(i) if the dependant was under the age of 18 years at any time in the year, an amount determined by the formula

$388 – (E – $2,500)

where

E is the greater of $2,500 and the income for the year of the dependant,

except that where the individual has more than 2 such dependants for the year, the reference to the amount '$388' in the formula under this subparagraph shall, in respect of all but 2 of those dependants, be read as twice that amount, and

(ii) in the case of a person dependent on the individual by reason of mental or physical infirmity and to whom subparagraph (i) does not apply, an amount determined by the formula

$1,471 – (F – $2,500)

where

F is the greater of $2,500 and the income for the year of the dependant."

Related Sections: S. 118(1)(e) Additional amount; s. 118(4) Limitations re s. (1); s. 118(5) Support; s. 118(6) Definition of dependant; s. 252(1) Extended meaning of "child"; s. 252(2) Relationships.

Forms: T1 SCH 5.

Cases: The age limit for the dependant credit was held not to constitute discrimination based on age, contrary to subsection 15(1) of the Charter. *Mercier v. M.N.R.*, 97 DTC 5081 (F.C.T.D.), reversing 92 DTC 1693 (T.C.C.).

► 118(1)(e) ◄

(e) Additional amount — in the case of an individual entitled to a deduction in respect of a person because of paragraph (b) and who would also be entitled, but for paragraph (4)(c), to a deduction because of paragraph (c.1) or (d) in respect of the person, the amount by which the amount that would be determined under paragraph (c.1) or (d), as the case may be, exceeds the amount determined under paragraph (b) in respect of the person.

History: S. 118(1), paragraph (e) of the description of B, was amended by S.C. 1999, c. 22, s. 31(3), applicable to the 1998 and subsequent taxation years. S. 118(1), paragraph (e) of the description of B, formerly read:

"(e) *Infirm dependant* — in the case of an individual entitled to a deduction in respect of a person because of paragraph (b) and who would also be entitled, but for paragraph (4)(c), to a deduction because of paragraph (d) in respect of the same person, the amount by which the amount that would be determined under paragraph (d) in respect of the person exceeds the amount determined under paragraph (b) in respect of the person."

S. 118(1), paragraph (e) in the description of B, was added by S.C. 1997, c. 25, s. 25(6), applicable to the 1996 and subsequent taxation years.

Related Sections: S. 118(6) Definition of dependant.

► 118(2) ◄

(2) Age credit. For the purpose of computing the tax payable under this Part for a taxation year by an individual who, before the end of the year, has attained the age of 65 years, there may be deducted the amount determined by the formula

$$A \times (\$6{,}408 - B)$$

where

A is the appropriate percentage for the year; and

B is 15% of the amount, if any, by which the individual's income for the year would exceed $25,921 if no amount were included in respect of a gain from a disposition of property to which section 79 applies in computing that income.

CRA Press Release

2.5% Indexation Factor for 2009

See CRA Fact Sheet, dated December 8, 2008, that is reproduced following subsection 117.1(1). This release announces a 2.5% indexation factor applicable for 2009 tax bracket thresholds, personal amounts and other amounts relating to non-refundable credits, as well as the refundable medical expense supplement and Old Age Security repayment threshold. Increases to the Canada Child Tax Benefit (including the National Child Benefit supplement and the Child Disability Benefit) and the Goods and Services Tax Credit will take effect as of July 1, 2009.

History: The formula in s. 118(2) was replaced by S.C. 2009, c. 2, s. 34(6), applicable to the 2009 and subsequent taxation years. The formula in s. 118(2) formerly read:

"A × ($5,066 – B)

"

S. 118(2), the formula was replaced by S.C. 2007, c. 29, s. 9(5), applicable to the 2006 and subsequent taxation years. S. 118(2), the formula formerly read:

"

$$A \times (\$3{,}236 - B)$$

"

S. 118(2), the description of B, was amended by S.C. 1998 c. 19, s. 134(1), applicable to the 1994 and subsequent taxation years except that, notwithstanding section 117.1 of the Act, the value of B in subsection 118(2) of the Act shall, for the 1994 taxation year, be determined as the lesser of $1,741 and 7.5% of the amount, if any, by which the individual's income for the year would exceed $25,921 if no amount were included in respect of a gain from a disposition of property to which section 79 of the Act applies in computing that income. The description of B formerly read:

"B is 15% of the amount, if any, by which the individual's income for the year exceeds $25,921."

S. 118(2) was amended by S.C. 1995, c. 3, s. 33(1), applicable to the 1994 and subsequent taxation years except that, notwithstanding section 117.1, the value of B in subsection 118(2), shall, for the 1994 taxation year, be determined as the lesser of $1,741 and 7.5% of the amount, if any, by which the individual's income for the year exceeds $25,921.

S. 118(2) formerly read:

"(2) *Age credit.* For the purpose of computing the tax payable under this Part for a taxation year by an individual who, before the end of the year, has attained the age of 65 years, there may be deducted an amount determined by the formula

$$A \times \$3{,}236$$

where

A is the appropriate percentage for the year."

Related Sections: S. 117.1(1) Annual adjustment (indexing); s. 118.8 Transfer of unused credits to spouse or common-law partner.

Interpretation Bulletins: *Secondary* — IT-513R Personal tax credits.

Information Circulars: IC 07-1 Taxpayer Relief Provisions.

Cases: While the legislation established legal distinctions based on age, the legal distinctions were not discriminatory within the context of the test laid down by the Supreme Court of Canada in *Andrews v. The Law Society of British Columbia*, [1989] 1 S.C.R. 143. *Tiberio et al. v. M.N.R.*, 91 DTC 17 (T.C.C.).

► 118(3) ◄

(3) Pension credit. For the purpose of computing the tax payable under this Part by an individual for a taxation year, there may be deducted an amount determined by the formula

$$A \times B$$

where

A is the appropriate percentage for the year; and

B is the lesser of $2,000 and the eligible pension income of the individual for the taxation year.

History: S. 118(3), the description of B was replaced by S.C. 2007, c. 29, s. 9(6), applicable to the 2007 and subsequent taxation years. S. 118(3), the description of B formerly read:

"B is the lesser of $2,000 and

(*a*) where the individual has attained the age of 65 years before the end of the year, the pension income received by the individual in the year, and

(*b*) where the individual has not attained the age of 65 years before the end of the year, the qualified pension income received by the individual in the year."

S. 118(3), the portion of the description of B before paragraph (*a*) was replaced by S.C. 2007, c. 2, s. 20(1), applicable to the 2006 and subsequent taxation years.

S. 118(3), the portion of the description of B before paragraph (*a*) formerly read:

"B is the lesser of $1,000 and"

S. 118(3) was amended by S.C. 1994, c. 7, Sched. VIII, s. 52(1), applicable after the 1992 and subsequent taxation years. S. 118(3) formerly read:

"(3) *Pension credit.* For the purpose of computing the tax payable under this Part by an individual for a taxation year, there may be deducted,

(*a*) where the individual has attained the age of 65 years before the end of the year, an amount determined by the formula

$$A \times B$$

where

A is the appropriate percentage for the year, and

B is the lesser of $1,000 and the pension income received by the individual in the year; and

(*b*) where the individual (other than an individual referred to in paragraph (*a*)) has before the end of the year

(i) attained the age of 60 years,

(ii) received a disability pension or survivor's pension under the *Canada Pension Plan* or under a provincial pension plan as defined in section 3 of that Act, or

(iii) not attained the age of 60 years, and has not deducted in computing the individual's income for the year an amount under paragraph 60(*j*) (other than in respect of an amount included in computing the individual's income pursuant to subsection 147(10), which amount was received in satisfaction of all the individual's rights and entitlements under a deferred profit sharing plan),

an amount determined by the formula

$$A \times B$$

where

A is the appropriate percentage for the year, and

B is the lesser of $1,000 and the qualified pension income received by the individual in the year."

Related Sections: S. 60.03(2) Effect of pension income split; s. 104(27) Pension benefits; s. 118(7) Definitions; s. 118(8) Interpretation; s. 118.8 Transfer of unused credits to spouse or common-law partner; s. 248(1), "amount", "individual".

Regulations: 7800(1).

Interpretation Bulletins: *Primary* — IT-517R Pension tax credit [Archived by the CRA].

► 118(3.1) ◄

(3.1) Additions to personal credits — basic personal amount. [Repealed by S.C. 2009, c. 2, s. 34(7).]

History: S. 118(3.1) was repealed by S.C. 2009, c. 2, s. 34(7), applicable to the 2009 and subsequent taxation years. S. 118(3.1) formerly read:

"(3.1) *Additions to personal credits — basic personal amount.* The amount of $7,131 referred to in paragraphs (*a*) to (*c*) of the description of B in subsection (1) (in this subsection referred to as the "particular amount") that is to be used for the purpose of determining the amount of that description is

(*a*) for the 2005 taxation year, to be replaced by $8,648;

(*b*) for the 2006 taxation year, to be replaced by $8,839, except that, for the purpose of determining the particular amount for the 2007 taxation year, the particular amount for 2006 is deemed to be $8,639;

(*c*) for the 2007 and 2008 taxation years, to be replaced by $9,600;

(*d*) for the 2009 taxation year, to be replaced by $10,100; and

(*e*) for each of the 2010 and subsequent taxation years, to be replaced by the amount that is the amount that would be determined for that description for those years in respect of the particular amount by applying section 117.1 (without reference to subsection 117.1(3)) to the amount determined under this subsection in respect of the amount for the immediately preceding taxation year.

(*f*) [Repealed.]"

S. 118(3.1)(*c*) to (*e*) were replaced, and paragraph (*f*) was repealed, by S.C. 2007, c. 35, s. 180(1), applicable to the 2007 and subsequent taxation years. S. 118(3.1)(*c*) to (*f*) formerly read:

"(*c*) for the 2007 taxation year, to be replaced by the amount that is the total of $100 and the amount that would be determined for that description for that taxation year in respect of the particular amount by applying section 117.1 (without reference to subsection 117.1(3)) to the amount of $8,639 as deemed under paragraph (*b*);

(*d*) for the 2008 taxation year, to be replaced by the amount that is the total of $200 and the amount that would be determined for that description for that taxation year in respect of the particular amount by applying section 117.1 (without reference to subsection 117.1(3)) to the amount determined under paragraph (*c*);

(*e*) for the 2009 taxation year, to be replaced by the amount that is the greater of

(i) the total of $600 and the amount that would be determined for that description for that taxation year in respect of the particular amount by applying section 117.1 (without reference to subsection 117.1(3)) to the amount determined under paragraph (*d*), and

(ii) $10,000; and

(*f*) for each of the 2010 and subsequent taxation years, to be replaced by the amount that is the amount that would be determined for that description for those years in respect of the particular amount by applying section 117.1 (without reference to subsection 117.1(3)) to the amount determined under this subsection in respect of the amount for the immediately preceding taxation year."

S. 118(3.1) was replaced by S.C. 2006, c. 4, s. 60(1), applicable to the 2005 and subsequent taxation years.

S. 118(3.1) formerly read:

"(3.1) *Additions to personal credits — basic personal amount.* The amount of $7,131 referred to in paragraphs (*a*) to (*c*) of the description of B in subsection (1) (in this subsection referred to as the 'particular amount') that is to be used for the purpose of determining the amount of that description is

(*a*) for the 2006 taxation year, to be replaced by the amount that is the total of $100 and the amount that would be determined for that description for that year in respect of the particular amount if this section were read without reference to this subsection;

(*b*) for the 2007 taxation year, to be replaced by the amount that is the total of $100 and the amount that would be determined for that description for that year in respect of the particular amount by applying subsection 117.1(1) to the amount determined under paragraph (*a*);

(*c*) for the 2008 taxation year, to be replaced by the amount that is the total of $400 and the amount that would be determined for that description for that year in respect of the particular amount by applying subsection 117.1(1) to the amount determined under paragraph (*b*);

(*d*) for the 2009 taxation year, to be replaced by the amount that is the greater of

(i) the amount that is the total of $600 and the amount that would be determined for that description for that year in respect of the particular amount by applying subsection 117.1(1) to the amount determined under paragraph (*c*), and

(ii) $10,000; and

(*e*) for the 2010 and subsequent taxation years, to be replaced by the amount that is the amount that would be determined for that description for those years in respect of the particular amount by applying subsection 117.1(1) to the amount determined under paragraph (*d*)."

S. 118(3.1) was replaced by S.C. 2005, c. 30, s. 5, applicable on Royal Assent, June 29, 2005. S. 118(3.1) formerly read:

"(3.1) *Minimum amounts for 2004.* Each of the amounts of $7,131, $6,055 and $606 referred to in paragraphs (*a*) to (*c*) of the description of B in subsection (1) is deemed, for the 2004 taxation year, to be the greater of

(*a*) the amount in respect thereof that would be used for that year if this section were read without reference to this subsection; and

(*b*) in the case of

(i) the amounts of $7,131, $8,000,

(ii) the amounts of $6,055, $6,800, and

(iii) the amounts of $606, $680."

S. 118(3.1) was added by S.C. 2001, c. 17, s. 93(4), applicable on Royal Assent, June 14, 2001.

Related Sections: S. 117.1(1) Annual adjustment (indexing).

► 118(3.2) ◄

(3.2) Additions to personal credits — spouse or common-law partner or wholly dependent person. [Repealed by S.C. 2009, c. 2, s. 34(7).]

History: S. 118(3.2) was repealed by S.C. 2009, c. 2, s. 34(7), applicable to the 2009 and subsequent taxation years. S. 118(3.2) formerly read:

"(3.2) *Additions to personal credits — spouse or common-law partner or wholly dependent person.* The amount of $6,055 referred to in subparagraphs (*a*)(ii) and (*b*)(iv) of the description of B in subsection (1) (in this subsection referred to as the "particular amount") that is to be used for the purpose of determining the amount of that description is

(*a*) for the 2005 taxation year, to be replaced by $7,344;

(*b*) for the 2006 taxation year, to be replaced by $7,505, except that, for the purpose of determining the particular amount for the 2007 taxation year, the particular amount for 2006 is deemed to be $7,335;

(*c*) for the 2007 and 2008 taxation years, to be replaced by $9,600;

(*d*) for the 2009 taxation year, to be replaced by $10,100; and

(*e*) for each of the 2010 and subsequent taxation years, to be replaced by the amount that is the amount that would be determined for that description for those years in respect of the particular amount by applying section 117.1 (without reference to subsection 117.1(3)) to the amount determined under this subsection in respect of the amount for the immediately preceding taxation year.

(*f*) [Repealed.]"

S. 118(3.2)(*c*) to (*e*) were replaced, and paragraph (*f*) was repealed, by S.C. 2007, c. 35, s. 180(2), applicable to the 2007 and subsequent taxation years. S. 118(3.2)(*c*) to (*f*) formerly read:

"(*c*) for the 2007 taxation year, to be replaced by $8,929;

(*d*) for the 2008 taxation year, to be replaced by the amount that is the total of $200 and the amount that would be determined for that description for that taxation year in respect of the particular amount by applying section 117.1 (without reference to subsection 117.1(3)) to the amount determined under paragraph (*c*);

(*e*) for the 2009 taxation year, to be replaced by the amount that is the greater of

(i) the total of $600 and the amount that would be determined for that description for that taxation year in respect of the particular amount by applying section 117.1 (without reference to subsection 117.1(3)) to the amount determined under paragraph (*d*), and

(ii) $10,000; and

(*f*) for each of the 2010 and subsequent taxation years, to be replaced by the amount determined for that description for that taxation year in respect of the particular amount by applying section 117.1 (without reference to subsection 117.1(3)) to the amount determined for that description for the immediately preceding taxation year in respect of the particular amount."

S. 118(3.2)(*c*) to (*e*) were replaced by S.C. 2007, c. 29, s. 9(7), applicable to the 2007 and subsequent taxation years. S. 118(3.2)(*c*) to (*f*) formerly read:

"(*c*) for the 2007 taxation year, to be replaced by the amount that is the total of $85 and the amount that would be determined for that description for that taxation year in respect of the particular amount by applying section 117.1 (without reference to subsection 117.1(3)) to the amount of $7,335 as deemed under paragraph (*b*);

(*d*) for the 2008 taxation year, to be replaced by the amount that is the total of $170 and the amount that would be determined for that description for that taxation year in respect of the particular amount by applying section 117.1 (without reference to subsection 117.1(3)) to the amount determined under paragraph (*c*);

(*e*) for the 2009 taxation year, to be replaced by the amount that is the greater of

(i) the total of $510 and the amount that would be determined for that description for that taxation year in respect of the particular amount by applying section 117.1 (without reference to subsection 117.1(3)) to the amount determined under paragraph (*d*), and

(ii) $8,500; and"

S. 118(3.2) was replaced by S.C. 2006, c. 4, s. 60(1), applicable to the 2005 and subsequent taxation years. S. 118(3.2) formerly read:

"(3.2) *Additions to personal credits — spouse or common-law partner or wholly dependent person.* The amount of $6,055 referred to in subparagraphs (*a*)(ii) and (*b*)(iv) of the description of B in subsection (1) (in this subsection referred to as the 'particular amount') that is to be used for the purpose of determining the amount of that description is

(*a*) for the 2006 taxation year, to be replaced by the amount that is the total of $85 and the amount that would be determined for that description for that year in respect of the particular amount if this section were read without reference to this subsection;

(*b*) for the 2007 taxation year, to be replaced by the amount that is the total of $85 and the amount that would be determined for that description for that year in respect of the particular amount by applying subsection 117.1(1) to the amount determined under paragraph (*a*);

(*c*) for the 2008 taxation year, to be replaced by the amount that is the total of $340 and the amount that would be determined for that description for that year in respect of the particular amount by applying subsection 117.1(1) to the amount determined under paragraph (*b*);

(*d*) for the 2009 taxation year, to be replaced by the amount that is the greater of

(i) the amount that is the total of $510 and the amount that would be determined for that description for that year in respect of the particular amount by applying subsection 117.1(1) to the amount determined under paragraph (*c*), and

(ii) $8,500; and

(*e*) for the 2010 and subsequent taxation years, to be replaced by the amount that is the amount that would be determined for that description for those years in respect of the particular amount by applying subsection 117.1(1) to the amount determined under paragraph (*d*)."

S. 118(3.2) was added by S.C. 2005, c. 30, s. 5, applicable on Royal Assent, June 29, 2005.

► 118(3.3) ◄

(3.3) Additions to personal credits — net income threshold. [Repealed by S.C. 2007, c. 29, s. 9(8).]

History: S. 118(3.3) was repealed by S.C. 2007, c. 29, s. 9(8), applicable to the 2007 and subsequent taxation years. S. 118(3.3) formerly read:

"(3.3) *Additions to personal credits — net income threshold.* The amount of $606 referred to in subparagraphs (*a*)(ii) and (*b*)(iv) of the description of B in subsection (1) (in this subsection referred to as the "particular amount") that is to be used for the purpose of determining the amount of that description is

(*a*) for the 2005 taxation year, to be replaced by $734;

(*b*) for the 2006 taxation year, to be replaced by $751, except that, for the purpose of determining the particular amount for the 2007 taxation year, the particular amount for 2006 is deemed to be $734;

(*c*) for the 2007 taxation year, to be replaced by the amount that is the total of $8.50 and the amount that would be determined for that description for that taxation year in respect of the particular amount by applying section 117.1 (without reference to subsection 117.1(3)) to the amount of $734 as deemed under paragraph (*b*);

(*d*) for the 2008 taxation year, to be replaced by the amount that is the total of $17.00 and the amount that would be determined for that description for that taxation year in respect of the particular amount by applying section 117.1 (without reference to subsection 117.1(3)) to the amount determined under paragraph (*c*);

(*e*) for the 2009 taxation year, to be replaced by the amount that is the greater of

(i) the total of $51.00 and the amount that would be determined for that description for that taxation year in respect of the particular amount by applying section 117.1 (without reference to subsection 117.1(3)) to the amount determined under paragraph (*d*); and

(ii) $850; and

(*f*) for each of the 2010 and subsequent taxation years, to be replaced by the amount determined for that description for that taxation year in respect of the particular amount by applying section 117.1 (without reference to subsection 117.1(3)) to the amount determined for that description for the immediately preceding taxation year in respect of the particular amount."

S. 118(3.3) was replaced by S.C. 2006, c. 4, s. 60(1), applicable to the 2005 and subsequent taxation years. S. 118(3.3) formerly read:

"(3.3) *Additions to personal credits — net income threshold.* The amount of $606 referred to in subparagraphs (*a*)(ii) and (*b*)(iv) of the description of B in subsection (1) (in this subsection referred to as the 'particular amount') that is to be used for the purpose of determining the amount of that description is

(*a*) for the 2006 taxation year, to be replaced by the amount that is the total of $8.50 and the amount that would be determined for that description for that year in respect of the particular amount if this section were read without reference to this subsection;

(*b*) for the 2007 taxation year, to be replaced by the amount that is the total of $8.50 and the amount that would be determined for that description for that year in respect of the particular amount by applying subsection 117.1(1) to the amount determined under paragraph (*a*);

(*c*) for the 2008 taxation year, to be replaced by the amount that is the total of $34 and the amount that would be determined for that description for that year in respect of the particular amount by applying subsection 117.1(1) to the amount determined under paragraph (*b*);

(*d*) for the 2009 taxation year, to be replaced by the amount that is the greater of

(i) the amount that is the total of $51 and the amount that would be determined for that description for that year in respect of the particular amount by applying subsection 117.1(1) to the amount determined under paragraph (*c*), and

(ii) $850; and

(*e*) for the 2010 and subsequent taxation years, to be replaced by the amount that is the amount that would be determined for that description for those years in respect of the particular amount by applying subsection 117.1(1) to the amount determined under paragraph (*d*)."

S. 118(3.3) was added by S.C. 2005, c. 30, s. 5, applicable on Royal Assent, June 29, 2005.

► 118(4) ◄

(4) Limitations re s. (1). For the purposes of subsection (1), the following rules apply:

(*a*) no amount may be deducted under subsection (1) because of paragraphs (*a*) and (*b*) of the description of B in subsection (1) by an individual in a taxation year for more than one other person;

(*a*.1) no amount may be deducted under subsection (1) because of paragraph (*b*) of the description of B in subsection (1) by an individual for a taxation year for a person in respect of whom an amount is deducted because of paragraph (*a*) of that description by another individual for the year if, throughout the year, the person and that other individual are married to each other or in a common-law partnership with each other and are not living separate and apart because of a breakdown of their marriage or the common-law partnership, as the case may be;

(*b*) not more than one individual is entitled to a deduction under subsection (1) because of paragraph (*b*) or (*b*.1) of the description of B in that subsection for a taxation year in respect of the same person or the same domestic establishment and where two or more individuals otherwise entitled to such a deduction fail to agree as to the individual by whom the deduction may be made, no such deduction for the year shall be allowed to either or any of them;

(*c*) where an individual is entitled to a deduction under subsection (1) because of paragraph (*b*) of the description of B in subsection (1) for a taxation year in respect of any person, no amount may be deducted because of paragraph (*c*.1) or (*d*) of that description by any individual for the year in respect of the person;

(*d*) where an individual is entitled to a deduction under subsection (1) because of paragraph (*c*.1) of the description of B in subsection (1) for a taxation year in respect of any person, the person is deemed not to be a dependant of any individual for the year for the purpose of paragraph (*d*) of that description; and

(*e*) where more than one individual is entitled to a deduction under subsection (1) because of paragraph (*c*.1) or (*d*) of the description of B in subsection (1) for a taxation year in respect of the same person,

(i) the total of all amounts so deductible for the year shall not exceed the maximum amount that would be so deductible for the year by any one of those individuals for that person if that individual were the only individual entitled to deduct an amount for the year because of that paragraph for that person, and

(ii) if the individuals cannot agree as to what portion of the amount each can so deduct, the Minister may fix the portions.

History: S. 118(4)(*b*) was replaced by S.C. 2007, c. 29, s. 9(9), applicable to the 2007 and subsequent taxation years. S. 118(4)(*b*) formerly read:

"(*b*) not more than one individual is entitled to a deduction under subsection (1) because of paragraph (*b*) of the description of B in subsection (1) for a taxation year in respect of the same person or the same domestic establishment and where two or more individuals otherwise entitled to such a deduction fail to agree as to the individual by whom the deduction may be made, no such deduction for the year shall be allowed to either or any of them;"

S. 118(4)(*a*.1) was amended by S.C. 2000, c. 12, s. 131(3), applicable January 1, 2001, coming into force on July 31, 2000. S. 118(4)(*a*.1) formerly read:

"(*a*.1) no amount may be deducted under subsection (1) because of paragraph (*b*) of the description of B in subsection (1) by an individual for a taxation year for a person in respect of whom an amount is deducted because of paragraph (*a*) of that description by another individual for the year if, throughout the year, the person and that other individual are married to each other and are not living separate and apart because of a breakdown of their marriage;"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 118(4)(*c*) and (*e*) were amended, and paragraph (*d*) was added, by S.C. 1999, c. 22, s. 31(5), applicable to the 1998 and subsequent taxation years. S. 118(4)(*c*) and (*e*) formerly read:

"(*c*) where an individual is entitled to a deduction under subsection (1) because of paragraph (*b*) of the description of B in subsection (1) for any person described therein, the person shall be deemed not to be a dependant for the year for the purposes of paragraph (1)(*d*); and

(*e*) where more than one individual is, in respect of a taxation year, entitled to deduct an amount under subsection (1) because of paragraph (*d*) of the description of B in subsection (1) for the same dependant, the total of all amounts so deductible for the year shall not exceed the maximum amount that would be deductible by reason of that paragraph for the year by any one of those individuals for that dependant if that individual were the only individual entitled to deduct an amount for the year by reason of that paragraph for that dependant and, where the individuals cannot agree as to what portion of the amount each can so deduct, the Minister may fix the portions."

S. 118(4)(*a.1*) was added by S.C. 1999, c. 22, s. 31(4), applicable to the 1998 and subsequent taxation years.

S. 118(4) was amended by S.C. 1997, c. 25, s. 25(7), applicable April 25, 1997. S. 118(4) formerly read:

"(4) *Limitations re s. (1).* For the purposes of subsection (1), the following rules apply:

(*a*) no amount may be deducted under subsection (1) by reason of paragraphs (1)(*a*) and (*b*) by an individual in a taxation year for more than one other person;

(*b*) not more than one individual is entitled to a deduction under subsection (1) by reason of paragraph (1)(*b*) for a taxation year in respect of the same person or the same domestic establishment and where two or more individuals otherwise entitled to such a deduction fail to agree as to the individual by whom the deduction may be made, no such deduction for the year shall be allowed to either or any of them;

(*c*) where an individual is entitled to a deduction under subsection (1) by reason of paragraph (1)(*b*) for any person described therein, the person shall be deemed not to be a dependant for the year for the purposes of paragraph (1)(*d*); and

(*d*) [Repealed by S.C. 1994, c. 7, Sched. VII, S. 8(2).]

(*e*) where more than one individual is, in respect of a taxation year, entitled to deduct an amount under subsection (1) by reason of paragraph (1)(*d*) for the same dependant, the total of all amounts so deductible for the year shall not exceed the maximum amount that would be deductible by reason of that paragraph for the year by any one of those individuals for that dependant if that individual were the only individual entitled to deduct an amount for the year by reason of that paragraph for that dependant and, where the individuals cannot agree as to what portion of the amount each can so deduct, the Minister may fix the portions."

S. 118(4)(*d*) was repealed by S.C. 1994, c. 7, Sched. VII, s. 8(2), applicable with respect to the 1993 and subsequent taxation years. S. 118(4)(*d*) formerly read:

"(*d*) no amount may be deducted under subsection (1) by reason of paragraph (1)(*d*) by an individual for a taxation year for a person in respect of whom an allowance referred to in subsection 56(5) has been paid in the year, except to the extent of the proportion of the allowance paid in the year in respect of the person that has been included in computing the individual's income for the year; and"

Related Sections: S. 118(1)(*e*) Additional amount; s. 118(6) Definition of dependant; s. 248(1), "common-law partner", "common-law partnership".
Interpretation Bulletins: *Secondary* — IT-513R Personal tax credits.

► 118(5) ◄

(5) Support. No amount may be deducted under subsection (1) in computing an individual's tax payable under this Part for a taxation year in respect of a person where the individual is required to pay a support amount (within the meaning assigned by subsection 56.1(4)) to the individual's spouse or common-law partner or former spouse or common-law partner in respect of the person and the individual

(*a*) lives separate and apart from the spouse or common-law partner or former spouse or common-law partner throughout the year because of the breakdown of their marriage or common-law partnership; or

(*b*) claims a deduction for the year because of section 60 in respect of a support amount paid to the spouse or common-law partner or former spouse or common-law partner.

History: S. 118(5), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 243, applicable to the 2001 and following taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act* [See Sec. 144, Chap. 12, S.C. 2000, reproduced below.], in respect of the 1998, 1999 or 2000 taxation years, the portion of s. 118(5) before paragraph (*a*) applies to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.S. 118(5), the portion before paragraph (*a*) formerly read:

"(5) *Support.* No amount may be deducted under subsection (1) in computing an individual's tax payable under this Part for a taxation year in respect of a person where the individual is required to pay a support amount (as defined in subsection 56.1(4)) to the individual's spouse or former spouse in respect of the person and the individual"

S. 118(5)(*a*) and (*b*) were amended by S.C. 2000, c. 12, Sched. 2, s. 2(f) and 9(g), applicable January 1, 2001, coming into force on July 31, 2000. S. 118(5)(*a*) and (*b*) formerly read:

"(*a*) lives separate and apart from the spouse or former spouse throughout the year because of the breakdown of their marriage; or

(*b*) claims a deduction for the year because of section 60 in respect of a support amount paid to the spouse or former spouse."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 118(5) was amended by S.C. 1997, c. 25, s. 25(8), applicable to the 1997 and subsequent taxation years. S. 118(5) formerly read:

"(5) *Alimony and maintenance.* Where an individual in computing the individual's income for a taxation year is entitled to a deduction under paragraph 60(*b*), (*c*) or (*c.1*) in respect of a payment for the maintenance of a spouse or child, the spouse or child shall, for the purposes of this section (other than the definition 'qualified pension income' in subsection (7)) be deemed not to be the spouse or child of the individual."

Related Sections: s. 248(1), "common-law partner", "common-law partnership".
Interpretation Bulletins: *Secondary* — IT-513R Personal tax credits; IT-530R Support payments.
Information Circulars: IC 07-1 Taxpayer Relief Provisions.

► 118(5.1) ◄

(5.1) Where subsection (5) does not apply. Where, if this Act were read without reference to this subsection, solely because of the application of subsection (5), no individual is entitled to a deduction under paragraph (*b*) or (*b.1*) of the description of B in subsection (1) for a taxation year in respect of a child, subsection (5) shall not apply in respect of that child for that taxation year.

History: S. 118(5.1) was added by S.C. 2007, c. 35, s. 36(2), applicable to the 2007 and subsequent taxation years.

Editorial Note: A taxpayer required to pay a support amount for a former spouse/common-law partner or child is not allowed under subsection 118(5) to claim a personal tax credit for them in a particular taxation year if he/she also claims a deduction for the payment in that year or lives separately from that former spouse/common-law partner throughout the year due to a breakdown of their marriage or common-law partnership. If both parents pay a support amount for their child, one of them will be allowed under subsection 118(5.1) to claim a wholly dependent person or child tax credit in respect of that child. Before the adoption of that provision, neither parent was allowed under subsection 118(5) to claim the credit.

► 118(6) ◄

(6) Definition of dependant. For the purposes of paragraphs (*d*) and (*e*) of the description of B in subsection (1) and paragraph (4)(*e*), "dependant" of an individual for a taxation year means a person who at any time in the year is dependent on the individual for support and is

(*a*) the child or grandchild of the individual or of the individual's spouse or common-law partner; or

(*b*) the parent, grandparent, brother, sister, uncle, aunt, niece or nephew, if resident in Canada at any time in the year, of the individual or of the individual's spouse or common-law partner.

History: S. 118(6)(*a*) and (*b*) were amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.5), applicable January 1, 2001, coming into force on July 31, 2000. S. 118(6)(*a*) and (*b*) formerly read:

"(*a*) the child or grandchild of the individual or of the individual's spouse; or

(*b*) the parent, grandparent, brother, sister, uncle, aunt, niece or nephew, if resident in Canada at any time in the year, of the individual or of the individual's spouse."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 118(6), the portion before paragraph (*a*), was amended by S.C. 1997, c. 25, s. 25(9), applicable to the 1996 and subsequent taxation years. That part formerly read:

"(6) *Definition of 'dependant'* For the purposes of paragraphs (1)(*d*) and (4)(*e*), 'dependant' of an individual for a taxation year means a person who at any time in the year is dependent on the individual for support and is"

Related Sections: S. 248(1), "common-law partner", "common-law partnership".

Interpretation Bulletins: *Secondary* — IT-394R2 Preferred beneficiary election; IT-513R Personal tax credits.

► 118(7) ◄

(7) Definitions. Subject to subsections (8) and (8.1), for the purposes of this subsection and subsection (3),

History: S. 118(7), the portion before the definitions was replaced by S.C. 2007, c. 29, s. 9(10), applicable to the 2007 and subsequent taxation years. S. 118(7), the portion before the definitions formerly read:

"(7) *Definitions.* Subject to subsection (8), for the purposes of subsection (3),"

"eligible pension income" — "eligible pension income" of an individual for a taxation year means

(*a*) if the individual has attained the age of 65 years before the end of the taxation year, the pension income received by the individual in the taxation year, and

(*b*) if the individual has not attained the age of 65 years before the end of the taxation year, the qualified pension income received by the individual in the taxation year;

History: S. 118(7), the definition "eligible pension income" was added by S.C. 2007, c. 29, s. 9(11), applicable to the 2007 and subsequent taxation years.

"pension income" — "pension income" received by an individual in a taxation year means the total of

(*a*) the total of all amounts each of which is an amount included in computing the individual's income for the year that is

(i) a payment in respect of a life annuity out of or under a superannuation or pension plan,

(ii) an annuity payment under a registered retirement savings plan, under an "amended plan" as referred to in subsection 146(12) or under an annuity in respect of which an amount is included in computing the individual's income by reason of paragraph 56(1)(*d.2*),

(iii) a payment out of or under a registered retirement income fund or under an "amended fund" as referred to in subsection 146.3(11),

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*a*) of the definition "pension income" in subsection 118(7) of the Act is amended by adding the following after subparagraph (iii):

(iii.1) a payment (other than a payment described in subparagraph (i)) payable on a periodic basis under a money purchase provision (within the meaning assigned by subsection 147.1(1)) of a registered pension plan,

Applicable: To the 2004 and subsequent taxation years.

Explanatory Note:

Pension Credit

"pension income"

Section 118 of the Act provides for a number of credits that are deductible in computing the tax payable by an individual, including the pension credit in subsection 118(3). The pension credit available to a taxpayer who is 65 years of age or older is based on the taxpayer's "pension income", as defined in subsection 118(7). Pension income includes lifetime annuity payments under a pension plan and payments under a registered retirement income fund (RRIF).

The definition "pension income" is amended to add periodic payments under a money purchase provision of a registered pension plan (RPP), to the extent that such payments are not already included. This amendment is consequential on amendments to section 8506 of the Regulations, the purpose of which is to allow money purchase RPPs to provide members with retirement benefits that are payable in the same manner as is permitted under a RRIF. Since these benefits would not be considered to be lifetime annuity payments, it is necessary to ensure that they qualify for the purpose of the pension credit.

This amendment applies to the 2004 and subsequent taxation years.

(iv) an annuity payment under a deferred profit sharing plan or under a "revoked plan" as referred to in subsection 147(15),

(v) a payment described in subparagraph 147(2)(*k*)(v), or

(vi) the amount by which an annuity payment included in computing the individual's income for the year by reason of paragraph 56(1)(*d*) exceeds the capital element of that payment as determined or established under paragraph 60(*a*), and

(*b*) the total of all amounts each of which is an amount included in computing the individual's income for the year by reason of section 12.2 of this Act or paragraph 56(1)(*d.1*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952;

"qualified pension income" — "qualified pension income" received by an individual in a taxation year means the total of all amounts each of which is an amount included in computing the individual's income for the year and described in

(*a*) subparagraph (*a*)(i) of the definition "pension income" in this subsection, or

(*b*) any of subparagraphs (*a*)(ii) to (vi) or paragraph (*b*) of the definition "pension income" in this subsection received by the individual as a consequence of

the death of a spouse or common-law partner of the individual.

History: S. 118(7), paragraph (*b*) of the definition "qualified pension income", was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.5), applicable January 1, 2001, coming into force on July 31, 2000. S. 118(7), paragraph (*b*) of the definition "qualified pension income" formerly read:

"(*b*) any of subparagraphs (*a*)(ii) to (vi) or paragraph (*b*) of the definition 'pension income' in this subsection received by the individual as a consequence of the death of a spouse of the individual."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 118(7), paragraph (*b*) of the definition of "qualified pension income" was amended by S.C. 1994, c. 7, Sched. VIII, s. 52(2), applicable after 1992. S. 118(7), the definition of "qualified pension income", paragraph (*b*) formerly read:

"(*b*) any of subparagraphs (*a*)(ii) to (vi) or paragraph (*b*) of the definition 'pension income' in this subsection received by the individual as a consequence of the death of the spouse (within the meaning assigned by subsection 146(1.1)) of the individual."

Related Sections: S. 104(27) Pension benefits; s. 248(1), "common-law partner", "individual".
Interpretation Bulletins: *Secondary* — IT-517R Pension tax credit [Archived by the CRA].

► 118(8) ◄

(8) Interpretation. For the purposes of subsection (7), "pension income" and "qualified pension income" received by an individual in a taxation year do not include any amount that is

(*a*) the amount of a pension or supplement under the *Old Age Security Act* or of any similar payment under a law of a province;

(*b*) the amount of a benefit under the *Canada Pension Plan* or under a provincial pension plan as defined in section 3 of that Act;

(*c*) a death benefit;

(*d*) the amount, if any, by which

(i) an amount required to be included in computing the individual's income for the year

exceeds

(ii) the amount, if any, by which the amount referred to in subparagraph (i) exceeds the total of all amounts deducted (other than under paragraph 60(*c*)) by the individual for the year in respect of that amount;

(*e*) a payment received out of or under a salary deferral arrangement, a retirement compensation arrangement, an employee benefit plan, an employee trust or a prescribed provincial pension plan; or

(*f*) a payment (other than a payment under the *Judges Act* or the *Lieutenant Governors Superannuation Act*) received out of or under an unfunded supplemental plan or arrangement, being a plan or arrangement where

(i) the payment was in respect of services rendered to an employer by the individual or the individual's spouse or common-law partner or former spouse or common-law partner as an employee, and

(ii) the plan or arrangement would have been a retirement compensation arrangement or an employee benefit plan had the employer made a contribution in respect of the payment to a trust governed by the plan or arrangement.

History: S. 118(8), the portion before paragraph (*a*) was replaced by S.C. 2007, c. 29, s. 9(12), applicable to the 2007 and subsequent taxation years. S. 118(8), the portion before paragraph (*a*) formerly read:

"(8) *Interpretation.* For the purposes of subsection (3), 'pension income' and 'qualified pension income' received by an individual do not include any amount that is"

S. 118(8)(*d*) was replaced by S.C. 2007, c. 29, s. 9(13), applicable to the 2007 and subsequent taxation years. S. 118(8)(*d*) formerly read:

"(*d*) the amount, if any, by which

(i) an amount required to be included in computing the individual's income for the year

exceeds

(ii) the amount, if any, by which the amount referred to in subparagraph (i) exceeds the total of all amounts deducted by the individual for the year in respect of that amount; or"

S. 118(8)(*f*) was added by S.C. 2007, c. 29, s. 9(14), applicable to the 2007 and subsequent taxation years.

Interpretation Bulletins: *Secondary* — IT-517R Pension tax credit.
Regulations: 7800(1).

► 118(8.1) ◄

(8.1) Bridging benefits. For the purposes of subsection (7), a payment in respect of a life annuity under a superannuation or pension plan is deemed to include a payment in respect of bridging benefits, being benefits payable under a registered pension plan on a periodic basis and not less frequently than annually to an individual where

(*a*) the individual or the individual's spouse or common-law partner or former spouse or common-law partner was a member (as defined in subsection 147.1(1)) of the registered pension plan;

(*b*) the benefits are payable for a period ending no later than the end of the month following the month in which the member attains 65 years of age or would have attained that age if the member had survived to that day; and

(*c*) the amount (expressed on an annualized basis) of the benefits payable to the individual for a calendar year does not exceed the total of the maximum amount of benefits payable for that year under Part I of the *Old Age Security Act* and the maximum amount of benefits (other than disability, death or survivor benefits) payable for that year under either the *Canada Pension Plan* or a provincial pension plan as defined in section 3 of that Act.

History: S. 118(8.1) was added by S.C. 2007, c. 29, s. 9(15), applicable to the 2007 and subsequent taxation years.

► 118(9) ◄

(9) Rounding. [Repealed by S.C. 2009, c. 2, s. 34(7).]

History: S. 118(9) was repealed by S.C. 2009, c. 2, s. 34(7), applicable to the 2009 and subsequent taxation years. S. 118(9) formerly read:

"(9) *Rounding.* If an amount determined under any of paragraphs (3.1)(*a*) to (*f*) and (3.2)(*a*) to (*f*) is not a multiple of one dollar, it shall be rounded to the nearest multiple of one dollar or, where it is equidistant from two such consecutive multiples, to the greater multiple."

S. 118(9) was replaced by S.C. 2007, c. 29, s. 9(15), applicable to the 2007 and subsequent taxation years. S. 118(9) formerly read:

"(9) *Rounding.* If an amount determined under any of paragraphs (3.1)(*a*) to (*f*), (3.2)(*a*) to (*f*) and (3.3)(*a*) to (*f*) is not a multiple of one dollar, it shall be rounded to the nearest multiple of one dollar or, where it is equidistant from two such consecutive multiples, to the greater multiple."

S. 118(9) was added by S.C. 2006, c. 4, s. 60(2), applicable to the 2005 and subsequent taxation years.

Related Sections: S. 67.1(1) Expenses for food, etc; s. 117.1(1) Annual adjustment (indexing).

► 118(9.1) ◄

(9.1) Child tax credit. For greater certainty, in the case of a child who in a taxation year is born, adopted or dies, the reference to "throughout the taxation year" in subparagraph 118(1)(*b*.1)(i) is to be read as a reference to "throughout the portion of the taxation year that is after the child's birth or adoption or before the child's death".

History: S. 118(9.1) was added by S.C. 2007, c. 29, s. 9(15), applicable to the 2007 and subsequent taxation years.

► 118(10) ◄

(10) Canada Employment Credit. For the purpose of computing the tax payable under this Part by an individual for a taxation year, there may be deducted the amount determined by the formula

$$A \times B$$

where

A is the appropriate percentage for the taxation year; and

B is the lesser of

(*a*) $1,000, and

(*b*) the total of all amounts, each of which is an amount included in computing the individual's income for the taxation year from an office or employment or an amount included in the taxpayer's income for the taxation year because of subparagraph 56(1)(*r*)(v).

CRA Press Release

2.5% Indexation Factor for 2009

See CRA Fact Sheet, dated December 8, 2008, that is reproduced following subsection 117.1(1). This release announces a 2.5% indexation factor applicable for 2009 tax bracket thresholds, personal amounts and other amounts relating to non-refundable credits, as well as the refundable medical expense supplement and Old Age Security repayment threshold. Increases to the Canada Child Tax Benefit (including the National Child Benefit supplement and the Child Disability Benefit) and the Goods and Services Tax Credit will take effect as of July 1, 2009.

History: S. 118(10), paragraph (*b*) of the description of B was replaced by S.C. 2009, c. 2, s. 34(8), applicable to the 2008 and subsequent taxation years. S. 118(10), paragraph (*b*) of the description of B formerly read:

"(*b*) the amount that would be the individual's income for the taxation year from all offices and employments if this Act were read without reference to section 8."

S. 118(10) was added by S.C. 2007, c. 2, s. 20(2), applicable to the 2006 and subsequent taxation years, except that in its application to the 2006 taxation year, the reference to "$1,000" in paragraph (*a*) in the description of B in subsection 118(10) shall be read as a reference to "$250".

2009 Federal Budget Resolution

Home Renovation Tax Credit

(4) That the Act be modified consequential on the introduction of the Home Renovations Tax Credit in accordance with proposals described in the budget documents tabled by the Minister of Finance in the House of Commons on January 27, 2009.

Editorial Comment: One of the pre-budget ideas floated by the Minister of Finance was a tax credit for individual taxpayers who renovate their homes. Quebec's recent announcement of a similar tax credit seemed to support the possibility that the Federal Budget would contain this type of measure in order to help stimulate the economy.

Those predictors turned out to be accurate, as the Budget includes a temporary Home Renovation Tax Credit (HRTC) which permits individuals to claim a 15% non-refundable tax credit for eligible expenditures made in respect of eligible dwellings. The maximum credit is $1,350 and will apply to expenditures that are greater than $1,000, but do not exceed $10,000.

The restrictions applicable to claiming the HRTC are very specific. First, the HRTC will only apply for expenditures for work performed, or goods acquired, after January 27, 2009 and before February 1, 2010. However, the HRTC may not be claimed in respect of work performed or expenditures incurred under a contract that was entered into before January 28, 2009. The HRTC will be available to be claimed only in an individual's 2009 tax return.

Secondly, the HRTC is limited to one per family. This means that family members will be subject to a single limit based on their pooled expenditures. A family is considered to include an individual, the individual's spouse or common-law partner and children who are under 18 years of age. To the extent that an individual is unable to utilize the entire HRTC, the unused portion may be used by other family members. Where two or more families share ownership of an eligible dwelling, each family will be entitled to claim its own HRTC, as if the family owned the dwelling alone.

Thirdly, in order to claim the HRTC, the dwelling must be eligible to be a principal residence (within the meaning of section 54 the Act) of the individual or of one or more of the individual's other family members. For condominiums and co-operative housing corporations, an individual's share of eligible expenditures incurred in respect of common areas will also qualify for the HRTC. Where an individual earns business or rental income from part of his or her principal residence, expenditures that relate to common areas or that benefit the housing unit as a whole will qualify as eligible expenditures for HRTC purposes, subject to limits established under existing CRA administrative practices which apply when determining how business or rental income and expenditures are allocated between personal use and income-earning use.

Fourthly, the types of expenditures that will qualify for HRTCs will be subject to a variety of restrictions. Eligible expenditures must be incurred in relation to renovations or alterations of an eligible dwelling that are of an enduring nature and are integral to the eligible dwelling. This test would exclude expenditures for routine repairs and maintenance. Furthermore, financing costs of a renovation are specifically excluded. Eligible expenditures include building materials, fixtures, equipment rentals, permits, labour and professional services.

The Budget documents indicate that a taxpayer's entitlements to a HRTC will not be affected by other tax credits, grants or other programs including the medical expense tax credit program. Finally, the Budget briefly describes taxpayer compliance issues relating to the HRTC. To support a taxpayer's claims for HRTCs, eligible expenditures must be supported by receipts and expenditures will not be eligible in circumstances where goods or services are provided by a person not dealing at arm's length with the individual unless that person is registered for GST/HST purposes.

2009 Federal Budget Resolution

First-Time Home Buyer's Tax Credit

(6) That the Act be modified consequential on the introduction of the First-Time Home Buyer's Tax Credit in accordance with proposals described in the budget documents tabled by the Minister of Finance in the House of Commons on January 27, 2009.

Editorial Comment: One of the budget measures designed to stimulate the economy through the housing market is the First-Time Home Buyers' Tax Credit (the "FTHBC"). The FTHBC is a new non-refundable tax credit based on an amount of $5,000 and will be available to first-time home buyers who complete a purchase of a home after January 27, 2009. The FTHBC will be calculated by reference to the lowest personal income tax rate for the year and can be claimed for the taxation year in which the home is acquired.

An individual will be considered a first-time home buyer if neither the individual nor the individual's spouse or common-law partner owned and lived in another home in the calendar year of the home purchase or in any of the four preceding calendar years. A qualifying home is one that is currently eligible for the Home Buyers' Plan that the individual or individual's spouse or common-law partner intends to occupy as the principal place of residence not later than one year after its acquisition. It is interesting to compare this with the Ontario land transfer tax refund for first-time home buyers, which contains notable differences. For instance, to qualify for the

Ontario land transfer tax refund for first-time home buyers, the purchaser cannot have previously owned a home, or had any ownership interest in a home, anywhere in the world, at any time. Therefore, a person who qualifies for the FTHBC may not qualify for the Ontario land transfer tax refund for first-time home buyers.

The FTHBC will also be available with respect to purchases made for the benefit of individuals entitled to the disability tax credit (a "DTC eligible person"), if the purchase was made to enable the DTC eligible person to live in a home better suited to his or her personal needs. In order to claim the FTHBC, the home must be intended to be the principal residence of the DTC eligible person within one year after acquisition.

The individual acquiring the home, or the individual's spouse or common-law partner can claim the FTHBC. An ownership interest in the particular home for which the FTHBC is claimed must be registered in the applicable provincial land registration system.

Any unused portion of the FTHBC relating to an individual can be claimed by such individual's spouse or common-law partner. A home jointly acquired by two individuals will only create one full FTHBC.

SECTION 118.01: [Adoption expense tax credit].

► 118.01(1) ◄

(1) Definitions. The following definitions apply in this section.

"*adoption period*" — "adoption period", in respect of an eligible child of an individual, means the period that

(*a*) begins at the earlier of the time that the eligible child's adoption file is opened with a provincial ministry responsible for adoption (or with an adoption agency licensed by a provincial government) and the time, if any, that an application related to the adoption is made to a Canadian court; and

(*b*) ends at the later of the time an adoption order is issued by, or recognized by, a government in Canada in respect of that child, and the time that the child first begins to reside permanently with the individual.

History: S. 118.01(1), the definition "adoption period" was added by S.C. 2006, c. 4, s. 61(1), applicable to the 2005 and subsequent taxation years.

"*eligible adoption expense*" — "eligible adoption expense", in respect of an eligible child of an individual, means an amount paid for expenses incurred during the adoption period in respect of the adoption of that child, including

(*a*) fees paid to an adoption agency licensed by a provincial government;

(*b*) court costs and legal and administrative expenses related to an adoption order in respect of that child;

(*c*) reasonable and necessary travel and living expenses of that child and the adoptive parents;

(*d*) document translation fees;

(*e*) mandatory fees paid to a foreign institution;

(*f*) mandatory expenses paid in respect of the immigration of that child; and

(*g*) any other reasonable expenses related to the adoption required by a provincial government or an adoption agency licensed by a provincial government.

History: S. 118.01(1), the definition "eligible adoption expense" was added by S.C. 2006, c. 4, s. 61(1), applicable to the 2005 and subsequent taxation years.

"*eligible child*" — "eligible child", of an individual, means a child who has not attained the age of 18 years at the time that an adoption order is issued or recognized by a government in Canada in respect of the adoption of that child by that individual.

History: S. 118.01(1), the definition "eligible child" was added by S.C. 2006, c. 4, s. 61(1), applicable to the 2005 and subsequent taxation years.

► 118.01(2) ◄

(2) Adoption expense tax credit. For the purpose of computing the tax payable under this Part by an individual for the taxation year that includes the end of the adoption period in respect of an eligible child of the individual, there may be deducted the amount determined by the formula

$$A \times B$$

where

A is the appropriate percentage for the taxation year; and

B is the lesser of

(*a*) $10,000, and

(*b*) the amount determined by the formula

$$C - D$$

where

C is the total of all eligible adoption expenses in respect of the eligible child, and

D is the total of all amounts each of which is the amount of a reimbursement or any other form of assistance (other than an amount that is included in computing the individual's income and that is not deductible in computing the individual's taxable income) that any individual is or was entitled to receive in respect of an amount included in computing the value of C.

CRA Press Release

2.5% Indexation Factor for 2009

See CRA Fact Sheet, dated December 8, 2008, that is reproduced following subsection 117.1(1). This release announces a 2.5% indexation factor applicable for 2009 tax bracket thresholds, personal amounts and other amounts relating to non-refundable credits, as well as the refundable medical expense supplement and Old Age Security repayment threshold. Increases to the Canada Child Tax Benefit (including the National Child Benefit supplement and the Child Disability Benefit) and the Goods and Services Tax Credit will take effect as of July 1, 2009.

History: S. 118.01(2) was added by S.C. 2006, c. 4, s. 61(1), applicable to the 2005 and subsequent taxation years.

► 118.01(3) ◄

(3) Apportionment of credit. Where more than one individual is entitled to a deduction under this section for a taxation year in respect of the adoption of an eligible child, the total of all amounts so deductible shall not exceed the maximum amount that would be so deductible for the year by any one of those individuals for that child if that individual were the only individual entitled to deduct an amount for the year under this section, and if the individuals cannot agree as to what portion of the amount each can so deduct, the Minister may fix the portions.

History: S. 118.01(3) was added by S.C. 2006, c. 4, s. 61(1), applicable to the 2005 and subsequent taxation years.

SECTION 118.02: [Transit pass tax credit].

► 118.02(1) ◄

(1) Definitions. The following definitions apply in this section.

"eligible electronic payment card" — "eligible electronic payment card" means an electronic payment card that is

(*a*) used by an individual for at least 32 one-way trips, between the place of origin of the trip and its termination, during an uninterrupted period not exceeding 31 days, and

(*b*) issued by or on behalf of a qualified Canadian transit organization, which organization records and receipts the cost and usage of the electronic payment card and identifies the right, of the individual who is the holder or owner of such a card, to use public commuter transit services of that qualified Canadian transit organization.

History: S. 118.02(1), the definition "eligible electronic payment card" was added by S.C. 2007, c. 35, s. 37(2), applicable to the 2007 and subsequent taxation years.

"eligible public transit pass" — "eligible public transit pass" means a document

(*a*) issued by or on behalf of a qualified Canadian transit organization; and

(*b*) identifying the right of an individual who is the holder or owner of the document to use public commuter transit services of that qualified Canadian transit organization

(i) on an unlimited number of occasions and on any day on which the public commuter transit services are offered during an uninterrupted period of at least 28 days, or

(ii) on an unlimited number of occasions during an uninterrupted period of at least five consecutive days, if the combination of that document and one or more other such documents gives the right to the individual to use those public commuter transit services on at least 20 days in a 28-day period.

History: S. 118.02(1), paragraph (*b*) of the definition "eligible public transit pass" was replaced by S.C. 2007, c. 35, s. 37(1), applicable to the 2007 and subsequent taxation years. S. 118.02(1), paragraph (*b*) of the definition "eligible public transit pass" formerly read:

"(*b*) identifying the right of an individual who is the holder or owner of the document to use public commuter transit services of that qualified Canadian transit organization on an unlimited number of occasions and on any day on which the public commuter transit services are offered during an uninterrupted period of at least 28 days."

S. 118.02(1), the definition "eligible public transit pass" was added by S.C. 2007, c. 2, s. 21(1), applicable to the 2006 and subsequent taxation years, in respect of the use of public commuter transit services after June 2006.

"public commuter transit services" — "public commuter transit services" means services offered to the general public, ordinarily for a period of at least five days per week, of transporting individuals, from a place in Canada to another place in Canada, by means of bus, ferry, subway, train or tram, and in respect of which it can reasonably be expected that those individuals would return daily to the place of their departure.

History: S. 118.02(1), the definition "public commuter transit services" was added by S.C. 2007, c. 2, s. 21(1), applicable to the 2006 and subsequent taxation years, in respect of the use of public commuter transit services after June 2006.

"qualified Canadian transit organization" — "qualified Canadian transit organization" means a person authorised, under a law of Canada or a province, to carry on in Canada a business that is the provision of public commuter transit services, which is carried on through a permanent establishment in Canada.

History: S. 118.02(1), the definition "qualified Canadian transit organization" was added by S.C. 2007, c. 2, s. 21(1), applicable to the 2006 and subsequent taxation years, in respect of the use of public commuter transit services after June 2006.

"qualifying relation" — "qualifying relation" of an individual for a taxation year means a person who is

(*a*) the individual's spouse or common-law partner at any time in the taxation year; or

(*b*) a child of the individual who has not, during the taxation year, attained the age of 19 years.

History: S. 118.02(1), the definition "qualifying relation" was added by S.C. 2007, c. 2, s. 21(1), applicable to the 2006 and subsequent taxation years, in respect of the use of public commuter transit services after June 2006.

► 118.02(2) ◄

(2) Transit pass tax credit. For the purpose of computing the tax payable under this Part by an individual for a taxation year, there may be deducted the amount determined by the formula

$$A \times B$$

where

A is the appropriate percentage for the taxation year; and

B is the amount determined by the formula

$$C - D$$

where

C is the total of all amounts each of which is the portion of the cost of an eligible public transit pass or of an eligible electronic payment card, attributable to the use of public commuter transit services in the taxation year by the individual or by a person who is in the taxation year a qualifying relation of the individual, and

D is the total of all amounts each of which is the amount of a reimbursement, allowance or any other form of assistance that any person is or was entitled to receive in respect of an amount included in computing the value of C (other than an amount that is included in computing the income for any taxation year of that person and that is not deductible in computing the taxable income of that person).

History: S. 118.02(2), the description of C was replaced by S.C. 2007, c. 35, s. 37(3), applicable to the 2007 and subsequent taxation years. S. 118.02(2), the description of C formerly read:

"C is the total of all amounts each of which is the portion of the cost of an eligible public transit pass attributable to the use of public commuter transit services in the taxation year by the individual or by a person who is in the taxation year a qualifying relation of the individual, and"

S. 118.02(2) was added by S.C. 2007, c. 2, s. 21(1), applicable to the 2006 and subsequent taxation years, in respect of the use of public commuter transit services after June 2006.

► 118.02(3) ◄

(3) Apportionment of credit. If more than one individual is entitled to a deduction under this section for a taxation year in respect of an eligible public transit pass or of an eligible electronic payment card, the total of all amounts so deductible shall not exceed the maximum amount that would be so deductible for the year by any one of those individuals for that eligible public transit pass or eligible electronic payment card if that individual were the only individual entitled to deduct an amount for the year under this section, and if the individuals cannot agree as to

what portion of the amount each can so deduct, the Minister may fix the portions.

History: S. 118.02(3) was replaced by S.C. 2007, c. 35, s. 37(4), applicable to the 2007 and subsequent taxation years. S. 118.02(3) formerly read:

"(3) *Apportionment of credit.* If more than one individual is entitled to a deduction under this section for a taxation year in respect of an eligible public transit pass, the total of all amounts so deductible shall not exceed the maximum amount that would be so deductible for the year by any one of those individuals for that eligible public transit pass if that individual were the only individual entitled to deduct an amount for the year under this section, and if the individuals cannot agree as to what portion of the amount each can so deduct, the Minister may fix the portions."

S. 118.02(3) was added by S.C. 2007, c. 2, s. 21(1), applicable to the 2006 and subsequent taxation years, in respect of the use of public commuter transit services after June 2006.

SECTION 118.03: [Child fitness tax credit].

► 118.03(1) ◄

(1) Definitions. The following definitions apply in this section.

"*eligible fitness expense*" — "eligible fitness expense" in respect of a qualifying child of an individual for a taxation year means the amount of a fee paid to a qualifying entity (other than an amount paid to a person that is, at the time the amount is paid, the individual's spouse or common-law partner or another individual who is under 18 years of age) to the extent that the fee is attributable to the cost of registration or membership of the qualifying child in a prescribed program of physical activity and, for the purposes of this section, that cost

(*a*) includes the cost to the qualifying entity of the program in respect of its administration, instruction, rental of required facilities, and uniforms and equipment that are not available to be acquired by a participant in the program for an amount less than their fair market value at the time, if any, they are so acquired; and

(*b*) does not include

(i) the cost of accommodation, travel, food or beverages, or

(ii) any amount deductible under section 63 in computing any person's income for any taxation year.

History: S. 118.03(1), the portion of the definition "eligible fitness expense" before paragraph (*a*) was replaced by S.C. 2007, c. 35, s. 38(2), applicable to the 2007 and subsequent taxation years. S. 118.03(1), the portion of the definition "eligible fitness expense" before paragraph (*a*) formerly read:

"'*eligible fitness expense*' — 'eligible fitness expense' in respect of a qualifying child of an individual for a taxation year means the amount of a fee paid to a qualifying entity (other than an amount paid to a qualifying entity that is, at the time the amount is paid, the individual's spouse or common-law partner or another individual who is under 18 years of age) to the extent that the fee is attributable to the cost of registration or membership of the qualifying child in a program of prescribed physical activity and, for the purposes of this section, that cost"

S. 118.03(1), the definition "eligible fitness expense" was added by S.C. 2007, c. 2, s. 21(1), applicable to the 2007 and subsequent taxation years.

Regulations: 9400.

"*qualifying child*" — "qualifying child" of an individual for a taxation year means a child of the individual who is, at the beginning of the taxation year,

(*a*) under 16 years of age; or

(*b*) in the case where an amount is deductible under section 118.3 in computing any person's tax payable under this Part for the taxation year in respect of that child, under 18 years of age.

History: S. 118.03(1), the definition "qualifying child" was replaced by S.C. 2007, c. 35, s. 38(1), applicable to the 2007 and subsequent taxation years. S. 118.03(1), the definition "qualifying child" formerly read:

"'*qualifying child*' — 'qualifying child' of an individual for a taxation year means a child of the individual who had not, before the taxation year, attained the age of 16 years."

S. 118.03(1), the definition "qualifying child" was added by S.C. 2007, c. 2, s. 21(1), applicable to the 2007 and subsequent taxation years.

"*qualifying entity*" — "qualifying entity" means a person or partnership that offers one or more prescribed programs of physical activity.

History: S. 118.03(1), the definition "qualifying entity" was replaced by S.C. 2007, c. 35, s. 38(1), applicable to the 2007 and subsequent taxation years. S. 118.03(1), the definition "qualifying entity" formerly read:

"'*qualifying entity*' — 'qualifying entity' means a person or partnership that offers one or more programs of prescribed physical activity."

S. 118.03(1), the definition "qualifying entity" was added by S.C. 2007, c. 2, s. 21(1), applicable to the 2007 and subsequent taxation years.

► 118.03(2) ◄

(2) Child fitness tax credit. For the purpose of computing the tax payable under this Part by an individual for a taxation year, there may be deducted the amount determined by the formula

$$A \times B$$

where

A is the appropriate percentage for the taxation year; and

B is the total of all amounts each of which is, in respect of a qualifying child of the individual for the taxation year, the lesser of $500 and the amount determined by the formula

$$C - D$$

where

C is total of all amounts each of which is an amount paid in the taxation year by the individual, or by the individual's spouse or common law partner, that is an eligible fitness expense in respect of the qualifying child of the individual, and

D is the total of all amounts that any person is or was entitled to receive, each of which relates to an amount included in computing the value of C in respect of the qualifying child that is the amount of a reimbursement, allowance or any other form of assistance (other than an amount that is included in computing the income for any taxation year of that person and that is not deductible in computing the taxable income of that person).

History: S. 118.03(2) was added by S.C. 2007, c. 2, s. 21(1), applicable to the 2007 and subsequent taxation years.

Regulations: 9400.

► 118.03(2.1) ◄

(2.1) Child fitness tax credit — child with disability. For the purpose of computing the tax payable under this Part by an individual for a taxation year there may be deducted in respect of a qualifying child of the individual an amount equal to $500 multiplied by the appropriate percentage for the taxation year if

(*a*) the amount referred to in the description of B in subsection (2) is $100 or more; and

(*b*) an amount is deductible in respect of the qualifying child under section 118.3 in computing any person's tax payable under this Part for the taxation year.

History: S. 118.03(2.1) was added by S.C. 2007, c. 35, s. 38(3), applicable to the 2007 and subsequent taxation years.

► 118.03(3) ◄

(3) Apportionment of credit. If more than one individual is entitled to a deduction under this section for a taxation year in respect of a qualifying child, the total of all

amounts so deductible shall not exceed the maximum amount that would be so deductible for the year by any one of those individuals in respect of that qualifying child if that individual were the only individual entitled to deduct an amount for the year under this section in respect of that qualifying child, and if the individuals cannot agree as to what portion of the amount each can so deduct, the Minister may fix the portions.

History: S. 118.03(3) was added by S.C. 2007, c. 2, s. 21(1), applicable to the 2007 and subsequent taxation years.

SECTION 118.1: [Charitable gifts].

► 118.1(1) ◄

(1) Definitions. In this section,

Editorial Note: The 2003 Federal Budget set out proposals to amend the *Income Tax Act* to limit the tax benefits that arise from charitable donations made within tax shelters, and to address the issue of charitable donation arrangements that use limited-recourse debt. The Department of Finance released draft legislation on December 5, 2003 to amend the rules in these areas. This legislation was included in former Bill C-10, *income Tax Amendments Act, 2006*, which ceased to exist when Parliament was dissolved in September 2008. If the government is to proceed with these proposals, legislation will have to be reintroduced in a future bill. See proposed subsections 143.2(6.1) and 248(30) to (41), as well as the proposed amendments to subsections 127(3) and 143.2(13) and the definition of "gifting arrangement" in subsection 237.1(1).

Related Sections: S. 110.1(1) Deduction for gifts.
Interpretation Bulletins: *Secondary* — IT-407R4 (Consolid.) Dispositions of cultural property to designated Canadian institutions.
Registered Charities Newsletters: No. 16, Donations of items of a speculative value.
Tax Topics: No. 1654, Tax Shelters — Past, Present and Future.

"total charitable gifts" — "total charitable gifts" of an individual for a taxation year means the total of all amounts each of which is the fair market value of a gift (other than a gift the fair market value of which is included in the total Crown gifts, the total cultural gifts or the total ecological gifts of the individual for the year) made by the individual in the year or in any of the 5 immediately preceding taxation years (other than in a year for which a deduction under subsection 110(2) was claimed in computing the individual's taxable income) to

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of the definition "total charitable gifts" in subsection 118.1(1) of the Act before paragraph (*a*) is replaced by the following:

"total charitable gifts" — "total charitable gifts", in respect of an individual for a taxation year, means the total of all amounts each of which is the eligible amount of a gift (other than a gift described in the definition "total Crown gifts", "total cultural gifts" or "total ecological gifts") made by the individual in the year or in any of the five preceding taxation years (other than in a year for which a deduction under subsection 110(2) was claimed in computing the individual's taxable income) to

Applicable: To gifts made after December 20, 2002.

Explanatory Note: See the Explanatory Note following the amendment to the definition "total ecological gifts" in subsection 118.1(1).

(*a*) a registered charity,

(*b*) a registered Canadian amateur athletic association,

(*c*) a housing corporation resident in Canada and exempt from tax under this Part because of paragraph 149(1)(*i*),

(*d*) a Canadian municipality,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*d*) of the definition "total charitable gifts" in subsection 118.1(1) of the Act is replaced by the following:

(*d*) a municipality in Canada,

(*d.1*) a municipal or public body performing a function of government in Canada,

Applicable: To gifts made after May 8, 2000.

Explanatory Note: See the Explanatory Note following the amendment to the definition "total ecological gifts" in subsection 118.1(1).

(*e*) the United Nations or an agency thereof,

(*f*) a university outside Canada that is prescribed to be a university the student body of which ordinarily includes students from Canada,

(*g*) a charitable organization outside Canada to which Her Majesty in right of Canada has made a gift during the individual's taxation year or the 12 months immediately preceding that taxation year, or

(*g.1*) Her Majesty in right of Canada or a province,

to the extent that those amounts were

(*h*) not deducted in computing the individual's taxable income for a taxation year ending before 1988, and

(*i*) not included in determining an amount that was deducted under this section in computing the individual's tax payable under this Part for a preceding taxation year;

Sec. 6, Chap. 30, S.C. 2005

Sec. 6. [Re Donations for Tsunami Relief.] For the purpose of applying section 118.1 of the Act, a gift made by an individual after 2004 and before January 12, 2005 is deemed to have been made by the individual in the individual's 2004 taxation year and not in the individual's 2005 taxation year if

(*a*) the individual claims an amount under subsection 118.1(3) of the Act in respect of the gift for the individual's 2004 taxation year;

(*b*) the gift was made to a registered charity listed under the International Humanitarian Assistance program of the Canadian International Development Agency;

(*c*) the individual directed the charity to apply the gift to the tsunami relief effort; and

(*d*) the gift was in the form of cash or was transferred by way of cheque, credit card or money order.

History: S. 118.1(1), paragraph (*g.1*) of the definition "total charitable gifts" was added by S.C. 1998, c. 19, s. 22(1), applicable to taxation years that begin after 1996.

S. 118.1(1), that portion of the definition "total charitable gifts" before paragraph (*a*) was amended by S.C. 1996, c. 21, s. 23(1), applicable to gifts made after February 27, 1995. That portion formerly read:

" *'total charitable gifts'* — 'total charitable gifts' of an individual for a taxation year means the total of all amounts each of which is the fair market value of a gift (other than a gift the fair market value of which is included in the total Crown gifts or the total cultural gifts of the individual for the year, or would have been so included for a preceding taxation year if this section had applied to that preceding year) made by the individual in the year or in any of the 5 immediately preceding taxation years (other than in a year for which a deduction under subsection 110(2) was claimed in computing the individual's taxable income) to"

Related Sections: S. 143(3.1) Election in respect of gifts.
Regulations: 3501(1.1); 3503; Schedule VIII.
Information Circulars: IC 75-23 Tuition fees and charitable donations paid to privately supported secular and religious schools; IC 84-3R5 Gifts to certain charitable organizations outside Canada.
Income Tax Technical News: Issue No. 17, Loan of property as a gift.
Registered Charities Newsletters: No. 27, Planned giving: annuities, life insurance and charitable remainder trusts; No. 22, Rent-free accommodations; No. 22, Property won through a lottery; No. 22, Donate-a-car programs; No. 18, Did you know?; No. 14, Gifts by direct designation; No. 9, What is a Donor Benefit?; No. 9, How Do You Establish the Value of Gifts in Kind?; No. 8, Receipts for golf tournaments and gifts of art; No. 7, Fundraising auctions and fundraising golf tournaments; No. 7, Canadian charities and their U.S. donors; No. 6sr, Can registered charities issue donation tax receipts for tuition fees?; No. 4, Issuing receipts for gifts of art; No. 3, Gifts of property other than cash; No. 1, Donation of services.
Tax Profile: December 2005 — Fair Market Value — What the Appraiser Thinks Doesn't Matter.

"total Crown gifts" — "total Crown gifts" of an individual for a taxation year means the total of all amounts each of which is the fair market value of a gift (other than a gift the fair market value of which is included in the total cultural gifts or the total ecological gifts of the individual for the year) made by the individual in the year or in any of the 5 immediately preceding taxation years to Her Majesty in right of Canada or a province, to the extent that those amounts were

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of the definition "total Crown gifts" in subsection 118.1(1) of the Act before paragraph (*a*) is replaced by the following:

"total Crown gifts" — "total Crown gifts", in respect of an individual for a taxation year, means the total of all amounts each of which is the eligible amount of a gift (other than a gift described in the definition "total cultural gifts" or "total ecological gifts") made by the individual in the year or in any of the five preceding taxation years to Her Majesty in right of Canada or of a province, to the extent that those amounts were

Applicable: To gifts made after December 20, 2002.

Explanatory Note: See the Explanatory Note following the amendment to the definition "total ecological gifts" in subsection 118.1(1).

(*a*) not deducted in computing the individual's taxable income for a taxation year ending before 1988,

(*b*) not included in determining an amount that was deducted under this section in computing the individual's tax payable under this Part for a preceding taxation year; and

(*c*) in respect of gifts made before February 19, 1997 or under agreements in writing made before that day;

History: S. 118.1(1), paragraph (*c*) of the definition "total Crown gifts" was added by S.C. 1998, c. 19, s. 22(2), applicable to taxation years that begin after 1996.

S. 118.1(1), that portion of the definition "total Crown gifts" before paragraph (*a*) was amended by S.C. 1996, c. 21, s. 23(2), applicable to gifts made after February 27, 1995. That portion formerly read:

" *'total Crown gifts'* — 'total Crown gifts' of an individual for a taxation year means the total of all amounts each of which is the fair market value of a gift (other than a gift the fair market value of which is included in the total cultural gifts of the individual for the year, or would have been so included for a preceding taxation year if this section had applied to that preceding year) made by the individual in the year or in any of the 5 immediately preceding taxation years to Her Majesty in right of Canada or a province, to the extent that those amounts were"

Related Sections: S. 143(3.1) Election in respect of gifts.
Regulations: 3501(1.1).

"total cultural gifts" — "total cultural gifts" of an individual for a taxation year means the total of all amounts each of which is the fair market value of a gift

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of the definition "total cultural gifts" in subsection 118.1(1) of the Act before paragraph (*a*) is replaced by the following:

"total cultural gifts" — "total cultural gifts", in respect of an individual for a taxation year, means the total of all amounts each of which is the eligible amount of a gift

Applicable: To gifts made after December 20, 2002.

Explanatory Note: See the Explanatory Note following the amendment to the definition "total ecological gifts" in subsection 118.1(1).

(*a*) of an object that the Canadian Cultural Property Export Review Board has determined meets the criteria set out in paragraphs 29(3)(*b*) and (*c*) of the *Cultural Property Export and Import Act*, and

(*b*) that was made by the individual in the year or in any of the 5 immediately preceding taxation years to an institution or a public authority in Canada that was, at the time the gift was made, designated under subsection 32(2) of the *Cultural Property Export and Import Act* either generally or for a specified purpose related to that object,

to the extent that those amounts were

(*c*) not deducted in computing the individual's taxable income for a taxation year ending before 1988, and

(*d*) not included in determining an amount that was deducted under this section in computing the individual's tax payable under this Part for a preceding taxation year;

Related Sections: S. 143(3.1) Election in respect of gifts.
Regulations: 3501(1.1).

"total ecological gifts" — "total ecological gifts" of an individual for a taxation year means the total of all amounts each of which is the fair market value of a gift (other than a gift the fair market value of which is included in the total cultural gifts of the individual for the year) of land, including a servitude for the use and benefit of a dominant land, a covenant or an easement, the fair market value of which is certified by the Minister of the Environment and that is certified by

that Minister, or a person designated by that Minister, to be ecologically sensitive land, the conservation and protection of which is, in the opinion of that Minister, or that person, important to the preservation of Canada's environmental heritage, which gift was made by the individual in the year or in any of the five immediately preceding taxation years to

(*a*) Her Majesty in right of Canada or a province or a municipality in Canada, or

(*b*) a registered charity one of the main purposes of which is, in the opinion of the Minister of the Environment, the conservation and protection of Canada's environmental heritage, and that is approved by that Minister, or that person, in respect of that gift,

to the extent that those amounts were not included in determining an amount that was deducted under this section in computing the individual's tax payable under this Part for a preceding taxation year;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The definition "total ecological gifts" in subsection 118.1(1) of the Act is replaced by the following:

"*total ecological gifts*" — "total ecological gifts", in respect of an individual for a taxation year, means the total of all amounts each of which is the eligible amount of a gift (other than a gift described in the definition "total cultural gifts") of land (including a covenant or an easement to which land is subject or, in the case of land in the Province of Quebec, a real servitude) if

(*a*) the fair market value of the gift is certified by the Minister of the Environment,

(*b*) the land is certified by that Minister, or by a person designated by that Minister, to be ecologically sensitive land, the conservation and protection of which is, in the opinion of that Minister or the designated person, important to the preservation of Canada's environmental heritage, and

(*c*) the gift was made by the individual in the year or in any of the five preceding taxation years to

(i) Her Majesty in right of Canada or of a province,

(ii) a municipality in Canada,

(iii) a municipal or public body performing a function of government in Canada, or

(iv) a registered charity one of the main purposes of which is, in the opinion of that Minister, the conservation and protection of Canada's environmental heritage, and that is approved by that Minister or the designated person in respect of the gift,

to the extent that those amounts were not included in determining an amount that was deducted under this section in computing the individual's tax payable under this Part for a preceding taxation year;

Applicable: To gifts made after December 20, 2002. In addition, for gifts made after May 8, 2000 but before December 21, 2002, paragraph (*a*) of the definition "total ecological gifts" in subsection 118.1(1) is to be read as follows:

"(*a*) Her Majesty in right of Canada or of a province, a municipality in Canada or a municipal or public body performing a function of government in Canada, or"

Explanatory Note: Section 118.1 of the Act provides for a charitable donations tax credit to individuals in respect of gifts made to registered charities and to certain other entities. Section 118.1 is amended to expand the entities referred to in this section to include municipal or public bodies performing a function of government in Canada. This amendment is in response to the Quebec Court of Appeal decision in *Tawich Development Corporation* v. *Deputy Minister of Revenue of Quebec*, 2001 D.T.C. 5144. For additional information, see the commentary to paragraph 149(1)(*d.5*).

The amendments to section 118.1, described below, are made consequential to the addition of new subsections 248(30) to (39) of the Act. Generally, those subsections clarify the circumstances under which a transfer of property will be considered a gift notwithstanding that the donor may be entitled to receive an advantage or benefit in respect of the property. New subsection 248(31) generally provides that the "eligible amount" of the gift is the excess of the fair market value of a property transferred by way of gift over the value of the advantage or benefit, if any, to which the transferor is entitled. For additional information, see the commentary to new subsections 248(30) to (39).

Definitions

Subsection 118.1(1) of the Act provides definitions of the terms "total charitable gifts", "total Crown gifts", "total cultural gifts" and "total ecological gifts". These definitions apply for the purpose of the tax credit available under subsection 118.1(3) of the Act to individuals who make such gifts. The amount of a gift that is eligible for a tax credit is, generally, the fair market value of the property disposed of by the individual in the making of the gift.

The definitions "total charitable gifts", "total Crown gifts", "total cultural gifts" and "total ecological gifts" in subsection 118.1(1) are amended, as a consequence of the addition of new subsection 248(31) of the Act, to provide that the amount that qualifies for the credit under subsection 118.1(3) is the "eligible amount" of a gift.

In addition, the definition of "total charitable gifts" and the definition of "total ecological gifts" in subsection 118.1(1) are expanded to include a gift to a municipal or public body performing a function of government in Canada.

The definition "total ecological gifts" is also amended to clarify its application to "real servitudes" under the *Civil Code of Quebec*.

Variable B in the formula in the definition of "total gifts" in subsection 118.1(1) generally provides that 100% of a taxable capital gain that results from a gift is included in the annual income limit that applies to gifts. This is an enhancement of the 75% income limit that generally applies to other types of income. Variable B is amended as a consequence of the addition of new subsection 248(31) of the Act, to ensure that the enhanced income limit only applies to the portion of a taxable capital gain that relates to the eligible amount of a gift.

The amendments to subsection 118.1(1) apply in respect of gifts made after December 20, 2002, except that the amendments to paragraph (*d.1*) of the definition of "total charitable gifts" and paragraph (*c*) of the definition of "total ecological gifts" apply in respect of gifts made after May 8, 2000.

History: S. 118.1(1), the portion of the definition "total ecological gifts" before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 94(1), applicable in respect of gifts made, or proposed to be made, after February 27, 2000. S. 118.1(1), the portion of the definition "total ecological gifts" before paragraph (*a*) formerly read:

"*'total ecological gifts'* — 'total ecological gifts' of an individual for a taxation year means the total of all amounts each of which is the fair market value of a gift (other than a gift the fair market value of which is included in the total cultural gifts of the individual for the year) of land, including a servitude for the use and benefit of a dominant land, a covenant or an easement, that is certified by the Minister of the Environment, or a person designated by that Minister, to be ecologically sensitive land, the conservation and protection of which is, in the opinion of that Minister, or that person, important to the preservation of Canada's environmental heritage, which gift was made by the individual in the year or in any of the 5 immediately preceding taxation years to"

S. 118.1(1), paragraph (*a*) of the definition "total ecological gifts" was amended by S.C. 1998, c. 19, s. 22(3), applicable to gifts made after February 18, 1997. S. 118.1(1), paragraph (*a*) of the definition "total ecological gifts" formerly read:

"(*a*) a Canadian municipality, or"

S. 118.1(1), the definition "total ecological gifts", was added by S.C. 1996, c. 21, s. 23(4), applicable to gifts made after February 27, 1995.

Related Sections: S. 143(3.1) Election in respect of gifts; s. 207.31 Tax payable by recipient of an ecological gift; s. 207.4(1) Return and payment of tax.

Registered Charities Newsletters: No. 22, Ecological gifts.

"*total gifts*" — "total gifts" of an individual for a taxation year means the total of

(*a*) the least of

(i) the individual's total charitable gifts for the year,

(ii) the individual's income for the year where the individual dies in the year or in the following taxation year, and

(iii) in any other case, the lesser of the individual's income for the year and the amount determined by the formula

$$0.75A + 0.25 (B + C + D - E)$$

where

A is the individual's income for the year,

B is the total of all amounts each of which is a taxable capital gain of the individual for the year from a disposition that is the making of a gift made by the individual in the year, which gift is included in the individual's total charitable gifts for the year,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The description of B in subparagraph (*a*)(iii) of the definition "total gifts" in subsection 118.1(1) of the Act is replaced by the following:

B is the total of all amounts, each of which is that proportion of the individual's taxable capital gain for the taxation year in respect of a gift made by the individual in the taxation year (in respect of which gift an eligible amount is included in the individual's total charitable gifts for the taxation year) that the eligible amount of the gift is of the individual's proceeds of disposition in respect of the gift,

Applicable: To gifts made after December 20, 2002.

Explanatory Note: See the Explanatory Note following the amendment to the definition "total ecological gifts" in subsection 118.1(1).

C is the total of all amounts each of which is a taxable capital gain of the individual for the year, because of subsection 40(1.01), from a disposition of a property in a preceding taxation year,

D is the total of all amounts each of which is determined in respect of the individual's depreciable property of a prescribed class and equal to the lesser of

(A) the amount included under subsection 13(1) in respect of the class in computing the individual's income for the year, and

(B) the total of all amounts each of which is determined in respect of a disposition that is the making of a gift of property of the class made by the individual in the year that is included in the individual's total charitable gifts for the year and equal to the lesser of

(I) the proceeds of disposition of the property minus any outlays and expenses to the extent that they were made or incurred by the individual for the purpose of making the disposition, and

(II) the capital cost to the individual of the property, and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Clause (B) in the description of D in subparagraph (*a*)(iii) of the definition "total gifts" in subsection 118.1(1) of the Act is replaced by the following:

(B) the total of all amounts each of which is determined in respect of a disposition that is the making of a gift of property of the class made by the individual in the year (in respect of which gift an eligible amount is included in the individual's total charitable gifts for the taxation year) equal to the lesser of

(I) that proportion, of the amount by which the proceeds of disposition of the property exceed any outlays and expenses, to the extent that they were made or incurred by the individual for the purpose of making the disposition, that the eligible amount of the gift is of the individual's proceeds of disposition in respect of the gift, and

(II) that proportion, of the capital cost to the individual of the property, that the eligible amount of the gift is of the individual's proceeds of disposition in respect of the gift, and

Applicable: To gifts made after December 20, 2002.

Explanatory Note: See the Explanatory Note following the amendment to the definition "total ecological gifts" in subsection 118.1(1).

E is the total of all amounts each of which is the portion of an amount deducted under section 110.6 in computing the individual's taxable income for the year that can reasonably be considered to be in respect of a gift referred to in the description of B or C,

(*b*) the individual's total Crown gifts for the year,

(*c*) the individual's total cultural gifts for the year, and

(*d*) the individual's total ecological gifts for the year.

History: S. 118.1(1), subparagraph (*a*)(iii) of the definition "total gifts", was amended by S.C. 1998, c. 19, s. 23(4), applicable to taxation years that begin after 1996. S. 118.1(1), subparagraph (*a*)(iii) of the definition "total gifts" formerly read:

"(iii) in any other case, the amount determined by the formula

0.5(A + B – C)

where

A is the individual's income for the year,

B is the total of all amounts each of which is the amount of a taxable capital gain from a gift of property made by the individual in the year to a donee described in the definition 'total charitable gifts', and

C is the total of all amounts each of which is the portion of an amount deducted under section 110.6 in computing the individual's taxable income for the year that can reasonably be considered to be in respect of a gift of capital property made by the individual in the year to a donee described in the definition 'total charitable gifts',"

S. 118.1(1), paragraph (*a*) of the definition "total gifts", was amended by S.C. 1997, c. 25, s. 26(1), applicable to the 1996 and subsequent taxation years and, where an individual dies in 1996, to the individual's 1995 taxation year. That part formerly read:

"(*a*) the lesser of

(i) the individual's total charitable gifts for the year, and

(ii) 1/5 of the individual's income for the year,"

S. 118.1(1), paragraph (*d*) of the definition "total gifts", was added by S.C. 1996, c. 21, s. 23(3), applicable to gifts made after February 27, 1995.

S. 118.1(1) was amended by S.C. 1994, c. 7, Sched. II, s. 88(1), applicable after December 11, 1988. S. 118.1(1) formerly read as follows:

"(1) In this section

'total charitable gifts' — 'total charitable gifts' of an individual for a taxation year means the total of all amounts each of which is the amount of a gift made by the individual in the year or in one of the 5 immediately preceding taxation years to

(*a*) a registered charity,

(*b*) a registered Canadian amateur athletic association,

(*c*) a housing corporation resident in Canada and exempt from tax under this Part by paragraph 149(1)(*i*),

(*d*) a Canadian municipality,

(*e*) the United Nations or an agency thereof,

(*f*) a university outside Canada prescribed to be a university the student body of which ordinarily includes students from Canada, or

(*g*) a charitable organization outside Canada to which Her Majesty in right of Canada has made a gift during the individual's taxation year or the 12 months immediately preceding that taxation year,

to the extent that the amounts of those gifts have been neither

(*h*) deducted in computing the individual's taxable income for a taxation year preceding 1988, nor

(*i*) used in determining an amount that has been deducted under this section in computing the individual's tax payable under this Part for a preceding taxation year,

but, where the individual has claimed a deduction under subsection 110(2) in computing the individual's taxable income for a taxation year, does not include the amount of any gift made in that year;

'total Crown gifts' — 'total Crown gifts' of an individual for a taxation year means the total of all amounts each of which is the amount of a gift made by the individual in the year or in one of the 5 immediately preceding taxation years to Her Majesty in right of Canada or to Her Majesty in right of a province, to the extent that the amounts of those gifts have been neither

(*a*) deducted in computing the individual's taxable income for a taxation year preceding 1988, nor

(*b*) used in determining an amount that has been deducted under this section in computing the individual's tax payable under this Part for a preceding taxation year;

'total cultural gifts' — 'total cultural gifts' of an individual for a taxation year means the total of all values each of which is the value of a gift

(*a*) of an object that the Canadian Cultural Property Export Review Board has determined meets all the criteria set out in paragraphs 29(3)(*b*) and (*c*) of the *Cultural Property Export and Import Act*,

(*b*) that neither is included in the total charitable gifts or the total Crown gifts of the individual for the year, nor would have been so included in a preceding taxation year had this section been applicable to that preceding year, and

(*c*) that was made by the individual in the year or in one of the 5 immediately preceding taxation years to an institution or public authority in Canada that was, at the time the gift was made, designated under subsection 32(2) of the *Cultural Property Export and Import Act* either generally or for a purpose related to the object referred to in paragraph (*a*)

to the extent that the values of those gifts have been neither

(*d*) deducted in computing the individual's taxable income for a taxation year preceding 1988, nor

(*e*) used in determining an amount that has been deducted under this section in computing the individual's tax payable under this Part for a preceding taxation year;

'total gifts' — 'total gifts' of an individual for a taxation year means the total of

(*a*) the lesser of

(i) the individual's total charitable gifts for the year, and

(ii) 1/5 of the individual's income for the year computed without reference to subsection 137(2),

(*b*) the individual's total Crown gifts for the year, and

(*c*) the individual's total cultural gifts for the year."

Related Sections: S. 110.1(1) Deduction for gifts; s. 118.1(2) Proof of gift; s. 118.1(5) Gift by will; s. 118.1(6) Gift of capital property; s. 118.1(7) Gifts of art; s. 118.1(9) Commuter's charitable donations; s. 127.52(1)(*d*) Adjusted taxable income determined; s. 149.1(6.4) National arts service organizations; s. 207.31 Tax payable by recipient of an ecological gift; s. 248, "amount", "individual", "registered Canadian amateur athletic association", "registered charity", "taxable income".

Regulations: Part XXXV; Sched. VIII; 3503.

Interpretation Bulletins: *Primary* — IT-110R3 Deductible gifts and official donation receipts; IT-297R2 Gifts in kind to charity and others. *Secondary* — IT-151R5 (Consolid.) — Scientific research and experimental development expenditures; IT-151R4 Scientific research and experimental development expenditures [Archived by the CRA]; IT-171R2 Non-resident individuals — Computation of taxable income earned in Canada and non-refundable tax credits [Archived by the CRA]; IT-226R Gift to a charity of a residual interest in real property or an equitable interest in a trust; IT-288R2 Gifts of capital properties to a charity and others; IT-407R4 (Consolid.) Dispositions of cultural property to designated Canadian institutions; IT-504R2 (Consolid.) Visual artists and writers.

Information Circulars: IC 84-3R5 Gifts to certain charitable organizations outside Canada.

Advance Tax Rulings: ATR-63 Donations to agents of the Crown.

Registered Charities Newsletters: No. 6SR, Canadian charities and their U.S. donors.

► 118.1(2) ◄

(2) Proof of gift. A gift shall not be included in the total charitable gifts, total Crown gifts, total cultural gifts or total ecological gifts of an individual unless the making of the gift is proven by filing with the Minister

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 118.1(2) of the Act before paragraph (*a*) is replaced by the following:

(2) Proof of gift. An eligible amount of a gift shall not be included in the total charitable gifts, total Crown gifts, total cultural gifts or total ecological gifts of an individual unless the making of the gift is evidenced by filing with the Minister

Applicable: To gifts made after December 20, 2002.

Explanatory Note:

Proof of Gift

Subsection 118.1(2) of the Act provides that an amount in respect of a gift by an individual may not be included in the amount eligible for a tax credit under subsection 118.1(3) unless the gift is evidenced by a receipt containing prescribed information. Subsection 118.1(2) is amended concurrently with subsection 118.1(1), to refer to the "eligible amount" of a gift.

It is proposed that subsections 3501(1), (1.1) and (6) of the Regulations be amended to provide that every official receipt issued by a registered organization in respect of a gift contain, in addition to the information already prescribed, the amount of the advantage, if any, and the eligible amount of the gift.

For additional details, see the commentary to new subsections 248(31) and (32) of the Act regarding the eligible amount and the amount of the advantage in respect of a gift.

The amendments to subsection 118.1(2) of the Act and subsections 3501(1), (1.1) and (6) of the Regulations are to be effective in respect of gifts made after December 20, 2002.

(*a*) a receipt for the gift that contains prescribed information;

(*b*) in the case of a gift described in the definition "total cultural gifts" in subsection (1), the certificate issued under subsection 33(1) of the *Cultural Property Export and Import Act*; and

(*c*) in the case of a gift described in the definition "total ecological gifts" in subsection (1), both certificates referred to in that definition.

History: S. 118.1(2) was amended by S.C. 2001, c. 17, s. 94(2), applicable in respect of gifts made, or proposed to be made, after February 27, 2000 except that subsection 118.1(2) of the Act shall be read without reference to paragraph 118.1(2)(*b*) in respect of gifts made before December 21, 2000. S. 118.1(2) formerly read:

"(2) *Proof of gift.* A gift shall not be included in the total charitable gifts, total Crown gifts, total cultural gifts or total ecological gifts of an individual unless the making of the gift is proven by filing with the Minister a receipt therefor that contains prescribed information."

S. 118.1(2) was amended by S.C. 1996, c. 21, s. 23(5), applicable to gifts made after February 27, 1995. S. 118.1(2) formerly read:

"(2) *Proof of gift.* A gift shall not be included in the total charitable gifts, total Crown gifts or total cultural gifts of an individual unless the making of the gift is proven by filing with the Minister a receipt therefor that contains prescribed information."

Related Sections: S. 118.1(1) Definitions.
Regulations: 3501(1).
Interpretation Bulletins: *Secondary* — IT-407R4 (Consolid.) Dispositions of cultural property to designated Canadian institutions.
Income Tax Technical News: Issue No. 26, Proposed Guidelines on Split Receipting.
Registered Charities Newsletters: No. 31, Reminders; No. 31, Top 3 Compliance Issues; No. 31, Split Receipting; No. 31, Questions and Answers — Correcting Errors and Making Changes; No. 29, Valuating donations; No. 27, Receipts — Who is the donor?; No. 23, New requirements for official donation receipts; No. 23, Golf tournaments; No. 18, Did you know?; No. 17, Questions and Answers on Split Receipting; No. 14, Business Number (BN) and donation receipts; No. 11, Audit of Tax Preparer Lands Registered Charities and Executive Director in Hot Water; No. 8, Receipts for golf tournaments and gifts of art; No. 6, The "art" of issuing official donation receipts; No. 4, Issuing receipts for gifts of art; No. 2, Issuing official donation receipts where there are prizes; No. 1, Donation of services.

► 118.1(2.1) ◄

(2.1) Ordering. For the purposes of determining the total charitable gifts, total Crown gifts, total cultural gifts and total ecological gifts of an individual for a taxation year, no amount in respect of a gift described in any of the definitions of those expressions and made in a particular taxation year shall be considered to have been included in determining an amount that was deducted under this section in computing the individual's tax payable under this Part for a taxation year until amounts in respect of such gifts made in taxation years preceding the particular year that can be so considered are so considered.

History: S. 118.1(2.1) was added by S.C. 1998, c. 19, s. 22(5), applicable to taxation years that begin after 1996.

Related Sections: S. 110.1(1.1) Limitation on deductibility.
Interpretation Bulletins: *Secondary* — IT-407R4 (Consolid.) Dispositions of cultural property to designated Canadian institutions.

► 118.1(3) ◄

(3) Deduction by individuals for gifts. For the purpose of computing the tax payable under this Part by an individual for a taxation year, there may be deducted such amount as the individual claims not exceeding the amount determined by the formula

$$(A \times B) + [C \times (D - B)]$$

where

A is the appropriate percentage for the year;

B is the lesser of $200 and the individual's total gifts for the year;

C is the highest percentage referred to in subsection 117(2) that applies in determining tax that might be payable under this Part for the year; and

D is the individual's total gifts for the year.

Sec. 6, Chap. 30, S.C. 2005

Sec. 6. [Re Donations for Tsunami Relief.] For the purpose of applying section 118.1 of the Act, a gift made by an individual after 2004 and before January 12, 2005 is deemed to have been made by the individual in the individual's 2004 taxation year and not in the individual's 2005 taxation year if

(*a*) the individual claims an amount under subsection 118.1(3) of the Act in respect of the gift for the individual's 2004 taxation year;

(*b*) the gift was made to a registered charity listed under the International Humanitarian Assistance program of the Canadian International Development Agency;

(*c*) the individual directed the charity to apply the gift to the tsunami relief effort; and

(*d*) the gift was in the form of cash or was transferred by way of cheque, credit card or money order.

History: S. 118.1(3) was amended by S.C. 1995, c. 3, s. 34(1), applicable to the 1994 and subsequent taxation years. S. 118.1(3) formerly read:

"(3) *Deduction by individuals for gifts.* For the purpose of computing the tax payable under this Part by an individual for a taxation year, there may be deducted such amount as the individual may claim not exceeding an amount determined by the formula

$$(A \times B) + [C \times (D - B)]$$

where

A is the appropriate percentage for the year;

B is the lesser of $250 and the individual's total gifts for the year;

C is the highest percentage referred to in subsection 117(2) that is applicable in determining tax that might be payable under this Part for the year; and

D is the individual's total gifts for the year."

Related Sections: S. 37(5) Where no deduction allowed under ss. 110.1 and 118.1; s. 110(2) Charitable gifts.
Interpretation Bulletins: *Primary* — IT-226R Gift to a charity of a residual interest in real property or an equitable interest in a trust. *Secondary* — IT-407R4 (Consolid.) Dispositions of cultural property to designated Canadian institutions.
Information Circulars: IC 75-23 Tuition fees and charitable donations paid to privately supported secular and religious schools; IC 07-1 Taxpayer Relief Provisions.
Income Tax Technical News: Issue No. 26, Proposed Guidelines on Split-Receipting.
Forms: T1 SCH 9.
Guides: RC4142 Tax Advantages of Donating to Charity; P113 Gifts and Income tax.
Registered Charities Newsletters: No. 29, Tax shelter gifting arrangements; No. 23, Volunteering services is not a gift; No. 14, Gifts by direct designation.
Tax Profile: April 2004 — The Battle of the Art Donation Cases Continues; May 2002 — Update on Charitable Giving.
Canadian Tax Foundation: Ball and Dietrich, "Rewards for the Generous: A Review of Recent Tax Changes for Charitable Donations", *1998 Canadian Tax Journal*, No. 2, 415.
Cases: The taxpayers each purchased a group of limited edition prints, donated them to charities and received donation receipts for approximately three times the purchase price. Since the prints were acquired and donated in groups, FMV should be determined on a group basis and was equal to the highest price that the art vendor charged for each group of prints. *A.G. of Canada v. Nash et al.*, 2005 DTC 5696 (F.C.A.), reversing 2004 DTC 3391, 2004 DTC 3328 and 2004 DTC 3360 (T.C.C.).

The taxpayer arranged for the owner of an art gallery to purchase works of art in his name, and to donate them to charitable organizations in return for a tax receipt. The taxpayer never saw or took possession of the art. The taxpayer was denied a charitable donations tax credit because the supporting documentation was inadequate. The taxpayer had failed to prove that he was the owner of the works in issue, that he had donated them, or that the values shown in the receipts represented true fair market values. *Chabot v. The Queen*, 2002 DTC 6708 (F.C.A.), affirming in the main 2000 DTC 1795 (T.C.C.).

Taxpayers entitled to credit for donation of art to registered charitable organizations even though the taxpayers never had physical possession of

the art. However, the taxpayers had demonstrated gross negligence by obtaining receipts for the art showing the value to be four times fair market value. *Côté et al. v. The Queen*, 99 DTC 72 (T.C.C.)

Payments made to the Canadian Ski Association, a registered amateur athletic association, were not true "gifts". The donor believed he was paying for his daughter's ski training. He, therefore, did not have the *animus donandi* or liberal intent to make the gift without expecting to receive a benefit in return. *Dr. Burns v. The Queen*, 90 DTC 6335 (F.C.A.), affirming 88 DTC 6101 (F.C.T.D.).

The taxpayer could not deduct contributions to religious schools which were attended by his children. Although the schools were registered charities and although the taxpayer was not bound to pay tuition fees, financial contribution was expected where possible and the taxpayer was well aware of this. *The Queen v. McBurney*, 85 DTC 5433 (F.C.A.), reversing 84 DTC 6494 (F.C.T.D.). See also *Bleeker Stereo and Television Ltd. v. M.N.R.*, 84 DTC 1761 (T.C.C.).

The maximum must be calculated on total income received, even where the taxpayer was permitted to report a reduced amount because he had two fiscal periods in the same taxation year. *The Queen v. Goodman*, 75 DTC 5022 (F.C.T.D.).

The cash surrender value of a life insurance policy designating a university as beneficiary was held to qualify as a charitable donation. *Konrad v. M.N.R.*, 75 DTC 199 (T.R.B.).

Since the Act specifically speaks about charitable organizations in Canada, no deduction could be allowed with respect of a gift sent direct to England for flood relief. *Merrill v. M.N.R.*, 55 DTC 421 (T.A.B.).

► 118.1(4) ◄

(4) Gift in year of death. Subject to subsection (13), a gift made by an individual in the particular taxation year in which the individual dies (including, for greater certainty, a gift otherwise deemed by subsection (5), (5.2), (5.3), (7), (7.1), (13) or (15) to have been so made) is deemed, for the purpose of this section other than this subsection, to have been made by the individual in the preceding taxation year, and not in the particular year, to the extent that an amount in respect of the gift is not deducted in computing the individual's tax payable under this Part for the particular year.

History: S. 118.1(4) was amended by S.C. 2001, c. 17, s. 94(3), applicable in respect of deaths that occur after 1998. S. 118.1(4) formerly read:

"(4) *Gift in year of death.* Subject to subsection (13), a gift made by an individual in the particular taxation year in which the individual dies (including, for greater certainty, a gift otherwise deemed by subsection (5), (13) or (15) to have been so made) is deemed, for the purpose of this section other than this subsection, to have been made by the individual in the immediately preceding taxation year, and not in the particular year, to the extent that an amount in respect of the gift is not deducted in computing the individual's tax payable under this Part for the particular year."

Sec. 94(13), Chap. 17, S.C. 2001

(13) For taxation years before 2000, subsection 118.1(4) of the Act shall be read without reference to subsections 118.1(7) and (7.1) of the Act except that, where a taxpayer or a taxpayer's legal representative notifies the Minister of National Revenue in writing before 2002 of the intention of the taxpayer or the taxpayer's legal representative that this subsection apply in respect of a gift made after 1996 and before 2000, subsection 118.1(4) of the Act applies to the taxation year in which the gift was made and shall be read, in respect of the 1996 to 1998 taxation years, without reference to subsections 118.1(5.2) and (5.3) of the Act.

S. 118.1(4) was amended by S.C. 1998, c. 19, s. 22(6), applicable to gifts made after July 1997. S. 118.1(4) formerly read:

"(4) *Time of gift.* For the purposes of this section, a gift made by an individual in the taxation year in which the individual dies shall be deemed to have been made by the individual in the immediately preceding taxation year to the extent that an amount in respect thereof is not deducted in computing the individual's tax payable under this Part for the taxation year in which the individual dies."

Interpretation Bulletins: *Secondary* — IT-288R2 Gifts of capital properties to a charity and others; IT-407R4 (Consolid.) Dispositions of cultural property to designated Canadian institutions.

► 118.1(5) ◄

(5) Gift by will. Subject to subsection (13), where an individual by the individual's will makes a gift, the gift is, for the purpose of this section, deemed to have been made by the individual immediately before the individual died.

History: S. 118.1(5) was amended by S.C. 1998, c. 19, s. 22(6), applicable to gifts made after July 1997. S. 118.1(5) formerly read:

"(5) *Gift by will.* Where an individual by the individual's will makes a gift to a donee described in subsection (1), the gift shall, for the purposes of this section, be deemed to have been made by the individual in the taxation year in which the individual dies."

Interpretation Bulletins: *Secondary* — IT-226R Gift to a charity of a residual interest in real property or an equitable interest in a trust; IT-407R4 (Consolid.) Dispositions of cultural property to designated Canadian institutions.

Registered Charities Newsletters: No. 27, Gift of residue of an estate can qualify as a "gift by the individual's will"; No. 11, What is deferred giving?.

Canadian Tax Foundation: Ball and Dietrich, "Bequests and Estate Planning", *1999 Canadian Tax Journal*, No. 4, 995.

► 118.1(5.1) ◄

(5.1) Direct designation — insurance proceeds. Subsection (5.2) applies to an individual in respect of a life insurance policy where

(*a*) the policy is a life insurance policy under which, immediately before the individual's death, the individual's life was insured;

(*b*) a transfer of money, or a transfer by means of a negotiable instrument, is made as a consequence of the individual's death and solely because of the obligations under the policy, from an insurer to a qualified donee (other than a transfer the amount of which is not included in computing the income of the individual or the individual's estate for any taxation year but would have been included in computing the income of the individual or the individual's estate for a taxation year if the transfer had been made to the individual's legal representative for the benefit of the individual's estate and this Act were read without reference to subsection 70(3));

(*c*) immediately before the individual's death,

(i) the individual's consent would have been required to change the recipient of the transfer described in paragraph (b), and

(ii) the donee was neither a policyholder under the policy, nor an assignee of the individual's interest under the policy; and

(*d*) the transfer occurs within the 36 month period that begins at the time of the death (or, where written application to extend the period has been made to the Minister by the individual's legal representative, within such longer period as the Minister considers reasonable in the circumstances).

History: S. 118.1(5.1) was added by S.C. 2001, c. 17, s. 94(4), applicable in respect of deaths that occur after 1998.

Registered Charities Newsletters: No. 27, Planned giving: annuities, life insurance and charitable remainder trusts; No. 15, Gifts by direct designation; No. 11, What is deferred giving?.

Tax Profile: May 2002 — Update on Charitable Giving.

► 118.1(5.2) ◄

(5.2) Deemed gift — subsection (5.1). Where this subsection applies,

(*a*) for the purpose of this section (other than subsection (5.1) and this paragraph) and section 149.1, the transfer described in subsection (5.1) is deemed to be a gift made, immediately before the individual's death, by the individual to the qualified donee referred to in subsection (5.1); and

(*b*) the fair market value of the gift is deemed to be the fair market value, at the time of the individual's death, of the right to that transfer (determined

without reference to any risk of default with regard to obligations of the insurer).

History: S. 118.1(5.2)(*a*) was replaced by S.C. 2005, c. 19, s. 23(1), applicable in respect of deaths that occur after 1998. S. 118.1(5.2)(*a*) formerly read:

"(*a*) for the purpose of this section (other than subsection (5.1) and this paragraph), the transfer described in subsection (5.1) is deemed to be a gift made, immediately before the individual's death, by the individual to the qualified donee referred to in subsection (5.1); and"

S. 118.1(5.2) was added by S.C. 2001, c. 17, s. 94(4), applicable in respect of deaths that occur after 1998.

Registered Charities Newsletters: No. 27, Planned giving: annuities, life insurance and charitable remainder trusts; No. 15, Gifts by direct designation.

► 118.1(5.3) ◄

(5.3) Direct designation — RRSPs, RRIFs and TFSAs. If as a consequence of an individual's death, a transfer of money, or a transfer by means of a negotiable instrument, is made, from an arrangement (other than an arrangement of which a licensed annuities provider is the issuer or carrier) that is a registered retirement savings plan or registered retirement income fund or that was, immediately before the individual's death, a TFSA to a qualified donee, solely because of the donee's interest or, for civil law, a right as a beneficiary under the arrangement, the individual was the annuitant under, or the holder of, the arrangement immediately before the individual's death and the transfer occurs within the 36-month period that begins at the time of the death (or, where written application to extend the period has been made to the Minister by the individual's legal representative, within such longer period as the Minister considers reasonable in the circumstances),

(*a*) for the purposes of this section (other than this paragraph) and section 149.1, the transfer is deemed to be a gift made, immediately before the individual's death, by the individual to the donee; and

(*b*) the fair market value of the gift is deemed to be the fair market value, at the time of the individual's death, of the right to the transfer (determined without reference to any risk of default with regard to the obligations of the issuer or carrier of the arrangement).

History: S. 118.1(5.3), the portion before paragraph (*a*) was replaced by S.C. 2009, c. 2, s. 35(1), applicable to the 2009 and subsequent taxation years. S. 118.1(5.3), the portion before paragraph (*a*) formerly read:

"(5.3) *Direct designation — RRSPs, RRIFs and TFSAs.* If as a consequence of an individual's death, a transfer of money, or a transfer by means of a negotiable instrument, is made, from an arrangement that is a registered retirement savings plan, registered retirement income fund or TFSA (other than an arrangement of which a licensed annuities provider is the issuer or carrier) to a qualified donee, solely because of the donee's interest or, for civil law, a right as a beneficiary under the arrangement, the individual was the annuitant under, or the holder of, the arrangement immediately before the individual's death and the transfer occurs within the 36-month period that begins at the time of the death (or, where written application to extend the period has been made to the Minister by the individual's legal representative, within such longer period as the Minister considers reasonable in the circumstances),"

S. 118.1(5.3) was replaced by S.C. 2008, c. 28, s. 15(1), applicable to the 2009 and subsequent taxation years. S. 118.1(5.3) formerly read:

"(5.3) *Direct designation — RRSPs and RRIFs.* Where as a consequence of an individual's death, a transfer of money, or a transfer by means of a negotiable instrument, is made, from a registered retirement savings plan or registered retirement income fund (other than a plan or fund of which a licensed annuities provider is the issuer or carrier, as the case may be) to a qualified donee, solely because of the donee's interest as a beneficiary under the plan or fund, the individual was the annuitant (within the meaning assigned by subsection 146(1) or 146.3(1)) under the plan or fund immediately before the individual's death and the transfer occurs within the 36-month period that begins at the time of the death (or, where written application to extend the period has been made to the Minister by the individual's legal representative, within such longer period as the Minister considers reasonable in the circumstances),

(*a*) for the purposes of this section (other than this paragraph) and section 149.1, the transfer is deemed to be a gift made, immediately before the individual's death, by the individual to the donee; and

(*b*) the fair market value of the gift is deemed to be the fair market value, at the time of the individual's death, of the right to the transfer (determined without reference to any risk of default with regard to the obligations of the issuer of the plan or the carrier of the fund)."

S. 118.1(5.3)(*a*) was replaced by S.C. 2005, c. 19, s. 23(2), applicable in respect of deaths that occur after 1998. S. 118.1(5.3)(*a*) formerly read:

"(*a*) for the purposes of this section (other than this paragraph), the transfer is deemed to be a gift made, immediately before the individual's death, by the individual to the donee; and"

S. 118.1(5.3) was added by S.C. 2001, c. 17, s. 94(4), applicable in respect of deaths that occur after 1998.

Registered Charities Newsletters: No. 15, Gifts by direct designation.

► 118.1(6) ◄

(6) Gift of capital property. Where, at any time, whether by the individual's will or otherwise, an individual makes a gift of

(*a*) capital property to a donee described in the definition "total charitable gifts", "total Crown gifts" or "total ecological gifts" in subsection (1), or

(*b*) in the case of an individual who is a non-resident person, real property situated in Canada to a prescribed donee who provides an undertaking, in a form satisfactory to the Minister, to the effect that the property will be held for use in the public interest,

and the fair market value of the property otherwise determined at that time exceeds its adjusted cost base to the individual, such amount, not greater than the fair market value and not less than the adjusted cost base to the individual of the property at that time, as the individual or the individual's legal representative designates in the individual's return of income under section 150 for the year in which the gift is made is, if the making of the gift is proven by filing with the Minister a receipt containing prescribed information, deemed to be the individual's proceeds of disposition of the property and, for the purposes of subsection (1), the fair market value of the gift made by the individual.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 118.1(6) of the Act is replaced by the following:

(5.4) Where subsection (6) applies. Subsection (6) applies in circumstances where

(*a*) an individual

(i) makes a gift (by the individual's will or otherwise) at any time of capital property to a donee described in the definition "total charitable gifts", "total Crown gifts" or "total ecological gifts" in subsection (1), or

(ii) who is non-resident, makes a gift (by the individual's will or otherwise) at any time of real or immovable property situated in Canada to a prescribed donee who provides an undertaking, in a form satisfactory to the Minister, to the effect that the property will be held for use in the public interest; and

(*b*) the fair market value of the property otherwise determined at that time exceeds

(i) in the case of depreciable property of a prescribed class, the lesser of the undepreciated capital cost of

that class at the end of the taxation year of the individual that includes that time (determined without reference to proceeds of disposition designated in respect of the property under subsection (6)) and the adjusted cost base to the individual of the property immediately before that time, and

(ii) in any other case, the adjusted cost base to the individual of the property immediately before that time.

(6) Gifts of capital property. If this subsection applies in respect of a gift by an individual of property, and the individual or the individual's legal representative designates an amount in respect of the gift in the individual's return of income under section 150 for the year in which the gift is made, the amount so designated is deemed to be the individual's proceeds of disposition of the property and, for the purpose of subsection 248(31), the fair market value of the gift, but the amount so designated may not exceed the fair market value of the property otherwise determined and may not be less than the greater of

(*a*) in the case of a gift made after December 20, 2002, the amount of the advantage, if any, in respect of the gift, and

(*b*) the amount determined under subparagraph (5.4)(*b*)(i) or (ii), as the case may be, in respect of the property.

Applicable: To gifts made after 1999 except that, for gifts made after 1999 but before December 21, 2002, the reference to "subsection 248(31)" in subsection 118.1(6) shall be read as a reference to "subsection (1)".

Explanatory Note:

Gift of Capital Property

Subsection 118.1(6) of the Act provides that, if an individual donates capital property to a charity, the individual may designate a value between the adjusted cost base and the fair market value of the donated property to be treated both as the proceeds of disposition for the purpose of calculating the individual's capital gain and the amount of the gift for the purpose of calculating the tax credit allowed for charitable donations under subsection 118.1(3) of the Act.

Subsection 118.1(6) is restructured as new subsection 118.1(5.4) and revised subsection 118.1(6). New subsection 118.1(5.4) describes the circumstances under which amended subsection 118.1(6), which remain generally unchanged, will apply. However, where the property is depreciable property, subsection 118.1(5.4) includes those situations where the actual value of the gifted property is between the undepreciated capital cost of that class at the end of the taxation year of the individual and the fair market value of the gifted property.

Amended subsection 118.1(6) provides for the amount that may be designated by the individual. As with the former provision, the amount designated is deemed to be the individual's proceeds of disposition of the gift. The provision also continues to provide that the amount designated is treated as the fair market value of the property transferred by way of gift. However, under the amended version, this is for the purpose of new subsection 248(31) of the Act (changed from subsection 118.1(1) of the Act). New subsection 248(31) generally provides that the "eligible amount" of the gift is the excess of the fair market value of a property transferred by way of gift over the value of the advantage or benefit, if any, to which the transferor is entitled. The "eligible amount" is relevant to the determination of the tax credit deductible by the individual under subsection 118.1(3).

Finally, amended subsection 118.1(6) effectively allows an individual to reduce the amount of recaptured depreciation that might otherwise be calculated in respect of a gift of depreciable property, with a corresponding reduction to the eligible amount deductible in respect of the gift under subsection 118.1(6). However, the designated amount may not be lower than the amount of any actual proceeds of disposition in respect of the property (or, more specifically, the amount of the advantage in respect of the gift, as defined under new subsection 248(32) of the Act).

In particular, the amount designated by the individual in respect of the property transferred may not exceed the fair market value of the property otherwise determined, and may not be less than the greater of

- the amount of the advantage, if any, in respect of the gift, and
- the adjusted cost base of the property or, if the property is depreciable property of the individual, the undepreciated capital cost of the class of the property at the end of the individual's taxation year (determined without reference to the proceeds of disposition designated in respect of the property).

Subsections 118.1(5.4) and (6) (as amended) generally apply in respect of gifts made after 1999. For additional details regarding the eligible amount and the amount of the advantage in respect of a gift, see the commentary to new subsections 248(31) and (32).

Example

Mr. Adams transfers a rental property with a fair market value of $200,000 to a registered charity, in exchange for proceeds of disposition of $95,000. The original cost to Mr. Adams when he purchased the property in 1985 was $65,000. The rental property is the only depreciable property in its class, with an undepreciated capital cost balance before the transfer of $45,000.

Assuming that the transfer qualifies as a gift (see the commentary to subsections 248(30) to (32)), Mr. Adams may designate any amount between $95,000 and $200,000 as the proceeds of disposition for the gift. Mr. Adams could have designated an amount as low $45,000, if he had received a lesser amount in actual proceeds from the charity.

Mr. Adams decides to designate $150,000 as its proceeds of disposition. The taxable gain to Mr. Adams on the transfer can therefore be allocated as follows:

Designated proceeds		$150,000
Adjusted cost base (original cost)	65,000	65,000
Capital Gain		85,000
Taxable Capital Gain		42,500
Undepreciated Capital Cost	45,000	
Recaptured depreciation		20,000
Total Income Inclusion		$ 62,500

The eligible amount of the gift is calculated as follows:

Designated proceeds	$150,000
Amount of advantage (consideration)	95,000
Eligible amount of the gift	55,000

History: S. 118.1(6), the portion after paragraph (*b*) was amended by S.C. 2001, c. 17, s. 94(5), applicable in respect of gifts made after February 27, 1995. S. 118.1(6), the portion after paragraph (*b*) formerly read:

"and the fair market value of the property at that time exceeds its adjusted cost base to the individual, such amount, not greater than the fair market value and not less than the adjusted cost base to the individual of the property at that time, as the individual or the individual's legal representative designates in the individual's return of income under section 150 for the year in which the gift is made shall, if the making of the gift is proven by filing with the Minister a receipt containing prescribed information, be deemed to be the individual's proceeds of disposition of the property and, for the purposes of subsection (1), the fair market value of the gift made by the individual."

S. 118.1(6)(*a*) was amended by S.C. 1996, c. 21, s. 23(6), applicable to gifts made after February 27, 1995. S. 118.1(6)(*a*) formerly read:

"(*a*) capital property to a donee described in the definition 'total charitable gifts' or 'total Crown gifts' in subsection (1), or"

S. 118.1(6), the portion following paragraph (*b*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 53(1), applicable to gifts made after December 11, 1988. That part formerly read:

"and the fair market value of the property at that time exceeds its adjusted cost base to the individual, such amount, not greater than the fair market value and not less than the adjusted cost base to the individual of the property at that time, as is designated by the individual, or the individual's legal representative in the individual's return of income under section 150 for the year in which the gift is made shall, if the making of the gift is proven by filing with the Minister a receipt containing prescribed information, be deemed to be the individual's proceeds of disposition of the property and the amount of the gift made by the individual."

Related Sections: S. 54, "proceeds of disposition"; s. 248(1), "adjusted cost base", "amount", "individual", "property".

Regulations: 3501(1), (1.1); 3504.

Interpretation Bulletins: *Primary* — IT-288R2 Gifts of capital properties to a charity and others. *Secondary* — IT-226R Gift to a charity of a residual interest in real property or an equitable interest in a trust; IT-504R2 (Consolid.) Visual artists and writers.

Registered Charities Newsletters: No. 12, Valuing Gifts of Public Securities; No. 3, Gifts of property other than cash.

► 118.1(7) ◄

(7) Gifts of art. Except where subsection (7.1) applies, where at any time, whether by the individual's will or otherwise, an individual makes a gift described in the definition "total charitable gifts" or "total Crown gifts" in subsection (1) of a work of art that was

(*a*) created by the individual and that is property in the individual's inventory, or

(*b*) acquired under circumstances where subsection 70(3) applied,

and at that time the fair market value of the work of art exceeds its cost amount to the individual, the following rules apply:

(*c*) where the gift is made as a consequence of the death of the individual, the gift is deemed to have been made immediately before the death, and

(*d*) the amount, not greater than that fair market value at the time the gift is made and not less than the cost amount of the property to the individual, that is designated in the individual's return of income under section 150 for the year in which the gift is made is, if the making of the gift is proven by filing with the Minister a receipt containing prescribed information, deemed to be the individual's proceeds of disposition of the work of art and, for the purposes of subsection (1), the fair market value of the gift made by the individual.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 118.1(7)(*d*) of the English version of the Act is replaced by the following:

(*d*) the amount that the individual or the individual's legal representative designates in the individual's return of income under section 150 for the year in which the gift is made is deemed to be the individual's proceeds of disposition of the work of art and, for the purpose of subsection 248(31), the fair market value of the work of art, but the amount so designated may not exceed the fair market value otherwise determined of the work of art and may not be less than the greater of

(i) the amount of the advantage, if any, in respect of the gift, and

(ii) the cost amount to the individual of the work of art.

Applicable: To gifts made after December 20, 2002.

Explanatory Note:

Gifts of Art

Subsection 118.1(7) of the Act provides that, if an artist donates artwork created by the artist and held in the artist's inventory, the artist may designate a value between the cost amount and the fair market value of the artwork to be treated both as the proceeds of disposition for the purpose of calculating the artist's income and the amount of the gift for the purpose of calculating the tax credit allowed for charitable donations under subsection 118.1(3) of the Act.

If the artwork is certified as a cultural gift, as described in subsection 118.1(1) of the Act, subsection 118.1(7.1) of the Act applies instead of subsection 118.1(7). Under subsection 118.1(7.1), the artist is treated as having received proceeds of disposition equal to the cost amount to the artist of the work of art for the purpose of calculating the artist's income, but the fair market value of the artwork is not affected. This means that the artist is entitled to a credit based on the value of the donation, but that the artist recognizes neither a profit nor a loss on the disposition of the work of art in computing income from a business for income tax purposes.

Paragraphs 118.1(7)(*d*) and (7.1)(*d*) are amended consequential to the addition of subsections 248(31) and (32) of the Act. Amended paragraph 118.1(7.1)(*d*) generally provides that the artist's proceeds of disposition from a gift of cultural property that was created by the artist and held as inventory may not be lower than the amount of any actual proceeds of disposition in respect of the property (or, more specifically, the amount of the advantage in respect of the gift, as defined under new subsection 248(32)). In particular, the amount that may be designated by the artist must be the greater of the cost amount of the work of art and the amount of the advantage in respect of the gift. As a result, the artist will have business income from the disposition if the amount of the advantage in respect of the gift exceeds the cost amount to the artist of the work of art.

For gifts from an artist's inventory that are not certified cultural property, amended paragraph 118.1(7)(*d*) provides that the amount designated in the artist's return of income is deemed to be the artist's proceeds of disposition. The provision also continues to provide that the amount designated is treated as the fair market value of the property transferred by way of gift. However, under the amended version, this is for the purpose of new subsection 248(31) (changed from subsection 118.1(1)). New subsection 248(31) generally provides that the "eligible amount" of the gift is the excess of the fair market value of a property transferred by way of gift over the value of the advantage or benefit, if any, to which the transferor is entitled. The "eligible amount" is relevant to the determination of the tax credit deductible by the individual under subsection 118.1(3).

The amount designated in the artist's return of income in respect of the property transferred may not exceed the fair market value of the property otherwise determined, and may not be less than the greater of

- the amount of the advantage, if any, in respect of the gift, and
- the cost amount to the artist of the work of art.

As a result, the artist will have business income from the disposition to the extent that the amount of the advantage in respect of the gift (or some other amount designated in the artist's return of income, if greater) exceeds the cost amount to the artist of the work of art.

For additional details regarding the eligible amount and the amount of the advantage in respect of a gift, see the commentary to new subsections 248(31) and (32) of the Act.

The amendments to paragraphs 118.1(7)(*d*) and (7.1)(*d*) apply in respect of gifts made after December 20, 2002.

History: S. 118.1(7) was amended by S.C. 2001, c. 17, s. 94(6), applicable to the 2000 and subsequent taxation years and, where a taxpayer or a taxpayer's legal representative notifies the Minister of National Revenue in writing before 2002 of the intention of the taxpayer or the taxpayer's legal representative that this subsection apply in respect of a gift made after 1996 and before 2000, subsection 118.1(7) applies to the taxation year in which the gift was made and, where paragraph 118.1(7)(*d*) of the Act applies, the amount designated in the notice in respect of the gift is deemed to have been validly designated for the purposes of that paragraph in the taxpayer's return of income for the year in which the gift was made. S. 118.1(7) formerly read:

"(7) *Gifts of art.* Except where subsection (7.1) applies, where at any time, whether by the individual's will or otherwise, an individual makes a gift of a work of art that was created by the individual and that is property in the individual's inventory to a donee described in the definition 'total charitable gifts' or 'total Crown gifts' in subsection (1) and at that time the fair market value of the work of art exceeds its cost amount to the individual, such amount, not greater than that fair market value and not less than that cost amount, as is designated in the individual's return of income under section 150 for the year in which the gift is made shall, if the making of the gift is proven by filing with the Minister a receipt containing prescribed information, be deemed to be the individual's proceeds of disposition of the work of art and, for the purposes of subsection (1), the fair market value of the gift made by the individual."

S. 118.1(7) was amended by S.C. 1994, c. 7, Sched. II, s. 88(2), applicable with respect to gifts made after 1990. S. 118.1(7) formerly read:

"(7) *Gifts of art.* Where at any time after 1984, whether by the individual's will or otherwise, an individual makes a gift of a work of art created by the individual that is property in the individual's inventory to a donee described in

the definition 'total charitable gifts' or 'total Crown gifts' in subsection (1), and the fair market value of the work of art at that time exceeds its cost amount to the individual, such amount, not greater than the fair market value and not less than the cost amount to the individual of the work of art at that time, as is designated by the individual or the individual's legal representative in the individual's return of income under section 150 for the year in which the gift is made shall, if the making of the gift is proven by filing with the Minister a receipt containing prescribed information, be deemed to be the individual's proceeds of disposition of the work of art and the amount of the gift made by the individual."

Related Sections: S. 118.1(7.1) Gifts of cultural property.
Regulations: 3501(1).
Interpretation Bulletins: *Secondary* — IT-288R2 Gifts of capital properties to a charity and others; IT-504R2 (Consolid.) Visual artists and writers.
Tax Profile: May 2002 — Update on Charitable Giving.
Registered Charities Newsletters: No. 6, The "art" of issuing official donation receipts; No. 4, Issuing receipts for gifts of art; No. 3, Gifts of property other than cash.

► 118.1(7.1) ◄

(7.1) Gifts of cultural property. Where at any particular time, whether by the individual's will or otherwise, an individual makes a gift described in the definition "total cultural gifts" in subsection (1) of a work of art that was

(*a*) created by the individual and that is property in the individual's inventory, or

(*b*) acquired under circumstances where subsection 70(3) applied,

and at that time the fair market value of the work of art exceeds its cost amount to the individual, the following rules apply:

(*c*) where the gift is made as a consequence of the death of the individual, the individual is deemed to have made the gift immediately before the death, and

(*d*) the individual is deemed to have received at the particular time proceeds of disposition in respect of the gift equal to its cost amount to the individual at that time.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 118.1(7.1)(*d*) of the English version of the Act is replaced by the following:

(*d*) the individual is deemed to have received at the particular time proceeds of disposition in respect of the work of art equal to the greater of its cost amount to the individual at that time and the amount of the advantage, if any, in respect of the gift.

Applicable: To gifts made after December 20, 2002.

Explanatory Note: See the Explanatory Note following the amendment to paragraph 118.1(7)(*d*).

History: S. 118.1(7.1) was amended by S.C. 2001, c. 17, s. 94(6), applicable to the 2000 and subsequent taxation years and, where a taxpayer or a taxpayer's legal representative notifies the Minister of National Revenue in writing before 2002 of the intention of the taxpayer or the taxpayer's legal representative that this subsection apply in respect of a gift made after 1996 and before 2000, subsection 118.1(7.1) applies to the taxation year in which the gift was made and, where paragraph 118.1(7)(*d*) of the Act applies, the amount designated in the notice in respect of the gift is deemed to have been validly designated for the purposes of that paragraph in the taxpayer's return of income for the year in which the gift was made. S. 118.1(7.1) formerly read:

"(7.1) *Gifts of cultural property.* Where at any time, whether by the individual's will or otherwise, an individual makes a gift described in the definition 'total cultural gifts' in subsection (1) of a work of art that was created by the individual and that is property in the individual's inventory, the individual shall, if the making of the gift is proven by filing with the Minister a receipt containing prescribed information, be deemed to have received proceeds of disposition in respect of the gift at that time equal to its cost amount to the individual at that time."

S. 118.1(7.1) was added by S.C. 1994, c. 7, Sched. II, s. 88(2), applicable with respect to gifts made after 1990.

Related Sections: S. 110.1(1)(*c*) Gifts to institutions; s. 118.1(7) Gifts of art.
Interpretation Bulletins: *Secondary* — IT-407R4 (Consolid.) Dispositions of cultural property to designated Canadian institutions.

► 118.1(8) ◄

(8) Gifts made by partnership. Where an individual is, at the end of a fiscal period of a partnership, a member of the partnership, the individual's share of any amount that would, if the partnership were a person, be a gift made by the partnership to any donee shall, for the purposes of this section, be deemed to be a gift made by the individual to that donee in the individual's taxation year in which the fiscal period of the partnership ends.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 118.1(8) of the Act is replaced by the following:

(8) **Gifts made by partnership.** If at the end of a fiscal period of a partnership an individual is a member of the partnership, the individual's share of any amount that would, if the partnership were a person, be the eligible amount of a gift made by the partnership to any donee is, for the purpose of this section, deemed to be the eligible amount of a gift made to that donee by the individual in the individual's taxation year in which the fiscal period of the partnership ends.

Applicable: To gifts made after December 20, 2002.

Explanatory Note:

Gifts Made by Partnership

Subsection 118.1(8) of the Act allows the attribution of gifts made by a partnership to its individual members, according to each member's share in the partnership. Subsection 118.1(8) is amended consequential to the addition of new subsection 248(31) of the Act, to refer to the "eligible amount" of a gift made because of an individual's membership in a partnership.

The amendment applies in respect of gifts made by a partnership after December 20, 2002.

► 118.1(9) ◄

(9) Commuter's charitable donations. Where throughout a taxation year an individual resided in Canada near the boundary between Canada and the United States, if

(*a*) the individual commuted to the individual's principal place of employment or business in the United States, and

(*b*) the individual's chief source of income for the year was that employment or business,

a gift made by the individual in the year to a religious, charitable, scientific, literary or educational organization created or organized in or under the laws of the United States that would be allowed as a deduction under the *United States Internal Revenue Code* shall, for the purpose of the definition "total charitable gifts" in subsection (1), be deemed to have been made to a registered charity.

► 118.1(10) ◄

(10) Determination of fair market value. For the purposes of paragraph 110.1(1)(*c*) and the definition "total cultural gifts" in subsection (1), the fair market value of an object is deemed to be the fair market value determined by the Canadian Cultural Property Export Review Board.

History: S. 118.1(10) was amended by S.C. 1995, c. 38, s. 3, effective July 12, 1996. S. 118.1(10) formerly read:

"(10) *Determination of fair market value.* For the purposes of paragraph 110.1(1)(*c*) and the definition 'total cultural gifts' in subsection (1), the fair market value of an object shall be determined by the Canadian Cultural Property Export Review Board."

S. 118.1(10) was added by S.C. 1994, c. 7, Sched. II, s. 88(3), applicable with respect to gifts made after February 20, 1990.

Interpretation Bulletins: *Secondary* — IT-407R4 (Consolid.) Dispositions of Cultural Property to Designated Canadian Institutions.

► 118.1(10.1) ◄

(10.1) Determination of fair market value. For the purposes of subparagraph 69(1)(*b*)(ii), subsection 70(5) and sections 110.1, 207.31 and this section, where at any time the Canadian Cultural Property Export Review Board or the Minister of the Environment determines or redetermines an amount to be the fair market value of a property that is the subject of a gift described in paragraph 110.1(1)(*a*), or in the definition "total charitable gifts" in subsection (1), made by a taxpayer within the two-year period that begins at that time, an amount equal to the last amount so determined or redetermined within the period is deemed to be the fair market value of the gift at the time the gift was made and, subject to subsections (6), (7), (7.1) and 110.1(3), to be the taxpayer's proceeds of disposition of the gift.

History: S. 110.1(10.1) was amended by S.C. 2001, c. 17, s. 94(7), applicable in respect of gifts made, or proposed to be made, after February 27, 2000. S. 110.1(10.1) formerly read:

"(10.1) *Determination of fair market value.* For the purposes of subparagraph 69(1)(*b*)(ii), subsection 70(5), section 110.1 and this section, where at any time the Canadian Cultural Property Export Review Board determines or redetermines an amount to be the fair market value of a property that is the subject of a gift described in paragraph 110.1(1)(*a*) or in the definition 'total charitable gifts' in subsection (1) made by a taxpayer within the two-year period that begins at that time, the last amount so determined or redetermined within the period is deemed to be the fair market value of the property at the time the gift was made and, subject to subsection 110.1(3) and subsections (6) and (7), to be the taxpayer's proceeds of disposition of the property."

S. 118.1(10.1) was added by S.C. 1999, c. 22, s. 32(1), applicable to determinations and redeterminations made after February 23, 1998.

► 118.1(10.2) ◄

(10.2) Request for determination by the Minister of the Environment. Where a person disposes or proposes to dispose of a property that would, if the disposition were made and the certificates described in paragraph 110.1(1)(*d*) or in the definition "total ecological gifts" in subsection (1) were issued by the Minister of the Environment, be a gift described in those provisions, the person may request, by notice in writing to that Minister, a determination of the fair market value of the property.

History: S. 118.1(10.2) was added by S.C. 2001, c. 17, s. 94(7), applicable in respect of gifts made, or proposed to be made, after February 27, 2000.

► 118.1(10.3) ◄

(10.3) Duty of Minister of the Environment. In response to a request made under subsection (10.2), the Minister of the Environment shall with all due dispatch make a determination in accordance with subsection (12) or 110.1(5), as the case may be, of the fair market value of the property referred to in that request and give notice of the determination in writing to the person who has disposed of, or who proposes to dispose of, the property, except that no such determination shall be made if the request is received by that Minister after three years after the end of the person's taxation year in which the disposition occurred.

History: S. 118.1(10.3) was added by S.C. 2001, c. 17, s. 94(7), applicable in respect of gifts made, or proposed to be made, after February 27, 2000.

► 118.1(10.4) ◄

(10.4) Ecological gifts — redetermination. Where the Minister of the Environment has, under subsection (10.3), notified a person of the amount determined by that Minister to be the fair market value of a property in respect of its disposition or proposed disposition,

(*a*) that Minister shall, on receipt of a written request made by the person on or before the day that is 90 days after the day that the person was so notified of the first such determination, with all due dispatch confirm or redetermine the fair market value;

(*b*) that Minister may, on that Minister's own initiative, at any time redetermine the fair market value;

(*c*) that Minister shall in either case notify the person in writing of that Minister's confirmation or redetermination; and

(*d*) any such redetermination is deemed to replace all preceding determinations and redeterminations of the fair market value of that property from the time at which the first such determination was made.

History: S. 118.1(10.4) was added by S.C. 2001, c. 17, s. 94(7), applicable in respect of gifts made, or proposed to be made, after February 27, 2000.

► 118.1(10.5) ◄

(10.5) Certificate of Fair Market Value. Where the Minister of the Environment determines under subsection (10.3) the fair market value of a property, or redetermines that value under subsection (10.4), and the property has been disposed of to a qualified donee described in paragraph 110.1(1)(*d*) or in the definition "total ecological gifts" in subsection (1), that Minister shall issue to the person who made the disposition a certificate that states the fair market value of the property so determined or redetermined and, where more than one certificate has been so issued, the last certificate is deemed to replace all preceding certificates from the time at which the first certificate was issued.

History: S. 118.1(10.5) was added by S.C. 2001, c. 17, s. 94(7), applicable in respect of gifts made, or proposed to be made, after February 27, 2000.

► 118.1(11) ◄

(11) Assessments. Notwithstanding subsections 152(4) to (5), such assessments or reassessments of a taxpayer's tax, interest or penalties payable under this Act for any taxation year shall be made as are necessary to give effect

(*a*) to a certificate issued under subsection 33(1) of the *Cultural Property Export and Import Act* or to a decision of a court resulting from an appeal made pursuant to section 33.1 of that Act; or

(*b*) to a certificate issued under subsection (10.5) or to a decision of a court resulting from an appeal made pursuant to subsection 169(1.1).

History: S. 118.1(11) was amended by S.C. 2001, c. 17, s. 94(8), applicable in respect of gifts made, or proposed to be made, after February 27, 2000. S. 118.1(11) formerly read:

"(11) *Assessments.* Notwithstanding subsections 152(4) to (5), such assessments or reassessments of a taxpayer's tax, interest or penalties payable under this Act for any taxation year shall be made as are necessary to give effect to a certificate issued under subsection 33(1) of the *Cultural*

Property Export and Import Act or to a decision of a court resulting from an appeal made pursuant to section 33.1 of that Act."

S. 118.1(11) was added by S.C. 1995, c. 38, s. 3, effective July 12, 1996.

► 118.1(12) ◄

(12) Ecological gifts. For the purposes of applying subparagraph 69(1)(*b*)(ii), subsection 70(5), this section and section 207.31 in respect of a gift described in the definition "total ecological gifts" in subsection (1) that is made by an individual, the amount that is the fair market value (or, for the purpose of subsection (6), the fair market value otherwise determined) of the gift at the time the gift was made and, subject to subsection (6), the individual's proceeds of disposition of the gift, is deemed to be the amount determined by the Minister of the Environment to be

(*a*) where the gift is land, the fair market value of the gift; or

(*b*) where the gift is a servitude, covenant or easement to which land is subject, the greater of

(i) the fair market value otherwise determined of the gift, and

(ii) the amount by which the fair market value of the land is reduced as a result of the making of the gift.

History: S. 118.1(12) was amended by S.C. 2001, c. 17, s. 94(10), applicable in respect of gifts made, or proposed to be made, after February 27, 2000. S. 118.1(12) formerly read:

"(12) *Ecological gifts.* For the purpose of applying subparagraph 69(1)(*b*)(ii), subsection 70(5), section 207.31 and this section in respect of a gift described in the definition 'total ecological gifts' in subsection (1) that is made by a taxpayer and that is a servitude, covenant or easement to which land is subject, the greater of

(*a*) the fair market value otherwise determined of the gift, and

(*b*) the amount by which the fair market value of the land is reduced as a result of the making of the gift

is deemed to be the fair market value (or, for the purpose of subsection (6), the fair market value otherwise determined) of the gift at the time the gift was made and, subject to subsection (6), to be the taxpayer's proceeds of disposition of the gift."

S. 118.1(12) was amended by S.C. 2001, c. 17, s. 94(9), applicable in respect of gifts made after February 27, 1995 and before February 28, 2000. S. 118.1(12) formerly read:

"(12) *Ecological gifts.* For the purposes of section 207.31 and the definition 'total ecological gifts' in subsection (1), the fair market value of a gift of a servitude, a covenant or an easement to which land is subject is deemed to be the greater of its fair market value otherwise determined and the amount by which the fair market value of the land is reduced as a result of the making of the gift."

S. 118.1(12) was added by S.C. 1998, c. 19, s. 22(7), applicable to gifts made after February 27, 1995.

Related Sections: S. 110.1(5) Ecological gifts.

► 118.1(13) ◄

(13) Non-qualifying securities. For the purpose of this section (other than this subsection), where at any particular time an individual makes a gift (including a gift that, but for this subsection and subsection (4), would be deemed by subsection (5) to be made at the particular time) of a non-qualifying security of the individual and the gift is not an excepted gift,

(*a*) except for the purpose of applying subsection (6) to determine the individual's proceeds of disposition of the security, the gift is deemed not to have been made;

(*b*) if the security ceases to be a non-qualifying security of the individual at a subsequent time that is within 60 months after the particular time and the donee has not disposed of the security at or before the subsequent time, the individual is deemed to have made a gift to the donee of property at the subsequent time and the fair market value of that gift is deemed to be the lesser of the fair market value of the security at the subsequent time and the amount of the gift made at the particular time that would, but for this subsection, have been included in the individual's total charitable gifts or total Crown gifts for a taxation year;

(*c*) if the security is disposed of by the donee within 60 months after the particular time and paragraph (*b*) does not apply to the security, the individual is deemed to have made a gift to the donee of property at the time of the disposition and the fair market value of that gift is deemed to be the lesser of the fair market value of any consideration (other than a non-qualifying security of the individual or a property that would be a non-qualifying security of the individual if the individual were alive at that time) received by the donee for the disposition and the amount of the gift made at the particular time that would, but for this subsection, have been included in the individual's total charitable gifts or total Crown gifts for a taxation year; and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraphs 118.1(13)(*b*) and (*c*) of the Act are replaced by the following:

(*b*) if the security ceases to be a non-qualifying security of the individual at a subsequent time that is within 60 months after the particular time and the donee has not disposed of the security at or before the subsequent time, the individual is deemed to have made a gift to the donee of property at the subsequent time and the fair market value of that property is deemed to be the lesser of the fair market value of the security at the subsequent time and the fair market value of the security at the particular time that would, if this Act were read without reference to this subsection, have been included in calculating the individual's total charitable gifts or total Crown gifts for a taxation year;

(*c*) if the security is disposed of by the donee within 60 months after the particular time and paragraph (*b*) does not apply to the security, the individual is deemed to have made a gift to the donee of property at the time of the disposition and the fair market value of that property is deemed to be the lesser of the fair market value of any consideration (other than a non-qualifying security of the individual or a property that would be a non-qualifying security of the individual if the individual were alive at that time) received by the donee for the disposition and the fair market value of the security at the particular time that would, if this Act were read without reference to this subsection, have been included in calculating the individual's total charitable gifts or total Crown gifts for a taxation year; and

Applicable: To gifts made after December 20, 2002.

Explanatory Note: ► (13) ◄

Non-qualifying Securities

Subsection 118.1(13) of the Act provides that, if an individual makes a gift of a "non-qualifying security" (defined in subsection 118.1(18) of the Act), that gift will be ignored for the purpose of the charitable donations tax credit.

Paragraphs 118.1(13)(*b*) and (*c*) concern the amount to be included in a taxpayer's "total charitable gifts" or "total Crown

gifts" (defined in subsection 118.1(1) of the Act) for the taxation year in which a security ceases to be a "non-qualifying security" or the donee disposes of a non-qualifying security. If either of these events occurs within five years of the actual donation of the non-qualifying security by a taxpayer, the taxpayer will be treated as having made a gift at that later time. The fair market value of this deemed gift is considered to be the lesser of two amounts. The first amount is the fair market value of the security at the time that it was actually donated. (Note that this amount may have been designated by the taxpayer as a lower amount than the actual fair market value if an election were made under subsection 118.1(6) of the Act for the taxation year of the actual donation.) The second amount is

- if the security ceased at the later time to be a non-qualifying security, the fair market value of the security at that later time, or
- if the security was disposed of by the donee at that later time, the fair market value of the consideration received by the donee.

Amendments to paragraphs 118.1(13)(*b*) and (*c*) are to provide language complementary to the amendment of the definitions "total charitable gifts" and "total Crown gifts" in subsection 118.1(1). The amendments apply to gifts actually made after December 20, 2002.

(*d*) a designation under subsection (6) or 110.1(3) in respect of the gift made at the particular time may be made in the individual's return of income for the year that includes the subsequent time referred to in paragraph (*b*) or the time of the disposition referred to in paragraph (*c*).

History: S. 118.1(13) was added by S.C. 1998, c. 19, s. 22(7), applicable to gifts made after July 1997.

Related Sections: S. 110.1(6) Non-qualifying securities.

► 118.1(14) ◄

(14) Exchanged security. Where a share (in this subsection referred to as the "new share") that is a non-qualifying security of an individual has been acquired by a donee referred to in subsection (13) in exchange for another share (in this subsection referred to as the "original share") that is a non-qualifying security of the individual by means of a transaction to which section 51, subparagraphs 85.1(1)(*a*)(i) and (ii) or section 86 or 87 applies, the new share is deemed for the purposes of this subsection and subsection (13) to be the same share as the original share.

History: S. 118.1(14) was added by S.C. 1998, c. 19, s. 22(7), applicable to gifts made after July 1997.

Related Sections: S. 110.1(6) Non-qualifying securities.

► 118.1(14.1) ◄

(14.1) Exchange of beneficial interest in trust. Where a donee disposes of a beneficial interest in a trust that is a non-qualifying security of an individual in circumstances where paragraph (13)(*c*) would, but for this subsection, apply in respect of the disposition, and in respect of which the donee receives no consideration other than other non-qualifying securities of the individual, for the purpose of subsection (13) the gift referred to in that subsection is to be read as a reference to a gift of those other non-qualifying securities.

History: S. 118.1(14.1) was added by S.C. 2007, c. 35, s. 39(1), applicable in respect of gifts made on or after March 19, 2007.

► 118.1(15) ◄

(15) Death of donor. If, but for this subsection, an individual would be deemed by subsection (13) to have made a gift after the individual's death, for the purpose of this section the individual is deemed to have made the gift in the taxation year in which the individual died, except that the amount of interest payable under any provision of this Act is the amount that it would be if this subsection did not apply to the gift.

History: S. 118.(15) was added by S.C. 1998, c. 19, s. 22(7), applicable to gifts made after July 1997.

► 118.1(16) ◄

(16) Loanbacks. For the purpose of this section, where

(*a*) at any particular time an individual makes a gift of property,

(*b*) if the property is a non-qualifying security of the individual, the gift is an excepted gift, and

(*c*) within 60 months after the particular time

(i) the donee holds a non-qualifying security of the individual that was acquired by the donee after the time that is 60 months before the particular time, or

(ii) the individual or any person or partnership with which the individual does not deal at arm's length uses property of the donee under an agreement that was made or modified after the time that is 60 months before the particular time, and the property was not used in the carrying on of the donee's charitable activities,

the fair market value of the gift is deemed to be that value otherwise determined minus the total of all amounts each of which is the fair market value of the consideration given by the donee to so acquire a non-qualifying security so held or the fair market value of such a property so used, as the case may be.

History: S. 118.1(16)(*c*)(ii) was replaced by S.C. 2007, c. 35, s. 39(2), applicable in respect of gifts made on or after March 19, 2007. S. 118.1(16)(*c*)(ii) formerly read:

"(ii) where the individual and the donee do not deal at arm's length with each other,

(A) the individual or any person or partnership with which the individual does not deal at arm's length uses property of the donee under an agreement that was made or modified after the time that is 60 months before the particular time, and

(B) the property was not used in the carrying on of the donee's charitable activities,"

S. 118.1(16) was added by S.C. 1998, c. 19, s. 22(7), applicable where

(*a*) a non-qualifying security referred to in subparagraph 118.1(16)(*c*)(i) of the Act is acquired after July 1997; or

(*b*) property referred to in subparagraph 118.1(16)(*c*)(ii) of the Act has begun to be used after July 1997.

Related Sections: S. 110.1(6) Non-qualifying securities.

► 118.1(17) ◄

(17) Ordering rule. For the purpose of applying subsection (16) to determine the fair market value of a gift made at any time by a taxpayer, the fair market value of consideration given to acquire property described in subparagraph (16)(*c*)(i) or of property described in subparagraph (16)(*c*)(ii) is deemed to be that value otherwise determined minus any portion of it that has been applied under that subsection to reduce the fair market value of another gift made before that time by the taxpayer.

History: S. 118.1(17) was amended by S.C. 1999, c. 31, s. 136, applicable on Royal Assent, June 17, 1999. S. 118.1(17) formerly read:

"(17) *Ordering rule.* For the purpose of applying subsection (16) to determine the fair market value of a gift made at any time by a taxpayer, the fair market value of consideration given to acquire property described in subparagraph (16)(*b*)(i) or of property described in subparagraph (16)(*b*)(ii) is deemed to be that value otherwise determined minus any portion of it that has been applied under that subsection to reduce the fair market value of another gift made before that time by the taxpayer."

S. 118.1(17) was added by S.C. 1998, c. 19, s. 22(7), applicable after July 1997.

Related Sections: S. 110.1(6) Non-qualifying securities.

► 118.1(18) ◄

(18) Non-qualifying security defined. For the purposes of this section, "non-qualifying security" of an individual at any time means

(*a*) an obligation (other than an obligation of a financial institution to repay an amount deposited with the institution or an obligation listed on a designated stock exchange) of the individual or the individual's estate or of any person or partnership with which the individual or the estate does not deal at arm's length immediately after that time;

(*b*) a share (other than a share listed on a designated stock exchange) of the capital stock of a corporation with which the individual or the estate or, where the individual is a trust, a person affiliated with the trust, does not deal at arm's length immediately after that time;

(*b*.1) a beneficial interest of the individual or the estate in a trust that

(i) immediately after that time is affiliated with the individual or the estate, or

(ii) holds, immediately after that time, a non-qualifying security of the individual or estate, or held, at or before that time, a share described in paragraph (*b*) that is, after that time, held by the donee; or

(*c*) any other security (other than a security listed on a designated stock exchange) issued by the individual or the estate or by any person or partnership with which the individual or the estate does not deal at arm's length (or, in the case where the person is a trust, with which the individual or estate is affiliated) immediately after that time.

History: S. 118.1(18)(*a*) was amended by S.C. 2007, c. 35, s. 68(2), by replacing "prescribed stock exchange" with "designated stock exchange", applicable on and after December 14, 2007.

S. 118.1(18)(*b*) and (*c*) were replaced, and paragraph (*b*.1) was added, by S.C. 2007, c. 35, s. 39(3), applicable in respect of gifts made on or after March 19, 2007, except that in applying subsection 118.1(18), before December 14, 2007, the references to "designated stock exchange" in that subsection shall be read as references to "prescribed stock exchange". S. 118.1(18)(*b*) and (*c*) formerly read:

"(*b*) a share (other than a share listed on a prescribed stock exchange) of the capital stock of a corporation with which the individual or the estate does not deal at arm's length immediately after that time; or

(*c*) any other security (other than a security listed on a prescribed stock exchange) issued by the individual or the estate or by any person or partnership with which the individual or the estate does not deal at arm's length immediately after that time."

S. 118.1(18) was added by S.C. 1998, c. 19, s. 22(7), applicable after July 1997.

Related Sections: S. 110.1(6) Non-qualifying securities.

► 118.1(19) ◄

(19) Excepted gift. For the purposes of this section, a gift made by a taxpayer is an excepted gift if

(*a*) the security is a share;

(*b*) the donee is not a private foundation;

(*c*) the taxpayer deals at arm's length with the donee; and

(*d*) where the donee is a charitable organization or a public foundation, the taxpayer deals at arm's length with each director, trustee, officer and like official of the donee.

History: S. 118.1(19) was added by S.C. 1998, c. 19, s. 22(7), applicable to gifts made after July 1997.

Related Sections: S. 110.1(6) Non-qualifying securities.

► 118.1(20) ◄

(20) Financial institution defined. For the purpose of subsection (18), "financial institution" means a corporation that is

(*a*) a member of the Canadian Payments Association; or

(*b*) a credit union that is a shareholder or member of a body corporate or organization that is a central for the purposes of the *Canadian Payments Association Act*.

History: S. 118.1(20) was added by S.C. 1998, c. 19, s. 22(7), applicable after July 1997.

Related Sections: S. 110.1(6) Non-qualifying securities.

Sec. 33, Chap. 22, 1999

For the purposes of the Act, if

(*a*) a taxpayer made a gift at any particular time before February 1998, and after the end of a taxation year that ended after November 15, 1997 and before 1998, that would be deductible under section 110.1 or 118.1 of the Act in computing the taxpayer's taxable income or tax payable under Part I of the Act for the year if it were made immediately before the end of the year,

(*b*) the gift was a gift of tangible property (other than real property) or a gift by cash, cheque, credit card or money order,

(*c*) the gift was not made

(i) through a payroll deduction, or

(ii) where the taxpayer died after 1997, by the taxpayer's will, and

(*d*) the taxpayer so elects in the taxpayer's return of income under the Act for the year or by notifying the Minister of National Revenue in writing before 1999,

the taxpayer is deemed to have made the gift and, in the case of a gift of tangible property, to have disposed of the property immediately before the end of the taxpayer's taxation year that ended before 1998 and not to have done so at the particular time.

SECTION 118.2:

► 118.2(1) ◄

(1) Medical expense credit. For the purpose of computing the tax payable under this Part by an individual for a taxation year, there may be deducted the amount determined by the formula

$$A \times [(B - C) + D]$$

where

A is the appropriate percentage for the taxation year;

B is the total of the individual's medical expenses in respect of the individual, the individual's spouse, the individual's common-law partner or a child of the individual who has not attained the age of 18 years before the end of the taxation year

(*a*) that are evidenced by receipts filed with the Minister,

(*b*) that were not included in determining an amount under this subsection, section 64 or subsection 122.51(2), for a preceding taxation year,

(*c*) that are not included in determining an amount under this subsection, section 64 or subsection 122.51(2), by any other taxpayer for any taxation year, and

(*d*) that were paid by the individual or the individual's legal representative within any period of 12 months that ends in the taxation year or, if those expenses were in respect of a person (including the individual) who died in the taxation year, within any period of 24 months that includes the day of the person's death;

C is the lesser of $1,813 and 3% of the individual's income for the taxation year; and

D is the total of all amounts each of which is, in respect of a dependant of the individual (within the meaning assigned by subsection 118(6), other than a child of the individual who has not attained the age of 18 years before the end of the taxation year), the lesser of $10,000 and the amount determined by the formula

E – F

where

E is the total of the individual's medical expenses in respect of the dependant

(*a*) that are evidenced by receipts filed with the Minister,

(*b*) that were not included in determining an amount under this subsection, or subsection 122.51(2), in respect of the individual for a preceding taxation year,

(*c*) that are not included in determining an amount under this subsection, or subsection 122.51(2), by any other taxpayer for any taxation year, and

(*d*) that were paid by the individual or the individual's legal representative within the period referred to in paragraph (*d*) of the description of B; and

F is the lesser of $1,813 and 3% of the dependant's income for the taxation year.

CRA Press Release

2.5% Indexation Factor for 2009

See CRA Fact Sheet, dated December 8, 2008, that is reproduced following subsection 117.1(1). This release announces a 2.5% indexation factor applicable for 2009 tax bracket thresholds, personal amounts and other amounts relating to non-refundable credits, as well as the refundable medical expense supplement and Old Age Security repayment threshold. Increases to the Canada Child Tax Benefit (including the National Child Benefit supplement and the Child Disability Benefit) and the Goods and Services Tax Credit will take effect as of July 1, 2009.

History: S. 118.2(1), the portion of the description of D before the formula was replaced by S.C. 2006, c. 4, s. 62(1), applicable to the 2005 and subsequent taxation years.

S. 118.2(1), the portion of the description of D before the formula formerly read:

"D is the total of all amounts each of which is, in respect of a dependant of the individual (within the meaning assigned by subsection 118(6), other than a child of the individual who has not attained the age of 18 years before the end of the taxation year), the lesser of $5,000 and the amount determined by the formula"

S. 118.2(1) was replaced by S.C. 2005, c. 19, s. 24(1), applicable to the 2004 and subsequent taxation years.

For the 2001 to 2003 taxation years, the description of B in subsection 118.2(1) of the Act is to be read as follows:

"B is the total of the individual's medical expenses

(*a*) that are evidenced by receipts filed with the Minister,

(*b*) that were not included in determining an amount under this subsection or subsection 122.51(2) for a preceding taxation year, and

(*c*) that were paid by the individual or the individual's legal representative within any period of 12 months that ends in the taxation year or, if those expenses were in respect of a person (including the individual) who died in the taxation year, within any period of 24 months that includes the day of the person's death;"

S. 118.2(1) formerly read:

"S. 118.2. (1) *Medical expense credit* For the purpose of computing the tax payable under this Part by an individual for a taxation year, there may be deducted an amount determined by the formula

A(B – C) – D

where

A is the appropriate percentage for the year;

B is the total of the individual's medical expenses that are proven by filing receipts therefor with the Minister, that were not included in determining an amount under this subsection or subsection 122.51(2) for a preceding taxation year and that were paid by either the individual or the individual's legal representative,

(*a*) where the individual died in the year, within any period of 24 months that includes the day of death, and

(*b*) in any other case, within any period of 12 months ending in the year;

C is the lesser of $1,500 and 3% of the individual's income for the year; and

D is 68% of the total of all amounts each of which is the amount, if any, by which

(*a*) the income for the year of a person (other than the individual and the individual's spouse or common-law partner) in respect of whom an amount is included in computing the individual's deduction under this section for the year

exceeds

(*b*) the amount used under paragraph (*c*) of the description of B in subsection 118(1) for the year."

S. 118.2(1), paragraph (*b*) of the description of D was amended by S.C. 2000, c. 19, s. 25(1), applicable to the 1999 and subsequent taxation years except that, in its application to the 1999 taxation year, paragraph (*b*) of the description of D in subsection 118.2(1) of the Act shall be read as follows:

"(*b*) $7,044."

S. 118.2(1), paragraph (*b*) of the description of D formerly read:

"(*b*) the total of $500 and the amount used under paragraph (*c*) of the description of B in subsection 118(1) for the year."

S. 118.2(1), paragraph (*a*) of the description of D, was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.6), applicable January 1, 2001, coming into force on July 31, 2000. S. 118.2(1), paragraph (*a*) of the description of D formerly read:

"(*a*) the income for the year of a person (other than the individual and the individual's spouse) in respect of whom an amount is included in computing the individual's deduction under this section for the year"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 118.2(1), paragraph (*b*) of the description of D was amended by S.C. 1999, c. 22, s. 34(1), applicable to the 1998 and subsequent taxation years. S. 118.2(1), paragraph (*b*) of the description of D formerly read:

"(*b*) the amount used under paragraph (*c*) of the description of B in subsection 118(1) for the year."

S. 118.2(1), the description of B was amended by S.C. 1998, c. 19, s. 23(1), applicable to the 1997 and subsequent taxation years. S. 118.2(1), the description of B formerly read:

"B is the total of the individual's medical expenses that are proven by filing receipts therefor with the Minister, that were not included in determining a deduction for medical expenses for a preceding taxation year and that were paid by either the individual or the individual's legal representative,"

S. 118.2(1) was amended by S.C. 1994, c. 7, Sched. VII, s. 9(1), applicable with respect to the 1993 and subsequent taxation years. S. 118.2(1) formerly read:

"S. 118.2. *Medical expense credit*

(1) For the purpose of computing the tax payable under this Part by an individual for a taxation year, there may be deducted an amount determined by the formula

A × (B – C)

where

A is the appropriate percentage for the year;

B is the total of the individual's medical expenses that are proven by filing receipts therefor with the Minister, that were not included in determining a deduction for medical expenses for a preceding taxation year and that were paid by either the individual or the individual's legal representative,

(*a*) where the individual died in the year, within any period of 24 months that includes the day of death, and

(*b*) in any other case, within any period of 12 months ending in the year; and

C is the lesser of $1,500 and 3% of the individual's income for the year."

Related Sections: S. 117.1(1) Annual adjustment (indexing); s. 118.2(2) Medical expenses; s. 118.2(3) Deemed medical expense; s. 118.3(2) Dependant having impairment; s. 118.4(1) Nature of impairment; s. 118.4(2) Reference to medical practitioners, etc.; s. 248(1), "individual".

Regulations: 5700; 5701.

Interpretation Bulletins: *Primary* — IT-519R2 (Consolid.) Medical expense and disability tax credits and attendant care expense deduction. *Secondary* — IT-171R2 Non-resident individuals — Computation of taxable income earned in Canada and non-refundable tax credits [Archived by the CRA].

Cases: The taxpayer was denied medical expense tax credits for his disabled son in relation to: a trip to certain wheelchair games in which his son participated; the purchase price of a van; and books, compact discs, videos, toys, computer equipment and entertainment. *Weeks v. The Queen,* 2001 DTC 5035 (F.C.A.), affirming 99 DTC 397 (T.C.C.).

The cost of special fixtures placed in a bathroom in order to accommodate a wheelchair was deductible as a medical expense. *Rankin v. M.N.R.,* 81 DTC 306 (T.R.B.).

► 118.2(2) ◄

(2) Medical expenses. For the purposes of subsection (1), a medical expense of an individual is an amount paid

(*a*) to a medical practitioner, dentist or nurse or a public or licensed private hospital in respect of medical or dental services provided to a person (in this subsection referred to as the "patient") who is the individual, the individual's spouse or common-law partner or a dependant of the individual (within the meaning assigned by subsection 118(6)) in the taxation year in which the expense was incurred;

(*b*) as remuneration for one full-time attendant (other than a person who, at the time the remuneration is paid, is the individual's spouse or common-law partner or is under 18 years of age) on, or for the full-time care in a nursing home of, the patient in respect of whom an amount would, but for paragraph 118.3(1)(*c*), be deductible under section 118.3 in computing a taxpayer's tax payable under this Part for the taxation year in which the expense was incurred;

(*b*.1) as remuneration for attendant care provided in Canada to the patient if

(i) the patient is a person in respect of whom an amount may be deducted under section 118.3 in computing a taxpayer's tax payable under this Part for the taxation year in which the expense was incurred,

(ii) no part of the remuneration is included in computing a deduction claimed in respect of the patient under section 63 or 64 or paragraph (*b*), (*b*.2), (*c*), (*d*) or (*e*) for any taxation year,

(iii) at the time the remuneration is paid, the attendant is neither the individual's spouse or common-law partner nor under 18 years of age, and

(iv) each receipt filed with the Minister to prove payment of the remuneration was issued by the payee and contains, where the payee is an individual, that individual's Social Insurance Number,

to the extent that the total of amounts so paid does not exceed $10,000 (or $20,000 if the individual dies in the year);

(*b*.2) as remuneration for the patient's care or supervision provided in a group home in Canada maintained and operated exclusively for the benefit of individuals who have a severe and prolonged impairment, if

(i) because of the patient's impairment, the patient is a person in respect of whom an amount may be deducted under section 118.3 in computing a taxpayer's tax payable under this Part for the taxation year in which the expense is incurred,

(ii) no part of the remuneration is included in computing a deduction claimed in respect of the patient under section 63 or 64 or paragraph (*b*), (*b*.1), (*c*), (*d*) or (*e*) for any taxation year, and

(iii) each receipt filed with the Minister to prove payment of the remuneration was issued by the payee and contains, where the payee is an individual, that individual's Social Insurance Number;

(*c*) as remuneration for one full-time attendant on the patient in a self-contained domestic establishment in which the patient lives, if

(i) the patient is, and has been certified by a medical practitioner to be, a person who, by reason of mental or physical infirmity, is and is likely to be for a long-continued period of indefinite duration dependent on others for the patient's personal needs and care and who, as a result thereof, requires a full-time attendant,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 118.2(2)(c)(i) of the Act is replaced by the following:

(i) the patient is, and has been certified in writing by a medical practitioner to be, a person who, by reason of mental or physical infirmity, is and is likely to be for a long-continued period of indefinite duration dependent on others for the patient's personal needs and care and who, as a result, requires a full-time attendant,

Applicable: To certifications made after December 20, 2002.

Explanatory Note: The eligibility of certain expenses to the medical expense tax credit is conditional on a medical practitioner's certification. Paragraphs 118.2(2)(*c*), (*d*), (*e*), (*g*), and (*h*) are amended to clarify that such a certification has to be in writing. These amendments apply after December 20, 2002.

(ii) at the time the remuneration is paid, the attendant is neither the individual's spouse or common-law partner nor under 18 years of age, and

(iii) each receipt filed with the Minister to prove payment of the remuneration was issued by the payee and contains, where the payee is an individual, that individual's Social Insurance Number;

(*d*) for the full-time care in a nursing home of the patient, who has been certified by a medical practitioner to be a person who, by reason of lack of normal mental capacity, is and in the foreseeable

future will continue to be dependent on others for the patient's personal needs and care;

(*e*) for the care, or the care and training, at a school, institution or other place of the patient, who has been certified by an appropriately qualified person to be a person who, by reason of a physical or mental handicap, requires the equipment, facilities or personnel specially provided by that school, institution or other place for the care, or the care and training, of individuals suffering from the handicap suffered by the patient;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraphs 118.2(2)(*d*) and (*e*) of the Act are replaced by the following:

(*d*) for the full-time care in a nursing home of the patient, who has been certified in writing by a medical practitioner to be a person who, by reason of lack of normal mental capacity, is and in the foreseeable future will continue to be dependent on others for the patient's personal needs and care;

(*e*) for the care, or the care and training, at a school, an institution or another place of the patient, who has been certified in writing by an appropriately qualified person to be a person who, by reason of a physical or mental handicap, requires the equipment, facilities or personnel specially provided by that school, institution or other place for the care, or the care and training, of individuals suffering from the handicap suffered by the patient;

Applicable: To certifications made after December 20, 2002.

Explanatory Note: See the Explanatory Note following the amendment to subparagraph 118.2(2)(*c*)(i).

(*f*) for transportation by ambulance to or from a public or licensed private hospital for the patient;

(*g*) to a person engaged in the business of providing transportation services, to the extent that the payment is made for the transportation of

(i) the patient, and

(ii) one individual who accompanied the patient, where the patient was, and has been certified by a medical practitioner to be, incapable of travelling without the assistance of an attendant

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 118.2(2)(g)(ii) of the Act is replaced by the following:

(ii) one individual who accompanied the patient, where the patient was, and has been certified in writing by a medical practitioner to be, incapable of travelling without the assistance of an attendant

Applicable: To certifications made after December 20, 2002.

Explanatory Note: See the Explanatory Note following the amendment to subparagraph 118.2(2)(*c*)(i).

from the locality where the patient dwells to a place, not less than 40 kilometres from that locality, where medical services are normally provided, or from that place to that locality, if

(iii) substantially equivalent medical services are not available in that locality,

(iv) the route travelled by the patient is, having regard to the circumstances, a reasonably direct route, and

(v) the patient travels to that place to obtain medical services for himself or herself and it is reasonable, having regard to the circumstances, for the patient to travel to that place to obtain those services;

(*h*) for reasonable travel expenses (other than expenses described in paragraph (g)) incurred in respect of the patient and, where the patient was, and has been certified by a medical practitioner to be, incapable of travelling without the assistance of an attendant, in respect of one individual who accompanied the patient, to obtain medical services in a place that is not less than 80 kilometres from the locality where the patient dwells if the circumstances described in subparagraphs (g)(iii), (iv) and (v) apply;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 118.2(2)(*h*) of the Act is replaced by the following:

(*h*) for reasonable travel expenses (other than expenses described in paragraph (g)) incurred in respect of the patient and, where the patient was, and has been certified in writing by a medical practitioner to be, incapable of travelling without the assistance of an attendant, in respect of one individual who accompanied the patient, to obtain medical services in a place that is not less than 80 km from the locality where the patient dwells if the circumstances described in subparagraphs (g)(iii) to (v) apply;

Applicable: To certifications made after December 20, 2002.

Explanatory Note: See the Explanatory Note following the amendment to subparagraph 118.2(2)(*c*)(i).

(*i*) for, or in respect of, an artificial limb, an iron lung, a rocking bed for poliomyelitis victims, a wheel chair, crutches, a spinal brace, a brace for a limb, an iliostomy or colostomy pad, a truss for hernia, an artificial eye, a laryngeal speaking aid, an aid to hearing, an artificial kidney machine, phototherapy equipment for the treatment of psoriasis or other

skin disorders, or an oxygen concentrator, for the patient;

(*l*.1) for or in respect of diapers, disposable briefs, catheters, catheter trays, tubing or other products required by the patient by reason of incontinence caused by illness, injury or affliction;

(*j*) for eye glasses or other devices for the treatment or correction of a defect of vision of the patient as prescribed by a medical practitioner or optometrist;

(*k*) for an oxygen tent or other equipment necessary to administer oxygen or for insulin, oxygen, liver extract injectible for pernicious anaemia or vitamin B12 for pernicious anaemia, for use by the patient as prescribed by a medical practitioner;

(*l*) on behalf of the patient who is blind or profoundly deaf or has severe autism, severe epilepsy or a severe and prolonged impairment that markedly restricts the use of the patient's arms or legs,

(i) for an animal specially trained to assist the patient in coping with the impairment and provided by a person or organization one of whose main purposes is such training of animals,

(ii) for the care and maintenance of such an animal, including food and veterinary care,

(iii) for reasonable travel expenses of the patient incurred for the purpose of attending a school, institution or other facility that trains, in the handling of such animals, individuals who are so impaired, and

(iv) for reasonable board and lodging expenses of the patient incurred for the purpose of the patient's full-time attendance at a school, institution or other facility referred to in subparagraph (iii);

(*l*.1) on behalf of the patient who requires a bone marrow or organ transplant,

(i) for reasonable expenses (other than expenses described in subparagraph (ii)), including legal fees and insurance premiums, to locate a compatible donor and to arrange for the transplant, and

(ii) for reasonable travel, board and lodging expenses (other than expenses described in paragraphs (*g*) and (*h*)) of the donor (and one other person who accompanies the donor) and the patient (and one other person who accompanies the patient) incurred in respect of the transplant;

(*l*.2) for reasonable expenses relating to renovations or alterations to a dwelling of the patient who lacks normal physical development or has a severe and prolonged mobility impairment, to enable the patient to gain access to, or to be mobile or functional within, the dwelling, provided that such expenses

(i) are not of a type that would typically be expected to increase the value of the dwelling, and

(ii) are of a type that would not normally be incurred by persons who have normal physical development or who do not have a severe and prolonged mobility impairment;

(*l*.21) for reasonable expenses relating to the construction of the principal place of residence of the patient who lacks normal physical development or has a severe and prolonged mobility impairment, that can reasonably be considered to be incremental costs incurred to enable the patient to gain access to, or to be mobile or functional within, the patient's principal place of residence, provided that such expenses

(i) are not of a type that would typically be expected to increase the value of the dwelling, and

(ii) are of a type that would not normally be incurred by persons who have normal physical development or who do not have a severe and prolonged mobility impairment;

(*l*.3) for reasonable expenses relating to rehabilitative therapy, including training in lip reading and sign language, incurred to adjust for the patient's hearing or speech loss;

(*l*.4) on behalf of the patient who has a speech or hearing impairment, for sign language interpretation services or real-time captioning services, to the extent that the payment is made to a person in the business of providing such services;

(*l*.41) on behalf of the patient who has a mental or physical impairment, for note-taking services, if

(i) the patient has been certified in writing by a medical practitioner to be a person who, because of that impairment, requires such services, and

(ii) the payment is made to a person in the business of providing such services;

(*l*.42) on behalf of the patient who has a physical impairment, for the cost of voice recognition software, if the patient has been certified in writing by a medical practitioner to be a person who, because of that impairment, requires that software;

(*l*.43) on behalf of the patient who is blind or has a severe learning disability, for reading services, if

(i) the patient has been certified in writing by a medical practitioner to be a person who, because of that impairment, requires such services, and

(ii) the payment is made to a person in the business of providing such services;

(*l*.44) on behalf of the patient who is blind and profoundly deaf, for deaf-blind intervening services, if the payment is made to a person in the business of providing those services;

(*l*.5) for reasonable moving expenses (within the meaning of subsection 62(3), but not including any expense deducted under section 62 for any taxation year) of the patient, who lacks normal physical development or has a severe and prolonged mobility impairment, incurred for the purpose of the patient's move to a dwelling that is more accessible by the patient or in which the patient is more mobile or functional, if the total of the expenses claimed under this paragraph by all persons in respect of the move does not exceed $2,000;

(*l*.6) for reasonable expenses relating to alterations to the driveway of the principal place of residence of the patient who has a severe and prolonged mobility impairment, to facilitate the patient's access to a bus;

(*l.7*) for a van that, at the time of its acquisition or within 6 months after that time, has been adapted for the transportation of the patient who requires the use of a wheelchair, to the extent of the lesser of $5,000 and 20% of the amount by which

(i) the amount paid for the acquisition of the van exceeds

(ii) the portion, if any, of the amount referred to in subparagraph (i) that is included because of paragraph (*m*) in computing the individ ual's deduction under this section for any taxation year;

(*l.8*) for reasonable expenses (other than amounts paid to a person who was at the time of the payment the individual's spouse or common-law partner or a person under 18 years of age) to train the individual, or a person related to the individual, if the training relates to the mental or physical infirmity of a person who

(i) is related to the individual, and

(ii) is a member of the individual's household or is dependent on the individual for support;

(*l.9*) as remuneration for therapy provided to the patient because of the patient's severe and prolonged impairment, if

(i) because of the patient's impairment, an amount may be deducted under section 118.3 in computing a taxpayer's tax payable under this Part for the taxation year in which the remuneration is paid,

(ii) the therapy is prescribed by, and administered under the general supervision of,

(A) a medical doctor or a psychologist, in the case of mental impairment, and

(B) a medical doctor or an occupational therapist, in the case of a physical impairment,

(iii) at the time the remuneration is paid, the payee is neither the individual's spouse nor an individual who is under 18 years of age, and

(iv) each receipt filed with the Minister to prove payment of the remuneration was issued by the payee and contains, where the payee is an individual, that individual's Social Insurance Number;

(*l.91*) as remuneration for tutoring services that are rendered to, and are supplementary to the primary education of, the patient who

(i) has a learning disability or a mental impairment, and

(ii) has been certified in writing by a medical practitioner to be a person who, because of that disability or impairment, requires those services,

if the payment is made to a person ordinarily engaged in the business of providing such services to individuals who are not related to the payee;

(*m*) for any device or equipment for use by the patient that

(i) is of a prescribed kind,

(ii) is prescribed by a medical practitioner,

(iii) is not described in any other paragraph of this subsection, and

(iv) meets such conditions as are prescribed as to its use or the reason for its acquisition;

to the extent that the amount so paid does not exceed the amount, if any, prescribed in respect of the device or equipment;

(*n*) for

(i) drugs, medicaments or other preparations or substances (other than those described in paragraph (*k*))

(A) that are manufactured, sold or represented for use in the diagnosis, treatment or prevention of a disease, disorder or abnormal physical state, or its symptoms, or in restoring, correcting or modifying an organic function,

(B) that can lawfully be acquired for use by the patient only if prescribed by a medical practitioner or dentist, and

(C) the purchase of which is recorded by a pharmacist, or

(ii) drugs, medicaments or other preparations or substances that are prescribed by regulation;

(*o*) for laboratory, radiological or other diagnostic procedures or services together with necessary interpretations, for maintaining health, preventing disease or assisting in the diagnosis or treatment of any injury, illness or disability, for the patient as prescribed by a medical practitioner or dentist;

(*p*) to a person authorized under the laws of a province to carry on the business of a dental mechanic, for the making or repairing of an upper or lower denture, or for the taking of impressions, bite registrations and insertions in respect of the making, producing, constructing and furnishing of an upper or lower denture, for the patient;

(*q*) as a premium, contribution or other consideration under a private health services plan in respect of one or more of the individual, the individual's spouse or common-law partner and any member of the individual's household with whom the individual is connected by blood relationship, marriage, common-law partnership or adoption, except to the extent that the premium, contribution or consideration is deducted under subsection 20.01(1) in computing an individual's income from a business for any taxation year;

(*r*) on behalf of the patient who has celiac disease, the incremental cost of acquiring gluten-free food products as compared to the cost of comparable non-gluten-free food products, if the patient has been certified in writing by a medical practitioner to be a person who, because of that disease, requires a gluten-free diet;

(*s*) for drugs obtained under Health Canada's Special Access Programme in accordance with sections C.08.010 and C.08.011 of the *Food and Drug Regulations* and purchased for use by the patient;

(*t*) for medical devices obtained under Health Canada's Special Access Programme in accordance with Part 2 of the *Medical Devices Regulations* and purchased for use by the patient; or

(*u*) on behalf of the patient who is authorized to possess marihuana for medical purposes under the *Marihuana Medical Access Regulations* or section 56 of the *Controlled Drugs and Substances Act*, for

(i) the cost of medical marihuana or marihuana seeds purchased from Health Canada, or

(ii) the cost of marihuana purchased from an individual who possesses, on behalf of that patient, a designated-person production license to produce marihuana under the *Marihuana Medical Access Regulations* or an exemption for cultivation or production under section 56 of the *Controlled Drugs and Substances Act*.

History: S. 118.2(2)(*l*), the portion before subparagraph (i) was replaced by S.C. 2008, c. 28, s. 16(1), applicable to the 2008 and subsequent taxation years. S. 118.2(2)(*l*), the portion before subparagraph (i) formerly read:

"(*l*) on behalf of the patient who is blind or profoundly deaf or has a severe and prolonged impairment that markedly restricts the use of the patient's arms or legs,"

S. 118.2(2)(*n*) was replaced by S.C. 2008, c. 28, s. 16(2), applicable to expenses incurred after February 26, 2008. S. 118.2(2)(*n*) formerly read:

"(*n*) for drugs, medicaments or other preparations or substances (other than those described in paragraph (*k*)) manufactured, sold or represented for use in the diagnosis, treatment or prevention of a disease, disorder, abnormal physical state, or the symptoms thereof or in restoring, correcting or modifying an organic function, purchased for use by the patient as prescribed by a medical practitioner or dentist and as recorded by a pharmacist;"

S. 118.2(2)(*i*) was replaced by S.C. 2006, c. 4, s. 62(2), applicable to the 2005 and subsequent taxation years.

S. 118.2(2)(*i*) formerly read:

"(*i*) for or in respect of an artificial limb, iron lung, rocking bed for poliomyelitis victims, wheel chair, crutches, spinal brace, brace for a limb, ileostomy or colostomy pad, truss for hernia, artificial eye, laryngeal speaking aid, aid to hearing or artificial kidney machine, for the patient;"

S. 118.2(2)(*l.2*) and (*l.21*) were replaced by S.C. 2006, s. 4, s. 62(3), applicable to expenses incurred after February 22, 2005.

S. 118.2(2)(*l.2*) and (*l.21*) formerly read:

"(*l.2*) for reasonable expenses relating to renovations or alterations to a dwelling of the patient who lacks normal physical development or has a severe and prolonged mobility impairment, to enable the patient to gain access to, or to be mobile or functional within, the dwelling;

(*l.21*) for reasonable expenses, relating to the construction of the principal place of residence of the patient who lacks normal physical development or has a severe and prolonged mobility impairment, that can reasonably be considered to be incremental costs incurred to enable the patient to gain access to, or to be mobile or functional within, the patient's principal place of residence;"

S. 118.2(2)(*l.43*) and (*l.44*) were added by S.C. 2006, s. 4, s. 62(4), applicable to the 2005 and subsequent taxation years.

S. 118.2(2)(*s*), (*t*) and (*u*) were added by S.C. 2006, s. 4, s. 62(5), applicable to the 2005 and subsequent taxation years.

S. 118.2(2)(*l.4*) was replaced, and paragraphs (*l.41*) and (*l.42*) were added, by S.C. 2003, c. 15, s. 73(1), applicable to the 2003 and subsequent taxation years. S. 118.1(2)(*l.4*) formerly read:

"(*l.4*) on behalf of the patient who has a speech or hearing impairment, for sign language interpretation services, to the extent that the payment is made to a person engaged in the business of providing such services;"

S. 118.2(2)(*r*) was added by S.C. 2003, c. 15, s. 73(2), applicable to the 2003 and subsequent taxation years.

S. 118.2(2)(*l.21*) was added by S.C. 2001, c. 17, s. 95(1), applicable to the 2000 and subsequent taxation years.

S. 118.2(2)(*q*) was amended by S.C. 2001, c. 17, s. 244, applicable to the 2001 and following taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act* [See Sec. 144, Chap. 12, S.C. 2000, reproduced below.], in respect of the 1998, 1999 or 2000 taxation years, s. 118.2(2)(*q*) applies to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years. S. 118.2(2)(*q*) formerly read:

"(*q*) as a premium, contribution or other consideration under a private health services plan in respect of one or more of the individual, the individual's spouse or common-law partner and any member of the individual's household with whom the individual is connected by blood relationship, marriage or adoption, except to the extent that the premium, contribution or consideration is deducted under subsection 20.01(1) in computing an individual's income from a business for any taxation year."

S. 118.2(2)(*a*) and (*b*) were amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.6), applicable January 1, 2001, coming into force on July 31, 2000. S. 118.2(2)(*a*) and (*b*) formerly read:

"(*a*) to a medical practitioner, dentist or nurse or a public or licensed private hospital in respect of medical or dental services provided to a person (in this subsection referred to as the 'patient') who is the individual, the individual's spouse or a dependant of the individual (within the meaning assigned by subsection 118(6)) in the taxation year in which the expense was incurred;

(*b*) as remuneration for one full-time attendant (other than a person who, at the time the remuneration is paid, is the individual's spouse or is under 18 years of age) on, or for the full-time care in a nursing home of, the patient in respect of whom an amount would, but for paragraph 118.3(1)(*c*), be deductible under section 118.3 in computing a taxpayer's tax payable under this Part for the taxation year in which the expense was incurred;"

S. 118.2(2)(*b.1*)(iii) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.6), applicable January 1, 2001, coming into force on July 31, 2000. S. 118.2(2)(*b.1*)(iii) formerly read:

"(iii) at the time the remuneration is paid, the attendant is neither the individual's spouse nor under 18 years of age, and"

S. 118.2(2)(*c*)(ii) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.6), applicable January 1, 2001, coming into force on July 31, 2000. S. 118.2(2)(*c*)(ii) formerly read:

"(ii) at the time the remuneration is paid, the attendant is neither the individual's spouse nor under 18 years of age, and"

S. 118.2(2)(*l.8*) was amended by S.C. 2000, c. 12, Sched. 2, s. , applicable January 1, 2001, coming into force on July 31, 2000. S. 118.2(2)(*l.8*) formerly read:

"(*l.8*) for reasonable expenses (other than amounts paid to a person who was at the time of the payment the individual's spouse or a person under 18 years of age) to train the individual, or a person related to the individual, if the training relates to the mental or physical infirmity of a person who

(i) is related to the individual, and

(ii) is a member of the individual's household or is dependent on the individual for support;"

S. 118.2(2)(*q*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.6), applicable January 1, 2001, coming into force on July 31, 2000. S. 118.2(2)(*q*) formerly read:

"(*q*) as a premium, contribution or other consideration under a private health services plan in respect of one or more of the individual, the individual's spouse and any member of the individual's household with whom the individual is connected by blood relationship, marriage or adoption, except to the extent that the premium, contribution or consideration is deducted under subsection 20.01(1) in computing an individual's income from a business for any taxation year."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 118.2(2)(*b.2*) was added by S.C. 2000, c. 19, s. 25(3), applicable to the 1999 and subsequent taxation years.

S. 118.2(2)(*b.1*)(ii) was amended by S.C. 2000, c. 19, s. 25(2), applicable to the 1999 and subsequent taxation years. S. 118.2(2)(*b.1*)(ii) formerly read:

"(ii) no amount is included under section 63 or 64 or paragraph (*b*), (*c*), (*d*) or (*e*) in computing a deduction claimed in respect of the patient for the taxation year in which the remuneration was paid,"

S. 118.2(2)(*l.9*) and (*l.91*) were added by S.C. 2000, c. 19, s. 25(4), applicable to the 1999 and subsequent taxation years.

S. 118.2(2)(*q*) was amended by S.C. 1999, c. 22, s. 34(3), applicable to the 1998 and subsequent taxation years. S. 118.2(2)(*q*) formerly read:

"(*q*) as a premium, contribution or other consideration to a private health services plan in respect of one or more of the individual, the individual's spouse and any member of the individual's household with whom the individual is connected by blood relationship, marriage or adoption."

S. 118.2(2)(*l.8*) was added by S.C. 1999, c. 22, s. 34(2), applicable to the 1998 and subsequent taxation years.

S. 118.2(2), the portion after subparagraph (*b.1*)(iv), was amended by S.C. 1998, c. 19, s. 23(1.1), applicable to the 1997 and subsequent taxation years. S. 118.2(2), the portion after subparagraph (*b.1*)(iv) formerly read:

"to the extent that the total of amounts so paid does not exceed $5,000 (or $10,000 where the individual died in the year);"

S. 118.2(2)(*l.4*) was added by S.C. 1998, c. 19, s. 23(2), applicable to the 1997 and subsequent taxation years.

S. 118.2(2)(*l.5*) was added by S.C. 1998, c. 19, s. 23(2), applicable to the 1997 and subsequent taxation years.

S. 118.2(2)(*l.6*) was added by S.C. 1998, c. 19, s. 23(2), applicable to the 1997 and subsequent taxation years.

S. 118.2(2)(*l.7*) was added by S.C. 1998, c. 19, s. 23(2), applicable to the 1997 and subsequent taxation years.

S. 118.2(2)(*m*), the portion after subparagraph (iv), was added by S.C. 1998, c. 19, s. 23(3), applicable to the 1997 and subsequent taxation years.

S. 118.2(2)(*l.3*) was added by S.C. 1994, c. 7, Sched. VIII, s. 54(1), applicable to the 1992 and subsequent taxation years.

S. 118.2(2)(*a*) was amended by S.C. 1994, c. 7, Sched. VII, s. 9(2), applicable with respect to the 1993 and subsequent taxation years. S. 118.2(2)(*a*) formerly read:

"(*a*) to a medical practitioner, dentist or nurse or a public or licensed private hospital in respect of medical or dental services provided to a person (in this subsection referred to as the 'patient') who is the individual, the individual's spouse or any dependant in respect of whom the individual may deduct an amount under section 118 from tax payable under this Part by the individual for the taxation year in which the expense was incurred;"

S. 118.2(2)(*b*) was amended by S.C. 1994, c. 7, Sched. II, s. 89(1), applicable with respect to expenses incurred after 1990. S. 118.2(2)(*b*) formerly read:

"(*b*) as remuneration for one full-time attendant on, or for the full-time care in a nursing home of, the patient who has a severe and prolonged mental or physical impairment that has been certified as such in prescribed form by a medical practitioner or, where the impairment is an impairment of sight, by a medical practitioner or an optometrist;"

S. 118.2(2)(*b.1*) was added by S.C. 1994, c. 7, Sched. II, s. 89(1), applicable with respect to expenses incurred after 1990.

S. 118.2(2)(*c*)(ii) and (iii) were amended by S.C. 1994, c. 7, Sched. II, s. 89(2), applicable with respect to expenses incurred after 1990. S. 118(2)(*c*)(ii) and (iii) formerly read:

"(ii) the attendant is not

(A) a person in respect of whom the individual or the individual's spouse deducts an amount under section 118 from tax payable under this Part by the individual for the taxation year in which the remuneration is paid, or

(B) at the time the remuneration is paid, under 18 years of age and connected with the individual or the individual's spouse by blood relationship, marriage or adoption, and

(iii) each receipt filed with the Minister to prove payment of the remuneration contains the Social Insurance Number of the person who issued the receipt;"

S. 118.2(2)(*h*) was amended by S.C. 1994, c. 7, Sched. II, s. 89(3), applicable to the 1988 and subsequent taxation years. S. 118.2(2)(*h*) formerly read:

"(*h*) for reasonable travel expenses (other than expenses described in paragraph (*g*)) incurred in respect of the patient (who was, and has been certified by a medical practitioner to be, incapable of travelling without the assistance of an attendant) and one individual who accompanied the patient to obtain medical services in a place that is not less than 80 kilometres from the locality where the patient dwells if the circumstances described in subparagraphs (*g*)(iii) to (v) apply;"

S. 118.2(2)(*i*) was amended by S.C. 1994, c. 7, Sched. II, s. 89(4), applicable with respect to expenses incurred after 1990. S. 118.2(2)(*i*) formerly read:

"(*i*) for or in respect of an artificial limb, iron lung, rocking bed for poliomyelitis victims, wheel chair, crutches, spinal brace, brace for a limb, iliostomy or colostomy pad, cloth diapers or disposable briefs for use by persons who are incontinent by reason of illness, injury or affliction, truss for hernia, artificial eye, laryngeal speaking aid, aid to hearing or artificial kidney machine for the patient;"

S. 118.2(2)(*i.1*) was added by S.C. 1994, c. 7, Sched. II, s. 89(4), applicable to with respect to expenses incurred after 1990.

S. 118.2(2)(*l*) was amended by S.C. 1994, c. 7, Sched. II, s. 89(5), applicable with respect to expenses incurred after 1990. S. 118.2(2)(*l*) formerly read:

"(*l*) on behalf of the patient who is totally blind or profoundly deaf,

(i) for a dog trained to guide or assist a blind or deaf person and provided by a person or organization one of whose main purposes is the training of such dogs,

(ii) for the care and maintenance of such a dog, including food and veterinarian care,

(iii) for reasonable travel expenses of the patient incurred in travelling to and from a school, institution or other place that trains blind or deaf persons in the handling of such dogs, and

(iv) for reasonable board and lodging expenses of the patient incurred while the patient is required to live away from the patient's ordinary place of residence because the patient is in full-time attendance at a school, institution or other place that trains blind or deaf persons in the handling of such dogs;"

S. 118.2(2)(*l.2*) was amended by S.C. 1994, c. 7, Sched. II, s. 89(7), applicable with respect to expenses incurred after 1990. S. 118.2(2)(*l.2*) formerly read:

"(*l.2*) for reasonable expenses relating to modifications to a dwelling of the patient, who lacks normal physical development or is necessarily confined to a wheelchair for a long-continued period of indefinite duration, to enable the patient to be mobile and functional within the dwelling;"

S. 118.2(2)(*m*) was amended by S.C. 1994, c. 7, Sched. II, s. 89(8), applicable on Royal Assent, December 17, 1991. S. 118.2(2)(*m*) formerly read:

"(*m*) for any device or equipment, not described in any other paragraph of this subsection, of a prescribed kind, for use by the patient as prescribed by a medical practitioner;"

Related Sections: S. 6(1)(*a*) Value of benefits; s. 18(1)(*a*) General limitation; s. 20(1)(*qq*) Disability-related modifications to buildings; s. 20(1)(*rr*) Disability-related equipment; s. 20.01(1) PHSP premiums; s. 63(3), "child care expense"; s. 64 Disability supports deduction; s. 110.7(3) Restriction; s. 118.2(4) Deemed payment of medical expenses; s. 248(1), "private health services plan"; s. 251(6) Blood relationship, etc.

Regulations: 5700; 5701.

Interpretation Bulletins: *Primary* — IT-519R2 (Consolid.) Medical expense and disability tax credits and attendant care expense deduction; *Secondary* — IT-339R2 Meaning of "private health services plan"; IT-495R3 Child care expenses.

Information Circulars: IC 82-2R2 Social insurance number legislation that relates to the preparation of information slips.

Forms: T929.

Tax Topics: No. 1714, Committee Report Concerning Tax Credits for Disabled Individuals; No. 1624, Attendant Care in a Retirement Home.

Canadian Tax Foundation: Katz, "Tax Assistance for the Disabled", *1999 Canadian Tax Journal*, No. 3, 663.

Tax Window Files: Attendant Care, September 25, 2003, CRA Document No. 2003-0030965 [A resident of a retirement home may be able to claim a portion of the amount paid to the retirement home as attendant care under paragraph 118.2(2)(*b.1*)].

Cases: The taxpayer wasn't entitled to a medical expense credit for the cost of natural dietary supplements and vitamins that had been prescribed by a physician, but not "recorded by a pharmacist". *Wilson v. The Queen*, 2006 DTC 2157 (T.C.C.).

A credit for nursing home costs was denied because the certificates that were issued were too vague. They did not specify: that the patient lacked normal mental capacity; the mental or physical handicap from which the patient was suffering; or the equipment, facilities or personnel that the patient required. *The Queen v. The Estate of Harry Title*, 2001 DTC 5236 (F.C.A.), reversing 2000 DTC 1991 (T.C.C.).

An air conditioner had been "designed to assist a crippled individual in walking" within the meaning of regulation 5700(*i*), and its cost was therefore deductible as a medical expense when it had been developed in a medical context in order to lower body temperature and thereby assist in the restoration of mobility. *Brown v. The Queen*, 95 DTC 5126 (F.C.T.D.), reversing 89 DTC 1 (T.C.C.).

► 118.2(3) ◄

(3) Deemed medical expense. For the purposes of subsection (1),

(*a*) any amount included in computing an individual's income for a taxation year from an office or employment in respect of a medical expense described in subsection (2) paid or provided by an employer at a particular time shall be deemed to be a medical expense paid by the individual at that time; and

(*b*) there shall not be included as a medical expense of an individual any expense to the extent that

(i) the individual,

(ii) the person referred to in subsection (2) as the patient,

(iii) any person related to a person referred to in subparagraph (i) or (ii), or

(iv) the legal representative of any person referred to in any of subparagraphs (i) to (iii)

is entitled to be reimbursed for the expense, except to the extent that the amount of the reimbursement is required to be included in computing income and is not deductible in computing taxable income.

History: S. 118.2(3)(*b*) was amended by S.C. 1998, c. 19, s. 23(4), applicable to the 1997 and subsequent taxation years. S. 118.2(3)(*b*) formerly read:

"(*b*) there shall not be included as a medical expense of an individual any expense for which the individual, the person referred to in subsection (2) as the patient or the legal representative of either of them has been or is entitled to be reimbursed, except to the extent that the amount thereof is

required to be included in computing income under this Part and cannot be deducted in computing taxable income."

S. 118.2(3)(*b*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 54(2), applicable to the 1992 and subsequent taxation years. S. 118.2(3)(*b*) formerly read:

"(*b*) there shall not be included as a medical expense of an individual any expense for which the individual or the individual's legal representative has been or is entitled to be reimbursed, except to the extent that its amount is required to be included in computing the individual's income under this Part."

Related Sections: S. 248(1), "amount", "individual".
Interpretation Bulletins: *Secondary*—IT-339R2 Meaning of "private health service plan".

► 118.2(4) ◄

(4) Deemed payment of medical expenses. Where, in circumstances in which a person engaged in the business of providing transportation services is not readily available, an individual makes use of a vehicle for a purpose described in paragraph (2)(*g*), the individual or the individual's legal representative shall be deemed to have paid to a person engaged in the business of providing transportation services, in respect of the operation of the vehicle, such amount as is reasonable in the circumstances.

SECTION 118.3:

► 118.3(1) ◄

(1) Credit for mental or physical impairment. Where

(*a*) an individual has one or more severe and prolonged impairments in physical or mental functions,

(*a*.1) the effects of the impairment or impairments are such that the individual's ability to perform more than one basic activity of daily living is significantly restricted where the cumulative effect of those restrictions is equivalent to having a marked restriction in the ability to perform a basic activity of daily living or are such that the individual's ability to perform a basic activity of daily living is markedly restricted or would be markedly restricted but for therapy that

(i) is essential to sustain a vital function of the individual,

(ii) is required to be administered at least three times each week for a total duration averaging not less than 14 hours a week, and

(iii) cannot reasonably be expected to be of significant benefit to persons who are not so impaired,

(*a*.2) in the case of an impairment in physical or mental functions the effects of which are such that the individual's ability to perform a single basic activity of daily living is markedly restricted or would be so restricted but for therapy referred to in paragraph (*a*.1), a medical practitioner has certified in prescribed form that the impairment is a severe and prolonged impairment in physical or mental functions the effects of which are such that the individual's ability to perform a basic activity of daily living is markedly restricted or would be markedly restricted, but for therapy referred to in paragraph (*a*.1), where the medical practitioner is a medical doctor or, in the case of

(i) a sight impairment, an optometrist,

(ii) a speech impairment, a speech-language pathologist,

(iii) a hearing impairment, an audiologist,

(iv) an impairment with respect to an individual's ability in feeding or dressing themself, an occupational therapist,

(v) an impairment with respect to an individual's ability in walking, an occupational therapist, or after February 22, 2005, a physiotherapist, and

(vi) an impairment with respect to an individual's ability in mental functions necessary for everyday life, a psychologist,

(*a*.3) in the case of one or more impairments in physical or mental functions the effects of which are such that the individual's ability to perform more than one basic activity of daily living is significantly restricted, a medical practitioner has certified in prescribed form that the impairment or impairments are severe and prolonged impairments in physical or mental functions the effects of which are such that the individual's ability to perform more than one basic activity of daily living is significantly restricted and that the cumulative effect of those restrictions is equivalent to having a marked restriction in the ability to perform a single basic activity of daily living, where the medical practitioner is, in the case of

(i) an impairment with respect to the individual's ability in feeding or dressing themself, or in walking, a medical doctor or an occupational therapist, and

(ii) in the case of any other impairment, a medical doctor,

(*b*) the individual has filed for a taxation year with the Minister the certificate described in paragraph (*a*.2) or (*a*.3), and

(*c*) no amount in respect of remuneration for an attendant or care in a nursing home, in respect of the individual, is included in calculating a deduction under section 118.2 (otherwise than because of paragraph 118.2(2)(*b*.1)) for the year by the individual or by any other person,

there may be deducted in computing the individual's tax payable under this Part for the year the amount determined by the formula

$$A \times (B + C)$$

where

A is the appropriate percentage for the year,

B is $6,000, and

C is

(*a*) where the individual has not attained the age of 18 years before the end of the year, the amount, if any, by which

(i) $3,500

exceeds

(ii) the amount, if any, by which

(A) the total of all amounts each of which is an amount paid in the year for the care or supervision of the individual and included in computing a deduction under section 63, 64 or 118.2 for a taxation year

exceeds

(B) $2,050, and

(*b*) in any other case, zero.

CRA Press Release

2.5% Indexation Factor for 2009

See CRA Fact Sheet, dated December 8, 2008, that is reproduced following subsection 117.1(1). This release announces a 2.5% indexation factor applicable for 2009 tax bracket thresholds, personal amounts and other amounts relating to non-refundable credits, as well as the refundable medical expense supplement and Old Age Security repayment threshold. Increases to the Canada Child Tax Benefit (including the National Child Benefit supplement and the Child Disability Benefit) and the Goods and Services Tax Credit will take effect as of July 1, 2009.

History: S. 118.3(1)(*b*) was replaced by S.C. 2007, c. 2, s. 22(1), applicable to the 2005 and subsequent taxation years.

S. 118.3(1)(*b*) formerly read:

"(*b*) the individual has filed for a taxation year with the Minister the certificate described in paragraph (*a*.2), and"

S. 118.3(1)(*a*) was replaced by S.C. 2006, c. 4, s. 63(1), applicable to the 2005 and subsequent taxation years.

S. 118.3(1)(*a*) formerly read:

"(*a*) an individual has a severe and prolonged mental or physical impairment,"

S. 118.3(1), the portion of paragraph (*a*.1) before subparagraph (i), was replaced by S.C. 2006, c. 4, s. 63(2), applicable to the 2005 and subsequent taxation years.

S. 118.3(1), the portion of paragraph (*a*.1) before subparagraph (i), formerly read:

"(*a*.1) the effects of the impairment are such that the individual's ability to perform a basic activity of daily living is markedly restricted or would be markedly restricted but for therapy that"

S. 118.3(1)(*a*.2) was replaced and paragraph (*a*.3) was added by S.C. 2006, c. 4, s. 63(3), applicable to the 2005 and subsequent taxation years.

S. 118.3(1)(*a*.2) formerly read:

"(*a*.2) in the case of

(i) a sight impairment, a medical doctor or an optometrist,

(i.1) a speech impairment, a medical doctor or a speech-language pathologist,

(ii) a hearing impairment, a medical doctor or an audiologist,

(iii) an impairment with respect to an individual's ability in feeding or dressing themself, or in walking, a medical doctor or an occupational therapist,

(iv) an impairment with respect to an individual's ability in perceiving, thinking and remembering, a medical doctor or a psychologist, and

(v) an impairment not referred to in any of subparagraphs (i) to (iv), a medical doctor

has certified in prescribed form that the impairment is a severe and prolonged mental or physical impairment the effects of which are such that the individual's ability to perform a basic activity of daily living is markedly restricted or would be markedly restricted but for therapy referred to in paragraph (*a*.1),"

S. 118.3(1)(*a*.2)(iii) was replaced by S.C. 2003, c. 15, s. 74(1), applicable to the 2003 and subsequent taxation years. S. 118.3(1)(*a*.2)(iii) formerly read:

"(iii) an impairment with respect to an individual's ability in feeding and dressing themself, or in walking, a medical doctor or an occupational therapist,"

S. 118.3(1)(*a*.1) was amended by S.C. 2001, c. 17, s. 96(2), applicable to the 2000 and subsequent taxation years. S. 118.3(1)(*a*.1) formerly read:

"(*a*.1) the effects of the impairment are such that the individual's ability to perform a basic activity of daily living is markedly restricted,"

S. 118.3(1)(*a*.2)(i.1) was added by S.C. 2001, c. 17, s. 96(4), applicable to certifications made after October 17, 2000.

S. 118.3(1)(*a*.2), the portion after subparagraph (v) was amended by S.C. 2001, c. 17, s. 96(5), applicable to the 2000 and subsequent taxation years. S. 118.3(1)(*a*.2), the portion after subparagraph (v) formerly read:

"has certified in prescribed form that the impairment is a severe and prolonged mental or physical impairment the effects of which are such that the individual's ability to perform a basic activity of daily living is markedly restricted,"

S. 118.3(1), the portion after paragraph (*c*) was amended by S.C. 2001, c. 17, s. 96(6), applicable to the 2000 and subsequent taxation years except that, in applying [the portion of subsection 118.3(1) after paragraph (*c*)] to the 2000 taxation year, the references to "$6,000", "$3,500" and "$2,050" in the descriptions of B and C in the formula in subsection 118.3(1) of the Act shall be read as references to "$4,293", "$2,941" and "$2,000", respectively. S. 118.3(1), the portion after paragraph (*c*) formerly read:

"for the purposes of computing the tax payable under this Part by the individual for the year, there may be deducted an amount determined by the formula

$$A \times \$4,118$$

where

A is the appropriate percentage for the year."

S. 118.3(1)(*a*.2)(iii) was amended, and subparagraphs (iv) and (v) were added, by S.C. 1999, c. 22, s. 35(1), applicable to certifications made after February 24, 1998. S. 118.3(1)(*a*.2)(iii) formerly read:

"(iii) an impairment not referred to in subparagraph (i) or (ii), a medical doctor"

S. 118.3(1)(*a*.2) was amended by S.C. 1998, c. 19, s. 24(1), applicable to certifications made after February 18, 1997. S. 118.3(1)(*a*.2) formerly read:

"(*a*.2) a medical doctor, or where the impairment is an impairment of sight, a medical doctor or an optometrist, has certified in prescribed form that the individual has a severe and prolonged mental or physical impairment the effects of which are such that the individual's ability to perform a basic activity of daily living is markedly restricted,"

S. 118.3(1) was amended by S.C. 1994, c. 7, Sched. II, s. 90(1), applicable to the 1991 and subsequent taxation years. S. 118.3(1) formerly read:

"(1) Where

(*a*) an individual has a severe and prolonged mental or physical impairment that has been certified as such in prescribed form by a medical practitioner or, where the impairment is an impairment of sight, by a medical practitioner or an optometrist,

(*b*) the individual has filed for a taxation year with the Minister the certificate described in paragraph (*a*), and

(*c*) no amount in respect of remuneration for an attendant, or care in a nursing home, by reason of the mental or physical impairment of the individual is included in calculating a deduction under subsection 118.2(1) for the year by the individual or by any other person,

for the purposes of computing the tax payable under this Part by the individual for the year, there may be deducted an amount determined by the formula

$$A \times \$3,236$$

where

A is the appropriate percentage for the year."

Related Sections: S. 6(16) Disability-related employment benefits; s. 108(1), "prefèrred beneficiary"; s. 117.1(1) Annual adjustment (indexing); s. 118.2(2)(*b*) Medical expenses; s. 118.2(2)(*b*.1) Medical expenses; s. 118.2(2)(*b*.2) Medical expenses; s. 118.2(2)(*l*.9)) Medical expenses; s. 118.3(2) Dependant having impairment; s. 118.4(1) Nature of impairment; s. 118.4(2) Reference to medical practitioners, etc.; s. 118.6(3) Students eligible for the disability tax credit; s. 118.8 Transfer of unused credits to spouse or common-law partner; s. 118.91 Part-year residents; s. 118.93 Credits in separate returns; s. 118.94 Tax payable by non-residents (credits restricted); s. 146.01(1), "specified disabled person"; s. 146.1(2)(*g*.1)(i)(B) Conditions for registration; s. 248(1), "individual".

Interpretation Bulletins: *Primary* — IT-519R2 (Consolid.) Medical expense and disability tax credits and attendant care expense deduction. *Secondary* — IT-171R2 Non-resident individuals — Computation of taxable income earned in Canada and non-refundable tax credits [Archived by the CRA]; IT-394R2 Preferred beneficiary election; IT-495R3 Child care expenses; IT-515R2 Education tax credit; IT-516R2 Tuition tax credit.

Information Circulars: IC 07-1 Taxpayer Relief Provisions.

Forms: T2201.

Guides: RC4064 Information Concerning People with Disabilities.

Tax Topics: No. 1714, Committee Report Concerning Tax Credits for Disabled Individuals; No. 1707, Claiming the Disability Tax Credit; No. 1610, The Continuing Saga of the Disability Tax Credit; No. 1594, Government's Response to Committee Report on the Disability Tax Credit; No. 1571, Continuing Discussions on the Disability Tax Credit.

Canadian Tax Foundation: Katz, "Tax Assistance for the Disabled", *1999 Canadian Tax Journal*, No. 3, 663.

Cases: When the taxpayer suffered from a brain dysfunction following exposure to toxic substances, the Tax Court was not obliged to accept her doctor's statement that she had no difficulties performing three of her basic activities. *Thomas v. The Queen*, 97 DTC 5024 (F.C.A.).

► 118.3(1.1) ◄

(1.1) Time spent on therapy. For the purpose of paragraph 118.3(1)(*a*.1), in determining whether therapy is required to be administered at least three times each week for a total duration averaging not less than an average of 14 hours a week, the time spent on administering therapy

(*a*) includes only time spent on activities that require the individual to take time away from normal everyday activities in order to receive the therapy;

(*b*) in the case of therapy that requires a regular dosage of medication that is required to be adjusted on a daily basis, includes (subject to paragraph (*d*)) time spent on activities that are directly related to the determination of the dosage of the medication;

(*c*) in the case of a child who is unable to perform the activities related to the administration of the

therapy as a result of the child's age, includes the time, if any, spent by the child's primary caregivers performing or supervising those activities for the child; and

(*d*) does not include time spent on activities related to dietary or exercise restrictions or regimes (even if those restrictions or regimes are a factor in determining the daily dosage of medication), travel time, medical appointments, shopping for medication or recuperation after therapy.

History: S. 118.3(1.1) was added by S.C. 2006, c. 4, s. 63(4), applicable to the 2005 and subsequent taxation years.

► 118.3(2) ◄

(2) Dependant having impairment. Where

(*a*) an individual has, in respect of a person (other than a person in respect of whom the person's spouse or common-law partner deducts for a taxation year an amount under section 118 or 118.8) who is resident in Canada at any time in the year and who is entitled to deduct an amount under subsection (1) for the year,

(i) claimed for the year a deduction under subsection 118(1) because of

(A) paragraph (*b*) of the description of B in that subsection, or

(B) paragraph (*c*.1) or (*d*) of that description where the person is a parent, grandparent, child, grandchild, brother, sister, aunt, uncle, nephew or niece of the individual, or of the individual's spouse or common-law partner, or

(ii) could have claimed for the year a deduction referred to in subparagraph (i) in respect of the person if

(A) the person had no income for the year and had attained the age of 18 years before the end of the year, and

(B) in the case of a deduction referred to in clause (i)(A), the individual were not married or not in a common-law partnership, and

(*b*) no amount in respect of remuneration for an attendant, or care in a nursing home, because of that person's mental or physical impairment, is included in calculating a deduction under section 118.2 (otherwise than under paragraph 118.2(2)(*b*.1)) for the year by the individual or by any other person,

there may be deducted, for the purpose of computing the tax payable under this Part by the individual for the year, the amount, if any, by which

(*c*) the amount deductible under subsection (1) in computing that person's tax payable under this Part for the year

exceeds

(*d*) the amount of that person's tax payable under this Part for the year computed before any deductions under this Division (other than sections 118 and 118.7).

History: S. 118.3(2)(*a*)(i)(B) was amended by S.C. 2001, c. 17, s. 96(7), applicable to the 2000 and subsequent taxation years. S. 118.3(2)(*a*)(i)(B) formerly read:

"(B) paragraph (*c*.1) or (*d*) of that description where the person is the individual's parent, grandparent, child or grandchild, or"

S. 118.3(2)(*a*), the portion before subparagraph (i), was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.6), applicable January 1, 2001, coming into force on July 31, 2000. S. 118.3(2)(*a*), the portion before subparagraph (i) formerly read:

"(*a*) an individual has, in respect of a person (other than a person in respect of whom the person's spouse deducts for a taxation year an amount under section 118 or 118.8) who is resident in Canada at any time in the year and who is entitled to deduct an amount under subsection (1) for the year,"

S. 118.3(2)(*a*)(ii)(B) was amended by S.C. 2000, c. 12, s. 132, applicable January 1, 2001, coming into force on July 31, 2000. S. 118.3(2)(*a*)(ii)(B) formerly read:

"(B) in the case of a deduction referred to in clause (i)(A), the individual were not married, and"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 118.3(2)(*a*) was amended by S.C. 1999, c. 22, s. 35(2), applicable to the 1998 and subsequent taxation years. S. 118.3(2)(*a*) formerly read:

"(*a*) an individual has, in respect of a person (other than a person in respect of whom the person's spouse deducts for the year an amount under section 118 or 118.8) who is resident in Canada at any time in a taxation year and who is entitled to deduct an amount under subsection (1) for the year, claimed for the year a deduction under subsection 118(1) because of

(i) paragraph (*b*) of the description of B in subsection 118(1),or

(ii) paragraph (*d*) of the description of B in subsection 118(1) where that person is the individual's child or grandchild,

or, where that person is the individual's parent, grandparent, child or grandchild, could have claimed such a deduction if the individual were not married and that person had no income for the year and had attained the age of 18 years before the end of the year, and"

Ss. 118.3(2)(*a*)(i) and (ii) were amended by S.C. 1997, c. 25, s. 27(1), applicable April 25, 1997. Those subparagraphs formerly read:

"(i) paragraph 118(1)(*b*), or

(ii) paragraph 118(1)(*d*) where that person is the individual's child or grandchild,"

S. 118.3(2)(*a*), that portion after subparagraph (ii), was amended by S.C. 1994, c. 21, s. 53(1), applicable to the 1993 and subsequent taxation years. S. 118.3(2)(*a*), that portion after subparagraph (ii), formerly read:

"or, where that person is the individual's parent, grandparent, child or grandchild, could have claimed such a deduction if the individual were not married and that person had no income for the year, and"

S. 118.3(2)(*b*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 55(1), applicable to the 1991 and subsequent taxation years. S. 118.3(2)(*b*) formerly read:

"(*b*) no amount in respect of remuneration for an attendant, or care in a nursing home, by reason of that person's mental or physical impairment, is included in calculating a deduction under subsection 118.2(1) for the year by the individual or by any other person,"

S. 118.3(2)(*a*), all that portion preceding subparagraph (i), was amended by S.C. 1994, c. 7, Sched. II, s. 90(2), applicable to the 1988 and subsequent taxation years. S. 118.3(2)(*a*), all that portion preceding subparagraph (i), formerly read:

"(*a*) an individual has, in respect of a person who is resident in Canada at any time in a taxation year and who is entitled to deduct an amount under subsection (1) for the year, claimed for the year a deduction under subsection 118(1) by reason of"

► 118.3(3) ◄

(3) Partial dependency. Where more than one individual is entitled to deduct an amount under subsection (2) for a taxation year in respect of the same person, the total of all amounts so deductible for the year shall not exceed the maximum amount that would be deductible under that subsection for the year by an individual in respect of that person if that individual were the only individual entitled to deduct an amount under that subsection in respect of that person, and where the individuals cannot agree as to what portion of the amount each can deduct, the Minister may fix the portions.

Cases: A taxpayer deducted child support payments under s. 60. He also sought to deduct the "equivalent-to-married" amount for one child and the "dependant's disability deduction" for another. The children were deemed

not to be children of the taxpayer since he had taken deductions under s. 60(*b*), (*c*) or (*c*.1) for the support payments made for them. *Gifford v. M.N.R.*, 91 DTC 953 (T.C.C.).

► 118.3(4) ◄

(4) Additional information. Where a claim under this section or under section 118.8 is made in respect of an individual's impairment

(*a*) if the Minister requests in writing information with respect to the individual's impairment, its effects on the individual and, where applicable, the therapy referred to in paragraph (1)(*a*.1) that is required to be administered, from any person referred to in subsection (1) or (2) or section 118.8 in connection with such a claim, that person shall provide the information so requested to the Minister in writing; and

(*b*) if the information referred to in paragraph (*a*) is provided by a person referred to in paragraph (1)(*a*.2), the information so provided is deemed to be included in a certificate in prescribed form.

History: S. 118.3(4) was amended by S.C. 2001, c. 17, s. 96(8), applicable to the 2000 and subsequent taxation years. S. 118.3(4) formerly read:

"(4) *Department of Human Resources Development* The Minister may obtain the advice of the Department of Human Resources Development as to whether an individual in respect of whom an amount has been claimed under subsection (1) or (2) has a severe and prolonged impairment, the effects of which are such that the individual's ability to perform a basic activity of daily living is markedly restricted, and any person referred to in subsection (1) or (2) shall, on request in writing by that Department for information with respect to an individual's impairment and its effects on the individual, provide the information so requested."

S. 118.3(4) was amended by S.C. 1996, c. 11, s. 97(1), by replacing the term "Department of National Health and Welfare" with the term "Department of Human Resources Development", effective July 12, 1996.

S. 118.3(4) was added by S.C. 1994, c. 7, Sched. II, s. 90(3), applicable to the 1991 and subsequent taxation years.

Related Sections: S. 162(7) Failure to comply.

SECTION 118.4:

► 118.4(1) ◄

(1) Nature of impairment. For the purposes of subsection 6(16), sections 118.2 and 118.3 and this subsection,

(*a*) an impairment is prolonged where it has lasted, or can reasonably be expected to last, for a continuous period of at least 12 months;

(*b*) an individual's ability to perform a basic activity of daily living is markedly restricted only where all or substantially all of the time, even with therapy and the use of appropriate devices and medication, the individual is blind or is unable (or requires an inordinate amount of time) to perform a basic activity of daily living;

(*b*.1) an individual is considered to have the equivalent of a marked restriction in a basic activity of daily living only where all or substantially all of the time, even with therapy and the use of appropriate devices and medication, the individual's ability to perform more than one basic activity of daily living (including for this purpose, the ability to see) is significantly restricted, and the cumulative effect of those restrictions is tantamount to the individual's ability to perform a basic activity of daily living being markedly restricted;

(*c*) a basic activity of daily living in relation to an individual means

(i) mental functions necessary for everyday life,

(ii) feeding oneself or dressing oneself,

(iii) speaking so as to be understood, in a quiet setting, by another person familiar with the individual,

(iv) hearing so as to understand, in a quiet setting, another person familiar with the individual,

(v) eliminating (bowel or bladder functions), or

(vi) walking;

(*c*.1) mental functions necessary for everyday life include

(i) memory,

(ii) problem solving, goal-setting and judgement (taken together), and

(iii) adaptive functioning;

(*d*) for greater certainty, no other activity, including working, housekeeping or a social or recreational activity, shall be considered as a basic activity of daily living;

(*e*) feeding oneself does not include

(i) any of the activities of identifying, finding, shopping for or otherwise procuring food, or

(ii) the activity of preparing food to the extent that the time associated with the activity would not have been necessary in the absence of a dietary restriction or regime; and

(*f*) dressing oneself does not include any of the activities of identifying, finding, shopping for or otherwise procuring clothing.

History: S. 118.4(1)(*b*.1) was added by S.C. 2006, c. 4, s. 64(1), applicable to the 2005 and subsequent taxation years.

S. 118.4(1)(*c*)(i) was replaced by S.C. 2006, c. 4, s. 64(2), applicable to the 2005 and subsequent taxation years.

S. 118.4(1)(*c*)(i) formerly read:

"(i) perceiving, thinking and remembering,"

S. 118.4(1)(*c*.1) was added by S.C. 2006, c. 4, s. 64(3), applicable to the 2005 and subsequent taxation years.

S. 118.4(1)(*c*)(ii) was replaced by S.C. 2003, c. 15, s. 75(1), applicable to the 2003 and subsequent taxation years. S. 118.4(1)(*c*)(ii) formerly read:

"(ii) feeding and dressing oneself,"

Ss. 118.4(1)(*e*) and (*f*) were added by S.C. 2003, c. 15, s. 75(2), applicable to the 2003 and subsequent taxation years.

S. 118.4(1) was amended by S.C. 1994, c. 7, Sched. II, s. 91(1), applicable to the 1991 and subsequent taxation years. S. 118.4(1) formerly read:

"(1) For the purposes of sections 63, 118.2 and 118.3,

(*a*) a person shall be considered to have a severe and prolonged impairment only if by reason thereof the person is markedly restricted in the person's activities of daily living and the impairment has lasted or can reasonably be expected to last for a continuous period of at least 12 months; and

(*b*) the Minister may obtain the advice of the Department of National Health and Welfare as to whether a person has a severe and prolonged impairment."

Interpretation Bulletins: *Primary* — IT-519R2 (Consolid.) Medical expense and disability tax credits and attendant care expense deduction. *Secondary* — IT-171R2 Non-resident individuals — Computation of taxable income earned in Canada and non-refundable tax credits [Archived by the CRA].

Forms: T2201.

Guides: RC4064 Information Concerning People with Disabilities.

Tax Topics: No. 1707, Claiming the Disability Tax Credit; No. 1571, Continuing Discussions on the Disability Tax Credit.

Cases: A taxpayer's ability to walk, dress and feed himself was markedly restricted due to a congenital condition diagnosed as spinal epiphyseal dysplasia and a tax credit was allowed when he required canes, rail, wheelchairs and therapeutic exercise prior to dressing. *Johnston v. The Queen*, 98 DTC 6169 (F.C.A.), reversing 97 DTC 3272 (T.C.C.).

A taxpayer who required a half-hour or more to dress and, when walking, had to stop and take time every 100 metres because of chronic back pain was entitled to claim a physical impairment tax credit because he was taking an "inordinate amount of time" to perform a basic activity of daily living. *Conner v. The Queen*, 95 DTC 198 (T.C.C.).

► 118.4(2) ◄

(2) Reference to medical practitioners, etc. For the purposes of sections 63, 64, 118.2, 118.3 and 118.6, a reference to an audiologist, dentist, medical doctor, medical practitioner, nurse, occupational therapist, optometrist, pharmacist, physiotherapist, psychologist, or speech-language pathologist is a reference to a person authorized to practise as such,

(*a*) where the reference is used in respect of a service rendered to a taxpayer, pursuant to the laws of the jurisdiction in which the service is rendered;

(*b*) where the reference is used in respect of a certificate issued by the person in respect of a taxpayer, pursuant to the laws of the jurisdiction in which the taxpayer resides or of a province; and

(*c*) where the reference is used in respect of a prescription issued by the person for property to be provided to or for the use of a taxpayer, pursuant to the laws of the jurisdiction in which the taxpayer resides, of a province or of the jurisdiction in which the property is provided.

History: S. 118.4(2), the portion before paragraph (*a*) was replaced by S.C. 2006, s. 64(4), applicable to the 2004 and subsequent taxation years, except that in its application before February 23, 2005, the portion of subsection 118.4(2) before paragraph (*a*), is to be read as follows:

"(2) For the purposes of sections 63, 64, 118.2, 118.3 and 118.6, a reference to an audiologist, dentist, medical doctor, medical practitioner, nurse, occupational therapist, optometrist, pharmacist, psychologist or speech-language pathologist is a reference to a person authorized to practise as such,"

S. 118.4(2), the portion before paragraph (*a*) formerly read:

"(2) *Reference to medical practitioners, etc.* For the purposes of sections 63, 118.2, 118.3 and 118.6, a reference to an audiologist, dentist, medical doctor, medical practitioner, nurse, occupational therapist, optometrist, pharmacist, psychologist or speech-language pathologist is a reference to a person authorized to practise as such,"

S. 118.4(2), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 97(1), applicable to certifications made after October 17, 2000. S. 118.4(2), the portion before paragraph (*a*) formerly read:

"(2) *Reference to medical practitioners, etc.* For the purposes of sections 63, 118.2, 118.3 and 118.6, a reference to an audiologist, dentist, medical doctor, medical practitioner, nurse, occupational therapist, optometrist, pharmacist or psychologist is a reference to a person authorized to practise as such,"

S. 118.4(2), the portion before paragraph (*a*), was amended by S.C. 1999, c. 22, s. 36(1), applicable after February 24, 1998. S. 118.4(2), the portion before paragraph (*a*), formerly read:

"(2) *References to medical practitioners, etc.* For the purposes of sections 63, 118.2 and 118.3, a reference to an audiologist, dentist, medical doctor, medical practitioner, nurse, optometrist or pharmacist is a reference to a person authorized to practice as such"

S. 118.4(2), the portion before paragraph (*a*), was amended by S.C. 1998, c. 19, s. 25(1), applicable to taxation years that end after November 1991 except that, in applying subsection 118.4(2) of the Act before February 19, 1997, the reference in that subsection 118.4(2) to "an audiologist," shall be read as a reference to "a". S. 118.4(2), the portion before paragraph (*a*) formerly read:

"(2) *References to medical practitioners, etc.* For the purposes of sections 63, 118.2 and 118.3, a reference to a medical practitioner, dentist, pharmacist, nurse or optometrist is a reference to a person authorized to practice as such,"

Interpretation Bulletins: *Primary* — IT-519R2 (Consolid.) Medical expense and disability tax credits.

SECTION 118.5:

► 118.5(1) ◄

(1) Tuition credit. For the purpose of computing the tax payable under this Part by an individual for a taxation year, there may be deducted,

(*a*) where the individual was during the year a student enrolled at an educational institution in Canada that is

(i) a university, college or other educational institution providing courses at a post-secondary school level, or

(ii) certified by the Minister of Human Resources and Skills Development to be an educational institution providing courses, other than courses designed for university credit, that furnish a person with skills for, or improve a person's skills in, an occupation,

an amount equal to the product obtained when the appropriate percentage for the year is multiplied by the amount of any fees for the individual's tuition paid in respect of the year to the educational institution if the total of those fees exceeds $100, except to the extent that those fees

(ii.1) are paid to an educational institution described in subparagraph (i) in respect of courses that are not at the post-secondary school level,

(ii.2) are paid to an educational institution described in subparagraph (ii) if

(A) the individual had not attained the age of 16 years before the end of the year, or

(B) the purpose of the individual's enrolment at the institution cannot reasonably be regarded as being to provide the individual with skills, or to improve the individual's skills, in an occupation,

(iii) are paid on the individual's behalf by the individual's employer and are not included in computing the individual's income,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 118.5(1)(*a*)(iii) of the Act is replaced by the following:

(iii) are paid on behalf of, or reimbursed to, the individual by the individual's employer and the amount paid or reimbursed is not included in the individual's income,

Applicable: Royal Assent.

Explanatory Note: Subsection 118.5(1) of the Act provides a tax credit in respect of tuition fees paid to certain educational institutions. Subparagraph 118.5(1)(*a*)(iii) provides that an amount paid on behalf of an individual by the individual's employer is not eligible for the credit unless the amount is required to be included in computing the individual's income. Subparagraph 118.5(1)(*a*)(iii) is amended, applicable on Royal Assent, to clarify that an amount paid by the individual, for which the individual is reimbursed by the individual's employer, is also not eligible for the credit unless the reimbursement is required to be included in computing the individual's income.

(iii.1) are fees in respect of which the individual is or was entitled to receive a reimbursement or any form of assistance under a program of Her Majesty in right of Canada or a province designed to facilitate the entry or re-entry of workers into the

labour force, where the amount of the reimbursement or assistance is not included in computing the individual's income,

(iv) were included as part of an allowance received by the individual's parent on the individual's behalf from an employer and are not included in computing the income of the parent by reason of subparagraph 6(1)(*b*)(ix), or

(v) are paid on the individual's behalf, or are fees in respect of which the individual is or was entitled to receive a reimbursement, under a program of Her Majesty in right of Canada designed to assist athletes, where the payment or reimbursement is not included in computing the individual's income;

(*b*) where the individual was during the year a student in full-time attendance at a university outside Canada in a course leading to a degree, an amount equal to the product obtained when the appropriate percentage for the year is multiplied by the amount of any fees for the individual's tuition paid in respect of the year to the university, except any such fees

(i) paid in respect of a course of less than 13 consecutive weeks duration,

(ii) paid on the individual's behalf by the individual's employer to the extent that the amount of the fees is not included in computing the individual's income, or

(iii) paid on the individual's behalf by the employer of the individual's parent, to the extent that the amount of the fees is not included in computing the income of the parent by reason of subparagraph 6(1)(*b*)(ix); and

(*c*) where the individual resided throughout the year in Canada near the boundary between Canada and the United States if the individual

(i) was at any time in the year a student enrolled at an educational institution in the United States that is a university, college or other educational institution providing courses at a post-secondary school level, and

(ii) commuted to that educational institution in the United States,

an amount equal to the product obtained when the appropriate percentage for the year is multiplied by the amount of any fees for the individual's tuition paid in respect of the year to the educational institution if the total of those fees exceeds $100, except to the extent that those fees

(iii) are paid on the individual's behalf by the individual's employer and are not included in computing the individual's income,

(iv) were included as part of an allowance received by the individual's parent on the individual's behalf from an employer and are not included in computing the income of the parent by reason of subparagraph 6(1)(*b*)(ix).

History: S. 118.5(1)(*a*)(ii) was amended by S.C. 2005, c. 34, s. 80, by replacing "Minister of Human Resources Development" with "Minister of Human Resources and Skills Development", in force on October 5, 2005.

S. 118.5(1)(*a*)(v) was added by S.C. 1998, c. 19, s. 135(1), applicable to the 1994 and subsequent taxation years.

S. 118.5(1)(*a*)(ii) was amended by S.C. 1996, c. 11, s. 95, by replacing the term "Minister of Employment and Immigration" with the term "Minister of Human Resources Development", effective July 12, 1996.

That portion of s. 118.5(1)(*a*) following subparagraph (ii) and preceding subparagraph (iii) was amended by S.C. 1994, c. 7, Sched. VIII, s. 56(1), applicable to the 1992 and subsequent taxation years. That portion of s. 118.5(1)(*a*) following subparagraph (ii) and preceding subparagraph (iii) formerly read:

"an amount equal to the product obtained when the appropriate percentage for the year is multiplied by the amount of any fees for the individual's tuition paid in respect of the year to the educational institution if those fees exceed $100, except to the extent that those fees".

S. 118.5(1)(*a*)(iii.1) was added by S.C. 1994, c. 7, Sched. II, s. 92(1), applicable to the 1988 and subsequent taxation years.

Related Sections: S. 118.5(2) Application to deemed residents; s. 118.8 Transfer of unused credits to spouse or common-law partner; s. 118.9 Transfer to parent or grandparent; s. 248(1), "amount", "individual".

Interpretation Bulletins: *Primary* — IT-516R2 Tuition tax credit. *Secondary* — IT-75R4 Scholarships, fellowships, bursaries, prizes, research grants and financial assistance; IT-171R2 Non-resident individuals — Computation of taxable income earned in Canada and non-refundable tax credits [Archived by the CRA]; IT-470R (Consolid.) Employees' fringe benefits.

Information Circulars: IC 75-23 Tuition fees and charitable donations paid to privately supported secular and religious schools.

Forms: TL11A; TL11B; T1 SCH 11; T2202A; TL11C.

Guides: P105 Students and Income Tax.

Cases: The taxpayer's 14-year old son was enrolled at a music school for piano and music theory classes. His music courses were at a post-secondary level, since he was beyond the level which was equivalent to a Grade 12 high school credit. The taxpayer was entitled to the tuition fee tax credit. The student's age is only relevant for courses described in s. 118.5(1)(*a*)(ii) and not for courses described in s. 118.5(1)(*a*)(i). *Tarkowski v. The Queen,* 2007 DTC 1555 (T.C.C.).

The taxpayer was enrolled in an online degree program at a U.S. university. Her online participation constituted full-time "attendance" within the meaning of s. 118.5(1)(*b*) and she was entitled to the tuition fee tax credit. *McGrath v. The Queen,* 2007 DTC 894 (T.C.C.).

► 118.5(2) ◄

(2) Application to deemed residents. Where an individual is deemed by section 250 to be resident in Canada throughout all or part of a taxation year, in applying subsection (1) in respect of the individual for the period when the individual is so deemed to be resident in Canada, paragraph (1)(*a*) shall be read without reference to the words "in Canada".

Forms: TL11D.

Cases: Pierrefonds, Quebec lacked the element of proximity, contiguity or vicinity to the Canada–U.S. border zone contemplated by the word "near". *Van de Water v. M.N.R.,* (T.C.C.) 91 DTC 276.

► 118.5(3) ◄

(3) Inclusion of ancillary fees and charges. For the purpose of this section, "fees for an individual's tuition" includes ancillary fees and charges that are paid

(*a*) to an educational institution referred to in subparagraph (1)(*a*)(i), and

(*b*) in respect of the individual's enrolment at the institution in a program at a post-secondary school level,

but does not include

(*c*) any fee or charge to the extent that it is levied in respect of

(i) a student association,

(ii) property to be acquired by students,

(iii) services not ordinarily provided at educational institutions in Canada that offer courses at a post-secondary school level,

(iv) the provision of financial assistance to students, except to the extent that, if the reference in paragraph 56(1)(*n*) to "$500" were read as a reference to "nil", the amount of the assistance would be required to be included in computing the income, and not be deductible in computing the taxable income, of the students to whom the assistance is provided, or

(v) the construction, renovation or maintenance of any building or facility, except to the extent that the building or facility is owned by the institution and used to provide

(A) courses at the post-secondary school level, or

(B) services for which, if fees or charges in respect of the services were required to be paid by all students of the institution, the fees or charges would be included because of this subsection in the fees for an individual's tuition, and

(*d*) any fee or charge for a taxation year that, but for this paragraph, would be included because of this subsection in the fees for the individual's tuition and that is not required to be paid by

(i) all of the institution's full-time students, where the individual is a full-time student at the institution, and

(ii) all of the institution's part-time students, where the individual is a part-time student at the institution,

to the extent that the total for the year of all such fees and charges paid in respect of the individual's enrolment at the institution exceeds $250.

History: S. 118.5(3) was added by S.C. 1998, c. 19, s. 26(1), applicable to the 1997 and subsequent taxation years.

SECTION 118.6: [Education tax credit].

► 118.6(1) ◄

(1) Definitions. For the purposes of sections 63 and 64 and this subdivision,

History: S. 118.6(1), the portion before the definition "designated educational institution" was amended by S.C. 2001, c. 17, s. 98(1), applicable to the 2000 and subsequent taxation years. S. 118.6(1), the portion before the definition "designated educational institution" formerly read:

"S. 118.6. *Education tax credit.*

(1) *Definitions.* For the purposes of section 63 and this subdivision,"

Interpretation Bulletins: *Secondary* — IT-495R3 Child care expenses.

"*designated educational institution*" — "designated educational institution" means

(*a*) an educational institution in Canada that is

(i) a university, college or other educational institution designated by the Lieutenant Governor in Council of a province as a specified educational institution under the *Canada Student Loans Act*, designated by an appropriate authority under the *Canada Student Financial Assistance Act*, or designated by the Minister of Higher Education and Science of the Province of Quebec for the purposes of *An Act respecting financial assistance for students* of the Province of Quebec, or

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph (*a*)(i) of the definition "designated educational institution" in subsection 118.6(1) of the Act is replaced by the following:

(i) a university, college or other educational institution designated by the lieutenant governor in council of a province as a specified educational institution under the *Canada Student Loans Act*, designated by an appropriate authority under the *Canada Student Financial Assistance Act*, or designated by the Minister of Education of the Province of Quebec for the purposes of *An Act respecting financial assistance for education expenses*, R.S.Q, c. A-13.3, or

Applicable: To the 1998 and subsequent taxation years.

Explanatory Note:

Definitions

Subsection 118.6(1) of the Act defines the expression "designated educational institution", which is relevant for the purposes of the child care expense and attendant care expense deductions and the tuition fee and education tax credits. Generally speaking, a designated educational institution is an institution that provides post-secondary education, an institution certified by the Minister of Human Resources Development that furnishes or improves skills in an occupation, or a foreign university. This amendment to subparagraph (*a*)(i) of that definition, applicable to the 1998 and subsequent taxation years, is consequential on the change in the name of the Quebec statute under which financial assistance is provided to students as well as the change in the name of the responsible Quebec ministry.

(ii) certified by the Minister of Human Resources and Skills Development to be an educational institution providing courses, other than courses designed for university credit, that furnish a person with skills for, or improve a person's skills in, an occupation,

(*b*) a university outside Canada at which the individual referred to in subsection (2) was enrolled in a course, of not less than 13 consecutive weeks duration, leading to a degree, or

(*c*) if the individual referred to in subsection (2) resided, throughout the year referred to in that subsection, in Canada near the boundary between Canada and the United States, an educational institution in the United States to which the individual commuted that is a university, college or other educational institution providing courses at a post-secondary school level;

History: S. 118.6(1), subparagraph (*a*)(ii) of the definition "designated educational institution" was amended by S.C. 2005, c. 34, s. 80, by replacing "Minister of Human Resources Development" with "Minister of Human Resources and Skills Development", in force on October 5, 2005.

S. 118.6(1), the portion before the definition "designated educational institution" was amended by S.C. 1999, c. 22, s. 37(1), applicable to the 1998 and subsequent taxation years. S. 118.6(1), the portion before the definition "designated educational institution" formerly read:

"S. 118.6. *[Education tax credit].*

(1) *Definitions.* For the purposes of this subdivision,"

S. 118.6(1), subparagraph (*a*)(ii) of the definition "designated educational institution" was amended by S.C. 1996, c. 11, s. 95, by replacing the term "Minister of Employment and Immigration" with the term "Minister of Human Resources Development", effective July 12, 1996.

S. 118.6(1), subparagraph (*a*)(i) of the definition "designated educational institution" was amended by S.C. 1994, c. 28, s. 28(1), effective on Royal Assent, June 23, 1994. S. 118.6(1), subparagraph (*a*)(i) of the definition "designated educational institution" formerly read:

"(i) a university, college or other educational institution designated by the Lieutenant Governor in Council of a province as a specified educational institution under the *Canada Student Loans Act* or designated by the Minister of Higher Education and Science of the Province of Quebec for the purposes of *An Act respecting financial assistance for students* of the Province of Quebec, or"

Related Sections: S. 146.02(1), "qualifying educational program"; s. 146.1(1), "post-secondary educational institution".

Cases: The London School of Economics and Political Science is a "university outside Canada" since it forms part of the University of London and is permitted to grant degrees of the University of London. Schedule VIII of the Income Tax Regulations is not relevant since s. 118.6(1) does not require universities to be prescribed. *Shea v. The Queen*, 2008 DTC 3376 (T.C.C.).

"*qualifying educational program*" — "qualifying educational program" means a program of not less than

three consecutive weeks duration that provides that each student taking the program spend not less than ten hours per week on courses or work in the program and, in respect of a program at an institution described in the definition "designated educational institution" (other than an institution described in subparagraph (*a*)(ii) of that definition), that is a program at a post-secondary school level but, in relation to any particular student, does not include a program if the student receives, from a person with whom the student is dealing at arm's length, any allowance, benefit, grant or reimbursement for expenses in respect of the program other than

(*a*) an amount received by the student as or on account of a scholarship, fellowship or bursary, or a prize for achievement in a field of endeavour ordinarily carried on by the student,

(*b*) a benefit, if any, received by the student because of a loan made to the student in accordance with the requirements of the *Canada Student Loans Act* or *An Act respecting financial assistance for education expenses*, R.S.Q., c. A-13.3, or because of financial assistance given to the student in accordance with the requirements of the *Canada Student Financial Assistance Act*, or

(*c*) an amount that is received by the student in the year under a program referred to in subparagraph 56(1)(*r*)(ii) or (iii), a program established under the authority of the *Department of Human Resources and Skills Development Act* or a prescribed program;

History: S. 118.6(1), the definition "qualifying educational program", was amended by S.C. 2005, c. 34, s. 81, by replacing *"Department of Human Resources Development Act"* with *"Department of Human Resources and Skills Development Act"*, in force on October 5, 2005.

S. 118.6(1), the definition "qualifying educational program", was replaced by S.C. 2005, c. 19, s. 25(1), applicable to the 2004 and subsequent taxation years.

For the 1998 to 2003 taxation years, subparagraph (*a*)(ii) of the definition "qualifying educational program" in subsection 118.6(1) of the Act is to be read as follows:

"(ii) a benefit, if any, received by the student because of a loan made to the student in accordance with the requirements of the *Canada Student Loans Act* or *An Act respecting financial assistance for education expenses*, R.S.Q., c. A-13.3, or because of financial assistance given to the student in accordance with the requirements of the *Canada Student Financial Assistance Act*, or"

S. 118.6(1), the definition "qualifying educational program" formerly read:

" *'qualifying educational program'* — 'qualifying educational program' means a program of not less than 3 consecutive weeks duration that provides that each student taking the program spend not less than 10 hours per week on courses or work in the program and, in respect of a program at an institution described in the definition 'designated educational institution' (other than an institution described in subparagraph (*a*)(ii) thereof), that is a program at a post-secondary school level but, in relation to any particular student, does not include any such program

(*a*) if the student receives, from a person with whom the student is dealing at arm's length, any allowance, benefit, grant or reimbursement for expenses in respect of the program other than

(i) an amount received by the student as or on account of a scholarship, fellowship or bursary, or a prize for achievement in a field of endeavour ordinarily carried on by the student,

(ii) a benefit, if any, received by the student by reason of a loan made to the student in accordance with the requirements of the *Canada Student Loans Act* or *An Act respecting financial assistance for students* of the Province of Quebec, or by reason of financial assistance given to the student in accordance with the requirements of the *Canada Student Financial Assistance Act*, or

(iii) an amount that is received by the student in the year under a program referred to in subparagraph 56(1)(*r*)(ii) or (iii), a program established under the authority of the *Department of Human Resources Development Act* or a prescribed program, or

(*b*) if the program is taken by the student

(i) during a period in respect of which the student receives income from an office or employment, and

(ii) in connection with, or as part of the duties of, that office or employment."

S. 118.6(1), subparagraph (*a*)(iii) of the definition "qualifying educational program", was added by S.C. 2002, c. 9, s. 36(1), applicable to the 2002 and subsequent taxation years.

S. 118.6(1), subparagraph (*a*)(ii) of the definition "qualifying educational program", was amended by S.C. 1994, c. 28, s. 28(1), effective on Royal Assent, June 23, 1994. S. 118.6(1), subparagraph (*a*)(ii) of the definition "qualifying educational program" formerly read:

"(ii) a benefit, if any, received by the student by reason of a loan made to the student in accordance with the requirements of the *Canada Student Loans Act* or *An Act respecting financial assistance for students* of the Province of Quebec, or"

S. 118.6(1), that part preceding the definition "designated educational institution", was amended by S.C. 1994, c. 7, Sched. II, s. 93(1), applicable after June 1990. S. 118.6(1), that part preceding the definition "designated educational institution", formerly read as follows:

"(1) For the purposes of this section,"

S. 118.6(1), all that portion of the definition "qualifying educational program" preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 93(2), applicable to the 1991 and subsequent taxation years. S. 118.6(1), all that portion of the definition "qualifying educational program" preceding paragraph (*a*), formerly read:

" *'qualifying educational program'* — 'qualifying educational program' means a program of not less than 3 consecutive weeks duration that provides that each student taking the program spend not less than 10 hours per week on courses or work in the program and, in respect of a program at an institution described in subparagraph (*a*)(i) of the definition 'designated educational institution' in this subsection, that is a program at a post-secondary school level but, in relation to any particular student, does not include any such program"

Related Sections: S. 146.02(1), "qualifying educational program"; s. 146.1(1), "qualifying educational program".

Interpretation Bulletins: *Primary* — IT-515R2 Education tax credit. *Secondary* — IT-171R2 Non-resident individuals — Computation of taxable income earned in Canada and non-refundable tax credits [Archived by the CRA].

"specified educational program" — "specified educational program" means a program that would be a qualifying educational program if the definition "qualifying educational program" were read without reference to the words "that provides that each student taking the program spend not less than 10 hours per week on courses or work in the program".

History: S. 118.6(1), the definition "specified educational program" was added by S.C. 1999, c. 22, s. 37(2), applicable to the 1998 and subsequent taxation years.

► 118.6(2) ◄

(2) Education credit. There may be deducted in computing an individual's tax payable under this Part for a taxation year the amount determined by the formula

$$A \times B$$

where

A is the appropriate percentage for the year; and

B is the total of the products obtained when

(*a*) $400 is multiplied by the number of months in the year during which the individual is enrolled in a qualifying educational program as a full-time student at a designated educational institution, and

(*b*) $120 is multiplied by the number of months in the year (other than months described in paragraph (*a*)), each of which is a month during which the individual is enrolled at a designated educational institution in a specified educational program that provides that each student in the program spend not less than 12 hours in the month on courses in the program,

if the enrolment is proven by filing with the Minister a certificate in prescribed form issued by the designated educational institution and containing prescribed information

and, in respect of a designated educational institution described in subparagraph (*a*)(ii) of the definition "designated educational institution" in subsection (1), the individual has attained the age of 16 years before the end of the year and is enrolled in the program to obtain skills for, or improve the individual's skills in, an occupation.

History: S. 118.6(2), paragraphs (*a*) and (*b*) of the description of B were amended by S.C. 2001, c. 17, s. 98(2), applicable to the 2001 and subsequent taxation years. S. 118.6(2), paragraphs (*a*) and (*b*) of the description of B formerly read:

"(*a*) $200 is multiplied by the number of months in the year during which the individual is enrolled in a qualifying educational program as a full-time student at a designated educational institution, and

(*b*) $60 is multiplied by the number of months in the year (other than months described in paragraph (*a*)), each of which is a month during which the individual is enrolled at a designated educational institution in a specified educational program that provides that each student in the program spend not less than 12 hours in the month on courses in the program,"

S. 118.6(2), the portion after the description of B was amended by S.C. 2001, c. 17, s. 98(3), applicable to the 1999 and subsequent taxation years. S. 118.6(2), the portion after the description of B formerly read:

"if the enrolment is proved by filing with the Minister a certificate in prescribed form issued by the designated educational institution and containing prescribed information and, in respect of a designated educational institution described in subparagraph (*a*)(ii) of the definition 'designated educational institution' in subsection (1), the individual is enrolled in the program to obtain skills for, or improve the individual's skills in, an occupation."

S. 118.6(2) was amended by S.C. 1999, c. 22, s. 37(3), applicable to the 1998 and subsequent taxation years. S. 118.6(2) formerly read:

"(2) *Education credit.* For the purpose of computing the tax payable under this Part by an individual for a taxation year, there may be deducted an amount determined by the formula

$$A \times \$200 \times B$$

where

A is the appropriate percentage for the year, and

B is the number of months in the year during which the individual is enrolled in a qualifying educational program as a full-time student at a designated educational institution,if the enrolment is proven by filing with the Minister a certificate in prescribed form issued by the designated educational institution and containing prescribed information and, in respect of a designated educational institution described in subparagraph (*a*)(ii) of the definition 'designated educational institution' in subsection (1), the student is enrolled in the program to obtain skills for, or improve the student's skills in, an occupation."

The formula in s. 118.6(2) was amended by S.C. 1998, c. 19, s. 27(1), applicable to the 1997 and subsequent taxation years except that, for the 1997 taxation year, the reference to "$200" in the formula in subsection 118.6(2) of the Act shall be read as a reference to "$150". The formula in s. 118.6(2) formerly read:

"A × $100 × B"

The formula in s. 118.6(2) was amended by S.C. 1997, c. 25, s. 28(1), applicable to the 1996 and subsequent taxation years. That formula formerly read:

"A × $80 × B"

The formula in S. 118.6(2) was amended by S.C. 1994, c. 7, Sched. VIII, S. 57(1), applicable to the 1992 and subsequent taxation years. That formula formerly read:

"A × $60 × B"

S. 118.6(2), the description of B, was amended by S.C. 1994, c. 7, Sched. II, s. 93(3), applicable to the 1991 and subsequent taxation years. S. 118.6(2), the description of B, formerly read:

"B is the number of months in the year during which the individual is a student in full-time attendance at a designated educational institution and enrolled in a qualifying educational program at the institution,"

Related Sections: S. 63(2) Income exceeding income of supporting person; s. 118.8 Transfer of unused credits to spouse or common-law partner; s. 118.9 Transfer to parent or grandparent; s. 146.02(1), "repayment period".

Interpretation Bulletins: *Primary* — IT-515R2 Education tax credit.

Forms: T1 SCH 11; T2202; T2202A.

Guides: P105 Students and Income Tax.

► 118.6(2.1) ◄

(2.1) Post-secondary textbook credit. If an amount may be deducted under subsection (2) in computing the individual's tax payable for a taxation year, there may be deducted in computing the individual's tax payable under this Part for the year the amount determined by the formula

$$A \times B$$

where

A is the appropriate percentage for the year; and

B is the total of the products obtained when

(*a*) $65 is multiplied by the number of months referred to in paragraph (*a*) of the description of B in subsection (2), and

(*b*) $20 is multiplied by the number of months referred to in paragraph (*b*) of that description.

History: S. 118.6(2.1) was added by S.C. 2007, c. 2, s. 23(1), applicable to the 2006 and subsequent taxation years.

► 118.6(3) ◄

(3) Students eligible for the disability tax credit. In calculating the amount deductible under subsection (2) or (2.1), the reference in subsection (2) to "full-time student" is to be read as "student" if

(*a*) an amount may be deducted under section 118.3 in respect of the individual for the year; or

(*b*) the individual has in the year a mental or physical impairment the effects of which on the individual have been certified in writing, to be such that the individual cannot reasonably be expected to be enrolled as a full-time student while so impaired, by a medical doctor or, where the impairment is

(i) an impairment of sight, by a medical doctor or an optometrist,

(i.1) a speech impairment, by a medical doctor or a speech-language pathologist,

(ii) a hearing impairment, by a medical doctor or an audiologist,

(iii) an impairment with respect to the individual's ability in feeding or dressing themself, by a medical doctor or an occupational therapist,

(iii.1) an impairment with respect to the individual's ability in walking, by a medical doctor, an occupational therapist or a physiotherapist, or

(iv) an impairment with respect to the individual's ability in mental functions necessary for everyday life (within the meaning assigned by paragraph 118.4(1)(*c*.1)), by a medical doctor or a psychologist.

History: S. 118.6(3), the portion before paragraph (*a*) was replaced by S.C. 2007, c. 2, s. 23(2), applicable to the 2006 and subsequent taxation years.

S. 118.6(3), the portion before paragraph (*a*) formerly read:

"(3) *Disabled students.* In calculating the amount deductible under subsection (2) in computing an individual's tax payable under this Part for a taxation year, the reference in that subsection to 'full-time student' shall be read as 'student' if either"

S. 118.6(3)(*b*)(iii) was replaced, and subparagraph (iii.1) was added, by S.C. 2007, c. 2, s. 23(3), applicable to the 2005 and subsequent taxation years in respect of certifications made by a physiotherapist after February 22, 2005.

S. 118.6(3)(*b*)(iii) formerly read:

"(iii) an impairment with respect to the individual's ability in feeding or dressing themself, or in walking, by a medical doctor or an occupational therapist, or"

S. 118.6(3)(*b*)(iv) was replaced by S.C. 2007, c. 2, s. 23(5), applicable to the 2005 and subsequent taxation years.

S. 118.6(3)(*b*)(iv) formerly read:

"(iv) an impairment with respect to the individual's ability in perceiving, thinking and remembering, by a medical doctor or a psychologist."

S. 118.6(3)(*b*)(i.1) was added by S.C. 2003, c. 15, s. 76(1), applicable in respect of certifications made after October 17, 2000.

S. 118.6(3)(*b*)(iii) was replaced by S.C. 2003, c. 15, s. 76(3), applicable to the 2003 and subsequent taxation years. S. 118.6(3)(*b*)(iii) formerly read:

"(iii) an impairment with respect to the individual's ability in feeding and dressing themself, or in walking, by a medical doctor or an occupational therapist, or"

S. 118.6(3) was amended by S.C. 1999, c. 22, s. 37(4), applicable to certifications made

(*a*) after February 18, 1997, in the case of a hearing impairment referred to in subparagraph 118.6(3)(*b*)(ii) of the Act; and

(*b*) after February 24, 1998, in any other case. S. 118.6(3) formerly read:

"(3) *Application of s. (2) to disabled individuals.* In calculating the amount deductible under subsection (2) in computing the tax payable under this Part for a taxation year by an individual

(*a*) in respect of whom an amount may be deducted under section 118.3 for the year, or

(*b*) who has in the year a mental or physical impairment, if a medical doctor or, where the impairment is an impairment of sight, a medical doctor or an optometrist, has certified in writing that the effects of the impairment on the individual are such that the individual cannot reasonably be expected to be enroled as a full-time student while so impaired,

the reference in that subsection to 'full-time student' shall be read as 'student'."

S. 118.6(3) was added by S.C. 1994, c. 7, Sched. VIII, s. 57(2), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 146.02(1), "full-time student"; s. 248(1), "amount", "individual".

SECTION 118.61:

► 118.61(1) ◄

(1) Unused tuition, textbook and education tax credits. In this section, an individual's unused tuition, textbook and education tax credits at the end of a taxation year is the amount determined by the formula

$$A + (B - C) - (D + E)$$

where

A is the amount determined under this subsection in respect of the individual at the end of the preceding taxation year;

B is the total of all amounts each of which may be deducted under section 118.5 or 118.6 in computing the individual's tax payable under this Part for the year;

C is the lesser of the value of B and the amount that would be the individual's tax payable under this Part for the year if no amount were deductible under this Division (other than an amount deductible under this section and any of sections 118, 118.01, 118.02, 118.03, 118.3 and 118.7);

D is the amount that the individual may deduct under subsection (2) for the year; and

E is the tuition, textbook and education tax credits transferred for the year by the individual to the individual's spouse, common-law partner, parent or grandparent.

History: S. 118.61(1) was replaced by S.C. 2007, c. 2, s. 24(1), applicable to the 2006 and subsequent taxation years except that in its application to the 2006 taxation year, the description of C in subsection 118.61(1) is to be read without its reference to section 118.03.

S. 118.61(1) formerly read:

"S. 118.61. (1) *Unused tuition and education tax credits.* In this section, an individual's unused tuition and education tax credits at the end of a taxation year is the amount determined by the formula

$$A + (B - C) - (D + E)$$

where

A is the individual's unused tuition and education tax credits at the end of the preceding taxation year;

B is the total of all amounts each of which may be deducted under section 118.5 or 118.6 in computing the individual's tax payable under this Part for the year;

C is the lesser of the value of B and the amount that would be the individual's tax payable under this Part for the year if no amount were deductible under this Division (other than an amount deductible under this section and any of sections 118, 118.01, 118.3 and 118.7);

D is the amount that the individual may deduct under subsection (2) for the year; and

E is the tuition and education tax credits transferred for the year by the individual to the individual's spouse, common-law partner, parent or grandparent."

S. 118.61(1), the description of C was replaced by S.C. 2006, c. 4, s. 65(1), applicable to the 2002 and subsequent taxation years except that, for taxation years that are after 2001 and before 2005, the description of C in subsection 118.61(1) shall be read as follows:

"C is the lesser of the value of B and the amount that would be the individual's tax payable under this Part for the year if no amount were deductible under this Division (other than an amount deductible under this section and any of sections 118, 118.3 and 118.7);"

S. 118.61(1), the description of C formerly read:

"C is the lesser of the value of B and the amount that would be the individual's tax payable under this Part for the year if no amount were deductible under any of sections 118.1, 118.2, 118.5, 118.6, 118.62, 118.8, 118.9 and 121;"

S. 118.61(1), the description of C was amended by S.C. 2001, c. 17, s. 99(1), applicable to the 1999 and subsequent taxation years. S. 118.61(1), the description of C formerly read:

"C is the lesser of the value of B and the amount that would be the individual's tax payable under this Part for the year if no amount were deductible under section 118.5 or 118.6;"

S. 118.61(1), the description of E was amended by S.C. 2000, c. 12, Sched. 2, s. 8(d), applicable January 1, 2001, coming into force on July 31, 2000. S. 118.61(1), the description of E formerly read:

"E is the tuition and education tax credits transferred for the year by the individual to the individual's spouse, parent or grandparent."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

► 118.61(2) ◄

(2) Deduction of carryforward. For the purpose of computing an individual's tax payable under this Part for a taxation year, there may be deducted the lesser of

(*a*) the amount determined under subsection (1) in respect of the individual at the end of the preceding taxation year, and

(*b*) the amount that would be the individual's tax payable under this Part for the year if no amount were deductible under this Division (other than an amount deductible under this section and any of sections 118, 118.01, 118.02, 118.03, 118.3 and 118.7).

History: S. 118.61(2)(*a*) and (*b*) were replaced by S.C. 2007, c. 2, s. 24(2), applicable to the 2006 and subsequent taxation years except that in its application to the 2006 taxation year, paragraph 118.61(2)(*b*) is to be read without its reference to section 118.03.

S. 118.61(2)(*a*) and (*b*) formerly read:

"(*a*) the individual's unused tuition and education tax credits at the end of the preceding taxation year, and

(*b*) the amount that would be the individual's tax payable under this Part for the year if no amount were deductible under this Division (other than an amount deductible under this section and any of sections 118, 118.01, 118.3 and 118.7)."

S. 118.61(2)(*b*) was replaced by S.C. 2006, c. 4, s. 65(2), applicable to the 2002 and subsequent taxation years except that, for taxation years that are after 2001 and before 2005, paragraph 118.61(2)(*b*) shall be read as follows:

"(*b*) the amount that would be the individual's tax payable under this Part for the year if no amount were deductible under this Division (other than an amount deductible under this section and any of sections 118, 118.3 and 118.7)."

S. 118.61(2)(*b*) formerly read:

"(*b*) the amount that would be the individual's tax payable under this Part for the year if no amount were deductible under any of sections 118.1, 118.2, 118.5, 118.6, 118.62, 118.8, 118.9 and 121."

S. 118.61(2)(*b*) was amended by S.C. 2001, c. 17, s. 99(2), applicable to the 1999 and subsequent taxation years. S. 118.61(2)(*b*) formerly read:

"(*b*) the amount that would be the individual's tax payable under this Part for the year if no amount were deductible under section 118.5 or 118.6 or this section."

S. 118.61 was added by S.C. 1998, c. 19, s. 28(1), applicable to the 1997 and subsequent taxation years.

► 118.61(3) ◄

(3) Unused tuition and education tax credits at the end of 2000. [Repealed by S.C. 2007, c. 2, s. 24(3).]

History: S. 118.61(3) was repealed by S.C. 2007, c. 2, s. 24(3), applicable to the 2006 and subsequent taxation years.

S. 118.61(3) formerly read:

"(3) *Unused tuition and education tax credits at the end of 2000.* For the purpose of determining the amount that may be deducted under subsection (2) in computing an individual's tax payable for a taxation year that begins after 2000, the individual's unused tuition fee and education tax credits at the end of the individual's 2000 taxation year is deemed to be $^{16}/_{17}$ of the amount that would be the individual's unused tuition and education tax credits at the end of that year if this section were read without reference to this subsection."

S. 118.61(3) was added by S.C. 2001, c. 17, s. 99(3), applicable to the 2001 and subsequent taxation years.

► 118.61(4) ◄

(4) Change of appropriate percentage. For the purpose of determining the amount that may be deducted under subsection (2) or 118.6(2.1) in computing an individual's tax payable for a taxation year, in circumstances where the appropriate percentage for the taxation year is different from the appropriate percentage for the preceding taxation year, the individual's unused tuition, textbook and education tax credits at the end of the preceding taxation year is deemed to be the amount determined by the formula

$$A/B \times C$$

where

A is the appropriate percentage for the current taxation year;

B is the appropriate percentage for the preceding taxation year; and

C is the amount that would be the individual's unused tuition, textbook and education tax credits at the end of the preceding taxation year if this section were read without reference to this subsection.

History: S. 118.61(4) was replaced by S.C. 2007, c. 2, s. 24(4), applicable to the 2005 and subsequent taxation years, except that for the 2005 and 2006 taxation years, the references to "unused tuition, textbook and education tax credits" in subsection 118.61(4) are to be read as references to "unused tuition and education tax credits".

S. 118.61(4) formerly read:

"(4) *Change of appropriate percentage.* For the purpose of determining the amount that may be deducted under subsection (2) in computing an individual's tax payable for a taxation year, in circumstances where the appropriate percentage for the taxation year is different from the appropriate percentage for the preceding taxation year, the individual's unused tuition fee and education tax credit at the end of the preceding taxation year is deemed to be the amount determined by the formula

$$A/B \times C$$

where

A is the appropriate percentage for the current taxation year;

B is the appropriate percentage for the preceding taxation year; and

C is the amount that would be the individual's unused tuition and education tax credits at the end of the preceding taxation year if this section were read without reference to this subsection."

S. 118.61(4) was added by S.C. 2006, c. 4, s. 65(3), applicable to the 2005 and subsequent taxation years.

SECTION 118.62: Credit for interest on student loan.

For the purpose of computing an individual's tax payable under this Part for a taxation year, there may be deducted the amount determined by the formula

$$A \times B$$

where

A is the appropriate percentage for the year; and

B is the total of all amounts (other than any amount paid on account of or in satisfaction of a judgement) each of which is an amount of interest paid in the year (or in any of the five preceding taxation years that are after 1997, to the extent that it was not included in computing a deduction under this section for any other taxation year) by the individual or a person related to the individual on a loan made to, or other amount owing by, the individual under the *Canada Student Loans Act*, the *Canada Student Financial Assistance Act* or a law of a province governing the granting of financial assistance to students at the post-secondary school level.

History: S. 118.62 was added by S.C. 1999, c. 22, s. 38(1), applicable to the 1998 and subsequent taxation years.

Related Sections: S. 118.91 Part-year residents; s. 118.92 Ordering of credits; s. 118.95 Credits in year of bankruptcy.

Guides: P105 Students and Income Tax.

SECTION 118.7: Credit for UI [EI] premium and CPP contribution.

For the purpose of computing the tax payable under this Part by an individual for a taxation year, there may be deducted an amount determined by the formula

$$A \times B$$

where

A is the appropriate percentage for the year; and

B is the total of

(*a*) the total of all amounts each of which is an amount payable by the individual as an employee's premium for the year under the *Employment Insurance Act*, not exceeding the maximum amount of such premiums payable by the individual for the year under that Act,

(*b*) the total of all amounts each of which is an amount payable by the individual for the year as an employee's contribution under the *Canada Pension Plan* or under a provincial pension plan defined in section 3 of that Act, not exceeding the maximum amount of such contributions payable by the individual for the year under the plan, and

(*c*) the amount by which

(i) the total of all amounts each of which is an amount payable by the individual in respect of self-employed earnings for the year as a contribution under the *Canada Pension Plan* or under a provincial pension plan within the meaning assigned by section 3 of that Act (not exceeding the maximum amount of such contributions payable by the individual for the year under the plan)

exceeds

(ii) the amount deductible under paragraph 60(*e*) in computing the individual's income for the year.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 118.7 of the Act is replaced by the following:

SECTION 118.7: Credit for EI and QPIP premiums and CPP contributions.

For the purpose of computing the tax payable under this Part by an individual for a taxation year, there may be deducted an amount determined by the formula

$$A \times B$$

where

A is the appropriate percentage for the year; and

B is the total of

(*a*) the total of all amounts each of which is an amount payable by the individual as an employee's premium for the year under the *Employment Insurance Act*, not exceeding the maximum amount of such premiums payable by the individual for the year under that Act,

(a.1) the total of all amounts each of which is an amount payable by the individual as an employee's premium for the year under the *Act respecting parental insurance*, R.S.Q., c. A-29.011, not exceeding the maximum amount of such premiums payable by the individual for the year under that Act,

(a.2) the amount, if any, by which the total of all amounts each of which is an amount payable by the individual in respect of self-employed earnings for the year as a premium under the *Act respecting parental insurance*, R.S.Q., c. A-29.011, (not exceeding the maximum amount of such premiums payable by the individual for the year under that Act) exceeds the amount deductible under paragraph 60(*g*) in computing the individual's income for the year,

(*b*) the total of all amounts each of which is an amount payable by the individual for the year as an employee's contribution under the *Canada Pension Plan* or under a provincial pension plan defined in section 3 of that Act, not exceeding the maximum amount of such contributions payable by the individual for the year under the plan, and

(*c*) the amount by which

(i) the total of all amounts each of which is an amount payable by the individual in respect of self-employed earnings for the year as a contribution under the *Canada Pension Plan* or under a provincial pension plan within the meaning assigned by section 3 of that Act (not exceeding the maximum amount of such contributions payable by the individual for the year under the plan)

exceeds

(ii) the amount deductible under paragraph 60(*e*) in computing the individual's income for the year.

Applicable: To the 2006 and subsequent taxation years.

Explanatory Note: Section 118.7 of the Act provides the formula for calculating an individual's tax credit in respect of CPP/QPP contributions and employment insurance premiums. Section 118.7 is amended, consequential to the introduction of the new Quebec Parental Insurance Plan(QPIP) on January 1, 2006, to provide for a tax credit in respect of premiums paid under that Plan. The marginal note is also amended to add a reference to the QPIP. This amendment applies to the 2006 and subsequent taxation years.

History: S. 118.7, paragraph (*c*) of the description of B was amended by S.C. 2001, c. 17, s. 100(1), applicable to the 2001 and subsequent taxation years. S. 118.7, paragraph (*c*) of the description of B formerly read:

"(*c*) the total of all amounts each of which is an amount payable by the individual in respect of self-employed earnings for the year as a contribution under the *Canada Pension Plan* or under a provincial pension plan as defined in section 3 of that Act, not exceeding the maximum amount of such contributions payable by the individual for the year under the plan."

S. 118.7(*a*) was amended by S.C. 1996, c. 23, s. 187, by replacing the expression "Unemployment Insurance Act" with the expression "Employment Insurance Act", effective June 30, 1996.

Related Sections: S. 8(1)(*l*.1) C.P.P. contributions and E.I. premiums.

Interpretation Bulletins: *Secondary* – IT-171R2 Non-resident individuals — Computation of taxable income earned in Canada and non-refundable tax credits [Archived by the CRA]; IT-515R2 Education tax credit; IT-516R2 Tuition tax credit; IT-519R2 (Consolid.) Medical expense and disability tax credits and attendant care expense deduction.

Information Circulars: IC 07-1 Taxpayer Relief Provisions.

Forms: T2204.

SECTION 118.8: Transfer of unused credits to spouse or common-law partner.

For the purpose of computing the tax payable under this Part for a taxation year by an individual who, at any time in the year, is a married person or a person who is in a common-law partnership (other than an individual who, by reason of a breakdown of their marriage or common-law partnership, is living separate and apart from the individual's spouse or common-law partner at the end of the year and for a period of 90 days commencing in the year), there may be deducted an amount determined by the formula

$$A + B - C$$

where

A is the tuition, textbook and education tax credits transferred for the year by the spouse or common-law partner to the individual;

B is the total of all amounts each of which is deductible under subsection 118(1), because of paragraph (*b*.1) of the description of B in that subsection, or subsection 118(2) or (3) or 118.3(1) in computing the spouse's or common-law partner's tax payable under this Part for the year; and

C is the amount, if any, by which

(*a*) the amount that would be the spouse's or common-law partner's tax payable under this Part for the year if no amount were deductible under this Division (other than an amount deductible under subsection 118(1) because of paragraph (*c*) of the description of B in that subsection or under section 118.61 or 118.7)

exceeds

(*b*) the lesser of

(i) the total of all amounts that may be deducted under section 118.5 or 118.6 in computing the spouse's or common-law partner's tax payable under this Part for the year, and

(ii) the amount that would be the spouse's or common-law partner's tax payable under this Part for the year if no amount were deductible under this Division (other than an amount deductible under section 118, 118.01, 118.02, 118.03, 118.3, 118.61 or 118.7).

History: S. 118.8, the description of B was replaced by S.C. 2007, c. 29, s. 10(1), applicable to the 2007 and subsequent taxation years. S. 118.8, the description of B formerly read:

"B is the total of all amounts each of which is deductible under subsection 118(2) or (3) or 118.3(1) in computing the spouse's or common-law partner's tax payable under this Part for the year; and"

S. 118.8, the description of A was replaced by S.C. 2007, c. 2, s. 25(1), applicable to the 2006 and subsequent taxation years.

S. 118.8, the description of A formerly read:

"A is the tuition and education tax credits transferred for the year by the spouse or common-law partner to the individual;"

S. 118.8, subparagraph (*b*)(ii) of the description of C was replaced by S.C. 2007, c. 2, s. 25(2), applicable to the 2005 and subsequent taxation years except that

(*a*) in its application to the 2005 taxation year, subparagraph (*b*)(ii) of the description of C in section 118.8 is to be read without its reference to section 118.02; and

(*b*) in its application to the 2005 and 2006 taxation years, subparagraph (*b*)(ii) of the description of C in section 118.8 is to be read without its reference to section 118.03.

S. 118.8, subparagraph (*b*)(ii) of the description of C formerly read:

"(ii) the amount that would be the spouse's or common-law partner's tax payable under this Part for the year if no amount were deductible under this Division (other than an amount deductible under section 118, 118.3, 118.61 or 118.7)."

S. 118.8, the portion before the formula, was amended by S.C. 2000, c. 12, s. 133, applicable January 1, 2001, coming into force on July 31, 2000. S. 118.8, the portion before the formula formerly read:

"S. 118.8. *Transfer of unused credits to spouse.* For the purpose of computing the tax payable under this Part for a taxation year by an individual who, at any time in the year, is a married person (other than an individual who, by reason of a breakdown of their marriage, is living separate and apart from the individual's spouse at the end of the year and for a period of 90 days commencing in the year), there may be deducted an amount determined by the formula"

S. 118.8, the description of A, was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.8), applicable January 1, 2001, coming into force on July 31, 2000. S. 118.8, the description of A, formerly read:

"A is the tuition and education tax credits transferred for the year by the spouse to the individual;"

S. 118.8, the descriptions of B and C were amended by S.C. 2000, c. 12, Sched. 2, s. 7(g), applicable January 1, 2001, coming into force on July 31, 2000. S. 118.8, the descriptions of B and C formerly read:

"B is the total of all amounts each of which is deductible under subsection 118(2) or (3) or 118.3(1) in computing the spouse's tax payable under this Part for the year; and

C is the amount, if any, by which

(*a*) the amount that would be the spouse's tax payable under this Part for the year if no amount were deductible under this Division (other than an amount deductible under subsection 118(1) because of paragraph (*c*) of the description of B in that subsection or under section 118.61 or 118.7) exceeds

(*b*) the lesser of

(i) the total of all amounts that may be deducted under section 118.5 or 118.6 in computing the spouse's tax payable under this Part for the year, and

(ii) the amount that would be the spouse's tax payable under this Part for the year if no amount were deductible under this Division (other than an amount deductible under section 118, 118.3, 118.61 or 118.7)."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 118.8, paragraph (*a*) of the description of C was amended by S.C. 2000, c. 19, s. 26(1), applicable to the 2000 and subsequent taxation years. S. 118.8, paragraph (*a*) of the description of C formerly read:

"(*a*) the amount that would be the spouse's tax payable under this Part for the year if no amount were deductible under this Division (other than an amount deductible under subsection 118(1) because of paragraph (*b.1*) or (*c*) of the description of B in that subsection or under section 118.61 or 118.7)"

S. 118.8, paragraph (*a*) of the description of C, was amended by S.C. 1999, c. 22, s. 39(1), applicable to the 1998 and subsequent taxation years. S. 118.8, paragraph (*a*) of the description of C formerly read:

"(*a*) the amount that would be the spouse's tax payable under this Part for the year if no amount were deductible under this Division (other than an amount deductible under subsection 118(1) because of paragraph (*c*) of the description of B in that subsection or under section 118.61 or 118.7)"

S. 118.8, the description of C was amended by S.C. 1998, c. 19, s. 29(2), applicable to the 1997 and subsequent taxation years. S. 118.8, the description of C formerly read:

"C is the spouse's tax payable under this Part for the year computed before any deductions under this Division (other than a deduction under subsection 118(1) because of paragraph (*c*) of the description of B in that subsection or under section 118.7)."

S. 118.8, the description of A was amended by S.C. 1998, c. 19, s. 29(1), applicable to the 1997 and subsequent taxation years. S. 118.8, the description of A formerly read:

"A is the lesser of $850 and the total of all amounts each of which is deductible under section 118.5 or 118.6 in computing the spouse's tax payable under this Part for the year;"

S. 118.8, the descriptions of A, B, and C, were amended by S.C. 1997, c. 25, s. 29(1), applicable to the 1996 and subsequent taxation years. Those parts formerly read:

"A is the lesser of $680 and the total of all amounts that the individual's spouse may deduct under section 118.5 or 118.6 for the year;

B is the total of all amounts each of which is an amount that the individual's spouse may deduct for the year under subsection 118(2) or (3) or 118.3(1); and

C is the amount of the individual's spouse's tax payable under this Part for the year computed before any deductions under this Division (other than a deduction under subsection 118(1) by reason of paragraph 118(1)(*c*) or under section 118.7)."

S. 118.8, the description of "A", was amended by S.C. 1994, c. 7, Sched. VIII, s. 58(1), applicable to the 1992 and subsequent taxation years. S. 118.8, the description of "A", formerly read:

"A is the lesser of $600 and the total of all amounts each of which is an amount that the individual's spouse may deduct for the year under section 118.5 or 118.6;"

Related Sections: S. 248(1), "amount", "common-law partner", "individual".

Interpretation Bulletins: *Secondary* — IT-171R2 Non-resident individuals — Computation of taxable income earned in Canada and non-refundable tax credits [Archived by the CRA]; IT-470R (Consolid.) Employees' fringe benefits; IT-513R Personal tax credits; IT-515R2 Education tax credit; IT-516R2 Tuition tax credit; IT-517R Pension tax credit [Archived by the CRA]; IT-519R2 (Consolid.) Medical expense and disability tax credits and attendant care expense deduction.

SECTION 118.81: Tuition, textbook and education tax credits transferred.

In this subdivision, the tuition, textbook and education tax credits transferred for a taxation year by a person to an individual is the lesser of

(*a*) the amount determined by the formula

$$A - B$$

where

A is the lesser of

(i) the total of all amounts that may be deducted under section 118.5 or 118.6 in computing the person's tax payable under this Part for the year, and

(ii) the amount determined by the formula

$$C \times D$$

where

C is the appropriate percentage for the taxation year, and

D is $5,000;

B is the amount that would be the person's tax payable under this Part for the year if no amount were deductible under this Division (other than an amount deductible under any of sections 118, 118.01, 118.02, 118.03, 118.3, 118.61 and 118.7), and

(*b*) the amount for the year that the person designates in writing for the purpose of section 118.8 or 118.9.

History: S. 118.81, the portion before paragraph (*a*) was replaced by S.C. 2007, c. 2, s. 26(1), applicable to the 2006 and subsequent taxation years.

S. 118.81, the portion before paragraph (*a*) formerly read:

"S. 118.81. *Tuition and education tax credits transferred.* In this subdivision, the tuition and education tax credits transferred for a taxation year by a person to an individual is the lesser of"

S. 118.81, the description of B was replaced by S.C. 2007, c. 2, s. 26(2), applicable to the 2006 and subsequent taxation years except that, in its application to the 2006 taxation year, the description of B in paragraph 118.81(*a*) is to be read without its reference to section 118.03.

S. 118.81, the description of B formerly read:

"B is the amount that would be the person's tax payable under this Part for the year if no amount were deductible under this Division (other than an amount deductible under any of sections 118, 118.01, 118.3, 118.61 and 118.7), and"

S. 118.81(*a*), subparagraph (ii) of the description of A was replaced by S.C. 2006, c. 4, s. 66(1), applicable to the 2005 and subsequent taxation years.

S. 118.81(*a*), subparagraph (ii) of the description of A formerly read:

"(ii) $800, and"

S. 118.81(*a*), the description of B was replaced by S.C. 2006, c. 4, s. 66(2), applicable to the 2005 and subsequent taxation years.

S. 118.81(*a*), the description of B formerly read:

"B is the amount that would be the person's tax payable under this Part for the year if no amount were deductible under this Division (other than an amount deductible under section 118, 118.3, 118.61 or 118.7), and"

S. 118.81(*a*), subparagraph (ii) of the description of A was amended by S.C. 2001, c. 17, s. 101(1), applicable to the 2001 and subsequent taxation years. S. 118.81(*a*), subparagraph (ii) of the description of A formerly read:

"(ii) $850, and"

S. 118.81 was added by S.C. 1998, c. 19, s. 30(1), applicable to the 1997 and subsequent taxation years.

SECTION 118.9: Transfer to parent or grandparent.

If for a taxation year a parent or grandparent of an individual (other than an individual in respect of whom the individual's spouse or common-law partner deducts an amount under section 118 or 118.8 for the year) is the only person designated in writing by the individual for the year for the purpose of this section, there may be deducted in computing the tax payable under this Part for the year by the parent or grandparent, as the case may be, the tuition, textbook and education tax credits transferred for the year by the individual to the parent or grandparent, as the case may be.

History: S. 118.9 was replaced by S.C. 2007, c. 2, s. 27(1), applicable to the 2006 and subsequent taxation years.

S. 118.9 formerly read:

"S. 118.9. *Transfer to parent or grandparent.* Where for a taxation year a parent or grandparent of an individual (other than an individual in respect of whom the individual's spouse or common-law partner deducts an amount under section 118 or 118.8 for the year) is the only person designated in writing by the individual for the year for the purpose of this section, there may be deducted in computing the tax payable under this Part for the year by the parent or grandparent, as the case may be, the tuition and education tax credits transferred for the year by the individual to the parent or grandparent, as the case may be."

S. 118.9 was replaced by S.C. 2000, c. 12, Sched. 2, s. 1(z.9), applicable January 1, 2001, coming into force on July 31, 2000. S. 118.9 formerly read:

"S. 118.9. *Transfer to parent or grandparent.* Where for a taxation year a parent or grandparent of an individual (other than an individual in respect of whom the individual's spouse deducts an amount under section 118 or 118.8 for the year) is the only person designated in writing by the individual for the year for the purpose of this section, there may be deducted in computing the tax payable under this Part for the year by the parent or grandparent, as the case may be, the tuition and education tax credits transferred for the year by the individual to the parent or grandparent, as the case may be."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 118.9 was replaced by S.C. 1998, c. 19, s. 30(1), applicable to the 1997 and subsequent taxation years. S. 118.9 formerly read:

"S. 118.9. *Transfers to supporting person.*

(1) Where the parent or grandparent of an individual (other than an individual in respect of whom the individual's spouse deducts an amount under section 118 or 118.8 for the year) files with the Minister for a taxation year a prescribed form containing prescribed information, there may be deducted in computing the tax payable by the parent or grandparent, as the case may be, under this Part for the year an amount determined by the formula

A – B

where

A is the lesser of $850 and the total of all amounts each of which is deductible under section 118.5 or 118.6 in computing the individual's tax payable under this Part for the year; and

B is the amount of the individual's tax payable under this Part for the year computed before any deductions under this Division (other than sections 118, 118.3 and 118.7).

(2) *Only one claim per student.* Where in computing his or her tax payable under this Part for a taxation year a parent or grandparent of an individual has deducted an amount under section 118 in respect of the individual, that parent or grandparent, as the case may be, is the only person entitled to deduct an amount for the year under subsection (1) in respect of the individual and in any other case only such one of the parents and grandparents of the individual as is designated for the year in writing by the individual is entitled to make such a deduction for the year."

S. 118.9(1), the description of A, was amended by S.C. 1997, c. 25, s. 30(1), applicable to the 1996 and subsequent taxation years. That part formerly read:

"A is the lesser of $680 and the total of all amounts that the individual may deduct under section 118.5 or 118.6 for the year; and"

S. 118.9(1), the description of "A", was amended by S.C. 1994, c. 7, Sched. VIII, s. 59(1), applicable to the 1992 and subsequent taxation years. S. 118.9(1), the description of "A", formerly read:

"A is the lesser of

(*a*) $600, and

(*b*) the total of all amounts each of which is an amount that the individual may deduct under section 118.6 for the year or an amount that the individual would have been entitled to deduct under subsection 118.5(1) for the year if the reference in paragraph 118.5(1)(*a*) to 'the amount of any fees for the individual's tuition paid in respect of the year to the educational institution' were read as a reference to 'that portion of the individual's fees paid in respect of the year that can reasonably be considered to have been paid in respect of a qualifying educational program of an educational institution described in subparagraph (*a*)(i) of the definition "designated educational institution" in subsection 118.6(1)'; and"

S. 118.9(1), the description of "A" was amended by S.C. 1994, c. 7, Sched. II, s. 94(1), applicable to fees relating to periods after June 1990. The description formerly read:

"A is the lesser of $600 and the total of all amounts each of which is an amount the individual may deduct for the year under section 118.5 or 118.6; and"

Interpretation Bulletins: *Secondary* — IT-171R2 Non-resident individuals — Computation of taxable income earned in Canada and non-refundable tax credits [Archived by the CRA]; IT-470R (Consolid.) Employees' fringe benefits; IT-515R2 Education tax credit; IT-516R2 Tuition tax credit.

SECTION 118.91: Part-year residents.

Notwithstanding sections 118 to 118.9, where an individual is resident in Canada throughout part of a taxation year and throughout another part of the year is non-resident, for the purpose of computing the individual's tax payable under this Part for the year,

(*a*) the amount deductible for the year under each such provision in respect of the part of the year that is not included in the period or periods referred to in paragraph (*b*) shall be computed as though such part were the whole taxation year; and

(*b*) the individual shall be allowed only

(i) such of the deductions permitted under subsections 118(3), (10) and 118.6(2.1) and sections 118.01, 118.02, 118.03, 118.1, 118.2, 118.5, 118.6, 118.62 and 118.7 as can reasonably be considered wholly applicable, and

(ii) such part of the deductions permitted under sections 118 (other than subsection 118(3)), 118.3,118.8 and 118.9 as can reasonably be considered applicable

to the period or periods in the year throughout which the individual is resident in Canada, computed as though that period or those periods were the whole taxation year,

except that the amount deductible for the year by the individual under each such provision shall not exceed the amount that would have been deductible under that provision had the individual been resident in Canada throughout the year.

History: S. 118.91(*b*)(i) was replaced by S.C. 2007, c. 2, s. 28(1), applicable to the 2006 and subsequent taxation years except that, in its application to the 2006 taxation year, subparagraph 118.91(*b*)(i) is to be read without its reference to section 118.03.

S. 118.91(*b*)(i) formerly read:

"(i) such of the deductions permitted under subsection 118(3) and sections 118.01, 118.1, 118.2, 118.5, 118.6, 118.62 and 118.7 as can reasonably be considered wholly applicable, and"

S. 118.91(*b*)(i) was replaced by S.C. 2006, c. 4, s. 67(1), applicable to the 2005 and subsequent taxation years.

S. 118.91(*b*)(i) formerly read:

"(i) such of the deductions permitted under subsection 118(3) and sections 118.1, 118.2, 118.5, 118.6, 118.62 and 118.7 as can reasonably be considered wholly applicable, and"

S. 118.91(*b*)(i) was amended by S.C. 1999, c. 22, s. 40(1), applicable to the 1998 and subsequent taxation years. S. 118.91(*b*)(i) formerly read:

"(i) such of the deductions permitted under subsection 118(3) and sections 118.1, 118.2, 118.5, 118.6 and 118.7 as can reasonably be considered wholly applicable, and"

S. 118.91, that portion before paragraph (*a*), was amended by S.C. 1994, c. 21, s. 55(1), applicable to the 1992 and subsequent taxation years except that, where a taxpayer elects in accordance with the application provision to section 114 provided by S.C. 1994, c. 21, s. 52(2), the amendment to the portion does not apply to the taxpayer's 1992 taxation year. S. 118.91, that portion before paragraph (*a*), formerly read:

"S. 118.91. *'Part-year residents'.* Notwithstanding the provisions of sections 118 to 118.9, where an individual is resident in Canada throughout part of a taxation year and throughout some other part of the year is not resident in Canada, is not employed in Canada and is not carrying on business in Canada, for the purpose of computing the individual's tax payable under this Part for the year,"

S. 118.91, that portion of paragraph (*b*) after subparagraph (ii), was amended by S.C. 1994, c. 21, s. 55(2), applicable to the 1992 and subsequent taxation years except that, where a taxpayer elects in accordance with the application provision to section 114 provided by S.C. 1994, c. 21, s. 52(2), the amendment to the portion does not apply to the taxpayer's 1992 taxation year. S. 118.91(*b*), that portion after subparagraph (ii), formerly read:

"to the period or periods in the year throughout which the individual is resident in Canada, is employed in Canada or is carrying on business in Canada, computed as though the period or periods were the whole taxation year,"

S. 118.91 was amended by S.C. 1994, c. 7, Sched. II, s. 95(1), applicable to the 1988 and subsequent taxation years. S. 118.91 formerly read:

"S. 118.91. *'Individual resident in Canada for part of the year'.* Notwithstanding sections 118 to 118.9, where an individual is resident in Canada during part of a taxation year and during some other part of the year is not resident in Canada, is not employed in Canada and is not carrying on business in Canada, unless all or substantially all of the individual's income for the year is included in computing the individual's taxable income for the year, no amounts may be deducted under those sections for the purpose of computing the individual's tax payable under this Part for the year except the total of

(*a*) the deductions permitted under sections 118.1, 118.2, 118.5, 118.6 and 118.7 to taxpayers resident in Canada throughout the year for the purpose of computing tax payable under this Part for the year that may reasonably be considered wholly applicable to the individual for the period or periods in the year throughout which the individual is resident in Canada, employed in Canada or carrying on business in Canada, and

(*b*) such part of the deductions permitted under sections 118, 118.3, 118.8 and 118.9 to taxpayers resident in Canada throughout the year for the purpose of computing tax payable under this Part for the year as may reasonably be considered applicable to the individual for the period or periods referred to in paragraph (*a*)."

SECTION 118.92: Ordering of credits.

In computing an individual's tax payable under this Part, the following provisions shall be applied in the following order: subsections 118(1) and (2), section 118.7, subsections 118(3) and (10) and sections 118.01, 118.02, 118.03, 118.3, 118.61, 118.5, 118.6, 118.9, 118.8, 118.2, 118.1, 118.62 and 121.

History: S. 118.92 was replaced by S.C. 2007, c. 2, s. 29(1), applicable to the 2006 and subsequent taxation years except that, in its application to the 2006 taxation year, section 118.92 is to be read without its reference to section 118.03.

S. 118.92 formerly read:

"S. 118.92. *Ordering of credits.* In computing an individual's tax payable under this Part, the following provisions shall be applied in the following order: subsections 118(1) and (2), section 118.7, subsection 118(3) and sections 118.01, 118.3, 118.61, 118.5, 118.6, 118.9, 118.8, 118.2, 118.1, 118.62 and 121."

S. 118.92 was replaced by S.C. 2006, c. 4, s. 68(1), applicable to the 2005 and subsequent taxation years.

S. 118.92 formerly read:

"S. 118.92. *Ordering of credits.* In computing an individual's tax payable under this Part, the following provisions shall be applied in the following order: subsections 118(1) and (2), section 118.7, subsection 118(3) and sections 118.3, 118.61, 118.5, 118.6, 118.9, 118.8, 118.2, 118.1, 118.62 and 121."

S. 118.92 was amended by S.C. 1999, c. 22, s. 41(1), applicable to the 1998 and subsequent taxation years. S. 118.92 formerly read:

"S. 118.92. *Ordering of credits.* In computing an individual's tax payable under this Part, the following provisions shall be applied in the following order: subsections 118(1) and (2), section 118.7, subsection 118(3) and sections 118.3, 118.61, 118.5, 118.6, 118.9, 118.8, 118.2, 118.1 and 121."

S. 118.92 was amended by S.C. 1998, c. 19, s. 31(1), applicable to the 1997 and subsequent taxation years. S. 118.92 formerly read:

"S. 118.92. *Ordering of credits.* In computing the tax payable under this Part by an individual the following provisions shall be applied in the following order: subsections 118(1) and (2), section 118.7, subsection 118(3) and sections 118.3, 118.5, 118.6, 118.9, 118.8, 118.2, 118.1 and 121."

Interpretation Bulletins: *Primary* — IT-523 Order of provisions applicable in computing an individual's taxable income and tax payable.

SECTION 118.93: Credits in separate returns.

If a separate return of income with respect to a taxpayer is filed under subsection 70(2), 104(23) or 150(4) for a particular period and another return of income under this Part with respect to the taxpayer is filed for a period ending in the calendar year in which the particular period ends, for the purpose of computing the tax payable under this Part by the taxpayer in those returns, the total of all deductions claimed in all those returns under any of subsections 118(3) and (10) and sections 118.01 to 118.7 and 118.9 shall not exceed the total that could be deducted under those provisions for the year with respect to the taxpayer if no separate returns were filed under any of subsections 70(2), 104(23) and 150(4).

History: S. 118.93 was replaced by S.C. 2007, c. 2, s. 29(1), applicable to the 2006 and subsequent taxation years.

S. 118.93 formerly read:

"S. 118.93. *Credits in separate returns.* Where a separate return of income with respect to a taxpayer is filed under subsection 70(2), 104(23) or 150(4) for a particular period and another return of income under this Part with respect to the taxpayer is filed for a period ending in the calendar year in which the particular period ends, for the purpose of computing the tax payable under this Part by the taxpayer in those returns, the total of all deductions claimed in all those returns under any of subsection 118(3) and sections 118.01 to 118.7 and 118.9 shall not exceed the total that could be deducted under those provisions for the year with respect to the taxpayer if no separate returns were filed under subsections 70(2), 104(23) and 150(4)."

S. 118.93 was replaced by S.C. 2006, c. 4, s. 68(1), applicable to the 2005 and subsequent taxation years.

S. 118.93 formerly read:

"S. 118.93. *Credits in separate returns.* Where a separate return of income with respect to a taxpayer is filed under subsection 70(2), 104(23) or 150(4) for a particular period and another return of income under this Part with respect to the taxpayer is filed for a period ending in the calendar year in which the particular period ends, for the purpose of computing the tax payable under this Part by the taxpayer in those returns, the total of all deductions claimed in all those returns under any of subsection 118(3) and sections 118.1 to 118.7 and 118.9 shall not exceed the total that could be deducted under those provisions for the year with respect to the taxpayer if no separate returns were filed under subsections 70(2), 104(23) and 150(4)."

Interpretation Bulletins: *Primary* — IT-326R3 Returns of deceased persons as "another person". *Secondary* — IT-517R Pension tax credit [Archived by the CRA].

SECTION 118.94: Tax payable by non-residents (credits restricted).

Sections 118, 118.01, 118.02, 118.03 and 118.2, subsections 118.3(2) and (3) and sections 118.6, 118.8 and 118.9 do not apply for the purpose of computing the tax payable under this Part for a taxation year by an individual who at no time in the year is resident in Canada unless all or substantially all of the individual's income for the year is included in computing the individual's taxable income earned in Canada for the year.

History: S. 118.94 was replaced by S.C. 2007, c. 2, s. 29(1), applicable to the 2006 and subsequent taxation years except that, in its application to the 2006 taxation year, section 118.94 is to be read without its reference to section 118.03.

S. 118.94 formerly read:

"S. 118.94. *Tax payable by non-residents (credits restricted).* Sections 118, 118.01 and 118.2, subsections 118.3(2) and (3) and sections 118.6, 118.8 and 118.9 do not apply for the purpose of computing the tax payable under this Part for a taxation year by an individual who at no time in the year is resident in Canada unless all or substantially all of the individual's income for the year is included in computing the individual's taxable income earned in Canada for the year."

S. 118.94 was replaced by S.C. 2006, c. 4, s. 68(1), applicable to the 2005 and subsequent taxation years.

S. 118.94 formerly read:

"S. 118.94. *Tax payable by non-resident.* Sections 118 and 118.2, subsections 118.3(2) and (3) and sections 118.6, 118.8 and 118.9 do not apply for the purpose of computing the tax payable under this Part for a taxation year by an individual who at no time in the year is resident in Canada unless all or substantially all of the individual's income for the year is included in computing the individual's taxable income earned in Canada for the year."

S. 118.94 was amended by S.C. 1994, c. 7, Sched. II, s. 96(1), applicable to the 1988 and subsequent taxation years. S. 118.94 formerly read:

"S. 118.94. *'Computing tax payable by a non-resident individual'.* Sections 118 and 118.2, subsections 118.3(2) and (3) and sections 118.5 to 118.9 do not apply for the purpose of computing the tax payable under this Part for a taxation year by an individual who at no time in the year is resident in Canada, except that, where all or substantially all of the individual's income for the year is included in computing the individual's taxable income earned in Canada for the year, for the purpose of computing the individual's tax payable under this Part for the year there may be deducted the amounts that would have been deductible under those provisions for the purpose of computing the individual's tax payable under this Part for the year had the individual been resident in Canada throughout the year."

Related Sections: S. 115(1) Non-resident's taxable income in Canada; s. 118.94 Tax payable by non-residents (credits restricted); s. 217 Alternative re Canadian benefits; s. 248, "amount", "individual", "non-resident", "taxable income earned in Canada"; s. 255 Canada.

Interpretation Bulletins: *Primary* — IT-171R2 Non-resident individuals — Computation of taxable income earned in Canada and non-refundable tax credits [Archived by the CRA].

SECTION 118.95: Credits in year of bankruptcy.

Notwithstanding sections 118 to 118.9, for the purpose of computing an individual's tax payable under this Part for a taxation year that ends in a calendar year in which the individual becomes bankrupt, the individual shall be allowed only

(*a*) such of the deductions as the individual is entitled to under subsections 118(3) and (10) and sections 118.01, 118.02, 118.03, 118.1, 118.2, 118.5, 118.6, 118.62 and 118.7 as can reasonably be considered wholly applicable to the taxation year, and

(*b*) such part of the deductions as the individual is entitled to under sections 118 (other than subsection 118(3)), 118.3, 118.8 and 118.9 as can reasonably be considered applicable to the taxation year,

except that the total of the amounts so deductible for all taxation years of the individual in the calendar year under any of those provisions shall not exceed the amount that would have been deductible under that provision in respect of the calendar year if the individual had not become bankrupt.

History: S. 118.95(*a*) was replaced by S.C. 2007, c. 2, s. 30(1), applicable to the 2006 and subsequent taxation years except that, in its application to the 2006 taxation year, paragraph 118.95(*a*) is to be read without its reference to section 118.03.

S. 118.95(*a*) formerly read:

"(*a*) such of the deductions as the individual is entitled to under subsection 118(3) and sections 118.01, 118.1, 118.2, 118.5, 118.6, 118.62 and 118.7 as can reasonably be considered wholly applicable to the taxation year, and"

S. 118.95(*a*) was replaced by S.C. 2006, c. 4, s. 69(1), applicable to the 2005 and subsequent taxation years.

S. 118.95(*a*) formerly read:

"(*a*) such of the deductions as the individual is entitled to under subsection 118(3) and sections 118.1, 118.2, 118.5, 118.6, 118.62 and 118.7 as can reasonably be considered wholly applicable to the taxation year, and"

S. 118.95(*a*) was amended by S.C. 1999, c. 22, s. 42(1), applicable to the 1998 and subsequent taxation years. S. 118.95(*a*) formerly read:

"(*a*) such of the deductions as the individual is entitled to under subsection 118(3) and sections 118.1, 118.2, 118.5, 118.6 and 118.7 as can reasonably be considered wholly applicable to the taxation year, and"

S. 118.95 was added by S.C. 1998, c. 19, s. 136(1), applicable to bankruptcies that occur after April 26, 1995.

Related Sections: S. 120.2(4) Where subsection (1) does not apply; s. 122.5(7) Effect of bankruptcy; s. 122.61(3.1) Effect of bankruptcy; s. 127.1(1) Refundable investment tax credit; s. 128(2) Where individual bankrupt; s. 248(1), "bankrupt".

SECTION 119: Former resident — credit for tax paid.

If at any particular time an individual was deemed by subsection 128.1(4) to have disposed of a capital property that was a taxable Canadian property of the individual throughout the period that began at the particular time and that ends at the first time, after the particular time, at which the individual disposes of the property, there may be deducted in computing the individual's tax payable under this Part for the taxation year that includes the particular time the lesser of

(*a*) that proportion of the individual's tax for the year otherwise payable under this Part (within the meaning assigned by paragraph (*a*) of the definition "tax for the year otherwise payable under this Part" in subsection 126(7)) that

(i) the individual's taxable capital gain from the disposition of the property at the particular time

is of

(ii) the amount determined under paragraph 114(*a*) in respect of the individual for the year, and

(*b*) that proportion of the individual's tax payable under Part XIII in respect of dividends received during the period by the individual in respect of the property and amounts deemed under Part XIII to have been paid during the period to the individual as dividends from corporations resident in Canada, to the extent that the amounts can reasonably be considered to relate to the property, that

(i) the amount by which the individual's loss from the disposition of the property at the end of the period is reduced by subsection 40(3.7)

is of

(ii) the total amount of those dividends.

Department of Finance Comfort Letter [Section 119 Credit for Taxpayer Who Paid Minimum Tax]

December 7, 2004

Dear XXXX

I am responding to your letter dated October 1, 2004 regarding the effective date of proposed amendments concerning the determination of alternative minimum tax (AMT) and the ability of an individual to claim a credit under section 119 of the *Income Tax Act* (the "Act"). Section 119 allows for a tax credit to alleviate the overlap of tax resulting from a subsection 128.1(4) deemed disposition of a capital property and the Part XIII tax on dividends that reduce the taxpayer's loss on that property.

As you know, I have indicated that I am prepared to recommend an amendment to the Act so that a taxpayer who has paid AMT for the year of emigration is not barred from claiming a section 119 credit. In addition, I have indicated that I am prepared to recommend an amendment that would prevent a taxpayer from being reassessed and subjected to AMT for the year of departure from Canada due solely to the application of a section 119 credit to that year. I proposed that these amendments apply to an individual's 2002 and subsequent taxation years.

In your letter you request that the proposed amendments have effect from 1997 in order to provide relief to the individual on whose behalf you contacted us. Following further review of the policy considerations behind these proposed amendments, I believe there is justification for a retroactive application date that corresponds with the inception of the section 119 credit. Therefore, I am prepared to recommend that the proposed

amendments affect dispositions after December 23, 1998 by individuals who ceased to be resident in Canada after October 1, 1996.

As I am sure you know, I cannot offer any assurance that either the Minister of Finance or Parliament will agree with the recommendation that we intend to make in this regard. Nonetheless, I hope that this statement of our position is helpful.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

Department of Finance Comfort Letter [Section 119 — Tax Credit and Alternative Minimum Tax]

September 9, 2004

Dear XXXX

I am responding to your letter dated March 3, 2004 to Mr. Lawrence Purdy of this Division regarding the interaction of the income tax rules relating to the determination of alternative minimum tax ("AMT"), and the ability of an individual to claim a credit under section 119 of the *Income Tax Act* (the "Act").

As you know, the purpose behind section 119 is to alleviate a situation where a taxpayer would be subject to taxation both on a gain arising as a result of the section 128.1 deemed disposition of shares held by the taxpayer on emigration from Canada, and on any subsequent dividends the taxpayer received on these shares and in respect of which Part XIII tax was withheld. Although the Act does not allow the taxpayer who has received dividends to claim a capital loss on the subsequent disposition of these shares, the payment of Part XIII tax can be seen as a substitute for the Part I tax paid on the gain. Section 119 therefore allows a credit to offset the potential double taxation. The credit is limited to the lesser of two amounts: that portion of the Part XIII tax paid that the denied loss is of the dividends received; and the amount of tax liability resulting from the deemed gain on the taxpayer's departure from Canada.

In your letter you describe a situation in which your client is being reassessed for the client's year of departure due to the client claiming a section 119 credit. My understanding of your client's situation is as follows. When your client emigrated from Canada your client incurred a tax liability because of the deemed disposition of assets owned by your client, which included shares.

Subsequent to departure your client received dividends on these shares, for which Part XIII withholding tax was paid. Upon disposition of the shares, any loss that may have resulted was not available to your client due to the stop loss rules contained in subsection 40(3.7). However, your client did claim a section 119 credit and requested that the credit be applied against the tax liability arising on the gain on the shares that was triggered in the year of emigration.

You advise that the Canada Revenue Agency (the "CRA") has since notified your client that the client's emigration year tax return is now being reassessed to apply AMT. This is because the section 119 credit as applied to that year has reduced your client's tax payable for the year to a level at which AMT applies. In your view, this negates the purpose of the section 119 credit, as your client is faced with double taxation, since part of the AMT represents tax on the gain from the deemed disposition on departure. You request that we recommend an amendment to the Act, so as to allow your client the ability to claim a full section 119 credit without this claim causing the AMT rules to apply.

Again as I am sure you know, the purpose to the AMT rules is to ensure that individual taxpayers who have significant income pay at least a minimum amount of tax in any particular year. These rules generally speaking recalculate a taxpayer's tax payable by redetermining the taxpayer's income for the year. Essentially the taxpayer adds back to their income what are generally known as "preferences" or deductions that the taxpayer is entitled to. If the amount of AMT determined is greater than the amount of regular Part I tax payable then the taxpayer is liable for the AMT amount.

The interaction between AMT, regular Part I tax and section 119 credits is complex. And it seems to me that there are two potential situations when a difficulty could result. The first situation is one in which the taxpayer was assessed AMT for the year of departure, and subsequently attempts to claim a section 119 credit for that year. It is my understanding that the CRA has advised you that the current rules would not allow the taxpayer in this situation to claim such a credit. Although the purpose of AMT is to ensure an individual pays a minimum amount of tax, I agree with you that, in policy terms, a taxpayer should not be restricted from claiming a section 119 credit merely because the taxpayer was subject to AMT. To do so could result in the potential for double taxation that section 119 is designed to avoid.

The second situation in which a difficulty could arise is the situation your client appears to be facing. In this second instance, the taxpayer was assessed regular Part I tax for the year of departure. In claiming a section 119 credit for that year, the taxpayer is then reassessed because the section 119 credit reduces the regular Part I tax payable to an amount below the tax payable under the AMT rules. The taxpayer is then assessed the higher AMT tax payable for that year. In this situation too, I see no reason in policy terms why a taxpayer should be made subject to AMT simply because the taxpayer claimed a section 119 credit.

This being the case, I am prepared to recommend an amendment to the *Income Tax Act* so that a taxpayer that has paid AMT for the taxpayer year of emigration is not barred from claiming a section 119 credit. In addition, I am willing to recommend an amendment that would prevent a taxpayer from being reassessed and subjected to AMT for the year of departure from Canada due solely to the application of a section 119 credit to that year.

I note in your letter that you request this amendment be retroactive to the effective date for the application of section 119, which was to dispositions that occurred after December 23, 1998 for individuals that departed Canada after October 1, 1996. We do not normally recommend that changes such as this be made on such a markedly retroactive basis, since both taxpayers and the Government need to be able to rely at any particular time on the law as it exists at that time. Exceptionally, however, we do recommend linking a relieving change to the transaction or circumstance that makes the Government aware of the need for the change. In this case, it is our understanding that this fact situation applies to your client's 2002 taxation year and therefore we are willing to recommend that this change apply to an individual's 2002 and subsequent taxation years.

I cannot offer any assurance that either the Minister of Finance or Parliament will agree with the recommendation that we intend to make in this regard. Nonetheless, I hope that this statement of our position is helpful. Thank you for bringing this issue to our attention.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 119 was added by S.C. 2001, c. 17, s. 102(2), applicable to dispositions after December 23, 1998 by individuals who cease to be resident in Canada after October 1, 1996.

S. 119 was repealed by S.C. 2001, c. 17, s. 102(1), applicable to the 1995 and subsequent taxation years. S. 119 formerly read:

"S. 119. *Averaging for farmers and fishermen.*

(1) Where an individual's chief source of income has been farming or fishing for a taxation year (in this section referred to as the 'year of averaging') and the 4 immediately preceding years for which the individual has filed returns of income as required by this Part (in this section referred to as the 'preceding years'), if the individual, on or before the day on or before which the individual was required to file a return of the individual's income for the year of averaging, or on or before the day on or before which the individual would have been required to file such a return if any tax had been payable by the individual for the year of averaging, files with the Minister an election in prescribed form, the tax payable under this Part for the year of averaging is an amount determined by the following rules:

(a) ascertain the amount, if any, remaining after deducting from the income for each year of the averaging period (which, in this section, means the year of averaging and the preceding years) all deductions permitted for that year by Division C, except the deductions permitted by

section 110.4 of this Act or section 109 of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, or any amount in respect of a loss for the 3 years immediately following the year of averaging or any amount in respect of a loss deducted under this paragraph from income for a preceding taxation year in the averaging period,

(*b*) determine the amount (in this section referred to as the 'average gross income') equal to 1/5 of the amount by which

(i) the total of the amounts determined under paragraph (*a*) for the years in the averaging period,

exceeds

(ii) the total of the amounts that would be deductible in respect of the losses for the taxation years in the averaging period in computing the taxable income for the year immediately following the year of averaging if the individual's income from the same business for that year were the total of the amounts determined under paragraph (*a*) for the years in the averaging period,

(*c*) determine the amount (in this section referred to as the 'average net income') for each year in the averaging period equal to the average gross income minus the deductions permitted for that year by section 109 of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952,

(*d*) determine the amount (in this section referred to as the 'average tax') for each year in the averaging period equal to the tax that would be payable under this Part for the year if the taxable income for the year were the average net income for the year and no amount were deductible under subsection 127(5) for the year,

(*e*) determine the amount, if any, by which

(i) the total of the average taxes as determined under paragraph (*d*)

exceeds

(ii) the total of all amounts each of which is an amount deducted under subsection 127(5) in computing the tax payable for the preceding years other than any amount deemed by subsection 127.1(3) to have been so deducted,

(*f*) where

(i) the total of all amounts each of which is the amount deemed by subsection 120(2) to have been paid on account of tax under this Part for a preceding year in the averaging period,

exceeds

(ii) the amount that would be determined under subparagraph (i) if the taxable income for each preceding year were the average net income for that year,

add to the amount, if any, determined under paragraph (*e*) the amount of that excess,

(*g*) where paragraph (*f*) does not apply, deduct from the amount, if any, determined under paragraph (*e*) the amount, if any, by which

(i) the amount determined under subparagraph (*f*)(ii)

exceeds

(ii) the amount determined under subparagraph (*f*)(i), and

(*h*) deduct from the amount resulting from the application of paragraph (*f*) or (*g*), as the case may be, the total of the taxes payable under this Part for the preceding years computed without reference to section 120.2,

and the remainder, if any, obtained under paragraph (*h*) is the tax payable under this Part for the year of averaging and no further deduction may be made therefrom under any other provision of this Part except subsection 127(5).

(2) *Refunds.* Where this section is applicable to the computation of an individual's tax for a taxation year, the amount, if any, by which the total of

(*a*) the total of taxes payable under this Part for the preceding years, and

(*b*) the amount, if any, by which

(i) the amount determined under subparagraph (1)(*f*)(ii)

exceeds

(ii) the amount determined under subparagraph (1)(*f*)(i)

exceeds the total of

(*c*) the amount, if any, determined under paragraph (1)(*e*), and

(*d*) the amount, if any, by which

(i) the amount determined under subparagraph (1)(*f*)(i)

exceeds

(ii) the amount determined under subparagraph (1)(*f*)(ii)

shall be deemed to be an overpayment made when the notice of assessment for the year of averaging was mailed.

(3) *Assessment.* The provisions of this Part relating to the assessment of tax, interest and penalties apply with such modifications as the circumstances require to an assessment whereby, for the purposes of this section, it is determined by the Minister that no tax is payable under this Part for the year of averaging or that an overpayment has been made as described in subsection (2).

(4) *Where s. (1) election null.* An election under subsection (1) is a nullity unless the earliest of the 'preceding years' ended before 1988 and is one of the 6 years immediately preceding the year of averaging.

(5) *Revocation of election.* An election filed under subsection (1) may be revoked by the individual

(*a*) at any time before the Minister has first assessed the individual's tax for the year of averaging; or

(*b*) during the 30 day period immediately following any assessment by the Minister of the individual's tax for the year of averaging.

(6) *Limitation as to election.* No election may be filed under this section by a taxpayer for a taxation year if

(*a*) the averaging period resulting from the election would include a year that was included in an averaging period resulting from a previous election by the taxpayer under this section that has not been revoked under subsection (5); or

(*b*) an amount has been added or deducted under section 110.4 in computing the taxable income of the taxpayer for the year or any other year of the averaging period.

(7) *Rents or trust income from farming or fishing.* For the purposes of subsection (1),

(*a*) rents dependent on the lessee's gross production in the course of farming or fishing, and

(*b*) income from a trust or estate to the extent that it can reasonably be regarded as having been derived from farming or fishing,

shall be deemed to be income from farming or fishing.

(8) *Losses.* Any amount in respect of a loss deducted in making a calculation under paragraph (1)(*a*) and any amount in respect of a loss described in subparagraph (1)(*b*)(ii) shall, for the purpose of computing taxable income for taxation years following the year of averaging, be deemed to have been deducted in respect of that loss in computing taxable income for a taxation year preceding the year for which the loss was determined.

(9) *Investment tax credit.* Where this section is applicable to the computation of an individual's tax payable for a taxation year, the amount, if any, by which

(*a*) the amount described in subparagraph (1)(*e*)(ii)

exceeds

(*b*) the amount described in subparagraph (1)(*e*)(i)

shall be added in computing the individual's investment tax credit at the end of that year, and paragraph 12(1)(*t*) and subsections 13(7.1) and 53(2) shall not apply to any amount deducted under subsection 127(5) for that year, or any subsequent taxation year, that may reasonably be attributed to the amount added under this subsection.

(10) *Idem.* Notwithstanding the definition 'investment tax credit' in subsection 127(9), where a taxpayer has filed an election under subsection (1) for a year of averaging, in computing the taxpayer's investment tax credit at the end of any of the preceding years, there shall not be included any amount in respect of property acquired, or an expenditure made, in or after the year of averaging."

Related Sections: S. 38 Taxable capital gain and allowable capital loss; s. 152(6) Reassessment where certain deductions claimed; s. 212(2) Tax on dividends; s. 248(1), "taxable Canadian property".

Tax Profile: December 2008 — Tax Planning for Emigration from Canada to the United States; November 2004 — Finance to Fix Technical Problem with Section 119.

Cases: *(Applies to former reading of section 119 — Averaging for farmers and fishermen)*

The averaging period did not include a year in which no tax was payable since s. 119(1) established the averaging period to be the current year of averaging and the "4 immediately preceding years for which he has filed returns of income as required by this Part". These words must be interpreted as meaning or referring to returns that have tax payable. *Martens v. M.N.R.*, 90 DTC 1873 (T.C.C.).

Farming was held to be a taxpayer's chief source of income, even though for several years he received a salary from a company which he had formed to operate and manage his farming activities. The Court considered evidence which showed that the whole direction of the taxpayer's financial and physical activities over the years had been toward farming as a sole occupation and probable chief source of income in the future. *Wilfley v. The Queen*, 74 DTC 6422 (F.C.T.D.).

A farmer, who also owned an interest in a business, sought to average his income. In the period chosen for averaging, his farm income, in the aggregate, exceeded his business income. The Minister refused to permit the averaging on the ground that the taxpayer's income was not from farming alone. In allowing the appeal, the Board ruled that a taxpayer could have two or more sources of income. It was a question of fact to determine which was the chief source of income. *Lawrence v. M.N.R.*, 54 DTC 138 (T.A.B.). See also *Short v. M.N.R.*, 64 DTC 120 (T.A.B.).

SECTION 120:

► 120(1) ◄

(1) Income not earned in a province. There shall be added to the tax otherwise payable under this Part by an individual for a taxation year the amount that bears the same relation to 48% of the tax otherwise payable under this Part by the individual for the year that

(*a*) the individual's income for the year, other than the individual's income earned in the year in a province,

bears to

(*b*) the individual's income for the year.

History: S. 120(1), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 103(1), applicable to the 2000 and subsequent taxation years. S. 120(1), the portion before paragraph (*a*) formerly read:

"S. 120. *Income not earned in a province.*

(1) There shall be added to the tax otherwise payable under this Part by an individual for a taxation year an amount that bears the same relation to 52% of the tax otherwise payable under this Part by the individual for the year that"

Related Sections: S. 120(3) Definition of "the individual's income for the year"; s. 120(4) Definitions; s. 127.5 Obligation to pay minimum tax.
Regulations: Part XXVI.
Interpretation Bulletins: *Secondary* — IT-434R Rental of real property by individual.

► 120(2) ◄

(2) Amount deemed paid in prescribed manner. Each individual is deemed to have paid, in prescribed manner and on prescribed dates, on account of the individual's tax under this Part for a taxation year an amount that bears the same relation to 3% of the tax otherwise payable under this Part by the individual for the year that

(*a*) the individual's income earned in the year in a province that, on January 1, 1973, was a province providing schooling allowances within the meaning of the *Youth Allowances Act*, chapter Y-1 of the Revised Statutes of Canada, 1970,

bears to

(*b*) the individual's income for the year.

Related Sections: S. 120(2.1) Averaging for farmers and fishermen; s. 120(3) Definition of "the individual's income for the year".
Regulations: 6401.
Interpretation Bulletins: *Secondary* — IT-434R Rental of real property by individual.
Cases: Taxpayer's income from U.S. partnership constituted income from a business in respect of which the deduction as abatement for provincial taxes did not apply. The taxpayer met all the criteria of reg. 2601(2): she resided in Quebec on the last day of the taxation year and she received income from a business that had a permanent establishment outside the province. *Hollinger v. M.N.R.*, 74 DTC 6604 (F.C.A.), affirming 73 DTC 5003 (F.C.T.D.).

► 120(2.1) ◄

(2.1) Idem. [Repealed by S.C. 2001, c. 17, s. 103(2).]

History: S. 120(2.1) was repealed by S.C. 2001, c. 17, s. 103(2), applicable to the 1996 and subsequent taxation years. S. 120(2.1) formerly read:

"(2.1) *Idem.* Where section 119 is applicable to the computation of an individual's tax for a taxation year (referred to in that section as the 'year of averaging'), notwithstanding subsection (2), the amount deemed by that subsection to have been paid on account of the individual's tax under this Part for the year shall be equal to the amount that would be determined under that subsection if the reference therein to 'the tax otherwise payable under this Part by the individual for the year' were read as a reference to 'the amount that would be the tax otherwise payable under this Part by the individual if the individual's taxable income for the year were the individual's average net income (within the meaning of paragraph 119(1)(*d*)) for the year'."

► 120(2.2) ◄

(2.2) Amount deemed paid. An individual is deemed to have paid on the last day of a taxation year, on account of the individual's tax under this Part for the year, an amount equal to the individual's income tax payable for the year to an Aboriginal government pursuant to a law of that government made in accordance with a tax sharing agreement between that government and the Government of Canada.

History: S. 120(2.2) was added by S.C. 2000, c. 19, s. 27(1), applicable to the 1999 and subsequent taxation years.

► 120(3) ◄

(3) Definition of "the individual's income for the year". For the purpose of this section, "the individual's income for the year" means

(*a*) if section 114 applies to the individual in respect of the year, the amount determined under paragraph 114(*a*) in respect of the individual for the year;

(*b*) if the individual was non-resident throughout the year, the individual's taxable income earned in Canada for the year determined without reference to paragraphs 115(1)(*d*) to (*f*);

(*c*) in the case of an individual who is a specified individual in relation to the year, the individual's income for the year computed without reference to paragraph 20(1)(*ww*); and

(*d*) in the case of a SIFT trust, the amount, if any, by which its income for the year determined without reference to this paragraph exceeds its taxable SIFT trust distributions (as defined in subsection 122(3)) for the year.

History: S. 120(3)(*d*) was added by S.C. 2007, c. 29, s. 11(1), deemed to have come into force on October 31, 2006.

Ss. 120(3)(*a*) and (*b*) were amended by S.C. 2001, c. 17, s. 103(3), applicable to the 1998 and subsequent taxation years except that, for taxation years that end before 2000, paragraph 120(3)(*a*) of the Act shall be read as follows:

"(*a*) if section 114 applies to the individual in respect of the year, the amount determined under paragraph 114(*a*) in respect of the individual for the year; and"

For taxation years that end before 2000, paragraph 120(3)(b) of the Act shall be read as follows:

"(*b*) if the individual was non-resident throughout the year, the individual's taxable income earned in Canada for the year determined without reference to paragraphs 115(1)(*d*) to (*f*)."

Ss. 120(3)(*a*) and (*b*) formerly read:

"(*a*) in the case of an individual to whom section 114 applies who was resident in Canada during part of the year and during some other part of the year was not resident in Canada, the amount that would be determined under that section to be the individual's taxable income for the year if that section were read without reference to the words following paragraph 114(*b*);

(*b*) in the case of an individual to whom section 115 applies who was not resident in Canada at any time in the taxation year, the amount that would be determined under Division D to be the individual's taxable income for the year if subsection 115(1) were read without reference to the words following paragraph 115(1)(*c*); and"

S. 120(3)(*c*) was added by S.C. 2000, c. 19, s. 27(3), applicable to the 2000 and subsequent taxation years.

S. 120(3), the portion before paragraph (*a*) was amended by S.C. 2000, c. 19, s. 27(2), applicable to the 2000 and subsequent taxation years. S. 120(3), the portion before paragraph (*a*) formerly read:

"(3) *Definition of 'the individual's income for the year'.* In subsections (1) and (2), 'the individual's income for the year' means"

Related Sections: S. 120.4(1), "specified individual"; s. 122.1(1), "SIFT trust".

► 120(3.1) ◄

(3.1) Additional deduction from tax. [Repealed by 1986, c. 6, s. 66(1).]

► 120(4) ◄

(4) Definitions. In this section,

"income earned in the year in a province" — "income earned in the year in a province" means amounts determined under rules prescribed for the purpose of regulations made on the recommendation of the Minister of Finance;

Regulations: 2600–2607.
Interpretation Bulletins: *Secondary* — IT-434R Rental of real property by individual.

"province" — [Repealed by 1980-81-82-83, c. 48, s. 66(2).]

"tax otherwise payable under this Part" — "tax otherwise payable under this Part" by an individual for a taxation year means the total of

(*a*) the greater of

(i) the individual's minimum amount for the year determined under section 127.51, and

(ii) the amount that, but for this section, would be the individual's tax payable under this Part for the year if this Part were read without reference to

(A) subsection 117(2.1), section 119, subsection 120.4(2) and sections 126, 127, 127.4 and 127.41, and

(B) where the individual is a specified individual in relation to the year, section 121 in its application to dividends included in computing the individual's split income for the year, and

(*b*) where the individual is a specified individual in relation to the year, the amount, if any, by which

(i) 29% of the individual's split income for the year exceeds

(ii) the total of all amounts each of which is an amount that may be deducted under section 121 and that can reasonably be considered to be in respect of a dividend included in computing the individual's split income for the year.

History: S. 120(4), clause (*a*)(ii)(A) of the definition "tax otherwise payable under this Part" was replaced by S.C. 2007, c. 35, s. 40(1), applicable to the 2008 and subsequent taxation years. S. 120(4), clause (*a*)(ii)(A) of the definition "tax otherwise payable under this Part" formerly read:

"(A) section 119, subsection 120.4(2) and sections 126, 127, 127.4 and 127.41, and"

S. 120(4), clause (*a*)(ii)(A) of the definition "tax otherwise payable under this Part" was amended by S.C. 2001, c. 17, s. 103(4), applicable to the 1996 and subsequent taxation years except that, in its application to taxation years that end before 2000, subsection (4) shall be read as follows:

"(4) Paragraph (*b*) of the definition 'tax otherwise payable under this Part' in subsection 120(4) of the Act is replaced by the following:

(*b*) the amount that, but for this section and subsection 117(6), would be the tax payable under this Part by the individual for the year if this Part were read without reference to any of sections 119, 126, 127 and 127.4."

S. 120(4), clause (*a*)(ii)(A) of the definition "tax otherwise payable under this Part" formerly read:

"(A) subsection 120.4(2) and sections 126, 127, 127.4 and 127.41, and"

S. 120(4), the definition "tax otherwise payable under this part" was amended by S.C. 2000, c. 19, s. 27(4), applicable to the 2000 and subsequent taxation years. S. 120(4), the definition "tax otherwise payable under this part" formerly read:

"*'tax otherwise payable under this Part'* — 'tax otherwise payable under this Part' for an individual for a taxation year means the greater of

(*a*) the amount, if any, by which the total of

(i) the individual's minimum amount for the year determined under section 127.51, and

(ii) any amount required under subsection 120.1(2) to be added to the tax payable by the individual for the year under this Part,

exceeds any amount that may be deducted under subsection 120.1(1) from the tax payable by the individual for the year under this Part, and

(*b*) the amount that, but for this section and subsection 117(6), would be the tax payable under this Part by the individual for the year if this Part were read without reference to any of sections 126, 127 and 127.4."

S. 120(4), paragraph (*b*) of the definition "tax otherwise payable under this Part" was amended by S.C. 1999, c. 22, s. 43(1), applicable to the 1998 and subsequent taxation years. S. 120(4), paragraph (*b*) of the definition "tax otherwise payable under this Part" formerly read:

"(*b*) the amount that, but for this section and subsection 117(6), would be the tax payable under this Part by the individual for the year if the individual were not entitled to any deduction under any of sections 126, 127, 127.2 and 127.4."

Related Sections: S. 2(2) Taxable income; s. 248(1), "amount", "individual", "prescribed", "province", "regulation"; ITAR s. 40(1) Payments out of pension funds, etc.; s. 40(2) Employee not resident in Canada; s. 40(3) Determination of amount of payment.

SECTION 120.1: Forward averaging credit. [Repealed by S.C. 2000, c. 19, s. 28(1).]

History: S. 120.1 was repealed by S.C. 2000, c. 19, s. 28(1), applicable to the 1998 and subsequent taxation years. S. 120.1(1) formerly read:

"S. 120.1. *Forward averaging credit*

(1) There may be deducted from the amount that would, but for this section, be the tax otherwise payable under this Part (other than the tax payable with respect to a return of income referred to in subsection 110.4(5)) by an individual for a taxation year an amount equal to the product obtained when

(*a*) the amount specified in the individual's election for the year under subsection 110.4(2) and, where the individual's legal representative has filed on the individual's behalf an election under subsection (2) for the year, the individual's accumulated averaging amount at the end of the year

is multiplied by

(*b*) the percentage referred to in paragraph 117(2)(*c*).

(2) *Year of death.* Where an individual dies in a taxation year before 1998 (and is resident in Canada at the time of death) and the individual's legal representative files with the individual's return of income (other than a return of income referred to in subsection 110.4(5)) for the year an election in prescribed form on or before the day on or before which the return is required to be filed, there shall be added to the amount that would, but for this section, be the individual's tax payable for the year under this Part with respect to the return of income an amount equal to the amount, if any, by which

(*a*) the total of the taxes that would have been payable by the individual under this Part for the three immediately preceding taxation years if the individual's taxable income otherwise determined for each of those years were increased by 1/3 of the individual's accumulated averaging amount at the end of the year in which the individual died and if this Part were read without reference to sections 119 to 127.3

exceeds

(*b*) the total of the taxes that would have been payable by the individual under this Part for the three immediately preceding taxation years if this Part were read without reference to sections 119 to 127.3.

(3) *Deduction and additions.* Each amount deducted or added under subsection (1) or (2) in computing the tax payable under this Part by an individual for a taxation year shall, notwithstanding those subsections, be equal to the total of

(*a*) the amount that would, but for this subsection, be determined for the year under subsection (1) or (2), as the case may be, and

(*b*) an amount equal to that proportion of 52% of the amount referred to in paragraph (*a*) that

(i) the individual's income for the year, other than the individual's income earned in the year in a province,

is of

(ii) the individual's income for the year.

(4) *Presumption.* Where the amount deductible by an individual under subsection (1) exceeds the amount that would, but for that subsection, be the individual's tax otherwise payable under this Part for the year, the excess shall be deemed to be an amount paid by the individual, on the day the individual was required to file the election under subsection 110.4(2), on account of the individual's tax for the year under this Part.

(5) *Reduction.* Notwithstanding subsection (4), the amount of the excess referred to in that subsection shall be reduced by an amount equal to that proportion of 16.5% of the amount of the excess that

(*a*) the individual's income earned in the year in a province that, on January 1, 1973, was a province providing schooling allowances (within the meaning of the *Youth Allowances Act*, chapter Y-1 of the Revised Statutes of Canada, 1970)

is of

(*b*) the individual's income for the year.

(6) *Individual not resident.* Where an individual was not resident in Canada throughout the taxation years referred to in paragraph (2)(*b*), the amount determined under that paragraph shall be equal to the amount that would have been so determined if the individual had been resident in Canada throughout those years and the individual's incomes for those years had been from sources in Canada.

(7) *Application.* This section does not apply to an individual described in subsection (6) unless the individual's legal representatives have, on or before the day on or before which they were required to file the individual's return of income under this Part for the taxation year in which the individual died (or would have been required to file such a return had tax been payable by the individual under this Part for the year), filed a return of the individual's income for each of the three taxation years referred to in paragraph (2)(*b*) in the same form and containing the same information as the return that the individual, or legal representatives, would have been required to file under this Part if the individual had been resident in Canada throughout each of those three years and if tax had been payable by the individual under this Part for each of those three years.

(8) *Amount required to be included.* Where an amount is required by virtue of this section to be included in computing the individual's tax otherwise payable under this Part for a taxation year, the references in subsection 120(1) and section 121 of this Act and subsection 120(3.1) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, to 'the tax otherwise payable under this Part' shall be read as references to 'the amount that would, but for section 120.1, be the tax otherwise payable under this Part'."

S. 120.1(3)(*b*), that portion preceding subparagraph (i), was amended by S.C. 1994, c. 7, Sched. II, s. 97(1), applicable to the 1989 and subsequent taxation years, except that, for the 1989 taxation year, the reference to "52%" in paragraph 120.1(3)(*b*) shall be read as a reference to "49.5%". S. 120.1(3)(*b*), that portion preceding subparagraph (i), formerly read:

"(*b*) an amount equal to that proportion of 47% of the amount referred to in paragraph (*a*) that"

Related Sections: S. 110.4 Forward averaging; s. 127.5 Obligation to pay minimum tax.

SECTION 120.2:

► 120.2(1) ◄

(1) Minimum tax carry-over. There may be deducted from the amount that, but for this section, section 120 and subsection 120.4(2), would be an individual's tax payable under this Part for a particular taxation year such amount as the individual claims not exceeding the lesser of

(*a*) the portion of the total of the individual's additional taxes determined under subsection (3) for the 7 taxation years immediately preceding the particular year that was not deducted in computing the individual's tax payable under this Part for a taxation year preceding the particular year, and

(*b*) the amount, if any, by which

(i) the amount that, but for this section, section 120 and subsection 120.4(2), would be the individual's tax payable under this Part for the particular year if the individual were not entitled to any deduction under any of sections 126, 127 and 127.4

exceeds

(ii) the individual's minimum amount for the particular year determined under section 127.51.

History: S. 120.2(1)(*b*)(i) was amended by S.C. 2000, c. 19, s. 29(2), applicable to the 2000 and subsequent taxation years. S. 120.2(1)(*b*)(i) formerly read:

"(i) the amount that, but for this section, subsection 117(6), sections 120 and 120.1, would be the individual's tax payable under this Part for the particular year if the individual were not entitled to any deduction under any of sections 126, 127 and 127.2 to 127.4"

S. 120.2(1), the portion before paragraph (*a*) was amended by S.C. 2000, c. 19, s. 29(1), applicable to the 2000 and subsequent taxation years. S. 120.2(1), the portion before paragraph (*a*) formerly read:

"(1) There may be deducted from the amount that, but for this section and sections 120 and 120.1, would be the tax payable under this Part by an individual for a particular taxation year such amount as the individual may claim not exceeding the lesser of"

► 120.2(2) ◄

(2) Death of individual. [Repealed by 1988, c. 55, s. 95(1).]

► 120.2(3) ◄

(3) Additional tax determined. For the purposes of subsection (1), additional tax of an individual for a taxation year is the amount, if any, by which

(*a*) the individual's minimum amount for the year determined under section 127.51

exceeds the total of

(*b*) the amount that, but for section 120 and subsection 120.4(2), would be the individual's tax payable under this Part for the year if the individual were not entitled to any deduction under any of sections 126, 127 and 127.4, and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 120.2(3)(*b*) of the Act is replaced by the following:

(*b*) the amount that, if this Act were read without reference to section 120, would be the individual's tax payable under this Part for the year if the individual were not entitled to any deduction under any of sections 126, 127 and 127.4, and

Applicable: To the 2000 and subsequent taxation years.

Explanatory Note: Section 120.2 of the Act allows an individual to apply additional taxes, imposed for a given year under the minimum tax in section 127.5 of the Act, against the individual's ordinary Part I tax liability for following years. Paragraph 120.2(3)(*b*) is amended to remove the reference in that paragraph to subsection 120.4(2). This amendment ensures that an individual's additional tax in respect of the minimum tax does not include the special 29% tax imposed under section 120.4 on certain passive income of minors.

This amendment applies to the 2000 and subsequent taxation years.

(*c*) that proportion of the amount, if any, by which

(i) the individual's special foreign tax credit for the year determined under section 127.54

exceeds

(ii) the total of all amounts deductible under section 126 from the individual's tax for the year

that

(iii) the amount of the individual's foreign taxes for the year within the meaning assigned by subsection 127.54(1)

is of

(iv) the amount that would be the individual's foreign taxes for the year within the meaning assigned by subsection 127.54(1) if the definition "foreign taxes" in that subsection were read without reference to "2/3 of".

History: S. 120.2(3)(*b*) was amended by S.C. 2000, c. 19, s. 29(3), applicable to the 2000 and subsequent taxation years. S. 120.2(3)(*b*) formerly read:

"(*b*) the amount that, but for subsection 117(6) and sections 120 and 120.1, would be the tax payable by the individual under this Part for the year if the individual were not entitled to any deduction under any of sections 126, 127 and 127.2 to 127.4, and"

► 120.2(4) ◄

(4) Where subsection (1) does not apply. Subsection (1) does not apply in respect of an individual's return of income filed under subsection 70(2), paragraph 104(23)(d) or 128(2)(f) or subsection 150(4).

History: S. 120.4(4) was amended by S.C. 2001, c. 17, s. 104(1), applicable to the 1996 and subsequent taxation years. S. 120.4(4) formerly read:

"(4) *Where s. (1) does not apply.* Subsection (1) does not apply in respect of

(*a*) an individual's return of income filed under subsection 70(2), paragraph 104(23)(*d*) or 128(2)(*f*) or subsection 150(4); or

(*b*) a taxation year of an individual in respect of which the individual has made an election under section 119."

S. 120.2(4)(*a* was amended by S.C. 1998, c. 19, s. 137(1), applicable to taxation years that begin after April 26, 1995. S. 120.2(4)(*a*) formerly read:

"(*a*) a return of income of an individual filed under subsection 70(2), paragraph 104(23)(*d*) or 128(2)(*e*) or subsection 150(4); or"

SECTION 120.3: CPP/QPP disability benefits [and other CPP/QPP benefits] for previous years.

There shall be added in computing an individual's tax payable under this Part for a particular taxation year the total of all amounts each of which is the amount, if any, by which

(*a*) the amount that would have been the tax payable under this Part by the individual for a preceding taxation year if that portion of any amount not included in computing the individual's income for the particular year because of subsection 56(8) and that relates to the preceding year had been included in computing the individual's income for the preceding year

exceeds

(*b*) the tax payable under this Part by the individual for the preceding year.

History: S. 120.3 was added by S.C. 1994, c. 7, Sched. II, S. 98(1), applicable to the 1990 and subsequent taxation years.

Lump-sum Payments

SECTION 120.31:

► 120.31(1) ◄

(1) Definitions. The definitions in subsection 110.2(1) apply in this section.

History: S. 120.31(1) was added by S.C. 2000, c. 19, s. 30(1), applicable to the 1995 and subsequent taxation years and, notwithstanding subsections 152(4) to (5) of the Act, any assessment of an individual's tax payable under the Act for any taxation year that ended before 1999 shall be made as is necessary to take into account the application of that section 120.31.

► 120.31(2) ◄

(2) Addition to tax payable. There shall be added in computing an individual's tax payable under this Part for a particular taxation year the total of all amounts each of which is the amount, if any, by which

(*a*) the individual's notional tax payable for an eligible taxation year to which a specified portion of a qualifying amount received by the individual relates and in respect of which an amount is deducted under section 110.2 in computing the individual's taxable income for the particular year

exceeds

(*b*) the individual's tax payable under this Part for the eligible taxation year.

History: S. 120.31(2) was added by S.C. 2000, c. 19, s. 30(1), applicable to the 1995 and subsequent taxation years and, notwithstanding subsections 152(4) to (5) of the Act, any assessment of an individual's tax payable under the Act for any taxation year that ended before 1999 shall be made as is necessary to take into account the application of that section 120.31.

► 120.31(3) ◄

(3) Notional tax payable. For the purpose of subsection (2), an individual's notional tax payable for an eligible taxation year, calculated for the purpose of computing the individual's tax payable under this Part for a taxation year (in this subsection referred to as "the year of receipt") in which the individual received a qualifying amount, is the total of

(*a*) the amount, if any, by which

(i) the amount that would be the individual's tax payable under this Part for the eligible taxation year if the total of all amounts, each of which is the specified portion, in relation to the eligible taxation year, of a qualifying amount received by the individual before the end of the year of receipt, were added in computing the individual's taxable income for the eligible taxation year

exceeds

(ii) the total of all amounts each of which is an amount, in respect of a qualifying amount received by the individual before the year of receipt, that was included because of this paragraph in computing the individual's notional tax payable under this Part for the eligible taxation year, and

(*b*) where the eligible taxation year ended before the taxation year preceding the year of receipt, an amount equal to the amount that would be calculated as interest payable on the amount determined under paragraph (*a*) if it were so calculated

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of paragraph 120.31(3)(*b*) of the Act before subparagraph (i) is replaced by the following:

(*b*) if the eligible taxation year ended before the taxation year preceding the year of receipt, an amount equal to the amount that would be calculated as interest payable on the amount, if any, by which the amount determined under paragraph (*a*) in respect of the eligible taxation year exceeds the taxpayer's tax payable under this Part for that year, if the amount that would be calculated as interest payable on that excess were calculated

Applicable: To the 1995 and subsequent taxation years.

Explanatory Note: Section 120.31 of the Act provides for the calculation of the tax payable on certain lump-sum payments. The amount of the tax is equal to the total of the additional taxes that would be payable for each relevant taxation year if the portion of the lump-sum payment that relates to that preceding year were added to the individual's taxable income for that year.

A notional amount of interest (using the rate of interest on tax refunds applicable to the relevant period) is added to the additional tax to take into account the fact that the calculation of the tax on the lump-sum payment should reflect not only the additional tax that would have been payable had the payment been received on an on-going basis, but also the fact that this additional tax was not paid during those preceding years.

The amendment to paragraph 120.31(3)(*b*) clarifies that the notional amount of interest is calculated on the amount of the additional tax for each relevant previous year and not on the whole tax payable for that year. This amendment applies to the 1995 and subsequent taxation years.

(i) for the period that began on May 1 of the year following the eligible taxation year and that ended immediately before the year of receipt, and

(ii) at the prescribed rate that is applicable for the purpose of subsection 164(3) with respect to the period.

History: S. 120.31(3) was added by S.C. 2000, c. 19, s. 30(1), applicable to the 1995 and subsequent taxation years and, notwithstanding subsections 152(4) to (5) of the Act, any assessment of an individual's tax payable under the Act for any taxation year that ended before 1999 shall be made as is necessary to take into account the application of that section 120.31.

Cases: The full amount of a lump sum settlement was included in income in the year of receipt since applying sections 110.2 and 120.31 would result in greater tax owing than the tax owing by bringing the full amount into income in the one year. *Milliken v. The Queen*, 2002 DTC 1510 (T.C.C.).

Tax on Split Income

SECTION 120.4: [Kiddie tax].

► 120.4(1) ◄

(1) Definitions. The definitions in this subsection apply in this section.

History: S. 120.4(1) was added by S.C. 2000, c. 19, s 30(1), applicable to the 2000 and subsequent taxation years.

Related Sections: S. 74.5(13) Exception from attribution rules.
Tax Profile: February 2003 — Kiddie Tax-Proposed Amendment.
Canadian Tax Foundation: Donnelly, Magee, and Young, "Income Splitting and the New Kiddie Tax: Major Changes for Minor Children", *2000 Canadian Tax Journal*, No. 4, 979.

"excluded amount" — "excluded amount", in respect of an individual for a taxation year, means an amount that is the income from a property acquired by or for the benefit of the individual as a consequence of the death of

(*a*) a parent of the individual; or

(*b*) any person, if the individual is

(i) enrolled as a full-time student during the year at a post-secondary educational institution (as defined in subsection 146.1(1)), or

(ii) an individual in respect of whom an amount may be deducted under section 118.3 in computing a taxpayer's tax payable under this Part for the year.

History: S. 120.4(1), the definition "excluded amount" was added by S.C. 2000, c. 19, s 30(1), applicable to the 2000 and subsequent taxation years.

"specified individual" — "specified individual", in relation to a taxation year, means an individual who

(*a*) had not attained the age of 17 years before the year;

(*b*) at no time in the year was non-resident; and

(*c*) has a parent who is resident in Canada at any time in the year.

History: S. 120.4(1), the definition "specified individual" was added by S.C. 2000, c. 19, s 30(1), applicable to the 2000 and subsequent taxation years.

"split income" — "split income", of a specified individual for a taxation year, means the total of all amounts (other than excluded amounts) each of which is

(*a*) an amount required to be included in computing the individual's income for the year

(i) in respect of taxable dividends received by the individual in respect of shares of the capital stock of a corporation (other than shares of a class listed on a designated stock exchange or shares of the capital stock of a mutual fund corporation), or

(ii) because of the application of section 15 in respect of the ownership by any person of shares of the capital stock of a corporation (other than shares of a class listed on a designated stock exchange),

(*b*) a portion of an amount included because of the application of paragraph 96(1)(*f*) in computing the individual's income for the year, to the extent that the portion

(i) is not included in an amount described in paragraph (*a*), and

(ii) can reasonably be considered to be income derived from the provision of goods or services by a partnership or trust to or in support of a business carried on by

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subparagraph (*b*)(ii) of the definition "split income" in subsection 120.4(1) of the English version of the Act before clause (A) is replaced by the following:

(ii) can reasonably be considered to be income derived from the provision of property or services by a partnership or trust to, or in support of, a business carried on by

Applicable: In computing split income of a specified individual for taxation years that begin after December 20, 2002, other than in computing an amount included in that income that is from a trust or partnership for a taxation year or fiscal period of the trust or partnership that began before December 21, 2002.

Explanatory Note: Section 120.4 of the Act provides a special 29% tax applicable to certain passive income of individuals under the age of 18. These tax on split income rules were first proposed in the 1999 Budget Plan. At the time, the Government indicated that it "would monitor the effectiveness of this targeted measure, and may take appropriate action if new income-splitting techniques develop".

Subsection 120.4(1) — Definitions

"split income"

The expression "split income" describes the type of income to which this measure applies.

Among other things, split income of an individual includes all amounts (other than excluded amounts) required to be included in the individual's income in respect of partnership or trust income if the source of the income is the provision of goods or services by the partnership or trust to, or in support of, a business carried on by

- a person who is related to the individual,
- a corporation of which a person who is related to the individual is a specified shareholder, or
- a professional corporation of which a person related to the individual is a shareholder.

The phrase "goods or services" in the English version of subparagraph (*b*)(ii) and clause (*c*)(ii)(C) in the definition "split income" is replaced by the phrase "property or services". This ensures that the split income rules will apply to income from property, such as rental income. This change applies in computing the split income of a specified individual for taxation years that begin after December 20, 2002, other than in computing an amount included in that income that is from a trust or partnership for a fiscal period or taxation year of the trust or partnership that began before December 21, 2002. Also see the commentary to subsection 160(1.2) of the Act, which is amended consequential to this amendment.

(A) a person who is related to the individual at any time in the year,

(B) a corporation of which a person who is related to the individual is a specified shareholder at any time in the year, or

(C) a professional corporation of which a person related to the individual is a shareholder at any time in the year, or

(*c*) a portion of an amount included because of the application of subsection 104(13) or 105(2) in respect of a trust (other than a mutual fund trust) in

computing the individual's income for the year, to the extent that the portion

(i) is not included in an amount described in paragraph (*a*), and

(ii) can reasonably be considered

(A) to be in respect of taxable dividends received in respect of shares of the capital stock of a corporation (other than shares of a class listed on a designated stock exchange or shares of the capital stock of a mutual fund corporation),

(B) to arise because of the application of section 15 in respect of the ownership by any person of shares of the capital stock of a corporation (other than shares of a class listed on a designated stock exchange), or

(C) to be income derived from the provision of goods or services by a partnership or trust to or in support of a business carried on by

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of clause (*c*)(ii)(C) of the definition "split income" in subsection 120.4(1) of the English version of the Act before subclause (I) is replaced by the following:

(C) to be income derived from the provision of property or services by a partnership or trust to, or in support of, a business carried on by

Applicable: In computing split income of a specified individual for taxation years that begin after December 20, 2002, other than in computing an amount included in that income that is from a trust or partnership for a taxation year or fiscal period of the trust or partnership that began before December 21, 2002.

Explanatory Note: See the Explanatory Note following the amendment to the portion of subparagraph (*b*)(ii) of the definition "split income" in subsection 120.4(1) before clause (A).

(I) a person who is related to the individual at any time in the year,

(II) a corporation of which a person who is related to the individual is a specified shareholder at any time in the year, or

(III) a professional corporation of which a person related to the individual is a shareholder at any time in the year.

History: S. 120.4(1), subparagraphs (*a*)(i) and (ii) and clauses (*c*)(ii)(A) and (B) of the definition "split income" were amended by S.C. 2007, c. 35, s. 68(2), by replacing "prescribed stock exchange" with "designated stock exchange", applicable on and after December 14, 2007 [the day on which this Act is assented to].

S. 120.4(1), the definition "split income" was added by S.C. 2000, c. 19, s 30(1), applicable to the 2000 and subsequent taxation years.

Related Sections: S. 20(1)(*ww*) Split income; s. 74.4(2)(*g*) Transfers and loans to corporations; s. 89(1), "taxable dividend".

► 120.4(2) ◄

(2) Tax on split income. There shall be added to a specified individual's tax payable under this Part for a taxation year 29% of the individual's split income for the year.

History: S. 120.4(2) was added by S.C. 2000, c. 19, s 30(1), applicable to the 2000 and subsequent taxation years.

Editorial Note: The "kiddie tax" imposes tax at the highest marginal tax rate (29%) on "split income", as defined in subsection 120.4(1), and is aimed at individuals who have not reached the age of 18 in the year (see the definition of "specified individual" in subsection 120.4(1)). Split income of a specified individual includes:

(a) taxable dividends and other shareholder benefits on unlisted shares of Canadian and foreign companies (this, of course, is intended to eliminate dividend splitting for private corporations);

(b) income from a partnership that can reasonably be considered to be income derived from the provision of property or services by a partnership or trust to or in support of a business carried on by:

(A) a person who is related to the individual at any time of the year,

(B) a corporation of which a person who is related to the individual is a specified shareholder at any time in the year, or

(C) a professional corporation of which a person related to the individual is a shareholder at any time in the year;

(c) income from a trust in respect of items mentioned in (a) or the provision of property or services by a partnership or trust by the persons mentioned in (b) (A) – (C).

Apart from the foreign tax credit, there are no deductions from split income, such as the basic personal exemption. "Excluded amounts" — certain income from property acquired as a consequence of death — are excluded from split income, per subsection 120.4(1). Amounts included in a child's split income are deducted from regular Part I income (paragraph 20(1)(*ww*)) and are excluded from various attribution rules under the Act (see subsections 56(5), 74.5(13) and paragraph 74.4(2)(*g*)). Parents may have joint and several liability for tax on split income, per subsection 160(1.2).

Generally (other than as mentioned above), there is no "relationship" requirement, such as the specified individual being a child or grandchild, nor is there an exception for minors who actually run the business independently of adults.

Obviously, the kiddie tax is targeted toward incorporated business (as well as professionals with management structures, e.g., where a minor receives income from a partnership or trust which renders services to a firm in which the minor's relative is a member). However, there is no across-the-board clamp down on income splitting. For example, it is still possible to have investments owned by children in order to split capital gains on portfolio investments. Nor is income from employment or personal services of a minor subject to the kiddie tax. However, other provisions, notably the "attribution rules" (e.g., subsection 74.1(2)) may be applicable.

Related Sections: S. 20(1)(*ww*) Split income; s. 56(5) Exception for split income; s. 74.4(2)(*g*) Transfers and loans to corporations; s. 74.5(13) Exception from attribution rules; s. 89(1), "taxable dividend"; s. 104(1), "trust"; s. 108(5) Interpretation; s. 120.2(1) Minimum tax carry-over; s. 127.5 Obligation to pay minimum tax; s. 131(8), "mutual fund corporation"; s. 132(6), "mutual fund trust"; s. 132(7), "mutual fund trust"; s. 146.1(1), "post-secondary educational institution"; s. 160(1.2) Joint liability — tax on split income; s. 248(1), "mutual fund corporation", "mutual fund trust", "professional corporation", "specified shareholder", "trust"; s. 248(3), "trust"; s. 248(8), "consequence of the death"; s. 248(29), "prescribed stock exchange"; s. 252(2), "parent". (See also the "attribution rules", including sections 74.1 Transfers and loans to spouse; s. 74.2 Gain or loss deemed that of lender or transferor; s. 74.3 Transfers or loans to a trust; s. 74.4 Transfers and loans to corporations; s. 74.5 Transfers for fair market consideration; s. 75(2) Trusts).

Forms: T1206.

Tax Profile: February 2008 — Income Splitting A–Z

► 120.4(3) ◄

(3) Tax payable by a specified individual. Notwithstanding any other provision of this Act, where an individual is a specified individual in relation to a taxation year, the individual's tax payable under this Part for the year shall not be less than the amount by which

(*a*) the amount added under subsection (2) to the individual's tax payable under this Part for the year

exceeds

(*b*) the total of all amounts each of which is an amount that

(i) may be deducted under section 121 or 126 in computing the individual's tax payable under this Part for the year, and

(ii) can reasonably be considered to be in respect of an amount included in computing the individual's split income for the year.

History: S. 120.4(3) was added by S.C. 2000, c. 19, s 30(1), applicable to the 2000 and subsequent taxation years.

SECTION 121: Deduction for taxable dividends.

There may be deducted from the tax otherwise payable under this Part by an individual for a taxation year the total of

(*a*) 2/3 of the amount, if any, that is required by subparagraph 82(1)(*b*)(i) to be included in computing the individual's income for the year; and

(*b*) the product of the amount, if any, that is required by subparagraph 82(1)(*b*)(ii) to be included in computing the individual's income for the year multiplied by

(i) for the 2009 taxation year, 11/18,

(ii) for the 2010 taxation year, 10/17,

(iii) for the 2011 taxation year, 13/23, and

(iv) for taxation years after 2011, 6/11.

Editorial Note: See the editorial note under subsection 82(1).

History: S. 121(*b*) was replaced by S.C. 2008, c. 28, s. 17(1), applicable to the 2009 and subsequent taxation years. S. 121(*b*) formerly read:

"(*b*) 11/18 of the amount, if any, that is required by subparagraph 82(1)(*b*)(ii) to be included in computing the individual's income for the year."

S. 121 was replaced by S.C. 2007, c. 2, s. 48(1), applicable to dividends paid after 2005.

S. 121 formerly read:

"S. 121. *Deduction for taxable dividends.* There may be deducted from the tax otherwise payable under this Part by an individual for a taxation year 2/3 of any amount that is required by paragraph 82(1)(*b*) to be included in computing the individual's income for the year."

Related Sections: S. 56(8) CPP/QPP and UCCB benefits for previous years; s. 82(2) Certain dividends received by taxpayer; s. 89(1), "taxable dividends"; s. 126(7) Definitions; s. 248(1), "amount", "individual"; ITAR s. 40(1) Payments out of pension funds, etc.; 40(2) Employee not resident in Canada.

Interpretation Bulletins: *Secondary* — IT-379R Employees Profit Sharing Plan — Allocations to Beneficiaries; IT-67R3 Taxable dividends from corporations resident in Canada; IT-295R4 Taxable dividends received after 1987 by a spouse; IT-524 Trusts — Flow-through of taxable dividends to a beneficiary — After 1987.

Tax Topics: No. 1809, New Tax on Income Trusts and Public Partnerships, Trick or treat — a taxing announcement.

Tax Profile: October 2006 — New Rules for the Taxation of Dividends.

SECTION 122:

► 122(1) ◄

(1) Tax payable by *inter vivos* trust. Notwithstanding section 117, the tax payable under this Part for a taxation year by an *inter vivos* trust is the total of

(*a*) 29% of its amount taxable for the taxation year, and

(*b*) if the trust is a SIFT trust for the taxation year, the positive or negative amount determined by the formula

$$A \times B$$

where

A is the positive or negative decimal fraction determined by the formula

$$C + D - E$$

where

C is the net corporate income tax rate in respect of the SIFT trust for the taxation year,

D is the provincial SIFT tax rate of the SIFT trust for the taxation year, and

E is the decimal fraction equivalent of the percentage rate of tax provided in paragraph (*a*) for the taxation year, and

B is the SIFT trust's taxable SIFT trust distributions for the taxation year.

History: S. 122(1), the description of D was replaced by S.C. 2008, c. 28, s. 18(1), applicable to the 2009 and subsequent taxation years, except that it also applies for a SIFT trust's earlier taxation year if the definition "provincial SIFT tax rate" in subsection 248(1), applies to that earlier taxation year. S. 122(1), the description of D formerly read:

"D is the provincial SIFT tax factor for the taxation year, and"

S. 122(1) was replaced by S.C. 2007, c. 29, s. 12(1), deemed to have come into force on October 31, 2006. S. 122(1) formerly read:

"S. 122. (1) *Tax payable by inter vivos trust.* Notwithstanding section 117, the tax payable under this Part by an *inter vivos* trust on its amount taxable for a taxation year shall be 29% of its amount taxable for the year."

Related Sections: S. 104(1) Reference to trust or estate; s. 104(6) Deduction in computing income of trust; s. 104(16) SIFT deemed dividend; s. 108(1), "beneficiary", "inter vivos trust"; s. 122.1(1), "SIFT trust"; s. 132(6) Meaning of "mutual fund trust"; s. 146.1(11) Trust deemed to be inter vivos trust; s. 248(1), "active business", "net corporate income tax rate", "property", "provincial tax factor", "provincial SIFT tax rate".

Interpretation Bulletins: *Secondary* — IT-83R3 Non-profit organizations — Taxation of income from property; IT-406R2 Tax payable by an *inter vivos* trust.

Tax Profile: September 2007 — U.S. and Canadian Tax Considerations in Acquiring Canadian Income Trusts; June 2007 — Canadian Income Trusts for Sale; January 2007 — Canadian Income Trusts — Guidance on Normal Growth Released; December 2006 — Major Changes to the Taxation of Income Trusts and Certain Flow-Through Entities.

► 122(1.1) ◄

(1.1) Deductions not permitted. No deduction may be made under section 118 in computing the tax payable by a trust for a taxation year.

► 122(2) ◄

(2) Where s. (1) does not apply. Subsection (1) is not applicable for a taxation year of an *inter vivos* trust other than a mutual fund trust if the trust

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 122(2) of the Act before paragraph (*a*) is replaced by the following:

(2) Where subsection (1) does not apply. Subsection (1) does not apply for a taxation year of an *inter vivos* trust that is not a mutual fund trust and that

Applicable: To trust taxation years that begin after 2002.

Explanatory Note: See the Explanatory Note following the addition of paragraph 122(2)(*d*.1).

(*a*) was established before June 18, 1971;

(*b*) was resident in Canada on June 18, 1971 and without interruption thereafter until the end of the year;

(*c*) did not carry on any active business in the year;

(*d*) has not received any property by way of gift since June 18, 1971;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 122(2) of the Act is amended by adding the following after paragraph (*d*):

(*d*.1) was not a trust to which a contribution (as defined by section 94 as it reads for trust taxation years that begin in 2007) was made after June 22, 2000;

Applicable: To trust taxation years that begin after 2002.

Explanatory Note: Subsection 122(1) of the Act provides that, instead of graduated income tax rates, *inter vivos* trusts are generally subject to top marginal rates of income tax on their undistributed income. Subsection 122(2), which does not apply to mutual fund trusts, permits graduated income tax rates for certain *inter vivos* trusts established before June 18, 1971. One of the conditions for an *inter vivos* trust continuing to qualify for graduated income tax rates is that it not receive any gifts after June 18, 1971.

The opening words of subsection 122(2) are amended to modernize the language and to clarify its intended scope.

Paragraph 122(2)(*d*.1) is introduced so that the graduated income tax rates cease to apply to a trust in the event that, after June 22, 2000, a "contribution" is made to the trust. For this purpose, the expression "contribution" is defined in new section 94.

This amendment applies to trust taxation years that begin after 2002.

(*e*) has not, after June 18, 1971, incurred

(i) any debt, or

(ii) any other obligation to pay an amount,

to, or guaranteed by, any person with whom any beneficiary of the trust was not dealing at arm's length, and

(*f*) has not received any property after December 17, 1999, where

(i) the property was received as a result of a transfer from another trust,

(ii) subsection (1) applied to a taxation year of the other trust that began before the property was so received, and

(iii) no change in the beneficial ownership of the property resulted from the transfer.

History: S. 122(2)(*f*) was added by S.C. 2001, c. 17, s. 122(2), applicable to the 1999 and subsequent taxation years.

Related Sections: S. 104(1) Reference to trust or estate; s. 108(1), "inter vivos trust", "trust"; s. 132(6) Meaning of "mutual fund trust".
Interpretation Bulletins: *Primary* — IT-406R2 Tax payable by an *inter vivos* trust.

► 122(3) ◄

(3) Definitions. The following definitions apply in this section.

"*non-deductible distributions amount*" — "non-deductible distributions amount" for a taxation year has the meaning assigned by subsection 104(16).

History: S. 122(3), the definition "non-deductible distributions amount" was added by S.C. 2007, c. 29, s. 12(2), deemed to have come into force on October 31, 2006.

"*taxable SIFT trust distributions*" — "taxable SIFT trust distributions", of a SIFT trust for a taxation year, means the lesser of

(*a*) its amount taxable for the taxation year, and

(*b*) the amount determined by the formula

$$A/(1 - (B + C))$$

where

A is its non-deductible distributions amount for the taxation year,

B is the net corporate income tax rate in respect of the SIFT trust for the taxation year, and

C is the provincial SIFT tax rate of the SIFT trust for the taxation year.

History: S. 122(3), the description of C in the definition "taxable SIFT trust distributions" was replaced by S.C. 2008, c. 28, s. 18(2), applicable to the 2009 and subsequent taxation years, except that it also applies for a SIFT trust's earlier taxation year if the definition "provincial SIFT tax rate" in subsection 248(1), applies to that earlier taxation year. S. 122(3), the description of C in the definition "taxable SIFT trust distributions" formerly read: "C is the provincial SIFT tax factor for the taxation year."

S. 122(3), the definition "taxable SIFT trust distributions" was added by S.C. 2007, c. 29, s. 12(2), deemed to have come into force on October 31, 2006.

SECTION 122.1: [Specified Investment Flow-Through ("SIFT") Trust].

► 122.1(1) ◄

(1) Definitions. The following definitions apply in this section and in sections 104 and 122.

Tax Profile: May 2007 — Income Trusts and REIT Update.
Canadian Tax Foundation: Sherman and Freeman, "The Gift of SIFT", *2007 Conference Report*, 14:1.
Canadian Petroleum Tax Journal: The Sift Rules: An Oil & Gas Perspective, Hegedus, Vol. 20 No. 1 2007.

"*entity*" — "entity" means a corporation, trust or partnership.

History: S. 122.1(1), the definition "entity" was added by S.C. 2007, c. 29, s. 13(1), deemed to have come into force on October 31, 2006.

"*equity*" — "equity", of an entity, means

(*a*) if the entity is a corporation, a share of the capital stock of the corporation;

(*b*) if the entity is a trust, an income or capital interest in the trust;

(*c*) if the entity is a partnership, an interest as a member of the partnership;

(*d*) a liability of the entity (and, for purposes of the definition "publicly-traded liability" in this section, a security of the entity that is a liability of another entity) if

(i) the liability is convertible into, or exchangeable for, equity of the entity or of another entity, or

(ii) any amount paid or payable in respect of the liability is contingent or dependent on the use of or production from property, or is computed by reference to revenue, profit, cash flow, commodity price or any other similar criterion or by reference to dividends paid or payable to shareholders of any class of shares of the capital stock of a corporation, or to income or capital paid or payable to any member of a partnership or beneficiary under a trust; and

(*e*) a right to, or to acquire, anything described in this paragraph and any of paragraphs (*a*) to (*d*).

History: S. 122.1(1), the definition "equity" was added by S.C. 2009, c. 2, s. 36(8), deemed to have come into force on October 31, 2006.

"*equity value*" — "equity value", of an entity at any time, means the total fair market value at that time of

(*a*) if the entity is a corporation, all of the issued and outstanding shares of the capital stock of the corporation;

(*b*) if the entity is a trust, all of the income or capital interests in the trust; or

(*c*) if the entity is a partnership, all of the interests in the partnership.

History: S. 122.1(1), the definition "equity value" was added by S.C. 2007, c. 29, s. 13(1), deemed to have come into force on October 31, 2006.

"*excluded subsidiary entity*" — "excluded subsidiary entity", for a taxation year, means an entity none of the equity of which is at any time in the taxation year

(*a*) listed or traded on a stock exchange or other public market; nor

(*b*) held by any person or partnership other than

(i) a real estate investment trust,

(ii) a taxable Canadian corporation,

(iii) a SIFT trust (determined without reference to subsection (2)),

(iv) a SIFT partnership (determined without reference to subsection 197(8)), or

(v) an excluded subsidiary entity for the taxation year.

History: S. 122.1(1), the definition "excluded subsidiary entity" was added by S.C. 2009, c. 2, s. 36(8), deemed to have come into force on October 31, 2006.

"investment" — "investment", in a trust or partnership,

(*a*) means

(i) a property that is a security of the trust or partnership, or

(ii) a right which may reasonably be considered to replicate a return on, or the value of, a security of the trust or partnership; but

(*b*) does not include

(i) an unaffiliated publicly-traded liability of the trust or partnership, nor

(ii) regulated innovative capital.

History: S. 122.1(1), the definition "investment" was replaced by S.C. 2009, c. 2, s. 36(1), deemed to have come into force on October 31, 2006. S. 122.1(1), the definition "investment" formerly read:

"*investment*" — 'investment', in a trust or partnership, means

(*a*) a property that is a security of the trust or partnership; or

(*b*) a right which may reasonably be considered to replicate a return on, or the value of, a security of the trust or partnership."

S. 122.1(1), the definition "investment" was added by S.C. 2007, c. 29, s. 13(1), deemed to have come into force on October 31, 2006.

"non-portfolio earnings" — "non-portfolio earnings", of a SIFT trust for a taxation year, means the total of

(*a*) the amount, if any, by which

(i) the total of all amounts each of which is the SIFT trust's income for the taxation year from a business carried on by it in Canada or from a non-portfolio property, other than income that is a taxable dividend received by the SIFT trust,

exceeds

(ii) the total of all amounts each of which is the SIFT trust's loss for the taxation year from a business carried on by it in Canada or from a non-portfolio property, and

(*b*) the amount, if any, by which

(i) the total of

(A) all taxable capital gains of the SIFT trust from dispositions of non-portfolio properties during the taxation year, and

(B) one-half of the total of all amounts each of which is deemed under subsection 131(1) to be a capital gain of the SIFT trust for the taxation year in respect of a non-portfolio property of the SIFT trust for the taxation year

exceeds

(ii) the total of the allowable capital losses of the SIFT trust for the taxation year from dispositions of non-portfolio properties during the taxation year.

History: S. 122.1(1), the definition "non-portfolio earnings" was added by S.C. 2007, c. 29, s. 13(1), deemed to have come into force on October 31, 2006.

Related Sections: S. 104(6) Deduction in computing income of trust; s. 104(16) SIFT deemed dividend; s. 122(1) Tax payable by inter vivos trust; s. 197(1), "non-portfolio earnings".

Income Tax Technical News: Issue No. 38, Definition of "Non-Portfolio Earnings" in Subsection 122.1(1).

"non-portfolio property" — "non-portfolio property" of a trust or partnership for a taxation year means a property, held by the trust or partnership at any time in the taxation year, that is

(*a*) a security of a subject entity (other than a portfolio investment entity), if at that time the trust or partnership holds

(i) securities of the subject entity that have a total fair market value that is greater than 10% of the equity value of the subject entity, or

(ii) securities of the subject entity that, together with all of the securities that the trust or partnership holds of entities affiliated with the subject entity, have a total fair market value that is greater than 50% of the equity value of the trust or partnership;

(*b*) a Canadian real, immovable or resource property, if at any time in the taxation year the total fair market value of all properties held by the trust or partnership that are Canadian real, immovable or resource properties is greater than 50% of the equity value of the trust or partnership; or

(*c*) a property that the trust or partnership, or a person or partnership with whom the trust or partnership does not deal at arm's length, uses at that time in the course of carrying on a business in Canada.

History: S. 122.1(1), the portion of paragraph (*a*) before subparagraph (i) of the definition "non-portfolio property" was replaced by S.C. 2009, c. 2, s. 36(2), deemed to have come into force on October 31, 2006. S. 122.1(1), the portion of paragraph (*a*) before subparagraph (i) of the definition "non-portfolio property" formerly read:

"(*a*) a security of a subject entity, if at that time the trust or partnership holds"

S. 122.1(1), the definition "non-portfolio property" was added by S.C. 2007, c. 29, s. 13(1), deemed to have come into force on October 31, 2006.

Related Sections: S. 248(1), "Canadian real, immovable or resource property".

"portfolio investment entity" — "portfolio investment entity" at any time means an entity that does not at that time hold any non-portfolio property.

History: S. 122.1(1), the definition "portfolio investment entity" was added by S.C. 2009, c. 2, s. 36(8), deemed to have come into force on October 31, 2006.

"publicly-traded liability" — "publicly-traded liability", of an entity, means a liability that is a security of the entity, that is not equity of the entity and that is listed or traded on a stock exchange or other public market.

History: S. 122.1(1), the definition "publicly-traded liability" was added by S.C. 2009, c. 2, s. 36(8), deemed to have come into force on October 31, 2006.

"public market" — "public market" includes any trading system or other organized facility on which securities that are qualified for public distribution are listed or traded, but does not include a facility that is operated solely to carry out the issuance of a security or its redemption, acquisition or cancellation by its issuer.

History: S. 122.1(1), the definition "public market" was added by S.C. 2007, c. 29, s. 13(1), deemed to have come into force on October 31, 2006.

"qualified REIT property" — "qualified REIT property" of a trust means a property, held by the trust, that is

(*a*) a real or immovable property;

(*b*) a security of a subject entity, if the entity derives all or substantially all of its revenues from maintaining, improving, leasing or managing real or immovable properties that are capital properties of the trust or of an entity of which the trust holds a share or an interest, including real or immovable properties that the trust, or an entity of which the trust holds a share or an interest, holds together with one or more other persons or partnerships;

(*c*) a security of a subject entity, if the entity holds no property other than

(i) legal title to real or immovable property of the trust or of another subject entity all of the securities of which are held by the trust (including real or immovable property that the trust or the other subject entity holds together with one or more other persons or partnerships), and

(ii) property described in paragraph (*d*); or

(*d*) ancillary to the earning by the trust of the amounts described in subparagraphs (*b*)(i) and (iii) of the definition "real estate investment trust".

History: S. 122.1(1), paragraph (*a*) of the definition "qualified REIT property" was replaced by S.C. 2009, c. 2, s. 36(3), deemed to have come into force on October 31, 2006. S. 122.1(1), paragraph (*a*) of the definition "qualified REIT property" formerly read:

"(*a*) a real or immovable property situated in Canada;"

S. 122.1(1), subparagraph (*c*)(i) of the definition "qualified REIT property" was replaced by S.C. 2009, c. 2, s. 36(4), deemed to have come into force on October 31, 2006. S. 122.1(1), paragraph (*a*) of the definition "qualified REIT property" formerly read:

"(i) legal title to real or immovable property of the trust (including real or immovable property that the trust holds together with one or more other persons or partnerships), and"

S. 122.1(1), the definition "qualified REIT property" was added by S.C. 2007, c. 29, s. 13(1), deemed to have come into force on October 31, 2006.

"real estate investment trust" — "real estate investment trust", for a taxation year, means a trust that is resident in Canada throughout the taxation year, if

(*a*) the trust at no time in the taxation year holds any non-portfolio property other than qualified REIT properties;

(*b*) not less than 95% of the trust's revenues for the taxation year are derived from one or more of the following:

(i) rent from real or immovable properties,

(ii) interest,

(iii) capital gains from dispositions of real or immovable properties,

(iv) dividends, and

(v) royalties;

(*c*) not less than 75% of the trust's revenues for the taxation year are derived from one or more of the following:

(i) rent from real or immovable properties,

(ii) interest from mortgages, or hypothecs, on real or immovable properties, and

(iii) capital gains from dispositions of real or immovable properties; and

(*d*) at each time in the taxation year an amount, that is equal to 75% or more of the equity value of the trust at that time, is the amount that is the total fair market value of all properties held by the trust each of which is real or immovable property, indebtedness of a Canadian corporation represented by a bankers' acceptance, property described by either paragraph (*a*) or (*b*) of the definition "qualified investment" in section 204, or a deposit with a credit union.

History: S. 122.1(1), paragraphs (*c*) and (*d*) of the definition "real estate investment trust" were replaced by S.C. 2009, c. 2, s. 36(5), deemed to have come into force on October 31, 2006. S. 122.1(1), paragraphs (*c*) and (*d*) of the definition "real estate investment trust" formerly read:

"(*c*) not less than 75% of the trust's revenues for the taxation year are derived from one or more of the following:

(i) rent from real or immovable properties, to the extent that it is derived from real or immovable properties situated in Canada,

(ii) interest from mortgages, or hypothecs, on real or immovable properties situated in Canada, and

(iii) capital gains from dispositions of real or immovable properties situated in Canada; and

(*d*) at no time in the taxation year is the total fair market value of all properties held by the trust, each of which is a real or immovable property situated in Canada, cash, or a property described in paragraph (*a*) of the definition 'fully exempt interest' in subsection 212(3), less than 75% of the equity value of the trust at that time."

S. 122.1(1), paragraph (*d*) of the definition "real estate investment trust" was replaced by S.C. 2007, c. 35, s. 41(1), applicable after 2007. S. 122.1(1), paragraph (*d*) of the definition "real estate investment trust" formerly read:

"(*d*) at no time in the taxation year is the total fair market value of all properties held by the trust, each of which is a real or immovable property situated in Canada, cash, or a property described in clause 212(1)(*b*)(ii)(C), less than 75% of the equity value of the trust at that time."

S. 122.1(1), the definition "real estate investment trust" was added by S.C. 2007, c. 29, s. 13(1), deemed to have come into force on October 31, 2006.

Income Tax Technical News: Issue No. 38, SIFT Entities — Definition of "Real Estate Investment Trust" in Section 122.1.
Tax Topics: No. 1867-68, 2007 Canadian Tax Foundation Annual Conference CRA Round Table.

"real or immovable property" — "real or immovable property", of a taxpayer,

(*a*) includes

(i) a security held by the taxpayer, if the security is a security of a trust that satisfies (or of any other entity that would, if it were a trust, satisfy) the conditions set out in paragraphs (*a*) to (*d*) of the definition "real estate investment trust", or

(ii) an interest in real property or a real right in immovables (other than a right to a rental or royalty described in paragraph (*d*) or (*e*) of the definition "Canadian resource property" in subsection 66(15)); but

(*b*) does not include any depreciable property, other than

(i) a property included, otherwise than by an election permitted by regulation, in Class 1, 3 or 31 of Schedule II to the *Income Tax Regulations*,

(ii) a property ancillary to the ownership or utilization of a property described in subparagraph (i), or

(iii) a lease in, or a leasehold interest in respect of, land or property described in subparagraph (i).

History: S. 122.1(1), the definition "real or immovable property" was added by S.C. 2007, c. 29, s. 13(1), deemed to have come into force on October 31, 2006.

"regulated innovative capital" — "regulated innovative capital" means equity of a trust, where

(*a*) since November 2006, the equity has been authorized, by the Superintendent of Financial Institutions or by a provincial regulatory authority having powers similar to those of the Superintendent, as Tier 1 or Tier 2 capital of a financial institution (as defined by subsection 181(1));

(*b*) the terms and conditions of the equity have not changed after August 1, 2008;

(*c*) the trust has not issued any equity after October 31, 2006; and

(*d*) the trust does not hold any non-portfolio property other than

(i) liabilities of the financial institution, and

(ii) shares of the capital stock of the financial institution that were acquired by the trust for the sole purpose of satisfying a right to require the trust to accept, as demanded by a holder of the equity, the surrender of the equity.

History: S. 122.1(1), the definition "regulated innovative capital" was added by S.C. 2009, c. 2, s. 36(8), deemed to have come into force on October 31, 2006.

"rent from real or immovable properties" — "rent from real or immovable properties"

(*a*) includes

(i) rent or similar payments for the use of, or right to use, real or immovable properties,

(ii) payment for services ancillary to the rental of real or immovable properties and customarily supplied or rendered in connection with the rental of real or immovable properties, and

(iii) a payment that is included under paragraph 104(13)(*a*) in computing the recipient's income and that was made from the part of a trust's income (determined without reference to subsection 104(6)) that was derived from rent from real or immovable properties; but

(*b*) does not include

(i) payment for services supplied or rendered, other than those described in subparagraph (*a*)(ii), to the tenants of such properties,

(ii) fees for managing or operating such properties,

(iii) payment for the occupation of, use of, or right to use a room in a hotel or other similar lodging facility, or

(iv) rent based on profits.

History: S. 122.1(1), subparagraph (*a*)(ii) of the definition "rent from real or immovable properties" was replaced, and subparagraph (iii) was added, by S.C. 2009, c. 2, s. 36(6), deemed to have come into force on October 31, 2006. S. 122.1(1), subparagraph (*a*)(ii) of the definition "rent from real or immovable properties" formerly read:

"(ii) payment for services ancillary to the rental of real or immovable properties and customarily supplied or rendered in connection with the rental of real or immovable properties; but"

S. 122.1(1), the definition "rent from real or immovable properties" was added by S.C. 2007, c. 29, s. 13(1), deemed to have come into force on October 31, 2006.

"security" — "security" of a particular entity means any right, whether absolute or contingent, conferred by the particular entity or by an entity that is affiliated with the particular entity, to receive, either immediately or in the future, an amount that can reasonably be regarded as all or any part of the capital, of the revenue or of the income of the particular entity, or as interest paid or payable by the particular entity, and for greater certainty includes

(*a*) a liability of the particular entity;

(*b*) if the particular entity is a corporation,

(i) a share of the capital stock of the corporation, and

(ii) a right to control in any manner whatever the voting rights of a share of the capital stock of the corporation;

(*c*) if the particular entity is a trust, an income or a capital interest in the trust;

(*d*) if the particular entity is a partnership, an interest as a member of the partnership; and

(*e*) a right to, or to acquire, anything described in this paragraph and any of paragraphs (*a*) to (*d*).

History: S. 122.1(1), the definition "security" was added by S.C. 2007, c. 29, s. 13(1), deemed to have come into force on October 31, 2006.

"SIFT trust" — "SIFT trust", being a specified investment flow-through trust, for a taxation year means a trust (other than an excluded subsidiary entity, or a real estate investment trust, for the taxation year) that meets the following conditions at any time during the taxation year:

(*a*) the trust is resident in Canada;

(*b*) investments in the trust are listed or traded on a stock exchange or other public market; and

(*c*) the trust holds one or more non-portfolio properties.

History: S. 122.1(1), the portion of the definition "SIFT trust" before paragraph (*a*) was replaced by S.C. 2009, c. 2, s. 36(7), deemed to have come into force on October 31, 2006. S. 122.1(1), the portion of the definition "SIFT trust" before paragraph (*a*) formerly read:

" *'SIFT trust'* — 'SIFT trust', being a specified investment flow-through trust, for a taxation year means a trust (other than a trust that is a real estate investment trust for the taxation year) that meets the following conditions at any time during the taxation year:"

S. 122.1(1), the definition "SIFT trust" was added by S.C. 2007, c. 29, s. 13(1), deemed to have come into force on October 31, 2006.

Related Sections: S. 197(1), "SIFT partnership".

"subject entity" — "subject entity" means a person or partnership that is

(*a*) a corporation resident in Canada;

(*b*) a trust resident in Canada;

(*c*) a Canadian resident partnership; or

(*d*) a non-resident person, or a partnership that is not described in paragraph (*c*), the principal source of income of which is one or any combination of sources in Canada.

History: S. 122.1(1), the definition "subject entity" was added by S.C. 2007, c. 29, s. 13(1), deemed to have come into force on October 31, 2006.

"unaffiliated publicly-traded liability" — "unaffiliated publicly-traded liability", of an entity at any time means a publicly-traded liability of the entity if, at that time the total fair market value of all publicly-traded liabilities of the entity that are held at that time by persons or partnerships that are not affiliated with the entity is at least 90% of the total fair market value of all publicly-traded liabilities of the entity.

History: S. 122.1(1), the definition "unaffiliated publicly-traded liability" was added by S.C. 2009, c. 2, s. 36(8), deemed to have come into force on October 31, 2006.

► 122.1(2) ◄

(2) Application of definition "SIFT trust". The definition "SIFT trust" applies to a trust for a taxation year of the trust that ends after 2006, except that if the trust would have been a SIFT trust on October 31, 2006 had that

definition been in force and applied to the trust as of that date, that definition does not apply to the trust for a taxation year of the trust that ends before the earlier of

(*a*) 2011, and

(*b*) the first day after December 15, 2006 on which the trust exceeds normal growth as determined by reference to the normal growth guidelines issued by the Department of Finance on December 15, 2006, as amended from time to time, unless that excess arose as a result of a prescribed transaction.

Explanatory Note Extract
SIFT Transitional Rules

[Reproduced below is an extract from the Explanatory Notes released with Bill C-10, *Budget Implementation Act, 2009* (S.C. 2009, c. 2) (Department of Finance Release No. 2009-014, dated February 2, 2009). Although there was no amendment to subsection 122.1(2) in that Act, the Department of Finance has used this explanatory note to provide notification that the normal growth guidelines described in Department of Finance News Release No. 2006-082 (reproduced below), dated December 15, 2006, and referred to in subsections 122.1(2) and 197(8) have been revised.]

Subsection 122.1(2) of the Act limits the application of the definition "SIFT trust" in subsection (1) for the 2007 to 2010 taxation years. Where a trust (in this commentary referred to as a "transitional SIFT") would, under the text of that definition, be a SIFT trust on October 31, 2006, subsection 122.1(2) provides that the SIFT trust definition will not apply until the earlier of the trust's 2011 taxation year or the taxation year in which the trust exceeds its normal growth (as determined by guidelines issued by the Department of Finance on December 15, 2006), unless that excess arose as a result of a prescribed transaction.

For this purpose, the normal growth guidelines set the maximum growth from November 2006 to December 2010. Specifically, during each of the staging periods described below the maximum growth is the greater of $50 million and a safe harbour amount. That safe harbour amount is measured with respect to the transitional SIFT's market capitalization on October 31, 2006 and is staged as follows: 40% for Nov 2006 – Dec 2007; 20% for 2008; 20% for 2009; and 20% for 2010. These percentages are cumulative (in contrast, the $50 million "*de minimis*" amounts cannot be carried forward from one staging period to the next) such that a transitional SIFT will have been able to issue, as of January 2010, new equity of up to 100% of its October 31, 2006 market capitalization.

This note is included to serve as notification that the Department's normal growth guidelines are revised, effective December 4, 2008.

The first revision applies to certain situations involving a transitional SIFT, units of which are publicly traded, that holds securities in another transitional SIFT (whether a trust or partnership and referred to in this commentary as the "second transitional SIFT") the units of which are not publicly traded. If the transitional SIFT's securities in the second transitional SIFT are non-portfolio property of the transitional SIFT (determined for purposes of this revision to the guidelines as though the definition "non-portfolio property" in subsection 122.1(1) of the Act were read without reference to its paragraphs (*b*) and (*c*) and as though a reference to "10%" in its paragraph (*a*) were a reference to "25%"), then new equity issued by the second transitional SIFT will count towards the growth of the transitional SIFT and not the second transitional SIFT, provided that at least one of the following conditions is met:

- that the new equity is convertible into the equity of the transitional SIFT;
- that the new equity can reasonably be regarded to be funded by the issuance of new equity in the transitional SIFT.

This revision of the normal growth guidelines is intended to prevent, in the particular circumstances described, an inappropriate duplication of growth as between the transitional SIFT and the second transitional SIFT where there is a sufficient level of non-arm's length relations between the two entities.

The normal growth guidelines are also being revised to accelerate the remaining growth room for transitional SIFTs by making the safe harbour, and the $50M *de minimis* amounts, for each of 2009 and 2010 available on and after December 4, 2008. This change does not affect the maximum available growth of a transitional SIFT, but allows it to use all of its remaining growth room in a single year, rather than staging it (i.e., at the greater of 20% and $50M per year) over the 2009 and 2010 years. In effect, the revision preserves the original 2008 staging period, and combines the 2009 and 2010 staging periods into a single period that starts on December 4, 2008.

The following three examples illustrate the application of this second revision to the normal growth guidelines.

Example 1

SIFT A is a transitional SIFT with a $2 billion October 31, 2006 market capitalization. For the period from November 1, 2006 to December 3, 2008, SIFT A's only issuance of new equity was on July 23, 2008 in the amount of $1.2 billion (60% of its benchmark market capitalization). The revised guidelines allow SIFT A to issue as of December 4, 2008 up to $800 million (i.e., the greater of 40% of its October 31, 2006 market capitalization and $100 million) in additional new equity during the remaining transition period. Because SIFT A had already maximized its growth limits for the original 2008 staging period, the revisions apply only to combine its 2009 and 2010 staging periods into a single period that starts on December 4, 2008.

Example 2

SIFT B is a transitional SIFT with a $90 million October 31, 2006 market capitalization. For the period from November 1, 2006 to December 3, 2008, SIFT B issued no new equity. The revised guidelines allow SIFT B to issue as of December 4, 2008 up to $150 million (i.e., the greater of 100% of its October 31, 2006 market capitalization and the total of its unused 2008, 2009 and 2010 de minimis amounts, being $150 million) in additional new equity in 2008. In effect, SIFT B has available to it both its $50 million growth from its original 2008 staging period, as well as the $100 million in growth from its combined 2009 and 2010 staging periods that starts on December 4, 2008. If SIFT B issues no new equity in 2008 (i.e., in the period from December 4 to December 31, 2008), the revised guidelines allow SIFT B to issue after 2008 up to $100 million (i.e., the greater of 100% of its October 31, 2006 market capitalization and the total of its unused 2009 and 2010 de minimis amounts, being $100 million) in additional new equity.

Example 3

SIFT C is a transitional SIFT with a $2 billion October 31, 2006 market capitalization. For the period from November 1, 2006 to December 3, 2008, SIFT C's only issuances of new equity were on October 1, 2007 in the amount of $200 million and on September 1, 2008 in the amount of $300 million. The revised guidelines allow SIFT C to issue as of December 4, 2008 up to $1.5 billion (i.e., the greater of 75% of its October 31, 2006 market capitalization and $100 million) in additional new equity during the remaining transition period. If SIFT C issued $1.5 billion of new equity on December 22, 2008 it will have maximized its available growth room and the issuance by it of additional new equity before 2011 will cause it to lose its status as a transitional SIFT.

Department of Finance Press Release
Department of Finance Provides Guidance on "Normal Growth" for Income Trusts and Other Flow-Through Entities

[Reproduced is Department of Finance News Release 2006-082, dated December 15, 2006, which describes what the government considers to be "normal growth" with respect to the implementation date for the tax on income trusts and public partnerships announced on October 31, 2006.]

Following the close of financial markets today, the Department of Finance provided further guidance on "normal growth" in respect of the tax measures announced on October 31, 2006 regarding income trusts and other flow-through entities.

On October 31, 2006, the Minister of Finance, the Honourable Jim Flaherty, announced a Tax Fairness Plan. The Plan includes a Distribution Tax on certain amounts distributed by a "specified investment flow-through" (SIFT) trust or SIFT partnership. This new tax applies as of 2007 to new entities, but is deferred until 2011 for SIFTs that were publicly traded as of October 31, 2006.

The deferred application of these measures is, however, conditional on existing SIFTs respecting the policy objectives of the proposals. Materials released with the Minister's announcement indicated that, for example, the undue expansion of an existing SIFT might cause the deferral to be rescinded. On the other hand, the continuation of the normal growth of a SIFT would not raise concerns.

This document provides existing SIFTs with more detail as to what is meant by "normal growth" in this context. The Department's guidance has been prepared following consultations with many publicly-traded trusts and partnerships, and is based on its observations as to the range of growth arising in the normal course of business.

Specifically, the Department will not recommend any change to the 2011 date in respect of any SIFT whose equity capital grows as a result of issuances of new equity, in any of the intervening periods described below, by an amount that does not exceed the greater of $50 million and an objective "safe harbour" described below.

The safe harbour amount will be measured by reference to a SIFT's market capitalization as of the end of trading on October 31, 2006. Market capitalization is to be measured in terms of the value of a SIFT's issued and outstanding publicly-traded units. For this purpose, it would not include debt (whether or not that debt carried a conversion right or was itself publicly-traded), options or other interests that were convertible into units of the SIFT.

For the period from November 1, 2006 to the end of 2007, a SIFT's safe harbour will be 40 percent of that October 31, 2006 benchmark. A SIFT's safe harbour for each of the 2008 through 2010 calendar years will be 20 percent of that benchmark, together allowing growth of up to 100 percent over the four-year transition period.

The following are additional details of the Department's approach:

- The annual safe harbour amounts are cumulative: for example, a SIFT that issues no new equity in 2007 will as a result enjoy a greater safe harbour amount in 2008. The $50 million amounts, in contrast, are not cumulative.
- New equity for these purposes includes units and debt that is convertible into units; if attempts are made to develop other such substitutes for equity, those may be included as well.
- Replacing debt that was outstanding as of October 31, 2006 with new equity, whether through a debenture conversion or otherwise, will not be considered growth for these purposes. New, non-convertible debt can also be issued without affecting the safe harbour; however, the replacement of that new debt with equity will be counted as growth.
- An issuance by a SIFT of new equity will not be considered growth to the extent that the issuance is made in satisfaction of the exercise by another person or partnership of a right in place on October 31, 2006 to exchange an interest in a partnership, or a share of a corporation, into that new equity.
- The merger of two or more SIFTs each of which was publicly-traded on October 31, 2006, or a reorganization of such a SIFT, will not be considered growth to the extent that there is no net addition to equity as a result of the merger or reorganization.

Consistent with the objectives of Tax Fairness Plan, the Department of Finance will monitor developments in the market and will take action accordingly to ensure that this guidance is respected.

Conversion of Trusts to Corporations

It is intended that conversions of a SIFT to a corporation be allowed to take place without any tax consequences to investors on the conversion. The Department has received a number of representations concerning the rules applying on the conversion of a SIFT to a corporation, and is examining whether any impediments to conversion exist under the current income tax rules. If so, changes will be recommended to ensure that appropriate rules are in place to facilitate such conversions.

History: S. 122.1(2) was added by S.C. 2007, c. 29, s. 13(1), deemed to have come into force on October 31, 2006.

Income Tax Technical News: Issue No. 38, SIFT Rules — Transitional Normal Growth.
Tax Topics: No. 1867-68, 2007 Canadian Tax Foundation Annual Conference CRA Round Table.

SECTION 122.2:

► 122.2(1) ◄

(1) Amount deemed paid in prescribed manner. [Repealed by S.C. 1994, c. 7, Sched. VII, s. 10(2).]

History: S. 122.2(1)(*b*)(i), was amended by S.C. 1998, c. 19, s. 138, applicable on Royal Assent, June 18, 1998. It formerly read:

"(i) the total of all amounts each of which would be the income for the year of the individual or a supporting person of an eligible child of the individual for the year if no amount were included in respect of a gain from a disposition of property to which section 79 applies in computing that income"

S. 122.2(1) was repealed by S.C. 1994, c. 7, Sched. VII, s. 10(2), applicable with respect to the 1993 and subsequent taxation years. S. 122.2(1) formerly read:

"(1) Where an individual who has an eligible child files with the individual's return of income (other than a return of income filed under subsection 70(2) or 104(23), paragraph 128(2)(*e*) or subsection 150(4)) under this Part for a taxation year a prescribed form, containing prescribed information, completed by the individual or, where the individual resided at the end of the year with a supporting person of that child, jointly by the individual and that supporting person, the amount, if any, by which

(*a*) the total of

(i) the product obtained when $559 is multiplied by the number of eligible children of the individual for the year, and

(ii) the total of all amounts each of which is, in respect of an eligible child of the individual for the year who is under 7 years of age at the end of the year, the amount, if any, by which $200 exceeds 25% of such portion of all amounts deducted under section 63 for the year as may reasonably be considered to have been paid in respect of the child

exceeds

(*b*) 5% of the amount, if any, by which

(i) the total of all amounts each of which is the income for the year of the individual or a supporting person of an eligible child of the individual for the year

exceeds

(ii) $24,090

shall be deemed to be an amount paid by the individual, in prescribed manner and on prescribed dates, on account of the individual's tax under this Part for the year."

Related Sections: S. 117.1(1) Annual adjustment (indexing).
Regulations: 6400.

► 122.2(2) ◄

(2) Definitions. [Repealed by S.C. 1994, c. 7, Sched. VII, s. 10(2).]

History: S. 122.2(2), the portion preceding the definition "eligible child", was repealed by S.C. 1994, c. 7, Sched. VII, s. 10(2), applicable with respect to the 1993 and subsequent taxation years. The portion formerly read:

"(2) *Definitions.* In this section,"

Cases: For the purposes of the child tax credit the grossed-up dividend is included in income. *Ford v. M.N.R.*, (T.C.C.) 86 DTC 1701.

"eligible child" — [Repealed by S.C. 1994, c. 7, Sched. VII, s. 10(2).]

History: S. 122.2(2), the definition of "eligible child", was repealed by S.C. 1994, c. 7, Sched. VII, s. 10(2), applicable with respect to the 1993 and subsequent taxation years. That definition formerly read:

"*'eligible child'* — 'eligible child' of an individual for a taxation year means a child in respect of whom the individual

(*a*) is entitled to receive a family allowance under the *Family Allowances Act*

(i) in December of the year, or

(ii) where the child died or attained the age of 18 years during any month in the year, in that month, or

(*b*) would be entitled to receive a family allowance under the *Family Allowances Act* in December of the year if under that Act such an allowance were payable in the month in which the child becomes a child of the individual or becomes resident in Canada;"

S. 122.2(2), the definition of "eligible child", was amended by S.C. 1994, c. 7, Sched. VII, s. 10(1), applicable with respect to the 1992 taxation year. That definition formerly read:

" *'eligible child'* — 'eligible child' of an individual for a taxation year means a child in respect of whom the individual is entitled

(*a*) in January of the following taxation year, or

(*b*) where the child died or attained 18 years of age during any month in the year, in that month,

to receive a family allowance under the *Family Allowances Act*."

Related Sections: S. 252(1) Extended meaning of "child".

"supporting person" — [Repealed by S.C. 1994, c. 7, Sched. VII, s. 10(2).]

History: S. 122.2(2), the definition "supporting person", was repealed by S.C. 1994, c. 7, Sched. VII, s. 10(2), applicable with respect to the 1993 and subsequent taxation years. That definition formerly read:

" *'supporting person'* — 'supporting person' of an eligible child of an individual for a taxation year means

(*a*) where the individual was married and resided with the individual's spouse at the end of the year, that spouse,

(*b*) where the eligible child is the child of the individual and another person who resided together at the end of the year, that other person, and

(*c*) any taxpayer who deducted an amount under section 118 for the year in respect of an eligible child of the individual."

SECTION 122.3: [Overseas Employment Tax Credit].

► 122.3(1) ◄

(1) Deduction from tax payable where employment out of Canada. Where an individual is resident in Canada in a taxation year and, throughout any period of more than 6 consecutive months that commenced before the end of the year and included any part of the year (in this subsection referred to as the "qualifying period")

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 122.3(1) of the Act before paragraph (*a*) is replaced by the following:

SECTION 122.3:

(1) Overseas employment tax credit. If an individual is resident in Canada in a taxation year and, throughout any period of more than six consecutive months that began before the end of the year and included any part of the year (in this section referred to as the "qualifying period")

Applicable: To taxation years that begin after the day on which this Act is assented to.

Explanatory Note: Section 122.3 of the Act provides an "overseas employment tax credit" to individuals resident in Canada who are employed for at least six consecutive months in a foreign country by a specified employer in respect of certain enumerated activities.

Subsection 122.3(1.1), which at present limits access to the tax credit in one set of circumstances, is amended so that the credit is also unavailable in another situation. New paragraph 122.3(1.1)(*b*) denies an individual the benefit of the credit if, at any time in the qualifying period, the services of the individual are provided to a firm with which the employer does not deal at arm's length, and less than 10% of the fair market value of all the interests in the firm are held directly or indirectly by persons resident in Canada.

Example:

Situation:

An individual is employed by a corporation that is a specified employer. The employer supplies the individual's services to a non-resident corporation, the shares of which are held as follows: 60% are held by a non-resident corporation that also controls the individual's corporate specified employer; 20% are held by a non-resident trust, all of the units of which are held by non-residents; and 20% are held by a second non-resident trust, half of the units of which are held by residents of Canada.

Result:

Since they are related, the specified employer does not deal at arm's length with the recipient of the services in this example. However, new paragraph 122.3(1.1)(*b*) would not apply in this instance because residents of Canada hold, indirectly through the second trust, 10% of the interests in the recipient corporation.

The set of circumstances currently described in paragraphs 122.3(1.1)(*a*), (*b*) and (*c*) is contained in amended paragraph 122.3(1.1)(*a*), and subsection 122.3(1) is amended to ensure that the term "qualifying period" applies to subsection 122.3(1.1), as well as to subsection 122.3(1).

These amendments to subsections 122.3(1) and (1.1) apply to taxation years that begin after this Act is assented to.

(*a*) was employed by a person who was a specified employer, other than for the performance of services under a prescribed international development assistance program of the Government of Canada, and

(*b*) performed all or substantially all the duties of the individual's employment outside Canada

(i) in connection with a contract under which the specified employer carried on business outside Canada with respect to

(A) the exploration for or exploitation of petroleum, natural gas, minerals or other similar resources,

(B) any construction, installation, agricultural or engineering activity, or

(C) any prescribed activity, or

(ii) for the purpose of obtaining, on behalf of the specified employer, a contract to undertake any of the activities referred to in clause (i)(A), (B) or (C),

there may be deducted, from the amount that would, but for this section, be the individual's tax payable under this Part for the year, an amount equal to that proportion of the tax otherwise payable under this Part for the year by the individual that the lesser of

(*c*) an amount equal to that proportion of $80,000 that the number of days

(i) in that portion of the qualifying period that is in the year, and

(ii) on which the individual was resident in Canada is of 365, and

(*d*) 80% of the individual's income for the year from that employment that is reasonably attributable to duties performed on the days referred to in paragraph (*c*)

is of

(*e*) the amount, if any, by which

(i) if the individual is resident in Canada throughout the year, the individual's income for the year, and

(ii) if the individual is non-resident at any time in the year, the amount determined under paragraph 114(*a*) in respect of the taxpayer for the year

exceeds

(iii) the total of all amounts each of which is an amount deducted under section 110.6 or paragraph 111(1)(*b*), or deductible under paragraph

110(1)(*d.2*), (*d.3*), (*f*), (*g*) or (*j*), in computing the individual's taxable income for the year.

History: S. 122.3(1)(*e*)(iii) was amended by S.C. 2002, c. 9, s. 37(1), applicable to the 1997 and subsequent taxation years except that, for the 1997 taxation year, subparagraph 122.3(1)(*e*)(iii) of the Act shall be read as follows:

"(iii) the total of all amounts each of which is an amount deducted by the individual under section 110.6 or paragraph 111(1)(*b*), or deductible by the individual under paragraph 110(1)(*d.2*), (*d.3*), (*f*), (*g*) or (*j*), for the year or in respect of the period or periods referred to in subparagraph (ii), as the case may be."

Notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax, interest or penalty for any taxation year shall be made that is necessary to give effect to the amendment to subparagraph 122.3(1)(*e*)(iii) and the alternative reading for 1997.

S. 122.3(1)(*e*)(iii) formerly read:

"(iii) the total of all amounts each of which is an amount deducted under section 110.6 or paragraph 111(1)(*b*) or deductible under paragraph 110(1)(*d.2*), (*d.3*), (*f*) or (*j*) in computing the individual's taxable income for the year."

S. 122.3(1)(*e*) was amended by S.C. 2001, c. 17, s. 106(1), applicable to the 1998 and subsequent taxation years. S. 122.3(1)(*e*) formerly read;

"(*e*) the amount, if any, by which

(i) where section 114 does not apply to the individual in respect of the year, the individual's income for the year, and

(ii) where section 114 applies to the individual in respect of the year, the total of

(A) the individual's income for the period or periods in the year referred to in paragraph 114(*a*), and

(B) the amount that would be determined under paragraph 114(*b*) in respect of the individual for the year if subsection 115(1) were read without reference to paragraphs 115(1)(*d*) to (*f*)

exceeds

(iii) the total of all amounts each of which is an amount deducted by the individual under section 110.6 or paragraph 111(1)(*b*) or deductible by the individual under paragraph 110(1)(*d.2*), (*d.3*), (*f*) or (*j*) for the year or in respect of the period or periods referred to in subparagraph (ii), as the case may be."

S. 122.3(1)(*e*)(i) was amended by S.C. 2000, c. 19, s. 31(1), applicable to the 1998 and subsequent taxation years. S. 122.3(1)(*e*)(i) formerly read:

"(i) where section 114 is not applicable to the individual in respect of the year, the total of the individual's income for the year and the amount, if any, included pursuant to subsection 110.4(2) in computing the individual's taxable income for the year, and"

S. 122.3(1)(*c*)(ii) was amended by S.C. 1994, c. 21, s. 56(1), applicable to the 1992 and subsequent taxation years except that, where a taxpayer elects in accordance the application provision to section 114 provided by S.C. 1994, c. 21, s. 52(3), the amendment to s. 122.3(1)(*c*)(ii) does not apply to the taxpayer's 1992 taxation year. Subparagraph 122.3(1)(*c*)(ii) formerly read:

"(ii) on which the individual was resident in Canada or carrying on business in Canada,"

S. 122.3(1)(*e*)(ii) was amended by S.C. 1994, c. 21, s. 56(2), applicable to the 1993 and subsequent taxation years. S. 122.3(1)(*e*)(ii) formerly read:

"(ii) where section 114 is applicable to the individual in respect of the year, the individual's income for the period or periods in the year referred to in paragraph 114(*a*)"

S. 122.3(1)(*b*), preceding clause (i)(A), was amended by S.C. 1994, c. 7, Sched. II, s. 99(1), applicable to the 1985 and subsequent taxation years. S. 122.3(1)(*b*), preceding clause (i)(A), formerly read:

"(*b*) performed all or substantially all the duties of the individual's employment in one or more countries other than Canada

(i) in connection with a contract under which the specified employer carried on business in that country or those countries with respect to"

Regulations: 3400; 6000.

Interpretation Bulletins: *Primary* — IT-497R4 Overseas employment tax credit. *Secondary* — IT-270R3 Foreign tax credit.

Information Circulars: IC 07-1 Taxpayer Relief Provisions

Forms: T626.

Cases: The taxpayer was entitled to the overseas employment tax credit because throughout the qualifying period, which was the entire year, the taxpayer performed all or substantially all of his employment duties outside of Canada. It was not required that the taxpayer be employed outside of Canada for at least six continuous months in the year. *Rooke v. the Queen*, 2002 DTC 7442 (F.C.A.), reversing 2000 DTC 2206 (T.C.C.).

The taxpayer was denied an overseas employment tax credit because there was no evidence that his employer's activities outside of Canada amounted to carrying on a business as opposed to operating exclusively for charitable purposes. *Brown v. The Queen*, 2000 DTC 6410 (F.C.A.), affirming 99 DTC 3536 (T.C.C.).

When the taxpayer's employer entered into a contract with an international organization for the purpose of establishing dairy farms in Malawi, the taxpayer was entitled to deduct an overseas employment tax credit on the basis that his employer did carry on "business" in Malawi as required by s. 122.3(1). The definition of "business" in s. 248(1) contains no requirement for a predominant profit motive. *Timmins v. The Queen*, 99 DTC 5494 (F.C.A.), reversing 96 DTC 6378 (F.C.T.D.)

► 122.3(1.1) ◄

(1.1) Excluded income. No amount may be included under paragraph (1)(*d*) in respect of an individual's income for a taxation year from the individual's employment by an employer where

(*a*) the employer carries on a business of providing services and does not employ in the business throughout the year more than 5 full-time employees;

(*b*) the individual

(i) does not deal at arm's length with the employer, or is a specified shareholder of the employer, or

(ii) where the employer is a partnership, does not deal at arm's length with a member of the partnership, or is a specified shareholder of a member of the partnership; and

(*c*) but for the existence of the employer, the individual would reasonably be regarded as an employee of a person or partnership that is not a specified employer.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 122.3(1.1) of the Act is replaced by the following:

(1.1) Excluded income. No amount may be included under paragraph (1)(*d*) in respect of an individual's income for a taxation year from the individual's employment by an employer

(*a*) if

(i) the employer carries on a business of providing services and does not employ in the business throughout the year more than five full-time employees,

(ii) the individual

(A) does not deal at arm's length with the employer, or is a specified shareholder of the employer, or

(B) where the employer is a partnership, does not deal at arm's length with a member of the partnership, or is a specified shareholder of a member of the partnership, and

(iii) but for the existence of the employer, the individual would reasonably be regarded as being an employee of a person or partnership that is not a specified employer; or

(*b*) if at any time in that portion of the qualifying period that is in the taxation year

(i) the employer provides the services of the individual to a corporation, partnership or trust with which the employer does not deal at arm's length, and

(ii) the fair market value of all the issued shares of the capital stock of the corporation or of all interests in the partnership or trust, as the case may be, that are held, directly or indirectly, by persons who are resident in Canada is less than 10% of the fair market value of all those shares or interests.

Applicable: To taxation years that begin after the day on which this Act is assented to.

Explanatory Note: See the Explanatory Note following the amendment to the portion of subsection 122.3(1) of the Act before paragraph (*a*).

History: S. 122.3(1.1) was added by S.C. 1997, c. 25, s. 31(1), applicable to the 1997 and subsequent taxation years.

► 122.3(2) ◄

(2) Definitions. In subsection (1),

"specified employer" — "specified employer" means

(*a*) a person resident in Canada,

(*b*) a partnership in which interests that exceed in total value 10% of the fair market value of all interests in the partnership are owned by persons resident in Canada or corporations controlled by persons resident in Canada, or

(*c*) a corporation that is a foreign affiliate of a person resident in Canada;

"tax otherwise payable under this Part for the year" — "tax otherwise payable under this Part for the year" means the amount that, but for this section, sections 120 and 120.2, subsection 120.4(2) and sections 121, 126, 127 and 127.4, would be the tax payable under this Part for the year.

History: S. 122.3(2), the definition "tax otherwise payable under this Part for the year" was amended by S.C. 2000, c. 19, s. 31(2), applicable to the 2000 and subsequent taxation years. S. 122.3(2), the definition "tax otherwise payable under this Part for the year" formerly read:

" *'tax otherwise payable under this Part for the year'* — 'tax otherwise payable under this Part for the year' means the amount that, but for this section and sections 120, 120.1, 120.2, 121, 126, 127 and 127.2 to 127.4, would be the tax payable under this Part for the year."

SECTION 122.4: [Sales tax credit]. [Repealed by 1990, c. 45, s. 47(1).]

SECTION 122.5: [Goods and services tax credit].

► 122.5(1) ◄

(1) Definitions. The following definitions apply in this section.

"adjusted income" — "adjusted income", of an individual for a taxation year in relation to a month specified for the taxation year, means the total of the individual's income for the taxation year and the income for the taxation year of the individual's qualified relation, if any, in relation to the specified month, both calculated as if no amount were included under paragraph 56(1)(*q.1*) or subsection 56(6) or in respect of any gain from a disposition of property to which section 79 applies in computing that income and as if no amount were deductible under paragraph 60(*y*) or (*z*) in computing that income.

History: S. 122.5(1), the definition "adjusted income" was replaced by S.C. 2007, c. 35, s. 111, applicable to the 2008 and subsequent taxation years. S. 122.5(1), the definition "adjusted income" formerly read:

" *'adjusted income'* — 'adjusted income' of an individual, for a taxation year in relation to a month specified for the taxation year, means the total of the individual's income for the taxation year and the income for the taxation year of the individual's qualified relation, if any, in relation to the specified month, both calculated as if no amount were included under subsection 56(6) or in respect of any gain from a disposition of property to which section 79 applies in computing that income and as if no amount were deductible under paragraph 60(*y*) in computing that income."

S. 122.5(1), the definition "adjusted income" was replaced by S.C. 2006, c. 4, s. 175(1), applicable to the 2006 and subsequent taxation years.

S. 122.5(1), the definition "adjusted income" formerly read:

" *'adjusted income'* — 'adjusted income' of an individual, for a taxation year in relation to a month specified for the taxation year, means the total of the individual's income for the taxation year and the income for the taxation year of the individual's qualified relation, if any, in relation to the specified month, both calculated as if no amount were included in respect of any gain from a disposition of property to which section 79 applies."

S. 122.5(1), the definition "adjusted income" was amended by S.C. 2002, c. 9, s. 38(1), applicable to amounts that are deemed to be paid during months specified for the 2001 and subsequent taxation years. S. 122.5(1), the definition "adjusted income" formerly read:

"(1) *Definitions.* In this section,

'adjusted income' — 'adjusted income' of an individual for a taxation year means the total of all amounts each of which would be the income for the year of

(*a*) the individual, or

(*b*) the individual's qualified relation for the year

if no amount were included in respect of a gain from a disposition of property to which section 79 applies in computing that income;"

S. 122.5, the definition of "adjusted income", was amended by S.C. 1998, c. 19, s. 139(1), applicable to the 1992 and subsequent taxation years. That definition formerly read:

" *'adjusted income'* — 'adjusted income' of an individual for a taxation year means the total of all amounts each of which is the income for the year of

(*a*) the individual, or

(*b*) the individual's qualified relation for the year;"

S. 122.5(1), paragraph (*c*) of the definition of "adjusted income", was repealed by S.C. 1994, c. 7, Sched. VIII, s. 60(1), applicable to the 1992 and subsequent taxation years. S. 122.5(1), paragraph (*c*) of the definition of "adjusted income", formerly read:

"(*c*) a person (other than the individual or the individual's qualified relation for the year) who deducts for the year an amount under section 118 in respect of a qualified dependant of the individual for the year;"

Related Sections: S. 122.51(1), "Adjusted income"; s. 122.6, "adjusted income".

"cohabiting spouse or common-law partner" — "cohabiting spouse or common-law partner" of an individual at any time has the meaning assigned by section 122.6.

History: S. 122.5(1), the definition "cohabiting spouse or common-law partner" was added by S.C. 2002, c. 9, s. 38(1), applicable to amounts that are deemed to be paid during months specified for the 2001 and subsequent taxation years.

"eligible individual" — "eligible individual", in relation to a month specified for a taxation year, means an individual (other than a trust) who

(*a*) has, before the specified month, attained the age of 19 years; or

(*b*) was, at any time before the specified month,

(i) a parent who resided with their child, or

(ii) married or in a common-law partnership.

History: S. 122.5(1), the definition "eligible individual" was amended by S.C. 2002, c. 9, s. 38(1), applicable to amounts that are deemed to be paid during months specified for the 2001 and subsequent taxation years. S. 122.5(1), the definition "eligible individual" formerly read:

" *'eligible individual'* — 'eligible individual' for a taxation year means an individual (other than a trust) who, at the end of December 31 of that year, is resident in Canada and is

(*a*) married or in a common-law partnership,

(*b*) a parent of a child, or

(*c*) 19 years of age or over;"

S. 122.5(1), paragraph (*a*) of the definition "eligible individual" was amended by S.C. 2000, c. 12, Sched. 2, s. 11(b), applicable January 1, 2001, coming into force on July 31, 2000. S. 122.5(1), paragraph (*a*) of the definition "eligible individual" formerly read:

"(*a*) married,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 122.5(1), that portion of the definition of "eligible individual" preceding paragraph (*a*), was amended by S.C. 1998, c. 19, s. 139(2), applicable after April 26, 1995. That portion formerly read:

" *'eligible individual'* — 'eligible individual' for a taxation year means an individual (other than a trust) who, at the end of December of that year, is resident in Canada and is"

Related Sections: S. 122.51(1), "Eligible individual"; s. 122.6, "eligible individual".

"qualified dependant" — "qualified dependant" of an individual, in relation to a month specified for a taxation year, means a person who at the beginning of the specified month

(*a*) is the individual's child or is dependent for support on the individual or on the individual's cohabiting spouse or common-law partner;

(*b*) resides with the individual;

(*c*) is under the age of 19 years;

(*d*) is not an eligible individual in relation to the specified month; and

(*e*) is not a qualified relation of any individual in relation to the specified month.

History: S. 122.5(1), the definition "qualified dependant" was amended by S.C. 2002, c. 9, s. 38(1), applicable to amounts that are deemed to be paid during months specified for the 2001 and subsequent taxation years. S. 122.5(1), the definition "qualified dependant" formerly read:

" '*qualified dependant*' — 'qualified dependant' of an individual for a taxation year means a person who is

(*a*) a person in respect of whom the individual or the individual's qualified relation for the year is the only person who deducts an amount under section 118 for the year, or

(*b*) a child of the individual residing with the individual at the end of the year,

and who is not

(*c*) an eligible individual for the year,

(*d*) the qualified relation of an individual for the year, or

(*e*) a person in respect of whom an amount is deemed under this section to be paid by any other individual for the year;"

"*qualified relation*" — "qualified relation" of an individual, in relation to a month specified for a taxation year, means the person, if any, who, at the beginning of the specified month, is the individual's cohabiting spouse or common-law partner.

History: S. 122.5(1), the definition "qualified relation" was amended by S.C. 2002, c. 9, s. 38(1), applicable to amounts that are deemed to be paid during months specified for the 2001 and subsequent taxation years. S. 122.5(1), the definition "qualified relation" formerly read:

" '*qualified relation*' — 'qualified relation' of an individual for a taxation year means the person who, at the end of the year, is the individual's cohabiting spouse or common-law partner (within the meaning assigned by section 122.6)."

S. 122.5(1), the definition "qualified relation", was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.10), applicable January 1, 2001, coming into force on July 31, 2000. S. 122.5(1), the definition "qualified relation", formerly read:

" '*qualified relation*' — 'qualified relation' of an individual for a taxation year means the person who, at the end of the year, is the individual's cohabiting spouse (within the meaning assigned by section 122.6)."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 122.5(1), the definition of "qualified relation", was amended by S.C. 1994, c. 7, Sched. VIII, s. 60(2), applicable to the 1992 and subsequent taxation years, except that, in its application to the 1992 taxation year, the definition "qualified relation" in subsection 122.5(1) of the Act shall be read as follows:

" '*qualified relation*' — 'qualified relation' of an individual for a taxation year means the person who, at the beginning of the 1993 calendar year, is the individual's cohabiting spouse (within the meaning assigned by section 122.6)."

S. 122.5(1), the definition of "qualified relation", formerly read:

" *qualified relation* — 'qualified relation' of an individual for a taxation year means the person, if any, who is either

(*a*) the individual's spouse, or

(*b*) the other parent of a child of the individual, if the child is a qualified dependant of the individual,

who is of the opposite sex to the individual and who, at the end of the year, is not living separate and apart from the individual by reason of the breakdown of their marriage or other conjugal relationship."

Related Sections: S. 122.6, "cohabiting spouse or common-law partner"; s. 248(1), "individual".

"*return of income*" — "return of income", in respect of a person for a taxation year, means

(*a*) for a person who is resident in Canada at the end of the taxation year, the person's return of income (other than a return of income under subsection 70(2) or 104(23), paragraph 128(2)(*e*) or subsection 150(4)) that is required to be filed for the taxation year or that would be required to be filed if the person had tax payable under this Part for the taxation year; and

(*b*) in any other case, a prescribed form containing prescribed information that is filed for the taxation year with the Minister.

History: S. 122.5(1), the definition "return of income" was added by S.C. 2002, c. 9, s. 38(1), applicable to amounts that are deemed to be paid during months specified for the 2001 and subsequent taxation years.

► 122.5(2) ◄

(2) Persons not eligible individuals, qualified relations or qualified dependants. Notwithstanding subsection (1), a person is not an eligible individual, is not a qualified relation and is not a qualified dependant, in relation to a month specified for a taxation year, if the person

(*a*) died before the specified month;

(*b*) is confined to a prison or similar institution for a period of at least 90 days that includes the first day of the specified month;

(*c*) is at the beginning of the specified month a non-resident person, other than a non-resident person who

(i) is at that time the cohabiting spouse or common-law partner of a person who is deemed under subsection 250(1) to be resident in Canada throughout the taxation year that includes the first day of the specified month, and

(ii) was resident in Canada at any time before the specified month;

(*d*) is at the beginning of the specified month a person described in paragraph 149(1)(*a*) or (*b*); or

(*e*) is a person in respect of whom a special allowance under the *Children's Special Allowances Act* is payable for the specified month.

History: S. 122.5(2) was amended by S.C. 2002, c. 9, s. 38(1), applicable to amounts that are deemed to be paid during months specified for the 2001 and subsequent taxation years. S. 122.5(2) formerly read:

"(2) *Persons not eligible individuals, qualified relations or qualified dependants.* Notwithstanding subsection (1), a person shall be deemed not to be an eligible individual for a taxation year or a qualified relation or qualified dependant of an individual for a taxation year where the person

(*a*) dies before the end of the year;

(*b*) is, at the end of the year, a person described in paragraph 149(1)(*a*) or (*b*); or

(*c*) is, at the end of the year, confined to a prison or similar institution and has been so confined for a period of, or periods the total of which in the year was more than, 6 months."

► 122.5(3) ◄

(3) Deemed payment on account of tax. An eligible individual in relation to a month specified for a taxation year who files a return of income for the taxation year and applies for an amount under this subsection is deemed to have paid during the specified month on account of their tax payable under this Part for the taxation year an amount equal to 1/4 of the amount, if any, determined by the formula

$$A - B$$

where

A is the total of

(*a*) $213,

(*b*) $213 for the qualified relation, if any, of the individual in relation to the specified month,

(*c*) if the individual has no qualified relation in relation to the specified month and is entitled to deduct an amount for the taxation year under subsection 118(1) because of paragraph (*b*) of the description of B in that subsection in respect of a qualified dependant of the individual in relation to the specified month, $213,

(*d*) $112 times the number of qualified dependants of the individual in relation to the specified month, other than a qualified dependant in respect of whom an amount is included under paragraph (*c*) in computing the total for the specified month,

(*e*) if the individual has no qualified relation and has one or more qualified dependants, in relation to the specified month, $112, and

(*f*) if the individual has no qualified relation and no qualified dependant, in relation to the specified month, the lesser of $112 and 2% of the amount, if any, by which the individual's income for the taxation year exceeds $6,911; and

B is 5% of the amount, if any, by which the individual's adjusted income for the taxation year in relation to the specified month exceeds $27,749.

CRA Press Release

2.5% Indexation Factor for 2009

See CRA Fact Sheet, dated December 8, 2008, that is reproduced following subsection 117.1(1). This release announces a 2.5% indexation factor applicable for 2009 tax bracket thresholds, personal amounts and other amounts relating to non-refundable credits, as well as the refundable medical expense supplement and Old Age Security repayment threshold. Increases to the Canada Child Tax Benefit (including the National Child Benefit supplement and the Child Disability Benefit) and the Goods and Services Tax Credit will take effect as of July 1, 2009.

History: S. 122.5(3) was amended by S.C. 2002, c. 9, s. 38(1), applicable to amounts that are deemed to be paid during months specified for the 2001 and subsequent taxation years. S. 122.5(3) formerly read:

"(3) *Deemed payment on account.* Where a return of income (other than a return of income filed under subsection 70(2), paragraph 104(23)(*d*) or 128(2)(*e*) or subsection 150(4)) is filed under this Part for a taxation year in respect of an eligible individual and the individual applies therefor in writing, 1/4 of the amount, if any, by which the total of

(*a*) $190,

(*b*) $190 for a person who is the qualified relation of the individual for the year,

(*c*) $190, where the individual has no qualified relation for the year and is entitled to deduct an amount for the year under subsection 118(1) because of paragraph (*b*) of the description of B in subsection 118(1) in respect of a qualified dependant of the individual for the year,

(*d*) the product obtained when $100 is multiplied by the number of qualified dependants of the individual for the year, other than a qualified dependant in respect of whom an amount is included by reason of paragraph (*c*) in computing an amount deemed to be paid under this subsection for the year, and

(*e*) where the individual has no qualified relation for the year,

(i) if the individual has one or more qualified dependants for the year, $105, and

(ii) if the individual has no qualified dependant for the year, the lesser of

(A) $105, and

(B) 2% of the amount, if any, by which

(I) the individual's income for the year exceeds

(II) $6,546

exceeds

(*f*) 5% of the amount, if any, by which

(i) the individual's adjusted income for the year exceeds

(ii) $26,284,

shall be deemed to be an amount paid by the individual on account of the individual's tax payable under this Part for the year during each of the months specified for that year under subsection (4)."

S. 122.5(3)(*f*)(ii) was amended by S.C. 2000, c. 14, s. 38(2), applicable to the 1999 and subsequent taxation years. S. 122.5(3)(*f*)(ii) formerly read:

"(ii) $25,921,"

S. 122.5(3)(*e*)(ii)(B)(II) was amended by S.C. 2000, c. 14, s. 38(1), applicable to the 1999 and subsequent taxation years. S. 122.5(3)(*e*)(ii)(B)(II) formerly read:

"(II) $6,456,"

S. 122.5(3)(*e*) was amended by S.C. 1999, c. 26, s. 41(1), applicable to amounts deemed to be paid in specified months that are after June 1999. S. 122.5(3)(*e*) formerly read:

"(*e*) where the individual has no qualified relation for the year, the lesser of

(i) $100, and

(ii) 2% of the amount, if any, by which

(A) the individual's income for the year exceeds

(B) the amount determined for the year for the purposes of paragraph (*c*) of the description of B in subsection 118(1),"

S. 122.5(3)(*c*) was amended by S.C. 1997, c. 25, s. 32(1), applicable April 25, 1997. S. 122.5(3)(*c*) formerly read:

"(*c*) $190, where the individual has no qualified relation for the year and is entitled to deduct an amount for the year under subsection 118(1) by reason of paragraph 118(1)(*b*) in respect of a qualified dependant of the individual for the year,"

S. 122.5(3)(*e*)(ii)(B) was amended by S.C. 1997, c. 25, s. 32(2), applicable April 25, 1997. S. 122.5(3)(*e*)(ii)(B) formerly read:

"(B) the amount determined for the year for the purposes of paragraph 118(1)(*c*),"

S. 122.5(3), that portion before paragraph (*a*), was amended by S.C. 1994, c. 21, s. 57(1), applicable to the 1992 and subsequent taxation years. S. 122.5(3), that portion before paragraph (*a*), formerly read:

"(3) *Amount deemed paid on account of tax.* Where an eligible individual for a taxation year files with the individual's return of income (other than a return of income filed under subsection 70(2), paragraph 104(23)(*d*) or 128(2)(*e*) or subsection 150(4)) under this Part for the year a prescribed form, containing prescribed information, 1/4 of the amount, if any, by which the total of"

S. 122.5(3)(*f*)(ii) was amended by S.C. 1994, c. 7, Sched. VII, s. 11(1), applicable with respect to the 1992 and subsequent taxation years. S. 122.5(3)(*f*)(ii) formerly read:

"(ii) the amount referred to in subparagraph 122.2(1)(*b*)(ii) for the year,"

Related Sections: S. 117.1(1) Annual adjustment (indexing).
Information Circulars: IC 07-1 Taxpayer Relief Provisions.

► 122.5(3.1) ◄

(3.1) When advance payment applies. Subsection (3.2) applies in respect of an eligible individual in relation to a particular month specified for a taxation year, and each subsequent month specified for the taxation year, if

(*a*) the amount deemed by that subsection to have been paid by the eligible individual during the particular month specified for the taxation year is less than $25; and

(*b*) it is reasonable to conclude that the amount deemed by that subsection to have been paid by the eligible individual during each subsequent month specified for the taxation year will be less than $25.

History: S. 122.5(3.1) was amended by S.C. 2002, c. 9, s. 38(1), applicable to amounts that are deemed to be paid during months specified for the 2001 and subsequent taxation years. S. 122.5(3.1) formerly read:

"(3.1) *Adjustment of certain amounts.* For the purpose of subsection (3) and notwithstanding subsection 117.1(1), the amounts, in respect of the amounts of $190, $100 and $105 referred to in subsection (3), used for the purpose of determining amounts deemed to be paid during months specified under subsection (4)

(*a*) for the 1999 taxation year are deemed to be $205, $107 and $107, respectively;

(*b*) for the 2000 taxation year shall be equal to the greater of the amounts referred to in paragraph (*a*) and the amounts that would otherwise be determined to be paid during those months if this Act were read without reference to this subsection; and

(*c*) for the 2001 and subsequent taxation years shall be computed without reference to paragraphs (*a*) and (*b*)."

S. 122.5(3.1) was added by S.C. 2000, c. 14, s. 38(3), applicable to the 1999 and subsequent taxation years.

► 122.5(3.2) ◄

(3.2) Advance payment. If this subsection applies, the total of the amounts that would otherwise be deemed by subsection (3) to have been paid on account of the eligible individual's tax payable under this Part for the taxation year during the particular month specified for the taxation year, and during each subsequent month specified for the taxation year, is deemed to have been paid by the eligible individual on account of their tax payable under this Part for the taxation year during the particular specified month for the taxation year, and the amount deemed by subsection (3) to have been paid by the eligible individual during those subsequent months specified for the taxation year is deemed, except for the purpose of this subsection, not to have been paid to the extent that it is included in an amount deemed to have been paid by this subsection.

History: S. 122.5(3.2) was added by S.C. 2002, c. 9, s. 38(1), applicable to amounts that are deemed to be paid during months specified for the 2001 and subsequent taxation years.

► 122.5(4) ◄

(4) Months specified. For the purposes of this section, the months specified for a taxation year are July and October of the immediately following taxation year and January and April of the second immediately following taxation year.

► 122.5(5) ◄

(5) Only one eligible individual. If an individual is a qualified relation of another individual, in relation to a month specified for a taxation year, only one of them is an eligible individual in relation to that specified month, and if both of them claim to be eligible individuals, the individual that the Minister designates is the eligible individual in relation to that specified month.

History: S. 122.5(5) was amended by S.C. 2002, c. 9, s. 38(2), applicable to amounts that are deemed to be paid during months specified for the 2001 and subsequent taxation years. S. 122.5(5) formerly read:

"(5) *Exceptions.* Notwithstanding subsection (3),

(*a*) where an individual is a qualified relation of another individual for a taxation year, only one of them may apply under that subsection for the year;

(*b*) where the total of all amounts, deemed under that subsection to be paid by an individual for a taxation year during months specified for the year, is less than $100, the total shall be deemed to be paid by the individual during the first month specified for the year, and no other amount shall be deemed to be paid under that subsection by the individual for the year; and

(*c*) no amount shall be deemed to be paid under that subsection by an individual for a taxation year during a month specified for that year where the individual died before that month or was not resident in Canada at the beginning of that month."

S. 122.5(5)(*a*) was amended by S.C. 1994, c. 21, s. 57(2), applicable to the 1992 and subsequent taxation years. S. 122.5(5)(*a*) formerly read:

"(*a*) where an individual is a qualified relation of another individual for a taxation year, only one of them may file a prescribed form under that subsection for the year;"

S. 122.5(5)(*b*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 60(3), applicable on Royal Assent, June 10, 1993. s. 122.5(5)(*b*) formerly read:

"(*b*) where the total of all amounts, each of which is an amount deemed under that subsection to be paid by an individual for a taxation year during a month specified for the year, is less than

(i) one dollar, the total shall be deemed to be nil, and

(ii) $100 but not less than one dollar, the total shall be deemed to be paid by the individual during the first month specified for the year, and no other amount shall be deemed to be paid under that subsection by the individual for the year; and"

S. 122.5(5)(*c*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 60(4), applicable to the 1989 and subsequent taxation years. S. 122.5(5)(*c*) formerly read:

"(*c*) no amount shall be deemed to be paid under that subsection by an individual for a taxation year

(i) during a month specified for that year where the individual died before that month or was not resident in Canada at the beginning of that month, or

(ii) where the individual's return of income under this Part for the year and prescribed form under this section are not filed within 3 years after the end of the year."

Related Sections: S. 248(1), "amount", "individual"; s. 255 Canada.

► 122.5(5.1) ◄

(5.1) Exception. [Repealed by S.C. 2002, c. 9, s. 38(2).]

History: S. 122.5(5.1) was repealed by S.C. 2002, c. 9, s. 38(2), applicable to amounts that are deemed to be paid during months specified for the 2001 and subsequent taxation years. S. 122.5(5.1) formerly read:

"(5.1) *Exception.* No amount is deemed to be paid under subsection (3) by an individual for the 2000 taxation year if the individual is confined to a prison or similar institution at any time during the 12-month period that ends on June 30, 2002, unless the individual satisfies the Minister that the individual's confinement is for a period of not more than 6 months included in that 12-month period."

S. 122.5(5.1) was added by S.C. 2001, c. 17, s. 107(1), applicable to amounts deemed to be paid during months specified for the 2000 taxation year.

► 122.5(6) ◄

(6) Exception re qualified dependant. If a person would, if this Act were read without reference to this subsection, be the qualified dependant of two or more individuals, in relation to a month specified for a taxation year,

(*a*) the person is deemed to be a qualified dependant, in relation to that month, of the one of those individuals on whom those individuals agree;

(*b*) in the absence of an agreement referred to in paragraph (*a*), the person is deemed to be, in relation to that month, a qualified dependant of the individual, if any, who is, at the beginning of that month, an eligible individual within the meaning assigned by section 122.6 in respect of the person; and

(*c*) in any other case, the person is deemed to be, in relation to that month, a qualified dependant only of the individual that the Minister designates.

History: S. 122.5(6) was amended by S.C. 2002, c. 9, s. 38(2), applicable to amounts that are deemed to be paid during months specified for the 2001 and subsequent taxation years. S. 122.5(6) formerly read:

"(6) *Qualified relation of deceased eligible individual.* Notwithstanding paragraph (5)(*c*), on written application made, on or before the day on or before which a return of income (other than a return of income filed under subsection 70(2), paragraph 104(23)(*d*) or 128(2)(*e*) or subsection 150(4)) of a deceased person is required to be filed under this Part for the taxation year in which the person died (or would have been so required if the person were liable to pay tax under this Part for that year), by an individual who

(*a*) is the deceased person's qualified relation for the taxation year in respect of which a payment under this section would, but for that paragraph, be made, and

(*b*) is not an individual to whom that paragraph applies,

each amount that, but for that paragraph, would be deemed to be paid under subsection (3) by the deceased person during a month specified for a taxation year shall be deemed to be paid during the month on account of the individual's tax payable under this Part for that year."

S. 122.5(6), that portion before paragraph (*a*), was amended by S.C. 1994, c. 21, s. 57(3), applicable to the 1992 and subsequent taxation years. S. 122.5(6), that portion before paragraph (*a*), formerly read:

"(6) *Qualified relation of a deceased individual.* Notwithstanding paragraph (5)(*c*), on application made in prescribed form containing prescribed information within 60 days after a person's death (or within such longer period as the Minister considers reasonable in the circumstances) by an individual who"

S. 122.5(6) was amended by S.C. 1994, c. 7, Sched. VIII, s. 60(5), applicable to the 1989 and subsequent taxation years. S. 122.5(6) formerly read:

"(6) *Qualified relation of a deceased eligible individual.* Notwithstanding subparagraph (5)(*c*)(i), on application made in prescribed form containing prescribed information within 60 days after a person's death (or within such longer period as the Minister considers reasonable in the circumstances) by an individual who

(*a*) is the deceased person's qualified relation for the taxation year in respect of which a payment under this section would, but for that subparagraph, be made, and

(*b*) is not an individual to whom that subparagraph applies,

each amount that, but for that subparagraph, would be deemed to be paid under subsection (3) by the deceased person during a month specified for a

taxation year shall be deemed to be paid during the month on account of the individual's tax payable under this Part for that year."

Related Sections: S. 248(1), "individual", "prescribed".

► 122.5(6.1) ◄

(6.1) Notification to Minister. An individual shall notify the Minister of the occurrence of any of the following events before the end of the month following the month in which the event occurs:

(*a*) the individual ceases to be an eligible individual;

(*b*) a person becomes or ceases to be the individual's qualified relation; and

(*c*) a person ceases to be a qualified dependant of the individual, otherwise than because of attaining the age of 19 years.

History: S. 122.5(6.1) was added by S.C. 2002, c. 9, s. 38(2), applicable to amounts that are deemed to be paid during months specified for the 2001 and subsequent taxation years.

► 122.5(6.2) ◄

(6.2) Non-residents and part-year residents. For the purpose of this section, the income of a person who is non-resident at any time in a taxation year is deemed to be equal to the amount that would, if the person were resident in Canada throughout the year, be the person's income for the year.

History: S. 122.5(6.2) was added by S.C. 2002, c. 9, s. 38(2), applicable to amounts that are deemed to be paid during months specified for the 2001 and subsequent taxation years.

► 122.5(7) ◄

(7) Effect of bankruptcy. For the purpose of this section, where in a taxation year an individual becomes bankrupt,

(*a*) the individual's income for the year shall include the individual's income for the taxation year that begins on January 1 of the calendar year that includes the date of bankruptcy; and

(*b*) the amount determined for the year under clause (3)(*e*)(ii)(B) shall include the amount determined for the purpose of paragraph (*c*) of the description of B in subsection 118(1) for the individual's taxation year that begins on January 1 of the calendar year that includes the date of bankruptcy.

History: S. 122.5(7) was added by S.C. 1998, c. 19, s. 139(3), applicable to bankruptcies that occur after April 26, 1995.

Related Sections: S. 118.95 Credits in year of bankruptcy; s. 120.2(4) Where subsection (1) does not apply; s. 122.61(3.1) Effect of bankruptcy; s. 127.1(1) Refundable investment tax credit; s. 128(2) Where individual bankrupt; s. 248(1), "bankrupt".

SECTION 122.51: [Refundable Medical Expense Supplement].

► 122.51(1) ◄

(1) Definitions. The definitions in this subsection apply in this section.

"*adjusted income*" — "adjusted income" of an individual for a taxation year has the meaning assigned by section 122.6.

"*eligible individual*" — "eligible individual" for a taxation year means an individual (other than a trust)

(*a*) who is resident in Canada throughout the year (or, if the individual dies in the year, throughout the portion of the year before the individual's death);

(*b*) who, before the end of the year, has attained the age of 18 years; and

(*c*) the total of whose incomes for the year from the following sources is at least $2,500:

(i) offices and employments (computed without reference to paragraph 6(1)(*f*)),

(ii) businesses each of which is a business carried on by the individual either alone or as a partner actively engaged in the business, and

(iii) the program established under the *Wage Earner Protection Program Act*.

History: S. 122.51(1), paragraph (*c*) of the definition "eligible individual" was replaced by S.C. 2009, c. 2, s. 37(1), applicable to the 2008 and subsequent taxation years. S. 122.51(1), paragraph (*c*) of the definition "eligible individual" formerly read:

"(*c*) whose incomes for the year from all

(i) offices and employments (computed without reference to paragraph 6(1)(*f*)), and

(ii) businesses each of which is a business carried on by the individual either alone or as a partner actively engaged in the business

total $2,500 or more."

S. 122.51(1) was added by S.C. 1998, c. 19, s. 32(1), applicable to the 1997 and subsequent taxation years.

► 122.51(2) ◄

(2) Deemed payment on account of tax. Where a return of income (other than a return of income filed under subsection 70(2), paragraph 104(23)(*d*) or 128(2)(*e*) or subsection 150(4)) is filed in respect of an eligible individual for a particular taxation year that ends at the end of a calendar year, there is deemed to be paid at the end of the particular year on account of the individual's tax payable under this Part for the particular year the amount determined by the formula

$$A - B$$

where

A is the lesser of

(*a*) $1,000, and

(*b*) the total of

(i) the amount determined by the formula

$$(25/C) \times D$$

where

C is the appropriate percentage for the particular taxation year, and

D is the total of all amounts each of which is the amount determined by the formula in subsection 118.2(1) for the purpose of computing the individual's tax payable under this Part for a taxation year that ends in the calendar year, and

(ii) 25% of the total of all amounts each of which is the amount deductible under section 64 in computing the individual's income for a taxation year that ends in the calendar year; and

B is 5% of the amount, if any, by which

(*a*) the total of all amounts each of which is the individual's adjusted income for a taxation year that ends in the calendar year

exceeds

(*b*) $21,663.

CRA Press Release

2.5% Indexation Factor for 2009

See CRA Fact Sheet, dated December 8, 2008, that is reproduced following subsection 117.1(1). This release announces a

2.5% indexation factor applicable for 2009 tax bracket thresholds, personal amounts and other amounts relating to non-refundable credits, as well as the refundable medical expense supplement and Old Age Security repayment threshold. Increases to the Canada Child Tax Benefit (including the National Child Benefit supplement and the Child Disability Benefit) and the Goods and Services Tax Credit will take effect as of July 1, 2009.

History: S. 122.51(2), subparagraph (*b*)(i) of the description of A was replaced by S.C. 2007, c. 2, s. 31(1), applicable to the 2005 and subsequent taxation years.

S. 122.51(2), subparagraph (*b*)(i) of the description of A formerly read:

"(i) $^{25}/_{16}$ of the total of all amounts each of which is the amount determined by the formula in subsection 118.2(1) for the purpose of computing the individual's tax payable under this Part for a taxation year that ends in the calendar year, and"

S. 122.51(2), paragraph (*a*) of the description of A was replaced by S.C. 2006, c. 4, s. 70(1), applicable to the 2006 and subsequent taxation years.

S. 122.51(2), paragraph (*a*) of the description of A formerly read:

"(a) $750, and"

S. 122.51(2), paragraph (*b*) of the description of B was replaced by S.C. 2006, c. 4, s. 70(2), applicable to the 2005 and subsequent taxation years.

S. 122.51(2), paragraph (*b*) of the description of B formerly read:

"(b) the sum of

(i) the greatest total that may be determined in respect of an individual for the year under paragraph (*a*) of the description of B in subsection 118(1), and

(ii) the dollar amount used for the year in computing the amount that may be claimed under subsection 118.3(1) in respect of an individual who has attained the age of 18 years before the end of the year."

S. 122.51(2), paragraph (*a*) of the description of A was replaced by S.C. 2005, c. 30, s. 7(1), applicable to the 2005 and subsequent taxation years. S. 122.51(2), paragraph (*a*) of the description of A formerly read:

"(a) $500, and"

S. 122.51(2), paragraph (*b*) of the description of A was replaced by S.C. 2005, c. 19, s. 26(1), applicable to the 2004 and subsequent taxation years. S. 122.51(2), paragraph (*b*) of the description of A formerly read:

"(b) $^{25}/_{16}$ of the total of all amounts each of which is the amount determined by the formula in subsection 118.2(1) for the purpose of computing the individual's tax payable under this Part for a taxation year that ends in the calendar year; and"

S. 122.51(2), paragraph (*b*) of the description of A was amended by S.C. 2001, c. 17, s. 108(1), by replacing the reference to the fraction "$^{25}/_{17}$" with a reference to the fraction "$^{25}/_{16}$", applicable to the 2001 and subsequent taxation years.

S. 122.51(2), paragraph (*b*) of the description of B was amended by S.C. 2000, c. 14, s. 39(1), applicable to the 2000 and subsequent taxation years. S. 122.51(2), paragraph (*b*) of the description of B formerly read:

"(*b*) $17,419."

S. 122.51(2), the description of B was amended by S.C. 2000, c. 19, s. 32(1), applicable to the 1999 and subsequent taxation years except that, in its application to the 1999 taxation year, paragraph (*b*) of the description of B in subsection 122.51(2) of the Act, as enacted by subsection (1), shall be read as follows:

"(*b*) $16,745."

S. 122.51(2), the description of B formerly read:

"B is 5% of the amount, if any, by which

(*a*) the individual's adjusted income for the particular year

exceeds

(*b*) $16,069."

S. 122.51(2) was added by S.C. 1998, c. 19, s. 32(1), applicable to the 1997 and subsequent taxation years.

Related Sections: S. 117.1(1) Annual adjustment (indexing); s. 152(1)(*b*) Assessment; s. 152(4.2) Reassessment with taxpayer's consent.

Information Circulars: 07-1 Taxpayer relief provisions.

Subdivision a.1 — Canada Child Tax Benefit

SECTION 122.6: Definitions.

In this subdivision,

History: The heading before s. 122.6 was amended by S.C. 1998, c. 21, s. 91(1), applicable after June 1998. That heading formerly read:
"Child Tax Benefit"

S. 122.6 was added by S.C. 1994, c. 7, Sched. VII, s. 12(1). For application, see S.C. 1994, c. 7, Sched. VII, s. 12(2) and (3) below.

Interpretation Bulletins: *Secondary* — IT-495R3 Child care expenses.
Cases: S. 122.6 does not permit the proration of benefits between two persons who claim to be eligible parents. *The Queen v. Marshall et al.*, 96 DTC 6292 (F.C.A.).
Guides: T4114 Your Child Tax Benefit.

"adjusted earned income" — [Repealed by S.C. 1998, c. 21, s. 92(1).]

History: S. 122.6, the definition "adjusted earned income" was repealed by S.C. 1998, c. 21, s. 92(1), applicable with respect to overpayments deemed to arise during months that are after June 1998. S. 122.6, the definition "adjusted earned income" formerly read:

" *'adjusted earned income'* — 'adjusted earned income' of an individual for a taxation year means the total of all amounts each of which is the earned income for the year of the individual or of the person who was the individual's cohabiting spouse at the end of the year;"

"adjusted income" — "adjusted income", of an individual for a taxation year, means the total of all amounts each of which would be the income for the year of the individual or of the person who was the individual's cohabiting spouse or common-law partner at the end of the year if no amount were included under paragraph 56(1)(*q.1*) or subsection 56(6) or in respect of any gain from a disposition of property to which section 79 applies in computing that income and if no amount were deductible under paragraph 60(*y*) or (*z*) in computing that income;

History: S. 122.6, the definition "adjusted income" was replaced by S.C. 2007, c. 35, s. 112, applicable to the 2008 and subsequent taxation years. S. 122.6, the definition "adjusted income" formerly read:

" *'adjusted income'* — 'adjusted income' of an individual for a taxation year means the total of all amounts each of which would be the income for the year of the individual or of the person who was the individual's cohabiting spouse or common-law partner at the end of the year if no amount were included under subsection 56(6) or in respect of any gain from a disposition of property to which section 79 applies in computing that income and if no amount were deductible under paragraph 60(*y*) in computing that income;"

S. 122.6, the definition "adjusted income" was replaced by S.C. 2006, c. 4, s. 176(1), applicable to the 2006 and subsequent taxation years.

S. 122.6, the definition "adjusted income" formerly read:

" *'adjusted income'* — 'adjusted income' of an individual for a taxation year means the total of all amounts each of which would be the income for the year of the individual or of the person who was the individual's cohabiting spouse or common-law partner at the end of the year if no amount were included in respect of a gain from a disposition of property to which section 79 applies in computing that income;"

S. 122.6, the definition "adjusted income" was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.11), applicable January 1, 2001, coming into force on July 31, 2000. S. 122.6, the definition "adjusted income" formerly read:

" *'adjusted income'* — 'adjusted income' of an individual for a taxation year means the total of all amounts each of which would be the income for the year of the individual or of the person who was the individual's cohabiting spouse at the end of the year if no amount were included in respect of a gain from a disposition of property to which section 79 applies in computing that income;"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*.] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 122.6, the definition of "adjusted income" was amended by S.C. 1998, c. 19, s. 140(1), applicable in determining the adjusted income of an individual for the 1992 and subsequent taxation years. That definition formerly read:

" *'adjusted income'* — 'adjusted income' of an individual for a taxation year means the total of all amounts each of which is the income for the year of the individual or of the person who was the individual's cohabiting spouse at the end of the year;"

Related Sections: S. 122.5(1), "Adjusted income"; s. 122.51(1), "adjusted income"; s. 122.62(5) Death of cohabiting spouse; s. 122.62(6) Separation from cohabiting spouse.

"base taxation year" — "base taxation year" in relation to a month means

(*a*) where the month is any of the first 6 months of a calendar year, the taxation year that ended on December 31 of the second preceding calendar year, and

(*b*) where the month is any of the last 6 months of a calendar year, the taxation year that ended on December 31 of the preceding calendar year;

"cohabiting spouse or common-law partner" — "cohabiting spouse or common-law partner" of an individual at any time means the person who at that time is the individual's spouse or common-law partner and who is not at that time living separate and apart from the individual and, for the purpose of this definition, a person shall not be considered to be living separate and apart from an individual at any time unless they were living separate and apart at that time, because of a breakdown of their marriage or common-law partnership, for a period of at least 90 days that includes that time;

History: S. 122.6, the definition "cohabiting spouse" was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.11) and 9(h), applicable January 1, 2001, coming into force on July 31, 2000. S. 122.6, the definition "cohabiting spouse" formerly read:

" *'cohabiting spouse'* — 'cohabiting spouse' of an individual at any time means the person who at that time is the individual's spouse and who is not at that time living separate and apart from the individual and, for the purpose of this definition, a person shall not be considered to be living separate and apart from an individual at any time unless they were living separate and apart at that time, because of a breakdown of their marriage, for a period of at least 90 days that includes that time;"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*.] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

"earned income" — [Repealed by S.C. 1998, c. 21, s. 92(1).]

History: S. 122.6, the definition "earned income" was repealed by S.C. 1998, c. 21, s. 92(1), applicable with respect to overpayments deemed to arise during months that are after June 1998. S. 122.6, the definition "earned income" formerly read:

" *'earned income'* — 'earned income' of an individual for a taxation year has the meaning assigned by subsection 63(3);"

"eligible individual" — "eligible individual" in respect of a qualified dependant at any time means a person who at that time

(*a*) resides with the qualified dependant,

(*b*) is the parent of the qualified dependant who primarily fulfils the responsibility for the care and upbringing of the qualified dependant,

(*c*) is resident in Canada or, where the person is the cohabiting spouse or common-law partner of a person who is deemed under subsection 250(1) to be resident in Canada throughout the taxation year that includes that time, was resident in Canada in any preceding taxation year,

(*d*) is not described in paragraph 149(1)(*a*) or (*b*), and

(*e*) is, or whose cohabiting spouse or common-law partner is, a Canadian citizen or a person who

(i) is a permanent resident within the meaning of subsection 2(1) of the *Immigration and Refugee Protection Act*,

(ii) is a temporary resident within the meaning of the *Immigration and Refugee Protection Act*, who was resident in Canada throughout the 18 month period preceding that time, or

(iii) is a protected person within the meaning of the *Immigration and Refugee Protection Act*,

(iv) was determined before that time to be a member of a class defined in the *Humanitarian Designated Classes Regulations* made under the *Immigration Act*,

and for the purposes of this definition,

(*f*) where a qualified dependant resides with the dependant's female parent, the parent who primarily fulfils the responsibility for the care and upbringing of the qualified dependant is presumed to be the female parent,

(*g*) the presumption referred to in paragraph (*f*) does not apply in prescribed circumstances, and

(*h*) prescribed factors shall be considered in determining what constitutes care and upbringing;

History: S. 122.6, subparagraphs (*e*)(i) to (iii) of the definition "eligible individual" were amended by S.C. 2001, c. 27, s. 254, coming into force on a day or days to be fixed by order of the Governor in Council (not yet fixed at date of publication). S. 122.6, subparagraphs (*e*)(i) to (iii) of the definition "eligible individual" formerly read:

"(i) is a permanent resident (within the meaning assigned by the *Immigration Act*),

(ii) is a visitor in Canada or the holder of a permit in Canada (within the meanings assigned by the *Immigration Act*) who was resident in Canada throughout the 18 month period preceding that time,

(iii) was determined before that time under the *Immigration Act*, or regulations made under that Act, to be a Convention refugee, or"

S. 122.6, subparagraph (*e*)(iv) of the definition "eligible individual" was added by S.C. 2001, c. 17, s. 109(1), applicable in respect of overpayments deemed to arise during months that are after June 2001.

S. 122.6, the definition "eligible individual", was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.11), applicable January 1, 2001, coming into force on July 31, 2000. S. 122.6, the definition "eligible individual" formerly read:

"*'eligible individual'* — 'eligible individual' in respect of a qualified dependant at any time means a person who at that time

(*a*) resides with the qualified dependant,

(*b*) is the parent of the qualified dependant who primarily fulfils the responsibility for the care and upbringing of the qualified dependant,

(*c*) is resident in Canada or, where the person is the cohabiting spouse of a person who is deemed under subsection 250(1) to be resident in Canada throughout the taxation year that includes that time, was resident in Canada in any preceding taxation year,

(*d*) is not described in paragraph 149(1)(*a*) or (*b*), and

(*e*) is, or whose cohabiting spouse is, a Canadian citizen or a person who

(i) is a permanent resident (within the meaning assigned by the *Immigration Act*),

(ii) is a visitor in Canada or the holder of a permit in Canada (within the meanings assigned by the *Immigration Act*) who was resident in Canada throughout the 18 month period preceding that time, or

(iii) was determined before that time under the *Immigration Act*, or regulations made under that Act, to be a Convention refugee,

and for the purposes of this definition,

(*f*) where the qualified dependant resides with the dependant's female parent, the parent who primarily fulfils the responsibility for the care and upbringing of the qualified dependant is presumed to be the female parent,

(*g*) the presumption referred to in paragraph (*f*) does not apply in prescribed circumstances, and

(*h*) prescribed factors shall be considered in determining what constitutes care and upbringing;"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 122.6, paragraph (*c*) of the definition "eligible individual" was amended by S.C. 1999, c. 22, s. 44(1), applicable after February 23, 1998. S. 122.6, paragraph (*c*) of the definition "eligible individual" formerly read:

"(*c*) is resident in Canada,"

S. 122.6, paragraphs (*g*) and (*h*) of the definition "eligible individual", was amended by S.C. 1998, c. 19, s. 140(3), applicable after August 27, 1995. Those paragraphs formerly read:

"(*g*) the presumption referred to in paragraph (*f*) does not apply in circumstances set out in regulations made by the Governor in Council on the recommendation of the Minister of Human Resources Development, and

(*h*) factors to be considered in determining what constitutes care and upbringing may be set out in regulations made by the Governor in Council on the recommendation of the Minister of Human Resources Development;"

S. 122.6, subparagraph (*e*)(iii) of the definition of "eligible individual", was amended by S.C. 1998, c. 19, s. 140(2), applicable after 1992. That subparagraph formerly read:

"(iii) was determined before that time by the Convention Refugee Determination Division of the Immigration and Refugee Board to be a Convention refugee,"

S. 122.6, paragraphs (*g*) and (*h*) of the definition "eligible individual" were amended by S.C. 1996, c. 11, s. 95, by replacing the term "Minister of National Health and Welfare" with the term "Minister of Human Resources Development", effective July 12, 1996.

Related Sections: S. 122.5(1), "Eligible individual"; s. 122.51(1), "eligible individual"; s. 122.62(1) Eligible individuals.

Regulations: 6301; 6302.

Guides: T4114 Your Child Tax Benefit.

Cases: S. 122.6 does not permit the proration of benefits between two persons who claim to be eligible parents. *The Queen v. Marshall et al.*, 96 DTC 6292 (F.C.A.).

"*qualified dependant*" — "qualified dependant" at any time means a person who at that time

(*a*) has not attained the age of 18 years,

(*b*) is not a person in respect of whom an amount was deducted under paragraph (*a*) of the description of B in subsection 118(1) in computing the tax payable under this Part by the person's spouse or common-law partner for the base taxation year in relation to the month that includes that time, and

(*c*) is not a person in respect of whom a special allowance under the *Children's Special Allowances Act* is payable for the month that includes that time;

History: S. 122.6, the definition "qualified dependant", was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.11), applicable January 1, 2001, coming into force on July 31, 2000. S. 122.6, the definition "qualified dependant" formerly read:

"*'qualified dependant'* — 'qualified dependant' at any time means a person who at that time

(*a*) has not attained the age of 18 years,

(*b*) is not a person in respect of whom an amount was deducted under paragraph (*a*) of the description of B in subsection 118(1) in computing the tax payable under this Part by the person's spouse for the base taxation year in relation to the month that includes that time, and

(*c*) is not a person in respect of whom a special allowance under the *Children's Special Allowances Act* is payable for the month that includes that time;"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

"*return of income*" — "return of income" filed by an individual for a taxation year means

(*a*) where the individual was resident in Canada throughout the year, the individual's return of income (other than a return of income filed under

subsection 70(2) or 104(23), paragraph 128(2)(*e*) or subsection 150(4)) that is filed or required to be filed under this Part for the year, and

(*b*) in any other case, a prescribed form containing prescribed information, that is filed with the Minister.

Related Sections: S. 164(2.3) Form deemed to be a return of income.

Secs. 12(2) and (3), Sched. VII, Chap. 7, S.C. 1994

Sec. 12. [Application of section 122.6.]

(2) Sections 122.6 to 122.63 apply with respect to overpayments deemed to arise during months that are after 1992, and with respect to

(*a*) any amount deemed by subsection 122.61(1) of the said Act, as enacted by subsection (1), to be an overpayment on account of an individual's liability under Part I of the said Act

(i) during any month before July 1993, the individual's cohabiting spouse at the end of 1991 includes a person who

(A) is of the opposite sex to the individual,

(B) is at the beginning of the month a parent of a child of whom the individual is a parent, and

(C) is not living separate and apart from the individual for a period of at least 90 days that includes December 31, 1991, and

(ii) during any month after June 1993 and before July 1994, the cohabiting spouse of an individual at the end of 1992 includes the person of the opposite sex who, at the end of 1992, was cohabiting with the individual in a conjugal relationship and

(A) had so cohabited with the individual throughout a 12 month period ending before the end of 1992, or

(B) is a parent of a child of whom the individual is a parent,

and, for the purpose of this subparagraph, where before the end of 1992 the individual and the person cohabited in a conjugal relationship, they shall be deemed to be cohabiting in a conjugal relationship at the end of 1992, unless they were not cohabiting at that time for a period of at least 90 days that includes that time because of a breakdown of their conjugal relationship; and

(*b*) any amount deemed by the said subsection 122.61(1) to be an overpayment on account of a person's liability under Part I of the said Act arising in any month in relation to which the 1992 taxation year is the base taxation year, the expression "earned income" as defined in section 122.6 shall be deemed to have the meaning assigned by paragraph 63(3)(*b*) of the said Act as that paragraph reads in its application to the 1993 taxation year.

(3) The Minister of National Revenue may during any month

(*a*) in relation to which the 1991 taxation year is the base taxation year, and

(*b*) that is before the month in which that Minister mails to an individual a notice of determination of the amounts deemed by subsection 122.61(1) of the said Act, as enacted by subsection (1), to be overpayments on account of the individual's liability under Part I of the said Act for the 1991 taxation year,

pay to the individual, in respect of a qualified dependant who was an eligible child (within the meaning assigned by paragraph 122.2(2)(*a*) of the said Act) of the individual for the 1992 taxation year, an amount not exceeding the amount that would be deemed by the said subsection 122.61(1) to be an overpayment on account of the individual's liability under Part I of the said Act for the 1991 taxation year that would have arisen in that month or a preceding month if the individual's adjusted income and adjusted earned income for the 1991 taxation year were equal to zero and if the individual had filed a return of income for that year, and any amount so paid shall be deemed to be an amount refunded on account of the individual's liability under Part I of the said Act for the 1991 taxation year that arose as a consequence of the operation of the said subsection 122.61(1).

SECTION 122.61:

► 122.61(1) ◄

(1) Deemed overpayment. Where a person and, where the Minister so demands, the person's cohabiting spouse or common-law partner at the end of a taxation year have filed a return of income for the year, an overpayment on account of the person's liability under this Part for the year is deemed to have arisen during a month in relation to which the year is the base taxation year, equal to the amount determined by the formula

$$1/12[(A - B) + C + M]$$

where

A is the total of

(*a*) the product obtained by multiplying $1,090 by the number of qualified dependants in respect of whom the person was an eligible individual at the beginning of the month, and

(*b*) the product obtained by multiplying $75 by the number of qualified dependants, in excess of 2, in respect of whom the person was an eligible individual at the beginning of the month;

(*c*) [Repealed.]

B is 4% (or where the person is an eligible individual in respect of only one qualified dependant at the beginning of the month, 2%) of the amount, if any, by which

(*a*) the person's adjusted income for the year

exceeds

(*b*) the greater of $32,000 and the dollar amount, as adjusted annually and referred to in paragraph 117(2)(*a*), that is used for the calendar year following the base taxation year;

C is the amount determined by the formula

$$F - (G \times H)$$

where

F is, where the person is, at the beginning of the month, an eligible individual in respect of

(*a*) only one qualified dependant, $1,463, and

(*b*) two or more qualified dependants, the total of

(i) $1,463 for the first qualified dependant,

(ii) $1,254 for the second qualified dependant, and

(iii) $1,176 for each of the third and subsequent qualified dependants,

G is the amount determined by the formula

$$J - [K + (L/0.122)]$$

where

J is the person's adjusted income for the year,

K is the amount referred to in paragraph (*b*) of the description of B, and

L is the amount referred to in paragraph (*a*) of the description of F, and

H is

(*a*) if the person is an eligible individual in respect of only one qualified dependant, 12.2%, and

(*b*) if the person is an eligible individual in respect of two or more qualified dependants, the fraction (expressed as a percentage rounded to the nearest one-tenth of one per cent) of which

(i) the numerator is the total that would be determined under the description of F in respect of the eligible individual if that description were applied without reference to the fourth and subsequent qualified dependants in respect of whom the person is an eligible individual, and

(ii) the denominator is the amount referred to in paragraph (*a*) of the description of F, divided by 0.122; and

M is the amount determined by the formula

$$N - (O \times P)$$

where

N is the product obtained by multiplying $2,300 by the number of qualified dependants in respect of whom both

(*a*) an amount may be deducted under section 118.3 for the taxation year that includes the month, and

(*b*) the person is an eligible individual at the beginning of the month,

O is the amount determined by the formula

$$J - [F/H + (K - L/0.122)]$$

where the descriptions of J, F, H, K, and L are described in the description of C, and

P is 4% (or where the person is an eligible individual in respect of only one qualified dependant included in the description of N at the beginning of the month, 2%) of the amount determined for the description of O,

Federal Budget Extract

Canada Child Tax Benefit/National Child Benefit Supplement

[Reproduced below is an excerpt from the January 27, 2009 Federal Budget, which notes an increase in the income-testing level for the Canada Child Tax Benefit and the National Child Benefit supplement, in line with the increase in the upper limit of the lowest personal income tax bracket.]

The income levels on which income-testing of the base benefit under the Canada Child Tax Benefit (CCTB) and the National Child Benefit supplement (NCBs) are based, will be increased in line with the increase in the upper limit of the lowest personal income tax bracket. Specifically, for the 2009–10 benefit year, the income level at which the phase-out of the CCTB begins will increase to $40,726, and the income level at which the phase-out of the NCBs begins will increase by $1,894 such that it is completely phased out by $40,726 for the majority of families.

CRA Press Release

2.5% Indexation Factor for 2009

See CRA Fact Sheet, dated December 8, 2008, that is reproduced following subsection 117.1(1). This release announces a 2.5% indexation factor applicable for 2009 tax bracket thresholds, personal amounts and other amounts relating to non-refundable credits, as well as the refundable medical expense supplement and Old Age Security repayment threshold. Increases to the Canada Child Tax Benefit (including the National Child Benefit supplement and the Child Disability Benefit) and the Goods and Services Tax Credit will take effect as of July 1, 2009.

History: S. 122.61(1), paragraph (*c*) of the description of A was repealed by S.C. 2006, c. 4, s. 177(1), applicable in respect of overpayments that are deemed to arise during months that are after June 2007. S. 122.61(1), paragraph (*c*) of the description of A formerly read:

"(*c*) the amount determined by the formula

$$D - E$$

where

D is the product obtained by multiplying $249 by the number of qualified dependants who have attained the age of 6 years before the month and have not attained the age of 7 years before the month and in respect of whom the person is an eligible individual at the beginning of the month, and

E is 25% of the total of all amounts deducted under section 63 in respect of qualified dependants in computing the income for the year of the person or the person's cohabiting spouse or common-law partner;"

The description of D in paragraph (*c*) of the description of A in subsection 122.61(1) is replaced for overpayments that are deemed to arise during months that are after June 2006 and before July 2007. The description of D in paragraph (*c*) of the description of A in subsection 122.61(1) formerly read:

"D is the product obtained by multiplying $213 by the number of qualified dependants who have not attained the age of 7 years before the month and in respect of whom the person is an eligible individual at the beginning of the month, and"

S. 122.61(1), the portion of the description of N before paragraph (*a*) was replaced by S.C. 2006, c. 4, s. 71(1), applicable in respect of overpayments deemed to arise during months that are after June 2006. S. 122.61(1), the portion of the description of N before paragraph (*a*) formerly read:

"N is the product obtained by multiplying $2,000 by the number of qualified dependants in respect of whom both"

S. 122.61(1), the description of P was replaced by S.C. 2006, c. 4, s. 71(2), applicable in respect of overpayments deemed to arise during months that are after June 2006. S. 122.61(1), the description of P formerly read:

"P is the amount that would be determined for the description of H if the person were an eligible individual in respect of only the number of qualified dependants included in the description of N."

S. 122.61(1), the portion of the description of N before paragraph (*a*) was replaced by S.C. 2005, c. 30, s. 8(1), applicable in respect of overpayments deemed to arise during months that are after June 2005. S. 122.61(1), the portion of the description of N before paragraph (*a*) formerly read:

"N is the product obtained by multiplying $1,600 by the number of qualified dependants in respect of whom both"

S. 122.61(1), the first formula was replaced by S.C. 2003, c. 15, s. 77(1), applicable in respect of overpayments deemed to arise during months that are after June 2003. S. 122.61(1), the first formula formerly read:

"1/12[(A – B) + C]"

S. 122.61(1), paragraphs (*a*) and (*b*) of the description of F in the description of C were replaced by S.C. 2003, c. 15, s. 77(2), applicable in respect of overpayments deemed to arise during months that are after June 2003. S. 122.61(1), paragraphs (*a*) and (*b*) of the description of F in the description of C formerly read:

"(*a*) only one qualified dependant, $1,255, and

(*b*) two or more qualified dependants, the total of

(i) $1,255 for the first qualified dependant,

(ii) $1055 for the second qualified dependant, and

(iii) $980 for each of the third and subsequent qualified dependants."

S. 122.61(1), the descriptions of G and H were replaced by S.C. 2003, c. 15, s. 77(3), applicable in respect of overpayments deemed to arise during months that are after June 2003 except that, for overpayments deemed to arise during those months that are before July 2004, the following applies:

(*a*) the description of G is to be read as follows:

"G is the amount, if any, by which the person's adjusted income for the year exceeds $21,529, and"

(*b*) subparagraph (*b*)(ii) in the description of H is to be read as follows:

"(ii) the denominator is the amount by which the amount referred to in paragraph (*b*) of the description of B exceeds $21,529."

The descriptions of G and H formerly read:

"G is the amount, if any, by which the person's adjusted income for the year exceeds $21,214, and

H is the proportion (expressed as a percentage rounded to the nearest one-tenth of one per cent) that

(*a*) the total that would be determined under the description of F in respect of the eligible individual if that description were applied without reference to the fourth and subsequent qualified dependants in respect of whom the person is an eligible individual

is of

(*b*) the amount by which

(i) the amount referred to in paragraph (*b*) of the description of B exceeds

(ii) $21,214."

S. 122.61(1), the descriptions of M, N, O and P were added by S.C. 2003, c. 15, s. 77(4), applicable in respect of overpayments deemed to arise during months that are after June 2003 except that, for overpayments deemed to arise during those months that are before July 2004, the description of O in subsection 122.61(1) of the Act is to be read as follows:

"O is the amount determined by the formula

(*a*) 'J – $33,487', if the person is an eligible individual in respect of three or fewer qualified dependants, and

(*b*) 'J – (F/H + $21,529)', if the person is an eligible individual in respect of more than three qualified dependants,

where the descriptions of J, F and H are described in the description of C, and"

S. 122.61(1), the portion of the description of B before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 110(1), applicable with respect to overpayments deemed to arise during months that are after June 2004. S. 122.61(1), the portion of the description of B before paragraph (*a*) formerly read:

"B is 5% (or where the person is an eligible individual in respect of only one qualified dependant at the beginning of the month, 2 1/2%) of the amount, if any, by which"

S. 122.61(1), paragraph (*b*) of the description of B was amended by S.C. 2001, c. 17, s. 110(2), applicable with respect to overpayments deemed to arise during months that are after June 2001. S. 122.61(1), paragraph (*b*) of the description of B formerly read:

"(*b*) the dollar amount, as adjusted annually and referred to in paragraph 117(2)(*a*), that is used for the calendar year following the base taxation year; and"

S. 122.61(1), paragraphs (*a*) and (*b*) of the description of F were amended by S.C. 2001, c. 17, s. 110(3), applicable with respect to overpayments deemed to arise during months that are after June 2001. S. 122.61(1), paragraphs (*a*) and (*b*) of the description of F formerly read:

"(*a*) only one qualified dependant, $1,155, and

(*b*) two or more qualified dependants, the total of

(i) $1,155 for the first qualified dependant,

(ii) $955 for the second qualified dependant, and

(iii) $880 for each of the third and subsequent qualified dependants,"

S. 122.61(1), the descriptions of G and H were amended by S.C. 2000, c. 14, s. 40(4), applicable with respect to overpayments deemed to arise during months that are after June 2000. S. 122.61(1), the descriptions of G and H formerly read:

"G is the amount, if any, by which the person's adjusted income for the year exceeds $20,921, and

H is, where the person is an eligible individual in respect of

(*a*) only one qualified dependant, 11.0%,

(*b*) two qualified dependants, 19.7%, and

(*c*) three or more qualified dependants, 27.6%."

S. 122.61(1), paragraphs (*a*) and (*b*) of the description of F were amended by S.C. 2000, c. 14, s. 40(3), applicable with respect to overpayments deemed to arise during months that are after June 2000 except that, with respect to overpayments deemed to arise during months that are after June 2000 and before July 2001, the references to "$1,155", "$955" and "$880" in paragraphs (*a*) and (*b*) of the description of F in subsection 122.61(1) of the Act shall be read as references to "$977", "$771" and "$694", respectively. S. 122.61(1), paragraphs (*a*) and (*b*) of the description of F formerly read:

"(*a*) only one qualified dependant, $955, and

(*b*) two or more qualified dependants, the total of

(i) $955 for the first qualified dependant,

(ii) $755 for the second qualified dependant, and

(iii) $680 for each of the third and subsequent qualified dependants,"

S. 122.61(1), the description of B was amended by S.C. 2000, c. 14, s. 40(2), applicable with respect to overpayments deemed to arise during months that are after June 2000. S. 122.61(1), the description of B formerly read:

"B is 5% (or where the person is an eligible individual in respect of only one qualified dependant at the beginning of the month, 2 1/2%) of the amount, if any, by which the person's adjusted income for the year exceeds $29,590; and"

S. 122.61(1), paragraph (*a*) of the description of A was amended by S.C. 2000, c. 14, s. 40(1), applicable with respect to overpayments deemed to arise during months that are after June 2000. S. 122.61(1), paragraph (*a*) of the description of A formerly read:

"(*a*) the product obtained by multiplying $1,020 by the number of qualified dependants in respect of whom the person was an eligible individual at the beginning of the month,"

S. 122.61(1), the portion before the formula, was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.12), applicable January 1, 2001, coming into force on July 31, 2000. S. 122.61(1), the portion before the formula formerly read:

"(1) Where a person and, where the Minister so demands, the person's cohabiting spouse at the end of a taxation year have filed a return of income for the year, an overpayment on account of the person's liability under this Part for the year is deemed to have arisen during a month in relation to which the year is the base taxation year, equal to the amount determined by the formula"

S. 122.61(1), the description of E in paragraph (*c*) of the description of A, was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.12), applicable January 1, 2001, coming into force on July 31, 2000. S. 122.61(1), the description of E in paragraph (*c*) formerly read:

"E is 25% of the total of all amounts deducted under section 63 in respect of qualified dependants in computing the income for the year of the person or the person's cohabiting spouse;"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 122.61(1), the application of paragraph 36(7)(*a*) of S.C. 1999, c. 26 was amended by S.C. 2000, c. 19, s. 73(1), deemed to have come into force on June 17, 1999. That application now reads:

"(*a*) the references to '$955', '$755' and '$680' in paragraphs (*a*) and (*b*) of the description of F in subsection 122.61(1) of the Act, as enacted by subsection (2), shall be read as references to '$785', '$585' and '$510', respectively; and"

S. 122.61(1), the portion of the description of F before paragraph (*a*) was amended by S.C. 2000, c. 19, s. 33(1), deemed to have come into force on June 18, 1998. S. 122.61(1), the portion of the description of F before paragraph (*a*) formerly read:

"F is, where the person is an eligible individual in respect of"

S. 122.61(1), paragraphs (*a*) to (*c*) of the description of H were amended by S.C. 1999, c. 26, s. 36(3), applicable to the calculation of overpayments deemed to arise during months that are after June 1999 except that, in their application to overpayments deemed to arise during months that are after June 1999 and before July 2000,

(*a*) the references to "11.0%", "19.7%" and "27.6%" in paragraphs (*a*) to (*c*) of the description of H in subsection 122.61(1) of the Act, shall be read as references to "11.5%", "20.1%" and "27.5%", respectively. S. 122.61(1), paragraphs (*a*) to (*c*) of the description of H formerly read:

"(*a*) only one qualified dependant, 12.1%,

(*b*) two qualified dependants, 20.2%, and

(*c*) three or more qualified dependants, 26.8%."

S. 122.61(1), paragraphs (*a*) and (*b*) of the description of F were amended by S.C. 1999, c. 26, s. 36(2), applicable to the calculation of overpayments deemed to arise during months that are after June 1999 except that, in their application to overpayments deemed to arise during months that are after June 1999 and before July 2000,

(*a*) the references to "$955", "$755" and "$680" in subparagraphs (*b*)(i) to (iii) of the description of F in subsection 122.61(1) of the Act shall be read as references to "$785", "$585" and "$510", respectively. S. 122.61(1), paragraphs (*a*) and (*b*) of the description of F formerly read:

"(*a*) only one qualified dependant, $605, and

(*b*) two or more qualified dependants, the total of

(i) $605 for the first qualified dependant,

(ii) $405 for the second qualified dependant, and

(iii) $330 for each, if any, of the third and subsequent qualified dependants,"

S. 122.61(1), the description of B was amended by S.C. 1999,c. 26, s. 36(1), applicable to the calculation of overpayments deemed to arise during months that are after June 2000. S. 122.61(1), the description of B formerly read:

"B is 5% (or where the person is an eligible individual in respect of only one qualified dependant at the beginning of the month, 2 1/2%) of the amount, if any, by which the person's adjusted income for the year exceeds $25,921; and"

S. 122.61(1) was amended by S.C. 1998, c. 21, s. 93(1), applicable with respect to overpayments deemed to arise during months that are after June 1998. S. 122.61(1) formerly read:

"S. 122.61. *Deemed overpayment.*

(1) Where a person and, where the Minister so demands, the person's cohabiting spouse at the end of a taxation year have filed a return of income for the year, an overpayment on account of the person's liability under this Part for the year shall be deemed to have arisen during a month in relation to which the year is the base taxation year, equal to the amount determined by the formula

$$\frac{1}{12}(A - B)$$

where

A is the total of

(*a*) the product obtained by multiplying $1,020 by the number of qualified dependants in respect of whom the person was an eligible individual at the beginning of the month,

(*b*) the product obtained by multiplying $75 by the number of qualified dependants, in excess of 2, in respect of whom the person was an eligible individual at the beginning of the month,

(*c*) where the person is, at the beginning of the month, an eligible individual in respect of one or more qualified dependants, the amount determined by the formula

$$\left[C \times \frac{(D - \$3{,}750)}{\$6{,}250}\right] - (G \times H)$$

where

C is, where the person is an eligible individual in respect of

(i) only one qualified dependant, $605, and

(ii) two or more qualified dependants, the total of

(A) $605 for the first qualified dependant,

(B) $405 for the second qualified dependant, and

(C) $330 for each, if any, of the third and subsequent qualified dependants,

D is the lesser of $10,000 and the person's adjusted earned income for the year,

G is the amount, if any, by which the person's adjusted income for the year exceeds $20,921, and

H is, where the person is an eligible individual in respect of

(i) only one qualified dependant, 12.1%,

(ii) two qualified dependants, 20.2%, and

(iii) three or more qualified dependants, 26.8%, and

(d) the amount determined by the formula

$$E - F$$

where

E is the product obtained by multiplying $213 by the number of qualified dependants who have not attained the age of 7 years before the month and in respect of whom the person is an eligible individual at the beginning of the month, and

F is 25% of the total of all amounts deducted under section 63 in respect of qualified dependants in computing the income for the year of the person or the person's cohabiting spouse; and

B is 5% (or where the person is an eligible individual in respect of only one qualified dependant at the beginning of the month, 2½%) of the amount, if any, by which the person's adjusted income for the year exceeds $25,921."

S. 122.61(1), paragraph (*c*) in the description of A, was amended by S.C. 1997, c. 26, s. 80(1), applicable to overpayments deemed to arise during months that are after June 1997. That part formerly read:

"(*c*) where the person is, at the beginning of the month, an eligible individual in respect of one or more qualified dependants, the amount determined by the formula

$$C - D$$

where

C is the lesser of $500 and 8% of the amount, if any, by which the person's adjusted earned income for the year exceeds $3,750, and

D is 10% of the amount, if any, by which the person's adjusted income for the year exceeds $20,921, and"

S. 122.61(1) was added by S.C. 1994, c. 7, Sched. VII, s. 12(1). For application, see S.C. 1994, c. 7, Sched. VII, ss. 12(2) and (3), below.

Related Sections: S. 122.62 Eligible individuals; s. 122.63(1) Agreement.
Interpretation Bulletins: *Secondary*— IT-495R3 Child care expenses.
Forms: RC65; RC66; RC66 SCH.
Guides: RC4198 Your Canada Child Tax Benefit; T4114 Your Canada Child Tax Benefit.

Secs. 12(2) and (3), Sched. VII, Chap. 7, S.C. 1994

Sec. 12. [Application of section 122.61.]

(2) Sections 122.6 to 122.63 apply with respect to overpayments deemed to arise during months that are after 1992, and with respect to

(*a*) any amount deemed by subsection 122.61(1) of the said Act, as enacted by subsection (1), to be an overpayment on account of an individual's liability under Part I of the said Act

(i) during any month before July 1993, the individual's cohabiting spouse at the end of 1991 includes a person who

(A) is of the opposite sex to the individual,

(B) is at the beginning of the month a parent of a child of whom the individual is a parent, and

(C) is not living separate and apart from the individual for a period of at least 90 days that includes December 31, 1991, and

(ii) during any month after June 1993 and before July 1994, the cohabiting spouse of an individual at the end of 1992 includes the person of the opposite sex who, at the end of 1992, was cohabiting with the individual in a conjugal relationship and

(A) had so cohabited with the individual throughout a 12 month period ending before the end of 1992, or

(B) is a parent of a child of whom the individual is a parent,

and, for the purpose of this subparagraph, where before the end of 1992 the individual and the person cohabited in a conjugal relationship, they shall be deemed to be cohabiting in a conjugal relationship at the end of 1992, unless they were not cohabiting at that time for a period of at least 90 days that includes that time because of a breakdown of their conjugal relationship; and

(*b*) any amount deemed by the said subsection 122.61(1) to be an overpayment on account of a person's liability under Part I of the said Act arising in any month in relation to which the 1992 taxation year is the base taxation year, the expression "earned income" as defined in section 122.6 shall be deemed to have the meaning assigned by paragraph 63(3)(*b*) of the said Act as that paragraph reads in its application to the 1993 taxation year.

(3) The Minister of National Revenue may during any month

(*a*) in relation to which the 1991 taxation year is the base taxation year, and

(*b*) that is before the month in which that Minister mails to an individual a notice of determination of the amounts deemed by subsection 122.61(1) of the said Act, as enacted by subsection (1), to be overpayments on account of the individual's liability under Part I of the said Act for the 1991 taxation year,

pay to the individual, in respect of a qualified dependant who was an eligible child (within the meaning assigned by paragraph 122.2(2)(*a*) of the said Act) of the individual for the 1992 taxation year, an amount not exceeding the amount that would be deemed by the said subsection 122.61(1) to be an overpayment on account of the individual's liability under Part I of the said Act for the 1991 taxation year that would have arisen in that month or a preceding month if the individual's adjusted income and adjusted earned income for the 1991 taxation year were equal to zero and if the individual had filed a return of income for that year, and any amount so paid shall be deemed to be an amount refunded on account of the individual's liability under Part I of the said Act for the 1991 taxation year that arose as a consequence of the operation of the said subsection 122.61(1).

► 122.61(2) ◄

(2) Exceptions. Notwithstanding subsection (1), where a particular month is the first month during which

an overpayment that is less than $10 (or such other amount as is prescribed) is deemed under that subsection to have arisen on account of a person's liability under this Part for the base taxation year in relation to the particular month, any such overpayment that would, but for this subsection, reasonably be expected at the end of the particular month to arise during another month in relation to which the year is the base taxation year shall be deemed to arise under that subsection during the particular month and not during the other month.

History: S. 122.61(2) was added by S.C. 1994, c. 7, Sched. VII, s. 12(1). For application, see S.C. 1994, c. 7, Sched. VII, ss. 12(2) and (3), reproduced under s. 122.61(1) above.

► 122.61(3) ◄

(3) Non-residents and part-year residents. For the purposes of this section, unless a person was resident in Canada throughout a taxation year,

(*a*) for greater certainty, the person's income for the year shall be deemed to be equal to the amount that would have been the person's income for the year had the person been resident in Canada throughout the year; and

(*b*) the person's earned income for the year shall not exceed that portion of the amount that would, but for this paragraph, be the person's earned income that is included because of section 114 or subsection 115(1) in computing the person's taxable income or taxable income earned in Canada, as the case may be, for the year.

History: S. 122.61(3) was added by S.C. 1994, c. 7, Sched. VII, s. 12(1). For application, see S.C. 1994, c. 7, Sched. VII, ss. 12(2) and (3), reproduced under s. 122.61(1) above.

► 122.61(3.1) ◄

(3.1) Effect of bankruptcy. For the purposes of this subdivision, where in a taxation year an individual becomes bankrupt,

(*a*) the individual's income for the year shall include the individual's income for the taxation year that begins on January 1 of the calendar year that includes the date of bankruptcy; and

(*b*) the total of all amounts deducted under section 63 in computing the individual's income for the year shall include the amount deducted under that section for the individual's taxation year that begins on January 1 of the calendar year that includes the date of bankruptcy.

(*c*) [Repealed by S.C. 1998, c. 21, s. 94.]

History: S. 122.61(3.1)(*a*) and (*b*) were amended, and paragraph (*c*) was repealed by S.C. 1998, c. 21, s. 94, applicable on Royal Assent, June 18, 1998. S. 122.61(3.1)(*a*) to (*c*) formerly read:

"(*a*) the individual's earned income for the year shall include the individual's earned income for the taxation year that begins on January 1 of the calendar year that includes the date of bankruptcy;

(*b*) the individual's income for the year shall include the individual's income for the taxation year that begins on January 1 of the calendar year that includes the date of bankruptcy; and

(*c*) the total of all amounts deducted under section 63 in computing the individual's income for the year shall include the amount deducted under that section for the individual's taxation year that begins on January 1 of the calendar year that includes the date of bankruptcy."

S. 122.61(3.1) was added by S.C. 1998, c. 19, s. 141(1), applicable to bankruptcies that occur after April 26, 1995.

Related Sections: S. 118.95 Credits in year of bankruptcy; s. 120.2(4) Where subsection (1) does not apply; s. 122.5(7) Effect of bankruptcy; s. 127.1(1) Refundable investment tax credit; s. 128(2) Where individual bankrupt; s. 248(1), "bankrupt".

► 122.61(4) ◄

(4) Amount not to be charged, etc. A refund of an amount deemed by this section to be an overpayment on account of a person's liability under this Part for a taxation year

(*a*) shall not be subject to the operation of any law relating to bankruptcy or insolvency;

(*b*) cannot be assigned, charged, attached or given as security;

(*c*) does not qualify as a refund of tax for the purposes of the *Tax Rebate Discounting Act*;

(*d*) cannot be retained by way of deduction or set-off under the *Financial Administration Act*; and

(*e*) is not garnishable moneys for the purposes of the *Family Orders and Agreements Enforcement Assistance Act*.

History: S. 122.61(4) was added by S.C. 1994, c. 7, Sched. VII, s. 12(1). For application, see S.C. 1994, c. 7, Sched. VII, ss. 12(2) and (3), reproduced under s. 122.61(1) above.

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► 122.61(5) ◄

(5) Annual adjustment. Each amount expressed in dollars in subsection (1) shall be adjusted so that, where the base taxation year in relation to a particular month is after 1998, the amount to be used under that subsection for the month is the total of

(*a*) the amount that would, but for subsection (7), be the relevant amount used under subsection (1) for the month that is one year before the particular month, and

(*b*) the product obtained by multiplying

(i) the amount referred to in paragraph (*a*)

by

(ii) the amount, adjusted in such manner as is prescribed and rounded to the nearest one-thousandth or, where the result obtained is equidistant from 2 such consecutive one-thousandths, to the higher thereof, that is determined by the formula

$$(A/B) - 1$$

where

A is the Consumer Price Index (within the meaning assigned by subsection 117.1(4)) for the 12-month period that ended on September 30 of the base taxation year, and

B is the Consumer Price Index for the 12 month period preceding the period referred to in the description of A.

History: S. 122.61(5)(*b*)(ii), the description of A was amended by S.C. 2000, c. 14, s. 40(7), applicable with respect to overpayments deemed to arise during months that are after June 2000. S. 122.61(1)(*b*)(ii), the description of A formerly read:

"A is the Consumer Price Index (within the meaning assigned by subsection 117.1(4)) for the 12 month period that ended on March 31 in the calendar year following the base taxation year, and"

S. 122.61(5), the formula in subparagraph (*b*)(ii) was amended by S.C. 2000, c. 14, s. 40(6), applicable with respect to overpayments deemed to arise during months that are after June 2000. S. 122.61(5), the formula in subparagraph (*b*)(ii) formerly read:

"

$$\frac{A}{B} - 1.03$$

"

S. 122.61(5), the portion before paragraph (*a*) was amended by S.C. 2000, c. 14, s. 40(5), applicable with respect to overpayments deemed to arise during months that are after June 2000. S. 122.61(5), the portion before paragraph (*a*) formerly read:

"(5) *Annual adjustment.* Each amount expressed in dollars in subsection (1) shall be adjusted so that, where the base taxation year in relation to a particular month is after 1996, the amount to be used under that subsection for the month is equal to the total of"

S. 122.61(5), the portion before paragraph (*a*), was amended by S.C. 1999, c. 26, s. 36(4), applicable in respect of months that are after June 1997. S. 122.61(5), the portion before paragraph (*a*) formerly read:

"(5) *Annual adjustment.* Each amount (other than the amounts of $6,250 and $20,921) expressed in dollars in subsection (1) shall be adjusted so that, where the base taxation year in relation to a particular month is after 1996, the amount to be used under that subsection for the month is equal to the total of"

S. 122.61(5), the portion before paragraph (*a*), was amended by S.C. 1997, c. 26, s. 80(2), applicable to overpayments deemed to arise during months that are after June 1997. That part formerly read:

"(5) *Annual adjustment.* Each amount (other than the amount of $20,921) expressed in dollars in subsection (1) shall be adjusted so that, where the base taxation year in relation to a particular month is after 1991, the amount to be used under that subsection for the month is equal to the total of"

S. 122.61(5) was added by S.C. 1994, c. 7, Sched. VII, s. 12(1). For application, see S.C. 1994, c. 7, Sched. VII, ss. 12(2) and (3), reproduced under s. 122.61(1) above.

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► 122.61(5.1) ◄

(5.1) Annual adjustment. [Repealed by S.C. 1998, c. 21, s. 93(3).]

History: S. 122.61(5.1) was repealed by S.C. 1998, c. 21, s. 93(3), applicable with respect to overpayments deemed to arise during months that are after June 1998. S. 122.61(5.1) formerly read:

"(5.1) *Annual adjustment.* The amount of $6,250 referred to in subsection (1) shall be adjusted so that the amount to be used under that subsection for a month in relation to a base taxation year that is after 1996 is equal to the amount by which

(*a*) the amount of $10,000 referred to in that subsection, as adjusted and rounded under this section for the year,

exceeds

(*b*) the amount of $3,750 referred to in that subsection, as adjusted and rounded under this section for the year."

S. 122.61(5.1) was added by S.C. 1997, c. 26, s. 80(3), applicable to overpayments deemed to arise during months that are after June 1997.

► 122.61(6) ◄

(6) Additions to NCB supplement — July 2005 and 2006. Each amount referred to in the description of F in subsection (1) that is to be used for the purpose of determining the amount deemed to be an overpayment arising during months that are

(*a*) after June 2005 and before July 2006, is to be replaced with the amount that is the total of $185 and the amount otherwise determined under subsection (5) for those months; and

(*b*) after June 2006 and before July 2007, is to be replaced with the amount that is the total of $185 and the amount otherwise determined, for those months, by applying subsection (5) to the amount determined under paragraph (*a*).

History: S. 122.61(6) was replaced by S.C. 2003, c. 15, s. 77(5), applicable in respect of overpayments deemed to arise during months that are after June 2003. S. 122.61(6) formerly read:

"(6) *Adjustment to certain amounts.* For the purpose of subsection (5), the amount of $1,090, and the amounts in respect of the amounts of $213 and $75, referred to in subsection (1), that are used for the purpose of determining the amount deemed to be an overpayment arising during particular months that are

(*a*) after June 2000 and before July 2001, are deemed to be $1,104, $219 and $77, respectively;

(*b*) after June 2001 and before July 2002, shall be equal to the greater of the amounts deemed under paragraph (*a*) to be an overpayment arising during the months referred to in that paragraph and the amounts that would otherwise be determined for those particular months if this Act were read without reference to this subsection; and

(*c*) after June 2002, shall be computed without reference to paragraphs (*a*) and (*b*)."

S. 122.61(6) was added by S.C. 2000, c. 14, s. 40(8), applicable with respect to overpayments deemed to arise during months that are after June 2000. S. 122.61(6) was previously repealed. See history note below.

S. 122.61(6) was repealed by S.C. 1999, c. 26, s. 36(5), applicable in respect of months that are after June 1997. S. 122.61(6) formerly read:

"(6) *Idem.* The amount of $20,921 referred to in subsection (1) shall be adjusted so that the amount to be used thereunder for a month in relation to a base taxation year that is after 1991 is equal to the amount by which

(*a*) the amount of $25,921 referred to in subsection (1), as adjusted and rounded under this section for the year,

exceeds

(*b*) the product obtained by multiplying the amount of $500 referred to in subsection (1), as adjusted and rounded under this section for the year, by 10."

S. 122.61(6) was added by S.C. 1994, c. 7, Sched. VII, s. 12(1). For application, see S.C. 1994, c. 7, Sched. VII, ss. 12(2) and (3), reproduced under s. 122.61(1) above.

► 122.61(6.1) ◄

(6.1) Agreement with a province. Notwithstanding subsection (5), for the purposes of any agreement referred to in section 122.63 with respect to overpayments deemed to arise during months that are after June 2001 and before July 2002, the amount determined under subparagraph (5)(*b*)(ii) for a month referred to in paragraph (6)(*b*) is deemed to be 0.012.

History: S. 122.61(6.1) was amended by S.C. 2001, c. 17, s. 110(4), applicable in respect of overpayments deemed to arise during months that are after June 2001 and before July 2002. S. 122.61(6.1) formerly read:

"(6.1) *Exception.* Where section 122.63 applies for the purpose of calculating an overpayment deemed under subsection (1) to arise during a month referred to in paragraph (6)(*a*) or (*b*) on account of a person's tax liability, the amount determined under subparagraph (5)(*b*)(ii) in respect of the person for the month is deemed to be

(*a*) zero, where the month is referred to

(i) in paragraph (6)(*a*), or

(ii) in paragraph (6)(*b*) and the amount otherwise determined under subparagraph (5)(*b*)(ii) is less than 0.014; and

(*b*) 1090/1104 of the amount otherwise determined under that subparagraph, in any other case."

S. 122.61(6.1) was added by S.C. 2000, c. 14 s. 40(8), applicable with respect to overpayments deemed to arise during months that are after June 2000.

► 122.61(7) ◄

(7) Rounding. Where an amount referred to in subsection (1), when adjusted as provided in subsection (5), is not a multiple of one dollar, it shall be rounded to the nearest multiple of one dollar or, where it is equidistant from 2 such consecutive multiples, to the higher thereof.

History: S. 122.61(7) was added by S.C. 1994, c. 7, Sched. VII, s. 12(1). For application, see S.C. 1994, c. 7, Sched. VII, ss. 12(2) and (3), reproduced under s. 122.61(1), above.

SECTION 122.62:

► 122.62(1) ◄

(1) Eligible individuals. For the purposes of this subdivision, a person may be considered to be an eligible individual in respect of a particular qualified dependant at the beginning of a month only if the person has, no later than 11 months after the end of the month, filed with the Minister a notice in prescribed form containing prescribed information.

History: S. 122.62(1) was amended by S.C. 1998, c. 19, s. 142(1), applicable after August 27, 1995. S. 122.62(1) formerly read:

"(1) For the purposes of this subdivision, a person may be considered to be an eligible individual in respect of a particular qualified dependant at the beginning of a month only if the person has, no later than 11 months after the end of the month, filed with the Minister of Human Resources Development a notice in a form authorized, and containing information required, by that Minister."

S. 122.62(1) was amended by S.C. 1996, c. 11, s. 95, by replacing the term "Minister of National Health and Welfare" with the term "Minister of Human Resources Development", effective July 12, 1996.

S. 122.62(1) was added by S.C. 1994, c. 7, Sched. VII, s. 12(1). For application, see S.C. 1994, c. 7, Sched. VII, ss. 12(2) and (3), below.

Secs. 12(2) and (3), Sched. VII, Chap. 7, S.C. 1994

Sec. 12. [Application of section 122.62.]

(2) Sections 122.6 to 122.63 apply with respect to overpayments deemed to arise during months that are after 1992, and with respect to

(*a*) any amount deemed by subsection 122.61(1) of the said Act, as enacted by subsection (1), to be an overpayment on account of an individual's liability under Part I of the said Act

(i) during any month before July 1993, the individual's cohabiting spouse at the end of 1991 includes a person who

(A) is of the opposite sex to the individual,

(B) is at the beginning of the month a parent of a child of whom the individual is a parent, and

(C) is not living separate and apart from the individual for a period of at least 90 days that includes December 31, 1991, and

(ii) during any month after June 1993 and before July 1994, the cohabiting spouse of an individual at the end of 1992 includes the person of the opposite sex who, at the end of 1992, was cohabiting with the individual in a conjugal relationship and

(A) had so cohabited with the individual throughout a 12 month period ending before the end of 1992, or

(B) is a parent of a child of whom the individual is a parent,

and, for the purpose of this subparagraph, where before the end of 1992 the individual and the person cohabited in a conjugal relationship, they shall be deemed to be cohabiting in a conjugal relationship at the end of 1992, unless they were not cohabiting at that time for a period of at least 90 days that includes that time because of a breakdown of their conjugal relationship; and

(*b*) any amount deemed by the said subsection 122.61(1) to be an overpayment on account of a person's liability under Part I of the said Act arising in any month in relation to which the 1992 taxation year is the base taxation year, the expression "earned income" as defined in section 122.6 shall be deemed to have the meaning assigned by paragraph 63(3)(*b*) of the said Act as that paragraph reads in its application to the 1993 taxation year.

(3) The Minister of National Revenue may during any month

(*a*) in relation to which the 1991 taxation year is the base taxation year, and

(*b*) that is before the month in which that Minister mails to an individual a notice of determination of the amounts deemed by subsection 122.61(1) of the said Act, as enacted by subsection (1), to be overpayments on account of the individual's liability under Part I of the said Act for the 1991 taxation year,

pay to the individual, in respect of a qualified dependant who was an eligible child (within the meaning assigned by paragraph 122.2(2)(*a*) of the said Act) of the individual for the 1992 taxation year, an amount not exceeding the amount that would be deemed by the said subsection 122.61(1) to be an overpayment on account of the individual's liability under Part I of the said Act for the 1991 taxation year that would have arisen in that month or a preceding month if the individual's adjusted income and adjusted earned income for the 1991 taxation year were equal to zero and if the individual had filed a return of income for that year, and any amount so paid shall be deemed to be an amount refunded on account of the individual's liability under Part I of the said Act for the 1991 taxation year that arose as a consequence of the operation of the said subsection 122.61(1).

► 122.62(2) ◄

(2) Extension for notices. The Minister may at any time extend the time for filing a notice under subsection (1).

History: S. 122.62(2) was amended by S.C. 1998, c. 19, s. 142(1), applicable after August 27, 1995. S. 122.62(2) formerly read:

"(2) The Minister of Human Resources Development may at any time extend the time for filing a notice under subsection (1)."

S. 122.62(2) was amended by S.C. 1996, c. 11, s. 95, by replacing the term "Minister of National Health and Welfare" with the term "Minister of Human Resources Development", effective July 12, 1996.

S. 122.62(2) was added by S.C. 1994, c. 7, Sched. VII, s. 12(1). For application, see S.C. 1994, c. 7, Sched. VII, ss. 12(2) and (3), reproduced under s. 122.62(1) above.

► 122.62(3) ◄

(3) Exception. Where at the beginning of 1993 a person is an eligible individual in respect of a qualified dependant, subsection (1) does not apply to the person in respect of the qualified dependant if the qualified dependant was an eligible child (within the meaning assigned by subsection 122.2(2) because of subparagraph (*a*)(i) of the definition "eligible child" in that subsection) of the individual for the 1992 taxation year.

History: S. 122.62(3) was added by S.C. 1994, c. 7, Sched. VII, s. 12(1). For application, see S.C. 1994, c. 7, Sched. VII, ss. 12(2) and (3), reproduced under s. 122.62(1) above.

► 122.62(4) ◄

(4) Person ceasing to be an eligible individual. Where during a particular month a person ceases to be an eligible individual in respect of a particular qualified dependant (otherwise than because of the qualified dependant attaining the age of 18 years), the person shall notify the Minister of that fact before the end of the first month following the particular month.

History: S. 122.62(4) was amended by S.C. 1998, c. 19, s. 142(2), applicable after August 27, 1995. S. 122.62(4) formerly read:

"(4) Where during a particular month a person ceases to be an eligible individual in respect of a particular qualified dependant (otherwise than because of the qualified dependant attaining the age of 18 years), the person shall inform the Minister of Human Resources Development of that fact, in such form as that Minister may require, before the end of the first month following the particular month."

S. 122.62(4) was amended by S.C. 1996, c. 11, s. 95, by replacing the term "Minister of National Health and Welfare" with the term "Minister of Human Resources Development", effective July 12, 1996.

S. 122.62(4) was added by S.C. 1994, c. 7, Sched. VII, s. 12(1). For application, see S.C. 1994, c. 7, Sched. VII, ss. 12(2) and (3), reproduced under s. 122.62(1) above.

► 122.62(5) ◄

(5) Death of cohabiting spouse. Where

(*a*) before the end of a particular month the cohabiting spouse or common-law partner of an eligible individual in respect of a qualified dependant dies, and

(*b*) the individual so elects, before the end of the eleventh month after the particular month, in a form that is acceptable to the Minister,

for the purpose of determining the amount deemed under subsection 122.61(1) to be an overpayment arising in any month after the particular month on account of the individual's liability under this Part for the base taxation year in relation to the particular month, subject to any subsequent election under subsection (5) or (7), the individual's adjusted income for the year is deemed to be equal to the individual's income for the year.

(*c*) [Repealed by S.C. 1998, c. 21, s. 95.]

(*d*) [Repealed by S.C. 1998, c. 21, s. 95.]

History: S. 122.62(5)(*a*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.13), applicable January 1, 2001, coming into force on July 31, 2000. S. 122.62(5)(*a*) formerly read:

"(*a*) before the end of a particular month the cohabiting spouse of an eligible individual in respect of a qualified dependant dies, and"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 122.62(5), the portion after paragraph (*b*) was amended, and paragraphs (*c*) and (*d*) were repealed by S.C. 1998, c. 21, s. 95, applicable on Royal Assent, June 18, 1998. That portion formerly read:

"for the purpose of determining the amount deemed under subsection 122.61(1) to be an overpayment arising in any month after the particular month on account of the individual's liability under this Part for the base taxation year in relation to the particular month, subject to any subsequent election under subsection (6) or (7),

(*c*) the individual's adjusted income for the year is deemed to be equal to the individual's income for the year, and

(*d*) the individual's adjusted earned income for the year is deemed to be equal to the individual's earned income for the year."

S. 122.62(5) was amended by S.C. 1998, c. 19, s. 142(2), applicable after August 27, 1995. S. 122.62(5) formerly read:

"(5) *Waiver.* The Minister of Human Resources Development may at any time waive the requirement

(*a*) under subsection (1) to file a notice; or

(*b*) under subsection (4) to inform that Minister that the person has ceased to be an eligible individual in respect of a particular qualified dependant."

S. 122.62(5) was amended by S.C. 1996, c. 11, s. 95, by replacing the term "Minister of National Health and Welfare" with the term "Minister of Human Resources Development", effective July 12, 1996.

S. 122.62(5) was added by S.C. 1994, c. 7, Sched. VII, s. 12(1). For application, see S.C. 1994, c. 7, Sched. VII, ss. 12(2) and (3), reproduced under s. 122.62(1) above.

► 122.62(6) ◄

(6) Separation from cohabiting spouse. Where

(*a*) before the end of a particular month an eligible individual in respect of a qualified dependant begins to live separate and apart from the individual's cohabiting spouse or common-law partner, because of a breakdown of their marriage or common-law partnership, for a period of at least 90 days that includes a day in the particular month, and

(*b*) the individual so elects, before the end of the eleventh month after the particular month, in a form that is acceptable to the Minister,

for the purpose of determining the amount deemed under subsection 122.61(1) to be an overpayment arising in any month after the particular month on account of the individual's liability under this Part for the base taxation year in relation to the particular month, subject to any subsequent election under subsection (5) or (7), the individual's adjusted income for the year is deemed to be equal to the individual's income for the year.

(*c*) [Repealed by S.C. 1998, c. 21, s. 95.]

(*d*) [Repealed by S.C. 1998, c. 21, s. 95.]

History: S. 122.62(6)(*a*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.13) and 9(i), applicable January 1, 2001, coming into force on July 31, 2000. S. 122.62(6)(*a*) formerly read:

"(*a*) before the end of a particular month an eligible individual in respect of a qualified dependant begins to live separate and apart from the individual's cohabiting spouse, because of a breakdown of their marriage, for a period of at least 90 days that includes a day in the particular month, and"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 122.62(6), the portion after paragraph (*b*) was amended, and paragraphs (*c*) and (*d*) were repealed by S.C. 1998, c. 21, s. 95, applicable on Royal Assent, June 18, 1998. That portion formerly read:

"for the purpose of determining the amount deemed under subsection 122.61(1) to be an overpayment arising in any month after the particular month on account of the individual's liability under this Part for the base taxation year in relation to the particular month, subject to any subsequent election under subsection (5) or (7),

(*c*) the individual's adjusted income for the year is deemed to be equal to the individual's income for the year, and

(*d*) the individual's adjusted earned income for the year is deemed to be equal to the individual's earned income for the year."

S. 122.62(6)was amended by S.C. 1998, c. 19, s. 142(2), applicable after August 27, 1995. S. 122.62(6) formerly read:

"(6) *Death of cohabiting spouse.* Where before the end of a particular month the cohabiting spouse of an eligible individual in respect of a qualified dependant dies and the individual so elects, before the end of the eleventh month following the particular month, in a form that is acceptable to the Minister of Human Resources Development, for the purpose of determining the amount deemed under subsection 122.61(1) to be an overpayment arising in any month after the particular month on account of the individual's liability under this Part for the base taxation year in relation to the particular month subject to any subsequent election under subsection (7) or (8), the individual's adjusted income for the year shall be deemed to be equal to the individual's income for the year and the individual's adjusted earned income for the year shall be deemed to be equal to the individual's earned income for the year."

S. 122.62(6) was amended by S.C. 1996, c. 11, s. 95, by replacing the term "Minister of National Health and Welfare" with the term "Minister of Human Resources Development", effective July 12, 1996.

S. 122.62(6) was added by S.C. 1994, c. 7, Sched. VII, s. 12(1). For application, see S.C. 1994, c. 7, Sched. VII, ss. 12(2) and (3), reproduced under s. 122.62(1) above.

► 122.62(7) ◄

(7) Person becoming a cohabiting spouse. Where

(*a*) at any particular time before the end of a particular month a taxpayer has become the cohabiting spouse or common-law partner of an eligible individual, and

(*b*) the taxpayer and the eligible individual jointly so elect in prescribed form filed with the Minister before the end of the eleventh month after the particular month,

for the purpose of determining the amount deemed by subsection 122.61(1) to be an overpayment arising in any month after the particular month on account of the eligible individual's liability under this Part for the year, the taxpayer is deemed to have been the eligible individual's cohabiting spouse or common-law partner throughout the period that began immediately before the end of the base taxation year in relation to the particular month and ended at the particular time.

History: S. 122.62(7)(*a*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.13), applicable January 1, 2001, coming into force on July 31, 2000. S. 122.62(7)(*a*) formerly read:

"(*a*) at any particular time before the end of a particular month a taxpayer has become the cohabiting spouse of an eligible individual, and"

S. 122.62(7), the portion after paragraph (*b*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.13), applicable January 1, 2001, coming into force on July 31, 2000. S. 122.62(7), the portion after paragraph (*b*) formerly read:

"for the purpose of determining the amount deemed by subsection 122.61(1) to be an overpayment arising in any month after the particular month on account of the eligible individual's liability under this Part for the year, the taxpayer is deemed to have been the eligible individual's cohabiting spouse throughout the period that began immediately before the end of the base taxation year in relation to the particular month and ended at the particular time."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 122.62(7) was amended by S.C. 1998, c. 19, s. 142(2), applicable after August 27, 1995. S. 122.62(7) formerly read:

"(7) *Separation from cohabiting spouse.* Where before the end of a particular month an eligible individual in respect of a qualified dependant commences to live separate and apart from the individual's cohabiting spouse, because of a breakdown of their marriage, for a period of at least 90 days that includes a day in the particular month and the individual so elects, before the end of the eleventh month following the particular month, in a form that is acceptable to the Minister of Human Resources Development, for the purposes of determining the amount deemed under subsection 122.61(1) to be an overpayment arising in any month after the particular month on account of the individual's liability under this Part for the base taxation year in relation to the particular month subject to any subsequent election under subsection (6) or (8), the individual's adjusted income for the year shall be deemed to be equal to the individual's income for the year and the individual's adjusted earned income for the year shall be deemed to be equal to the individual's earned income for the year."

S. 122.62(7) was amended by S.C. 1996, c. 11, s. 95, by replacing the term "Minister of National Health and Welfare" with the term "Minister of Human Resources Development", effective July 12, 1996.

S. 122.62(7) was added by S.C. 1994, c. 7, Sched. VII, s. 12(1). For application, see S.C. 1994, c. 7, Sched. VII, ss. 12(2) and (3), reproduced under s. 122.62(1) above.

► 122.62(8) ◄

(8) Person becoming a cohabiting spouse. [Repealed by S.C. 1998, c. 19, s. 142(2).]

History: S. 122.62(8) was repealed by S.C. 1998, c. 19, s. 142(2), applicable after August 27, 1995. S. 122.62(8) formerly read:

"(8) *Person becoming a cohabiting spouse.* Where at any particular time before the end of a particular month a taxpayer has become the cohabiting spouse of an eligible individual and the taxpayer and the eligible individual jointly so elect, before the end of the eleventh month following the particular month, in a form that is acceptable to the Minister of Human Resources Development, the taxpayer shall be deemed to have been the eligible individual's cohabiting spouse throughout the period commencing immediately before the end of the base taxation year in relation to the particular month and ending at the particular time for the purposes of determining the amount deemed by subsection 122.61(1) to be an overpayment arising in any month after the particular month on account of the eligible individual's liability under this Part for the year."

S. 122.62(8) was amended by S.C. 1996, c. 11, s. 95, by replacing the term "Minister of National Health and Welfare" with the term "Minister of Human Resources Development", effective July 12, 1996.

S. 122.62(8) was added by S.C. 1994, c. 7, Sched. VII, s. 12(1). For application, see S.C. 1994, c. 7, Sched. VII, ss. 12(2) and (3), reproduced under s. 122.62(1) above.

► 122.62(9) ◄

(9) Advice of Department of Human Resources Development. [Repealed by S.C. 1998, c. 19, s. 142(2).]

History: S. 122.62(9) was repealed by S.C. 1998, c. 19, s. 142(2), applicable after August 27, 1995. S. 122.62(9) formerly read:

"(9) *Advice of Department of Human Resources Development.* The Minister may obtain the advice of the Department of Human Resources Development as to whether

(*a*) a taxpayer is an eligible individual in respect of a qualified dependant;

(*b*) a person is a qualified dependant; or

(*c*) a person is a taxpayer's cohabiting spouse."

S. 122.62(9) was amended by S.C. 1996, c. 11, s. 97(1), by replacing the term "Department of National Health and Welfare" with the term "Department of Human Resources Development", effective July 12, 1996.

S. 122.62(9) was added by S.C. 1994, c. 7, Sched. VII, s. 12(1). For application, see S.C. 1994, c. 7, Sched. VII, ss. 12(2) and (3), reproduced under s. 122.62(1) above.

SECTION 122.63:

► 122.63(1) ◄

(1) Agreement. The Minister of Finance may enter into an agreement with the government of a province whereby the amounts determined under paragraph (*a*) of the description of A in subsection 122.61(1) with respect to persons resident in the province shall, for the purpose of calculating overpayments deemed to arise under that subsection, be replaced by amounts determined in accordance with the agreement.

History: S. 122.63(1) was amended by S.C. 1998, c. 19, s. 142(1), applicable after August 27, 1995. S. 122.63(1) formerly read:

"(1) The Minister of Finance and the Minister of Human Resources Development may enter jointly into an agreement with the government of a province whereby the amounts determined under paragraph (*a*) of the description of A in subsection 122.61(1) with respect to persons resident in the province shall, for the purposes of calculating overpayments deemed to arise under that subsection, be replaced by amounts determined in accordance with the agreement."

S. 122.63(1) was amended by S.C. 1996, c. 11, s. 95, by replacing the term "Minister of National Health and Welfare" with the term "Minister of Human Resources Development", effective July 12, 1996.

S. 122.63(1) was added by S.C. 1994, c. 7, Sched. VII, s. 12(1). For application, see S.C. 1994, c. 7, Sched. VII, ss. 12(2) and (3) below.

Related Sections: S. 122.6, "Eligible individual".

Secs. 12(2) and (3), Sched. VII, Chap. 7, S.C. 1994

Sec. 12. [Application of section 122.63.]

(2) Sections 122.6 to 122.63 apply with respect to overpayments deemed to arise during months that are after 1992, and with respect to

(*a*) any amount deemed by subsection 122.61(1) of the said Act, as enacted by subsection (1), to be an overpayment on account of an individual's liability under Part I of the said Act

(i) during any month before July 1993, the individual's cohabiting spouse at the end of 1991 includes a person who

(A) is of the opposite sex to the individual,

(B) is at the beginning of the month a parent of a child of whom the individual is a parent, and

(C) is not living separate and apart from the individual for a period of at least 90 days that includes December 31, 1991, and

(ii) during any month after June 1993 and before July 1994, the cohabiting spouse of an individual at the end of 1992 includes the person of the opposite sex who, at the end of 1992, was cohabiting with the individual in a conjugal relationship and

(A) had so cohabited with the individual throughout a 12 month period ending before the end of 1992, or

(B) is a parent of a child of whom the individual is a parent,

and, for the purpose of this subparagraph, where before the end of 1992 the individual and the person cohabited in a conjugal relationship, they shall be deemed to be cohabiting in a conjugal relationship at the end of 1992, unless they were not cohabiting at that time for a period of at least 90 days that includes that time because of a breakdown of their conjugal relationship; and

(*b*) any amount deemed by the said subsection 122.61(1) to be an overpayment on account of a person's liability under Part I of the said Act arising in any month in relation to which the 1992 taxation year is the base taxation year, the expression "earned income" as defined in section 122.6 shall be deemed to have the meaning assigned by paragraph 63(3)(*b*) of the said Act as that paragraph reads in its application to the 1993 taxation year.

(3) The Minister of National Revenue may during any month

(*a*) in relation to which the 1991 taxation year is the base taxation year, and

(*b*) that is before the month in which that Minister mails to an individual a notice of determination of the amounts deemed by subsection 122.61(1) of the said Act, as enacted by subsection (1), to be overpayments on account of the individual's liability under Part I of the said Act for the 1991 taxation year,

pay to the individual, in respect of a qualified dependant who was an eligible child (within the meaning assigned by paragraph 122.2(2)(*a*) of the said Act) of the individual for the 1992 taxation year, an amount not exceeding the amount that would be deemed by the said subsection 122.61(1) to be an overpayment on account of the individual's liability under Part I of the said Act for the 1991 taxation year that would have arisen in that month or a preceding month if the individual's adjusted income and adjusted earned income for the 1991 taxation year were equal to zero and if the individual had filed a return of income for that year, and any amount so paid shall be deemed to be an amount refunded on account of the individual's liability under Part I of the said Act for the 1991 taxation year that arose as a consequence of the operation of the said subsection 122.61(1).

► 122.63(2) ◄

(2) Idem. The amounts determined under paragraph (*a*) of the description of A in subsection 122.61(1) for a base taxation year because of any agreement entered into with a province and referred to in subsection (1) shall be based on the age of qualified dependants of eligible individuals, or on the number of such qualified dependants, or both, and shall result in an amount in respect of a qualified dependant that is not less, in respect of that qualified dependant, than 85% of the amount that would otherwise be determined under that paragraph in respect of that qualified dependant for that year.

History: S. 122.63(2) was added by S.C. 1994, c. 7, Sched. VII, s. 12(1). For application, see S.C. 1994, c. 7, Sched. VII, ss. 12(2) and (3), reproduced under s. 122.63(1) above.

► 122.63(3) ◄

(3) Idem. Any agreement entered into with a province and referred to in subsection (1) shall provide that, where the operation of the agreement results in a total of all amounts, each of which is an amount deemed under subsection 122.61(1) to be an overpayment on account of the liability under this Part for a taxation year of a person subject to the agreement, that exceeds 101% of the total of such overpayments that would have otherwise been deemed to have arisen under subsection 122.61(1), the excess shall be reimbursed by the government of the province to the Government of Canada.

History: S. 122.63(3) was added by S.C. 1994, c. 7, Sched. VII, s. 12(1). For application, see S.C. 1994, c. 7, Sched. VII, ss. 12(2) and (3), reproduced under s. 122.63(1) above.

SECTION 122.64:

► 122.64(1) ◄

(1) Confidentiality of information. Information obtained under this Act or the *Family Allowances Act* by or on behalf of the Minister of Social Development is deemed to be obtained on behalf of the Minister of National Revenue for the purposes of this Act.

History: S. 122.64(1) was amended by S.C. 2005, c. 35, s. 67, by replacing the expression "Minister of Human Resources Development" with "Minister of Social Development", in force on October 5, 2005.

S. 122.64(1) was amended by S.C. 1996, c. 11, s. 95, by replacing the term "Minister of National Health and Welfare" with the term "Minister of Human Resources Development", effective July 12, 1996.

S. 122.64(1) was added by S.C. 1994, c. 7, Sched. VII, s. 12(1), deemed to have come into force on January 1, 1993.

► 122.64(2) ◄

(2) Communication of information. Notwithstanding subsection 241(1), an official (as defined in subsection 241(10)) may provide information obtained under subsection 122.62(1), (4), (5), (6) or (7) or the *Family Allowances Act*

(*a*) to an official of the government of a province, solely for the purposes of the administration or enforcement of a prescribed law of the province; or

(*b*) to an official of the Department of Social Development for the purposes of the administration of the *Family Allowances Act*, the *Canada Pension Plan* or the *Old Age Security Act*.

History: S. 122.64(2)(*b*) was amended by S.C. 2005, c. 35, s. 66, by replacing the expression "Department of Human Resources Development" with "Department of Social Development", in force on October 5, 2005.

S. 122.64(2) was amended by S.C. 1998, c. 19, s. 144(1), applicable after August 27, 1995 except that, before July 12, 1996, the reference to "Human Resources Development" shall be read as a reference to "National Health and Welfare". S. 122.64(2) formerly read:

"(2) Notwithstanding subsection 241(1), an official or authorized person may provide information obtained under subsection 122.62(1), (4), (6), (7) or (8) or the *Family Allowances Act*

(*a*) to an official of the government of a province, solely for the purposes of the administration or enforcement of a prescribed law of the province; or

(*b*) to an official of the Department of Human Resources Development for the purposes of the administration of the *Children's Special Allowances Act*, the *Canada Pension Plan* and the *Old Age Security Act*."

S. 122.64(2)(*b*) was amended by S.C. 1996, c. 11, s. 97(1), by replacing the term "Department of National Health and Welfare" with the term "Department of Human Resources Development", effective July 12, 1996.

S. 122.64(2) was added by S.C. 1994, c. 7, Sched. VII, s. 12(1), deemed to have come into force on January 1, 1993.

Regulations: 3003.

► 122.64(3) ◄

(3) Taxpayer's address. Notwithstanding subsection 241(1), an official or authorized person may provide a taxpayer's name and address that has been obtained by or on behalf of the Minister of National Revenue for the purposes of this subdivision, for the purposes of the administration or enforcement of Part I of the *Family Orders and Agreements Enforcement Assistance Act*.

History: S. 122.64(3) was added by S.C. 1994, c. 7, Sched. VII, s. 12(1), deemed to have come into force on January 1, 1993.

► 122.64(4) ◄

(4) Offence. Every person to whom information has been provided under subsection (2) or (3) and who knowingly uses, communicates or allows to be communicated that information for any purpose other than that for which it was provided is guilty of an offence and is liable on summary conviction to a fine not exceeding $5,000 or to imprisonment for a term not exceeding 12 months or to both that fine and imprisonment.

History: S. 122.64(4) was added by S.C. 1994, c. 7, Sched. VII, s. 12(1), deemed to have come into force on January 1, 1993.

► 122.64(5) ◄

(5) "Official" and "authorized person". [Repealed by S.C. 1998, c. 19, s. 144(2).]

History: S. 122.64(5) was repealed by S.C. 1998, c. 19, s. 144(2), applicable after August 27, 1995. S. 122.64(5) formerly read:

"(5) *'Official' and 'authorized person'.* For the purposes of subsections (2) and (3), 'official' and 'authorized person' have the meanings assigned by subsection 241(10)."

S. 122.64(5) was added by S.C. 1994, c. 7, Sched. VII, s. 12(1), deemed to have come into force on January 1, 1993.

Subdivision a.2 — Working Income Tax Benefit

SECTION 122.7:

► 122.7(1) ◄

(1) Definitions. The following definitions apply in this section.

"adjusted net income" — "adjusted net income" of an individual for a taxation year means the amount that would be the individual's income for the taxation year if

(*a*) this Act were read without reference to paragraph 81(1)(*a*) and subsection 81(4);

(*b*) in computing that income, no amount were included under paragraph 56(1)(*q.1*) or subsection 56(6), or in respect of any gain from a disposition of property to which section 79 applies; and

(*c*) in computing that income, no amount were deductible under paragraph 60(*y*) or (*z*).

History: S. 122.7(1), the definition "adjusted net income" was added by S.C. 2007, c. 35, s. 42(1), applicable to the 2007 and subsequent taxation years except that for the 2007 taxation year, paragraphs (*b*) and (*c*) of the definition "adjusted net income" in subsection 122.7(1) shall be read as follows:

"(*b*) in computing that income, no amount were included under subsection 56(6), as a beneficiary of a registered disability savings plan or in respect of any gain from a disposition of property to which section 79 applies; and

(*c*) in computing that income, no amount were deductible under paragraph 60(*y*)."

"cohabiting spouse or common-law partner" — "cohabiting spouse or common-law partner" of an individual at any time has the meaning assigned by section 122.6.

History: S. 122.7(1), the definition "cohabiting spouse or common-law partner" was added by S.C. 2007, c. 35, s. 42(1), applicable to the 2007 and subsequent taxation years.

"designated educational institution" — "designated educational institution" has the meaning assigned by subsection 118.6(1).

History: S. 122.7(1), the definition "designated educational institution" was added by S.C. 2007, c. 35, s. 42(1), applicable to the 2007 and subsequent taxation years.

"eligible dependant" — "eligible dependant" of an individual for a taxation year means a child of the individual who, at the end of the year,

(*a*) resided with the individual;

(*b*) was under the age of 19 years; and

(*c*) was not an eligible individual.

History: S. 122.7(1), the definition "eligible dependant" was added by S.C. 2007, c. 35, s. 42(1), applicable to the 2007 and subsequent taxation years.

"eligible individual" — "eligible individual" for a taxation year means an individual (other than an ineligible individual) who was resident in Canada throughout the taxation year and who was, at the end of the taxation year,

(*a*) 19 years of age or older;

(*b*) the cohabiting spouse or common-law partner of another individual; or

(*c*) the parent of a child with whom the individual resides.

History: S. 122.7(1), the definition "eligible individual" was added by S.C. 2007, c. 35, s. 42(1), applicable to the 2007 and subsequent taxation years.

"eligible spouse" — "eligible spouse" of an eligible individual for a taxation year means an individual (other than an ineligible individual) who was resident in Canada throughout the taxation year and who was, at the end of the taxation year, the cohabiting spouse or common-law partner of the eligible individual.

History: S. 122.7(1), the definition "eligible spouse" was added by S.C. 2007, c. 35, s. 42(1), applicable to the 2007 and subsequent taxation years.

"ineligible individual" — "ineligible individual" for a taxation year means an individual

(*a*) who is described in paragraph 149(1)(*a*) or (*b*) at any time in the taxation year;

(*b*) who, except where the individual has an eligible dependant for the taxation year, was enrolled as a full-time student at a designated educational institution for a total of more than 13 weeks in the taxation year; or

(*c*) who was confined to a prison or similar institution for a period of at least 90 days during the taxation year.

History: S. 122.7(1), the definition "ineligible individual" was added by S.C. 2007, c. 35, s. 42(1), applicable to the 2007 and subsequent taxation years.

"return of income" — "return of income" filed by an individual for a taxation year means a return of income (other than a return of income filed under subsection 70(2) or 104(23), paragraph 128(2)(*e*) or subsection 150(4)) that is required to be filed for the taxation year or that would be required to be filed if the individual had tax payable under this Part for the taxation year.

History: S. 122.7(1), the definition "return of income" was added by S.C. 2007, c. 35, s. 42(1), applicable to the 2007 and subsequent taxation years.

"working income" — "working income" of an individual for a taxation year means the total of

(*a*) the total of all amounts each of which would, if this Act were read without reference to section 8, paragraph 81(1)(*a*) and subsection 81(4), be the individual's income for the taxation year from an office or employment;

(*b*) all amounts that are included, or that would, but for paragraph 81(1)(*a*), be included, because of paragraph 56(1)(*n*) or (*o*) or subparagraph 56(1)(*r*)(v) in computing the individual's income for a period in the taxation year; and

(*c*) the total of all amounts each of which would, if this Act were read without reference to paragraph 81(1)(*a*), be the individual's income for the taxation year from a business carried on by the individual otherwise than as a specified member of a partnership.

History: S. 122.7(1), paragraph (*b*) of the definition "working income" was replaced by S.C. 2009, c. 2, s. 38(1), applicable to the 2008 and subsequent taxation years. S. 122.7(1), paragraph (*b*) of the definition "working income" formerly read:

"(*b*) all amounts that are included, or that would, but for paragraph 81(1)(*a*), be included, because of paragraph 56(1)(*n*) or (*o*) in computing the individual's income for the taxation years; and"

S. 122.7(1), the definition "working income" was added by S.C. 2007, c. 35, s. 42(1), applicable to the 2007 and subsequent taxation years.

► 122.7(2) ◄

(2) Deemed payment on account of tax. Subject to subsections (4) and (5), an eligible individual for a taxation year who files a return of income for the taxation year and who makes a claim under this subsection, is deemed to have paid, at the end of the taxation year, on account of tax

payable under this Part for the taxation year, an amount equal to the amount, if any, determined by the formula

A – B

where

A is

(*a*) if the individual had neither an eligible spouse nor an eligible dependant, for the taxation year, the lesser of $500 and 20% of the amount, if any, by which the individual's working income for the taxation year exceeds $3,000, or

(*b*) if the individual had an eligible spouse or an eligible dependant, for the taxation year, the lesser of $1,000 and 20% of the amount, if any, by which the total of the working incomes of the individual and, if applicable, of the eligible spouse of the individual, for the taxation year, exceeds $3,000; and

B is

(*a*) if the individual had neither an eligible spouse nor an eligible dependant, for the taxation year, 15% of the amount, if any, by which the individual's adjusted net income for the taxation year exceeds $9,500, or

(*b*) if the individual had an eligible spouse or an eligible dependant, for the taxation year, 15% of the amount, if any, by which the total of the adjusted net incomes of the individual and, if applicable, of the eligible spouse of the individual, for the taxation year, exceeds $14,500.

History: S. 122.7(2) was added by S.C. 2007, c. 35, s. 42(1), applicable to the 2007 and subsequent taxation years.

Editorial Note: The $500 and $1,000 working income tax benefit limits, and the $9,500 and $14,500 adjusted net income thresholds, but not the $3,000 working income threshold, will be indexed to the consumer price index every year.

Related Sections: S. 117(2.1) Tax payable — WITB advance payment; s. 248(1), "common-law partner".

Forms: RC201; T2201.

Guides: RC4227 Working Income Tax Benefit.

► 122.7(3) ◄

(3) Deemed payment on account of tax — disability supplement. An eligible individual for a taxation year who files a return of income for the taxation year and who may deduct an amount under subsection 118.3(1) in computing tax payable under this Part for the taxation year is deemed to have paid, at the end of the taxation year, on account of tax payable under this Part for the taxation year, an amount equal to the amount, if any, determined by the formula

C – D

where

C is the lesser of $250 and 20% of the amount, if any, by which the individual's working income for the taxation year exceeds $1,750, and

D is

(*a*) if the individual had neither an eligible spouse nor an eligible dependant, for the taxation year, 15% of the amount, if any, by which the individual's adjusted net income for the taxation year exceeds $12,833,

(*b*) if the individual had an eligible spouse for the taxation year who was not entitled to deduct an amount under subsection 118.3(1) for the taxation year, or had an eligible dependant for the taxation year, 15% of the amount, if any, by which the total of the adjusted net incomes of the individual and, if applicable, of the eligible spouse, for the taxation year, exceeds $21,167, or

(*c*) if the individual had an eligible spouse for the taxation year who was entitled to deduct an amount under subsection 118.3(1) for the taxation year, 7.5% of the amount, if any, by which the total of the adjusted net incomes of the individual and of the eligible spouse, for the taxation year, exceeds $21,167.

History: S. 122.7(3) was added by S.C. 2007, c. 35, s. 42(1), applicable to the 2007 and subsequent taxation years.

Editorial Note: The $250 disability supplement limit, and the $12,833 and $21,167 adjusted net income thresholds, but not the $1,750 working income threshold, will be indexed to the consumer price index every year.

Forms: T2201.

► 122.7(4) ◄

(4) Eligible spouse deemed not to be an eligible individual. An eligible spouse of an eligible individual for a taxation year is deemed, for the purpose of subsection (2), not to be an eligible individual for the taxation year if the eligible spouse made a joint application described in subsection (6) with the eligible individual and the eligible individual received an amount under subsection (7) in respect of the taxation year.

History: S. 122.7(4) was added by S.C. 2007, c. 35, s. 42(1), applicable to the 2007 and subsequent taxation years.

► 122.7(5) ◄

(5) Amount deemed to be nil. If an eligible individual had an eligible spouse for a taxation year and both the eligible individual and the eligible spouse make a claim for the taxation year under subsection (2), the amount deemed to have been paid under that subsection by each of them on account of tax payable under this Part for the taxation year, is nil.

History: S. 122.7(5) was added by S.C. 2007, c. 35, s. 42(1), applicable to the 2007 and subsequent taxation years.

► 122.7(6) ◄

(6) Application for advance payment. Subsection (7) applies to an individual for a taxation year if,

(*a*) at any time after January 1 and before September 1 of the taxation year, the individual makes an application (or in the case of an individual who has, at that time, a cohabiting spouse or common-law partner, the two of them make a joint application designating the individual for the purpose of subsection (7)), to the Minister in prescribed form, containing prescribed information; and

(*b*) where the individual and a cohabiting spouse or common-law partner have made a joint application referred to in paragraph (*a*)

(i) the individual's working income for the taxation year can reasonably be expected to be greater than the working income of the individual's cohabiting spouse or common-law partner for the taxation year, or

(ii) the individual can reasonably be expected to be deemed by subsection (3) to have paid an amount on account of tax payable under this Part for the taxation year.

History: S. 122.7(6) was added by S.C. 2007, c. 35, s. 42(1), applicable to the 2008 and subsequent taxation years.

Forms: RC201.

► 122.7(7) ◄

(7) Advance payment. Subject to subsection (8), the Minister may pay to an individual before the end of January of the year following a taxation year, one or more amounts that, in total, do not exceed one-half of the total of the amounts that the Minister estimates will be deemed to be paid by the individual under subsection (2) or (3) at the end of the taxation year, and any amount paid by the Minister under this subsection is deemed to have been received by the individual in respect of the taxation year.

History: S. 122.7(7) was added by S.C. 2007, c. 35, s. 42(1), applicable to the 2008 and subsequent taxation years.

► 122.7(8) ◄

(8) Limitation — advance payment. No payment shall be made under subsection (7) to an individual in respect of a taxation year

(*a*) if the total amount that the Minister may pay under that subsection is less than $100; or

(*b*) before the day on which the individual has filed a return of income for a preceding taxation year in respect of which the individual received a payment under that subsection.

History: S. 122.7(8) was added by S.C. 2007, c. 35, s. 42(1), applicable to the 2008 and subsequent taxation years.

► 122.7(9) ◄

(9) Notification to Minister. If, in a taxation year, an individual makes an application described in subsection (6), the individual shall notify the Minister of the occurrence of any of the following events before the end of the month following the month in which the event occurs

(*a*) the individual ceases to be resident in Canada in the taxation year;

(*b*) the individual ceases, before the end of the taxation year, to be a cohabiting spouse or common-law partner of another person with whom the individual made the application;

(*c*) the individual enrols as a full-time student at a designated educational institution in the taxation year; or

(*d*) the individual is confined to a prison or similar institution in the taxation year.

History: S. 122.7(9) was added by S.C. 2007, c. 35, s. 42(1), applicable to the 2007 and subsequent taxation years.

► 122.7(10) ◄

(10) Special rule re eligible dependant. For the purpose of applying subsections (2) and (3), an individual (referred to in this subsection as the "child") is deemed not to be an eligible dependant of an eligible individual for a taxation year if the child is an eligible dependant of another eligible individual for the taxation year and both eligible individuals identified the child as an eligible dependant for the purpose of claiming or computing an amount under this section for the taxation year.

History: S. 122.7(10) was added by S.C. 2007, c. 35, s. 42(1), applicable to the 2007 and subsequent taxation years.

Editorial Note: The bankrupt taxpayer must consider both his or her pre-bankruptcy and post-bankruptcy working income and adjusted net income to calculate his or her working income tax benefit.

► 122.7(11) ◄

(11) Effect of bankruptcy. For the purpose of this subdivision, if an individual becomes bankrupt in a particular calendar year

(*a*) notwithstanding subsection 128(2), any reference to the taxation year of the individual (other than in this subsection) is deemed to be a reference to the particular calendar year; and

(*b*) the individual's working income and adjusted net income for the taxation year ending on December 31 of the particular calendar year is deemed to include the individual's working income and adjusted net income for the taxation year that begins on January 1 of the particular calendar year.

History: S. 122.7(11) was added by S.C. 2007, c. 35, s. 42(1), applicable to the 2007 and subsequent taxation years.

► 122.7(12) ◄

(12) Special rules in the event of death. For the purpose of this subdivision, if an individual dies after June 30 of a calendar year

(*a*) the individual is deemed to be resident in Canada from the time of death until the end of the year and to reside at the same place in Canada as the place where the individual resided immediately before death;

(*b*) the individual is deemed to be the same age at the end of the year as the individual would have been if the individual were alive at the end of the year;

(*c*) the individual is deemed to be the cohabiting spouse or common-law partner of another individual (referred to in this paragraph as the "surviving spouse") at the end of the year if,

(i) immediately before death, the individual was the cohabiting spouse or common-law partner of the surviving spouse, and

(ii) the surviving spouse is not the cohabiting spouse or common-law partner of another individual at the end of the year; and

(*d*) any return of income filed by a legal representative of the individual is deemed to be a return of income filed by the individual.

History: S. 122.7(12) was added by S.C. 2007, c. 35, s. 42(1), applicable to the 2007 and subsequent taxation years.

Editorial Note: A taxpayer who dies after June 30 in a year will continue to meet the following status requirements for the rest of the year for the purpose of claiming the working income tax benefit: maintain Canadian residence until year-end; be the same age at year-end as that if he or she had been alive at year-end; be a cohabiting spouse or common-law partner at year-end if he or she was one immediately before his or her death and if the surviving spouse was not cohabiting with someone else at year-end; and be deemed to have filed a return of income for the year if one was filed by his or her legal representative.

SECTION 122.71: Modification for purposes of provincial program.

The Minister of Finance may enter into an agreement with the government of a province whereby the amounts determined under subsections 122.7(2) and (3) with respect to an eligible individual resident in the province at the end of the taxation year shall, for the purpose of calculating amounts deemed to be paid on account of the tax payable of an individual under those subsections, be replaced by amounts determined in accordance with the agreement.

History: S. 122.71 was added by S.C. 2007, c. 35, s. 42(1), applicable to the 2007 and subsequent taxation years.

Subdivision b — Rules Applicable to Corporations

SECTION 123:

► 123(1) ◄

(1) Rate for corporations. The tax payable under this Part for a taxation year by a corporation on its taxable income or taxable income earned in Canada, as the case may be, (in this section referred to as its "amount taxable") for the year is, except where otherwise provided,

(*a*) 38% of its amount taxable for the year.

(*b*) [Repealed by 1988, c. 28, s. 248(1).]

(*c*) [Repealed by 1988, c. 55, s. 100(2).]

(*d*) [Repealed by 1988, c. 55, s. 100(2).]

Related Sections: S. 133(3) Special tax rate; s. 143(3) Refusal to accept election; s. 149(1) Miscellaneous exemptions; s. 219(1) Branch tax; s. 248(1), "corporation", "taxable income", "taxable income earned in Canada"; s. 249 Definition of "taxation year"; s. 255 Canada.

Tax Topics: No. 1695, Corporate Tax Rates - How They (Now) Work; No. 1644, The Canadian Tax Advantage.

► 123(2) ◄

(2) Definitions — "Amount taxable earned by the corporation in the year in the Nova Scotia offshore area", "Nova Scotia offshore area". [Repealed by 1988, c. 28, s. 248(2).]

Regulations: 414; 415.

SECTION 123.1: **Corporation surtax.**

There shall be added to the tax otherwise payable under this Part for each taxation year by a corporation (other than a corporation that was throughout the year an investment corporation or a non-resident-owned investment corporation) an amount equal to that proportion of 5% of the amount, if any, by which

(*a*) the tax payable under this Part by the corporation for the year determined without reference to this section, sections 123.2 and 126 (except for the purposes of subsection 125(1) and section 125.1), subsections 127(3) and (5), 127.2(1) and 127.3(1) of this Act and paragraph 123(1)(*b*) and subsection 127(13) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, and as if subsection 124(1) of this Act were read without reference to the words "in a province" in that subsection

exceeds

(*b*) in the case of a Canadian-controlled private corporation to which subsection 125(1) applies, the amount, if any, by which

(i) 15% of the least of the amounts, if any, determined under paragraphs 125(1)(*a*) to (*c*) in respect of the corporation for the year

exceeds

(ii) the amount, if any, determined under paragraph 125.1(1)(*b*) in respect of the corporation for the year,

(*c*) in the case of a mutual fund corporation, the least of the amounts that would be determined under paragraphs (*a*) to (*c*) of the description of A in the definition "refundable capital gains tax on hand" in subsection 131(6) in respect of the corporation for the year if this Act were read without reference to this section, and

(*d*) in any other case, nil

that the number of days in that portion of the year that is after June 30, 1985 and before 1987 is of the number of days in the year.

Related Sections: S. 136(1) Cooperative not private corporation; s. 137(7) Credit union not private corporation.

SECTION 123.2:

► 123.2(1) ◄

(1) Corporation surtax. [Repealed by S.C. 2006, c. 4, s. 72(2).]

History: S. 123.2(1) was repealed by S.C. 2006, c. 4, s. 72(2), applicable to taxation years that begin after 2007. S. 123.2(1) formerly read:

"S. 123.2. (1) *Corporation surtax.* There shall be added to the tax otherwise payable under this Part for each taxation year by a corporation an amount equal to the corporation's specified percentage for the taxation year multiplied by the amount, if any, by which

(*a*) the tax payable under this Part by the corporation for the year determined without reference to this section, sections 123.3, 123.4 and 125 to 126 and subsections 127(3), (5), (27) to (31), (34) and (35) and 137(3) and as if subsection 124(1) did not contain the words 'in a province'

exceeds

(*b*) in the case of a corporation that was throughout the year an investment corporation or a mutual fund corporation, the amount determined for A in the definition 'refundable capital gains tax on hand' in subsection 131(6) in respect of the corporation for the year, and

(*c*) in any other case, nil."

S. 123.2 was replaced, and subsection (1) was added, by S.C. 2005, c. 30, s. 9, in force on Royal Assent, June 29, 2005. S. 123.2 formerly read:

"S. 123.2. *Corporate surtax.* There shall be added to the tax otherwise payable under this Part for each taxation year by a corporation (other than a corporation that was throughout the year a non-resident-owned investment corporation) an amount equal to 4% of the amount, if any, by which

(*a*) the tax payable under this Part by the corporation for the year determined without reference to this section, sections 123.3, 123.4 and 125 to 126 and subsections 127(3), (5), (27) to (31), (34) and (35) and 137(3) and as if subsection 124(1) did not contain the words 'in a province'

exceeds

(*b*) in the case of a corporation that was throughout the year an investment corporation or a mutual fund corporation, the amount determined for A in the definition 'refundable capital gains tax on hand' in subsection 131(6) in respect of the corporation for the year, and

(*c*) in any other case, nil.

(*d*) [Repealed by 1990, c. 39, S. 28(1).]"

S. 123.2(*a*) was amended by S.C. 2001, c. 17, s. 111(1), applicable to the 2001 and subsequent taxation years. S. 123.2(*a*) formerly read:

"(*a*) the tax payable under this Part by the corporation for the year determined without reference to this section, sections 123.3 and 125 to 126 and subsections 127(3), (5), (27) to (31), (34) and (35) and 137(3) and as if subsection 124(1) did not contain the words 'in a province'"

S. 123.2(*a*) was amended by S.C. 1999, c. 22, s. 45(1), applicable to the 1998 and subsequent taxation years. S. 123.2(*a*) formerly read:

"(*a*) the tax payable under this Part by the corporation for the year determined without reference to this section, sections 123.3 and 125 to 126 and subsections 127(3) and (5) and 137(3) and as if subsection 124(1) did not contain the words 'in a province'."

S. 123.2, that portion before paragraph (*b*), was amended by S.C. 1996, c. 21, s. 24(1), applicable to taxation years that end after February 27, 1995 except that, in applying section 123.2 to a taxation year that began before February 28, 1995, the amount otherwise determined under that section shall be reduced by that proportion of 1/4 of that amount that the number of days in the year that are before February 28, 1995 is of the number of days in the year.

That portion formerly read:

"S. 123.2. *Corporation surtax.* There shall be added to the tax otherwise payable under this Part for each taxation year by a corporation (other than a corporation that was throughout the year a non-resident-owned investment corporation) an amount equal to 3% of the amount, if any, by which

(*a*) the tax payable under this Part by the corporation for the year determined without reference to this section, sections 125 to 126 and subsections 127(3) and (5) and 137(3) and as if subsection 124(1) did not contain the words 'in a province' therein

exceeds"

S. 123.2(*a*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 61(1), applicable to the 1992 and subsequent taxation years except that, in its application to the corporation's taxation year commencing before 1992, there shall be deducted from the amount determined under paragraph 123.2(*a*) in respect of the corporation for the year an amount equal to that proportion of the

amount determined under subsection 137(3) of the Act in respect of the corporation for the year that the number of days in the year that are before 1992 is of the number of days in the year. S. 123.2(*a*) formerly read:

"(*a*) the tax payable under this Part by the corporation for the year determined without reference to this section and sections 125 to 126 and subsections 127(3) and (5) of this Act and paragraph 123(1)(*b*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, and as if subsection 124(1) of this Act were read without reference to the words 'in a province' in that subsection"

Regulations: 8602.

► 123.2(2) ◄

(2) Specified percentage. [Repealed by S.C. 2006, c. 4, s. 72(2).]

History: S. 123.2(2) was repealed by S.C. 2006, c. 4, s. 72(2), applicable to taxation years that begin after 2007. S. 123.2(2) formerly read:

"(2) *Specified percentage.* The specified percentage of a corporation for a taxation year is that proportion of 4% that the number of days in the taxation year that are before 2008 is of the number of days in the taxation year."

S. 123.2(2) was replaced by S.C. 2006, c. 4, s. 72(1), in force on Royal Assent, June 22, 2006.

S. 123.2(2) formerly read:

"(2) *Specified percentage.* The specified percentage of a corporation for a taxation year is

(*a*) if the taxable capital employed in Canada of the corporation for the taxation year is equal to or less than $50,000,000, that proportion of 4% that the number of days in the taxation year that are before 2008 is of the number of days in the taxation year; and

(*b*) if paragraph (*a*) does not apply, the percentage determined by the formula

A + B[(C – $50,000,000)/$25,000,000]

where

A is that proportion of 4% that the number of days in the taxation year that are before 2008 is of the number of days in the taxation year,

B is that proportion of 4% that the number of days in the taxation year that are after 2007 is of the number of days in the taxation year; and

C is the lesser of $75,000,000 and the taxable capital employed in Canada of the corporation for the taxation year."

S. 123.2(2) was added by S.C. 2005, c. 30, s. 9, in force on Royal Assent, June 29, 2005. S. 123.2(2) was previously repealed under the Former Act.

► 123.2(3) ◄

(3) Taxable income. [Repealed by S.C. 2006, c. 4, s. 72(1).]

History: S. 123.2(3) was repealed by S.C. 2006, c. 4, s. 72(1), in force on Royal Assent, June 22, 2006.

S. 123.2(3) formerly read:

"(3) *Taxable income.* For the purpose of subsection (2), the taxable capital employed in Canada of a corporation for a particular taxation year is

(*a*) if the corporation is associated with one or more other corporations in the particular taxation year, the total of all amounts each of which is the taxable capital employed in Canada (within the meaning assigned by subsection 181.2(1) or 181.3(1) or section 181.4, as the case may be) of the corporation, or of such an associated corporation, for its last taxation year that ended in the calendar year preceding the calendar year in which the particular taxation year ends; and

(*b*) if the corporation is not associated with one or more other corporations in the particular taxation year, the taxable capital employed in Canada (within the meaning assigned by subsection 181.2(1) or 181.3(1) or section 181.4, as the case may be) of the corporation for the particular taxation year."

S. 123.2(3) was added by S.C. 2005, c. 30, s. 9, in force on Royal Assent, June 29, 2005. S. 123.2(3) was previously repealed under the Former Act.

SECTION 123.3: Refundable tax on CCPC's investment income.

There shall be added to the tax otherwise payable under this Part for each taxation year by a corporation that is throughout the year a Canadian-controlled private corporation an amount equal to 6 2/3% of the lesser of

(*a*) the corporation's aggregate investment income for the year (within the meaning assigned by subsection 129(4)), and

(*b*) the amount, if any, by which its taxable income for the year exceeds the least of the amounts determined in respect of it for the year under paragraphs 125(1)(*a*) to (*c*).

History: S. 123.3 was added by S.C. 1996, c. 21, s. 25(1), applicable to taxation years that end after June 1995 except that, in its application to such taxation years that begin before July 1995, the reference in section 123.3 to "6 2/3%" shall be read as "that proportion of 6 2/3% that the number of days in the year that are after June 1995 is of the number of days in the year".

Related Sections: S. 125(7), "Canadian-controlled private corporation"; s. 129(4), "aggregate investment income".

Tax Topics: No. 1695, Corporate Tax Rates — How They (Now) Work.

Corporation Tax Reductions

SECTION 123.4:

► 123.4(1) ◄

(1) Definitions. The definitions in this subsection apply in this section.

Related Sections: S. 125(1) Small business deduction; s. 125(7), "Canadian-controlled private corporation"; s. 125.11(1), "taxable resource income"; s. 125.11(2) Resource deduction; s. 129(4) Definitions; s. 130(3) Meaning of expressions "investment corporation" and "taxed capital gains"; s. 130.1(6) Meaning of "mortgage investment corporation"; s. 131(8) Meaning of "mutual fund corporation"; s. 133(8), "non resident owned investment corporation".

"CCPC rate reduction percentage" — [Repealed by S.C. 2003, c. 15, s. 78(1).]

History: S. 123.4(1), the definition "CCPC rate reduction percentage" was repealed by S.C. 2003, c. 15, s. 78(1), applicable to the 2005 and subsequent taxation years. The definition formerly read:

" *'CCPC rate reduction percentage'* — 'CCPC rate reduction percentage' of a Canadian-controlled private corporation for a taxation year is that proportion of 7% that the number of days in the year that are after 2000 is of the number of days in the year."

S. 123.4(1), the definition "CCPC rate reduction percentage" was added by S.C. 2001, c. 17, s. 112(1), applicable to the 2001 and subsequent taxation years except that, in its application to a taxation year that begins before 2001, the amount determined under subparagraph (*b*)(iv) of the definition "full rate taxable income" in subsection 123.4(1) of the Act is deemed to be the amount otherwise so determined multiplied by the number obtained by dividing the number of days in the year by the number of days in the year that are after 2000.

"full rate taxable income" — "full rate taxable income" of a corporation for a taxation year is

(*a*) if the corporation is not a corporation described in paragraph (*b*) or (*c*) for the year, the amount by which that portion of the corporation's taxable income for the year (or, for greater certainty, if the corporation is non-resident, that portion of its taxable income earned in Canada for the year) that is subject to tax under subsection 123(1) exceeds the total of

(i) if an amount is deducted under subsection 125.1(1) from the corporation's tax otherwise payable under this Part for the year, the amount obtained by dividing the amount so deducted by the corporation's general rate reduction percentage for the taxation year,

(ii) if an amount is deducted under subsection 125.1(2) from the corporation's tax otherwise payable under this Part for the year, the amount determined, in respect of the deduction, by the formula in that subsection, and

(iii) [Repealed.]

(iv) if the corporation is a credit union throughout the year and the corporation deducted an amount for the year under subsection 125(1) (because of the application of subsections 137(3) and (4)), the amount if any, by which, the lesser of the amounts described in paragraphs 137(3)(*a*) and (*b*) exceeds the amount described in paragraph 137(3)(*c*) in respect of the corporation for the year;

(*b*) if the corporation is a Canadian-controlled private corporation throughout the year, the amount by which the corporation's taxable income for the year exceeds the total of

(i) the amounts that would, if paragraph (*a*) applied to the corporation, be determined under subparagraphs (*a*)(i) to (iv) in respect of the corporation for the year,

(ii) the least of the amounts, if any, determined under paragraphs 125(1)(*a*) to (*c*) in respect of the corporation for the year, and

(iii) the corporation's aggregate investment income for the year, within the meaning assigned by subsection 129(4);

(*c*) if the corporation is throughout the year an investment corporation, a mortgage investment corporation or a mutual fund corporation, nil.

History: S. 123.4(1), the portion of paragraph (*a*) of the definition "full rate taxable income" before subparagraph (i) was replaced by S.C. 2007, c. 2, s. 32(1), applicable to taxation years that begin on or after May 2, 2006. S. 123.4(1), the portion of paragraph (*a*) of the definition "full rate taxable income" before subparagraph (i) formerly read:

"(*a*) if the corporation is not a corporation described in paragraph (*b*) or (*c*) for the year, the amount by which the corporation's taxable income for the year (or, for greater certainty, if the corporation is non-resident, its taxable income earned in Canada for the year) exceeds the total of"

S. 123.4(1), subparagraph (*a*)(iv) of the definition "full rate taxable income" was replaced by S.C. 2007, c. 2, s. 32(2), applicable to the 2008 and subsequent taxation years. S. 123.4(1), subparagraph (*a*)(iv) of the definition "full rate taxable income" formerly read:

"(iv) if the corporation is a credit union throughout the year, $^{100}/_{16}$ of the amount, if any, deducted under subsection 137(3) from the corporation's tax otherwise payable under this Part for the year;"

S. 123.4(1), subparagraph (*b*)(ii) of the definition "full rate taxable income" was replaced by S.C. 2007, c. 2, s. 32(3), applicable to the 2008 and subsequent taxation years. S. 123.4(1), subparagraph (*b*)(ii) of the definition "full rate taxable income" formerly read:

"(ii) $^{100}/_{16}$ of the amount, if any, deducted under subsection 125(1) from the corporation's tax otherwise payable under this Part for the year, and"

S. 123.4(1), the portion of paragraph (*a*) of the definition "full rate taxable income" before subparagraph (ii) was replaced by S.C. 2006, c. 4, s. 73(2), in force on Royal Assent, June 22, 2006. S. 123.4(1), the portion of paragraph (*a*) of the definition "full rate taxable income" before subparagraph (ii) formerly read:

"(*a*) if the corporation is not a corporation described in paragraph (*b*) or (*c*) for the year, the amount by which the corporation's taxable income for the year exceeds the total of,

(i) if an amount is deducted under subsection 125.1(1) from the corporation's tax otherwise payable under this Part for the year, $^{100}/_{7}$ of the amount deducted,"

S. 123.4(1), subparagraph (*a*)(iii) of the definition "full rate taxable income" was repealed by S.C. 2003, c. 28, s. 12(2), applicable to taxation years that begin after 2006. S. 123.4(1), subparagraph (*a*)(iii) of the definition "full rate taxable income" formerly read:

"(iii) the corporation's taxable resource income for the year, and"

S. 123.4(1), subparagraph (*a*)(iii) of the definition "full rate taxable income" was replaced by S.C. 2003, c. 28, s. 12(1), applicable to the 2003 and subsequent taxation years. S. 123.4(1), subparagraph (*a*)(iii) of the definition "full rate taxable income" formerly read:

"(iii) three times the total of all amounts each of which is deducted under paragraph 20(1)(*v.1*) in computing the corporation's income from a business or property for the year, and"

S. 123.4(1), subparagraph (*b*)(iv) of the definition "full rate taxable income" was repealed by S.C. 2003, c. 15, s. 78(2), applicable to the 2005 and subsequent taxation years. S. 123.4(1), subparagraph (*b*)(iv) of the definition "full rate taxable income" formerly read:

"(iv) $^{100}/_{7}$ of the amount, if any, deducted under subsection (3) from the corporation's tax otherwise payable under this Part for the year; and"

S. 123.4(1), paragraph (*c*) of the definition "full rate taxable income" was replaced by S.C. 2003, c. 15, s. 78(3), applicable to the 2005 and subsequent taxation years. S. 123.4(1), paragraph (*c*) of the definition "full rate taxable income" formerly read:

"(*c*) if the corporation is throughout the year an investment corporation, a mortgage investment corporation, a mutual fund corporation, or a non-resident-owned investment corporation, nil."

S. 123.4(1), the definition "full rate taxable income" was added by S.C. 2001, c. 17, s. 112(1), applicable to the 2001 and subsequent taxation years except that, in its application to a taxation year that begins before 2001, the amount determined under subparagraph (*b*)(iv) of the definition "full rate taxable income" in subsection 123.4(1) of the Act is deemed to be the amount otherwise so determined multiplied by the number obtained by dividing the number of days in the year by the number of days in the year that are after 2000.

"*general rate reduction percentage*" — "general rate reduction percentage" of a corporation for a taxation year is the total of

(*a*) that proportion of 7% that the number of days in the taxation year that are before 2008 is of the number of days in the taxation year,

(*b*) that proportion of 8.5% that the number of days in the taxation year that are in 2008 is of the number of days in the taxation year,

(*c*) that proportion of 9% that the number of days in the taxation year that are in 2009 is of the number of days in the taxation year,

(*d*) that proportion of 10% that the number of days in the taxation year that are in 2010 is of the number of days in the taxation year,

(*e*) that proportion of 11.5% that the number of days in the taxation year that are in 2011 is of the number of days in the taxation year, and

(*f*) that proportion of 13% that the number of days in the taxation year that are after 2011 is of the number of days in the taxation year.

History: S. 123.4(1), paragraphs (*b*) to (*e*) of the definition "general rate reduction percentage" were replaced, and paragraph (*f*) was added, by S.C. 2007, c. 35, s. 181(1), applicable to the 2008 and subsequent taxation years. S. 123.4(1), paragraphs (*b*) to (*e*) of the definition "general rate reduction percentage" formerly read:

"(*b*) that proportion of 7.5% that the number of days in the taxation year that are in 2008 is of the number of days in the taxation year,

(*c*) that proportion of 8% that the number of days in the taxation year that are in 2009 is of the number of days in the taxation year,

(*d*) that proportion of 9% that the number of days in the taxation year that are in 2010 is of the number of days in the taxation year, and

(*e*) that proportion of 9.5% that the number of days in the taxation year that are after 2010 is of the number of days in the taxation year."

S. 123.(1), paragraph (*d*) of the definition "general rate reduction percentage" was replaced, and paragraph (*e*) was added, by S.C. 2007, c. 29, s. 14, in force on Royal Assent, June 22, 2007. S. 123.(1), paragraph (*d*) of the definition "general rate reduction percentage" formerly read:

"(*d*) that proportion of 9% that the number of days in the taxation year that are after 2009 is of the number of days in the taxation year."

S. 123.4(1), the definition "general rate reduction percentage" was replaced by S.C. 2006, c. 4, s. 73(1), in force on Royal Assent, June 22, 2006.

S. 123.4(1), the definition "general rate reduction percentage" formerly read:

"'*general rate reduction percentage*'— 'general rate reduction percentage' of a corporation for a taxation year is the total of

(*a*) that proportion of 1% that the number of days in the year that are in 2001 is of the number of days in the year;

(*b*) that proportion of 3% that the number of days in the year that are in 2002 is of the number of days in the year;

(*c*) that proportion of 5% that the number of days in the year that are in 2003 is of the number of days in the year; and

(*d*) that proportion of 7% that the number of days in the year that are after 2003 is of the number of days in the year."

S. 123.4(1), the definition "general rate reduction percentage" was added by S.C. 2001, c. 17, s. 112(1), applicable to the 2001 and subsequent taxation years except that, in its application to a taxation year that begins before 2001, the amount determined under subparagraph (*b*)(iv) of the definition "full rate taxable income" in subsection 123.4(1) of the Act is deemed to be the amount otherwise so determined multiplied by the number obtained by dividing the number of days in the year by the number of days in the year that are after 2000.

► 123.4(2) ◄

(2) General deduction from tax. There may be deducted from a corporation's tax otherwise payable under this Part for a taxation year the product obtained by multiplying the corporation's general rate reduction percentage for the year by the corporation's full-rate taxable income for the year.

History: S. 123.4(2) was added by S.C. 2001, c. 17, s. 112(1), applicable to the 2001 and subsequent taxation years except that, in its application to a taxation year that begins before 2001, the amount determined under subparagraph (*b*)(iv) of the definition "full rate taxable income" in subsection 123.4(1) of the Act is deemed to be the amount otherwise so determined multiplied by the number obtained by dividing the number of days in the year by the number of days in the year that are after 2000.

► 123.4(3) ◄

(3) CCPC deduction. [Repealed by S.C. 2003, c. 15, s. 78(5).]

History: S. 123.4(3) was repealed by S.C. 2003, c. 15, s. 78(5), applicable to the 2005 and subsequent taxation years. S. 123.4(3) formerly read:

"(3) *CCPC deduction.* There may be deducted from the tax otherwise payable under this Part for a taxation year by a Canadian-controlled private corporation the product obtained by multiplying the corporation's CCPC rate reduction percentage for the year by the amount by which the least of

(*a*) the amount determined by the formula

($300,000/A) × B

where

A is the total of

(i) that proportion of $200,000 that the number of days in the taxation year that are before 2003 is of the number of days in the taxation year,

(ii) that proportion of $225,000 that the number of days in the taxation year that are in 2003 is of the number of days in the taxation year, and

(iii) that proportion of $250,000 that the number of days in the taxation year that are in 2004 is of the number of days in the taxation year, and

B is the corporation's business limit for the taxation year as determined under section 125 for the purpose of paragraph 125(1)(*c*),

(*b*) the amount that would be determined under paragraph 125(1)(*a*) in respect of the corporation for the year if the description of M in the definition 'specified partnership income' in subsection 125(7) were read as it is to be read for fiscal periods that begin after 2005, and

(*c*) the amount by which

(i) the amount that would, if subsection 126(1) did not apply in respect of any amount included in the corporation's aggregate investment income for the year (determined under subsection 129(4)), be determined under paragraph 125(1)(*b*) in respect of the corporation for the year

exceeds

(ii) the corporation's aggregate investment income for the year,

exceeds the total of

(*d*) the amounts that would, if paragraph (*a*) of the definition 'full-rate taxable income' in subsection (1) applied to the corporation for the year, be determined under subparagraphs (*a*)(i) to (iv) of that definition in respect of the corporation for the year, and

(*e*) 100/16 of the amount, if any, deducted under subsection 125(1) from the corporation's tax otherwise payable under this Part for the year."

Ss. 123.4(3)(*a*) and (*b*) were replaced by S.C. 2003, c. 15, s. 78(3), applicable to the 2003 and 2004 taxation years. Ss. 123.4(3)(*a*) and (*b*) formerly read:

"(*a*) 3/2 of the corporation's business limit for the year, as determined under section 125 for the purpose of paragraph 125(1)(*c*),

(*b*) the amount that would be determined under paragraph 125(1)(*a*) in respect of the corporation for the year if the references in the description of M in the definition 'specified partnership income' in subsection 125(7) to '$200,000' and '$548' were read as references to '$300,000' and '$822', respectively, and"

S. 123.4(3) was added by S.C. 2001, c. 17, s. 112(1), applicable to the 2001 and subsequent taxation years except that, in its application to a taxation year that begins before 2001, the amount determined under subparagraph (*b*)(iv) of the definition "full rate taxable income" in subsection 123.4(1) of the Act is deemed to be the amount otherwise so determined multiplied by the number obtained by dividing the number of days in the year by the number of days in the year that are after 2000.

SECTION 123.5: Idem. [Repealed by 1985, c. 45, s. 69(1).]

SECTION 124:

► 124(1) ◄

(1) Deduction from corporation tax. There may be deducted from the tax otherwise payable by a corporation under this Part for a taxation year an amount equal to 10% of the corporation's taxable income earned in the year in a province.

Regulations: Part IV.

Interpretation Bulletins: *Primary* — IT-177R2 (Consolid.) Permanent establishment of a corporation in a province. *Secondary* — IT-347R2 Crown corporations [Archived by the CRA].

Tax Profile: May 2003 — The Interprovincial Transfer of Passive Corporate Income.

Canadian Tax Foundation: Auger and Belanger, "Interprovincial Allocation of Income", *1999 Conference Report*, 10:1.

Cases: Taxpayer directed its real estate management and construction business from its main office in Canada. Although 90% of its income was generated in the U.S., it had no permanent establishment there, as on-site supervision lasted only until each project was completed. The taxpayer therefore qualified for the 10% tax reduction. *Hegeman-Harris Co. of Canada Ltd. v. M.N.R.*, 79 DTC 886 (T.R.B.).

Income Tax Technical News: Issue No. 2, Permanent establishment in a province through an agent.

► 124(2) ◄

(2) Idem. [Repealed by 1974-75-76, c. 71, s. 6(1).]

► 124(2.1) ◄

(2.1) Idem. [Repealed by 1974-75-76, c. 71, s. 6(1).]

► 124(2.2) ◄

(2.2) Calculation of percentage for particular taxation year. [Repealed by 1974-75-76, c. 71, s. 6(1).]

► 124(3) ◄

(3) Crown agents. Notwithstanding subsection (1), no deduction may be made under this section from the tax otherwise payable under this Part for a taxation year by a corporation in respect of any taxable income of the corporation for the year that is not, because of an Act of Parliament, subject to tax under this Part or by a prescribed federal Crown corporation that is an agent of Her Majesty.

History: S. 124(3) was amended by S.C. 1994, c. 7, Sched. VIII, s. 62(1), applicable to the 1992 and subsequent taxation years. S. 124(3) formerly read:

"(3) No deduction may be made under this section from the tax otherwise payable under this Part for a taxation year by a prescribed federal Crown corporation that is an agent of Her Majesty."

Regulations: 7100.

Interpretation Bulletins: *Secondary* — IT-347R2 Crown corporations [Archived by the CRA].

► 124(4) ◄

(4) Definitions. In this section,

"province" — "province" includes the Newfoundland offshore area and the Nova Scotia offshore area;

Related Sections: S. 133(4) No deduction for foreign taxes; s. 248(1), "amount", "corporation", "Newfoundland offshore area", "prescribed", "taxable income"; s. 249 Definition of "taxation year".

Interpretation Bulletins: *Primary* — IT-177R2 (Consolid.) Permanent establishment of a corporation in a province.

"taxable income earned in the year in a province" — "taxable income earned in the year in a province" means the amount determined under rules prescribed for the purpose by regulations made on the recommendation of the Minister of Finance.

Regulations: 400 to 413.

SECTION 124.1: "Taxable production profits from a mineral resource in Canada" defined. [Repealed by 1974-75-76, c. 71, s. 7(1).]

SECTION 124.2: "Taxable production profits from oil or gas wells in Canada" defined. [Repealed by 1974-75-76, c. 71, s. 7(1).]

SECTION 125:

► 125(1) ◄

(1) Small business deduction. There may be deducted from the tax otherwise payable under this Part for a taxation year by a corporation that was, throughout the taxation year, a Canadian-controlled private corporation, an amount equal to the corporation's small business

deduction rate for the taxation year multiplied by the least of

(*a*) the amount, if any, by which the total of

(i) the total of all amounts each of which is the income of the corporation for the year from an active business carried on in Canada (other than the income of the corporation for the year from a business carried on by it as a member of a partnership), and

(ii) the specified partnership income of the corporation for the year

exceeds the total of

(iii) the total of all amounts each of which is a loss of the corporation for the year from an active business carried on in Canada (other than a loss of the corporation for the year from a business carried on by it as a member of a partnership), and

(iv) the specified partnership loss of the corporation for the year,

(*b*) the amount, if any, by which the corporation's taxable income for the year exceeds the total of

(i) 10/3 of the total of the amounts that would be deductible under subsection 126(1) from the tax for the year otherwise payable under this Part by it if those amounts were determined without reference to sections 123.3 and 123.4,

(ii) 10/4 of the total of the amounts that would be deductible under subsection 126(2) from the tax for the year otherwise payable under this Part by it if those amounts were determined without reference to section 123.4, and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 125(1)(*b*)(ii) of the Act is replaced by the following:

(ii) three times the total of the amounts that would be deductible under subsection 126(2) from the tax for the year otherwise payable under this Part by it if those amounts were determined without reference to section 123.4, and

Applicable: To the 2003 and subsequent taxation years.

Explanatory Note: Under subsection 125(1) of the Act, a CCPC's small business deduction for a taxation year is calculated as 16% of the least of three amounts. One of these, set out in paragraph 125(1)(*b*), is the amount by which the corporation's taxable income for the year exceeds income that has supported a foreign tax credit (FTC) or that is statutorily exempt from tax. The amount of income that has supported an FTC is determined by multiplying the corporation's FTCs for the year (subject to certain adjustments) by a factor that reflects an assumed rate of tax. For FTCs in respect of foreign non-business income, the factor is currently 10/3, reflecting an assumed tax rate of 30%. For business-income FTCs, the factor is currently 10/4, which reflects an assumed tax rate of 40%.

Subparagraph 125(1)(*b*)(ii) is amended to adjust the factor for foreign business income, as part of a series of amendments reflecting recent and planned reductions in income tax rates. The factor for business-income FTCs will become 3. This implies an assumed tax rate of 33.3%. This amendment applies to the 2003 and subsequent taxation years.

(iii) the amount, if any, of the corporation's taxable income for the year that is not, because of an Act of Parliament, subject to tax under this Part, and

(*c*) the corporation's business limit for the year.

History: S. 125(1), the portion before paragraph (*a*) was replaced by S.C. 2007, c. 2, s. 33(1), applicable to the 2008 and subsequent taxation years. S. 125(1), the portion before paragraph (*a*) formerly read:

"S. 125. (1) *Small business deduction.* There may be deducted from the tax otherwise payable under this Part for a taxation year by a corporation that was, throughout the year, a Canadian-controlled private corporation, an amount equal to 16% of the least of"

S. 125(1)(*b*), the portion before subparagraph (iii) was amended by S.C. 2001, c. 17, s. 113(1), applicable to the 2001 and subsequent taxation years. S. 125(1)(*b*), the portion before subparagraph (iii) formerly read:

"(*b*) the amount, if any, by which the corporation's taxable income for the year exceeds the total of

(i) 10/3 of the total of the amounts that would be deductible under subsection 126(1) from the tax for the year otherwise payable under this Part by it if those amounts were determined without reference to section 123.3,

(ii) 10/4 of the total of amounts deducted under subsection 126(2) from the tax for the year otherwise payable by it under this Part, and"

S. 125(1), that portion preceding paragraph (*a*), was amended by S.C. 1998, c. 19, s. 145(1), applicable to taxation years that end after June 1988, except that there shall be added to the amount otherwise determined under subsection 125(1), in respect of a corporation's taxation year that began before July 1988 and ended after June 1988, that proportion of 5% of the least of the amounts determined under paragraphs 125(1)(*a*) to (*c*) of the Act in respect of the corporation for the year that the number of days in the year that are before July 1988 is of the number of days in the year. That portion of s. 125(1) formerly read:

"S. 125. *Small business deduction.*

(1) There may be deducted from the tax otherwise payable under this Part for a taxation year by a corporation that was, throughout a taxation year, a Canadian-controlled private corporation, an amount equal to 16% of the least of"

S. 125(1)(*b*)(i) was amended by S.C. 1996, c. 21, s. 26(1), applicable to taxation years that end after June 1995. S. 125(1)(*b*)(i) formerly read:

"(i) 10/3 of the total of amounts deducted under subsection 126(1) from the tax for the year otherwise payable by it under this Part,"

S. 125(1)(*b*)(iii) was added by S.C. 1994, c. 7, Sched. VIII, s. 63(1), applicable to the 1992 and subsequent taxation years.

Editorial Note: The small business deduction is computed by applying the "small business deduction rate" (per s. 125(1.1)) to the least of the corporation's:

1. non-partnership income from an active business carried on in Canada and "specified partnership income" (see the editorial note in s. 125(7)), less non-partnership Canadian-active-business losses and "specified partnership losses" (see the editorial note in s. 125(7)) (see paragraph (*a*));

2. Small business limit — As amended by the 2009 Federal Budget (S.C. 2009, c. 2) (s. 125(2)), this is normally $500,000 for the 2009 and subsequent taxation years (prorated where the 2009 taxation year straddles December 31, 2008). This may be reduced where it the corporation is associated in the year with one or more corporations (see paragraph (*c*));

3. A general limitation based on the corporation's taxable income, reduced by amounts designed to estimate the extent to which the corporation's taxable income is effectively sheltered by foreign tax credits, or is tax-exempt (see paragraph (*b*)).

While a corporation must be a CCPC throughout the year to qualify for the small business deduction, s. 249(3.1) or (4) provides a deemed year end when CCPC status is lost. The small business deduction is phased-out (per s. 125(5.1)), based on taxable capital employed in Canada of between $10M–$15M. Special rules in s. 125(5) may apply for short taxation years, as well as where a corporation has two or more taxation years which end in the same calendar year.

Related Sections: S. 89(1), "general rate income pool", "low rate income pool"; s. 89(11) Election: non-CCPC; s. 110.5 Additions for foreign tax deductions; s. 123.1 Corporation surtax; s. 123.3 Refundable tax on CCPC's investment income; s. 123.4(1), "full rate taxable income"; s. 125(1.1) Small business deduction rate; s. 125(2) Business limit; s. 125(6) Corporate partnerships; s. 125(6.1) Corporation deemed member of partnership; s. 125(6.2) Specified partnership income deemed nil; s. 125(6.3) Partnership deemed to be controlled; s. 125(7), "Canadian controlled private corporation", "specified partnership income"; s. 125.1 Manufacturing and processing profits deductions; s. 126(1) Foreign tax deduction — non-business income; s. 126(2) Employees of international organizations; s. 129(3) Definition of

"refundable dividend tax on hand"; s. 129(6)(*b*) Investment income from associated corporation deemed to be active business income; s. 136(1) Cooperative not private corporation; s. 137(3) Additional deduction; s. 137(7) Credit union not private corporation.

Interpretation Bulletins: *Primary* — IT-73R6 The small business deduction. *Secondary* — IT-151R5 (Consolid.) — Scientific research and experimental development expenditures; IT-151R4 Scientific research and experimental development expenditures [Archived by the CRA]; IT-189R2 Corporations used by practising members of professions; IT-232R3 Non-capital losses, net capital losses, restricted farm losses, farm losses and limited partnership losses — Their composition and deductibility in computing taxable income; IT-243R4 Dividend refund to private corporations; IT-362R Patronage dividends; IT-458R2 Canadian-controlled private corporation.

Information Circulars: IC 88-2 General anti-avoidance rule — Section 245 of the Income Tax Act (para. 11).

Income Tax Technical News: Issue No. 30, Reasonableness of Shareholder/Manager Remuneration.

Forms: T2 SCH 7; T2 SCH 70; T2 SCH 341; T2 SCH 424.

Tax Topics: No. 1695, Corporate Tax Rates – How They (Now) Work; No. 1652, Owner-Manager Remuneration – Is the CCRA Tightening the Screws?; No. 1579, Tax Rate Drops Change Business Tax Planning; No. 1500, Shareholder-Manager Bonus Policy — A Follow up.

Tax Profile: July 2007 — Canadian Tax Traps; May 2006 — Professional Corporations for Physicians and Dentists in Ontario; June 2004 — Owner-Manager Remuneration: Bonuses Out of Non-Active Business Income; November 2003 — Revenue Canada Round Table; October 2000 — Reasonableness of Bonuses: CCRA Says You Have to Be Direct Owner of Shares.

Tax Window Files: Incorporation of Medical Partnership, 2004, CRA Document No. 2004-0069011R3 [Professional corporation providing medical services to another corporation not carrying on a "personal services business"; entitled to small business deduction]; Specified Investment Business — Five Full-time Employee Test, June 25, 2001, CRA Document No. 2001-0076645 [Whether a corporation carrying on a business as a member of a joint venture employs more than five full-time employees for the purposes of the definition of "specified investment business"].

Cases: The loss of an associated corporation did not reduce income for the purposes of the income threshold applicable to the small business deduction. *Airtel Communications Ltd. v. The Queen,* 91 DTC 5235 (N.B. Q.B.-T.D.).

A corporation was denied the small business deduction because its only activity was to provide a showroom for a related corporation. Its income was held to be derived from a "personal services business" and it was, therefore, not entitled to the deduction. *533702 Ontario Ltd. v. M.N.R.,* 91 DTC 982 (T.C.C.).

The holding of mortgages was not held to be active business since, even though they were linked with the sale of three commercial properties, the wholly-owned subsidiary of the taxpayer had made a decision to get out of the active business of owning and managing commercial properties. *Alexander Cole Ltd. v. M.N.R.,* 90 DTC 1894 (T.C.C.).

Capital gain can be added to business income for the purpose of calculating a patronage dividend deduction but not for the purpose of calculating the small business deduction. *Sedgewick Co-operative Association Ltd. v. The Queen,* 83 DTC 5455 (F.C.T.D.).

► 125(1.1) ◄

(1.1) Small business deduction rate. For the purpose of subsection (1), a corporation's small business deduction rate for a taxation year is the total of

(*a*) that proportion of 16% that the number of days in the taxation year that are before 2008 is of the number of days in the taxation year,

(*b*) that proportion of 17% that the number of days in the taxation year that are after 2007 is of the number of days in the taxation year.

(*c*) [Repealed.]

History: S. 125(1.1)(*b*) was replaced, and paragraph (*c*) was repealed, by S.C. 2007, c. 35, s. 182(1), applicable to the 2008 and subsequent taxation years. S. 125(1.1)(*b*) and (*c*) formerly read:

"(*b*) that proportion of 16.5% that the number of days in the taxation year that are in 2008 is of the number of days in the taxation year, and

(*c*) that proportion of 17% that the number of days in the taxation year that are after 2008 is of the number of days in the taxation year."

S. 125(1.1) was added by S.C. 2007, c. 2, s. 33(2), applicable to the 2008 and subsequent taxation years.

S. 125(1.1) was previously repealed under the Former Act (1984, c. 45, s. 40(1)).

Editorial Note: Income eligible for the small business deduction is excluded from "full rate taxable income" per paragraph (*b*) of the definition in s. 123.4(1) and will therefore not qualify for the "general rate reduction" applicable to business income, per s. 123.4(1) and 123.4(2). Thus, the effective benefit of the small business deduction is net of the general rate reduction.

Related Sections: S. 137(3) Additional deduction; s. 137.1(9) Special tax rate.

► 125(2) ◄

(2) Business limit. For the purpose of this section, a corporation's business limit for a taxation year is $500,000 unless the corporation is associated in the taxation year with one or more other Canadian-controlled private corporations, in which case, except as otherwise provided in this section, its business limit is nil.

History: S. 125(2) was replaced by S.C. 2009, c. 2, s. 39(1), applicable to the 2009 and subsequent taxation years except that, for a 2009 or 2010 taxation year that began before 2009, the reference in subsection 125(2) to "$500,000" shall be read as a reference to the total of

(*a*) that proportion of $400,000 that the number of days in the taxation year that are before 2009 is of the number of days in the taxation year, and

(*b*) that proportion of $500,000 that the number of days in the taxation year that are after 2008 is of the number of days in the taxation year.

S. 125(2) formerly read:

"(2) *Business limit.* For the purpose of this section, a corporation's business limit for a taxation year is $400,000 unless the corporation is associated in the taxation year with one or more other Canadian-controlled private corporations, in which case, except as otherwise provided in this section, its business limit is nil."

S. 125(2) was replaced by S.C. 2007, c. 2, s. 33(3), applicable to the 2007 and subsequent taxation years except that, for a 2007 or 2008 taxation year that began before 2007, the reference in subsection 125(2) to "$400,000" is to be read as a reference to the total of

(*a*) that proportion of $300,000 that the number of days in the taxation year that are before 2007 is of the number of days in the taxation year, and

(*b*) that proportion of $400,000 that the number of days in the taxation year that are after 2006 is of the number of days in the taxation year.

S. 125(2) formerly read:

"(2) *Interpretation of business limit.* For the purpose of this section, a corporation's 'business limit' for a taxation year is $300,000 unless the corporation is associated in the year with one or more other Canadian-controlled private corporations in which case, except as otherwise provided in this section, its business limit for the year is nil."

S. 125(2), the application of the amendment to subsection 125(2) in S.C. 2003, c. 15, s. 79(3) was replaced by S.C. 2005, c. 19, s. 56(1) and (2), deemed to have come into force on June 19, 2003. The application phased-in the increase in the business limit for the small business deduction and this increase to $300,000 has been accelerated by one year. As a result, the amendment to subsection 125(2) in S.C. 2003, c. 15, s.79(1) regarding the increase in the business limit is applicable to the 2003 and subsequent taxation years except that for taxation years that begin before 2005,

(*a*) the reference to "$300,000" is to be read as a reference to the total of

(i) that proportion of $200,000 that the number of days in the taxation year that are before 2003 is of the number of days in the taxation year,

(ii) that proportion of $225,000 that the number of days in the taxation year that are in 2003 is of the number of days in the taxation year,

(iii) that proportion of $250,000 that the number of days in the taxation year that are in 2004 is of the number of days in the taxation year, and

(iv) that proportion of $300,000 that the number of days in the taxation year that are after 2004 is of the number of days in the taxation year.

S. 125(2) was replaced by S.C. 2003, c. 15, s. 79(1), applicable to the 2003 and subsequent taxation years except that for taxation years that begin before 2006

(*a*) the reference to "$300,000" is to be read as a reference to the total of

(i) that proportion of $200,000 that the number of days in the taxation year that are before 2003 is of the number of days in the taxation year,

(ii) that proportion of $225,000 that the number of days in the taxation year that are in 2003 is of the number of days in the taxation year,

(iii) that proportion of $250,000 that the number of days in the taxation year that are in 2004 is of the number of days in the taxation year,

(iv) that proportion of $275,000 that the number of days in the taxation year that are in 2005 is of the number of days in the taxation year, and

(v) that proportion of $300,000 that the number of days in the taxation year that are after 2005 is of the number of days in the taxation year.

S. 125(2) formerly read:

"(2) *Interpretation of 'business limit'.* For the purposes of this section, a corporation's 'business limit' for a taxation year is $200,000 unless the corporation is associated in the year with one or more other Canadian-controlled private corporations in which case, except as otherwise provided in this section, its business limit for the year is nil."

Editorial Note: See the editorial note to s. 125(1). The 2009 Federal Budget (S.C. 2009, c. 2) raised the small business limit from $400,000 to $500,000 for the 2009 and subsequent taxation years (prorated where the 2009 taxation year straddles December 31, 2008). Provincial small business limits may vary from the limit specified in s. 125(2).

Related Sections: S. 87(2)(*oo.1*) Refundable investment tax credit and balance-due day; s. 88(1)(*e.9*) Winding-up; s. 125(3) Associated corporations; s. 125(4) Failure to file agreement; s. 125(5) Special rules for business limit; s. 125(5.1) Business limit reduction; s. 127(10.1)–127(10.6); s. 127.1(2), "qualifying corporation"; s. 182(2) Definitions; s. 248(1), "balance due day"; s. 256(2) Corporations associated through a third corporation.

Tax Topics: No. 1500, Shareholder-Manager Bonus Policy — A Follow up.

Tax Profile: October 2000 — Reasonableness of Bonuses: CCRA Says You Have to Be Direct Owner of Shares.

► 125(3) ◄

(3) Associated corporations. Notwithstanding subsection (2), if all the Canadian-controlled private corporations that are associated with each other in a taxation year file with the Minister in prescribed form an agreement that assigns for the purpose of this section a percentage to one or more of them for the year, the business limit for the year of each of the corporations is

(*a*) if the total of the percentages assigned in the agreement does not exceed 100%, $500,000 multiplied by the percentage assigned to that corporation in the agreement; and

(*b*) in any other case, nil.

History: S. 125(3)(*a*) was replaced by S.C. 2009, c. 2, s. 39(2), applicable to the 2009 and subsequent taxation years except that, for a 2009 or 2010 taxation year that began before 2009, the reference in paragraph 125(3)(*a*) to "$500,000" is to be read as a reference to "the amount that would, if the corporation were not associated in the year with any other corporation, be its business limit for the year determined without reference to subsections (5) and (5.1)".

S. 125(3)(*a*) formerly read:

"(*a*) if the total of the percentages assigned in the agreement does not exceed 100%, $400,000 multiplied by the percentage assigned to that corporation in the agreement; and"

S. 125(3)(*a*) was replaced by S.C. 2007, c. 2, s. 33(4), applicable to the 2007 and subsequent taxation years except that, for a 2007 or 2008 taxation year that began before 2007, the reference in subsection 125(3) to "$400,000" is to be read as a reference to "the amount that would, if the corporation were not associated in the year with any other corporation, be its business limit for the year determined without reference to subsections (5) and (5.1)".

S. 125(3)(*a*) formerly read:

"(*a*) if the total of the percentages assigned in the agreement does not exceed 100%, $300,000 multiplied by the percentage assigned to that corporation in the agreement; and"

S. 125(3), the application of the amendment to subsection 125(3) in S.C. 2003, c. 15, s. 79(3) was replaced by S.C. 2005, c. 19, s. 56(1) and (2), deemed to have come into force on June 19, 2003. The application phased-in the increase in the business limit for the small business deduction and this increase to $300,000 has been accelerated by one year. As a result, the amendment to subsection 125(3) in S.C.2003, c. 15, s.79(1) regarding the increase in the business limit is applicable to the 2003 and subsequent taxation years except that for taxation years that begin before 2005,

(*a*) the reference to "$300,000" is to be read as a reference to the total of

(i) that proportion of $200,000 that the number of days in the taxation year that are before 2003 is of the number of days in the taxation year,

(ii) that proportion of $225,000 that the number of days in the taxation year that are in 2003 is of the number of days in the taxation year,

(iii) that proportion of $250,000 that the number of days in the taxation year that are in 2004 is of the number of days in the taxation year, and

(iv) that proportion of $300,000 that the number of days in the taxation year that are after 2004 is of the number of days in the taxation year.

S. 125(3) was replaced by S.C. 2003, c. 15, s. 79(1), applicable to the 2003 and subsequent taxation years except that for taxation years that begin before 2005 the reference to "$300,000" is to be read as a reference to "the amount that would, if the corporation were not associated in the year with any other corporation, be its business limit for the year determined without reference to subsections (5) and (5.1),".

S. 125(3) formerly read:

"(3) *Associated corporations.* Notwithstanding subsection (2), if all of the Canadian-controlled private corporations that are associated with each other in a taxation year have filed with the Minister in prescribed form an agreement whereby, for the purposes of this section, they allocate an amount to one or more of them for the taxation year and the amount so allocated or the total of the amounts so allocated, as the case may be, is $200,000, the business limit for the year of each of the corporations is the amount so allocated to it."

Editorial Note: Associated CCPCs have a business limit of nil unless they file an allocation agreement (Schedule 23). Subsection 125(4) requires the CRA to make an allocation if any associated corporation fails to file an agreement within 30 days after notice in writing that such an agreement is required.

Related Sections: S. 125(4) Failure to file agreement; s. 125(5) Special rules for business limit; s. 125(6) Corporate partnerships; s. 256 Associated corporations.

Forms: T2 SCH 23.

Cases: Since a franchisor did not have *de facto* control over it's franchisees, the franchisees were not associated with each other for purposes of the small business deduction. *The Queen v. Lenester Sales Ltd. et al.*, 2004 DTC 6461 (F.C.A.), affirming 2003 DTC 997 (T.C.C.).

► 125(4) ◄

(4) Failure to file agreement. If any of the Canadian-controlled private corporations that are associated with each other in a taxation year has failed to file with the Minister an agreement as contemplated by subsection (3) within 30 days after notice in writing by the Minister has been forwarded to any of them that such an agreement is required for the purpose of any assessment of tax under this Part, the Minister shall, for the purpose of this section, allocate an amount to one or more of them for the taxation year. The total amount so allocated must equal the least of the amounts that would, if none of the corporations were associated with any other corporation during the year and if this Act were read without reference to subsections (5) and (5.1), be the business limits of the corporations for the year.

History: S. 125(4) was replaced by S.C. 2003, c. 15, s. 79(1), applicable to the 2003 and subsequent taxation years. S. 125(4) formerly read:

"(4) *Failure to file agreement.* If any of the Canadian-controlled private corporations that are associated with each other in a taxation year has failed to file with the Minister an agreement as contemplated by subsection (3) within 30 days after notice in writing by the Minister has been forwarded to any of them that such an agreement is required for the purpose of any assessment of tax under this Part, the Minister shall, for the purpose of this section, allocate an amount to one or more of them for the taxation year, which amount or the total of which amounts, as the case may be, shall equal $200,000, and in any such case, notwithstanding subsection (2), the business limit for the year of each of the corporations is the amount so allocated to it."

Editorial Note: See the editorial note to subsection 125(3).

Related Sections: S. 125(3) Associated corporations; s. 125(6) Corporate partnerships; s. 256 Associated corporations.

► 125(5) ◄

(5) Special rules for business limit. Notwithstanding subsections (2) to (4),

(*a*) where a Canadian-controlled private corporation (in this paragraph referred to as the "first corporation") has more than one taxation year ending in the same calendar year and it is associated in 2 or more of those taxation years with another Canadian-controlled private corporation that has a taxation year ending in that calendar year, the business limit of the first corporation for each taxation year ending in the calendar year in which it is associated with the other corporation that ends after the first such taxation year ending in that calendar year is, subject to the application of paragraph (*b*), an amount equal to the lesser of

(i) its business limit determined under subsection (3) or (4) for the first such taxation year ending in the calendar year, and [**Editorial Note:** See the history note for the alternative reading of

s. 125(5)(*a*)(i) for a 2009 or 2010 taxation year of a corporation that began before 2009.]

(ii) its business limit determined under subsection (3) or (4) for the particular taxation year ending in the calendar year; and

(*b*) where a Canadian-controlled private corporation has a taxation year that is less than 51 weeks, its business limit for the year is that proportion of its business limit for the year determined without reference to this paragraph that the number of days in the year is of 365.

History: A transitional rule for s. 125(5) was added by S.C. 2009, c. 2, s. 39(3), in force on Royal Assent, March 12, 2009. The transitional rule provides that in applying subsection 125(5) to a corporation for a 2009 or 2010 taxation year of the corporation that began before 2009, subparagraph 125(5)(*a*)(i) is to be read as follows:

"(i) the amount that would have been its business limit determined under subsection (3) or (4) for the first such taxation year ending in the calendar year if the reference to $400,000 in subsection (3), as it applied in respect of that first such taxation year, had been read in the same manner as it is read in respect of the particular taxation year ending in the calendar year, and"

A transitional rule for s. 125(5) was added by S.C. 2007, c. 2, s. 33(10), in force on Royal Assent, February 21, 2007, to provide that in applying subsection 125(5) of the Act to a corporation for a 2007 or 2008 taxation year, of the corporation, that began before 2007, subparagraph 125(5)(*a*)(i) of the Act is to be read as follows:

"(i) the amount that would have been its business limit determined under subsection (3) or (4) for the first such taxation year ending in the calendar year if the reference to $300,000 in subsection (3), as it applied in respect of that first such taxation year, had been read in the same manner as it is read in respect of the particular taxation year ending in the calendar year, and"

S. 125(5), that portion preceding paragraph (*a*), was amended by S.C. 1995, c. 3, s. 35(1), applicable to taxation years that end after June 1994. S. 125(5), that portion preceding paragraph (*a*), formerly read:

"(5) *Special rules for business limit.* Notwithstanding any other provision of this section,"

S. 125(5)(*a*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 63(2), applicable to taxation years ending after December 20, 1991. S. 125(5)(*a*) formerly read:

"(*a*) where a Canadian-controlled private corporation (in this paragraph referred to as the 'first corporation') has more than one taxation year ending in the same calendar year and it is associated in two or more of those taxation years with another Canadian-controlled private corporation that has a taxation year ending in that calendar year, the business limit of the first corporation for each taxation year in which it is associated with the other corporation ending in that calendar year is, subject to the application of paragraph (*b*), an amount equal to its business limit for the first such taxation year determined without reference to paragraph (*b*), and"

Editorial Note: Paragraph 125(5)(*b*) pro-rates the business limit for and taxation year of less than 51 weeks, based on the number of days in the taxation year, divided by 365.

Paragraph 125(5)(*a*) is applicable where a corporation has two or more taxation years which end in the same calendar year, and is associated in at least two of those years with another CCPC that has a taxation year ending in the particular calendar year. The business limit of the corporation for the second and subsequent taxation years is the business limit allocated to the corporation for the first taxation year, or that of the particular year, if less. (Paragraph (*a*) is then subject to the application of paragraph (*b*); for an example of the interaction of paragraphs (*a*) and (*b*), see paragraph 28 of Interpretation Bulletin IT-73R6.) The provision could apply when there is a deemed year end, such as a change of status to/from a CCPC or an acquisition of control.

Related Sections: S. 87(2)(*a*) Refundable dividend tax on hand; s. 127(10.2) Expenditure limit determined; s. 249(3.1) Year end on status change; s. 249(4) Year end on change of control; s. 249.1 Definition of "fiscal period"; s. 256 Associated corporations.

▶ 125(5.1) ◀

(5.1) Business limit reduction. Notwithstanding subsections (2) to (5), a Canadian-controlled private corporation's business limit for a particular taxation year ending in a calendar year is the amount, if any, by which its business limit otherwise determined for the particular year exceeds the amount determined by the formula

$$A \times \frac{B}{\$11{,}250}$$

where

A is the amount that would, but for this subsection, be the corporation's business limit for the particular year; and

B is

(*a*) where the corporation is not associated with any other corporation in the particular year, the amount that would, but for subsections 181.1(2) and (4), be the corporation's tax payable under Part I.3 for its preceding taxation year, and

(*b*) where the corporation is associated with one or more other corporations in the particular year, the total of all amounts each of which would, but for subsections 181.1(2) and (4), be the tax payable under Part I.3 by the corporation or any such other corporation for its last taxation year ending in the preceding calendar year.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The description of B in subsection 125(5.1) of the Act is replaced by the following:

B is the amount determined by the formula

$$0.225\% \times (D - \$10 \text{ million})$$

where

D is

(*a*) if, in both the particular taxation year and the preceding taxation year, the corporation is not associated with any corporation, the taxable capital employed in Canada (within the meaning assigned by subsection 181.2(1) or 181.3(1) or section 181.4, as the case may be) of the corporation for the preceding taxation year,

(*b*) if, in the particular taxation year, the corporation is not associated with any corporation but was associated with one or more corporations in the preceding taxation year, the taxable capital employed in Canada (within the meaning assigned by subsection 181.2(1) or 181.3(1) or section 181.4, as the case may be) of the corporation for the particular taxation year, or

(*c*) if, in the particular taxation year, the corporation is associated with one or more particular corporations, the total of all amounts each of which is the taxable capital employed in Canada (within the meaning assigned by subsection 181.2(1) or 181.3(1) or section 181.4, as the case may be) of the corporation or of any of the particular corporations for its last taxation year that ended in the preceding calendar year.

Applicable: To taxation years that begin after December 20, 2002, except that, in its application to a corporation described in subsection 181.1(3) for taxation years of the corporation that began before this Act is assented to, the description of B in subsection 125(5.1) shall be read as follows:

"

B is

(*a*) if, in both the particular taxation year and the preceding taxation year, the corporation is not associated with any corporation, the amount that would, but for subsections 181.1(2) and

(4), be the corporation's tax payable under Part I.3 for the preceding taxation year,

(*b*) if, in the particular taxation year, the corporation is not associated with any corporation but was associated with one or more corporations in the preceding taxation year, the amount that would, but for subsections 181.1(2) and (4), be the corporation's tax payable under Part I.3 for the particular taxation year, and

(*c*) if, in the particular taxation year, the corporation is associated with one or more particular corporations, the amount determined by the formula

$$0.225\% \times (D - E)$$

where

D is the total of all amounts each of which is the taxable capital employed in Canada (within the meaning assigned by subsection 181.2(1) or 181.3(1) or section 181.4, as the case may be) of the corporation or of any of the particular corporations for its last taxation year that ended in the preceding calendar year, and

E is $10 million."

Explanatory Note: A corporation's entitlement to the small business deduction for a particular taxation year is determined by reference to, among other things, the "business limit" of the corporation for the particular year. In broad terms, subsection 125(5.1) of the Act reduces the business limit of a corporation if tax under Part I.3 of the Act was payable by the corporation for its preceding taxation year. If the corporation is associated with one or more other corporations in the particular year, the provision takes into account the Part I.3 tax payable by it and those other corporations, in each case for their last taxation years that ended in the preceding calendar year.

Subsection 125(5.1) is amended to respond better to cases in which a corporation is associated with more, fewer or different corporations in one taxation year than in the past. Specifically, the description of B in the formula in the subsection — a description that in effect refers to an amount of tax under Part I.3 — will take one of three forms, depending on the corporation's associations in the current and, in some cases, the preceding taxation year:

- if the corporation is not associated with any other corporation in the current year, and was not associated with any other corporation in the preceding taxation year, the description of B is based on the corporation's Part I.3 tax for the preceding taxation year;
- if the corporation is not associated with any other corporation in the current year, but was so associated in the preceding taxation year, the description of B is based on the corporation's Part I.3 tax for the current year; and
- if the corporation is associated with one or more corporations in the current year, the description of B is the product of a formula that looks to the total taxable capital employed in Canada of the corporation itself and all the corporations with which it is associated in the current year, in each case for its last taxation year that ended in the preceding calendar year.

This amendment applies to taxation years that begin after December 20, 2002.

History: The formula in subsection 125(5.1) was amended by S.C. 1996, c. 21, s. 26(2), applicable,

(*a*) where a corporation is not associated with any other corporation in a particular taxation year and the corporation's preceding taxation year began after February 27, 1995, to the corporation's particular year and subsequent taxation years; and

(*b*) where a particular corporation is associated with one or more other corporations in a particular taxation year that ends in a calendar year and the last taxation year of the particular corporation and of each of the other corporations that ended in the preceding calendar year began after February 27, 1995, to the particular year and subsequent taxation years of the particular corporation.

The formula formerly read:

"

$$A \times \frac{B}{\$10{,}000}$$

"

S. 125(5.1) was added by S.C. 1995, c. 3, s. 35(2), applicable to taxation years that end after June 1994 except that, in its application to taxation years that begin before July 1994, subsection 125(5.1) shall be read as follows:

"(5.1) Notwithstanding subsections (2) to (5), a Canadian-controlled private corporation's business limit for a particular taxation year ending in a calendar year is the amount, if any, by which its business limit otherwise determined for the particular year exceeds the amount determined by the formula

$$A \times \frac{B}{\$10{,}000} \times \frac{C}{D}$$

where

A is the amount that would, but for this subsection, be the corporation's business limit for the particular year;

B is

(*a*) where the corporation is not associated with any other corporation in the particular year, the lesser of $10,000 and the amount that would, but for subsections 181.1(2) and (4), be the corporation's tax payable under Part I.3 for its preceding taxation year, and

(*b*) where the corporation is associated with one or more other corporations in the particular year, the lesser of $10,000 and the total of all amounts each of which would, but for subsections 181.1(2) and (4), be the tax payable under Part I.3 by the corporation or any such other corporation for its last taxation year ending in the preceding calendar year;

C is the number of days in the particular year that are after June 1994; and

D is the number of days in the particular year."

Editorial Note: See the editorial note to subsection 125(1).

Related Sections: S. 87(2)(*j.92*) Subsections 125(5.1) and 157.1(1); s. 125(4) Failure to file agreement; s. 181.1(1.2) Exceptions; s. 181.5(1.1) Lower capital deduction.; s, 181.5(4.1) Lower capital deduction allocation; s. 257 Negative amounts.

Sec. 47(3), Chap. 21, 1996

(3) For the purpose of applying subsection 125(5.1) of the Act, the amount that would, but for subsections 181.1(2) and (4) of the Act, be a corporation's tax payable under Part I.3 of the Act for a taxation year that began before February 28, 1995 shall be determined without reference to the amendment made by S.C. 1996, c. 21, s. 47(1).

Sec. 35(4), Chap. 3, S.C. 1995

Sec. 35. [Application.]

(4) Notwithstanding any other provision of the *Income Tax Act* or of this Act, nothing in this section shall affect the amount of interest payable under the *Income Tax Act* in respect of a corporation for any period or part thereof that is before July 1994.

▶ 125(6) ◀

(6) Corporate partnerships. Where in a taxation year a corporation is a member of a particular partnership and in the year the corporation or a corporation with which it is associated in the year is a member of one or more other partnerships and it may reasonably be considered that one of the main reasons for the separate existence of the partnerships is to increase the amount of a deduction of any corporation under subsection (1), the specified partnership income of the corporation for the year shall, for the purposes of this section, be computed in respect of those partnerships as if all amounts each of which is the income of one of the partnerships for a fiscal period ending in the year from an active business carried on in Canada were nil except for the greatest of those amounts.

Editorial Note: Subsections 125(6) to (6.3) are anti-avoidance rules directed against the use of partnerships to increase entitlement to the small business deduction. Per subsection 125(6), where a corporation or associated corporation is a member of a number of partnerships and it may reasonably be considered that one of the main reasons for the separate existence of the partnerships is to increase the small business deduction, the specified partnership income is limited to the greatest income of one of the partnerships, with the remaining partnership income ignored.

Related Sections: S. 125(7), "specified partnership income".

Interpretation Bulletins: *Secondary* — IT-458R2 Canadian-controlled private corporation.

▶ 125(6.1) ◀

(6.1) Corporation deemed member of partnership. For the purposes of this section, a corporation that is a member, or is deemed by this subsection to be a member, of a partnership that is a member of another partnership shall be deemed to be a member of the other partnership and

the corporation's share of the income of the other partnership for a fiscal period shall be deemed to be equal to the amount of that income to which the corporation was directly or indirectly entitled.

Editorial Note: Subsection 125(6.1), which is part of the anti-avoidance rules in subsections 125(6) to (6.3) pertaining to partnerships and the small business deduction, is a look-through rule for tiered partnerships, such that lower-tier income is considered to be that of the upper-tier partnership.

Related Sections: S. 125(7), "specified partnership income".

► 125(6.2) ◄

(6.2) Specified partnership income deemed nil. Notwithstanding any other provision of this section, where a corporation is a member of a partnership that was controlled, directly or indirectly in any manner whatever, by one or more non-resident persons, by one or more public corporations (other than a prescribed venture capital corporation) or by any combination thereof at any time in its fiscal period ending in a taxation year of the corporation, the income of the partnership for that fiscal period from an active business carried on in Canada shall, for the purposes of computing the specified partnership income of a corporation for the year, be deemed to be nil.

Editorial Note: Subsections 125(6.2) and (6.3) — part of the anti-avoidance rules in subsections 125(6) to (6.3) pertaining to partnerships and the small business deduction — are designed to impose a requirement at the partnership level which is similar to Canadian-controlled corporation status. Per subsection 125(6.2), where a corporation is a member of a partnership that is controlled by non-residents and/or public corporations at any time in its fiscal period, Canadian active business income for the purpose of computing specified partnership income (i.e., income eligible for the small business deduction) is generally deemed to be nil. (It is not clear that the control test is necessarily based on 265(5.1) (*de facto* control).) Subsection 125(6.3) deems a partnership to be controlled by one or more persons if the total share of the partnership income from any source for the fiscal period exceeds 50% of the income from that source.

Related Sections: S. 125(7), "specified partnership income".

► 125(6.3) ◄

(6.3) Partnership deemed to be controlled. For the purposes of subsection (6.2), a partnership shall be deemed to be controlled by one or more persons at any time if the total of the shares of that person or those persons of the income of the partnership from any source for the fiscal period of the partnership that includes that time exceeds ½ of the income of the partnership from that source for that period.

Editorial Note: See the editorial note to subsection 125(6.2).

Related Sections: S. 125(7), "specified partnership income".

► 125(7) ◄

(7) Definitions. In this section,

Income Tax Technical News: Issue No. 3, Canadian-controlled private corporation.

"active business carried on by a corporation" — "active business carried on by a corporation "means any business carried on by the corporation other than a specified investment business or a personal services business and includes an adventure or concern in the nature of trade;

Cases: Income from short-term investments was income from an "active business" in a case where they had been held to satisfy the taxpayer's liquidity needs, i.e. as a "backup asset to be called on in support of" its business operations. *Cornwall Gravel Co. Ltd. v. The Queen*, 94 DTC 1709 (T.C.C.).

The taxpayer's income from the sale of building lots, renting a plaza and investing in mortgages and other securities was not active business income when its primary intention was to hold the plaza as an investment rather than sell it and derive business income from it. Its other investments were not required by its business, in the sense that their removal would not have put it at risk. *Lake Superior Investment Ltd. v. M.N.R.*, 93 DTC 898 (T.C.C.).

The taxpayer earned interest on U.S. dollar deposits in the Philippines, such funds being committed to the carrying on of the taxpayer's business there. It was held that the deposits were an integral part of the business and therefore the interest earned on them was active business income. *Ensite Limited v. The Queen*, 86 DTC 6521 (S.C.C.), affirming 83 DTC 5315 (F.C.A.), reversing 81 DTC 5326 (F.C.T.D.).

The taxpayer disposed of its broadcasting division when its broadcasting licence was not renewed. The sale proceeds were invested in short-term securities, and substantial effort was made to obtain a maximum return. The income from these investments was active business income rather than income from property. There is a rebuttable presumption that income earned by a company incorporated for the general purpose of earning income by doing business is business income, plus the commercial reality in this case was that the company had been compelled to enter into an investment business. *Canadian Marconi Co. v. The Queen*, 86 DTC 6526 (S.C.C.), reversing 84 DTC 6267 (F.C.A.) and 82 DTC 6236 (F.C.T.D.).

"Canadian-controlled private corporation" — "Canadian-controlled private corporation" means a private corporation that is a Canadian corporation other than

(*a*) a corporation controlled, directly or indirectly in any manner whatever, by one or more non-resident persons, by one or more public corporations (other than a prescribed venture capital corporation), by one or more corporations described in paragraph (*c*), or by any combination of them,

(*b*) a corporation that would, if each share of the capital stock of a corporation that is owned by a non-resident person, by a public corporation (other than a prescribed venture capital corporation), or by a corporation described in paragraph (*c*) were owned by a particular person, be controlled by the particular person,

(*c*) a corporation a class of the shares of the capital stock of which is listed on a designated stock exchange, or

(*d*) in applying subsection (1), paragraphs 87(2)(*vv*) and (*ww*) (including, for greater certainty, in applying those paragraphs as provided under paragraph 88(1)(*e.2*)), the definitions "excessive eligible dividend designation", "general rate income pool" and "low rate income pool" in subsection 89(1) and subsections 89(4) to (6), (8) to (10) and 249(3.1), a corporation that has made an election under subsection 89(11) and that has not revoked the election under subsection 89(12);

History: S. 125(7), paragraph (*c*) of the definition "Canadian-controlled private corporation" was amended by S.C. 2007, c. 35, s. 68(2), by replacing "prescribed stock exchange" with "designated stock exchange", applicable on and after December 14, 2007 [the day on which this Act is assented to].

S. 125(7), paragraph (*d*) of the definition "Canadian-controlled private corporation" was added by S.C. 2007, c. 2, s. 49(1), applicable to taxation years that end after 2005.

S. 125(7), the definition "Canadian-controlled private corporation" was amended by S.C. 2001, c. 17, s. 113(2), applicable to taxation years that begin after 1999. S. 125(7), the definition "Canadian-controlled private corporation" formerly read:

" *'Canadian-controlled private corporation'* — 'Canadian-controlled private corporation' means a private corporation that is a Canadian corporation other than a corporation

(*a*) controlled, directly or indirectly in any manner whatever, by one or more non-resident persons, by one or more public corporations (other than a prescribed venture capital corporation), or by any combination thereof,

(*b*) that would, if each share of the capital stock of a corporation that is owned by a non-resident person or a public corporation (other than a prescribed venture capital corporation) were owned by a particular person, be controlled by the particular person, or

(*c*) a class of the shares of the capital stock of which is listed on a prescribed stock exchange;"

S. 125(7), the definition of "Canadian-controlled private corporation" was amended by S.C. 1998, c. 19, s. 145(2), applicable after 1995. That definition formerly read:

" '*Canadian-controlled private corporation*' — ' Canadian-controlled private corporation' means a private corporation that is a Canadian corporation other than a corporation controlled, directly or indirectly in any manner whatever, by one or more non-resident persons, by one or more public corporations (other than a prescribed venture capital corporation) or by any combination thereof;"

Editoriaí Note: CCPC status is based on being both a "Canadian corporation" and a "private corporation", per subsection 89(1). Further, the corporation must not be controlled, (effectively or legally) by any combination of non-resident persons or public corporations (other than a prescribed venture capital corporation). Finally, no class of its shares can be listed on a designated stock exchange (whether Canadian or foreign). Because control is defined in the negative, a deadlock will not disqualify a corporation. If the control requirements are broken anywhere in a corporate chain, downstream companies will not be Canadian-controlled private corporations. Per paragraph (*b*) of the definition, non-residents' and public corporations' shareholdings must be notionally attributed to one hypothetical person. If that person would control the corporation, then the corporation is not a CCPC (paragraph (*a*) on its own would require a common connection between non-residents and/or public companies).

Paragraph (*d*) relates to the eligible dividend regime, providing that, if the corporation has elected not to be a CCPC pursuant to subsection 89(11) (so that it can pay eligible dividends "by default" — see the editorial note to subsection 89(11)), CCPC status will not apply, but only for the specific provisions listed (e.g., the small business deduction per subsection 125(1) will not be available, but the RDTOH regime will continue to apply).

Related Sections: S. 7(1.1) Employee stock options; s. 7(8) Deferral in respect of non-CCPC employee options; s. 39(1)(*c*) Meaning of capital gain and capital loss; s. 44.1(1), "eligible small business corporation"; s. 89(1), "Canadian corporation", "eligible dividend", "excessive eligible dividend designation", "general rate income pool", "low rate income pool", "private corporation", "public corporation"; s. 89(1.1) Capital dividend account where control acquired; s. 89(4) GRIP addition — becoming CCPC–89(15) Meaning of expression "deposit insurance corporation"; s. 110.6(1), "qualified small business corporation share"; s. 123.3 Refundable tax on CCPC's investment income; s. 123.4 Corporate tax reductions; s. 125(1) Small business deduction; s. 125(5) Special rules for business limit; s. 125.1(1) Manufacturing and processing profits deductions; s. 127 Logging tax deduction; s. 127.1 Refundable investment tax credit; s. 129(3) Definition of "refundable dividend tax on hand"; s. 129(3.1) Application; s. 152(3.1) Definition of "normal reassessment period"; s. 157(1.1) Special case; s. 157(1.2) Small-CCPC; s. 181.5(7) Related corporations that are not associated; s. 185.2(3) Joint and several liability from excessive dividend designations; s. 248(1), "balance-due day", "small business corporation"; s. 249(3.1) Year end on status change; s. 251(5) Control by related groups, options, etc; s. 256(2) Corporations associated through a third corporation; s. 256(6.1) Simultaneous control.

Regulations: 6700.

Interpretation Bulletins: *Primary* — IT-458R2 Canadian-controlled private corporation. *Secondary* — IT-113R4 Benefits to employees — Stock options; IT-484R2 Business investment losses.

Income Tax Technical News: Issue No. 25, Silicon Graphics Ltd. v. The Queen; Issue No. 16, Parthenon Investments Limited v. The Queen.

Tax Topics: No. 1692, Income Tax Implications of Buy-Sell Provisions.

Tax Profile: April 2006 — Concept of Control.

Cases: The taxpayer was a CCPC although all of its shares were owned by a public corporation. The public corporation did not control the taxpayer because it was controlled by individual Canadian residents. Paragraph (*b*) of the CCPC definition does not require an attribution of share ownership to a single hypothetical shareholder, where all of the shares are already owned by a single shareholder. *Perfect Fry Company Ltd. v. The Queen*, 2008 DTC 6472 (F.C.A.), affirming 2007 DTC 588 (T.C.C.).

"income of the corporation for the year from an active business" — "income of the corporation for the year from an active business" means the total of

(*a*) the corporation's income for the year from an active business carried on by it including any income for the year pertaining to or incident to that business, other than income for the year from a source in Canada that is a property (within the meaning assigned by subsection 129(4)), and

(*b*) the amount, if any, included under subsection 12(10.2) in computing the corporation's income for the year;

History: S. 125(7), paragraph (*a*) of the definition "income of the corporation for the year from an active business", was amended by S.C. 1996, c. 21, s. 26(3), applicable to taxation years that end after June 1995. That paragraph formerly read:

"(*a*) the corporation's income for the year from an active business carried on by it including any income for the year pertaining to or incident to that business, other than income for the year from a source in Canada that is a property (within the meaning assigned by subsection 129(4.1)), and"

The definition of "income for the corporation for the year from an active business" in s. 125(7) was amended by S.C. 1994, c. 7, Sched. VIII, s. 63(3), applicable to the 1991 and subsequent taxation years. S. 125(7)(*c*) formerly read:

"(*c*) 'income of the corporation for the year from an active business' means the income of the corporation for the year from an active business carried on by it including any income for the year pertaining to or incident to that business, but does not include income for the year from a source in Canada that is a property (within the meaning assigned by subsection 129(4.1));"

"personal services business" — "personal services business" carried on by a corporation in a taxation year means a business of providing services where

(*a*) an individual who performs services on behalf of the corporation (in this definition and paragraph 18(1)(*p*) referred to as an "incorporated employee"), or

(*b*) any person related to the incorporated employee

is a specified shareholder of the corporation and the incorporated employee would reasonably be regarded as an officer or employee of the person or partnership to whom or to which the services were provided but for the existence of the corporation, unless

(*c*) the corporation employs in the business throughout the year more than five full-time employees, or

(*d*) the amount paid or payable to the corporation in the year for the services is received or receivable by it from a corporation with which it was associated in the year;

Editorial Note: A personal services business is denied the small business rate, and deductions are severely curtailed (see paragraph 18(1)(*p*)). It involves an individual providing services through his or her corporation to a would-be employer. If, but for the service company, the individual would reasonably have employee status, the provision applies, provided that the individual or a related person is a "specified shareholder" (per subsection 248(1)) of the service company. (Basically, this requires at least 10% of any class of shares counting those held by non-arm's length persons.) Exceptions apply if throughout the year the corporation employs more than five full-time employees or if the services are provided to an associated corporation. See *489599 B.C. Ltd. v. The Queen* in "Cases" below.

The applicable corporate tax rate should be the general business rate rather than the higher corporate rate applying to investment-type income. A CCPC would generate a GRIP account and could thus pay eligible dividends.

Related Sections: S. 18(1)(*p*) Limitation re personal services business expenses; s. 125(1) Small business deduction; s. 248(1), "specified shareholder"; s. 251(2) Definition of "related persons"; s. 256(1) Associated corporations.

Tax Topics: No. 1784, One Step Too Far by the Court?.

Canadian Tax Foundation: Magee, "Personal Services Businesses, Personal Tax Planning Feature", *2007 Canadian Tax Journal*, No. 1, 160.

Cases: The phrase "more than five full-time employees" does not mean "at least six full-time employees". It can mean five full-time employees plus one or more part-time employees. *489599 B.C. Ltd. v. The Queen*, 2008 DTC 4107 (T.C.C.).

A taxpayer was not carrying on a personal services business and she qualified for the small business deduction when she entered into two management agreements with two partnerships of which she was a partner. Given the lack of control, the presence of remuneration risk, the provision of her own work place and the fact that she was providing a total management service, she could not be considered as being under a contract of service with the partnerships and, as a partner, she could hardly be considered as an employee or officer. *Crestglen Investments Limited v. M.N.R.*, 93 DTC 462 (T.C.C.).

However, a corporation providing construction cost appraisal services which were in fact rendered by its president and principal shareholder, ML, was considered to operate a "personal services business" where the tests used to distinguish between an employee and a self-employed worker led to the conclusion that ML could reasonably be regarded as an officer or employee of the corporation. *Placements Marcel Lapointe Inc. v. M.N.R.*, 93 DTC 821 (T.C.C.).

Revenue Canada has attacked many cases where personal services were provided by a corporation in years prior to the change in the definition of

"active business". Such attacks were generally made on the ground that the corporation was a sham. However, the F.C.A. has held that to ignore the corporate structure was to ignore the legal realities of the situation and further held that the corporation was not "sham" even though the sole purpose of the corporation was the reduction of tax. *The Queen v. Parsons,* 84 DTC 6345.

"*specified investment business*" — "specified investment business" carried on by a corporation in a taxation year means a business (other than a business carried on by a credit union or a business of leasing property other than real property) the principal purpose of which is to derive income (including interest, dividends, rents and royalties) from property but, except where the corporation was a prescribed labour-sponsored venture capital corporation at any time in the year, does not include a business carried on by the corporation in the year where

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of the definition "specified investment business" in subsection 125(7) of the Act before paragraph (*a*) is replaced by the following:

"*specified investment business*" — "specified investment business", carried on by a corporation in a taxation year, means a business (other than a business carried on by a credit union or a business of leasing property other than real or immovable property) the principal purpose of which is to derive income (including interest, dividends, rents and royalties) from property but, except where the corporation was a prescribed labour-sponsored venture capital corporation at any time in the year, does not include a business carried on by the corporation in the year where

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*a*) the corporation employs in the business throughout the year more than 5 full-time employees, or

(*b*) any other corporation associated with the corporation provides, in the course of carrying on an active business, managerial, administrative, financial, maintenance or other similar services to the corporation in the year and the corporation could reasonably be expected to require more than 5 full-time employees if those services had not been provided;

History: S. 125(7), the definition of "specified investment business" was amended by S.C. 1998, c. 19, s. 145(3), applicable to the 1995 and subsequent taxation years. That definition formerly read;

"'*specified investment business*' — 'specified investment business' carried on by a corporation in a taxation year means a business (other than a business carried on by a credit union or a business of leasing property other than real property) the principal purpose of which is to derive income from property (including interest, dividends, rents or royalties), unless

(*a*) the corporation employs in the business throughout the year more than five full-time employees, or

(*b*) in the course of carrying on an active business, any other corporation associated with it provides managerial, administrative, financial, maintenance or other similar services to the corporation in the year and the corporation could reasonably be expected to require more than five full-time employees if those services had not been provided;"

Editorial Note: Income from a "specified investment business" is not eligible for the small business deduction but instead attracts "investment rates"/refundable tax treatment if earned by a CCPC. This refers to a business whose principal purpose is to derive income from property, including interest, dividends, rents or royalties, but excluding non-real-estate leasing. Two ordinarily-applicable exceptions arise where the corporation employs throughout the year more than five full-time employees (see Cases below), or where an associated corporation provides managerial administrative, financial, maintenance or other services, but for which the corporation could reasonably be expected to require more than five full-time employees.

Related Sections: S. 95(1), "investment business"; s. 95(2.5), "specified deposit"; s. 125(7), "active business carried on by a corporation"; s. 129(4), "income or loss"; s. 248(1), "active business", "specified business".

Regulations: 6701.

Forms: T2 SCH 7; T2 SCH 70.

Cases: The phrase "more than five full-time employees" does not mean "at least six full-time employees". It can mean five full-time employees plus one or more part-time employees. *489599 B.C. Ltd. v. The Queen,* 2008 DTC 4107 (T.C.C.).

Working 20 hours per week does not constitute full-time employment for the purpose of the definition of "specified investment business". The test set out in *Ben Raedarc Holdings Limited v. The Queen* (98 DTC 1218) (T.C.C.) is too narrow and subjective. *Baker et al. v. The Queen,* 2005 DTC 5266 (F.C.A.), affirming 2004 DTC 2833 (T.C.C.).

A taxpayer who employed two full-time employees and shared the expenses of 15 others through co-ownership arrangements was considered a specified investment business and denied a small business deduction. *Lerric Investments Corp. v. The Queen,* 2001 DTC 5169 (F.C.A.), affirming 99 DTC 756 (T.C.C.).

"*specified partnership income*" — "specified partnership income" of a corporation for a taxation year means the amount determined by the formula

$$A + B$$

where

A is the total of all amounts each of which is an amount in respect of a partnership of which the corporation was a member in the year equal to the lesser of

(*a*) the total of all amounts each of which is an amount in respect of an active business carried on in Canada by the corporation as a member of the partnership determined by the formula

$$G - H$$

where

G is the total of all amounts each of which is the corporation's share of the income (determined in accordance with subdivision j of Division B) of the partnership for a fiscal period of the business that ends in the year or an amount included in the corporation's income for the year from the business because of subsection 34.2(5), and

H is the total of all amounts deducted in computing the corporation's income for the year from the business (other than amounts that were deducted in computing the income of the partnership from the business), and

(*b*) the amount determined by the formula

$$K/L \times M$$

where

K is the total of all amounts each of which is the corporation's share of the income (determined in accordance with subdivision j of Division B) of the partnership for a fiscal period ending in the year from an active business carried on in Canada

L is the total of all amounts each of which is the income of the partnership for a fiscal period referred to in paragraph (*a*) from an active business carried on in Canada, and

M is the lesser of

(i) $500,000, and

(ii) the product obtained when $1,370 is multiplied by the total of all amounts each of which is the number of days in a fiscal period of the partnership that ends in the year, and

B is the lesser of

(*a*) the total of the amounts determined in respect of the corporation for the year under subparagraphs (1)(*a*)(iii) and (iv), and

(*b*) the total of all amounts each of which is an amount in respect of a partnership of which the corporation was a member in the year equal to the amount determined by the formula

N – O

where

N is the amount determined in respect of the partnership for the year under paragraph (*a*) of the description of A, and

O is the amount determined in respect of the partnership for the year under paragraph (*b*) of the description of A;

History: S. 125(7), the description of M in the definition "specified partnership income" was replaced by S.C. 2009, c. 2, s. 39(4), applicable to fiscal periods of a partnership that end after 2008. S. 125(7), the description of M in the definition "specified partnership income" formerly read:

"M is the lesser of

(i) $400,000, and

(ii) the product obtained when $1,096 is multiplied by the total of all amounts each of which is the number of days in a fiscal period of the partnership that ends in the year, and

"

S. 125(7), the description of M in the definition "specified partnership income" was replaced by S.C. 2007, c. 2, s. 33(5), applicable to partnership fiscal periods that end after 2006.

S. 125(7), the description of M in the definition "specified partnership income" formerly read:

"M is the lesser of

(i) $300,000, and

(ii) the product obtained when $822 is multiplied by the total of all amounts each of which is the number of days in a fiscal period of the partnership that ends in the year, and"

S. 125(7), the application of the amendment to the description of M in the definition "specified partnership income" in subsection 125(7) in S.C. 2003, c. 15, s. 79(4) was replaced by S.C. 2005, c. 19, s. 56(3) and (4), deemed to have come into force on June 19, 2003. The application phased-in the increase in the business limit for the small business deduction and this increase to $300,000 has been accelerated by one year. As a result, the amendment to the description of M in the definition "specified partnership income" in subsection 125(7) regarding the increase in the business limit is applicable to the 2003 and subsequent taxation years except that for taxation years that begin before 2005 the references in the description of M to "$300,000" and "$822", are to be read,

(*a*) for fiscal periods of a partnership that end in a corporation's 2003 taxation year, as "$225,000" and "$617", respectively; and

(*b*) for fiscal periods of a partnership that end in a corporation's 2004 taxation year, as "$250,000" and "$685", respectively.

S. 125(7), the description of M in the definition "specified partnership income" was replaced by S.C. 2003, c. 15, s. 79(2), applicable to the 2003 and subsequent taxation years except that, for taxation years that begin before 2006, the references in the description of M to "$300,000" and "$822", are to be read,

(*a*) for fiscal periods of a partnership that end in a corporation's 2003 taxation year, as "$225,000" and "$617", respectively;

(*b*) for fiscal periods of a partnership that end in a corporation's 2004 taxation year, as "$250,000" and "$685", respectively; and

(*c*) for fiscal periods of a partnership that end in a corporation's 2005 taxation year, as "$275,000" and "$754", respectively.

S. 125(7), the description of M in the definition "specified partnership income" formerly read:

"M is the lesser of

(i) $200,000, and

(ii) the product obtained when $548 is multiplied by the total of all amounts each of which is the number of days contained in a fiscal period of the partnership ending in the year, and"

S. 125(7), the description of G in the definition "specified partnership income", was amended by S.C. 1996, c. 21, s. 26(4), applicable to the 1995 and subsequent taxation years. That portion formerly read:

"G is the total of all amounts each of which is the corporation's share of the income (determined in accordance with subdivision j of Division B) of the partnership for a fiscal period ending in the year from the business, and"

S. 125(7), paragraph (*a*) of the description of A in the definition "specified partnership income" was amended by S.C. 1994, c. 7, Sched. II, s. 100(1), applicable to the 1985 and subsequent taxation years. S. 125(7), paragraph (*a*) of the description of A, formerly read:

"(*a*) the total of all amounts each of which is the corporation's share of the income (determined in accordance with subdivision j of Division B) of the partnership for a fiscal period ending in the year from an active business carried on in Canada by it as a member of the partnership, and"

The description of K in the definition of "specified partnership income" in s. 125(7) was amended by S.C. 1994, c. 7, Sched. II, s. 100(2), applicable to the 1985 and subsequent taxation years. The description of K in the definition of "specified partnership income" in s. 125(7) formerly read:

"K is the amount determined under paragraph (*a*),"

Editorial Note: A corporation's partnership income is eligible for the small business deduction only to the extent it is "specified partnership income". For each partnership, a ceiling on specified partnership income is generally based on the proportion of the small business limit (i.e., $500,000, per the 2009 federal Budget) that the corporation's share of the partnership income is to total partnership income from Canadian active businesses (paragraph (*b*) of the description of A), with a proportionately smaller amount for short partnership fiscal periods (subparagraph (ii) of the description of M). A lower eligible share will apply if the partnership income from Canadian active businesses, net of partner-level deductions in respect of such partnership businesses, is lower than the foregoing formula (paragraph (*a*) of the description of A). To the extent that the corporation's share of a partnership's income from Canadian active businesses exceeds the specified partnership income, and the corporation incurs losses from Canadian active businesses, directly or as "specified partnership losses" of other partnerships, the specified partnership income will be increased by the amount of the losses (the description of B). S. 125(6)–(6.3) contain anti-avoidance rules pertaining to corporate partnerships, including the proliferation of partnerships to avoid the above limitations, as well as partnerships controlled by non-residents and or public corporations.

Related Sections: S. 125(1) Small business deduction; s. 125(6) Corporate partnerships; s. 125(6.1) Corporation deemed member of partnership; s. 125(6.2) Specified partnership income deemed nil; s. 125(6.3) Partnership deemed to be controlled; s. 125(7), "specified partnership loss"; s. 257 Negative amounts.

"specified partnership loss" — "specified partnership loss" of a corporation for a taxation year means the total of all amounts each of which is an amount in respect of a partnership of which the corporation was a member in the year determined by the formula

A + B

where

A is the total of all amounts each of which is the corporation's share of the loss (determined in accordance with subdivision j of Division B) of the partnership for a fiscal period ending in the year from an active business carried on in Canada by the corporation as a member of the partnership, and

B is the total of all amounts each of which is an amount determined by the formula

G – H

where

G is the amount determined for H in the definition "specified partnership income" in this subsection for the year in respect of the cor-

poration's income from an active business carried on in Canada by the corporation as a member of the partnership, and

H is the amount determined for G in the definition "specified partnership income" in this subsection for the year in respect of the corporation's share of the income from the business.

History: The definition of "specified partnership loss" in s. 125(7) was amended by S.C. 1994, c. 7, Sched. II, s. 100(3), applicable to the 1985 and subsequent taxation years. The definition of "specified partnership loss" in s. 125(7) formerly read:

" *'specified partnership loss'* — 'specified partnership loss' of a corporation for a taxation year means the total of all amounts each of which is an amount in respect of a partnership of which the corporation was a member in the year equal to the corporation's share of a loss (determined in accordance with subdivision j of Division B) of the partnership for a fiscal period ending in the year from an active business carried on in Canada by it as a member of the partnership."

Editorial Note: For each partnership, "specified partnership loss" is comprised of the corporation's share of partnership losses from Canadian active businesses [the description of A], and an additional amount where the partner-level deductions in respect of the partnership's Canadian active businesses exceeds partnership income from such businesses [the description of B]. Unlike "specified partnership income", the specified partnership loss is not subject to a ceiling based on the annual business limit, nor is there any proration for a short partnership year. Specified partnership losses may reduce the amount eligible for the small business deduction (per subparagraph 125(1)(*a*)(iv)) and increase the corporation's specified partnership income (per paragraph (*a*) of the description of B of the definition).

Related Sections: S. 125(1) Small business deduction; s. 125(6) Corporate partnerships; s. 125(6.1) Corporation deemed member of partnership; s. 125(6.2) Specified partnership income deemed nil; s. 125(6.3) Partnership deemed to be controlled; s. 125(7), "specified partnership income"; s. 257 Negative amounts.

► 125(8) ◄

(8) Rules applicable. [Repealed by 1984, c. 45, s. 40(1).]

► 125(8.1) ◄

(8.1) Adjustments to the cumulative deduction account. [Repealed by 1984, c. 45, s. 40(1).]

► 125(8.2) ◄

(8.2) Idem. [Repealed by 1984, c. 45, s. 40(1).]

► 125(8.3) ◄

(8.3) Idem. [Repealed by 1984, c. 45, s. 40(1).]

► 125(8.4) ◄

(8.4) Idem. [Repealed by 1984, c. 45, s. 40(1).]

► 125(8.5) ◄

(8.5) Idem. [Repealed by 1984, c. 45, s. 40(1).]

► 125(8.6) ◄

(8.6) Idem. [Repealed by 1983-84, c. 1, s. 69(10).]

► 125(9) ◄

(9) Definitions. [Repealed by 1984, c. 45, s. 40(1).]

► 125(9.1) ◄

(9.1) Business connected. [Repealed by 1984, c. 45, s. 40(1).]

► 125(10) ◄

(10) Where corporation a member of a partnership. [Repealed by 1984, c. 45, s. 40(1).]

► 125(11) ◄

(11) Where corporation deemed to employ more than five full-time employees. [Repealed by 1984, c. 45, s. 40(1).]

► 125(12) ◄

(12) Definitions. [Repealed by 1980-81-82-83, c. 140, s. 86(16).]

► 125(13) ◄

(13) Connected partnerships. [Repealed by 1984, c. 45, s. 40(1).]

► 125(14) ◄

(14) Idem. [Repealed by 1984, c. 45, s. 40(1).]

► 125(15) ◄

(15) Appeal. [Repealed by 1984, c. 45, s. 40(1).]

SECTION 125.1:

► 125.1(1) ◄

(1) Manufacturing and processing profits deductions. There may be deducted from the tax otherwise payable under this Part by a corporation for a taxation year an amount equal to the corporation's general rate reduction percentage for the taxation year (within the meaning assigned by subsection 123.4(1)) multiplied by the lesser of

(*a*) the amount, if any, by which the corporation's Canadian manufacturing and processing profits for the year exceed, where the corporation was a Canadian-controlled private corporation throughout the year, the least of the amounts determined under paragraphs 125(1)(*a*) to (*c*) in respect of the corporation for the year, and

(*b*) the amount, if any, by which the corporation's taxable income for the year exceeds the total of

(i) where the corporation was a Canadian-controlled private corporation throughout the year, the least of the amounts determined under paragraphs 125(1)(*a*) to (*c*) in respect of the corporation for the year,

(ii) $^{10}/_{4}$ of the total of the amounts that would be deductible under subsection 126(2) from the tax for the year otherwise payable under this Part by the corporation if those amounts were determined without reference to section 123.4, and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 125.1(1)(*b*)(ii) of the Act is replaced by the following:

(ii) three times the total of the amounts that would be deductible under subsection 126(2) from the tax for the year otherwise payable under this Part by the corporation if those amounts were determined without reference to section 123.4, and

Applicable: To the 2003 and subsequent taxation years.

Explanatory Note:

Manufacturing and Processing Profits Deduction

Subsection 125.1(1) of the Act provides the basic rules for the calculation of a corporation's manufacturing and processing profits deduction. The deduction for a given taxation year is the lesser of two amounts, one of which is the corporation's taxable income less certain other amounts. One of these other amounts,

described in subparagraph 125.1(1)(*b*)(ii), is the grossed up amount of the corporation's foreign tax credits (FTCs) for the year in respect of foreign businesses. Currently, the corporation's FTCs are grossed up by a factor of 10/4, which assumes this income was subject to tax at a rate of 40%.

Subparagraph 125.1(1)(*b*)(ii) is amended to adjust this factor to reflect recent reductions to income tax rates. The new factor will be 3, which implies an assumed tax rate of 33.3% on foreign source business income.

This amendment applies to the 2003 and subsequent taxation years.

(iii) where the corporation was a Canadian-controlled private corporation throughout the year, its aggregate investment income for the year (within the meaning assigned by subsection 129(4)).

History: S. 125.1(1), the portion before paragraph (*a*) was replaced by S.C. 2006, c. 4, s. 74(1), in force on Royal Assent, June 22, 2006.

S. 125.1(1), the portion before paragraph (*a*) formerly read:

"S. 125.1. (1) *Manufacturing and processing profits deductions.* There may be deducted from the tax otherwise payable under this Part by a corporation for a taxation year an amount equal to 7% of the lesser of"

S. 125.1(1)(*b*)(ii) was amended by S.C. 2001, c. 17, s. 114(1), applicable to the 2001 and subsequent taxation years. S. 125.1(1)(*b*)(ii) formerly read:

"(ii) 10/4 of the total of amounts deducted under subsection 126(2) from the tax for the year otherwise payable under this Part by the corporation, and"

S. 125.1(1)(*b*)(iii) was amended by S.C. 1996, c. 21, s. 27(1), applicable to taxation years that end after June 1995. S. 125.1(1)(*b*)(iii) formerly read:

"(iii) where the corporation was a Canadian-controlled private corporation throughout the year, the amount determined under clause 129(3)(*a*)(i)(B) in respect of the corporation for the year."

S. 125.1(1), that portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 64(1), applicable to the 1993 and subsequent taxation years except that, in its application to taxation years commencing before 1994, the reference in subsection 125.1(1) of the Act to "7%" shall be read as a reference to the total of

(*a*) that proportion of 5% that the number of days in the year that are before 1993 is of the number of days in the year,

(*b*) that proportion of 6% that the number of days in the year that are in 1993 is of the number of days in the year, and

(*c*) that proportion of 7% that the number of days in the year that are after 1993 is of the number of days in the year.

S. 125.1(1), that portion preceding paragraph (*a*), formerly read:

"(1) *Deduction re manufacturing and processing profits.* There may be deducted from the tax otherwise payable under this Part by a corporation for a taxation year an amount equal to 5% of the lesser of"

Related Sections: S. 110.5 Additions for foreign tax deductions; s. 125(7) Definitions.

Regulations: Part LII; 5200; 5201.

Interpretation Bulletins: *Primary* — IT-145R (Consolid.) Canadian manufacturing and processing profits — Reduced rate of corporate tax. *Secondary* — IT-92R2 Income of contractors.

Forms: T2 SCH 27; T2 SCH 426; T2 SCH 404; T2 SCH 440; T2 SCH 320; T2 SCH 300.

Cases: A taxpayer was not entitled to the M&P tax credit and ITCs it had claimed in respect of an asphalt plant which had been acquired primarily for the purpose of producing asphalt for use in its paving contracts, which were essentially contracts for work and materials. *Will-Kare Paving & Contracting Limited v. The Queen*, 2000 DTC 6467 (S.C.C.), affirming 98 DTC 6203 (F.C.A.) and 97 DTC 506 (T.C.C.).

The taxpayer's activities involving the replacement of parts of a customer's hydraulic systems with parts it itself manufactured did not constitute the manufacture of goods for sale since, in common law, "for sale" does not mean "for use in a repair process" and no commercial person would say that manufacture of parts to be used to repair a customer's defective equipment is a manufacture of those parts for sale. *The Queen v. Coopers & Lybrand Ltd.*, 94 DTC 6541 (F.C.A.), reversing 92 DTC 6453 (F.C.T.D.), affirming unreported (T.C.C.).

When a corporation's business involved using data supplied by its customers to make images of sections of the earth on "seismic sections" from which it produced output tapes for them, it was in reality processing the raw information received from them and such processing could not be equated with the processing or manufacturing of goods. *The Queen v. Veritas Seismic (1987) Ltd.*, 94 DTC 6123 (F.C.A.).

A manufacturer of modular buildings was allowed to include in the "cost of manufacturing and processing labour" and "cost of labour" amounts paid to its subcontractors, other than plumbers and electricians. The unpredictable market demands for production experienced by the taxpayer required it to engage the subcontractors who performed the same services for the taxpayer as those performed by its own employees. *NRB Inc. v. M.N.R.*, 93 DTC 295 (T.C.C.).

The demolition activities carried on by a taxpayer with a view to selling a portion of the materials found at its demolition sites constituted "processing" where important transformation work was required with respect to the steel, wood, and bricks obtained at the demolition sites, in order to render them fit for sale. *Démolition A.M. de l'Est du Québec Inc. v. M.N.R.*, 93 DTC 889 (T.C.C.).

A corporate taxpayer engaged in providing diamond drilling services to its customers in the mining industry, primarily in the form of drilling core samples, was not manufacturing or processing goods for "sale or lease" but was providing drilling services when its customers never received possession of any of the products involved which were either consumed in the drilling process or returned to the taxpayer for future use or recycling. *Germac Enterprises Ltd. v. The Queen*, 93 DTC 1466 (T.C.C.).

Rebuilding aircraft engines that retained their identity through the process did not constitute "manufacturing or processing goods for sale". *Rolls-Royce (Canada) Ltd. v. The Queen*, 93 DTC 5031 (F.C.A.), affirming 91 DTC 5579 (F.C.T.D.).

A manufacturer of electronic equipment disposed of a broadcasting division when its licence was not renewed. The proceeds were invested in short-term securities, and effort was made to obtain a maximum return. The income from these investments was Canadian manufacturing and processing profits. There is a presumption that income earned by a company incorporated for the purpose of earning income by doing business is business income. The commercial reality in this case was that the company had been compelled to enter into an investment business. *Canadian Marconi Co. v. The Queen*, 86 DTC 6526 (S.C.C.), reversing 84 DTC 6267 (F.C.A.).

► 125.1(2) ◄

(2) Electrical energy and steam. A corporation that generates electrical energy for sale, or produces steam for sale, in a taxation year may deduct from its tax otherwise payable under this Part for the year an amount equal to the corporation's general rate reduction percentage for the taxation year (within the meaning assigned by subsection 123.4(1)) multiplied by the amount determined by the formula

$$A - B$$

where

A is the amount, if any, that would, if the definition "manufacturing or processing" in subsection (3), and in subsection 1104(9) of the Income Tax Regulations, were read without reference to paragraph (*h*) of those definitions (other than for the purpose of applying section 5201 of the *Income Tax Regulations*) and if subsection (5) applied for the purpose of subsection (1), be the lesser of

(*a*) the amount determined under paragraph (1)(*a*) in respect of the corporation for the year, and

(*b*) the amount determined under paragraph (1)(*b*) in respect of the corporation for the year; and

B is the amount, if any, that is the lesser of

(*a*) the amount determined under paragraph (1)(*a*) in respect of the corporation for the year, and

(*b*) the amount determined under paragraph (1)(*b*) in respect of the corporation for the year.

History: S. 125.1(2), the portion before the formula was replaced by S.C. 2006, c. 4, s. 74(2), in force on Royal Assent, June 22, 2006.

S. 125.1(2), the portion before the formula formerly read:

"(2) *Electrical energy and steam.* A corporation that generates electrical energy for sale, or produces steam for sale, in a taxation year may deduct from its tax otherwise payable under this Part for the year 7% of the amount determined by the formula"

S. 125.1(2), the portion before the formula was amended by S.C. 2001, c. 17, s. 114(1), applicable to taxation years that end after 1999 except that, in its application to such a taxation year that begins before 2002, the reference to "7%" in subsection 125.1(2) of the Act shall be read as a reference to the total of

(*a*) 0% multiplied by the number of days in the year that are before 1999,

(*b*) in the case of a corporation that in 1999 generated electrical energy for sale, or produced steam for use in the generation of electrical energy for sale, that proportion of 1% that the number of

days in the taxation year that are in the 1999 calendar year is of the number of days in the taxation year,

(*c*) in the case of a corporation to which paragraph (*b*) does not apply, 0% multiplied by the number of days in the taxation year that are in the 1999 calendar year,

(*d*) that proportion of 3% that the number of days in the taxation year that are in the 2000 calendar year is of the number of days in the taxation year,

(*e*) that proportion of 5% that the number of days in the taxation year that are in the 2001 calendar year is of the number of days in the taxation year,

(*f*) that proportion of 7% that the number of days in the taxation year that are in the 2002 calendar year is of the number of days in the taxation year, and

(*g*) that proportion of 7% that the number of days in the taxation year that are in the 2003 calendar year is of the number of days in the taxation year.

S. 125.1(2), the portion before the formula formerly read:

"(2) *Generating electrical energy for sale.* A corporation that generates electrical energy for sale, or produces steam for use in the generation of electrical energy for sale, in a taxation year may deduct from its tax otherwise payable under this Part for the year 7% of the amount determined by the formula"

S. 125.1(2) was added by S.C. 2000, c. 19, s. 34(1), applicable to taxation years that end after 1998 except that, in its application to such a taxation year that begins before 2002, the reference to "7%" in subsection 125.1(2) of the Act shall be read as a reference to the total of

(*a*) 0% multiplied by the number of days in the year that are before 1999,

(*b*) that proportion of "1%" that the number of days in the taxation year that are in the year is of the number of days in the taxation year,

(*c*) that proportion of "3%" that the number of days in the taxation year that are in the 2000 calendar year is of the number of days in the taxation year,

(*d*) that proportion of "5%" that the number of days in the taxation year that are in the 2001 calendar year is of the number of days in the taxation year,

(*e*) that proportion of "7%" that the number of days in the taxation year that are in the 2002 calendar year is of the number of days in the taxation year, and

(*f*) that proportion of "7%" that the number of days in the taxation year that are in the 2003 calendar year is of the number of days in the taxation year.

► 125.1(3) ◄

(3) Definitions. In this section,

"Canadian manufacturing and processing profits" — "Canadian manufacturing and processing profits" of a corporation for a taxation year means such portion of the total of all amounts each of which is the income of the corporation for the year from an active business carried on in Canada as is determined under rules prescribed for that purpose by regulation made on the recommendation of the Minister of Finance to be applicable to the manufacturing or processing in Canada of goods for sale or lease;

Regulations: Part LII.

Income Tax Technical News: Issue No. 8, Pre-delivery service of new vehicles Interpretation Bulletin IT-145R.

Cases: Because the taxpayer made a tax overpayment out of profits earned in its business, when it received a tax refund, such refund represented a return of money that was intended for use in its business. Hence, the refund interest was active business income, and had to be included in its "adjusted business income" for MPP tax credit purposes. *The Queen v. Irving Oil Limited*, 2002 DTC 6716 (F.C.A.), affirming 2000 DTC 2164 (T.C.C.).

"manufacturing or processing" — "manufacturing or processing" does not include

(*a*) farming or fishing,

(*b*) logging,

(*c*) construction,

(*d*) operating an oil or gas well or extracting petroleum or natural gas from a natural accumulation of petroleum or natural gas,

(*e*) extracting minerals from a mineral resource,

(*f*) processing

(i) ore (other than iron ore or tar sands ore) from a mineral resource located in Canada to any stage that is not beyond the prime metal stage or its equivalent,

(ii) iron ore from a mineral resource located in Canada to any stage that is not beyond the pellet stage or its equivalent, or

(iii) tar sands ore from a mineral resource located in Canada to any stage that is not beyond the crude oil stage or its equivalent,

(*g*) producing industrial minerals,

(*h*) producing or processing electrical energy or steam, for sale,

(*i*) processing natural gas as part of the business of selling or distributing gas in the course of operating a public utility,

(*j*) processing heavy crude oil recovered from a natural reservoir in Canada to a stage that is not beyond the crude oil stage or its equivalent,

(*k*) Canadian field processing, or

(*l*) any manufacturing or processing of goods for sale or lease, if, for any taxation year of a corporation in respect of which the expression is being applied, less than 10% of its gross revenue from all active businesses carried on in Canada was from

(i) the selling or leasing of goods manufactured or processed in Canada by it, and

(ii) the manufacturing or processing in Canada of goods for sale or lease, other than goods for sale or lease by it.

History: S. 125.1(3), paragraphs (*d*) to (*k*) of the definition "manufacturing or processing", were amended by S.C. 1997, c. 25, s. 33(1), applicable to taxation years that begin after 1996. Those paragraphs formerly read:

"(*d*) operating an oil or gas well, extracting petroleum or natural gas from a natural accumulation thereof or processing heavy crude oil recovered from a natural reservoir in Canada to a stage that is not beyond the crude oil stage or its equivalent,

(*e*) extracting minerals from a mineral resource,

(*f*) processing ore (other than iron ore or tar sands) from a mineral resource located in Canada to any stage that is not beyond the prime metal stage or its equivalent,

(*g*) processing iron ore from a mineral resource located in Canada to any stage that is not beyond the pellet stage or its equivalent,

(*h*) processing tar sands from a mineral resource located in Canada to any stage that is not beyond the crude oil stage or its equivalent,

(*i*) producing industrial minerals other than sulphur produced by processing natural gas,

(*j*) producing or processing electrical energy or steam, for sale,

(*k*) processing gas, if such gas is processed as part of the business of selling or distributing gas in the course of operating a public utility, or"

S. 125.1(3), paragraphs (*f*) to (*h*) of the definition "manufacturing or processing", were amended by S.C. 1994, c. 7, Sched. II, s. 101(1), applicable to the 1990 and subsequent taxation years. Those paragraphs formerly read:

"(*f*) processing ore (other than iron ore or tar sands) from a mineral resource to any stage that is not beyond the prime metal stage or its equivalent,

(*g*) processing iron ore from a mineral resource to any stage that is not beyond the pellet stage or its equivalent,

(*h*) processing tar sands to any stage that is not beyond the crude oil stage or its equivalent,"

Interpretation Bulletins: *Primary* — IT-411R Meaning of "construction".

Cases: The taxpayer's activities gathering, processing and providing information for wells drilled for oil and gas in Canada did not constitute manufacturing or processing, since information was not "goods" within the meaning of s. 125.1; the only "goods" involved (the tapes and microfiches) served simply as the medium on which the information was copied and their sale or lease was not the real source of the taxpayer's income. *The Queen v. International Petrodata Inc.*, 95 DTC 5335 (F.C.A.), reversing 93 DTC 110 (T.C.C.).

When a corporation's business involved using data supplied by its customers to make images of sections of the earth on "seismic sections" from

which it produced output tapes for them, it was in reality processing the raw information received from them. Such processing could not be equated with the processing or manufacturing of goods. *The Queen v. Veritas Seismic (1987) Ltd.*, 94 DTC 6123 (F.C.A.).

► 125.1(4) ◄

(4) Determination of gross revenue. For the purposes of paragraph (*l*) of the definition "manufacturing or processing" in subsection (3), where a corporation was a member of a partnership at any time in a taxation year,

(*a*) there shall be included in the gross revenue of the corporation for the year from all active businesses carried on in Canada, that proportion of the gross revenue from each such business carried on in Canada by means of the partnership, for the fiscal period of the partnership coinciding with or ending in that year, that the corporation's share of the income of the partnership from that business for that fiscal period is of the income of the partnership from that business for that fiscal period; and

(*b*) there shall be included in the gross revenue of the corporation for the year from all activities described in subparagraphs (*l*)(i) and (ii) of the definition "manufacturing or processing" in subsection (3), that proportion of the gross revenue from each such activity engaged in in the course of a business carried on by means of the partnership, for the fiscal period of the partnership coinciding with or ending in that year, that the corporation's share of the income of the partnership from that business for that fiscal period is of the income of the partnership from that business for that fiscal period.

► 125.1(5) ◄

(5) Interpretation. For the purpose of the description of A in subsection (2) and for the purpose of applying the *Income Tax Regulations* (other than section 5201 of the Regulations) to that subsection other than the description of B,

(*a*) electrical energy and steam are deemed to be goods; and

(*b*) the generation of electrical energy for sale, and the production of steam for sale, are deemed to be, subject to paragraph (*l*) of the definition "manufacturing or processing" in subsection (3), manufacturing or processing.

History: Ss. 125.1(5)(*a*) and (*b*) were amended by S.C. 2001, c. 17, s. 114(3), applicable to taxation years that end after 1999. Ss. 125.5(5)(*a*) and (*b*) formerly read:

"(*a*) electrical energy is deemed to be a good; and

(*b*) the generation of electrical energy for sale, or the production of steam for use in the generation of electrical energy for sale, is deemed to be, subject to paragraph (*l*) of the definition 'manufacturing or processing' in subsection (3), manufacturing or processing."

S. 125.1(5) was added by S.C. 2000, c. 19, s. 34(1), applicable to taxation years that end after 1998.

SECTION 125.11: [Corporate Rate Reductions for Resource Income].

► 125.11(1) ◄

(1) Definitions. [Repealed by S.C. 2003, c. 28, s. 13(2).]

History: S. 125.11(1), the portion before the definition "resource rate reduction percentage" was repealed by S.C. 2003, c. 28, s. 13(2), applicable to taxation years that begin after 2006. S. 125.11(1), the portion before the definition "resource rate reduction percentage" formerly read:

"(1) *Definitions.* The following definitions apply in section 123.4 and this section."

"resource rate reduction percentage" — [Repealed by S.C. 2003, c. 28, s. 13(2).]

History: S. 125.11(1), the definition "resource rate reduction percentage" was repealed by S.C. 2003, c. 28, s. 13(2), applicable to taxation years that begin after 2006. S. 125.11(1), the definition "resource rate reduction percentage" formerly read:

"*'resource rate reduction percentage'* — 'resource rate reduction percentage', of a corporation for a taxation year, is the total of

(*a*) that proportion of 1% that the number of days in the taxation year that are in 2003 is of the number of days in the taxation year,

(*b*) that proportion of 2% that the number of days in the taxation year that are in 2004 is of the number of days in the taxation year,

(*c*) that proportion of 3% that the number of days in the taxation year that are in 2005 is of the number of days in the taxation year,

(*d*) that proportion of 5% that the number of days in the taxation year that are in 2006 is of the number of days in the taxation year, and

(*e*) that proportion of 7% that the number of days in the taxation year that are after 2006 is of the number of days in the taxation year."

S. 125.11(1), the definition "resource rate reduction percentage" was added by S.C. 2003, c. 28, s. 13(1), applicable to the 2003 and subsequent taxation years.

"taxable resource income" — [Repealed by S.C. 2003, c. 28, s. 13(2).]

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The definition "taxable resource income" in subsection 125.11(1) of the Act is replaced by the following:

"taxable resource income" — "taxable resource income", of a taxpayer for a taxation year, is the lesser of

(*a*) the amount, if any, by which the taxpayer's taxable income for the taxation year exceeds 100/16 of the amount deducted under subsection 125(1) from the taxpayer's tax otherwise payable under this Part for the year, and

(*b*) the amount determined by the formula

$$3(A/B) + C - D - E$$

where

A is the total of all amounts each of which is deducted by the taxpayer under paragraph 20(1)(v.1) in computing the taxpayer's income for the taxation year,

B is the percentage that is the total of

(i) that proportion of 100% that the number of days in the taxation year that are before 2003 is of the number of days in the taxation year,

(ii) that proportion of 90% that the number of days in the taxation year that are in 2003 is of the number of days in the taxation year,

(iii) that proportion of 75% that the number of days in the taxation year that are in 2004 is of the number of days in the taxation year,

(iv) that proportion of 65% that the number of days in the taxation year that are in 2005 is of the number of days in the taxation year, and

(v) that proportion of 35% that the number of days in the taxation year that are in 2006 is of the number of days in the taxation year,

C is total of all amounts included in computing the taxpayer's income for the taxation year under paragraph 59(3.2)(*b*) or (*c*),

D is the total of all amounts deducted by the taxpayer under any of sections 65 to 66.7, other than subsections 66(4), 66.21(4) and 66.7(2) and (2.3), of this Act, and subsections 17(2) and (6) and section 29 of the *Income Tax Application Rules*, in computing the taxpayer's income for the taxation year, and

E is $^{100}/_{16}$ of the amount deducted under subsection 125(1) from the taxpayer's tax otherwise payable under this Part for the year.

Applicable: To taxation years that begin after February 27, 2004.

Explanatory Note:

"taxable resource income"

Section 125.11 of the Act has the effect of reducing the federal corporate income tax rate for income earned from resource activities from 28% to 21% by 2007. This is accomplished for the years 2003-2006 by providing a deduction against the 28% rate for income that falls within the definition of "taxable resource income". After 2006 resource income will be included in full rate taxable income and be subject to the general rate reduction rules.

Currently, a taxpayer's "taxable resource income" is the lesser of the taxpayer's taxable income for the taxation year and the amount calculated by the following formula: 3(A/B) + C – D. A represents the deduction taken as a resource allowance under paragraph 20(1)(*v.1*). B is a reduction of the resource allowance, which is being phased out between 2003 and 2006, prorated for non-calendar year-ends. C represents additions to the taxpayer's income resulting from negative resource pools. Lastly, D is any amounts deducted from income on account of resource pools.

The definition "taxable resource income" is being amended to ensure that resource income that was earned by a Canadian-controlled private corporation (CCPC) and received a small business deduction under section 125(1) of the Act is not also eligible for this rate reduction. The result is that a taxpayer's "taxable resource income" will now be the lesser of two amounts. The first amount is the taxpayer's taxable income for the year less 100/16 of the amount the taxpayer deducted from tax payable pursuant to section 125(1) of the Act. The second amount is calculated by the formula 3(A/B) + C – D – E. Elements A to D are unchanged from the previous formula contained in this definition, and remain as described above. New element E is 100/16 of the amount deducted from tax otherwise payable pursuant to subsection 125(1) of the Act. This amendment ensures that resource income earned by a CCPC can only benefit from one rate reduction.

This amendment applies to taxation years that begin after February 27, 2004.

History: S. 125.11(1), the definition "taxable resource income" was repealed by S.C. 2003, c. 28, s. 13(2), applicable to taxation years that begin after 2006. S. 125.11(1), the definition "taxable resource income" formerly read:

" '*taxable resource income*' — 'taxable resource income', of a taxpayer for a taxation year, is the lesser of the taxpayer's taxable income for the taxation year and the amount determined by the formula

3(A/B) + C – D

where

A is the total of all amounts each of which is deducted by the taxpayer under paragraph 20(1)(*v.1*) in computing the taxpayer's income for the taxation year;

B is the percentage that is the total of

(*a*) that proportion of 100% that the number of days in the taxation year that are before 2003 is of the number of days in the taxation year,

(*b*) that proportion of 90% that the number of days in the taxation year that are in 2003 is of the number of days in the taxation year,

(*c*) that proportion of 75% that the number of days in the taxation year that are in 2004 is of the number of days in the taxation year,

(*d*) that proportion of 65% that the number of days in the taxation year that are in 2005 is of the number of days in the taxation year, and

(*e*) that proportion of 35% that the number of days in the taxation year that are in 2006 is of the number of days in the taxation year;

C is the total of all amounts included in computing the taxpayer's income for the taxation year under paragraph 59(3.2)(*b*) or (*c*); and

D is the total of all amounts deducted by the taxpayer under any of sections 65 to 66.7, other than subsections 66(4), 66.21(4) and 66.7(2) and (2.3), of this Act, and subsections 17(2) and (6) and section 29 of the *Income Tax Application Rules*, in computing the taxpayer's income for the taxation year."

S. 125.11(1), the definition "taxable resource income" was added by S.C. 2003, c. 28, s. 13(1), applicable to the 2003 and subsequent taxation years except that, for those taxation years that begin before June 9, 2003, the value of C in the formula in the definition "taxable resource income" in subsection 125.11(1) of the Act is deemed to be nil.

► 125.11(2) ◄

(2) Resource deduction. [Repealed by S.C. 2003, c. 28, s. 13(2).]

History: S. 125.11(2) was repealed by S.C. 2003, c. 28, s. 13(2), applicable to taxation years that begin after 2006. S. 125.11(2) formerly read:

"(2) *Resource deduction.* There may be deducted from a corporation's tax otherwise payable under this Part for a taxation year the product obtained by multiplying the corporation's resource rate reduction percentage for the taxation year by the corporation's taxable resource income for the taxation year."

S. 125.11(2) was added by S.C. 2003, c. 28, s. 13(1), applicable to the 2003 and subsequent taxation years.

Related Sections: S. 20(1)(*v.1*) Resource allowance; s. 65(1) Allowance for oil or gas well, mine or timber limit; s. 66 Exploration and development expenses of principal-business corporations; s. 66.1 Cumulative Canadian exploration expenses; s. 66.2 Cumulative Canadian development expenses; s. 66.21 Cumulative foreign resource expense; s. 66.4 Canadian oil and gas property expense; s. 66.7 Successor of exploration and development expenses; s. 123.4 Corporate tax reductions.

SECTION 125.2:

► 125.2(1) ◄

(1) Deduction of Part VI tax. There may be deducted in computing the tax payable under this Part for a taxation year by a corporation that was throughout the year a financial institution (within the meaning assigned by section 190) an amount equal to such part as the corporation claims of its unused Part VI tax credits for any of its 7 immediately preceding taxation years ending before 1992, to the extent that that amount does not exceed the amount, if any, by which

(*a*) its tax payable under this Part (determined without reference to this section) for the year

exceeds the total of

(*b*) the amount that would, but for subsection 190.1(3), be its tax payable under Part VI for the year, and

(*c*) the lesser of its Canadian surtax payable (within the meaning assigned by subsection 125.3(4)) for the year and the amount that would, but for subsection 181.1(4), be its tax payable under Part I.3 for the year.

History: S. 125.2(1) was amended by S.C. 1994, c. 7, Sched. VIII, s. 65(1), applicable to the 1992 and subsequent taxation years and, where a corporation elected under subsection 111(2) of this Act to have subsection 111(1) of this Act apply to its taxation years ending in 1991, to all such years except that, in its application to such years, subsection 125.2(1) of the *Income Tax Act*, as enacted by subsection (1), shall be read without reference to

(*a*) the expression "the total of",

(*b*) the word "and" at the end of paragraph 125.2(1)(*b*), and

(*c*) paragraph 125.2(1)(*c*),

and the reference therein to "1992" shall be read as "1991".

S. 125.2(1) formerly read:

"(1) There may be deducted from the tax otherwise payable under this Part for a taxation year by a corporation that was throughout the year a financial institution (within the meaning assigned by section 190) an amount equal to the total of

(*a*) its tax payable under Part VI for the year, and

(*b*) such part of its unused Part VI tax credits for the seven taxation years immediately preceding and the three taxation years immediately following the year as the corporation may claim."

S. 125.2(1) has an alternative reading, provided by S.C. 1994, c. 7, Sched. II, s. 102(*a*) and reproduced below, which applies to corporations described in paragraphs (*d*) or (*e*) of the definition "financial institution" in subsection 190(1), as amended by S.C. 1994, c. 7, Sched. II, s. 156(1).

Forms: T2 SCH 42.

Sec. 102, Sched. II, Chap. 7, S.C. 1994

Sec. 102. [Applicability of subsections 125.2(1) and (3) to certain corporations.] In its application to corporations described in paragraph (*d*)

or (*e*) of the definition "financial institution" in subsection 190(1) of the said Act, as enacted by this Act,

(*a*) for taxation years commencing before February 21, 1990, subsection 125.2(1) of the Act shall be read as follows:

"**SEC. 125.2. (1)** There may be deducted from the tax otherwise payable under this Part for a taxation year by a corporation that was throughout the year a financial institution (within the meaning assigned by section 190) an amount equal to the lesser of

(*a*) the total of

(i) its tax payable under Part VI for the year, and

(ii) such part of its unused Part VI tax credits for the three taxation years immediately following the year as the corporation claims; and

(*b*) that proportion of its tax otherwise payable under this Part for the year that the number of days in the year that are after February 20, 1990 is of the number of days in the year."; and

(*b*) subsection 125.2(3) of the Act shall be read as follows:

"**(3)** For the purposes of this section, 'unused Part VI tax credit' of a corporation for a taxation year beginning before February 21, 1990 means the amount, if any, by which the corporation's tax payable under Part VI for the year exceeds the amount deductible under subsection (1) in computing its tax payable under this Part for the year."

Related Sections: S. 190 Tax on capital of financial institutions.

► 125.2(2) ◄

(2) Idem. For the purposes of this section,

(*a*) an amount may not be claimed under subsection (1) in computing a corporation's tax payable under this Part for a particular taxation year in respect of its unused Part VI tax credit for another taxation year until its unused Part VI tax credits for taxation years preceding the other year that may be claimed for the particular year have been claimed; and

(*b*) an amount in respect of a corporation's unused Part VI tax credit for a taxation year may be claimed under subsection (1) in computing its tax payable under this Part for another taxation year only to the extent that it exceeds the total of all amounts each of which is the amount claimed in respect of that unused Part VI tax credit in computing its tax payable under this Part for a taxation year preceding that other year.

► 125.2(3) ◄

(3) Definition of "unused Part VI tax credit". For the purposes of this section, "unused Part VI tax credit" of a corporation for a taxation year is the lesser of

(*a*) its tax payable under Part VI (determined without reference to subsections 190.1(1.1) and (3)) for the year, and

(*b*) the amount determined by the formula

A – B

where

A is its tax payable under Part VI for the year (determined without reference to subsection 190.1(3)), and

B is the amount, if any, by which

(i) the amount that would, but for this section, be its tax payable under this Part for the year

exceeds

(ii) the lesser of its Canadian surtax payable (within the meaning assigned by subsection 125.3(4)) and the amount that would, but for subsection 181.1(4), be its tax payable under Part I.3 for the year.

History: S. 125.2(3) was amended by S.C. 1994, c. 21, s. 58(1), applicable for the purpose of computing the amount that may be deducted by a corporation under subsection 125.2(1) of the Act

(*a*) subject to paragraphs (*b*) and (*c*), for taxation years that end before 1992 in respect of unused Part VI tax credits for taxation years that end after 1991;

(*b*) where the corporation elected under subsection 111(2) of *An Act to amend the Income Tax Act, the Canada Pension Plan, the Income Tax Conventions Interpretation Act, the Tax Rebate Discounting Act, the Unemployment Insurance Act and certain related Acts*, being chapter 24 of the Statutes of Canada, 1993, for its taxation years that end before 1991 in respect of unused Part VI tax credits for taxation years that end after 1990, except that for the purpose of computing its unused Part VI tax credits under subsection 125.2(3) of the *Income Tax Act* for taxation years that end in 1991, the amount determined under subparagraph (ii) of the description of B in subsection 125.2(3) of the Act shall be deemed to be nil; and

(*c*) where paragraph (*b*) does not apply and the corporation elected under paragraph 88(2)(*b*), for its taxation years that end before 1992 in respect of unused Part VI tax credits for taxation years that end after 1990, except that

(i) for the purpose of computing its unused Part VI tax credits under subsection 125.2(3) of the Act for its taxation years that end in 1991, the amount determined under subparagraph (ii) of the description of B in subsection 125.2(3) of the Act shall be deemed to be nil, and

(ii) for the purpose of computing the amount that it may deduct under subsection 125.2(1) of the Act for its taxation years that end in 1991, paragraph 125.2(3)(*a*) of the Act shall be read as follows:

"(*a*) its tax payable under Part VI (determined without reference to subsection 190.1(3)) for the year, and"

S. 125.2(3) of the Act formerly read:

"(3) *Definition of 'unused Part VI tax credit'.* For the purposes of this section, 'unused Part VI tax credit' of a corporation for a taxation year ending after 1991 means the amount determined by the formula

A – B

where

A is the corporation's tax payable under Part VI for the year (determined without reference to subsection 190.1(3)), and

B is the amount, if any, by which

(*a*) the amount that would, but for this section, be its tax payable under this Part for the year

exceeds

(*b*) the lesser of its Canadian surtax payable (within the meaning assigned by subsection 125.3(4)) and the amount that would, but for subsection 181.1(4), be its tax payable under Part I.3 for the year."

S. 125.2(3) was amended by S.C. 1994, c. 7, Sched. VIII, s. 65(2), applicable for the purpose of computing the amount that may be deducted by a corporation under subsection 125.2(1) of the said Act

(*a*) subject to paragraph (*b*), for taxation years ending before 1992 in respect of unused Part VI tax credits for taxation years ending after 1991; or

(*b*) where the corporation elected under subsection 111(2) of this Act to have subsection 111(1) of this Act apply to its taxation years ending in 1991, for its taxation years ending before 1991 in respect of unused Part VI tax credits for taxation years ending after 1990, except that, for the purpose of computing its unused Part VI tax credits under subsection 125.2(3) of the *Income Tax Act*, as enacted by subsection (2), for taxation years ending in 1991, the amount determined under paragraph (*b*) in the description of B in the said subsection 125.2(3) shall be deemed to be nil.

S. 125.2(3) formerly read:

"(3) *Definition of 'unused Part VI tax credit'.* In this section, 'unused Part VI tax credit' of a corporation for a taxation year means the amount, if any, by which the corporation's tax payable under Part VI for the year exceeds the amount that would, but for this section, be its tax payable under this Part for the year."

S. 125.2(3) has an alternative reading, provided by S.C. 1994, c. 7, Sched. II, s. 102(*b*) and reproduced under s. 125.2(1) above, which applies to corpora-

tions described in paragraphs (*d*) or (*e*) of the definition "financial institution" in subsection 190(1), as amended by S.C. 1994, c. 7, Sched. II, s. 156(1).

SECTION 125.3:

► 125.3(1) ◄

(1) Deduction of Part I.3 tax. There may be deducted in computing the tax payable under this Part for a taxation year by a corporation (other than a corporation that was throughout the year a financial institution, within the meaning assigned by section 190) an amount equal to such part as the corporation claims of its unused Part I.3 tax credits for any of its 7 immediately preceding taxation years ending before 1992, to the extent that that amount does not exceed the amount, if any, by which

(*a*) its Canadian surtax payable for the year

exceeds

(*b*) the amount that would, but for subsection 181.1(4), be its tax payable under Part I.3 for the year.

History: S. 125.3(1) was amended by S.C. 1994, c. 7, Sched. VIII, s. 66(1), applicable to the 1992 and subsequent taxation years. S. 125.3(1) formerly read:

"S. 125.3. *Deduction re Part I.3 tax.*

(1) There may be deducted from the tax otherwise payable under this Part for a taxation year by a corporation an amount equal to the lesser of

(*a*) the total of

(i) its tax payable under Part I.3 for the year, and

(ii) such part of its unused Part I.3 tax credits for the 7 taxation years immediately preceding and the 3 taxation years immediately following the year as the corporation may claim, and

(*b*) its Canadian surtax payable for the year."

Related Sections: S. 181–181.9.
Forms: T2 SCH 37.

► 125.3(1.1) ◄

(1.1) Idem. There may be deducted in computing the tax payable under this Part for a taxation year by a corporation that was a financial institution (within the meaning assigned by section 190) throughout the year an amount equal to such part as the corporation claims of its unused Part I.3 tax credits for any of its 7 immediately preceding taxation years ending before 1992, to the extent that that amount does not exceed the lesser of

(*a*) the amount, if any, by which its Canadian surtax payable for the year exceeds the amount that would, but for subsection 181.1(4), be its tax payable under Part I.3 for the year, and

(*b*) the amount, if any, by which its tax payable under this Part (determined without reference to this section and section 125.2) for the year exceeds the amount that would, but for subsections 181.1(4) and 190.1(3), be the total of its taxes payable under Parts I.3 and VI for the year.

History: S. 125.3(1.1) was added by S.C. 1994, c. 7, Sched. VIII, s. 66(1), applicable to the 1992 and subsequent taxation years.

► 125.3(2) ◄

(2) Special rules. For the purposes of this section,

(*a*) no amount may be claimed under subsection (1) in computing a corporation's tax payable under this Part for a particular taxation year in respect of its unused Part I.3 tax credit for another taxation year until its unused Part I.3 tax credits for taxation years preceding the other year that may be claimed for the particular year have been claimed; and

(*b*) an amount in respect of a corporation's unused Part I.3 tax credit for a taxation year may be claimed under subsection (1) in computing its tax payable under this Part for another taxation year only to the extent that it exceeds the total of all amounts each of which is the amount claimed in respect of that unused Part I.3 tax credit in computing its tax payable under this Part for a taxation year preceding that other year.

► 125.3(3) ◄

(3) Acquisition of control. Where, at any time, control of a corporation has been acquired by a person or group of persons, no amount in respect of its unused Part I.3 tax credit for a taxation year ending before that time is deductible by the corporation for a taxation year ending after that time and no amount in respect of its unused Part I.3 tax credit for a taxation year ending after that time is deductible by the corporation for a taxation year ending before that time, except that

(*a*) where a business was carried on by the corporation in a taxation year ending before that time, its unused Part I.3 tax credit for that year is deductible by the corporation for a particular taxation year ending after that time only if that business was carried on by the corporation for profit or with a reasonable expectation of profit throughout the particular year and only to the extent of that proportion of the corporation's Canadian surtax payable for the particular year that

(i) the amount, if any, by which

(A) the total of its income for the particular year from that business and, where properties were sold, leased, rented or developed or services rendered in the course of carrying on that business before that time, its income for the particular year from any other business substantially all the income of which was derived from the sale, leasing, rental or development, as the case may be, of similar properties or the rendering of similar services

exceeds

(B) the total of all amounts each of which is an amount deducted under paragraph 111(1)(*a*) or (*d*) for the particular year by the corporation in respect of a non-capital loss or a farm loss, as the case may be, for a taxation year in respect of that business or the other business,

is of the greater of

(ii) the amount determined under subparagraph (i), and

(iii) the corporation's taxable income for the particular year; and

(*b*) where a business was carried on by the corporation throughout a taxation year ending after that time, its unused Part I.3 tax credit for that year is deductible by the corporation for a particular taxation year ending before that time only if that business was carried on by the corporation for profit or with a reasonable expectation of profit in the particular year and only to the extent of that proportion of the corporation's Canadian surtax payable for the particular year that

(i) the amount, if any, by which

(A) the total of its income for the particular year from that business and, where properties were sold, leased, rented or developed or services rendered in the course of carrying on that business before that time, its income for the particular year from any other business substantially all the income of which was derived from the sale, leasing, rental or development, as the case may be, of similar properties or the rendering of similar services

exceeds

(B) the total of all amounts each of which is an amount deducted under paragraph 111(1)(*a*) or (*d*) for the particular year by the corporation in respect of a non-capital loss or a farm loss, as the case may be, for a taxation year in respect of that business or the other business,

is of the greater of

(ii) the amount determined under subparagraph (i), and

(iii) the corporation's taxable income for the particular year.

► 125.3(4) ◄

(4) Definitions. For the purposes of this section,

"*Canadian surtax payable*" — "Canadian surtax payable" of a corporation for a taxation year means

(*a*) in the case of a corporation that is non-resident throughout the year, the lesser of

(i) the amount determined under section 123.2 in respect of the corporation for the year, and

(ii) its tax payable under this Part for the year, and

(*b*) in any other case, the lesser of

(i) the prescribed proportion of the amount determined under section 123.2 in respect of the corporation for the year, and

(ii) its tax payable under this Part for the year;

History: S. 125.3(4), the definition of "Canadian surtax payable", was amended by S.C. 1994, c. 21, s. 59(1), applicable to the 1994 and subsequent taxation years. S. 125.3(4), the definition of "Canadian surtax payable", formerly read:

"'*Canadian surtax payable*' — 'Canadian surtax payable' of a corporation for a taxation year means

(*a*) in the case of a corporation that is throughout the year not resident in Canada, the amount determined under section 123.2 in respect of the corporation for the year, and

(*b*) in any other case, the prescribed proportion of the amount determined under section 123.2 in respect of the corporation for the year;"

Regulations: 8602.

"*unused Part I.3 tax credit*" — "unused Part I.3 tax credit" of a corporation for a taxation year means

(*a*) where the year ended before 1992, the amount, if any, by which its tax payable under Part I.3 for the year exceeds the amount deductible under subsection (1) in computing its tax payable under this Part for the year, and

(*b*) where the year ends after 1991, the amount, if any, by which the corporation's tax payable under Part I.3 for the year (determined without reference to subsection 181.1(4)) exceeds its Canadian surtax payable under this Part for the year.

History: S. 125.3(4), the definition of "unused Part I.3 tax credit", was amended by S.C. 1994, c. 7, Sched. VIII, s. 66(2), applicable for the purpose of computing the amount that may be deducted under subsection 125.3(1) of the Act for taxation years ending after June 1989.

S. 125.3(4), the definition of "unused Part I.3 tax credit", formerly read:

"'*unused Part I.3 tax credit*' — 'unused Part I.3 tax credit' of a corporation for a taxation year means the amount, if any, by which the corporation's tax payable under Part I.3 for the year exceeds the amount deductible under subsection (1) in computing its tax payable under this Part for the year."

Canadian Film or Video Production Tax Credit

SECTION 125.4:

► 125.4(1) ◄

(1) Definitions. The definitions in this subsection apply in this section.

Regulations: 8201.

"*assistance*" — "assistance" means an amount, other than a prescribed amount or an amount deemed under subsection (3) to have been paid, that would be included under paragraph 12(1)(*x*) in computing a taxpayer's income for any taxation year if that paragraph were read without reference to subparagraphs (v) to (vii).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The definition "assistance" in subsection 125.4(1) of the Act is replaced by the following:

"*assistance*" — "assistance" means an amount, other than a prescribed amount or an amount deemed under subsection (3) to have been paid, that would be included under paragraph 12(1)(*x*) in computing a taxpayer's income for any taxation year if that paragraph were read without reference to

(*a*) subparagraphs 12(1)(*x*)(v) to (viii), if the amount were received

(i) from a person or partnership described in subparagraph 12(1)(*x*)(ii), or

(ii) in circumstances where clause 12(1)(*x*)(i)(C) applies; and

(*b*) subparagraphs 12(1)(*x*)(v) to (vii), in any other case.

Applicable:

(*a*) To film or video productions for which the production commencement time of the corporation (or, if there is more than one qualified corporation in respect of the production, of all such corporations) is on or after November 14, 2003; and

(*b*) to a corporation in respect of a film or video production for which the production commencement time of any corporation is before November 14, 2003

(i) if the earliest labour expenditure of the corporation (or, if there is more than one qualified corporation in respect of the production, of all such corporations) in respect of the production is made after 2003, or

(ii) if the corporation elects (or, if there is more than one qualified corporation in respect of the production, all such corporations jointly elect), in writing, and the election is filed with the Minister of National Revenue on or before the earliest filing-due date of any qualified corporation in respect of the production for that corporation's taxation year that includes the day on which this Act is assented to, and the earliest labour expenditure of all such qualified corporations in respect of the production is made

(A) after the last taxation year of any such corporation that ended before November 14, 2003, or

(B) if the first taxation year of all such corporations includes November 14, 2003, in that taxation year.

The earliest labour expenditure referred to in [the application above] is to be determined under the provisions of subsection 125.4(1) or (2) that would apply if the following provisions had not been enacted:

(*a*) the definitions "assistance" and "salary or wages" in subsection 125.4(1);

(*b*) the portion of the definition "labour expenditure" in subsection 125.4(1) before subparagraph (*b*)(i);

(*c*) the portions of the definition "qualified labour expenditure" in subsection 125.4(1) before paragraph (*a*) and the description of A in paragraph (*b*);

(*d*) the definitions "production commencement time" and "script material" in subsection 125.4(1);

(*e*) the portion of subsection 125.4(2) before paragraph (*b*); and

(*f*) paragraph 125.4(2)(*d*).

Explanatory Note: Section 125.4 of the Act sets out the rules that apply for the purpose of computing the Canadian film or video production tax credit ("CFVPTC"). Generally, this tax credit is available at a rate of 25% of qualified labour expenditures incurred by a qualified corporation for a production certified by the Minister of Canadian Heritage to be a Canadian film or video production.

Except as noted below, the amendments to subsection 125.4 generally apply in respect of productions for which development commences on or after November 14, 2003 or the first labour expenditures (as determined under subsections 125.4(1) and (2) as they applied before that date — the "old rules") of the production corporation are incurred after 2003. As well, if development commenced before November 14, 2003 and the first labour expenditures (as defined under the old rules) were incurred by the corporation in its taxation year that includes November 14, 2003, the corporation may elect to have the new rules apply. Subject to this election, corporations must continue to claim the CFVPTC under the old rules for productions that qualified under those rules. Where, in the case of a co-production, more than one qualified corporation is eligible to claim a CFVPTC in respect of the production, the election to have the new rules apply must be made jointly. A production cannot qualify under both schemes.

"assistance"

In computing the CFVPTC, qualified labour expenditures in respect of a film or video production are limited to 48% of the amount by which the cost of the production exceeds any "assistance" in respect of that cost that has not been repaid.

The definition "assistance" is amended to provide that the equity share of a production of a government or other public authority is treated in the same manner as government assistance. This could include, for example, a loan from a government agency where repayment of the loan is dependent on profit from the production.

History: S. 125.4(1), the definition "assistance" was amended by S.C. 1999, c. 22, s. 46(1), applicable to amounts received after February 23, 1998. S. 125(4), the definition "assistance" formerly read:

" '*assistance*' — 'assistance' means an amount, other than an amount deemed under subsection (3) to have been paid, that would be included under paragraph 12(1)(*x*) in computing the income of a taxpayer for any taxation year if that paragraph were read without reference to subparagraphs (v) to (vii)."

S. 125.4(1), the definition "assistance", was added by S.C. 1996, c. 21, s. 28(1), applicable to the 1995 and subsequent taxation years.

Related Sections: S. 87(2)(*j.94*) Film or video productions.

"*Canadian film or video production*" — "Canadian film or video production" has the meaning assigned by regulation.

History: S. 125.4(1), the definition "Canadian film or video production", was added by S.C. 1996, c. 21, s. 28(1), applicable to the 1995 and subsequent taxation years.

Related Sections: S. 87(2)(*j.94*) Film or video productions.

"*Canadian film or video production certificate*" — "Canadian film or video production certificate" means a certificate issued in respect of a production by the Minister of Canadian Heritage

(*a*) certifying that the production is a Canadian film or video production, and

(*b*) estimating amounts relevant for the purpose of determining the amount deemed under subsection (3) to have been paid in respect of the production.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The definition "Canadian film or video production certificate" in subsection 125.4(1) of the Act is replaced by the following:

"*Canadian film or video production certificate*" — "Canadian film or video production certificate" means a certificate issued in respect of a production by the Minister of Canadian Heritage certifying that the production is a Canadian film or video production in respect of which that Minister is satisfied that

(*a*) except where the production is a treaty co-production (as defined by regulation), an acceptable share of revenues from the exploitation of the production in non-Canadian markets is, under the terms of any agreement, retained by

(i) a qualified corporation that owns or owned an interest in, or for civil law a right in, the production,

(ii) a prescribed taxable Canadian corporation related to the qualified corporation, or

(iii) any combination of corporations described in subparagraph (i) or (ii); and

(*b*) public financial support of the production would not be contrary to public policy.

Applicable: In respect of film or video productions in respect of which certificates are issued by the Minister of Canadian Heritage after December 20, 2002, except that, in respect of those film or video productions in respect of which certificates are issued by the Minister of Canadian Heritage before 2004, the definition "Canadian film or video production certificate" in subsection 125.4(1) is to be read as follows:

" 'Canadian film or video production certificate' means a certificate issued in respect of a production by the Minister of Canadian Heritage

(*a*) certifying that the production is a Canadian film or video production in respect of which that Minister is satisfied that

(i) except where the production is a treaty co-production (as defined by regulation), an acceptable share of revenues from the exploitation of the production in non-Canadian markets is, under the terms of any agreement, retained by

(A) a qualified corporation that owns or owned an interest in, or for civil law a right in, the production,

(B) a prescribed taxable Canadian corporation related to the qualified corporation, or

(C) any combination of corporations described in clause (A) or (B), and

(ii) public financial support of the production would not be contrary to public policy; and

(*b*) estimating amounts relevant for the purpose of determining the amount deemed under subsection (3) to have been paid in respect of the production."

Explanatory Note:

"Canadian film or video production certificate"

A qualified corporation must file a Canadian film or video production certificate with its tax return for a taxation year in which it claims a Canadian film or video production tax credit in respect of the production. A "Canadian film or video production certificate", as defined in subsection 125.4(1) of the Act, is issued by the Minister of Canadian Heritage. The definition is amended to provide that that Minister will also certify that the public funding of the production would not be contrary to public policy and that, generally, a qualified corporation or a

related taxable Canadian corporation will retain an acceptable share of revenues from the exploitation of the production in non-Canadian markets. The Minister of Canadian Heritage will issue guidelines as to how these criteria can be met.

This amendment generally applies in respect of Canadian film or video productions for which certificates are issued by the Minister of Canadian Heritage after December 20, 2002.

The definition is also amended to remove the requirement for the Minister of Canadian Heritage to provide estimates relevant to the calculation of the CFVPTC, in respect of certificates issued after 2003.

History: S. 125.4(1), the definition "Canadian film or video production certificate", was added by S.C. 1996, c. 21, s. 28(1), applicable to the 1995 and subsequent taxation years.

Related Sections: S. 87(2)(*j*.94) Film or video productions.

"investor" — "investor" means a person, other than a prescribed person, who is not actively engaged on a regular, continuous and substantial basis in a business carried on through a permanent establishment (as defined by regulation) in Canada that is a Canadian film or video production business.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The definition "investor" in subsection 125.4(1) of the Act is repealed.

"investor" — [Repealed.]

Applicable:

(*a*) To taxation years that end after November 14, 2003; and

(*b*) in respect of a film or video production in respect of which a corporation has, in a return of income filed before November 14, 2003, claimed an amount under subsection 125.4(3) in respect of a labour expenditure incurred after 1997.

Explanatory Note:

"investor"

The definition "investor" describes a person who is not actively engaged on a regular, continuous, and substantial basis in a Canadian film or video production business carried on through a permanent establishment in Canada. A CFVPTC may not be claimed in respect of a Canadian film or video production where an investor, or a partnership in which an investor has an interest, may deduct an amount in respect of the production.

The definition of investor is repealed, applicable to taxation years that end after November 14, 2003, as well as to productions in respect of which a qualifying production corporation has, in a return of income filed before November 14, 2003, claimed an amount under subsection 125.4(3) of the Act in respect of a labour expenditure incurred after 1997 in respect of the production.

History: S. 125.4(1), the definition "investor", was added by S.C. 1996, c. 21, s. 28(1), applicable to the 1995 and subsequent taxation years.

Related Sections: S. 87(2)(*j*.94) Film or video productions.
Regulations: 8201.

"labour expenditure" — "labour expenditure" of a corporation for a taxation year in respect of a property of the corporation that is a Canadian film or video production means, in the case of a corporation that is not a qualified corporation for the year, nil, and in the case of a corporation that is a qualified corporation for the year, subject to subsection (2), the total of the following amounts to the extent that they are reasonable in the circumstances and included in the cost or, in the case of depreciable property, the capital cost to the corporation of the property:

(*a*) the salary or wages directly attributable to the production that are incurred after 1994 and in the year, or the preceding taxation year, by the corporation for the stages of production of the property, from the final script stage to the end of the post-production stage, and paid by it in the year or within 60 days after the end of the year (other than amounts incurred in that preceding year that were paid within 60 days after the end of that preceding year),

(*b*) that portion of the remuneration (other than salary or wages and other than remuneration that relates to services rendered in the preceding taxation year and that was paid within 60 days after the end of that preceding year) that is directly attributable to the production of property, that relates to services rendered after 1994 and in the year, or that preceding year, to the corporation for the stages of production, from the final script stage to the end of the post-production stage, and that is paid by it in the year or within 60 days after the end of the year to

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of the definition "labour expenditure" in subsection 125.4(1) of the Act before subparagraph (*b*)(i) is replaced by the following:

"labour expenditure" — "labour expenditure", of a corporation for a taxation year in respect of a Canadian film or video production, means, in the case of a corporation that is not a qualified corporation for the taxation year, nil, and in the case of a corporation that is a qualified corporation for the taxation year, subject to subsection (2), the total of the following amounts to the extent that they are reasonable in the circumstances and included in the cost to, or in the case of depreciable property the capital cost to, the corporation, or any other person or partnership, of the production:

(*a*) the salary or wages directly attributable to the production that are incurred after 1994 and in the taxation year, or the preceding taxation year, by the corporation for the stages of production of the property, from the production commencement time to the end of the post-production stage, and paid by it in the taxation year or within 60 days after the end of the taxation year (other than amounts incurred in that preceding taxation year that were paid within 60 days after the end of that preceding taxation year),

(*b*) that portion of the remuneration (other than salary or wages and other than remuneration that relates to services rendered in the preceding taxation year and that was paid within 60 days after the end of that preceding taxation year) that is directly attributable to the production of property, that relates to services rendered after 1994 and in the taxation year, or that preceding taxation year, to the corporation for the stages of production, from the production commencement time to the end of the post-production stage, and that is paid by it in the taxation year or within 60 days after the end of the taxation year to

Applicable: [The application of this pending amendment is the same as that for the pending amendment to the definition of "assistance" in subsection 125.4(1). See the application noted with the pending amendment to the definition of "assistance".]

Explanatory Note:

"labour expenditure"

The definition "labour expenditure" describes the underlying expenditures of a qualified corporation in respect of a film or video production that will be eligible for the CFVPTC. The definition is amended concurrently with the repeal of the definition "investor" in subsection 125.4(1) and the amendment of subsections 125.4(2) and (4) of the Act, to include those production expenditures incurred by the qualified corporation for or on behalf of another person. That is, labour expenditures are no longer limited to those included in the cost to the qualified corporation of the production. The definition is also amended concurrently with the introduction of the definition "production commencement time", which represents the time after which an eligible expenditure will qualify for the CFVPTC.

Where a particular corporation is a co-producer with another qualified corporation, and that other corporation has incurred expenditures for or on behalf of the taxpayer, new paragraph 125.4(2)(*d*) of the Act prevents the particular corporation from claiming a CFVPTC in respect of those expenditures.

For more information on subsections 125.4(2) and (4) and the definitions "investor" and "production commencement time", refer to the commentary for those provisions.

(i) an individual who is not an employee of the corporation, to the extent that the amount paid

(A) is attributable to services personally rendered by the individual for the production of the property, or

(B) is attributable to and does not exceed the salary or wages of the individual's employees for personally rendering services for the production of the property,

(ii) another taxable Canadian corporation, to the extent that the amount paid is attributable to and does not exceed the salary or wages of the other corporation's employees for personally rendering services for the production of the property,

(iii) another taxable Canadian corporation all the issued and outstanding shares of the capital stock of which (except directors' qualifying shares) belong to an individual and the activities of which consist principally of the provision of the individual's services, to the extent that the amount paid is attributable to services rendered personally by the individual for the production of the property, or

(iv) a partnership that is carrying on business in Canada, to the extent that the amount paid

(A) is attributable to services personally rendered by an individual who is a member of the partnership for the production of the property, or

(B) is attributable to and does not exceed the salary or wages of the partnership's employees for personally rendering services for the production of the property, and

(*c*) where

(i) the corporation is a subsidiary wholly-owned corporation of another taxable Canadian corporation (in this section referred to as the "parent"), and

(ii) the corporation and the parent have agreed that this paragraph apply in respect of the production,

the reimbursement made by the corporation in the year, or within 60 days after the end of the year, of an expenditure that was incurred by the parent in a particular taxation year of the parent in respect of that production and that would be included in the labour expenditure of the corporation in respect of the property for the particular taxation year because of paragraph (*a*) or (*b*) if

(iii) the corporation had had such a particular taxation year, and

(iv) the expenditure were incurred by the corporation for the same purpose as it was by the parent and were paid at the same time and to the same person or partnership as it was by the parent.

History: S. 125.4(1), the definition "labour expenditure", was added by S.C. 1996, c. 21, s. 28(1), applicable to the 1995 and subsequent taxation years.

Related Sections: S. 87(2)(*j*.94) Film or video productions.
Regulations: 8201.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 125.4(1) of the Act is amended by adding the following in alphabetical order:

"production commencement time" — "production commencement time", in respect of a Canadian film or video production, means the earlier of

(*a*) the time at which principal photography of the production begins, and

(*b*) the latest of

(i) the time at which a qualified corporation that has an interest in, or for civil law a right in, the production, or the parent of the corporation, first makes an expenditure for salary or wages or other remuneration for activities, of scriptwriters, that are directly attributable to the development by the corporation of script material of the production,

(ii) the time at which the corporation or the parent of the corporation acquires a property, on which the production is based, that is a published literary work, screenplay, play, personal history or all or part of the script material of the production, and

(iii) two years before the date on which principal photography of the production begins.

Applicable: [The application of this pending amendment is the same as that for the pending amendment to the definition of "assistance" in subsection 125.4(1). See the application noted with the pending amendment to the definition of "assistance".]

Explanatory Note:

"production commencement time"

For the purpose of the definition "labour expenditure" in subsection 125.4(1) of the Act, in order to be eligible for the CFVPTC, expenditures in respect of a film or video production must be incurred by a qualified corporation from the time that is the "final script stage" of the production. The definition "labour expenditure" is amended to instead refer to expenditures incurred after the production commencement time. The new definition "production commencement time" describes the time that is the latest of the following:

1. The time at which a qualified corporation or its parent company first incurs development labour costs for the development of property of the corporation that is script material on which a Canadian film or video production is based.

2. The first time at which the qualified corporation or its parent company acquires a right in respect of the story that is the basis of the final script. Such rights might include a published literary work, play or screenplay.

3. Two years before the date on which principal photography of the production begins.

It is intended that the in-house development labour costs of an initial draft of a script, as well as the cost of modifications, should fall within the period of production for which labour expenditures qualify for the CFVPTC. These in-house costs could include the cost to hire an independent writer to create a script on the basis of some other story or literary work for which the rights have been acquired by the corporation.

Existing conditions on eligible labour expenditures also apply to scriptwriting labour. (See, for example, amounts excluded from the definition "salary and wages" in subsection 125.4(1) of the Act, such as amounts determined by reference to profits or revenues). As well, the cost to acquire an initial script or any other right referred to above will, like other rights, not qualify. Such an expenditure represents the cost of a property, not a labour expenditure.

The new definition "script material" in subsection 125.4(1) is defined for the purpose of the definition "production commencement time".

"qualified corporation" — "qualified corporation" for a taxation year means a corporation that is throughout the year a prescribed taxable Canadian corporation the activities of which in the year are primarily the carrying on through a permanent establishment (as defined by regulation) in Canada of a business that is a Canadian film or video production business.

History: S. 125.4(1), the definition "qualified corporation" was added by S.C. 1996, c. 21, s. 28(1), applicable to the 1995 and subsequent taxation years, except that, in applying the definition in respect of a film or video production the principal photography of which began before July 1996, the words "are primarily" in that definition shall be read as "include".

Related Sections: S. 87(2)(*j*.94) Film or video productions.
Regulations: 8201.

"qualified labour expenditure" — "qualified labour expenditure" of a corporation for a taxation year in respect of a property of the corporation that is a Canadian film or video production means the lesser of

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of the definition "qualified labour expenditure" in subsection 125.4(1) of the Act before paragraph (*a*) is replaced by the following:

"qualified labour expenditure" — "qualified labour expenditure", of a corporation for a taxation year in respect of a Canadian film or video production, means the lesser of

Applicable: [The application of this pending amendment is the same as that for the pending amendment to the definition of "assistance" in subsection 125.4(1). See the application noted with the pending amendment to the definition of "assistance".]

Explanatory Note:

"qualified labour expenditure"

The definition "qualified labour expenditure" describes the portion of a qualified corporation's labour expenditures upon which it can claim a 25% investment tax credit for a Canadian film or video production. Under a formula in the definition, qualified labour expenditures in respect of a production are limited to 48% of the amount by which the cost of the production to the qualified corporation exceeds any "assistance" in respect of that cost that has not been repaid.

Variable A in the formula is amended to increase the maximum amount of labour expenditure that qualify for the CFVPTC from 48% to 60% of the cost of the production. The definition is also amended concurrently with the repeal of the definition "investor" in subsection 125.4(1) and the amendment of subsections 125.4(2) and (4) of the Act, to include in the production cost those production expenditures incurred by the qualified corporation for or on behalf of another person. That is, production expenditures are no longer limited to those included in the cost to the qualified corporation of the production.

Where the taxpayer corporation is a co-producer with another qualified corporation, and that other corporation has incurred expenditures for or on behalf of the taxpayer, those expenditures are excluded from the formula by new paragraph 125.4(2)(*b*) of the Act.

For more information on subsections 125.4(2) and (4) and the definition "investor", refer to the commentary for those provisions.

(*a*) the amount, if any, by which

(i) the total of

(A) the labour expenditure of the corporation for the year in respect of the production, and

(B) the amount by which the total of all amounts each of which is the labour expenditure of the corporation for a preceding taxation year in respect of the production exceeds the total of all amounts each of which is a qualified labour expenditure of the corporation in respect of the production for a preceding taxation year before the end of which the principal filming or taping of the production began

exceeds

(ii) where the corporation is a parent, the total of all amounts each of which is an amount that is the subject of an agreement in respect of the production referred to in paragraph (*c*) of the definition "labour expenditure" between the corporation and its wholly-owned corporation, and

(*b*) the amount determined by the formula

A – B

where

A is 48% of the amount by which

(i) the cost or, in the case of depreciable property, the capital cost to the corporation of the production at the end of the year,

exceeds

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of the description of A in paragraph (*b*) of the definition "qualified labour expenditure" in subsection 125.4(1) of the Act before subparagraph (ii) is replaced by the following:

A is 60% of the amount by which

(i) the total of all amounts each of which is an expenditure by the corporation in respect of the production that is included in the cost to, or in the case of depreciable property the capital cost to, the corporation or any other person or partnership of the production at the end of the taxation year,

exceeds

Applicable: [The application of this pending amendment is the same as that for the pending amendment to the definition of "assistance" in subsection 125.4(1). See the application noted with the pending amendment to the definition of "assistance".]

Explanatory Note: See the Explanatory Note following the amendment to the portion of the definition "qualified labour expenditure" in subsection 125.4(1) before paragraph (*a*).

(ii) the total of all amounts each of which is an amount of assistance in respect of that cost that, at the time of the filing of its return of income for the year, the corporation or any other person or partnership has received, is entitled to receive or can reasonably be expected to receive, that has not been repaid before that time pursuant to a legal obligation to do so (and that does not otherwise reduce that cost), and

B is the total of all amounts each of which is the qualified labour expenditure of the corporation in respect of the production for a preceding taxation year before the end of which the principal filming or taping of the production began.

History: S. 125.4(1), the definition "qualified labour expenditure", was added by S.C. 1996, c. 21, s. 28(1), applicable to the 1995 and subsequent taxation years.

Related Sections: S. 125.4(2) Rules governing labour expenditure of a corporation.

"salary or wages" — "salary or wages" does not include an amount described in section 7 or any amount determined by reference to profits or revenues.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The definition "salary or wages" in subsection 125.4(1) of the Act is replaced by the following:

"salary or wages" — "salary or wages" does not include an amount

(*a*) described in section 7;

(*b*) determined by reference to profits or revenues; or

(*c*) paid to a person in respect of services rendered by the person at a time when the person was non-resident, unless the person was at that time a Canadian citizen.

Applicable: [The application of this pending amendment is the same as that for the pending amendment to the definition of "assistance" in subsection 125.4(1). See the application noted with the pending amendment to the definition of "assistance".]

Explanatory Note:

"salary or wages"

For the purposes of the Canadian film and video production tax credit, the definition "salary or wages", which is generally defined in subsection 248(1) of the Act, does not include an amount described in section 7 of the Act (share option benefits) or any amount determined by reference to profits or revenues.

The definition "salary or wages" is amended to provide that it also does not include an amount paid to a person in respect of services rendered by the person at a time when the person was non-resident, unless the person was at that time a Canadian citizen.

History: S. 125.4(1), the definition "salary or wages", was added by S.C. 1996, c. 21, s. 28(1), applicable to the 1995 and subsequent taxation years.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 125.4(1) of the Act is amended by adding the following in alphabetical order:

"script material" — "script material", in respect of a production, means written material describing the story on which the production is based and, for greater certainty, includes a draft script, an original story, a screen story, a narration, a television production concept, an outline or a scene-by-scene schematic, synopsis or treatment.

Applicable: [The application of this pending amendment is the same as that for the pending amendment to the definition of "assistance" in subsection 125.4(1). See the application noted with the pending amendment to the definition of "assistance".]

Explanatory Note:

"script material"

The new definition "script material" applies for the purpose of determining the "production commencement time" of a production. Script material is written material describing the story on which the production is based and, for greater certainty, includes a draft script, original story, screen story, narration, television production concept, outline or scene-by-scene schematic, synopsis or treatment. These descriptions are terms commonly used in the film production industry.

► 125.4(2) ◄

(2) Rules governing labour expenditure of a corporation. For the purpose of the definition "labour expenditure" in subsection (1),

(*a*) remuneration does not include remuneration determined by reference to profits or revenues;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 125.4(2) of the Act before paragraph (*b*) is replaced by the following:

(2) Rules governing labour expenditures of a corporation. For the purposes of the definitions "labour expenditure" and "qualified labour expenditure" in subsection (1),

(*a*) remuneration does not include remuneration

(i) determined by reference to profits or revenues, or

(ii) in respect of services rendered by a person at a time when the person was non-resident, unless the person was at that time a Canadian citizen;

Applicable: [The application of this pending amendment is the same as that for the pending amendment to the definition of "assistance" in subsection 125.4(1). See the application noted with the pending amendment to the definition of "assistance".]

Explanatory Note:

Rules Governing Labour Expenditure of a Corporation

Subsection 125.4(2) of the Act provides rules that apply for the purpose of the definition of "labour expenditure" in subsection 125.4(1). Paragraph 125.4(2)(*a*) provides that remuneration does not include remuneration determined by reference to profits or revenues.

Subsection 125.4(2) is amended to provide that it also applies to the definition "qualified labour expenditure" in subsection 125.4(1). In addition, paragraph 125.4(2)(*a*) is amended to provide that remuneration also does not included remuneration in respect of services rendered by a person at a time when the person was non-resident, unless the person was at that time a Canadian citizen.

A film or video production may be produced jointly by two or more qualified corporations. New paragraph 125.4(2)(*d*) of the Act is added to ensure that only one qualified corporation may claim a CFVPTC in respect of any particular expenditure. Where another qualified corporation supplies goods to or renders services for or on behalf of the taxpayer corporation, new paragraph 125.4(2)(*d*) provides that the related expenditure by the taxpayer is not a labour expenditure, a cost or capital cost of the production to the taxpayer. This provision does not affect the calculation of the cost of the production for other purposes of the Act.

(*b*) services referred to in paragraph (*b*) of that definition that relate to the post-production stage of the production include only the services that are rendered at that stage by a person who performs the duties of animation cameraman, assistant colourist, assistant mixer, assistant sound-effects technician, boom operator, colourist, computer graphics designer, cutter, developing technician, director of post production, dubbing technician, encoding technician, inspection technician — clean up, mixer, optical effects technician, picture editor, printing technician, projectionist, recording technician, senior editor, sound editor, sound-effects technician, special effects editor, subtitle technician, timer, video-film recorder operator, videotape operator or by a person who performs a prescribed duty; and

(*c*) that definition does not apply to an amount to which section 37 applies.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 125.4(2) of the Act is amended by striking out the word "and" at the end of paragraph (*b*), by adding the word "and" at the end of paragraph (*c*) and by adding the following after paragraph (*c*):

(*d*) an expenditure incurred in respect of a film or video production by a qualified corporation (in this paragraph referred to as the "co-producer") in respect of goods supplied or services rendered by another qualified corporation to the co-producer in respect of the production is not a labour expenditure to the co-producer or, for the purpose of applying of this section to the co-producer, a cost or capital cost of the production.

Applicable: [The application of this pending amendment is the same as that for the pending amendment to the definition of "assistance" in subsection 125.4(1). See the application noted with the pending amendment to the definition of "assistance".]

Explanatory Note: See the Explanatory Note following the amendment to the portion of subsection 125.4(2) of the Act before paragraph (*b*).

History: S. 125.4(2)(*c*) was added by S.C. 2001, c. 17, s. 115(1), applicable after November 1999.

S. 125.4(2) was added by S.C. 1996, c. 21, s. 28(1), applicable to the 1995 and subsequent taxation years.

Regulations: 202(1.1); 1106.

► 125.4(3) ◄

(3) Tax credit. Where

(*a*) a qualified corporation for a taxation year files with its return of income for the year

(i) a Canadian film or video production certificate issued in respect of a Canadian film or video production of the corporation,

(ii) a prescribed form containing prescribed information, and

(iii) each other document prescribed in respect of the production, and

(*b*) the principal filming or taping of the production began before the end of the year,

the corporation is deemed to have paid on its balance-due day for the year an amount on account of its tax payable under this Part for the year equal to 25% of its qualified labour expenditure for the year in respect of the production.

History: S. 125.4(3), the portion after paragraph (*b*), was amended by S.C. 1997, c. 25, s. 34(1), applicable to the 1996 and subsequent taxation years. That part formerly read:

> "the corporation is deemed to have paid, on the day referred to in paragraph 157(1)(*b*) on or before which the corporation would be required to pay the remainder of its tax payable under this Part for the year if such a remainder were payable, an amount on account of its tax payable under this Part for the year equal to 25% of its qualified labour expenditure for the year in respect of the production."

S. 125.4(3) was added by S.C. 1996, c. 21, s. 28(1), applicable to the 1995 and subsequent taxation years.

Related Sections: S. 125.4(6) Revocation of a certificate; s. 248(1), "balance-due date".
Regulations: 1104(9); 1106.
Forms: T2 SCH 302; T2 SCH 345; T2 SCH 365; T2 SCH 382; T2 SCH 410; T1196; T1131.
Guides: RC4164 Claiming a Canadian Film or Video Production Tax Credit: Guide to Form T1131.

► 125.4(4) ◄

(4) Exception. This section does not apply to a Canadian film or video production where an investor, or a partnership in which an investor has an interest, directly or indirectly, may deduct an amount in respect of the production in computing its income for any taxation year.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 125.4(4) of the Act is replaced by the following:

(4) Exception. This section does not apply to a Canadian film or video production if the production — or an interest in a person or partnership that has, directly or indirectly, an interest

in, or for civil law a right in, the production — is a tax shelter investment for the purpose of section 143.2.

Applicable:

(*a*) To taxation years that end after November 14, 2003; and

(*b*) in respect of a film or video production in respect of which a corporation has, in a return of income filed before November 14, 2003, claimed an amount under subsection 125.4(3) of the Act in respect of a labour expenditure incurred after 1997.

Explanatory Note:

Exception

Subsection 125.4(4) of the Act provides that a Canadian film or video production tax credit is not available for a production if an investor may deduct an amount in respect of the production in computing its income for any taxation year. An investor is defined in subsection 125.4(1) to include, generally, any person, other than a prescribed person, that does not carry on a film or video production basis in Canada on a substantial basis.

Subsection 125.4(4) is amended concurrently with the repeal of the definition "investor", to deny the CFVPTC only in circumstances where the production or a person or partnership holding an interest in the production is a tax shelter investment for the purpose of section 143.2 of the Act.

However, section 1106 of the *Income Tax Regulations* includes a requirement that, for a film or video production to qualify as a Canadian film or video production eligible for the CFVPTC, a prescribed taxable Canadian corporation must retain worldwide ownership of copyright.

This amendment applies to taxation years that end after November 14, 2003, or if a qualifying production corporation has, in a return of income filed before November 14, 2003, claimed an amount under subsection 125.4(3) in respect of a labour expenditure incurred after 1997 in respect of the production.

History: S. 125.4(4) was added by S.C. 1996, c. 21, s. 28(1), applicable to the 1995 and subsequent taxation years.

► 125.4(5) ◄

(5) When assistance received. For the purposes of this Act other than this section, and for greater certainty, the amount that a corporation is deemed under subsection (3) to have paid for a taxation year is assistance received by the corporation from a government immediately before the end of the year.

History: S. 125.4(5) was added by S.C. 1996, c. 21, s. 28(1), applicable to the 1995 and subsequent taxation years.

Related Sections: S. 12(1)(*x*) Inducement, reimbursement, etc.; s. 13(7.4) Deemed capital cost; s. 53(2)(*k*) Amounts to be deducted — Government assistance.

► 125.4(6) ◄

(6) Revocation of a certificate. A Canadian film or video production certificate in respect of a production may be revoked by the Minister of Canadian Heritage where

(*a*) an omission or incorrect statement was made for the purpose of obtaining the certificate, or

(*b*) the production is not a Canadian film or video production,

and, for the purpose of subparagraph (3)(*a*)(i), a certificate that has been revoked is deemed never to have been issued.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 125.4(6) of the Act is replaced by the following:

(6) Revocation of a certificate. If an omission or incorrect statement was made for the purpose of obtaining a Canadian film or video production certificate in respect of a production, or if the production is not a Canadian film or video production,

(*a*) the Minister of Canadian Heritage may

(i) revoke the certificate, or

(ii) if the certificate was issued in respect of productions included in an episodic television series, revoke the certificate in respect of one or more episodes in the series;

(*b*) for greater certainty, for the purposes of this section, the expenditures and cost of production in respect of productions included in an episodic television series that relate to an episode in the series in respect of which a certificate has been revoked are not attributable to a Canadian film or video production; and

(*c*) for the purpose of subparagraph (3)(*a*)(i), a certificate that has been revoked is deemed never to have been issued.

Applicable: After November 14, 2003.

Explanatory Note:

Revocation of a Certificate

Subsection 125.4(6) of the Act provides that a Canadian film or video production certificate in respect of a production may be revoked by the Minister of Canadian Heritage. The revocation of a certificate may occur if an incorrect statement or an omission was made in order to obtain the certificate, or if the production is not a Canadian film or video production. A revoked certificate is considered never to have been issued, so a Canadian film or video production tax credit under new subsection 125.4(3) cannot be claimed in respect of the decertified production.

Subsection 125.4(6) is amended, applicable after November 14, 2003, to clarify that a Canadian film or video production certificate may be revoked in respect of one episode of a television series without affecting the eligibility of other episodes in the series and that, in such a case, the expenditures attributable to that episode do not qualify for the CFVPTC.

History: S. 125.4(6) was added by S.C. 1996, c. 21, s. 28(1), applicable to the 1995 and subsequent taxation years.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 125.4 of the Act is amended by adding the following after subsection (6):

(7) Guidelines. The Minister of Canadian Heritage shall issue guidelines respecting the circumstances under which the conditions in paragraphs (*a*) and (*b*) of the definition of "Canadian film or video production certificate" in subsection (1) are satisfied. For greater certainty, these guidelines are not statutory instruments as defined in the *Statutory Instruments Act*.

Applicable: In respect of film or video productions in respect of which certificates are issued by the Minister of Canadian Heritage after December 20, 2002, except that, in respect of those film or video productions in respect of which certificates are issued by the Minister of Canadian Heritage before 2004, the reference to "paragraphs (*a*) and (*b*)" in subsection 125.4(7) is to be read as a reference to "subparagraphs (*a*)(i) and (ii)".

Explanatory Note:

Guidelines

New subsection 125.4(7) of the Act, which applies in respect of Canadian film or video productions for which certificates are issued by the Minister of Canadian Heritage after December 20, 2002, requires the Minister of Canadian Heritage to issue guidelines respecting the circumstances under which new conditions

in the definition "Canadian film or video production certificate" in subsection 125.4(1) are met. For further details, see the commentary for that definition.

Film or Video Production Services Tax Credit

SECTION 125.5:

► 125.5(1) ◄

(1) Definitions. The definitions in this subsection apply in this section.

Regulations: 8201.

"accredited film or video production certificate" — "accredited film or video production certificate", in respect of a film or video production, means a certificate issued by the Minister of Canadian Heritage certifying that the production is an accredited production.

"accredited production" — "accredited production" has the meaning assigned by regulation.

Regulations: 9300.

"assistance" — "assistance" means an amount, other than an amount deemed under subsection (3) to have been paid, that would be included under paragraph 12(1)(*x*) in computing the income of a taxpayer for any taxation year if that paragraph were read without reference to subparagraphs (v) to (vii).

"Canadian labour expenditure" — "Canadian labour expenditure" of a corporation for a taxation year in respect of an accredited production means, in the case of a corporation that is not an eligible production corporation in respect of the production for the year, nil, and in any other case, subject to subsection (2), the total of the following amounts in respect of the production to the extent that they are reasonable in the circumstances:

(*a*) the salary or wages directly attributable to the production that are incurred by the corporation after October 1997, and in the year or the preceding taxation year, and that relate to services rendered in Canada for the stages of production of the production, from the final script stage to the end of the post-production stage, and paid by it in the year or within 60 days after the end of the year to employees of the corporation who were resident in Canada at the time the payments were made (other than amounts incurred in that preceding year that were paid within 60 days after the end of that preceding year),

(*b*) that portion of the remuneration (other than salary or wages and other than remuneration that relates to services rendered in the preceding taxation year and that was paid within 60 days after the end of that preceding year) that is directly attributable to the production, that relates to services rendered in Canada after October 1997 and in the year, or that preceding year, to the corporation for the stages of production of the production, from the final script stage to the end of the post-production stage, and that is paid by it in the year or within 60 days after the end of the year to a person or a partnership, that carries on a business in Canada through a permanent establishment (as defined by regulation), and that is

(i) an individual resident in Canada at the time the amount is paid and who is not an employee of the corporation, to the extent that the amount paid

(A) is attributable to services personally rendered by the individual in Canada in respect of the accredited production, or

(B) is attributable to and does not exceed the salary or wages paid by the individual to the individual's employees at a time when they were resident in Canada for personally rendering services in Canada in respect of the accredited production,

(ii) another corporation that is a taxable Canadian corporation, to the extent that the amount paid is attributable to and does not exceed the salary or wages paid to the other corporation's employees at a time when they were resident in Canada for personally rendering services in Canada in respect of the accredited production,

(iii) another corporation that is a taxable Canadian corporation, all the issued and outstanding shares of the capital stock of which (except directors' qualifying shares) belong to an individual who was resident in Canada and the activities of which consist principally of the provision of the individual's services, to the extent that the amount paid is attributable to services rendered personally in Canada by the individual in respect of the accredited production, or

(iv) a partnership, to the extent that the amount paid

(A) is attributable to services personally rendered in respect of the accredited production by an individual who is resident in Canada and who is a member of the partnership, or

(B) is attributable to and does not exceed the salary or wages paid by the partnership to its employees at a time when they were resident in Canada for personally rendering services in Canada in respect of the accredited production, and

(*c*) where

(i) the corporation is a subsidiary wholly-owned corporation of another corporation that is a taxable Canadian corporation (in this section referred to as the "parent"), and

(ii) the corporation and the parent have filed with the Minister an agreement that this paragraph apply in respect of the production,

the reimbursement made by the corporation in the year, or within 60 days after the end of the year, of an expenditure that was incurred by the parent in a particular taxation year of the parent in respect of the production and that would be included in the Canadian labour expenditure of the corporation in respect of the production for the particular taxation year because of paragraph (*a*) or (*b*) if

(iii) the corporation had had such a particular taxation year, and

(iv) the expenditure were incurred by the corporation for the same purpose as it was incurred by the parent and were paid at the same time and to the same person or partnership as it was paid by the parent.

Regulations: 9300.

"eligible production corporation" — "eligible production corporation", in respect of an accredited production for a taxation year, means a corporation, the activities of which in the year in Canada are primarily the carrying on through a permanent establishment (as defined by regulation) in Canada of a film or video production business or a film or video production services business and that

(*a*) owns the copyright in the accredited production throughout the period during which the production is produced in Canada, or

(*b*) has contracted directly with the owner of the copyright in the accredited production to provide production services in respect of the production, where the owner of the copyright is not an eligible production corporation in respect of the production,

except a corporation that is, at any time in the year,

(*c*) a person all or part of whose taxable income is exempt from tax under this Part,

(*d*) controlled directly or indirectly in any manner whatever by one or more persons all or part of whose taxable income is exempt from tax under this Part, or

(*e*) prescribed to be a labour-sponsored venture capital corporation for the purpose of section 127.4.

History: S. 125.5(1), the portion of the definition "eligible production corporation" after paragraph (*b*) was amended by S.C. 2001, c. 17, s. 116(1), applicable after November 1999. S. 125.5(1), the portion of the definition "eligible production corporation" after paragraph (*b*) formerly read:

"except a corporation that is"

Regulations: 8201; 9300.

"qualified Canadian labour expenditure" — "qualified Canadian labour expenditure" of an eligible production corporation for a taxation year in respect of an accredited production means the amount, if any, by which

(*a*) the total of all amounts each of which is the corporation's Canadian labour expenditure for the year or a preceding taxation year

exceeds the aggregate of

(*b*) the total of all amounts, each of which is an amount of assistance that can reasonably be considered to be in respect of amounts included in the total determined under paragraph (*a*) in respect of the corporation for the year that, at the time of filing its return of income for the year, the corporation or any other person or partnership has received, is entitled to receive or can reasonably be expected to receive, that has not been repaid before that time pursuant to a legal obligation to do so (and that does not otherwise reduce that expenditure),

(*c*) the total of all amounts, each of which is the qualified Canadian labour expenditure of the corporation in respect of the accredited production for a preceding taxation year before the end of which the principal filming or taping of the production began, and

(*d*) where the corporation is a parent, the total of all amounts each of which is included in the total determined under paragraph (*a*) in respect of the corporation for the year and is the subject of an agreement in respect of the accredited production referred to in paragraph (*c*) of the definition "Canadian labour expenditure" between the corporation and its subsidiary wholly-owned corporation.

Regulations: 9300.

"salary or wages" — "salary or wages" does not include an amount described in section 7 or an amount determined by reference to profits or revenues.

History: S. 125.5(1) was added by S.C. 1998, c. 19, s. 145.1(1), applicable to taxation years that end after October 1997.

► 125.5(2) ◄

(2) Rules governing Canadian labour expenditure of a corporation. For the purpose of the definition "Canadian labour expenditure" in subsection (1),

(*a*) remuneration does not include remuneration determined by reference to profits or revenues;

(*b*) services referred to in paragraph (*b*) of that definition that relate to the post-production stage of the accredited production include only the services that are rendered at that stage by a person who performs the duties of animation cameraman, assistant colourist, assistant mixer, assistant sound-effects technician, boom operator, colourist, computer graphics designer, cutter, developing technician, director of post production, dubbing technician, encoding technician, inspection technician — clean up, mixer, optical effects technician, picture editor, printing technician, projectionist, recording technician, senior editor, sound editor, sound-effects technician, special effects editor, subtitle technician, timer, video-film recorder operator, videotape operator or by a person who performs a prescribed duty;

(*c*) that definition does not apply to an amount to which section 37 applies; and

(*d*) for greater certainty, that definition does not apply to an amount that is not a production cost including an amount in respect of advertising, marketing, promotion, market research or an amount related in any way to another film or video production.

History: S. 125.5(2) was added by S.C. 1998, c. 19, s. 145.1(1), applicable to taxation years that end after October 1997.

Regulations: 202(1.1); 9300.

► 125.5(3) ◄

(3) Tax credit. An eligible production corporation in respect of an accredited production for a taxation year is deemed to have paid on its balance-due day for the year an amount on account of its tax payable under this Part for the year equal to 16% of its qualified Canadian labour expenditure for the year in respect of the production, if

(*a*) the corporation files with its return of income for the year

(i) a prescribed form containing prescribed information in respect of the production,

(ii) an accredited film or video production certificate in respect of the production, and

(iii) each other document prescribed in respect of the production; and

(*b*) the principal filming or taping of the production began before the end of the year.

History: S. 125.5(3) was replaced by S.C. 2003, c. 15, s. 80(1), applicable in respect of Canadian labour expenditures incurred after February 18, 2003. S. 125.5(3) formerly read:

"(3) *Tax credit.* Subject to subsection (4), where

(*a*) an eligible production corporation in respect of an accredited production for a taxation year files with its return of income for the year

(i) a prescribed form containing prescribed information in respect of the production,

(ii) an accredited film or video production certificate in respect of the production, and

(iii) each other document prescribed in respect of the production, and

(*b*) the principal filming or taping of the production began before the end of the year,

the corporation is deemed to have paid on its balance-due day for the year an amount on account of its tax payable under this Part for the year equal to 11% of its qualified Canadian labour expenditure for the year in respect of the production."

S. 125.5(3) was added by S.C. 1998, c. 19, s. 145.1(1), applicable to taxation years that end after October 1997.

Related Sections: S. 87(2)(*j*.94) Film or video productions; s. 152(1)(*b*) Assessment; s. 157(3)(*e*) Reduced instalments.

Regulations: 9300.

Forms: T2 SCH 302; T2 SCH 345; T2 SCH 365; T2 SCH 382; T2 SCH 410; T1197; T1177.

Guides: RC4385 Claiming a Film or Video Production Services Tax Credit.

Tax Topics: No. 1688, Settlement in Film Tax Shelters.

► 125.5(4) ◄

(4) Canadian film or video production. Subsection (3) does not apply in respect of a production in respect of which an amount is deemed to have been paid under subsection 125.4(3).

History: S. 125.5(4) was added by S.C. 1998, c. 19, s. 145.1(1), applicable to taxation years that end after October 1997.

► 125.5(5) ◄

(5) When assistance received. For the purposes of this Act other than this section, and for greater certainty, the amount that a corporation is deemed under subsection (3) to have paid for a taxation year is assistance received by the corporation from a government immediately before the end of the year.

History: S. 125.5(5) was added by S.C. 1998, c. 19, s. 145.1(1), applicable to taxation years that end after October 1997.

► 125.5(6) ◄

(6) Revocation of certificate. An accredited film or video production certificate in respect of an accredited production may be revoked by the Minister of Canadian Heritage where

(*a*) an omission or incorrect statement was made for the purpose of obtaining the certificate, or

(*b*) the production is not an accredited production,

and, for the purpose of subparagraph (3)(*a*)(ii), a certificate that has been revoked is deemed never to have been issued.

History: S. 125.5(6) was added by S.C. 1998, c. 19, s. 145.1(1), applicable to taxation years that end after October 1997.

Subdivision c — Rules Applicable to All Taxpayers

SECTION 126:

► 126(1) ◄

(1) Foreign tax deduction. A taxpayer who was resident in Canada at any time in a taxation year may deduct from the tax for the year otherwise payable under this Part by the taxpayer an amount equal to

(*a*) such part of any non-business-income tax paid by the taxpayer for the year to the government of a country other than Canada (except, where the taxpayer is a corporation, any such tax or part thereof that may reasonably be regarded as having been paid by the taxpayer in respect of income from a share of the capital stock of a foreign affiliate of the taxpayer) as the taxpayer may claim,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 126(1)(*a*) of the Act is replaced by the following:

(*a*) the part of any non-business income tax paid by the taxpayer for the year to the government of a country other than Canada that the taxpayer claims,

Applicable: To taxation years that begin after 2006, except that paragraph 126(1)(*a*) also applies to a taxation year of a taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the taxpayer.

Explanatory Note: Subsection 126(1) of the Act provides a tax credit to a taxpayer in respect of foreign non-business income tax — that is, foreign taxes levied on investment and other non-business income of the taxpayer. However, paragraph 126(1)(*a*) provides an exception to the effect that no tax credit is available if the taxpayer is a corporation and the foreign taxes paid by the taxpayer are in respect of income from a share of the capital stock of a foreign affiliate of the taxpayer.

Paragraph 126(1)(*a*) is amended to remove the reference to the exception for taxes paid in respect of income from a share of a foreign affiliate. This exception is now found in subsection 126(1.2).

New subsection 126(1.2) describes circumstances in which subsection 126(1) does not apply. More specifically, it provides that subsection 126(1):

- does not apply to non-business income tax paid by a taxpayer in respect of a particular amount that is included in computing, in respect of the taxpayer, the amount determined under subparagraph 94.4(2)(*a*)(i) in respect of a participating interest of the taxpayer, if the taxpayer made a deduction under subsection 94.4(3) in respect of the particular amount — in this regard, see the commentary on the related rule found in new subsection 94.3(3), and
- does not apply to non-business income tax paid by a corporation in respect of income from a share of the capital stock of a foreign affiliate of the corporation.

These amendments apply to taxation years that begin after 2006.

not exceeding, however,

(*b*) that proportion of the tax for the year otherwise payable under this Part by the taxpayer that

(i) the amount, if any, by which the total of the taxpayer's qualifying incomes exceeds the total of the taxpayer's qualifying losses

(A) for the year, if the taxpayer is resident in Canada throughout the year, and

(B) for the part of the year throughout which the taxpayer is resident in Canada, if the taxpayer is non-resident at any time in the year,

from sources in that country, on the assumption that

(C) no businesses were carried on by the taxpayer in that country,

(D) where the taxpayer is a corporation, it had no income from shares of the capital stock of a foreign affiliate of the taxpayer, and

(E) where the taxpayer is an individual,

(I) no amount was deducted under subsection 91(5) in computing the taxpayer's income for the year, and

(II) if the taxpayer deducted an amount under subsection 122.3(1) from the taxpayer's tax otherwise payable under this Part for the year, the taxpayer's income from employment in that country was not from a source in that country to the extent of the lesser of the amounts determined in respect thereof under paragraphs 122.3(1)(*c*) and (*d*) for the year,

is of

(ii) the total of

(A) the amount, if any, by which,

(I) if the taxpayer was resident in Canada throughout the year, the taxpayer's income for the year computed without reference to paragraph 20(1)(*ww*), and

(II) if the taxpayer was non-resident at any time in the year, the amount determined under paragraph 114(*a*) in respect of the taxpayer for the year

exceeds

(III) the total of all amounts each of which is an amount deducted under section 110.6 or paragraph 111(1)(*b*), or deductible under any of paragraphs 110(1)(*d*) to (*d.3*), (*f*), (*g*) and (*j*) and sections 112 and 113, in computing the taxpayer's taxable income for the year, and

(B) the amount, if any, added under section 110.5 in computing the taxpayer's taxable income for the year.

History: S. 126(1)(*b*)(ii)(A)(III) was amended by S.C. 2002, c. 9, s. 39(1), applicable to the 1997 and subsequent taxation years except that, for the 1997 taxation year subclause 126(1)(*b*)(ii)(A)(III) shall be read as follows:

"(III) the total of all amounts each of which is an amount deducted by the taxpayer under section 110.6 or paragraph 111(1)(*b*), or deductible by the taxpayer under paragraph 110(1)(*d*), (*d.1*), (*d.2*), (*d.3*), (*f*), (*g*) or (*j*) or section 112 or 113, for the year or in respect of the period or periods referred to in subclause (II), as the case may be, and"

Notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax, interest or penalty for any taxation year shall be made that is necessary to give effect to the amendments to subclause 126(1)(*b*)(ii)(A)(III) and the alternative reading for 1997.

S. 126(1)(*b*)(ii)(A)(III) formerly read:

"(III) the total of all amounts each of which is an amount deducted under section 110.6 or paragraph 111(1)(*b*), or deductible under any of paragraphs 110(1)(*d*) to (*d.3*), (*f*) and (*j*) and sections 112 and 113, in computing the taxpayer's taxable income for the year, and"

S. 126(1)(*b*)(ii)(A) was amended by S.C. 2001, c. 17, s. 117(1), applicable to the 1998 and subsequent taxation years except that, in its application to the 1998 and 1999 taxation years, subclause 126(1)(*b*)(ii)(A)(I) shall be read without reference to the expression "computed without reference to paragraph 20(1)(*ww*)". S. 126(1)(*b*)(ii)(A) formerly read:

"(A) the amount, if any, by which,

(I) where section 114 does not apply to the taxpayer in respect of the year, the taxpayer's income for the year computed without reference to paragraph 20(1)(*ww*), and

(II) where section 114 applies to the taxpayer in respect of the year, the total of the taxpayer's income for the period or periods in the year referred to in paragraph 114(*a*) and the amount that would be determined under paragraph 114(*b*) in respect of the taxpayer for the year if subsection 115(1) were read without reference to paragraphs 115(1)(*d*) to (*f*)

exceeds

(III) the total of all amounts each of which is an amount deducted by the taxpayer under section 110.6 or paragraph 111(1)(*b*), or deductible by the taxpayer under paragraph 110(1)(*d*), (*d.1*), (*d.2*), (*d.3*), (*f*) or (*j*) or section 112 or 113, for the year or in respect of the period or periods referred to in subclause (II), as the case may be, and"

S. 126(1)(*b*)(ii)(A)(I) was amended by S.C. 2000, c. 19, s. 35(1), applicable to the 1998 and subsequent taxation years except that, in their application to the 1998 and 1999 taxation years, subclauses 126(1)(*b*)(ii)(A)(I) and (2.1)(*a*)(ii)(A)(I) and subparagraph 126(3)(*b*)(i) of the Act shall be read without reference to the expression "computed without reference to paragraph 20(1)(*ww*)". S. 126(1)(*b*)(ii)(A)(I) formerly read:

"(I) where section 114 is not applicable to the taxpayer in respect of the year, the total of the taxpayer's income for the year and the amount, if any, added under subsection 110.4(2) in computing the taxpayer's taxable income for the year, and"

S. 126(1)(*b*)(i), the portion before clause C, was amended by S.C. 1999, c. 22, s. 47(1), applicable to taxation years that begin after February 24, 1998. S. 126(1)(*b*)(i), the portion before clause C, formerly read:

"(i) the total of the taxpayer's incomes from sources in that country, excluding any portion thereof that was deductible by the taxpayer under subparagraph 110(1)(*f*)(i) or in respect of which an amount was deducted by the taxpayer under section 110.6,

(A) for the year, if section 114 is not applicable, or

(B) if section 114 is applicable, for the period or periods in the year referred to in paragraph 114(*a*),

on the assumption that"

S. 126(1)(*b*)(ii)(A)(II) was amended by S.C. 1994, c. 21, s. 60(1), applicable to the 1993 and subsequent taxation years. S. 126(2.1)(*b*)(ii)(A)(II) formerly read:

"(II) where section 114 is applicable to the taxpayer in respect of the year, the taxpayer's income for the period or periods in the year referred to in paragraph 114(*a*)"

Related Sections: S. 4(1) Income or loss from a source or from sources in a place; s. 4(3) Deductions applicable; s. 104(22) Designation of foreign source income by trust; s. 110.5 Additions for foreign tax deductions; s. 126(7) Definitions; s. 127.54 Foreign tax credit — Minimum tax; s. 129(3) Definition of "refundable dividend tax on hand"; s. 138(8) No deduction for foreign tax; s. 144(8.1) Foreign tax deduction.

Interpretation Bulletins: *Primary* — IT-270R3 Foreign tax credit; IT-395R2 Foreign tax credit — Foreign-source capital gains and losses. *Secondary* — IT-201R2 Foreign tax credit — Trust and beneficiaries; IT-273R2 Government assistance — General comments; IT-379R Employees Profit Sharing Plans — Allocations to Beneficiaries; IT-497R4 Overseas employment tax credit; IT-506 Foreign income taxes as a deduction from income.

Income Tax Technical News: Issue No. 31R2, Social Security Taxes and the Foreign Tax Credit; Issue No. 30, Social Security Taxes and the Foreign Tax Credit.

Forms: T2036; T2209.

Tax Topics: No. 1565, U.S. AMT Foreign Tax Credits.

Tax Profile: February 2007 — U.S. Limited Liability Companies — The Good, the Bad and the Ugly; September 2006 — Canadian Acquisition of U.S. Real Estate; January 2006 — Foreign Source Income: Outbound Structures and Foreign Tax Credit Planning — Part I; February 2006 — Foreign Source Income: Outbound Structures and Foreign Tax Credit Planning — Part II; November 2003 — Revenue Canada Round Table; April 2001 — Canada–U.S. Hybrids.

Canadian Tax Foundation: Snider, "The Foreign Tax Credit Rules", *2001 Annual Conference*, 14:1.

Cases: Contributions to the Maine State Retirement System were not a foreign tax for FTC purposes. *Nadeau v. The Queen*, 2004 DTC 2929 (T.C.C.).

► 126(1.1) ◄

(1.1) Authorized foreign bank. In applying subsections 20(12) and (12.1) and this section in respect of an authorized foreign bank,

(*a*) the bank is deemed, for the purposes of subsections (1), (4) to (5), (6) and (7), to be resident in Canada in respect of its Canadian banking business;

(*b*) the references in subsection 20(12) and paragraph (1)(*a*) to "country other than Canada" shall be read as a reference to "country that is neither Canada nor a country in which the taxpayer is resident at any time in the taxation year";

(*c*) the reference in subparagraph (1)(*b*)(i) to "from sources in that country" shall be read as a reference to "in respect of its Canadian banking business from sources in that country";

(*d*) subparagraph (1)(*b*)(ii) shall be read as follows:

"(ii) the lesser of

(A) the taxpayer's taxable income earned in Canada for the year, and

(B) the total of the taxpayer's income for the year from its Canadian banking business and the amount determined in respect of the taxpayer under subparagraph 115(1)(*a*)(vii) for the year;"

(*e*) in computing the non-business income tax paid by the bank for a taxation year to the government of a country other than Canada, there shall be included only taxes that relate to amounts that are included in computing the bank's taxable income earned in Canada from its Canadian banking business; and

(*f*) the definition "tax-exempt income" in subsection (7) shall be read as follows:

"'tax-exempt income' means income of a taxpayer from a source in a particular country in respect of which

(*a*) the taxpayer is, because of a comprehensive agreement or convention for the elimination of double taxation on income, which has the force of law in the particular country and to which a country in which the taxpayer is resident is a party, entitled to an exemption from all income or profits taxes, imposed in the particular country, to which the agreement or convention applies, and

(*b*) no income or profits tax to which the agreement or convention does not apply is imposed in the particular country;".

History: S. 126(1.1) was added by S.C. 2001, c. 17, s. 117(2), applicable after June 27, 1999.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 126 of the Act is amended by adding the following after subsection (1.1):

(1.2) **Exception.** Subsection (1) does not apply to non-business income tax paid by

(*a*) a taxpayer, in respect of a particular amount that is included in computing, in respect of the taxpayer, the amount determined under subparagraph 94.4(2)(*a*)(i) in

respect of a participating interest of the taxpayer, if the taxpayer made a deduction under subsection 94.4(3) in respect of the particular amount; and

(*b*) a corporation in respect of income from a share of the capital stock of a foreign affiliate of the corporation.

Applicable: To taxation years that begin after 2006, except that subsection 126(1.2) also applies to a taxation year of a taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the taxpayer.

Explanatory Note: See the Explanatory Note following the amendment to paragraph 126(1)(*a*).

► 126(2) ◄

(2) Idem. Where a taxpayer who was resident in Canada at any time in a taxation year carried on business in the year in a country other than Canada, the taxpayer may deduct from the tax for the year otherwise payable under this Part by the taxpayer an amount not exceeding the least of

(*a*) such part of the total of the business-income tax paid by the taxpayer for the year in respect of businesses carried on by the taxpayer in that country and the taxpayer's unused foreign tax credits in respect of that country for the 10 taxation years immediately preceding and the 3 taxation years immediately following the year as the taxpayer may claim,

(*b*) the amount determined under subsection (2.1) for the year in respect of businesses carried on by the taxpayer in that country, and

(*c*) the amount by which

(i) the tax for the year otherwise payable under this Part by the taxpayer

exceeds

(ii) the amount or the total of amounts, as the case may be, deducted under subsection (1) by the taxpayer from the tax for the year otherwise payable under this Part.

History: S. 126(2)(*a*) was replaced by S.C. 2005, c. 19, s. 27(1), applicable in respect of unused foreign tax credits computed for taxation years that end after March 22, 2004. S. 126(2)(*a*) formerly read:

"(*a*) such part of the total of the business-income tax paid by the taxpayer for the year in respect of businesses carried on by the taxpayer in that country and the taxpayer's unused foreign tax credits in respect of that country for the seven taxation years immediately preceding and the three taxation years immediately following the year as the taxpayer may claim,"

Related Sections: S. 110.5 Additions for foreign tax deductions; s. 125(1) Small business deduction; s. 126(2.1) Amount determined for purposes of para. (2)(b); s. 126(6) Rules of construction; s. 126(7) Definitions; s. 129(3) Definition of "refundable dividend tax on hand"; s. 152(6) Reassessment where certain deductions claimed.

Interpretation Bulletins: *Primary* — IT-270R3 Foreign tax credit; IT-520 (Consolid.) Unused foreign tax credits — Carryforward and carryback.

Forms: T2036; T2209.

Tax Profile: September 2006 — Canadian Acquisition of U.S. Real Estate; January 2006 — Foreign Source Income: Outbound Structures and Foreign Tax Credit Planning — Part I; February 2006 — Foreign Source Income: Outbound Structures and Foreign Tax Credit Planning — Part II.

Canadian Tax Foundation: Snider, "The Foreign Tax Credit Rules", *2001 Annual Conference*, 14:1.

Canadian Petroleum Tax Journal: Selected Income Tax Considerations When Structuring Foreign Resource Ventures, William A. Brebber, Vol. 15 No. 1 2002.

Cases: Taxpayer became liable for U.K. tax at the end of a fiscal period, but the tax did not have to be paid for 14 months. The correct method of calculating the Canadian tax credit was to apply against the foreign tax the weighted average exchange rate which prevailed during the fiscal period in question rather than the rate which prevailed when the foreign tax was actually paid. *The Bank of Nova Scotia v. The Queen*, 81 DTC 5115 (F.C.A.). See also *Canadian Imperial Bank of Commerce v. The Queen*, 81 DTC 5119 (F.C.A.).

The U.S. social security tax was held to be an income tax; therefore it was eligible. *Seley v. M.N.R.*, 62 DTC 565 (T.A.B.). This decision was accepted by the Department of National Revenue in Interpretation Bulletin No. IT-122R.

► 126(2.1) ◄

(2.1) Amount determined for purposes of para. (2)(*b*). For the purposes of paragraph (2)(*b*), the amount determined under this subsection for a year in respect of businesses carried on by a taxpayer in a country other than Canada is the total of

(*a*) that proportion of the tax for the year otherwise payable under this Part by the taxpayer that

(i) the amount, if any, by which the total of the taxpayer's qualifying incomes exceeds the total of the taxpayer's qualifying losses

(A) for the year, if the taxpayer is resident in Canada throughout the year, and

(B) for the part of the year throughout which the taxpayer is resident in Canada, if the taxpayer is non-resident at any time in the year,

from businesses carried on by the taxpayer in that country

is of

(ii) the total of

(A) the amount, if any, by which

(I) if the taxpayer is resident in Canada throughout the year, the taxpayer's income for the year computed without reference to paragraph 20(1)(*ww*), and

(II) if the taxpayer is non-resident at any time in the year, the amount determined under paragraph 114(*a*) in respect of the taxpayer for the year

exceeds

(III) the total of all amounts each of which is an amount deducted under section 110.6 or paragraph 111(1)(*b*), or deductible under any of paragraphs 110(1)(*d*) to (*d.3*), (*f*), (*g*) and (*j*) and sections 112 and 113, in computing the taxpayer's taxable income for the year, and

(B) the amount, if any, added under section 110.5 in computing the taxpayer's taxable income for the year, and

(*b*) that proportion of the amount, if any, added under subsection 120(1) to the tax for the year otherwise payable under this Part by the taxpayer that

(i) the amount determined under subparagraph (*a*)(i) in respect of the country

is of

(ii) the amount, if any, by which,

(A) where section 114 does not apply to the taxpayer in respect of the year, the taxpayer's income for the year, and

(B) where section 114 applies to the taxpayer in respect of the year, the total of the taxpayer's income for the period or periods referred to in paragraph 114(*a*) and the amount that would be determined under paragraph 114(*b*) in respect of the taxpayer for the year if subsection 115(1) were read without reference to paragraphs 115(1)(*d*) to (*f*)

exceeds

(C) the taxpayer's income earned in the year in a province (within the meaning assigned by subsection 120(4)).

History: S. 126(2.1)(*a*)(ii)(A)(III) was amended by S.C. 2002, c. 9, s. 39(2), applicable to the 1997 and subsequent taxation years except that, for the 1997 taxation year subclause 126(2.1)(*a*)(ii)(A)(III) shall be read as follows:

"(III) the total of all amounts each of which is an amount deducted by the taxpayer under section 110.6 or paragraph 111(1)(*b*), or deductible by the taxpayer under paragraph 110(1)(*d*), (*d*.1), (*d*.2), (*d*.3), (*f*), (*g*) or (*j*) or section 112 or 113, for the year or in respect of the period or periods referred to in subclause (II), as the case may be, and"

Notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax, interest or penalty for any taxation year shall be made that is necessary to give effect to the amendments to subclause 126(2.1)(*a*)(ii)(A)(III) and the alternative reading for 1997.

S. 126(2.1)(*a*)(ii)(A)(III) formerly read:

"(III) the total of all amounts each of which is an amount deducted under section 110.6 or paragraph 111(1)(*b*), or deductible under any of paragraphs 110(1)(*d*) to (*d*.3), (*f*) and (*j*) and sections 112 and 113, in computing the taxpayer's taxable income for the year, and"

S. 126(2.1)(*a*)(ii)(A) was amended by S.C. 2001, c. 17, s. 117(3), applicable to the 1998 and subsequent taxation years except that, in their application to the 1998 and 1999 taxation years, subclause 126(2.1)(a)(ii)(A)(I) of the Act shall be read without reference to the expression "computed without reference to paragraph 20(1)(w w)". S. 126(2.1)(*a*)(ii)(A) formerly read:

"(A) the amount, if any, by which

(I) where section 114 does not apply to the taxpayer in respect of the year, the taxpayer's income for the year computed without reference to paragraph 20(1)(*ww*), and

(II) where section 114 applies to the taxpayer in respect of the year, the total of the taxpayer's income for the period or periods referred to in paragraph 114(*a*) and the amount that would be determined under paragraph 114(*b*) in respect of the taxpayer for the year if subsection 115(1) were read without reference to paragraphs 115(1)(*d*) to (*f*)

exceeds

(III) the total of all amounts each of which is an amount deducted by the taxpayer under section 110.6 or paragraph 111(1)(*b*), or deductible by the taxpayer under paragraph 110(1)(*d*), (*d*.1), (*d*.2), (*d*.3), (*f*) or (*j*) or section 112 or 113, for the year or in respect of the period or periods referred to in subclause (II), as the case may be, and"

S. 126(2.1)(*a*)(ii)(A)(I) was amended by S.C. 2000, c. 19, s. 35(2), applicable To the 1998 and subsequent taxation years except that, in their application to the 1998 and 1999 taxation years, subclauses 126(1)(*b*)(ii)(A)(I) and (2.1)(*a*)(ii)(A)(I) and subparagraph 126(3)(*b*)(i) of the Act shall be read without reference to the expression "computed without reference to paragraph 20(1)(*ww*)". S. 126(2.1)(*a*)(ii)(A)(I) formerly read:

"(I) where section 114 is not applicable to the taxpayer in respect of the year, the total of the taxpayer's income for the year and the amount, if any, included under subsection 110.4(2) in computing the taxpayer's taxable income for the year, and"

S. 126(2.1)(*b*)(i) was amended by S.C. 1999, c. 22, s. 47(3), applicable to taxation years that begin after February 24, 1998. S. 126(2.1)(*b*)(i) formerly read:

"(i) the total of the taxpayer's incomes described in subparagraph (*a*)(i)"

S. 126(2.1)(*a*)(i) was amended by S.C. 1999, c. 22, s. 47(2), applicable to taxation years that begin after February 24, 1998. S. 126(2.1)(*a*)(i) formerly read:

"(i) the total of the taxpayer's incomes

(A) for the year, if section 114 is not applicable, or

(B) if section 114 is applicable, for the period or periods in the year referred to in paragraph 114(*a*),

from businesses carried on by the taxpayer in that country, other than any portion of that income that was deductible under subparagraph 110(1)(*f*)(i) in computing the taxpayer's taxable income for the year, is of"

S. 126(2.1)(*a*)(ii)(A)(II) was amended by S.C. 1994, c. 21, s. 60(2), applicable to the 1993 and subsequent taxation years. S. 126(2.1)(*a*)(ii)(A)(II) formerly read:

"(II) where section 114 is applicable to the taxpayer in respect of the year, the taxpayer's income for the period or periods in the year referred to in paragraph 114(*a*)"

S. 126(2.1)(*b*)(ii) was amended by S.C. 1994, c. 21, s. 60(3), applicable to the 1993 and subsequent taxation years. S. 126(2.1)(*b*)(ii) formerly read:

"(ii) the taxpayer's income, other than the taxpayer's income earned in the year in a province (within the meaning assigned by subsection 120(4)),

(A) for the year, if section 114 is not applicable, or

(B) if section 114 is applicable, for the period or periods in the year referred to in paragraph 114(*a*)."

S. 126(2.1)(*a*)(i), following clause (B), was amended by S.C. 1994, c. 7, Sched. II, s. 103(1), applicable to taxation years ending after July 13, 1990. S. 126(2.1)(*a*)(i), following clause (B), formerly read:

"from businesses carried on by the taxpayer in that country"

Interpretation Bulletins: *Primary* — IT-270R3 Foreign tax credit.

► 126(2.2) ◄

(2.2) Non-resident's foreign tax deduction. If at any time in a taxation year a taxpayer who is not at that time resident in Canada disposes of a property that was deemed by subsection 48(2), as it read in its application before 1993, or by paragraph 128.1(4)(*e*), as it read in its application before October 2, 1996, to be taxable Canadian property of the taxpayer, the taxpayer may deduct from the tax for the year otherwise payable under this Part by the taxpayer an amount equal to the lesser of

(*a*) the amount of any non-business-income tax paid by the taxpayer for the year to the government of a country other than Canada that can reasonably be regarded as having been paid by the taxpayer in respect of any gain or profit from the disposition of the property, and

(*b*) that proportion of the tax for the year otherwise payable under this Part by the taxpayer that

(i) the taxable capital gain from the disposition of that property

is of

(ii) if the taxpayer is non-resident throughout the year, the taxpayer's taxable income earned in Canada for the year determined without reference to paragraphs 115(1)(*d*) to (*f*), and

(iii) if the taxpayer is resident in Canada at any time in the year, the amount that would have been the taxpayer's taxable income earned in Canada for the year if the part of the year throughout which the taxpayer was non-resident were the whole taxation year.

History: S. 126(2.2)(*b*)(ii) was amended, and subparagraph (iii) was added, by S.C. 2001, c. 17, s. 117(5), applicable to the 1998 and subsequent taxation years. S. 126(2.2)(*b*)(ii) formerly read:

"(ii) the amount that would be the taxpayer's taxable income earned in Canada

(A) for the year, if section 114 is not applicable, or

(B) if section 114 is applicable, for the portion of the year referred to in paragraph 114(*b*)

if subsection 115(1) were read without reference to that portion thereof following paragraph 115(1)(*c*)."

S. 126(2.2), the portion before paragraph (*b*) was amended by S.C. 2001, c. 17, s. 117(4), applicable to the 1996 and subsequent taxation years. S. 126(2.2), the portion before paragraph (*b*) formerly read:

"(2.2) *Non-resident's foreign tax deduction.* Where at any time in a taxation year a taxpayer who is not at that time resident in Canada disposes of property that was deemed by subsection 48(2), as it read in its application before 1993, or paragraph 128.1(4)(*e*) to be taxable Canadian property of the taxpayer, the taxpayer may deduct from the tax for the year otherwise payable under this Part by the taxpayer an amount equal to

(*a*) the amount of any non-business-income tax paid by the taxpayer for the year to the government of a country other than Canada that may reasonably be regarded as having been paid by the taxpayer in respect of any gain or profit from the disposition of that property

not exceeding, however,"

S. 126(2.2), that portion before paragraph (*a*), was amended by S.C. 1994, c. 21, s. 60(4), applicable after 1992. S. 126(2.2), that portion before paragraph (*a*), formerly read:

"(2.2) *Non-residents' foreign tax deduction.* Where at any time in a taxation year a taxpayer who was not at that time resident in Canada disposed of property that was deemed by subsection 48(2) to be taxable Canadian property of the taxpayer, the taxpayer may deduct from the tax for the year otherwise payable under this Part by the taxpayer an amount equal to"

Interpretation Bulletins: *Primary* — IT-395R2 Foreign tax credit — Foreign-source capital gains and losses. *Secondary* — IT-451R Deemed disposition and acquisition on ceasing to be or becoming resident in Canada.

► 126(2.21) ◄

(2.21) Former resident — deduction. If at any particular time in a particular taxation year a non-resident individual disposes of a property that the individual last acquired because of the application, at any time (in this subsection referred to as the "acquisition time") after October 1, 1996, of paragraph 128.1(4)(*c*), there may be deducted from the individual's tax otherwise payable under this Part for the year (in this subsection referred to as the "emigration year") that includes the time immediately before the acquisition time an amount not exceeding the lesser of

(*a*) the total of all amounts each of which is the amount of any business-income tax or non-business-income tax paid by the individual for the particular year

(i) where the property is real property situated in a country other than Canada,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subparagraph 126(2.21)(*a*)(i) of the Act before clause (A) is replaced by the following:

(i) where the property is real or immovable property situated in a country other than Canada,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(A) to the government of that country, or

(B) to the government of a country with which Canada has a tax treaty at the particular time and in which the individual is resident at the particular time, or

(ii) where the property is not real property, to the government of a country with which Canada has a tax treaty at the particular time and in which the individual is resident at the particular time,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 126(2.21)(*a*)(ii) of the Act is replaced by the following:

(ii) where the property is not real or immovable property, to the government of a country with which Canada has a tax treaty at the particular time and in which the individual is resident at the particular time,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

that can reasonably be regarded as having been paid in respect of that portion of any gain or profit from the disposition of the property that accrued while the individual was resident in Canada and before the time the individual last ceased to be resident in Canada, and

(*b*) the amount, if any, by which

(i) the amount of tax under this Part that was, after taking into account the application of this subsection in respect of dispositions that occurred before the particular time, otherwise payable by the individual for the emigration year

exceeds

(ii) the amount of such tax that would have been payable if the property had not been deemed by subsection 128.1(4) to have been disposed of in the emigration year.

History: S. 126(2.21) was added by S.C. 2001, c. 17, s. 117(6), applicable to the 1996 and subsequent taxation years.

Related Sections: S. 152(6) Reassessment where certain deductions claimed.

Interpretation Bulletins: *Secondary* — IT-395R2 Foreign tax credit — Foreign-source capital gains and losses.

► 126(2.22) ◄

(2.22) Former resident — trust beneficiary. If at any particular time in a particular taxation year a non-resident individual disposes of a property that the individual last acquired at any time (in this subsection referred to as the "acquisition time") on a distribution after October 1, 1996 to which paragraphs 107(2)(*a*) to (*c*) do not apply only because of subsection 107(5), the trust may deduct from its tax otherwise payable under this Part for the year (in this subsection referred to as the "distribution year") that includes the acquisition time an amount not exceeding the lesser of

(*a*) the total of all amounts each of which is the amount of any business-income tax or non-business-income tax paid by the individual for the particular year

(i) where the property is real property situated in a country other than Canada,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subparagraph 126(2.22)(*a*)(i) of the Act before clause (A) is replaced by the following:

(i) where the property is real or immovable property situated in a country other than Canada,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(A) to the government of that country, or

(B) to the government of a country with which Canada has a tax treaty at the particular time and in which the individual is resident at the particular time, or

(ii) where the property is not real property, to the government of a country with which Canada has a tax treaty at the particular time and in which the individual is resident at the particular time,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 126(2.22)(*a*)(ii) of the Act is replaced by the following:

(ii) where the property is not real or immovable property, to the government of a country with which Canada has a tax treaty at the particular time and in which the individual is resident at the particular time,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

that can reasonably be regarded as having been paid in respect of that portion of any gain or profit from the disposition of the property that accrued before the distribution and after the latest of the times, before the distribution, at which

(iii) the trust became resident in Canada,

(iv) the individual became a beneficiary under the trust, or

(v) the trust acquired the property, and

(*b*) the amount, if any, by which

(i) the amount of tax under this Part that was, after taking into account the application of this subsection in respect of dispositions that occurred before the particular time, otherwise payable by the trust for the distribution year

exceeds

(ii) the amount of such tax that would have been payable by the trust for the distribution year if the property had not been distributed to the individual.

History: S. 126(2.22) was added by S.C. 2001, c. 17, s. 117(6), applicable to the 1996 and subsequent taxation years.

Related Sections: S. 152(6) Reassessment where certain deductions claimed.

► 126(2.23) ◄

(2.23) Where foreign credit available. For the purposes of subsections (2.21) and (2.22), in computing, in respect of the disposition of a property by an individual in a taxation year, the total amount of taxes paid by the individual for the year to one or more governments of countries other than Canada, there shall be deducted any tax credit (or other reduction in the amount of a tax) to which the individual was entitled for the year, under the law of any of those countries or under a tax treaty between Canada and any of those countries, because of taxes paid or payable by the individual under this Act in respect of the disposition or a previous disposition of the property.

History: S. 126(2.23) was added by S.C. 2001, c. 17, s. 117(6), applicable to the 1996 and subsequent taxation years.

► 126(2.3) ◄

(2.3) Rules relating to unused foreign tax credit. For the purposes of this section,

(*a*) the amount claimed under paragraph (2)(*a*) by a taxpayer for a taxation year in respect of a country shall be deemed to be in respect of the business-income tax paid by the taxpayer for the year in respect of businesses carried on by the taxpayer in that country to the extent of the amount of that tax, and the remainder, if any, of the amount so claimed shall be deemed to be in respect of the taxpayer's unused foreign tax credits in respect of that country that may be claimed for the taxation year;

(*b*) no amount may be claimed under paragraph (2)(*a*) in computing a taxpayer's tax payable under this Part for a particular taxation year in respect of the taxpayer's unused foreign tax credit in respect of a country for a taxation year until the taxpayer's unused foreign tax credits in respect of that country for taxation years preceding the taxation year that may be claimed for the particular taxation year have been claimed; and

(*c*) an amount in respect of a taxpayer's unused foreign tax credit in respect of a country for a taxation year may be claimed under paragraph (2)(*a*) in computing the taxpayer's tax payable under this Part for a particular taxation year only to the extent that it exceeds the aggregate of all amounts each of which is the amount that may reasonably be considered to have been claimed in respect of that unused foreign tax credit in computing the taxpayer's tax payable under this Part for a taxation year preceding the particular taxation year.

History: Ss. 126(2.3)(*b*) and (*c*) were amended by S.C. 2001, c. 17, s. 117(7), applicable to the 2001 and subsequent taxation years. Ss. 126(2.3)(*b*) and (*c*) formerly read:

"(*b*) no amount may be claimed under paragraph (2)(*a*) in computing a taxpayer's tax payable under this Part or Part I.1 for a particular taxation year in respect of the taxpayer's unused foreign tax credit in respect of a country for a taxation year until the taxpayer's unused foreign tax credits in respect of that country for taxation years preceding the taxation year that may be claimed for the particular taxation year have been claimed; and

(*c*) an amount in respect of a taxpayer's unused foreign tax credit in respect of a country for a taxation year may be claimed under paragraph (2)(*a*) in computing the taxpayer's tax payable under this Part or Part I.1 for a particular taxation year only to the extent that it exceeds the aggregate of all amounts each of which is the amount that may reasonably be considered to have been claimed in respect of that unused foreign tax credit in computing the taxpayer's tax payable under this Part or Part I.1 for a taxation year preceding the particular taxation year."

Related Sections: S. 126(7) Definitions.

Interpretation Bulletins: *Primary* — IT-520 (Consolid.) Unused foreign tax credits — Carryforward and carryback.

► 126(3) ◄

(3) Employees of international organizations. Where an individual is resident in Canada at any time in a taxation year, there may be deducted from the individual's tax for the year otherwise payable under this Part, an amount equal to that proportion of the tax for the year otherwise payable under this Part by the individual that

(*a*) the individual's income

(i) for the year, if the individual is resident in Canada throughout the year, and

(ii) for the part of the year throughout which the individual was resident in Canada, if the individual is non-resident at any time in the year,

from employment with an international organization (other than a prescribed international organization), as defined for the purposes of section 2 of the *Foreign Missions and International Organizations Act*

is of

(*b*) the amount, if any, by which

(i) if the taxpayer is resident in Canada throughout the year, the taxpayer's income for the year computed without reference to paragraph 20(1)(ww), and

(ii) if the taxpayer is non-resident at any time in the year, the amount determined under paragraph 114(*a*) in respect of the taxpayer for the year

exceeds

(iii) the total of all amounts each of which is an amount deducted under section 110.6 or paragraph 111(1)(*b*), or deductible under any of paragraphs 110(1)(*d*) to (*d*.3), (*f*), (*g*) and (*j*), in computing the taxpayer's taxable income for the year,

except that the amount deductible under this subsection in computing the individual's tax payable under this Part for the year may not exceed that proportion of the total of all amounts each of which is an amount paid by the individual to the organization as a levy (the proceeds of which are used to defray expenses of the organization), computed by reference to the remuneration received by the individual in the year from the organization in a manner similar to the manner in which income tax is computed, that

(*c*) the individual's income for the year from employment with the organization

is of

(*d*) the amount that would be the individual's income for the year from employment with the organization if this Act were read without reference to paragraph 81(1)(*a*).

History: S. 126(3)(*b*)(iii) was amended by S.C. 2002, c. 9, s. 39(3), applicable to the 1997 and subsequent taxation years except that, for the 1997 taxation year subparagraph 126(3)(*b*)(iii) shall be read as follows:

"(iii) the total of all amounts each of which is an amount deducted under section 110.6 or paragraph 111(1)(*b*), or deductible under paragraph 110(1)(*d*), (*d*.1), (*d*.2), (*d*.3), (*f*), (*g*) or (*j*), in computing the individual's taxable income for the year or in respect of the period or periods referred to in subparagraph (ii), as the case may be,"

Notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax, interest or penalty for any taxation year shall be made that is necessary to give effect to the amendments to subparagraph 126(3)(*b*)(iii) and the alternative reading for 1997.

S. 126(3)(*b*)(iii) formerly read:

"(iii) the total of all amounts each of which is an amount deducted under section 110.6 or paragraph 111(1)(*b*), or deductible under any of paragraphs 110(1)(*d*) to (*d*.3), (*f*) and (*j*), in computing the taxpayer's taxable income for the year,"

Ss. 126(3)(*a*)(i) and (ii) were amended by S.C. 2001, c. 17, s. 117(8), applicable to the 1998 and subsequent taxation years. Ss. 126(3)(*a*)(i) and (ii) formerly read:

"(i) for the year, where section 114 is not applicable to the individual in respect of the year, and

(ii) for the period or periods in the year referred to in paragraph 114(*a*), where section 114 is applicable to the individual in respect of the year,"

S. 126(3)(*b*) was amended by S.C. 2001, c. 17, s. 117(9), applicable to the 1998 and subsequent taxation years except that, in their application to the 1998 and 1999 taxation years, subparagraph 126(3)(*b*)(i) of the Act shall be read without reference to the expression "computed without reference to paragraph 20(1)(*ww*)". S. 126(3)(*b*) formerly read:

"(*b*) the amount, if any, by which

(i) where section 114 does not apply to the individual in respect of the year, the individual's income for the year computed without reference to paragraph 20(1)(*ww*), and

(ii) where section 114 applies to the individual in respect of the year, the total of the individual's income for the period or periods in the year referred to in paragraph 114(*a*) and the amount that would be determined under paragraph 114(*b*) in respect of the individual for the year if subsection 115(1) were read without reference to paragraphs 115(1)(*d*) to (*f*)

exceeds

(iii) the total of all amounts each of which is an amount deducted under section 110.6 or paragraph 111(1)(*b*), or deductible under paragraph 110(1)(*d*), (*d*.1), (*d*.2), (*d*.3), (*f*) or (*j*), in computing the individual's taxable income for the year or in respect of the period or periods referred to in subparagraph (ii), as the case may be,"

S. 126(3)(*b*)(i) was amended by S.C. 2000, c. 19, s. 35(3), applicable to the 1998 and subsequent taxation years except that, in their application to the 1998 and 1999 taxation years, subclauses 126(1)(*b*)(ii)(A)(I) and (2.1)(*a*)(ii)(A)(I) and subparagraph 126(3)(*b*)(i) of the Act shall be read without reference to the expression "computed without reference to paragraph 20(1)(*ww*)". S. 126(3)(*b*)(i) formerly read:

"(i) where section 114 does not apply to the individual in respect of the year, the total of the individual's income for the year and the amount, if any, included under subsection 110.4(2) in computing the individual's taxable income for the year, and"

S. 126(3)(*b*)(i) and 126(3)(*b*)(ii) were amended by S.C. 1994, c. 21, s. 60(5), applicable to the 1993 and subsequent taxation years. S. 126(3)(*b*)(i) and 126(3)(*b*)(ii) formerly read:

"(i) the total of the individual's income for the year and the amount, if any, included pursuant to subsection 110.4(2) in computing the individual's taxable income for the year, where section 114 is not applicable to the individual in respect of the year, or

(ii) the individual's income for the period or periods in the year referred to in paragraph 114(*a*), where section 114 is applicable to the individual in respect of the year,"

S. 126(3)(*a*), that portion following subparagraph (ii), was amended by S.C. 1994, c. 7, Sched. VIII, s. 67(1), applicable to the 1991 and subsequent taxation years. S. 126(3)(*a*), that portion following subparagraph (ii), formerly read:

"from employment with an organization, as defined in section 3 of the *Privileges and Immunities (International Organizations) Act*"

S. 126(3), that portion following subparagraph (*b*)(ii), was amended by S.C. 1994, c. 7, Sched. VIII, s. 67(2), applicable to the 1991 and subsequent taxation years. S. 126(3), that portion following subparagraph (*b*)(ii), formerly read:

"exceeds

(iii) the total of all amounts each of which is an amount deducted by the individual under section 110.6 or paragraph 111(1)(*b*), or deductible by the individual under paragraph 110(1)(*d*) or (*f*), for the year or in respect of the period or periods referred to in subparagraph (ii), as the case may be,

except that where the organization referred to in paragraph (*a*) is neither the United Nations nor a specialized agency that is brought into relationship with the United Nations in accordance with Article 63 of the Charter of the United Nations, the amount deductible under this subsection by the individual may not exceed that proportion of the total of all amounts each of which is an amount paid by the individual to the organization as a levy (the proceeds of which are used to defray expenses of the organization) computed by reference to the remuneration received by the individual in the year from the organization in a manner similar to the manner in which income tax is computed that"

Related Sections: S. 110(1)(*f*) Deductions for payments; s. 126(7) Definitions.

► 126(4) ◄

(4) Portion of foreign tax not included. For the purposes of this Act, an income or profits tax paid by a person resident in Canada to the government of a country other than Canada does not include a tax, or that portion of a tax, imposed by that government that would not be imposed if the person were not entitled under section 113 or this section to a deduction in respect of the tax or that portion of the tax.

History: S. 126(4) was amended by S.C. 2001, c. 17, s. 117(10), applicable after June 27, 1999. S. 126(4) formerly read:

"(4) *Portion of foreign tax not included.* For the purposes of this Act, an income or profits tax paid by a person resident in Canada to the government of a country other than Canada or to the government of a state, province or other political subdivision of such a country does not include a tax, or that portion of a tax, imposed by that country or by that state, province or other

political subdivision, as the case may be, that would not be imposed if the person were not entitled under this section or under section 113 to a deduction in respect thereof."

► 126(4.1) ◄

(4.1) No economic profit. If a taxpayer acquires a property, other than a capital property, at any time after February 23, 1998 and it is reasonable to expect at that time that the taxpayer will not realize an economic profit in respect of the property for the period that begins at that time and ends when the taxpayer next disposes of the property, the total amount of all income or profits taxes (referred to as the "foreign tax" for the purpose of subsection 20(12.1)) in respect of the property for the period, and in respect of related transactions, paid by the taxpayer for any year to the government of any country other than Canada, is not included in computing the taxpayer's business-income tax or non-business-income tax for any taxation year.

History: S. 126(4.1) was amended by S.C. 2001, c. 17, s. 117(10), applicable after June 27, 1999. S. 126(4.1) formerly read:

"(4.1) *No economic profit.* If a taxpayer acquires a property, other than a capital property, at any time after February 23, 1998 and it is reasonable to expect at that time that the taxpayer will not realize an economic profit in respect of the property for the period that begins at that time and ends when the taxpayer next disposes of the property, the total amount of all income or profits taxes (referred to as the 'foreign tax' for the purpose of subsection 20(12.1)) in respect of the property for the period, and in respect of related transactions, paid by the taxpayer for any year to the government of any country other than Canada or to the government of a state, province or other political subdivision of such a country, is not included in computing taxpayer's business-income tax or non-business-income tax for any taxation year."

S. 126(4.1) was added by S.C. 1999, c. 22, s. 47(4), applicable to the 1998 and subsequent taxation years.

Related Sections: S. 126(7), "Economic profit", "related transactions"; s. 248(28) Limitation respecting inclusions, deductions and tax credits.

► 126(4.2) ◄

(4.2) Short-term securities acquisitions. If at any particular time a taxpayer disposes of a property that is a share or debt obligation and the period that began at the time the taxpayer last acquired the property and ended at the particular time is one year or less, the amount included in business-income tax or non-business-income tax paid by the taxpayer for a particular taxation year on account of all taxes (referred to in this subsection and subsections (4.3) and 161(6.1) as the "foreign tax") that are

(*a*) paid by the taxpayer in respect of dividends or interest in respect of the period that are included in computing the taxpayer's income from the property for any taxation year,

(*b*) otherwise included in business-income tax or non-business-income tax for any taxation year, and

(*c*) similar to the tax levied under Part XIII

shall, subject to subsection (4.3), not exceed the amount determined by the formula

$$A \times (B - C) \times D/E$$

where

A is 40%, if the foreign tax would otherwise be included in business-income tax, and 30%, if the foreign tax would otherwise be included in non-business-income tax,

B is the total of the taxpayer's proceeds from the disposition of the property at the particular time and the amount of all dividends or interest from the property in respect of the period included in computing the taxpayer's income for any taxation year,

C is the total of the cost at which the taxpayer last acquired the property and any outlays or expenses made or incurred by the taxpayer for the purpose of disposing of the property at the particular time,

D is the amount of foreign tax that would otherwise be included in computing the taxpayer's business-income tax or non-business-income tax for the particular year, and

E is the total amount of foreign tax that would otherwise be included in computing the taxpayer's business-income tax or non-business-income tax for all taxation years.

History: S. 126(4.2) was added by S.C. 1999, c. 22, s. 47(4), applicable to the 1998 and subsequent taxation years.

► 126(4.3) ◄

(4.3) Exceptions. Subsection (4.2) does not apply to a property of a taxpayer

(*a*) that is a capital property;

(*b*) that is a debt obligation issued to the taxpayer that has a term of one year or less and that is held by no one other than the taxpayer at any time;

(*c*) that was last acquired by the taxpayer before February 24, 1998; or

(*d*) in respect of which any foreign tax is, because of subsection (4.1), not included in computing the taxpayer's business-income tax or non-business-income tax.

History: S. 126(4.3) was added by S.C. 1999, c. 22, s. 47(4), applicable to the 1998 and subsequent taxation years.

► 126(4.4) ◄

(4.4) Dispositions ignored. For the purposes of subsections (4.1) and (4.2) and the definition "economic profit" in subsection (7),

(*a*) a disposition or acquisition of property deemed to be made by subsection 10(12) or (13), 14(14) or (15) or 45(1), section 70 or 128.1, paragraph 132.2(1)(*f*), subsection 138(11.3), 142.5(2) or 142.6(1.1) or (1.2), paragraph 142.6(1)(*b*) or subsection 149(10) is not a disposition or acquisition, as the case may be; and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 126(4.4)(*a*) of the Act is replaced by the following:

(*a*) a disposition or acquisition of property deemed to be made by subsection 10(12) or (13), 14(14) or (15) or 45(1), section 70, 128.1 or 132.2, subsections 138(11.3) or 142.5(2), paragraph 142.6(1)(*b*), or subsections 142.6(1.1) or (1.2) or 149(10) is not a disposition or acquisition, as the case may be; and

Applicable: To dispositions and acquisitions that occur after 1998, except that, in applying paragraph 126(4.4)(*a*) to dispositions and acquisitions that occur before June 28, 1999, that paragraph is to be read without reference to "10(12) or (13), 14(14) or (15), or".

Explanatory Note:

Foreign Tax Credit — Dispositions Ignored

Subsection 126(4.4) of the Act directs that certain dispositions and acquisitions of property be ignored for the purposes

of the foreign tax credit limitations in subsections 126(4.1) and (4.2) and the definition of "economic profit" in subsection 126(7). As a consequence of the restructuring of section 132.2 of the Act, the reference in paragraph 126(4.4)(*a*) to paragraph 132.2(1)(*f*) is replaced by a reference to section 132.2.

This amendment applies to dispositions and acquisitions that occur after 1998 except that, in applying paragraph 126(4.4)(*a*) of the Act to dispositions and acquisitions that occur before June 28, 1999, that paragraph is to be read without reference to subsections 10(12), 10(13), 14(14) and 14(15) of the Act.

(*b*) a disposition

(i) to which section 51.1 applies, of a convertible obligation in exchange for a new obligation,

(ii) to which subsection 86(1) applies, of old shares in exchange for new shares, or

(iii) to which subsections 87(4) and (8) apply, of old shares in exchange for new shares,

is not a disposition, and the convertible obligation and the new obligation, or the old shares and the new shares, as the case may be, are deemed to be the same property.

History: S. 126(4.4)(*a*) was amended by S.C. 2001, c. 17, s. 117(11), applicable after June 27, 1999. S. 126(4.4)(*a*) formerly read:

"(*a*) a disposition or acquisition of property deemed to be made by subsection 45(1), section 70 or 128.1, paragraph 132.2(1)(*f*), subsection 138(11.3) or 142.5(2), paragraph 142.6(1)(*b*) or subsection 149(10) is not a disposition or acquisition, as the case may be; and"

S. 126(4.4) was added by S.C. 1999, c. 22, s. 47(4), applicable to the 1998 and subsequent taxation years.

► 126(5) ◄

(5) Foreign oil and gas levies. A taxpayer who is resident in Canada throughout a taxation year and carries on a foreign oil and gas business in a taxing country in the year is deemed for the purposes of this section to have paid in the year as an income or profits tax to the government of the taxing country an amount equal to the lesser of

(*a*) the amount, if any, by which

(i) 40% of the taxpayer's income from the business in the taxing country for the year

exceeds

(ii) the total of all amounts that would, but for this subsection, be income or profits taxes paid in the year in respect of the business to the government of the taxing country, and

(*b*) the taxpayer's production tax amount for the business in the taxing country for the year.

History: S. 126(5) was amended by S.C. 2001, c. 17, s. 117(12), applicable to taxation years of a taxpayer that begin after the earlier of

(*a*) December 31, 1999; and

(*b*) where, for the purposes of this subsection, a date is designated in writing by the taxpayer and the designation is filed with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes June 14, 2001, the later of

(i) the date so designated, and

(ii) December 31, 1994.

S. 126(5) formerly read:

"(5) *Foreign tax.* A tax paid to the government of a country other than Canada or to the government of a state, province or other political subdivision of such a country may, subject to prescribed conditions, be deemed, for the purposes of this Act, to be an income or profits tax paid to the government of that country."

Canadian Petroleum Tax Journal: Selected Income Tax Considerations When Structuring Foreign Resource Ventures, William A. Brebber, Vol. 15 No. 1 2002.

► 126(5.1) ◄

(5.1) Deductions for specified capital gains. Where in a taxation year an individual has claimed a deduction under section 110.6 in computing the individual's taxable income for the year, for the purposes of this section the individual shall be deemed to have claimed the deduction under section 110.6 in respect of such taxable capital gains or portion thereof as the individual may specify in the individual's return of income required to be filed pursuant to section 150 for the year or, where the individual has failed to so specify, in respect of such taxable capital gains as the Minister may specify in respect of the taxpayer for the year.

► 126(6) ◄

(6) Rules of construction. For the purposes of this section,

(*a*) the government of a country other than Canada includes the government of a state, province or other political subdivision of that country;

(*b*) where a taxpayer's income for a taxation year is in whole or in part from sources in more than one country other than Canada, subsections (1) and (2) shall be read as providing for separate deductions in respect of each of the countries other than Canada; and

(*c*) if any income from a source in a particular country would be tax-exempt income but for the fact that a portion of the income is subject to an income or profits tax imposed by the government of a country other than Canada, the portion is deemed to be income from a separate source in the particular country.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 126(6) of the Act is amended by striking out the word "and" at the end of paragraph (*b*), by adding the word "and" at the end of paragraph (*c*) and by adding the following after paragraph (*c*):

(*d*) if, in computing a taxpayer's income for a taxation year from a business carried on by the taxpayer in Canada, an amount is included in respect of interest paid or payable to the taxpayer by a person resident in a country other than Canada, and the taxpayer has paid to the government of that other country a non-business income tax for the year with respect to the amount, the amount is, in applying the definition "qualifying incomes" in subsection (7) for the purpose of subsection (1), deemed to be income from a source in that other country.

Applicable: To amounts received after February 27, 2004.

Explanatory Note:

Rules of Construction

Section 126 of the Act permits a taxpayer to claim a foreign tax credit. Subsection 126(1) sets out the rules for claiming the credit in respect of foreign non-business-income tax — that is, the foreign taxes imposed on investment income and other categories of foreign source non-business income. A credit in respect of foreign taxes on business income is provided under subsection 126(2).

Subsection 126(1) has been interpreted to allow a non-business foreign tax credit for non-business foreign tax paid on interest income earned abroad by a Canadian business that does not carry on business in the foreign jurisdiction, and therefore is not eligible for a business foreign tax credit. In order to ensure that the credit continues to be available in these situations, subsection 126(6), which contains interpretation rules that apply to the section, is amended to add new paragraph

126(6)(*d*). New paragraph 126(6)(*d*) deems foreign interest income earned from a business carried on in Canada, and for which the business has paid a non-business foreign tax to a country other than Canada, to be from a source in that other country. Therefore, if a taxpayer includes in its Canadian business income for the year foreign interest income, and has paid foreign tax with respect to this amount, the taxpayer will be eligible to claim a non-business foreign tax credit subject to the limits set out in section 126.

New paragraph 126(6)(*d*) applies to amounts received after February 27, 2004.

History: S. 126(6) was amended by S.C. 2001, c. 17, s. 117(13), applicable after June 27, 1999. S. 126(6) formerly read:

"(6) *Construction of ss. (1) and (2).* For greater certainty, where a taxpayer's income for a taxation year is in whole or in part from sources in more than one country other than Canada, subsections (1) and (2) shall be read as providing for separate deductions in respect of each of the countries other than Canada."

► 126(7) ◄

(7) Definitions. In this section,

Interpretation Bulletins: *Secondary* — IT-270R3 Foreign tax credit; IT-506 Foreign income taxes as a deduction from income.
Income Tax Technical News: Issue No. 8, Treatment of United States unitary state taxes.

"business-income tax" — "business-income tax" paid by a taxpayer for a taxation year in respect of businesses carried on by the taxpayer in a country other than Canada (in this definition referred to as the "business country") means, subject to subsections (4.1) and (4.2), the portion of any income or profits tax paid by the taxpayer for the year to the government of a country other than Canada that can reasonably be regarded as tax in respect of the income of the taxpayer from a business carried on by the taxpayer in the business country, but does not include a tax, or the portion of a tax, that can reasonably be regarded as relating to an amount that

(*a*) any other person or partnership has received or is entitled to receive from that government, or

(*b*) was deductible under subparagraph 110(1)(*f*)(i) in computing the taxpayer's taxable income for the year;

History: S. 126(7), the portion of the definition "business-income tax" before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 117(16), applicable after June 27, 1999. S. 126(7), the portion of the definition "business-income tax" before paragraph (*a*) formerly read:

" *'business-income tax'* — 'business-income tax' paid by a taxpayer for a taxation year in respect of businesses carried on by the taxpayer in a country other than Canada (in this definition referred to as the 'business country') means, subject to subsections (4.1) and (4.2), the portion of any income or profits tax paid by the taxpayer for the year to the government of any country other than Canada or to the government of a state, province or other political subdivision of any such country that can reasonably be regarded as tax in respect of the income of the taxpayer from any business carried on by the taxpayer in the business country, but does not include a tax, or the portion of a tax, that can reasonably be regarded as relating to an amount that"

S. 126(7), the portion of the definition "business-income tax" before paragraph (*a*), was amended by S.C. 1999, c. 22, s. 47(5), applicable to the 1998 and subsequent taxation years. S. 126(7), the portion of the definition "business-income tax" before paragraph (*a*) formerly read:

" *'business-income tax'* — 'business-income tax' paid by a taxpayer for a taxation year in respect of businesses carried on by the taxpayer in a country other than Canada (in this paragraph referred to as the 'business country') means such portion of any income or profits tax paid by the taxpayer for the year to the government of any country other than Canada or to the government of a state, province or other political subdivision of any such country as can reasonably be regarded as tax in respect of the income of the taxpayer from any business carried on by the taxpayer in the business country, but does not include a tax, or the portion of a tax, that can reasonably be regarded as relating to an amount that"

S. 126(7), the definition of "business-income tax", was amended by S.C. 1994, c. 7, Sched. II, s. 103(2), applicable to taxation years ending after July 13, 1990. S. 126(7), the definition of "business-income tax", formerly read:

" *'business-income tax'* — 'business-income tax' paid by a taxpayer for a taxation year in respect of businesses carried on by the taxpayer in a country other than Canada (in this definition referred to as the 'business country') means such portion of any income or profits tax paid by the taxpayer for the year to the government of a country other than Canada or to the government of a state, province or other political subdivision of such a country as may reasonably be regarded as tax in respect of the income of the taxpayer from any business carried on by the taxpayer in the business country, but does not include a tax, or the portion of a tax, that may reasonably be regarded as relating to an amount that any other person or partnership has received or is entitled to receive from that government;"

Interpretation Bulletins: *Primary* — IT-270R3 Foreign tax credit. *Secondary* — IT-520 (Consolid.) Unused foreign tax credits — Carryforward and carryback.
Canadian Petroleum Tax Journal: Selected Income Tax Considerations When Structuring Foreign Resource Ventures, William A. Brebber, Vol. 15 No. 1 2002.

"commercial obligation" — "commercial obligation" in respect of a taxpayer's foreign oil and gas business in a country means an obligation of the taxpayer to a particular person, undertaken in the course of carrying on the business or in contemplation of the business, if the law of the country would have allowed the taxpayer to undertake an obligation, on substantially the same terms, to a person other than the particular person;

History: S. 126(7), the definition "commercial obligation" was added by S.C. 2001, c. 17, s. 117(19), applicable to taxation years of a taxpayer that begin after the earlier of

(*a*) December 31, 1999; and

(*b*) where, for the purposes of this subsection, a date is designated in writing by the taxpayer and the designation is filed with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes June 14, 2001, the later of

(i) the date so designated, and

(ii) December 31, 1994.

"economic profit" — "economic profit" of a taxpayer in respect of a property for a period means the part of the taxpayer's profit, from the business in which the property is used, that is attributable to the property in respect of the period or to related transactions, determined as if the only amounts deducted in computing that part of the profit were

(*a*) interest and financing expenses incurred by the taxpayer and attributable to the acquisition or holding of the property in respect of the period or to a related transaction,

(*b*) income or profits taxes payable by the taxpayer for any year to the government of a country other than Canada, in respect of the property for the period or in respect of a related transaction, or

(*c*) other outlays and expenses that are directly attributable to the acquisition, holding or disposition of the property in respect of the period or to a related transaction;

History: S. 126(7), paragraph (*b*) of the definition "economic profit" was amended by S.C. 2001, c. 17, s. 117(17), applicable after June 27, 1999. S. 126(7), paragraph (*b*) of the definition "economic profit" formerly read:

"(*b*) income or profits taxes payable by the taxpayer for any year to the government of any country other than Canada or to the government of any state, province or other political subdivision of such a country, in respect of the property for the period or in respect of a related transaction, or"

S. 126(7), the definition "economic profit" was added by S.C. 1999, c. 22, s. 47(7), applicable to the 1998 and subsequent taxation years.

Related Sections: S. 126(4.1) No economic profit; s. 126(7), "related transactions".

"foreign oil and gas business" — "foreign oil and gas business" of a taxpayer means a business, carried on by the taxpayer in a taxing country, the principal activity of which is the extraction from natural accumulations, or

from oil or gas wells, of petroleum, natural gas or related hydrocarbons;

History: S. 126(7), the definition "foreign oil and gas business" was added by S.C. 2001, c. 17, s. 117(19), applicable to taxation years of a taxpayer that begin after the earlier of

(*a*) December 31, 1999; and

(*b*) where, for the purposes of this subsection, a date is designated in writing by the taxpayer and the designation is filed with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes June 14, 2001, the later of

(i) the date so designated, and

(ii) December 31, 1994.

Canadian Petroleum Tax Journal: Selected Income Tax Considerations When Structuring Foreign Resource Ventures, William A. Brebber, Vol. 15 No. 1 2002.

"Foreign-tax carryover" — [Repealed by 1984, c. 45, s. 42(5).]

"non-business-income tax" — "non-business-income tax" paid by a taxpayer for a taxation year to the government of a country other than Canada means, subject to subsections (4.1) and (4.2), the portion of any income or profits tax paid by the taxpayer for the year to the government of that country that

(*a*) was not included in computing the taxpayer's business-income tax for the year in respect of any business carried on by the taxpayer in any country other than Canada,

(*b*) was not deductible by virtue of subsection 20(11) in computing the taxpayer's income for the year, and

(*c*) was not deducted by virtue of subsection 20(12) in computing the taxpayer's income for the year,

but does not include a tax, or the portion of a tax,

(*c*.1) that is in respect of an amount deducted because of subsection 104(22.3) in computing the taxpayer's business-income tax,

(*d*) that would not have been payable had the taxpayer not been a citizen of that country and that cannot reasonably be regarded as attributable to income from a source outside Canada,

(*e*) that may reasonably be regarded as relating to an amount that any other person or partnership has received or is entitled to receive from that government,

(*f*) that, where the taxpayer deducted an amount under subsection 122.3(1) from the taxpayer's tax otherwise payable under this Part for the year, may reasonably be regarded as attributable to the taxpayer's income from employment to the extent of the lesser of the amounts determined in respect thereof under paragraphs 122.3(1)(*c*) and (*d*) for the year,

(*g*) that can reasonably be attributed to a taxable capital gain or a portion thereof in respect of which the taxpayer or a spouse or common-law partner of the taxpayer has claimed a deduction under section 110.6,

(*h*) that may reasonably be regarded as attributable to any amount received or receivable by the taxpayer in respect of a loan for the period in the year during which it was an eligible loan (within the meaning assigned by subsection 33.1(1)), or

(*i*) that can reasonably be regarded as relating to an amount that was deductible under subparagraph 110(1)(*f*)(i) in computing the taxpayer's taxable income for the year;

History: S. 126(7), the portion of the definition "non-business-income tax" before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 117(18), applicable after June 27, 1999. S. 126(7), the portion of the definition "non-business-income tax" before paragraph (*a*) formerly read:

" *'non-business-income tax'* — 'non-business-income tax' paid by a taxpayer for a taxation year to the government of a country other than Canada means, subject to subsections (4.1) and (4.2), the portion of any income or profits tax paid by the taxpayer for the year to the government of that country, or to the government of a state, province or other political subdivision of that country, that"

S. 126(7), paragraph (*g*) of the definition "non-business-income tax" was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.14), applicable January 1, 2001, coming into force on July 31, 2000. S. 126(7), paragraph (*g*) of the definition "non-business-income tax" formerly read:

"(*g*) that can reasonably be attributed to a taxable capital gain or a portion thereof in respect of which the taxpayer or a spouse of the taxpayer has claimed a deduction under section 110.6,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 126(7), the portion of the definition "non-business-income tax" before paragraph (*a*) was amended by S.C. 1999, c. 22, s. 47(6), applicable to the 1998 and subsequent taxation years. S. 126(7), the portion of the definition "non-business-income tax" formerly read:

" *'non-business-income tax'* — 'non-business-income tax' paid by a taxpayer for a taxation year to the government of a country other than Canada means such portion of any income or profits tax paid by the taxpayer for the year to the government of that country, or to the government of a state, province or other political subdivision of that country, as"

S. 126(7), paragraph (*g*) of the definition "non-business income tax", was amended by S.C. 1995, c. 3, s. 36(2), applicable to the 1994 and subsequent taxation years. That paragraph formerly read:

"(*g*) that may reasonably be attributed to a taxable capital gain or a portion thereof in respect of which the taxpayer has claimed a deduction for the year under section 110.6,"

S. 126(7), the definition of "non-business-income tax", was amended by S.C. 1994, c. 21, s. 60(6) to add paragraph (*c*.1), applicable to taxation years that end after November 12, 1981.

Paragraph (*i*) of the definition of "non-business-income tax" in subsection 126(7) of the Act was added by S.C. 1994, c. 7, Sched. II, s. 103(3), applicable to taxation years ending after July 13, 1990.

Related Sections: S. 80.1(2) Election re interest received or to be received on expropriation assets acquired by taxpayer.

Interpretation Bulletins: *Primary* — IT-270R3 Foreign tax credit. *Secondary* — IT-395R2 Foreign tax credit — Foreign-source capital gains and losses.

Income Tax Technical News: Issue No. 31R2, Social Security Taxes and the Foreign Tax Credit; Issue No. 30, Social Security Taxes and the Foreign Tax Credit.

"production tax amount" — "production tax amount" of a taxpayer for a foreign oil and gas business carried on by the taxpayer in a taxing country for a taxation year means the total of all amounts each of which

(*a*) became receivable in the year by the government of the country because of an obligation (other than a commercial obligation) of the taxpayer, in respect of the business, to the government or an agent or instrumentality of the government,

(*b*) is computed by reference to the amount by which

(i) the amount or value of petroleum, natural gas or related hydrocarbons produced or extracted by the taxpayer in the course of carrying on the business in the year

exceeds

(ii) an allowance or other deduction that

(A) is deductible, under the agreement or law that creates the obligation described in paragraph (*a*), in computing the amount receivable by the government of the country, and

(B) is intended to take into account the taxpayer's operating and capital costs of that production or extraction, and can reasonably be considered to have that effect,

(*c*) would not, if this Act were read without reference to subsection (5), be an income or profits tax, and

(*d*) is not identified as a royalty under the agreement that creates the obligation or under any law of the country;

History: S. 126(7), the definition "production tax amount" was added by S.C. 2001, c. 17, s. 117(19), applicable to taxation years of a taxpayer that begin after the earlier of

(*a*) December 31, 1999; and

(*b*) where, for the purposes of this subsection, a date is designated in writing by the taxpayer and the designation is filed with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes June 14, 2001, the later of

(i) the date so designated, and

(ii) December 31, 1994.

"qualifying incomes" — "qualifying incomes" of a taxpayer from sources in a country means incomes from sources in the country, determined in accordance with subsection (9);

History: S. 126(7), the definition "qualifying incomes" was amended by S.C. 2001, c. 17, s. 117(14), applicable to taxation years of a taxpayer that begin after the earlier of

(*a*) December 31, 1999; and

(*b*) where, for the purposes of this subsection, a date is designated in writing by the taxpayer and the designation is filed with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act receives royal assent [June 14, 2001], the later of

(i) the date so designated, and

(ii) December 31, 1994.

S. 126(7), the definition "qualifying incomes" formerly read:

" *'qualifying incomes'* — 'qualifying incomes' of a taxpayer from sources in a country means incomes from sources in the country, determined without reference to

(*a*) any portion of income that was deductible under subparagraph 110(1)(*f*)(i) in computing the taxpayer's taxable income,

(*b*) for the purpose of subparagraph 126(1)(*b*)(i), any portion of income in respect of which an amount was deducted under section 110.6 by the taxpayer, and

(*c*) any income from a source in the country if any income of the taxpayer from the source would be tax-exempt income;"

S. 126(7), the definition "qualifying incomes" was added by S.C. 1999, c. 22, s. 47(7), applicable to taxation years that begin after February 24, 1998.

Related Sections: S. 126(7), "Qualifying losses", "tax-exempt income".

"qualifying losses" — "qualifying losses" of a taxpayer from sources in a country means losses from sources in the country, determined in accordance with subsection (9);

History: S. 126(7), the definition "qualifying losses" was amended by S.C. 2001, c. 17, s. 117(14), applicable to taxation years of a taxpayer that begin after the earlier of

(*a*) December 31, 1999; and

(*b*) where, for the purposes of this subsection, a date is designated in writing by the taxpayer and the designation is filed with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes June 14, 2001, the later of

(i) the date so designated, and

(ii) December 31, 1994.

S. 126(7), the definition "qualifying losses" formerly read:

" *'qualifying losses'* — 'qualifying losses' of a taxpayer from sources in a country means losses from sources in the country, determined without reference to

(*a*) any portion of income that was deductible under subparagraph 110(1)(*f*)(i) in computing the taxpayer's taxable income,

(*b*) for the purpose of subparagraph 126(1)(*b*)(i), any portion of income in respect of which an amount was deducted by the taxpayer under section 110.6, and

(*c*) any loss from a source in the country if any income of the taxpayer from the source would be tax-exempt income;"

S. 126(7), the definition "qualifying losses" was added by S.C. 1999, c. 22, s. 47(7), applicable to taxation years that begin after February 24, 1998.

Related Sections: S. 126(7), "Qualifying incomes", "tax-exempt income".

"related transactions" — "related transactions", in respect of a taxpayer's ownership of a property for a period, means transactions entered into by the taxpayer as part of the arrangement under which the property was owned;

History: S. 126(7), the definition "related transactions" was added by S.C. 1999, c. 22, s. 47(7), applicable to the 1998 and subsequent taxation years.

Related Sections: S. 126(4.1) No economic profit; s. 126(7), "economic profit".

"tax for the year otherwise payable under this Part" — "tax for the year otherwise payable under this Part" by a taxpayer means

(*a*) in paragraph (1)(*b*) and subsection (3), the amount determined by the formula

$$A - B$$

where

A is the amount that would be the tax payable under this Part for the year by the taxpayer if that tax were determined without reference to section 120.3 and before making any deduction under any of sections 121, 122.3, 125 to 127.41 and, if the taxpayer is a Canadian-controlled private corporation throughout the year, section 123.4, and

B is the amounts deemed by subsections 120(2) and (2.2) to have been paid on account of tax payable under this Part by the taxpayer,

(*b*) in subparagraph (2)(*c*)(i) and paragraph (2.2)(*b*), the amount that would be the tax payable under this Part for the year by the taxpayer if that tax were determined without reference to sections 120.3 and 123.3 and before making any deduction under any of sections 121 and 122.3, subsection 123.4(3), and sections 124 to 127.41, and

(*c*) in subsection (2.1), the amount that would be the tax payable under this Part for the year by the taxpayer if that tax were determined without reference to subsection 120(1) and sections 120.3 and 123.3 and before making any deduction under any of sections 121 and 122.3, subsection 123.4(3) and sections 124 to 127.41;

History: S. 126(7), the definition "tax for the year otherwise payable under this Part" was amended by S.C. 2001, c. 17, s. 117(15), applicable to the 2001 and subsequent taxation years. S. 126(7), the definition "tax for the year otherwise payable under this Part" formerly read:

" *'tax for the year otherwise payable under this Part'* — 'tax for the year otherwise payable under this Part' means

(*a*) in paragraph (1)(*b*) and subsection (3), the amount determined by the formula

$$A - B$$

where

A is the amount that would be the tax payable under this Part for the year if that tax were determined without reference to section 120.3 and before making any deduction under any of sections 121, 122.3 and 125 to 127.41, and

B is the amounts deemed by subsections 120(2) and (2.2) to have been paid on account of tax payable under this Part,

(*b*) in subparagraph (2)(*c*)(i) and paragraph (2.2)(*b*), the tax for the year payable under this Part (determined without reference to sections 120.3 and 123.3 and before making any deduction under any of sections 121, 122.3 and 124 to 127.41), and

(*c*) in subsection (2.1), the tax for the year payable under this Part (determined without reference to subsection 120(1) and sections 120.3 and 123.3 and before making any deduction under any of sections 121, 122.3 and 124 to 127.41);"

S. 126(7), the description of A in the definition "tax for the year otherwise payable under this Part" was amended by S.C. 2000, c. 19, s. 35(4), applicable to the 1998 and subsequent taxation years. S. 126(7), the description of A in

the definition "tax for the year otherwise payable under this Part" formerly read:

"A is the amount that would be the tax payable under this Part for the year if that tax were determined without reference to sections 120.1 and 120.3 and before making any deduction under any of sections 121, 122.3, 125 to 127 and 127.2 to 127.41, and"

S. 126(7), the description of B in the definition "tax for the year otherwise payable under this Part" was amended by S.C. 2000, c. 19, s. 35(4), applicable to the 1998 and subsequent taxation years. S. 126(7), the description of B in the definition "tax for the year otherwise payable under this Part" formerly read:

"B is the amount, if any, deemed by subsection 120(2) to have been paid on account of tax payable under this Part,"

S. 126(7), paragraphs (*b*) and (*c*) of the definition "tax for the year otherwise payable under this Part" was amended by S.C. 2000, c. 19, s. 35(6), applicable to the 1998 and subsequent taxation years. S. 126(7), paragraphs (*b*) and (*c*) of the definition "tax for the year otherwise payable under this Part" formerly read:

"(*b*) in subparagraph (2)(*c*)(i) and paragraph (2.2)(*b*), the tax for the year payable under this Part (determined without reference to sections 120.1, 120.3 and 123.3 and before making any deduction under any of sections 121, 122.3, 124 to 127 and 127.2 to 127.41), and

(*c*) in subsection (2.1), the tax for the year payable under this Part (determined without reference to subsection 120(1) and sections 120.1, 120.3 and 123.3 and before making any deduction under any of sections 121, 122.3, 124 to 127 and 127.2 to 127.41);"

S. 126(7), paragraphs (*b*) and (*c*) of the definition "tax for the year otherwise payable under this Part", were amended by S.C. 1996, c. 21, s. 29(1), applicable to taxation years that end after June 1995. Paragraphs (*b*) and (*c*) formerly read:

"(*b*) in subparagraph (2)(*c*)(i) and paragraph (2.2)(*b*), the tax for the year payable under this Part (determined without reference to sections 120.1 and 120.3 and before making any deduction under any of sections 121, 122.3, 124 to 127 and 127.2 to 127.41), and

(*c*) in subsection (2.1), the tax for the year payable under this Part (determined without reference to subsection 120(1) and sections 120.1 and 120.3 and before making any deduction under any of sections 121, 122.3, 124 to 127 and 127.2 to 127.41);"

S. 126(7), the definition "tax for the year otherwise payable under this Part", was amended by S.C. 1995, c. 3, s. 36(1), applicable to taxation years that end after February 22, 1994. That definition formerly read:

"*'tax for the year otherwise payable under this Part'* — 'tax for the year otherwise payable under this Part' means

(*a*) in paragraph (1)(*b*) and subsection (3), the amount determined by the formula

A – B

where

A is the amount that would be the tax payable under this Part for the year if that tax were determined without reference to sections 120.1 and 120.3 of this Act and paragraph 123(1)(*b*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read in its application to taxation years beginning before December 22, 1989, and before making any deduction under any of sections 121, 122.3, 125 to 127 and 127.2 to 127.4, and

B is the amount, if any, deemed by subsection 120(2) to have been paid on account of tax payable under this Part for the year,

(*b*) in subparagraph (2)(*c*)(i) and paragraph (2.2)(*b*), the tax for the year payable under this Part (determined without reference to sections 120.1 and 120.3 of this Act and paragraph 123(1)(*b*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read in its application to taxation years beginning before December 22, 1989, and before making any deduction under any of sections 121, 122.3, 124 to 127 and 127.2 to 127.4), and

(*c*) in subsection (2.1), the tax for the year payable under this Part (determined without reference to subsection 120(1) and sections 120.1 and 120.3 of this Act and paragraph 123(1)(*b*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read in its application to taxation years beginning before December 22, 1989, and before making any deduction under any of sections 121, 122.3, 124 to 127 and 127.2 to 127.4);"

The description of A in paragraph (*a*) of the definition "tax for the year otherwise payable under this Part" in subsection 126(7) of the Act was amended by S.C. 1994, c. 7, Sched. II, s. 103(4), applicable to the 1990 and subsequent taxation years. The description of A in paragraph (*a*), subsection 126(7) of the Act, formerly read:

"A is the amount that would be the tax payable under this Part for the year if that tax were determined without reference to section 120.1 of this Act and paragraph 123(1)(*b*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, and before making any deduction under any of sections 121, 122.3, 125 to 127 and 127.2 to 127.4, and"

Paragraphs (*b*) and (*c*) of the definition "tax for the year otherwise payable under this Part" in subsection 126(7) of the Act were amended by S.C. 1994, c. 7, Sched. II, s. 103(5), applicable to the 1990 and subsequent taxation years. Paragraphs (*b*) and (*c*) formerly read:

"(*b*) in subparagraph (2)(*c*)(i) and paragraph (2.2)(*b*), the tax for the year payable under this Part (determined without reference to section 120.1 of this Act and paragraph 123(1)(*b*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, and before making any deduction under any of sections 121, 122.3, 124 to 127 and 127.2 to 127.4), and

(*c*) in subsection (2.1), the tax for the year payable under this Part (determined without reference to subsection 120(1) and section 120.1 of this Act and paragraph 123(1)(*b*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, and before making any deduction under any of sections 121, 122.3, 124 to 127 and 127.2 to 127.4);"

Interpretation Bulletins: *Primary* — IT-270R3 Foreign tax credit.

"tax-exempt income" — "tax-exempt income" means income of a taxpayer from a source in a country in respect of which

(*a*) the taxpayer is, because of a tax treaty with that country, entitled to an exemption from all income or profits taxes, imposed in that country, to which the treaty applies, and

(*b*) no income or profits tax to which the treaty does not apply is imposed in any country other than Canada;

History: S. 126(7), the definition "tax-exempt income" was added by S.C. 1999, c. 22, s. 47(7), applicable to taxation years that begin after February 24, 1998.

Related Sections: S. 126(7), "Qualifying incomes", "qualifying losses"; s. 126(8) Deemed dividend — partnership; s. 248(1), "tax treaty".

"taxing country" — "taxing country" means a country (other than Canada) the government of which regularly imposes, in respect of income from businesses carried on in the country, a levy or charge of general application that would, if this Act were read without reference to subsection (5), be an income or profits tax.

History: S. 126(7), the definition "taxing country" was added by S.C. 2001, c. 17, s. 117(19), applicable to taxation years of a taxpayer that begin after the earlier of

(*a*) December 31, 1999; and

(*b*) where, for the purposes of this subsection, a date is designated in writing by the taxpayer and the designation is filed with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes June 14, 2001, the later of

(i) the date so designated, and

(ii) December 31, 1994.

"unused foreign tax credit" — "unused foreign tax credit" of a taxpayer in respect of a country for a taxation year means the amount, if any, by which

(*a*) the business-income tax paid by the taxpayer for the year in respect of businesses carried on by the taxpayer in that country

exceeds

(*b*) the amount, if any, deductible under subsection (2) in respect of that country in computing the taxpayer's tax payable under this Part for the year.

History: S. 126(7), the definition "unused foreign tax credit" was amended by S.C. 2001, c. 17, s. 117(15), applicable to the 2001 and subsequent taxation years. S. 126(7), the definition "unused foreign tax credit" formerly read:

"*'unused foreign tax credit'* — 'unused foreign tax credit' of a taxpayer in respect of a country for a taxation year means the amount determined by the formula

A – (B + C)

where

A is the business-income tax paid by the taxpayer for the year in respect of businesses carried on by the taxpayer in that country,

B is the amount, if any, deductible under subsection (2) in respect of that country in computing the taxpayer's tax payable under this Part for the year, and

C is that portion of business income tax paid by the taxpayer for the year in respect of businesses carried on by the taxpayer in that country that may reasonably be considered to have been deducted in computing the taxpayer's tax payable under Part I.1 for the year."

Related Sections: S. 180.1 Individual surtax.

Interpretation Bulletins: *Primary* — IT-520 (Consolid.) Unused foreign tax credits — Carryforward and carryback. *Secondary* — IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].

► 126(8) ◄

(8) Deemed dividend — partnership. If an amount is deemed by subsection 96(1.11) to be a taxable dividend received by a person in a taxation year of the person in respect of a partnership, and it is reasonable to consider that all or part of the amount (in this subsection referred to as the "foreign-source portion") is attributable to income of the partnership from a source in a country other than Canada, the person is deemed for the purposes of this section to have an amount of income from that source for that taxation year equal to the amount determined by the formula

$$A \times B/C$$

where

A is the total amount included under subsection 82(1) in computing the income of the person in respect of the taxable dividend for that taxation year;

B is the foreign-source portion; and

C is the amount of the taxable dividend deemed to be received by the person.

History: S. 126(8) was added by S.C. 2007, c. 29, s. 15(1), deemed to have come into force on October 31, 2006.

S. 126(8) was repealed by S.C. 2001, c. 17, s. 117(20), applicable after June 27, 1999. S. 126(8) formerly read:

"(8) *Deemed separate source.* For the purpose of this section, if any income from a source in a particular country would be tax-exempt income but for the fact that a portion of the income is subject to an income or profits tax imposed by the government of a country other than Canada or of a state, province or other political subdivision of such a country, the portion is deemed to be income from a separate source in the particular country."

S. 126(8) was added by S.C. 1999, c. 22, s. 47(8), applicable to taxation years that begin after February 24, 1998.

Related Sections: S. 96(1.11) Deemed dividend of SIFT partnership; s. 126(7), "Tax-exempt income"; s. 197(2) Tax on partnership income.

► 126(9) ◄

(9) Computation of qualifying incomes and losses. The qualifying incomes and qualifying losses for a taxation year of a taxpayer from sources in a country shall be determined

(*a*) without reference to

(i) any portion of income that was deductible under subparagraph 110(1)(*f*)(i) in computing the taxpayer's taxable income,

(ii) for the purpose of subparagraph (1)(*b*)(i), any portion of income in respect of which an amount was deducted under section 110.6 in computing the taxpayer's income, or

(iii) any income or loss from a source in the country if any income of the taxpayer from the source would be tax-exempt income; and

(*b*) as if the total of all amounts each of which is that portion of an amount deducted under subsection 66(4), 66.21(4), 66.7(2) or 66.7(2.3) in computing those qualifying incomes and qualifying losses for the year that applies to those sources were the greater of

(i) the total of all amounts each of which is that portion of an amount deducted under subsection 66(4), 66.21(4), 66.7(2) or 66.7(2.3) in computing the taxpayer's income for the year that applies to those sources, and

(ii) the total of

(A) the portion of the maximum amount that would be deductible under subsection 66(4) in computing the taxpayer's income for the year that applies to those sources if the amount determined under subparagraph 66(4)(*b*)(ii) for the taxpayer in respect of the year were equal to the amount, if any, by which the total of

(I) the taxpayer's foreign resource income (within the meaning assigned by subsection 66.21(1)) for the year in respect of the country, determined as if the taxpayer had claimed the maximum amounts deductible for the year under subsections 66.7(2) and (2.3), and

(II) all amounts each of which would have been an amount included in computing the taxpayer's income for the year under subsection 59(1) in respect of a disposition of a foreign resource property in respect of the country, determined as if each amount determined under subparagraph 59(1)(*b*)(ii) were nil,

exceeds

(III) the total of all amounts each of which is a portion of an amount (other than a portion that results in a reduction of the amount otherwise determined under subclause (I)) that applies to those sources and that would be deducted under subsection 66.7(2) in computing the taxpayer's income for the year if the maximum amounts deductible for the year under that subsection were deducted,

(B) the maximum amount that would be deductible under subsection 66.21(4) in respect of those sources in computing the taxpayer's income for the year if

(I) the amount deducted under subsection 66(4) in respect of those sources in computing the taxpayer's income for the year were the amount determined under clause (A),

(II) the amounts deducted under subsections 66.7(2) and (2.3) in respect of those sources in computing the taxpayer's income for the year were the maximum amounts deductible under those subsections,

(III) for the purposes of the definition "cumulative foreign resource expense" in subsection 66.21(1), the total of the amounts designated under subparagraph 59(1)(*b*)(ii) for the year in respect of dispositions by the taxpayer of foreign resource properties in respect of the country in the year were the maximum total that could be so designated without any reduction in the maximum amount that would be determined under clause (A) in respect of the taxpayer for the year in respect of the country if no assumption had been made under subclause (A)(II) in respect of designations made under subparagraph 59(1)(*b*)(ii), and

(IV) the amount determined under paragraph 66.21(4)(*b*) were nil, and

(C) the total of all amounts each of which is the maximum amount, applicable to one of those sources, that is deductible under subsection 66.7(2) or (2.3) in computing the taxpayer's income for the year.

History: S. 126(9) was added by S.C. 2001, c. 17, s. 117(21), applicable to taxation years of a taxpayer that begin after the earlier of

(*a*) December 31, 1999; and

(*b*) where, for the purposes of this subsection, a date is designated in writing by the taxpayer and the designation is filed with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes June 14, 2001, the later of

(i) the date so designated, and

(ii) December 31, 1994.

SECTION 126.1: [UI premium tax credit].

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 126.1 of the Act is repealed.

SECTION 126.1: [UI premium tax credit]. [Repealed.]

Applicable: In respect of forms filed after March 20, 2003.

Explanatory Note: Section 126.1 of the Act provides certain employers with a refundable tax credit to offset the increase in the employer's portion of 1993 unemployment insurance premiums.

This section has lapsed, and is repealed in respect of forms filed after March 20, 2003.

► 126.1(1) ◄

(1) Definitions. In this section,

"*1992 cumulative premium base*" — "1992 cumulative premium base" of an employer on any particular day means the total of all qualifying employer premiums of the employer for the period beginning on January 1, 1992 and ending on the day that is 365 days earlier than the particular day that became payable on or before the last day of that period;

History: S. 126.1(1), the definition of "1992 cumulative premium base", was added by S.C. 1994, c. 8, s. 14(1), applicable after 1992.

"*1992 premium base*" — "1992 premium base" of an employer means the total of all qualifying employer premiums for 1992 of the employer;

History: S. 126.1(1), the definition of "1992 premium base", was added by S.C. 1994, c. 8, s. 14(1), applicable after 1992.

"*1993 cumulative premium base*" — "1993 cumulative premium base" of an employer on any particular day means the total of all qualifying employer premiums of the employer for the period beginning on January 1, 1993 and ending on the particular day that became payable on or before the last day of that period;

History: S. 126.1(1), the definition of "1993 cumulative premium base", was added by S.C. 1994, c. 8, s. 14(1), applicable after 1992.

"*1993 premium base*" — "1993 premium base" of an employer means the total of all qualifying employer premiums for 1993 of the employer;

History: S. 126.1(1), the definition of "1993 premium base", was added by S.C. 1994, c. 8, s. 14(1), applicable after 1992.

"*employer*" — "employer" at any time means any person or partnership (other than a person who at that time is exempt because of any of paragraphs 149(1)(*a*) to (*d*), (*h*.1), (*o*) to (*o*.2), (*o*.4) to (*s*) and (*u*) to (*y*) from tax under this Part on all or part of the person's taxable income) that has a qualifying employee in 1992 or 1993;

History: S. 126.1(1), the definition of "employer", was added by S.C. 1994, c. 8, s. 14(1), applicable after 1992.

"*qualifying employee*" — "qualifying employee" of an employer means,

(*a*) where the employer is not exempt because of subsection 149(1) from tax under this Part on all or part of the employer's taxable income,

(i) any employee of the employer, other than any employee whose remuneration is not deductible in computing income from a business or property, and

(ii) any person in respect of whom the employer is deemed under any regulation under the *Unemployment Insurance Act* to be an employer for the purpose of determining an employer's UI premium, and

(*b*) in any other case, any employee of the employer;

History: S. 126.1(1), the definition of "qualifying employee", was added by S.C. 1994, c. 8, s. 14(1), applicable after 1992.

"*qualifying employer premium*" — "qualifying employer premium" for a period of an employer means that portion of the employer's UI premium that can reasonably be attributed to the remuneration paid in the period to qualifying employees of the employer;

History: S. 126.1(1), the definition of "qualifying employer premium", was added by S.C. 1994, c. 8, s. 14(1), applicable after 1992.

"*remittance date*" — "remittance date" for 1993 of an employer means the day prescribed under the *Unemployment Insurance Act* on or before which the employer is required to remit a UI premium in respect of remuneration paid in 1993;

History: S. 126.1(1), the definition of "remittance date", was added by S.C. 1994, c. 8, s. 14(1), applicable after 1992.

"*UI premium*" — "UI premium" of an employer means a premium under subsection 51(2) of the *Unemployment Insurance Act* payable,

(*a*) where the employer is a partnership, by the members of the partnership in respect of remuneration paid by the partnership to employees of the partnership, and

(*b*) in any other case, by the employer.

History: S. 126.1(1), the definition of "UI premium", was added by S.C. 1994, c. 8, s. 14(1), applicable after 1992.

Related Sections: S. 152(1.2) Provisions applicable; s. 160.1(2.2) Liability for excess refunds under section 126.1 to partners; s. 164(1.6) Refund of UI premium tax credit.

► 126.1(2) ◄

(2) Associated employers. For the purpose of this section,

(*a*) employers that are corporations that are associated with each other at any time shall be deemed to be employers that are associated with each other at that time; and

(*b*) where 2 employers

(i) would, but for this paragraph, not be associated with each other at any time, and

(ii) are associated, or are deemed by this subsection to be associated, with another corporation at that time,

they shall be deemed to be associated with each other at that time.

History: S. 126.1(2) was added by S.C. 1994, c. 8, s. 14(1), applicable after 1992.

► 126.1(3) ◄

(3) Idem. In determining for the purpose of this section whether 2 or more employers are associated with each other at any time, and in determining whether an employer is at any time a specified employer in relation to another employer,

(*a*) where an employer at any time is an individual, the employer shall be deemed at that time to be a corporation all the issued shares of the capital stock of which, having full voting rights under all circumstances, are owned by the individual; and

(*b*) where an employer at any time is a partnership,

(i) the employer shall be deemed at that time to be a corporation having one class of issued shares, which shares have full voting rights under all circumstances, and

(ii) each member of the partnership shall be deemed to own at that time the greatest proportion of the number of issued shares of the capital stock of the corporation that

(A) the member's share of the income or loss of the partnership from any source for the fiscal period of the partnership that includes that time

is of

(B) the income or loss of the partnership from that source for that period

and for the purpose of this paragraph, where the income and loss of the partnership from any source for that period are nil, that proportion shall be computed as if the partnership had income from that source for that period in the amount of $1,000,000.

History: S. 126.1(3) was added by S.C. 1994, c. 8, s. 14(1), applicable after 1992.

► 126.1(4) ◄

(4) Business carried on by another employer. Where at any time before 1994 an employer (referred to in this subsection and subsection (5) as the "successor") carries on, as a separate business or as part of another business, a business or part of a business that was carried on at any earlier time after 1991 by a specified employer in relation to the successor (which business or part of a business is referred to in this subsection as the "specified business"), in determining

(*a*) the UI premium tax credit of the specified employer and the successor, and

(*b*) each amount that is or would, but for subsection (13), be deemed by subsection (12) to be paid to the specified employer or the successor at any time after the successor began to carry on the specified business,

that portion of the qualifying employer premiums for any period of the specified employer that can reasonably be considered to relate to the specified business shall be deemed not to be qualifying employer premiums for the period of the specified employer and to be qualifying employer premiums for the period of the successor.

History: S. 126.1(4) was added by S.C. 1994, c. 8, s. 14(1), applicable after 1992.

► 126.1(5) ◄

(5) Definition of "specified employer". For the purposes of subsection (4), "specified employer" at any time in relation to a successor means any particular employer with whom the successor at that time is not or would not be dealing at arm's length if,

(*a*) where the particular employer ceased to exist before that time, the particular employer were in existence at that time, and

(*b*) the particular employer were controlled at that time by each person or group of persons who at any time in 1992 or 1993 controlled the particular employer,

except that a particular employer is not a specified employer in relation to a successor where the successor is, for the purposes of this section, deemed by paragraph 87(2)(*mm*) or 88(1)(*e.2*) to be a continuation of, and the same corporation as, the particular employer.

History: S. 126.1(5) was added by S.C. 1994, c. 8, s. 14(1), applicable after 1992.

► 126.1(6) ◄

(6) UI premium tax credit. Where an employer (other than a partnership) files with the Minister a prescribed form containing prescribed information, an overpayment on account of the employer's liability under this Part for the employer's last taxation year beginning before 1994 equal to the employer's UI premium tax credit shall be deemed to have arisen on the later of March 1, 1994 and the day on which the form is so filed.

History: S. 126.1(6) was added by S.C. 1994, c. 8, s. 14(1), applicable after 1992.

Related Sections: S. 152(3.4) Determination of UI premium tax credit; s. 152(3.5) Notice of determination; s. 152(4.2) Reassessment with taxpayer's consent; s. 164(1.6) Refund of UI premium tax credit.

► 126.1(7) ◄

(7) Idem. Where a member of a partnership, acting on behalf of all of the members of the partnership, files with the Minister a prescribed form containing prescribed information, an overpayment on account of each taxpayer's liability under this Part for the taxpayer's last taxation year beginning before 1994 equal to that portion of the partnership's UI premium tax credit that can reasonably be considered to be the taxpayer's share thereof shall be deemed to have arisen on the later of March 1, 1994 and the day on which the form is so filed.

History: S. 126.1(7) was added by S.C. 1994, c. 8, s. 14(1), applicable after 1992.

Related Sections: S. 152(3.4) Determination of UI premium tax credit; s. 152(3.5) Notice of determination; s. 152(4.2) Reassessment with taxpayer's consent; s. 164(1.6) Refund of UI premium tax credit.

► 126.1(8) ◄

(8) Definition of "UI premium tax credit". For the purposes of this section, an employer's "UI premium tax credit" is the lesser of

(*a*) the amount, if any, by which $30,000 exceeds the amount, if any, by which the employer's 1992 premium base exceeds $30,000, and

(*b*) the amount, if any, by which the employer's 1993 premium base exceeds the employer's 1992 premium base,

unless the employer is associated at the end of 1993 with any other employer, in which case, subject to subsection (11), the employer's UI premium tax credit is nil.

History: S. 126.1(8) was added by S.C. 1994, c. 8, s. 14(1), applicable after 1992.

► 126.1(9) ◄

(9) Allocation by associated employers. An employer that is a member of a group of employers that are associated with each other at the end of 1993 (referred to in this subsection and in subsections (10) and (11) as "associated employers") may file with the Minister an agreement in prescribed form on behalf of the associated employers allocating among them an amount not exceeding the lesser of

(*a*) the amount, if any, by which $30,000 exceeds the amount, if any, by which the total of the 1992 premium bases of all of the associated employers exceeds $30,000, and

(*b*) the amount, if any, by which

(i) the total of the 1993 premium bases of all of the associated employers

exceeds

(ii) the total of the 1992 premium bases of all of the associated employers.

History: S. 126.1(9) was added by S.C. 1994, c. 8, s. 14(1), applicable after 1992.

► 126.1(10) ◄

(10) Allocation by the Minister. The Minister may request any of the associated employers to file with the Minister an agreement referred to in subsection (9) and, where the employer does not file the agreement within 30 days after receiving the request, the Minister may allocate among them an amount not exceeding the lesser of the amounts determined under paragraphs (9)(*a*) and (*b*).

History: S. 126.1(10) was added by S.C. 1994, c. 8, s. 14(1), applicable after 1992.

► 126.1(11) ◄

(11) UI premium tax credit — associated employers. For the purposes of this section, the least amount allocated to an associated employer under an agreement described in subsection (9) or the amount allocated to the employer by the Minister under subsection (10), as the case may be, is the UI premium tax credit of the employer.

History: S. 126.1(11) was added by S.C. 1994, c. 8, s. 14(1), applicable after 1992.

► 126.1(12) ◄

(12) Prepayment of UI premium tax credit. Where before March 1994 an employer or, where the employer is a partnership, any member of the partnership acting on behalf of all of the members of the partnership, files with the Minister a prescribed form containing prescribed information, the Minister shall, subject to subsection (13), be deemed to have paid to the employer on account of the overpayment determined under subsection (6) in respect of the employer, and the employer shall be deemed, for the purpose of paragraph 12(1)(*x*), to have received and, for the purposes of the *Unemployment Insurance Act* and regulations made under it, to have remitted to the Receiver General on account of the employer's UI premium, on each remittance date for 1993, an amount that is equal to,

(*a*) where the employer was not associated with any other employer on the remittance date, the lesser of

(i) the amount, if any, by which the lesser of

(A) the amount, if any, by which $30,000 exceeds the amount, if any, by which the 1992 premium base of the employer exceeds $30,000, and

(B) the amount, if any, by which

(I) the 1993 cumulative premium base of the employer on the remittance date

exceeds

(II) the 1992 cumulative premium base of the employer on the remittance date

exceeds the total of all amounts deemed or that would, but for subsection (13), be deemed by this subsection to have been paid to the employer before the remittance date, and

(ii) the amount determined by the formula

$$A - (B + C)$$

where

A is the total of all UI premiums of the employer payable on or before the remittance date that can reasonably be attributed to remuneration paid in the period beginning on January 1, 1993 and ending on the remittance date,

B is the total of all amounts (determined without reference to this subsection) remitted by the employer to the Receiver General on or before the remittance date on account of the UI premiums referred to in the description of A, and

C is the total of all amounts deemed or that would, but for subsection (13), be deemed by this subsection to have been paid to the employer before the remittance date; and

(*b*) where the employer (in this paragraph referred to as the "particular employer") was associated on the remittance date with any other employer (in this paragraph referred to as an "associated employer"), the lesser of

(i) the amount that would be determined under paragraph (*a*) in respect of the particular employer on the remittance date if the particular employer were not associated on the remittance date with any other employer, and

(ii) the amount, if any, by which the lesser of

(A) the amount, if any, by which $30,000 exceeds the amount, if any, by which the total of the 1992 premium bases of the particular employer and all associated employers exceeds $30,000, and

(B) the amount, if any, by which

(I) the total of all amounts each of which is the 1993 cumulative premium base of the particular employer or an associated employer on the remittance date

exceeds

(II) the total of all amounts each of which is the 1992 cumulative premium base of the particular employer or an associated employer on the remittance date

exceeds the total of

(C) all amounts each of which is an amount deemed or that would, but for subsection (13), be deemed by this subsection to have been paid to the particular employer or an associated employer before the remittance date, and

(D) all amounts each of which is an amount that would be determined under subparagraph (*a*)(ii) in respect of an associated employer on the remittance date if the associated employer were not associated on that date with any other employer.

History: S. 126.1(12) was added by S.C. 1994, c. 8, s. 14(1), applicable after 1992.

► 126.1(13) ◄

(13) Idem. Where an amount would, but for this subsection, be deemed by subsection (12) to be paid at any time to a partnership, that portion of the amount that can reasonably be considered to be a taxpayer's share of it shall be deemed not to have been paid to the partnership and to have been paid at that time by the Minister to the taxpayer on account of the overpayment determined under subsection (7) in respect of the taxpayer.

History: S. 126.1(13) was added by S.C. 1994, c. 8, s. 14(1), applicable after 1992.

► 126.1(14) ◄

(14) Excess prepayment. Where the total of all amounts paid under subsection (12) to a taxpayer exceeds the taxpayer's UI premium tax credit, the excess shall be deemed to have been refunded to the taxpayer, on the taxpayer's last remittance date for 1993, on account of the taxpayer's liability under this Part for the taxpayer's last taxation year beginning before 1994.

History: S. 126.1(14) was added by S.C. 1994, c. 8, s. 14(1), applicable after 1992.

► 126.1(15) ◄

(15) Idem. Where the total of all amounts paid under subsection (13) to a taxpayer in respect of a partnership exceeds that portion of the partnership's UI premium tax credit that can reasonably be considered to be the taxpayer's share of it, the excess shall be deemed to have been refunded to the taxpayer, on the partnership's last remittance date for 1993, on account of the taxpayer's liability under this Part for the taxpayer's last taxation year beginning before 1994.

History: S. 126.1(15) was added by S.C. 1994, c. 8, s. 14(1), applicable after 1992.

SECTION 127:

► 127(1) ◄

(1) Logging tax deduction. There may be deducted from the tax otherwise payable by a taxpayer under this Part for a taxation year an amount equal to the lesser of

(*a*) 2/3 of any logging tax paid by the taxpayer to the government of a province in respect of income for the year from logging operations in the province, and

(*b*) 6⅔% of the taxpayer's income for the year from logging operations in the province referred to in paragraph (*a*),

except that in no case shall the total of amounts in respect of all provinces that would otherwise be deductible under this subsection from the tax otherwise payable under this Part for the year by the taxpayer exceed 6⅔% of the amount that would be the taxpayer's taxable income for the year or taxable income earned in Canada for the year, as the case may be, if this Part were read without reference to paragraphs 60(*b*), (*c*) to (*c*.2), (*i*) and (*v*) and sections 62, 63 and 64.

History: The portion of subsection 127(1) of the Act after paragraph (*b*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 68(1), applicable with respect to the 1991 and subsequent taxation years. That portion of s. 127(1) formerly read:

"except that in no case shall the total of amounts in respect of all provinces that would otherwise be deductible under this section from the tax otherwise payable by the taxpayer under this Part for the year exceed 6⅔% of the taxpayer's taxable income for the year or taxable income earned in Canada for the year, as the case may be."

Related Sections: S. 96(2.4) Limited partner; s. 110.5 Additions for foreign tax deductions.
Regulations: Part VII.
Interpretation Bulletins: *Secondary* — IT-121R3 Election to capitalize cost of borrowed money [Archived by the CRA].
Forms: T2 SCH 21.
Tax Window Files: Section of Manufacturing Industries, Companies and Trusts (French only), July 14, 1994, CRA Document No. 9416147; Minimum Tax — Application of Non-Capital Losses, December 8, 1993, CRA Document No. 9330216.

► 127(2) ◄

(2) Definitions. In subsection (1),

"income for the year from logging operations in the province" — "income for the year from logging operations in the province" has the meaning assigned by regulation;

Regulations: 700(1), (2).
Cases: It was held that "income for the year from logging operations in a province" includes income from sources carried on or operated by the taxpayer and not from sources carried on by a third person. This decision indicates that interest income from a promissory note due to the taxpayer by a subsidiary that generates income from logging operations is not income from logging operations of the taxpayer for the purpose of the logging tax deduction. *MacMillan Bloedel (Alberni) Ltd. v. M.N.R.*, 73 DTC 5264 (F.C.T.D.). See also the discussion in *MacMillan Bloedel Limited v. the Queen*, 90 DTC 6219 (F.C.T.D.).

"logging tax" — "logging tax" means a tax imposed by the legislature of a province that is declared by regulation to be a tax of general application on income from logging operations.

Editorial Note: The relevant provinces are British Columbia and Quebec. (Province is defined in subsection 35(1) of the *Interpretation Act* and includes the territories.)

Regulations: 700(3).
Cases: It was held that this definition must be used when calculating the logging tax credit even when the provincial statute imposing the tax computes income from logging operations in a different manner. *British Columbia Forest Products Ltd. v. M.N.R.*, 71 DTC 5178 (S.C.C.), affirming 69 DTC 5127 (Ex. Ct.).

► 127(3) ◄

(3) Monetary contributions — *Canada Elections Act*. There may be deducted from the tax otherwise payable by a taxpayer under this Part for a taxation year in respect of the total of all amounts each of which is a monetary contribution referred to in the *Canada Elections Act* made by the taxpayer in the year to a registered party, a provincial division of a registered party, a registered association or a candidate, as those terms are defined in that Act,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 127(3) of the Act before paragraph (*a*) is replaced by the following:

(3) Contributions to registered parties and candidates. There may be deducted from the tax otherwise payable by a taxpayer under this Part for a taxation year in respect of the total of all amounts each of which is the eligible amount of a monetary contribution that is referred to in the *Canada Elections Act* and that is made by the taxpayer in the year to a registered party, a provincial division of a registered party, a registered association or a candidate, as those terms are defined in that Act,

Applicable: To monetary contributions made after December 20, 2002, except that, for monetary contributions made before 2004, the reference to "to a registered party, a provincial division of a registered party, a registered association or a candidate" in subsection 127(3) is to be read as a reference to "to a registered party or a candidate".

Explanatory Note:

Contributions to Registered Parties and Candidates

Subsection 127(3) of the Act provides a tax credit to a taxpayer in respect of amounts contributed to a registered party or to a candidate. Subsection 127(3) is amended consequential to the addition of new subsections 248(31) and (32) of the Act, to provide that the amount of a contribution that is eligible for the political contributions tax credit is to be reduced by the amount of any advantage or benefit, as defined by subsection 248(32), to which the taxpayer is entitled in respect of the contribution. This amendment is generally applicable to monetary contributions made after December 20, 2002.

It is proposed that subsections 2000(1) and (6) of the Regulations be amended to provide that every official receipt issued by a registered party in respect of a contribution contain, in addition to the information already prescribed, the eligible amount and the amount of the advantage, if any, in respect of the contribution.

For additional details, see the commentary to new subsections 248(31) and (32) regarding the amount of the advantage in respect of a contribution.

(*a*) when that total does not exceed $400, 75% of that total,

(*b*) when that total exceeds $400 and does not exceed $750, $300 plus 50% of the amount by which that total exceeds $400, and

(*c*) when that total exceeds $750, the lesser of

(i) $650, and

(ii) $475 plus 33 1/3% of the amount by which the total exceeds $750,

if payment of each monetary contribution that is included in that total is evidenced by filing with the Minister a receipt, signed by the agent authorized under that Act to accept that monetary contribution, that contains prescribed information.

History: S. 127(3) was replaced by S.C. 2003, c. 19, s. 73(1), applicable to monetary contributions made in taxation years ending after 2003.

For monetary contributions made in 2004 taxation years but before January 1, 2004, subsection 127(3) of the *Income Tax Act* is to be read [as amended], except that the expression "to a registered party, a registered association, or a candidate" is to be replaced by the expression "to a registered party or a candidate".

If January 1, 2004 occurs during an election period, within the meaning assigned by the *Canada Elections Act*, subsection 127(3) of the *Income Tax Act* is to be read, in respect of that election, as described by [the paragraph above].

S. 127(3) formerly read:

"(3) *Contributions to registered parties and candidates.* There may be deducted from the tax otherwise payable by a taxpayer under this Part for a taxation year in respect of the total of all amounts each of which is a monetary contribution made by the taxpayer in the year to a registered party or to a candidate whose nomination has been confirmed in an election of a member or members to serve in the House of Commons of Canada (in this section referred to as 'the total'),

(*a*) 75% of the total, if the total does not exceed $200,

(*b*) $150 plus 50% of the amount by which the total exceeds $200, if the total exceeds $200 and does not exceed $550, or

(*c*) the lesser of

(i) $325 plus 33 1/3% of the amount by which the total exceeds $550, and

(ii) $500,

if payment of each monetary contribution that is included in the total is proven by filing a receipt with the Minister, signed by a registered agent of the registered party or by the official agent of the candidate whose nomination has been confirmed, as the case may be, that contains prescribed information."

S. 127(3) was amended by S.C. 2000, c. 9, s. 560(1), applicable to the 2000 and subsequent taxation years except that, in its application to money contributions made after 1999 and before the coming into force of this Act, the references in that subsection to "a monetary contribution made", "monetary contribution" and a "candidate whose nomination has been confirmed" shall be read as references to "an amount contributed", "amount contributed" and "an officially nominated candidate", respectively. S. 127(3) comes into force on September 1, 2000. S. 127(3) formerly read:

"(3) *Contributions to registered parties and candidates.* There may be deducted from the tax otherwise payable by a taxpayer under this Part for a taxation year in respect of the total of all amounts each of which is an amount contributed by the taxpayer in the year to a registered party or to an officially nominated candidate at an election of a member or members to serve in the House of Commons of Canada (in this section referred to as 'the total'),

(*a*) 75% of the total if the total does not exceed $100,

(*b*) $75 plus 50% of the amount by which the total exceeds $100 if the total exceeds $100 and does not exceed $550, or

(*c*) the lesser of

(i) $300 plus 33 1/3% of the amount by which the total exceeds $550 if the total exceeds $550, and

(ii) $500,

if payment of each amount contributed that is included in the total is proven by filing a receipt with the Minister, signed by a registered agent of the registered party or by the official agent of the officially nominated candidate, as the case may be, that contains prescribed information."

Editorial Note: A tax credit may be claimed under subsection 127(3) only in respect of contributions to a federal political party, candidate or association. The calculation of the credit encourages small contributions, with no credit for contributions over $1,275 per year. The maximum annual credit is $650.

Related Sections: S. 18(1)(*n*) Political contributions; s. 123.2(1)(*a*) Corporation surtax; s. 127(3.1) Issue of receipts; s. 127(3.2) Authorization required for receipts from registered associations; s. 127(3.3) Prohibition — issuance of receipts; s. 127(4.1) Monetary contributions — form and content; s. 230.1(1) Records re monetary contributions — Canada Elections Act.

Proposed Related Sections: s. 248(41).

Regulations: Part XX.

Interpretation Bulletins: *Secondary* — IT-143R3 Meaning of eligible capital expenditure.

Information Circulars: IC 75-2R7 Contributions to a Registered Party a Registered Association or to a Candidate at a Federal Election

Forms: T2092; T2093.

Tax Window Files: Contributions in Civic Elections Not Deductible, October 28, 1991, CRA Document No. 7-912730.

► 127(3.1) ◄

(3.1) Issue of receipts. A receipt referred to in subsection (3) must be issued only in respect of the monetary contribution that it provides evidence for and only to the contributor who made it.

History: S. 127(3.1) was replaced by S.C. 2003, c. 19, s. 73(1), applicable to monetary contributions made in taxation years ending after 2003. S. 127(3.1) formerly read:

"(3.1) *Issue of receipts.* A receipt referred to in subsection (3) shall not be issued

(*a*) by a registered agent of a registered party, or

(*b*) by an official agent of a candidate whose nomination has been confirmed

otherwise than in respect of a monetary contribution and to the contributor who made it."

S. 127(3.1) was amended by S.C. 2000, c. 9, s. 560(1), and comes into force on September 1, 2000. S. 127(3.1) formerly read:

"(3.1) *Issue of receipts.* A receipt referred to in subsection (3) shall not be issued

(*a*) by a registered agent of a registered party, or

(*b*) by an official agent of an officially nominated candidate

otherwise than in respect of an amount contributed and to the contributor of such an amount."

Related Sections: S. 238(1) Offences and punishment.

► 127(3.2) ◄

(3.2) Authorization required for receipts from registered associations. No agent of a registered association of a registered party shall issue a receipt referred to in subsection (3) unless the leader of the registered party has, in writing, notified the financial agent, as referred to in the *Canada Elections Act*, of the registered association that its agents are authorized to issue those receipts.

History: S. 127(3.2) was replaced by S.C. 2003, c. 19, s. 73(1), applicable to monetary contributions made in taxation years ending after 2003. S. 127(3.2) formerly read:

"(3.2) *Deposit of amounts contributed.* An official agent of a candidate whose nomination has been confirmed — other than in an electoral district referred to in Schedule 3 to the *Canada Elections Act* — who receives a monetary contribution, shall without delay deposit it in an account in the name of the official agent, in his or her capacity as such, in a branch or other office in Canada of a Canadian financial institution as defined in section 2 of the *Bank Act*, or in an authorized foreign bank, as defined in that section, that is not subject to the restrictions and requirements referred to in subsection 524(2) of that Act."

S. 127(3.2) was amended by S.C. 2000, c. 9, s. 560(1), and comes into force on September 1, 2000. S. 127(3.2) formerly read:

"(3.2) *Deposit of amounts contributed.* Where an amount contributed has been received by an official agent of an officially nominated candidate other than an officially nominated candidate in any of the electoral districts referred to in Schedule III to the *Canada Elections Act*, the official agent shall forthwith deposit that amount contributed in an account standing to the credit of the official agent in the agent's capacity as such in the records of a branch or other office in Canada of

(*a*) a bank;

(*b*) a corporation that is licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering to the public its services as trustee; or

(*c*) a credit union."

Information Circulars: IC 75-2R7 Contributions to a Registered Party a Registered Association or to a Candidate at a Federal Election.

► 127(3.3) ◄

(3.3) Prohibition — issuance of receipts. If the Commissioner of Canada Elections makes an application under subsection 521.1(2) of the *Canada Elections Act* in respect of a registered party, no registered agent of the party — including, for greater certainty, a registered agent appointed by a provincial division of the party — and no electoral district agent of a registered association of the party shall issue a receipt referred to in subsection (3) unless the Commissioner withdraws the application or the court makes an order under subsection 521.1(6) of that Act or dismisses the application.

History: S. 127(3.3) was added by S.C. 2004, c. 24, s. 24, and came into force on May 15, 2004. As set out in S.C. 2006, c. 1, the sunset provision in S.C. 2004, c. 24, s. 26 was replaced with a requirement for a mandatory review by a committee of the Senate and a committee of the House of Commons, within two years of the coming into force of S.C. 2004, c. 24.

► 127(4) ◄

(4) Definitions. [Repealed by S.C. 2003, c. 19, s. 73(1).]

History: S. 127(4) was repealed by S.C. 2003, c. 19, s. 73(1), applicable to monetary contributions made in taxation years ending after 2003. S. 127(4) formerly read:

"(4) *Definitions.* In subsections (3), (3.1), (3.2) and (4.1), the terms 'official agent', 'registered agent' and 'registered party' have the meanings assigned to them by subsection 2(1) of the *Canada Elections Act* and the expression 'candidate whose nomination has been confirmed' means a person whom the returning officer has, under subsection 71(1) of the *Canada Elections Act*, confirmed as a candidate in an election."

S. 127(4) was amended by S.C. 2000, c. 9, s. 560(1), and comes into force on September 1, 2000. S. 127(4) formerly read:

"(4) *Definitions.* In subsections (3), (3.1), (3.2) and (4.1), the terms 'official agent', 'registered agent' and 'registered party' have the meanings assigned to them by section 2 of the *Canada Elections Act* and the term 'officially nominated candidate' means a person in respect of whom a nomination paper and deposit have been filed as referred to in the definition 'official nomination' in that section of that Act."

► 127(4.1) ◄

(4.1) Monetary contributions — form and content. For the purpose of subsections (3) and (3.1), a monetary contribution made by a taxpayer may be in the form of cash or of a negotiable instrument issued by the taxpayer. However, it does not include

(*a*) a monetary contribution that a taxpayer who is an agent authorized under the *Canada Elections Act* to accept monetary contributions makes in that capacity; or

(*b*) a monetary contribution in respect of which a taxpayer has received or is entitled to receive a financial benefit of any kind (other than a prescribed financial benefit or a deduction under subsection (3)) from a government, municipality or other public authority, whether as a grant, subsidy, forgivable loan or deduction from tax or an allowance or otherwise.

History: S. 127(4.1), the portion before paragraph (*a*) was replaced by S.C. 2006, c. 9, s. 64(1), in force on January 1, 2007 but does not apply in respect of monetary contributions made before that day.

S. 127(4.1), the portion before paragraph (*a*) formerly read:

"(4.1) *Monetary contributions — form and content.* For the purpose of subsections (3), (3.1) and (4.2), a monetary contribution made by a taxpayer may be in the form of cash or of a negotiable instrument issued by the taxpayer. However, it does not include"

S. 127(4.1) was replaced by S.C. 2003, c. 19, s. 73(1), applicable to monetary contributions made in taxation years ending after 2003. S. 127(4.1) formerly read:

"(4.1) *Definition of 'amount contributed'.* In subsections (3), (3.1), (3.2) and (4.2), 'monetary contribution' made by a taxpayer means a contribution made by the taxpayer to a registered party or to a candidate whose nomination has been confirmed in the form of cash or in the form of a negotiable instrument issued by the taxpayer, but does not include

(*a*) a monetary contribution made by an official agent of a candidate whose nomination has been confirmed or a registered agent of a registered party (in the agent's capacity as official agent or registered agent, as the case may be) to another such official agent or registered agent, as the case may be; or

(*b*) a monetary contribution in respect of which the taxpayer has received or is entitled to receive a financial benefit of any kind (other than a prescribed financial benefit or a deduction under subsection (3)) from a government, municipality or other public authority, whether as a grant, subsidy, forgivable loan or deduction from tax or an allowance or otherwise."

S. 127(4.1) was amended by S.C. 2000, c. 9, s. 560(1), and comes into force on September 1, 2000. S. 127(4.1) formerly read:

"(4.1) *Definition of 'amount contributed'.* In subsections (3), (3.1) and (3.2), 'amount contributed' by a taxpayer means a contribution by the taxpayer to a registered party or an officially nominated candidate in the form of cash or in the form of a negotiable instrument issued by the taxpayer, but does not include

(*a*) a contribution made by an official agent of an officially nominated candidate or a registered agent of a registered party (in the agent's capacity as such official agent or registered agent, as the case may be) to another such official agent or registered agent, as the case may be; or

(*b*) a contribution in respect of which the taxpayer has received or is entitled to receive a financial benefit of any kind (other than a prescribed financial benefit or a deduction pursuant to subsection (3)) from a government, municipality or other public authority, whether as a grant, subsidy, forgivable loan or deduction from tax or an allowance or otherwise."

Related Sections: S. 230.1(1) Records re monetary contributions — Canada Elections Act; s. 237.1(1), "gifting arrangement", "tax shelter".
Proposed Related Sections: s. 248(31).
Regulations: Part XX.

► 127(4.2) ◄

(4.2) Allocation of amount contributed among partners. [Repealed by S.C. 2006, c. 9, s. 64(2).]

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 127(4.2) of the Act is replaced by the following:

(4.2) **Allocation of amount contributed among partners.** If at the end of a fiscal period of a partnership a taxpayer is a member of the partnership, the taxpayer's share of the total that would, if the partnership were a person and its fiscal period were its taxation year, be the total referred to in subsection (3) in respect of the partnership for that taxation year is deemed for the purpose of that subsection to be a monetary contribution made by the taxpayer in the taxpayer's taxation year in which the fiscal period of the partnership ends.

Applicable: To monetary contributions made after December 20, 2002. The amendment to subsection 127(4.2) is deemed to have come into force before the repeal of subsection 127(4.2) in Bill C-2 [S.C. 2006, c. 9, s. 64(2)].

Explanatory Note:

Allocation of Amount Contributed Among Partners

Subsection 127(4.2) of the Act allows the tax benefits of political contributions made by a partnership to be flowed through to its members. Subsection 127(4.2) is amended consequential to the amendment of subsection 127(3) of the Act, applicable to contributions made after December 20, 2002, to provide the amount of a contribution that is eligible for a tax credit because of a taxpayer's membership in a partnership.

History: S. 127(4.2) was repealed by S.C. 2006, c. 9, s. 64(2), in force on January 1, 2007 but does not apply in respect of monetary contributions made before that day.

S. 127(4.2) formerly read:

"(4.2) *Allocation of amount contributed among partners.* Where a taxpayer was, at the end of a taxation year of a partnership, a member of the partnership, the taxpayer's share of any monetary contribution made by the partnership in that taxation year that would, if the partnership were a person, be a monetary contribution referred to in subsection (3), is, for the purposes of that subsection, deemed to be a monetary contribution made by the taxpayer in the taxpayer's taxation year in which the taxation year of the partnership ended."

S. 127(4.2) was amended by S.C. 2000, c. 9, s. 560(1), deemed to have come into force on September 1, 2000. S. 127(4.2) formerly read:

"(4.2) *Allocation of amount contributed among partners.* Where a taxpayer was, at the end of a taxation year of a partnership, a member of the partnership, the taxpayer's share of any amount contributed by the partnership in that taxation year that would, if the partnership were a person, be an amount contributed referred to in subsection (3), shall, for the purposes of that subsection, be deemed to be an amount contributed by the taxpayer in the taxpayer's taxation year in which the taxation year of the partnership ended."

Related Sections: S. 53(2)(*c*)(iii) Amounts to be deducted — Interest in a partnership.

► 127(5) ◄

(5) Investment tax credit. There may be deducted from the tax otherwise payable by a taxpayer under this Part for a taxation year an amount not exceeding the lesser of

(*a*) the total of

(i) the taxpayer's investment tax credit at the end of the year in respect of property acquired before the end of the year, of the taxpayer's apprenticeship expenditure for the year or a preceding taxation year, of the taxpayer's child care space amount for the year or a preceding taxation year, of the taxpayer's flow-through mining expenditure for the year or a preceding taxation year, of the taxpayer's pre-production mining expenditure for the year or a preceding taxation year or of the taxpayer's SR&ED qualified expenditure pool at the end of the year or at the end of a preceding taxation year, and

(ii) the lesser of

(A) the taxpayer's investment tax credit at the end of the year in respect of property acquired in a subsequent taxation year, of the taxpayer's apprenticeship expenditure for a subsequent taxation year, of the taxpayer's child care space amount for a subsequent taxation year, of the taxpayer's flow-through mining expenditure for a subsequent taxation year, of the taxpayer's pre-production mining expenditure for a subsequent taxation year or of the taxpayer's SR&ED qualified expenditure pool at the end of the subsequent taxation year to the extent that an investment tax credit was not deductible under this subsection for the subsequent taxation year, and

(B) the amount, if any, by which the taxpayer's tax otherwise payable under this Part for the year exceeds the amount, if any, determined under subparagraph (i), and

(*b*) where Division E.1 applies to the taxpayer for the year, the amount, if any, by which

(i) the taxpayer's tax otherwise payable under this Part for the year

exceeds

(ii) the taxpayer's minimum amount for the year determined under section 127.51.

History: S. 127(5)(*a*), the portion before clause (ii)(B) was replaced by S.C. 2007, c. 35, s. 43(1), applicable on and after March 19, 2007. S. 127(5)(*a*), the portion before clause (ii)(B) formerly read:

"(*a*) the total of

(i) the taxpayer's investment tax credit at the end of the year in respect of property acquired before the end of the year, of the taxpayer's apprenticeship expenditure for the year or a preceding taxation year, of the taxpayer's flow-through mining expenditure for the year or a preceding taxation year, of the taxpayer's pre-production mining expenditure for the year or a preceding taxation year or of the taxpayer's SR&ED qualified expenditure pool at the end of the year or at the end of a preceding taxation year, and

(ii) the lesser of

(A) the taxpayer's investment tax credit at the end of the year in respect of property acquired in a subsequent taxation year, of the taxpayer's apprenticeship expenditure for a subsequent taxation year, of the taxpayer's flow-through mining expenditure for a subsequent taxation year, of the taxpayer's pre-production mining expenditure for a subsequent taxation year or of the taxpayer's SR&ED qualified expenditure pool at the end of the subsequent taxation year to the extent that an investment tax credit was not deductible under this subsection for the subsequent taxation year, and"

S. 127(5)(*a*), the portion before clause (ii)(B) was replaced by S.C. 2007, c. 2, s. 34(1), applicable to taxation years that end on or after May 2, 2006.

S. 127(5)(*a*), the portion before clause (ii)(B) formerly read:

"(*a*) the total of

(i) the taxpayer's investment tax credit at the end of the year in respect of property acquired before the end of the year, of the taxpayer's flow-through mining expenditure for the year or a preceding taxation year, of the taxpayer's pre-production mining expenditure for the year or a preceding taxation year or of the taxpayer's SR&ED qualified expenditure pool at the end of the year or at the end of a preceding taxation year, and

(ii) the lesser of

(A) the taxpayer's investment tax credit at the end of the year in respect of property acquired in a subsequent taxation year, of the taxpayer's flow-through mining expenditure for a subsequent taxation year, of the taxpayer's pre-production mining expenditure for a subsequent taxation year or of the taxpayer's SR&ED qualified expenditure pool at the end of a subsequent taxation year to the extent that an investment tax credit was not deductible under this subsection for the subsequent year, and"

S. 127(5)(*a*)(i) was replaced by S.C. 2003, c. 28, s. 14(1), applicable to the 2003 and subsequent taxation years. S. 127(5)(*a*)(i) formerly read:

"(i) the taxpayer's investment tax credit at the end of the year in respect of property acquired before the end of the year, of the taxpayer's flow-through mining expenditure for the year or a preceding taxation year or of the taxpayer's SR&ED qualified expenditure pool at the end of the year or of a preceding taxation year, and"

S. 127(5)(*a*)(ii)(A) was replaced by S.C. 2003, c. 28, s. 14(2), applicable to the 2003 and subsequent taxation years. S. 127(5)(*a*)(ii)(A) formerly read:

"(A) the taxpayer's investment tax credit at the end of the year in respect of property acquired in a subsequent taxation year, of the taxpayer's flow-through mining expenditure for a subsequent taxation year or of the taxpayer's SR&ED qualified expenditure pool at the end of a subsequent taxation year to the extent that an investment tax credit was not deductible under this subsection for the subsequent year, and"

S. 127(5)(*a*)(i) was amended by S.C. 2001, c. 17, s. 118(1), applicable to the 2000 and subsequent taxation years. S. 127(5)(*a*)(i) formerly read:

"(i) the taxpayer's investment tax credit at the end of the year in respect of property acquired before the end of the year or of the taxpayer's SR&ED qualified expenditure pool at the end of the year or of a preceding taxation year, and"

S. 127(5)(*a*)(ii)(A) was amended by S.C. 2001, c. 17, s. 118(2), applicable to the 2000 and subsequent taxation years, except that, for the 2000 taxation year, clause 127(5)(*a*)(ii)(A) of the Act shall be read as follows:

"(A) the taxpayer's investment tax credit at the end of the year in respect of property acquired in a subsequent taxation year, of the taxpayer's flow-through mining expenditure for a subsequent taxation year or of the taxpayer's SR&ED qualified expenditure pool at the end of a subsequent taxation year to the extent that an investment tax credit was not deductible under this subsection or subsection 180.1(1.2) for the subsequent year, and"

S. 127(5)(*a*)(ii)(A) formerly read:

"(A) the taxpayer's investment tax credit at the end of the year in respect of property acquired in a subsequent taxation year or of the taxpayer's SR&ED qualified expenditure pool at the end of a subsequent taxation year to the extent that an investment tax credit was not deductible under this subsection or subsection 180.1(1.2) for the subsequent year, and"

S. 127(5)(*b*) was amended by S.C. 2001, c. 17, s. 118(3), applicable to the 2001 and subsequent taxation years. S. 127(5)(*b*) formerly read:

"(*b*) where Division E.1 applies to the taxpayer for the year, the amount, if any, by which the total of

(i) the taxpayer's tax otherwise payable under this Part for the year, and

(ii) the taxpayer's tax payable under Part I.1 for the year before deducting any amount under subsection 180.1(1.2)

exceeds the taxpayer's minimum amount for the year determined under section 127.51."

S. 127(5)(*a*)(i) was amended by S.C. 1996, c. 21, s. 30(1), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

S. 127(5)(*a*)(i) formerly read:

"(i) the taxpayer's investment tax credit at the end of the year in respect of property acquired, or an expenditure made, before the end of the year, and"

S. 127(5)(*a*)(ii)(A) was amended by S.C. 1996, c. 21, s. 30(2), applicable to taxation years that begin after 1995. S. 127(5)(*a*)(ii)(A) formerly read:

"(A) the taxpayer's investment tax credit at the end of the year in respect of property acquired, or an expenditure made, in a subsequent taxation year, to the extent that the investment tax credit was not deductible under this subsection or subsection 180.1(1.2) for the taxation year in which the property was acquired, or the expenditure was made, as the case may be, and"

S. 127(5) was amended by S.C. 1994, c. 8, s. 15(1), applicable to taxation years beginning after 1993. S. 127(5) formerly read:

"(5) There may be deducted from the tax otherwise payable by a taxpayer under this Part for a taxation year an amount not exceeding the least of

(*a*) the taxpayer's annual investment tax credit limit for the year,

(*b*) the total of

(i) the taxpayer's investment tax credit at the end of the year in respect of property acquired, or an expenditure made, before the end of the year, and

(ii) the lesser of

(A) the taxpayer's investment tax credit at the end of the year in respect of property acquired, or an expenditure made, in a subsequent taxation year, to the extent that the investment tax credit was not deductible under this subsection or subsection 180.1(1.2) for the taxation year in which the property was acquired, or the expenditure was made, as the case may be, and

(B) the amount, if any, by which the taxpayer's tax otherwise payable by the taxpayer under this Part for the year exceeds the amount, if any, determined under subparagraph (i), and

(*c*) where Division E.1 is applicable to the taxpayer for the year, the amount, if any, by which the total of

(i) the taxpayer's tax otherwise payable under this Part for the year, and

(ii) the taxpayer's tax payable under Part I.1 for the year before deducting any amount under subsection 180.1(1.2),

exceeds the taxpayer's minimum amount for the year determined under section 127.51."

Related Sections: S. 12(1)(*t*) Investment tax credit; s. 13(7.1) Deemed capital cost of certain property; s. 13(21), "undepreciated capital cost"; s. 37(1)(*e*) Scientific research and experimental development; s. 37(13) Non-arm's length contract — linked work; s. 53(2)(*c*)(vi) Amounts to be deducted — Interest in a partnership; s. 53(2)(*h*)(ii) Amounts to be deducted — Capital interest in a trust; s. 53(2)(*k*)(ii) Amounts to be deducted — Government assistance; s. 66.1(6), "cumulative Canadian exploration expense"; s. 87(2)(*qq*) Continuation of corporation; s. 87(2.11) Vertical amalgamations; s. 88(2)(*c*) Winding-up of Canadian corporation; s. 123.2(1)(*a*) Corporation surtax; s. 127(9) Definitions; s. 127(11.2) Time of expenditure and acquisition; s. 127(12.2) Adjusted cost base deductions re partnership interest, trust capital interest and government assistance; s. 127(13) Agreement to transfer qualified expenditures; s. 127(17) Assessment; s. 127(26) Unpaid amounts; s. 127.1(1) Refundable investment tax credit; s. 127.1(2) Definitions; s. 127.1(3) Deemed deduction; s. 128(2)(*e*)(iii)(C) Where individual bankrupt; s. 149(10)(*c*) Exempt corporations; s. 152(6)(*d*) Reassessment where certain deductions claimed; s. 164(5)(*f*) Effect of carryback of loss, etc; s. 164(5.1) Interest — disputed amounts.

Regulations: Part XLVI.

Interpretation Bulletins: *Primary* — IT-151R5 (Consolid.) Scientific Research and Experimental Development Expenditures; *Secondary* — IT-92R2 Income of contractors; IT-411R Meaning of Construction.

Information Circulars: IC 78-4R3 Investment tax credit rates.

Forms: T2 SCH 31; T2 SCH 301; T2 SCH 321; T2 SCH 340; T2 SCH 344; T2 SCH 360; T2 SCH 380; T2 SCH 381; T2 SCH 402; T2 SCH 403; T2 SCH 426; T2 SCH 442; T661; T666; T1129; T1232; T1263; T2038(IND).

Guides: T4052 An Introduction to the Scientific Research and Experimental Development Program; T4088 Claiming Scientific Research and Experimental Development — Guide to Form T661; RC4290 Refunds for Small Business R&D.

Tax Profile: April 2006 — The SR&ED Deduction and Investment Tax Credits; March 2006 — Some Tax Considerations for Investing in Silicon Valley North.

Canadian Petroleum Tax Journal: R&D Recent Developments, Arthur, Chawla, and Kourtzoglou, Vol. 20 No. 1 2007; Recent Cases of Interest — Capital Vs. Current Expense (Plus a Little SR&ED) — Pipeline Replacement and Repair, Gerald Grenon, Vol. 13 No. 1 2000.

Canadian Tax Foundation: R & D Recent Developments, "Shop Floor SR & ED: Are You Missing Out?", *2006 Conference Report*, vol. 6, no. 2; Tax for the Owner Manager, 6, "Supporting SR & ED Claims", *2006 Conference Report*, vol. 6, no. 4; Tax for the Owner Manager, 8-9, "SR & ED and Outsourcing", *Canadian Tax Highlights, 6*, vol. 14, no. 4; "R&D: Credits Today, Innovation Tomorrow", *1999 Corporate Management Tax Conference*, 1:1–15:77.

Tax Window Files: Scientific Research and Experimental Development — Tests and Studies Required to Meet Regulatory Requirements, January 17, 2007, CRA Document No. 2005-0152601E5; Investment Tax Credit, July 29, 2005, CRA Document No. 2005-0143681I7; Investment Tax Credit and Minimum Tax, October 8, 2004, CRA Document No. 2004-0093371I7; Investment Tax Credits — Carryback Denial After Wind-Up, June 1, 2004, CRA Document No. 2004-0078161I7; Scientific Research and Experimental Development — Accrued Salaries, November 30, 1993, CRA Document No. 931850A; Processing of Industrial Minerals, September 29, 1993, CRA Document No. 9315766; Investment Tax Credit of Individual, February 7, 1992, CRA Document No. 9131225.

► 127(6) ◄

(6) Investment tax credit of cooperative corporation. Where at any particular time in a taxation year a taxpayer that is a cooperative corporation within the meaning assigned by subsection 136(2) has, as required by subsec-

tion 135(3), deducted or withheld an amount from a payment made by it to any person pursuant to an allocation in proportion to patronage, the taxpayer may deduct from the amount otherwise required by that subsection to be remitted to the Receiver General, an amount, not exceeding the amount, if any, by which

(*a*) its investment tax credit at the end of the immediately preceding taxation year in respect of property acquired and expenditures made before the end of that preceding taxation year

exceeds the total of

(*b*) the amount deducted under subsection (5) from its tax otherwise payable under this Part for the immediately preceding taxation year in respect of property acquired and expenditures made before the end of that preceding taxation year, and

(*c*) the total of all amounts each of which is the amount deducted by virtue of this subsection from any amount otherwise required to be remitted by subsection 135(3) in respect of payments made by it before the particular time and in the taxation year,

and the amount, if any, so deducted from the amount otherwise required to be remitted by subsection 135(3)

(*d*) shall be deducted in computing the taxpayer's investment tax credit at the end of the taxation year, and

(*e*) shall be deemed to have been remitted by the taxpayer to the Receiver General on account of tax under this Part of the person to whom that payment was made.

Related Sections: S. 12(1)(*t*) Investment tax credit; s. 13(7.1) Deemed capital cost of certain property; s. 13(21), "undepreciated capital cost"; s. 53(2)(*k*)(ii) Amounts to be deducted — Government assistance; s. 66.1(6), "cumulative Canadian exploration expense".

Interpretation Bulletins: *Secondary* — IT-362R Patronage dividends.

Forms: T2 SCH 31; T661; T2038.

► 127(7) ◄

(7) Investment tax credit of testamentary trust. If, in a particular taxation year of a taxpayer who is a beneficiary under a testamentary trust or under an *inter vivos* trust that is deemed to be in existence by section 143, an amount is determined in respect of the trust under paragraph (*a*), (*a.1*), (*a.4*), (*a.5*), (*b*) or (*e.1*) of the definition "investment tax credit" in subsection (9) for its taxation year that ends in that particular taxation year, the trust may, in its return of income for its taxation year that ends in that particular taxation year, designate the portion of that amount that can, having regard to all the circumstances including the terms and conditions of the trust, reasonably be considered to be attributable to the taxpayer and was not designated by the trust in respect of any other beneficiary of the trust, and that portion shall be added in computing the investment tax credit of the taxpayer at the end of that particular taxation year and shall be deducted in computing the investment tax credit of the trust at the end of its taxation year that ends in that particular taxation year.

History: S. 127(7) was replaced by S.C. 2007, c. 35, s. 43(2), applicable on and after March 19, 2007. S. 127(7) formerly read:

"(7) *Investment tax credit of testamentary trust.* If, in a particular taxation year of a taxpayer who is a beneficiary under a testamentary trust or under an *inter vivos* trust that is deemed to be in existence by section 143, an amount is determined in respect of the trust under paragraph (*a*), (*a.1*), (*a.4*), (*b*) or (*e.1*) of the definition 'investment tax credit' in subsection (9) for its taxation year that ends in that particular taxation year, the trust may, in its return of income for its taxation year that ends in that particular taxation year, designate the portion of that amount that can, having regard to all the circumstances including the terms and conditions of the trust, reasonably be considered to be attributable to the taxpayer and was not designated by the trust in respect of any other beneficiary of the trust, and that portion shall be added in computing the investment tax credit of the taxpayer at the end of that particular taxation year and shall be deducted in computing the investment tax credit of the trust at the end of its taxation year that ends in that particular taxation year."

S. 127(7) was replaced by S.C. 2007, c. 2, s. 34(2), applicable to taxation years that end on or after May 2, 2006.

S. 127(7) formerly read:

"(7) *Investment tax credit of testamentary trust.* Where, in a particular taxation year of a taxpayer who is a beneficiary under a testamentary trust or under an *inter vivos* trust that is deemed to be in existence by section 143, an amount is determined in respect of the trust under paragraph (*a*), (*a.1*), (*b*) or (*e.1*) of the definition 'investment tax credit' in subsection (9) for its taxation year that ends in that particular taxation year, the trust may, in its return of income for its taxation year that ends in that particular taxation year, designate the portion of that amount that can, having regard to all the circumstances including the terms and conditions of the trust, reasonably be considered to be attributable to the taxpayer and was not designated by the trust in respect of any other beneficiary of the trust, and that portion shall be added in computing the investment tax credit of the taxpayer at the end of that particular taxation year and shall be deducted in computing the investment tax credit of the trust at the end of its taxation year that ends in that particular taxation year."

S. 127(7) was amended by S.C. 1996, c. 21, s. 30(3), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

S. 127(7) formerly read:

"(7) *Investment tax credit of testamentary trust.* Where, in a particular taxation year of a taxpayer who is a beneficiary under a testamentary trust or under an *inter vivos* trust that is deemed to be in existence by section 143, an amount is determined in respect of the trust under paragraph (*a*), (*b*) or (*e.1*) of the definition 'investment tax credit' in subsection (9) for its taxation year ending in that particular taxation year, the trust may, in its return of income under this Part for its taxation year ending in that particular taxation year, designate such portion of that amount as may, having regard to all the circumstances including the terms and conditions of the trust, reasonably be considered to be attributable to the taxpayer and was not designated by the trust in respect of any other beneficiary of that trust, and that portion shall be added in computing the investment tax credit of the taxpayer at the end of that particular taxation year and shall be deducted in computing the investment tax credit of the trust at the end of its taxation year ending in that particular taxation year."

Related Sections: S. 53(2)(*h*)(ii) Amounts to be deducted — Capital interest in a trust; s. 127(11.2) Time of expenditure and acquisition; s. 127(11.5)–(11.8) Adjustments to qualified expenditures.

► 127(8) ◄

(8) Investment tax credit of partnership. Subject to subsections (28) and (28.1), where, in a particular taxation year of a taxpayer who is a member of a partnership, an amount would be determined in respect of the partnership, for its taxation year that ends in the particular taxation year, under paragraph (*a*), (*a.1*), (*a.4*), (*a.5*), (*b*) or (*e.1*) of the definition "investment tax credit" in subsection (9), if

(*a*) except for the purpose of subsection (13), the partnership were a person and its fiscal period were its taxation year, and

(*b*) in the case of a taxpayer who is a specified member of the partnership in the taxation year of the partnership, that definition were read without reference to paragraph (*a.1*) thereof, and paragraph (*e.1*) of that definition were read without reference to subparagraphs (ii) to (iv) thereof,

the portion of that amount that can reasonably be considered to be the taxpayer's share thereof shall be added in

computing the investment tax credit of the taxpayer at the end of the particular year.

History: S. 127(8), the portion before paragraph (*a*) was replaced by S.C. 2007, c. 35, s. 43(3), applicable on and after March 19, 2007. S. 127(8), the portion before paragraph (*a*) formerly read:

"(8) *Investment tax credit of partnership.* Subject to subsection (28), where, in a particular taxation year of a taxpayer who is a member of a partnership, an amount would be determined in respect of the partnership, for its taxation year that ends in the particular taxation year, under paragraph (*a*), (*a.1*), (*a.4*), (*b*) or (*e.1*) of the definition 'investment tax credit' in subsection (9), if"

S. 127(8), the portion before paragraph (*a*) was replaced by S.C. 2007, c. 2, s. 34(3), applicable to taxation years that end on or after May 2, 2006.

S. 127(8), the portion before paragraph (*a*) formerly read:

"(8) *Investment tax credit of partnership.* Subject to subsection (28), where, in a particular taxation year of a taxpayer who is a member of a partnership, an amount would be determined in respect of the partnership, for its taxation year that ends in the particular year, under paragraph (*a*), (*a.1*), (*b*) or (*e.1*) of the definition 'investment tax credit' in subsection (9), if"

S. 127(8), the portion before paragraph (*a*) was amended by S.C. 1999, c. 22, s. 48(1), applicable to dispositions and conversions of property that occur after February 23, 1998. S. 127(8), the portion before paragraph (*a*) formerly read:

"(8) *Investment tax credit of partnership.* Where, in a particular taxation year of a taxpayer who is a member of a partnership, an amount would be determined in respect of the partnership, for its taxation year that ends in the particular year, under paragraph (*a*), (*a.1*), (*b*) or (*e.1*) of the definition 'investment tax credit' in subsection (9), if"

S. 127(8)(*b*)(ii) was amended by S.C. 1996, c. 21, s. 30(4), applicable to taxation years that end after December 2, 1992 and begin before 1996. S. 127(8)(*b*)(ii) formerly read:

"(ii) paragraph (*e.1*) of that definition were read without reference to the words 'or that reduced the amount of an expenditure made by the taxpayer under paragraph (11.1)(*c*)',"

S. 127(8) was amended by S.C. 1996, c. 21, s. 30(5), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

S. 127(8) formerly read:

"(8) *Investment tax credit of partnership.* Where, in a particular taxation year of a taxpayer who is a member of a partnership, an amount would, if the partnership were a person and its fiscal period were its taxation year, be determined in respect of the partnership, for its taxation year ending in that particular taxation year, under paragraph (*a*), (*b*) or (*e.1*) of the definition 'investment tax credit' in subsection (9), if

(*a*) paragraph (*a*) of that definition were read without reference to subparagraph (*a*)(iii) thereof, and

(*b*) in the case of a taxpayer who is a specified member of the partnership in the taxation year of the partnership,

(i) paragraph (*a*) of that definition were read without reference to subparagraph (*a*)(ii) thereof, and

(ii) paragraph (*e.1*) of that definition were read without reference to the words 'the amount of an expenditure made by the taxpayer under paragraph (11.1)(*c*)',

the portion of that amount that may reasonably be considered to be the taxpayer's share thereof shall be added in computing the investment tax credit of the taxpayer at the end of that particular taxation year."

Related Sections: S. 53(2)(*c*)(vi) Amounts to be deducted — Interest in a partnership; s. 96(2.1) Limited partnership losses; s. 127(8.1) Investment tax credit of limited partner; s. 127(8.3) Investment tax credit — allocation of unallocated partnership ITCs; s. 127(8.4) Renunciation to investment tax credit; s. 127(11.2) Time of expenditure and acquisition; s. 127(28) Recapture of investment tax credit of partnership.

SR&ED Application Policies: Application Policy 2004-02R2, Filing Requirements for Claiming SR&ED.

Tax Window Files: Investment Tax Credits Allocated to Members of Partnership, October 16, 1997, CRA Document No. 9710866; Partner's Election with Respect to Investment Tax Credits, February 5, 1998, CRA Document No. 9642016.

► 127(8.1) ◄

(8.1) Investment tax credit of limited partner. Notwithstanding subsection (8), if a taxpayer is a limited partner of a partnership at the end of a fiscal period of the partnership, the amount, if any, determined under subsection (8) to be added in computing the taxpayer's investment tax credit at the end of the taxpayer's taxation year in which that fiscal period ends shall not exceed the lesser of

(*a*) the portion of the amount that would, if this section were read without reference to this subsection, be determined under subsection (8) to be the amount to be added in computing the taxpayer's investment tax credit at the end of the taxpayer's taxation year in which that fiscal period ends as is considered to have arisen because of the expenditure by the partnership of an amount equal to the taxpayer's expenditure base (as determined under subsection (8.2) in respect of the partnership) at the end of that fiscal period, and

(*b*) the taxpayer's at-risk amount in respect of the partnership at the end of that fiscal period.

History: S. 127(8.1) was replaced by S.C. 2007, c. 2, s. 34(4), applicable to taxation years that end on or after May 2, 2006.

S. 127(8.1) formerly read:

"(8.1) *Investment tax credit of limited partner.* Where a taxpayer is a limited partner of a partnership at the end of the partnership's taxation year, the amount referred to under subsection (8) as the amount which can reasonably be considered to be the taxpayer's share of the amounts that would be determined under paragraph (*a*), (*a.1*), (*b*) or (*e.1*) of the definition 'investment tax credit' in subsection (9) in respect of the partnership for the year shall not exceed the lesser of

(*a*) such portion of the amount thereof so determined without reference to this subsection, as is considered to have arisen by virtue of the expenditure by the partnership of an amount equal to the taxpayer's expenditure base (as determined under subsection (8.2)) in respect of the partnership at the end of the year, and

(*b*) the taxpayer's at-risk amount in respect of the partnership at the end of the year."

S. 127(8.1), that portion before paragraph (*a*), was amended by S.C. 1996, c. 21, s. 30(6), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

S. 127(8.1) formerly read:

"(8.1) *Investment tax credit of limited partner.* Where a taxpayer is a limited partner of a partnership at the end of the partnership's taxation year, the amount referred to under subsection (8) as the amount which may reasonably be considered to be the taxpayer's share of the amounts that would be determined under paragraph (*a*), (*b*) or (*e.1*) of the definition 'investment tax credit' in subsection (9), if paragraph (*a*) of that definition were read without reference to subparagraph (*a*)(iii) thereof, in respect of the partnership for the year shall not exceed the lesser of"

Editorial Note: Subsection 127(8.1) limits the ITCs that a partnership can allocate to a limited partner, based on the limited partnership's expenditure base, as described in subsection 127(8.2), and at-risk amount for the partnership, as described in subsection 96(2.2).

Related Sections: S. 37(13) Non-arm's length contract — linked work; s. 96(2.1)–(2.4) Limited partnership losses; s. 127(8.2) Expenditure base; s. 127(8.5) Definitions.

Tax Window Files: Investment Tax Credit — Allocation to General Partner of Limited Partnership, September 28, 1998, CRA Document No. 9817885.

► 127(8.2) ◄

(8.2) Expenditure base. For the purposes of subsection (8.1), a taxpayer's expenditure base in respect of a partnership at the end of a taxation year of the partnership is the lesser of

(*a*) the amount, if any, by which the total of

(i) the taxpayer's at-risk amount in respect of the partnership at the time the taxpayer last became a limited partner of the partnership,

(ii) all amounts described in subparagraph 53(1)(*e*)(iv) contributed by the taxpayer after the time the taxpayer last became a limited partner of the partnership and before the end of the year that may reasonably be considered to have increased the taxpayer's at-risk amount in respect of the partnership at the end of the taxation year in which the contribution was made, and

(iii) the amount, if any, by which

(A) the total of all amounts each of which is the taxpayer's share of any income of the partnership as determined under paragraph 96(1)(*f*) for the year, or a preceding year ending after the time the taxpayer last became a limited partner of the partnership,

exceeds

(B) the total of all amounts each of which is the taxpayer's share of any loss of the partnership as determined under paragraph 96(1)(*g*) for one of those years

exceeds the total of

(iv) all amounts received by the taxpayer after the time the taxpayer last became a limited partner of the partnership and before the end of the year as, on account or in lieu of payment of, or in satisfaction of, a distribution of the taxpayer's share of partnership profits or partnership capital, and

(v) the total of all amounts each of which is the amount of an expenditure of the partnership referred to in paragraph (8.1)(*a*) in respect of the taxpayer for a preceding year, and

(*b*) that proportion of the lesser of

(i) the total of all amounts each of which is, if the partnership were a person and its fiscal period were its taxation year,

(A) an amount a specified percentage of which would be determined in respect of the partnership under paragraph (*a*), (*b*) or (*e*.1) of the definition "investment tax credit" in subsection (9) for the year,

(A.1) an amount that would be the apprenticeship expenditure of the partnership if the reference to "$2,000" in paragraph (*a*) of the definition "apprenticeship expenditure" in subsection (9) were read as a reference to "$20,000" and paragraph (*b*) of that definition were read without reference to "10% of",

(A.2) an amount that would be the child care space amount in respect of a property of the partnership if the reference to "$10,000" in paragraph (*a*) of the definition "child care space amount" in subsection (9) were read as a reference to "$40,000" and paragraph (*b*) of that definition were read without reference to "25% of", or

(B) the amount that would be the SR&ED qualified expenditure pool of the partnership at the end of the year, and

(ii) the total of all amounts each of which is the amount determined under paragraph (*a*) in respect of each of the limited partners of the partnership at the end of the year

that

(iii) the amount determined in respect of the taxpayer under paragraph (*a*) for the year

is of

(iv) the amount determined under subparagraph (ii).

History: S. 127(8.2)(*b*)(i)(A.2) was added by S.C. 2007, c. 35, s. 43(4), applicable on and after March 19, 2007.

S. 127(8.2)(*b*)(i)(A.1) was added by S.C. 2007, c. 2, s. 34(5), applicable to taxation years that end on or after May 2, 2006.

S. 127(8.2)(*b*)(i) was amended by S.C. 1996, c. 21, s. 30(7), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

S. 127(8.2)(*b*)(i) formerly read:

"(i) the total of all amounts each of which is an amount a specified percentage of which would, if the partnership were a person and its fiscal period were its taxation year, be determined in respect of the partnership under paragraph (*a*), (*b*) or (*e*.1) of the definition 'investment tax credit' in subsection (9), if paragraph (*a*) of that definition were read without reference to subparagraph (*a*)(iii) thereof, for the taxation year, and"

Related Sections: S. 37(13) Non-arm's length contract — linked work.

Tax Window Files: Allocation of Investment Tax Credit to General Partner, 2003, CRA Document No. 2003-0017923; Investment Tax Credit — Allocation to General Partner of Limited Partnership, September 28, 1998, CRA Document No. 9817885.

► 127(8.3) ◄

(8.3) Investment tax credit — allocation of unallocated partnership ITCs. For the purpose of subsection (8), and subject to subsection (8.4), if a taxpayer is a member of a partnership (other than a specified member) throughout a fiscal period of the partnership, there shall be added to the amount that can reasonably be considered to be that member's share of the amount determined under subsection (8) the amount, if any, that is such portion of the amount determined under subsection (8.31) in respect of that fiscal period as is reasonable in the circumstances (having regard to the investment in the partnership, including debt obligations of the partnership, of each of those members of the partnership who was a member of the partnership throughout the fiscal period of the partnership and who was not a specified member of the partnership during the fiscal period of the partnership).

History: S. 127(8.3) was replaced by S.C. 2007, c. 2, s. 34(6), applicable to taxation years that end on or after May 2, 2006 except that, in respect of a taxpayer's taxation year that ends in 2006, subsections 127(8.3) and (8.31) shall be read as follows:

"(8.3) Where

(*a*) the amount that would, if the partnership were a person and its fiscal period were its taxation year, be determined in respect of the partnership under paragraph (*a*), (*a.1*), (*a.4*), (*b*) or (*e.1*) of the definition 'investment tax credit' in subsection (9) for a taxation year

exceeds

(*b*) the total of all amounts each of which is the amount determined, under subsections (8) and (8.1), to be the share thereof of a limited partner of the partnership,

such portion of the excess as is reasonable in the circumstances (having regard to the investment in the partnership, including debt obligations of the partnership, of each of those members of the partnership who was a member of the partnership throughout the fiscal period of the partnership and who was not a limited partner of the partnership during the fiscal period of the partnership) shall, for the purposes of subsection (8), be considered to be the amount that may reasonably be considered to be that member's share of the amount described in paragraph (*a*)."

S. 127(8.3) formerly read:

"(8.3) *Investment tax credit not allocated to limited partners.* Where

(*a*) the amount that would, if the partnership were a person and its fiscal period were its taxation year, be determined in respect of the partnership under paragraph (*a*), (*a.*1), (*b*) or (*e.*1) of the definition 'investment tax credit' in subsection (9) for a taxation year

exceeds

(*b*) the total of all amounts each of which is the amount determined, under subsections (8) and (8.1), to be the share thereof of a limited partner of the partnership,

such portion of the excess as is reasonable in the circumstances (having regard to the investment in the partnership, including debt obligations of the partnership, of each of those members of the partnership who was a member of the partnership throughout the fiscal period of the partnership and who was not a limited partner of the partnership during the fiscal period of the partnership) shall, for the purposes of subsection (8), be considered to be the amount that may reasonably be considered to be that member's share of the amount described in paragraph (*a*)."

S. 127(8.3)(*a*) was amended by S.C. 1996, c. 21, s. 30(8), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

S. 127(8.3)(*a*) formerly read:

"(*a*) the amount that would, if the partnership were a person and its fiscal period were its taxation year, be determined in respect of the partnership under paragraph (*a*), (*b*) or (*e.*1) of the definition 'investment tax credit' in subsection (9), if paragraph (*a*) of that definition were read without reference to subparagraph (*a*)(iii) thereof, for a taxation year"

Related Sections: S. 37(13) Non-arm's length contract — linked work; s. 96(2.1)–96(2.4) Limited partnership losses; s. 127(8.5) Definitions.

Tax Window Files: Allocation of Investment Tax Credit to General Partner, 2003, CRA Document No. 2003-0017923; Investment Tax Credit — Allocation to General Partner of Limited Partnership, September 28, 1998, CRA Document No. 9817885.

► 127(8.31) ◄

(8.31) Amount of unallocated partnership ITC. For the purpose of subsection (8.3), the amount determined under this subsection in respect of a fiscal period of a partnership is the amount, if any, by which

(*a*) the total of all amounts each of which is an amount that would, if the partnership were a person and its fiscal period were its taxation year, be determined in respect of the partnership under paragraph (*a*), (*a.1*), (*a.4*), (*a.5*), (*b*) or (*e.1*) of the definition "investment tax credit" in subsection (9) for a taxation year that is the fiscal period,

exceeds

(*b*) the total of

(i) the total of all amounts each of which is the amount determined under subsection (8) in respect of the fiscal period to be the share of the total determined under paragraph (*a*) of a partner of the partnership (other than a member of the partnership who was at any time in the fiscal period of the partnership a specified member of the partnership), and

(ii) the total of all amounts each of which is the amount determined under subsection (8), with reference to subsection (8.1), in respect of the fiscal period to be the share of the total determined under paragraph (*a*) of a partner of the partnership who was at any time in the fiscal period of the partnership a specified member of the partnership.

(iii) [Repealed.]

History: S. 127(8.31)(*a*) was replaced by S.C. 2007, c. 35, s. 43(5), applicable on and after March 19, 2007. S. 127(8.31)(*a*) formerly read:

"(*a*) the total of all amounts each of which is an amount that would, if the partnership were a person and its fiscal period were its taxation year, be determined in respect of the partnership under paragraph (*a*), (*a.1*), (*a.4*), (*b*) or (*e.1*) of the definition 'investment tax credit' in subsection (9) for a taxation year that is the fiscal period,"

S. 127(8.31)(*b*)(iii) was repealed by S.C. 2007, c. 35, s. 43(6), applicable to the 2007 and subsequent taxation years. S. 127(8.31)(*b*)(iii) formerly read:

"(iii) the amount, if any, by which

(A) the amount that would be determined under subparagraph (i) in respect of the partners referred to in subparagraph (ii) if subparagraph (i) applied only to those partners and those partners were not specified members of the partnership,

exceeds

(B) the amount determined under subparagraph (ii) in respect of those partners."

S. 127(8.31) was added by S.C. 2007, c. 2, s. 34(6), applicable to taxation years that end on or after May 2, 2006 except that, in respect of a taxpayer's taxation year that ends in 2006, subsections 127(8.3) and (8.31) shall be read as follows:

"(8.3) Where

(*a*) the amount that would, if the partnership were a person and its fiscal period were its taxation year, be determined in respect of the partnership under paragraph (*a*), (*a.1*), (*a.4*), (*b*) or (*e.1*) of the definition 'investment tax credit' in subsection (9) for a taxation year

exceeds

(*b*) the total of all amounts each of which is the amount determined, under subsections (8) and (8.1), to be the share thereof of a limited partner of the partnership,

such portion of the excess as is reasonable in the circumstances (having regard to the investment in the partnership, including debt obligations of the partnership, of each of those members of the partnership who was a member of the partnership throughout the fiscal period of the partnership and who was not a limited partner of the partnership during the fiscal period of the partnership) shall, for the purposes of subsection (8), be considered to be the amount that may reasonably be considered to be that member's share of the amount described in paragraph (*a*)."

► 127(8.4) ◄

(8.4) Idem. Notwithstanding subsection (8), where, pursuant to subsections (8) and (8.3) an amount would, but for this subsection, be required to be added in computing the investment tax credit of a taxpayer for a taxation year, where the taxpayer so elects in prescribed form and manner in the taxpayer's return of income (other than a return of income filed under subsection 70(2) or 104(23), paragraph 128(2)(*e*) or subsection 150(4)) under this Part for the year, such portion of the amount as is elected by the taxpayer shall, for the purposes of this section, be deemed not to have been required by subsection (8) to have been added in computing the taxpayer's investment tax credit at the end of the year.

Forms: T932.

► 127(8.5) ◄

(8.5) Definitions. In subsections (8.1) to (8.4), the words "at-risk amount" of a taxpayer and "limited partner"

of a partnership have the meanings assigned to those words by subsections 96(2.2) and (2.4), respectively.

► 127(9) ◄

(9) Idem. In this section,

Regulations: Part XXIX; Part XLVI; 2902.

Tax Window Files: SR&ED Government Assistance, May 3, 2007, CRA Document No. 2007-0224191E5; Lease of used equipment & non-arm's length party, February 15, 2007, CRA Document No. 2006-0206761I7; SR&ED Used Equipment, January 30, 2007, CRA Document No. 2006-0211041E5; Allocation of Investment Tax Credit to General Partner, 2003, CRA Document No. 2003-0017923.

"annual investment tax credit limit" — [Repealed by S.C. 1994, c. 8, s. 15(2).]

History: S. 127(9), the definition of "annual investment tax credit limit", was repealed by S.C. 1994, c. 8, s. 15(2), applicable to taxation years that begin after 1993. S. 127(9), the definition of "annual investment tax credit limit", formerly read:

"*'annual investment tax credit limit'* — 'annual investment tax credit limit' of a taxpayer for a taxation year means

(*a*) in the case of a corporation, the total of

(i) 3/4 of the corporation's tax otherwise payable under this Part for the year, and

(ii) where the corporation is a Canadian-controlled private corporation throughout the year, 3% of the least of the amounts determined under paragraphs 125(1)(*a*) to (*c*) in respect of the corporation for the year, and

(*b*) in any other case, the total of

(i) $24,000, and

(ii) 3/4 of the amount, if any, by which the taxpayer's tax otherwise payable under this Part for the year exceeds $24,000;"

"apprenticeship expenditure" — "apprenticeship expenditure" of a taxpayer for a taxation year in respect of an eligible apprentice is the lesser of

(*a*) $2,000, and

(*b*) 10% of the eligible salary and wages payable by the taxpayer in the taxation year to the eligible apprentice in respect of the eligible apprentice's employment in the taxation year and on or after May 2, 2006, by the taxpayer in a business carried on in Canada by the taxpayer in the taxation year;

History: S. 127(9), the definition "apprenticeship expenditure" was added by S.C. 2007, c. 2, s. 34(8), applicable to taxation years that end on or after May 2, 2006.

Related Sections: S. 127(9), "investment tax credit, paragraph (*a*.4); s. 127(11.1)(c.4) Investment tax credit.

"approved project" — "approved project" means a project with a total capital cost of depreciable property, determined without reference to subsection 13(7.1) or (7.4), of not less than $25,000 that has, on application in writing before July, 1988, been approved by such member of the Queen's Privy Council for Canada as is designated by the Governor in Council for the purposes of this definition in relation to projects in the appropriate province or region of a province;

"approved project property" — [Repealed by S.C. 1996, c. 21, s. 30(9).]

History: S. 127(9), the definition "approved project property", was repealed by S.C. 1996, c. 21, s. 30(9), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

That definition formerly read:

"*'approved project property'* — 'approved project property' of a taxpayer means property that is certified by the member of the Queen's Privy Council for Canada appointed to be the Minister for the purposes of the *Atlantic Canada Opportunities Agency Act* to be property that has not been used, or acquired for use or lease, for any purpose whatever before it was acquired by the taxpayer, and to be

(*a*) a prescribed building, to the extent that it is acquired by the taxpayer after May 23, 1985 and before 1993, or

(*b*) prescribed machinery and equipment acquired by the taxpayer after May 23, 1985 and before 1993,

that has been acquired pursuant to a plan by the taxpayer to use the property in Cape Breton primarily for an approved purpose in an approved project or, in the case of a prescribed building, to be leased by the taxpayer to a lessee (other than a person exempt from tax under this Part by virtue of section 149) who can reasonably be expected to use the building pursuant to a plan to use it in Cape Breton primarily for an approved purpose in an approved project, or

(*c*) part of a prescribed building to the extent that the part is acquired by the taxpayer after May 23, 1985 and before 1993 to be

(i) used by the taxpayer, or

(ii) leased by the taxpayer to a lessee (other than a person exempt from tax under this Part by virtue of section 149) who can reasonably be expected to use that part

pursuant to a plan to use that part in Cape Breton primarily for an approved purpose in an approved project, or

(*d*) where the taxpayer is a leasing corporation, prescribed machinery and equipment acquired by the taxpayer after May 23, 1985 and before 1993, to be leased by the taxpayer in the ordinary course of carrying on a business in Canada to a lessee (other than a person exempt from tax under this Part by virtue of section 149) who can reasonably be expected to use the property in Cape Breton primarily for an approved purpose in an approved project, but this paragraph only applies if the first lessee of the property commenced use of the property after May 23, 1985,

and for the purposes of this definition,

(*e*) 'for an approved purpose' means for the purpose of

(i) any of the activities described in subparagraphs (*c*)(i) to (ix), (xi) and (xii) of the definition 'qualified property' in this subsection,

(ii) farming, or

(iii) a prescribed activity, and

(*f*) 'leasing corporation' means a corporation the principal business of which is leasing property, manufacturing property that it sells or leases, the lending of money, the purchasing of conditional sales contracts, accounts receivable, bills of sale, chattel mortgages, bills of exchange or other obligations representing part or all of the sale price of merchandise or services, or selling or servicing a type of property that it also leases, or any combination thereof;"

"Cape Breton" — "Cape Breton" means Cape Breton Island and that portion of the Province of Nova Scotia within the following described boundary:

beginning at a point on the southwesterly shore of Chedabucto Bay near Red Head, said point being S70 degrees E (Nova Scotia grid meridian) from Geodetic Station Sand, thence in a southwesterly direction to a point on the northwesterly boundary of highway 344, said point being southwesterly 240' from the intersection of King Brook with said highway boundary, thence northwesterly to Crown post 6678, thence continuing northwesterly to Crown post 6679, thence continuing northwesterly to Crown post 6680, thence continuing northwesterly to Crown post 6681, thence continuing northwesterly to Crown post 6632, thence continuing northwesterly to Crown post 6602, thence northerly to Crown post 8575; thence northerly to Crown post 6599, thence continuing northerly to Crown post 6600, thence northwesterly to the southwest angle of the Town of Mulgrave, thence along the westerly boundary of the Town of Mulgrave and a prolongation thereof northerly to the Antigonish-Guysborough county line, thence along said county line northeasterly to the southwesterly shore of the Strait of Canso, thence following the southwesterly shore of the Strait of Canso and the northwesterly shore of

Chedabucto Bay southeasterly to the place of beginning;

"certified property" — "certified property" of a taxpayer means any property (other than an approved project property) described in paragraph (*a*) or (*b*) of the definition "qualified property" in this subsection

(*a*) that was acquired by the taxpayer

(i) after October 28, 1980 and

(A) before 1987, or

(B) before 1988 where the property is

(I) a building under construction before 1987, or

(II) machinery and equipment ordered in writing by the taxpayer before 1987,

(ii) after 1986 and before 1989, other than a property included in subparagraph (i),

(iii) after 1988 and before 1995,

(iv) after 1994 and before 1996 where

(A) the property is acquired by the taxpayer for use in a project that was substantially advanced by or on behalf of the taxpayer, as evidenced in writing, before February 22, 1994, and

(B) construction of the project by or on behalf of the taxpayer begins before 1995, or

(v) after 1994 where the property

(A) is acquired by the taxpayer under a written agreement of purchase and sale entered into by the taxpayer before February 22, 1994,

(B) was under construction by or on behalf of the taxpayer on February 22, 1994, or

(C) is machinery or equipment that will be a fixed and integral part of property under construction by or on behalf of the taxpayer on February 22, 1994,

and that has not been used, or acquired for use or lease, for any purpose whatever before it was acquired by the taxpayer, and

(*b*) that is part of a facility as defined for the purposes of the *Regional Development Incentives Act*, chapter R-3 of the Revised Statutes of Canada, 1970, and was acquired primarily for use by the taxpayer in a prescribed area;

History: S. 127(9), subparagraph (*a*)(iii) of the definition "certified property", was amended and subparagraphs (*a*)(iv) and (*a*)(v) added, by S.C. 1995, c. 3, s. 37(1), applicable to property acquired and expenditures incurred after 1994. Subparagraph (*a*)(iii) of the definition "certified property" formerly read:

"(iii) after 1988,"

Regulations: 4602.

"child care space amount" — "child care space amount" of a taxpayer for a taxation year is, if the provision of child care spaces is ancillary to one or more businesses of the taxpayer that are carried on in Canada in the taxation year and that do not otherwise include the provision of child care spaces, the lesser of

(*a*) the amount obtained when $10,000 is multiplied by the number of new child care spaces created by the taxpayer during the taxation year in a licensed child care facility for the benefit of children of the taxpayer's employees, or of a combination of children of the taxpayer's employees and other children; and

(*b*) 25% of the taxpayer's eligible child care space expenditure for the taxation year;

History: S. 127(9), the definition "child care space amount" was added by S.C. 2007, c. 35, s. 43(13), applicable to expenditures incurred on and after March 19, 2007.

"contract payment" — "contract payment" means

(*a*) an amount paid or payable to a taxpayer, by a taxable supplier in respect of the amount, for scientific research and experimental development to the extent that it is performed

(i) for or on behalf of a person or partnership entitled to a deduction in respect of the amount because of subparagraph 37(1)(*a*)(i) or (i.1), and

(ii) at a time when the taxpayer is dealing at arm's length with the person or partnership, or

(*b*) an amount, other than a prescribed amount, payable by a Canadian government or municipality or other Canadian public authority or by a person exempt, because of section 149, from tax under this Part on all or part of the person's taxable income for scientific research and experimental development to be performed for it or on its behalf;

History: S. 127(9), paragraph (*a*) of the definition "contract payment", was amended by S.C. 1996, c. 21, s. 30(11), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

That paragraph formerly read:

"(*a*) an amount payable for scientific research and experimental development to the extent that it can reasonably be considered to have been performed for, or on behalf of, a person entitled to a deduction in respect of the amount because of subparagraph 37(1)(*a*)(i) or clause 37(1)(*a*)(ii)(D), or"

S. 127(9), the definition "contract payment", was amended by S.C. 1994, c. 7, Sched. VIII, s. 68(2), applicable to amounts that become payable after December 20, 1991. The definition formerly read:

"*'contract payment'* — 'contract payment' means

(*a*) an amount payable by a person resident in Canada for scientific research and experimental development related to the business of that person,

(*b*) an amount, other than a prescribed amount, payable by a Canadian government, municipality or other Canadian public authority or by a person exempt from tax under Part I by virtue of section 149 for scientific research and experimental development to be performed for it or on its behalf, or

(*c*) an amount payable by a person not resident in Canada if that person is entitled to a deduction under clause 37(1)(*a*)(ii)(D) in respect of the amount;"

Related Sections: S. 127(18) Reduction of qualified expenditures; s. 127(19) Reduction of qualified expenditures; s. 127(24) Exclusion from qualified expenditure; s. 127(25) Deemed contract payment.

Regulations: 4606.

SR&ED Application Policies: Application Policy 2005-02, General Rules Concerning the Treatment of Government and Non-Government Assistance; Application Policy 2004-03, Prototypes, Pilot Plants/Commercial Plants, Custom Products and Commercial Assets; Application Policy 2002-03, Taxable Supplier Rates; Application Policy 94-04, Definition of "contract payment" in subsection 127(9).

Tax Topics: No. 1830, The CRA's Revised Position on SR&ED Contracts.

Tax Window Files: Scientific Research and Experimental Development — Activities Performed on Behalf of Foreign Corporation, October 7, 2005, CRA Document No. 2005-0140991C6; Research and Development, September 11, 2001, CRA Document No. 2001-0078855; Investment Tax Credit —

Moveable Hopper, November 1 and 25, 1993, CRA Document No. 9321745; 9322255; Certified Property — Investment Tax Credit — Natural Gas Processing Plant, January 26, 1993, CRA Document No. 9232387.

"designated region" — [Repealed by 1986, c. 6, s. 71(2).]

"eligible apprentice" — "eligible apprentice" means an individual who is employed in Canada in a trade prescribed in respect of a province or in respect of Canada, during the first twenty-four months of the individual's apprenticeship contract registered with the province or Canada, as the case may be, under an apprenticeship program designed to certify or license individuals in the trade;

History: S. 127(9), the definition "eligible apprentice" was replaced by S.C. 2007, c. 35, s. 43(7), applicable to taxation years ending on or after May 2, 2006. S. 127(9), the definition "eligible apprentice" formerly read:

"*'eligible apprentice'* — 'eligible apprentice' means an individual who is employed in a prescribed trade in Canada during the first two years of the individual's apprenticeship contract, which is registered with Canada or a province under an apprenticeship program designed to certify or license individuals in the trade;"

S. 127(9), the definition "eligible apprentice" was added by S.C. 2007, c. 2, s. 34(8), applicable to taxation years that end on or after May 2, 2006.

Regulations: 7310.

"eligible child care space expenditure" — "eligible child care space expenditure" of a taxpayer for a taxation year is the total of all amounts each of which is an amount

(*a*) that is incurred by the taxpayer in the taxation year for the sole purpose of the creation of one or more new child care spaces in a licensed child care facility operated for the benefit of children of the taxpayer's employees, or of a combination of children of the taxpayer's employees and other children, and

(*b*) that is

(i) incurred by the taxpayer to acquire depreciable property of a prescribed class (other than a specified property) for use in the child care facility, or

(ii) incurred by the taxpayer to make a specified child care start-up expenditure in respect of the child care facility;

History: S. 127(9), the definition "eligible child care space expenditure" was added by S.C. 2007, c. 35, s. 43(13), applicable to expenditures incurred on and after March 19, 2007.

"eligible salary and wages" — "eligible salary and wages" payable by a taxpayer to an eligible apprentice means the amount, if any, that is the salary and wages payable by the taxpayer to the eligible apprentice in respect of the first 24 months of the apprenticeship (other than remuneration that is based on profits, bonuses, amounts described in section 6 or 7, and amounts deemed to be incurred by subsection 78(4));

History: S. 127(9), the definition "eligible salary and wages" was added by S.C. 2007, c. 2, s. 34(8), applicable to taxation years that end on or after May 2, 2006.

Related Sections: S. 127(11.4) Special rule for eligible salary and wages — apprentices.

"eligible taxpayer" — "eligible taxpayer" means

(*a*) a corporation other than a non-qualifying corporation,

(*b*) an individual other than a trust,

(*c*) a trust all the beneficiaries of which are eligible taxpayers, and

(*d*) a partnership all the members of which are eligible taxpayers,

and, for the purpose of this definition, a beneficiary of a trust is a person or partnership that is beneficially interested in the trust;

History: S. 127(9), the definition of "eligible taxpayer", was added by S.C. 1994, c. 8, s. 15(9), applicable to property acquired after December 2, 1992.

Related Sections: S. 248(25) Beneficially interested.

"first term shared-use-equipment" — "first term shared-use-equipment" of a taxpayer means depreciable property of the taxpayer (other than prescribed depreciable property of a taxpayer) that is used by the taxpayer, during its operating time in the period (in this subsection and subsection (11.1) referred to as the "first period") beginning at the time the property was acquired by the taxpayer and ending at the end of the taxpayer's first taxation year ending at least 12 months after that time, primarily for the prosecution of scientific research and experimental development in Canada, but does not include general purpose office equipment or furniture;

History: S. 127(9), the definition of "first term shared-use-equipment", was added by S.C. 1994, c. 8, s. 15(9), applicable to property acquired after December 2, 1992.

Related Sections: S. 88(1)(e.3) Winding-up; s. 127(11.5)(b)
Regulations: 2900(11).
SR&ED Application Policies: Application Policy 2005-01, Shared-Use Equipment; Application Policy 2003-01, Capital Property Intended to be Used All or Substantially All for SR&ED.

"flow-through mining expenditure" — "flow-through mining expenditure" of a taxpayer for a taxation year means an expense deemed by subsection 66(12.61) (or by subsection 66(18) as a consequence of the application of subsection 66(12.61) to the partnership, referred to in paragraph (*c*) of this definition, of which the taxpayer is a member) to be incurred by the taxpayer in the year

(*a*) that is a Canadian exploration expense incurred by a corporation after March 2009 and before 2011 (including, for greater certainty, an expense that is deemed by subsection 66(12.66) to be incurred before 2011) in conducting mining exploration activity from or above the surface of the earth for the purpose of determining the existence, location, extent or quality of a mineral resource described in paragraph (*a*) or (*d*) of the definition "mineral resource" in subsection 248(1),

(*b*) that

(i) is an expense described in paragraph (*f*) of the definition "Canadian exploration expense" in subsection 66.1(6), and

(ii) is not an expense in respect of

(A) trenching, if one of the purposes of the trenching is to carry out preliminary sampling (other than specified sampling),

(B) digging test pits (other than digging test pits for the purpose of carrying out specified sampling), and

(C) preliminary sampling (other than specified sampling),

(*c*) an amount in respect of which is renounced in accordance with subsection 66(12.6) by the corporation to the taxpayer (or a partnership of which the taxpayer is a member) under an agreement described in that subsection and made after March 2009 and before April 2010, and

(*d*) that is not an expense that was renounced under subsection 66(12.6) to the corporation (or a partnership of which the corporation is a member), unless

that renunciation was under an agreement described in that subsection and made after March 2009 and before April 2010;

(*e*) [Repealed by S.C. 2003, c. 15, s. 81(2).]

History: S. 127(9), paragraph (*a*) of the definition "flow-through mining expenditure" was replaced by S.C. 2009, c. 2, s. 40(1), applicable to expenses renounced under a flow-through share agreement made after March 2009. S. 127(9), paragraph (*a*) of the definition "flow-through mining expenditure" formerly read:

"(*a*) that is a Canadian exploration expense incurred by a corporation after March 2008 and before 2010 (including, for greater certainty, an expense that is deemed by subsection 66(12.66) to be incurred before 2010) in conducting mining exploration activity from or above the surface of the earth for the purpose of determining the existence, location, extent or quality of a mineral resource described in paragraph (*a*) or (*d*) of the definition 'mineral resource' in subsection 248(1),"

S. 127(9), paragraphs (*c*) and (*d*) of the definition "flow-through mining expenditure" were replaced by S.C. 2009, c. 2, s. 40(2), applicable to expenses renounced under a flow-through share agreement made after March 2009. S. 127(9), paragraphs (*c*) and (*d*) of the definition "flow-through mining expenditure" formerly read:

"(*c*) an amount in respect of which is renounced in accordance with subsection 66(12.6) by the corporation to the taxpayer (or a partnership of which the taxpayer is a member) under an agreement described in that subsection and made after March 2008 and before April 2009, and

(*d*) that is not an expense that was renounced under subsection 66(12.6) to the corporation (or a partnership of which the corporation is a member), unless that renunciation was under an agreement described in that subsection and made after March 2008 and before April 2009;"

S. 127(9), paragraph (*a*) of the definition "flow-through mining expenditure" was replaced by S.C. 2008, c. 28, s. 19(1), applicable to expenses renounced under a flow through share agreement made after March 2008. S. 127(9), paragraph (*a*) of the definition "flow-through mining expenditure" formerly read:

"(*a*) that is a Canadian exploration expense incurred by a corporation after March 2007 and before 2009 (including, for greater certainty, an expense that is deemed by subsection 66(12.66) to be incurred before 2009) in conducting mining exploration activity from or above the surface of the earth for the purpose of determining the existence, location, extent or quality of a mineral resource described in paragraph (*a*) or (*d*) of the definition 'mineral resource' in subsection 248(1),"

S. 127(9), paragraphs (*c*) and (*d*) of the definition "flow-through mining expenditure" were replaced by S.C. 2008, c. 28, s. 19(2), applicable to expenses renounced under a flow through share agreement made after March 2008. S. 127(9), paragraphs (*c*) and (*d*) of the definition "flow-through mining expenditure" formerly read:

"(*c*) an amount in respect of which is renounced in accordance with subsection 66(12.6) by the corporation to the taxpayer (or a partnership of which the taxpayer is a member) under an agreement described in that subsection and made after March 2007 and before April 2008, and

(*d*) that is not an expense that was renounced under subsection 66(12.6) to the corporation (or a partnership of which the corporation is a member), unless that renunciation was under an agreement described in that subsection and made after March 2007 and before April 2008;"

S. 127(9), paragraph (*a*) of the definition "flow-through mining expenditure" was replaced by S.C. 2007, c. 35, s. 43(8), applicable to expenses renounced under agreements made after March 2007. S. 127(9), paragraph (*a*) of the definition "flow-through mining expenditure" formerly read:

"(*a*) that is a Canadian exploration expense incurred by a corporation after May 1, 2006 and before 2008 (including, for greater certainty, an expense that is deemed by subsection 66(12.66) to be incurred before 2008) in conducting mining exploration activity from or above the surface of the earth for the purpose of determining the existence, location, extent or quality of a mineral resource described in paragraph (*a*) or (*d*) of the definition "mineral resource" in subsection 248(1),"

S. 127(9), paragraphs (*c*) and (*d*) of the definition "flow-through mining expenditure" were replaced by S.C. 2007, c. 35, s. 43(9), applicable to expenses renounced under agreements made after March 2007. S. 127(9), paragraphs (*c*) and (*d*) of the definition "flow-through mining expenditure" formerly read:

"(*c*) an amount in respect of which is renounced in accordance with subsection 66(12.6) by the corporation to the taxpayer (or a partnership of which the taxpayer is a member) under an agreement described in that subsection and made after May 1, 2006 and before April 1, 2007, and

(*d*) that is not an expense that was renounced under subsection 66(12.6) to the corporation (or a partnership of which the corporation is a member), unless that renunciation was under an agreement described in that subsection and made after May 1, 2006 and before April 1, 2007;"

S. 127(9), paragraph (*a*) of the definition "flow-through mining expenditure" was replaced by S.C. 2006, c. 4, s. 75(2), applicable to expenses renounced under agreements made after May 1, 2006. S. 127(9), paragraph (*a*) of the definition "flow-through mining expenditure" formerly read:

"(*a*) that is a Canadian exploration expense incurred after October 17, 2000 and before 2006 by a corporation in conducting mining exploration activity from or above the surface of the earth for the purpose of determining the existence, location, extent or quality of a mineral resource described in paragraph (*a*) or (*d*) of the definition 'mineral resource' in subsection 248(1),"

S. 127(9), paragraphs (*c*) and (*d*) of the definition "flow-through mining expenditure" were replaced by S.C. 2006, c. 4, s. 75(3), applicable to expenses renounced under agreements made after May 1, 2006. S. 127(9), paragraphs (*c*) and (*d*) of the definition "flow-through mining expenditure" formerly read:

"(*c*) an amount in respect of which is renounced in accordance with subsection 66(12.6) by the corporation to the taxpayer (or a partnership of which the taxpayer is a member) under an agreement described in that subsection and made after October 17, 2000, and

(*d*) that is not an expense that was renounced under subsection 66(12.6) to the corporation (or a partnership of which the corporation is a member), unless that renunciation was under an agreement described in that subsection and made after October 17, 2000;"

S. 127(9), paragraph (*a*) of the definition "flow-through mining expenditure" was replaced by S.C. 2005, c. 19, s. 28(1), applicable after March 23, 2004. S. 127(9), paragraph (*a*) of the definition "flow-through mining expenditure" formerly read:

"(*a*) that is a Canadian exploration expense incurred after October 17, 2000 and before 2005 by a corporation in conducting mining exploration activity from or above the surface of the earth for the purpose of determining the existence, location, extent or quality of a mineral resource described in paragraph (*a*) or (*d*) of the definition 'mineral resource' in subsection 248(1),"

S. 127(9), paragraph (*a*) of the definition "flow-through mining expenditure" was replaced by S.C. 2003, c. 15, s. 81(1), applicable after February 18, 2003. S. 127(9), paragraph (*a*) of the definition "flow-through mining expenditure" formerly read:

"(*a*) that is a Canadian exploration expense incurred after October 17, 2000 and before 2004 by a corporation in conducting mining exploration activity from or above the surface of the earth for the purpose of determining the existence, location, extent or quality of a mineral resource described in paragraph (*a*) or (*d*) of the definition 'mineral resource' in subsection 248(1),"

S. 127(9), paragraph (*e*) of the definition "flow-through mining expenditure" was repealed by S.C. 2003, c. 15, s. 81(1), applicable after February 18, 2003. S. 127(9), paragraph (*e*) of the definition "flow-through mining expenditure" formerly read:

"(*e*) that is an expense that would be incurred by the corporation before 2004 if this Act were read without reference to subsection 66(12.66);"

S. 127(9), the definition "flow-through mining expenditure" was added by S.C. 2001, c. 17, s. 118(7), applicable after October 17, 2000.

Related Sections: S. 127(9), "investment tax credit"; s. 127(11.1)(c.2) Investment tax credit.

"Gaspé Peninsula" — "Gaspé Peninsula" means that portion of the Gaspé region of the Province of Quebec that extends to the western border of Kamouraska County and includes the Magdalen Islands;

Tax Window Files: Investment Tax Credits — Borders of Gaspe Peninsula, April 20, 2005, CRA Document No. 2004-0101461E5.

"government assistance" — "government assistance" means assistance from a government, municipality or other public authority whether as a grant, subsidy, forgivable loan, deduction from tax, investment allowance or as any other form of assistance other than as a deduction under subsection (5) or (6);

Related Sections: S. 12(1)(x) Inducement, reimbursement, etc.; s. 248(16) Goods and services tax — input tax credit and rebate; s. 248(16.1) Goods and services tax — input tax credit and rebate; s. 248(18) Goods and services tax — input tax credit and rebate.

Proposed Related Sections: s. 248(18.1).

SR&ED Application Policies: Application Policy 2005-02, General Rules Concerning the Treatment of Government and Non Government Assistance.

Tax Window Files: SR&ED Government Assistance, May 3, 2007, CRA Document No. 2007-0224191E5; Scientific Research and Experimental Development — Government Assistance, December 23, 2004, CRA Document No. 2004-0095621I7; Research and Development, September 11, 2001, CRA Document No. 2001-0078855.

Cases: When the Coal Research Agreement between the taxpayer and the Province of Alberta required Alberta to sell its equity interest in the project to the taxpayer if it became commercially successful, the $725,000 payment made to the taxpayer constituted some form of government assistance considering that Alberta did not have an ordinary business interest in the project. *The Queen v. CCLC Technologies Inc.*, 96 DTC 6527 (F.C.A.), reversing 95 DTC 5685 (T.C.C.).

"*investment tax credit*" — "investment tax credit" of a taxpayer at the end of a taxation year means the amount, if any, by which the total of

(*a*) the total of all amounts each of which is the specified percentage of the capital cost to the taxpayer of certified property or qualified property acquired by the taxpayer in the year,

(*a*.1) 20% of the amount by which the taxpayer's SR&ED qualified expenditure pool at the end of the year exceeds the total of all amounts each of which is the super-allowance benefit amount for the year in respect of the taxpayer in respect of a province,

(*a*.2) where the taxpayer is an individual (other than a trust), 15% of the taxpayer's flow-through mining expenditures for the year,

(*a*.3) where the taxpayer is a taxable Canadian corporation, the specified percentage of the taxpayer's pre-production mining expenditure for the year,

(*a*.4) the total of all amounts each of which is an apprenticeship expenditure of the taxpayer for the taxation year in respect of an eligible apprentice,

(*a*.5) the child care space amount of the taxpayer for the taxation year,

(*b*) the total of amounts required by subsection (7) or (8) to be added in computing the taxpayer's investment tax credit at the end of the year,

(*c*) the total of all amounts each of which is an amount determined under any of paragraphs (*a*) to (*b*) in respect of the taxpayer for any of the 10 taxation years immediately preceding or the 3 taxation years immediately following the year,

(*d*) [Repealed by S.C. 2006, c. 4, s. 75(1).]

(*e*) the total of all amounts each of which is an amount required by subsection (10.1) to be added in computing the taxpayer's investment tax credit at the end of the year or at the end of any of the 10 taxation years immediately preceding or the 3 taxation years immediately following the year,

(*e*.1) the total of all amounts each of which is the specified percentage of that part of a repayment made by the taxpayer in the year or in any of the 10 taxation years immediately preceding or the 3 taxation years immediately following the year that can reasonably be considered to be a repayment of government assistance, non-government assistance or a contract payment that reduced

(i) the capital cost to the taxpayer of a property under paragraph (11.1)(*b*),

(ii) the amount of a qualified expenditure incurred by the taxpayer under paragraph (11.1)(*c*) for taxation years that began before 1996,

(iii) the prescribed proxy amount of the taxpayer under paragraph (11.1)(*f*) for taxation years that began before 1996,

(iv) a qualified expenditure incurred by the taxpayer under any of subsections (18) to (20),

(v) the amount of a pre-production mining expenditure of the taxpayer under paragraph (11.1)(*c*.3),

(vi) the amount of eligible salary and wages payable by the taxpayer to an eligible apprentice under paragraph (11.1)(*c*.4), to the extent that that reduction had the effect of reducing the amount of an apprenticeship expenditure of the taxpayer, or

(vii) the amount of an eligible child care space expenditure of the taxpayer under paragraph (11.1)(*c*.5), to the extent that that reduction had the effect of reducing the amount of a child care space amount of the taxpayer, and

(*e*.2) the total of all amounts each of which is the specified percentage of 1/4 of that part of a repayment made by the taxpayer in the year or in any of the 10 taxation years immediately preceding or the 3 taxation years immediately following the year that can reasonably be considered to be a repayment of government assistance, non-government assistance or a contract payment that reduced

(i) the amount of a qualified expenditure incurred by the taxpayer under paragraph (11.1)(*e*) for taxation years that began before 1996, or

(ii) a qualified expenditure incurred by the taxpayer under any of subsections (18) to (20),

in respect of first term shared-use-equipment or second term shared-use-equipment, and, for that purpose, a repayment made by the taxpayer in any taxation year preceding the first taxation year that ends coincidentally with the first period or the second period in respect of first term shared-use-equipment or second term shared-use-equipment, respectively, is deemed to have been incurred by the taxpayer in that first taxation year,

exceeds the total of

(*f*) the total of all amounts each of which is an amount deducted under subsection (5) from the tax otherwise payable under this Part by the taxpayer for a preceding taxation year in respect of property acquired, or an expenditure incurred, in the year or in any of the 10 taxation years immediately preceding or the 2 taxation years immediately following the year, or in respect of the taxpayer's SR&ED qualified expenditure pool at the end of such a year,

(*g*) the total of all amounts each of which is an amount required by subsection (6) to be deducted in computing the taxpayer's investment tax credit

(i) at the end of the year, or

(ii) [Repealed by S.C. 1996, c. 21, s. 30(15).]

(iii) at the end of any of the 9 taxation years immediately preceding or the 3 taxation years immediately following the year,

(*h*) the total of all amounts each of which is an amount required by subsection (7) to be deducted in computing the taxpayer's investment tax credit

(i) at the end of the year, or

(ii) [Repealed by S.C. 1996, c. 21, s. 30(16).]

(iii) at the end of any of the 10 taxation years immediately preceding or the 3 taxation years immediately following the year,

(*i*) the total of all amounts each of which is an amount claimed under subparagraph 192(2)(*a*)(ii) by the taxpayer for the year or a preceding taxation year in respect of property acquired, or an expenditure made, in the year or the 10 taxation years immediately preceding the year,

(*j*) where the taxpayer is a corporation control of which has been acquired by a person or group of persons at any time before the end of the year, the amount determined under subsection (9.1) in respect of the taxpayer, and

(*k*) where the taxpayer is a corporation control of which has been acquired by a person or group of persons at any time after the end of the year, the amount determined under subsection (9.2) in respect of the taxpayer;

except that no amount shall be included in the total determined under any of paragraphs (*a*) to (*e.2*) in respect of an outlay, expense or expenditure that would, if this Act were read without reference to subsections (26) and 78(4), be made or incurred by the taxpayer in the course of earning income in a particular taxation year, and no amount shall be added under paragraph (*b*) in computing the taxpayer's investment tax credit at the end of a particular taxation year in respect of an outlay, expense or expenditure made or incurred by a trust or a partnership in the course of earning income, if

(*l*) any of the income is exempt income or is exempt from tax under this Part,

(*m*) the taxpayer does not file with the Minister a prescribed form containing prescribed information in respect of the amount on or before the day that is one year after the taxpayer's filing-due date for the particular year;

History: S. 127(9), paragraph (*a.5*) of the definition "investment tax credit" was added by S.C. 2007, c. 35, s. 43(10), applicable to expenditures incurred on and after March 19, 2007.

S. 127(9), paragraph (*e.1*)(vi) and (vii) of the definition "investment tax credit" were added by S.C. 2007, c. 35, s. 43(11), applicable to taxation years that end on or after May 2, 2006, except that subparagraph (*e.1*)(vii) of the definition "investment tax credit" in subsection 127(9) applies to taxation years that end on or after March 19, 2007.

S. 127(9), paragraph (*a.4*) of the definition "investment tax credit" was added by S.C. 2007, c. 2, s. 34(7), applicable to taxation years that end on or after May 2, 2006.

S. 127(9), paragraph (*d*) of the definition "investment tax credit" was repealed by S.C. 2006, c. 4, s. 75(1), applicable to the 2006 and subsequent taxation years.

S. 127(9), paragraph (*d*) of the definition "investment tax credit" formerly read:

"(*d*) the total of all amounts each of which is an amount required by subsection 119(9) to be added in computing the taxpayer's investment tax credit at the end of the year or at the end of any of the 10 taxation years immediately preceding the year,"

S. 127(9), paragraph (*a.3*) of the definition "investment tax credit" was added by S.C. 2003, c. 28, s. 14(3), applicable to the 2003 and subsequent taxation years.

S. 127(9), paragraph (*c*) of the definition "investment tax credit" was replaced by S.C. 2003, c. 28, s. 14(4), applicable to the 2003 and subsequent taxation years. S. 127(9), paragraph (*c*) of the definition "investment tax credit" formerly read:

"(*c*) the total of all amounts each of which is an amount determined under paragraph (*a*), (*a.1*), (*a.2*) or (*b*) in respect of the taxpayer for any of the 10 taxation years immediately preceding or the 3 taxation years immediately following the year,"

S. 127(9), subparagraph (*e.1*)(v) of the definition "investment tax credit" was added by S.C. 2003, c. 28, s. 14(5), applicable to the 2003 and subsequent taxation years.

S. 127(9), paragraph (*a.1*) of the definition "investment tax credit" was amended by S.C. 2001, c. 17, s. 118(4), applicable to taxation years that begin after February 2000 except that, if a corporation's first taxation year that begins after February 2000 ends before 2001, those provisions apply to the corporation's taxation years that begin after 2000. S. 127(9), paragraph (*a.1*) of the definition "investment tax credit" formerly read:

"(*a.1*) 20% of the taxpayer's SR&ED qualified expenditure pool at the end of the year,"

S. 127(9), paragraph (*a.2*) of the definition "investment tax credit" was added by S.C. 2001, c. 17, s. 118(4), applicable after October 17, 2000.

S. 127(9), paragraph (*c*) of the definition "investment tax credit" was amended by S.C. 2001, c. 17, s. 118(5), applicable after October 17, 2000. S. 127(9), paragraph (*c*) of the definition "investment tax credit" formerly read:

"(*c*) the total of all amounts each of which is an amount determined under paragraph (*a*), (*a.1*) or (*b*) in respect of the taxpayer for any of the 10 taxation years immediately preceding or the 3 taxation years immediately following the year,"

S. 127(9), paragraph (*l*) of the definition "investment tax credit" was amended by S.C. 2001, c. 17, s. 118(6), applicable to all taxation years. S. 127(9), paragraph (*l*) of the definition "investment tax credit" formerly read:

"(*l*) any of the income is exempt income, or"

S. 127(9), the portion after paragraph (*k*) of the definition "investment tax credit" was amended, and paragraphs (*l*) and (*m*) were added by S.C. 1998, c. 19, s. 33(1), applicable to all taxation years except that, if the taxpayer's filing-due date for the year is before June 1996, the taxpayer may file the prescribed form referred to in paragraph (*m*) of the definition "investment tax credit" in subsection 127(9) of the Act before June 1997, and, for the purposes of this subsection and subsection (1), the definition "filing-due date" in subsection 248(1) of the Act applies to all taxation years. S. 127(9), the portion after paragraph (*k*) of the definition "investment tax credit" formerly read:

"except that no amount shall be included in the total determined under any of paragraphs (*a*) to (*e.2*) in respect of any qualified expenditure incurred by the taxpayer in the course of earning income from a business, or in respect of any certified property or qualified property acquired by the taxpayer for use in the course of earning income from a business, if any of the income from that business is exempt from tax under this Part;"

S. 127(9), paragraph (*a*) of the definition "investment tax credit" was amended by S.C. 1996, c. 21, s. 30(12), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

That paragraph formerly read:

"(*a*) the total of all amounts each of which is the specified percentage of

(i) the capital cost to the taxpayer of approved project property, certified property, qualified construction equipment, qualified property, qualified small-business property or qualified transportation equipment acquired by the taxpayer in the year,

(ii) a qualified expenditure made by the taxpayer in the year, or

(iii) the taxpayer's qualified Canadian exploration expenditure for the year,"

S. 127(9), paragraph (*a.1*) of the definition "investment tax credit" was added by S.C. 1996, c. 21, s. 30(12), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

S. 127(9), paragraph (*c*) of the definition "investment tax credit" was amended by S.C. 1996, c. 21, s. 30(13), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

That paragraph formerly read:

"(*c*) the total of all amounts each of which is

(i) an amount determined under paragraph (*a*) or (*b*) in respect of the taxpayer for any of the 5 taxation years immediately preceding the year, where the property was acquired, or the qualified expenditure was made, before April 20, 1983, or

(ii) an amount determined under paragraph (*a*) or (*b*) in respect of the taxpayer for any of the 10 taxation years immediately preceding or the 3 taxation years immediately following the year, where the property was acquired, or the qualified expenditure was made, after April 19, 1983 or the qualified Canadian exploration expenditure was for a taxation year ending after November 30, 1985,"

S. 127(9), that portion of the definition "investment tax credit" after paragraph (*e*) and before paragraph (*g*) was amended by S.C. 1996, c. 21, s. 30(14), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

That portion formerly read:

"(*e.1*) the total of all amounts each of which is the specified percentage of that part of a repayment made by the taxpayer in the year or in any of the 10 taxation years immediately preceding or the 3 taxation years immediately following the year that can reasonably be considered to be a repayment of government assistance, non-government assistance or a contract payment that reduced the capital cost to the taxpayer of a property under paragraph (11.1)(*b*), the amount of an expenditure made by the taxpayer under paragraph (11.1)(*c*) or the prescribed proxy amount of the taxpayer under paragraph (11.1)(*f*), and

(*e.2*) the total of all amounts each of which is the specified percentage of 1/4 of that part of a repayment made by the taxpayer in the year or in any of the 10 taxation years immediately preceding or the 3 taxation years immediately following the year that can reasonably be considered to be a repayment of government assistance, non-government assistance or a contract payment that reduced the amount of an expenditure made by the taxpayer under paragraph (11.1)(*e*) in respect of first term shared-use-equipment or second term shared-use-equipment, and, for that purpose, a repayment made by the taxpayer in any taxation year preceding the first taxation year ending coincidentally with the first period or the second period in respect of first term shared-use-equipment or second term shared-use-equipment, respectively, shall be deemed to have been made by the taxpayer in that first taxation year

exceeds the total of

(*f*) the total of all amounts each of which is an amount deducted under subsection (5) from the tax otherwise payable under this Part by the taxpayer for a preceding taxation year in respect of

(i) property acquired, or an expenditure made, in any of the 5 taxation years immediately preceding the year, where the property was acquired, or the expenditure was made, before April 20, 1983, or

(ii) property acquired, or an expenditure made, in the year or in any of the 10 taxation years immediately preceding or the 2 taxation years immediately following the year, where the property was acquired, or the expenditure was made, after April 19, 1983,"

S. 127(9), subparagraph (*g*)(ii) of the definition "investment tax credit", was repealed by S.C. 1996, c. 21, s. 30(15), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

Subparagraph (*g*)(ii) formerly read:

"(ii) in respect of property acquired, or an expenditure made, before April 20, 1983, at the end of any of the 4 taxation years immediately preceding the year, or"

S. 127(9), subparagraph (*g*)(iii) of the definition "investment tax credit", was amended by S.C. 1996, c. 21, s. 30(15), applicable to taxation years that begin after 1995. Subparagraph (*g*)(iii) formerly read:

"(iii) in respect of property acquired, or an expenditure made, after April 19, 1983, at the end of any of the 9 taxation years immediately preceding or the 3 taxation years immediately following the year,"

S. 127(9), subparagraph (*h*)(ii) of the definition "investment tax credit", was repealed by S.C. 1996, c. 21, s. 30(16), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

Subparagraph (*h*)(ii) formerly read:

"(ii) in respect of property acquired, or an expenditure made, before April 20, 1983, at the end of any of the 5 taxation years immediately preceding the year, or"

S. 127(9), subparagraph (*h*)(iii) of the definition "investment tax credit", was amended by S.C. 1996, c. 21, s. 30(16), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

Subparagraph (*h*)(iii) formerly read:

"(iii) in respect of property acquired, or an expenditure made, after April 19, 1983, at the end of any of the 10 taxation years immediately preceding or the 3 taxation years immediately following the year,"

S. 127(9), that portion of the definition "investment tax credit" after paragraph (*k*), was amended by S.C. 1996, c. 21, s. 30(17), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

That portion formerly read:

"except that no amount shall be included in the total determined under any of paragraphs (*a*) to (*e.2*) in respect of any qualified Canadian exploration expenditure or qualified expenditure made by the taxpayer in the course of earning income from a business, or in respect of any approved project property, certified property, qualified property or qualified small-business prop-

erty acquired by the taxpayer for use in the course of earning income from a business, if any of the income from that business is exempt from tax under this Part;"

S. 127(9), subparagraph (*a*)(i) of the definition "investment tax credit", was amended by S.C. 1994, c. 8, s. 15(3), applicable to property acquired after December 2, 1992. S. 127(9), subparagraph (*a*)(i) of the definition of "investment tax credit", formerly read:

"(i) the capital cost to the taxpayer of a qualified property, qualified transportation equipment, qualified construction equipment, approved project property or certified property acquired by the taxpayer in the year,"

S. 127(9), paragraph (*e*.1) of the definition "investment tax credit", was amended by S.C. 1994, c. 8, s. 15(4), applicable to taxation years that end after December 2, 1992. S. 127(9), paragraph (*e*.1) of the definition of "investment tax credit", formerly read:

"(*e*.1) the total of all amounts each of which is the specified percentage of that part of a repayment made by the taxpayer in the year or in any of the 10 taxation years immediately preceding or the 3 taxation years immediately following the year that may reasonably be considered to be a repayment of government assistance, non-government assistance or a contract payment that reduced the capital cost to the taxpayer of a property under paragraph (11.1)(*b*) or that reduced the amount of an expenditure made by the taxpayer under paragraph (11.1)(*c*)"

S. 127(9), paragraph (*e*.2) of the definition of "investment tax credit" was added by S.C. 1994, c. 8, s. 15(4), applicable to taxation years that end after December 2, 1992.

S. 127(9), the portion following paragraph (*k*) of the definition "investment tax credit" was amended by S.C. 1994, c. 8, s. 15(5), applicable to property acquired after December 2, 1992. The portion formerly read:

"except that no amount shall be included in the total determined under any of paragraphs (*a*) to (*e*.1) in respect of any qualified Canadian exploration expenditure or qualified expenditure made by the taxpayer in the course of earning income from a business, or in respect of any certified property, qualified property or approved project property acquired by the taxpayer for use in the course of earning income from a business, if any of the income from that business is exempt from tax under this Part;"

S. 127(9), the portion following paragraph (*k*) of the definition "investment tax credit", was amended by S.C. 1994, c. 7, Sched. II, s. 104(1), applicable with respect to property acquired and expenditures made by a taxpayer after July 13, 1990, other than property acquired and expenditures made after that day and before 1992

(*a*) under an agreement in writing entered into by the taxpayer on or before July 13, 1990; or

(*b*) for the purpose of completing the construction of property that was under construction by or on behalf of the taxpayer on or before July 13, 1990.

S. 127(9), the portion following paragraph (*k*) of the definition "investment tax credit", formerly read:

"except that no amount shall be included in the total determined under any of paragraphs (*a*) to (*e*.1) in respect of any qualified Canadian exploration expenditure or qualified expenditure made by the taxpayer in the course of earning income from a business, or in respect of any certified property, qualified property or approved project property acquired by the taxpayer for use in the course of earning income from a business, if any of the income from that business is exempt from tax under this Part;"

Related Sections: S. 37(10) Time for election; s. 87(2)(*qq*) Continuation of corporation; s. 87(2.11) Vertical amalgamations; s. 88(1)(*e*.3) Winding-up; s. 127(7) Investment tax credit of testamentary trust; s. 127(8) Investment tax credit of partnership; s. 127(9.01)–(9.02) Transitional application of investment tax credit definition; s. 127(9.1) Control acquired before the end of the year; s. 127(9.2) Control acquired after the end of the year; s. 127(10.1) Additions to investment tax credit; s. 127(10.8) Further additions to investment tax credit; s. 127(11.1) Investment tax credit; s. 127(11.2) Time of expenditure and acquisition; s. 127(26) Unpaid amounts; s. 127(27)–127(29) Recapture of investment tax credit; s. 127.1 Refundable investment tax credit; s. 248(1), "investment tax credit".

Proposed Related Sections: S. 220(2.2).

Interpretation Bulletins: *Secondary* — IT-151R5 (Consolid.) Scientific Research and Experimental Development Expenditures.

Information Circulars: IC 78-4R3 Investment tax credit rates.

SR&ED Application Policies: Application Policy 2004-02R2, Filing Requirements for Claiming SR&ED.

Tax Topics: No. 1844, SR&ED Investment Tax Credit Claims: Making the CRA's Revised Procedures Work; No. 1824, Stamping of Hand-Delivered Mail at CRA Local Offices — SR&ED Implications.

Canadian Tax Foundation: "R&D: Credits Today, Innovation Tomorrow", *1999 Corporate Management Tax Conference*, 1:1–15:77.

Tax Window Files: Scientific Research and Experimental Development — Activities Performed on Behalf of Foreign Corporation, October 7, 2005, CRA Document No. 2005-0140991C6; Investment Tax Credits — Borders of Gaspe Peninsula, April 20, 2005, CRA Document No. 2004-0101461E5; Investment Tax Credits — Carryback Denial After Wind-Up, June 1, 2004, CRA Document No. 2004-0078161I7; Scientific Research — Treatment of Licence to Use Computer Software, October 3, 2001, CRA Document No. 2001-0092607; Scientific Research and Experimental Development — Ontario Innovation Tax Credit, June 25, 1996, CRA Document No. 9606976; Non-Profit Corporation for Scientific Research, 1996, CRA Document No. 9600943.

Cases: The taxpayer, who operates a restaurant chain, was denied an ITC claim in respect of its buildings. Although the word "processing" does not exclude the preparation of food, the buildings were not being used "primarily" for processing. The most important factor was the portion of the building that was dedicated to processing, although other factors could be considered. *Burger King Restaurants of Canada Inc. v. The Queen*, 2000 DTC 6061 (F.C.A.), affirming 97 DTC 841 (T.C.C.).

The taxpayer's activities involving the replacement of parts of a customer's hydraulic systems with parts it itself manufactured did not constitute the manufacture of goods for sale since, in common law, "for sale" does not mean "for use in a repair process" and manufacture of parts to be used to repair a customer's defective equipment is not tantamount to manufacturing those parts for sale. *The Queen v. Coopers & Lybrand Ltd.*, 94 DTC 6541 (F.C.A.), reversing 92 DTC 6453 (F.C.T.D.).

The taxpayer was involved in a SR&ED project but derived income from the sale of its experimental production of oysters. Considering the Minister's admission that 80% of the taxpayer's current expenditures qualified as SR&ED expenditures, he could not say that the "commercial production" stage had been reached. *Cultures Laflamme (1984) Inc. v. M.N.R.*, 93 DTC 603 (T.C.C.).

"non-government assistance" — "non-government assistance" means an amount that would be included in income by virtue of paragraph 12(1)(*x*) if that paragraph were read without reference to subparagraphs 12(1)(*x*)(vi) and (vii);

SR&ED Application Policies: Application Policy 2005-02, General Rules Concerning the Treatment of Government and Non Government Assistance.

Tax Window Files: Research and Development, September 11, 2001, CRA Document No. 2001-0078855.

"non-qualifying corporation" — "non-qualifying corporation" at any time means

(*a*) a corporation that is, at that time, not a Canadian-controlled private corporation,

(*b*) a corporation that would be liable to pay tax under Part I.3 for the taxation year of the corporation that includes that time if that Part were read without reference to subsection 181.1(4) and if the amount determined under subsection 181.2(3) in respect of the corporation for the year were determined without reference to amounts described in any of paragraphs 181.2(3)(*a*), (*b*), (*d*) and (*f*) to the extent that the amounts so described were used to acquire property that would be qualified small-business property if the corporation were not a non-qualifying corporation, or

(*c*) a corporation that at that time is related for the purposes of section 181.5 to a corporation described in paragraph (*b*);

History: S. 127(9), the definition of "non-qualifying corporation", was added by S.C. 1994, c. 8, s. 15(9), applicable to property acquired after December 2, 1992.

Related Sections: S. 181.5(7) Related corporations that are not associated.

"pre-production mining expenditure" — "pre-production mining expenditure", of a taxable Canadian corporation for a taxation year, means the total of all amounts each of which is an expenditure incurred after 2002 by the taxable Canadian corporation in the taxation year that

(*a*) would be an expense described in paragraph (*f*) or (*g*) of the definition "Canadian exploration expense" in subsection 66.1(6) if the expression "mineral resource" in that paragraph were defined to mean a mineral deposit from which the principal mineral to be extracted is diamond, a base or precious metal

deposit, or a mineral deposit from which the principal mineral to be extracted is an industrial mineral that, when refined, results in a base or precious metal, and

(*b*) is not an expense that was renounced under subsection 66(12.6) to the taxable Canadian corporation;

Department of Finance Comfort Letter
[Pre-Production Mining Expenditures Incurred by Wholly-Owned Subsidiary of Taxable Canadian Corporation]

December 8, 2004

Dear XXXX

We are writing in response to your letter dated March 23, 2004 and further to our meeting on May 25, 2004.

In your letter and in our subsequent meeting you expressed concern regarding the restriction in paragraph (*b*) of the definition "pre-production mining expenditure" in subsection 127(5) [(*sic*) should be 127(9)] of the *Income Tax Act* (the "Act"). That paragraph excludes an expenditure from qualifying as a pre-production mining expenditure if it is renounced under the terms of a flow-through share agreement.

You have asked us to recommend changes to the Act that would allow pre-production mining expenditures renounced under a flow-through share agreement to qualify for the pre-production tax credit if the flow-through shareholder is a taxable Canadian corporation that owns all the outstanding shares of the corporation that incurred the expenditures.

You advised us that, for commercial reasons, mineral exploration and development activities are frequently carried on through a wholly-owned subsidiary of a mining corporation. You also advised us that the preferred method of financing the subsidiary would generally be through the issuance of flow-through shares. In this case, the subsidiary would not normally have any income or would not be expected to have any income for a considerable period of time and, therefore, would not be in a position to use the pre-production tax credit.

As set out in the March 2003 technical paper titled, "Improving the Income Taxation of the Resource Sector in Canada", the credit was deliberately limited to the taxable Canadian corporation that incurred the expenditures and was not intended to be transferable to another corporation.

However, we agree that pre-production mining expenditures actually incurred by a wholly-owned subsidiary of a taxable Canadian corporation ("parent corporation") and renounced to that corporation should qualify for the pre-production tax credit if the parent corporation is a "principal-business corporation" as defined in subsection 66(15) of the Act, if the definition were read without reference to paragraphs (*a*), (*a.1*), (*f*), (*h*) and (*i*). Accordingly, we will recommend to the Minister of Finance that the definition of pre-production mining expenditure be amended, for expenses renounced under a flow-through share agreement entered into after 2004, to provide for this result. While I cannot offer any assurance that either the Minister or Parliament will agree with our recommendation, I hope that this statement of our intentions is helpful to you.

Yours sincerely,

Len Farber
General Director
Tax Legislation Division
Tax Policy Branch

History: S. 127(9), the definition "pre-production mining expenditure" was added by S.C. 2003, c. 28, s. 14(7), applicable to the 2003 and subsequent taxation years.

Related Sections: S. 127(9), "investment tax credit"; s. 127(11.1)(*c.3*) Investment tax credit.

"qualified Canadian exploration expenditure" — [Repealed by S.C. 1996, c. 21, s. 30(9).]

History: S. 127(9), the definition "qualified Canadian exploration expenditure", was repealed by S.C. 1996, c. 21, s. 30(9), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

That definition formerly read:

" *'qualified Canadian exploration expenditure'* — 'qualified Canadian exploration expenditure' of a taxpayer for a taxation year means the prescribed expenditure of the taxpayer for the year;"

"qualified construction equipment" — [Repealed by S.C. 1996, c. 21, s. 30(9).]

History: S. 127(9), the definition "qualified construction equipment", was repealed by S.C. 1996, c. 21, s. 30(9), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

That definition formerly read:

" *'qualified construction equipment'* — 'qualified construction equipment' of a taxpayer means prescribed equipment acquired by the taxpayer after April 19, 1983 and before 1989 that has not been used, or acquired for use or lease, for any purpose whatever before its acquisition by the taxpayer and that is

(*a*) to be used by the taxpayer principally for the purpose of construction in Canada in the course of carrying on a business other than a business

(i) the income from which is exempt from income tax by virtue of any provision of this Act, or

(ii) the income from which is not included in the taxpayer's income or, in the case of a non-resident person, in the taxpayer's taxable income earned in Canada, or

(*b*) to be leased by the taxpayer, if

(i) the equipment is leased by the taxpayer in the ordinary course of carrying on a business in Canada, the income from which is other than income referred to in subparagraph (*a*)(i) or (ii), to a lessee who can reasonably be expected to use the equipment principally for the purpose and under the circumstances referred to in paragraph (*a*), and

(ii) the taxpayer is a corporation whose principal business is a business described in subparagraph (*d*)(i) of the definition 'qualified property' in this subsection or is a taxpayer whose principal business is a construction business;"

"qualified expenditure" — "qualified expenditure" incurred by a taxpayer in a taxation year means

(*a*) an amount that is an expenditure incurred in the year by the taxpayer in respect of scientific research and experimental development that is an expenditure

(i) for first term shared-use-equipment or second term shared-use-equipment,

(ii) described in paragraph 37(1)(*a*), or

(iii) described in subparagraph 37(1)(*b*)(i), or

(*b*) a prescribed proxy amount of the taxpayer for the year (which, for the purpose of paragraph (*e*), is deemed to be an amount incurred in the year),

but does not include

(*c*) a prescribed expenditure incurred in the year by the taxpayer,

(*d*) where the taxpayer is a corporation, an expenditure specified by the taxpayer for the year for the purpose of clause 194(2)(*a*)(ii)(A),

(*e*) [Repealed by S.C. 1998, c. 19, s. 33(2).]

(*f*) an expenditure (other than an expenditure that is salary or wages of an employee of the taxpayer) incurred by the taxpayer in respect of scientific research and experimental development to the extent that it is performed by another person or partnership at a time when the taxpayer and the person or partnership to which the expenditure is paid or payable do not deal with each other at arm's length,

(*g*) an expenditure described in paragraph 37(1)(*a*) that is paid or payable by the taxpayer to or for the benefit of a person or partnership that is not a taxable supplier in respect of the expenditure, other than an expenditure in respect of scientific research and experimental development directly undertaken by the taxpayer, and

(*h*) an amount that would otherwise be a qualified expenditure incurred by the taxpayer in the year to the extent of any reduction in respect of the amount that is required under any of subsections (18) to (20) to be applied;

History: S. 127(9), paragraph (*e*) of the definition "qualified expenditure", was repealed by S.C. 1998, c. 19, s. 33(2), applicable to taxation years that begin after 1995. S. 127(9), paragraph (*e*) of the definition "qualified expenditure" formerly read:

"(*e*) subject to subsection (11.4), an amount in respect of which the taxpayer does not file with the Minister a prescribed form containing prescribed information on or before the day that is 12 months after the taxpayer's filing-due date for the particular taxation year in which the amount would have been incurred if this Act were read without reference to subsections (26) and 78(4) where the particular year begins after 1995,"

S. 127(9), paragraph (*f*) of the definition "qualified expenditure", was amended by S.C. 1998, c. 19, s. 33(2), applicable to taxation years that begin after 1995. S. 127(9), paragraph (*f*) of the definition "qualified expenditure" formerly read:

"(*f*) an expenditure (other than an expenditure that is salary or wages of an employee of the taxpayer) incurred by the taxpayer in respect of scientific research and experimental development to the extent that it is performed for or on behalf of the taxpayer at a time when the taxpayer and the person or partnership to which the expenditure is paid or payable do not deal with each other at arm's length,"

S. 127(9), paragraph (*g*) of the definition "qualified expenditure", was amended by S.C. 1998, c. 19, s. 33(2), applicable to taxation years that begin after 1995. S. 127(9), paragraph (*g*) of the definition "qualified expenditure" formerly read:

"(*g*) an expenditure described in paragraph 37(1)(*a*), other than an expenditure on scientific research and experimental development directly undertaken by the taxpayer, that is paid or payable by the taxpayer to or for the benefit of a person or partnership that is not a taxable supplier in respect of the expenditure, and"

S. 127(9), the definition "qualified expenditure", was amended by S.C. 1996, c. 21, s. 30(10), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

That definition formerly read:

"*'qualified expenditure'* — 'qualified expenditure' means an expenditure in respect of scientific research and experimental development incurred by a taxpayer that is an expenditure in respect of first term shared-use-equipment or second term shared-use-equipment or an expenditure described in paragraph 37(1)(*a*) or subparagraph 37(1)(*b*)(i) and includes an amount that is a prescribed proxy amount of a taxpayer, but does not include

(*a*) a prescribed expenditure,

(*b*) in the case of a taxpayer that is a corporation, an expenditure specified by the taxpayer for the purposes of clause 194(2)(*a*)(ii)(A), or

(*c*) subject to subsection (11.4), an expenditure in respect of which the taxpayer does not, by the day on or before which the taxpayer's return of income under this Part for the taxpayer's taxation year after that in which the expenditure was incurred is required to be filed, or would be required to be filed if tax under this Part were payable by the taxpayer for that following year, file with the Minister a prescribed form containing prescribed information;"

S. 127(9), the definition of "qualified expenditure", was amended by S.C. 1994, c. 21, s. 61(1), to add paragraph (*c*), applicable after February 21, 1994 to expenditures incurred at any time except that, for an expenditure incurred by a taxpayer in a taxation year ending before February 22, 1994, the taxpayer may file the prescribed form referred to in paragraph (*c*) of the definition "qualified expenditure" in subsection 127(9) of the Act by the later of the day referred to in that paragraph and the day that is 90 days after this Act is assented to (June 15, 1994).

The portion of the definition "qualified expenditure" in subsection 127(9) before paragraph (*a*) was amended by S.C. 1994, c. 8, s. 15(6), applicable to taxation years that end after December 2, 1992. That portion formerly read:

"*'qualified expenditure'* — 'qualified expenditure' means an expenditure in respect of scientific research and experimental development made by a taxpayer after March 31, 1977 that qualifies as an expenditure described in paragraph 37(1)(*a*) or subparagraph 37(1)(*b*)(i), but does not include"

Editorial Note: A taxpayer is entitled to a 20% or 35% investment tax credit in respect of qualified expenditures that are fully deductible under subsection 37(1). If an expenditure is excluded under paragraph (*f*) of the definition "qualified expenditure" (i.e., because it was performed by a person not dealing at arm's length with the taxpayer), an election may be available under subsection 127(13) to allow for the transfer of qualified expenditures between the non-arm's length taxpayers to qualify for a credit.

Related Sections: S. 12(1)(*e*) Reserves for certain goods and services, etc.; s. 18(9)(*e*) Limitation respecting prepaid expenses; s. 37(1) Scientific research and experimental development; s. 127(11.5)–(11.6); s. 127(13)–(16); s. 127(18)–(20) s. 127(24) Exclusion from qualified expenditure.

Proposed Related Sections: S. 143.3.

Regulations: 2900(4)–(10); 2902.

Interpretation Bulletins: *Secondary* — IT-151R5 (Consolid.) Scientific Research and Experimental Development Expenditures.

Information Circulars: IC 78-4R3 Investment tax credit rates.

SR&ED Application Policies: Application Policy 2005-02, General Rules Concerning the Treatment of Government and Non Government Assistance; Application Policy 2004-01, Retiring Allowance; Application Policy 2003-01, Capital Property Intended to be Used All or Substantially All for SR&ED; Application Policy 2002-03, Expenditures Incurred for Administrative Salaries or Wages — "Directly Related" Test; Application Policy 2000-03, Government Assistance - Treatment of Provincial and Territorial R&D Assistance; Application Policy 96-03, Claimants' entitlements and responsibilities; Application Policy 95-05, SR&ED Capital Expenditures — Retroactive deductions under subsection 37(1); Application Policy 94-01, Retroactive Claims for Scientific Research (TPRs).

Tax Topics: No. 1830, The CRA's Revised Position on SR&ED Contracts; No. 1767, Draft Legislation Overrides Alcatel — Affects SR&ED ITCs and More.

Tax Profile: March 2006 — Some Tax Considerations for Investing in Silicon Valley North.

Tax Window Files: ITCs — Non-Arm's Length Lease of Used Equipment, February 15, 2007, CRA Document No. 2006-0206761I7; Scientific Research and Experimental Development — Employee Stock Options, October 7, 2005, CRA Document No. 2005-0141141C6; Transfer of SR&ED Expenditures — Ownership Rights, September 14, 2000, CRA Document No. 2000-0006845; Definition of Canada for Purposes of SR&ED, July 31, 2000, CRA Document No. 2000-0037597; Investment Tax Credit — Frozen Food Storage, January 8, 1996, CRA Document No. 9525137; Non-Profit Corporation for Scientific Research, 1996, CRA Document No. 9600943; Investment Tax Credit — Logging Trucks, September 13, 1994, CRA Document No. 9327027; Investment Tax Credit, June 4, 1993, CRA Document No. 9303305; Scientific Research — Section 16.1 Election, June 8, 1993, CRA Document No. 9315705; Qualified Expenditure — Election under Section 16.1, May 7, 1993, CRA Document No. 9236865; Definition of Canada for Purposes of SR & ED, September 23, 1998, CRA Document No. 9809087.

Cases: Stock option benefits provided by the taxpayer to its employees, who were engaged in SR&ED, were "salary or wages" and therefore qualified expenditures. *Alcatel Canada Inc. v. The Queen*, 2005 DTC 387 (T.C.C.).

"qualified property" — "qualified property" of a taxpayer means property (other than an approved project property or a certified property) that is

(*a*) a prescribed building to the extent that it is acquired by the taxpayer after June 23, 1975, or

(*b*) prescribed machinery and equipment acquired by the taxpayer after June 23, 1975,

that has not been used, or acquired for use or lease, for any purpose whatever before it was acquired by the taxpayer and that is

(*c*) to be used by the taxpayer in Canada primarily for the purpose of

(i) manufacturing or processing goods for sale or lease,

(ii) farming or fishing,

(iii) logging,

(iv) operating an oil or gas well or extracting petroleum or natural gas from a natural accumulation of petroleum or natural gas,

(v) extracting minerals from a mineral resource,

(vi) processing

(A) ore (other than iron ore or tar sands ore) from a mineral resource to any stage that is not beyond the prime metal stage or its equivalent,

(B) iron ore from a mineral resource to any stage that is not beyond the pellet stage or its equivalent, or

(C) tar sands ore from a mineral resource to any stage that is not beyond the crude oil stage or its equivalent,

(vii) producing industrial minerals,

(viii) processing heavy crude oil recovered from a natural reservoir in Canada to a stage that is not beyond the crude oil stage or its equivalent,

(ix) Canadian field processing,

(x) exploring or drilling for petroleum or natural gas,

(xi) prospecting or exploring for or developing a mineral resource,

(xii) storing grain, or

(xiii) harvesting peat,

(*c*.1) to be used by the taxpayer in Canada primarily for the purpose of producing or processing electrical energy or steam in a prescribed area, where

(i) all or substantially all of the energy or steam

(A) is used by the taxpayer for the purpose of gaining or producing income from a business (other than the business of selling the product of the particular property), or

(B) is sold directly (or indirectly by way of sale to a provincially regulated power utility operating in the prescribed area) to a person related to the taxpayer, and

(ii) the energy or steam is used by the taxpayer or the person related to the taxpayer primarily for the purpose of manufacturing or processing goods in the prescribed area for sale or lease, or

(*d*) to be leased by the taxpayer to a lessee (other than a person exempt from tax under this Part because of section 149) who can reasonably be expected to use the property in Canada primarily for any of the purposes referred to in subparagraphs (*c*)(i) to (xiii), but this paragraph does not apply to property that is prescribed for the purpose of paragraph (*b*) unless use of the property by the first person to whom it was leased began after June 23, 1975 and

(i) the property is leased in the ordinary course of carrying on a business in Canada by a corporation whose principal business is leasing property, lending money, purchasing conditional sales contracts, accounts receivable, bills of sale, chattel mortgages or hypothecary claims on movables, bills of exchange or other obligations representing all or part of the sale price of merchandise or services, or any combination thereof,

(ii) the property is manufactured and leased in the ordinary course of carrying on business in Canada by a corporation whose principal business is manufacturing property that it sells or leases,

(iii) the property is leased in the ordinary course of carrying on business in Canada by a corporation whose principal business is selling or servicing property of that type, or

(iv) the property is a fishing vessel, including the furniture, fittings and equipment attached to it, leased by an individual (other than a trust) to a corporation, controlled by the individual, that carries on a fishing business in connection with one or more commercial fishing licences issued by the Government of Canada to the individual,

and, for the purpose of this definition, "Canada" includes the offshore region prescribed for the purpose of the definition "specified percentage";

History: S. 127(9), subparagraph (*d*)(i) of the definition "qualified property" was amended by S.C. 2001, c. 17, s. 213, applicable on Royal Assent, June 14, 2001. S. 127(9), subparagraph (*d*)(i) of the definition "qualified property" formerly read:

"(i) the property is leased in the ordinary course of carrying on a business in Canada by a corporation whose principal business is leasing property, lending money, purchasing conditional sales contracts, accounts receivable, bills of sale, chattel mortgages, bills of exchange or other obligations representing all or part of the sale price of merchandise or services, or any combination thereof,"

S. 127(9), subparagraphs (*c*)(ii) to (xii) of the definition "qualified property", were amended by S.C. 1997, c. 25, s. 35(1), applicable to taxation years that begin after 1996. Those subparagraphs formerly read:

"(ii) operating an oil or gas well, extracting petroleum or natural gas from a natural accumulation thereof or processing heavy crude oil recovered from a natural reservoir in Canada to a stage that is not beyond the crude oil stage or its equivalent,

(iii) extracting minerals from a mineral resource,

(iv) processing ore (other than iron ore or tar sands) from a mineral resource to a stage that is not beyond the prime metal stage or its equivalent,

(v) processing iron ore from a mineral resource to a stage that is not beyond the pellet stage or its equivalent,

(vi) processing tar sands to a stage that is not beyond the crude oil stage or its equivalent,

(vii) exploring or drilling for petroleum or natural gas,

(viii) prospecting or exploring for or developing a mineral resource,

(ix) logging,

(x) farming or fishing,

(xi) storing grain,

(xii) producing industrial minerals, or"

S. 127(9), the definition of "qualified property", was amended by S.C. 1994, c. 21, s. 61(2), to add paragraph (*c*.1), applicable to property acquired after 1991.

S. 127(9), the definition of "qualified property", was amended by S.C. 1994, c. 21, s. 61(3), to add subparagraph (iv) at the end of paragraph (*d*), applicable to the 1985 and subsequent taxation years.

S. 127(9), subparagraph (*c*)(xiii) of the definition "qualified property" was added by S.C. 1994, c. 7, Sched. II, s. 104(2), applicable to the 1985 and subsequent taxation years.

S. 127(9), paragraph (*d*) of the definition "qualified property", was amended by S.C. 1994, c. 7, Sched. II, s. 104(3), applicable with respect to

property acquired after July 13, 1990. S. 127(9), paragraph (*d*) of the definition "qualified property", formerly read:

"(*d*) to be leased by the taxpayer to a lessee (other than a person exempt from tax under section 149) who can reasonably be expected to use the property in Canada primarily for any of the purposes referred to in subparagraphs (*c*)(i) to (xii), but this paragraph does not apply in respect of property that is a prescribed property for the purposes of paragraph (*b*) unless

(i) the property is leased by the taxpayer in the ordinary course of carrying on a business in Canada and the taxpayer is a corporation whose principal business is leasing property, manufacturing property that it sells or leases, the lending of money, the purchasing of conditional sales contracts, accounts receivable, bills of sale, chattel mortgages, bills of exchange or other obligations representing part or all of the sale price of merchandise or services, or selling or servicing a type of property that it also leases, or any combination thereof, and

(ii) use of the property by the first lessee commenced after June 23, 1975;"

S. 127(9), that portion following paragraph (*d*) of the definition "qualified property", was added by S.C. 1994, c. 7, Sched. II, s. 104(4), applicable after February 25, 1986.

Related Sections: S. 127(11) Interpretation; s. 248(1), "Canadian field processing.

Regulations: 4600(1)–(2); 4610.

Canadian Petroleum Tax Journal: Offshore Oil & Gas Interests: A Perspective on Exploration & Development of Offshore Petroleum and Natural Gas Resources in Eastern Canada, Michael R. Smith, CA and B. David Nielsen, CA, Vol. 13 No. 1 2000.

Tax Window Files: Investment Tax Credit — Logging Truck, November 29, 2005, CRA Document No. 2005-0130101I7; Investment Tax Credit — Improvements to a Dry Kiln, June 23, 2005, CRA Document No. 2005-0118191I7; Qualified Property, November 4, 2002, CRA Document No. 2002-0143485; Leasing Farm Equipment, April 3, 2002, CRA Document No. 2002-0122357.

Cases: A taxpayer was not entitled to the M&P tax credit and ITCs it had claimed in respect of an asphalt plant which had been acquired primarily for the purpose of producing asphalt for use in its paving contracts, which were essentially contracts for work and materials. *Will-Kare Paving & Contracting Limited v. The Queen,* 2000 DTC 6467 (S.C.C.), affirming 98 DTC 6203 (F.C.A.) and 97 DTC 506 (T.C.C.).

"qualified small-business property" — [Repealed by S.C. 1996, c. 21, s. 30(9).]

History: S. 127(9), the definition "qualified small-business property", was repealed by S.C. 1996, c. 21, s. 30(9), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

That definition formerly read:

" '*qualified small-business property*' — 'qualified small-business property' means property, acquired by a taxpayer who was an eligible taxpayer at the time the property was acquired, that, if this subsection were read without reference to subsection (11.2), would be

(*a*) certified property of the taxpayer if the definition 'certified property' were read without the reference in it to paragraph (*a*) of the definition 'qualified property' and without reference to subparagraphs (*a*)(i) and (ii) of it and if the reference in subparagraph (*a*)(iii) of it to 'after 1988' were read as a reference to 'after December 2, 1992 and before 1994',

(*b*) qualified construction equipment of the taxpayer if the definition 'qualified construction equipment' were read without reference to paragraph (*b*) of it and if the reference in it to 'after April 19, 1983 and before 1989' were read as a reference to 'after December 2, 1992 and before 1994',

(*c*) qualified property of the taxpayer if the definition 'qualified property' were read without reference to paragraphs (*a*) and (*d*) of it and if the reference in paragraph (*b*) of it to 'after June 23, 1975' were read as a reference to 'after December 2, 1992 and before 1994', or

(*d*) qualified transportation equipment of the taxpayer if the definition 'qualified transportation equipment' were read without reference to paragraph (*b*) of it and if the reference in it to 'after November 16, 1978 and before 1989' were read as a reference to 'after December 2, 1992 and before 1994',

and where the property was acquired by the taxpayer to be leased to a person with whom the taxpayer does not deal at arm's length and the property is used by the person in Canada primarily for the purposes described in any of the definitions 'qualified construction equipment', 'qualified property' and 'qualified transportation equipment', for the purposes of this subsection, the taxpayer shall be deemed to have acquired the property for that use;"

S. 127(9), the definition of "qualified small-business property", was added by S.C. 1994, c. 8, s. 15(9), applicable to property acquired after December 2, 1992.

Tax Window Files: Available for Use Rules — Small Business Investment Tax Credit, April 21, 1993, CRA Document No. 9308977.

"qualified transportation equipment" — [Repealed by S.C. 1996, c. 21, s. 30(9).]

History: S. 127(9), the definition "qualified transportation equipment", was repealed by S.C. 1996, c. 21, s. 30(9), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

That definition formerly read:

" '*qualified transportation equipment*' — 'qualified transportation equipment' of a taxpayer means prescribed equipment acquired by the taxpayer after November 16, 1978 and before 1989 that has not been used, or acquired for use or lease, for any purpose whatever before it was acquired by the taxpayer and that is

(*a*) to be used by the taxpayer principally for the purpose of transporting passengers, property or passengers and property, in Canada or to and from Canada, in the ordinary course of carrying on a business in Canada other than a business

(i) the income from which is exempt from income tax by virtue of any provision of this Act, or

(ii) the income from which is not included in the taxpayer's income or, in the case of a non-resident person, the taxpayer's taxable income earned in Canada, or

(*b*) to be leased by the taxpayer, if

(i) the equipment is leased by the taxpayer in the ordinary course of carrying on a business in Canada, the income from which is other than income referred to in subparagraph (*a*)(i) or (ii), to a lessee who can reasonably be expected to use the equipment principally for the purposes and under the circumstances referred to in paragraph (*a*), and

(ii) the taxpayer is a corporation whose principal business is a business described in subparagraph (*d*)(i) of the definition 'qualified property' in this subsection or is a taxpayer whose principal business is passenger, property or passenger and property transport;"

"second term shared-use-equipment" — "second term shared-use-equipment" of a taxpayer means property of the taxpayer that was first term shared-use-equipment of the taxpayer and that is used by the taxpayer, during its operating time in the period (in this subsection and subsection (11.1) referred to as the "second period") beginning at the time the property was acquired by the taxpayer and ending at the end of the taxpayer's first taxation year ending at least 24 months after that time, primarily for the prosecution of scientific research and experimental development in Canada;

History: S. 127(9), the definition of "second term shared-use-equipment", was added by S.C. 1994, c. 8, s. 15(9), applicable to property acquired after December 2, 1992.

Related Sections: S. 88(1)(e.3) Winding-up; s. 127(11.5)(*b*) Adjustments to qualified expenditures.

SR&ED Application Policies: Application Policy 2003-01, Capital Property Intended to be Used All or Substantially All for SR&ED.

"specified child care start-up expenditure" — "specified child care start-up expenditure" of a taxpayer in respect of a child care facility is an expenditure incurred by the taxpayer (other than to acquire a depreciable property) that is

(*a*) a landscaping cost incurred to create, at the child care facility, an outdoor play area for children,

(*b*) an architectural fee for designing the child care facility or a fee for advice on planning, designing and establishing the child care facility,

(*c*) a cost of construction permits in respect of the child care facility,

(*d*) an initial licensing or regulatory fee in respect of the child care facility, including fees for mandatory inspections,

(*e*) a cost of educational materials for children, or

(*f*) a similar amount incurred for the sole purpose of the initial establishment of the child care facility;

History: S. 127(9), the definition "specified child care start-up expenditure" was added by S.C. 2007, c. 35, s. 43(13), applicable to expenditures incurred on and after March 19, 2007.

"specified percentage" — "specified percentage" means

(*a*) in respect of a qualified property

(i) acquired before April, 1977, 5%,

(ii) acquired after March 31, 1977 and before November 17, 1978 primarily for use in

(A) the Province of Nova Scotia, New Brunswick, Prince Edward Island or Newfoundland or the Gaspé Peninsula, 10%,

(B) a prescribed designated region, 7½%, and

(C) any other area in Canada, 5%,

(iii) acquired primarily for use in the Province of Nova Scotia, New Brunswick, Prince Edward Island or Newfoundland or the Gaspé Peninsula,

(A) after November 16, 1978 and before 1989, 20%,

(B) after 1988 and before 1995, 15%,

(C) after 1994, 15% where the property

(I) is acquired by the taxpayer under a written agreement of purchase and sale entered into by the taxpayer before February 22, 1994,

(II) was under construction by or on behalf of the taxpayer on February 22, 1994, or

(III) is machinery or equipment that will be a fixed and integral part of property under construction by or on behalf of the taxpayer on February 22, 1994, and

(D) after 1994, 10% where the property is not property to which clause (C) applies,

(iv) acquired after November 16, 1978 and before February 26, 1986 primarily for use in a prescribed offshore region, 7%,

(v) acquired primarily for use in a prescribed offshore region and

(A) after February 25, 1986 and before 1989, 20%,

(B) after 1988 and before 1995, 15%,

(C) after 1994, 15% where the property

(I) is acquired by the taxpayer under a written agreement of purchase and sale entered into by the taxpayer before February 22, 1994,

(II) was under construction by or on behalf of the taxpayer on February 22, 1994, or

(III) is machinery or equipment that will be a fixed and integral part of property under construction by or on behalf of the taxpayer on February 22, 1994, and

(D) after 1994, 10% where the property is not property to which clause (C) applies,

(vi) acquired primarily for use in a prescribed designated region and

(A) after November 16, 1978 and before 1987, 10%,

(B) in 1987, 7%,

(C) in 1988, 3%, and

(D) after 1988, 0%, and

(vii) acquired primarily for use in Canada (other than a property described in subparagraph (iii), (iv), (v) or (vi)), and

(A) after November 16, 1978 and before 1987, 7%,

(B) in 1987, 5%,

(C) in 1988, 3%, and

(D) after 1988, 0%,

(*b*) in respect of qualified transportation equipment acquired

(i) before 1987, 7%,

(ii) in 1987, 5%, and

(iii) in 1988, 3%,

(*c*) in respect of qualified construction equipment acquired

(i) before 1987, 7%,

(ii) in 1987, 5%, and

(iii) in 1988, 3%,

(*d*) in respect of certified property

(i) included in subparagraph (*a*)(i) of the definition "certified property" in this subsection, 50%,

(ii) included in subparagraph (*a*)(ii) of that definition, 40%, and

(iii) in any other case, 30%,

(*e*) in respect of a qualified expenditure

(i) made after March 31, 1977 and before November 17, 1978 in respect of scientific research and experimental development to be carried out in

(A) the Province of Nova Scotia, New Brunswick, Prince Edward Island or Newfoundland or the Gaspé Peninsula, 10%,

(B) a prescribed designated region, 7½%, and

(C) any other area in Canada, 5%,

(ii) made by a taxpayer after November 16, 1978 and before the taxpayer's taxation year that includes November 1, 1983 or made by the taxpayer in the taxpayer's taxation year that includes November 1, 1983 or a subsequent taxation year if the taxpayer deducted an amount under section 37.1 in computing the taxpayer's income for the year,

(A) where the expenditure was made by a Canadian-controlled private corporation in a taxation year of the corporation in which it is or would, if it had sufficient taxable income for

the year, be entitled to a deduction under section 125 in computing its tax payable under this Part for the year, 25%, and

(B) where clause (A) is not applicable and the qualified expenditure was in respect of scientific research and experimental development to be carried out in

(I) the Province of Nova Scotia, New Brunswick, Prince Edward Island or Newfoundland or the Gaspé Peninsula, 20%, and

(II) any other area in Canada, 10%,

(iii) made by a taxpayer in the taxpayer's taxation year that ends after October 31, 1983 and before January 1, 1985, other than a qualified expenditure in respect of which subparagraph (ii) is applicable,

(A) where the expenditure was made by a Canadian-controlled private corporation in a taxation year of the corporation in which it is or would, if it had sufficient taxable income for the year, be entitled to a deduction under section 125 in computing its tax payable under this Part for the year, 35%, and

(B) where clause (A) is not applicable and the qualified expenditure was in respect of scientific research and experimental development to be carried out in

(I) the Province of Nova Scotia, New Brunswick, Prince Edward Island or Newfoundland or the Gaspé Peninsula, 30%, and

(II) any other area in Canada, 20%,

(iv) made by a taxpayer

(A) after the taxpayer's 1984 taxation year and before 1995, or

(B) after 1994 under a written agreement entered into by the taxpayer before February 22, 1994,

(other than a qualified expenditure in respect of which subparagraph (ii) applies) in respect of scientific research and experimental development to be carried out in

(C) the Province of Newfoundland, Prince Edward Island, Nova Scotia or New Brunswick or the Gaspé Peninsula, 30%, and

(D) in any other area in Canada, 20%, and

(v) made by a taxpayer after 1994, 20% where the amount is not an amount to which clause (iv)(B) applies,

(*f*) in respect of the repayment of government assistance, non-government assistance or a contract payment that reduced

(i) the capital cost to the taxpayer of a property under paragraph (11.1)(*b*),

(ii) the amount of a qualified expenditure incurred by the taxpayer under paragraph (11.1)(*c*) or (*e*) for taxation years that began before 1996, or

(iii) the prescribed proxy amount of the taxpayer under paragraph (11.1)(*f*) for taxation years that began before 1996,

the specified percentage that applied in respect of the property, the expenditure or the prescribed proxy amount, as the case may be,

(*f.1*) in respect of the repayment of government assistance, non-government assistance or a contract payment that reduced

(i) a qualified expenditure incurred by the taxpayer under any of subsections (18) to (20), 20%,

(ii) the amount of eligible salary and wages payable (by the taxpayer) to an eligible apprentice under paragraph (11.1)(*c.4*), 10%, or

(iii) the amount of the taxpayer's eligible child care space expenditure under paragraph (11.1)(*c.5*), 25%;

(*g*) in respect of an approved project property acquired

(i) before 1989, 60%, and

(ii) after 1988, 45%,

(*h*) in respect of the qualified Canadian exploration expenditure of a taxpayer for a taxation year, 25%,

(*i*) in respect of qualified small-business property, 10%, and

(*j*) in respect of a pre-production mining expenditure, if the expenditure was incurred

(i) in 2003, 5%,

(ii) in 2004, 7%, and

(iii) after 2004, 10%;

History: S. 127(9), paragraph (*f.1*) of the definition "specified percentage" was replaced by S.C. 2007, c. 35, s. 43(12), applicable to taxation years that end on or after May 2, 2006, except that subparagraph (*f.1*)(iii) of the definition "specified percentage" in subsection 127(9) applies to taxation years that end on or after March 19, 2007. S. 127(9)(*f.1*) formerly read:

"(*f.1*) in respect of the repayment of government assistance, non-government assistance or a contract payment that reduced a qualified expenditure incurred by the taxpayer under any of subsections (18) to (20), 20%,"

S. 127(9), paragraph (*j*) of the definition "specified percentage", was added by S.C. 2003, c. 28, s. 14(6), applicable to the 2003 and subsequent taxation years.

S. 127(9), paragraph (*f*) of the definition "specified percentage", was amended, and paragraph (*f.1*) was added, by S.C. 1998, c. 19, s. 146(1), applicable to taxation years that begin after 1995. Paragraph (*f*) formerly read:

"(*f*) in respect of the repayment of government assistance, non-government assistance or a contract payment that reduced the capital cost to the taxpayer of a property under paragraph (11.1)(*b*), the amount of an expenditure made by the taxpayer under paragraph (11.1)(*c*) or (*e*), or the prescribed proxy amount of a taxpayer under paragraph (11.1)(*f*), the specified percentage that was applicable in respect of the property, the expenditure or the prescribed proxy amount, as the case may be,"

S. 127(9), clause (*a*)(iii)(B) of the definition "specified percentage", was amended, and clauses (C) and (D) were added, by S.C. 1995, c. 3, s. 37(2), applicable to property acquired and expenditures incurred after 1994. Clause (B) formerly read:

"(B) after 1988, 15%,"

S. 127(9), clause (*a*)(v)(B) of the definition "specified percentage", was amended, and clauses (C) and (D) added, by S.C. 1995, c. 3, s. 37(3), applicable to property acquired and expenditures incurred after 1994. Clause (B) formerly read:

"(B) after 1988, 15%,"

S. 127(9), subparagraph (*e*)(iv) of the definition "specified percentage", was amended, and subparagraph (v) added, by S.C. 1995, c. 3, s. 37(4), applicable to property acquired and expenditures incurred after 1994. Subparagraph (iv) formerly read:

"(iv) made by a taxpayer in his 1985 taxation year or a subsequent taxation year, other than a qualified expenditure in respect of which subparagraph (ii) is applicable, in respect of scientific research and experimental development to be carried out in

(A) the Province of Nova Scotia, New Brunswick, Prince Edward Island or Newfoundland or the Gaspé Peninsula, 30%, and

(B) any other area in Canada, 20%,"

Paragraph (*f*) of the definition "specified percentage" in s. 127(9) was amended by S.C. 1994, c. 8, s. 15(7), applicable to taxation years that end after December 2, 1992. Paragraph (*f*) of the definition "specified percentage" formerly read:

"(*f*) in respect of the repayment of government assistance, non-government assistance or a contract payment that reduced the capital cost to the taxpayer of a property under paragraph (11.1)(*b*) or that reduced the amount of an expenditure made by the taxpayer under paragraph (11.1)(*c*), the specified percentage that was applicable in respect of the property or expenditure, as the case may be,"

S. 127(9), paragraph (*i*) of the definition "specified percentage", was added by S.C. 1994, c. 8, s. 15(8), applicable to property acquired after December 2, 1992.

Related Sections: S. 127(10.1) Additions to investment tax credit; s. 127(10.7) Further additions to investment tax credit; s. 127(10.8) Further additions to investment tax credit.

Regulations: 4607; 4609.

Interpretation Bulletins: *Secondary* — IT-151R5 (Consolid.) Scientific Research and Experimental Development Expenditures.

Information Circulars: IC 78-4R3 Investment tax credit rates.

Canadian Petroleum Tax Journal: Offshore Oil & Gas Interests: A Perspective on Exploration & Development of Offshore Petroleum and Natural Gas Resources in Eastern Canada, Michael R. Smith, CA and B. David Nielsen, CA, Vol. 13 No. 1 2000.

Tax Window Files: Investment Tax Credit — Logging Truck, November 29, 2005, CRA Document No. 2005-0130101I7; Investment Tax Credits — Borders of Gaspe Peninsula, April 20, 2005, CRA Document No. 2004-0101461E5.

"specified property" — "specified property" in respect of a taxpayer means any property that is

(*a*) a motor vehicle or any other motorized vehicle, or

(*b*) a property that is, or is located in, or attached to, a residence

(i) of the taxpayer,

(ii) an employee of the taxpayer,

(iii) a person who holds an interest in the taxpayer, or

(iv) a person related to a person referred to in any of subparagraphs (i) to (iii);

History: S. 127(9), the definition "specified property" was added by S.C. 2007, c. 35, s. 43(13), applicable to expenditures incurred on and after March 19, 2007.

"specified sampling" — "specified sampling" means the collecting and testing of samples in respect of a mineral resource except that specified sampling does not include

(*a*) the collecting or testing of a sample that, at the time the sample is collected, weighs more than 15 tonnes, and

(*b*) the collecting or testing of a sample collected at any time in a calendar year in respect of any one mineral resource if the total weight of all such samples collected (by any person or partnership or any combination of persons and partnerships) in the period in the calendar year that is before that time (other than samples each of which weighs less than one tonne) exceeds 1,000 tonnes;

History: S. 127(9), the definition "specified sampling" was added by S.C. 2001, c. 17, s. 118(8), applicable after October 17, 2000.

"SR&ED qualified expenditure pool" — "SR&ED qualified expenditure pool" of a taxpayer at the end of a taxation year means the amount determined by the formula

$$A + B - C$$

where

A is the total of all amounts each of which is a qualified expenditure incurred by the taxpayer in the year,

B is the total of all amounts each of which is an amount determined under paragraph (13)(*e*) for the year in respect of the taxpayer, and in respect of which the taxpayer files with the Minister a prescribed form containing prescribed information by the day that is 12 months after the taxpayer's filing-due date for the year, and

C is the total of all amounts each of which is an amount determined under paragraph (13)(*d*) for the year in respect of the taxpayer;

History: S. 127(9), the definition "SR&ED qualified expenditure pool", was added by S.C. 1996, c. 21, s. 30(18), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

Related Sections: S. 127(5)(*a*) Investment tax credit; s. 127(9), "investment tax credit"; s. 127(10.1)(*b*) Additions to investment tax credit; s. 127(13) Agreement to transfer qualified expenditures; s. 127(14) Identification of amounts transferred; s. 257 Negative amounts.

Interpretation Bulletins: *Secondary* — IT-151R5 (Consolid.) Scientific Research and Experimental Development Expenditures.

SR&ED Application Policies: Application Policy 2005-02, General Rules Concerning the Treatment of Government and Non Government Assistance; Application Policy 2000-04, Recapture of Investment Tax Credit.

Forms: T661.

Guides: T4088 Claiming Scientific Research and Experimental Development Expenditures.

Tax Window Files: SR&ED Used Equipment, January 30, 2007, CRA Document No. 2006-0211041E5.

"super-allowance benefit amount" — "super-allowance benefit amount" for a particular taxation year in respect of a corporation in respect of a province means the amount determined by the formula

$$(A - B) \times C$$

where

A is the total of all amounts each of which is an amount that is or may become deductible by the corporation, in computing income or taxable income relevant in calculating an income tax payable by the corporation under a law of the province for any taxation year, in respect of an expenditure on scientific research and experimental development incurred in the particular year,

B is the amount by which the amount of the expenditure exceeds the total of all amounts that would be required by subsections (18) to (20) to reduce the corporation's qualified expenditures otherwise determined under this section if the definitions "government assistance" and "non-government assistance" did not apply to assistance provided under that law, and

C is,

(*a*) where the corporation's expenditure limit for the particular year is nil, the maximum rate of the province's income tax that applies for that year to active business income earned in the province by a corporation, and

(*b*) in any other case, the rate of the province's income tax for that year that would apply to the corporation if

(i) it were not associated with any other corporation in the year,

(ii) its taxable income for the year were less than $200,000, and

(iii) its taxable income for the year were earned in the province in respect of an active business carried on in the province.

History: S. 127(9), the definition "super-allowance benefit amount" was added by S.C. 2001, c. 17, s. 118(7), applicable to taxation years that begin after February 2000 except that, if a corporation's first taxation year that begins after February 2000 ends before 2001, those provisions apply to the corporation's taxation years that begin after 2000.

Related Sections: S. 37(1)(*d.1*) Scientific research and experimental development; s. 127(9), "investment tax credit"; s. 127(10.1)(*b*) Additions to investment tax credit; s. 257 Negative amounts.

Interpretation Bulletins: *Secondary* — IT-151R5 (Consolid.) Scientific Research and Experimental Development Expenditures.

SR&ED Application Policies: Application Policy 2005-02, General Rules Concerning the Treatment of Government and Non Government Assistance.

"taxable supplier" — "taxable supplier" in respect of an amount means

(*a*) a person resident in Canada or a Canadian partnership, or

(*b*) a non-resident person, or a partnership that is not a Canadian partnership,

(i) by which the amount was payable, or

(ii) by or for whom the amount was receivable

in the course of carrying on a business through a permanent establishment (as defined by regulation) in Canada.

History: S. 127(9), paragraph (*b*) of the definition "taxable supplier", was amended by S.C. 1998, c. 19, s. 33(3), applicable to taxation years that begin after 1995. S. 127(9), paragraph (*b*) of the definition "taxable supplier" formerly read:

"(*b*) a non-resident person, or a partnership that is not a Canadian partnership,

(i) by which the amount was payable, or

(ii) by or for the benefit of which the amount was receivable in the course of carrying on a business through a permanent establishment (as defined by regulation) in Canada."

S. 127(9), the definition "taxable supplier", was added by S.C. 1996, c. 21, s. 30(18), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

Regulations: 8201.

SR&ED Application Policies: Application Policy 2002-03, Taxable Supplier Rules.

Tax Window Files: Scientific Research and Experimental Development — Activities Performed on Behalf of Foreign Corporation, October 7, 2005, CRA Document No. 2005-0140991C6; Research and Development, September 11, 2001, CRA Document No. 2001-0078855.

► 127(9.01) ◄

(9.01) Transitional application of investment tax credit definition. For the purpose of applying each of paragraphs (*c*) to (*f*), (*h*) and (*i*) of the definition "investment tax credit" in subsection (9) in respect of a taxpayer, the reference to "10" in that paragraph is to be read as a reference to the number that is the lesser of

(*a*) 20, and

(*b*) the number that is the total of 10 and the number of taxation years by which the number of taxation years of the taxpayer that have ended after 1997 exceeds 11.

History: S. 127(9.01)(*b*) was replaced by S.C. 2009, c. 2, s. 40(3), applicable in respect of the 2008 and subsequent taxation years. S. 127(9.01)(*b*) formerly read:

"(*b*) the number that is the total of 10 and the number of taxation years by which the number of taxation years of the taxpayer that have ended after 2005 exceeds 11."

S. 127(9.01) was added by S.C. 2006, c. 4, s. 75(4), applicable to the 2006 and subsequent taxation years.

► 127(9.02) ◄

(9.02) Transitional application of investment tax credit definition. For the purpose of applying paragraph (*g*) of the definition "investment tax credit" in subsection (9) in respect of a taxpayer, the reference to "9" in that paragraph is to be read as a reference to the number that is the lesser of

(*a*) 19, and

(*b*) the number that is the total of 9 and the number of taxation years by which the number of taxation years of the taxpayer that have ended after 1997 exceeds 11.

History: S. 127(9.02)(*b*) was replaced by S.C. 2009, c. 2, s. 40(4), applicable in respect of the 2008 and subsequent taxation years. S. 127(9.02)(*b*) formerly read:

"(*b*) the number that is the total of 9 and the number of taxation years by which the number of taxation years of the taxpayer that have ended after 2005 exceeds 11."

S. 127(9.02) was added by S.C. 2006, c. 4, s. 75(4), applicable to the 2006 and subsequent taxation years.

► 127(9.1) ◄

(9.1) Control acquired before the end of the year. Where a taxpayer is a corporation the control of which has been acquired by a person or group of persons (each of whom is in this subsection referred to as the "purchaser") at any time (in this subsection referred to as "that time") before the end of a taxation year of the corporation, the amount determined for the purposes of paragraph (*j*) of the definition "investment tax credit" in subsection (9) is the amount, if any, by which

(*a*) the amount, if any, by which

(i) the total of all amounts added in computing its investment tax credit at the end of the year in respect of a property acquired, or an expenditure made, before that time

exceeds

(ii) the total of all amounts each of which is an amount

(A) deducted in computing its investment tax credit at the end of the year under paragraph (*f*) or (*g*) of the definition "investment tax credit" in subsection (9), or

(B) deducted in computing its investment tax credit at the end of the taxation year immediately preceding the year under paragraph (*i*) of that definition,

to the extent that the amount may reasonably be considered to have been so deducted in respect of a property or expenditure in respect of which an amount is included in subparagraph (i)

exceeds the total of

(*b*) [Repealed by 1987, c. 46, s. 46(3).]

(*c*) the amount, if any, by which its refundable Part VII tax on hand at the end of the year exceeds the total of all amounts each of which is an amount designated under subsection 192(4) in respect of a share issued by it

(i) in the period commencing one month before that time and ending at that time, or

(ii) after that time,

and before the end of the year, and

(*d*) that proportion of the amount that, but for subsections (3) and (5) and sections 126, 127.2 and 127.3, would be its tax payable under this Part for the year that,

(i) where throughout the year the corporation carried on a particular business in the course of which a property was acquired, or an expenditure was made, before that time in respect of which an amount is included in computing its investment tax credit at the end of the year, the amount, if any, by which the total of all amounts each of which is

(A) its income for the year from the particular business, or

(B) its income for the year from any other business substantially all the income of which was derived from the sale, leasing, rental or development of properties or the rendering of services similar to the properties sold, leased, rented or developed, or the services rendered, as the case may be, by the corporation in carrying on the particular business before that time

exceeds

(C) the total of all amounts each of which is an amount deducted under paragraph 111(1)(*a*) or (*d*) for the year by the corporation in respect of a non-capital loss or a farm loss, as the case may be, for a taxation year in respect of the particular business or the other business,

is of the greater of

(ii) the amount determined under subparagraph (i), and

(iii) its taxable income for the year.

Related Sections: S. 139.1(18) Acquisition of control; s. 249(4) Year end on change of control; s. 256(6)–(9).

► 127(9.2) ◄

(9.2) Control acquired after the end of the year. Where a taxpayer is a corporation the control of which has been acquired by a person or group of persons at any time (in this subsection referred to as "that time") after the end of a taxation year of the corporation, the amount determined for the purposes of paragraph (*k*) of the definition "investment tax credit" in subsection (9) is the amount, if any, by which

(*a*) the total of all amounts each of which is an amount included in computing its investment tax credit at the end of the year in respect of a property acquired, or an expenditure made, after that time

exceeds the total of

(*b*) [Repealed by 1987, c. 46, s. 46(6).]

(*c*) its refundable Part VII tax on hand at the end of the year, and

(*d*) that proportion of the amount that, but for subsections (3) and (5) and sections 126, 127.2 and 127.3, would be its tax payable under this Part for the year that,

(i) where the corporation acquired a property or made an expenditure, in the course of carrying on a particular business throughout the portion of a taxation year that is after that time, in respect of which an amount is included in computing its investment tax credit at the end of the year, the amount, if any, by which the total of all amounts each of which is

(A) its income for the year from the particular business, or

(B) where the corporation carried on a particular business in the year, its income for the year from any other business substantially all the income of which was derived from the sale, leasing, rental or development of properties or the rendering of services similar to the properties sold, leased, rented or developed, or the services rendered, as the case may be, by the corporation in carrying on the particular business before that time

exceeds

(C) the total of all amounts each of which is an amount deducted under paragraph 111(1)(*a*) or (*d*) for the year by the corporation in respect of a non-capital loss or a farm loss, as the case may be, for a taxation year in respect of the particular business or the other business

is of the greater of

(ii) the amount determined under subparagraph (i), and

(iii) its taxable income for the year.

Related Sections: S. 139.1(18) Acquisition of control; s. 249(4) Year end on change of control; s. 256(6)–(9).

► 127(10) ◄

(10) Ascertainment of certain property. The Minister may

(*a*) obtain the advice of the appropriate minister for the purposes of the *Regional Development Incentives Act*, chapter R-3 of the Revised Statutes of Canada, 1970, as to whether any property is property as described in paragraph (*b*) of the definition "certified property" in subsection (9);

(*b*) obtain a certificate from the appropriate minister for the purposes of the *Regional Development Incentives Act* certifying that any property specified therein is property as described in paragraph (*b*) of that definition; or

(*c*) provide advice to the member of the Queen's Privy Council for Canada appointed to be the Minister for the purposes of the *Atlantic Canada Opportunities Agency Act* as to whether any property qualifies for certification under the definition "approved project property" in subsection (9).

► 127(10.1) ◄

(10.1) Additions to investment tax credit. For the purpose of paragraph (*e*) of the definition "investment tax credit" in subsection (9), where a corporation was throughout a taxation year a Canadian-controlled private corporation, there shall be added in computing the corporation's investment tax credit at the end of the year the amount that is 15% of the least of

(*a*) such amount as the corporation claims;

(*b*) the amount by which the corporation's SR&ED qualified expenditure pool at the end of the year exceeds the total of all amounts each of which is the super-allowance benefit amount for the year in respect of the corporation in respect of a province; and

(*c*) the corporation's expenditure limit for the year.

History: S. 127(10.1)(*b*) was amended by S.C. 2001, c. 17, s. 118(8), applicable to taxation years that begin after February 2000 except that, if a corporation's first taxation year that begins after February 2000 ends before 2001, those provisions apply to the corporation's taxation years that begin after 2000. S. 127(10.1)(*b*) formerly read:

"(*b*) the SR&ED qualified expenditure pool of the corporation at the end of the year; and"

S. 127(10.1) was amended by S.C. 1996, c. 21, s. 30(19), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

S. 127(10.1) formerly read:

"(10.1) *Additions to investment tax credit.* For the purpose of paragraph (*e*) of the definition 'investment tax credit' in subsection (9), where a corporation was throughout a particular taxation year a Canadian-controlled private corporation, there shall be added in computing the corporation's investment tax credit at the end of the particular year the amount determined by the formula

$$(\frac{35}{100} \times A) - B$$

where

A is the lesser of

(*a*) the total of all expenditures described in any of subparagraphs (*e*)(iv) and (v) of the definition 'specified percentage' in subsection (9) made by the corporation in the particular year and that were designated by it in its return of income under this Part for the particular year, and

(*b*) the corporation's expenditure limit for the particular year; and

B is the total of all amounts determined under paragraph (*a*) of the definition 'investment tax credit' in subsection (9) in respect of an expenditure referred to in paragraph (*a*) of the description of A."

S. 127(10.1) was amended by S.C. 1995, c. 3, s. 37(5), applicable to taxation years that begin after 1995. S. 127(10.1) formerly read:

"(10.1) *Additions to investment tax credit.* For the purpose of paragraph (*e*) of the definition 'investment tax credit' in subsection (9), where a taxpayer was throughout a particular taxation year a Canadian-controlled private corporation the taxable income of which, for the taxation year preceding the particular year together with the taxable incomes of all corporations with which it was associated in the particular year for their taxation years ending in the calendar year preceding the calendar year in which the taxpayer's particular year ended, does not exceed twice the total of the business limits (as determined under section 125) of the taxpayer and the associated corporations for those preceding years, the amount, if any, by which

(*a*) 35% of the lesser of

(i) the total of all expenditures described in subparagraph (*e*)(iv) of the definition 'specified percentage' in subsection (9) made by the taxpayer in the particular year and that were designated by it in its return of income under this Part for the particular year, and

(ii) the taxpayer's expenditure limit for the particular year

exceeds

(*b*) the total of all amounts determined under paragraph (*a*) of the definition 'investment tax credit' in subsection (9) in respect of an expenditure referred to in subparagraph (*a*)(i)

shall be added in computing the taxpayer's investment tax credit at the end of the particular year."

S. 127(10.1) was amended by S.C. 1994, c. 8, s. 15(10), applicable to taxation years that begin after 1993. S. 127(10.1) formerly read:

"(10.1) For the purposes of paragraph (*e*) of the definition 'investment tax credit' in subsection (9), where a taxpayer was throughout its taxation year a Canadian-controlled private corporation whose taxable income for the immediately preceding taxation year together with the taxable incomes of all corporations with which it was associated in the year for their taxation years ending in the calendar year immediately preceding the calendar year in which the corporation's year ended does not exceed the total of the business limits (as determined under section 125) of the corporation and the associated corporations for those preceding years, the amount, if any, by which

(*a*) 35% of the lesser of

(i) the total of all expenditures described in subparagraph (*e*)(iv) of the definition 'specified percentage' in subsection (9) made by it in the year and that were designated by the taxpayer in its return of income under this Part for the year, and

(ii) the taxpayer's expenditure limit for the year

exceeds

(*b*) the total of all amounts determined under paragraph (*a*) of the definition 'investment tax credit' in subsection (9) in respect of an expenditure referred to in subparagraph (*a*)(i)

shall be added in computing the taxpayer's investment tax credit at the end of the taxation year."

Editorial Note: Subsection 127(10.1) provides certain Canadian-controlled private corporations an additional 15% ITC for qualified SR&ED expenditures, bringing the total ITC to 35%. However, the additional ITC is not available to large corporations. Paragraph 127(10.1)(*c*) ensures that the additional 15% is limited to the corporation's "expenditure limit" for the year, as defined in subsection 127(10.2). The expenditure limit is reduced proportionately when the small business limit in subsection 125(2) is reduced.

Related Sections: S. 127(10.2) Expenditure limit determined; s. 127(10.7) Further additions to investment tax credit; s. 127.1(2), "refundable investment tax credit"; s. 127.1(2.01) Addition to refundable investment tax credit; s. 136(1) Cooperative not private corporation; s. 137(7) Credit union not private corporation.

Forms: T2 SCH 31.

Tax Profile: April 2006 — The SR&ED Deduction and Investment Tax Credits.

Tax Window Files: Investment Tax Credit — Expenditure Limit, June 20, 2006, CRA Document No. 2005-0165381E5; Business Limit — Non-CCPC, October 7, 1993, CRA Document No. 9312685; Investment Tax Credits of Partnership — Transfers to Partners that are CCPCs, February 28, 1992, CRA Document No. 9120477.

► 127(10.2) ◄

(10.2) Expenditure limit determined. For the purpose of subsection (10.1), a particular corporation's expenditure limit for a particular taxation year is the amount determined by the formula

($8 million − 10A) × [($40 million − B)/$40 million]

where

A is the greater of

(*a*) $500,000, and

(*b*) the amount that is

(i) if the particular corporation is not associated with any other corporation in the particular taxation year, the particular corporation's taxable income for its immediately preceding taxation year (determined before taking into consideration the specified future tax consequences for that preceding year), or

(ii) if the particular corporation is associated with one or more other corporations in the particular taxation year, the total of all amounts each of which is the taxable income of the particular corporation for its, or of one of the other corporations for its, last taxation year that ended in the last calendar year that ended before the end of the particular taxation year (determined before taking into consideration the specified future tax consequences for that last taxation year), and

B is

(*a*) nil, if the following amount is less than or equal to $10 million:

(i) if the particular corporation is not associated with any other corporation in the particular taxation year, the amount that is its taxable capital employed in Canada (within the meaning assigned by section 181.2 or 181.3) for its immediately preceding taxation year, or

(ii) if the particular corporation is associated with one or more other corporations in the particular taxation year, the amount that is the total of all amounts, each of which is the taxable capital employed in Canada (within the meaning assigned by section 181.2 or 181.3) of the particular corporation for its, or of one of the other corporations for its, last taxation year that ended in the last calendar year that ended before the end of the particular taxation year, or

(*b*) in any other case, the lesser of $40 million and the amount by which the amount determined under subparagraph (*a*)(i) or (ii), as the case may be, exceeds $10 million.

History: S. 127(10.2), the formula and paragraph (*a*) of the description of A were replaced by S.C. 2009, c. 2, s. 40(5) and 40(6) respectively, applicable to the 2010 and subsequent taxation years, except that the expenditure limit in subsection 127(10.2) of the Act in respect of a corporation for 2010 taxation years that begin before 2010, be determined by the formula

$$A + [(B - A) \times (C/D)]$$

where

A is the expenditure limit of the corporation for the taxation year determined in accordance with the formula in subsection 127(10.2) of the Act as that subsection read in its application to taxation years that end in 2009;

B is the expenditure limit of the corporation for the taxation year determined in accordance with the formula in subsection 127(10.2) of the Act, as that subsection would apply to the taxation year in the absence of this exception;

C is the number of days in the taxation year that are after 2009; and

D is the total number of days in the taxation year.

S. 127(10.2), the formula formerly read:

"($7 million – 10A) × [($40 million – B)/$40 million]

"

S. 127(10.2), paragraph (*a*) of the description of A formerly read:

"(a) $400,000, and"

S. 127(10.2), subparagraphs (*a*)(i) and (ii) of the description of B were replaced by S.C. 2009, c. 2, s. 40(7), applicable to taxation years that end on or after February 26, 2008. S. 127(10.2), subparagraphs (*a*)(i) and (ii) of the description of B formerly read:

"(i) if the particular corporation is not associated with any other corporation in the particular taxation year, the amount that is its taxable capital employed in Canada (within the meaning assigned by section 181.2) for its immediately preceding taxation year, or

(ii) if the particular corporation is associated with one or more other corporations in the particular taxation year, the amount that is the total of all amounts, each of which is the taxable capital employed in Canada (within the meaning assigned by section 181.2) of the particular corporation for its, or of one of the other corporations for its, last taxation year that ended in the last calendar year that ended before the end of the particular taxation year, or"

S. 127(10.2) was replaced by S.C. 2008, c. 28, s. 19(3), applicable to taxation years that end on or after February 26, 2008, except that for taxation years that include February 26, 2008, the expenditure limit of a corporation shall be determined by the formula

$$A + [(B - A) \times (C/D)]$$

where

A is the expenditure limit of the corporation for the taxation year determined in accordance with the formula in subsection 127(10.2) of the *Income Tax Act* as that subsection read in its application to a taxation year that ended immediately before February 26, 2008;

B is the expenditure limit of the corporation for the taxation year determined in accordance with the formula in subsection 127(10.2) of the *Income Tax Act*, as that subsection would apply to a taxation year that ended on February 26, 2008;

C is the number of days in the taxation year that are after February 25, 2008; and

D is the number of days in the taxation year.

The wording for the descriptions of A and B was amended by S.C. 2009, c. 2, s. 82, to read as noted in the application above, in force on March 12, 2009.

S. 127(10.2) formerly read:

"(10.2) *Expenditure limit determined.* For the purpose of subsection (10.1), a corporation's expenditure limit for a particular taxation year is the amount determined by the formula

$$(\$6{,}000{,}000 - 10A) \times B/C$$

where

A is the greater of $400,000 and either

(*a*) if the corporation is associated with one or more other corporations in the particular year and the particular year ends in a calendar year, the total of all amounts each of which is the taxable income of the corporation, or of such an associated corporation, for its last taxation year that ended in the preceding calendar year (determined before taking into consideration the specified future tax consequences for that last taxation year), or

(*b*) if paragraph (*a*) does not apply, the corporation's taxable income for its immediately preceding taxation year (determined before taking into consideration the specified future tax consequences for that preceding year),

B is the total of the business limits under section 125 for the particular year of the corporation and any such other corporations for the particular year, and

C is

(*a*) if the corporation is associated with one or more other corporations in the particular year, the total of all amounts each of which would be the business limit for the particular year of the corporation or of such an associated corporation, if this Act were read without reference to subsections 125(5) and (5.1), or

(*b*) if paragraph (*a*) does not apply, the amount that would, if this Act were read without reference to subsections 125(5) and (5.1), be the corporation's business limit for the particular year."

S. 127(10.2), the portion before paragraph (*a*) of the description of A was replaced by S.C. 2007, c. 2, s. 34(9), applicable to the 2007 and subsequent taxation years except that, for a 2007 or 2008 taxation year that immediately follows a taxation year that ended before 2007, the reference in the formula in subsection 127(10.2) to "$6,000,000" is to be read as a reference to "$5,000,000" and the reference to "$400,000" in the description of A is to be read as a reference to "$300,000".

S. 127(10.2), the portion before paragraph (*a*) of the description of A formerly read:

"(10.2) *Expenditure limit determined.* For the purpose of subsection (10.1), a corporation's expenditure limit for a particular taxation year is the amount determined by the formula

$$(\$5{,}000{,}000 - 10A) \times B/C$$

where

A is the greater of $300,000 and either"

S. 127(10.2) was replaced by S.C. 2003, c. 15, s. 81(3), applicable to taxation years that end after 2002 except that, for taxation years that immediately follow taxation years that ended before 2003, the reference in the formula to "$5,000,000" is to be read as a reference to "$4,000,000" and the reference to "$300,000" in the description of A is to be read as a reference to "$200,000". S. 127(10.2) formerly read:

"(10.2) *Expenditure limit determined.* For the purpose of subsection (10.1), a corporation's expenditure limit for a particular taxation year is the amount determined by the formula

$$(\$4{,}000{,}000 - 10A) \times \frac{B}{\$200{,}000}$$

where

A is the greater of $200,000 and either

(*a*) where the corporation is associated with one or more other corporations in the particular year and the particular year ends in a calendar year, the total of all amounts each of which is the taxable income of the corporation or such an associated corporation for its last taxation year that ended in the preceding calendar year (determined before taking into consideration the specified future tax consequences for that last year), or

(*b*) where paragraph (*a*) does not apply, the corporation's taxable income for its immediately preceding taxation year (determined before taking into consideration the specified future tax consequences for that preceding year), and

B is the total of the business limits under section 125 for the particular year of the corporation and any such other corporations for the particular year,unless the corporation is associated in the particular year with one or more other Canadian-controlled private corporations, in which case, except as otherwise provided in this section, its expenditure limit for the particular year is nil."

S. 127(10.2), the description of A, was amended by S.C. 1997, c. 25, s. 35(2), applicable to taxation years that begin after 1995. That part formerly read:

"A is the greater of

(*a*) $200,000, and

(*b*) the taxable income of the corporation for its preceding taxation year or, if it is associated with one or more other corporations in the particular year, the taxable income of the corporation for its last taxation year ending in the preceding calendar year plus the taxable incomes of all such other corporations for their last taxation years ending in the preceding calendar year, and"

S. 127(10.2) was amended by S.C. 1995, c. 3, s. 37(5), applicable to taxation years that begin after 1995. S. 127(10.2) formerly read:

"(10.2) *Expenditure limit determined.* For the purpose of subsection (10.1), a corporation's expenditure limit for a particular taxation year is the amount determined by the formula

$4,000,000 – 10A

where

A is the greater of

(*a*) $200,000, and

(*b*) the total of the taxable income of the corporation for the taxation year preceding the particular year and the taxable incomes of all corporations with which it was associated in the particular year for their taxation years ending in the calendar year preceding the calendar year in which the taxpayer's particular year ended,

unless the corporation is associated in the particular year with one or more other Canadian-controlled private corporations in which case, except as otherwise provided in this section, its expenditure limit for the particular year is nil."

S. 127(10.2) was amended by S.C. 1994, c. 8, s. 15(10), applicable to taxation years that begin after 1993. S. 127(10.2) formerly read:

"(10.2) For the purposes of subsection (10.1), a corporation's expenditure limit for a taxation year is $2,000,000 unless the corporation is associated in the year with one or more other Canadian-controlled private corporations in which case, except as otherwise provided in this section, its expenditure limit for the year is nil."

Editorial Note: See the Editorial Note under subsection 127(10.1).

Related Sections: S. 87(2)(*oo*) Investment tax credit s. 88(1)(*e.8*) Winding-up; s. 127(10.21)–(10.6); s. 248(1), "specified future tax consequences"; s. 257 Negative amounts.

Interpretation Bulletins: *Secondary* — IT-151R5 (Consolid.) Scientific Research and Experimental Development Expenditures.

Tax Window Files: Investment Tax Credit — Expenditure Limit, June 20, 2006, CRA Document No. 2005-0165381E5; Business Limit and Expenditure Limit — Associated Canadian- controlled Private Corporations with Multiple Taxation Years, October 21, 2003, CRA Document No. 2003-0031577; Investment Tax Credit Election by Corporations Not To Be Associated, August 29, 2002, CRA Document No. 2002-0145465.

► 127(10.21) ◄

(10.21) Expenditure limits — associated CCPCs. Notwithstanding subsection (10.2), the expenditure limit for a taxation year of a corporation that is associated in the taxation year with one or more other Canadian-controlled private corporations is, except as otherwise provided in this section, nil.

History: S. 127(10.21) was added by S.C. 2003, c. 15, s. 81(3), applicable to taxation years that end after 2002.

Related Sections: S. 127(10.3) Associated corporations.

Tax Window Files: Business Limit and Expenditure Limit — Associated Canadian-controlled Private Corporations with Multiple Taxation Years, October 21, 2003, CRA Document No. 2003-0031577.

► 127(10.22) ◄

(10.22) Deemed non-association of corporations. If a particular Canadian-controlled private corporation is associated with another corporation in circumstances where those corporations would not be associated if the Act were read without reference to paragraph 256(1.2)(*a*), the particular corporation has issued shares to one or more persons who have been issued shares by the other corporation and there is at least one shareholder of the particular corporation who is not a shareholder of the other corporation or one shareholder of the other corporation who is not a shareholder of the particular corporation, the particular corporation is deemed not to be associated with the other corporation for the purpose of determining the particular corporation's expenditure limit under subsection (10.2).

History: S. 127(10.22) was replaced by S.C. 2009, c. 2, s. 40(8), applicable to taxation years that end on or after March 9, 2009. S. 127(10.22) formerly read:

"(10.22) *Expenditure limits — associated CCPCs.* If a particular Canadian-controlled private corporation is associated with another corporation in circumstances where those corporations would not be associated if the Act were read without reference to paragraph 256(1.2)(*a*), the particular corporation has issued shares to one or more persons who have been issued shares by the other corporation and there is at least one shareholder of the particular corporation who is not a shareholder of the other corporation or one shareholder of the other corporation who is not a shareholder of the particular corporation, the particular corporation is not associated with the other corporation for the purpose of

(*a*) determining the particular corporation's expenditure limit under subsection (10.2); and

(*b*) determining the particular corporation's business limit under section 125, as applied for the purpose only of determining the particular corporation's expenditure limit under subsection (10.2)."

S. 127(10.22) was added by S.C. 2005, c. 19, s. 28(2), applicable to taxation years that end after March 22, 2004.

Editorial Note: Subsection 127(10.22) allows associated corporations to be considered not associated for purposes of SR&ED tax credits if they are associated through a third company and the conditions in subsection 127(10.23) are met. However, subsection 127(10.22) does not apply for purposes of claiming the small business deduction in section 125. Subsection 127.1(2.2) provides a parallel rule for refundable investment tax credits.

Related Sections: S. 127(10.23) Application of subsection (10.22); s. 127.1(2.2) Refundable investment tax credit — associated CCPCs; s. 127.1(2.3) Application of subsection (2.2).

Tax Profile: March 2006 — Some Tax Considerations for Investing in Silicon Valley North.

Tax Window Files: Enhanced ITC for CCPCs, May 18, 2005, CRA Document No. 2005-012689117.

► 127(10.23) ◄

(10.23) Application of subsection (10.22). Subsection (10.22) applies to the particular corporation and the other corporation referred to in that subsection only if the Minister is satisfied that

(*a*) the particular corporation and the other corporation are not otherwise associated under this Act; and

(*b*) the existence of one or more shareholders of the particular corporation who is not a shareholder of the other corporation, or the existence of one or more shareholders of the other corporation who is not a shareholder of the particular corporation, is not for the purpose of satisfying the requirements of subsection (10.22) or 127.1(2.2).

History: S. 127(10.23) was added by S.C. 2005, c. 19, s. 28(2), applicable to taxation years that end after March 22, 2004.

Editorial Note: See the editorial note under subsection 127(10.22).

Related Sections: S. 127.1(2.2) Refundable investment tax credit — associated CCPCs; s. 127.1(2.3) Application of subsection (2.2).

Tax Window Files: Enhanced ITC for CCPCs, May 18, 2005, CRA Document No. 2005-012689117.

► 127(10.3) ◄

(10.3) Associated corporations. If all of the Canadian-controlled private corporations that are associated with each other in a taxation year file with the Minister in prescribed form an agreement whereby, for the purpose of subsection (10.1), they allocate an amount to one or more of them for the year and the amount so allocated or the total of the amounts so allocated, as the case may be, does not exceed the amount determined for the year by the formula in subsection (10.2), the expenditure limit for the year of each of the corporations is the amount so allocated to it.

History: S. 127(10.3) was amended by S.C. 1994, c. 8, s. 15(10), applicable to taxation years that begin after 1993. S. 127(10.3) formerly read:

"(10.3) If all of the Canadian-controlled private corporations that are associated with each other in a taxation year have filed with the Minister in prescribed form an agreement whereby, for the purposes of subsection (10.1), they allocate an amount to one or more of them for the taxation year and the amount so allocated or the total of the amounts so allocated, as the case may be, is $2,000,000, the expenditure limit for the year of each of the corporations is the amount so allocated to it."

Related Sections: S. 127(10.4) Failure to file agreement.

Interpretation Bulletins: *Primary* — IT-151R5 (Consolid.) Scientific Research and Experimental Development Expenditures.

Forms: T2 SCH 49; T2 SCH 23.

Tax Window Files: Business Limit and Expenditure Limit — Associated Canadian-controlled Private Corporations with Multiple Taxation Years, October 21, 2003, CRA Document No. 2003-0031577.

► 127(10.4) ◄

(10.4) Failure to file agreement. If any of the Canadian-controlled private corporations that are associated with each other in a taxation year fails to file with the Minister an agreement as contemplated by subsection (10.3) within 30 days after notice in writing by the Minister is forwarded to any of them that such an agreement is required for the purposes of this Part, the Minister shall, for the purpose of subsection (10.1), allocate an amount to one or more of them for the year, which amount or the total of which amounts, as the case may be, shall equal the amount determined for the year by the formula in subsection (10.2), and in any such case the expenditure limit for the year of each of the corporations is the amount so allocated to it.

History: S. 127(10.4) was amended by S.C. 1994, c. 8, s. 15(10), applicable to taxation years that begin after 1993. S. 127(10.4) formerly read:

"(10.4) If any of the Canadian-controlled private corporations that are associated with each other in a taxation year has failed to file with the Minister an agreement as contemplated by subsection (10.3) within 30 days after notice in writing by the Minister has been forwarded to any of them that such an agreement is required for the purpose of any assessment of tax under this Part, the Minister shall, for the purposes of subsection (10.1), allocate an amount to one or more of them for the taxation year, which amount or the total of which amounts, as the case may be, shall equal $2,000,000, and in any such case the expenditure limit for the year of each of the corporations is the amount so allocated to it."

► 127(10.5) ◄

(10.5) Failure to file agreement. [Repealed by 1985, c. 45, s. 72(6).]

► 127(10.6) ◄

(10.6) Expenditure limit determination in certain cases. Notwithstanding any other provision of this section,

(*a*) where a Canadian-controlled private corporation (in this paragraph referred to as the "first corporation") has more than one taxation year ending in the same calendar year and it is associated in two or more of those taxation years with another Canadian-controlled private corporation that has a taxation year ending in that calendar year, the expenditure limit of the first corporation for each taxation year in which it is associated with the other corporation ending in that calendar year is, subject to the application of paragraph (*b*), an amount equal to its expenditure limit for the first such taxation year determined without reference to paragraph (*b*);

(*b*) where a Canadian-controlled private corporation has a taxation year that is less than 51 weeks, its expenditure limit for the year is that proportion of its expenditure limit for the year determined without reference to this paragraph that the number of days in the year is of 365; and

(*c*) for the purpose of subsection (10.2), where a Canadian-controlled private corporation has a taxation year that is less than 51 weeks, the taxable income of the corporation for the year shall be determined by multiplying that amount by the ratio that 365 is of the number of days in that year.

History: S. 127(10.6)(*c*) was replaced by S.C. 2009, c. 2, s. 40(9), applicable to taxation years that end on or after March 9, 2009. S. 127(10.6)(*c*) formerly read:

"(*c*) for the purpose of subsection (10.2), where a Canadian-controlled private corporation has a taxation year that is less than 51 weeks, the taxable income and business limit of the corporation for the year shall be determined by multiplying those amounts by the ratio that 365 is of the number of days in that year."

S. 127(10.6)(*c*) was added by S.C. 1995, c. 3, s. 37(6), applicable to taxation years that begin after 1995.

Interpretation Bulletins: *Primary* — IT-151R5 (Consolid.) Scientific Research and Experimental Development Expenditures.

Tax Window Files: Business Limit and Expenditure Limit — Associated Canadian- controlled Private Corporations with Multiple Taxation Years, October 21, 2003, CRA Document No. 2003-0031577.

► 127(10.7) ◄

(10.7) Further additions to investment tax credit. Where a taxpayer has in a particular taxation year repaid an amount of government assistance, non-government assistance or a contract payment that was applied to reduce

(*a*) the amount of a qualified expenditure incurred by the taxpayer under paragraph (11.1)(*c*) for a preceding taxation year that began before 1996,

(*b*) the prescribed proxy amount of the taxpayer under paragraph (11.1)(*f*) for a preceding taxation year that began before 1996, or

(*c*) a qualified expenditure incurred by the taxpayer under any of subsections (18) to (20) for a preceding taxation year,

there shall be added to the amount otherwise determined under subsection (10.1) in respect of the taxpayer for the particular year the amount, if any, by which

(*d*) the amount that would have been determined under subsection (10.1) in respect of the taxpayer for that preceding year if subsections (11.1) and (18) to (20) had not applied in respect of the government assistance, non-government assistance or contract payment, as the case may be, to the extent of the amount so repaid,

exceeds

(*e*) the amount determined under subsection (10.1) in respect of the taxpayer for that preceding year.

History: S. 127(10.7) was amended by S.C. 1996, c. 21, s. 30(20), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

S. 127(10.7) formerly read:

"(10.7) *Further additions to investment tax credits.* Where a taxpayer has in a particular taxation year repaid an amount of government assistance, non-government assistance or a contract payment that had, because of subsection (11.1), resulted in a reduction of the amount of a qualified expenditure for a preceding taxation year, there shall be added to the amount otherwise determined under subsection (10.1) in respect of the taxpayer for the particular year the amount, if any, by which

(*a*) the amount that would have been determined under subsection (10.1) in respect of the taxpayer for that preceding year if subsection (11.1) had not applied in respect of the government assistance, non-government assistance or contract payment, as the case may be, to the extent of the amount so repaid,

exceeds

(*b*) the amount determined under subsection (10.1) in respect of the taxpayer for that preceding year."

S. 127(10.7) was added by S.C. 1994, c. 7, Sched. II, s. 104(5), applicable with respect to amounts repaid after May 23, 1985.

Related Sections: S. 127(10.8) Further additions to investment tax credit.

SR&ED Application Policies: Application Policy 2005-02, General Rules Concerning the Treatment of Government and Non Government Assistance.

► 127(10.8) ◄

(10.8) Further additions to investment tax credit. For the purposes of paragraph (*e*.1) of the definition "investment tax credit" in subsection (9), subsection (10.7) and paragraph 37(1)(*c*), an amount of government assistance, non-government assistance or a contract payment that

(*a*) was applied to reduce

(i) the capital cost to a taxpayer of a property under paragraph (11.1)(*b*),

(ii) the amount of a qualified expenditure incurred by a taxpayer under paragraph (11.1)(*c*) for taxation years that began before 1996,

(iii) the prescribed proxy amount of a taxpayer under paragraph (11.1)(*f*) for taxation years that began before 1996, or

(iv) a qualified expenditure incurred by a taxpayer under any of subsections (18) to (20),

(*b*) was not received by the taxpayer, and

(*c*) ceased in a taxation year to be an amount that the taxpayer can reasonably be expected to receive,

is deemed to be the amount of a repayment by the taxpayer in the year of the government assistance, non-government assistance or contract payment, as the case may be.

History: S. 127(10.8) was amended by S.C. 1996, c. 21, s. 30(20), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

S. 127(10.8) formerly read:

"(10.8) *Idem.* For the purposes of paragraph (*e*.1) of the definition 'investment tax credit' in subsection (9), subsection (10.7) and paragraph 37(1)(*c*), where an amount of assistance that

(*a*) was applied in reduction of

(i) the capital cost to a taxpayer of a property, because of paragraph (11.1)(*b*), or

(ii) the amount of a qualified expenditure made by a taxpayer, because of paragraph (11.1)(*c*),

(*b*) was not received by the taxpayer, and

(*c*) ceased in a taxation year to be an amount that the taxpayer can reasonably be expected to receive,

that amount shall be deemed to be an amount of assistance repaid by the taxpayer in the year."

S. 127(10.8) was added by S.C. 1994, c. 7, Sched. VIII, s. 68(3), applicable to 1991 and subsequent taxation years.

Editorial Note: Subsection 127(10.8) allows a taxpayer to regenerate an investment tax credit when the assistance has not been received and entitlement to assistance expires.

Related Sections: S. 127(9), "contract payment", "government assistance", "non-government assistance", "qualified expenditure".

SR&ED Application Policies: Application Policy 2005-02, General Rules Concerning the Treatment of Government and Non Government Assistance.

► 127(11) ◄

(11) Interpretation. For the purposes of the definition "qualified property" in subsection (9),

(*a*) "manufacturing or processing" does not include any of the activities

(i) referred to in any of paragraphs (*a*) to (*e*) and (*g*) to (*i*) of the definition "manufacturing or processing" in subsection 125.1(3),

(ii) that would be referred to in paragraph (*f*) of that definition if that paragraph were read without reference to the expression "located in Canada",

(iii) that would be referred to in paragraph (*j*) of that definition if that paragraph were read without reference to the expression "in Canada", or

(iv) that would be referred to in paragraph (*k*) of that definition if the definition "Canadian field processing" in subsection 248(1) were read without reference to the expression "in Canada"; and

(*b*) for greater certainty, the purposes referred to in paragraph (*c*) of the definition "qualified property" in subsection (9) do not include

(i) storing (other than the storing of grain), shipping, selling or leasing finished goods,

(ii) purchasing raw materials,

(iii) administration, including clerical and personnel activities,

(iv) purchase and resale operations,

(v) data processing, or

(vi) providing facilities for employees, including cafeterias, clinics and recreational facilities.

History: S. 127(11)(*a*)(i) and (ii) were amended, and subparagraphs (iii) and (iv) were added, by S.C. 1997, c. 25, s. 35(3), applicable to taxation years that begin after 1996. Subparagraphs (i) and (ii) formerly read:

"(i) referred to in any of paragraphs (*a*) to (*e*) and (*i*) to (*k*) of the definition 'manufacturing or processing' in subsection 125.1(3), or

(ii) that would be referred to in any of paragraphs (*f*) to (*h*) of that definition if those paragraphs were read without reference to the expression 'located in Canada'; and"

S. 127(11)(*a*) was amended by S.C. 1994, c. 7, Sched. II, s. 104(6), applicable to the 1990 and subsequent taxation years. S. 127(11)(*a*) formerly read:

"(*a*) 'manufacturing or processing' does not include any of the activities referred to in paragraphs (*a*) to (*k*) of the definition 'manufacturing or processing' in subsection 125.1(3); and"

Interpretation Bulletins: *Secondary* — IT-411R Meaning of "construction".

Tax Window Files: Investment Tax Credit — Frozen Food Storage, January 8, 1996, CRA Document No. 9525137; Investment Tax Credit — Trucks Hauling Wood Chips, January 27, 1994 and February 4, 1994, CRA Document No. 9333591; 9333597.

► 127(11.1) ◄

(11.1) Investment tax credit. For the purposes of the definition "investment tax credit" in subsection (9),

(*a*) the capital cost to a taxpayer of a property shall be computed as if no amount were added thereto by virtue of section 21;

(*b*) the capital cost to a taxpayer of a property shall be deemed to be the capital cost to the taxpayer of the property, determined without reference to subsections 13(7.1) and (7.4), less the amount of any government assistance or non-government assistance that can reasonably be considered to be in respect of, or for the acquisition of, the property and that, at the time of the filing of the taxpayer's return of income under this Part for the taxation year in which the property was acquired, the taxpayer has received, is entitled to receive or can reasonably be expected to receive;

(*c*) [Repealed by S.C. 1996, c. 21, s. 30(21).]

(*c*.1) the amount of a taxpayer's qualified Canadian exploration expenditure for a taxation year shall be deemed to be the amount of the taxpayer's qualified Canadian exploration expenditure for the year as otherwise determined less the amount of any government assistance, non-government assistance or contract payment (other than assistance under the *Petroleum Incentives Program Act* or the *Petroleum Incentives Program Act*, Chapter P-4.1 of the Statutes of Alberta, 1981) in respect of expenditures included in determining the taxpayer's qualified Canadian exploration expenditure for the year that, at the time of the filing of the taxpayer's return of income for the year, the taxpayer has received, is entitled to receive or can reasonably be expected to receive;

(*c*.2) the amount of a taxpayer's flow-through mining expenditure for a taxation year is deemed to be the amount of the taxpayer's flow-through mining expenditure for the year as otherwise determined less the amount of any government assistance or non-government assistance in respect of expenses included in determining the taxpayer's flow-through mining expenditure for the year that, at the time of the filing of the taxpayer's return of income for the year, the taxpayer has received, is entitled to receive or can reasonably be expected to receive;

(*c*.3) the amount of a taxpayer's pre-production mining expenditure for a taxation year is deemed to be the amount of the taxpayer's pre-production mining expenditure for the year as otherwise determined less the amount of any government assistance or non-government assistance in respect of expenses included in determining the taxpayer's pre-production mining expenditure for the year that, at the time of the filing of the taxpayer's return of income for the year, the taxpayer has received, is entitled to receive or can reasonably be expected to receive;

(*c*.4) the amount of a taxpayer's eligible salary and wages for a taxation year is deemed to be the amount of the taxpayer's eligible salary and wages for the year otherwise determined less the amount of any government assistance or non-government assistance in respect of the eligible salary and wages for the year that, at the time of the filing of the taxpayer's return of income for the year, the taxpayer has received, is entitled to receive or can reasonably be expected to receive;

(*c*.5) the amount of a taxpayer's eligible child care space expenditure for a taxation year is deemed to be the amount of the taxpayer's eligible child care space expenditure for the taxation year otherwise determined less the amount of any government assistance or non-government assistance in respect of the eligible child care space expenditure for the taxation year that, at the time of the filing of the taxpayer's return of income for the taxation year, the taxpayer has received, is entitled to receive or can reasonably be expected to receive; and

(*d*) where at a particular time a taxpayer who is a beneficiary of a trust or a member of a partnership has received, is entitled to receive or can reasonably be expected to receive government assistance, non-government assistance or a contract payment, the amount thereof that may reasonably be considered to be in respect of, or for the acquisition of, depreciable property of the trust or partnership or in respect of an expenditure by the trust or partnership shall be deemed to have been received at that time by the trust or partnership, as the case may be, as government assistance, non-government assistance or as a contract payment in respect of the property or the expenditure, as the case may be.

(*e*) [Repealed by S.C. 1996, c. 21, s. 30(22).]

(*f*) [Repealed by S.C. 1996, c. 21, s. 30(22).]

History: S. 127(11.1)(*c*.4) was replaced and paragraph (*c*.5) was added, by S.C. 2007, c. 35, s. 43(14), applicable to taxation years that end on or after May 2, 2006, except that paragraph 127(11.1)(*c*.5) applies to taxation years that end on or after March 19, 2007. S. 127(11.1)(*c*.4) formerly read:

"(*c*.4) the amount of a taxpayer's apprenticeship expenditure for a taxation year is deemed to be the amount of the taxpayer's apprenticeship expenditure for the year otherwise determined less the amount of any government assistance or non-government assistance in respect of the expenditure for the year that, at the time of the filing of the taxpayer's return of income for the year, the taxpayer has received, is entitled to receive or can reasonably be expected to receive; and"

S. 127(11.1)(*c*.4) was added by S.C. 2007, c. 2, s. 34(10), applicable to taxation years that end on or after May 2, 2006.

S. 127(11.1)(*c*.3) was added by S.C. 2003, c. 28, s. 14(8), applicable to the 2003 and subsequent taxation years.

S. 127(11.1)(*c*.2) was added by S.C. 2001, c. 17, s. 118(9), applicable to the 2000 and subsequent taxation years.

S. 127(11.1)(*c*) was repealed by S.C. 1996, c. 21, s. 30(21), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

S. 127(11.1)(*c*) formerly read:

"(*c*) the amount of a qualified expenditure (other than a prescribed proxy amount or an amount determined under paragraph (*e*)) made by a taxpayer shall be deemed to be the amount of the qualified expenditure, determined without reference to subsections 13(7.1) and (7.4), less the amount of any government assistance, non-government assistance or contract payment that can reasonably be considered to be in respect of the expenditure and that, at the time of the filing of the taxpayer's return of income under this Part for the taxation year in which the expenditure was made, the taxpayer has received, is entitled to receive or can reasonably be expected to receive;"

S. 127(11.1), paragraphs (*e*) and (*f*), were repealed by S.C. 1996, c. 21, s. 30(22), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

Paragraphs (*e*) and (*f*) formerly read:

"(*e*) the amount of a qualified expenditure made by a taxpayer in the taxation year ending coincidentally with the end of the first period (within the meaning assigned in the definition 'first term shared-use-equipment' in subsection (9)) or the second period (within the meaning assigned in the definition 'second term shared-use-equipment' in subsection (9)) in respect of first term shared-use-equipment or second term shared-use-equipment, respectively, of the taxpayer shall be deemed to

be 1/4 of the capital cost of the equipment that would be determined in accordance with paragraphs (*a*) and (*b*) if paragraph (*b*) were read as

"(*b*) the capital cost to a taxpayer of a property shall be deemed to be the capital cost to the taxpayer of the property, determined without reference to subsections 13(7.1) and (7.4), less the amount of any government assistance, non-government assistance or contract payment that can reasonably be considered to be in respect of, or for the acquisition of, the property and that, at the time of the filing of the return of income under this Part for the taxation year ending coincidentally with the first period, the taxpayer has received, is entitled to receive or can reasonably be expected to receive;"; and

(*f*) the prescribed proxy amount of a taxpayer for a taxation year shall be deemed to be the prescribed proxy amount of the taxpayer for the taxation year less the amount of any government assistance, non-government assistance or contract payment that can reasonably be considered to be in respect of an expenditure described in subparagraph 37(8)(*a*)(ii), other than an expenditure described in clause (B) of that subparagraph, and that, at the time of the filing of the taxpayer's return of income under this Part for the taxation year in which the expenditure was made, the taxpayer has received, is entitled to receive or can reasonably be expected to receive."

S. 127(11.1), paragraphs (*b*) and (*c*), were amended by S.C. 1994, c. 8, s. 15(12), applicable to taxation years that end after December 2, 1992. S. 127(11.1), paragraphs (*b*) and (*c*) formerly read:

"(*b*) the capital cost to a taxpayer of a property shall be deemed to be the capital cost to the taxpayer of the property, determined without reference to subsections 13(7.1) and (7.4), less the amount of any government assistance or non-government assistance in respect of, or for the acquisition of, the property that, at the time of the filing of the return of income for the taxation year in which the property was acquired, the taxpayer has received, is entitled to receive or can reasonably be expected to receive;

(*c*) the amount of a qualified expenditure made by a taxpayer shall be deemed to be the amount of the qualified expenditure, determined without reference to subsections 13(7.1) and (7.4), less the amount of any government assistance, non-government assistance or contract payment in respect of the expenditure that, at the time of the filing of the return of income for the taxation year in which the expenditure was made, the taxpayer has received, is entitled to receive or can reasonably be expected to receive;"

S. 127(11.1), paragraphs (*e*) and (*f*), were added by S.C. 1994, c. 8, s. 15(12), applicable to taxation years that end after December 2, 1992.

Tax Window Files: Quebec Capital Tax Credit, January 22, 2007, CRA Document No. 2006-0212641E5; British Columbia Flow-Through Share Tax Credit, April 3, 2002, CRA Document No. 2002-0124737; R&D Cost Sharing Arrangement Available For Use, February 17, 1994, CRA Document No. 9402746; Contract Payments, November 5, 1993, CRA Document No. 9331455; Scientific Research — Funding Received by Related Non-Resident Corporation — Whether Non-Government Assistance, March 19, 1993, CRA Document No. 9225325; Scientific Research — Non-Government Assistance and Contract Payments, July 22, 1992, CRA Document No. 9206195.

► 127(11.2) ◄

(11.2) Time of expenditure and acquisition. In applying subsections (5), (7) and (8), paragraphs (*a*), (*a.1*) and (*a.5*) of the definition "investment tax credit" in subsection (9) and section 127.1,

(*a*) certified property, qualified property and first term shared-use-equipment are deemed not to have been acquired, and

(*b*) expenditures incurred to acquire property described in subparagraph 37(1)(*b*)(i) or included in an eligible child care expenditure are deemed not to have been incurred

by a taxpayer before the property is considered to have become available for use by the taxpayer, determined without reference to paragraphs 13(27)(*c*) and 13(28)(*d*), and subparagraph (27.12)(*b*)(i).

History: S. 127(11.2) was replaced by S.C. 2007, c. 35, s. 43(15), applicable on and after March 19, 2007. S. 127(11.2) formerly read:

"(11.2) *Time of expenditure and acquisition.* In applying subsections (5), (7) and (8), paragraphs (*a*) and (*a.1*) of the definition 'investment tax credit' in subsection (9) and section 127.1,

(*a*) certified property, qualified property and first term shared-use-equipment are deemed not to have been acquired, and

(*b*) expenditures incurred to acquire property described in subparagraph 37(1)(*b*)(i) are deemed not to have been incurred by a taxpayer before the property is considered to have become available for use by the taxpayer, determined without reference to paragraphs 13(27)(*c*) and (28)(*d*)."

S. 127(11.2) was amended by S.C. 1996, c. 21, s. 30(23), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

S. 127(11.2) formerly read:

"(11.2) *Time of expenditure and acquisition.* In applying subsections (5), (7) and (8), paragraph (*a*) of the definition 'investment tax credit' in subsection (9) and section 127.1,

(*a*) property described in subparagraph (*a*)(i) of the definition 'investment tax credit' in subsection (9) shall be deemed not to have been acquired,

(*b*) property that is first term shared-use equipment the expenditure for which is a qualified expenditure included in subparagraph (*a*)(ii) of the definition 'investment tax credit' in subsection (9) shall be deemed not to have been acquired, and

(*c*) expenditures incurred to acquire property described in subparagraph 37(1)(*b*)(i) shall be deemed not to have been incurred,

by the taxpayer before the property is considered to have become available for use by the taxpayer, determined without reference to paragraphs 13(27)(*c*) and (28)(*d*)."

S. 127(11.2) was amended by S.C. 1995, c. 3, s. 37(7), applicable to property acquired and expenditures incurred after February 21, 1994. S. 127(11.2) formerly read:

"(11.2) *Idem.* For the purposes of this section and section 127.1, property described in subparagraph (*a*)(i) of the definition 'investment tax credit' in subsection (9) shall be deemed not to have been acquired, and expenditures made to acquire property described in subparagraph 37(1)(*b*)(i) shall be deemed not to have been made, by a taxpayer before the property is considered to have become available for use by the taxpayer, determined without reference to paragraphs 13(27)(*c*) and (28)(*d*)."

S. 127(11.2) was added by S.C. 1994, c. 7, Sched. II, s. 104(7), applicable with respect to property acquired and expenditures made after 1989.

Related Sections: S. 13(26)-(31); s. 37(1.2) Deemed time of capital expenditure; s. 127(9), "certified property", "first term shared-use-equipment", "qualified property"; s. 248(19) When property available for use.

Interpretation Bulletins: *Primary* — IT-151R5 (Consolid.) Scientific Research and Experimental Development Expenditures.

SR&ED Application Policies: Application Policy 2005-01, Shared-use equipment.

Tax Window Files: ITCs — Property Not Previously, September 9, 1992, CRA Document No. 9220985.

► 127(11.3) ◄

(11.3) Decertification of approved project property. For the purposes of the definition "approved project property" in subsection (9), a property that has been certified by the Minister of Regional Industrial Expansion, the Minister of Industry, Science and Technology or the member of the Queen's Privy Council for Canada appointed to be the Minister for the purposes of the *Atlantic Canada Opportunities Agency Act* may have its certification revoked by the latter Minister where

(*a*) an incorrect statement was made in the furnishing of information for the purpose of obtaining the certificate, or

(*b*) the taxpayer does not conform to the plan described in that definition,

and a certificate that has been so revoked shall be void from the time of its issue.

► 127(11.4) ◄

(11.4) Special rule for eligible salary and wages — apprentices. For the purpose of the definition "eligible salary and wages" in subsection (9), the eligible salary and wages payable by a taxpayer in a taxation year to an eligible apprentice in respect of the eligible apprentice's employment in the taxation year is, if the eligible apprentice is employed by any other taxpayer who is related to the taxpayer (including a partnership that has a member that is related to the taxpayer) in the calendar year that includes the end of the taxpayer's taxation year, deemed to be nil unless the taxpayer is designated in prescribed form by all of those related taxpayers to be the only employer of the eligible apprentice for the purpose of the taxpayer applying that definition to the salary and wages payable by the taxpayer to the eligible apprentice in that taxation year, in which case

(*a*) the eligible salary and wages payable by the taxpayer in the taxation year to the eligible apprentice in respect of the eligible apprentice's employment in the taxation year shall be the amount determined without reference to this subsection; and

(*b*) the eligible salary and wages payable to the eligible apprentice by each of the other related taxpayers in their respective taxation years that end in the calendar year is deemed to be nil.

History: S. 127(11.4) was added by S.C. 2007, c. 2, s. 34(11), applicable to taxation years that end on or after May 2, 2006.

S. 127(11.4) was repealed by S.C. 1998, c. 19, s. 33(5), applicable to the 1997 and subsequent taxation years. S. 127(11.4) formerly read:

"(11.4) *Reclassified expenditures.* Paragraph (*m*) of the definition 'investment tax credit' in subsection (9) does not apply to an expenditure incurred in a taxation year by a taxpayer if the expenditure is reclassified by the Minister on an assessment of the taxpayer's tax payable under this Part for the year, or on a determination that no tax under this Part is payable for the year by the taxpayer, as an expenditure in respect of scientific research and experimental development."

S. 127(11.4) was amended by S.C. 1998, c. 19, s. 33(4), applicable to the 1996 taxation year. S. 127(11.4) formerly read:

"(11.4) *Reclassified expenditures.* Paragraph (*e*) of the definition 'qualified expenditure' in subsection (9) does not apply to an expenditure incurred in a taxation year by a taxpayer where the expenditure is reclassified by the Minister on an assessment of the taxpayer's tax payable under this Part for the year, or on a determination that no tax under this Part is payable for the year by the taxpayer, as an expenditure in respect of scientific research and experimental development."

S. 127(11.4) was amended by S.C. 1996, c. 21, s. 30(24), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

S. 127(11.4) formerly read:

"(11.4) *Reclassified expenditures.* Paragraph (*c*) of the definition 'qualified expenditure' in subsection (9) does not apply to an expenditure incurred in a taxation year by a taxpayer where the expenditure is reclassified by the Minister on an assessment of the taxpayer's tax payable under this Part for the year, or on a determination that no tax under this Part is payable for the year by the taxpayer, as an expenditure in respect of scientific research and experimental development."

S. 127(11.4) was added by S.C. 1994, c. 21, s. 61(4), applicable after February 21, 1994, to expenditures incurred at any time except that, for an expenditure incurred by a taxpayer in a taxation year ending before February 22, 1994, the taxpayer may file the prescribed form referred to in paragraph (*c*) of the definition "qualified expenditure" in subsection 127(9) of the Act by the later of the day referred to in that paragraph and the day that is 90 days after this Act is assented to (June 15, 1994).

► 127(11.5) ◄

(11.5) Adjustments to qualified expenditures. For the purpose of the definition "qualified expenditure" in subsection (9),

(*a*) the amount of an expenditure (other than a prescribed proxy amount or an amount described in paragraph (*b*)) incurred by a taxpayer in a taxation year is deemed to be the amount of the expenditure, determined without reference to subsections 13(7.1) and (7.4) and after the application of subsection (11.6); and

(*b*) the amount of an expenditure incurred by a taxpayer in the taxation year that ends coincidentally with the end of the first period (within the meaning assigned in the definition "first term shared-use-equipment" in subsection (9)) or the second period (within the meaning assigned in the definition "second term shared-use-equipment" in subsection (9)) in respect of first term shared-use-equipment or second term shared-use-equipment, respectively, of the taxpayer is deemed to be 1/4 of the capital cost of the equipment determined after the application of subsection (11.6) in accordance with the following rules:

(i) the capital cost to the taxpayer shall be computed as if no amount were added thereto because of section 21, and

(ii) the capital cost to the taxpayer is determined without reference to subsections 13(7.1) and (7.4).

History: S. 127(11.5) was added by S.C. 1996, c. 21, s. 30(24), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

Related Sections: S. 12(1)(*x*)(vi) Inducement, reimbursement, etc.; s. 127(11.6) Non-arm's length costs; s. 127(18) Reduction of qualified expenditures.

SR&ED Application Policies: Application Policy 2005-01, Shared-use equipment.

Tax Window Files: Investment Tax Credits — Reduction in Qualified Expenditures for Assistance and Contract Payments, April 29, 1999, CRA Document No. 9911816.

► 127(11.6) ◄

(11.6) Non-arm's length costs. For the purpose of subsection (11.5), where

(*a*) a taxpayer would, if this Act were read without reference to subsection (26), incur at any time an expenditure as consideration for a person or partnership (referred to in this subsection as the "supplier") rendering a service (other than a service rendered by a person as an employee of the taxpayer) or providing a property to the taxpayer, and

(*b*) at that time the taxpayer does not deal at arm's length with the supplier,

the amount of the expenditure incurred by the taxpayer for the service or property and the capital cost to the taxpayer of the property are deemed to be

(*c*) in the case of a service rendered to the taxpayer, the lesser of

(i) the amount of the expenditure otherwise incurred by the taxpayer for the service, and

(ii) the adjusted service cost to the supplier of rendering the service, and

(*d*) in the case of a property sold to the taxpayer, the lesser of

(i) the capital cost to the taxpayer of the property otherwise determined, and

(ii) the adjusted selling cost to the supplier of the property.

History: S. 127(11.6) was added by S.C. 1996, c. 21, s. 30(24), applicable to expenditures incurred in taxation years that begin after 1995.

Related Sections: S. 127(11.7) Definitions; s. 127(11.8) Interpretation for non-arm's length costs; s. 127(24) Exclusion from qualified expenditure.

► 127(11.7) ◄

(11.7) Definitions. The definitions in this subsection apply in this subsection and subsection (11.6).

Related Sections: S. 127(11.8) Interpretation for non-arm's length costs; s. 257 Negative amounts.

"adjusted selling cost" — "adjusted selling cost" to a person or partnership (referred to in this definition as the "supplier") of a property is the amount determined by the formula

A – B

where

A is

(*a*) where the property is purchased from another person or partnership with which the supplier does not deal at arm's length, the lesser of

(i) the cost to the supplier of the property, and

(ii) the adjusted selling cost to the other person or partnership of the property, and

(*b*) in any other case, the cost to the supplier of the property,

and for the purpose of paragraph (*b*),

(*c*) where part of the cost to a supplier of a particular property is attributable to another property acquired by the supplier from a person or partnership with which the supplier does not deal at arm's length, that part of the cost is deemed to be the lesser of

(i) the amount of that part of the cost otherwise determined, and

(ii) the adjusted selling cost to the person or the partnership of the other property,

(*d*) where part of the cost to a supplier of a property is attributable to a service (other than a service rendered by a person as an employee of the supplier) rendered to the supplier by a person or partnership with which the supplier does not deal at arm's length, that part of the cost is deemed to be the lesser of

(i) the amount of that part of the cost otherwise determined, and

(ii) the adjusted service cost to the person or partnership of rendering the service, and

(*e*) no part of the cost to a supplier of a property that is attributable to remuneration based on profits or a bonus paid or payable to an employee of the supplier shall be included, and

B is the total of all amounts each of which is the amount of government assistance or non-government assistance that can reasonably be considered to be in respect of the property and that the supplier has received, is entitled to receive or can reasonably be expected to receive.

History: S. 127(11.7) was added by S.C. 1996, c. 21, s. 30(24), applicable to expenditures incurred in taxation years that begin after 1995.

"adjusted service cost" — "adjusted service cost" to a person or partnership (referred to in this definition as the "supplier") of rendering a particular service is the amount determined by the formula:

A – B – C – D – E

where

A is the cost to the supplier of rendering the particular service,

B is the total of all amounts each of which is the amount, if any, by which

(*a*) the cost to the supplier for a service (other than a service rendered by a person as an employee of the supplier) rendered by a person or partnership that does not deal at arm's length with the supplier to the extent that the cost is incurred for the purpose of rendering the particular service

exceeds

(*b*) the adjusted service cost to the person or partnership referred to in paragraph (*a*) of rendering the service referred to in that paragraph to the supplier,

C is the total of all amounts each of which is the amount, if any, by which

(*a*) the cost to the supplier of a property acquired by the supplier from a person or partnership that does not deal at arm's length with the supplier

exceeds

(*b*) the adjusted selling cost to the person or partnership referred to in paragraph (*a*) of the property,

to the extent that the excess relates to the cost of rendering the particular service,

D is the total of all amounts each of which is remuneration based on profits or a bonus paid or payable to an employee of the supplier to the extent that it is included in the cost to the supplier of rendering the particular service, and

E is the total of all amounts each of which is government assistance or non-government assistance that can reasonably be considered to be in respect of rendering the particular service and that the supplier has received, is entitled to receive or can reasonably be expected to receive.

► 127(11.8) ◄

(11.8) Interpretation for non-arm's length costs. For the purposes of this subsection and subsections (11.6) and (11.7),

(*a*) the cost to a person or partnership (referred to in this paragraph as the "supplier") of rendering a service or providing a property to another person or partnership (referred to in this paragraph as the "recipient") with which the supplier does not deal at arm's length does not include,

(i) where the cost to the recipient of the service rendered or property provided by the supplier would, but for this paragraph, be a cost to the recipient incurred in rendering a particular service or providing a particular property to a person or partnership with which the recipient does not deal at arm's length, any expenditure of the supplier to the extent that it would, if it were incurred by the recipient in rendering the particular service or providing the particular property, be excluded from a cost to the recipient because of this paragraph, and

(ii) in any other case, any expenditure of the supplier to the extent that it would, if it were incurred by the recipient, not be a qualified expenditure of the recipient;

(*b*) paragraph 69(1)(*c*) does not apply in determining the cost of a property; and

(*c*) the leasing of a property is deemed to be the rendering of a service.

History: S. 127(11.8) was added by S.C. 1996, c. 21, s. 30(24), applicable to expenditures incurred in taxation years that begin after 1995.

Tax Window Files: ITCs — Non-Arm's Length Lease of Used Equipment, February 15, 2007, CRA Document No. 2006-020676117.

► 127(12) ◄

(12) Interpretation. For the purposes of subsection 13(7.1), where, pursuant to a designation or an allocation from a trust or partnership, an amount is required by subsection (7) or (8) to be added in computing the investment tax credit of a taxpayer at the end of the taxpayer's taxation year, the portion thereof that can reasonably be considered to relate to depreciable property shall be deemed to have been received by the partnership or trust, as the case may be, at the end of its fiscal period in respect of which the designation or allocation was made as assistance from a government for the acquisition of depreciable property.

► 127(12.1) ◄

(12.1) Idem. For the purposes of section 37, where, pursuant to a designation or an allocation from a trust or partnership, an amount is required by subsection (7) or (8) to be added in computing the investment tax credit of a taxpayer at the end of the taxpayer's taxation year, the portion thereof that may reasonably be regarded as relating to expenditures of a current nature in respect of scientific research and experimental development that are qualified expenditures shall, at the end of the fiscal period of the trust or partnership, as the case may be, in respect of which the designation or allocation was made, reduce the total of such expenditures of a current nature as may be claimed by the trust or partnership in respect of scientific research and experimental development.

Tax Window Files: Investment Tax Credits Allocated to Members of Partnership, October 16, 1997, CRA Document No. 9710866.

► 127(12.2) ◄

(12.2) Idem. For the purposes of paragraphs 53(2)(*c*), (*h*) and (*k*), where in a taxation year a taxpayer has deducted under subsection (5) an amount that may reasonably be regarded as attributable to amounts included in computing the investment tax credit of the taxpayer at the end of the year in respect of property acquired, or an expenditure made, in a subsequent taxation year, the taxpayer shall be deemed to have made the deduction under that subsection in that subsequent taxation year.

► 127(12.3) ◄

(12.3) Idem. For the purposes of the determination of J in the definition "cumulative Canadian exploration expense" in subsection 66.1(6), where, pursuant to a designation by a trust, an amount is required by subsection (7) to be added in computing the investment tax credit of a taxpayer at the end of the taxpayer's taxation year, the portion thereof that can reasonably be considered to relate to a qualified Canadian exploration expenditure of the trust for a taxation year shall be deemed to have been received by the trust at the end of its taxation year in respect of which the designation was made as assistance from a government in respect of that expenditure.

► 127(13) ◄

(13) Agreement to transfer qualified expenditures. Where a taxpayer (referred to in this subsection and subsections (15) and (16) as the "transferor") and another taxpayer (referred to in this subsection and subsection (15) as the "transferee") file with the Minister an agreement or an amended agreement in respect of a particular taxation year of the transferor, the least of

(*a*) the amount specified in the agreement for the purpose of this subsection,

(*b*) the amount that but for the agreement would be the transferor's SR&ED qualified expenditure pool at the end of the particular year, and

(*c*) the total of all amounts each of which is an amount that, if the transferor were dealing at arm's length with the transferee, would be a contract payment

(i) for the performance of scientific research and experimental development for, or on behalf of, the transferee,

(ii) that is paid by the transferee to the transferor on or before the day that is 180 days after the end of the particular year, and

(iii) that would be in respect of

(A) a qualified expenditure that

(I) would be incurred by the transferor in the particular year (if this Act were read without reference to subsections (26) and 78(4)) in respect of that portion of the scientific research and experimental development that was performed at a time when the transferor did not deal at arm's length with the transferee, and

(II) is paid by the transferor on or before the day that is 180 days after the end of the particular year, or

(B) an amount added because of this subsection to the transferor's SR&ED qualified expenditure pool at the end of the particular year where the amount is attributable to an expenditure in respect of the scientific research and experimental development

is deemed to be

(*d*) an amount determined in respect of the transferor for the particular year for the purpose of determining the value of C in the definition "SR&ED qualified expenditure pool" in subsection (9), and

(*e*) an amount determined in respect of the transferee for the transferee's first taxation year that ends at or after the end of the particular year for the purpose of determining the value of B in the definition "SR&ED qualified expenditure pool" in subsection (9),

and where the total of all amounts each of which is an amount specified in an agreement filed with the Minister under this subsection in respect of a particular taxation year of a transferor exceeds the amount that would be the transferor's SR&ED qualified expenditure pool at the end of the particular year if no agreement were filed with the Minister in respect of the particular year, the least of the amounts determined under paragraphs (*a*) to (*c*) in respect of each such agreement is deemed to be nil.

History: S. 127(13) was added by S.C. 1996, c. 21, s. 30(25), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

Related Sections: S. 37(1)(*e*)(iii) Scientific research and experimental development; s. 127(8)(*a*) Investment tax credit of partnership; s. 127(14) Identification of amounts transferred; s. 127(15) Invalid agreements; s. 127(16) Non-arm's length parties; s. 127(17) Assessment; s. 127(29)(*c*) Recapture of investment tax credit of allocating taxpayer.

Forms: T1146.

SR&ED Application Policies: Application Policy 2000-04R2, Recapture of Investment Tax Credit.

Tax Window Files: Municipal Election Campaign Fund, February 21, 2001, CRA Document No. 2000-0051515; Transfer of SR&ED Expenditures — Ownership Rights, September 14, 2000, CRA Document No. 2000-0006845.

► 127(14) ◄

(14) Identification of amounts transferred. Where

(*a*) a transferor and a transferee have filed an agreement under subsection (13) in respect of a taxation year of the transferor,

(*b*) the agreement includes a statement identifying the amount specified in the agreement for the purpose of subsection (13), or a part of that amount, as being related to

(i) a particular qualified expenditure included in the value of A in the formula in the definition "SR&ED qualified expenditure pool" in subsection (9) for the purpose of determining the transferor's SR&ED qualified expenditure pool at the end of the year, or

(ii) a particular amount included in the value of B in the formula in that definition for the purpose of determining the transferor's SR&ED qualified expenditure pool at the end of the year that is deemed by paragraph (*d*) to be a qualified expenditure, and

(*c*) the total of all amounts so identified in agreements filed by the transferor under subsection (13) as being related to the particular expenditure or the particular amount does not exceed the particular expenditure or the particular amount, as the case may be,

for the purposes of this section (other than the description of A in the definition "SR&ED qualified expenditure pool" in subsection (9)) and section 127.1,

(*d*) the amount so identified that is included in the value of B in the formula in that definition for the purpose of determining the transferee's SR&ED qualified expenditure pool at the end of the taxation year of the transferee is deemed to be a qualified expenditure either of a current nature or of a capital nature, incurred by the transferee in that year, where the particular expenditure or the particular amount was an expenditure of a current nature or of a capital nature, as the case may be, and

(*e*) except for the purpose of paragraph (*b*), the amount of the transferor's qualified expenditures of a current nature incurred in the taxation year of the transferor in respect of which the agreement is made is deemed not to exceed the amount by which the amount of such expenditures otherwise determined exceeds the total of all amounts identified under paragraph (*b*) by the transferor in agreements filed under subsection (13) in respect of the year as being related to expenditures of a current nature.

History: S. 127(14) was added by S.C. 1996, c. 21, s. 30(25), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

Tax Window Files: Transfer of SR&ED Expenditures — Ownership Rights, September 14, 2000, CRA Document No. 2000-0006845.

► 127(15) ◄

(15) Invalid agreements. An agreement or amended agreement referred to in subsection (13) between a transferor and a transferee is deemed not to have been filed with the Minister for the purpose of that subsection where

(*a*) it is not in prescribed form;

(*b*) it is not filed

(i) on or before the transferor's filing-due date for the particular taxation year to which the agreement relates,

(ii) in the period within which the transferor may serve a notice of objection to an assessment of tax payable under this Part for the particular year, or

(iii) in the period within which the transferee may serve a notice of objection to an assessment of tax payable under this Part for its first taxation year that ends at or after the end of the transferor's particular year;

(*c*) it is not accompanied by,

(i) where the transferor is a corporation and its directors are legally entitled to administer its affairs, a certified copy of their resolution authorizing the agreement to be made,

(ii) where the transferor is a corporation and its directors are not legally entitled to administer its affairs, a certified copy of the document by which the person legally entitled to administer its affairs authorized the agreement to be made,

(iii) where the transferee is a corporation and its directors are legally entitled to administer its affairs, a certified copy of their resolution authorizing the agreement to be made, and

(iv) where the transferee is a corporation and its directors are not legally entitled to administer its affairs, a certified copy of the document by which the person legally entitled to administer its affairs authorized the agreement to be made; or

(*d*) an agreement amending the agreement has been filed in accordance with subsection (13) and this subsection, except where subsection (16) applies to the original agreement.

History: S. 127(15) was added by S.C. 1996, c. 21, s. 30(25), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

► 127(16) ◄

(16) Non-arm's length parties. Where a taxpayer does not deal at arm's length with another taxpayer as a result of a transaction, event or arrangement, or a series of transactions or events, the principal purpose of which can reasonably be considered to have been to enable the taxpayers to enter into an agreement referred to in subsection (13), for the purpose of paragraph (13)(*e*) the least of the amounts determined under paragraphs (13)(*a*) to (*c*) in respect of the agreement is deemed to be nil.

History: S. 127(16) was added by S.C. 1996, c. 21, s. 30(25), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

Related Sections: S. 248(10) Series of transactions.

► 127(17) ◄

(17) Assessment. Notwithstanding subsections 152(4) and (5), such assessment of the tax, interest and penalties payable by any taxpayer in respect of any taxation year that began before the day an agreement or amended agreement is filed under subsection (13) or (20) shall be made as is necessary to take into account the agreement or the amended agreement.

History: S. 127(17) was added by S.C. 1996, c. 21, s. 30(25), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

S. 127(17) was repealed by S.C. 1994, c. 8, s. 15(13), applicable to taxation years that begin after 1993. S. 127(17) formerly read:

"(17) *Definition of 'tax otherwise payable'.* In this section, 'tax otherwise payable' by a taxpayer under this Part for a taxation year means the amount that would, but for subsection (5) and sections 120.1 and 120.2, be the tax payable by the taxpayer under this Part for the year."

► 127(18) ◄

(18) Reduction of qualified expenditures. Where on or before the filing-due date for a taxation year of a person or partnership (referred to in this subsection as the "taxpayer") the taxpayer has received, is entitled to receive or can reasonably be expected to receive a particular amount that is government assistance, non-government assistance or a contract payment that can reasonably be considered to be in respect of scientific research and experimental development, the amount by which the particular amount exceeds all amounts applied for preceding taxation years under this subsection or subsection (19) or (20) in respect of the particular amount shall be applied to reduce the taxpayer's qualified expenditures otherwise incurred in the year that can reasonably be considered to be in respect of the scientific research and experimental development.

History: S. 127(18) was added by S.C. 1996, c. 21, s. 30(25), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

Related Sections: S. 127(9), "contract payment", "government assistance", "investment tax credit", "non-government assistance", "qualified expenditure"; s. 127(10.7)(*c*), (*d*) Further additions to investment tax credit; s. 127(11.5) Adjustments to qualified expenditures; s. 127(21) Failure to allocate; s. 127(23) Partnership's taxation year; s. 248(1), "filing-due date".

SR&ED Application Policies: Application Policy 2005-01, Shared-use equipment; Application Policy 2005-02, General Rules Concerning the Treatment of Government and Non Government Assistance.

Tax Window Files: Reduction in qualified expenditures under 127(18), June 18, 2007, CRA Document No. 2007-0226411E5; SR&ED: Repayable Grants, October 7, 2005, CRA Document No. 2005-0141131C6; Scientific Research and Experimental Development — Government Assistance, December 23, 2004, CRA Document No. 2004-0095621I7; Research and Development, September 11, 2001, CRA Document No. 2001-0078855; Investment Tax Credits — Reduction in Qualified Expenditures for Assistance and Contract Payments, April 29, 1999, CRA Document No. 9911816; Government Assistance, June 22, 1999, CRA Document No. 9833526.

► 127(19) ◄

(19) Reduction of qualified expenditures. Where on or before the filing-due date for a taxation year of a person or partnership (referred to in this subsection as the "recipient") the recipient has received, is entitled to receive or can reasonably be expected to receive a particular amount that is government assistance, non-government assistance or a contract payment that can reasonably be considered to be in respect of scientific research and experimental development and the particular amount exceeds the total of

(*a*) all amounts applied for preceding taxation years under this subsection or subsection (18) or (20) in respect of the particular amount,

(*b*) the total of all amounts each of which would be a qualified expenditure that is incurred in the year by the recipient and that can reasonably be considered to be in respect of the scientific research and experimental development if subsection (18) did not apply to the particular amount, and

(*c*) the total of all amounts each of which would, but for the application of this subsection to the particular amount, be a qualified expenditure

(i) that was incurred by a person or partnership in a taxation year of the person or partnership that ended in the recipient's taxation year, and

(ii) that can reasonably be considered to be in respect of the scientific research and experimental development to the extent that it was performed by the person or partnership at a time when the person or partnership was not dealing at arm's length with the recipient,

the particular amount shall be applied to reduce each qualified expenditure otherwise determined that is referred to in paragraph (*c*).

History: S. 127(19) was added by S.C. 1996, c. 21, s. 30(25), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

Related Sections: S. 127(9), "contract payment", "government assistance", "investment tax credit", "non-government assistance", "qualified expenditure"; s. 127(21) Failure to allocate; s. 127(23) Partnership's taxation year; s. 248(1), "filing-due date".

SR&ED Application Policies: Application Policy 2005-02, General Rules Concerning the Treatment of Government and Non Government Assistance.

► 127(20) ◄

(20) Agreement to allocate. Where

(*a*) on or before the filing-due date for a taxation year of a person or partnership (referred to in this subsection and subsection (22) as the "taxpayer") the taxpayer has received, is entitled to receive or can reasonably be expected to receive a particular amount that is government assistance, non-government assistance or a contract payment that can reasonably be considered to be in respect of scientific research and experimental development,

(*b*) subsection (19) does not apply to the particular amount in respect of the year, and

(*c*) the taxpayer and a person or partnership (referred to in this subsection and subsection (22) as the "transferee") with which the taxpayer does not deal at arm's length file an agreement or amended agreement with the Minister,

the lesser of

(*d*) the amount specified in the agreement, and

(*e*) the total of all amounts each of which would, but for the agreement, be a qualified expenditure

(i) that was incurred by the transferee in a particular taxation year of the transferee that ended in the taxpayer's taxation year, and

(ii) that can reasonably be considered to be in respect of the scientific research and experimental development to the extent that it was performed by the transferee at a time when the transferee was not dealing at arm's length with the taxpayer

shall be applied to reduce the qualified expenditures otherwise determined that are described in paragraph (*e*).

History: S. 127(20) was added by S.C. 1996, c. 21, s. 30(25), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

Related Sections: S. 127(9), "contract payment", "government assistance", "investment tax credit", "non-government assistance", "qualified expenditure"; s. 127(17) Assessment; s. 127(21) Failure to allocate; s. 127(22) Invalid agreements; s. 127(23) Partnership's taxation year; s. 248(1), "filing-due date".

Forms: T1145.

SR&ED Application Policies: Application Policy 2005-02, General Rules Concerning the Treatment of Government and Non Government Assistance.

► 127(21) ◄

(21) Failure to allocate. Where on or before the filing-due date for a taxation year of a person or partnership (referred to in this subsection as the "recipient") the recipient has received, is entitled to receive or can reasonably be expected to receive a particular amount that is government assistance, non-government assistance or a contract payment that can reasonably be considered to be in respect of scientific research and experimental development and subsection (19) does not apply to the particular amount in respect of the year, the lesser of

(*a*) the total of all amounts each of which is a qualified expenditure

(i) that was incurred by a particular person or partnership in a taxation year of the particular person or partnership that ended in the recipient's taxation year, and

(ii) that can reasonably be considered to be in respect of the scientific research and experimental development to the extent that it was performed by the particular person or partnership at a time when the particular person or partnership

was not dealing at arm's length with the recipient, and

(*b*) the amount, if any, by which the particular amount exceeds the total of amounts applied for the year and preceding taxation years under subsection (18), (19) or (20) in respect of the particular amount

is deemed for the purposes of this section to be an amount of government assistance received at the end of the particular year by the particular person or partnership in respect of the scientific research and experimental development.

History: S. 127(21) was added by S.C. 1996, c. 21, s. 30(25), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

Related Sections: S. 127(9), "contract payment", "government assistance", "non-government assistance", "qualified expenditure"; s. 127(23) Partnership's taxation year; s. 248(1), "filing-due date".

► 127(22) ◄

(22) Invalid agreements. An agreement or amended agreement referred to in subsection (20) between a taxpayer and a transferee is deemed not to have been filed with the Minister where

(*a*) it is not in prescribed form;

(*b*) it is not filed

(i) on or before the taxpayer's filing-due date for the particular taxation year to which the agreement relates,

(ii) in the period within which the taxpayer may serve a notice of objection to an assessment of tax payable under this Part for the particular year, or

(iii) in the period within which the transferee may serve a notice of objection to an assessment of tax payable under this Part for its first taxation year that ends at or after the end of the taxpayer's particular year;

(*c*) it is not accompanied by,

(i) where the taxpayer is a corporation and its directors are legally entitled to administer its affairs, a certified copy of their resolution authorizing the agreement to be made,

(ii) where the taxpayer is a corporation and its directors are not legally entitled to administer its affairs, a certified copy of the document by which the person legally entitled to administer its affairs authorized the agreement to be made,

(iii) where the transferee is a corporation and its directors are legally entitled to administer its affairs, a certified copy of their resolution authorizing the agreement to be made, and

(iv) where the transferee is a corporation and its directors are not legally entitled to administer its affairs, a certified copy of the document by which the person legally entitled to administer its affairs authorized the agreement to be made; or

(*d*) an agreement amending the agreement has been filed in accordance with subsection (20) and this subsection.

History: S. 127(22) was added by S.C. 1996, c. 21, s. 30(25), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

Related Sections: S. 127(23) Partnership's taxation year; s. 248(1), "filing-due date".

► 127(23) ◄

(23) Partnership's taxation year. For the purposes of subsections (18) to (22), the taxation year of a partnership is deemed to be its fiscal period and its filing-due date for a taxation year is deemed to be the day that would be its filing-due date for the year if it were a corporation.

History: S. 127(23) was added by S.C. 1996, c. 21, s. 30(25), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

Related Sections: S. 248(1), "filing-due date".

► 127(24) ◄

(24) Exclusion from qualified expenditure. Where

(*a*) a person or partnership (referred to in this subsection as the "first person") does not deal at arm's length with another person or partnership (referred to in this subsection as the "second person"),

(*b*) there is an arrangement under which an amount is paid or payable by the first person to a person or partnership with which the first person deals at arm's length and an amount is received or receivable by the second person from a person or partnership with which the second person deals at arm's length, and

(*c*) one of the main purposes of the arrangement can reasonably be considered to be to cause the amount paid or payable by the first person to be a qualified expenditure,

the amount paid or payable by the first person is deemed not to be a qualified expenditure.

History: S. 127(24) was added by S.C. 1996, c. 21, s. 30(25), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

Related Sections: S. 127(9), "qualified expenditure"; s. 127(11.6) Non-arm's length costs.

► 127(25) ◄

(25) Deemed contract payment. Where

(*a*) a person or partnership (referred to in this subsection as the "first person") deals at arm's length with another person or partnership (referred to in this subsection as the "second person"),

(*b*) there is an arrangement under which an amount is paid or payable by the first person to a person or partnership (other than the second person) and a particular amount is received or receivable in respect of scientific research and experimental development by the second person from a person or partnership that is not a taxable supplier in respect of the particular amount, and

(*c*) one of the main purposes of the arrangement can reasonably be considered to be to cause the amount received or receivable by the second person not to be a contract payment,

the amount received or receivable by the second person is deemed to be a contract payment in respect of scientific research and experimental development.

History: S. 127(25) was added by S.C. 1996, c. 21, s. 30(25), applicable to taxation years that begin after 1995, subject to the following application enacted by S.C. 1998, c. 19, s. 306(1), deemed to have come into force on June 20, 1996.

Sec. 306(1), Chap. 19, S.C. 1998

(26.1) [A]n amount paid or payable by a person or partnership to a taxpayer with whom the person or partnership does not deal at arm's length otherwise

(*a*) would be a qualified expenditure of the person or partnership but would not be a contract payment received or receivable by the taxpayer, or

(*b*) would not be a qualified expenditure of the person or partnership but would be a contract payment received or receivable by the taxpayer,

the amount is deemed not to be a qualified expenditure of the person or partnership and not to be a contract payment received or receivable by the taxpayer.

SR&ED Application Policies: Application Policy 2002-03, Taxable Supplies Rules.

► 127(26) ◄

(26) Unpaid amounts. For the purposes of subsections (5) to (25) and section 127.1, a taxpayer's expenditure described in paragraph 37(1)(*a*) that is unpaid on the day that is 180 days after the end of the taxation year in which the expenditure is otherwise incurred is deemed

(*a*) not to have been incurred in the year; and

(*b*) to be incurred at the time it is paid.

History: S. 127(26) was added by S.C. 1996, c. 21, s. 30(25), applicable to amounts that are incurred at any time, except that it does not apply to amounts that are paid on or before the day that is 90 days after June 20, 1996.

Related Sections: S. 127(11.6) Non-arm's length costs; s. 127(27) Recapture of investment tax credit.

► 127(27) ◄

(27) Recapture of investment tax credit. Where

(*a*) a taxpayer acquired a particular property from a person or partnership in a taxation year of the taxpayer or in any of the 10 preceding taxation years,

(*b*) the cost of the particular property was a qualified expenditure to the taxpayer,

(*c*) the cost of the particular property is included in an amount, a percentage of which can reasonably be considered to be included in computing the taxpayer's investment tax credit at the end of the taxation year, and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraphs 127(27)(*b*) and (*c*) of the Act are replaced by the following:

(*b*) the cost, or a portion of the cost, of the particular property was a qualified expenditure, or would if this Act were read without reference to subsection (26) be a qualified expenditure, to the taxpayer,

(*c*) the cost, or the portion of the cost, of the particular property is included, or would if this Act were read without reference to subsection (26) be included, in an amount, a percentage of which can reasonably be considered to be included in computing the taxpayer's investment tax credit at the end of the taxation year, and

Applicable: To dispositions and conversions that occur after December 20, 2002.

Explanatory Note:

Investment Tax Credits

Subsections 127(5) to (35) of the Act provide rules concerning investment tax credits.

Subsection 127(27) — Recapture of Investment Tax Credit

Subsection 127(27) of the Act provides for the recapture of investment tax credits in respect of property used for scientific research and experimental development (SR&ED) where the property is sold or converted to commercial use. This recapture is effected by way of an addition to tax payable of an amount equal to the lesser of

- the amount that can reasonably be considered to have been included in the taxpayer's investment tax credit in respect of the particular property (i.e., the amount that is obtained by multiplying the amount of the qualified expenditure by the ITC rate that applied to that expenditure), and
- the amount that is obtained by multiplying the ITC rate (that applied to the qualified expenditure) by
  - the proceeds of disposition of the particular property (or of property that incorporates the particular property) if the property is disposed of to a person who deals at arm's length with the taxpayer. (See paragraph 127(27)(*e*) of the Act.)
  - in any other case, the fair market value of the particular property (or the other property) at the time of its conversion or disposition. (See paragraph 127(27)(*f*) of the Act.)

Concern has been expressed about the application of subsection 127(27) of the Act in the context of shared-use equipment, only 25% or 50% of the cost of which is a "qualified expenditure" under subsection 127(9) because of subsection 127(11.5) of the Act. This concern is illustrated by the following example.

Example:

- Year 1: Taxpayer acquires shared-use equipment for $100. The ITC rate is 20% and the taxpayer claims an ITC for first term shared-use-equipment of $5 (20% × $25 [1/4 of its $100 cost under paragraph 127(11.5)(*c*)]).
- Year 2: Taxpayer claims an ITC for second term shared-use-equipment of $5 (20% × $25 [1/4 of its $100 cost under paragraph 127(11.5)(*c*)]).

- Year 4: Taxpayer sells the property for $80.
- Recapture under subsection 127(27):

$10 being the lesser of:

- $10 (20% × $100 × 50% because the property is second term shared-use-equipment), and
- $16 (20% × $80 proceeds of disposition).

However, in this example the $16 amount should be $8 given that only a portion (50%) of the cost of the second term shared-use-equipment is a qualified expenditure.

As well, the government is concerned that subsection 127(27) should apply where the disposition or conversion relates to property acquired pursuant to an expenditure that would have been a qualified expenditure incurred in a taxation year but for the application of the 180-day-unpaid-amount rule in subsection 127(26) of the Act.

To address these concerns, subsection 127(27) is amended in four respects.

First, paragraphs 127(27)(*b*) and (*c*) are amended to refer to the "cost, or a portion of the cost, of the particular property" instead of to the "cost of the particular property".

Second, paragraphs 127(27)(*b*) and (*c*) are amended to provide that the reference therein to a qualified expenditure included in a taxpayer's investment tax credit be read without reference to subsection 127(26) relating to unpaid amounts.

Third, consequential changes are made to the wording between paragraphs 127(27)(*d*) and (*e*) of the Act. In particular, the first of the two amounts in the "lesser of" formula is moved to new paragraph 127(27)(*e*). The second of these two amounts is described in amended paragraph 127(27)(*f*), which combines former paragraphs 127(27)(*e*) and (*f*).

Fourth, paragraph 127(27)(*f*), which combines former paragraphs 127(27) (*e*) and (*f*), is changed to account for circumstances where the property that is disposed of or converted is first term shared-use-equipment or second term shared-use-equipment.

These amendments apply to dispositions and conversions that occur after December 20, 2002.

(*d*) in the year and after February 23, 1998, the taxpayer converts to commercial use, or disposes of without having previously converted to commercial use, the particular property or another property that incorporates the particular property,

there shall be added to the taxpayer's tax otherwise payable under this Part for the year the lesser of the amount that can reasonably be considered to be included in computing the taxpayer's investment tax credit in respect of the particular property and the amount that is the percentage (described in paragraph (*c*)) of

(*e*) if the particular property or the other property is disposed of to a person who deals at arm's length with the taxpayer, the proceeds of disposition of that property, and

(*f*) in any other case, the fair market value of the particular property or the other property at the time of the conversion or disposition.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 127(27) of the Act after paragraph (*d*) is replaced by the following:

there shall be added to the taxpayer's tax otherwise payable under this Part for the year the lesser of

(*e*) the amount that can reasonably be considered to be included in the taxpayer's investment tax credit at the end of any taxation year, or that would be so included if this Act were read without reference to subsection (26), in respect of the particular property, and

(*f*) the amount that is the percentage — that is the sum of each percentage described in paragraph (*c*) that has been applied to compute the taxpayer's investment tax credit in respect of the particular property — of

(i) in the case where the particular property or the other property is disposed of to a person who deals at arm's length with the taxpayer,

(A) the proceeds of disposition of the property, if the property

(I) is the particular property and is neither first term shared-use equipment nor second term shared-use equipment, or

(II) is the other property,

(B) 25% of the proceeds of disposition of the property, if the property is the particular property, is first term shared-use equipment and is not second term shared-use equipment, and

(C) 50% of the proceeds of disposition of the property, if the property is the particular property and is second term shared-use equipment, and

(ii) in the case where the particular property or the other property is converted to commercial use or is disposed of to a person who does not deal at arm's length with the taxpayer,

(A) the fair market value of the property, if the property

(I) is the particular property and is neither first term shared-use equipment nor second term shared-use equipment, or

(II) is the other property,

(B) 25% of the fair market value of the property at the time of its conversion or disposition, if the particular property is first term shared-use equipment and is not second term shared-use equipment, and

(C) 50% of the fair market of the property at the time of its conversion or disposition, if the particular property is second term shared-use equipment.

Applicable: To dispositions and conversions that occur after December 20, 2002.

Explanatory Note: See the Explanatory Note following the amendment to paragraphs 127(27)(*b*) and (*c*).

History: S. 127(27) was added by S.C. 1999, c. 22, s. 48(2), applicable to dispositions and conversions of property that occur after February 23, 1998.

Editorial Note: Subsection 127(27) provides for a recapture of investment tax credit claims on the cost of property that is converted to commercial use or sold within 20 years (10 years prior to 2006 — see s. 127(36)). It overrides the Tax Court of Canada's decision in *Consoltex Inc. v. The Queen*, 97 DTC 724. Subsection 127(28) provides a parallel rule for partnerships.

Related Sections: S. 37(1)(*c*.2) Scientific research and experimental development; s. 127(28) Recapture of investment tax credit of partnership; s. 127(29) Recapture of investment tax credit of allocating taxpayer; s. 127(32) Meaning of cost; s. 127(33) Certain non-arm's length transfers; s. 127(36) Transitional application of investment tax credit recapture.

SR&ED Application Policies: Application Policy 2005-01, Shared-Use-Equipment; Application Policy 2002-02R2, Revision — Experimental Production and Commercial Production with Experimental Development Work — Allowable SR&ED Expenditures; Application Policy 2000-04R2, Recapture of Investment Tax Credit.

► 127(27.1) ◄

(27.1) Recapture of investment tax credit — child care space amount. There shall be added to a taxpayer's tax otherwise payable under this Part for a particular taxation year, the total of all amounts each of which is an amount determined under subsection (27.12) in respect of a disposition by the taxpayer in the particular taxation year of a property a percentage of the cost of which can reasonably be considered to have been included in the child care

space amount of the taxpayer for a taxation year, if the property was acquired in respect of a child care space that was created at a time that is less than 60 months before the disposition.

History: S. 127(27.1) was added by S.C. 2007, c. 35, s. 43(16), applicable on and after March 19, 2007.

► 127(27.11) ◄

(27.11) Disposition. For the purpose of subsection (27.1),

(*a*) if a particular child care space, in respect of which any amount is included in the child care space amount of a taxpayer or a partnership for a taxation year or a fiscal period, ceases at any particular time to be available, the child care space is, except where the child care space has been disposed of by the taxpayer or the partnership before the particular time, deemed to be a property

(i) disposed of by the taxpayer or the partnership, as the case may be, at the particular time,

(ii) a percentage of the cost of which can reasonably be considered to be included in the child care space amount of the taxpayer or the partnership, as the case may be, for a taxation year or a fiscal period, and

(iii) acquired in respect of a child care space that was created at the time the child care space was created,

(*b*) child care spaces that cease to be available are deemed to so cease in reverse chronological order to their creation, and

(*c*) a property acquired by a taxpayer or a partnership in respect of a child care space is deemed to be disposed of by the taxpayer or the partnership, as the case may be, in a disposition described in clause (27.12)(*b*)(ii)(B) if the property is leased by the taxpayer or the partnership to a lessee for any purpose or is converted to a use by the taxpayer or the partnership other than to a use for the child care space.

History: S. 127(27.11) was added by S.C. 2007, c. 35, s. 43(16), applicable on and after March 19, 2007.

► 127(27.12) ◄

(27.12) Amount of recapture. For the purposes of subsection (27.1) and (27.11), the amount determined under this subsection in respect of a disposition of a property by a taxpayer or a partnership is,

(*a*) where the property disposed of is a child care space, the amount that can reasonably be considered to have been included under paragraph (*a.5*) of the definition "investment tax credit" in subsection (9) in respect of the taxpayer or partnership in respect of the child care space, and

(*b*) in any other case, the lesser of,

(i) the amount that can reasonably be considered to have been included under paragraph (*a.5*) of the definition "investment tax credit" in subsection (9) in respect of the taxpayer or partnership in respect of the cost of the property, and

(ii) 25% of

(A) if the property, or a part of the property, is disposed of to a person who deals at arm's length with the taxpayer or the partnership, the proceeds of disposition of the property, or of the part of the property, and

(B) in any other case, the fair market value of the property or of the part of the property, at the time of the disposition.

History: S. 127(27.12) was added by S.C. 2007, c. 35, s. 43(16), applicable on and after March 19, 2007.

► 127(28) ◄

(28) Recapture of investment tax credit of partnership. For the purpose of computing the amount determined under subsection (8) in respect of a partnership at the end of a particular fiscal period, where

(*a*) a particular property, the cost of which is a qualified expenditure, is acquired by the partnership from a person or partnership in the particular fiscal period or in any of the 10 preceding fiscal periods of the partnership,

(*b*) the cost of the particular property is included in an amount, a percentage of which can reasonably be considered to have been included in computing the amount determined under subsection (8) in respect of the partnership at the end of a fiscal period, and

(*c*) in the particular fiscal period and after February 23, 1998, the partnership converts to commercial use, or disposes of without having previously converted to commercial use, the particular property or another property that incorporates the particular property,

there shall be deducted in computing the amount determined under subsection (8) in respect of the partnership at the end of the particular fiscal period the lesser of

(*d*) the amount that can reasonably be considered to have been included in respect of the particular property in computing the amount determined under subsection (8) in respect of the partnership, and

(*e*) the percentage (described in paragraph (*b*)) of

(i) where the particular property or the other property is disposed of to a person who deals at arm's length with the partnership, the proceeds of disposition of that property, and

(ii) in any other case, the fair market value of the particular property or the other property at the time of the conversion or disposition.

History: S. 127(28) was added by S.C. 1999, c. 22, s. 48(2), applicable to dispositions and conversions of property that occur after February 23, 1998.

Editorial Note: See the editorial note under subsection 127(27).

Related Sections: S. 127(30) Addition to tax; s. 127(32) Meaning of cost; s. 127(33) Certain non-arm's length transfers; s. 127(36) Transitional application of investment tax credit recapture.

SR&ED Application Policies: Application Policy 2000-04R2, Recapture of Investment Tax Credit; Application Policy 2002-02R2, Revision — Experimental Production and Commercial Production with Experimental Development Work — Allowable SR&ED Expenditures; Application Policy 2000-04R2, Recapture of Investment Tax Credit.

► 127(28.1) ◄

(28.1) Recapture of partnership's investment tax credits — child care property. For the purpose of computing the amount determined under subsection (8) in respect of a partnership at the end of a particular fiscal period of the partnership, there shall be deducted the total of all amounts, each of which is an amount determined under subsection (27.12) in respect of a disposition by the partnership in the particular fiscal period of a property a percentage of the cost of which can reasonably be considered to have been included in the child care space amount of the partnership for a fiscal period, if the property was

acquired in respect of a child care space that was created at a time that is less than 60 months before the disposition.

History: S. 127(28.1) was added by S.C. 2007, c. 35, s 43(17), applicable on and after March 19, 2007.

► 127(29) ◄

(29) Recapture of investment tax credit of allocating taxpayer. Where

(*a*) a taxpayer acquired a particular property from a person or partnership in a taxation year or in any of the 10 preceding taxation years,

(*b*) the cost of the particular property was a qualified expenditure to the taxpayer,

(*c*) all or part of the qualified expenditure can reasonably be considered to have been the subject of an agreement made under subsection (13) by the taxpayer and another taxpayer (in this subsection referred to as the "transferee"), and

(*d*) in the year and after February 23, 1998, the taxpayer converts to commercial use, or disposes of without having previously converted to commercial use, the particular property or another property that incorporates the particular property,

there shall be added to the taxpayer's tax otherwise payable under this Part for the year the lesser of

(*e*) the amount that can reasonably be considered to have been included in computing the transferee's investment tax credit in respect of the qualified expenditure that was the subject of the agreement, and

(*f*) the amount determined by the formula

$$A \times B - C$$

where

A is the percentage applied by the transferee in determining its investment tax credit in respect of the qualified expenditure that was the subject of the agreement,

B is

(i) where the particular property or the other property is disposed of to a person who deals at arm's length with the taxpayer, the proceeds of disposition of that property, and

(ii) in any other case, the fair market value of the particular property or the other property at the time of the conversion or disposition, and

C is the amount, if any, added to the taxpayer's tax payable under subsection (27) in respect of the particular property.

History: S. 127(29) was added by S.C. 1999, c. 22, s. 48(2), applicable to dispositions and conversions of property that occur after February 23, 1998.

Editorial Note: Subsection 127(29) implements the same rule as subsection 127(27) when the original investment tax credit was transferred by agreement under subsection 127(13).

Related Sections: S. 37(1)(c.2) Scientific research and experimental development; s. 127(32) Meaning of cost; s. 127(33) Certain non-arm's length transfers; s. 127(36) Transitional application of investment tax credit recapture; s. 257 Negative amounts.

SR&ED Application Policies: Application Policy 2002-02R2, Revision — Experimental Production and Commercial Production with Experimental Development Work — Allowable SR&ED Expenditures; Application Policy 2000-04R2, Recapture of Investment Tax Credit.

► 127(30) ◄

(30) Addition to tax. Where a taxpayer is a member of a partnership at the end of a fiscal period of the partnership, there shall be added to the taxpayer's tax otherwise payable under this Part for the taxpayer's taxation year in which that fiscal period ends the amount that can reasonably be considered to be the taxpayer's share of the amount, if any, by which

(*a*) the total of

(i) the total of all amounts each of which is the lesser of the amounts described in paragraphs (28)(*d*) and (*e*) in respect of the partnership in respect of the fiscal period,

(ii) the total of all amounts each of which is the lesser of the amounts described in paragraphs (35)(*c*) and (*d*) in respect of the partnership in respect of the fiscal period, and

(iii) the total of all amounts each of which is an amount required by subsection (28.1) to be deducted in computing the amount determined in respect of the partnership in respect of the fiscal period under subsection (8),

exceeds

(*b*) the amount that would be determined in respect of the partnership under subsection (8) if that subsection were read without reference to subsections (28), (28.1), and (35).

History: S. 127(30) was replaced by S.C. 2007, c. 35, s. 43(18), applicable on and after March 19, 2007. S. 127(30) formerly read:

"(30) *Addition to tax.* Where a taxpayer is a member of a partnership and the total of

(*a*) the total of all amounts each of which is the lesser of the amounts described in paragraphs (28)(*d*) and (*e*) in respect of a property of the partnership, and

(*b*) the total of all amounts each of which is the lesser of the amounts described in paragraphs (35)(*c*) and (*d*) in respect of a property of the partnership,

exceeds the amount that would be determined in respect of the partnership under subsection (8) if that subsection were read without reference to subsections (28) and (35), the portion of the excess that can reasonably be considered to be the taxpayer's share of the excess shall be added to the taxpayer's tax otherwise payable under this Part for the year."

S. 127(30) was added by S.C. 1999, c. 22, s. 48(2), applicable to dispositions and conversions of property that occur after February 23, 1998.

Related Sections: S. 37(1)(c.3) Scientific research and experimental development; s. 53(1)(c)(xiii) Adjustments to cost base — Contributions of capital; s. 127(31) Tiered partnership.

SR&ED Application Policies: Application Policy 2000-04R2, Recapture of Investment Tax Credit.

► 127(31) ◄

(31) Tiered partnership. Where a taxpayer is a member of a particular partnership that is a member of another partnership and an amount would be added to the particular partnership's tax payable under this Part for the year pursuant to subsection (30) if the particular partnership were a person and its fiscal period were its taxation year, that amount is deemed to be an amount that is the lesser of the amounts described in paragraphs (28)(*d*) and (*e*), in respect of a property of the particular partnership, that is required by subsection (28) to be deducted in computing the amount under subsection (8) in respect of the particular partnership at the end of the fiscal period.

History: S. 127(31) was added by S.C. 1999, c. 22, s. 48(2), applicable to dispositions and conversions of property that occur after February 23, 1998.

SR&ED Application Policies: Application Policy 2000-04R2, Recapture of Investment Tax Credit.

► 127(32) ◄

(32) Meaning of cost. For the purposes of subsections (27), (28) and (29), "cost of the particular property" to a taxpayer shall not exceed the amount paid by the taxpayer to acquire the particular property from a transferor of the

particular property and, for greater certainty, does not include amounts paid by the taxpayer to maintain, modify or transform the particular property.

History: S. 127(32) was added by S.C. 1999, c. 22, s. 48(2), applicable to dispositions and conversions of property that occur after February 23, 1998.

SR&ED Application Policies: Application Policy 2000-04R2, Recapture of Investment Tax Credit.

► 127(33) ◄

(33) Certain non-arm's length transfers. Subsections (27) to (29), (34) and (35) do not apply to a taxpayer or partnership (in this subsection referred to as the "transferor") that disposes of a property to a person or partnership (in this subsection and subsections (34) and (35) referred to as the "purchaser"), that does not deal at arm's length with the transferor, if the purchaser acquired the property in circumstances where the cost of the property to the purchaser would have been an expenditure of the purchaser described in subclause 37(8)(*a*)(ii)(A)(III) or (B)(III) but for subparagraph 2902(b)(iii) of the *Income Tax Regulations*.

History: S. 127(33) was added by S.C. 1999, c. 22, s. 48(2), applicable to dispositions and conversions of property that occur after February 23, 1998.

SR&ED Application Policies: Application Policy 2000-04R2, Recapture of Investment Tax Credit.

► 127(34) ◄

(34) Recapture of investment tax credit. Where, at any particular time in a taxation year and after February 23, 1998, a purchaser (other than a partnership) converts to commercial use, or disposes of without having previously converted to commercial use, a property

(*a*) that was acquired by the purchaser in circumstances described in subsection (33) or that is another property that incorporates a property acquired in such circumstances; and

(*b*) that was first acquired, or that incorporates a property that was first acquired, by a person or partnership (in this subsection referred to as the "original user") with which the purchaser did not deal at arm's length at the time at which the purchaser acquired the property, in the original user's taxation year or fiscal period that includes the particular time (on the assumption that the original user had such a taxation year or fiscal period) or in any of the original user's 10 preceding taxation years or fiscal periods,

there shall be added to the purchaser's tax otherwise payable under this Part for the year the lesser of

(*c*) the amount

(i) included, in respect of the property, in the investment tax credit of the original user, or

(ii) where the original user is a partnership, that can reasonably be considered to have been included in respect of the property in computing the amount determined under subsection (8) in respect of the original user, and

(*d*) the amount determined by applying the percentage that was applied by the original user in determining the amount referred to in paragraph (*c*) to

(i) if the property or the other property is disposed of to a person who deals at arm's length with the purchaser, the proceeds of disposition of that property, and

(ii) in any other case, the fair market value of the property or the other property at the time of the conversion or disposition.

History: S. 127(34) was added by S.C. 1999, c. 22, s. 48(2), applicable to dispositions and conversions of property that occur after February 23, 1998.

Related Sections: S. 37(1)(*c.2*) Scientific research and experimental development; s. 127(30) Addition to tax; s. 127(33) Certain non-arm's length transfers; s. 127(36) Transitional application of investment tax credit recapture.

SR&ED Application Policies: Application Policy 2000-04R2, Recapture of Investment Tax Credit.

► 127(35) ◄

(35) Recapture of investment tax credit. Where, at any particular time in a fiscal period and after February 23, 1998, a purchaser is a partnership that converts to commercial use, or disposes of without having previously converted to commercial use, a property

(*a*) that was acquired by the purchaser in circumstances described in subsection (33) or that is another property that incorporates a property acquired in such circumstances, and

(*b*) that was first acquired, or that incorporates a property that was first acquired, by a person or partnership (in this subsection referred to as the "original user") with which the purchaser did not deal at arm's length at the time at which the purchaser acquired the property, in the original user's taxation year or fiscal period that includes the particular time (on the assumption that the original user had such a taxation year or fiscal period) or in any of the original user's 10 preceding taxation years or fiscal periods,

there shall be deducted in computing the amount determined under subsection (8) in respect of the purchaser at the end of the fiscal period the lesser of

(*c*) the amount

(i) included, in respect of the property, in the investment tax credit of the original user, or

(ii) where the original user is a partnership, that can reasonably be considered to have been included in respect of the property in computing the amount determined under subsection (8) in respect of the original user, and

(*d*) the amount determined by applying the percentage that was applied by the original user in determining the amount referred to in paragraph (*c*) to

(i) if the property or the other property is disposed of to a person who deals at arm's length with the purchaser, the proceeds of disposition of that property, and

(ii) in any other case, the fair market value of the property or the other property at the time of the conversion or disposition.

History: S. 127(35) was added by S.C. 1999, c. 22, s. 48(2), applicable to dispositions and conversions of property that occur after February 23, 1998.

Related Sections: S. 127(30) Addition to tax; s. 127(33) Certain non-arm's length transfers; s. 127(36) Transitional application of investment tax credit recapture.

SR&ED Application Policies: Application Policy 2000-04R2, Recapture of Investment Tax Credit.

► 127(36) ◄

(36) Transitional application of investment tax credit recapture. For the purpose of applying each of

subsection (27) or (29) in respect of a taxpayer, subsection (28) in respect of a partnership or subsection (34) or (35) in respect of a purchaser and an original user, as the case may be, (which taxpayer, partnership or original user is, in this subsection, referred to as the "taxpayer"), the reference to "10" in that subsection is to be read as a reference to the number that is the lesser of

(*a*) 20, and

(*b*) the number that is the total of 10 and the number of taxation years or fiscal periods, as the case may be, by which the number of taxation years or fiscal periods of the taxpayer that have ended after 1997 exceeds 11.

History: S. 127(36)(*b*) was replaced by S.C. 2009, c. 2, s. 40(10), applicable in respect of the 2008 and subsequent taxation years. S. 127(36)(*b*) formerly read:

"(*b*) the number that is the total of 10 and the number of taxation years or fiscal periods, as the case may be, by which the number of taxation years or fiscal periods of the taxpayer that have ended after 2005 exceeds 11."

S. 127(36) was added by S.C. 2006, c. 4, s. 75(5), applicable to the 2006 and subsequent taxation years.

SECTION 127.1:

► 127.1(1) ◄

(1) Refundable investment tax credit. Where a taxpayer (other than a person exempt from tax under section 149) files

(*a*) with the taxpayer's return of income (other than a return of income filed under subsection 70(2) or 104(23), paragraph 128(2)(*f*) or subsection 150(4)) for a taxation year, or

(*b*) with a prescribed form amending a return referred to in paragraph (*a*)

a prescribed form containing prescribed information, the taxpayer is deemed to have paid on the taxpayer's balance-due day for the year an amount on account of the taxpayer's tax payable under this Part for the year equal to the lesser of

(*c*) the taxpayer's refundable investment tax credit for the year, and

(*d*) the amount designated by the taxpayer in the prescribed form.

History: S. 127.1(1)(*a*) was amended by S.C. 1998, c. 19, s. 147(1), applicable to taxation years that begin after April 26, 1995. Paragraph (*a*) formerly read:

"(*a*) with the taxpayer's return of income (other than a return of income filed under subsection 70(2) or 104(23), paragraph 128(2)(*e*) or subsection 150(4)) under this Part for a taxation year, or"

S. 127.1(1), the portion after paragraph (*b*) and before paragraph (*c*), was amended by S.C. 1997, c. 25, s. 36(1), applicable to taxation years that end after February 22, 1994. That part formerly read:

"a prescribed form containing prescribed information, the taxpayer shall be deemed to have paid, on the day on which the return referred to in paragraph (*a*) or the form referred to in paragraph (*b*), as the case may be, is filed, an amount, on account of the taxpayer's tax under this Part for the year, equal to the lesser of"

Editorial Note: Subsection 127.1(1) allows a taxpayer to claim a refundable investment tax credit for a taxation year. The taxpayer is "deemed to have paid" the amount to its instalment account, the investment tax credit is fully refundable even if no tax is payable for the year. Generally, refundability of investment tax credits are available to Canadian-controlled private corporations, individuals and certain trusts.

Related Sections: S. 13(24) Acquisition of control; s. 127(14) Identification of amounts transferred; s. 127.1(3) Deemed deduction; s. 152(1) Assessment; s. 157(3)(*e*) Reduced instalments; s. 160.1(1) Where excess refunded; s. 164(1)(*a*) Refunds; s. 220(6) Assignment by corporation; s. 256(2.1) Anti-avoidance.

Interpretation Bulletins: *Secondary* — IT-151R5 (Consolid.) — Scientific research and experimental development expenditures.

Forms: T2 SCH 301; T2 SCH 340; T2 SCH 360; T2 SCH 442; T661; T666; T1129; T1232; T2038(IND); T2 SCH 31.

Guides: T4052 An Introduction to the Scientific Research and Experimental Development Program; T4088 Claiming Scientific Research and Experimental Development Expenditures — Guide to Form T661; RC4290 — Refunds for Small Business R&D.

Canadian Tax Foundation: R&D Recent Developments, "Shop Floor SR&ED: Are You Missing Out?", *2006 Conference Report*, vol. 6, no. 2.

Tax Window Files: Scientific Research and Experimental Development — Activities Performed by Canadian Corporation on Behalf of Foreign Corporation, October 7, 2005, CRA Document No. 2005-0140991C6; Amendment of Return to Claim Refundable Investment Tax Credit, February 13, 2002, CRA Document No. 2001-0109827; Refundable Portion of Part I Tax — Effect of Refundable Investment Tax Credits, September 28, 1993, CRA Document No. 917095; ITCs — Property Not Previously "Available For Use ", September 9, 1992, CRA Document No. 9220985.

► 127.1(2) ◄

(2) Definitions. In this section,

"*excluded corporation*" — "excluded corporation" for a taxation year means a corporation that is, at any time in the year,

(*a*) controlled directly or indirectly, in any manner whatever, by

(i) one or more persons exempt from tax under this Part by virtue of section 149,

(ii) Her Majesty in right of a province, a Canadian municipality or any other public authority, or

(iii) any combination of persons each of whom is a person referred to in subparagraph (i) or (ii), or

(*b*) related to any person referred to in paragraph (*a*);

Related Sections: S. 256(5.1) Control in fact; s. 256(6.2) Application to control in fact.

Interpretation Bulletins: *Secondary* — IT-151R5 (Consolid.) Scientific Research and Experimental Development Expenditures.

"*qualifying corporation*" — "qualifying corporation" for a particular taxation year that ends in a calendar year means a particular corporation that is a Canadian-controlled private corporation in the particular taxation year the taxable income of which for its immediately preceding taxation year — together with, if the particular corporation is associated in the particular taxation year with one or more other corporations (in this subsection referred to as "associated corporations"), the taxable income of each associated corporation for its last taxation year that ended in the preceding calendar year (determined before taking into consideration the specified future tax consequences for that last year) — does not exceed the qualifying income limit of the particular corporation for the particular taxation year;

History: S. 127.1(2), the definition "qualifying corporation" was replaced by S.C. 2009, c. 2, s. 41(1), applicable to taxation years that end on or after February 26, 2008. S. 127.1(2), the definition "qualifying corporation" formerly read:

"'*qualifying corporation*' — 'qualifying corporation' for a particular taxation year that ends in a calendar year means

(*a*) a corporation that is a Canadian-controlled private corporation throughout the particular year (other than a corporation associated with another corporation in the particular year) the taxable income of which for its immediately preceding taxation year (determined before taking into consideration the specified future tax consequences for that preceding year) does not exceed its business limit for that preceding year, or

(*b*) a corporation that is a Canadian-controlled private corporation throughout the particular year and associated with another corporation in the particular year, where the total of all amounts each of which is the taxable income of the corporation or such an associated corporation for its last taxation year that ended in the preceding calendar year (determined before taking into consideration the specified future tax consequences for that last year) does not exceed the total of all amounts each of which is the business limit of the corporation or such an associated corporation for that last year;"

S. 127.1(2), the definition "qualifying corporation", was amended by S.C. 1997, c. 25, s. 36(2), applicable to taxation years that begin after 1995. That definition formerly read:

" *'qualifying corporation'* — 'qualifying corporation' for a particular taxation year means a corporation that is, throughout the particular year, a Canadian-controlled private corporation the taxable income of which for its preceding taxation year or, if it is associated with one or more other corporations in the particular year, the taxable income of the corporation for its last taxation year ending in the preceding calendar year plus the taxable incomes of all such other corporations for their last taxation years ending in the preceding calendar year, does not exceed the total of the business limits (as determined under section 125) of the corporation and the other corporations for those preceding years, except that for a particular taxation year that begins before 1996 the total of the business limits shall be determined under section 125 as that section read in its application to taxation years ending before July 1994;"

S. 127.1(2), the definition "qualifying corporation", was amended by S.C. 1995, c. 3, s. 38(1), applicable to taxation years that end after June 1994. That definition formerly read:

" *'qualifying corporation'* — 'qualifying corporation' for a particular taxation year means a corporation that is, throughout the particular year, a Canadian-controlled private corporation whose taxable income for the immediately preceding taxation year together with the taxable incomes of all corporations with which it was associated in the particular year for their taxation years ending in the calendar year immediately preceding the calendar year in which the particular year of the corporation ended does not exceed the total of the business limits (as determined under section 125) of the corporation and the associated corporations for those preceding years;"

Related Sections: S. 87(2)(*oo*.1) Investment tax credit; s. 88(1)(*e*.9) Winding-up; s. 125(7), "Canadian-controlled private corporation"; s. 127.1(2.01) Addition to refundable investment tax credit; s. 127.1(2.2) Refundable investment tax credit — associated CCPCs; s. 127.1(2.3) Application of subsection (2.2); s. 248(1), "business limit", "specified future tax consequences".

Interpretation Bulletins: *Secondary* — IT-151R5 (Consolid.) Scientific Research and Experimental Development Expenditures

Tax Window Files: Refundable Investment Tax Credit — Qualifying Corporation, April 28, 2006, CRA Document No. 2005-016161117; Refundable Investment Tax Credit — Qualifying Corporation, May 13, 2004, CRA Document No. 2003-004799117.

"qualifying income limit" — "qualifying income limit" of a corporation for a particular taxation year is the amount determined by the formula

$$\$500{,}000 \times [(\$40 \text{ million} - A)/\$40 \text{ million}]$$

where

A is

(*a*) nil, if $10 million is greater than or equal to the amount (in paragraph (*b*) referred to as the "taxable capital amount") that is the total of the corporation's taxable capital employed in Canada (within the meaning assigned by section 181.2 or 181.3) for its immediately preceding taxation year and the taxable capital employed in Canada (within the meaning assigned by section 181.2 or 181.3) of each associated corporation for the associated corporation's last taxation year that ended in the last calendar year that ended before the end of the particular taxation year, or

(*b*) in any other case, the lesser of $40 million and the amount by which the taxable capital amount exceeds $10 million;

History: S. 127.1(2), the definition "qualifying income limit" was added by S.C. 2009, c. 2, s. 41(2), applicable to taxation years that end on or after February 26, 2008, except that

(*a*) for taxation years that include February 26, 2008, the formula in the definition "qualifying income limit" in subsection 127.1(2) and the portion of that definition that follows that formula shall be read as follows:

" A + [($400,000 × [($40 million – B)/$40 million] – A) × (C/D)]

where

A is the business limit of the corporation for the particular taxation year determined in accordance with section 125 — together with, if the particular corporation is associated in the particular taxation year with one or more other corporations the business limit of each of those associated corporations for its last taxation year that ends in the particular taxation year (determined in accordance with section 125),

B is

(*a*) nil, if $10 million is greater than or equal to the amount (in paragraph (*b*) referred to as the 'taxable capital amount') that is the total of the corporation's taxable capital employed in Canada (within the meaning assigned by section 181.2 or 181.3) for its immediately preceding taxation year and the taxable capital employed in Canada (within the meaning assigned by section 181.2 or 181.3) of each associated corporation for the associated corporation's last taxation year that ended in the last calendar year that ended before the end of the particular taxation year, or

(*b*) in any other case, the lesser of $40 million and the amount by which the taxable capital amount exceeds $10 million,

C is the number of days in the particular taxation year that are after February 25, 2008, and

D is the total number of days in the particular taxation year;"

(*b*) for taxation years that begin after February 26, 2008 and end before 2010, the reference to "$500,000" in the formula in the definition "qualifying income limit" in subsection 127.1(2) shall be read as a reference to "$400,000"; and

(*c*) for 2010 taxation years that begin before 2010, the reference to "$500,000" in the formula in the definition "qualifying income limit" in subsection 127.1(2) shall be read as a reference to an amount that is the total of $400,000 and that proportion of $100,000 that the number of days in the taxation year that are in 2010 is of the number of days in the taxation year.

"refundable investment tax credit" — "refundable investment tax credit" of a taxpayer for a taxation year means, in the case of a taxpayer who is

(*a*) a qualifying corporation for the year,

(*b*) an individual other than a trust, or

(*c*) a trust each beneficiary of which is a person referred to in paragraph (*a*) or (*b*),

an amount equal to 40% of the amount, if any, by which

(*d*) the total of all amounts included in computing the taxpayer's investment tax credit at the end of the year

(i) in respect of property (other than qualified small-business property) acquired, or a qualified expenditure (other than an expenditure in respect of which an amount is included under paragraph (*f*) in computing the taxpayer's refundable investment tax credit for the year) incurred, by the taxpayer in the year, or

(ii) because of paragraph (*b*) of the definition "investment tax credit" in subsection 127(9) in respect of a property (other than qualified small-business property) acquired or a qualified expenditure (other than an expenditure in respect of which an amount is included under paragraph (*f*) in computing the taxpayer's refundable investment tax credit for the year) incurred

exceeds

(*e*) the total of

(i) the portion of the total of all amounts deducted under subsection 127(5) for the year or a preceding taxation year (other than an amount deemed by subsection (3) to be so deducted for the year) that can reasonably be considered to be in respect of the total determined under paragraph (*d*), and

(ii) the portion of the total of all amounts required by subsection 127(6) or (7) to be deducted in computing the taxpayer's investment tax credit at the end of the year that can reasonably be considered to be in respect of the total determined under paragraph (*d*),

plus, where the taxpayer is a qualifying corporation (other than an excluded corporation) for the year, the amount, if any, by which

(*f*) the total of

(i) the portion of the amount required by subsection 127(10.1) to be added in computing the taxpayer's investment tax credit at the end of the year that is in respect of qualified expenditures (other than expenditures of a capital nature) incurred by the taxpayer in the year, and

(ii) all amounts determined under paragraph (*a*.1) of the definition "investment tax credit" in subsection 127(9) in respect of expenditures for which an amount is included in subparagraph (i)

exceeds

(*g*) the total of

(i) the portion of the total of all amounts deducted by the taxpayer under subsection 127(5) for the year or a preceding taxation year (other than an amount deemed by subsection (3) to be so deducted for the year) that can reasonably be considered to be in respect of the total determined under paragraph (*f*), and

(ii) the portion of the total of all amounts required by subsection 127(6) to be deducted in computing the taxpayer's investment tax credit at the end of the year that can reasonably be considered to be in respect of the total determined under paragraph (*f*).

History: S. 127.1(2), paragraph (*f*) of the definition of "refundable tax credit", was amended by S.C. 1996, c. 21, s. 31(1), applicable to taxation years that begin after 1995. That part formerly read:

"(*f*) the total of

(i) the portion of the amount required by subsection 127(10.1) to be added in computing the taxpayer's investment tax credit at the end of the year that is in respect of qualified expenditures (other than expenditures of a capital nature) incurred in the year, and

(ii) all amounts determined under paragraph (*a*) of the definition 'investment tax credit' in subsection 127(9) in respect of expenditures for which amounts are included in subparagraph (i)"

S. 127.1(2), the definition of "refundable investment tax credit", was amended by S.C. 1994, c. 8, s. 16(1), applicable to taxation years that end after December 2, 1992. S. 127.1(2), the definition of "refundable investment tax credit", formerly read:

" 'refundable investment tax credit' for a taxation year means,

(*a*) in the case of a taxpayer who is

(i) a qualifying corporation for the year,

(ii) an individual other than a trust, or

(iii) a trust each beneficiary of which is a person referred to in subparagraph (i) or (ii),

an amount equal to 40% of the amount, if any, by which

(iv) the total of all amounts each of which is an amount included in computing the taxpayer's investment tax credit at the end of the year

(A) in respect of property acquired, or an expenditure made (other than a qualified Canadian exploration expenditure or an expenditure in respect of which an amount is included under subparagraph (vi) or (*b*)(ii) in computing the taxpayer's refundable investment tax credit for the year), by the taxpayer in the year and after April 19, 1983,

(B) pursuant to paragraph (*b*) of the definition 'investment tax credit' in subsection 127(9) in respect of a property acquired, or an expenditure made (other than a qualified Canadian exploration expenditure or an expenditure in respect of which an amount is included under subparagraph (vi) or (*b*)(ii) in computing the taxpayer's refundable investment tax credit for the year), after April 19, 1983, or

(C) in respect of the taxpayer's qualified Canadian exploration expenditure for the year, or pursuant to paragraph (*b*) of that definition in respect of a qualified Canadian exploration expenditure for the year, other than an amount included under subparagraph (*b*)(iii)

exceeds

(v) the total of

(A) such portion of the total of all amounts each of which is an amount deducted by the taxpayer under subsection 127(5) for the year or a preceding taxation year (other than an amount deemed by subsection (3) to be so deducted for the year) as may reasonably be considered to be in respect of the total determined under subparagraph (iv), and

(B) such portion of the total of all amounts each of which is an amount required by subsection 127(6) or (7) to be deducted in computing the taxpayer's investment tax credit at the end of the year as may reasonably be considered to be in respect of the total determined under subparagraph (iv),

plus, in the case of a qualifying corporation for the year, other than an excluded corporation for the year, the amount, if any, by which

(vi) the total of

(A) the total of all amounts each of which is an amount required by subsection 127(10.1) to be added in computing the taxpayer's investment tax credit at the end of the year in respect of an expenditure, other than an expenditure of a capital nature, made by it after May 23, 1985 and in the year, and

(B) the total of all amounts each of which is an amount determined under paragraph (*a*) of the definition 'investment tax credit' in subsection 127(9) in respect of an expenditure for which an amount is included in clause (A)

exceeds

(vii) the total of

(A) such portion of the total of all amounts each of which is an amount deducted by the taxpayer under subsection 127(5) for the year or a preceding taxation year (other than an amount deemed by subsection (3) to be so deducted for the year) as may reasonably be considered to be in respect of the total determined under subparagraph (vi), and

(B) such portion of the total of all amounts each of which is an amount required by subsection 127(6) to be deducted in computing the taxpayer's investment tax credit at the end of the year as may reasonably be considered to be in respect of the total determined under subparagraph (vi), and

(*b*) in the case of any other taxpayer, the total of

(i) 20% of the amount, if any, calculated for the year in respect of the taxpayer, by which the total determined under subparagraph (*a*)(iv) in respect of property acquired or an expenditure made before 1988, exceeds the total determined under subparagraph (*a*)(v) in respect of property acquired or an expenditure made before 1988,

(ii) 40% of the amount, if any, by which

(A) the total of all amounts each of which is an amount included in computing the taxpayer's investment tax credit at the end of the year

(I) in respect of an approved project property acquired by the taxpayer in the year and before 1988, or

(II) pursuant to paragraph (*b*) of the definition 'investment tax credit' in subsection 127(9) in respect of an approved project property acquired before 1988

exceeds

(B) the total of

(I) such portion of the total of all amounts each of which is an amount deducted by the taxpayer under subsection 127(5) for the year or a preceding taxation year (other than an amount deemed by subsection (3) to be so deducted for the year) as may reasonably be considered to be in respect of the total determined under clause (A), and

(II) such portion of the total of all amounts each of which is an amount required by subsection 127(6) or (7) to be deducted in computing the taxpayer's investment tax credit at the end of the year as may reasonably be considered to be in respect of the total determined under clause (A), and

(iii) where the taxation year commences before 1988, 40% of the amount, if any, by which

(A) the total of all amounts each of which is an amount included in computing the taxpayer's investment tax credit at the end of the year

(I) in respect of the taxpayer's qualified Canadian exploration expenditure for the year, or

(II) pursuant to paragraph (*b*) of the definition 'investment tax credit' in subsection 127(9) in respect of a qualified Canadian exploration expenditure for the year,

exceeds

(B) the total of

(I) such portion of the total of all amounts each of which is an amount deducted by the taxpayer under subsection 127(5) for the year or a preceding taxation year (other than an amount deemed by subsection (3) to be so deducted for the year) as may reasonably be considered to be in respect of the total determined under clause (A), and

(II) such portion of the total of all amounts each of which is an amount required by subsection 127(6) or (7) to be deducted in computing the taxpayer's investment tax credit at the end of the year as may reasonably be considered to be in respect of the total determined under clause (A)."

Related Sections: S. 87(2)(*oo*) Investment tax credit; s. 88(1)(*e*.9) Winding-up; s. 127(9) Definitions, "investment tax credit"; s. 127(10.1) Additions to investment tax credit; s. 127(14) Identification of amounts transferred;

s. 127.1(2.01) Addition to refundable investment tax credit; s. 127.1(2.2)–127.1(2.3) Refundable investment tax credit — associated CCPCs; s. 136(1) Cooperative not private corporation; s. 137(7) Credit union not private corporation; s. 256(2.1) Anti-avoidance; s. 256(5.1) Control in fact; s. 256(6.2) Application to control in fact.

Interpretation Bulletins: *Secondary* — IT-151R5 (Consolid.) Scientific Research and Experimental Development Expenditures.

Tax Window Files: Refundable Investment Tax Credit — Qualifying Corporation, April 28, 2006, CRA Document No. 2005-016161117; Refundable Investment Tax Credit — Qualifying Corporation, May 13, 2004, CRA Document No. 2003-004799117.

► 127.1(2.01) ◄

(2.01) Addition to refundable investment tax credit. In the case of a taxpayer that is a Canadian-controlled private corporation other than a qualifying corporation or an excluded corporation, the refundable investment tax credit of the taxpayer for a taxation year is 40% of the amount, if any, by which

(*a*) the total of

(i) the portion of the amount required by subsection 127(10.1) to be added in computing the taxpayer's investment tax credit at the end of the year that is in respect of qualified expenditures (other than expenditures of a current nature) incurred by the taxpayer in the year, and

(ii) all amounts determined under paragraph (*a*.1) of the definition "investment tax credit" in subsection 127(9) in respect of expenditures for which an amount is included in subparagraph (i)

exceeds

(*b*) the total of

(i) the portion of the total of all amounts deducted by the taxpayer under subsection 127(5) for the year or a preceding taxation year (other than an amount deemed by subsection (3) to have been so deducted for the year) that can reasonably be considered to be in respect of the total determined under paragraph (*a*), and

(ii) the portion of the total of all amounts required by subsection 127(6) to be deducted in computing the taxpayer's investment tax credit at the end of the year that can reasonably be considered to be in respect of the total determined under paragraph (*a*)

plus the amount, if any, by which

(*c*) the total of

(i) the portion of the amount required by subsection 127(10.1) to be added in computing the taxpayer's investment tax credit at the end of the year that is in respect of qualified expenditures (other than expenditures of a capital nature) incurred by the taxpayer in the year, and

(ii) all amounts determined under paragraph (*a*.1) of the definition "investment tax credit" in subsection 127(9) in respect of expenditures for which an amount is included in subparagraph (i)

exceeds

(*d*) the total of

(i) the portion of the total of all amounts deducted by the taxpayer under subsection 127(5) for the year or a preceding taxation year (other than an amount deemed by subsection (3) to have been so deducted for the year) that can reasonably be considered to be in respect of the total determined under paragraph (*c*), and

(ii) the portion of the total of all amounts required by subsection 127(6) to be deducted in computing the taxpayer's investment tax credit at the end of the year that can reasonably be considered to be in respect of the total determined under paragraph (*c*).

History: S. 127.1(2.01)(*a*) was amended by S.C. 1996, c. 21, s. 31(2), applicable to taxation years that begin after 1995. S. 127.1(2.01)(*a*) formerly read:

"(*a*) the total of

(i) the portion of the amount required by subsection 127(10.1) to be added in computing the taxpayer's investment tax credit at the end of the year that is in respect of qualified expenditures (other than expenditures of a current nature) incurred in the year, and

(ii) all amounts determined under paragraph (*a*) of the definition 'investment tax credit' in subsection 127(9) in respect of expenditures for which an amount is included in subparagraph (i)"

S. 127.1(2.01)(*c*) was amended by S.C. 1996, c. 21, s. 31(3), applicable to taxation years that begin after 1995. S. 127.1(2.01)(*c*) formerly read:

"(*c*) the total of

(i) the portion of the amount required by subsection 127(10.1) to be added in computing the taxpayer's investment tax credit at the end of the year that is in respect of qualified expenditures (other than expenditures of a capital nature) incurred in the year, and

(ii) all amounts determined under paragraph (*a*) of the definition 'investment tax credit' in subsection 127(9) in respect of expenditures for which an amount is included in subparagraph (i)"

S. 127.1(2.01) was added by S.C. 1994, c. 8, s. 16(2), applicable to taxation years that begin after 1993.

Editorial Note: Subsection 127.1(2.01) permits a Canadian-controlled private corporation that is not a "qualifying corporation" under s. 127.1(2) (i.e., taxable income of associated group does not exceed the business limit) nor an "excluded corporation" under s. 127.1(2), to obtain partial refundability of the 35% investment tax credit for SR&ED expenditures, which is phased out as taxable income increases.

Related Sections: S. 127(10.1) Additions to investment tax credit; s. 127(10.2) Expenditure limit determined.

Interpretation Bulletins: *Secondary* — IT-151R5 (Consolid.) Scientific Research and Experimental Development Expenditures.

► 127.1(2.1) ◄

(2.1) Application of s. 127(9). The definitions in subsection 127(9) apply to this section.

History: S. 127.1(2.1) was not part of the former Act.

► 127.1(2.2) ◄

(2.2) Refundable investment tax credit — associated CCPCs. If a particular Canadian-controlled private corporation is associated with another corporation in circumstances where those corporations would not be associated if the Act were read without reference to paragraph 256(1.2)(*a*), the particular corporation has issued shares to one or more persons who have been issued shares by the other corporation and there is at least one shareholder of the particular corporation who is not a shareholder of the other corporation or one shareholder of the other corporation who is not a shareholder of the particular corporation, the particular corporation is not associated with the other corporation for the purpose of calculating that portion of the particular corporation's refundable investment tax credit that is in respect of qualified expenditures.

History: S. 127.1(2.2) was added by S.C. 2005, c. 19, s. 29(1), applicable to taxation years that end after March 22, 2004.

Editorial Note: Subsection 127.1(2.2) allows associated corporations to be considered not associated for purposes of SR&ED refundable tax credits if they are associated through a third company and the conditions in subsection 127.1(2.3) are met. Subsection 127(10.22) provides a parallel rule for non-refundable investment tax credits.

Related Sections: S. 127(10.22) Expenditure limits — associated CCPCs; s. 127(10.23) Application of subsection (10.22); s. 127.1(2.3) Application of subsection (2.2); s. 256(1.2)(*a*) Control, etc.

Tax Profile: March 2006 — Some Tax Considerations for Investing in Silicon Valley North.

Tax Window Files: Enhanced ITC for CCPCs, May 18, 2005, CRA Document No. 2005-012689117.

► 127.1(2.3) ◄

(2.3) Application of subsection (2.2). Subsection (2.2) applies to the particular corporation and the other corporation referred to in that subsection only if the Minister is satisfied that

(*a*) the particular corporation and the other corporation are not otherwise associated under this Act; and

(*b*) the existence of one or more shareholders of the particular corporation who is not a shareholder of the other corporation, or the existence of one or more shareholders of the other corporation who is not a shareholder of the particular corporation, is not for the purpose of satisfying the requirements of subsection (2.2) or 127(10.22).

History: S. 127.1(2.3) was added by S.C. 2005, c. 19, s. 29(1), applicable to taxation years that end after March 22, 2004.

Editorial Note: See the editorial note under subsection 127.1(2.2).

Related Sections: S. 127(10.22) Expenditure limits — associated CCPCs; s. 127(10.23) Application of subsection (10.22).

Tax Window Files: Enhanced ITC for CCPCs, May 18, 2005, CRA Document No. 2005-012689117.

► 127.1(3) ◄

(3) Deemed deduction. For the purposes of this Act, the amount deemed under subsection (1) to have been paid by a taxpayer for a taxation year shall be deemed to have been deducted by the taxpayer under subsection 127(5) for the year.

Editorial Note: Subsection 127.1(3) ensures that a taxpayer cannot claim more investment tax credits than the maximum allowed under subsection 127(5).

Related Sections: S. 127(5) Investment tax credit.

Interpretation Bulletins: *Secondary* — IT-151R5 (Consolid.) Scientific Research and Experimental Development Expenditures.

Tax Window Files: Investment Tax Credit, July 29, 2005, CRA Document No. 2005-014368117; Refundable Portion of Part I Tax — Effect of Refundable Investment Tax Credits, September 28, 1993, CRA Document No. 9317095.

► 127.1(4) ◄

(4) Qualifying income limit determined in certain cases. For the purpose of the definition of "qualifying corporation" in subsection (2), where a Canadian-controlled private corporation has a taxation year that is less than 51 weeks, the taxable income of the corporation for the year shall be determined by multiplying that amount by the ratio that 365 is of the number of days in that year.

History: S. 127.1(4) was added by S.C. 2009, c. 2, s. 41(3), applicable in respect of the 2008 and subsequent taxation years.

SECTION 127.2:

[Editorial note: Section 127.2 applies generally only in respect of new share issues made in the period from June 30, 1983 to the end of 1986. See subsection 192(4) and the definition of "share-purchase tax credit" in subsection 127.2(6).]

► 127.2(1) ◄

(1) Share-purchase tax credit.

There may be deducted from the tax otherwise payable under this Part by a taxpayer for a taxation year an amount not exceeding the total of

(*a*) the taxpayer's share-purchase tax credit for the year, and

(*b*) the taxpayer's unused share-purchase tax credit for the taxation year immediately following the year.

► 127.2(2) ◄

(2) Persons exempt from tax. Where a taxpayer who was throughout a taxation year a person described in any of paragraphs 149(1)(*e*) to (*y*) files with the taxpayer's return of income under this Part for the year a prescribed form containing prescribed information, the taxpayer shall be deemed to have paid, on the day on which the return is filed, an amount, on account of the taxpayer's tax under this Part for the year, equal to the taxpayer's share-purchase tax credit for the year.

► 127.2(3) ◄

(3) Trust. Where, in a particular taxation year of a taxpayer who is a beneficiary under a trust, an amount is included in computing the share-purchase tax credit of the trust for its taxation year ending in that particular taxation year, the trust may, in its return of income for its taxation year ending in that particular taxation year, designate as attributable to the taxpayer such portion of that amount

(*a*) as may, having regard to all the circumstances (including the terms and conditions of the trust arrangement), reasonably be considered to be attributable to the taxpayer, and

(*b*) as was not designated by the trust in respect of any other beneficiary of that trust,

and, where the trust so designates such a portion, an amount equal to that portion shall be

(*c*) added in computing the share-purchase tax credit of the taxpayer for the particular taxation year, and

(*d*) deducted in computing the share-purchase tax credit of the trust for its taxation year ending in the particular taxation year.

► 127.2(3.1) ◄

(3.1) Exclusion of certain trusts. For the purposes of subsection (3), a trust does not include a trust that is

(*a*) governed by an employee benefit plan or a revoked deferred profit sharing plan; or

(*b*) exempt from tax under section 149.

► 127.2(4) ◄

(4) Partnership. Where, in a taxation year of a taxpayer who is a member of a partnership, an amount is included in computing the share-purchase tax credit of the partnership for its fiscal period ending in that year, such portion of that amount as may reasonably be considered to be the taxpayer's share thereof shall be

(*a*) added in computing the share-purchase tax credit of the taxpayer for that year; and

(*b*) deducted in computing the share-purchase tax credit of the partnership for that fiscal period.

► 127.2(5) ◄

(5) Cooperative corporation. Where at any particular time in a taxation year a taxpayer that is a cooperative corporation (within the meaning assigned by subsection 136(2)) has, as required by subsection 135(3), deducted or withheld an amount from a payment made by it to any person pursuant to an allocation in proportion to patronage, the taxpayer may deduct from the amount otherwise required by subsection 135(3) to be remitted to the Receiver General, an amount not exceeding the amount, if any, by which

(*a*) the amount that would, but for this subsection, be its share-purchase tax credit for the taxation year in which it made the payment if that year had ended immediately before the particular time

exceeds

(*b*) the total of all amounts each of which is the amount deducted by virtue of this subsection from any amount otherwise required to be remitted by subsection 135(3) in respect of payments made by it before the particular time and in the taxation year,

and the amount, if any, so deducted from the amount otherwise required to be remitted by subsection 135(3) shall be

(*c*) deducted in computing the share-purchase tax credit of the taxpayer for the taxation year, and

(*d*) deemed to have been remitted by the taxpayer to the Receiver General on account of tax under this Part of the person to whom that payment was made.

► 127.2(6) ◄

(6) Definitions. In this section,

"share-purchase tax credit" — "share-purchase tax credit" of a taxpayer for a taxation year means the amount determined by the formula

$$(A + B) - C$$

where

A is the total of all amounts each of which is an amount designated by a corporation under subsection 192(4) in respect of a share acquired by the taxpayer in the year where the taxpayer is the first person, other than a broker or dealer in securities, to be a registered holder,

B is the total of all amounts each of which is an amount required by subsection (3) or (4) to be added in computing the taxpayer's share-purchase tax credit for the year, and

C is the total of all amounts each of which is an amount required by subsection (3), (4) or (5) to be deducted in computing the taxpayer's share-purchase tax credit for the year;

"unused share-purchase tax credit" — "unused share-purchase tax credit" of a taxpayer for a taxation year means the amount determined by the formula

$$A - (B + C)$$

where

A is the taxpayer's share-purchase tax credit for the year,

B is the taxpayer's tax otherwise payable under this Part for the year, the amount deemed by subsection (2) to have been paid on account of the taxpayer's tax payable under this Part for the year or, where Division E.1 is applicable to the taxpayer for the year, the amount, if any, by which the taxpayer's tax otherwise payable under this Part for the year exceeds the taxpayer's minimum amount for the year determined under section 127.51, as the case may be, and

C is the taxpayer's refundable Part VII tax on hand at the end of the year.

Related Sections: S. 39(7) Unused share-purchase tax credit.

► 127.2(7) ◄

(7) Definition of "tax otherwise payable". In this section, "tax otherwise payable" under this Part by a taxpayer means the amount that would, but for this section and section 120.1, be the tax payable under this Part by the taxpayer.

► 127.2(8) ◄

(8) Deemed cost of acquisition. For the purposes of this Act, where, at any time in a taxation year, a taxpayer has acquired a share and is the first registered holder of the share, other than a broker or dealer in securities, and an amount is, at any time, designated by a corporation under subsection 192(4) in respect of the share, the following rules apply:

(*a*) the taxpayer shall be deemed to have acquired the share at a cost to the taxpayer equal to the amount by which

(i) its cost to the taxpayer as otherwise determined

exceeds

(ii) the amount so designated in respect of the share; and

(*b*) where the amount determined under subparagraph (*a*)(ii) exceeds the amount determined under subparagraph (*a*)(i), the excess shall

(i) where the share is a capital property to the taxpayer, be deemed to be a capital gain of the taxpayer for the year from the disposition of that property, and

(ii) in any other case, be included in computing the income of the taxpayer for the year,

and the cost to the taxpayer of the share shall be deemed to be nil.

► 127.2(9) ◄

(9) Partnership. For the purposes of this section and subsection 193(5), a partnership shall be deemed to be a person and its taxation year shall be deemed to be its fiscal period.

► 127.2(10) ◄

(10) Election re first holder. Where a share of a public corporation has been lawfully distributed to the public in accordance with a prospectus, registration statement or similar document filed with a public authority in Canada pursuant to and in accordance with the law of Canada or of any province, and, where required by law, accepted for filing by such a public authority, the corporation, if it has designated an amount under subsection 192(4) in respect of the share, may, in the prescribed form required to be filed under that subsection, elect that, for the purposes of this section, the first person, other than a broker or dealer in securities, to have acquired the share (and no other person) shall be considered to be the first person to be a registered holder of the share.

► 127.2(11) ◄

(11) Calculation of consideration. For greater certainty,

(*a*) for the purposes of this section and Part VII, the amount of consideration for which a share is acquired and issued includes the amount of any consideration for the designation under subsection 192(4) in respect of the share; and

(*b*) the amount received by a corporation as consideration for a designation under subsection 192(4) in respect of a share issued by it shall not be included in computing its income.

SECTION 127.3:

[Editorial note: Section 127.3 generally ceased to apply in respect of shares issued after October 10, 1984, subject to transitional rules. See subsections 194(4) and (4.2).]

► 127.3(1) ◄

(1) Scientific research and experimental development tax credit.

There may be deducted from the tax otherwise payable under this Part by a taxpayer for a taxation year an amount not exceeding the total of the taxpayer's

(*a*) scientific research and experimental development tax credit for the year, and

(*b*) unused scientific research and experimental development tax credit for the taxation year immediately following the year.

► 127.3(2) ◄

(2) Definitions. In this section,

"scientific research and experimental development tax credit" — "scientific research and experimental development tax credit" of a taxpayer for a taxation year means the amount determined by the formula

A – B

where

A is the total of all amounts each of which is an amount equal to

(*a*) where the taxpayer is a corporation, 50%, or

(*b*) where the taxpayer is an individual other than a trust, 34%

of an amount designated by a corporation under subsection 194(4) in respect of

(*c*) a share acquired by the taxpayer in the year where the taxpayer is the first person, other than a broker or dealer in securities, to be a registered holder thereof,

(*d*) a bond, debenture, bill, note, mortgage or similar obligation (in this section referred to as a "debt obligation") acquired by the taxpayer in the year where the taxpayer is the first person, other than a broker or dealer in securities, to be a registered holder of that debt obligation, or

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*d*) of the description of A in the definition "scientific research and experimental development tax credit" in subsection 127.3(2) of the English version of the Act is replaced by the following:

(*d*) a bond, debenture, bill, note, mortgage, hypothecary claim or similar obligation (in this section referred to as a "debt obligation") acquired by the taxpayer in the year where the taxpayer is the first person, other than a broker or dealer in securities, to be a registered holder of that debt obligation, or

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*e*) a right acquired by the taxpayer in the year where the taxpayer is the first person, other than a broker or dealer in securities, to have acquired that right, and

B is the total of all amounts required by subsection (5) to be deducted in computing the taxpayer's scientific research and experimental development tax credit for the year;

Cases: Redemption of scientific research tax credit notes yielded capital since they were wholly artificial devices remote from trade, which were intended to procure a tax advantage. *Stanley Drug Products Ltd. v. M.N.R.*, (T.C.C.) 90 DTC 1664.

"unused scientific research and experimental development tax credit" — "unused scientific research and experimental development tax credit" of a taxpayer for a taxation year means the amount determined by the formula

A – (B + C)

where

A is the taxpayer's scientific research and experimental development tax credit for the year,

B is the taxpayer's tax otherwise payable under this Part for the year or, where Division E.1 is applicable to the taxpayer for the year, the amount, if any, by which the taxpayer's tax otherwise payable under this Part for the year exceeds the taxpayer's minimum amount for the year determined under section 127.51, as the case may be, and

C is the taxpayer's refundable Part VIII tax on hand at the end of the year.

► 127.3(3) ◄

(3) Trust. For the purposes of this section and section 53, where a taxpayer, other than a broker or dealer in securities, is a beneficiary under a trust and an amount is designated by a corporation under subsection 194(4) in respect of a share, debt obligation or right acquired by the trust in a taxation year of the trust where the trust is the first person, other than a broker or dealer in securities, to be a registered holder of the share or debt obligation or to have acquired the right, as the case may be,

(*a*) the trust may, in its return of income for that year, specify such portion of that amount as may, having regard to all the circumstances (including the terms and conditions of the trust arrangement), reasonably be considered to be attributable to the taxpayer and as was not specified by the trust in respect of any other beneficiary under that trust; and

(*b*) the portion specified pursuant to paragraph (*a*) shall be deemed to be an amount designated on the last day of that year by the corporation under subsection 194(4) in respect of a share, debt obligation or right, as the case may be, acquired by the taxpayer on that day where the taxpayer is the first person, other than a broker or dealer in securities, to be a registered holder of the share or debt obligation or to have acquired the right, as the case may be.

► 127.3(3.1) ◄

(3.1) Exclusion of certain trusts. For the purposes of subsection (3), a trust does not include a trust that is

(*a*) governed by an employee benefit plan or a revoked deferred profit sharing plan; or

(*b*) exempt from tax under section 149.

► 127.3(4) ◄

(4) Partnership. For the purposes of this section and section 53, where a taxpayer, other than a broker or dealer in securities, is a member of a partnership and an amount is designated by a corporation under subsection 194(4) in respect of a share, debt obligation or right acquired by the partnership in a taxation year of the partnership where the partnership is the first person, other than a broker or dealer in securities, to be a registered holder of the share or debt obligation or to have acquired the right, as the case may be, such portion of that amount as may reasonably be considered to be the taxpayer's share thereof shall be deemed to be an amount designated on the last day of that year by the corporation under subsection 194(4) in respect of a share, debt obligation or right, as the case may be, acquired by the taxpayer on that day where the taxpayer is the first person, other than a broker or dealer in securities, to be a registered holder of the share or debt obligation or to have acquired the right, as the case may be.

► 127.3(5) ◄

(5) Cooperative corporation. Where at any particular time in a taxation year a taxpayer that is a cooperative corporation (within the meaning assigned by subsection 136(2)) has, as required by subsection 135(3), deducted or withheld an amount from a payment made by it to any person pursuant to an allocation in proportion to patronage, the taxpayer may deduct from the amount otherwise required by subsection 135(3) to be remitted to the Receiver General, an amount not exceeding the amount, if any, by which

(*a*) the amount that would, but for this subsection, be its scientific research and experimental development tax credit for the taxation year in which it made the payment if that year had ended immediately before the particular time

exceeds

(*b*) the total of all amounts each of which is the amount deducted by virtue of this subsection from any amount otherwise required to be remitted by subsection 135(3) in respect of payments made by it before the particular time and in the taxation year,

and the amount, if any, so deducted from the amount otherwise required to be remitted by subsection 135(3) shall be

(*c*) deducted in computing the scientific research and experimental development tax credit of the taxpayer for the taxation year, and

(*d*) deemed to have been remitted by the taxpayer to the Receiver General on account of tax under this Part of the person to whom that payment was made.

► 127.3(6) ◄

(6) Deduction from cost. For the purposes of this Act, where at any time in a taxation year a taxpayer has acquired a share, debt obligation or right and is the first registered holder of the share or debt obligation or the first person to have acquired the right, as the case may be, other than a broker or dealer in securities, and an amount is, at any time, designated by a corporation under subsection 194(4), in respect of the share, debt obligation or right, the following rules apply:

(*a*) the taxpayer shall be deemed to have acquired the share, debt obligation or right at a cost to the taxpayer equal to the amount by which

(i) its cost to the taxpayer as otherwise determined

exceeds

(ii) 50% of the amount so designated in respect thereof; and

(*b*) where the amount determined under subparagraph (*a*)(ii) exceeds the amount determined under subparagraph (*a*)(i), the excess shall

(i) where the share, debt obligation or right, as the case may be, is a capital property to the taxpayer, be deemed to be a capital gain of the taxpayer for the year from the disposition of that property, and

(ii) in any other case, be included in computing the income of the taxpayer for the year,

and the cost to the taxpayer of the share, debt obligation or right, as the case may be, shall be deemed to be nil.

► 127.3(7) ◄

(7) Partnership. For the purposes of this section and Part VIII, a partnership shall be deemed to be a person and its taxation year shall be deemed to be its fiscal period.

► 127.3(8) ◄

(8) Definition of "tax otherwise payable". In this section, "tax otherwise payable" under this Part by a taxpayer means the amount that would, but for this section and section 120.1, be the tax payable under this Part by the taxpayer.

► 127.3(9) ◄

(9) Election re first holder. Where a share or debt obligation of a public corporation has been lawfully distributed to the public in accordance with a prospectus, registration statement or similar document filed with a public authority in Canada pursuant to and in accordance with the law of Canada or of any province, and, where required by law, accepted for filing by that public authority, the corporation, if it has designated an amount under subsection 194(4) in respect of the share or debt obligation, may, in the prescribed form required to be filed under that subsection, elect that, for the purposes of this section, the first person, other than a broker or dealer in securities, to have acquired the share or debt obligation, as the case may be, (and no other person) shall be considered to be the first person to be a registered holder thereof.

► 127.3(10) ◄

(10) Calculation of consideration. For greater certainty,

(*a*) for the purposes of this section and Part VIII, the amount of consideration for which a share, debt obligation or right was acquired and issued or granted includes the amount of any consideration for the designation under subsection 194(4) in respect of the share, debt obligation or right; and

(*b*) the amount received by a corporation as consideration for a designation under subsection 194(4) in respect of a share, debt obligation or right issued or

granted by it shall not be included in computing its income.

SECTION 127.4: [Labour-sponsored funds tax credit].

► 127.4(1) ◄

(1) Definitions. In this section,

"approved share" — "approved share" means a share of the capital stock of a prescribed labour-sponsored venture capital corporation, but does not include

(*a*) a share issued by a registered labour-sponsored venture capital corporation the venture capital business of which was discontinued before the time of the issue, and

(*b*) a share issued by a prescribed labour-sponsored venture capital corporation (other than a registered labour-sponsored venture capital corporation) if, at the time of the issue, every province under the laws of which the corporation is a prescribed labour-sponsored venture capital corporation has suspended or terminated its assistance in respect of the acquisition of shares of the capital stock of the corporation;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*b*) of the definition "approved share" in subsection 127.4(1) of the Act is replaced by the following:

(*b*) a share issued by a prescribed labour-sponsored venture capital corporation that is not a registered labour-sponsored venture capital corporation if, at the time of the issue, no province under the laws (described in section 6701 of the *Income Tax Regulations*) of which the corporation is registered or established provides assistance in respect of the acquisition of the share;

Applicable: To acquisitions of shares that occur after 2003.

Explanatory Note:

"approved share"

Subsection 127.4(2) of the Act allows an individual (other than a trust) a tax credit for the acquisition of an "approved share", which is defined in subsection 127.4(1) as, generally, a share issued by a prescribed LSVCC. LSVCCs prescribed for this purpose under section 6701 of the Regulations include LSVCCs registered under Part X.3 of the Act, as well as specified provincially registered LSVCCs. Paragraph (*b*) of the definition "approved share" excludes from the definition certain shares issued by a provincially-registered LSVCC that is not a federally-registered LSVCC. This exclusion applies only in the event that, at the time of the issue of the shares, no assistance is available in respect of the acquisition of such shares because of a suspension or termination of assistance to the LSVCC under the laws of every province in which the LSVCC is registered.

Paragraph (*b*) of the definition "approved share" is amended to provide that an approved share does not include a share issued by a provincially-registered LSVCC (that is not a federally-registered LSVCC) if, at the time of the issue, no province under the laws of which the corporation is an LSVCC that is a prescribed LSVCC provides assistance in respect of the acquisition of the share. This amendment is provided to have the definition "approved share" better reflect the policy that a federal income tax credit be available in respect of a share issued by a provincially-registered LSVCC (that is not a federally-registered LSVCC) only if a provincial income tax credit is also available in respect of the share.

Paragraph (*b*) of the definition will continue to apply if, at the time of the issue by such an LSVCC of a share, no assistance is available in respect of the acquisition of shares of the LSVCC because of a suspension or termination of assistance to the LSVCC under the laws of every province in which the LSVCC is registered.

Amended paragraph (*b*) of the definition will also apply where there has not been a suspension or termination of assistance with respect to the issuance of the LSVCC's shares generally, but assistance is not available with respect to the acquisition of a particular share. For example, if under the laws of a province under which an LSVCC is a prescribed LSVCC, a taxpayer who acquires a share is not entitled to any assistance in respect of the acquisition either because of having reached the age of 65 years or because of the province of residence of the taxpayer, the share will not be treated as an approved share.

This amendment applies to acquisitions of shares that occur after 2003.

History: S. 127.4(1), the definition "approved share" was amended by S.C. 2000, c. 19, s. 36(1), applicable to the 1999 and subsequent taxation years. S. 127.4(1), the definition "approved share" formerly read:

" *'approved share'* — 'approved share' means a share of the capital stock of a prescribed labour-sponsored venture capital corporation;"

S. 127.4(1), the definition "approved share", was amended by S.C. 1997, c. 25, s. 37(1), applicable to the 1996 and subsequent taxation years. That definition formerly read:

" *'approved share'* — 'approved share' means a share of the capital stock of a prescribed labour-sponsored venture capital corporation acquired or irrevocably subscribed and paid for by an individual where the individual is or will be the first person, other than a broker or dealer in securities, to be a registered holder thereof;"

S. 127.4(1), the definition of "approved share", was amended by S.C. 1994, c. 7, Sched. II, s. 105(1), applicable after 1988. That definition formerly read:

" *'approved share'* — 'approved share' means a share of the capital stock of a prescribed labour-sponsored venture capital corporation acquired by an individual where the individual is the first person, other than a broker or dealer in securities, to be a registered holder of that share;"

Related Sections: S. 127.4(1.1) Amalgamations or mergers; s. 204.8(2) When venture capital business discontinued; s. 204.85(3) Amalgamations and mergers.

Regulations: 6701.

Forms: T5006 SUM; T5006.

Tax Window Files: Labour-Sponsored Funds Tax Credit, April 15, 2003, CRA Document No. 2003-0006295; Information slips — Labour-sponsored funds tax credit, October 3, 1997, CRA Document No. 9718927; Definition of paid, September 27, 1995, CRA Document No. 9520275

"labour-sponsored funds tax credit" — [Repealed by S.C. 1997, c. 25, s. 38(2).]

History: S. 127.4(1), the definition "labour-sponsored funds tax credit", was repealed by S.C. 1997, c. 25, s. 37(2), applicable to the 1996 and subsequent taxation years. That definition formerly read:

" *'labour-sponsored funds tax credit'* — 'labour-sponsored funds tax credit' of an individual for a taxation year means the amount computed under subsection (3) in respect of the individual for that year;"

Related Sections: S. 127.4(6) Labour-sponsored funds tax credit.

"net cost" — "net cost" to an individual of an approved share means the amount, if any, by which

(*a*) the amount of consideration paid by the individual to acquire or subscribe for the share

exceeds

(*b*) the amount of any assistance (other than an amount included in computing a tax credit of the individual in respect of that share) provided or to be provided by a government, municipality or any public authority in respect of, or for the acquisition of, the share;

History: S. 127.4(1), the definition of "net cost", was amended by S.C. 1994, c. 7, Sched. II, s. 105(1), applicable after 1988. That definition formerly read:

" *'net cost'* — 'net cost' to an individual of an approved share means the amount by which

(*a*) the amount of the consideration for which the share was issued to the individual

exceeds

(*b*) the amount of any assistance (other than an amount included in computing a tax credit of the individual in respect of that share) provided or to be provided by a government, municipality or any public authority in respect of, or for the acquisition of, the share;"

"*original acquisition*" — "original acquisition" of a share means the first acquisition of the share, except that

(*a*) where the share is irrevocably subscribed and paid for before its first acquisition, subject to paragraphs (*b*) and (*c*), the original acquisition of the share is the first transaction whereby the share is irrevocably subscribed and paid for,

(*b*) a share is deemed never to have been acquired and never to have been irrevocably subscribed and paid for unless the first registered holder of the share is, subject to paragraph (*c*), the first person to either acquire or irrevocably subscribe and pay for the share, and

(*c*) for the purpose of this definition, a broker or dealer in securities acting in that capacity is deemed never to acquire or subscribe and pay for the share and never to be the registered holder of the share;

History: S. 127.4(1), the definition "original acquisition", was added by S.C. 1997, c. 25, s. 37(3), applicable after 1995.

Related Sections: S. 204.85(3) Amalgamations and mergers.

"*qualifying trust*" — "qualifying trust" for an individual in respect of a share means

(*a*) a trust governed by a registered retirement savings plan, under which the individual is the annuitant, that is not a spousal or common-law partner plan (in this definition having the meaning assigned by subsection 146(1)) in relation to another individual,

(*b*) a trust governed by a registered retirement savings plan, under which the individual or the individual's spouse or common-law partner is the annuitant, that is a spousal or common-law partner plan in relation to the individual or the individual's spouse or common-law partner, if the individual and no other person claims a deduction under subsection (2) in respect of the share, or

(*c*) a trust governed by a TFSA of which the individual is the holder;

History: S. 127.4(1), the definition "qualifying trust" was replaced by S.C. 2009, c. 2, s. 42(1), applicable to the 2001 and subsequent taxation years, except that the definition "qualifying trust" in subsection 127.4(1)

(*a*) shall, for taxation years before 2009, be read without reference to its paragraph (*c*); and

(*b*) if a taxpayer and a person have jointly elected under section 144 of the *Modernization of Benefits and Obligations Act* in respect of the 1998, 1999 or 2000 taxation year, applies to the taxpayer and the person in respect of that taxation year and subsequent taxation years.

S. 127.4(1), the definition "qualifying trust" formerly read:

" '*qualifying trust*' — 'qualifying trust' for an individual in respect of a share means

(*a*) a trust governed by a registered retirement savings plan, under which the individual is the annuitant, that is not a spousal plan (in this definition having the meaning assigned by subsection 146(1)) in relation to another individual, or

(*b*) a trust governed by a registered retirement savings plan, under which the individual or the individual's spouse or common-law partner is the annuitant, that is a spousal plan in relation to the individual or the individual's spouse or common-law partner, if the individual and no other person claims a deduction under subsection 127.4(2) in respect of the share;"

S. 127.4(1), paragraph (*b*) of the definition "qualifying trust" was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.15), applicable January 1, 2001, coming into force on July 31, 2000. S. 127.4(1), paragraph (*b*) of the definition "qualifying trust" formerly read:

"(*b*) a trust governed by a registered retirement savings plan, under which the individual or the individual's spouse is the annuitant, that is a spousal plan in relation to the individual or the individual's spouse, if the individual and no other person claims a deduction under subsection 127.4(2) in respect of the share;"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 127.4(1), the definition "qualifying trust" was amended by S.C. 1999, c. 22, s. 49(1), applicable to the 1998 and subsequent taxation years. S. 127.4(1), the definition "qualifying trust" formerly read:

" '*qualifying trust*' — 'qualifying trust' for an individual in respect of a share means a trust governed by a registered retirement savings plan where

(*a*) the individual makes contributions to the trust and those contributions (and no other funds) can reasonably be considered to have been used by the trust to acquire or subscribe for the share, and

(*b*) the annuitant under the plan is the individual or a spouse of the individual;"

S. 127.4(1), the definition "qualifying trust", was added by S.C. 1994, c. 8, s. 17(1), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 146(1), "annuitant", "registered retirement savings plan".

Tax Window Files: LSVCC Shares Held in RRIFs, October 31, 2000, CRA Document No. 2000-0043445

"*tax otherwise payable*" — "tax otherwise payable" by an individual means the amount that, but for this section, would be the individual's tax payable under this Part.

History: S. 127.4(1), the definition "tax otherwise payable" was amended by S.C. 2000, c. 19, s. 36(1), applicable to the 1998 and subsequent taxation years. S. 127.4(1), the definition "tax otherwise payable" formerly read:

" '*tax otherwise payable*' — 'tax otherwise payable' by an individual means the amount that would, but for this section and section 120.1, be the tax payable under this Part by the individual."

► 127.4(1.1) ◄

(1.1) Amalgamations or mergers. Subsections 204.8(2) and 204.85(3) apply for the purpose of this section.

Editorial Note: This subsection adopts the provisions in Part X.3 dealing with amalgamations and mergers in circumstances where the amalgamated corporation is deemed to be registered, where the venture capital business of a corporation is discontinued, and where it is deemed to be a revoked corporation.

History: S. 127.4(1.1) was added by S.C. 2000, c. 19, s. 36(2), applicable after February 16, 1999.

► 127.4(2) ◄

(2) Deduction of labour-sponsored funds tax credit. There may be deducted from the tax otherwise payable by an individual (other than a trust) for a taxation year such amount as the individual claims not exceeding the individual's labour-sponsored funds tax credit limit for the year.

History: S. 127.4(2) was amended by S.C. 1999, c. 22, s. 49(2), applicable to the 1998 and subsequent taxation years. S. 127.4(2) formerly read:

"(2) *Deduction of labour-sponsored funds tax credit.* Subject to subsections (3) and (4), there may be deducted from the tax otherwise payable by an individual (other than a trust) for a taxation year such amount as the individual claims not exceeding the individual's labour-sponsored funds tax credit limit for the year."

S. 127.4(2) was amended by S.C. 1997, c. 25, s. 37(4), applicable to the 1996 and subsequent taxation years and, for the 1992 to 1995 taxation years, subsection 127.4(2) shall be read as follows:

"(2) There may be deducted from the tax otherwise payable by an individual (other than a trust) for a taxation year the lesser of $1,000 and the individual's labour-sponsored funds tax credit (determined as if an approved share in respect of which an individual receives a payment under section 211.9 had never been either acquired nor irrevocably subscribed and paid for)."

S. 127.4(2) formerly read:

"(2) *Deduction of labour-sponsored funds tax credit.* There may be deducted from the tax otherwise payable by an individual (other than a trust) for a taxation year the lesser of $1,000 and the individual's labour-sponsored funds tax credit for the year."

S. 127.4(2) was amended by S.C. 1994, c. 7, Sched. VIII, s. 69(1), applicable to the 1992 and subsequent taxation years. S. 147.1(2) formerly read:

"(2) *Deduction of labour-sponsored funds tax credit.* There may be deducted from the tax otherwise payable by an individual (other than a trust) for a taxation year the lesser of $700 and the individual's labour-sponsored funds tax credit for the year."

Editorial Note: Section 127.4 was originally proposed in the 1985 Budget to encourage investment by individuals in provincially established labour-sponsored venture capital corporations. The initial federal tax credit provided for under section 127.4 was conditional on the province providing a similar credit for provincial income tax purposes. Today, section 127.4 allows individuals to claim a tax credit of 15% of the net cost of acquiring shares of a prescribed labour-sponsored venture capital corporation, whether or not a provincial credit is received by the individual acquiring such shares, up to a maximum tax credit of $750.

Related Sections: S. 127.4(5) Labour-sponsored funds tax credit limit; s. 204.8(2) When venture capital business discontinued; s. 204.85(3) Amalgamations and mergers.

Forms: T2 SCH 460; T2 SCH 480.

Tax Window Files: Spousal RRSP LSF Tax Credit, May 3, 2006, CRA Document No. 2006-0178491E5; Labour-Sponsored Funds Tax Credit — Shares Acquired by Spousal RRSP, March 16, 2006, CRA Document No. 2005-0154871E5; Labour Sponsored Fund Tax Credit — Contribution to Spousal RRSP, September 28, 1995, CRA Document No. 9523585

▶ 127.4(3) ◀

(3) 3-year cooling-off period. [Repealed by S.C. 1999, c. 22, s. 49(3).]

History: S. 127.4(3) was repealed by S.C. 1999, c. 22, s. 49(3), applicable to the 1998 and subsequent taxation years. S. 127.4(3) formerly read:

"(3) *3-year cooling-off period.* Subject to subsection (4), no amount may be deducted under subsection (2) from an individual's tax otherwise payable for a taxation year that ends after 1996 where

(*a*) an approved share of the capital stock of a corporation is redeemed, acquired or cancelled by the corporation

(i) after March 5, 1996 (otherwise than pursuant to a request in writing made to the corporation before March 6, 1996), and

(ii) in the year or in either of the 2 preceding taxation years; and

(*b*) the original acquisition of the share was by the individual or by a qualifying trust for the individual in respect of the share."

S. 127.4(3) was amended by S.C. 1997, c. 25, s. 37(4), applicable to the 1996 and subsequent taxation years. S. 127.4(3) formerly read:

"(3) *Computation of tax credit.* The labour-sponsored funds tax credit of an individual for a taxation year is the total of all amounts, in respect of an approved share acquired or irrevocably subscribed and paid for by the individual (or by a qualifying trust for the individual in respect of the share) in the year or within 60 days after the end of the year (to the extent that it was not deducted in computing the individual's tax payable under this Part for the preceding taxation year), each of which is

(*a*) where a tax credit is provided under the law of a province in respect of the acquisition of, or subscription for, the share by the individual or the trust, and the share is not a share of a registered labour-sponsored venture capital corporation (within the meaning assigned by section 204.8), the amount, if any, by which

(i) 40% of the net cost to the individual or the trust of the share

exceeds

(ii) the amount of the tax credit so provided; and

(*b*) in any other case, where the information return described in paragraph 204.81(6)(*c*) in respect of the share was filed with the individual's return of income under this Part for the year (other than a return of income filed under subsection 70(2), paragraph 104(23)(*d*) or 128(2)(*e*) or subsection 150(4)), 20% of the net cost to the individual or the trust of the share."

S. 127.4(3) was amended by S.C. 1994, c. 8, s. 17(2), applicable to the 1992 and subsequent taxation years. S. 127.4(3) formerly read:

"(3) The labour-sponsored funds tax credit of an individual for a taxation year is the total of all amounts, in respect of an approved share acquired or irrevocably subscribed and paid for by the individual in the year or within 60 days after the end of the year (to the extent that it was not deducted in computing the individual's tax payable under this Part for the preceding taxation year), each of which is

(*a*) where a tax credit is provided under the law of a province in respect of the acquisition of, or subscription for, the share by the individual, and the share is not a share of a registered labour-sponsored venture capital corporation (within the meaning assigned by section 204.8), the amount, if any, by which

(i) 40% of the net cost to the individual of the share

exceeds

(ii) the amount of the tax credit so provided, and

(*b*) in any other case, where the information return described in paragraph 204.81(6)(*c*) in respect of the share is filed with the individual's return of income under this Part for the year (other than a return of income filed under subsection 70(2), paragraph 104(23)(*d*) or 128(2)(*e*) or subsection 150(4)), 20% of the net cost to the individual of the share."

S. 127.4(3) was amended by S.C. 1994, c. 7, Sched. II, s. 105(2), applicable after 1988. S. 127.4(3) formerly read:

"(3) The labour-sponsored funds tax credit of an individual for a taxation year is the total of all amounts in respect of an approved share acquired by the individual in the year or within 60 days after the end of the year (to the extent it was not deducted in computing the individual's tax payable under this Part for the immediately preceding taxation year), each of which is

(*a*) where a tax credit is provided under the law of a province in respect of the acquisition of the share by the individual, the amount, if any, by which

(i) 40% of the net cost to the individual of the share

exceeds

(ii) the amount of the tax credit so provided; and

(*b*) in any other case, 20% of the net cost to the individual of the share."

Related Sections: S. 127.4(1) Definitions; s. 127.4(4) Exceptions to cooling-off period; s. 204.8, "specified individual".

▶ 127.4(4) ◀

(4) Exceptions to cooling-off period. [Repealed by S.C. 1999, c. 22, s. 49(3).]

History: S. 127.4(4) was repealed by S.C. 1999, c. 22, s. 49(3), applicable to the 1998 and subsequent taxation years. S. 127.4(4) formerly read:

"(4) *Exceptions to cooling-off period.* Subsection (3) does not apply to an individual for a taxation year as a consequence of the redemption, acquisition or cancellation of a share where

(*a*) the individual dies in the year and before the redemption, acquisition or cancellation;

(*b*) the individual's labour-sponsored funds tax credit in respect of the original acquisition of the share is nil;

(*c*) tax becomes payable under Part XII.5 because of the redemption, acquisition or cancellation;

(*d*) an amount determined under regulations made for the purpose of clause 204.81(1)(*c*)(v)(F) is directed to be remitted to the Receiver General in order to permit the redemption, acquisition or cancellation; or

(*e*) the individual becomes either disabled and permanently unfit for work or terminally ill in the year

(i) after the last original acquisition in the year of any approved share by the individual or by a qualifying trust for the individual in respect of that share, and

(ii) before the redemption, acquisition or cancellation."

S. 127.4(4) was amended by S.C. 1997, c. 25, s. 37(4), applicable to the 1996 and subsequent taxation years. S. 127.4(4) formerly read:

"(4) *Idem.* Notwithstanding subsection (3), where paragraph (3)(*a*) applies in computing an individual's labour-sponsored funds tax credit for a taxation year in respect of an approved share and the amount of the tax credit referred to in that paragraph is less than 20% of the consideration for which the share was issued, the amount determined under that paragraph for the year in respect of the share shall be deemed to be nil."

S. 127.4(4) was amended by S.C. 1994, c. 8, s. 17(2), applicable to the 1992 and subsequent taxation years. S. 127.4(4) formerly read:

"(4) Notwithstanding subsection (3), where paragraph (3)(*a*) is applicable in computing an individual's labour-sponsored fund tax credit for a taxation year in respect of an approved share acquired by the individual and the amount of the tax credit referred to in that paragraph is less than 20% of the consideration for which the share was issued, the amount determined under that paragraph for the year in respect of the share shall be deemed to be nil."

Related Sections: S. 127.4(1) Definitions.

▶ 127.4(5) ◀

(5) Labour-sponsored funds tax credit limit. For the purpose of subsection (2), an individual's labour-sponsored funds tax credit limit for a taxation year is the lesser of

(*a*) $750, and

(*b*) the amount, if any, by which

(i) the total of all amounts each of which is the individual's labour-sponsored funds tax credit in respect of an original acquisition in the year or in the first 60 days of the following taxation year of an approved share

exceeds

(ii) the portion of the total described in subparagraph (i) that was deducted under subsection (2) in computing the individual's tax payable under this Part for the preceding taxation year.

History: S. 127.4(5)(*a*) was amended by S.C. 1999, c. 22, s. 49(4), applicable to the 1998 and subsequent taxation years. S. 127.4(5)(*a*) formerly read:

"(*a*) $525, and"

S. 127.4(5) was added by S.C. 1997, c. 25, s. 37(4), applicable to the 1996 and subsequent taxation years, except that, in its application to the 1996 taxation year, subsection 127.4(5) shall be read as follows:

"(5) For the purpose of subsection (2), an individual's labour-sponsored funds tax credit limit for a taxation year is the lesser of

(*a*) the total of

(i) the lesser of $1,000 and the amount, if any, by which

(A) the total of all amounts each of which is the individual's labour-sponsored funds tax credit in respect of an original acquisition after 1995 and before March 6, 1996 of an approved share

exceeds

(B) such portion of the amount deducted under subsection (2) in computing the individual's tax payable under this Part for the 1995 taxation year as is attributable to the original acquisition after 1995 of an approved share, and

(ii) the amount, if any, by which $525 exceeds the amount determined under subparagraph (i) in respect of the individual for the year, and

(*b*) the amount, if any, by which

(i) the total of all amounts each of which is the individual's labour-sponsored funds tax credit in respect of an original acquisition in the year or in the first 60 days of the following taxation year of an approved share

exceeds

(ii) the portion of the total described in subparagraph (i) that was deducted under subsection (2) in computing the individual's tax payable under this Part for the preceding taxation year."

Tax Window Files: Spousal RRSP LSF Tax Credit, May 3, 2006, CRA Document No. 2006-0178491E5; Labour-Sponsored Funds Tax Credit — Shares Acquired by Spousal RRSP, March 16, 2006, CRA Document No. 2005-0154871E5; Labour-Sponsored Funds Tax Credit, June 21, 2000, CRA Document No. 2000-0027545

► 127.4(5.1) ◄

(5.1) Deemed original acquisition. If the Minister so directs, an original acquisition of an approved share that occurs in an individual's taxation year (other than in the first 60 days of the year) is deemed for the purpose of this section to have occurred at the beginning of the year and not at the time it actually occurred.

Editorial Note: The circumstances that will give rise to the exercise of the Minister's discretion are not set out in this provision but the explanatory notes accompanying similar provisions (such as subsection 146(22)) indicate that the Minister may use this type of power to provide relief of hardship for a community or group of individuals.

History: S. 127.4(5.1) was added by S.C. 1999, c. 22, s. 49(5), applicable to acquisitions that are made after 1997.

► 127.4(6) ◄

(6) Labour-sponsored funds tax credit. For the purpose of subsection (5), an individual's labour-sponsored funds tax credit in respect of an original acquisition of an approved share is equal to the least of

(*a*) 15% of the net cost to the individual (or to a qualifying trust for the individual in respect of the share) for the original acquisition of the share by the individual or by the trust,

(*b*) nil, where the share was issued by a registered labour-sponsored venture capital corporation unless the information return described in paragraph 204.81(6)(*c*) is filed with the individual's return of income for the taxation year for which a claim is made under subsection (2) in respect of the original acquisition of the share (other than a return of income filed under subsection 70(2), paragraph 104(23)(*d*) or 128(2)(*e*) or subsection 150(4)),

(*c*) nil, where the individual dies after December 5, 1996 and before the original acquisition of the share, and

(*d*) nil, where a payment in respect of the disposition of the share has been made under section 211.9.

History: S. 127.4(6), the portion before paragraph (*a*) was amended by S.C. 1999, c. 22, s. 49(6), applicable to the 1998 and subsequent taxation years. S. 127.4(6), the portion before paragraph (*a*) formerly read:

"(6) *Labour-sponsored funds tax credit.* For the purposes of subsections (4) and (5), an individual's labour-sponsored funds tax credit in respect of an original acquisition of an approved share is equal to the least of"

S. 127.4(6) was added by S.C. 1997, c. 25, s. 37(4), applicable to the 1996 and subsequent taxation years, except that the reference to "15%" in paragraph 127.4(6)(*a*) shall be read as "20%" for original acquisitions that occurred before March 6, 1996.

Editorial Note: The labour-sponsored funds tax credit is available only to individuals but may be claimed where the approved share is acquired by either the individual or by a "qualifying trust" for the individual which includes the individual's RRSP or spousal RRSP. No credit is allowed where the required information return is not filed with the individual's tax return for the year.

Tax Window Files: Spousal RRSP LSF Tax Credit, May 3, 2006, CRA Document No. 2006-0178491E5; Labour-Sponsored Funds Tax Credit — Shares Acquired by Spousal RRSP, March 16, 2006, CRA Document No. 2005-0154871E5; Labour-Sponsored Funds Tax Credit, April 15, 2003, CRA Document No. 2003-0006295; LSVCC Shares Held in RRIFs, October 31, 2000, CRA Document No. 2000-0043445; Labour-Sponsored Funds Tax Credit, June 21, 2000, CRA Document No. 2000-0027545; LSVCC Shares — Allocation of Credit, June 22, 1998, CRA Document No. 9811896; LSVCC and Tax Credit and RRSP, July 6, 1995, CRA Document No. 951260.

SECTION 127.41: [Qualifying environmental trust tax credit].

► 127.41(1) ◄

(1) Part XII.4 tax credit. In this section, the Part XII.4 tax credit of a taxpayer for a particular taxation year means the total of

(*a*) all amounts each of which is an amount determined by the formula

$$A \times \frac{B}{C}$$

where

A is the tax payable under Part XII.4 by a qualifying environmental trust for a taxation year (in this paragraph referred to as the "trust's year") that ends in the particular year,

B is the amount, if any, by which the total of all amounts in respect of the trust that were included (otherwise than because of being a member of a partnership) because of the application of subsection 107.3(1) in computing the taxpayer's income for the particular year exceeds the total of all amounts in respect of the trust that were deducted (otherwise than because of being a member of a partnership) because of the application of subsection 107.3(1) in computing that income, and

C is the trust's income for the trust's year, computed without reference to subsections 104(4) to (31) and sections 105 to 107, and

(*b*) in respect of each partnership of which the taxpayer was a member, the total of all amounts each of which is the amount that can reasonably be considered to be the taxpayer's share of the relevant credit in respect of the partnership and, for this purpose, the relevant credit in respect of a partnership is the amount that would, if a partnership were a person and its fiscal period were its taxation year, be the Part XII.4 tax credit of the partnership for its taxation year that ends in the particular year.

History: S. 127.41(1)(*a*), the description of A was amended by S.C. 1998, c. 19, s. 34(1), applicable to taxation years that end after February 18, 1997. S. 127.41(1)(*a*), the description of A formerly read:

"A is the tax payable under Part XII.4 by a mining reclamation trust for a taxation year (in this paragraph referred to as the 'trust's year') that ends in the particular year,"

S. 127.41(1)(*a*), the description of B was amended by S.C. 1998, c. 19, s. 34(1), applicable to taxation years that end after February 22, 1994. S. 127.41(1)(*a*), the description of B formerly read:

"B is the amount, if any, by which the total of all amounts in respect of the trust that were included (otherwise than because of being a member of a partnership) because of the application of subsection 107.3(1) in computing the taxpayer's income for the particular year exceeds the total of all amounts in respect of the trust that were deducted because of the application of subsection 107.3(1) in computing such income, and"

S. 127.41(1) was added by S.C. 1995, c. 3, s. 39(1), applicable to taxation years that end after February 22, 1994.

Related Sections: S. 248(1), "balance-due day".

Canadian Tax Foundation: Frankovic, "The Case for 'Reverse Depreciation' of Reclamation Costs ", *2004 Canadian Tax Journal*, No. 1, 1.

► 127.41(2) ◄

(2) Reduction of Part I tax. There may be deducted from a taxpayer's tax otherwise payable under this Part for a taxation year such amount as the taxpayer claims not exceeding the taxpayer's Part XII.4 tax credit for the year.

History: S. 127.41(2) was added by S.C. 1995, c. 3, s. 39(1), applicable to taxation years that end after February 22, 1994.

► 127.41(3) ◄

(3) Deemed payment of Part I tax. There is deemed to have been paid on account of the tax payable under this Part by a taxpayer (other than a taxpayer exempt from such tax) for a taxation year on the taxpayer's balance-due day for the year, such amount as the taxpayer claims not exceeding the amount, if any, by which

(*a*) the taxpayer's Part XII.4 tax credit for the year exceeds

(*b*) the amount deducted under subsection (2) in computing the taxpayer's tax payable under this Part for the year.

History: S. 127.41(3), the portion before paragraph (*a*), was amended by S.C. 1997, c. 25, s. 38(1), applicable to the 1996 and subsequent taxation years. That part formerly read:

"(3) *Deemed payment of Part I tax.* There shall be deemed to have been paid on account of tax payable under this Part by a taxpayer (other than a taxpayer exempt from such tax) for a taxation year, where the taxpayer is an individual, on the individual's balance-due day for the year and, where the taxpayer is a corporation, on the day referred to in paragraph 157(1)(*b*) on or before which the remainder of the taxes payable under this Part for the year by the taxpayer would be required to be paid if such a remainder were payable, such amount as the taxpayer claims not exceeding the amount, if any, by which"

S. 127.41(3) was added by S.C. 1995, c. 3, s. 39(1), applicable to taxation years that end after February 22, 1994.

DIVISION E.1 — Minimum Tax

SECTION 127.5: Obligation to pay minimum tax.

Notwithstanding any other provision of this Act but subject to subsection 120.4(3) and section 127.55, where the amount that, but for section 120, would be determined under Division E to be an individual's tax payable for a taxation year is less than the amount determined under paragraph (*a*) in respect of the individual for the year, the individual's tax payable under this Part for the year is the total of

(*a*) the amount, if any, by which

(i) the individual's minimum amount for the year determined under section 127.51

exceeds

(ii) the individual's special foreign tax credit determined under section 127.54 for the year, and

(*b*) the amount, if any, required by section 120 to be added to the individual's tax otherwise payable under this Part for the year.

Department of Finance Comfort Letter

[Section 119 Credit for Taxpayer Who Paid Minimum Tax]

December 7, 2004

Dear XXXX

I am responding to your letter dated October 1, 2004 regarding the effective date of proposed amendments concerning the determination of alternative minimum tax (AMT) and the ability of an individual to claim a credit under section 119 of the *Income Tax Act* (the "Act"). Section 119 allows for a tax credit to alleviate the overlap of tax resulting from a subsection 128.1(4) deemed disposition of a capital property and the Part XIII tax on dividends that reduce the taxpayer's loss on that property.

As you know, I have indicated that I am prepared to recommend an amendment to the Act so that a taxpayer who has paid AMT for the year of emigration is not barred from claiming a section 119 credit. In addition, I have indicated that I am prepared to recommend an amendment that would prevent a taxpayer from being reassessed and subjected to AMT for the year of departure from Canada due solely to the application of a section 119 credit to that year. I proposed that these amendments apply to an individual's 2002 and subsequent taxation years.

In your letter you request that the proposed amendments have effect from 1997 in order to provide relief to the individual on whose behalf you contacted us. Following further review of the policy considerations behind these proposed amendments, I believe there is justification for a retroactive application date that corresponds with the inception of the section 119 credit. Therefore, I am prepared to recommend that the proposed amendments affect dispositions after December 23, 1998 by individuals who ceased to be resident in Canada after October 1, 1996.

As I am sure you know, I cannot offer any assurance that either the Minister of Finance or Parliament will agree with the recommendation that we intend to make in this regard. Nonetheless, I hope that this statement of our position is helpful.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

Department of Finance Comfort Letter

[Section 119 — Tax Credit and Alternative Minimum Tax]

September 9, 2004

Dear XXXX

I am responding to your letter dated March 3, 2004 to Mr. Lawrence Purdy of this Division regarding the interaction of the income tax rules relating to the determination of alternative minimum tax ("AMT"), and the ability of an individual to claim a credit under section 119 of the *Income Tax Act* (the "Act").

As you know, the purpose behind section 119 is to alleviate a situation where a taxpayer would be subject to taxation both on a gain arising as a result of the section 128.1 deemed disposition of shares held by the taxpayer on emigration from Canada, and on any subsequent dividends the taxpayer received on these shares and in respect of which Part XIII tax was withheld. Although the Act does not allow the taxpayer who has received dividends to claim a capital loss on the subsequent disposition of these shares, the payment of Part XIII tax can be seen as a substitute for the Part I tax paid on the gain. Section 119 therefore allows a credit to offset the potential double taxation. The credit is limited to the lesser of two amounts: that portion of the Part XIII tax paid that the denied loss is of the dividends received; and the amount of tax liability resulting from the deemed gain on the taxpayer's departure from Canada.

In your letter you describe a situation in which your client is being reassessed for the client's year of departure due to the client claiming a section 119 credit. My understanding of your client's situation is as follows. When your client emigrated from Canada your client incurred a tax liability because of the deemed disposition of assets owned by your client, which included shares.

Subsequent to departure your client received dividends on these shares, for which Part XIII withholding tax was paid. Upon disposition of the shares, any loss that may have resulted was not available to your client due to the stop loss rules contained in subsection 40(3.7). However, your client did claim a section 119 credit and requested that the credit be applied against the tax liability arising on the gain on the shares that was triggered in the year of emigration.

You advise that the Canada Revenue Agency (the "CRA") has since notified your client that the client's emigration year tax return is now being reassessed to apply AMT. This is because the section 119 credit as applied to that year has reduced your client's tax payable for the year to a level at which AMT applies. In your view, this negates the purpose of the section 119 credit, as your client is faced with double taxation, since part of the AMT represents tax on the gain from the deemed disposition on departure. You request that we recommend an amendment to the Act, so as to allow your client the ability to claim a full section 119 credit without this claim causing the AMT rules to apply.

Again as I am sure you know, the purpose to the AMT rules is to ensure that individual taxpayers who have significant income pay at least a minimum amount of tax in any particular year. These rules generally speaking recalculate a taxpayer's tax payable by redetermining the taxpayer's income for the year. Essentially the taxpayer adds back to their income what are generally known as "preferences" or deductions that the taxpayer is entitled to. If the amount of AMT determined is greater than the amount of regular Part I tax payable then the taxpayer is liable for the AMT amount.

The interaction between AMT, regular Part I tax and section 119 credits is complex. And it seems to me that there are two potential situations when a difficulty could result. The first

situation is one in which the taxpayer was assessed AMT for the year of departure, and subsequently attempts to claim a section 119 credit for that year. It is my understanding that the CRA has advised you that the current rules would not allow the taxpayer in this situation to claim such a credit. Although the purpose of AMT is to ensure an individual pays a minimum amount of tax, I agree with you that, in policy terms, a taxpayer should not be restricted from claiming a section 119 credit merely because the taxpayer was subject to AMT. To do so could result in the potential for double taxation that section 119 is designed to avoid.

The second situation in which a difficulty could arise is the situation your client appears to be facing. In this second instance, the taxpayer was assessed regular Part I tax for the year of departure. In claiming a section 119 credit for that year, the taxpayer is then reassessed because the section 119 credit reduces the regular Part I tax payable to an amount below the tax payable under the AMT rules. The taxpayer is then assessed the higher AMT tax payable for that year. In this situation too, I see no reason in policy terms why a taxpayer should be made subject to AMT simply because the taxpayer claimed a section 119 credit.

This being the case, I am prepared to recommend an amendment to the *Income Tax Act* so that a taxpayer that has paid AMT for the taxpayer year of emigration is not barred from claiming a section 119 credit. In addition, I am willing to recommend an amendment that would prevent a taxpayer from being reassessed and subjected to AMT for the year of departure from Canada due solely to the application of a section 119 credit to that year.

I note in your letter that you request this amendment be retroactive to the effective date for the application of section 119, which was to dispositions that occurred after December 23, 1998 for individuals that departed Canada after October 1, 1996. We do not normally recommend that changes such as this be made on such a markedly retroactive basis, since both taxpayers and the Government need to be able to rely at any particular time on the law as it exists at that time. Exceptionally, however, we do recommend linking a relieving change to the transaction or circumstance that makes the Government aware of the need for the change. In this case, it is our understanding that this fact situation applies to your client's 2002 taxation year and therefore we are willing to recommend that this change apply to an individual's 2002 and subsequent taxation years.

I cannot offer any assurance that either the Minister of Finance or Parliament will agree with the recommendation that we intend to make in this regard. Nonetheless, I hope that this statement of our position is helpful. Thank you for bringing this issue to our attention.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 127.5 was amended by S.C. 2000, c. 19, s. 37(1), applicable to the 1998 and subsequent taxation years except that, in its application to the 1998 and 1999 taxation years, section 127.5 of the Act shall be read without reference to the expression "subsection 120.4(3) and". S. 127.5 formerly read:

"S. 127.5. *Obligation to pay minimum tax.* Notwithstanding any other provision of this Act but subject to section 127.55, where the amount that, but for sections 120 and 120.1, would be determined under Division E to be the tax payable by an individual for a taxation year is less than the amount determined under subparagraph (*a*)(i) in respect of the individual, the tax payable under this Part for the year by the individual is the amount, if any, by which

(*a*) the total of

(i) the amount, if any, by which the minimum amount for the year of the individual determined under section 127.51 exceeds the individual's special foreign tax credit determined under section 127.54 for the year, and

(ii) the total of all amounts required under sections 120 and 120.1 to be added to the tax otherwise payable under this Part by the individual for the year

exceeds

(*b*) the amount, if any, that may be deducted under subsection 120.1(1) from the tax otherwise payable under this Part by the individual for the year."

S. 127.5, that portion preceding paragraph (*a*), was amended by S.C. 1998, c. 19, s. 149(1), applicable to the 1992 and subsequent taxation years. That portion formerly read:

"S. 127.5. Notwithstanding any other provision of this Act, but subject to section 127.55, where the amount that, but for sections 120 and 120.1, would be determined under Division E to be the tax payable by an individual for a taxation year is less than the amount determined under subparagraph (*a*)(i) in respect of the individual, the tax payable under this Part for the year by the individual (other than a related segregated fund trust within the meaning assigned by paragraph 138.1(1)(*a*) or a mutual fund trust) is the amount, if any, by which"

Related Sections: S. 120.2(1) Minimum tax carry-over; s. 127.55 Application of s. 127.5.

Interpretation Bulletins: *Secondary* — IT-270R3 Foreign tax credit.

SECTION 127.51: Minimum amount determined.

An individual's minimum amount for a taxation year is the amount determined by the formula

$$A (B - C) - D$$

where

A is the appropriate percentage for the year;

B is the individual's adjusted taxable income for the year determined under section 127.52;

C is the individual's basic exemption for the year determined under section 127.53; and

D is the individual's basic minimum tax credit for the year determined under section 127.531.

Forms: T1219; T3 SCH 12; T691.

Sec. 50, Chap. 22, 1999

(1) Where an individual's tax payable under Part I of the Act for a particular taxation year that began after 1993 and before 1998 is greater than the tax that would have been so payable if the Act were read without reference to paragraph 127.52(1)(*a*) and the individual was resident in Canada throughout, and was not a bankrupt at any time in, the period that began immediately after the end of the particular year and that ended at the end of 1997, the individual's minimum amount for the particular year under section 127.51 of the Act is deemed to be equal to the amount, if any, by which

(*a*) the amount that would be the individual's minimum amount for the particular year determined without reference to this subsection

exceeds

(*b*) the part of the individual's additional tax for the particular year determined under subsection 120.2(3) of the Act that can reasonably be considered to be attributable to the application of paragraph 127.52(1)(*a*) of the Act and not deductible in computing the individual's tax payable under Part I of the Act for any of the taxation years that began after the end of the particular year and before 1998.

SECTION 127.52:

► 127.52(1) ◄

(1) Adjusted taxable income determined. Subject to subsection (2), an individual's adjusted taxable income for a taxation year is the amount that would be the individual's taxable income for the year or the individual's taxable income earned in Canada for the year, as the case may be, if it were computed on the assumption that

(*a*) [Repealed by S.C. 1999, c. 22, s. 50(2).]

(*b*) the total of all amounts each of which is an amount deductible under paragraph 20(1)(*a*) or any of paragraphs 20(1)(*c*) to (*f*) in computing the individual's income for the year in respect of a rental or leasing property (other than an amount included in

the individual's share of a loss referred to in paragraph (*c*.1)) were the lesser of the total of all amounts otherwise so deductible and the amount, if any, by which the total of

(i) the total of all amounts each of which is the individual's income for the year from the renting or leasing of a rental or leasing property owned by the individual or by a partnership, computed without reference to paragraphs 20(1)(*a*) and (*c*) to (*f*), and

(ii) the amount, if any, by which

(A) the total of all amounts each of which is the individual's taxable capital gain for the year from the disposition of a rental or leasing property owned by the individual or by a partnership

exceeds

(B) the total of all amounts each of which is the individual's allowable capital loss for the year from the disposition of a rental or leasing property owned by the individual or by a partnership

exceeds the total of all amounts each of which is the individual's loss for the year from the renting or leasing of a rental or leasing property owned by the individual or by a partnership (other than an amount included in the individual's share of a loss referred to in paragraph (*c*.1)), computed without reference to paragraphs 20(1)(*a*) and (*c*) to (*f*);

(*c*) the total of all amounts each of which is an amount deductible under paragraph 20(1)(*a*) or any of paragraphs 20(1)(*c*) to (*f*) in computing the individual's income for the year in respect of a film property referred to in paragraph (*w*) of Class 10 of Schedule II to the *Income Tax Regulations* (other than an amount included in the individual's share of a loss referred to in paragraph (*c*.1)) were the lesser of the total of all amounts otherwise so deductible by the individual for the year and the amount, if any, by which the total of

(i) the total of all amounts each of which is the individual's income for the year from the renting or leasing of a film property owned by the individual or by a partnership, computed without reference to paragraphs 20(1)(*a*) and (*c*) to (*f*), and

(ii) the amount, if any, by which

(A) the total of all amounts each of which is the individual's taxable capital gain for the year from the disposition of such a film property owned by the individual or by a partnership

exceeds

(B) the total of all amounts each of which is the individual's allowable capital loss for the year from the disposition of such a film property owned by the individual or by a partnership

exceeds the total of all amounts each of which is the individual's loss for the year from such a film property owned by the individual or by a partnership (other than amounts included in the individual's share of a loss referred to in paragraph (*c*.1)), computed without reference to paragraphs 20(1)(*a*) and (*c*) to (*f*);

(*c*.1) where, during a partnership's fiscal period that ends in the year (other than a fiscal period that ends because of the application of subsection 99(1)), the individual is a limited partner of the partnership or a member of the partnership who was a specified member of the partnership at all times since becoming a member of the partnership, or the individual's interest in the partnership is an interest for which an identification number is required to be, or has been, obtained under section 237.1,

(i) the individual's share of allowable capital losses of the partnership for the fiscal period were the lesser of

(A) the total of all amounts each of which is the individual's

(I) share of a taxable capital gain for the fiscal period from the disposition of property (other than property acquired by the partnership in a transaction to which subsection 97(2) applied), or

(II) taxable capital gain for the year from the disposition of the individual's interest in the partnership if the individual, or a person who does not deal at arm's length with the individual, does not have an interest in the partnership (otherwise than because of the application of paragraph 98(1)(*a*) or 98.1(1)(*a*)) throughout the following taxation year, and

(B) the individual's share of allowable capital losses of the partnership for the fiscal period,

(ii) the individual's share of each loss from a business of the partnership for the fiscal period were the lesser of

(A) the individual's share of the loss, and

(B) the amount, if any, by which

(I) the total of all amounts each of which is the individual's

1. share of a taxable capital gain for the fiscal period from the disposition of property used by the partnership in the business (other than property acquired by the partnership in a transaction to which subsection 97(2) applied), or

2. taxable capital gain for the year from the disposition of the individual's interest in the partnership if the individual, or a person who does not deal at arm's length with the individual, does not have an interest in the partnership (otherwise than because of the application of paragraph 98(1)(*a*) or 98.1(1)(*a*)) throughout the following taxation year

exceeds

(II) the total of all amounts each of which is the individual's share of an allowable capital loss for the fiscal period, and

(iii) the individual's share of losses from property of the partnership for the fiscal period were the lesser of

(A) the total of

(I) the individual's share of incomes for the fiscal period from properties of the partnership, and

(II) the amount, if any, by which the total of all amounts each of which is the individual's

1. share of a taxable capital gain for the fiscal period from the disposition of property held by the partnership for the purpose of earning income from property (other than property acquired by the partnership in a transaction to which subsection 97(2) applied), or

2. taxable capital gain for the year from the disposition of the individual's interest in the partnership if the individual, or a person who does not deal at arm's length with the individual, does not have an interest in the partnership (otherwise than because of the application of paragraph 98(1)(*a*) or 98.1(1)(*a*)) throughout the following taxation year,

exceeds the total of all amounts each of which is the individual's share of an allowable capital loss for the fiscal period, and

(B) the individual's share of losses from property of the partnership for the fiscal period;

(*c*.2) where, during a fiscal period of a partnership that ends in the year (other than a fiscal period that ends because of the application of subsection 99(1)),

(i) the individual is a limited partner of the partnership, or is a member of the partnership who was a specified member of the partnership at all times since becoming a member of the partnership, or

(ii) the partnership owns a rental or leasing property or a film property and the individual is a member of the partnership,

the total of all amounts each of which is an amount deductible under any of paragraphs 20(1)(*c*) to (*f*) in computing the individual's income for the year in respect of the individual's acquisition of the partnership interest were the lesser of

(iii) the total of all amounts otherwise so deductible, and

(iv) the total of all amounts each of which is the individual's share of any income of the partnership for the fiscal period, determined in accordance with subsection 96(1);

(*c*.3) the total of all amounts each of which is an amount deductible in computing the individual's income for the year in respect of a property for which an identification number is required to be, or has been, obtained under section 237.1 (other than an amount to which any of paragraphs (*b*) to (*c*.2) applies) were nil;

(*d*) except in respect of dispositions of property occurring before 1986 or to which section 79 applies,

(i) the references to the fraction applicable to the individual for the year in each of paragraphs 38(*a*), (*b*) and (*c*) and section 41 were read as a reference to "4/3", other than in the case of a capital gain from a disposition that is the making of a gift of property to a qualified donee, and

(ii) each amount (other than an amount to which subsection 104(21.4) applies) that is designated by a trust for a particular year of the trust in respect of the individual and deemed by subsection 104(21) to be a taxable capital gain for the year of the individual were equal to the amount obtained by the formula

$$4/5(A \times 1/B)$$

where

A is the amount so deemed to be a taxable capital gain for the year of the individual, and

B is the fraction in paragraph 38(*a*) applicable to the trust for the particular year of the trust for which the designation is made;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 127.52(1)(*d*) of the Act is amended by striking out the word "and" at the end of subparagraph (i), by adding the word "and" at the end of subparagraph (ii) and by adding the following after subparagraph (ii):

(iii) this Act were read without reference to subsection 104(21.6);

Applicable: To the 2000 and subsequent taxation years.

Explanatory Note: Paragraph 127.52(1)(*d*) of the Act provides that in computing an individual's adjusted taxable income for minimum tax purposes, the total amount of capital gains and losses is to be taken into account. In some cases, because of subsection 104(21.6) of the Act (which in some cases deems a taxpayer to have realised a larger capital gain than was actually realised) more than the total amount of capital gains and losses would be taken into account. Excess capital gains are deemed by subsection 104(21.6) to have been realized in order that the inclusion rate for capital gains realized on property disposed of by a trust prior to February 28, 2000 is 3/4 and property disposed of by a trust after February 27, 2000 and before October 18, 2000 is 2/3. Paragraph 127.52(1)(*d*) is therefore amended to ensure that only the actual amount of the gain is included in computing the alternative minimum tax.

This change applies to the 2000 and subsequent taxation years.

(*e*) the total of all amounts deductible under section 65, 66, 66.1, 66.2, 66.21 or 66.4 or under subsection 29(10) or (12) of the *Income Tax Application Rules* in computing the individual's income for the year were the lesser of the amounts otherwise so deductible by the individual for the year and the total of

(i) the individual's income for the year from royalties in respect of, and such part of the individual's income, other than royalties, for the year as may reasonably be considered as attributable to, the production of petroleum, natural gas and minerals, determined before deducting those amounts, and

(ii) all amounts included in computing the individual's income for the year under section 59;

(*e*.1) the total of all amounts each of which is an amount deductible under any of paragraphs 20(1)(*c*)

to (*f*) in computing the individual's income for the year in respect of a property that is a flow-through share (if the individual is the person to whom the share was issued under an agreement referred to in the definition "flow-through share" in subsection 66(15)), a Canadian resource property or a foreign resource property were the lesser of the total of the amounts otherwise so determined for the year and the amount, if any, by which

(i) the total of all amounts each of which is an amount described in subparagraph (*e*)(i) or (ii), determined without reference to paragraphs 20(1)(*c*) to (*f*),

exceeds

(ii) the total of all amounts each of which is an amount deductible under section 65, 66, 66.1, 66.2, 66.21 or 66.4 or under subsection 29(10) or (12) of the *Income Tax Application Rules* in computing the individual's income for the year;

(*f*) subsection 82(1) were read without reference to paragraph 82(1)(*b*);

(*g*) the total of all amounts deductible under section 104 in computing the income of a trust for the year were equal to the total of

(i) the total of all amounts otherwise deductible under that section, and

(ii) the total of all amounts each of which is 3/5 of

(A) an amount designated by the trust under subsection 104(21) for the year, or

(B) that portion of a net taxable capital gain of the trust that may reasonably be considered to

(I) be part of an amount included, by virtue of subsection 104(13) or section 105, in computing the income for the year of a non-resident beneficiary of the trust, or

(II) have been paid in the year by a trust governed by an employee benefit plan to a beneficiary thereunder;

(*h*) the only amounts deductible under sections 110 to 110.7 in computing the individual's taxable income for the year or taxable income earned in Canada for the year, as the case may be, were

(i) the amounts deducted under any of subsections 110(2), 110.6(2), (2.1), (2.2), (3) and (12) and 110.7(1),

(ii) the amount deducted under paragraph 110(1)(*d*), not exceeding the total of

(A) the amount deducted under paragraph 110(1)(*d*.01), and

(B) 2/5 of the amount, if any, by which

(I) the amount deducted under paragraph 110(1)(*d*)

exceeds

(II) the amount determined under clause (A),

(iii) the amount deducted under paragraph 110(1)(*d*.01),

(iv) 2/5 of the amounts deducted under any of paragraphs 110(1)(*d*.1) to (*d*.3),

(v) the amount that would be deductible under paragraph 110(1)(*f*) if paragraph (*d*) were applicable in computing the individual's income for the year, and

(vi) the amount deducted under paragraph 110(1)(*g*);

(*h*.1) the formula in paragraph 110.6(21)(*a*) were read as

A – B

(*i*) in computing the individual's taxable income for the year or the individual's taxable income earned in Canada for the year, as the case may be, the only amounts deductible under

(i) paragraphs 111(1)(*a*), (*c*), (*d*) and (*e*) were the lesser of

(A) the amount deducted under those paragraphs for the year, and

(B) the total of all amounts that would be deductible under those paragraphs for the year if

(I) paragraphs (*b*), (*c*) and (*e*) of this subsection, as they read in respect of taxation years that began after 1985 and before 1995, applied in computing the individual's non-capital loss, restricted farm loss, farm loss and limited partnership loss for any of those years, and

(II) paragraphs (*b*) to (*c*.3), (*e*) and (*e*.1) of this subsection applied in computing the individual's non-capital loss, restricted farm loss, farm loss and limited partnership loss for any taxation year that begins after 1994, and

(ii) paragraph 111(1)(*b*) were the lesser of

(A) the total of all amounts each of which is an amount that can reasonably be considered to be the amount that the individual would have deducted under paragraph 111(1)(*b*) had paragraph (*d*) of this subsection been applicable in computing the amount deductible under paragraph 111(1)(*b*), and

(B) the total of all amounts that would be deductible under that paragraph for the year if

(I) paragraph (*d*) of this subsection applied in computing the individual's net capital loss for any taxation year that began before 1995, and

(II) paragraphs (*c*.1) and (*d*) of this subsection applied in computing the individual's net capital loss for any taxation year that begins after 1994; and

(*j*) the *Income Tax Application Rules* were read without reference to section 40 of that Act.

History: S. 127.52(1)(*f*) was replaced by S.C. 2007, c. 2, s. 50(1), applicable to dividends paid after 2005.

S. 127.52(1)(*f*) formerly read:

"(*f*) subsection 82(1) were read without reference to that portion following paragraph 82(1)(*a*);"

S. 127.52(1)(*h*)(i) was replaced by S.C. 2007, c. 2, s. 34.1(1), applicable to taxation years that end on or after May 2, 2006.

S. 127.52(1)(*h*)(i) formerly read:

"(i) the amounts deducted under any of subsections 110(2), 110.6(2), (2.1), (3) and (12) and 110.7(1),"

S. 127.52(1)(*h*)(ii)(A) was replaced by S.C. 2006, c. 4, s. 75.1(1), applicable to the 2006 and subsequent taxation years except that, for the 2006 taxation year, clause 127.52(1)(*h*)(ii)(A) shall be read as follows:

"(A) the total of

(I) twice the amount deducted under paragraph 110(1)(*d*.01) in respect of gifts made before May 2, 2006, and

(II) the amount deducted under paragraph 110(1)(*d.01*) in respect of gifts made after May 1, 2006, and"

S. 127.52(1)(*h*)(ii)(A) formerly read:

"(A) twice the amount deducted under paragraph 110(1)(*d.01*), and"

S. 127.52(1)(*h*)(vi) was added by S.C. 2002, c. 9, s. 40(1), applicable to the 1997 and subsequent taxation years and, notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax, interest or penalty for any taxation year shall be made that is necessary to give effect to subparagraph 127.52(1)(*h*)(vi).

S. 127.52(1)(*d*) was amended by S.C. 2001, c. 17, s. 119(1), applicable to the 2000 and subsequent taxation years. S. 127.52(1)(*d*) formerly read:

"(*d*) except in respect of dispositions of property occurring before 1986 or to which section 79 applies,

(i) sections 38 and 41 were read without the references therein to '3/4 of', other than in the case of a capital gain from a disposition that is the making of a gift of property to a qualified donee (as defined in subsection 149.1(1)), and

(ii) each amount deemed by subsection 104(21) to be a taxable capital gain for the year of the individual were equal to 4/3 of that amount;"

S. 127.52(1)(*e*), the portion before subparagraph (i) was amended by S.C. 2001, c. 17, s. 119(2), applicable to taxation years that begin after 2000. S. 127.52(1)(*e*), the portion before subparagraph (i) formerly read:

"(*e*) the total of all amounts deductible under section 65, 66, 66.1, 66.2 or 66.4 or under subsection 29(10) or (12) of the *Income Tax Application Rules* in computing the individual's income for the year were the lesser of the amounts otherwise so deductible by the individual for the year and the total of"

S. 127.52(1)(*e.1*)(ii) was amended by S.C. 2001, c. 17, s. 119(3), applicable to taxation years that begin after 2000. S. 127.52(1)(*e.1*)(ii) formerly read:

"(ii) the total of all amounts each of which is an amount deductible under section 65, 66, 66.1, 66.2 or 66.4 or under subsection 29(10) or (12) of the *Income Tax Application Rules* in computing the individual's income for the year;"

S. 127.52(1)(*g*)(ii), the portion before clause (A) was amended by S.C. 2001, c. 17, s. 119(4), applicable to the 2000 and subsequent taxation years. S. 127.52(1)(*g*)(ii), the portion before clause (A) formerly read:

"(ii) the total of all amounts each of which is 1/3 of"

S. 127.52(1)(*h*) was amended by S.C. 2001, c. 17, s. 119(5), applicable to the 2000 and subsequent taxation years except that, for the 2000 taxation year, clause 127.52(1)(*h*)(ii)(A) of the Act, shall be read as follows:

"(A) the total of

(I) twice the amount deducted under paragraph 110(1)(*d.01*) in respect of benefits that the individual is deemed by paragraph 7(1)(*a*) to have received in the year as a result of transactions, events or circumstances that occur after October 17, 2000, and

(II) the amount deducted under paragraph 110(1)(*d.01*) in respect of benefits that the individual is deemed by paragraph 7(1)(*a*) to have received in the year as a result of transactions, events or circumstances that occur before October 18, 2000, and"

S. 127.52(1)(*h*) formerly read:

"(*h*) the only amounts deductible under sections 110 to 110.7 in computing the individual's taxable income for the year or taxable income earned in Canada for the year, as the case may be, were the amounts deducted under any of subsections 110(2), 110.6(2), (2.1), (3) and (12) and 110.7(1) and the amount that would be deductible under paragraph 110(1)(*f*) if paragraph (*d*) were applicable in computing the individual's income for the year;"

S. 127.52(1)(*a*) was repealed by S.C. 1999, c. 22, s. 50(2), applicable to the 1998 and subsequent taxation years. S. 127.52(1)(*a*) formerly read:

"(*a*) the total of all amounts deductible under any of paragraphs 8(1)(*m*) and 60(*i*) to (*j.2*) in computing the individual's income for the year were the lesser of

(i) the total of the amounts otherwise so deductible, and

(ii) the total of

(A) the amount otherwise so deductible under paragraph 60(*i*) by reason of subsection 146(6.1), and

(B) all amounts each of which was included in computing the individual's income for the year and is a single payment out of or under a deferred profit sharing plan, a superannuation or pension fund or plan or a foreign retirement arrangement

(I) as a consequence of the death, withdrawal from the fund, plan or arrangement or termination of employment of a person,

(II) on the winding-up of the fund, plan or arrangement in full satisfaction of all rights of the payee in or under the fund, plan or arrangement, or

(III) to which the individual is entitled because of an amendment to the fund, plan or arrangement;"

S. 127.52(1)(*i*)(ii)(B)was amended by S.C. 1998, c. 19, s. 150(5), applicable to all taxation years except that, in determining an individual's adjusted taxable income for taxation years that began before 1995, subclause 127.52(1)(*i*)(ii)(B)(I) of the Act shall be read as follows:

"(I) paragraph (*d*) of this subsection applied in computing the individual's net capital loss for any taxation year that began after 1985 and before 1995, and"

Clause (B) formerly read:

"(B) the total of all amounts that would be deductible under paragraph 111(1)(*b*) if paragraph (*d*) of this subsection were applicable in computing the total referred to in the definition 'net capital loss' in subsection 111(8) for any taxation year commencing after 1985; and"

S. 127.52(1)(*i*)(i)(B) was amended by S.C. 1998, c. 19, s. 150(4), applicable to all taxation years. Clause (B) formerly read:

"(B) the amounts that would be deductible under those paragraphs for the year if paragraphs (*b*), (*c*) and (*e*) of this subsection were applicable in computing the individual's non-capital loss, restricted farm loss, farm loss and the limited partnership loss for any taxation year beginning after 1985, and"

S. 127.52(1)(*h.1*) was added by S.C. 1998, c. 19, s. 150(3), applicable to the 1994 and 1995 taxation years.

S. 127.52(1)(*e.1*) was added by S.C. 1998, c. 19, s. 150(2), applicable to taxation years of an individual that begin after 1994.

S. 127.52(1)(*b*) and (*c*) were amended, and paragraphs (*c.1*) to (*c.3*) were added, by S.C. 1998, c. 19, s. 150(1), applicable to taxation years of an individual that begin after 1994. Paragraphs (*b*) and (*c*) formerly read:

"(*b*) the total of all amounts deductible by the individual under paragraph 20(1)(*a*) for the year in respect of residential properties were the lesser of the total of all amounts otherwise so deductible by the individual for the year and the amount, if any, by which

(i) the total of the individual's incomes for the year from the renting or leasing of residential properties owned by the individual or by a partnership, computed without reference to paragraph 20(1)(*a*),

exceeds

(ii) the total of the individual's losses for the year from the renting or leasing of residential properties owned by the individual or by a partnership, computed without reference to paragraph 20(1)(*a*);

(*c*) the total of all amounts deductible by the individual under paragraph 20(1)(*a*) for the year in respect of film properties were the lesser of the total of all amounts otherwise so deductible by the individual for the year and the amount, if any, by which"

S. 127.52(1)(*d*)(i) was amended by S.C. 1998, c. 19, s. 35(1), applicable to taxation years that begin after 1996. S. 127.52(1)(*d*)(i) formerly read:

"(i) sections 38 and 41 were read without the references therein to '3/4 of', and"

S. 127.52(1)(*d*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 70(1), applicable to the 1991 and subsequent taxation years. S. 127.52(1)(*d*) formerly read:

"(*d*) except in respect of dispositions of property occurring before 1986 or to which section 79 applies, sections 38 and 41 were read without the references to the fraction set out in those two sections;"

S. 127.52(1)(*a*)(ii)(B) was amended by S.C. 1994, c. 7, Sched. II, s. 106(1), applicable to the 1990 and subsequent taxation years. S. 127.52(1)(*a*)(ii)(B) formerly read:

"(B) the total of all amounts each of which was included in computing the individual's income for the year and which is a single payment out of or under a deferred profit sharing plan or a superannuation or pension fund or plan

(I) as a consequence of the death, withdrawal from the fund or plan or termination of employment of a person,

(II) on the winding-up of the fund or plan in full satisfaction of all rights of the payee in or under the fund or plan, or

(III) to which the individual is entitled by virtue of an amendment to the fund or plan;"

S. 127.52(1)(*h*) was amended by S.C. 1994, c. 7, Sched. II, s. 106(2), applicable to the 1986 and subsequent taxation years, except that, in its application to the 1986 to 1988 taxation years, paragraph 127.52(1)(*h*) of the Act, as enacted by subsection (2), shall be read as follows:

"(*h*) the only amounts deductible under sections 110 to 110.7 in computing the individual's taxable income for the year or the individual's taxable income earned in Canada for the year, as the case may be, were the amounts deducted under any of paragraph 110(1)(*i*) and subsections 110(2), 110.6(2), (2.1), (3) and (12) and 110.7(1) of this Act and subsection 110.4(1) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it applied to taxation years ending before 1988 and the amount that would be deductible under paragraph 110(1)(*f*) if paragraph (*d*) were applicable in computing the individual's income for the year;"

S. 127.52(1)(*h*) formerly read:

"(*h*) the only amounts deductible under sections 110 to 110.7 in computing the individual's taxable income for the year or the individual's taxable income earned in Canada for the year, as the case may be, were the amounts deducted under any of paragraphs 110(1)(*f*) and (*i*) and subsections 110(2), 110.6(2), (2.1), (3) and (12) and 110.7(1) of this Act and subsection 110.4(1) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, computed without reference to this section;"

S. 127.52(1)(*i*)(i) was amended by S.C. 1994, c. 7, Sched. II, s. 106(3), applicable to taxation years beginning after 1985. S. 127.52(1)(*i*)(i) formerly read:

"(i) paragraphs 111(1)(*a*), (*c*) and (*d*) were the lesser of

(A) the amount deducted under each of those paragraphs, and

(B) the amount that would be deductible under each of those paragraphs if paragraphs (*b*), (*c*) and (*e*) of this subsection were applicable in determining the amount for E in the definition 'non-capital loss' in subsection 111(8) for any taxation year commencing after 1985, and"

Cases: Since the taxpayer never retained any power to recover the interests in two buildings he had transferred to his creditors, the untaxed portion of the capital gains realized from such a "disposition" was added to his adjusted taxable income for AMT purposes. *Hallbauer v. The Queen,* 98 DTC 6275 (F.C.A.), affirming 97 DTC 767 (T.C.C.).

► 127.52(2) ◄

(2) Partnerships. For the purposes of subsection (1) and this subsection, any amount deductible under a provision of this Act in computing the income or loss of a partnership for a fiscal period is, to the extent of a member's share of the partnership's income or loss, deemed to be deductible by the member under that provision in computing the member's income for the taxation year in which the fiscal period ends.

History: S. 127.52(2) was amended by S.C. 1998, c. 19, s. 150(6), applicable to taxation years of an individual that begin after 1994. S. 127.52(2) formerly read:

"(2) For the purposes of paragraphs (1)(*b*) and (*c*), where an individual was a member of a partnership at the end of its fiscal period, any amount deducted by that partnership as a deduction under paragraph 20(1)(*a*) in respect of a residential property or a film property in computing its income shall, to the extent of the individual's share thereof, be deemed to have been deducted by the individual under that paragraph in computing the individual's income in respect of the property for the taxation year in which the fiscal period ended."

► 127.52(2.1) ◄

(2.1) Specified member of a partnership. Where it can reasonably be considered that one of the main reasons that a member of a partnership was not a specified member of the partnership at all times since becoming a member of the partnership is to avoid the application of this section to the member's interest in the partnership, the member is deemed for the purpose of this section to have been a specified member of the partnership at all times since becoming a member of the partnership.

History: S. 127.52(2.1) was added by S.C. 1998, c. 19, s. 150(7), applicable after April 26, 1995.

Related Sections: S. 40(3.131) Specified member of a partnership.

► 127.52(3) ◄

(3) Definitions. For the purposes of this section,

"film property" — "film property" means a property described in paragraph (*n*) of Class 12, or paragraph (*w*) of Class 10, of Schedule II to the *Income Tax Regulations*;

"limited partner" — "limited partner" has the meaning that would be assigned by subsection 96(2.4) if that subsection were read without reference to "if the member's partnership interest is not an exempt interest (within the meaning assigned by subsection (2.5)) at that time and";

History: S. 127.52(3), the definition of "limited partner", was added by S.C. 1998, c. 19, s. 150(9), applicable to taxation years of an individual that begin after 1994.

"rental or leasing property" — "rental or leasing property" means a property that is a rental property or a leasing property for the purpose of section 1100 of the *Income Tax Regulations*.

History: S. 127.52(3), the definition of "rental or leasing property", was added by S.C. 1998, c. 19, s. 150(9), applicable to taxation years of an individual that begin after 1994.

"residential property" — [Repealed by S.C. 1998, c. 19, s. 150(8).]

History: S. 127.52(3), the definition of "residential property" was repealed by S.C. 1998, c. 19, s. 150(8), applicable to taxation years of an individual that begin after 1994. That definition formerly read:

" *'residential property'* — 'residential property' means a property described in Class 31 or 32 of Schedule II to the *Income Tax Regulations* and furniture, fixtures and equipment, if any, located in, and ancillary to, that property."

SECTION 127.53:

► 127.53(1) ◄

(1) Basic exemption. An individual's basic exemption for a taxation year is

(*a*) $40,000, in the case of an individual other than a trust;

(*b*) $40,000, in the case of a testamentary trust or an *inter vivos* trust described in subsection 122(2); and

(*c*) in any other case, nil.

Interpretation Bulletins: *Primary* — IT-406R2 Tax payable by an inter vivos trust.

► 127.53(2) ◄

(2) Multiple trusts. Notwithstanding paragraph (1)(*b*), where more than one trust described in that paragraph arose as a consequence of contributions to the trusts by an individual and those trusts have filed with the Minister in prescribed form an agreement whereby, for the purpose of this Division, they allocate an amount to one or more of them for a taxation year and the total of the amounts so allocated does not exceed $40,000, the basic exemption for the year of each of the trusts is the amount so allocated to it.

Forms: T3 SCH 6.

► 127.53(3) ◄

(3) Failure to file agreement. Notwithstanding paragraph (1)(*b*), where more than one trust described in that paragraph arose as a consequence of contributions to the trusts by an individual and no agreement as contemplated by subsection (2) has been filed with the Minister before the expiration of 30 days after notice in writing has been forwarded by the Minister to any of the trusts that such an agreement is required for the purpose of an assessment of tax under this Part, the Minister may, for the purpose of this Division, allocate an amount to one or more of the trusts for a taxation year, the total of all of which amounts does not exceed $40,000, and the basic exemption for the year of each of the trusts is the amount so allocated to it.

SECTION 127.531: Basic minimum tax credit determined.

An individual's basic minimum tax credit for a taxation year is the total of all amounts each of which is

(*a*) an amount deducted under subsection 118(1), (2) or (10), 118.01(2), 118.02(2), 118.03(2) or 118.3(1) or any of sections 118.5 to 118.7 in computing the individual's tax payable for the year under this Part; or

(*b*) the amount that was claimed under section 118.1 or 118.2 in computing the individual's tax payable for the year under this Part, determined without reference to this Division, to the extent that the amount claimed does not exceed the maximum amount deductible under that section in computing the individual's tax payable for the year under this Part, determined without reference to this Division.

History: S. 127.531(*a*) was replaced by S.C. 2007, c. 2, s. 35(1), applicable to the 2006 and subsequent taxation years except that, in its application to the 2006 taxation year, paragraph 127.531(*a*) is to be read without its reference to subsection 118.03(2).

S. 127.531(*a*) formerly read:

"(*a*) an amount deducted under subsection 118(1) or (2), 118.01(2) or 118.3(1) or any of sections 118.5 to 118.7 in computing the individual's tax payable for the year under this Part; or"

S. 127.531 was replaced by S.C. 2006, c. 4, s. 76(1), applicable to the 2002 and subsequent taxation years except that, for taxation years before 2005, paragraph 127.531(*a*) shall be read as follows:

"(*a*) an amount deducted under subsection 118(1) or (2) or 118.3(1) or any of sections 118.5 to 118.7 in computing the individual's tax payable for the year under this Part; or"

S. 127.531 formerly read:

"S. 127.531. *Basic minimum tax credit determined.* An individual's basic minimum tax credit for a taxation year is the total of amounts that may be deducted in computing the individual's tax payable for the year under this Part under any of subsections 118(1) and (2), sections 118.1 and 118.2, subsection 118.3(1) and sections 118.5 to 118.7."

SECTION 127.54: [Foreign Tax Credit — Minimum Tax].

► 127.54(1) ◄

(1) Definitions. In this section,

Interpretation Bulletins: *Secondary* — IT-270R3 Foreign tax credit.

"foreign income" — "foreign income" of an individual for a taxation year means the total of

(*a*) the individual's incomes for the year from businesses carried on by the individual in countries other than Canada, and

(*b*) the individual's incomes for the year from sources in countries other than Canada in respect of which the individual has paid non-business-income taxes, within the meaning assigned by subsection 126(7), to governments of countries other than Canada;

"foreign taxes" — "foreign taxes" of an individual for a taxation year means the total of the business-income taxes, within the meaning assigned by subsection 126(7), paid by the individual for the year in respect of businesses carried on by the individual in countries other than Canada and 2/3 of the non-business-income taxes, within the meaning assigned by that subsection, paid by the individual for the year to the governments of countries other than Canada.

► 127.54(2) ◄

(2) Foreign tax credit. For the purposes of section 127.5, an individual's special foreign tax credit for a taxation year is the greater of

(*a*) the total of all amounts deductible under section 126 from the individual's tax for the year, and

(*b*) the lesser of

(i) the individual's foreign taxes for the year, and

(ii) the amount determined by the formula

$$A \times B$$

where

A is the appropriate percentage for the taxation year, and

B is the individual's foreign income for the year.

History: S. 127.54(2)(*b*)(ii) was replaced by S.C. 2006, c. 4, s. 77(1), applicable to the 2005 and subsequent taxation years.

S. 127.54(2)(*b*)(ii) formerly read:

"(ii) 16% of the individual's foreign income for the year."

S. 127.54(2)(*b*)(ii) was amended by S.C. 2001, c. 17, s. 120(1), applicable to the 2001 and subsequent taxation years. S. 127.54(2)(*b*)(ii) formerly read:

"(ii) 17% of the individual's foreign income for the year."

SECTION 127.55: Application of s. 127.5.

Section 127.5 does not apply in respect of

(*a*) a return of income of an individual filed under subsection 70(2), paragraph 104(23)(*d*) or 128(2)(*e*) or subsection 150(4);

(*b*) [Repealed by S.C. 2001, c. 17, s. 121(1).]

(*c*) an individual for the taxation year in which the individual dies;

(*d*) an individual for the 1986 taxation year if the individual dies in 1987;

(*e*) a trust described in paragraph 104(4)(*a*) or (*a*.1) for its taxation year that includes the day determined in respect of the trust under that paragraph; and

(*f*) a taxation year of a trust throughout which the trust is

(i) a related segregated fund trust (within the meaning assigned by paragraph 138.1(1)(*a*)),

(ii) a mutual fund trust, or

(iii) a trust prescribed to be a master trust.

History: S. 127.55(*b*) was repealed by S.C. 2001, c. 17, s. 121(1), applicable to the 1996 and subsequent taxation years. S. 127.55(*b*) formerly read:

"(*b*) a taxation year of an individual in respect of which the individual has made an election under section 119;"

S. 127.55(*f*) was added by S.C. 1998, c. 19, s. 151(1), applicable to the 1992 and subsequent taxation years.

S. 127.55(*e*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 71(1), applicable to 1993 and subsequent taxation years. S. 127.55(*e*) formerly read:

"(*e*) a trust described in paragraph 104(4)(*a*) for its taxation year in which the spouse referred to in that paragraph dies."

S. 127.55(*e*) was added by S.C. 1994, c. 7, Sched. II, s. 107(1), applicable to the 1986 and subsequent taxation years.

Related Sections: S. 132(6) Meaning of "mutual fund trust"; s. 149(1)(*o*.4) Master trusts.

Regulations: 5001.

Interpretation Bulletins: *Primary* — IT-326R3 Returns of deceased persons as "another person".

DIVISION F — Special Rules Applicable in Certain Circumstances

Bankruptcies

SECTION 128:

► 128(1) ◄

(1) Where corporation bankrupt. Where a corporation has become a bankrupt, the following rules are applicable:

(*a*) the trustee in bankruptcy shall be deemed to be the agent of the bankrupt for all purposes of this Act;

(*b*) the estate of the bankrupt shall be deemed not to be a trust or an estate for the purposes of this Act;

(*c*) the income and the taxable income of the corporation for any taxation year of the corporation during which it was a bankrupt and for any subsequent year shall be calculated as if

(i) the property of the bankrupt did not pass to and vest in the trustee in bankruptcy on the bankruptcy order being made or the assignment filed but remained vested in the bankrupt, and

(ii) any dealing in the estate of the bankrupt or any act performed in the carrying on of the business of the bankrupt estate by the trustee was done as agent on behalf of the bankrupt and any income of the trustee from such dealing or carrying on is income of the bankrupt and not of the trustee;

(*d*) a taxation year of the corporation shall be deemed to have commenced on the day the corporation became a bankrupt and a taxation year of the corporation that would otherwise have ended after the corporation became a bankrupt shall be deemed to have ended on the day immediately before the day on which the corporation became a bankrupt;

(*e*) where, in the case of any taxation year of the corporation ending during the period the corporation is a bankrupt, the corporation fails to pay any tax payable by the corporation under this Act for any such year, the corporation and the trustee in bankruptcy are jointly and severally liable to pay the tax, except that

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of paragraph 128(1)(*e*) of the English version of the Act before subparagraph (i) is replaced by the following:

(*e*) where, in the case of any taxation year of the corporation ending during the period the corporation is a bankrupt, the corporation fails to pay any tax payable by the corporation under this Act for any such year, the corporation and the trustee in bankruptcy are jointly and severally, or solidarily, liable to pay the tax, except that

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(i) the trustee is only liable to the extent of the property of the bankrupt in the trustee's possession, and

(ii) payment by either of them shall discharge the joint obligation;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 128(1)(*e*)(ii) of the Act is replaced by the following:

(ii) payment by either of them discharges the liability to the extent of the amount paid;

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*f*) in the case of any taxation year of the corporation ending during the period the corporation is a bankrupt, the corporation shall be deemed not to be associated with any other corporation in the year; and

(*g*) where an absolute order of discharge is granted in respect of the corporation, for the purposes of section 111 any loss of the corporation for any taxation year preceding the year in which the order of discharge was granted is not deductible by the corporation in computing its taxable income for the taxation year of the corporation in which the order was granted or any subsequent year.

History: S. 128(1)(*c*)(i) was replaced by S.C. 2004 c. 25, s. 201(1), applicable on Royal Assent, December 15, 2004. S. 128(1)(*c*)(i) formerly read:

"(i) the property of the bankrupt did not pass to and vest in the trustee in bankruptcy on the receiving order being made or the assignment filed but remained vested in the bankrupt, and"

Related Sections: S. 50(1) Debts established to be bad debts and shares of bankrupt corporation; s. 50(3) Disposal of R.H.O.S.P. properties; s. 248(1), "bankrupt", "estate of the bankrupt"; s. 256 Associated corporations.

Regulations: Part II.

Interpretation Bulletins: *Secondary* — IT-179R Change of Fiscal Period; IT-206R Separate businesses.

Income Tax Technical News: Issue No. 8, Bankrupt corporation — Change of fiscal period.

► 128(2) ◄

(2) Where individual bankrupt. Where an individual has become a bankrupt, the following rules are applicable:

(*a*) the trustee in bankruptcy shall be deemed to be the agent of the bankrupt for all purposes of this Act;

(*b*) the estate of the bankrupt shall be deemed not to be a trust or an estate for the purposes of this Act;

(*c*) the income and the taxable income of the individual for any taxation year during which the individual was a bankrupt and for any subsequent year shall be calculated as if

(i) the property of the bankrupt did not pass to and vest in the trustee in bankruptcy on the bankruptcy order being made or the assignment filed but remained vested in the bankrupt, and

(ii) any dealing in the estate of the bankrupt or any act performed in the carrying on of the business of the bankrupt estate by the trustee was done as agent on behalf of the bankrupt and any income of the trustee from such dealing or carrying on is income of the bankrupt and not of the trustee;

(*d*) except for the purposes of subsections 146(1), 146.01(4) and 146.02(4) and Part X.1,

(i) a taxation year of the individual is deemed to have begun at the beginning of the day on which the individual became a bankrupt, and

(ii) the individual's last taxation year that began before that day is deemed to have ended immediately before that day;

(*d*.1) where, by reason of paragraph (*d*), a taxation year of the individual is not a calendar year,

(i) paragraph 146(5)(*b*) shall, for the purpose of the application of subsection 146(5) to the taxation year, be read as follows:

"(*b*) the amount, if any, by which

(i) the taxpayer's RRSP deduction limit for the particular calendar year in which the taxation year ends

exceeds

(ii) the total of the amounts deducted under this subsection and subsection (5.1) in computing the taxpayer's income for any preceding taxation year that ends in the particular calendar year.",

and

(ii) paragraph 146(5.1)(*b*) shall, for the purpose of the application of subsection 146(5.1) to the taxation year, be read as follows:

"(*b*) the amount, if any, by which

(i) the taxpayer's RRSP deduction limit for the particular calendar year in which the taxation year ends

exceeds

(ii) the total of the amount deducted under subsection (5) in computing the taxpayer's income for the year and the amounts deducted under this subsection and subsection (5) in computing the taxpayer's income for any preceding taxation year that ends in the particular calendar year.",

(*d*.2) where, by reason of paragraph (*d*), the individual has two taxation years ending in a calendar year, each amount deducted in computing the individual's income for either of the taxation years shall be deemed, for the purposes of the definition "unused RRSP deduction room" in subsection 146(1) and Part X.1, to have been deducted in computing the individual's income for the calendar year;

(*e*) where the individual was a bankrupt at any time in a calendar year the trustee shall, within 90 days from the end of the year, file a return with the Minister, in prescribed form, on behalf of the individual of the individual's income for any taxation year occurring in the calendar year computed as if

(i) the only income of the individual for that taxation year was the income for the year, if any, arising from dealings in the estate of the bankrupt or acts performed in the carrying on of the business of the bankrupt by the trustee,

(ii) in computing the individual's taxable income for that taxation year, no deduction were permitted by Division C, other than

(A) an amount under any of paragraphs 110(1)(*d*) to (*d*.3) and section 110.6 to the extent that the amount is in respect of an amount included in income under subparagraph (i) for that taxation year, and

(B) an amount under section 111 to the extent that the amount was in respect of a loss of the individual for any taxation year that ended before the individual was discharged absolutely from bankruptcy, and

(iii) in computing the individual's tax payable under this Part for that taxation year, no deduction were allowed

(A) under section 118, 118.01, 118.02, 118.03, 118.2, 118.3, 118.5, 118.6, 118.8 or 118.9,

(B) under section 118.1 with respect to a gift made by the individual on or after the day the individual became bankrupt,

(B.1) under section 118.62 with respect to interest paid on or after the day on which the individual became bankrupt, and

(C) under subsection 127(5) with respect to an expenditure incurred or property acquired by the individual in any taxation year that ends after the individual was discharged absolutely from bankruptcy,

and the trustee is liable to pay any tax so determined for that taxation year;

(*f*) notwithstanding paragraph (*e*), the individual shall file a separate return of the individual's income for any taxation year during which the individual was a bankrupt, computed as if

(i) the income required to be reported in respect of the year by the trustee under paragraph (*e*) was not the income of the individual,

(ii) in computing income, the individual was not entitled to deduct any loss sustained by the

trustee in the year in dealing with the estate of the bankrupt or in carrying on the business of the bankrupt,

(iii) in computing the individual's taxable income for the year, no amount were deductible under any of paragraphs 110(1)(*d*) to (*d.3*) and section 110.6 in respect of an amount included in income under subparagraph (*e*)(i), and no amount were deductible under section 111, and

(iv) in computing the individual's tax payable under this Part for the year, no amount were deductible under

(A) section 118.1 in respect of a gift made before the day on which the individual became bankrupt,

(B) section 118.62 in respect of interest paid before the day on which the individual became bankrupt, or

(C) section 118.61 or 120.2 or subsection 127(5),

and the individual is liable to pay any tax so determined for that taxation year;

(*g*) notwithstanding subparagraphs (*e*)(ii) and (iii) and (*f*)(iii) and (iv), where at any time an individual was discharged absolutely from bankruptcy,

(i) in computing the individual's taxable income for any taxation year that ends after that time, no amount shall be deducted under section 111 in respect of losses for taxation years that ended before that time,

(ii) in computing the individual's tax payable under this Part for any taxation year that ends after that time,

(A) no amount shall be deducted under section 118.61 or 120.2 in respect of an amount for any taxation year that ended before that time,

(B) no amount shall be deducted under section 118.1 in respect of a gift made before the individual became bankrupt,

(B.1) no amount shall be deducted under section 118.62 in respect of interest paid before the day on which the individual became bankrupt, and

(C) no amount shall be deducted under subsection 127(5) in respect of an expenditure incurred or a property acquired by the individual in any taxation year that ended before that time, and

(iii) the individual's unused tuition and education tax credits at the end of the last taxation year that ended before that time is deemed to be nil;

(*h*) where, in a taxation year commencing after an order of discharge has been granted in respect of the individual, the trustee deals in the estate of the individual who was a bankrupt or performs any act in the carrying on of the business of the individual, paragraphs (*e*), (*f*) and (*g*) shall apply as if the individual were a bankrupt in the year; and

(*i*) the portion of the individual's non-capital loss for a particular taxation year in which paragraph (*e*) applied in respect of the individual and any preceding taxation year that does not exceed the lesser of

(i) the amount of the individual's allowable business investment losses for the particular taxation year, and

(ii) any portion of the individual's non-capital loss for that particular year that was not deducted in computing the individual's taxable income for any taxation year in which paragraph (*e*) applied in respect of the individual or any preceding taxation year,

shall, for the purpose of determining the individual's cumulative gains limit under section 110.6 for taxation years following the taxation year in which paragraph (*e*) was last applicable in respect of the individual, be deemed not to have been an allowable business investment loss.

History: S. 128(2)(*e*)(iii)(A) was replaced by S.C. 2007, c. 2, s. 36(1), applicable to the 2006 and subsequent taxation years except that, in its application to the 2006 taxation year, clause 128(2)(*e*)(iii)(A) is to be read without its reference to section 118.03.

S. 128(2)(*e*)(iii)(A) formerly read:

"(A) under section 118, 118.01, 118.2, 118.3, 118.5, 118.6, 118.8 or 118.9,"

S. 128(2)(*e*)(iii)(A) was replaced by S.C. 2006, c. 4, s. 78(1), applicable to the 2005 and subsequent taxation years.

S. 128(2)(*e*)(iii)(A) formerly read:

"(A) under section 118, 118.2, 118.3, 118.5, 118.6, 118.8 or 118.9,"

S. 128(2)(*c*)(i) was replaced by S.C. 2004 c. 25, s. 201(2), applicable on Royal Assent, December 15, 2004. S. 128(1)(*c*)(i) formerly read:

"(i) the property of the bankrupt did not pass to and vest in the trustee in bankruptcy on the receiving order being made or the assignment filed but remained vested in the bankrupt, and"

S. 128(2)(*e*)(ii)(A) was amended by S.C. 2001, c. 17, s. 122(1), applicable to the 2000 and subsequent taxation years. S. 128(2)(*e*)(ii)(A) formerly read:

"(A) an amount under paragraph 110(1)(*d*), (*d.1*), (*d.2*) or (*d.3*) or section 110.6 to the extent that the amount is in respect of an amount included in income under subparagraph (i) for that taxation year, and"

S. 128(2)(*f*)(iii) was amended by S.C. 2001, c. 17, s. 122(1), applicable to the 2000 and subsequent taxation years. S. 128(2)(*f*)(iii) formerly read:

"(iii) in computing the individual's taxable income for the year, no amount were deductible under paragraph 110(1)(*d*), (*d.1*), (*d.2*) or (*d.3*) or section 110.6 in respect of an amount included in income under subparagraph (*e*)(i), and no amount were deductible under section 111, and"

S. 128(2)(*d*) was amended by S.C. 1999, c. 22, s. 51(1), applicable to the 1999 and subsequent taxation years. S. 128(2)(*d*) formerly read:

"(*d*) except for the purposes of subsections 146(1) and 146.01(4), (9) and (10) and Part X.1, a taxation year of the individual shall be deemed to have begun on the day in the calendar year on which the individual became a bankrupt and the individual's taxation year that would otherwise have ended on the last day of that calendar year shall be deemed to have ended on the day immediately before the day the individual became a bankrupt;"

S. 128(2)(*e*)(iii)(B.1) was added by S.C. 1999, c. 22, s. 51(2), applicable to bankruptcies that occur after 1997.

S. 128(2)(*f*)(iv) was amended by S.C. 1999, c. 22, s. 51(3), applicable to bankruptcies that occur after 1997. S. 128(2)(*f*)(iv) formerly read:

"(iv) in computing the individual's tax payable under this Part for the year, no amount were deductible under section 118.1 in respect of a gift made before the day the individual became bankrupt or under section 118.61 or 120.2 or subsection 127(5),"

S. 128(2)(*g*)(ii)(B.1) was added by S.C. 1999, c. 22, s. 51(4), applicable to bankruptcies that occur after 1997.

S. 128(2)(*e*), that portion following subparagraph (i), was amended by S.C. 1998, c. 19, s. 152(1), applicable to bankruptcies that occur after April 26, 1995 except that, in applying subsection 128(2) of the Act to taxation years that ended before 1997, clause 128(2)(*e*)(iii)(A) of the Act shall be read without reference to "118.61". That portion of s. 128(2)(*e*) formerly read:

"(ii) in computing taxable income, the individual was not entitled to any deduction permitted by Division C for that taxation year except any deduction permitted by section 111, and

(iii) in computing the tax payable under this Part by the individual, the individual was not entitled to deduct any amount under any of sections 118 to 118.3, 118.5, 118.6, 118.8 and 118.9,

and the trustee is liable to pay any tax payable under this Part by the individual in respect of that taxable income for that taxation year,"

S. 128(2)(*f*), that portion following subparagraph (ii), was amended by S.C. 1998, c. 19, s. 151(2), applicable to bankruptcies that occur after April 26, 1995 except that, in applying subsection 128(2) of the Act to taxation years that ended before 1997, subparagraph 128(2)(*f*)(iv) shall be read without reference to "118.61 or". That portion of s. 128(2)(*f*) formerly read:

"(iii) in computing taxable income, the individual was not entitled to any deduction under section 111 with respect to any losses for a previous taxation year,

and the individual is liable to pay any tax payable under this Part by the individual in respect of that taxable income for the taxation year;"

S. 128(2)(*g*) was amended by S.C. 1998, c. 19, s. 152(3), applicable to bankruptcies that occur after April 26, 1995 except that, in applying subsection 128(2) to taxation years that ended before 1997, clause 128(2)(*g*)(ii)(A) shall be read without reference to "118.61 or", and paragraph 128(2)(*g*) shall be read without reference to subparagraph (iii). S. 128(2)(*g*) formerly read:

"(*g*) where an absolute order of discharge is granted in respect of the individual, for the purpose of section 111 any loss of the individual for a taxation year preceding the year in which the order of discharge was granted is not deductible by the individual in computing the individual's taxable income for the taxation year in which the order was granted or any subsequent year;"

S. 128(2)(*d*) was amended by S.C. 1994, c. 8, s. 18(1), applicable to the 1993 and subsequent taxation years. S. 128(2)(*d*) formerly read:

"(*d*) except for the purposes of subsections 146(1) and 146.01(4) and (9) and Part X.1, a taxation year of the individual shall be deemed to have begun on the day in the calendar year on which the individual became a bankrupt and the individual's taxation year that would otherwise have ended on the last day of that calendar year shall be deemed to have ended on the day immediately before the day the individual became a bankrupt;"

S. 128(2)(*d*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 72(1), applicable to 1992 and subsequent taxation years. S. 128(2)(*d*) formerly read:

"(*d*) except for the purposes of subsection 146(1) and Part X.1, a taxation year of the individual shall be deemed to have commenced on the day in the calendar year on which the individual became a bankrupt and the individual's taxation year that would otherwise have ended on the last day of that calendar year shall be deemed to have ended on the day immediately before the day on which the individual became a bankrupt;"

Related Sections: S. 118.95 Credits in year of bankruptcy; s. 120.2(4) Where subsection (1) does not apply; s. 122.5(7) Effect of bankruptcy; s. 122.61(3.1) Effect of bankruptcy; s. 127.1(1) Refundable investment tax credit; s. 248(1), "bankrupt".

Regulations: Part II.

Interpretation Bulletins: *Secondary* — IT-124R6 Contributions to registered retirement savings plans; IT-179R Change of Fiscal Period; IT-415R2 Deregistration of registered retirement savings plans [Archived by the CRA].

Cases: A taxpayer who became bankrupt was only liable for taxes on business income arising after the date of bankruptcy. Tax liability for the period prior to the bankruptcy was a claim provable in bankruptcy. *Stiliadis v. The Queen,* 99 DTC 341 (T.C.C.).

► 128(3) ◄

(3) Definitions of "bankrupt" and "estate of the bankrupt". [Repealed by S.C. 1998, c. 19, s. 152(4).]

History: S. 128(3) was repealed by S.C. 1998, c. 19, s. 151(4), applicable to bankruptcies that occur after April 26, 1995. S. 128(3) formerly read:

"(3) *Definitions of 'bankrupt' and 'estate of the bankrupt'.* In this section, 'bankrupt' and 'estate of the bankrupt' have the meanings assigned by the *Bankruptcy and Insolvency Act*."

S. 128 was amended by S.C. 1994, c. 7, Sched. V, s. 90(1), to replace "*Bankruptcy Act*" with "*Bankruptcy and Insolvency Act*", deemed to have come into force on November 30, 1992.

Changes in Residence

SECTION 128.1:

► 128.1(1) ◄

(1) Immigration. For the purposes of this Act, where at a particular time a taxpayer becomes resident in Canada,

History: S. 128.1(1) was added by S.C. 1994, c. 21, s. 62(1), applicable after 1992 except that, where a corporation elects in accordance with paragraph 111(4)(*a*), s. 128.1(1) applies to the corporation from the corporation's time of continuation (within the meaning assigned by that paragraph).

Related Sections: S. 250 Person deemed resident.

Interpretation Bulletins: *Secondary* — IT-259R4 Exchange of property.

Guides: T4055 Newcomers to Canada; T4056 Emigrants and Income Tax.

► 128.1(1)(a) ◄

(a) Year-end, fiscal period — where the taxpayer is a corporation or a trust,

(i) the taxpayer's taxation year that would otherwise include the particular time shall be deemed to have ended immediately before the particular time and a new taxation year of the taxpayer shall be deemed to have begun at the particular time, and

(ii) for the purpose of determining the taxpayer's fiscal period after the particular time, the taxpayer shall be deemed not to have established a fiscal period before the particular time;

History: S. 128.1(1)(*a*) was added by S.C. 1994, c. 21, s. 62(1), applicable after 1992 except that, where a corporation elects in accordance with paragraph 111(4)(*a*), s. 128.1(1)(*a*) applies to the corporation from the corporation's time of continuation (within the meaning assigned by that paragraph).

Related Sections: S. 249 Definition of "taxation year"; s. 249.1(1) Definition of "fiscal period".

► 128.1(1)(b) ◄

(b) Deemed disposition — the taxpayer is deemed to have disposed, at the time (in this subsection referred to as the "time of disposition") that is immediately before the time that is immediately before the particular time, of each property owned by the taxpayer, other than, if the taxpayer is an individual,

(i) property that is a taxable Canadian property,

(ii) property that is described in the inventory of a business carried on by the taxpayer in Canada at the time of disposition,

(iii) eligible capital property in respect of a business carried on by the taxpayer in Canada at the time of disposition, and

(iv) an excluded right or interest of the taxpayer (other than an interest in a non-resident testamentary trust that was never acquired for consideration),

(v) [Repealed by S.C. 2001, c. 17, s. 123(2).]

for proceeds equal to its fair market value at the time of disposition;

History: S. 128.1(1)(*b*)(i) was amended by S.C. 2001, c. 17, s. 123(1), applicable to changes in residence that occur after October 1, 1996. S. 128.1(1)(*b*)(i) formerly read:

"(i) property that would be taxable Canadian property if the taxpayer had been resident in Canada at no time in the taxpayer's last taxation year that began before the particular time,"

S. 128.1(1)(*b*)(iv) was amended, and subparagraph (v) was repealed, by S.C. 2001, c. 17, s. 123(2), applicable to changes in residence that occur after October 1, 1996. S. 128.1(1)(*b*)(iv) formerly read:

"(iv) property in respect of which the taxpayer elected under paragraph 48(1)(*c*), as it read in its application before 1993, or subparagraph (4)(*b*)(iv) in respect of the last preceding time the taxpayer ceased to be resident in Canada, and

(v) a right to acquire shares of the capital stock of a corporation where section 7 would apply if the taxpayer disposed of the right to a person with whom the taxpayer was dealing at arm's length,"

S. 128.1(1)(*b*), the portion before subparagraph (i), was amended by S.C. 1999, c. 22, s. 52(1), applicable to corporations that become resident in Canada after February 23, 1998, except that an election made under subparagraph 128.1(2)(*b*)(i) of the Act is deemed to have been made in a timely manner if it is made by the corporation, with the consent of all who were shareholders of the corporation immediately before the time of disposition (within the meaning assigned by paragraph 128.1(1)(*b*) of the Act), before April 1, 1999. S. 128.1(1)(*b*), the portion before subparagraph (i) formerly read:

"(*b*) *Deemed disposition* — the taxpayer shall be deemed to have disposed, at the time (in this subsection referred to as the 'time of disposition') that is immediately before the time that is immediately before the particular time, of each property owned by the taxpayer, other than"

S. 128.1(1)(*b*) was added by S.C. 1994, c. 21, s. 62(1), applicable after 1992 except that, where a corporation elects in accordance with paragraph 111(4)(*a*), s. 128.1(1)(*b*) applies to the corporation from the corporation's time of continuation (within the meaning assigned by that paragraph).

Related Sections: S. 128.1(10) Definitions; s. 248(1), "taxable Canadian property".
Regulations: 8201.

► 128.1(1)(c) ◄

(c) Deemed acquisition — the taxpayer shall be deemed to have acquired at the particular time each property deemed by paragraph (*b*) to have been disposed of by the taxpayer, at a cost equal to the proceeds of disposition of the property;

History: S. 128.1(1)(*c*) was added by S.C. 1994, c. 21, s. 62(1), applicable after 1992 except that, where a corporation elects in accordance with paragraph 111(4)(*a*), s. 128.1(1)(*c*) applies to the corporation from the corporation's time of continuation (within the meaning assigned by that paragraph).

Related Sections: S. 248(1), "taxable Canadian property", "treaty-protected property".

► 128.1(1)(c.1) ◄

(c.1) Deemed dividend to immigrating corporation — if the taxpayer is a particular corporation that immediately before the time of disposition owned a share of the capital stock of another corporation resident in Canada, a dividend is deemed to have been paid by the other corporation, and received by the particular corporation, immediately before the time of disposition, equal to the amount, if any, by which the fair market value of the share immediately before the time of disposition exceeds the total of

(i) the paid-up capital in respect of the share immediately before the time of disposition, and

(ii) if the share immediately before the time of disposition was taxable Canadian property that is not treaty-protected property, the amount by which, at the time of disposition, the fair market value of the share exceeds its cost amount;

History: S. 128.1(1)(*c.1*) was added by S.C. 1999, c. 22, s.52(2), applicable to corporations that become resident in Canada after February 23, 1998, except that an election made under subparagraph 128.1(2)(*b*)(i) of the Act is deemed to have been made in a timely manner if it is made by the corporation, with the consent of all who were shareholders of the corporation immediately before the time of disposition (within the meaning assigned by paragraph 128.1(1)(*b*) of the Act), before April 1, 1999.

Related Sections: S. 215(1.1) Exception — corporate immigration; s. 248(1), "treaty-protected income".

► 128.1(1)(c.2) ◄

(c.2) Deemed dividend to shareholder of immigrating corporation — if the taxpayer is a corporation and an amount has been added to the paid-up capital in respect of a class of shares of the corporation's capital stock because of paragraph (2)(*b*),

(i) the corporation is deemed to have paid, immediately before the time of disposition, a dividend on the issued shares of the class equal to the amount of the paid-up capital adjustment in respect of the class, and

(ii) a dividend is deemed to have been received, immediately before the time of disposition, by each person (other than a person in respect of whom the corporation is a foreign affiliate) who held any of the issued shares of the class equal to that proportion of the dividend so deemed to have been paid that the number of shares of the class held by the person immediately before the time of disposition is of the number of issued shares of the class outstanding immediately before the time of disposition; and

History: S. 128.1(1)(c.2) was added by S.C. 1999, c. 22, s.52(2), applicable to corporations that become resident in Canada after February 23, 1998, except that an election made under subparagraph 128.1(2)(*b*)(i) of the Act is deemed to have been made in a timely manner if it is made by the corporation, with the consent of all who were shareholders of the corporation immediately before the time of disposition (within the meaning assigned by paragraph 128.1(1)(*b*) of the Act), before April 1, 1999.

Related Sections: S. 53(1)(*b.1*) Adjustments to cost base — Deemed dividend from immigrating corporation.

► 128.1(1)(d) ◄

(d) Foreign affiliate — where the taxpayer was, immediately before the particular time, a foreign affiliate of another taxpayer that is resident in Canada,

(i) the affiliate shall be deemed to have been a controlled foreign affiliate (within the meaning assigned by subsection 95(1)) of the other taxpayer immediately before the particular time, and

(ii) such amount as is prescribed shall be included in the foreign accrual property income (within the meaning assigned by subsection 95(1)) of the affiliate for its taxation year ending immediately before the particular time.

History: S. 128.1(1)(*d*) was added by S.C. 1994, c. 21, s. 62(1), applicable after 1992 except that, where a corporation elects in accordance with paragraph 111(4)(*a*), s. 128.1(1)(*d*) applies to the corporation from the corporation's time of continuation (within the meaning assigned by that paragraph).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 128.1 of the Act is amended by adding the following after subsection (1):

(1.1) Trusts subject to subsection 94(3). Paragraph (1)(*b*) does not apply, at a time in a particular taxation year of a trust, to the trust if the trust is resident in Canada for the particular taxation year for the purpose of computing its income.

Applicable: To trust taxation years that begin after 2006. [This amendment] also applies to trust taxation years that begin

(*a*) after 2000, if the trust makes a valid election under paragraph [(*a*) of the application for new proposed section 94];

(*b*) after 2001, if the trust makes a valid election under paragraph [(*a*) or (*b*) of the application for new proposed section 94];

(*c*) after 2002, if the trust makes a valid election under any of paragraphs [(*a*) to (*c*) of the application for new proposed section 94];

(*d*) after 2003, if the trust makes a valid election under any of paragraphs [(*a*) to (*d*) of the application for new proposed section 94];

(*e*) after 2004, if the trust makes a valid election under any of paragraphs [(*a*) to (*e*) of the application for new proposed section 94]; and

(*f*) after 2005, if the trust makes a valid election under any of paragraphs [(*a*) to (*f*) of the application for new proposed section 94].

Explanatory Note: Subsection 128.1(1) sets out rules that apply where a taxpayer becomes resident in Canada. Paragraph 128.1(1)(*b*) treats a taxpayer who becomes resident in Canada as having disposed of the taxpayer's property, with certain exceptions, for proceeds equal to the property's fair market value.

New subsection 128.1(1.1) identifies a set of circumstances in which paragraph 128.1(1)(*b*) does not apply to a taxpayer that is a trust.

Under subsection 128.1(1.1), paragraph 128.1(1)(*b*) will not apply, at a time in a particular taxation year of a trust, to the trust if the trust is resident in Canada because of new paragraph 94(3)(*a*) for the particular taxation year for the purpose of computing its income.

This rule applies to ensure that a deemed disposition does not occur solely because the basis for a trust's residency in Canada changes from paragraph 94(3)(*a*) to some other basis.

For more detail on subsections 94(3) and (4), see the commentary on those provisions.

This amendment applies to trust taxation years that begin after 2006. It also applies to trust taxation years that begin after 2000, after 2001, after 2002, after 2003, after 2004 or after 2005 if the trust makes the appropriate election under the coming-into-force provision for new section 94 of the Act.

► 128.1(2) ◄

(2) Paid-up capital adjustment. If a corporation becomes resident in Canada at a particular time,

(*a*) for the purposes of subsection (1) and this subsection, the "paid-up capital adjustment" in respect of a particular class of shares of the corporation's capital stock in respect of that acquisition of residence is the positive or negative amount determined by the formula

$$(A \times B/C) - D$$

where

A is the amount, if any, by which

(i) the total of all amounts each of which is an amount deemed by paragraph (1)(*c*) to be the cost to the corporation of property deemed under that paragraph to have been acquired by the corporation at the particular time exceeds

(ii) the total of all amounts each of which is the amount of a debt owing by the corporation, or any other obligation of the corporation to pay an amount, that is outstanding at the particular time,

B is the fair market value at the particular time of all of the shares of the particular class,

C is the total of all amounts each of which is the fair market value at the particular time of all of the shares of a class of shares of the corporation's capital stock, and

D is the paid-up capital at the particular time, determined without reference to this subsection, in respect of the particular class; and

(*b*) for the purposes of this Act, in computing the paid-up capital in respect of a class of shares of the corporation's capital stock at any time after the particular time and before the time, if any, at which the corporation next becomes resident in Canada, there shall be

(i) added the amount of the paid-up capital adjustment in respect of the particular class, if that amount is positive and the corporation so elects for all such classes in respect of that acquisition of residence by notifying the Minister in writing within 90 days after the particular time, and

(ii) deducted, if the amount of the paid-up capital adjustment in respect of the particular class is negative, the absolute value of that amount.

History: S. 128.1(2) was amended by S.C. 1999, c. 22, s. 52(3), applicable to corporations that become resident in Canada after February 23, 1998, except that an election made under subparagraph 128.1(2)(*b*)(i) of the Act is deemed to have been made in a timely manner if it is made by the corporation, with the consent of all who were shareholders of the corporation immediately before the time of disposition (within the meaning assigned by paragraph 128.1(1)(*b*) of the Act), before April 1, 1999. S. 128.1(2) formerly read:

"(2) *Idem — paid-up capital.* For the purposes of this Act, where at a particular time a corporation becomes resident in Canada, in computing the paid-up capital at any time after the particular time in respect of a particular class of shares of the capital stock of the corporation, there shall be deducted the amount determined by the formula

$$\frac{A}{B} \times (C - D)$$

where

A is the paid-up capital, determined without reference to this subsection, of the particular class of shares at the particular time;

B is the paid-up capital, determined without reference to this subsection, in respect of all of the shares of the corporation at the particular time;

C is the total of

(*a*) the paid-up capital, determined without reference to this subsection, in respect of all of the shares of the corporation at the particular time,

(*b*) all amounts each of which is the amount of any debt owing by the corporation, or any other obligation of the corporation to pay an amount, that is outstanding at the particular time, and

(*c*) any amount claimed under paragraph 219(1)(*j*) by the corporation for its last taxation year that began before the particular time; and

D is the total of

(*a*) all amounts each of which is deemed by paragraph (1)(*c*) to be the cost to the corporation of property (other than property described in paragraph (*d*)) deemed under paragraph (1)(*c*) to have been acquired by the corporation at the particular time,

(*b*) all amounts each of which is the cost amount to the corporation, immediately after the particular time, of property (other than a Canadian resource property or property described in paragraph (*a*) or (*d*)),

(*c*) the total of

(i) all Canadian exploration and development expenses incurred by the corporation before the particular time, except to the extent that those expenses were deducted in computing a taxpayer's income for a taxation year that ended before the particular time,

(ii) the corporation's cumulative Canadian exploration expense at the particular time (within the meaning assigned by subsection 66.1(6)),

(iii) the corporation's cumulative Canadian development expense at the particular time (within the meaning assigned by subsection 66.2(5)), and

(iv) the corporation's cumulative Canadian oil and gas property expense at the particular time (within the meaning assigned by subsection 66.4(5)), and

(*d*) the total of all amounts each of which is the paid-up capital in respect of a share of the capital stock of another corporation resident in Canada and connected with the corporation (within the meaning that would be assigned by subsection 186(4) if the references therein to 'payer corporation' and 'particular corporation' were read as references to the other corporation and the corporation, respectively) immediately after the particular time, owned by the corporation at the particular time."

S. 128.1(2), paragraph (*c*) of the description of C, was amended by S.C. 1998, c. 19, s. 153(1), applicable to taxation years that begin after 1995 except that, in its application to taxation years that begin in 1996, the reference to "paragraph 219(1)(*j*)" shall be read as a reference to "paragraph 219(1)(*h*) as it read in its application to the 1995 taxation year or paragraph 219(1)(*j*)". Paragraph (*c*) of the description of C formerly read:

"(*c*) any amount claimed under paragraph 219(1)(*h*) by the corporation for its last taxation year that began before the particular time; and"

S. 128.1(2) was added by S.C. 1994, c. 21, s. 62(1), applicable after 1992 except that, where a corporation elects in accordance with paragraph 111(4)(*a*), s. 128.1(2) applies to the corporation from the corporation's time of continuation (within the meaning assigned by that paragraph).

Related Sections: S. 52(8) Cost of shares of immigrant corporation.

► 128.1(3) ◄

(3) Paid-up capital adjustment. In computing the paid-up capital at any time in respect of a class of shares of the corporation's capital stock, there shall be deducted an amount equal to the lesser of A and B, and added an amount equal to the lesser of A and C, where

A is the absolute value of the difference between

(*a*) the total of all amounts deemed by subsection 84(3), (4) or (4.1) to be a dividend on shares of the class paid before that time by the corporation, and

(*b*) the total that would be determined under paragraph (*a*) if this Act were read without reference to subsection (2),

B is the total of all amounts required by subsection (2) to be added in computing the paid-up capital in respect of the class before that time, and

C is the total of all amounts required by subsection (2) to be subtracted in computing the paid-up capital in respect of the class before that time.

History: S. 128.1(3) was amended by S.C. 1999, c. 22, s. 52(3), applicable to corporations that become resident in Canada after February 23, 1998 except that an election made under subparagraph 128.1(2)(*b*)(i) of the Act is deemed to have been made in a timely manner if it is made by the corporation, with the consent of all who were shareholders of the corporation immediately before the time of disposition (within the meaning assigned by paragraph 128.1(1)(*b*) of the Act), before April 1, 1999. S. 128.1(3) formerly read:

"(3) *Idem.* In computing the paid-up capital at any time in respect of a class of shares of the capital stock of a corporation, there shall be added an amount equal to the lesser of

(*a*) the amount, if any, by which

(i) the total of all amounts deemed by subsection 84(3), (4) or (4.1) to be a dividend on shares of the class paid before that time by the corporation

exceeds

(ii) the total that would be determined under subparagraph (i) if this Act were read without reference to subsection (2), and

(*b*) the total of all amounts required by subsection (2) to be deducted in computing the paid-up capital in respect of that class of shares before that time."

S. 128.1(3) was added by S.C. 1994, c. 21, s. 62(1), applicable after 1992 except that, where a corporation elects in accordance with paragraph 111(4)(*a*), s. 128.1(3) applies to the corporation from the corporation's time of continuation (within the meaning assigned by that paragraph).

► 128.1(4) ◄

(4) Emigration. For the purposes of this Act, where at a particular time a taxpayer ceases to be resident in Canada,

History: S. 128.1(4) was added by S.C. 1994, c. 21, s. 62(1), applicable after 1992 except that, where a corporation elects in accordance with paragraph 111(4)(*a*), s. 128.1(4) applies to the corporation from the corporation's time of continuation (within the meaning assigned by that paragraph).

Related Sections: S. 250 Person deemed resident.
Forms: T2061A.
Tax Profile: December 2008 — Tax Planning for Emigration from Canada to the United States.
Canadian Tax Foundation: Rees, Pare, Loughlin and Brosseuk, "Taxpayer Migration: Proposed Rules", *1999 Conference Report*, No. 35:1.

► 128.1(4)(a) ◄

(a) Year-end, fiscal period — where the taxpayer is a corporation or a trust,

(i) the taxpayer's taxation year that would otherwise include the particular time shall be deemed to have ended immediately before the particular time and a new taxation year of the taxpayer shall be deemed to have begun at the particular time, and

(ii) for the purpose of determining the taxpayer's fiscal period after the particular time, the taxpayer shall be deemed not to have established a fiscal period before the particular time;

History: S. 128.1(4)(*a*) was added by S.C. 1994, c. 21, s. 62(1), applicable after 1992 except that, where a corporation elects in accordance with paragraph 111(4)(*a*), s. 128.1(4)(*a*) applies to the corporation from the corporation's time of continuation (within the meaning assigned by that paragraph).

Related Sections: S. 249 Definition of "taxation year"; s. 249.1(1) Definition of "fiscal period".
Guides: T4056 Emigrants and Income Tax.

► 128.1(4)(a.1) ◄

(a.1) Fiscal period — if the taxpayer is an individual (other than a trust) and carries on a business at the particular time, otherwise than through a permanent establishment (as defined by regulation) in Canada,

(i) the fiscal period of the business is deemed to have ended immediately before the particular time and a new fiscal period of the business is deemed to have begun at the particular time, and

(ii) for the purpose of determining the fiscal period of the business after the particular time, the taxpayer is deemed not to have established a fiscal period of the business before the particular time;

History: S. 128.1(4)(*a.1*) was added by S.C. 2001, c. 17, s. 123(3), applicable to changes in residence that occur after October 1, 1996, and

(*a*) an election made under any of paragraphs 128.1(6)(*a*) and (*c*), 128.1(7)(*d*) and (*g*) and 128.1(8)(*c*) of the Act by an individual who ceased to be resident in Canada before the day on which this Act receives royal assent [June 14, 2001], is deemed to have been made in a timely manner if it is made on or before the individual's filing-due date for the taxation year that includes that day; and

(*b*) a form described in subsection 128.1(9) of the Act filed by an individual who ceased to be resident in Canada before the day on which this Act receives royal assent, is deemed to have been filed in a timely manner if it is filed on or before the individual's filing-due date for the taxation year that includes that day.

► 128.1(4)(b) ◄

(b) Deemed disposition — the taxpayer is deemed to have disposed, at the time (in this paragraph and paragraph (*d*) referred to as the "time of disposition") that is immediately before the time that is immediately before the particular time, of each property owned by the taxpayer other than, if the taxpayer is an individual,

(i) real property situated in Canada, a Canadian resource property or a timber resource property,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 128.1(4)(*b*)(i) of the Act is replaced by the following:

(i) real or immovable property situated in Canada, a Canadian resource property or a timber resource property,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(ii) capital property used in, eligible capital property in respect of or property described in the inventory of, a business carried on by the taxpayer through a permanent establishment (as defined by regulation) in Canada at the particular time,

(iii) an excluded right or interest of the taxpayer,

(iv) if the taxpayer is not a trust and was not, during the 120-month period that ends at the particular time, resident in Canada for more than 60 months, property that was owned by the taxpayer at the time the taxpayer last became resident in Canada or that was acquired by the taxpayer by inheritance or bequest after the taxpayer last became resident in Canada, and

(v) any property in respect of which the taxpayer elects under paragraph (6)(*a*) for the taxation year that includes the first time, after the particular time, at which the taxpayer becomes resident in Canada,

for proceeds equal to its fair market value at the time of disposition, which proceeds are deemed to have become receivable and to have been received by the taxpayer at the time of disposition;

Department of Finance Comfort Letter
[Application of Replaced Shares to Deemed Disposition on Emigration]

June 2, 2003

Dear XXXX:

I am writing in response to your letter dated April 25, 2003 to Mr. Lawrence Purdy of this Division asking that we consider recommending an amendment to section 128.3 of the *Income Tax Act* ("Act") so that this section applies for the purposes of subparagraph 128.1(4)(*b*)(iv).

Under the taxpayer migration rules in section 128.1 of the Act, the post-departure disposition of a property can have important tax consequences for an emigrant individual. Section 128.3 of the Act allows for a deferral of these consequences in certain circumstances, by deeming the individual not to have disposed of shares that were converted to new shares under section 51 of the Act, or subject to a share for share exchange, reorganization or amalgamation under any of sections 85.1, 86 or 87 of the Act. Section 128.3 also deems the share received by an individual to be the same as the old share for the purposes of section 119, and subsections 126(2.21) to (2.23). These provisions provide tax credits for individuals who were subject to the departure rules. As well, the new share is deemed to be the same share for the purposes of subsections 128.1(6) to (8), which allow returning former residents to "unwind" transactions subject to the departure tax rules, or in certain cases carry back future losses to the year of departure. By deeming the new share to be the same as the old share, the rule ensures that the individual does not lose access to these relieving provisions.

However, you have pointed out that section 128.3 does not apply for the purposes of subparagraph 128.1(4)(*b*)(iv). Under subparagraph 128.1(4)(*b*)(iv) property owned by an individual is not subject to the deemed disposition rules on emigration from Canada if the individual, during the last 10 years, was not resident in Canada for more than 60 months and owned the property when the individual first took up residence in Canada or inherited the property after that time. Since section 128.3 does not apply, an individual who immigrated to Canada owning shares, and received new shares after this time because of a share for share exchange, reorganization or merger, or because the shares were converted into new shares, would be deemed to dispose of these new shares upon emigration from Canada, even if the individual had resided here less than 60 months in the past 10 years. In your view this is an unfair result, and you request that we consider extending the policy of section 128.3 to include individuals who find themselves in this situation.

The policy intent of section 128.3 is to allow continuity in the migration rules' treatment of an individual where the individual's property has been replaced because of a situation that is typically beyond the individual's control, such as a corporate merger or reorganization. It is important to note that although this section is relatively new, and the previous rules, contained in section 48 of the Act, did not provide such relief, there was in the past less need for it. This was because the previous rules allowed individuals to defer departure tax on most property owned by them, by electing to treat the property as taxable Canadian property (TCP). That election meant that the property was not deemed disposed of upon emigration. Therefore, an individual who received new shares because of a reorganization or merger could elect on emigration to treat these as TCP and avoid the deemed disposition of this property on emigration. The election effectively removed the need to have something similar to section 128.3.

In my view, there is no reason in policy terms not to extend the relief provided in section 128.3 to subparagraph 128.1(4)(*b*)(iv), which as I have described provides an exception to the deemed disposition rules for short-term residents. The effect of the change would be that short-term residents who own shares on immigration and receive new shares on a tax deferred basis under any of sections 51, 85.1, 86 or 87 of the Act, would be deemed not to have disposed of the share and the new share would be the same as the old share, thereby allowing the share to continue to qualify for the exemption from the deemed disposition rules provided in subparagraph 128.1(4)(*b*)(iv).

You further request that we recommend this change be applicable for individuals who have emigrated from Canada after October 1, 1996 to ensure consistency. We do not normally recommend that changes such as this be made on such a markedly retroactive basis, since both taxpayers and the Government need to be able to rely at any particular time on the law as it exists at that time. Exceptionally, however, we do recommend linking a relieving change to the transaction or circumstance that makes the Government aware of the need for the change. In this case, we understand that this fact situation applies to your client's 2002 taxation year and therefore we are willing to recommend that this change apply to an individual's 2002 and subsequent taxation years.

I cannot offer any assurance that either the Minister of Finance or Parliament will agree with the recommendation that we intend to make in this regard. Nonetheless, I hope that this statement of our position is helpful. Thank you for bringing this issue to our attention.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 128.1(4)(*b*) was amended by S.C. 2001, c. 17, s. 123(3), applicable to changes in residence that occur after October 1, 1996. S. 128.1(4)(*b*) formerly read:

"(*b*) *Deemed disposition* — the taxpayer shall be deemed to have disposed, at the time (in this paragraph and paragraph (*d*) referred to as the 'time of disposition') that is immediately before the time that is immediately before the particular time, of each property owned by the taxpayer, other than

(i) where the taxpayer is an individual, property that would be taxable Canadian property if the taxpayer had been resident in Canada at no time in the taxpayer's last taxation year that began before the particular time,

(ii) where the taxpayer is an individual, property that is described in the inventory of a business carried on by the taxpayer in Canada at the particular time,

(iii) where the taxpayer is an individual, a right to receive a payment described in any of paragraphs 212(1)(*h*) and (*j*) to (*q*), a right under a registered education savings plan or a right to receive any payment of a benefit under the *Canada Pension Plan* or a provincial pension plan as defined in section 3 of that Act,

(iv) where the taxpayer is an individual other than a trust, each capital property not described in any of subparagraphs (i) to (iii) in respect of which, on or before the taxpayer's balance-due day for the taxation year in which the taxpayer ceased to be resident in Canada, the taxpayer elects in prescribed manner and furnishes to the Minister security acceptable to the Minister for the payment of the additional tax that would be payable by the taxpayer under this Part for the year had the taxpayer not so elected,

(v) where the taxpayer is an individual other than a trust and was, during the 10 years preceding the particular time, resident in Canada for a period or periods totalling 60 months or less, property that was

(A) owned by the taxpayer at the time the taxpayer last became resident in Canada, or

(B) acquired by the taxpayer by inheritance or bequest after the taxpayer last became resident in Canada, and

(vi) a right to acquire shares of the capital stock of a corporation where section 7 would apply if the taxpayer disposed of the right to a person with whom the taxpayer was dealing at arm's length,

for proceeds equal to its fair market value at the time of disposition, which proceeds shall be deemed to have become receivable and to have been received by the taxpayer at the time of disposition;"

Sec. 124, Chap. 17, S.C. 2001

124. (1) If an individual ceased at any time after 1992 and before October 2, 1996 to be resident in Canada and so elects in writing and files the election with the Minister of National Revenue before the end of the sixth month [December 2001] following the month in which this Act receives royal assent [June 14, 2001], subparagraph 128.1(4)(*b*)(iii) of the Act as it read at that time shall, in respect of the cessation of residence, be read as enacted by this Act and as though subsection 128.1(10) of the Act, as enacted by this Act, applied.

(2) Where an individual makes an election under subsection (1), notwithstanding subsections 152(4) to (5) of the Act, any reassessment of the individual's tax, interest or penalties for any year shall be made that is necessary to take the election into account.

S. 128.1(4)(*b*)(iii) was amended by S.C. 1998, c. 19, s. 36(1), applicable to changes of residence that occur after October 1, 1996. S. 128.1(4)(*b*)(iii) formerly read:

"(iii) where the taxpayer is an individual, a right to receive a payment described in any of paragraphs 212(1)(*h*) and (*j*) to (*q*) or a right to receive any payment of a benefit under the *Canada Pension Plan* or a provincial pension plan as defined in section 3 of that Act,"

S. 128.1(4)(*b*) was added by S.C. 1994, c. 21, s. 62(1), applicable after 1992 except that, where a corporation elects in accordance with paragraph 111(4)(*a*), s. 128.1(4)(*b*) applies to the corporation from the corporation's time of continuation (within the meaning assigned by that paragraph).

Editorial Note: Individuals ceasing to be resident in Canada can elect to post security with the CRA for the purpose of deferring the payment of tax that results from the deemed disposition of property under s. 128.1(4)(*b*). The payment of the tax can be deferred, without interest, until the property is actually sold. Security is not required for the first $100,000 of capital gains (actually, $50,000 of taxable income) resulting from the deemed disposition rules. See generally s. 220(4.5) through (4.71).

Related Sections: S. 126(2.21) Former resident — deduction; s. 220(4.5) Security for departure tax.
Regulations: 8201.
Interpretation Bulletins: *Secondary* — IT-395R2 Foreign tax credit — Foreign-source capital gains and losses.
Information Circulars: IC 07-1 Taxpayer Relief Provisions.
Forms: T1243.
Tax Profile: September 2003 — Value of an Interest in a Discretionary Trust.
Canadian Tax Foundation: Tollstam, "Planning for High Net Worth Individuals Leaving Canada", *2007 Conference Report*, 38:1; Rajan, "Are You Sure You Want to Leave Canada? The New Taxpayer Migration Rules", *1999 Canadian Tax Journal*, No. 5, 1342.

► 128.1(4)(c) ◄

(c) Reacquisition — the taxpayer shall be deemed to have reacquired, at the particular time, each property deemed by paragraph (*b*) to have been disposed of by the taxpayer, at a cost equal to the proceeds of disposition of the property;

History: S. 128.1(4)(*c*) was added by S.C. 1994, c. 21, s. 62(1), applicable after 1992 except that, where a corporation elects in accordance with paragraph 111(4)(*a*), s. 128.1(4)(*c*) applies to the corporation from the corporation's time of continuation (within the meaning assigned by that paragraph).

► 128.1(4)(d) ◄

(d) Individual — elective disposition — notwithstanding paragraphs (*b*) to (*c*), if the taxpayer is an individual (other than a trust) and so elects in prescribed form and manner in respect of a property described in subparagraph (*b*)(i) or (ii),

(i) the taxpayer is deemed to have disposed of the property at the time of disposition for proceeds equal to its fair market value at that time and to have reacquired the property at the particular time at a cost equal to those proceeds,

(ii) the taxpayer's income for the taxation year that includes the particular time is deemed to be the greater of

(A) that income determined without reference to this subparagraph, and

(B) the lesser of

(I) that income determined without reference to this subsection, and

(II) that income determined without reference to subparagraph (i), and

(iii) each of the taxpayer's non-capital loss, net capital loss, restricted farm loss, farm loss and limited partnership loss for the taxation year that includes the particular time is deemed to be the lesser of

(A) that amount determined without reference to this subparagraph, and

(B) the greater of

(I) that amount determined without reference to this subsection, and

(II) that amount determined without reference to subparagraph (i); and

History: S. 128.1(4)(*d*) was amended by S.C. 2001, c. 17, s. 123(4), applicable to changes in residence that occur after October 1, 1996. S. 128.1(4)(*d*) formerly read:

"(*d*) *Individual* — notwithstanding paragraphs (*b*) and (*c*), where a taxpayer who is an individual other than a trust so elects in prescribed manner, on or before the taxpayer's balance-due day for the taxation year that includes the particular time, in respect of any property described in subparagraph (*b*)(i) or (ii), the taxpayer shall be deemed to have disposed of the property at the time of disposition for proceeds equal to its fair market value at that time, and to have reacquired the property at the particular time at a cost equal to those proceeds;"

S. 128.1(4)(*d*) was added by S.C. 1994, c. 21, s. 62(1), applicable after 1992 except that, where a corporation elects in accordance with paragraph 111(4)(*a*), s. 128.1(4)(*d*) applies to the corporation from the corporation's time of continuation (within the meaning assigned by that paragraph).

Regulations: 600(*c*).
Information Circulars: IC 07-1 Taxpayer Relief Provisions.
Forms: T2061A.
Guides: T4056 Emigrants and Income Tax.
Tax Topics: No. 1850, Elections Available Under the Emigration Rules.

► 128.1(4)(d.1) ◄

(d.1) Employee CCPC stock option shares — if the taxpayer is deemed by paragraph (*b*) to have disposed of a share that was acquired before February 28, 2000 under circumstances to which subsection 7(1.1) applied, there shall be deducted from the taxpayer's proceeds of disposition the amount that would, if section 7 were read without reference to subsection 7(1.6), be added under paragraph 53(1)(*j*) in computing the adjusted cost base to the taxpayer of the share as a consequence of the deemed disposition.

History: S. 128.1(4)(*d.1*) was added by S.C. 2001, c. 17, s. 123(4), applicable to changes in residence that occur after 1992.

Related Sections: S. 7(1.3) Order of disposition of securities; s. 7(7) Definitions.

► 128.1(4)(e) ◄

(e) Deemed property — [Repealed by S.C. 2001, c. 17, s. 123(4).]

History: S. 128.1(4)(*e*) was repealed by S.C. 2001, c. 17, s. 123(4), applicable to changes in residence that occur after October 1, 1996, and

(*a*) an election made under any of paragraphs 128.1(6)(*a*) and (*c*), 128.1(7)(*d*) and (*g*) and 128.1(8)(*c*) of the Act by an individual who ceased to be resident in Canada before the day on which this Act receives royal assent [June 14, 2001], is deemed to have been made in a timely manner if it is made on or before the individual's filing-due date for the taxation year that includes that day; and

(*b*) a form described in subsection 128.1(9) of the Act filed by an individual who ceased to be resident in Canada before the day on which this Act receives royal assent, is deemed to have been filed in a timely manner if it is filed on or before the individual's filing-due date for the taxation year that includes that day. S. 128.1(4)(*e*) formerly read:

"(*e*) *Deemed property* — capital property in respect of which a taxpayer elects under subparagraph (*b*)(iv) shall be deemed to be taxable Canadian property of the taxpayer from the particular time until the earlier of

(i) the time when the taxpayer disposes of the property, and

(ii) the time when the taxpayer next becomes resident in Canada; and"

S. 128.1(4)(*e*) was added by S.C. 1994, c. 21, s. 62(1), applicable after 1992 except that, where a corporation elects in accordance with paragraph 111(4)(*a*), s. 128.1(4)(*e*) applies to the corporation from the corporation's time of continuation (within the meaning assigned by that paragraph).

► 128.1(4)(f) ◄

(f) Losses on election — [Repealed by S.C. 2001, c. 17, s. 123(4).]

History: S. 128.1(4)(*f*) was repealed by S.C. 2001, c. 17, s. 123(4), applicable to changes in residence that occur after October 1, 1996. S. 128.1(4)(*f*) formerly read:

"(*f*) *Losses on election* — where a taxpayer elects under subparagraph (*b*)(iv) or paragraph (*d*),

(i) the taxpayer's income for the taxation year that includes the particular time shall be deemed to be the greater of

(A) that income otherwise determined, and

(B) the lesser of
(I) that income determined without reference to this subsection, and
(II) that income determined without reference to subparagraph (*b*)(iv) and paragraph (*d*), and
(ii) the amount of each of the taxpayer's non-capital loss, net capital loss, restricted farm loss, farm loss and limited partnership loss for the taxation year that includes the particular time shall be deemed to be the lesser of
(A) that amount otherwise determined, and
(B) the greater of
(I) that amount determined without reference to this subsection, and
(II) that amount determined without reference to subparagraph (*b*)(iv) and paragraph (*d*)."

S. 128.1(4)(*f*) was added by S.C. 1994, c. 21, s. 62(1), applicable after 1992 except that, where a corporation elects in accordance with paragraph 111(4)(*a*), s. 128.1(4)(*f*) applies to the corporation from the corporation's time of continuation (within the meaning assigned by that paragraph).

► 128.1(5) ◄

(5) Instalment interest. If an individual is deemed by subsection (4) to have disposed of a property in a taxation year, in applying sections 155 and 156 and subsections 156.1(1) to (3) and 161(2), (4) and (4.01) and any regulations made for the purposes of those provisions, the individual's total taxes payable under this Part and Part I.1 for the year are deemed to be the lesser of

(*a*) the individual's total taxes payable under this Part and Part I.1 for the year, determined before taking into consideration the specified future tax consequences for the year, and

(*b*) the amount that would be determined under paragraph (*a*) if subsection (4) did not apply to the individual for the year.

History: S. 128.1(5) was added by S.C. 2001, c. 17, s. 123(5), applicable to changes in residence that occur after October 1, 1996.

► 128.1(6) ◄

(6) Returning former resident. If an individual (other than a trust) becomes resident in Canada at a particular time in a taxation year and the last time (in this subsection referred to as the "emigration time"), before the particular time, at which the individual ceased to be resident in Canada was after October 1, 1996,

(*a*) subject to paragraph (*b*), if the individual so elects in writing and files the election with the Minister on or before the individual's filing-due date for the year, paragraphs (4)(*b*) and (*c*) do not apply to the individual's cessation of residence at the emigration time in respect of all properties that were taxable Canadian properties of the individual throughout the period that began at the emigration time and that ends at the particular time;

(*b*) where, if a property in respect of which an election under paragraph (*a*) is made had been acquired by the individual at the emigration time at a cost equal to its fair market value at the emigration time and had been disposed of by the individual immediately before the particular time for proceeds of disposition equal to its fair market value immediately before the particular time, the application of subsection 40(3.7) would reduce the amount that would, but for that subsection and this subsection, be the individual's loss from the disposition,

(i) the individual is deemed to have disposed of the property at the time of disposition (within the meaning assigned by paragraph (4)(*b*)) in respect of the emigration time for proceeds of disposition equal to the total of

(A) the adjusted cost base to the individual of the property immediately before the time of disposition, and

(B) the amount, if any, by which that reduction exceeds the lesser of

(I) the adjusted cost base to the individual of the property immediately before the time of disposition, and

(II) the amount, if any, that the individual specifies for the purposes of this paragraph in the election under paragraph (*a*) in respect of the property,

(ii) the individual is deemed to have reacquired the property at the emigration time at a cost equal to the amount, if any, by which the amount determined under clause (i)(A) exceeds the lesser of that reduction and the amount specified by the individual under subclause (i)(B)(II), and

(iii) for the purpose of section 119, the individual is deemed to have disposed of the property immediately before the particular time;

(*c*) if the individual so elects in writing and files the election with the Minister on or before the individual's filing-due date for the year, in respect of each property that the individual owned throughout the period that began at the emigration time and that ends at the particular time and that is deemed by paragraph (1)(*b*) to have been disposed of because the individual became resident in Canada, notwithstanding paragraphs (1)(*c*) and (4)(*b*) the individual's proceeds of disposition at the time of disposition (within the meaning assigned by paragraph (4)(*b*)), and the individual's cost of acquiring the property at the particular time, are deemed to be those proceeds and that cost, determined without reference to this paragraph, minus the least of

(i) the amount that would, but for this paragraph, have been the individual's gain from the disposition of the property deemed by paragraph (4)(*b*) to have occurred,

(ii) the fair market value of the property at the particular time, and

(iii) the amount that the individual specifies for the purposes of this paragraph in the election; and

(*d*) notwithstanding subsections 152(4) to (5), any assessment of tax that is payable under this Act by the individual for any taxation year that is before the year that includes the particular time and that is not before the year that includes the emigration time shall be made that is necessary to take an election under this subsection into account, except that no such assessment shall affect the computation of

(i) interest payable under this Act to or by a taxpayer in respect of any period that is before the day on which the taxpayer's return of income for the taxation year that includes the particular time is filed, or

(ii) any penalty payable under this Act.

History: S. 128.1(6) was added by S.C. 2001, c. 17, s. 123(5), applicable to changes in residence that occur after October 1, 1996, and

(*a*) an election made under any of paragraphs 128.1(6)(*a*) and (*c*), 128.1(7)(*d*) and (*g*) and 128.1(8)(*c*) of the Act by an individual who ceased to be resident in Canada before the day on which this Act receives royal assent [June 14, 2001], is deemed to have been made in a timely manner if it is made on or before the individual's filing-due date for the taxation year that includes that day.

Related Sections: S. 40(3.7) Losses of non-resident; s. 248(1), "taxable Canadian property, "filing-due date".
Regulations: 600(*c*).
Information Circulars: IC 07-1 Taxpayer Relief Provisions.
Tax Profile: December 2008 — Tax Planning for Emigration from Canada to the United States.

► 128.1(7) ◄

(7) Returning trust beneficiary. If an individual (other than a trust)

(*a*) becomes resident in Canada at a particular time in a taxation year,

(*b*) owns at the particular time a property that the individual last acquired on a trust distribution to which subsection 107(2) would, but for subsection 107(5), have applied and at a time (in this subsection referred to as the "distribution time") that was after October 1, 1996 and before the particular time, and

(*c*) was a beneficiary of the trust at the last time, before the particular time, at which the individual ceased to be resident in Canada,

the following rules apply:

(*d*) subject to paragraphs (*e*) and (*f*), if the individual and the trust jointly so elect in writing and file the election with the Minister on or before the earlier of their filing-due dates for their taxation years that include the particular time, subsection 107(2.1) does not apply to the distribution in respect of all properties acquired by the individual on the distribution that were taxable Canadian properties of the individual throughout the period that began at the distribution time and that ends at the particular time,

(*e*) paragraph (*f*) applies in respect of the individual, the trust and a property in respect of which an election under paragraph (*d*) is made where, if the individual

(i) had been resident in Canada at the distribution time,

(ii) had acquired the property at the distribution time at a cost equal to its fair market value at that time,

(iii) had ceased to be resident in Canada immediately after the distribution time, and

(iv) had, immediately before the particular time, disposed of the property for proceeds of disposition equal to its fair market value immediately before the particular time,

the application of subsection 40(3.7) would reduce the amount that would, but for that subsection and this subsection, have been the individual's loss from the disposition,

(*f*) where this paragraph applies in respect of an individual, a trust and a property,

(i) notwithstanding paragraph 107(2.1)(*a*), the trust is deemed to have disposed of the property at the distribution time for proceeds of disposition equal to the total of

(A) the cost amount to the trust of the property immediately before the distribution time, and

(B) the amount, if any, by which the reduction under subsection 40(3.7) described in paragraph (*e*) exceeds the lesser of

(I) the cost amount to the trust of the property immediately before the distribution time, and

(II) the amount, if any, which the individual and the trust jointly specify for the purposes of this paragraph in the election under paragraph (*d*) in respect of the property, and

(ii) notwithstanding paragraph 107(2.1)(*b*), the individual is deemed to have acquired the property at the distribution time at a cost equal to the amount, if any, by which the amount otherwise determined under paragraph 107(2)(*b*) exceeds the lesser of the reduction under subsection 40(3.7) described in paragraph (*e*) and the amount specified under subclause (i)(B)(II),

(*g*) if the individual and the trust jointly so elect in writing and file the election with the Minister on or before the later of their filing-due dates for their taxation years that include the particular time, in respect of each property that the individual owned throughout the period that began at the distribution time and that ends at the particular time and that is deemed by paragraph (1)(*b*) to have been disposed of because the individual became resident in Canada, notwithstanding paragraphs 107(2.1)(*a*) and (*b*), the trust's proceeds of disposition under paragraph 107(2.1)(*a*) at the distribution time, and the individual's cost of acquiring the property at the particular time, are deemed to be those proceeds and that cost determined without reference to this paragraph, minus the least of

(i) the amount that would, but for this paragraph, have been the trust's gain from the disposition of the property deemed by paragraph 107(2.1)(*a*) to have occurred,

(ii) the fair market value of the property at the particular time, and

(iii) the amount that the individual and the trust jointly specify for the purposes of this paragraph in the election,

(*h*) if the trust ceases to exist before the individual's filing- due date for the individual's taxation year that includes the particular time,

(i) an election or specification described in this subsection may be made by the individual alone in writing if the election is filed with the Minister on or before that filing-due date, and

(ii) if the individual alone makes such an election or specification, the individual and the trust are jointly and severally liable for any amount payable under this Act by the trust as a result of the election or specification, and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was

dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 128.1(7)(*h*)(ii) of the English version of the Act is replaced by the following:

(ii) if the individual alone makes such an election or specification, the individual and the trust are jointly and severally, or solidarily, liable for any amount payable under this Act by the trust as a result of the election or specification, and

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*i*) notwithstanding subsections 152(4) to (5), such assessment of tax payable under the Act by the trust or the individual for any year that is before the year that includes the particular time and that is not before the year that includes the distribution time shall be made as is necessary to take an election under this subsection into account, except that no such assessment shall affect the computation of

(i) interest payable under this Act to or by the trust or the individual in respect of any period that is before the individual's filing-due date for the taxation year that includes the particular time, or

(ii) any penalty payable under this Act.

History: S. 128.1(7) was added by S.C. 2001, c. 17, s. 123(5), applicable to changes in residence that occur after October 1, 1996, and

(*a*) an election made under any of paragraphs 128.1(6)(*a*) and (*c*), 128.1(7)(*d*) and (*g*) and 128.1(8)(*c*) of the Act by an individual who ceased to be resident in Canada before the day on which this Act receives royal assent [June 14, 2001], is deemed to have been made in a timely manner if it is made on or before the individual's filing-due date for the taxation year that includes that day.

Regulations: 600(*c*).
Information Circulars: IC 07-1 Taxpayer Relief Provisions.
Tax Profile: April 2007 — Tax Planning for Emigration from Canada.

► 128.1(8) ◄

(8) Post-emigration loss. If an individual (other than a trust)

(*a*) was deemed by paragraph (4)(*b*) to have disposed of a capital property at any particular time after October 1, 1996,

(*b*) has disposed of the property at a later time at which the property was a taxable Canadian property of the individual, and

(*c*) so elects in writing in the individual's return of income for the taxation year that includes the later time,

there shall, except for the purpose of paragraph (4)(*c*), be deducted from the individual's proceeds of disposition of the property at the particular time, and added to the individual's proceeds of disposition of the property at the later time, an amount equal to the least of

(*d*) the amount specified in respect of the property in the election,

(*e*) the amount that would, but for the election, be the individual's gain from the disposition of the property at the particular time, and

(*f*) the amount that would be the individual's loss from the disposition of the property at the later time, if the loss were determined having reference to every other provision of this Act including, for greater certainty, subsection 40(3.7) and section 112, but without reference to the election.

History: S. 128.1(8) was added by S.C. 2001, c. 17, s. 123(5), applicable to changes in residence that occur after October 1, 1996, and

(*a*) an election made under any of paragraphs 128.1(6)(*a*) and (*c*), 128.1(7)(*d*) and (*g*) and 128.1(8)(*c*) of the Act by an individual who ceased to be resident in Canada before June 14, 2001, is deemed to have been made in a timely manner if it is made on or before the individual's filing-due date for the taxation year that includes that day.

Related Sections: S. 152(6) Reassessment where certain deductions claimed.
Regulations: 600(*c*).
Tax Topics: No. 1850, Elections Available Under the Emigration Rules.

► 128.1(9) ◄

(9) Information reporting. An individual who ceases at a particular time in a taxation year to be resident in Canada, and who owns immediately after the particular time one or more reportable properties the total fair market value of which at the particular time is greater than $25,000, shall file with the Minister in prescribed form, on or before the individual's filing-due date for the year, a list of all the reportable properties that the individual owned immediately after the particular time.

History: S. 128.1(9) was added by S.C. 2001, c. 17, s. 123(5), applicable to changes in residence that occur after 1995, except that a form described in subsection 128.1(9) of the Act filed by an individual who ceased to be resident in Canada before June 14, 2001, is deemed to have been filed in a timely manner if it is filed on or before the individual's filing-due date for the taxation year that includes that day.

Forms: T1161.

► 128.1(10) ◄

(10) Definitions. The definitions in this subsection apply in this section.

"excluded right or interest" — "excluded right or interest" of a taxpayer who is an individual means

(*a*) a right of the individual under, or an interest of the individual in a trust governed by,

(i) a registered retirement savings plan or a plan referred to in subsection 146(12) as an "amended plan",

(ii) a registered retirement income fund,

(iii) a registered education savings plan,

(iii.1) a registered disability savings plan,

(iii.2) a TFSA,

(iv) a deferred profit sharing plan or a plan referred to in subsection 147(15) as a "revoked plan",

(v) an employees profit sharing plan,

(vi) an employee benefit plan (other than a plan described in subparagraph (*b*)(i) or (ii)),

(vii) a plan or arrangement (other than an employee benefit plan) under which the individual has a right to receive in a year remuneration in respect of services rendered by the individual in the year or a prior year,

(viii) a superannuation or pension fund or plan (other than an employee benefit plan),

(ix) a retirement compensation arrangement,

(x) a foreign retirement arrangement, or

(xi) a registered supplementary unemployment benefit plan;

(*b*) a right of the individual to a benefit under an employee benefit plan that is

(i) a plan or arrangement described in paragraph (*j*) of the definition "salary deferral arrangement" in subsection 248(1) that would, but for paragraphs

(*j*) and (*k*) of that definition, be a salary deferral arrangement, or

(ii) a plan or arrangement that would, but for paragraph 6801(*c*) of the *Income Tax Regulations*, be a salary deferral arrangement,

to the extent that the benefit can reasonably be considered to be attributable to services rendered by the individual in Canada;

(*c*) a right of the individual under an agreement referred to in subsection 7(1);

(*d*) a right of the individual to a retiring allowance;

(*e*) a right of the individual under, or an interest of the individual in, a trust that is

(i) an employee trust,

(ii) an amateur athlete trust,

(iii) a cemetery care trust, or

(iv) a trust governed by an eligible funeral arrangement;

(*f*) a right of the individual to receive a payment under

(i) an annuity contract, or

(ii) an income-averaging annuity contract;

(*g*) a right of the individual to a benefit under

(i) the *Canada Pension Plan* or a provincial plan described in section 3 of that Act,

(ii) the *Old Age Security Act*,

(iii) a provincial pension plan prescribed for the purpose of paragraph 60(*v*), or

(iv) a plan or arrangement instituted by the social security legislation of a country other than Canada or of a state, province or other political subdivision of such a country;

(*h*) a right of the individual to a benefit described in any of subparagraphs 56(1)(*a*)(iii) to (vi);

(*i*) a right of the individual to a payment out of a NISA Fund No. 2;

(*j*) an interest of the individual in a personal trust resident in Canada if the interest was never acquired for consideration and did not arise as a consequence of a qualifying disposition by the individual (within the meaning that would be assigned by subsection 107.4(1) if that subsection were read without reference to paragraphs 107.4(1)(*h*) and (*i*));

(*k*) an interest of the individual in a non-resident testamentary trust if the interest was never acquired for consideration; or

(*l*) an interest of the individual in a life insurance policy in Canada, except for that part of the policy in respect of which the individual is deemed by paragraph 138.1(1)(*e*) to have an interest in a related segregated fund trust.

History: S. 128.1(10), subparagraph (*a*)(iii.2) of the definition "excluded right or interest" was added by S.C. 2008, c. 28, s. 20(1), applicable to the 2009 and subsequent taxation years.

S. 128.1(10), subparagraph (*a*)(iii.1) of the definition "excluded right or interest" was added by S.C. 2007, c. 35, s. 113, applicable to the 2008 and subsequent taxation years.

S. 128.1(10), the definition "excluded right or interest" was added by S.C. 2001, c. 17, s. 123(5), applicable to changes in residence that occur after October 1, 1996, and

(*a*) an election made under any of paragraphs 128.1(6)(*a*) and (*c*), 128.1(7)(*d*) and (*g*) and 128.1(8)(*c*) of the Act by an individual who ceased to be resident in Canada before June 14, 2001, is deemed to have been made in a timely manner if it is made on or before the individual's filing-due date for the taxation year that includes that day; and

(*b*) a form described in subsection 128.1(9) of the Act filed by an individual who ceased to be resident in Canada before June 14, 2001, is deemed to have been filed in a timely manner if it is filed on or before the individual's filing-due date for the taxation year that includes that day.

Editorial Note: An "excluded right or interest" is exempt from the deemed disposition rule of s. 128.1(4)(*b*) upon a taxpayer's emigration from Canada and the deemed disposition rule of s. 128.1(1)(*b*) upon a taxpayer's immigration to Canada. Furthermore, excluded rights or interests (except those set out in paragraphs (*c*), (*j*) and (*l*) of the definition) are not "reportable properties" for the purposes of the reporting requirement for emigrating individuals found in s. 128.1(9).

Related Sections: S. 108(6) Variation of trusts; s. 108(7) Interests acquired for consideration.

"reportable property" — "reportable property" of an individual at a particular time means any property other than

(*a*) money that is legal tender in Canada and deposits of such money;

(*b*) property that would be an excluded right or interest of the individual if the definition "excluded right or interest" in this subsection were read without reference to paragraphs (*c*), (*j*) and (*l*) of that definition;

(*c*) if the individual is not a trust and was not, during the 120-month period that ends at the particular time, resident in Canada for more than 60 months, property described in subparagraph (4)(*b*)(iv) that is not taxable Canadian property; and

(*d*) any item of personal-use property the fair market value of which, at the particular time, is less than $10,000.

History: S. 128.1(10), the definition "reportable property" was added by S.C. 2001, c. 17, s. 123(5), applicable to changes in residence that occur after 1995.

SECTION 128.2:

► 128.2(1) ◄

(1) Cross-border mergers. Where a corporation formed at a particular time by the amalgamation or merger of, or by a plan of arrangement or other corporate reorganization in respect of, 2 or more corporations (each of which is referred to in this section as a "predecessor") is at the particular time resident in Canada, a predecessor that was not immediately before the particular time resident in Canada shall be deemed to have become resident in Canada immediately before the particular time.

History: S. 128.2(1) was added by S.C. 1994, c. 21, s. 62(1), applicable after 1992 except that, where a corporation elects in accordance with paragraph 111(4)(*a*), s. 128.2(1) applies to the corporation from the corporation's time of continuation (within the meaning assigned by that paragraph).

► 128.2(2) ◄

(2) Idem. Where a corporation formed at a particular time by the amalgamation or merger of, or by a plan of arrangement or other corporate reorganization in respect of, 2 or more corporations is at the particular time not resident in Canada, a predecessor that was immediately before the particular time resident in Canada shall be deemed to have ceased to be resident in Canada immediately before the particular time.

History: S. 128.2(2) was added by S.C. 1994, c. 21, s. 62(1), applicable after 1992 except that, where a corporation elects in accordance with paragraph 111(4)(*a*), s. 128.2(2) applies to the corporation from the corporation's time of continuation (within the meaning assigned by that paragraph).

► 128.2(3) ◄

(3) Windings-up excluded. For greater certainty, subsections (1) and (2) do not apply to reorganizations occurring solely because of the acquisition of property of one corporation by another corporation, pursuant to the

purchase of the property by the other corporation or because of the distribution of the property to the other corporation on the winding-up of the corporation.

History: S. 128.2(3) was added by S.C. 1994, c. 21, s. 62(1), applicable after 1992 except that, where a corporation elects in accordance with paragraph 111(4)(*a*), s. 128.2(3) applies to the corporation from the corporation's time of continuation (within the meaning assigned by that paragraph).

SECTION 128.3: Former resident — replaced shares.

If, in a transaction to which section 51, subparagraphs 85.1(1)(*a*)(i) and (ii), subsection 85.1(8) or section 86 or 87 applies, a person acquires a share (in this section referred to as the "new share") in exchange for another share or equity in a SIFT wind-up entity (in this section referred to as the "old share"), for the purposes of section 119, subsections 126(2.21) to (2.23), 128.1(6) to (8), 180.1(1.4) and 220(4.5) and (4.6), the person is deemed not to have disposed of the old share, and the new share is deemed to be the same share as the old share.

Department of Finance Comfort Letter [Application of Replaced Shares to Deemed Disposition on Emigration]

June 2, 2003

Dear XXXX:

I am writing in response to your letter dated April 25, 2003 to Mr. Lawrence Purdy of this Division asking that we consider recommending an amendment to section 128.3 of the *Income Tax Act* ("Act") so that this section applies for the purposes of subparagraph 128.1(4)(*b*)(iv).

Under the taxpayer migration rules in section 128.1 of the Act, the post-departure disposition of a property can have important tax consequences for an emigrant individual. Section 128.3 of the Act allows for a deferral of these consequences in certain circumstances, by deeming the individual not to have disposed of shares that were converted to new shares under section 51 of the Act, or subject to a share for share exchange, reorganization or amalgamation under any of sections 85.1, 86 or 87 of the Act. Section 128.3 also deems the share received by an individual to be the same as the old share for the purposes of section 119, and subsections 126(2.21) to (2.23). These provisions provide tax credits for individuals who were subject to the departure rules. As well, the new share is deemed to be the same share for the purposes of subsections 128.1(6) to (8), which allow returning former residents to "unwind" transactions subject to the departure tax rules, or in certain cases carry back future losses to the year of departure. By deeming the new share to be the same as the old share, the rule ensures that the individual does not lose access to these relieving provisions.

However, you have pointed out that section 128.3 does not apply for the purposes of subparagraph 128.1(4)(*b*)(iv). Under subparagraph 128.1(4)(*b*)(iv) property owned by an individual is not subject to the deemed disposition rules on emigration from Canada if the individual, during the last 10 years, was not resident in Canada for more than 60 months and owned the property when the individual first took up residence in Canada or inherited the property after that time. Since section 128.3 does not apply, an individual who immigrated to Canada owning shares, and received new shares after this time because of a share for share exchange, reorganization or merger, or because the shares were converted into new shares, would be deemed to dispose of these new shares upon emigration from Canada, even if the individual had resided here less than 60 months in the past 10 years. In your view this is an unfair result, and you request that we consider extending the policy of section 128.3 to include individuals who find themselves in this situation.

The policy intent of section 128.3 is to allow continuity in the migration rules' treatment of an individual where the individual's property has been replaced because of a situation that is typically beyond the individual's control, such as a corporate merger or reorganization. It is important to note that although this section is relatively new, and the previous rules, contained in section 48 of the Act, did not provide such relief, there was in the past less need for it. This was because the previous rules allowed individuals to defer departure tax on most property owned by them, by electing to treat the property as taxable Canadian property (TCP). That election meant that the property was not deemed disposed of upon emigration. Therefore, an individual who received new shares because of a reorganization or merger could elect on emigration to treat these as TCP and avoid the deemed disposition of this property on emigration. The election effectively removed the need to have something similar to section 128.3.

In my view, there is no reason in policy terms not to extend the relief provided in section 128.3 to subparagraph 128.1(4)(*b*)(iv), which as I have described provides an exception to the deemed disposition rules for short-term residents. The effect of the change would be that short-term residents who own shares on immigration and receive new shares on a tax deferred basis under any of sections 51, 85.1, 86 or 87 of the Act, would be deemed not to have disposed of the share and the new share would be the same as the old share, thereby allowing the share to continue to qualify for the exemption from the deemed disposition rules provided in subparagraph 128.1(4)(*b*)(iv).

You further request that we recommend this change be applicable for individuals who have emigrated from Canada after October 1, 1996 to ensure consistency. We do not normally recommend that changes such as this be made on such a markedly retroactive basis, since both taxpayers and the Government need to be able to rely at any particular time on the law as it exists at that time. Exceptionally, however, we do recommend linking a relieving change to the transaction or circumstance that makes the Government aware of the need for the change. In this case, we understand that this fact situation applies to your client's 2002 taxation year and therefore we are willing to recommend that this change apply to an individual's 2002 and subsequent taxation years.

I cannot offer any assurance that either the Minister of Finance or Parliament will agree with the recommendation that we intend to make in this regard. Nonetheless, I hope that this statement of our position is helpful. Thank you for bringing this issue to our attention.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 128.3 was replaced by S.C. 2009, c. 2, s. 43(1), applicable after December 19, 2007. S. 128.3 formerly read:

"S. 128.3. *Former resident — replaced shares.* If, in a transaction to which section 51, subparagraphs 85.1(1)(*a*)(i) and (ii) or section 86 or 87 apply, a person acquires a share (in this section referred to as the 'new share') in exchange for another share (in this section referred to as the 'old share'), for the purposes of section 119, subsections 126(2.21) to (2.23), 128.1(6) to (8), 180.1(1.4) and 220(4.5) and (4.6), the person is deemed not to have disposed of the old share, and the new share is deemed to be the same share as the old share."

S. 128.3 was added by S.C. 2001, c. 17, s. 125(1), applicable after October 1, 1996.

Private Corporations

SECTION 129:

► 129(1) ◄

(1) Dividend refund to private corporation. Where a return of a corporation's income under this Part for a taxation year is made within 3 years after the end of the year, the Minister

(*a*) may, on mailing the notice of assessment for the year, refund without application therefor an amount (in this Act referred to as its "dividend refund" for the year) equal to the lesser of

(i) 1/3 of all taxable dividends paid by the corporation on shares of its capital stock in the year and at a time when it was a private corporation, and

(ii) its refundable dividend tax on hand at the end of the year; and

(*b*) shall, with all due dispatch, make the dividend refund after mailing the notice of assessment if an application for it has been made in writing by the corporation within the period within which the Minister would be allowed under subsection 152(4) to assess tax payable under this Part by the corporation for the year if that subsection were read without reference to paragraph 152(4)(*a*).

History: S. 129(1)(*b*) was amended by S.C. 1998, c. 19, s. 154(1), applicable after April 27, 1989. S. 129(1)(*b*) formerly read:

"(*b*) shall, with all due dispatch, make such a refund after mailing the notice of assessment if application therefor has been made in writing by the corporation within the period determined under paragraph 152(4)(*b*) or (*c*), as the case may be, within which the Minister may reassess tax payable by the corporation for the year."

S. 129(1)(*a*)(i) was amended by S.C. 1996, c. 21, s. 32(1), applicable to taxation years that end after June 1995 except that, in its application to such taxation years that began before July 1995,

(*a*) subparagraph 129(1)(*a*)(i) shall be read as follows:

"(i) an amount in respect of taxable dividends paid by the corporation on shares of its capital stock in the year and at a time when it was a private corporation equal to the total of

(A) 1/4 of all such dividends paid before July 1995, and

(B) 1/3 of all such dividends paid after June 1995."

S. 129(1)(*a*)(i) formerly read:

"(i) 1/4 of all taxable dividends paid by the corporation in the year and at a time when it was a private corporation on shares of its capital stock, and"

S. 129(1), the portion before subparagraph (*a*)(ii), was amended by S.C. 1994, c. 7, Sched. VIII, s. 73(1), applicable to the 1993 and subsequent taxation years except that, in its application to taxation years beginning before 1993 and ending after 1992, subparagraph 129(1)(*a*)(i) shall be read as follows:

"(i) the total of

(A) 1/4 of all taxable dividends paid by the corporation on shares of its capital stock in the year and before 1993, where the corporation was a private corporation at the end of the year, and

(B) 1/4 of all taxable dividends paid by the corporation on shares of its capital stock in the year and at a time after 1992 when it was a private corporation, and"

That part formerly read:

"(1) Where a corporation was, at the end of any taxation year, a private corporation and a return of its income for the year has been made within 3 years from the end of the year, the Minister

(*a*) may, on mailing the notice of assessment for the year, refund without application therefor an amount (in this Act referred to as its 'dividend refund' for the year) equal to the lesser of

(i) 1/4 of all taxable dividends paid by it in the year on shares of its capital stock, and"

Editorial Note: Private corporation status is required to obtain a dividend refund, which is limited to 1/3 of taxable dividends paid, or the corporation's refundable tax balance, if less. Both an eligible and ineligible dividend will generate a dividend refund, but a capital dividend will not.

Related Sections: S. 55(2) Deemed proceeds or capital gain; s. 87(2)(aa) Refundable dividend tax on hand; s. 89(1), "Canadian corporation", "private corporation", "taxable dividends"; s. 125(7), "Canadian-controlled private corporation"; s. 129(3) Definition of "refundable dividend tax on hand"; s. 131(5) Dividend refund to mutual fund corporation; s. 157(3) Reduced instalments; s. 157(3.1) Amount of payment — three-month period; s. 186 Tax on assessable dividends; s. 248(1), "dividend"; s. 260(7) Dividend refund; s. 261(5) Converting Canadian currency amounts; s. 261(9) Converting functional currency amounts.

Interpretation Bulletins: *Primary* — IT-243R4 Dividend refund to private corporations. *Secondary* — IT-432R2 Benefits conferred on shareholders.

Canadian Tax Foundation: Heogner, "Refundable Dividend Tax On Hand And The Dividend Refund: Planning To Maximize The Tax Benefits, in Personal Tax Planning feature", *2004 Canadian Tax Journal*, No. 2, 1217.

► 129(1.1) ◄

(1.1) Dividends paid to bankrupt controlling corporation. In determining the dividend refund for a taxation year ending after 1977 of a particular corporation, no amount may be included by virtue of subparagraph (1)(*a*)(i) in respect of a taxable dividend paid to a shareholder that

(*a*) was a corporation that controlled (within the meaning assigned by subsection 186(2)) the particular corporation at the time the dividend was paid; and

(*b*) was a bankrupt (within the meaning assigned by subsection 128(3)) at any time during that taxation year of the particular corporation.

► 129(1.2) ◄

(1.2) Dividends deemed not to be taxable dividends. Where a dividend is paid on a share of the capital stock of a corporation and the share (or another share for which the share was substituted) was acquired by its holder in a transaction or as part of a series of transactions one of the main purposes of which was to enable the corporation to obtain a dividend refund, the dividend shall, for the purpose of subsection (1), be deemed not to be a taxable dividend.

Editorial Note: This provision prevents a corporation from obtaining a dividend refund if the share on which a dividend is paid was acquired in a transaction or as part of a series of transactions, one of the main purposes of which was to enable the corporation to obtain a dividend refund. Technically, there is no exception for related persons, etc. A somewhat similar, but more complex, set of restrictions applies to "trading" in capital dividends (s. 83(2.1)–(2.4)).

Related Sections: S. 83(2.1) Capital dividend — anti-avoidance rule; s. 83(2.2) Capital dividend — exception to anti-avoidance rule; s. 83(2.3) Capital dividend — exception to anti-avoidance rule; s. 83(2.4) Capital dividend — exception to anti-avoidance rule; s. 87(2)(*aa*) Refundable dividend tax on hand.

► 129(2) ◄

(2) Application to other liability. Instead of making a refund that might otherwise be made under subsection (1), the Minister may, where the corporation is liable or about to become liable to make any payment under this Act, apply the amount that would otherwise be refundable to that other liability and notify the corporation of that action.

► 129(2.1) ◄

(2.1) Interest on dividend refund. Where a dividend refund for a taxation year is paid to, or applied to a liability of, a corporation, the Minister shall pay or apply interest on the refund at the prescribed rate for the period beginning on the day that is the later of

(*a*) the day that is 120 days after the end of the year, and

(*b*) the day that is 30 days after the day on which the corporation's return of income under this Part for the year was filed under section 150, unless the return was filed on or before the day on or before which it was required to be filed,

and ending on the day on which the refund is paid or applied.

History: S. 129(2.1)(*b*) was replaced by S.C. 2003, c. 15, s. 111(1), applicable to taxation years that end after June 2003. S. 129(2.1)(*b*) formerly read:

"(*b*) the day on which the corporation's return of income under this Part for the year was filed under section 150, unless the return was filed on or before the day on or before which it was required to be filed,"

S. 129(2.1) was added by S.C. 1994, c. 7, Sched. VIII, s. 73(2), applicable to dividend refunds paid or applied with respect to taxation years beginning after 1991.

Related Sections: S. 161.1(1) Refund interest.

Regulations: 4301.

► 129(2.2) ◄

(2.2) Excess interest on dividend refund. Where, at any particular time, interest has been paid to, or applied to a liability of, a corporation under subsection (2.1) in respect of a dividend refund and it is determined at a subsequent time that the dividend refund was less than that in respect of which interest was so paid or applied,

(*a*) the amount by which the interest that was so paid or applied exceeds the interest, if any, computed in

respect of the amount that is determined at the subsequent time to be the dividend refund shall be deemed to be an amount (in this subsection referred to as the "amount payable") that became payable under this Part by the corporation at the particular time;

(*b*) the corporation shall pay to the Receiver General interest at the prescribed rate on the amount payable, computed from the particular time to the day of payment; and

(*c*) the Minister may at any time assess the corporation in respect of the amount payable and, where the Minister makes such an assessment, the provisions of Divisions I and J apply, with such modifications as the circumstances require, in respect of the assessment as though it had been made under section 152.

History: S. 129(2.2) was added by S.C. 1994, c. 7, Sched. VIII, s. 73(2), applicable to dividend refunds paid or applied with respect to taxation years beginning after 1991.

Related Sections: S. 161.1(1) Refund interest.
Regulations: 4301.

► 129(3) ◄

(3) Definition of "refundable dividend tax on hand". In this section, "refundable dividend tax on hand" of a corporation at the end of a taxation year means the amount, if any, by which the total of

(*a*) where the corporation was a Canadian-controlled private corporation throughout the year, the least of

(i) the amount determined by the formula

A – B

where

A is 26 2/3% of the corporation's aggregate investment income for the year, and

B is the amount, if any, by which

(I) the amount deducted under subsection 126(1) from the tax for the year otherwise payable by it under this Part

exceeds

(II) 9 1/3% of its foreign investment income for the year,

(ii) 26 2/3% of the amount, if any, by which the corporation's taxable income for the year exceeds the total of

(A) the least of the amounts determined under paragraphs 125(1)(*a*) to (*c*) in respect of the corporation for the year,

(B) 25/9 of the total of amounts deducted under subsection 126(1) from its tax for the year otherwise payable under this Part, and

(C) 10/4 of the total of amounts deducted under subsection 126(2) from its tax for the year otherwise payable under this Part, and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Clause 129(3)(*a*)(ii)(C) of the Act is replaced by the following:

(C) three times the total of amounts deducted under subsection 126(2) from its tax for the year otherwise payable under this Part, and

Applicable: To the 2003 and subsequent taxation years.

Explanatory Note: Section 129 of the Act allows a private corporation that pays a taxable dividend to obtain a partial refund of the income taxes it has paid on its investment income. For this purpose, paragraph 129(3)(*a*) adds to the refundable dividend tax on hand of a Canadian-controlled private corporation at the end of a taxation year the least of three amounts.

One of these amounts, which is described in subparagraph 129(3)(*a*)(ii), is 26 2/3% of a corporation's taxable income, less income that either benefited from the section 125 small business deduction or supported a foreign tax credit (FTC). Income that supported an FTC is measured by multiplying both the corporation's non-business- and its business-income FTCs by factors that reflect assumed Canadian tax rates. Subparagraph 129(3)(*a*)(ii) is amended to adjust the factor for foreign business income. The factor for business-income FTCs will become 3. This implies an assumed tax rate of 33.3%.

This amendment applies to the 2003 and subsequent taxation years.

(iii) the corporation's tax for the year payable under this Part determined without reference to section 123.2,

(*b*) the total of the taxes under Part IV payable by the corporation for the year, and

(*c*) where the corporation was a private corporation at the end of its preceding taxation year, the corporation's refundable dividend tax on hand at the end of that preceding year

exceeds

(*d*) the corporation's dividend refund for its preceding taxation year.

History: S. 129(3) was amended by S.C. 1996, c. 21, s. 32(2), applicable to taxation years that end after June 1995 except that, in its application to such taxation years that began before July 1995, in computing the amount determined under each of subparagraphs 129(3)(*a*)(i) and (ii), there shall be deducted an amount equal to that proportion of 1/4 of the amount otherwise determined under the subparagraph that the number of days in the year that are before July 1995 is of the number of days in the year.

S. 129(3) formerly read:

"(3) *Definition of 'refundable dividend tax on hand'.* In this section, 'refundable dividend tax on hand' of a corporation at the end of any particular taxation year means the amount, if any, by which the total of

(*a*) the total of all amounts each of which is an amount in respect of a taxation year commencing after it last became a private corporation and ending not later than the end of the particular taxation year and, where the taxation year commences after November 12, 1981, throughout which the corporation was a Canadian-controlled private corporation, equal to, in respect of taxation years ending before 1978, the least of, in respect of taxation years ending after 1977 and commencing before 1987, 2/3 of the least of, in respect of taxation years commencing after 1986 and before 1988, the least of, and in respect of taxation years commencing after 1987, 4/5 of the least of

(i) 25% of the total of all amounts each of which is

(A) in respect of a taxation year ending before November 13, 1981, the amount, if any, by which the total of its Canadian investment income for the year and its foreign investment income for the year exceeds the amount deductible under paragraph 111(1)(*b*) from the corporation's income for the year, or

(B) in respect of a taxation year ending after November 12, 1981, the amount, if any, by which the total of the amounts that would, if subsection (4) were read without reference to C in the definition 'Canadian investment income' in that subsection, be its Canadian investment income for the year and its foreign investment income for the year, exceeds the total of

(I) the amount, if any, deducted under paragraph 111(1)(*b*) from the corporation's income for the year, and

(II) the total of all amounts each of which is the amount of the corporation's loss for the year from a source that is property,

(ii) the amount, if any, by which the total of

(A) 25% of the corporation's Canadian investment income for the year, and

(B) the amount, if any, by which 30% of the corporation's foreign investment income for the year exceeds the total of amounts deducted under subsection 126(1) from the tax for the year otherwise payable by it under this Part,

exceeds 25% of the amount, if any, deducted under paragraph 111(1)(*b*) from the corporation's income for the year,

(iii) 25% of the amount, if any, by which the corporation's taxable income for the year exceeds the total of

(A) the least of the amounts determined under paragraphs 125(1)(*a*) to (*c*) in respect of the corporation for the year,

(B) 10/3 of the total of amounts deducted under subsection 126(1) from its tax for the year otherwise payable under this Part, and

(C) 10/4 of the total of amounts deducted under subsection 126(2) from its tax for the year otherwise payable under this Part, and

(iv) 5/4 of the amount of the corporation's tax for the year payable under this Part determined without reference to section 123.2,

(*b*) the total of the taxes under Part IV payable by the corporation for the particular taxation year and any previous taxation years ending after it last became a private corporation, and

(*b.1*) the amount, if any, of the corporation's addition at December 31, 1986 of refundable dividend tax on hand

exceeds the total of

(*c*) the total of the corporation's dividend refunds for taxation years ending after it last became a private corporation and before the particular taxation year,

(*d*) the amount, if any, of the corporation's reduction at December 31, 1977 of refundable dividend tax on hand, and

(*e*) the amount, if any, of the corporation's reduction at December 31, 1987 of refundable dividend tax on hand."

S. 129(3), that portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 73(3), applicable to the 1993 and subsequent taxation years. That part formerly read:

"(3) In this section, 'refundable dividend tax on hand' of a private corporation at the end of any particular taxation year means the amount, if any, by which the total of"

Editorial Note: The calculation of a corporation's refundable tax on hand is based on (a) 26 2/3% of a CCPC's aggregate investment income for the year (net of certain foreign tax adjustments); (b) Part IV tax payable for the year; (c) the RDTOH balance at the end of the preceding year of a private corporation; less (d) the dividend refund for the preceding year.

With respect to (a), the corporation must be a CCPC throughout the year; however, subsection 249(3.1) (or (4)) provides a deemed year end when that status is lost. S. 129(3)(*a*)(i) adds 26 2/3% of "aggregate investment income" (see editorial note for this definition), net of an adjustment designed to reflect the reduction of Canadian tax due to foreign tax credits. S. 129(3)(*a*)(ii) and (iii) are "limiting amounts": s. 129(3)(a)(ii) is based on 26 2/3% of taxable income, net of the small business deduction and adjustments re foreign tax credits; and s. 129(3)(*a*)(iii) is based on the corporation's Part I tax for the year. The 26 2/3% rate takes into account the 6 2/3% refundable tax on investment income, per s. 123.3.

Related Sections: S. 87(2)(*aa*) Refundable dividend tax on hand; s. 89(1), "private corporation"; s. 123.3 Refundable tax on CCPC's investment income; s. 125(1) Small business deduction; s. 125(7), "Canadian-controlled private corporation"; s. 126(1) Foreign tax deduction — non-business income; s. 126(2) Foreign tax deduction — business income; s. 129(1) Dividend refund to private corporation; s. 129(3.1) Application; s. 129(4) Definitions; s. 131(5) Dividend refund to mutual fund corporation; s. 131(11) Rules respecting prescribed labour-sponsored venture capital corporations; s. 186(1) Tax on assessable dividends; s. 186(5) Deemed private corporation.

Interpretation Bulletins: *Secondary* — IT-269R4 Part IV tax on taxable dividends received by a private corporation or a subject corporation.

Canadian Tax Foundation: Heogner, "Refundable Dividend Tax On Hand And The Dividend Refund: Planning To Maximize The Tax Benefits, in Personal Tax Planning feature", *2004 Canadian Tax Journal*, No. 2, 1217.

► 129(3.1) ◄

(3.1) Application. Where, in a taxation year that begins after November 12, 1981, a corporation that last became a private corporation on or before that date and that was throughout the year a private corporation, other than a Canadian-controlled private corporation, has included in its income for the year an amount in respect of property that the corporation

(*a*) disposed of before November 13, 1981,

(*b*) was obligated to dispose of under the terms of an agreement in writing entered into before November 13, 1981, or

(*c*) is deemed by subsection 44(2) to have disposed of at any time after November 12, 1981 because of an event referred to in paragraph (*b*), (*c*) or (*d*) of the definition "proceeds of disposition" in section 54 in respect of the disposition that occurred before November 13, 1981,

paragraph 3(*a*) shall apply as if the corporation were a Canadian-controlled private corporation throughout the year, except that the total of the amounts determined under that paragraph in respect of the corporation for the year shall not exceed the amount that would be so determined if the only income of the corporation for the year were the amount included in respect of the disposition of such property.

History: S. 129(3.1) was added by S.C. 2001, c. 17, s. 126(1), applicable to taxation years that end after June 1995 and before 2003.

S. 129(3.1) was repealed by S.C. 1996, c. 21, s. 32(2), applicable to taxation years that end after June 1995.

S. 129(3.1) formerly read:

"(3.1) *Definition of 'reduction at December 31, 1977 of refundable dividend tax on hand'.* In subsection (3), 'reduction at December 31, 1977 of refundable dividend tax on hand' of a corporation means the amount that is 1/3 of the amount, if any, by which the total of

(*a*) the amount, if any, of the corporation's refundable dividend tax on hand at the end of its 1977 taxation year, and

(*b*) the amount, if any, of the tax under Part IV payable by the corporation for its 1978 taxation year in respect of taxable dividends received by it in that year and before 1978,

exceeds the total of

(*c*) the corporation's dividend refund, if any, for its 1977 taxation year, and

(*d*) 1/3 of the taxable dividends, if any, paid by the corporation in its 1978 taxation year and before 1978."

(3.2)–(3.5) [Repealed by S.C. 1996, c. 21, s. 32(2).]

History: S. 129(3.2)–(3.5) were repealed by S.C. 1996, c. 21, s. 32(2), applicable to taxation years that end after June 1995. S. 129(3.2)–(3.5) formerly read:

"(3.2) *Application.* Where, in a taxation year commencing after November 12, 1981, a corporation that last became a private corporation on or before that date and that was throughout the year a private corporation, other than a Canadian-controlled private corporation, has included in its income for the year an amount in respect of property that the corporation

(*a*) disposed of before November 13, 1981,

(*b*) was obligated to dispose of under the terms of an agreement in writing entered into before November 13, 1981, or

(*c*) is deemed by subsection 44(2) to have disposed of at any time after November 12, 1981 by virtue of an event referred to in paragraph (*b*), (*c*) or (*d*) of the definition 'proceeds of disposition' in section 54 in respect of the disposition that occurred before November 13, 1981,

paragraph (3)(*a*) shall apply as if the corporation were a Canadian-controlled private corporation throughout the year, except that the total of the amounts determined under that paragraph in respect of the year shall not exceed the amount that would be so determined if the only income of the corporation for the year were the amount included in respect of the disposition of such property.

(3.3) *Definition of 'addition at December 31, 1986 of refundable dividend tax on hand'.* In subsection (3), 'addition at December 31, 1986 of refundable dividend tax on hand' of a corporation means the amount that is 1/2 of the amount, if any, by which

(*a*) the amount, if any, of the corporation's refundable dividend tax on hand at the end of its last taxation year commencing before 1987, determined without reference to paragraph (3)(*b.1*),

exceeds the total of

(*b*) the amount, if any, of the tax payable under Part IV by the corporation for its last taxation year commencing before 1987 in respect of taxable dividends received by it in that year and after 1986,

(*c*) 1/4 of the taxable dividends, if any, paid by the corporation before 1987 in its last taxation year commencing before 1987, and

(*d*) any amount added under paragraph 88(1)(e.5) in computing the corporation's refundable dividend tax on hand at the end of its last taxation year commencing before 1987 in respect of the refundable dividend tax on hand of a subsidiary (within the meaning assigned by subsection 88(1)) for its 1987 or 1988 taxation year.

(3.4) *Reduction under paragraph (3.3)(a).* Where a corporation has received a taxable dividend after February 25, 1986 and before 1987 as part of a transaction effected after February 25, 1986 or series of transactions each of which was effected after that day and it may be reasonably considered that one of the main purposes thereof was to increase the corporation's

refundable dividend tax on hand at the end of a taxation year by virtue of the application of subsection (3.3), the amount otherwise determined under paragraph (3.3)(*a*) in respect of the corporation shall be reduced by the tax payable under Part IV by the corporation in respect of the dividend.

(3.5) *Definition of 'reduction at December 31, 1987 of refundable dividend tax on hand'.* In subsection (3), 'reduction at December 31, 1987 of refundable dividend tax on hand' of a corporation means the amount that is 1/4 of the amount, if any, by which

(*a*) the amount, if any, of the corporation's refundable dividend tax on hand at the end of its last taxation year commencing before 1988, determined without reference to paragraph (3)(*e*),

exceeds the total of

(*b*) the amount, if any, of the tax payable under Part IV by the corporation for its last taxation year commencing before 1988 in respect of taxable dividends received by it in that year and after 1987,

(*c*) 1/3 of the taxable dividends, if any, paid by the corporation before 1988 in its last taxation year commencing before 1988,

(*d*) any amount added, under paragraph 88(1)(e.5) in computing the corporation's refundable dividend tax on hand at the end of its last taxation year beginning before 1988, in respect of the refundable dividend tax on hand of a subsidiary (within the meaning assigned by subsection 88(1)) for a taxation year ending after 1987, and

(*e*) an amount equal to that proportion of 1/5 of the least of the amounts determined under subparagraphs (3)(*a*)(i) to (iv) in respect of its last taxation year commencing before 1988 that the number of days in the year that are after 1987 is of the number of days in the year."

S. 129(3.5)(*d*) was amended by S.C. 1994, c. 7, Sched. II, s. 108(1), applicable to the 1988 and subsequent taxation years. S. 129(3.5)(*d*) formerly read:

"(*d*) any amount added under paragraph 88(1)(e.5) in computing the corporation's refundable dividend tax on hand at the end of its last taxation year commencing before 1988 in respect of the refundable dividend tax on hand of a subsidiary (within the meaning assigned by subsection 88(1)) for a taxation year commencing after 1987, and"

► 129(4) ◄

(4) Definitions. The definitions in this subsection apply in this section.

History: The portion of s. 129(4) before the first definition was amended by S.C. 1996, c. 21, s. 32(2), applicable to taxation years that end after June 1995. That part formerly read:

"(4) *Definitions.* In subsection (3),"

"aggregate investment income" — "aggregate investment income" of a corporation for a taxation year means the amount, if any, by which the total of all amounts, each of which is

(*a*) the amount, if any, by which

(i) the eligible portion of the corporation's taxable capital gains for the year

exceeds the total of

(ii) the eligible portion of its allowable capital losses for the year, and

(iii) the amount, if any, deducted under paragraph 111(1)(*b*) in computing its taxable income for the year, or

(*b*) the corporation's income for the year from a source that is a property, other than

(i) exempt income,

(ii) an amount included under subsection 12(10.2) in computing the corporation's income for the year,

(iii) the portion of any dividend that was deductible in computing the corporation's taxable income for the year, and

(iv) income that, but for paragraph 108(5)(*a*), would not be income from a property,

exceeds the total of all amounts, each of which is the corporation's loss for the year from a source that is a property.

History: S. 129(4), the definition of "aggregate investment income", was added by S.C. 1996, c. 21, s. 32(2), applicable to taxation years that end after June 1995.

Editorial Note: The calculation of a corporation's aggregate investment income is made by determining the total of: (a) the eligible portion of taxable capital gains — basically, that have accrued while the corporation was a CCPC or certain other specialty corporations (see the editorial note for the definition of "eligible portion"); and (b) income from property (with certain exceptions, including exempt income and deductible dividends) — this includes "specified investment business" income. (Note: The eligible portion of taxable capital gains is net of the eligible portion of allowable capital losses, and capital loss carryovers.)

Related Sections: S. 89(1), "general rate income pool", "low rate income pool; s. 123.3 Refundable tax on CCPC's investment income; s. 123.4(1), "full rate taxable income"; s. 125(7), "active business carried on by a corporation", "specified investment business"; s. 125.1 Manufacturing and processing profits deductions; s. 131(11) Rules respecting prescribed labour-sponsored venture capital corporations; s. 248(1), "aggregate investment income".

Forms: T2 SCH 7.

"Canadian investment income" — [Repealed by S.C. 1996, c. 21, s. 32(2).]

History: S. 129(4), the definition of "Canadian investment income", was repealed by S.C. 1996, c. 21, s. 32(2), applicable to taxation years that end after June 1995. That definition formerly read:

" *'Canadian investment income'* — 'Canadian investment income' of a corporation for a taxation year means the amount determined by the formula

(A + B) – C

where

A is the amount determined by the formula

(K – L) – (M – N)

where

K is the total of such of the corporation's taxable capital gains for the year from dispositions of property as may reasonably be considered to be income from sources in Canada,

L is the total of all amounts each of which is the portion of a taxable capital gain referred to in the description of K in this definition from the disposition by it of a property, other than a designated property, that may reasonably be regarded as having accrued while the property, or a property for which it was substituted, was property of a corporation other than a Canadian-controlled private corporation, an investment corporation, a mortgage investment corporation or a mutual fund corporation,

M is the total of such of the corporation's allowable capital losses for the year from dispositions of property as may reasonably be considered to be losses from sources in Canada, and

N is the total of all amounts each of which is the portion of an allowable capital loss referred to in the description of M in this definition from the disposition by it of a property, other than a designated property, that may reasonably be regarded as having accrued while the property, or a property for which it was substituted, was property of a corporation other than a Canadian-controlled private corporation, an investment corporation, a mortgage investment corporation or a mutual fund corporation,

B is the total of all amounts each of which is the corporation's income for the year from a source in Canada that is property (other than exempt income, an amount included under subsection 12(10.2) in the corporation's income for the year, any dividend the amount of which was deductible in computing its taxable income for the year or income that, but for paragraph 108(5)(*a*), would not be income from a property), determined after deducting all outlays and expenses deductible in computing the corporation's income for the year to the extent that they can reasonably be regarded as having been made or incurred for the purpose of earning income from that property

C is the total of all amounts each of which is the corporation's loss for the year from a source in Canada that is a property;"

The description of B in the definition "Canadian investment income" in subsection 129(4) was amended by S.C. 1994, c. 7, Sched. VIII, s. 73(4), applicable to the 1991 and subsequent taxation years. That part formerly read:

"B is the total of all amounts each of which is the corporation's income for the year from a source in Canada that is property (other than exempt income, any dividend the amount of which was deductible in computing its taxable income for the year or income that, but for paragraph 108(5)(*a*), would not be income from a property), determined after deducting all outlays and expenses deductible in computing the corporation's income for the year to the extent that they may reasonably be regarded as having been made or incurred for the purpose of earning income from that property, and"

Related Sections: S. 129(4.1) Interpretation of "income" or "loss"; s. 129(4.2) Idem; s. 129(6) Investment income from associated corporation deemed to be active business income.

Interpretation Bulletins: *Secondary* — IT-484R2 Business investment losses.

Cases: The taxpayer earned interest on U.S. dollar deposits in the Philippines, such funds being committed to the carrying on of the taxpayer's

business there. It was held that the deposits were an integral part of the business and therefore the interest earned on them was not foreign investment income. *Ensite Ltd. v. The Queen,* 86 DTC 6521 (S.C.C.). See also *The Queen v. Irving Garber Sales Canada Ltd.,* 92 DTC 6498 (F.C.T.D.).

"eligible portion" — "eligible portion" of a corporation's taxable capital gains or allowable capital losses for a taxation year is the total of all amounts each of which is the portion of a taxable capital gain or an allowable capital loss, as the case may be, of the corporation for the year from a disposition of a property that, except where the property was a designated property (within the meaning assigned by subsection 89(1)), cannot reasonably be regarded as having accrued while the property, or a property for which it was substituted, was property of a corporation other than a Canadian-controlled private corporation, an investment corporation, a mortgage investment corporation or a mutual fund corporation.

History: S. 129(4), the definition of "eligible portion", was added by S.C. 1996, c. 21, s. 32(2), applicable to taxation years that end after June 1995.

Editorial Note: This definition restricts refundable tax to taxable capital gains accrued while the corporation is a CCPC (or certain other specialty corporations). However, certain "old" gains (in respect of "designated property") are grandfathered — basically, gains from qualifying capital property held before the ability to generate refundable dividend tax on hand (otherwise than where Part IV tax applies) became limited to CCPCs in 1981.

Related Sections: S. 89(1), "designated property"; s. 129(4), "aggregate investment income".

"foreign investment income" — "foreign investment income" of a corporation for a taxation year is the amount that would be its aggregate investment income for the year if

(*a*) every amount of its income, loss, capital gain or capital loss for the year that can reasonably be regarded as being from a source in Canada were nil,

(*b*) no amount were deducted under paragraph 111(1)(*b*) in computing its taxable income for the year, and

(*c*) this Act were read without reference to paragraph (*a*) of the definition "income" or "loss" in this subsection.

History: S. 129(4), the definition of "foreign investment income", was amended by S.C. 1996, c. 21, s. 32(2), applicable to taxation years that end after June 1995. That definition formerly read:

" *'foreign investment income'* — 'foreign investment income' of a corporation for a taxation year means the amount that would be determined under the definition 'Canadian investment income' in this subsection in respect of the corporation for the year if the references in that definition to 'in Canada' were read as references to 'outside Canada' and this Act were read without reference to subsection (4.1)."

Related Sections: S. 129(4.1) Interpretation of "income" or "loss"; s. 129(4.2) Idem; s. 129(6) Investment income from associated corporation deemed to be active business income.

Interpretation Bulletins: *Secondary* — IT-484R2 Business investment losses.

Forms: T2 SCH 7.

Cases: The taxpayer earned interest on U.S. dollar deposits in the Philippines, such funds being committed to the carrying on of the taxpayer's business there. It was held that the deposits were an integral part of the business and therefore the interest earned on them was not foreign investment income. *Ensite Limited v. The Queen,* 86 DTC 6521 (S.C.C.). See also *The Queen v. Irving Garber Sales Canada Limited,* 92 DTC 6498 (F.C.T.D.).

"income" or "loss" — "income" or "loss" of a corporation for a taxation year from a source that is a property

(*a*) includes the income or loss from a specified investment business carried on by it in Canada other than income or loss from a source outside Canada, but

(*b*) does not include the income or loss from any property

(i) that is incident to or pertains to an active business carried on by it, or

(ii) that is used or held principally for the purpose of gaining or producing income from an active business carried on by it.

History: S. 129(4), the definition "'income' or 'loss'", was added by S.C. 1996, c. 21, s. 32(2), applicable to taxation years that end after June 1995.

Cases: Surface lease and royalty income from oil wells located on farming property were "active business" income qualifying for the small business deduction since it was incidental to the taxpayer's principal activity of farming and was used principally for that purpose. *Alamar Farms Ltd. v. The Queen,* 93 DTC 121 (T.C.C.).

► 129(4.1) ◄

(4.1) Interpretation of "income" or "loss". [Repealed by S.C. 1996, c. 21, s. 32(2).]

History: S. 129(4.1) was repealed by S.C. 1996, c. 21, s. 32(2), applicable to taxation years that end after June 1995. S. 129(4.1) formerly read:

"(4.1) *Interpretation of 'income' or 'loss'.* For the purposes of the definition 'Canadian investment income' in subsection (4) and subsection (6), 'income' or 'loss' of a corporation for a year from a source in Canada that is a property includes the income or loss from a specified investment business carried on by it in Canada other than income or loss from a source outside Canada but does not include income or loss

(*a*) from any other business;

(*b*) from any property that is incident to or pertains to an active business carried on by it; or

(*c*) from any property used or held principally for the purpose of gaining or producing income from an active business carried on by it."

Interpretation Bulletins: *Secondary* — IT-73R6 The small business deduction.

► 129(4.2) ◄

(4.2) Idem. [Repealed by S.C. 1996, c. 21, s. 32(2).]

History: S. 129(4.2) was repealed by S.C. 1996, c. 21, s. 32(2), applicable to taxation years that end after June 1995. S. 129(4.2) formerly read:

"(4.2) *Idem.* For the purposes of the definition 'foreign investment income' in subsection (4), 'income' or 'loss' of a corporation for a year from a source outside Canada that is a property does not include the income or loss from any property

(*a*) that is incident to or pertains to an active business carried on by it; or

(*b*) that is used or held principally for the purpose of gaining or producing income from an active business carried on by it."

► 129(4.3) ◄

(4.3) Definition of "designated property". [Repealed by S.C. 1996, c. 21, s. 32(2).]

History: S. 129(4.3) was repealed by S.C. 1996, c. 21, s. 32(2), applicable to taxation years that end after June 1995. S. 129(4.3) formerly read:

"(4.3) *Definition of 'designated property'.* In this section, 'designated property' has the meaning assigned by subsection 89(1)."

► 129(5) ◄

(5) Reduction of refundable dividend tax on hand. [Repealed by S.C. 1996, c. 21, s. 32(2).]

History: S. 129(5) was repealed by S.C. 1996, c. 21, s. 32(2), applicable to taxation years that end after June 1995. S. 129(5) formerly read:

"(5) *Reduction of refundable dividend tax on hand.* Notwithstanding any other provision of this section, the least of the amounts determined under subparagraphs (3)(*a*)(i) to (iv) in respect of the 1972 or 1973 taxation year of a corporation is,

(*a*) in respect of its 1972 taxation year, 93% of the least of the amounts so determined; and

(*b*) in respect of its 1973 taxation year, the total of

(i) 93% of that proportion of the least of the amounts so determined that the number of days in that portion of the year that is before 1973 is of the number of days in the whole year, and

(ii) 100% of that proportion of the least of the amounts so determined that the number of days in that portion of the year that is after 1972 is of the number of days in the whole year."

► 129(6) ◄

(6) Investment income from associated corporation deemed to be active business income. Where any particular amount paid or payable to a corporation (in this subsection referred to as the "recipient corporation") by

another corporation (in this subsection referred to as the "associated corporation") with which the recipient corporation was associated in any particular taxation year commencing after 1972, would otherwise be included in computing the income of the recipient corporation for the particular year from a source in Canada that is a property, the following rules apply:

(*a*) for the purposes of subsection (4), in computing the recipient corporation's income for the year from a source in Canada that is a property,

(i) there shall not be included any portion (in this subsection referred to as the "deductible portion") of the particular amount that was or may be deductible in computing the income of the associated corporation for any taxation year from an active business carried on by it in Canada, and

(ii) no deduction shall be made in respect of any outlay or expense, to the extent that that outlay or expense may reasonably be regarded as having been made or incurred by the recipient corporation for the purpose of gaining or producing the deductible portion; and

(*b*) for the purposes of this subsection and section 125,

(i) the deductible portion shall be deemed to be income of the recipient corporation for the particular year from an active business carried on by it in Canada, and

(ii) any outlay or expense, to the extent described in subparagraph (*a*)(ii), shall be deemed to have been made or incurred by the recipient corporation for the purpose of gaining or producing that income.

Editorial Note: This provision expands the concept of active business income to include Canadian-source payments from associated corporations which, when viewed in isolation, would not qualify as active business income (e.g., interest and rent), but which are deductible in computing the payor corporation's active business income. The recipient does not include the income as from property (and related outlays are not sourced to income from property); instead, the amount is deemed to be active business income (with related outlays sourced to active business income). This rule does not depend on either CCPC status, or whether the income qualifies for the small business deduction. While the income would not generate refundable tax treatment to a CCPC, its effects may be advantageous even if the small business deduction is not available, since the income would attract the general corporate "business rate" rather than the "investment rate", and would normally generate eligible dividends.

Related Sections: S. 89(1), "general rate income pool"; s. 125 Small business deduction; s. 129(4) Definitions; s. 256(1) Associated corporations; s. 256(1.1) Definition of "specified class"; s. 256(1.2) Control, etc.; s. 256(1.3) Parent deemed to own shares; s. 256(1.4) Options and rights; s. 256(1.5) Person related to himself, herself or itself; s. 256(1.6) Exception; s. 256(2) Corporations associated through a third corporation; s. 256(2.1) Anti-avoidance; s. 256(3) Saving provision — associated corporations; s. 256(4) Saving provision — associated corporations; s. 256(5) Saving provision — associated corporations; s. 256(5.1) Control in fact; s. 256(6) Saving provision — controlled corporations; s. 256(6.1) Simultaneous control; s. 256(6.2) Application to control in fact.

Interpretation Bulletins: *Secondary* — IT-73R6 The small business deduction.

► 129(7) ◄

(7) Meaning of "taxable dividend". For the purposes of this section, "taxable dividend" does not include a capital gains dividend within the meaning assigned by subsection 131(1).

► 129(8) ◄

(8) Application of s. 125. Expressions used in this section and not otherwise defined for the purposes of this section have the same meanings as in section 125.

Related Sections: S. 125(7) Definitions.

Investment Corporations

SECTION 130:

► 130(1) ◄

(1) Deduction from tax. A corporation that was, throughout a taxation year, an investment corporation may deduct from the tax otherwise payable by it under this Part for the year an amount equal to 20% of the amount, if any, by which its taxable income for the year exceeds its taxed capital gains for the year.

Related Sections: S. 123(1) Rate for corporations.
Interpretation Bulletins: *Primary* — IT-98R2 Investment corporations [Archived by the CRA].
Forms: T2 SCH 18.

► 130(2) ◄

(2) Application of ss. 131(1) to (3.2) and (6). Where a corporation was an investment corporation throughout a taxation year (other than a corporation that was a mutual fund corporation throughout the year), subsections 131(1) to (3.2) and (6) apply in respect of the corporation for the year

(*a*) as if the corporation had been a mutual fund corporation throughout that and all previous taxation years ending after 1971 throughout which it was an investment corporation; and

(*b*) as if its capital gains redemptions for that and all previous taxation years ending after 1971, throughout which it would, but for the assumption made by paragraph (*a*), not have been a mutual fund corporation, were nil.

History: S. 130(2), that portion preceding paragraph (*a*), was amended by S.C. 1998, c. 19, s. 155(1), applicable to the 1993 and subsequent taxation years. That portion formerly read:

"(2) *Application of ss. 131(1) to (3.2).* Where a corporation was throughout a taxation year an investment corporation (other than a mutual fund corporation), subsections 131(1) to (3.2) apply in respect of the corporation for the year"

S. 130(2), that portion before paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 74(1), applicable to capital gains or refunds paid or applied with respect to taxation years beginning after 1991. That part formerly read:

"(2) *Application of ss. 131(1) to (3).* Where a corporation was, throughout a taxation year, an investment corporation other than a mutual fund corporation, subsections 131(1) to (3) are applicable in respect of the corporation for the year"

Forms: T5 Sum.; T5.

► 130(3) ◄

(3) Meaning of expressions "investment corporation" and "taxed capital gains". For the purposes of this section,

(*a*) a corporation is an "investment corporation" throughout any taxation year in respect of which the expression is being applied if it complied with the following conditions:

(i) it was throughout the year a Canadian corporation that was a public corporation,

(ii) at least 80% of its property throughout the year consisted of shares, bonds, marketable securities or cash,

(iii) not less than 95% of its income (determined without reference to subsection 49(2)) for the year was derived from, or from dispositions of, investments described in subparagraph (ii),

(iv) not less than 85% of its gross revenue for the year was from sources in Canada,

(v) not more than 25% of its gross revenue for the year was from interest,

(vi) at no time in the year did more than 10% of its property consist of shares, bonds or securities of any one corporation or debtor other than Her Majesty in right of Canada or of a province or a Canadian municipality,

(vii) no person would have been a specified shareholder of the corporation in the year if

(A) the portion of the definition "specified shareholder" in subsection 248(1) before paragraph (*a*) were read as follows:

"'specified shareholder' of a corporation in a taxation year means a taxpayer who owns, directly or indirectly, at any time in the year, more than 25% of the issued shares of any class of the capital stock of the corporation and, for the purposes of this definition,"

(B) paragraph (*a*) of that definition were read as follows:

"(*a*) a taxpayer is deemed to own each share of the capital stock of a corporation owned at that time by a person related to the taxpayer,"

(C) that definition were read without reference to paragraph (*d*) of that definition,

and

(D) paragraph 251(2)(*a*) were read as follows:

"(*a*) an individual and

(i) the individual's child (as defined in subsection 70(10)) who is under 19 years of age, or

(ii) the individual's spouse or common-law partner;"

(viii) an amount not less than 85% of the total of

(A) 2/3 of the amount, if any, by which its taxable income for the year exceeds its taxed capital gains for the year, and

(B) the amount, if any, by which all taxable dividends received by it in the year to the extent of the amount thereof deductible under section 112 or 113 from its income for the year exceeds the amount that the corporation's non-capital loss for the year would be if the amount determined in respect of the corporation for the year under paragraph 3(*b*) was nil,

(less any dividends or interest received by it in the form of shares, bonds or other securities that had not been sold before the end of the year) was distributed, otherwise than by way of capital gains dividends, to its shareholders before the end of the year; and

(*b*) the amount of the "taxed capital gains" of a taxpayer for a taxation year is the amount, if any, by which

(i) its taxable capital gains for the year from dispositions of property

exceeds

(ii) the total of its allowable capital losses for the year from dispositions of property and the amount, if any, deducted under paragraph 111(1)(*b*) for the purpose of computing its taxable income for the year.

Department of Finance Comfort Letter [Exclusion from Definition "Specified Shareholder" for Purposes of Investment Corporations]

March 12, 2003

Dear XXXX:

We are responding to your letter to me of January 8, 2003, your letter of February 3, 2003 to Stephanie Smith and subsequent discussions with Ms. Smith concerning the special transitional rules that apply to exempt from the application of subparagraph 130(3)(*a*)(vii) an investment corporation that had at least one "existing specified shareholder" on June 20, 1996. In general, the exemption is lost where the existing specified shareholder and certain "newly related persons" acquire more shares of the corporation after June 20, 1996, other than by certain permitted acquisitions. For this purpose, if any such person has an interest in a partnership or trust, the exemption is lost if the partnership or trust acquires a share of the investment corporation after that date.

Your letter describes an investment corporation that had an individual who was an existing specified shareholder (the "Specified Shareholder") on June 20, 1996. The transitional rules provide that in determining who is a specified shareholder of an investment corporation, a person is deemed to own the shares of any corporation that are owned by a related person. Related persons are specifically defined for the purpose of these rules. As a result of the rules, if any of the Specified Shareholder's spouse's grandchildren under 19 years of age (the "Grandchildren") acquire or are deemed to acquire a share of the investment corporation after June 20, 1996, other than in a permitted acquisition, the transitional relief afforded in the transitional rules from the application of subparagraph 130(3)(*a*)(vii) would be lost.

In the situation you have described, the Specified Shareholder's daughter, who is over 19 years of age, (the "Daughter") established a registered education savings plan ("RESP") in the late 1980s for a number of persons including certain of the Grandchildren. In 1997, 1998 and 1999, the Daughter transferred shares of the investment corporation to the RESP and the dividend income received on the shares held in the RESP was, in part, paid by the RESP to the Grandchildren. In 2000, the shares of the investment corporation were reacquired by the Daughter from the RESP. The deemed acquisition of shares of the investment corporation by the Grandchildren would result in the investment corporation losing its exemption from the application of subparagraph 130(3)(*a*)(vii) provided for in the transitional rules and, therefore, losing its status as an investment corporation in 1997. You have asked us to expand the scope of the transitional rules to accommodate your client's situation.

We are sympathetic to this request and intend to recommend to the Minister of Finance that the *Income Tax Act* and the transitional rules that apply to investment corporations be amended to exclude from the definition of "specified shareholder", as it applies for the purpose of investment corporations, a beneficiary's interest in a trust governed by a RESP where the beneficiary of the trust is less than 19 years of age. Furthermore, we intend to recommend that the amendment be effective only for taxation years that begin before the date detailed legislative proposals are made public.

While we cannot offer any assurance that our recommendation in this matter will be accepted, we hope our statement of intent in this letter will be helpful in responding to your concern.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 130(3)(*a*)(vii)(D) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.16), applicable January 1, 2001, coming into force on July 31, 2000. S. 130(3)(*a*)(vii)(D) formerly read:

"(D) paragraph 251(2)(*a*) were read as follows:

'(*a*) an individual and

(i) the individual's child (as defined in subsection 70(10)) who is under 19 years of age, or

(ii) the individual's spouse;'"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 130(3)(*a*)(vii) was amended by S.C. 1999, c. 22, s. 92(1), deemed to have come into force on June 18, 1998. S. 130(3)(*a*)(vii) formerly read:

"(vii) no person would be a specified shareholder of the corporation in the year if, in the definition 'specified shareholder' in subsection 248(1),

(A) the portion of that definition before paragraph (*a*) were read as follows:

'"specified shareholder" of a corporation in a taxation year means a taxpayer who owns, directly or indirectly, at any time in the year, more than 25% of the issued shares of any class of the capital stock of the corporation and, for the purpose of this definition,'

and

(B) the reference in paragraph (*d*) of that definition to 'not less than 10%' were read as a reference to 'more than 25%', and"

S. 130(3)(*a*)(vii) was amended by S.C. 1998, c. 19, s. 155(2). The application was amended by S.C. 1999, c. 22, s. 92(2), and now reads: applicable to corporations for taxation years that begin after June 20, 1996 except that, where

(*a*) a corporation was an investment corporation on June 20, 1996,

(*b*) a particular person is a specified shareholder of the corporation in the year, and

(*c*) the particular person

(i) was a specified shareholder of the corporation on June 20, 1996, or

(ii) both

(A) was a specified shareholder of the corporation at any time after June 20, 1996 and before August 14, 1998, and

(B) would have been a specified shareholder of the corporation on June 20, 1996 if subparagraph 130(3)(*a*)(vii) of the Act, as enacted by subsection (2), were read without reference to clauses (B) and (D),

subparagraph 130(3)(*a*)(vii) of the Act, as enacted by subsection (2), does not apply to the corporation, with respect to the particular person and persons related to the particular person, except as provided in subsections (5) to (11). The application formerly read:

"applicable to corporations for taxation years that begin after June 20, 1996 except that, where

(*a*) a corporation was an investment corporation on June 20, 1996,

(*b*) a particular person would be a specified shareholder of the corporation in the year, within the meaning assigned by subparagraph 130(3)(*a*)(vii) of the Act, if that subsection applied to the corporation for the year, and,

(*c*) the particular person would have been a specified shareholder of the corporation on June 20, 1996, within the meaning assigned by subparagraph 130(3)(*a*)(vii) of the Act, if that subsection applied to the corporation for the year that includes that day,

subparagraph 130(3)(*a*)(vii) of the Act does not apply to the corporation, with respect to the particular person and persons related to the particular person, except as provided in subsections 155(5) to (8) of S.C. 1998, c. 19, reproduced below."

S. 130(3)(*a*)(vii) formerly read:

"(vii) none of its shareholders at any time in the year held more than 25% of the issued shares of the capital stock of the corporation, and"

S. 130(3)(*a*)(iii) was amended by S.C. 1994, c. 7, Sched. II, s. 109(1), applicable to the 1990 and subsequent taxation years. S. 130(3)(*a*)(iii) formerly read:

"(iii) not less than 95% of its income for the year was derived from, or from dispositions of, investments described in subparagraph (ii),"

Related Sections: S. 4(1) Income or loss from a source or from sources in a place; s. 38 Taxable capital gain and allowable capital loss; s. 39, "capital gain"; s. 89(1), "Canadian corporation", "public corporation", "taxable dividends"; s. 131(1) Election re capital gains dividend; s. 131(3) Application to other liability; s. 131(4) Application of s. 84; s. 131(6) Definitions relating to mutual fund corporations; s. 131(8) Meaning of "mutual fund corporation"; s. 131(10) Restricted financial institution; s. 132(5) Definition of "taxed capital gains"; s. 184(2) Tax on excessive elections; s. 248(1), "gross revenue", "property", "province", "share"; s. 255 Canada.

Sec. 155(5) to (11), Chap. 22, 1999

(5) [The amendment to subparagraph 130(1)(*a*)(vii) made by subsection (2)] applies to a corporation that was an investment corporation on June 20, 1996 for a taxation year that begins after that day if, at any time after that day and before the end of the year, a particular person described in paragraph (4)(*b*) in respect of the corporation for the year contributes capital to the corporation or acquires a share of the capital stock of the corporation other than by a permitted acquisition.

(6) [The amendment to subparagraph 130(1)(*a*)(vii) made by subsection (2)] applies to a corporation that was an investment corporation on June 20, 1996 for a taxation year that begins after that day where, at any time after that day and before the end of the year, a newly related person in respect of the corporation

(*a*) contributed capital to the corporation; or

(*b*) held at any particular time property (in this paragraph referred to as an "ineligible investment") that is

(i) a share of the capital stock of the corporation, or

(ii) a share of the capital stock of a corporation, or an interest in a partnership or trust, that held an ineligible investment at the particular time.

(7) For the purpose of subsection (6), a newly related person in respect of a corporation at any time means a person who, at any other time that is before that time and after June 20, 1996, became related to a particular person described in paragraph (4)(*b*) in respect of the corporation, but does not include a person who would, if the taxation year of the corporation that includes that other time had ended immediately before that other time, have been a particular person described in paragraph (4)(*b*) in respect of the corporation for the year.

(8) [Repealed by S.C. 1999, c. 22, s. 92(4).]

(9) For the purposes of subsections (5) to (8),

(*a*) where at a particular time

(i) a trust that existed on June 20, 1996 distributes a share of the capital stock of a corporation to a person who was a beneficiary under the trust throughout the period from June 20, 1996 to the particular time in satisfaction of all or any part of the beneficiary's capital interest in the trust, or

(ii) a partnership that existed on June 20, 1996 distributes, on ceasing to exist, a share of the capital stock of a corporation or an interest in a share to a person who was a member of the partnership throughout the period from June 20, 1996 to the particular time,

the share is deemed to have been owned by the beneficiary or member from the later of June 20, 1996 and the time the share was last acquired by the trust or partnership until the particular time; and

(*b*) where a person who is a beneficiary of a trust or a member of a partnership is deemed by paragraph (*b*), (*c*) or (*e*) of the definition "specified shareholder" in subsection 248(1) of the Act to own a share owned by the partnership or trust, the person is deemed to have acquired the share at the later of the time the share was acquired by the trust or partnership and the time the person last became a beneficiary of the trust or a member of the partnership.

(10) At any time on or after the day of the death of a person described in paragraph (4)(*c*) in respect of a

corporation and before the third anniversary of that day,

(*a*) the estate of the deceased person is deemed to be a person described in paragraphs (4)(*b*) and (*c*) who is related to each person who, throughout the period that begins at the end of June 20, 1996 and ends at the time of death, was related to the deceased person;

(*b*) notwithstanding subsection (7), the estate is deemed not to be a newly related person in respect of the corporation;

(*c*) notwithstanding subsection (11), the acquisition of shares of the corporation's capital stock by the estate from the deceased person is deemed to be a permitted acquisition; and

(*d*) the estate is deemed not to be a trust for the purposes of subparagraph (9)(*a*)(i) of this Act and paragraphs (*b*) and (*e*) of the definition "specified shareholder" in subsection 248(1) of the *Income Tax Act*.

(11) The definitions in this subsection apply in subsections (4) to (10) and this subsection.

"permitted acquisition" — "permitted acquisition" means an acquisition by a particular person of a share of a class of the capital stock of a corporation that was

(*a*) held, at each particular time after June 20, 1996 and before the time at which the particular person acquired it, or

(*b*) issued after June 20, 1996 by the corporation as a stock dividend and held, at each particular time after the time the share was issued and before the time at which the particular person acquired it,

by the particular person or by a person who was related to the particular person throughout the period that begins at the end of June 20, 1996 and ends at the particular time if, immediately after the time at which the particular person acquires the share, the total percentage of the issued shares of that class held by the particular person and persons related to the particular person (or in the case of acquisitions before August 14, 1998, by the particular person and persons with whom the particular person did not deal at arm's length immediately after the acquisition) does not exceed the permitted percentage for the particular person in respect of that class of shares.

"permitted percentage" — "permitted percentage" for a particular person in respect of any class of shares of the capital stock of a corporation means

(*a*) in respect of acquisitions of shares before August 14, 1998, the greatest percentage that is the total percentage of the issued shares of a class of the capital stock of the corporation held at the end of June 20, 1996 by the particular person and persons with whom the particular person did not at that time deal at arm's length; and

(*b*) in any other case, the greater of

(i) the greatest percentage that is the total percentage of the issued shares of a class of the capital stock of the corporation held at the end of June 20, 1996 by the particular person and persons related to the particular person, and

(ii) the greatest percentage that is the total percentage of the issued shares of a class of the capital stock of the corporation held at the beginning of August 14, 1998 by the particular person and persons related to the particular person.

"related persons" — "related persons" and persons related to each other have, for purposes other than applying the definitions "permitted acquisition" and "permitted percentage" in respect of acquisitions of shares before August 14, 1998, the meaning that would be assigned by section 251 of the Act if paragraph 251(2)(*a*) of the Act were read as follows:

"(*a*) an individual and

(i) the individual's child (as defined in subsection 70(10)) who is under 19 years of age, or

(ii) the individual's spouse;"

"specified shareholder" — "specified shareholder" has the meaning assigned by subparagraph 130(3)(*a*)(vii) of the Act, as enacted by subsection (2).

History: The application for subsections (10) and (11) in the application provision above were added by S.C. 1999, c. 22, s. 92(5), deemed to have come into force on June 18, 1998.

The application for subsection (8) in the application provision above was repealed by S.C. 1999, c. 22, s. 92(4), deemed to have come into force on June 18, 1998. The application formerly read:

"(8) Where, after June 20, 1996 and before the end of a taxation year of a corporation that was an investment corporation on June 20, 1996, a particular person described in paragraph (4)(*b*) [see paragraph (*b*) of the application of the amendment to subparagraph 130(1)(*a*)(vii) made by S.C. 1998, c. 19, s. 155(2) in the 'History' note, above] in respect of the corporation has acquired one or more shares of the capital stock of the corporation, and each such share was

(*a*) a share that was held, at each particular time after June 20, 1996 and before the time (in this subsection referred to as the 'acquisition time') at which the particular person acquired it, by the particular person or by a person who was related to the particular person throughout the period from June 20, 1996 to the particular time,

(*b*) a share that was issued by the corporation as a stock dividend to the particular person, or

(*c*) a share that was issued by the corporation as a stock dividend to a person who was related to the particular person throughout the period from June 20, 1996 to the time at which the share was issued and that was held, at each particular time from the time the share was issued to the acquisition time, by the particular person or by a person who was related to the particular person throughout the period from June 20, 1996 to the particular time,

subparagraph 130(3)(*a*)(vii) of the Act shall be read, with respect to the particular person and the corporation for the year, as though the references in that subparagraph to '25%' were references to 'the greatest percentage that is the total percentage of the shares of a class of the capital stock of the corporation held at the end of June 20, 1996 by the person and other persons with whom the person did not at that time deal at arm's length'."

The application for subsection (5) in the application provision above was amended by S.C. 1999, c. 22, s. 92(3), deemed to have come into force on June 18, 1998. The application formerly read:

"(5) [The amendment to subparagraph 130(1)(*a*)(vii) made by subsection (2)] applies to a corporation that was an investment corporation on June 20, 1996 for a taxation year that begins after that day where, at any time after that day and before the end of the year, a particular person described in paragraph (4)(*b*) contributed capital to the corporation or acquired a share of the capital stock of the corporation, other than a share described in paragraph (8)(*a*), (*b*) or (*c*)."

► 130(4) ◄

(4) Wholly owned subsidiaries. Where a corporation so elects in its return of income under this Part for a taxation year, each of the corporation's properties that is a share or indebtedness of another Canadian corporation that is at any time in the year a subsidiary wholly owned corporation of the corporation shall, for the purposes of subparagraphs (3)(*a*)(ii) and (vi), be deemed not to be owned by the corporation at any such time in the year, and each property owned by the other corporation at that time shall, for the purposes of those subparagraphs, be deemed to be owned by the corporation at that time.

History: S. 130(4) was added by S.C. 1994, c. 7, Sched. II, s. 109(2), applicable to the 1987 and subsequent taxation years and an election referred to in subsection 130(4) of the Act in respect of a corporation's taxation year for which a return of income under Part I of the Act was made before December 18, 1991 shall be deemed to have been made in the corporation's return of income for that year if the election was filed in writing with the Minister of National Revenue before March 17, 1992.

Mortgage Investment Corporations

SECTION 130.1:

► 130.1(1) ◄

(1) Deduction from tax. In computing the income for a taxation year of a corporation that was, throughout the year, a mortgage investment corporation,

(*a*) there may be deducted the total of

(i) all taxable dividends, other than capital gains dividends, paid by the corporation during the year or within 90 days after the end of the year to the extent that those dividends were not deductible by the corporation in computing its income for the preceding year, and

(ii) 1/2 of all capital gains dividends paid by the corporation during the period commencing 91 days after the commencement of the year and ending 90 days after the end of the year; and

(*b*) no deduction may be made under section 112 in respect of taxable dividends received by it from other corporations.

History: S. 130.1(1)(*a*)(ii) was amended by S.C. 2001, c. 17, s. 127(1), by replacing the reference to the fraction "3/4" with a reference to the fraction "1/2", applicable to taxation years that end after February 27, 2000 except that, for a corporation's taxation year that includes February 28, 2000 or October 17, 2000, or began after February 28, 2000 and ended before October 17, 2000, the reference to the fraction "1/2" in subparagraph 130.1(1)(*a*)(ii) of the Act shall be read as a reference to the fraction in paragraph 38(*a*) of the Act that applies to the corporation for the year.

► 130.1(2) ◄

(2) Dividend equated to bond interest. For the purposes of this Act, any amount received from a mortgage investment corporation by a shareholder of the corporation as or on account of a taxable dividend, other than a capital gains dividend, shall be deemed to have been received by the shareholder as interest payable on a bond issued by the corporation after 1971.

Related Sections: S. 214(3) Deemed payments.

► 130.1(3) ◄

(3) Application of s. (2). Subsection (2) applies where the taxable dividend (other than a capital gains dividend) described in that subsection was paid during a taxation year throughout which the paying corporation was a mortgage investment corporation or within 90 days thereafter.

► 130.1(4) ◄

(4) Election re capital gains dividend. Where at any particular time during the period that begins 91 days after the beginning of a taxation year of a corporation that was, throughout the year, a mortgage investment corporation and ends 90 days after the end of the year, a dividend is paid by the corporation to shareholders of the corporation, if the corporation so elects in respect of the full amount of the dividend in prescribed manner and at or before the earlier of the particular time and the first day on which any part of the dividend was paid,

(*a*) the dividend shall be deemed to be a capital gains dividend to the extent that it does not exceed the amount, if any, by which

(i) twice the taxed capital gains of the corporation for the year

exceeds

(ii) the total of all dividends, and parts of dividends, paid by the corporation during the period and before the particular time that are deemed by this paragraph to be capital gains dividends; and

(*b*) notwithstanding any other provision of this Act, any amount received by a taxpayer in a taxation year as, on account of, in lieu of payment of or in satisfaction of, the dividend shall not be included in computing the taxpayer's income for the year as income from a share of the capital stock of the corporation, and

(i) where the dividend was in respect of capital gains of the corporation from dispositions of property that occurred before February 28, 2000 and the taxation year of the taxpayer began after February 27, 2000 and ended before October 18, 2000, 9/8 of the dividend is deemed to be a capital gain of the taxpayer from the disposition by the taxpayer of a capital property in the year,

(ii) where the dividend was in respect of capital gains of the corporation from dispositions of property that occurred before February 28, 2000, and the taxation year of the taxpayer includes February 27, 2000, the dividend is deemed to be a capital gain of the taxpayer from the disposition by the taxpayer of a capital property in the year and before February 28, 2000,

(iii) where the dividend was in respect of capital gains of the corporation from dispositions of property that occurred before February 28, 2000 and the taxation year of the taxpayer began after October 17, 2000, 3/2 of the dividend is deemed to be a capital gain of the taxpayer from the disposition by the taxpayer of a capital property in the year,

(iii.1) where the dividend was in respect of capital gains of the corporation from dispositions of property that occurred before February 28, 2000 and the taxation year of the taxpayer begins after February 27, 2000 and ends after October 17, 2000, 9/8 of the dividend is deemed to be a capital gain of the taxpayer from the disposition by the taxpayer of capital property in the year and before October 18, 2000,

(iv) where the dividend was in respect of capital gains of the corporation from dispositions of property that occurred after February 27, 2000 and before October 18, 2000, and the taxation year of the taxpayer began after October 17, 2000, 4/3 of the dividend is deemed to be a capital gain of the taxpayer from the disposition by the taxpayer of a capital property in the year,

(v) where the dividend was in respect of capital gains of the corporation from dispositions of property that occurred after February 27, 2000, and before October 18, 2000 and the taxation year of the taxpayer includes October 17, 2000, the dividend is deemed to be a capital gain of the taxpayer from the disposition by the taxpayer of a capital property in the year and in the period that began after February 27, 2000 and ended before October 18, 2000,

(vi) where the dividend was in respect of capital gains of the corporation from dispositions of property that occurred after February 27, 2000,

and before October 17, 2000 and the taxation year of the taxpayer began after February 27, 2000 and ended before October 17, 2000, the dividend is deemed to be a capital gain of the taxpayer from the disposition by the taxpayer of a capital property in the year, and

(vii) in any other case, the dividend is deemed to be a capital gain of the taxpayer from the disposition of capital property after October 17, 2000 and in the year.

History: S. 130.1(4)(*a*)(i) was amended by S.C. 2001, c. 17, s. 127(2), by replacing the reference to the expression "4/3 of" with a reference to the word "twice", applicable to taxation years that end after February 27, 2000 except that, for a corporation's taxation year that includes February 28, 2000 or October 17, 2000, or began after February 28, 2000 and ended before October 17, 2000, the reference to the word "twice" in subparagraph 130.1(4)(*a*)(i) of the Act shall be read as a reference to the expression "the fraction that is the reciprocal of the fraction in paragraph 38(*a*), as enacted by subsection 22(1) of the *Income Tax Amendments Act, 2000* [S.C. 2001, c. 17], that applies to the corporation for the year, multiplied by".

S. 130.1(4)(*b*) was amended by S.C. 2001, c. 17, s. 127(3), applicable to taxation years that end after February 27, 2000. S. 130.1(4)(*b*) formerly read:

"(*b*) notwithstanding any other provision of this Act, any amount received by a taxpayer in a taxation year as, on account of, in lieu of payment of or in satisfaction of, the dividend shall not be included in computing the taxpayer's income for the year as income from a share of the capital stock of the corporation, but shall be deemed to be a capital gain of the taxpayer for the year from a disposition, in the year and after February 22, 1994, by the taxpayer of capital property."

S. 130.1(4) was amended by S.C. 1995, c. 3, s. 40(1), applicable to dividends paid after February 22, 1994. S. 130.1(4) formerly read:

"(4) *Electing capital gains dividend.* Where at any particular time during the period beginning 91 days after the beginning of a taxation year of a corporation that was, throughout the year, a mortgage investment corporation and ending 90 days after the end of the year, a dividend is paid by the corporation to shareholders of the corporation,

(*a*) if the corporation so elects in respect of the full amount of the dividend, in prescribed form and manner and at or before the earlier of the particular time and the first day on which any part of the dividend was paid,

(i) the dividend shall be deemed to be a capital gains dividend to the extent that it does not exceed the amount, if any, by which

(A) 4/3 of the corporation's qualifying taxed capital gains for the year exceeds

(B) the total of all dividends, and parts of dividends, paid by the corporation during the period and before the particular time that are deemed by this subparagraph to be capital gains dividends,

(ii) notwithstanding any other provision of this Act, any amount received by a taxpayer in a taxation year as or on account of the dividend shall not be included in computing the taxpayer's income for the year as income from a share of the capital stock of the corporation, but shall be deemed to be a capital gain of the taxpayer for the year from a disposition of capital property and, for the purposes of section 110.6, that property shall be deemed to have been disposed of by the taxpayer in the year, and

(iii) any election under paragraph (*b*) made by the corporation in respect of the dividend shall be deemed not to have been made; and

(*b*) if the corporation so elects in respect of the full amount of the dividend, in prescribed form and manner and at or before the earlier of the particular time and the first day on which any part of the dividend was paid,

(i) the dividend shall be deemed to be a capital gains dividend to the extent that it does not exceed the amount, if any, by which

(A) 4/3 of the corporation's non-qualifying taxed capital gains for the year exceeds

(B) the total of all dividends, and parts of dividends, paid by the corporation during the period and before the particular time that are deemed by this subparagraph to be capital gains dividends, and

(ii) notwithstanding any other provision of this Act, any amount received by a taxpayer in a taxation year as or on account of the dividend shall not be included in computing the taxpayer's income for the year as income from a share of the capital stock of the corporation, but shall be deemed to be a capital gain of the taxpayer for the year from a disposition of capital property and, for the purposes of section 110.6,

(A) that property shall be deemed to have been non-qualifying real property of the taxpayer, within the meaning of that section, disposed of by the taxpayer in the year, and

(B) the taxpayer's eligible real property gain for the year, within the meaning of that section, from the disposition of that property shall be deemed to be nil."

S. 130.1(4) was amended by S.C. 1994, c. 7, Sched. VIII, s. 75(1), applicable to the 1992 and subsequent taxation years. S. 130.1(4) formerly read:

"(4) Where at any particular time during the period commencing 91 days after the commencement of a taxation year of a corporation that was, throughout the year, a mortgage investment corporation and ending 90 days after the end of the year, a dividend is paid by the corporation to shareholders of the corporation, if the corporation so elects in respect of the full amount of the dividend, in prescribed manner and prescribed form and at or before the particular time or the first day on which any part of the dividend was paid if that day is earlier than the particular time,

(*a*) the dividend shall be deemed to be a capital gains dividend to the extent that it does not exceed

(i) 4/3 of the taxed capital gains of the corporation for the year minus

(ii) such part, if any, of each dividend paid by the corporation during the period and before the particular time as is deemed by this subsection to be a capital gains dividend; and

(*b*) notwithstanding any other provision of this Act, any amount received by a taxpayer in a taxation year as or on account of the dividend shall not be included in computing the taxpayer's income for the year as income from a share of the capital stock of the corporation, but shall be deemed to be a capital gain of the taxpayer for the year from a disposition of capital property and, for the purposes of section 110.6, that property shall be deemed to have been disposed of by the taxpayer in the year."

Related Sections: S. 184(2) Tax on excessive elections; s. 185(1) Assessment of tax; s. 212(2).
Regulations: 2104.1.
Forms: T5 Sum.; T5; T2012.

► 130.1(4.1) ◄

(4.1) Application of ss. 131(1.1) to (1.4). Where at any particular time a mortgage investment corporation paid a dividend to its shareholders and subsection (4) would have applied to the dividend except that the corporation did not make an election under that subsection on or before the day on or before which it was required by that subsection to be made, subsections 131(1.1) to (1.4) apply with such modifications as the circumstances require.

► 130.1(4.2) ◄

(4.2) Reporting. Where paragraph (4)(*b*) applies to a dividend paid by a mortgage investment corporation to a shareholder of any class of shares of its capital stock in the period that begins 91 days after the beginning of the corporation's taxation year that includes February 28, 2000 or October 17, 2000 and ends 90 days after the end of that year, the corporation shall disclose to the shareholder in prescribed form the amount of the dividend that is in respect of capital gains realized on dispositions of property that occurred

(*a*) before February 28, 2000,

(*b*) after February 27, 2000 and before October 18, 2000, and

(*c*) after October 17, 2000

and, if it does not do so, the dividend is deemed to be in respect of capital gains from dispositions of property that occurred before February 28, 2000.

History: S. 130.1(4.2) was added by S.C. 2001, c. 17, s. 127(4), applicable to taxation years that end after February 27, 2000.

► 130.1(4.3) ◄

(4.3) Allocation. Where subsection (4) applies in respect of a dividend paid by a mortgage investment corporation at any time in the period that begins 91 days after the beginning of the corporation's taxation year that includes February 28, 2000 or October 17, 2000 and ends 90 days after the end of that year, and the corporation does not elect under subsection (4.4), the following rules apply:

(*a*) the portion of the dividend that is in respect of capital gains from dispositions of property that occurred in the year and in the particular period that began at the beginning of the year and ended at the end of February 27, 2000 is deemed to be that

proportion of the dividend that the net capital gains of the corporation from the dispositions of property in the particular period is of the total of the corporation's net capital gains from the dispositions of property in each of the particular periods referred to in this subsection,

(*b*) the portion of the dividend that is in respect of capital gains from dispositions of property that occurred in the year and in the particular period that began at the beginning of February 28, 2000 and ended at the end of October 17, 2000 is deemed to be that proportion of the dividend that the net capital gains of the corporation from the dispositions of property in the particular period is of the total of the corporation's net capital gains from the dispositions of property in each of the particular periods referred to in this subsection,

(*c*) the portion of the dividend that is in respect of capital gains from dispositions of property that occurred in the year and in the particular period that begins at the beginning of October 18, 2000 and ends at the end of the year, is deemed to be that proportion of the dividend that the net capital gains of the corporation from the dispositions of property in the particular period is of the total of the corporation's net capital gains from the dispositions of property in each of the periods referred to in this subsection, and

in this subsection net capital gains from dispositions of property in a particular period means the amount, if any, by which the corporation's capital gains from dispositions of property in the particular period exceeds the corporation's capital losses from dispositions of property in the particular period.

History: S. 130.1(4.3) was added by S.C. 2001, c. 17, s. 127(4), applicable to taxation years that end after February 27, 2000.

► 130.1(4.4) ◄

(4.4) Allocation. Where subsection (4) applies in respect of a dividend paid by a mortgage investment corporation in the period that begins 91 days after the beginning of the corporation's taxation year that includes February 28, 2000 or October 17, 2000 and ends 90 days after the end of that year, and the corporation so elects under this subsection in its return of income for the year, the following rules apply:

(*a*) the portion of the dividend that is in respect of capital gains from dispositions of property that occurred in the year and before February 28, 2000 is deemed to be that proportion of the dividend that the number of days that are in that year and before February 28, 2000 is of the number of days that are in that year;

(*b*) the portion of the dividend that is in respect of capital gains from dispositions of property that occurred in the year and in the period that began at the beginning of February 28, 2000 and ended at the end of October 17, 2000 is deemed to be that proportion of the dividend that the number of days that are in the year and in that period is of the number of days that are in the year; and

(*c*) the portion of the dividend that is in respect of capital gains from dispositions of property that occurred in the year and in the period that begins at the beginning of October 18, 2000 and ends at the end of the year, is deemed to be that proportion of the dividend that the number of days that are in the year and in that period is of the number of days that are in the year.

History: S. 130.1(4.4) was added by S.C. 2001, c. 17, s. 127(4), applicable to taxation years that end after February 27, 2000.

► 130.1(4.5) ◄

(4.5) Allocation. Where no dividend to which subsection (4.4) applies is paid by a mortgage investment corporation in respect of its net taxable capital gains for its taxation year that includes February 28, 2000 or October 17, 2000, the corporation has net capital gains or net capital losses from dispositions of property in the year, and the corporation so elects under this subsection in its return of income for the year

(*a*) the portion of those net capital gains and net capital losses that is in respect of capital gains and losses from dispositions of property that occurred before February 28, 2000 is deemed to be that proportion of the net capital gains or net capital losses respectively that the number of days that are in the year and before February 28, 2000 is of the number of days that are in the year,

(*b*) the portion of those net capital gains and net capital losses that is in respect of capital gains and losses from dispositions of property that occurred in the year and in the period that began at the beginning of February 28, 2000 and ended at the end of October 17, 2000, is deemed to be that proportion of the net capital gains or net capital losses respectively that the number of days that are in the year and in that period is of the number of days that are in the year, and

(*c*) the portion of those net capital gains and net capital losses that is in respect of capital gains and losses from dispositions of property that occurred in the year and in the period that began at the beginning of October 18, 2000 and ended at the end of the year, is deemed to be that proportion of the net capital gains or net capital losses respectively that the number of days that are in the year and in that period is of the number of days that are in the year,

and, for the purpose of this subsection,

(*d*) the net capital gains of a mortgage investment corporation from dispositions of property in a year is the amount, if any, by which the corporation's capital gains from dispositions of property in a year exceeds the corporation's capital losses from dispositions of property in the year, and

(*e*) the net capital losses of a mortgage investment corporation from dispositions of property in a year is the amount, if any, by which the corporation's capital losses from dispositions of property in a year exceeds the corporation's capital gains from dispositions of property in the year.

History: S. 130.1(4.5) was added by S.C. 2001, c. 17, s. 127(4), applicable to taxation years that end after February 27, 2000.

► 130.1(5) ◄

(5) Public corporation. Notwithstanding any other provision of this Act, a mortgage investment corporation shall be deemed to be a public corporation.

► 130.1(6) ◄

(6) Meaning of "mortgage investment corporation". For the purposes of this section, a corporation is a "mortgage investment corporation" throughout a taxation year if, throughout the year,

(*a*) it was a Canadian corporation;

(*b*) its only undertaking was the investing of funds of the corporation and it did not manage or develop any real property;

(*c*) none of the property of the corporation consisted of

(i) debts owing to the corporation that were secured on real property situated outside Canada,

(ii) debts owing to the corporation by non-resident persons, except any such debts that were secured on real property situated in Canada,

(iii) shares of the capital stock of corporations not resident in Canada, or

(iv) real property situated outside Canada, or any leasehold interest in such property;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraphs 130.1(6)(*b*) and (*c*) of the Act are replaced by the following:

(*b*) its only undertaking was the investing of funds of the corporation and it did not manage or develop any real or immovable property;

(*c*) none of the property of the corporation consisted of

(i) debts owing to the corporation that were secured on real or immovable property situated outside Canada,

(ii) debts owing to the corporation by non-resident persons, except any such debts that were secured on real or immovable property situated in Canada,

(iii) shares of the capital stock of corporations not resident in Canada, or

(iv) real or immovable property situated outside Canada, or any leasehold interest in such property;

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*d*) there were 20 or more shareholders of the corporation and no person would have been a specified shareholder of the corporation at any time in the year if

(i) the portion of the definition "specified shareholder" in subsection 248(1) before paragraph (*a*) were read as follows:

"'specified shareholder' of a corporation at any time means a taxpayer who owns, directly or indirectly, at that time, more than 25% of the issued shares of any class of the capital stock of the corporation and, for the purposes of this definition,"

(ii) paragraph (*a*) of that definition were read as follows:

"(*a*) a taxpayer is deemed to own each share of the capital stock of a corporation owned at that time by a person related to the taxpayer,"

(iii) that definition were read without reference to paragraph (*d*) of that definition, and

(iv) paragraph 251(2)(*a*) were read as follows:

"(*a*) an individual and

(i) the individual's child (as defined in subsection 70(10)) who is under 18 years of age, or

(ii) the individual's spouse or common-law partner;"

(*e*) any holders of preferred shares of the corporation had a right, after payment to them of their preferred dividends, and payment of dividends in a like amount per share to the holders of the common shares of the corporation, to participate *pari passu* with the holders of the common shares in any further payment of dividends;

(*f*) the cost amount to the corporation of such of its property as consisted of

(i) debts owing to the corporation that were secured, whether by mortgages, hypothecs or in any other manner, on houses (as defined in section 2 of the *National Housing Act*) or on property included within a housing project (as defined in that section), and

(ii) amounts of any deposits standing to the corporation's credit in the records of

(A) a bank or other corporation any of whose deposits are insured by the Canada Deposit Insurance Corporation or the *Régie de l'assurance-dépôts du Québec*, or

(B) a credit union,

plus the amount of any money of the corporation was at least 50% of the cost amount to it of all its property;

(*g*) the cost amount to the corporation of all real property of the corporation, including leasehold interests in such property, (except real property acquired by the corporation by foreclosure or otherwise after default made on a mortgage, hypothec or agreement of sale of real property) did not exceed 25% of the cost amount to it of all its property;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 130.1(6)(g) of the Act is replaced by the following:

(*g*) the cost amount to the corporation of all real or immovable property of the corporation, including leasehold interests in such property (except real or immovable property acquired by the corporation by foreclosure or otherwise after default made on a mortgage, hypothec or

agreement of sale of real or immovable property) did not exceed 25% of the cost amount to it of all its property;

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*h*) its liabilities did not exceed 3 times the amount by which the cost amount to it of all its property exceeded its liabilities, where at any time in the year the cost amount to it of such of its property as consisted of property described in subparagraphs (*f*)(i) and (ii) plus the amount of any money of the corporation was less than 2/3 of the cost amount to it of all its property; and

(*i*) its liabilities did not exceed 5 times the amount by which the cost amount to it of all its property exceeded its liabilities, where paragraph (*h*) is not applicable.

History: S. 130.1(6)(*f*)(i) was amended by S.C. 2001, c. 17, s. 214(1), applicable on Royal Assent, June 14, 2001. S. 130.1(6)(*f*)(i) formerly read:

"(i) debts owing to the corporation that were secured, whether by mortgages or in any other manner, on houses (as defined in section 2 of the *National Housing Act*) or on property included within a housing project (as defined in that section), and"

S. 130.1(6)(*g*) was amended by S.C. 2001, c. 17, s. 214(2), applicable on Royal Assent, June 14, 2001. S. 130.1(6)(*g*) formerly read:

"(*g*) the cost amount to the corporation of all real property of the corporation, including leasehold interests in such property, (except real property acquired by the corporation by foreclosure or otherwise after default made on a mortgage or agreement of sale of real property) did not exceed 25% of the cost amount to it of all its property;"

S. 130.1(6)(*d*)(iv) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.17), applicable January 1, 2001, coming into force on July 31, 2000. S. 130.1(6)(*d*)(iv) formerly read:

"(iv) paragraph 251(2)(*a*) were read as follows:

'(*a*) an individual and

(i) the individual's child (as defined in subsection 70(10)) who is under 18 years of age, or

(ii) the individual's spouse;'"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 130.1(6)(*d*) was amended by S.C. 1999, c. 22, s. 53(1), applicable in determining whether a corporation is a mortgage investment corporation for a taxation year that begins after January 14, 1998, except that [it applies] to the corporation, with respect to a particular person and persons related to the particular person, only as provided in subsections (4) to (10) [below] if

(*a*) the corporation was a mortgage investment corporation at the end of January 14, 1998;

(*b*) the particular person is a specified shareholder of the corporation at any time in the year; and

(*c*) the particular person

(i) was a specified shareholder of the corporation at the end of January 14, 1998, or

(ii) both

(A) was a specified shareholder of the corporation at any time after January 14, 1998 and before August 14, 1998, and

(B) would have been a specified shareholder of the corporation at the end of January 14, 1998 if paragraph 130.1(6)(*d*) of the Act, were read without reference to subparagraphs (ii) and (iv).

(4) [It applies] to a corporation that was a mortgage investment corporation at the end of January 14, 1998 for a taxation year that begins after that day if a person who at any time in the year is a specified shareholder of the corporation contributes capital to the corporation, or acquires a share of the corporation's capital stock other than by a permitted acquisition, at any time after January 14, 1998 and before the end of the year.

(5) [It applies] to a corporation that was a mortgage investment corporation at the end of January 14, 1998 for a taxation year that begins after that day if a newly related person in respect of a person who at any time in the year is a specified shareholder of the corporation

(*a*) contributes capital to the corporation, or

(*b*) holds property (in this paragraph referred to as an "ineligible investment") that is

(i) a share of the capital stock of the corporation, or

(ii) a share of the capital stock of a corporation that holds an ineligible investment

at any time after January 14, 1998 and before the end of the year.

(6) [It applies] to a corporation that was a mortgage investment corporation at the end of January 14, 1998 for a taxation year that ends after that day if

(*a*) at any particular time after January 14, 1998 and before the end of the year, a mortgage lender is a specified shareholder of the corporation; and

(*b*) at any time that is in the taxation year that includes the particular time and that is after January 14, 1998, any person contributes capital to the corporation or acquires from the corporation a share of the corporation's capital stock, other than a share that was issued to the person as a stock dividend.

(7) [It applies] to a corporation that was a mortgage investment corporation at the end of January 14, 1998 for a taxation year that ends after 2007 if a mortgage lender is a specified shareholder of the corporation at any time in the year or in a taxation year that ends before the year and after 2007.

(8) For the purposes of subsections (4) to (7),

(*a*) if at a particular time

(i) a trust distributes a share of the capital stock of a corporation to a person who was a beneficiary under the trust throughout the period from the end of January 14, 1998 to the particular time in satisfaction of all or any part of the beneficiary's capital interest in the trust, or

(ii) a partnership distributes, to a person who was a member of the partnership throughout the period from the end of January 14, 1998 to the particular time, on the partnership ceasing to exist or on the ceasing of the person to be a member of the partnership, a share of the capital stock of a corporation or an interest in such a share,

the share is deemed to have been owned by the beneficiary or member throughout the period that begins at the later of the end of January 14, 1998 and the time the share was last acquired by the trust or partnership and that ends at the particular time; and

(*b*) if a person who is a beneficiary under a trust or who is a member of a partnership is deemed by paragraph (*b*), (*c*) or (*e*) of the definition "specified shareholder" in subsection 248(1) of the Act to own a share owned by the trust or partnership, the person is deemed to own the share and to have acquired the share at the later of the time the share was acquired by the trust or partnership and the time the person last became a beneficiary under the trust or a member of the partnership.

(9) At any time on or after the day of the death of a person described in paragraph (3)(*c*) in respect of a corporation and before the third anniversary of that day,

(*a*) the estate of the deceased person is deemed to be a person described in paragraphs (3)(*b*) and (*c*) who is related to each person who, throughout the period that begins at the beginning of January 15, 1998 and ends at the time of death, was related to the deceased person;

(*b*) notwithstanding subsection (10),

(i) the estate is deemed not to be a newly related person in respect of the corporation, and

(ii) the acquisition of shares of the corporation's capital stock by the estate from the deceased person is deemed to be a permitted acquisition; and

(*c*) the estate is deemed not to be a trust for the purposes of subparagraph (8)(*a*)(i) and paragraphs (*b*) and (*e*) of the definition "specified shareholder" in subsection 248(1) of the Act.

(10) The definitions in this subsection apply in subsections (3) to (9) and this subsection.

"mortgage lender"

"mortgage lender" means a particular corporation where the ordinary business of

(*a*) the particular corporation, or

(*b*) a corporation (other than a mortgage investment corporation) or partnership affiliated with the particular corporation

includes the holding of debts that are secured, whether by mortgage or in any other manner, on houses (as defined in section 2 of the *National Housing Act*) or on property included within a housing project (as defined in that section).

"newly related persons"

"newly related persons" means persons who are related to each other and who became so related after January 14, 1998.

"permitted acquisition"

"permitted acquisition" means an acquisition by a particular person of a share of a class of the capital stock of a corporation that was

(*a*) held, at each particular time after January 14, 1998 and before the time at which the particular person acquired it, or

(*b*) issued after January 14, 1998 by the corporation as a stock dividend and held, at each particular time after the time the share was issued and before the time at which the particular person acquired it,

by the particular person or by a person who was related to the particular person throughout the period that began at the beginning of January 15, 1998 and that ends at the particular time if, immediately after the time at which the particular person acquires the share, the percentage of the issued shares of that class held by the particular person and persons related to the particular person (or in the case of acquisitions before August 14, 1998, by the particular person and persons with whom the particular person did not deal at arm's length immediately after the acquisition) does not exceed the permitted percentage for the particular person in respect of that class of shares.

"permitted percentage"

"permitted percentage" for a particular person in respect of a class of shares of the capital stock of a corporation means

(*a*) in respect of acquisitions of shares before August 14, 1998, the percentage of the issued shares of that class held at the end of January 14, 1998 by the particular person and persons with whom the particular person did not at that time deal at arm's length; and

(*b*) in any other case, the greater of

(i) the percentage of the issued shares of that class held at the end of January 14, 1998 by the particular person and persons related at that time to the particular person, and

(ii) the percentage of the issued shares of that class held at the beginning of August 14, 1998 by the particular person and persons related at that time to the particular person.

"related persons"

"related persons" and persons related to each other have, for purposes other than applying the definitions "permitted acquisition" and "permitted percentage" in respect of acquisitions of shares before August 14, 1998, the meaning that would be assigned by section 251 of the Act if paragraph 251(2)(*a*) of the Act were read as follows:

"(*a*) an individual and

(i) the individual's child (as defined in subsection 70(10)) who is under 19 years of age, or

(ii) the individual's spouse;"

"specified shareholder"

"specified shareholder" has the meaning assigned by paragraph 130.1(6)(*d*) of the Act. S. 130.1(6)(*d*) formerly read:

"(*d*) subject to subsections (7) and (8), the number of shareholders of the corporation was not less than twenty and no one shareholder held more than 25% of the issued shares of the capital stock of the corporation;"

S. 130.1(6)(*f*)(i) was amended by S.C. 1998, c. 19, s. 156(1), deemed to have come into force on June 23, 1993. S. 130.1(6)(*f*)(i) formerly read:

"(i) debts owing to the corporation that were secured on residential property, as defined in the *Residential Mortgage Financing Act*, chapter 49 of the Statutes of Canada, 1973-74, whether by mortgages or in any other manner, and"

Related Sections: S. 253.1 Investments in limited partnerships.

► 130.1(7) ◄

(7) How shareholders counted. In paragraph (6)(*d*), a trust governed by a registered pension plan or deferred profit sharing plan by which shares of the capital stock of a corporation are held shall be counted as four shareholders of the corporation for the purpose of determining the number of shareholders of the corporation, but as one shareholder for the purpose of determining whether any person is a specified shareholder (as defined for the purpose of that paragraph).

History: S. 130.1(7) was amended by S.C. 1999, c. 22, s. 53(2), applicable in determining whether a corporation is a mortgage investment corporation for a taxation year that begins after January 14, 1998, except that [it applies] to the corporation, with respect to a particular person and persons related to the particular person, only as provided in subsections (4) to (10) [below] if

(*a*) the corporation was a mortgage investment corporation at the end of January 14, 1998;

(*b*) the particular person is a specified shareholder of the corporation at any time in the year; and

(*c*) the particular person

(i) was a specified shareholder of the corporation at the end of January 14, 1998, or

(ii) both

(A) was a specified shareholder of the corporation at any time after January 14, 1998 and before August 14, 1998, and

(B) would have been a specified shareholder of the corporation at the end of January 14, 1998 if paragraph 130.1(6)(*d*) of the Act, were read without reference to subparagraphs (ii) and (iv).

(4) [It applies] to a corporation that was a mortgage investment corporation at the end of January 14, 1998 for a taxation year that begins after that day if a person who at any time in the year is a specified shareholder of the corporation contributes capital to the corporation, or acquires a share of the corporation's capital stock other than by a permitted acquisition, at any time after January 14, 1998 and before the end of the year.

(5) [It applies] to a corporation that was a mortgage investment corporation at the end of January 14, 1998 for a taxation year that begins after that day if a newly related person in respect of a person who at any time in the year is a specified shareholder of the corporation

(*a*) contributes capital to the corporation, or

(*b*) holds property (in this paragraph referred to as an "ineligible investment") that is

(i) a share of the capital stock of the corporation, or

(ii) a share of the capital stock of a corporation that holds an ineligible investment

at any time after January 14, 1998 and before the end of the year.

(6) [It applies] to a corporation that was a mortgage investment corporation at the end of January 14, 1998 for a taxation year that ends after that day if

(*a*) at any particular time after January 14, 1998 and before the end of the year, a mortgage lender is a specified shareholder of the corporation; and

(*b*) at any time that is in the taxation year that includes the particular time and that is after January 14, 1998, any person contributes capital to the corporation or acquires from the corporation a share of the corporation's capital stock, other than a share that was issued to the person as a stock dividend.

(7) [It applies] to a corporation that was a mortgage investment corporation at the end of January 14, 1998 for a taxation year that ends after 2007 if a mortgage lender is a specified shareholder of the corporation at any time in the year or in a taxation year that ends before the year and after 2007.

(8) For the purposes of subsections (4) to (7),

(*a*) if at a particular time

(i) a trust distributes a share of the capital stock of a corporation to a person who was a beneficiary under the trust throughout the period from the end of January 14, 1998 to the particular time in satisfaction of all or any part of the beneficiary's capital interest in the trust, or

(ii) a partnership distributes, to a person who was a member of the partnership throughout the period from the end of January 14, 1998 to the particular time, on the partnership ceasing to exist or on the ceasing of the person to be a member of the partnership, a share of the capital stock of a corporation or an interest in such a share,

the share is deemed to have been owned by the beneficiary or member throughout the period that begins at the later of the end of January 14, 1998 and the time the share was last acquired by the trust or partnership and that ends at the particular time; and

(*b*) if a person who is a beneficiary under a trust or who is a member of a partnership is deemed by paragraph (*b*), (*c*) or (*e*) of the definition "specified shareholder" in subsection 248(1) of the Act to own a share owned by the trust or partnership, the person is deemed to own the share and to have acquired the share at the later of the time the share was acquired by the trust or partnership and the time the person last became a beneficiary under the trust or a member of the partnership.

(9) At any time on or after the day of the death of a person described in paragraph (3)(*c*) in respect of a corporation and before the third anniversary of that day,

(*a*) the estate of the deceased person is deemed to be a person described in paragraphs (3)(*b*) and (*c*) who is related to each person who, throughout the period that begins at the beginning of January 15, 1998 and ends at the time of death, was related to the deceased person;

(*b*) notwithstanding subsection (10),

(i) the estate is deemed not to be a newly related person in respect of the corporation, and

(ii) the acquisition of shares of the corporation's capital stock by the estate from the deceased person is deemed to be a permitted acquisition; and

(*c*) the estate is deemed not to be a trust for the purposes of subparagraph (8)(*a*)(i) and paragraphs (*b*) and (*e*) of the definition "specified shareholder" in subsection 248(1) of the Act.

(10) The definitions in this subsection apply in subsections (3) to (9) and this subsection.

"mortgage lender"

"mortgage lender" means a particular corporation where the ordinary business of

(*a*) the particular corporation, or

(*b*) a corporation (other than a mortgage investment corporation) or partnership affiliated with the particular corporation

includes the holding of debts that are secured, whether by mortgage or in any other manner, on houses (as defined in section 2 of the *National Housing Act*) or on property included within a housing project (as defined in that section).

"newly related persons"

"newly related persons" means persons who are related to each other and who became so related after January 14, 1998.

"permitted acquisition"

"permitted acquisition" means an acquisition by a particular person of a share of a class of the capital stock of a corporation that was

(*a*) held, at each particular time after January 14, 1998 and before the time at which the particular person acquired it, or

(*b*) issued after January 14, 1998 by the corporation as a stock dividend and held, at each particular time after the time the share was issued and before the time at which the particular person acquired it,

by the particular person or by a person who was related to the particular person throughout the period that began at the beginning of January 15, 1998 and that ends at the particular time if, immediately after the time at which the particular person acquires the share, the percentage of the issued shares of that class held by the particular person and persons related to the particular person (or in the case of acquisitions before August 14, 1998, by the particular person and persons with whom the particular person did not deal at arm's length immediately after the acquisition) does not exceed the permitted percentage for the particular person in respect of that class of shares.

"permitted percentage"

"permitted percentage" for a particular person in respect of a class of shares of the capital stock of a corporation means

(*a*) in respect of acquisitions of shares before August 14, 1998, the percentage of the issued shares of that class held at the end of January 14, 1998 by the particular person and persons with whom the particular person did not at that time deal at arm's length; and

(*b*) in any other case, the greater of

(i) the percentage of the issued shares of that class held at the end of January 14, 1998 by the particular person and persons related at that time to the particular person, and

(ii) the percentage of the issued shares of that class held at the beginning of August 14, 1998 by the particular person and persons related at that time to the particular person.

"related persons"

"related persons" and persons related to each other have, for purposes other than applying the definitions "permitted acquisition" and "permitted percentage" in respect of acquisitions of shares before August 14, 1998, the meaning that would be assigned by section 251 of the Act if paragraph 251(2)(*a*) of the Act were read as follows:

"(*a*) an individual and

(i) the individual's child (as defined in subsection 70(10)) who is under 19 years of age, or

(ii) the individual's spouse;"

"specified shareholder"

"specified shareholder" has the meaning assigned by paragraph 130.1(6)(*d*) of the Act. S. 130.1(7) formerly read:

"(7) *How shareholders counted.* For the purposes of paragraph (6)(*d*), a trust governed by a registered pension plan or deferred profit sharing plan by which shares of the capital stock of a corporation are held shall be counted as four shareholders of the corporation and a trust governed by a registered retirement savings plan by which shares of the capital stock of a corporation are held shall be counted as one shareholder of the corporation, but, for the purpose of calculating the limitation on the holding of shares of the capital stock of a mortgage investment corporation by a trust governed by a registered pension plan or deferred profit sharing plan, the trust shall be counted as one shareholder."

► 130.1(8) ◄

(8) First taxation year. For the purposes of subsection (6), a corporation that was incorporated after 1971 shall be deemed to have complied with paragraph (6)(*d*) throughout the first taxation year of the corporation in which it carried on business if it complied with that paragraph on the last day of that taxation year.

► 130.1(9) ◄

(9) Definitions. In this section,

"liabilities" — "liabilities" of a corporation at any particular time means the total of all debts owing by the corporation, and all other obligations of the corporation to pay an amount, that were outstanding at that time;

"non-qualifying real property" — [Repealed by S.C. 1995, c. 3, s. 40(2).]

History: S. 130.1(9), the definition "non-qualifying real property", was repealed by S.C. 1995, c. 3, s. 40(2), applicable after February 22, 1994. S. 130.1(9), the definition "non-qualifying real property", formerly read:

"*'non-qualifying real property'* — 'non-qualifying real property' of a corporation has the meaning assigned by subsection 131(6);"

S. 130.1(9), the definition of "non-qualifying real property", was added by S.C. 1994, c. 7, Sched. VIII, s. 75(2.1), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 131(6) Definitions relating to mutual fund corporations.

"non-qualifying taxed capital gains" — [Repealed by S.C. 1995, c. 3, s. 40(2).]

History: S. 130.1(9), the definition "non-qualifying taxed capital gains" was repealed by S.C. 1995, c. 3, s. 40(2), applicable after February 22, 1994. S. 130.1(9), the definition "non-qualifying taxed capital gains" formerly read:

"*'non-qualifying taxed capital gains'* — 'non-qualifying taxed capital gains' of a mortgage investment corporation for a taxation year means the amount, if any, by which

(*a*) the amount by which its taxable capital gains for the year from dispositions of its non-qualifying real property exceeds the amounts determined under paragraph (*b*) of the definition 'qualifying taxed capital gains' in respect of those dispositions

exceeds the total of

(*b*) the amount by which its allowable capital losses for the year from dispositions of its non-qualifying real property exceeds the amounts determined under paragraph (*d*) of the definition 'qualifying taxed capital gains' in respect of those dispositions,

(*c*) the amount, if any, deducted under paragraph 111(1)(*b*) in computing its taxable income for the year, and

(*d*) the amount, if any, by which the total of the amounts, if any, determined under paragraphs (*c*) and (*d*) of the definition 'qualifying taxed capital gains' in respect of the corporation for the year exceeds the total of the amounts, if any, determined under paragraphs (*a*) and (*b*) of that definition in respect of the corporation for the year;"

S. 130(9), the definition of "non-qualifying taxed capital gains", was added by S.C. 1994, c. 7, Sched. VIII, s. 75(2.1), applicable to the 1992 and subsequent taxation years.

"qualifying taxed capital gains" — [Repealed by S.C. 1995, c. 3, s. 40(2).]

History: S. 130.1(9), the definition "qualifying taxed capital gains" was repealed by S.C. 1995, c. 3, s. 40(2), applicable after February 22, 1994. S. 130.1(9), the definition "qualifying taxed capital gains" formerly read:

"*'qualifying taxed capital gains'* — 'qualifying taxed capital gains' of a mortgage investment corporation for a taxation year means the amount, if any, by which the total of

(*a*) its taxable capital gains for the year from dispositions of property, other than its non-qualifying real property, and

(*b*) all amounts each of which is an amount determined by the formula

$$A \times \frac{B}{C}$$

where

A is its taxable capital gain for the year from the disposition of a non-qualifying real property of the corporation,

B is the number of calendar months in the period that begins with the later of the calendar month in which the property was last acquired by it and January 1972 and ends with February 1992, and

C is the number of calendar months in the period that begins with the later of the calendar month in which the property was last acquired by it and January 1972 and ends with the calendar month in which the property was disposed of

exceeds the total of

(*c*) its allowable capital losses for the year from dispositions of property, other than its non-qualifying real property,

(*d*) all amounts each of which is an amount determined by the formula

$$D \times \frac{E}{F}$$

where

D is its allowable capital loss for the year from the disposition of a non-qualifying real property of the corporation,

E is the number of calendar months in the period that begins with the later of the calendar month in which the property was last acquired by it and January 1972 and ends with February 1992, and

F is the number of calendar months in the period that begins with the later of the calendar month in which the property was last acquired by it and January 1972 and ends with the calendar month in which the property was disposed of, and

(*e*) the amount, if any, by which the total of the amounts determined under paragraphs (*b*) and (*c*) of the definition 'non-qualifying taxed capital gains' in respect of the corporation for the year exceeds the amount, if any, determined under paragraph (*a*) of that definition in respect of the corporation for the year;"

S. 130(9), the definition of "qualifying taxed capital gains", was added by S.C. 1994, c. 7, Sched. VIII, s. 75(2.1), applicable to the 1992 and subsequent taxation years.

"taxed capital gains" — "taxed capital gains" has the meaning assigned by paragraph 130(3)(*b*).

History: S. 130.1(9), the definition "taxed capital gains" was added by S.C. 1995, c. 3, s. 40(3), applicable after February 22, 1994.

The definition "taxed capital gains" was repealed by S.C. 1994, c. 7, Sched. VIII, s. 75(2), applicable to the 1992 and subsequent taxation years. That definition formerly read:

" 'taxed capital gains' has the meaning assigned by paragraph 130(3)(*b*)."

Mutual Fund Corporations

SECTION 131:

► 131(1) ◄

(1) Election re capital gains dividend. Where at any particular time a dividend became payable by a corporation, that was throughout the taxation year in which the dividend became payable a mutual fund corporation, to shareholders of any class of its capital stock, if the corporation so elects in respect of the full amount of the dividend in prescribed manner and at or before the earlier of the particular time and the first day on which any part of the dividend was paid,

(*a*) the dividend shall be deemed to be a capital gains dividend payable out of the corporation's capital gains dividend account to the extent that it does not exceed the corporation's capital gains dividend account at the particular time; and

(*b*) notwithstanding any other provision of this Act (other than paragraph (5.1)(*b*)), any amount received by a taxpayer in a taxation year as, on account of, in lieu of payment of or in satisfaction of, the dividend shall not be included in computing the taxpayer's income for the year as income from a share of the capital stock of the corporation, and

(i) where the dividend was in respect of capital gains of the corporation from dispositions of property that occurred before February 28, 2000, and the taxation year of the taxpayer began after February 27, 2000 and ended before October 18, 2000, 9/8 of the dividend is deemed to be a capital gain of the taxpayer from the disposition by the taxpayer of a capital property in the year,

(ii) where the dividend was in respect of capital gains of the corporation from dispositions of property that occurred before February 28, 2000, and the taxation year of the taxpayer includes February 27, 2000, the dividend is deemed to be a capital gain of the taxpayer from the disposition by the taxpayer of a capital property in the year and before February 28, 2000,

(iii) where the dividend was in respect of capital gains of the corporation from dispositions of property that occurred before February 28, 2000, and the taxation year of the taxpayer began after October 17, 2000, 3/2 of the dividend is deemed to be a capital gain of the taxpayer from the disposition by the taxpayer of a capital property in the year,

(iii.1) where the dividend was in respect of capital gains of the corporation from dispositions of property that occurred before February 28, 2000 and the taxation year of the taxpayer begins after February 27, 2000 and ends after October 17, 2000, 9/8 of the dividend is deemed to be a capital gain of the taxpayer from the disposition by the taxpayer of capital property in the year and before October 18, 2000,

(iv) where the dividend was in respect of capital gains of the corporation from dispositions of property that occurred after February 27, 2000 and before October 18, 2000, and the taxation year of the taxpayer began after October 17, 2000, 4/3 of the dividend is deemed to be a capital gain of the taxpayer from the disposition by the taxpayer of a capital property in the year,

(v) where the dividend was in respect of capital gains of the corporation from dispositions of property that occurred after February 27, 2000 and before October 18, 2000, and the taxation year of the taxpayer includes October 17, 2000, the dividend is deemed to be a capital gain of the taxpayer from the disposition by the taxpayer of a capital property in the year and in the period that began after February 27, 2000 and ended before October 18, 2000,

(vi) where the dividend was in respect of capital gains of the corporation from dispositions of property that occurred after February 27, 2000, and before October 17, 2000 and the taxation year of the taxpayer began after February 27, 2000 and ended before October 18, 2000, the dividend is deemed to be a capital gain of the taxpayer from the disposition by the taxpayer of a capital property in the year, and

(vii) in any other case, the dividend is deemed to be a capital gain of the taxpayer from the disposition of capital property after October 17, 2000 and in the year,

and, for the purpose of this paragraph,

(viii) dividends paid by a corporation are deemed to be paid in respect of the corporation's net capital gains in the order in which those net capital gains were realized by the corporation,

(viii.1) capital gains redemptions are deemed to be made in respect of net capital gains in the order in which those net capital gains were realized by the corporation to the extent that they are not reduced by dividends, and

(ix) for the purposes of applying subparagraphs (viii) and (viii.1)

(A) net capital gains of a corporation for a year is the amount by which the corporation's capital gains from dispositions of property in the year exceed the corporation's capital losses from dispositions of property in the year,

(B) net capital losses of a corporation for a year is the amount by which the corporation's capital losses from dispositions of property in the year exceed the corporation's capital gains from dispositions of property in the year,

(C) net capital gains of a corporation for a year are deemed to be realized evenly throughout the year, and

(D) net capital losses of a corporation for a year are deemed to be a capital loss of the corpora-

tion from the disposition of property in the following year.

History: S. 131(1)(*b*), the portion before subparagraph (i), was replaced by S.C. 2005, c. 19, s. 30(1), applicable after March 22, 2004. S. 131(1)(*b*), the portion before subparagraph (i), formerly read:

"(*b*) notwithstanding any other provision of this Act, any amount received by a taxpayer in a taxation year as, on account of, in lieu of payment of or in satisfaction of, the dividend shall not be included in computing the taxpayer's income for the year as income from a share of the capital stock of the corporation, and"

S. 131(1)(*b*) was amended by S.C. 2001, c. 17, s. 128(1), applicable to taxation years that end after February 27, 2000. S. 131(1)(*b*) formerly read:

"(*b*) notwithstanding any other provision of this Act, any amount received by a taxpayer in a taxation year as, on account of, in lieu of payment of or in satisfaction of, the dividend shall not be included in computing the taxpayer's income for the year as income from a share of the capital stock of the corporation, but shall be deemed to be a capital gain of the taxpayer for the year from a disposition, in the year and after February 22, 1994, by the taxpayer of capital property."

S. 131(1) was amended by S.C. 1995, c. 3, s. 41(1), applicable to dividends paid after February 22, 1994. S. 131(1) formerly read:

"(1) Where at any particular time a dividend became payable, by a corporation that was throughout the taxation year in which the dividend became payable a mutual fund corporation, to shareholders of any class of shares of its capital stock,

(*a*) if the corporation so elects in respect of the full amount of the dividend, in prescribed form and manner and at or before the earlier of the particular time and the first day on which any part of the dividend was paid,

(i) the dividend shall be deemed to be a capital gains dividend payable out of the corporation's capital gains dividend account to the extent that it does not exceed the corporation's capital gains dividend account at the particular time,

(ii) notwithstanding any other provision of this Act, any amount received by a taxpayer in a taxation year as, on account of, in lieu of payment of or in satisfaction of, the dividend shall not be included in computing the taxpayer's income for the year as income from a share of the capital stock of the corporation, but shall be deemed to be a capital gain of the taxpayer for the year from a disposition of capital property and, for the purposes of section 110.6, that property shall be deemed to have been disposed of by the taxpayer in the year, and

(iii) any election under paragraph (*b*) made by the corporation in respect of the dividend shall be deemed not to have been made; and

(*b*) if the corporation so elects in respect of the full amount of the dividend, in prescribed form and manner and at or before the earlier of the particular time and the first day on which any part of the dividend was paid,

(i) the dividend shall be deemed to be a capital gains dividend payable out of the corporation's non-qualifying real property capital gains dividend account to the extent that it does not exceed the corporation's non-qualifying real property capital gains dividend account at the particular time, and

(ii) notwithstanding any other provision of this Act, any amount received by a taxpayer in a taxation year as, on account of, in lieu of payment of or in satisfaction of, the dividend shall not be included in computing the taxpayer's income for the year as income from a share of the capital stock of the corporation, but shall be deemed to be a capital gain of the taxpayer for the year from a disposition of capital property and, for the purposes of section 110.6,

(A) that property shall be deemed to have been a non-qualifying real property of the taxpayer, within the meaning of that section, disposed of by the taxpayer in the year, and

(B) the taxpayer's eligible real property gain for the year from the disposition of that property shall be deemed to be nil."

S. 131(1) was amended by S.C. 1994, c. 7, Sched. VIII, s. 76(1), applicable to the 1992 and subsequent taxation years. S. 131(1) formerly read:

"(1) Where at any particular time after 1971 a dividend has become payable by a corporation that was, throughout the taxation year in which the dividend became payable, a mutual fund corporation, to shareholders of any class of shares of its capital stock, if the corporation so elects in respect of the full amount of the dividend, in prescribed manner and prescribed form and at or before the particular time or the first day on which any part of the dividend was paid if that day is earlier than the particular time,

(*a*) the dividend shall be deemed to be a capital gains dividend to the extent that it does not exceed the corporation's capital gains dividend account at the particular time; and

(*b*) notwithstanding any other provision of this Act, any amount received by a taxpayer in a taxation year as, on account or in lieu of payment of, or in satisfaction of the dividend shall not be included in computing the taxpayer's income for the year as income from a share of the capital stock of the corporation, but shall be deemed to be a capital gain of the taxpayer for the year from a disposition of capital property and, for the purposes of section 110.6, that property shall be deemed to have been disposed of by the taxpayer in the year."

Related Sections: S. 39, "capital gain", "capital loss"; s. 112(6) Meaning of certain expressions; s. 129(7) Meaning of "taxable dividend"; s. 130(2) Application of ss. 131(1) to (3.2) and (6); s. 130(3) Meaning of expressions "investment corporation" and "taxed capital gains"; s. 131(1.1) Deemed date of election; s. 131(4) Application of s. 84; s. 131(6) Definitions relating to mutual fund corporations; s. 184(2) Tax on excessive elections; s. 185(1) Assessment of tax; s. 185(2) Payment of tax and interest; s. 212(2) Tax on dividends; s. 248(1), "dividend", "prescribed".

Regulations: Part XXI; 2104.

Interpretation Bulletins: *Secondary* — IT-98R2 Investment corporations [Archived by the CRA].

Forms: T5 Sum.; T5; T2055.

► 131(1.1) ◄

(1.1) Deemed date of election. Where at any particular time a dividend has become payable by a mutual fund corporation to shareholders of any class of shares of its capital stock and subsection (1) would have applied to the dividend except that the election referred to in that subsection was not made on or before the day on or before which the election was required by that subsection to be made, the election shall be deemed to have been made at the particular time or on the first day on which any part of the dividend was paid, whichever is the earlier, if

(*a*) the election is thereafter made in prescribed manner and prescribed form;

(*b*) an estimate of the penalty in respect of the election is paid by the corporation when the election is made; and

(*c*) the directors or other person or persons legally entitled to administer the affairs of the corporation have, before the time the election is made, authorized the election to be made.

Related Sections: S. 131(1.2)–(1.4).

► 131(1.2) ◄

(1.2) Request to make election. The Minister may at any time, by written request served personally or by registered mail, request that an election referred to in paragraph (1.1)(*a*) be made by a mutual fund corporation and where the mutual fund corporation on which such a request is served does not comply therewith within 90 days after service of the request, subsection (1.1) does not apply to such an election made thereafter by it.

► 131(1.3) ◄

(1.3) Penalty. For the purposes of this section, the penalty in respect of an election referred to in paragraph (1.1)(*b*) is an amount equal to the lesser of

(*a*) 1% per annum of the amount of the dividend referred to in the election for each month or part of a month during the period commencing with the time that the dividend became payable, or the first day on which any part of the dividend was paid if that day is earlier, and ending with the day on which the election was made, and

(*b*) the product obtained when $500 is multiplied by the proportion that the number of months or parts of months during the period referred to in paragraph (*a*) bears to 12.

► 131(1.4) ◄

(1.4) Assessment and payment of penalty. The Minister shall, with all due dispatch, examine each election referred to in paragraph (1.1)(*a*), assess the penalty payable and send a notice of assessment to the mutual fund corporation and the corporation shall pay forthwith to the Receiver General, the amount, if any, by which the penalty so assessed exceeds the total of all amounts previously paid on account of that penalty.

► 131(1.5) ◄

(1.5) Reporting. Where paragraph (1)(*b*) applies to a dividend paid by a mutual fund corporation to a shareholder of any class of shares of its capital stock, the corporation shall disclose to the shareholder in prescribed form the amount of the dividend that is in respect of capital gains realized on dispositions of property that occurred

(*a*) before February 28, 2000,

(*b*) after February 27, 2000 and before October 18, 2000, and

(*c*) after October 17, 2000,

and if it does not do so, the dividend is deemed to be in respect of capital gains from dispositions of property that occurred before February 28, 2000.

History: S. 131(1.5) was added by S.C. 2001, c. 17, s. 128(2), applicable to taxation years that end after February 27, 2000.

► 131(1.6) ◄

(1.6) Allocation. Where subsection (1) applies in respect of a dividend paid by a mutual fund corporation in the period that begins 60 days after the beginning of the corporation's taxation year that includes February 28, 2000 or October 17, 2000 and ends 60 days after the end of that year, and the corporation does not elect under subsection (1.7), the following rules apply:

(*a*) the portion of the dividend that is in respect of capital gains of the mutual fund corporation from dispositions of property by the mutual fund corporation in the year and in the particular period that began at the beginning of the year and ended at the end of February 27, 2000 is deemed to be that proportion of the dividend that the corporation's net capital gains from dispositions of property in the particular period to which the dividend relates is of the total of the corporation's net capital gains from dispositions of property in each of the particular periods referred to in this subsection,

(*b*) the portion of the dividend that is in respect of capital gains of the mutual fund corporation from dispositions of property by the mutual fund corporation in the year and in the particular period that began at the beginning of February 28, 2000 and ended at the end of October 17, 2000 is deemed to be that proportion of the dividend that the corporation's net capital gains from dispositions of property in the particular period is of the total of the corporation's net capital gains from dispositions of property in each of the particular periods referred to in this subsection, and

(*c*) the portion of the dividend that is in respect of capital gains of the mutual fund corporation from dispositions of property by the mutual fund corporation in the year and in the particular period that begins at the beginning of October 18, 2000 and ends at the end of the year, is deemed to be that proportion of the dividend that the corporation's net capital gains from dispositions of property in the particular period is of the total of the corporation's net capital gains from dispositions of property in each of the particular periods referred to in this subsection,

and, in this subsection and in subsection (1.8), net capital gains from dispositions of property in a particular period means the amount, if any, by which the corporation's capital gains from dispositions of property in the particular period exceeds the corporation's capital losses from dispositions of property in the particular period.

History: S. 131(1.6) was added by S.C. 2001, c. 17, s. 128(2), applicable to taxation years that end after February 27, 2000.

► 131(1.7) ◄

(1.7) Allocation. Where subsection (1) applies in respect of a dividend paid by a mutual fund corporation in the period that begins 60 days after the beginning of the corporation's taxation year that includes February 28, 2000 or October 17, 2000 and ends 60 days after the end of that year, and the corporation so elects under this paragraph in its return of income

(*a*) the portion of the dividend that is in respect of capital gains from dispositions of property that occurred in the year and before February 28, 2000 is deemed to be that proportion of the dividend that the number of days that are in that year and before February 28, 2000 is of the number of days that are in that year;

(*b*) the portion of the dividend that is in respect of capital gains from dispositions of property that occurred in the year and in the period that began at the beginning of February 28, 2000 and ended at the end of October 17, 2000 is deemed to be that proportion of the dividend that the number of days that are in the year and in that period is of the number of days that are in the year; and

(*c*) the portion of the dividend that is in respect of capital gains from dispositions of property that occurred in the year and in the period that begins at the beginning of October 18, 2000 and ends at the end of the year, is deemed to be that proportion of the dividend that the number of days that are in the year and in that period is of the number of days that are in the year.

History: S. 131(1.7) was added by S.C. 2001, c. 17, s. 128(2), applicable to taxation years that end after February 27, 2000.

► 131(1.8) ◄

(1.8) Allocation. For the purposes of subsection (1.6) and (1.7), where the total amount of dividends paid by a mutual fund corporation in the period that begins 60 days after the beginning of the corporation's taxation year that includes February 28, 2000 or October 17, 2000 and ends 60 days after the end of that year and to which subsection (1) applies exceeds the total amount of the corporation's net capital gains from dispositions of property in that year

(*a*) the amount of those dividends to which subsections (1.6) and (1.7) apply is the amount of the corporation's net capital gains from dispositions of property in that year, and

(*b*) the amount, if any, by which total amount of the dividends paid by the corporation in the period exceeds the total amount of the corporation's net capital gains from dispositions of property in that year is deemed to be a dividend in respect of capital gains from dispositions of property in the first of the periods described in subsection (1.6) that ends in the year.

History: S. 131(1.8) was added by S.C. 2001, c. 17, s. 128(2), applicable to taxation years that end after February 27, 2000.

► 131(1.9) ◄

(1.9) Allocation. Where no dividend to which subsection (1.7) applies is paid by a mutual fund corporation in respect of its net taxable capital gains for its taxation year that includes February 28, 2000 or October 17, 2000, the corporation has net capital gains or net capital losses from dispositions of property in the year, and the corporation so elects under this subsection in its return of income for the year

(*a*) the portion of those net capital gains and net capital losses that is in respect of capital gains and losses from dispositions of property that occurred before February 28, 2000 is deemed to be that proportion of the net capital gains or net capital losses respectively that the number of days that are in the year and before February 28, 2000 is of the number of days that are in the year,

(*b*) the portion of those net capital gains and net capital losses that is in respect of capital gains and losses from dispositions of property that occurred in the year and in the period that began at the beginning of February 28, 2000 and ended at the end of October 17, 2000, is deemed to be that proportion of the net capital gains or net capital losses respectively that the number of days that are in the year and in that period is of the number of days that are in the year, and

(*c*) the portion of those net capital gains and net capital losses that is in respect of capital gains and losses from dispositions of property that occurred in the year and in the period that began at the beginning of October 18, 2000 and ended at the end of the year, is deemed to be that proportion of the net capital gains or net capital losses respectively that the number of days that are in the year and in that period is of the number of days that are in the year,

and, for the purpose of this subsection,

(*d*) the net capital gains of a mutual fund corporation from dispositions of property in the year is the amount, if any, by which the corporation's capital gains from dispositions of property in a year exceeds the corporation's capital losses from dispositions of property in the year, and

(*e*) the net capital losses of a mutual fund corporation from dispositions of property in the year is the amount, if any, by which the corporation's capital losses from dispositions of property in a year exceeds the corporation's capital gains from dispositions of property in the year.

History: S. 131(1.9) was added by S.C. 2001, c. 17, s. 128(2), applicable to taxation years that end after February 27, 2000.

► 131(2) ◄

(2) Capital gains refund to mutual fund corporation. Where a corporation was, throughout a taxation year, a mutual fund corporation and a return of its income for the year has been made within 3 years from the end of the year, the Minister

(*a*) may, on sending the notice of assessment for the year, refund an amount (in this subsection referred to as its "capital gains refund" for the year) equal to the lesser of

(i) the total of

(A) 14% of the total of

(I) all capital gains dividends paid by the corporation in the period commencing 60 days after the beginning of the year and ending 60 days after the end of the year, and

(II) its capital gains redemptions for the year, and

(B) the amount, if any, that the Minister determines to be reasonable in the circumstances, after giving consideration to the percentages applicable in determining the corporation's capital gains refund for the year and preceding taxation years and the percentages applicable in determining the corporation's refundable capital gains tax on hand at the end of the year, and

(ii) the corporation's refundable capital gains tax on hand at the end of the year; and

(*b*) shall, with all due dispatch, make that capital gains refund after mailing the notice of assessment if an application for it has been made in writing by the corporation within the period within which the Minister would be allowed under subsection 152(4) to assess tax payable under this Part by the corporation for the year if that subsection were read without reference to paragraph 152(4)(*a*).

History: S. 131(2)(*a*) was amended by S.C. 2001, c. 17, s. 128(2), applicable to taxation years that end after February 27, 2000 except that, for a taxation year of a mutual fund corporation that includes February 28, 2000 or October 17, 2000, or began after February 28, 2000 and ended before October 17, 2000, the reference to the percentage "14%" in clause 131(2)(*a*)(i)(A) of the Act shall be read as a reference to the percentage determined when 28% is multiplied by the fraction in paragraph 38(*a*) of the Act that applies to the corporation for the year. S. 131(2)(*a*) formerly read:

"(*a*) may, on mailing the notice of assessment for the year, refund without application therefor an amount (in this section referred to as its 'capital gains refund' for the year) equal to the lesser of

(i) 21% of the total of

(A) all capital gains dividends paid by the corporation in the period commencing 60 days after the commencement of the year and ending 60 days after the end of the year, and

(B) its capital gains redemptions for the year, and

(ii) the corporation's refundable capital gains tax on hand at the end of the year; and"

S. 131(2)(*b*) was amended by S.C. 1998, c. 19, s. 157(1), applicable after April 27, 1989. S. 131(2)(*b*) formerly read:

"(*b*) shall, with all due dispatch, make such a refund after mailing the notice of assessment if application therefor has been made in writing by the corporation within the period determined under paragraph 152(4)(*b*) or (*c*), as the case may be, within which the Minister may reassess tax payable by the corporation for the year."

Related Sections: S. 130(2) Application of ss. 131(1) to (3.2) and (6); s. 131(3) Application to other liability; s. 157(3) Reduced instalments.
Interpretation Bulletins: *Secondary*— IT-98R2 Investment corporations [Archived by the CRA].
Forms: T2 SCH 18.

► 131(3) ◄

(3) Application to other liability. Instead of making a refund that might otherwise be made under subsection (2), the Minister may, where the corporation is liable or about to become liable to make any payment under this Act, apply the amount that would otherwise be refunded to that other liability and notify the corporation of that action.

Related Sections: S. 130(2) Application of ss. 131(1) to (3.2) and (6).

► 131(3.1) ◄

(3.1) Interest on capital gains refund. Where a capital gains refund for a taxation year is paid to, or applied to a liability of, a corporation, the Minister shall pay or apply interest on the refund at the prescribed rate for the period beginning on the day that is the later of

(*a*) the day that is 120 days after the end of the year, and

(*b*) the day that is 30 days after the day on which the corporation's return of income under this Part for the year was filed under section 150, unless the return was filed on or before the day on or before which it was required to be filed,

and ending on the day the refund is paid or applied.

History: S. 131(3.1)(*b*) was replaced by S.C. 2003, c. 15, s. 112(1), applicable to taxation years that end after June 2003. S. 131(3.1)(*b*) formerly read:

"(*b*) the day on which the corporation's return of income under this Part for the year was filed under section 150, unless the return was filed on or before the day on or before which it was required to be filed,"

S. 131(3.1) was added by S.C. 1994, c. 7, Sched. VIII, s. 76(2), applicable to capital gains refunds paid or applied with respect to taxation years beginning after 1991.

Related Sections: S. 161.1(1) Refund interest.

► 131(3.2) ◄

(3.2) Excess interest on capital gains refund. Where at any particular time interest has been paid to, or applied to a liability of, a corporation under subsection (3.1) in respect of a capital gains refund and it is determined at a subsequent time that the capital gains refund was less than that in respect of which interest was so paid or applied,

(*a*) the amount by which the interest that was so paid or applied exceeds the interest, if any, computed in respect of the amount that is determined at the subsequent time to be the capital gains refund shall be deemed to be an amount (in this subsection referred to as the "amount payable") that became payable under this Part by the corporation at the particular time;

(*b*) the corporation shall pay to the Receiver General interest at the prescribed rate on the amount payable, computed from the particular time to the day of payment; and

(*c*) the Minister may at any time assess the corporation in respect of the amount payable and, where the Minister makes such an assessment, the provisions of Divisions I and J apply, with such modifications as the circumstances require, in respect of the assessment as though it had been made under section 152.

History: S. 131(3.2) was added by S.C. 1994, c. 7, Sched. VIII, s. 76(2), applicable to capital gains refunds paid or applied with respect to taxation years beginning after 1991.

Related Sections: S. 161.1(1) Refund interest.

► 131(4) ◄

(4) Application of s. 84. Section 84 does not apply to deem a dividend to have been paid by a corporation to any of its shareholders, or to deem any of the shareholders of a corporation to have received a dividend on any shares of the capital stock of the corporation, if at the time the dividend would, but for this subsection, be deemed by that section to have been so paid or received, as the case may be, the corporation was a mutual fund corporation.

Related Sections: S. 84 Deemed dividend.

► 131(5) ◄

(5) Dividend refund to mutual fund corporation. A corporation that was a mutual fund corporation throughout a taxation year

(*a*) is deemed for the purposes of paragraph 87(2)(*aa*) and section 129 to have been a private corporation throughout the year, except that its refundable dividend tax on hand at the end of the year (within the meaning assigned by subsection 129(3)) shall be determined without reference to paragraph 129(3)(*a*); and

(*b*) where it was not an investment corporation throughout the year, is deemed for the purposes of Part IV to have been a private corporation throughout the year except that, in applying subsection 186(1) to the corporation in respect of the year, that subsection shall be read without reference to paragraph 186(1)(*b*).

History: S. 131(5) was amended by S.C. 1998, c. 19, s. 157(2), applicable to the 1993 and subsequent taxation years. S. 131(5) formerly read:

"(5) A corporation that was, throughout a taxation year, a mutual fund corporation other than an investment corporation shall, for the purposes of paragraph 87(2)(*aa*), section 129 and Part IV, be deemed to have been a private corporation throughout the year, except that

(*a*) its refundable dividend tax on hand at the end of the year (within the meaning assigned by subsection 129(3)) shall be determined without reference to paragraph (*a*) of that subsection; and

(*b*) in its application to the corporation in respect of the year, subsection 186(1) shall be read without reference to paragraph 186(1)(*b*)."

S. 131(5)(*a*) was amended by S.C. 1996, c. 21, s. 33(1), applicable to taxation years that end after June 1995. S. 129(5)(*a*) formerly read:

"(*a*) for the purposes of section 129, its refundable dividend tax on hand at the end of the year shall be deemed to be the amount, if any, by which the total of

(i) the total of amounts each of which is an amount in respect of the year or any preceding taxation year throughout which it is deemed by this subsection to have been a private corporation, equal to the tax under Part IV payable by it for that year, and

(i.1) the amount, if any, of the corporation's addition at December 31, 1986 of refundable dividend tax on hand (within the meaning assigned by subsection 129(3.3)),

exceeds the total of

(ii) the total of amounts each of which is the corporation's dividend refund for any previous taxation year described in subparagraph (i),

(iii) the amount, if any, of the corporation's reduction at December 31, 1987 of refundable dividend tax on hand (within the meaning assigned by subsection 129(3.1)), and

(iv) the amount, if any, of the corporation's reduction at December 31, 1987 of any refundable dividend tax on hand (within the meaning assigned by subsection 129(3.5)); and"

Related Sections: S. 130(3) Meaning of expressions "investment corporation" and "taxed capital gains"; s. 131(8) Meaning of "mutual fund corporation"; s. 157(3) Reduced instalments.

► 131(5.1) ◄

(5.1) TCP gains distribution. If a mutual fund corporation elects under subsection (1) to treat a dividend as a capital gains dividend, for the purposes of this Part and Part XIII,

(*a*) each shareholder to whom the dividend is paid is deemed to receive from the corporation, at the time the dividend is paid, a TCP gains distribution equal to the lesser of the amount of the dividend and the shareholder's pro rata portion at that time of the mutual fund corporation's TCP gains balance; and

(*b*) where the dividend is paid to a shareholder who is a non-resident person or a partnership that is not a Canadian partnership,

(i) subparagraph (1)(*b*)(vii) does not apply to the dividend, to the extent of the TCP gains distribution, and

(ii) the TCP gains distribution is a taxable dividend that, except for the purpose of the definition of "capital gains dividend account" in subsection (6), is not a capital gains dividend.

History: S. 131(5.1) was added by S.C. 2005, c. 19, s. 30(2), applicable after March 22, 2004.

Related Sections: S. 102(1) Definition of "Canadian partnership"; s. 212(2) Tax on dividends; s. 218.3(2) Tax payable.

► 131(5.2) ◄

(5.2) Application of subsection (5.1). Subsection (5.1) applies to a dividend paid by a mutual fund corporation in a taxation year only if more than 5% of the dividend is received by or on behalf of shareholders each of whom is a non-resident person or is a partnership that is not a Canadian partnership.

History: S. 131(5.2) was added by S.C. 2005, c. 19, s. 30(2), applicable after March 22, 2004.

► 131(6) ◄

(6) Definitions. In this section,

"*capital gains dividend account*" — "capital gains dividend account" of a mutual fund corporation at any time means the amount, if any, by which

(*a*) its capital gains, for all taxation years that began more than 60 days before that time, from dispositions of property after 1971 and before that time while it was a mutual fund corporation

exceeds

(*b*) the total of

(i) its capital losses, for all taxation years that began more than 60 days before that time, from dispositions of property after 1971 and before that time while it was a mutual fund corporation,

(ii) all capital gains dividends that became payable by the corporation before that time and more than 60 days after the end of the last taxation year that ended more than 60 days before that time, and

(iii) the total of all amounts each of which is

(A) an amount equal to $^{100}/_{21}$ of its capital gains refund for any taxation year throughout which it was a mutual fund corporation where the year ended

(I) more than 60 days before that time, and

(II) before February 28, 2000,

(B) an amount equal to 100/18.7 of its capital gains refund for any taxation year throughout which it was a mutual fund corporation where the year ended

(I) more than 60 days before that time, and

(II) after February 27, 2000 and before October 18, 2000, or

(C) an amount equal to $^{100}/_{14}$ of its capital gain refund for any taxation year throughout which it was a mutual fund corporation where the year ended

(I) more than 60 days before that time, and

(II) after October 17, 2000;

Department of Finance Comfort Letter
[Capital Gains Received by a Mutual Fund Corporation from a Trust]

November 9, 2005

Dear XXXX,

I am responding to your facsimile to Grant Nash of June 18, 2004 and the attached letter dated November 15, 2001 concerning the definition of "capital gains dividend account" for mutual fund corporations (MFCs).

In general, the definition of "capital gains dividend account" in subsection 131(6) of the *Income Tax Act* (the "Act") includes all capital gains and all capital losses realized by a MFC from the disposition of capital property. Where a MFC holds units of a trust that makes a distribution out of its realized capital gains, and the trust makes an election under 104(21) of the Act in favour of the MFC, the MFC will be deemed to have realized a taxable capital gain, not a capital gain. As a result, it appears that no amount of this distribution will be included in the capital gains dividend account of the mutual fund corporation.

From a tax policy perspective it is intended that a mutual fund corporation will be a "flow-through entity" with respect to realized capital gains. This is generally achieved by refunding to the MFC its tax paid on taxable capital gains, to the extent that it distributes its capital gains to shareholders by way of a capital gains dividend, or through the redemption of shares. As such, there does not appear to be any policy reason why a MFC should not be entitled to flow-through capital gains received from a trust that has made an election under 104(21) in favour of the MFC. We note that a similar amendment was previously made to the definition of "capital dividend account" in subsection 89(1) of the Act to provide for the inclusion in a corporation's capital dividend account of an amount in respect of the non-taxable portion of capital gains distributed by a trust to the corporation.

We are therefore prepared to recommend an amendment to the Act to allow a MFC to flow-through capital gains received from a trust that has made an election under 104(21) in favour of the MFC. We will also recommend that this amendment be made effective for 2005 and subsequent taxation years.

We cannot offer any assurance that either the Minister of Finance or Parliament will agree with the recommendations that we intend to make in this regard. Nonetheless, we trust that this statement of our position is helpful.

Your sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 131(6), subparagraph (*b*)(iii) of the definition "capital gains dividend account" was amended by S.C. 2001, c. 17, s. 128(3), applicable to taxation years that end after February 27, 2000 except that, for a taxation year of a mutual fund corporation that includes February 28, 2000 or October 17, 2000, or began after February 28, 2000 and ended before October 17, 2000, the reference to the fraction "100/18.7" in clause (*b*)(iii)(B) and the fraction "$^{100}/_{14}$" in clause (*b*)(iii)(C) of the definition "capital gains dividend account" in subsection 131(6) of the Act, shall be read as a reference to the fraction "100/28X", where "X" is the fraction in paragraph 38(*a*) of the Act that applies to the corporation for the year. S. 131(6), subparagraph (*b*)(iii) of the definition "capital gains dividend account" formerly read:

"(iii) all amounts each of which is an amount in respect of any taxation year that ended more than 60 days before that time throughout which it was a mutual fund corporation, equal to $^{100}/_{21}$ of its capital gains refund for that year;"

S. 131(6), the definition "capital gains dividend account" was amended by S.C. 1995, c. 3, s. 41(3), applicable after February 22, 1994. S. 131(6), the definition "capital gains dividend account" formerly read:

"'*capital gains dividend account*' — 'capital gains dividend account' of a mutual fund corporation at any time means the amount, if any, by which the total of

(*a*) its capital gains, for all taxation years beginning more than 60 days before that time, from dispositions of property (other than its non-qualifying real property) after 1971 and before that time while it was a mutual fund corporation, and

(*b*) all amounts each of which is an amount determined by the formula

$$A \times \frac{B}{C}$$

where

A is its capital gain, for a taxation year beginning more than 60 days before that time, from the disposition of a non-qualifying real property of the corporation before that time while it was a mutual fund corporation,

B is the number of calendar months in the period that begins with the later of the calendar month in which the property was last acquired by it and January 1972 and ends with February 1992, and

C is the number of calendar months in the period that begins with the later of the calendar month in which the property was last acquired by it and January 1972 and ends with the calendar month in which the property was disposed of by it

exceeds the total of

(*c*) its capital losses, for all taxation years beginning more than 60 days before that time, from dispositions of property (other than its non-qualifying real property) after 1971 and before that time while it was a mutual fund corporation,

(*d*) all amounts each of which is an amount determined by the formula

$$D \times \frac{E}{F}$$

where

D is its capital loss, for a taxation year beginning more than 60 days before that time, from the disposition of a non-qualifying real property of the corporation before that time while it was a mutual fund corporation,

E is the number of calendar months in the period that begins with the later of the calendar month in which the property was last acquired by it and January 1972 and ends with February 1992, and

F is the number of calendar months in the period that begins with the later of the calendar month in which the property was last acquired by it and January 1972 and ends with the calendar month in which the property was disposed of by it,

(*e*) all capital gains dividends that became payable by the corporation before that time and more than 60 days after the end of the last taxation year ending more than 60 days before that time, other than any such dividends that became payable out of the corporation's non-qualifying real property capital gains dividend account,

(*f*) all amounts each of which is an amount in respect of any taxation year ending more than 60 days before that time throughout which it was a mutual fund corporation, equal to $^{100}/_{21}$ of its capital gains refund for that year, and

(*g*) the amount, if any, by which the total of the amounts determined under paragraphs (*b*) and (*c*) of the definition 'non-qualifying real property capital gains dividend account' in respect of the corporation at that time exceeds the amount determined under paragraph (*a*) of that definition in respect of the corporation at that time;"

S. 131(6), the definition "capital gains dividend account", was amended by S.C. 1994, c. 7, Sched. VIII, s. 76(3), applicable to the 1992 and subsequent taxation years. That definition formerly read:

" '*capital gains dividend account*' — 'capital gains dividend account' of a mutual fund corporation at any time means the amount determined by the formula

$$A - (B + C + D)$$

where

A is the total amount of the corporation's capital gains, for all taxation years commencing more than 60 days before that time, from dispositions of property after 1971 and before that time while it was a mutual fund corporation,

B is the total amount of the corporation's capital losses, for all taxation years commencing more than 60 days before that time, from dispositions of property after 1971 and before that time while it was a mutual fund corporation,

C is the total amount of all capital gains dividends that became payable by the corporation before that time and more than 60 days after the end of the last taxation year ending more than 60 days before that time, and

D is the total of all amounts each of which is an amount in respect of any taxation year ending more than 60 days before that time throughout which the corporation was a mutual fund corporation, equal to $^{100}/_{21}$ of its capital gains refund for that year;"

Related Sections: S. 87(2)(*bb*) Mutual fund and investment corporations.

"*capital gains redemptions*" — "capital gains redemptions" of a mutual fund corporation for a taxation year means the amount determined by the formula

$$\frac{A}{B} \times (C + D)$$

where

A is the total of all amounts paid by the corporation in the year on the redemption of shares of its capital stock,

B is the total of the fair market value at the end of the year of all the issued shares of its capital stock and the amount determined for A in respect of the corporation for the year,

C is $^{100}/_{14}$ of the corporation's refundable capital gains tax on hand at the end of the year, and

D is the amount determined by the formula

$$(K + L) - (M + N)$$

where

K is the amount of the fair market value at the end of the year of all the issued shares of the corporation's capital stock,

L is the total of all amounts each of which is the amount of any debt owing by the corporation, or of any other obligation of the corporation to pay an amount, that was outstanding at that time,

M is the total of the cost amounts to the corporation at that time of all its properties, and

N is the amount of any money of the corporation on hand at that time;

History: S. 131(6), the description of C in the definition "capital gains redemptions" was amended by S.C. 2001, c. 17, s. 128(5), by replacing the reference to the fraction "100/21" with a reference to the fraction "100/14", applicable to taxation years that end after February 27, 2000 except that, for a taxation year of a mutual fund corporation that includes February 28, 2000 or October 17, 2000, or began after February 28, 2000 and ended before October 17, 2000, the reference to the fraction "100/14" in the description of C in the definition "capital gains redemptions" in subsection 131(6) of the Act shall be read as a reference to the fraction "100/28X", where "X" is the fraction in paragraph 38(*a*) of the Act that applies to the corporation for the year.

"*non-qualifying real property*" — [Repealed by S.C. 1995, c. 3, s. 41(2).]

History: S. 131(6), the definition "non-qualifying real property" was repealed by S.C. 1995, c. 3, s. 41(2), applicable after February 22, 1994. S. 131(6), the definition "non-qualifying real property" formerly read:

" '*non-qualifying real property*' — 'non-qualifying real property' of a corporation or trust (other than a personal trust) means property disposed of by the corporation or trust after February 1992 that at the time of its disposition is

(*a*) real property,

(*b*) a share of the capital stock of a corporation, the fair market value of which is derived principally from real property, other than real property that was used

(i) throughout that part of the 24-month period immediately preceding that time while it was owned by the corporation or a corporation related to the corporation, or

(ii) throughout all or substantially all of the time in the period preceding that time during which it was owned by the corporation or a corporation related to the corporation,

principally in an active business carried on by the corporation or a corporation related to it, but not including a share of the capital stock of a corporation the fair market value of which is derived principally from real property owned by another corporation the shares of which would, if owned by the corporation or the trust, not be non-qualifying real property of the corporation or the trust,

(*c*) an interest in a partnership or trust, the fair market value of which is derived principally from real property, other than real property that was used

(i) throughout that part of the 24-month period immediately preceding that time while it was property of the partnership or trust, or

(ii) throughout all or substantially all of the time in the period preceding that time during which it was property of the partnership or trust,

principally in an active business carried on by one or more persons as members of the partnership or by the trust, or

(*d*) an interest or an option in respect of property described in any of paragraphs (*a*) to (*c*),

and, for the purpose of this definition, an 'active business' carried on by a person at any time means a business carried on by the person at that time other than a business (other than a business carried on by a credit union or a business of leasing property that is not real property) the principal purpose of which is to derive income from property (including interest, dividends, rents or royalties), unless the person or, where the person carries on the business as a member of a partnership, the partnership

(*e*) employs in the business at that time more than 5 individuals on a full-time basis, or

(*f*) in the course of carrying on the business has managerial, administrative, financial, maintenance or other similar services provided to it at that time and the person or partnership could reasonably be expected to require more than 5 full-time employees if those services had not been so provided;"

S. 131(6), the portion of paragraph (*b*) of the definition of "non-qualifying real property" after subparagraph (ii), was amended by S.C. 1994, c. 21, s. 63(1), applicable to the 1992 and subsequent taxation years. The portion of the definition of "non-qualifying real property" formerly read:

"principally in an active business carried on by the corporation or a corporation related to it,"

S. 131(6), the definition "non-qualifying real property" was added by S.C. 1994, c. 7, Sched. VIII, s. 76(3.1), applicable to the 1992 and subsequent taxation years.

"non-qualifying real property capital gains dividend account" — [Repealed by S.C. 1995, c. 3, s. 41(2).]

History: S. 131(6), the definition "non-qualifying real property capital gains dividend account" was repealed by S.C. 1995, c. 3, s. 41(2), applicable after February 22, 1994. S. 131(6), the definition "non-qualifying real property capital gains dividend account" formerly read:

" *'non-qualifying real property capital gains dividend account'* — 'non-qualifying real property capital gains dividend account' of a mutual fund corporation at any time means the amount, if any, by which

(*a*) the total of all amounts each of which is the amount by which its capital gain, for a taxation year beginning more than 60 days before that time, from the disposition of a non-qualifying real property of the corporation before that time while it was a mutual fund corporation exceeds the amount determined under paragraph (*b*) of the definition 'capital gains dividend account' in respect of that disposition

exceeds the total of

(*b*) all amounts each of which is the amount by which its capital loss, for a taxation year beginning more than 60 days before that time, from the disposition of a non-qualifying real property of the corporation before that time while it was a mutual fund corporation exceeds the amount determined under paragraph (*d*) of the definition 'capital gains dividend account' in respect of that disposition,

(*c*) all capital gains dividends that became payable by the corporation before that time and more than 60 days after the end of the last taxation year ending more than 60 days before that time, other than any such dividends that became payable out of the corporation's capital gains dividend account, and

(*d*) the amount, if any, by which the total of all amounts determined under paragraphs (*c*) to (*f*) of the definition 'capital gains dividend account' in respect of the corporation at that time exceeds the total of all amounts determined under paragraphs (*a*) and (*b*) of that definition in respect of the corporation at that time;"

S. 131(6), the definition "non-qualifying real property capital gains dividend account" was added by S.C. 1994, c. 7, Sched. VIII, s. 76(3.1), applicable to the 1992 and subsequent taxation years.

"pro rata portion" — "pro rata portion", of a shareholder at any time, of a mutual fund corporation's TCP gains balance, in respect of a dividend paid by the mutual fund corporation on a class of shares of its capital stock, means the amount determined by the formula

$$A \times B/C$$

where

A is the mutual fund corporation's TCP gains balance immediately before that time,

B is the amount received in respect of the dividend by the shareholder, and

C is the total amount of the dividend;

History: S. 131(6), the definition "pro rata portion" was added by S.C. 2005, c. 19, s. 30(3), applicable after March 22, 2004.

"refundable capital gains tax on hand" — "refundable capital gains tax on hand" of a mutual fund corporation at the end of a taxation year means the amount determined by the formula

$$A - B$$

where

A is the total of all amounts each of which is an amount in respect of that or any previous taxation year throughout which the corporation was a mutual fund corporation, equal to the least of

(*a*) 28% of its taxable income for the year,

(*b*) 28% of its taxed capital gains for the year, and

(*c*) the tax payable by it under this Part for the year determined without reference to section 123.2, and

B is the total of all amounts each of which is an amount in respect of any previous taxation year throughout which the corporation was a mutual fund corporation, equal to its capital gains refund for the year.

Related Sections: S. 87(2)(*bb*) Mutual fund and investment corporations; s. 123.2 Corporation surtax; s. 131(2) Capital gains refund to mutual fund corporation; s. 131(7) Definition of "taxed capital gains".

"TCP gains balance" — "TCP gains balance", of a mutual fund corporation at any time, means the amount, if any, by which

(*a*) the total of

(i) the mutual fund corporation's capital gains from dispositions, after March 22, 2004 and at or before that time, of taxable Canadian properties, and

(ii) the TCP gains distributions (including those defined in section 132) received by the mutual fund corporation at or before that time

exceeds

(*b*) the total of

(i) the mutual fund corporation's capital losses from dispositions, after March 22, 2004 and at or before that time, of taxable Canadian properties, and

(ii) the total of all amounts deemed, in respect of dividends paid by the mutual fund corporation before that time, to be TCP gains distributions received by shareholders from the mutual fund corporation;

History: S. 131(6), the definition "TCP gains balance" was added by S.C. 2005, c. 19, s. 30(3), applicable after March 22, 2004.

Related Sections: S. 132(4), "TCP gains distribution"; s. 248(1), "taxable Canadian property".

"TCP gains distribution" — "TCP gains distribution" means a TCP gains distribution described in subsection (5.1).

History: S. 131(6), the definition "TCP gains distribution" was added by S.C. 2005, c. 19, s. 30(3), applicable after March 22, 2004.

► 131(7) ◄

(7) Definition of "taxed capital gains". In subsection (6), "taxed capital gains" of a taxpayer for a taxation year has the meaning assigned by subsection 130(3).

Related Sections: S. 111(1)(*b*) Net capital losses; s. 132(5) Definition of "taxed capital gains".

► 131(8) ◄

(8) Meaning of "mutual fund corporation". Subject to subsection (8.1), a corporation is, for the purposes of this section, a mutual fund corporation at any time in a taxation year if, at that time, it was a prescribed labour-sponsored venture capital corporation or

(*a*) it was a Canadian corporation that was a public corporation;

(*b*) its only undertaking was

(i) the investing of its funds in property (other than real property or an interest in real property),

(ii) the acquiring, holding, maintaining, improving, leasing or managing of any real property (or interest in real property) that is capital property of the corporation, or

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraphs 131(8)(*b*)(i) and (ii) of the Act are replaced by the following:

(i) the investing of its funds in property (other than real property or an interest in real property or an immovable or a real right in an immovable),

(ii) the acquiring, holding, maintaining, improving, leasing or managing of any real property (or interest in real property) or of any immovable (or real right in immovables) that is capital property of the corporation, or

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(iii) any combination of the activities described in subparagraphs (i) and (ii), and

(*c*) the issued shares of the capital stock of the corporation included shares

(i) having conditions attached thereto that included conditions requiring the corporation to accept, at the demand of the holder thereof and at prices determined and payable in accordance with the conditions, the surrender of the shares, or fractions or parts thereof, that are fully paid, or

(ii) qualified in accordance with prescribed conditions relating to the redemption of the shares,

and the fair market value of such of the issued shares of its capital stock as had conditions attached thereto that included such conditions or as were so qualified, as the case may be, was not less than 95% of the fair market value of all of the issued shares of the capital stock of the corporation (such fair market values being determined without regard to any voting rights attaching to shares of the capital stock of the corporation).

History: Ss. 131(8)(*b*)(i) and (ii) were amended by S.C. 1998, c. 19, s. 157(3), applicable to the 1994 and subsequent taxation years. Those subparagraphs formerly read:

"(i) the investing of its funds in property (other than real property),

(ii) the acquiring, holding, maintaining, improving, leasing or managing of any real property that is capital property of the corporation, or"

S. 131(8)(*b*) was amended by S.C. 1995, c. 21, s. 67(1), applicable to the 1994 and subsequent taxation years. S. 131(8)(*b*) formerly read:

"(*b*) its only undertaking was the investing of funds of the corporation; and"

S. 131(8), the portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 110(1), applicable to the 1990 and subsequent taxation years. That part formerly read:

"(8) For the purposes of this section, a corporation is a 'mutual fund corporation' at any time in a taxation year if at that time"

Related Sections: S. 89(1), "Canadian corporation", "public corporation"; s. 108(2) When trust is a unit trust; s. 132(6) Meaning of "mutual fund trust"; s. 248(4) Interest in real property; s. 253.1 Investments in limited partnerships.

Regulations: 6701.

Income Tax Technical News: Issue No. 14, Reporting of derivative income by mutual funds; Issue No. 6, Mutual funds trading in futures contracts and forward contracts.

► 131(8.1) ◄

(8.1) Idem. Where, at any time, it can reasonably be considered that a corporation, having regard to all the circumstances, including the terms and conditions of the shares of its capital stock, was established or is maintained primarily for the benefit of non-resident persons, the corporation shall be deemed not to be a mutual fund corporation after that time unless

(*a*) throughout the period that begins on the later of February 21, 1990 and the day of its incorporation and ends at that time, all or substantially all of its property consisted of property other than property that would be taxable Canadian property if the definition "taxable Canadian property" in subsection 248(1) were read without reference to paragraph (*b*) of that definition; or

(*b*) it has not issued a share (other than a share issued as a stock dividend) of its capital stock after February 20, 1990 and before that time to a person who, after reasonable inquiry, it had reason to believe was non-resident, except where the share was issued to that person under an agreement in writing entered into before February 21, 1990.

Editorial Note: On September 16, 2004, the Department of Finance released draft legislation to implement proposals from the 2004 Federal Budget. The Budget and the draft legislation contained certain "bright line" tests for s. 131(8.1) and 132(7), which would have referred to more than 50% non-resident ownership (as opposed to the current "maintained primarily" test for the benefit of non-residents) and 10% or less ownership of taxable Canadian property by the mutual fund (as opposed to the current "all or substantially all" ownership of property other than taxable Canadian property). However, the bright line tests for s. 131(8.1) and 132(7) were not included in Bill C-33 (S.C. 2005, c. 19), which otherwise implemented the 2004 Budget proposals. In this regard, the Department of Finance News Release No. 2004-075, dated December 6, 2004, stated that "[f]urther discussions will be pursued with the private sector concerning the appropriate Canadian tax treatment of non-residents investing in resource property through mutual funds". At the time of writing, the Department had not acted on the bright line test proposals.

History: S. 131(8.1)(*a*) was amended by S.C. 2001, c. 17, s. 128(6), applicable after October 1, 1996. S. 131(8.1)(*a*) formerly read:

"(*a*) throughout the period beginning on the later of February 21, 1990 and the day of its incorporation and ending at that time, all or substantially all of its property consisted of property other than

(i) real property situated in Canada (including any interest therein or option in respect thereof, whether or not the property is in existence), and

(ii) property that would, if

(A) the corporation were non-resident,

(B) paragraph 115(1)(*b*) were read without reference to subparagraphs 115(1)(*b*)(i) and (ii), and

(C) the property were disposed of,

be taxable Canadian property of the corporation; or"

S. 131(8.1) was added by S.C. 1994, c. 7, Sched. II, s. 110(2), applicable after February 20, 1990.

► 131(9) ◄

(9) Reduction of refundable capital gains tax on hand. Notwithstanding any other provision of this section, the amount determined for A in the definition "refundable capital gains tax on hand" in subsection (6) in respect of the 1972 or 1973 taxation year of a corporation is,

(*a*) in respect of its 1972 taxation year, 91.25% of the amount so determined; and

(*b*) in respect of its 1973 taxation year, the total of

(i) 91.25% of that proportion of the amount so determined that the number of days in that portion of the year that is before 1973 is of the number of days in the whole year, and

(ii) 100% of that proportion of the amount so determined that the number of days in that portion of the year that is after 1972 is of the number of days in the whole year.

► 131(10) ◄

(10) Restricted financial institution. Notwithstanding any other provision of this Act, a mutual fund corporation or an investment corporation that at any time

would, but for this subsection, be a restricted financial institution shall, if it has so elected in prescribed manner and prescribed form before that time, be deemed not to be a restricted financial institution at that time.

Related Sections: S. 112(2.1) Where no deduction permitted.
Forms: T2143.

► 131(11) ◄

(11) Rules respecting prescribed labour-sponsored venture capital corporations. Notwithstanding any other provision of this Act, in applying this Act to a corporation that was at any time a prescribed labour-sponsored venture capital corporation,

(*a*) for the purposes of subparagraphs 129(3)(*a*)(i) and (ii), the amount deducted under paragraph 111(1)(*b*) from the corporation's income for each taxation year ending after that time shall be deemed to be nil;

(*b*) the definition "aggregate investment income" in subsection 129(4) shall be read without reference to paragraph (*a*) of that definition in its application to taxation years that end after that time;

(*c*) notwithstanding subsection (4), if it so elects in its return of income under this Part for a taxation year ending after that time, subsection 84(1) applies for that year and all subsequent taxation years;

(*d*) subsection (5) does not apply for taxation years ending after that time; and

(*e*) the amount of the corporation's capital dividend account at any time after that time shall be deemed to be nil.

History: S. 131(11)(*b*) was amended by S.C. 1996, c. 21, s. 33(2), applicable to taxation years that end after June 1995. S. 131(11)(*b*) formerly read:

"(*b*) the value of A in the definition 'Canadian investment income' in subsection 129(4) shall be deemed to be zero for taxation years ending after that time;"

S. 131(11) was added by S.C. 1994, c. 7, Sched. II, s. 110(3), applicable to the 1990 and subsequent taxation years.

Regulations: 6701.

Mutual Fund Trusts

SECTION 132:

► 132(1) ◄

(1) Capital gains refund to mutual fund trust. Where a trust was, throughout a taxation year, a mutual fund trust and a return of its income for the year has been made within 3 years from the end of the year, the Minister

(*a*) may, on sending the notice of assessment for the year, refund an amount (in this subsection referred to as its "capital gains refund" for the year) equal to the lesser of

(i) the total of

(A) 14.5% of the total of the trust's capital gains redemptions for the year, and

(B) the amount, if any, that the Minister determines to be reasonable in the circumstances, after giving consideration to the percentages applicable in determining the trust's capital gains refunds for the year and preceding taxation years and the percentages applicable in determining the trust's refundable capital gains tax on hand at the end of the year, and

(ii) the trust's refundable capital gains tax on hand at the end of the year; and

(*b*) shall, with all due dispatch, make that capital gains refund after mailing the notice of assessment if an application for it has been made in writing by the trust within the period within which the Minister would be allowed under subsection 152(4) to assess tax payable under this Part by the trust for the year if that subsection were read without reference to paragraph 152(4)(*a*).

History: S. 132(1)(*a*) was amended by S.C. 2001, c. 17, s. 129(1), applicable to taxation years that end after February 27, 2000 except that, for a taxation year of a mutual fund trust that includes either February 28, 2000 or October 17, 2000 or began after February 28, 2000 and ended before October 17, 2000, the reference to the percentage "14.5%" in paragraph 132(1)(*a*) of the Act shall be read as a reference to the percentage determined when 29% is multiplied by the fraction in paragraph 38(*a*) of the Act, as enacted by subsection 22(1), that applies to the trust for the year. S. 132(1)(*a*) formerly read:

"(*a*) may, on mailing the notice of assessment for the year, refund without application therefor an amount (in this section referred to as its 'capital gains refund' for the year) equal to the lesser of

(i) 21.75% of the trust's capital gains redemptions for the year, and

(ii) the trust's refundable capital gains tax on hand at the end of the year; and"

S. 132(1)(*b*) was amended by S.C. 1998, c. 19, s. 158(1), applicable after April 27, 1989. S. 132(1)(*b*) formerly read:

"(*b*) shall, with all due dispatch, make such a refund after mailing the notice of assessment if application therefor has been made in writing by the trust within the period determined under paragraph 152(4)(*b*) or (*c*), as the case may be, within which the Minister may reassess tax payable by the trust for the year."

Related Sections: S. 132(2) Application to other liability.
Forms: T184.
Tax Profile: August 2004 — Canadian Tax Treatment of Index Participation Units and Exchange-Traded Index Derivatives.

► 132(2) ◄

(2) Application to other liability. Instead of making a refund that might otherwise be made under subsection (1) the Minister may, where the trust is liable or about to become liable to make any payment under this Act, apply the amount that would otherwise be refunded to that other liability and notify the trust of that action.

Related Sections: S. 108(1) Definitions; s. 108(2) When trust is a unit trust; s. 132(1) Capital gains refund to mutual fund trust; s. 132(4), "capital gains redemptions", "refundable capital gains tax on hand"; s. 132(6) Meaning of "mutual fund trust".

► 132(2.1) ◄

(2.1) Interest on capital gains refund. If a capital gains refund for a taxation year is paid to, or applied to a liability of, a mutual fund trust, the Minister shall pay or apply interest on the refund at the prescribed rate for the period beginning on the day that is 30 days after the later of

(*a*) the day that is 90 days after the end of the year, and

(*b*) the day on which the trust's return of income under this Part for the year was filed under section 150

and ending on the day on which the refund is paid or applied.

History: S. 132(2.1), the portion before paragraph (*a*) was replaced by S.C. 2003, c. 15, s. 113(1), applicable to taxation years that end after June 2003. S. 132(2.1), the portion before paragraph (*a*) formerly read:

"(2.1) *Interest on capital gains refund.* Where a capital gains refund for a taxation year is paid to, or applied to a liability of, a mutual fund trust, the Minister shall pay or apply interest on the refund at the prescribed rate for the period beginning on the day that is 45 days after the later of"

S. 132(2.1) was added by S.C. 1994, c. 7, Sched. VIII, s. 77(1), applicable to capital gains refunds paid or applied with respect to taxation years beginning after 1991.

Related Sections: S. 161.1 Offset of refund interest and arrears interest.
Regulations: 4301.

► 132(2.2) ◄

(2.2) Excess interest on capital gains refund. Where at any particular time interest has been paid to, or

applied to a liability of a trust under subsection (2.1) in respect of a capital gains refund and it is determined at a subsequent time that the capital gains refund was less than that in respect of which interest was so paid or applied,

(*a*) the amount by which the interest that was so paid or applied exceeds the interest, if any, computed in respect of the amount that is determined at the subsequent time to be the capital gains refund shall be deemed to be an amount (in this subsection referred to as the "amount payable") that became payable under this Part by the trust at the particular time;

(*b*) the trust shall pay to the Receiver General interest at the prescribed rate on the amount payable, computed from the particular time to the day of payment; and

(*c*) the Minister may at any time assess the trust in respect of the amount payable and, where the Minister makes such an assessment, the provisions of Divisions I and J apply, with such modifications as the circumstances require, in respect of the assessment as though it had been made under section 152.

History: S. 132(2.2) was added by S.C. 1994, c. 7, Sched. VIII, s. 77(1), applicable to capital gains refunds paid or applied with respect to taxation years beginning after 1991.

Related Sections: S. 161.1 Offset of refund interest and arrears interest.
Regulations: 4301.

► 132(3) ◄

(3) Application of s. 104(20). In its application in respect of a mutual fund trust, subsection 104(20) shall be read as if the reference therein to "a dividend (other than a taxable dividend)" were read as a reference to "a capital dividend".

► 132(4) ◄

(4) Definitions. In this section,

"capital gains redemptions" — "capital gains redemptions" of a mutual fund trust for a taxation year means the amount determined by the formula

$$(A/B \times (C + D)) - E$$

where

A is the total of all amounts each of which is the portion of an amount paid by the trust in the year on the redemption of a unit in the trust that is included in the proceeds of disposition in respect of that redemption,

B is the total of the fair market value at the end of the year of all the issued units of the trust and the amount determined for A in respect of the trust for the year,

C is 100/14.5 of the trust's refundable capital gains tax on hand at the end of the year,

D is the amount determined by the formula

$$(K + L) - (M + N)$$

where

K is the amount of the fair market value at the end of the year of all the issued units of the trust,

L is the total of all amounts each of which is the amount of any debt owing by the trust, or of any other obligation of the trust to pay an amount, that was outstanding at that time,

M is the total of the cost amounts to the trust at that time of all its properties, and

N is the amount of any money of the trust on hand at that time, and

E is twice the total of all amounts each of which is an amount designated under subsection 104(21) for the year by the trust in respect of a unit of the trust redeemed by the trust at any time in the year and after December 21, 2000;

History: S. 132(4), the first formula in the definition "capital gains redemptions" was amended by S.C. 2001, c. 17, s. 129(2), applicable to taxation years that end after February 27, 2000. S. 132(4), the first formula in the definition "capital gains redemptions" formerly read:

"

$$\frac{A}{B} \times (C + D)$$

"

S. 132(4), the description of A in the definition "capital gains redemptions" was amended by S.C. 2001, c. 17, s. 129(3), applicable to taxation years that end after February 27, 2000. S. 132(4), the description of A in the definition "capital gains redemptions" formerly read:

"A is the total of all amounts paid by the trust in the year on the redemption of units of the trust,"

S. 132(4), the description of C in the definition "capital gains redemptions" was amended by S.C. 2001, c. 17, s. 129(4), by replacing the reference to the fraction "100/21.75" with a reference to the fraction "100/14.5", applicable to taxation years that end after February 27, 2000 except that, for a taxation year of a mutual fund trust that includes February 28, 2000 or October 17, 2000, or began after February 28, 2000 and ended before October 17, 2000, the reference to the fraction "100/14.5" in the description of C in the definition "capital gains redemptions" in subsection 132(4) of the Act shall be read as a reference to the fraction "100/29X", where "X" is the fraction in paragraph 38(*a*) of the Act that applies to the trust for the year.

S. 132(4), the description of E in the definition "capital gains redemptions" was added by S.C. 2001, c. 17, s. 129(5), applicable to taxation years that end after February 27, 2000 except that, for a taxation year of a mutual fund trust that includes February 28, 2000 or October 17, 2000, or began after February 28, 2000 and ended before October 17, 2000, the reference to the word "twice" in the description of E in the definition "capital gains redemption" in subsection 132(4) of the Act shall be read as a reference to the expression "the fraction that is the reciprocal of the fraction in paragraph 38(*a*), as enacted by subsection 22(1) of the *Income Tax Amendments Act, 2000* [S.C. 2001, c. 17], that applies to the taxpayer for the year, multiplied by".

"pro rata portion" — "pro rata portion", of a beneficiary, of a mutual fund trust's TCP gains balance for a taxation year, in respect of an amount designated under subsection 104(21) by the mutual fund trust for the taxation year, means the amount determined by the formula

$$A \times B/C$$

where

A is the mutual fund trust's TCP gains balance for the taxation year,

B is the amount the mutual fund trust has designated under that subsection in respect of the beneficiary for the taxation year, and

C is the total of all amounts designated under that subsection by the mutual fund trust for the taxation year;

History: S. 132(4), the definition "pro rata portion" was added by S.C. 2005, c. 19, s. 31(1), applicable after March 22, 2004.

"refundable capital gains tax on hand" — "refundable capital gains tax on hand" of a mutual fund trust at the end of a taxation year means the amount determined by the formula

$$(A - B)$$

where

A is the total of all amounts each of which is an amount in respect of that or any previous taxation year throughout which the trust was a mutual fund trust, equal to the least of

(*a*) 29% of its taxable income for the year,

(*b*) 29% of its taxed capital gains for the year, and

(*c*) where the taxation year ended after May 6, 1974, the tax payable under this Part by it for the year, and

B is the total of all amounts each of which is an amount in respect of any previous taxation year throughout which the trust was a mutual fund trust, equal to its capital gains refund for the year.

Related Sections: S. 132(5) Definition of "taxed capital gains".

"TCP gains balance" — "TCP gains balance", of a mutual fund trust for a particular taxation year, means the amount, if any, by which

(*a*) the total of

(i) the mutual fund trust's capital gains from dispositions, after March 22, 2004 and at or before the end of the particular taxation year, of taxable Canadian properties, and

(ii) the TCP gains distributions (including those defined in section 131) received by the mutual fund trust at or before the end of the particular taxation year

exceeds

(*b*) the total of

(i) the mutual fund trust's capital losses from dispositions, after March 22, 2004 and at or before the end of the particular taxation year, of taxable Canadian properties, and

(ii) the total of all amounts deemed, in respect of amounts designated by the mutual fund trust under subsection 104(21) for taxation years that preceded the particular taxation year, to be TCP gains distributions received by beneficiaries under the mutual fund trust;

History: S. 132(4), the definition "TCP gains balance" was added by S.C. 2005, c. 19, s. 31(1), applicable after March 22, 2004.

Related Sections: S. 131(6), "TCP gains distribution"; s. 248(1), "taxable Canadian property".

"TCP gains distribution" — "TCP gains distribution" means a TCP gains distribution described in subsection (5.1).

History: S. 132(4), the definition "TCP gains distribution" was added by S.C. 2005, c. 19, s. 31(1), applicable after March 22, 2004.

► 132(5) ◄

(5) Definition of "taxed capital gains". In subsection (4), "taxed capital gains" of a taxpayer for a taxation year has the meaning assigned by subsection 130(3).

Related Sections: S. 111(1)(*b*) Net capital losses; s. 131(7) Definition of "taxed capital gains".

► 132(5.1) ◄

(5.1) TCP gains distribution. If a mutual fund trust designates an amount under subsection 104(21) for a taxation year of the trust in respect of a beneficiary under the trust, for the purposes of this Part and Part XIII,

(*a*) the beneficiary is deemed to have received from the mutual fund trust a TCP gains distribution equal to the lesser of

(i) twice the amount designated, and

(ii) the beneficiary's pro rata portion of the mutual fund trust's TCP gains balance for the taxation year; and

(*b*) where the beneficiary is a non-resident person or a partnership that is not a Canadian partnership,

(i) the amount designated is deemed by subsection 104(21) to be a taxable capital gain of the beneficiary only to the extent that it exceeds one half of the TCP gains distribution, and

(ii) one half of the TCP gains distribution is to be added to the amount otherwise included under subsection 104(13) in computing the income of the beneficiary, and is deemed to be an amount to which paragraph 212(1)(*c*) applies.

History: S. 132(5.1) was added by S.C. 2005, c. 19, s. 31(2), applicable after March 22, 2004.

Related Sections: S. 102(1) Definition of "Canadian partnership"; s. 212(1)(*c*) Estate or trust income; s. 218.3(2) Tax payable.

► 132(5.2) ◄

(5.2) Application of subsection (5.1). Subsection (5.1) applies to an amount designated under subsection 104(21) by a mutual fund trust for a taxation year only if more than 5% of the total of all amounts each of which is an amount designated under that subsection by the mutual fund trust for the taxation year was designated in respect of beneficiaries under the mutual fund trust each of whom is a non-resident person or is a partnership that is not a Canadian partnership.

History: S. 132(5.2) was added by S.C. 2005, c. 19, s. 31(2), applicable after March 22, 2004.

► 132(6) ◄

(6) Meaning of "mutual fund trust". Subject to subsection (7), for the purposes of this section, a trust is a mutual fund trust at any time if at that time

(*a*) it was a unit trust resident in Canada,

(*b*) its only undertaking was

(i) the investing of its funds in property (other than real property or an interest in real property),

(ii) the acquiring, holding, maintaining, improving, leasing or managing of any real property (or interest in real property) that is capital property of the trust, or

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraphs 132(6)(*b*)(i) and (ii) of the Act are replaced by the following:

(i) the investing of its funds in property (other than real property or an interest in real property or an immovable or a real right in an immovable),

(ii) the acquiring, holding, maintaining, improving, leasing or managing of any real property (or interest in

real property) or of any immovable (or real right in immovables) that is capital property of the trust, or

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(o).]

(iii) any combination of the activities described in subparagraphs (i) and (ii), and

(c) it complied with prescribed conditions relating to the number of its unit holders, dispersal of ownership of its units and public trading of its units.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 132(6)(c) of the Act is replaced by the following:

(c) it complied with prescribed conditions.

Applicable: To the 2000 and subsequent taxation years.

Explanatory Note: Subsection 132(6) of the Act sets out the definition "mutual fund trust". Under paragraph 132(6)(c), a trust will qualify at any time as a mutual fund trust only if at that time it meets prescribed conditions relating to the number of its unit holders, dispersal of ownership of trust units issued by it and public trading of trust units issued by it.

Paragraph 132(6)(c) is amended so that the prescribed conditions that a trust may be required to satisfy in order to qualify as a mutual fund trust are not limited to those relating to ownership and trading of its units.

This amendment applies to the 2000 and subsequent taxation years.

The regulations setting out these prescribed conditions for a mutual fund trust are found in Part XLVIII of the *Income Tax Regulations*. In particular, Regulation 4801 sets out conditions that apply to a class of units issued by a trust in order for the trust to be considered a mutual fund trust. It is intended that proposed amendments to Part XLVIII of the Regulations would include the following:

- The French language version would be amended to correct a technical deficiency in the use of the expression "appel public à l'épargne" ("qualified for distribution to the public"). The amendments to the French version of the Regulations would clarify that, as is the case in the English version, the defined expression in subsection 4803(2) of the Regulations applies in determining whether a class of units is qualified for distribution to the public in paragraph 4801(a) of the Regulations.
- Paragraph 4801(a) of the Regulations would be amended so that subparagraph 4801(a)(ii) applies to a trust created before 2000, for its 2004 and subsequent taxation years, if the trust elects by notifying the Minister of National Revenue in writing in its return of income for the taxation year of the trust that ends in the calendar year in which the amending regulations are published in Part II of the Canada Gazette. As a result of the proposed change, if there has been a lawful distribution in a province to the public of units of a class of units of a trust created before 2000 and a prospectus, registration statement or similar document was not required under the laws of the province to be filed in respect of the distribution, the trust could rely upon subparagraph 4801(a)(ii) to meet, in its 2004 and later taxation years, the condition prescribed under paragraph 4801(a).

These amendments to the Regulations would, except as described above, be proposed to apply to the 2000 and subsequent taxation years of trusts.

History: Ss. 132(6)(b)(i) and (ii) were amended by S.C. 1998, c. 19, s. 158(2), applicable to the 1994 and subsequent taxation years. Those subparagraphs formerly read:

"(i) the investing of its funds in property (other than real property),

(ii) the acquiring, holding, maintaining, improving, leasing or managing of any real property that is capital property of the trust, or"

S. 132(6), that portion following paragraph (c) was repealed by S.C. 1998, c. 19, s. 158(3), applicable to the 1994 and subsequent taxation years. That portion formerly read:

"except that where a trust's first taxation year ended after 1971 and the trust has, after 1971 and on or before the day on or before which it was required by section 150 to file its return of income for that year, become a mutual fund trust, it shall, if it so elected in that return, be deemed to have been a mutual fund trust from the commencement of that year until the day on which it so became a mutual fund trust."

S. 132(6)(b) was amended by S.C. 1995, c. 21, s. 68(1), applicable to the 1994 and subsequent taxation years. S. 132(6)(b) formerly read:

"(b) its only undertaking was the investing of funds of the trust, and"

S. 132(6), the portion preceding paragraph (a), was amended by S.C. 1994, c. 7, Sched. II, s. 111(1), applicable after February 20, 1990. That part formerly read:

"(6) For the purposes of this section, a trust is a 'mutual fund trust' at any time if, at that time,"

Related Sections: S. 89(1), "taxable dividend"; s. 104(1) Reference to trust or estate; s. 108(1) Definitions; s. 108(2) When trust is a unit trust; s. 131(8) Meaning of "mutual fund corporation"; s. 156(2) Payment by mutual fund trusts; s. 248(4) Interest in real property; s. 253.1 Investments in limited partnerships; s. 255 Canada; ITAR s. 65(1) Part XI of amended Act — foreign property acquired after June 18, 1971 and before July 1, 1972.

Regulations: Part XLVIII; 4801.

Income Tax Technical News: Issue No. 34, Income Trusts and Subparagraph 132(6)(b)(i) — "its only undertaking was the investing of funds."; Issue No. 14, Reporting of derivative income by mutual funds; Issue No. 6, Mutual funds trading in futures contracts and forward contracts.

Tax Topics: No. 1608, Business Income Trusts — Part II; No. 1606-07, Business Income Trusts — Part I.

Tax Profile: August 2004 — Canadian Tax Treatment of Index Participation Units and Exchange-Traded Index Derivatives.

► 132(6.1) ◄

(6.1) Election to be mutual fund. Where a trust becomes a mutual fund trust at any particular time before the 91st day after the end of its first taxation year, and the trust so elects in its return of income for that year, the trust is deemed to have been a mutual fund trust from the beginning of that year until the particular time.

History: S. 132(6.1) was amended by S.C. 1999, c. 22, s. 54(1), applicable to the 1998 and subsequent taxation years. S. 132(6.1) formerly read:

"(6.1) *Election to be mutual fund.* Where a trust becomes a mutual fund trust at any particular time before the 91st day after the end of the calendar year in which its first taxation year began, and the trust so elects in its return of income under this Part for that first year, the trust is deemed to have been a mutual fund trust from the beginning of that first year until the particular time."

S. 132(6.1) was added by S.C. 1998, c. 19, s. 158(4), applicable to the 1994 and subsequent taxation years.

Related Sections: S. 142.6(1) Becoming or ceasing to be a financial institution.

► 132(6.2) ◄

(6.2) Retention of status as mutual fund trust. A trust is deemed to be a mutual fund trust throughout a calendar year where

(a) at any time in the year, the trust would, if this section were read without reference to this subsection, have ceased to be a mutual fund trust

(i) because the condition described in paragraph 108(2)(a) ceased to be satisfied,

(ii) because of the application of paragraph (6)(c), or

(iii) because the trust ceased to exist;

(b) the trust was a mutual fund trust at the beginning of the year; and

(c) the trust would, throughout the portion of the year throughout which it was in existence, have been a mutual fund trust if

(i) in the case where the condition described in paragraph 108(2)(*a*) was satisfied at any time in the year, that condition were satisfied throughout the year,

(ii) subsection (6) were read without reference to paragraph (*c*) of that subsection, and

(iii) this section were read without reference to this subsection.

History: S. 132(6.2) was added by S.C. 2001, c. 17, s. 129(6), applicable to the 1990 and subsequent taxation years.

► 132(7) ◄

(7) Idem. Where, at any time, it can reasonably be considered that a trust, having regard to all the circumstances, including the terms and conditions of the units of the trust, was established or is maintained primarily for the benefit of non-resident persons, the trust shall be deemed not to be a mutual fund trust after that time unless

(*a*) at that time, all or substantially all of its property consisted of property other than property that would be taxable Canadian property if the definition "taxable Canadian property" in subsection 248(1) were read without reference to paragraph (*b*) of that definition; or

(*b*) it has not issued any unit (other than a unit issued to a person as a payment, or in satisfaction of the person's right to enforce payment, of an amount out of the trust's income determined before the application of subsection 104(6), or out of the trust's capital gains) of the trust after February 20, 1990 and before that time to a person who, after reasonable inquiry, it had reason to believe was non-resident, except where the unit was issued to that person under an agreement in writing entered into before February 21, 1990.

Editorial Note: On September 16, 2004, the Department of Finance released draft legislation to implement proposals from the 2004 Federal Budget. The Budget and the draft legislation contained certain "bright line" tests for s. 131(8.1) and 132(7), which would have referred to more than 50% non-resident ownership (as opposed to the current "maintained primarily" test for the benefit of non-residents) and 10% or less ownership of taxable Canadian property by the mutual fund (as opposed to the current "all or substantially all" ownership of property other than taxable Canadian property). However, the bright line tests for s. 131(8.1) and 132(7) were not included in Bill C-33 (S.C. 2005, c. 19), which otherwise implemented the 2004 Budget proposals. In this regard, the Department of Finance News Release No. 2004-075, dated December 6, 2004, stated that "[f]urther discussions will be pursued with the private sector concerning the appropriate Canadian tax treatment of non-residents investing in resource property through mutual funds". At the time of writing, the Department had not acted on the bright line test proposals.

Department of Finance Comfort Letter
[Revisions to Proposed Amendments to Subsection 132(7) — Loss of Mutual Fund Status]

October 5, 2004

[Editorial Note: See the editorial note following subsection 132(7) concerning the proposed bright line test.]

Dear XXXX

Thank you for your letter of September 23, 2004 concerning the legislative proposals relating to subsection 132(7) of the *Income Tax Act* (the "Act") that were announced by the Department of Finance on September 16, 2004.

To briefly highlight the legislative proposals, it is proposed, effective after December 31, 2004, that the preamble to subsection 132(7) be amended to provide that a commercial trust ceases under certain circumstances to be a mutual fund trust if more than 50% of the fair market value of the issued trust units are held by any combination of non-resident persons or partnerships (other than a Canadian partnership).

Under those legislative proposals, if the ownership of the commercial trust's units by non-resident persons or partnerships (other than a Canadian partnership) exceeds the 50% limit described above, the commercial trust could still maintain its status as a mutual fund trust provided:

(1) At all times after February 21, 1990, not more than 10% of the fair market value of all the trust's property can be attributed to taxable Canadian property; and

(2) At all times after December 31, 2004, not more than 10% of the fair market value of all the trust's property can be attributed to property that is any of taxable Canadian property, Canadian resource property or timber resource property.

In your letter, you had recommended that under the proposed new fair market value test, units of a different class of trust, which have substantially the same rights to the income, and capital of the trust should be deemed to have the same fair market value. You have stated that the fair market value of a publicly listed security is generally considered to be equal to its trading price and, as a consequence, it could be difficult for a mutual fund trust with units trading on a foreign exchange and a Canadian exchange to manage the relative fair market values of issued trust units held by residents and non-resident persons or partnerships (other than a Canadian partnership). This difficulty arises because trust units held by non-residents may trade at a premium because of market forces, even though the rights of the units are substantially the same except for ownership restrictions based on country of residence. With regard to this recommendation, we are willing to conduct further study and consultation with the view to addressing this potential difficulty while preserving the integrity of the 50% non-resident ownership test.

You have also requested that the new taxable Canadian property exceptions mentioned above be applied prospectively after March 22, 2004. The proposed rules provide a 10% taxable Canadian property ownership limitation that would have to be measured at all times subsequent to February 21, 1990. You argue that the application of this new 10% brightline test to past periods would be inappropriate, given that the new test explicitly requires the trust to respect a 10% threshold based on the fair market value of the trust's assets whereas "the all or substantially all" test gave rise to some uncertainty as to whether cost or market value would be the appropriate measurement base.

Given the possible differing interpretations of the "all or substantially all" test in paragraph 132(7)(*a*), it would seem appropriate to maintain the existing "all or substantially all" test for periods prior to 2005. Consequently, we are prepared to recommend to the Minister of Finance that the proposed legislation be modified to provide this result. While we cannot offer any assurances that either the Minister or Parliament will agree with our recommendation, we hope that this statement of our position is helpful to you.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 132(7)(*a*) was replaced by S.C. 2007, c. 29, s. 16(1), deemed to have come into force on January 1, 2004. S. 132(7)(*a*) formerly read:

"(*a*) throughout the period that began on the later of February 21, 1990 and the day of its creation and ended at that time, all or substantially all of its property consisted of property other than property that would be taxable Canadian property if the definition 'taxable Canadian property' in subsection 248(1) were read without reference to paragraph (*b*) of that definition; or"

Ss. 132(7)(*a*) and (*b*) were amended by S.C. 2001, c. 17, s. 129(7). S. 132(7)(*a*) is applicable after October 1, 1996, and s. 132(7)(*b*) is applicable after February 20, 1990. Ss. 132(7)(*a*) and (*b*) formerly read:

"(*a*) throughout the period beginning on the later of February 21, 1990 and the day of its creation and ending at that time, all or substantially all of its property consisted of property other than

(i) real property situated in Canada (including any interest therein or option in respect thereof, whether or not the property is in existence), and

(ii) property that would, if

(A) the trust were non-resident,

(B) paragraph 115(1)(*b*) were read without reference to subparagraphs 115(1)(*b*)(i) and (ii), and

(C) the property were disposed of,

be taxable Canadian property of the trust; or

(*b*) it has not issued a unit (other than a unit issued to a person in satisfaction of the person's right under the trust to an amount referred to in paragraph 104(13)(*d*) of the trust after February 20, 1990 and before that time to a person who, after reasonable inquiry, it had reason to believe was non-resident, except where the unit was issued to that person under an agreement in writing entered into before February 21, 1990."

S. 132(7) was added by S.C. 1994, c. 7, Sched. II, s. 111(2), applicable after February 20, 1990.

Income Tax Technical News: Issue No. 34, Income Trusts and Non-Resident Ownership.
Tax Profile: August 2004 — Canadian Tax Treatment of Index Participation Units and Exchange-Traded Index Derivatives.

SECTION 132.1:

► 132.1(1) ◄

(1) Amounts designated by mutual fund trust. Where a trust in its return of income under this Part for a taxation year throughout which it was a mutual fund trust designates an amount in respect of a particular unit of the trust owned by a taxpayer at any time in the year equal to the total of

(*a*) such amount as the trust may determine in respect of the particular unit for the year not exceeding the amount, if any, by which

(i) the total of all amounts that were determined by the trust under subsection 104(16) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, for taxation years of the trust commencing before 1988

exceeds

(ii) the total of all amounts determined by the trust under this paragraph for the year or a preceding taxation year in respect of all units of the trust, other than amounts determined in respect of the particular unit for the year under this paragraph, and

(*b*) such amount as the trust may determine in respect of the particular unit for the year not exceeding the amount, if any, by which

(i) the total of all amounts described in subparagraph 53(2)(*h*)(i.1) that became payable by the trust after 1987 and before the year

exceeds

(ii) the total of all amounts determined by the trust under this paragraph for the year or a preceding taxation year in respect of all units of the trust, other than amounts determined in respect of the particular unit for the year under this paragraph,

the amount so designated shall

(*c*) subject to subsection (3), be deductible in computing the income of the trust for the year, and

(*d*) be included in computing the income of the taxpayer for the taxpayer's taxation year in which the year of the trust ends, except that where the particular unit was owned by two or more taxpayers during the year, such part of the amount so designated as the trust may determine shall be included in computing the income of each such taxpayer for the taxpayer's taxation year in which the year of the trust ends if the total of the parts so determined is equal to the amount so designated.

Related Sections: S. 54, "adjusted cost base"; s. 132(6) Meaning of "mutual fund trust"; s. 214(3) Deemed payments; s. 248(1), "amount".

► 132.1(2) ◄

(2) Adjusted cost base of unit where designation made. In computing, at any time in a taxation year of a taxpayer, the adjusted cost base to the taxpayer of a unit in a mutual fund trust, there shall be added that part of the amount included under subsection (1) in computing the taxpayer's income that is reasonably attributable to the amount determined under paragraph (1)(*b*) by the trust for its taxation year ending in the year in respect of the unit owned by the taxpayer.

► 132.1(3) ◄

(3) Limitation on current year deduction. The total of amounts deductible by reason of paragraph (1)(*c*) in computing the income of a trust for a taxation year shall not exceed the amount that would be the income of the trust for the year if no deductions were made under this section and subsection 104(6).

► 132.1(4) ◄

(4) Carryover of excess. The amount, if any, by which the total of all amounts each of which is an amount designated for the year under subsection (1) exceeds the amount deductible under this section in computing the income of the trust for the year, shall, for the purposes of paragraph (1)(*c*) and subsection (3), be deemed designated under subsection (1) by the trust for its immediately following taxation year.

► 132.1(5) ◄

(5) Where designation has no effect. Where it is reasonable to conclude that an amount determined by a mutual fund trust

(*a*) under paragraph (1)(*a*) or (*b*) for a taxation year of the trust in respect of a unit owned at any time in the year by a taxpayer who was a person exempt from tax under this Part by reason of subsection 149(1), or

(*b*) under paragraph (1)(*d*) for the year in respect of the amount designated under subsection (1) for the year in respect of the unit

differs from the amount that would have been so determined for the year in respect of the taxpayer had the taxpayer not been a person exempt from tax under this Part by reason of subsection 149(1), the amount designated for the year in respect of the unit under subsection (1) shall have no effect for the purposes of paragraph (1)(*c*).

SECTION 132.11:

► 132.11(1) ◄

(1) Taxation year of mutual fund trust. Notwithstanding any other provision of this Act, where a trust (other than a prescribed trust) that was a mutual fund trust on the 74th day after the end of a particular calendar year so elects in writing filed with the Minister with the trust's return of income for the trust's taxation year that includes December 15 of the particular year,

(*a*) the trust's taxation year that began before December 16 of the particular year and, but for this paragraph, would end at the end of the particular year (or, where the first taxation year of the trust began after December 15 of the preceding calendar year and no return of income was filed for a taxation year of the trust that ended at the end of the pre-

ceding calendar year, at the end of the preceding calendar year) is deemed to end at the end of December 15 of the particular year;

(*b*) where the trust's taxation year ends on December 15 because of paragraph (*a*), subject to subsection (1.1), each subsequent taxation year of the trust is deemed to be the period that begins at the beginning of December 16 of a calendar year and ends at the end of December 15 of the following calendar year or at such earlier time as is determined under paragraph 132.2(1)(*b*) or subsection 142.6(1); and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 132.11(1)(*b*) of the Act is replaced by the following:

(*b*) if the trust's taxation year ends on December 15 because of paragraph (*a*), subject to subsection (1.1), each subsequent taxation year of the trust is deemed to be the period that begins at the beginning of December 16 of a calendar year and ends at the end of December 15 of the following calendar year or at any earlier time that is determined under paragraph 132.2(3)(*b*) or subsection 142.6(1); and

Applicable: After 1998, except that, in applying paragraph 132.11(1)(*b*) to taxation years that end before 2000, that paragraph is to be read without reference to "subject to subsection (1.1)".

Explanatory Note: Section 132.11 of the Act generally allows a mutual fund trust to elect to have taxation years that end on December 15, rather than on December 31.

Where a trust makes this election, each subsequent taxation year of the trust is deemed to start on December 16 of a calendar year and to end on December 15 of the following calendar year, unless any of certain events intervenes. One of the events that can intervene, and that results in an earlier year-end, is a qualifying exchange under section 132.2 of the Act.

As a consequence of the restructuring of section 132.2, the reference in paragraph 132.11(1)(*b*) to paragraph 132.2(1)(*b*) is replaced by a reference to paragraph 132.2(3)(*b*).

This amendment applies after 1998 except that, in applying the amended version of paragraph 132.11(1)(*b*) to taxation years that end before 2000, the paragraph is to be read as though it did not contain the words "subject to subsection (1.1)".

Paragraph 132.11(1)(*c*) generally provides that each fiscal period of a mutual fund trust that has made an election under subsection 132.11(1) shall end no later than the end of the trust's taxation year that ends on December 15th.

The French-language version of paragraph 132.11(1)(*c*) is amended to clarify that the paragraph applies to each fiscal period of the trust that either begins in a taxation year of the trust that ends on December 15 because of an election under paragraph 132.11(1)(*a*) or that ends in a subsequent taxation year of the trust. This technical change does not represent a change in policy.

This amendment applies to the 1998 and subsequent taxation years.

(*c*) each fiscal period of the trust that begins in a taxation year of the trust that ends on December 15 because of paragraph (*a*) or that ends in a subsequent taxation year of the trust shall end no later than the end of the year or the subsequent year, as the case may be.

History: S. 132.11(1)(*b*) was amended by S.C. 2001, c. 17, s. 130(1), applicable to taxation years that end after 1999. S. 132.11(1)(*b*) formerly read:

"(*b*) where the trust's taxation year ends on December 15 because of paragraph (*a*), each subsequent taxation year of the trust is deemed to be the period that begins at the beginning of December 16 of a calendar year and ends at the end of December 15 of the following calendar year or at such earlier time as is determined under paragraph 132.2(1)(*b*) or subsection 142.6(1); and"

S. 132.11(1) was added by S.C. 1999, c. 22, s. 55(1), applicable to the 1998 and subsequent taxation years.

Regulations: 4801.01.

► 132.11(1.1) ◄

(1.1) Revocation of election. Where a particular taxation year of a trust ends on December 15 of a calendar year because of an election made under paragraph (1)(*a*), the trust applies to the Minister in writing before December 15 of that calendar year (or before a later time that is acceptable to the Minister) to have this subsection apply to the trust, with the concurrence of the Minister

(*a*) the trust's taxation year following the particular taxation year is deemed to begin immediately after the end of the particular taxation year and end at the end of that calendar year; and

(*b*) each subsequent taxation year of the trust is deemed to be determined as if that election had not been made.

History: S. 132.11(1.1) was added by S.C. 2001, c. 17, s. 130(2), applicable to taxation years that end after 1999.

► 132.11(2) ◄

(2) Electing trust's share of partnership income and losses. Where a trust is a member of a partnership a fiscal period of which ends in a calendar year after December 15 of the year and a particular taxation year of the trust ends on December 15 of the year because of subsection (1), each amount otherwise determined under paragraph 96(1)(*f*) or (*g*) to be the trust's income or loss for a subsequent taxation year of the trust is deemed to be the trust's income or loss determined under paragraph 96(1)(*f*) or (*g*) for the particular year and not for the subsequent year.

History: S. 132.11(2) was added by S.C. 1999, c. 22, s. 55(1), applicable to the 1998 and subsequent taxation years.

► 132.11(3) ◄

(3) Electing trust's income from other trusts. Where a particular trust is a beneficiary under another trust a taxation year of which (in this subsection referred to as the "other year") ends in a calendar year after December 15 of the year and a particular taxation year of the trust ends on December 15 of the year because of subsection (1), each amount determined or designated under subsection 104(13), (19), (21), (22) or (29) for the other year that would otherwise be included, or taken into account, in computing the income of the particular trust for a subsequent taxation year of the trust shall

(*a*) be included, or taken into account, in computing the particular trust's income for the particular year; and

(*b*) not be included, or taken into account, in computing the particular trust's income for the subsequent year.

History: S. 132.11(3) was added by S.C. 1999, c. 22, s. 55(1), applicable to the 1998 and subsequent taxation years.

► 132.11(4) ◄

(4) Amounts paid or payable to beneficiaries. For the purposes of subsections (5) and (6) and 104(6) and (13) and notwithstanding subsection 104(24), each amount that

is paid, or that becomes payable, by a trust to a beneficiary after the end of a particular taxation year of the trust that ends on December 15 of a calendar year because of subsection (1) and before the end of that calendar year, is deemed to have been paid or to have become payable, as the case may be, to the beneficiary at the end of the particular year and not at any other time.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 132.11(4) of the Act is replaced by the following:

(4) Amounts paid or payable to beneficiaries. Notwithstanding subsection 104(24), for the purposes of subsections (5) and (6) and 104(6) and (13) and paragraph (*i*) of the definition "disposition" in subsection 248(1) each amount that is paid, or that becomes payable, by a trust to a beneficiary after the end of a particular taxation year of the trust that ends on December 15 of a calendar year because of subsection (1) and before the end of that calendar year, is deemed to have been paid or to have become payable, as the case may be, to the beneficiary at the end of the particular year and not at any other time.

Applicable: To amounts that, after 1999, are paid or have become payable by a trust.

Explanatory Note:

Amounts Paid or Payable to Beneficiaries

Subsection 132.11(4) of the Act is designed to permit distributions made in the last 16 days of a calendar year in respect of a trust's taxation year ending on December 15 of the calendar year to be treated as if they were made at the end of that taxation year.

Subsection 132.11(4) of the Act is amended so that it applies for the purpose of paragraph (*i*) of the definition "disposition" in subsection 248(1). As a result, in the case of a mutual fund trust that has elected under section 132.11 to have a December 15th taxation year-end, distributions from the trust in respect of a taxpayer's capital interest made in the last 16 days of a calendar year will not result in a disposition of the interest.

This amendment applies to amounts that, after 1999, are paid or have become payable by a trust.

History: S. 132.11(4) was amended by S.C. 2001, c. 17, s. 130(3), applicable to the 2000 and subsequent taxation years. S. 132.11(4) formerly read:

"(4) *Amounts paid or payable to beneficiaries.* For the purposes of subsections 52(6) and 104(6) and (13) and subsections (5) and (6) and notwithstanding subsection 104(24), each amount that is paid, or that becomes payable, by a trust to a beneficiary after the end of a particular taxation year of the trust that ends on December 15 of a calendar year because of subsection (1) and before the end of that calendar year is deemed to have been paid or to have become payable, as the case may be, to the beneficiary at the end of the particular taxation year and not at any other time."

S. 132.11(4) was added by S.C. 1999, c. 22, s. 55(1), applicable to the 1998 and subsequent taxation years.

► 132.11(5) ◄

(5) Special rules where change in status of beneficiary. Where an amount is deemed by subsection (4) to have been paid or to have become payable at the end of December 15 of a calendar year by a trust to a beneficiary who was not a beneficiary under the trust at that time,

(*a*) notwithstanding any other provision of this Act, where the beneficiary did not exist at that time, except for the purpose of this paragraph, the first taxation year of the beneficiary is deemed to include the period that begins at that time and ends immediately before the beginning of the first taxation year of the beneficiary;

(*b*) the beneficiary is deemed to exist throughout the period described in paragraph (*a*); and

(*c*) where the beneficiary was not a beneficiary under the trust at that time, the beneficiary is deemed to have been a beneficiary under the trust at that time.

History: S. 132.11(5) was added by S.C. 1999, c. 22, s. 55(1), applicable to the 1998 and subsequent taxation years.

► 132.11(6) ◄

(6) Additional income of electing trust. Where a particular amount is designated under this subsection by a trust in its return of income for a particular taxation year that ends on December 15 because of subsection (1) or throughout which the trust was a mutual fund trust and the trust does not designate an amount under subsection 104(13.1) or (13.2) for the particular year,

(*a*) the particular amount shall be added in computing its income for the particular year; and

(*b*) for the purposes of subsections 104(6) and (13), each portion of the particular amount that is allocated under this paragraph to a beneficiary under the trust in the trust's return of income for the particular year in respect of an amount paid or payable to the beneficiary in the particular year shall be considered to be additional income of the trust for the particular year (determined without reference to subsection 104(6)) that was paid or payable, as the case may be, to the beneficiary at the end of the particular year.

(*c*) [Repealed by S.C. 2001, c. 17, s. 130(4).]

History: S. 132.11(6)(*c*) was repealed by S.C. 2001, c. 17, s. 130(4), applicable to the 2000 and subsequent taxation years.

"(*c*) for the purpose of subsection 52(6), where a portion of the particular amount is allocated to a beneficiary under paragraph (*b*) in respect of an amount that became payable to the beneficiary in the particular year, the right to the amount so payable shall be considered to be a right to enforce payment by the trust to the beneficiary out of the trust's income (determined without reference to the provisions of this Act) for the particular year."

S. 132.11(6) was added by S.C. 1999, c. 22, s. 55(1), applicable to the 1998 and subsequent taxation years.

► 132.11(7) ◄

(7) Deduction. Subject to subsection (8), the lesser of the amount designated under subsection (6) by a trust for a taxation year and the total of all amounts each of which is allocated by the trust under paragraph (6)(*b*) in respect of the year shall be deducted in computing the trust's income for the following taxation year.

History: S. 132.11(7) was added by S.C. 1999, c. 22, s. 55(1), applicable to the 1998 and subsequent taxation years.

► 132.11(8) ◄

(8) Anti-avoidance. Subsection (7) does not apply in computing the income of a trust for a taxation year where it is reasonable to consider that the designation under subsection (6) for the preceding taxation year was part of a series of transactions or events that includes a change in the composition of beneficiaries under the trust.

History: S. 132.11(8) was added by S.C. 1999, c. 22, s. 55(1), applicable to the 1998 and subsequent taxation years.

SECTION 132.2:

► 132.2(1) ◄

(1) Mutual funds — qualifying exchange. Where a mutual fund corporation or a mutual fund trust has at any time disposed of a property to a mutual fund trust in a qualifying exchange,

(*a*) the transferee shall be deemed to have acquired the property at the time (in this subsection referred to as the "acquisition time") that is immediately after the time that is immediately after the transfer time, and not to have acquired the property at the transfer time;

(*b*) subject to paragraph (*o*), the last taxation years of the funds that began before the transfer time shall be deemed to have ended at the acquisition time, and their next taxation years shall be deemed to have begun immediately after those last taxation years ended;

(*c*) the transferor's proceeds of disposition of the property and the transferee's cost of the property shall be deemed to be the lesser of

(i) the fair market value of the property at the transfer time, and

(ii) the greatest of

(A) the cost amount to the transferor of the property at the transfer time or, where the property is depreciable property, the lesser of its capital cost and its cost amount to the transferor immediately before the transfer time,

(B) the amount that the funds have agreed upon in respect of the property in their election in respect of the qualifying exchange, and

(C) the fair market value at the transfer time of the consideration (other than units of the transferee) received by the transferor for the disposition of the property;

(*d*) where the property is depreciable property and its capital cost to the transferor exceeds the transferor's proceeds of disposition of the property under paragraph (*c*), for the purposes of sections 13 and 20 and any regulations made for the purposes of paragraph 20(1)(*a*),

(i) the property's capital cost to the transferee shall be deemed to be the amount that was its capital cost to the transferor, and

(ii) the excess shall be deemed to have been allowed to the transferee in respect of the property under regulations made for the purposes of paragraph 20(1)(*a*) in computing income for taxation years ending before the transfer time;

(*e*) where two or more depreciable properties of a prescribed class are disposed of by the transferor to the transferee in the same qualifying exchange, paragraph (*c*) applies as if each property so disposed of had been separately disposed of in the order designated by the transferor at the time of making the election in respect of the qualifying exchange or, if the transferor does not so designate any such order, in the order designated by the Minister;

(*f*) each property of a fund, other than

(i) depreciable property of a prescribed class to which paragraph (*g*) would, but for this paragraph, apply, and

(ii) property disposed of by the transferor to the transferee at the transfer time

shall be deemed to have been disposed of, and to have been reacquired by the fund, immediately before the acquisition time for an amount equal to the lesser of

(iii) the fair market value of the property at the transfer time, and

(iv) the greater of

(A) its cost amount or, where the property is depreciable property, the lesser of its capital cost and its cost amount to the disposing fund at the transfer time, and

(B) the amount that the fund designates in respect of the property in a notification to the Minister accompanying the election in respect of the qualifying exchange;

(*g*) where the undepreciated capital cost to a fund of depreciable property of a prescribed class immediately before the acquisition time exceeds the total of

(i) the fair market value of all the property of that class immediately before the acquisition time, and

(ii) the amount in respect of property of that class otherwise allowed under regulations made for the purposes of paragraph 20(1)(*a*) or deductible under subsection 20(16) in computing the fund's income for the taxation year that includes the transfer time,

the excess shall be deducted in computing the fund's income for the taxation year that includes the transfer time and shall be deemed to have been allowed in respect of property of that class under regulations made for the purposes of paragraph 20(1)(*a*);

(*h*) except as provided in paragraph (*p*), the transferor's cost of any particular property received by the transferor from the transferee as consideration for the disposition of the property is deemed to be

(i) nil, where the particular property is a unit of the transferee, and

(ii) the particular property's fair market value at the transfer time, in any other case;

(*i*) the transferor's proceeds of disposition of any units of the transferee received as consideration for the disposition of the property that were disposed of by the transferor within 60 days after the transfer time in exchange for shares of the transferor shall be deemed to be nil;

(*j*) where shares of the transferor have been disposed of by a taxpayer to the transferor in exchange for units of the transferee within 60 days after the transfer time,

(i) the taxpayer's proceeds of disposition of the shares and the cost to the taxpayer of the units shall be deemed to be equal to the cost amount to the taxpayer of the shares immediately before the transfer time, and

(ii) where all of the taxpayer's shares of the transferor have been so disposed of, for the purposes of applying section 39.1 in respect of the taxpayer after that disposition, the transferee shall be deemed to be the same entity as the transferor;

(*k*) if a share to which paragraph (*j*) applies would, but for this paragraph, cease to be a qualified investment (within the meaning assigned by subsection 146(1), 146.1(1) or 146.3(1), section 204 or subsection 205(1) or 207.01(1)) as a consequence of the qualifying exchange, the share is deemed to be a qualified investment until the earlier of the day that is 60 days after the transfer time and the time at which it is disposed of in accordance with paragraph (*j*);

(*l*) there shall be added to the amount determined under the description of A in the definition "refundable capital gains tax on hand" in subsection 132(4) in respect of the transferee for its taxation years that begin after the transfer time the amount, if any, by which

(i) the transferor's refundable capital gains tax on hand (within the meaning assigned by subsection 131(6) or 132(4), as the case may be) at the end of its taxation year that includes the transfer time

exceeds

(ii) the transferor's capital gains refund (within the meaning assigned by paragraph 131(2)(*a*) or 132(1)(*a*), as the case may be) for that year;

(*m*) no amount in respect of a non-capital loss, net capital loss, restricted farm loss, farm loss or limited partnership loss of a fund for a taxation year that began before the transfer time is deductible in computing its taxable income for a taxation year that begins after the transfer time;

(*n*) where the transferor is a mutual fund trust, for the purposes of subsections 132.1(1) and (3) to (5), the transferee shall be deemed after the transfer time to be the same mutual fund trust as, and a continuation of, the transferor;

(*o*) where the transferor is a mutual fund corporation,

(i) for the purposes of subsection 131(4), the transferor is deemed in respect of any share disposed of in accordance with paragraph (*j*) to be a mutual fund corporation at the time of the disposition, and

(ii) for the purposes of Part I.3, the transferor's taxation year that, but for this paragraph, would have included the transfer time is deemed to have ended immediately before the transfer time (except that, for greater certainty, nothing in this paragraph shall affect the computation of any amount determined under this Part);

(*p*) for the purpose of determining the funds' capital gains redemptions (as defined in subsection 131(6) or 132(4)), for their taxation years that include the transfer time,

(i) the total of the cost amounts to the transferor of all its properties at the end of the year is deemed to be the total of all amounts each of which is

(A) the transferor's proceeds of disposition of a property that was transferred to a transferee on the qualifying exchange, or

(B) the cost amount to the transferor at the end of the year of a property that was not transferred on the qualifying exchange, and

(ii) the transferee is deemed not to have acquired any property that was transferred to it on the qualifying exchange; and

(*q*) except as provided in subparagraph (*o*)(i), the transferor is, notwithstanding subsections 131(8) and 132(6), deemed to be neither a mutual fund corporation nor a mutual fund trust for taxation years that begin after the transfer time.

History: S. 132.2(1)(*k*) was replaced by S.C. 2008, c. 28, s. 21(1), applicable to the 2009 and subsequent taxation years. S. 132.2(1)(*k*) formerly read:

"(*k*) where a share to which paragraph (*j*) applies would, but for this paragraph, cease to be a qualified investment (within the meaning assigned by subsection 146(1), 146.1(1) or 146.3, section 204 or subsection 205(1) as a consequence of the qualifying exchange, the share is deemed to be a qualified investment until the earlier of the day that is 60 days after the transfer time and the time at which it is disposed of in accordance with paragraph (*j*);"

S. 132.2(1)(*k*) was replaced by S.C. 2007, c. 35, s. 114, applicable to the 2008 and subsequent taxation years. S. 132.2(1)(*k*) formerly read:

"(*k*) where a share to which paragraph (*j*) applies would, but for this paragraph, cease to be a qualified investment (within the meaning assigned by subsection 146(1), 146.1(1) or 146.3(1) or section 204) as a consequence of the qualifying exchange, the share is deemed to be a qualified investment until the earlier of the day that is 60 days after the transfer time and the time at which it is disposed of in accordance with paragraph (*j*);"

S. 132.2(1)(*k*) was amended by S.C. 1999, c. 22, s. 56(1), applicable after 1997. S. 132.2(1)(*k*) formerly read:

"(*k*) where a share to which paragraph (*j*) applies would, but for this paragraph, cease to be a qualified investment (within the meaning assigned by subsection 146(1) or 146.3(1) or section 204) as a consequence of the qualifying exchange, the share shall be deemed to be a qualified investment until the earlier of the day that is 60 days after the transfer time and the time at which it is disposed of in accordance with paragraph (*j*);"

S. 132.2(1)(*h*), that portion preceding subparagraph (*h*), was amended by S.C. 1998, c. 19, s. 159(1), applicable after June 1994 except that, where

(*a*) a qualifying exchange (as defined in subsection 132.2(2) of the Act) between funds occurs before November 1996, and

(*b*) the funds jointly elect in writing filed with the Minister of National Revenue before the end of the third month after the month in which this Act is assented to [Royal Assent June 18, 1998],

subsection 132.2(1) of the Act shall be read without reference to paragraph 132.2(1)(*p*) in its application to the exchange.

That portion of s. 132.2(1)(*h*) preceding subparagraph (i) formerly read:

"(*h*) the transferor's cost of any particular property received by the transferor from the transferee as consideration for the disposition of the property shall be deemed to be"

Ss. 132.2(1)(*o*) and (*p*) were amended, and paragraph 132.2(1)(*q*) was added, by S.C. 1998, c. 19, s. 159(2), applicable after June 1994 except that, where

(*a*) a qualifying exchange (as defined in subsection 132.2(2) of the Act) between funds occurs before November 1996, and

(*b*) the funds jointly elect in writing filed with the Minister of National Revenue before the end of the third month after the month in which this Act is assented to [Royal Assent June 18, 1998],

subsection 132.2(1) shall be read without reference to paragraph 132.2(1)(*p*) in its application to the exchange.

Paragraphs (*o*) and (*p*) formerly read:

"(*o*) where the transferor is a mutual fund corporation, for the purposes of Part I.3, the transferor's taxation year that, but for this paragraph, would have ended at the acquisition time shall be deemed to have ended immediately before the transfer time (except that, for greater certainty, nothing in this paragraph affects the computation of any amount determined under this Part); and

(*p*) the transferor shall, notwithstanding subsections 131(8) and 132(6), be deemed to be neither a mutual fund corporation nor a mutual fund trust for taxation years beginning after the transfer time."

S. 132.2(1) was added by S.C. 1995, c. 21, s. 69(1), applicable after June 1994.

Related Sections: S. 7(1.4) Exchange of options; s. 7(1.5) Rules where securities exchanged; s. 84(3) Redemption, etc; s. 248(1), "cost amount".

Income Tax Technical News: Issue No. 34, Income Trust Reorganizations.

Tax Profile: December 2002 — Update on Current CCRA GAAR Activity.

Canadian Tax Foundation: Ruby and Shragie, "Policy Forum: Hidden Tax Traps in Section 132.2 Mergers-Trusts, REITs, and Other Businesses", *2006*

Canadian Tax Journal, No. 2, 450; Chasmar and Chua, "'Reorganizations of Investment Funds' in 'The Taxation of Corporate Reorganizations' feature", *2001 Canadian Tax Journal*, No. 2, 482; Ewens, "Mutual Fund Mergers", *2001 Annual Conference*, 3:1; Fyfe and Webster, "Current Mutual Fund Developments And Products", *2000 Conference Report*, 21:1.

► 132.2(2) ◄

(2) Definitions. In this section,

"qualifying exchange" — "qualifying exchange" means a transfer at any time (in this section referred to as the "transfer time") of all or substantially all of the property of a mutual fund corporation (other than a SIFT wind-up corporation) or mutual fund trust to a mutual fund trust (in this section referred to as the "transferor" and "transferee", respectively, and as the "funds"), if

(*a*) all or substantially all of the shares issued by the transferor and outstanding immediately before the transfer time are within 60 days after the transfer time disposed of to the transferor,

(*b*) no person disposing of shares of the transferor to the transferor within that 60-day period (otherwise than pursuant to the exercise of a statutory right of dissent) receives any consideration for the shares other than units of the transferee, and

(*c*) the funds jointly elect, by filing a prescribed form with the Minister within 6 months after the transfer time, to have this section apply with respect to the transfer;

History: S. 132.2(2), the portion of the definition "qualifying exchange" before paragraph (*a*) was replaced by S.C. 2009, c. 2, s. 44(1), applicable after December 19, 2007. S. 132.2(2), the portion of the definition "qualifying exchange" before paragraph (*a*) formerly read:

" '*qualifying exchange*' — ' qualifying exchange ' means a transfer at any time (in this section referred to as the 'transfer time') of all or substantially all of the property of a mutual fund corporation or mutual fund trust to a mutual fund trust (in this section referred to as the 'transferor' and 'transferee', respectively, and as the 'funds') where "

S. 132.2(2), paragraph (*b*) of the definition "qualifying exchange", was amended by S.C. 1998, c. 19, s. 159(3), applicable after June 1994. That paragraph formerly read:

"(*b*) no person disposing of shares in the transferor to the transferor within that 60 day period receives any consideration for those shares other than units of the transferee, and"

S. 132.2(2), the definition "qualifying exchange", was added by S.C. 1995, c. 21, s. 69(1), applicable after June 1994, except that an election referred to in paragraph (c) of the definition "qualifying exchange" in subsection 132.2(2) shall be deemed to have been made in a timely manner where it is made before the end of the sixth month that ends after June 1995.

Forms: T1169.

"share" — "share" means a share of the capital stock of a mutual fund corporation and a unit of a mutual fund trust.

History: S. 132.2(2), the definition "share" was added by S.C. 1995, c. 21, s. 69, applicable after June 1994.

Forms: T1169.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 132.2 of the Act is replaced by the following:

SECTION 132.2:

(1) Definitions re qualifying exchange of mutual funds. The following definitions apply in this section.

"first post-exchange year" — "first post-exchange year", of a fund in respect of a qualifying exchange, means the taxation year of the fund that begins immediately after the acquisition time.

"qualifying exchange" — "qualifying exchange" means a transfer at any time (in this section referred to as the "transfer time") of all or substantially all of the property of a mutual fund corporation or a mutual fund trust to a mutual fund trust (in this section referred to as the "transferor" and "transferee", respectively, and as the "funds") if

(*a*) all or substantially all of the shares issued by the transferor and outstanding immediately before the transfer time are within 60 days after the transfer time disposed of to the transferor;

(*b*) no person disposing of shares of the transferor to the transferor within that 60-day period (otherwise than pursuant to the exercise of a statutory right of dissent) receives any consideration for the shares other than units of the transferee; and

(*c*) the funds jointly so elect, by filing a prescribed form with the Minister on or before the election's due date.

"share" — "share" means a share of the capital stock of a mutual fund corporation and a unit of a mutual fund trust.

(2) Timing. In respect of a qualifying exchange, a time referred to in the following list immediately follows the time that precedes it in the list

(*a*) the transfer time;

(*b*) the first intervening time;

(*c*) the acquisition time;

(*d*) the beginning of the funds' first post-exchange years;

(*e*) the depreciables disposition time;

(*f*) the second intervening time; and

(*g*) the depreciables acquisition time.

(3) General. In respect of a qualifying exchange,

(*a*) each property of a fund, other than property disposed of by the transferor to the transferee at the transfer time and depreciable property, is deemed to have been disposed of, and to have been reacquired by the fund, at the first intervening time, for an amount equal to the lesser of

(i) the fair market value of the property at the transfer time, and

(ii) the greater of

(A) its cost amount, and

(B) the amount that the fund designates in respect of the property in a notification to the Minister accompanying the election in respect of the qualifying exchange;

(*b*) subject to paragraph (*f*), the last taxation years of the funds that began before the transfer time are deemed to have ended at the acquisition time, and their first post-exchange years are deemed to have begun immediately after those last taxation years ended;

(*c*) each depreciable property of a fund (other than property to which subsection (5) applies and property to which paragraph (*d*) would, if this Act were read without reference to this paragraph, apply) is deemed to have been disposed of, and to have been reacquired, by the fund at the second intervening time for an amount equal to the lesser of

(i) the fair market value of the property at the depreciables disposition time, and

(ii) the greater of

(A) the lesser of its capital cost and its cost amount to the disposing fund at the depreciables disposition time, and

(B) the amount that the fund designates in respect of the property in a notification to the Minister accompanying the election in respect of the qualifying exchange;

(*d*) if at the second intervening time the undepreciated capital cost to a fund of depreciable property of a prescribed class exceeds the fair market value of all the property of that class, the excess is to be deducted in computing the fund's income for the taxation year that includes the transfer time and is deemed to have been allowed in respect of property of that class under regulations made for the purpose of paragraph 20(1)(*a*);

(*e*) except as provided in paragraph (*m*), the transferor's cost of any particular property received by the transferor from the transferee as consideration for the disposition of the property is deemed to be

(i) nil, if the particular property is a unit of the transferee, and

(ii) the particular property's fair market value at the transfer time, in any other case;

(*f*) the transferor's proceeds of disposition of any units of the transferee that were disposed of by the transferor at any particular time that is within 60 days after the day that includes the transfer time in exchange for shares of the transferor, are deemed to be equal to the cost amount of the units to the transferor immediately before the particular time;

(*g*) if, at any particular time that is within 60 days after the day that includes the transfer time, a taxpayer disposes of shares of the transferor to the transferor in exchange for units of the transferee

(i) the taxpayer's proceeds of disposition of the shares and the cost to the taxpayer of the units are deemed to be equal to the cost amount to the taxpayer of the shares immediately before the particular time,

(ii) where all of the taxpayer's shares of the transferor have been so disposed of, for the purpose of applying section 39.1 in respect of the taxpayer after that disposition, the transferee is deemed to be the same entity as the transferor,

(iii) for the purpose of the definition "designated beneficiary" in section 210, the units are deemed not to have been held at any time by the transferor, and

(iv) where the taxpayer is at the particular time affiliated with one or both of the funds,

(A) those units are deemed not to be identical to any other units of the transferee,

(B) if the taxpayer is the transferee, and the units cease to exist when the taxpayer acquires them (or, for greater certainty, when the taxpayer would but for that cessation have acquired them), the taxpayer is deemed

(I) to have acquired those units at the particular time, and

(II) to have disposed of those units immediately after the particular time for proceeds of disposition equal to the cost amount to the taxpayer of those units at the particular time, and

(C) in any other case, for the purpose of computing any gain or loss of the taxpayer from the taxpayer's first disposition, after the particular time, of each of those units,

(I) if that disposition is a renunciation or surrender of the unit by the taxpayer for no consideration, and is not in favour of any person other than the transferee, the taxpayer's proceeds of disposition of that unit are deemed to be equal to that unit's cost amount to the taxpayer immediately before that disposition, and

(II) if subclause (I) does not apply, the taxpayer's proceeds of disposition of that unit are deemed to be equal to the greater of that unit's fair market value and its cost amount to the taxpayer immediately before that disposition;

(*h*) where a share to which paragraph (g) applies would, if this Act were read without reference to this paragraph, cease to be a qualified investment (within the meaning assigned by subsection 146(1), 146.1(1) or 146.3(1) or section 204) as a consequence of the qualifying exchange, the share is deemed to be a qualified investment until the earlier of the day that is 60 days after the day that includes the transfer time and the time at which it is disposed of in accordance with paragraph (g);

(*i*) there shall be added to the amount determined under the description of A in the definition "refundable capital gains tax on hand" in subsection 132(4) in respect of the transferee for its taxation years that begin after the transfer time the amount, if any, by which

(i) the transferor's refundable capital gains tax on hand (within the meaning assigned by subsection 131(6) or 132(4), as the case may be) at the end of its taxation year that includes the transfer time

exceeds

(ii) the transferor's capital gains refund (within the meaning assigned by paragraph 131(2)(*a*) or 132(1)(*a*), as the case may be) for that year;

(*j*) no amount in respect of a non-capital loss, net capital loss, restricted farm loss, farm loss or limited partnership loss of a fund for a taxation year that began before the transfer time is deductible in computing the taxable income of either of the funds for a taxation year that begins after the transfer time;

(*k*) if the transferor is a mutual fund trust, for the purposes of subsections 132.1(1) and (3) to (5), the transferee is deemed after the transfer time to be the same mutual fund trust as, and a continuation of, the transferor;

(*l*) if the transferor is a mutual fund corporation

(i) for the purpose of subsection 131(4) but, for greater certainty, without having any effect on the computation of any amount determined under this Part, the transferor is deemed in respect of any share disposed of in accordance with paragraph (g) to be a mutual fund corporation at the time of the disposition, and

(ii) for the purpose of Part I.3 but, for greater certainty, without having any effect on the computation of any amount determined under this Part, the transferor's taxation year that, if this Act were read without reference to this paragraph, would have included the transfer time is deemed to have ended immediately before the transfer time;

(*m*) for the purpose of determining the funds' capital gains redemptions (as defined in subsection 131(6) or 132(4), as the case may be), for their taxation years that include the transfer time,

(i) the total of the cost amounts to the transferor of all its properties at the end of the year is deemed to be the total of all amounts each of which is

(A) the transferor's proceeds of disposition of a property that was transferred to a transferee on the qualifying exchange, or

(B) the cost amount to the transferor at the end of the year of a property that was not transferred on the qualifying exchange, and

(ii) the transferee is deemed not to have acquired any property that was transferred to it on the qualifying exchange; and

(*n*) except as provided in subparagraph (*l*)(i), the transferor is, notwithstanding subsections 131(8) and 132(6), deemed to be neither a mutual fund corporation nor a mutual fund trust for taxation years that begin after the transfer time.

(4) Qualifying exchange — non-depreciable property. If a transferor transfers a property, other than a depreciable property, to a transferee in a qualifying exchange

(*a*) the transferee is deemed to have acquired the property at the acquisition time and not to have acquired the property at the transfer time; and

(*b*) the transferor's proceeds of disposition of the property and the transferee's cost of the property are deemed to be the lesser of

(i) the fair market value of the property at the transfer time, and

(ii) the greatest of

(A) the cost amount to the transferor of the property at the transfer time,

(B) the amount that the funds agree on in respect of the property in their election, and

(C) the fair market value at the transfer time of the consideration (other than units of the transferee) received by the transferor for the disposition of the property.

(5) Depreciable property. If a transferor transfers a depreciable property to a transferee in a qualifying exchange,

(*a*) the transferor is deemed to have disposed of the property at the depreciables disposition time, and not to have disposed of the property at the transfer time;

(*b*) the transferee is deemed to have acquired the property at the depreciables acquisition time, and not to have acquired the property at the transfer time;

(*c*) the transferor's proceeds of disposition of the property and the transferee's cost of the property are deemed to be the lesser of

(i) the fair market value of the property at the transfer time, and

(ii) the greatest of

(A) the lesser of its capital cost and its cost amount to the transferor immediately before the depreciables disposition time,

(B) the amount that the funds agree on in respect of the property in their election, and

(C) the fair market value at the transfer time of the consideration (other than units of the transferee) received by the transferor for the disposition of the property;

(*d*) where the capital cost of the property to the transferor exceeds the transferor's proceeds of disposition of the property under paragraph (*c*), for the purposes of sections 13 and 20 and any regulations made for the purpose of paragraph 20(1)(*a*),

(i) the property's capital cost to the transferee is deemed to be the amount that was its capital cost to the transferor, and

(ii) the excess is deemed to have been allowed to the transferee in respect of the property under regulations made for the purpose of paragraph 20(1)(*a*) in computing income for taxation years ending before the transfer time; and

(*e*) where two or more depreciable properties of a prescribed class are disposed of by the transferor to the transferee in the same qualifying exchange, paragraph (*c*) applies as if each property so disposed of had been separately disposed of in the order designated by the transferor at the time of making the election in respect of the qualifying exchange or, if the transferor does not so designate any such order, in the order designated by the Minister.

(6) Due date. The due date of an election referred to in paragraph (*c*) of the definition "qualifying exchange" in subsection (1) is

(*a*) the day that is 6 months after the day that includes the transfer time; and

(*b*) on joint application by the funds, any later day that the Minister accepts.

(7) Amendment or Revocation of Election. The Minister may, on joint application by the funds on or before the due date of an election referred to in paragraph (*c*) of the definition "qualifying exchange" in subsection (1), grant permission to amend or revoke the election.

Applicable: The definitions "first post-exchange year" and "share" in subsection 132.2(1), and subsections 132.2(2) to (5) apply to qualifying exchanges that occur after 1998 except that, if a qualifying exchange occurred before July 18, 2005 and the transferee has, before that day, filed a return of income, for any taxation year, that identified the realization of any loss that would not have been realized if paragraphs 132.2(3)(*f*) and (g) had applied in respect of the qualifying exchange, those paragraphs shall be read in their application to the qualifying exchange as follows:

"(*f*) the transferor's proceeds of disposition of any units of the transferee that were received by the transferor as consideration for the disposition of the property, and that were disposed of by the transferor within 60 days after the day that includes the transfer time in exchange for shares of the transferor, are deemed to be nil;

(*g*) if, within 60 days after the day that includes the transfer time, a taxpayer disposes of shares of the transferor to the transferor in exchange for units of the transferee

(i) the taxpayer's proceeds of disposition of the shares and the cost to the taxpayer of the units are deemed to be equal to the cost amount to the taxpayer of the shares immediately before the transfer time,

(ii) where all of the taxpayer's shares of the transferor have been so disposed of, for the purpose of applying section 39.1 in respect of the taxpayer after that disposition, the transferee is deemed to be the same entity as the transferor, and

(iii) for the purpose of the definition 'designated beneficiary' in section 210, the units are deemed not to have been held at any time by the transferor;"

For qualifying exchanges that occurred after June 1994 and before 1999, paragraph 132.2(1)(*j*) is to be read as follows:

"(*j*) where shares of the transferor have been disposed of by a taxpayer to the transferor in exchange for units of the transferee within 60 days after the transfer time,

(i) the taxpayer's proceeds of disposition of the shares and the cost to the taxpayer of the units are deemed to be equal to the cost amount to the taxpayer of the shares immediately before the transfer time,

(ii) if all of the taxpayer's shares of the transferor have been so disposed of, for the purposes of applying section 39.1 in respect of the taxpayer after that disposition, the transferee is deemed to be the same entity as the transferor, and

(iii) for the purpose of the definition 'designated beneficiary' in section 210, the units are deemed not to have been held at any time by the transferor;"

The definition "qualifying exchange" in subsection 132.2(1), and subsections 132.2(6) and (7) apply to qualifying exchanges that occur after June 1994.

If a valid election referred to in paragraph (*c*) of the definition "qualifying exchange" in subsection 132.2(2) was made, the election continues to have the effect of having section 132.2, as modified from time to time, apply to the transfer.

If a valid election referred to in subsection 159(4) of the *Income Tax Amendments Act, 1997* [S.C. 1998, c. 19 — see the history note for paragraphs 132.2(1)(*o*), (*p*) and (*q*)] was made in respect of a qualifying exchange to read subsection 132.2(1) of the *Income Tax Act* without reference to paragraph 132.2(1)(*p*) of that Act, the election is, on the application of section 132.2, as enacted by Bill C-33, deemed to have the effect of reading subsection 132.2(3), in respect of the qualifying exchange without reference to paragraph 132.2(3)(*i*).

Explanatory Note: Section 132.2 of the Act provides rules to allow two mutual fund trusts, or a mutual fund trust and a mutual fund corporation, to merge on a tax-deferred basis. Such a merger is referred to as a "qualifying exchange".

In addition to introducing several substantive improvements to the rules in section 132.2, these amendments restructure the provision as a whole. In general terms, the section is now organized as follows: new subsection 132.2(1) sets out definitions that apply for the section; subsection (2) describes the order in which the events that make up a qualifying exchange are considered to have occurred; subsection (3) provides a set of general rules; subsection (4) deals with non-depreciable property that is transferred on the qualifying exchange; and subsection (5) deals with depreciable property that is transferred. Subsection (6) establishes the due date for the election to treat a transfer as a qualifying exchange; and subsection (7) provides authority for the Minister of National Revenue to allow that election to be amended or revoked.

Despite this restructuring, the basic principles of section 132.2 remain unchanged, as do most aspects of its operation. The exceptions — the areas where these amendments change the provision substantively — have to do with depreciable property that is transferred on a qualifying exchange, and with the election to treat a transaction as a qualifying exchange. Further modifications have been made to prevent the creation of artificial or "phantom" losses, generally in circumstances where one fund holds units or shares of the other fund immediately before the transfer time.

Transfers of Depreciable Property

In its current form, section 132.2 does not deal comprehensively with transfers of depreciable property between mutual funds. In particular, the deemed timing of the transfer, in relation to the deemed year-end of the funds, may prevent either fund from claiming capital cost allowance (CCA) for the last taxation year that began before the qualifying exchange. The

transferor has disposed of the property two moments before the end of its year, and the transferee will not acquire it until the last moment of its own year.

To ensure that one CCA claim is available for that last year, new subsection 132.2(5) provides a special regime for qualifying exchanges that include transfers of depreciable property. A key aspect of these special rules is the ordering of events in accordance with new subsection 132.2(2). That subsection provides that, starting with the actual (i.e., legal) transfer of property between a transferor fund and a transferee fund that carry out a qualifying exchange, the following series of times occurs, each immediately after the previous one:

Name of Time	Description	Reference
the transfer time	The actual transfer of the property between the funds takes place.	definition "qualifying exchange" in 132.2(1)
the first intervening time	The funds are treated as having disposed of and reacquired non-transferred property (other than depreciable property).	132.2(3)(*a*)
the acquisition time	The transferee is treated as having acquired transferred property (other than depreciable property); the funds' taxation years are treated as ending.	132.2(4)(*a*); 132.2(3)(*b*)
the beginning of the funds' first post-exchange years		132.2(3)(*b*)
the depreciables disposition time	The transferor is deemed to have disposed of any transferred property that is depreciable property.	132.2(5)(*a*)
the second intervening time	The funds are treated as having disposed of and reacquired any non-transferred property that is depreciable property.	132.2(3)(*c*)
the depreciables acquisition time	The transferee is deemed to have acquired any transferred property that is depreciable property.	132.2(5)(*b*)

As a result of this timing, the transferor fund will be treated as owning, until after its first post-exchange year has begun, any depreciable property that is being transferred. This will ensure that the transfer does not prevent the transferor from deducting CCA in respect of property of that class, for its taxation year that ends at the acquisition time. The new rule also ensures that the transferee does not duplicate that deduction, by treating the transferee as having acquired the property only after its new taxation year has begun.

This treatment of depreciable property applies, along with most aspects of the restructuring of section 132.2, to qualifying exchanges that take place after 1998.

Timing of Election

For section 132.2 to apply to a transfer of property between mutual funds, the definition "qualifying exchange" currently requires the funds to file their joint election in prescribed form with the Minister of National Revenue within six months after the transfer time. This timing requirement is changed to allow greater flexibility. The amended definition "qualifying exchange" requires that the funds' election be made before the election's "due date", defined in new subsection 132.2(6) to mean either the day that is six months after the day that includes the transfer time or any later day that the Minister accepts, on joint application by the funds. An example of a case in which the Minister might accept such an application would be one in which the Minister has already decided to accept a late filing of the funds' returns of income for the taxation year that includes the qualifying exchange.

In certain cases, mutual funds that have elected to treat a transfer as a qualifying exchange may wish to amend, or even revoke, their election. New subsection 132.2(7) allows the funds to do this, on joint application and with the permission of the Minister.

New subsections 132.2(6) and (7), and the amended definition "qualifying exchange" in subsection 132.2(1), apply to qualifying exchanges that take place after June 1994.

Subparagraphs 132.2(3)(g)(iii) and 132.2(1)(j)(iii) — Definition "designated beneficiary"

Rules of General Application

New subparagraph 132.2(3)(*g*)(iii) of the Act applies in determining whether a person is a "designated beneficiary" (as defined in section 210 of the Act) of a trust. Under the definition designated beneficiary, certain persons or partnerships that are beneficiaries under a trust may be treated (or may cause trusts or partnerships of which they are beneficiaries or members to be treated) as designated beneficiaries under the trust, unless the relevant interest in the trust is held at all times by the person or partnership, as the case may be, or by another person exempt because of subsection 149(1) of the Act from tax, under Part I of the Act, on all of the other person's taxable income.

In a qualifying exchange, a mutual fund trust or mutual fund corporation (transferor) transfers all or substantially all of its property to another mutual fund trust (transferee) and takes back units of the transferee. Those units are then provided by the transferor to its investors in exchange for their shares or units of the transferor. New subparagraph 132.2(3)(*g*)(iii) ensures that, in these circumstances, the transferor is treated, for the purpose of the definition designated beneficiary, as not having held the units of the transferee.

This amendment applies for qualifying exchanges that occur after 1998. A similar rule, in former subparagraph 132.2(1)(*j*)(iii), applies for qualifying exchanges that occurred after June 1994 and before 1999.

Paragraphs 132.2(3)(f) and (g) — Rules of General Application — Losses

New paragraphs 132.2(3)(*f*) and (*g*) of the Act are amended to ensure that the mutual fund merger rules do not apply inappropriately to create artificial or "phantom" losses. Although the changes reflected in these new provisions are not expected to be relevant to most qualifying exchanges, the following is a description of their purpose and effect.

Under the definition "qualifying exchange" in new subsection 132.2(1), all or substantially all of the outstanding shares issued by the transferor must be disposed of to the transferor within the 60 days after the transfer time, and every person so disposing of shares of the transferor must receive only units of the transferee as consideration. The second leg of a qualifying exchange is thus a set of transactions in which the transferor's investors replace their shares of the transferor with units of the transferee. The tax effect of those transactions are governed by paragraphs 132.2(1)(*f*) and (*g*). For clarity, these notes reflect the legislation by referring to investments in the transferor — whether a corporation or a trust — as shares, reserving the term "units" to refer to the units of the transferee mutual fund trust.

Existing paragraph 132.2(1)(*i*) provides that if, within 60 days after the transfer time, the transferor fund disposed of units of the transferee in exchange for shares of itself, its proceeds of disposition are deemed to be nil. Since the units acquired by the transferor in return for its property are deemed, under existing paragraph 132.2(1)(*h*) (now new paragraph 132.2(3)(*e*)), also to have had a cost of nil, this provision allows the transferor to roll those units out to its investors with no tax consequences to it. New paragraph 132.2(3)(*f*) provides that if, within 60 days after the transfer time, the transferor fund disposes of units of the transferee in exchange for shares of itself, its proceeds of disposition will be deemed to be equal to the cost amount of the units to the transferor immediately before the disposition. This change — from nil proceeds to proceeds equal to cost amount

— ensures appropriate results if the transferor held units of the transferee that were acquired otherwise than as a result of the qualifying exchange. In this situation, that first tranche of units will have a cost base that, pursuant to section 47 of the Act, will be averaged with the second tranche of units (i.e. the units that the transferor acquired in the qualifying exchange). Existing paragraph 132.2(1)(*i*) deems the proceeds of the disposition of the second tranche of units to be nil, an inappropriate result in that it creates a phantom loss. New paragraph 132.2(3)(*f*), deeming the proceeds of disposition equal to the cost amount of the units to the transferor immediately before the disposition, ensures that the transferor can still roll units of the transferee out to its investors with no tax consequences to it, and avoids the creation of a phantom loss.

Existing subparagraph 132.2(1)(*j*)(i) provides that, where a taxpayer disposes of shares of the transferor in exchange for units of the transferee within that same 60-day period, both the taxpayer's proceeds of disposition of the shares and the taxpayer's cost of the units are deemed to be equal to the cost amount of the shares immediately before the transfer time. New subparagraph 132.2(3)(g)(i) provides that, where a taxpayer disposes of shares of the transferor in exchange for units of the transferee within that same 60-day period, both the taxpayer's proceeds of disposition of the shares and the taxpayer's cost of the units are deemed to be equal to the cost amount of the shares immediately before the disposition. This change — from measuring the cost amount of the shares immediately before the transfer time to measuring it immediately before the disposition — ensures that the transferor's investors will not realize any gain or loss on their exchange of their shares for units of the transferee.

Paragraph 132.2(3)(g) also includes a new subparagraph 132.2(3)(g)(iv) to address the disposition by certain persons or partnerships of the units in the transferee that they received on the qualifying exchange. Those affected by this new provision are those who, when they acquire the units, are affiliated with one or both of the funds. This could include, for example, the transferee itself, or a corporation it controls.

The subparagraph first deems the units received in the qualifying exchange not to be identical to any other units of the transferee. This segregates the new units from the averaging effect of section 47 of the Act.

Next, the subparagraph specifies the effects of disposing of the new units. If the taxpayer is the transferee, and the units cease to exist when the taxpayer acquires them (if, for example, the units are cancelled immediately on receipt), clause 132.2(3)(g)(iv)(B) provides two effects. First, to prevent any possible question in this regard, the taxpayer is deemed to have acquired those units. This ensures, among other things, that subparagraph (i) establishes the taxpayer's cost of the units. Second, the taxpayer is treated as having disposed of those units immediately after it acquired them, for proceeds of disposition equal to the cost amount to the taxpayer of those units at that time. This ensures, for greater certainty, that a transferee that had an investment in the transferor prior to the qualifying exchange will not incur a phantom loss as a result of exchanging its shares in the transferor in return for units of itself.

If the taxpayer is affiliated with one or both of the funds, but is not the transferee, clause 132.2(3)(g)(iv)(C) provides that, for the purpose of computing any gain or loss of the taxpayer from the taxpayer's first disposition of each of those units, the proceeds of disposition of the unit will depend on whether the disposition is a renunciation or surrender of the unit or some other disposition.

New subclause 132.2(3)(g)(iv)(C)(I) provides that, if the disposition is a renunciation or surrender of the unit by the taxpayer for no consideration, and is not in favour of any person other than the transferee, the taxpayer's proceeds of disposition of that unit are deemed to be equal to that unit's cost amount to the taxpayer immediately before that disposition. This ensures that an affiliated taxpayer will never incur a phantom loss or gain on the renunciation or surrender of the unit.

If the disposition is not a renunciation or surrender of the unit described in subclause 132.2(3)(g)(iv)(C)(I), the affiliated taxpayer's proceeds of disposition of that unit are deemed by subclause 132.2(3)(g)(iv)(C)(II) to be equal to the greater of that unit's fair market value and its cost amount to the taxpayer immediately before that disposition. This ensures that the taxpayer will never incur a loss, including a phantom loss, on a disposition of one of those units, but may incur a gain.

Two additional points should be noted with respect to the operation of new subparagraph 132.2(3)(g)(iv).

- The deeming, by subclause 132.2(3)(g)(iv)(C)(II), of a taxpayer's proceeds of disposition of the units the taxpayer acquired on the qualifying exchange applies only to the first disposition of each unit. It is possible that a taxpayer might dispose of a unit and then reacquire the same unit (under, for example, the change in residence rules in section 128.1 of the Act). The subclause will not apply to any subsequent disposition of the unit by that taxpayer.
- In some circumstances, an affiliated taxpayer may have a latent loss on a share of the transferor prior to the qualifying exchange, and may wish to realize that loss. This can be done, if the affiliated taxpayer disposes of the share prior to the qualifying exchange. However, the possible application of the Act's "superficial loss" and loss deferral rules would have to be borne in mind.

New paragraphs 132.2(3)(*f*) and (*g*), together with the rest of new subsection 132.2(3), generally apply to qualifying exchanges that occur after 1998. A limited exception applies in respect of certain qualifying exchanges in respect of which a return of income, claiming the losses sought to be prevented by these amendments, was filed by the transferee mutual fund before July 18, 2005.

Coordinating Amendment

S.C. 2008, c. 28 (Bill C-50) — Coordinating Amendments With Former Bill C-10 — June 18, 2008

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The following amendment applies if Bill C-10, introduced in the 2nd session of the 39th Parliament and entitled the *Income Tax Amendments Act, 2006*, receives royal assent: If Bill C-50 is assented to before the day on which Bill C-10 is assented to, then paragraph 132.2(3)(*h*) of the *Income Tax Act*, as enacted by subsection 130(1) of Bill C-10, is replaced by the following:

(*h*) if a share to which paragraph (g) applies would, if this Act were read without reference to this paragraph, cease to be a qualified investment (within the meaning assigned by subsection 146(1), 146.1(1) or 146.3(1), section 204 or subsection 205(1) or 207.01(1)) as a consequence of the qualifying exchange, the share is deemed to be a qualified investment until the earlier of the day that is 60 days after the day that includes the transfer time and the time at which it is disposed of in accordance with paragraph (*g*);

Applicable: In respect of the 2009 and subsequent taxation years.

Explanatory Note: Bill C-10, introduced in the 2nd session of the 39th Parliament and entitled the *Income Tax Amendments Act, 2006*, includes a number of measures that enact or amend provisions that are also the subject of the present enactment. If both are enacted, it will be necessary to ensure that the changes to those provisions are coordinated. This is accomplished through a series of technical coordinating amendments in the present enactment.

The first of these, in clause 41 of the present enactment, relates to the modification of section 132.2 of the *Income Tax Act*, which provides for the tax-deferred merger of two mutual fund trusts or a mutual fund trust and a mutual fund corporation. Bill C-10 includes a substantial restructuring of the section, while the present enactment adjusts only one paragraph, as a consequence of the introduction of the TFSA rules. Clause 41 ensures that both the restructuring and the adjustment will operate as intended, regardless of the order of the two enactments.

Coordinating Amendment

S.C. 2007 c. 35 (Bill C-28) — Coordinating Amendments With Former Bill C-10 — Income Tax Amendments Act, 2006 — December 14, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The following applies if former Bill C-10, introduced in the 2nd session of the 39th Parliament and entitled the *Income Tax Amendments Act, 2006* (referred to as the "other Act"), receives royal assent: If section 114 of S.C. 2007, c. 35 [the amendment of paragraph 132.2(1)(*k*)] comes into force before subsection 130(1) of the other Act [the replacement of section 132.2], then paragraph 132.2(3)(*h*) of the *Income Tax Act* is replaced by the following:

(*h*) where a share to which paragraph (*g*) applies would, if this Act were read without reference to this paragraph, cease to be a qualified investment (within the meaning assigned by subsection 146(1), 146.1(1) or 146.3(1), section 204 or subsection 205(1)) as a consequence of the qualifying exchange, the share is deemed to be a qualified investment until the earlier of the day that is 60 days after the day that includes the transfer time and the time at which it is disposed of in accordance with paragraph (*g*);

Applicable: In respect of the 2008 and subsequent taxation years.

Department of Finance Comfort Letter [Mutual Fund Merger Rules]

February 14, 2006

Dear XXXX,

I am writing in response to your letter of January 31, 2006 requesting that we recommend several technical amendments to the mutual fund merger rules in section 132.2 of the *Income Tax Act* (the "Act"). These rules are already the subject of extensive proposed amendments, and all section references in this letter refer to the proposed legislation released in draft on July 18, 2005.

1. Timing

You note that there appears to be an inconsistency in the time periods referred to in the definition of "qualifying exchange" in subsection 132.2(1) and in the preamble of paragraph 132.2(3)(*g*). The definition of "qualifying exchange" requires that all or substantially all of the shares or units of the Transferor (as defined in section 132.2 of the Act) be disposed of to the Transferor within 60 days after the "transfer time", which is defined to be the time when all or substantially all of the property of the Transferor is transferred to the Transferee (as defined in section 132.2 of the Act). The preamble to paragraph 132.2(3)(*g*) requires that the exchange of shares or units of the Transferor back to the Transferor in exchange for units of the Transferee occur on a tax-deferred basis only if the exchange takes place within 60 days after *the day that includes* the transfer time.

You have requested that the Act be amended to clarify that the two 60-day periods start at the same time. We note that the time period in paragraph 132.2(3)(*f*) also refers to an event within 60 days after *the day that includes* the transfer time. We can confirm that in both instances it was not intended by the addition of the words "the day that includes" to refer to a commencement date on the day following the day that includes the transfer time; rather it has always been intended that the commencement date be the day that includes the transfer time.

To clarify that all of the references to a 60-day period in section 132.2 are intended to refer to the same time period, and that the period is to commence on the day that includes the transfer time, we intend to recommend to the Minister of Finance that the references to "the day that includes" in paragraphs 132.2(3)(*f*) and (*g*) be deleted. We will also recommend that these changes be applicable to qualifying exchanges that occur after 1998 — the date that the proposed amendments that include the addition of the words "the day that includes" are proposed to come into effect.

2. Application of Section 116

You have noted that there is a concern that where a Transferor acquires its own shares or units in exchange for units of a Transferee in the course of a qualifying exchange, section 116 of the Act may apply to impose a reporting and withholding obligation. Section 116 generally applies when a non-resident person disposes of taxable Canadian property that is not excluded property. If the Transferor is a mutual fund trust or a mutual fund corporation at the time of the exchange by a non-resident unitholder or shareholder of the Transferor, the shares or units of the Transferor that the unitholder disposes of will generally not be taxable Canadian property at that time and therefore section 116 would not be applicable. However, your concern arises because paragraph 132.2(3)(*n*) deems the Transferor not to be a mutual fund corporation or a mutual fund trust, as the case may be, for its taxation years beginning after the transfer time. Pursuant to paragraph 132.2(3)(*b*), the first taxation year of the Transferor after the transfer time begins immediately after the "acquisition time". Given that the Act provides that the exchange may occur within 60 days after the transfer time, it is possible that the exchange will occur after the acquisition time — generally the time that the Transferee is treated as having acquired the property (other than depreciable property) transferred to it by the Transferor — and thus that the shares or units of the Transferor will be taxable Canadian property.

From a policy perspective it is not intended that the exchange of units or shares of a Transferor for units of the Transferee by a non-resident in the course of a qualifying exchange should be subject to section 116. As a result, we are prepared to recommend that the Act be amended to ensure that such a transaction is not subject to section 116. Given that this is an unintended technical deficiency in the Act, we will recommend that the amendment be applicable to qualifying exchanges that occur after June 1994, the date the mutual fund merger rules were introduced.

3. Application of Part XIII.2

You have also noted that there is a concern that where a Transferor acquires its own shares or units in exchange for units of a Transferee in the course of a qualifying exchange, Part XIII.2 of the Act may apply to impose a 15% tax. Unlike the discussion above, the concern arises only if the exchange occurs prior to the acquisition time, when the Transferor is a mutual fund trust or a mutual fund corporation. In general, Part XIII.2 will apply only if the units or shares of the Transferor are listed on a prescribed stock exchange and their value is primarily attributable to real property in Canada, Canadian resource property or timber resource property. If the units or shares meet those conditions, a 15% tax will apply to any amount that is paid or credited to a non-resident investor that is not otherwise subject to tax under Part I or Part XIII.2.

From a policy perspective it is not intended that the exchange of units or shares of a Transferor for units of the Transferee by a non-resident in the course of a qualifying exchange should be subject to Part XIII.2. As a result, we are prepared to recommend that the Act be amended to ensure that such a transaction is not subject to Part XIII.2. We will recommend that the amendment be applicable to qualifying exchanges that occur after 2004, the date Part XIII.2 was introduced.

In conclusion, we will recommend to the Minister of Finance that the Act be amended as discussed above to clarify the commencement of the 60-day period and to clarify that the exchange of units or shares of a Transferor for units of the Transferee by a non-resident in the course of a qualifying exchange is not subject to section 116 or Part XIII.2.

While we cannot offer any assurance that the Minister or Parliament will agree with our recommendation in this regard, I hope that this statement of our position is helpful to you.

Yours sincerely,

Brian Ernewein
Director

Tax Legislation Division
Tax Policy Branch

Non-Resident-Owned Investment Corporations

SECTION 133:

► 133(1) ◄

(1) Computation of income. In computing the income of a non-resident-owned investment corporation for a taxation year,

(*a*) no deduction may be made in respect of interest on its bonds, debentures, securities or other indebtedness, and

(*b*) no deduction may be made under subsection 65(1),

and its income and taxable income shall be computed as if

(*c*) the only taxable capital gains and allowable capital losses referred to in paragraph 3(*b*) were from dispositions of taxable Canadian property,

(*d*) any taxable capital gain or allowable capital loss of the corporation were an amount equal to twice the amount thereof otherwise determined, and

(*e*) subsection 83(2) were read without reference to paragraph 83(2)(*b*).

History: S. 133(1)(*c*) was amended by S.C. 2001, c. 17, s. 131(1), applicable after October 1, 1996. S. 133(1)(*c*) formerly read:

"(*c*) the only taxable capital gains and allowable capital losses referred to in paragraph 3(*b*) were taxable capital gains and allowable capital losses from dispositions of taxable Canadian property or property that would be taxable Canadian property if at no time in the year the corporation had been resident in Canada,"

S. 133(1)(*d*) was amended by S.C. 2001, c. 17, s. 131(2), by replacing the reference to the expression "4/3 of" with a reference to the word "twice", applicable to taxation years that end after February 27, 2000 except that, for the taxation year of a corporation that includes February 28, 2000 or October 17, 2000, or began after February 28, 2000 and ended before October 17, 2000, the reference to the word "twice" in paragraph 133(1)(*d*) of the Act shall be read as a reference to the expression "the fraction that is the reciprocal of the fraction in paragraph 38(*a*), as enacted by subsection 22(1) of the *Income Tax Amendments Act, 2000* [S.C. 2001, c. 17], that applies to the taxpayer for the year, multiplied by".

Tax Topics: No. 1618, The End of the NRO.

► 133(2) ◄

(2) Non-resident-owned investment corporations. In computing the taxable income of a non-resident-owned investment corporation for a taxation year, no deduction may be made from its income for the year, except

(*a*) interest received in the year from other non-resident-owned investment corporations;

(*b*) taxes paid to the government of a country other than Canada in respect of any part of the income of the corporation for the year derived from sources therein; and

(*c*) net capital losses as provided for by section 111.

Related Sections: S. 133(9), "allowable refundable tax on hand", "cumulative taxable income".

► 133(3) ◄

(3) Special tax rate. The tax payable under this Part by a corporation for a taxation year when it was a non-resident-owned investment corporation is an amount equal to 25% of its taxable income for the year.

► 133(4) ◄

(4) No deduction for foreign taxes. No deduction from the tax payable under this Part by a non-resident-owned investment corporation may be made under section 124 or in respect of taxes paid to the government of a country other than Canada.

Related Sections: S. 113(3) Definitions; s. 133(1) Computation of income; s. 133(2) Non-resident-owned investment corporations; s. 133(8), "non-resident-owned investment corporation".

► 133(5) ◄

(5) 1971 undistributed income and capital surplus on hand. [Repealed by 1977-78, c. 1, s. 66(1), applicable after December 31, 1978.]

► 133(6) ◄

(6) Allowable refund to non-resident-owned investment corporations. If the return of a non-resident-owned investment corporation's income for a taxation year has been made within 3 years from the end of the year, the Minister

(*a*) may, on mailing the notice of assessment for the year, refund without application therefor its allowable refund for the year; and

(*b*) shall, with all due dispatch, make that allowable refund after mailing the notice of assessment if an application for it has been made in writing by the corporation within the period within which the Minister would be allowed under subsection 152(4) to assess tax payable by the corporation for the year if that subsection were read without reference to paragraph 152(4)(*a*).

History: S. 133(6)(*b*) was amended by S.C. 1998, c. 19, s. 160(1), applicable after April 27, 1989. Paragraph (*b*) formerly read:

"(*b*) shall, with all due dispatch, make such a refund after mailing the notice of assessment if application therefor has been made in writing by the corporation within the period determined under paragraph 152(4)(*b*) or (*c*), as the case may be, within which the Minister may reassess tax payable by the corporation for the year."

Related Sections: S. 133(7) Application to other liability.

► 133(7) ◄

(7) Application to other liability. Instead of making a refund that might otherwise be made under subsection (6), the Minister may, where the taxpayer is liable or about to become liable to make any payment under this Act, apply the amount that would otherwise be refunded to that other liability and notify the taxpayer of that action.

► 133(7.01) ◄

(7.01) Interest on allowable refund. Where an allowable refund for a taxation year is paid to, or applied to a liability of, a non-resident-owned investment corporation, the Minister shall pay or apply interest on the refund at the prescribed rate for the period beginning on the day that is the later of

(*a*) the day that is 120 days after the end of the year, and

(*b*) the day that is 30 days after the day on which the corporation's return of income under this Part for the year was filed under section 150, unless the return was filed on or before the day on or before which it was required to be filed,

and ending on the day the refund is paid or applied.

History: S. 133(7.01)(*b*) was replaced by S.C. 2003, c. 15, s. 114(1), applicable to taxation years that end after June 2003. S. 133(7.01)(*b*) formerly read:

"(*b*) the day on which the corporation's return of income under this Part for the year was filed under section 150, unless the return was filed on or before the day on or before which it was required to be filed,"

S. 133(7.01) was added by S.C. 1994, c. 7, Sched. VIII, s. 78(1), applicable to allowable refunds paid or applied with respect to taxation years beginning after 1991.

Related Sections: S. 161.1 Refund interest.
Regulations: 4301.

► 133(7.02) ◄

(7.02) Excess interest on allowable refund. Where at any particular time interest has been paid to, or applied to a liability of, a corporation under subsection (7.01) in respect of an allowable refund and it is determined at a subsequent time that the allowable refund was less than that in respect of which interest was so paid or applied,

(*a*) the amount by which the interest that was so paid or applied exceeds the interest, if any, computed in respect of the amount that is determined at the subsequent time to be the allowable refund shall be deemed to be an amount (in this subsection referred to as the "amount payable") that became payable under this Part by the corporation at the particular time;

(*b*) the corporation shall pay to the Receiver General interest at the prescribed rate on the amount payable, computed from the particular time to the day of payment; and

(*c*) the Minister may at any time assess the corporation in respect of the amount payable and, where the Minister makes such an assessment, the provisions of Divisions I and J apply, with such modifications as the circumstances require, in respect of the assessment as though it had been made under section 152.

History: S. 133(7.02) was added by S.C. 1994, c. 7, Sched. VIII, s. 78(1), applicable to allowable refunds paid or applied with respect to taxation years beginning after 1991.

Related Sections: S. 161.1 Refund interest.
Regulations: 4301.

► 133(7.1) ◄

(7.1) Election re capital gains dividend. Where at any particular time after 1971 a dividend has become payable by a non-resident-owned investment corporation to shareholders of any class of shares of its capital stock, if the corporation so elects in respect of the full amount of the dividend, in prescribed manner and prescribed form and at or before the particular time or the first day on which any part of the dividend was paid if that day is earlier than the particular time, the following rules apply:

(*a*) the dividend shall be deemed to be a capital gains dividend to the extent that it does not exceed the corporation's capital gains dividend account immediately before the particular time; and

(*b*) any amount received by another non-resident-owned investment corporation in a taxation year as, on account or in lieu of payment of, or in satisfaction of the capital gains dividend shall not be included in computing its income for the year.

Related Sections: S. 83(2) Capital dividend; s. 89(1) Capital dividend account; s. 115(1)(*b*) Non-resident's taxable income in Canada; s. 133(7.2) Simultaneous dividends; s. 133(7.3) Application of ss. 131(1.1) to (1.4); s. 133(8), "Canadian property", "capital gains dividend account", "taxable dividend"; s. 212(2) Tax on dividends.
Regulations: 2105.
Interpretation Bulletins: *Secondary* — IT-149R4 Winding-up dividend.
Forms: T5 Sum.; T5; T2063.

► 133(7.2) ◄

(7.2) Simultaneous dividends. Where a dividend becomes payable at the same time on more than one class of shares of the capital stock of a non-resident-owned investment corporation, for the purposes of subsection (7.1), the dividend on any such class of shares shall be deemed to become payable at a different time than the dividend on the other class or classes of shares and to become payable in the order designated

(*a*) by the corporation on or before the day on or before which the election described in subsection (7.1) is required to be filed; or

(*b*) in any other case, by the Minister.

► 133(7.3) ◄

(7.3) Application of ss. 131(1.1) to (1.4). Where at any particular time a non-resident-owned investment corporation paid a dividend to its shareholders and subsection (7.1) would have applied to the dividend except that the corporation did not make an election under that subsection on or before the day on or before which it was required by that subsection to be made, subsections 131(1.1) to (1.4) apply with such modifications as the circumstances require.

► 133(7.4) ◄

(7.4) Request to make election. [Repealed by 1985, c. 45, s. 77.]

► 133(7.5) ◄

(7.5) Penalty. [Repealed by 1985, c. 45, s. 77.]

► 133(7.6) ◄

(7.6) Assessment and payment of penalty. [Repealed by 1985, c. 45, s. 77.]

► 133(8) ◄

(8) Definitions. In this section,

"*allowable refund*" — "allowable refund" of a non-resident-owned investment corporation for a taxation year means the total of amounts each of which is an amount in respect of a taxable dividend paid by the corporation in the year on a share of its capital stock, determined by the formula

$$\frac{A}{B} \times C$$

where

A is the corporation's allowable refundable tax on hand immediately before the dividend was paid,

B is the greater of the amount of the dividend so paid and the corporation's cumulative taxable income immediately before the dividend was paid, and

C is the amount of the dividend so paid;

"*Canadian property*" — "Canadian property" means

(*a*) taxable Canadian property, and

(*b*) any other property not being foreign property within the meaning assigned by section 206;

History: S. 133(8), paragraph (*a*) of the definition "Canadian property" was amended by S.C. 2001, c. 17, s. 131(3), applicable after October 1, 1996. S. 133(8), paragraph (*a*) of the definition "Canadian property" formerly read:
"(*a*) property of a corporation that would be taxable Canadian property if at no time in the year the corporation had been resident in Canada, and"

"*capital gains dividend account*" — "capital gains dividend account" of a non-resident-owned investment corporation at any particular time means the amount determined by the formula

$$A - B$$

where

A is the total of the following amounts in respect of the period commencing January 1, 1972 and

ending immediately after the corporation's last taxation year ending before the particular time:

(*a*) the corporation's capital gains for taxation years ending in the period from dispositions in the period of Canadian property or shares of another non-resident-owned investment corporation, and

(*b*) amounts received by the corporation in the period as, on account or in lieu of payment of, or in satisfaction of capital gains dividends from other non-resident-owned investment corporations, and

B is the total of the following amounts in respect of the period referred to in the description of A:

(*a*) the corporation's capital losses for taxation years ending in the period from dispositions in the period of Canadian property or shares of another non-resident-owned investment corporation,

(*b*) all capital gains dividends that became payable by the corporation before the particular time, and

(*c*) the amount determined by the formula

$$0.25 \times (M - N)$$

where

M is the total of the corporation's capital gains for taxation years ending in the period from dispositions in the period of taxable Canadian property, and

N is the total of the corporation's capital losses for the taxation years ending in the period from dispositions in the period of property of the kinds referred to in the description of M;

History: S. 133(8), the description of M in paragraph (*c*) of the definition "capital gains dividend account" was amended by S.C. 2001, c. 17, s. 131(4), applicable after October 1, 1996. S. 133(8), the description of M in paragraph (*c*) of the definition "capital gains dividend account" formerly read:

"M is the total of the corporation's capital gains for taxation years ending in the period from dispositions in the period of taxable Canadian property or property that would be taxable Canadian property if at no time in the period the corporation had been resident in Canada, and"

"increase in capital" — "increase in capital" in respect of a corporation means a transaction (other than a transaction carried out pursuant to an agreement in writing made before February 28, 2000, referred to in this definition as a "specified transaction") in the course of which the corporation issues additional shares of its capital stock or incurs indebtedness, if the transaction has the effect of increasing the total of

(*a*) the corporation's liabilities, and

(*b*) the fair market value of all the shares of its capital stock

to an amount that is substantially greater than that total would have been on February 27, 2000 if all specified transactions had been carried out immediately before that day;

History: S. 133(8), the definition "increase in capital" was added by S.C. 2001, c. 17, s. 131(6), applicable after February 27, 2000.

"non-resident-owned investment corporation" — "non-resident-owned investment corporation" means a corporation incorporated in Canada that, throughout the whole of the period commencing on the later of June 18, 1971 and the day on which it was incorporated and ending on the last day of the taxation year in respect of which the expression is being applied, complied with the following conditions:

(*a*) all of its issued shares and all of its bonds, debentures and other funded indebtedness were

(i) beneficially owned by non-resident persons (other than any foreign affiliate of a taxpayer resident in Canada),

(ii) owned by trustees for the benefit of non-resident persons or their unborn issue, or

(iii) owned by a non-resident-owned investment corporation, all of the issued shares of which and all of the bonds, debentures and other funded indebtedness of which were beneficially owned by non-resident persons or owned by trustees for the benefit of non-resident persons or their unborn issue, or by two or more such corporations,

(*b*) its income for each taxation year ending in the period was derived from

(i) ownership of, or trading or dealing in, bonds, shares, debentures, mortgages, hypothecary claims, bills, notes or other similar property or any interest therein,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph (*b*)(i) of the definition "non-resident-owned investment corporation" in subsection 133(8) of the Act is replaced by the following:

(i) ownership of, or trading or dealing in, bonds, shares, debentures, mortgages, hypothecary claims, bills, notes or other similar property or any interest, or for civil law any right, therein,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(ii) lending money with or without security,

(iii) rents, hire of chattels, charterparty fees or remunerations, annuities, royalties, interest or dividends,

(iv) estates or trusts, or

(v) disposition of capital property,

(*c*) not more than 10% of its gross revenue for each taxation year ending in the period was derived from rents, hire of chattels, charterparty fees or charterparty remunerations,

(*d*) its principal business in each taxation year ending in the period was not

(i) the making of loans, or

(ii) trading or dealing in bonds, shares, debentures, mortgages, hypothecary claims, bills, notes or other similar property or any interest therein,

(*e*) it has, on or before the earlier of February 27, 2000 and the day that is 90 days after the beginning of its first taxation year that begins after 1971, elected in

prescribed manner to be taxed under this section, and

(*f*) it has not, before the end of the last taxation year in the period, revoked in prescribed manner its election,

except that

(*g*) a new corporation (within the meaning assigned by section 87) formed as a result of an amalgamation after June 18, 1971 of two or more predecessor corporations is not a non-resident-owned investment corporation unless each of the predecessor corporations was, immediately before the amalgamation, a non-resident-owned investment corporation,

(*h*) where a corporation is a new corporation described in paragraph (*g*), and each of the predecessor corporations elected in a timely manner under paragraph (*e*), paragraph (*e*) shall be read, in its application to the new corporation, without reference to the words "the earlier of February 27, 2000 and", and

(*i*) subject to section 134.1, a corporation is not a non-resident-owned investment corporation in any taxation year that ends after the earlier of,

(i) the first time, if any, after February 27, 2000 at which the corporation effects an increase in capital, and

(ii) the corporation's last taxation year that begins before 2003;

History: S. 133(8), subparagraph (*b*)(i) of the definition "non-resident owned investment corporation" was amended by S.C. 2001, c. 17, s. 215(1), applicable on Royal Assent, June 14, 2001. S. 133(8), subparagraph (*b*)(i) of the definition "non-resident owned investment corporation" formerly read:

"(i) ownership of or trading or dealing in bonds, shares, debentures, mortgages, bills, notes or other similar property or any interest therein,"

S. 133(8), subparagraph (*d*)(ii) of the definition "non-resident owned investment corporation" was amended by S.C. 2001, c. 17, s. 215(2), applicable on Royal Assent, June 14, 2001. S. 133(8), subparagraph (*d*)(ii) of the definition "non-resident owned investment corporation" formerly read:

"(ii) trading or dealing in bonds, shares, debentures, mortgages, bills, notes or other similar property or any interest therein,"

S. 133(8), the portion of the definition "non-resident-owned investment corporation" after paragraph (*d*) was amended by S.C. 2001, c. 17, s. 131(5), applicable after February 27, 2000. S. 133(8), the portion of the definition "non-resident-owned investment corporation" after paragraph (*d*) formerly read:

"(*e*) it has, not later than 90 days after the commencement of its first taxation year commencing after 1971, elected in prescribed manner to be taxed under this section, and

(*f*) it has not, before the end of the last taxation year in the period, revoked in prescribed manner the election so made by it,

except that in no case shall a new corporation (within the meaning assigned by section 87) formed as a result of an amalgamation after June 18, 1971 of two or more predecessor corporations be regarded as a non-resident-owned investment corporation unless each of the predecessor corporations was, immediately before the amalgamation, a non-resident-owned investment corporation;"

Related Sections: ITAR s. 59(2) Non-resident-owned investment corporation.

Regulations: 500; 501; 502.

Interpretation Bulletins: *Primary* — IT-290 Non-resident-owned investment corporation — Meaning of principal business [Archived by the CRA]; *Secondary* — IT-465R Non-resident beneficiaries of trusts.

Forms: T2Sch97.

Tax Topics: No. 1618, The End of the NRO.

"taxable dividend" — "taxable dividend" does not include a capital gains dividend.

► 133(9) ◄

(9) Definitions. In the definition "allowable refund" in subsection (8),

"allowable refundable tax on hand" — "allowable refundable tax on hand" of a corporation at any particular time means the amount determined by the formula

$$(A + B + C) - (D + E + F)$$

where

A is the total of all amounts each of which is an amount in respect of any taxation year commencing after 1971 and ending before the particular time, equal to the tax under this Part payable by the corporation for the year,

B is an amount equal to 15% of the amount determined for B in the definition "cumulative taxable income" in this subsection in respect of the corporation,

C where the corporation's 1972 taxation year commenced before 1972, is an amount equal to 10% of the amount that would be determined for C in the definition "cumulative taxable income" in this subsection if the reference in the description of C in that definition to "the 1972 taxation year or any taxation year commencing after 1971 and ending before the particular time" were read as a reference to "the 1972 taxation year",

D is the total of all amounts each of which is an amount, in respect of the 1972 taxation year or any taxation year commencing after 1971 and ending before the particular time, determined by the formula

$$0.25 \times [L - (M + N)]$$

where

L is the total of the corporation's taxable capital gains for the year from dispositions after 1971 of property described in paragraph (1)(*c*), computed in accordance with the assumption set out in paragraph (1)(*d*),

M is the total of the corporation's allowable capital losses for the year from dispositions after 1971 of property described in paragraph (1)(*c*), computed in accordance with the same assumption, and

N is the amount deductible from the corporation's income for the year by virtue of paragraph (2)(*c*),

E is the total of all amounts each of which is an amount equal to 1/3 of any amount paid or credited by the corporation after the commencement of its 1972 taxation year and before the particular time, as, on account or in lieu of payment of, or in satisfaction of interest, and

F is the total of all amounts each of which is an amount in respect of any taxable dividend paid by the corporation on a share of its capital stock before the particular time and after the commencement of its first taxation year commencing after 1971, equal to the amount in respect of the dividend determined under the definition "allowable refund" in subsection (8);

Related Sections: S. 87(2)(*cc*) Non-resident-owned investment corporation.

"cumulative taxable income" — "cumulative taxable income" of a corporation at any particular time means the amount determined by the formula

$$(A + B) - (C + D + E)$$

where

A is the total of the corporation's taxable incomes for taxation years commencing after 1971 and ending before the particular time,

B where the corporation's 1972 taxation year commenced before 1972, is the amount determined by the formula

$$L - (M + N)$$

where

L is the corporation's taxable income for its 1972 taxation year,

M is the total of all amounts received by the corporation as described in paragraph 196(4)(*b*), and

N is the lesser of the amount determined under paragraph 196(4)(*e*) in respect of the corporation and the amount, if any, by which the total of amounts determined under paragraphs 196(4)(*d*) to (*f*) in respect of the corporation exceeds the total of amounts determined under paragraphs 196(4)(*a*) to (*c*) in respect of the corporation,

C is the total of all amounts each of which is an amount, in respect of the 1972 taxation year or any taxation year commencing after 1971 and ending before the particular time, determined by the formula

$$P - (Q + R)$$

where

P is the total of the corporation's taxable capital gains for the year from dispositions after 1971 of property described in paragraph (1)(*c*), computed in accordance with the assumption set out in paragraph (1)(*d*),

Q is the total of the corporation's allowable capital losses for the year from dispositions after 1971 of property described in paragraph (1)(*c*), computed in accordance with the same assumption, and

R is the amount deductible from the corporation's income for the year by virtue of paragraph (2)(*c*),

D is the total of all amounts each of which is an amount equal to 4/3 of any amount paid or credited by the corporation, after the commencement of its 1972 taxation year and before the particular time, as, on account or in lieu of payment of, or in satisfaction of interest, and

E is the total of all amounts each of which is the amount of any taxable dividend paid by the corporation on a share of its capital stock before the particular time and after the commencement of its first taxation year commencing after 1971.

Related Sections: S. 2(2) Taxable income; s. 38 Taxable capital gain and allowable capital loss; s. 39, "capital gain", "capital loss"; s. 54, "capital property"; s. 89(1), "taxable dividend"; s. 95(1), "foreign affiliate"; s. 104(1) Reference to trust or estate; s. 111(8), "net capital loss"; s. 133(8), "non-resident-owned investment corporation"; s. 157(3) Reduced instalments; s. 248(1), "amount", "annuity", "assessment", "corporation", "dividend", "gross revenue", "non-resident", "prescribed", "property", "share", "taxable Canadian property"; s. 255 Canada.

SECTION 134: Non-resident-owned corporation not a Canadian corporation, etc.

Notwithstanding any other provision of this Act, a non-resident-owned investment corporation that would, but for this section, be a Canadian corporation, taxable Canadian corporation or private corporation shall be deemed not to be a Canadian corporation, taxable Canadian corporation or private corporation, as the case may be, except for the purposes of section 87, subsection 88(2) and sections 212.1 and 219.

Related Sections: S. 83(1) Qualifying dividends; s. 87 Amalgamations; s. 89(1), "Canadian corporation", "private corporation"; s. 133(8), "non-resident-owned investment corporation"; s. 219 Branch tax.

SECTION 134.1:

► 134.1(1) ◄

(1) NRO — transition. This section applies to a corporation that

(*a*) was a non-resident-owned investment corporation in a taxation year;

(*b*) is not a non-resident-owned investment corporation in the following taxation year (in this section referred to as the corporation's "first non-NRO year"); and

(*c*) elects in writing filed with the Minister on or before the corporation's filing-due date for its first non-NRO year to have this section apply.

History: S. 134.1(1) was added by S.C. 2001, c. 17, s. 132(1), applicable to a corporation that ceases to be a non-resident-owned investment corporation because of a transaction or event that occurs, or a circumstance that arises, in a taxation year of the corporation that ends after February 27, 2000.

Sec. 132(4), Chap. 17, S.C. 2001

(4) An election under paragraph 134.1(1)(*c*) or 134.2(1)(*b*) of the Act is deemed to have been made in a timely manner if it is made on or before the electing corporation's filing-due date for its first taxation year that ends after this Act receives royal assent.

► 134.1(2) ◄

(2) Application. A corporation to which this section applies is deemed to be a non-resident-owned investment corporation in its first non-NRO year for the purposes of applying, in respect of dividends paid on shares of its capital stock in its first non-NRO year to a non-resident person or a non-resident-owned investment corporation, subsections 133(6) to (9) (other than the definition "non-resident-owned investment corporation" in subsection 133(8)) and section 212 and any tax treaty.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 134.1(2) of the Act is replaced by the following:

(2) Application. For the purposes of applying subsections 104(10) and (11) and 133(6) to (9) (other than the definition "non-resident-owned investment corporation" in subsection 133(8)), section 212 and any tax treaty, a corporation described in subsection (1) is deemed to be a non-resident-owned investment corporation in its first non-NRO year in respect of dividends paid in that year on shares of its capital

stock to a non-resident person, to a trust for the benefit of non-resident persons or their unborn issue or to a non-resident-owned investment corporation.

Applicable: To a corporation that ceases to be a non-resident-owned investment corporation because of a transaction or an event that occurs, or a circumstance that arises, in a taxation year of the corporation that ends after February 27, 2000.

Explanatory Note: Section 134.1 of the Act was enacted, along with section 134.2, in 2001 to provide transitional relief for corporations that cease to be non-resident owned investment corporations (NROs). The essence of the relief provided in section 134.1 is to allow such a corporation to recover refundable tax by paying a dividend in its "first non-NRO year". In its current form, the section applies only in respect of dividends paid to a non-resident person or another NRO. There is, however, another kind of shareholder to whom an NRO may pay a dividend in respect of which it is appropriate to apply the section — a trust for the benefit of non-resident persons or their unborn issue. Since such a trust could, under the rules that have governed NROs themselves, have held the shares and debt of an NRO, a dividend to the trust ought to support a refund of the former NRO's refundable tax. Subsection 134.1(2) is therefore amended to include such dividends within the section's scope.

In addition, subsections 104(10) and (11) of the Act are added to the list of provisions in subsection 134.1(2) for which a former NRO is deemed to be an NRO during its first non-NRO year. Prior to the repeal of the NRO system, a trust that received a dividend from an NRO and that did not in turn distribute the amount of the dividend to its non-resident beneficiaries was entitled to deduct that amount from the trust's income under subsection 104(10). Subsection 104(11) then deemed the amount deducted under subsection 104(10) to have been paid to a non-resident beneficiary, with the result that Part XIII withholding tax would typically be payable. These two subsections are included in subsection 134.1(2) in order to allow a trust to benefit from these provisions in the year it receives the final payment of dividends from the former NRO.

Both of these amendments apply on the same basis as section 134.1: that is, to a corporation that ceases to be an NRO because of a transaction or event that occurs, or a circumstance that arises, in a taxation year of the corporation that ends after February 27, 2000.

History: S. 134.1(2) was added by S.C. 2001, c. 17, s. 132(1), applicable to a corporation that ceases to be a non-resident-owned investment corporation because of a transaction or event that occurs, or a circumstance that arises, in a taxation year of the corporation that ends after February 27, 2000.

SECTION 134.2:

► 134.2(1) ◄

(1) Revocation. This section applies to a corporation that

(*a*) revokes at any time (in this section described as the "revocation time") its election to be taxed under section 133;

(*b*) elects to have this section apply, by filing an election in writing with the Minister on or before the corporation's filing-due date for the taxation year of the corporation (in this section referred to as the "revocation year") that would have included the revocation time if the corporation had not so elected; and

(*c*) specifies in the election a time (in this section referred to as the "elected time") that is in the revocation year and is not after the revocation time.

History: S. 134.2(1) was added by S.C. 2001, c. 17, s. 132(1), applicable to revocations made after February 27, 2000.

Sec. 132(4), Chap. 17, S.C. 2001

(4) An election under paragraph 134.1(1)(*c*) or 134.2(1)(*b*) of the Act is deemed to have been made in a timely manner if it is made on or before the electing corporation's filing-due date for its first taxation year that ends after this Act receives royal assent.

► 134.2(2) ◄

(2) Consequences. Where this section applies to a corporation,

(*a*) the corporation's taxation year that would have included the elected time, if the corporation had not elected to have this section apply, is deemed to end immediately before the elected time;

(*b*) a new taxation year of the corporation is deemed to begin at the elected time; and

(*c*) notwithstanding paragraph (*f*) of the definition "non-resident-owned investment corporation" in subsection 133(8), the corporation is deemed to be a non-resident-owned investment corporation for the period that begins at the beginning of the revocation year and ends immediately before the elected time.

History: S. 134.2(2) was added by S.C. 2001, c. 17, s. 132(1), applicable to revocations made after February 27, 2000.

Patronage Dividends

SECTION 135:

► 135(1) ◄

(1) Deduction in computing income. Notwithstanding anything in this Part, other than subsections (1.1) to (2.1) and 135.1(3), there may be deducted, in computing the income of a taxpayer for a taxation year, the total of the payments made, pursuant to allocations in proportion to patronage, by the taxpayer

(*a*) within the year or within 12 months thereafter to the taxpayer's customers of the year; and

(*b*) within the year or within 12 months thereafter to the taxpayer's customers of a previous year, the deduction of which from income of a previous taxation year was not permitted.

History: S. 135(1), the portion before paragraph (*a*) was replaced by S.C. 2006, c. 4, s. 79(1), applicable after 2005.

S. 135(1), the portion before paragraph (*a*) formerly read:

"S. 135. (1) *Deduction in computing income.* Notwithstanding anything in this Part, other than subsections (1.1) to (2.1), there may be deducted, in computing the income of a taxpayer for a taxation year, the total of the payments made, pursuant to allocations in proportion to patronage, by the taxpayer"

S. 135(1), the portion before paragraph (*a*) was replaced by S.C. 2005, c. 19, s. 32(1), applicable in respect of payments made by a taxpayer after March 22, 2004. S. 135(1), the portion before paragraph (*a*) formerly read:

"S. 135. (1) *Deduction in computing income.* Notwithstanding anything in this Part, there may be deducted, in computing the income of a taxpayer for a taxation year, the total of the payments made, pursuant to allocations in proportion to patronage, by the taxpayer"

Related Sections: S. 20(1)(*u*) Patronage dividends; s. 135(2) Limitation where non-member customer; s. 135(4), "allocation in proportion to patronage", "customer", "payment"; s. 212(1)(*g*) Patronage dividend.
Regulations: 218.
Interpretation Bulletins: *Primary* — IT-362R Patronage dividends. *Secondary* — IT-493 Agency cooperative corporations [Archived by the CRA].
Forms: T2 SCH 16.
Tax Profile: November 2004 — New Restrictions Repeal Patronage Deduction for Canadian Corporations.

► 135(1.1) ◄

(1.1) Limitation where non-arm's length customer. Subsection (1) applies to a payment made by a taxpayer to a customer with whom the taxpayer does not deal at arm's length only if

(*a*) the taxpayer is a cooperative corporation described in subsection 136(2) or a credit union; or

(*b*) the payment is prescribed.

Department of Finance Comfort Letter [Patronage Dividends]

October 23, 2007

Dear XXXX

I am responding to your September 7, 2007 letter to Brian Ernewein regarding our December 6, 2004 and October 11, 2005 letters to you and certain corporate reorganizations that have occurred (or will occur) this year.

In our December 6, 2004 letter we agreed to recommend to the Minister of Finance that the patronage payments from XXXX and XXXX be prescribed payments for the purpose of subsection 135(1.1) of the *Income Tax Act* (the "Act"). Following certain corporate reorganizations in 2004 and 2005 — the amalgamation of XXXX with a holding company and XXXX being continued under the *Canada Business Corporation Act* (CBCA) as XXXX — we further agreed in our October 11, 2005 letter to recommend to the Minister of Finance that the patronage dividends from amalgamated XXXX to XXXX and XXXX Inc. be prescribed payments for the purpose of subsection 135(1.1) of the Act.

In the past year XXXX acquired XXXX. You indicate that on May 29, 2007 XXXX was successful in its takeover bid and acquired, pursuant to a cash offer, approximately 82% of the common shares of XXXX and approximately half of its outstanding preferred shares. On June 15, 2007 XXXX completed its acquisition of the balance of XXXX common and preferred shares. As a result, XXXX is now a wholly-owned subsidiary of XXXX and XXXX has been continued as a XXXX corporation. In addition , it is anticipated the XXXX will be amalgamated with XXXX Inc. ("Amalco") on November 1, 2007 and the amalgamated company will use the business name XXXX.

You have requested that payments by amalgamated XXXX to Amalco XXXX qualify as prescribed payments for the purpose of subsection 135(1.1). As discussed in the technical note accompanying subsection 135(1.1) of the Act, the concept of a prescribed payment was introduced to accommodate cooperative structures that would, but for non-substantive technical reasons, satisfy the definition of a cooperative corporation. While XXXX is a federally incorporated co-operative under the *Canada Co-operative Act*, it is unable to meet the member test in paragraph 136(2)(*c*) of the Act which requires that 90% of its members be individuals, other cooperative corporations, or corporations or partnerships that carry on the business of farming.

XXXX currently has two active members XXXX and XXXX and two inactive members being a subsidiary of each of XXXX and XXXX. You have indicated that as a result of the amalgamation Amalco will be XXXX only active member and will continue to be entitled to patronage payments for business done with XXXX. There will be no other changes to existing circumstances. Amalco proposes to continue the combined agri-business of the XXXX predecessor members essentially as before except for the disposition of various assets pursuant to a consent agreement with the Canadian Competition Bureau.

In addition, you have indicated that Amalco will continue XXXX Inc.'s existing governance structure. In particular, prairie farmers will have a strong voice in the business of Amalco and will continue to participate in the governance of Amalco by electing a minority of directors through the XXXX currently receives operational funding from XXXX Inc. and after amalgamation will receive funding from Amalco.

Following the completion of the amalgamation, the final structure will have been transformed considerably from the original structure described in your September 7, 2004 letter, although the business operations carried on by XXXX members have remained essentially the same. After careful consideration we intend to recommend to the Minister of Finance that patronage payments by amalgamated XXXX to Amalco be prescribed payments for the purpose of subsection 135(1.1).

This recommendation relies on your representations that (i) Amalco proposes to continue the combined agri-business of the XXXX predecessor members essentially as before, (ii) prairie farmers will participate in the governance of Amalco and (iii) XXXX will continue to receive funding from Amalco. Should these be any material changes to these or other salient aspects of the planned structure we expect that you will advise us so that we may have the opportunity to reconsider the appropriateness of our recommendation.

While we cannot offer any assurance that our recommendation in this matter will be accepted, we hope our statement of intent in this letter will be helpful in responding to your concern.

Yours sincerely,

Gerard Lalonde
Director
Tax Legislation Division
Tax Policy Branch

Department of Finance Comfort Letter [Patronage Dividends — Prescribed Payments]

October 11, 2005

Dear XXXX,

I am responding to your April 7, 2005 letter and subsequent discussions with Stephanie Smith of this Division regarding our December 6, 2004 letter to you and certain corporate reorganizations that have occurred since the date of our letter. In our December 6, 2004 letter we agreed to recommend to the Minister of Finance that the patronage payments from XXXX to XXXX and XXXX carrying on business as XXXX be prescribed payments for the purpose of subsection 135(1.1) of the *Income Tax Act* (the "Act"). Since that date XXXX has amalgamated with a holding company ("Holdco"), XXXX has been continued under the *Canada Business Corporations Act* (CBCA) as XXXX and both XXXX and XXXX have incorporated wholly owned subsidiaries. You have asked for our confirmation as to the effect of the planned prescription in these new circumstances.

You indicate that XXXX amalgamated with Holdco effective January 1, 2005 such that its members, XXXX and XXXX now directly own all of the shares of XXXX as to one membership share each and the remaining (non-membership) shares as to 57% and 43% respectively. In addition, both XXXX and XXXX have also incorporated wholly-owned subsidiaries which became members of XXXX as of January 1, 2005 and each holds one membership share. To date neither of the subsidiaries has commenced carrying on a business.

The second reorganization relates to the recapitalization of XXXX which was completed on March 31, 2005. XXXX has been continued under the CBCA as XXXX. All of the existing shares were converted into a single class of common voting shares and debt of approximately $171 million owing to holders of convertible notes was exchanged for common voting shares. You indicate that XXXX. The reorganization was conducted to allow the company to raise the additional equity it requires to materially strengthen its financial position, improve its debt-to-equity ratio and provide greater flexibility to withstand extended periods of below average crop production. XXXX farming customers will continue to participate in the governance of XXXX by electing a minority of directors and through the establishment of a new cooperative, the XXXX will provide funding to XXXX.

You have asked that we prescribe patronage payments paid by amalgamated XXXX to XXXX and XXXX. As discussed in the technical note accompanying subsection 135(1.1) of the Act, the concept of a prescribed payment was introduced to accommodate cooperative structures that would, but for non-substantive technical reasons, satisfy the definition of a cooperative corporation. XXXX is unable to meet the member test in paragraph 136(2)(*c*) of the Act which requires that 90% of its members are individuals, other cooperative corporations, or corporations or partnerships that carry on the business of farming.

In accordance with our statement in the December 6 letter that in principle we were comfortable with extending the prescription to an amalgamated XXXX we confirm that we intend to recommend to the Minister of Finance that patronage payments from amalgamated XXXX to XXXX be prescribed payments. The recapitalization of XXXX and its continuance under the CBCA as XXXX is a more significant change. After having carefully considered the situation, we intend to recommend to the Minister of Finance that patronage payments from amalgamate) XXXX to XXXX be prescribed payments.

As discussed in our December 6, 2004 letter we are comfortable, in principle, with extending the prescription to patronage payments from XXXX to a wholly-owned subsidiary of either XXXX or XXXX. However, without having any information on the type of business carried on by the subsidiaries, we cannot definitively comment on whether such payments would be prescribed payments. Assuming one of the subsidiaries commenced carrying on one or more of the businesses currently carried on by its parent, it is likely that patronage payments from amalgamated XXXX to that subsidiary would receive a favourable recommendation in terms of prescription.

While we cannot offer any assurance that our recommendations in this matter will be accepted, we hope our statement of intent in this letter will be helpful in responding to your concern.

Yours sincerely,
Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 135(1.1) was added by S.C. 2005, c. 19, s. 32(2), applicable in respect of payments made by a taxpayer after March 22, 2004, [subject to the following application rules set out in subsections 32(4) to (8) of the amending bill, S.C. 2005, c. 19].

[32(4)] Subsection 135(1.1) does not apply to the portion, if any, of a qualifying payment in respect of a taxation year that

(*a*) can reasonably be regarded as having in commercial terms the nature of any one or more of an incentive payment, a rebate or a sales allowance; and

(*b*) would have been deductible under the Act in computing the income of the paying corporation for the taxation year if that portion had become payable in the taxation year as an incentive payment, a rebate or a sales allowance.

[32](5) For the purposes of (4) [above] and (6) [below], an amount paid by a corporation is a qualifying payment in respect of a taxation year if

(*a*) the taxation year began before March 23, 2004, and the amount is paid pursuant to a resolution that was passed by the corporation's Board of Directors before that date; and

(*b*) the corporation elects, in writing filed with the Minister of National Revenue on or before the day that is three months after the day on which this Act is assented to [August 13, 2005, Royal Assent May 13, 2005], to have this subsection apply to the payment.

[32](6) If a qualifying payment in respect of a taxation year was not paid within 12 months after the taxation year, but is paid on or before the day that is three months after the day on which this Act is assented to [August 13, 2005, Royal Assent May 13, 2005], for the purpose of applying section 135 of the Act and subsection (4) [above] to the taxpayer the amount is deemed to have been paid on March 23, 2004.

[32](7) If a corporation

(*a*) before March 23, 2004, recorded in writing its intention to deduct under section 135 of the Act an amount in computing its income for a taxation year the balance-due day for which is before that date,

(*b*) is liable to pay an amount of tax under Part I of the Act for the taxation year that exceeds the amount to which it would be so liable if the Act were read without reference to subsection 135(1.1), and

(*c*) pays to the Receiver General that excess amount within six months after this Act is assented to,

the corporation is, for the purpose of determining any interest or penalty payable by it under the Act, deemed to have paid that excess amount on its balance-due day for the taxation year.

[32](8) If a corporation

(*a*) before March 23, 2004 recorded in writing its intention to deduct under section 135 of the Act an amount in computing its income for a taxation year, and

(*b*) was required by Part I of the Act to pay before March 23, 2004 a part or instalment of tax that exceeds the amount it would have been so required to pay if the Act were read without reference to subsection 135(1.1),

the corporation is not liable to pay interest under subsection 161(2) of the Act, or to pay a penalty under section 163.1 of the Act, in respect of that excess.

Regulations: To date, no payments have been prescribed for subsection 135(1.1).

► 135(2) ◄

(2) Limitation where non-member customer. If a taxpayer has not made allocations in proportion to patronage in respect of all of the taxpayer's customers of the year, at the same rate, with appropriate differences for different types, classes, grades or qualities of goods, products or services, the amount that may be deducted by the taxpayer under subsection (1) is an amount equal to the lesser of

(*a*) the total of the payments mentioned in that subsection, and

(*b*) the total of

(i) the part of the income of the taxpayer for the year attributable to business done with members, and

(ii) the allocations in proportion to patronage made to non-member customers of the year.

History: S. 135(2), the portion before paragraph (*a*) was replaced by S.C. 2005, c. 19, s. 32(3), applicable in respect of payments made by a taxpayer after March 22, 2004. S. 135(2), the portion before paragraph (*a*) formerly read:

"(2) *Limitation where non-member customer.* Notwithstanding subsection (1), if the taxpayer has not made allocations in proportion to patronage in respect of all the taxpayer's customers of the year at the same rate, with appropriate differences for different types or classes of goods, products or services, or classes, grades or qualities thereof, the amount that may be deducted under subsection (1) is an amount equal to the lesser of"

Related Sections: S. 135(2.1) Deduction carried over; s. 135(4), "allocation in proportion to patronage", "customer", "income of the taxpayer attributable to business done with members", "member", "non-member customer".

► 135(2.1) ◄

(2.1) Deduction carried over. Where, in a taxation year ending after 1985, all or a portion of a payment made by a taxpayer pursuant to an allocation in proportion to patronage to the taxpayer's customers who are members is not deductible in computing the taxpayer's income for the year because of the application of subsection (2) (in this subsection referred to as the "undeducted amount"), there may be deducted in computing the taxpayer's income for a subsequent taxation year, an amount equal to the lesser of

(*a*) the undeducted amount, except to the extent that that amount was deducted in computing the taxpayer's income for any preceding taxation year, and

(*b*) the amount, if any, by which

(i) the taxpayer's income for the subsequent taxation year (computed without reference to this subsection) attributable to business done with the taxpayer's customers of that year who are members

exceeds

(ii) the amount deducted in computing the taxpayer's income for the subsequent taxation year by virtue of subsection (1) in respect of payments made by the taxpayer pursuant to allocations in proportion to patronage to the taxpayer's customers of that year who are members.

► 135(3) ◄

(3) Amount to be deducted or withheld from payment to customer. Subject to subsection 135.1(6), a taxpayer who makes at any particular time in a calendar year a payment pursuant to an allocation in proportion to patronage to a person who is resident in Canada and is not exempt from tax under section 149 shall, notwithstanding any agreement or any law to the contrary, deduct or withhold from the payment an amount equal to 15% of the lesser of the amount of the payment and the amount, if any, by which

(*a*) the total of the amount of the payment and the amounts of all other payments pursuant to allocations in proportion to patronage made by the tax-

payer to that person in the calendar year and before the particular time

exceeds

(*b*) $100,

and forthwith remit that amount to the Receiver General on behalf of that person on account of that person's tax under this Part.

History: S. 135(3), the portion before paragraph (*a*) was replaced by S.C. 2006, c. 4, s. 79(2), applicable after 2005.

S. 135(3), the portion before paragraph (*a*) formerly read:

"(3) *Amount to be deducted or withheld from payment to customer.* Where at any particular time in a calendar year and after 1971 a payment pursuant to an allocation in proportion to patronage is made by a taxpayer to a person who is resident in Canada and is not exempt from tax under section 149, the taxpayer shall, notwithstanding any agreement or any law to the contrary, deduct or withhold therefrom an amount equal to 15% of the lesser of the amount of the payment and the amount, if any, by which"

Related Sections: S. 135(2) Limitation where non-member customer; s. 135(6) Amount of payment to customer; s. 227.1(1) Liability of directors for failure to deduct.

► 135(4) ◄

(4) Definitions. For the purposes of this section and section 135.1,

History: S. 135(4), the portion before the definition "allocation in proportion to patronage" was replaced by S.C. 2006, c. 4, s. 79(3), applicable after 2005.

S. 135(4), the portion before the definition "allocation in proportion to patronage" formerly read:

"(4) *Definitions.* For the purposes of this section,"

"*allocation in proportion to patronage*" — "allocation in proportion to patronage" for a taxation year means an amount credited by a taxpayer to a customer of that year on terms that the customer is entitled to or will receive payment thereof, computed at a rate in relation to the quantity, quality or value of the goods or products acquired, marketed, handled, dealt in or sold, or services rendered by the taxpayer from, on behalf of or to the customer, whether as principal or as agent of the customer or otherwise, with appropriate differences in the rate for different classes, grades or qualities thereof, if

(*a*) the amount was credited

(i) within the year or within 12 months thereafter, and

(ii) at the same rate in relation to quantity, quality or value aforesaid as the rate at which amounts were similarly credited to all other customers of that year who were members or to all other customers of that year, as the case may be, with appropriate differences aforesaid for different classes, grades or qualities, and

(*b*) the prospect that amounts would be so credited was held out by the taxpayer to the taxpayer's customers of that year who were members or non-member customers of that year, as the case may be;

"*consumer goods or services*" — "consumer goods or services" means goods or services the cost of which was not deductible by the taxpayer in computing the income from a business or property;

"*customer*" — "customer" means a customer of a taxpayer and includes a person who sells or delivers goods or products to the taxpayer, or for whom the taxpayer renders services;

"*income of the taxpayer attributable to business done with members*" — "income of the taxpayer attributable to business done with members" of any taxation year means that proportion of the income of the taxpayer for the year (before making any deduction under this section) that the value of the goods or products acquired, marketed, handled, dealt in or sold or services rendered by the taxpayer from, on behalf of, or for members, is of the total value of goods or products acquired, marketed, handled, dealt in or sold or services rendered by the taxpayer from, on behalf of, or for all customers during the year;

"*member*" — "member" means a person who is entitled as a member or shareholder to full voting rights in the conduct of the affairs of the taxpayer (being a corporation) or of a corporation of which the taxpayer is a subsidiary wholly-owned corporation;

"*non-member customer*" — "non-member customer" means a customer who is not a member;

"*payment*" — "payment" includes

(*a*) the issue of a certificate of indebtedness or shares of the taxpayer or of a corporation of which the taxpayer is a subsidiary wholly-owned corporation if the taxpayer or that corporation has in the year or within 12 months thereafter disbursed an amount of money equal to the total face value of all certificates or shares so issued in the course of redeeming or purchasing certificates of indebtedness or shares of the taxpayer or that corporation previously issued,

(*b*) the application by the taxpayer of an amount to a member's liability to the taxpayer (including, without restricting the generality of the foregoing, an amount applied in fulfilment of an obligation of the member to make a loan to the taxpayer and an amount applied on account of payment for shares issued to a member) pursuant to a by-law of the taxpayer, pursuant to statutory authority or at the request of the member, or

(*c*) the amount of a payment or transfer by the taxpayer that, under subsection 56(2), is required to be included in computing the income of a member.

► 135(5) ◄

(5) Holding out prospect of allocations. For the purpose of this section a taxpayer shall be deemed to have held out the prospect that amounts would be credited to a customer of a taxation year by way of allocation in proportion to patronage, if

(*a*) throughout the year the statute under which the taxpayer was incorporated or registered, its charter, articles of association or by-laws or its contract with the customer held out the prospect that amounts would be so credited to customers who are members or non-member customers, as the case may be; or

(*b*) prior to the commencement of the year or prior to such other day as may be prescribed for the class of business in which the taxpayer is engaged, the taxpayer has published an advertisement in prescribed form in a newspaper or newspapers of general circulation throughout the greater part of the area in which the taxpayer carried on business holding out that prospect to customers who are members or non-member customers, as the case may be, and has filed copies of the newspapers with the Minister before the end of the 30th day of the taxation year

or within 30 days from the prescribed day, as the case may be.

Related Sections: S. 135(4), "allocation in proportion to patronage".

▶ 135(6) ◀

(6) Amount of payment to customer. For greater certainty, the amount of any payment pursuant to an allocation in proportion to patronage is the amount thereof determined before deducting any amount required by subsection (3) to be deducted or withheld from that payment.

Related Sections: S. 135(3) Amount to be deducted or withheld from payment to customer.

▶ 135(7) ◀

(7) Payment to customer to be included in income. Where a payment pursuant to an allocation in proportion to patronage (other than an allocation in respect of consumer goods or services) has been received by a taxpayer, the amount of the payment shall, subject to subsection 135.1(2), be included in computing the recipient's income for the taxation year in which the payment was received and, without restricting the generality of the foregoing, where a certificate of indebtedness or a share was issued to a person pursuant to an allocation in proportion to patronage, the amount of the payment by virtue of that issuance shall be included in computing the recipient's income for the taxation year in which the certificate or share was received and not in computing the recipient's income for the year in which the indebtedness was subsequently discharged or the share was redeemed.

History: S. 135(7) was replaced by S.C. 2006, c. 4, s. 79(4), applicable after 2005.

S. 135(7) formerly read:

"(7) *Payment to customer to be included in income.* Where a payment pursuant to an allocation in proportion to patronage (other than an allocation in respect of consumer goods or services) has been received by a taxpayer, the amount of the payment shall be included in computing the recipient's income for the taxation year in which the payment was received and, without restricting the generality of the foregoing, where a certificate of indebtedness or a share was issued to a person pursuant to an allocation in proportion to patronage, the amount of the payment by virtue of the issue thereof shall be included in computing the recipient's income for the taxation year in which the certificate or share was received and not in computing the recipient's income for the year in which the indebtedness was subsequently discharged or the share was redeemed."

Related Sections: S. 212(1)(*g*) Patronage dividend.
Regulations: Part II.

▶ 135(8) ◀

(8) Patronage dividends. For the purposes of this section, where

(*a*) a person has sold or delivered a quantity of goods or products to a marketing board established by or pursuant to a law of Canada or a province,

(*b*) the marketing board has sold or delivered the same quantity of goods or products of the same class, grade or quality to a taxpayer of which the person is a member, and

(*c*) the taxpayer has credited that person with an amount based on the quantity of goods or products of that class, grade or quality sold or delivered to it by the marketing board,

the quantity of goods or products referred to in paragraph (*c*) shall be deemed to have been sold or delivered by that person to the taxpayer and to have been acquired by the taxpayer from that person.

Related Sections: S. 20(1)(*u*) Patronage dividends; s. 135(4), "consumer goods or services"; s. 212(1)(*g*) Patronage dividend; s. 248(1), "amount", "business", "corporation", "prescribed", "property", "share", "shareholder", "subsidiary wholly-owned corporation"; s. 255 Canada.

Agricultural Cooperatives — Tax-Deferred Patronage Dividends

SECTION 135.1:

▶ 135.1(1) ◀

(1) Definitions. The following definitions apply in this section and section 135.

"*agricultural business*" — "agricultural business" means a business, carried on in Canada, that consists of one or any combination of

(*a*) farming (including, if the person carrying on the business is a corporation described in paragraph (*a*) of the definition "agricultural cooperative corporation", the production, processing, storing and wholesale marketing of the products of its members' farming activities); or

(*b*) the provision of goods or services (other than financial services) that are required for farming.

History: S. 135.1(1), the definition "agricultural business" was added by S.C. 2006, c. 4, s. 80(1), applicable after 2005.

"*agricultural cooperative corporation*" — "agricultural cooperative corporation" at any time means a corporation

(*a*) that was incorporated or continued by or under the provisions of a law, of Canada or of a province, that provide for the establishment of the corporation as a cooperative corporation or that provide for the establishment of cooperative corporations; and

(*b*) that has at that time

(i) as its principal business an agricultural business, or

(ii) members, making up at least 75% of all members of the corporation, each of whom

(A) is an agricultural cooperative corporation, or

(B) has as their principal business a farming business.

History: S. 135.1(1), the definition "agricultural cooperative corporation" was added by S.C. 2006, c. 4, s. 80(1), applicable after 2005.

"*allowable disposition*" — "allowable disposition" means a disposition by a taxpayer of a tax deferred cooperative share less than five years after the day on which the share was issued if

(*a*) before the disposition,

(i) the agricultural cooperative corporation is notified in writing that the taxpayer has after the share was issued become disabled and permanently unfit for work, or terminally ill, or

(ii) the taxpayer ceases to be a member of the agricultural cooperative corporation; or

(*b*) the agricultural cooperative corporation is notified in writing that the share is held by a person on whom the share has devolved as a consequence of the death of the taxpayer.

History: S. 135.1(1), the definition "allowable disposition" was added by S.C. 2006, c. 4, s. 80(1), applicable after 2005.

"*eligible member*" — "eligible member" of an agricultural cooperative corporation means a member who carries on an agricultural business and who is

(*a*) an individual resident in Canada;

(*b*) an agricultural cooperative corporation;

(*c*) a corporation resident in Canada that carries on the business of farming in Canada; or

(*d*) a partnership that carries on the business of farming in Canada, all of the members of which are described in any of paragraphs (*a*) to (*c*) or this paragraph.

History: S. 135.1(1), the definition "eligible member" was added by S.C. 2006, c. 4, s. 80(1), applicable after 2005.

"tax deferred cooperative share" — "tax deferred cooperative share" at any time means a share

(*a*) issued, after 2005 and before 2016, by an agricultural cooperative corporation to a person or partnership that is at the time the share is issued an eligible member of the agricultural cooperative corporation, pursuant to an allocation in proportion to patronage;

(*b*) the holder of which is not entitled to receive on the redemption, cancellation or acquisition of the share by the agricultural cooperative corporation or by any person with whom the agricultural cooperative corporation does not deal at arm's length an amount that is greater than the amount that would, if this Act were read without reference to this section, be included under subsection 135(7) in computing the eligible member's income for their taxation year in which the share was issued;

(*c*) that has not before that time been deemed by subsection (4) to have been disposed of; and

(*d*) that is of a class

(i) the terms of which provide that the agricultural cooperative corporation shall not, otherwise than pursuant to an allowable disposition, redeem, acquire or cancel a share of the class before the day that is five years after the day on which the share was issued, and

(ii) that is identified by the agricultural cooperative corporation in prescribed form and manner as a class of tax deferred cooperative shares.

History: S. 135.1(1), the definition "tax deferred cooperative share" was added by S.C. 2006, c. 4, s. 80(1), applicable after 2005.

"tax paid balance" — "tax paid balance" of a taxpayer at the end of a particular taxation year of the taxpayer means the amount, if any, by which

(*a*) the total of

(i) the taxpayer's tax paid balance at the end of the immediately preceding taxation year, and

(ii) the amount, if any, that is included in computing the taxpayer's income under this Part for the particular taxation year because of an election described in subparagraph (2)(*a*)(ii),

exceeds

(*b*) the total of all amounts each of which is the taxpayer's proceeds of disposition of a tax deferred cooperative share that the taxpayer disposed of in the particular taxation year.

History: S. 135.1(1), the definition "tax paid balance" was added by S.C. 2006, c. 4, s. 80(1), applicable after 2005.

► 135.1(2) ◄

(2) Income inclusion. In computing the income of a taxpayer for a particular taxation year, there shall be included under subsection 135(7), in respect of the taxpayer's receipt, as an eligible member, of tax deferred cooperative shares of an agricultural cooperative corporation in the particular taxation year, only the total of

(*a*) the lesser of

(i) the total of all amounts, in respect of the taxpayer's receipt in the particular taxation year of tax deferred cooperative shares, that would, if this Act were read without reference to this section, be included under subsection 135(7) in computing the taxpayer's income for the particular taxation year, and

(ii) the greater of nil and the amount, if any, specified by the taxpayer in an election in prescribed form that is filed with the taxpayer's return of income for the particular taxation year, and

(*b*) the amount, if any, by which

(i) the total of all amounts each of which is the taxpayer's proceeds of disposition of a tax deferred cooperative share disposed of by the taxpayer in the particular taxation year

exceeds

(ii) the total of

(A) the taxpayer's tax paid balance at the end of the immediately preceding taxation year, and

(B) the amount, if any, that is included in computing the taxpayer's income for the particular taxation year because of an election described in subparagraph (*a*)(ii).

History: S. 135.1(2) was added by S.C. 2006, c. 4, s. 80(1), applicable after 2005.

► 135.1(3) ◄

(3) Deductibility limit. The amount that may be deducted under subsection 135(1) for a particular taxation year by an agricultural cooperative corporation in respect of payments, in the form of tax deferred cooperative shares, made pursuant to allocations in proportion to patronage shall not exceed 85% of the agricultural cooperative corporation's income of the taxation year attributable to business done with members.

History: S. 135.1(3) was added by S.C. 2006, c. 4, s. 80(1), applicable after 2005.

► 135.1(4) ◄

(4) Deemed disposition. A taxpayer who holds a tax deferred cooperative share is deemed to have disposed of the share, for proceeds of disposition equal to the amount that would, if this Act were read without reference to this section, have been included under subsection 135(7), in respect of the share, in computing the taxpayer's income for the taxation year in which the share was issued, at the earliest time at which

(*a*) the paid-up capital of the share is reduced otherwise than by way of a redemption of the share; or

(*b*) the taxpayer pledges, or for civil law hypothecates, assigns or in any way alienates the share as security for indebtedness of any kind.

History: S. 135.1(4) was added by S.C. 2006, c. 4, s. 80(1), applicable after 2005, except that paragraph 135.1(4)(*b*) does not apply to any indebtedness entered into before 2006.

► 135.1(5) ◄

(5) Reacquisition. A taxpayer who is deemed by subsection (4) to have disposed at any time of a tax deferred cooperative share is deemed to have reacquired the share, immediately after that time, at a cost equal to the taxpayer's proceeds of disposition from that disposition.

History: S. 135.1(5) was added by S.C. 2006, c. 4, s. 80(1), applicable after 2005.

► 135.1(6) ◄

(6) Exclusion from withholding obligation. Subsection 135(3) does not apply to a payment pursuant to an allocation in proportion to patronage that is paid by an agricultural cooperative corporation through the issuance of a tax deferred cooperative share.

History: S. 135.1(6) was added by S.C. 2006, c. 4, s. 80(1), applicable after 2005.

► 135.1(7) ◄

(7) Withholding on redemption. If a share that was, at the time it was issued, a tax deferred cooperative share of an agricultural cooperative corporation is redeemed, acquired or cancelled by the agricultural cooperative corporation, or by a person or partnership with whom the agricultural cooperative corporation does not deal at arm's length, the agricultural cooperative corporation or the person or partnership, as the case may be, shall withhold and forthwith remit to the Receiver General, on account of the shareholder's tax liability, 15% from the amount otherwise payable on the redemption, acquisition or cancellation.

Department of Finance Comfort Letter
[Exemption from Obligation to Withhold on Transfer of Tax-Deferred Cooperative Shares to RRSP or RRIF]

March 4, 2008

Dear XXXX

I am writing further to this Division's letter to you of April 25, 2007, and XXXX's subsequent discussions with members of my staff, regarding the rules relating to tax-deferred patronage dividends paid by agricultural cooperative corporations and, in particular, the obligation to withhold 15% on the redemption, acquisition or cancellation of a tax-deferred cooperative share.

Cooperatives can distribute earnings to their members in the form of patronage dividends which are paid in proportion to the amount of business the member has undertaken with the cooperative. For income tax purposes, in computing its income, a cooperative may deduct such patronage dividends paid to its members, unlike regular dividends which are not deductible. In turn, the tax treatment of a patronage dividend in the hands of a cooperative member depends upon which of two separate regimes applies in respect of the dividend.

The first, set out in section 135 of the *Income Tax Act* (Act), applies in respect of ordinary patronage dividends. Ordinary patronage dividends received (other than in respect of consumer goods and services) by a cooperative member must be included in the recipient's income and are taxable in the year they are received.

The second regime, set out in section 135.1 of the Act, applies in respect of tax-deferred patronage dividends. This second regime is more generous than the first in that it allows qualifying members of certain agricultural cooperatives to defer the inclusion of the patronage dividend until the subsequent redemption, cancellation or acquisition by the cooperative of the tax-deferred cooperative share in respect of which the dividend relates.

Under the ordinary patronage dividend regime the cooperative is generally required to withhold and remit to the government an amount on behalf of the member's tax liability in respect of the patronage dividend. However, an exemption from this withholding requirement is provided when an ordinary patronage dividend is made to a person who is exempt from tax on its taxable income under section 149 of the Act. A requirement to withhold taxes also imposed under the tax-deferred patronage dividend regime at the time of the redemption, cancellation or acquisition by the cooperative of the tax-deferred cooperative share, but, as you note, a similar exemption from the withholding requirements is not currently provided in respect of the redemption, cancellation or acquisition of shares held by a person who is exempt from tax on its taxable income under section 149 of the Act.

In an earlier letter to this Department, you indicated that agricultural cooperative members may prefer to hold their tax-deferred cooperative shares inside their RRSPs (and, I would gather by extension, an RRIF) To do so, these members would have to transfer the share to the RRSP or RRIF after having acquired it from cooperative. This is because a share will only qualify as a tax-deferred cooperative share if it [is] issued to an eligible member, which does not include RRSPs or RRIFs. As a result, I would expect that an RRSP would be unlikely to hold tax-deferred cooperative shares given that the transfer of the share to an RRSP or an RRIF would be a taxable disposition, negating any tax advantage of the deferral provided for by the tax-deferred patronage dividend rules. However, I understand from the discussions you have had with my staff that some members may nonetheless wish to make such a transfer to their RRSPs or RRIFs.

You have, therefore, recommended that subsection 135.1(7) of the Act be amended to provide for an exemption from the obligation to withhold in respect of a redemption, acquisition or cancellation of a tax-deferred cooperative share when the amount is paid to a trust governed by an RRSP or RRIF that is exempt from tax under section 149 of the Act. While, as indicated above, we believe that it will be rare for this situation to occur, we consider the requested amendment to be consistent with the underlying policy objective of the provision. As a result, we are prepared to recommend to the Minister of Finance that the Act be amended to provide such an exemption. Furthermore, if our recommendation were accepted, we would also, recommend that the amendment be effective in respect of redemptions, cancellations and acquisitions that occur after 2007.

While I cannot offer any assurance that our recommendation in this matter will be accepted, I hope our statement of intent in this letter will be helpful in responding to your concern.

Yours sincerely,

Gerard Lalonde
Director
Tax Legislation Division
Tax Policy Branch

History: S. 135.1(7) was added by S.C. 2006, c. 4, s. 80(1), applicable after 2005.

► 135.1(8) ◄

(8) Application of subsections 84(2) and (3). Subsections 84(2) and (3) do not apply to a tax deferred cooperative share.

History: S. 135.1(8) was added by S.C. 2006, c. 4, s. 80(1), applicable after 2005.

Cooperative Corporations

SECTION 136:

► 136(1) ◄

(1) Cooperative not private corporation. Notwithstanding any other provision of this Act, a cooperative corporation that would, but for this section, be a private corporation is deemed not to be a private corporation except for the purposes of sections 15.1, 125, 125.1, 127, 127.1, 152 and 157, the definition "mark-to-market property" in subsection 142.2(1) and the definition "small business corporation" in subsection 248(1) as it applies for the purpose of paragraph 39(1)(*c*).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 136(1) of the Act is replaced by the following:

SECTION 136:

(1) Cooperative not private corporation. Notwithstanding any other provision of this Act, a cooperative corporation that would, if this Act were read without reference to this section, be a private corporation is deemed not to be a private corporation, except for the purposes of sections 15.1, 123.4, 125, 125.1, 127, 127.1, 152 and 157, the definition "mark-to-market property" in subsection 142.2(1) and the definition "small business corporation" in subsection 248(1) as it applies for the purpose of paragraph 39(1)(*c*).

Applicable: To the 2001 and subsequent taxation years.

Explanatory Note: Section 136 of the Act provides rules that apply to cooperative corporations.

Subsection 136(1) provides that a cooperative corporation that would otherwise be a private corporation is treated as a private corporation for the purposes of specified provisions of the Act. The subsection is amended to include among those provisions section 123.4 of the Act, which in effect provides reductions in corporate tax rates. This subsection is amended, for the 2001 and subsequent taxation years, to provide that a cooperative corporation that otherwise qualifies as a Canadian-controlled private corporation (CCPC) may use the special rate reduction provided for CCPCs.

Subsection 136(2) of the Act sets out conditions that a corporation must meet in order to be a cooperative corporation. The condition in current paragraph 136(2)(*c*) has two parts: at least 90% of its members must be individuals, other cooperative corporations, or corporations or partnerships that carry on the business of farming; and at least 90% of its shares, if any, must be held by those persons or partnerships.

The second part of this condition is modified to accommodate cases where the shares of a cooperative are held not only by the members themselves, but also by their registered plans (RRSPs, RRIFs, or RESPs). If shares are held by a trust that is governed by such a plan, provided a member of the cooperative is the plan's subscriber or annuitant, as the case may be, those shares will be counted in the same way as if they were held by a member personally. Amended paragraph 136(2)(*c*) and new paragraph 136(2)(*d*), which give effect to this change, apply to the 1998 and subsequent taxation years.

Department of Finance Comfort Letter
[Proposal to Treat Cooperative Corporations as CCPCs for Enhanced Dividend Tax Credit]

March 16, 2009

Dear XXXX

Subject: Cooperative Corporation and Eligible Dividend

Thank you for your correspondence of February 23, 2007 in which you recommend that cooperative corporations be treated as Canadian-controlled private corporations (CCPCs) for the purposes of the enhanced dividend tax credit under subsection 89(1) of the *Income Tax Act* (Act). I apologize for the delay of this reply.

From a policy perspective, it is intended that cooperative corporations be permitted to be private corporations (and thus in some cases, CCPCs) for the purposes of subsection 89(1). By way of background, one of the policy reasons for the enhanced dividend tax credit is to minimize the effect of double taxation in our existing corporate tax system. Under the enhanced dividend tax credit for eligible dividends, subsection 89(1) allows a CCPC's income that was taxed at the full corporate income tax rate to be included in its general rate income pool (GRIP) at the end of a taxation year. Generally, a positive balance in a CCPC's GRIP at the end of a taxation year reflects the amount available for eligible dividend designation by the CCPC.

Subsection 136(1) of the Act deems a cooperative corporation not to be a private corporation, except for certain purposes, including for the purposes of the small business deduction. You have indicated that a cooperative corporation that is in a position to benefit from the small business deduction (pursuant to one of the exceptions under subsection 136(1)) should also be in a position to benefit from having a GRIP.

We agree with this view and are prepared to recommend to the Minister of Finance the addition, to the list of exceptions in subsection 136(1), of a reference to subsection 89(1). If our recommendation is acted upon, we anticipate that the amendments would be included in a future technical bill. While I cannot offer any assurance that the Minister will agree with our recommendation, I hope that this statement of our intentions is helpful to you.

Yours sincerely,

Gerard Lalonde
Director,
Tax Legislation Division
Tax Policy Branch

History: S. 136(1) was amended by S.C. 1998, c. 19, s. 161(1), applicable to taxation years that end after February 22, 1994. S. 136(1) formerly read:

"S. 136. (1) Notwithstanding any other provision of this Act, a cooperative corporation that would, but for this section, be a private corporation shall be deemed not to be a private corporation except for the purposes of sections 15.1, 125, 125.1, 127, 127.1, 152 and 157 and the definition 'small business corporation' in subsection 248(1) as it applies for the purpose of paragraph 39(1)(*c*)."

S. 136(1) was amended by S.C. 1994, c. 7, Sched. II, s. 112(1), applicable after June 1988, except that, in its application before April 28, 1989, subsection 136(1) of the Act shall be read without reference to "152". S. 136(1) formerly read:

"(1) *Corporation not private corporation.* Notwithstanding any other provision of this Act, a cooperative corporation that would, but for this section, be a private corporation shall be deemed not to be a private corporation except for the purposes of sections 15.1, 123.1, 125, 127, 127.1, 152 and 157 and the definition 'small business corporation' in subsection 248(1) as it applies for the purposes of paragraph 39(1)(*c*)."

Interpretation Bulletins: *Primary* — IT-493 Agency cooperative corporations [Archived by the CRA].

► 136(2) ◄

(2) Definition of "cooperative corporation". In this section, "cooperative corporation" means a corporation that was incorporated or continued by or under the provisions of a law, of Canada or of a province, that provide for the establishment of the corporation as a cooperative corporation or that provide for the establishment of cooperative corporations, for the purpose of marketing (including processing incident to or connected to the marketing) natural products belonging to or acquired from its members or customers, of purchasing supplies, equipment or household necessaries for or to be sold to its members or customers or of performing services for its members or customers, if

(*a*) the statute by or under which it was incorporated, its charter, articles of association or by-laws or its contracts with its members or its members and customers held out the prospect that payments would be made to them in proportion to patronage;

(*b*) none of its members (except other cooperative corporations) have more than one vote in the conduct of the affairs of the corporation; and

(*c*) at least 90% of its members are individuals, other cooperative corporations, or corporations or partnerships that carry on the business of farming, and at least 90% of its shares, if any, are held by those persons or partnerships.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 136(2) of the Act is amended by striking out the word "and" at the end of paragraph (*b*) and by replacing paragraph (*c*) with the following:

(*c*) at least 90% of its members are individuals, other cooperative corporations, or corporations or partnerships that carry on the business of farming; and

(*d*) at least 90% of its shares, if any, are held by members described in paragraph (*c*) or by trusts governed by registered retirement savings plans, registered retirement income funds or registered education savings plans, the annuitants or subscribers under which are members described in that paragraph.

Applicable: To the 1998 and subsequent taxation years.

Explanatory Note: See the Explanatory Note following the amendment to subsection 136(1).

History: S. 136(2), the portion before paragraph (*a*) was replaced by S.C. 2006, c. 4, s. 81(1), applicable after June 2005.

S. 136(2), the portion before paragraph (*a*) formerly read:

"(2) *Definition of 'cooperative corporation'.* In this section, 'cooperative corporation' means a corporation that was incorporated by or under a law of Canada or a province providing for the establishment of the corporation or respecting the establishment of cooperative corporations for the purpose of marketing (including processing incident to or connected therewith) natural products belonging to or acquired from its members or customers, of purchasing supplies, equipment or household necessaries for or to be sold to its members or customers or of performing services for its members or customers, if"

Related Sections: S. 89(1), "private corporation"; s. 135 Deduction in computing income; s. 248(1), "corporation", "individual", "province", "shares".

Credit Unions, Savings and Credit Unions and Deposit Insurance Corporations

SECTION 137:

► 137(1) ◄

(1) [Deductions in computing income]. [Repealed by 1988, c. 55, s. 123(1).]

Regulations: 8102.
Interpretation Bulletins: *Primary*— IT-483 Credit unions [Archived by the CRA].

► 137(2) ◄

(2) Payments pursuant to allocations in proportion to borrowing. Notwithstanding anything in this Part, there may be deducted, in computing the income for a taxation year of a credit union, the total of bonus interest payments and payments pursuant to allocations in proportion to borrowing made by the credit union within the year or within 12 months thereafter to members of the credit union, to the extent that those payments were not deductible under this subsection in computing the income of the credit union for the immediately preceding taxation year.

Related Sections: S. 137(6), "maximum cumulative reserve".
Forms: T2 SCH 17.

► 137(3) ◄

(3) Additional deduction. There may be deducted from the tax otherwise payable under this Part for a taxation year by a corporation that was, throughout the year, a credit union, an amount equal to the amount determined by multiplying the rate that would, if subsection 125(1.1) applied to the corporation for the year, be its small business deduction rate for the year within the meaning assigned by that subsection, by the amount, if any, by which the lesser of

(*a*) the corporation's taxable income for the year, and

(*b*) the amount, if any, by which 4/3 of the corporation's maximum cumulative reserve at the end of the year exceeds the corporation's preferred-rate amount at the end of the immediately preceding taxation year

exceeds

(*c*) the least of the amounts determined under paragraphs 125(1)(*a*) to (*c*) in respect of the corporation for the year.

History: S. 137(3), the portion before paragraph (*a*) was replaced by S.C. 2007, c. 2, s. 37(1), applicable to the 2008 and subsequent taxation years. S. 137(3), the portion before paragraph (*a*) formerly read:

"(3) *Additional deduction.* There may be deducted from the tax otherwise payable under this Part for a taxation year by a corporation that was, throughout the year, a credit union, an amount equal to 16% of the amount, if any, by which the lesser of"

Related Sections: S. 137(4) Amount deemed deductible under s. 125; s. 137(4.3) Determination of preferred-rate amount of a corporation.
Forms: T2 SCH 17.

► 137(4) ◄

(4) Amount deemed deductible under s. 125. For the purposes of this Act, any amount deductible or any deduction under subsection (3) from the tax otherwise payable by a credit union under this Part for a taxation year shall be deemed to be an amount deductible or a deduction, as the case may be, under section 125 from that tax.

Related Sections: S. 125 Small business deduction; s. 137(6), "maximum cumulative reserve".

► 137(4.1) ◄

(4.1) Payments in respect of shares. Notwithstanding any other provision of this Act, an amount paid or payable by a credit union to a member thereof in respect of a share of a class of the capital stock of the credit union (other than any such amount paid or payable as or on account of a reduction of the paid-up capital, redemption, acquisition or cancellation of the share by the credit union to the extent of the paid-up capital of the share) shall, where the share is not listed on a designated stock exchange, be deemed to have been paid or payable, as the case may be, by the credit union as interest and to have been received or to have been receivable, as the case may be, by the member as interest.

History: S. 137(4.1) was amended by S.C. 2007, c. 35, s. 68(2), by replacing "prescribed stock exchange" with "designated stock exchange", applicable on and after December 14, 2007 [the day on which this Act is assented to].

S. 137(4.1) was amended by S.C. 1994, c. 21, s. 64(1), applicable to transactions occurring after December 21, 1992. S. 137(4.1) formerly read:

"(4.1) *Amount paid in respect of member's share deemed paid as interest.* Notwithstanding any other provisions of this Act, any amount paid or payable by a credit union to a member thereof in respect of the member's share in the credit union, other than any such amount paid or payable as or on account of a reduction of the paid-up capital, redemption, acquisition or cancellation by the credit union of the member's share to the extent of the paid-up capital of that share, shall be deemed to have been paid or payable, as the case may be, by the credit union as interest and, when received by the member, to have been received by the member as interest."

Related Sections: S. 12(1)(*c*) Interest.
Regulations: Part XXXII.

► 137(4.2) ◄

(4.2) Deemed interest not a dividend. Notwithstanding any other provision of this Act, an amount that is deemed by subsection (4.1) to be interest shall be deemed not to be a dividend.

History: S. 137(4.2) was amended by S.C. 1994, c. 21, s. 64(1), applicable to transactions occurring after December 21, 1992.

"(4.2) *Application of s. 84.* Subsections 84(2), (3) and (4) do not apply to deem a dividend to have been paid by a corporation to any of its shareholders, or to deem any of the shareholders of a corporation to have received a dividend on any shares of the capital stock of the corporation, if at the time the dividend would, but for this subsection, be deemed by subsection 84(2),

(3) or (4) to have been so paid or received, as the case may be, the corporation was a credit union."

Related Sections: S. 84(2) Distribution on winding-up, etc; s. 84(3) Redemption, etc; s. 84(4) Reduction of paid-up capital.

► 137(4.3) ◄

(4.3) Determination of preferred-rate amount of a corporation. For the purposes of subsection (3),

(*a*) the preferred-rate amount of a corporation at the end of a taxation year is an amount equal to the total of its preferred-rate amount at the end of its immediately preceding taxation year and 25/4 of the amount deductible under section 125 from the tax for the year otherwise payable by it under this Part;

(*b*) where at any time a new corporation has been formed as a result of an amalgamation of two or more predecessor corporations, within the meaning of subsection 87(1), it shall be deemed to have had a taxation year ending immediately before that time and to have had, at the end of that year, a preferred-rate amount equal to the total of the preferred-rate amounts of each of the predecessor corporations at the end of their last taxation years; and

(*c*) where there has been a winding-up as described in subsection 88(1), the preferred-rate amount of the parent (referred to in that subsection) at the end of its taxation year immediately preceding its taxation year in which it received the assets of the subsidiary (referred to in that subsection) on the winding-up shall be deemed to be the total of the amount that would otherwise be its preferred-rate amount at the end of that year and the preferred-rate amount of the subsidiary at the end of its taxation year in which its assets were distributed to the parent on the winding-up.

► 137(5) ◄

(5) Member's income. Where a payment has been received by a taxpayer from a credit union in a taxation year in respect of an allocation in proportion to borrowing, the amount thereof shall, if the money so borrowed was used by the taxpayer for the purpose of earning income from a business or property (otherwise than to acquire property the income from which would be exempt or to acquire a life insurance policy), be included in computing the taxpayer's income for the year.

► 137(5.1) ◄

(5.1) Allocations of taxable dividends and capital gains. A credit union (referred to in this subsection and in subsection (5.2) as the "payer") may, at any time within 120 days after the end of its taxation year, elect in prescribed form to allocate in respect of the year to a member that is a credit union such portion of each of the following amounts as may reasonably be regarded as attributable to the member:

(*a*) the total of all amounts each of which is the amount of a taxable dividend received by the payer from a taxable Canadian corporation in the year; and

(*b*) the amount, if any, by which

(i) the total of all amounts each of which is the amount by which the payer's capital gain from the disposition of a property in the year exceeds the payer's taxable capital gain from the disposition

exceeds

(ii) the total of all amounts each of which is the amount by which the payer's capital loss from the disposition of a property in the year exceeds the payer's allowable capital loss from the disposition; and

(*c*) each amount deductible under paragraph (5.2)(*c*) in computing the payer's taxable income for the year.

History: S. 137(5.1)(*b*) was amended and s. 137(5.1)(*c*) was added by S.C. 1994, c. 7, Sched. II, s. 113(1), applicable to the 1988 and subsequent taxation years. S. 137(5.1)(*b*) formerly read:

"(*b*) the amount, if any, by which the total of the payer's taxable capital gains from dispositions of property in the year exceeds the total of its allowable capital losses from dispositions of property in the year."

Forms: T2004.

► 137(5.2) ◄

(5.2) Idem. Notwithstanding any other provision of this Act,

(*a*) there shall be deducted from the amount that would, but for this subsection, be deductible under section 112 in computing a payer's taxable income for a taxation year such portion of the total referred to in paragraph (5.1)(*a*) as the payer allocated to its members under subsection (5.1) in respect of the year;

(*b*) there shall be included in computing the income of a payer for a taxation year an amount equal to that portion of the amounts referred to in paragraphs (5.1)(*b*) and (*c*) that the payer allocated under subsection (5.1) in respect of the year to its members; and

(*c*) each amount allocated under subsection (5.1) to a member may be deducted by that member in computing the member's taxable income for its taxation year that includes the last day of the payer's taxation year in respect of which the amount was so allocated.

History: S. 137(5.2)(*c*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 79(1), applicable to the 1991 and subsequent taxation years. S. 137(5.2)(*c*) formerly read:

"(*c*) each amount allocated to a member under subsection (5.1) may be deducted by that member in computing its taxable income for its taxation year during which the amount was so allocated."

S. 137(5.2)(*b*) was amended by S.C. 1994, c. 7, Sched. II, s. 113(2), applicable to the 1988 and subsequent taxation years. S. 137(5.2)(*b*) formerly read:

"(*b*) there shall be included in computing the income of a payer for a taxation year an amount equal to that portion of the amount referred to in paragraph (5.1)(*b*) that the payer allocated to its members under subsection (5.1) in respect of the year; and"

► 137(6) ◄

(6) Definitions. In this section,

"*allocation in proportion to borrowing*" — "allocation in proportion to borrowing" for a taxation year means an amount credited by a credit union to a person who was a member of the credit union in the year on terms that the member is entitled to or will receive payment thereof, computed at a rate in relation to

(*a*) the amount of interest payable by the member on money borrowed from the credit union, or

(*b*) the amount of money borrowed by the member from the credit union,

if the amount was credited at the same rate in relation to the amount of interest or money, as the case may be, as the rate at which amounts were similarly credited

for the year to all other members of the credit union of the same class;

"bonus interest payment" — "bonus interest payment" for a taxation year means an amount credited by a credit union to a person who was a member of the credit union in the year on terms that the member is entitled to or will receive payment thereof, computed at a rate in relation to

(*a*) the amount of interest payable in respect of the year by the credit union to the member on money standing to the member's credit from time to time in the records or books of account of the credit union, or

(*b*) the amount of money standing to the member's credit from time to time in the year in the records or books of account of the credit union,

if the amount was credited at the same rate in relation to the amount of interest or money, as the case may be, as the rate at which amounts were similarly credited in the year to all other members of the credit union of the same class;

"credit union" — "credit union" means a corporation, association or federation incorporated or organized as a credit union or cooperative credit society if

(*a*) it derived all or substantially all of its revenues from

(i) loans made to, or cashing cheques for, members,

(ii) debt obligations or securities of, or guaranteed by, the Government of Canada or a province, a Canadian municipality, or an agency thereof, or debt obligations or securities of a municipal or public body performing a function of government in Canada or an agency thereof,

(iii) debt obligations of or deposits with, or guaranteed by, a corporation, commission or association not less than 90% of the shares or capital of which was owned by the Government of Canada or a province or by a municipality in Canada,

(iv) debt obligations of or deposits with, or guaranteed by, a bank, or debt obligations of or deposits with a corporation licensed or otherwise authorized under a law of Canada or a province to carry on in Canada the business of offering to the public its services as trustee,

(v) charges, fees and dues levied against members or members of members,

(vi) loans made to or deposits with a credit union or cooperative credit society of which it is a member, or

(vii) a prescribed revenue source,

(*b*) all or substantially all the members thereof having full voting rights therein were corporations, associations or federations

(i) incorporated as credit unions or cooperative credit societies, all of which derived all or substantially all of their revenues from the sources described in paragraph (*a*), or all or substantially all of the members of which were credit unions, cooperatives or a combination thereof,

(ii) incorporated, organized or registered under, or governed by a law of Canada or a province with respect to cooperatives, or

(iii) incorporated or organized for charitable purposes,

or were corporations, associations or federations no part of the income of which was payable to, or otherwise available for the personal benefit of, any shareholder or member thereof, or

(*c*) the corporation, association or federation would be a credit union by virtue of paragraph (*b*) if all the members (other than individuals) having full voting rights in each member thereof that is a credit union were members having full voting rights in the corporation, association or federation;

Interpretation Bulletins: *Secondary* — IT-320R3 Registered retirement savings plans — Qualified investments.

"maximum cumulative reserve" — "maximum cumulative reserve" of a credit union at the end of any particular taxation year means an amount determined by the formula

$$0.05 \times (A + B)$$

where

A is the total of all amounts each of which is the amount of any debt owing by the credit union to a member thereof or of any other obligation of the credit union to pay an amount to a member thereof, that was outstanding at the end of the year, including, for greater certainty, the amount of any deposit standing to the credit of a member of the credit union in the records of the credit union, but excluding, for greater certainty, any share in the credit union of any member thereof, and

B is the total of all amounts each of which is the amount, as of the end of the year, of any share in the credit union of any member thereof;

Related Sections: ITAR s. 58(3.2) Determination of maximum cumulative reserve at end of taxation year.

"member" — "member" of a credit union means a person who is recorded as a member on the records of the credit union and is entitled to participate in and use the services of the credit union.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The definition "member" in subsection 137(6) of the Act is replaced by the following:

"member" — "member", of a credit union, means

(*a*) a person who is recorded as a member on the records of the credit union and is entitled to participate in and use the services of the credit union, and

(*b*) a registered retirement savings plan, a registered retirement income fund or a registered education savings plan, the annuitant or subscriber under which is a person described in paragraph (*a*).

Applicable: To the 1996 and subsequent taxation years.

Explanatory Note:

"member"

Section 137 of the Act provides rules that apply to credit unions. Among the definitions set out in subsection 137(1) is

"member," meaning essentially a member of record who is entitled to the services of the credit union. This definition is amended, for the 1996 and subsequent taxation years, to treat as a member a registered retirement savings plan, registered retirement income fund, or registered education savings plan, provided that the annuitant or subscriber under the plan is a person who meets the existing definition of "member".

► 137(7) ◄

(7) Credit union not private corporation. Notwithstanding any other provision of this Act, a credit union that would, but for this section, be a private corporation shall be deemed not to be a private corporation except for the purposes of sections 123.1, 125, 127, 127.1, 152 and 157 and the definition "small business corporation" in subsection 248(1) as it applies for the purposes of paragraph 39(1)(*c*).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 137(7) of the Act is replaced by the following:

(7) Credit union not private corporation. Notwithstanding any other provision of this Act, a credit union that would, if this Act were read without reference to this section, be a private corporation is deemed not to be a private corporation except for the purposes of sections 123.1, 123.4, 125, 127, 127.1, 152 and 157 and the definition "small business corporation" in subsection 248(1) as it applies for the purpose of paragraph 39(1)(*c*).

Applicable: To the 2001 and subsequent taxation years.

Explanatory Note:

Credit Union not Private Corporation

Subsection 137(7) of the Act provides that a credit union that would otherwise be a private corporation is treated as a private corporation for the purposes of specified provisions of the Act. The subsection is amended to include among those provisions section 123.4 of the Act, which in effect provides reductions in corporate tax rates. This amendment, which applies to the 2001 and subsequent taxation years, provides that a credit union that otherwise qualifies as a Canadian-controlled private corporation (CCPC) may use the special rate reduction provided for CCPCs.

Related Sections: S. 89(1), "private corporation"; s. 248(1), "business", "prescribed".

SECTION 137.1:

► 137.1(1) ◄

(1) Amounts included in income of deposit insurance corporation. For the purpose of computing the income for a taxation year of a taxpayer that is a deposit insurance corporation, the following rules apply:

(*a*) the corporation's income shall, except as otherwise provided in this section, be computed in accordance with the rules applicable in computing income for the purposes of this Part; and

(*b*) there shall be included in computing the corporation's income such of the following amounts as are applicable:

(i) the total of profits or gains made in the year by the corporation in respect of bonds, debentures, mortgages, hypothecary claims, notes or other similar obligations owned by it that were disposed of by it in the year, and

(ii) the total of each such portion of each amount, if any, by which the principal amount, at the time it was acquired by the corporation, of a bond, debenture, mortgage, hypothecary claim, note or other similar obligation owned by the corporation at the end of the year exceeds the cost to the corporation of acquiring it as was included by the corporation in computing its profit for the year.

History: Ss. 137.1(1)(*b*)(i) and (ii) were amended by S.C. 2001, c. 17, s. 216(1), applicable on Royal Assent, June 14, 2001. Ss. 137.1(1)(*b*)(i) and (ii) formerly read:

"(i) the total of profits or gains made in the year by the corporation in respect of bonds, debentures, mortgages, notes or other similar obligations owned by it that were disposed of by it in the year, and

(ii) the total of each such portion of each amount, if any, by which the principal amount, at the time it was acquired by the corporation, of a bond, debenture, mortgage, note or other similar obligation owned by the corporation at the end of the year exceeds the cost to the corporation of acquiring it as was included by the corporation in computing its profit for the year."

Related Sections: S. 137.1(3) Amounts deductible in computing income of deposit insurance corporation; s. 137.1(5), "deposit insurance corporation".
Interpretation Bulletins: *Secondary* — IT-483 Credit unions [Archived by the CRA].

► 137.1(2) ◄

(2) Amounts not included in income. The amount of any premiums or assessments received or receivable by a taxpayer that is a deposit insurance corporation from its member institutions in a taxation year shall not be included in computing its income.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 137.1(2) of the Act is replaced by the following:

(2) Amounts not included in income. The following amounts shall not be included in computing the income of a deposit insurance corporation for a taxation year:

(*a*) any premium or assessment received, or receivable, by the corporation in the year from a member institution; and

(*b*) any amount received by the corporation in the year from another deposit insurance corporation to the extent that that amount can reasonably be considered to have been paid out of amounts referred to in paragraph (*a*) received by that other deposit insurance corporation in any taxation year.

Applicable: To the 1998 and subsequent taxation years.

Explanatory Note: Section 137.1 of the Act provides rules for the taxation of deposit insurance corporations (DICs), including rules that affect the computation of income. In general terms, the premiums that a member institution pays to a DIC are deductible in computing the member's income and are not included in computing the income of the DIC, while any assistance that the DIC provides to the member or the member's depositors is not deductible for the DIC and is included in computing the member's income.

In certain circumstances, two or more DICs may share responsibilities toward a group of members. In such a case, it may be necessary for one DIC to pay to another an amount in respect of premiums. To ensure the appropriate tax consequences of such a payment, subsections 137.1(2) and (4) are

amended. New paragraph 137.1(2)(*b*) excludes from the income of a DIC any amount it receives from another DIC, to the extent the amount can reasonably be considered to have been paid out of premiums or assessments received or receivable by the other DIC from its member institutions. New paragraph 137.1(4)(*d*), on the other hand, precludes the paying DIC from deducting the amount in computing its own income. These amendments apply to the 1998 and subsequent taxation years.

Related Sections: S. 137.1(4) Limitation on deduction; s. 137.1(11) Deduction by member institutions.

► 137.1(3) ◄

(3) Amounts deductible in computing income of deposit insurance corporation. There may be deducted in computing the income for a taxation year of a taxpayer that is a deposit insurance corporation such of the following amounts as are applicable:

(*a*) the total of losses sustained in the year by the corporation in respect of bonds, debentures, mortgages, hypothecary claims, notes or other similar obligations owned by it and issued by a person other than a member institution that were disposed of by it in the year;

(*b*) the total of each such portion of each amount, if any, by which the cost to the corporation of acquiring a bond, debenture, mortgage, hypothecary claim, note or other similar obligation owned by the corporation at the end of the year exceeds the principal amount of the bond, debenture, mortgage, hypothecary claim, note or other similar obligation, as the case may be, at the time it was so acquired as was deducted by the corporation in computing its profit for the year;

(*c*) [Repealed by 1988, c. 55, s. 124(2).]

(*d*) the total of all expenses incurred by the taxpayer in collecting premiums or assessments from member institutions;

(*e*) the total of all expenses incurred by the taxpayer

(i) in the performance of its duties as curator of a bank, or as liquidator or receiver of a member institution when duly appointed as such a curator, liquidator or receiver,

(ii) in the course of making or causing to be made such inspections as may reasonably be considered to be appropriate for the purposes of assessing the solvency or financial stability of a member institution, and

(iii) in supervising or administering a member institution in financial difficulty; and

(*f*) the total of all amounts each of which is an amount that is not otherwise deductible by the taxpayer for the year or any other taxation year and that is

(i) an amount paid by the taxpayer in the year pursuant to a legal obligation to pay interest on borrowed money used

(A) to lend money to, or otherwise provide assistance to, a member institution in financial difficulty,

(B) to assist in the payment of any losses suffered by members or depositors of a member institution in financial difficulty,

(C) to lend money to a subsidiary wholly-owned corporation of the taxpayer where the subsidiary is deemed by subsection (5.1) to be a deposit insurance corporation,

(D) to acquire property from a member institution in financial difficulty, or

(E) to acquire shares of the capital stock of a member institution in financial difficulty, or

(ii) an amount paid by the taxpayer in the year pursuant to a legal obligation to pay interest on an amount that would be deductible under subparagraph (i) if it were paid in the year.

History: Ss. 137.1(3)(*a*) and (*b*) were amended by S.C. 2001, c. 17, s. 216(2), applicable on Royal Assent, June 14, 2001. Ss. 137.1(3)(*a*) and (*b*) formerly read:

"(*a*) the total of losses sustained in the year by the corporation in respect of bonds, debentures, mortgages, notes or other similar obligations owned by it and issued by a person other than a member institution that were disposed of by it in the year;

(*b*) the total of each such portion of each amount, if any, by which the cost to the corporation of acquiring a bond, debenture, mortgage, note or other similar obligation owned by the corporation at the end of the year exceeds the principal amount of the bond, debenture, mortgage, note or other similar obligation, as the case may be, at the time it was so acquired as was deducted by the corporation in computing its profit for the year;"

Related Sections: S. 137.1(5) Definitions.

► 137.1(4) ◄

(4) Limitation on deduction. No deduction shall be made in computing the income for a taxation year of a taxpayer that is a deposit insurance corporation in respect of

(*a*) any grant, subsidy or other assistance to member institutions provided by it;

(*b*) an amount equal to the amount, if any, by which the amount paid or payable by it to acquire property exceeds the fair market value of the property at the time it was so acquired;

(*c*) any amounts paid to its member institutions as allocations in proportion to any amounts described in subsection (2); or

(*d*) [Repealed by 1988, c. 55, s. 124(3).]

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 137.1(4) of the Act is amended by striking out the word "or" at the end of paragraph (*c*) and by adding the following after paragraph (*c*):

(*d*) any amount paid by it to another deposit insurance corporation that is, because of paragraph (2)(*b*), not included in computing the income of that other deposit insurance corporation; or

Applicable: To the 1998 and subsequent taxation years.

Explanatory Note: See the Explanatory Note following the amendment to subsection 137.1(2).

(*e*) any amount that may otherwise be deductible under paragraph 20(1)(*p*) in respect of debts owing to it by any of its member institutions that has not been included in computing its income for the year or a preceding taxation year.

Related Sections: S. 20(1)(*l*) Doubtful or impaired debts; s. 137.1(2) Amounts not included in income.

► 137.1(5) ◄

(5) Definitions. In this section,

"amortized cost" — [Repealed by 1988, c. 55, s. 124(5).]

"deposit insurance corporation" — "deposit insurance corporation" means

(*a*) a corporation that was incorporated by or under a law of Canada or a province respecting the establishment of a stabilization fund or board if

(i) it was incorporated primarily

(A) to provide or administer a stabilization, liquidity or mutual aid fund for credit unions, and

(B) to assist in the payment of any losses suffered by members of credit unions in liquidation, and

(ii) throughout any taxation year in respect of which the expression is being applied,

(A) it was a Canadian corporation, and

(B) the cost amount to the corporation of its investment property was at least 50% of the cost amount to it of all its property (other than a debt obligation of, or a share of the capital stock of, a member institution issued by the member institution at a time when it was in financial difficulty, or

(*b*) a corporation incorporated by the *Canada Deposit Insurance Corporation Act*;

Related Sections: S. 89(1), "Canadian corporation"; s. 137.1(5.1) Deeming provision; s. 137.1(8) Deemed compliance.

"investment property" — "investment property" means

(*a*) bonds, debentures, mortgages, hypothecary claims, notes or other similar obligations

(i) of or guaranteed by the Government of Canada,

(ii) of the government of a province or an agent thereof,

(iii) of a municipality in Canada or a municipal or public body performing a function of government in Canada,

(iv) of a corporation, commission or association not less than 90% of the shares or capital of which is owned by Her Majesty in right of a province or by a Canadian municipality, or of a subsidiary wholly-owned corporation that is subsidiary to such a corporation, commission or association, or

(v) of an educational institution or a hospital if repayment of the principal amount thereof and payment of the interest thereon is to be made, or is guaranteed, assured or otherwise specifically provided for or secured by the government of a province,

(*b*) any deposits, deposit certificates or guaranteed investment certificates with

(i) a bank,

(ii) a corporation licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering to the public its services as trustee, or

(iii) a credit union or central that is a member of the Canadian Payments Association or a credit union that is a shareholder or member of a central that is a member of the Canadian Payments Association,

(*c*) any money of the corporation, and

(*d*) in relation to a particular deposit insurance corporation, debt obligations of, and shares of the capital stock of, a subsidiary wholly-owned corporation of the particular corporation where the subsidiary is deemed by subsection (5.1) to be a deposit insurance corporation;

History: S. 137.1(5), the portion of paragraph (*a*) of the definition "investment property" before subparagraph (i) was amended by S.C. 2001, c. 17, s. 217(10), applicable on June 14, 2001. S. 137.1(5), the portion of paragraph (*a*) of the definition "investment property" before subparagraph (i) formerly read:

"(*a*) bonds, debentures, mortgages, notes or other similar obligations"

"member institution" — "member institution", in relation to a particular deposit insurance corporation, means

(*a*) a corporation whose liabilities in respect of deposits are insured by, or

(*b*) a credit union that is qualified for assistance from that deposit insurance corporation.

► 137.1(5.1) ◄

(5.1) Deeming provision. For the purposes of this section, other than subsection (2), paragraph (3)(*d*), subparagraph (3)(*e*)(i), subsection (9) and paragraph 11(*a*), a subsidiary wholly-owned corporation of a particular corporation described in the definition "deposit insurance corporation" in subsection (5) shall be deemed to be a deposit insurance corporation, and any member institution of the particular corporation shall be deemed to be a member institution of the subsidiary, where all or substantially all of the property of the subsidiary has at all times since the subsidiary was incorporated consisted of

(*a*) investment property;

(*b*) shares of the capital stock of a member institution of the particular corporation obtained by the subsidiary at a time when the member institution was in financial difficulty;

(*c*) debt obligations issued by a member institution of the particular corporation at a time when the member institution was in financial difficulty;

(*d*) property acquired from a member institution of the particular corporation at a time when the member institution was in financial difficulty; or

(*e*) any combination of property described in paragraphs (*a*) to (*d*).

History: S. 137.1(5.1), that portion before paragraph (*a*), was amended by S.C. 1994, c. 21, s. 65(1), applicable to the 1992 and subsequent taxation years. S. 137.1(5.1), that portion before paragraph (*a*), formerly read:

"(5.1) For the purposes of this section, other than subsection (2), paragraph (3)(*d*), subparagraph (3)(*e*)(i) and subsections (9) and (11), a subsidiary wholly-owned corporation of a particular corporation described in the definition 'deposit insurance corporation' in subsection (5) shall be deemed to be a deposit insurance corporation, and any member institution of the particular corporation shall be deemed to be a member institution of the subsidiary, where all or substantially all of the property of the subsidiary has at all times since the subsidiary was incorporated consisted of"

► 137.1(6) ◄

(6) Deemed not to be a private corporation. Notwithstanding any other provision of this Act, a deposit insurance corporation that would, but for this subsection, be a private corporation shall be deemed not to be a private corporation.

Related Sections: S. 89(1), "Private corporation".

► 137.1(7) ◄

(7) Deposit insurance corporation deemed not a credit union. Notwithstanding any other provision of this Act, a deposit insurance corporation that would, but for this subsection, be a credit union shall be deemed not to be a credit union.

Related Sections: S. 137 Deductions in computing income.

► 137.1(8) ◄

(8) Deemed compliance. For the purposes of subsection (5), a corporation shall be deemed to have complied with clause (*a*)(ii)(B) of the definition "deposit insurance corporation" in subsection (5) throughout the 1975 taxation year if it complied with that clause on the last day of that taxation year.

Related Sections: S. 137.1(5) Definitions.

► 137.1(9) ◄

(9) Special tax rate. The tax payable under this Part by a corporation for a taxation year throughout which it was a deposit insurance corporation (other than a corporation incorporated under the *Canada Deposit Insurance Corporation Act*) is the amount determined by the formula:

$$(38\% - A) \times B$$

where

A is the rate that would, if subsection 125(1.1) applied to the corporation for the taxation year, be the corporation's small business deduction rate for the taxation year within the meaning assigned by that subsection; and

B is the corporation's taxable income for the taxation year.

History: S. 137.1(9) was replaced by S.C. 2007, c. 2, s. 38(1), applicable to the 2008 and subsequent taxation years. S. 137.1(9) formerly read:

"(9) *Special tax rate.* The tax payable under this Part by a corporation for a taxation year throughout which it was a deposit insurance corporation (other than a corporation incorporated under the *Canada Deposit Insurance Corporation Act*) is an amount equal to 22% of its taxable income for the year."

► 137.1(10) ◄

(10) Amounts paid by a deposit insurance corporation. Where in a taxation year a taxpayer is a member institution, there shall be included in computing its income for the year the total of all amounts each of which is

(*a*) an amount received by the taxpayer in the year from a deposit insurance corporation that is an amount described in any of paragraphs (4)(*a*) to (*c*), to the extent that the taxpayer has not repaid the amount to the deposit insurance corporation in the year,

(*b*) an amount received from a deposit insurance corporation in the year by a depositor or member of the taxpayer as, on account of, in lieu of payment of, or in satisfaction of, deposits with, or share capital of, the taxpayer, to the extent that the taxpayer has not repaid the amount to the deposit insurance corporation in the year, or

(*c*) the amount by which

(i) the principal amount of any obligation of the taxpayer to pay an amount to a deposit insurance corporation that is settled or extinguished in the year without any payment by the taxpayer or by the payment by the taxpayer of an amount less than the principal amount

exceeds

(ii) the amount, if any, paid by the taxpayer on the settlement or extinguishment of the obligation

to the extent that the excess is not otherwise required to be included in computing the taxpayer's income for the year or a preceding taxation year.

Related Sections: S. 137.1(10.1) Principal amount of an obligation to pay interest; s. 137.1(11) Deduction by member institutions.

► 137.1(10.1) ◄

(10.1) Principal amount of an obligation to pay interest. For the purposes of paragraph (10)(*c*), an amount of interest payable by a member institution to a deposit insurance corporation on an obligation shall be deemed to have a principal amount equal to that amount.

► 137.1(11) ◄

(11) Deduction by member institutions. There may be deducted in computing the income for a taxation year of a taxpayer that is a member institution such of the following amounts as are applicable:

(*a*) any amount paid or payable by the taxpayer in the year that is described in subsection (2) to the extent that it was not deducted in computing the taxpayer's income for a preceding taxation year; and

(*b*) any amount repaid by the taxpayer in the year to a deposit insurance corporation on account of an amount described in paragraph (10)(*a*) or (*b*) that was received in a preceding taxation year to the extent that it was not, by reason of subsection (12), excluded from the taxpayer's income for the preceding year.

► 137.1(12) ◄

(12) Repayment excluded. Where

(*a*) a member institution has in a taxation year repaid an amount to a deposit insurance corporation on account of an amount that was included by virtue of paragraph (10)(*a*) or (*b*) in computing its income for a preceding taxation year,

(*b*) the member institution has filed its return of income required by section 150 for the preceding year, and

(*c*) on or before the day on or before which the member institution is required by section 150 to file a return of income for the taxation year, it has filed an amended return for the preceding year excluding from its income for that year the amount repaid,

the amount repaid shall be excluded from the amount otherwise included by virtue of paragraph (10)(*a*) or (*b*) in computing the member institution's income for the preceding year and the Minister shall make such reassessment of the tax, interest and penalties payable by the member institution for preceding taxation years as is necessary to give effect to the exclusion.

SECTION 137.2: Computation of income for 1975 and subsequent years.

For the purpose of computing the income of a deposit insurance corporation for the 1975 and subsequent taxation years,

(*a*) property of the corporation that is a bond, debenture, mortgage, hypothecary claim, note or other similar obligation owned by it at the commencement of the corporation's 1975 taxation year shall be valued at its cost to the corporation less the total of all amounts that, before that time, the corporation was entitled to receive as, on account or in lieu of payment of, or in satisfaction of, the principal

amount of the bond, debenture, mortgage, hypothecary claim, note or other similar obligation,

(i) plus a reasonable amount in respect of the amortization of the amount by which the principal amount of the property at the time it was acquired by the corporation exceeded its actual cost to the corporation, or

(ii) minus a reasonable amount in respect of the amortization of the amount by which its actual cost to the corporation exceeded the principal amount of the property at the time it was acquired by the corporation;

(*b*) property of the corporation that is a debt owing to the corporation (other than property described in paragraph (*a*) or a debt that became a bad debt before its 1975 taxation year) acquired by it before the commencement of its 1975 taxation year shall be valued at any time at the amount thereof outstanding at that time;

(*c*) property of the corporation (other than property in respect of which any amount for the year has been included under paragraph (*a*)) that was acquired, by foreclosure or otherwise, after default made under a mortgage or hypothec shall be valued at its cost amount to the corporation; and

(*d*) any other property shall be valued at its cost amount to the corporation.

History: S. 137.2(*a*), the portion before subparagraph (i) was amended by S.C. 2001, c. 17, s. 217(1), applicable on Royal Assent, June 14, 2001. S. 137.2(*a*), the portion before subparagraph (i) formerly read:

"(*a*) property of the corporation that is a bond, debenture, mortgage, note or other similar obligation owned by it at the commencement of the corporation's 1975 taxation year shall be valued at its cost to the corporation less the total of all amounts that, before that time, the corporation was entitled to receive as, on account or in lieu of payment of, or in satisfaction of, the principal amount of the bond, debenture, mortgage, note or other similar obligation,"

S. 137.2(*c*) was amended by S.C. 2001, c. 17, s. 217(2), applicable on Royal Assent, June 14, 2001. S. 137.2(*c*) formerly read:

"(*c*) property of the corporation (other than property in respect of which any amount for the year has been included under paragraph (*a*)) that was acquired, by foreclosure or otherwise, after default made under a mortgage shall be valued at its cost amount to the corporation; and"

Insurance Corporations

SECTION 138:

► 138(1) ◄

(1) Insurance corporations. It is hereby declared that a corporation, whether or not it is a mutual corporation, that has, in a taxation year, been a party to insurance contracts or other arrangements or relationships of a particular class whereby it can reasonably be regarded as undertaking

(*a*) to insure other persons against loss, damage or expense of any kind, or

(*b*) to pay insurance moneys to other persons

(i) on the death of any person,

(ii) on the happening of an event or contingency dependent on human life,

(iii) for a term dependent on human life, or

(iv) at a fixed or determinable future time,

whether or not such persons are members or shareholders of the corporation, shall, regardless of the form or legal effect of those contracts, arrangements or relationships, be deemed, for the purposes of this Act, to have been carrying on an insurance business of that class in the year for profit, and in any such case, for the purpose of computing the income of the corporation, the following rules apply:

(*c*) every amount received by the corporation under, in consideration of, in respect of or on account of such a contract, arrangement or relationship shall be deemed to have been received by it in the course of that business,

(*d*) the income shall, except as otherwise provided in this section, be computed in accordance with the rules applicable in computing income for the purposes of this Part,

(*e*) all income from property vested in the corporation shall be deemed to be income of the corporation, and

(*f*) all taxable capital gains and allowable capital losses from dispositions of property vested in the corporation shall be deemed to be taxable capital gains or allowable capital losses, as the case may be, of the corporation.

Related Sections: S. 38 Taxable capital gain and allowable capital loss; s. 54, "capital property"; s. 89(1), "taxable dividend"; s. 138(6) Deduction for dividends from taxable corporations; s. 138(9) Computation of income; s. 141 Deeming rules for life insurance corporations; s. 141.1 Deemed not to be a private corporation; s. 146(1), "registered retirement savings plan"; s. 148(1) Amounts included in computing policyholder's income; s. 248(1), "annuity", "gross revenue", "group term life insurance policy", "insurance corporation", "insurer", "life insurance business", "life insurer", "taxable Canadian corporation".

Tax Window Files: Ceasing to be an Insurance Corporation, 2006, CRA Document No. 2006-0173771R3; Ceasing to be an Insurance Corporation, December 20, 2006, CRA Document No. 2006-0173771R3; Carrying on an Insurance Business, May 26, 2005, CRA Document No. 2005-0126031C6; Non-Profit Organizations, January 23, 2002, CRA Document No. 2001-0107065; Same or similar business, January 18, 1999, CRA Document No. 9706303; Offshore Reinsurance, May 10, 2001, CRA Document No. 2000-0049203; Guarantee Provided Under Segregated Fund Policy, May 10, 1995, CRA Document No. 9506335; Insurance versus Agency Business, February 9, 1995, CRA Document No. 9418255.

► 138(2) ◄

(2) Insurer's income or loss. Notwithstanding any other provision of this Act, where a life insurer resident in Canada carries on an insurance business in Canada and in a country other than Canada in a taxation year

(*a*) its income or loss for the year from carrying on an insurance business is the amount of its income or loss for the year, computed in accordance with this Act, from the business in Canada; and

(*b*) no amount shall be included in computing its income for the year in respect of its taxable capital gains and allowable capital losses from dispositions of property (other than property disposed of in a taxation year in which it was designated insurance property) of the insurer used or held by it in the course of carrying on an insurance business.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 138(2) of the Act is replaced by the following:

(2) Insurer's income or loss. Notwithstanding any other provision of this Act,

(*a*) if a life insurer resident in Canada carries on an insurance business in Canada and in a country other than Canada in a taxation year, its income or loss for the year from carrying on an insurance business is the amount of its income or loss for the taxation year from carrying on the insurance business in Canada;

(*b*) if a life insurer resident in Canada carries on an insurance business in Canada and in a country other than Canada in a taxation year, for greater certainty,

(i) in computing the insurer's income or loss for the taxation year from the insurance business carried on by it in Canada, no amount is to be included in respect of the insurer's gross investment revenue for the taxation year derived from property used or held by it in the course of carrying on an insurance business that is not designated insurance property for the taxation year of the insurer, and

(ii) in computing the insurer's taxable capital gains or allowable capital losses for the taxation year from dispositions of capital property (referred to in this subparagraph as "insurance business property") that, at the time of the disposition, was used or held by the insurer in the course of carrying on an insurance business,

(A) there is to be included each taxable capital gain or allowable capital loss of the insurer for the taxation year from a disposition in the taxation year of an insurance business property that was a designated insurance property for the taxation year of the insurer, and

(B) there is not to be included any taxable capital gain or allowable capital loss of the insurer for the taxation year from a disposition in the taxation year of an insurance business property that was not a designated insurance property for the taxation year of the insurer;

(*c*) if a non-resident insurer carries on an insurance business in Canada in a taxation year, its income or loss for the taxation year from carrying on an insurance business is the amount of its income or loss for the taxation year from carrying on the insurance business in Canada; and

(*d*) if a non-resident insurer carries on an insurance business in Canada in a taxation year,

(i) in computing the non-resident insurer's income or loss for the taxation year from the insurance business carried on by it in Canada, no amount is to be included in respect of the non-resident insurer's gross investment revenue for the taxation year derived from property used or held by it in the course of carrying on an insurance business that is not designated insurance property for the taxation year of the non-resident insurer, and

(ii) in computing the non-resident insurer's taxable capital gains or allowable capital losses for the taxation year from dispositions of capital property (referred to in this subparagraph as "insurance business property") that, at the time of the disposition, was used or held by the non-resident insurer in the course of carrying on an insurance business,

(A) there is to be included each taxable capital gain or allowable capital loss of the non-resident insurer for the taxation year from a disposition in the taxation year of an insurance business property that was a designated insurance property for the taxation year of the non-resident insurer, and

(B) there is not to be included any taxable capital gain or allowable capital loss of the non-resident insurer for the taxation year from a disposition in the taxation year of an insurance business property that was not a designated insurance property for the taxation year of the non-resident insurer.

Applicable: To taxation years that end after 1999.

Explanatory Note:

Insurer's Income or Loss

Subsection 138(2) of the Act provides rules for the purpose of computing the income of a life insurer resident in Canada where the life insurer carries on an insurance business in Canada and in a country other than Canada. The subsection provides that the insurer's income from carrying on an insurance business is the amount of its income from carrying in the insurance business in Canada computed in accordance with the Act. As well, the subsection provides that the insurer's taxable capital gains and allowable capital losses from property used or held in the course of carrying on an insurance business is the insurer's taxable capital gains and allowable capital losses from designated insurance property.

Subsection 138(2) is being amended to extend its application to non-resident insurer's that carry on an insurance business in Canada. As well, it is being amended to provide, for greater certainty, the following:

1. In computing a multinational insurer's income from an insurance business carried on by it in Canada, no amount is to be included in respect of the insurer's gross investment revenue for a taxation year derived from property used or held in the course of carrying on an insurance business that is not designated insurance property of the insurer. Subsection 138(9) of the Act provides that in computing a multinational insurer's income from an insurance business carried on by it in Canada the insurer must include its gross investment revenue for the year from its designated insurance property for the year plus the amount prescribed in respect of the insurer for the year. Designated insurance property is defined in section 2400 of the *Income Tax Regulations*.

2. In computing a multinational insurer's taxable capital gains and allowable capital losses for the year from the disposition of property used or held in the course of carrying on an insurance business there is to be included the insurer's taxable capital gains and allowable capital losses from dispositions of its designated insurance property for the year. It also provides that the insurer's taxable capital gains and allowable capital losses for the year from the disposition of property used or held in the course of carrying on an insurance business that is its designated insurance property for the year are not to be included in computing a multinational insurer's taxable capital gains and allowable capital losses for the year.

The amendments are applicable to taxation years that end after 1999.

History: S. 138(2) was amended by S.C. 1997, c. 25, s. 39(1), applicable to the 1997 and subsequent taxation years. S. 138(2) formerly read:

"(2) *Insurer's income or loss.* Notwithstanding any other provision of this Act, where a life insurer is resident in Canada,

(*a*) its income for a taxation year from carrying on an insurance business is the amount of its income for the year from carrying on that insurance business in Canada; and

(*b*) its loss sustained in a taxation year in carrying on an insurance business is the amount of its loss, if any, sustained in the year in carrying on that insurance business in Canada, computed by applying, with such modifications as the circumstances require, the provisions of this Act respecting the computation of income from an insurance business of the class carried on by it."

S. 138(2), the portion before paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 114(1), applicable to the 1990 and subsequent taxation years. That part formerly read:

"(2) Notwithstanding any other provision of this Act, in the case of an insurer, other than a resident of Canada that does not carry on a life insurance business,"

Related Sections: S. 20(7) Where para. (1)(m) does not apply; s. 138(1) Insurance corporations; s. 138(6) Deduction for dividends from taxable corporations; s. 138(9) Computation of income; s. 138(12), "designated insurance property".

Tax Window Files: Demutualization Expenses, November 17, 2003, CRA Document No. 2003-0044367; Deductibility of Demutualization Expenses, October 24, 2003, CRA Document No. 2003-0183447; Deductibility of Life Insurance Foreign Currency SWAPS, August 21, 2002, CRA Document No. 2002-0138617.

Cases: The life insurer, a non-resident of Canada, was required to include interest received on the overpayment of taxes as income from its life insurance business in Canada. *Munich Reinsurance Company (Canadian Branch) v. The Queen,* 2002 DTC 6701, affirmed the decision in (F.C.T.D.) 2002 DTC 2009. As a result of the decision, a technical amendment was proposed in former Bill C-10 (October 29, 2007).

► 138(3) ◄

(3) Deductions allowed in computing income. In computing a life insurer's income for a taxation year from carrying on its life insurance business in Canada, there may be deducted

(*a*) such of the following amounts as are applicable:

(i) any amount that the insurer claims as a policy reserve for the year in respect of its life insurance policies, not exceeding the total of amounts that the insurer is allowed by regulation to deduct in respect of the policies,

(ii) any amount that the insurer claims as a reserve in respect of claims that were received by the insurer before the end of the year under its life insurance policies and that are unpaid at the end of the year, not exceeding the total of amounts that the insurer is allowed by regulation to deduct in respect of the policies,

(ii.1) the amount included under paragraph (4)(*b*) in computing the insurer's income for the taxation year preceding the year,

(iii) an amount equal to the lesser of

(A) the amount, if any, by which the total of policy dividends (except the portion thereof paid out of segregated funds) that became payable by the insurer after its 1968 taxation year and before the end of the year under its participating life insurance policies exceeds the total of amounts deductible under this subparagraph in computing its incomes for taxation years before the year, and

(B) the amount, if any, by which the total of all amounts, each of which is the insurer's income, determined in accordance with prescribed rules, for the year or a preceding taxation year ending after 1968 from its participating life insurance business carried on in Canada exceeds the total of all amounts each of which is an amount deductible under this subparagraph or subparagraph (iv) in computing its incomes for taxation years ending before the year,

(iv) an amount as a reserve for policy dividends that will become payable by the insurer in the immediately following taxation year equal to the least of

(A) that portion of policy dividends that has accrued in the year or a preceding taxation year to or for the benefit of participating life insurance policyholders of the insurer, to the extent that an amount in respect thereof has not been included, either explicitly or implicitly, in the calculation of the amount deductible by the insurer for the year under subparagraph (i) and, for the purpose of this clause, a policy dividend in respect of a life insurance policy shall be deemed to accrue in equal daily amounts between anniversary dates of the policy,

(B) 110% of the amount paid or unconditionally credited in the taxation year immediately following the year in respect of the portion referred to in clause (A) of policy dividends that has accrued in the year or a preceding taxation year, and

(C) the amount, if any, by which the amount described in clause (iii)(B) for the year exceeds the amount described in clause (iii)(A) for the year, and

(v) each amount (other than an amount credited under a participating life insurance policy) that would be deductible under section 140 in computing the insurer's income for the year if the reference in that section to "an insurance business other than a life insurance business" were read as a reference to "a life insurance business in Canada";

(*b*) [Repealed by S.C. 1995, c. 21, s. 57(1).]

(*c*) [Repealed by 1988, c. 55, s. 125(3).]

(*d*) [Repealed by S.C. 1995, c. 21, s. 57(2).]

(*e*) the total of amounts each of which is a policy loan made by the insurer in the year and after 1977;

(*f*) where the taxation year is the first taxation year of the insurer ending after November 12, 1981, the total of all amounts each of which is the amount, if any, in respect of interest on a policy loan that was included in computing the insurer's income for a taxation year ending before November 13, 1981

(i) to the extent that the interest had accrued to it before the commencement of its 1969 taxation year, or

(ii) to the extent that the interest had been included in computing its income for a preceding taxation year; and

(*g*) the amount of tax under Part XII.3 payable by the insurer in respect of its taxable Canadian life investment income for the year.

History: S. 138(3)(*a*)(i) and (ii) were amended, and subparagraph (ii.1) was added, by S.C. 1997, c. 25, s. 39(2), applicable to the 1996 and subsequent taxation years. Subparagraphs (i) and (ii) formerly read:

"(i) such amount in respect of a policy reserve for the year for life insurance policies of a particular class as is allowed by regulation,

(ii) such amount as is allowed by regulation as a reserve in respect of claims that were received by the insurer before the end of the year under life insurance policies and that are unpaid at the end of the year,"

S. 138(3)(*b*) was repealed by S.C. 1995, c. 21, s. 57(1), applicable to taxation years that begin after February 22, 1994 and paragraph 138(3)(*b*), as it applies to a taxation year that includes February 22, 1994, shall be read as follows:

"(*b*) the total of losses sustained in the year by the insurer in respect of Canada securities owned by it that were disposed of by it in the year and before February 23, 1994."

S. 138(3)(*b*) formerly read:

"(*b*) the total of losses sustained in the year by the insurer in respect of Canada securities owned by it that were disposed of by it in the year;"

S. 138(3)(*d*) was repealed by S.C. 1995, c. 21, s. 57(2), applicable to taxation years that end after February 22, 1994. S. 138(3)(*d*) formerly read:

"(*d*) the total of each such portion of each amount, if any, by which the cost to the insurer of acquiring a Canada security owned by it at the end of the year exceeds the principal amount of the security at the time it was so acquired as was deducted by the insurer in computing its profit for the year;"

Related Sections: S. 4(1) Income or loss from a source or from sources in a place; s. 18(1)(e.1) Unpaid claims under insurance policies; s. 20(7) Where para. (1)(m) does not apply; s. 138(4) Amounts included in computing income; s. 138(5.2) Idem; s. 138(9) Computation of income; s. 138(12), "designated insurance property", "life insurance policy in Canada", "maximum tax actuarial reserve"; s. 139.1(8) Policy dividends; s. 148(1) Amounts included in computing policyholder's income; s. 148(2) Deemed proceeds of disposition; s. 208–s. 211.

Regulations: 1401; 1402; 1403 to 1408; 2402.

Forms: T2Sch150.

Tax Window Files: Tax on Investment Income of Life Insurers — Universal Life Policies, March 28, 2006, CRA Document No. 2005-0145821E5; Reinsurance Reserve, January 8, 2004, CRA Document No. 2003-0035797; Large Corporations Tax — Policy Loans, January 15, 2003, CRA Document No. 2002-0168217; Negative Reserve in Respect of a Segregated Fund, February 25, 2002, CRA Document No. 2001-0105537; Policy Loans — Assumption Reinsurance Arrangement, November 16, 1995, CRA Document No. 9528295; Maximum Tax Actuarial Reserves on Reinsurance Risk, August

16, 1989, CRA Document No. 7-4201; Modified Co-Insurance, October 15, 1977, CRA Document No. 9638486.

Cases: The taxpayer was successful in excluding certain components in the calculation of its reserves under the policy premiums method. *National Life Assurance Co. of Canada v. The Queen*, 2008 DTC 6141 (F.C.A.), affirming 2006 DTC 3633 (T.C.C.).

► 138(3.1) ◄

(3.1) Excess policy dividend deduction deemed deductible. For the purposes of clause (3)(*a*)(iii)(A),

(*a*) an insurer's 1975-76 excess policy dividend deduction shall be deemed to be an amount that was deductible under subparagraph (3)(*a*)(iii) in computing its incomes for taxation years before its 1977 taxation year; and

(*b*) the amount prescribed to be an insurer's 1977 excess policy dividend deduction shall be deemed to be an amount that was deductible under subparagraph (3)(*a*)(iii) in computing its incomes for taxation years before its 1978 taxation year.

Regulations: 2407.

► 138(4) ◄

(4) Amounts included in computing income. In computing a life insurer's income for a taxation year from carrying on its life insurance business in Canada, there shall be included

(*a*) each amount deducted under subparagraph (3)(*a*)(i), (ii) or (iv) in computing the insurer's income for the preceding taxation year;

(*b*) the amount prescribed in respect of the insurer for the year in respect of its life insurance policies; and

(*c*) the total of all amounts received by the insurer in the year in respect of the repayment of policy loans or in respect of interest on policy loans.

History: S. 138(4) was amended by S.C. 1997, c. 25, s. 39(3), applicable to the 1996 and subsequent taxation years. S. 138(4) formerly read:

"(4) *Amounts included in computing income.* In computing a life insurer's income for a taxation year from carrying on its life insurance business in Canada, there shall be included

(*a*) each amount deducted by the insurer under subparagraph (3)(*a*)(i), (ii) or (iv) in computing its income for the immediately preceding taxation year and;

(*b*) [Repealed by 1995, c. 21, S. 57(3).]

(*c*) [Repealed by 1995, c. 21, S. 57(4).]

(*d*) the total of amounts each of which is an amount received by the insurer in the year in respect of the repayment of a policy loan or in respect of interest on a policy loan."

S. 138(4)(*b*) was repealed by S.C. 1995, c. 21, s. 57(3), applicable to taxation years that begin after February 22, 1994 and paragraph 138(4)(*b*), as it applies to a taxation year that includes February 22, 1994, shall be read as follows:

"(*b*) the total of profits or gains made in the year by the insurer in respect of Canada securities owned by it that were disposed of by it in the year and before February 23, 1994."

S. 138(4)(*b*) formerly read:

"(*b*) the total of profits or gains made in the year by the insurer in respect of Canada securities owned by it that were disposed of by it in the year;"

S. 138(4)(*c*) was repealed by S.C. 1995, c. 21, s. 57(4), applicable to taxation years that end after February 22, 1994. S. 138(4)(*c*) formerly read:

"(*c*) the total of each such portion of each amount, if any, by which the principal amount, at the time it was acquired by the insurer, of a Canada security owned by it at the end of the year exceeds the cost to the insurer of so acquiring it as was included by the insurer in computing its profit for the year; and"

Related Sections: S. 138(1) Insurance corporations; s. 138(3) Deductions allowed in computing income; s. 138(4.3) Deemed deduction for last taxation year ending before 1985; s. 138(9) Computation of income.

Regulations: 8103.

Tax Window Files: Policy Loans — Assumption Reinsurance Arrangement, November 16, 1995, CRA Document No. 9528295.

► 138(4.01) ◄

(4.01) Life insurance policy. For the purposes of subsections (3) and (4), a life insurance policy includes a benefit under a group life insurance policy or a group annuity contract.

History: S. 138(4.01) was added by S.C. 1997, c. 25, s. 39(3), applicable to the 1996 and subsequent taxation years.

► 138(4.1) ◄

(4.1) Idem. For the purposes of paragraph (4)(*a*), an insurer shall be deemed to have deducted in computing its income for its 1976 taxation year,

(*a*) under subparagraph (3)(*a*)(i), the total of

(i) the amount deducted under that subparagraph in computing its income from its life insurance business in Canada for its 1976 taxation year, and

(ii) the lesser of

(A) the amount, if any, of its 1975-76 excess policy reserves, and

(B) the amount, if any, by which its 1975 branch accounting election deficiency exceeds the total of

(I) the amount determined under subparagraph (*d*)(ii),

(II) the total of amounts each of which is an amount determined under paragraph 13(22)(*b*) with respect to depreciable property of a prescribed class of the insurer,

(III) the amount determined under subparagraph (*b*)(ii), and

(IV) the total of amounts each of which is a portion of a non-capital loss that is deemed by subsection 111(7.1) to have been deductible in computing the insurer's income for a taxation year ending before 1977;

(*b*) under subparagraph (3)(*a*)(ii), the total of

(i) the amount deducted under that subparagraph in computing its income from its life insurance business in Canada for its 1976 taxation year, and

(ii) the lesser of

(A) the amount, if any, of its 1975-76 excess additional group term reserves, and

(B) the amount, if any, by which its 1975 branch accounting election deficiency exceeds the total of

(I) the amount determined under subparagraph (*d*)(ii),

(II) the total of amounts each of which is an amount determined under paragraph 13(22)(*b*) with respect to depreciable property of a prescribed class of the insurer, and

(III) the total described in subclause (*a*)(ii)(B)(IV);

(*c*) under subparagraph (3)(*a*)(iv), the total of

(i) the amount deducted under that subparagraph in computing its income from its life insurance business in Canada for its 1976 taxation year, and

(ii) the amount, if any, of its 1975-76 excess policy dividend reserve; and

(*d*) under paragraph 138(3)(*c*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, the total of

(i) the amount deducted under that paragraph in computing its income from its life insurance business in Canada for its 1976 taxation year, and

(ii) the lesser of

(A) the amount, if any, of its 1975-76 excess investment reserve, and

(B) the amount, if any, of its 1975 branch accounting election deficiency.

► 138(4.2) ◄

(4.2) Idem. For the purposes of paragraph (4)(*a*), a life insurer shall be deemed to have deducted the following amounts in computing its income for its 1977 taxation year

(*a*) under subparagraph (3)(*a*)(i), the amount if any, by which the total of

(i) the insurer's maximum tax actuarial reserve for its 1977 taxation year, if that reserve had been determined on the basis of the rules applicable to its 1978 taxation year,

(ii) where the insurer has deducted the amount of any policy loan made by it in the year in computing its income from its life insurance business in Canada for any taxation year before its 1978 taxation year or not included interest in respect of any such loan in computing its gross investment revenue for any taxation year before its 1978 taxation year, the total of amounts that were outstanding at the end of the insurer's 1977 taxation year each of which is an amount payable to it in respect of a policy loan, and

(iii) that portion of the amount deducted by the insurer under subparagraph (3)(*a*)(i) in computing its income for its 1977 taxation year that is in respect of segregated fund policies

exceeds

(iv) the amount prescribed to be its 1977 carryforward deduction;

(*b*) under subparagraph (3)(*a*)(iv), the total of

(i) the amount deducted under that subparagraph in computing its income from its life insurance business in Canada for its 1977 taxation year, and

(ii) the amount, if any, by which

(A) the amount that would have been deductible under that subparagraph for its 1977 taxation year if that subparagraph were read without reference to clause (3)(*a*)(iv)(C),

exceeds

(B) the amount determined under subparagraph (i) for that taxation year; and

(*c*) under paragraph 138(3)(*c*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, the total of

(i) the amount deducted under that paragraph in computing its income from its life insurance business in Canada for its 1977 taxation year, and

(ii) the amount, if any, by which,

(A) where the insurer has made an election under subsection (9) in respect of its 1975 taxation year, the amount that would have been deductible under paragraph 138(3)(*c*) of that Act in computing its income for its 1977 taxation year if the insurer had claimed the maximum allowable amount in its 1977 taxation year, or

(B) where the insurer has not made an election under subsection (9) in respect of its 1975 taxation year, the amount that would have been deductible under paragraph 138(3)(*c*) of that Act in computing its income for its 1977 taxation year if the insurer had claimed the maximum allowable amount in each of its taxation years ending before 1978 and after 1974

exceeds

(C) the amount determined under subparagraph (i).

Regulations: 2408.

► 138(4.3) ◄

(4.3) Idem. For the purposes of paragraph (4)(*a*), in computing a life insurer's income from carrying on its life insurance business in Canada for its first taxation year ending after 1984, the amount, if any, by which

(*a*) the total of all amounts each of which is an amount deducted by the insurer in computing its income for a taxation year ending after 1968 and before 1985 in respect of a claim under a life insurance policy that was likely to arise after the end of the particular taxation year in respect of a death that occurred in the particular taxation year

exceeds

(*b*) the total of all amounts each of which is an amount paid by the insurer or included in computing its income before the commencement of its first taxation year ending after 1984 in respect of amounts described in paragraph (*a*)

shall be deemed to be an amount that was deducted by the insurer under subparagraph (3)(*a*)(i) in computing its income from that business for its last taxation year ending before 1985.

► 138(4.4) ◄

(4.4) Idem. Where, for a period of time in a taxation year, a life insurer

(*a*) owned land (other than land referred to in paragraph (*c*) or (*d*)) or an interest therein that was not held primarily for the purpose of gaining or producing income from the land for the period,

(*b*) had an interest in a building that was being constructed, renovated or altered,

(*c*) owned land subjacent to the building referred to in paragraph (*b*) or an interest therein, or

(*d*) owned land immediately contiguous to the land referred to in paragraph (*c*) or an interest therein that was used or was intended to be used for a parking area, driveway, yard, garden or other use necessary for the use or intended use of the building referred to in paragraph (*b*),

there shall be included in computing the insurer's income for the year, where the land, building or interest was designated insurance property of the insurer for the year, or property used or held by it in the year in the course of carrying on an insurance business in Canada, the total of all amounts each of which is the amount prescribed in respect of the insurer's cost or capital cost, as the case may be, of the land, building or interest for the period, and the amount prescribed shall, at the end of the period, be included in computing

(*e*) where the land or interest therein is property described in paragraph (*a*), the cost to the insurer of the land or the interest therein, and

(*f*) where the land, building or interest therein is property described in paragraphs (*b*) to (*d*), the capital cost to the insurer of the interest in the building described in paragraph (*b*).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 138(4.4) of the Act is replaced by the following:

(4.4) **Income inclusion.** Where, for a period of time in a taxation year, a life insurer

(*a*) owned land (other than land referred to in paragraph (*c*) or (*d*)) or an interest, or for civil law a right, therein that was not held primarily for the purpose of gaining or producing income from the land for the period,

(*b*) had an interest, or for civil law a right, in a building that was being constructed, renovated or altered,

(*c*) owned land subjacent to the building referred to in paragraph (*b*) or an interest, or for civil law a right, therein, or

(*d*) owned land immediately contiguous to the land referred to in paragraph (*c*) or an interest, or for civil law a right, therein that was used or was intended to be used for a parking area, driveway, yard, garden or other use necessary for the use or intended use of the building referred to in paragraph (*b*),

there shall be included in computing the insurer's income for the year, where the land, building, or interest or right, was designated insurance property of the insurer for the year, or property used or held by it in the year in the course of carrying on an insurance business in Canada, the total of all amounts each of which is the amount prescribed in respect of the insurer's cost or capital cost, as the case may be, of the land, building, or interest or right, for the period, and the amount prescribed shall, at the end of the period, be included in computing

(*e*) where the land, or interest or right therein, is property described in paragraph (*a*), the cost to the insurer of the land, or of the interest or right therein, and

(*f*) where the land, building, or interest or right therein, is property described in paragraphs (*b*) to (*d*), the capital cost to the insurer of the interest or right in the building described in paragraph (*b*).

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

History: S. 138(4.4), the portion after paragraph (*d*) and before paragraph (*e*), was amended by S.C. 1997, c. 25, s. 39(4), applicable to the 1997 and subsequent taxation years. That part formerly read:

"the life insurer shall, where that land or building was property used by it in the year in, or held by it in the year in the course of, carrying on an insurance business in Canada, include a prescribed amount in computing its income for the year in respect of the cost or capital cost, as the case may be, of the land, building or interest therein to the insurer for the period, and the amount so included shall, at the end of the period, be included in computing"

Related Sections: S. 138(4.5) Application; s. 138(4.6) Completion; s. 138(12), "designated insurance property".

Regulations: 2410.

► 138(4.5) ◄

(4.5) Application. Where a life insurer transfers or lends property, directly or indirectly in any manner whatever, to a person or partnership (in this subsection referred to as the "transferee") that is affiliated with the insurer or a person or partnership that does not deal at arm's length with the insurer and

(*a*) that property,

(*b*) property substituted for that property, or

(*c*) property the acquisition of which was assisted by the transfer or loan of that property

was property described in paragraph (4.4)(*a*), (*b*), (*c*) or (*d*) of the transferee for a period of time in a taxation year of the insurer, the following rules apply:

(*d*) subsection (4.4) shall apply to include an amount in the insurer's income for the year on the assumption that the property was owned by the insurer for the period, was property described in paragraph (4.4)(*a*), (*b*), (*c*) or (*d*) of the insurer and was used or held by it in the year in the course of carrying on an insurance business in Canada, and

(*e*) an amount included in the insurer's income for the year under subsection (4.4) by reason of the application of this subsection shall

(i) where subparagraph (ii) does not apply, be added by the insurer in computing the cost to it of shares of the capital stock of or an interest in the transferee at the end of the year, or

(ii) where the insurer and the transferee have jointly elected in prescribed form on or before the day that is the earliest of the days on or before which any taxpayer making the election is required to file a return pursuant to section 150 for the taxation year that includes the period, be added in computing

(A) where the property is land or an interest therein of the transferee described in paragraph (4.4)(*a*), the cost to the transferee of the land or the interest therein, and

(B) where the property is land, a building or an interest therein described in paragraphs (4.4)(*b*) to (*d*), the capital cost to the transferee of the interest in the building described in paragraph (4.4)(*b*).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Clauses 138(4.5)(*e*)(ii)(A) and (B) of the English version of the Act are replaced by the following:

(A) where the property is land or an interest, or for civil law a right, therein of the transferee described in paragraph (4.4)(*a*), the cost to the transferee of the land, or of the interest or right therein, and

(B) where the property is land or a building, or an interest therein or for civil law a right therein, described in paragraphs (4.4)(*b*) to (*d*), the capital

cost to the transferee of the interest or of the right in the building described in paragraph (4.4)(*b*).

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

History: S. 138(4.5), the portion before paragraph (*a*), was amended by S.C. 1997, c. 25, s. 39(5), applicable to the 1997 and subsequent taxation years. That part formerly read:

"(4.5) *Application.* Where, after 1987, a life insurer has transferred or lent property, directly or indirectly in any manner whatever, to a transferee that was a designated corporation of the insurer (within the meaning assigned by subsection 2405(3) of the *Income Tax Regulations*) or a person or partnership that does not deal at arm's length with the insurer and"

S. 138(4.5)(*d*) was amended by S.C. 1997, c. 25, s. 39(6), applicable to the 1997 and subsequent taxation years. S. 138(4.5)(*d*) formerly read:

"(*d*) subsection (4.4) shall apply to the insurer to include an amount in the insurer's income for the year on the assumption that the property was owned by the insurer for the period, was property described in paragraph (4.4)(*a*), (*b*), (*c*) or (*d*) of the insurer and was used by it in the year in, or held by it in the year in the course of, carrying on an insurance business in Canada, and"

► 138(4.6) ◄

(4.6) Completion. For the purposes of subsection (4.4), the construction, renovation or alteration of a building is completed at the earlier of the day on which the construction, renovation or alteration is actually completed and the day on which all or substantially all of the building is used for the purpose for which it was constructed, renovated or altered.

► 138(5) ◄

(5) Deductions not allowed. Notwithstanding any other provision of this Act,

(*a*) in the case of an insurer, no deduction may be made under paragraph 20(1)(*l*) in computing its income for a taxation year from an insurance business in Canada in respect of a premium or other consideration for a life insurance policy in Canada or an interest therein; and

(*b*) in the case of a non-resident insurer or a life insurer resident in Canada that carries on any of its insurance business in a country other than Canada, no deduction may be made under paragraph 20(1)(*c*) or (*d*) in computing its income for a taxation year from carrying on an insurance business in Canada, except in respect of

(i) interest on borrowed money used to acquire designated insurance property for the year, or to acquire property for which designated insurance property for the year was substituted property, for the period in the year during which the designated insurance property was held by the insurer in respect of the business,

(ii) interest on amounts payable for designated insurance property for the year in respect of the business, or

(iii) interest on deposits received or other amounts held by the insurer that arose in connection with life insurance policies in Canada or with policies insuring Canadian risks.

(iv) [Repealed by S.C. 2001, c. 17, s. 133(2).]

History: S. 138(5)(*b*)(iv) was repealed by S.C. 2001, c. 17, s. 133(2), applicable to the 1997 and subsequent taxation years. S. 138(5)(*b*)(iv) formerly read:

"(iv) other interest that does not exceed a prescribed amount."

S. 138(5)(*b*)(i) was amended by S.C. 2001, c. 17, s. 133(1), applicable to the 1997 and subsequent taxation years. S. 138(5)(*b*)(i) formerly read:

"(i) interest on borrowed money used to acquire designated insurance property for the year in respect of the business,"

S. 138(5)(*b*) was amended by S.C. 1997, c. 25, s. 39(7), applicable to the 1997 and subsequent taxation years. S. 138(5)(*b*) formerly read:

"(*b*) in the case of a non-resident insurer or a life insurer resident in Canada that carries on any of its insurance business in a country other than Canada, no deduction may be made under paragraph 20(1)(*c*) or (*d*) in computing its income for a taxation year from carrying on an insurance business in Canada, except in respect of interest on

(i) borrowed money used to acquire property used by it in the year in, or held by it in the year in the course of, carrying on that insurance business in Canada, to the extent that the interest is paid or payable in respect of that portion of the year during which the property was so used or held,

(ii) amounts payable for its property used by it in the year in, or held by it in the year in the course of, carrying on that insurance business in Canada to the extent that the interest is paid or payable in respect of that portion of the year during which the property was so used or held, or

(iii) deposits received or other amounts held by the insurer that arose in connection with life insurance policies in Canada or with policies insuring Canadian risks."

Related Sections: S. 20(1)(*p*) Bad debts; s. 138(12), "designated insurance property"; s. 248(5) Substituted property.
Regulations: 2400.
Tax Window Files: Interest Expense — Insurer, May 26, 2005, CRA Document No. 2005-0126051C6.

► 138(5.1) ◄

(5.1) No deduction. No deduction shall be made under subsection 20(12) in computing the income of a life insurer resident in Canada in respect of foreign taxes attributable to its insurance business.

Interpretation Bulletins: *Secondary* — IT-506 Foreign income taxes as a deduction from income.

► 138(5.2) ◄

(5.2) Idem. [Repealed by S.C. 1995, c. 21, s. 57(5).]

History: S. 138(5.2) was repealed by S.C. 1995, c. 21, s. 57(5), applicable to dispositions occurring after October 30, 1994, except the disposition of a debt obligation before July 1995 where

(*a*) the disposition is part of a series of transactions or events that began before October 31, 1994;

(*b*) as part of the series of transactions or events, the taxpayer who acquired the debt obligation disposed of property before October 31, 1994; and

(*c*) it is reasonable to consider that one of the main reasons for the acquisition of the debt obligation by the taxpayer was to obtain a deduction because, as a consequence of the disposition referred to in paragraph (*b*),

(i) an amount was included in the taxpayer's income for any taxation year, or

(ii) an amount was subtracted from a balance of undeducted outlays, expenses or other amounts of the taxpayer and the subtracted amount exceeded the portion, if any, of the balance that could reasonably be considered to be in respect of the property.

S. 138(5.2) formerly read:

"(5.2) *Idem.* Notwithstanding paragraph (3)(*b*) and subsection (11.4), in computing an insurer's income for a taxation year from carrying on an insurance business, no amount shall be deducted in respect of a loss sustained by the insurer on a disposition (other than a disposition occurring as a result of the application of subsection (11.3)) of property that is a share, bond, debenture, mortgage, note, agreement of sale or any other form of indebtedness that was not a capital property of the insurer and was used by it in the year in, or held by it in the year in the course of, carrying on an insurance business in any case where

(*a*) during the period commencing 30 days before and ending 30 days after the disposition, the insurer or a person or partnership that does not deal at arm's length with the insurer acquired or agreed to acquire the same or an identical property (in this subsection referred to as the 'substituted property'), and

(*b*) at the end of the period referred to in paragraph (*a*), the insurer or the person or partnership, as the case may be, owned or had a right to acquire the substituted property,

and any such loss shall be added in computing the cost to the insurer or the person or partnership, as the case may be, of the substituted property."

► 138(6) ◄

(6) Deduction for dividends from taxable corporations. In computing the taxable income of a life insurer for a taxation year, no deduction from the income of the

insurer for the year may be made under section 112 but, except as otherwise provided by that section, there may be deducted from that income the total of taxable dividends (other than dividends on term preferred shares that are acquired in the ordinary course of the business carried on by the life insurer) included in computing the insurer's income for the year and received by the insurer in the year from taxable Canadian corporations.

Related Sections: S. 55(2) Deemed proceeds or capital gain; s. 112(2.2) Guaranteed shares; s. 112(2.4) Where no deduction permitted; s. 112(3) Loss on share that is capital property; s. 112(5) Disposition of share by financial institution; s. 112(5.1) Share held for less than one year; s. 112(5.2) Adjustment re dividends; s. 112(5.3) Adjustment not applicable; s. 112(5.4) Deemed dispositions; s. 112(5.5) Stop-loss rules not applicable; s. 112(5.6) Stop-loss rules restricted; s. 112(6) Meaning of certain expressions; s. 112(7) Rules where shares exchanged; s. 248(14) Related corporations.
Interpretation Bulletins: *Secondary* — IT-52R4 Income bonds and income debentures [Archived by the CRA]; IT-232R3 Non-capital losses, net capital losses, restricted farm losses, farm losses and limited partnership losses — Their composition and deductibility in computing taxable income; IT-328R3 Losses on shares on which dividends have been received.

► 138(7) ◄

(7) Amounts paid to shareholders included in taxable income. [Repealed by S.C. 1997, c. 25, s. 39(8).]

History: S. 138(7) was repealed by S.C. 1997, c. 25, s. 39(8), applicable to the 1996 and subsequent taxation years. S. 138(7) formerly read:

"(7) *Amounts paid to shareholders included in taxable income.* The taxable income for a taxation year of a life insurer resident in Canada is its taxable income for the year otherwise computed under this Part, plus 2 times the amount, if any, by which the total of amounts each of which is an amount paid by it after the end of its 1968 taxation year and before the end of the year as, on account or in lieu of payment of, or in satisfaction of dividends or stock dividends or any other amounts that, but for paragraph 84(1)(c.1), would have been dividends, exceeds the total of

(*a*) the insurer's undistributed income on hand at the end of its 1968 taxation year in respect of which tax under this Part has been paid by it,
(*b*) the surplus funds derived from operations of the insurer as of the end of the year,
(*c*) the total of amounts of surplus contributed to the insurer before the end of the year,
(*d*) 1/2 the total of amounts that, by virtue of this subsection, have been added to the taxable income of the insurer otherwise computed under this Part in computing its taxable income for taxation years before the year,
(*e*) where in the taxation year the insurer carried on an insurance business in a country other than Canada, the lesser of
(i) the total of dividends and stock dividends in respect of shares of the capital stock of the insurer paid by it in the year out of property other than property used by the insurer in the year in, or held by it in the year in the course of, carrying on an insurance business in Canada, and
(ii) the amount of tax for the year paid by the insurer to the government of a country other than Canada under the income tax laws of that country out of property other than property used by the insurer in the year in, or held by it in the year in the course of, carrying on an insurance business in Canada,
(*f*) where in the taxation year the insurer did not carry on an insurance business in a country other than Canada, the lesser of
(i) the total of dividends and stock dividends in respect of shares of the capital stock of the insurer paid by it in the year, and
(ii) the amount of tax for the year paid by the insurer to the government of a country other than Canada under the income tax laws of that country,
(*g*) the total of all amounts determined under paragraphs (*e*) and (*f*) in respect of the insurer for taxation years before the year, and
(*h*) the amount, if any, by which the lesser of
(i) the total of amounts paid after the end of the insurer's 1968 taxation year and before 1978 as, on account or in lieu of payment of, or in satisfaction of, dividends or stock dividends in respect of shares of the capital stock of the insurer, and
(ii) the amount, if any, determined in respect of the insurer under paragraph 138(7)(*c*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read in its application to the 1976 taxation year

exceeds

(iii) the total of amounts of surplus contributed to the insurer before 1978."

Related Sections: S. 138(12), "Property used by it in the year in, or held by it in the year in the course of", "surplus funds derived from operations"; s. 139 Conversion of insurance corporations into mutual corporations.

► 138(8) ◄

(8) No deduction for foreign tax. No deduction shall be made under section 126 from the tax payable under this Part for a taxation year by a life insurer resident in Canada in respect of such part of an income or profits tax as can reasonably be attributable to income from its insurance business.

Related Sections: S. 126 Foreign tax deduction.

► 138(9) ◄

(9) Computation of income. Where in a taxation year an insurer (other than an insurer resident in Canada that does not carry on a life insurance business) carries on an insurance business in Canada and in a country other than Canada, there shall be included in computing its income for the year from carrying on its insurance businesses in Canada the total of

(*a*) its gross investment revenue for the year from its designated insurance property for the year, and
(*b*) the amount prescribed in respect of the insurer for the year.

History: S. 138(9) was amended by S.C. 1997, c. 25, s. 39(9), applicable to the 1997 and subsequent taxation years. S. 138(9) formerly read:

"(9) *Computation of income.* Where in a taxation year an insurer (other than a resident of Canada that does not carry on a life insurance business) carried on an insurance business in Canada and in a country other than Canada, there shall be included in computing its income for the year from carrying on its insurance businesses in Canada the total of

(*a*) that part of its gross investment revenue for the year that is gross investment revenue from property used by it in the year in, or held by it in the year in the course of, carrying on those insurance businesses in Canada, and
(*b*) such additional amount as is prescribed in respect of the insurer for the year by regulation."

Related Sections: S. 138(3) Deductions allowed in computing income; s. 138(7) Amounts paid to shareholders included in taxable income; s. 138(10) Application of financial institution rules; s. 138(12), "designated insurance property", "property used by it in the year in, or held by it in the year in the course of"; s. 142 Taxable capital gains etc; s. 148(1) Amounts included in computing policyholder's income; s. 219(4) Non-resident insurers; s. 219(5) Additional tax on insurer.
Regulations: Part XXIV.
Forms: T2016.
Tax Window Files: Insurer's Canadian Reserve Liabilities — Reserves for Reinsurance Ceded to Unregistered Insurers, November 24, 2005, CRA Document No. 2004-008257117; Computation of Insurer's CRL, November 24, 2005, CRA Document No. 2004-008257117; Insurance Business — Value of Property, May 26, 2005, CRA Document No. 2005-0164701C6; Designation of Assets and the Canada–U.S. Tax Treaty, March 8, 2005, CRA Document No. 2003-005428117; Insurers — Designated Property, May 8, 2003, CRA Document No. 2002-0167477; Canadian Investment Fund — Unregistered Reinsurance Reserve, March 22, 2001, CRA Document No. 2000-0049167; Valuation of Shares of Subsidiary of a Non-resident Property and Casualty Insurer, February 10, 1998, CRA Document No. 9802717; Non-Resident General Insurers, February 21, 1992, CRA Document No. 9023687.
Cases: An Canadian insurer, that had an agency agreement with a firm in Bermuda was carrying on business both in Canada and outside Canada and therefore was eligible to make the election under subsection 138(9) of the ITA. *London Life Insurance Company v. The Queen*, 90 DTC 6001 (F.C.A.) affirming 87 DTC 5312 (F.C.T.D.).

In calculating the Canadian Investment Fund, the taxpayer was required to include in its "Canadian Revenue Liabilities" the reserve for reinsurance ceded to unlicensed reinsurers. *The Victory Reinsurance Company Limited v. Minister of National Revenue*, 92 DTC 1869 (T.C.C.).

A non-resident life insurer was required to include in its "Canadian reserve liabilities" its hail insurance reserve and its deferred acquisition expenses in excess of 30% unearned premiums as the definition in question was broad enough to include reserves and liabilities that were, directly or indirectly, connected to insurance policies in Canada. *Munich Reinsurance Company (Canada Branch) v. Minister of National Revenue*, 96 DTC 6185 (F.C.T.D.) affirming 91 DTC 1137 (T.C.C.).

A Canadian resident multi-national life insurer was required to exclude certain investments as "investment property" of the taxpayer, for purposes of the "fill" to the "Canadian Investment Fund for the Year". *Great-West Life Assurance Company v. The Queen*, 98 DTC 2101 (T.C.C.).

► 138(9.1) ◄

(9.1) Gross investment revenue. [Repealed by 1988, c. 55, s. 125(11).]

► 138(10) ◄

(10) Application of financial institution rules. Notwithstanding sections 142.3, 142.4, 142.5 and 142.51, where in a taxation year an insurer (other than an insurer resident in Canada that does not carry on a life insurance business) carries on an insurance business in Canada and in a country other than Canada, in computing its income for the year from carrying on an insurance business in Canada,

(*a*) sections 142.3, 142.5 and 142.51 apply only in respect of property that is designated insurance property for the year in respect of the business; and

(*b*) section 142.4 applies only in respect of the disposition of property that, for the taxation year in which the insurer disposed of it, was designated insurance property in respect of the business.

History: S. 138(10), the portion before paragraph (*b*) was replaced by S.C. 2009, c. 2, s. 45(1), applicable to taxation years that begin after September 2006. S. 138(10), the portion before paragraph (*b*) formerly read:

"(10) *Application of financial institution rules.* Notwithstanding sections 142.3, 142.4 and 142.5, where in a taxation year an insurer (other than an insurer resident in Canada that does not carry on a life insurance business) carries on an insurance business in Canada and in a country other than Canada, in computing its income for the year from carrying on an insurance business in Canada,

(*a*) sections 142.3 and 142.5 apply only in respect of property that is designated insurance property for the year in respect of the business; and"

S. 138(10) was amended by S.C. 1997, c. 25, s. 39(9), applicable to the 1997 and subsequent taxation years. S. 138(10) formerly read:

"(10) *Application of financial institution rules.* Where in a taxation year an insurer (other than an insurer resident in Canada that does not carry on a life insurance business) carried on an insurance business in Canada and in a country other than Canada, in computing the income of the insurer for the year from carrying on an insurance business in Canada,

(*a*) sections 142.3 and 142.5 apply with respect to property used by it in the year in, or held by it in the year in the course of, carrying on that business; and

(*b*) section 142.4 applies with respect to the disposition of property that, in the taxation year in which the insurer disposed of it, was property used by it in the year in, or held by it in the year in the course of, carrying on that business."

S. 138(10) was added by S.C. 1995,c. 21, s. 57(6), applicable to taxation years that end after February 22, 1994.

► 138(11) ◄

(11) Profit or loss in respect of Canada security. [Repealed by S.C. 1995, c. 21, s. 57(7).]

History: S. 138(11) was repealed by S.C. 1995, c. 21, s. 57(7), applicable to taxation years that begin after February 22, 1994. S. 138(11) formerly read:

"(11) *Profit or loss in respect of Canada security.* For the purposes of paragraphs (3)(*b*) and (4)(*b*),

(*a*) the profit or gain made by an insurer in a taxation year in respect of a Canada security owned by it that was disposed of by it in the year is the amount by which the proceeds of disposition to which the insurer thereby became entitled exceeds the amortized cost of the security to the insurer at the time of the disposition; and

(*b*) the loss sustained by an insurer in a taxation year in respect of a Canada security owned by it that was disposed of by it in the year is the amount by which the amortized cost of the security to the insurer at the time of the disposition exceeds the proceeds of the disposition to which the insurer thereby became entitled."

► 138(11.1) ◄

(11.1) Identical properties. For the purpose of section 47, any property of a life insurance corporation that would, but for this subsection, be identical to any other property of the corporation is deemed not to be identical to the other property unless both properties are

(*a*) designated insurance property of the insurer in respect of a life insurance business carried on in Canada; or

(*b*) designated insurance property of the insurer in respect of an insurance business in Canada other than a life insurance business.

History: S. 138(11.1) was amended by S.C. 1997, c. 25, s. 39(9), applicable to the 1997 and subsequent taxation years. S. 138(11.1) formerly read:

"(11.1) *Identical properties.* For the purposes of section 47, any property of a life insurance corporation that would, but for this subsection, be identical to any other property of the corporation shall be deemed not to be identical to that other property unless both properties are

(*a*) non-segregated property used by it in the year in, or held by it in the year in the course of, carrying on a life insurance business in Canada; or

(*b*) non-segregated property used by it in the year in, or held by it in the year in the course of, carrying on an insurance business in Canada other than a life insurance business."

Related Sections: S. 47 Identical properties; s. 138(12), "designated insurance property".

Interpretation Bulletins: *Secondary* — IT-387R2 (Consolid.) Meaning of "identical properties".

► 138(11.2) ◄

(11.2) Computation of capital gain on pre-1969 depreciable property. For the purposes of computing the amount of a capital gain from the disposition of any depreciable property acquired by a life insurer before 1969, the capital cost of the property to the insurer shall be its capital cost determined without reference to paragraph 32(1)(*a*) of *An Act to amend the Income Tax Act*, chapter 44 of the Statutes of Canada, 1968-69, as it read in its application to the 1971 taxation year.

► 138(11.3) ◄

(11.3) Deemed disposition. Subject to subsection (11.31), where a property of a life insurer resident in Canada that carries on an insurance business in Canada and in a country other than Canada or of a non-resident insurer is

(*a*) designated insurance property of the insurer for a taxation year, was owned by the insurer at the end of the preceding taxation year and was not designated insurance property of the insurer for that preceding year, or

(*b*) not designated insurance property for a taxation year, was owned by the insurer at the end of the preceding taxation year and was designated insurance property of the insurer for that preceding year,

the following rules apply:

(*c*) the insurer is deemed to have disposed of the property at the beginning of the year for proceeds of disposition equal to its fair market value at that time and to have reacquired the property immediately after that time at a cost equal to that fair market value,

(*d*) where paragraph (*a*) applies, any gain or loss arising from the disposition is deemed not to be a gain or loss from designated insurance property of the insurer in the year, and

(*e*) where paragraph (*b*) applies, any gain or loss arising from the disposition is deemed to be a gain or loss from designated insurance property of the insurer in the year.

History: S. 138(11.3), the portion after paragraph (*b*) was amended, and paragraphs (*c*), (*d*) and (*e*) were added, by S.C. 2001, c. 17, s. 133(3), applicable to the 1997 and subsequent taxation years. S. 138(11.3), the portion after paragraph (*b*) formerly read:

"the insurer is deemed to have disposed of the property at the beginning of the year for proceeds of disposition equal to its fair market value at that time and to have immediately thereafter reacquired the property at a cost equal to that fair market value."

S. 138(11.3) was amended by S.C. 1997, c. 25, s. 39(10), applicable to the 1997 and subsequent taxation years. S. 138(11.3) formerly read:

"(11.3) *Deemed disposition.* Subject to subsection (11.31), and except for the purposes of paragraph 20(1)(*l*), the description of A in the definition 'undepreciated capital cost' in subsection 13(21) and paragraph (*b*) of the description of F in that definition and any regulations made for the purpose of the definition 'property used by it in the year in, or held by it in the year in the course of' in subsection (12), where a life insurer resident in Canada, or a non-resident insurer, that carries on an insurance business in Canada and in a country other than Canada, at any time,

(*a*) acquires property for some other purpose and at a later time commences to use that property as property used by it in the year in, or held by it in the year in the course of, carrying on an insurance business in Canada or,

(*b*) acquires property for use as property used by it in the year in, or held by it in the year in the course of, carrying on an insurance business in Canada and at a later time commences to use the property for some other purpose,

(*c*) [Repealed by 1995, c. 21, S. 57(9).]

(*d*) [Repealed by 1995, c. 21, S. 57(9).]

the insurer shall be deemed to have disposed of the property at that later time for proceeds of disposition equal to its fair market value at that time and to have immediately thereafter reacquired the property at a cost equal to that fair market value."

S. 138(11.3), that portion before paragraph (*a*) was amended by S.C. 1995, c. 21, s. 57(8), applicable to changes in use of property occurring in taxation years that begin after October 1994. That portion formerly read:

"(11.3) *Deemed disposition.* Except for the purposes of paragraphs (3)(*d*), (4)(*c*) and 20(1)(*l*), the description of A in the definition 'undepreciated capital cost' in subsection 13(21) and paragraph (*b*) of the description of F in that definition and any regulations made for the purpose of the definition 'property used by it in the year in, or held by it in the year in the course of' in subsection (12), where a life insurer resident in Canada, or a non-resident insurer, that carries on an insurance business in Canada and in a country other than Canada, at any time,"

S. 138(11.3)(*c*) was repealed by S.C. 1995, c. 21, s. 57(9), applicable to changes in use of property occurring after February 22, 1994. S. 138(11.3)(*c*) formerly read:

"(*c*) acquires property that is a bond, debenture, mortgage, agreement of sale or any other form of indebtedness for use as property used by it in the year in, or held by it in the year in the course of, carrying on a life insurance business in Canada and at a later time commences to use the property in, or hold it in the course of, carrying on a business other than a life insurance business in Canada, or"

S. 138(11.3)(*d*) was repealed by S.C. 1995, c. 21, s. 57(9), applicable to changes in use of property occurring after February 22, 1994. S. 138(11.3)(*d*) formerly read:

"(*d*) acquires property that is a bond, debenture, mortgage, agreement of sale or any other form of indebtedness for use in, or to be held in the course of, carrying on a business other than a life insurance business in Canada and at a later time commences to use the property as property used by it in the year in, or held by it in the year in the course of, carrying on a life insurance business in Canada,"

S. 138(11.3), the portion before paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 114(2), applicable to taxation years beginning after June 17, 1987 that end after 1987. That part formerly read:

"(11.3) Except for the purposes of the definition 'amortized cost' in subsection 248(1) as it applies to paragraphs (3)(*d*) and (4)(*c*), paragraph 20(1)(*l*), the description of A in the definition 'undepreciated capital cost' in subsection 13(21) and paragraph (*b*) of the description of F in that definition and any regulations made for the purposes of the definition 'property used by it in the year in, or held by it in the year in the course of' in subsection (12), where a life insurer resident in Canada, or a non-resident insurer, that carries on an insurance business in Canada and in a country other than Canada, at any time,"

Related Sections: S. 54, "superficial loss"; s. 138(11.4) Deduction of loss; s. 138(11.41) Inclusion of gain; s. 138(12), "designated insurance property".

► 138(11.31) ◄

(11.31) Exclusion from deemed disposition. Subsection (11.3) does not apply

(*a*) to deem a disposition in a taxation year of a property of an insurer where subsection 142.5(2) deemed the insurer to have disposed of the property in its preceding taxation year; nor

(*b*) for the purposes of paragraph 20(1)(*l*), the description of A and paragraph (*b*) of the description of F in the definition "undepreciated capital cost" in subsection 13(21) and the definition "designated insurance property" in subsection (12).

History: S. 138(11.31) was amended by S.C. 1997, c. 25, s. 39(10), applicable to the 1997 and subsequent taxation years. S. 138(11.31) formerly read:

"(11.31) *Exclusion from deemed disposition.* Subsection (11.3) does not apply in respect of a change in use of a property of an insurer where subsection 142.5(2) deemed the insurer to have disposed of the property in the taxation year that ended immediately before the change in use."

S. 138(11.31) was added by S.C. 1995, c. 21, s. 57(10), applicable to changes in use of property occurring in taxation years that begin after October 1994.

► 138(11.4) ◄

(11.4) Deduction of loss. Notwithstanding any other provision of this Act, where an insurer has a loss for a taxation year from the disposition, because of subsection (11.3), of a property other than a specified debt obligation (as defined in subsection 142.2(1)), and the loss would, but for this subsection, have been deductible in the year, the loss shall be deductible only in the taxation year in which the taxpayer disposes of the property otherwise than because of subsection (11.3).

History: S. 138(11.4) was amended by S.C. 1995, c. 21, s. 57(11), applicable to property deemed by subsection 138(11.3) to be disposed of after 1994. S. 138(11.4) formerly read:

"(11.4) *Rules on deemed disposition and reacquisition.* Where, but for this subsection, an insurer in a taxation year would, by virtue of subsection (11.3), have realized an otherwise deductible loss for the year in respect of any property, notwithstanding any other provision of this Act, that loss shall be deductible only in the taxation year in which the insurer disposes of the property otherwise than by virtue of subsection (11.3)."

► 138(11.41) ◄

(11.41) Inclusion of gain. [Repealed by 1995, c. 21, s. 57(12).]

History: S. 138(11.41) was repealed by S.C. 1995, c. 21, s. 57(12), applicable to changes in use of property occurring after February 22, 1994. S. 138(11.41) formerly read:

"(11.41) *Inclusion of gain.* Where, by reason of a change in use referred to in paragraph (11.3)(*c*) or (*d*) of a property that is a bond, debenture, mortgage, agreement of sale or any other form of indebtedness, an insurer would, by reason of subsection (11.3), have realized an otherwise taxable gain at any time in respect of such property, that gain shall be included in computing the income of the insurer only in the taxation year in which the insurer disposes of or is deemed to have disposed of the property otherwise than by reason of a change in use of the property referred to in paragraph (11.3)(*c*) or (*d*)."

► 138(11.5) ◄

(11.5) Transfer of insurance business by non-resident insurer. Where

(*a*) a non-resident insurer (in this subsection referred to as the "transferor") has, at any time in a taxation year, ceased to carry on all or substantially all of an insurance business carried on by it in Canada in that year,

(*b*) the transferor has, at that time or within 60 days after that time, transferred all or substantially all of the property (in this subsection referred to as the "transferred property") that is owned by it at that time and that was designated insurance property in respect of the business for the taxation year that, because of paragraph (*h*), ended immediately before that time

(i) to a corporation (in this subsection referred to as the "transferee") that is a qualified related corporation (within the meaning assigned by subsection 219(8)) of the transferor that began immediately after that time to carry on that insurance business in Canada, and

(ii) for consideration that includes shares of the capital stock of the transferee,

(*c*) the transferee has, at that time or within 60 days thereafter, assumed or reinsured all or substantially all of the obligations of the transferor that arose in

the course of carrying on that insurance business in Canada, and

(*d*) the transferor and the transferee have jointly elected in prescribed form and in accordance with subsection (11.6),

the following rules apply:

(*e*) subject to paragraph (*k*.1), where the fair market value, at that time, of the consideration (other than shares of the capital stock of the transferee or a right to receive any such shares) received or receivable by the transferor for the transferred property does not exceed the total of the cost amounts to the transferor, at that time, of the transferred property, the proceeds of disposition of the transferor and the cost to the transferee of the transferred property shall be deemed to be the cost amount, at that time, to the transferor of the transferred property, and in any other case, the provisions of subsection 85(1) shall be applied in respect of the transfer,

(*f*) where the provisions of subsection 85(1) are not required to be applied in respect of the transfer, the cost to the transferor of any particular property (other than shares of the capital stock of the transferee or a right to receive any such shares) received or receivable by it as consideration for the transferred property shall be deemed to be the fair market value, at that time, of the particular property,

(*g*) where the provisions of subsection 85(1) are not required to be applied in respect of the transfer, the cost to the transferor of any shares of the capital stock of the transferee received or receivable by the transferor as consideration for the transferred property shall be deemed to be

(i) where the shares are preferred shares of any class of the capital stock of the transferee, the lesser of

(A) the fair market value of those shares immediately after the transfer of the transferred property, and

(B) the amount determined by the formula

$$A \times \frac{B}{C}$$

where

A is the amount, if any, by which the proceeds of disposition of the transferor of the transferred property determined under paragraph (*e*) exceed the fair market value, at that time, of the consideration (other than shares of the capital stock of the transferee or a right to receive any such shares) received or receivable by the transferor for the transferred property,

B is the fair market value, immediately after the transfer of the transferred property, of those preferred shares of that class, and

C is the fair market value, immediately after the transfer of the transferred property, of all preferred shares of the capital stock of the transferee receivable by the transferor as consideration for the transferred property, and

(ii) where the shares are common shares of any class of the capital stock of the transferee, the amount determined by the formula

$$A \times \frac{B}{C}$$

where

A is the amount, if any, by which the proceeds of disposition of the transferor of the transferred property determined under paragraph (*e*) exceed the total of the fair market value, at that time, of the consideration (other than shares of the capital stock of the transferee or a right to receive any such shares) received or receivable by the transferor for the transferred property and the cost to the transferor of all preferred shares of the capital stock of the transferee receivable by the transferor as consideration for the transferred property,

B is the fair market value, immediately after the transfer of the transferred property, of those shares of that class, and

C is the fair market value, immediately after the transfer of the transferred property, of all common shares of the capital stock of the transferee receivable by the transferor as consideration for the transferred property,

(*h*) for the purposes of this Act, the transferor and the transferee shall be deemed to have had taxation years ending immediately before that time and, for the purposes of determining the fiscal periods of the transferor and transferee after that time, they shall be deemed not to have established fiscal periods before that time,

(*i*) for the purpose of determining the amount of gross investment revenue required by subsection (9) to be included in computing the transferor's income for the particular taxation year referred to in paragraph (*h*) and its gains and losses from its designated insurance property for its subsequent taxation years, the transferor is deemed to have transferred the business referred to in paragraph (*a*), the property referred to in paragraph (*b*) and the obligations referred to in paragraph (*c*) to the transferee on the last day of the particular year,

(*j*) for the purpose of determining the income of the transferor and the transferee for their taxation years following their taxation years referred to in paragraph (*h*), amounts deducted by the transferor as reserves under subparagraphs (3)(*a*)(i), (ii) and (iv), paragraphs 20(1)(*l*) and (*l*.1) and 20(7)(*c*) of this Act and section 33 and paragraph 138(3)(*c*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, in its taxation year referred to in paragraph (*h*) in respect of the transferred property referred to in paragraph (*b*) or the obligations referred to in paragraph (*c*) shall be deemed to have been deducted by the transferee, and not the transferor, for its taxation year referred to in paragraph (*h*),

(*j*.1) for the purpose of determining the income of the transferor and the transferee for their taxation years

following their taxation years referred to in paragraph (*h*), amounts included under paragraphs (4)(*b*) and 12(1)(*e*.1) in computing the transferor's income for its taxation year referred to in paragraph (*h*) in respect of the insurance policies of the business referred to in paragraph (*a*) are deemed to have been included in computing the income of the transferee, and not of the transferor, for their taxation years referred to in paragraph (*h*),

(*k*) for the purposes of this section, sections 12, 12.3, 12.4, 20, 138.1, 140 and 142, subsections 142.5(5) and (7), paragraphs 142.4(4)(*c*) and (*d*), section 148 and Part XII.3, the transferee shall, in its taxation years following its taxation year referred to in paragraph (*h*), be deemed to be the same person as, and a continuation of, the transferor in respect of the business referred to in paragraph (*a*), the transferred property referred to in paragraph (*b*) and the obligations referred to in paragraph (*c*),

(*k*.1) except for the purpose of this subsection, where the provisions of subsection 85(1) are not required to be applied in respect of the transfer,

(i) the transferor shall be deemed not to have disposed of a transferred property that is a specified debt obligation (other than a mark-to-market property), and

(ii) the transferee shall be deemed, in respect of a transferred property that is a specified debt obligation (other than a mark-to-market property), to be the same person as, and a continuation of, the transferor,

and for the purpose of this paragraph, "mark-to-market property" and "specified debt obligation" have the meanings assigned by subsection 142.2(1),

(*k*.2) for the purposes of subsections 112(5) to (5.2) and (5.4) and the definition "mark-to-market property" in subsection 142.2(1), the transferee shall be deemed, in respect of the transferred property, to be the same person as, and a continuation of, the transferor,

(*l*) for the purposes of this subsection and subsections (11.7) and (11.9), the fair market value of consideration received by the transferor from the transferee in respect of the assumption or reinsurance of a particular obligation referred to in paragraph (*c*) shall be deemed to be the total of the amounts deducted by the transferor as a reserve under subparagraphs (3)(*a*)(i), (ii) and (iv) and paragraph 20(7)(*c*) in its taxation year referred to in paragraph (*h*) in respect of the particular obligation, and

(*m*) for the purpose of computing the income of the transferor or the transferee for their taxation years following their taxation years referred to in paragraph (*h*),

(i) an amount in respect of a reinsurance premium paid or payable by the transferor to the transferee in respect of the obligations referred to in paragraph (*c*), or

(ii) an amount in respect of a reinsurance commission paid or payable by the transferee to the transferor in respect of the amount referred to in subparagraph (i)

under a reinsurance arrangement undertaken to effect the transfer of the insurance business to which this subsection applied shall be included or deducted, as the case may be, only to the extent that may be reasonably regarded as necessary to determine the appropriate amount of income of both the transferor and the transferee.

History: S. 138(11.5)(*b*) was amended by S.C. 2001, c. 17, s. 133(4), applicable to the 1999 and subsequent taxation years except that, where a taxpayer or a taxpayer's legal representative so elects in writing and files with the Minister of National Revenue before 2002 its election in respect of one or more of paragraph 138(11.5)(*b*) of the Act each of the subsections in respect of which the election was made applies to the taxpayer's 1997 and subsequent taxation years. S. 138(11.5)(*b*) formerly read:

"(*b*) the transferor has, at that time or within 60 days thereafter, transferred all or substantially all of the property owned by it at that time and used by it in the year in, or held by it in the year in the course of, carrying on that insurance business in Canada in that year (in this subsection referred to as the 'transferred property') to a corporation (in this subsection referred to as the 'transferee') that is a qualified related corporation (within the meaning assigned by subsection 219(8)) of the transferor that, immediately after that time, began to carry on that insurance business in Canada and the consideration for the transfer includes shares of the capital stock of the transferee,"

S. 138(11.5)(*i*) was amended by S.C. 1997, c. 25, s. 39(11), applicable to the transfer by an insurer of an insurance business in its 1997 or a subsequent taxation year. S. 138(11.5)(*i*) formerly read:

"(*i*) for the purpose of determining the amount of gross investment revenue required to be included in computing the transferor's income for the year under subsection (9) and its gains and losses from property used by it in the year in, or held by it in the year in the course of, carrying on an insurance business in Canada for its taxation years following its year referred to in paragraph (*h*), the transferor shall be deemed to have transferred the business referred to in paragraph (*a*), the property referred to in paragraph (*b*) and the obligations referred to in paragraph (*c*) to the transferee on the last day of its taxation year referred to in paragraph (*h*),"

S. 138(11.5)(*j*.1) was added by S.C. 1997, c. 25, s. 39(12), applicable to the 1996 and subsequent taxation years.

S. 138(11.5)(*e*) was amended by S.C. 1995, c. 21, s. 57(13), applicable to transfers of insurance businesses occurring after February 22, 1994. S. 138(11.5)(*e*) formerly read:

"(*e*) where the fair market value, at that time, of the consideration (other than shares of the capital stock of the transferee or a right to receive any such shares) received or receivable by the transferor for the transferred property does not exceed the total of the cost amounts to the transferor, at that time, of the transferred property, the proceeds of disposition of the transferor and the cost to the transferee of the transferred property shall be deemed to be the cost amount, at that time, to the transferor of the transferred property, and in any other case, the provisions of subsection 85(1) shall be applied in respect of the transfer,"

S. 138(11.5)(*k*) was amended by S.C. 1995, c. 21, s. 57(14), applicable to transfers of insurance businesses occurring after October 1994. S. 138(11.5)(*k*) formerly read:

"(*k*) for the purposes of this section, sections 12, 12.3, 12.4, 20, 138.1, 140, 142 and 148 and Part XII.3 of this Act and of section 33 of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it applied to taxation years and fiscal periods beginning before June 18, 1987, the transferee shall, in its taxation years following its taxation year referred to in paragraph (*h*), be deemed to be the same person as, and a continuation of, the transferor in respect of the business referred to in paragraph (*a*), the transferred property referred to in paragraph (*b*) and the obligations referred to in paragraph (*c*),"

S. 138(11.5)(*k*1) was added by S.C. 1995, c. 21, s. 57(14), applicable to transfers of insurance businesses occurring after February 22, 1994.

S. 138(11.5)(*k*2) was added by S.C. 1995, c. 21, s. 57(14), applicable to transfers of insurance businesses occurring at any time (including, for greater certainty, transfers occurring before June 22, 1995).

S. 138(11.5)(*b*) was amended by S.C. 1994, c. 7, Sched. II, s. 114(3), applicable to transfers of an insurance business occurring after December 15, 1987. S. 138(11.5)(*b*) formerly read:

"(*b*) the transferor has, at that time or within 60 days thereafter, transferred all or substantially all of the property used by it in the year in, or held by it in the year in the course of, carrying on that insurance business in Canada in that year (in this subsection referred to as the 'transferred property') to a corporation (in this subsection referred to as the 'transferee') that is a qualified related corporation (within the meaning assigned by subsection 219(8)) of the transferor which, immediately after that time, commenced to carry on that insurance business in Canada

and the consideration for the transfer includes shares of the capital stock of the transferee,"

S. 138(11.5)(*k*) was amended by S.C. 1994, c. 7, Sched. II, s. 114(4), applicable to transfers of an insurance business occurring after December 15, 1987. S. 138(11.5)(*k*) formerly read:

"(*k*) for the purposes of this section and sections 12, 12.3, 12.4, 20, 138.1, 140, 142 and 148 of this Act and section 33 of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, the transferee shall, in its taxation years following its taxation year referred to in paragraph (*h*), be deemed to be the same person as, and a continuation of, the transferor in respect of the business referred to in paragraph (*a*), the transferred property referred to in paragraph (*b*) and the obligations referred to in paragraph (*c*),"

Related Sections: S. 138(11.6)–(11.9); s. 138(11.94) Transfer of insurance business by resident insurer; s. 138(12), "designated insurance property".
Regulations: 2401.
Forms: T2100.
Canadian Tax Foundation: Welch, "Rare Rollovers: The Reorganization of a Life Insurance Business — Part 1", *1998 Canadian Tax Journal*, No. 4.
Tax Window Files: Transfer of Insurance Business and Determination of Year-End, April 7, 1992, CRA Document No. 9208695.

► 138(11.6) ◄

(11.6) Time of election. Any election under subsection (11.5) shall be made on or before the day that is the earliest of the days on or before which any taxpayer making the election is required to file a return of income pursuant to section 150 for the taxation year in which the transactions to which the election relates occurred.

► 138(11.7) ◄

(11.7) Computation of paid-up capital. Where, after December 15, 1987, subsection (11.5) is applicable in respect of a transfer of property by a non-resident insurer to a qualified related corporation of the insurer and the provisions of subsection 85(1) were not required to be applied in respect of the transfer, the following rules apply:

(*a*) in computing the paid-up capital, at any time after the transfer, in respect of any particular class of shares of the capital stock of the qualified related corporation, there shall be deducted an amount determined by the formula

$$(A - B) \times \frac{C}{A}$$

where

A is the increase, if any, determined without reference to this subsection as it applies to the transfer, in the paid-up capital in respect of all the shares of the capital stock of the corporation as a result of the transfer,

B is the amount, if any, by which the cost of the transferred property to the corporation, immediately after the transfer, exceeds the fair market value, immediately after the transfer, of any consideration (other than shares of the capital stock of the corporation) received or receivable by the insurer from the corporation for the property, and

C is the increase, if any, determined without reference to this subsection as it applies to the transfer, in the paid-up capital in respect of the particular class of shares as a result of the acquisition by the corporation of the transferred property; and

(*b*) in computing the paid-up capital, at any time after December 15, 1987, in respect of any particular class of shares of the capital stock of the qualified related corporation, there shall be added an amount equal to the lesser of

(i) the amount, if any, by which

(A) the total of all amounts each of which is an amount deemed by subsection 84(3), (4) or (4.1) to be a dividend on shares of that class paid after December 15, 1987 and before that time by the corporation

exceeds

(B) the total of such dividends that would have been determined under clause (A) if this Act were read without reference to paragraph (*a*), and

(ii) the total of all amounts each of which is an amount required by paragraph (*a*) to be deducted in computing the paid-up capital in respect of that class of shares after December 15, 1987 and before that time.

Related Sections: S. 257 Negative amounts.

► 138(11.8) ◄

(11.8) Rules on transfers of depreciable property. Where

(*a*) subsection (11.5) is applicable in respect of a transfer of depreciable property by a non-resident insurer to a qualified related corporation,

(*b*) the provisions of subsection 85(1) were not required to be applied in respect of the transfer, and

(*c*) the capital cost to the insurer of the depreciable property exceeds its proceeds of disposition therefor,

for the purposes of sections 13 and 20 and any regulations made under paragraph 20(1)(*a*), the following rules apply:

(*d*) the capital cost of the depreciable property to the corporation shall be deemed to be the amount that was the capital cost thereof to the insurer, and

(*e*) the excess shall be deemed to have been allowed to the corporation in respect of the property under regulations made under paragraph 20(1)(*a*) in computing its income for taxation years ending before the transfer.

► 138(11.9) ◄

(11.9) Computation of contributed surplus. Where, after December 15, 1987, subsection (11.5) or 85(1) is applicable in respect of a transfer of property by a person or partnership to an insurance corporation resident in Canada and

(*a*) the total of

(i) the fair market value, immediately after the transfer, of any consideration (other than shares of the capital stock of the corporation) received or receivable by the person or partnership from the corporation for the transferred property,

(ii) the increase, if any, in the paid-up capital of all the shares of the capital stock of the corporation (determined without reference to subsection (11.7) or 85(2.1) as it applies in respect of the transfer) arising on the transfer, and

(iii) the increase, if any, in the contributed surplus of the corporation (determined without reference to this subsection as it applies in respect of the transfer) arising on the transfer

exceeds

(*b*) the total of

(i) the total of all amounts each of which is an amount required to be deducted in computing the paid-up capital of a class of shares of the capital stock of the corporation under subsection (11.7) or 85(2.1), as the case may be, as it applies in respect of the transfer, and

(ii) the cost to the corporation of the transferred property,

for the purposes of paragraph 84(1)(*c*.1) and subsections 219(5.2) and (5.3), the contributed surplus of the corporation arising on the transfer shall be deemed to be the amount, if any, by which the amount of the contributed surplus otherwise determined exceeds the amount, if any, by which the total determined under paragraph (*a*) exceeds the total determined under paragraph (*b*).

► 138(11.91) ◄

(11.91) Computation of income of non-resident insurer. Where, at any time in a particular taxation year,

(*a*) a non-resident insurer carries on an insurance business in Canada, and

(*b*) immediately before that time, the insurer was not carrying on an insurance business in Canada or ceased to be exempt from tax under this Part on any income from such business by reason of any Act of Parliament or anything approved, made or declared to have the force of law thereunder,

for the purpose of computing the income of the insurer for the particular taxation year,

(*c*) the insurer shall be deemed to have had a taxation year ending immediately before the commencement of the particular taxation year,

(*d*) for the purposes of paragraphs 12(1)(*d*) and (*e*), paragraph (4)(*a*), subsection (9) and the definition "designated insurance property" in subsection (12), the insurer is deemed to have carried on the business in Canada in that preceding year and to have claimed the maximum amounts to which it would have been entitled under paragraphs 20(1)(*l*) and (*l*.1) and 20(7)(*c*) and subparagraphs (3)(*a*)(i), (ii) and (iv) for that year,

(*d*.1) for the purposes of subsection 20(22) and subparagraph (3)(*a*)(ii.1),

(i) the insurer is deemed to have carried on the business referred to in paragraph (*a*) in Canada in the preceding taxation year referred to in paragraph (*c*), and

(ii) the amounts, if any, that would have been prescribed in respect of the insurer for the purposes of paragraphs (4)(*b*) and 12(1)(*e*.1) for that preceding year in respect of the insurance policies of that business are deemed to have been included in computing its income for that year,

(*e*) the insurer is deemed to have disposed, immediately before the beginning of the particular taxation year, of each property owned by it at that time that is designated insurance property in respect of the business referred to in paragraph (*a*) for the particular taxation year, for proceeds of disposition equal to the fair market value at that time and to have reacquired, at the beginning of the particular taxation year, the property at a cost equal to that fair market value, and

(*f*) where paragraph (*e*) applies in respect of depreciable property of the insurer and the cost thereof to the insurer immediately before the commencement of the particular taxation year exceeds the fair market value thereof at that time, for the purposes of sections 13 and 20 and any regulations made under paragraph 20(1)(*a*),

(i) the capital cost of the property to the insurer at that time shall be deemed to be the cost thereof to the insurer at that time, and

(ii) the excess shall be deemed to have been allowed to the insurer in respect of the property under regulations made under paragraph 20(1)(*a*) in computing its income for taxation years ending before the commencement of the particular taxation year.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 138(11.91) of the English version of the Act is amended by adding the word "and" at the end of paragraph (*d*.1), by striking out the word "and" at the end of paragraph (*e*) and by repealing paragraph (*f*).

(*f*) [Repealed.]

Applicable: To taxation years that end after 1999.

Explanatory Note:

Computation of Income of Non-resident Insurer

Subsection 138(11.91) of the Act provides rules for the purpose of computing the income of a non-resident insurer that at any time in a particular taxation year commences to carry on business in Canada or that ceases to be exempt from tax under Part I of the Act.

Paragraph 138(11.91)(*f*) of the English Version of the Act applies where the non-resident insurer's capital cost of a depreciable property exceeds the property's fair market value immediately before the commencement of the particular taxation year. To ensure that on a later disposition of the property the non-resident insurer is subject to recapture of any excess capital cost allowance claimed before the particular taxation year, this paragraph preserves the property's capital cost, and treats the excess as having been allowed as capital cost allowance.

Since it is inappropriate to provide for the recapture of capital cost allowance that was claimed when the business was not carried on in Canada or when the non-resident insurer was exempt from tax under Part I of the Act, paragraph 138(11.91)(*f*) of the English version of the Act is repealed.

Paragraph 138(11.91)(*d*) of the French version of the Act is repealed for the same reason.

This amendment applies to taxation years that end after 1999.

History: S. 138(11.91)(*e*) was amended by S.C. 2001, c. 17, s. 133(5), applicable to the 1999 and subsequent taxation years except that, where a taxpayer or a taxpayer's legal representative so elects in writing and files with the Minister of National Revenue before 2002 its election in respect of one or more of paragraph 138(11.91)(*e*) of the Act, each of the subsections in respect of which the election was made applies to the taxpayer's 1997 and subsequent taxation years. S. 138(11.91)(*e*) formerly read:

"(*e*) the insurer shall, immediately before the commencement of the particular taxation year, be deemed to have disposed of each property that was owned by it at that time and used by it in the year in, or held by it in the year in the course of, carrying on the business referred to in paragraph (*a*) for proceeds of disposition equal to the fair market value of the property at that time and to have reacquired the property at that time at a cost equal to that fair market value, and"

S. 138(11.91)(*d*) was amended, and (*d*.1) was added, by S.C. 1997, c. 25, s. 39(13). The amendment to paragraph (*d*) is applicable to the 1997 and subsequent taxation years, and new paragraph (*d*.1) is applicable to the 1996 and subsequent taxation years. S. 138(11.91)(*d*) formerly read:

"(*d*) for the purposes of paragraphs 12(1)(*d*) and (*e*), paragraph (4)(*a*) and subsection (9) and any regulations made under the definition 'property used by it in the year in, or held by it in the year in the course of' in subsection (12), the insurer shall be deemed to have carried on the business referred to in paragraph (*a*) in Canada in the immediately preceding taxation year referred to in paragraph (*c*) and to have claimed the maximum amounts to which it would have been entitled under subparagraphs (3)(*a*)(i), (ii) and (iv), paragraphs 20(1)(*l*) and (*l*.1) and 20(7)(*c*) of this Act and section 33 and paragraph 138(3)(*c*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, for that year,"

Related Sections: S. 138(12), "designated insurance property".

► 138(11.92) ◄

(11.92) Computation of income where insurance business is transferred. Where, at any time in a taxation year, an insurer (in this subsection referred to as the "vendor") has disposed of

(*a*) all or substantially all of an insurance business carried on by it in Canada, or

(*b*) all or substantially all of a line of business of an insurance business carried on by it in Canada

to a person (in this subsection referred to as the "purchaser") and obligations in respect of the business or line of business, as the case may be, in respect of which a reserve may be claimed under subparagraph (3)(*a*)(i) or (ii) or paragraph 20(7)(*c*) (in this subsection referred to as the "obligations") were assumed by the purchaser, the following rules apply:

(*c*) for the purpose of determining the amount of the gross investment revenue required to be included in computing the income of the vendor and the purchaser under subsection (9) and the amount of the gains and losses of the vendor and the purchaser from designated insurance property for the year

(i) the vendor and the purchaser shall, in addition to their normal taxation years, be deemed to have had a taxation year ending immediately before that time, and

(ii) for the taxation years of the vendor and the purchaser following that time, the business or line of business, as the case may be, disposed of to, and the obligations assumed by, the purchaser shall be deemed to have been disposed of or assumed, as the case may be, on the last day of the taxation year referred to in subparagraph (i),

(*d*) for the purpose of computing the income of the vendor and the purchaser for taxation years ending after that time,

(i) an amount paid or payable by the vendor to the purchaser in respect of the obligations, or

(ii) an amount in respect of a commission paid or payable by the purchaser to the vendor in respect of the amount referred to in subparagraph (i)

shall be deemed to have been paid or payable or received or receivable, as the case may be, by the vendor or the purchaser, as the case may be, in the course of carrying on the business or line of business, as the case may be, and

(*e*) where the vendor has disposed of all or substantially all of an insurance business referred to in paragraph (*a*), the vendor shall, for the purposes of section 219, be deemed to have ceased to carry on that business at that time.

History: S. 138(11.92)(*c*), the portion before subparagraph (i), was amended by S.C. 1997, c. 25, s. 39(14), applicable to the disposition by an insurer of an insurance business or a line of business of an insurance business in its 1997 or a subsequent taxation year. That part formerly read:

"(*c*) for the purpose of determining the amount of the gross investment revenue required to be included in the income of the vendor and the purchaser under subsection (9) and the amount of the gains and losses of the vendor and the purchaser from property used by it in the year in or held by it in the year in the course of carrying on an insurance business in Canada"

Related Sections: S. 138(12), "designated insurance property".

Tax Window Files: Assumption Reinsurance Agreement, August 8, 1997, CRA Document No. 9712983; Assumption Reassurance and the Treatment of Policy Loans, September 20, 1996, CRA Document No. 9609573; Policy Loans — Assumption Reinsurance Arrangement, November 16, 1995, CRA Document No. 9528295.

► 138(11.93) ◄

(11.93) Property acquired on default in payment. Where, at any time in a taxation year of an insurer, the beneficial ownership of property is acquired or reacquired by the insurer in consequence of the failure to pay all or any part of an amount (in this subsection referred to as the "insurer's claim") owing to the insurer at that time in respect of a bond, debenture, mortgage, hypothecary claim, agreement of sale or any other form of indebtedness owned by the insurer, the following rules apply to the insurer:

(*a*) section 79.1 does not apply in respect of the acquisition or reacquisition;

(*b*) the insurer shall be deemed to have acquired or reacquired, as the case may be, the property at an amount equal to the fair market value of the property, immediately before that time;

(*c*) the insurer shall be deemed to have disposed at that time of the portion of the indebtedness represented by the insurer's claim for proceeds of disposition equal to that fair market value and, immediately after that time, to have reacquired that portion of the indebtedness at a cost of nil;

(*d*) the acquisition or reacquisition shall be deemed to have no effect on the form of the indebtedness; and

(*e*) in computing the insurer's income for the year or a subsequent taxation year, no amount is deductible under paragraph 20(1)(*l*) in respect of the insurer's claim.

History: S. 138(11.93), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 218, applicable on Royal Assent, June 14, 2001. S. 138(11.93), the portion before paragraph (*a*) formerly read:

"(11.93) *Property acquired on default in payment.* Where, at any time in a taxation year of an insurer, the beneficial ownership of property is acquired or reacquired by the insurer in consequence of the failure to pay all or any part of an amount (in this subsection referred to as the 'insurer's claim') owing to the insurer at that time in respect of a bond, debenture, mortgage, agreement of sale or any other form of indebtedness owned by the insurer, the following rules apply to the insurer:"

S. 138(11.93) was amended by S.C. 1995, c. 21, s. 39(1), applicable to property acquired or reacquired after February 21, 1994, other than acquisitions or reacquisitions pursuant to a court order made before February 22, 1994. S. 138(11.93) formerly read:

"(11.93) Notwithstanding section 79, where, at any time in a taxation year, an insurer has acquired or reacquired the beneficial ownership of property in consequence of another person's failure to pay all or any part of an amount (in this subsection referred to as the 'insurer's claim') owing by the other person to the insurer in respect of a bond, debenture, mortgage, agreement of sale or any other form of indebtedness owned by the insurer, the following rules apply:

(*a*) in computing the other person's proceeds of disposition of the property, there shall be included the amount of the insurer's claim;

(*b*) any amount paid by the other person after the acquisition or reacquisition, as the case may be, of the property on account of or in satisfaction of the insurer's claim shall be deemed to be a loss of that person from the disposition of the property for that person's taxation year in which payment of that amount was made;

(*c*) the insurer shall be deemed to have acquired or reacquired, as the case may be, the property at an amount equal to the fair market value of the

property, immediately before that time, and to have disposed of the bond, debenture, mortgage, agreement of sale or other form of indebtedness, as the case may be, for proceeds of disposition equal to that fair market value;

(*d*) the cost amount to the insurer of the insurer's claim shall be deemed to be nil and the insurer's claim shall be deemed to be a bond, debenture, mortgage, agreement of sale or other form of indebtedness, as the case may be; and

(*e*) in computing the insurer's income for the year or a subsequent year, no amount is deductible in respect of the insurer's claim by reason of paragraph 20(1)(*l*)."

► 138(11.94) ◄

(11.94) Transfer of insurance business by resident insurer. Where

(*a*) an insurer resident in Canada (in this subsection referred to as the "transferor") has, at any time in a taxation year, ceased to carry on all or substantially all of an insurance business carried on by it in Canada in that year,

(*b*) the transferor has, at that time or within 60 days after that time,

(i) in the case of a transferor that is a life insurer and that carries on an insurance business in Canada and in a country other than Canada in the year, transferred all or substantially all of the property (in subsection (11.5) referred to as the "transferred property") that is owned by it at that time and that was designated insurance property in respect of the business for the taxation year that, because of paragraph (11.5)(*h*), ended immediately before that time, or

(ii) in any other case, transferred all or substantially all of the property owned by it at that time and used by it in the year in, or held by it in the year in the course of, carrying on that insurance business in Canada in that year (in subsection (11.5) referred to as the "transferred property")

to a corporation resident in Canada (in this subsection referred to as the "transferee") that is a subsidiary wholly-owned corporation of the transferor that, immediately after that time, began to carry on that insurance business in Canada for consideration that includes shares of the capital stock of the transferee,

(*c*) the transferee has, at that time or within 60 days thereafter, assumed or reinsured all or substantially all of the obligations of the transferor that arose in the course of carrying on that insurance business in Canada, and

(*d*) the transferor and the transferee have jointly elected in prescribed form and in accordance with subsection (11.6),

paragraphs (11.5)(*e*) to (*m*) and subsections (11.7) to (11.9) apply in respect of the transfer.

Department of Finance Comfort Letter [Definition of "Subsidiary Wholly-Owned Corporation" to be Modified]

November 5, 2004

Dear XXXX:

Thank you for your letter of September 16, 2004 regarding the definition of "subsidiary wholly-owned corporation" in subsection 248(1) of the *Income Tax Act* (the "Act") as it relates to subsection 138(11.94) of the Act. Subsection 138(11.94) of the Act provides for the transfer on a rollover basis of an insurance business carried on in Canada by an insurer resident in Canada to a corporation resident in Canada that is a "subsidiary wholly-owned corporation" of that insurer.

In your letter and in your conversations with officials of the department, you requested that, for the purposes of subsection 138(11.94), the definition "subsidiary wholly-owned corporation" be modified in anticipation of a proposed transfer of an insurance business as part of a reorganization of a corporate group. At present, the definition "subsidiary wholly-owned corporation" means a corporation all of the issued shares of which (other than directors' qualifying shares) belong to the particular corporation of which it is a subsidiary. You have asked that, for the purposes of subsection 138(11.94), the definition "subsidiary wholly-owned corporation" be defined in respect of a particular corporation in such a manner that the holding of issued shares of the capital stock of the subsidiary by other corporations that are subsidiary wholly-owned corporations of the particular corporation are permitted.

We are of the view that, for the purposes of subsection 138(11.94), it would be appropriate to modify the definition "subsidiary wholly-owned corporation" in the manner requested. We are prepared to recommend that, for the purposes of subsection 138(11.94), the definition "subsidiary wholly-owned corporation" be defined in respect of a particular corporation resident in Canada, in effect, to have the same meaning as "qualified related corporation" in subsection 219(8) of the Act.

In the absence of any information suggesting that this issue has arisen in the past, we would recommend that the modified definition "subsidiary wholly-owned corporation" apply to transfers, after October 2004, of insurance businesses to which subsection 138(11.94) applies. If this recommendation is acted upon, the amendment will be included in a future technical bill.

Thank you for bringing this matter to our attention.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 138(11.94)(*b*) was amended by S.C. 2001, c. 17, s. 133(6), applicable to the 1999 and subsequent taxation years except that, where a taxpayer or a taxpayer's legal representative so elects in writing and files with the Minister of National Revenue before 2002 its election in respect of one or more of paragraph 138(11.94)(*b*) of the Act each of the subsections in respect of which the election was made applies to the taxpayer's 1997 and subsequent taxation years. S. 138(11.94)(*b*) formerly read:

"(*b*) the transferor has, at that time or within 60 days thereafter, in the year transferred all or substantially all of the property used or held by it in the year in the course of carrying on that insurance business in Canada to a corporation resident in Canada (in this subsection referred to as the 'transferee') that is a subsidiary wholly-owned corporation of the transferor which, immediately after that time, began to carry on that insurance business in Canada and the consideration for the transfer includes shares of the capital stock of the transferee,"

S. 138(11.94)(*b*) was amended by S.C. 1997, c. 25, s. 39(15), applicable to the 1997 and subsequent taxation years. S. 138(11.94)(*b*) formerly read:

"(*b*) the transferor has, at that time or within 60 days thereafter, transferred all or substantially all of the property used by it in the year in, or held by it in the year in the course of, carrying on that insurance business in Canada in that year to a corporation resident in Canada (in this subsection referred to as the 'transferee') that is a subsidiary wholly-owned corporation of the transferor which, immediately after that time, commenced to carry on that insurance business in Canada and the consideration for the transfer includes shares of the capital stock of the transferee,"

Related Sections: S. 138(12), "designated insurance property".
Regulations: 8101(4).
Canadian Tax Foundation: Welch, "Rare Rollovers: The Reorganization of a Life Insurance Business — Part 1", *1998 Canadian Tax Journal*, No. 4.

► 138(12) ◄

(12) Definitions. In this section,

Interpretation Bulletins: *Secondary* — IT-291R3 Transfer of property to a corporation under subsection 85(1).

"*accumulated 1968 deficit*" — [Repealed by S.C. 1997, c. 25, s. 39(16).]

History: S. 138(12), the definition "accumulated 1968 deficit", was repealed by S.C. 1997, c. 25, s. 39(16), applicable to the 1997 and subsequent taxation years. That definition formerly read:

" *'accumulated 1968 deficit'* — 'accumulated 1968 deficit' of a life insurer means such amount as can be established by the insurer to be its deficit as of the end of its 1968 taxation year from carrying on its life insurance business in Canada on the assumption that the amounts of its assets and liabilities (including reserves of any kind)

(*a*) as of the end of any taxation year before its 1968 taxation year, were the amounts thereof determined for the purposes of the relevant authority, and

(*b*) as of the end of its 1968 taxation year, were

(i) in respect of depreciable property, the capital cost thereof as of the first day of its 1969 taxation year,

(ii) in respect of policy reserves, the insurer's maximum tax actuarial reserves for its 1968 taxation year for life insurance policies issued by it in the course of carrying on its life insurance business in Canada, and

(iii) in respect of other assets and liabilities, the amounts thereof determined as of the end of that year for the purpose of computing its income for its 1969 taxation year;"

"amortized cost" — [Repealed by 1988, c. 55, s. 125(17).]

"amount payable" — "amount payable", in respect of a policy loan at a particular time, means the amount of the policy loan and the interest thereon that is outstanding at that time;

Related Sections: S. 148(9), "Amount payable".

"base year" — "base year" of a life insurer means the life insurer's taxation year that immediately precedes its transition year;

History: S. 138(12), the definition "base year" was added by S.C. 2009, c. 2, s. 45(2), applicable to taxation years that begin after September 2006.

"Canada security" — [Repealed by S.C. 1995, c. 21, s. 57(15).]

History: S. 138(12), the definition "Canada security" was repealed by S.C. 1995, c. 21, s. 57(15), applicable to taxation years that begin after February 22, 1994. That definition formerly read:

" *'Canada security'* — 'Canada security' in respect of a life insurer that carried on a business in Canada in a taxation year, means a bond, debenture, mortgage, agreement of sale or any other indebtedness that was property used by it in the year in, or held by it in the year in the course of, carrying on its life insurance business in Canada, other than property included in a segregated fund;"

"cost" — [Repealed by 1995, c. 21, s. 57(15).]

History: S. 138(12), the definition "cost" was repealed by S.C. 1995, c. 21, s. 57(15), applicable to taxation years that begin after February 22, 1994. That definition formerly read:

" *'cost'* — 'cost' to an insurer of acquiring a mortgage includes any amount advanced by the insurer to the borrower by way of loan under the terms of the mortgage;"

"designated insurance property" — "designated insurance property" for a taxation year of an insurer (other than an insurer resident in Canada that at no time in the year carried on a life insurance business) that, at any time in the year, carried on an insurance business in Canada and in a country other than Canada, means property determined in accordance with prescribed rules except that, in its application to any taxation year, "designated insurance property" for the 1998 or a preceding taxation year means property that was, under this subsection as it read in its application to taxation years that ended in 1996, property used by it in the year in, or held by it in the year in the course of, carrying on an insurance business in Canada;

History: S. 138(12), the definition "designated insurance property", was amended by S.C. 2001, c. 17, s. 133(7), applicable to the 1997 and subsequent taxation years. S. 138(12), the definition "designated insurance property" formerly read:

" *'designated insurance property'* — 'designated insurance property' for a taxation year of an insurer (other than an insurer resident in Canada that at no time in the year carried on a life insurance business) that, at any time in the year, carried on an insurance business in Canada and in a country other than Canada, means property determined in accordance with prescribed rules except that, in its application to any taxation year, 'designated insurance property' for the 1996 or a preceding taxation year means property that was, under this subsection as it read in its application to that year, property used by it in the year in, or held by it in the year in the course of carrying on an insurance business in Canada;"

S. 138(12), the definition "designated insurance property", was added by S.C. 1997, c. 25, s. 39(17), applicable to the 1997 and subsequent taxation years.

Regulations: Part XXIV.

Interpretation Bulletins: *Secondary* — IT-291R3 Transfer of property to a corporation under subsection 85(1).

"gross investment revenue" — "gross investment revenue" of an insurer for a taxation year means the amount determined by the formula

$$A + B + C + D + E + F - G$$

where

A is the total of the following amounts included in its gross revenue for the year:

(*a*) taxable dividends, and

(*b*) amounts received or receivable as, on account of, in lieu of or in satisfaction of, interest, rentals or royalties, other than amounts in respect of debt obligations to which subsection 142.3(1) applies for the year,

B is its income for the year from each trust of which it is a beneficiary,

C is its income for the year from each partnership of which it is a member,

D is the total of all amounts required by subsection 16(1) to be included in computing its income for the year,

E is the total of

(*a*) all amounts required by paragraph 142.3(1)(*a*) to be included in computing its income for the year, and

(*b*) all amounts required by subsection 12(3) or 20(14) to be included in computing its income for the year except to the extent that those amounts are included in the computation of A,

F is the amount determined by the formula

$$V - W$$

where

V is the total of all amounts included under paragraph 56(1)(*d*) in computing its income for the year, and

W is the total of all amounts deducted under paragraph 60(*a*) in computing its income for the year; and

G is the total of all amounts each of which is

(*a*) an amount deemed by subparagraph 16(6)(*a*)(ii) to be paid by it in respect of the year as interest, or

(*b*) an amount deductible under paragraph 142.3(1)(*b*) in computing its income for the year;

History: S. 138(12), the first formula in the definition "gross investment revenue" was amended by S.C. 1995, c. 21, s. 57(16), applicable to taxation years that end after October 16, 1991. That formula formerly read:

"A + B + C + D + E + F"

S. 138(12), the description of A in the definition "gross investment revenue" was amended by S.C. 1995, c. 21, s. 57(17), applicable to taxation years that end after February 22, 1994. That part formerly read:

"A is the total of all taxable dividends and amounts received or receivable as, on account of, in lieu of or in satisfaction of, interest, rentals or royalties included in its gross revenue for the year,"

S. 138(12), the description of E in the definition "gross investment revenue" was amended by S.C. 1995, c. 21, s. 57(18), applicable to taxation years that end after February 22, 1994. That part formerly read:

"E is the total of all amounts required by subsection 12(3) or 20(14) to be included in computing its income for the year except to the extent that those amounts are included in the computation of A, and"

S. 138(12), the description of G in the definition "gross investment revenue" was added by S.C. 1995, c. 21, s. 57(19), applicable to taxation years that end after October 16, 1991, except that, in its application to taxation years that end before February 23, 1994, the description of G in the definition "gross investment revenue" in subsection 138(12) shall be read as follows:

"G is the total of all amounts deemed by subparagraph 16(6)(*a*)(ii) to be paid by it in respect of the year as interest;"

S. 138(12), the formula in the definition "gross investment revenue" was amended by S.C. 1994, c. 7, Sched. II, s. 114(4.1), applicable to the 1990 and subsequent taxation years. That part formerly read:

"A + B + C + D + E"

S. 138(12), the description of A in the definition "gross investment revenue" was amended by S.C. 1994, c. 7, Sched. II, s. 114(5), applicable to the 1990 and subsequent taxation years. That part formerly read:

"A is the total amount of all taxable dividends, interest, rentals and royalties included in the insurer's gross revenue for the year,"

S. 138(12), the description of F in the definition "gross investment revenue" was added by S.C. 1994, c. 7, Sched. II, s. 114(6), applicable to the 1990 and subsequent taxation years.

"interest" — "interest", in relation to a policy loan, means the amount in respect of the policy loan that is required to be paid under the terms and conditions of the policy in order to maintain the policyholder's interest in the policy;

Related Sections: S. 148(9), "Interest".

"life insurance policy" — "life insurance policy" includes an annuity contract and a contract all or any part of the insurer's reserves for which vary in amount depending on the fair market value of a specified group of assets;

Related Sections: S. 39(1) Meaning of capital gain and capital loss; s. 148(9), "relevant authority".

Interpretation Bulletins: *Secondary* — IT-87R2 Policyholders' income from life insurance policies; IT-355R2 Interest on loans to buy life insurance policies and annuity contracts, and interest on policy loans [Archived by the CRA].

"life insurance policy in Canada" — "life insurance policy in Canada" means a life insurance policy issued or effected by an insurer on the life of a person resident in Canada at the time the policy was issued or effected;

Interpretation Bulletins: *Secondary* — IT-355R2 Interest on loans to buy life insurance policies and annuity contracts, and interest on policy loans [Archived by the CRA].

"maximum tax actuarial reserve" — "maximum tax actuarial reserve" for a particular class of life insurance policy for a taxation year of a life insurer means, except as otherwise expressly prescribed, the maximum amount allowable under subparagraph (3)(*a*)(i) as a policy reserve for the year in respect of policies of that class;

"net Canadian life investment income" — [Repealed by 1980-81, c. 48, s. 79(4).]

"non-segregated property" — "non-segregated property" of an insurer means its property other than property included in a segregated fund;

"participating life insurance policy" — "participating life insurance policy" means a life insurance policy under which the policyholder is entitled to share (other than by way of an experience rating refund) in the profits of the insurer other than profits in respect of property in a segregated fund;

"policy loan" — "policy loan" means an amount advanced at a particular time by an insurer to a policyholder in accordance with the terms and conditions of a life insurance policy in Canada;

Interpretation Bulletins: *Secondary* — IT-355R2 Interest on loans to buy life insurance policies and annuity contracts, and interest on policy loans [Archived by the CRA].

"property used by it in the year in, or held by it in the year in the course of" — [Repealed by S.C. 1997, c. 25, s. 39(16).]

History: S. 138(12), the definition "property used by it in the year in, or held by it in the year in the course of" was repealed by S.C. 1997, c. 25, s. 39(16), applicable to the 1997 and subsequent taxation years. That definition formerly read:

"'*property used by it in the year in, or held by it in the year in the course of*' — 'property used by it in the year in, or held by it in the year in the course of' carrying on an insurance business in Canada means, in the case of an insurer (other than a resident of Canada that does not carry on a life insurance business) that carried on an insurance business in Canada and in a country other than Canada, property determined in accordance with prescribed rules;"

Regulations: 2400.

"qualified related corporation" — "qualified related corporation" of a non-resident insurer has the meaning assigned by subsection 219(8);

"relevant authority" — [Repealed by S.C. 1997, c. 25, s. 39(16).]

History: S. 138(12), the definition "relevant authority", was repealed by S.C. 1997, c. 25, s. 39(16), applicable to the 1997 and subsequent taxation years. That definition formerly read:

"'*relevant authority*' — 'relevant authority', in relation to a life insurer, means

(*a*) the Superintendent of Financial Institutions, if the insurer is required by law to report to the Superintendent of Financial Institutions, or

(*b*) in any other case, the superintendent of insurance or other similar officer or authority of the province under the laws of which the insurer is incorporated;"

"reserve transition amount" — "reserve transition amount" of a life insurer, in respect of a life insurance business carried on by it in Canada in its transition year, is the positive or negative amount determined by the formula

A – B

where

A is the maximum amount that the life insurer would be permitted to claim under subparagraph 138(3)(*a*)(i) (and that would be prescribed by section 1404 of the Regulations for the purpose of subparagraph 138(3)(*a*)(i)) as a policy reserve for its base year in respect of its life insurance policies in Canada if

(*a*) the generally accepted accounting principles that applied to the life insurer in valuing its assets and liabilities for its transition year had applied to it for its base year, and

(*b*) section 1404 of the Regulations were read in respect of the life insurer's base year as it reads in respect of its transition year, and

B is the maximum amount that the life insurer is permitted to claim under subparagraph 138(3)(*a*)(i) as a policy reserve for its base year;

History: S. 138(12), the definition "reserve transition amount" was added by S.C. 2009, c. 2, s. 45(2), applicable to taxation years that begin after September 2006.

"segregated fund" — "segregated fund" has the meaning given that expression in subsection 138.1(1);

"surplus funds derived from operations" — "surplus funds derived from operations" of an insurer as of the end of a particular taxation year means the amount determined by the formula

(A + B + C) – (D + E + F + G + H)

where

A is the total of the insurer's income for each taxation year in the period beginning with its 1969 taxation year and ending with the particular year from all insurance businesses carried on by it,

B is the total described in subclause (4.1)(*a*)(ii)(B)(IV), and

C is the total of all profits or gains made by the insurer in the period in respect of non-segregated property of the insurer disposed of by it that was used by it in, or held by it in the course of, carrying on an insurance business in Canada, except to the extent that those profits or gains have been or are included in computing the insurer's income or loss, if any, for any taxation year in the period from carrying on an insurance business,

D is the total of its loss, if any, for each taxation year in the period from all insurance businesses carried on by it,

E is the total of all losses sustained by the insurer in the period in respect of non-segregated property disposed of by it that was used by it in, or held by it in the course of, carrying on an insurance business in Canada, except to the extent that those losses have been or are included in computing the insurer's income or loss, if any, for any taxation year in the period from carrying on an insurance business,

F is the total of

(*a*) all taxes payable under this Part by the insurer, and all income taxes payable by it under the laws of each province, for each taxation year in the period, except such portion thereof as would not have been payable by it if subsection (7) had not been enacted, and

(*b*) all taxes payable under Parts I.3 and VI by the insurer for each taxation year in the period,

G is the total of all gifts made in the period by the insurer to a person or organization described in paragraph 110.1(1)(*a*) or (*b*), and

H is the amount determined by the formula

M – N

where

M is the amount determined in respect of the insurer for the particular taxation year under clause (3)(*a*)(iii)(A), and

N is the amount so determined under clause (3)(*a*)(iii)(B);

History: S. 138(12), the description of F in the definition of "surplus funds derived from operations", was amended by S.C. 1994, c. 21, s. 66(1), applicable to the 1992 and subsequent taxation years. S. 138(12), the description of F in the definition of "surplus funds derived from operations", formerly read:

"F is the total of any taxes payable by the insurer under this Part and any income tax payable by it under the laws of any province for each taxation year in the period, except such portion thereof as would not have been payable by it if subsection (7) had not been enacted,"

Regulations: Part XXIV.

Sec. 117, Chap. 21, S.C. 1994

Sec. 117. [Application of s. 138(12) — Definition of "surplus funds derived from operations" before March 15, 1993.] Notwithstanding any other provision of the Act or of this Act, nothing in this Act shall affect the amount of any interest payable under the *Income Tax Act* by a life insurance corporation in respect of any period, or part of a period, that is before March 15, 1993.

"transition year" — "transition year" of a life insurer means the life insurer's first taxation year that begins after September 2006;

History: S. 138(12), the definition "transition year" was added by S.C. 2009, c. 2, s. 45(2), applicable to taxation years that begin after September 2006.

"1975 branch accounting election deficiency" — "1975 branch accounting election deficiency" of an insurer that has made an election under subsection 138(9) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read in its application to the 1977 taxation year, in respect of its 1975 taxation year means the amount determined by the formula

(A + B) – (C + D + E + F + G)

where

A is such portion of the total of the insurer's gross investment revenue and all amounts determined under paragraphs (4)(*b*) and (*c*) as would have been required to be included in computing its income for its 1975 taxation year if

(*a*) it had not made the election under subsection 138(9) of that Act in respect of that year, and

(*b*) where it had made the election under subsection 138(9) of that Act in respect of its 1974 taxation year, it had adopted for its 1975 taxation year, with the concurrence of the Minister, the method required by subsection 138(9) of that Act if it had not elected under that subsection and the Minister had specified no terms and conditions under subsection 138(10) of that Act,

B is the total of the amounts deducted in computing the insurer's income for its 1975 taxation year under paragraphs (3)(*b*) and (*d*),

C is the total of the insurer's gross investment revenue included in computing its income for its 1975 taxation year and the amounts included in computing its income for that year under paragraphs (4)(*b*) and (*c*),

D is such portion of the total of all amounts determined under paragraphs (3)(*b*) and (*d*) as would have been deductible in computing the insurer's income for its 1975 taxation year if

(*a*) it had not made the election under subsection 138(9) of that Act in respect of that year, and

(*b*) where it had made the election under subsection 138(9) of that Act in respect of its 1974 taxation year, it had adopted for its 1975 taxation year, with the concurrence of the Minister, the method required by subsection 138(9) of that Act if it had not elected under that subsection and the Minister had specified no terms and conditions under subsection 138(10) of that Act,

E is the amount determined by the formula

P – Q

where

P is the total of the insurer's outlays or expenses that would have been deductible in computing its income from its insurance businesses for its 1975 taxation year (other than amounts deductible under subsection

(3), section 140 and regulations made under paragraphs 20(1)(*a*) and 20(7)(*c*)), if

(*a*) it had not made the election under subsection 138(9) of that Act in respect of that year, and

(*b*) where it had made the election under subsection 138(9) of that Act in respect of its 1974 taxation year, it had adopted for its 1975 taxation year, with the concurrence of the Minister, the method required by subsection 138(9) of that Act if it had not elected under that subsection and the Minister had specified no terms and conditions under subsection 138(10) of that Act,

Q is the total of the insurer's outlays or expenses deducted in computing its income from its insurance businesses for its 1975 taxation year (other than amounts deducted under subsection (3), section 140 and regulations made under paragraphs 20(1)(*a*) and 20(7)(*c*)),

F is the amount of the insurer's 1975-76 excess policy dividend deduction, and

G is the amount of the insurer's 1975-76 excess policy dividend reserve;

"1975-76 excess additional group term reserve" — "1975-76 excess additional group term reserve" of an insurer that has made an election under subsection 138(9) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read in its application to the 1977 taxation year, in respect of its 1975 taxation year means the amount determined by the formula

A – B

where

A is the amount that would have been deductible under subparagraph (3)(*a*)(ii) in computing the insurer's income for its 1976 taxation year if it had claimed the maximum allowable amount under that subparagraph for that year, and

B is the amount deducted under that subparagraph in computing its income for its 1976 taxation year;

"1975-76 excess capital cost allowance" — "1975-76 excess capital cost allowance" of depreciable property of a prescribed class of an insurer that has made an election under subsection 138(9) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read in its application to the 1977 taxation year, in respect of its 1975 taxation year means the amount determined by the formula

(A + B) – C

where

A is the amount determined by the formula

P – Q

where

P is the amount that would have been deductible under paragraph 20(1)(*a*) by the insurer in computing its income for its 1975 taxation year with respect to that class, if it had claimed the maximum allowable amount under that paragraph in that year with respect to that class and if

(*a*) it had not made the election under subsection 138(9) of that Act in respect of its 1975 taxation year, and

(*b*) where it made the election under subsection 138(9) of that Act in respect of its 1974 taxation year, it had adopted for its 1975 taxation year, with the concurrence of the Minister, the method required by subsection 138(9) of that Act if it had not elected under that subsection and the Minister had specified no terms and conditions under subsection 138(10) of that Act, and

Q is the amount deducted under paragraph 20(1)(*a*) by the insurer in computing its income for its 1975 taxation year with respect to that class,

B is the amount determined by the formula

R – S

where

R is the amount that would have been deductible under paragraph 20(1)(*a*) by the insurer in computing its income for its 1976 taxation year with respect to that class if it had claimed the maximum allowable amount under that paragraph in that year and in its 1975 taxation year with respect to that class on the basis of the assumptions made in paragraphs (*a*) to (*d*) of the description of A in the definition "1975-76 excess policy dividend reserve" in this subsection, and

S is the amount deducted under paragraph 20(1)(*a*) by the insurer in computing its income for its 1976 taxation year with respect to that class, and

C is the amount determined by the formula

T – U

where

T is the amount determined for S, and

U is the amount determined for R;

"1975-76 excess investment reserve" — "1975-76 excess investment reserve" of an insurer that has made an election under subsection 138(9) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read in its application to the 1977 taxation year, in respect of its 1975 taxation year means the amount determined by the formula

A – B

where

A is the amount that would have been deductible under paragraph 138(3)(*c*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, by the insurer in computing its income for its 1976 taxation year if it had claimed the maximum allowable amount under that paragraph in that year and that amount was determined without reference to subparagraph 138(3)(*c*)(ii) of that Act, and

B is the amount deducted by the insurer under paragraph 138(3)(*c*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, in computing its income for its 1976 taxation year;

"1975-76 excess policy dividend deduction" — "1975-76 excess policy dividend deduction" of an insurer that has made an election under subsection 138(9) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read in its application to the 1977 taxation year, in respect of its 1975 taxation year means the amount determined by the formula

(A + B) – C

where

A is the amount determined by the formula

P – Q

where

P is the amount that would have been deductible under subparagraph (3)(*a*)(iii) by the insurer in computing its income for its 1975 taxation year if that amount had been determined on the assumptions made in paragraphs (*a*) to (*d*) of the description of A in the definition "1975-76 excess policy dividend reserve" in this subsection, and

Q is the amount deducted under subparagraph (3)(*a*)(iii) by the insurer in computing its income for its 1975 taxation year,

B is the amount determined by the formula

R – S

where

R is the amount that would have been deductible under subparagraph (3)(*a*)(iii) by the insurer in computing its income for its 1976 taxation year if that amount had been determined on the basis that the amount of its income for that year from its participating life insurance business carried on in Canada was computed in accordance with prescribed rules on the assumptions made in paragraph (*e*) of the description of A in the definition "1975-76 excess policy dividend reserve" in this subsection, and

S is the amount deducted by the insurer under subparagraph (3)(*a*)(iii) in computing its income for its 1976 taxation year, and

C is the amount determined by the formula

T – U

where

T is the amount determined for S, and

U is the amount determined for R;

"1975-76 excess policy dividend reserve" — "1975-76 excess policy dividend reserve" of an insurer that has made an election under subsection 138(9) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read in its application to the 1977 taxation year, in respect of its 1975 taxation year means the amount determined by the formula

A – B

where

A is the amount that would have been deductible under subparagraph (3)(*a*)(iv) by the insurer in computing its income for its 1976 taxation year if

(*a*) it had not made the election under subsection 138(9) of that Act in respect of its 1975 taxation year,

(*b*) where it made an election under subsection 138(9) of that Act in respect of its 1974 taxation year, it had adopted for its 1975 taxation year, with the concurrence of the Minister, the method required by subsection 138(9) of that Act if it had not elected under that subsection and the Minister had specified no terms and conditions under subsection 138(10) of that Act,

(*c*) it had claimed the maximum allowable amount under paragraph 138(3)(*c*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, in computing its income for its 1975 taxation year,

(*d*) it had claimed the maximum allowable amount that would have been deductible under regulations made under paragraph 20(1)(*a*) in computing its income for its 1975 taxation year with respect to property of each of its prescribed classes, and

(*e*) the amount of its income for its 1976 taxation year from its participating life insurance business carried on in Canada was computed in accordance with prescribed rules and as if the amount deducted under subparagraph (3)(*a*)(iv) by it in computing its income for its 1975 taxation year was the amount that would have been deductible under that subparagraph on the basis of the assumptions made in paragraphs (*a*) to (*d*) of this description, and

B is the amount deducted by the insurer under subparagraph (3)(*a*)(iv) in computing its income for its 1976 taxation year;

"1975-76 excess policy reserves" — "1975-76 excess policy reserves" of an insurer that has made an election under subsection 138(9) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read in its application to the 1977 taxation year, in respect of its 1975 taxation year means the amount determined by the formula

A – B

where

A is the amount that would have been deductible under subparagraph (3)(*a*)(i) in computing the insurer's income for its 1976 taxation year if it had claimed the maximum allowable amount under that subparagraph for that year, and

B is the amount deducted under that subparagraph in computing its income for its 1976 taxation year.

► 138(13) ◄

(13) Variation in "tax basis" and "amortized cost". Where

(*a*) in a taxation year that ended after 1968 and before 1978 an insurer carried on a life insurance business in Canada and an insurance business in a country other than Canada,

(*b*) the insurer did not make an election in respect of the year under subsection 138(9) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it applied to that year, and

(*c*) the ratio of the value for the year of the insurer's specified Canadian assets to its Canadian investment fund for the year exceeded one,

each of the amounts included or deducted as follows in respect of the year shall be multiplied by the ratio referred to in paragraph (*c*):

(*d*) under paragraph (*c*), (*d*), (*k*) or (*l*) of the definition "tax basis" in subsection 142.4(1) in determining the tax basis of a debt obligation to the insurer, or

(*e*) under paragraph (*c*), (*d*), (*f*) or (*h*) of the definition "amortized cost" in subsection 248(1) in determining the amortized cost of a debt obligation to the insurer.

History: S. 138(13) was amended by S.C. 1995, c. 21, s. 57(20), applicable to taxation years that end after February 22, 1994. S. 138(13) formerly read:

"(13) *Where meaning of 'amortized cost' varied.* For the purposes of the definition 'amortized cost' in subsection 248(1), where in a taxation year ending after 1968 and before the particular time referred to in that definition an insurer carried on a life insurance business in Canada and an insurance business in a country other than Canada and has not made an election under subsection 138(9) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read in its application to the 1977 taxation year, in respect of that year, each of the amounts referred to in paragraph (*c*), (*d*), (*f*) or (*h*) in that definition shall, in respect of that year, be deemed to be the greater of

(*a*) each such amount, and

(*b*) that proportion of the amount referred to in paragraph (*a*) that the value for the taxation year of the insurer's specified Canadian assets is of its Canadian investment fund for the taxation year."

► 138(14) ◄

(14) Meaning of certain expressions. For the purposes of subsection (13), the expressions "Canadian investment fund for a taxation year", "specified Canadian assets" and "value for the taxation year" have the meanings prescribed therefor.

Regulations: Part XXIV; 2405(2).

► 138(15) ◄

(15) Definition not to apply. In this section, in construing the meaning of the expression "group term insurance policy", the definition "group term life insurance policy" in subsection 248(1) does not apply.

► 138(16) ◄

(16) Transition year income inclusion. There shall be included in computing a life insurer's income for its transition year from a life insurance business carried on by it in Canada in the transition year, the positive amount, if any, of the life insurer's reserve transition amount in respect of that life insurance business.

History: S. 138(16) was added by S.C. 2009, c. 2, s. 45(3), applicable to taxation years that begin after September 2006.

► 138(17) ◄

(17) Transition year income deduction. There shall be deducted in computing a life insurer's income for its transition year from a life insurance business carried on by it in Canada in the transition year, the absolute value of the negative amount, if any, of the life insurer's reserve transition amount in respect of that life insurance business.

History: S. 138(17) was added by S.C. 2009, c. 2, s. 45(3), applicable to taxation years that begin after September 2006.

► 138(18) ◄

(18) Transition year income inclusion reversal. If an amount has been included under subsection (16) in computing a life insurer's income for its transition year from a life insurance business carried on by it in Canada, there shall be deducted in computing the life insurer's income, for each particular taxation year of the life insurer that ends after the beginning of the transition year, from that life insurance business, the amount determined by the formula

$$A \times B/1825$$

where

A is the amount included under subsection (16) in computing the life insurer's income for the transition year from that life insurance business; and

B is the number of days in the particular taxation year that are before the day that is 1825 days after the first day of the transition year.

History: S. 138(18) was added by S.C. 2009, c. 2, s. 45(3), applicable to taxation years that begin after September 2006.

► 138(19) ◄

(19) Transition year income deduction reversal. If an amount has been deducted under subsection (17) in computing a life insurer's income for its transition year from a life insurance business carried on by it in Canada, there shall be included in computing the life insurer's income, for each particular taxation year of the life insurer that ends after the beginning of the transition year, from that life insurance business, the amount determined by the formula

$$A \times B/1825$$

where

A is the amount deducted under subsection (17) in computing the life insurer's income for the transition year from that life insurance business; and

B is the number of days in the particular taxation year that are before the day that is 1825 days after the first day of the transition year.

History: S. 138(19) was added by S.C. 2009, c. 2, s. 45(3), applicable to taxation years that begin after September 2006.

► 138(20) ◄

(20) Winding-up. If a life insurer has, in a winding-up to which subsection 88(1) has applied, been wound-up into another corporation (referred to in this subsection as the "parent"), and immediately after the winding-up the parent carries on a life insurance business, in applying subsections (18) and (19) in computing the income of the life insurer and of the parent for particular taxation years that end on or after the first day (referred to in this subsection as the "start day") on which assets of the life insurer were distributed to the parent on the winding-up,

(*a*) the parent is, on and after the start day, deemed to be the same corporation as and a continuation of the life insurer in respect of

(i) any amount included under subsection (16) or deducted under subsection (17) in computing the life insurer's income from a life insurance business for its transition year,

(ii) any amount deducted under subsection (18) or included under subsection (19) in computing the life insurer's income from a life insurance business for a taxation year of the life insurer that begins before the start day, and

(iii) any amount that would — in the absence of this subsection and if the life insurer existed and carried on a life insurance business on each day that is the start day or a subsequent day and on which the parent carries on a life insurance business — be required to be deducted or included, in respect

of any of those days, under subsection (18) or (19) in computing the life insurer's income from a life insurance business; and

(*b*) the life insurer is, in respect of each of its particular taxation years, to determine the value for B in the formulas in subsections (18) and (19) without reference to the start day and days after the start day.

History: S. 138(20) was added by S.C. 2009, c. 2, s. 45(3), applicable to taxation years that begin after September 2006.

► 138(21) ◄

(21) Amalgamations. If there is an amalgamation (within the meaning assigned by subsection 87(1)) of a life insurer with one or more other corporations to form one corporation (referred to in this subsection as the "new corporation"), and immediately after the amalgamation the new corporation carries on a life insurance business, in applying subsections (18) and (19) in computing the income of the new corporation for particular taxation years of the new corporation that begin on or after the day on which the amalgamation occurred, the new corporation is, on and after that day, deemed to be the same corporation as and a continuation of the life insurer in respect of

(*a*) any amount included under subsection (16) or deducted under subsection (17) in computing the life insurer's income from a life insurance business for its transition year;

(*b*) any amount deducted under subsection (18) or included under subsection (19) in computing the life insurer's income from a life insurance business for a taxation year that begins before the day on which the amalgamation occurred; and

(*c*) any amount that would — in the absence of this subsection and if the life insurer existed and carried on a life insurance business on each day that is the day on which the amalgamation occurred or a subsequent day and on which the new corporation carries on a life insurance business — be required to be deducted or included, in respect of any of those days, under subsection (18) or (19) in computing the life insurer's income from a life insurance business.

History: S. 138(21) was added by S.C. 2009, c. 2, s. 45(3), applicable to taxation years that begin after September 2006.

► 138(22) ◄

(22) Application of subsection (23). Subsection (23) applies if, at any time, a life insurer (referred to in this subsection and subsection (23) as the "transferor") transfers, to a corporation (referred to in this subsection and subsection (23) as the "transferee") that is related to the transferor, property in respect of a life insurance business carried on by the transferor in Canada (referred to in this subsection and subsection (23) as the "transferred business") and

(*a*) subsection 138(11.5) or (11.94) applies to the transfer; or

(*b*) subsection 85(1) applies to the transfer, the transfer includes all or substantially all of the property and liabilities of the transferred business and, immediately after the transfer, the transferee carries on a life insurance business.

History: S. 138(22) was added by S.C. 2009, c. 2, s. 45(3), applicable to taxation years that begin after September 2006.

► 138(23) ◄

(23) Transfer of life insurance business. If this subsection applies in respect of the transfer, at any time, of property

(*a*) the transferee is, at and after that time, deemed to be the same corporation as and a continuation of the transferor in respect of

(i) any amount included under subsection (16) or deducted under subsection (17) in computing the transferor's income for its transition year that can reasonably be attributed to the transferred business,

(ii) any amount deducted under subsection (18) or included under subsection (19) in computing the transferor's income for a taxation year of the transferor that begins before that time that can reasonably be attributed to the transferred business, and

(iii) any amount that would — in the absence of this subsection and if the transferor existed and carried on a life insurance business on each day that includes that time or is a subsequent day and on which the transferee carries on a life insurance business — be required to be deducted or included, in respect of any of those days, under subsection (18) or (19) in computing the transferor's income that can reasonably be attributed to the transferred business; and

(*b*) in determining, in respect of the day that includes that time or any subsequent day, any amount that is required under subsection (18) or (19) to be deducted or included in computing the transferor's income for each particular taxation year from the transferred business, the description of A in the formulas in those subsections is deemed to be nil.

History: S. 138(23) was added by S.C. 2009, c. 2, s. 45(3), applicable to taxation years that begin after September 2006.

► 138(24) ◄

(24) Ceasing to carry on business. If at any time a life insurer ceases to carry on all or substantially all of a life insurance business (referred to in this subsection as the "discontinued business"), and none of subsections (20) to (22) apply,

(*a*) there shall be deducted, in computing the life insurer's income from the discontinued business for the life insurer's taxation year that includes the time that is immediately before that time, the amount determined by the formula

$$A - B$$

where

A is the amount included under subsection (16) in computing the life insurer's income from the discontinued business for its transition year, and

B is the total of all amounts each of which is an amount deducted under subsection (18) in computing the life insurer's income from the discontinued business for a taxation year that began before that time; and

(*b*) there shall be included, in computing the life insurer's income from the discontinued business for

the life insurer's taxation year that includes the time that is immediately before that time, the amount determined by the formula

C – D

where

C is the amount deducted under subsection (17) in computing the life insurer's income from the discontinued business for its transition year, and

D is the total of all amounts each of which is an amount included under subsection (19) in computing the life insurer's income from the discontinued business for a taxation year that began before that time.

History: S. 138(24) was added by S.C. 2009, c. 2, s. 45(3), applicable to taxation years that begin after September 2006.

► 138(25) ◄

(25) Ceasing to exist. If at any time a life insurer that carried on a life insurance business ceases to exist (otherwise than as a result of a winding-up or amalgamation described in subsection (20) or (21)), for the purposes of subsection (24), the life insurer is deemed to have ceased to carry on the life insurance business at the earlier of

(*a*) the time (determined without reference to this subsection) at which the life insurer ceased to carry on the life insurance business, and

(*b*) the time that is immediately before the end of the last taxation year of the life insurer that ended at or before the time at which the life insurer ceased to exist.

History: S. 138(25) was added by S.C. 2009, c. 2, s. 45(3), applicable to taxation years that begin after September 2006.

SECTION 138.1:

► 138.1(1) ◄

(1) Rules relating to segregated funds. In respect of life insurance policies for which all or any part of an insurer's reserves vary in amount depending on the fair market value of a specified group of properties (in this section referred to as a "segregated fund"), for the purposes of this Part, the following rules apply:

(*a*) an *inter vivos* trust (in this section referred to as the "related segregated fund trust") is deemed to be created at the time that is the later of

(i) the day that the segregated fund is created, and

(ii) the day on which the insurer's 1978 taxation year commences,

and to continue in existence throughout the period during which the fund determines any portion of the benefits under those policies that vary in amount depending on the fair market value of the property in the segregated fund (in this section referred to as "segregated fund policies");

(*b*) property that has been allocated to and that remains a part of the segregated fund, and any income that has accrued on that property is deemed to be the property and income of the related segregated fund trust and not to be the property and income of the insurer;

(*c*) the insurer is deemed to be

(i) the trustee who has ownership or control of the related segregated fund trust property,

(ii) a resident of Canada in respect of the related segregated fund trust property used or held by it in the course of carrying on the insurer's life insurance business in Canada, and

(iii) a non-resident of Canada in respect of the related segregated fund trust property not used or held by it in the course of carrying on the insurer's life insurance business in Canada;

(*d*) where at a particular time there is property in the segregated fund that was not funded with premiums paid under a segregated fund policy,

(i) the insurer is deemed to have an interest in the related segregated fund trust that is not in respect of any particular property or source of income, and

(ii) the cost at any time of that interest to the insurer is deemed to be the total of

(A) for property of the trust at that time allocated by the insurer to the segregated fund prior to 1978, the amount that would be its adjusted cost base to the insurer if the interest had been a capital property at all relevant times prior to 1978 and if the rules in this section had been applicable for the taxation years after 1971 and before 1978, and

(B) for property of the trust at that time allocated by the insurer to the segregated fund after 1977, the fair market value of the property at the time it was last allocated to the segregated fund by the insurer;

(*e*) where at any particular time there is property in the segregated fund that was funded with a portion of the premiums paid before that time under a segregated fund policy,

(i) the respective segregated fund policyholder is deemed to have an interest in the related segregated fund trust that is not in respect of any particular property or source of income,

(ii) the cost of that interest is deemed to be the amount that is the total of

(A) the amount that would be its adjusted cost base to the insurer at December 31, 1977 if the interest had been a capital property at all relevant times prior to 1978 and if the rules in this section (if subsection (3) were read without reference to the expressions "or capital loss" and "or loss") had been applicable for taxation years after 1971 and before 1978, and

(B) the total of amounts each of which is that portion of a premium paid before that time and after the day referred to in subparagraph (*a*)(ii) under a segregated fund policy that was or is to be used by the insurer to fund property allocated to the segregated fund (other than the portion of the premium that is an acquisition fee), and

(iii) the portion of a premium included in a segregated fund is deemed not to be an amount paid in respect of a premium under the policy;

(*f*) the income of the related segregated fund trust is deemed for the purposes of subsections 104(6), (13)

and (24) to be an amount that has become payable in the year to the beneficiaries under the segregated fund trust and the amount therefor in respect of any particular beneficiary is equal to the amount determined by reference to the terms and conditions of the segregated fund policy;

(*g*) where at a particular time the fair market value of property transferred by the insurer to the segregated fund results in an increase at that time in the portion of the insurer's reserves for a segregated fund policy held by a policyholder that vary with the fair market value of the segregated fund and a decrease in the portion of its reserves for the policy that do not so vary, the amount of that increase shall,

(i) for the purpose of the determination of H in the definition "adjusted cost basis" in subsection 148(9), be deemed to be proceeds of disposition that the policyholder became entitled to receive at that time,

(ii) for the purpose of computing the adjusted cost base to the policyholder of the policyholder's interest in the related segregated fund trust, be added at that time to the cost to the policyholder of that interest, and

(iii) for the purpose of computing the insurer's income, be deemed to be a payment under the terms and conditions of the policy at that time;

(*h*) where at a particular time the fair market value of property transferred by the insurer from the segregated fund results in an increase at that time in the portion of the insurer's reserves for a segregated fund policy that do not vary with the fair market value of the segregated fund and a decrease in the portion of its reserves for the policy that so vary, the amount of that increase shall, for the purpose of calculating the insurer's income, be deemed to be a premium received by the insurer at that time;

(*i*) where at a particular time the policyholder of a segregated fund policy disposes of all or a portion of the policyholder's interest in the related segregated fund trust, that proportion of the amount, if any, by which the acquisition fee with respect to the particular policy exceeds the total of amounts each of which is an amount determined under this paragraph with respect to the particular policy before that time, that

(i) the fair market value of the interest disposed of at that time

is of

(ii) the fair market value of the policyholder's interest in the particular segregated fund trust immediately before that time,

is deemed to be a capital loss of the related segregated fund trust that reduces the policyholder's benefits under the particular policy by that amount for the purposes of subsection (3);

(*j*) the obligations of an insurer in respect of a benefit that is payable under a segregated fund policy, the amount of which benefit varies with the fair market value of the segregated fund at the time the benefit becomes payable, are deemed to be obligations of the trustee under the related segregated fund trust and not of the insurer and any amount received by the policyholder or that the policyholder became entitled to receive at any particular time in a year in respect of those obligations is deemed to be proceeds from the disposition of an interest in the related segregated fund trust;

(*k*) a reference to "the terms and conditions of the trust arrangement" in section 104 or subsection 127.2(3) is deemed to include a reference to the terms and conditions of the related segregated fund policy and the trustee is deemed to have designated the amounts referred to in that section in accordance with those terms and conditions; and

(*l*) where at any time an insurer acquires a share as a first registered holder thereof and allocates the share to a related segregated fund trust, the trust shall be deemed to have acquired the share at that time as the first registered holder thereof for the purpose of computing its share-purchase tax credit and the insurer shall be deemed not to have acquired the share for the purpose of computing its share-purchase tax credit.

Editorial Note: Section 138.1, which has remained largely unchanged since it was first enacted for the 1978 and subsequent taxation years, outlines the rules applicable to segregated funds of life insurance companies and its segregated fund holders, for purposes of Parts I and XIII of the Act. The segregated fund is treated essentially as a flow-through entity and the tax treatment of the entity and its holders is somewhat similar, but there are important differences to the rules applicable to mutual fund trusts and their holders in section 132, such as:

–Capital losses of segregated funds are treated as capital losses of the holders.

–The income of a segregated fund is allocated automatically to the holders with the result that it is not a taxable entity, in its own right.

–There is no refundable capital gains tax as there is for a mutual fund trust.

These rules do not apply to segregated fund holders where they are RPPs, RRSPs and RRIFs.

Related Sections: S. 38(*a*.1) Taxable capital gain and allowable capital loss; s. 39(1) Meaning of capital gain and capital loss; s. 39.1(1), "flow-through entity"; s. 53(1)(*l*) Adjustments to cost base — Interest in related segregated fund trust; s. 53(2)(*q*) Amounts to be deducted — Interest in related segregated fund trust; s. 75(3) Exceptions; s. 87(2.2) Amalgamation of insurers; s. 88(1)(*g*) Winding-up; s. 107.4(1)(*j*) Qualifying disposition; s. 107.4(3)(*g*) Tax consequences of qualifying dispositions; s. 108(1)(*b*) Definitions; s. 127.5 Obligation to pay minimum tax; s. 127.55 Application of s. 127.5; s. 128.1(10) Definitions; s. 138(11.5)(*k*) Transfer of insurance business by non-resident insurer; s. 138(12), "segregated fund"; s. 138.1(6), "acquisition fee"; s. 138.1(7) Where ss. (1) to (6) do not apply; s. 148(9) Definitions; s. 149(1.2) Income test; s. 211(1) Definitions; s. 218.1 Application of s. 138.1; s. 248(1), "disposition", "amount", "property".

Regulations: 302(1); 1401(2); 1406(6); 1408(1); 1900(1); 2405(1); 5101(1).

Tax Window Files: Disposition of Segregated Fund Units, October 24, 2006, CRA Document No. 2006-0174091E5; Segregated Fund and Financial Institution, October 4, 2006, CRA Document No. 2006-0187361R3; Life Insurance Policy — Foreign-Issued Investment, March 7, 2006, CRA Document No. 2005-0152041E5; Segregated Fund Allocation Method, November 3, 2005, CRA Document No. 2005-0156951E5; Deemed Trust Created for Segregated Fund — Master Trust, July 14, 2005, CRA Document No. 2005-0129441E5; Segregated Fund Annuity Court Settlement, May 30, 2005, CRA Document No. 2005-0125261E5; Disposition of Related Segregated Fund Trust, January 30, 2003, CRA Document No. 2002-0163437; Qualified Disposition Segregated Funds, December 7, 2002, CRA Document No. 2000-0032685; Indexed Insurance Segregated Fund, December 4, 2002, CRA Document No. 2002-0147535; Guarantee Under Segregated Fund Policy, May 13, 2002, CRA Document No. 2001-0102235; Group Segregated Fund Contracts, May 7, 2002, CRA Document No. 2002-0127465; Amendment to Segregated Fund Contract Advance, February 6, 2002, CRA Document No. 2001-0090333; Segregated Funds Group Contracts, April 20, 2001, CRA Document No. 2000-0038745; Rollover Provisions Where Annuity Invested in Segregated and Non-Segregated Account, March 27, 2000, CRA Document No. 1999-0013135; Segregated Funds and Guarantees, June 17, 1999, CRA Document No. 9905255; Guarantees under Segregated Fund Policy, February 18, 1999, CRA Document No. 9817165; Interest Incurred to Purchase Interest in Unregistered Segregated Fund Policy Issued by a Life Insurance Company, November 24, 1998, CRA Document No. 9813845; Interest Incurred to Purchase Interest in Unregistered Segregated

Fund Policy Issued by a Life Insurance Company, November 24, 1998, CRA Document No. 9813845; Foreign Segregated Fund Policies, March 31, 1995, CRA Document No. 9501955; Segregated Funds as Trusts not for all purposes of the Act, August 16, 1994, CRA Document No. 9418025 (also CRA Document No. 9425495, dated October 21, 1994); Losses — Segregated Fund, September 27, 1993, CRA Document No. 9314856.

► 138.1(2) ◄

(2) Rules relating to property in segregated funds at end of 1977 taxation year. Where an insurer holds property at the end of its 1977 taxation year in connection with a segregated fund, the following rules apply:

(*a*) the property is deemed to have been acquired by the related segregated fund trust on the day determined under paragraph (1)(*a*) at a cost equal to the adjusted cost base of the property to the insurer on that day and that transaction is deemed to be a transaction between persons not dealing at arm's length;

(*b*) the property is deemed to have been disposed of by the insurer on the day referred to in paragraph (*a*) for proceeds equal to the adjusted cost base of the property to the insurer on that day; and

(*c*) for the purpose of computing the insurer's income for its 1978 taxation year it shall be deemed to have made a payment to its policyholders in satisfaction of their rights under their segregated fund policies in that year equal to that portion of the amount deducted under subparagraph 138(3)(*a*)(i) in computing its income for its 1977 taxation year that is in respect of segregated fund policies.

► 138.1(3) ◄

(3) Capital gains and capital losses of related segregated fund trusts. A capital gain or capital loss of a related segregated fund trust from the disposition of any property shall, to the extent that a policyholder's benefits under a policy or the interest in the trust of any other beneficiary is affected by that gain or loss, be deemed to be a capital gain or capital loss, as the case may be, of the policyholder or other beneficiary and not that of the trust.

Related Sections: S. 53(2) Amounts to be deducted.

► 138.1(3.1) ◄

(3.1) Deemed gains and losses. Where an amount is deemed under subsection (3) to be a capital gain or capital loss of a policyholder or other beneficiary (in this subsection referred to as the "taxpayer") of a related segregated fund trust, in respect of capital gains or losses realized in a taxation year of the related segregated fund trust that includes February 28, 2000 or October 17, 2000, and the related segregated fund trust so elects under this subsection in its return of income for the year,

(*a*) the portion of the gains and losses that are in respect of capital gains or losses from dispositions of property that occurred before February 28, 2000 is deemed to be that proportion of the gains or losses that the number of days that are in the year and before February 28, 2000 is of the number of days that are in the year;

(*b*) the portion of the gains and losses that is in respect of capital gains or losses from dispositions of property that occurred in the year and in the period that begins at the beginning of February 28, 2000 and ends at the end of October 17, 2000, is deemed to be that proportion of the gains or losses that the number of days that are in the year and in that period is of the number of days that are in the year; and

(*c*) the portion of the gains and losses that is in respect of capital gains or losses from dispositions of property that occurred in the year and in the period that begins at the beginning of October 18, 2000 and ends at the end of the year, is deemed to be that proportion of the gains or losses that the number of days that are in the year and in that period is of the number of days that are in the year.

History: S. 138.1(3.1) was added by S.C. 2001, c. 17, s. 134(1), applicable to taxation years that end after February 27, 2000.

► 138.1(3.2) ◄

(3.2) Deemed gains and losses — taxpayer. Where a capital gain or a capital loss is deemed by subsection (3) to be a capital gain or a capital loss of a taxpayer and not that of a related segregated fund trust,

(*a*) if the capital gain or capital loss was in respect of capital gains or capital losses from dispositions of property by the related segregated fund trust that occurred before February 28, 2000 and that taxation year of the taxpayer includes February 27, 2000, the capital gain or the capital loss is deemed to be a capital gain or a capital loss, as the case may be, of the taxpayer from the disposition by the taxpayer of capital property in the taxpayer's taxation year and before February 28, 2000;

(*b*) if the capital gain or capital loss was in respect of capital gains or capital losses from dispositions of property by the related segregated fund trust that occurred before February 28, 2000 and the taxation year of the taxpayer began after February 27, 2000 and ended before October 18, 2000, 9/8 of the capital gain or the capital loss is deemed to be a capital gain or a capital loss, as the case may be, of the taxpayer from the disposition by the taxpayer of capital property in the taxpayer's taxation year;

(*c*) if the capital gain or capital loss was in respect of capital gains or capital losses from dispositions of property by the related segregated fund trust that occurred before February 28, 2000 and the taxation year of the taxpayer began after February 27, 2000 and ended after October 17, 2000, 9/8 of the capital gain or the capital loss is deemed to be a capital gain or a capital loss, as the case may be, of the taxpayer from the disposition by the taxpayer of capital property in the taxpayer's taxation year and before October 18, 2000;

(*d*) if the capital gain or capital loss was in respect of capital gains or capital losses from dispositions of property by the related segregated fund trust that occurred before February 28, 2000 and the taxation year of the taxpayer began after October 17, 2000, 3/2 of the capital gain or the capital loss is deemed to be a capital gain or a capital loss, as the case may be, of the taxpayer from the disposition by the taxpayer of capital property in the taxpayer's taxation year;

(*e*) if the capital gain or capital loss was in respect of capital gains or capital losses from dispositions of property by the related segregated fund that occurred after February 27, 2000 and before October 18, 2000 and the taxation year of the taxpayer began after October 17, 2000, 4/3 of the capital

gain or capital loss is deemed to be a capital gain or a capital loss, as the case may be, of the taxpayer from the disposition by the taxpayer of capital property in the taxpayer's taxation year;

(*f*) if the capital gain or capital loss was in respect of capital gains or capital losses from dispositions of property by the related segregated fund trust that occurred after February 27, 2000 and before October 18, 2000 and the taxation year of the taxpayer includes February 28, 2000 and October 17, 2000, the capital gain or the capital loss is deemed to be a capital gain or a capital loss, as the case may be, of the taxpayer from the disposition by the taxpayer of capital property in the taxpayer's taxation year and in the period that began after February 27, 2000 and ended before October 18, 2000;

(*g*) if the capital gain or capital loss was in respect of capital gains or capital losses from dispositions of property by the related segregated fund trust that occurred after February 27, 2000 and before October 17, 2000 and the taxation year of the taxpayer began after February 27, 2000 and ended before October 17, 2000, the capital gain or the capital loss is deemed to be a capital gain or a capital loss, as the case may be, of the taxpayer from the disposition by the taxpayer of capital property in the taxpayer's taxation year; and

(*h*) in any other case, the capital gain or the capital loss is deemed to be a capital gain or a capital loss, as the case may be, of the taxpayer from the disposition of capital property by the taxpayer in the taxpayer's taxation year and after October 17, 2000.

History: S. 138.1(3.2) was added by S.C. 2001, c. 17, s. 134(1), applicable to taxation years that end after February 27, 2000.

► 138.1(4) ◄

(4) Election and allocation. Where at any particular time after 1977, a policyholder withdraws all or part of the policyholder's interest in a segregated fund policy, the trustee of a related segregated fund trust may elect in prescribed manner and prescribed form to treat any capital property of the trust as having been disposed of, whereupon the property shall be deemed to have been disposed of on any day designated by the trustee for proceeds of disposition equal to

(*a*) the fair market value of the property on that day,

(*b*) the adjusted cost base to the trust of the property on that day, or

(*c*) an amount that is neither greater than the greater of nor less than the lesser of the amounts determined under paragraphs (*a*) and (*b*),

whichever is designated by the trustee, and to have been reacquired by the trust immediately thereafter at a cost equal to those proceeds, and where the trustee of a related segregated fund trust has made such an election, the following rules apply:

(*d*) the amount of any capital gain or capital loss resulting from the deemed disposition shall be allocated by the trustee to any policyholder withdrawing all or part of the policyholder's interest in the policyholder's policy at that time to the extent that the amount of the policyholder's benefits under the policy at that time is affected by the capital gain or capital loss in respect of property held by the related segregated fund trust at that time,

(*e*) the allocation referred to in paragraph (*d*) is deemed to have been made immediately before the withdrawal,

(*f*) any capital gain not so allocated is deemed to be allocated in accordance with the terms and conditions of the policy, and

(*g*) any capital loss not so allocated is deemed to be a superficial loss of each policyholder to the extent that the policyholder's benefits under the policy would be affected by the loss.

Related Sections: S. 53(1) Adjustments to cost base; s. 53(2) Amounts to be deducted.
Regulations: 6100.
Forms: T3018.

► 138.1(5) ◄

(5) Adjusted cost base of property in related segregated fund trust. At any particular time, the adjusted cost base of each capital property of a related segregated fund trust shall be deemed to be the amount, if any, by which

(*a*) the adjusted cost base of the property to the trust immediately before that time

exceeds

(*b*) the total of amounts each of which is an amount in respect of the disposition by a policyholder of all or part of the policyholder's interest in the related segregated fund trust at that time equal to that proportion of the amount, if any, by which

(i) the adjusted cost base to the policyholder of that interest at that time

exceeds

(ii) the policyholder's proceeds of the disposition of that interest in the trust

that

(iii) the fair market value of the capital property at that time

is of

(iv) the total of amounts each of which is the fair market value of a capital property of the related segregated fund trust at that time.

► 138.1(6) ◄

(6) Definition of "acquisition fee". In this section, "acquisition fee" means the amount, if any, by which the total of amounts each of which is

(*a*) that portion of a premium charged by the insurer under a segregated fund policy that is not included in the related segregated fund or cannot reasonably be regarded as an amount required to fund a mortality or maturity benefit,

(*b*) a transfer from the segregated fund that cannot reasonably be regarded as an amount required to fund a mortality or maturity benefit other than an annual administration fee or charge, or

(*c*) any amount by which the proceeds payable to the policyholder under a particular segregated fund policy is reduced on the surrender or partial surrender of the policy that may reasonably be regarded as a surrender fee,

exceeds

(*d*) the total of amounts each of which is that portion of an amount described in paragraph (*a*), (*b*) or (*c*) that may reasonably be considered to be in respect of an interest in the segregated fund that was disposed of before 1978.

Related Sections: S. 248(1), "amount", "insurer".

► 138.1(7) ◄

(7) Where ss. (1) to (6) do not apply. Subsections (1) to (6) do not apply to the holder of a segregated fund policy with respect to such a policy that is issued or effected as a registered retirement savings plan, registered retirement income fund or TFSA or that is issued under a registered pension plan.

History: S. 138.1(7) was replaced by S.C. 2008, c. 28, s. 22(1), applicable to the 2009 and subsequent taxation years. S. 138.1(7) formerly read:

"(7) *Where ss. (1) to (6) do not apply.* Subsections (1) to (6) do not apply to the holder of a segregated fund policy with respect to such a policy that is issued or effected as a registered retirement savings plan or a registered retirement income fund or that is issued under a registered pension plan."

S. 138.1(7) was amended by S.C. 1994, c. 7, Sched. VIII, s. 80(1), applicable to the 1991 and subsequent taxation years. S. 138.1(7) formerly read:

"(7) *Where policyholder deemed to be trust, etc.* For the purposes of this section, where a segregated fund policy is issued or effected as a registered retirement savings plan or is issued pursuant to a registered pension plan, the policyholder of the policy shall be deemed to be a trust or a trust or corporation described by paragraph 149(1)(*r*) or (*o*), respectively."

SECTION 139: Conversion of insurance corporations into mutual corporations.

Where an insurance corporation that is a Canadian corporation applies an amount in payment for shares of the corporation purchased or otherwise acquired by it under a mutualization proposal under Division III of Part VI of the *Insurance Companies Act* or under a law of the province under the laws of which the corporation is incorporated that provides for the conversion of the corporation into a mutual corporation by the purchase of its shares in accordance with that law,

(*a*) section 15 does not apply to require the inclusion, in computing the income of a shareholder of the corporation, of any part of that amount; and

(*b*) no part of that amount shall be deemed, for the purpose of subsection 138(7), to have been paid to shareholders or, for the purpose of section 84, to have been received as a dividend.

History: S. 139 was amended by S.C. 1994, c. 7, Sched. I, s. 734, which came into force on June 1, 1992. S. 139 formerly read:

"S. 139. *Conversion of provincial life insurance corporation into mutual corporation.* Where a life insurance corporation that is incorporated under the laws of a province has applied an amount in payment for shares of the corporation purchased by it under the authority of a law of the province that provides for the conversion of the corporation into a mutual corporation by the purchase of its shares in accordance with the provisions of that law,

(*a*) section 15 does not apply to require the inclusion, in computing the income of a shareholder of the corporation of any part of that amount; and

(*b*) no part of that amount shall be deemed, for the purposes of subsection 138(7), to have been paid to shareholders or, for the purposes of section 84, to have been received as a dividend."

Related Sections: S. 15 Benefit conferred on shareholder; s. 84 Deemed dividend; s. 138(7) Amounts paid to shareholders included in taxable income (Repealed.); s. 248(1), "life insurance corporation".

Demutualization of Insurance Corporations

SECTION 139.1:

► 139.1(1) ◄

(1) Definitions. The definitions in this subsection apply in this section and sections 139.2 and 147.4.

History: S. 139.1(1) was added by S.C. 2000, c. 19, s. 38(1), applicable to transactions that occur after December 15, 1998.

"*conversion benefit*" — "conversion benefit" means a benefit received in connection with the demutualization of an insurance corporation because of an interest, before the demutualization, of any person in an insurance policy to which the insurance corporation has been a party.

History: S. 139.1(1), the definition "conversion benefit" was added by S.C. 2000, c. 19, s. 38(1), applicable to transactions that occur after December 15, 1998.

"*deadline*" — "deadline" for a payment in respect of a demutualization of an insurance corporation means the latest of

(*a*) the end of the day that is 13 months after the time of the demutualization,

(*b*) where the entire amount of the payment depends on the outcome of an initial public offering of shares of the corporation or a holding corporation in respect of the insurance corporation, the end of the day that is 60 days after the day on which the offering is completed,

(*c*) where the payment is made after the initial deadline for the payment and it is reasonable to conclude that the payment was postponed beyond that initial deadline because there was not sufficient information available 60 days before that initial deadline with regard to the location of a person, the end of the day that is six months after such information becomes available, and

(*d*) the end of any other day that is acceptable to the Minister.

History: S. 139.1(1), the definition "deadline" was added by S.C. 2000, c. 19, s. 38(1), applicable to transactions that occur after December 15, 1998.

"*demutualization*" — "demutualization" means the conversion of an insurance corporation from a mutual company into a corporation that is not a mutual company.

History: S. 139.1(1), the definition "demutualization" was added by S.C. 2000, c. 19, s. 38(1), applicable to transactions that occur after December 15, 1998.

"*holding corporation*" — "holding corporation" means a corporation that

(*a*) in connection with the demutualization of an insurance corporation, has issued shares of its capital stock to stakeholders; and

(*b*) owns shares of the capital stock of the insurance corporation acquired in connection with the demutualization that entitle it to 90% or more of the votes that could be cast in respect of shares under all circumstances at an annual meeting of

(i) shareholders of the insurance corporation, or

(ii) shareholders of the insurance corporation and holders of insurance policies to which the insurance corporation is a party.

History: S. 139.1(1), the definition "holding corporation" was added by S.C. 2000, c. 19, s. 38(1), applicable to transactions that occur after December 15, 1998.

"*initial deadline*" — "initial deadline" for a payment is the time that would, if the definition "deadline" were read without reference to paragraph (*c*) of that definition, be the deadline for the payment.

History: S. 139.1(1), the definition "initial deadline" was added by S.C. 2000, c. 19, s. 38(1), applicable to transactions that occur after December 15, 1998.

"mutual holding corporation" — "mutual holding corporation" in respect of an insurance corporation, means a mutual company established to hold shares of the capital stock of the insurance corporation, where the only persons entitled to vote at an annual meeting of the mutual company are policyholders of the insurance corporation.

History: S. 139.1(1), the definition "mutual holding corporation" was added by S.C. 2000, c. 19, s. 38(1), applicable to transactions that occur after December 15, 1998.

"ownership rights" — "ownership rights" means

(*a*) in a particular mutual holding corporation, the following rights and interests held by a person in respect of the particular corporation because of an interest or former interest of any person in an insurance policy to which an insurance corporation, in respect of which the particular corporation is the mutual holding corporation, has been a party:

(i) rights that are similar to rights attached to shares of the capital stock of a corporation, and

(ii) all other rights with respect to, and interests in, the particular corporation as a mutual company, and

(*b*) in a mutual insurance corporation, the following rights and interests held by a person in respect of the mutual insurance corporation because of an interest or former interest of any person in an insurance policy to which that corporation has been a party:

(i) rights that are similar to rights attached to shares of the capital stock of a corporation,

(ii) all other rights with respect to, and interests in, the mutual insurance corporation as a mutual company, and

(iii) any contingent or absolute right to receive a benefit in connection with the demutualization of the mutual insurance corporation.

History: S. 139.1(1), the definition "ownership rights" was added by S.C. 2000, c. 19, s. 38(1), applicable to transactions that occur after December 15, 1998.

"person" — "person" includes a partnership.

History: S. 139.1(1), the definition "person" was added by S.C. 2000, c. 19, s. 38(1), applicable to transactions that occur after December 15, 1998.

"share" — "share" of the capital stock of a corporation includes a right granted by the corporation to acquire a share of its capital stock.

History: S. 139.1(1), the definition "share" was added by S.C. 2000, c. 19, s. 38(1), applicable to transactions that occur after December 15, 1998.

"specified insurance benefit" — "specified insurance benefit" means a taxable conversion benefit that is

(*a*) an enhancement of benefits under an insurance policy;

(*b*) an issuance of an insurance policy;

(*c*) an undertaking by an insurance corporation of an obligation to pay a policy dividend; or

(*d*) a reduction in the amount of premiums that would otherwise be payable under an insurance policy.

History: S. 139.1(1), the definition "specified insurance benefit" was added by S.C. 2000, c. 19, s. 38(1), applicable to transactions that occur after December 15, 1998.

"stakeholder" — "stakeholder" means a person who is entitled to receive or who has received a conversion benefit but, in respect of the demutualization of an insurance corporation, does not include a holding corporation in connection with the demutualization or a mutual holding corporation in respect of the insurance corporation.

History: S. 139.1(1), the definition "stakeholder" was added by S.C. 2000, c. 19, s. 38(1), applicable to transactions that occur after December 15, 1998.

"taxable conversion benefit" — "taxable conversion benefit" means a conversion benefit received by a stakeholder in connection with the demutualization of an insurance corporation, other than a conversion benefit that is

(*a*) a share of a class of the capital stock of the corporation;

(*b*) a share of a class of the capital stock of a corporation that is or becomes a holding corporation in connection with the demutualization; or

(*c*) an ownership right in a mutual holding corporation in respect of the insurance corporation.

History: S. 139.1(1), the definition "taxable conversion benefit" was added by S.C. 2000, c. 19, s. 38(1), applicable to transactions that occur after December 15, 1998.

► 139.1(2) ◄

(2) Rules of general application. For the purpose of this section,

(*a*) subject to paragraphs (*b*) to (*g*), if in providing a benefit in respect of a demutualization, a corporation becomes obligated, either absolutely or contingently, to make or arrange a payment, the person to whom the undertaking to make or arrange the payment was given is considered to have received a benefit

(i) as a consequence of the undertaking of the obligation, and

(ii) not as a consequence of the making of the payment;

(*b*) where, in providing a benefit in respect of a demutualization, a corporation makes a payment (other than a payment, made pursuant to the terms of an insurance policy, that is not a policy dividend) at any time on or before the deadline for the payment,

(i) subject to paragraphs (*f*) and (*g*), the recipient of the payment is considered to have received a benefit as a consequence of the making of the payment, and

(ii) no benefit is considered to have been received as a consequence of the undertaking of an obligation, that is either contingent or absolute, to make or arrange the payment;

(*c*) no benefit is considered to have been received as a consequence of the undertaking of an absolute or contingent obligation of a corporation to make or arrange a payment (other than a payment, made pursuant to the terms of an insurance policy, that is not a policy dividend) unless it is reasonable to conclude that there is sufficient information with regard to the location of a person to make or arrange the payment;

(*d*) where a corporation's obligation to make or arrange a payment in connection with a demutualization ceases on or before the initial deadline for the payment and without the payment being made in whole or in part, no benefit is considered to have

been received as a consequence of the undertaking of the obligation unless the payment was to be a payment (other than a policy dividend) pursuant to the terms of an insurance policy;

(*e*) no benefit is considered to have been received as a consequence of the undertaking of an absolute or contingent obligation of a corporation to make or arrange a payment where

(i) paragraph (*a*) would, but for this paragraph, apply with respect to the obligation,

(ii) paragraph (*d*) would, if that paragraph were read without reference to the words "on or before the initial deadline for the payment", apply in respect of the obligation,

(iii) it is reasonable to conclude that there was not, before the initial deadline for the payment, sufficient information with regard to the location of a person to make or arrange the payment, and

(iv) such information becomes available on a particular day after the initial deadline and the obligation ceases not more than six months after the particular day;

(*f*) no benefit is considered to have been received as a consequence of

(i) an undertaking of an absolute or contingent obligation of a corporation to make or arrange an annuity payment through the issuance of an annuity contract, or

(ii) a receipt of an annuity payment under the contract so issued

where it is reasonable to conclude that the purpose of the undertaking or the making of the annuity payment is to supplement benefits provided under either an annuity contract to which subsection 147.4(1) or paragraph 254(*a*) applied or a group annuity contract that had been issued under, or pursuant to, a registered pension plan that has wound up;

(*g*) no benefit is considered to have been received as a consequence of

(i) an amendment to which subsection 147.4(2) would, but for subparagraph 147.4(2)(*a*)(ii), apply, or

(ii) a substitution to which paragraph 147.4(3)(*a*) applies;

(*h*) the time at which a stakeholder is considered to receive a benefit in connection with the demutualization of an insurance corporation is

(i) where the benefit is a payment made at or before the time of the demutualization or is a payment to which paragraph (*b*) applies, the time at which the payment is made, and

(ii) in any other case, the latest of

(A) the time of the demutualization,

(B) where the extent of the benefit or the stakeholder's entitlement to it depends on the outcome of an initial public offering of shares of the corporation or a holding corporation in respect of the insurance corporation and the offering is completed before the day that is 13 months after the time of the demutualization, the time at which the offering is completed,

(C) where the entire amount of the benefit depends on the outcome of an initial public offering of shares of the corporation or a holding corporation in respect of the insurance corporation, the time at which the offering is completed,

(D) where it is reasonable to conclude that the person conferring the benefit does not have sufficient information with regard to the location of the stakeholder before the later of the times determined under clauses (A) to (C), to advise the stakeholder of the benefit, the time at which sufficient information with regard to the location of the stakeholder to so advise the stakeholder was received by that person, and

(E) the end of any other day that is acceptable to the Minister;

(*i*) the time at which an insurance corporation is considered to demutualize is the time at which it first issues a share of its capital stock (other than shares of its capital stock issued by it when it was a mutual company if the corporation did not cease to be a mutual company because of the issuance of those shares); and

(*j*) subject to paragraph (3)(*b*), the value of a benefit received by a stakeholder is the fair market value of the benefit at the time the stakeholder receives the benefit.

History: S. 139.1(2) was added by S.C. 2000, c. 19, s. 38(1), applicable to transactions that occur after December 15, 1998.

Related Sections: S. 49.1 No disposition where obligation satisfied; s. 56(1)(*a*) Pension benefits, unemployment insurance benefits, etc.; s. 56(1)(*d*) Annuity payments.

► 139.1(3) ◄

(3) Special cases. For the purpose of this section,

(*a*) where benefits under an insurance policy are enhanced (otherwise than by way of an amendment to which subsection 147.4(2) would, but for subparagraph 147.4(2)(*a*)(ii), apply) in connection with a demutualization, the value of the enhancement is deemed to be a benefit received by the policyholder and not by any other person;

(*b*) where premiums payable under an insurance policy to an insurance corporation are reduced in connection with a demutualization, the policyholder is deemed, as a consequence of the undertaking to reduce the premiums, to have received a benefit equal to the present value at the time of the demutualization of the additional premiums that would have been payable if the premiums had not been reduced in connection with the demutualization;

(*c*) the payment of a policy dividend by an insurance corporation or an undertaking of an obligation by the corporation to pay a policy dividend is considered to be in connection with the demutualization of the corporation only to the extent that

(i) the policy dividend is referred to in the demutualization proposal sent by the corporation to stakeholders,

(ii) the obligation to make the payment is contingent on stakeholder approval for the demutualization, and

(iii) the payment or undertaking cannot reasonably be considered to have been made or given, as the case may be, to ensure that policy dividends are not adversely affected by the demutualization;

(*d*) except for the purposes of paragraphs (*c*), (*e*) and (*f*), where part of a policy dividend is a conversion benefit in respect of the demutualization of an insurance corporation and part of it is not, each part of the dividend is deemed to be a policy dividend that is separate from the other part;

(*e*) a policy dividend includes an amount that is in lieu of payment of, or in satisfaction of, a policy dividend;

(*f*) the payment of a policy dividend includes the application of the policy dividend to pay a premium under an insurance policy or to repay a policy loan;

(*g*) where the demutualization of an insurance corporation is effected by the merger of the corporation with one or more other corporations to form one corporate entity, that entity is deemed to be the same corporation as, and a continuation of, the insurance corporation;

(*h*) an insurance corporation shall be considered to have become a party to an insurance policy at the time that the insurance corporation becomes liable in respect of obligations of an insurer under the policy; and

(*i*) notwithstanding paragraph 248(7)(*a*), where a cheque or other means of payment sent to an address is returned to the sender without being received by the addressee, it is deemed not to have been sent.

History: S. 139.1(3) was added by S.C. 2000, c. 19, s. 38(1), applicable to transactions that occur after December 15, 1998.

Related Sections: S. 147.4(2) Amended contract; s. 147.4(3) New contract.

► 139.1(4) ◄

(4) Consequences of demutualization. Where a particular insurance corporation demutualizes,

(*a*) each of the income, loss, capital gain and capital loss of a taxpayer, from the disposition, alteration or dilution of the taxpayer's ownership rights in the particular corporation as a result of the demutualization, is deemed to be nil;

(*b*) no amount paid or payable to a stakeholder in connection with the disposition, alteration or dilution of the stakeholder's ownership rights in the particular corporation is an eligible capital expenditure;

(*c*) no election may be made under subsection 85(1) or (2) in respect of ownership rights in the particular corporation;

(*d*) where the consideration given by a person for a share of the capital stock of the particular corporation or a holding corporation in connection with the demutualization (or for particular ownership rights in a mutual holding corporation in respect of the particular corporation) includes the transfer, surrender, alteration or dilution of ownership rights in the particular corporation, the cost of the share (or the particular ownership rights) to the person is deemed to be nil;

(*e*) where a holding corporation in connection with the demutualization acquires, in connection with the demutualization, a share of the capital stock of the particular corporation from the particular corporation and issues a share of its own capital stock to a stakeholder as consideration for the share of the capital stock of the particular corporation, the cost to the holding corporation of the share of the capital stock of the particular corporation is deemed to be nil;

(*f*) where at any time a stakeholder receives a taxable conversion benefit and subsection (14) does not apply to the benefit,

(i) the corporation that conferred the benefit is deemed to have paid a dividend at that time on shares of its capital stock equal to the value of the benefit, and

(ii) subject to subsection (16), the benefit received by the stakeholder is deemed to be a dividend received by the stakeholder at that time;

(*g*) for the purposes of this Part, where a dividend is deemed by paragraph (*f*) or by paragraph (16)(*i*) to have been paid by a non-resident corporation, that corporation is deemed in respect of the payment of the dividend to be a corporation resident in Canada that is a taxable Canadian corporation unless any amount is claimed under section 126 in respect of tax on the dividend;

(*h*) for the purposes of section 70, subsection 104(4) and section 128.1, the fair market value of rights to benefits that are to be received in connection with the demutualization is, before the time of the receipt, deemed to be nil; and

(*i*) where a person acquires an annuity contract in respect of which, because of the application of paragraph (2)(*f*), no benefit is considered to have been received for the purpose of this section,

(i) the cost of the annuity contract to the person is deemed to be nil, and

(ii) section 12.2 does not apply to the annuity contract.

History: S. 139.1(4) was added by S.C. 2000, c. 19, s. 38(1), applicable to transactions that occur after December 15, 1998.

Related Sections: S. 14(5), "eligible capital expenditure".

► 139.1(5) ◄

(5) Fair market value of ownership rights. For the purposes of section 70, subsection 104(4) and section 128.1, where an insurance corporation makes, at any time, a public announcement that it intends to seek approval for its demutualization, the fair market value of ownership rights in the corporation is deemed to be nil throughout the period that

(*a*) begins at that time; and

(*b*) ends either at the time of the demutualization or, in the event that the corporation makes at any subsequent time a public announcement that it no longer intends to demutualize, at the subsequent time.

History: S. 139.1(5) was added by S.C. 2000, c. 19, s. 38(1), applicable to transactions that occur after December 15, 1998.

► 139.1(6) ◄

(6) Paid-up capital — insurance corporation. Where an insurance corporation resident in Canada has demutualized, in computing the paid-up capital at any par-

ticular time in respect of a class of shares of the capital stock of the corporation,

(*a*) there shall be deducted the total of all amounts each of which would, but for this subsection, have been deemed by subsection 84(1) to have been paid at or before the particular time by the corporation as a dividend on a share of that class because of an increase in paid-up capital (determined without reference to this subsection) in connection with the demutualization; and

(*b*) there shall be added the amount, if any, by which

(i) the total of all amounts each of which is deemed by subsection 84(3), (4) or (4.1) to be a dividend on shares of that class paid by the corporation before the particular time

exceeds

(ii) the total of all amounts each of which would be deemed by subsection 84(3), (4) or (4.1) to be a dividend on shares of that class paid by the corporation before the particular time, if this Act were read without reference to this subsection.

History: S. 139.1(6) was added by S.C. 2000, c. 19, s. 38(1), applicable to transactions that occur after December 15, 1998.

Related Sections: S. 89(1), "paid-up capital".

► 139.1(7) ◄

(7) Paid-up capital — holding corporation. Where a particular corporation resident in Canada was at any time a holding corporation in connection with the demutualization of an insurance corporation, in computing the paid-up capital at any particular time in respect of a class of shares of the capital stock of the particular corporation,

(*a*) there shall be deducted the total of all amounts each of which is an amount by which the paid-up capital would, but for this subsection, have increased at or before the particular time as a result of the acquisition of shares of a class of the capital stock of the insurance corporation from the corporation on its demutualization; and

(*b*) there shall be added the amount, if any, by which

(i) the total of all amounts each of which is deemed by subsection 84(3), (4) or (4.1) to be a dividend on shares of that class paid by the particular corporation before the particular time

exceeds

(ii) the total of all amounts each of which would be deemed by subsection 84(3), (4) or (4.1) to be a dividend on shares of that class paid by the particular corporation before the particular time, if this Act were read without reference to this subsection.

History: S. 139.1(7) was added by S.C. 2000, c. 19, s. 38(1), applicable to transactions that occur after December 15, 1998.

► 139.1(8) ◄

(8) Policy dividends. Where the payment of a policy dividend by an insurance corporation is a taxable conversion benefit,

(*a*) for the purposes of this Act other than this section, the policy dividend is deemed not to be a policy dividend; and

(*b*) no amount in respect of the policy dividend may be included, either explicitly or implicitly, in the calculation of an amount deductible by the insurer for any taxation year under paragraph 20(7)(*c*) or subsection 138(3).

History: S. 139.1(8) was added by S.C. 2000, c. 19, s. 38(1), applicable to transactions that occur after December 15, 1998.

► 139.1(9) ◄

(9) Payment and receipt of premium. Where, in connection with the demutualization of an insurance corporation, a person would, if subsection (2) were read without reference to paragraphs (*f*) and (*g*) and paragraph (3)(*a*) were read without reference to the application of subsection 147.4(2), receive a particular benefit that is a specified insurance benefit,

(*a*) the insurance corporation that is obligated to pay benefits under the policy to which the particular benefit relates is deemed to have received a premium at the time of the demutualization in respect of that policy equal to the value of the particular benefit;

(*b*) for the purpose of paragraph (*a*), to the extent that the obligations of a particular insurance corporation under the policy were assumed by another insurance corporation before the time of the demutualization, the particular corporation is deemed not to be obligated to pay benefits under the policy; and

(*c*) subject to paragraph (15)(*e*), where the person receives the particular benefit, the person is deemed to have paid, at the time of demutualization, a premium in respect of the policy to which the benefit relates equal to the value of the particular benefit.

History: S. 139.1(9) was added by S.C. 2000, c. 19, s. 38(1), applicable to transactions that occur after December 15, 1998.

► 139.1(10) ◄

(10) Cost of taxable conversion benefit. Where, in connection with the demutualization of an insurance corporation, a stakeholder receives a taxable conversion benefit (other than a specified insurance benefit), the stakeholder is deemed to have acquired the benefit at a cost equal to the value of the benefit.

History: S. 139.1(10) was added by S.C. 2000, c. 19, s. 38(1), applicable to transactions that occur after December 15, 1998.

► 139.1(11) ◄

(11) No shareholder benefit. Subsection 15(1) does not apply to a conversion benefit.

History: S. 139.1(11) was added by S.C. 2000, c. 19, s. 38(1), applicable to transactions that occur after December 15, 1998.

► 139.1(12) ◄

(12) Exclusion of benefit from RRSP and other rules. Subject to subsection (14), for the purposes of the provisions of this Act (other than paragraph (9)(*c*)) that relate to registered retirement savings plans, registered retirement income funds, retirement compensation arrangements, deferred profit sharing plans and superannuation or pension funds or plans, the receipt of a conversion benefit shall be considered to be neither a contribution to, nor a distribution from, such a plan, fund or arrangement.

History: S. 139.1(12) was added by S.C. 2000, c. 19, s. 38(1), applicable to transactions that occur after December 15, 1998.

► 139.1(13) ◄

(13) RRSP registration rules, etc. For the purposes of this Act, paragraphs 146(2)(*c*.4) and 146.3(2)(*g*) and subsection 198(6) shall be applied without reference to any conversion benefit.

History: S. 139.1(13) was added by S.C. 2000, c. 19, s. 38(1), applicable to transactions that occur after December 15, 1998.

► 139.1(14) ◄

(14) Retirement benefit. A conversion benefit received because of an interest in a life insurance policy held by a trust governed by a registered retirement savings plan, registered retirement income fund, deferred profit sharing plan or superannuation or pension fund or plan is deemed to be received under the plan or fund, as the case may be, if it is received by any person (other than the trust).

History: S. 139.1(14) was added by S.C. 2000, c. 19, s. 38(1), applicable to transactions that occur after December 15, 1998.

► 139.1(15) ◄

(15) Employee-paid insurance. Where

(*a*) a stakeholder receives a conversion benefit because of the stakeholder's interest in a group insurance policy under which individuals have been insured in the course of or because of their employment,

(*b*) at all times before the payment of a premium described in paragraph (*c*), the full cost of a particular insurance coverage under the policy was borne by the individuals who were insured under the particular coverage,

(*c*) the stakeholder pays a premium under the policy in respect of the particular coverage or under another group insurance policy in respect of coverage that has replaced the particular coverage, and

(*d*) either

(i) the premium is deemed by paragraph (9)(*c*) to have been paid, or

(ii) it is reasonable to conclude that the purpose of the premium is to apply, for the benefit of the individuals who are insured under the particular coverage or the replacement coverage, all or part of the value of the portion of the conversion benefit that can reasonably be considered to be in respect of the particular coverage,

the following rules apply:

(*e*) for the purposes of paragraph 6(1)(*f*) and regulations made for the purposes of subsection 6(4), the premium is deemed to be an amount paid by the individuals who are insured under the particular coverage or the replacement coverage, as the case may be, and not to be an amount paid by the stakeholder, and

(*f*) no amount may be deducted in respect of the premium in computing the stakeholder's income.

History: S. 139.1(15) was added by S.C. 2000, c. 19, s. 38(1), applicable to transactions that occur after December 15, 1998.

► 139.1(16) ◄

(16) Flow-through of conversion benefits to employees and others. Where

(*a*) a stakeholder receives a conversion benefit (in this subsection referred to as the "relevant conversion benefit") because of the interest of any person in an insurance policy,

(*b*) the stakeholder makes a payment of an amount (otherwise than by way of a transfer of a share that was received by the stakeholder as all or part of the relevant conversion benefit and that was not so received as a taxable conversion benefit) to a particular individual

(i) who has received benefits under the policy,

(ii) who has, or had at any time, an absolute or contingent right to receive benefits under the policy,

(iii) for whose benefit insurance coverage was provided under the policy, or

(iv) who received the amount because an individual satisfied the condition in subparagraph (i), (ii) or (iii),

(*c*) it is reasonable to conclude that the purpose of the payment is to distribute an amount in respect of the relevant conversion benefit to the particular individual,

(*d*) either

(i) the main purpose of the policy was to provide retirement benefits or insurance coverage to individuals in respect of their employment with an employer, or

(ii) all or part of the cost of insurance coverage under the policy had been borne by individuals (other than the stakeholder),

(*e*) subsection (14) does not apply to the relevant conversion benefit, and

(*f*) one of the following applies, namely,

(i) the particular individual is resident in Canada at the time of the payment, the stakeholder is a person the taxable income of which is exempt from tax under this Part and the payment would, if this section were read without reference to this subsection, be included in computing the income of the particular individual,

(ii) the payment is received before December 7, 1999, and the stakeholder elects in writing filed with the Minister, on a day that is not more than six months after the end of the taxation year in which the stakeholder receives the relevant conversion benefit (or a later day acceptable to the Minister), that this subsection applies in respect of the payment,

(iii) the payment is received after December 6, 1999, the payment would, if this section were read without reference to this subsection, be included in computing the income of the particular individual and the stakeholder elects in writing filed with the Minister, on a day that is not more than six months after the end of the taxation year in which the stakeholder receives the relevant conversion benefit (or a later day acceptable to the Minister), that this subsection applies in respect of the payment, or

(iv) the payment is received after December 6, 1999 and the payment would, if this section were read without reference to this subsection, not be included in computing the income of the particular individual,

the following rules apply:

(*g*) subject to paragraph (*l*), no amount is, because of the making of the payment, deductible in computing the stakeholder's income,

(*h*) except for the purpose of this subsection and without affecting the consequences to the particular individual of any transaction or event that occurs after the time that the payment was made, the payment is deemed not to have been received by, or made payable to, the particular individual,

(*i*) the corporation that conferred the relevant conversion benefit is deemed to have paid to the particular individual at the time the payment was made, and the particular individual is deemed to have received at that time, a dividend on shares of the capital stock of the corporation equal to the amount of the payment,

(*j*) all obligations that would, but for this subsection, be imposed by this Act or the Regulations on the corporation because of the payment of the dividend apply to the stakeholder as if the stakeholder were the corporation, and do not apply to the corporation,

(*k*) where the relevant conversion benefit is a taxable conversion benefit, except for the purpose of this subsection and the purposes of determining the obligations imposed by this Act or the Regulations on the corporation because of the conferral of the relevant conversion benefit, the stakeholder is deemed, to the extent of the fair market value of the payment, not to have received the relevant conversion benefit, and

(*l*) where the relevant conversion benefit was a share received by the stakeholder (otherwise than as a taxable conversion benefit),

(i) where the share is, at the time of the payment, capital property held by the stakeholder, the amount of the payment shall, after that time, be added in computing the adjusted cost base to the stakeholder of the share,

(ii) where subparagraph (i) does not apply and the share was capital property disposed of by the stakeholder before that time, the amount of the payment is deemed to be a capital loss of the stakeholder from the disposition of a property for the taxation year of the stakeholder in which the payment is made, and

(iii) in any other case, paragraph (*g*) shall not apply to the payment.

History: S. 139.1(16) was added by S.C. 2000, c. 19, s. 38(1), applicable to transactions that occur after December 15, 1998 and, for the purposes of subsections 139.1(16) and (17), an election is deemed to have been filed on a timely basis if it is filed not more that 6 months after the end of June 2000.

Related Sections: S. 53(1)(*d*.01) Adjustments to cost base — Share of demutualized insurer; s. 54, "adjusted cost base".

► 139.1(17) ◄

(17) Flow-through of share benefits to employees and others. Where

(*a*) because of the interest of any person in an insurance policy, a stakeholder receives a conversion benefit (other than a taxable conversion benefit) that consists of shares of the capital stock of a corporation,

(*b*) the stakeholder transfers some or all of the shares at any time to a particular individual

(i) who has received benefits under the policy,

(ii) who has, or had at any time, an absolute or contingent right to receive benefits under the policy,

(iii) for whose benefit insurance coverage was provided under the policy, or

(iv) who received the shares because an individual satisfied the condition in subparagraph (i), (ii) or (iii),

(*c*) it is reasonable to conclude that the purpose of the transfer is to distribute all or any portion of the conversion benefit to the particular individual,

(*d*) either

(i) the main purpose of the policy was to provide retirement benefits or insurance coverage to individuals in respect of their employment with an employer, or

(ii) all or part of the cost of insurance coverage under the policy had been borne by individuals (other than the stakeholder),

(*e*) subsection (14) does not apply to the conversion benefit, and

(*f*) one of the following applies, namely,

(i) the particular individual is resident in Canada at the time of the transfer, the stakeholder is a person the taxable income of which is exempt from tax under this Part and the amount of the transfer would, if this section were read without reference to this subsection, be included in computing the income of the particular individual,

(ii) the transfer is made before December 7, 1999 and the stakeholder elects in writing filed with the Minister, on a day that is not more than six months after the end of the taxation year in which the stakeholder receives the conversion benefit (or a later day acceptable to the Minister), that this subsection applies in respect of the transfer,

(iii) the transfer is made after December 6, 1999, the amount of the transfer would, if this section were read without reference to this subsection, be included in computing the income of the particular individual and the stakeholder elects in writing filed with the Minister, on a day that is not more than six months after the end of the taxation year in which the stakeholder receives the conversion benefit (or a later day acceptable to the Minister), that this subsection applies in respect of the transfer, or

(iv) the transfer is made after December 6, 1999 and the amount of the transfer would, if this section were read without reference to this subsection, not be included in computing the income of the particular individual,

the following rules apply:

(*g*) no amount is, because of the transfer, deductible in computing the stakeholder's income,

(*h*) except for the purpose of this subsection and without affecting the consequences to the particular individual of any transaction or event that occurs after the time that the transfer was made, the transfer is deemed not to have been made to the

particular individual nor to represent an amount payable to the particular individual, and

(*i*) the cost of the shares to the particular individual is deemed to be nil.

History: S. 139.1(17) was added by S.C. 2000, c. 19, s. 38(1), applicable to transactions that occur after December 15, 1998 and, for the purposes of subsections 139.1(16) and (17), an election is deemed to have been filed on a timely basis if it is filed not more that 6 months after the end of June 2000.

► 139.1(18) ◄

(18) Acquisition of control. For the purposes of subsections 10(10), 13(21.2) and (24), 14(12) and 18(15), sections 18.1 and 37, subsection 40(3.4), the definition "superficial loss" in section 54, section 55, subsections 66(11), (11.4) and (11.5), 66.5(3) and 66.7(10) and (11), section 80, paragraph 80.04(4)(*h*), subsections 85(1.2) and 88(1.1) and (1.2), sections 111 and 127 and subsections 249(4) and 256(7), control of an insurance corporation (and each corporation controlled by it) is deemed not to be acquired solely because of the acquisition of shares of the capital stock of the insurance corporation, in connection with the demutualization of the insurance corporation, by a particular corporation that at a particular time becomes a holding corporation in connection with the demutualization where, immediately after the particular time,

(*a*) the particular corporation is not controlled by any person or group of persons; and

(*b*) 95% of the fair market value of all the assets of the particular corporation is less than the total of all amounts each of which is

(i) the amount of the particular corporation's money,

(ii) the amount of a deposit, with a financial institution, of such money standing to the credit of the particular corporation,

(iii) the fair market value of a bond, debenture, note or similar obligation that is owned by the particular corporation that had, at the time of its acquisition, a maturity date of not more than 24 months after that time, or

(iv) the fair market value of a share of the capital stock of the insurance corporation held by the particular corporation.

History: S. 139.1(18) was added by S.C. 2000, c. 19, s. 38(1), applicable to transactions that occur after December 15, 1998.

SECTION 139.2: Mutual holding corporations.

Where at any time a mutual holding corporation (as defined in subsection 139.1(1)) in respect of an insurance corporation distributes property to a policyholder of the insurance corporation, the mutual holding corporation is deemed to have paid, and the policyholder is deemed to have received from the mutual holding corporation, at that time a dividend on shares of the capital stock of the mutual holding corporation, equal to the fair market value of the property.

History: S. 139.2 was added by S.C. 2000, c. 19, s. 38(1), applicable to transactions that occur after December 15, 1998.

Related Sections: S. 212.2 Deemed dividend.

SECTION 140:

► 140(1) ◄

(1) Deductions in computing income. In computing the income for a taxation year of an insurance corporation, whether a mutual corporation or a joint stock company, from carrying on an insurance business other than a life insurance business, there may be deducted every amount credited in respect of that business for the year or a preceding taxation year to a policyholder of the corporation by way of a policy dividend, refund of premiums or refund of premium deposits if the amount was, during the year or within 12 months thereafter,

(*a*) paid or unconditionally credited to the policyholder; or

(*b*) applied in discharge, in whole or in part, of a liability of the policyholder to pay premiums to the corporation.

History: S. 140(1) was amended by S.C. 2000, c. 19, s. 39(1), applicable after December 15, 1998. S. 140(1) formerly read:

"(1) In computing the income for a taxation year of an insurance corporation, whether a mutual corporation or a joint stock company, from carrying on an insurance business other than a life insurance business, there may be deducted every amount credited in respect of that business for the year or a preceding taxation year to a policyholder of the corporation by way of a dividend, refund of premiums or refund of premium deposits if the amount was, during the year or within 12 months thereafter,

(*a*) paid or unconditionally credited to the policyholder; or

(*b*) applied in discharge, in whole or in part, of a liability of the policyholder to pay premiums to the corporation."

Related Sections: S. 138(3) Deductions allowed in computing income; s. 248(1), "amount", "business", "corporation", "insurance corporation", "life insurance business", "policy dividend".

► 140(2) ◄

(2) Inclusion in computing income. There shall be included in computing the income of an insurance corporation, whether a mutual corporation or a joint stock company, from carrying on an insurance business for its first taxation year that commences after June 17, 1987 and ends after 1987 (in this subsection referred to as its "1988 taxation year") the amount, if any, by which

(*a*) the total of all amounts each of which is an amount deducted by the corporation in computing its income for a taxation year ending before its 1988 taxation year pursuant to paragraph 140(*c*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, or pursuant to that paragraph by reason of subparagraph 138(3)(*a*)(v) of that Act as it read in respect of those taxation years in respect of amounts credited to the account of the policyholder on terms that the policyholder is entitled to payment thereof on or before the expiration or termination of the policy

exceeds

(*b*) the total of all amounts each of which is an amount paid or unconditionally credited to a policyholder or applied in discharge, in whole or in part, of a liability of the policyholder to pay premiums to the corporation before the corporation's 1988 taxation year in respect of the amounts credited to the account of the policyholder referred to in paragraph (*a*).

SECTION 141:

► 141(1) ◄

(1) Definitions. In this section, "demutualization" and "holding corporation" have the same meaning as in subsection 139.1(1).

History: S. 141 was amended, and subsection (1) was added by S.C. 2000, c. 19, s. 40(1), applicable after December 15, 1998. S. 141 formerly read:

"S. 141. *Life insurance corporation deemed to be public corporation.* Notwithstanding any other provision of this Act, a life insurance corporation that is resident in Canada shall be deemed to be a public corporation."

Related Sections: S. 89(1), "public corporation"; s. 138(1) Insurance corporations; s. 142 Taxable capital gains etc; s. 248(1), "life insurance corporation"; s. 255 Canada.

► 141(2) ◄

(2) Life insurance corporation deemed to be public corporation. Notwithstanding any other provision of this Act, a life insurance corporation that is resident in Canada is deemed to be a public corporation.

History: S. 141(2) was added by S.C. 2000, c. 19, s. 40(1), applicable after December 15, 1998.

Related Sections: S. 89(1), "public corporation"; s. 248(1), "life insurance corporation".

► 141(3) ◄

(3) Holding corporation deemed to be public corporation. A corporation resident in Canada that is a holding corporation because of its acquisition of shares in connection with the demutualization of a life insurance corporation resident in Canada is deemed to be a public corporation at each time in the specified period of the holding corporation at which the holding corporation would have satisfied conditions prescribed under subparagraph (*b*)(i) of the definition "public corporation" in subsection 89(1) if the words "shareholders, the dispersal of ownership of its shares and the public trading of its shares" in that subparagraph were read as "shareholders and the dispersal of ownership of its shares".

History: S. 141(3) was added by S.C. 2000, c. 19, s. 40(1), applicable after December 15, 1998.

Related Sections: S. 141(4) Specified period; s. 248(1), "life insurance corporation".

► 141(4) ◄

(4) Specified period. For the purpose of subsection (3), the specified period of a corporation

(*a*) begins at the time the corporation becomes a holding corporation; and

(*b*) ends at the first time the corporation is a public corporation because of any provision of this Act other than subsection (3).

History: S. 141(4) was added by S.C. 2000, c. 19, s. 40(1), applicable after December 15, 1998.

► 141(5) ◄

(5) Exclusion from taxable Canadian property. For the purpose of paragraph (*d*) of the definition "taxable Canadian property" in subsection 248(1), a share of the capital stock of a corporation is deemed to be listed at any time on a designated stock exchange if

(*a*) the corporation is

(i) a life insurance corporation resident in Canada that has demutualized and that, at that time, would have satisfied conditions prescribed under subparagraph (*b*)(i) of the definition "public corporation" in subsection 89(1) if the words "shareholders, the dispersal of ownership of its shares and the public trading of its shares" in that subparagraph were read as "shareholders and the dispersal of ownership of its shares", or

(ii) a holding corporation that is deemed by subsection (3) to be a public corporation at that time;

(*b*) no share of the capital stock of the corporation is listed on any stock exchange at that time; and

(*c*) that time is not later than six months after the time of the demutualization of

(i) the corporation, where the corporation is a life insurance corporation, and

(ii) in any other case, the life insurance corporation in respect of which the corporation is a holding corporation.

History: S. 141(5), the portion before paragraph (*a*) was replaced by S.C. 2007, c. 35, s. 44(1), applicable on and after December 14, 2007. S. 141(5), the portion before paragraph (*a*) formerly read:

"(5) *Exclusion from taxable Canadian property.* For the purpose of paragraph (*d*) of the definition 'taxable Canadian property' in subsection 248(1), a share of the capital stock of a corporation is deemed to be listed at any time on a stock exchange prescribed for the purpose of that definition where"

S. 141(5), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 135(1), applicable after December 15, 1998. S. 141(5), the portion before paragraph (*a*) formerly read:

"(5) *Exclusion from taxable Canadian property.* For the purpose of subparagraph 115(1)(*b*)(iv), a share of the capital stock of a corporation is deemed to be listed at any time on a stock exchange prescribed for the purpose of that subparagraph where"

S. 141(5) was added by S.C. 2000, c. 19, s. 40(1), applicable after December 15, 1998.

SECTION 141.1: Deemed not to be a private corporation.

Notwithstanding any other provision of this Act, an insurance corporation (other than a life insurance corporation) that would, but for this section, be a private corporation is deemed not to be a private corporation for the purposes of subsection 55(5), the definition "capital dividend account" in subsection 89(1) and sections 123.3 and 129.

History: S. 141.1 was amended by S.C. 1998, c. 19, s. 162(1), applicable to taxation years that end after June 1995. S. 141.1 formerly read:

"S. 141.1. *Deemed not to be a private corporation.* Notwithstanding any other provision of this Act, an insurance corporation (other than a life insurance corporation) that would, but for this section, be a private corporation shall be deemed not to be a private corporation for the purposes of subsection 55(5), the definition 'capital dividend account' in subsection 89(1) and section 129 of this Act and paragraph 89(1)(*b.2*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952."

Related Sections: S. 89(1), "Private corporation"; s. 141(2) Life insurance corporation deemed to be public corporation; s. 248(1), "insurance company", "life insurance company".

SECTION 142: Taxable capital gains etc. [Repealed by S.C. 1997, c. 25, s. 40(1).]

History: S. 142 was repealed by S.C. 1997, c. 25, s. 40(1), applicable to the 1997 and subsequent taxation years. S. 142 formerly read:

"S. 142. *Taxable capital gains etc.* Notwithstanding any other provision of this Act, where in a taxation year a life insurer resident in Canada carries on an insurance business in Canada and in a country other than Canada, such of its taxable capital gains for the year and allowable capital losses for the year

(*a*) as were from dispositions of property used by it in the year in, or held by it in the year in the course of, carrying on an insurance business, and

(*b*) as were not from dispositions of property used by it in the year in, or held by it in the year in the course of, carrying on an insurance business in Canada,

shall not be included in computing its income for the year."

S. 142, the portion before paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 115(1), applicable to the 1990 and subsequent taxation years. That part formerly read:

"S. 142. Notwithstanding any other provision of this Act, where in a taxation year an insurer (other than a resident of Canada that does not carry on a life insurance business) carried on an insurance business in Canada and in a country other than Canada, such of its taxable capital gains for the year and allowable capital losses for the year"

SECTION 142.1: Application of s. 138(12). [Repealed by S.C. 1997, c. 25, s. 40(1).]

History: S. 142.1 was repealed by S.C. 1997, c. 25, s. 40(1), applicable to the 1997 and subsequent taxation years. S. 142.1 formerly read:

"S. 142.1. *Application of s. 138(12).* The definitions in subsection 138(12) apply to section 142."

S. 142.1 was not part of the former Act.

Financial Institutions
Interpretation

SECTION 142.2:

► 142.2(1) ◄

(1) Definitions. In this section and sections 142.3 to 142.7,

History: S. 142.2(1), the portion before the definitions was amended by S.C. 2001, c. 17, s. 136(1), applicable after June 27, 1999. S. 142.2(1), the portion before the definition "financial institution" formerly read:

"S. 142.2. *Definitions.*

(1) In this section and sections 142.3 to 142.6,"

S. 142.2 was added by S.C. 1995, c. 21, s. 52(1), applicable to taxation years that end after February 22, 1994.

Interpretation Bulletins: *Secondary* — IT-291R3 Transfer of property to a corporation under subsection 85(1).

Registered Charities Newsletters: No. 30, Excess Corporate Holdings Worksheet for Private Foundations.

"excluded property" — "excluded property" of a taxpayer for a taxation year means property, held at any time in the taxation year by the taxpayer, that is

(*a*) a share of the capital stock of a corporation if, at any time in the taxation year, the taxpayer has a significant interest in the corporation,

(*b*) a property that is, at all times in the taxation year at which the taxpayer held the property, a prescribed payment card corporation share of the taxpayer,

(*c*) if the taxpayer is an investment dealer, a property that is, at all times in the taxation year at which the taxpayer held the property, a prescribed securities exchange investment of the taxpayer,

(*d*) a share of the capital stock of a corporation if

(i) control of the corporation is, at any time (referred to in this paragraph as the "acquisition of control time") that is in the 24-month period that begins immediately after the end of the year, acquired by

(A) the taxpayer,

(B) one or more persons related to the taxpayer (otherwise than by reason of a right referred to in paragraph 251(5)(*b*)), or

(C) the taxpayer and one or more persons described in clause (B), and

(ii) the taxpayer elects in writing to have subparagraph (i) apply and files the election with the Minister on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes the acquisition of control time, or

(*e*) a prescribed property;

History: S. 142.2(1), the definition "excluded property" was added by S.C. 2009, c. 2, s. 46(4), applicable to taxation years that begin after September 2006 except that any election made under paragraph (*d*) of the definition "excluded property" is deemed to have been made on a timely basis if it is filed with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year in which this Act is assented to [R.A. March 12, 2009].

"fair value property" — "fair value property" of a taxpayer for a taxation year means property, held at any time in the taxation year by the taxpayer, that is — or it is reasonable to expect would, if the taxpayer held the property at the end of the taxation year, be — valued (otherwise than solely because its fair value was less than its cost to the taxpayer or, if the property is a specified debt obligation, because of a default of the debtor) in accordance with generally accepted accounting principles, at its fair value (determined in accordance with those principles) in the taxpayer's balance sheet as at the end of the taxation year;

History: S. 142.2(1), the definition "fair value property" was added by S.C. 2009, c. 2, s. 46(4), applicable to taxation years that begin after September 2006.

"financial institution" — "financial institution" at any time means

(*a*) a corporation that is, at that time,

(i) a corporation referred to in any of paragraphs (*a*) to (*e*.1) of the definition "restricted financial institution" in subsection 248(1),

(ii) an investment dealer, or

(iii) a corporation controlled by one or more persons or partnerships each of which is a financial institution at that time, other than a corporation the control of which was acquired by reason of the default of a debtor where it is reasonable to consider that control is being retained solely for the purpose of minimizing any losses in respect of the debtor's default, and

(*b*) a trust or partnership more than 50% of the fair market value of all interests in which are held at that time by one or more financial institutions,

but does not include

(*c*) a corporation that is, at that time,

(i) an investment corporation,

(ii) a mortgage investment corporation,

(iii) a mutual fund corporation, or

(iv) a deposit insurance corporation (as defined in subsection 137.1(5)),

(*d*) a trust that is a mutual fund trust at that time, nor

(*e*) a prescribed person or partnership;

History: S. 142.2(1), subparagraph (*a*)(i) of the definition "financial institution" was amended by S.C. 1999, c. 22, s. 57(1), applicable to taxation years that begin after 1998. S. 142.2(1), subparagraph (*a*)(i) of the definition "financial institution" formerly read:

"(i) a corporation referred to in any of paragraphs (*a*) to (*e*) of the definition 'restricted financial institution' in subsection 248(1),"

S. 142.2(1), the definition "financial institution", was added by S.C. 1995, c. 21, s. 52(1), applicable to taxation years that end after February 22, 1994.

Regulations: 9000.

"investment dealer" — "investment dealer" at any time means a corporation that is, at that time, a registered securities dealer;

History: S. 142.2(1), the definition "investment dealer", was added by S.C. 1995, c. 21, s. 52(1), applicable to taxation years that end after February 22, 1994.

"mark-to-market property" — "mark-to-market property" of a taxpayer for a taxation year means property (other than an excluded property) held at any time in the taxation year by the taxpayer that is

(*a*) a share,

(*b*) if the taxpayer is not an investment dealer, a specified debt obligation that is a fair value property of the taxpayer for the taxation year,

(*c*) if the taxpayer is an investment dealer, a specified debt obligation, or

(*d*) a tracking property of the taxpayer that is a fair value property of the taxpayer for the taxation year;

History: S. 142.2(1), the definition "mark-to-market property" was replaced by S.C. 2009, c. 2, s. 46(3), applicable to taxation years that begin after September 2006 except that for taxation years that begin before November 7, 2007, the definition "mark-to-market property" in subsection 142.2(1) is to be read without its paragraph (*d*). S. 142.2(1), the definition "mark-to-market property" formerly read:

" '*mark-to-market property*' — ' mark-to-market property' of a taxpayer for a taxation year means property held by the taxpayer in the year that is

(*a*) a share,

(*b*) where the taxpayer is not an investment dealer, a specified debt obligation that

(i) was carried at fair market value in the taxpayer's financial statements

(A) for the year, where the taxpayer held the obligation at the end of the year, and

(B) for each preceding taxation year that ended after the taxpayer acquired the obligation, or

(ii) was acquired and disposed of in the year, where it is reasonable to expect that the obligation would have been carried in the taxpayer's financial statements for the year at fair market value if the taxpayer had not disposed of the obligation,

other than a specified debt obligation of the taxpayer that was (or would have been) carried at fair market value

(iii) solely because its fair market value was less than its cost to the taxpayer, or

(iv) because of a default of the debtor, and

(*c*) where the taxpayer is an investment dealer, a specified debt obligation, but does not include

(*d*) a share of a corporation in which the taxpayer has a significant interest at any time in the year,

(*d.1*) a property that is, at all times in the year at which the taxpayer holds the property, a prescribed payment card corporation share of the taxpayer,

(*d.2*) if the taxpayer is an investment dealer and the year begins after 1998, a property that is, at all times in the year at which the taxpayer holds the property, a prescribed securities exchange investment of the taxpayer,

(*d.3*) a share of a corporation held, at any time in the year, by the taxpayer if

(i) control of the corporation is, at any time (referred to in this paragraph as the 'acquisition of control time') that is after 2001 and is in the 24-month period that begins immediately after the end of the year, acquired by

(A) the taxpayer,

(B) one or more persons related to the taxpayer (otherwise than by reason of a right referred to in paragraph 251(5)(*b*)), or

(C) the taxpayer and one or more persons described in clause (B), and

(ii) the taxpayer elects in writing to have subparagraph (i) apply and files the election with the Minister on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes the acquisition of control time, or

(*e*) a prescribed property;"

S. 142.2(1), paragraph (*d*) of the definition "mark-to-market property" was replaced, and paragraphs (*d.1*), (*d.2*) and (*d.3*) were added, by S.C. 2009, c. 2, s. 46(2), applicable to taxation years that end after February 22, 1994, except that any election made under paragraph (*d.3*) of the definition "mark-to-market property" in subsection 142.2(1) is deemed to have been made on a timely basis if it is filed with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year in which this Act is assented to [R.A. March 12, 2009]. S. 142.2(1), paragraph (*d*) of the definition "mark-to-market property" formerly read:

"(*d*) a share of a corporation in which the taxpayer has a significant interest at any time in the year, nor"

S. 142.2(1), the definition "mark-to-market property", was added by S.C. 1995, c. 21, s. 52(1), applicable to taxation years that end after February 22, 1994.

Regulations: 9001; 9002.

"*specified debt obligation*" — "specified debt obligation" of a taxpayer means the interest held by the taxpayer in

(*a*) a loan, bond, debenture, mortgage, hypothecary claim, note, agreement of sale or any other similar indebtedness, or

(*b*) a debt obligation, where the taxpayer purchased the interest,

other than an interest in

(*c*) an income bond, an income debenture, a small business development bond, a small business bond or a prescribed property, or

(*d*) an instrument issued by or made with a person to whom the taxpayer is related or with whom the taxpayer does not otherwise deal at arm's length, or in which the taxpayer has a significant interest.

History: S. 142.2(1), paragraph (*a*) of the definition "specified debt obligation" was amended by S.C. 2001, c. 17, s. 219, applicable on Royal Assent, June 14, 2001. S. 142.2(1), paragraph (*a*) of the definition "specified debt obligation" formerly read:

"(*a*) a loan, bond, debenture, mortgage, note, agreement of sale or any other similar indebtedness, or"

S. 142.2(1), that portion of the definition of "specified debt obligation" following paragraph (*b*) was amended, and paragraphs (*c*) and (*d*) were added, by S.C. 1998, c. 19, s. 163, applicable to taxation years that end after February 22, 1994. That portion formerly read:

"other than an interest in an income bond, an income debenture, a small business development bond, a small business bond or a prescribed property."

S. 142.2(1), the definition "specified debt obligation", was added by S.C. 1995, c. 21, s. 58(1), applicable to taxation years that end after February 22, 1994.

Regulations: 9004.

"*tracking property*" — "tracking property" of a taxpayer means property of the taxpayer the fair market value of which is determined primarily by reference to one or more criteria in respect of property (referred to in this definition as "tracked property") that, if owned by the taxpayer, would be mark-to-market property of the taxpayer, which criteria are

(*a*) the fair market value of the tracked property,

(*b*) the profits or gains from the disposition of the tracked property,

(*c*) the revenue, income or cash flow from the tracked property, or

(*d*) any other similar criteria in respect of the tracked property;

History: S. 142.2(1), the definition "tracking property" was added by S.C. 2009, c. 2, s. 46(4), applicable to taxation years that begin after September 2006.

► 142.2(2) ◄

(2) Significant interest. For the purposes of the definitions "excluded property", "mark-to-market property" and "specified debt obligation" in subsection (1) and subsections (5) and 142.6(1.6), a taxpayer has a significant interest in a corporation at any time if

(*a*) the taxpayer is related (otherwise than because of a right referred to in paragraph 251(5)(*b*)) to the corporation at that time; or

(*b*) the taxpayer holds, at that time,

(i) shares of the corporation that give the taxpayer 10% or more of the votes that could be cast under all circumstances at an annual meeting of shareholders of the corporation, and

(ii) shares of the corporation having a fair market value of 10% or more of the fair market value of all the issued shares of the corporation.

History: S. 142.2(2), the portion before paragraph (*a*) was replaced by S.C. 2009, c. 2, s. 46(5), applicable to taxation years that begin after September 2006. S. 142.2(2), the portion before paragraph (*a*) formerly read:

"(2) *Significant interest.* For the purpose of subsection (5) and the definition 'mark-to-market property' in subsection (1), a taxpayer has a significant interest in a corporation at any time if"

S. 142.2(2) was added by S.C. 1995, c. 21, s. 58(1), applicable to taxation years that end after February 22, 1994.

► 142.2(3) ◄

(3) Rules re significant interest. For the purpose of determining under subsection (2) whether a taxpayer has a significant interest in a corporation at any time,

(*a*) the taxpayer shall be deemed to hold each share that is held at that time by a person or partnership to whom the taxpayer is related (otherwise than because of a right referred to in paragraph 251(5)(*b*));

(*b*) a share of the corporation acquired by the taxpayer by reason of the default of a debtor shall be disregarded where it is reasonable to consider that the share is being retained for the purpose of mini-

mizing any losses in respect of the debtor's default; and

(*c*) a share of the corporation that is prescribed in respect of the taxpayer shall be disregarded.

History: S. 142.2(3) was added by S.C. 1995, c. 21, s. 58(1), applicable to taxation years that end after February 22, 1994.

Regulations: 9002(2); 9003.

► 142.2(4) ◄

(4) Extension of meaning of "related". For the purposes of this subsection and subsections (2) and (3), in determining if, at a particular time, a person or partnership is related to another person or partnership, the rules in section 251 are to be applied as if,

(*a*) a partnership (other than a partnership in respect of which any amount of the income or capital of the partnership that any entity may receive directly from the partnership at any time as a member of the partnership depends on the exercise by any entity of, or the failure by any entity to exercise, a discretionary power) were a corporation having capital stock of a single class divided into 100 issued shares and each member of the partnership owned, at the particular time, that proportion of the issued shares of that class that

(i) the fair market value of the member's interest in the partnership at the particular time

is of

(ii) the fair market value of all interests in the partnership at the particular time; and

(*b*) a trust (other than a trust in respect of which any amount of the income or capital of the trust that any entity may receive directly from the trust at any time as a beneficiary under the trust depends on the exercise by any entity of, or the failure by any entity to exercise, a discretionary power) were a corporation having capital stock of a single class divided into 100 issued shares and each beneficiary under the trust owned, at the particular time, that proportion of the issued shares of that class that

(i) the fair market value of the beneficiary's beneficial interest in the trust at the particular time

is of

(ii) the fair market value at that time of all beneficial interests in the trust.

History: S. 142.2(4) was replaced by S.C. 2009, c. 2, s. 46(6), applicable to taxation years that begin after September 2006. S. 142.2(4) formerly read:

"(4) *Extension of meaning of 'related'.* For the purposes of this subsection and subsections (2) and (3), a person or partnership shall be deemed to be related to a person or partnership where they would be related if, for the purpose of section 251,

(*a*) every partnership and trust were considered to be a corporation;

(*b*) subject to paragraph (*c*), all decisions relating to the conduct of a trust were made by majority vote of the beneficiaries of the trust, with each beneficiary having, at any time, a number of votes equal to the number determined by the formula

$$100 \times \frac{A}{B}$$

where

A is the fair market value at that time of the beneficiary's beneficial interest in the trust, and

B is the total of all amounts each of which is the fair market value at that time of a beneficial interest in the trust; and

(*c*) where the amount that would be determined for B in paragraph (*b*) in respect of a trust is nil, the trust were considered not to be controlled by any person, partnership or group each member of which is a person or partnership."

S. 142.2(4) was added by S.C. 1995, c. 21, s. 58(1), applicable to taxation years that end after February 22, 1994.

► 142.2(5) ◄

(5) Significant interest — transition. [Repealed by S.C. 2009, c. 2, s. 46(6).]

History: S. 142.2(5) was repealed by S.C. 2009, c. 2, s. 46(6), applicable to taxation years that begin after September 2006. S. 142.2(5) formerly read:

"(5) *Significant interest — transition.* For the purpose of the definition 'mark-to-market property' in subsection (1), where

(*a*) on October 31, 1994, a taxpayer whose 1994 taxation year ends after October 30, 1994 held a share of a corporation in which the taxpayer did not have a significant interest at any time in the year, and

(*b*) at any time after the end of the year and before May 1995, the taxpayer has a significant interest in the corporation,

the taxpayer has a significant interest in the corporation in the year and in any subsequent taxation year ending before the earliest time referred to in paragraph (*b*)."

S. 142.2(5) was added by S.C. 1995, c. 21, s. 58(1), applicable to taxation years that end after February 22, 1994.

Income from Specified Debt Obligations

SECTION 142.3:

► 142.3(1) ◄

(1) Amounts to be included and deducted. Subject to subsections (3) and (4), where a taxpayer that is, in a taxation year, a financial institution holds a specified debt obligation at any time in the year,

(*a*) there shall be included in computing the income of the taxpayer for the year the amount, if any, prescribed in respect of the obligation;

(*b*) there shall be deducted in computing the income of the taxpayer for the year the amount, if any, prescribed in respect of the obligation; and

(*c*) except as provided by this section, paragraphs 12(1)(*d*) and (i) and 20(1)(*l*) and (*p*) and section 142.4, no amount shall be included or deducted in respect of payments under the obligation (other than fees and similar amounts) in computing the income of the taxpayer for the year.

History: S. 142.3(1), that portion preceding paragraph (*a*), was amended by S.C. 1998, c. 19, s. 164(2), applicable

(*a*) To taxation years that end after September 1997; and

(*b*) to a taxpayer's taxation years that ended after 1995 and before October 1997 where the taxpayer files an election in accordance with paragraph 81(11)(*b*).

That portion of s. 142.3(1) formerly read:

"(1) Subject to subsection (3), where a taxpayer that is, in a taxation year, a financial institution holds a specified debt obligation at any time in the year,"

S. 142.3(1), that portion preceding paragraph (*a*), was amended by S.C. 1998, c. 19, s. 164(1), applicable to taxation years that end after February 22, 1994, except that the amendment does not apply to debt obligations disposed of before February 23, 1994. That portion formerly read:

"(1) Subject to subsection (2), where a taxpayer that is, in a taxation year, a financial institution holds a specified debt obligation at any time in the year,"

S. 142.3(1)(*c*) was amended by S.C. 1998, c. 19, s. 164(3), applicable to taxation years that end after February 22, 1994, except that the amendment does not apply to debt obligations disposed of before February 23, 1994. S. 142.3(1)(*c*) formerly read:

"(*c*) except as provided by this subsection, paragraphs 12(1)(*d*) and (*i*) and 20(1)(*l*) and (*p*) and section 142.4, no amount shall be included or deducted in respect of payments under the obligation (other than fees and similar amounts) in computing the income of the taxpayer for the year."

S. 142.3(1) was added by S.C. 1995, c. 21, s. 58(1), applicable to taxation years that end after February 22, 1994, except that section 142.3 does not apply to debt obligations disposed of before February 23, 1994.

Proposed Regulations: Part XCI.

► 142.3(2) ◄

(2) Failure to report accrued amounts. Subject to subsection (3), where

(*a*) a taxpayer holds a specified debt obligation at any time in a particular taxation year in which the taxpayer is a financial institution, and

(*b*) all or part of an amount required by paragraph (1)(*a*) or subsection 12(3) to be included in respect of the obligation in computing the taxpayer's income for a preceding taxation year was not so included,

that part of the amount shall be included in computing the taxpayer's income for the particular year, to the extent that it was not included in computing the taxpayer's income for a preceding taxation year.

History: S. 142.3(2) was amended by S.C. 1998, c. 19, s. 164(4), applicable to taxation years that end after February 22, 1994, except that the amendment does not apply to debt obligations disposed of before February 23, 1994. S. 142.3(2) formerly read:

"(2) *Exception for certain obligations.* Subsection (1) does not apply for a taxation year in respect of a specified debt obligation of a taxpayer that is

(*a*) a mark-to-market property for the year; or

(*b*) an indexed debt obligation, other than a prescribed obligation."

S. 142.3(2) was amended by S.C. 1995, c. 21, s. 58(1), applicable to taxation years that end after February 22, 1994, except that section 142.3 does not apply to debt obligations disposed of before February 23, 1994.

► 142.3(3) ◄

(3) Exception for certain obligations. Subsections (1) and (2) do not apply for a taxation year in respect of a taxpayer's specified debt obligation that is

(*a*) a mark-to-market property for the year; or

(*b*) an indexed debt obligation, other than a prescribed obligation.

History: S. 142.3(3) was added by S.C. 1998, c. 19, s. 164(4), applicable to taxation years that end after February 22, 1994, except that the amendment does not apply to debt obligations disposed of before February 23, 1994.

► 142.3(4) ◄

(4) Impaired specified debt obligations. Subsection (1) does not apply to a taxpayer in respect of a specified debt obligation for the part of a taxation year throughout which the obligation is impaired where an amount in respect of the obligation is deductible because of subparagraph 20(1)(*l*)(ii) in computing the taxpayer's income for the year.

History: S. 142.3 was added by S.C. 1998, c. 19, s. 164(5), applicable

(*a*) To taxation years that end after September 1997; and

(*b*) to a taxpayer's taxation years that ended after 1995 and before October 1997 where the taxpayer files an election in accordance with paragraph 81(11)(*b*).

Related Sections: S. 12(4.1) Impaired debt obligations; s. 16(7) Impaired indexed debt obligations.

Disposition of Specified Debt Obligations

SECTION 142.4:

► 142.4(1) ◄

(1) Definitions. In this section,

History: S. 142.4(1) was added by S.C. 1995, c. 21, s. 58(1), applicable to taxation years that end after February 22, 1994.

"*tax basis*" — "tax basis" of a specified debt obligation at any time to a taxpayer means the amount, if any, by which the total of all amounts each of which is

(*a*) the cost of the obligation to the taxpayer,

(*b*) an amount included under subsection 12(3) or 16(2) or (3), paragraph 142.3(1)(*a*) or subsection 142.3(2) in respect of the obligation in computing the taxpayer's income for a taxation year that began before that time,

(*c*) subject to subsection 138(13), where the taxpayer acquired the obligation in a taxation year ending before February 23, 1994, the part of the amount, if any, by which

(i) the principal amount of the obligation at the time it was acquired

exceeds

(ii) the cost to the taxpayer of the obligation

that was included in computing the taxpayer's income for a taxation year ending before February 23, 1994,

(*d*) subject to subsection 138(13), where the taxpayer is a life insurer, an amount in respect of the obligation that was deemed by paragraph 142(3)(*a*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read in its application to the 1977 taxation year, to be a gain for a taxation year ending before 1978,

(*e*) where the obligation is an indexed debt obligation, an amount determined under subparagraph 16(6)(*a*)(i) in respect of the obligation and included in computing the income of the taxpayer for a taxation year beginning before that time,

(*f*) an amount in respect of the obligation that was included in computing the taxpayer's income for a taxation year ending at or before that time in respect of changes in the value of the obligation attributable to the fluctuation in the value of a currency of a country other than Canada relative to Canadian currency, other than an amount included under paragraph 142.3(1)(*a*),

(*g*) an amount in respect of the obligation that was included under paragraph 12(1)(*i*) in computing the taxpayer's income for a taxation year beginning before that time, or

(*h*) where the obligation was a capital property of the taxpayer on February 22, 1994, an amount required by paragraph 53(1)(*f*) or (*f*.1) to be added in computing the adjusted cost base of the obligation to the taxpayer on that day

exceeds the total of all amounts each of which is

(*i*) an amount deducted under paragraph 142.3(1)(*b*) in respect of the obligation in computing the taxpayer's income for a taxation year beginning before that time,

(*j*) the amount of a payment received by the taxpayer under the obligation at or before that time, other than

(i) a fee or similar payment, and

(ii) proceeds of disposition of the obligation,

(*k*) subject to subsection 138(13), where the taxpayer acquired the obligation in a taxation year ending before February 23, 1994, the part of the amount, if any, by which

(i) the cost to the taxpayer of the obligation

exceeds

(ii) the principal amount of the obligation at the time it was acquired

that was deducted in computing the taxpayer's income for a taxation year ending before February 23, 1994,

(*l*) subject to subsection 138(13), where the taxpayer is a life insurer, an amount in respect of the obligation that was deemed by paragraph 142(3)(*b*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read in its application to the

1977 taxation year, to be a loss for a taxation year ending before 1978,

(*m*) an amount that was deducted under subsection 20(14) in respect of the obligation in computing the taxpayer's income for a taxation year beginning before that time,

(*n*) where the obligation is an indexed debt obligation, an amount determined under subparagraph 16(6)(*a*)(ii) in respect of the obligation and deducted in computing the income of the taxpayer for a taxation year beginning before that time,

(*o*) an amount in respect of the obligation that was deducted in computing the taxpayer's income for a taxation year ending at or before that time in respect of changes in the value of the obligation attributable to the fluctuation in the value of a currency of a country other than Canada relative to Canadian currency, other than an amount deducted under paragraph 142.3(1)(*b*),

(*p*) an amount in respect of the obligation that was deducted under paragraph 20(1)(*p*) in computing the taxpayer's income for a taxation year ending at or before that time, or

(*q*) where the obligation was a capital property of the taxpayer on February 22, 1994, an amount required by paragraph 53(2)(*b.2*) or (*g*) to be deducted in computing the adjusted cost base of the obligation to the taxpayer on that day;

History: S. 142.4(1), paragraph (*b*) of the definition "tax basis", was amended by S.C. 1998, c. 19, s. 165(1), applicable to taxation years that end after February 22, 1994. That paragraph formerly read:

"(*b*) an amount included under subsection 12(3) or 16(2) or (3) or paragraph 142.3(1)(*a*) in respect of the obligation in computing the taxpayer's income for a taxation year beginning before that time,"

S. 142.4(1), paragraph (*j*) of the definition "tax basis", was amended by S.C. 1998, c. 19, s. 165(2), applicable to taxation years that end after February 22, 1994. That paragraph formerly read:

"(*j*) the amount of a payment (other than proceeds of disposition of the obligation) received by the taxpayer under the obligation at or before that time in respect of an amount included by any of paragraphs (*a*) to (*f*) in determining the tax basis of the obligation to the taxpayer at that time,"

S. 142.4(1), the definition "tax basis", was added by S.C. 1995, c. 21, s. 58(1), applicable to taxation years that end after February 22, 1994.

"*transition amount*" — "transition amount" of a taxpayer in respect of the disposition of a specified debt obligation has the meaning assigned by regulation.

History: S. 142.4(1), the definition "transition amount", was added by S.C. 1995, c. 21, s. 58(1), applicable to taxation years that end after February 22, 1994.

Proposed Regulations: 9200–9203.

► 142.4(2) ◄

(2) Scope of section. This section applies to the disposition of a specified debt obligation by a taxpayer that is a financial institution, except that this section does not apply to the disposition of a specified debt obligation that is a mark-to-market property for the taxation year in which the disposition occurs.

History: S. 142.4(2) was added by S.C. 1995, c. 21, s. 58(1), applicable to taxation years that end after February 22, 1994.

► 142.4(3) ◄

(3) Rules applicable to disposition. Where a taxpayer has disposed of a specified debt obligation after February 22, 1994,

(*a*) except as provided by paragraph 79.1(7)(*d*) or this section, no amount shall be included or deducted in respect of the disposition in computing the taxpayer's income; and

(*b*) except where the obligation is an indexed debt obligation (other than a prescribed obligation), paragraph 20(14)(*a*) shall not apply in respect of the disposition.

History: S. 142.4(3)(*a*) was amended by S.C. 1998, c. 19, s. 165(3), applicable to taxation years that end after February 22, 1994. That paragraph formerly read:

"(*a*) except as provided by this section, no amount shall be included or deducted in respect of the disposition in computing the income of the taxpayer; and"

S. 142.4(3) was added by S.C. 1995, c. 21, s. 58(1), applicable to taxation years that end after February 22, 1994.

► 142.4(4) ◄

(4) Inclusions and deductions re disposition. Subject to subsection (5), where after 1994 a taxpayer disposes of a specified debt obligation in a taxation year,

(*a*) where the transition amount in respect of the disposition of the obligation is positive, it shall be included in computing the income of the taxpayer for the year;

(*b*) where the transition amount in respect of the disposition of the obligation is negative, the absolute value of the transition amount shall be deducted in computing the income of the taxpayer for the year;

(*c*) where the taxpayer has a gain from the disposition of the obligation,

(i) the current amount of the gain shall be included in computing the income of the taxpayer for the year, and

(ii) there shall be included in computing the taxpayer's income for taxation years that end on or after the day of disposition the amount allocated, in accordance with prescribed rules, to the year in respect of the residual portion of the gain; and

(*d*) where the taxpayer has a loss from the disposition of the obligation,

(i) the current amount of the loss shall be deducted in computing the taxpayer's income for the year, and

(ii) there shall be deducted in computing the taxpayer's income for taxation years that end on or after the day of disposition the amount allocated, in accordance with prescribed rules, to the year in respect of the residual portion of the loss.

History: S. 142.4(4) was amended by S.C. 1998, c. 19, s. 165(4), applicable to taxation years that end after February 22, 1994. S. 142.4(3) formerly read:

"(4) Subject to subsection (5), where after 1994 a taxpayer has, in a taxation year, disposed of a specified debt obligation,

(*a*) where the current amount in respect of the disposition of the obligation is positive, it shall be included in computing the income of the taxpayer for the year;

(*b*) where the current amount in respect of the disposition of the obligation is negative, it shall be deducted in computing the income of the taxpayer for the year;

(*c*) where the taxpayer has a gain from the disposition of the obligation, there shall be included in computing the taxpayer's income for taxation years that end on or after the day of disposition the amount allocated, in accordance with prescribed rules, to the year in respect of the residual portion of the gain; and

(*d*) where the taxpayer has a loss from the disposition of the obligation, there shall be deducted in computing the taxpayer's income for taxation years that end on or after the day of disposition the amount allocated, in accordance with prescribed rules, to the year in respect of the residual portion of the loss."

S. 142.4(4) was added by S.C. 1995, c. 21, s. 58(1), applicable to taxation years that end after February 22, 1994.

Proposed Regulations: 9204.

► 142.4(5) ◄

(5) Gain or loss not amortized. Where after February 22, 1994 a taxpayer disposes of a specified debt obligation in a taxation year, and

(*a*) the obligation is

(i) an indexed debt obligation (other than a prescribed obligation), or

(ii) a debt obligation prescribed in respect of the taxpayer,

(*b*) the disposition occurred

(i) before 1995,

(ii) after 1994 in connection with the transfer of all or part of a business of the taxpayer to a person or partnership, or

(iii) because of paragraph 142.6(1)(*c*), or

(*c*) in the case of a taxpayer other than a life insurance corporation,

(i) the disposition occurred before 1996, and

(ii) the taxpayer elects in writing, filed with the Minister before July 1997, to have this paragraph apply,

the following rules apply:

(*d*) subsection (4) does not apply to the disposition,

(*e*) there shall be included in computing the taxpayer's income for the year the amount, if any, by which the taxpayer's proceeds of disposition exceed the tax basis of the obligation to the taxpayer immediately before the disposition, and

(*f*) there shall be deducted in computing the taxpayer's income for the year the amount, if any, by which the tax basis of the obligation to the taxpayer immediately before the disposition exceeds the taxpayer's proceeds of disposition.

History: S. 142.4(5) was amended by S.C. 1998, c. 19, s. 165(4), applicable to taxation years that end after February 22, 1994. S. 142.4(5) formerly read:

"(5) Where a taxpayer has, in a taxation year and after February 22, 1994, disposed of a specified debt obligation, and either

(*a*) the obligation is

(i) an indexed debt obligation (other than a prescribed obligation), or

(ii) a debt obligation prescribed in respect of the taxpayer, or

(*b*) the disposition occurred

(i) before 1995,

(ii) after 1994 in connection with the transfer of all or part of a business of the taxpayer to a person or partnership, or

(iii) because of paragraph 142.6(1)(*c*),

the following rules apply:

(*c*) subsection (4) does not apply to the disposition,

(*d*) where the taxpayer has a gain from the disposition of the obligation, the gain shall be included in computing the income of the taxpayer for the year, and

(*e*) where the taxpayer has a loss from the disposition of the obligation, the loss shall be deducted in computing the income of the taxpayer for the year."

S. 142.4(5) was added by S.C. 1995, c. 21, s. 58(1), applicable to taxation years that end after February 22, 1994.

Proposed Regulations: 9202.

► 142.4(6) ◄

(6) Gain or loss from disposition of obligation. For the purposes of this section,

(*a*) where the amount determined under paragraph (*c*) in respect of the disposition of a specified debt obligation by a taxpayer is positive, that amount is the taxpayer's gain from the disposition of the obligation;

(*b*) where the amount determined under paragraph (*c*) in respect of the disposition of a specified debt obligation by a taxpayer is negative, the absolute value of that amount is the taxpayer's loss from the disposition of the obligation; and

(*c*) the amount determined under this paragraph in respect of the disposition of a specified debt obligation by a taxpayer is the positive or negative amount determined by the formula

$$A - (B + C)$$

where

A is the taxpayer's proceeds of disposition,

B is the tax basis of the obligation to the taxpayer immediately before the time of disposition, and

C is the taxpayer's transition amount in respect of the disposition.

History: S. 142.4(6)(*b*) was amended by S.C. 1998, c. 19, s. 165(5), applicable to taxation years that end after February 22, 1994. Paragraph (*b*) formerly read:

"(*b*) where the amount determined under paragraph (*c*) in respect of the disposition of a specified debt obligation by a taxpayer is negative, that amount is the taxpayer's loss from the disposition of the obligation; and"

S. 142.4(6)(*c*), the description of C, was amended by S.C. 1998, c. 19, s. 165(6), applicable to taxation years that end after February 22, 1994. The description of C formerly read:

"C is

(i) where subsection (4) applies to the disposition, the taxpayer's transition amount in respect of the disposition, and

(ii) in any other case, nil."

S. 142.4(6) was added by S.C. 1995, c. 21, s. 58(1), applicable to taxation years that end after February 22, 1994.

► 142.4(7) ◄

(7) Current amount. For the purposes of subsections (4) and (8), the current amount of a taxpayer's gain or loss from the disposition of a specified debt obligation is

(*a*) where the taxpayer has a gain from the disposition of the obligation, the part, if any, of the gain that is reasonably attributable to a material increase in the probability, or perceived probability, that the debtor will make all payments as required by the obligation; and

(*b*) where the taxpayer has a loss from the disposition of the obligation, the amount that the taxpayer claims not exceeding the part, if any, of the loss that is reasonably attributable to a default by the debtor or a material decrease in the probability, or perceived probability, that the debtor will make all payments as required by the obligation.

History: S. 142.4(7) was amended by S.C. 1998, c. 19, s. 165(7), applicable to taxation years that end after February 22, 1994. S. 142.4(7) formerly read:

"(7) For the purpose of subsection (4), the current amount in respect of the disposition of a specified debt obligation by a taxpayer is the positive or negative amount determined by the formula

$$A + B$$

where

A is the taxpayer's transition amount in respect of the disposition, and

B is

(*a*) where the taxpayer has a gain from the disposition of the obligation, the part, if any, of the gain that is reasonably attributable to a material increase in the probability, or perceived probability, that the debtor will make all payments as required by the obligation, and

(*b*) where the taxpayer has a loss from the disposition of the obligation, the negative amount that the taxpayer claims not exceeding in magnitude the part, if any, of the loss that is reasonably attributable to a default by the debtor or a material decrease in the probability, or perceived probability, that the debtor will make all payments as required by the obligation."

S. 142.4(7) was added by S.C. 1995, c. 21, s. 58(1), applicable to taxation years that end after February 22, 1994.

► 142.4(8) ◄

(8) Residual portion of gain or loss. For the purpose of subsection (4), the residual portion of a taxpayer's gain or loss from the disposition of a specified debt obliga-

tion is the amount, if any, by which the gain or loss exceeds the current amount of the gain or loss.

History: S. 142.4(8) was amended by S.C. 1998, c. 19, s. 165(7), applicable to taxation years that end after February 22, 1994. S. 142.4(7) formerly read:

"(8) For the purpose of subsection (4), where a taxpayer has a gain or loss from the disposition of a specified debt obligation, the residual portion of the gain or loss is the part of the gain or loss that is not included in determining the amount B in the formula in subsection (7) in respect of the disposition."

S. 142.4(8) was added by S.C. 1995, c. 21, s. 58(1), applicable to taxation years that end after February 22, 1994.

► 142.4(9) ◄

(9) Disposition of part of obligation. Where a taxpayer disposes of part of a specified debt obligation, section 142.3 and this section apply as if the part disposed of and the part retained were separate specified debt obligations.

History: S. 142.4(9) was amended by S.C. 1998, c. 19, s. 165(7), applicable to taxation years that end after February 22, 1994. S. 142.4(9) formerly read:

"(9) *Disposition of part of obligation.* Where a taxpayer disposed of part of a specified debt obligation, this section and any regulations made for the purpose of this section apply as if the part disposed of and the part retained were separate specified debt obligations."

S. 142.4(9) was added by S.C. 1995, c. 21, s. 58(1), applicable to taxation years that end after February 22, 1994.

► 142.4(10) ◄

(10) Penalties and bonuses. Notwithstanding subsection 18(9.1), where a taxpayer that holds a specified debt obligation receives a penalty or bonus because of the repayment before maturity of all or part of the principal amount of the debt obligation, the payment is deemed to be received by the taxpayer as proceeds of disposition of the specified debt obligation.

History: S. 142.4(10) was added by S.C. 1998, c. 19, s. 165(7), applicable to taxation years that end after February 22, 1994.

► 142.4(11) ◄

(11) Payments received on or after disposition. For the purposes of this section, where at any time a taxpayer receives a payment (other than proceeds of disposition) under a specified debt obligation on or after the disposition of the obligation, the payment is deemed not to have been so received at that time but to have been so received immediately before the disposition.

History: S. 142.4(11) was added by S.C. 1998, c. 19, s. 165(7), applicable to taxation years that end after February 22, 1994.

Mark-to-Market Properties

SECTION 142.5:

► 142.5(1) ◄

(1) Income treatment for profits and losses. Where, in a taxation year that begins after October 1994, a taxpayer that is a financial institution in the year disposes of a property that is a mark-to-market property for the year,

(*a*) there shall be included in computing the taxpayer's income for the year the profit, if any, from the disposition; and

(*b*) there shall be deducted in computing the taxpayer's income for the year the loss, if any, from the disposition.

History: S. 142.5(1) was added by S.C. 1995, c. 21, s. 58(1), applicable to taxation years that end after October 30, 1994.

► 142.5(2) ◄

(2) Mark-to-market requirement. Where a taxpayer that is a financial institution in a taxation year holds, at the end of the year, a mark-to-market property for the year, the taxpayer shall be deemed

(*a*) to have disposed of the property immediately before the end of the year for proceeds equal to its fair market value at the time of disposition, and

(*b*) to have reacquired the property at the end of the year at a cost equal to those proceeds.

History: S. 142.5(2) was added by S.C. 1995, c. 21, s. 58(1), applicable to taxation years that end after October 30, 1994.

► 142.5(3) ◄

(3) Mark-to-market debt obligation. Where a taxpayer is a financial institution in a particular taxation year that begins after October 1994, the following rules apply with respect to a specified debt obligation that is a mark-to-market property of the taxpayer for the particular year:

(*a*) paragraph 12(1)(*c*) and subsections 12(3) and 20(14) and (21) do not apply to the obligation in computing the taxpayer's income for the particular year;

(*b*) there shall be included in computing the taxpayer's income for the particular year an amount received by the taxpayer in the particular year as, on account of, in lieu of payment of, or in satisfaction of, interest on the obligation, to the extent that the interest was not included in computing the taxpayer's income for a preceding taxation year; and

(*c*) for the purpose of paragraph (*b*), where the taxpayer was deemed by subsection (2) or paragraph 142.6(1)(*b*) to have disposed of the obligation in a preceding taxation year, no part of an amount included in computing the income of the taxpayer for that preceding year because of the disposition shall be considered to be in respect of interest on the obligation.

History: S. 142.5(3) was added by S.C. 1995, c. 21, s. 58(1), applicable to taxation years that end after October 30, 1994.

► 142.5(4) ◄

(4) Transition — deduction re non-capital amounts. There may be deducted in computing the income of a taxpayer for the taxpayer's taxation year that includes October 31, 1994 such amount as the taxpayer claims not exceeding a prescribed amount in respect of properties (other than capital properties) disposed of by the taxpayer because of subsection (2).

History: S. 142.5(4) was added by S.C. 1995, c. 21, s. 58(1), applicable to taxation years that end after October 30, 1994.

Regulations: 8102.

► 142.5(5) ◄

(5) Transition — inclusion re non-capital amounts. Where an amount is deducted under subsection (4) in computing a taxpayer's income, there shall be included, in computing the taxpayer's income for each taxation year that begins before 1999 and ends after October 30, 1994, the total of all amounts prescribed for the year.

History: S. 142.5(5) was amended by S.C. 1998, c. 19, s. 166(1), applicable to taxation years that end after October 30, 1994. S. 142.5(5) formerly read:

"(5) Where a taxpayer deducts an amount under subsection (4), there shall be included in computing the taxpayer's income for each taxation year that begins before 1999 and ends after October 30, 1994, the prescribed portion for the year of the amount so deducted."

S. 142.5(5) was added by S.C. 1995, c. 21, s. 58(1), applicable to taxation years that end after October 30, 1994.

Proposed Regulations: 8103.

► 142.5(6) ◄

(6) Transition — deduction re net capital gains. Such amount as a taxpayer elects, not exceeding a prescribed amount in respect of capital properties disposed of by the taxpayer because of subsection (2), is deemed to be an allowable capital loss of the taxpayer for its taxation year that includes October 31, 1994 from the disposition of property (or, where the taxpayer is non-resident throughout the year, from the disposition of taxable Canadian property).

History: S. 142.5(6) was amended by S.C. 1998, c. , s. 166(1), applicable to taxation years that end after October 30, 1994. S. 142.5(6) formerly read:

"(6) Such amount as a taxpayer elects, not exceeding a prescribed amount in respect of capital properties disposed of by the taxpayer because of subsection (2), shall be deemed to be an allowable capital loss of the taxpayer for its taxation year that includes October 31, 1994 from the disposition of property."

S. 142.5(6) was added by S.C. 1995, c. 21, s. 58(1), applicable to taxation years that end after October 30, 1994.

Proposed Regulations: 8104.

► 142.5(7) ◄

(7) Transition — inclusion re net capital gains. A taxpayer that elects an amount under subsection (6) is deemed, for each taxation year that begins before 1999 and ends after October 30, 1994, to have a taxable capital gain for the year from the disposition of property (or, where the taxpayer is non-resident throughout the year, from the disposition of taxable Canadian property) equal to the total of all amounts prescribed for the year.

History: S. 142.5(7) was amended by S.C. 1998, c. , s. 166(1), applicable to taxation years that end after October 30, 1994. S. 142.5(7) formerly read:

"(7) *Transition — inclusion re net capital gains.* Where a taxpayer elects an amount under subsection (6), the taxpayer shall be deemed, for each taxation year that begins before 1999 and ends after October 30, 1994, to have a taxable capital gain for the year from the disposition of property equal to the prescribed portion for the year of the amount so elected."

S. 142.5(7) was added by S.C. 1995, c. 21, s. 58(1), applicable to taxation years that end after October 30, 1994.

Proposed Regulations: 8105.

► 142.5(8) ◄

(8) First deemed disposition of debt obligation. Where

(*a*) in a particular taxation year that ends after October 30, 1994, a taxpayer disposed of a specified debt obligation that is a mark-to-market property of the taxpayer for the following taxation year, and

(*b*) either

(i) the disposition occurred because of subsection (2) and the particular year includes October 31, 1994, or

(ii) the disposition occurred because of paragraph 142.6(1)(*b*),

the following rules apply:

(*c*) subsection 20(21) does not apply to the disposition, and

(*d*) where

(i) an amount has been deducted under paragraph 20(1)(*p*) in respect of the obligation in computing the taxpayer's income for the particular year or a preceding taxation year, and

(ii) section 12.4 does not apply to the disposition,

there shall be included in computing the taxpayer's income for the particular year the amount, if any, by which

(iii) the total of all amounts referred to in subparagraph (i)

exceeds

(iv) the total of all amounts included under paragraph 12(1)(*i*) in respect of the obligation in computing the taxpayer's income for the particular year or a preceding taxation year.

History: S. 142.5(8) was added by S.C. 1995, c. 21, s. 58(1), applicable to taxation years that end after October 30, 1994.

► 142.5(8.1) ◄

(8.1) Application of subsection (8.2). Subsection (8.2) applies to a taxpayer for its transition year if

(*a*) subsection (2) deems the taxpayer to have disposed of a particular specified debt obligation immediately before the end of its transition year (in subsection (8.2) referred to as "the particular disposition"); and

(*b*) the particular specified debt obligation was owned by the taxpayer at the end of its base year and was not a mark-to-market property of the taxpayer for its base year.

History: S. 142.5(8.1) was added by S.C. 2009, c. 2, s. 47(1), applicable to taxation years that begin after September 2006.

► 142.5(8.2) ◄

(8.2) Rules applicable to first deemed disposition of debt obligation. If this subsection applies to a taxpayer for its transition year, the following rules apply to the taxpayer in respect of the particular disposition:

(*a*) subsection 20(21) does not apply to the taxpayer in respect of the particular disposition; and

(*b*) if section 12.4 does not apply to the taxpayer in respect of the particular disposition, there shall be included in computing the taxpayer's income for its transition year the amount, if any, by which

(i) the total of all amounts each of which is

(A) an amount deducted under paragraph 20(1)(*l*) in respect of the particular specified debt obligation of the taxpayer in computing the taxpayer's income for its base year, or

(B) an amount deducted under paragraph 20(1)(*p*) in respect of the particular specified debt obligation of the taxpayer in computing the taxpayer's income for a taxation year that preceded its transition year,

exceeds

(ii) the total of all amounts each of which is

(A) an amount included under paragraph 12(1)(*d*) in respect of the particular specified debt obligation of the taxpayer in computing the taxpayer's income for its transition year, or

(B) an amount included under paragraph 12(1)(*i*) in respect of the particular specified debt obligation of the taxpayer in computing the taxpayer's income for its transition year or a preceding taxation year.

History: S. 142.5(8.2) was added by S.C. 2009, c. 2, s. 47(1), applicable to taxation years that begin after September 2006.

► 142.5(9) ◄

(9) Transition — property acquired on rollover. Where

(*a*) a taxpayer acquired a property before October 31, 1994 at a cost less than the fair market value of the property at the time of acquisition,

(*b*) the property was transferred, directly or indirectly, to the taxpayer by a person that would never have

been a financial institution before the transfer if the definition "financial institution" in subsection 142.2(1) had always applied,

(*c*) the cost is less than the fair market value because subsection 85(1) applied in respect of the disposition of the property by the person, and

(*d*) subsection (2) deemed the taxpayer to have disposed of the property in its particular taxation year that includes October 31, 1994,

the following rules apply:

(*e*) where the taxpayer would, but for this paragraph, have a taxable capital gain for the particular year from the disposition of the property, the part of the taxable capital gain that can reasonably be considered to have arisen while the property was held by a person described in paragraph (*b*) shall be deemed to be a taxable capital gain of the taxpayer from the disposition of the property for the taxation year in which the taxpayer disposes of the property otherwise than because of subsection (2), and not to be a taxable capital gain for the particular year, and

(*f*) where the taxpayer has a profit (other than a capital gain) from the disposition of the property, the part of the profit that can reasonably be considered to have arisen while the property was held by a person described in paragraph (*b*) shall be included in computing the taxpayer's income for the taxation year in which the taxpayer disposes of the property otherwise than because of subsection (2), and shall not be included in computing the taxpayer's income for the particular year.

History: S. 142.5(9) was added by S.C. 1995, c. 21, s. 58(1), applicable to taxation years that end after October 30, 1994.

SECTION 142.51: [Transitional rules for financial institutions].

► 142.51(1) ◄

(1) Definitions. The following definitions apply for the purposes of this section and subsections 142.5(8.1) and (8.2).

"base year" — "base year" of a taxpayer means the taxpayer's taxation year that immediately precedes its transition year.

History: S. 142.51(1), the definition "base year" was added by S.C. 2009, c. 2, s. 48(1), applicable to taxation years that begin after September 2006.

"transition amount" — "transition amount" of a taxpayer for the taxpayer's transition year is the positive or negative amount determined by the formula

$$A - B$$

where

A is the total of all amounts each of which is the fair market value, at the end of the taxpayer's base year, of a transition property of the taxpayer; and

B is the total of all amounts each of which is the cost amount to the taxpayer, at the end of the taxpayer's base year, of a transition property of the taxpayer.

History: S. 142.51(1), the definition "transition amount" was added by S.C. 2009, c. 2, s. 48(1), applicable to taxation years that begin after September 2006.

"transition property" — "transition property" of a taxpayer means a property that

(*a*) was a specified debt obligation held by the taxpayer at the end of the taxpayer's base year;

(*b*) was not a mark-to-market property of the taxpayer for the taxpayer's base year, but would have been a mark-to-market property of the taxpayer for the taxpayer's base year if the property had been carried at the property's fair market value in the taxpayer's balance sheet as at the end of each taxation year of the taxpayer that ends after the taxpayer last acquired the property (otherwise than by reason of a reacquisition under subsection 142.5(2)), and before the commencement of the taxpayer's transition year; and

(*c*) was a mark-to-market property of the taxpayer for the transition year of the taxpayer.

History: S. 142.51(1), the definition "transition property" was added by S.C. 2009, c. 2, s. 48(1), applicable to taxation years that begin after September 2006.

"transition year" — "transition year" of a taxpayer means the taxpayer's first taxation year that begins after September 2006.

History: S. 142.51(1), the definition "transition year" was added by S.C. 2009, c. 2, s. 48(1), applicable to taxation years that begin after September 2006.

► 142.51(2) ◄

(2) Transition year income inclusion. If a taxpayer is a financial institution in its transition year, there shall be included in computing the taxpayer's income for its transition year the absolute value of the negative amount, if any, of the taxpayer's transition amount.

History: S. 142.51(2) was added by S.C. 2009, c. 2, s. 48(1), applicable to taxation years that begin after September 2006.

► 142.51(3) ◄

(3) Transition year income deduction. If a taxpayer is a financial institution in its transition year, there shall be deducted in computing the taxpayer's income for its transition year the positive amount, if any, of the taxpayer's transition amount.

History: S. 142.51(3) was added by S.C. 2009, c. 2, s. 48(1), applicable to taxation years that begin after September 2006.

► 142.51(4) ◄

(4) Transition year income inclusion reversal. If an amount has been included under subsection (2) in computing a taxpayer's income for its transition year there shall be deducted in computing the taxpayer's income for each particular taxation year of the taxpayer that ends after the beginning of the transition year, and in which particular taxation year the taxpayer is a financial institution, the amount determined by the formula

$$A \times B/1825$$

where

A is the amount included under subsection (2) in computing the taxpayer's income for the transition year; and

B is the number of days in the particular taxation year that are before the day that is 1825 days after the first day of the transition year.

History: S. 142.51(4) was added by S.C. 2009, c. 2, s. 48(1), applicable to taxation years that begin after September 2006.

► 142.51(5) ◄

(5) Transition year income deduction reversal. If an amount has been deducted under subsection (3) in computing a taxpayer's income for its transition year, there shall be included in computing the taxpayer's income, for each particular taxation year of the taxpayer ending after the

beginning of the transition year, and in which particular taxation year the taxpayer is a financial institution, the amount determined by the formula

$$A \times B/1825$$

where

A is the amount deducted under subsection (3) in computing the taxpayer's income for the transition year; and

B is the number of days in the particular taxation year that are before the day that is 1825 days after the first day of the transition year.

History: S. 142.51(5) was added by S.C. 2009, c. 2, s. 48(1), applicable to taxation years that begin after September 2006.

► 142.51(6) ◄

(6) Winding-up. If a taxpayer has, in a winding-up to which subsection 88(1) has applied, been wound-up into another corporation (referred to in this subsection as the "parent"), and immediately after the winding-up the parent is a financial institution, in applying subsections (4) and (5) in computing the income of the taxpayer and of the parent for particular taxation years that end on or after the first day (referred to in this subsection as the "start day") on which assets of the taxpayer were distributed to the parent on the winding-up,

(*a*) the parent is, on and after the start day, deemed to be the same corporation as and a continuation of the taxpayer in respect of

(i) any amount included under subsection (2) or deducted under subsection (3) by the taxpayer in computing the taxpayer's income for its transition year,

(ii) any amount deducted under subsection (4) or included under subsection (5) in computing the taxpayer's income for a taxation year of the taxpayer that begins before the start day, and

(iii) any amount that would — in the absence of this subsection and if the taxpayer existed and was a financial institution on each day that is the start day or a subsequent day and on which the parent is a financial institution — be required to be deducted or included, in respect of any of those days, under subsection (4) or (5) in computing the taxpayer's income for its transition year; and

(*b*) the taxpayer is, in respect of each of its particular taxation years, to determine the value for B in the formulas in subsections (4) and (5) without reference to the start day and days after the start day.

History: S. 142.51(6) was added by S.C. 2009, c. 2, s. 48(1), applicable to taxation years that begin after September 2006.

► 142.51(7) ◄

(7) Amalgamations. If there is an amalgamation (within the meaning assigned by subsection 87(1)) of a taxpayer with one or more other corporations to form one corporation (referred to in this subsection as the "new corporation"), and immediately after the amalgamation the new corporation is a financial institution, in applying subsections (4) and (5) in computing the income of the new corporation for particular taxation years of the new corporation that begin on or after the day on which the amalgamation occurred, the new corporation is, on and after that day, deemed to be the same corporation as and a continuation of the taxpayer in respect of

(*a*) any amount included under subsection (2) or deducted under subsection (3) in computing the taxpayer's income for its transition year of the taxpayer;

(*b*) any amount deducted under subsection (4) or included under subsection (5) in computing the taxpayer's income for a taxation year of the taxpayer that begins before the day on which the amalgamation occurred; and

(*c*) any amount that would — in the absence of this subsection and if the taxpayer existed and was a financial institution on each day that is the day on which the amalgamation occurred or a subsequent day and on which the new corporation is a financial institution — be required to be deducted or included, in respect of any of those days, under subsection (4) or (5) in computing the taxpayer's income.

History: S. 142.51(7) was added by S.C. 2009, c. 2, s. 48(1), applicable to taxation years that begin after September 2006.

► 142.51(8) ◄

(8) Application of subsection (9). Subsection (9) applies if, at any time, a taxpayer (referred to in this subsection and subsection (9) as the "transferor") transfers, to a corporation (referred to in this subsection and subsection (9) as the "transferee") that is related to the transferor, property in respect of a business carried on by the transferor in Canada (referred to in this subsection and subsection (9) as the "transferred business") and

(*a*) subsection 138(11.5) or (11.94) applies to the transfer; or

(*b*) subsection 85(1) applies to the transfer, the transfer includes all or substantially all of the property and liabilities of the transferred business and, immediately after the transfer, the transferee is a financial institution.

History: S. 142.51(8) was added by S.C. 2009, c. 2, s. 48(1), applicable to taxation years that begin after September 2006.

► 142.51(9) ◄

(9) Transfer of a business. If this subsection applies in respect of the transfer, at any time, of property

(*a*) the transferee is, at and after that time, deemed to be the same corporation as and a continuation of the transferor in respect of

(i) any amount included under subsection (2) or deducted under subsection (3) in computing the transferor's income for its transition year that can reasonably be attributed to the transferred business,

(ii) any amount deducted under subsection (4) or included under subsection (5) in computing the transferor's income for a taxation year of the transferor that begins before that time that can reasonably be attributed to the transferred business, and

(iii) any amount that would — in the absence of this subsection and if the transferor existed and was a financial institution on each day that includes that time or is a subsequent day and on which the transferee is a financial institution — be required to be deducted or included, in respect of any of those days, under subsection (4) or (5) in com-

puting the transferor's income that can reasonably be attributed to the transferred business; and

(*b*) in determining, in respect of the day that includes that time or any subsequent day, any amount that is required under subsection (4) or (5) to be deducted or included in computing the transferor's income for each particular taxation year from the transferred business, the description of A in the formulas in those subsections is deemed to be nil.

History: S. 142.51(9) was added by S.C. 2009, c. 2, s. 48(1), applicable to taxation years that begin after September 2006.

► 142.51(10) ◄

(10) Continuation of a partnership. If subsection 98(6) deems a partnership (in this subsection referred to as the "new partnership") to be a continuation of another partnership (in this subsection referred to as the "predecessor partnership") and, at the time that is immediately after the predecessor partnership ceases to exist, the new partnership is a financial institution, in applying subsections (4) and (5) in computing the income of the new partnership for particular taxation years of the new partnership that begin on or after the day on which it comes into existence, the new partnership is, on and after that day, deemed to be the same partnership as and a continuation of the predecessor partnership in respect of

(*a*) any amount included under subsection (2) or deducted under subsection (3) in computing the predecessor partnership's income for its transition year;

(*b*) any amount deducted under subsection (4) or included under subsection (5) in computing the predecessor partnership's income for a taxation year of the predecessor partnership that begins before the day on which the new partnership comes into existence; and

(*c*) any amount that would — in the absence of this subsection and if the predecessor partnership existed and was a financial institution on each day that is the day on which the new partnership comes into existence or a subsequent day and on which the new partnership is a financial institution — be required to be deducted or included, in respect of any of those days, under subsection (4) or (5) in computing the predecessor partnership's income.

History: S. 142.51(10) was added by S.C. 2009, c. 2, s. 48(1), applicable to taxation years that begin after September 2006.

► 142.51(11) ◄

(11) Ceasing to carry on a business. If at any time, a taxpayer ceases to be a financial institution

(*a*) there shall be deducted, in computing the income of the taxpayer for the taxation year of the taxpayer that includes the time that is immediately before that time, the amount determined by the formula

A – B

where

A is the amount included under subsection (2) in computing the taxpayer's income for its transition year, and

B is the total of all amounts each of which is an amount deducted under subsection (4) in computing the income of the taxpayer for a taxation year that began before that time; and

(*b*) there shall be included, in computing the income of the taxpayer for the taxation year of the taxpayer that includes the time that is immediately before that time, the amount determined by the formula

C – D

where

C is the amount deducted under subsection (3) in computing the taxpayer's income for its transition year, and

D is the total of all amounts each of which is an amount included under subsection (5) in computing the taxpayer's income for a taxation year that began before that time.

History: S. 142.51(11) was added by S.C. 2009, c. 2, s. 48(1), applicable to taxation years that begin after September 2006.

► 142.51(12) ◄

(12) Ceasing to exist. If at any time a taxpayer ceases to exist (otherwise than as a result of a merger to which subsection 87(2) applies, a winding-up to which subsection 88(1) applies or a continuation to which subsection 98(6) applies), for the purposes of subsection (11), the taxpayer is deemed to have ceased to be a financial institution at the earlier of

(*a*) the time (determined without reference to this subsection) at which the taxpayer ceased to be a financial institution, and

(*b*) the time that is immediately before the end of the last taxation year of the taxpayer that ended at or before the time at which the taxpayer ceased to exist.

History: S. 142.51(12) was added by S.C. 2009, c. 2, s. 48(1), applicable to taxation years that begin after September 2006.

Additional Rules

SECTION 142.6:

► 142.6(1) ◄

(1) Becoming or ceasing to be a financial institution. Where, at a particular time after February 22, 1994, a taxpayer becomes or ceases to be a financial institution,

(*a*) where a taxation year of the taxpayer would not, but for this paragraph, end immediately before the particular time,

(i) except for the purpose of subsection 132(6.1), the taxpayer's taxation year that would otherwise have included the particular time is deemed to have ended immediately before that time and a new taxation year of the taxpayer is deemed to have begun at that time, and

(ii) for the purpose of determining the taxpayer's fiscal period after the particular time, the taxpayer shall be deemed not to have established a fiscal period before that time;

(*b*) where the taxpayer becomes a financial institution, the taxpayer shall be deemed to have disposed, immediately before the end of its taxation year that ends immediately before the particular time, of each property held by the taxpayer that is

(i) a specified debt obligation (other than a mark-to-market property for the year), or

(ii) where the year ends after October 30, 1994, a mark-to-market property for the year

for proceeds equal to its fair market value at the time of disposition;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 142.6(1)(*b*) of the Act is replaced by the following:

(*b*) if the taxpayer becomes a financial institution, the taxpayer is deemed to have disposed, immediately before the end of its particular taxation year that ends immediately before the particular time, of each of the following properties held by the taxpayer for proceeds equal to the property's fair market value at the time of that disposition:

(i) a specified debt obligation, or

(ii) a mark-to-market property of the taxpayer for the particular taxation year or for the taxpayer's taxation year that includes the particular time;

Applicable: To taxation years that end after 1998.

Explanatory Note: Subsection 142.6(1) of the Act contains rules that apply where a taxpayer becomes (or ceases to be) a financial institution. This is most likely to happen where the change of status occurs because the taxpayer becomes (or ceases to be) controlled by a financial institution.

If a taxation year of the taxpayer does not end immediately before the time at which its status as a financial institution changes, subparagraph 142.6(1)(*a*)(i) deems the taxpayer's taxation year that would otherwise have included that time to end immediately before that time. A new taxation year begins at that time, and the taxpayer is permitted to adopt a new fiscal period. One purpose for the deemed year-end is to ensure the proper application, in taxation years in which the taxpayer is a financial institution, of the rules, commonly known as the mark-to-market rules,

- in section 142.3 of the Act for specified debt obligations, and
- in section 142.5 of the Act for market-to-market properties.

The expressions "financial institution", "specified debt obligation" and "mark-to-market property" are defined in section 142.2 of the Act.

Paragraph 142.6(1)(*b*) applies where a taxpayer becomes a financial institution. This paragraph generally provides for a deemed disposition at fair market value of each property held by the taxpayer that is

- a specified debt obligation (other than a specified debt obligation that is a mark-to-market property to which subparagraph 142.6(1)(*b*)(ii) applies), [Subparagraph 142.6(1)(*b*)(i)] or
- a mark-to-market property for the taxpayer's taxation year that ends immediately before the time of the change of status. [Subparagraph 142.6(1)(*b*)(ii)]

This deemed disposition under paragraph 142.6(1)(*b*) is intended to ensure that amounts brought, because of the mark-to-market rules in sections 142.3 and 142.5, into the taxpayer's income for the taxpayer's subsequent taxation year (i.e., the taxation year that includes the time of the change of status) do not include gains or losses accrued before the beginning of that subsequent taxation year.

Paragraph 142.6(1)(*b*) is amended to ensure that this is achieved in connection with mark-to-market properties. Amended paragraph 142.6(1)(*b*) results in the taxpayer being deemed to have disposed of, immediately before the end of its particular taxation year that ends immediately before the time of the change of status, and for proceeds equal to its fair market value at the time of that disposition, a mark-to-market property of the taxpayer

- for the particular taxation year, or
- for the subsequent taxation year.

Paragraph 142.6(1)(*c*) provides for a deemed disposition of specified debt obligations (other than mark-to-market property) in the opposite situation of change of status, i.e., where the taxpayer ceases to be a financial institution. Paragraph 142.6(1)(*d*) provides that the taxpayer is deemed to have reacquired, at the end of the taxation year referred to in paragraph 142.6(1)(*b*) or (*c*), each property deemed by that paragraph to have been disposed of by the taxpayer, at a cost equal to the proceeds of disposition of the property.

Consequential to the amendments to paragraph 142.6(1)(*b*), paragraph 142.6(1)(*d*) is amended to provide that the taxpayer is deemed to have reacquired, at the end of its taxation year that ends immediately before the time of the change of status, each property deemed by paragraph 142.6(1)(*b*) or (*c*) to have been disposed of by the taxpayer, at a cost equal to the proceeds of disposition of the property.

Amended paragraphs 142.6(1)(*b*) and (*d*) apply to taxation years that end after 1998.

(*c*) where the taxpayer ceases to be a financial institution, the taxpayer shall be deemed to have disposed, immediately before the end of its taxation year that ends immediately before the particular time, of each property held by the taxpayer that is a specified debt obligation (other than a mark-to-market property of the taxpayer for the year), for proceeds equal to its fair market value at the time of disposition; and

(*d*) the taxpayer shall be deemed to have reacquired, at the end of the taxation year referred to in paragraph (*b*) or (*c*), each property deemed by that paragraph to have been disposed of by the taxpayer, at a cost equal to the proceeds of disposition of the property.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 142.6(1)(*d*) of the Act is replaced by the following:

(*d*) the taxpayer is deemed to have reacquired, at the end of its taxation year that ends immediately before the particular time, each property deemed by paragraph (*b*) or (*c*) to have been disposed of by the taxpayer, at a cost equal to the proceeds of disposition of the property.

Applicable: To taxation years that end after 1998.

Explanatory Note: See the Explanatory Note following the amendment to paragraph 142.6(1)(*b*).

History: S. 142.6(1)(*a*)(i) was amended by S.C. 1999, c. 22, s. 58(1), applicable after 1997. S. 142.6(1)(*a*)(i) formerly read:

"(i) the taxation year of the taxpayer that would otherwise have included the particular time shall be deemed to have ended immediately before that time and a new taxation year of the taxpayer shall be deemed to have begun at that time, and"

S. 142.6(1) was added by S.C. 1995, c. 21, s. 58(1), applicable after February 22, 1994.

Related Sections: S. 132(6.1) Election to be mutual fund.

► 142.6(1.1) ◄

(1.1) Ceasing to use property in Canadian business. If at a particular time in a taxation year a taxpayer that is a non-resident financial institution (other than a life insurance corporation) ceases to use, in connection with a business or part of a business carried on by the taxpayer in Canada immediately before the particular time, a property

that is a mark-to-market property of the taxpayer for the year or a specified debt obligation, but that is not a property that was disposed of by the taxpayer at the particular time,

(*a*) the taxpayer is deemed

(i) to have disposed of the property immediately before the time that was immediately before the particular time for proceeds equal to its fair market value at the time of disposition and to have received those proceeds at the time of disposition in the course of carrying on the business or the part of the business, as the case may be, and

(ii) to have reacquired the property at the particular time at a cost equal to those proceeds; and

(*b*) in determining the consequences of the disposition in subparagraph (*a*)(i), subsection 142.4(11) does not apply to any payment received by the taxpayer after the particular time.

History: S. 142.6(1.1) was added by S.C. 2001, c. 17, s. 137(1), applicable after June 27, 1999 in respect of an authorized foreign bank, and after August 8, 2000 in any other case.

Related Sections: S. 10(12) Removing property from inventory; s. 14(14) Ceasing to use property in Canadian business; s. 76.1 Non-resident moving debt from Canadian business.

► 142.6(1.2) ◄

(1.2) Beginning to use property in a Canadian business. If at a particular time a taxpayer that is a non-resident financial institution (other than a life insurance corporation) begins to use, in connection with a business or part of a business carried on by the taxpayer in Canada, a property that is a mark-to-market property of the taxpayer for the year that includes the particular time or a specified debt obligation, but that is not a property that was acquired by the taxpayer at the particular time, the taxpayer is deemed

(*a*) to have disposed of the property immediately before the time that was immediately before the particular time for proceeds equal to its fair market value at the time of disposition; and

(*b*) to have reacquired the property at the particular time at a cost equal to those proceeds.

History: S. 142.6(1.2) was added by S.C. 2001, c. 17, s. 137(1), applicable after June 27, 1999 in respect of an authorized foreign bank, and after August 8, 2000 in any other case.

Related Sections: S. 10(13) Adding property to inventory; s. 14(15) Beginning to use property in Canadian business; s. 76.1 Non-resident moving debt from Canadian business.

► 142.6(1.3) ◄

(1.3) Specified debt obligation marked to market. In applying subsection (1.1) to a taxpayer in respect of a property in a taxation year,

(*a*) the definition "mark-to-market property" in subsection 142.2(1) shall be applied as if the year ended immediately before the particular time referred to in subsection (1.1); and

(*b*) if the taxpayer does not have financial statements for the period ending immediately before the particular time referred to in subsection (1.1), references in the definition to financial statements for the year shall be read as references to the financial statements that it is reasonable to expect would have been prepared if the year had ended immediately before the particular time.

History: S. 142.6(1.3) was added by S.C. 2001, c. 17, s. 137(1), applicable after June 27, 1999 in respect of an authorized foreign bank, and after August 8, 2000 in any other case.

► 142.6(1.4) ◄

(1.4) Change in status — prescribed payment card corporation share. If, at any particular time in a taxation year of a taxpayer that is a financial institution for the taxation year, a property becomes a mark-to-market property of the taxpayer for the taxation year because it ceased, at the particular time, to be a prescribed payment card corporation share of the taxpayer,

(*a*) the taxpayer is deemed

(i) to have disposed of the property immediately before the particular time for proceeds of disposition equal to its fair market value immediately before the particular time, and

(ii) to have acquired the property, at the particular time, at a cost equal to those proceeds; and

(*b*) subsection 142.5(1) does not apply to the disposition under subparagraph (*a*)(i).

History: S. 142.6(1.4) was added by S.C. 2009, c. 2, s. 49(1), applicable to taxation years that end after February 22, 1994.

► 142.6(1.5) ◄

(1.5) Change in status — prescribed securities exchange investment. If, at any particular time in a taxation year of a taxpayer that is a financial institution for the taxation year, a property becomes a mark-to-market property of the taxpayer for the taxation year because it ceased, at the particular time, to be a prescribed securities exchange investment of the taxpayer,

(*a*) the taxpayer is deemed

(i) to have disposed of the property immediately before the particular time for proceeds of disposition equal to its fair market value immediately before the particular time, and

(ii) to have acquired the property, at the particular time, at a cost equal to those proceeds; and

(*b*) subsection 142.5(1) does not apply to the disposition under subparagraph (*a*)(i).

History: S. 142.6(1.5) was added by S.C. 2009, c. 2, s. 49(1), applicable to taxation years that begin after 1998.

► 142.6(1.6) ◄

(1.6) Change in status — significant interest. If, at the end of a particular taxation year of a taxpayer that is a financial institution for the taxation year, the taxpayer holds a share of the capital stock of a corporation, the taxpayer has a significant interest in that corporation at any time in the particular taxation year and the share is mark-to-market property of the taxpayer for the immediately following taxation year, the taxpayer is deemed to have,

(*a*) disposed of the share immediately before the end of the particular taxation year for proceeds of disposition equal to the fair market value, at that time, of the share; and

(*b*) acquired the share at the end of the particular taxation year at a cost equal to those proceeds.

History: S. 142.6(1.6) was added by S.C. 2009, c. 2, s. 49(1), applicable to taxation years that begin after September 2006.

► 142.6(2) ◄

(2) Deemed disposition not applicable. For the purposes of this Act, the determination of when a taxpayer

acquired a share shall be made without regard to a disposition or acquisition that occurred because of subsection 142.5(2) or subsection (1), (1.1), (1.2), (1.4), (1.5) or (1.6).

History: S. 142.6(2) was replaced by S.C. 2009, c. 2, s. 49(2), applicable to taxation years that begin after September 2006. S. 142.6(2) formerly read:

"(2) *Deemed disposition not applicable.* For the purposes of this Act, the determination of when a taxpayer acquired a share shall be made without regard to a disposition or acquisition that occurred because of subsection 142.5(2) or subsection (1), (1.1) or (1.2)."

S. 142.6(2) was amended by S.C. 2001, c. 17, s. 137(1), applicable after June 27, 1999 in respect of an authorized foreign bank, and after August 8, 2000 in any other case. S. 142.6(2) formerly read:

"(2) *Deemed disposition not applicable.* For the purposes of this Act, the determination of when a taxpayer acquired a share shall be made without regard to a disposition or acquisition that occurred because of subsection (1) or 142.5(2)."

S. 142.6(2) was added by S.C. 1995, c. 21, s. 58(1), applicable to taxation years that end after February 22, 1994.

► 142.6(3) ◄

(3) Property not inventory. Where a taxpayer is a financial institution in a taxation year, inventory of the taxpayer in the year does not include property that is

(*a*) a specified debt obligation (other than a mark-to-market property for the year); or

(*b*) where the year begins after October 1994, a mark-to-market property for the year.

History: S. 142.6(3) was added by S.C. 1995, c. 21, s. 58(1), applicable to taxation years that end after February 22, 1994.

► 142.6(4) ◄

(4) Property that ceases to be inventory. Where a taxpayer that was a financial institution in its particular taxation year that includes February 23, 1994 held, on that day, a specified debt obligation (other than a mark-to-market property for the year) that was inventory of the taxpayer at the end of its preceding taxation year,

(*a*) the taxpayer shall be deemed to have disposed of the property at the beginning of the particular year for proceeds equal to

(i) where subparagraph (ii) does not apply, the amount at which the property was valued at the end of the preceding taxation year for the purpose of computing the taxpayer's income for the year, and

(ii) where the taxpayer is a bank and the property is prescribed property for the particular year, the cost of the property to the taxpayer (determined without reference to paragraph (*b*));

(*b*) for the purpose of determining the taxpayer's profit or loss from the disposition, the cost of the property to the taxpayer shall be deemed to be the amount referred to in subparagraph (*a*)(i); and

(*c*) the taxpayer shall be deemed to have reacquired the property, immediately after the beginning of the particular year, at a cost equal to the proceeds of disposition of the property.

History: S. 142.6(4) was added by S.C. 1995, c. 21, s. 58(1), applicable to taxation years that end after February 22, 1994.

► 142.6(5) ◄

(5) Debt obligations acquired in rollover transactions. Where,

(*a*) on February 23, 1994, a financial institution that is a corporation held a specified debt obligation (other than a mark-to-market property for the taxation year that includes that day) that was at any particular time before that day held by another corporation, and

(*b*) between the particular time and February 23, 1994, the only transactions affecting the ownership of the property were rollover transactions,

the financial institution shall be deemed, in respect of that obligation, to be the same corporation as, and a continuation of, the other corporation.

History: S. 142.6(5) was added by S.C. 1995, c. 21, s. 58(1), applicable to taxation years that end after February 22, 1994.

► 142.6(6) ◄

(6) Definition of "rollover transaction". For the purpose of subsection (5), "rollover transaction" means a transaction to which subsection 87(2), 88(1) or 138(11.5) or (11.94) applies, other than a transaction to which paragraph 138(11.5)(*e*) requires the provisions of subsection 85(1) to be applied.

History: S. 142.6(6) was added by S.C. 1995, c. 21, s. 58(1), applicable to taxation years that end after February 22, 1994.

► 142.6(7) ◄

(7) Superficial loss rule not applicable. Subsection 18(13) does not apply to the disposition of a property by a taxpayer after October 30, 1994 where

(*a*) the taxpayer is a financial institution when the disposition occurs and the property is a specified debt obligation or a mark-to-market property for the taxation year in which the disposition occurs; or

(*b*) the disposition occurs because of paragraph (1)(*b*).

History: S. 142.6(7) was added by S.C. 1995, c. 21, s. 58(1), applicable to dispositions occurring after October 30, 1994, except the disposition of a debt obligation before July 1995 where

(*a*) the disposition is part of a series of transactions or events that began before October 31, 1994;

(*b*) as part of the series of transactions or events, the taxpayer who acquired the debt obligation disposed of property before October 31, 1994; and

(*c*) it is reasonable to consider that one of the main reasons for the acquisition of the debt obligation by the taxpayer was to obtain a deduction because, as a consequence of the disposition referred to in paragraph (*b*),

(i) an amount was included in the taxpayer's income for any taxation year, or

(ii) an amount was subtracted from a balance of undeducted outlays, expenses or other amounts of the taxpayer and the subtracted amount exceeded the portion, if any, of the balance that could reasonably be considered to be in respect of the property.

► 142.6(8) ◄

(8) Accrued capital gains and losses election. Where a taxpayer that is a financial institution in its first taxation year that ends after February 22, 1994 so elects by notifying the Minister in writing before July 1998 or within 90 days after the day on which a notice of assessment of tax payable under this Part for the year, notification that no tax is payable under this Part for the year or notification that an election made by the taxpayer under this subsection is deemed by subsection (9) or (10) not to have been made is mailed to the taxpayer,

(*a*) each property of the taxpayer

(i) that was a capital property (other than a depreciable property) of the taxpayer at the end of the taxpayer's last taxation year that ended before February 23, 1994,

(ii) that was a mark-to-market property for, or a specified debt obligation in, the taxpayer's first taxation year that begins after that time,

(iii) that had a fair market value at that time greater than its adjusted cost base to the taxpayer at that time, and

(iv) that is designated by the taxpayer in the election

is deemed to have been disposed of by the taxpayer at that time for proceeds of disposition equal to, and to have been reacquired by the taxpayer immediately after that time at a cost equal to, the lesser of

(v) the fair market value of the property at that time, and

(vi) the greater of the adjusted cost base to the taxpayer of the property immediately before that time and the amount designated by the taxpayer in the election in respect of the property;

(*b*) each property of the taxpayer

(i) that was a capital property (other than a depreciable property) of the taxpayer at the end of the taxpayer's last taxation year that ended before February 23, 1994,

(ii) that was not a mark-to-market property for, or a specified debt obligation in, the taxpayer's first taxation year that begins after that time,

(iii) that had an adjusted cost base to the taxpayer at that time greater than its fair market value at that time, and

(iv) that is designated by the taxpayer in the election

is deemed to have been disposed of by the taxpayer at that time for proceeds of disposition equal to, and to have been reacquired by the taxpayer immediately after that time at a cost equal to, the greater of

(v) the fair market value of the property at that time, and

(vi) the lesser of the adjusted cost base to the taxpayer of the property immediately before that time and the amount designated by the taxpayer in the election in respect of the property; and

(*c*) notwithstanding subsections 152(4) to (5), such assessment of the taxpayer's tax payable under this Act for the taxpayer's last taxation year that ended before February 23, 1994 shall be made as is necessary to take the election into account.

History: S. 142.6(8) was added by S.C. 1998, c. 19, s. 167(1), applicable to the 1993 and subsequent taxation years.

► 142.6(9) ◄

(9) Accrued capital gains election limit. Where a taxpayer has made an election under subsection (8) in which a property was designated under subparagraph (8)(*a*)(iv), the election is deemed not to have been made where

(*a*) the amount that would be the taxpayer's taxable capital gains from dispositions of property for the taxpayer's last taxation year that ended before February 23, 1994 if this subsection and subsection (10) did not apply

exceeds the total of

(*b*) the amount that would be the taxpayer's allowable capital losses for the year from dispositions of property if this subsection and subsection (10) did not apply,

(*c*) the maximum amount that would have been deductible in computing the taxpayer's taxable income for the year in respect of the taxpayer's net capital losses for preceding taxation years if there were sufficient taxable capital gains for the year from dispositions of property, and

(*d*) the amount, if any, by which

(i) the amount that would be the taxpayer's taxable capital gains for the taxpayer's last taxation year that ended before February 23, 1994 from dispositions of property if no election were made under subsection (8)

exceeds the total of

(ii) the amount that would be the taxpayer's allowable capital losses for the year from dispositions of property if no election were made under subsection (8), and

(iii) the maximum amount that would have been deductible in computing the taxpayer's taxable income for the year in respect of the taxpayer's net capital losses for preceding taxation years if no election were made under subsection (8).

History: S. 142.6(9) was added by S.C. 1998, c. 19, s. 167(1), applicable to the 1993 and subsequent taxation years.

► 142.6(10) ◄

(10) Accrued capital losses election limit. Where a taxpayer has made an election under subsection (8) in which a property was designated under subparagraph (8)(*b*)(iv), the election is deemed not to have been made where

(*a*) the total of the amounts determined under paragraphs (9)(*b*) and (*c*) in respect of the taxpayer exceeds the amount determined under paragraph (9)(*a*) in respect of the taxpayer; or

(*b*) the total of all amounts each of which would, if this subsection did not apply, be the taxpayer's allowable capital loss for the taxpayer's last taxation year that ended before February 23, 1994 from the disposition of a property deemed to have been disposed of under paragraph (8)(*b*) exceeds the total of all amounts each of which is the taxpayer's taxable capital gain for the year from the disposition of a property deemed to have been disposed of under paragraph (8)(*a*).

History: S. 142.6(10) was added by S.C. 1998, c. 19, s. 167(1), applicable to the 1993 and subsequent taxation years.

Conversion of Foreign Bank Affiliate to Branch

SECTION 142.7:

► 142.7(1) ◄

(1) Definitions. The definitions in this subsection apply in this section.

Related Sections: S. 18(1)(*v*) Interest — authorized foreign bank; s. 20.2(5) Notional interest; s. 212(13.3) Application of Part XIII to authorized foreign bank; s. 218.2(2) Taxable interest expense; s. 248(1), "authorized foreign bank".

"*Canadian affiliate*" — "Canadian affiliate" of an entrant bank at any particular time means a Canadian corporation that was, immediately before the particular time, affiliated with the entrant bank and that was, at all times during the period that began on February 11, 1999 and ended immediately before the particular time,

(*a*) affiliated with either

(i) the entrant bank, or

(ii) a foreign bank (within the meaning assigned by section 2 of the *Bank Act*) that is affiliated with the entrant bank at the particular time; and

(*b*) either

(i) a bank,

(ii) a corporation authorized under the *Trust and Loan Companies Act* to carry on the business of offering to the public its services as trustee, or

(iii) a corporation of which the principal activity in Canada consists of any of the activities referred to in subparagraphs 518(3)(*a*)(i) to (v) of the *Bank Act* and in which the entrant bank or a non-resident person affiliated with the entrant bank holds shares under the authority, directly or indirectly, of an order issued by the Minister of Finance or the Governor in Council under subsection 521(1) of that Act.

History: S. 142.7(1), the definition "Canadian affiliate" was added by S.C. 2001, c. 17, s. 138(1), applicable after June 27, 1999.

"eligible property" — "eligible property" of a Canadian affiliate at any time means a property described in any of paragraphs 85(1.1)(*a*) to (*g*.1) that is, immediately before that time, used or held by it in carrying on its business in Canada.

History: S. 142.7(1), the definition "eligible property" was added by S.C. 2001, c. 17, s. 138(1), applicable after June 27, 1999.

"entrant bank" — "entrant bank" means a non-resident corporation that is, or has applied to the Superintendent of Financial Institutions to become, an authorized foreign bank.

History: S. 142.7(1), the definition "entrant bank" was added by S.C. 2001, c. 17, s. 138(1), applicable after June 27, 1999.

"qualifying foreign merger" — "qualifying foreign merger" means a merger or combination of two or more corporations that would be a "foreign merger" within the meaning assigned by subsection 87(8.1) if that subsection were read without reference to the words "and otherwise than as a result of the distribution of property to one corporation on the winding-up of another corporation".

History: S. 142.7(1), the definition "qualifying foreign merger" was added by S.C. 2001, c. 17, s. 138(1), applicable after June 27, 1999.

► 142.7(2) ◄

(2) Qualifying foreign merger. Where an entrant bank was formed as the result of a qualifying foreign merger, after February 11, 1999, of two or more corporations (referred to in this subsection as "predecessors"), and at the time immediately before the merger, there were one or more Canadian corporations (referred to in this subsection as "predecessor affiliates"), each of which at that time would have been a Canadian affiliate of a predecessor if the predecessor were an entrant bank at that time,

(*a*) for the purpose of the definition "Canadian affiliate" in subsection (1),

(i) each predecessor affiliate is deemed to have been affiliated with the entrant bank throughout the period that began on February 11, 1999 and ended at the time of the merger,

(ii) the expression "entrant bank" in subparagraph (*b*)(iii) of the definition is deemed to include a predecessor, and

(iii) if two or more of the predecessor affiliates are amalgamated or merged at any time after February 11, 1999 to form a new corporation, the new corporation is deemed to have been affiliated with the entrant bank throughout the period that began on February 11, 1999 and ended at the time of the amalgamation or merger of the predecessor affiliates; and

(*b*) if at least one of the predecessors complied with the terms of subsection (11)(*a*), the entrant bank is deemed to have complied with those terms.

History: S. 142.7(2) was added by S.C. 2001, c. 17, s. 138(1), applicable after June 27, 1999.

► 142.7(3) ◄

(3) Branch-establishment rollover. If a Canadian affiliate of an entrant bank transfers an eligible property to the entrant bank, the entrant bank begins immediately after the transfer to use or hold the transferred property in its Canadian banking business and the Canadian affiliate and the entrant bank jointly elect, in accordance with subsection (11), to have this subsection apply in respect of the transfer, subsections 85(1) (other than paragraph (*e*.2)), (1.1), (1.4) and (5) apply, with any modifications that the circumstances require, in respect of the transfer, except that the portion of subsection 85(1) before paragraph (*a*) shall be read as follows:

"85 (1) Where a taxpayer that is a Canadian affiliate of an entrant bank (within the meanings assigned by subsection 142.7(1)) has, in a taxation year, disposed of any of the taxpayer's property to the entrant bank (referred to in this subsection as the 'corporation'), if the taxpayer and the corporation have jointly elected under subsection 142.7(3), the following rules apply:".

History: S. 142.7(3) was added by S.C. 2001, c. 17, s. 138(1), applicable after June 27, 1999.

Related Sections: S. 248(1), "Canadian banking business".
Regulations: 5301(8).

► 142.7(4) ◄

(4) Deemed fair market value. If a Canadian affiliate of an entrant bank and the entrant bank make an election under subsection (3) in respect of a transfer of property by the Canadian affiliate to the entrant bank, for the purposes of subsections 15(1), 52(2), 69(1), (4) and (5), 246(1) and 247(2) in respect of the transfer, the fair market value of the property is deemed to be the amount agreed by the Canadian affiliate and the entrant bank in their election.

History: S. 142.7(4) was added by S.C. 2001, c. 17, s. 138(1), applicable after June 27, 1999.

► 142.7(5) ◄

(5) Specified debt obligations. If a Canadian affiliate of an entrant bank transfers a specified debt obligation to the entrant bank in a transaction in respect of which an election is made under subsection (3), the Canadian affiliate is a financial institution in its taxation year in which the transfer is made, and the amount that the Canadian affiliate and the entrant bank agree on in their election in respect of the obligation is equal to the tax basis of the obligation within the meaning assigned by subsection 142.4(1), the entrant bank is deemed, in respect of the obligation, for the purposes of sections 142.2 to 142.4 and 142.6, to be the same corporation as, and a continuation of, the Canadian affiliate.

History: S. 142.7(5) was added by S.C. 2001, c. 17, s. 138(1), applicable after June 27, 1999.

► 142.7(6) ◄

(6) Mark-to-market property. If a Canadian affiliate of an entrant bank described in paragraph (11)(*a*) transfers at any time within the period described in paragraph (11)(*c*) to the entrant bank a property that is, for the Cana-

dian affiliate's taxation year in which the property is transferred, a mark-to-market property of the Canadian affiliate,

(*a*) for the purposes of subsections 112(5) to (5.21) and (5.4), the definition "mark-to-market property" in subsection 142.2(1) and subsection 142.5(9), the entrant bank is deemed, in respect of the property, to be the same corporation as and a continuation of, the Canadian affiliate; and

(*b*) for the purpose of applying subsection 142.5(2) in respect of the property, the Canadian affiliate's taxation year in which the property is transferred is deemed to have ended immediately before the time the property was transferred.

History: S. 142.7(6) was added by S.C. 2001, c. 17, s. 138(1), applicable after June 27, 1999.

► 142.7(7) ◄

(7) Reserves. If

(*a*) at a particular time,

(i) a Canadian affiliate of an entrant bank transfers to the entrant bank property that is a loan or lending asset, or a right to receive an unpaid amount in respect of a disposition before the particular time of property by the affiliate, or

(ii) the entrant bank assumes an obligation of the Canadian affiliate that is an instrument or commitment described in paragraph 20(1)(*l.1*) or an obligation in respect of goods, services, lands or chattels described in subparagraph 20(1)(*m*)(i), (ii) or (iii),

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 142.7(7)(*a*)(ii) of the Act is replaced by the following:

(ii) the entrant bank assumes an obligation of the Canadian affiliate that is an instrument or commitment described in paragraph 20(1)(*l.1*) or an obligation in respect of goods, services, land, or chattels or movable property, described in subparagraph 20(1)(*m*)(i), (ii) or (iii),

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*b*) the property is transferred or the obligation is assumed for an amount equal to its fair market value at the particular time,

(*c*) the entrant bank begins immediately after the particular time to use or hold the property or owe the obligation in its Canadian banking business, and

(*d*) the Canadian affiliate and the entrant bank jointly elect in accordance with subsection (11) to have this subsection apply in respect of the transfer or assumption,

then

(*e*) in applying paragraphs 20(1)(*l*), (*l.1*), (*m*), (*n*) and (*p*) in respect of the obligation or property, the taxation year of the affiliate that would, but for this paragraph, include the particular time is deemed to end immediately before the particular time, and

(*f*) in computing the income of the Canadian affiliate and the entrant bank for taxation years that end on or after the particular time,

(i) any amount deducted under paragraph 20(1)(*l*), (*l.1*), (*m*) or (*n*) by the Canadian affiliate in respect of the property or obligation in computing its income for its taxation year that ended immediately before the particular time, or under paragraph 20(1)(*p*) in computing its income for that year or for a preceding taxation year (to the extent that the amount has not been included in the affiliate's income under paragraph 12(1)(*i*)), is deemed to have been so deducted by the entrant bank in computing its income for its last taxation year that ended before the particular time and not to have been deducted by the Canadian affiliate,

(ii) in applying paragraph 20(1)(*m*), an amount in respect of the goods, services, land or chattels that was included under paragraph 12(1)(*a*) in computing the Canadian affiliate's income from a business is deemed to have been so included in computing the entrant bank's income from its Canadian banking business for a preceding taxation year,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 142.7(7)(*f*)(ii) of the Act is replaced by the following:

(ii) in applying paragraph 20(1)(*m*), an amount in respect of the goods, services, land, chattels or movable property, that was included under paragraph 12(1)(*a*) in computing the Canadian affiliate's income from a business is deemed to have been so included in computing the entrant bank's income from its Canadian banking business for a preceding taxation year,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(iii) in applying paragraph 20(1)(*n*) in respect of a property described in subparagraph (*a*)(i) and paragraphs (*b*), (*c*) and (*d*) sold by the Canadian affiliate in the course of a business, the property is deemed to have been disposed of by the entrant bank (and not by the Canadian affiliate) at the time it was disposed of by the Canadian affiliate, and the amount in respect of the sale that was included in computing the Canadian affiliate's income from a business is deemed to have been included in computing the entrant bank's income from its Canadian banking business for its taxation year that includes the time at which the property was so disposed of, and

(iv) in applying paragraph 40(1)(*a*) or 44(1)(*e*) in respect of a property described in subparagraph (*a*)(i) and paragraphs (*b*), (*c*) and (*d*) disposed of by the Canadian affiliate, the property is deemed to have been disposed of by the entrant bank (and not by the Canadian affiliate) at the time it was disposed of by the Canadian affiliate, the amount determined under subparagraph 40(1)(*a*)(i) or 44(1)(*e*)(i) in respect of the Canadian affiliate is deemed to be the amount determined under that subparagraph in respect of the entrant bank, and any amount claimed by the Canadian affiliate under subparagraph 40(1)(*a*)(iii) or 44(1)(*e*)(iii) in computing its gain from the disposition of the property for its last taxation year that ended before the particular time is deemed to have been so claimed by the entrant bank for its last taxation year that ended before the particular time.

History: S. 142.7(7) was added by S.C. 2001, c. 17, s. 138(1), applicable after June 27, 1999.

► 142.7(8) ◄

(8) Assumption of debt obligation. If a Canadian affiliate of an entrant bank described in paragraph (11)(*a*) transfers at any time within the period described in paragraph (11)(*c*) property to the entrant bank, and any part of the consideration for the transfer is the assumption by the entrant bank in respect of its Canadian banking business of a debt obligation of the Canadian affiliate,

(*a*) where the Canadian affiliate and the entrant bank jointly elect in accordance with subsection (11) to have this paragraph apply,

(i) both

(A) the value of that part of the consideration for the transfer of the property, and

(B) for the purpose of determining the consequences of the assumption of the obligation and any subsequent settlement or extinguishment of it, the value of the consideration given to the entrant bank for the assumption of the obligation,

are deemed to be an amount (in this paragraph referred to as the "assumption amount") equal to the amount outstanding on account of the principal amount of the obligation at that time, and

(ii) the assumption amount shall not be considered a term of the transaction that differs from that which would have been made between persons dealing at arm's length solely because it is not equal to the fair market value of the obligation at that time;

(*b*) where the obligation is denominated in a foreign currency, and the Canadian affiliate and the entrant bank jointly elect in accordance with subsection (11) to have this paragraph apply,

(i) the amount of any income, loss, capital gain or capital loss in respect of the obligation due to the fluctuation in the value of the foreign currency relative to Canadian currency realized by

(A) the Canadian affiliate on the assumption of the obligation is deemed to be nil, and

(B) the entrant bank on the settlement or extinguishment of the obligation shall be determined based on the amount of the obligation in Canadian currency at the time it became an obligation of the Canadian affiliate, and

(ii) for the purpose of an election made in respect of the obligation under paragraph (*a*), the amount outstanding on account of the principal amount of the obligation at that time is the total of all amounts each of which is an amount that was advanced to the Canadian affiliate on account of principal, that remains outstanding at that time, and that is determined using the exchange rate that applied between the foreign currency and Canadian currency at the time of the advance; and

(*c*) for the purpose of applying paragraphs 20(1)(*e*) and (*f*) in respect of the debt obligation, the obligation is deemed not to have been settled or extinguished by virtue of its assumption by the entrant bank and the entrant bank is deemed to be the same corporation as, and a continuation of, the Canadian affiliate.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 142.7(8) of the Act is amended by striking out the word "and" at the end of paragraph (*b*), by adding the word "and" at the end of paragraph (*c*) and by adding the following after paragraph (*c*):

(*d*) for the purpose of applying subparagraph 212(1)(*b*)(vii) in respect of the debt obligation, the obligation is deemed to have been issued by the entrant bank at the time that the obligation was issued by the Canadian affiliate.

Applicable: After June 27, 1999.

Explanatory Note: Section 142.7 of the Act provides time-limited rules to facilitate foreign banks' transformation of certain Canadian operations, currently carried out through subsidiaries, into Canadian branches (known as "authorized foreign banks") of the foreign banks themselves.

When an authorized foreign bank assumes certain debt obligations of its Canadian affiliates, subsection 142.7(8) applies to govern the tax consequences of the assumption.

Subparagraph 212(1)(*b*)(vii) of the Act provides an exemption from Part XIII tax in respect of interest payments on certain long- and medium-term corporate debt. The exemption can depend upon, among other things, the time at which a debt is issued. New paragraph 142.7(8)(*d*) is added to treat, for the purpose of subparagraph 212(1)(*b*)(vii), a debt obligation assumed by an authorized foreign bank from its Canadian affiliate as having been issued at the time that the debt was issued by the Canadian affiliate.

This amendment applies after June 27, 1999.

History: S. 142.7(8) was added by S.C. 2001, c. 17, s. 138(1), applicable after June 27, 1999.

Related Sections: S. 248(1), "foreign currency".

► 142.7(9) ◄

(9) Branch-establishment dividend. Notwithstanding any other provision of this Act, the rules in subsection (10) apply if

(*a*) a dividend is paid by a Canadian affiliate of an entrant bank to the entrant bank or to a person that is affiliated with the Canadian affiliate and that is

resident in the country in which the entrant bank is resident, or

(*b*) a dividend is deemed to be paid for the purposes of this Part or Part XIII (other than by paragraph 214(3)(*a*)) as a result of a transfer of property from the Canadian affiliate to such a person,

and the Canadian affiliate and the entrant bank jointly elect in accordance with subsection (11) to have subsection (10) apply in respect of the dividend.

History: S. 142.7(9) was added by S.C. 2001, c. 17, s. 138(1), applicable after June 27, 1999.

► 142.7(10) ◄

(10) Treatment of dividend. If the conditions in subsection (9) are met,

(*a*) the dividend is deemed (except for the purposes of subsections 112(3) to (7)) not to be a taxable dividend; and

(*b*) there is added to the amount otherwise determined under paragraph 219(1)(*g*) in respect of the entrant bank for its first taxation year that ends after the time at which the dividend is paid, the amount of the dividend less, where the dividend is paid by means of, or arises as a result of, a transfer of eligible property in respect of which the Canadian affiliate and the entrant bank have jointly elected under subsection (3), the amount by which the fair market value of the property transferred exceeds the amount the Canadian affiliate and the entrant bank have agreed on in their election.

History: S. 142.7(10) was added by S.C. 2001, c. 17, s. 138(1), applicable after June 27, 1999.

► 142.7(11) ◄

(11) Elections. An election under subsection (3) or (7), paragraph (8)(*a*) or (*b*) or subsection (10), (12) or (14) is valid only if

(*a*) the entrant bank by which the election is made has, on or before the day that is 6 months after the day on which the *Income Tax Amendments Act, 2000* receives royal assent [S.C. 2001, c. 17, Royal Assent June 14, 2001], complied with paragraphs 1.1(*b*) and (*c*) of the "Guide to Foreign Bank Branching" in respect of the establishment and commencement of business of a foreign bank branch in Canada issued by the Office of the Superintendent of Financial Institutions, as it read on December 31, 2000;

(*b*) the election is made in prescribed form on or before the earlier of the filing-due date of the Canadian affiliate and the filing-due date of the entrant bank, for the taxation year that includes the time at which

(i) in the case of an election under subsection (3) or (7), paragraph (8)(*a*) or (*b*) or subsection (10), the dividend, transfer or assumption to which the election relates is paid, made or effected, or

(ii) in the case of an election under subsection (12), the dissolution order was granted or the winding up commenced; and

(*c*) in the case of an election under subsection (3) or (7), paragraph (8)(*a*) or (*b*) or subsection (10), the dividend, transfer or assumption to which the election relates is paid, made or effected within the period that

(i) begins on the day on which the Superintendent makes an order in respect of the entrant bank under subsection 534(1) of the *Bank Act*, and

(ii) ends on the later of

(A) the earlier of

(I) the day that is one year after the day referred to subparagraph (i), and

(II) the day that is three years after the day on which the *Income Tax Amendments Act, 2000* receives royal assent [S.C. 2001, c. 17, Royal Assent June 14, 2001], and

(B) the day that is one year after the day on which the *Income Tax Amendments Act, 2000* receives royal assent [S.C. 2001, c. 17, Royal Assent June 14, 2001].

History: S. 142.7(11) was added by S.C. 2001, c. 17, s. 138(1), applicable after June 27, 1999.

► 142.7(12) ◄

(12) Winding-up of Canadian affiliate: losses. If

(*a*) within the period described in paragraph (11)(*c*) in respect of the entrant bank,

(i) the Minister of Finance has issued letters patent under section 342 of the *Bank Act* or section 347 of the *Trust and Loan Companies Act* dissolving the Canadian affiliate or an order under section 345 of the *Bank Act* or section 350 of the *Trust and Loan Companies Act* approving the Canadian affiliate's application for dissolution (such letters patent or order being referred to in this subsection as the "dissolution order"), or

(ii) the affiliate has been wound up under the terms of the corporate law that governs it,

(*b*) the entrant bank carries on all or part of the business in Canada that was formerly carried on by the Canadian affiliate, and

(*c*) the Canadian affiliate and the entrant bank jointly elect in accordance with subsection (11) to have this section apply

then in applying section 111 for the purpose of computing the taxable income earned in Canada of the entrant bank for any taxation year that begins after the date of the dissolution order or the commencement of the winding up, as the case may be,

(*d*) subject to paragraphs (*e*) and (*h*), the portion of a non-capital loss of the Canadian affiliate for a taxation year (in this paragraph referred to as the "Canadian affiliate's loss year") that can reasonably be regarded as being its loss from carrying on a business in Canada (in this paragraph referred to as the "loss business") or being in respect of a claim made under section 110.5, to the extent that it

(i) was not deducted in computing the taxable income of the Canadian affiliate or any other entrant bank for any taxation year, and

(ii) would have been deductible in computing the taxable income of the Canadian affiliate for any taxation year that begins after the date of the dissolution order or the commencement of the winding up, as the case may be, on the assumption that it had such a taxation year and that it had sufficient income for that year,

is deemed, for the taxation year of the entrant bank in which the Canadian affiliate's loss year ended, to be a non-capital loss of the entrant bank from carrying on the loss business (or, in respect of a claim made under section 110.5, to be a non-capital loss of the entrant bank in respect of a claim under subparagraph 115(1)(*a*)(vii)) that was not deductible by the entrant bank in computing its taxable income earned in Canada for any taxation year that began before the date of the dissolution order or the commencement of the winding up, as the case may be,

(*e*) if at any time control of the Canadian affiliate or entrant bank has been acquired by a person or group of persons, no amount in respect of the Canadian affiliate's non-capital loss for a taxation year that ends before that time is deductible in computing the taxable income earned in Canada of the entrant bank for a particular taxation year that ends after that time, except that the portion of the loss that can reasonably be regarded as the Canadian affiliate's loss from carrying on a business in Canada and, where a business was carried on by the Canadian affiliate in Canada in the earlier year, the portion of the loss that can reasonably be regarded as being in respect of an amount deductible under paragraph 110(1)(*k*) in computing its taxable income for the year are deductible only

(i) if that business is carried on by the Canadian affiliate or the entrant bank for profit or with a reasonable expectation of profit throughout the particular year, and

(ii) to the extent of the total of the entrant bank's income for the particular year from that business, and where properties were sold, leased, rented or developed or services rendered in the course of carrying on that business before that time, from any other business substantially all of the income of which was derived from the sale, leasing, rental or development, as the case may be, of similar properties or the rendering of similar services,

and, for the purpose of this paragraph, where subsection 88(1.1) applied to the dissolution of another corporation in respect of which the Canadian affiliate was the parent and paragraph 88(1.1)(*e*) applied in respect of losses of that other corporation, the Canadian affiliate is deemed to be the same corporation as, and a continuation of, that other corporation with respect to those losses,

(*f*) subject to paragraphs (*g*) and (*h*), a net capital loss of the Canadian affiliate for a taxation year (in this paragraph referred to as the "Canadian affiliate's loss year") is deemed to be a net capital loss of the entrant bank for its taxation year in which the Canadian affiliate's loss year ended to the extent that the loss

(i) was not deducted in computing the taxable income of the Canadian affiliate or any other entrant bank for any taxation year, and

(ii) would have been deductible in computing the taxable income of the Canadian affiliate for any taxation year beginning after the date of the dissolution order or the commencement of the winding-up, as the case may be, on the assumption that the Canadian affiliate had such a taxation year and that it had sufficient income and taxable capital gains for that year,

(*g*) if at any time control of the Canadian affiliate or the entrant bank has been acquired by a person or group of persons, no amount in respect of the Canadian affiliate's net capital loss for a taxation year that ends before that time is deductible in computing the entrant bank's taxable income earned in Canada for a taxation year that ends after that time, and

(*h*) any loss of the Canadian affiliate that would otherwise be deemed by paragraph (*d*) or (*f*) to be a loss of the entrant bank for a particular taxation year that begins after the date of the dissolution order or the commencement of the winding-up, as the case may be, is deemed, for the purpose of computing the entrant bank's taxable income earned in Canada for taxation years that begin after that date, to be such a loss of the entrant bank for its immediately preceding taxation year and not for the particular year, if the entrant bank so elects in its return of income for the particular year.

History: S. 142.7(12) was added by S.C. 2001, c. 17, s. 138(1), applicable after June 27, 1999.

► 142.7(13) ◄

(13) Winding-up of Canadian affiliate: stop loss. If a Canadian affiliate and its entrant bank have at any time made a joint election under either of subsection (3) or (12),

(*a*) in respect of any transfer of property, directly or indirectly, by the Canadian affiliate to the entrant bank or a person with whom the entrant bank does not deal at arm's length,

(i) subparagraph 13(21.2)(*e*)(iii) shall be read without reference to clause (E) of that subparagraph,

(ii) subsection 14(12) shall be read without reference to paragraph (*g*) of that subsection,

(iii) paragraph 18(15)(*b*) shall be read without reference to subparagraph (iv) of that paragraph, and

(iv) paragraph 40(3.4)(*b*) shall be read without reference to subparagraph (v) of that paragraph;

(*b*) in respect of any property of the Canadian affiliate appropriated to or for the benefit of the entrant bank or any person with whom the entrant bank does not deal at arm's length, section 69(5) shall be read without reference to paragraph (*d*); and

(*c*) for the purposes of applying subsection 13(21.2), 14(12), 18(15) and 40(3.4) to any property that was disposed of by the affiliate, after the dissolution or winding-up of the affiliate, the entrant bank is deemed to be the same corporation as, and a continuation of, the affiliate.

History: S. 142.7(13) was added by S.C. 2001, c. 17, s. 138(1), applicable after June 27, 1999.

► 142.7(14) ◄

(14) Winding-up of Canadian affiliate: SDOs. If a Canadian affiliate of an entrant bank and the entrant bank meet the conditions set out in paragraphs (12)(*a*) and (*b*) and jointly elect in accordance with subsection (11) to have this subsection apply, and the Canadian affiliate has not made an election under this subsection with any other entrant bank, the entrant bank is deemed to be the same corporation as, and a continuation of, the Canadian affil-

iate for the purposes of paragraphs 142.4(4)(*c*) and (*d*) in respect of any specified debt obligation disposed of by the Canadian affiliate.

History: S. 142.7(14) was added by S.C. 2001, c. 17, s. 138(1), applicable after June 27, 1999.

Communal Organizations

SECTION 143:

► 143(1) ◄

(1) Communal organizations. Where a congregation, or one or more business agencies of the congregation, carries on one or more businesses for purposes that include supporting or sustaining the congregation's members or the members of any other congregation, the following rules apply:

(*a*) an *inter vivos* trust is deemed to be created on the day that is the later of

(i) December 31, 1976, and

(ii) the day the congregation came into existence;

(*b*) the trust is deemed to have been continuously in existence from the day determined under paragraph (*a*);

(*c*) the property of the congregation is deemed to be the property of the trust;

(*d*) the property of each business agency of the congregation in a calendar year is deemed to be property of the trust throughout the portion of the year throughout which the trust exists;

(*e*) where the congregation is a corporation, the corporation is deemed to be the trustee having control of the trust property;

(*f*) where the congregation is not a corporation, its council, committee of leaders, executive committee, administrative committee, officers or other group charged with its management are deemed to be the trustees having control of the trust property;

(*g*) the congregation is deemed to act and to have always acted as agent for the trust in all matters relating to its businesses and other activities;

(*h*) each business agency of the congregation in a calendar year is deemed to have acted as agent for the trust in all matters in the year relating to its businesses and other activities;

(*i*) the members of the congregation are deemed to be the beneficiaries under the trust;

(*j*) tax under this Part is payable by the trust on its taxable income for each taxation year;

(*k*) in computing the income of the trust for any taxation year,

(i) subject to paragraph (*l*), no deduction may be made in respect of salaries, wages or benefits of any kind provided to the members of the congregation, and

(ii) no deduction may be made under subsection 104(6), except to the extent that any portion of the trust's income (determined without reference to that subsection) is allocated to the members of the congregation in accordance with subsection (2);

(*l*) for the purpose of applying section 20.01 to the trust,

(i) each member of the congregation is deemed to be a member of the trust's household, and

(ii) section 20.01 shall be read without reference to paragraphs 20.01(2)(*b*) and (*c*) and subsection 20.01(3); and

(*m*) where the congregation or one of the business agencies is a corporation, section 15.1 shall, except for the purposes of paragraphs 15.1(2)(*a*) and (*c*) (other than subparagraphs 15.1(2)(*c*)(i) and (ii)), apply as if this subsection were read without reference to paragraphs (*c*), (*d*), (*g*) and (*h*).

History: S. 143(1) was replaced by S.C. 2000, c. 19, s. 41(1), applicable to the 1998 and subsequent taxation years. S. 143(1) formerly read:

"(1) Where a congregation

(*a*) the members of which live and work together,

(*b*) that does not permit any of its members to own any property in the member's own right, and

(*c*) that requires that its members devote their working lives to the activities of the congregation

carries on one or more businesses or has the effective management or control of one or more corporations, trusts or other persons (which corporations, trusts and other persons are in this section collectively referred to as 'business agencies') that carry on one or more businesses for purposes that include supporting or sustaining its members or the members of any other congregation, an *inter vivos* trust shall be deemed to have been in existence on December 31, 1976 and continuously thereafter and the following rules apply:

(*d*) the property of the congregation and the property of all business agencies of the congregation shall be deemed to be the property of the *inter vivos* trust,

(*e*) where the congregation is a corporation, the corporation shall be deemed to be the trustee having control of the trust property,

(*f*) where the congregation is not a corporation, its council, committee of leaders, executive committee, administrative committee, officers or other group charged with the management of the congregation shall be deemed to be the trustees having control of the trust property,

(*g*) the congregation and all business agencies of the congregation shall be deemed to act and have always acted as agents for the *inter vivos* trust in all matters relating to their business and other activities,

(*h*) the members of the congregation shall be deemed to be the beneficiaries under the trust,

(*i*) tax under this Part is payable by the trust on its taxable income for each taxation year,

(*j*) in computing the income of the trust for any taxation year, no deduction may be made in respect of salaries, wages or benefits of any kind whatever, paid to the members of the congregation, and

(*k*) where the congregation or one of the business agencies is a corporation, section 15.1 shall, except for the purposes of paragraphs 15.1(2)(*a*) and (*c*) (other than subparagraphs 15.1(2)(*c*)(i) and (ii)), apply as if this subsection were read without reference to paragraphs (*d*) and (*g*)."

S. 143(1)(*k*) was added by S.C. 1994, c. 21, s. 67(1), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 104(6) Deduction in computing income of trust; s. 104(13) Income of beneficiary; s. 108(1), "beneficiary", "*inter vivos* trust"; s. 143(2) Election in respect of income; s. 143(4) Definitions.
Regulations: 206.
Information Circulars: IC 78-5R3 Communal organizations.

► 143(2) ◄

(2) Election in respect of income. Where the *inter vivos* trust referred to in subsection (1) in respect of a congregation so elects in respect of a taxation year in writing filed with the Minister on or before the trust's filing-due date for the year and all the congregation's participating members are specified in the election in accordance with subsection (5), the following rules apply:

(*a*) for the purposes of subsections 104(6) and (13), the amount payable in the year to a particular participating member of the congregation out of the income of the trust (determined without reference to subsection 104(6)) is the amount determined by the formula

$$0.8 (A \times B/C) + D + (0.2A - E)/F$$

where

A is the taxable income of the trust for the year (determined without reference to subsection 104(6) and specified future tax consequences for the year),

B is

(i) where the particular member is identified in the election as a person to whom this subparagraph applies (in this subsection referred to as a "designated member"), 1, and

(ii) in any other case, 0.5,

C is the total of

(i) the number of designated members of the congregation, and

(ii) ½ of the number of other participating members of the congregation in respect of the year,

D is the amount, if any, that is specified in the election as an additional allocation under this subsection to the particular member,

E is the total of all amounts each of which is an amount specified in the election as an additional allocation under this subsection to a participating member of the congregation in respect of the year, and

F is the number of participating members of the congregation in respect of the year;

(*b*) the designated member of each family at the end of the year is deemed to have supported the other members of the family during the year and the other members of the family are deemed to have been wholly dependent on the designated member for support during the year; and

(*c*) the taxable income for the year of each member of the congregation shall be computed without reference to subsection 110(2).

History: S. 143(2) was replaced by S.C. 2000, c. 19, s. 41(1), applicable to the 1998 and subsequent taxation years. S. 143(2) formerly read:

"(2) *Election in respect of taxable income.* Where the *inter vivos* trust referred to in subsection (1) in respect of a congregation so elects in respect of a taxation year, the amount determined under paragraph (*a*) for that taxation year shall be deemed to have been payable by the trust in the year to the beneficiaries thereunder in accordance with the following rules:

(*a*) determine the amount that would be the taxable income of the trust for the year if no deductions were made in respect of expenses incurred for the support, maintenance and satisfaction or personal needs of its members,

(*b*) determine the amount that is the quotient obtained when the amount so determined is divided by 1¼ times the number of adults who are members of the congregation at the end of the year,

(*c*) allocate to each family in the congregation at the end of the year the amount equal to the product obtained when the amount determined under paragraph (*b*) is multiplied by the number of adults in the family at the end of the year, and

(*d*) allocate among the families in the congregation at the end of the year in such manner as the congregation determines the amount by which the amount determined under paragraph (*a*) exceeds the total of amounts allocated under paragraph (*c*) or, if such an allocation is not made and specified in the election under this subsection in respect of the year, allocate to each of the families in the congregation at the end of the year the amount equal to the proportion of the excess that the number of adults in the family at that time is of the number of adults in all of the families in the congregation at that time,

and the total of amounts so allocated to a family shall be deemed to be payable in the year to, and to be received in the year by, the adult member of the family who is specified in the election under this subsection in respect of the year and that member of the family shall be deemed to have supported each of the other members of the family during that taxation year and the other members of the family shall be deemed to have been wholly dependent on that member for support during that taxation year."

Related Sections: S. 108(1), "*inter vivos* trust"; s. 220(3.2) Late, amended or revoked elections.

Regulations: 600(b).

Information Circulars: IC 78-5R3 Communal organizations; IC 07-1 Taxpayer Relief Provisions.

▶ 143(3) ◀

(3) Refusal to accept election. An election under subsection (2) in respect of a congregation for a particular taxation year is not binding on the Minister unless all taxes, interest and penalties payable under this Part, as a consequence of the application of subsection (2) to the congregation for preceding taxation years, are paid at or before the end of the particular year.

History: S. 143(3) was replaced by S.C. 2000, c. 19, s. 41(1), applicable to the 1998 and subsequent taxation years. S. 143(3) formerly read:

"(3) *Idem.* An election under subsection (2) in respect of a taxation year is not binding on the Minister unless

(*a*) the election is made on or before the day on or before which the *inter vivos* trust is required by section 150 to file a return of income for the year;

(*b*) all tax, interest and penalties, if any, payable under this Part by adult members designated in accordance with subsection (2) have been paid within the time required by this Act; and

(*c*) no amounts are, by virtue of subsection 110(2), deducted in computing the taxable income for the year of the members designated in accordance with subsection (2)."

▶ 143(3.1) ◀

(3.1) Election in respect of gifts. For the purposes of section 118.1, where the fair market value of a gift made in a taxation year by an *inter vivos* trust referred to in subsection (1) in respect of a congregation would, but for this subsection, be included in the total charitable gifts, total Crown gifts, total cultural gifts or total ecological gifts of the trust for the year and the trust so elects in its return of income under this Part for the year,

(*a*) the trust is deemed not to have made the gift; and

(*b*) each participating member of the congregation is deemed to have made, in the year, such a gift the fair market value of which is the amount determined by the formula

$$A \times B/C$$

where

A is the fair market value of the gift made by the trust,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 143(3.1) of the Act before the description of B in paragraph (*b*) is replaced by the following:

(3.1) Election in respect of gifts. For the purposes of section 118.1, if the eligible amount of a gift made in a taxation year by an *inter vivos* trust referred to in subsection (1) in respect of a congregation would, but for this subsection, be included in the total charitable gifts, total Crown gifts, total cultural gifts or total ecological gifts of the trust for the year and the trust so elects in its return of income under this Part for the year,

(*a*) the trust is deemed not to have made the gift; and

(*b*) each participating member of the congregation is deemed to have made, in the year, such a gift

the eligible amount of which is the amount determined by the formula

$$A \times B/C$$

where

A is the eligible amount of the gift made by the trust,

Applicable: To gifts made after December 20, 2002.

Explanatory Note:

Election in Respect of Gifts

Subsection 143(3.1) of the Act allows a communal organization that makes an election under subsection 143(2) of the Act to elect to have its total charitable, Crown, cultural and ecological gifts flowed through to those members (the "participating" members) of the congregation for whom an amount is included in income for the year under subsection 143(2).

Subsection 143(3.1) is amended consequential to the addition of new subsection 248(31) of the Act, in respect of gifts made after December 20, 2002, to refer to the "eligible amount" of a gift made because of a person being a participating member in the communal organization.

B is the amount determined for the year in respect of the member under paragraph (2)(*a*) as a consequence of an election under subsection (2) by the trust, and

C is the total of all amounts each of which is an amount determined for the year in respect of a participating member of the congregation under paragraph (2)(*a*) as a consequence of an election under subsection (2) by the trust.

History: S. 143(3.1) was replaced by S.C. 2000, c. 19, s. 41(2), applicable to the 1998 and subsequent taxation years. S. 143(3.1) formerly read:

"(3.1) *Election in respect of gifts.* For the purposes of section 118.1, where the fair market value of a gift made in a taxation year by an *inter vivos* trust referred to in subsection (1) would, but for this subsection, be included in the total charitable gifts, total Crown gifts or total cultural gifts of the trust for the year and the trust so elects in its return of income under this Part for the year,

(*a*) the trust shall be deemed not to have made the gift; and

(*b*) each adult member of a family to whom an amount is deemed under subsection (2) to be payable in the year shall be deemed to have made, in the year, such a gift the fair market value of which is the amount determined by the formula

$$A \times \frac{B}{C}$$

where

A is the fair market value of the gift made by the trust,

B is the amount deemed under subsection (2) to be payable in the year in respect of the trust to the adult member, and

C is the total of all amounts deemed under subsection (2) to be payable in the year in respect of the trust to an adult member of a family."

S. 143(3.1) was added by S.C. 1994, c. 7, Sched. II, s. 116(1), applicable to the 1990 and subsequent taxation years.

Related Sections: S. 108(1), "*inter vivos* trust".

► 143(4) ◄

(4) Definitions. For the purposes of this section,

"*adult*" — "adult" means an individual who, before the time at which the term is applied, has attained the age of eighteen years or is married or in a common-law partnership;

History: S. 143(4), the definition "adult" was amended by S.C. 2000, c. 12, Sched. 2, s. 11(c), applicable to the 2001 and subsequent taxation years, and deemed to have come into force on a day or days to be fixed by order of the Governor in Council. S. 143(4), the definition "adult" formerly read:

"'*adult*' — 'adult' means an individual who, before the time at which the term is applied, has attained the age of eighteen years or is married;"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

"*business agency*" — "business agency", of a congregation at any time in a particular calendar year, means a corporation, trust or other person, where the congregation owned all the shares of the capital stock of the corporation (except directors' qualifying shares) or every interest in the trust or other person, as the case may be, throughout the portion of the particular calendar year throughout which both the congregation and the corporation, trust or other person, as the case may be, were in existence;

History: S. 143(4), the definition of "business agency" was added by S.C. 2000, c. 19, s. 41(4), applicable to the 1998 and subsequent taxation years except that, for taxation years that end before 2001, the definition "business agency" shall be read as follows:

"'*business agency*' — 'business agency', of a congregation at any time in a particular calendar year, means

(*a*) a corporation, trust or other person, where the congregation owned all the shares of the capital stock of the corporation (except directors' qualifying shares) or every interest in the trust or other person, as the case may be, throughout the portion of the particular year throughout which both the congregation and the corporation, trust or other person, as the case may be, existed, or

(*b*) a corporation, trust or other person of which the congregation

(i) has effective management or control throughout the portion of the particular year throughout which both the congregation and the corporation, trust or other person, as the case may be, were in existence, and

(ii) had effective management or control during a taxation year of the corporation, trust or other person that began before March 1999 and ended in the particular year;"

"*congregation*" — "congregation" means a community, society or body of individuals, whether or not incorporated,

(*a*) the members of which live and work together,

(*b*) that adheres to the practices and beliefs of, and operates according to the principles of, the religious organization of which it is a constituent part,

(*c*) that does not permit any of its members to own any property in their own right, and

(*d*) that requires its members to devote their working lives to the activities of the congregation;

History: S. 143(4), the definition of "congregation" was replaced by S.C. 2000, c. 19, s. 41(3), applicable to the 1998 and subsequent taxation years. S. 143(4), the definition of "congregation" formerly read:

"'*congregation*' — 'congregation' means a community, society or body of individuals, whether or not incorporated, that adheres to the practices and beliefs of, and operates according to the principles of, the religious organization of which it is a constituent part;"

"*family*" — "family" means,

(*a*) in the case of an adult who is unmarried and who is not in a common-law partnership, that person and the person's children who are not adults, not married and not in a common-law partnership, and

(*b*) in the case of an adult who is married or in a common-law partnership, that person and the person's spouse or common-law partner and the children of either or both of them who are not adults, not married and not in a common-law partnership

but does not include an individual who is included in any other family or who is not a member of the congregation in which the family is included;

History: S. 143(4), the definition "family" was amended by S.C. 2000, c. 12, s. 134(1), applicable January 1, 2001, coming into force on July 31, 2000. S. 143(4), the definition "family" formerly read:

"'*family*' — 'family' means,

(*a*) in the case of an unmarried adult, that person and the person's unmarried children who are not adults, and

(*b*) in the case of a married adult, that person and the person's spouse and the unmarried children of either or both of them who are not adults

but does not include an individual who is included in any other family or who is not a member of the congregation in which the family is included;"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

"member of a congregation" — "member of a congregation" means

(*a*) an adult, living with the members of the congregation, who conforms to the practices of the religious organization of which the congregation is a constituent part whether or not that person has been formally accepted into the organization, and

(*b*) a child who is unmarried and not in a common-law partnership, other than an adult, of an adult referred to in paragraph (*a*), if the child lives with the members of the congregation;

History: S. 143(4), paragraph (*b*) of the definition "member of a congregation" was amended by S.C. 2001, c. 17, s. 263(1), deemed to have come into force on July 31, 2000.

"(*b*) a child who is unmarried and not in a common-law partnership, other than an adult, of an adult referred to in paragraph (*a*), if the child lives with the members of the congregation;"

S. 143(4), paragraph (*b*) of the definition "member of a congregation" was amended by S.C. 2000, c. 12, s. 134(2), applicable to the 2001 and subsequent taxation years, and deemed to have come into force on a day or days to be fixed by order of the Governor in Council. S. 143(4), paragraph (*b*) of the definition "member of a congregation" formerly read:

"(*b*) an unmarried child, other than an adult, of an adult referred to in paragraph (*a*), if the child lives with the members of the congregation;"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

"participating member" — "participating member", of a congregation in respect of a taxation year, means an individual who, at the end of the year, is an adult who is a member of the congregation;

History: S. 143(4), the definition of "participating member" was added by S.C. 2000, c. 19, s. 41(4), applicable to the 1998 and subsequent taxation years.

"religious organization" — "religious organization" means an organization, other than a registered charity, of which a congregation is a constituent part, that adheres to beliefs, evidenced by the religious and philosophical tenets of the organization, that include a belief in the existence of a supreme being.

"total charitable gifts" — "total charitable gifts" has the meaning assigned by subsection 118.1(1);

History: S. 143(4), the definition "total charitable gifts", was added by S.C. 1994, c. 7, Sched. II, s. 116(2), applicable to the 1990 and subsequent taxation years.

"total Crown gifts" — "total Crown gifts" has the meaning assigned by subsection 118.1(1);

History: S. 143(4), the definition "total Crown gifts", was added by S.C. 1994, c. 7, Sched. II, s. 116(2), applicable to the 1990 and subsequent taxation years.

"total cultural gifts" — "total cultural gifts" has the meaning assigned by subsection 118.1(1).

History: S. 143(4), the definition "total cultural gifts", was added by S.C. 1994, c. 7, Sched. II, s. 116(2), applicable to the 1990 and subsequent taxation years.

"total ecological gifts" — "total ecological gifts" has the same meaning as in subsection 118.1(1).

History: S. 143(4), the definition "total ecological gifts" was added by S.C. 2000, c. 19, s. 41(4), applicable to gifts made after February 27, 1995.

▶ 143(5) ◀

(5) Specification of family members. For the purpose of applying subsection (2) to a particular election by the *inter vivos* trust referred to in subsection (1) in respect of a congregation for a particular taxation year,

(*a*) subject to paragraph (*b*), a participating member of the congregation is considered to have been specified in the particular election in accordance with this subsection only if the member is identified in the particular election and

(i) where the member's family includes only one adult at the end of the particular year, the member is identified in the particular election as a person to whom subparagraph (i) of the description of B in subsection (2) (in this subsection referred to as the "relevant subparagraph") applies, and

(ii) in any other case, only one of the adults in the member's family is identified in the particular election as a person to whom the relevant subparagraph applies; and

(*b*) an individual is considered not to have been specified in the particular election in accordance with this subsection if

(i) the individual is one of two individuals who were married to each other, or in a common-law partnership, at the end of a preceding taxation year of the trust and at the end of the particular year,

(ii) one of those individuals was

(A) where the preceding year ended before 1998, specified in an election under subsection (2) by the trust for the preceding year, and

(B) in any other case, identified in an election under subsection (2) by the trust for the preceding year as a person to whom the relevant subparagraph applied, and

(iii) the other individual is identified in the particular election as a person to whom the relevant subparagraph applies.

History: S. 143(5)(*b*)(i) was amended by S.C. 2001, c. 17, s. 245, applicable to the 2001 and following taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act* [See Sec. 144, Chap. 12, S.C. 2000, reproduced in the history for the definition of "family" in s. 143(4)], in respect of the 1998, 1999 or 2000 taxation years, s. 143(5)(*b*)(i) applies to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years. S. 143(5)(*b*)(i) formerly read:

"(i) the individual is one of two individuals who were married to each other at the end of a preceding taxation year of the trust and at the end of the particular year,"

S. 143(5) was replaced by S.C. 2000, c. 19, s. 41(5), applicable to the 1998 and subsequent taxation years. S. 143(5) formerly read:

"(5) *Effect of specification of member of family.* Where an adult member (in this subsection referred to as a 'specified person') of a family is specified in an election under subsection (2) in respect of a taxation year, no other member of that family may be specified in an election in respect of any subsequent taxation year at the end of which the specified person was a member of that family."

Related Sections: S. 2(2) Taxable income; s. 89(1), "Canadian corporation"; s. 104(1) Reference to trust or estate; s. 108(1), "inter vivos trust"; s. 248(1), "corporation", "dividend", "exempt income", "gross revenue"; s. 255 Canada.

SECTION 143.1: [Amateur Athletes' Reserve Funds].

► 143.1(1) ◄

(1) Definitions. The definitions in this subsection apply in this section.

"*amateur athlete*" — "amateur athlete" at any time means an individual (other than a trust) who is, at that time,

(*a*) a member of a registered Canadian amateur athletic association;

(*b*) eligible to compete, in an international sporting event sanctioned by an international sports federation, as a Canadian national team member; and

(*c*) not a professional athlete.

History: S. 143.1(1), the definition "amateur athlete" was added by S.C. 2009, c. 2, s. 50(1), applicable to the 2008 and subsequent taxation years.

"*professional athlete*" — "professional athlete" means an individual who receives income that is compensation for, or is otherwise attributable to, the individual's activities as a player or athlete in a professional sport.

History: S. 143.1(1), the definition "professional athlete" was added by S.C. 2009, c. 2, s. 50(1), applicable to the 2008 and subsequent taxation years.

"*qualifying performance income*" — "qualifying performance income" of an individual means income that

(*a*) is received by the individual in a taxation year in which

(i) the individual was, at any time, an amateur athlete, and

(ii) the individual was not, at any time, a professional athlete;

(*b*) may reasonably be considered to be in connection with the individual's participation as an amateur athlete in one or more international sporting events referred to in the definition "amateur athlete"; and

(*c*) is endorsement income, prize money, or income from public appearances or speeches.

History: S. 143.1(1), the definition "qualifying performance income" was added by S.C. 2009, c. 2, s. 50(1), applicable to the 2008 and subsequent taxation years.

"*third party*" — "third party" in respect of an arrangement described in paragraph (1.1)(*b*) means a person who deals at arm's length with the amateur athlete in respect of the arrangement.

History: S. 143.1(1), the definition "third party" was added by S.C. 2009, c. 2, s. 50(1), applicable to the 2008 and subsequent taxation years.

S. 143.1(1) was replaced by S.C. 2009, c. 2, s. 50(1), applicable to the 2008 and subsequent taxation years. S. 143.1(1) formerly read:

"S. 143.1. (1) *Amateur athletes' reserve funds.* Where a national sport organization that is a registered Canadian amateur athletic association receives an amount for the benefit of an individual under an arrangement made under rules of an international sport federation that require amounts to be held, controlled and administered by the organization in order to preserve the eligibility of the individual to compete in a sporting event sanctioned by the federation,

(*a*) an *inter vivos* trust (in this section referred to as an 'amateur athlete trust') shall be deemed to be created on the day that is the later of

(i) the day on which the first such amount is received by the organization, and

(ii) January 1, 1992,

and to exist continuously thereafter until subsection (3) or (4) applies in respect of the trust;

(*b*) all property required to be held after 1991 under the arrangement shall be deemed to be property of the trust and not property of any other person;

(*c*) any amount received at any time under the arrangement by the organization shall, to the extent that it would, but for this subsection, be included in computing the individual's income for the taxation year that includes that time, be deemed to be income of the trust for the taxation year and not to be income of the individual;

(*d*) all amounts paid at any time by the organization under the arrangement to or for the benefit of the individual shall be deemed to be amounts distributed at that time to the individual by the trust;

(*e*) the individual shall be deemed to be the beneficiary under the trust;

(*f*) the organization shall be deemed to be the trustee of the trust; and

(*g*) no tax is payable under this Part by the trust on its taxable income for any taxation year."

S. 143.1(1) was added by S.C. 1994, c. 7, Sched. VIII, s. 81(1), applicable to the 1992 and subsequent taxation years and, where an individual and a national sport organization that received an amount for the benefit of that individual jointly so elect by notifying the Minister of National Revenue in writing, to any taxation year ending after 1987 and before 1992 throughout which the individual was resident in Canada, in which case, with respect to that individual and the trust under which the individual is deemed by section 143.1 of the Act to be a beneficiary,

(*a*) the reference to "1992" in paragraph 143.1(1)(*a*) of the Act shall be read as a reference to the taxation year for which the election is made; and

(*b*) the reference to "1991" in paragraph 143.1(1)(*b*) of the Act shall be read as a reference to the taxation year before the year for which the election is made.

Related Sections: S. 212(1)(*u*) Amateur athlete trust payments.
Forms: T3ATH(IND); T1061.

► 143.1(1.1) ◄

(1.1) Where subsection (1.2) applies. Subsection (1.2) applies where, at any time,

(*a*) a national sport organization that is a registered Canadian amateur athletic association receives an amount for the benefit of an individual under an arrangement made under rules of an international sport federation that require amounts to be held, controlled and administered by the organization in order to preserve the eligibility of the individual to compete in a sporting event sanctioned by the federation; or

(*b*) an individual enters into an arrangement that

(i) is an account with an issuer described in paragraph (*b*) of the definition "qualifying arrangement" in subsection 146.2(1), or that would be so described if that definition applied at that time,

(ii) provides that no amount may be deposited, credited or added to the account, other than an amount that is qualifying performance income of the individual or that is interest or other income in respect of the property deposited, credited or added to the account,

(iii) provides that a third party is a mandatory signatory on any payment from the account, and

(iv) is not a registered retirement savings plan or a TFSA.

History: S. 143.1(1.1) was added by S.C. 2009, c. 2, s. 50(1), applicable to the 2008 and subsequent taxation years.

► 143.1(1.2) ◄

(1.2) Amateur athletes' reserve funds. If this subsection applies in respect of an arrangement referred to in subsection (1.1),

(*a*) an *inter vivos* trust (in this section referred to as the "amateur athlete trust") is deemed

(i) to be created on the day on which the first amount referred to in paragraph (1.1)(*a*) or (*b*) is received by the sport organization or by the issuer, as the case may be, in respect of the arrangement, and

(ii) to exist until subsection (3) or (4) applies in respect of the trust;

(*b*) all property held under the arrangement is deemed to be the property of the amateur athlete trust and not property of any other person;

(*c*) if, at any time, the sport organization or the issuer, as the case may be, receives an amount under the arrangement and the amount would, in the absence of this subsection, be included in computing the income of the individual in respect of the arrangement for the taxation year that includes that time, the amount is deemed to be income of the amateur athlete trust for that taxation year and not to be income of the individual;

(*d*) if, at any time, the sport organization or the issuer, as the case may be, pays or transfers an amount under the arrangement to or for the benefit of the individual, the amount is deemed to be an amount distributed at that time to the individual by the amateur athlete trust;

(*e*) the individual is deemed to be the beneficiary under the amateur athlete trust;

(*f*) the sport organization or the third party, as the case may be, in respect of the arrangement is deemed to be the trustee of the amateur athlete trust; and

(*g*) no tax is payable under this Part by the amateur athlete trust on its taxable income for any taxation year.

History: S. 143.1(1.2) was added by S.C. 2009, c. 2, s. 50(1), applicable to the 2008 and subsequent taxation years except that, if the individual in respect of an amateur athlete trust elects in writing filed with the Minister of National Revenue on or before the individual's filing-due date for the 2008 taxation year, in its application to the individual and the amateur athlete trust for the 2008 taxation year, paragraph 143.1(1.2)(*c*) is to be read as follows:

"(*c*) if, at any time before March 3, 2009, the sport organization or the issuer, as the case may be, receives an amount under the arrangement and the amount would, in the absence of this subsection, be included in computing the income of the individual in respect of the arrangement for the 2008 taxation year, the amount is deemed to be income of the amateur athlete trust for its 2009 taxation year and not to be income of the individual;"

► 143.1(2) ◄

(2) Amounts included in beneficiary's income. In computing the income for a taxation year of the beneficiary under an amateur athlete trust, there shall be included the total of all amounts distributed in the year to the beneficiary by the trust.

History: S. 143.1(2) was added by S.C. 1994, c. 7, Sched. VIII, s. 81(1), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 214(3) Deemed payments.

► 143.1(3) ◄

(3) Termination of amateur athlete trust. Where an amateur athlete trust holds property on behalf of a beneficiary who has not competed in an international sporting event as a Canadian national team member for a period of 8 years that ends in a particular taxation year and that begins in the year that is the later of

(*a*) where the beneficiary has competed in such an event, the year in which the beneficiary last so competed, and

(*b*) the year in which the trust was created,

the trust shall be deemed to have distributed, at the end of the particular taxation year to the beneficiary, an amount equal to

(*c*) where the trust is liable to pay tax under Part XII.2 in respect of the particular year, 64% of the fair market value of all property held by it at that time, and

(*d*) in any other case, the fair market value of all property held by it at that time.

History: S. 143.1(3) was added by S.C. 1994, c. 7, Sched. VIII, s. 81(1), applicable to the 1992 and subsequent taxation years.

► 143.1(4) ◄

(4) Death of beneficiary. Where an amateur athlete trust holds property on behalf of a beneficiary who dies in a year, the trust shall be deemed to have distributed, immediately before the death, to the beneficiary, an amount equal to

(*a*) where the trust is liable to pay tax under Part XII.2 in respect of the year, 64% of the fair market value of all property held by it at that time; and

(*b*) in any other case, the fair market value of all property held by it at that time.

History: S. 143.1(4) was added by S.C. 1994, c. 7, Sched. VIII, s. 81(1), applicable to the 1992 and subsequent taxation years.

Cost of Tax Shelter Investments

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The heading before section 143.2 of the Act is replaced by the following:

Cost of Tax Shelter Investments and Limited-recourse Debt in Respect of Gifting Arrangements

Applicable: In respect of expenditures, gifts and monetary contributions made after February 18, 2003.

SECTION 143.2:

► 143.2(1) ◄

(1) Definitions. The definitions in this subsection apply in this section.

History: S. 143.2(1) was added by S.C. 1998, c. 19, s. 168(1), applicable to property acquired and to outlays and expenses made or incurred by a taxpayer after November 1994, except that its application is subject to the conditions set out in s. 168(2) of S.C. 1998, c. 19, reproduced following this subsection.

"*expenditure*" — "expenditure" means an outlay or expense or the cost or capital cost of a property.

"*limited partner*" — "limited partner" has the meaning that would be assigned by subsection 96(2.4) if that subsection were read without reference to "if the member's partnership interest is not an exempt interest (within the meaning assigned by subsection (2.5)) at that time and".

"*limited-recourse amount*" — "limited-recourse amount" means the unpaid principal amount of any indebtedness for which recourse is limited, either immediately or in the future and either absolutely or contingently.

"*taxpayer*" — "taxpayer" includes a partnership.

"*tax shelter investment*" — "tax shelter investment" means

(*a*) a property that is a tax shelter for the purpose of subsection 237.1(1); or

(*b*) a taxpayer's interest in a partnership where

(i) an interest in the taxpayer

(A) is a tax shelter investment, and

(B) the taxpayer's partnership interest would be a tax shelter investment if

(I) this Act were read without reference to this paragraph and to the words "having regard to statements or representations made or proposed to be made in connection with the property" in the definition "tax shelter" in subsection 237.1(1),

(II) the references in that definition to "represented" were read as references to "that can reasonably be expected", and

(III) the reference in that definition to "is represented" were read as a reference to "can reasonably be expected",

(ii) another interest in the partnership is a tax shelter investment, or

(iii) the taxpayer's interest in the partnership entitles the taxpayer, directly or indirectly, to a share of the income or loss of a particular partnership where

(A) another taxpayer holding a partnership interest is entitled, directly or indirectly, to a share of the income or loss of the particular partnership, and

(B) that other taxpayer's partnership interest is a tax shelter investment.

Related Sections: S. 53(2)(*c*) Amounts to be deducted — Interest in a partnership; s. 150(1)(*d*) Individuals; s. 249.1(5) Alternative method not applicable to tax shelter investments.

Canadian Tax Foundation: Watkins, "The Tax Shelter Rules: An Update", *1998 Conference Report*, 5:1.

Sec. 168(2), Chap. 19, 1998

[Section 143.2 applies] to property acquired and to outlays and expenses made or incurred by a taxpayer after November 1994, except that

(*a*) it does not apply where

(i) the property was acquired, or the outlay or expense was made or incurred, before 1995 pursuant to an agreement in writing made by the taxpayer before December 1994, or

(ii) the property is

(A) a film production prescribed for the purpose of subparagraph 96(2.2)(*d*)(ii) of the Act where

(I) the principal photography of the production began before 1995, or, in the case of a production that is a television series, one episode of the series began before 1995, and

(II) the principal photography of the production was completed before March 2, 1995, or

(B) an interest in a partnership (all or substantially all of the property of which is a film production referred to in clause (A)) acquired before 1995 by a taxpayer that is a partnership

and the following conditions are met:

(iii) in the case of an interest that is a tax shelter for which section 237.1 of the Act requires an identification number to be obtained, an identification number was obtained before December 1994, and

(iv) there is no agreement or other arrangement under which the taxpayer's obligations with respect to the interest can be changed, reduced or waived if there is a change to the Act or if there is an adverse assessment under the Act;

(*b*) it does not apply to revenue guarantees prescribed for the purpose of subparagraph 96(2.2)(*d*)(ii) of the Act that were granted before 1996;

(*c*) subparagraph 143.2(6)(*b*)(ii) of the Act does not apply

(i) to property acquired, or outlays or expenses made or incurred, by a taxpayer before April 27, 1995, or

(ii) to property acquired, or outlays or expenses made or incurred, by a taxpayer before 1996 pursuant to a particular agreement in writing made by the taxpayer before April 27, 1995 where the following conditions are met:

(A) in the case of a property that is a tax shelter for which section 237.1 of the Act requires an identification number, an identification number was obtained before April 27, 1995, and

(B) there is no agreement or other arrangement under which the taxpayer's obligations under the particular agreement can be changed, reduced or waived if there is a change to the Act or if there is an adverse assessment under the Act;

(*d*) paragraph 143.2(7)(*a*) of the Act shall be read without reference to "not exceeding 10 years" where

(i) the indebtedness arises

(A) pursuant to the terms of an agreement in writing made by the taxpayer before April 27, 1995,

(B) before 1996, in respect of the acquisition of a film production prescribed for the purpose of subparagraph 96(2.2)(*d*)(ii) of the Act or an interest in a partnership all or substantially all of the property of which is either a film production prescribed for the purpose of that subparagraph or an interest in one or more partnerships all or substantially all of the property of each of which is such a film production, where

(I) the principal photography of the production began before 1996, or, in the case of a production that is a television series, the principal photography of one episode of the series began before 1996, and

(II) the principal photography of the production was completed before March 1996, or

(C) before July 1995

(I) pursuant to the terms of a document that is a prospectus, preliminary prospectus or registration statement filed before April 27, 1995 with a public authority in Canada pursuant to and in accordance with the securities legislation of Canada or of any province and, where required by law, accepted for filing by the public authority, and the funds so raised were expended before 1996 on expenditures contemplated by the document, or

(II) pursuant to the terms of an offering memorandum distributed as part of an offering of securities where

(1) the memorandum contained a complete or substantially complete description of the securities contemplated in the offering as well as the terms and conditions of the offering,

(2) the memorandum was distributed before April 27, 1995,

(3) solicitations in respect of the sale of the securities contemplated by the memorandum were made before April 27, 1995,

(4) the sale of the securities was substantially in accordance with the memorandum, and

(5) the funds were expended before 1996 in accordance with the memorandum, and

(ii) the following conditions are met:

(A) in the case of an interest to which clause (i)(A) or (C) applies that is a tax shelter for which section 237.1 of the Act requires an identification number to be obtained, an identification number was obtained before April 27, 1995, and

(B) there is no agreement or other arrangement under which the taxpayer's obligations with respect to the interest can be changed, reduced or waived if there is a change to the Act or if there is an adverse assessment under the Act; and

(*e*) subsection 143.2(8) of the Act does not apply to a taxpayer in respect of an indebtedness

(i) where the indebtedness

(A) arose, and

(B) is related to property acquired, or outlays or expenses made or incurred, by the taxpayer

before April 27, 1995, nor

(ii) where the indebtedness

(A) arose, and

(B) is related to property acquired, or outlays or expenses made or incurred, by the taxpayer,

before 1996 pursuant to a particular agreement in writing made by the taxpayer before April 27, 1995 and there is no agreement or other arrangement under which the taxpayer's obligations under the particular agreement can be changed, reduced or waived if there is a change to the Act or if there is an adverse assessment under the Act.

► 143.2(2) ◄

(2) At-risk adjustment. For the purpose of this section, an at-risk adjustment in respect of an expenditure of a particular taxpayer, other than the cost of a partnership interest to which subsection 96(2.2) applies, means any amount or benefit that the particular taxpayer, or another taxpayer not dealing at arm's length with the particular taxpayer, is entitled, either immediately or in the future and either absolutely or contingently, to receive or to obtain, whether by way of reimbursement, compensation, revenue guarantee, proceeds of disposition, loan or any other form of indebtedness, or in any other form or manner whatever, granted or to be granted for the purpose of reducing the impact, in whole or in part, of any loss that the particular taxpayer may sustain in respect of the expenditure or, where the expenditure is the cost or capital cost of a property, any loss from the holding or disposition of the property.

History: S. 143.2(2) was added by S.C. 1998, c. 19, s. 168(1), applicable to property acquired and to outlays and expenses made or incurred by a taxpayer after November 1994, except that its application is subject to the conditions set out in s. 168(2) of S.C. 1998, c. 19, reproduced following subsection 143.2(1).

► 143.2(3) ◄

(3) Amount or benefit not included. For the purpose of subsection (2), an at-risk adjustment in respect of a taxpayer's expenditure does not include an amount or benefit

(*a*) to the extent that it is included in determining the value of J in the definition "cumulative Canadian exploration expense" in subsection 66.1(6), of M in the definition "cumulative Canadian development expense" in subsection 66.2(5) or of I in the definition "cumulative Canadian oil and gas property expense" in subsection 66.4(5) in respect of the taxpayer; or

(*b*) the entitlement to which arises

(i) because of a contract of insurance with an insurance corporation dealing at arm's length with the taxpayer (and, where the expenditure is the cost of an interest in a partnership, with each member of the partnership) under which the taxpayer is insured against any claim arising as a result of a liability incurred in the ordinary course of carrying on the business of the taxpayer or the partnership,

(ii) as a consequence of the death of the taxpayer,

(iii) in respect of an amount not included in the expenditure, determined without reference to subparagraph (6)(*b*)(ii), or

(iv) because of an excluded obligation (as defined in subsection 6202.1(5) of the *Income Tax Regulations*) in relation to a share issued to the taxpayer or, where the expenditure is the cost of an interest in a partnership, to the partnership.

History: S. 143.2(3) was added by S.C. 1998, c. 19, s. 168(1), applicable to property acquired and to outlays and expenses made or incurred by a taxpayer after November 1994, except that its application is subject to the conditions set out in s. 168(2) of S.C. 1998, c. 19, reproduced following subsection 143.2(1).

► 143.2(4) ◄

(4) Amount or benefit. For the purposes of subsections (2) and (3), where the amount or benefit to which a taxpayer is entitled at any time is provided by way of an agreement or other arrangement under which the taxpayer has a right, either immediately or in the future and either absolutely or contingently (otherwise than as a consequence of the death of the taxpayer), to acquire property, for greater certainty the amount or benefit to which the taxpayer is entitled under the agreement or arrangement is considered to be not less than the fair market value of the property at that time.

History: S. 143.2(4) was added by S.C. 1998, c. 19, s. 168(1), applicable to property acquired and to outlays and expenses made or incurred by a taxpayer after November 1994, except that its application is subject to the conditions set out in s. 168(2) of S.C. 1998, c. 19, reproduced following subsection 143.2(1).

► 143.2(5) ◄

(5) Amount or benefit. For the purposes of subsections (2) and (3), where the amount or benefit to which a taxpayer is entitled at any time is provided by way of a guarantee, security or similar indemnity or covenant in

respect of any loan or other obligation of the taxpayer, for greater certainty the amount or benefit to which the taxpayer is entitled under the guarantee or indemnity at any particular time is considered to be not less than the total of the unpaid amount of the loan or obligation at that time and all other amounts outstanding in respect of the loan or obligation at that time.

History: S. 143.2(5) was added by S.C. 1998, c. 19, s. 168(1), applicable to property acquired and to outlays and expenses made or incurred by a taxpayer after November 1994, except that its application is subject to the conditions set out in s. 168(2) of S.C. 1998, c. 19, reproduced following subsection 143.2(1).

► 143.2(6) ◄

(6) Amount of expenditure. Notwithstanding any other provision of this Act, the amount of any expenditure that is, or is the cost or capital cost of, a taxpayer's tax shelter investment, and the amount of any expenditure of a taxpayer an interest in which is a tax shelter investment, shall be reduced to the amount, if any, by which

(*a*) the amount of the taxpayer's expenditure otherwise determined

exceeds

(*b*) the total of

(i) the limited-recourse amounts of

(A) the taxpayer, and

(B) all other taxpayers not dealing at arm's length with the taxpayer

that can reasonably be considered to relate to the expenditure,

(ii) the taxpayer's at-risk adjustment in respect of the expenditure, and

(iii) each limited-recourse amount and at-risk adjustment, determined under this section when this section is applied to each other taxpayer who deals at arm's length with and holds, directly or indirectly, an interest in the taxpayer, that can reasonably be considered to relate to the expenditure.

History: S. 143.2(6) was added by S.C. 1998, c. 19, s. 168(1), applicable to property acquired and to outlays and expenses made or incurred by a taxpayer after November 1994, except that its application is subject to the conditions set out in s. 168(2) of S.C. 1998, c. 19, reproduced following subsection 143.2(1).

Related Sections: S. 96(2.2)(*c*) At-risk amount.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 143.2 of the Act is amended by adding the following after subsection (6):

(6.1) Limited-recourse debt in respect of a gift or monetary contribution. The limited-recourse debt in respect of a gift or monetary contribution of a taxpayer, at the time the gift or monetary contribution is made, is the total of

(*a*) each limited-recourse amount at that time, of the taxpayer and of all other taxpayers not dealing at arm's length with the taxpayer, that can reasonably be considered to relate to the gift or monetary contribution,

(*b*) each limited-recourse amount at that time, determined under this section when this section is applied to each other taxpayer who deals at arm's length with and holds, directly or indirectly, an interest in the taxpayer, that can reasonably be considered to relate to the gift or monetary contribution, and

(*c*) each amount that is the unpaid amount at that time of any other indebtedness, of any taxpayer referred to in paragraph (*a*) or (*b*), that can reasonably be considered to relate to the gift or monetary contribution if there is a guarantee, security or similar indemnity or covenant in respect of that or any other indebtedness.

Applicable: In respect of expenditures, gifts and monetary contributions made after February 18, 2003.

Explanatory Note: New subsection 143.2(6.1) of the Act describes limited-recourse debt in respect of a gift or monetary contribution made after February 18, 2003. Such an amount is an advantage under subsection 248(32) of the Act, such that it reduces the eligible amount of a gift or political contribution determined under subsection 248(31) of the Act. For additional details regarding the amount of an advantage, see the commentary to new subsection 248(32).

A limited-recourse debt includes the unpaid principal of any indebtedness for which recourse is limited, even if that limitation applies only in the future or contingently. It also includes any other indebtedness of the taxpayer, related to the gift or contribution, if there is a guarantee, security or similar indemnity or covenant in respect of that or any other indebtedness. For example, if a donor (or any other person mentioned below) enters into a contract of insurance whereby all or part of a debt will be paid upon the occurrence of either a certain or contingent event, the debt is a limited-recourse debt in respect of a gift if it is in any way related to the gift.

Such an indebtedness is also a limited-recourse debt if it is owed by a person dealing non-arm's length with the taxpayer or by a person who holds an interest in the taxpayer.

► 143.2(7) ◄

(7) Repayment of indebtedness. For the purpose of this section, the unpaid principal of an indebtedness is deemed to be a limited-recourse amount unless

(*a*) *bona fide* arrangements, evidenced in writing, were made, at the time the indebtedness arose, for repayment by the debtor of the indebtedness and all interest on the indebtedness within a reasonable period not exceeding 10 years; and

(*b*) interest is payable at least annually, at a rate equal to or greater than the lesser of

(i) the prescribed rate of interest in effect at the time the indebtedness arose, and

(ii) the prescribed rate of interest applicable from time to time during the term of the indebtedness,

and is paid in respect of the indebtedness by the debtor no later than 60 days after the end of each taxation year of the debtor that ends in the period.

History: S. 143.2(7) was added by S.C. 1998, c. 19, s. 168(1), applicable to property acquired and to outlays and expenses made or incurred by a taxpayer after November 1994, except that its application is subject to the conditions set out in s. 168(2) of S.C. 1998, c. 19, reproduced following subsection 143.2(1).

Regulations: 4301.

► 143.2(8) ◄

(8) Limited-recourse amount. For the purpose of this section, the unpaid principal of an indebtedness is deemed to be a limited-recourse amount of a taxpayer where the taxpayer is a partnership and recourse against any member of the partnership in respect of the indebtedness is limited, either immediately or in the future and either absolutely or contingently.

History: S. 143.2(8) was added by S.C. 1998, c. 19, s. 168(1), applicable to property acquired and to outlays and expenses made or incurred by a taxpayer after November 1994, except that its application is subject to the conditions set out in s. 168(2) of S.C. 1998, c. 19, reproduced following subsection 143.2(1).

► 143.2(9) ◄

(9) Timing. Where at any time a taxpayer has paid an amount (in this subsection referred to as the "repaid amount") on account of the principal amount of an indebtedness that was, before that time, the unpaid principal amount of a loan or any other form of indebtedness to which subsection (2) applies (in this subsection referred to as the "former amount or benefit") relating to an expenditure of the taxpayer,

(*a*) the former amount or benefit is considered to have been an amount or benefit under subsection (2) in respect of the taxpayer at all times before that time; and

(*b*) the expenditure is, subject to subsection (6), deemed to have been made or incurred at that time to the extent of, and by the payment of, the repaid amount.

History: S. 143.2(9) was added by S.C. 1998, c. 19, s. 168(1), applicable to property acquired and to outlays and expenses made or incurred by a taxpayer after November 1994, except that its application is subject to the conditions set out in s. 168(2) of S.C. 1998, c. 19, reproduced following subsection 143.2(1).

► 143.2(10) ◄

(10) Timing. Where at any time a taxpayer has paid an amount (in this subsection referred to as the "repaid amount") on account of the principal amount of an indebtedness which was, before that time, an unpaid principal amount that was a limited-recourse amount (in this subsection referred to as the "former limited-recourse indebtedness") relating to an expenditure of the taxpayer,

(*a*) the former limited-recourse indebtedness is considered to have been a limited-recourse amount at all times before that time; and

(*b*) the expenditure is, subject to subsection (6), deemed to have been made or incurred at that time to the extent of, and by the amount of, the repaid amount.

History: S. 143.2(10) was added by S.C. 1998, c. 19, s. 168(1), applicable to property acquired and to outlays and expenses made or incurred by a taxpayer after November 1994, except that its application is subject to the conditions set out in s. 168(2) of S.C. 1998, c. 19, reproduced following subsection 143.2(1).

► 143.2(11) ◄

(11) Short-term debt. Where a taxpayer pays all of the principal of an indebtedness no later than 60 days after that indebtedness arose and the indebtedness would otherwise be considered to be a limited-recourse amount solely because of the application of subsection (7) or (8), that subsection does not apply to the indebtedness unless

(*a*) any portion of the repayment is made with a limited-recourse amount; or

(*b*) the repayment can reasonably be considered to be part of a series of loans or other indebtedness and repayments that ends more than 60 days after the indebtedness arose.

History: S. 143.2(11) was added by S.C. 1998, c. 19, s. 168(1), applicable to property acquired and to outlays and expenses made or incurred by a taxpayer after November 1994, except that its application is subject to the conditions set out in s. 168(2) of S.C. 1998, c. 19, reproduced following subsection 143.2(1).

► 143.2(12) ◄

(12) Series of loans or repayments. For the purpose of paragraph (7)(*a*), a debtor is considered not to have made arrangements to repay an indebtedness within 10 years where the debtor's arrangement to repay can reasonably be considered to be part of a series of loans or other indebtedness and repayments that ends more than 10 years after it begins.

History: S. 143.2(12) was added by S.C. 1998, c. 19, s. 168(1), applicable to property acquired and to outlays and expenses made or incurred by a taxpayer after November 1994, except that its application is subject to the conditions set out in s. 168(2) of S.C. 1998, c. 19, reproduced following subsection 143.2(1).

► 143.2(13) ◄

(13) Information located outside Canada. For the purpose of this section, where it can reasonably be considered that information relating to indebtedness that relates to a taxpayer's expenditure is available outside Canada and the Minister is not satisfied that the unpaid principal of the indebtedness is not a limited-recourse amount, the unpaid principal of the indebtedness relating to the taxpayer's expenditure is deemed to be a limited-recourse amount relating to the expenditure unless

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 143.2(13) of the Act before paragraph (*a*) is replaced by the following:

(13) Information located outside Canada. For the purpose of this section, if it can reasonably be considered that information relating to indebtedness that relates to a taxpayer's expenditure, gift or monetary contribution is available outside Canada and the Minister is not satisfied that the unpaid principal of the indebtedness is not a limited-recourse amount, the unpaid principal of the indebtedness relating to the taxpayer's expenditure, gift or monetary contribution is deemed to be a limited-recourse amount relating to the expenditure, gift or monetary contribution unless

Applicable: In respect of expenditures, gifts and monetary contributions made after February 18, 2003.

Explanatory Note:

Information Located Outside Canada

Subsection 143.2(13) of the Act applies where information related to an indebtedness in respect of an expenditure is located outside Canada, and the Minister of National Revenue is not satisfied that the indebtedness is not a limited-recourse amount. In such a case, the indebtedness is deemed to be a limited-recourse amount in respect of the expenditure. Subsection 143.2(13) is extended to also apply in respect of an indebtedness that relates to a gift or political contribution made after February 18, 2003.

(*a*) the information is provided to the Minister; or

(*b*) the information is located in a country with which the Government of Canada has entered into a tax convention or agreement that has the force of law in Canada and includes a provision under which the Minister can obtain the information.

History: S. 143.2(13) was added by S.C. 1998, c. 19, s. 168(1), applicable to property acquired and to outlays and expenses made or incurred by a taxpayer after November 1994, except that its application is subject to the conditions set out in s. 168(2) of S.C. 1998, c. 19, reproduced following subsection 143.2(1).

► 143.2(14) ◄

(14) Information located outside Canada. For the purpose of this section, where it can reasonably be considered that information relating to whether a taxpayer is not dealing at arm's length with another taxpayer is available

outside Canada and the Minister is not satisfied that the taxpayer is dealing at arm's length with the other taxpayer, the taxpayer and the other taxpayer are deemed not to be dealing with each other at arm's length unless

(*a*) the information is provided to the Minister; or

(*b*) the information is located in a country with which the Government of Canada has entered into a tax convention or agreement that has the force of law in Canada and includes a provision under which the Minister can obtain the information.

History: S. 143.2(14) was added by S.C. 1998, c. 19, s. 168(1), applicable to property acquired and to outlays and expenses made or incurred by a taxpayer after November 1994, except that its application is subject to the conditions set out in s. 168(2) of S.C. 1998, c. 19, reproduced following subsection 143.2(1).

► 143.2(15) ◄

(15) Assessments. Notwithstanding subsections 152(4) to (5), such assessments, determinations and redeterminations may be made as are necessary to give effect to this section.

History: S. 143.2(15) was added by S.C. 1998, c. 19, s. 168(1), applicable to property acquired and to outlays and expenses made or incurred by a taxpayer after November 1994, except that its application is subject to the conditions set out in s. 168(2) of S.C. 1998, c. 19, reproduced following subsection 143.2(1).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The Act is amended by adding the following after section 143.2:

Expenditure — Limitations

SECTION 143.3:

(1) Definitions. The following definitions apply in this section.

"*expenditure*" — "expenditure" of a taxpayer means an expense, expenditure or outlay made or incurred by the taxpayer, or a cost or capital cost of property acquired by the taxpayer.

"*option*" — "option" means an option, warrant or similar right, issued or granted by a taxpayer, giving the holder the right to acquire an interest in the taxpayer or in another taxpayer with whom the taxpayer does not, at the time the option, warrant or similar right is issued or granted, deal at arm's length.

"*taxpayer*" — "taxpayer" includes a partnership.

(2) Options — limitation. In computing a taxpayer's income, taxable income or tax payable or an amount considered to have been paid on account of the taxpayer's tax payable, an expenditure of the taxpayer is deemed not to include any portion of the expenditure that would — if this Act were read without reference to this subsection — be included in determining the expenditure because of the taxpayer having granted or issued an option on or after November 17, 2005.

(3) Corporate shares — limitation. In computing a corporation's income, taxable income or tax payable or an amount considered to have been paid on account of the corporation's tax payable, an expenditure of the corporation that would — if this Act were read without reference to this subsection — include an amount because of the corporation having issued a share of its capital stock at any particular time on or after November 17, 2005 is reduced by

(*a*) if the issuance of the share is not a consequence of the exercise of an option, the amount, if any, by which the fair market value of the share at the particular time exceeds

(i) if the transaction under which the share is issued is a transaction to which section 85, 85.1 or 138 applies, the amount determined under that section to be the cost to the issuing corporation of the property acquired in consideration for issuing the share, or

(ii) in any other case, the amount of the consideration that is the fair market value of the property transferred to, or the services provided to, the issuing corporation for issuing the share; and

(*b*) if the issuance of the share is a consequence of the exercise of an option, the amount, if any, by which the fair market value of the share at the particular time exceeds the amount paid, pursuant to the terms of the option, by the holder to the issuing taxpayer for issuing the share.

(4) Non-corporate interests — limitation. In computing a taxpayer's (other than a corporation's) income, taxable income or tax payable or an amount considered to have been paid on account of the taxpayer's tax payable, an expenditure of the taxpayer that would — if this Act were read without reference to this subsection — include an amount because of the taxpayer having issued an interest, or because of an interest being created, in itself at any particular time on or after November 17, 2005 is reduced by

(*a*) if the issuance or creation of the interest is not a consequence of the exercise of an option, the amount, if any, by which the fair market value of the interest at the particular time exceeds

(i) if the transaction under which the interest is issued is a transaction to which paragraph 70(6)(*b*) or 73(1.01)(*c*), subsection 97(2) or section 107.4 or 132.2 applies, the amount determined under that provision to be the cost to the taxpayer of the property acquired for the interest, or

(ii) in any other case, the amount of the consideration that is the fair market value of the property transferred to, or the services provided to, the taxpayer for the interest; and

(*b*) if the issuance or creation of the interest is a consequence of the exercise of an option, the amount, if any, by which the fair market value of the interest at the particular time exceeds the amount paid, pursuant to the terms of the option, by the holder to the taxpayer for the interest.

(5) Clarification. For greater certainty,

(*a*) subsection (2) does not apply to reduce an expenditure that is a commission, fee or other amount for services rendered by a person as a salesperson, agent or dealer in securities in the course of the issuance of an option;

(*b*) subsections (3) and (4) do not apply to reduce an expenditure of a taxpayer to the extent that the expenditure does not include an amount determined to be an excess under those subsections;

(*c*) this section does not apply to determine the cost or capital cost of property determined under subsection 70(6), section 73, 85 or 85.1, subsection 97(2) or section 107.4, 132.2 or 138; and

(*d*) this section does not apply to determine the amount of a taxpayer's expenditure if the amount of the expenditure as determined under section 69 is less than the amount that would, if this subsection were read without reference to this paragraph, be the amount of the expenditure as determined under this section.

Applicable: On and after November 17, 2005.

Explanatory Note: New section 143.3 of the Act reduces, if applicable, the amount of a taxpayer's expenditure by certain amounts for the purposes of computing the taxpayer's income, taxable income and tax payable or an amount considered to have been paid on account of the taxpayer's tax payable.

Subsection 143.3(1) — Definitions

New subsection 143.3(1) of the Act provides definitions that apply for the purposes of section 143.3. Those definitions are:

"expenditure"

"Expenditure" of a taxpayer, which means an expense, expenditure or outlay made or incurred by the taxpayer, or that is a cost or capital cost of property acquired by the taxpayer.

"option"

"Option", which means an option, warrant or similar right, issued or granted by the taxpayer, giving the holder the right to acquire an interest in the taxpayer or in another taxpayer with which the taxpayer does not, at the time the option, warrant or similar right is issued or granted, deal at arm's length.

"taxpayer"

"Taxpayer", which is defined to include a partnership.

Subsection 143.3(2) — Options — limitation

New subsection 143.3(2) of the Act provides that, in computing a taxpayer's income, taxable income or tax payable or an amount considered to have been paid on account of the taxpayer's tax payable, an expenditure of the taxpayer is deemed not to include any portion of the expenditure that would — if the Act were read without reference to subsection 143.3(2) — be included in determining the expenditure because of the taxpayer having granted or issued an option on or after November 17, 2005. In essence, the value of an option granted by a taxpayer is not considered to be an expenditure for income tax purposes.

Subsection 143.3(3) — Corporate Shares — Limitation

New subsection 143.3(3) of the Act provides for two reductions that apply to an expenditure that would — if the Act were read without reference to subsection 143.3(3) — include an amount because of a corporation (or another corporation not dealing at arm's length with the corporation) having issued a share of its capital stock at any particular time on or after November 17, 2005. The reductions apply to the corporation in computing its income, taxable income or tax payable or an amount considered to have been paid on account of the corporation's tax payable.

New paragraph 143.3(3)(*a*) applies on the issuance of the share (other than on the exercise of an option). Generally, the corporation is to reduce the related expenditure by the amount, if any, by which

(i) the fair market value of the share

exceeds

(ii) if the transaction under which the share is issued is a transaction to which section 85, 85.1 or 138 of the Act applies, the amount determined under that section to be the cost to the corporation of the property acquired in consideration for the issuance of the share, or

(iii) in any other case, the amount of consideration that is the fair market value of the property transferred to, or the services provided to, the issuing corporation for issuing the share.

In addition, under new paragraph 143.3(3)(*b*), if the issuance of the share is a consequence of the exercise of an option, generally the corporation is to reduce the related expenditure by the amount, if any, by which

(i) the fair market value of the share

exceeds

(ii) that portion of the amount paid, pursuant to the terms of the option, by the holder to the issuing corporation for issuing the share.

Example

Facts

In its 2006 taxation year, Corporation X grants an option to Y in return for $1,000 worth of paintings by a little-known Canadian artist. Corporation X does not give cash or any other consideration for the paintings. The option gives Y the right to acquire one share of Corporation X for $10,000 in 2007. (At the time the option is granted one share of Corporation X has a fair market value of $10,000.)

In 2007, Y exercises the option and pays Corporation X $10,000 cash for the share. The share has a fair market value of $15,000 at the time of issue.

Corporation X files its 2007 income tax return on the basis that the cost of the paintings is $5,000, representing the difference between the fair market value of the share when it was issued and the cash paid by Y for the share.

Application of section 143.3 of the Act

1. On granting the option:

- New subsection 143.3(2) applies to clarify that there is no expenditure by Corporation X resulting from it issuing the option.

2. On the exercise of the option:

When issuing the share on the exercise of the option, new paragraph 143.3(3)(*b*) ensures that an expenditure, if any, of Corporation X is reduced by $5,000 — being the amount by which $15,000 (the fair market value of the share — see subparagraph (*b*)(i))

exceeds

$10,000 (the amount paid for the share — see subparagraph (*b*)(ii)).

However, and as noted in the explanatory note accompanying new subsection 143.3(5), the reductions provided for under subsections 143.3(3) and (4) do not apply to reduce an expenditure if the expenditure itself does not include an amount determined to be excesses described in those subsections.

Subsection 143.3(4) — Non-corporate Interests — Limitation

New subsection 143.3(4) of the Act provides for two reductions that apply to a non-corporate taxpayer's expenditure that would — if the Act were read without reference to subsection 143.3(4) — include an amount because the taxpayer (or another taxpayer not dealing at arm's length with the taxpayer) issues or creates an interest in itself at any particular time on or after November 17, 2005. The reductions apply to the taxpayer in computing its income, taxable income or tax payable or an amount considered to have been paid on account of the taxpayer's tax payable.

In general terms, under new paragraph 143.3(4)(*a*), if the issuance or creation of the interest in a taxpayer is not a consequence of the exercise of an option, the taxpayer is to reduce the expenditure by the amount, if any, by which

(i) the fair market value of the interest

exceeds

(ii) if the transaction under which the interest is issued or created is a transaction to which paragraph 70(6)(*b*), subsection 97(2), paragraph 73(1.01)(*c*), subsection 73(1.02), section 107.4 or 132.2 of the Act applies, the amount determined under that provision to be the cost to the taxpayer of the property acquired for the interest, or

(iii) in any other case, the amount of the consideration that is the fair market value of the property transferred to, or the services provided to, the taxpayer for the interest.

In addition, under new paragraph 143.3(4)(*b*), if the issuance or creation of the interest is a consequence of the exercise of an option, the taxpayer is to reduce the expenditure by the amount, if any, by which

(i) the fair market value of the interest

exceeds

(ii) the amount paid, pursuant to the terms of the option, by the holder to the taxpayer for the interest.

However, and as noted in the explanatory note accompanying new subsection 143.3(5), the reductions provided for under subsections 143.3(3) and (4) do not apply to reduce an expenditure if the expenditure itself does not include an amount determined to be excesses described in those subsections.

Subsection 143.3(5) — Clarification

New subsection 143.3(5) of the Act provides four rules for greater certainty.

First, paragraph 143.3(5)(*a*) clarifies that subsection 143.3(2) does not reduce an expenditure that is a commission, fee or other amount for services rendered by a person as a salesperson, agent or dealer in securities in the course of the issuance of the option.

Second, paragraph 143.3(5)(*b*) clarifies that subsections 143.3(3) and (4) do not apply to reduce an expenditure to the extent that the expenditure does not include an amount determined to be an excess under those subsections. For example, if a corporation were to issue shares of its capital stock having a fair market value of $100 in consideration for having acquired property or services having a fair market value of $40, no excess exists under paragraph 143.3(3)(*a*) if the expenditure of the cor-

poration for the property or services claimed by the corporation without reference to section 143.3 is, for income tax purposes, $40. To the extent the corporation seeks to claim an expenditure in excess of that $40, paragraph 143.3(3)(*a*) would reduce that excess to nil. Paragraph 143.3(5)(*b*) recognizes that the jurisprudence that would treat an expenditure of the type reduced by subsections 143.3(3) and (4) currently applies only to scientific research and experimental development (SR&ED) tax credits, and is limited to a single decision of the Tax Court of Canada. It may very well transpire that future jurisprudence may constrain or eliminate any such expenditure that may be considered to arise in these circumstances.

Third, paragraph 143.3(5)(*c*) clarifies that section 143.3 does not determined the cost or capital cost of property determined under certain tax-deferral rules. For example, if section 85 of the Act deems a transferee corporation that acquires non-depreciable capital property to do so at a cost of $100 in circumstances where the corporation issued a share of its capital stock having a fair market value of $200, this section does not decrease or increase the $100 cost for the property to the corporation, as determined under section 85.

Fourth, paragraph 143.3(5)(*d*) clarifies that section 143.3 does not determine the amount of a taxpayer's expenditure if the amount of the expenditure as determined under section 69 of the Act is less than an amount determined under section 143.3.

DIVISION G — Deferred and Other Special Income Arrangements

Employees Profit Sharing Plans

SECTION 144:

▶ 144(1) ◀

(1) Definitions. The definitions in this subsection apply in this section.

"employees profit sharing plan" — "employees profit sharing plan" at a particular time means an arrangement

(*a*) under which payments computed by reference to

(i) an employer's profits from the employer's business,

(ii) the profits from the business of a corporation with which the employer does not deal at arm's length, or

(iii) any combination of the amounts described in subparagraphs (i) and (ii)

are required to be made by the employer to a trustee under the arrangement for the benefit of employees of the employer or of a corporation with which the employer does not deal at arm's length; and

(*b*) in respect of which the trustee has, since the later of the beginning of the arrangement and the end of 1949, allocated, either contingently or absolutely, to those employees

(i) in each year that ended at or before the particular time, all amounts received in the year by the trustee from the employer or from a corporation with which the employer does not deal at arm's length,

(ii) in each year that ended at or before the particular time, all profits for the year from the property of the trust (determined without regard to any capital gain made by the trust or capital loss sustained by it at any time after 1955),

(iii) in each year that ended after 1971 and at or before the particular time, all capital gains and capital losses of the trust for the year,

(iv) in each year that ended after 1971, before 1993 and at or before the particular time, $^{100}/_{15}$ of the total of all amounts each of which is deemed by subsection (9) to be paid on account of tax under this Part in respect of an employee because the employee ceased to be a beneficiary under the plan in the year, and

(v) in each year that ended after 1991 and at or before the particular time, the total of all amounts each of which is an amount that may be deducted under subsection (9) in computing the employee's income because the employee ceased to be a beneficiary under the plan in the year.

History: S. 144(1), the definition of "employees profit sharing plan" was amended by S.C. 1998, c. 19, s. 169(2), applicable to the 1994 and subsequent taxation years. The definition of "employee profit sharing plan" formerly read as follows.

"S. 144. *Definition of 'employees profit sharing plan'.*

(1) In this section, an 'employees profit sharing plan' at a particular time means an arrangement

(*a*) under which payments computed by reference to

(i) an employer's profits from the employer's business,

(ii) the profits from the business of a corporation with which the employer does not deal at arm's length, or

(iii) any combination of the amounts described in subparagraphs (i) and (ii)

are required to be made by the employer to a trustee under the arrangement for the benefit of employees of the employer or of a corporation with which the employer does not deal at arm's length; and

(*b*) in respect of which the trustee has, since the later of the beginning of the arrangement and the end of 1949, allocated, either contingently or absolutely, to those employees

(i) in each year that ended at or before the particular time, all amounts received in the year by the trustee from the employer or from a corporation with which the employer does not deal at arm's length,

(ii) in each year that ended at or before the particular time, all profits for the year from the property of the trust (determined without regard to any capital gain made by the trust or capital loss sustained by it at any time after 1955),

(iii) in each year that ended after 1971 and at or before the particular time, all capital gains and capital losses of the trust for the year,

(iv) in each year that ended after 1971, before 1993 and at or before the particular time, $^{100}/_{15}$ of the total of all amounts each of which is deemed by subsection (9) to be paid on account of tax under this Part in respect of an employee because the employee ceased to be a beneficiary under the plan in the year, and

(v) in each year that ended after 1991 and at or before the particular time, the total of all amounts each of which is an amount that an employee is entitled to deduct under subsection (9) in computing income because the employee ceased to be a beneficiary under the plan in the year."

S. 144(1), subparagraph (*a*)(iii) of the definition "employees profit sharing plan" was amended by S.C. 1998, c. 19, s. 169(1), applicable to the 1992 and 1993 taxation years. Subparagraph (iii) formerly read:

"(iii) any combination of the amounts described in paragraphs (*a*) and (*b*)"

S. 144(1) was amended by S.C. 1994, c. 21, s. 68(1), applicable to the 1992 and subsequent taxation years and, where an amount was paid to a person before 1993 without first having been allocated to the person, it shall be deemed for the purpose of subsection 144(1) to have been allocated to that person. S. 144(1) formerly read:

"(1) In this section, an 'employees profit sharing plan' means an arrangement under which payments computed by reference to an employer's profits from the employer's business or by reference to an employer's profits from the employer's business and the profits, if any, from the business of a corporation with whom an employer does not deal at arm's length are made by the employer to a trustee in trust for the benefit of officers or employees of the employer or of a corporation with whom the employer does not deal at arm's length (whether or not payments are also made to the trustee by the officers or employees), and under which the trustee has, since the commencement of the plan or the end of 1949, whichever is the later, each year allocated either contingently or absolutely to individual officers or employees,

(*a*) all amounts received by the trustee from the employer or from a corporation with whom the employer does not deal at arm's length,

(*b*) all profits from the trust property (computed without regard to any capital gain made by the trust or capital loss sustained by it at any time since the end of 1955),

(*c*) all capital gains and capital losses of the trust for taxation years ending after 1971, and

(*d*) all amounts in respect of which employees who have, after 1971, ceased to be beneficiaries under the arrangement are deemed by subsection (9) to have made a payment on account of tax under this Part,

in such a manner that the total of all those amounts, profits, gains and losses, minus such portion thereof as has been paid to beneficiaries under the trust, is allocated either contingently or absolutely to officers or employees who are beneficiaries thereunder."

Related Sections: S. 144(9) Deduction for forfeited amounts; s. 144(10) Payments out of profits; s. 251 Arm's length.

Interpretation Bulletins: *Primary* — IT-280R Employees profit sharing plans — Payments computed by reference to profits; IT-379R Employees profit sharing plans — Allocations to beneficiaries.

Information Circulars: IC 77-1R5 Deferred profit sharing plan.

Cases: A taxpayer was entitled to deduct payments made in respect of an informal profit sharing plan despite the plan having been formed without any written agreement where the plan created an enforceable obligation against the taxpayer. *534325 Ontario Corporation v. M.N.R.*, 89 DTC 679 (T.C.C.).

Stock purchase plan under which a company made contributions equal to 50% of a member's monthly contributions plus an annual contribution based on profits if such profits exceeded a certain percentage of invested capital, was held not to be an employees profit sharing plan as defined in former s. 79(1) (now s. 144(1)). *Lade v. M.N.R.*, 65 DTC 5297 (S.C.C.).

"unused portion of a beneficiary's exempt capital gains balance" — "unused portion of a beneficiary's exempt

capital gains balance" in respect of a trust governed by an employees profit sharing plan, at any particular time in a taxation year of the beneficiary, means

(*a*) where the year ends before 2005, the amount, if any, by which the beneficiary's exempt capital gains balance (in this paragraph having the same meaning as in subsection 39.1(1)) in respect of the trust for the year exceeds the total of all amounts each of which is an amount by which a capital gain is reduced under section 39.1 in the year because of the beneficiary's exempt capital gains balance in respect of the trust; or

(*b*) where the year ends after 2004, the amount, if any, by which

(i) the amount, if any, that would, if the definition "exempt capital gains balance" in subsection 39.1(1) were read without reference to "that ends before 2005", be the beneficiary's exempt capital gains balance in respect of the trust for the year

exceeds

(ii) where there has been a disposition of an interest or a part of an interest of the beneficiary in the trust after the beneficiary's 2004 taxation year (other than a disposition that is a part of a transaction described in paragraph (7.1)(*c*) in which property is received in satisfaction of all or a portion of the beneficiary's interests in the trust), the total of all amounts each of which is an amount by which the adjusted cost base of an interest or a part of an interest disposed of by the beneficiary (other than an interest or a part of an interest that is all or a portion of the beneficiary's interests referred to in paragraph (7.1)(*c*)) was increased because of paragraph 53(1)(*p*), and

(iii) in any other case, nil.

History: S. 144(1), the definition of "unused portion of a beneficiary's exempt capital gains balance", was added by S.C. 1998, c. 19, s. 169(2), applicable to the 1994 and subsequent taxation years.

Related Sections: S. 110.6(19) Election for property owned on February 22, 1994.

► 144(2) ◄

(2) No tax while trust governed by plan. No tax is payable under this Part by a trust on the taxable income of the trust for a taxation year throughout which the trust is governed by an employees profit sharing plan.

History: S. 144(2) was amended by S.C. 1994, c. 21, s. 68(1), applicable to the 1993 and subsequent taxation years. S. 144(2) formerly read:

"(2) *No tax while trust governed by a plan.* No tax is payable under this Part by a trust on the taxable income of the trust for a period during which the trust was governed by an employees profit sharing plan."

Related Sections: S. 149(1)(*p*) Trusts under profit sharing plan.

► 144(3) ◄

(3) Allocation contingent or absolute taxable. There shall be included in computing the income for a taxation year of an employee who is a beneficiary under an employees profit sharing plan each amount that is allocated to the employee contingently or absolutely by the trustee under the plan at any time in the year otherwise than in respect of

(*a*) a payment made by the employee to the trustee;

(*b*) a capital gain made by the trust before 1972;

(*c*) a capital gain of the trust for a taxation year ending after 1971;

(*d*) a gain made by the trust after 1971 from the disposition of a capital property except to the extent that the gain is a capital gain described in paragraph (*c*); or

(*e*) a dividend received by the trust from a taxable Canadian corporation.

(*f*) [Repealed by S.C. 1994, c. 21, s. 68(2).]

History: S. 144(3)(*f*) was repealed by S.C. 1994, c. 21, s. 68(2), applicable to the 1992 and subsequent taxation years, except that a taxpayer may elect that those subsections not apply to the taxpayer's 1992 taxation year by so notifying the Minister of National Revenue in writing before the end of the sixth month after the month in which this Act is assented to [Royal Assent June 15, 1994]. S. 144(3)(*f*) formerly read:

"(*f*) interest received by the trust."

Related Sections: S. 81(1)(*k*) Employees profit sharing plan; s. 144(8) Allocation of credit for dividends.
Regulations: Part II.
Interpretation Bulletins: *Primary* — IT-379R Employees profit sharing plans — Allocations to beneficiaries.
Forms: T4PS Sum.; T4PS.
Canadian Petroleum Tax Journal: Current Trends in Executive Compensation Structures and Their Taxation, Rachel Colabella and Denise McMullen, Vol. 13 No. 1 2000.
Cases: After the taxpayer terminated his employment, an amount previously allocated to him was included in his income. Although he lost the right to receive the amount, he was not entitled to deduct a corresponding amount from the previous year's income. *Aspinall v. M.N.R.*, 86 DTC 1281 (T.C.C.).

► 144(4) ◄

(4) Allocated capital gains and losses. Each capital gain and capital loss of a trust governed by an employees profit sharing plan from the disposition of any property shall, to the extent that it is allocated by the trust to an employee who is a beneficiary under the plan, be deemed to be a capital gain or capital loss, as the case may be, of the employee from the disposition of that property for the taxation year of the employee in which the allocation was made and, for the purposes of section 110.6, the property shall be deemed to have been disposed of by the employee on the day on which it was disposed of by the trust.

History: S. 144(4) was amended by S.C. 1995, c. 3, s. 42(1), applicable to the 1994 and subsequent taxation years. S. 144(4) formerly read:

"(4) *Allocated capital gains and losses.* Any capital gain of a trust governed by an employees profit sharing plan or any capital loss of the trust for a taxation year ending after 1971 from the disposition of any property shall, to the extent that it has been allocated by the trust to an employee who is a beneficiary under the plan, be deemed to be a capital gain or capital loss, as the case may be, of the employee from the disposition of that property, for the taxation year of the employee in which the allocation was made."

Related Sections: S. 6(1)(*d*) Allocations, etc., under profit sharing plan.
Interpretation Bulletins: *Secondary* — IT-379R Employees profit sharing plans — Allocations to beneficiaries.

► 144(4.1) ◄

(4.1) Idem. Notwithstanding subsection 26(6) of the *Income Tax Application Rules*, where at any time before 1976 the trustee of a trust governed by an employees profit sharing plan so elects in prescribed manner, the trust shall be deemed

(*a*) to have, on December 31, 1971, disposed of each property owned by the trust on that day for proceeds of disposition equal to the fair market value of the property on that day, and

(*b*) to have, on January 1, 1972, reacquired each property described in paragraph (*a*) for the amount referred to in that paragraph,

if the trustee under the plan has, before 1976, allocated the total of all capital gains and capital losses resulting from the deemed dispositions among the employees or other

beneficiaries under the plan to the extent that the trustee under the plan has not previously so allocated them.

Related Sections: S. 38 Taxable capital gain and allowable capital loss; s. 54, "proceeds of disposition"; ITAR s. 26(6) Reacquired property.
Regulations: Part XV; 1500(1).
Interpretation Bulletins: *Secondary* — IT-379R Employees profit sharing plans — Allocations to beneficiaries.

► 144(4.2) ◄

(4.2) Idem. Where a trust governed by an employees profit sharing plan

(*a*) was governed by an employees profit sharing plan on December 31, 1971, and the trustee of the trust has made an election under subsection (4.1), or

(*b*) was not governed by an employees profit sharing plan on December 31, 1971,

the trustee of the trust may, in any taxation year after 1973, elect in prescribed manner and prescribed form to treat any capital property of the trust as having been disposed of, in which event the property shall be deemed to have been disposed of on any day designated by the trustee for proceeds of disposition equal to

(*c*) the fair market value of the property on that day,

(*d*) the adjusted cost base to the trust of the property on that day, or

(*e*) an amount that is neither greater than the greater of the amounts determined under paragraphs (*c*) and (*d*) nor less than the lesser of the amounts determined under those paragraphs

whichever is designated by the trustee and to have been reacquired by the trust immediately thereafter at a cost equal to those proceeds.

Related Sections: S. 54, "Adjusted cost base", "proceeds of disposition"; s. 144(4.1) Election — deemed disposition of trust property on December 31, 1971 and reacquisition on January 1, 1972.
Regulations: Part XV; 1500(2).
Interpretation Bulletins: *Secondary* — IT-379R Employees profit sharing plans — Allocations to beneficiaries.
Forms: T3009.

► 144(5) ◄

(5) Employer's contribution to trust deductible. An amount paid by an employer to a trustee under an employees profit sharing plan during a taxation year or within 120 days thereafter may be deducted in computing the employer's income for the taxation year to the extent that it was not deductible in computing income for a previous taxation year.

Related Sections: S. 6(1)(*d*) Allocations, etc., under profit sharing plan; s. 12(1)(*m*) Benefits from trusts; s. 18(1)(*k*) Limitation re employer's contribution under profit sharing plan; s. 20(1)(*w*) Employer's contributions under profit sharing plan.
Canadian Petroleum Tax Journal: Current Trends in Executive Compensation Structures and Their Taxation, Rachel Colabella and Denise McMullen, Vol. 13 No. 1 2000.

► 144(6) ◄

(6) Beneficiary's receipts deductible. An amount received in a taxation year by a beneficiary from a trustee under an employees profit sharing plan shall not be included in computing the beneficiary's income for the year.

► 144(7) ◄

(7) Beneficiary's receipts that are not deductible. Notwithstanding subsection (6), such portion of an amount received in a taxation year by a beneficiary from the trustee under an employees profit sharing plan as cannot be established to be attributable to

(*a*) payments made by the employee to the trustee,

(*b*) amounts required to be included in computing the income of the employee for that or a previous taxation year,

(*c*) a capital gain made by the trust before 1972,

(*d*) a capital gain made by the trust for a taxation year ending after 1971, to the extent allocated by the trust to the beneficiary,

(*e*) a gain made by the trust after 1971 from the disposition of a capital property, except to the extent that the gain is a capital gain made by the trust for a taxation year ending after 1971,

(*f*) the portion, if any, of the increase in the value of property transferred to the beneficiary by the trustee that would have been considered to be a capital gain made by the trust in 1971 if the trustee had sold the property on December 31, 1971 for its fair market value at that time, or

(*g*) a dividend received by the trust from a taxable Canadian corporation other than a dividend described in subsection 83(1), to the extent allocated by the trust to the beneficiary,

shall be included in computing the beneficiary's income for the year in which the amount was received, except that in determining the amount of any payments or other things described in any paragraph of this subsection, the amount thereof otherwise determined shall be reduced by such portion of the total of all capital losses of the trust for taxation years ending after 1971 as has been allocated by the trust to the beneficiary and has not been applied to reduce the amount of any payments or other things described in any other paragraph of this subsection.

Related Sections: S. 6(1)(*d*) Allocations, etc., under profit sharing plan; s. 212 Taxation of non-residents.
Interpretation Bulletins: *Secondary* — IT-379R Employees profit sharing plans — Allocations to beneficiaries.
Forms: T4PS Sum.; T4PS.

► 144(7.1) ◄

(7.1) Where property other than money received by beneficiary. Where, at any particular time in a taxation year of a trust governed by an employees profit sharing plan, an amount was received by a beneficiary from the trustee under the plan and the amount so received was property other than money, the following rules apply in respect of each such property so received by the beneficiary at the particular time:

(*a*) the amount that was the cost amount to the trust of the property immediately before the particular time shall be deemed to be the trust's proceeds of disposition of the property;

(*b*) that proportion of

(i) such portion of the amount received by the beneficiary as can be established to be attributable to the payments or other things described in paragraphs (7)(*a*) to (*g*) (on the assumption that the amount of any payments or other things described in any such paragraph is the amount thereof determined as provided in subsection (7))

that

(ii) the cost amount to the trust of the property immediately before the particular time

is of

(iii) the cost amounts to the trust of all properties, other than money, so received by the beneficiary at the particular time,

is, subject to paragraph (*c*), deemed to be

(iv) the cost to the beneficiary of the property, and

(v) for the purposes of subsection (7) but not for the purposes of this subsection, the amount so received by the beneficiary by virtue of the receipt by the beneficiary of the property; and

(*c*) where a particular property received is all or a portion of property received in satisfaction of all or a portion of the beneficiary's interests in the trust and the beneficiary files with the Minister on or before the beneficiary's filing-due date for the taxation year that includes the particular time an election in respect of the particular property in prescribed form, there shall be included in the cost to the beneficiary of the particular property determined under paragraph (*b*) the least of

(i) the amount, if any, by which the unused portion of the beneficiary's exempt capital gains balance in respect of the trust at the particular time exceeds the total of all amounts each of which is an amount included because of this paragraph in the cost to the beneficiary of another property received by the beneficiary at or before the particular time in the year,

(ii) the amount, if any, by which the fair market value of the particular property at the particular time exceeds the amount deemed by subparagraph (*b*)(iv) to be the cost to the beneficiary of the particular property, and

(iii) the amount designated in the election in respect of the particular property.

History: S. 144(7.1)(*c*), was added by S.C. 1998, c. 19, s. 169(4), applicable to the 1994 and subsequent taxation years, and a prescribed form filed under paragraph 144(7.1)(*c*), before the end of the sixth month after the month in which S.C. 1998, c. 19 is assented to [Royal Assent June 18, 1998] is deemed to be filed on time.

S. 144(7.1), that portion of paragraph (*b*) following subparagraph (iii) and preceding subparagraph (iv), was amended by S.C. 1998, c. 19, s. 169(3), applicable to the 1994 and subsequent taxation years. That portion formerly read:

"shall be deemed to be"

Interpretation Bulletins: *Secondary* — IT-379R Employees profit sharing plans — Allocations to beneficiaries.
Forms: T4PS Sum.; T4PS.

► 144(8) ◄

(8) Allocation of credit for dividends. Where there has been included in computing the income of a trust for a taxation year during which the trust was governed by an employees profit sharing plan taxable dividends from taxable Canadian corporations and there has been allocated by the trustee under the plan for the purposes of this subsection an amount for the year to one or more of the employees who are beneficiaries under the plan, which amount or the total of which amounts does not exceed the amount of the taxable dividends so included, each of the employees who are beneficiaries under the plan shall be deemed to have received a taxable dividend from a taxable Canadian corporation equal to the lesser of

(*a*) the amount, if any, that would be included in computing the employee's income for the year by virtue of this section, if this section were read without reference to paragraph (3)(*e*), and

(*b*) the amount, if any, so allocated for the purposes of this subsection to the employee.

Related Sections: S. 82(1) Taxable dividends received; s. 89(1), "taxable Canadian corporation", "taxable dividend".
Interpretation Bulletins: *Secondary* — IT-379R Employees profit sharing plans — Allocations to beneficiaries.

► 144(8.1) ◄

(8.1) Foreign tax deduction. For the purpose of subsection 126(1), the following rules apply:

(*a*) such portion of the income for a taxation year of a trust governed by an employees profit sharing plan from sources (other than businesses carried on by it) in a foreign country as

(i) may reasonably be considered (having regard to all the circumstances including the terms and conditions of the plan) to be part of

(A) the income that, by virtue of subsection (3), was included in computing the income for a taxation year of a particular employee who was a beneficiary under the plan, or

(B) the amount, if any, by which

(I) the total of amounts each of which is a capital gain of the trust that, by virtue of subsection (4), was deemed to be a capital gain of the particular employee for a taxation year

exceeds

(II) the total of amounts each of which is a capital loss of the trust that, by virtue of subsection (4), was deemed to be a capital loss of the particular employee for the taxation year, and

(ii) was not designated by the trust in respect of any other employee who was a beneficiary under the plan,

shall, if so designated by the trust in respect of the particular employee in its return of income for the year under this Part, be deemed to be income of the particular employee for the taxation year from sources in that country; and

(*b*) an employee who is a beneficiary under an employees profit sharing plan shall be deemed to have paid as non-business-income tax for a taxation year, on the income that the employee is deemed by paragraph (*a*) to have for the year from sources in a foreign country, to the government of that country an amount equal to that proportion of the non-business-income tax paid by the trust governed by the plan for the year to the government of that country, or to the government of a state, province or other political subdivision of that country (except such portion of that tax as was deductible under subsection 20(11) in computing its income for the year) that

(i) the income that the employee is deemed by paragraph (*a*) to have for the year from sources in that country

is of

(ii) the income of the trust for the year from sources (other than businesses carried on by it) in that country.

Related Sections: S. 126(1) Foreign tax deduction — non-business income.

► 144(8.2) ◄

(8.2) Allocation of interest income deduction. [Repealed by S.C. 1994, c. 21, s. 68(3).]

History: S. 144(8.2) was repealed by S.C. 1994, c. 21, s. 68(3), applicable to the 1992 and subsequent taxation years, except that a taxpayer may elect that those subsections not apply to the taxpayer's 1992 taxation year by so notifying the Minister of National Revenue in writing before the end of the sixth month after the month in which this Act is assented to [Royal Assent June 15, 1994]. S. 144(8.2) formerly read:

"(8.2) Where interest has been included in computing the income of a trust for a taxation year during which the trust was governed by an employees profit sharing plan, and there has been allocated by the trustee under the plan for the purposes of this subsection an amount for the year to one or more of the employees who are beneficiaries under the plan, which amount or the total of which amounts does not exceed the amount of the interest so included, each of the employees who are beneficiaries under the plan shall be deemed to have received interest equal to the lesser of

(*a*) the amount, if any, that would be included in computing the employee's income for the year by virtue of this section, if this section were read without reference to paragraph (3)(*f*), and

(*b*) the amount, if any, so allocated for the purposes of this subsection to the employee."

► 144(9) ◄

(9) Deduction for forfeited amounts. Where a person ceases at any time in a taxation year to be a beneficiary under an employees profit sharing plan and does not become a beneficiary under the plan after that time and in the year, there may be deducted in computing the person's income for the year the amount determined by the formula

$$A - B - \frac{C}{4} - D$$

where

A is the total of all amounts each of which is an amount included in computing the person's income for the year or a preceding taxation year (other than an amount received before that time under the plan or an amount under the plan that the person is entitled at that time to receive) because of an allocation (other than an allocation to which subsection (4) applies) to the person made contingently under the plan before that time;

B is the portion, if any, of the value of A that is included in the value of A because of paragraph 82(1)(*b*);

C is the total of all taxable dividends deemed to be received by the person because of allocations under subsection (8) in respect of the plan; and

D is the total of all amounts deductible under this subsection in computing the person's income for a preceding taxation year because the person ceased to be a beneficiary under the plan in a preceding taxation year.

History: S. 144(9) was amended by S.C. 1994, c. 21, s. 68(4), applicable to the 1992 and subsequent taxation years, except that a taxpayer may elect that subsection 144(9) not apply to the taxpayer's 1992 taxation year by so notifying the Minister of National Revenue in writing before the end of the sixth month after the month in which this Act is assented to [Royal Assent June 15, 1994]. S. 144(9) formerly read:

"(9) *Refunds.* For the purposes of section 164, where an employee who is a beneficiary under an employees profit sharing plan ceases, at any time in a taxation year, to be a beneficiary thereunder, and it is established that

(*a*) there has been included in computing the income of the employee for that or a previous taxation year an amount by virtue of any allocation made to the employee contingently by the trustee under the plan prior to the time the employee ceased to be a beneficiary thereunder, and

(*b*) the employee has not at any time received that amount from the trustee under the plan and is not, under the plan, entitled to receive that amount,

the employee shall be deemed to have made, at the time the employee ceased to be a beneficiary under the plan, a payment equal to 15% of that amount on account of tax under this Part for the taxation year in which the employee ceased to be a beneficiary under the plan."

Related Sections: S. 8(1)(*o.1*) Forfeited amounts re employee profit sharing plans; s. 144(3) Allocation contingent or absolute taxable; s. 144(10) Payments out of profits; s. 164 Refunds.

► 144(10) ◄

(10) Payments out of profits. Where the terms of an arrangement under which an employer makes payments to a trustee specifically provide that the payments shall be made "out of profits", the arrangement shall, if the employer so elects in prescribed manner, be deemed, for the purpose of subsection (1), to be an arrangement under which payments computed by reference to the employer's profits are required.

History: S. 144(10) was amended by S.C. 1994, c. 21, s. 68(4), applicable to the 1992 and subsequent taxation years and, where an amount was paid to a person before 1993 without first having been allocated to the person, it shall be deemed for the purpose of subsection 144(1) of the Act, as enacted by subsection (1), to have been allocated to that person. S. 144(10) formerly read:

"(10) Where the terms of an arrangement under which an employer makes payments to a trustee specifically provide that the payments shall be made 'out of profits', the arrangement shall, if the employer has so elected in prescribed manner, be deemed, for the purpose of subsection (1), to be an arrangement for payments 'computed by reference to an employer's profits from the employer's business'."

Regulations: Part XV; 1500(3).
Interpretation Bulletins: *Secondary* — IT-280R Employees profit sharing plans — Payments computed by reference to profits.
Information Circulars: IC 77-1R5 Deferred profit sharing plan.

► 144(11) ◄

(11) Taxation year of trust. Where an employees profit sharing plan is accepted for registration by the Minister as a deferred profit sharing plan, the taxation year of the trust governed by the employees profit sharing plan shall be deemed to have ended immediately before the plan is deemed to have become registered as a deferred profit sharing plan pursuant to subsection 147(5).

Related Sections: S. 2(2) Taxable income; s. 20(1)(*w*) Employer's contributions under profit sharing plan; s. 38 Taxable capital gain and allowable capital loss; s. 39, "capital gain", "capital loss"; s. 54, "capital property"; s. 81(1)(*k*) Employees profit sharing plan; s. 89(1), "Canadian corporation", "taxable dividend"; s. 104(1) Reference to trust or estate; s. 108(1), "beneficiary"; s. 144(3) Allocation contingent or absolute taxable; s. 147(11) Portion of receipts deductible; s. 248(1), "amount", "business", "corporation", "employee", "employer", "property", "province"; s. 249 Definition of "taxation year".

Registered Supplementary Unemployment Benefit Plans

SECTION 145:

► 145(1) ◄

(1) Definitions. In this section,

Information Circulars: IC 72-5R2 Registered Supplementary Unemployment Benefit Plans; IC 78-14R4 Guidelines for trust companies and other persons responsible for filing T3GR, T3D, T3P, T3S, T3RI, and T3F returns.

"registered supplementary unemployment benefit plan" — "registered supplementary unemployment benefit plan" means a supplementary unemployment benefit plan accepted by the Minister for registration for the purposes of this Act in respect of its constitution and operations for the taxation year under consideration;

Forms: T3S.

"supplementary unemployment benefit plan" — "supplementary unemployment benefit plan" means an arrangement, other than an arrangement in the nature of a superannuation or pension fund or plan or an employees profit sharing plan, under which payments are made by an employer to a trustee in trust exclusively for the payment of periodic amounts to

employees or former employees of the employer who are or may be laid off for any temporary or indefinite period.

Information Circulars: IC 72-5R2 Registration of supplementary unemployment benefit plans.
Forms: T3S.

► 145(2) ◄

(2) No tax while trust governed by plan. No tax is payable under this Part by a trust on the taxable income of the trust for a period during which the trust was governed by a registered supplementary unemployment benefit plan.

► 145(3) ◄

(3) Amounts received taxable. There shall be included in computing the income of a taxpayer for a taxation year each amount received by the taxpayer under a supplementary unemployment benefit plan from the trustee under the plan at any time in the year.

Related Sections: S. 6(1)(*a*)(i) Value of benefits; s. 56(1)(*g*) Supplementary unemployment benefit plan.
Regulations: 202(2), (3).

► 145(4) ◄

(4) Amounts received on amendment or winding-up of plan. There shall be included in computing the income for a taxation year of a taxpayer who, as an employer, has made any payment to a trustee under a supplementary unemployment benefit plan, any amount received by the taxpayer in the year as a result of an amendment to or modification of the plan or as a result of the termination or winding-up of the plan.

► 145(5) ◄

(5) Payments by employer deductible. An amount paid by an employer to a trustee under a registered supplementary unemployment benefit plan during a taxation year or within 30 days thereafter may be deducted in computing the employer's income for the taxation year to the extent that it was not deductible in computing income for a previous taxation year.

Related Sections: S. 2(2) Taxable income; s. 18(1)(*i*) Limitation re employer's contribution under supplementary unemployment benefit plan; s. 20(1)(*x*) Employer's contributions under registered supplementary unemployment benefit plan; s. 56(1)(*g*) Supplementary unemployment benefit plan; s. 104(1) Reference to trust or estate; s. 144(1), "employees profit sharing plan"; s. 149(1)(*q*) Trusts under a registered supplementary unemployment benefit plan; s. 212 Taxation of non-residents; s. 248(1), "amount", "employee", "employer", "superannuation or pension benefits"; s. 249 Definition of "taxation year".

Registered Retirement Savings Plans

SECTION 146:

Editorial Note: See the Editorial Note preceding subsection 147.1(1), regarding changes in the rules for withdrawals from life income funds.

► 146(1) ◄

(1) Definitions.

In this section,

Regulations: 215; 3200; 3201.
Interpretation Bulletins: *Primary* — IT-500R Registered retirement savings plans — Death of annuitant. *Secondary* — IT-124R6 Contributions to registered retirement savings plans; IT-377R Director's, executor's and juror's fees [Archived by the CRA]; IT-415R2 Deregistration of registered retirement savings plans.
Information Circulars: IC 72-22R9 Registered retirement savings plans; IC 78-14R4 Guidelines for trust companies and other persons responsible for filing T3GR, T3D, T3P, T3S, T3RI, and T3F returns.

"annuitant" — "annuitant" means

(*a*) until such time after maturity of the plan as an individual's spouse or common-law partner becomes entitled, as a consequence of the individual's death, to receive benefits to be paid out of or under the plan, the individual referred to in paragraph (*a*) or (*b*) of the definition "retirement savings plan" in this subsection for whom, under a retirement savings plan, a retirement income is to be provided, and

(*b*) thereafter, the spouse or common-law partner referred to in paragraph (*a*);

History: S. 146(1), the definition "annuitant" was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.18), applicable January 1, 2001, coming into force on July 31, 2000. S. 146(1), the definition "annuitant" formerly read:

" '*annuitant*' — 'annuitant' means

(*a*) until such time after maturity of the plan as an individual's spouse becomes entitled, as a consequence of the individual's death, to receive benefits to be paid out of or under the plan, the individual referred to in paragraph (*a*) or (*b*) of the definition 'retirement savings plan' in this subsection for whom, under a retirement savings plan, a retirement income is to be provided, and

(*b*) thereafter, the spouse referred to in paragraph (*a*);"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 146(1), paragraph (*a*) of the definition of "annuitant", was amended by S.C. 1998, c. 19, s. 170(1), applicable to taxation years that end after November 1991. S. 146(1)(*a*) formerly read:

"(*a*) until such time after maturity of the plan as his or her spouse becomes entitled, as a consequence of the spouse's death, to receive benefits to be paid out of or under the plan, the individual referred to in paragraph (*a*) or (*b*) of the definition 'retirement savings plan' in this subsection for whom, under a retirement savings plan, a retirement income is to be provided, and"

Regulations: 104(3)–(4); 104.1

"benefit" — "benefit" includes any amount received out of or under a retirement savings plan other than

(*a*) the portion thereof received by a person other than the annuitant that can reasonably be regarded as part of the amount included in computing the income of an annuitant by virtue of subsections (8.8) and (8.9),

(*b*) an amount received by the person with whom the annuitant has the contract or arrangement described in the definition "retirement savings plan" in this subsection as a premium under the plan,

(*c*) an amount, or part thereof, received in respect of the income of the trust under the plan for a taxation year for which the trust was not exempt from tax by virtue of paragraph (4)(*c*), and

(*c*.1) a tax-paid amount described in paragraph (*b*) of the definition "tax-paid amount" in this subsection that relates to interest or another amount included in computing income otherwise than because of this section

and without restricting the generality of the foregoing includes any amount paid to an annuitant under the plan

(*d*) in accordance with the terms of the plan,

(*e*) resulting from an amendment to or modification of the plan, or

(*f*) resulting from the termination of the plan;

History: S. 146(1), paragraph (c.1) of the definition of "benefit" was added by S.C. 1998, c. 19, s. 170(2), applicable to deaths occurring after 1992.

"earned income" — "earned income" of a taxpayer for a taxation year means the amount, if any, by which the total of all amounts each of which is

(*a*) the taxpayer's income for a period in the year throughout which the taxpayer was resident in Canada from

(i) an office or employment, determined without reference to paragraphs 8(1)(*c*), (*m*) and (*m*.2),

(ii) a business carried on by the taxpayer either alone or as a partner actively engaged in the business, or

(iii) property, where the income is derived from the rental of real property or from royalties in respect of a work or invention of which the taxpayer was the author or inventor,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph (*a*)(iii) of the definition "earned income" in subsection 146(1) of the Act is replaced by the following:

(iii) property, where the income is derived from the rental of real or immovable property or from royalties in respect of a work or invention of which the taxpayer was the author or inventor,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*b*) an amount included under paragraph 56(1)(*b*), (*c*.2), (*g*) or (*o*) or subparagraph 56(1)(*r*)(v) in computing the taxpayer's income for a period in the year throughout which the taxpayer was resident in Canada,

(*b*.1) an amount received by the taxpayer in the year and at a time when the taxpayer is resident in Canada as, on account of, in lieu of payment of or in satisfaction of, a disability pension under the *Canada Pension Plan* or a provincial pension plan as defined in section 3 of that Act,

(*c*) the taxpayer's income for a period in the year throughout which the taxpayer was not resident in Canada from

(i) the duties of an office or employment performed by the taxpayer in Canada, determined without reference to paragraphs 8(1)(*c*), (*m*) and (*m*.2), or

(ii) a business carried on by the taxpayer in Canada, either alone or as a partner actively engaged in the business

except to the extent that the income is exempt from income tax in Canada by reason of a provision contained in a tax convention or agreement with another country that has the force of law in Canada, or

(*d*) in the case of a taxpayer described in subsection 115(2), the total that would be determined under paragraph 115(2)(*e*) in respect of the taxpayer for the year if

(i) that paragraph were read without reference to subparagraphs 115(2)(*e*)(iii) and (iv), and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph (*d*)(i) of the definition "earned income" in subsection 146(1) of the English version of the Act is replaced by the following:

(i) that paragraph were read without reference to subparagraph 115(2)(*e*)(iv), and

Applicable: To the 1993 and subsequent taxation years.

Explanatory Note:

"earned income"

Subsection 146(1) of the Act defines "earned income", which is relevant in determining the maximum tax-deductible contributions that a taxpayer may make to RRSPs. The definition includes references to a number of provisions that have previously been repealed or re-numbered. The definition is amended to remove these references and update the numbering, with application from the time the provisions were repealed or re-numbered.

(ii) subparagraph 115(2)(*e*)(ii) were read without any reference therein to paragraph 56(1)(*n*),

except any part thereof included in the total determined under this definition by reason of paragraph (*c*) or exempt from income tax in Canada by reason of a provision contained in a tax convention or agreement with another country that has the force of law in Canada,

exceeds the total of all amounts each of which is

(*e*) the taxpayer's loss for a period in the year throughout which the taxpayer was resident in Canada from

(i) a business carried on by the taxpayer, either alone or as a partner actively engaged in the business, or

(ii) property, where the loss is sustained from the rental of real property,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph (*e*)(ii) of the definition "earned income" in subsection 146(1) of the Act is replaced by the following:

(ii) property, where the loss is sustained from the rental of real or immovable property,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*f*) an amount deductible under paragraph 60(*b*), (*c*) or (*c*.1), or deducted under paragraph 60(*c*.2), in computing the taxpayer's income for the year,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*f*) of the definition "earned income" in subsection 146(1) of the Act is replaced by the following:

(*f*) an amount deductible under paragraph 60(*b*) or (*c*.1), or deducted under paragraph 60(*c*.2), in computing the taxpayer's income for the year,

Applicable: To the 1997 and subsequent taxation years.

Explanatory Note: See the Explanatory Note following the amendment to paragraph (*d*) of the definition "earned income" in subsection 146(1).

(*g*) the taxpayer's loss for a period in the year throughout which the taxpayer was not resident in Canada from a business carried on by the taxpayer in Canada, either alone or as a partner actively engaged in the business, or

(*h*) the portion of an amount included under subparagraph (*a*)(ii) or (*c*)(ii) in determining the taxpayer's earned income for the year because of subparagraph 14(1)(*a*)(v)

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*h*) of the definition "earned income" in subsection 146(1) of the Act is replaced by the following:

(*h*) the portion of an amount included under subparagraph (*a*)(ii) or (*c*)(ii) in determining the taxpayer's earned income for the year because of paragraph 14(1)(*b*)

Applicable: To amounts included in computing income for taxation years in respect of business fiscal periods that end after February 27, 2000.

Explanatory Note: See the Explanatory Note following the amendment to paragraph (*d*) of the definition "earned income" in subsection 146(1).

and, for the purposes of this definition, the income or loss of a taxpayer for any period in a taxation year is the taxpayer's income or loss computed as though that period were the whole taxation year;

History: S. 146(1), paragraph (*b*) of the definition "earned income" was replaced by S.C. 2009, c. 2, s. 51(1), applicable to the 1997 and subsequent taxation years, except that in its application to the 1997 to 2007 taxation years, paragraph (*b*) of the definition "earned income" is to be read without reference to "or subparagraph 56(1)(*h*)(v)". S. 146(1), paragraph (*b*) of the definition "earned income" formerly read:

"(*b*) an amount included under paragraph 56(1)(*b*), (*c*), (*c*.1), (*c*.2), (*g*) or (*o*) in computing the taxpayer's income for a period in the year throughout which the taxpayer was resident in Canada,"

S. 146(1), paragraph (*b*.1) of the definition "earned income" was amended by S.C. 1998, c. 19, s. 37(3), applicable to amounts received after 1994. S. 146(1), paragraph (*b*.1) of the definition "earned income" formerly read:

"(*b*.1) an amount described in paragraph 56(8)(*a*) received by the taxpayer in the year, where the taxpayer was resident in Canada at the time of receipt,"

S. 146(1), paragraph (*h*) of the definition of "earned income", was added by S.C. 1998, c. 19, s. 170(3), applicable to the 1995 and subsequent taxation years.

S. 146(1), paragraph (*b*) of the definition "earned income", was amended by, and paragraph (*b*.1) was added by, S.C. 1994, c. 7, Sched. VIII, s. 82(1), applicable to the 1991 and subsequent taxation years. Paragraph (*b*) formerly read:

"(*b*) an amount included under paragraph 56(1)(*b*), (*c*), (*c*.1), (*g*) or (*o*) in computing the taxpayer's income for a period in the year throughout which the taxpayer was resident in Canada,"

S. 146(1), paragraph (*f*) of the definition "earned income", was amended by S.C. 1994, c. 7, Sched. VIII, s. 82(2), applicable to the 1991 and subsequent taxation years. That part formerly read:

"(*f*) an amount deductible under paragraph 60(*b*), (*c*) or (*c*.1) in computing the taxpayer's income for the year, or"

Interpretation Bulletins: *Secondary* — IT-434R Rental of real property by individual.

"issuer" — "issuer" means the person referred to in the definition "retirement savings plan" in this subsection with whom an annuitant has a contract or arrangement that is a retirement savings plan;

"maturity" — "maturity" means the date fixed under a retirement savings plan for the commencement of any retirement income the payment of which is provided for by the plan;

Regulations: 215; 3200; 3201.

"net past service pension adjustment" — "net past service pension adjustment" of a taxpayer for a taxation year means the positive or negative amount determined by the formula

$$P + Q - G$$

where

P is the total of all amounts each of which is the taxpayer's past service pension adjustment for the year in respect of an employer,

Q is the total of all amounts each of which is a prescribed amount in respect of the taxpayer for the year, and

G is the amount of the taxpayer's PSPA withdrawals for the year, determined as of the end of the year in accordance with prescribed rules;

History: S. 146(1), that portion of the definition "net past service pension adjustment" preceding the description of "G" was amended by S.C. 1994, c. 21, s. 69(1), applicable to the 1993 and subsequent taxation years. That portion of the definition "net past service pension adjustment" preceding the description of "G" formerly read:

"'net past service pension adjustment' of a taxpayer for a taxation year means the positive or negative amount determined by the formula

P – G

where

P is the total of all amounts each of which is the taxpayer's past service pension adjustment for the year in respect of an employer, and"

S. 146(1), the portion preceding the description of G in the definition "net past service pension adjustment", was amended by S.C. 1994, c. 7, Sched. VIII, s. 82(3), applicable after 1988. That part formerly read:

"'net past service pension adjustment' of a taxpayer for a taxation year means the amount determined by the formula

P – (F + G)

where

P is the total of all amounts each of which is the taxpayer's past service pension adjustment for the year in respect of an employer,

F is the amount of the taxpayer's PSPA transfers for the year, determined as of the end of the year in accordance with prescribed rules, and"

Related Sections: S. 248(1), "past service pension adjustment".
Regulations: 8307(5).

"non-qualified investment" — "non-qualified investment", in relation to a trust governed by a registered retirement savings plan, means property acquired by the trust after 1971 that is not a qualified investment for the trust;

Related Sections: S. 146(1), "qualified investment"; ITAR s. 61 Registered retirement savings plans.
Income Tax Technical News: Issue No. 9, RRSPs — Qualified investments, subsection 4900(12) of the Income Tax Regulations.
Cases: Cross mortgages between the taxpayer and an acquaintance made with RRSP funds were "non-qualified" investments because the parties were not dealing at arm's length and they acted in concert to produce for themselves a favourable investment. *Sayers v. M.N.R.*, 81 DTC 790 (T.R.B.). See also *McCracken v. M.N.R.*, 81 DTC 793 (T.R.B.); *Giusti et al. v. M.N.R.*, 82 DTC 981 (T.R.B.); *Schuss v. M.N.R.*, 83 DTC 350 (T.R.B.); *Ciccone v. M.N.R.*, 83 DTC 353 (T.R.B.), 354.

"premium" — "premium" means any periodic or other amount paid or payable under a retirement savings plan

(*a*) as consideration for any contract referred to in paragraph (*a*) of the definition "retirement savings plan" to pay a retirement income, or

(*b*) as a contribution or deposit referred to in paragraph (*b*) of that definition for the purpose stated in that paragraph

but, except for the purposes of paragraph (*b*) of the definition "benefit" in this subsection, paragraph (2)(*b*.3), subsection (22) and the definition "excluded premium" in subsection 146.02(1), does not include a repayment to which paragraph (*b*) of the definition "excluded withdrawal" in either subsection 146.01(1) or 146.02(1) applies or an amount that is designated under subsection 146.01(3) or 146.02(3);

History: S. 146(1), the portion of the definition "premium" after paragraph (*b*) was amended by S.C. 1999, c. 22, s. 59(1), applicable to the 1997 and subsequent taxation years. S. 146(1), the portion of the definition "premium" after paragraph (*b*) formerly read:
"but, except for the purposes of paragraph (*b*) of the definition 'benefit' in this subsection and paragraph (2)(*b*.3), does not include a repayment described in subparagraph (*b*)(ii) of the definition 'excluded withdrawal' in subsection 146.01(1) or an amount designated under subsection 146.01(3);"

S. 146(1), that portion of the definition of "premium" after paragraph (b) was amended by S.C. 1995, c. 3, s. 43(1), applicable to the 1995 and subsequent taxation years. That portion formerly read:
"but, except for the purposes of paragraph (*b*) of the definition 'benefit' and paragraph (2)(*b*.3), does not include a repayment described in subparagraph (*b*)(ii) of the definition 'excluded withdrawal' in subsection 146.01(1) or designated under subsection 146.01(3);"

S. 146(1), the definition "premium", was amended by S.C. 1994, c. 7, Sched. VIII, s. 82(4), applicable to the 1992 and subsequent taxation years. That definition formerly read:
" 'premium' means any periodic or other amount paid or payable under a retirement savings plan,
(*a*) as consideration for any contract referred to in paragraph (*a*) of the definition 'retirement savings plan' in this subsection to pay a retirement income, or
(*b*) as a contribution or deposit referred to in paragraph (*b*) of that definition for the purpose stated in that paragraph;"

Interpretation Bulletins: *Secondary* — IT-528 Transfers of Funds Between Registered Plans.

"qualified investment" — "qualified investment" for a trust governed by a registered retirement savings plan means

(*a*) an investment that would be described by any of paragraphs (*a*) to (*d*), (*f*) and (*g*) of the definition "qualified investment" in section 204 if the reference in that definition to "a trust governed by a deferred profit sharing plan or revoked plan" were read as a reference to "a trust governed by a registered retirement savings plan" and if that definition were read without reference to the words "with the exception of excluded property in relation to the trust",

(*b*) [Repealed.]

(*c*) an annuity described in the definition "retirement income" in respect of the annuitant under the plan, if purchased from a licensed annuities provider,

(*c*.1) a contract for an annuity issued by a licensed annuities provider where

(i) the trust is the only person who, disregarding any subsequent transfer of the contract by the trust, is or may become entitled to any annuity payments under the contract, and

(ii) the holder of the contract has a right to surrender the contract at any time for an amount that would, if reasonable sales and administration charges were ignored, approximate the value of funds that could otherwise be applied to fund future periodic payments under the contract,

(*c*.2) a contract for an annuity issued by a licensed annuities provider where

(i) annual or more frequent periodic payments are or may be made under the contract to the holder of the contract,

(ii) the trust is the only person who, disregarding any subsequent transfer of the contract by the trust, is or may become entitled to any annuity payments under the contract,

(iii) neither the time nor the amount of any payment under the contract may vary because of the length of any life, other than the life of the annuitant under the plan (in this definition referred to as the "RRSP annuitant"),

(iv) the day on which the periodic payments began or are to begin (in this paragraph referred to as the "start date") is not later than the end of the year in which the RRSP annuitant attains 72 years of age,

(v) either

(A) the periodic payments are payable for the life of the RRSP annuitant and either there is no guaranteed period under the contract or there is a guaranteed period that begins at the start date and does not exceed a term equal to 90 years minus the lesser of

(I) the age in whole years at the start date of the RRSP annuitant (determined on the assumption that the RRSP annuitant is alive at the start date), and

(II) the age in whole years at the start date of a spouse or common-law partner of the RRSP annuitant (determined on the assumption that a spouse or common-law partner of the RRSP annuitant at the time the contract was acquired is a spouse or common-law partner of the RRSP annuitant at the start date), or

(B) the periodic payments are payable for a term equal to

(I) 90 years minus the age described in subclause (A)(I), or

(II) 90 years minus the age described in subclause (A)(II), and

(vi) the periodic payments

(A) are equal, or

(B) are not equal solely because of one or more adjustments that would, if the contract were an annuity under a retirement savings plan, be in accordance with subparagraphs (3)(*b*)(iii) to (v) or that arise because of a uniform reduction in the entitlement to the periodic payments as a consequence of a partial surrender of rights to the periodic payments, and

(*d*) such other investments as may be prescribed by regulations of the Governor in Council made on the recommendation of the Minister of Finance;

History: S. 146(1), paragraph (*a*) of the definition "qualified investment" was replaced, and paragraph (*b*) was repealed, by S.C. 2007, c. 29, s. 17(1), applicable in determining whether a property is, at any time after March 18, 2007, a qualified investment. S. 146(1), paragraph (*a*) of the definition "qualified investment" formerly read:

"(*a*) an investment that would be described in any of paragraphs (*a*), (*b*), (*d*) and (*f*) to (*h*) of the definition 'qualified investment' in section 204 if the references in that definition to a trust were read as references to the trust governed by the registered retirement savings plan,

(*b*) a bond, debenture, note or similar obligation

(i) issued by a corporation the shares of which are listed on a prescribed stock exchange in Canada, or

(ii) issued by an authorized foreign bank and payable at a branch in Canada of the bank,"

S. 146(1), subparagraph (*c.2*)(iv) of the definition "qualified investment" was replaced by S.C. 2007, c. 29, s. 17(2), applicable after 2006. S. 146(1), subparagraph (*c.2*)(iv) of the definition "qualified investment" formerly read:

"(iv) the day on which the periodic payments began or are to begin (in this paragraph referred to as the 'start date') is not later than the end of the year in which the RRSP annuitant attains 70 years of age,"

S. 146(1), paragraph (*b*) of the definition "qualified investment" was amended by S.C. 2001, c. 17, s. 139(1), applicable after June 27, 1999. S. 146(1), paragraph (*b*) of the definition "qualified investment" formerly read:

"(*b*) a bond, debenture, note or similar obligation of a corporation the shares of which are listed on a prescribed stock exchange in Canada,"

S. 146(1), subclause (*c.2*)(v)(A)(II) of the definition "qualified investment" was amended by S.C. 2000, c. 12, Sched. 2, s. 1(*z.18*), applicable January 1, 2001, coming into force on July 31, 2000. S. 146(1), subclause (*c.2*)(v)(A)(II) of the definition "qualified investment" formerly read:

"(II) the age in whole years at the start date of a spouse of the RRSP annuitant (determined on the assumption that a spouse of the RRSP annuitant at the time the contract was acquired is a spouse of the RRSP annuitant at the start date), or"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 146(1), paragraph (*c*) of the definition of "qualified investment", was amended, and paragraphs (*c.1*) and (*c.2*) were added, by S.C. 1998, c. 19, s. 170(4), applicable after 1996. Paragraph (*c*) formerly read:

"(*c*) an annuity described in the definition 'retirement income' in this subsection in respect of the annuitant under the plan, if purchased from a person licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada an annuities business, and"

Editorial Note: The definition of "qualified investment" for a trust governed by an RRSP incorporates by reference much of the similar definition in section 204 that applies to deferred profit sharing plans. The definition also includes investments that are prescribed under Part XLIX (section 4900) of the Regulations.

The maturity deadline for RRSPs (see paragraph 146(2)(*b.4*)) was extended to the end of the year in which the annuitant turns 71 years of age, applicable after 2006. If an annuity is acquired upon maturity, it must begin making periodic payments on a "start date" that is not later than the end of the year in which the annuitant turns 72 years of age (paragraph (*c.2*) of "qualified investment" above).

Related Sections: S. 87(10) Share deemed listed; s. 204 Definitions; s. 207.1(1) Tax payable by trust under registered retirement savings plan; s. 248(1), "licensed annuities provider".

Regulations: 221; 3200; 4900(1), (2), (4), (6), (9), (10), (12), (13).

Interpretation Bulletins: *Primary* — IT-320R3 Qualified Investments — Trusts Governed by Registered Retirement Savings Plans, Registered Education Savings Plans and Registered Retirement Income Funds.

Forms: T3F.

Tax Topics: No. 1483, Taxation of Stock Options.

Tax Profile: August 2004 — Canadian Tax Treatment of Index Participation Units and Exchange-Traded Index Derivatives.

Cases: Since a taxpayer had no personal stake in a private corporation aside from his former employment with it, his investments in its shares were qualified investments for RRSP. *Bates v. The Queen,* 98 DTC 1516 (T.C.C.).

"RRSP deduction limit" — "RRSP deduction limit" of a taxpayer for a taxation year means the amount determined by the formula

$$A + B + R - C$$

where

A is the taxpayer's unused RRSP deduction room at the end of the preceding taxation year,

B is the amount, if any, by which

(*a*) the lesser of the RRSP dollar limit for the year and 18% of the taxpayer's earned income for the preceding taxation year

exceeds the total of all amounts each of which is

(*b*) the taxpayer's pension adjustment for the preceding taxation year in respect of an employer, or

(*c*) a prescribed amount in respect of the taxpayer for the year,

C is the taxpayer's net past service pension adjustment for the year, and

R is the taxpayer's total pension adjustment reversal for the year;

History: S. 146(1), the definition "RRSP deduction limit", was amended by S.C. 1998, c. 19, s. 37(1), applicable after 1988 except that, for taxation years before 1998, the description of "R" in the definition "RRSP deduction limit" in subsection 146(1) of the Act, and in paragraph (*b*) of the definition "unused RRSP deduction room" in subsection 146(1) of the Act shall be read as "R is nil". S. 146(1), the definition "RRSP deduction limit" formerly read:

" *'RRSP deduction limit'* — 'RRSP deduction limit' of a taxpayer for a taxation year means the amount determined by the formula

$$A + B - C$$

where

A is the taxpayer's unused RRSP deduction room at the end of the immediately preceding taxation year,

B is the amount, if any, by which the lesser of the RRSP dollar limit for the year and 18% of the taxpayer's earned income for the immediately preceding taxation year exceeds the total of all amounts each of which is the taxpayer's pension adjustment for the immediately preceding taxation year in respect of an employer, or a prescribed amount in respect of the taxpayer for the year, and

C is the taxpayer's net past service pension adjustment for the year;"

Related Sections: S. 146(1), "net past service adjustment", "RRSP dollar limit", "unused RRSP deduction room"; s. 146(5) Amount of RRSP premiums deductible; s. 146(5.1) Amount of spousal RRSP premiums deductible; s. 248(1), "pension adjustment", "total pension adjustment reversal".

Regulations: 8301; 8308(2); 8308.2; 8308.4(2); 8309.

"RRSP dollar limit" — "RRSP dollar limit" for a calendar year means

(*a*) for years other than 1996 and 2003, the money purchase limit for the preceding year,

(*b*) for 1996, $13,500, and

(*c*) for 2003, $14,500;

History: S. 146(1), paragraphs (*a*) and (*b*) of the definition "RRSP dollar limit" were replaced, and paragraph (*c*) was added, by S.C. 2003, c. 15, s. 82(2), applicable after 2002. S. 146(1), paragraphs (*a*) and (*b*) of the definition "RRSP dollar limit" formerly read:

"(*a*) for years other than 1996, the money purchase limit for the preceding year, and

(*b*) for 1996, $13,500;"

S. 146(1), the definition "RRSP dollar limit", was amended by S.C. 1996, c. 21, s. 34(1), applicable after 1995. That definition formerly read:

" *'RRSP dollar limit'* — 'RRSP dollar limit' for a calendar year means the money purchase limit for the immediately preceding calendar year;"

Editorial Note: The "RRSP dollar limit" is one factor that is used in determining the "RRSP deduction limit" that is described in subsection 146(1). For years other than 1996 and 2003, the "RRSP dollar limit" is the amount of the

"money purchase limit" for the preceding year. See the definition of "money purchase limit" in subsection 147.1(1).

Related Sections: S. 146(1) Definitions; s. 147.1(1), "money purchase limit"; s. 204.2(1.1) Cumulative excess amount in respect of RRSPs.

"refund of premiums" — "refund of premiums" means any amount paid out of or under a registered retirement savings plan (other than a tax-paid amount in respect of the plan) as consequence of the death of the annuitant under the plan,

(*a*) to an individual who was, immediately before the death, a spouse or common-law partner of the annuitant, where the annuitant died before the maturity of the plan, or

(*b*) to a child or grandchild of the annuitant who was, immediately before the death, financially dependent on the annuitant for support;

History: S. 146(1), the definition "refund of premiums" was replaced by S.C. 2003, c. 15, s. 82(1), applicable in respect of deaths that occur after 2002. S. 146(1), the definition "refund of premiums" formerly read:

"'*refund of premiums*' — 'refund of premiums' means

(*a*) any amount paid to a spouse or common-law partner of the annuitant out of or under a registered retirement savings plan of the annuitant (other than any part of the amount that is a tax-paid amount in respect of the plan), where the annuitant died before the maturity of the plan and the amount was paid as a consequence of the death, or

(*b*) any amount paid out of or under a registered retirement savings plan of the annuitant (other than any part of the amount that is a tax-paid amount in respect of the plan) after the death to a child or grandchild (in this definition referred to as a 'dependant') of the annuitant, who was, at the time of the death, financially dependent on the annuitant for support,

and for the purpose of paragraph (*b*), it is assumed, unless the contrary is established, that a dependant was not financially dependent on the annuitant for support at the time of the annuitant's death if the dependant's income for the year preceding the taxation year in which the annuitant died exceeded the amount used under paragraph (*c*) of the description of B in subsection 118(1) for that preceding year;"

S. 146(1), paragraphs (*a*) and (*b*) of the definition "refund of premiums" was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.18), applicable January 1, 2001, coming into force on July 31, 2000. S. 146(1), paragraphs (*a*) and (*b*) of the definition "refund of premiums" formerly read:

"(*a*) any amount paid to a spouse of the annuitant out of or under a registered retirement savings plan of the annuitant (other than any part of the amount that is a tax-paid amount in respect of the plan), where the annuitant died before the maturity of the plan and the amount was paid as a consequence of the death, or

(*b*) any amount paid out of or under a registered retirement savings plan of the annuitant (other than any part of the amount that is a tax-paid amount in respect of the plan) after the death to a child or grandchild (in this definition referred to as a 'dependant') of the annuitant, who was, at the time of the death, financially dependent on the annuitant for support,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Paragraph 146(1)(*b*), the definition "refund of premiums" was amended by S.C. 2000, c. 19, s. 42(1), applicable to deaths that occur after 1995 except that, in respect of the death of an individual that occurred after 1995 and before 1999, paragraph (*b*) of the definition "refund of premiums" in subsection 146(1) of the Act shall be read without reference to subsection (1) in connection with an amount paid at a particular time out of a registered retirement savings plan or registered retirement income fund, unless the following persons jointly elect otherwise in writing filed with the Minister of National Revenue before May 2000 (or before such later day as is acceptable to the Minister):

"(*a*) the legal representative of the deceased individual; and

(*b*) the individual in whose income an amount would be required to be included as a result of the election, or would be so required to be included if Part I of the Act applied."

Paragraph 146(1)(*b*), the definition "refund of premiums" formerly read:

"(*b*) if the annuitant had no spouse at the time of the annuitant's death, any amount paid out of or under a registered retirement savings plan of the annuitant (other than any part of the amount that is a tax-paid amount in respect of the plan) after the death to a child or grandchild (in this definition referred to as a 'dependant') of the annuitant, who was, at the time of the death, financially dependent on the annuitant for support,"

S. 146(1), the portion of the definition "refund of premiums" after paragraph (*b*) was amended by S.C. 2000, c. 19, s. 42(2), applicable to the 2000 and subsequent taxation years except that, in its application to the 2000 taxation year, the reference to "the amount used under paragraph (*c*) of the description of B in subsection 118(1) for that preceding taxation year" in the portion of the definition "refund of premiums" in subsection 146(1) of the Act after paragraph (*b*), shall be read as a reference to "$7,044". S. 146(1) after paragraph (*b*), the definition "refund of premiums" formerly read:

"and for the purpose of paragraph (*b*), it is assumed, unless the contrary is established, that a dependant was not financially dependent on the annuitant for support at the time of the annuitant's death if the dependant's income for the year preceding the taxation year in which the annuitant died exceeded the total of $500 and the amount used under paragraph (*c*) of the description of B in subsection 118(1) for that preceding year;"

S. 146(1), the portion of the definition "refund of premiums" after paragraph (*b*) was amended by S.C. 1999, c. 22, s. 59(2), applicable to the 1999 and subsequent taxation years. S. 146(1), the portion of the definition "refund of premiums" after paragraph (*b*) formerly read:

"and for the purpose of paragraph (*b*), it is assumed, unless the contrary is established, that a dependant was not financially dependent on the annuitant for support at the time of the annuitant's death if the income of the dependant for the taxation year preceding the taxation year in which the annuitant died exceeded the amount used under paragraph (*c*) of the description of B in subsection 118(1) for that preceding year;"

S. 146(1), paragraphs (*a*) and (*b*) of the definition "refund of premiums" were amended by S.C. 1994, c. 19, s. 170(5), applicable to deaths occurring after 1992. Those paragraphs formerly read:

"(*a*) any amount paid to a spouse of the annuitant out of or under a registered retirement savings plan of the annuitant, where the annuitant died before the maturity of the plan and that amount was paid as a consequence of the death, or

(*b*) if the annuitant had no spouse at the time of the annuitant's death, any amount paid out of or under a registered retirement savings plan of the annuitant after the death to a child or grandchild (in this definition referred to as a 'dependant') of the annuitant, who was, at the time of the death, financially dependent on the annuitant for support,"

S. 146(1), paragraphs (*a*) and (*b*) of the definition "refund of premiums" were amended by S.C. 1994, c. 21, s. 69(2), applicable to deaths occurring after 1992. Paragraphs (*a*) and (*b*) of the definition "refund of premiums"formerly read:

"(*a*) any amount paid to a spouse of the annuitant, as a consequence of the annuitant's death, out of or under a registered retirement savings plan of the annuitant prior to its maturity, or

(*b*) if the annuitant had no spouse at the time of the annuitant's death, any amount paid out of or under a registered retirement savings plan of the annuitant to a child or grandchild (in this definition referred to as a 'dependant') of the annuitant, who was, at the time the annuitant died, financially dependent on the annuitant for support,"

S. 146(1), the portion following paragraph (*b*) in the definition "refund of premiums", was amended by S.C. 1994, c. 7, Sched. VII, s. 13(1), applicable to the 1993 and subsequent taxation years. That part formerly read:

"and for the purpose of paragraph (*b*), it shall be assumed, unless the contrary is established, that a dependant was not financially dependent on the annuitant for support at the time of the annuitant's death if

(*c*) any person other than the annuitant was permitted a deduction under paragraph 118(1)(*d*) in respect of the dependant in computing that other person's tax payable under this Part for the taxation year immediately preceding the taxation year in which the annuitant died, or

(*d*) the income of the dependant for the year referred to in paragraph (*c*) exceeded $5,000;"

Related Sections: S. 60(*l*) Transfer of refund of premiums under RRSP; s. 146(1), "annuitant", "tax-paid amount"; s. 146(1.1) Restriction — financially dependent; s. 146(8.1) Deemed receipt of refund of premiums.

Advance Tax Rulings: ATR-37 Refund of premiums transferred to spouse.

"registered retirement savings plan" — "registered retirement savings plan" means a retirement savings plan accepted by the Minister for registration for the purposes of this Act as complying with the requirements of this section;

Related Sections: S. 146(1), "retirement savings plan".

Regulations: 215; 3200; 3201.

Interpretation Bulletins: *Secondary* — IT-528 Transfers of Funds Between Registered Plans.

"retirement income" — "retirement income" means

(*a*) an annuity commencing at maturity, and with or without a guaranteed term commencing at maturity, not exceeding the term referred to in paragraph (*b*), or, in the case of a plan entered into before March 14, 1957, not exceeding 20 years, payable to

(i) the annuitant for the annuitant's life, or

(ii) the annuitant for the lives, jointly, of the annuitant and the annuitant's spouse or common-law partner and to the survivor of them for the survivor's life, or

(*b*) an annuity commencing at maturity, payable to the annuitant, or to the annuitant for the annuitant's life and to the spouse or common-law partner after the annuitant's death, for a term of years equal to 90 minus either

(i) the age in whole years of the annuitant at the maturity of the plan, or

(ii) where the annuitant's spouse or common-law partner is younger than the annuitant and the annuitant so elects, the age in whole years of the spouse or common-law partner at the maturity of the plan,

issued by a person described in the definition "retirement savings plan" in this subsection with whom an individual may have a contract or arrangement that is a retirement savings plan,

or any combination thereof;

History: S. 146(1), paragraphs (*a*) and (*b*) of the definition "retirement income" were amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.18), applicable January 1, 2001, coming into force on July 31, 2000. S. 146(1), paragraphs (*a*) and (*b*) of the definition "retirement income" formerly read:

"(*a*) an annuity commencing at maturity, and with or without a guaranteed term commencing at maturity, not exceeding the term referred to in paragraph (*b*), or, in the case of a plan entered into before March 14, 1957, not exceeding 20 years, payable to

(i) the annuitant for the annuitant's life, or

(ii) the annuitant for the lives, jointly, of the annuitant and the annuitant's spouse and to the survivor of them for the survivor's life, or

(*b*) an annuity commencing at maturity, payable to the annuitant, or to the annuitant for the annuitant's life and to the spouse after the annuitant's death, for a term of years equal to 90 minus either

(i) the age in whole years of the annuitant at the maturity of the plan, or

(ii) where the annuitant's spouse is younger than the annuitant and the annuitant so elects, the age in whole years of the spouse at the maturity of the plan,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Related Sections: S. 146(1), "annuitant", "tax-paid amount"; s. 146(1.1) Restriction — financially dependent.

Interpretation Bulletins: *Secondary* — IT-320R3 Qualified Investments — Trusts Governed by Registered Retirement Savings Plans, Registered Education Savings Plans and Registered Retirement Income Funds.

Information Circulars: IC 72-22R9 Registered retirement savings plans.

Forms: T2037.

"*retirement savings plan*" — "retirement savings plan" means

(*a*) a contract between an individual and a person licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada an annuities business, under which, in consideration of payment by the individual or the individual's spouse or common-law partner of any periodic or other amount as consideration under the contract, a retirement income commencing at maturity is to be provided for the individual, or

(*b*) an arrangement under which payment is made by an individual or the individual's spouse or common-law partner

(i) in trust to a corporation licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering to the public its services as trustee, of any periodic or other amount as a contribution under the trust,

(ii) to a corporation approved by the Governor in Council for the purposes of this section that is licensed or otherwise authorized under the laws of Canada or a province to issue investment contracts providing for the payment to or to the credit of the holder thereof of a fixed or determinable amount at maturity, of any periodic or other amount as a contribution under such a contract between the individual and that corporation, or

(iii) as a deposit with a branch or office, in Canada, of

(A) a person who is, or is eligible to become, a member of the Canadian Payments Association, or

(B) a credit union that is a shareholder or member of a body corporate referred to as a "central" for the purposes of the *Canadian Payments Association Act*, (in this section referred to as a "depositary")

to be used, invested or otherwise applied by that corporation or that depositary, as the case may be, for the purpose of providing for the individual, commencing at maturity, a retirement income;

History: S. 146(1), paragraphs (*a*) and (*b*) of the definition "retirement savings plan" were amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.18), applicable January 1, 2001, coming into force on July 31, 2000. S. 146(1), paragraphs (*a*) and (*b*) of the definition "retirement savings plan" formerly read:

"(*a*) a contract between an individual and a person licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada an annuities business, under which, in consideration of payment by the individual or the individual's spouse of any periodic or other amount as consideration under the contract, a retirement income commencing at maturity is to be provided for the individual, or

(*b*) an arrangement under which payment is made by an individual or the individual's spouse

(i) in trust to a corporation licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering to the public its services as trustee, of any periodic or other amount as a contribution under the trust,

(ii) to a corporation approved by the Governor in Council for the purposes of this section that is licensed or otherwise authorized under the laws of Canada or a province to issue investment contracts providing for the payment to or to the credit of the holder thereof of a fixed or determinable amount at maturity, of any periodic or other amount as a contribution under such a contract between the individual and that corporation, or

(iii) as a deposit with a branch or office, in Canada, of

(A) a person who is, or is eligible to become, a member of the Canadian Payments Association, or

(B) a credit union that is a shareholder or member of a body corporate referred to as a 'central' for the purposes of the *Canadian Payments Association Act*, (in this section referred to as a 'depositary')"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of

National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Related Sections: S. 146(1), "retirement income".
Regulations: S. 214.1.
Information Circulars: IC 74-1R5 Form T2037, notice of purchase of annuity with "plan" funds.
Forms: T3GR; T4RSP; T4RSP SUM; T550; T2037.

"spousal or common-law partner plan" — "spousal or common-law partner plan", in relation to a taxpayer, means

(*a*) a registered retirement savings plan

(i) to which the taxpayer has, at a time when the taxpayer's spouse or common-law partner was the annuitant under the plan, paid a premium, or

(ii) that has received a payment out of or a transfer from a registered retirement savings plan or a registered retirement income fund that was a spousal or common-law partner plan in relation to the taxpayer, or

(*b*) a registered retirement income fund that has received a payment out of or a transfer from a spousal or common-law partner plan in relation to the taxpayer;

History: S. 146(1), the definition "spousal or common-law partner plan" was added by S.C. 2001, c. 17, s. 246(2), applicable to the 2001 and following taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act* [See S. 144, Chap. 12, S.C. 2000, reproduced in the history for "spousal plan", below], in respect of the 1998, 1999 or 2000 taxation years, the definition "spousal or common-law partner plan" in s. 146(1) applies to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Related Sections: S. 248(1), "common-law partner".

"spousal plan" — [Repealed by S.C. 2001, c. 17, s. 246(1).]

History: S. 146(1), the definition "spousal plan" was repealed by S.C. 2001, c. 17, s. 246(1), applicable to the 2001 and following taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act* [See S. 144, Chap. 12, S.C. 2000, reproduced below.], in respect of the 1998, 1999 or 2000 taxation years, the definition "spousal plan" in s. 146(1) applies to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.S. 146(1), the definition "spousal plan" formerly read:

" *'spousal plan'* — 'spousal plan', in relation to a taxpayer, means

(*a*) a registered retirement savings plan

(i) to which the taxpayer has, at a time when the taxpayer's spouse or common-law partner was the annuitant under the plan, paid a premium, or

(ii) that has received a payment out of or a transfer from a registered retirement savings plan or a registered retirement income fund that was a spousal plan in relation to the taxpayer, or

(*b*) a registered retirement income fund that has received a payment out of or a transfer from a spousal plan in relation to the taxpayer;"

S. 146(1), subparagraph (*a*)(i) of the definition "spousal plan" was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.18), applicable January 1, 2001, coming into force on July 31, 2000. S. 146(1), subparagraph (*a*)(i) of the definition "spousal plan" formerly read:

"(i) to which the taxpayer has, at a time when the taxpayer's spouse was the annuitant under the plan, paid a premium, or"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Related Sections: S. 146(1.1) Restriction — financially dependent; s. 146(8.3) Spousal or common-law partner payments; s. 146.3(5.1) Amount included in income; s. 252(3) Extended meaning of "spouse" and "former spouse".

"tax-paid amount" — "tax-paid amount" paid to a person in respect of a registered retirement saving plan means

(*a*) an amount paid to the person in respect of the amount that would, if this Act were read without reference to subsection 104(6), be income of a trust governed by the plan for a taxation year for which the trust was subject to tax because of paragraph (4)(*c*), or

(*b*) where

(i) the plan is a deposit with a depositary referred to in clause (*b*)(iii)(B) of the definition "retirement savings plan" in this subsection, and

(ii) an amount is received at any time out of or under the plan by the person,

the portion of the amount that can reasonably be considered to relate to interest or another amount in respect of the deposit that was required to be included in computing the income of any person (other than the annuitant) otherwise than because of this section;

History: S. 146(1), the definition "tax-paid amount", was added by S.C. 1998, c. 19, s. 170(6), applicable to deaths occurring after 1992.

Related Sections: S. 146(8.9) Deduction from deemed receipt before death by deceased annuitant.

"unused RRSP deduction room" — "unused RRSP deduction room" of a taxpayer at the end of a taxation year means,

(*a*) for taxation years ending before 1991, nil, and

(*b*) for taxation years that end after 1990, the amount, which can be positive or negative, determined by the formula

$$A + B + R - (C + D)$$

where

A is the taxpayer's unused RRSP deduction room at the end of the preceding taxation year,

B is the amount, if any, by which

(i) the lesser of the RRSP dollar limit for the year and 18% of the taxpayer's earned income for the preceding taxation year

exceeds the total of all amounts each of which is

(ii) the taxpayer's pension adjustment for the preceding taxation year in respect of an employer, or

(iii) a prescribed amount in respect of the taxpayer for the year,

C is the taxpayer's net past service pension adjustment for the year,

D is the total of all amounts each of which is an amount deducted by the taxpayer,

(i) under subsection (5) or (5.1) or paragraph 60(*v*), in computing the taxpayer's income for the year, or

(ii) under paragraph 10 of Article XVIII of the *Canada–United States Tax Convention* signed at Washington on September 26, 1980 or a similar provision in another tax treaty, in computing the taxpayer's taxable income for the year, and

R is the taxpayer's total pension adjustment reversal for the year.

History: S. 146(1), the description of D in paragraph (*b*) of the definition "unused RRSP deduction room" was replaced by S.C. 2009, c. 2, s. 51(2),

applicable to the 2009 and subsequent taxation years. S. 146(1), the description of D in paragraph (*b*) of the definition "unused RRSP deduction room" formerly read:

"D is the total of the amounts deducted by the taxpayer under subsections (5) and (5.1) and paragraph 60(*v*) in computing the taxpayer's income for the year, and"

S. 146(1), paragraph (*b*) of the definition "unused RRSP deduction room" was amended by S.C. 1998, c. 19, s. 37(2), applicable after 1988 except that, for taxation years before 1998, the description of "R" in the definition "RRSP deduction limit" in subsection 146(1) of the Act, and in paragraph (*b*) of the definition "unused RRSP deduction room" in subsection 146(1) of the Act shall be read as "R is nil". S. 146(1), paragraph (*b*) of the definition "unused RRSP deduction room" formerly read:

"(*b*) for taxation years that end after 1990,

(i) the amount, which can be positive or negative, determined by the formula

$$A + B - (C + D)$$

where

A is the taxpayer's unused RRSP deduction room at the end of the immediately preceding taxation year,

B is the amount, if any, by which the lesser of the RRSP dollar limit for the year and 18% of the taxpayer's earned income for the immediately preceding taxation year exceeds the total of all amounts each of which is the taxpayer's pension adjustment for the immediately preceding taxation year in respect of an employer, or a prescribed amount in respect of the taxpayer for the year,

C is the taxpayer's net past service pension adjustment for the year, and

D is the total of the amounts deducted by the taxpayer under subsections (5) and (5.1) and paragraph 60(*v*) in computing the taxpayer's income for the year.

(ii) [Repealed by S.C. 1997, c. 25, S. 41(2).]"

S. 146(1), the portion of paragraph (*b*) of the definition "unused RRSP deduction room" before subparagraph (i), was amended by S.C. 1997, c. 25, s. 41(1), applicable April 25, 1997. That part formerly read:

"(*b*) for taxation years ending after 1990, the lesser of"

S. 146(1), subparagraph (*b*)(ii) of the definition "unused RRSP deduction room", was repealed by S.C. 1997, c. 25, s. 41(2), applicable April 25, 1997. That subparagraph formerly read:

"(ii) the greater of

(A) the total of all amounts each of which is the amount, determined in respect of a particular taxation year that is the year or such of the six taxation years immediately preceding the year as end after 1990, that is the lesser of 18% of the taxpayer's earned income for the taxation year immediately preceding the particular taxation year and the RRSP dollar limit for the particular taxation year, and

(B) 7/2 of the RRSP dollar limit for the year,"

Related Sections: S. 146(1), "net past service pension adjustment", "RRSP dollar limit"; s. 204.2(1.1), "pension adjustment"; s. 248(1), "total pension adjustment reversal".

Regulations: 8308(2); 8308.2; 8308.4(2); 8309.

▶ 146(1.1) ◀

(1.1) Restriction — financially dependent. For the purpose of paragraph (*b*) of the definition "refund of premiums" in subsection (1), clause 60(*l*)(v)(B.01) and subparagraph 104(27)(*e*)(i), it is assumed, unless the contrary is established, that an individual's child or grandchild was not financially dependent on the individual for support immediately before the individual's death if the income of the child or grandchild for the taxation year preceding the taxation year in which the individual died exceeded the amount determined by the formula

$$A + B$$

where

A is the amount used under paragraph (*c*) of the description of B in subsection 118(1) for that preceding taxation year; and

B is nil, unless the financial dependency was because of mental or physical infirmity, in which case it is $6,180 adjusted for each such preceding taxation year that is after 2002 in the manner set out in section 117.1.

History: S. 146(1.1) was added by S.C. 2003, c. 15, s. 82(3), applicable in respect of deaths that occur after 2002.

S. 146(1.1) was repealed by S.C. 1994, c. 7, Sched. VIII, s. 82(5), applicable after 1992. Note that a similar provision is enacted as s. 252(4). S. 146(1.1) formerly read:

"(1.1) For the purposes of the definitions 'annuitant', 'refund of premiums' and 'retirement income' in subsection (1), paragraph (3)(*b*) and subsections (8.8), (8.91) and (16), 'spouse' of an individual means a person of the opposite sex

(*a*) who is married to the individual; or

(*b*) who is cohabiting with the individual in a conjugal relationship and

(i) has so cohabited for a period of at least one year, or

(ii) is a parent of a child of whom the individual is a parent."

Editorial Note: The amount used for Variable A is the same as the basic personal amount in s. 118(1)(*c*). The dollar figure in Variable B is the same as the disability amount (s. 118.3(1)). See the CRA Fact Sheet reproduced following s. 117.1(1) for the indexed amounts.

▶ 146(2) ◀

(2) Acceptance of plan for registration. The Minister shall not accept for registration for the purposes of this Act any retirement savings plan unless, in the Minister's opinion, it complies with the following conditions:

(*a*) the plan does not provide for the payment of any benefit before maturity except

(i) a refund of premiums, and

(ii) a payment to the annuitant;

(*b*) the plan does not provide for the payment of any benefit after maturity except

(i) by way of retirement income to the annuitant,

(ii) to the annuitant in full or partial commutation of retirement income under the plan, and

(iii) in respect of a commutation referred to in paragraph (*c*.2);

(*b*.1) the plan does not provide for a payment to the annuitant of a retirement income except by way of equal annual or more frequent periodic payments until such time as there is a payment in full or partial commutation of the retirement income and, where that commutation is partial, equal annual or more frequent periodic payments thereafter;

(*b*.2) the plan does not provide for periodic payments in a year under an annuity after the death of the first annuitant, the total of which exceeds the total of the payments under the annuity in a year before that death;

(*b*.3) the plan does not provide for the payment of any premium after maturity;

(*b*.4) the plan does not provide for maturity after the end of the year in which the annuitant attains 71 years of age;

(*c*) the plan provides that retirement income under the plan may not be assigned in whole or in part;

(*c*.1) notwithstanding paragraph (*a*), the plan permits the payment of an amount to a taxpayer where the amount is paid to reduce the amount of tax otherwise payable under Part X.1 by the taxpayer;

(*c*.2) the plan requires the commutation of each annuity payable thereunder that would otherwise become payable to a person other than an annuitant under the plan;

(*c*.3) the plan, where it involves a depositary, includes provisions stipulating that

(i) the depositary has no right of offset as regards the property held under the plan in connection with any debt or obligation owing to the depositary, and

(ii) the property held under the plan cannot be pledged, assigned or in any way alienated as

security for a loan or for any purpose other than that of providing for the annuitant, commencing at maturity, a retirement income;

(*c.4*) the plan requires that no advantage, other than

(i) a benefit,

(i.1) an amount described in paragraph (*a*) or (*c*) of the definition "benefit" in subsection (1),

(ii) the payment or allocation of any amount to the plan by the issuer,

(iii) an advantage from life insurance in effect on December 31, 1981, or

(iv) an advantage derived from the provision of administrative or investment services in respect of the plan,

that is conditional in any way on the existence of the plan may be extended to the annuitant or to a person with whom the annuitant was not dealing at arm's length; and

(*d*) the plan in all other respects complies with regulations of the Governor in Council made on the recommendation of the Minister of Finance.

History: S. 146(2)(*b.4*) was replaced by S.C. 2007, c. 29, s. 17(3), applicable after 2006. S. 146(2)(*b.4*) formerly read:

"(*b.4*) the plan does not provide for maturity after the end of the year in which the annuitant attains 69 years of age;"

S. 146(2)(*b.4*) was amended by S.C. 1997, c. 25, s. 41(3), applicable after 1996, except that

(*a*) it does not apply to a retirement savings plan accepted for registration before 1997;

(*b*) it does not apply to a retirement savings plan where the annuitant under the plan attained 70 years of age before 1997; and

(*c*) in applying paragraph 146(2)(*b.4*) to a retirement savings plan where the annuitant under the plan attained 69 years of age in 1996, the reference to "69 years of age" shall be read as "70 years of age".

S. 146(2)(*b.4*) formerly read:

"(*b.4*) the plan does not provide for maturity after the end of the year in which the annuitant attains 71 years of age;"

Editorial Note: The maturity deadline for RRSPs (see paragraph 146(2)(*b.4*)) was extended to the end of the year in which the annuitant turns 71 years of age, applicable after 2006. Previously, from 1997 through 2006, the deadline was the end of the year in which the annuitant turned 69 years of age.

Related Sections: S. 56(1)(*h*) Registered retirement savings plan, etc.; s. 60(*l*) Transfer of refund of premiums under RRSP; s. 139.1(13) RRSP registration rules, etc; s. 146(1), "annuitant", "benefit", "earned income", "maturity", "premium", "qualified investment", "refund of premiums", "retirement income", "retirement savings plan", "registered retirement savings plan"; s. 149(1)(*h*) Trusts under registered retirement savings plan; s. 160.2(1) Joint and several liability in respect of amounts received out of or under RRSP; s. 212(1)(*l*) Registered retirement savings plan payments; s. 248(1), "annuity", "common-law partner", "death benefit"; ITAR s. 65(1) Part XI of amended Act — foreign property acquired after June 18, 1971 and before July 1, 1972; (3) Cost of acquisition of capital property owned on Dec. 31, 1971.

Interpretation Bulletins: *Secondary* — IT-124R6 Contributions to registered retirement savings plans; IT-415R2 Deregistration of registered retirement savings plans.

Information Circulars: IC 72-22R9 Registered retirement savings plans; IC 74-1R5 Form T2037, notice of purchase of annuity with "plan" funds.

Forms: T550.

Tax Topics: No. 1665, RRSP Incentives.

Guides: T4040 RRSPs and Other Registered Plans for Retirement.

Cases: The provisions of the Act which require a taxpayer to collapse an RRSP at age 71 did not infringe any of the taxpayer's Charter rights and, in any event, would be a reasonable limitation upon those rights. *Gerol v. Attorney General of Canada*, 85 DTC 5561 (O.H.C.J.).

Tax Window Files: RRSP — Beneficiary Designation/Settlement Annuity, July 20, 2005, CRA Document No. 2005-0120161E5; Registered Retirement Savings Plan — Prohibited Advantages, March 22, 2004 and April 16, 2004, CRA Document No. 2004-0056431E5; Registered Retirement Savings Plans — Donation Made for Contributions, May 1, 2003, CRA Document No. 2002-0178105; Benefit from RRSP — Preferential Pricing of Financial Services, February 21, 2002, CRA Document No. 2001-0100075.

► 146(3) ◄

(3) Idem. The Minister may accept for registration for the purposes of this Act any retirement savings plan notwithstanding that the plan

(*a*) provides for the payment of a benefit after maturity by way of dividend;

(*b*) provides for any annual or more frequent periodic amount payable

(i) to the annuitant referred to in subparagraph (*a*)(ii) of the definition "retirement income" in subsection (1) by way of an annuity described in paragraph (*a*) of that definition to be reduced, in the event of the death of the annuitant's spouse or common-law partner during the lifetime of the annuitant, in such manner as to provide for the payment of equal annual or more frequent periodic amounts throughout the lifetime of the annuitant thereafter,

(ii) to any person by way of an annuity, to be reduced if a pension becomes payable to that person under the *Old Age Security Act*, by an annual or other periodic amount not exceeding the amount payable to that person in that period under that Act,

(iii) to any person by way of an annuity, to be increased or reduced depending on the increase or reduction in the value of a specified group of assets constituting the assets of a separate and distinct account or fund maintained in respect of a variable annuities business by a person licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada that business,

(iii.1) to any person by way of an annuity under a contract that provides for the increase or reduction of the annuity in accordance only with a change in the interest rate on which the annuity is based, if the interest rate, as increased or reduced, equals or approximates a generally available Canadian market interest rate,

(iv) that may be adjusted annually to reflect

(A) in whole or in part increases in the Consumer Price Index, as published by Statistics Canada under the authority of the *Statistics Act*, or

(B) increases at a rate specified in the annuity contract, not exceeding 4% per annum, or

(v) to the annuitant by way of an annuity to be increased annually to the extent the amount or rate of return that would have been earned on a pool of investment assets (available for purchase by the public and specified in the annuity contract) exceeds an amount or rate specified in the plan and provides that no other increase may be made in the amount payable;

(*c*) [Repealed by 1986, c. 55, s. 56(2).]

(*d*) provides for the payment of any amount after the death of an annuitant thereunder;

(*e*) is adjoined to a contract or other arrangement that is not a retirement savings plan; or

(*f*) contains such other terms and provisions, not inconsistent with this section, as are authorized or permitted by regulations of the Governor in Council made on the recommendation of the Minister of Finance.

History: S. 146(3)(*b*)(i) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.18), applicable January 1, 2001, coming into force on July 31, 2000. S. 146(3)(*b*)(i) formerly read:

"(i) to the annuitant referred to in subparagraph (*a*)(ii) of the definition 'retirement income' in subsection (1) by way of an annuity described in paragraph (*a*) of that definition to be reduced, in the event of the death of the annuitant's spouse during the lifetime of the annuitant, in such manner as to provide for the payment of equal annual or more frequent periodic amounts throughout the lifetime of the annuitant thereafter,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Related Sections: S. 172(3) Appeal from refusal to register, revocation of registration, etc.

Interpretation Bulletins: *Secondary*— IT-124R6 Contributions to registered retirement savings plans; IT-415R2 Deregistration of registered retirement savings plans [Archived by the CRA].

► 146(4) ◄

(4) No tax while trust governed by plan. Except as provided in subsection (10.1), no tax is payable under this Part by a trust on the taxable income of the trust for a taxation year if, throughout the period in the year during which the trust was in existence, the trust was governed by a registered retirement savings plan, except that

(*a*) if the trust has borrowed money (other than money used in carrying on a business) in the year or has, after June 18, 1971, borrowed money (other than money used in carrying on a business) that it has not repaid before the commencement of the year, tax is payable under this Part by the trust on its taxable income for the year;

(*b*) in any case not described in paragraph (*a*), if the trust has carried on any business or businesses in the year, tax is payable under this Part by the trust on the amount, if any, by which

(i) the amount that its taxable income for the year would be if it had no incomes or losses from sources other than from that business or those businesses, as the case may be,

exceeds

(ii) such portion of the amount determined under subparagraph (i) in respect of the trust for the year as can reasonably be considered to be income from, or from the disposition of, qualified investments for the trust; and

(*c*) if the last annuitant under the plan has died, tax is payable under this Part by the trust on its taxable income for each year after the year following the year in which the last annuitant died.

History: S. 146(4)(*b*) and (*c*) were amended by S.C. 1994, c. 21, s. 69(3), applicable to the 1993 and subsequent taxation years. S. 146(4)(*b*) and (*c*) formerly read:

"(*b*) in any case not described in paragraph (*a*), if the trust has carried on any business or businesses in the year, tax is payable under this Part by the trust on the amount that its taxable income for the year would be if it had no incomes or losses from sources other than from that business or those businesses; and

(*c*) if the last annuitant under the plan has died, tax is payable under this Part by the trust on its taxable income for each year after the year of the annuitant's death."

Related Sections: S. 146(10) Where acquisition of non-qualified investment by trust; s. 146(20) Credited or added amount deemed not received; s. 149(1)(*r*) Trusts under registered retirement savings plan; s. 207.1(1) Tax payable by trust under registered retirement savings plan.

Interpretation Bulletins: *Secondary*— IT-320R3 Qualified Investments — Trusts Governed by Registered Retirement Savings Plans, Registered Education Savings Plans and Registered Retirement Income Funds; IT-415R2 Deregistration of registered retirement savings plans [Archived by the CRA].

Advance Tax Rulings: ATR-37 Refund of premiums transferred to spouse.

► 146(5) ◄

(5) Amount of RRSP premiums deductible. There may be deducted in computing a taxpayer's income for a taxation year such amount as the taxpayer claims not exceeding the lesser of

(*a*) the amount, if any, by which the total of all amounts each of which is a premium paid by the taxpayer after 1990 and on or before the day that is 60 days after the end of the year under a registered retirement savings plan under which the taxpayer was the annuitant at the time the premium was paid, other than the portion, if any, of the premium

(i) that was deducted in computing the taxpayer's income for a preceding taxation year,

(ii) that was designated for any taxation year for the purposes of paragraph 60(*j*), (*j*.1) or (*l*),

(iii) in respect of which the taxpayer received a payment that was deducted under subsection (8.2) in computing the taxpayer's income for a preceding taxation year,

(iv) that was deductible under subsection (6.1) in computing the taxpayer's income for any taxation year or

(iv.1) that would be considered to be withdrawn by the taxpayer as an eligible amount (as defined in subsection 146.01(1) or 146.02(1)) less than 90 days after it was paid, if earnings in respect of a registered retirement savings plan were considered to be withdrawn before premiums paid under that plan and premiums were considered to be withdrawn in the order in which they were paid

exceeds

(v) the amount, if any, by which

(A) the total of all amounts deducted under subsection 147.3(13.1) in computing the taxpayer's income for the year or a preceding taxation year

exceeds

(B) the total of all amounts, in respect of transfers occurring before 1991 from registered pension plans, deemed by paragraph 147.3(10)(*b*) or (*c*) to be a premium paid by the taxpayer to a registered retirement savings plan, and

(*b*) the taxpayer's RRSP deduction limit for the year.

History: S. 146(5)(*a*)(iv.1) was amended by S.C. 1999, c. 22, s. 59(3), applicable to the 1998 and subsequent taxation years. S. 146(5)(*a*)(iv.1) formerly read:

"(iv.1) that would be considered to be withdrawn by the taxpayer as an eligible amount (within the meaning assigned by subsection 146.01(1)) less than 90 days after it was paid, if earnings in respect of a registered retirement savings plan were considered to be withdrawn before premiums paid under that plan and premiums were considered to be withdrawn in the order in which they were paid"

S. 146(5)(*a*), subparagraph (iv.1) was added by S.C. 1995, c. 3, s. 43(2), applicable to the withdrawal of amounts paid after March 1, 1994.

S. 146(5)(*a*), that portion following subparagraph (iv) was amended by S.C. 1994, c. 21, s. 69(4), applicable to the 1992 and subsequent taxation years. S. 146(5)(*a*), that portion following subparagraph (iv) formerly read:

"exceeds the total of all amounts each is which is

(v) an amount deducted under subsection 147.3(13.1) in computing the taxpayer's income for the year or a preceding taxation year that ends after 1992, or

(vi) an amount deducted under subsection 147.3(13.1) in computing the taxpayer's income for the 1992 taxation year, other than any portion of the amount that could not have been so deducted if paragraphs 147.3(10)(*b*) and (*c*) did not apply in respect of transfers made before 1991, and"

S. 146(5)(*a*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 82(6), applicable to the 1992 and subsequent taxation years except that, for the 1992 taxation year, paragraph 146(5)(*a*) shall be read without reference to subparagraph (v). S. 146(5)(*a*) formerly read:

"(*a*) the total of all amounts each of which is a premium paid by the taxpayer after 1990 and on or before the day that is 60 days after the end of the year under a registered retirement savings plan under which the taxpayer was the annuitant at the time the premium was paid, other than the portion, if any, of the premium

(i) that was deducted in computing the taxpayer's income for a preceding taxation year,

(ii) that was designated for any taxation year for the purposes of paragraph 60(*j*), (*j*.1) or (*l*),

(iii) in respect of which the taxpayer has received a payment that has been deducted under subsection (8.2) in computing the taxpayer's income for a preceding taxation year, or

(iv) that was deductible under subsection (6.1) in computing the taxpayer's income for any taxation year, and"

Editorial Note: Contributions to an RRSP in excess of the RRSP deduction limit for the year are normally subject to a monthly penalty tax under Part X.1, although taxpayers are allowed a $2,000 over-contribution "cushion" for these purposes; see subsections 204.1(2) and 204.2(1.1). Deductions under subsection 146(5) reduce the amount deductible for contributions to a spousal or common-law partner plan under subsection 146(5.1). "RRSP deduction limit" is defined in subsection 146(1).

Related Sections: S. 60(*i*) Premium or payment under RRSP or RRIF; s. 146(1), "premium", "RRSP deduction limit"; s. 146(5.1) Amount of spousal RRSP premiums deductible; s. 146(8.21) Premium deemed not paid; s. 146(16) Transfer of funds; s. 146(22) Deemed payment of RRSP premiums and provincial pension plan contributions; s. 147.3(13.1) Withdrawal of excessive transfers to RRSPs and RRIFs; s. 204.94(2) Charging provision; s. 249 Definition of "taxation year"; Part X.1 — Tax in Respect of Over-Contributions to Deferred Income Plans.

Regulations: 100(3)(c); 214.1.

Interpretation Bulletins: *Primary* — IT-124R6 Contributions to registered retirement savings plans; *Secondary* — IT-307R4 Spousal or common-law partner registered retirement savings plans; IT-415R2 Deregistration of registered retirement savings plans [Archived by the CRA].

Information Circulars: IC 72-22R9 Registered retirement savings plans.

Advance Tax Rulings: ATR-2 Contribution to pension plan for past service.

Tax Topics: No. 1483, Taxation of Stock Options.

Cases: A cheque post-dated more than 60 days after year-end is not paid within 60 days as required. *Vlasblom v. M.N.R.*, 87 DTC 215 (T.C.C.).

► 146(5.1) ◄

(5.1) Amount of spousal RRSP premiums deductible. There may be deducted in computing a taxpayer's income for a taxation year such amount as the taxpayer claims not exceeding the lesser of

(*a*) the total of all amounts each of which is a premium paid by the taxpayer after 1990 and on or before the day that is 60 days after the end of the year under a registered retirement savings plan under which the taxpayer's spouse or common-law partner (or, where the taxpayer died in the year or within 60 days after the end of the year, an individual who was the taxpayer's spouse or common-law partner immediately before the death) was the annuitant at the time the premium was paid, other than the portion, if any, of the premium

(i) that was deducted in computing the taxpayer's income for a preceding taxation year,

(ii) that was designated for any taxation year for the purposes of paragraph 60(*j*.2),

(iii) in respect of which the taxpayer or the taxpayer's spouse or common-law partner has received a payment that has been deducted under subsection (8.2) in computing the taxpayer's income for a preceding taxation year, or

(iv) that would be considered to be withdrawn by the taxpayer's spouse or common-law partner as an eligible amount (as defined in subsection 146.01(1) or 146.02(1)) less than 90 days after it was paid, if earnings in respect of a registered retirement savings plan were considered to be withdrawn before premiums paid under that plan and premiums were considered to be withdrawn in the order in which they were paid, and

(*b*) the amount, if any, by which the taxpayer's RRSP deduction limit for the year exceeds the amount deducted under subsection (5) in computing the taxpayer's income for the year.

History: S. 146(5.1)(*a*), the portion before subparagraph (i) was amended by S.C. 2001, c. 17, s. 246(3), applicable to the 2001 and following taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act* [See S. 144, Chap. 12, S.C. 2000, reproduced below.], in respect of the 1998, 1999 or 2000 taxation years, the portion of s. 146(5.1)(*a*) before subparagraph (i) applies to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.S. 146(5.1)(*a*), the portion before subparagraph (i) formerly read:

"(*a*) the total of all amounts each of which is a premium paid by the taxpayer after 1990 and on or before the day that is 60 days after the end of the year under a registered retirement savings plan under which the taxpayer's spouse (or, where the taxpayer died in the year or within 60 days after the end of the year, an individual who was the taxpayer's spouse immediately before the death) was the annuitant at the time the premium was paid, other than the portion, if any, of the premium"

S. 146(5.1)(*a*)(iii) and (iv) were amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.18), applicable January 1, 2001, coming into force on July 31, 2000. S. 146(5.1)(*a*)(iii) and (iv) formerly read:

"(iii) in respect of which the taxpayer or the taxpayer's spouse has received a payment that has been deducted under subsection (8.2) in computing the taxpayer's income for a preceding taxation year, or

(iv) that would be considered to be withdrawn by the taxpayer's spouse as an eligible amount (as defined in subsection 146.01(1) or 146.02(1)) less than 90 days after it was paid, if earnings in respect of a registered retirement savings plan were considered to be withdrawn before premiums paid under that plan and premiums were considered to be withdrawn in the order in which they were paid, and"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 146(5.1)(*a*)(iv) was amended by S.C. 1999, c. 22, s. 59(4), applicable to the 1998 and subsequent taxation years. S. 146(5.1)(*a*)(iv) formerly read:

"(iv) that would be considered to be withdrawn by the taxpayer's spouse as an eligible amount (within the meaning assigned by subsection 146.01(1)) less than 90 days after it was paid, if earnings in respect of a registered retirement savings plan were considered to be withdrawn before premiums paid under that plan and premiums were considered to be withdrawn in the order in which they were paid, and"

S. 146(5.1)(*a*), subparagraph (iv) was added by S.C. 1995, c. 3, s. 43(3), applicable to the withdrawal of amounts paid after March 1, 1994.

S. 146(5.1)(*a*), that portion preceding subparagraph (i), was amended by S.C. 1994, c. 21, s. 69(5), applicable to the 1992 and subsequent taxation years. S. 146(5.1)(*a*), that portion preceding subparagraph (i), formerly read:

"(*a*) the total of all amounts each of which is a premium paid by the taxpayer after 1990 and on or before the day that is 60 days after the end of the year under a registered retirement savings plan under which the taxpayer's spouse was the annuitant at the time the premium was paid, other than the portion, if any, of the premium"

Editorial Note: Contributions to a spousal RRSP can be made after the contributor's own RRSP has matured. Contributions can also be made within 60 days after the end of the year in which the contributor dies.

Subsection 146(5.1) effectively allows income splitting between spouses (or common-law partners), as the contributor is permitted the deduction while the spouse includes any amount withdrawn from the spousal RRSP. But see the attribution rule in subsection 146(8.3) where amounts are withdrawn from the spousal RRSP in the year of the contribution or either of the two following years.

Related Sections: S. 146(5) Amount of RRSP premiums deductible; s. 146(8.21) Premium deemed not paid; s. 146(8.3) Spousal or common-law partner payments; s. 146(22) Deemed payment of RRSP premiums and provincial pension plan contributions; s. 204.94(2) Charging provision; s. 248(1), "common-law partner".
Regulations: 100(3)(c); 214.1.
Interpretation Bulletins: *Primary* — IT-124R6 Contributions to registered retirement savings plans; IT-307R4 Spousal or common-law partner registered retirement savings plans. *Secondary* — IT-415R2 Deregistration of registered retirement savings plans [Archived by the CRA].

► 146(5.2) ◄

(5.2) Pension fund or plan. [Repealed by 1990, c. 35, s. 13(9).]

► 146(5.21) ◄

(5.21) Anti-avoidance. Notwithstanding any other provision of this section, where

(*a*) a registered pension plan is amended or administered in such a manner as to terminate, suspend or delay

(i) the membership of an individual in the plan for the individual's 1990 taxation year,

(ii) contributions under the plan by or for the benefit of the individual in respect of the year, or

(iii) the accrual of retirement benefits under the plan for the individual in respect of the year, or

(*b*) a deferred profit sharing plan is amended or administered in such a manner as to terminate, suspend or delay contributions under the plan for the year in respect of an individual,

and one of the main reasons for the termination, suspension or delay may reasonably be considered to be to reduce the pension adjustment of the individual for the year in respect of an employer, the only amount that may be deducted in computing the income for the year of the individual, in respect of premiums paid to registered retirement savings plans, is the amount that would have been deductible had that termination, suspension or delay not occurred.

Related Sections: S. 248(1), "pension adjustment".

(5.3)–(5.5) [Repealed by 1986, c. 6, s. 81(3).]

► 146(6) ◄

(6) Disposition of non-qualified investment. Where in a taxation year a trust governed by a registered retirement savings plan disposes of a property that, when acquired, was a non-qualified investment, there may be deducted, in computing the income for the taxation year of the taxpayer who is the annuitant under the plan, an amount equal to the lesser of

(*a*) the amount that, by virtue of subsection (10), was included in computing the income of that taxpayer in respect of the acquisition of that property, and

(*b*) the proceeds of disposition of the property.

Related Sections: S. 146(1), "non-qualified investment"; s. 146(11) Life insurance policies; s. 207.1(1) Tax payable by trust under registered retirement savings plan; s. 259(1) Proportional holdings in trust property.
Regulations: 214(2).
Interpretation Bulletins: *Secondary* — IT-320R3 Qualified Investments — Trusts Governed by Registered Retirement Savings Plans, Registered Education Savings Plans and Registered Retirement Income Funds; IT-415R2 Deregistration of registered retirement savings plans [Archived by the CRA].
Forms: T3GR; T4RSP; T4RSP SUM.

► 146(6.1) ◄

(6.1) Recontribution of certain withdrawals. There may be deducted in computing a taxpayer's income for a particular taxation year the total of all amounts each of which is such portion of a prescribed premium for the particular year as was not designated for any taxation year for the purposes of paragraph 60(*j*), (*j*.1) or (*l*).

Related Sections: S. 146.01(1), "excluded premium"; S. 146.02(1), "excluded premium".
Regulations: 8307(7).
Interpretation Bulletins: *Secondary* — IT-124R6 Contributions to registered retirement savings plans.

► 146(7) ◄

(7) Recovery of property used as security. Where in a taxation year a loan, for which a trust governed by a registered retirement savings plan has used or permitted to be used trust property as security, ceases to be extant, and the fair market value of the property so used was included by virtue of subsection (10) in computing the income of the taxpayer who is the annuitant under the plan, there may be deducted, in computing the income of the taxpayer for the taxation year, an amount equal to the amount, if any, remaining when

(*a*) the net loss (exclusive of payments by the trust as or on account of interest) sustained by the trust in consequence of its using the property, or permitting it to be used, as security for the loan and not as a result of a change in the fair market value of the property

is deducted from

(*b*) the amount so included in computing the income of the taxpayer in consequence of the trust's using the property, or permitting it to be used, as security for the loan.

Regulations: 214(2).
Forms: T3GR; T4RSP; T4RSP SUM.

► 146(8) ◄

(8) Benefits taxable. There shall be included in computing a taxpayer's income for a taxation year the total of all amounts received by the taxpayer in the year as benefits out of or under registered retirement savings plans, other than excluded withdrawals (as defined in subsection 146.01(1) or 146.02(1)) of the taxpayer and amounts that are included under paragraph (12)(*b*) in computing the taxpayer's income.

History: S. 146(8) was amended by S.C. 1999, c. 22, s. 59(4), applicable to the 1999 and subsequent taxation years. S. 146(8) formerly read:

"(8) *Benefits taxable.* There shall be included in computing the income of a taxpayer for a taxation year the total of all amounts received by the taxpayer in the year as benefits out of or under registered retirement savings plans, other than excluded withdrawals (within the meaning assigned by subsection 146.01(1)) in respect of the taxpayer and amounts that are included under paragraph (12)(*b*) in computing the taxpayer's income."

S. 146(8) was amended by S.C. 1994, c. 7, Sched. VIII, s. 82(7), applicable to the 1992 and subsequent taxation years. S. 146(8) formerly read:

"(8) There shall be included in computing the income of a taxpayer for a taxation year all amounts received by the taxpayer in the year as a benefit out of or under a registered retirement savings plan, other than an amount that is included in computing the taxpayer's income pursuant to paragraph (12)(*b*)."

Editorial Note: If the taxpayer receives an amount from an RRSP as a consequence of the annuitant's death, a corresponding deduction is available if the taxpayer was the annuitant's spouse or common-law partner or financially dependent child or grandchild. In the case of a recipient spouse or common-law partner, or child or grandchild financially dependent by reason of mental or physical infirmity, the deduction is allowed to the extent the amount is contributed to the recipient's RRSP, RRIF or life annuity payable to age 90. In the case of any other financially dependent child or grandchild under the age of 18, the deduction is allowed to the extent the amount is

used to acquire an annuity payable to age 18. See subsection 146(1) "refund of premiums" and paragraph 60(*l*).

Related Sections: S. 56(1)(*h*) Registered retirement savings plan, etc.; s. 60(*l*) Transfer of refund of premiums under RRSP; s. 61(2) Income-averaging annuity — eligible income; s. 146(1), "benefit"; s. 146(8) Benefits taxable; s. 146(8.3) Spousal or common-law partner payments; s. 146.01(4) Portion of eligible amount not repaid; s. 146.02(1), "eligible amount"; s. 146.02(4) If portion of eligible amount not repaid; s. 147.3(13.1) Withdrawal of excessive transfers to RRSPs and RRIFs; s. 153(1)(*j*) Withholding.
Regulations: 214(1)(*a*); 214(4).
Interpretation Bulletins: *Secondary* — IT-307R4 Spousal or common-law partner registered retirement savings plans.
Advance Tax Rulings: ATR-37 Refund of premiums transferred to spouse.
Information Circulars: IC 72-22R9 Registered retirement savings plans.
Income Tax Technical News: Issue No. 39, Settlement of a Shareholder Class Action Suit — Compensation by Way of Cash and Shares.
Forms: T4RSP; T4RSP SUM.
Guides: T4079 T4RSP and T4RIF Guide.
Cases: When the Minister disallowed the taxpayer's contribution to an RRSP because he had no earned income for the year, the taxpayer, wishing to withdraw the contribution without terminating the plan, established a second RRSP to which he transferred the funds. Shortly thereafter he withdrew the contribution and deregistered the second plan. The Minister treated the amount withdrawn as income pursuant to s. 146(1)(*b*)(iii). The taxpayer successfully appealed stating that since he had to add the amount back into his income when the first plan was disallowed, he was being subjected to double taxation. *Grimson v. M.N.R.*, 77 DTC 101 (T.R.B.).

► 146(8.01) ◄

(8.01) Subsequent re-calculation. If a designated withdrawal (as defined in subsection 146.01(1)) or an amount referred to in paragraph (*a*) of the definition "eligible amount" in subsection 146.02(1) is received by a taxpayer in a taxation year and, at any time after that year, it is determined that the amount is not an excluded withdrawal (as defined in subsection 146.01(1) or 146.02(1)), notwithstanding subsections 152(4) to (5), such assessments of tax, interest and penalties shall be made as are necessary to give effect to the determination.

History: S. 146(8.01) was amended by S.C. 1999, c. 22, s. 59(5), applicable to the 1999 and subsequent taxation years. S. 146(8.01) formerly read:

"(8.01) *Idem — subsequent re-calculation.* Where an amount referred to in paragraph (*a*) of the definition 'eligible amount' in subsection 146.01(1) is received by a taxpayer in a taxation year and, at any time after that year, it is determined that the amount is not an excluded withdrawal (within the meaning assigned by that subsection), notwithstanding subsections 152(4) to (5), such assessments of tax, interest and penalties shall be made as are necessary to give effect to the determination."

S. 146(8.01) was added by S.C. 1994, c. 7, Sched. VIII, s. 82(7), applicable to the 1992 and subsequent taxation years.

► 146(8.1) ◄

(8.1) Deemed receipt of refund of premiums. Where a portion of an amount paid out of or under a registered retirement savings plan of a deceased annuitant to the annuitant's legal representative would have been a refund of premiums if it had been paid under the plan to a beneficiary of the deceased's estate, it is, to the extent it is so designated jointly by the legal representative and the beneficiary in prescribed form filed with the Minister, deemed to be received by the beneficiary (and not by the legal representative) at the time it was so paid as a benefit that is a refund of premiums.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 146(8.1) of the Act is replaced by the following:

(8.1) Deemed receipt of refund of premiums. Where a payment out of or under a registered retirement savings plan of a deceased annuitant to the annuitant's legal representative would have been a refund of premiums if it had been paid under the plan to an individual who is a beneficiary (as defined in subsection 108(1)) under the deceased's estate, the payment is, to the extent it is so designated jointly by the legal representative and the individual in prescribed form filed with the Minister, deemed to be received by the individual (and not by the legal representative) at the time it was so paid as a benefit that is a refund of premiums.

Applicable: After 1988 except that, before 1999, subsection 146(8.1) is to be read as follows:

"(8.1) Such portion of an amount paid in a taxation year out of or under a registered retirement savings plan of a deceased annuitant to the annuitant's legal representative as, had that portion been paid under the plan to an individual who is a beneficiary (as defined in subsection 108(1)) under the deceased's estate, would have been a refund of premiums is, to the extent it is so designated jointly by the legal representative and the individual in prescribed form filed with the Minister, deemed to be received by the individual in the year as a benefit that is a refund of premiums."

Explanatory Note:

Deemed Receipt of Refund of Premiums

Subsection 146(8.1) of the Act deals with situations in which an amount paid from a deceased individual's RRSP to the individual's estate would have been a "refund of premiums" if it had been paid by the RRSP to a beneficiary under the estate. An amount paid out of an RRSP as a consequence of the death of the annuitant is defined, by subsection 146(1) of the Act, to be a "refund of premiums" if the recipient was, immediately before the death of the RRSP annuitant, a spouse or common-law partner of the annuitant or a financially dependent child or grandchild of the annuitant.

Subsection 146(8.1) allows the legal representative of a deceased RRSP annuitant's estate and a qualifying beneficiary under the estate to elect jointly to have the RRSP proceeds that were paid to the estate treated as a refund of premiums received by the beneficiary from the RRSP. When such an election is made, the beneficiary may include the deemed refund of premiums in income. If a corresponding amount is used to acquire a qualifying annuity or is paid into an RRSP or registered retirement income fund of the beneficiary and certain other conditions are satisfied, the beneficiary will be entitled to an offsetting deduction under paragraph 60(*l*) of the Act.

Subsection 146(8.1) is amended to provide that the expression "beneficiary" under a deceased RRSP annuitant's estate has the meaning assigned by subsection 108(1) of the Act. This has the effect of extending the provisions of subsection 146(8.1) to an individual who is "beneficially interested" in a deceased RRSP annuitant's estate (as defined in subsection 248(25)), but who is not a beneficiary under the estate. This could occur, for example, where an individual has only an indirect interest in the deceased RRSP annuitant's estate by virtue of being a beneficiary under a trust that is a beneficiary under the estate — a structure typically contemplated in the estate planning of parents of mentally infirm children.

This change applies after 1988.

History: S. 146(8.1) was replaced by S.C. 2000, c. 19, s. 42(3), applicable to the 1999 and subsequent taxation years. S. 146(8.1) formerly read:

"(8.1) *Deemed receipt of refund of premiums.* Such portion of an amount paid in a taxation year out of or under a registered retirement savings plan of a deceased annuitant to the annuitant's legal representative as, had that portion been paid under the plan to a beneficiary of the deceased's estate, would have been a refund of premiums shall, to the extent it is so designated jointly by the legal representative and the beneficiary in prescribed form filed with the Minister, be deemed to be received by the beneficiary in the year as a benefit that is a refund of premiums."

Editorial Note: See the editorial notes under subsections 146(8) and (8.8).

Related Sections: S. 146(1), "refund of premiums"; s. 146(8.9) Deduction from deemed receipt before death by deceased annuitant; s. 214(3)(*c*) Deemed payments.
Advance Tax Rulings: ATR-37 Refund of premiums transferred to spouse.
Forms: T2019.

► 146(8.2) ◄

(8.2) Amount deductible. Where

(*a*) all or any portion of the premiums paid in a taxation year by a taxpayer to one or more registered retirement savings plans under which the taxpayer or the taxpayer's spouse or common-law partner was the annuitant was not deducted in computing the taxpayer's income for any taxation year,

(*b*) the taxpayer or the taxpayer's spouse or common-law partner can reasonably be regarded as having received a payment from a registered retirement savings plan or a registered retirement income fund in respect of such portion of the undeducted premiums as

(i) was not paid by way of a transfer of an amount from a registered pension plan to a registered retirement savings plan,

(ii) was not paid by way of a transfer of an amount from a deferred profit sharing plan to a registered retirement savings plan in accordance with subsection 147(19), and

(iii) was not paid by way of a transfer of an amount from a provincial pension plan prescribed for the purpose of paragraph 60(*v*) to a registered retirement savings plan in circumstances to which subsection (21) applied,

(*c*) the payment is received by the taxpayer or the taxpayer's spouse or common-law partner in a particular taxation year that is

(i) the year in which the premiums were paid by the taxpayer,

(ii) the year in which a notice of assessment for the taxation year referred to in subparagraph (i) was sent to the taxpayer, or

(iii) the year immediately following the year referred to in subparagraph (i) or (ii), and

(*d*) the payment is included in computing the taxpayer's income for the particular year,

the payment (except to the extent that it is a prescribed withdrawal) may be deducted in computing the taxpayer's income for the particular year unless it is reasonable to consider that

(*e*) the taxpayer did not reasonably expect that the full amount of the premiums would be deductible in the taxation year in which the premiums were paid or in the immediately preceding taxation year, and

(*f*) the taxpayer paid all or any portion of the premiums with the intent of receiving a payment that, but for this paragraph and paragraph (*e*), would be deductible under this subsection.

History: S. 146(8.2)(*a*) to (*c*) were amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.18), applicable January 1, 2001, coming into force on July 31, 2000. S. 146(8.2)(*a*) to (*c*) formerly read:

"(*a*) all or any portion of the premiums paid in a taxation year by a taxpayer to one or more registered retirement savings plans under which the taxpayer or the taxpayer's spouse was the annuitant was not deducted in computing the taxpayer's income for any taxation year,

(*b*) the taxpayer or the taxpayer's spouse can reasonably be regarded as having received a payment from a registered retirement savings plan or a registered retirement income fund in respect of such portion of the undeducted premiums as

(i) was not paid by way of a transfer of an amount from a registered pension plan to a registered retirement savings plan,

(ii) was not paid by way of a transfer of an amount from a deferred profit sharing plan to a registered retirement savings plan in accordance with subsection 147(19), and

(iii) was not paid by way of a transfer of an amount from a provincial pension plan prescribed for the purpose of paragraph 60(*v*) to a registered retirement savings plan in circumstances to which subsection (21) applied,

(*c*) the payment is received by the taxpayer or the taxpayer's spouse in a particular taxation year that is

(i) the year in which the premiums were paid by the taxpayer,

(ii) the year in which a notice of assessment for the taxation year referred to in subparagraph (i) was sent to the taxpayer, or

(iii) the year immediately following the year referred to in subparagraph (i) or (ii), and"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 146(8.2)(*b*)(iii) was added by S.C. 1994, c. 21, s. 69(6), applicable to the 1992 and subsequent taxation years.

S. 146(8.2)(*b*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 82(8), applicable to the 1991 and subsequent taxation years except that, for the 1991 taxation year, subparagraph 146(8.2)(*b*)(i) shall be read as follows:

"(i) was not paid by way of a transfer of an amount from a registered pension plan to a registered retirement savings plan in accordance with any of subsections 147.3(1) and (4) to (7), and"

S. 146(8.2)(*b*) formerly read:

"(*b*) the taxpayer or the taxpayer's spouse can reasonably be regarded as having received a payment from a registered retirement savings plan or a registered retirement income fund in respect of such undeducted premiums,"

Related Sections: S. 146(1), "premium"; s. 146(8.21) Premium deemed not paid; s. 146(16) Transfer of funds; s. 147.3(13.1) Withdrawal of excessive transfers to RRSPs and RRIFs.
Regulations: 8307(6).
Interpretation Bulletins: *Secondary* — IT-124R6 Contributions to registered retirement savings plans; IT-307R4 Spousal or common-law partner registered retirement savings plans.
Forms: T3012A; T746.

► 146(8.21) ◄

(8.21) Premium deemed not paid. Where a taxpayer or the taxpayer's spouse or common-law partner has, at any time in a taxation year, received a payment from a registered retirement savings plan or a registered retirement income fund in respect of all or any portion of a premium paid by the taxpayer to a registered retirement savings plan and the payment has been deducted under subsection (8.2) in computing the taxpayer's income for the year, the premium or portion thereof, as the case may be, shall,

(*a*) for the purposes of determining, after that time, the amount that may be deducted under subsection (5) or (5.1) in computing the taxpayer's income for the year or a preceding taxation year, and

(*b*) for the purposes of subsections (8.3) and 146.3(5.1) after that time, in the case of a payment received by the taxpayer,

be deemed not to have been a premium paid by the taxpayer to a registered retirement savings plan.

History: S. 146(8.21) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.18), applicable January 1, 2001, coming into force on July 31, 2000. S. 146(8.21) formerly read:

"(8.21) *Premium deemed not paid.* Where a taxpayer or the taxpayer's spouse has, at any time in a taxation year, received a payment from a registered retirement savings plan or a registered retirement income fund in respect of all or any portion of a premium paid by the taxpayer to a registered retirement savings plan and the payment has been deducted under subsection (8.2) in computing the taxpayer's income for the year, the premium or portion thereof, as the case may be, shall,

(*a*) for the purposes of determining, after that time, the amount that may be deducted under subsection (5) or (5.1) in computing the taxpayer's income for the year or a preceding taxation year, and

(*b*) for the purposes of subsections (8.3) and 146.3(5.1) after that time, in the case of a payment received by the taxpayer,

be deemed not to have been a premium paid by the taxpayer to a registered retirement savings plan."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Interpretation Bulletins: *Secondary* — IT-124R6 Contributions to registered retirement savings plans.

► 146(8.3) ◄

(8.3) Spousal or common-law partner payments. Where at any time in a taxation year a particular amount in respect of a registered retirement savings plan that is a spousal or common-law partner plan in relation to a taxpayer is required by reason of subsection (8) or paragraph (12)(*b*) to be included in computing the income of the taxpayer's spouse or common-law partner before the plan matures or as a payment in full or partial commutation of a retirement income under the plan and the taxpayer is not living separate and apart from the taxpayer's spouse or common-law partner at that time by reason of the breakdown of their marriage or common-law partnership, there shall be included at that time in computing the taxpayer's income for the year an amount equal to the lesser of

(*a*) the total of all amounts each of which is a premium paid by the taxpayer in the year or in one of the two immediately preceding taxation years to a registered retirement savings plan under which the taxpayer's spouse or common-law partner was the annuitant at the time the premium was paid, and

(*b*) the particular amount.

History: S. 146(8.3), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 246(4), applicable to the 2001 and following taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act* [See S. 144, Chap. 12, S.C. 2000, reproduced below.], in respect of the 1998, 1999 or 2000 taxation years, the portion of s. 146(8.3) before paragraph (*a*) applies to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years. S. 146(8.3), the portion before paragraph (*a*) formerly read:

"(8.3) *Spousal RRSP payments.* Where at any time in a taxation year a particular amount in respect of a registered retirement savings plan that is a spousal plan in relation to a taxpayer is required by reason of subsection (8) or paragraph (12)(*b*) to be included in computing the income of the taxpayer's spouse before the plan matures or as a payment in full or partial commutation of a retirement income under the plan and the taxpayer is not living separate and apart from the taxpayer's spouse at that time by reason of the breakdown of their marriage or common-law partnership, there shall be included at that time in computing the taxpayer's income for the year an amount equal to the lesser of"

S. 146(8.3)(*a*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.18), applicable January 1, 2001, coming into force on July 31, 2000. S. 146(8.3)(*a*) formerly read:

"(*a*) the total of all amounts each of which is a premium paid by the taxpayer in the year or in one of the two immediately preceding taxation years to a registered retirement savings plan under which the taxpayer's spouse was the annuitant at the time the premium was paid, and"

S. 146(8.3), the portion before paragraph (*a*) was amended by S.C. 2000, c. 12, Sched. 2, s. 9(j), applicable January 1, 2001, coming into force on July 31, 2000. S. 146(8.3), the portion before paragraph (*a*) formerly read:

"(8.3) *Spousal RRSP payments.* Where at any time in a taxation year a particular amount in respect of a registered retirement savings plan that is a spousal plan in relation to a taxpayer is required by reason of subsection (8) or paragraph (12)(*b*) to be included in computing the income of the taxpayer's spouse before the plan matures or as a payment in full or partial commutation of a retirement income under the plan and the taxpayer is not living separate and apart from the taxpayer's spouse at that time by reason of the breakdown of their marriage, there shall be included at that time in computing the taxpayer's income for the year an amount equal to the lesser of"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Editorial Note: Although subsection 146(8.3) is an anti-avoidance provision, it implicitly provides for an income splitting opportunity through a spousal or common-law partner RRSP — namely, by way of a deductible contribution to the RRSP (subsection 146(5.1)) and a withdrawal of the amount by the spouse or common-law partner annuitant in the third or subsequent year after the year of contribution.

Related Sections: S. 146(1), "premium", "spousal or common-law partner plan"; s. 146(8.21) Premium deemed not paid; s. 146(8.5) Ordering; s. 146(8.6) Spouse's income; s. 146(8.7) Where s. (8.3) does not apply; s. 146.3(5.4) Spouse's income; s. 147.3(13.1) Withdrawal of excessive transfers to RRSPs and RRIFs.

Interpretation Bulletins: *Secondary* — IT-124R6 Contributions to registered retirement savings plans; IT-307R4 Spousal or common-law partner registered retirement savings plans.

Forms: T2205.

Cases: In February 1987, the taxpayer contributed $6,500 to an RRSP registered in his wife's name which he deducted in computing his income for 1986. When in 1989, his wife withdrew this sum, her withdrawal had to be included in the taxpayer's income for that year. *Gilbert v. The Queen,* 93 DTC 5124 (F.C.A.).

► 146(8.4) ◄

(8.4) Interpretation. [Repealed by 1990, c. 35, s. 13(14).]

► 146(8.5) ◄

(8.5) Ordering. Where a taxpayer has paid more than one premium described in subsection (8.3), such a premium or part thereof paid by the taxpayer at any time shall be deemed to have been included in computing the taxpayer's income by virtue of that subsection before premiums or parts thereof paid by the taxpayer after that time.

Interpretation Bulletins: *Secondary* — IT-307R4 Spousal or common-law partner registered retirement savings plans.

► 146(8.6) ◄

(8.6) Spouse's [or common-law partner's] income. Where, in respect of an amount required at any time in a taxation year to be included in computing the income of a taxpayer's spouse or common-law partner, all or part of a premium has by reason of subsection (8.3) been included in computing the taxpayer's income for the year, the following rules apply:

(*a*) the premium or part thereof, as the case may be, shall, for the purposes of subsections (8.3) and 146.3(5.1) after that time, be deemed not to have been a premium paid to a registered retirement savings plan under which the taxpayer's spouse or common-law partner was the annuitant; and

(*b*) an amount equal to the premium or part thereof, as the case may be, may be deducted in computing the income of the spouse or common-law partner for the year.

History: S. 146(8.6) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.18), applicable January 1, 2001, coming into force on July 31, 2000. S. 146(8.6) formerly read:

"(8.6) *Spouse's income.* Where, in respect of an amount required at any time in a taxation year to be included in computing the income of a taxpayer's spouse, all or part of a premium has by reason of subsection (8.3) been included in computing the taxpayer's income for the year, the following rules apply:

(*a*) the premium or part thereof, as the case may be, shall, for the purposes of subsections (8.3) and 146.3(5.1) after that time, be deemed not to have been a premium paid to a registered retirement savings plan under which the taxpayer's spouse was the annuitant; and

(*b*) an amount equal to the premium or part thereof, as the case may be, may be deducted in computing the income of the spouse for the year."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000

taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Interpretation Bulletins: *Secondary*— IT-307R4 Spousal or common-law partner registered retirement savings plans.

► 146(8.7) ◄

(8.7) Where s. (8.3) does not apply. Subsection (8.3) does not apply

(*a*) in respect of a taxpayer at any time during the year in which the taxpayer died;

(*b*) in respect of a taxpayer where either the taxpayer or the taxpayer's spouse or common-law partner is a non-resident at the particular time referred to in that subsection;

(*c*) in respect of amounts paid out of or under a plan referred to in subsection (12) as an "amended plan" to which paragraph (12)(*a*) applied before May 26, 1976;

(*d*) to any payment that is received in full or partial commutation of a registered retirement income fund or a registered retirement savings plan and in respect of which a deduction was made under paragraph 60(*l*) if, where the deduction was in respect of the acquisition of an annuity, the terms of the annuity provide that it cannot be commuted, and it is not commuted, in whole or in part within 3 years after the acquisition; or

(*e*) in respect of an amount that is deemed by subsection (8.8) to have been received by an annuitant under a registered retirement savings plan immediately before the annuitant's death.

History: S. 146(8.7)(*b*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.18), applicable January 1, 2001, coming into force on July 31, 2000. S. 146(8.7)(*b*) formerly read:

"(*b*) in respect of a taxpayer where either the taxpayer or the taxpayer's spouse is a non-resident at the particular time referred to in that subsection;"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Interpretation Bulletins: *Secondary*— IT-307R4 Spousal or common-law partner registered retirement savings plans.

► 146(8.8) ◄

(8.8) Effect of death where person other than spouse becomes entitled. Where the annuitant under a registered retirement savings plan (other than a plan that had matured before June 30, 1978) dies after June 29, 1978, the annuitant shall be deemed to have received, immediately before the annuitant's death, an amount as a benefit out of or under a registered retirement savings plan equal to the amount, if any, by which

(*a*) the fair market value of all the property of the plan at the time of death

exceeds

(*b*) where the annuitant died after the maturity of the plan, the fair market value at the time of the death of the portion of the property described in paragraph (*a*) that, as a consequence of the death, becomes receivable by a person who was the annuitant's spouse or common-law partner immediately before the death, or would become so receivable should that person survive throughout all guaranteed terms contained in the plan.

History: S. 146(8.8)(*b*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.18), applicable January 1, 2001, coming into force on July 31, 2000. S. 146(8.8)(*b*) formerly read:

"(*b*) where the annuitant died after the maturity of the plan, the fair market value at the time of the death of the portion of the property described in paragraph (*a*) that, as a consequence of the death, becomes receivable by a person who was the annuitant's spouse immediately before the death, or would become so receivable should that person survive throughout all guaranteed terms contained in the plan."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 146(8.8)(*b*) was amended by S.C. 1994, c. 21, s. 69(7), applicable to deaths occurring after 1992. S. 146(8.8)(*b*) formerly read:

"(*b*) the portion thereof that, as a consequence of the annuitant's death, becomes receivable by the annuitant's spouse, or would become so receivable should that spouse survive throughout all guaranteed terms contained in the plan."

Editorial Note: The deceased's income inclusion under subsection 146(8.8) will be reduced generally to the extent that the RRSP is left to the deceased's spouse or common-law partner or financially dependent child or grandchild; see subsection 146(1) "refund of premiums", paragraph 146(8.8)(*b*), subsection 146(8.9), and the deeming rules in subsections 146(8.1) and (8.91). See also the editorial note under subsection 146(8) regarding the recipient spouse's or child's inclusion and the potential deduction available under paragraph 60(*l*).

Related Sections: S. 146(1), "annuitant"; s. 146(8.9) Deduction from deemed receipt before death by deceased annuitant; s. 160.2(1) Joint and several liability in respect of amounts received out of or under RRSP; s. 214(3)(*i*) Deemed payments.

Regulations: 214(4).

Interpretation Bulletins: *Secondary*— IT-307R4 Spousal or common-law partner registered retirement savings plans.

Advance Tax Rulings: ATR-37 Refund of premiums transferred to spouse.

Forms: T4RSP; T4RSP SUM.

Guides: RC4177 Death of an RRSP Annuitant.

Cases: Subsection 146(8.8) requires the estate, and not the beneficiaries, to pay the taxes due in respect of an RRSP held by the deceased. Under the subsection, the RRSP funds are deemed to be payments to the deceased immediately before his death, and are liable to tax as such. *Curley et al. v. MacDonald et al.*, 2001 DTC 5141 (Ont.Sup.Ct.).

The annuitant did not change his RRSP beneficiary designation following his divorce. When he died, the proceeds of his RRSPs were paid directly to the designated beneficiary (his ex-wife). However, under s. 146(8.8), the annuitant's estate, and not the beneficiary, was liable for the tax in respect of the proceeds. *Slater v. Klassen Estate*, 2000 DTC 6336 (Man. Q.B.).

► 146(8.9) ◄

(8.9) Idem. There may be deducted from the amount deemed by subsection (8.8) to have been received by an annuitant as a benefit out of or under a registered retirement savings plan an amount not exceeding the amount determined by the formula

$$A \times [1 - \frac{(B + C - D)}{(B + C)}]$$

where

A is the total of

(*a*) all refunds of premiums in respect of the plan,

(*b*) all tax-paid amounts in respect of the plan paid to individuals who, otherwise than because of subsection (8.1), received refunds of premiums in respect of the plan, and

(*c*) all amounts each of which is a tax-paid amount in respect of the plan paid to the legal representative of the annuitant under the plan, to the extent that the

legal representative would have been entitled to designate that tax-paid amount under subsection (8.1) if tax-paid amounts were not excluded in determining refunds of premiums;

B is the fair market value of the property of the plan at the particular time that is the later of

(*a*) the end of the first calendar year that begins after the death of the annuitant, and

(*b*) the time immediately after the last time that any refund of premiums in respect of the plan is paid out of or under the plan;

C is the total of all amounts paid out of or under the plan after the death of the annuitant and before the particular time; and

D is the lesser of

(*a*) the fair market value of the property of the plan at the time of the annuitant's death, and

(*b*) the sum of the values of B and C in respect of the plan.

History: S. 146(8.9), the description of "A", was amended by S.C. 1998, c. 19, s. 170(7), applicable to deaths occurring after 1992. The description of "A" formerly read:

"A is the total of all refunds of premiums in respect of the plan;"

S. 146(8.9) was amended by S.C. 1994, c. 21, s. 69(8), applicable to deaths occurring after 1992. S. 146(8.9) formerly read:

"(8.9) *Idem.* There may be deducted from the amount deemed by subsection (8.8) to have been received by an annuitant as a benefit out of or under a registered retirement savings plan the total of all amounts each of which is

(*a*) that portion of an amount paid out of or under the plan that is deemed to be received by a beneficiary as a benefit that is a refund of premiums pursuant to subsection (8.1); or

(*b*) an amount received under the plan by a child or grandchild of the annuitant as a refund of premiums."

Related Sections: S. 146(1), "refund of premiums", "tax-paid amount"; s. 257 Negative amounts.

Advance Tax Rulings: ATR-37 Refund of premiums transferred to spouse.

► 146(8.91) ◄

(8.91) Amounts deemed receivable by spouse [or common-law partner]. Where, as a consequence of the death of an annuitant after the maturity of the annuitant's registered retirement savings plan, the annuitant's legal representative has become entitled to receive amounts out of or under the plan for the benefit of the spouse or common-law partner of the deceased and the legal representative and the spouse or common-law partner file with the Minister a joint election in prescribed form,

(*a*) the spouse or common-law partner shall be deemed to have become the annuitant under the plan as a consequence of the annuitant's death; and

(*b*) those amounts shall be deemed to be receivable by the spouse or common-law partner and, when paid, to be received by the spouse or common-law partner as a benefit under the plan, and not to be received by any other person.

History: S. 146(8.91) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.18), applicable on January 1, 2001, coming into force on July 31, 2000. S. 146(8.91) formerly read:

"(8.91) *Amounts deemed receivable by spouse.* Where, as a consequence of the death of an annuitant after the maturity of the annuitant's registered retirement savings plan, the annuitant's legal representative has become entitled to receive amounts out of or under the plan for the benefit of the spouse of the deceased and the legal representative and the spouse file with the Minister a joint election in prescribed form,

(*a*) the spouse shall be deemed to have become the annuitant under the plan as a consequence of the annuitant's death; and

(*b*) those amounts shall be deemed to be receivable by the spouse and, when paid, to be received by the spouse as a benefit under the plan, and not to be received by any other person."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Editorial Note: See the editorial notes under subsections 146(8) and (8.8).

Related Sections: S. 146(1), "benefit"; s. 214(3)(*i*) Deemed payments; s. 248(1), "common-law partner".

► 146(8.92) ◄

(8.92) Deduction for post-death reduction in value. If the annuitant under a registered retirement savings plan dies before the maturity of the plan, there may be deducted in computing the annuitant's income for the taxation year in which the annuitant dies an amount not exceeding the amount determined, after all amounts payable out of or under the plan have been paid, by the formula

A – B

where

A is the total of all amounts each of which is

(*a*) the amount deemed by subsection (8.8) to have been received by the annuitant as a benefit out of or under the plan,

(*b*) an amount (other than an amount described in paragraph (*c*)) received, after the death of the annuitant, by a taxpayer as a benefit out of or under the plan and included, because of subsection (8), in computing the taxpayer's income, or

(*c*) a tax-paid amount in respect of the plan; and

B is the total of all amounts paid out of or under the plan after the death of the annuitant.

History: S. 146(8.92) was added by S.C. 2009, c. 2, s. 51(3), applicable in respect of a registered retirement savings plan in respect of which the last payment out of the plan is made after 2008.

Regulations: 214(6).

► 146(8.93) ◄

(8.93) Subsection (8.92) not applicable. Except where the Minister has waived in writing the application of this subsection with respect to all or any portion of the amount determined in subsection (8.92) in respect of a registered retirement savings plan, that subsection does not apply if

(*a*) at any time after the death of the annuitant, a trust governed by the plan held a non-qualified investment; or

(*b*) the last payment out of or under the plan was made after the end of the year following the year in which the annuitant died.

History: S. 146(8.93) was added by S.C. 2009, c. 2, s. 51(3), applicable in respect of a registered retirement savings plan in respect of which the last payment out of the plan is made after 2008.

► 146(9) ◄

(9) Where disposition of property by trust. Where in a taxation year a trust governed by a registered retirement savings plan

(*a*) disposes of property for a consideration less than the fair market value of the property at the time of the disposition, or for no consideration, or

(*b*) acquires property for a consideration greater than the fair market value of the property at the time of the acquisition,

the difference between the fair market value and the consideration, if any, shall be included in computing the income for the taxation year of the annuitant under the plan.

Related Sections: S. 146(11) Life insurance policies; s. 214(3)(*i*) Deemed payments.
Regulations: 214(2).
Interpretation Bulletins: *Secondary* — IT-320R3 Qualified Investments — Trusts Governed by Registered Retirement Savings Plans, Registered Education Savings Plans and Registered Retirement Income Funds.
Forms: T3GR; T4RSP; T4RSP SUM.
Guides: T4079 T4RSP and T4RIF Guide.

► 146(10) ◄

(10) Where acquisition of non-qualified investment by trust. Where at any time in a taxation year a trust governed by a registered retirement savings plan

(*a*) acquires a non-qualified investment, or

(*b*) uses or permits to be used any property of the trust as security for a loan,

the fair market value of

(*c*) the non-qualified investment at the time it was acquired by the trust, or

(*d*) the property used as security at the time it commenced to be so used,

as the case may be, shall be included in computing the income for the year of the taxpayer who is the annuitant under the plan at that time.

Editorial Note: See subsections 146(6) and (7), which permit deductions when the non-qualifying property is disposed of or the secured loan ceases to exist, as the case may be.

Related Sections: S. 146(1) "non-qualified investment"; s. 146(6) Disposition of non-qualified investment; s. 146(7) Recovery of property used as security; s. 146(10.1) Where tax payable; s. 146(11) Life insurance policies; s. 198(6) Life insurance policies — special rules; s. 207.1(1) Tax payable by trust under registered retirement savings plan; s. 214(3)(*i*) Deemed payments; s. 259(1) Proportional holdings in trust property.
Regulations: 214(2).
Interpretation Bulletins: *Secondary* — IT-320R3 Qualified Investments — Trusts Governed by Registered Retirement Savings Plans, Registered Education Savings Plans and Registered Retirement Income Funds; IT-415R2 Deregistration of registered retirement savings plans [Archived by the CRA].
Forms: T3GR; T4RSP; T4RSP SUM.

► 146(10.1) ◄

(10.1) Where tax payable. Where in a taxation year a trust governed by a registered retirement savings plan holds a property that is a non-qualified investment,

(*a*) tax is payable under this Part by the trust on the amount that its taxable income for the year would be if it had no incomes or losses from sources other than non-qualified investments and no capital gains or losses other than from dispositions of non-qualified investments; and

(*b*) for the purposes of paragraph (*a*),

(i) "income" includes dividends described in section 83, and

(ii) paragraphs 38(*a*) and (*b*) shall be read without reference to the fractions set out in those paragraphs.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 146(10.1)(*b*)(ii) of the Act is replaced by the following:

(ii) paragraphs 38(*a*) and (*b*) are to be read as if the fraction set out in each of those paragraphs were replaced by the word "all".

Applicable: Royal Assent.

Explanatory Note:

Where Tax Payable

Subsection 146(10.1) of the Act provides that income earned by a trust governed by a retirement savings plan from non-qualified investments is taxable under Part I. Subparagraph 146(10.1)(*b*)(ii) provides that income for this purpose includes the full amount of capital gains in excess of capital losses. This subparagraph is reworded for clarity, applicable on Royal Assent.

Related Sections: S. 122(1) Tax payable by inter vivos trust; s. 146(4) No tax while trust governed by plan; s. 207.1(1) Tax payable by trust under registered retirement savings plan; s. 259(1) Proportional holdings in trust property.
Interpretation Bulletins: *Secondary* — IT-320R3 Qualified Investments — Trusts Governed by Registered Retirement Savings Plans, Registered Education Savings Plans and Registered Retirement Income Funds.

► 146(11) ◄

(11) Life insurance policies. Subsections 198(6) and (8) are applicable, with such modifications as the circumstances require, to subsections (6), (9) and (10), except that in the application of subsection 198(8) to the latter subsections paragraph 198(8)(*a*) shall be read as follows:

"(*a*) the trust shall be deemed, for the purposes of subsection 146(6), to have disposed of each non-qualified investment that, by virtue of payments under the policy, it was deemed by subsection 146(10) to have acquired, and"

Interpretation Bulletins: *Secondary* — IT-408R Life insurance policies as investments of registered retirement savings plans and deferred profit sharing plans [Archived by the CRA].

► 146(11.1) ◄

(11.1) Exception. Subsection (11) does not apply to annuity contracts issued after 1997.

History: S. 146(11.1) was added by S.C. 1998, c. 19, s. 170(8), applicable after 1997.

► 146(12) ◄

(12) Change in plan after registration. Where, on any day after a retirement savings plan has been accepted by the Minister for registration for the purposes of this Act, the plan is revised or amended or a new plan is substituted for it, and the plan as revised or amended or the new plan, as the case may be (in this subsection referred to as the "amended plan"), does not comply with the requirements of this section for its acceptance by the Minister for registration for the purposes of this Act, subject to subsection (13.1), the following rules apply:

(*a*) the amended plan shall be deemed, for the purposes of this Act, not to be a registered retirement savings plan; and

(*b*) the taxpayer who was the annuitant under the plan before it became an amended plan shall, in computing the taxpayer's income for the taxation year that includes that day, include as income received at that time an amount equal to the fair market value of all the property of the plan immediately before that time.

Related Sections: S. 146(8.3) Spousal or common-law partner payments; s. 146(13) Deemed creation of new plan — changes to rights or obligations; s. 146(13.1) RRSP advantages; s. 146(13.3) Notice; s. 147.3(13.1) Withdrawal of excessive transfers to RRSPs and RRIFs; s. 153(1)(*j*) Withholding;

s. 204.1(2) Amount deemed repaid; s. 204.2(1.4) Deemed receipt where RRSP or RRIF amended; s. 204.2(2) Where terminated plan deemed to continue to exist; s. 212(1)(*l*) Registered retirement savings plan payments; s. 214(3)(*l*) Deemed payments.
Regulations: 202(2),(3); 214(3).
Interpretation Bulletins: *Primary* — IT-415R2 Deregistration of registered retirement savings plans [Archived by the CRA]. *Secondary* — IT-307R4 Spousal or common-law partner registered retirement savings plans; IT-412R2 Foreign property of registered plans.
Information Circulars: IC 72-22R9 Registered retirement savings plans; IC 78-14R4 Guidelines for trust companies and other persons responsible for filing T3GR, T3D, T3P, T3S, T3RI, and T3F returns.
Forms: T2205.

▶ 146(13) ◀

(13) Idem. For the purposes of subsection (12), an arrangement under which a right or obligation under a retirement savings plan is released or extinguished either wholly or in part and either in exchange or substitution for any right or obligation, or otherwise (other than an arrangement the sole object and legal effect of which is to revise or amend the plan) or under which payment of any amount by way of loan or otherwise is made on the security of a right under a retirement savings plan, shall be deemed to be a new plan substituted for that retirement savings plan.

Related Sections: S. 146(1), "retirement savings plan"; s. 146(2) Acceptance of plan for registration — prohibited conditions; s. 146(3) Acceptance of plan for registration — acceptable conditions.
Interpretation Bulletins: *Secondary* — IT-415R2 Deregistration of registered retirement savings plans [Archived by the CRA].

▶ 146(13.1) ◀

(13.1) RRSP advantages. Where an issuer of a registered retirement savings plan or any person not dealing at arm's length with the issuer has extended an advantage to the annuitant of the plan (or to a person not dealing at arm's length with the annuitant) and that advantage would have been prohibited if the plan had met the requirement for registration contained in paragraph (2)(*c*.4),

(*a*) paragraphs (12)(*a*) and (*b*) do not apply by reason only of the extension of that advantage; and

(*b*) the issuer is liable to a penalty equal to the greater of $100 and the amount or value of that advantage.

Information Circulars: IC 72-22R9 Registered retirement savings plans.
Tax Topics: No. 1665, RRSP Incentives.

▶ 146(13.2) ◀

(13.2) Maturity after age 69. [Repealed by S.C. 2007, c. 29, s. 17(4).]

History: S. 146(13.2) was repealed by S.C. 2007, c. 29, s. 17(4), applicable after 2006, except that subsection 146(13.2) does not apply to retirement savings plans under which the annuitant attained 69 years of age before 2007. S. 146(13.2) formerly read:

"(13.2) *Maturity after age 69.* For the purpose of subsection (12), where a retirement savings plan accepted for registration before 1997 does not mature by the end of the particular year in which the annuitant under the plan attains 69 years of age,

(*a*) the plan is deemed to have been amended immediately after the particular year; and

(*b*) the plan as amended is deemed not to comply with the requirements of this section for its acceptance by the Minister for registration for the purposes of this Act."

S. 146(13.2) was added by S.C. 1997, c. 25, s. 41(4), applicable after 1996, except that

(*a*) it does not apply to a retirement savings plan where the annuitant under the plan attained 70 years of age before 1997;

(*b*) in applying subsection 146(13.2) to a retirement savings plan where the annuitant under the plan attained 69 years of age in 1996, the reference to "69 years of age" shall be read as "70 years of age";

(*c*) it does not apply to a retirement savings plan where an annuity contract was issued before March 6, 1996 under, pursuant to or as the plan to provide the retirement income under the plan and, under the terms and conditions of the contract as they read immediately before that day,

(i) the day on which annuity payments are to begin under the plan is fixed and determined and is after the year in which the annuitant attains

(A) 69 years of age, where the annuitant had not attained that age before 1997, or

(B) 70 years of age, where the annuitant attained 69 years of age in 1996, and

(ii) the amount and timing of each annuity payment are fixed and determined; and

(*d*) it does not apply to a retirement savings plan that is part of a life insurance policy that was issued before March 6, 1996 and that has a life insurance component that is not a retirement savings plan where, under the terms and conditions of the policy as they read immediately before that day,

(i) the amount of each premium, if any, subsequently payable in respect of the life insurance component of the policy, and a date by which each such premium is to be paid, are fixed and determined,

(ii) the amount payable under the policy because of the death of the annuitant (determined without reference to any amount payable as, on account of, in lieu of payment of or in satisfaction of, a policy dividend or related interest) is fixed and determined, and

(iii) insurance on the life of the annuitant is provided under the policy for a period of time after the year in which the annuitant attains

(A) 69 years of age, where the annuitant had not attained that age before 1997, or

(B) 70 years of age, where the annuitant attained 69 years of age in 1996.

Where, because of paragraph (*d*) above, this amendment does not apply to a retirement savings plan that is part of a life insurance policy, any part of a premium paid under the policy after March 5, 1996 that was not fixed and determined under the terms and conditions of the policy as they read at the end of that day is deemed, for the purposes of subsections 146(5), (5.1) and (8.2) of the Act, not to have been paid under the policy.

▶ 146(13.3) ◀

(13.3) Notice. [Repealed by S.C. 2007, c. 29, s. 17(4).]

History: S. 146(13.3) was repealed by S.C. 2007, c. 29, s. 17(4), applicable after 2006, except that subsection 146(13.3) does not apply to retirement savings plans under which the annuitant attained 69 years of age before 2007. S. 146(13.3) formerly read:

"(13.3) *Notice.* Where a retirement savings plan accepted for registration before 1997 does not prevent maturity after the particular year in which the annuitant under the plan attains 69 years of age, the issuer of the plan shall, before July of the particular year, notify the annuitant in writing that, pursuant to subsections (12) and (13.2), the plan will cease to be a registered retirement savings plan if it does not mature by the end of the particular year, except that no such notification is required where, before that month,

(*a*) the plan has matured; or

(*b*) arrangements have been made for the plan to mature, or for the property under the plan to be transferred or otherwise paid out of the plan, by the end of the particular year."

S. 146(13.3) was added by S.C. 1997, c. 25, s. 41(4), applicable after 1996, except that

(*a*) it does not apply to a retirement savings plan where the annuitant under the plan attained 70 years of age before 1997;

(*b*) in applying subsections 146(13.2) and (13.3) to a retirement savings plan where the annuitant under the plan attained 69 years of age in 1996, the references in those provisions to "69 years of age" shall be read as "70 years of age";

(*c*) it does not apply to a retirement savings plan where an annuity contract was issued before March 6, 1996 under, pursuant to or as the plan to provide the retirement income under the plan and, under the terms and conditions of the contract as they read immediately before that day,

(i) the day on which annuity payments are to begin under the plan is fixed and determined and is after the year in which the annuitant attains

(A) 69 years of age, where the annuitant had not attained that age before 1997, or

(B) 70 years of age, where the annuitant attained 69 years of age in 1996, and

(ii) the amount and timing of each annuity payment are fixed and determined; and

(*d*) it does not apply to a retirement savings plan that is part of a life insurance policy that was issued before March 6, 1996 and that has a life insurance component that is not a retirement savings plan where, under the terms and conditions of the policy as they read immediately before that day,

(i) the amount of each premium, if any, subsequently payable in respect of the life insurance component of the policy, and a date by which each such premium is to be paid, are fixed and determined,

(ii) the amount payable under the policy because of the death of the annuitant (determined without reference to any amount payable as, on account of, in lieu of payment of or in satisfaction of, a policy dividend or related interest) is fixed and determined, and

(iii) insurance on the life of the annuitant is provided under the policy for a period of time after the year in which the annuitant attains

(A) 69 years of age, where the annuitant had not attained that age before 1997, or

(B) 70 years of age, where the annuitant attained 69 years of age in 1996.

Where, because of paragraph (*d*) above, this amendment does not apply to a retirement savings plan that is part of a life insurance policy, any part of a premium paid under the policy after March 5, 1996 that was not fixed and determined under the terms and conditions of the policy as they read at the end of that day is deemed, for the purposes of subsections 146(5), (5.1) and (8.2) of the Act, not to have been paid under the policy.

► 146(14) ◄

(14) Premiums paid in taxation year. Where any amount has been paid in a taxation year as a premium under a retirement savings plan that was, at the end of that taxation year, a registered retirement savings plan, the amount so paid shall be deemed, for the purposes of this Act, to have been paid in that year as a premium under a registered retirement savings plan.

Related Sections: S. 146(1), "premium", "registered retirement savings plan", "retirement savings plan"; s. 146(5) Amount of RRSP premiums deductible; s. 146(5.1) Amount of spousal RRSP premiums deductible.
Regulations: 214.1.

► 146(15) ◄

(15) Plan not registered at end of year entered into. Notwithstanding anything in this section, where an amount is received in a taxation year as a benefit under a registered retirement savings plan that was not, at the end of the year in which the plan was entered into, a registered retirement savings plan, such part, if any, of the amount so received as may be prescribed shall be deemed, for the purposes of this Act, to have been received in the taxation year otherwise than as a benefit or other payment under a registered retirement savings plan.

Related Sections: S. 146(1), "benefit".

► 146(16) ◄

(16) Transfer of funds. Notwithstanding any other provision in this section, a registered retirement savings plan may at any time be revised or amended to provide for the payment or transfer before the maturity of the plan, on behalf of the annuitant under the plan (in this subsection referred to as the "transferor"), of any property thereunder by the issuer thereof

(*a*) to a registered pension plan for the benefit of the transferor or to a registered retirement savings plan or registered retirement income fund under which the transferor is the annuitant, or

(*b*) to a registered retirement savings plan or registered retirement income fund under which the spouse or common-law partner or former spouse or common-law partner of the transferor is the annuitant, where the transferor and the transferor's spouse or common-law partner or former spouse or common-law partner are living separate and apart and the payment or transfer is made under a decree, order or judgment of a competent tribunal, or under a written separation agreement, relating to a division of property between the transferor and the transferor's spouse or common-law partner or former spouse or common-law partner in settlement of rights arising out of, or on the breakdown of, their marriage or common-law partnership,

and, where there has been such a payment or transfer of such property on behalf of the transferor before the maturity of the plan,

(*c*) the amount of the payment or transfer shall not, solely because of the payment or transfer, be included in computing the income of the transferor or the transferor's spouse or common-law partner or former spouse or common-law partner,

(*d*) no deduction may be made under subsection (5), (5.1) or (8.2) or section 8 or 60 in respect of the payment or transfer in computing the income of any taxpayer, and

(*e*) where the payment or transfer was made to a registered retirement savings plan, for the purposes of subsection (8.2), the amount of the payment or transfer shall be deemed not to be a premium paid to that plan by the taxpayer.

History: S. 146(16)(*b*) and (*c*) were amended by S.C. 2000, c. 12, Sched. 2, s. 2(g) and 9(j), applicable January 1, 2001, coming into force on July 31, 2000. S. 146(16)(*b*) and (*c*) formerly read:

"(*b*) to a registered retirement savings plan or registered retirement income fund under which the spouse or former spouse of the transferor is the annuitant, where the transferor and the transferor's spouse or former spouse are living separate and apart and the payment or transfer is made under a decree, order or judgment of a competent tribunal, or under a written separation agreement, relating to a division of property between the transferor and the transferor's spouse or former spouse in settlement of rights arising out of, or on the breakdown of, their marriage,

and, where there has been such a payment or transfer of such property on behalf of the transferor before the maturity of the plan,

(*c*) the amount of the payment or transfer shall not, solely because of the payment or transfer, be included in computing the income of the transferor or the transferor's spouse or former spouse,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 146(16)(*b*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 82(9), applicable after 1992. S. 146(16)(*b*) formerly read:

"(*b*) to a registered retirement savings plan or registered retirement income fund under which the spouse or former spouse of the transferor is the annuitant, where the transferor and the transferor's spouse or former spouse are living separate and apart and the payment or transfer is made pursuant to a decree, order or judgment of a competent tribunal, or a written separation agreement, relating to a division of property between the transferor and the transferor's spouse or former spouse in settlement of rights arising out of their marriage or other conjugal relationship, on or after the breakdown of the marriage or other relationship,"

S. 146(16), the portion following paragraph (*b*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 82(10), applicable to the 1991 and subsequent taxation years. That part formerly read:

"and on the payment or transfer of such property before the maturity of the plan

(*c*) the amount so paid or transferred on behalf of the transferor shall not by reason only of that payment or transfer be included by virtue of subsection (8) in computing the income of the transferor or the spouse or former spouse, and

(*d*) no deduction may be made under subsection (5), (5.1) or (8.2) or section 8 or 60, in respect of the amount so paid or transferred, in computing the income of any taxpayer."

Related Sections: S. 146(1), "annuitant", "maturity"; s. 146.3(2)(*f*) Acceptance of fund for registration; s. 248(1), "common-law partner"; s. 252(3) Extended meaning of "spouse" and "former spouse".
Regulations: 214(5), (6); 214.1.
Interpretation Bulletins: *Primary* — IT-528 Transfers of Funds Between Registered Plans. *Secondary* — IT-307R4 Spousal or common-law partner registered retirement savings plans; IT-412R2 Foreign property of registered plans.

Information Circulars: IC 72-22R9 Registered retirement savings plans; IC 74-1R5 Form T2037, Notice of purchase of annuity with plan funds.
Advance Tax Rulings: ATR-31 Funding of divorce settlement amount from DPSP
Forms: T2033; T2220.
Registered Plans Directorate Newsletters: No. 91-4R, Registration rules for money purchase provisions.
Tax Topics: No. 1702, Income Tax Issues To Be Considered in Negotiating Marriage Contracts.

► 146(17) ◄

(17) Interpretation. [Repealed by 1990, c. 35, s. 13(18).]

► 146(18) ◄

(18) Where plan matures before annuitant attains age of 60. [Repealed by 1986, c. 55, s. 56(7).]

► 146(19) ◄

(19) Transitional. [Repealed by 1986, c. 55, s. 56(7).]

► 146(20) ◄

(20) Credited or added amount deemed not received. Where

(*a*) an amount is credited or added to a deposit with a depositary referred to in subparagraph (*b*)(iii) of the definition "retirement savings plan" in subsection (1) as interest or income in respect of the deposit,

(*b*) the deposit is a registered retirement savings plan at the time the amount is credited or added to the deposit, and

(*c*) during the calendar year in which the amount is credited or added or during the preceding calendar year, the annuitant under the plan was alive,

the amount shall be deemed not to be received by the annuitant or any other person solely because of the crediting or adding.

History: S. 146(20) was amended by S.C. 1994, c. 21, s. 69(9), applicable to deaths occurring after 1992. S. 146(20) formerly read:

"(20) *Where amount credited or added deemed not received.* Where an amount is credited or added to a deposit with a depositary referred to in subparagraph (*b*)(iii) of the definition 'retirement savings plan' in subsection (1) as interest or income in respect of the deposit, and where

(*a*) the deposit is a registered retirement savings plan at the time the amount is credited or added to the deposit, and

(*b*) the annuitant under the plan is alive during the year in which the amount is credited or added,

the amount shall be deemed not to be received by the annuitant by reason only of the crediting or adding."

Related Sections: S. 146(1), "registered retirement savings plan"; s. 149(1)(*r*) Trusts under registered retirement savings plan; s. 255 Canada.
Information Circulars: IC 72-22R9 Registered retirement savings plans.

► 146(21) ◄

(21) Prescribed provincial pension plans. Where

(*a*) an amount (other than an amount that is part of a series of periodic payments) is transferred directly from an individual's account under a provincial pension plan prescribed for the purpose of paragraph 60(*v*)

(i) to a registered retirement savings plan or registered retirement income fund under which the individual, or a spouse or common-law partner or former spouse or common-law partner of the individual, is the annuitant,

(ii) to acquire from a licensed annuities provider an annuity that would be described in subparagraph 60(*l*)(ii) if the individual, or a spouse or common-law partner or former spouse or common-law partner of the individual, were the taxpayer referred to in that subparagraph and if that subparagraph were read without reference to clause 60(*l*)(ii)(B), or

(iii) to an account under the plan of a spouse or common-law partner or former spouse or common-law partner of the individual, and

(*b*) if the transfer is in respect of a spouse or common-law partner or former spouse or common-law partner of the individual,

(i) the individual and the spouse or common-law partner or former spouse or common-law partner are living separate and apart and the transfer is made under a decree, order or judgment of a competent tribunal, or under a written separation agreement, relating to a division of property in settlement of rights arising out of, or on the breakdown of, their marriage or common-law partnership, or

(ii) the amount is transferred as a consequence of the individual's death,

the following rules apply:

(*c*) the amount shall not, solely because of the transfer, be included because of subparagraph 56(1)(*a*)(i) in computing the income of a taxpayer, and

(*d*) no deduction may be made under any provision of this Act in respect of the transfer in computing the income of a taxpayer.

History: S. 146(21)(*a*) and (*b*) were amended by S.C. 2000, c. 12, Sched. 2, s. 2(g) and 9(j), applicable January 1, 2001, coming into force on July 31, 2000. S. 146(21)(*a*) and (*b*) formerly read:

"(*a*) an amount (other than an amount that is part of a series of periodic payments) is transferred directly from an individual's account under a provincial pension plan prescribed for the purpose of paragraph 60(*v*)

(i) to a registered retirement savings plan or registered retirement income fund under which the individual, or a spouse or former spouse of the individual, is the annuitant,

(ii) to acquire from a licensed annuities provider an annuity that would be described in subparagraph 60(*l*)(ii) if the individual, or a spouse or former spouse of the individual, were the taxpayer referred to in that subparagraph and if that subparagraph were read without reference to clause 60(*l*)(ii)(B), or

(iii) to an account under the plan of a spouse or former spouse of the individual, and

(*b*) if the transfer is in respect of a spouse or former spouse of the individual,

(i) the individual and the spouse or former spouse are living separate and apart and the transfer is made under a decree, order or judgment of a competent tribunal, or under a written separation agreement, relating to a division of property in settlement of rights arising out of, or on the breakdown of, their marriage, or

(ii) the amount is transferred as a consequence of the individual's death,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 146(21) was amended by S.C. 1999, c. 22, s. 59(6), applicable to transfers made after 1994. S. 146(21) formerly read:

"(21) *Prescribed provincial pension plans.* Where an amount (other than an amount that is part of a series of periodic payments) is transferred on behalf of a particular individual directly from a provincial pension plan prescribed for the purpose of paragraph 60(*v*)

(*a*) to a registered retirement savings plan or a registered retirement income fund under which the particular individual is the annuitant,

(*b*) to a registered retirement savings plan or registered retirement income fund under which the spouse or former spouse of the particular individual is the annuitant, where the particular individual and the spouse or former spouse are living separate and apart and the transfer is made

under a decree, order or judgment of a competent tribunal, or under a written separation agreement, relating to a division of property between the particular individual and the spouse or former spouse in settlement of rights arising out of, or on the breakdown of, their marriage,

(*c*) to acquire, from a person licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada an annuities business, an annuity that would be described in subparagraph 60(*l*)(ii) if the particular individual were the taxpayer referred to therein and if that subparagraph were read without reference to clause (B) thereof, or

(*d*) to acquire, from a person licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada an annuities business, an annuity that would be described in subparagraph 60(*l*)(ii) if the particular individual's spouse or former spouse were the taxpayer referred to therein and if that subparagraph were read without reference to clause (B) thereof, where the particular individual and the spouse or former spouse are living separate and apart and the transfer is made under a decree, order or judgment of a competent tribunal, or under a written separation agreement, relating to a division of property between the individual and the spouse or former spouse in settlement of rights arising out of, or on the breakdown of, their marriage,

except where the amount arose as a consequence of the death of an individual (other than the particular individual or a spouse or former spouse of the particular individual),

(*e*) the amount shall not, solely because of that transfer, be included because of subparagraph 56(1)(*a*)(i) in computing the income of a taxpayer, and

(*f*) no deduction may be made under any provision of this Act in respect of the transfer in computing the income of a taxpayer."

S. 146(21) was added by S.C. 1994, c. 21, s. 69(10), applicable to transfers occurring after 1991, except that

(*a*) where a taxpayer elects under subsection 26(10), subsection 146(21) of the Act, does not apply in respect of transfers made on behalf of the taxpayer in 1992; and

(*b*) with respect to transfers made in 1992,

(i) the word "spouse", wherever it appears in subsection 146(21) of the Act, shall have the meaning assigned by subsection 146(1.1) of the Act as it read in its application to that year, and

(ii) the word "marriage" in paragraphs 146(21)(*b*) and (*d*) of the Act, shall be read as "marriage or other conjugal relationship".

Related Sections: S. 212(1)(*h*) Pension benefits; s. 248(1), "common-law partner".

Interpretation Bulletins: *Primary* — IT-528 Transfers of Funds Between Registered Plans.

► 146(22) ◄

(22) Deemed payment of RRSP premiums and provincial pension plan contributions. If the Minister so directs,

(*a*) except for the purposes of subparagraphs (5)(*a*)(iv.1) and (5.1)(*a*)(iv), an amount paid by an individual in a taxation year (other than an amount paid in the first 60 days of the year) as a contribution to an account under a prescribed provincial pension plan or as a premium is deemed to have been paid at the beginning of the year and not at the time it was actually paid;

(*b*) all or part of the amount may be designated in writing by the individual for the purpose of paragraph 60(*j*), (*j*.1) or (*l*) or subsection 146.01(3) or 146.02(3); and

(*c*) the designation is deemed to have been made in the individual's return of income for the preceding taxation year or in a prescribed form filed with that return, as the case may be.

History: S. 146(22) was added by S.C. 1999, c. 22, s. 59(6), applicable to amounts paid after 1997.

Related Sections: S. 146(1), "premium".

Home Buyers' Plan

SECTION 146.01:

2009 Federal Budget Resolution

First-Time Home Buyer's Tax Credit

(6) That the Act be modified consequential on the introduction of the First-Time Home Buyer's Tax Credit in accordance with proposals described in the budget documents tabled by the Minister of Finance in the House of Commons on January 27, 2009.

Editorial Comment: One of the budget measures designed to stimulate the economy through the housing market is the First-Time Home Buyers' Tax Credit (the "FTHBC"). The FTHBC is a new non-refundable tax credit based on an amount of $5,000 and will be available to first-time home buyers who complete a purchase of a home after January 27, 2009. The FTHBC will be calculated by reference to the lowest personal income tax rate for the year and can be claimed for the taxation year in which the home is acquired.

An individual will be considered a first-time home buyer if neither the individual nor the individual's spouse or common-law partner owned and lived in another home in the calendar year of the home purchase or in any of the four preceding calendar years. A qualifying home is one that is currently eligible for the Home Buyers' Plan that the individual or individual's spouse or common-law partner intends to occupy as the principal place of residence not later than one year after its acquisition. It is interesting to compare this with the Ontario land transfer tax refund for first-time home buyers, which contains notable differences. For instance, to qualify for the Ontario land transfer tax refund for first-time home buyers, the purchaser cannot have previously owned a home, or had any ownership interest in a home, anywhere in the world, at any time. Therefore, a person who qualifies for the FTHBC may not qualify for the Ontario land transfer tax refund for first-time home buyers.

The FTHBC will also be available with respect to purchases made for the benefit of individuals entitled to the disability tax credit (a "DTC eligible person"), if the purchase was made to enable the DTC eligible person to live in a home better suited to his or her personal needs. In order to claim the FTHBC, the home must be intended to be the principal residence of the DTC eligible person within one year after acquisition.

The individual acquiring the home, or the individual's spouse or common-law partner can claim the FTHBC. An ownership interest in the particular home for which the FTHBC is claimed must be registered in the applicable provincial land registration system.

Any unused portion of the FTHBC relating to an individual can be claimed by such individual's spouse or common-law partner. A home jointly acquired by two individuals will only create one full FTHBC.

► 146.01(1) ◄

(1) Definitions.

In this section,

"*annuitant*" — "annuitant" has the meaning assigned by subsection 146(1);

History: S. 146.01(1), the definition of "annuitant", was added by S.C. 1994, c. 7, Sched. VIII, s. 83(1), applicable to the 1992 and subsequent taxation years and, in applying section 146.01 of the Act before 1993, subsection 146.01(1) shall be read as though it included the following definition:

"'*spouse*' — 'spouse' has the meaning assigned by subsection 146(1.1)."

"*benefit*" — "benefit" has the meaning assigned by subsection 146(1);

History: S. 146.01(1), the definition of "benefit", was added by S.C. 1994, c. 7, Sched. VIII, s. 83(1), applicable to the 1992 and subsequent taxation years and, in applying section 146.01 of the Act before 1993, subsection 146.01(1) shall be read as though it included the following definition:
" '*spouse*' — 'spouse' has the meaning assigned by subsection 146(1.1)."

"*completion date*" — "completion date", in respect of an amount received by an individual, is

(*a*) where the amount was received before March 2, 1993, October 1, 1993,

(*b*) where the amount was received after March 1, 1993 and before March 2, 1994, October 1, 1994, and

(*c*) in any other case, October 1 of the calendar year following the calendar year in which the amount was received;

History: S. 146.01(1), paragraph (*b*) was amended and paragraph (*c*) of the definition "completion date" was added by S.C. 1995, c. 3, s. 44(1), applicable to the 1994 and subsequent taxation years. Paragraph (*b*) formerly read:
"(*b*) in any other case, October 1, 1994;"
S. 146.01(1), the definition "completion date", was added by S.C. 1994, c. 8, s. 19(3), applicable to the 1992 and subsequent taxation years.

"*designated withdrawal*" — "designated withdrawal" of an individual is an amount received by the individual, as a benefit out of or under a registered retirement savings plan, pursuant to the individual's written request in the prescribed form referred to in paragraph (*a*) of the definition "eligible amount" (as that definition read in its application to amounts received before 1999), paragraph (*a*) of the definition "regular eligible amount" or paragraph (*a*) of the definition "supplemental eligible amount";

History: S. 146.01(1), the definition "designated withdrawal" was added by S.C. 1999, c. 22, s. 60(4), applicable after 1998.
Related Sections: S. 146(8.01) Subsequent re-calculation.

"*eligible amount*" — "eligible amount" of an individual is a regular eligible amount or supplemental eligible amount of the individual;

History: S. 146.01(1), the definition "eligible amount" was amended by S.C. 1999, c. 22, s. 60(1), applicable to amounts received after 1998. S. 146.01(1), the definition "eligible amount" formerly read:
" '*eligible amount*' — 'eligible amount' in respect of an individual means an amount received at a particular time by the individual as a benefit out of or under a registered retirement savings plan where
(*a*) the amount is received after February 25, 1992 pursuant to the written request of the individual in prescribed form in which the individual sets out the location of a qualifying home that the individual has begun, or intends not later than one year after its acquisition by the individual to begin, using as a principal place of residence,
(*b*) the individual is resident in Canada at the particular time and entered into an agreement in writing before the particular time for the acquisition of the qualifying home or with respect to its construction,
(*c*) the individual acquires the qualifying home (or replacement property for the qualifying home) after February 25, 1992 and before the completion date in respect of the amount,
(*d*) neither the individual nor the individual's spouse acquired the qualifying home more than 30 days before the particular time,
(*d.1*) if the particular time is after March 1, 1994,
(i) the individual did not have an owner-occupied home in the period that began at the beginning of the fourth preceding calendar year that ended before the particular time and ended on the 31st day before the particular time, and
(ii) the individual's spouse did not have an owner-occupied home in the period referred to in subparagraph (i)
(A) that is inhabited by the individual during the spouse's marriage to the individual, or
(B) that is a share of the capital stock of a cooperative housing corporation that relates to a housing unit that is inhabited by the individual during the spouse's marriage to the individual,
(*e*) unless the individual acquired the qualifying home before the particular time, the individual is resident in Canada throughout the period beginning immediately after the particular time and ending at the earliest of any time at which the individual acquired the qualifying home or any replacement property for the qualifying home,
(*f*) the total of the amount and all eligible amounts received by the individual at or before the particular time does not exceed $20,000,
(*g*) if the particular time is after March 1, 1993 and before March 2, 1994, neither the individual, nor another individual who was, at any time after February 25, 1992 and before the particular time, a spouse of the individual, received an eligible amount before March 2, 1993,
(*h*) if the particular time is after March 1, 1994 and before 1995, the individual did not receive an eligible amount before March 2, 1994, and
(*i*) if the particular time is after 1994, the individual did not receive an eligible amount before the calendar year that includes the particular time;"
S. 146.01(1), paragraph (*a*) of the definition "eligible amount" was amended by S.C. 1995, c. 3, s. 44(2), applicable to the 1994 and subsequent taxation years. That paragraph formerly read:
"(*a*) the amount is received after February 25, 1992 and before March 2, 1994 pursuant to the written request of the individual in prescribed form in which the individual sets out the location of a qualifying home that the individual has begun, or intends not later than one year after its acquisition by the individual to begin, using as a principal place of residence,"
S. 146.01(1), paragraph (*d.1*) of the definition "eligible amount" was added by S.C. 1995, c. 3, s. 44(3), applicable to the 1994 and subsequent taxation years.
S. 146.01(1), paragraph (*g*) was amended and paragraphs (*h*) and (*i*) of the definition "eligible amount" were added by S.C. 1995, c. 3, s. 44(4), applicable to the 1992 and subsequent taxation years in respect of paragraph (g); and to the 1994 and subsequent taxation years in respect of paragraphs (h) and (i). Paragraph (*g*) formerly read:
"(*g*) if the particular time is after March 1, 1993, neither the individual, nor another individual who was, at any time after February 25, 1992 and before the particular time, a spouse of the individual, received an eligible amount before March 2, 1993;"
S. 146.01(1), the definition "eligible amount", was amended by S.C. 1994, c. 8, s. 19(1), applicable to the 1992 and subsequent taxation years. That definition formerly read:
" 'eligible amount' in respect of an individual means an amount received at a particular time by the individual as a benefit out of or under a registered retirement savings plan where
(*a*) the amount is received after February 25, 1992 and before March 2, 1993 pursuant to the written request of the individual in prescribed form in which the individual sets out the location of a qualifying home that the individual has begun, or intends not later than one year after its acquisition by the individual to begin, using as a principal place of residence,
(*b*) the individual is resident in Canada at the particular time and entered into an agreement in writing before the particular time for the acquisition of the qualifying home or with respect to its construction,
(*c*) the individual acquires the qualifying home (or replacement property for the qualifying home) after February 25, 1992 and before October 1, 1993,
(*d*) neither the individual nor the individual's spouse acquired the qualifying home more than 30 days before the particular time,
(*e*) unless the individual acquired the qualifying home before the particular time, the individual is resident in Canada throughout the period beginning immediately after the particular time and ending at the earliest of any time at which the individual acquired the qualifying home or any replacement property for the qualifying home, and
(*f*) the total of the amount and all eligible amounts received by the individual at or before the particular time does not exceed $20,000;"
S. 146.01(1), the definition "eligible amount", was added by S.C. 1994, c. 7, Sched. VIII, s. 83(1), applicable to the 1992 and subsequent taxation years and, in applying section 146.01 of the Act before 1993, subsection 146.01(1) shall be read as though it included the following definition:
" '*spouse*' — 'spouse' has the meaning assigned by subsection 146(1.1)."

Related Sections: S. 146(5)(*a*)(iv.1) Amount of RRSP premiums deductible; s. 146(5.1)(*a*)(iv) Amount of spousal RRSP premiums deductible; s. 146(8) Benefits taxable; s. 146.01(4) Portion of eligible amount not repaid.
Regulations: 214(1)(b).
Forms: T1036.

"*excluded premium*" — "excluded premium" in respect of an individual means a premium under a registered retirement savings plan where the premium

(*a*) was designated by the individual for the purposes of paragraph 60(*j*), (*j.1*), (*j.2*) or (*l*),

(*b*) was an amount transferred directly from a registered retirement savings plan, registered pension plan, registered retirement income fund, deferred profit sharing plan or a provincial pension plan prescribed for the purpose of paragraph 60(*v*),

(*c*) was deductible under subsection 146(6.1) in computing the individual's income for any taxation year, or

(*d*) was deducted in computing the individual's income for the 1991 taxation year;

History: S. 146.01(1), paragraph (*b*) of the definition "excluded premium", was added by S.C. 1994, c. 21, s. 70(1), applicable to the 1992 and subsequent taxation years. S. 146.01(1), paragraph (*b*) of the definition "excluded premium" formerly read:

"(*b*) was an amount transferred directly from a registered retirement savings plan, registered pension plan, registered retirement income fund or deferred profit sharing plan,"

S. 146.01(1), the definition of "excluded premium", was added by S.C. 1994, c. 7, Sched. VIII, s. 83(1), applicable to the 1992 and subsequent taxation years and, in applying section 146.01 of the Act before 1993, subsection 146.01(1) shall be read as though it included the following definition:

"*'spouse'* — 'spouse' has the meaning assigned by subsection 146(1.1)."

"*excluded withdrawal*" — "excluded withdrawal" of an individual means

(*a*) an eligible amount received by the individual,

(*b*) a particular amount (other than an eligible amount) received while the individual was resident in Canada and in a calendar year if

(i) the particular amount would be an eligible amount of the individual if the definition "regular eligible amount" were read without reference to paragraphs (*c*) and (*g*) of that definition and the definition "supplemental eligible amount" were read without reference to paragraphs (*d*) and (*f*) of that definition,

(ii) a payment (other than an excluded premium) equal to the particular amount is made by the individual under a retirement saving plan that is, at the end of the taxation year of the payment, a registered retirement savings plan under which the individual is the annuitant,

(iii) the payment is made before the particular time that is

(A) if the individual was not resident in Canada at the time the individual filed a return of income for the taxation year in which the particular amount was received, the earlier of

(I) the end of the following calendar year, and

(II) the time at which the individual filed the return,

(B) where clause (A) does not apply and the particular amount would, but for subclause (2)(*c*)(ii)(A)(II), be an eligible amount, the end of the second following calendar year, and

(C) in any other case, the end of the following calendar year, and

(iv) either

(A) if the particular time is before 2000, the payment is made, as a repayment of the particular amount, to the issuer of the registered retirement savings plan from which the particular amount was received, no other payment is made as a repayment of the particular amount and that issuer is notified of the payment in prescribed form submitted to the issuer at the time the payment is made, or

(B) the payment is made after 1999 and before the particular time and the payment (and no other payment) is designated under this clause as a repayment of the particular amount in prescribed form filed with the Minister on or before the particular time (or before such later time as is acceptable to the Minister), or

(*c*) an amount (other than an eligible amount) that is received in a calendar year before 1999 and that would be an eligible amount of the individual if the definition "eligible amount", as it applied to amounts received before 1999, were read without reference to paragraphs (*c*) and (*e*) of that definition, where the individual

(i) died before the end of the following calendar year, and

(ii) was resident in Canada throughout the period that began immediately after the amount was received and ended at the time of the death;

History: S. 146.01(1), the definition "excluded withdrawal" was amended by S.C. 1999, c. 22, s. 60(2), applicable to amounts received after 1996, except that the portion of paragraph (*b*) of the definition "excluded withdrawal" in subsection 146.01(1) of the Act before subparagraph (ii), as enacted by subsection (2), shall in its application to amounts received before 1999 be read as follows:

"(*b*) a particular amount (other than an eligible amount), received in a calendar year, that would be an eligible amount of the individual if

(i) the definition 'eligible amount' were read without reference to paragraphs (*c*) and (*e*) of that definition,"

S. 146.01(1), the definition "excluded withdrawal" formerly read:

"*'excluded withdrawal'* — 'excluded withdrawal' in respect of an individual means

(*a*) an eligible amount received by the individual, or

(*b*) an amount (other than an eligible amount) that would, if the definition 'eligible amount' were read without reference to paragraphs (*c*) and (*e*) thereof, be an eligible amount received by the individual out of or under a registered retirement savings plan in respect of which a person is the issuer, where either

(i) the individual

(A) died before the end of the calendar year that includes the completion date in respect of the amount, and

(B) was resident in Canada throughout the period beginning immediately after the amount was received and ending at the time of the death, or

(ii) the amount is repaid before the end of the calendar year described in clause (i)(A) to a registered retirement savings plan in respect of which the person is the issuer (or, where the individual was not resident in Canada at the time the individual filed a return of income under this Part for the taxation year in which the amount was received by the individual, before the earlier of the end of the calendar year described in clause (i)(A) and the time at which the individual filed that return) and the issuer is notified of the repayment in prescribed form submitted to the issuer at the time the repayment is made,

except that where an amount would, but for subclause (2)(*c*)(ii)(A)(II), be an eligible amount, subparagraph (*b*)(ii) applies in respect of the amount as if the first reference therein to 'described in clause (i)(A)' were read as 'following the calendar year described in clause (i)(A)';"

S. 146.01(1), the definition "excluded withdrawal", the portion after paragraph (*a*), was amended by S.C. 1994, c. 8, s. 19(2), applicable to the 1992 and subsequent taxation years. That part formerly read:

"(*b*) an amount (other than an eligible amount) that would, if the definition 'eligible amount' were read without reference to paragraphs (*c*) and (*e*) of that definition, be an eligible amount received by the individual out of or under a registered retirement savings plan in respect of which a person is the issuer, where either

(i) the individual died before 1994 and was resident in Canada throughout the period beginning immediately after the amount was received and ending at the time of the death, or

(ii) the amount is repaid before 1994 to a registered retirement savings plan in respect of which the person is the issuer (or, where the individual was not resident in Canada at the time the individual filed a return of income under this Part for the taxation year in which the amount was received by the individual, before the earlier of January 1, 1994 and the time the individual filed that return) and the issuer is notified of the repayment in prescribed form submitted to the issuer at the time the repayment is made,

except that, where an amount would, but for subclause (2)(*c*)(ii)(A)(II), be an eligible amount, subparagraph (*b*)(ii) applies in respect of the amount as if the first reference therein to '1994' were '1995';"

S. 146.01(1), the definition "excluded withdrawal", was added by S.C. 1994, c. 7, Sched. VIII, s. 83(1), applicable to the 1992 and subsequent taxation years and, in applying section 146.01 of the Act before 1993, subsection 146.01(1) shall be read as though it included the following definition:

"*'spouse'* — 'spouse' has the meaning assigned by subsection 146(1.1)."

Editorial Note: Withdrawals from registered retirement savings plans are generally included in income under subsection 146(8) and paragraph 56(1)(*h*). An exception applies to an excluded withdrawal under the home

buyers' plan rules that were introduced in 1992. Up to $25,000 can be withdrawn for the purchase of a qualifying home by October 1 of the year following the year of withdrawal (see definition of "regular eligible amount"). An individual can also withdraw up to $25,000 for the purchase of a home by a specified disabled person (see definition of "supplemental eligible amount"). Amounts withdrawn under the home buyers' rules must generally be repaid to the individual's RRSP within a 15-year period, beginning with the second year following the year of withdrawal. Where withdrawn amounts ultimately are not used to purchase a qualifying home (but they otherwise met the requirements under the home buyers' plan), they must generally be repaid by the end of the following year. If the withdrawn amounts are not repaid, they are included in income.

Related Sections: S. 146(1), "premium"; s. 146(8) Benefits taxable; s. 146(8.01) Subsequent re-calculation; s. 146.02(1), "excluded premium".

"HBP balance" — "HBP balance" of an individual at any time means the amount, if any, by which the total of all eligible amounts received by the individual at or before that time exceeds the total of

(*a*) all amounts designated under subsection (3) by the individual for taxation years that ended before that time, and

(*b*) all amounts each of which is included under subsection (4) or (5) in computing the individual's income for a taxation year that ended before that time;

History: S. 146.01(1), the definition "HBP balance" was added by S.C. 1999, c. 22, s. 60(4), applicable after 1998.

Related Sections: S. 150(1.1) Exception.

"issuer" — "issuer" has the meaning assigned by subsection 146(1);

History: S. 146.01(1), the definition of "issuer", was added by S.C. 1994, c. 7, Sched. VIII, s. 83(1), applicable to the 1992 and subsequent taxation years and, in applying section 146.01 of the Act before 1993, subsection 146.01(1) shall be read as though it included the following definition: "*'spouse'*— 'spouse' has the meaning assigned by subsection 146(1.1)."

"participation period" — "participation period" of an individual means each period

(*a*) that begins at the beginning of a calendar year in which the individual receives an eligible amount, and

(*b*) that ends immediately before the beginning of the first subsequent calendar year at the beginning of which the individual's HBP balance is nil;

History: S. 146.01(1), the definition "participation period" was added by S.C. 1999, c. 22, s. 60(4), applicable after 1998.

"premium" — "premium" has the meaning assigned by subsection 146(1);

History: S. 146.01(1), the definition of "premium", was added by S.C. 1994, c. 7, Sched. VIII, s. 83(1), applicable to the 1992 and subsequent taxation years and, in applying section 146.01 of the Act before 1993, subsection 146.01(1) shall be read as though it included the following definition: "*'spouse'*— 'spouse' has the meaning assigned by subsection 146(1.1)."

"qualifying home" — "qualifying home" means

(*a*) a housing unit located in Canada, or

(*b*) a share of the capital stock of a cooperative housing corporation, the holder of which is entitled to possession of a housing unit located in Canada,

except that, where the context so requires, a reference to a qualifying home that is a share described in paragraph (*b*) means the housing unit to which the share described in that paragraph relates;

History: S. 146.01(1), the definition of "qualifying home", was added by S.C. 1994, c. 7, Sched. VIII, s. 83(1), applicable to the 1992 and subsequent taxation years and, in applying section 146.01 of the Act before 1993, subsection 146.01(1) shall be read as though it included the following definition: "*'spouse'*— 'spouse' has the meaning assigned by subsection 146(1.1)."

"quarter" — "quarter" means any of the following periods in a calendar year:

(*a*) the period beginning on January 1 and ending on March 31,

(*b*) the period beginning on April 1 and ending on June 30,

(*c*) the period beginning on July 1 and ending on September 30, and

(*d*) the period beginning on October 1 and ending on December 31;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The definition "quarter" in subsection 146.01(1) of the Act is repealed.

"quarter" — [Repealed.]

Applicable: In respect of the 2002 and subsequent taxation years.

Explanatory Note:

Definitions

"quarter"

Subsection 146.01(1) of the Act contains the definition "quarter" for purposes of the rules relating to the HBP. This definition is repealed as a consequence of the repeal of subsection 146.01(8) of the Act, where this definition applied. The repeal of this definition applies for the 2002 and subsequent taxation years.

History: S. 146.01(1), the definition of "quarter", was added by S.C. 1994, c. 7, Sched. VIII, s. 83(1), applicable to the 1992 and subsequent taxation years and, in applying section 146.01 of the Act before 1993, subsection 146.01(1) shall be read as though it included the following definition: "*'spouse'*— 'spouse' has the meaning assigned by subsection 146(1.1)."

"regular eligible amount" — "regular eligible amount" of an individual means an amount received at a particular time by the individual as a benefit out of or under a registered retirement savings plan if

(*a*) the amount is received pursuant to the individual's written request in a prescribed form in which the individual sets out the location of a qualifying home that the individual has begun, or intends not later than one year after its acquisition by the individual to begin, using as a principal place of residence,

(*b*) the individual entered into an agreement in writing before the particular time for the acquisition of it or with respect to its construction,

(*c*) the individual

(i) acquires the qualifying home (or a replacement property for the qualifying home) before the completion date in respect of the amount, or

(ii) dies before the end of the calendar year that includes the completion date in respect of the amount,

(*d*) neither the individual nor the individual's spouse or common-law partner acquired the qualifying home more than 30 days before the particular time,

(*e*) the individual did not have an owner-occupied home in the period

(i) that began at the beginning of the fourth preceding calendar year that ended before the particular time, and

(ii) that ended on the 31st day before the particular time,

(*f*) the individual's spouse or common-law partner did not, in the period referred to in paragraph (*e*), have an owner-occupied home

(i) that was inhabited by the individual during the spouse's or common-law partner's marriage or common-law partnership to the individual, or

(ii) that was a share of the capital stock of a cooperative housing corporation that relates to a housing unit inhabited by the individual during the spouse's or common-law partner's marriage or common-law partnership to the individual,

(*g*) the individual

(i) acquired the qualifying home before the particular time and is resident in Canada at the particular time, or

(ii) is resident in Canada throughout the period that begins at the particular time and ends at the earlier of the time of the individual's death and the earliest time at which the individual acquires the qualifying home or a replacement property for it,

(*h*) the total of the amount and all other eligible amounts received by the individual in the calendar year that includes the particular time does not exceed $25,000, and

(*i*) the individual's HBP balance at the beginning of the calendar year that includes the particular time is nil;

History: S. 146.01(1), paragraph (*h*) of the definition "regular eligible amount" was replaced by S.C. 2009, c. 2, s. 52(1), applicable to the 2009 and subsequent taxation years in respect of withdrawals made after January 27, 2009. S. 146.01(1), paragraph (*h*) of the definition "regular eligible amount" formerly read:

"(*h*) the total of the amount and all other eligible amounts received by the individual in the calendar year that includes the particular time does not exceed $20,000, and"

S. 146.01(1), paragraph (*d*) of the definition "regular eligible amount" was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.19), applicable January 1, 2001, coming into force on July 31, 2000. S. 146.01(1), paragraph (*d*) of the definition "regular eligible amount" formerly read:

"(*d*) neither the individual nor the individual's spouse acquired the qualifying home more than 30 days before the particular time,"

S. 146.01(1), the portion of paragraph (*f*) of the definition "regular eligible amount" before subparagraph (i), was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.19), applicable January 1, 2001, coming into force on July 31, 2000. S. 146.01(1), the portion of paragraph (*f*) of the definition "regular eligible amount" before subparagraph (i) formerly read:

"(*f*) the individual's spouse did not, in the period referred to in paragraph (*e*), have an owner-occupied home"

S. 146.01(1), subparagraphs (*f*)(i) and (ii) of the definition "regular eligible amount" were amended by S.C. 2000, c. 12, Sched. 2, s. 7(h) and 9(k), applicable January 1, 2001, coming into force on July 31, 2000. S. 146.01(1), subparagraphs (*f*)(i) and (ii) of the definition "regular eligible amount" formerly read:

"(i) that was inhabited by the individual during the spouse's marriage to the individual, or

(ii) that was a share of the capital stock of a cooperative housing corporation that relates to a housing unit inhabited by the individual during the spouse's marriage to the individual,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 146.01(1), the definition "regular eligible amount" was added by S.C. 1999, c. 22, s. 60(4), applicable to amounts received after 1998.

Related Sections: S. 248(1), "common-law partner".

"replacement property" — "replacement property" for a particular qualifying home in respect of an individual, or of a specified disabled person in respect of the individual, means another qualifying home that

(*a*) the individual or the specified disabled person agrees to acquire, or begins the construction of, at a particular time that is after the latest time that the individual made a request described in the definition "designated withdrawal" in respect of the particular qualifying home,

(*b*) at the particular time, the individual intends to be used by the individual or the specified disabled person as a principal place of residence not later than one year after its acquisition, and

(*c*) none of the individual, the individual's spouse or common-law partner, the specified disabled person or that person's spouse or common-law partner had acquired before the particular time;

History: S. 146.01(1), paragraph (*c*) of the definition "replacement property" was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.19), applicable January 1, 2001, coming into force on July 31, 2000. S. 146.01(1), paragraph (*c*) of the definition "replacement property" formerly read:

"(*c*) none of the individual, the individual's spouse, the specified disabled person or that person's spouse had acquired before the particular time;"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 146.01(1), the definition "replacement property" was amended by S.C. 1999, c. 22, s. 60(3), applicable after 1998. S. 146.01(1), the definition "replacement property" formerly read:

"*'replacement property'* — 'replacement property' for a particular qualifying home in respect of an individual means another qualifying home where

(*a*) the individual

(i) agreed to acquire, or

(ii) began the construction of

the other qualifying home at a particular time that is after the latest time that the individual requested a withdrawal in respect of the particular qualifying home under paragraph (*a*) of the definition 'eligible amount',

(*b*) the individual intended, at the particular time, that the other qualifying home be used by the individual as a principal place of residence not later than one year after its acquisition, and

(*c*) neither the individual nor the individual's spouse had acquired the other qualifying home before the particular time."

S. 146.01(1), the definition of "replacement property", was added by S.C. 1994, c. 7, Sched. VIII, s. 83(1), applicable to the 1992 and subsequent taxation years and, in applying section 146.01 of the Act before 1993, subsection 146.01(1) shall be read as though it included the following definition:

"*'spouse'* — 'spouse' has the meaning assigned by subsection 146(1.1)."

Related Sections: S. 248(1), "common-law partner".

"specified disabled person" — "specified disabled person", in respect of an individual at any time, means a person who

(*a*) is the individual or is related at that time to the individual, and

(*b*) would be entitled to a deduction under subsection 118.3(1) in computing tax payable under this Part for the person's taxation year that includes that time if that subsection were read without reference to paragraph (*c*) of that subsection;

History: S. 146.01(1), the definition "specified disabled person" was added by S.C. 1999, c. 22, s. 60(4), applicable after 1998.

"supplemental eligible amount" — "supplemental eligible amount" of an individual means an amount received at a particular time by the individual as a benefit out of or under a registered retirement savings plan if

(*a*) the amount is received pursuant to the individual's written request in a prescribed form identifying a specified disabled person in respect of the individual and setting out the location of a qualifying home

(i) that has begun to be used by that person as a principal place of residence, or

(ii) that the individual intends to be used by that person as a principal place of residence not later than one year after its first acquisition after the particular time,

(*b*) the purpose of receiving the amount is to enable the specified disabled person to live

(i) in a dwelling that is more accessible by that person or in which that person is more mobile or functional, or

(ii) in an environment better suited to the personal needs and care of that person,

(*c*) the individual or the specified disabled person entered into an agreement in writing before the particular time for the acquisition of the qualifying home or with respect to its construction,

(*d*) either

(i) the individual or the specified disabled person acquires the qualifying home (or a replacement property for it) after 1998 and before the completion date in respect of the amount, or

(ii) the individual dies before the end of the calendar year that includes the completion date in respect of the amount,

(*e*) none of the individual, the spouse or common-law partner of the individual, the specified disabled person or the spouse or common-law partner of that person acquired the qualifying home more than 30 days before the particular time,

(*f*) either

(i) the individual or the specified disabled person acquired the qualifying home before the particular time and the individual is resident in Canada at the particular time, or

(ii) the individual is resident in Canada throughout the period that begins at the particular time and ends at the earlier of the time of the individual's death and the earliest time at which

(A) the individual acquires the qualifying home or a replacement property for it, or

(B) the specified disabled person acquires the qualifying home or a replacement property for it,

(*g*) the total of the amount and all other eligible amounts received by the individual in the calendar year that includes the particular time does not exceed $25,000, and

(*h*) the individual's HBP balance at the beginning of the calendar year that includes the particular time is nil.

History: S. 146.01(1), paragraph (*g*) of the definition "supplemental eligible amount" was replaced by S.C. 2009, c. 2, s. 52(2), applicable to the 2009 and subsequent taxation years in respect of withdrawals made after January 27, 2009. S. 146.01(1), paragraph (*g*) of the definition "supplemental eligible amount" formerly read:

"(*g*) the total of the amount and all other eligible amounts received by the individual in the calendar year that includes the particular time does not exceed $20,000, and"

S. 146.01(1), paragraph (*e*) of the definition "supplemental eligible amount" was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.19), applicable January 1, 2001, coming into force on July 31, 2000. S. 146.01(1), paragraph (*e*) of the definition "supplemental eligible amount" formerly read:

"(*e*) none of the individual, the spouse of the individual, the specified disabled person or the spouse of that person acquired the qualifying home more than 30 days before the particular time,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 146.01(1), the definition "supplemental eligible amount" was added by S.C. 1999, c. 22, s. 60(4), applicable to amounts received after 1998.

Related Sections: S. 248(1), "common-law partner".

► 146.01(2) ◄

(2) Special Rules. For the purposes of this section,

(*a*) an individual shall be considered to have acquired a qualifying home if the individual acquired it jointly with one or more other persons;

(*a.1*) an individual shall be considered to have an owner-occupied home at any time where, at that time, the individual owns, whether jointly with another person or otherwise, a housing unit or a share of the capital stock of a cooperative housing corporation and

(i) the housing unit is inhabited by the individual as the individual's principal place of residence at that time, or

(ii) the share was acquired for the purpose of acquiring a right to possess a housing unit owned by the corporation and that unit is inhabited by the individual as the individual's principal place of residence at that time;

(*b*) where an individual agrees to acquire a condominium unit, the individual shall be deemed to have acquired it on the day the individual is entitled to immediate vacant possession of it;

(*c*) except for the purposes of subparagraph (*g*)(ii) of the definition "regular eligible amount" and subparagraph (*f*)(ii) of the definition "supplemental eligible amount", an individual or a specified disabled person in respect of the individual is deemed to have acquired, before the completion date in respect of a designated withdrawal received by the individual, the qualifying home in respect of which the designated withdrawal was received if

(i) neither the qualifying home nor a replacement property for it was acquired by the individual or the specified disabled person before that completion date, and

(ii) either

(A) the individual or the specified disabled person

(I) is obliged under the terms of a written agreement in effect on that completion date to acquire the qualifying home (or a replacement property for it) on or after that date, and

(II) acquires the qualifying home or a replacement property for it before the day that is one year after that completion date, or

(B) the individual or the specified disabled person made payments, the total of which equalled or exceeded the total of all designated withdrawals that were received by the individual in respect of the qualifying home,

(I) to persons with whom the individual was dealing at arm's length,

(II) in respect of the construction of the qualifying home or a replacement property for it, and

(III) in the period that begins at the time the individual first received a designated withdrawal in respect of the qualifying home and that ends before that completion date; and

(*d*) an amount received by an individual in a particular calendar year is deemed to have been received by the individual at the end of the preceding calendar year and not at any other time if

(i) the amount is received in January of the particular year (or at such later time as is acceptable to the Minister),

(ii) the amount would not be an eligible amount if this section were read without reference to this paragraph, and

(iii) the amount would be an eligible amount if the definition "regular eligible amount" in subsection (1) were read without reference to paragraph (*i*) of that definition and the definition "supplemental eligible amount" were read without reference to paragraph (*h*) of that definition.

(*e*) [Repealed by S.C. 1999, c. 22, s. 60(5).]

(*f*) [Repealed by S.C. 1999, c. 22, s. 60(5).]

History: S. 146.01(2)(*c*) and (*d*) were amended, and paragraphs (*e*) and (*f*) were repealed by S.C. 1999, c. 22, s. 60(5), applicable to amounts received after 1998. S. 146.01(2)(*c*) to (*f*) formerly read:

"(*c*) where

(i) neither a qualifying home in respect of which an individual withdrew an amount described in paragraph (*a*) of the definition 'eligible amount' in subsection (1) nor a replacement property for the qualifying home has been acquired by the individual before the completion date in respect of the amount, and

(ii) either

(A) the individual

(I) is obliged under the terms of a written agreement in effect on that completion date to acquire the qualifying home (or a replacement property for the qualifying home) on or after that date,

(II) acquires the qualifying home or a replacement property for the qualifying home before the day that is one year after that completion date, and

(III) is resident in Canada throughout the period beginning on that completion date and ending on the earlier of October 1 in the first calendar year beginning after that date and the earliest of any day on which the individual acquires the qualifying home or a replacement property for the qualifying home, or

(B) the individual made payments

(I) to persons with whom the individual was dealing at arm's length,

(II) in respect of the construction of the qualifying home or a replacement property for the qualifying home, and

(III) in the period beginning at the time the individual first withdrew an amount described in paragraph (*a*) of that definition in respect of the qualifying home and ending before that completion date, and the total of all payments so made was not less than the total of all amounts described in that paragraph in respect of the qualifying home that were withdrawn by the individual,

except for the purpose of this paragraph, the individual shall be deemed to have acquired the qualifying home before that completion date;

(*d*) where

(i) an individual or a spouse of the individual receives an eligible amount before March 2, 1993,

(ii) at a particular time after March 1, 1993 and before April 1993 (or at such later time in 1993 as is acceptable to the Minister), the individual receives another amount that would, if the definition 'eligible amount' in subsection (1) were read without reference to paragraph (*g*) thereof, be an eligible amount, and

(iii) the request described in paragraph (*a*) of the definition 'eligible amount' in subsection (1) pursuant to which the other amount was received was made before March 2, 1993 or at such later time as is acceptable to the Minister,

except for the purposes of paragraphs (*a*) to (*f*) of the definition 'eligible amount' in subsection (1) and the purposes of this paragraph, the other amount shall be deemed to have been received by the individual on March 1, 1993 and not at the particular time and any premium paid by the individual or the individual's spouse after March 1, 1993 and before the particular time under a registered retirement savings plan shall be deemed to have been paid on March 1, 1993;

(*e*) where

(i) at a particular time after March 1, 1994 and before April 1994 (or at such later time in 1994 as is acceptable to the Minister), an individual receives an amount that would, if paragraph (*g*) of the definition 'eligible amount' in subsection (1) were read without reference to the words 'and before March 2, 1994' and that definition were read without reference to paragraphs (*d.1*) and (*h*) thereof, be an eligible amount,

(ii) the request described in paragraph (*a*) of the definition 'eligible amount' in subsection (1) pursuant to which the amount was received was made before March 2, 1994 or, where the individual received an eligible amount before March 2, 1994, at such later time as is acceptable to the Minister, and

(iii) the individual does not elect by notifying the Minister in writing before the end of 1995 that this paragraph not apply

except for the purposes of this paragraph and paragraphs (*a*) to (*f*) of the definition 'eligible amount' in subsection (1), that amount shall be deemed to have been received by the individual on March 1, 1994 and not at the particular time and any premium paid under a registered retirement savings plan by the individual or the individual's spouse after March 1, 1994 and before the particular time shall be deemed to have been paid on March 1, 1994; and

(*f*) where

(i) an individual receives an eligible amount in a particular calendar year,

(ii) at a particular time in January of the following calendar year (or at such later time in that following year as is acceptable to the Minister), an individual receives another amount that would, if the definition 'eligible amount' in subsection (1) were read without reference to paragraph (*i*) thereof, be an eligible amount, and

(iii) the request described in paragraph (*a*) of the definition 'eligible amount' in subsection (1) pursuant to which the other amount was received was made before the end of the particular calendar year

except for the purposes of this paragraph and paragraphs (*a*) to (*h*) of the definition 'eligible amount' in subsection (1), the other amount shall be deemed to have been received by the individual at the end of the particular calendar year and not at the particular time."

S. 146.01(2)(*a.1*) was added by S.C. 1995, c. 3, s. 44(5), applicable to the 1994 and subsequent taxation years.

S. 146.01(2)(*d*)(ii) and (iii) were amended by S.C. 1995, c. 3, s. 44(6), applicable to the 1992 and subsequent taxation years. S. 146.01(2)(*d*)(ii) and (iii) formerly read:

"(ii) at a particular time after March 1, 1993 and before April 1993 the individual receives another amount that would, if the reference to 'March 1, 1993' in paragraph (*g*) of the definition 'eligible amount' in subsection (1) were read as 'March 1993', be an eligible amount, and

(iii) the request described in paragraph (*a*) of the definition 'eligible amount' in subsection (1) pursuant to which the other amount was received was made before March 2, 1993;"

S. 146.01(2)(*e*) was amended and paragraph (*f*) was added by S.C. 1995, c. 3, s. 44(7), applicable to the 1995 and subsequent taxation years in respect of paragraph 146.01(2)(*f*); and to the 1992 and subsequent taxation years in respect of paragraph 146.01(2)(*e*). S. 146.01(2)(*e*) formerly read:

"(*e*) where

(i) at a particular time after March 1, 1994 and before April 1994, an individual receives an amount that would, if the reference to 'March 2, 1994' in paragraph (*a*) of the definition 'eligible amount' in subsection (1) were read as 'April 1994', be an eligible amount, and

(ii) the request described in paragraph (*a*) of the definition 'eligible amount' in subsection (1) pursuant to which the amount was received was made before March 2, 1994,

except for the purposes of paragraphs (*b*) to (*g*) of the definition 'eligible amount' in subsection (1) and the purposes of this paragraph, that amount shall be deemed to have been received by the individual on March 1, 1994 and not at the particular time and any premium paid by the individual or the individual's spouse after March 1, 1994 and before the particular time under a registered retirement savings plan shall be deemed to have been paid on March 1, 1994;"

S. 146.01(2)(*c*) was amended, and paragraphs 146.01(2)(*d*) and (*e*) were added, by S.C. 1994, c. 8, s. 19(4), applicable to the 1992 and subsequent taxation years. S. 146.01(2)(*c*) formerly read:

"(*c*) where

(i) neither a qualifying home in respect of which an individual withdrew an amount described in paragraph (*a*) of the definition 'eligible amount' in subsection (1) nor a replacement property for the qualifying home has been acquired by the individual before October 1, 1993, and

(ii) either

(A) the individual

(I) is obliged under the terms of a written agreement in effect on October 1, 1993 to acquire the qualifying home (or a replacement property for the qualifying home) on or after that day,

(II) acquires the qualifying home or a replacement property for the qualifying home before October 1, 1994, and

(III) is resident in Canada throughout the period beginning on October 1, 1993 and ending on the earlier of October 1, 1994 and the earliest of any day on which the individual acquires the qualifying home or a replacement property for the qualifying home, or

(B) the individual made payments

(I) to persons with whom the individual was dealing at arm's length,

(II) in respect of the construction of the qualifying home or a replacement property for the qualifying home, and

(III) in the period beginning at the time the individual first withdrew an amount described in paragraph (*a*) of that definition in respect of the qualifying home and ending before October 1, 1993,

and the total of all payments so made was not less than the total of all amounts described in that paragraph in respect of the qualifying home that were withdrawn by the individual,

except for the purposes of this paragraph, the individual shall be deemed to have acquired the qualifying home on September 30, 1993."

S. 146.01(2) was added by S.C. 1994, c. 7, Sched. VIII, s. 83(1), applicable to the 1992 and subsequent taxation years.

► 146.01(3) ◄

(3) Repayment of eligible amount. An individual may designate a single amount for a taxation year in a prescribed form filed with the individual's return of income for the year if the amount does not exceed the lesser of

(*a*) the total of all amounts (other than excluded premiums, repayments to which paragraph (*b*) of the definition "excluded withdrawal" in subsection (1) applies and amounts paid by the individual in the first 60 days of the year that can reasonably be considered to have been deducted in computing the individual's income, or designated under this subsection, for the preceding taxation year) paid by the individual in the year or within 60 days after the end of the year under a retirement savings plan that is at the end of the year or the following taxation year a registered retirement savings plan under which the individual is the annuitant, and

(*b*) the amount, if any, by which

(i) the total of all eligible amounts received by the individual before the end of the year

exceeds the total of

(ii) all amounts designated by the individual under this subsection for preceding taxation years, and

(iii) all amounts each of which is an amount included in computing the income of the individual under subsection (4) or (5) for a preceding taxation year.

History: S. 146.01(3), the portion before paragraph (*a*), was amended by S.C. 1999, c. 22, s. 60(6), applicable to the 1999 and subsequent taxation years. S. 146.01(3), the portion before paragraph (*a*) formerly read:

"(3) *Repayment of eligible amount.* An individual may designate a single amount for a taxation year in prescribed form filed with the individual's return of income required to be filed for the year or, if a return of income for the year is not required to be filed, filed with the Minister on or before the individual's filing-due date for the year, where the amount does not exceed the lesser of"

S. 146.01(3)(*a*) was amended by S.C. 1999, c. 22, s. 60(7), applicable to the 1996 and subsequent taxation years. S. 146.01(3)(*a*) formerly read:

"(*a*) the total of all amounts (other than excluded premiums and amounts paid by the individual in the first 60 days of the year that can reasonably be considered to have been either deducted in computing the individual's income for the preceding taxation year or designated under this subsection for the preceding taxation year) paid by the individual in the year or within 60 days after the end of the year under a retirement savings plan that is at the end of the year or the following taxation year a registered retirement savings plan under which the individual is the annuitant, and"

S. 146.01(3), the portion before paragraph (*a*), was amended by S.C. 1996, c. 21, s. 35(1), applicable to the 1995 and subsequent taxation years. That part formerly read:

"(3) *Repayment of eligible amount.* An individual may designate a single amount for a taxation year in prescribed form filed with the individual's return of income under this Part for the year or, if that return is not required to be filed, filed with the Minister on or before the balance-due day of the individual for the year, where the amount does not exceed the lesser of"

S. 146.01(3) was amended by S.C. 1995, c. 3, s. 44(8), applicable to the 1995 and subsequent taxation years. S. 146.01(3) formerly read:

"(3) *Repayment of eligible amount.* An amount (other than an excluded premium) paid by an individual at a particular time in a taxation year under a retirement savings plan that was at the end of the year a registered retirement savings plan under which the individual is the annuitant may be designated by the individual under this subsection (in prescribed form submitted to the issuer of the plan at the time of the payment or at such later time as is acceptable to the Minister) to the extent that the amount so paid does not exceed the amount, if any, by which

(*a*) the total of all eligible amounts received by the individual before the particular time

exceeds the total of

(*b*) all amounts designated under this subsection in respect of amounts paid before the particular time to registered retirement savings plans under which the individual is the annuitant, and

(*c*) all amounts each of which is an amount included in computing the income of the individual under subsection (4) or (5) for a taxation year ending before the particular time."

S. 146.01(3) was added by S.C. 1994, c. 7, Sched. VIII, s. 83(1), applicable to the 1992 and subsequent taxation years.

Editorial Note: Eligible amounts withdrawn under the home buyers' plan must generally be repaid over a period of not longer than 15 years, starting with the second taxation year beginning after the receipt by the individual of an eligible amount. Under subsection 146.01(3), an individual may designate a contribution to an RRSP, under which the individual is the annuitant, as a repayment of an "eligible amount". The repayment can be made in the year or in the first 60 days of the following taxation year. In the first year that repayment is required, the minimum repayment is $^1/_{15}$th of the amount withdrawn less any repayments that have been made. In the second, the minimum repayment is $^1/_{14}$th of the outstanding unpaid amount, and so on. If the minimum payments are not made, the portion that is not repaid is included in income under subsection 146.01(4) and paragraph 56(1)(*h.2*). The amount included in income reduces future repayments.

Related Sections: S. 146(1), "premium"; s. 146(22) Deemed payment of RRSP premiums and provincial pension plan contributions; s. 146.02(1), "excluded premium"; s. 150(1.1) Exception; s. 248(1), "filing-due date".

Forms: T1 SCH 7.

Guides: RC4135 Home Buyers' Plan (HBP).

► 146.01(4) ◄

(4) Portion of eligible amount not repaid. There shall be included in computing an individual's income for a particular taxation year included in a particular participation period of the individual the amount determined by the formula

$$\frac{(A - B - C)}{(15 - D)} - E$$

where

A is

(*a*) where

(i) the individual died or ceased to be resident in Canada in the particular year, or

(ii) the completion date in respect of an eligible amount received by the individual was in the particular year

nil, and

(*b*) in any other case, the total of all eligible amounts received by the individual in preceding taxation years included in the particular period,

B is

(*a*) nil, if the completion date in respect of an eligible amount received by the individual was in the preceding taxation year, and

(*b*) in any other case, the total of all amounts each of which is designated under subsection (3) by the individual for a preceding taxation year included in the particular period;

C is the total of all amounts each of which is included under this subsection or subsection (5) in computing the individual's income for a preceding taxation year included in the particular period;

D is the lesser of 14 and the number of taxation years of the individual ending in the period beginning

(*a*) where the completion date in respect of an eligible amount received by the individual was before 1995, January 1, 1995, and

(*b*) in any other case, January 1 of the first calendar year beginning after the completion date in respect of an eligible amount received by the individual

and ending at the beginning of the particular year, and

E is

(*a*) if the completion date in respect of an eligible amount received by the individual was in the preceding taxation year, the total of all amounts each of which is designated under subsection (3) by the individual for the particular year or any preceding taxation year included in the particular period, and

(*b*) in any other case, the amount designated under subsection (3) by the individual for the particular year.

History: S. 146.01(4), the portion before the formula was amended by S.C. 1999, c. 22, s. 60(8), applicable to the 1999 and subsequent taxation years. S. 146.01(4), the portion before the formula formerly read:

"(4) *Where portion of eligible amount not repaid.* There shall be included in computing the income of an individual for a particular taxation year ending after 1994 the amount determined by the formula"

S. 146.01(4), paragraph (*b*) of the description of A, was amended by S.C. 1999, c. 22, s. 60(9), applicable to the 1999 and subsequent taxation years. S. 146.01(4), paragraph (*b*) of the description of A formerly read:

"(*b*) in any other case, the total of all eligible amounts received by the individual in preceding taxation years;"

S. 146.01(4), the description of B was amended by S.C. 1999, c. 22, s. 60(10), applicable to the 1999 and subsequent taxation years. S. 146.01(4), the description of B formerly read:

"B is

(*a*) where the particular year is the 1995 taxation year, nil, and

(*b*) in any other case, the total of all amounts designated by the individual under subsection (3) for preceding taxation years;"

S. 146.01(4), the description of C was amended by S.C. 1999, c. 22, s. 60(10), applicable to the 1999 and subsequent taxation years. S. 146.01(4), the description of C formerly read:

"C is the total of all amounts each of which is an amount included under this subsection or subsection (5) in computing the income of the individual for a preceding taxation year,"

S. 146.01(4), the description of E was amended by S.C. 1999, c. 22, s. 60(11), applicable to the 1999 and subsequent taxation years. S. 146.01(4), the description of E formerly read:

"E is

(*a*) where the particular year is the 1995 taxation year, the total of all amounts each of which is an amount designated under subsection (3) by the individual for the particular year or a preceding taxation year,

(*b*) where the particular year begins after 1995 and the completion date in respect of an eligible amount received by the individual was in the preceding taxation year, the total of all amounts each of which is designated under subsection (3) by the individual for the particular year or a preceding taxation year, and

(*c*) in any other case, the total of all amounts designated under subsection (3) by the individual for the particular year."

S. 146.01(4), paragraph (*a*) of the description of "A" was amended by S.C. 1995, c. 3, s. 44(9), applicable to the 1994 and subsequent taxation years. That paragraph formerly read:

"(*a*) where the individual died or ceased to be resident in Canada in the particular year, nil, and"

S. 146.01(4), the descriptions of "D" and "E" were amended by S.C. 1995, c. 3, s. 44(10), applicable to the 1994 and subsequent taxation years. These descriptions formerly read:

"D is the lesser of 14 and the number of taxation years of the individual ending in the period beginning on January 1, 1995 and ending at the beginning of the particular year, and

E is

(*a*) where the particular year is the 1995 taxation year, the total of all amounts each of which is an amount designated by the individual under subsection (3) for the particular year or any of the 3 preceding taxation years, and

(*b*) in any other case, the total of all amounts designated by the individual under subsection (3) for the particular year."

S. 146.01(4) was amended by S.C. 1994, c. 8, s. 19(5), applicable to the 1992 and subsequent taxation years. S. 146.01(4) formerly read:

"(4) There shall be included in computing the income of an individual for a particular taxation year ending after 1993 the amount determined by the formula

$$\frac{(A - B - C)}{(15 - D)} \times E$$

where

A is

(*a*) where the individual died or ceased to be resident in Canada in the particular year, nil, and

(*b*) in any other case, the total of all eligible amounts received by the individual in preceding taxation years;

B is

(*a*) where the particular year is the 1994 taxation year, nil, and

(*b*) in any other case, the total of all amounts designated by the individual under subsection (3) for preceding taxation years;

C is the total of all amounts each of which is an amount included under this subsection or subsection (5) in computing the income of the individual for a preceding taxation year;

D is the lesser of 14 and the number of taxation years of the individual ending in the period beginning on January 1, 1994 and ending at the beginning of the particular year; and

E is

(*a*) where the particular year is the 1994 taxation year, the total of all amounts each of which is an amount designated by the individual under subsection (3) for the particular year or either of the 2 preceding taxation years, and

(*b*) in any other case, the total of all amounts designated under subsection (3) by the individual for the particular year."

S. 146.01(4) was added by S.C. 1994, c. 7, Sched. VIII, s. 83(1), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 56(1)(*h.1*) Home buyers' plan; s. 257 Negative amounts.

► 146.01(5) ◄

(5) Where individual becomes a non-resident. Where at any time in a taxation year an individual ceases to be resident in Canada, there shall be included in computing the income of the individual for the period in the year during which the individual was resident in Canada the amount, if any, by which

(*a*) the total of all amounts each of which is an eligible amount received by the individual in the year or a preceding taxation year

exceeds the total of

(*b*) all amounts designated under subsection (3) by the individual in respect of amounts paid not later than 60 days after that time and before the individual files a return of income for the year, and

(*c*) all amounts included under subsection (4) or this subsection in computing the individual's income for preceding taxation years.

History: S. 146.01(5)(*c*) was amended by S.C. 1999, c. 22 s. 60(12), applicable to the 1999 and subsequent taxation years. S. 146.01(5)(*c*) formerly read:

"(*c*) all amounts included under subsection (4) in computing the income of the individual for preceding taxation years."

S. 146.01(5)(*b*) was amended by S.C. 1995, c. 3, s. 44(12), applicable to the 1995 and subsequent taxation years. S. 146.01(5)(*b*) formerly read:

"(*b*) all amounts designated by the individual under subsection (3) that are paid not later than 90 days after that time and before the individual files a return of income under this Part for the year, and"

S. 146.01(5) was added by S.C. 1994, c. 7, Sched. VIII, s. 83(1), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 56(1)(*h*.1) Home buyers' plan.

► 146.01(6) ◄

(6) Death of individual. If an individual dies at any time in a taxation year, there shall be included in computing the individual's income for the year the amount, if any, by which

(*a*) the individual's HBP balance immediately before that time

exceeds

(*b*) the amount designated under subsection (3) by the individual for the year.

History: S. 146.01(6) was amended by S.C. 1999, c. 22, s. 60(14), applicable to the 2000 and subsequent taxation years. S. 146.01(6) formerly read:

"(6) *Where individual dies.* Where an individual dies at any time in a taxation year, there shall be included in computing the income of the individual for the year the amount, if any, by which

(*a*) the total of all excluded withdrawals in respect of the individual received before that time (other than excluded withdrawals in respect of the individual that were repaid as described in the definition 'excluded withdrawal' in subsection (1))

exceeds the total of

(*b*) all amounts designated by the individual under subsection (3) that were paid before that time, and

(*c*) all amounts each of which is an amount included under subsection (4) or (5) in computing the income of the individual for a preceding taxation year."

S. 146.01(6)(*a*) was amended by S.C. 1999, c. 22, s. 60(13), applicable to the 1997 to 1999 taxation years. S. 146.01(6)(*a*) formerly read:

"(*a*) the total of all excluded withdrawals in respect of the individual received by the individual before that time (other than excluded withdrawals in respect of the individual repaid as described in subparagraph (*b*)(ii) of the definition 'excluded withdrawal' in subsection (1) before that time)"

S. 146.01(6) was added by S.C. 1994, c. 7, Sched. VIII, s. 83(1), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 56(1)(*h*.1) Home buyers' plan.

► 146.01(7) ◄

(7) Exception. If a spouse or common-law partner of an individual was resident in Canada immediately before the individual's death at a particular time in a taxation year and the spouse or common-law partner and the individual's legal representatives jointly so elect in writing in the individual's return of income for the year,

(*a*) subsection (6) does not apply to the individual;

(*b*) the spouse or common-law partner is deemed to have received a particular eligible amount at the particular time equal to the amount that, but for this subsection, would be determined under subsection (6) in respect of the individual;

(*c*) for the purposes of subsection (4) and paragraph (*d*), the completion date in respect of the particular amount is deemed to be

(i) if the spouse or common-law partner received an eligible amount before the death (other than an eligible amount received in a participation period of the spouse or common-law partner that ended before the beginning of the year), the completion date in respect of that amount, and

(ii) in any other case, the completion date in respect of the last eligible amount received by the individual; and

(*d*) for the purpose of subsection (4), the completion date in respect of each eligible amount received by the spouse or common-law partner, after the death and before the end of the spouse's or common-law partner's participation period that includes the time of the death, is deemed to be the completion date in respect of the particular amount.

History: S. 146.01(7), the portion before paragraph (*a*), was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.19), applicable January 1, 2001, coming into force on July 31, 2000. S. 146.01(7), the portion before paragraph (*a*) formerly read:

"(7) *Exception.* If a spouse of an individual was resident in Canada immediately before the individual's death at a particular time in a taxation year and the spouse and the individual's legal representatives jointly so elect in writing in the individual's return of income for the year,"

S. 146.01(7)(*b*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.19), applicable January 1, 2001, coming into force on July 31, 2000. S. 146.01(7)(*b*) formerly read:

"(*b*) the spouse is deemed to have received a particular eligible amount at the particular time equal to the amount that, but for this subsection, would be determined under subsection (6) in respect of the individual;"

S. 146.01(7)(*c*)(i) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.19), applicable January 1, 2001, coming into force on July 31, 2000. S. 146.01(7)(*c*)(i) formerly read:

"(i) if the spouse received an eligible amount before the death (other than an eligible amount received in a participation period of the spouse that ended before the beginning of the year), the completion date in respect of that amount, and"

S. 146.01(7)(*d*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.19) and 7(h), applicable January 1, 2001, coming into force on July 31, 2000. S. 146.01(7)(*d*) formerly read:

"(*d*) for the purpose of subsection (4), the completion date in respect of each eligible amount received by the spouse, after the death and before the end of the spouse's participation period that includes the time of the death, is deemed to be the completion date in respect of the particular amount."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 146.01(7) was amended by S.C. 1999, c. 22, s. 60(15), applicable to deaths that occur after 1998 except that, for deaths that occur in 1999, subparagraph 146.01(7)(*c*)(ii) of the Act, as enacted by subsection (15), shall be read as follows:

"(ii) in any other case,

(A) the completion date in respect of an eligible amount, if any, received by the individual in a participation period of the individual that includes the time of the death, or

(B) if clause (A) does not apply, October 1, 2000; and"

S. 146.01(7) formerly read:

"(7) *Where subsection (6) does not apply.* Where

(*a*) an individual's spouse was resident in Canada immediately before the death of the individual in a taxation year,

(*b*) the spouse and the individual's legal representatives jointly so elect in writing in the individual's return of income under this Part for the year, and

(*c*) either

(i) the spouse or the individual did not receive any eligible amount before the death, or

(ii) the spouse and the individual both received eligible amounts before the death and all the completion dates in respect of those amounts were the same or occurred before 1995,

the following rules apply:

(*d*) subsection (6) does not apply to the individual;

(*e*) the spouse shall be deemed to have received an eligible amount at the time of the death equal to the amount that would, but for this subsection, be determined under subsection (6) in respect of the individual;

(*f*) for the purpose only of determining whether an amount received after the death is an eligible amount in respect of the spouse, the spouse shall be deemed to have received all eligible amounts in respect of the individual at the times that those amounts were received by the individual; and

(*g*) the completion date in respect of the eligible amount deemed by paragraph (*e*) to have been received by the spouse shall be deemed to be

(i) where the spouse received an eligible amount before the death, the completion date in respect of that amount,

(ii) where subparagraph (i) does not apply and the individual received an eligible amount before the death, the completion date in respect of that amount, and

(iii) in any other case, October 1 of the year."

S. 146.01(7) was amended by S.C. 1995, c. 3, s. 44(12), applicable to the 1994 and subsequent taxation years. S. 146.01(7) formerly read:

"(7) *Idem.* Where an individual's spouse was resident in Canada immediately before the death of the individual in a taxation year and the spouse and the individual's legal representative jointly so elect in writing in the individual's return of income under this Part for the year,

(*a*) subsection (6) does not apply in respect of the individual; and

(*b*) except for the purposes of subsections (9) and (10), the spouse shall be deemed to have received an eligible amount at the time of the individual's death equal to the amount that would, but for this subsection, be determined under subsection (6) in respect of the individual."

S. 146.01(7)(*b*) was amended by S.C. 1994, c. 8, s. 19(6), applicable to the 1992 and subsequent taxation years. S. 146.01(7)(*b*) formerly read:

"(*b*) except for the purpose of subsection (9), the spouse shall be deemed to have received an eligible amount at the time of the individual's death equal to the amount that would, but for this subsection, be determined under subsection (6) in respect of the individual."

S. 146.01(7) was added by S.C. 1994, c. 7, Sched. VIII, s. 83(1), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 220(3.2) Late, amended or revoked elections; s. 248(1), "common-law partner".
Regulations: 600(b).
Information Circulars: IC 07-1 Taxpayer Relief Provisions.

► 146.01(8) ◄

(8) Filing of prescribed form. A prescribed form referred to in this section that is submitted to an issuer shall be filed with the Minister by the issuer not later than 15 days after the quarter in which it was submitted to the issuer.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 146.01(8) of the Act is repealed.

(8) Filing of prescribed form. [Repealed.]

Applicable: In respect of the 2002 and subsequent taxation years.

Explanatory Note:

Filing of Prescribed Form

In order for an RRSP withdrawal to qualify as an HBP withdrawal, the taxpayer must make a written request in prescribed form to the RRSP issuer. The prescribed form for this purpose is the T1036. Under subsection 146.01(8) of the Act, an RRSP issuer to whom a T1036 is submitted must file the form with the Minister of National Revenue no later than 15 days after the quarter in which it was so submitted.

Subsection 146.01(8) is repealed. Rather than reporting HBP withdrawals on a quarterly basis by filing the relevant T1036, RRSP issuers are instead required (by subsection 214(1) of the Regulations) to report such withdrawals on an annual basis using the T4RSP.

The repeal of subsection 146.01(8) applies for the 2002 and subsequent taxation years.

History: S. 146.01(8) was added by S.C. 1994, c. 7, Sched. VIII, s. 83(1), applicable to the 1992 and subsequent taxation years.

Regulations: 214.
Forms: T1036.

(9)–(13) [Repealed by S.C. 1995, c. 3, s. 44(13).]

History: S. 146.01(9) was repealed by S.C. 1995, c 3, s. 44(13), applicable to the 1994 and subsequent taxation years. S. 146.01(9) formerly read:

"(9) *Income inclusion for 1992.* There shall be included in computing the income for the 1992 taxation year of an individual who was resident in Canada at the end of that year an amount equal to the lesser of

(*a*) the net premium balance for the year of the individual, and

(*b*) the total of

(i) all eligible amounts received by the individual before March 2, 1993, and

(ii) the lesser of

(A) the total of all premiums (other than excluded premiums in respect of the individual) paid by the individual after February 25, 1992 and before March 2, 1993 under registered retirement savings plans under which the individual's spouse is the annuitant, and

(B) the amount, if any, by which

(I) the total of all eligible amounts received before March 2, 1993 by the individual's spouse

exceeds

(II) the net premium balance for the year of the individual's spouse."

S. 146.01(9) was amended by S.C. 1994, c. 8, s. 19(7), applicable to the 1992 and subsequent taxation years. S. 146.01(9) formerly read:

"(9) *Income inclusion.* There shall be included in computing the income for the 1992 taxation year of an individual who was resident in Canada at the end of that year an amount equal to the lesser of

(*a*) the net premium balance of the individual, and

(*b*) the total of

(i) all amounts each of which is an eligible amount received in 1992 or 1993 by the individual, and

(ii) the lesser of

(A) the total of all premiums (other than excluded premiums in respect of the individual) paid by the individual after February 25, 1992 and before March 2, 1993 under registered retirement savings plans under which the individual's spouse is the annuitant, and

(B) the amount, if any, by which

(I) the total of all amounts each of which is an eligible amount received in 1992 or 1993 by the individual's spouse

exceeds

(II) the net premium balance of the individual's spouse."

S. 146.01(9) was added by S.C. 1994, c. 7, Sched. VIII, s. 83(1), applicable to the 1992 and subsequent taxation years.

S. 146.01(10) was repealed by S.C. 1995, c 3, s. 44(13), applicable to the 1994 and subsequent taxation years. S. 146.01(10) formerly read:

"(10) *Income inclusion for 1993.* There shall be included in computing the income for the 1993 taxation year of an individual who was resident in Canada at the end of that year an amount equal to the lesser of

(*a*) the net premium balance for the year of the individual, and

(*b*) the total of

(i) all eligible amounts received after March 1, 1993 and before March 2, 1994 by the individual, and

(ii) the lesser of

(A) the total of all premiums (other than excluded premiums in respect of the individual) paid by the individual after December 2, 1992 and before March 2, 1994 under registered retirement savings plans under which the individual's spouse is the annuitant, and

(B) the amount, if any, by which

(I) the total of all eligible amounts received after March 1, 1993 and before March 2, 1994 by the individual's spouse

exceeds

(II) the net premium balance for the year of the individual's spouse."

S. 146.01(10) was amended by S.C. 1994, c. 8, s. 19(7), applicable to the 1992 and subsequent taxation years. S. 146.01(10) formerly read:

"(10) *Net premium balance.* For the purposes of subsection (9), the net premium balance of an individual is the amount, if any, by which

(*a*) the total of all premiums (other than excluded premiums in respect of the individual) paid by the individual after February 25, 1992 and before March 2, 1993 under registered retirement savings plans under which the individual or the individual's spouse is the annuitant

exceeds

(*b*) the total of all amounts each of which is an amount received by the individual or the individual's spouse after February 25, 1992 and before 1994 and included under subsection 146(8) or (8.3) in computing the individual's income for the 1992 or 1993 taxation year (other than an amount in respect of which an amount is deductible under paragraph 146(8.6)(*b*) in computing the income of the individual or in respect of premiums paid by the individual after March 1, 1993)."

S. 146.01(10) was added by S.C. 1994, c. 7, Sched. VIII, s. 83(1), applicable to the 1992 and subsequent taxation years.

S. 146.01(11) was repealed by S.C. 1995, c 3, s. 44(13), applicable to the 1994 and subsequent taxation years. S. 146.01(11) formerly read:

"(11) *Net premium balance for 1992.* For the purpose of subsection (9), the net premium balance for the 1992 taxation year of an individual is the amount, if any, by which

(*a*) the total of all premiums (other than excluded premiums in respect of the individual) paid by the individual after February 25, 1992 and before March 2, 1993 under registered retirement savings plans under which the individual or the individual's spouse is the annuitant

exceeds

(*b*) the total of all amounts each of which is an amount received by the individual or the individual's spouse after February 25, 1992 and before 1994 and included under subsection 146(8) or (8.3) in computing the

individual's income for the 1992 or 1993 taxation year (other than an amount in respect of which an amount is deductible under paragraph 146(8.6)(*b*) in computing the income of the individual or in respect of premiums paid by the individual after March 1, 1993)."

S. 146.01(11) was amended by S.C. 1994, c. 8, s. 19(7), applicable to the 1992 and subsequent taxation years. See s. 146.01(13). S. 146.01(11) formerly read:

"(11) *Assessments.* Notwithstanding subsections 152(4) to (5), such assessments of tax, interest and penalties shall be made as are necessary to give effect to amounts included in income under subsection (9)."

S. 146.01(11) was added by S.C. 1994, c. 7, Sched. VIII, s. 83(1), applicable to the 1992 and subsequent taxation years.

S. 146.01(12) was repealed by S.C. 1995, c 3, s. 44(13), applicable to the 1994 and subsequent taxation years. S. 146.01(12) formerly read:

"(12) *Net premium balance for 1993.* For the purpose of subsection (10), the net premium balance for the 1993 taxation year of an individual is the amount, if any, by which

(*a*) the total of all premiums (other than excluded premiums in respect of the individual) paid by the individual after December 2, 1992 and before March 2, 1994 under registered retirement savings plans under which the individual or the individual's spouse is the annuitant

exceeds

(*b*) the total of all amounts each of which is an amount received by the individual or the individual's spouse after December 2, 1992 and before 1995 and included under subsection 146(8) or (8.3) in computing the individual's income for the 1992, 1993 or 1994 taxation year (other than an amount in respect of which an amount is deductible under paragraph 146(8.6)(*b*) in computing the income of the individual or in respect of premiums paid by the individual after March 1, 1994)."

S. 146.01(12) was added by S.C. 1994, c. 8, s. 19(7), applicable to the 1992 and subsequent taxation years.

S. 146.01(13) was repealed by S.C. 1995, c 3, s. 44(13), applicable to the 1994 and subsequent taxation years. S. 146.01(13) formerly read:

"(13) *Assessments.* Notwithstanding subsections 152(4) to (5), such assessments of tax, interest and penalties shall be made as are necessary to give effect to subsections (9) and (10)."

S. 146.01(13) was added by S.C. 1994, c. 8, s. 19(7), applicable to the 1992 and subsequent taxation years.

Lifelong Learning Plan

SECTION 146.02:

► 146.02(1) ◄

(1) Definitions. The definitions in this subsection apply in this section.

"*annuitant*" — "annuitant" has the meaning assigned by subsection 146(1).

History: S. 146.02(1), the definition "annuitant" was added by S.C. 1999, c. 22, s. 61(1), applicable after 1998.

"*benefit*" — "benefit" has the meaning assigned by subsection 146(1).

History: S. 146.02(1), the definition "benefit" was added by S.C. 1999, c. 22, s. 61(1), applicable after 1998.

"*eligible amount*" — "eligible amount" of an individual means a particular amount received at a particular time in a calendar year by the individual as a benefit out of or under a registered retirement savings plan if

(*a*) the particular amount is received after 1998 pursuant to the individual's written request in a prescribed form;

(*b*) in respect of the particular amount, the individual designates in the form a person (in this definition referred to as the "designated person") who is the individual or the individual's spouse or common-law partner;

(*c*) the total of the particular amount and all other eligible amounts received by the individual at or before the particular time and in the year does not exceed $10,000;

(*d*) the total of the particular amount and all other eligible amounts received by the individual at or before the particular time (other than amounts received in participation periods of the individual that ended before the year) does not exceed $20,000;

(*e*) the individual did not receive an eligible amount at or before the particular time in respect of which someone other than the designated person was designated (other than an amount received in a participation period of the individual that ended before the year);

(*f*) the designated person

(i) is enrolled at the particular time as a full-time student in a qualifying educational program, or

(ii) has received written notification before the particular time that the designated person is absolutely or contingently entitled to enrol before March of the following year as a full-time student in a qualifying educational program;

(*g*) the individual is resident in Canada throughout the period that begins at the particular time and ends immediately before the earlier of

(i) the beginning of the following year, and

(ii) the time of the individual's death;

(*h*) except where the individual dies after the particular time and before April of the following year, the designated person is enrolled as a full-time student in a qualifying educational program after the particular time and before March of the following year and

(i) the designated person completes the program before April of the following year,

(ii) the designated person does not withdraw from the program before April of the following year, or

(iii) less than 75% of the tuition paid, after the beginning of the year and before April of the following year, in respect of the designated person and the program is refundable; and

(*i*) if an eligible amount was received by the individual before the year, the particular time is neither

(i) in the individual's repayment period for the individual's participation period that includes the particular time, nor

(ii) after January (or a later month where the Minister so permits) of the fifth calendar year of that participation period.

History: S. 146.02(1), paragraph (*b*) of the definition "eligible amount" was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.20), applicable January 1, 2001, coming into force on July 31, 2000. S. 146.02(1), paragraph (*b*) of the definition "eligible amount" formerly read:

"(*b*) in respect of the particular amount, the individual designates in the form a person (in this definition referred to as the 'designated person') who is the individual or the individual's spouse;"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 146.02(1), the definition "eligible amount" was added by S.C. 1999, c. 22, s. 61(1), applicable after 1998.

Related Sections: S. 146(5)(*a*)(iv.1) Amount of RRSP premiums deductible; s. 146(5.1)(*a*)(iv) Amount of spousal RRSP premiums deductible; s. 146(8.01) s146-8.01;; s. 248(1), "common-law partner".
Regulations: 104.1(1); 214(1)(c).
Guides: RC4112 Lifelong Learning Plan (LLP).
Tax Window Files: Lifelong Learning Plan — Withdrawal of amounts for Taxpayer's and Spouse's Education not Permitted, October 29, 2003, CRA Document No. 2003-0036905 [Cannot withdraw amounts for taxpayer's and spouse's education].

"excluded premium" — "excluded premium" of an individual means a premium that

(*a*) was designated by the individual for the purpose of paragraph 60(*j*), (*j*.1) or (*l*) or subsection 146.01(3);

(*b*) was a repayment to which paragraph (*b*) of the definition "excluded withdrawal" in subsection 146.01(1) applies;

(*c*) was an amount transferred directly from a registered retirement savings plan, registered pension plan, registered retirement income fund, deferred profit sharing plan or a provincial pension plan prescribed for the purpose of paragraph 60(*v*); or

(*d*) was deductible under subsection 146(6.1) in computing the individual's income for any taxation year.

History: S. 146.02(1), the definition "excluded premium" was added by S.C. 1999, c. 22, s. 61(1), applicable after 1998.

Related Sections: S. 146(1), "premium".

"excluded withdrawal" — "excluded withdrawal" of an individual means

(*a*) an eligible amount received by the individual; or

(*b*) a particular amount (other than an eligible amount) received while the individual was resident in Canada and in a calendar year if

(i) the particular amount would be an eligible amount of the individual if the definition "eligible amount" were read without reference to paragraphs (*g*) and (*h*) of that definition,

(ii) a payment (other than an excluded premium) equal to the particular amount is paid by the individual under a retirement savings plan that is, at the end of the taxation year of payment, a registered retirement savings plan under which the individual is the annuitant,

(iii) the payment is made before the particular time that is,

(A) if the individual was not resident in Canada at the time the individual filed a return of income for the taxation year in which the particular amount was received, the earlier of

(I) the end of the following calendar year, and

(II) the time at which the individual filed the return, and

(B) in any other case, the end of the following calendar year, and

(iv) the payment (and no other payment) is designated under this subparagraph as a repayment of the particular amount in prescribed form filed with the Minister on or before the particular time (or before such later time as is acceptable to the Minister).

History: S. 146.02(1), the definition "excluded withdrawal" was added by S.C. 1999, c. 22, s. 61(1), applicable after 1998.

Editorial Note: Withdrawals from registered retirement savings plans are generally included in income under subsection 146(8) and paragraph 56(1)(*h*). An exception applies to an excluded withdrawal under the lifelong learning plan. An excluded withdrawal is either an "eligible amount" or an amount that would have qualified as an eligible amount of the individual but for the fact that the student did not ultimately enroll in a qualifying educational program or the individual failed to meet the residency requirement. Generally, for an amount to qualify as an eligible amount, the individual must be enrolled in a qualifying educational program. The maximum eligible amount for a particular year is $10,000 and the total amount withdrawn cannot exceed $20,000. Eligible amounts withdrawn under the lifelong leaning plan must be repaid beginning in the second year after the individual is not entitled to claim the education credit under subsection 118.6(2) for full-time study of at least three months or in the fifth year after the first amount was withdrawn.

Related Sections: S. 146(8) Benefits taxable; s. 146(1), "premium"; s. 146(8.01) Subsequent re-calculation.

"full-time student" — "full-time student" in a taxation year includes an individual to whom subsection 118.6(3) applies for the purpose of computing tax payable under this Part for the year or the following taxation year.

History: S. 146.02(1), the definition "full-time student" was added by S.C. 1999, c. 22, s. 61(1), applicable after 1998.

"LLP balance" — "LLP balance" of an individual at any time means the amount, if any, by which the total of all eligible amounts received by the individual at or before that time exceeds the total of

(*a*) all amounts designated under subsection (3) by the individual for taxation years that ended before that time, and

(*b*) all amounts each of which is included under subsection (4) or (5) in computing the individual's income for a taxation year that ended before that time.

History: S. 146.02(1), the definition "LLP balance" was added by S.C. 1999, c. 22, s. 61(1), applicable after 1998.

"participation period" — "participation period" of an individual means each period

(*a*) that begins at the beginning of a calendar year

(i) in which the individual receives an eligible amount, and

(ii) at the beginning of which the individual's LLP balance is nil; and

(*b*) that ends immediately before the beginning of the first subsequent calendar year at the beginning of which the individual's LLP balance is nil.

History: S. 146.02(1), the definition "participation period" was added by S.C. 1999, c. 22, s. 61(1), applicable after 1998.

"premium" — "premium" has the meaning assigned by subsection 146(1).

History: S. 146.02(1), the definition "premium" was added by S.C. 1999, c. 22, s. 61(1), applicable after 1998.

"qualifying educational program" — "qualifying educational program" means a program at a designated educational institution, as defined in subsection 118.6(1), of not less than three consecutive months duration that requires that each student taking the program spend not less than ten hours per week on courses or work in the program and that is

(*a*) of a technical or vocational nature designed to furnish a person with skills for, or improve a person's skills in, an occupation, if the program is at an institution described in subparagraph (*a*)(ii) of that definition; and

(*b*) at a post-secondary school level, in any other case.

History: S. 146.02(1), the definition "qualifying educational program" was replaced by S.C. 2005, c. 19, s. 33(1), applicable after 2003. S. 146.02(1), the definition "qualifying educational program" formerly read:

"'*qualifying educational program*' — 'qualifying educational program' means a qualifying educational program (as defined in subsection 118.6(1)) at a designated educational institution (as defined in subsection 118.6(1)), except that the definition 'qualifying educational program' in subsection 118.6(1) shall be read

(*a*) without reference to paragraphs (*a*) and (*b*) of that definition; and

(*b*) as if the expression '3 consecutive weeks' were '3 consecutive months'."

S. 146.02(1), the definition "qualifying educational program" was added by S.C. 1999, c. 22, s. 61(1), applicable after 1998.

Regulations: 104.1(2).

"repayment period" — "repayment period" of an individual for a participation period of the individual in respect of a person designated under paragraph (*b*) of the definition "eligible amount" means the period, if any, within the participation period

(*a*) that begins

(i) at the beginning of the third calendar year within the participation period, if the person would not be entitled to claim an amount under subsection 118.6(2) in respect of at least three months in each of the second and third calendar years within the participation period, if that subsection were read without reference to paragraph (*b*) of the description of B in that subsection,

(ii) at the beginning of the fourth calendar year within the participation period, if subparagraph (i) does not apply and the person would not be entitled to claim an amount under subsection 118.6(2) in respect of at least three months in each of the third and fourth calendar years within the participation period, if that subsection were read without reference to paragraph (*b*) of the description of B in that subsection,

(iii) at the beginning of the fifth calendar year within the participation period, if subparagraphs (i) and (ii) do not apply and the person would not be entitled to claim an amount under subsection 118.6(2) in respect of at least three months in each of the fourth and fifth calendar years within that period, if that subsection were read without reference to paragraph (*b*) of the description of B in that subsection, and

(iv) in any other case, at the beginning of the sixth calendar year within the participation period; and

(*b*) that ends at the end of the participation period.

History: S. 146.02(1), the definition "repayment period" was added by S.C. 1999, c. 22, s. 61(1), applicable after 1998.

► 146.02(2) ◄

(2) Rule of application. For the purpose of the definition "eligible amount" in subsection (1), a particular person is deemed to be the only person in respect of whom a particular amount was designated under paragraph (*b*) of that definition if

(*a*) an individual received the particular amount;

(*b*) the individual files a prescribed form with the Minister in which the particular person is specified in connection with the receipt of the particular amount;

(*c*) the particular amount would be an eligible amount of the individual if

(i) that definition were read without reference to paragraphs (*b*) and (*e*) of that definition, and

(ii) each reference in the portion of that definition after paragraph (*d*) to "designated person" were read as "individual" or "individual's spouse or common-law partner"; and

(*d*) the Minister so permits.

History: S. 146.02(2)(*c*)(ii) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.20), applicable January 1, 2001, coming into force on July 31, 2000. S. 146.02(2)(*c*)(ii) formerly read:

"(ii) each reference in the portion of that definition after paragraph (*d*) to 'designated person' were read as 'individual' or 'individual's spouse'; and"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 146.02(2) was added by S.C. 1999, c. 22, s. 61(1), applicable after 1998.

Forms: RC96.

► 146.02(3) ◄

(3) Repayment of eligible amount. An individual may designate a single amount for a taxation year in prescribed form filed with the individual's return of income for the year if the amount does not exceed the lesser of

(*a*) the total of all amounts (other than excluded premiums, repayments to which paragraph (*b*) of the definition "excluded withdrawal" in subsection (1) applies and amounts paid by the individual in the first 60 days of the year that can reasonably be considered to have been deducted in computing the individual's income, or designated under this subsection, for the preceding taxation year) paid by the individual in the year or within 60 days after the end of the year under a retirement savings plan that is at the end of the year or the following taxation year a registered retirement savings plan under which the individual is the annuitant, and

(*b*) the individual's LLP balance at the end of the year.

History: S. 146.02(3) was added by S.C. 1999, c. 22, s. 61(1), applicable after 1998.

Editorial Note: Eligible amounts withdrawn under the lifelong learning plan must generally be repaid over a period of not longer than 10 years, beginning not later than five years after the first withdrawal under the plan. Subsection 146.02(3) provides that an individual may designate a contribution to an RRSP, under which the individual is the annuitant as a repayment of an "eligible amount". The repayment can be made in the year or in the first 60 days of the following taxation year. In the first year that repayment is required, the minimum repayment is $^1/_{10}$th of the amount withdrawn less any repayments. In the second, the minimum repayment is $^1/_9$th of the outstanding unpaid amount, and so on. If the minimum payments are not made, the portion that is not repaid is included in income and reduces the future repayments.

Related Sections: S. 146(1), "Premium"; s. 146(5) Amount of RRSP premiums deductible; s. 146(5.1) Amount of spousal RRSP premiums deductible; s. 146(22) Deemed payment of RRSP premiums and provincial pension plan contributions.

Forms: T1 SCH 7.

► 146.02(4) ◄

(4) If portion of eligible amount not repaid. There shall be included in computing an individual's income for a particular taxation year that begins after 2000 the amount determined by the formula

$$[(A - B - C)/(10 - D)] - E$$

where

A is

(*a*) nil, if

(i) the individual died or ceased to be resident in Canada in the particular year, or

(ii) the beginning of the particular year is not included in a repayment period of the individual, and

(*b*) in any other case, the total of all eligible amounts received by the individual in preceding taxation years (other than taxation years in participation periods of the individual that ended before the particular year);

B is

(*a*) nil, if the particular year is the first taxation year in a repayment period of the individual, and

(*b*) in any other case, the total of all amounts designated under subsection (3) by the individual for preceding taxation years (other than taxation years in participation periods of the individual that ended before the particular year);

C is the total of all amounts each of which is included under this subsection or subsection (5) in computing the individual's income for a preceding taxation year (other than a taxation year included in a participation period of the individual that ended before the particular year);

D is the lesser of nine and the number of taxation years of the individual that end in the period that

(*a*) begins at the beginning of the individual's last repayment period that began at or before the beginning of the particular year, and

(*b*) ends at the beginning of the particular year; and

E is

(*a*) if the particular year is the first taxation year within a repayment period of the individual, the total of the amount designated under subsection (3) by the individual for the particular year and all amounts so designated for preceding taxation years (other than taxation years in participation periods of the individual that ended before the particular year), and

(*b*) in any other case, the amount designated under subsection (3) by the individual for the particular year.

History: S. 146.02(4) was added by S.C. 1999, c. 22, s. 61(1), applicable after 1998.

Related Sections: S. 56(1)(*h.2*) Lifelong learning plan; s. 257 Negative amounts.

► 146.02(5) ◄

(5) Ceasing residence in Canada. If at any time in a taxation year an individual ceases to be resident in Canada, there shall be included in computing the individual's income for the period in the year during which the individual was resident in Canada the amount, if any, by which

(*a*) the total of all amounts each of which is an eligible amount received by the individual in the year or a preceding taxation year

exceeds the total of

(*b*) all amounts designated under subsection (3) by the individual in respect of amounts paid not later than 60 days after that time and before the individual files a return of income for the year, and

(*c*) all amounts included under subsection (4) or this subsection in computing the individual's income for preceding taxation years.

History: S. 146.02(5) was added by S.C. 1999, c. 22, s. 61(1), applicable after 1998.

Related Sections: S. 56(1)(*h.2*) Lifelong learning plan.

► 146.02(6) ◄

(6) Death of individual. If an individual dies at any time in a taxation year, there shall be included in computing the individual's income for the year the amount, if any, by which

(*a*) the individual's LLP balance immediately before that time

exceeds

(*b*) the amount designated under subsection (3) by the individual for the year.

History: S. 146.02(6) was added by S.C. 1999, c. 22, s. 61(1), applicable after 1998.

Related Sections: S. 56(1)(*h.2*) Lifelong learning plan.

► 146.02(7) ◄

(7) Exception. If a spouse or common-law partner of an individual was resident in Canada immediately before the individual's death at a particular time in a taxation year and the spouse or common-law partner and the individual's legal representatives jointly so elect in writing in the individual's return of income for the year,

(*a*) subsection (6) does not apply to the individual;

(*b*) the spouse or common-law partner is deemed to have received a particular eligible amount at the particular time equal to the amount that, but for this subsection, would be determined under subsection (6) in respect of the individual;

(*c*) subject to paragraph (*d*), for the purpose of applying this section after the particular time, the spouse or common-law partner is deemed to be the person designated under paragraph (*b*) of the definition "eligible amount" in subsection (1) in respect of the particular amount; and

(*d*) where the spouse or common-law partner received an eligible amount before the particular time in the spouse's or common-law partner's participation period that included the particular time and the particular individual designated under paragraph (*b*) of the definition "eligible amount" in subsection (1) in respect of that eligible amount was not the spouse or common-law partner, for the purpose of applying this section after the particular time the particular individual is deemed to be the person designated under that paragraph in respect of the particular amount.

History: S. 146.02(7) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.20) and 7(i), applicable January 1, 2001, coming into force on July 31, 2000. S. 146.02(7) formerly read:

"(7) *Exception.* If a spouse of an individual was resident in Canada immediately before the individual's death at a particular time in a taxation year and the spouse and the individual's legal representatives jointly so elect in writing in the individual's return of income for the year,

(*a*) subsection (6) does not apply to the individual;

(*b*) the spouse is deemed to have received a particular eligible amount at the particular time equal to the amount that, but for this subsection, would be determined under subsection (6) in respect of the individual;

(*c*) subject to paragraph (*d*), for the purpose of applying this section after the particular time, the spouse is deemed to be the person designated under paragraph (*b*) of the definition 'eligible amount' in subsection (1) in respect of the particular amount; and

(*d*) where the spouse received an eligible amount before the particular time in the spouse's participation period that included the particular time and the particular individual designated under paragraph (*b*) of the definition 'eligible amount' in subsection (1) in respect of that eligible amount was not the spouse, for the purpose of applying this section after the particular time the particular individual is deemed to be the person designated under that paragraph in respect of the particular amount."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 146.02(7) was added by S.C. 1999, c. 22, s. 61(1), applicable after 1998.

Related Sections: S. 248(1), "common-law partner".

Registered Education Savings Plans

SECTION 146.1:

► 146.1(1) ◄

(1) Definitions. In this section,

"accumulated income payment" — "accumulated income payment" under an education savings plan means any amount paid out of the plan, other than a payment described in any of paragraphs (*a*) and (*c*) to (*e*) of the definition "trust", to the extent that the amount so paid exceeds the fair market value of any consideration given to the plan for the payment of the amount;

History: S. 146.1(1), the definition "accumulated income payment" was amended by S.C. 1999, c. 22, s. 62(1), applicable after 1997. S. 146.1(1), the definition "accumulated income payment" formerly read:

" *'accumulated income payment'* — 'accumulated income payment' under an education savings plan means any amount paid out of the plan, other than a payment described in any of paragraphs (*a*), (*c*), (*d*) and (*e*) of the definition 'trust', to the extent that the amount so paid exceeds the fair market value of any consideration given to the plan for the payment of the amount;"

S. 146.1(1), the definition "accumulated income payment", was added by S.C. 1998, c. 19, s. 38(4), applicable after 1997.

Related Sections: S. 56(1)(*q*) Education savings plan payments; s. 60(*x*) Repayment under Canada Education Savings Act; s. 146.1(2)(*d.1*) Conditions for registration; s. 146.1(2)(*i.1*)Conditions for registration; s. 146.1(2)(*i.2*) Conditions for registration; s. 146.1(2.2) Waiver of conditions for accumulated income payments; s. 146.1(7.1) Other income inclusions; s. 204.94(2) Charging provision.

"beneficiary" — "beneficiary", in respect of an education savings plan, means a person, designated by a subscriber, to whom or on whose behalf an educational assistance payment under the plan is agreed to be paid if the person qualifies under the plan;

"contribution" — "contribution", into an education savings plan, does not include an amount paid into the plan under the *Canada Education Savings Act* or under a designated provincial program;

History: S. 146.1(1), the definition "contribution" was replaced by S.C. 2007, c. 35, s. 45(1), applicable to the 2007 and subsequent taxation years. S. 146.1(1), the definition "contribution" formerly read:

" *'contribution'* — 'contribution', into an education savings plan, does not include an amount paid into the plan under the *Canada Education Savings Act* or under a program administered pursuant to an agreement entered into under section 12 of that Act;"

S. 146.1(1), the definition "contribution" was replaced by S.C. 2004, c. 26, s. 21(1), applicable on Royal Assent, December 15, 2004. That definition formerly read:

" *'contribution'* — 'contribution' into an education savings plan does not include an amount paid into the plan by the Minister of Human Resources Development under Part III.1 of the *Department of Human Resources Development Act*;"

S. 146.1(1), the definition "contribution" was added by S.C. 1999, c. 22, s. 62(3), applicable after 1997.

Editorial Note: See the CRA's RESP Bulletin No. 1, dated August 12, 2008.

Related Sections: S. 18(11) Borrowed money used for contribution; Part X.4 — Tax in Respect of Overpayment to Registered Education Savings Plans.

"designated provincial program" — "designated provincial program" means

(*a*) a program administered pursuant to an agreement entered into under section 12 of the *Canada Education Savings Act*, or

(*b*) a prescribed program;

History: S. 146.1(1), the definition "designated provincial program" was added by S.C. 2007, c. 35, s. 45(3), applicable to the 2007 and subsequent taxation years.

Editorial Note: The education savings incentive program proposed by the Quebec Government in its 2007 budget would be prescribed and qualify as a "designated provincial program", as indicated in the Department of Finance's Explanatory Notes of November 21, 2007. See the CRA's RESP Bulletin No. 1, dated August 12, 2008.

Related Sections: S. 60(*x*) Repayment under Canada Education Savings Act.

"educational assistance payment" — "educational assistance payment" means any amount, other than a refund of payments, paid out of an education savings plan to or for an individual to assist the individual to further the individual's education at a post-secondary school level;

History: S. 146.1(1), the definition "educational assistance payment" was amended by S.C. 1998, c. 19, s. 38(2), applicable after 1997. S. 146.1(1), the definition "educational assistance payment" formerly read:

" *'educational assistance payment'* — 'educational assistance payment' means any amount, other than a refund of payments, paid or payable under an education savings plan to or for a beneficiary to assist the beneficiary to further the beneficiary's education at the post-secondary school level;"

Editorial Note: See the CRA's RESP Bulletin No. 1, dated August 12, 2008.

"education savings plan" — "education savings plan" means an arrangement entered into between

(*a*) any of the following, namely,

(i) an individual (other than a trust),

(ii) an individual (other than a trust) and the spouse or common-law partner of the individual, and

(iii) a public primary caregiver of a beneficiary, and

(*b*) a person or organization (in this section referred to as a "promoter")

under which the promoter agrees to pay or to cause to be paid educational assistance payments to or for one or more beneficiaries;

History: S. 146.1(1), the portion of the definition "education savings plan" before paragraph (*b*) was replaced by S.C. 2004, c. 26, s. 21(2), applicable on Royal Assent, December 15, 2004.

S. 146.1(1), the portion of the definition "education savings plan" before paragraph (*b*) formerly read:

" *'education savings plan'* — 'education savings plan' means a contract made at any time between

(*a*) either

(i) one individual (other than a trust), or

(ii) an individual (other than a trust) and the spouse or common-law partner of the individual, and"

S. 146.1(1), subparagraph (*a*)(ii) of the definition "education savings plan" was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.21), applicable January 1, 2001, coming into force on July 31, 2000. S. 146.1(1), subparagraph (*a*)(ii) of the definition "education savings plan" formerly read:

"(ii) an individual (other than a trust) and the spouse of the individual, and"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 146.1(1), the definition "education savings plan" was amended by S.C. 1998, c. 19, s. 38(2), applicable to contracts made after 1997. S. 146.1(1), the definition "education savings plan" formerly read:

" *'education savings plan'* — 'education savings plan' means a contract entered into at any time between an individual (in this section referred to as a 'subscriber') and a person or organization (in this section referred to as a 'promoter') under which, in consideration of payment by the subscriber of any periodic or other amount as consideration under the contract, the promoter agrees to pay or to cause to be paid to or for a beneficiary educational assistance payments;".

Editorial Note: The 2004 amendment to the definition of "education savings plan" to refer to "an arrangement entered into ..." instead of "a contract made ..." allows an RESP to be structured as a trust arrangement. Prior to this amendment, an RESP had to be structured as a contractual arrangement.

Related Sections: S. 248(1), "common-law partner".

"post-secondary educational institution" — "post-secondary educational institution" means

(*a*) an educational institution in Canada that is described in paragraph (*a*) of the definition "desig-

nated educational institution" in subsection 118.6(1), or

(*b*) an educational institution outside Canada that is a university, college or other educational institution that provides courses at a post-secondary school level at which a beneficiary was enrolled in a course of not less than 13 consecutive weeks;

History: S. 146.1(1), the definition "post-secondary educational institution" was added by S.C. 1994, c. 7, Sched. II, s. 118(2), applicable after February 20, 1990.

Related Sections: S. 120.4(1), "excluded amount".

"post-secondary school level" — "post-secondary school level" includes a program of courses, at an institution described in subparagraph (*a*)(ii) of the definition "designated educational institution" in subsection 118.6(1), of a technical or vocational nature designed to furnish a person with skills for, or improve a person's skills in, an occupation;

History: S. 146.1(1), the definition "post-secondary school level" was added by S.C. 2005, c. 19, s. 34(2), applicable after 2003.

"pre-1972 income" — [Repealed by S.C. 1998, c. 19, s. 38(1).]

History: S. 146.1(1), the definition "pre-1972 income" was repealed by S.C. 1998, c. 19, s. 38(1), applicable after 1997. S. 146.1(1), the definition "pre-1972 income" formerly read:

"*'pre-1972 income'* — 'pre-1972 income' means the total of all amounts each of which is the income (within the meaning of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read in its application to the particular taxation year) for a taxation year ending before 1972 of a trust governed by an education savings plan;"

"public primary caregiver" — "public primary caregiver", of a beneficiary under an education savings plan in respect of whom a special allowance is payable under the *Children's Special Allowances Act*, means the department, agency or institution that maintains the beneficiary or the public trustee or public curator of the province in which the beneficiary resides;

Department of Finance Comfort Letter
[Part X.5 Tax Re RESP Payments Not Applicable to "Public Primary Caregiver"]

January 7, 2008

Ms. Lenore Burton
Director General
Canada Education Savings Program
Human Resources and Social Development Canada
140 Promenade du Portage, Phase IV
Gatineau, QC K1A DJ9

Dear Ms. Burton:

This is in reply to your letter of April 13, 2007 in which you request that we consider an amendment to the *Income Tax Act* ("Act") to address an anomaly in the tax treatment of child welfare organizations that have established registered education savings plans ("RESPs") on behalf of children in their care. We also acknowledge several discussions between our respective officials on this matter. Please excuse the delay in replying.

Under section 146.1 of the Act, an RESP may be established on behalf of a child in care by the child's "public primary caregiver", which is defined as the department, agency or institution that maintains the child or the public trustee or curator of the province in which the child resides. We understand that child welfare services generally are administered by a provincial government department. However, Ontario and Nova Scotia have created independent non-profit organizations to provide child welfare services.

We understand that, in the course of coordinating a common RESP provider for children in care across Canada, concern was raised that the child welfare agencies in Ontario and Nova Scotia may be subject to the 20 percent tax on accumulated income payments in Part X.5 of the Act.

As you know, this special tax generally applies where an RESP is terminated because the beneficiary does not pursue post-secondary education and the accumulated investment income is paid out to the subscriber. The tax is intended to discourage the use of RESPs strictly for tax deferral purposes and is in addition to regular income tax.

While paragraph 149(1)(*l*) of the Act will provide an exemption from regular income tax with respect to any accumulated income payments made to child welfare agencies in these provinces, there is no comparable exemption from Part X.5 tax.

We understand that this is not an issue for most provinces, as any accumulated income payments made from an RESP established by a provincial government department would be immune from taxation under the constitution. However, because Ontario and Nova Scotia use non-profit organizations, constitutional immunity is not available.

You have asked that the Act be amended to expressly exempt child welfare organizations from being liable for Part X.5 tax. This will ensure that all child welfare organizations — regardless of legal structure — are able to reallocate the full amount of any investment income of an RESP that is not used for the beneficiary's post-secondary education to other RESPs established for other children under the organization's care.

We have considered your request and are prepared to recommend to the Minister of Finance that Part X.5 of the Act be amended so that it does not apply to a "public primary caregiver" as defined in subsection 146.1(1) of the Act. This is consistent with the fact that non-profit child welfare organizations are already exempt from regular income tax on accumulated income payments and will provide comparable tax treatment for all RESPs established by child welfare organizations.

I trust that this statement of our intentions is helpful to you. Please feel free to share this letter with the child welfare organizations and the financial institution that was selected to be the common RESP provider.

Yours sincerely,

Gerard Lalonde
Director
Tax Legislation Division
Tax Policy Branch

History: S. 146.1(1), the definition "public primary caregiver" was added by S.C. 2004, c. 26, s. 21(6), applicable on Royal Assent, December 15, 2004.

"qualified investment" — "qualified investment" for a trust governed by a registered education savings plan means

(*a*) an investment that would be described by any of paragraphs (*a*) to (*d*), (*f*) and (*g*) of the definition "qualified investment" in section 204 if the reference in that definition to "a trust governed by a deferred profit sharing plan or revoked plan" were read as a reference to "a trust governed by a registered education savings plan" and if that definition were read without reference to the words "with the exception of excluded property in relation to the trust",

(*b*) [Repealed.]

(*c*) a contract for an annuity issued by a licensed annuities provider where

(i) the trust is the only person who, disregarding any subsequent transfer of the contract by the trust, is or may become entitled to any annuity payments under the contract, and

(ii) the holder of the contract has a right to surrender the contract at any time for an amount that would, if reasonable sales and administration charges were ignored, approximate the value of funds that could otherwise be applied to fund future periodic payments under the contract,

(*d*) an investment that was acquired by the trust before October 28, 1998, and

(*e*) a prescribed investment;

History: S. 146.1(1), paragraph (*a*) of the definition "qualified investment" was replaced, and paragraph (*b*) was repealed, by S.C. 2007, c. 29, s. 18(2), applicable in determining whether a property is, at any time after March 18, 2007, a qualified investment. S. 146.1(1), paragraph (*a*) of the definition "qualified investment" formerly read:

"(*a*) an investment that would be described in any of paragraphs (*a*), (*b*), (*d*) and (*f*) to (*h*) of the definition 'qualified investment' in section 204 if the reference in that definition to 'a trust governed by a deferred profit sharing plan or revoked plan' were read as a reference to 'a trust governed by a registered education savings plan',

(*b*) a bond, debenture, note or similar obligation

(i) issued by a corporation the shares of which are listed on a prescribed stock exchange in Canada, or

(ii) issued by an authorized foreign bank and payable at a branch in Canada of the bank,"

S. 146.1(1), paragraph (*b*) of the definition "qualified investment" was amended by S.C. 2001, c. 17, s. 140(1), applicable after June 27, 1999. S. 146.1(1), paragraph (*b*) of the definition "qualified investment" formerly read:

"(*b*) a bond, debenture, note or similar obligation of a corporation the shares of which are listed on a prescribed stock exchange in Canada,"

S. 146.1(1), the definition "qualified investment" was added by S.C. 1999, c. 22, s. 62(3), applicable after 1997.

Editorial Note: The definition of "qualified investment" for a trust governed by a RESP incorporates by reference much of the similar definition in s. 204 that applies to deferred profit sharing plans. The definition also includes investments that are prescribed under Part XLIX (s. 4900) of the Regulations.

Related Sections: S. 87(10) Share deemed listed; s. 132.2(1)(*k*) Mutual funds — qualifying exchange; s. 207.1(3) Tax payable by trust under registered education savings plan.

Regulations: 3200; 4300; 4900(1); 4900(5); 4900(6); 4900(8); 4900(9); 4900(10).

Interpretation Bulletins: *Primary* — IT-320R3 Qualified Investments — Trusts Governed by Registered Retirement Savings Plans, Registered Education Savings Plans and Registered Retirement Income Funds.

Tax Profile: August 2004 — Canadian Tax Treatment of Index Participation Units and Exchange-Traded Index Derivatives.

"qualifying educational program" — "qualifying educational program" means a program at a post-secondary school level of not less than three consecutive weeks duration that requires that each student taking the program spend not less than ten hours per week on courses or work in the program;

History: S. 146.1, the definition "qualifying educational program" was replaced by S.C. 2005, c. 19, s. 34(1), applicable after 2003. S. 146.1, the definition "qualifying educational program" formerly read:

"*'qualifying educational program'* — 'qualifying educational program' has the meaning that would be assigned by the definition of that expression in subsection 118.6(1) if that definition were read without reference to paragraph (*a*);"

S. 146.1, the definition "qualifying educational program", was amended by S.C. 1997, c. 25, s. 42(1), applicable to the 1996 and subsequent taxation years. That definition formerly read:

"*'qualifying educational program'* — 'qualifying educational program' has the meaning assigned by subsection 118.6(1);"

S. 146.1(1), the definition "qualifying educational program" was added by S.C. 1994, c. 7, Sched. II, s. 118(2), applicable after February 20, 1990.

"refund of payments" — "refund of payments" at any time under a particular registered education savings plan means

(*a*) a refund at that time of a contribution that had been made at a previous time, if the contribution was made

(i) otherwise than by way of a transfer from another registered education savings plan, and

(ii) into the particular plan by or on behalf of a subscriber under the particular plan, or

(*b*) a refund at that time of an amount that was paid at a previous time into the particular plan by way of a transfer from another registered education savings plan, where the amount would have been a refund of payments under the other plan if it had been paid at the previous time directly to a subscriber under the other plan;

History: S. 146.1(1), the definition "refund of payments" was amended by S.C. 1998, c. 19, s. 38(2), applicable to the 1997 and subsequent taxation years. S. 146.1(1), the definition "refund of payments" formerly read:

"*'refund of payments'* — 'refund of payments' means any amount (not in excess of the total of amounts paid by or on behalf of a subscriber under an education savings plan) paid or payable to the subscriber, the subscriber's heirs, executors or assigns as or on account of a refund of amounts paid to the plan by or on behalf of the subscriber under the plan;"

Related Sections: S. 146.1(1), "contribution".

"registered education savings plan" — "registered education savings plan" means

(*a*) an education savings plan registered for the purposes of this Act, or

(*b*) a registered education savings plan as it is amended from time to time

but, except for the purposes of subsections (7) and (7.1) and Part X.4, a plan ceases to be a registered education savings plan immediately after the day as of which its registration is revoked under subsection (13);

History: S. 146.1(1), the definition "registered education savings plan" was amended by S.C. 1998, c. 19, s. 38(2), applicable after 1997. S. 146.1(1), the definition "registered education savings plan" formerly read:

"*'registered education savings plan'* — 'registered education savings plan' means an education savings plan accepted by the Minister for registration for the purposes of this Act as complying with the requirements of this section;"

Editorial Note: Registered education savings plans allow subscribers to accumulate income, on a tax deferred basis, to be used to pay the costs of post-secondary education. S.C. 2007, c. 29 (2007 Budget Bill) eliminated the $4,000 annual contribution limit and increased the lifetime limit set out in s. 204.9(1) from $42,000 to $50,000 for each beneficiary, both applicable to contributions made after 2006. Contributions also earn a Canada Education Savings Grant which is paid to the plan. The plan must be wound up by the end of the 25th year following the year in which it is set up (30th year if a "specified plan").

Related Sections: S. 149(1)(*u*) Registered education savings plans.

Information Circulars: IC 93-3R Registered education savings plans.

Guides: RC4092 Registered Education Savings Plans (RESPs).

"RESP annual limit" — [Repealed by S.C. 2007, c. 29, s. 18(1).]

History: S. 146.1(1), the definition "RESP annual limit" was repealed by S.C. 2007, c. 29, s. 18(1), applicable to contributions made after 2006. S. 146.1(1), the definition "RESP annual limit" formerly read:

"*'RESP annual limit'* — 'RESP annual limit' for a year means,

(*a*) for 1990 to 1995, $1,500,

(*b*) for 1996, $2,000, and

(*c*) for 1997 and subsequent years, $4,000;"

S. 146.1(1), the definition "RESP annual limit" was added by S.C. 1998, c. 19, s. 38(4), applicable after 1989.

"specified educational program" — "specified educational program" means a program at a post-secondary school level of not less than three consecutive weeks duration that requires each student taking the program to spend not less than 12 hours per month on courses in the program;

History: S. 146.1(1), the definition "specified educational program" was added by S.C. 2007, c. 29, s. 18(3), applicable to the 2007 and subsequent taxation years.

"specified plan" — "specified plan" means an education savings plan

(*a*) that does not allow more than one beneficiary under the plan at any one time,

(*b*) under which the beneficiary is an individual in respect of whom paragraphs 118.3(1)(*a*) to (*b*) apply for the beneficiary's taxation year that ends in the 31st year following the year in which the plan was entered into, and

(*c*) that provides that, at all times after the end of the 35th year following the year in which the plan was entered into, no other individual may be designated as a beneficiary under the plan;

History: S. 146.1(1), paragraphs (*b*) and (*c*) of the definition "specified plan" were replaced by S.C. 2008, c. 28, s. 23(1), applicable to the 2008 and

subsequent taxation years. S. 146.1(1), paragraphs (*b*) and (*c*) of the definition "specified plan" formerly read:

"(*b*) under which the beneficiary is an individual in respect of whom paragraphs 118.3(1)(*a*) to (*b*) apply for the beneficiary's taxation year that ends in the 21st year following the year in which the plan was entered into, and

(*c*) that provides that, at all times after the end of the 25th year following the year in which the plan was entered into, no other individual may be designated as a beneficiary under the plan;"

S. 146.1(1), the definition "specified plan" was added by S.C. 2005, c. 30, s. 10(1), applicable to the 2005 and subsequent taxation years.

"subscriber" — "subscriber" under an education savings plan at any time means

(*a*) each individual or the public primary caregiver with whom the promoter of the plan enters into the plan,

(*a*.1) another individual or another public primary caregiver who has before that time, under a written agreement, acquired a public primary caregiver's rights as a subscriber under the plan,

(*b*) an individual who has before that time acquired a subscriber's rights under the plan pursuant to a decree, order or judgment of a competent tribunal, or under a written agreement, relating to a division of property between the individual and a subscriber under the plan in settlement of rights arising out of, or on the breakdown of, their marriage or common-law partnership, or

(*c*) after the death of an individual described in any of paragraphs (*a*) to (*b*), any other person (including the estate of the deceased individual) who acquires the individual's rights as a subscriber under the plan or who makes contributions into the plan in respect of a beneficiary

but does not include an individual or a public primary caregiver whose rights as a subscriber under the plan had, before that time, been acquired by an individual or public primary caregiver in the circumstances described in paragraph (*a*.1) or (*b*);

History: S. 146.1(1), paragraph (*a*) of the definition "subscriber" was replaced, and paragraph (*a*.1) was added, by S.C. 2004, c. 26, s. 21(3), applicable on Royal Assent, December 15, 2004.

S. 146.1(1), paragraph (*a*) of the definition "subscriber" formerly read:

"(*a*) each individual with whom the promoter of the plan entered into the plan,"

S. 146.1(1), the portion after paragraph (*b*) was replaced by S.C. 2004, c. 26, s. 21(4), applicable on Royal Assent, December 15, 2004. The portion following paragraph (*b*) formerly read:

"(*c*) after the death of a subscriber under the plan, any other person (including the estate of the subscriber) who makes contributions into the plan in respect of a beneficiary

but does not include an individual who, before that time, disposed of the individual's rights as a subscriber under the plan in the circumstances described in paragraph (*b*);"

S. 146.1(1), paragraph (*b*) of the definition "subscriber" was amended by S.C. 2000, c. 12, Sched. 2, s. 9(l), applicable January 1, 2001, coming into force on July 31, 2000. S. 146.1(1), paragraph (*b*) of the definition "subscriber" formerly read:

"(*b*) an individual who has before that time acquired a subscriber's rights under the plan pursuant to a decree, order or judgment of a competent tribunal, or under a written agreement, relating to a division of property between the individual and a subscriber under the plan in settlement of rights arising out of, or on the breakdown of, their marriage, or"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 146.1(1), the definition "subscriber" was added by S.C. 1998, c. 19, s. 38(4), applicable to contracts made after 1997.

Related Sections: S. 146.1(1), "beneficiary", "contribution", "education savings plan", "public primary caregiver"; s. 248(1), "common-law partnership".

"tax-paid income" — [Repealed by S.C. 1998, c. 19, s. 38(1).]

History: S. 146.1(1), the definition "tax-paid-income" was amended by S.C. 1998, c. 19, s. 38(1), applicable after 1997. S. 146.1(1), the definition "tax-paid-income" formerly read:

"*'tax-paid income'* — 'tax-paid income' means the amount determined by the formula

A – (B – C)

where

A is the fair market value on December 31, 1971 of all the property of a trust governed by an education savings plan,

B is the total of all amounts paid to the plan on or before December 31, 1971 by or on behalf of the subscriber under the plan, and

C is the total amount of all refunds of payments made under the plan on or before December 31, 1971;"

"trust" — "trust", except in this definition and the definition "education savings plan", means any person who irrevocably holds property under an education savings plan for any of, or any combination of, the following purposes:

(*a*) the payment of educational assistance payments,

(*b*) the payment after 1997 of accumulated income payments,

(*c*) the refund of payments,

(*c*.1) the repayment of amounts (and the payment of amounts related to that repayment) under the *Canada Education Savings Act* or under a designated provincial program,

(*d*) the payment to, or to a trust in favour of, designated educational institutions in Canada referred to in subparagraph (*a*)(i) of the definition of that expression in subsection 118.6(1), or

(*e*) the payment to a trust that irrevocably holds property pursuant to a registered education savings plan for any of the purposes set out in paragraphs (*a*) to (*d*).

History: S. 146.1(1), paragraph (*c*.1) of the definition "trust" was replaced by S.C. 2007, c. 35, s. 45(2), applicable to the 2007 and subsequent taxation years. S. 146.1(1), paragraph (*c*.1) of the definition "trust" formerly read:

"(*c*.1) the repayment of amounts (and the payment of amounts related to that repayment) under the *Canada Education Savings Act* or under a program administered pursuant to an agreement entered into under section 12 of that Act,"

S. 146.1(1), paragraph (*c*.1) of the definition "trust" was replaced by S.C. 2004, c. 26, s. 21(5), applicable on Royal Assent, December 15, 2004. S. 146.1(1), paragraph (*c*.1) of the definition "trust" formerly read:

"(*c*.1) the repayment of amounts under Part III.1 of the *Department of Human Resources Development Act*,"

S. 146.1(1), paragraph (*c*.1) of the definition "trust" was added by S.C. 1999, c. 22, s. 62(2), applicable after 1997.

S. 146.1(1), the definition "trust", the portion before paragraph (*c*), was amended by S.C. 1998, c. 19, s. 38(3), applicable after 1997. S. 146.1(1), the definition "trust" formerly read:

"*'trust'* — 'trust', except in this definition, means any person who irrevocably holds property pursuant to an education savings plan for

(*a*) the payment of educational assistance payments,

(*b*) the payment of scholarships or other amounts to persons, other than a beneficiary, to assist them to further their education at the post-secondary school level,"

S. 146.1(1), the definition "trust", the portion before paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 118(4), applicable after July 13, 1990. That part formerly read:

"'trust' except in this definition means any person who irrevocably holds property or money pursuant to an education savings plan for"

S. 146.1(1), paragraph (*e*) of the definition "trust", was amended by S.C. 1994, c. 7, Sched. II, s. 118(5), applicable after July 13, 1990. That part formerly read:

"(*e*) the payment to a trust that irrevocably holds money or property transferred to it for any of the purposes set out in paragraphs (*a*) to (*d*)."

Editorial Note: See the CRA's RESP Bulletin No. 1, dated August 12, 2008.

Related Sections: S. 60(*x*) Repayment under Canada Education Savings Act; 146.1(1), "accumulated income payment", "designated provincial pro-

gram", "educational assistance payment", "refund of payments"; s. 146.1(7) Educational assistance payments.

► 146.1(2) ◄

(2) Conditions for registration. The Minister shall not accept for registration for the purposes of this Act any education savings plan of a promoter unless, in the Minister's opinion, the following conditions are complied with:

(*a*) the plan provides that the property of any trust governed by the plan (after the payment of trustee and administration charges) is irrevocably held for any of the purposes described in the definition "trust" in subsection (1) by a corporation licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering to the public its services as a trustee;

(*b*) at the time of the application by the promoter for registration of the plan, there are not fewer than 150 plans entered into with the promoter each of which complied, at the time it was entered into, with all the other conditions set out in this subsection, as it read at that time;

(*b.1*) application for registration of the plan is made by the promoter in prescribed form containing prescribed information;

(*c*) the promoter and all trusts governed by the plan are resident in Canada;

(*d*) the plan does not allow for any payment before 1998 to a subscriber, other than a refund of payments, unless the subscriber is also the beneficiary under the plan;

(*d.1*) subject to subsection (2.2), if the plan allows accumulated income payments, the plan provides that an accumulated income payment is permitted to be made only if

(i) the payment is made to, or on behalf of, a subscriber under the plan who is resident in Canada when the payment is made,

(ii) the payment is not made jointly to, or on behalf of, more than one subscriber, and

(iii) any of

(A) the payment is made after the 9th year that follows the year in which the plan was entered into and each individual (other than a deceased individual) who is or was a beneficiary under the plan has attained 21 years of age before the payment is made and is not, when the payment is made, eligible under the plan to receive an educational assistance payment,

(B) the payment is made in the year in which the plan is required to be terminated in accordance with paragraph (*i*), or

(C) each individual who was a beneficiary under the plan is deceased when the payment is made;

(*e*) the plan is substantially similar to the type of plan described in or annexed to a prospectus filed by the promoter with a securities commission in Canada or a body performing a similar function in a province;

(*f*) in the event that a trust governed by the plan is terminated, the property held by the trust is required to be used for any of the purposes described in the definition "trust" in subsection (1);

(*g*) the plan does not allow for the payment of educational assistance payments before 1997 to an individual unless the individual is, at the time the payment is made, a student in full-time attendance at a post-secondary educational institution and enrolled in a qualifying educational program at the institution;

(*g.1*) the plan does not allow for the payment of an educational assistance payment to or for an individual at any time after 1996 unless

(i) either

(A) the individual is, at that time, enrolled as a student in a qualifying educational program at a post-secondary educational institution, or

(B) the individual has, before that time, attained the age of 16 years and is, at that time, enrolled as a student in a specified educational program at a post-secondary educational institution, and

(ii) either

(A) the individual satisfies, at that time, the condition set out in clause (i)(A), and

(I) has satisfied that condition throughout at least 13 consecutive weeks in the 12-month period that ends at that time, or

(II) the total of the payment and all other educational assistance payments made under a registered education savings plan of the promoter to or for the individual in the 12-month period that ends at that time does not exceed $5,000 or any greater amount that the Minister designated for the purpose of the *Canada Education Savings Act* approves in writing with respect to the individual, or

(B) the individual satisfies, at that time, the condition set out in clause (i)(B) and the total of the payment and all other educational assistance payments made under a registered education savings plan of the promoter to or for the individual in the 13-week period that ends at that time does not exceed $2,500 or any greater amount that the Minister designated for the purpose of the *Canada Education Savings Act* approves in writing with respect to the individual;

(*g.2*) the plan does not allow for any contribution into the plan, other than a contribution made by or on behalf of a subscriber under the plan in respect of a beneficiary under the plan or a contribution made by way of transfer from another registered education savings plan;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 146.1(2) of the Act is amended by adding the following after paragraph (g.2):

(g.3) the plan provides that an individual is permitted to be designated as a beneficiary under the plan, and that a contribution to the plan in respect of an individual who is a beneficiary under the plan is permitted to be made, only if

(i) in the case of a designation, the individual's Social Insurance Number is provided to the promoter before the designation is made and either

(A) the individual is resident in Canada when the designation is made, or

(B) the designation is made in conjunction with a transfer of property into the plan from another registered education savings plan under which the individual was a beneficiary immediately before the transfer, and

(ii) in the case of a contribution, either

(A) the individual's Social Insurance Number is provided to the promoter before the contribution is made and the individual is resident in Canada when the contribution is made, or

(B) the contribution is made by way of transfer from another registered education savings plan under which the individual was a beneficiary immediately before the transfer;

Applicable: After 2003.

Explanatory Note: Subsection 146.1(2) of the Act sets out the conditions that must be satisfied in order for an education savings plan to be accepted for registration.

New paragraph 146.1(2)(g.3) is introduced to preclude non-residents and individuals who have not yet been assigned a Social Insurance Number (SIN) from becoming a beneficiary under a registered education savings plan (RESP) or from benefiting from RESP contributions.

Specifically, paragraph 146.1(2)(g.3) requires that an education savings plan not permit an individual to be designated as a beneficiary under the plan, and not allow a contribution for an individual who is a beneficiary under the plan, unless the individual's SIN has been provided to the promoter of the plan and the individual is resident in Canada.

If an individual is designated as a beneficiary under an RESP in conjunction with the transfer of property into the plan from another RESP under which the individual was a beneficiary immediately before the transfer, the requirement that the individual be resident in Canada in order to be designated as a beneficiary does not apply. However, subject to the exceptions in new subsection 146.1(2.3), the individual's SIN has to be provided to the promoter in order for the individual to be designated as a beneficiary under the transferee RESP. This special rule is intended primarily to accommodate transfers from an RESP to a replacement RESP after the beneficiary has ceased to be resident of Canada. (It should be noted that the transfer itself, as a contribution to an RESP, is not subject to the SIN and residency conditions that apply to ordinary contributions.)

New subsection 146.1(2.3) provides two additional exceptions to the SIN condition that are primarily of relevance to RESPs that were entered into before 1999 and RESPs that replace such plans. These exceptions recognize that the Canada Revenue Agency only began requiring the beneficiary's SIN to be provided on the application for registration for plans entered into after 1998.

The first new exception allows an education savings plan that was entered into before 1999 to not require that an individual's SIN be provided in respect of a contribution to the plan. Such contributions, however, continue to be ineligible for the Canada Education Savings Grant. It should be noted that this exception is only relevant for contributions made for existing beneficiaries under such plans. An individual without a SIN is prevented from being designated as a new beneficiary under such a plan.

Under the second new exception, an education savings plan may permit a non-resident individual who does not have a SIN to be designated as a beneficiary under the plan provided that the designation is being made in conjunction with a transfer of property into the plan from another RESP under which the individual was a beneficiary immediately before the transfer. This exception is intended, in particular, to accommodate the transfer of property from an RESP that was entered into before 1999, under which the beneficiary had always been non-resident or had ceased to be resident in Canada before having been assigned a SIN, to a replacement RESP (and successive transfers).

Paragraph 146.1(2)(g.3) and subsection 146.1(2.3) apply after 2003.

(h) the plan provides that no contribution (other than a contribution made by way of a transfer from another registered education savings plan) may be made into the plan after

(i) in the case of a specified plan, the 35th year following the year in which the plan was entered into, and

(ii) in any other case, the 31st year following the year in which the plan was entered into;

(i) the plan provides that it must be terminated on or before the last day of

(i) in the case of a specified plan, the 40th year following the year in which the plan was entered into, and

(ii) in any other case, the 35th year following the year in which the plan was entered into;

(i.1) if the plan allows accumulated income payments in accordance with paragraph (d.1), the plan provides that it must be terminated before March of the year following the year in which the first such payment is made out of the plan;

(i.2) the plan does not allow for the receipt of property by way of direct transfer from another registered education savings plan after the other plan has made any accumulated income payment;

(j) if the plan allows more than one beneficiary under the plan at any one time, the plan provides

(i) that each of the beneficiaries under the plan is required to be connected to each living subscriber under the plan, or to have been connected to a deceased original subscriber under the plan, by blood relationship or adoption,

(ii) that a contribution into the plan in respect of a beneficiary is permitted to be made only if

(A) the beneficiary had not attained 31 years of age before the time of the contribution, or

(B) the contribution is made by way of transfer from another registered education savings plan that allows more than one beneficiary at any one time, and

(iii) that an individual is permitted to become a beneficiary under the plan at any particular time only if

(A) the individual had not attained 21 years of age before the particular time, or

(B) the individual was, immediately before the particular time, a beneficiary under another registered education savings plan that allows more than one beneficiary at any one time;

(k) [Repealed.]

(l) the plan provides that the promoter shall, within 90 days after an individual becomes a beneficiary under the plan, notify the individual (or, where the individual is under 19 years of age at that time and either ordinarily resides with a parent of the individual or is maintained by a public primary caregiver of the individual, that parent or public

primary caregiver) in writing of the existence of the plan and the name and address of the subscriber in respect of the plan;

(*m*) the Minister has no reasonable basis to believe that the promoter will not take all reasonable measures to ensure that the plan will continue to comply with the conditions set out in paragraphs (*a*), (*c*) to (*d.1*) and (*f*) to (*l*) for its registration for the purposes of this Act; and

(*n*) the Minister has no reasonable basis to believe that the plan will become revocable.

History: S. 146.1(2)(*h*)(i) and (ii) were replaced by S.C. 2008, c. 28, s. 23(2), applicable to the 2008 and subsequent taxation years. S. 146.1(1)(*h*)(i) and (ii) formerly read:

"(i) in the case of a specified plan, the 25th year following the year in which the plan was entered into, and

(ii) in any other case, the 21st year following the year in which the plan was entered into;"

S. 146.1(2)(*i*)(i) and (ii) were replaced by S.C. 2008, c. 28, s. 23(3), applicable to the 2008 and subsequent taxation years. S. 146.1(1)(*i*)(i) and (ii) formerly read:

"(i) in the case of a specified plan, the 30th year following the year in which the plan was entered into, and

(ii) in any other case, the 25th year following the year in which the plan was entered into;"

S. 146.1(2)(*j*)(ii)(A) was replaced by S.C. 2008, c. 28, s. 23(4), applicable to the 2008 and subsequent taxation years. S. 146.1(2)(*j*)(ii)(A) formerly read:

"(A) the beneficiary had not attained 21 years of age before the time of the contribution, or"

S. 146.1(2)(*g.1*)(i) and (ii) were replaced by S.C. 2007, c. 29, s. 18(4), applicable to the 2007 and subsequent taxation years. S. 146.1(2)(*g.1*)(i) and (ii) formerly read:

"(i) either

(A) the individual is at that time enrolled as a full-time or part-time student in a qualifying educational program at a post-secondary educational institution, or

(B) the individual is at that time enrolled as a student in a qualifying educational program at a post-secondary educational institution and has at that time a mental or physical impairment the effects of which on the individual have been certified in writing, by a person described in paragraph 118.3(1)(*a.2*) in relation to the individual's impairment, to be such that the individual cannot reasonably be expected to be enrolled as a full-time student, and

(ii) either

(A) the individual has satisfied the condition set out in subparagraph (i) throughout at least 13 consecutive weeks in the 12-month period that ends at that time, or

(B) the total of the payment and all other educational assistance payments made under a registered education savings plan of the promoter to or for the individual in the 12-month period that ends at that time does not exceed $5,000 or any greater amount that the Minister designated for the purpose of the *Canada Education Savings Act* approves in writing with respect to the individual;"

S. 146.1(2)(*k*) was repealed by S.C. 2007, c. 29, s. 18(5), applicable to contributions made after 2006. S. 146.1(2)(*k*) formerly read:

"(*k*) the plan does not allow the total of all contributions made into the plan in respect of a beneficiary for a year (other than contributions made by way of transfer from registered education savings plans) to exceed the RESP annual limit for the year;"

S. 146.1(2)(*d.1*)(iii)(B) was replaced by S.C. 2005, c. 30, s. 10(2), applicable to the 2005 and subsequent taxation years. S. 146.1(2)(*d.1*)(iii)(B) formerly read:

"(B) the payment is made in the 25th year following the year in which the plan is entered into, or"

S. 146.1(2)(*h*) and (*i*) were replaced by S.C. 2005, c. 30, s. 10(3), applicable to the 2005 and subsequent taxation years. S. 146.1(2)(*h*) and (*i*) formerly read:

"(*h*) the plan provides that no payments may be made into the plan by or on behalf of a subscriber after the 21st year following the year in which the plan is entered into;

(*i*) the plan provides that it must be terminated on or before the last day of the 25th year following the year in which the plan is entered into;"

S. 146.1(2)(*d.1*) was replaced by S.C. 2004, c. 26, s. 21(7), applicable on Royal Assent, December 15, 2004. S. 146.1(2)(*d.1*) formerly read:

"(*d.1*) subject to subsection (2.2), the plan does not allow accumulated income payments under the plan, or the plan allows an accumulated income payment at a particular time only if

(i) the payment is made to, or on behalf of, a person and not jointly to, or on behalf of, more than one person,

(ii) the particular time is after 1997,

(iii) the person is resident in Canada at the particular time,

(iv) either

(A) the person is a subscriber under the plan at the particular time, or

(B) an individual died at any previous time and was a subscriber under the plan immediately before death,

(v) each individual in respect of whom a subscriber has made a contribution into the plan

(A) has before the particular time attained 21 years of age and is not, at the particular time, eligible under the plan to receive an educational assistance payment, or

(B) has died before the particular time, and

(vi) either

(A) the particular time is after the 9th year that follows the year in which the plan was entered into, or

(B) each individual in respect of whom a subscriber has made a contribution into the plan has died before the particular time and was, or was related to, a subscriber under the plan (or was the nephew, niece, great nephew or great niece of a subscriber under the plan);"

S. 146.1(2)(*g.1*)(i)(A) was replaced by S.C. 2004, c. 26, s. 21(7.1), applicable on Royal Assent, December 15, 2004. S. 146.1(2)(*g.1*)(i)(A) formerly read:

"(A) the individual is at that time enrolled as a full-time student in a qualifying educational program at a post-secondary educational institution, or"

S. 146.1(2)(*g.1*)(ii)(B) was replaced by S.C. 2004, c. 26, s. 21(8), applicable on Royal Assent, December 15, 2004. S. 146.1(2)(*g.1*)(ii)(B) formerly read:

"(B) the total of the payment and all other educational assistance payments made under a registered educational savings plan of the promoter to or for the individual in the 12-month period that ends at that time does not exceed $5,000 or such greater amount as the Minister of Human Resources Development approves in writing with respect to the individual;"

S. 146.1(2)(*l*) was replaced by S.C. 2004, c. 26, s. 21(9), applicable on Royal Assent, December 15, 2004. S. 146.1(2)(*l*) formerly read:

"(*l*) the plan provides that the promoter shall, within 90 days after an individual becomes a beneficiary under the plan, notify the individual (or, where the individual is under 19 years of age at that time and ordinarily resides with a parent of the individual, that parent) in writing of the existence of the plan and the name and address of the subscriber in respect of the plan;"

S. 146.1(2)(*b.1*) was added by S.C. 1999, c. 22, s. 62(4), applicable to plans entered into after 1998.

S. 146.1(2)(*d.1*), the portion before subparagraph (i), was amended by S.C. 1999, c. 22, s. 62(5), applicable after 1997. S. 146.1(2)(*d.1*), the portion before subparagraph (i) formerly read:

"(*d.1*) the plan does not allow accumulated income payments under the plan, or the plan allows an accumulated income payment at a particular time under the plan only if"

S. 146.1(2)(*g.1*) was amended by S.C. 1999, c.22, s. 62(6), applicable to plans entered into after February 20, 1990, except that

(*a*) for plans entered into before 1998, references in that subsection to "individual" shall be read as "beneficiary"; and

(*b*) subparagraph 146.1(2)(*g.1*)(ii) of the Act does not apply to plans entered into before 1999. S. 146.1(2)(*g.1*) formerly read:

"(*g.1*) the plan does not allow for the payment of educational assistance payments after 1996 to an individual unless the individual is, at the time the payment is made, enrolled in a qualifying educational program as a full-time student at a post-secondary educational institution;"

S. 146.1(2)(*j*)(ii) was amended, and subparagraph (iii) was added, by S.C. 1999, c. 22, s. 62(7), applicable to plans entered into after 1998. S. 146.1(2)(*j*)(ii) formerly read:

"(ii) that a contribution into the plan in respect of a beneficiary is permitted to be made only if

(A) the beneficiary had not attained 21 years of age at the time the plan was entered into,

(B) the contribution is made by way of transfer from another registered education savings plan into which a contribution had been made before the transfer in respect of the beneficiary, or

(C) the contribution is made (after a contribution to which clause (B) applied was made) into the plan in respect of the beneficiary;"

S. 146.1(2)(*n*) was added by S.C. 1999, c. 22 s. 62(8), applicable after 1997.

S. 146.1(2), the portion before paragraph (*a*) was amended by S.C. 1998, c. 19, s. 38(5), applicable to applications made after 1997. S. 146.1(2), the portion before paragraph (*a*) formerly read:

"(2) *Conditions for acceptance of plan for registration.* The Minister shall not accept for registration for the purposes of this Act any education savings plan of a promoter unless, in the Minister's opinion, it complies with the following conditions:"

S. 146.1(2)(*b*) was amended by S.C. 1998, c. 19, s. 38(6), applicable to applications made after 1997. S. 146.1(2)(*b*) formerly read:

"(*b*) at the time of the application by the promoter for registration of the plan, there are not fewer than 150 subscribers who have entered into education savings plans with the promoter each of which complied, at the time it was entered into, with all the other conditions set out in this subsection, or subsection 146.1(2) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as the case may be, as the applicable subsection read at that time;"

S. 146.1(2)(*d*) was amended and paragraph (*d*.1) was added by S.C. 1998, c. 19, s. 38(7), applicable to the 1998 and subsequent taxation years. S. 146.1(2)(*d*) formerly read:

"(*d*) the plan does not allow for any payment to a subscriber other than a refund of payments unless the subscriber is also the beneficiary under the plan;"

S. 146.1(2)(*g*) was amended by S.C. 1998, c. 19, s. 38(8), applicable to plans entered into after February 20, 1990. S. 146.1(2)(*g*) formerly read:

"(*g*) the plan does not allow for the payment of educational assistance payments to an individual unless the individual is, at the time the payment is made, a student in full-time attendance at a post-secondary educational institution and enrolled in a qualifying educational program at the institution;"

S. 146.1(2)(*g*.1) was added by S.C. 1998, c. 19, s. 38(8), applicable to plans entered into after February 20, 1990 except that, for plans entered into before 1998, the reference to "an individual" shall be read as "a beneficiary" and the reference to "the individual" shall be read as "the beneficiary".

S. 146.1(2)(*g*.2) was added by S.C. 1998, c. 19, s. 38(8), applicable on Royal Assent, June 18, 1998.

S. 146.1(2)(*i*.1) was added by S.C. 1998, c. 19, s. 38(9), applicable to the 1998 and subsequent taxation years

S. 146.1(2)(*i*.2) was added by S.C. 1998, c. 19, s. 38(9), applicable to the 1998 and subsequent taxation years.

S. 146.1(2)(*j*) was amended by S.C. 1998, c. 19, s. 38(9), applicable to the 1998 and subsequent taxation years, except that

(*a*) paragraph 146.1(2)(*j*) of the Act does not apply to plans entered into before July 14, 1990; and

(*b*) subparagraph 146.1(2)(*j*)(ii) of the Act does not apply to plans entered into before 1998. S. 146.1(2)(*j*) formerly read:

"(*j*) where the plan provides that a subscriber may name more than one beneficiary under the plan at any one time, the plan provides that each of the beneficiaries under the plan is required to be connected to the subscriber by blood relationship or adoption;"

S. 146.1(2)(*k*) was amended by S.C. 1998, c. 19, s. 38(10), applicable to plans entered into after February 20, 1990. S. 146.1(2)(*k*) formerly read:

"(*k*) the plan provides that the total of all payments made into the plan in respect of a beneficiary for a year shall not exceed $2,000;"

S. 146.1(2)(*m*) was amended by S.C. 1998, c. 19, s. 38(11), applicable to applications made after 1997. S. 146.1(2)(*m*) formerly read:

"(*m*) the plan complies with prescribed conditions."

S. 146.1(2)(*k*) was amended by S.C. 1997, c. 25, s. 42(2), applicable to the 1996 and subsequent taxation years, except in respect of plans entered into before February 21, 1990. S. 146.1(2)(*k*) formerly read:

"(*k*) the plan provides that the total of all payments made into the plan in respect of a beneficiary for a year shall not exceed $1,500;"

S. 146.1(2)(*a*) and (*b*) were amended by S.C. 1994, c. 7, Sched. II, s. 118(6), applicable to plans entered into after February 20, 1990. S. 146.1(2)(*a*) and (*b*) formerly read:

"(*a*) the plan provides that the property of any trust established under the plan (after payment of trustee and administration charges) is irrevocably held for any of the purposes described in the definition 'trust' in subsection (1);

(*b*) at the time of the application by the promoter for registration of the plan, there are not less than 150 subscribers who have entered into education savings plans with the promoter that comply with the conditions set out in paragraphs (*a*) and (*c*) to (*g*);"

S. 146.1(2)(*c*) was amended by S.C. 1994, c. 7, Sched. II, s. 118(7), applicable after July 13, 1990. S. 146.1(2)(*c*) formerly read:

"(*c*) the promoter and all trusts established under the plan are resident in Canada;"

S. 146.1(2)(*f*) was amended by S.C. 1994, c. 7, Sched. II, s. 118(8), applicable after July 13, 1990. S. 146.1(2)(*f*) formerly read:

"(*f*) in the event that a trust established under the plan is terminated, the property or money held by the trust is required to be used for any of the purposes described in the definition 'trust' in subsection (1); and"

S. 146.1(2)(*g*) was amended by S.C. 1994, c. 7, Sched. II, s. 118(9), applicable to plans entered into after February 20, 1990. S. 146.1(2)(*g*) formerly read:

"(*g*) the plan in all other respects complies with any regulations of the Governor in Council made on the recommendation of the Minister of Finance."

S. 146.1(2)(*h*) to (*m*) were added by S.C. 1994, c. 7, Sched. II, s. 118(9), applicable to plans entered into after February 20, 1990, except that paragraph 146.1(2)(*j*) does not apply to plans entered into before July 14, 1990, and paragraph 146.1(2)(*l*) does not apply to plans entered into before April 1991.

Related Sections: S. 118.6(3) Students eligible for the disability tax credit; s. 146.1(1), "accumulated income payment", "beneficiary", "contribution", "educational assistance payment", "education savings plan", "post-secondary educational institution", "public primary caregiver", "qualifying educational program", "refund of payments", "registered education savings plan", "specified plan", "subscriber", "trust"; s. 146.1(2)(*d*.1) Conditions for registration; s. 146.1(4) Registration of plans without prospectus; s. 204.9–204.93 Provisions applicable to Part; s. 204.94(2) Charging provision; s. 251(6) Blood relationship, etc.

Interpretation Bulletins: *Secondary* — IT-320R3 Qualified investments — Trusts governed by Registered retirement savings plans, Registered education savings plans and Registered retirement income funds.

Information Circulars: IC 78-14R4 Guidelines for trust companies and other persons responsible for filing T3GR, T3D, T3P, T3S, T3RI, and T3F returns; IC 93-3R Registered education savings plans.

Forms: T3GR; T550; T1171; T1172.

Guides: RC4092 Registered Education Savings Plans (RESPs).

Canadian Tax Foundation: Donnelly, Welch and Young, "Registered Education Savings Plans: A Tax Incentive Response to Higher Education Access", *1999 Canadian Tax Journal*, No. 1, 81; Magee, "Tax Planning for Post-Secondary Education", *1998 Canadian Tax Journal*, No. 5, 1095.

► 146.1(2.1) ◄

(2.1) RESP is revocable. For the purposes of paragraphs (2)(*n*) and (12.1)(*d*), a registered education savings plan is revocable at any time after October 27, 1998 at which

(*a*) a trust governed by the plan acquires property that is not a qualified investment for the trust;

(*b*) property held by a trust governed by the plan ceases to be a qualified investment for the trust and the property is not disposed of by the trust within 60 days after that time;

(*c*) a trust governed by the plan begins carrying on a business; or

(*d*) a trustee that holds property in connection with the plan borrows money for the purposes of the plan, except where

(i) the money is borrowed for a term not exceeding 90 days,

(ii) the money is not borrowed as part of a series of loans or other transactions and repayments, and

(iii) none of the property of the trust is used as security for the borrowed money.

History: S. 146.1(2.1) was added by S.C. 1999, c. 22, s. 62(9), applicable after 1997.

Related Sections: S. 207.1(3) Tax payable by trust under registered education savings plan.

Interpretation Bulletins: *Secondary* — IT-320R3 Qualified Investments — Trusts Governed by Registered Retirement Savings Plans, Registered Education Savings Plans and Registered Retirement Income Funds.

► 146.1(2.2) ◄

(2.2) Waiver of conditions for accumulated income payments. The Minister may, on written application of the promoter of a registered education savings plan, waive the application of the conditions in clause (2)(*d*.1)(iii)(A) in respect of the plan where a beneficiary under the plan suffers from a severe and prolonged mental impairment that prevents, or can reasonably be expected to prevent, the beneficiary from enrolling in a qualifying educational program at a post-secondary educational institution.

History: S. 146.1(2.2) was replaced by S.C. 2004, c. 26, s. 21(9.1), applicable on Royal Assent, December 15, 2004. S. 146.1(2.2) formerly read:

"(2.2) *Waiver of conditions for accumulated income payments.* The Minister may, on written application of the promoter of a registered education savings plan, waive the application of the conditions in subparagraphs (2)(*d*.1)(v) and (vi) in respect of the plan where a beneficiary under the plan suffers from a severe and prolonged mental impairment that prevents, or can reasonably be expected to prevent, the beneficiary from enrolling in a qualifying educational program at a post-secondary educational institution."

S. 146.1(2.2) was added by S.C. 1999, c. 22, s. 62(9), applicable after 1997.

Related Sections: S. 146.1(1), "accumulated income payment", "beneficiary", "post-secondary educational institution", "qualifying educational program".

► 146.1(2.21) ◄

(2.21) Extension for making educational assistance payments. Notwithstanding paragraph (2)(*g*.1), an education savings plan may allow for the payment of an educational assistance payment to or for an individual at any

time in the six-month period immediately following the particular time at which the individual ceases to be enrolled as a student in a qualifying educational program or a specified educational program, as the case may be, if the payment would have complied with the requirements of paragraph (2)(*g.1*) had the payment been made immediately before the particular time.

History: S. 146.1(2.21) was added by S.C. 2008, c. 28, s. 23(5), applicable to the 2008 and subsequent taxation years, except that subsection 146.1(2.21) does not apply in respect of cessations of enrolment that occur before 2008.

Related Sections: S. 146.1(1), "educational assistance payment", "qualifying educational program", "specified educational program".

► 146.1(2.22) ◄

(2.22) Timing of payment. An educational assistance payment that is made at any time in accordance with subsection (2.21) but not in accordance with paragraph (2)(*g.1*) is deemed, for the purposes of applying that paragraph at and after that time, to have been made immediately before the particular time referred to in subsection (2.21).

History: S. 146.1(2.22) was added by S.C. 2008, c. 28, s. 23(5), applicable to the 2008 and subsequent taxation years, except that subsection 146.1(2.22) does not apply in respect of cessations of enrolment that occur before 2008.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 146.1 of the Act is amended by adding the following after subsection (2.2) [now after s. 146.1(2.22)]:

(2.3) Social Insurance Number not required. Notwithstanding paragraph (2)(g.3), an education savings plan may provide that an individual's Social Insurance Number need not be provided in respect of

(*a*) a contribution to the plan, if the plan was entered into before 1999; and

(*b*) a designation of a non-resident individual as a beneficiary under the plan, if the individual was not assigned a Social Insurance Number before the designation is made.

Applicable: After 2003.

Explanatory Note: See the Explanatory Note following the addition of paragraph 146.1(2)(g.3).

► 146.1(3) ◄

(3) Deemed registration. Where in any year an education savings plan cannot be accepted for registration solely because the condition set out in paragraph (2)(*b*) has not been complied with, if the plan is subsequently registered, it shall be deemed to have been registered on the first day of January of

(*a*) the year in which all of the conditions set out in subsection (2) (except in paragraph (2)(*b*)) were complied with, or

(*b*) the year preceding the year in which the plan was subsequently registered,

whichever is the later.

Related Sections: S. 146.1(1.2) Deemed date of registration.

Information Circulars: IC 93-3R Registered education savings plans.

► 146.1(4) ◄

(4) Registration of plans without prospectus. Notwithstanding paragraph (2)(*e*), where a promoter has not filed a prospectus in respect of an education savings plan referred to in that paragraph, the Minister may register the plan if the promoter is not otherwise required by the laws of Canada or a province to file such a prospectus with a securities commission in Canada or a body performing a similar function in a province and the plan complies with the other conditions set out in subsection (2).

History: S. 146.1(4) was amended by S.C. 1994, c. 7, Sched. II, s. 118(10), applicable to plans registered after February 20, 1990. S. 146.1(4) formerly read:

"(4) *'Registration of plans in existence on October 15, 1973'.* Notwithstanding paragraph (2)(*e*), where a promoter has not filed a prospectus referred to in that paragraph, the Minister may register an education savings plan if the plan was in existence on October 15, 1973 and as of that date the other conditions set out in subsection (2) had been complied with."

Information Circulars: IC 93-3R Registered education savings plans.

► 146.1(4.1) ◄

(4.1) Obligation to file amendment. When a registered education savings plan is amended, the promoter shall file the text of the amendment with the Minister not later than 60 days after the day on which the plan is amended.

History: S. 146.1(4.1) was added by S.C. 1998, c. 19, s. 38(12), applicable on Royal Assent, June 18, 1998.

► 146.1(5) ◄

(5) Trust not taxable. No tax is payable under this Part by a trust on the taxable income of the trust for a taxation year if, throughout the period in the year during which the trust was in existence, the trust was governed by a registered education savings plan.

Related Sections: S. 146.1(1), "registered education savings plan", "trust"; s. 149(1)(*u*) Registered education savings plans.
Interpretation Bulletins: *Secondary* — IT-320R3 Qualified Investments — Trusts Governed by Registered Retirement Savings Plans, Registered Education Savings Plans and Registered Retirement Income Funds.
Information Circulars: IC 78-14R4 Guidelines for trust companies and other persons responsible for filing T3GR, T3D, T3P, T3S, T3RI, and T3F returns; IC 93-3R Registered education savings plans.

► 146.1(6) ◄

(6) Subscriber not taxable. No tax is payable by a subscriber on the income of a trust for a taxation year after 1971 throughout which the trust was governed by a registered education savings plan.

Related Sections: S. 146.1(1), "subscriber".

► 146.1(6.1) ◄

(6.1) Transfers between plans. Where property irrevocably held by a trust governed by a registered education savings plan (in this subsection referred to as the "transferor plan") is transferred to a trust governed by another registered education savings plan (in this subsection referred to as the "transferee plan"),

(*a*) [Repealed by S.C. 1998, c. 19, s. 38(13).]

(*b*) for the purposes of this paragraph, the definition "specified plan" in subsection (1) and paragraphs (2)(*d.1*), (*h*) and (*i*), the transferee plan is deemed to have been entered into on the day that is the earlier of

(i) the day on which the transferee plan was entered into, and

(ii) the day on which the transferor plan was entered into; and

(*c*) notwithstanding subsections (7) and (7.1), no amount shall be included in computing the income of any person because of the transfer.

History: S. 146.1(6.1), the portion of paragraph (*b*) before subparagraph (i), was replaced by S.C. 2005, c. 30, s. 10(4), applicable to the 2005 and subsequent taxation years. S. 146.1(6.1), the portion of paragraph (*b*) before subparagraph (i) formerly read:

"(*b*) for the purposes of this paragraph and paragraphs (2)(*d.1*), (*h*) and (*i*), the transferee plan is deemed to have been entered into on the day that is the earlier of"

S. 146.1(6.1), the portion of paragraph (*b*) before subparagraph (i), was replaced by S.C. 2004, c. 26, s. 21(10), applicable on Royal Assent, December 15, 2004. That portion formerly read:

"(*b*) for the purposes of this paragraph, subparagraph (2)(*d.1*)(vi) and paragraphs (2)(*h*) and (*i*), the transferee plan is deemed to have been entered into on the day that is the earlier of"

S. 146.1(6.1)(*a*) was repealed by S.C. 1998, c. 19, s. 38(13), applicable to transfers made after 1996. S. 146.1(6.1)(*a*) formerly read:

"(*a*) for the purposes of Part X.4,

(i) the transferee plan shall be deemed to be the same plan as, and a continuation of, the transferor plan, and

(ii) the transfer of property shall be deemed not to be a payment made into the transferee plan; and"

S. 146.1(6.1)(*b*) was amended by S.C. 1998, c. 19, s. 38(14), applicable after 1997. S. 146.1(6.1)(*b*) formerly read:

"(*b*) for the purposes of this paragraph and paragraphs (2)(*h*) and (*i*), the transferee plan shall be deemed to have been entered into on the earlier of

(i) the day on which the transferee plan was entered into, and

(ii) the day on which the transferor plan was entered into."

S. 146.1(6.1)(*c*) was added by S.C. 1998, c. 19, s. 38(14), applicable to transfers made after 1997.

S. 146.1(6.1) was added by S.C. 1994, c. 7, Sched. II, s. 118(11), applicable after February 20, 1990.

Related Sections: S. 204.9(5) Transfers between plans.
Information Circulars: IC 93-3R Registered education savings plans.

► 146.1(7) ◄

(7) Educational assistance payments. There shall be included in computing an individual's income for a taxation year the total of all educational assistance payments paid out of registered education savings plans to or for the individual in the year.

History: S. 146.1(7) was amended by S.C. 1998, c. 19, s. 38(15), applicable to the 1998 and subsequent taxation years. S. 146.1(7) formerly read:

"(7) *Amounts to be included in beneficiary's income.* There shall be included in computing the income for a taxation year of a taxpayer who is or was a beneficiary under a registered education savings plan, the amount, if any, by which the total of

(*a*) educational assistance payments paid to the taxpayer or on the taxpayer's behalf in the year under the plan, and

(*b*) amounts paid to the taxpayer or on the taxpayer's behalf to the extent that those amounts may reasonably be regarded as a distribution of property that had been transferred from a trust established under a registered education savings plan, of property substituted therefor or of income from any such property

exceeds

(*c*) the taxpayer's portion of the tax-paid-income in the year under the plan."

Related Sections: S. 56(1)(*q*) Education savings plan payments; s. 60(*x*) Repayment under Canada Education Savings Act; s. 146.1(1), "educational assistance payment", "registered education savings plan"; s. 146.1(6.1) Transfers between plans; s. 212(1)(*r*) Registered education savings plan.
Interpretation Bulletins: *Secondary*— IT-320R3 Qualified Investments — Trusts Governed by Registered Retirement Savings Plans, Registered Education Savings Plans and Registered Retirement Income Funds.
Information Circulars: IC 93-3R Registered education savings plans.

► 146.1(7.1) ◄

(7.1) Other income inclusions. There shall be included in computing a taxpayer's income for a taxation year

(*a*) each accumulated income payment received in the year by the taxpayer under a registered education savings plan; and

(*b*) each amount received in the year by the taxpayer in full or partial satisfaction of a subscriber's interest under a registered education savings plan (other than any excluded amount in respect of the plan).

History: S. 146.1(7.1) was added by S.C. 1998, c. 19, s. 38(15), applicable to the 1998 and subsequent taxation years.

Related Sections: S. 56(1)(*q*) Education savings plan payments; s. 146.1(1), "accumulated income payment", "registered education savings plan"; s. 146.1(6.1) Transfers between plans; s. 146.1(7.2) Excluded amount; s. 212(1)(*r*) Registered education savings plan.
Interpretation Bulletins: *Secondary*— IT-320R3 Qualified Investments — Trusts Governed by Registered Retirement Savings Plans, Registered Education Savings Plans and Registered Retirement Income Funds.
Forms: T1171; T1172.

► 146.1(7.2) ◄

(7.2) Excluded amount. For the purpose of paragraph (7.1)(*b*), an excluded amount in respect of a registered education savings plan is

(*a*) any amount received under the plan;

(*b*) any amount received in satisfaction of a right to a refund of payments under the plan; or

(*c*) any amount received by a taxpayer under a decree, order or judgment of a competent tribunal, or under a written agreement, relating to a division of property between the taxpayer and the taxpayer's spouse or common-law partner or former spouse or common-law partner in settlement of rights arising out of, or on the breakdown of, their marriage or common-law partnership.

History: S. 146.1(7.2)(*c*) was amended by S.C. 2000, c. 12, Sched. 2, s. 2(h) and 9(l), applicable January 1, 2001, coming into force on July 31, 2000. S. 146.1(7.2)(*c*) formerly read:

"(*c*) any amount received by a taxpayer under a decree, order or judgment of a competent tribunal, or under a written agreement, relating to a division of property between the taxpayer and the taxpayer's spouse or former spouse in settlement of rights arising out of, or on the breakdown of, their marriage."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 146.1(7.2) was added by S.C. 1998, c. 19, s. 38(15), applicable to the 1998 and subsequent taxation years.

Related Sections: S. 146.1(1), "refund of payments", "registered education savings plan;"; s. 248(1), "common-law partner".

► 146.1(8) ◄

(8) Definition of "beneficiary's portion of the tax-paid income". [Repealed by S.C. 1998, c. 19, s. 38(15).]

History: S. 146.1(8) was repealed by S.C. 1998, c. 19, s. 38(15), applicable to the 1998 and subsequent taxation years. S. 146.1(8) formerly read:

"(8) *Definition of 'beneficiary's portion of the tax-paid-income'.* For the purposes of subsection (7), a 'beneficiary's portion of the tax-paid-income' for a taxation year under a registered education savings plan means the greater of

(*a*) the lesser of

(i) one-third of the pre-1972 income reported on or before April 30, 1972 by the trust governed by the plan to the subscriber as having been earned in respect of amounts paid to the plan by or on behalf of the subscriber, and

(ii) the amount, if any, by which

(A) the pre-1972 income reported on or before April 30, 1972 by the trust governed by the plan to the subscriber as having been earned in respect of amounts paid to the plan by or on behalf of the subscriber

exceeds

(B) the total of all amounts, if any, referred to in paragraph (7)(*c*) in respect of preceding taxation years, and

(*b*) the amount of the tax-paid-income actually allocated under the trust governed by the plan to the beneficiary in the year."

► 146.1(9) ◄

(9) Limitation on allocation of tax-paid income. [Repealed by S.C. 1998, c. 19, s. 38(15).]

History: S. 146.1(9) was repealed by S.C. 1998, c. 19, s. 38(15), applicable to the 1998 and subsequent taxation years. S. 146.1(9) formerly read:

"(9) *Limitation on allocation of tax-paid-income.* For the purposes of paragraph (8)(*b*), no amount of the tax-paid-income shall be allocated in a particular taxation year if an allocation has been made in respect of the same amount in a previous taxation year."

► 146.1(10) ◄

(10) Allocation of tax-paid income. [Repealed by S.C. 1998, c. 19, s. 38(15).]

History: S. 146.1(10) was repealed by S.C. 1998, c. 19, s. 38(15), applicable to the 1998 and subsequent taxation years. S. 146.1(10) formerly read:

"(10) *Allocation of tax-paid-income.* For the purposes of this subsection and subsections (8) and (9), in any taxation year there shall be allocated by the trust governed by a registered education savings plan an amount of the tax-paid-income to a beneficiary that is not less than the amount determined under paragraph (8)(*a*) for the year."

► 146.1(11) ◄

(11) Trust deemed to be inter vivos trust. For any taxation year during which an education savings plan is not registered, a trust governed by the plan shall be deemed, for the purposes of section 122, to be a trust referred to in subsection 122(1) established after June 17, 1971.

Information Circulars: IC 93-3R Registered education savings plans.

► 146.1(12) ◄

(12) Deemed date of registration. Subject to subsection (3), an education savings plan that is registered

(*a*) before 1976 shall be deemed to have been registered since the later of

(i) January 1, 1972, and

(ii) the first day of January of the year in which the plan was created; and

(*b*) after 1975 shall be deemed to have been registered on the first day of January in the year of registration.

Information Circulars: IC 93-3R Registered education savings plans.

► 146.1(12.1) ◄

(12.1) Notice of intent to revoke registration. When a particular day is

(*a*) a day on which a registered education savings plan ceases to comply with the conditions of subsection (2) for the plan's registration,

(*b*) a day on which a registered education savings plan ceases to comply with any provision of the plan,

(*c*) the last day of a month in respect of which tax is payable under Part X.4 by an individual because of contributions made, or deemed for the purpose of Part X.4 to have been made, by or on behalf of the individual into a registered education savings plan,

(*d*) a day on which a registered education savings plan is revocable, or

(*e*) a day on which a person fails to comply with a condition or an obligation, imposed under the *Canada Education Savings Act* or under a program administered pursuant to an agreement entered into under section 12 of that Act, that applies with respect to a registered education savings plan,

the Minister may send written notice (referred to in this subsection and subsection (12.2) as a "notice of intent") to the promoter of the plan that the Minister proposes to revoke the registration of the plan as of the day specified in the notice of intent, which day shall not be earlier than the particular day.

History: S. 146.1(12.1)(*e*) was replaced by S.C. 2004, c. 26, s. 21(11), applicable on Royal Assent, December 15, 2004. S. 146.1(12.1)(*e*) formerly read:

"(*e*) a day on which a person fails to comply with a condition or obligation imposed under Part III.1 of the *Department of Human Resources Development Act* that applies with respect to a registered education savings plan,"

S. 146.1(12.1)(*d*) and (*e*) were added by S.C. 1999, c. 22, s. 62(10), applicable after 1997.

S. 146.1(12.1) was added by S.C. 1998, c. 19, s. 38(16), applicable after 1997.

Related Sections: S. 146.1(2.1) RESP is revocable; s. 146.1(2.2) Waiver of conditions for accumulated income payments; s. 172(3)(*e*.1) Appeal from refusal to register, revocation of registration, etc.; s. 172(4) Deemed refusal to register — no notification within 180 days; s. 180(1)(*c*.1) Appeals to Federal Court of Appeal.

► 146.1(12.2) ◄

(12.2) Notice of revocation. When the Minister sends a notice of intent to revoke the registration of a registered education savings plan to the promoter of the plan, the Minister may, after 30 days after the receipt by the promoter of the notice, send written notice (referred to in this subsection and subsection (13) as a "notice of revocation") to the promoter that the registration of the plan is revoked as of the day specified in the notice of revocation, which day shall not be earlier than the day specified in the notice of intent.

History: S. 146.1(12.2) was added by S.C. 1998, c. 19, s. 38(16), applicable after 1997.

► 146.1(13) ◄

(13) Revocation of registration. When the Minister sends a notice of revocation of the registration of a registered education savings plan under subsection (12.2) to the promoter of the plan, the registration of the plan is revoked as of the day specified in the notice of revocation, unless the Federal Court of Appeal or a judge thereof, on application made at any time before the determination of an appeal under subsection 172(3), orders otherwise.

History: S. 146.1(13) was amended by S.C. 1998, c. 19, s. 38(16), applicable after 1997. S. 146.1(13) formerly read:

"(13) *Revocation of registration.* Where at any time an education savings plan that has been accepted by the Minister for registration for the purposes of this Act ceases to comply with the requirements of this section for its registration as such, the Minister may revoke its registration as of any date after that time and shall give notice of the revocation by registered mail to the subscriber and to the promoter."

Related Sections: S. 146.1(1), "registered education savings plan".

Interpretation Bulletins: *Secondary* — IT-320R3 Qualified Investments — Trusts Governed by Registered Retirement Savings Plans, Registered Education Savings Plans and Registered Retirement Income Funds.

Information Circulars: IC 93-3R Registered education savings plans.

► 146.1(13.1) ◄

(13.1) RESP information. Every trustee under a registered education savings plan shall, in prescribed form and manner, file with the Minister information returns in respect of the plan.

History: S. 146.1(13.1) was added by S.C. 1998, c. 21, s. 74, applicable on Royal Assent, June 18, 1998.

Forms: T3GR

► 146.1(14) ◄

(14) Former Act. A reference

(*a*) in this section, in paragraph 60(*x*) or in subparagraph 241(4)(*d*)(vii.1) to the *Canada Education Savings Act*, to an amount paid, to the payment of an amount or to the repayment of an amount, or to a condition or an obligation imposed, under that Act

includes a reference to Part III.1 of the *Department of Human Resources Development Act*, or to an amount paid, to the payment of an amount or to the repayment of an amount, or to a condition or an obligation imposed, as the case may be, under that Part as it read at the time the reference is relevant; and

(*b*) in clause (2)(g.1)(ii)(B) to an amount that the Minister designated for the purpose of the *Canada Education Savings Act* approves in writing with respect to an individual includes a reference to an amount that the Minister of Human Resources Development or the Minister of State to be styled Minister of Human Resources and Skills Development has approved in writing, before the day on which a Minister is designated for the purposes of that Act, with respect to the individual.

History: S. 146.1(14) was added by S.C. 2004, c. 26, s. 21(12), applicable on Royal Assent, December 15, 2004.

S. 146.1(14) was repealed by S.C. 1998, c. 19, s. 38(16), applicable after 1997. S. 146.1(14) formerly read:

"(14) *Rules applicable to revoked plan.* Where at any time in a taxation year the Minister revokes the registration of an education savings plan that had previously been accepted for registration, there shall be included in computing the income of the subscriber under the plan for that year the amount, if any, by which

(*a*) the fair market value at that time of all of the property of the trust governed by the plan

exceeds

(*b*) the amount by which

(i) the total of all amounts each of which is

(A) an amount paid to the plan by or on behalf of the subscriber, or

(B) the amount of the pre-1972 income reported on or before April 30, 1972 by the trust governed by the plan to the subscriber as having been earned in respect of amounts paid to the plan by or on behalf of the subscriber

exceeds

(ii) the total of all refunds of payments paid or payable under the plan to the subscriber."

► 146.1(15) ◄

(15) Regulations. The Governor in Council may make regulations requiring promoters of education savings plans to file information returns in respect of the plans.

History: S. 146.1(15) was added by S.C. 1998, c. 19, s. 38(17), applicable on Royal Assent, June 18, 1998.

Tax-free Savings Accounts

SECTION 146.2:

► 146.2(1) ◄

(1) Definitions. The following definitions apply in this section and in Part XI.01.

"distribution" — "distribution" under an arrangement of which an individual is the holder means a payment out of or under the arrangement in satisfaction of all or part of the holder's interest in the arrangement.

History: S. 146.2(1), the definition "distribution" was added by S.C. 2008, c. 28, s. 24(1), applicable to the 2009 and subsequent taxation years.

"holder" — "holder" of an arrangement means

(*a*) until the death of the individual who entered into the arrangement with the issuer, the individual; and

(*b*) at and after the death of the individual, the individual's survivor, if the survivor acquires

(i) all of the individual's rights as the holder of the arrangement, and

(ii) to the extent it is not included in the rights described in subparagraph (i), the unconditional right to revoke any beneficiary designation made, or similar direction imposed, by the individual under the arrangement or relating to property held in connection with the arrangement.

History: S. 146.2(1), the definition "holder" was added by S.C. 2008, c. 28, s. 24(1), applicable to the 2009 and subsequent taxation years.

"issuer" — "issuer" of an arrangement means the person described as the issuer in the definition "qualifying arrangement".

History: S. 146.2(1), the definition "issuer" was added by S.C. 2008, c. 28, s. 24(1), applicable to the 2009 and subsequent taxation years.

Regulations: 223.

"qualifying arrangement" — "qualifying arrangement", at a particular time, means an arrangement

(*a*) that is entered into after 2008 between a person (in this definition referred to as the "issuer") and an individual (other than a trust) who is at least 18 years of age;

(*b*) that is

(i) an arrangement in trust with an issuer that is a corporation licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering to the public its services as trustee,

(ii) an annuity contract with an issuer that is a licensed annuities provider, or

(iii) a deposit with an issuer that is

(A) a person who is, or is eligible to become, a member of the Canadian Payments Association, or

(B) a credit union that is a shareholder or member of a body corporate referred to as a "central" for the purposes of the *Canadian Payments Act*;

(*c*) that provides for contributions to be made under the arrangement to the issuer in consideration of, or to be used, invested or otherwise applied for the purpose of, the issuer making distributions under the arrangement to the holder;

(*d*) under which the issuer and the individual agree, at the time the arrangement is entered into, that the issuer will file with the Minister an election to register the arrangement as a TFSA; and

(*e*) that, at all times throughout the period that begins at the time the arrangement is entered into and that ends at the particular time, complies with the conditions in subsection (2).

History: S. 146.2(1), subparagraph (*b*)(ii) of the definition "qualifying arrangement" was replaced by S.C. 2009, c. 2, s. 53(1), applicable to the 2009 and subsequent taxation years. S. 146.2(1), subparagraph (*b*)(ii) of the definition "qualifying arrangement" formerly read:

"(ii) an annuity contract with an issuer that is a licensed annuities provider, other than a contract that is adjoined to another contract or arrangement, or"

S. 146.2(1), the definition "qualifying arrangement" was added by S.C. 2008, c. 28, s. 24(1), applicable to the 2009 and subsequent taxation years.

Related Sections: S. 137(1), "licensed annuities provider"; s. 146.2(2) Qualifying arrangement conditions.

Tax Topics: No. 1914, Tax-free Savings Accounts.

"survivor" — "survivor" of an individual means another individual who is, immediately before the individual's death, a spouse or common-law partner of the individual.

History: S. 146.2(1), the definition "survivor" was added by S.C. 2008, c. 28, s. 24(1), applicable to the 2009 and subsequent taxation years.

Related Sections: S. 207.01(2) Exempt contribution to survivor TFSA s. 207.01(3) Survivor as successor holder.

Editorial Note: The concept of the tax-free savings account (TFSA) was introduced in the 2008 federal budget, effective beginning in 2009. The TFSA allows Canadian resident individuals to earn investment income, including interest, dividends and capital gains, on a tax-free basis. Contributions to the TFSA are not deductible, but the income in the account is not subject to tax either while in the account or upon withdrawal. However, the TFSA may be subject to tax if it acquires a non-qualified investment or carries on a business (s. 146.2(4)).

The annual contribution limit for a TFSA begins at $5,000 for 2009, and will be increased annually to inflation, and rounded to the nearest $500. Unused TFSA room can be carried forward indefinitely. Withdrawals from the account will free up more TFSA room. (See the definitions in s. 207.01(1).) Excess contributions are subject to a 1% tax per month (s. 207.02). Other potential penalties apply if a non-resident contributes to the TFSA, the TFSA acquires a non-qualified investment, or the TSFA confers an advantage on the holder or a person not at arm's length with the holder (s. 207.02 through 207.05).

▶ 146.2(2) ◀

(2) Qualifying arrangement conditions. The conditions referred to in paragraph (*e*) of the definition "qualifying arrangement" in subsection (1) are as follows:

(*a*) the arrangement requires that it be maintained for the exclusive benefit of the holder (determined without regard to any right of a person to receive a payment out of or under the arrangement only on or after the death of the holder);

(*b*) the arrangement prohibits, while there is a holder of the arrangement, anyone that is neither the holder nor the issuer of the arrangement from having rights under the arrangement relating to the amount and timing of distributions and the investing of funds;

(*c*) the arrangement prohibits anyone other than the holder from making contributions under the arrangement;

(*d*) the arrangement permits distributions to be made to reduce the amount of tax otherwise payable by the holder under section 207.02 or 207.03;

(*e*) the arrangement provides that, at the direction of the holder, the issuer shall transfer all or any part of the property held in connection with the arrangement (or an amount equal to its value) to another TFSA of the holder;

(*f*) if the arrangement is an arrangement in trust, it prohibits the trust from borrowing money or other property for the purposes of the arrangement; and

(*g*) the arrangement complies with prescribed conditions.

History: S. 146.2(2) was added by S.C. 2008, c. 28, s. 24(1), applicable to the 2009 and subsequent taxation years.

▶ 146.2(3) ◀

(3) Paragraphs (2)(*a*), (*b*) and (*e*) not applicable. The conditions in paragraphs (2)(*a*), (*b*) and (*e*) do not apply to the extent that they are inconsistent with subsection (4).

History: S. 146.2(3) was replaced by S.C. 2009, c. 2, s. 53(2), applicable to the 2009 and subsequent taxation years. S. 146.2(3) formerly read:

"(3) *TFSA.* If the issuer of an arrangement that is, at the time it is entered into, a qualifying arrangement files with the Minister, on or before the day that is 60 days after the end of the calendar year in which the arrangement was entered into, an election in prescribed form and manner to register the arrangement as a TFSA under the Social Insurance Number of the individual with whom the arrangement was entered into, the arrangement becomes a TFSA at the time the arrangement was entered into and ceases to be a TFSA immediately before the earliest of the following events:

(*a*) the death of the last holder of the arrangement,

(*b*) the arrangement ceasing to be a qualifying arrangement, and

(*c*) the arrangement not being administered in accordance with the conditions in subsection (2)."

S. 146.2(3) was added by S.C. 2008, c. 28, s. 24(1), applicable to the 2009 and subsequent taxation years.

Forms: RC236.
Guides: RC4466 Tax-Free Savings Account (TFSA): Information Sheet.
Tax Topics: No. 1914, Tax-free Savings Accounts.

▶ 146.2(4) ◀

(4) Using TFSA interest as security for a loan. A holder of a TFSA may use the holder's interest or, for civil law, right in the TFSA as security for a loan or other indebtedness if

(*a*) the terms and conditions of the indebtedness are terms and conditions that persons dealing at arm's length with each other would have entered into; and

(*b*) it can reasonably be concluded that none of the main purposes for that use is to enable a person (other than the holder) or a partnership to benefit from the exemption from tax under this Part of any amount in respect of the TFSA.

History: S. 146.2(4) was replaced by S.C. 2009, c. 2, s. 53(2), applicable to the 2009 and subsequent taxation years. S. 146.2(4) formerly read:

"(4) *Trust not taxable.* No tax is payable under this Part by a trust that is governed by a TFSA on its taxable income for a taxation year, except that, if at any time in the taxation year, it carries on one or more businesses or holds one or more properties that are non-qualified investments (as defined in subsection 207.01(1)) for the trust, tax is payable under this Part by the trust on the amount that would be its taxable income for the taxation year if it had no incomes or losses from sources other than those businesses and properties, and no capital gains or capital losses other than from dispositions of those properties, and for that purpose,

(*a*) 'income' includes dividends described in section 83; and

(*b*) the trust's taxable capital gain or allowable capital loss from the disposition of a property is equal to its capital gain or capital loss, as the case may be, from the disposition."

S. 146.2(4) was added by S.C. 2008, c. 28, s. 24(1), applicable to the 2009 and subsequent taxation years.

Tax Topics: No. 1914, Tax-free Savings Accounts.

▶ 146.2(5) ◀

(5) TFSA. If the issuer of an arrangement that is, at the time it is entered into, a qualifying arrangement files with the Minister, before March of the calendar year following the calendar year in which the arrangement was entered into, an election in prescribed form and manner to register the arrangement as a TFSA under the Social Insurance Number of the individual with whom the arrangement was entered into, the arrangement becomes a TFSA at the time the arrangement was entered into and ceases to be a TFSA at the earliest of the following times:

(*a*) the time at which the last holder of the arrangement dies;

(*b*) the time at which the arrangement ceases to be a qualifying arrangement; or

(*c*) the earliest time at which the arrangement is not administered in accordance with the conditions in subsection (2).

History: S. 146.2(5) was replaced by S.C. 2009, c. 2, s. 53(2), applicable to the 2009 and subsequent taxation years. S. 146.2(5) formerly read:

"(5) *Amount credited to a deposit.* An amount that is credited or added to a deposit that is a TFSA as interest or other income in respect of the TFSA is deemed not to be received by the holder of the TFSA solely because of that crediting or adding."

S. 146.2(5) was added by S.C. 2008, c. 28, s. 24(1), applicable to the 2009 and subsequent taxation years.

▶ 146.2(6) ◀

(6) Trust not taxable. No tax is payable under this Part by a trust that is governed by a TFSA on its taxable income for a taxation year, except that, if at any time in the taxation year, it carries on one or more businesses or holds one or more properties that are non-qualified investments (as defined in subsection 207.01(1)) for the trust, tax is payable under this Part by the trust on the amount that

would be its taxable income for the taxation year if it had no incomes or losses from sources other than those businesses and properties, and no capital gains or capital losses other than from dispositions of those properties, and for that purpose,

(*a*) "income" includes dividends described in section 83; and

(*b*) the trust's taxable capital gain or allowable capital loss from the disposition of a property is equal to its capital gain or capital loss, as the case may be, from the disposition.

History: S. 146.2(6) was replaced by S.C. 2009, c. 2, s. 53(2), applicable to the 2009 and subsequent taxation years. S. 146.2(6) formerly read:

"(6) *Trust ceasing to be a TFSA.* If an arrangement that governs a trust ceases, at a particular time, to be a TFSA,

(*a*) the trust is deemed

(i) to have disposed, immediately before the particular time, of each property held by the trust for proceeds equal to the property's fair market value immediately before the particular time, and

(ii) to have acquired, at the particular time, each such property at a cost equal to that fair market value;

(*b*) the trust's last taxation year that began before the particular time is deemed to have ended immediately before the particular time; and

(*c*) a taxation year of the trust is deemed to begin at the particular time."

S. 146.2(6) was added by S.C. 2008, c. 28, s. 24(1), applicable to the 2009 and subsequent taxation years.

Editorial Note: Subsection 146.2(6) provides that a TFSA is not subject to Part 1 tax unless it carries on a business or acquires a non-qualified investment. See also the potential penalty tax in section 207.04(1) that can apply if the TFSA acquires a non-qualified investment or property of the TFSA becomes a non-qualified investment.

Related Sections: S. 207.01(1), "non-qualified investment", "qualified investment"; s. 207.04(1) Tax payable on prohibited or non-qualified investment.

► 146.2(7) ◄

(7) Amount credited to a deposit. An amount that is credited or added to a deposit that is a TFSA as interest or other income in respect of the TFSA is deemed not to be received by the holder of the TFSA solely because of that crediting or adding.

History: S. 146.2(7) was replaced by S.C. 2009, c. 2, s. 53(2), applicable to the 2009 and subsequent taxation years. S. 146.2(7) formerly read:

"(7) *Annuity contract ceasing to be a TFSA.* If an annuity contract ceases, at a particular time, to be a TFSA,

(*a*) the holder of the TFSA is deemed to have disposed of the contract immediately before the particular time for proceeds equal to its fair market value immediately before the particular time;

(*b*) the contract is deemed to be a separate annuity contract issued and effected at the particular time otherwise than pursuant to or as a TFSA; and

(*c*) each person who has an interest or, for civil law, a right in the separate annuity contract at the particular time is deemed to acquire the interest at the particular time at a cost equal to its fair market value at the particular time."

S. 146.2(7) was added by S.C. 2008, c. 28, s. 24(1), applicable to the 2009 and subsequent taxation years.

► 146.2(8) ◄

(8) Trust ceasing to be a TFSA. If an arrangement that governs a trust ceases, at a particular time, to be a TFSA,

(*a*) the trust is deemed

(i) to have disposed, immediately before the particular time, of each property held by the trust for proceeds equal to the property's fair market value immediately before the particular time, and

(ii) to have acquired, at the particular time, each such property at a cost equal to that fair market value;

(*b*) the trust's last taxation year that began before the particular time is deemed to have ended immediately before the particular time; and

(*c*) a taxation year of the trust is deemed to begin at the particular time.

History: S. 146.2(8) was replaced by S.C. 2009, c. 2, s. 53(2), applicable to the 2009 and subsequent taxation years. S. 146.2(8) formerly read:

"(8) *Deposit ceasing to be a TFSA.* If a deposit ceases, at a particular time, to be a TFSA,

(*a*) the holder of the TFSA is deemed to have disposed of the deposit immediately before the particular time for proceeds equal to its fair market value immediately before the particular time; and

(*b*) each person who has an interest or, for civil law, a right in the deposit at the particular time is deemed to acquire the interest at the particular time at a cost equal to its fair market value at the particular time."

S. 146.2(8) was added by S.C. 2008, c. 28, s. 24(1), applicable to the 2009 and subsequent taxation years.

► 146.2(9) ◄

(9) Trust ceasing to be a TFSA on death of holder. If an arrangement that governs a trust ceases to be a TFSA because of the death of the holder of the TFSA,

(*a*) the arrangement is deemed, for the purposes of subsections (6) and (8), any regulations made under subsection (13), the definition "trust" in subsection 108(1), paragraph 149(1)(*u.2*) and the definitions "qualified investment" and "non-qualified investment" in subsection 207.01(1), to continue to be a TFSA until, and to cease to be a TFSA immediately after, the exemption-end time, being in this subsection the earlier of

(i) the time at which the trust ceases to exist, and

(ii) the end of the first calendar year that begins after the holder dies;

(*b*) there shall be included in computing a taxpayer's income for a taxation year the total of all amounts each of which is an amount determined by the formula

$$A - B$$

where

A is the amount of a payment made out of or under the trust, in satisfaction of all or part of the taxpayer's beneficial interest in the trust, in the taxation year, after the holder's death and at or before the exemption-end time, and

B is an amount designated by the trust not exceeding the lesser of

(i) the amount of the payment, and

(ii) the amount by which the fair market value of all of the property held by the trust immediately before the holder's death exceeds the total of all amounts each of which is the value of B in respect of any other payment made out of or under the trust; and

(*c*) there shall be included in computing the trust's income for its first taxation year, if any, that begins after the exemption-end time the amount determined by the formula

$$A - B$$

where

A is the fair market value of all of the property held by the trust at the exemption-end time, and

B is the amount by which the fair market value of all of the property held by the trust immediately before the holder's death exceeds the total of all amounts each of which is the value of B in

paragraph (*b*) in respect of a payment made out of or under the trust.

History: S. 146.2(9) was replaced by S.C. 2009, c. 2, s. 53(2), applicable to the 2009 and subsequent taxation years. S. 146.2(9) formerly read:

"(9) *Arrangement is TFSA only.* An arrangement that is a qualifying arrangement at the time it is entered into is deemed not to be a retirement savings plan, an education savings plan, a retirement income fund or a disability savings plan."

S. 146.2(9) was added by S.C. 2008, c. 28, s. 24(1), applicable to the 2009 and subsequent taxation years.

Related Sections: S. 12(1)(z5) Former TFSA.
Regulations: 223(2).

▶ 146.2(10) ◀

(10) Annuity contract ceasing to be a TFSA. If an annuity contract ceases, at a particular time, to be a TFSA,

(*a*) the holder of the TFSA is deemed to have disposed of the contract immediately before the particular time for proceeds equal to its fair market value immediately before the particular time;

(*b*) the contract is deemed to be a separate annuity contract issued and effected at the particular time otherwise than pursuant to or as a TFSA; and

(*c*) each person who has an interest or, for civil law, a right in the separate annuity contract at the particular time is deemed to acquire the interest at the particular time at a cost equal to its fair market value at the particular time.

History: S. 146.2(10) was added by S.C. 2009, c. 2, s. 53(2), applicable to the 2009 and subsequent taxation years.

▶ 146.2(11) ◀

(11) Deposit ceasing to be a TFSA. If a deposit ceases, at a particular time, to be a TFSA,

(*a*) the holder of the TFSA is deemed to have disposed of the deposit immediately before the particular time for proceeds equal to its fair market value immediately before the particular time; and

(*b*) each person who has an interest or, for civil law, a right in the deposit at the particular time is deemed to acquire the interest at the particular time at a cost equal to its fair market value at the particular time.

History: S. 146.2(11) was added by S.C. 2009, c. 2, s. 53(2), applicable to the 2009 and subsequent taxation years.

▶ 146.2(12) ◀

(12) Arrangement is TFSA only. An arrangement that is a qualifying arrangement at the time it is entered into is deemed not to be a retirement savings plan, an education savings plan, a retirement income fund or a disability savings plan.

History: S. 146.2(12) was added by S.C. 2009, c. 2, s. 53(2), applicable to the 2009 and subsequent taxation years.

▶ 146.2(13) ◀

(13) Regulations. The Governor in Council may make regulations requiring issuers of TFSAs to file information returns in respect of TFSAs.

History: S. 146.2(13) was added by S.C. 2009, c. 2, s. 53(2), applicable to the 2009 and subsequent taxation years.

S. 146.2 and the heading before it were repealed by S.C. 2008, c. 28, s. 24(1), applicable to the 2009 and subsequent taxation years. S. 146.2 and the heading before it formerly read:

"S. 146.2. *Registered home ownership savings plans.* [Subsections 146.2(1) to (21) were repealed by S.C. 1986, c. 6, s. 82.]

(22) *Contributions to R.H.O.S.P. after May 22, 1985.* There shall be included in computing the income of a taxpayer for the 1985 taxation year an amount equal to that portion of the income of a registered home ownership savings plan, under which the taxpayer is a beneficiary, that can reasonably be considered to have accrued to the end of 1985, to have become receivable or to have been received before the end of 1985, and to be attributable to amounts contributed after May 22, 1985 to or under the plan.

(23) *'Application of s. 146.2(1) of R.S.C., 1952, c. 148'.* The definitions in subsection 146.2(1) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read in its application to the 1985 taxation year, apply to subsection (22)."

S. 146.2(1) to (21) were repealed by S.C. 1986, c. 6, s. 82.

Registered Retirement Income Funds

SECTION 146.3:

Editorial Note: See the Editorial Note preceding s. 147.1(1), regarding changes in the rules for withdrawals from life income funds.

▶ 146.3(1) ◀

(1) Definitions.

In this section,

Interpretation Bulletins: *Secondary* — IT-415R2 Deregistration of registered retirement savings plans [Archived by the CRA].
Information Circulars: IC 78-14R4 Guidelines for trust companies and other persons responsible for filing T3GR, T3D, T3P, T3S, T3RI, and T3F returns; IC 78-18R6 Registered Retirement Income Funds.

"*annuitant*" — "annuitant" under a retirement income fund at any time means

(*a*) the first individual to whom the carrier has undertaken to make payments described in the definition "retirement income fund" out of or under the fund, where the first individual is alive at that time,

(*b*) after the death of the first individual, a spouse or common-law partner (in this definition referred to as the "survivor") of the first individual to whom the carrier has undertaken to make payments described in the definition "retirement income fund" out of or under the fund after the death of the first individual, where the survivor is alive at that time and the undertaking was made pursuant to an election described in that definition of the first individual with the consent of the legal representative of the first individual, and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*b*) of the definition "annuitant" in subsection 146.3(1) of the Act is replaced by the following:

(*b*) after the death of the first individual, a spouse or common-law partner (in this definition referred to as the "survivor") of the first individual to whom the carrier has undertaken to make payments described in the definition "retirement income fund" out of or under the fund after the death of the first individual, if the survivor is alive at that time and the undertaking was made

(i) pursuant to an election that is described in that definition and that was made by the first individual, or

(ii) with the consent of the legal representative of the first individual, and

Applicable: To the 2001 and subsequent taxation years except that, if a taxpayer and a person have jointly elected under section 144 of the *Modernization of Benefits and Obligations Act*, in respect of the 1998, 1999 or 2000 taxation years, the amendment to paragraph (*b*) of the definition "annuitant" applies to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Explanatory Note: "annuitant"

Subsection 146.3(1) of the Act contains the definition "annuitant" for purposes of the rules relating to RRIFs. Paragraph (*b*) of the definition allows the spouse or common-law partner of a

deceased annuitant to become the successor annuitant under the RRIF, if the deceased annuitant so elected or the legal representative of the deceased annuitant consents. When this paragraph was amended by S.C. 2000, c. 12 (the *Modernization of Benefits and Obligations Act*, formerly Bill C-23), the word "or" in the English version was inadvertently removed. The definition is amended to correct this error, and to improve the readability of this paragraph, with the same application as the initial amendment in Bill C-23.

(*c*) after the death of the survivor, another spouse or common-law partner of the survivor to whom the carrier has undertaken, with the consent of the legal representative of the survivor, to make payments described in the definition "retirement income fund" out of or under the fund after the death of the survivor, where that other spouse or common-law partner is alive at that time;

History: S. 146.3(1), paragraphs (*b*) and (*c*) of the definition "annuitant" were amended by S.C. 2000, c. 12, s. 136, applicable January 1, 2001, coming into force on July 31, 2000. S. 146.3(1), paragraphs (*b*) and (*c*) of the definition "annuitant" formerly read:

"(*b*) after the death of the first individual, a spouse (in this paragraph referred to as the 'surviving spouse') of the first individual to whom the carrier has undertaken to make payments described in the definition 'retirement income fund' out of or under the fund after the death of the first individual, where the surviving spouse is alive at that time and the undertaking was made pursuant to an election described in that definition of the first individual or with the consent of the legal representative of the first individual, and

(*c*) after the death of the surviving spouse, another spouse of the surviving spouse to whom the carrier has undertaken, with the consent of the legal representative of the surviving spouse, to make payments described in the definition 'retirement income fund' out of or under the fund after the death of the surviving spouse, where that other spouse is alive at that time;"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 146.3(1), the definition "annuitant", was amended by S.C. 1994, c. 7, Sched. VIII, s. 84(1), applicable to deaths occurring after 1990. That definition formerly read:

" 'annuitant' under a retirement income fund at any particular time means the individual to whom the carrier has undertaken to make the payments described in the definition 'retirement income fund' in this subsection out of or under the fund;"

Related Sections: S. 248(1), "common-law partner".

"carrier" — "carrier" of a retirement income fund means

(*a*) a person licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada an annuities business,

(*b*) a corporation licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering to the public its services as trustee,

(*c*) a corporation approved by the Governor in Council for the purposes of section 146 that is licensed or otherwise authorized under the laws of Canada or a province to issue investment contracts, or

(*d*) a person referred to as a depositary in section 146, that has agreed to make payments under a retirement income fund to the individual who is the annuitant under the fund;

Related Sections: S. 146.3(15) Credited or added amount deemed not received.
Forms: T3GR; T550.

"designated benefit" — "designated benefit" of an individual in respect of a registered retirement income fund means the total of

(*a*) such amounts paid out of or under the fund after the death of the last annuitant thereunder to the legal representative of that annuitant

(i) as would, had they been paid under the fund to the individual, have been refunds of premiums (in this paragraph having the meaning assigned by subsection 146(1)) if the fund were a registered retirement savings plan that had not matured before the death, and

(ii) as are designated jointly by the legal representative and the individual in prescribed form filed with the Minister, and

(*b*) amounts paid out of or under the fund after the death of the last annuitant thereunder to the individual that would be refunds of premiums had the fund been a registered retirement savings plan that had not matured before the death;

History: S. 146.3(1), the definition "designated benefit" was added by S.C. 1994, c. 21, s. 71(2), applicable to deaths occurring after 1992.

Related Sections: S. 60(*l*) Transfer of refund of premiums under RRSP; s. 146.3(6.11) Transfer of designated benefit; s. 146.3(6.1) Designated benefit deemed received; s. 146.3(6.2) Amount deductible.
Forms: T1090.

"minimum amount" — "minimum amount" under a retirement income fund for a year means, for the year in which the fund was entered into, a nil amount, and, for any other year, the amount determined by the formula

$$(A \times B) + C$$

where

A is the total fair market value of all properties held in connection with the fund at the beginning of the year (other than annuity contracts held by a trust governed by the fund that, at the beginning of the year, are not described in paragraph (*b*.1) of the definition "qualified investment");

B is

(*a*) where the first annuitant under the fund elected in respect of the fund under paragraph (*b*) of the definition "minimum amount" in this subsection, as it read before 1992, or under subparagraph 146.3(1)(*f*)(i) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, to use the age of another individual, the prescribed factor for the year in respect of the other individual,

(*b*) where paragraph (*a*) does not apply and the first annuitant under the fund so elects before any payment has been made under the fund by the carrier, the prescribed factor for the year in respect of an individual who was the spouse or common-law partner of the first annuitant at the time of the election, and

(*c*) in any other case, the prescribed factor for the year in respect of the first annuitant under the fund, and

C is, where the fund governs a trust, the total of all amounts each of which is

(*a*) a periodic payment under an annuity contract held by the trust at the beginning of the

year (other than an annuity contract described at the beginning of the year in paragraph (*b*.1) of the definition "qualified investment") that is paid to the trust in the year, or

(*b*) if the periodic payment under such an annuity contract is not made to the trust because the trust disposed of the right to that payment in the year, a reasonable estimate of that payment on the assumption that the annuity contract had been held throughout the year and no rights under the contract were disposed of in the year;

History: S. 146.3(1), the portion of the definition "minimum amount" before the formula was replaced by S.C. 2007, c. 29, s. 19(2), applicable after 2006, except that

(*a*) in applying this amendment in 2007 (other than for the purposes of subsection 146.3(5.1) of the Act, regulations made under subsection 153(1) of the Act and the definition "periodic pension payment" in section 5 of the *Income Tax Conventions Interpretation Act*), the portion of the definition "minimum amount" in subsection 146.3(1) before the formula, shall be read as follows:

" 'minimum amount' under a retirement income fund for a year means, for the year in which the fund was entered into (and for 2007 if the individual who was the annuitant under the fund on January 1, 2007, attained 69 or 70 years of age in 2006), a nil amount, and, for any other year, the amount determined by the formula"

(*b*) in applying this amendment in 2008 (other than for the purposes of subsection 146.3(5.1) of the Act, regulations made under subsection 153(1) of the Act and the definition "periodic pension payment" in section 5 of the *Income Tax Conventions Interpretation Act*), the portion of the definition "minimum amount" in subsection 146.3(1) before the formula, shall be read as follows:

" 'minimum amount' under a retirement income fund for a year means, for the year in which the fund was entered into (and for 2008 if the individual who was the annuitant under the fund on January 1, 2008 attained 70 years of age in 2007), a nil amount, and, for any other year, the amount determined by the formula."

S. 146.3(1), the portion of the definition "minimum amount" before the formula formerly read:

" '*minimum amount*' — 'minimum amount' under a retirement income fund for a year is the amount determined by the formula"

S. 146.3(1), paragraph (*b*) of the description of B in the definition "minimum amount" was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.22), applicable January 1, 2001, coming into force on July 31, 2000. S. 146.3(1), paragraph (*b*) of the description of B in the definition "minimum amount" formerly read:

"(*b*) where paragraph (*a*) does not apply and the first annuitant under the fund so elects before any payment has been made under the fund by the carrier, the prescribed factor for the year in respect of an individual who was the spouse of the first annuitant at the time of the election, and"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 146.3(1), the definition of "minimum amount" was amended by S.C. 1998, c. 19, s. 171(1), applicable

(*a*) to the 1998 and subsequent years with respect to

(i) retirement income funds entered into after February 1986, and

(ii) retirement income funds entered into before March 1986 and revised or amended after February 1986 and before 1998;

(*b*) to the year in which a retirement income fund is first revised or amended after 1997 and to subsequent years, if the fund was entered into before March 1986 and was not revised or amended after February 1986 and before 1998; and

(*c*) with respect to a retirement income fund that governs a trust that, after July 1997, holds a contract for an annuity, to all years that begin after the first day

(i) that is after July 1997, and

(ii) on which the trust holds such a contract.

The definition of "minimum amount" formerly read:

" '*minimum amount*' — 'minimum amount' under a retirement income fund for the year in which the fund is entered into is nil and for each subsequent year is the product obtained when the fair market value of the property held in connection with the fund at the beginning of that subsequent year is multiplied by

(*a*) where the first annuitant under the fund elected in respect of the fund under paragraph (*b*), as it read before 1992, or under subparagraph 146.3(1)(*f*)(i) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read before 1986, to use the age of another individual, the prescribed amount for that subsequent year in respect of the other individual,

(*b*) where paragraph (*a*) does not apply and the first annuitant under the fund so elects before any payment has been made under the fund by the carrier, the prescribed amount for that subsequent year in respect of an individual who was the spouse of the first annuitant at the time of the election, or

(*c*) in any other case, the prescribed amount for that subsequent year in respect of the first annuitant under the fund;"

S. 146.3(1), the definition "minimum amount", was amended by S.C. 1994, c. 7, Sched. VIII, s. 84(2), applicable

(*a*) to the 1992 and subsequent taxation years with respect to

(i) retirement income funds entered into after February 1986, and

(ii) retirement income funds entered into before March 1986 and revised or amended after February 1986 and before 1992; and

(*b*) to the taxation year in which a retirement income fund is first revised or amended after February 1986 and to subsequent taxation years, where the fund was entered into before March 1986 and was not revised or amended after February 1986 and before 1992.

Notwithstanding the above, subsection (2) does not apply, for the purposes of subsection 146.3(5.1) of the Act, prescribed rules made for the purpose of subsection 153(1) of the Act and section 5 of the *Income Tax Conventions Interpretation Act*, to payments made before 1993.

That definition formerly read:

" 'minimum amount' under a retirement income fund means

(*a*) for the year in which the fund was entered into, nil, and

(*b*) for each subsequent year, the amount determined by the formula

$$\frac{A}{90 - B}$$

where

A is the fair market value of the property held in connection with the fund at the beginning of the year, and

B is

(i) the number that is, or would be, the age in whole years of the annuitant at the beginning of the year, or

(ii) where the annuitant so elects before any payment has been made by the carrier of the fund, the number that is or would be the age in whole years of the annuitant's spouse at the beginning of the year;"

Editorial Note: The minimum amount that must be withdrawn from a RIF increases annually until reaching a withdrawal requirement of 20% of the assets in the fund at age 94 (and over). There are two schedules of minimum payments prescribed in the Regulations (7308); one for "qualifying" RIFs (RIFs entered into prior to 1993, where the carrier has not accepted any property for the fund after 1992 and other RIFs, where the only property accepted by the carrier has been transferred from another qualifying RIF) and the second for other RIFs. Lower payments are required for qualifying RIFs between the ages of 71 to 77. Effective after 1991, the Act and Regulations permit payments to be made until the latest of the death of the first annuitant, the surviving spouse or common-law partner (the "survivor"), the spouse or common-law partner of the survivor or the fund's assets are depleted.

Related Sections: S. 56(1)(*h*) Registered retirement savings plan, etc.; s. 56(1)(*t*) Registered retirement income fund; s. 146.3(1), "annuitant"; s. 146.3(2)(*e*), (*e*.1) and (*e*.2); Acceptance of fund for registration; s. 146.3(5.1) Amount included in income; s. 248(1), "common-law partner".

Regulations: 7308.

Interpretation Bulletins: *Secondary* — IT-528 Transfers of Funds Between Registered Plans.

Information Circulars: IC 78-18R6 Registered Retirement Income Funds.

"property held" — "property held" in connection with a retirement income fund means property held by the carrier of the fund, whether held by the carrier as trustee or beneficial owner thereof, the value of which, or the income or loss from which, is relevant in determining the amount for a year payable to the annuitant under the fund;

Related Sections: S. 40(2)(*g*)(iv) Limitations.

Regulations: 3200; 3201; 7308.

"qualified investment" — "qualified investment" for a trust governed by a registered retirement income fund means

(*a*) an investment that would be described by any of paragraphs (*a*) to (*d*), (*f*) and (*g*) of the definition "qualified investment" in section 204 if the reference in that definition to "a trust governed by a deferred profit sharing plan or revoked plan" were read as a reference to "a trust governed by a registered retirement income fund" and if that definition were read without reference to the words "with the exception of excluded property in relation to the trust",

(*b*) [Repealed.]

(*b*.1) a contract for an annuity issued by a licensed annuities provider where

(i) the trust is the only person who, disregarding any subsequent transfer of the contract by the trust, is or may become entitled to any annuity payments under the contract, and

(ii) the holder of the contract has a right to surrender the contract at any time for an amount that would, if reasonable sales and administration charges were ignored, approximate the value of funds that could otherwise be applied to fund future periodic payments under the contract,

(*b*.2) a contract for an annuity issued by a licensed annuities provider where

(i) annual or more frequent periodic payments are or may be made under the contract to the holder of the contract,

(ii) the trust is the only person who, disregarding any subsequent transfer of the contract by the trust, is or may become entitled to any annuity payments under the contract,

(iii) neither the time nor the amount of any payment under the contract may vary because of the length of any life, other than

(A) if the annuitant under the fund (in this paragraph referred to as the "RRIF annuitant") has made the election referred to in the definition "retirement income fund" in respect of the fund and a spouse or common-law partner, the life of the RRIF annuitant or the life of the spouse or common-law partner, and

(B) in any other case, the life of the RRIF annuitant,

(iv) the day on which the periodic payments began or are to begin (in this paragraph referred to as the "start date") is not later than the end of the year following the year in which the contract was acquired by the trust,

(v) either

(A) the periodic payments are payable for the life of the RRIF annuitant or the joint lives of the RRIF annuitant and the RRIF annuitant's spouse or common-law partner and either there is no guaranteed period under the contract or there is a guaranteed period that begins at the start date and does not exceed a term equal to 90 years minus the lesser of

(I) the age in whole years at the start date of the RRIF annuitant (determined on the assumption that the RRIF annuitant is alive at the start date), and

(II) the age in whole years at the start date of a spouse or common-law partner of the RRIF annuitant (determined on the assumption that a spouse or common-law partner of the RRIF annuitant at the time the contract was acquired is a spouse or common-law partner of the RRIF annuitant at the start date), or

(B) the periodic payments are payable for a term equal to

(I) 90 years minus the age described in subclause (A)(I), or

(II) 90 years minus the age described in subclause (A)(II), and

(vi) the periodic payments

(A) are equal, or

(B) are not equal solely because of one or more adjustments that would, if the contract were an annuity under a retirement savings plan, be in accordance with subparagraphs 146(3)(*b*)(iii) to (v) or that arise because of a uniform reduction in the entitlement to the periodic payments as a consequence of a partial surrender of rights to the periodic payments, and

(*c*) such other investments as may be prescribed by regulations of the Governor in Council made on the recommendation of the Minister of Finance;

History: S. 146.3(1), paragraph (*a*) of the definition "qualified investment" was replaced, and (*b*) was repealed, by S.C. 2007, c. 29, s. 19(3), applicable in determining whether a property is, at any time after March 18, 2007, a qualified investment. S. 146.3(1), paragraph (*a*) of the definition "qualified investment" formerly read:

"(*a*) an investment that would be described in any of paragraphs (*a*), (*b*), (*d*) and (*f*) to (*h*) of the definition 'qualified investment' in section 204 if the references in that definition to 'a trust governed by a deferred profit sharing plan or revoked plan' were read as references to 'a trust governed by a registered retirement income fund',

(*b*) a bond, debenture, note or similar obligation

(i) issued by a corporation the shares of which are listed on a prescribed stock exchange in Canada, or

(ii) issued by an authorized foreign bank and payable at a branch in Canada of the bank,"

S. 146.3(1), paragraph (*b*) of the definition "qualified investment" was amended by S.C. 2001, c. 17, s. 141(1), applicable after June 27, 1999. S. 146.3(1), paragraph (*b*) of the definition "qualified investment" formerly read:

"(*b*) a bond, debenture, note or similar obligation of a corporation the shares of which are listed on a prescribed stock exchange in Canada,"

S. 146.3(1), clause (*b*.2)(iii)(A) of the definition "qualified investment" was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.22), applicable January 1, 2001, coming into force on July 31, 2000. S. 146.3(1), clause (*b*.2)(iii)(A) of the definition "qualified investment" formerly read:

"(A) if the annuitant under the fund (in this paragraph referred to as the 'RRIF annuitant') has made the election referred to in the definition 'retirement income fund' in respect of the fund and a spouse, the life of the RRIF annuitant or the life of the spouse, and"

S. 146.3(1), subparagraph (*b*.2)(v)(A) of the definition "qualified investment" was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.22), applicable January 1, 2001, coming into force on July 31, 2000. S. 146.3(1), subparagraph (*b*.2)(v)(A) of the definition "qualified investment" formerly read:

"(A) the periodic payments are payable for the life of the RRIF annuitant or the joint lives of the RRIF annuitant and the RRIF annuitant's spouse and either there is no guaranteed period under the contract or there is a guaranteed period that begins at the start date and does not exceed a term equal to 90 years minus the lesser of

(I) the age in whole years at the start date of the RRIF annuitant (determined on the assumption that the RRIF annuitant is alive at the start date), and

(II) the age in whole years at the start date of a spouse of the RRIF annuitant (determined on the assumption that a spouse of the RRIF annuitant at the time the contract was acquired is a spouse of the RRIF annuitant at the start date), or"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 146.3(1), paragraphs (*b.1*) and (*b.2*), were added by S.C. 1998, c. 19, s. 171(2), applicable after 1996.

Editorial Note: The definition of "qualified investment" for a trust governed by a RRIF incorporates by reference much of the similar definition in s. 204 that applies to deferred profit sharing plans. The definition also includes investments that are prescribed under Part XLIX (s. 4900) of the Regulations.

Related Sections: S. 87(10) Share deemed listed; s. 146.3(1), "annuitant", "common-law partner", "minimum amount"; s. 146.3(7)–(9); s. 207.1(4) Tax payable by trust under registered retirement income fund. See also related matter for subsection 146.3(7), Acquisition of non-qualified investment by trust.

Regulations: 221; 3200; 4900(1), (2), (4), (6), (9), (10), (12), (13).

Interpretation Bulletins: *Primary* — IT-320R3 Qualified Investments — Trusts Governed by Registered Retirement Savings Plans, Registered Education Savings Plans and Registered Retirement Income Funds.

Information Circulars: IC 78-18R6 Registered Retirement Income Funds.

Forms: T3F.

Tax Profile: August 2004 — Canadian Tax Treatment of Index Participation Units and Exchange-Traded Index Derivatives.

"registered retirement income fund" — "registered retirement income fund" means a retirement income fund accepted by the Minister for registration for the purposes of this Act and registered under the Social Insurance Number of the first annuitant under the fund;

Editorial Note: A registered retirement income fund is one of the retirement options for funds accumulated in a registered retirement savings plan (s. 146) before it reaches maturity or transferred from other deferred income plans. Payments from the plan are taxable when received (s. 146.3(5) — see also the definition of "minimum amount"). The annuitant will also be taxable if the plan acquires non-qualified investments or uses its property as security for a loan (s. 146.3(7)), or, if the plan buys or sells property at other than fair market value (s. 146.3(4)).

Interpretation Bulletins: *Secondary* — IT-528 Transfers of Funds Between Registered Plans.

"retirement income fund" — "retirement income fund" means an arrangement between a carrier and an annuitant under which, in consideration for the transfer to the carrier of property, the carrier undertakes to pay amounts to the annuitant (and, where the annuitant so elects, to the annuitant's spouse or common-law partner after the annuitant's death), the total of which is, in each year in which the minimum amount under the arrangement for the year is greater than nil, not less than the minimum amount under the arrangement for that year, but the amount of any such payment does not exceed the value of the property held in connection with the arrangement immediately before the time of the payment.

History: S. 146.3(1), the definition "retirement income fund" was replaced by S.C. 2007, c. 29, s. 19(1), applicable after 2006. S. 146.3(1), the definition "retirement income fund" formerly read:

" '*retirement income fund*' — 'retirement income fund' means an arrangement between a carrier and an annuitant under which, in consideration for the transfer to the carrier of property, the carrier undertakes to pay to the annuitant and, where the annuitant so elects, to the annuitant's spouse or common-law partner after the annuitant's death, in each year that begins not later than the first calendar year after the year in which the arrangement was entered into one or more amounts the total of which is not less than the minimum amount under the arrangement for the year, but the amount of any such payment shall not exceed the value of the property held in connection with the arrangement immediately before the time of the payment."

S. 146.3(1), the definition "retirement income fund" was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.22), applicable January 1, 2001, coming into force on July 31, 2000. S. 146.3(1), the definition "retirement income fund" formerly read:

" '*retirement income fund*' — 'retirement income fund' means an arrangement between a carrier and an annuitant under which, in consideration for the transfer to the carrier of property, the carrier undertakes to pay to the annuitant and, where the annuitant so elects, to the annuitant's spouse after the annuitant's death, in each year that begins not later than the first calendar year after the year in which the arrangement was entered into one or more amounts the total of which is not less than the minimum amount under the arrangement for the year, but the amount of any such payment shall not exceed the value of the property held in connection with the arrangement immediately before the time of the payment."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 146.3(1), the definition "retirement income fund" was amended by S.C. 1994, c. 21, s. 71(1), applicable

(*a*) to the 1992 and subsequent taxation years with respect to

(i) retirement income funds entered into after February 1986, and

(ii) retirement income funds entered into before March 1986 and revised or amended after February 1986 and before 1992; and

(*b*) where a retirement income fund was entered into before March 1986 and was not revised or amended after February 1986 and before 1992, to the taxation year in which the fund is first revised or amended after February 1986 and to subsequent taxation years.

S. 146.3(1), the definition "retirement income fund", formerly read:

" 'retirement income fund' means an arrangement between a carrier and an annuitant under which, in consideration for the transfer to the carrier of property (including money), the carrier undertakes to pay to the annuitant and, where the annuitant so elects, to the annuitant's spouse after the annuitant's death,

(*a*) in each year, commencing not later than the first calendar year after the year in which the arrangement is entered into, one or more amounts the total of which is not less than the minimum amount under the arrangement for a year, but the amount of any such payment shall not exceed the value of the property held in connection with the arrangement immediately before the time of the payment, and

(*b*) at the end of the year in which the last payment under the arrangement is, in accordance with the terms and conditions of the arrangement, required to be made, an amount equal to the value of the property, if any, held in connection with the arrangement at that time."

Related Sections: S. 146.3(1), "annuitant", "carrier", "common-law partner", "minimum amount"; s. 146.3(2)(*a*) Acceptance of fund for registration.

Information Circulars: IC 78-18R6 Registered Retirement Income Funds.

► 146.3(1.1) ◄

(1.1) Adjusted minimum amount for 2008. The minimum amount under a retirement income fund for 2008 is 75 per cent of the amount that would, in the absence of this subsection, be the minimum amount under the fund for the year.

History: S. 146.3(1.1) was added by S.C. 2009, c. 2, s. 54(1), in force on Royal Assent, March 12, 2009.

S. 146.3(1.1) was repealed by S.C. 1994, c. 7, Sched. VIII, s. 84(3), applicable after 1992 and, in applying subsection 146.3(1.1) after 1990 and before 1993, the reference therein to "the definitions 'minimum amount' and 'retirement income fund'" shall be read as "the definitions 'annuitant', 'minimum amount' and 'retirement income fund'". Note that a similar provision is enacted as s. 252(4). S. 146.3(1.1) formerly read:

"(1.1) For the purposes of the definitions 'minimum amount' and 'retirement income fund' in subsection (1), paragraph (2)(*d*), subparagraph (2)(*f*)(iv), subsection (6) and paragraph (14)(*b*), 'spouse' has the meaning assigned by subsection 146(1.1)."

Related Sections: S. 60.021

► 146.3(1.2) ◄

(1.2) Exceptions. Subsection (1.1) does not apply to a retirement income fund

(*a*) for the purposes of subsections (5.1) and 153(1) and the definition "periodic pension payment" in

section 5 of the *Income Tax Conventions Interpretation Act*; nor

(*b*) if the individual who was the annuitant under the fund on January 1, 2008 attained 70 years of age in 2007.

History: S. 146.3(1.2) was added by S.C. 2009, c. 2, s. 54(1), in force on Royal Assent, March 12, 2009.

► 146.3(2) ◄

(2) Acceptance of fund for registration. The Minister shall not accept for registration for the purposes of this Act any retirement income fund of an individual unless, in the Minister's opinion, the following conditions are complied with:

(*a*) the fund provides that the carrier shall make only those payments described in any of paragraphs (*d*) and (*e*), the definition "retirement income fund" in subsection (1), and subsections (14) and (14.1);

(*b*) the fund provides that payments thereunder may not be assigned in whole or in part;

(*c*) where the carrier is a person referred to as a depository in section 146, the fund provides that

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of paragraph 146.3(2)(c) of the English version of the Act before subparagraph (i) is replaced by the following:

(*c*) if the carrier is a person referred to as a depositary in section 146, the fund provides that

Applicable: After 2001.

Explanatory Note:

Acceptance of Fund for Registration

Subsection 146.3(2) of the Act outlines the conditions that must be satisfied in order for a retirement income fund to be registered as a RRIF.

Paragraph 146.3(2)(*c*) of the English version refers to a carrier who "is a person referred to as a depository in section 146". This paragraph is amended to replace the word "depository" with the word "depositary", which is the term used in section 146. This amendment applies after 2001.

Paragraph 146.3(2)(*f*) prohibits a RRIF from receiving property, other than property transferred from sources listed in that paragraph. The paragraph is amended so that a RRIF may receive property transferred directly from a deferred profit sharing plan (DPSP) in accordance with subsection 147(19) of the Act. This amendment is consequential on an amendment to subsection 147(19) that permits direct transfers from DPSPs to RRIFs. For more details, see the commentary to that subsection. This amendment applies after March 20, 2003.

(i) the carrier has no right of offset as regards the property held in connection with the fund in respect of any debt or obligation owing to the carrier, and

(ii) the property held in connection with the fund cannot be pledged, assigned or in any way alienated as security for a loan or for any purpose other than that of the making by the carrier to the annuitant those payments described in paragraph (*a*);

(*d*) the fund provides that, except where the annuitant's spouse or common-law partner becomes the annuitant under the fund, the carrier shall, as a consequence of the death of the annuitant, distribute the property held in connection with the fund at the time of the annuitant's death or an amount equal to the value of such property at that time;

(*e*) the fund provides that, at the direction of the annuitant, the carrier shall transfer all or part of the property held in connection with the fund, or an amount equal to its value at the time of the direction (other than property required to be retained in accordance with the provision described in paragraph (*e*.1) or (*e*.2)), together with all information necessary for the continuance of the fund, to a person who has agreed to be a carrier of another registered retirement income fund of the annuitant;

(*e*.1) where the fund does not govern a trust or the fund governs a trust created before 1998 that does not hold an annuity contract as a qualified investment for the trust, the fund provides that if an annuitant, at any time, directs that the carrier transfer all or part of the property held in connection with the fund, or an amount equal to its value at that time, to a person who has agreed to be a carrier of another registered retirement income fund of the annuitant or to a registered pension plan in accordance with subsection (14.1), the transferor shall retain an amount equal to the lesser of

(i) the fair market value of such portion of the property as would, if the fair market value thereof does not decline after the transfer, be sufficient to ensure that the minimum amount under the fund for the year in which the transfer is made may be paid to the annuitant in the year, and

(ii) the fair market value of all the property;

(*e*.2) where paragraph (*e*.1) does not apply, the fund provides that if an annuitant, at any time, directs that the carrier transfer all or part of the property held in connection with the fund, or an amount equal to its value at that time, to a person who has agreed to be a carrier of another registered retirement income fund of the annuitant or to a registered pension plan in accordance with subsection (14.1), the transferor shall retain property in the fund sufficient to ensure that the total of

(i) all amounts each of which is the fair market value, immediately after the transfer, of a property held in connection with the fund that is

(A) property other than an annuity contract, or

(B) an annuity contract described, immediately after the transfer, in paragraph (*b*.1) of the definition "qualified investment" in subsection (1), and

(ii) all amounts each of which is a reasonable estimate, as of the time of the transfer, of the amount of an annual or more frequent periodic payment under an annuity contract (other than an annuity contract described in clause (i)(B)) that the trust may receive after the transfer and in the year of the transfer

is not less than the amount, if any, by which the minimum amount under the fund for that year exceeds the total of all amounts received out of or under the fund before the transfer that are included in computing the income of the annuitant under the fund for that year;

(*f*) the fund provides that the carrier shall not accept property as consideration thereunder other than property transferred from

(i) a registered retirement savings plan under which the individual is the annuitant,

(ii) another registered retirement income fund under which the individual is the annuitant,

(iii) the individual to the extent only that the amount of the consideration was an amount described in subparagraph 60(*l*)(v),

(iv) a registered retirement income fund or registered retirement savings plan of the individual's spouse or common-law partner or former spouse or common-law partner under a decree, order or judgment of a competent tribunal, or under a written separation agreement, relating to a division of property between the individual and the individual's spouse or common-law partner or former spouse or common-law partner in settlement of rights arising out of, or on the breakdown of, their marriage or common-law partnership,

(v) a registered pension plan of which the individual is a member (within the meaning assigned by subsection 147.1(1)),

(vi) a registered pension plan in accordance with subsection 147.3(5) or (7); or

(vii) a provincial pension plan in circumstances to which subsection 146(21) applies;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 146.3(2)(*f*) of the Act is amended by striking out the word "or" at the end of subparagraph (vi), by adding the word "or" at the end of subparagraph (vii) and by adding the following after subparagraph (vii):

(viii) a deferred profit sharing plan in accordance with subsection 147(19);

Applicable: After March 20, 2003.

Explanatory Note: See the Explanatory Note following the amendment to the portion of paragraph 146.3(2)(*c*) of the English version of the Act before subparagraph (i).

(g) the fund requires that no benefit or loan, other than

(i) a benefit the amount of which is required to be included in computing the annuitant's income,

(ii) an amount referred to in paragraph (5)(*a*) or (*b*), or

(iii) the benefit derived from the provision of administrative or investment services in respect of the fund,

that is conditional in any way on the existence of the fund may be extended to the annuitant or to a person with whom the annuitant was not dealing at arm's length; and

(*h*) the fund in all other respects complies with regulations of the Governor in Council made on the recommendation of the Minister of Finance.

History: S. 146.3(2)(*a*) was replaced by S.C. 2003, c. 15, s. 83(1), applicable after 2003. S. 146.3(2)(*a*) formerly read:

"(*a*) the fund provides that the carrier shall make only those payments described in any of paragraphs (*d*) and (*e*), the definition 'retirement income fund' in subsection (1) and paragraph (14)(*b*);"

S. 146.3(2)(*e.1*), the portion before subparagraph (i) was replaced by S.C. 2003, c. 15, s. 83(2), applicable after 2003. S. 146.3(2)(*e.1*), the portion before subparagraph (i) formerly read:

"(*e.1*) where the fund does not govern a trust or the fund governs a trust created before 1998 that does not hold an annuity contract as a qualified investment for the trust, the fund provides that if an annuitant, at any time, directs that the carrier transfer all or part of the property held in connection with the fund, or an amount equal to its value at that time, to a person who has agreed to be a carrier of another registered retirement income fund of the annuitant, the transferor shall retain an amount equal to the lesser of"

S. 146.3(2)(*e.2*), the portion before subparagraph (i), was replaced by S.C. 2003, c. 15, s. 83(3), applicable after 2003. S. 146.3(2)(*e.2*), the portion before subparagraph (i) formerly read:

"(*e.2*) where paragraph (*e.1*) does not apply, the fund provides that if an annuitant, at any time, directs that the carrier transfer all or part of the property held in connection with the fund, or an amount equal to its value at that time, to a person who has agreed to be a carrier of another registered retirement income fund of the annuitant, the transferor shall retain property in the fund sufficient to ensure that the total of"

S. 146.3(2)(*d*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.22), applicable January 1, 2001, coming into force on July 31, 2000. S. 146.3(2)(*d*) formerly read:

"(*d*) the fund provides that, except where the annuitant's spouse becomes the annuitant under the fund, the carrier shall, as a consequence of the death of the annuitant, distribute the property held in connection with the fund at the time of the annuitant's death or an amount equal to the value of such property at that time;"

S. 146.3(2)(*f*)(iv) was amended by S.C. 2000, c. 12, Sched. 2, s. 2(i) and 9(m), applicable January 1, 2001, coming into force on July 31, 2000. S. 146.3(2)(*f*)(iv) formerly read:

"(iv) a registered retirement income fund or registered retirement savings plan of the individual's spouse or former spouse under a decree, order or judgment of a competent tribunal, or under a written separation agreement, relating to a division of property between the individual and the individual's spouse or former spouse in settlement of rights arising out of, or on the breakdown of, their marriage,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 146.3(2)(*a*) was amended by S.C. 1998, c. 19, s. 171(3), applicable to taxation years that end after November 1991. Paragraph (*a*) formerly read:

"(*a*) the fund provides that the carrier shall make only those payments described in paragraphs (*d*) and (*e*), the definition 'retirement income' in subsection (1) and paragraph (14)(*b*);"

S. 146.3(2)(*e*) was amended by S.C. 1998, c. 19, s. 171(4), applicable to retirement income funds entered into after July 13, 1990 and, in its application to retirement income funds entered into before July 14, 1990, paragraph 146.3(2)(*e*) shall be read without reference to the words "in prescribed form and manner". Paragraph (*e*) formerly read:

"(*e*) the fund provides that, at the direction of the annuitant, the carrier shall, in prescribed form and manner, transfer all or part of the property held in connection with the fund, or an amount equal to its value at the time of such direction (other than property required to be retained in accordance with the provision described in paragraph (*e.1*)), together with all information necessary for the continuance of the fund, to any person who has agreed to be a carrier of another registered retirement income fund of the annuitant;"

S. 146.3(2)(*e.1*), that portion preceding paragraph (i), was amended by S.C. 1998, c. 19, s. 171(5), applicable to retirement income funds entered into after July 13, 1990. That portion of paragraph (*e.1*) formerly read:

"(*e*.1) the fund provides that where an annuitant, at any time, directs that the carrier transfer all or part of the property held in connection with the fund, or an amount equal to its value at that time, to any person who has agreed to be a carrier of another registered retirement income fund, as described in paragraph (*e*), the carrier shall retain an amount equal to the lesser of"

S. 146.3(2)(*e*.2) was added by S.C. 1998, c. 19, s. 171(6), applicable to retirement income funds entered into after July 13, 1990.

S. 146.3(2)(*f*)(vii) was added by S.C. 1994, c. 21, s. 71(3), applicable after 1991.

S. 146.3(2)(*d*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 84(4), applicable after 1990. S. 146.3(2)(*d*) formerly read:

"(*d*) the fund provides that, except where the annuitant's spouse becomes the annuitant under the fund pursuant to the terms of the fund or the provisions of the will of the deceased annuitant, the carrier shall, as a consequence of the death of the annuitant, distribute the property held in connection with the fund at the time of death or an amount equal to the value of the property at that time;"

S. 146.3(2)(*f*)(iv) was amended by S.C. 1994, c. 7, Sched. VIII, s. 84(5), applicable after 1992. S. 146.3(2)(*f*)(iv) formerly read:

"(iv) a registered retirement income fund or registered retirement savings plan of the individual's spouse or former spouse pursuant to a decree, order or judgment of a competent tribunal or a written separation agreement, relating to a division of property between the individual and the individual's spouse or former spouse in settlement of rights arising out of their marriage or other conjugal relationship, on or after the breakdown of their marriage or other relationship;"

S. 146.3(2)(*f*)(v) and (vi) were added by S.C. 1994, c. 7, Sched. VIII, s. 84(6), applicable after August 29, 1990.

S. 146.3(2)(*e*) was amended by S.C. 1994, c. 7, Sched. II, s. 119(1), applicable to retirement income funds entered into after July 13, 1990. S. 146.3(2)(*e*) formerly read:

"(*e*) the fund provides that, at the direction of the annuitant, the carrier shall, in prescribed form and manner, transfer all or part of the property held in connection with the fund, or an amount equal to its value at the time of such direction, together with all information necessary for the continuance of the fund, to any person who has agreed to be a carrier of another registered retirement income fund of the annuitant;"

S. 146.3(2)(*e*.1) was added by S.C. 1994, c. 7, Sched. II, s. 119(1), applicable to retirement income funds entered into after July 13, 1990.

Related Sections: S. 139.1(13) RRSP registration rules, etc; s. 146.3(13) Deemed creation of new plan — prohibited loans or benefits; s. 146.3(14.2) Taxation of amount transferred; s. 146(16) Transfer of funds; s. 172(3) Appeal from refusal to register, revocation of registration, etc.; s. 172(4) Deemed refusal to register — no notification within 180 days; s. 248(1), "common-law partner"; s. 252(3) Extended meaning of "spouse" and "former spouse"; Part X.2 — Tax in Respect of Registered Investments; Part XI — Tax in Respect of Certain Property Acquired by Trusts, etc., Governed by Deferred Income Plans.
Regulations: 4900(1), (2), (4), (6), (9), (10), (12), (13); 7308.
Interpretation Bulletins: *Secondary* — IT-320R3 Qualified Investments — Trusts Governed by Registered Retirement Savings Plans, Registered Education Savings Plans and Registered Retirement Income Funds.
Information Circulars: IC 78-18R6 Registered Retirement Income Funds.
Forms: T550; T2033.
Guides: T4040 RRSP's and Other Registered Plans for Retirement.
Canadian Tax Foundation: Kaplan, "Registered Retirement Income Funds: An Update", *1999 Canadian Tax Journal*, No. 1, 134.

► 146.3(3) ◄

(3) No tax while trust governed by fund. Except as provided in subsection (9), no tax is payable under this Part by a trust on the taxable income of the trust for a taxation year if, throughout the period in the year during which the trust was in existence, the trust was governed by a registered retirement income fund of an individual, except that if the trust has

(*a*) borrowed money in the year or has borrowed money that it has not repaid before the commencement of the year,

(*b*) received a gift of property (other than a transfer from a registered retirement savings plan under which the individual is the annuitant (within the meaning of subsection 146(1)) or a transfer from a registered retirement income fund under which the individual is the annuitant)

(i) in the year, or

(ii) in a preceding year and has not divested itself of the property or any property substituted therefor before the commencement of the year, or

(*c*) carried on any business or businesses in the year,

tax is payable under this Part by the trust,

(*d*) where paragraph (*a*) or (*b*) applies, on its taxable income for the year, and

(*e*) where neither paragraph (*a*) nor (*b*) applies and where paragraph (*c*) applies, on the amount, if any, by which

(i) the amount that its taxable income for the year would be if it had no incomes or losses from sources other than from the business or businesses, as the case may be,

exceeds

(ii) such portion of the amount determined under subparagraph (i) in respect of the trust for the year as can reasonably be considered to be income from, or from the disposition of, qualified investments for the trust.

History: S. 146.3(3)(*e*) was amended by S.C. 1994, c. 21, s. 71(4), applicable to the 1993 and subsequent taxation years. S. 146.3(3)(*e*) formerly read:

"(*e*) where neither paragraph (*a*) nor (*b*) applies and where paragraph (*c*) applies, on the amount that its taxable income for the year would be if it had no incomes or losses from sources other than from the business or businesses, as the case may be."

Related Sections: S. 107.4(2) Application of paragraph (1)(a); s. 138.1(7) Where ss. (1) to (6) do not apply; s. 146.3(3.1) Exception; s. 149(1)(*x*) Registered retirement income funds; s. 207.1(4) Tax payable by trust under registered retirement income fund; Part X.1 Tax in Respect of Over-Contributions to Deferred Income Plans; Part X.2 Tax in Respect of Registered Investments; Part X.3 Labour-Sponsored Venture Capital Corporations.
Interpretation Bulletins: *Secondary* — IT-320R3 Qualified Investments — Trusts Governed by Registered Retirement Savings Plans, Registered Education Savings Plans and Registered Retirement Income Funds.
Information Circulars: IC 78-14R4 Guidelines for trust companies and other persons responsible for filing T3GR, T3D, T3P, T3S, T3RI, and T3F returns; IC 78-18R6 Registered Retirement Income Funds.

► 146.3(3.1) ◄

(3.1) Exception. Notwithstanding subsection (3), if the last annuitant under a registered retirement income fund has died, tax is payable under this Part by the trust governed by the fund on its taxable income for each year after the year following the year in which the last annuitant under the fund died.

History: S. 146.3(3.1) was amended by S.C. 1994, c. 21, s. 71(5), applicable to the 1993 and subsequent taxation years. S. 146.3(3.1) formerly read:

"(3.1) Notwithstanding subsection (3), if the last annuitant under a registered retirement income fund has died, tax is payable under this Part by the trust governed by the fund on its taxable income for each year after the year of the annuitant's death."

Related Sections: S. 104(6)(*a*.2) Deduction in computing income of trust; s. 146.3(5) Benefits taxable.

► 146.3(4) ◄

(4) Disposition or acquisition of property by trust. Where at any time in a taxation year a trust governed by a registered retirement income fund

(*a*) disposes of property for a consideration less than the fair market value of the property at the time of the disposition, or for no consideration, or

(*b*) acquires property for a consideration greater than the fair market value of the property at the time of the acquisition,

2 times the difference between that fair market value and the consideration, if any, shall be included in computing the income for the taxation year of the taxpayer who is the annuitant under the fund at that time.

Related Sections: S. 107.4(2) Application of paragraph (1)(a); s. 214(3)(i) Deemed payments; s. 248(25.1) Trust-to-trust transfers.
Regulations: 215(3).
Interpretation Bulletins: *Secondary* — IT-320R3 Qualified Investments — Trusts Governed by Registered Retirement Savings Plans, Registered Education Savings Plans and Registered Retirement Income Funds.
Information Circulars: IC 78-18R6 Registered Retirement Income Funds.
Forms: T4RIF Summ.; T4RIF.
Guides: T4079 T4RSP and T4RIF Guide.

► 146.3(5) ◄

(5) Benefits taxable. There shall be included in computing the income of a taxpayer for a taxation year all amounts received by the taxpayer in the year out of or under a registered retirement income fund other than the portion thereof that can reasonably be regarded as

(*a*) part of the amount included in computing the income of another taxpayer by virtue of subsections (6) and (6.2);

(*b*) an amount received in respect of the income of the trust under the fund for a taxation year for which the trust was not exempt from tax by virtue of subsection (3.1); or

(*c*) an amount that relates to interest, or to another amount included in computing income otherwise than because of this section, and that would, if the fund were a registered retirement savings plan, be a tax-paid amount (within the meaning assigned by paragraph (*b*) of the definition "tax-paid amount" in subsection 146(1)).

History: S. 146.3(5)(*c*) was added by S.C. 1998, c. 19, s. 171(7), applicable to deaths that occur after 1992.

Related Sections: S. 56(1)(*t*) Registered retirement income fund; s. 75(3) Exceptions; s. 118(3) Pension credit; s. 118(7), "pension income"; s. 128.1(10) Definitions; s. 139.1(14) Retirement benefit; s. 146.3(2)(*g*) Acceptance of fund for registration; s. 146.3(6.11) Transfer of designated benefit; s. 153(1)(*l*) Withholding; s. 160.2(2) Joint and several liability in respect of amounts received out of or under RRIF; s. 212(1)(*q*) Registered retirement income fund payments.
Regulations: 202(2), (3); 215(2).
Income Tax Technical News: Issue No. 39, Settlement of a Shareholder Class Action Suit — Compensation by Way of Cash and Shares.
Forms: T4RIF Summ.; T4RIF.
Guides: T4079 T4RSP and T4RIF Guide.

► 146.3(5.1) ◄

(5.1) Amount included in income. Where at any time in a taxation year a particular amount in respect of a registered retirement income fund that is a spousal plan (within the meaning assigned by subsection 146(1)) in relation to a taxpayer is required to be included in the income of the taxpayer's spouse or common-law partner and the taxpayer is not living separate and apart from the taxpayer's spouse or common-law partner at that time by reason of the breakdown of their marriage or common-law partnership, there shall be included at that time in computing the taxpayer's income for the year an amount equal to the least of

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 146.3(5.1) of the English version of the Act before paragraph (*a*) is replaced by the following:

(5.1) Amount included in income. If at any time in a taxation year a particular amount in respect of a registered retirement income fund that is a spousal or common-law partner plan (within the meaning assigned by subsection 146(1)) in relation to a taxpayer is required to be included in the income of the taxpayer's spouse or common-law partner and the taxpayer is not living separate and apart from the taxpayer's spouse or common-law partner at that time by reason of the breakdown of their marriage or common-law partnership, there shall be included at that time in computing the taxpayer's income for the year an amount equal to the least of

Applicable: To the 2001 and subsequent taxation years except that, if a taxpayer and a person have jointly elected under section 144 of the *Modernization of Benefits and Obligations Act*, in respect of the 1998, 1999 or 2000 taxation years, the amendment to the portion of subsection 146.3(5.1) before paragraph (*a*) applies to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Explanatory Note:

Amount Included in Income

In 2000, the Act was amended to include common-law partners, but some provisions, including the English version of subsection 146.3(5.1), were overlooked. This subsection is therefore amended to correct this omission. The amendment applies, in general, to the 2001 and subsequent taxation years. However, it may apply as of 1998 if the common-law partners jointly choose to be deemed as such, beginning in that year, for the purposes of the application of the Act.

(*a*) the total of all amounts each of which is a premium (within the meaning assigned by subsection 146(1)) paid by the taxpayer in the year or in one of the two immediately preceding taxation years to a registered retirement savings plan under which the taxpayer's spouse or common-law partner was the annuitant (within the meaning assigned by subsection 146(1)) at the time the premium was paid,

(*b*) the particular amount, and

(*c*) the amount, if any, by which

(i) the total of all amounts each of which is an amount in respect of the fund that is required, in the year and at or before that time, to be included in the income of the taxpayer's spouse or common-law partner

exceeds

(ii) the minimum amount under the fund for the year.

History: S. 146.3(5.1), the portion before paragraph (*b*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.22) and 9(m), applicable January 1, 2001, coming into force on July 31, 2000. S. 146.3(5.1), the portion before paragraph (*b*) formerly read:

"(5.1) *Amount included in income.* Where at any time in a taxation year a particular amount in respect of a registered retirement income fund that is a spousal plan (within the meaning assigned by subsection 146(1)) in relation to a taxpayer is required to be included in the income of the taxpayer's spouse and the taxpayer is not living separate and apart from the taxpayer's spouse at that time by reason of the breakdown of their marriage, there shall be included at that time in computing the taxpayer's income for the year an amount equal to the least of

(*a*) the total of all amounts each of which is a premium (within the meaning assigned by subsection 146(1)) paid by the taxpayer in the year or in one of the two immediately preceding taxation years to a registered retirement savings plan under which the taxpayer's spouse was the annuitant (within the meaning assigned by subsection 146(1)) at the time the premium was paid,"

S. 146.3(5.1)(*c*)(i) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.22), applicable January 1, 2001, coming into force on July 31, 2000. S. 146.3(5.1)(*c*)(i) formerly read:

"(i) the total of all amounts each of which is an amount in respect of the fund that is required, in the year and at or before that time, to be included in the income of the taxpayer's spouse"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the

applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Related Sections: S. 118.1(5.3) Direct designation — RRSPs, RRIFs and TFSAs; s. 128.1(10) Definitions; s. 146(1), "minimum amount"; s. 146(1.1) Restriction — financially dependent; s. 146.3(5.3) Ordering; s. 146.3(5.4) Spouse's income; s. 146.3(5.5) Where s. (5.1) does not apply; s. 146(8.21) Premium deemed not paid; s. 146(8.6) Spouse's income; s. 153(1)(*l*) Withholding; s. 212(1)(*q*) Registered retirement income fund payments s. 252(3) Extended meaning of "spouse" and "former spouse"; s. 248(1), "common-law partner".
Regulations: 7308.
Interpretation Bulletins: *Secondary* — IT-124R6 Contributions to registered retirement savings plans; IT-307R4 Spousal or common-law partner registered retirement savings plans.

► 146.3(5.2) ◄

(5.2) Interpretation. [Repealed by 1990, c. 35, s. 14(4).]

► 146.3(5.3) ◄

(5.3) Ordering. Where a taxpayer has paid more than one premium described in subsection (5.1), such a premium or part thereof paid by the taxpayer at any time shall be deemed to have been included in computing the taxpayer's income by virtue of that subsection before premiums or parts thereof paid by the taxpayer after that time.

► 146.3(5.4) ◄

(5.4) Spouse's [or common-law partner's] income. Where, in respect of an amount required at any time in a taxation year to be included in computing the income of a taxpayer's spouse or common-law partner, all or part of a premium has, by reason of subsection (5.1), been included in computing the taxpayer's income for the year, the following rules apply:

(*a*) the premium or part thereof, as the case may be, shall, for the purposes of subsections (5.1) and 146(8.3) after that time, be deemed not to have been a premium paid to a registered retirement savings plan under which the taxpayer's spouse or common-law partner was the annuitant (within the meaning assigned by subsection 146(1)); and

(*b*) an amount equal to the premium or part thereof, as the case may be, may be deducted in computing the income of the spouse or common-law partner for the year.

History: S. 146.3(5.4) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.22), applicable January 1, 2001, coming into force on July 31, 2000. S. 146.3(5.4) formerly read:

"(5.4) *Spouse's income.* Where, in respect of an amount required at any time in a taxation year to be included in computing the income of a taxpayer's spouse, all or part of a premium has, by reason of subsection (5.1), been included in computing the taxpayer's income for the year, the following rules apply:

(*a*) the premium or part thereof, as the case may be, shall, for the purposes of subsections (5.1) and 146(8.3) after that time, be deemed not to have been a premium paid to a registered retirement savings plan under which the taxpayer's spouse was the annuitant (within the meaning assigned by subsection 146(1)); and

(*b*) an amount equal to the premium or part thereof, as the case may be, may be deducted in computing the income of the spouse for the year."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

► 146.3(5.5) ◄

(5.5) Where s. (5.1) does not apply. Subsection (5.1) does not apply

(*a*) in respect of a taxpayer at any time during the year in which the taxpayer dies;

(*b*) in respect of a taxpayer where either the taxpayer or the annuitant is a non-resident at the particular time referred to in that subsection;

(*c*) to any payment that is received in full or partial commutation of a registered retirement savings plan or a registered retirement income fund and in respect of which a deduction was made under paragraph 60(*l*) if, where the deduction was in respect of the acquisition of an annuity, the terms of the annuity provide that it cannot be commuted, and it is not commuted, in whole or in part within 3 years after the acquisition; or

(*d*) in respect of an amount that is deemed by subsection (6) to have been received by an annuitant under a registered retirement income fund immediately before the annuitant's death.

► 146.3(6) ◄

(6) Where last annuitant dies. Where the last annuitant under a registered retirement income fund dies, that annuitant shall be deemed to have received, immediately before death, an amount out of or under a registered retirement income fund equal to the fair market value of the property of the fund at the time of the death.

History: S. 146.3(6) was amended by S.C. 1994, c. 21, s. 71(6), applicable to deaths occurring after 1992. S. 146.3(6) formerly read:

"(6) *Effect of death where person other than spouse becomes entitled.* Where the last annuitant under a registered retirement income fund dies, the annuitant shall be deemed to have received, immediately before the annuitant's death, an amount out of or under a registered retirement income fund equal to the amount, if any, by which

(*a*) the fair market of all the property of the fund at the time of death

exceeds

(*b*) the portion thereof that, as a consequence of the death, becomes receivable by the annuitant's spouse."

Related Sections: S. 118.1(5.3) Direct designation — RRSPs, RRIFs and TFSAs; s. 146.3(5)(*a*) Benefits taxable; s. 146.3(5.5) Where s. (5.1) does not apply; s. 146.3(6.2)Amount deductible; s. 160.2(2) Joint and several liability in respect of amounts received out of or under RRIF; s. 214(3)(*i*) Deemed payments.
Regulations: 215(4).
Information Circulars: IC 78-18R6 Registered Retirement Income Funds.
Forms: T4RIF Summ.; T4RIF.
Guides: RC4178 Death of an RRIF Annuitant.

► 146.3(6.1) ◄

(6.1) Designated benefit deemed received. A designated benefit of an individual in respect of a registered retirement income fund that is received by the legal representative of the last annuitant under the fund shall be deemed

(*a*) to be received by the individual out of or under the fund at the time it is received by the legal representative; and

(*b*) except for the purpose of the definition "designated benefit" in subsection (1), not to be received out of or under the fund by any other person.

History: S. 146.3(6.1) was amended by S.C. 1994, c. 21, s. 71(6), applicable to deaths occurring after 1992. S. 146.3(6.1) formerly read:

"(6.1) *Amount deemed received by child or grandchild as a result of death.* Such portion of an amount paid in a taxation year out of or under a registered retirement income fund after the death of the last annuitant thereunder to the annuitant's legal representative as, had that portion been paid under the fund

to a beneficiary of the deceased's estate, would have been a refund of premiums (within the meaning assigned by subsection 146(1)) if the fund were a registered retirement savings plan shall, to the extent it is so designated jointly by the legal representative and the beneficiary in prescribed form filed with the Minister, be deemed

(*a*) to be received by the beneficiary in the year as a benefit that is a refund of premiums under a registered retirement savings plan (within the meanings assigned by subsection 146(1)); and

(*b*) not to be received out of or under a registered retirement income fund."

Related Sections: S. 214(3)(*i*) Deemed payments.

► 146.3(6.11) ◄

(6.11) Transfer of designated benefit. For the purpose of subparagraph 60(*l*)(v), the eligible amount of a particular individual for a taxation year in respect of a registered retirement income fund is nil unless the particular individual was

(*a*) a spouse or common-law partner of the last annuitant under the fund, or

(*b*) a child or grandchild of that annuitant who was dependent because of physical or mental infirmity on that annuitant,

in which case the eligible amount shall be determined by the formula

$$A \times [1 - \frac{(B - C)}{D}]$$

where

A is the portion of the designated benefit of the particular individual in respect of the fund that is included because of subsection (5) in computing the particular individual's income for the year,

B is the minimum amount under the fund for the year,

C is the lesser of

(*a*) the total amounts included because of subsection (5) in computing the income of an annuitant under the fund for the year in respect of amounts received by the annuitant out of or under the fund, and

(*b*) the minimum amount under the fund for the year, and

D is the total of all amounts each of which is the portion of a designated benefit of an individual in respect of the fund that is included because of subsection (5) in computing the individual's income for the year.

History: The application of s. 60(*l*)(v)(B.2) was amended by S.C. 2007, c. 29, s. 19(6), for the 2007 and 2008 taxation years as follows:

For the purpose of applying clause 60(*l*)(v)(B.2) of the Act for the 2007 and 2008 taxation years, an eligible amount of a taxpayer for a taxation year in respect of a registered retirement income fund (within the meaning assigned by subsection 146.3(6.11) of the Act) is deemed to include

(*a*) if the taxation year is 2007, the taxpayer was the annuitant under the fund on January 1, 2007 and the taxpayer attained 69 or 70 years of age in 2006, the lesser of

(i) the total amounts included because of subsection 146.3(5) of the Act in computing the income of the taxpayer for the taxation year in respect of amounts received out of or under the fund (other than an amount paid by direct transfer from the fund to another fund or a registered retirement savings plan), and

(ii) the amount that would, but for paragraph (4)(*a*), be the minimum amount under the fund for 2007; and

(*b*) if the taxation year is 2008, the taxpayer was the annuitant under the fund on January 1, 2008 and the taxpayer attained 70 years of age in 2007, the lesser of

(i) the total amounts included because of subsection 146.3(5) of the Act in computing the income of the taxpayer for the taxation year in respect of amounts received out of or under the fund (other than an amount paid by direct transfer from the fund to another fund or a registered retirement savings plan), and

(ii) the amount that would, but for paragraph (4)(*b*), be the minimum amount under the fund for 2008.

S. 146.3(6.11)(*a*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.22), applicable January 1, 2001, coming into force on July 31, 2000. S. 146.3(6.11)(*a*) formerly read:

"(*a*) a spouse of the last annuitant under the fund, or"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 146.3(6.11) was added by S.C. 1994, c. 21, s. 71(6), applicable to deaths occurring after 1992.

Related Sections: S. 60(*l*) Transfer of refund of premiums under RRSP; s. 146(1.1) Restriction — financially dependent; s. 146.3(1), "annuitant", "designated benefit", "minimum amount"; s. 248(1), "common-law partner".
Regulations: 7308.

► 146.3(6.2) ◄

(6.2) Amount deductible. There may be deducted from the amount deemed by subsection (6) to be received by an annuitant out of or under a registered retirement income fund an amount not exceeding the amount determined by the formula

$$A \times [1 - \frac{(B + C - D)}{(B + C)}]$$

where

A is the total of

(*a*) all designated benefits of individuals in respect of the fund,

(*b*) all amounts that would, if the fund were a registered retirement savings plan, be tax-paid amounts (in this subsection having the meaning assigned by subsection 146(1)) in respect of the fund received by individuals who received, otherwise than because of subsection (6.1), designated benefits in respect of the fund, and

(*c*) all amounts each of which is an amount that would, if the fund were a registered retirement savings plan, be a tax-paid amount in respect of the fund received by the legal representative of the last annuitant under the fund, to the extent that the legal representative would have been entitled to designate that tax-paid amount under paragraph (*a*) of the definition "designated benefit" in subsection (1) if tax-paid amounts were not excluded in determining refunds of premiums (as defined in subsection 146(1));

B is the fair market value of the property of the fund at the particular time that is the later of

(*a*) the end of the first calendar year that begins after the death of the annuitant, and

(*b*) the time immediately after the last time that any designated benefit in respect of the fund is received by an individual;

C is the total of all amounts paid out of or under the fund after the death of the last annuitant thereunder and before the particular time; and

D is the lesser of

(*a*) the fair market value of the property of the fund at the time of the death of the last annuitant thereunder, and

(*b*) the sum of the values of B and C in respect of the fund.

History: S. 146.3(6.2), the description of "A", was amended by S.C. 1998, c. 19, s. 171(8), applicable to deaths that occur after 1992. That description formerly read:

"A is the total of all designated benefits of individuals in respect of the fund;"

S. 146.3(6.2) was amended by S.C. 1994, c. 21, s. 71(6), applicable to deaths occurring after 1992. S. 146.3(6.2) formerly read:

"(6.2) There may be deducted from the amount deemed by subsection (6) to have been received by an annuitant under a registered retirement income fund the total of all amounts each of which is

(*a*) that portion of an amount paid out of or under the fund that is deemed to be received by a beneficiary as a benefit that is a refund of premiums pursuant to subsection (6.1), or

(*b*) an amount paid under the fund to a child or grandchild of the annuitant that would be a refund of premiums (within the meaning assigned by subsection 146(1)) had the fund been a registered retirement savings plan

and each amount described in paragraph (*b*) that is paid to a child or grandchild of the deceased shall be deemed to be received by the child or grandchild, as the case may be, as a benefit that is a refund of premiums under a registered retirement savings plan (within the meanings assigned by subsection 146(1)) and not to be received out of or under a registered retirement income fund."

Related Sections: S. 146.3(5)(*a*) Benefits taxable; s. 146.3(6) Where last annuitant dies.

► 146.3(6.3) ◄

(6.3) Deduction for post-death reduction in value. If the last annuitant under a registered retirement income fund dies, there may be deducted in computing the annuitant's income for the taxation year in which the annuitant dies an amount not exceeding the amount determined, after all amounts payable out of or under the fund have been paid, by the formula

A – B

where

A is the total of all amounts each of which is

(*a*) the amount deemed by subsection (6) to have been received by the annuitant out of or under the fund,

(*b*) an amount (other than an amount described in paragraph (*c*)) received, after the death of the annuitant, by a taxpayer out of or under the fund and included, because of subsection (5), in computing the taxpayer's income, or

(*c*) an amount that would, if the fund were a registered retirement savings plan, be a tax-paid amount (within the meaning assigned by subsection 146(1)) in respect of the fund; and

B is the total of all amounts paid out of or under the fund after the death of the annuitant.

History: S. 146.3(6.3) was added by S.C. 2009, c. 2, s. 54(2), applicable in respect of a registered retirement income fund in respect of which the last payment out of the fund is made after 2008.

Related Sections: S. 60(*i*) Premium or payment under RRSP or RRIF; s. 146(8.92) Deduction for post-death reduction in value.
Regulations: 215(6).

► 146.3(6.4) ◄

(6.4) Subsection (6.3) not applicable. Except where the Minister has waived in writing the application of this subsection with respect to all or any portion of the amount determined in subsection (6.3) in respect of a registered retirement income fund, that subsection does not apply if

(*a*) at any time after the death of the annuitant, a trust governed by the fund held an investment that is not a qualified investment; or

(*b*) the last payment out of or under the fund was made after the end of the year following the year in which the annuitant died.

History: S. 146.3(6.4) was added by S.C. 2009, c. 2, s. 54(2), applicable in respect of a registered retirement income fund in respect of which the last payment out of the fund is made after 2008.

► 146.3(7) ◄

(7) Acquisition of non-qualified investment by trust. Where at any time in a taxation year a trust governed by a registered retirement income fund

(*a*) acquires an investment that is not a qualified investment, or

(*b*) uses or permits to be used a property of the trust as security for a loan,

the fair market value of

(*c*) the investment at the time it was acquired by the trust, or

(*d*) the property used as security at the time it commenced to be so used

as the case may be, shall be included in computing the income for the year of the taxpayer who is the annuitant under the fund at that time.

Related Sections: S. 146.3(8) Disposition of non-qualified investment; s. 146.3(10) Recovery of property used as security; s. 207.1(4) Tax payable by trust under registered retirement income fund; s. 214(3)(*i*) Deemed payments; s. 259(1) Proportional holdings in trust property. See also related matter for the definition of "qualified investment".
Regulations: 215(3); 4900(1), (2), (4), (6), (9), (10), (12), (13).
Interpretation Bulletins: *Secondary* — IT-320R3 RRSPs — Qualified investments.
Forms: T4RIF Summ.; T4RIF.

► 146.3(8) ◄

(8) Disposition of non-qualified investment. Where at any time in a taxation year a trust governed by a registered retirement income fund disposes of a property that, when acquired, was not a qualified investment, there may be deducted in computing the income for the taxation year of the taxpayer who is the annuitant under the fund at that time, an amount equal to the lesser of

(*a*) the amount that, by virtue of subsection (7), was included in computing the income of a taxpayer in respect of the acquisition of that property, and

(*b*) the proceeds of disposition of the property.

Related Sections: S. 259(1) Proportional holdings in trust property.
Regulations: 215(3); 4900(1), (2), (4), (6), (9), (10), (12), (13).
Interpretation Bulletins: *Secondary* — IT-320R3 RRSPs — Qualified investments.
Forms: T4RIF Summ.; T4RIF.

► 146.3(9) ◄

(9) Tax payable where non-qualified investment acquired. Where a trust governed by a registered retirement income fund has acquired a property that is not a qualified investment,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 146.3(9) of the Act before paragraph (*a*) is replaced by the following:

(9) Tax payable on income from non-qualified investment. If a trust that is governed by a registered retirement

income fund holds, at any time in a taxation year, a property that is not a qualified investment,

Applicable: To the 2003 and subsequent taxation years.

Explanatory Note:

Tax Payable on Income from Non-qualified Investment

Subsection 146.3(9) of the Act provides that, if a trust governed by a RRIF acquires a non-qualified investment, any income earned by the trust from the investment is taxable under Part I.

Subsection 146.3(9) is amended to clarify that income from property that was a qualified investment at the time it was acquired but later became non-qualified is also taxable in respect of the non-qualified period. This amendment, which applies to the 2003 and subsequent taxation years, is consistent with the tax treatment of income earned by RRSP trusts from non-qualified investments under subsection 146(10.1) of the Act.

Subparagraph 146.3(9)(*b*)(ii) is reworded for clarity, applicable on Royal Assent.

(*a*) tax is payable under this Part by the trust on the amount that its taxable income for the year would be if it had no incomes or losses from sources other than the property that is not a qualified investment or no capital gains or capital losses other than from the disposition of that property, as the case may be; and

(*b*) for the purposes of paragraph (*a*),

(i) "income" includes dividends described in section 83, and

(ii) paragraphs 38(*a*) and (*b*) shall be read without reference to the fractions set out therein.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 146.3(9)(*b*)(ii) of the Act is replaced by the following:

(ii) paragraphs 38(*a*) and (*b*) are to be read as if the fraction set out in each of those paragraphs were replaced by the word "all".

Applicable: Royal Assent.

Explanatory Note: See the Explanatory Note following the amendment to the portion of subsection 146.3(9) of the Act before paragraph (*a*).

Related Sections: S. 122(1) Tax payable by inter vivos trust; s. 146.3(3) No tax while trust governed by fund; s. 146.3(3.1) Exception; s. 206(2) Amount of tax payable; s. 207.1(4) Tax payable by trust under registered retirement income fund; s. 259(1) Proportional holdings in trust property.
Regulations: 4900(1), (2), (4), (6), (9), (10), (12), (13).
Interpretation Bulletins: *Secondary* — IT-320R3 RRSPs — Qualified investments.
Information Circulars: IC 78-18R6 Registered Retirement Income Funds.

▶ 146.3(10) ◀

(10) Recovery of property used as security. Where at any time in a taxation year a loan for which a trust governed by a registered retirement income fund has used or permitted to be used trust property as security ceases to be extant, and the fair market value of the property so used was included by virtue of subsection (7) in computing the income of a taxpayer who was the annuitant under the fund, there may be deducted in computing the income for a taxation year of the taxpayer who is at that time the annuitant, an amount equal to the amount, if any, remaining when

(*a*) the net loss (exclusive of payments by the trust as or on account of interest) sustained by the trust in consequence of its using or permitting to be used the property as security for the loan and not as a result of a change in the fair market value of the property

is deducted from

(*b*) the amount so included in computing the income of a taxpayer in consequence of the trust's using or permitting to be used the property as security for the loan.

Regulations: 215(3).
Interpretation Bulletins: *Secondary* — IT-320R3 RRSPs — Qualified investments.
Forms: T4RIF Summ.; T4RIF.

▶ 146.3(11) ◀

(11) Change in fund after registration. Where, on any day after a retirement income fund has been accepted by the Minister for registration for the purposes of this Act, the fund is revised or amended or a new fund is substituted therefor, and the fund as revised or amended or the new fund substituted therefor, as the case may be, (in this subsection referred to as the "amended fund") does not comply with the requirements of this section for its acceptance by the Minister for registration for the purposes of this Act, the following rules apply:

(*a*) the amended fund shall be deemed, for the purposes of this Act, not to be a registered retirement income fund; and

(*b*) the taxpayer who was the annuitant under the fund before it became an amended fund shall, in computing the taxpayer's income for the taxation year that includes that day, include as income received out of the fund at that time an amount equal to the fair market value of all the property held in connection with the fund immediately before that time.

Related Sections: S. 146.3(12) Deemed creation of new plan — changes to rights or obligations; s. 146.3(13) Deemed creation of new plan — prohibited loans or benefits; s. 153(1)(*l*) Withholding; s. 204.2(1.4) Deemed receipt where RRSP or RRIF amended; s. 214(3)(*i*) Deemed payments.
Information Circulars: IC 78-14R4 Guidelines for trust companies and other persons responsible for filing T3GR, T3D, T3P, T3S, T3RI, and T3F returns; IC 78-18R6 Registered Retirement Income Funds.

▶ 146.3(11.1) ◀

(11.1) Idem. [Repealed by 1986, c. 55, s. 57(6).]

▶ 146.3(12) ◀

(12) Idem. For the purposes of subsection (11), an arrangement under which a right or obligation under a retirement income fund is released or extinguished either wholly or in part and either in exchange or substitution for any right or obligation, or otherwise (other than an arrangement the sole object and legal effect of which is to revise or amend the fund) or under which payment of any amount by way of loan or otherwise is made on the security of a right under a retirement income fund, shall be deemed to be a new fund substituted for the retirement income fund.

Regulations: 215(4).

▶ 146.3(13) ◀

(13) Idem. Where at any time a benefit or loan is extended or continues to be extended as a consequence of

the existence of a registered retirement income fund and that benefit or loan would be prohibited if the fund met the requirement for registration contained in paragraph (2)(*g*), for the purposes of subsection (11), the fund shall be deemed to have been revised or amended at that time so that it fails to meet the requirement for registration contained in paragraph (2)(*g*).

► 146.3(14) ◄

(14) Transfer on breakdown of marriage or common-law partnership. An amount is transferred from a registered retirement income fund of an annuitant in accordance with this subsection if the amount

(*a*) is transferred on behalf of an individual who is a spouse or common-law partner or former spouse or common-law partner of the annuitant and who is entitled to the amount under a decree, an order or a judgment of a competent tribunal, or under a written agreement, that relates to a division of property between the annuitant and the individual in settlement of rights that arise out of, or on a breakdown of, their marriage or common-law partnership; and

(*b*) is transferred directly to

(i) a registered retirement income fund under which the individual is the annuitant, or

(ii) a registered retirement savings plan under which the individual is the annuitant (within the meaning assigned by subsection 146(1)).

History: S. 146.3(14) was replaced by S.C. 2003, c. 15, s. 82(4), applicable after 2003. S. 146.3(14) formerly read:

"(14) *Transfers.* Notwithstanding anything in this section, an amount

(*a*) transferred as described in paragraph (2)(*e*), or

(*b*) transferred from a registered retirement income fund of an annuitant to a registered retirement income fund or registered retirement savings plan of the annuitant's spouse or common-law partner or former spouse or common-law partner under a decree, order or judgment of a competent tribunal, or under a written separation agreement, relating to a division of property between the annuitant and the annuitant's spouse or common-law partner or former spouse or common-law partner in settlement of rights arising out of, or on the breakdown of, their marriage or common-law partnership

shall be deemed not to be an amount received by the annuitant out of or under a registered retirement income fund."

S. 146.3(14)(*b*) was amended by S.C. 2000, c. 12, Sched. 2, s. 2(i) and 9(m), applicable January 1, 2001, coming into force on July 31, 2000. S. 146.3(14)(*b*) formerly read:

"(*b*) transferred from a registered retirement income fund of an annuitant to a registered retirement income fund or registered retirement savings plan of the annuitant's spouse or former spouse under a decree, order or judgment of a competent tribunal, or under a written separation agreement, relating to a division of property between the annuitant and the annuitant's spouse or former spouse in settlement of rights arising out of, or on the breakdown of, their marriage,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 146.3(14)(*b*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 84(7), applicable after 1992. S. 146.3(14)(*b*) formerly read:

"(*b*) transferred from a registered retirement income fund of an annuitant to a registered retirement income fund or a registered retirement savings plan of the annuitant's spouse or former spouse pursuant to a decree, order or judgment of a competent tribunal or a written separation agreement, relating to a division of property between the annuitant and the annuitant's spouse or former spouse in settlement of rights arising out of their marriage or other conjugal relationship, on or after the breakdown of their marriage or other relationship,"

Related Sections: S. 146.3(2)(*a*) Acceptance of fund for registration; s. 248(1), "common-law partner"; s. 252(3) Extended meaning of "spouse" and "former spouse".
Regulations: 215(5).
Interpretation Bulletins: *Secondary* — IT-528 Transfers of Funds Between Registered Plans.
Information Circulars: IC 78-18R6 Registered Retirement Income Funds.
Tax Topics: No. 1702, Income Tax Issues To Be Considered in Negotiating Marriage Contracts.

► 146.3(14.1) ◄

(14.1) Transfer to money purchase RPP. An amount is transferred from a registered retirement income fund of an annuitant in accordance with this subsection if the amount is transferred at the direction of the annuitant directly to a registered pension plan of which, at any time before the transfer, the annuitant was a member (within the meaning assigned by subsection 147.1(1)) or to a prescribed registered pension plan and allocated to the annuitant under a money purchase provision (within the meaning assigned by subsection 147.1(1)) of the plan.

History: S. 146.3(14.1) was added by S.C. 2003, c. 15, s. 82(4), applicable after 2003.

Related Sections: S. 146.3(2)(*a*), (*e.1*) and (*e.2*) Acceptance of fund for registration.

► 146.3(14.2) ◄

(14.2) Taxation of amount transferred. An amount transferred on behalf of an individual in accordance with paragraph (2)(*e*) or subsection (14) or (14.1)

(*a*) is not, solely because of that transfer, to be included in computing the income of any taxpayer; and

(*b*) is not to be deducted in computing the income of any taxpayer.

History: S. 146.3(14.2) was added by S.C. 2003, c. 15, s. 82(4), applicable after 2003.

► 146.3(15) ◄

(15) Credited or added amount deemed not received. Where

(*a*) an amount is credited or added to a deposit with a depositary referred to in paragraph (*d*) of the definition "carrier" in subsection (1) as interest or income in respect of the deposit,

(*b*) the deposit is a registered retirement income fund at the time the amount is credited or added to the deposit, and

(*c*) during the calendar year in which the amount is credited or added or during the preceding calendar year, the annuitant under the fund was alive,

the amount shall be deemed not to be received by the annuitant or any other person solely because of the crediting or adding.

History: S. 146.3(15) was amended by S.C. 1994, c. 21, s. 71(7), applicable to deaths occurring after 1992. S. 146.3(15) formerly read:

"(15) *Where amount credited or added deemed not received.* Where an amount is credited or added to a deposit with a depositary referred to in paragraph (*d*) of the definition 'carrier' in subsection (1) as interest or income in respect of the deposit, and where

(*a*) the deposit is a registered retirement income fund at the time the amount is credited or added to the deposit, and

(*b*) the annuitant under the fund is alive during the year in which the amount is credited or added,

the amount shall be deemed not to be received by the annuitant by reason only of the crediting or adding."

Registered Disability Savings Plan

SECTION 146.4:

► 146.4(1) ◄

(1) Definitions. The following definitions apply in this section.

History: The following application, regarding the extension of the deadline for the 2008 contribution year to March 2, 2009 from December 31, 2008 for opening an RDSP, making contributions, and applying for the matching grant and bond as announced in Department of Finance News Release 2008-110, dated December 23, 2008, was added by S.C. 2009, c. 2, s. 81(1), in force on Royal Assent, March 12, 2009, to read as follows:

"(1) For the purposes of the *Income Tax Act* and the *Canada Disability Savings Act*, specified RDSP events are deemed to have occurred, in the order that they actually occurred, on December 31, 2008 and not on the day or days that they actually occurred.

(2) For the purposes of subsection (1), 'specified RDSP event' means an event occurring after 2008 and before March 3, 2009 that

(*a*) establishes a 'disability savings plan' as defined in subsection 146.4(1) of the *Income Tax Act*;

(*b*) satisfies conditions in subsection 146.4(2) of the *Income Tax Act*;

(*c*) establishes a 'registered disability savings plan' as defined in subsection 146.4(1) of the *Income Tax Act* for a beneficiary who is, in respect of the 2008 taxation year, a 'DTC-eligible individual' as defined in subsection 146.4(1) of the *Income Tax Act* and who was resident in Canada at the end of that year;

(*d*) is the making of any contribution to the registered disability savings plan;

(*e*) satisfies the requirement in paragraph 3(*b*) of the *Canada Disability Savings Regulations*; or

(*f*) is the taking of any other action to ensure that the registered disability savings plan is validly established and contributions to the plan are validly made."

"assistance holdback amount" — "assistance holdback amount", in relation to a disability savings plan, has the meaning assigned under the *Canada Disability Savings Act*.

History: S. 146.4(1), the definition "assistance holdback amount" was added by S.C. 2007, c. 35, s. 115, applicable to the 2008 and subsequent taxation years.

"contribution" — "contribution" to a disability savings plan does not include (other than for the purpose of paragraph (*b*) of the definition "disability savings plan") an amount paid into the plan under the *Canada Disability Savings Act* or a prescribed payment.

Editorial Note: See the application contained in S.C. 2009, c. 2, reproduced in the history before the definitions in s. 146.4(1). The application sets out an extension of the deadline for the 2008 contribution year to March 2, 2009 from December 31, 2008, for opening an RDSP, making contributions, and applying for the matching grant and bond as announced in Department of Finance News Release 2008-110, dated December 23, 2008.

History: S. 146.4(1), the definition "contribution" was added by S.C. 2007, c. 35, s. 115, applicable to the 2008 and subsequent taxation years.

Related Sections: S. 18(11) Borrowed money used for contribution.

"disability assistance payment" — "disability assistance payment", in relation to a disability savings plan of a beneficiary, means any payment made from the plan to the beneficiary or to the beneficiary's estate.

History: S. 146.4(1), the definition "disability assistance payment" was added by S.C. 2007, c. 35, s. 115, applicable to the 2008 and subsequent taxation years.

"disability savings plan" — "disability savings plan" of a beneficiary means an arrangement

(*a*) between

(i) a corporation (in this section referred to as the "issuer")

(A) that is licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering to the public its services as trustee, and

(B) with which the specified Minister has entered into an agreement that applies to the arrangement for the purposes of the *Canada Disability Savings Act*, and

(ii) one or more of the following:

(A) the beneficiary,

(B) an entity that, at the time the arrangement is entered into, is a qualifying person in relation to the beneficiary, and

(C) a legal parent of the beneficiary who, at the time the arrangement is entered into, is not a qualifying person in relation to the beneficiary but is a holder of another arrangement that is a registered disability savings plan of the beneficiary;

(*b*) under which one or more contributions are to be made in trust to the issuer to be invested, used or otherwise applied by the issuer for the purpose of making payments from the arrangement to the beneficiary; and

(*c*) that is entered into in a taxation year in respect of which the beneficiary is a DTC-eligible individual.

Editorial Note: See the application contained in S.C. 2009, c. 2, reproduced in the history before the definitions in s. 146.4(1). The application sets out an extension of the deadline for the 2008 contribution year to March 2, 2009 from December 31, 2008, for opening an RDSP, making contributions, and applying for the matching grant and bond as announced in Department of Finance News Release 2008-110, dated December 23, 2008.

History: S. 146.4(1), the definition "disability savings plan" was added by S.C. 2007, c. 35, s. 115, applicable to the 2008 and subsequent taxation years.

"DTC-eligible individual" — "DTC-eligible individual", in respect of a taxation year, means an individual in respect of whom an amount is deductible, or would if this Act were read without reference to paragraph 118.3(1)(*c*) be deductible, under section 118.3 in computing a taxpayer's tax payable under this Part for the taxation year.

Editorial Note: See the application contained in S.C. 2009, c. 2, reproduced in the history before the definitions in s. 146.4(1). The application sets out an extension of the deadline for the 2008 contribution year to March 2, 2009 from December 31, 2008, for opening an RDSP, making contributions, and applying for the matching grant and bond as announced in Department of Finance News Release 2008-110, dated December 23, 2008.

History: S. 146.4(1), the definition "DTC-eligible individual" was added by S.C. 2007, c. 35, s. 115, applicable to the 2008 and subsequent taxation years.

"holder" — "holder" of a disability savings plan at any time means each of the following:

(*a*) an entity that has, at that time, rights as an entity with whom the issuer entered into the plan;

(*b*) an entity that has, at that time, rights as a successor or assignee of an entity described in paragraph (*a*) or in this paragraph; and

(*c*) the beneficiary if, at that time, the beneficiary is not an entity described in paragraph (*a*) or (*b*) and has rights under the plan to make decisions (either alone or with other holders of the plan) concerning the plan, except where the only such right is a right to direct that disability assistance payments be made as provided for in subparagraph (4)(*n*)(iii)).

History: S. 146.4(1), the definition "holder" was added by S.C. 2007, c. 35, s. 115, applicable to the 2008 and subsequent taxation years.

Related Sections: S. 206(3) Liability for tax; s. 206.1(3) Liability for tax; s. 206.2(3) Liability for tax.

"lifetime disability assistance payments" — "lifetime disability assistance payments" under a disability savings plan of a beneficiary means disability assistance pay-

ments that are identified under the terms of the plan as lifetime disability assistance payments and that, after they begin to be paid, are payable at least annually until the earlier of the day on which the beneficiary dies and the day on which the plan is terminated.

History: S. 146.4(1), the definition "lifetime disability assistance payments" was added by S.C. 2007, c. 35, s. 115, applicable to the 2008 and subsequent taxation years.

"plan trust" — "plan trust", in relation to a disability savings plan, means the trust governed by the plan.

History: S. 146.4(1), the definition "plan trust" was added by S.C. 2007, c. 35, s. 115, applicable to the 2008 and subsequent taxation years.

"qualifying person" — "qualifying person", in relation to a beneficiary of a disability savings plan, at any time, means

(*a*) if the beneficiary has not, at or before that time, attained the age of majority, an entity that is, at that time,

(i) a legal parent of the beneficiary,

(ii) a guardian, tutor, curator or other individual who is legally authorized to act on behalf of the beneficiary, or

(iii) a public department, agency or institution that is legally authorized to act on behalf of the beneficiary, and

(*b*) if the beneficiary has, at or before that time, attained the age of majority and is not, at that time, contractually competent to enter into a disability savings plan, an entity that is, at that time, an entity described in subparagraph (*a*)(ii) or (iii).

History: S. 146.4(1), the definition "qualifying person" was added by S.C. 2007, c. 35, s. 115, applicable to the 2008 and subsequent taxation years.

"registered disability savings plan" — "registered disability savings plan" means a disability savings plan that satisfies the conditions in subsection (2), but does not include a plan to which subsection (3) or (10) applies.

Editorial Note: See the application contained in S.C. 2009, c. 2, reproduced in the history before the definitions in s. 146.4(1). The application sets out an extension of the deadline for the 2008 contribution year to March 2, 2009 from December 31, 2008, for opening an RDSP, making contributions, and applying for the matching grant and bond as announced in Department of Finance News Release 2008-110, dated December 23, 2008.

History: S. 146.4(1), the definition "registered disability savings plan" was added by S.C. 2007, c. 35, s. 115, applicable to the 2008 and subsequent taxation years.

Related Sections: S. 107.4(1) Qualifying disposition; s. 108(1), "trust".

"specified Minister" — "specified Minister" means the minister designated under section 4 of the *Canada Disability Savings Act*.

History: S. 146.4(1), the definition "specified Minister" was added by S.C. 2007, c. 35, s. 115, applicable to the 2008 and subsequent taxation years.

"specified year" — "specified year" for a disability savings plan of a beneficiary means the particular calendar year in which a medical doctor licensed to practice under the laws of a province (or of the place where the beneficiary resides) certifies in writing that the beneficiary's state of health is such that, in the professional opinion of the medical doctor, the beneficiary is not likely to survive more than five years, and each of the five calendar years following the particular calendar year, but does not include any calendar year prior to the calendar year in which the certification is provided to the issuer of the plan.

History: S. 146.4(1), the definition "specified year" was added by S.C. 2007, c. 35, s. 115, applicable to the 2008 and subsequent taxation years.

► 146.4(2) ◄

(2) Registered status. The conditions that must be satisfied for a disability savings plan of a beneficiary to be a registered disability savings plan are as follows:

(*a*) before the plan is entered into, the issuer of the plan has received written notification from the Minister that, in the Minister's opinion, a plan whose terms are identical to the plan would, if entered into by entities eligible to enter into a disability savings plan, comply with the conditions in subsection (4);

(*b*) at or before the time the plan is entered into, the issuer of the plan has been provided with the Social Insurance Number of the beneficiary and the Social Insurance Number or business number, as the case may be, of each entity with which the issuer has entered into the plan; and

(*c*) at the time the plan is entered into, the beneficiary is resident in Canada, except that this condition does not apply if, at that time, the beneficiary is the beneficiary under another registered disability savings plan.

Editorial Note: See the application contained in S.C. 2009, c. 2, reproduced in the history before the definitions in s. 146.4(1). The application sets out an extension of the deadline for the 2008 contribution year to March 2, 2009 from December 31, 2008, for opening an RDSP, making contributions, and applying for the matching grant and bond as announced in Department of Finance News Release 2008-110, dated December 23, 2008.

History: S. 146.4(2) was added by S.C. 2007, c. 35, s. 115, applicable to the 2008 and subsequent taxation years.

► 146.4(3) ◄

(3) Registered status nullified. A disability savings plan is deemed never to have been a registered disability savings plan if

(*a*) the issuer of the plan has not, on or before the day that is 60 days after the particular day on which the plan was entered into, provided notification of the plan's existence in prescribed form containing prescribed information to the specified Minister; or

(*b*) the beneficiary was, on the particular day, the beneficiary under another registered disability savings plan and that other plan has not been terminated on or before the day that is 120 days after the particular day or any later day that the specified Minister considers reasonable in the circumstances.

History: S. 146.4(3) was added by S.C. 2007, c. 35, s. 115, applicable to the 2008 and subsequent taxation years.

► 146.4(4) ◄

(4) Plan conditions. The conditions referred to in paragraph (2)(*a*) are as follows:

(*a*) the plan stipulates

(i) that it is to be operated exclusively for the benefit of the beneficiary under the plan,

(ii) that the designation of the beneficiary under the plan is irrevocable, and

(iii) that no right of the beneficiary to receive payments from the plan is capable, either in whole or in part, of surrender or assignment;

(*b*) the plan allows an entity to acquire rights as a successor or assignee of a holder of the plan only if the entity is

(i) the beneficiary,

(ii) the beneficiary's estate,

(iii) a holder of the plan at the time the rights are acquired,

(iv) a qualifying person in relation to the beneficiary at the time the rights are acquired, or

(v) an individual who is a legal parent of the beneficiary and was previously a holder of the plan;

(*c*) the plan provides that, where an entity (other than a legal parent of the beneficiary) that is a holder of the plan ceases to be a qualifying person in relation to the beneficiary at any time, the entity ceases at that time to be a holder of the plan;

(*d*) the plan provides for there to be at least one holder of the plan at all times that the plan is in existence and may provide for the beneficiary (or the beneficiary's estate, as the case may be) to automatically acquire rights as a successor or assignee of a holder in order to ensure compliance with this requirement;

(*e*) the plan provides that, where an entity becomes a holder of the plan after the plan is entered into, the entity is prohibited (except to the extent otherwise permitted by the Minister or the specified Minister) from exercising their rights as a holder of the plan until the issuer has been advised of the entity having become a holder of the plan and been provided with the entity's Social Insurance Number or business number, as the case may be;

(*f*) the plan prohibits contributions from being made to the plan at any time if

(i) the beneficiary is not a DTC-eligible individual in respect of the taxation year that includes that time, or

(ii) the beneficiary died before that time;

(*g*) the plan prohibits a contribution from being made to the plan (other than as a transfer in accordance with subsection (8)) at any time if

(i) the beneficiary attained the age of 59 years before the calendar year that includes that time,

(ii) the beneficiary is not resident in Canada at that time, or

(iii) the total of the contribution and all other contributions made (other than as a transfer in accordance with subsection (8)) at or before that time to the plan or to any other registered disability savings plan of the beneficiary would exceed $200,000;

(*h*) the plan prohibits contributions to the plan by any entity that is not a holder of the plan, except with the written consent of a holder of the plan;

(*i*) the plan provides that no payments may be made from the plan other than

(i) disability assistance payments,

(ii) a transfer in accordance with subsection (8), and

(iii) repayments under the *Canada Disability Savings Act*;

(*j*) the plan prohibits a disability assistance payment from being made if it would result in the fair market value of the property held by the plan trust immediately after the payment being less than the assistance holdback amount in relation to the plan;

(*k*) the plan provides for lifetime disability assistance payments to begin to be paid no later than the end of the particular calendar year in which the beneficiary attains the age of 60 years or, if the plan is established in or after the particular year, in the calendar year following the calendar year in which the plan is established;

(*l*) the plan provides that the total amount of lifetime disability assistance payments made in any calendar year (other than a specified year for the plan) shall not exceed the amount determined by the formula

$$A/(B + 3 - C) + D$$

where

A is the fair market value of the property held by the plan trust at the beginning of the calendar year (other than annuity contracts held by the plan trust that, at the beginning of the calendar year, are not described in paragraph (*b*) of the definition "qualified investment" in subsection 205(1)),

B is the greater of 80 and the age in whole years of the beneficiary at the beginning of the calendar year,

C is the age in whole years of the beneficiary at the beginning of the calendar year, and

D is the total of all amounts each of which is

(i) a periodic payment under an annuity contract held by the plan trust at the beginning of the calendar year (other than an annuity contract described at the beginning of the calendar year in paragraph (*b*) of the definition "qualified investment" in subsection 205(1)) that is paid to the plan trust in the calendar year, or

(ii) if the periodic payment under such an annuity contract is not made to the plan trust because the plan trust disposed of the right to that payment in the calendar year, a reasonable estimate of that payment on the assumption that the annuity contract had been held throughout the calendar year and no rights under the contract were disposed of in the calendar year;

(*m*) the plan stipulates whether or not disability assistance payments that are not lifetime disability assistance payments are to be permitted under the plan;

(*n*) the plan provides that when the total of all amounts paid under the *Canada Disability Savings Act* before the beginning of a calendar year to any registered disability savings plan of the beneficiary exceeds the total of all contributions made (other than as a transfer in accordance with subsection (8)) before the beginning of the calendar year to any registered disability savings plan of the beneficiary,

(i) if the calendar year is not a specified year for the plan, the total amount of disability assistance payments made from the plan to the beneficiary in the calendar year shall not exceed the amount determined by the formula set out in paragraph (*l*) in respect of the plan for the calendar year, except

that, in calculating that total amount, any payment made following a transfer in the calendar year from another plan in accordance with subsection (8) is to be disregarded if it is made

(A) to satisfy an undertaking described in paragraph (8)(*d*), or

(B) in lieu of a payment that would otherwise have been permitted to be made from the other plan in the calendar year had the transfer not occurred,

(ii) if the beneficiary attained the age of 59 years before the calendar year, the total amount of disability assistance payments made from the plan to the beneficiary in the calendar year shall not be less than the amount determined by the formula set out in paragraph (*l*) in respect of the plan for the calendar year (or such lesser amount as is supported by the property of the plan trust), and

(iii) if the beneficiary attained the age of 27 years, but not the age of 59 years, before the calendar year, the beneficiary has the right to direct that, within the constraints imposed by subparagraph (i) and paragraph (*j*), one or more disability assistance payments be made from the plan to the beneficiary in the calendar year;

(*o*) the plan provides that, at the direction of the holders of the plan, the issuer shall transfer all of the property held by the plan trust (or an amount equal to its value) to another registered disability savings plan of the beneficiary, together with all information in its possession that may reasonably be considered necessary for compliance, in respect of the other plan, with the requirements of this Act and with any conditions and obligations imposed under the *Canada Disability Savings Act*; and

(*p*) the plan provides for any amounts remaining in the plan (after taking into consideration any repayments under the *Canada Disability Savings Act*) to be paid to the beneficiary or the beneficiary's estate, as the case may be, and for the plan to be terminated, by the end of the calendar year following the earlier of

(i) the calendar year in which the beneficiary dies, and

(ii) the first calendar year throughout which the beneficiary has no severe and prolonged impairments with the effects described in paragraph 118.3(1)(*a.1*).

History: S. 146.4(4)(*p*)(ii) was replaced by S.C. 2008, c. 28, s. 25(1), applicable to the 2008 and subsequent taxation years. S. 146.4(4)(*p*)(ii) formerly read:

"(ii) the taxation year in respect of which the beneficiary ceases to be a DTC-eligible individual."

S. 146.4(4) was added by S.C. 2007, c. 35, s. 115, applicable to the 2008 and subsequent taxation years.

Related Sections: S. 146.4(10) Non-compliance — cessation of registered status; s. 146.4(11) Non-compliance.

► 146.4(5) ◄

(5) Trust not taxable. No tax is payable under this Part by a trust on the taxable income of the trust for a taxation year if, throughout the period in the year during which the trust was in existence, the trust was governed by a registered disability savings plan, except that

(*a*) tax is payable under this Part by the trust on its taxable income for the year if the trust has borrowed money

(i) in the year, or

(ii) in a preceding taxation year and has not repaid it before the beginning of the year; and

(*b*) if the trust is not otherwise taxable under paragraph (*a*) on its taxable income for the year and, at any time in the year, it carries on one or more businesses or holds one or more properties that are not qualified investments (as defined in subsection 205(1)) for the trust, tax is payable under this Part by the trust on the amount that its taxable income for the year would be if it had no incomes or losses from sources other than those businesses and properties, and no capital gains or losses other than from dispositions of those properties, and for this purpose,

(i) "income" includes dividends described in section 83, and

(ii) paragraphs 38(*a*) and (*b*) are to be read as if the fraction set out in each of those paragraphs were replaced by the word "all".

History: S. 146.4(5) was added by S.C. 2007, c. 35, s. 115, applicable to the 2008 and subsequent taxation years.

Related Sections: S. 205(1), "qualified investment"; s. 206(3) Liability for tax; s. 206.1(3) Interpretation; s. 206.2(3) Liability for tax.

► 146.4(6) ◄

(6) Taxation of disability assistance payments. Where a disability assistance payment is made from a registered disability savings plan of a beneficiary, the amount, if any, by which the amount of the payment exceeds the non-taxable portion of the payment shall be included,

(*a*) if the beneficiary is alive at the time the payment is made, in computing the beneficiary's income for the beneficiary's taxation year in which the payment is made; and

(*b*) in any other case, in computing the income of the beneficiary's estate for the estate's taxation year in which the payment is made.

History: S. 146.4(6) was added by S.C. 2007, c. 35, s. 115, applicable to the 2008 and subsequent taxation years.

Related Sections: S. 56(1)(*q.1*) Registered disability savings plan payments; s. 60(*z*) Repayment under the Canada Disability Savings Act.

► 146.4(7) ◄

(7) Non-taxable portion of disability assistance payment. The non-taxable portion of a disability assistance payment made at a particular time from a registered disability savings plan of a beneficiary is the lesser of the amount of the disability assistance payment and the amount determined by the formula

$$A \times B/C$$

where

A is the amount of the disability assistance payment;

B is the amount, if any, by which

(*a*) the total of all amounts each of which is the amount of a contribution made before the particular time to any registered disability savings plan of the beneficiary (other than as a transfer in accordance with subsection (8))

exceeds

(*b*) the total of all amounts each of which is the non-taxable portion of a disability assistance payment made before the particular time from any registered disability savings plan of the beneficiary; and

C is the amount by which the fair market value of the property held by the plan trust immediately before the payment exceeds the assistance holdback amount in relation to the plan.

History: S. 146.4(7) was added by S.C. 2007, c. 35, s. 115, applicable to the 2008 and subsequent taxation years.

► 146.4(8) ◄

(8) Transfer of funds. An amount is transferred from a registered disability savings plan (in this subsection referred to as the "prior plan") of a beneficiary in accordance with this subsection if

(*a*) the amount is transferred directly to another registered disability savings plan (in this subsection referred to as the "new plan") of the beneficiary;

(*b*) the prior plan is terminated immediately after the transfer;

(*c*) the issuer of the prior plan provides the issuer of the new plan with all information in its possession concerning the prior plan as may reasonably be considered necessary for compliance, in respect of the new plan, with the requirements of this Act and with any conditions and obligations imposed under the *Canada Disability Savings Act*; and

(*d*) where the beneficiary attained the age of 59 years before the calendar year in which the transfer occurs, the issuer of the new plan undertakes to make (in addition to any other disability assistance payments that would otherwise have been made from the new plan in the year) one or more disability assistance payments from the plan in the year, the total of which is equal to the amount, if any, by which

(i) the total amount of disability assistance payments that would have been required to be made from the prior plan in the year if the transfer had not occurred

exceeds

(ii) the total amount of disability assistance payments made from the prior plan in the year.

History: S. 146.4(8) was added by S.C. 2007, c. 35, s. 115, applicable to the 2008 and subsequent taxation years.

► 146.4(9) ◄

(9) No income inclusion on transfer. An amount transferred in accordance with subsection (8) is not, solely because of that transfer, to be included in computing the income of any taxpayer.

History: S. 146.4(9) was added by S.C. 2007, c. 35, s. 115, applicable to the 2008 and subsequent taxation years.

► 146.4(10) ◄

(10) Non-compliance — cessation of registered status. Where, at any particular time, a registered disability savings plan is non-compliant as described in subsection (11),

(*a*) the plan ceases, as of the particular time, to be a registered disability savings plan (other than for the purposes of applying, as of the particular time, this subsection and subsection (11));

(*b*) a disability assistance payment is deemed to have been made from the plan at the time (in this subsection referred to as the "relevant time") immediately before the particular time to the beneficiary under the plan (or, if the beneficiary is deceased at the relevant time, to the beneficiary's estate), the amount of which payment is equal to the amount, if any, by which

(i) the fair market value of the property held by the plan trust at the relevant time

exceeds

(ii) the assistance holdback amount in relation to the plan; and

(*c*) if the plan is non-compliant because of a payment that is not in accordance with paragraph (4)(*j*), a disability assistance payment is deemed to have been made from the plan at the relevant time (in addition to the payment deemed by paragraph (*b*) to have been made) to the beneficiary under the plan (or, if the beneficiary is deceased at the relevant time, to the beneficiary's estate)

(i) the amount of which payment is equal to the amount by which the lesser of

(A) the assistance holdback amount in relation to the plan, and

(B) the fair market value of the property held by the plan trust at the relevant time

exceeds

(C) the fair market value of the property held by the plan trust immediately after the particular time, and

(ii) the non-taxable portion of which is deemed to be nil.

History: S. 146.4(10) was added by S.C. 2007, c. 35, s. 115, applicable to the 2008 and subsequent taxation years.

Related Sections: S. 56(1)(*q*.1) Registered disability savings plan payments; s. 146.4(6) Taxation of disability assistance payments; s. 206(1) Tax payable where inadequate consideration; s. 206.1(1) Tax payable on non-qualified investment; s. 206.2(1) Tax payable where advantage extended; s. 206.3(1) Tax payable on use of property as security.

► 146.4(11) ◄

(11) Non-compliance. A registered disability savings plan is non-compliant

(*a*) at any time that the plan fails to comply with a condition in subsection (4);

(*b*) at any time that there is a failure to administer the plan in accordance with its terms (other than those terms which the plan is required by subparagraph (4)(*a*)(i) to stipulate); and

(*c*) at any time that a person fails to comply with a condition or an obligation imposed, with respect to the plan, under the *Canada Disability Savings Act*, and the specified Minister has notified the Minister that, in the specified Minister's opinion, it is appropriate that the plan be considered to be non-compliant because of the failure.

History: S. 146.4(11) was added by S.C. 2007, c. 35, s. 115, applicable to the 2008 and subsequent taxation years.

► 146.4(12) ◄

(12) Non-application of subsection (11). Where a registered disability savings plan would otherwise be non-compliant at a particular time because of a failure described in paragraph (11)(*a*) or (*b*),

(*a*) the Minister may waive the application of the relevant paragraph with respect to the failure, if it is just and equitable to do so;

(*b*) the Minister may deem the failure to have occurred at a later time;

(*c*) if the failure consists of the making of a contribution that is prohibited under any of paragraphs (4)(*f*) to (*h*), an amount equal to the amount of the contribution has been withdrawn from the plan within such period as is specified by the Minister and the Minister has approved the application of this paragraph with respect to the failure,

(i) the contribution is deemed never to have been made, and

(ii) the withdrawal is deemed not to be a disability assistance payment and not to be in contravention of the condition in paragraph (4)(*i*); or

(*d*) if the failure consists of the plan not being terminated by the time set out in paragraph (4)(*p*) and the failure was due to the issuer being unaware of, or there being some uncertainty as to, the existence of circumstances requiring that the plan be terminated,

(i) the Minister may specify a later time by which the plan is to be terminated (but no later than is reasonably necessary for the plan to be terminated in an orderly manner), and

(ii) paragraph (4)(*p*) and the plan terms are, for the purposes of paragraphs (11)(*a*) and (*b*), to be read as though they required the plan to be terminated by the time so specified.

History: S. 146.4(12)(*d*) was replaced by S.C. 2008, c. 28, s. 25(2), applicable to the 2008 and subsequent taxation years. S. 146.4(12)(*d*) formerly read:

"(*d*) if the failure consists of the plan not being terminated as required under paragraph (4)(*p*) and was due either to the issuer not being aware of the beneficiary having died or having ceased to be a DTC-eligible individual or to some uncertainty as to the beneficiary having ceased to be a DTC-eligible individual, the Minister may specify a later date by which it is reasonable to assume that the plan can be terminated in an orderly manner and, for the purposes of paragraphs (11)(*a*) and (*b*), paragraph (4)(*p*) and the plan terms are to be read as though they required the plan to be terminated by that date."

S. 146.4(12) was added by S.C. 2007, c. 35, s. 115, applicable to the 2008 and subsequent taxation years.

► 146.4(13) ◄

(13) Obligations of issuer. The issuer of a registered disability savings plan shall,

(*a*) where an entity becomes a holder of the plan after the plan is entered into, so notify the specified Minister in prescribed form containing prescribed information on or before the day that is 60 days after the later of

(i) the day on which the issuer is advised of the entity having become a holder of the plan, and

(ii) the day on which the issuer is provided with the new holder's Social Insurance Number or business number, as the case may be;

(*b*) not amend the plan before having received notification from the Minister that, in the Minister's opinion, a plan whose terms are identical to the amended plan would, if entered into by entities eligible to enter into a disability savings plan, comply with the conditions in subsection (4);

(*c*) where the issuer becomes aware that the plan is, or is likely to become, non-compliant (determined without reference to paragraph (11)(*c*) and subsection (12)), notify the Minister and the specified Minister of this fact on or before the day that is 30 days after the day on which the issuer becomes so aware; and

(*d*) exercise the care, diligence and skill of a reasonably prudent person to minimize the possibility that a holder of the plan may become liable to pay tax under Part XI in connection with the plan.

History: S. 146.4(13) was added by S.C. 2007, c. 35, s. 115, applicable to the 2008 and subsequent taxation years.

Related Sections: S. 162(7) Failure to comply.

Deferred Profit Sharing Plans

SECTION 147

► 147(1) ◄

(1) Definitions. In this section,

Information Circulars: IC 77-1R5 Deferred profit sharing plan; IC 78-14R4 Guidelines for trust companies and other persons responsible for filing T3GR, T3D, T3P, T3S, T3RI, and T3F returns.

"deferred profit sharing plan" — "deferred profit sharing plan" means a profit sharing plan accepted by the Minister for registration for the purposes of this Act, on application therefor in prescribed manner by a trustee under the plan and an employer of employees who are beneficiaries under the plan, as complying with the requirements of this section;

Related Sections: S. 248(1), "employee trust".
Regulations: 1501.
Interpretation Bulletins: *Secondary* — IT-280R Employees profit sharing plans — Payments computed by reference to profits; IT-528 Transfers of Funds Between Registered Plans.
Information Circulars: IC 77-1R5 Deferred profit sharing plan.
Forms: T2214.

"forfeited amount" — "forfeited amount", under a deferred profit sharing plan or a plan the registration of which has been revoked pursuant to subsection (14) or (14.1), means an amount to which a beneficiary under the plan has ceased to have any rights, other than the portion thereof, if any, that is payable as a consequence of the death of the beneficiary to a person who is entitled thereto by virtue of the participation of the beneficiary in the plan;

"licensed annuities provider" — "licensed annuities provider" means a person licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada an annuities business;

History: S. 147(1), the definition "licensed annuities provider", was added by S.C. 1997, c. 25, s. 43(1), applicable after 1991.

Related Sections: S. 146(1), "qualified investment"; s. 146.3(1), "qualified investment".

"profit sharing plan" — "profit sharing plan" means an arrangement under which payments computed by reference to an employer's profits from the employer's business, or by reference to those profits and the profits, if any, from the business of a corporation with which the employer does not deal at arm's length, are or have been made by the employer to a trustee in trust for the benefit of employees or former employees of that employer.

► 147(1.1) ◄

(1.1) Participating employer. An employer is considered to participate in a profit sharing plan where the employer makes or has made payments under the plan to a trustee in trust for the benefit of employees or former employees of the employer.

History: S. 147(1.1) was added by S.C. 1997, c. 25, s. 43(2), applicable after 1988.

► 147(2) ◄

(2) Acceptance of plan for registration. The Minister shall not accept for registration for the purposes of this Act any profit sharing plan unless, in the Minister's opinion, it complies with the following conditions:

(*a*) the plan provides that each payment made under the plan to a trustee in trust for the benefit of beneficiaries thereunder is the total of amounts each of which is required to be allocated by the trustee in the year in which it is received by the trustee, to the individual beneficiary in respect of whom the amount was so paid;

(*a.1*) the plan includes a stipulation that no contribution may be made to the plan other than

(i) a contribution made in accordance with the terms of the plan by an employer for the benefit of the employer's employees who are beneficiaries under the plan, or

(ii) an amount transferred to the plan in accordance with subsection (19);

(*b*) the plan does not provide for the payment of any amount to an employee or other beneficiary thereunder by way of loan;

(*c*) the plan provides that no part of the funds of the trust governed by the plan may be invested in notes, bonds, debentures, bankers' acceptances or similar obligations of

(i) an employer by whom payments are made in trust to a trustee under the plan for the benefit of beneficiaries thereunder, or

(ii) a corporation with which that employer does not deal at arm's length;

(*d*) the plan provides that no part of the funds of the trust governed by the plan may be invested in shares of a corporation at least 50% of the property of which consists of notes, bonds, debentures, bankers' acceptances or similar obligations of an employer or a corporation described in paragraph (*c*);

(*e*) the plan includes a provision stipulating that no right or interest under the plan of an employee who is a beneficiary thereunder is capable, either in whole or in part, of surrender or assignment;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 147(2)(*e*) of the Act is replaced by the following:

(*e*) the plan includes a provision stipulating that no right of a person under the plan is capable of any surrender or assignment other than

(i) an assignment under a decree, an order or a judgment of a competent tribunal, or under a written agreement, that relates to a division of property between an individual and the individual's spouse or common-law partner, or former spouse or common-law partner, in settlement of rights that arise out of, or on a breakdown of, their marriage or common-law partnership,

(ii) an assignment by a deceased individual's legal representative on the distribution of the individual's estate, and

(iii) a surrender of benefits to avoid revocation of the plan's registration;

Applicable: After March 20, 2003.

Explanatory Note:

Acceptance of Plan for Registration

Subsection 147(2) of the Act sets out the conditions that a profit sharing plan must satisfy in order to be registered as a DPSP. Paragraph 147(2)(*e*) requires that such a plan include a provision stipulating that no right of an employee who is a beneficiary under the plan is capable of surrender or assignment.

Paragraph 147(2)(*e*) is amended in two ways. First, it is amended to extend the application of the provision to require that the stipulation apply to all persons who have rights under a DPSP, not just employee beneficiaries. Second, it is amended to provide that the stipulation is not required to prohibit:

- an assignment under a court order or written agreement relating to the division of property on the breakdown of a marriage or common-law partnership;
- an assignment by a deceased individual's legal representative on the distribution of the individual's estate; and
- a surrender of benefits to avoid revocation of the plan's registration.

These new provisions are similar to the rule in Regulation 8502(*f*) that applies to registered pension plans (RPPs). The new provisions are, in part, consequential on amendments to subsection 147(19) of the Act that accommodate the division of DPSP assets on the breakdown of a marriage or common-law partnership.

These amendments apply after March 20, 2003.

(*f*) the plan includes a provision stipulating that each of the trustees under the plan shall be resident in Canada;

(*g*) the plan provides that, if a corporation licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering to the public its services as trustee is not a trustee under the plan, there shall be at least 3 trustees under the plan who shall be individuals;

(*h*) the plan provides that all income received, capital gains made and capital losses sustained by the trust governed by the plan must be allocated to beneficiaries under the plan on or before a day 90 days after the end of the year in which they were received, made or sustained, as the case may be, to the extent that they have not been allocated in years preceding that year;

(*i*) the plan provides that each amount allocated or reallocated by a trustee under the plan to a beneficiary under the plan vests irrevocably in that beneficiary,

(i) in the case of an amount allocated or reallocated before 1991, at a time that is not later than 5 years after the end of the year in which it was allocated or reallocated, unless the beneficiary becomes, before that time, an individual who is not an employee of any employer who participates in the plan, and

(ii) in the case of any other amount, not later than the later of the time of allocation or reallocation and the day on which the beneficiary completes a

period of 24 consecutive months as a beneficiary under the plan or under any other deferred profit sharing plan for which the plan can reasonably be considered to have been substituted;

(*i.1*) the plan requires that each forfeited amount under the plan and all earnings of the plan reasonably attributable thereto be paid to employers who participate in the plan, or be reallocated to beneficiaries under the plan, on or before the later of December 31, 1991 and December 31 of the year immediately following the calendar year in which the amount is forfeited, or such later time as is permitted in writing by the Minister under subsection (2.2);

(*j*) the plan provides that a trustee under the plan inform, in writing, all new beneficiaries under the plan of their rights under the plan;

(*k*) the plan provides that, in respect of each beneficiary under the plan who has been employed by an employer who participates in the plan, all amounts vested under the plan in the beneficiary become payable

(i) to the beneficiary, or

(ii) in the event of the beneficiary's death, to another person designated by the beneficiary or to the beneficiary's estate,

not later than the earlier of

(iii) the end of the year in which the beneficiary attains 71 years of age, and

(iv) 90 days after the earliest of

(A) the death of the beneficiary,

(B) the day on which the beneficiary ceases to be employed by an employer who participates in the plan where, at the time of ceasing to be so employed, the beneficiary is not employed by another employer who participates in the plan, and

(C) the termination or winding-up of the plan,

except that the plan may provide that, on election by the beneficiary, all or any part of the amounts payable to the beneficiary may be paid

(v) in equal instalments payable not less frequently than annually over a period not exceeding 10 years from the day on which the amount became payable, or

(vi) by a trustee under the plan to a licensed annuities provider to purchase for the beneficiary an annuity where

(A) payment of the annuity is to begin not later than the end of the year in which the beneficiary attains 71 years of age, and

(B) the guaranteed term, if any, of the annuity does not exceed 15 years;

(*k.1*) the plan requires that no benefit or loan, other than

(i) a benefit the amount of which is required to be included in computing the beneficiary's income,

(ii) an amount referred to in paragraph (10)(*b*),

(ii.1) an amount paid pursuant to or under the plan by a trustee under the plan to a licensed annuities provider to purchase for a beneficiary under the plan an annuity to which subparagraph (*k*)(vi) applies,

(iii) a benefit derived from an allocation or reallocation referred to in subsection (2), or

(iv) the benefit derived from the provision of administrative or investment services in respect of the plan,

that is conditional in any way on the existence of the plan may be extended to a beneficiary thereunder or to a person with whom the beneficiary was not dealing at arm's length;

(*k.2*) the plan provides that no individual who is

(i) a person related to the employer,

(ii) a person who is, or is related to, a specified shareholder of the employer or of a corporation related to the employer,

(iii) where the employer is a partnership, a person related to a member of the partnership, or

(iv) where the employer is a trust, a person who is, or is related to, a beneficiary under the trust

may become a beneficiary under the plan; and

(*l*) the plan, in all other respects, complies with regulations of the Governor in Council made on the recommendation of the Minister of Finance.

History: S. 147(2)(*k*)(iii) was replaced by S.C. 2007, c. 29, s. 20(2), applicable after 2006. S. 147(2)(*k*)(iii) formerly read:

"(iii) the end of the year in which the beneficiary attains 69 years of age, and"

S. 147(2)(*k*)(vi)(A) was replaced by S.C. 2007, c. 29, s. 20(4), applicable after 2006. S. 147(2)(*k*)(vi)(A) formerly read:

"(A) payment of the annuity is to begin not later than the end of the year in which the beneficiary attains 69 years of age, and"

S. 147(2)(*k*) was amended by S.C. 1997, c. 25, s. 43(3), applicable after 1996, except that

(*a*) where a beneficiary under a profit sharing plan attained 70 years of age before 1997,

(i) in applying subparagraph 147(2)(*k*)(iii) in respect of the beneficiary, that subparagraph shall be read as follows:

"(iii) 90 days after the day on which the beneficiary attains 71 years of age, and"

(ii) in applying clause 147(2)(*k*)(vi)(A) in respect of the beneficiary, the reference in that clause to "the end of the year in which the beneficiary attains 69 years of age" shall be read as "the day on which the beneficiary attains 71 years of age", and

(*b*) where a beneficiary under a profit sharing plan attained 69 years of age in 1996, in applying subparagraph 147(2)(*k*)(iii) and clause 147(2)(*k*)(vi)(A) in respect of the beneficiary, the references in those provisions to "69 years of age" shall be read as "70 years of age".

S. 147(2)(*k*) formerly read:

"(*k*) the plan provides that, in respect of each employee who is a beneficiary under the plan, all amounts vested in the employee become payable to the employee or, in the event of the employee's death, to a beneficiary designated by the employee or to the employee's estate, not later than 90 days after the earliest of

(i) the death of the employee,

(ii) the day on which the employee ceases to be employed by an employer who makes or has made payments under the plan to a trustee under the plan,

(iii) the day on which the employee becomes 71 years of age, and

(iv) the termination or winding up of the plan,

except that the plan may provide that, on election by the employee, all or any part of the amounts payable to the employee may be paid

(v) in equal instalments payable not less frequently than annually over a period not exceeding 10 years from the day on which the amount became payable, or

(vi) by a trustee under the plan to a person licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada an annuities business, to purchase for the employee an annuity commencing not later than a day 71 years after the day of the employee's birth, the guaranteed term of which, if any, does not exceed 15 years;"

S. 147(2)(*k.1*)(ii) was amended, and (ii.1) was added, by S.C. 1997, c. 25, s. 43(4), applicable after 1991. S. 147(2)(*k.1*)(ii) formerly read:

"(ii) an amount referred to in paragraph (10)(*a*) or (*b*),"

S. 147(2)(*c*), that portion preceding subparagraph (i), was amended by S.C. 1994, c. 21, s. 72(1), applicable to the 1993 and subsequent taxation years. S. 147(2)(*c*), that portion preceding subparagraph (i), formerly read:

"(*c*) the plan provides that no part of the funds of the trust governed by the plan may be invested in notes, bonds, debentures or similar obligations of"

S. 147(2)(*d*) was amended by S.C. 1994, c. 21, s. 72(2), applicable to the 1993 and subsequent taxation years. S. 147(2)(*d*) formerly read:

"(*d*) the plan provides that no part of the funds of the trust governed by the plan may be invested in shares of a corporation at least 50% of the property of which consists of notes, bonds, debentures or similar obligations of an employer or a corporation described in paragraph (*c*);"

Related Sections: S. 118(7), "pension income"; s. 144(11) Taxation year of trust; s. 172(3) Appeal from refusal to register, revocation of registration, etc.; ss. 198–204.

Regulations: Part II; Part XLIX.

Interpretation Bulletins: *Primary* — IT-363R2 Deferred Profit Sharing Plans — Deductibility of Employer Contributions and Taxation of Amounts Received by a Beneficiary [Archived by the CRA]. *Secondary* — IT-517R Pension tax credit [Archived by the CRA].

Information Circulars: IC 72-13R8 Employees' pension plans; IC 74-1R5 Form T2037, notice of purchase of annuity with "plan" funds; IC 77-1R5 Deferred profit sharing plan; IC 78-14R4 Guidelines for trust companies and other persons responsible for filing T3GR, T3D, T3P, T3S, T3RI, and T3F returns.

Forms: T2037; T2214.

► 147(2.1) ◄

(2.1) Terms limiting contributions. The Minister shall not accept for registration for the purposes of this Act a profit sharing plan unless it includes terms that are adequate to ensure that the requirements of subsection (5.1) in respect of the plan will be satisfied for each calendar year.

Information Circulars: IC 77-1R5 Deferred profit sharing plan.

► 147(2.2) ◄

(2.2) Reallocation of forfeitures. The Minister may, on written application, extend the time for satisfying the requirements of paragraph (2)(*i.1*) where

(*a*) the total of the forfeited amounts arising in a calendar year is greater than normal because of unusual circumstances; and

(*b*) the forfeited amounts are to be reallocated on a reasonable basis to a majority of beneficiaries under the plan.

► 147(3) ◄

(3) Acceptance of employees profit sharing plan for registration. The Minister shall not accept for registration for the purposes of this Act any employees profit sharing plan unless all the capital gains of or made by the trust governed by the plan before the date of application for registration of the plan and all the capital losses of or sustained by the trust before that date have been allocated by the trustee under the plan to employees and other beneficiaries thereunder.

► 147(4) ◄

(4) Capital gains determined. For the purposes of subsections (3) and (11), such amount as may be determined by the Minister, on request in prescribed manner by the trustee of a trust governed by an employees profit sharing plan, shall be deemed to be the amount of

(*a*) the capital gains of or made by the trust governed by the plan before the date of application for registration of the plan, or

(*b*) the capital losses of or sustained by the trust before that date,

as the case may be.

► 147(5) ◄

(5) Registration date. Where a profit sharing plan is accepted by the Minister for registration as a deferred profit sharing plan, the plan shall be deemed to have become registered as a deferred profit sharing plan

(*a*) on the date the application for registration of the plan was made; or

(*b*) where in the application for registration a later date is specified as the date on which the plan is to commence as a deferred profit sharing plan, on that date.

Related Sections: S. 144(11) Taxation year of trust.

► 147(5.1) ◄

(5.1) Contribution limits. For the purposes of subsections (2.1) and (9) and paragraph (14)(*c.4*), the requirements of this subsection in respect of a deferred profit sharing plan are satisfied for a calendar year if, in the case of each beneficiary under the plan and each employer in respect of whom the beneficiary's pension credit (as prescribed by regulation) for the year under the plan is greater than nil,

(*a*) the total of all amounts each of which is the beneficiary's pension credit (as prescribed by regulation) for the year in respect of the employer under a deferred profit sharing plan does not exceed the lesser of

(i) 1/2 of the money purchase limit for the year, and

(ii) 18% of the amount that would be the beneficiary's compensation (within the meaning assigned by subsection 147.1(1)) from the employer for the year if the definition "compensation" in subsection 147.1(1) were read without reference to paragraph (*b*) of that definition;

(*b*) the total of all amounts each of which is the beneficiary's pension credit (as prescribed by regulation) for the year under a deferred profit sharing plan in respect of

(i) the employer, or

(ii) any other employer who, at any time in the year, does not deal at arm's length with the employer

does not exceed 1/2 of the money purchase limit for the year; and

(*c*) the total of

(i) the beneficiary's pension adjustment for the year in respect of the employer, and

(ii) the total of all amounts each of which is the beneficiary's pension adjustment for the year in respect of any other employer who, at any time in the year, does not deal at arm's length with the employer

does not exceed the lesser of

(iii) the money purchase limit for the year, and

(iv) 18% of the total of all amounts each of which is the beneficiary's compensation (within the meaning assigned by subsection 147.1(1)) for the year from the employer or any other employer referred to in subparagraph (ii).

Editorial Note: All deferred profit sharing plans must comply with the limits outlined under s. 147(5.1). If any of these limits are not met, the Minister may revoke the registration of the plan (see s. 147(14)(*c.4*)). The Minister may also refuse the registration of the plan where the terms are such that the limits under s. 147(5.1) may not be met (see s. 147(2.1)). S. 147(5.1) provides for three separate limits which must all be met for a particular year. The first limit is in s. 147(5.1)(*a*) and requires that the aggregate of the individual's "pension credit" for the year as a result of his or her membership in a deferred profit sharing plan of his or her employer not exceed one-half of the "money purchase limit" for the year and 18% of the individual's "compensation" for

the year. See the definition of "money purchase limit" in s. 147.1(1). The individual's "pension credit" for a calendar year after 1989 in respect of a deferred profit sharing plan of his or her employer is defined in regulation 8301(2). The second limit in s. 147(5.1)(*b*) provides that the aggregate of all of the individual's pension credits under all deferred profit sharing plans of the employer and of those employers that do not deal at arm's length with the employer cannot exceed one-half of the "money purchase limit" for the year. The third overall limit is described under s. 147(5.1)(*c*) and considers the individual's "pension adjustment" for the year under all registered plans of the employer.

Related Sections: S. 18(1)(*j*) Limitation re employer's contribution under deferred profit sharing plan; s. 18(1)(*k*) Limitation re employer's contribution under profit sharing plan; s. 147.1(1), "money purchase limit"; Part X.1 Tax in Respect of Over-Contributions to Deferred Income Plans.
Regulations: 214.1; 8301(2); 8301(2.1); 8301(3); 8301(15); 8304(2).
Interpretation Bulletins: *Secondary*—IT-528 Transfers of Funds Between Registered Plans.
Information Circulars: IC 77-1R5 Deferred profit sharing plan.
Registered Plans Directorate Newsletters: No. 96-1, Changes to retirement savings limits; No. 94-2, Technical questions and answers.

► 147(5.11) ◄

(5.11) Compensation. Where at any time in a calendar year an individual ceases to be employed by an employer,

(*a*) for the purposes of paragraph (5.1)(*a*), the amount that would be the individual's compensation (in this subsection having the meaning assigned by subsection 147.1(1)) from the employer for the year if the definition "compensation" in subsection 147.1(1) were read without reference to paragraph (*b*) of that definition shall be deemed to be the greater of

(i) that amount determined without reference to this paragraph, and

(ii) the amount that would be the individual's compensation from the employer for the immediately preceding year if the definition "compensation" in subsection 147.1(1) were read without reference to paragraph (*b*) of that definition; and

(*b*) for the purposes of paragraph (5.1)(*c*), the individual's compensation from the employer for the year shall be deemed to be the greater of

(i) that compensation determined without reference to this paragraph, and

(ii) the individual's compensation from the employer for the immediately preceding year.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 147(5.11) of the Act is repealed.

(5.11) Compensation. [Repealed.]

Applicable: To cessations of employment that occur after 2002.

Explanatory Note:

Compensation

Subsection 147(5.1) of the Act sets out the employer contribution limits for DPSPs. In general terms, the maximum employer contributions in respect of an individual for a calendar year cannot exceed the lesser of: (i) 18% of the individual's compensation for the year from the employer; and (ii) 1/2 of the year's money purchase limit. For this purpose, "compensation" and "money purchase limit" are generally as defined in subsection 147.1(1). Additional cross-plan limits apply if the individual also participates in an RPP sponsored by the employer or in a DPSP or RPP sponsored by a non-arm's length employer.

If the contribution limits are not respected for a calendar year, the Minister of National Revenue may revoke the registration of the DPSP. In addition, the employer is denied a deduction for all contributions made in the year, except as expressly permitted in writing by the Minister.

Subsection 147(5.11) provides a special relieving rule that applies when an employee who is a beneficiary under a DPSP terminates employment with a participating employer in a calendar year. In this circumstance, for the purposes of determining whether the contribution limits have been satisfied, the employee's compensation can be based on the compensation for the immediately preceding year, if it is more than the compensation for the year of termination.

This rule recognizes that it is common practice for an employer to make contributions to a DPSP only after its fiscal year-end, since this is when profits are determined. This can often result in employer contributions being made based (in whole or in part) on employees' earnings in the previous calendar year, but being included in the employees' contribution limits for the current calendar year. This in turn can give rise to over-contributions when an employee terminates employment later in the year before having earned sufficient compensation to support the contribution. However, subsection 147(5.11) generally ensures that such over-contributions do not result in adverse tax effects by allowing the contribution limits to be based on the employee's compensation from the preceding calendar year.

There are, however, two policy concerns with the approach used in subsection 147(5.11). The first concern is that the provision deals only with over-contributions that involve employees who terminate employment. It does not provide relief for similar over-contributions that arise where an employee takes an unpaid leave of absence before having earned sufficient compensation to support any contributions that the employer had already made on his or her behalf. The second concern is that the provision allows DPSP contributions to be made in situations where there is no supporting employment income.

To address these concerns, subsection 147(5.11) is repealed and replaced by a broader relief mechanism in section 8301 of the Regulations. The new mechanism will provide relief in both of the situations described above by allowing over-contributions to be ignored for purposes of the DPSP contribution limits, provided the excess is refunded from the plan.

The repeal of subsection 147(5.11) applies to cessations of employment that occur in 2003 and subsequent calendar years, while the new refund mechanism in the Regulations applies for 2002 and subsequent calendar years. As a result, for excess contributions relating to cessations of employment that occur in 2002, employers will be entitled to relief either by relying on existing 147(5.11) or by using the new refund mechanism.

► 147(6) ◄

(6) Deferred plan not employees profit sharing plan. For a period during which a plan is a deferred profit sharing plan, the plan shall be deemed, for the purposes of this Act, not to be an employees profit sharing plan.

Related Sections: S. 144(11) Taxation year of trust.

► 147(7) ◄

(7) No tax while trust governed by plan. No tax is payable under this Part by a trust on the taxable income of the trust for a period during which the trust was governed by a deferred profit sharing plan.

Related Sections: S. 128(10), "excluded right or interest"; s. 149(1)(*s*) Trusts under deferred profit sharing plan; s. 198–204.
Information Circulars: IC 77-1R5 Deferred profit sharing plan.

► 147(8) ◄

(8) Amount of employer's contribution deductible. Subject to subsection (9), there may be deducted in computing the income of an employer for a taxation year the total of all amounts each of which is an amount paid by the employer in the year or within 120 days after the end of the year to a trustee under a deferred profit sharing plan for the benefit of the employer's employees who are beneficiaries

under the plan, to the extent that the amount was paid in accordance with the terms of the plan and was not deducted in computing the employer's income for a preceding taxation year.

Related Sections: S. 6(1)(*a*) Value of benefits; s. 18(1)(*j*) Limitation re employer's contribution under deferred profit sharing plan; s. 20(1)(*y*) Employer's contributions under deferred profit sharing plan.
Interpretation Bulletins: *Primary* — IT-363R2 Deferred Profit Sharing Plans — Deductibility of Employer Contributions and Taxation of Amounts Received by a Beneficiary [Archived by the CRA].

► 147(9) ◄

(9) Limitation on deduction. Where the requirements of subsection (5.1) in respect of a deferred profit sharing plan are not satisfied for a calendar year by reason that the pension credits of a beneficiary under the plan in respect of a particular employer do not comply with paragraph (5.1)(*a*) or the beneficiary's pension credits or pension adjustments in respect of a particular employer and other employers who do not deal at arm's length with the particular employer do not comply with paragraph (5.1)(*b*) or (*c*), the particular employer is not entitled to a deduction under subsection (8) in computing the particular employer's income for any taxation year in respect of an amount paid to a trustee under the plan in the calendar year except to the extent expressly permitted in writing by the Minister, and, for the purposes of this subsection, an amount paid to a trustee of a deferred profit sharing plan in the first two months of a calendar year shall be deemed to have been paid in the immediately preceding year and not to have been paid in the year to the extent that the amount can reasonably be considered to be in respect of the immediately preceding year.

Related Sections: S. 18(1)(*j*) Limitation re employer's contribution under deferred profit sharing plan; s. 18(1)(*k*) Limitation re employer's contribution under profit sharing plan; s. 20(1)(*y*) Employer's contributions under deferred profit sharing plan.
Interpretation Bulletins: *Primary* — IT-363R2 Deferred Profit Sharing Plans — Deductibility of Employer Contributions and Taxation of Amounts Received by a Beneficiary [Archived by the CRA].
Information Circulars: IC 77-1R5 Deferred profit sharing plan.

► 147(9.1) ◄

(9.1) No deduction. Notwithstanding subsection (8), no deduction shall be made in computing the income of an employer for a taxation year in respect of an amount paid by the employer for the year to a trustee under a deferred profit sharing plan in respect of a beneficiary who is described in paragraph (2)(*k.2*) in respect of the plan.

► 147(10) ◄

(10) Amounts received taxable. There shall be included in computing the income of a beneficiary under a deferred profit sharing plan for a taxation year the amount, if any, by which

(*a*) the total of all amounts received by the beneficiary in the year from a trustee under the plan (other than as a result of acquiring an annuity described in subparagraph (2)(*k*)(vi) under which the beneficiary is the annuitant)

exceeds

(*b*) the total of all amounts each of which is an amount determined for the year under subsection (10.1), (11) or (12) in relation to the plan and in respect of the beneficiary.

History: S. 147(10) was amended by S.C. 1997, c. 25, s. 43(4), applicable to the 1992 and subsequent taxation years. S. 147(10) formerly read:

"(10) *Amounts received taxable.* There shall be included in computing the income of a beneficiary under a deferred profit sharing plan for a taxation year the amount by which the total of the amounts received by the beneficiary in the year from a trustee under the plan exceeds the total of

(*a*) any amounts determined for the year under subsection (10.1), (11) or (12) in relation to the plan and in respect of the beneficiary, and

(*b*) amounts paid by a trustee under the plan pursuant to the plan to a person described in subparagraph (2)(*k*)(vi) to purchase an annuity described in that subparagraph."

Related Sections: S. 6(1)(*a*)(i) Value of benefits; s. 56(1)(*i*) Deferred profit sharing plan; s. 60(*j*) Transfer of superannuation benefits; s. 60(*k*) Transfers to deferred profit sharing plans; s. 104(27) Pension benefits; s. 104(27.1) DPSP benefits; s. 118(7), "pension income"; s. 128(10), "excluded right or interest"; s. 146(1), "earned income"; s. 153(1) Withholding; s. 214(3) Deemed payments; s. 248(1), "benefit under a deferred profit sharing plan".
Interpretation Bulletins: *Primary* — IT-363R2 Deferred Profit Sharing Plans — Deductibility of Employer Contributions and Taxation of Amounts Received by a Beneficiary [Archived by the CRA]. *Secondary* — IT-528 Transfers of Funds Between Registered Plans.
Information Circulars: IC 77-1R5 Deferred profit sharing plan; IC 78-14R4 Guidelines for trust companies and other persons responsible for filing T3GR, T3D, T3P, T3S, T3RI, and T3F returns.
Advance Tax Rulings: ATR-31 Funding of divorce settlement amount from DPSP.
Cases: Under the terms of a DPSP the taxpayer directed the trustee to have his non-deductible contributions invested in shares. When the plan was later restructured he withdrew his shares, which had increased in value, and some cash. The increase in value of the shares was taxable as income. *The Queen v. Powell*, 80 DTC 6301 (F.C.T.D.).

► 147(10.1) ◄

(10.1) Single payment on retirement, etc. For the purposes of subsections (10) and (10.2), where a beneficiary under a deferred profit sharing plan has received, in a taxation year and when the beneficiary was resident in Canada, from a trustee under the plan a single payment that included shares of the capital stock of a corporation that was an employer who contributed to the plan or of a corporation with which the employer did not deal at arm's length on the beneficiary's withdrawal from the plan or retirement from employment or on the death of an employee or former employee and has made an election in respect thereof in prescribed manner and prescribed form, the amount determined for the year under this subsection in relation to the plan and in respect of the beneficiary is the amount, if any, by which the fair market value of those shares, immediately before the single payment was made, exceeds the cost amount to the plan of those shares at that time.

Related Sections: S. 7(1.3) Order of disposition of securities; s. 47(3) Securities acquired by employee.
Regulations: 1503.
Interpretation Bulletins: *Primary* — IT-281R2 Elections on single payments from a deferred profit-sharing plan [Archived by the CRA]; IT-528 Transfers of Funds Between Registered Plans.
Information Circulars: IC 77-1R5 Deferred profit sharing plan.
Forms: T2078.

► 147(10.2) ◄

(10.2) Idem. Where a trustee under a deferred profit sharing plan has at any time in a taxation year made under the plan a single payment that included shares referred to in subsection (10.1) to a beneficiary who was resident in Canada at the time and the beneficiary has made an election under that subsection in respect of that payment,

(*a*) the trustee shall be deemed to have disposed of those shares for proceeds of disposition equal to the cost amount to the trust of those shares immediately before the single payment was made;

(*b*) the cost to the beneficiary of those shares shall be deemed to be their cost amount to the trust immediately before the single payment was made;

(*c*) the cost to the beneficiary of each of those shares shall be deemed to be the amount determined by the formula

$$A \times \frac{B}{C}$$

where

A is the amount determined under paragraph (*a*) in respect of all of those shares,

B is the fair market value of that share at the time the single payment was made, and

C is the fair market value of all those shares at the time the single payment was made; and

(*d*) for the purposes of paragraph 60(*j*), the cost to the beneficiary of those shares is an eligible amount in respect of the beneficiary for the year.

Interpretation Bulletins: *Secondary*— IT-528 Transfers of Funds Between Registered Plans.

► 147(10.3) ◄

(10.3) Amount contributed to or forfeited under a plan. There shall be included in computing the income for a taxation year of a beneficiary described in paragraph (2)(*k*.2) the total of amounts allocated or reallocated to the beneficiary in the year in respect of

(*a*) any amount contributed after December 1, 1982 by an employer to, or

(*b*) any forfeited amount under

a deferred profit sharing plan or a plan the registration of which has been revoked pursuant to subsection (14) or (14.1).

Related Sections: S. 147(1) Definitions.
Interpretation Bulletins: *Primary*— IT-363R2 Deferred Profit Sharing Plans — Deductibility of Employer Contributions and Taxation of Amounts Received by a Beneficiary [Archived by the CRA].
Information Circulars: IC 77-1R5 Deferred profit sharing plan.

► 147(10.4) ◄

(10.4) Income on disposal of shares. Where a taxpayer has a share in respect of which the taxpayer has made an election under subsection (10.1), there shall be included in computing the taxpayer's income for the taxation year in which the taxpayer disposed of or exchanged the share or ceased to be a resident of Canada, whichever is the earlier, the amount, if any, by which the fair market value of the share at the time the taxpayer acquired it exceeds the cost to the taxpayer, determined under paragraph (10.2)(*c*), of the share at the time the taxpayer acquired it.

Related Sections: S. 7(1.3) Order of disposition of securities; s. 52(1) Cost of certain property the value of which included in income; s. 110(1)(*d*.3) Employer's shares.

► 147(10.5) ◄

(10.5) Amended contract. Where an amendment is made to an annuity contract to which subparagraph (2)(*k*)(vi) applies, the sole effect of which is to defer annuity commencement to no later than the end of the calendar year in which the individual in respect of whom the contract was purchased attains 71 years of age, the annuity contract is deemed not to have been disposed of by the individual.

History: S. 147(10.5) was added by S.C. 2007, c. 29, s. 20(5), applicable after 2006.

S. 147(10.5) was repealed by S.C. 2001, c. 17, s. 142(1), applicable to shares acquired, but not disposed of, before February 28, 2000 and to shares acquired after February 27, 2000. S. 147(10.5) formerly read:

"(10.5) *Order of disposal of shares.* For the purposes of subsection (10.4), a taxpayer shall be deemed to have disposed of or exchanged shares that are identical properties in the order in which the taxpayer acquired them."

► 147(10.6) ◄

(10.6) Commencement of annuity after age 69. [Repealed by S.C. 2007, c. 29, s. 20(6).]

History: S. 147(10.6) was repealed by S.C. 2007, c. 29, s. 20(6), applicable after 2006, except that the repeal of subsection 147(10.6) does not apply to annuities under which the annuitant attained 69 years of age before 2007. S. 147(10.6) formerly read:

"(10.6) *Commencement of annuity after age 69.* Where an amount is paid before 1997 pursuant to or under a deferred profit sharing plan to purchase for a beneficiary under the plan an annuity to which subparagraph (2)(*k*)(vi) applies, and payment of the annuity has not begun by the end of the particular year in which the beneficiary attains 69 years of age,

(*a*) the beneficiary is deemed to have disposed of the annuity immediately after the particular year and to have received as proceeds of the disposition an amount equal to the fair market value of the annuity at the end of the particular year;

(*b*) the beneficiary is deemed to have acquired immediately after the particular year an interest in the annuity as a separate and newly issued annuity contract at a cost equal to the amount referred to in paragraph (*a*); and

(*c*) the issue and acquisition of the contract referred to in paragraph (*b*) are deemed not to be pursuant to or under a deferred profit sharing plan."

S. 147(10.6) was added by S.C. 1997, c. 25, s. 43(6), applicable after 1996, except that

(*a*) where a beneficiary under a profit sharing plan attained 70 years of age before 1997, it does not apply to an annuity purchased for the beneficiary;

(*b*) where a beneficiary under a profit sharing plan attained 69 years of age in 1996, in applying subsection 147(10.6) to an annuity purchased for the beneficiary, the references in that provision to "69 years of age" shall be read as "70 years of age"; and

(*c*) it does not apply to an annuity purchased before March 6, 1996 for a beneficiary under a deferred profit sharing plan where, under the terms and conditions of the annuity contract as they read immediately before that day,

(i) the day on which annuity payments are to begin under the contract is fixed and determined and is after the year in which the beneficiary attains

(A) 69 years of age, where the beneficiary had not attained that age before 1997, or

(B) 70 years of age, where the beneficiary attained 69 years of age in 1996, and

(ii) the amount and timing of each annuity payment are fixed and determined.

► 147(11) ◄

(11) Portion of receipts deductible. For the purposes of subsections (10), (10.1) and (12), where an amount was received in a taxation year from a trustee under a deferred profit sharing plan by an employee or other beneficiary thereunder, and the employee was a beneficiary under the plan at a time when the plan was an employees profit sharing plan, the amount determined for the year under this subsection in relation to the plan and in respect of the beneficiary is such portion of the total of the amounts so received in the year as does not exceed

(*a*) the total of

(i) each amount included in respect of the plan in computing the income of the employee for the year or for a previous taxation year by virtue of section 144,

(ii) each amount paid by the employee to a trustee under the plan at a time when it was an employees profit sharing plan, and

(iii) each amount that was allocated to the employee or other beneficiary by a trustee under the plan, at a time when it was an employees profit sharing plan, in respect of a capital gain made by the trust before 1972,

minus

(*b*) the total of

(i) each amount received by the employee or other beneficiary in a previous taxation year from a

trustee under the plan at a time when it was an employees profit sharing plan,

(ii) each amount received by the employee or other beneficiary in a previous taxation year from a trustee under the plan at a time when it was a deferred profit sharing plan, and

(iii) each amount allocated to the employee or other beneficiary by a trustee under the plan, at a time when it was an employees profit sharing plan, in respect of a capital loss sustained by the trust before 1972.

Interpretation Bulletins: *Primary* — IT-363R2 Deferred Profit Sharing Plans — Deductibility of Employer Contributions and Taxation of Amounts Received by a Beneficiary [Archived by the CRA].
Information Circulars: IC 77-1R5 Deferred profit sharing plan.

► 147(12) ◄

(12) Idem. For the purposes of subsections (10) and (10.1), where an amount was received in a taxation year from a trustee under a deferred profit sharing plan by an employee or other beneficiary thereunder, and the employee has made a payment in the year or a previous year to a trustee under the plan at a time when the plan was a deferred profit sharing plan, the amount determined for the year under this subsection in relation to the plan and in respect of the beneficiary is such portion of the total of the amounts so received in the year (minus any amount determined for the year under subsection (11) in relation to the plan and in respect of the beneficiary) as does not exceed

(*a*) the total of all amounts each of which was so paid by the employee in the year or a previous year to the extent that the payment was not deductible in computing the employee's income,

minus

(*b*) the total of all amounts each of which was received by the employee or other beneficiary from a trustee under the plan, at a time when it was a deferred profit sharing plan, to the extent that it was included in the computation of an amount determined for a previous year under this subsection in relation to the plan and in respect of the employee or other beneficiary.

Related Sections: S. 60(*j*) Transfer of superannuation benefits; s. 60(*k*) Transfers to deferred profit sharing plans; s. 212(1)(*m*) Deferred profit sharing plan payments.
Interpretation Bulletins: *Primary* — IT-363R2 Deferred Profit Sharing Plans — Deductibility of Employer Contributions and Taxation of Amounts Received by a Beneficiary [Archived by the CRA].
Information Circulars: IC 77-1R5 Deferred profit sharing plan.

► 147(13) ◄

(13) Appropriation of trust property by employer. Where funds or property of a trust governed by a deferred profit sharing plan have been appropriated in any manner whatever to or for the benefit of a taxpayer who is

(*a*) an employer by whom payments are made in trust to a trustee under the plan, or

(*b*) a corporation with which that employer does not deal at arm's length,

otherwise than in payment of or on account of shares of the capital stock of the taxpayer purchased by the trust, the amount or value of the funds or property so appropriated shall be included in computing the income of the taxpayer for the taxation year of the taxpayer in which the funds or property were so appropriated, unless the funds or property or an amount in lieu thereof equal to the amount or value of the funds or property was repaid to the trust within one year from the end of the taxation year, and it is established by subsequent events or otherwise that the repayment was not made as part of a series of appropriations and repayments.

Related Sections: S. 212(1)(*m*) Deferred profit sharing plan payments; s. 214(3) Deemed payments.

► 147(14) ◄

(14) Revocation of registration. Where, at any time after a profit sharing plan has been accepted by the Minister for registration for the purposes of this Act,

(*a*) the plan has been revised or amended or a new plan has been substituted therefor, and the plan as revised or amended or the new plan substituted therefor, as the case may be, ceased to comply with the requirements of this section for its acceptance by the Minister for registration for the purposes of this Act,

(*b*) any provision of the plan has not been complied with,

(*c*) the plan is a plan that did not, as of January 1, 1968,

(i) comply with the requirements of paragraphs (2)(*a*), (*b*) to (*h*), (*j*) and (*k*), and paragraph 147(2)(*i*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read on January 1, 1972, and

(ii) provide that the amounts held by the trust for the benefit of beneficiaries thereunder that remained unallocated on December 31, 1967 must be allocated or reallocated, as the case may be, before 1969,

(*c*.1) the plan becomes a revocable plan pursuant to subsection (21),

(*c*.2) the plan does not comply with the requirements of paragraphs (2)(*a*) to (*k*) and (*l*),

(*c*.3) in the case of a plan that became registered after March, 1983, the plan does not comply with the requirements of paragraphs (2)(*k*.1) and (*k*.2),

(*c*.4) the requirements of subsection (5.1) in respect of the plan are not satisfied for a calendar year, or

(*c*.5) an employer who participates in the plan fails to file an information return reporting a pension adjustment of a beneficiary under the plan as and when required by regulation,

the Minister may revoke the registration of the plan,

(*d*) where paragraph (*a*) applies, as of the date that the plan ceased so to comply, or any subsequent date,

(*e*) where paragraph (*b*) applies, as of the date that any provision of the plan was not so complied with, or any subsequent date,

(*f*) where paragraph (*c*) applies, as of any date following January 1, 1968,

(*g*) where paragraph (*c*.1) applies, as of the date on which the plan became a revocable plan, or any subsequent date,

(*h*) where paragraph (*c*.2) or (*c*.3) applies, as of the date on which the plan did not so comply, or any subsequent date, but not before January 1, 1991,

(*i*) where paragraph (*c*.4) applies, as of the end of the year for which the requirements of subsection (5.1) in respect of the plan are not satisfied, or any subsequent date, and

(*j*) where paragraph (*c.5*) applies, as of any date after the date by which the information return was required to be filed,

and the Minister shall thereafter give notice of the revocation by registered mail to a trustee under the plan and to an employer of employees who are beneficiaries under the plan.

Information Circulars: IC 77-1R5 Deferred profit sharing plan.

► 147(14.1) ◄

(14.1) Idem. Where on any day after June 30, 1982 a benefit or loan is extended or continues to be extended as a consequence of the existence of a deferred profit sharing plan and that benefit or loan would be prohibited if the plan met the requirement for registration contained in paragraph (2)(*k.1*), the Minister may revoke the registration of the plan as of that or any subsequent day that is specified by the Minister in a notice given by registered mail to a trustee under the plan and to an employer of employees who are beneficiaries under the plan.

► 147(15) ◄

(15) Rules applicable to revoked plan. Where the Minister revokes the registration of a deferred profit sharing plan, the plan (in this section referred to as the "revoked plan") shall be deemed, for the purposes of this Act, not to be a deferred profit sharing plan, and notwithstanding any other provision of this Act, the following rules shall apply:

(*a*) the revoked plan shall not be accepted for registration for the purposes of this Act or be deemed to have become registered as a deferred profit sharing plan at any time within a period of one year commencing on the date the plan became a revoked plan;

(*b*) subsection (7) does not apply to exempt the trust governed by the plan from tax under this Part on the taxable income of the trust for a taxation year in which, at any time therein, the trust was governed by the revoked plan;

(*c*) no deduction shall be made by an employer in computing the employer's income for a taxation year in respect of an amount paid by the employer to a trustee under the plan at a time when it was a revoked plan;

(*d*) there shall be included in computing the income of a taxpayer for a taxation year

(i) all amounts received by the taxpayer in the year from a trustee under the revoked plan that, by virtue of subsection (10), would have been so included if the revoked plan had been a deferred profit sharing plan at the time the taxpayer received those amounts, and

(ii) the amount or value of any funds or property appropriated to or for the benefit of the taxpayer in the year that, by virtue of subsection (13), would have been so included if the revoked plan had been a deferred profit sharing plan at the time of the appropriation of the funds or property; and

(*e*) the revoked plan shall be deemed, for the purposes of this Act, not to be an employees profit sharing plan or a retirement compensation arrangement.

Related Sections: S. 110.6(1), "investment income"; s. 118(7), "pension income"; s. 128(10), "excluded right or interest"; s. 146(1), "earned income"; s. 214(3) Deemed payments; Part X Taxes on Deferred Profit Sharing Plans and Revoked Plans.

Regulations: 202(2), (3).

► 147(16) ◄

(16) Payments out of profits. Where the terms of an arrangement under which an employer makes payments to a trustee specifically provide that the payments shall be made "out of profits", the arrangement shall be deemed, for the purpose of subsection (1), to be an arrangement for payments "computed by reference to an employer's profits from the employer's business".

Related Sections: S. 147(1) Definitions.

► 147(17) ◄

(17) Interpretation of "other beneficiary". Where the expression "employee or other beneficiary" under a profit sharing plan occurs in this section, the words "other beneficiary" shall be construed as meaning any person, other than the employee, to whom any amount is or may become payable by a trustee under the plan as a result of payments made to the trustee under the plan in trust for the benefit of employees, including the employee.

Related Sections: S. 202(1) Returns and payment of estimated tax.

► 147(18) ◄

(18) Inadequate consideration on purchase from or sale to trust. Where a trust governed by a deferred profit sharing plan or revoked plan

(*a*) disposes of property to a taxpayer for a consideration less than the fair market value of the property at the time of the transaction, or for no consideration, or

(*b*) acquires property from a taxpayer for a consideration greater than the fair market value of the property at the time of the transaction,

the difference between that fair market value and the consideration, if any,

(*c*) shall, for the purposes of subsections (10) and (15), be deemed to be an amount received by the taxpayer at the time of the disposal or acquisition, as the case may be, from a trustee under the plan as if the taxpayer were a beneficiary under the plan, and

(*d*) is an amount taxable under section 201 for the calendar year in which the trust disposes of or acquires the property, as the case may be.

Related Sections: S. 201 Tax where inadequate consideration on purchase or sale.

Information Circulars: IC 77-1R5 Deferred profit sharing plan.

Cases: Two taxpayers did not receive a taxable benefit when they purchased shares from a profit sharing plan trust at allegedly less than their fair market value. *Johansen v. M.N.R.*, 72 DTC 1528 (T.R.B.).

► 147(19) ◄

(19) Transfer to RPP, RRSP or DPSP. An amount is transferred from a deferred profit sharing plan in accordance with this subsection if the amount

(*a*) is not part of a series of periodic payments;

(*b*) is transferred on behalf of an individual

(i) who is an employee or former employee of an employer who participated in the plan on the employee's behalf, or

(ii) who is entitled to the amount as a consequence of the death of an employee or former employee referred to in subparagraph (i) and who was, at the date of the employee's death, a spouse or common-law partner of the employee,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 147(19)(*b*)(ii) of the Act is replaced by the following:

(ii) who is a spouse or common-law partner, or former spouse or common-law partner, of an employee or former employee referred to in subparagraph (i) and who is entitled to the amount

(A) as a consequence of the death of the employee or former employee, or

(B) under a decree, an order or a judgment of a competent tribunal, or under a written agreement, that relates to a division of property between the employee or former employee and the individual in settlement of rights that arise out of, or on a breakdown of, their marriage or common-law partnership;

Applicable: To transfers that occur after March 20, 2003.

Explanatory Note:

Transfer to RPP, RRSP, RRIF or DPSP

Subsection 147(19) of the Act provides for the tax-free transfer on behalf of an individual of a lump sum amount from a DPSP to an RPP, an RRSP or another DPSP for the individual's benefit. Currently, direct transfers may be made on behalf of an individual only if the individual is an employee or former employee of an employer who participated in the plan or was a spouse or common-law partner of a deceased employee as at the date of the employee's death.

A number of technical amendments are being made to subsection 147(19) to provide greater consistency with the transfer provisions that apply to RPPs.

Subsection 147(19) is amended so that the direct transfer on the death of an employee may be made on behalf of a former spouse or common-law partner of the deceased employee. It is also amended to allow for direct transfers of DPSP assets to be made on behalf of a spouse or common-law partner, or former spouse or common-law partner, of an employee or former employee, where the transfer relates to a division of property arising on the breakdown of their marriage or common-law partnership.

Finally, subsection 147(19) is amended to allow for direct transfers from DPSPs to RRIFs. This is primarily of relevance where the surviving spouse or common-law partner of a deceased employee is over 69 years of age and, therefore, cannot transfer the DPSP assets to an RRSP. In this regard, the French version of paragraph 147(19)(*d*) is amended in order to add a reference to the word "*fonds*".

These amendments apply to amounts transferred after March 20, 2003.

in full or partial satisfaction of the individual's entitlement to benefits under the plan;

(*c*) would, if it were paid directly to the individual, be included under subsection (10) in computing the individual's income for a taxation year; and

(*d*) is transferred for the benefit of the individual directly to

(i) a registered pension plan,

(ii) a registered retirement savings plan under which the individual is the annuitant (within the meaning assigned by subsection 146(1)), or

(iii) a deferred profit sharing plan that can reasonably be expected to have at least 5 beneficiaries at all times throughout the calendar year in which the transfer is made.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 147(19)(*d*) of the Act is amended by striking out the word "or" at the end of subparagraph (ii), by adding the word "or" at the end of subparagraph (iii) and by adding the following after subparagraph (iii):

(iv) a registered retirement income fund under which the individual is the annuitant (within the meaning assigned by subsection 146.3(1)).

Applicable: To transfers that occur after March 20, 2003.

Explanatory Note: See the Explanatory Note following the amendment to subparagraph 147(19)(*b*)(ii).

History: S. 147(19)(*b*)(ii) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.23), applicable January 1, 2001, coming into force on July 31, 2000. S. 147(19)(*b*)(ii) formerly read:

"(ii) who is entitled to the amount as a consequence of the death of an employee or former employee referred to in subparagraph (i) and who was, at the date of the employee's death, a spouse of the employee,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 147(19)(*b*)(ii) was amended by S.C. 1998, c. 19, s. 172(1), applicable after 1992. S. 147(19)(*b*)(ii) formerly read:

"(ii) who is entitled to the amount as a consequence of the death of an employee or former employee referred to in subparagraph (i) and who was, at the date of the employee's death, a spouse (within the meaning assigned by subsection 146(1.1)) of the employee,"

Related Sections: S. 60(*j*) Transfer of superannuation benefits; s. 146(8.2) Amount deductible; s. 204.2(1) Definition of "excess amount for a year in respect of registered retirement savings plans"; s. 204.2(1.2) Undeducted RRSP premiums; s. 204.2(4) Definition of "excess amount" for a DPSP; s. 212(1)(*m*) Deferred profit sharing plan payments; s. 248(1), "common-law partner"; s. 252(3) Extended meaning of "spouse" and "former spouse".
Interpretation Bulletins: *Primary* — IT-528 Transfers of Funds Between Registered Plans.
Information Circulars: IC 77-1R5 Deferred profit sharing plan.
Registered Plans Directorate Newsletters: No. 91-4R, Registration rules for money purchase provisions.

► 147(20) ◄

(20) Taxation of amount transferred. Where an amount is transferred on behalf of an individual in accordance with subsection (19),

(*a*) the amount shall not, by reason only of that transfer, be included by virtue of this section in computing the income of any taxpayer; and

(*b*) no deduction may be made under any provision of this Act in respect of the amount in computing the income of any taxpayer.

Related Sections: S. 212(1)(*m*) Deferred profit sharing plan payments;
Interpretation Bulletins: *Primary* — IT-528 Transfers of Funds Between Registered Plans.

► 147(21) ◄

(21) Restriction re transfers. A deferred profit sharing plan becomes a revocable plan at any time that an

amount is transferred from the plan to a registered pension plan, a registered retirement savings plan or another deferred profit sharing plan unless

(*a*) the transfer is in accordance with subsection (19); or

(*b*) the amount is deductible under paragraph 60(*j*) or (*j*.2) of this Act or paragraph 60(*k*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, by the individual on whose behalf the transfer is made.

Interpretation Bulletins: *Primary* — IT-528 Transfers of Funds Between Registered Plans.

► 147(22) ◄

(22) Excess transfer. Where

(*a*) the transfer of an amount from a deferred profit sharing plan in a calendar year on behalf of a beneficiary under the plan would, but for this subsection, be in accordance with subsection (19), and

(*b*) the requirements of subsection (5.1) in respect of the plan are not satisfied for the year by reason that the beneficiary's pension credits or pension adjustments do not comply with any of paragraphs (5.1)(*a*) to (*c*),

such portion of the amount transferred as may reasonably be considered to derive from amounts allocated or reallocated to the beneficiary in the year or from earnings reasonably attributable to those amounts shall, except to the extent otherwise expressly provided in writing by the Minister, be deemed to be an amount that was not transferred in accordance with subsection (19).

Interpretation Bulletins: *Primary* — IT-528 Transfers of Funds Between Registered Plans.

Registered Pension Plans

SECTION 147.1:

Editorial Note: The 2008 Federal Budget proposed adding more flexibility for withdrawals from life income funds ("LIFs"), which was implemented by amending the Pension Benefits Standards Regulations, 1985. Department of Finance News Release No. 2008-037, dated May 8, 2008, stated that the amendments provide for the following changes for the withdrawal of funds from LIFs:

- "Individuals 55 or older with total holdings in federally regulated locked-in funds of up to $22,450 will be able to wind up their accounts or convert to a tax-deferred savings vehicle with no maximum withdrawal limit, such as a Registered Retirement Income Fund or a Registered Retirement Savings Plan. The threshold for small holdings will increase with the average industrial wage.
- Individuals 55 or older will be entitled to a one-time conversion of up to 50 per cent of LIF holdings into a tax-deferred savings vehicle with no maximum withdrawal limit.
- All individuals facing financial hardship (e.g. low income, high disability or medical-related costs) will be entitled to withdraw up to $22,450 a year. This maximum will also increase with the average industrial wage."

► 147.1(1) ◄

(1) Definitions.

In this section and sections 147.2 and 147.3,

Regulations: 8501(1); 8507(1), (2).

Interpretation Bulletins: *Secondary* — IT-124R6 Contributions to registered retirement savings plans.

Information Circulars: IC 72-13R8 Employees' pension plans; IC 98-2 Prescribed compensation for registered pension plans.

"*actuary*" — "actuary" means a Fellow of the Canadian Institute of Actuaries;

"*administrator*" — "administrator" of a pension plan means the person or body of persons that has ultimate responsibility for the administration of the plan;

"*average wage*" — "average wage" for a calendar year means the amount that is obtained by dividing by 12 the total of all amounts each of which is the wage measure for a month in the 12 month period ending on June 30 of the immediately preceding calendar year;

"*compensation*" — "compensation" of an individual from an employer for a calendar year means the total of all amounts each of which is

(*a*) an amount in respect of

(i) the individual's employment with the employer, or

(ii) an office in respect of which the individual is remunerated by the employer

that is required (or that would be required but for paragraph 81(1)(*a*) as it applies with respect to the *Indian Act*) by section 5 or 6 to be included in computing the individual's income for the year, except such portion of the amount as

(iii) may reasonably be considered to relate to a period throughout which the individual was not resident in Canada, and

(iv) is not attributable to the performance of the duties of the office or employment in Canada or is exempt from income tax in Canada by reason of a provision contained in a tax convention or agreement with another country that has the force of law in Canada,

(*b*) a prescribed amount, or

(*c*) an amount acceptable to the Minister in respect of remuneration received by the individual from any employer for a period in the year throughout which the individual was not resident in Canada, to the extent that the amount is not otherwise included in the total;

Related Sections: S. 147(5.1) Contribution limits; s. 147(5.11) Compensation.

Regulations: S. 8507.

Information Circulars: IC 98-2 Prescribed compensation for registered pension plans.

Registered Plans Directorate Newsletters: No. 93-2, Foreign service newsletter.

"*defined benefit provision*" — "defined benefit provision" of a pension plan means terms of the plan under which benefits in respect of each member are determined in any way other than that described in the definition "money purchase provision" in this subsection;

Editorial Note: See the Editorial Note under the definition of "money purchase provision".

Interpretation Bulletins: *Secondary* — IT-528 Transfers of Funds Between Registered Plans.

"*former limit*" — "former limit" for each calendar year after 2005 and before 2010 means the greater of

(*a*) the product (rounded to the nearest multiple of $10, or, if that product is equidistant from two such consecutive multiples, to the higher multiple) of

(i) $18,000, and

(ii) the quotient obtained when the average wage for the year is divided by the average wage for 2005, and

(*b*) for 2006, $18,000, and for any other of those calendar years, the former limit for the preceding calendar year;

History: S. 147.1(1), the definition "former limit" was added by S.C. 2005, c. 30, s. 11(2), applicable after 2004.

"member" — "member" of a pension plan means an individual who has a right, either immediate or in the future and either absolute or contingent, to receive benefits under the plan, other than an individual who has such a right only by reason of the participation of another individual in the plan;

Related Sections: S. 146.3(2) Acceptance of fund for registration; s. 146.3(14.1) Transfer to money purchase RPP.

"money purchase limit" — "money purchase limit" for a calendar year means

(*a*) for years before 1990, nil,

(*b*) for 1990, $11,500,

(*c*) for 1991 and 1992, $12,500,

(*d*) for 1993, $13,500,

(*e*) for 1994, $14,500,

(*f*) for 1995, $15,500,

(*g*) for years after 1995 and before 2003, $13,500,

(*h*) for 2003, $15,500,

(*i*) for 2004, $16,500,

(*j*) for 2005, $18,000,

(*k*) for 2006, the greater of $19,000 and the former limit for the year,

(*l*) for 2007, the greater of $20,000 and the former limit for the year,

(*m*) for 2008, the greater of $21,000 and the former limit for the year,

(*n*) for 2009, the greater of $22,000 and the former limit for the year, and

(*o*) for each year after 2009, the greater of

(i) the product (rounded to the nearest multiple of $10, or, if that product is equidistant from two such consecutive multiples, to the higher multiple) of

(A) the money purchase limit for 2009, and

(B) the quotient obtained when the average wage for the year is divided by the average wage for 2009, and

(ii) the money purchase limit for the preceding year;

History: S. 147.1(1), paragraph (*k*) of the definition "money purchase limit" was replaced, and paragraphs (*l*) to (*o*) were added, by S.C. 2005, c. 30, s. 11(1), applicable after 2004. S. 147.1(1), paragraph (*k*) of the definition "money purchase limit" formerly read:

"(*k*) for each year after 2005, the greater of

(i) the product (rounded to the nearest multiple of $10, or, if that product is equidistant from two such consecutive multiples, to the higher multiple) of

(A) $18,000, and

(B) the quotient obtained when the average wage for the year is divided by the average wage for 2005, and

(ii) the money purchase limit for the preceding year;"

S. 147.1(1), paragraphs (*g*) to (*j*) of the definition "money purchase limit" were replaced, and paragraph (*k*) was added, by S.C. 2003, c. 15, s. 84(1), applicable after 2002. However, for the purpose of determining a pension credit of an individual for the 2002 calendar year under section 8308.1 or 8308.3 of the *Income Tax Regulations* or an amount prescribed in respect of an individual under section 8308.2 or 8309 of the *Income Tax Regulations* for the 2003 calendar year, the money purchase limit for 2002 is deemed to be $14,500.

S. 147.1(1), paragraphs (*g*) to (*j*) of the definition "money purchase limit" formerly read:

"(*g*) for years after 1995 and before 2003, $13,500,

(*h*) for 2003, $14,500,

(*i*) for 2004, $15,500, and

(*j*) for each year after 2004, the greater of

(i) the product of

(A) $15,500, and

(B) the quotient obtained when the average wage for the year is divided by the average wage for 2004,

rounded to the nearest multiple of $10, or, if that product is equidistant from 2 such consecutive multiples, to the higher thereof, and

(ii) the money purchase limit for the preceding year;"

S. 147.1(1), the portion of the definition "money purchase limit" after paragraph (*f*), was amended by S.C. 1997, c. 25, s. 44(1), applicable after 1996. That part formerly read:

"(*g*) for 1996, $13,500,

(*h*) for 1997, $14,500,

(*i*) for 1998, $15,500, and

(*j*) for each year after 1998, the greater of

(i) the product of

(A) $15,500, and

(B) the quotient obtained when the average wage for the year is divided by the average wage for 1998,

rounded to the nearest multiple of $10, or, if that product is equidistant from 2 such consecutive multiples, to the higher thereof, and

(ii) the money purchase limit for the preceding year;"

S. 147.1(1)(*g*) was amended, and paragraphs (*h*), (*i*), and (*j*) were added, by S.C. 1996, c. 21, s. 36(1), applicable after 1995. S. 147.1(1)(*g*) formerly read:

"(*g*) for each year thereafter, the greater of

(i) the product of

(A) $15,500, and

(B) the quotient obtained when the average wage for the year is divided by the average wage for 1995,

rounded to the nearest multiple of $10, or, if that product is equidistant from 2 such consecutive multiples, to the higher thereof, and

(ii) the money purchase limit for the preceding calendar year;"

S. 147.1(1), the definition of "money purchase limit", was amended by S.C. 1994, c. 7, Sched. VIII, s. 85(1), applicable after 1991. The definition formerly read:

"'money purchase limit' for a calendar year means

(*a*) for years preceding 1990, nil,

(*b*) for 1990, $11,500,

(*c*) for 1991, $12,500,

(*d*) for 1992, $13,500,

(*e*) for 1993, $14,500,

(*f*) for 1994, $15,500, and

(*g*) for each year thereafter, the greater of

(i) the product of

(A) $15,500, and

(B) the quotient obtained when the average wage for the year is divided by the average wage for 1994,

rounded to the nearest multiple of ten dollars, or, if that product is equidistant from two such consecutive multiples, to the higher thereof, and

(ii) the money purchase limit for the immediately preceding calendar year;"

Editorial Note: The money purchase limit for 2006 through 2009 is the greater of the amount specified in paragraphs (*k*) through (*n*) and the former limit for the year. The former limit is based on the $18,000 limit applicable to 2005, indexed by the increase in the average wage for the year. Indexing based on the increase in the average wage for the year also applies after 2009. The money purchase limit also applies to RRSP contributions, see the definition of "RRSP dollar limit" in s. 146(1), and to the contribution limit applicable to deferred profit sharing plans, see s. 147(5.1). The money purchase limit is essentially the maximum amount that can be contributed to a pension plan for current service under a money purchase provision.

Related Sections: S. 146(1), "RRSP dollar limit"; s. 147(5.1) Contribution limits.

Registered Plans Directorate Newsletters: No. 96-1, Changes to retirement savings limits.

"money purchase provision" — "money purchase provision" of a pension plan means terms of the plan

(*a*) which provide for a separate account to be maintained in respect of each member, to which are credited contributions made to the plan by, or in respect of, the member and any other amounts allocated to the member, and to which are charged payments made in respect of the member, and

(*b*) under which the only benefits in respect of a member are benefits determined solely with reference to, and provided by, the amount in the member's account;

Editorial Note: Pension plans are generally divided into two broad types; "defined benefit" plans and "money purchase" or "defined contribution" plans. Under a "money purchase" plan, employer and employee contributions are fixed and the amount of the pension provided depends on the amount of the contributions made by and on behalf of the member together with the

earnings that have accumulated thereon. Under a "defined benefit" plan, the pension provided is predetermined by a formula based on the employee's earnings and his/her length of service.

Related Sections: S. 146.3(14.1) Transfer on breakdown of marriage or common-law partnership; s. 248(1), "additional voluntary contribution".
Interpretation Bulletins: *Secondary* — IT-528 Transfers of Funds Between Registered Plans.
Registered Plans Directorate Newsletters: No. 91-4R, Registration rules for money purchase provisions.

"multi-employer plan" — "multi-employer plan" in a calendar year has the meaning assigned by regulation;

Related Sections: S. 252.1 Union employer.
Regulations: 8500(1); 8510(1); 8510(5).
Information Circulars: IC 98-2 Prescribed compensation for registered pension plans.

"participating employer" — "participating employer", in relation to a pension plan, means an employer who has made, or is required to make, contributions to the plan in respect of the employer's employees or former employees, or payments under the plan to the employer's employees or former employees, and includes a prescribed employer;

Regulations: 8308(7).

"past service event" — "past service event" has the meaning assigned by regulation;

Regulations: 8300(1), (2).

"single amount" — "single amount" means an amount that is not part of a series of periodic payments;

Interpretation Bulletins: *Secondary* — IT-528 Transfers of Funds Between Registered Plans.

"specified multi-employer plan" — "specified multi-employer plan" in a calendar year has the meaning assigned by regulation;

Regulations: 8510(2) — (4), (6) — 8.

"spouse" — [Repealed by S.C. 1994, c. 7, Sched. VIII, s. 85(2).]

History: S. 147.1(1), the definition of "spouse", was repealed by S.C. 1994, c. 7, Sched. VIII, s. 85(2), applicable after 1992. The definition formerly read: "'spouse' of an individual has the meaning assigned by subsection 146(1.1);"

"wage measure" — "wage measure" for a month means the average weekly wages and salaries of

(*a*) the Industrial Aggregate in Canada for the month as published by Statistics Canada under the *Statistics Act*, or

(*b*) in the event that the Industrial Aggregate ceases to be published, such other measure for the month as is prescribed by regulation under the *Canada Pension Plan* for the purposes of paragraph 18(5)(*b*) of that Act.

Related Sections: S. 248(1), "registered pension plan".

► 147.1(2) ◄

(2) Registration of plan. The following rules apply with respect to the registration of pension plans:

(*a*) the Minister shall not register a pension plan unless

(i) application for registration is made in prescribed manner by the plan administrator,

(ii) the plan complies with prescribed conditions for registration, and

(iii) where the plan is required to be registered under the *Pension Benefits Standards Act, 1985* or a similar law of a province, application for such registration has been made;

(*b*) where a pension plan that was submitted for registration before 1992 is registered by the Minister, the registration is effective from the day specified in writing by the Minister; and

(*c*) where a pension plan that is submitted for registration after 1991 is registered by the Minister, the registration is effective from the later of

(i) January 1 of the calendar year in which application for registration is made in prescribed manner by the plan administrator, and

(ii) the day the plan began.

History: Ss. 147.1(2)(*b*) and (*c*) were amended by S.C. 1994, c. 7, Sched. VIII, s. 85(3), applicable after 1990. Ss. 147.1(2)(*b*) and (*c*) formerly read:

"(*b*) where a pension plan that is submitted for registration before 1991 is registered by the Minister, the registration is effective from such day as is specified in writing by the Minister; and

(*c*) where a pension plan that is submitted for registration after 1990 is registered by the Minister, the registration is effective from the later of

(i) January 1 of the calendar year in which application for registration is made in prescribed manner by the plan administrator, and

(ii) the day of commencement of the plan."

Editorial Note: The rules relating to registered pension plans were added to the Act effective for the 1989 and subsequent taxation years. Prior to 1989, the rules were contained in Information Circular 72-13 and the various revisions to the circular. A superannuation or pension benefit, as defined in s. 248(1) is included in the recipient's income under s. 56(1)(*a*) regardless of whether it is paid out of a registered or unregistered pension plan.

Related Sections: S. 248(1), "registered pension plan".
Regulations: 8501(1); 8512(1).
Information Circulars: IC 72-13R8 Employees' pension plans.
Registered Plans Directorate Newsletters: No. 04-2, Registered Pension Plan Applications — Processing an Incomplete Application; No. 98-1, Simplified pension plans; No. 95-6, Specimen pension plans — Speeding up the process; No. 95-2R1, Registered Plans Directorate Services; No. 95-1, New Approach to plan registration; No. 93-3, Service in Canada; No. 91-1, Transitional registration rules for pension plans; No. 91-4R, Registration rules for money purchase provisions; No. 91-5, Transitional rules and other administrative issues for pension plans.
Forms: T510.
Guides: T4040 RRSPs and Other Registered Plans for Retirement.

► 147.1(3) ◄

(3) Deemed registration. Where application is made to the Minister for registration of a pension plan for the purposes of this Act and, where the manner for making the application has been prescribed, the application is made in that manner by the administrator,

(*a*) subject to paragraph (*b*), the plan is, for the purposes of this Act other than paragraphs 60(*j*) and (*j*.2) and sections 147.3 and 147.4, deemed to be a registered pension plan throughout the period that begins on the latest of

(i) January 1 of the calendar year in which the application is made,

(ii) the day of commencement of the plan, and

(iii) January 1, 1989

and ending on the day on which a final determination is made with respect to the application; and

(*b*) where the final determination made with respect to the application is a refusal to register the plan, this Act shall, after the day of the final determination, apply as if the plan had never been deemed, under paragraph (*a*), to be a registered pension plan, except that

(i) any information return otherwise required to be filed under subsection 207.7(3) before the particular day that is 90 days after the day of the final determination is not required to be filed until the particular day, and

(ii) subsections 227(8) and (8.2) are not applicable with respect to contributions made to the plan on or before the day of the final determination.

History: S. 147.1(3)(*a*), that portion preceding subparagraph (i), was amended by S.C. 1998, c. 19, s. 173(1), applicable after 1996. That portion formerly read:

"(*a*) subject to paragraph (*b*), the plan shall, for the purposes of this Act other than paragraphs 60(*j*) and (*j*.2) and section 147.3, be deemed to be a registered pension plan throughout the period commencing on the latest of"

Related Sections: S. 147.3 Transfer — money purchase to money purchase, RRSP or RRIF; s. 147.4 RPP annuity contract.
Regulations: 8303(7); 8512(1).
Registered Plans Directorate Newsletters: No. 91-5, Transitional rules and other administrative issues for pension plans.

► 147.1(4) ◄

(4) Acceptance of amendments. The Minister shall not accept an amendment to a registered pension plan unless

(*a*) application for the acceptance is made in prescribed manner by the plan administrator;

(*b*) the plan as amended complies with prescribed conditions for registration; and

(*c*) the amendment complies with prescribed conditions.

Regulations: 8501(1); 8511; 8512(2) — (3).
Registered Plans Directorate Newsletters: No. 95-6, Specimen pension plans — Speeding up the process; No. 95-1, New Approach to plan registration.
Forms: T920.

► 147.1(5) ◄

(5) Additional conditions. The Minister may, at any time, impose reasonable conditions applicable with respect to registered pension plans, a class of such plans or a particular registered pension plan.

Registered Plans Directorate Newsletters: No. 04-1, Transfers from a Defined Benefit Provision to a Money Purchase Provision, an RRSP, or a RRIF and Transfers between Defined Benefit Provisions; No. 98-1, Simplified pension plans; No. 96-3, Flexible pension plans; No. 93-2, Foreign service newsletter.

► 147.1(6) ◄

(6) Administrator. There shall, for each registered pension plan, be a person or a body of persons that has ultimate responsibility for the administration of the plan and, except as otherwise permitted in writing by the Minister, the person or a majority of the persons who constitute the body shall be a person or persons resident in Canada.

► 147.1(7) ◄

(7) Obligations of administrator. The administrator of a registered pension plan shall

(*a*) administer the plan in accordance with the terms of the plan as registered except that, where the plan fails to comply with the prescribed conditions for registration or any other requirement of this Act or the regulations, the administrator may administer the plan as if it were amended to so comply;

(*b*) before July, 1990, in the case of a person or body that is the administrator on January 1, 1989 or becomes the administrator before June, 1990, and, in any other case, within 30 days after becoming the administrator, inform the Minister in writing

(i) of the name and address of the person who is the administrator, or

(ii) of the names and addresses of the persons who constitute the body that is the administrator; and

(*c*) where there is any change in the information provided to the Minister in accordance with this paragraph or paragraph (*b*), inform the Minister in writing, within 60 days after the change, of the new information.

Related Sections: S. 238(1) Offences and punishment.
Regulations: 8300(1) — (2), (4) — (7).
Registered Plans Directorate Newsletters: No. 98-1, Simplified pension plans; No. 91-5, Transitional rules and other administrative issues for pension plans.

► 147.1(8) ◄

(8) Pension adjustment limits. Except as otherwise provided by regulation, a registered pension plan (other than a multi-employer plan) becomes, at the end of a calendar year after 1990, a revocable plan where

(*a*) the pension adjustment for the year of a member of the plan in respect of a participating employer exceeds the lesser of

(i) the money purchase limit for the year, and

(ii) 18% of the member's compensation from the employer for the year; or

(*b*) the total of

(i) the pension adjustment for the year of a member of the plan in respect of a participating employer, and

(ii) the total of all amounts each of which is the member's pension adjustment for the year in respect of an employer who, at any time in the year, does not deal at arm's length with the employer referred to in subparagraph (i)

exceeds the money purchase limit for the year.

Related Sections: S. 147.3(13) Excess transfer.
Regulations: 8301(1) — (2); (4) — (7); 8509(6), (12).
Interpretation Bulletins: *Secondary* — IT-528 Transfers of Funds Between Registered Plans.
Information Circulars: IC 98-2 Prescribed compensation for registered pension plans.
Guides: T4084 Pension Adjustment Guide.
Registered Plans Directorate Newsletters: No. 96-1, Changes to retirement savings limits; No. 93-4, Exception to filing amendments for the Income Tax Act and Regulations.

► 147.1(9) ◄

(9) Idem — multi-employer plans. Except as otherwise provided by regulation, a registered pension plan that is a multi-employer plan (other than a specified multi-employer plan) in a calendar year after 1990 becomes, at the end of the year, a revocable plan where

(*a*) for a member and an employer, the total of all amounts each of which is the member's pension credit (as prescribed by regulation) for the year in respect of the employer under a defined benefit or money purchase provision of the plan exceeds the lesser of

(i) the money purchase limit for the year, and

(ii) 18% of the member's compensation from the employer for the year; or

(*b*) for a member, the total of all amounts each of which is the member's pension credit (as prescribed by regulation) for the year in respect of an employer under a defined benefit or money purchase provision of the plan exceeds the money purchase limit for the year.

Related Sections: S. 147.3(13) Excess transfer.
Regulations: 8301(4) — (6); (8) — (9); 8302; 8304(2); 8509(6), (8), (12).

Interpretation Bulletins: *Secondary*—IT-528 Transfers of Funds Between Registered Plans.
Information Circulars: IC 98-2 Prescribed compensation for registered pension plans.
Guides: T4084 Pension Adjustment Guide.
Registered Plans Directorate Newsletters: No. 96-1, Changes to retirement savings limits; No. 93-4, Exception to filing amendments for the Income Tax Act and Regulations.

► 147.1(10) ◄

(10) Past service benefits. With respect to each past service event that is relevant to the determination of benefits in respect of a member under a defined benefit provision of a registered pension plan, such benefits as are in respect of periods after 1989 and before the calendar year in which the event occurred shall be determined, for the purpose of a payment to be made from the plan or a contribution to be made to the plan at a particular time, with regard to the event only if

(*a*) where the member is alive at the particular time and except as otherwise provided by regulation, the Minister has certified in writing, before the particular time, that prescribed conditions are satisfied,

(*b*) where the member died before the particular time and the event occurred before the death of the member,

(i) this subsection did not require that the event be disregarded in determining benefits that were payable to the member immediately before the member's death (or that would have been so payable had the member been entitled to receive benefits under the provision immediately before the member's death), or

(ii) the event, as it affects the benefits provided to each individual who is entitled to benefits as a consequence of the death of the member, is acceptable to the Minister,

(*c*) where the member died before the particular time and the event occurred after the death of the member, the event, as it affects the benefits provided to each individual who is entitled to benefits as a consequence of the death of the member, is acceptable to the Minister, and

(*d*) no past service event that occurred before the event is required by reason of the application of this subsection to be disregarded at the particular time in determining benefits in respect of the member,

and, for the purposes of this subsection as it applies with respect to contributions that may be made to a registered pension plan, where application has been made for a certification referred to in paragraph (*a*) and the Minister has not refused to issue the certification, the Minister shall be deemed to have issued the certification.

Related Sections: S. 241(4) Where taxpayer information may be disclosed.
Regulations: 8300(1), "certifiable past service event"; 8303(3), (5), (7); 8304(5); 8306; 8307(1)—(5); 8308; 8404(3); 8519.
Information Circulars: IC 98-2 Prescribed compensation for registered pension plans.
Forms: T1006; T1004.
Guides: T4104 Past Service Pension Adjustment Guide.

► 147.1(11) ◄

(11) Revocation of registration — notice of intention. Where, at any time after a pension plan has been registered by the Minister,

(*a*) the plan does not comply with the prescribed conditions for registration,

(*b*) the plan is not administered in accordance with the terms of the plan as registered,

(*c*) the plan becomes a revocable plan,

(*d*) a condition imposed by the Minister in writing and applicable with respect to the plan (including a condition applicable generally to registered pension plans or a class of such plans and a condition first imposed before 1989) is not complied with,

(*e*) a requirement under subsection (6) or (7) is not complied with,

(*f*) a benefit is paid by the plan, or a contribution is made to the plan, contrary to subsection (10),

(*g*) the administrator of the plan fails to file an information return or actuarial report relating to the plan or to a member of the plan as and when required by regulation,

(*h*) a participating employer fails to file an information return relating to the plan or to a member of the plan as and when required by regulation, or

(*i*) registration of the plan under the *Pension Benefits Standards Act, 1985* or a similar law of a province is refused or revoked,

the Minister may give notice (in this subsection and subsection (12) referred to as a "notice of intent") by registered mail to the plan administrator that the Minister proposes to revoke the registration of the plan as of a date specified in the notice of intent, which date shall not be earlier than the date as of which,

(*j*) where paragraph (*a*) applies, the plan failed to so comply,

(*k*) where paragraph (*b*) applies, the plan was not administered in accordance with its terms as registered,

(*l*) where paragraph (*c*) applies, the plan became a revocable plan,

(*m*) where paragraph (*d*) or (*e*) applies, the condition or requirement was not complied with,

(*n*) where paragraph (*f*) applies, the benefit was paid or the contribution was made,

(*o*) where paragraph (*g*) or (*h*) applies, the information return or actuarial report was required to be filed, and

(*p*) where paragraph (*i*) applies, the registration referred to in that paragraph was refused or revoked.

Related Sections: S. 147.4(1) RPP annuity contract; s. 147.1(8) Pension adjustment limits; s. 147.1(9) Idem — multi-employer plans; s. 172(3) Appeal from refusal to register, revocation of registration, etc.
Regulations: Part LXXXIV; 8501(1), (2); 8503(15); 8506(4); 8515(9).
Information Circulars: IC 98-2 Prescribed compensation for registered pension plans.

► 147.1(12) ◄

(12) Notice of revocation. Where the Minister gives a notice of intent to the administrator of a registered pension plan, or the plan administrator applies to the Minister in writing for the revocation of the plan's registration, the Minister may,

(*a*) where the plan administrator has applied to the Minister in writing for the revocation of the plan's registration, at any time after receiving the administrator's application, and

(*b*) in any other case, after 30 days after the day of mailing of the notice of intent,

give notice (in this subsection and subsection (13) referred to as a "notice of revocation") by registered mail to the plan administrator that the registration of the plan is revoked as of the date specified in the notice of revocation, which date may not be earlier than the date specified in the notice of intent or the administrator's application, as the case may be.

► 147.1(13) ◄

(13) Revocation of registration. Where the Minister gives a notice of revocation to the administrator of a registered pension plan, the registration of the plan is revoked as of the date specified in the notice of revocation, unless the Federal Court of Appeal or a judge thereof, on application made at any time before the determination of an appeal pursuant to subsection 172(3), orders otherwise.

► 147.1(14) ◄

(14) Anti-avoidance — multi-employer plans. Where at any time the Minister gives written notice to the administrators of two or more registered pension plans, each of which is a multi-employer plan, that this subsection is applicable in relation to those plans with respect to a calendar year,

(*a*) each of those plans that is a specified multi-employer plan in the year shall, for the purposes of subsection (9) (other than for the purpose of determining the pension credits referred to in paragraphs (9)(*a*) and (*b*)), be deemed to be a multi-employer plan that is not a specified multi-employer plan; and

(*b*) the totals determined for the year under paragraphs (9)(*a*) and (*b*) shall be the amounts that would be determined if all the plans were a single plan.

Registered Plans Directorate Newsletters: No. 98-1, Simplified pension plans.

► 147.1(15) ◄

(15) Plan as registered. Any reference in this Act and the regulations to a pension plan as registered means the terms of the plan on the basis of which the Minister has registered the plan for the purposes of this Act and as amended by

(*a*) each amendment that has been accepted by the Minister, and

(*b*) each amendment that has been submitted to the Minister for acceptance and that the Minister has neither accepted nor refused to accept, if it is reasonable to expect the Minister to accept the amendment,

and includes all terms that are not contained in the documents constituting the plan but that are terms of the plan by reason of the *Pension Benefits Standards Act, 1985* or a similar law of a province.

Related Sections: S. 147.1(7)(*a*) Obligations of administrator.

► 147.1(16) ◄

(16) Separate liability for obligations. Every person who is a member of a body that is the administrator of a registered pension plan is subject to all obligations imposed on administrators by this Act or a regulation as if the person were the administrator of the plan.

► 147.1(17) ◄

(17) Superintendent of Financial Institutions. The Minister may, for the purposes of this Act, obtain the advice of the Superintendent of Financial Institutions with respect to any matter relating to pension plans.

► 147.1(18) ◄

(18) Regulations. The Governor in Council may make regulations

(*a*) prescribing conditions for the registration of pension plans and enabling the Minister to impose additional conditions or waive any conditions that are prescribed;

(*b*) prescribing circumstances under which a registered pension plan becomes a revocable plan;

(*c*) specifying the manner of determining, or enabling the Minister to determine, the portion of a member's benefits under a registered pension plan that is in respect of any period;

(*d*) requiring administrators of registered pension plans to make determinations in connection with the computation of pension adjustments, past service pension adjustments, total pension adjustment reversals or any other related amounts (all such amounts referred to in this subsection as "specified amounts");

(*e*) requiring that the method used to determine a specified amount be acceptable to the Minister, where more than one method would otherwise comply with the regulations;

(*f*) enabling the Minister to permit or require a specified amount to be determined in a manner different from that set out in the regulations;

(*g*) requiring that any person who has information required by another person in order to determine a specified amount provide the other person with that information;

(*h*) enabling the Minister to require any person to provide the Minister with information relating to the method used to determine a specified amount;

(*i*) enabling the Minister to require any person to provide the Minister with information relevant to a claim that paragraph (10)(*a*) is not applicable by reason of an exemption provided by regulation;

(*j*) respecting applications for certifications for the purposes of subsection (10);

(*k*) enabling the Minister to waive the requirement for a certification for the purposes of subsection (10);

(*l*) prescribing rules for the purposes of subsection (10), so that that subsection applies or does not apply with respect to benefits provided as a consequence of particular transactions, events or circumstances;

(*m*) requiring any person to provide the Minister or the administrator of a registered pension plan with information in connection with an application for certification for the purposes of subsection (10);

(*n*) requiring any person who obtains a certification for the purposes of subsection (10) to provide the individual in respect of whom the certification was obtained with an information return;

(*o*) requiring administrators of registered pension plans to file information with respect to amendments to such plans and to the arrangements for funding benefits thereunder;

(*p*) requiring administrators of registered pension plans to file information returns respecting such plans;

(*q*) enabling the Minister to require any person to provide the Minister with information for the purpose of determining whether the registration of a pension plan may be revoked;

(*r*) requiring administrators of registered pension plans to submit reports to the Minister, prescribing the class of persons by whom the reports shall be prepared and prescribing information to be contained in those reports;

(*s*) enabling the Minister to impose any requirement that may be imposed by regulation made under paragraph (*r*);

(*t*) defining, for the purposes of this Act, the expressions "multi-employer plan", "past service event", "past service pension adjustment", "pension adjustment", "specified multi-employer plan" and "total pension adjustment reversal"; and

(*u*) generally to carry out the purposes and provisions of this Act relating to registered pension plans and the determination and reporting of specified amounts.

History: S. 147.1(18)(*d*) was amended by S.C. 1998, c. 19, s. 39(1), applicable after 1996. S. 147.1(18)(*d*) formerly read:

"(*d*) requiring administrators of registered pension plans to make determinations in connection with the computation of pension adjustments, past service pension adjustments or any other related amounts (all such amounts referred to in this subsection as 'specified amounts');"

S. 147.1(18)(*t*) was amended by S.C. 1998, c. 19, s. 39(2), applicable after 1996. S. 147.1(18)(*t*) formerly read:

"(*t*) defining the expressions 'multi-employer plan', 'past service event', 'past service pension adjustment', 'pension adjustment' and 'specified multi-employer plan'; and"

Related Sections: S. 238(1) Offences and punishment.
Regulations: Part LXXXIII; Part LXXXIV; Part LXXXV.

SECTION 147.2:

► 147.2(1) ◄

(1) Pension contributions deductible — employer contributions. For a taxation year ending after 1990, there may be deducted in computing the income of a taxpayer who is an employer the total of all amounts each of which is a contribution made by the employer after 1990 and either in the taxation year or within 120 days after the end of the taxation year to a registered pension plan in respect of the employer's employees or former employees, to the extent that

(*a*) in the case of a contribution in respect of a money purchase provision of a plan, the contribution was made in accordance with the plan as registered and in respect of periods before the end of the taxation year;

(*b*) in the case of a contribution in respect of the defined benefit provisions of a plan (other than a specified multi-employer plan), the contribution

(i) is an eligible contribution,

(ii) was made to fund benefits provided to employees and former employees of the employer in respect of periods before the end of the taxation year, and

(iii) complies with subsection 147.1(10);

(*c*) in the case of a contribution made to a plan that is a specified multi-employer plan, the contribution was made in accordance with the plan as registered and in respect of periods before the end of the taxation year; and

(*d*) the contribution was not deducted in computing the income of the employer for a preceding taxation year.

Editorial Note: S. 20(1)(*q*) provides for the deduction of employer contributions to a registered pension plan made in the taxation year or within 120 days after the end of the taxation year in accordance with s. 147.2(1). The contributions must be determined in a manner that is acceptable to the Minister in accordance with regulation 8506(2)(*a*). Contributions under a defined benefit provision must be made pursuant to a recommendation by an actuary and must meet the requirements of s. 147.2(2).

Related Sections: S. 20(1)(*q*) Employer's contributions to registered pension plan; s. 147.1(1) Definitions; s. 147.1(10) Past service benefits.
Regulations: 8515.
Registered Plans Directorate Newsletters: No. 91-4R, Registration rules for money purchase provisions.

► 147.2(2) ◄

(2) Employer contributions — defined benefit provisions. For the purposes of subsection (1), a contribution made by an employer to a registered pension plan in respect of the defined benefit provisions of the plan is an eligible contribution if it is a prescribed contribution or if it complies with prescribed conditions and is made pursuant to a recommendation by an actuary in whose opinion the contribution is required to be made so that the plan will have sufficient assets to pay benefits under the defined benefit provisions of the plan, as registered, in respect of the employees and former employees of the employer, where

(*a*) the recommendation is based on an actuarial valuation that complies with the following conditions, except the conditions in subparagraphs (iii) and (iv) to the extent that they are inconsistent with any other conditions that apply for the purpose of determining whether the contribution is an eligible contribution:

(i) the effective date of the valuation is not more than 4 years before the day on which the contribution is made,

(ii) actuarial liabilities and current service costs are determined in accordance with an actuarial funding method that produces a reasonable matching of contributions with accruing benefits,

(iii) all assumptions made for the purposes of the valuation are reasonable at the time the valuation is prepared and at the time the contribution is made,

(iv) the valuation is prepared in accordance with generally accepted actuarial principles,

(v) the valuation complies with prescribed conditions, which conditions may include conditions regarding the benefits that may be taken into account for the purposes of the valuation, and

(vi) where more than one employer participates in the plan, assets and actuarial liabilities are apportioned in a reasonable manner among participating employers in respect of their employees and former employees, and

(*b*) the recommendation is approved by the Minister in writing,

and, for the purposes of this subsection and except as otherwise provided by regulation,

(*c*) the benefits taken into account for the purposes of a recommendation may include anticipated cost-of-

living and similar adjustments where the terms of a pension plan do not require that those adjustments be made but it is reasonable to expect that they will be made, and

(*d*) a recommendation with respect to the contributions required to be made by an employer in respect of the defined benefit provisions of a pension plan may be prepared without regard to such portion of the assets of the plan apportioned to the employer in respect of the employer's employees and former employees as does not exceed the least of

(i) the amount of actuarial surplus in respect of the employer,

(ii) 20% of the amount of actuarial liabilities apportioned to the employer in respect of the employer's employees and former employees, and

(iii) the greater of

(A) 2 times the estimated amount of current service contributions that would, if there were no actuarial surplus, be required to be made by the employer and the employer's employees for the 12 months immediately following the effective date of the actuarial valuation on which the recommendation is based, and

(B) the amount that would be determined under subparagraph (ii) if the reference therein to "20%" were read as a reference to "10%".

History: S. 147.2(2)(*b*) was amended by S.C. 1998, c. 19, s. 174(1), applicable after March 1996. Paragraph (*b*) formerly read:

"(*b*) the recommendation is approved in writing by the Minister on the advice of the Superintendent of Financial Institutions,"

Regulations: 8502 "permissible contributions"; 8515; 8516.
Information Circulars: IC 72-13R8 Employees' pension plans.
Registered Plans Directorate Newsletters: No. 96-1, Changes to retirement savings limits; No. 95-3, Actuarial report content; No. 91-5, Transitional rules and other administrative issues for pension plans.

► 147.2(3) ◄

(3) Filing of actuarial report. Where, for the purposes of subsection (2), a person seeks the Minister's approval of a recommendation made by an actuary in connection with the contributions to be made by an employer to a registered pension plan in respect of the defined benefit provisions of the plan, the person shall file with the Minister a report prepared by the actuary that contains the recommendation and any other information required by the Minister.

Registered Plans Directorate Newsletters: No. 95-3, Actuarial report content.

► 147.2(4) ◄

(4) Amount of employee's pension contributions deductible. There may be deducted in computing the income of an individual for a taxation year ending after 1990 an amount equal to the total of

► 147.2(4)(a) ◄

(a) Service after 1989 — the total of all amounts each of which is a contribution (other than a prescribed contribution) made by the individual in the year to a registered pension plan that is in respect of a period after 1989 or that is a prescribed eligible contribution, to the extent that the contribution was made in accordance with the plan as registered,

History: S. 147.2(4)(*a*) was amended by S.C. 2001, c. 17, s. 143(1), applicable to contributions made after 1990. S. 147.2(4)(*a*) formerly read:

"(*a*) *Service after 1989* — the total of all amounts each of which is a contribution (other than a prescribed contribution) made by the individual in the year to a registered pension plan in respect of a period after 1989, to the extent that the contribution was made in accordance with the plan as registered,"

Editorial Note: S. 8(1)(*m*) provides for the deduction of employee contributions to a registered pension plan as determined under s. 147.2(4) with respect to current and past service by the employee.

Related Sections: S. 8(1)(*m*) Employee's registered pension plan contributions; s. 147.1(8) Pension adjustment limits; s. 147.1(9) Idem — multi-employer plans; s. 152(6) Reassessment where certain deductions claimed; s. 161(7) Effect of carryback of loss, etc; s. 163(4) Effect of carryback of losses etc; s. 164(5) Effect of carryback of loss, etc.
Regulations: 8501(6.1); 8501(6.2); 8503; 8504.
Tax Profile: October 2007 — Important Changes Announced to the Canada — U.S. Income Tax Convention.

► 147.2(4)(b) ◄

(b) Service before 1990 while not a contributor — the least of

(i) the amount, if any, by which

(A) the total of all amounts each of which is a contribution (other than an additional voluntary contribution or a prescribed contribution) made by the individual in the year or a preceding taxation year and after 1945 to a registered pension plan in respect of a particular year before 1990, if all or any part of the particular year is included in the individual's eligible service under the plan and if

(I) in the case of a contribution that the individual made before March 28, 1988 or was obliged to make under the terms of an agreement in writing entered into before March 28, 1988, the individual was not a contributor to the plan in the particular year, or

(II) in any other case, the individual was not a contributor to any registered pension plan in the particular year

exceeds

(B) the total of all amounts each of which is an amount deducted, in computing the individual's income for a preceding taxation year, in respect of contributions included in the total determined in respect of the individual for the year under clause (A),

(ii) $3,500, and

(iii) the amount determined by the formula

$$(\$3{,}500 \times Y) - Z$$

where

Y is the number of calendar years before 1990 each of which is a year

(A) all or any part of which is included in the individual's eligible service under a registered pension plan to which the individual has made a contribution that is included in the total determined under clause (i)(A) and in which the individual was not a contributor to any registered pension plan, or

(B) all or any part of which is included in the individual's eligible service under a registered pension plan to which the individual has made a contribution

(I) that is included in the total determined under clause (i)(A), and

(II) that the individual made before March 28, 1988 or was obliged to make under the terms of an agreement in writing entered into before March 28, 1988, and in which the individual was not a contributor to the plan, and

Z is the total of all amounts each of which is an amount deducted, in computing the individual's income for a preceding taxation year,

(A) in respect of contributions included in the total determined in respect of the individual for the year under clause (i)(A), or

(B) where the preceding year was before 1987, under subparagraph 8(1)(*m*)(ii) (as it read in its application to that preceding year) in respect of additional voluntary contributions made in respect of a year that satisfies the conditions in the description of Y, and

History: S. 147.2(4)(*b*)(iii), clause (B) of the description of Z, was amended by S.C. 1998, c. 19, s. 174(2), applicable to the 1991 and subsequent taxation years. That clause formerly read:

"B under subparagraph 8(1)(*m*)(ii) (as it read in its application to the 1990 taxation year) in respect of additional voluntary contributions made in respect of a year that satisfies the conditions in the description of Y, and"

► 147.2(4)(c) ◄

(c) Service before 1990 while a contributor — the lesser of

(i) the amount, if any, by which

(A) the total of all amounts each of which is a contribution (other than an additional voluntary contribution, a prescribed contribution or a contribution included in the total determined in respect of the individual for the year under clause (*b*)(i)(A)) made by the individual in the year or a preceding taxation year and after 1962 to a registered pension plan in respect of a particular year before 1990 that is included, in whole or in part, in the individual's eligible service under the plan

exceeds

(B) the total of all amounts each of which is an amount deducted, in computing the individual's income for a preceding taxation year, in respect of contributions included in the total determined in respect of the individual for the year under clause (A), and

(ii) the amount, if any, by which $3,500 exceeds the total of the amounts deducted by reason of paragraphs (*a*) and (*b*) in computing the individual's income for the year.

► 147.2(5) ◄

(5) Teachers. For the purpose of determining whether a teacher may deduct an amount contributed by the teacher to a registered pension plan in computing the teacher's income for a taxation year ending after 1990 and before 1995 during which the teacher was employed by Her Majesty or a person exempt from tax for the year under section 149,

(*a*) clause (4)(*b*)(i)(A) shall be read without reference to subclauses (4)(*b*)(i)(A)(I) and (II); and

(*b*) the description of Y in subparagraph (4)(*b*)(iii) shall be read as follows:

"Y is the number of calendar years before 1990 each of which is a year all or any part of which is included in the individual's eligible service under a registered pension plan to which the individual has made a contribution that is included in the total determined under clause (i)(A), and"

► 147.2(6) ◄

(6) Deductible contributions when taxpayer dies. Where a taxpayer dies in a taxation year, for the purpose of computing the taxpayer's income for the year and the preceding taxation year,

(*a*) paragraph (4)(*b*) shall be read without reference to subparagraph (ii) and as if the reference to "the least of" were a reference to "the lesser of"; and

(*b*) paragraph (4)(*c*) shall be read without reference to subparagraph (ii) and the words "the lesser of".

History: S. 147.2(6) was added by S.C. 1998, c. 19, s. 174(3), applicable to taxpayers who die after 1992.

Related Sections: S. 161(7)(*a*)(viii.1) Effect of carryback of loss, etc; s. 163(4) Effect of carryback of losses etc; s. 164(5) Effect of carryback of loss, etc; s. 164(5.1) Interest — disputed amounts.

► 147.2(7) ◄

(7) Letter of credit. For the purposes of this section and any regulations made under subsection (2) or under subsection 147.1(18), an amount paid to a registered pension plan by the issuer of a letter of credit issued in connection with an employer's funding obligations under a defined benefit provision of the plan is deemed to be an eligible contribution made to the plan in respect of the provision by the employer with respect to the employer's employees or former employees, if

(*a*) the amount is paid under the letter of credit;

(*b*) the use of the letter of credit is permitted under the *Pension Benefits Standards Act, 1985* or a similar law of a province; and

(*c*) the amount would have been an eligible contribution under subsection (2) if

(i) it had been paid to the plan by the employer, and

(ii) this section were read without reference to this subsection.

History: S. 147.2(7) was added by S.C. 2007, c. 2, s. 39(1), applicable after 2005.

SECTION 147.3:

► 147.3(1) ◄

(1) Transfer — money purchase to money purchase, RRSP or RRIF. An amount is transferred from a registered pension plan in accordance with this subsection if the amount

(*a*) is a single amount;

(*b*) is transferred on behalf of a member in full or partial satisfaction of the member's entitlement to benefits under a money purchase provision of the plan as registered; and

(*c*) is transferred directly to

(i) another registered pension plan to provide benefits in respect of the member under a money purchase provision of that plan,

(ii) a registered retirement savings plan under which the member is the annuitant (within the meaning assigned by subsection 146(1)), or

(iii) a registered retirement income fund under which the member is the annuitant (within the meaning assigned by subsection 146.3(1)).

History: S. 147.3(1) was amended by S.C. 1994, c. 7, Sched. VIII, s. 86(1), applicable to transfers occurring after August 29, 1990. S. 147.3(1) formerly read:

"(1) *Transfer — money purchase to money purchase or RRSP.* An amount is transferred from a registered pension plan in accordance with this subsection if the amount

(*a*) is a single amount;

(*b*) is transferred on behalf of a member in full or partial satisfaction of the member's entitlement to benefits under a money purchase provision of the plan as registered; and

(*c*) is transferred directly to another registered pension plan to provide benefits in respect of the member under a money purchase provision of that plan or to a registered retirement savings plan under which the member is the annuitant (within the meaning assigned by subsection 146(1))."

Related Sections: S. 147.1(1) Definitions; s. 204.2(1) Definition of "excess amount for a year in respect of registered retirement savings plans"; s. 204.2(1.2) Undeducted RRSP premiums.
Interpretation Bulletins: *Primary* — IT-528 Transfers of Funds Between Registered Plans.
Registered Plans Directorate Newsletters: No. 91-4R, Registration rules for money purchase provisions.
Forms: T2151.

► 147.3(2) ◄

(2) Transfer — money purchase to defined benefit. An amount is transferred from a registered pension plan in accordance with this subsection if the amount

(*a*) is a single amount;

(*b*) is transferred on behalf of a member in full or partial satisfaction of the member's entitlement to benefits under a money purchase provision of the plan as registered; and

(*c*) is transferred directly to another registered pension plan to fund benefits provided in respect of the member under a defined benefit provision of that plan.

Interpretation Bulletins: *Primary* — IT-528 Transfers of Funds Between Registered Plans.
Registered Plans Directorate Newsletters: No. 91-4R, Registration rules for money purchase provisions.
Forms: T2151.

► 147.3(3) ◄

(3) Transfer — defined benefit to defined benefit. An amount is transferred from a registered pension plan (in this subsection referred to as the "transferor plan") in accordance with this subsection if the amount

(*a*) is a single amount;

(*b*) consists of all or any part of the property held in connection with a defined benefit provision of the transferor plan;

(*c*) is transferred directly to another registered pension plan to be held in connection with a defined benefit provision of the other plan; and

(*d*) is transferred as a consequence of benefits becoming provided under the defined benefit provision of the other plan to one or more individuals who were members of the transferor plan.

Interpretation Bulletins: *Primary* — IT-528 Transfers of Funds Between Registered Plans.
Forms: T2151.
Registered Plans Directorate Newsletters: No. 04-1, Transfers from a Defined Benefit Provision to a Money Purchase Provision, an RRSP, or a RRIF and Transfers between Defined Benefit Provisions.

► 147.3(4) ◄

(4) Transfer — defined benefit to money purchase, RRSP or RRIF. An amount is transferred from a registered pension plan in accordance with this subsection if the amount

(*a*) is a single amount no portion of which relates to an actuarial surplus;

(*b*) is transferred on behalf of a member in full or partial satisfaction of benefits to which the member is entitled, either absolutely or contingently, under a defined benefit provision of the plan as registered;

(*c*) does not exceed a prescribed amount; and

(*d*) is transferred directly to

(i) another registered pension plan and allocated to the member under a money purchase provision of that plan,

(ii) a registered retirement savings plan under which the member is the annuitant (within the meaning assigned by subsection 146(1)), or

(iii) a registered retirement income fund under which the member is the annuitant (within the meaning assigned by subsection 146.3(1)).

History: S. 147.3(4) was amended by S.C. 1994, c. 7, Sched. VIII, s. 86(2), applicable to transfers occurring after 1988 except that, in its application to transfers occurring after 1988 and before August 30, 1990, paragraph 147.3(4)(*d*) shall be read as follows:

"(*d*) is transferred directly to

(i) another registered pension plan and allocated to the member under a money purchase provision of that plan, or

(ii) a registered retirement savings plan under which the member is the annuitant (within the meaning assigned by subsection 146(1))."

S. 147.3(4) formerly read:

"(4) *Transfer — defined benefit to money purchase or RRSP.* An amount is transferred from a registered pension plan in accordance with this subsection if the amount

(*a*) is a single amount no portion of which relates to an actuarial surplus;

(*b*) is transferred on behalf of a member in full or partial satisfaction of the member's entitlement to benefits under a defined benefit provision of the plan as registered;

(*c*) does not exceed a prescribed amount; and

(*d*) is transferred directly to another registered pension plan to provide benefits in respect of the member under a money purchase provision of that plan or to a registered retirement savings plan under which the member is the annuitant (within the meaning assigned by subsection 146(1))."

Related Sections: S. 60(*j*.01) Transfer of surplus; s. 204.2(1) Definition of "excess amount for a year in respect of registered retirement savings plans"; s. 204.2(1.2) Undeducted RRSP premiums.
Regulations: 8517.
Interpretation Bulletins: *Primary* — IT-528 Transfers of Funds Between Registered Plans.
Registered Plans Directorate Newsletters: No. 04-1, Transfers from a Defined Benefit Provision to a Money Purchase Provision, an RRSP, or a RRIF and Transfers between Defined Benefit Provisions; No. 98-2, Treating excess member contributions under a registered pension plan; No. 95-5, Conversion of a defined benefit provision to a money purchase provision; No. 94-2, Technical questions and answers; No. 91-4R, Registration rules for money purchase provisions.
Forms: T2151.

► 147.3(4.1) ◄

(4.1) Transfer of surplus — defined benefit to money purchase. An amount is transferred from a registered pension plan in accordance with this subsection if the amount

(*a*) is transferred in respect of the actuarial surplus under a defined benefit provision of the plan; and

(*b*) is transferred directly to another registered pension plan and allocated under a money purchase provision of that plan to one or more members of that plan.

History: S. 147.3(4.1) was added by S.C. 1994, c. 7, Sched. VIII, s. 86(2), applicable to transfers occurring after 1990.

Related Sections: S. 204.2(1) Definition of "excess amount for a year in respect of registered retirement savings plans"; s. 204.2(1.2) Undeducted RRSP premiums.
Interpretation Bulletins: *Primary* — IT-528 Transfers of Funds Between Registered Plans.
Registered Plans Directorate Newsletters: No. 95-5, Conversion of a defined benefit provision to a money purchase provision; No. 91-4R, Registration rules for money purchase provisions.

► 147.3(5) ◄

(5) Transfer to RPP, RRSP or RRIF for spouse on marriage breakdown. An amount is transferred from a registered pension plan in accordance with this subsection if the amount

(*a*) is a single amount no portion of which relates to an actuarial surplus;

(*b*) is transferred on behalf of an individual who is a spouse or common-law partner or former spouse or common-law partner of a member of the plan and who is entitled to the amount under a decree, order or judgment of a competent tribunal, or under a written agreement, relating to a division of property between the member and the individual in settlement of rights arising out of, or on a breakdown of, their marriage or common-law partnership; and

(*c*) is transferred directly to

(i) another registered pension plan for the benefit of the individual,

(ii) a registered retirement savings plan under which the individual is the annuitant (within the meaning assigned by subsection 146(1)), or

(iii) a registered retirement income fund under which the individual is the annuitant (within the meaning assigned by subsection 146.3(1)).

History: S. 147.3(5)(*a*) was amended by S.C. 2001, c. 17, s. 144(1), applicable to transfers that occur after November 1999. S. 147.3(5)(*a*) formerly read:

"(*a*) is a single amount;"

S. 147.3(5)(*b*) was amended by S.C. 2000, c. 12, Sched. 2, s. 2(j) and 9(n), applicable January 1, 2001, coming into force on July 31, 2000. S. 147.3(5)(*b*) formerly read:

"(*b*) is transferred on behalf of an individual who is a spouse or former spouse of a member of the plan and who is entitled to the amount under a decree, order or judgment of a competent tribunal, or under a written agreement, relating to a division of property between the member and the individual in settlement of rights arising out of, or on a breakdown of, their marriage; and"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 147.3(5) was amended by S.C. 1994, c. 7, Sched. VIII, s. 86(2), applicable to transfers occurring after August 29, 1990 except that, in applying subsection 147.3(5) before 1993, the reference in paragraph (*b*) to "marriage" shall be read as "marriage or other conjugal relationship". S. 147.3(5) formerly read:

"(5) *Transfer to RPP or RRSP for spouse on marriage breakdown.* An amount is transferred from a registered pension plan in accordance with this subsection if the amount

(*a*) is a single amount;

(*b*) is transferred on behalf of an individual who is a spouse or former spouse of a member of the plan and who is entitled to the amount pursuant to a decree, order or judgment of a competent tribunal, or a written agreement, relating to a division of property between the member and the individual in settlement of rights arising out of or on a breakdown of their marriage or other conjugal relationship; and

(*c*) is transferred directly to another registered pension plan for the benefit of the individual or to a registered retirement savings plan under which the individual is the annuitant (within the meaning assigned by subsection 146(1))."

Related Sections: S. 146.3(2) Acceptance of fund for registration; s. 204.2(1) Definition of "excess amount for a year in respect of registered retirement savings plans"; s. 204.2(1.2) Undeducted RRSP premiums; s. 248(1), "common-law partner"; s. 252(3) Extended meaning of "spouse" and "former spouse".
Interpretation Bulletins: *Primary* — IT-528 Transfers of Funds Between Registered Plans. *Secondary* — IT-440R2 Transfer of rights to income.
Registered Plans Directorate Newsletters: No. 91-4R, Registration rules for money purchase provisions.

► 147.3(6) ◄

(6) Transfer — pre-1991 contributions. An amount is transferred from a registered pension plan in accordance with this subsection if the amount

(*a*) is a single amount;

(*b*) is transferred on behalf of a member who is entitled to the amount as a return of contributions made by the member under a defined benefit provision of the plan before 1991, or as interest (computed at a rate not exceeding a reasonable rate) in respect of those contributions; and

(*c*) is transferred directly to

(i) another registered pension plan for the benefit of the member,

(ii) a registered retirement savings plan under which the member is the annuitant (within the meaning assigned by subsection 146(1)), or

(iii) a registered retirement income fund under which the member is the annuitant (within the meaning assigned by subsection 146.3(1)).

History: S. 147.3(6)(*c*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 86(3), applicable to transfers occurring after August 29, 1990. S. 147.3(6)(*c*) formerly read:

"(*c*) is transferred directly to another registered pension plan for the benefit of the member or to a registered retirement savings plan under which the member is the annuitant (within the meaning assigned by subsection 146(1))."

Related Sections: S. 204.2(1) Definition of "excess amount for a year in respect of registered retirement savings plans"; s. 204.2(1.2) Undeducted RRSP premiums.
Interpretation Bulletins: *Primary* — IT-528 Transfers of Funds Between Registered Plans.
Registered Plans Directorate Newsletters: No. 98-2, Treating excess member contributions under a registered pension plan; No. 91-4R, Registration rules for money purchase provisions.

► 147.3(7) ◄

(7) Transfer — lump sum benefits on death. An amount is transferred from a registered pension plan in accordance with this subsection if the amount

(*a*) is a single amount no portion of which relates to an actuarial surplus;

(*b*) is transferred on behalf of an individual who is entitled to the amount as a consequence of the death of a member of the plan and who was a spouse or common-law partner or former spouse or common-law partner of the member at the date of the member's death; and

(*c*) is transferred directly to

(i) another registered pension plan for the benefit of the individual,

(ii) a registered retirement savings plan under which the individual is the annuitant (within the meaning assigned by subsection 146(1)), or

(iii) a registered retirement income fund under which the individual is the annuitant (within the meaning assigned by subsection 146.3(1)).

History: S. 147.3(7)(*b*) was amended by S.C. 2000, c. 12, Sched. 2, s. 2(j), applicable January 1, 2001, coming into force on July 31, 2000. S. 147.3(7)(*b*) formerly read:

"(*b*) is transferred on behalf of an individual who is entitled to the amount as a consequence of the death of a member of the plan and who was a spouse or former spouse of the member at the date of the member's death; and"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 147.3(7)(*c*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 86(4), applicable to transfers occurring after August 29, 1990. S. 147.3(7)(*c*) formerly read:

"(*c*) is transferred directly to another registered pension plan for the benefit of the individual or to a registered retirement savings plan under which the individual is the annuitant (within the meaning assigned by subsection 146(1))."

Related Sections: S. 60(*j*) Transfer of superannuation benefits; s. 60(l) Transfer of refund of premiums under RRSP; s. 104(27) Pension benefits; s. 146(2) Acceptance of plan for registration — prohibited conditions; s. 204.2(1) Definition of "excess amount for a year in respect of registered retirement savings plans"; s. 204.2(1.2) Undeducted RRSP premiums; s. 252(3) Extended meaning of "spouse" and "former spouse".

Interpretation Bulletins: *Primary* — IT-528 Transfers of Funds Between Registered Plans.

Registered Plans Directorate Newsletters: No. 91-4R, Registration rules for money purchase provisions.

► 147.3(7.1) ◄

(7.1) Transfer where money purchase plan replaces money purchase plan. An amount is transferred from a registered pension plan (in this subsection referred to as the "transferor plan") in accordance with this subsection if

(*a*) the amount is a single amount;

(*b*) the amount is transferred in respect of the surplus (as defined by regulation) under a money purchase provision (in this subsection referred to as the "former provision") of the transferor plan;

(*c*) the amount is transferred directly to another registered pension plan to be held in connection with a money purchase provision (in this subsection referred to as the "current provision") of the other plan;

(*d*) the amount is transferred in conjunction with the transfer of amounts from the former provision to the current provision on behalf of all or a significant number of members of the transferor plan whose benefits under the former provision are replaced by benefits under the current provision; and

(*e*) the transfer is acceptable to the Minister and the Minister has so notified the administrator of the transferor plan in writing.

History: S. 147.3(7.1) was added by S.C. 2001, c. 17, s. 144(2), applicable to transfers that occur after 1998.

Regulations: 8300(8)(a)(iv); 8301(4)(b)(ii.2); 8500(1.1); 8500(7)(d); 8502(d)(ii); 8502(k).

► 147.3(8) ◄

(8) Transfer where money purchase plan replaces defined benefit plan. An amount is transferred from a registered pension plan (in this subsection referred to as the "transferor plan") in accordance with this subsection if

(*a*) the amount is a single amount;

(*b*) the amount is transferred in respect of the actuarial surplus under a defined benefit provision of the transferor plan;

(*c*) the amount is transferred directly to another registered pension plan to be held in connection with a money purchase provision of the other plan;

(*d*) the amount is transferred in conjunction with the transfer of amounts from the defined benefit provision to the money purchase provision on behalf of all or a significant number of members of the transferor plan whose benefits under the defined benefit provision are replaced by benefits under the money purchase provision; and

(*e*) the transfer is acceptable to the Minister and the Minister has so notified the administrator of the transferor plan in writing.

History: Ss. 147.3(8)(*b*) and (*c*) were amended by S.C. 2001, c. 17, s. 144(3), applicable to transfers that occur after 1990. Ss. 147.3(8)(*b*) and (*c*) formerly read:

"(*b*) the amount consists of all or any portion of the property held in connection with a defined benefit provision of the transferor plan;

(*c*) the amount is transferred directly to another registered pension plan to be held in connection with a money purchase provision of the other plan and used to satisfy employer obligations to make contributions under the money purchase provision;"

Interpretation Bulletins: *Primary* — IT-528 Transfers of Funds Between Registered Plans.

Registered Plans Directorate Newsletters: No. 95-5, Conversion of a defined benefit provision to a money purchase provision; No. 91-4R, Registration rules for money purchase provisions.

► 147.3(9) ◄

(9) Taxation of amount transferred. Where an amount is transferred in accordance with any of subsections (1) to (8),

(*a*) the amount shall not, by reason only of that transfer, be included by reason of subparagraph 56(1)(*a*)(i) in computing the income of any taxpayer; and

(*b*) no deduction may be made under any provision of this Act in respect of the amount in computing the income of any taxpayer.

Related Sections: S. 212(1)(*h*) Pension benefits.

Interpretation Bulletins: *Primary* — IT-528 Transfers of Funds Between Registered Plans.

► 147.3(10) ◄

(10) Idem. Where, on behalf of an individual, an amount is transferred from a registered pension plan (in this subsection referred to as the "transferor plan") to another plan or fund (in this subsection referred to as the "transferee plan") that is a registered pension plan, a registered retirement savings plan or a registered retirement income fund and the transfer is not in accordance with any of subsections (1) to (7),

(*a*) the amount is deemed to have been paid from the transferor plan to the individual;

(*b*) subject to paragraph (*c*), the individual shall be deemed to have paid the amount as a contribution or premium to the transferee plan; and

(*c*) where the transferee plan is a registered retirement income fund, for the purposes of subsection 146(5) and Part X.1, the individual shall be deemed to have paid the amount at the time of the transfer as a premium under a registered retirement savings plan under which the individual was the annuitant (within the meaning assigned by subsection 146(1)).

History: S. 147.3(10)(*a*) was amended by S.C. 1998, c. 19, s. 175(1), applicable to transfers that occur after July 30, 1997.

"(*a*) notwithstanding section 254, the amount shall be deemed to have been paid from the transferor plan to the individual;"

S. 147.3(10) was amended by S.C. 1994, c. 7, Sched. VIII, s. 86(5), applicable to transfers occurring after August 29, 1990. S. 147.3(10) formerly read:

"(10) Where an amount is transferred from a registered pension plan (in this subsection referred to as the 'transferor plan') to another registered pension plan or to a registered retirement savings plan (in this subsection referred to as the 'transferee plan') on behalf of an individual and the transfer is not in accordance with any of subsections (1) to (7),

(*a*) notwithstanding section 254, the amount shall be deemed to have been paid from the transferor plan to the individual; and

(*b*) the individual shall be deemed to have paid the amount as a contribution or premium to the transferee plan."

Related Sections: S. 146(5) Amount of RRSP premiums deductible.
Interpretation Bulletins: *Primary* — IT-528 Transfers of Funds Between Registered Plans.

► 147.3(11) ◄

(11) Division of transferred amount. Where an amount is transferred from a registered pension plan to another registered pension plan, to a registered retirement savings plan or to a registered retirement income fund and a portion, but not all, of the amount is transferred in accordance with any of subsections (1) to (8),

(*a*) subsection (9) applies with respect to the portion of the amount that is transferred in accordance with any of subsections (1) to (8); and

(*b*) subsection (10) applies with respect to the remainder of the amount.

History: S. 147.3(11), the portion before paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 86(6), applicable to transfers occurring after August 29, 1990. The portion formerly read:

"(11) Where an amount is transferred from a registered pension plan to another registered pension plan or to a registered retirement savings plan and a portion, but not all, of the amount is transferred in accordance with any of subsections (1) to (8),"

► 147.3(12) ◄

(12) Restriction re transfers. A registered pension plan becomes a revocable plan at any time that an amount is transferred from the plan to another registered pension plan, to a registered retirement savings plan or to a registered retirement income fund unless

(*a*) the amount is transferred in accordance with any of subsections (1) to (8); or

(*b*) where the amount is transferred on behalf of an individual,

(i) the amount is deductible by the individual under paragraph 60(*j*) or (*j.2*), or

(ii) the *Pension Benefits Standards Act, 1985* or a similar law of a province prohibits the payment of the amount to the individual.

History: S. 147.3(12), the portion before paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 86(7), applicable to transfers occurring after August 29, 1990. The portion formerly read:

"(12) A registered pension plan becomes a revocable plan at any time that an amount is transferred from the plan to another registered pension plan or to a registered retirement savings plan unless"

Related Sections: S. 147.1(11) Revocation of registration — notice of intention; s. 147.1(12) Notice of revocation; s. 147.1(13) Revocation of registration.
Interpretation Bulletins: *Primary* — IT-528 Transfers of Funds Between Registered Plans.

► 147.3(13) ◄

(13) Excess transfer. Where

(*a*) the transfer in a calendar year of an amount from a registered pension plan on behalf of a member of the plan would, but for this subsection, be in accordance with subsection (1) or (2), and

(*b*) the plan becomes, at the end of the year, a revocable plan as a consequence of an excess determined under any of paragraphs 147.1(8)(*a*) and (*b*) and (9)(*a*) and (*b*) with respect to the member (whether or not such an excess is also determined with respect to any other member),

such portion of the amount transferred as may reasonably be considered to derive from amounts allocated or reallocated to the member in the year or from earnings reasonably attributable to those amounts shall, except to the extent otherwise expressly provided in writing by the Minister, be deemed to be an amount that was not transferred in accordance with subsection (1) or (2), as the case may be.

Related Sections: S. 147.1(8) Pension adjustment limits; s. 147.1(9) Idem — multi-employer plans; Part X.
Interpretation Bulletins: *Primary* — IT-528 Transfers of Funds Between Registered Plans.

► 147.3(13.1) ◄

(13.1) Withdrawal of excessive transfers to RRSPs and RRIFs. There may be deducted in computing the income of an individual for a taxation year the lesser of

(*a*) the amount, if any, by which

(i) the total of all amounts each of which is an amount included under subsection 146(8), (8.3) or (12) or 146.3(5), (5.1) or (11) in computing the individual's income for the year, to the extent that the amount is not a prescribed withdrawal,

exceeds

(ii) the total of all amounts each of which is an amount deductible under paragraph 60(*l*) or subsection 146(8.2) in computing the income of the individual for the year, and

(*b*) the amount, if any, by which

(i) the total of all amounts each of which is an amount that was

(A) transferred to a registered retirement savings plan or registered retirement income fund under which the individual was the annuitant (within the meaning assigned by subsection 146(1) or 146.3(1), as the case may be),

(B) included in computing the income of the individual for the year or a preceding taxation year, and

(C) deemed by paragraph (10)(*b*) or (*c*) to have been paid by the individual as a premium to a registered retirement savings plan,

exceeds

(ii) the total of all amounts each of which is an amount

(A) deductible under this subsection in computing the individual's income for a preceding taxation year, or

(B) deducted under subsection 146(5) in computing the individual's income for a preceding taxation year, to the extent that the amount can reasonably be considered to be in respect of an amount referred to in subparagraph (i).

History: S. 147.3(13.1) was added by S.C. 1994, c. 7, Sched. VIII, s. 86(8), applicable to 1992 and subsequent taxation years. For its application to the 1992 taxation year, see s. 86(12), c. 7, Sched. VIII, S.C. 1994 below.

Related Sections: S. 60(*i*) Premium or payment under RRSP or RRIF; s. 146(5) Amount of RRSP premiums deductible.
Interpretation Bulletins: *Primary* — IT-528 Transfers of Funds Between Registered Plans. *Secondary* — IT-124R6 Contributions to registered retirement savings plans.
Forms: T1043.

Sec. 86(12), Chap. 7, Sched. VIII, S.C. 1994

(12) Subsection [147.3(13.1)] applies to the 1992 and subsequent taxation years except that, in its application to the 1992 taxation year, subsection 147.3(13.1) shall be read as follows:

"**(13.1)** There may be deducted in computing the income of an individual for the 1992 taxation year the lesser of

(*a*) the amount, if any, by which

(i) the total of all amounts each of which is an amount included under subsection 146(8), (8.3) or (12) or 146.3(5), (5.1) or (11) in computing the individual's income for a taxation year ending after 1988 and before 1993, to the extent that the amount is not a prescribed withdrawal,

exceeds

(ii) the total of all amounts each of which is an amount deductible under paragraph 60(*l*) or subsection 146(8.2) in computing the income of the individual for a taxation year ending after 1988 and before 1993, and

(*b*) the amount, if any, by which

(i) the total of all amounts each of which is an amount

(A) transferred to a registered retirement savings plan or registered retirement income fund under which the individual was the annuitant (within the meaning assigned by subsection 146(1) or 146.3(1), as the case may be),

(B) included in computing the income of the individual for the year or a preceding taxation year, and

(C) deemed by paragraph (10)(*b*) or (*c*) to have been paid by the individual as a premium to a registered retirement savings plan,

exceeds

(ii) the total of all amounts each of which is an amount deducted under subsection 146(5) in computing the individual's income for a preceding taxation year, to the extent that the amount can reasonably be considered to be in respect of an amount referred to in subparagraph (i)."

► 147.3(14) ◄

(14) Deemed transfer. For the purposes of this section and the regulations, where property held in connection with a particular pension plan is made available to pay benefits under another pension plan, the property shall be deemed to have been transferred from the particular plan to the other plan.

► 147.3(14.1) ◄

(14.1) Transfer of property between provisions. Where property held in connection with a benefit provision of a registered pension plan is made available to pay benefits under another benefit provision of the plan, subsections (9) to (11) apply in respect of the transaction by which the property is made so available in the same manner as they would apply if the other benefit provision were in another registered pension plan.

History: S. 147.3(14.1) was added by S.C. 1998, c. 19, s. 40(1), applicable to transactions that occur after July 30, 1997.

► 147.3(15) ◄

(15) Annuity contract commencing after age 69. [Repealed by S.C. 1998, c. 19, s. 175(2).]

History: S. 147.3(15) was repealed by S.C. 1998, c. 19, s. 175(2), applicable after 1996. S. 147.3(15) formerly read:

"(15) *Annuity contract commencing after age 69.* Where, under circumstances in which paragraph 254(*a*) applies, an individual receives before 1997 an interest in an annuity contract in full or partial satisfaction of the individual's entitlement to benefits under a registered pension plan, and payment of the annuity has not begun by the end of the particular year in which the individual attains 69 years of age,

(*a*) that interest is deemed not to exist after the particular year;

(*b*) the individual is deemed to have received immediately after the particular year the payment of a single amount from the plan equal to the fair market value of the interest at the end of the particular year;

(*c*) the individual is deemed to have acquired immediately after the particular year an interest in the annuity contract as a separate and newly issued annuity contract at a cost equal to the amount referred to in paragraph (*b*); and

(*d*) the issue and acquisition of the newly issued annuity contract are deemed not to be pursuant to or under a registered pension plan."

S. 147.3(15) was added by S.C. 1997, c. 25, s. 45(1), applicable after 1996, except that

(*a*) it does not apply to an individual who attained 70 years of age before 1997;

(*b*) in applying subsection 147.3(15) to an individual who attained 69 years of age in 1996, the reference in that provision to "69 years of age" shall be read as a reference to "70 years of age"; and

(*c*) it does not apply to an annuity contract where an individual received an interest in the contract before March 6, 1996 and, under the terms and conditions of the contract as they read immediately before that day,

(i) the day on which the annuity payments are to begin under the contract is fixed and determined and is after the year in which the individual attains

(A) 69 years of age, where the individual had not attained that age before 1997, or

(B) 70 years of age, where the individual attained 69 years of age in 1996, and

(ii) the amount and timing of each annuity payment are fixed and determined.

SECTION 147.4:

► 147.4(1) ◄

(1) RPP annuity contract. Where

(*a*) at any time an individual acquires, in full or partial satisfaction of the individual's entitlement to benefits under a registered pension plan, an interest in an annuity contract purchased from a licensed annuities provider,

(*b*) the rights provided for under the contract are not materially different from those provided for under the plan as registered,

(*c*) the contract does not permit premiums to be paid at or after that time, other than a premium paid at that time out of or under the plan to purchase the contract,

(*d*) either the plan is not a plan in respect of which the Minister may, under subsection 147.1(11), give a notice of intent to revoke the registration of the plan or the Minister waives the application of this paragraph with respect to the contract and so notifies the administrator of the plan in writing, and

(*e*) the individual does not acquire the interest as a consequence of a transfer of property from the plan to a registered retirement savings plan or a registered retirement income fund,

the following rules apply for the purposes of this Act:

(*f*) the individual is deemed not to have received an amount out of or under the registered pension plan as a consequence of acquiring the interest, and

(*g*) other than for the purposes of sections 147.1 and 147.3, any amount received at or after that time by any individual under the contract is deemed to have been received under the registered pension plan.

History: S. 147.4(1) was added by S.C. 1998, c. 19, s. 176(1), applicable to annuity contract acquisitions, amendments and substitutions that occur after July 30, 1997.

Related Sections: S. 139.1(2) Rules of general application; s. 147.1(11) Revocation of registration — notice of intention; s. 254 Contract under pension plan.

Information Circulars: IC 74-1R5 Form T2037, notice of purchase of annuity with "plan" funds.

► 147.4(2) ◄

(2) Amended contract. Where

(*a*) an amendment is made at any time to an annuity contract to which subsection (1) or paragraph 254(*a*) applies, other than an amendment the sole effect of which is to

(i) defer annuity commencement to no later than the end of the calendar year in which the individual in respect of whom the contract was purchased attains 71 years of age, or

(ii) enhance benefits under the annuity contract in connection with the demutualization (as defined by subsection 139.1(1)) of an insurance corporation that is considered for the purpose of section 139.1 to have been a party to the annuity contract, and

(*b*) the rights provided for under the contract are materially altered as a consequence of the amendment,

the following rules apply for the purposes of this Act:

(*c*) each individual who has an interest in the contract immediately before that time is deemed to have received at that time the payment of an amount under a pension plan equal to the fair market value of the interest immediately before that time,

(*d*) the contract as amended is deemed to be a separate annuity contract issued at that time otherwise than pursuant to or under a superannuation or pension fund or plan, and

(*e*) each individual who has an interest in the separate annuity contract immediately after that time is deemed to have acquired the interest at that time at a cost equal to the fair market value of the interest immediately after that time.

History: S. 147.4(2)(*a*)(i) was replaced by S.C. 2007, c. 29, s. 21(1), applicable after 2006. S. 147.4(2)(*a*)(i) formerly read:

"(i) provide for an earlier annuity commencement that avoids the application of paragraph (4)(*b*), or"

Paragraph 147.4(2)(*a*) was replaced by S.C. 2000, c. 19, s. 43(1), applicable to amendments and substitutions that occur after December 15, 1998. Paragraph 147.4(2)(*a*) formerly read:

"(*a*) an amendment is made at any time to an annuity contract to which subsection (1) or paragraph 254(*a*) applies (other than an amendment the sole effect of which is to provide for an earlier annuity commencement that avoids the application of paragraph (4)(*b*)), and"

S. 147.4(2) was added by S.C. 1998, c. 19, s. 176(1), applicable to annuity contract acquisitions, amendments and substitutions that occur after July 30, 1997.

Related Sections: S. 139.1(2) Rules of general application; s. 139.1(3) Special cases.

► 147.4(3) ◄

(3) New contract. For the purposes of this Act, where an annuity contract (in this subsection referred to as the "original contract") to which subsection (1) or paragraph 254(*a*) applies is, at any time, substituted by another contract,

(*a*) if the rights provided for under the other contract

(i) are not materially different from those provided for under the original contract, or

(ii) are materially different from those provided for under the original contract only because of an enhancement of benefits that can reasonably be considered to have been provided solely in connection with the demutualization (as defined by subsection 139.1(1)) of an insurance corporation that is considered for the purposes of section 139.1 to have been a party to the original contract,

the other contract is deemed to be the same contract as, and a continuation of, the original contract; and

(*b*) in any other case, each individual who has an interest in the original contract immediately before that time is deemed to have received at that time the payment of an amount under a pension plan equal to the fair market value of the interest immediately before that time.

History: Paragraph 147.4(3)(*a*) was replaced by S.C. 2000, c. 19, s. 43(2), applicable to amendments and substitutions that occur after December 15, 1998. Paragraph 147.4(3)(*a*) formerly read:

"(*a*) if the rights provided for under the other contract are not materially different from those provided for under the original contract, the other contract is deemed to be the same contract as, and a continuation of, the original contract; and"

S. 147.4(3) was added by S.C. 1998, c. 19, s. 176(1), applicable to annuity contract acquisitions, amendments and substitutions that occur after July 30, 1997.

Related Sections: S. 139.1(2) Special cases.

► 147.4(4) ◄

(4) RPP annuity contract beginning after age 69. [Repealed by S.C. 2007, c. 29, s. 21(2).]

History: S. 147.4(4) was repealed by S.C. 2007, c. 29, s. 21(2), applicable after 2006, except that the repeal of subsection 147.4(4) does not apply to annuities under which the annuitant attained 69 years of age before 2007. S. 147.4(4) formerly read:

"(4) *RPP annuity contract beginning after age 69.* For the purposes of this Act, where, under circumstances to which paragraph 254(*a*) applied, an individual acquired before 1997 an interest in an annuity contract in full or partial satisfaction of the individual's entitlement to benefits under a registered pension plan, and payment of the annuity has not begun by the end of the particular year in which the individual attains 69 years of age,

(*a*) the interest is deemed not to exist after the particular year;

(*b*) the individual is deemed to have received immediately after the particular year the payment of an amount from the plan equal to the fair market value of the interest at the end of the particular year;

(*c*) the individual is deemed to have acquired immediately after the particular year an interest in the contract as a separate annuity contract issued immediately after the particular year at a cost equal to the amount referred to in paragraph (*b*); and

(*d*) the issue and acquisition of the separate annuity contract are deemed not to be pursuant to or under a registered pension plan."

S. 147.4(4) was added by S.C. 1998, c. 19, s. 176(1), applicable after 1996, except that

(*a*) it does not apply to an individual who attained 70 years of age before 1997;

(*b*) in applying it to an individual who attained 69 years of age in 1996, the reference in that provision to "69 years of age" shall be read as a reference to "70 years of age"; and

(*c*) it does not apply to an annuity contract if an individual received an interest in the contract before March 6, 1996 and, under the terms and conditions of the contract as they read immediately before that day,

(i) the day on which the annuity payments are to begin under the contract is fixed and determined and is after the year in which the individual attains

(A) 69 years of age, if the individual had not attained that age before 1997, or

(B) 70 years of age, if the individual attained 69 years of age in 1996, and

(ii) the amount and timing of each annuity payment are fixed and determined.

SECTION 148: Life Insurance Policies.

► 148(1) ◄

(1) Amounts included in computing policyholder's income. There shall be included in computing the income for a taxation year of a policyholder in respect of

the disposition of an interest in a life insurance policy, other than a policy that is or is issued pursuant to

(*a*) a registered pension fund or plan,

(*b*) a registered retirement savings plan,

(*b.1*) a registered retirement income fund,

(*b.2*) a TFSA,

(*c*) an income-averaging annuity contract,

(*d*) a deferred profit sharing plan, or

(*e*) an annuity contract where

(i) the payment for the annuity contract was deductible under paragraph 60(*l*) in computing the policyholder's income, or

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 148(1)(*e*) of the Act is amended by striking out the word "or" at the end of subparagraph (i) and by adding the following after that subparagraph:

(i.1) the annuity contract is a qualifying trust annuity with respect to a taxpayer and the amount paid to acquire it was deductible under paragraph 60(*l*) in computing the taxpayer's income, or

Applicable: After August 1992.

Paragraph 148(1)(*e*), as it applies after 1988 and before September 1992, is to be read as follows:

"(*e*) an annuity contract

(i) the payment for which was deductible in computing the policyholder's income by virtue of paragraph 60(*l*), or

(ii) that is a qualifying trust annuity with respect to a taxpayer, the payment for which was deductible under paragraph 60(*l*) in computing the taxpayer's income,"

Explanatory Note: Subsection 148(1) of the Act requires the inclusion in income of certain amounts from the disposition of a life insurance policy, but excludes from this rule annuities described in paragraph 148(1)(*e*).

Paragraph 148(1)(*e*) describes

- an annuity the payment for which was deductible under paragraph 60(*l*) in computing the policyholder's income, and
- an annuity acquired by a policyholder in circumstances to which subsection 146(21) applies (i.e., an annuity described in paragraph 60(*l*) and acquired with funds paid out of the Saskatchewan Pension Plan).

An annuity described in paragraph 148(1)(*e*) is defined, by paragraph 304(1)(*b*) of the *Income Tax Regulations*, to be a "prescribed annuity contract" and, as such, is not subject to the accrual rules set out in section 12.2 of the Act. This treatment reflects the fact that the policyholder acquiring such an annuity does so with tax-deferred funds, and is generally meant to be taxed only when amounts are paid out of the annuity.

Subsection 148(1) is amended to include, in the annuities described in paragraph (*e*), an annuity that is a "qualifying trust annuity" with respect to a taxpayer (as defined in new subsection 60.011(2)), the payment for which was deductible by the taxpayer under paragraph 60(*l*). This reflects the fact that a qualifying trust annuity will typically be held by a trust, rather than by the taxpayer who is entitled to the deduction under paragraph 60(*l*), and ensures that it is treated, for tax purposes, in the same manner as if it were held by the taxpayer.

This amendment applies after 1988.

(ii) the policyholder acquired the annuity contract in circumstances to which subsection 146(21) applied,

the amount, if any, by which the proceeds of the disposition of the policyholder's interest in the policy that the policyholder, beneficiary or assignee, as the case may be, became entitled to receive in the year exceeds the adjusted cost basis to the policyholder of that interest immediately before the disposition.

History: S. 148(1)(*b.2*) was added by S.C. 2008, c. 28, s. 26(1), applicable to the 2009 and subsequent taxation years.

S. 148(1)(*e*) was amended by S.C. 1994, c. 21, s. 73(1), applicable to dispositions occurring after August 1992. S. 148(1)(*e*) formerly read:

"(*e*) an annuity contract, the payment for which was deductible in computing the policyholder's income by virtue of paragraph 60(*l*),"

S. 148(1)(*b.1*) was added by S.C. 1994, c. 7, Sched. VIII, s. 87(1), applicable to the 1991 and subsequent taxation years.

Editorial Note: Proceeds from the disposition of a life insurance policy in excess of the adjusted cost basis of the policy are generally included in income under s. 56(1)(*j*). Specifically excluded, under s. 148(1), are amounts received with respect to policies held by registered deferred income plans, an income-averaging annuity contract, and an annuity the cost of which is deductible under s. 60(*l*) or was acquired pursuant to a prescribed provincial pension plan. The technical amendments included in former Bill C-10 will exclude, after 1988, amounts with respect to qualifying trust annuities where the cost was deductible under s. 60(*l*). A disposition of a life insurance policy excludes a payment under a policy, other than an annuity contract, as a consequence of the death of an individual if the policy was last acquired before December 2, 1982 or is an exempt policy. See the definition of "disposition" in s. 148(9).

Related Sections: S. 56(1)(*j*) Life insurance policy proceeds; s. 60(*s*) Repayment of policy loan; s. 115(1) Non-resident's taxable income in Canada; s. 138(3) Deductions allowed in computing income; s. 148(2) Deemed proceeds of disposition; s. 148(9), "adjusted cost basis", "policy loan".

Regulations: 217; 307.

Interpretation Bulletins: *Secondary* — IT-87R2 Policyholders' income from life insurance policies; IT-244R3 Gifts by individuals of life insurance policies as charitable donations; IT-379R Employees Profit Sharing Plans — Allocations to Beneficiaries; IT-430R3 (Consolid.) — Life insurance proceeds received by a private corporation or a partnership as a consequence of death.

Tax Topics: No. 1682, Life Insurance: Exploring the Corporate Edge — Part II.

Cases: The lump sum received by a taxpayer was not proceeds from the disposition of an interest in his insurance policies but proceeds from the disposition of his proprietary interest since, as a policyholder, he had become entitled to a proprietary interest in the company's surplus, which he elected to take in the form of cash as opposed to shares of a new holding company. *Sirois v. M.N.R.*, 90 DTC 1840 (T.C.C.).

► 148(1.1) ◄

(1.1) Amount included in computing taxpayer's income. There shall be included in computing the income for a taxation year of a taxpayer in respect of a disposition of an interest in a life insurance policy described in paragraph (*e*) of the definition "disposition" in subsection (9) the amount, if any, by which the amount of a payment described in paragraph (*e*) of that definition that the taxpayer became entitled to receive in the year exceeds the amount that would be the taxpayer's adjusted cost basis of the taxpayer's interest in the policy immediately before the disposition if, for the purposes of the definition "adjusted cost basis" in subsection (9), the taxpayer were, in respect of that interest in the policy, the policyholder.

Related Sections: S. 56(1)(*j*) Life insurance policy proceeds.

Regulations: 217(2).

► 148(2) ◄

(2) Deemed proceeds of disposition. For the purposes of subsections (1) and 20(20) and the definition "adjusted cost basis" in subsection (9)

(*a*) where at any time a policyholder becomes entitled to receive under a life insurance policy a particular amount as, on account of, in lieu of payment of or in satisfaction of, a policy dividend, the policyholder shall be deemed

(i) to have disposed of an interest in the policy at that time, and

(ii) to have become entitled to receive proceeds of the disposition equal to the amount, if any, by which

(A) the particular amount

exceeds

(B) the part of the particular amount applied immediately after that time to pay a premium under the policy or to repay a policy loan under the policy, as provided for under the terms and conditions of the policy;

(*b*) where in a taxation year a holder of an interest in, or a person whose life is insured or who is the annuitant under, a life insurance policy (other than an annuity contract or an exempt policy) last acquired after December 1, 1982 or an annuity contract (other than a life annuity contract, as defined by regulation, entered into before November 13, 1981 or a prescribed annuity contract) dies, the policyholder shall be deemed to have disposed of the policyholder's interest in the policy or the contract, as the case may be, immediately before the death;

(*c*) where, as a consequence of a death, a disposition of an interest in a life insurance policy is deemed to have occurred under paragraph (*b*), the policyholder immediately after the death shall be deemed to have acquired the interest at a cost equal to the accumulating fund in respect thereof, as determined in prescribed manner, immediately after the death; and

(*d*) where at any time a life insurance policy last acquired after December 1, 1982, or a life insurance policy to which subsection 12.2(9) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, applies by virtue of paragraph 12.2(9)(*b*) of that Act, ceases to be an exempt policy (otherwise than as a consequence of the death of an individual whose life is insured under the policy or at a time when that individual is totally and permanently disabled), the policyholder shall be deemed to have disposed of the policyholder's interest in the policy at that time for proceeds of disposition equal to the accumulating fund with respect to the interest, as determined in prescribed manner, at that time and to have reacquired the interest immediately after that time at a cost equal to those proceeds.

History: S. 148(2)(*a*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 87(2), applicable to policy dividends received or receivable in taxation years beginning after December 20, 1991. S. 148(2)(*a*) formerly read:

"(*a*) where at a particular time a policyholder became entitled to receive under a life insurance policy an amount as, on account or in lieu of payment of, or in satisfaction of, a policy dividend, the policyholder shall be deemed to have disposed of an interest in the policy at that time and that amount shall be deemed to be proceeds of the disposition that the policyholder became entitled to receive at that time;"

S. 148(2), the portion before paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 121(1), applicable to dispositions occurring after 1989. The portion formerly read:

"(2) *Policy dividends deemed to be proceeds of disposition.* For the purposes of subsection (1) and the definition 'adjusted cost basis' in subsection (9),"

Related Sections: S. 70(1) Death of a taxpayer; s. 87(2.2) Amalgamation of insurers; s. 88(1) Winding-up; s. 89(1), "taxable Canadian corporation"; s. 116(5.4) Presumption; s. 121 Deduction for taxable dividends; s. 138(3) Deductions allowed in computing income; s. 138(11.5) Transfer of insurance business by non-resident insurer.

Regulations: 301; 304.

Interpretation Bulletins: *Secondary* — IT-87R2 Policyholders' income from life insurance policies; IT-410R Debt obligations — Accrued interest on transfer [Archived by the CRA]; IT-430R3 (Consolid.) — Life insurance proceeds received by a private corporation or a partnership as a consequence of death.

► 148(3) ◄

(3) Special rules for certain policies. For the purposes of this section, where all or any part of an insurer's reserves for a life insurance policy vary in amount depending on the fair market value of a specified group of properties (in this subsection referred to as a "segregated fund"),

(*a*) in computing the adjusted cost basis of the policy,

(i) an amount paid by the policyholder or on the policyholder's behalf as or on account of premiums under the policy or to acquire an interest in the policy shall, to the extent that the amount was used by the insurer to acquire property for the purposes of the segregated fund, be deemed not to have been so paid, and

(ii) any transfer of property by the insurer from the segregated fund that resulted in an increase in the portion of its reserves for the policy that do not vary with the fair market value of the segregated fund shall be deemed to have been a premium paid under the policy by the policyholder; and

(*b*) the proceeds of the disposition of an interest in the policy shall be deemed not to include the portion thereof, if any, payable out of the segregated fund.

(*c*) [Repealed by 1977-78, c. 1, s. 74(2).]

Editorial Note: Income from and gains and/or losses from the disposition of a segregated fund are allocated in accordance with the provisions of s. 138.1 and the trust rules in s. 104.

► 148(4) ◄

(4) Income from disposition. For the purpose of computing a taxpayer's income from the disposition (other than a disposition deemed to have occurred under paragraph (2)(*a*) or a disposition described in paragraph (*b*) of the definition "disposition" in subsection (9)) of a part of the taxpayer's interest in a life insurance policy (other than an annuity contract) last acquired after December 1, 1982 or an annuity contract, the adjusted cost basis to the taxpayer, immediately before the disposition, of the part is the proportion of the adjusted cost basis to the taxpayer of the taxpayer's interest immediately before the disposition that

(*a*) the proceeds of the disposition

are of

(*b*) the accumulating fund with respect to the taxpayer's interest, as determined in prescribed manner, immediately before the disposition.

Regulations: 307.

► 148(4.1) ◄

(4.1) Interest deduction from tax. [Repealed by 1977-78, c. 1, s. 74(2).]

► 148(5) ◄

(5) Deductions for foreign tax. [Repealed by 1977-78, c. 1, s. 74(2).]

► 148(6) ◄

(6) Proceeds receivable as annuity. Where, under the terms of a life insurance policy (other than an annuity contract) last acquired before December 2, 1982, a policyholder became entitled to receive from the insurer at any time before the death of the person whose life was insured thereunder, all the proceeds (other than policy dividends)

payable at that time under the policy in the form of an annuity contract or annuity payments,

(*a*) the payments shall be regarded as annuity payments made under an annuity contract;

(*b*) the purchase price of the annuity contract shall be deemed to be the adjusted cost basis of the policy to the policyholder immediately before the first payment under that contract became payable; and

(*c*) the annuity contract or annuity payments shall be deemed not to be proceeds of the disposition of an interest in the policy.

► 148(7) ◄

(7) Disposition at non-arm's length and similar cases. Where, otherwise than by virtue of a deemed disposition under paragraph (2)(*b*), an interest of a policyholder in a life insurance policy is disposed of by way of a gift (whether during the policyholder's lifetime or by the policyholder's will), by distribution from a corporation or by operation of law only to any person, or in any manner whatever to any person with whom the policyholder was not dealing at arm's length, the policyholder shall be deemed thereupon to become entitled to receive proceeds of the disposition equal to the value of the interest at the time of the disposition, and the person who acquires the interest by virtue of the disposition shall be deemed to acquire it at a cost equal to that value.

Editorial Note: The proceeds from a non-arm's length disposition or gift of a life insurance policy is equal to the cash surrender value of the policy at the time of disposition and the person acquiring the policy is deemed to have acquired it for an equal amount.

Related Sections: S. 251 Arm's length.
Tax Topics: No. 1682, Life Insurance: Exploring the Corporate Edge — Part II.

► 148(8) ◄

(8) Idem. Notwithstanding any other provision in this section, where

(*a*) an interest of a policyholder in a life insurance policy (other than an annuity contract) has been transferred to the policyholder's child for no consideration, and

(*b*) a child of the policyholder or a child of the transferee is the person whose life is insured under the policy,

the interest shall be deemed to have been disposed of by the policyholder for proceeds of the disposition equal to the adjusted cost basis to the policyholder of the interest immediately before the transfer, and to have been acquired by the person who acquired the interest at a cost equal to those proceeds.

History: Ss. 148(8)(*a*) and (*b*) were amended by S.C. 1994, c. 7, Sched. II, s. 121(2), applicable to transfers and distributions occurring after 1989. Ss. 148(8)(*a*) and (*b*) formerly read:

"(*a*) an interest of a policyholder in a life insurance policy (other than an annuity contract) has been transferred to

(i) the policyholder's spouse or child, for no consideration,

(ii) the spouse or a former spouse of the policyholder, in settlement of rights arising out of their marriage, or

(iii) an individual, pursuant to a decree, order or judgment of a competent tribunal made in accordance with prescribed provisions of the law of a province if that individual is a person within a prescribed class of persons referred to in those provisions, and

(*b*) the transferee or a child of the policyholder or transferee is the person whose life is insured under the policy,"

Regulations: 6500(1).
Interpretation Bulletins: *Secondary* — IT-87R2 Policyholders' income from life insurance policies.

► 148(8.1) ◄

(8.1) Inter vivos transfer to spouse. Notwithstanding any other provision of this section, where

(*a*) an interest of a policyholder in a life insurance policy (other than a policy that is, or is issued under, a plan or contract referred to in any of paragraphs (1)(*a*) to (*e*)) is transferred to

(i) the policyholder's spouse or common-law partner, or

(ii) a former spouse or common-law partner of the policyholder in settlement of rights arising out of their marriage or common-law partnership, and

(iii) [Repealed by S.C. 1994, c. 7, Sched. VIII, s. 87(3).]

(*b*) both the policyholder and the transferee are resident in Canada at the time of the transfer,

unless an election is made in the policyholder's return of income under this Part for the taxation year in which the interest was transferred to have this subsection not apply, the interest shall be deemed to have been disposed of by the policyholder for proceeds of the disposition equal to the adjusted cost basis to the policyholder of the interest immediately before the transfer and to have been acquired by the transferee at a cost equal to those proceeds.

History: S. 148(8.1)(*a*)(i) and (ii) were amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.24) and 9(o), applicable January 1, 2001, coming into force on July 31, 2000. S. 148(8.1)(*a*)(i) and (ii) formerly read:

"(i) the policyholder's spouse, or

(ii) a former spouse of the policyholder in settlement of rights arising out of their marriage, and"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S.C. 1994, c. 7, Sched. VIII, s. 159, reproduced below, deems certain elections referred to in the application provision immediately below of s. 148(8.1), contained in S.C. 1994, c. 7, Sched. II, s. 121(7), to have been made before 1992.

S. 148(8.1)(*a*)(iii) was repealed by S.C. 1994, c. 7, Sched. VIII, s. 87(3), applicable after 1992. S. 148(8.1)(*a*)(iii) formerly read:

"(iii) an individual of the opposite sex under an order for the support or maintenance of the individual made by a competent tribunal in accordance with the laws of a province, where the individual and the taxpayer cohabited in a conjugal relationship before the date of the order, and"

S. 148(8.1) was added by S.C. 1994, c. 7, Sched. II, s. 121(3), applicable to transfers and distributions occurring after 1989, except that, in their application to transfers and distributions occurring in 1990, an election referred to in subsection 148(8.1) made by a policyholder or the legal representative of a deceased policyholder by notifying the Minister of National Revenue in writing before 1992 shall be deemed to have been made in the policyholder's return of income under Part I of the Act for the 1990 taxation year.

Related Sections: S. 252(3) Extended meaning of "spouse" and "former spouse".

Sec. 159, Chap. 7, Sched. VIII, S.C. 1994

Sec. 159. [Deemed date of elections and requests.] Where an election or request referred to in subsection [... 121(7) of S.C. 1994, c. 7, Sched. II, which established the application date for subsections 148(8.1) and 148(8.2)] was made before December 11, 1993, the election or request shall be deemed to have been made before 1992.

► 148(8.2) ◄

(8.2) Transfer to spouse at death. Notwithstanding any other provision of this section, where, as a consequence of the death of a policyholder who was resident in Canada immediately before the policyholder's death, an interest of the policyholder in a life insurance policy (other than a policy that is or is issued under a plan or contract referred to in any of paragraphs (1)(*a*) to (*e*)) is transferred or distributed to the policyholder's spouse or common-law partner who was resident in Canada immediately before the death, unless an election is made in the policyholder's return of income under this Part for the taxation year in which the policyholder died to have this subsection not apply, the interest shall be deemed to have been disposed of by the policyholder immediately before the death for proceeds of the disposition equal to the adjusted cost basis to the policyholder of the interest immediately before the transfer and to have been acquired by the spouse or common-law partner at a cost equal to those proceeds.

History: S. 148(8.2) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.24), applicable January 1, 2001, coming into force on July 31, 2000. S. 148(8.2) formerly read:

"(8.2) *Transfer to spouse at death.* Notwithstanding any other provision of this section, where, as a consequence of the death of a policyholder who was resident in Canada immediately before the policyholder's death, an interest of the policyholder in a life insurance policy (other than a policy that is or is issued under a plan or contract referred to in any of paragraphs (1)(*a*) to (*e*)) is transferred or distributed to the policyholder's spouse who was resident in Canada immediately before the death, unless an election is made in the policyholder's return of income under this Part for the taxation year in which the policyholder died to have this subsection not apply, the interest shall be deemed to have been disposed of by the policyholder immediately before the death for proceeds of the disposition equal to the adjusted cost basis to the policyholder of the interest immediately before the transfer and to have been acquired by the spouse at a cost equal to those proceeds."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S.C. 1994, c. 7, Sched. VIII, s. 159, reproduced above, deems certain elections referred to in the application provision below of s. 148(8.2), contained in S.C. 1994, c. 7, Sched. II, s. 121(7), to have been made before 1992.

S. 148(8.2) was added by S.C. 1994, c. 7, Sched. II, s. 121(3), applicable to transfers and distributions occurring after 1989, except that, in their application to transfers and distributions occurring in 1990, an election referred to in subsection 148(8.2) made by a policyholder or the legal representative of a deceased policyholder by notifying the Minister of National Revenue in writing before 1992 shall be deemed to have been made in the policyholder's return of income under Part I of the Act for the 1990 taxation year.

Related Sections: S. 252(3) Extended meaning of "spouse" and "former spouse".

► 148(9) ◄

(9) Definitions. In this section and paragraph 56(1)(*d.1*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952,

"*adjusted cost basis*" — "adjusted cost basis" to a policyholder as at a particular time of the policyholder's interest in a life insurance policy means the amount determined by the formula

$$(A + B + C + D + E + F + G + G.1) - (H + I + J + K + L)$$

where

A is the total of all amounts each of which is the cost of an interest in the policy acquired by the policyholder before that time but not including an amount referred to in the description of B or E,

B is the total of all amounts each of which is an amount paid before that time by or on behalf of the policyholder in respect of a premium under the policy, other than amounts referred to in clause (2)(*a*)(ii)(B), in subparagraph (iii) of the description of C in paragraph (*a*) of the definition "proceeds of the disposition" or in subparagraph (*b*)(i) of that definition,

C is the total of all amounts each of which is an amount in respect of the disposition of an interest in the policy before that time that was required to be included in computing the policyholder's income or taxable income earned in Canada for a taxation year,

D is the total of all amounts each of which is an amount in respect of the policyholder's interest in the policy that was included by virtue of subsection 12(3) or section 12.2 or of paragraph 56(1)(*d.1*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, in computing the policyholder's income for any taxation year ending before that time or the portion of an amount paid to the policyholder in respect of the policyholder's interest in the policy on which tax was imposed by virtue of paragraph 212(1)(*o*) before that time,

E is the total of all amounts each of which is an amount in respect of the repayment before that time and after March 31, 1978 of a policy loan not exceeding the total of the proceeds of the disposition, if any, in respect of that loan and the amount, if any, described in the description of J but not including any payment of interest thereon, any loan repayment that was deductible under paragraph 60(*s*) of this Act or paragraph 20(1)(*hh*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952 (as it applied in taxation years before 1985) or any loan repayment referred to in clause (2)(*a*)(ii)(B),

F is the amount, if any, by which the cash surrender value of the policy as at its first anniversary date after March 31, 1977 exceeds the adjusted cost basis (determined under the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it would have read on that date if subsection 148(8) of that Act, as it read in its application to the period ending immediately before April 1, 1978, had not been applicable) of the policyholder's interest in the policy on that date,

G is, in the case of an interest in a life annuity contract, as defined by regulation, to which subsection 12.2(1) applies for the taxation year that includes that time (or would apply if the contract had an anniversary day in the year at a time when the taxpayer held the interest), the total of all amounts each of which is a mortality gain, as defined by regulation and determined by the issuer of the contract in accordance with the regulations, in respect of the interest immediately before the end of the calendar year ending in a taxation year commencing before that time,

G.1 in the case of an interest in a life insurance policy (other than an annuity contract) to which subsec-

tion (8.2) applied before that time, the total of all amounts each of which is a mortality gain, as defined by regulation and determined by the issuer of the policy in accordance with the regulations, in respect of the interest immediately before the end of the calendar year ending in a taxation year beginning before that time

H is the total of all amounts each of which is the proceeds of the disposition of the policyholder's interest in the policy that the policyholder became entitled to receive before that time,

I is the total of all amounts each of which is an amount in respect of the policyholder's interest in the policy that was deducted by virtue of subsection 20(19) in computing the policyholder's income for any taxation year commencing before that time,

J is the amount payable on March 31, 1978 in respect of a policy loan in respect of the policy,

K is the total of all amounts each of which is an amount received before that time in respect of the policy that the policyholder was entitled to deduct under paragraph 60(*a*) in computing the policyholder's income for a taxation year, and

L is

(*a*) in the case of an interest in a life insurance policy (other than an annuity contract) that was last acquired after December 1, 1982 by the policyholder, the total of all amounts each of which is the net cost of pure insurance, as defined by regulation and determined by the issuer of the policy in accordance with the regulations, in respect of the interest immediately before the end of the calendar year ending in a taxation year commencing after May 31, 1985 and before that time,

(*b*) in the case of an interest in an annuity contract to which subsection 12.2(1) applies for the taxation year that includes that time (or would apply if the contract had an anniversary day in the year and while the taxpayer held the interest), the total of all annuity payments paid in respect of the interest before that time and while the policyholder held the interest, or

(*c*) in the case of an interest in a contract referred to in the description of G, the total of all amounts each of which is a mortality loss, as defined by regulation and determined by the issuer of the contract in accordance with the regulations, in respect of the interest before that time;

History: S. 148(9), the formula in the definition "adjusted cost basis", was amended by S.C. 1994, c. 7, Sched. VIII, s. 87(3.1), applicable to transfers and distributions occurring after 1989. The formula formerly read:

"(A + B + C + D + E + F + G) – (H + I + J + K + L)"

S. 148(9), the description of B in the definition "adjusted cost basis", was amended by S.C. 1994, c. 7, Sched. VIII, s. 87(4), applicable to amounts paid in taxation years beginning after December 20, 1991. The description B formerly read:

"B is the total of all amounts each of which is an amount paid before that time, by the policyholder or on the policyholder's behalf, in respect of a premium under the policy,"

S. 148(9), the description of E in the definition "adjusted cost basis", was amended by S.C. 1994, c. 7, Sched. VIII, s. 87(5), applicable to loan repayments occurring in taxation years beginning after December 20, 1991. The description E formerly read:

"E is the total of all amounts each of which is an amount in respect of the repayment before that time and after March 31, 1978 of a policy loan not exceeding the total of the proceeds of the disposition, if any, in respect of that loan and the amount, if any, referred to in the description of J but not including any payment of interest thereon or any repayment of the loan that was deductible pursuant to paragraph 20(1)(*hh*) or 60(*s*),"

The description of G.1 was added to the definition "adjusted cost basis" in s. 148(9) by S.C. 1994, c. 7, Sched. VIII, s. 87(6), applicable to transfers and distributions occurring after 1989.

S. 148(9), the description of G in the definition "adjusted cost basis", was amended by S.C. 1994, c. 7, Sched. II, s. 121(4), applicable to policies last acquired after 1989. The description of G formerly read:

"G is, in the case of an interest in a life annuity contract, as defined by regulation, to which subsection 12.2(1) or (3) applies for the taxation year that includes that time, the total of all amounts each of which is a mortality gain, as defined by regulation and determined by the issuer of the contract in accordance with the regulations, in respect of the interest immediately before the end of the calendar year ending in a taxation year commencing before that time,"

S. 148(9), paragraph (*b*) of the description of L in the definition "adjusted cost basis", was amended by S.C. 1994, c. 7, Sched. II, s. 121(5), applicable to policies last acquired after 1989. Paragraph (*b*) of the description L formerly read:

"(*b*) in the case of an interest in an annuity contract to which subsection 12.2(1) or (3) applies, the total of all amounts each of which is an annuity payment paid in respect of the interest before that time and while the policyholder held the interest, or"

Related Sections: S. 12.2(1) Amount to be included; s. 20(2.1) Limitation of expression "interest"; s. 20(20) Life insurance policy; s. 53(1)(*e*) Adjustments to cost base — Interest in a partnership; s. 87(2)(*j.4*) Accrual rules; s. 89(1), "capital dividend account"; s. 138.1(1) Rules relating to segregated funds; s. 148(2) Deemed proceeds of disposition; s. 148(8) Disposition to policyholder's child for no consideration.

Regulations: 301; 308.

Interpretation Bulletins: *Secondary* — IT-355R2 Interest on loans to buy life insurance policies and annuity contracts, and interest on policy loans [Archived by the CRA]; IT-379R Employees Profit Sharing Plans — Allocations to Beneficiaries.

"*amount payable*" — "amount payable", in respect of a policy loan, has the meaning assigned by subsection 138(12);

"*cash surrender value*" — "cash surrender value" at a particular time of a life insurance policy means its cash surrender value at that time computed without regard to any policy loans made under the policy, any policy dividends (other than paid-up additions) payable under the policy or any interest payable on those dividends;

Related Sections: S. 70(5.3) Fair market value; s. 110.6(15) Value of assets of corporations.

"*child*" — "child" of a policyholder includes a child as defined in subsection 70(10);

"*disposition*" — "disposition", in relation to an interest in a life insurance policy, includes

(*a*) a surrender thereof,

(*b*) a policy loan made after March 31, 1978,

(*c*) the dissolution of that interest by virtue of the maturity of the policy,

(*d*) a disposition of that interest by operation of law only, and

(*e*) the payment by an insurer of an amount (other than an annuity payment, a policy loan or a policy dividend) in respect of a policy (other than a policy described in paragraph (1)(*a*), (*b*), (*c*), (*d*) or (*e*)) that is a life annuity contract, as defined by regulation, entered into after November 16, 1978, and before November 13, 1981,

but does not include

(*f*) an assignment of all or any part of an interest in the policy for the purpose of securing a debt or a loan other than a policy loan,

(*g*) a lapse of the policy in consequence of the premiums under the policy remaining unpaid, if the policy was reinstated not later than 60 days after the end of the calendar year in which the lapse occurred,

(*h*) a payment under a policy as a disability benefit or as an accidental death benefit,

(*i*) an annuity payment,

(*j*) a payment under a life insurance policy (other than an annuity contract) that

(i) was last acquired before December 2, 1982, or

(ii) is an exempt policy

in consequence of the death of any person whose life was insured under the policy, or

(*k*) any transaction or event by which an individual becomes entitled to receive, under the terms of an exempt policy, all of the proceeds (including or excluding policy dividends) payable under the policy in the form of an annuity contract or annuity payments, if, at the time of the transaction or event, the individual whose life is insured under the policy was totally and permanently disabled;

Related Sections: S. 20(20) Life insurance policy; s. 60(*s*) Repayment of policy loan; s. 87(2.2) Amalgamation of insurers; s. 88(1) Winding-up; s. 116(5.4) Presumption; s. 138(11.5) Transfer of insurance business by non-resident insurer; s. 148(1.1) Amount included in computing taxpayer's income; s. 148(2) Deemed proceeds of disposition; s. 211(1), "specified transaction or event".

Regulations: 301.

Interpretation Bulletins: *Primary* — IT-430R3 (Consolid.) — Life insurance proceeds received by a private corporation or a partnership as a consequence of death. *Secondary* — IT-85R2 Health and welfare trusts for employees; IT-87R2 Policyholders' income from life insurance policies.

Tax Topics: No. 1858, Viatical Settlements – What?.

"*interest*" — "interest", in relation to a policy loan, has the meaning assigned by subsection 138(12);

"*policy loan*" — "policy loan" means an amount advanced by an insurer to a policyholder in accordance with the terms and conditions of the life insurance policy;

Related Sections: S. 60(*s*) Repayment of policy loan.

"*premium*" — "premium" under a policy includes

(*a*) interest paid after 1977 to a life insurer in respect of a policy loan, other than interest deductible in the 1978 or any subsequent taxation year pursuant to paragraph 20(1)(*c*) or (*d*), and

(*b*) a prepaid premium under the policy to the extent that it cannot be refunded otherwise than on termination or cancellation of the policy,

but does not include

(*c*) where the interest in the policy was last acquired after December 1, 1982, that portion of any amount paid after May 31, 1985 under the policy with respect to

(i) an accidental death benefit,

(ii) a disability benefit,

(iii) an additional risk as a result of insuring a substandard life,

(iv) an additional risk in respect of the conversion of a term policy into another policy after the end of the year,

(v) an additional risk under a settlement option,

(vi) an additional risk under a guaranteed insurability benefit, or

(vii) any other prescribed benefit that is ancillary to the policy;

Related Sections: S. 211(1), "specified transaction or event".

"*proceeds of the disposition*" — "proceeds of the disposition" of an interest in a life insurance policy means the amount of the proceeds that the policyholder, beneficiary or assignee, as the case may be, is entitled to receive on a disposition of an interest in the policy and for greater certainty,

(*a*) in respect of a surrender or maturity thereof, means the amount determined by the formula

$$(A - B) - C$$

where

A is the cash surrender value of the interest in the policy at the time of surrender or maturity,

B is that portion of the cash surrender value represented by A that is applicable to the policyholder's interest in the related segregated fund trust as referred to in paragraph 138.1(1)(*e*), and

C is the total of amounts each of which is

(i) an amount payable at that time by the policyholder in respect of a policy loan in respect of the policy,

(ii) a premium under the policy that is due but unpaid at that time, or

(iii) an amount applied, immediately after the time of the surrender, to pay a premium under the policy, as provided for under the terms and conditions of the policy,

(*b*) in respect of a policy loan made after March 31, 1978 means the lesser of

(i) the amount of the loan, other than the part thereof applied, immediately after the loan, to pay a premium under the policy, as provided for under the terms and conditions of the policy, and

(ii) the amount, if any, by which the cash surrender value of the policy immediately before the loan was made exceeds the total of the balances outstanding at that time of any policy loans in respect of the policy,

(*c*) in respect of a payment described in paragraph (*e*) of the definition "disposition" in this subsection, means the amount of that payment, and

(*d*) in respect of a disposition deemed to have occurred under paragraph (2)(*b*), means the accumulating fund in respect of the interest, as determined in prescribed manner,

(i) immediately before the time of death in respect of a life insurance policy (other than an annuity contract) last acquired after December 1, 1982, or

(ii) immediately after the time of death in respect of an annuity contract;

History: S. 148(9), the description of C in paragraph (*a*) of the definition "proceeds of the disposition", was amended by S.C. 1994, c. 7, Sched. VIII, s. 87(7), applicable to surrenders occurring in taxation years beginning after December 20, 1991. The description C formerly read:

"C is the total of all amounts each of which is an amount payable at that time by the policyholder in respect of a policy loan in respect of the policy or a premium under the policy that is due but unpaid at that time,"

S. 148(9), subparagraph (*b*)(i) of the definition "proceeds of the disposition", was amended by S.C. 1994, c. 7, Sched. VIII, s. 87(8), applicable to policy loans made in taxation years beginning after December 20, 1991. Subparagraph (*b*)(i) of the definition "proceeds of the disposition" formerly read:

"(i) the amount of the loan, and"

Regulations: 307.

"relevant authority" — [Repealed by S.C. 1997, c. 25, s. 46.]

History: S. 148(9), the definition "relevant authority", was repealed by S.C. 1997, c. 25, s. 46, applicable April 25, 1997. That definition formerly read:

" *'relevant authority'* — 'relevant authority' has the meaning assigned by subsection 138(12);"

"tax anniversary date" — "tax anniversary date", in relation to a life insurance policy, means the second anniversary date of the policy to occur after October 22, 1968;

"value" — "value" at a particular time of an interest in a life insurance policy means

(*a*) where the interest includes an interest in the cash surrender value of the policy, the amount in respect thereof that the holder of the interest would be entitled to receive if the policy were surrendered at that time, and

(*b*) in any other case, nil.

► 148(9.1) ◄

(9.1) Application of s. 12.2(11). The definitions in subsection 12.2(11) apply to this section.

► 148(10) ◄

(10) Life annuity contracts. For the purposes of this section,

(*a*) a reference to "insurer" or "life insurer" shall be deemed to include a reference to a person who is licensed or otherwise authorized under a law of Canada or a province to issue contracts that are annuity contracts;

(*b*) a reference to a "person whose life was insured" shall be deemed to include a reference to an annuitant under a life annuity contract, as defined by regulation, entered into before November 17, 1978;

(*c*) where a policyholder is a person who has held an interest in a life insurance policy continuously since its issue date, the interest shall be deemed to have been acquired on the later of the date on which

(i) the policy came into force, and

(ii) the application in respect of the policy signed by the policyholder was filed with the insurer;

(*d*) except as otherwise provided, a policyholder shall be deemed not to have disposed of or acquired an interest in a life insurance policy (other than an annuity contract) as a result only of the exercise of any provision (other than a conversion into an annuity contract) of the policy; and

(*e*) where an interest in a life insurance policy (other than an annuity contract) last acquired before December 2, 1982 to which subsection 12.2(9) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, does not apply has been acquired by a taxpayer from a person with whom the taxpayer was not dealing at arm's length, the interest shall be deemed to have been last acquired by the taxpayer before December 2, 1982.

Related Sections: S. 12.2(13) "Application of s. 148(10)"; s. 56(1)(*j*) Life insurance policy proceeds; s. 89(1), "taxable Canadian corporation", "taxable dividend"; s. 146(1), "registered retirement savings plan"; s. 248(1), "amount", "annuity", "dividend", "gross revenue", "insurance corporation", "insurer", "non-resident", "property", "share".

Regulations: 301.

Eligible Funeral Arrangements

SECTION 148.1:

► 148.1(1) ◄

(1) Definitions. In this section,

History: S. 148.1(1) was added by S.C. 1995, c. 21, s. 62(1), applicable to the 1993 and subsequent taxation years.

"cemetery care trust" — "cemetery care trust" means a trust established pursuant to an Act of a province for the care and maintenance of a cemetery;

History: S. 148.1(1), the definition "cemetery care trust", was added by S.C. 1998, c. 19, s. 177(4), applicable to the 1993 and subsequent taxation years.

Related Sections: S. 108(1), "trust"; s. 149(1)(s.2) Cemetery care trust.

"cemetery services" — "cemetery services" with respect to an individual means property (including interment vaults, markers, flowers, liners, urns, shrubs and wreaths) and services that relate directly to cemetery arrangements in Canada in consequence of the death of the individual including, for greater certainty, property and services to be funded out of a cemetery care trust;

History: S. 148.1(1), the definition "cemetery services", was added by S.C. 1998, c. 19, s. 177(4), applicable to the 1993 and subsequent taxation years.

"custodian" — "custodian" of an arrangement means

(*a*) where a trust is governed by the arrangement, a trustee of the trust, and

(*b*) in any other case, a qualifying person who receives a contribution under the arrangement as a deposit for the provision by the person of funeral or cemetery services;

History: S. 148.1(1), paragraph (*b*) of the definition of "custodian", was amended by S.C. 1998, c. 19, s. 177(2), applicable to the 1993 and subsequent taxation years. That paragraph formerly read:

"(*b*) in any other case, a qualifying person who receives a contribution under the arrangement as a deposit for the provision by the person of funeral services;"

S. 148.1(1), the definition "custodian", was added by S.C. 1995, c. 21, s. 62(1), applicable to the 1993 and subsequent taxation years.

"eligible funeral arrangement" — "eligible funeral arrangement" at a particular time means an arrangement established and maintained by a qualifying person solely for the purpose of funding funeral or cemetery services with respect to one or more individuals and of which there is one or more custodians each of whom was resident in Canada at the time the arrangement was established, where

(*a*) each contribution made before the particular time under the arrangement was made for the purpose of funding funeral or cemetery services to be provided by the qualifying person with respect to an individual, and

(*b*) for each such individual, the total of all relevant contributions made before the particular time in respect of the individual does not exceed

(i) $15,000, where the arrangement solely covers funeral services with respect to the individual,

(ii) $20,000, where the arrangement solely covers cemetery services with respect to the individual, and

(iii) $35,000, in any other case,

and, for the purpose of this definition, any payment (other than the portion of the payment to be applied as a contribution to a cemetery care trust)

that is made in consideration for the immediate acquisition of a right to burial in or on property that is set apart or used as a place for the burial of human remains or of any interest in a building or structure for the permanent placement of human remains, shall be considered to have been made pursuant to a separate arrangement that is not an eligible funeral arrangement;

History: S. 148.1(1), the definition of "eligible funeral arrangement" was amended by S.C. 1998, c. 19, s. 177(1), applicable to the 1993 and subsequent taxation years. That definition formerly read:

" *'eligible funeral arrangement'* — 'eligible funeral arrangement' at a particular time means an arrangement established and maintained by a qualifying person solely for the purpose of funding funeral services with respect to one or more individuals and of which there is one or more custodians each of whom was resident in Canada at the time the arrangement was established, where

(*a*) each contribution made before the particular time under the arrangement was made for the purpose of funding funeral services to be provided by the qualifying person with respect to an individual, and

(*b*) for each such individual, the total of all relevant contributions made before the particular time in respect of the individual under the arrangement does not exceed $15,000;"

S. 148.1(1), the definition "eligible funeral arrangement", was added by S.C. 1995, c. 21, s. 62(1), applicable to the 1993 and subsequent taxation years.

"funeral or cemetery services" — "funeral or cemetery services" with respect to an individual means funeral services with respect to the individual, cemetery services with respect to the individual or any combination of such services;

History: S. 148.1(1), the definition "funeral or cemetery services", was added by S.C. 1998, c. 19, s. 177(4), applicable to the 1993 and subsequent taxation years.

"funeral services" — "funeral services" with respect to an individual means property and services (other than cemetery services with respect to the individual) that relate directly to funeral arrangements in Canada in consequence of the death of the individual;

History: S. 148.1(1), the definition "funeral services" was amended by S.C. 1998, c. 19, s. 177(1), applicable to the 1993 and subsequent taxation years. That definition formerly read:

" *'funeral services'* — 'funeral services' with respect to an individual means property and services that relate directly to funeral, burial, cremation or cemetery arrangements in Canada in consequence of the death of the individual or to any combination of such arrangements;"

S. 148.1(1), the definition "funeral services", was added by S.C. 1995, c. 21, s. 62(1), applicable to the 1993 and subsequent taxation years.

"qualifying person" — "qualifying person" means a person licensed or otherwise authorized under the laws of a province to provide funeral or cemetery services with respect to individuals;

History: S. 148.1(1), the definition "qualifying person", was amended by S.C. 1998, c. 19, s. 177(1), applicable to the 1993 and subsequent taxation years. That definition formerly read:

" *'qualifying person'* — 'qualifying person' means a person licensed or otherwise authorized under the laws of a province to provide funeral services for individuals;"

S. 148.1(1), the definition "qualifying person", was added by S.C. 1995, c. 21, s. 62(1), applicable to the 1993 and subsequent taxation years.

"relevant contribution" — "relevant contribution" in respect of an individual under a particular arrangement means

(*a*) a contribution under the particular arrangement (other than a contribution made by way of a transfer from an eligible funeral arrangement) for the purpose of funding funeral or cemetery services with respect to the individual, or

(*b*) such portion of a contribution to another arrangement that was an eligible funeral arrangement (other than any such contribution made by way of a transfer from any eligible funeral arrangement) as can reasonably be considered to have subsequently been used to make a contribution under the particular arrangement by way of a transfer from an eligible funeral arrangement for the purpose of funding funeral or cemetery services with respect to the individual.

History: S. 148.1(1), paragraphs (*a*) and (*b*) of the definition "relevant contribution", were amended by S.C. 1998, c. 19, s. 177(3), applicable to the 1993 and subsequent taxation years. Those paragraphs formerly read:

"(*a*) a contribution under the particular arrangement (other than a contribution made by way of a transfer from an eligible funeral arrangement) for the purpose of funding funeral services with respect to the individual, or

(*b*) such portion of a contribution to another arrangement that was an eligible funeral arrangement (other than any such contribution made by way of a transfer from any eligible funeral arrangement) as can reasonably be considered to have subsequently been used to make a contribution under the particular arrangement by way of a transfer from an eligible funeral arrangement for the purpose of funding funeral services with respect to the individual."

S. 148.1(1), the definition "relevant contribution", was added by S.C. 1995, c. 21, s. 62(1), applicable to the 1993 and subsequent taxation years.

► 148.1(2) ◄

(2) Exemption for eligible funeral arrangements. Notwithstanding any other provision of this Act,

(*a*) no amount that has accrued, is credited or is added to an eligible funeral arrangement shall be included in computing the income of any person solely because of such accrual, crediting or adding;

(*b*) subject to paragraph (*c*) and subsection (3), no amount shall be

(i) included in computing a person's income solely because of the provision by another person of funeral or cemetery services under an eligible funeral arrangement, or

(ii) included in computing a person's income because of the disposition of an interest under an eligible funeral arrangement or an interest in a trust governed by an eligible funeral arrangement; and

(*c*) subparagraph (*b*)(ii) shall not affect the consequences under this Act of the disposition of any right under an eligible funeral arrangement to payment for the provision of funeral or cemetery services.

History: S. 148.1(2)(*a*) and (*b*) were amended by S.C. 1998, c. 19, s. 177(5), applicable to the 1993 and subsequent taxation years. Those paragraphs formerly read:

"(*b*) subject to paragraph (*c*) and subsection (3), no amount shall be

(i) included in computing a person's income solely because of the provision by another person of funeral services under an eligible funeral arrangement, or

(ii) included in computing a person's income because of the disposition of an interest under an eligible funeral arrangement or an interest in a trust governed by an eligible funeral arrangement; and

(*c*) subparagraph (*b*)(ii) shall not affect the consequences under this Act of the disposition of any right under an eligible funeral arrangement to payment for the provision of funeral services."

S. 148.1(2) was added by S.C. 1995, c. 21, s. 62(1), applicable to the 1993 and subsequent taxation years.

Editorial Note: The rules for eligible funeral arrangements became effective for 1993 and subsequent taxation years. Contributions under an eligible funeral arrangement cannot exceed $35,000, $15,000 for funeral services and $20,000 for cemetery services (see definition in s. 148.1(1)). Contributions are not deductible; however, income earned under eligible funeral arrangements is accumulated tax free. The accumulated income is taxable to the provider of the funeral and/or cemetery services when received. If a distribution of accumulated income is made to someone other than to provide funeral or cemetery services, the distribution will be included in income under s. 148(3).

► 148.1(3) ◄

(3) Income inclusion on return of funds. Where at any particular time in a taxation year a particular amount is distributed (otherwise than as payment for the provision of funeral or cemetery services with respect to an individual) to a taxpayer from an arrangement that was, at the time it was established, an eligible funeral arrangement and the particular amount is paid from the balance in respect of the individual under the arrangement, there shall be added in computing the taxpayer's income for the year from property the lesser of the particular amount and the amount determined by the formula

$$A + B - C$$

where

A is the balance in respect of the individual under the arrangement immediately before the particular time (determined without regard to the value of property in a cemetery care trust);

B is the total of all payments made from the arrangement before the particular time for the provision of funeral or cemetery services with respect to the individual (other than cemetery services funded by property in a cemetery care trust); and

C is the total of all relevant contributions made before the particular time in respect of the individual under the particular arrangement (other than contributions in respect of the individual that were in a cemetery care trust).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The description of C in subsection 148.1(3) of the Act is replaced by the following:

C is the amount determined by the formula

$$D - E$$

where

D is the total of all relevant contributions made before the particular time in respect of the individual under the arrangement (other than contributions in respect of the individual that were in a cemetery care trust), and

E is the total of all amounts each of which is the amount, if any, by which

(*a*) an amount relating to the balance in respect of the individual under the arrangement that is deemed by subsection (4) to have been distributed before the particular time from the arrangement

exceeds

(*b*) the portion of the amount referred to in paragraph (*a*) that is added, because of this subsection, in computing a taxpayer's income.

Applicable: To amounts that are transferred, credited or added after December 20, 2002.

Explanatory Note: Section 148.1 of the Act provides for the tax-free build-up of income earned on contributions made under an eligible funeral arrangement (EFA), which is an arrangement that provides for the pre-funding of expenses with respect to funeral and cemetery services.

Contributions made to an EFA are not deductible, and income earned in an EFA accrues tax-free. Distributions from an EFA as payment for the provision of funeral or cemetery services are not taxable. Other distributions from an EFA are generally treated first as a distribution of earnings, which is taxable, then as a return of contributions, which is not taxable.

Subsections 148.1(3) to (5) — Transfer of Funds

General Discussion

Section 148.1 is amended to provide specific rules relating to transfers from one EFA account to another. In general terms, the changes are as follows:

- A new provision (paragraph 148.1(4)(*a*)) deems the transferred amount to be distributed to the individual from whose EFA account the amount is transferred. However, if that individual is deceased, the amount is deemed to be distributed to the individual to whose EFA account the amount is transferred. This ensures that the transfer is included in income (to the extent that it does not exceed the income accumulated in the transferor account).
- A new provision (paragraph 148.1(4)(*b*)) deems the transferred amount to be a contribution made to the recipient EFA account other than by way of transfer. This ensures that the earnings portion of the transferred amount is not taxed again when it is distributed from the recipient EFA account.
- The provision that requires EFA distributions to be included in income (subsection 148.1(3)) is amended to ensure that the determination of the amount that can subsequently be distributed from the transferor EFA account on a tax-free basis is reduced by the portion of the transferred amount that was not included in income (i.e., that portion of the transferred amount that represents a return of contributions).
- A new provision (subsection 148.1(5)) provides that these new rules do not apply if the transferor and the recipient EFA accounts are in respect of the same person, the entire balance in the transferor account is transferred to the recipient account and the transferor EFA account is terminated immediately after the transfer.

These changes are described in more detail below.

Subsection 148.1(3) — Income Inclusion on Return of Funds

Subsection 148.1(3) of the Act provides for an income inclusion by a taxpayer in the event that there is a distribution of funds from an individual's EFA account to the taxpayer (otherwise than as a payment for the provision of funeral or cemetery services with respect to the individual). The amount of the income inclusion is the lesser of the distributed amount and a second amount. In general terms, this second amount is determined by the formula:

$$A + B - C$$

where

A is the balance in the EFA account immediately before the distribution,

B is the total of all payments made from the EFA account before the distribution for the provision of funeral or cemetery services, and

C is the total of all "relevant contributions" in respect of the EFA account that were made before the distribution.

For the purpose of the description of C, an amount is defined in subsection 148.1(1) to be a "relevant contribution" in respect of a particular EFA account if

- the amount was contributed to the particular EFA account otherwise than by way of transfer from another EFA account, or
- the amount was contributed to another EFA account (otherwise than by way of transfer) and subsequently transferred (either from the original or a subsequent EFA account) to the particular EFA account.

The effect of subsection 148.1(3) is to include in the income of the taxpayer the lesser of the amount received and an amount which generally represents the income accumulated in the EFA account. If the amount received by the taxpayer is greater than the amount included in the taxpayer's income, the excess generally represents a non-taxable refund of relevant contributions (represented by the variable C in the formula).

The description of C is amended so that its value is reduced, in effect, by any relevant contributions previously transferred

from the EFA account to another EFA account. This ensures that the amount of the transferred relevant contribution (which, by virtue of subsection 148.1(3), can be distributed from the recipient EFA account tax-free) cannot also be used to support a subsequent tax-free withdrawal from the transferor EFA account.

The description of C is amended to provide that its value is determined by the formula

D – E

For this purpose, the value of D is the amount determined under the existing description of C. The value of E is the total of all amounts each of which is

- an amount which was previously transferred from the EFA account and deemed, by new subsection 148.1(4), to be a distribution

minus

- the portion of the deemed distribution that was required, by subsection 148.1(3), to be included in computing a taxpayer's income.

This amendment applies to transfers made after December 20, 2002.

Subsection 148.1(4) — Deemed Distribution on Transfer

New subsection 148.1(4) of the Act contains rules that apply when an amount is transferred from one EFA account to another EFA account of the same or another person.

Paragraph 148.1(4)(*a*) deems the transfer to be a distribution from the transferor EFA account. If the individual from whose account the amount is transferred is alive at the time of the transfer, that individual is deemed to be the recipient of the distribution. Otherwise, the recipient is deemed to be the individual to whose EFA account the amount is transferred. This deeming provision ensures that subsection 148.1(3) applies to the transfer. Consequently, the transferred amount will be included in computing the income of the deemed recipient, except to the extent that the transferred amount exceeds the income accumulated in the transferor EFA account.

Paragraph 148.1(4)(*b*) of the Act deems the amount transferred to be a contribution made (otherwise than by way of transfer) under the recipient EFA account. This ensures that the income portion of the transferred amount (which is included in income, under subsection 148.1(3), as a distribution from the transferor account) is considered to be a "relevant contribution" in respect of the recipient EFA account (which it would not otherwise be, because of the definition "relevant contribution" in subsection 148.1(1)). This allows it to subsequently be withdrawn from the recipient EFA account on a tax-free basis.

New subsection 148.1(4) applies to transfers made after December 20, 2002.

Subsection 148.1(5) — Non-application of Subsection (4)

New subsection 148.1(5) of the Act provides that new subsection 148.1(4) does not apply when the entire balance of an individual's EFA account is transferred to another EFA account of the same individual and the transferor EFA account is terminated immediately after the transfer. Consequently, there will be no deemed distribution resulting from such a transfer.

New subsection 148.1(5) applies to transfers made after December 20, 2002.

The following examples illustrate the application of the amendments to subsection 148.1.

Example 1

Paul sets up an EFA account for the pre-funding of his funeral expenses. He contributes $10,000 to his account, and earns $7,000 of interest in the account. Paul transfers $3,000 to an EFA account which he establishes for his daughter, Gaby.

The transferred amount is deemed to be a distribution to Paul under new paragraph 148.1(4)(*a*). Consequently, Paul includes in his income, under subsection 148.1(3), an amount of $3,000, which is the lesser of

- $3,000, which is the amount distributed, and
- $7,000, which is the amount determined by the formula under subsection 148.1(3):

A + B – C (where C = D – E) = $17,000 + $0 – ($10,000 – $0)

The transfer is treated, in effect, as a distribution of a portion of the income accumulated in the plan.

Under new paragraph 148.1(4)(*b*), the transferred amount is also deemed to be a contribution made, other than by way of transfer, to Gaby's EFA account. Thus, the $3,000 is considered to be a relevant contribution in respect of Gaby's EFA account, and can subsequently be withdrawn tax-free.

Example 2

The facts are the same as in Example 1, except that Paul transfers $13,000 to Gaby's EFA.

The transferred amount is deemed to be a distribution to Paul under new paragraph 148.1(4)(*a*). Consequently, Paul includes in his income, under subsection 148.1(3), an amount of $7,000, which is the lesser of

- $13,000, which is the amount distributed, and
- $7,000, which is the amount determined by the formula under subsection 148.1(3):

A + B – C (where C = D – E) = $17,000 + $0 – ($10,000 – $0)

The transfer is treated, in effect, as a distribution of all of the income accumulated in the plan ($7,000), which is taxable, plus a return of a portion of the relevant contributions in respect of the EFA ($6,000), which is not taxable.

Under new paragraph 148.1(4)(*b*), the transferred amount is also deemed to be a contribution made, other than by way of transfer, to Gaby's EFA account. This has no particular significance with respect to the portion of the transfer that represents relevant contributions in respect of Paul's EFA account, since this amount would be considered to be a relevant contribution to Gaby's EFA account under the existing rules. However, it does have significance with respect to the portion of the transfer that represents income in Paul's EFA account, in that it allows that portion to become a relevant contribution in respect of Gaby's EFA account which can then be withdrawn from Gaby's account tax-free.

Example 3

The facts are the same as in Example 2. After the transfer of $13,000, the balance in Paul's EFA account is $4,000, all of which represents relevant contributions in respect of the account. Over the next few years, the account earns an additional $2,500 of interest. Paul then withdraws the entire balance from the account.

The withdrawal is a distribution under subsection 148.1(3). Consequently, Paul includes $2,500 in his income, which is the lesser of:

- $6,500, which is the amount of the withdrawal, and
- $2,500, which is the amount determined by the formula under subsection 148.1(3):

A + B – C (where C = D – E) = $6,500 + $0 – ($10,000 – $6,000)

The value of E ($6,000) is the excess of the amount that was previously transferred and to which subsection 148.1(4) applied ($13,000) over the portion of that amount that was included in income under subsection 148.1(3) ($7,000).

History: S. 148.1(3) was amended by S.C. 1998, c. 19, s. 177(6), applicable to the 1993 and subsequent taxation years. S. 148.1(3) formerly read:

"(3) Where at any particular time in a taxation year a particular amount is distributed (otherwise than as payment for the provision of funeral services with respect to an individual) to a taxpayer from an arrangement that was, at the time it was established, an eligible funeral arrangement and the particular amount is paid from the balance in respect of the individual under the arrangement, there shall be added in computing the taxpayer's income for the year from property the lesser of the particular amount and the amount determined by the formula

A + B – C

where

A is the balance in respect of the individual under the arrangement immediately before the particular time;

B is the total of all payments made from the arrangement before the particular time for the provision of funeral services with respect to the individual; and

C is the total of all relevant contributions made before that time in respect of the individual under the particular arrangement."

S. 148.1(3) was added by S.C. 1995, c. 21, s. 62(1), applicable to the 1993 and subsequent taxation years.

Related Sections: S. 12(1)(z4) Eligible funeral arrangements; s. 212(1)(*v*) Payments under an eligible funeral arrangement.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 148.1 of the Act is amended by adding the following after subsection (3):

(4) **Deemed distribution on transfer.** If at a particular time an amount relating to the balance in respect of an individual (referred to in this subsection and in subsection (5) as the "transferor") under an eligible funeral arrangement (referred to in this subsection and in subsection (5) as the "transferor arrangement") is transferred, credited or added to the balance in respect of the same or another individual (referred to in this subsection and in subsection (5) as the "recipient") under the same or another eligible funeral arrangement (referred to in this subsection and in subsection (5) as the "recipient arrangement"),

(*a*) the amount is deemed to be distributed to the transferor (or, if the transferor is deceased at the particular time, to the recipient) at the particular time from the transferor arrangement and to be paid from the balance in respect of the transferor under the transferor arrangement; and

(*b*) the amount is deemed to be a contribution made (other than by way of a transfer from an eligible funeral arrangement) at the particular time under the recipient arrangement for the purpose of funding funeral or cemetery services with respect to the recipient.

(5) **Non-application of subsection (4).** Subsection (4) does not apply if

(*a*) the transferor and the recipient are the same individual;

(*b*) the amount that is transferred, credited or added to the balance in respect of the individual under the recipient arrangement is equal to the balance in respect of the individual under the transferor arrangement immediately before the particular time; and

(*c*) the transferor arrangement is terminated immediately after the transfer.

Applicable: To amounts that are transferred, credited or added after December 20, 2002.

Explanatory Note: See the Explanatory Note following the amendment to the description of C in subsection 148.1(3).

DIVISION H — Exemptions

Miscellaneous Exemptions

SECTION 149:

► 149(1) ◄

(1) Miscellaneous exemptions. No tax is payable under this Part on the taxable income of a person for a period when that person was

Related Sections: S. 16(2) Obligation issued at discount; s. 16(3) Obligation issued at discount; s. 100(1) Disposition of an interest in a partnership; s. 104(1) Reference to trust or estate; s. 212(14) Certificate of exemption; s. 216(1) Alternatives re rents and timber royalties; s. 219(2) Exempt corporations; s. 227(14) Application of other Parts; s. 255 Canada.
Interpretation Bulletins: *Secondary* — IT-232R3 Non-capital losses, net capital losses, restricted farm losses, farm losses and limited partnership losses — Their composition and deductibility in computing taxable income; IT-269R4 Part IV tax on taxable dividends received by a private corporation or a subject corporation; IT-362R Patronage dividends; IT-465R Non-resident beneficiaries of trusts; IT-151R5 (Consolid.) — Scientific research and experimental development expenditures; IT-151R4 Scientific research and experimental development expenditures [Archived by the CRA].

► 149(1)(a) ◄

(a) Employees of a country other than Canada — an officer or servant of the government of a country other than Canada whose duties require that person to reside in Canada

(i) if, immediately before assuming those duties, the person resided outside Canada,

(ii) if that country grants a similar privilege to an officer or servant of Canada of the same class,

(iii) if the person was not, at any time in the period, engaged in a business or performing the duties of an office or employment in Canada other than the person's position with that government, and

(iv) if the person was not during the period a Canadian citizen;

► 149(1)(b) ◄

(b) Members of the family and servants of employees of a country other than Canada — a member of the family of a person described in paragraph (*a*) who resides with that person, or a servant employed by a person described in that paragraph,

(i) if the country of which the person described in paragraph (*a*) is an officer or servant grants a similar privilege to members of the family residing with and servants employed by an officer or servant of Canada of the same class,

(ii) in the case of a member of the family, if that member was not at any time lawfully admitted to Canada for permanent residence, or at any time in the period engaged in a business or performing the duties of an office or employment in Canada,

(iii) in the case of a servant, if, immediately before assuming his or her duties as a servant of a person described in paragraph (*a*), the servant resided outside Canada and, since first assuming those duties in Canada, has not at any time engaged in a business in Canada or been employed in Canada other than by a person described in that paragraph, and

(iv) if the member of the family or servant was not during the period a Canadian citizen;

Related Sections: S. 227(14) Application of other Parts.

► 149(1)(c) ◄

(c) Municipal authorities — a municipality in Canada, or a municipal or public body performing a function of government in Canada;

Canadian Petroleum Tax Journal: Understanding and Doing Business with Tax-Exempt Entities, Pashkowich, Vol. 16 No. 1 2003.

► 149(1)(d) ◄

(d) Corporations owned by the Crown — a corporation, commission or association all of the shares (except directors' qualifying shares) or of the capital of which was owned by one or more persons each of which is Her Majesty in right of Canada or Her Majesty in right of a province;

History: S. 149(1)(*d*) was amended by S.C. 2001, c. 17, s. 145(1), applicable to taxation years and fiscal periods that begin after 1998. S. 149(1)(*d*) formerly read:

"(*d*) *Corporations owned by the Crown* — a corporation, commission or association all of the shares (except directors' qualifying shares) or of the capital of which was owned by Her Majesty in right of Canada or a province;"

S. 149(1)(*d*) was amended by S.C. 1998, c. 19, s. 178(1), applicable to taxation years and fiscal periods that begin after 1998. That paragraph formerly read:

"(*d*) *Municipal or provincial corporations* — a corporation, commission or association not less than 90% of the shares or capital of which was owned by Her Majesty in right of Canada or a province or by a Canadian municipality, or a wholly-owned corporation subsidiary to such a corporation, commission or association, but this paragraph does not apply

(i) to such a corporation, commission or association if a person other than Her Majesty in right of Canada or a province or a Canadian municipality had, during the period, a right under a contract, in equity or otherwise either immediately or in the future and either absolutely or contingently, to, or to acquire, shares or capital of that corporation, commission or association, and

(ii) to such a wholly-owned subsidiary corporation if a person other than Her Majesty in right of Canada or a province or a Canadian municipality had, during the period, a right under a contract, in equity or otherwise either immediately or in the future and either absolutely or contingently, to, or to acquire, shares or capital of that wholly-owned subsidiary corporation or of the corporation, commission or association of which it is a wholly-owned subsidiary corporation;"

Related Sections: S. 27(2) Presumption; s. 227(16) Municipal or provincial corporation excepted.
Interpretation Bulletins: *Secondary* — IT-347R2 Crown corporations [Archived by the CRA].
Tax Topics: No. 1625, Provincial Crown Corporation Not Bound by the *Income Tax Act*.
Canadian Petroleum Tax Journal: Understanding and Doing Business with Tax-Exempt Entities, Pashkowich, Vol. 16 No. 1 2003.

► 149(1)(d.1) ◄

(d.1) Corporations 90% owned by the Crown — a corporation, commission or association not less than 90% of the shares (except directors' qualifying shares) or of the capital of which was owned by one or more persons each of which is Her Majesty in right of Canada or Her Majesty in right of a province;

History: S. 149(1)(*d.1*) was amended by S.C. 2001, c. 17, s. 145(1), applicable to taxation years and fiscal periods that begin after 1998. S. 149(1)(*d.1*) formerly read:

"(*d.1*) *Corporations 90% owned by the Crown* — a corporation, commission or association not less than 90% of the shares (except directors' qualifying shares) or of the capital of which was owned by Her Majesty in right of Canada or a province;"

S. 149(1)(*d.1*) was added by S.C. 1998, c. 19, s. 178(1), applicable to taxation years and fiscal periods that begin after 1998.

► 149(1)(d.2) ◄

(d.2) Wholly-owned corporations — a corporation all of the shares (except directors' qualifying shares) or of the capital of which was owned by one or more

persons each of which is a corporation, commission or association to which this paragraph or paragraph (*d*) applies for the period;

History: S. 149(1)(*d.2*) was amended by S.C. 2001, c. 17, s. 145(1), applicable to taxation years and fiscal periods that begin after 1998. S. 149(1)(*d.2*) formerly read:

"(*d.2*) *Wholly-owned corporations* — a corporation all of the shares (except directors' qualifying shares) or of the capital of which was owned by a corporation, commission or association to which this paragraph or paragraph (*d*) applies for the period;"

S. 149(1)(*d.2*) was added by S.C. 1998, c. 19, s. 178(1), applicable to taxation years and fiscal periods that begin after 1998.

► 149(1)(d.3) ◄

(d.3) 90% owned corporations — a corporation, commission or association not less than 90% of the shares (except directors' qualifying shares) or of the capital of which was owned by

(i) one or more persons each of which is Her Majesty in right of Canada or a province or a person to which paragraph (*d*) or (*d.2*) applies for the period, or

(ii) one or more municipalities in Canada in combination with one or more persons each of which is Her Majesty in right of Canada or a province or a person to which paragraph (*d*) or (*d.2*) applies for the period;

History: S. 149(1)(*d.3*)(i) was amended by S.C. 2001, c. 17, s. 145(2), applicable to taxation years and fiscal periods that begin after 1998. S. 149(1)(*d.3*)(i) formerly read:

"(i) Her Majesty in right of Canada or a province or a person to which paragraph (*d*) or (*d.2*) applies for the period, or"

S. 149(1)(*d.3*) was added by S.C. 1998, c. 19, s. 178(1), applicable to taxation years and fiscal periods that begin after 1998.

► 149(1)(d.4) ◄

(d.4) Combined ownership — a corporation all of the shares (except directors' qualifying shares) or of the capital of which was owned by one or more persons each of which is a corporation, commission or association to which this paragraph or any of paragraphs (*d*) to (*d.3*) applies for the period;

History: S. 149(1)(*d.4*) was amended by S.C. 2001, c. 17, s. 145(3), applicable to taxation years and fiscal periods that begin after 1998. S. 149(1)(*d.4*) formerly read:

"(*d.4*) *Combined ownership* — a corporation all of the shares (except directors' qualifying shares) or of the capital of which was owned by a corporation, commission or association to which this paragraph or any of paragraphs (*d*) to (*d.3*) applies for the period;"

S. 149(1)(*d.4*) was added by S.C. 1998, c. 19, s. 178(1), applicable to taxation years and fiscal periods that begin after 1998.

► 149(1)(d.5) ◄

(d.5) Municipal corporations — subject to subsections (1.2) and (1.3), a corporation, commission or association not less than 90% of the capital of which was owned by one or more municipalities in Canada, if the income for the period of the corporation, commission or association from activities carried on outside the geographical boundaries of the municipalities does not exceed 10% of its income for the period;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced]

Paragraph 149(1)(*d.5*) of the Act is replaced by the following:

(d.5) **Income within boundaries of entities** — subject to subsections (1.2) and (1.3), a corporation, commission or association not less than 90% of the capital of which was owned by one or more entities each of which is a municipality in Canada, or a municipal or public body performing a function of government in Canada, if the income for the period of the corporation, commission or association from activities carried on outside the geographical boundaries of the entities does not exceed 10% of its income for the period;

Applicable: To taxation years that begin after May 8, 2000. Notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax payable under the Act for any taxation year that began before February 27, 2004 shall be made that is necessary to give effect to [the amendments to paragraph 149(1)(*d.5*), subparagraphs 149(1)(*d.6*)(i) and (ii), the portion of subsection 149(1.2) before paragraph (*b*), subsection 149(1.3), and the addition of 149(11)].

Explanatory Note:

Exemptions — Municipalities and Other Governmental Public Bodies

Paragraph 149(1)(*d.5*) of the Act exempts from tax, subject to an income test, the taxable income of any corporation, commission or association at least 90% of the capital of which is owned by one or more municipalities in Canada.

In accordance with the Tax Court of Canada decision in *Otineka Development Corporation Limited and 72902 Manitoba Limited v. The Queen*, 94 D.T.C. 1234, [1994] 1 C.T.C. 2424, an entity could be considered a municipality for the purpose of this paragraph on the basis of the functions it exercised. More recently, however, the decision in *Tawich Development Corporation v. Deputy Minister of Revenue of Quebec*, [1997] 2 C.N.L.R. 187 (Que. Civil Chamber), aff'd 2001 D.T.C. 5144 (Que. C.A.), a decision under the *Taxation Act* (Quebec), held that an entity could not attain the status of a municipality by exercising municipal functions but only by statute, letters patent or order. From a tax policy perspective, it is desired that the entities previously entitled to the exemption on the basis of the *Otineka* decision continue to have access to the exemption. This amendment resolves the uncertainty resulting from the two conflicting cases. The exemption in paragraph 149(1)(*d.5*) is therefore extended to include any corporation, commission or association at least 90% of the capital of which was owned by one or more entities each of which is a municipal or public body performing a function of government in Canada, which is consistent with the bodies described in paragraph 149(1)(*c*) of the Act.

This amendment applies to taxation years that begin after May 8, 2000.

Department of Finance Comfort Letter

[Tax Exempt Status — Indirect Ownership by Municipality]

May 5, 2004

Dear XXXX

I am responding to your letter to me of March 17, 2004 and discussions with Stephanie Smith concerning the tax-exempt status of an amalgamated corporation ("XXXX"). Once amalgamated, XXXX will be approximately 59% owned by Municipality A and 41% owned by Municipality B. However, while Municipality A will directly own 59% of XXXX, Municipality B will indirectly own 41% of XXXX due to the interposition of a XXXX which is wholly owned by Municipality B.

In general, paragraphs 149(1)(*c*) through (*d.6*) of the Act exempt from tax under Part I of the Act municipalities in Canada, Crown corporations and municipal corporations, as well as certain other corporations jointly or indirectly owned by the Crown or municipalities in Canada. With respect to corporations owned by municipalities, the following combinations are provided for in the Act:

- paragraph 149(1)(*d.3*) — a corporation not less than 90% of the shares of which are owned by one or more municipalities in Canada in combination with one or more per-

sons each of which is Canada, a province, a corporation all of the shares of which are owned by Canada or a province, or a wholly-owned subsidiary of such a corporation;

- paragraph 149(1)(*d.5*) — subject to an income and control test, a corporation not less than 90% of the capital of which is owned by one or more municipalities in Canada;
- paragraph 149(1)(*d.6*) — subject to an income and control test, a corporation all of the shares of which are owned by one or more persons each of which is a corporation to which paragraph 149(1)(*d.5*) or (*d.6*) itself applies.

XXXX will not satisfy the requirements of any of the above-noted provisions.

You have asked us to recommend an amendment to the Act such that a corporation all of the shares of which are held by a combination of municipalities and corporations described in paragraph 149(1)(*d.5*) of the Act, will also qualify as a tax exempt corporation.

We consider the requested amendment to be consistent with the underlying policy objective of the provision; consequently, we are prepared to recommend that the *Income Tax Act* be amended to provide that a corporation will be exempt from tax under Part I of the Act provided that all of the shares of the corporation are owned by one or more municipalities in Canada in combination with one or more persons each of which is a corporation to which paragraph 149(1)(*d.5*) or 149(1)(*d.6*) applies for the period. Furthermore, our recommendation would be that the amendment be effective after April 30, 2004.

While I cannot offer any assurance that our recommendation in this matter will be accepted, I hope our statement of intent in this letter will be helpful in responding to your concern.

Yours sincerely,
Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 149(1)(*d.5*) was added by S.C. 1998, c. 19, s. 178(1), applicable to taxation years and fiscal periods that begin after 1998.

► 149(1)(d.6) ◄

(d.6) Subsidiaries of municipal corporations — subject to subsections (1.2) and (1.3), a particular corporation all of the shares (except directors' qualifying shares) or of the capital of which was owned by one or more persons each of which is a corporation, commission or association to which paragraph (*d.5*) or this paragraph applies for the period if the income for the period of the particular corporation from activities carried on outside

(i) if paragraph (*d.5*) applies to the other corporation, commission or association, the geographical boundaries of the municipalities referred to in that paragraph in its application to that other corporation, commission or association, or

(ii) if this paragraph applies to the other corporation, commission or association, the geographical boundaries of the municipalities referred to in subparagraph (i) in its application to that other corporation, commission or association,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraphs 149(1)(*d.6*)(i) and (ii) of the Act are replaced by the following:

(i) if paragraph (*d.5*) applies to the other corporation, commission or association, the geographical boundaries of the entities referred to in that paragraph in its application to that other corporation, commission or association, or

(ii) if this paragraph applies to the other corporation, commission or association, the geographical boundaries of the entities referred to in subparagraph (i) in its application to that other corporation, commission or association;

Applicable: To taxation years that begin after May 8, 2000. Notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax payable under the Act for any taxation year that began before February 27, 2004 shall be made that is necessary to give effect to [the amendments to paragraph 149(1)(*d.5*), subparagraphs 149(1)(*d.6*)(i) and (ii), the portion of subsection 149(1.2) before paragraph (*b*), subsection 149(1.3), and the addition of 149(11)].

Explanatory Note:

Exemptions — Subsidiaries of Municipal Corporations

Paragraph 149(1)(*d.6*) of the Act exempts from tax, subject to an income test, a wholly-owned subsidiary of a corporation, commission or association referred to in paragraph 149(1)(*d.5*) of the Act. As a consequence of the amendment to paragraph 149(1)(*d.5*), the geographical boundaries of the entities referred to in subparagraphs (i) and (ii) of paragraph 149(1)(*d.6*) are expanded to include references to all of the entities in the amended 149(1)(*d.5*).

This amendment applies to taxation years that begin after May 8, 2000.

does not exceed 10% of its income for the period;

History: S. 149(1)(*d.6*), the portion before subparagraph (i) was amended by S.C. 2001, c. 17, s. 145(4), applicable to taxation years and fiscal periods that begin after 1998. S. 149(1)(*d.6*), the portion before subparagraph (i) formerly read:

"(*d.6*) *[Subsidiaries of municipal corporations]* — subject to subsections (1.2) and (1.3), a particular corporation all the shares (except directors' qualifying shares) or of the capital of which was owned by another corporation, commission or association to which paragraph (*d.5*) or this paragraph applies for the period if the income for the period of the particular corporation from activities carried on outside"

S. 149(1)(*d.6*) was added by S.C. 1998, c. 19, s. 178(1), applicable to taxation years and fiscal periods that begin after 1998.

► 149(1)(e) ◄

(e) Certain organizations — an agricultural organization, a board of trade or a chamber of commerce, no part of the income of which was payable to, or was otherwise available for the personal benefit of, any proprietor, member or shareholder thereof;

Related Sections: S. 149(2) Determination of income.

Cases: A milk processing co-operative, incorporated under the Quebec *Co-operative Agricultural Associations Act*, could not claim exemption under former s. 62(1)(*d*) or (*i*) of the *Income Tax Act* (now s. 149(1)(*e*) or (*l*)) since its main activities had too much of a commercial aspect to come within the ambit of social welfare, civic improvement, etc. *Montreal Milk Producers Co-operative Agricultural Ass'n v. M.N.R.*, 58 DTC 1010 (Ex. Ct.). See also *Ontario Hog Producers' Co-operative v. M.N.R.*, 62 DTC 322 (T.A.B.).

► 149(1)(f) ◄

(f) Registered charities — a registered charity;

Related Sections: S. 149(2) Determination of income; s. 149.1 Charities.

Regulations: Part XXXV.

► 149(1)(g) ◄

(g) Non-profit corporation — [Repealed by 1976-77, c. 4, s. 59(1).]

► 149(1)(h) ◄

(h) Charitable trusts — [Repealed by 1976-77, c. 4, s. 59(1).]

► 149(1)(h.1) ◄

(h.1) Association of Universities and Colleges of Canada — the Association of Universities and Colleges of Canada, incorporated by the *Act to incorpo-*

rate Association of Universities and Colleges of Canada, chapter 75 of the Statutes of Canada, 1964-65;

► 149(1)(i) ◄

(i) Certain housing corporations — a corporation that was constituted exclusively for the purpose of providing low-cost housing accommodation for the aged, no part of the income of which was payable to, or was otherwise available for the personal benefit of, any proprietor, member or shareholder thereof;

Related Sections: S. 149(2) Determination of income.

► 149(1)(j) ◄

(j) Non-profit corporations for scientific research and experimental development — a corporation that was constituted exclusively for the purpose of carrying on or promoting scientific research and experimental development, no part of whose income was payable to, or was otherwise available for the personal benefit of, any proprietor, member or shareholder thereof, that has not acquired control of any other corporation and that, during the period,

(i) did not carry on any business, and

(ii) expended amounts in Canada each of which is

(A) an expenditure on scientific research and experimental development (within the meaning that would be assigned by paragraph 37(8)(*a*) if subsection 37(8) were read without reference to paragraph 37(8)(*d*)) directly undertaken by or on behalf of the corporation, or

(B) a payment to an association, university, college or research institute or other similar institution, described in clause 37(1)(*a*)(ii)(A) or (B) to be used for scientific research and experimental development, and

the total of which is not less than 90% of the amount, if any, by which the corporation's gross revenue for the period exceeds the total of all amounts paid in the period by the corporation because of subsection (7.1);

History: S. 149(1)(*j*)(ii)(A) was amended by S.C. 1996, c. 21, s. 37(2), applicable to taxation years that end after November 1991. S. 149(1)(*j*)(ii)(A) formerly read:

"(A) an expenditure on scientific research and experimental development (within the meaning that would be assigned by subsection 37(7) if that subsection were read without reference to paragraph 37(8)(*d*)) directly undertaken by or on behalf of the corporation, or"

S. 149(1)(*j*)(ii), the portion after clause (B), was amended by S.C. 1996, c. 21, s. 37(3), applicable to taxation years that begin after June 1995. That part formerly read:

"the total of which is not less than 90% of the corporation's income for the period;"

Related Sections: S. 149(2) Determination of income; s. 149(7.1) Penalty for failure to file on time; s. 149(8)–(10).

Information Circulars: IC 86-4R3 Scientific Research and Experimental Development.

SR&ED Application Policies: Application Policy 96-10, Third party payments — Approval process.

► 149(1)(k) ◄

(k) Labour organizations — a labour organization or society or a benevolent or fraternal benefit society or order;

Related Sections: S. 149(3) Application of s. (1) — income from life insurance business; s. 149(4) Application of s. (1) — income from life insurance business.

Interpretation Bulletins: *Primary* — IT-389R Vacation pay trusts established under collective agreements.

Tax Window Files: Return of Funds on Annulment of Labour Association, June 17, 2005, CRA Document No. 2005-0134441E5; Fund Established for the Benefit of Former Employees, October 28, 2004, CRA Document No. 2003-0048901E5; Benevolent or Fraternal Benefit Society, October 31, 2003, CRA Document No. 2003-0035615; Profit Activities Carried on by Labour Organization, March 20, 1996, CRA Document No. 9600525; Labour Organization, February 5, 1996, CRA Document No. 9532825; Purchase of Shares by Union, December 28, 1995, CRA Document No. 9529347

Cases: Profits from a newspaper business, channelled to members through a labour union, were not exempt from tax *Ferris et al. v. M.N.R.*, 77 DTC 17 (T.R.B.). See also *O'Brien v. The Queen*, 85 DTC 5202 (F.C.T.D.) and *L.I.U.N.A. Local 527 Members' Training Trust Fund v. The Queen*, 92 DTC 2365 (T.C.C.).

► 149(1)(l) ◄

(l) Non-profit organizations — a club, society or association that, in the opinion of the Minister, was not a charity within the meaning assigned by subsection 149.1(1) and that was organized and operated exclusively for social welfare, civic improvement, pleasure or recreation or for any other purpose except profit, no part of the income of which was payable to, or was otherwise available for the personal benefit of, any proprietor, member or shareholder thereof unless the proprietor, member or shareholder was a club, society or association the primary purpose and function of which was the promotion of amateur athletics in Canada;

Related Sections: S. 149(2) Determination of income; s. 149(5) Exception re investment income of certain clubs.

Interpretation Bulletins: *Primary* — IT-304R2 Condominiums; IT-409 Winding-up of a non-profit organization [Archived by the CRA]; IT-496R Non-profit organizations. *Secondary* — IT-83R3 Non-profit organizations — Taxation of income from property.

Guides: T4117 Income Tax Guide to the Non-Profit Organization (NPO) Information Return.

Forms: T1044.

Registered Charities Newsletters: No. 19, Did you know?.

Tax Topics: No. 1693, Non-Profit Organizations and Profit-Making Activities: A Taxing Proposition?.

Canadian Tax Foundation: Drache, "Charities, Non-Profits, and Business Activities", *1997 Conference Report*, 30:1.

Cases: The taxpayer's Letters Patent, general by-law and its profit and loss results supported its claim that it was a non-profit organization exempt from tax. The taxpayer's high level of commercial activity and large stabilization reserve did not prove that the taxpayer was being operated for profit. *The Canadian Bar Insurance Association v. The Queen*, 99 DTC 653 (T.C.C.).

A taxpayer's argument that the interest earned on its short term deposits and on a small bond were tax exempt as part of its operating income as a non profit organization was untenable, considering that its golf and other recreational operations did not constitute a business or a source of income and its investment activities were not part of a separate business. *Elm Ridge Country Club Inc. v. The Queen*, 98 DTC 6672 (F.C.A.), affirming 95 DTC 715 (T.C.C.).

A partnership selling beer in a community and distributing all profits for charitable, educational, etc. purposes was held to be tax exempt by reason of s. 62(1)(*i*) (now s. 149(1)(*l*)), *M.N.R. v. Bégin*, 62 DTC 1099 (Ex. Ct.).

► 149(1)(m) ◄

(m) Mutual insurance corporations — a mutual insurance corporation that received its premiums wholly from the insurance of churches, schools or other charitable organizations;

► 149(1)(n) ◄

(n) Housing companies — a limited-dividend housing company (within the meaning of that expression as defined in section 2 of the *National Housing Act*), all or substantially all of the business of which is the construction, holding or management of low-rental housing projects;

► 149(1)(o) ◄

(o) Pension trusts — a trust governed by a registered pension plan;

Related Sections: S. 138.1(7) Where ss. (1) to (6) do not apply; s. 144(2) No tax while trust governed by plan; s. 146 Registered retirement savings plans; s. 147 Deferred profit sharing plans; s. 205(1) Definitions; s. 205(2) Definitions in subsection 146.4(1).
Forms: T3P.

► 149(1)(o.1) ◄

(o.1) **Pension corporations** — a corporation

(i) incorporated and operated throughout the period either

(A) solely for the administration of a registered pension plan, or

(B) for the administration of a registered pension plan and for no other purpose other than acting as trustee of, or administering, a trust governed by a retirement compensation arrangement, where the terms of the arrangement provide for benefits only in respect of individuals who are provided with benefits under the registered pension plan, and

(ii) accepted by the Minister as a funding medium for the purpose of the registration of the pension plan;

History: S. 149(1)(o.1) was amended by S.C. 1998, c. 19, s. 178(2), applicable to the 1994 and subsequent taxation years. That paragraph formerly read:

"(o.1) *Pension corporations* — a corporation incorporated and operated throughout the period solely for the administration of a registered pension plan and accepted by the Minister as a funding medium for the purposes of the registration of a pension plan;"

Regulations: 8502(g).

► 149(1)(o.2) ◄

(o.2) **Idem** — a corporation

(i) incorporated before November 17, 1978 solely in connection with, or for the administration of, a registered pension plan,

(ii) that has at all times since the later of November 16, 1978 and the date on which it was incorporated

(A) limited its activities to

(I) acquiring, holding, maintaining, improving, leasing or managing capital property that is real property or an interest in real property owned by the corporation, another corporation described by this subparagraph and subparagraph (iv) or a registered pension plan, and

(II) investing its funds in a partnership that limits its activities to acquiring, holding, maintaining, improving, leasing or managing capital property that is real property or an interest in real property owned by the partnership,

(B) made no investments other than in real property or an interest therein or investments that a pension plan is permitted to make under the *Pension Benefits Standards Act, 1985* or a similar law of a province, and

(C) borrowed money solely for the purpose of earning income from real property or an interest therein,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Clauses 149(1)(o.2)(ii)(A) to (C) of the Act are replaced by the following:

(A) limited its activities to

(I) acquiring, holding, maintaining, improving, leasing or managing capital property that is real property or an interest in real property — or immovables or a real right in immovables — owned by the corporation, another corporation described by this subparagraph and subparagraph (iv) or a registered pension plan, and

(II) investing its funds in a partnership that limits its activities to acquiring, holding, maintaining, improving, leasing or managing capital property that is real property or an interest in real property — or immovables or a real right in immovables — owned by the partnership,

(B) made no investments other than in real property or an interest in real property — or immovables or a real right in immovables — or investments that a pension plan is permitted to make under the *Pension Benefits Standards Act, 1985* or a similar law of a province, and

(C) borrowed money solely for the purpose of earning income from real property or an interest in real property or from immovables or a real right in immovables,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(o).]

(ii.1) that throughout the period

(A) limited its activities to

(I) acquiring Canadian resource properties by purchase or by incurring Canadian exploration expense or Canadian development expense, or

(II) holding, exploring, developing, maintaining, improving, managing, operating or disposing of its Canadian resource properties,

(B) made no investments other than in

(I) Canadian resource properties,

(II) property to be used in connection with Canadian resource properties described in clause (A),

(III) loans secured by Canadian resource properties for the purpose of carrying out any activity described in clause (A) with respect to Canadian resource properties, or

(IV) investments that a pension fund or plan is permitted to make under the *Pension Benefits Standards Act, 1985* or a similar law of a province, and

(C) borrowed money solely for the purpose of earning income from Canadian resource properties, or

(iii) that made no investments other than investments that a pension fund or plan was permitted to make under the *Pension Benefits Standards Act, 1985* or a similar law of a province, and

(A) the assets of which were at least 98% cash and investments,

(B) that had not issued debt obligations or accepted deposits, and

(C) that had derived at least 98% of its income for the period that is a taxation year of the corporation from, or from the disposition of, investments

if, at all times since the later of November 16, 1978 and the date on which it was incorporated,

(iv) all of the shares, and rights to acquire shares, of the capital stock of the corporation are owned by

(A) one or more registered pension plans,

(B) one or more trusts all the beneficiaries of which are registered pension plans,

(C) one or more related segregated fund trusts (within the meaning assigned by paragraph 138.1(1)(*a*)) all the beneficiaries of which are registered pension plans, or

(D) one or more prescribed persons, or

(v) in the case of a corporation without share capital, all the property of the corporation has been held exclusively for the benefit of one or more registered pension plans,

and for the purposes of subparagraph (iv), where a corporation has been formed as a result of the merger of two or more other corporations, it shall be deemed to be the same corporation as, and a continuation of, each such other corporation and the shares of the merged corporations shall be deemed to have been altered, in form only, by virtue of the merger and to have continued in existence in the form of shares of the corporation formed as a result of the merger;

Department of Finance Comfort Letter
[Permissible Shareholders for Corporations Used in Connection With Registered Pension Plans]

October 16, 2003

Dear XXXX:

This is in reply to your letter of September 9, 2003 in which you request a change to the income tax rules that would permit the XXXX and its wholly-owned subsidiaries to invest in corporations that are exempt from tax under paragraph 149(1)(*o.2*) of the *Income Tax Act* (the "Act"). I also wish to acknowledge discussions between Tax Legislation officials and your external tax counsel.

Based on our understanding that the XXXX activities are limited to the investment of the assets held in connection with the registered pension plans established under the *Canadian Forces Superannuation Act*, the *Public Service Superannuation Act*, and the *Royal Canadian Mounted Police Superannuation Act*, we have no tax policy concerns with the XXXX investing in such corporations. Accordingly, we will recommend to the Minister of Finance that the income tax rules be amended to clarify that the XXXX and its wholly-owned subsidiaries are permissible shareholders for corporations described in paragraph 149(1)(*o.2*) of the Act, effective after September 2003.

I trust this is satisfactory.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 149(1)(*o.2*)(ii)(A) was amended by S.C. 2001, c. 17, s. 145(5), applicable to taxation years that end after 2000. S. 149(1)(*o.2*)(ii)(A) formerly read:

"(A) limited its activities to acquiring, holding, maintaining, improving, leasing or managing capital property that is real property or an interest therein owned by the corporation, another corporation described by this subparagraph and subparagraph (iv) or a registered pension plan,"

Related Sections: S. 253.1 Investments in limited partnerships.
Regulations: 4802.
Income Tax Technical News: Issue No. 38, Pension Fund Corporations.
Tax Topics: No. 1867-68, 2007 Canadian Tax Foundation Annual Conference CRA Round Table.

► 149(1)(o.3) ◄

(o.3) Prescribed small business investment corporations — a corporation that is prescribed to be a small business investment corporation;

Regulations: Part LI.

► 149(1)(o.4) ◄

(o.4) Master trusts — a trust that is prescribed to be a master trust and that elects to be such a trust under this paragraph in its return of income for its first taxation year ending in the period;

Regulations: 4802(1.1); 5001.
Interpretation Bulletins: *Secondary* — IT-286R2 Trusts — Amount payable.
Canadian Tax Foundation: Krasa, "Income Tax Implications of Joint Investment by Pension Plans Through a Private Pooled Fund Vehicle", *1997 Canadian Tax Journal*, No. 1, 1.

► 149(1)(p) ◄

(p) Trusts under profit sharing plan — a trust under an employees profit sharing plan to the extent provided by section 144;

Related Sections: S. 144 Employee profit sharing plans; s. 149(1)(*j*) Non-profit corporations for scientific research and experimental development.

► 149(1)(q) ◄

(q) Trusts under a registered supplementary unemployment benefit plan — a trust under a registered supplementary unemployment benefit plan to the extent provided by section 145;

Related Sections: S. 145 Registered supplementary unemployment benefit plans.
Information Circulars: IC 72-5R2 Registered Supplementary Unemployment Benefit Plans.

► 149(1)(q.1) ◄

(q.1) RCA trusts — an RCA trust (within the meaning assigned by subsection 207.5(1));

► 149(1)(r) ◄

(r) Trusts under registered retirement savings plan — a trust under a registered retirement savings plan to the extent provided by section 146;

Related Sections: S. 138.1(7) Where ss. (1) to (6) do not apply; s. 146 Registered retirement savings plans.
Information Circulars: IC 72-22R9 Registered Retirement Savings Plans.

► 149(1)(s) ◄

(s) Trusts under deferred profit sharing plan — a trust under a deferred profit sharing plan to the extent provided by section 147;

Related Sections: S. 147 Deferred profit sharing plans.
Information Circulars: IC 77-1R5 Deferred profit sharing plan.

► 149(1)(s.1) ◄

(s.1) Trust governed by eligible funeral arrangement — a trust governed by an eligible funeral arrangement;

History: S. 149(1)(*s.1*) was added by S.C. 1995, c. 21, s. 63(1), applicable to the 1993 and subsequent taxation years.

► 149(1)(s.2) ◄

(s.2) Cemetery care trust — a cemetery care trust;

History: S. 149(1)(*s.2*) was added by S.C. 1998, c. 19, s. 178(3), applicable to the 1993 and subsequent taxation years.

Related Sections: S. 108(1), "trust"; s. 148.1(1), "cemetery care trust"; s. 248(1), "cemetery care trust".

► 149(1)(t) ◄

(t) Farmers' and fishermen's insurer — an insurer that, throughout the period, is not engaged in any business other than insurance if, in the opinion of the Minister, on the advice of the Superintendent of Financial Institutions or of the superintendent of insurance of the province under the laws of which the insurer is incorporated, not less than 20% of the total of the gross premium income (net of reinsurance ceded) earned in the period by the insurer and, where the insurer is not a prescribed insurer, by all other insurers that

(i) are specified shareholders of the insurer,

(ii) are related to the insurer, or

(iii) where the insurer is a mutual corporation, are part of a group that controls, directly or indirectly in any manner whatever, or are controlled, directly or indirectly in any manner whatever by, the insurer,

is in respect of insurance of property used in farming or fishing or residences of farmers or fishermen;

History: S. 149(1)(*t*) was amended by S.C. 1997, c. 25, s. 47(1), applicable to the 1996 and subsequent taxation years. S. 149(1)(*t*) formerly read:

"(*t*) *Farmer's and fisherman's insurer* — an insurer who, during the period, was not engaged in any business other than insurance if, in the opinion of the Minister, on the advice of the Superintendent of Financial Institutions or of the superintendent of insurance of the province under the laws of which the insurer is incorporated, not less than 25% of the total of the gross premium income (net of reinsurance ceded) earned in the period by the insurer and, where the insurer is not a prescribed insurer, of all other insurers that

(i) were specified shareholders of the insurer,

(ii) were related to the insurer, or

(iii) where the insurer is a mutual corporation, were part of a group that controlled, directly or indirectly in any manner whatever, or were controlled, directly or indirectly in any manner whatever, by the insurer,

was in respect of the insurance of farm property, property used in fishing or residences of farmers or fishermen;"

S. 149(1)(*t*) was amended by S.C. 1994, c. 7, Sched. II, s. 122(1), applicable to the 1989 and subsequent taxation years. S. 149(1)(*t*) formerly read:

"(*t*) *Farmers' and fishermen's insurers* — an insurer, who was engaged during the period in no business other than insurance, if, in the opinion of the Minister, on the advice of the Superintendent of Financial Institutions or of the superintendent of insurance of the province under the laws of which the insurer is incorporated not less than 25% of the gross premium income (net of reinsurance ceded) of the insurer and all other insurers that were specified shareholders of the insurer or were related to the insurer or, where the insurer is a mutual corporation, all other insurers that were part of a group that controlled or were controlled by the insurer for the period was in respect of the insurance of farm property, property used in fishing or residences of farmers or fishermen;"

Related Sections: S. 138 Insurance corporations; s. 149(3) Application of s. (1) — income from life insurance business; s. 149(4.1) Farmers' and fishermen's insurer; s. 149(4.2) Farmers' and fishermen's insurer; s. 149(10) Exempt corporations.

Regulations: 4802(2).

► 149(1)(u) ◄

(u) Registered education savings plans — a trust governed by a registered education savings plan to the extent provided by section 146.1;

Related Sections: S. 146.1 Registered education savings plans; s. 146.1(5) Trust not taxable.

Information Circulars: IC 93-3R Registered Education Savings Plans.

► 149(1)(u.1) ◄

(u.1) Trusts under registered disability savings plans — a trust governed by a registered disability savings plan to the extent provided by section 146.4;

History: S. 149(1)(*u.1*) was added by S.C. 2007, c. 35, s. 116, applicable to the 2008 and subsequent taxation years.

► 149(1)(u.2) ◄

(u.2) TFSA trust — a trust governed by a TFSA to the extent provided by section 146.2;

History: S. 149(1)(*u.2*) was added by S.C. 2008, c. 28, s. 27(1), applicable to the 2009 and subsequent taxation years.

► 149(1)(v) ◄

(v) Amateur athlete trust — an amateur athlete trust;

History: S. 149(1)(*v*) was added by S.C. 1994, c. 7, Sched. VIII, s. 88(1), applicable to the 1988 and subsequent taxation years.

► 149(1)(w) ◄

(w) Trusts to provide compensation — a trust established as required under a law of Canada or of a province in order to provide funds out of which to compensate persons for claims against an owner of a business identified in the relevant law where that owner is unwilling or unable to compensate a customer or client, if no part of the property of the trust, after payment of its proper trust expenses, is available to any person other than as a consequence of that person being a customer or client of a business so identified;

► 149(1)(x) ◄

(x) Registered retirement income funds — a trust governed by a registered retirement income fund to the extent provided by section 146.3;

Information Circulars: IC 78-18R6 Registered Retirement Income Funds.

► 149(1)(y) ◄

(y) Trusts to provide vacation pay — a trust established pursuant to the terms of a collective agreement between an employer or an association of employers and employees or their labour organization for the sole purpose of providing for the payment of vacation or holiday pay, if no part of the property of the trust, after payment of its reasonable expenses, is

(i) available at any time after 1980, or

(ii) paid after December 11, 1979

to any person (other than a person described in paragraph (*k*)) otherwise than as a consequence of that person being an employee or an heir or legal representative thereof; or

Interpretation Bulletins: *Primary* — IT-389R Vacation pay trusts established under collective agreements.

► 149(1)(z) ◄

(z) Qualifying environmental trust — a qualifying environmental trust.

History: S. 149(1)(*z*) was amended by S.C. 1998, c. 19, s. 41(1), applicable to the 1997 and subsequent taxation years. S. 149(1)(*z*) formerly read:

"(*z*) *Mining reclamation trust* — a mining reclamation trust."

S. 149(1)(*z*) was added by S.C. 1995, c 3, s. 45(1), applicable to the 1994 and subsequent taxation years.

Related Sections: S. 12(1)(z.1) Qualifying environmental trusts; s. 12(1)(z2) Dispositions of interests in qualifying environmental trusts; s. 20(1)(*ss*) Qualifying environmental trusts; s. 20(1)(*tt*) Acquisition of interests in qualifying environmental trusts; s. 75(3) Exceptions; s. 107.3 Treatment of beneficiaries under qualifying environmental trusts; s. 211.6 Tax on qualifying environmental trusts; s. 248(1), "qualifying environmental trust"; s. 250(7) Residence of a qualifying environmental trust.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 149(1) of the Act is amended by striking out the word "or" at the end of paragraph (*y*) and by adding the following after paragraph (z):

(z.1) a trust

(i) that was created because of a requirement imposed by section 56 of the *Environment Quality Act*, R.S.Q., c. Q-2,

(ii) that is resident in Canada, and

(iii) in which the only persons that are beneficially interested are

(A) Her Majesty in right of Canada,

(B) Her Majesty in right of a province, or

(C) a municipality (as defined in section 1 of that Act) that is exempt because of this subsection from tax under this Part on all of its taxable income; or

(z.2) a trust

(i) that was created because of a requirement imposed by subsection 9(1) of the *Nuclear Fuel Waste Act*, S.C. 2002, c. 23,

(ii) that is resident in Canada, and

(iii) in which the only persons that are beneficially interested are

(A) Her Majesty in right of Canada,

(B) Her Majesty in right of a province,

(C) a nuclear energy corporation (as defined in section 2 of that Act) all of the shares of the capital stock of which are owned by one or more persons described in clause (A) or (B),

(D) the waste management organization established under section 6 of that Act if all of the shares of its capital stock are owned by one or more nuclear energy corporations described in clause (C), or

(E) Atomic Energy of Canada Limited, being the company incorporated or acquired pursuant to subsection 10(2) of the *Atomic Energy Control Act*, R.S.C. 1970, c. A-19.

Applicable: To the 1997 and subsequent taxation years.

Explanatory Note:

Trusts established because of the *Environment Quality Act* (Quebec) or the *Nuclear Fuel Waste Act*

New paragraph 149(1)(z.1)) exempts from tax under Part I a trust created because of a requirement imposed by section 56 of the *Environment Quality Act*(Quebec). That provision requires certain residual materials elimination facilities to provide financial guarantees by way of establishment of a social trust to cover certain costs after the closure of the facility. This exemption applies only where no persons are beneficially interested in the trust other than Her Majesty in right of Canada, Her Majesty in right of a province and municipalities that are exempt from taxation under subsection 149(1) of the ITA.

Similarly, new paragraph 149(1)(z.2) exempts from tax under Part I a trust created because of a requirement imposed by subsection 9(1) of the *Nuclear Fuel Waste Act* (NFWA). That provision requires specified entities to contribute moneys to a trust fund for the management of nuclear fuel waste. In this case, the exemption only applies where no persons are beneficially interested in the trust other than Her Majesty in right of Canada, Her Majesty in right of a province, a Crown-owned nuclear energy corporation that is exempt from taxation under subsection 149(1) of the ITA or the waste management organization that is required to be set up under the provisions of the NWFA (provided that all the shares of the waste management organization are owned by nuclear energy corporations).

These provisions ensure that the tax consequences to a municipality or Crown-owned nuclear energy corporation that is required by federal or provincial legislation to set up a trust to fund an environmental obligation are the same as if the municipality or the Crown-owned nuclear energy corporation accumulated the funds internally rather than in a trust.

These amendments apply to the 1997 and subsequent taxation years.

► 149(1.1) ◄

(1.1) Exception. Where at a particular time

(*a*) a corporation, commission or association (in this subsection referred to as "the entity") would, but for this subsection, be described in any of paragraphs (1)(*d*) to (*d*.6),

(*b*) one or more other persons (other than Her Majesty in right of Canada or a province, a municipality in Canada or a person which, at the particular time, is a person described in any of subparagraphs (1)(*d*) to (*d*.6)) have at the particular time one or more rights in equity or otherwise, either immediately or in the future and either absolutely or contingently to, or to acquire, shares or capital of the entity, and

(*c*) the exercise of the rights referred to in paragraph (*b*) would result in the entity not being a person described in any of paragraphs (1)(*d*.1) to (*d*.6) at the particular time,

the entity is deemed not to be, at the particular time, a person described in any of paragraphs (1)(*d*) to (*d*.6).

History: S. 149(1.1) was amended by S.C. 2001, c. 17, s. 145(6), applicable To taxation years and fiscal periods that begin after 1998 except that,

(*a*) where a corporation, commission or association so elects in writing and files the election with the Minister of National Revenue on or before the day that is six months after the end of the month in which this Act receives royal assent, the reference to "at a particular time" in subsection 149(1.1) of the Act shall be read as a reference to "at any time after November 1999"; and

(*b*) an election referred to in subsection 149(1.11) of Act, filed with the Minister of National Revenue on or before the day that is six months after the end of the month in which this Act receives royal assent, is deemed to have been filed in accordance with that subsection of the Act. S. 149(1.1) formerly read:

"(1.1) *Exception.* Paragraphs (1)(*d*) to (*d*.6) do not apply to a corporation, commission or association during a period in which a person other than Her Majesty in right of Canada or a province or a municipality in Canada had a right under a contract, in equity or otherwise, either immediately or in the future and either absolutely or contingently to, or to acquire, shares or capital of the corporation, commission or association."

S. 149(1.1) was added by S.C. 1998, c. 19, s. 178(4), applicable to taxation years and fiscal periods that begin after 1998.

► 149(1.11) ◄

(1.11) Election. Subsection (1) does not apply in respect of a person's taxable income for a particular taxation year that begins after 1998 where

(*a*) paragraph (1)(*d*) did not apply in respect of the person's taxable income for the person's last taxation year that began before 1999;

(*b*) paragraph (1)(*d*.2), (*d*.3) or (*d*.4) would, but for this subsection, have applied in respect of the person's taxable income for the person's first taxation year that began after 1998;

(*c*) there has been no change in the direct or indirect control of the person during the period that

(i) began at the beginning of the person's first taxation year that began after 1998, and

(ii) ends at the end of the particular year;

(*d*) the person elects in writing before 2002 that this subsection apply; and

(*e*) the person has not notified the Minister in writing before the particular year that the election has been revoked.

Department of Finance Comfort Letter [Definition of "Subsidiary Wholly-Owned Corporation"]

September 16, 2005

Dear XXXX,

I am writing in response to your letter of December 22, 2004 to Ms. Stephanie Smith of this Division. In that letter you refer to my letter to you dated December 6, 2004 regarding our intention to recommend to the Minister of Finance that the *Income Tax Act* (the "Act") be amended to provide that where one corporation (the "Parent") vertically amalgamates with a wholly-owned subsidiary under section 87 of the Act, any election made by the Parent under subsection 149(1.11) is deemed to have been made by the amalgamated corporation. You have asked for clarification in two respects: (i) the definition of "wholly-owned subsidiary" and (ii) the effective date for the proposed amendment.

The Act contains two definitions of the term "subsidiary wholly-owned corporation". You have requested that the proposed amendment (discussed above) refer to the definition contained in subsection 248(1) of the Act and not the more restrictive definition contained in subsection 87(1.4) of the Act. We understand that if the more restrictive definition in subsection 87(1.4) was used, XXXX would not benefit from the amendment as XXXX has issued directors' qualifying shares to meet a regulatory requirement in Ontario. It is our understanding that other than the directors' qualifying shares, XXXX wholly owns XXXX. Given the additional information that you have provided we will recommend that the amendment either refer to the definition of "subsidiary wholly-owned corporation" in subsection 248(1) or otherwise accommodate the situation where directors' qualifying shares have been issued.

We will further recommend that the amendment have application to amalgamations that occur after October 4, 2004, the date of your first letter to us on this matter. While we cannot offer any assurance that our recommendations in this matter will be accepted, we hope our statement of intent in this letter will be helpful in responding to your concern.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

Department of Finance Comfort Letter [Election Under Subsection 149(1.11) To Retain Taxable Status — Where Corporation Amalgamates with Wholly-Owned Subsidiary]

December 6, 2004

Dear XXXX

I am writing in response to your letter of October 4, 2004 to Mr. Denis Normand of the Business Income Tax Division and further to subsequent discussions with Stephanie Smith of the Tax Legislation Division concerning the election in subsection 149(1.11) of the *Income Tax Act* (the "Act"). You have asked us to amend the Act such that a new corporate entity formed as a result of an amalgamation, particularly in the case of a vertical amalgamation, is deemed to be the same corporation as, and a continuation of, a predecessor parent corporation with respect to any election made by that predecessor parent corporation pursuant to subsection 149(1.11) of the Act.

Subsection 149(1.11) was added to the Act following an amendment to paragraph 149(1)(*d*) and the addition of paragraphs 149(1)(*d*.2) to (*d*.4). Those amendments caused some entities that were previously taxable to become exempt. The result was appropriate from a tax policy standpoint, however, it may not have been beneficial for a limited number of entities since it would trigger the application of subsection 149(10). As a result, subsection 149(1.11) was added to allow an entity, that became exempt because of any of paragraphs 149(1)(*d*.2) to (*d*.4), to elect in writing to retain its taxable status. Two conditions apply for the entity to retain its taxable status: (i) the election had to be made before 2002 and (ii) there can be no change in the direct or indirect control of the entity.

You have brought to our attention the situation of XXXX. XXXX holds a XXXX provincial insurers' licence and is licensed to conduct business in XXXX. XXXX was affected by the addition of paragraphs 149(1)(*d*.2) to (*d*.4). XXXX wanted to remain a taxable entity in order to obtain insurance licences in other provinces and therefore made an election in accordance with subsection 149(1.11). We assume that there has been no change in the direct or indirect control of XXXX since the election was made. XXXX wholly owns XXXX which holds an XXXX provincial insurers' licence. XXXX is a taxable entity.

XXXX would like to amalgamate with XXXX pursuant to subsection 87(1) of the Act, to improve the capitalization of XXXX for regulatory purposes, to reduce administrative costs and to utilize losses carried forward in the corporate group. Although a windup would achieve the same objectives, and allow the election made by XXXX under subsection 149(1.11) to remain intact, it is not feasible from a commercial standpoint because of the volume of contracts, licences, leases and other agreements that would have to be assigned.

In general, the Act treats an amalgamated corporation as a new corporation for tax purposes. There are some exceptions to this rule where, for specific purposes, the amalgamated corporation is deemed to be the same corporation as, and a continuation of, each predecessor corporation. Section 149 is not one of the exceptions.

XXXX is of the view that the amalgamated company needs to remain a taxable entity. XXXX is currently selling insurance in XXXX and XXXX and is looking to expand into other provinces. I understand that XXXX believes that being a tax-exempt entity would likely impair the current operations, and also hamper future expansion. Tax-exempt status may be considered by provincial regulators to be an unfair advantage over existing insurers currently operating in those jurisdictions.

As I trust you can appreciate, an important concern in respect of the application of section 149 is the maintenance of competitive equity in the commercial marketplace. We have carefully considered our situation and have concluded that, by allowing amalgamated XXXX and XXXX to remain taxable, our concern for competitive equity does not arise. As such, we are prepared to recommend to the Minister of Finance that the Act be amended to provide that where one corporation (the "Parent") vertically amalgamates with a wholly-owned subsidiary under section 87 of the Act, any election made by the Parent under subsection 149(1.11) is deemed to have been made by the amalgamated corporation.

While we cannot offer any assurance that our recommendation in this matter will be accepted, we hope our statement of intent in this letter will be helpful in responding to your concern.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch
c.c.: Denis Normand
Business Income Tax
Department of Finance

History: S. 149(1.11) was added by S.C. 2001, c. 17, s. 145(6), applicable to taxation years and fiscal periods that begin after 1998 except that,

(*a*) where a corporation, commission or association so elects in writing and files the election with the Minister of National Revenue on or before December 31, 2001 [the day that is six months after the end of the month in which this Act receives royal assent (June 14, 2001)], the reference to "at a particular time" in subsection 149(1.1) of the Act shall be read as a reference to "at any time after November 1999"; and

(*b*) an election referred to in subsection 149(1.11) of Act, filed with the Minister of National Revenue on or before December 31, 2001 [the day that is six months after the end of the month in which this Act receives royal assent (June 14, 2001)], is deemed to have been filed in accordance with that subsection of the Act.

► 149(1.2) ◄

(1.2) Income test. For the purposes of paragraphs (1)(*d.5*) and (*d.6*), income of a corporation, commission or association from activities carried on outside the geographical boundaries of a municipality does not include income from activities carried on

(*a*) under an agreement in writing between

(i) the corporation, commission or association, and

(ii) a person who is Her Majesty in right of Canada or a province or a municipality or corporation to which any of paragraphs (1)(*d*) to (*d.6*) applies and that is controlled by Her Majesty in right of Canada or a province or by a municipality in Canada

within the geographical boundaries of,

(iii) where the person is Her Majesty in right of Canada or a corporation controlled by Her Majesty in right of Canada, Canada,

(iv) where the person is Her Majesty in right of a province or a corporation controlled by Her Majesty in right of a province, the province, and

(v) where the person is a municipality in Canada or a corporation controlled by a municipality in Canada, the municipality; or

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 149(1.2) of the Act before paragraph (*b*) is replaced by the following:

(1.2) Income test. For the purposes of paragraphs (1)(*d.5*) and (*d.6*), income of a corporation, a commission or an association from activities carried on outside the geographical boundaries of a municipality or of a municipal or public body does not include income from activities carried on

(*a*) under an agreement in writing between

(i) the corporation, commission or association, and

(ii) a person who is Her Majesty in right of Canada or of a province, a municipality, a municipal or public body or a corporation to which any of paragraphs (1)(*d*) to (*d.6*) applies and that is controlled by Her Majesty in right of Canada or of a province, by a municipality in Canada or by a municipal or public body in Canada

within the geographical boundaries of,

(iii) if the person is Her Majesty in right of Canada or a corporation controlled by Her Majesty in right of Canada, Canada,

(iv) if the person is Her Majesty in right of a province or a corporation controlled by Her Majesty in right of a province, the province,

(v) if the person is a municipality in Canada or a corporation controlled by a municipality in Canada, the municipality, and

(vi) if the person is a municipal or public body performing a function of government in Canada or a corporation controlled by such a body, the area described in subsection (11) in respect of the person; or

Applicable: To taxation years that begin after May 8, 2000. Notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax payable under the Act for any taxation year that began before February 27, 2004 shall be made that is necessary to give effect to [the amendments to paragraph 149(1)(*d.5*), subparagraphs 149(1)(*d.6*)(i) and (ii), the portion of subsection 149(1.2) before paragraph (*b*), subsection 149(1.3), and the addition of 149(11)].

Explanatory Note:

Income Test

Subsection 149(1.2) of the Act excludes, for the purposes of paragraphs 149(1)(*d.5*) and (*d.6*) of the Act, certain income from the determination of where an entity to which either of those paragraphs applies derives its income. As a consequence of the amendment to paragraph 149(1)(*d.5*), a written agreement in subsection 149(1.2) is expanded to include reference to a municipal or public body.

In addition, subparagraph 149(1.2)(*a*)(vi) is added to clarify that the geographical boundary of a municipal or public body performing a function of government in Canada is defined to be the area described in new subsection (11).

This amendment applies to taxation years that begin after May 8, 2000.

(*b*) in a province as

(i) a producer of electrical energy or natural gas, or

(ii) a distributor of electrical energy, heat, natural gas or water,

where the activities are regulated under the laws of the province.

History: S. 149(1.2) was amended by S.C. 2001, c. 17, s. 145(7), applicable to taxation years and fiscal periods that begin after 1998. S. 149(1.2) formerly read:

"(1.2) *Income test.* For the purposes of paragraphs (1)(*d.5*) and (*d.6*), income of a corporation, commission or association from activities carried on outside the geographical boundaries of a municipality does not include income from activities carried on under an agreement in writing between

(*a*) the corporation, commission or association, and

(*b*) a person who is Her Majesty in right of Canada or a province or a municipality or corporation to which any of paragraphs (1)(*d*) to (*d.6*) applies and that is controlled by Her Majesty in right of Canada or a province or by a municipality in Canada

within the geographical boundaries of,

(*c*) where the person is Her Majesty in right of Canada or a corporation controlled by Her Majesty in right of Canada, Canada,

(*d*) where the person is Her Majesty in right of a province or a corporation controlled by Her Majesty in right of a province, the province, and

(*e*) where the person is a municipality in Canada or a corporation controlled by a municipality in Canada, the municipality."

S. 149(1.2) was added by S.C. 1998, c. 19, s. 178(4), applicable to taxation years and fiscal periods that begin after 1998.

► 149(1.3) ◄

(1.3) Capital ownership. For the purposes of paragraph (1)(*d.5*) and subsection (1.2), 90% of the capital of a corporation that has issued share capital is owned by one or more municipalities only when the municipalities own shares of the capital stock of the corporation that give the municipalities 90% or more of the votes that could be cast under all circumstances at an annual meeting of shareholders of the corporation.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 149(1.3) of the Act is replaced by the following:

(1.3) Votes or *de facto* control. Paragraphs (1)(*d*) to (*d.6*) do not apply in respect of a person's taxable income for a period in a taxation year if at any time during the period

(*a*) the person is a corporation shares of the capital stock of which are owned by one or more other persons that, in total, give them more than 10% of the votes that could be cast at a meeting of shareholders of the corporation, other than shares that are owned by one or more persons each of which is

(i) Her Majesty in right of Canada or of a province,

(ii) a municipality in Canada,

(iii) a municipal or public body performing a function of government in Canada, or

(iv) a corporation, a commission or an association, to which any of paragraphs (1)(*d*) to (*d.6*) apply; or

(*b*) the person is, or would be if the person were a corporation, controlled, directly or indirectly in any manner whatever, by a person, or by a group of persons that includes a person, who is not

(i) Her Majesty in right of Canada or of a province,

(ii) a municipality in Canada,

(iii) a municipal or public body performing a function of government in Canada, or

(iv) a corporation, a commission or an association, to which any of paragraphs (1)(*d*) to (*d.6*) apply.

Applicable: To taxation years that begin after May 8, 2000, except that, for those taxation years that began before December 21, 2002, subsection 149(1.3) is to be read as follows:

"(1.3) For the purposes of paragraph (1)(*d.5*) and subsection (1.2), 90% of the capital of a corporation that has issued share capital is owned by one or more entities, each of which is a municipality or a municipal or public body, only if the entities own shares of the capital stock of the corporation that give the entities 90% or more of the votes that could be cast under all circumstances at an annual meeting of shareholders of the corporation."

Notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax payable under the Act for any taxation year that began before February 27, 2004 shall be made that is necessary to give effect to [the amendments to paragraph 149(1)(*d.5*), subparagraphs 149(1)(*d.6*)(i) and (ii), the portion of subsection 149(1.2) before paragraph (*b*), subsection 149(1.3), and the addition of 149(11)].

Explanatory Note:

Votes or de Facto Control

Subsection 149(1.3) of the Act provides that, for the purposes of applying paragraph 149(1)(*d.5*) and subsection 149(1.2) of the Act to a corporation, 90% of the capital of the corporation is considered to be owned by one or more municipalities only if the municipalities are entitled to at least 90% of the votes associated with the shares of the corporation.

As a consequence of the amendment to paragraph 149(1)(*d.5*), subsection 149(1.3) is amended applicable to taxation years that begin after May 8, 2000, to include reference to municipal or public bodies performing a function of government in Canada.

In addition, subsection 149(1.3) is replaced, applicable to taxation years that begin after December 20, 2002, to provide that paragraphs 149(1)(*d*) to (*d.6*) do not apply to exempt a person's taxable income for a period in a taxation year in two cases.

First, under new paragraph 149(1.3)(*a*), a corporation is not exempt from tax on its taxable income for a period in a taxation year if at any time during the period the corporation has issued shares that are owned by one or more persons (other than certain tax-exempts) that, in total, give them more than 10% of the votes that could be cast at a meeting of shareholders. For this purpose, it is necessary to determine whether more than 10% of the votes could be cast at a meeting of the shareholders by a person or persons other than:

- Her Majesty in right of Canada or of a province,
- a municipality in Canada,
- a municipal or public body performing a function of government in Canada, or
- a commission, an association or a corporation, to which any of paragraphs 149(1)(*d*) to (*d.6*) apply.

Second, under new paragraph 149(1.3)(*b*), a person is not exempt because of any of paragraphs 149(1)(*d*) to (*d.6*) from tax on taxable income for a period in a taxation year if at any time in the period the person is, or would be if the person were a corporation, controlled, directly or indirectly in any manner whatever, by a person (or by a group of persons that includes a person) other than:

- Her Majesty in right of Canada or of a province,
- a municipality in Canada,
- a municipal or public body performing a function of government in Canada, or
- a commission, an association or a corporation, to which any of paragraphs 149(1)(*d*) to (*d.6*) apply.

For further details about the expression "controlled, directly or indirectly in any manner whatever", reference should be made to subsections 256(5.1) and (6) of the Act. In general, the expression refers to a controller, who has any direct or indirect influence that, if exercised, would result in control in fact of the person.

History: S. 149(1.3) was added by S.C. 1998, c. 19, s. 178(4), applicable to taxation years and fiscal periods that begin after 1998.

► 149(2) ◄

(2) Determination of income. For the purposes of paragraphs (1)(*e*), (*i*), (*j*) and (*l*), in computing the part, if any, of any income that was payable to or otherwise available for the personal benefit of any person or the total of any amounts that is not less than a percentage specified in any of those paragraphs of any income for a period, the amount of such income shall be deemed to be the amount thereof determined on the assumption that the amount of any taxable capital gain or allowable capital loss is nil.

History: S. 149(2) was amended by S.C. 1994, c. 7, Sched. VIII, s. 88(2), applicable to the 1992 and subsequent taxation years. S. 149(2) formerly read:

"(2) *Income not to include taxable capital gains.* For the purposes of paragraphs (1)(*e*), (*i*), (*j*) and (*l*), in computing the part, if any, of any income that was payable to or otherwise available for the personal benefit of any person or the total of any amounts that is not less than a percentage specified in any of those paragraphs of any income for a period, the amount of that income shall be deemed to be the amount thereof otherwise determined less the amount of any taxable capital gains included therein."

Related Sections: S. 149(1)(*e*)–(*j*); s. 149(5) Exception re investment income of certain clubs.

Interpretation Bulletins: *Secondary* — IT-409 Winding-up of a non-profit organization [Archived by the CRA].

► 149(3) ◄

(3) Application of s. (1). Subsection (1) does not apply in respect of the taxable income of a benevolent or fraternal society or order from carrying on a life insurance business or, for greater certainty, from the sale of property used by it in the year in, or held by it in the year in the course of, carrying on a life insurance business.

Related Sections: S. 149(1)(*k*) Labour organizations; s. 149(4) Application of s. (1) — income from life insurance business.

Cases: A fraternal society, carrying on a life insurance business, had to include in its income only the investment income for the assets related to its life insurance business. *ACTRA Fraternal Benefit Society v. The Queen,* 97 DTC 5243 (F.C.A.) overturning the decision in 96 DTC 1723 (T.C.C.).

A fraternal society carrying on a life insurance business was required to compute its investment income in accordance with the specific rules in Part XXIV of ITR's and not by analogy to situations described in that Part. *Lutheran Life Insurance Society of Canada v. The Queen,* 91 DTC 5553 (T.C.C.).

► 149(4) ◄

(4) Idem. For the purposes of subsection (3), the taxable income of a benevolent or fraternal benefit society or order from carrying on a life insurance business shall be computed on the assumption that it had no income or loss from any other sources.

Editorial Note: The decision by the Federal Court of Appeal in *ACTRA Fraternal Benefit Society v. The Queen,* 97 DTC 5243 supported the position of the taxpayer that "the onus rested on the taxpayer to establish what proportion of investment income related to 'the life insurance business.'" This decision is important where the assets in the life fund presumably supporting the life business are far greater than is required.

Related Sections: S. 149(1)(*k*) Labour organizations; s. 149(3) Application of s. (1) — income from life insurance business.

► 149(4.1) ◄

(4.1) Income exempt under 149(1)(*t*). Subject to subsection (4.2), subsection (1) applies to an insurer described in paragraph (1)(*t*) only in respect of the part of its taxable income for a taxation year determined by the formula

$$(A \times B \times C) / D$$

where

A is its taxable income for the year;

B is

(*a*) ½, where less than 25% of the total of the gross premium income (net of reinsurance ceded) earned in the year by it and, where it is not a prescribed insurer for the purpose of paragraph (1)(*t*), by all other insurers that

(i) are specified shareholders of the insurer,

(ii) are related to the insurer, or

(iii) where the insurer is a mutual corporation, are part of a group that controls, directly or indirectly in any manner whatever, or are controlled, directly or indirectly in any manner whatever by, the insurer,

is in respect of insurance of property used in farming or fishing or residences of farmers or fishermen; and

(*b*) 1 in any other case;

C is the part of the gross premium income (net of reinsurance ceded) earned by it in the year that, in the opinion of the Minister, on the advice of the Superintendent of Financial Institutions or of the superintendent of insurance of the province under the laws of which it is incorporated, is in respect of insurance of property used in farming or fishing or residences of farmers or fishermen; and

D is the gross premium income (net of reinsurance ceded) earned by it in the year.

History: S. 149(4.1) was amended by S.C. 1997, c. 25, s. 47(2), applicable to the 1996 and subsequent taxation years. S. 149(4.1) formerly read:

"(4.1) *Idem.* Subject to subsection (4.2), subsection (1) applies in respect of an insurer described in paragraph (1)(*t*) only in respect of that proportion of the insurer's taxable income for a taxation year that

(*a*) the part of the gross premium income (net of reinsurance ceded) earned in the year by the insurer that, in the opinion of the Minister, on the advice of the Superintendent of Financial Institutions or of the superintendent of insurance of the province under the laws of which the insurer is incorporated, was in respect of insurance of farm property, property used in fishing or residences of farmers or fishermen

is of

(*b*) the gross premium income (net of reinsurance ceded) earned in the year by the insurer."

S. 149(4.1) was amended by S.C. 1994, c. 7, Sched. II, s. 122(2), applicable to the 1989 and subsequent taxation years. S. 149(4.1) formerly read:

"(4.1) Subject to subsection (4.2), subsection (1) shall apply in respect of an insurer described in paragraph (1)(*t*) only in respect of that proportion of the insurer's taxable income for a taxation year that

(*a*) the insurer's gross premium income (net of reinsurance ceded) for the year that in the opinion of the Minister, on the advice of the Superintendent of Financial Institutions or of the superintendent of insurance of the province under the laws of which the insurer is incorporated, was in respect of the insurance of farm property, property used in fishing or residences of farmers or fishermen

is of

(*b*) its gross premium income (net of reinsurance ceded) for the year

and, in computing the taxable income of the insurer for the taxation year, the insurer shall be deemed to have claimed or deducted in each of the taxation years preceding the year the greater of such amount as it claimed or deducted or such amount as it may have been entitled to claim or deduct under paragraphs 20(1)(*a*), 20(7)(*c*) and 138(3)(*a*) and section 140 to the extent that that amount does not exceed its taxable income otherwise determined for the preceding taxation year."

Related Sections: S. 149(4.2) Farmers' and fishermen's insurer; s. 149(4.3) Computation of taxable income of insurer; s. 168(1) Notice of intention to revoke registration.

Tax Window Files: Merger of Exempt Insurers, June 9, 1999, CRA Document No. 9820415; Dividend Paid by an Exempt Insurer, March 28, 1996, CRA Document No. 9604005; Definition of "Taxable Canadian Corporation", March 28, 1996, CRA Document No. 9604005; Farmer's Insurer — Income Calculation, March 16, 1995, CRA Document No. 9505555; Insurance — Farmers and Fishermen, January 12, 1995, CRA Document No. 9413177; Exemption for Insurance Companies, December 23, 1993, CRA Document No. 9307687

► 149(4.2) ◄

(4.2) Idem. Subsection (4.1) does not apply to an insurer described in paragraph (1)(*t*) in respect of the taxable income of the insurer for a taxation year where more than 90% of the total of the gross premium income (net of reinsurance ceded) earned in the year by the insurer and, where the insurer is not a prescribed insurer, by all other insurers that

(*a*) are specified shareholders of the insurer,

(*b*) are related to the insurer, or

(*c*) where the insurer is a mutual corporation, are part of a group that controls, directly or indirectly in any manner whatever, or are controlled, directly or indirectly in any manner whatever, by, the insurer,

is in respect of insurance of property used in farming or fishing or residences of farmers or fishermen.

History: S. 149(4.2), the portion after paragraph (*c*), was amended by S.C. 1997, c. 25, s. 47(3), applicable to the 1996 and subsequent taxation years. That part formerly read:

"is in respect of insurance of farm property, property used in fishing or residences of farmers or fishermen."

S. 149(4.2) was amended by S.C. 1994, c. 7, Sched. II, s. 122(2), applicable to the 1989 and subsequent taxation years. S. 149(4.2) formerly read:

"(4.2) Subsection (4.1) shall not apply in respect of an insurer described in paragraph (1)(*t*) in respect of the taxable income of the insurer for a taxation year where more than 90% of the gross premium income (net of reinsurance ceded) of the insurer and all other insurers that were specified shareholders of the insurer or were related to the insurer or, where the insurer is a mutual corporation, all other insurers that were part of a group that controlled or were controlled by the insurer for the year was in respect of the insurance of farm property, property used in fishing or residences of farmers or fishermen."

Related Sections: S. 251 Arm's length.

► 149(4.3) ◄

(4.3) Computation of taxable income of insurer. For the purposes of this Part, in computing the taxable income of an insurer for a particular taxation year, the insurer shall be deemed to have deducted under paragraphs 20(1)(*a*), 20(7)(*c*) and 138(3)(*a*) and section 140 in each taxation year preceding the particular year and in respect of which paragraph (1)(*t*) applied to the insurer, the greater of

(*a*) the amount it claimed or deducted under those provisions for that preceding year, and

(*b*) the greatest amount that could have been claimed or deducted under those provisions to the extent that the total thereof does not exceed the amount that would be its taxable income for that preceding year if no amount had been claimed or deducted under those provisions.

History: S. 149(4.3) was added by S.C. 1994, c. 7, Sched. II, s. 122(2), applicable to the 1989 and subsequent taxation years, except that, in its application to the 1989 and 1990 taxation years, subsection 149(4.3) shall be read as follows:

"(4.3) In computing the taxable income of an insurer described in paragraph (1)(*t*) for a taxation year in respect of which subsection (1) applies to the insurer, the insurer shall be deemed to have claimed or deducted in each of its taxation years preceding the year the greater of such amount as it claimed or deducted and such amount as it was entitled to claim or deduct under

paragraphs 20(1)(*a*), 20(7)(*c*) and 138(3)(*a*) and section 140 to the extent that that amount does not exceed its taxable income otherwise determined for the preceding taxation year."

► 149(5) ◄

(5) Exception re investment income of certain clubs. Notwithstanding subsections (1) and (2), where a club, society or association was for any period, a club, society or association described in paragraph (1)(*l*) the main purpose of which was to provide dining, recreational or sporting facilities for its members (in this subsection referred to as the "club"), an *inter vivos* trust shall be deemed to have been created on the later of the commencement of the period and the end of 1971 and to have continued in existence throughout the period, and, throughout that period, the following rules apply:

(*a*) the property of the club shall be deemed to be the property of the trust;

(*b*) where the club is a corporation, the corporation shall be deemed to be the trustee having control of the trust property;

(*c*) where the club is not a corporation, the officers of the club shall be deemed to be the trustees having control of the trust property;

(*d*) tax under this Part is payable by the trust on its taxable income for each taxation year;

(*e*) the income and taxable income of the trust for each taxation year shall be computed on the assumption that it had no incomes or losses other than

(i) incomes and losses from property, and

(ii) taxable capital gains and allowable capital losses from dispositions of property, other than property used exclusively for and directly in the course of providing the dining, recreational or sporting facilities provided by it for its members;

(*f*) in computing the taxable income of the trust for each taxation year

(i) there may be deducted, in addition to any other deductions permitted by this Part, $2,000, and

(ii) no deduction shall be made under section 112 or 113; and

(*g*) the provisions of subdivision k of Division B (except subsections 104(1) and (2)) do not apply in respect of the trust.

(*h*) [Repealed by 1983-84, c. 1, s. 83(3).]

Related Sections: S. 104–108; s. 122(1) Tax payable by inter vivos trust.
Interpretation Bulletins: *Primary* — IT-83R3 Non-profit organizations — Taxation of income from property. *Secondary* — IT-406R2 Tax payable by an inter vivos trust; IT-409 Winding-up of a non-profit organization [Archived by the CRA].
Advance Tax Rulings: ATR-29 Amalgamation of social clubs.

► 149(6) ◄

(6) Apportionment rule. Where it is necessary for the purpose of this section to ascertain the taxable income of a taxpayer for a period that is a part of a taxation year, the taxable income for the period shall be deemed to be the proportion of the taxable income for the taxation year that the number of days in the period is of the number of days in the taxation year.

Related Sections: S. 8(7) Cost of tool; s. 149(1) Miscellaneous exemptions.
Interpretation Bulletins: *Secondary* — IT-347R2 Crown corporations [Archived by the CRA]; IT-409 Winding-up of a non-profit organization [Archived by the CRA].
Registered Charities Newsletters: No. 15, Related vs. unrelated business.

► 149(7) ◄

(7) Time for filing. A corporation the taxable income of which for a taxation year is exempt from tax under this Part because of paragraph (1)(*j*) shall file with the Minister a prescribed form containing prescribed information on or before its filing-due date for the year.

History: S. 149(7) was added by S.C. 1996, c. 21, s. 37(4), applicable to taxation years that end after February 27, 1995, except that a form referred to in subsection 149(7) that is filed with the Minister of National Revenue on or before the day that is 90 days after the day this Act is assented to [Royal Assent June 20, 1996] is deemed to have been filed on a timely basis.

Related Sections: S. 248(1), "filing-due date".

► 149(7.1) ◄

(7.1) Penalty for failure to file on time. Where a corporation fails to file the prescribed form as required by subsection (7) for a taxation year, it is liable to a penalty equal to the amount determined by the formula

$$A \times B$$

where

A is the greater of

(*a*) $500, and

(*b*) 2% of its taxable income for the year; and

B is the lesser of

(*a*) 12, and

(*b*) the number of months in whole or in part that are in the period that begins on the day on or before which the prescribed form is required to be filed and ends on the day it is filed.

History: S. 149(7.1) was added by S.C. 1996, c. 21, s. 37(4), applicable to taxation years that end after February 27, 1995.

► 149(8) ◄

(8) Interpretation of para. (1)(*j*). For the purpose of paragraph (1)(*j*),

(*a*) a corporation is controlled by another corporation if more than 50% of its issued share capital (having full voting rights under all circumstances) belongs to

(i) the other corporation, or

(ii) the other corporation and persons with whom the other corporation does not deal at arm's length,

but a corporation shall be deemed not to have acquired control of a corporation if it has not purchased (or otherwise acquired for a consideration) any of the shares in the capital stock of that corporation; and

(*b*) there shall be included in computing a corporation's income and in determining its gross revenue the amount of all gifts received by the corporation and all amounts contributed to the corporation to be used for scientific research and experimental development.

History: S. 149(8)(*b*) was amended by S.C. 1996, c. 21, s. 37(5), applicable to taxation years that begin after June 1995. S. 149(8)(*b*) formerly read:

"(*b*) there shall be included in computing a corporation's income all gifts received by the corporation and all amounts contributed to the corporation to be used for scientific research and experimental development."

Related Sections: S. 251Arm's length.

► 149(9) ◄

(9) Rules for determining gross revenue. In determining the gross revenue of a corporation for the purpose of determining whether it is described by paragraph (1)(*j*) for a taxation year,

(*a*) there may be deducted an amount not exceeding its gross revenue for the year computed without including or deducting any amount under this subsection; and

(*b*) there shall be included any amount that has been deducted under this subsection for the preceding taxation year.

History: S. 149(9) was amended by S.C. 1996, c. 21, s. 37(6), applicable to taxation years that begin after June 1995. S. 149(9) formerly read:

"(9) *Rules.* In computing the income of a corporation for the purpose of determining whether it is described by paragraph (1)(*j*) for a taxation year,

(*a*) there may be deducted an amount not exceeding its income for the year computed without including or deducting any amount under this subsection; and

(*b*) there shall be included any amount that has been deducted under this subsection for the immediately preceding taxation year."

Interpretation Bulletins: *Secondary* — IT-85R2 Health and welfare trusts for employees.

► 149(10) ◄

(10) Exempt corporations. Where, at any time (in this subsection referred to as "that time"), a corporation becomes or ceases to be exempt from tax under this Part on its taxable income otherwise than by reason of paragraph (1)(*t*), the following rules apply:

(*a*) the taxation year of the corporation that would otherwise have included that time is deemed to have ended immediately before that time, a new taxation year of the corporation is deemed to have begun at that time and, for the purpose of determining the taxpayer's fiscal period after that time, the taxpayer is deemed not to have established a fiscal period before that time;

(*a.1*) for the purpose of computing the corporation's income for its first taxation year ending after that time, the corporation shall be deemed to have deducted under sections 20, 138 and 140 in computing its income for its taxation year ending immediately before that time, the greatest amount that could have been claimed or deducted for that year as a reserve under those sections;

(*b*) the corporation is deemed to have disposed, at the time (in this subsection referred to as the "disposition time") that is immediately before the time that is immediately before that time, of each property that was owned by it immediately before that time for an amount equal to its fair market value at that time and to have reacquired the property at that time at a cost equal to that fair market value;

(*c*) for the purposes of applying sections 37, 65 to 66.4, 66.7, 111 and 126, subsections 127(5) to (26) and section 127.3 to the corporation, the corporation is deemed to be a new corporation the first taxation year of which began at that time; and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 149(10)(*c*) of the Act is replaced by the following:

(*c*) for the purposes of applying sections 37, 65 to 66.4, 66.7, 94.1 to 94.4, 111 and 126, subsections 127(5) to (35) and section 127.3 to the corporation, the corporation is deemed to be a new corporation the first taxation year of which began at that time; and

Applicable: To each corporation that, after 2006 (or, if sections 94.1 to 94.4 apply to a taxation year of the corporation that begins before 2007, on or after the first day of the first such taxation year), becomes or ceases to be exempt from tax on its taxable income under Part I of the Act.

Explanatory Note: Subsection 149(10) of the Act applies where, at a particular time, a corporation becomes or ceases to be exempt from tax under Part I on its taxable income (otherwise than by reason of the exemption for certain insurers in paragraph 149(1)(*t*)). A new taxation year is considered to start at the particular time and the corporation's properties are deemed to have been disposed of at fair market value and reacquired at the particular time for the same amount.

Paragraph 149(10)(*c*) provides that the corporation is, for specified purposes in the Act, treated as a new corporation. One of the specified purposes is with regard to the investment tax credit regime set out in subsections 127(5) to (26).

Paragraph 149(10)(*c*) is amended so that it is also relevant in applying

- additional rules for the investment tax credit that are set out in subsections 127(27) to (35) (this amendment is consequential on the earlier enactment of those subsections), and
- sections 94.1 to 94.4. (For example, a corporation's "deferral amount" (as defined in subsection 94.2(1)) in respect of any interest it holds in a foreign investment entity is determined without reference to taxation years that occurred before the corporation's change of status. This will typically result in a nil deferral amount for the corporation.)

These amendments apply to corporations that, after 2006, become or cease to be exempt from tax on their taxable income under Part I of the Act.

(*d*) where, immediately before the disposition time, the corporation's cumulative eligible capital in respect of a business exceeds the total of

(i) 3/4 of the fair market value of the eligible capital property in respect of the business, and

(ii) the amount otherwise deducted under paragraph 20(1)(*b*) in computing the corporation's income from the business for the taxation year that ended immediately before that time,

the excess shall be deducted under paragraph 20(1)(*b*) in computing the corporation's income from the business for the taxation year that ended immediately before that time.

History: S. 149(10)(*a*) was amended by S.C. 1998, c. 19, s. 178(5), applicable to a corporation that becomes or ceases to be exempt from tax on its taxable income under Part I of the Act after April 26, 1995. Paragraph (*a*) formerly read:

"(*a*) the taxation year of the corporation that would otherwise have included that time shall be deemed to have ended immediately before that time and a new taxation year of the corporation shall be deemed to have commenced at that time;"

Ss. 149(10)(*b*) through (*d*) were amended by S.C. 1998, c. 19, s. 178(6), applicable to a corporation that becomes or ceases to be exempt from tax on its taxable income under Part I of the Act after April 26, 1995. Those paragraphs formerly read:

"(*b*) the corporation shall be deemed to have disposed, immediately before the time that is immediately before that time, of each property (other than, where, at that time, the corporation ceases to be exempt from tax under this Part on its taxable income, a Canadian resource property or a foreign resource property) that was owned by it immediately before that time for an amount equal to its fair market value at that time and to have reacquired the property at that time at a cost equal to that fair market value;

(*c*) where paragraph (*b*) applies in respect of depreciable property of the corporation and the capital cost thereof to the corporation immediately

before the disposition exceeds the fair market value thereof at that time, for the purposes of sections 13 and 20 and any regulations made under paragraph 20(1)(*a*),

(i) the capital cost of the property to the corporation at that time shall be deemed to be the amount that was its capital cost thereof immediately before the disposition, and

(ii) the excess shall be deemed to have been allowed to the corporation in respect of the property under regulations made under paragraph 20(1)(*a*) in computing its income for taxation years ending before that time; and

(*d*) notwithstanding section 111, no amount is deductible in computing the corporation's taxable income for a taxation year ending after that time in respect of a non-capital loss, net capital loss, restricted farm loss, farm loss or limited partnership loss for a taxation year ending before that time to the extent that the loss could have been applied to reduce the corporation's taxable income for taxation years ending before that time."

S. 149(10)(*a*.1) was added by S.C. 1994, c. 7, Sched. VIII, s. 88(3), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 66.7(10)(*b*) Change of control; s. 87(2.1)(*b*) Non-capital losses, etc., of predecessor corporations; s. 249.1(1) Definition of "fiscal period".

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 149 of the Act is amended by adding the following after subsection (10):

(11) **Geographical boundaries — body performing government functions.** For the purpose of this section, the geographical boundaries of a municipal or public body performing a function of government are

(*a*) the geographical boundaries that encompass the area in respect of which an Act of Parliament or an agreement given effect by an Act of Parliament recognizes or grants to the body a power to impose taxes; or

(*b*) if paragraph (*a*) does not apply, the geographical boundaries within which that body has been authorized by the laws of Canada or of a province to exercise that function.

Applicable: To taxation years that begin after May 8, 2000. Notwithstanding subsections 152(4) to (5) of the Act, any assessment of a taxpayer's tax payable under the Act for any taxation year that began before February 27, 2004 shall be made that is necessary to give effect to [the amendments to paragraph 149(1)(*d*.5), subparagraphs 149(1)(*d*.6)(i) and (ii), the portion of subsection 149(1.2) before paragraph (*b*), subsection 149(1.3), and the addition of 149(11)].

Explanatory Note:

Geographical Boundaries — Body Performing Government Functions

Subsection 149(11) of the Act is added to define, for the purposes of section 149, the geographical boundaries of a municipal or public body performing a function of government in Canada. Those boundaries are defined as encompassing the area in respect of which an Act of Parliament or an agreement given effect by an Act of Parliament recognizes or grants to the body a power to impose taxes; or if there has been no such recognition or grant, the area within which the body has been authorized by the laws of Canada or of a province to exercise that function.

For example, if a particular self-governing First Nation meets the definition of "a public body performing a function of government in Canada," it is intended that the relevant geographic boundary would delineate the area where the self-government agreement, or the statute enacting self-government powers, provides the First Nation authority to impose direct taxes. As a second example, if a particular Indian Band meets the definition of "a public body performing a function of government in Canada," it is intended that the geographic boundary of the Indian Band be the band's reserves as defined in the *Indian Act*. Similarly, if a particular school board meets the definition of "a municipal or public body performing a function of government in Canada" it is intended that the geographic boundary of the school board be the area of jurisdiction of the board as defined by provincial legislation or regulation.

This amendment applies to taxation years that begin after May 8, 2000.

▶ 149(11) ◀

(11) Exception. [Repealed by S.C. 1998, c. 19, s. 178(7).]

History: S. 149(11) was repealed by S.C. 1998, c. 19, s. 178(7), applicable on Royal Assent, June 18, 1998. S. 149(11) formerly read:

"(11) *Exception.* Subsection (10) does not apply to a corporation that ceases to be exempt from tax under this Part after November 12, 1981 by reason of control of the corporation being acquired by a person or persons pursuant to an agreement in writing entered into on or before that date."

▶ 149(12) ◀

(12) Information returns. Every person who, because of paragraph (1)(*e*) or (*l*), is exempt from tax under this Part on all or part of the person's taxable income shall, within 6 months after the end of each fiscal period of the person and without notice or demand therefor, file with the Minister an information return for the period in prescribed form and containing prescribed information, if

(*a*) the total of all amounts each of which is a taxable dividend or an amount received or receivable by the person as, on account of, in lieu of or in satisfaction of, interest, rentals or royalties in the period exceeds $10,000;

(*b*) at the end of the person's preceding fiscal period the total assets of the person (determined in accordance with generally accepted accounting principles) exceeded $200,000; or

(*c*) an information return was required to be filed under this subsection by the person for a preceding fiscal period.

History: S. 149(12) was added by S.C. 1994, c. 7, Sched. VIII, s. 88(4), applicable to fiscal periods ending after 1992.

Forms: T1044; T2052.
Guides: T4117 Income tax guide to the Non-Profit Organization (NPO) Information Return Rev. 98.
Registered Charities Newsletters: No. 19, Did you know?.

Charities

SECTION 149.1:

▶ 149.1(1) ◀

(1) Definitions. In this section and section 149.2,

History: S. 149.1(1), the portion before the definition "capital gains pool" was replaced by S.C. 2007, c. 35, s. 46(1), applicable on and after March 19, 2007. S. 149.1(1), the portion of subsection 149.1(1) of the Act before the definition "capital gains pool" formerly read:

"S. 149.1. (1) *Definitions.* In this section,"

Regulations: 3500–3502.
Interpretation Bulletins: *Secondary* — IT-232R3 Non-capital losses, net capital losses, restricted farm losses, farm losses and limited partnership losses — Their composition and deductibility in computing taxable income; IT-496R Non-profit organizations.
Information Circulars: IC 77-6 Registered charities: Designation as associated charities.

"*capital gains pool*" — "capital gains pool", of a registered charity for a taxation year, means the amount by which

(*a*) the total of all amounts, each of which is the amount of a capital gain of the charity from the disposition of an enduring property after March 22, 2004 and before the end of the taxation year (other than a capital gain from a disposition of a bequest or an inheritance received by the charity in a taxation year that included any time before 1994) that is declared by the charity in an information return

under subsection (14) for the taxation year during which the disposition occurred,

exceeds

(*b*) the total of all amounts, each of which is the amount, determined for a preceding taxation year of the charity that began after March 22, 2004, that is the lesser of the amount determined under paragraph (*a*) of the description of A.1 in the definition "disbursement quota" and the amount claimed by the charity under paragraph (*b*) of that description;

History: S. 149.1(1), the definition "capital gains pool" was added by S.C. 2005, c. 19, s. 35(2), applicable to taxation years that begin after March 22, 2004.

"charitable foundation" — "charitable foundation" means a corporation or trust that is constituted and operated exclusively for charitable purposes, no part of the income of which is payable to, or is otherwise available for, the personal benefit of any proprietor, member, shareholder, trustee or settlor thereof, and that is not a charitable organization;

Related Sections: S. 149.1(6.1) Charitable purposes; s. 248(1), "registered charity".
Interpretation Bulletins: *Secondary* — IT-111R2 Annuities purchased from charitable organizations [Archived by the CRA].
Regulations: Part XXXVII.
Registered Charities Newsletters: No. 7, Canadian charities and their U.S. donors.
Canadian Tax Foundation: Stevens, "Update on Charity Taxation", *2001 Annual Conference*, 28:1.

"charitable organization" — "charitable organization" means an organization, whether or not incorporated,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of the definition "charitable organization" in subsection 149.1(1) of the Act before paragraph (*a*) is replaced by the following:

"charitable organization" — "charitable organization", at any particular time, means an organization, whether or not incorporated,

Applicable: After 1999.

Explanatory Note:

Definitions

Subsection 149.1(1) of the Act contains definitions that are relevant for the purposes of section 149.1.

"charitable organization"

The definition "charitable organization" provides that more than 50% of the directors, trustees, officers or similar officials of a charitable organization must deal with each other and with each of the other directors, trustees, officers or similar officials at arm's length.

For a charity that has applied for registration after February 15, 1984 and which has been designated as a private or public foundation, the definition "charitable organization" also requires that not more than 50% of the charity's capital be contributed by a person or group of persons not dealing with each other at arm's length. This definition is amended to replace the "contribution" test with a "control" test. As a result, a charity will not be disqualified from being treated as a charitable organization solely because a person, or a group of persons not dealing with each other at arm's length, has contributed more than 50% of the charity's capital. However, such a person or group is not permitted to control the charity in any way, nor may the person or the members of the group represent more than 50% of the directors, trustees, officers and similar officials of the charity.

This amendment generally applies after 1999.

(*a*) all the resources of which are devoted to charitable activities carried on by the organization itself,

(*b*) no part of the income of which is payable to, or is otherwise available for, the personal benefit of any proprietor, member, shareholder, trustee or settlor thereof,

(*c*) more than 50% of the directors, trustees, officers or like officials of which deal with each other and with each of the other directors, trustees, officers or officials at arm's length, and

(*d*) where it has been designated as a private foundation or public foundation pursuant to subsection (6.3) of this section or subsection 110(8.1) or (8.2) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, or has applied after February 15, 1984 for registration under paragraph 110(8)(*c*) of that Act or under the definition "registered charity" in subsection 248(1), not more than 50% of the capital of which has been contributed or otherwise paid into the organization by one person or members of a group of persons who do not deal with each other at arm's length and, for the purpose of this paragraph, a reference to any person or to members of a group does not include a reference to Her Majesty in right of Canada or a province, a municipality, another registered charity that is not a private foundation, or any club, society or association described in paragraph 149(1)(*l*);

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraphs (*c*) and (*d*) of the definition "charitable organization" in subsection 149.1(1) of the Act are replaced by the following:

(*c*) more than 50% of the directors, trustees, officers or like officials of which deal at arm's length with each other and with

(i) each of the other directors, trustees, officers and like officials of the organization,

(ii) each person described by subparagraph (*d*)(i) or (ii), and

(iii) each member of a group of persons (other than Her Majesty in right of Canada or of a province, a municipality, another registered charity that is not a private foundation, and any club, society or association described in paragraph 149(1)(*l*)) who do not deal with each other at arm's length, if the group would, if it were a person, be a person described by subparagraph (*d*)(i), and

(*d*) that is not, at the particular time, and would not at the particular time be, if the organization were a corporation, controlled directly or indirectly in any manner whatever

(i) by a person (other than Her Majesty in right of Canada or of a province, a municipality, another registered charity that is not a private foundation, and any club, society or association described in paragraph 149(1)(*l*)),

(A) who immediately after the particular time, has contributed to the organization amounts that are, in total, greater than 50% of the capital of the organization immediately after the particular time, and

(B) who immediately after the person's last contribution at or before the particular time, had contributed to the organization amounts that were, in total, greater than 50% of the capital of the organization immediately after the making of that last contribution, or

(ii) by a person, or by a group of persons that do not deal at arm's length with each other, if the person or any member of the group does not deal at arm's length with a person described in subparagraph (i);

Applicable: After 1999 except that, in respect of a charitable organization that has not been designated before 2000 as a private foundation or a public foundation under subsection 149.1(6.3) or under subsection 110(8.1) or (8.2) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, and that has not applied after February 15, 1984 for registration under paragraph 110(8)(*c*) of that Act or under the definition "registered charity" in subsection 248(1), subparagraphs (*c*)(ii) and (iii) of the definition "charitable organization" in subsection 149.1(1) apply after the earlier of the day, if any, on which the organization is designated after 1999 as a private foundation or a public foundation under subsection 149.1(6.3) and December 31, 2004.

Explanatory Note: See the Explanatory Note following the amendment to the portion of the definition "charitable organization" in subsection 149.1(1) before paragraph (*a*).

Related Sections: S. 149.1(6.2) Charitable activities; s. 248(1), "registered charity".

Interpretation Bulletins: *Secondary* — IT-111R2 Annuities purchased from charitable organizations [Archived by the CRA].

Registered Charities Newsletters: No. 29, Court news; No. 21, Umbrella groups; No. 19, The Budget and regulatory reform; No. 16, Guidance on public benefit; No. 15, Registered charities as internal divisions of other charities; No. 11, Consultation on Registering Organizations that Provide Rental Housing for Low-income Tenants; No. 7, Canadian charities and their U.S. donors.

Forms: T1235; T1240; T2050; T2095; T3010A.

Guides: T4033A Completing the Registered Charity Information Return; RC4108 Registered Charities and the Income Tax Act.

Canadian Tax Foundation: Stevens, "Update on Charity Taxation", *2001 Annual Conference*, 28:1.

Cases: An association, whose primary purpose was to promote amateur sport, did not qualify as a registered Canadian amateur athletic association since it only operated on a provincial level. It was not a charitable organization because its objective did not constitute a charitable purpose or activity. *A.Y.S.A. Amateur Youth Soccer Association v. C.R.A.*, 2007 DTC 5527 (S.C.C.), affirming 2006 DTC 6314 (F.C.A.).

The taxpayer's charitable registration was revoked because, despite the objects stated in its constituting document, its true mission was that of advocating its strongly held convictions on important social and moral issues in a one-sided manner. It had exceeded the permitted 10% limit on resources devoted to political activities set out in s. 149.1(6.2). *Alliance for Life v. The Queen*, 99 DTC 5228 (F.C.A.)

Since the principal activities of an immigrant women's society, such as networking, referral services, liaising for accreditation of credentials, and soliciting job opportunities for immigrant women were not charitable, its application for charitable tax status was denied. The operation of the charitable registration scheme does not violate the Charter equality rights of the Society's intended beneficiaries. *Vancouver Society of Immigrant and Visible Minority Women v. M.N.R.*, 99 DTC 5034 (S.C.C.), affirming 96 DTC 6232 (F.C.A.).

A non-profit organization offering free access to the "information highway", including the Internet, was granted charity status on the basis that free exchange of information among members of society has long been recognized as a public good. *Vancouver Regional FreeNet Association v. M.N.R.*, 96 DTC 6440 (F.C.A.).

A community legal clinic was not a "charity" because it engaged in political activity *Scarborough Community Legal Services v. The Queen*, 85 DTC 5102 (F.C.A.).

"charitable purposes" — "charitable purposes" includes the disbursement of funds to qualified donees;

Registered Charities Newsletters: No. 22, Gifts for particular purposes; No. 20, Working outside Canada; No. 20, New online publication — Charities in the international context; No. 20, Draft guidance on applicants assisting ethnocultural communities in Canada; No. 20, Draft guidance on public benefit; No. 17, New policy statement on promoting racial equality; No. 15, Elimination of racial discrimination as a charitable purpose; No. 13, Promoting volunteerism: Grand Forks Volunteer Society versus M.N.R..

"charity" — "charity" means a charitable organization or charitable foundation;

Related Sections: S. 149(1)(*l*) Non-profit organizations.

"disbursement quota" — "disbursement quota", for a taxation year of a registered charity, means the amount determined by the formula

$$A + A.1 + B + B.1$$

where

A is 80% of the total of all amounts each of which is the eligible amount of a gift for which the charity issued a receipt described in subsection 110.1(2) or 118.1(2) in its immediately preceding taxation year, other than a gift that is

(*a*) an enduring property, or

(*b*) received from another registered charity,

A.1 is the amount, if any, by which

(*a*) the sum of

(i) 80% of the total of all amounts, each of which is the amount of an enduring property of the charity (other than an enduring property described in subparagraph (ii), an enduring property that was received by the charity as a specified gift, or a bequest or an inheritance received by the charity in a taxation year that included any time before 1994) to the extent that it is expended in the year, and

(ii) the total of all amounts, each of which is the fair market value, when transferred, of an enduring property (other than an enduring property that was received by the charity as a specified gift) transferred by the charity in the taxation year by way of gift to a qualified donee

exceeds

(*b*) the amount, if any, claimed by the charity, that may not exceed the lesser of

(i) 3.5% of the amount determined for D, and

(ii) the capital gains pool of the charity for the taxation year,

B is

(*a*) in the case of a private foundation, the total of all amounts each of which is an amount received by it in its immediately preceding taxation year from a registered charity, other than an amount that is a specified gift or an enduring property, or

(*b*) in the case of a charitable organization or a public foundation, 80% of the total of all amounts each of which is an amount received by it in its immediately preceding taxation year from a registered charity, other than an amount that is a specified gift or an enduring property, and

B.1 is the amount determined by the formula

$$C \times 0.035\ [D - (E + F)]/365$$

where

C is the number of days in the taxation year,

D is

(*a*) the prescribed amount for the year, in respect of all or a portion of a property (other than a prescribed property) owned by the charity at any time in the 24 months immediately preceding the taxation year that was not used directly in charitable activities or administration, if that amount is greater than $25,000, and

(*b*) in any other case, nil,

E is the total of the amount determined for subparagraph (*a*)(ii) of the description of A.1, and 5/4 of the total of the amounts determined for A and subparagraph (*a*)(i) of the description of A.1, for the year in respect of the charity, and

F is the amount equal to

(*a*) in the case of a private foundation, the amount determined for B for the year in respect of the charity in accordance with paragraph (*a*) of the description of B, or

(*b*) in the case of a charitable organization or a public foundation, 5/4 of the amount determined for B for the year in respect of the charity in accordance with paragraph (*b*) of the description of B;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Application

(15) In its application to gifts made after December 20, 2002 but in a taxation year that begins before March 23, 2004, the portion of the description of A in the definition "disbursement quota" in subsection 149.1(1) before paragraph (*a*) shall be read as follows:

"A is 80% of the total of all amounts each of which is the eligible amount of a gift for which the foundation issued a receipt described in subsection 110.1(2) or 118.1(2) in its immediately preceding taxation year, other than"

(16) In its application to gifts made after December 20, 2002 but in a taxation year that begins before March 23, 2004, the portion of the description of A.1 in the definition "disbursement quota" in subsection 149.1(1) before paragraph (*a*) shall be read as follows:

"A.1 is 80% of the total of all amounts each of which is the eligible amount of a gift received in a preceding taxation year, to the extent that the eligible amount"

Applicable: Royal Assent.

History: S. 149.1(1), the definition "disbursement quota" was replaced by S.C. 2005, c. 19, s. 35(1), applicable to taxation years that begin after March 22, 2004, except that, in the application of [the definition "disbursement quota" in subsection 149.1(1)] to a taxation year that begins before 2009 of a charitable organization registered by the Minister of National Revenue before March 23, 2004, the amount claimed by the charitable organization under paragraph (*b*) of the description of A.1 in the definition "disbursement quota" in subsection 149.1(1) is deemed to be nil.

S. 149.1(1), the definition "disbursement quota" formerly read:

" '*disbursement quota*' — 'disbursement quota' for a taxation year of a charitable foundation means the amount determined by the formula

$$A + A.1 + B + \frac{C \times 0.045\ [D - (E + F)]}{365} + G$$

where

A is 80% of the total of all amounts each of which is the amount of a gift for which the foundation issued a receipt described in subsection 110.1(2) or 118.1(2) in its immediately preceding taxation year, other than

(*a*) a gift of capital received by way of bequest or inheritance,

(*b*) a gift received subject to a trust or direction to the effect that the property given, or property substituted therefor, is to be held by the foundation for a period of not less than 10 years, or

(*c*) a gift received from a registered charity,

A.1 is 80% of the total of all amounts each of which is the amount of a gift received in a preceding taxation year, to the extent that the amount of the gift

(*a*) is expended in the year, and

(*b*) was excluded from the disbursement quota of the foundation

(i) because of paragraph (*a*) of the description of A for a taxation year that begins after 1993, or

(ii) because of paragraph (*b*) of the description of A,

B is

(*a*) in the case of a private foundation, the total of all amounts each of which is an amount received by it in its immediately preceding taxation year from a registered charity, other than an amount that is a specified gift, or

(*b*) in the case of a public foundation, 80% of the total of all amounts each of which is an amount received by it in its immediately preceding taxation year from a registered charity, other than an amount that is a specified gift,

C is the number of days in the taxation year,

D is the prescribed amount for the year in respect of property (other than a prescribed property) or a portion thereof owned by the foundation at any time in the immediately preceding 24 months that was not used directly in charitable activities or administration,

E is 5/4 of the total of the amounts determined for A and A.1 for the year in respect of the foundation,

F is the amount equal to

(*a*) in the case of a private foundation, the amount determined as the value of B for the year in accordance with paragraph (*a*) of the description of B, or

(*b*) in the case of a public foundation, 5/4 of the amount determined as the value of B for the year in accordance with paragraph (*b*) of the description of B, and

G is, for each of the first 10 taxation years of the foundation commencing after 1983, a portion of the amount, if any, by which

(*a*) 90% of the amount, if any, by which the amount deducted by the foundation, for its last taxation year that commenced before 1984, pursuant to paragraph 149.1(18)(*a*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read for that year, exceeds the total of the amounts determined in respect of the foundation under clauses 149.1(1)(*e*)(iv)(B) to (D) of that Act for its first taxation year commencing after 1983

exceeds

(*b*) the total of all amounts each of which is an amount that, for a preceding taxation year, has been determined as the value of G or included under subparagraph 149.1(1)(*e*)(v) of the above-mentioned Act in determining the disbursement quota of the foundation,

that is not less than the amount obtained when such excess is divided by the difference between 10 and the number of preceding taxation years of the foundation that commenced after 1983 and before the year;"

S. 149(1), the formula in the definition "disbursement quota", was amended by S.C. 1998, c. 19, s. 179(1), applicable to taxation years that end after November 1991 except that, for such taxation years that began before 1993, the formula in the definition "disbursement quota" shall be read as follows:

"

$$A + B + \frac{C \times 0.045\ [D - (E + F)]}{365} + G$$

"

That formula formerly read:

"

$$0.8A + A.1 + B + \frac{C \times 0.045\ [D - (E + F)]}{365} + G$$

"

S. 149.1(1), the portion of the description of A in the definition of "disbursement quota" preceding paragraph (*a*), was amended by S.C. 1998, c. 19, s. 179(2), applicable to taxation years that end after November 1991. That portion of the description formerly read:

"A is the total of all amounts each of which is the amount of a gift for which the foundation issued a receipt described in subsection 110.1(2) or 118.1(2) in its immediately preceding taxation year, other than"

S. 149.1(1), the formula in the definition "disbursement quota", was amended by S.C. 1994, c. 21, s. 74(1), applicable to taxation years that begin after 1992. The formula in the definition "disbursement quota" formerly read:

"

$$0.8A + B + \frac{C \times 0.045\ [D - (E + F)]}{365} + G$$

"

S. 149.1(1), the description of A.1 in the definition "disbursement quota", was added by S.C. 1994, c. 21, s. 74(2), applicable to taxation years that begin after 1992.

S. 149.1(1), the description of E in the definition "disbursement quota", was added by S.C. 1994, c. 21, s. 74(3), applicable to taxation years that begin after 1992. S. 149.1(1), the description of E in the definition "disbursement quota", formerly read:

"E is the amount equal to 5/4 of the amount determined as the value of A for the year,"

S. 149.1(1), the portion of the description of A in the definition "disbursement quota" before paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 123(1), applicable to the 1988 and subsequent taxation years, except that, in its application to the 1988 taxation year, the reference to "subsection 110.1(2) or 118.1(2)" in the description of A in the definition "disbursement quota" shall be read as "subsection 110.1(2) or 118.1(2) of this Act or paragraph 110(1)(*a*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it applied to taxation years ending before 1988,". The portion formerly read:

"A is the total of all amounts each of which is the amount of a gift for which the foundation issued a receipt described in paragraph 110.1(1)(*a*) or 118.1(1)(*a*) in its immediately preceding taxation year, other than"

Related Sections: S. 110.1(2) Proof of gift; s. 118.1(2) Proof of gift; s. 149.1(1.2) Authority of Minister; s. 149.1(5) Reduction.

Regulations: 3701.

Registered Charities Newsletters: No. 31, Disbursement quota shortfalls; No. 31, Disbursement quota — registered charities designated as charitable organizations take note; No. 27, Enduring property; No. 20, Disbursement Quota (DQ) listed in Notice of Confirmation (NOC); No. 20, Disbursement Quota (DQ); No. 19, The Budget and regulatory reform; No. 18, Did you know?.

Forms: T2094.

"*divestment obligation percentage*" — "divestment obligation percentage" of a private foundation for a particular taxation year, in respect of a class of shares of the capital stock of a corporation, is the percentage, if any, that is the lesser of

(*a*) the excess, if any, at the end of the taxation year, of the percentage of issued and outstanding shares of that class that are held by the private foundation over the exempt shares percentage of the private foundation, and

(*b*) the percentage determined by the formula

$$A + B - C$$

where

A is the percentage determined under this paragraph in respect of the private foundation in respect of the class for the preceding taxation year,

B is the total of all percentages, each of which is the portion of a net increase in the excess corporate holdings percentage of the private foundation in respect of the class for the particular taxation year or for a preceding taxation year that is allocated to the particular taxation year in accordance with subsection 149.2(5), and

C is the total of all percentages, each of which is the portion of a net decrease in the excess corporate holdings percentage of the private foundation in respect of the class for the particular taxation year or for a preceding taxation year that is allocated to the particular taxation year in accordance with subsection 149.2(7);

History: S. 149.1(1), the definition "divestment obligation percentage" was replaced by S.C. 2009, c. 2, s. 55(2), applicable after March 18, 2007. S. 149.1(1), the definition "divestment obligation percentage" formerly read:

" '*divestment obligation percentage*' — 'divestment obligation percentage' of a private foundation for a particular taxation year, in respect of a class of shares of the capital stock of a corporation, is the percentage, if any, greater than 0%, determined by the formula

$$A + B - C$$

where

A is the percentage determined under this definition in respect of the private foundation in respect of the class for the preceding taxation year,

B is the total of all percentages, each of which is the portion of a net increase in the excess corporate holdings percentage of the private foundation in respect of the class for the particular taxation year or for a preceding taxation year that is allocated to the particular taxation year in accordance with subsection 149.2(5), and

C is the total of all percentages, each of which is the portion of a net decrease in the excess corporate holdings percentage of the private foundation in respect of the class for the particular taxation year or for a preceding taxation year that is allocated to the particular taxation year in accordance with subsection 149.2(7);"

S. 149.1(1), the definition "divestment obligation percentage" was added by S.C. 2007, c. 35, s. 46(2), applicable on and after March 19, 2007.

"*enduring property*" — "enduring property" means property of a registered charity that is

(*a*) a gift received by the charity by way of bequest or inheritance, including a gift deemed by subsection 118.1(5.2) or (5.3),

(*b*) if the registered charity is a charitable organization, a gift from another registered charity (other than a gift described by paragraph (*d*) or received from another charity in respect of which more than 50% of the members of the board of directors or trustees do not deal at arm's length with each member of the board of directors or trustees of the charitable organization) that is subject to a trust or direction to the effect that the property given, or property substituted for the gift,

(i) is to be held by the charitable organization for a period of not more than five years from the date that the gift was received by the charitable organization, and

(ii) is to be expended in its entirety over the period referred to in the trust or direction

(A) to acquire a tangible capital property of the charitable organization to be used directly in charitable activities or administration,

(B) in the course of a program of charitable activities of the charitable organization that could not reasonably be completed before the end of the first taxation year of the charitable organization ending after the taxation year in which the gift was received, or

(C) any combination of the uses described in clauses (A) and (B),

(*c*) a gift received by the registered charity (referred to in this definition as the "original recipient charity"), other than a gift received from another registered charity, that is subject to a trust or direction to the effect that the property given, or property substituted for the gift, is to be held by the original recipient charity or by another registered charity (referred to in this definition as a "transferee") for a period of not less than 10 years from the date that the gift was received by the original recipient charity, except that the trust or direction may allow the original recipient charity or the transferee to expend the property before the end of that period to the extent of the amount determined for a taxation year (for the charity or the transferee, as the case may be) by B.1 in the formula in the definition "disbursement quota", or

(*d*) a gift received by the registered charity as a transferee from an original recipient charity or another

transferee of a property that was, before that gift was so received, an enduring property of the original recipient charity or of the other transferee because of paragraph (*a*) or (*b*) or this paragraph, or property substituted for the gift, if, in the case of a property that was an enduring property of an original recipient charity because of paragraph (*b*), the gift is subject to the same terms and conditions under the trust or direction as applied to the gift to the original recipient charity;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*d*) of the definition "enduring property" in subsection 149.1(1) of the English version of the Act is replaced by the following:

(*d*) a gift received by the registered charity as a transferee from an original recipient charity or another transferee of a property that was, before that gift was so received, an enduring property of the original recipient charity or of the other transferee because of paragraph (*a*) or (*c*) or this paragraph, or property substituted for the gift, if, in the case of a property that was an enduring property of an original recipient charity because of paragraph (*c*), the gift is subject to the same terms and conditions under the trust or direction as applied to the original recipient charity;

Applicable: To taxation years that begin after March 22, 2004.

Explanatory Note:

"enduring property"

The English version of the definition "enduring property", which applies for the purpose of the definition "disbursement quota" to taxation years that begin after March 22, 2004, is amended to correct a cross-reference in its paragraph (*d*).

History: S. 149.1(1), the definition "enduring property" was added by S.C. 2005, c. 19, s. 35(2), applicable to taxation years that begin after March 22, 2004.

"entrusted shares percentage" — [Repealed by S.C. 2009, c. 2, s. 55(1).]

History: S. 149.1(1), the definition "entrusted shares percentage" was repealed by S.C. 2009, c. 2, s. 55(1), applicable after March 18, 2007. S. 149.1(1), the definition "entrusted shares percentage" formerly read:

" *'entrusted shares percentage'* — ' entrusted shares percentage ' of a private foundation, in respect of a class of shares of the capital stock of a corporation, at any particular time means the percentage of the issued and outstanding shares of that class that are held at the particular time by the private foundation that are shares that were acquired by the private foundation by way of a gift that was subject to a trust or direction that the shares are to be held by the private foundation for a period ending not earlier than the particular time, if the gift was made

(*a*) before March 19, 2007,

(*b*) on or after March 19, 2007 and before March 19, 2012

(i) under the terms of a will that was executed by a taxpayer before March 19, 2007 and not amended, by codicil or otherwise, on or after March 19, 2007, and

(ii) in circumstances where no other will of the taxpayer was executed or amended on or after March 19, 2007, or

(*c*) on or after March 19, 2007, under the terms of a testamentary or *inter vivos* trust created before March 19, 2007, and not amended on or after March 19, 2007;"

S. 149.1(1), the definition "entrusted shares percentage" was added by S.C. 2007, c. 35, s. 46(2), applicable on and after March 19, 2007.

"equity percentage" — " equity percentage " of a person in a corporation has, subject to subsection 149.2(2.1), the same meaning as defined in subsection 95(4);

History: S. 149.1(1), the definition "equity percentage" was added by S.C. 2009, c. 2, s. 55(4), applicable after March 18, 2007.

"excess corporate holdings percentage" — " excess corporate holdings percentage " of a private foundation, in respect of a class of shares of the capital stock of a corporation, at any time means

(*a*) if the private foundation is not, at that time, a registered charity, 0%,

(*b*) if the private foundation holds, at that time, an insignificant interest in respect of the class, 0%, and

(*c*) in any other case, the number of percentage points, if any, by which the total corporate holdings percentage of the private foundation in respect of the class, at that time, exceeds the greater of 20% and the exempt shares percentage, at that time, of the private foundation in respect of the class;

History: S. 149.1(1), paragraph (*c*) of the definition "excess corporate holdings percentage" was replaced by S.C. 2009, c. 2, s. 55(3), applicable after March 18, 2007. S. 149.1(1), paragraph (*c*) of the definition "excess corporate holdings percentage" formerly read:

"(*c*) in any other case, the number of percentage points, if any, by which the total corporate holdings percentage of the private foundation in respect of the class, at that time, exceeds the greater of 20% and the entrusted shares percentage, at that time, of the private foundation in respect of the class;"

S. 149.1(1), the definition "excess corporate holdings percentage" was added by S.C. 2007, c. 35, s. 46(2), applicable on and after March 19, 2007.

Forms: T2081.

Guides: T2082 Excess Corporate Holdings Regime for Private Foundations.

"exempt shares" — " exempt shares " held by a private foundation at any particular time means shares, of a class of the capital stock of a corporation,

(*a*) that were acquired by the private foundation by way of a gift that was subject to a trust or direction that the shares are to be held by the private foundation for a period ending not earlier than the particular time, if the gift was made

(i) before March 19, 2007,

(ii) on or after March 19, 2007 and before March 19, 2012

(A) under the terms of a will that was executed by a taxpayer before March 19, 2007 and not amended, by codicil or otherwise, on or after March 19, 2007, and

(B) in circumstances where no other will of the taxpayer was executed or amended on or after March 19, 2007, or

(iii) on or after March 19, 2007, under the terms of a testamentary or *inter vivos* trust created before March 19, 2007, and not amended on or after March 19, 2007,

(*b*) that were last acquired by the private foundation before March 19, 2007, other than shares that, at the particular time,

(i) are described in paragraph (*a*),

(ii) are listed on a designated stock exchange, or

(iii) are shares of the capital stock of a particular corporation, which particular corporation has an equity percentage greater than 0% in a public corporation, a class of the shares of the capital stock of which is listed on a designated stock exchange, if

(A) a corporation (in this subparagraph referred to as a "controlled corporation" and which

may, for greater certainty, be the particular corporation)

(I) owns one or more shares of a class of the capital stock of the public corporation, and

(II) is controlled, directly or indirectly in any manner whatever, by one or more relevant persons in respect of the private foundation, or by the private foundation alone or together with one or more such relevant persons,

(B) the private foundation, if it held directly the shares described in subclause (A)(I), would have an excess corporate holdings percentage (determined without reference to subsection 149.2(8)) in respect of that class of shares that is greater than 0%, and

(C) the private foundation, alone or together with all controlled corporations, holds more than an insignificant interest in respect of the class of shares described in subclause (A)(I), or

(*c*) that are substituted shares held by the private foundation;

History: S. 149.1(1), the definition "exempt shares" was added by S.C. 2009, c. 2, s. 55(4), applicable after March 18, 2007.

"exempt shares percentage" — "exempt shares percentage" of a private foundation at any time, in respect of a class of shares of the capital stock of a corporation, is the total of all amounts, each of which is the percentage of the issued and outstanding shares of that class that are exempt shares held by the private foundation at that time;

History: S. 149.1(1), the definition "exempt shares percentage" was added by S.C. 2009, c. 2, s. 55(4), applicable after March 18, 2007.

"material transaction" — "material transaction" of a private foundation, in respect of a class of shares of the capital stock of a corporation, means a transaction or a series of transactions or events in shares of the class, in respect of which the total fair market value of the shares of the class that are acquired or disposed of by the private foundation or any relevant person in respect of the private foundation as part of the transaction or series (determined at the time of the transaction, or at the end of the series, as the case may be) exceeds the lesser of

(*a*) $100,000, and

(*b*) 0.5% of the total fair market value of all of the issued and outstanding shares of the class;

History: S. 149.1(1), the definition "material transaction" was added by S.C. 2007, c. 35, s. 46(2), applicable on and after March 19, 2007.

"non-qualified investment" — "non-qualified investment" of a private foundation means

(*a*) a debt (other than a pledge or undertaking to make a gift) owing to the foundation by

(i) a person (other than an excluded corporation)

(A) who is a member, shareholder, trustee, settlor, officer, official or director of the foundation,

(B) who has, or is a member of a group of persons who do not deal with each other at arm's length who have, contributed more than 50% of the capital of the foundation, or

(C) who does not deal at arm's length with any person described in clause (A) or (B), or

(ii) a corporation (other than an excluded corporation) controlled by the foundation, by any person or group of persons referred to in subparagraph (i), by the foundation and any other private foundation with which it does not deal at arm's length or by any combination thereof,

(*b*) a share of a class of the capital stock of a corporation (other than an excluded corporation) referred to in paragraph (*a*) held by the foundation (other than a share listed on a designated stock exchange or a share that would be a qualifying share within the meaning assigned by subsection 192(6) if that subsection were read without reference to the expression "issued after May 22, 1985 and before 1987"), and

(*c*) a right held by the foundation to acquire a share referred to in paragraph (*b*),

and, for the purpose of this definition, an "excluded corporation" is

(*d*) a limited-dividend housing company to which paragraph 149(1)(*n*) applies,

(*e*) a corporation all of the property of which is used by a registered charity in its administration or in carrying on its charitable activities, or

(*f*) a corporation all of the issued shares of which are held by the foundation;

History: S. 149.1(1), paragraph (*b*) of the definition "non-qualified investment" was amended by S.C. 2007, c. 35, s. 68(2), by replacing "prescribed stock exchange" with "designated stock exchange", applicable on and after December 14, 2007.

S. 149.1(1), paragraph (*b*) of the definition "non-qualified investment", was amended by S.C. 1994, c. 7, Sched. II, s. 123(2), applicable to shares issued after May 22, 1985, other than shares issued before 1986 to which subsection 192(6) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read on May 22, 1985, is applicable. Paragraph (*b*) formerly read:

"(*b*) a share of a class of the capital stock of a corporation (other than an excluded corporation) referred to in paragraph (*a*) held by the foundation (other than a share listed on a prescribed stock exchange or a share that would be a qualifying share within the meaning assigned by subsection 192(6) if that subsection were read without reference to the words 'after May 22, 1985 and before 1987'), and"

S. 149.1(1), the portion of the definition "non-qualified investment" after paragraph (*c*), was amended by S.C. 1994, c. 7, Sched. II, s. 123(3), applicable to taxation years beginning after 1983. The portion formerly read:

"and, for the purpose of this definition, an 'excluded corporation' is a limited dividend housing company to which paragraph 149(1)(*n*) applies or a corporation the operations of which are confined to the holding of property used by a registered charity in its administration or in carrying on its charitable activities;"

Related Sections: S. 192(6) Definition of "qualifying share".
Regulations: 3200; 3201.
Registered Charities Newsletters: No. 27, Restrictions on private foundations: Business activities, debts and non-qualified investments.

"original corporate holdings percentage" — "original corporate holdings percentage" of a private foundation, in respect of a class of shares of the capital stock of a corporation, means the total corporate holdings percentage of the private foundation, in respect of that class, held on March 18, 2007;

History: S. 149.1(1), the definition "original corporate holdings percentage" was added by S.C. 2007, c. 35, s. 46(2), applicable on and after March 19, 2007.

"private foundation" — "private foundation" means a charitable foundation that is not a public foundation;

Registered Charities Newsletters: No. 16, New rules for determining whether a charity is a private foundation.
Canadian Tax Foundation: Radu, "Public/Private Foundations — Issues and Planning Opportunities", *2009 Canadian Tax Journal*, No. 1, 119; Hoff-

stein and Roddey, "Private Foundations and Community Foundations", *2001 Canadian Tax Journal*, No. 5, 1258.

"public foundation" — "public foundation" means a charitable foundation of which,

(*a*) where the foundation has been registered after February 15, 1984 or designated as a charitable organization or private foundation pursuant to subsection (6.3) or to subsection 110(8.1) or (8.2) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952,

(i) more than 50% of the directors, trustees, officers or like officials deal with each other and with each of the other directors, trustees, officers or officials at arm's length, and

(ii) not more than 50% of the capital contributed or otherwise paid in to the foundation has been so contributed or otherwise paid in by one person or members of a group of such persons who do not deal with each other at arm's length, or

(*b*) in any other case,

(i) more than 50% of the directors or trustees deal with each other and with each of the other directors or trustees at arm's length, and

(ii) not more than 75% of the capital contributed or otherwise paid in to the foundation has been so contributed or otherwise paid in by one person or by a group of persons who do not deal with each other at arm's length

and, for the purpose of subparagraph (*a*)(ii), a reference to any person or to members of a group does not include a reference to Her Majesty in right of Canada or a province, a municipality, another registered charity that is not a private foundation, or any club, society or association described in paragraph 149(1)(*l*);

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The definition "public foundation" in subsection 149.1(1) of the Act is replaced by the following:

"public foundation" — "public foundation", at a particular time, means a charitable foundation

(*a*) more than 50% of the directors, trustees, officers or like officials of which deal at arm's length with each other and with

(i) each of the other directors, trustees, officers and like officials of the foundation,

(ii) each person described by subparagraph (*b*)(i) or (ii), and

(iii) each member of a group of persons (other than Her Majesty in right of Canada or of a province, a municipality, another registered charity that is not a private foundation, and any club, society or association described in paragraph 149(1)(*l*)) who do not deal with each other at arm's length, if the group would, if it were a person, be a person described by subparagraph (*b*)(i), and

(*b*) that is not, at the particular time, and would not at the particular time be, if the foundation were a corporation, controlled directly or indirectly in any manner whatever

(i) by a person (other than Her Majesty in right of Canada or of a province, a municipality, another registered charity that is not a private foundation, and any club, society or association described in paragraph 149(1)(*l*)),

(A) who immediately after the particular time, has contributed to the foundation amounts that are, in total, greater than 50% of the capital of the foundation immediately after the particular time, and

(B) who immediately after the person's last contribution at or before the particular time, had contributed to the foundation amounts that were, in total, greater than 50% of the capital of the foundation immediately after the making of that last contribution, or

(ii) by a person, or by a group of persons that do not deal at arm's length with each other, if the person or any member of the group does not deal at arm's length with a person described in subparagraph (i);

Applicable: After 1999 except that, in respect of a foundation that has not been designated before 2000 as a private foundation or a charitable organization under subsection 149.1(6.3) or under subsection 110(8.1) or (8.2) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, and that has not applied after February 15, 1984 for registration under paragraph 110(8)(*c*) of that Act or under the definition "registered charity" in subsection 248(1), subparagraph (*a*)(iii) and paragraph (*b*) of the definition "public foundation" in subsection 149.1(1), are in their application before the earlier of the day, if any, on which the foundation is designated after 1999 as a private foundation or a charitable organization under subsection 149.1(6.3) and January 1, 2005 to be read

(*a*) without reference to "(other than Her Majesty in right of Canada or of a province, a municipality, another registered charity that is not a private foundation, and any club, society or association described in paragraph 149(1)(*l*))"; and

(*b*) as if the references to "50%" in paragraph (*b*) of that definition were references to "75%".

Explanatory Note:

"public foundation"

The definition "public foundation" provides that more than 50% of the directors, trustees, officers or similar officials of a public foundation must deal with each other and with each of the other directors, trustees, officers or similar officials at arm's length.

This definition requires that not more than 50% (75% in some cases) of the foundation's capital can be contributed by a person or group of persons not dealing with each together at arm's length. The "contribution" test in the definition is replaced by a "control" test. As a result, a foundation will not be disqualified from being treated as a public foundation solely because a person, or a group of persons not dealing with each other at arm's length, has contributed more than 50% of the foundation's capital. However, such a person or group is not permitted to control the foundation in any way, nor may the person or the members of the group represent more than 50% of the directors, trustees, officers and similar officials of the foundation.

This amendment generally applies after 1999.

Canadian Tax Foundation: Radu, "Public/Private Foundations — Issues and Planning Opportunities", *2009 Canadian Tax Journal*, No. 1, 119.

"qualified donee" — "qualified donee" means a donee described in any of paragraphs 110.1(1)(*a*) and (*b*) and the definitions "total charitable gifts" and "total Crown gifts" in subsection 118.1(1);

Forms: T1236.

"qualified investment" — [Repealed by 1984, c. 45, s. 57(5).]

"related business" — "related business", in relation to a charity, includes a business that is unrelated to the objects of the charity if substantially all persons employed by the charity in the carrying on of that business are not remunerated for that employment;

Registered Charities Newsletters: No. 17, New policy statement on what is a related business; No. 15, Related vs. unrelated business.

"relevant person" — "relevant person" in respect of a private foundation means a person who, at any time in respect of which the expression is relevant, deals not at

arm's length with the private foundation (determined as if subsection 251(2) were applied as if the private foundation were a corporation), but does not include

(*a*) a person who at that time is considered to deal not at arm's length with the private foundation solely because of a right referred to in paragraph 251(5)(*b*), or

(*b*) an individual

(i) who at that time has attained the age of 18 years and lives separate and apart from any other individual (referred to in this definition as a "controlling individual") who would, if the private foundation were a corporation, control, or be a member of a related group that controls, the private foundation, and

(ii) in respect of whom the Minister is satisfied, upon review of an application by the private foundation, that the individual would, if subsection 251(1) were read without reference to its paragraphs (*a*) and (*b*), at that time, deal at arm's length with all controlling individuals;

History: S. 149.1(1), the definition "relevant person" was added by S.C. 2007, c. 35, s. 46(2), applicable on and after March 19, 2007.

"specified gift" — "specified gift" means that portion of a gift, made in a taxation year by a registered charity, that is designated as a specified gift in its information return for the year;

"substituted shares" — "substituted shares" held by a private foundation means shares acquired by the private foundation, in exchange for exempt shares held by the private foundation, in the course of a transaction to which section 51, subsection 85.1(1) or section 86 or 87 applies;

History: S. 149.1(1), the definition "substituted shares" was added by S.C. 2009, c. 2, s. 55(4), applicable after March 18, 2007.

"taxation year" — "taxation year" means, in the case of a registered charity, a fiscal period.

Registered Charities Newsletters: No. 5, How can you get the Department's permission to change your charity's fiscal period?.

"total corporate holdings percentage" — "total corporate holdings percentage" of a private foundation, in respect of a class of shares of the capital stock of a corporation, at any particular time means the percentage of the issued and outstanding shares of that class that are held at that time by the private foundation, or by a relevant person in respect of the private foundation who holds a material interest in respect of that class;

History: S. 149.1(1), the definition "total corporate holdings percentage" was added by S.C. 2007, c. 35, s. 46(2), applicable on and after March 19, 2007.

► 149.1(1.1) ◄

(1.1) Exclusions. For the purposes of paragraphs (2)(*b*), (3)(*b*), (4)(*b*) and (21)(*a*), the following shall be deemed to be neither an amount expended in a taxation year on charitable activities nor a gift made to a qualified donee:

(*a*) a specified gift;

(*b*) an expenditure on political activities made by a charitable organization or a charitable foundation; and

(*c*) a transfer that has, because of paragraph (*c*) of the description of B in subsection 188(1.1), paragraph 189(6.2)(*b*) or subsection 189(6.3), reduced the amount of a liability under Part V.

History: S. 149.1(1.1)(*c*) was added by S.C. 2005, c. 19, s. 35(3), applicable in respect of notices issued by the Minister of National Revenue after [June 12, 2005].

Registered Charities Newsletters: No. 15, Political activities lead to revocation; No. 14, New political activity guidelines.

► 149.1(1.2) ◄

(1.2) Authority of Minister. For the purposes of the determination of D in the definition "disbursement quota" in subsection (1), the Minister may

(*a*) authorize a change in the number of periods chosen by a charitable foundation in determining the prescribed amount; and

(*b*) accept any method for the determination of the fair market value of property or a portion thereof that may be required in determining the prescribed amount.

► 149.1(2) ◄

(2) Revocation of registration of charitable organization. The Minister may, in the manner described in section 168, revoke the registration of a charitable organization for any reason described in subsection 168(1) or where the organization

(*a*) carries on a business that is not a related business of that charity; or

(*b*) fails to expend in any taxation year, on charitable activities carried on by it and by way of gifts made by it to qualified donees, amounts the total of which is at least equal to the organization's disbursement quota for that year.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 149.1(2) of the Act is amended by striking out the word "or" at the end of paragraph (*a*), by adding the word "or" at the end of paragraph (*b*) and by adding the following after paragraph (*b*):

(*c*) makes a disbursement by way of a gift, other than a gift made

(i) in the course of charitable activities carried on by it, or

(ii) to a donee that is a qualified donee at the time of the gift.

Applicable: To gifts made after December 20, 2002.

Explanatory Note:

Revocation of Registration

Subsections 149.1(2), (3) and (4) of the Act set out the reasons for which the Minister of National Revenue may revoke the registration of a charitable organization, a public foundation and a private foundation, respectively. These subsections are amended to permit the revocation of the registration of such entities if they make gifts (other than gifts made in the course of their charitable activities) to persons or entities that are not qualified donees. A "qualified donee" is essentially a person or entity to which a tax deductible or tax creditable donation may be made.

These amendments apply to gifts made after December 20, 2002.

History: S. 149.1(2)(*b*) was replaced by S.C. 2005, c. 19, s. 35(4), applicable to taxation years that begin after March 22, 2004, except that, in the application of [the amendment to paragraph 149.1(2)(*b*)] to a taxation year that begins before 2009 of a charitable organization registered by the Minister of National Revenue before March 23, 2004, paragraph 149.1(2)(*b*) is to be read as follows:

"(*b*) fails to expend in any taxation year, on charitable activities carried on by it and by way of gifts made by it to qualified donees, amounts the total of which is at least equal to the total of the amounts determined for A, A.1 and B in the definition 'disbursement quota' in subsection (1) for the year in respect of the charity."

S. 149.1(2)(*b*) formerly read:

"(*b*) fails to expend in any taxation year, on charitable activities carried on by it and by way of gifts made by it to qualified donees, amounts the total of which is at least equal to the total of

(i) the amount that would be the value of A for the year, and

(ii) the amount that would be the value of A.1 for the year,

in the definition 'disbursement quota' in subsection (1) in respect of the organization if it were a charitable foundation."

S. 149.1(2)(*b*)(i) and (ii) were amended by S.C. 1998, c. 19, s. 179(3), applicable to taxation years that end after November 1991. Those subparagraphs formerly read:

"(i) 80% of the amount that would be determined for the year for A, and

(ii) the amount that would be determined for the year for A.1,"

S. 149.1(2)(*b*) was amended by S.C. 1994, c. 21, s. 74(4), applicable to taxation years that begin after 1992. S. 149.1(2)(*b*) formerly read:

"(*b*) fails to expend in any taxation year, on charitable activities carried on by it and by way of gifts made by it to qualified donees, amounts the total of which is at least equal to 80% of the amount that would be determined for the year for A in the definition 'disbursement quota' in subsection (1) in respect of the organization if it were a charitable foundation."

Related Sections: S. 149.1(1), "specified gift"; s. 149.1(5) Reduction; s. 149.1(20) Rule regarding disbursement excess; s. 168(1) Notice of intention to revoke registration.

Interpretation Bulletins: *Secondary* — IT-244R3 Gifts by individuals of life insurance policies as charitable donations.

Guides: RC4108 Registered Charities and the Income Tax Act; T4118 Auditing Charities; RC4143 Registered Charities-Community Economic Development Programs; RC4106 Registered Charities: Operating Outside Canada.

Registered Charities Newsletters: No. 31, Disbursement quota shortfalls; No. 31, Disbursement quota — registered charities designated as charitable organizations take note; No. 19, The Budget and regulatory reform; No. 13, Charity Law and Policy.

► 149.1(3) ◄

(3) Revocation of registration of public foundation. The Minister may, in the manner described in section 168, revoke the registration of a public foundation for any reason described in subsection 168(1) or where the foundation

(*a*) carries on a business that is not a related business of that charity;

(*b*) fails to expend in any taxation year, on charitable activities carried on by it and by way of gifts made by it to qualified donees, amounts the total of which is at least equal to the foundation's disbursement quota for that year;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 149.1(3) of the Act is amended by adding the following after paragraph (*b*):

(*b*.1) makes a disbursement by way of a gift, other than a gift made

(i) in the course of charitable activities carried on by it, or

(ii) to a donee that is a qualified donee at the time of the gift;

Applicable: To gifts made after December 20, 2002.

Explanatory Note: See the Explanatory Note following the addition of paragraph 149.1(2)(*c*).

(*c*) since June 1, 1950, acquired control of any corporation;

(*d*) since June 1, 1950, incurred debts, other than debts for current operating expenses, debts incurred in connection with the purchase and sale of investments and debts incurred in the course of administering charitable activities; or

(*e*) at any time within the 24 month period preceding the day on which notice is given to the foundation by the Minister pursuant to subsection 168(1) and at a time when the foundation was a private foundation, took any action or failed to expend amounts such that the Minister was entitled, pursuant to subsection (4), to revoke its registration as a private foundation.

Related Sections: S. 149.1(1), "specified gift"; s. 149.1(20) Rule regarding disbursement excess; s. 168(1) Notice of intention to revoke registration.

Interpretation Bulletins: *Secondary* — IT49R2 Annuities purchased from charitable organizations [Archived by the CRA]; IT-244R3 Gifts by individuals of life insurance policies as charitable donations.

Registered Charities Newsletters: No. 31, Disbursement quota shortfalls; No. 27, Debts incurred by charitable foundations.

Canadian Tax Foundation: Drache, "Charities, Non-Profits, and Business Activities", *1997 Conference Report*, 30:1.

► 149.1(4) ◄

(4) Revocation of registration of private foundation. The Minister may, in the manner described in section 168, revoke the registration of a private foundation for any reason described in subsection 168(1) or where the foundation

(*a*) carries on any business;

(*b*) fails to expend in any taxation year, on charitable activities carried on by it and by way of gifts made by it to qualified donees, amounts the total of which is at least equal to the foundation's disbursement quota for that year;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 149.1(4) of the Act is amended by adding the following after paragraph (*b*):

(*b*.1) makes a disbursement by way of a gift, other than a gift made

(i) in the course of charitable activities carried on by it, or

(ii) to a donee that is a qualified donee at the time of the gift;

Applicable: To gifts made after December 20, 2002.

Explanatory Note: See the Explanatory Note following the addition of paragraph 149.1(2)(*c*).

(*c*) has, in respect of a class of shares of the capital stock of a corporation, a divestment obligation percentage at the end of any taxation year;

(*d*) since June 1, 1950, incurred debts, other than debts for current operating expenses, debts incurred in connection with the purchase and sale of investments and debts incurred in the course of administering charitable activities.

History: S. 149.1(4)(*c*) was replaced by S.C. 2007, c. 35, s. 46(3), applicable to taxation years, of foundations, that begin after March 18, 2007, except that paragraph 149.1(4)(*c*) does not apply to a taxation year of a private foundation if subsection 149.2(8) applies to the private foundation in respect of any class of shares of the capital stock of a corporation. S. 149.1(4)(*c*) formerly read:

"(*c*) since June 1, 1950, acquired control of any corporation; or"

Related Sections: S. 149.1(20) Rule regarding disbursement excess; s. 168(1) Notice of intention to revoke registration.

Interpretation Bulletins: *Secondary*—IT-111R2 Annuities purchased from charitable organizations [Archived by the CRA]; IT-244R3 Gifts by individuals of life insurance policies as charitable donations.

Registered Charities Newsletters: No. 31, Disbursement quota shortfalls; No. 27, Debts incurred by charitable foundations; No. 23, Golf tournaments.

Canadian Tax Foundation: Hoffstein and Roddey, "Private Foundations and Community Foundations", *2001 Canadian Tax Journal*, No. 5, 1258; Drache, "Charities, Non-Profits, and Business Activities", *1997 Conference Report*, 30:1.

► 149.1(4.1) ◄

(4.1) Revocation of registration of registered charity. The Minister may, in the manner described in section 168, revoke the registration

(*a*) of a registered charity, if the registered charity has made a gift to another registered charity and it can reasonably be considered that one of the main purposes of making the gift was to unduly delay the expenditure of amounts on charitable activities;

(*b*) of the other charity referred to in paragraph (*a*), if it can reasonably be considered that, by accepting the gift, it acted in concert with the registered charity to which paragraph (*a*) applies; and

(*c*) of a registered charity, if a false statement, within the meaning assigned by subsection 163.2(1), was made in circumstances amounting to culpable conduct, within the meaning assigned by that subsection, in the furnishing of information for the purpose of obtaining registration of the charity.

History: S. 149.1(4.1) was replaced by S.C. 2005, c. 19, s. 35(5), applicable in respect of notices issued by the Minister of National Revenue after [June 12, 2005]. S. 149.1(4.1) formerly read:

"(4.1) *Revocation of registration of registered charity.* Where a registered charity has made a gift to another registered charity and it may reasonably be considered that one of the main purposes of making the gift was to unduly delay the expenditure of amounts on charitable activities, the Minister may, in the manner described in section 168, revoke the registration of the charity that made the gift and, where it may reasonably be considered that the charities acted in concert, of the other charity."

► 149.1(5) ◄

(5) Reduction. The Minister may, on application made to the Minister in prescribed form by a registered charity, specify an amount in respect of the charity for a taxation year and, for the purpose of paragraph (2)(*b*), (3)(*b*) or (4)(*b*), as the case may be, that amount shall be deemed to be an amount expended by the charity in the year on charitable activities carried on by it.

Related Sections: S. 149.1(1), "specified gift".

Forms: T2094.

► 149.1(6) ◄

(6) Devoting resources to charitable activity. A charitable organization shall be considered to be devoting its resources to charitable activities carried on by it to the extent that

(*a*) it carries on a related business;

(*b*) in any taxation year, it disburses not more than 50% of its income for that year to qualified donees; or

(*c*) it disburses income to a registered charity that the Minister has designated in writing as a charity associated with it.

Information Circulars: IC 77-6 Registered charities: Designation as associated charities.

Registered Charities Newsletters: No. 17, New policy statement on what is a related business; No. 9, Transfer of Funds By Charities to Other Organizations.

Canadian Tax Foundation: Drache, "Charities, Non-Profits, and Business Activities", *1997 Conference Report*, 30:1.

► 149.1(6.1) ◄

(6.1) Charitable purposes. For the purposes of the definition "charitable foundation" in subsection (1), where a corporation or trust devotes substantially all of its resources to charitable purposes and

(*a*) it devotes part of its resources to political activities,

(*b*) those political activities are ancillary and incidental to its charitable purposes, and

(*c*) those political activities do not include the direct or indirect support of, or opposition to, any political party or candidate for public office,

the corporation or trust shall be considered to be constituted and operated for charitable purposes to the extent of that part of its resources so devoted.

Registered Charities Newsletters: No. 6, Can registered charities average political expenses over time?; No. 2, Is participation on a municipal advisory committee a partisan political activity?; No. 1, Partisan political activities.

Tax Topics: No. 1763-64, CRA Issues Registered Charities Advisory on Partisan Political Activities.

► 149.1(6.2) ◄

(6.2) Charitable activities. For the purposes of the definition "charitable organization" in subsection (1), where an organization devotes substantially all of its resources to charitable activities carried on by it and

(*a*) it devotes part of its resources to political activities,

(*b*) those political activities are ancillary and incidental to its charitable activities, and

(*c*) those political activities do not include the direct or indirect support of, or opposition to, any political party or candidate for public office,

the organization shall be considered to be devoting that part of its resources to charitable activities carried on by it.

Registered Charities Newsletters: No. 6, Can registered charities average political expenses over time?; No. 2, Is participation on a municipal advisory committee a partisan political activity?; No. 1, Partisan political activities.

Tax Topics: No. 1763-64, CRA Issues Registered Charities Advisory on Partisan Political Activities.

► 149.1(6.21) ◄

(6.21) Marriage for civil purposes. For greater certainty, subject to subsections (6.1) and (6.2), a registered

charity with stated purposes that include the advancement of religion shall not have its registration revoked or be subject to any other penalty under Part V solely because it or any of its members, officials, supporters or adherents exercises, in relation to marriage between persons of the same sex, the freedom of conscience and religion guaranteed under the *Canadian Charter of Rights and Freedoms*.

History: S. 149.1(6.21) was added by S.C. 2005, c. 33, s. 11.1, applicable on Royal Assent, July 20, 2005.

► 149.1(6.3) ◄

(6.3) Designation as public foundation, etc. The Minister may, by notice sent by registered mail to a registered charity, on the Minister's own initiative or on application made to the Minister in prescribed form, designate the charity to be a charitable organization, private foundation or public foundation and the charity shall be deemed to be registered as a charitable organization, private foundation or public foundation, as the case may be, for taxation years commencing after the day of mailing of the notice unless and until it is otherwise designated under this subsection or its registration is revoked under subsection (2), (3), (4), (4.1) or 168(2).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Application

(17) An application referred to in subsection 149.1(6.3), in respect of one or more taxation years after 1999, may be made after 1999 and before the 90th day after this Act is assented to. If a designation referred to in that subsection for any of those taxation years is made in response to the application, the charity is deemed to be registered as a charitable organization, a public foundation or a private foundation, as the case may be, for the taxation years that the Minister of National Revenue specifies.

Applicable: Royal Assent.

Forms: T2095.
Registered Charities Newsletters: No. 16, New rules for determining whether a charity is a private foundation.

► 149.1(6.4) ◄

(6.4) National arts service organizations. Where an organization that

(*a*) has, on written application to the Minister of Canadian Heritage describing all of its objects and activities, been designated by that Minister on approval of those objects and activities to be a national arts service organization,

(*b*) has, as its exclusive purpose and its exclusive function, the promotion of arts in Canada on a nationwide basis,

(*c*) is resident in Canada and was formed or created in Canada, and

(*d*) complies with prescribed conditions

applies in prescribed form to the Minister of National Revenue for registration, that Minister may register the organization for the purposes of this Act and, where the organization so applies or is so registered, this section, paragraph 38(*a*.1), sections 110.1, 118.1, 168, 172, 180 and 230, subsection 241(3.2) and Part V apply, with such modifications as the circumstances require, to the organization as if it were an applicant for registration as a charitable organization or as if it were a registered charity that is designated as a charitable organization, as the case may be.

History: S. 149.1(6.4), the portion after paragraph (*d*) was amended by S.C. 2001, c. 17, s. 146, applicable on Royal Assent, June 14, 2001. S. 149.1(6.4), the portion after paragraph (*d*) formerly read:

"applies in prescribed form to the Minister of National Revenue for registration, that Minister may register the organization for the purposes of this Act and, where the organization so applies or is so registered, this section, paragraph 38(*a*.1), sections 110.1, 118.1, 168, 172, 180 and 230 and Part V apply, with such modifications as the circumstances require, to the organization as if it were an applicant for registration as a charitable organization or as if it were a registered charity that is designated as a charitable organization, as the case may be."

S. 149.1(6.4), the portion after paragraph (*d*) was amended by S.C. 1998, c. 19, s. 41.1(1), applicable after February 18, 1997. S. 149.1(6.4), the portion after paragraph (*d*) formerly read:

"applies in prescribed form to the Minister of National Revenue for registration, that Minister may register the organization for the purposes of this Act and, where the organization so applies or is so registered, this section and sections 110.1, 118.1, 168, 172, 180 and 230 and Part V apply, with such modifications as the circumstances require, to the organization as if it were an applicant for registration as a charitable organization or a registered charity that is designated as a charitable organization, as the case may be."

S. 149.1(6.4)(*a*) was amended by S.C. 1995, c. 11, s. 46, by changing the phrase "Minister of Communications" to "Minister of Canadian Heritage", effective July 12, 1996.

S. 149.1(6.4) was added by S.C. 1994, c. 7, Sched. II, s. 123(4), applicable after July 13, 1990, except that, where an organization applied to the Minister of National Revenue for registration under subsection 149.1(6.4) of the Act before December 17, 1991 and the Minister of National Revenue accepted the application as meeting the requirements of that subsection, the organization shall be deemed to have become registered under subsection 149.1(6.4),

(*a*) where in the application a day later than the day the application was made is specified as the day on which the organization was or is to become registered, on that later day; and

(*b*) in any other case, on the day the application was made.

Regulations: 8700.
Registered Charities Newsletters: No. 3, Registered national arts service organizations; No. 2, Registered national arts service organizations can issue tax receipts.

► 149.1(6.5) ◄

(6.5) Revocation of designation. The Minister of Canadian Heritage may, at any time, revoke the designation of an organization made for the purpose of subsection (6.4) where

(*a*) an incorrect statement was made in the furnishing of information for the purpose of obtaining the designation, or

(*b*) the organization has amended its objects after its last designation was made,

and, where the designation is so revoked, the organization shall be deemed for the purpose of section 168 to have ceased to comply with the requirements of this Act for its registration under this Act.

History: S. 149.1(6.5), that portion preceding paragraph (*a*) was amended by S.C. 1995, c. 11, s. 46, by changing the phrase "Minister of Communications" to "Minister of Canadian Heritage", effective July 12, 1996.

S. 149.1(6.5) was added by S.C. 1994, c. 7, Sched. II, s. 123(4), applicable after July 13, 1990.

► 149.1(7) ◄

(7) Designation of associated charities. On application made to the Minister in prescribed form, the Minister may, in writing, designate a registered charity as a charity associated with one or more specified registered charities where the Minister is satisfied that the charitable aim or activity of each of the registered charities is substantially the same, and on and after a date specified in such a designation, the charities to which it relates shall, until

such time, if any, as the Minister revokes the designation, be deemed to be associated.

Information Circulars: IC 77-6 Registered charities: Designation as associated charities.
Forms: T3011.

► 149.1(8) ◄

(8) Accumulation of property. A registered charity may, with the approval in writing of the Minister, accumulate property for a particular purpose, on terms and conditions, and over such period of time, as the Minister specifies in the approval, and any property accumulated after receipt of such an approval and in accordance therewith, including any income earned in respect of the property so accumulated, shall be deemed

(*a*) to have been expended on charitable activities carried on by the charity in the taxation year in which it was so accumulated; and

(*b*) not to have been expended in any other year.

History: S. 149.1(8) was amended by S.C. 1994, c. 21, s. 74(5), applicable to taxation years that begin after 1992. S. 149.1(8) formerly read:

"(8) A registered charity may, with the approval in writing of the Minister, accumulate property for a particular purpose on such terms and conditions and over such period of time, if any, as are specified by the Minister in the approval, and any property accumulated after receipt of such an approval and in accordance therewith, including any income earned in respect of the property so accumulated, shall be deemed to have been expended on charitable activities carried on by the charity in the taxation year in which it was so accumulated."

Registered Charities Newsletters: No. 22, Permission to accumulate property; No. 20, Disasters.

► 149.1(9) ◄

(9) Idem. Property accumulated by a registered charity as provided in subsection (8), including any income earned in respect of that property, that is not used for the particular purpose for which it was accumulated either

(*a*) before the expiration of any period of time specified by the Minister in the Minister's approval of the accumulation, or

(*b*) at an earlier time at which the registered charity decides not to use the property for that purpose

shall, notwithstanding subsection (8), be deemed to be income of the charity for, and the amount of a gift for which it issued a receipt described in subsection 110.1(2) or 118.1(2) in, its taxation year in which the period referred to in paragraph (*a*) expires or the time referred to in paragraph (*b*) occurs, as the case may be.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 149.1(9) of the Act after paragraph (*b*) is replaced by the following:

is, notwithstanding subsection (8), deemed to be income of the charity for, and the eligible amount of a gift for which it issued a receipt described in subsection 110.1(2) or 118.1(2) in, its taxation year in which the period referred to in paragraph (*a*) expires or the time referred to in paragraph (*b*) occurs, as the case may be.

Applicable: After December 20, 2002.

Explanatory Note:

Accumulation of Property

Subsection 149.1(8) of the Act permits a registered charity, with the approval of the Minister of National Revenue, to accumulate property over a specified period for a particular purpose. The amount of such property accumulated is deemed to have been expended in the taxation year of the charity in which it was accumulated. If in fact the charity defaults on this responsibility by not using the property for the approved purpose within the specified period, subsection 149.1(9) treats that property as income of the charity and the amount of a gift for which it issued a receipt. This affects the calculation of the disbursement quota of the charity, with the result that the amount of the property must be actually disbursed in the year following default.

Subsection 149.1(9) is amended consequential to the addition of new subsection 248(31) of the Act, in respect of gifts made after December 20, 2002, to provide that the amount of a gift for which a tax receipt is issued refers to the "eligible amount" of a gift. For additional information, see the commentary to new subsection 248(31).

History: S. 149.1(9), the portion after paragraph (*b*), was amended by S.C. 1994, c. 7, Sched. II, s. 123(5), applicable to the 1988 and subsequent taxation years. The portion formerly read:

"shall, notwithstanding subsection (8), be deemed to be income of the charity and the amount of a gift for which it issued a receipt described in paragraph 110.1(1)(*a*) or subsection 118.1(2) in its taxation year in which the period referred to in paragraph (*a*) expires if that paragraph is applicable or in which the earlier time referred to in paragraph (*b*) occurs if that paragraph is applicable."

Related Sections: S. 110.1(2) Proof of gift; s. 118.1(2) Proof of gift.

► 149.1(10) ◄

(10) Deemed charitable activity. An amount paid by a charitable organization to a qualified donee that is not paid out of the income of the charitable organization shall be deemed to be a devotion of a resource of the charitable organization to a charitable activity carried on by it.

► 149.1(11) ◄

(11) Income not to include taxable capital gains. [Repealed by 1984, c. 45, s. 57(13).]

► 149.1(12) ◄

(12) Rules. For the purposes of this section,

(*a*) a corporation is controlled by a charitable foundation if more than 50% of the corporation's issued share capital, having full voting rights under all circumstances, belongs to

(i) the foundation, or

(ii) the foundation and persons with whom the foundation does not deal at arm's length,

but, for the purpose of paragraph (3)(*c*), a charitable foundation is deemed not to have acquired control of a corporation if it has not purchased or otherwise acquired for consideration more than 5% of the issued shares of any class of the capital stock of that corporation;

(*b*) there shall be included in computing the income of a charity for a taxation year all gifts received by it

in the year including gifts from any other charity but not including

(i) a specified gift or a gift referred to in paragraph (*a*) or (*b*) of the description of A in the definition "disbursement quota" in subsection (1),

(ii) any gift or portion of a gift in respect of which it is established that the donor is not a charity and

(A) has not been allowed a deduction under paragraph 110.1(1)(*a*) in computing the donor's taxable income or under subsection 118.1(3) in computing the donor's tax payable under this Part, or

(B) was not taxable under section 2 for the taxation year in which the gift was made, or

(iii) any gift or portion of a gift in respect of which it is established that the donor is a charity and that the gift was not made out of the income of the donor; and

(*c*) subsections 104(6) and (12) are not applicable in computing the income of a charitable foundation that is a trust.

History: S. 149.1(12)(*a*), the portion following subparagraph (ii) was replaced by S.C. 2007, c. 35, s. 46(4), applicable to taxation years, of foundations, that begin after March 18, 2007, except that it does not apply to a taxation year of a private foundation if subsection 149.2(8) applies to the private foundation in respect of any class of shares of the capital stock of a corporation. S. 149.1(12)(*a*), the portion following subparagraph (ii) formerly read:

"but, for the purpose of paragraph (3)(*c*) or (4)(*c*), as the case may be, a charitable foundation shall be deemed not to have acquired control of a corporation if it has not purchased or otherwise acquired for consideration more than 5% of the issued shares of any class of the capital stock of that corporation;"

Interpretation Bulletins: *Secondary* — IT-244R3 Gifts by individuals of life insurance policies as charitable donations.
Forms: T2052.

► 149.1(13) ◄

(13) Designation of private foundation as public. On application made to the Minister by a private foundation, the Minister may, on such terms and conditions as the Minister considers appropriate, designate the foundation to be a public foundation, and on and after the date specified in such a designation, the foundation to which it relates shall, until such time, if any, as the Minister revokes the designation, be deemed to be a public foundation.
Forms: T2095.

► 149.1(14) ◄

(14) Information returns. Every registered charity shall, within 6 months from the end of each taxation year of the charity, file with the Minister both an information return and a public information return for the year, each in prescribed form and containing prescribed information, without notice or demand therefor.

Registered Charities Newsletters: No. 31, Charities Incorporated in Ontario; No. 31, Guide T4033, Completing the Registered Charity Information Return; No. 31, Top 3 Compliance Issues; No. 31, Helpful Hints; No. 31, New Form T3010B(09), Registered Charity Information Return; No. 30, Charities Partnership and Outreach Program update; No. 30, Guide T4033A, Completing the Registered Charity Information Return; No. 29, Guide T4033, Completing the Registered Charity Information Return; No. 29, Helpful Hints; No. 28, New Re-registration Process; No. 28, New Fillable T3010A; No. 27, Did you know?; No. 23, Revisions to Form T3010A; No. 21, Reminder: Simply submitting returns for corporate status is not sufficient; No. 21, Reminder about your annual information return; No. 21, Did you know?; No. 17, Questions and answers about the new form T3010A, Registered Charity Information Return, and the new guide T4033A, Completing the Registered Charity Information Return; No. 17, Questions and Answers on New Form T3010A; No. 16, How can I be certain that my organization's T3010A has been received?; No. 16, Why are you sending me these forms (TX11D, TX11E, T2051A, T2051B)?; No. 13, Coming This Fall and in 2003: A Simplified T3010 and More Public Access to Charities Information; No. 7, Annual Charity Information Return Frequently Asked Questions; No. 1, Remember your annual return date.
Forms: T1235; T1236; T1240; T3010A.
Guides: T4033A Completing the Registered Charity Information Return.

► 149.1(15) ◄

(15) Information may be communicated. Notwithstanding section 241,

(*a*) the information contained in a public information return referred to in subsection (14) shall be communicated or otherwise made available to the public by the Minister in such manner as the Minister deems appropriate;

(*b*) the Minister may make available to the public in such manner as the Minister deems appropriate an annual listing of all registered or previously registered charities indicating for each the name, location, registration number, date of registration and, in the case of a charity the registration of which has been revoked, annulled or terminated, the effective date of the revocation, annulment or termination;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 149.1(15)(*b*) of the Act is replaced by the following:

(*b*) the Minister may make available to the public in any manner that the Minister considers appropriate a listing of all registered, or previously registered, charities and Canadian amateur athletic associations that indicates for each of them

(i) its name and address,

(ii) its registration number and date of registration, and

(iii) the effective date of any revocation, annulment or termination of its registration.

Applicable: Royal Assent.

Explanatory Note:

Information May be Communicated

Section 241 of the Act prohibits the use or communication by an official of information obtained under the Act unless specifically authorized by one of the exceptions found in that section. Paragraph 149.1(15)(*b*) of the Act, which deals with charities, provides that, notwithstanding section 241, the Minister of National Revenue may publish a listing of all registered or previously registered charities indicating the name, location, registration number and, where the charity is no longer registered, the effective date of the revocation, annulment or termination of the charity's registration. This provision does not currently allow for the release of similar information in respect of registered Canadian amateur athletic associations. Since taxpayers who make donations to such associations obtain the same tax relief that is available in respect of donations to registered charities and, since subsection 149.1(15) is intended to provide transparency for the benefit of potential donors, paragraph 149.1(15)(*b*) is amended, effective after Royal Assent to this measure, to allow for the release of such information in respect of Canadian amateur athletic associations.

(*c*) if, at any time during a taxation year of a private foundation that is a registered charity, the private foundation holds more than an insignificant interest in respect of a class of shares of the capital stock of a corporation, the Minister shall make available to the

public in such manner as the Minister deems appropriate,

(i) the name of the corporation, and

(ii) in respect of each class of shares of the corporation, that portion of the total corporate holdings percentage of the private foundation in respect of the class that is attributable to

(A) holdings of shares of that class by the private foundation, and

(B) the total of all holdings of shares of that class by relevant persons in respect of the private foundation; and

(*d*) the Minister, or a Minister referred to in paragraph 110.1(8)(*e*), may make available to the public in any manner a listing of the registered charities in respect of which an opinion has been formed for the purpose of paragraph 110.1(8)(*e*) or revoked under subsection 110.1(9).

History: S. 149.1(15)(*d*) was added by S.C. 2009, c. 2, s. 55(5), in force on Royal Assent, March 12, 2009.

S. 149.1(15)(*c*) was added by S.C. 2007, c. 35, s. 46(5), applicable to taxation years, of foundations, that begin after March 18, 2007.

Registered Charities Newsletters: No. 14, Form T3010 information online; No. 5, How can your charity maintain the public's confidence ... when you complete the T3010 return?; No. 5, What should you do if your charity wants to change its name, address or telephone number?.

► 149.1(16) ◄

(16) Penalty tax. [Repealed by 1984, c. 45, s. 57(17).]

► 149.1(17) ◄

(17) Idem. [Repealed by 1984, c. 45, s. 57(17).]

► 149.1(18) ◄

(18) Rules relating to computation of income. [Repealed by 1984, c. 45, s. 57(17).]

► 149.1(19) ◄

(19) Election in respect of first taxation year. [Repealed by 1980-81, c. 48, s. 84.1(2).]

► 149.1(20) ◄

(20) Rule regarding disbursement excess. Where a registered charity has expended a disbursement excess for a taxation year, the charity may, for the purpose of determining whether it complies with the requirements of paragraph (2)(*b*), (3)(*b*) or (4)(*b*), as the case may be, for the immediately preceding taxation year of the charity and 5 or less of its immediately subsequent taxation years, include in the computation of the amounts expended on charitable activites carried on by it and by way of gifts made by it to qualified donees, such portion of that disbursement excess as was not so included under this subsection for any preceding taxation year.

► 149.1(21) ◄

(21) Definition of "disbursement excess". For the purpose of subsection (20), "disbursement excess", for a taxation year of a charity, means the amount, if any, by which the total of amounts expended in the year by the charity on charitable activities carried on by it and by way of gifts made by it to qualified donees exceeds its disbursement quota for the year.

History: S. 149.1(21) was replaced by S.C. 2005, c. 19, s. 35(6), applicable to taxation years that begin after March 22, 2004, except that, in the application of subsection 149.1(21) to a taxation year that begins before 2009 of a charitable organization registered by the Minister of National Revenue before March 23, 2004, subsection 149.1(21), is to be read as follows:

"(21) For the purpose of subsection (20), 'disbursement excess' for a taxation year of a charity means the amount, if any, by which

(*a*) the total of amounts expended in the year by the charity on charitable activities carried on by it or by way of gifts made by it to qualified donees exceeds

(*b*) in the case of a charitable foundation, its disbursement quota for the year, and

(*c*) in the case of a charitable organization, the total of the amounts determined for A, A.1 and B in the definition 'disbursement quota' in subsection (1) for the year in respect of the charity."

S. 149.1(21) formerly read:

"(21) *Definition of 'disbursement excess'.* For the purpose of subsection (20), 'disbursement excess' for a taxation year of a charity means the amount, if any, by which

(*a*) the total of amounts expended in the year by the charity on charitable activities carried on by it or by way of gifts made by it to qualified donees exceeds

(*b*) in the case of a charitable foundation, its disbursement quota for the year, and

(*c*) in the case of a charitable organization, the total of

(i) the amount that would be the value of A for the year, and

(ii) the amount that would be the value of A.1 for the year,

in the definition 'disbursement quota' in subsection (1) in respect of the organization if it were a charitable foundation."

S. 149.1(21)(*c*)(i) and (ii) were amended by S.C. 1998, c. 19, s. 179(4), applicable to taxation years that end after November 1991. Those paragraphs formerly read:

"(i) 80% of the amount that would be determined for the year for A, and

(ii) the amount that would be determined for the year for A.1,

in the definition 'disbursement quota' in subsection (1) in respect of the organization if it were a charitable foundation."

S. 149.1(21)(*c*) was amended by S.C. 1994, c. 21, s. 74(6), applicable to taxation years that begin after 1992. S. 149.1(21)(*c*) formerly read:

"(*c*) in the case of a charitable organization, 80% of the amount that would be determined for the year for A in the definition 'disbursement quota' in subsection (1) in respect of the organization if it were a charitable foundation."

► 149.1(22) ◄

(22) Refusal to register. The Minister may, by registered mail, give notice to a person that the application of the person for registration as a registered charity is refused.

History: S. 149.1(22) was added by S.C. 2005, c. 19, s. 35(6), applicable in respect of notices issued by the Minister of National Revenue after [June 12, 2005].

► 149.1(23) ◄

(23) Annulment of registration. The Minister may, by registered mail, give notice to a person that the registration of the person as a registered charity is annulled and deemed not to have been so registered, if the person was so registered by the Minister in error or the person has, solely as a result of a change in law, ceased to be a charity.

History: S. 149.1(23) was added by S.C. 2005, c. 19, s. 35(6), applicable in respect of notices issued by the Minister of National Revenue after [June 12, 2005].

► 149.1(24) ◄

(24) Receipts issued before annulment. An official receipt referred to in Part XXXV of the *Income Tax Regulations* issued, by a person whose registration has been annulled under subsection (23), before that annulment is, if the receipt would have been valid were the person a registered charity at the time the receipt was issued, deemed to be a valid receipt under that Part.

History: S. 149.1(24) was added by S.C. 2005, c. 19, s. 35(6), applicable in respect of notices issued by the Minister of National Revenue after [June 12, 2005].

SECTION 149.2:

► 149.2(1) ◄

(1) Material and insignificant interests. In this section and section 149.1,

(*a*) a person has, at any time, a material interest in respect of a class of shares of the capital stock of a corporation if, at that time,

(i) the percentage of the shares of that class held by the person exceeds 0.5% of all the issued and outstanding shares of that class, or

(ii) the fair market value of the shares so held exceeds $100,000; and

(*b*) a private foundation has, at any time, an insignificant interest in respect of a class of shares of the capital stock of a corporation if, at that time, the percentage of shares of that class held by the private foundation does not exceed 2% of all the issued and outstanding shares of that class.

History: S. 149.2(1) was added by S.C. 2007, c. 35, s. 47(1), applicable to taxation years, of private foundations, that begin on or after March 19, 2007.

► 149.2(2) ◄

(2) Material transaction — anti-avoidance. If a private foundation or a relevant person in respect of the private foundation has engaged in one or more transactions or series of transactions or events, a purpose of which may reasonably be considered to be to avoid the application of the definition "material transaction", each of those transactions or series of transactions or events is deemed to be a material transaction.

History: S. 149.2(2) was added by S.C. 2007, c. 35, s. 47(1), applicable to taxation years, of private foundations, that begin on or after March 19, 2007.

► 149.2(2.1) ◄

(2.1) Ownership. For the purposes of the definition "equity percentage", and subparagraph (*b*)(iii) of the definition "exempt shares", in subsection 149.1(1), a person who, if paragraph 251(5)(*b*) applied would be deemed by that paragraph to have the same position in relation to the control of a corporation as if the person owned a share, is deemed to own the share.

History: S. 149.2(2.1) was added by S.C. 2009, c. 2, s. 56(1), applicable after March 18, 2007.

► 149.2(3) ◄

(3) Net increase in excess corporate holdings percentage. The net increase in the excess corporate holdings percentage of a private foundation for a taxation year, in respect of a class of shares of the capital stock of a corporation, is the number of percentage points, if any, determined by the formula

$$A - B$$

where

A is the excess corporate holdings percentage of the private foundation at the end of the taxation year, in respect of the class, and

B is

(*a*) 0%, if

(i) at the beginning of the taxation year the private foundation was not both a private foundation and a registered charity, or

(ii) the private foundation was both a registered charity and a private foundation on March 18, 2007 and the taxation year is the first taxation year of the private foundation that begins after that date; and

(*b*) in any other case, the excess corporate holdings percentage of the private foundation in respect of the class at the end of its preceding taxation year.

History: S. 149.2(3) was added by S.C. 2007, c. 35, s. 47(1), applicable to taxation years, of private foundations, that begin on or after March 19, 2007.

► 149.2(4) ◄

(4) Net decrease in excess corporate holdings percentage. The net decrease in the excess corporate holdings percentage of a private foundation for a taxation year, in respect of a class of shares of the capital stock of a corporation, is the number of percentage points, if any, by which the percentage determined for B in the formula in subsection (3) for the taxation year exceeds the percentage determined for A in that formula for the taxation year.

History: S. 149.2(4) was added by S.C. 2007, c. 35, s. 47(1), applicable to taxation years, of private foundations, that begin on or after March 19, 2007.

► 149.2(5) ◄

(5) Allocation of net increase in excess corporate holdings percentage. For the purpose of the description of B in the definition "divestment obligation percentage" in subsection 149.1(1), the net increase in the excess corporate holdings percentage of a private foundation in respect of a class of shares of the capital stock of a corporation, for a taxation year (in this subsection referred to as the "current year") is to be allocated in the following order:

(*a*) first to the divestment obligation percentage of the private foundation in respect of that class for the current year, to the extent that the private foundation has in the current year acquired for consideration shares of that class;

(*b*) then to the divestment obligation percentage of the private foundation in respect of that class for its fifth subsequent taxation year, to the extent of the lesser of

(i) that portion of the net increase in the excess corporate holdings percentage of the private foundation in respect of that class for the current year that is not allocated under paragraph (*a*), and

(ii) the percentage of the issued and outstanding shares of that class that were acquired by the private foundation in the current year by way of bequest;

(*c*) then to the divestment obligation percentage of the private foundation in respect of that class for its second subsequent taxation year, to the extent of the lesser of

(i) that portion of the net increase in the excess corporate holdings percentage of the private foundation in respect of that class for the current year that is not allocated under paragraph (*a*) or (*b*), and

(ii) the total of

(A) the percentage of the issued and outstanding shares of that class that were acquired by the private foundation in the current year by way of gift, other than from a relevant person or by way of bequest, and

(B) the portion of the net increase in the excess corporate holdings percentage of the private foundation that is attributable to the redemption, acquisition or cancellation of any of the issued and outstanding shares of that class in the current year by the corporation; and

(*d*) then to the divestment obligation percentage of the private foundation in respect of that class for its

subsequent taxation year, to the extent of that portion of the net increase in the excess corporate holdings percentage of the private foundation in respect of that class for the current year that is not allocated under paragraph (*a*), (*b*) or (*c*).

History: The application for s. 149.2(5)(*b*) and (*c*) was amended by S.C. 2009, c. 2, s. 56(5), in force on Royal Assent, March 12, 2009, to read as follows:

"If a registered charity was on March 19, 2007 a private foundation, in applying paragraphs 149.2(5)(*b*) and (*c*) of the Act to the first taxation year of the registered charity that begins after that date, the reference in those paragraphs to "in the current year" shall be read as a reference to 'in the period that begins on March 18, 2007 and ends at the end of the current year'."

S. 149.2(5) was added by S.C. 2007, c. 35, s. 47(1), applicable to taxation years, of private foundations, that begin on or after March 19, 2007.

Forms: T2081.

Guides: T2082 Excess Corporate Holdings Regime for Private Foundations.

► 149.2(6) ◄

(6) Minister's discretion. Notwithstanding subsection (5), on application by a private foundation, the Minister may, if the Minister believes it would be just and equitable to do so, reallocate any portion of the net increase in the excess corporate holdings percentage of the private foundation in respect of a class of shares of the capital stock of a corporation for a taxation year, that would otherwise be allocated under subsection (5) to the private foundation's divestment obligation percentage in respect of that class for a particular taxation year, to the private foundation's divestment obligation percentage in respect of that class for any of the ten taxation years subsequent to the particular taxation year.

History: S. 149.2(6) was added by S.C. 2007, c. 35, s. 47(1), applicable to taxation years, of private foundations, that begin on or after March 19, 2007.

► 149.2(7) ◄

(7) Allocation of net decrease in excess corporate holdings percentage. For the purpose of the description of C in the definition "divestment obligation percentage" in subsection 149.1(1), the net decrease in the excess corporate holdings percentage of a private foundation in respect of a class of shares of the capital stock of a corporation for a taxation year (in this subsection referred to as the "current year") is to be allocated in the following order:

(*a*) first, to the divestment obligation percentage of the private foundation in respect of that class for the current year, to the extent of that divestment obligation percentage; and

(*b*) then to the divestment obligation percentage of the private foundation in respect of that class for a subsequent taxation year of the private foundation (referred to in this paragraph as the "subject year"), to the extent of the lesser of

(i) that portion of the net decrease in the excess corporate holdings percentage of the private foundation in respect of that class for the current year that is not allocated under paragraph (*a*), or under this paragraph, to the divestment obligation percentage of the private foundation in respect of that class for a taxation year of the private foundation that precedes the subject year, and

(ii) the amount of the divestment obligation percentage of the private foundation in respect of that class for the subject year, calculated as at the end of the current year and without reference to this subsection.

History: S. 149.2(7) was added by S.C. 2007, c. 35, s. 47(1), applicable to taxation years, of private foundations, that begin on or after March 19, 2007.

► 149.2(8) ◄

(8) Transitional rule. If the original corporate holdings percentage of a private foundation in respect of a class of shares of the capital stock of a corporation exceeds 20%, for the purpose of applying the definition "excess corporate holdings percentage" in subsection 149.1(1) to

(*a*) the first taxation year of the private foundation that begins after March 18, 2007, the reference to 20% in that definition in respect of that class is to be read as the original corporate holdings percentage of the private foundation in respect of that class;

(*b*) taxation years of the private foundation that are after the taxation year referred to in paragraph (*a*) and that begin before March 19, 2012, the reference to 20% in that definition in respect of that class is to be read as the greater of

(i) 20%, and

(ii) the lesser of

(A) the total corporate holdings percentage of the private foundation in respect of the class at the end of the immediately preceding taxation year, and

(B) the original corporate holdings percentage in respect of that class;

(*c*) taxation years of the private foundation that begin after March 18, 2012 and before March 19, 2017, the reference to 20% in that definition in respect of that class is to be read as the greater of

(i) 20%, and

(ii) the lesser of

(A) the total corporate holdings percentage of the private foundation in respect of the class at the end of the preceding taxation year, and

(B) the number of percentage points, if any, by which the private foundation's original corporate holdings percentage in respect of that class exceeds 20%;

(*d*) taxation years of the private foundation that begin after March 18, 2017 and before March 19, 2022, the reference to 20% in that definition in respect of that class is to be read as the greater of

(i) 20%, and

(ii) the lesser of

(A) the total corporate holdings percentage of the private foundation in respect of the class at the end of the preceding taxation year, and

(B) the number of percentage points, if any, by which the private foundation's original corporate holdings percentage in respect of that class exceeds 40%; and

(*e*) taxation years of the private foundation that begin after March 18, 2022 and before March 19, 2027, the reference to 20% in that definition in respect of that class is to be read as the greater of

(i) 20%, and

(ii) the lesser of

(A) the total corporate holdings percentage of the private foundation in respect of the class at the end of the preceding taxation year, and

(B) the number of percentage points, if any, by which the private foundation's original corporate holdings percentage in respect of that class exceeds 60%.

History: S. 149.2(8) was added by S.C. 2007, c. 35, s. 47(1), applicable to taxation years, of private foundations, that begin on or after March 19, 2007.

► 149.2(9) ◄

(9) Where subsection (10) applies. Subsection (10) applies for the purposes of applying section 149.1 and subsections (8) and 188.1(3.1) to a private foundation at a particular time if, both on March 18, 2007 and at the particular time,

(*a*) the private foundation was the sole trustee of a trust, or was a majority interest beneficiary (within the meaning assigned by section 251.1) of a trust more than 50% of the trustees of which were the private foundation and one or more relevant persons in respect of the private foundation; and

(*b*) the trust held one or more shares of a class of the capital stock of a corporation.

History: S. 149.2(9) was added by S.C. 2009, c. 2, s. 56(2), applicable to taxation years, of private foundations, that begin on or after February 26, 2008.

► 149.2(10) ◄

(10) Shares held through a trust on March 18, 2007. If this subsection applies at a particular time to a private foundation in respect of shares of a class of the capital stock of a corporation held by a trust, the private foundation is deemed to hold at the particular time that number of those shares as is determined by the formula

$$A \times B/C$$

where

A is the lesser of the number of those shares held by the trust on March 18, 2007 and the number so held at the particular time;

B is the total fair market value of all interests held by the private foundation in the trust at the particular time; and

C is the total fair market value of all property held by the trust at the particular time.

History: S. 149.2(10) was added by S.C. 2009, c. 2, s. 56(2), applicable to taxation years, of private foundations, that begin on or after February 26, 2008.

► 149.2(11) ◄

(11) Discretionary trusts. For the purpose of subsection (10), if the amount of income or capital of a trust that a person may receive as a beneficiary under the trust depends on the exercise by any person of, or the failure by any person to exercise, a discretionary power, that person is deemed to have fully exercised, or to have failed to exercise, the power, as the case may be.

History: S. 149.2(11) was added by S.C. 2009, c. 2, s. 56(2), applicable to taxation years, of private foundations, that begin on or after February 26, 2008.

DIVISION I — Returns, Assessments, Payment and Appeals

Returns

SECTION 150:

► 150(1) ◄

(1) Filing returns of income — general rule. Subject to subsection (1.1), a return of income that is in prescribed form and that contains prescribed information shall be filed with the Minister, without notice or demand for the return, for each taxation year of a taxpayer,

History: S. 150(1), the portion before paragraph (*a*) was amended by S.C. 1999, c. 22, s. 63(1) applicable to taxation years that begin after 1998. S. 150(1), the portion before paragraph (*a*) formerly read:

"S. 150. *Returns.*

(1) A return of income for each taxation year in the case of a corporation (other than a corporation that was a registered charity throughout the year) and in the case of an individual, for each taxation year for which tax is payable by the individual or in which the individual has a taxable capital gain or has disposed of a capital property, shall, without notice or demand therefor, be filed with the Minister in prescribed form containing prescribed information,"

S. 150(1), that portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. VII, s. 14(1), applicable to the 1993 and subsequent taxation years. That portion of s. 150(1) preceding paragraph (*a*) formerly read:

"(1) A return of income for each taxation year in the case of a corporation (other than a corporation that was a registered charity throughout the year) and in the case of an individual, for each taxation year for which tax is payable or would be payable if this Part were read without reference to sections 127.2 and 127.3, in which the individual has a taxable capital gain or has disposed of a capital property, or for which a payment has been received by the individual under section 164.1, shall, without notice or demand therefor, be filed with the Minister in prescribed form and containing prescribed information,"

Related Sections: S. 11(1) Proprietor of business; s. 70 Death of a taxpayer; s. 104(23) Testamentary trusts; s. 119 Former resident — credit for tax paid; s. 150(3) Trustees, etc; s. 150(4) Death of partner or proprietor; s. 152(6) Reassessment where certain deductions claimed; s. 152(7) Assessment not dependent on return or information; s. 162(1) Failure to file return of income; s. 162(2) Repeated failure to file; s. 162(2.1) Failure to file — non-resident corporation; s. 162(3) Failure to file by trustee; s. 220(3) Extensions for returns; s. 238(1) Offences and punishment; s. 249(1) Definition of "taxation year".

Regulations: Part II.

Interpretation Bulletins: *Secondary* — IT-232R3 Losses — Their deductibility in the loss year or in other years.

Information Circulars: IC 97-2R8 Customized forms; IC 00-1R2 Voluntary disclosures program.

Forms: T1260.

Cases: The filing of a "temporary return" before April 30th, where a taxpayer mentioned an income estimate figure was held not to be sufficient to constitute a return within the meaning of the Act. *Carlson et al. v. The Queen*, 73 DTC 5192 (F.C.T.D.), affirming 72 DTC 1428 (T.R.B.).

► 150(1)(a) ◄

(a) Corporations — in the case of a corporation, by or on behalf of the corporation within six months after the end of the year if

(i) at any time in the year the corporation

(A) is resident in Canada,

(B) carries on business in Canada, unless the corporation's only revenue from carrying on business in Canada in the year consists of amounts in respect of which tax was payable by the corporation under subsection 212(5.1),

(C) has a taxable capital gain (otherwise than from an excluded disposition), or

(D) disposes of a taxable Canadian property (otherwise than in an excluded disposition), or

(ii) tax under this Part

(A) is payable by the corporation for the year, or

(B) would be, but for a tax treaty, payable by the corporation for the year (otherwise than in respect of a disposition of taxable Canadian property that is treaty-protected property of the corporation);

History: S. 150(1)(*a*)(i)(C) and (D) were replaced by S.C. 2008, c. 28, s. 28(1), applicable in respect of dispositions of property that occur after 2008. S. 150(1)(*a*)(i)(C) and (D) formerly read:

"(C) has a taxable capital gain, or

(D) disposes of a taxable Canadian property, or"

S. 150(1)(*a*)(ii) was replaced by S.C. 2008, c. 28, s. 28(2), applicable in respect of dispositions of property that occur after 2008. S. 150(1)(*a*)(ii) formerly read:

"(ii) tax under this Part is, or but for a tax treaty would be, payable by the corporation for the year,"

S. 150(1)(*a*)(i)(B) was amended by S.C. 2001, c. 17, s. 147(1), applicable to the 2001 and subsequent taxation years. S. 150(1)(*a*)(i)(B) formerly read:

"(B) carries on business in Canada,"

S. 150(1)(*a*) was amended by S.C. 1999, c. 22, s. 63(1), applicable to taxation years that begin after 1998. S. 150(1)(*a*) formerly read:

"(*a*) *Corporations* — in the case of a corporation, by or on behalf of the corporation within 6 months from the end of the year;"

Interpretation Bulletins: *Primary* — IT-304R2 Condominiums.

Income Tax Technical News: Issue No. 38, Single Administration of Ontario Corporate Tax.

Forms: T2; T2Sch97; T2Sch150.

Guides: T4012 Information for Corporations -T2 Corporation Income Tax Guide.

Tax Profile: August 2007 — Professionals and Other Service Providers Beware — A Canadian Trap.

► 150(1)(b) ◄

(b) Deceased individuals — in the case of an individual who dies after October of the year and on or before the day that would be the individual's filing due date for the year if the individual had not died, by the individual's legal representatives on or before the day that is the later of the day on or before which the return would otherwise be required to be filed and the day that is 6 months after the day of death;

History: S. 150(1)(*b*) was amended by S.C. 1996, c. 21, s. 38(1), applicable to the 1995 and subsequent taxation years. S. 150(1)(*b*) formerly read:

"(*b*) *Deceased individuals* — in the case of an individual who dies after October in the year and before May in the immediately following taxation year, by the individual's legal representatives within 6 months after the day of death;"

S. 150(1)(*b*) was amended by S.C. 1994, c. 7, Sched. II, s. 124(1), applicable with respect to deaths occurring after October 1990. S. 150(1)(*b*) formerly read:

"(*b*) *Deceased persons* — in the case of a person who has died without making the return, by the person's legal representatives, within 6 months from the day of death;"

Related Sections: S. 248(1), "filing-due date", "legal representative".

Regulations: Part II.

► 150(1)(c) ◄

(c) Trusts or estates — in the case of an estate or trust, within 90 days from the end of the year;

Regulations: Part II; Part X.

Information Circulars: IC 78-5R3 Communal organizations; IC 78-14R4 Guidelines for trust companies and other persons responsible for filing T3GR, T3D, T3P, T3S, T3RI, and T3F returns.

Forms: T3GR; T3 RET.

► 150(1)(d) ◄

(d) Individuals — in the case of any other person, on or before

(i) the following April 30 by that person or, if the person is unable for any reason to file the return, by the person's guardian, committee or other legal representative (in this paragraph referred to as the person's "guardian"),

(ii) the following June 15 by that person or, if the person is unable for any reason to file the return, by the person's guardian where the person is

(A) an individual who carried on a business in the year, unless the expenditures made in the course of carrying on the business were primarily the cost or capital cost of tax shelter investments (as defined in subsection 143.2(1)), or

(B) at any time in the year a cohabiting spouse or common-law partner (within the meaning assigned by section 122.6) of an individual to whom clause (A) applies, or

(iii) where at any time in the year the person is a cohabiting spouse or common-law partner (within the meaning assigned by section 122.6) of an individual to whom paragraph (*b*) applies for the year, on or before the day that is the later of the day on or before which the person's return would otherwise be required to be filed and the day that is 6 months after the day of the individual's death; or

History: S. 150(1)(*d*)(ii)(B) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.25), applicable January 1, 2001, coming into force on July 31, 2000. S. 150(1)(*d*)(ii)(B) formerly read:

"(B) at any time in the year a cohabiting spouse (within the meaning assigned by section 122.6) of an individual to whom clause (A) applies, or"

S. 150(1)(*d*)(iii) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.25), applicable January 1, 2001, coming into force on July 31, 2000. S. 150(1)(*d*)(iii) formerly read:

"(iii) where at any time in the year the person is a cohabiting spouse (within the meaning assigned by section 122.6) of an individual to whom paragraph (*b*) applies for the year, on or before the day that is the later of the day on or before which the person's return would otherwise be required to be filed and the day that is 6 months after the day of the individual's death; or"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 150(1)(*d*)(ii)(A) was amended by S.C. 1998, c. 19, s. 180(1), applicable to the 1995 and subsequent taxation years. That subclause formerly read:

"(A) an individual who carried on a business in the year, unless the expenditures made in the course of carrying on the business were primarily the cost or capital cost of tax shelters (within the meaning assigned by subsection 237.1(1)), or"

S. 150(1)(*d*) was amended by S.C. 1996, c. 21, s. 38(2), applicable to the 1995 and subsequent taxation years. S. 150(1)(*d*) formerly read:

"(*d*) *Individuals* — in the case of any other person, on or before April 30 in the next year by that person or, if the person is unable for any reason to file the return, by the person's guardian, committee or other legal representative; or"

Related Sections: S. 237(1) Social Insurance Number; s. 248(1), "legal representative".
Forms: T1.
Guides: 5000-G General Income Tax and Benefit Guide; General Income Tax and Benefit Guide for Non-Residents and Deemed Residents of Canada.

► 150(1)(e) ◄

(e) Designated persons — in a case where no person described by paragraph (*a*), (*b*) or (*d*) has filed the return, by such person as is required by notice in writing from the Minister to file the return, within such reasonable time as the notice specifies.

Regulations: Part II.

► 150(1.1) ◄

(1.1) Exception. Subsection (1) does not apply to a taxation year of a taxpayer if

(*a*) the taxpayer is a corporation that was a registered charity throughout the year; or

(*b*) the taxpayer is an individual unless

(i) tax is payable under this Part by the individual for the year,

(ii) where the individual is resident in Canada at any time in the year, the individual has a taxable capital gain or disposes of capital property in the year,

(iii) where the individual is non-resident throughout the year, the individual has a taxable capital gain (otherwise than from an excluded disposition) or disposes of a taxable Canadian property (otherwise than in an excluded disposition) in the year, or

(iv) at the end of the year the individual's HBP balance or LLP balance (as defined in subsection 146.01(1) or 146.02(1)) is a positive amount.

History: S. 150(1.1)(*b*)(iii) was replaced by S.C. 2008, c. 28, s. 28(3), applicable in respect of dispositions of property that occur after 2008. S. 150(1.1)(*b*)(iii) formerly read:

"(iii) where the individual is non-resident throughout the year, the individual has a taxable capital gain or disposes of a taxable Canadian property in the year, or"

S. 150(1.1) was added by S.C. 1999, c. 22, s. 63(2), applicable to taxation years that begin after 1998.

Forms: T1261.

► 150(2) ◄

(2) Demands for returns. Every person, whether or not the person is liable to pay tax under this Part for a taxation year and whether or not a return has been filed under subsection (1) or (3), shall, on demand from the Minister, served personally or by registered letter, file, within such reasonable time as may be stipulated in the demand, with the Minister in prescribed form and containing prescribed information a return of the income for the taxation year designated in the demand.

Related Sections: S. 162(2) Repeated failure to file; s. 202(3) Provisions applicable to Part; s. 207(3) Multiple holders; s. 207.2(3) Provisions applicable to Part; s. 238(1) Offences and punishment.
Cases: A failure to file a return on demand constitutes an offence and the person guilty of such an offence is liable to a penalty under section 238 *Regina v. O'Donnell*, 57 DTC 1287 (Ont. C.A.).

► 150(3) ◄

(3) Trustees, etc. Every trustee in bankruptcy, assignee, liquidator, curator, receiver, trustee or committee and every agent or other person administering, managing, winding up, controlling or otherwise dealing with the property, business, estate or income of a person who has not filed a return for a taxation year as required by this section shall file a return in prescribed form of that person's income for that year.

Related Sections: S. 150(2) Demands for returns; s. 162(2) Repeated failure to file; s. 207(3) Multiple holders; s. 207.2(3) Provisions applicable to Part; s. 248(1), "bankrupt", "estate of the bankrupt".
Regulations: Part II.

► 150(4) ◄

(4) Death of partner or proprietor. Where

(*a*) subsection 34.1(9) or 34.2(8) applies in computing an individual's income for a taxation year from a business, or

(*b*) an individual who carries on a business in a taxation year dies in the year and after the end of a fiscal period of the business that ends in the year, another fiscal period of the business (in this subsection referred to as the "short period") ends in the year

because of the individual's death, and the individual's legal representative elects that this subsection apply,

the individual's income from businesses for short periods, if any, shall not be included in computing the individual's income for the year and the individual's legal representative shall file an additional return of income for the year in respect of the individual as if the return were filed in respect of another person and shall pay the tax payable under this Part by that other person for the year computed as if

(*c*) the other person's only income for the year were the amount determined by the formula

$$A + B - C$$

where

A is the total of all amounts each of which is the individual's income from a business for a short fiscal period,

B is the total of all amounts each of which is an amount deducted under subsection 34.2(8) in computing the individual's income for the taxation year in which the individual dies, and

C is the total of all amounts each of which is an amount included under subsection 34.1(9) in computing the individual's income for the taxation year in which the individual dies, and

(*d*) subject to sections 114.2 and 118.93, that other person were entitled to the deductions to which the individual is entitled under sections 110, 118 to 118.7 and 118.9 for the year in computing the individual's taxable income or tax payable under this Part, as the case may be, for the year.

History: S. 150(4) was amended by S.C. 1998, c. 19, s. 180(1), applicable to the 1996 and subsequent taxation years. That subsection formerly read:

"(4) *Death of partner or proprietor.* Where a taxpayer who is a partner or an individual who is a proprietor of a business died after the end of a fiscal period but before the end of the calendar year in which the fiscal period ended, the taxpayer's income as such partner or proprietor for the period commencing immediately after the end of the fiscal period and ending at the time of death shall be included in computing the taxpayer's income for the taxation year in which the taxpayer died unless the taxpayer's legal representative has elected otherwise, in which case the legal representative shall file a separate return of income for the period under this Part and pay the tax for the period under this Part as if

(*a*) the taxpayer were another person;

(*b*) the period were a taxation year;

(*c*) that other person's only income for the period were that person's income as such partner or proprietor for that period; and

(*d*) subject to sections 114.2 and 118.93, that other person were entitled to the deductions to which the taxpayer was entitled under sections 110, 118 to 118.7 and 118.9 for the period in computing the taxpayer's taxable income or tax payable under this Part, as the case may be, for the period."

Related Sections: S. 11(1) Proprietor of business; s. 70 Death of a taxpayer; s. 104(23)(*d*) Testamentary trusts; s. 114.2 Deductions in separate returns; s. 159(1) Person acting for another; s. 162(3) Failure to file by trustee; s. 249 Definition of "taxation year"; s. 249.1(1) Definition of "fiscal period".
Regulations: Part II.
Interpretation Bulletins: *Secondary* — IT-278R2 Death of a partner or of a retired partner; IT-326R3 Returns of deceased persons as "another person".

► 150(5) ◄

(5) Excluded disposition. For the purposes of this section, a disposition of a property by a taxpayer at any time in a taxation year is an excluded disposition if

(*a*) the taxpayer is non-resident at that time;

(*b*) no tax is payable under this Part by the taxpayer for the taxation year;

(*c*) the taxpayer is, at that time, not liable to pay any amount under this Act in respect of any previous taxation year (other than an amount for which the Minister has accepted, and holds, adequate security under section 116 or 220); and

(*d*) each taxable Canadian property disposed of by the taxpayer in the taxation year is

(i) excluded property within the meaning assigned by subsection 116(6), or

(ii) a property in respect of the disposition of which the Minister has issued to the taxpayer a certificate under subsection 116(2), (4) or (5.2).

History: S. 150(5) was added by S.C. 2008, c. 28, s. 28(4), applicable in respect of dispositions of property that occur after 2008.

SECTION 150.1:

► 150.1(1) ◄

(1) Definition of "electronic filing". For the purposes of this section, "electronic filing" means using electronic media in a manner specified in writing by the Minister.

History: S. 150.1(1) was added by S.C. 1994, c. 7, Sched. VIII, s. 89(1), applicable to the 1992 and subsequent taxation years.

► 150.1(2) ◄

(2) Filing of return by electronic transmission. A person who meets the criteria specified in writing by the Minister may file a return of income for a taxation year by way of electronic filing.

History: S. 150.1(2) was added by S.C. 1994, c. 7, Sched. VIII, s. 89(1), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 244(21) Proof of return filed; s. 244(22) Filing of information returns.
Forms: T200 CORP.
Guides: RC4069 Corporate EFILE Applicant's Guide; T4085 Applicant's Guide for Electronic Filers of Returns for Individuals; RC4018 Electronic Filers Manual.
Tax Topics: No. 1499, Corporate EFILE.
Canadian Petroleum Tax Journal: Canada Customs and Revenue Agency 1999 Roundtable Questions and Answers, Question 17, Vol. 13 No. 1 2000.

► 150.1(2.1) ◄

(2.1) Mandatory filing of return by electronic transmission. If a corporation is, in respect of a taxation year, a prescribed corporation, the corporation shall file its return of income for the taxation year by way of electronic filing.

History: S. 150.1(2.1) was added by S.C. 2009, c. 2, s. 57(1), applicable to taxation years that end after 2009.

► 150.1(3) ◄

(3) Deemed date of filing. For the purposes of section 150, where a return of income of a taxpayer for a taxation year is filed by way of electronic filing, it shall be deemed to be a return of income filed with the Minister in prescribed form on the day the Minister acknowledges acceptance of it.

History: S. 150.1(3) was added by S.C. 1994, c. 7, Sched. VIII, s. 89(1), applicable to the 1992 and subsequent taxation years.

► 150.1(4) ◄

(4) Declaration. Where a return of income of a taxpayer for a taxation year is filed by way of electronic filing by a particular person (in this subsection referred to as the "filer") other than the person who is required to file the return, the person who is required to file the return shall make an information return in prescribed form containing

prescribed information, sign it, retain a copy of it and provide the filer with the information return, and that return and the copy shall be deemed to be a record referred to in section 230 in respect of the filer and the other person.

History: S. 150.1(4) was amended by S.C. 1994, c. 21, s. 75(1), applicable after 1991. S. 150.1(4) formerly read:

"(4) Where a return of income of a taxpayer for a taxation year is filed by way of electronic filing by a particular person (in this subsection referred to as the 'filer') other than the person who is required to file the return, the filer shall, if required by regulation, obtain from the other person a signed statement in prescribed form, retain one copy of the statement and provide the other person with a copy, and the statement shall be deemed to be a record referred to in section 230 in respect of the filer and the other person."

S. 150.1(4) was added by S.C. 1994, c. 7, Sched. VIII, s. 89(1), applicable to the 1992 and subsequent taxation years.

Forms: T183 CORP; T183.

► 150.1(5) ◄

(5) Application to other Parts. This section also applies to Parts I.2 to XIII, with such modifications as the circumstances require.

History: S. 150.1(5) was amended by S.C. 2001, c. 17, s. 148(1), applicable to the 2001 and subsequent taxation years. S. 150.1(5) formerly read:

"(5) *Application to other Parts.* This section also applies to Parts I.1 to XIII, with such modifications as the circumstances require."

S. 150.1(5) was added by S.C. 1994, c. 7, Sched. VIII, s. 89(1), applicable to the 1992 and subsequent taxation years and, in its application to Parts X, X.1, X.2, X.4, XI, XI.1 and XI.2, s. 150.1(5) applies after 1991 as if subsections 150.1(1) to (4) applied after 1991.

Estimate of Tax

SECTION 151: Estimate of tax.

Every person required by section 150 to file a return of income shall in the return estimate the amount of tax payable.

Related Sections: S. 104(23) Testamentary trusts; s. 153(2) Deemed withholding; s. 156(1) Other individuals; s. 157(1) Payment by corporations; s. 157(2) Special case; s. 162(3) Failure to file by trustee; s. 187(3) Provisions applicable to Part; s. 189(3) Share deemed to be debt; s. 193(3) Interest — no Part VII refund; s. 195(3) Interest — no Part VIII refund; s. 219(3) Provisions applicable to Part; s. 248(1), "amount".

Income Tax Technical News: Issue No. 18, The Advance Income Tax Rulings Process — Practical Problems and Possible Solutions; Issue No. 14, The Income Tax Rulings and Interpretations Directorate.

Assessment

SECTION 152:

► 152(1) ◄

(1) Assessment. The Minister shall, with all due dispatch, examine a taxpayer's return of income for a taxation year, assess the tax for the year, the interest and penalties, if any, payable and determine

(*a*) the amount of refund, if any, to which the taxpayer may be entitled by virtue of section 129, 131, 132 or 133 for the year; or

(*b*) the amount of tax, if any, deemed by subsection 120(2) or (2.2), 122.5(3), 122.51(2), 122.7(2) or (3), 125.4(3), 125.5(3), 127.1(1), 127.41(3) or 210.2(3) or (4) to be paid on account of the taxpayer's tax payable under this Part for the year.

History: S. 152(1)(*b*) was replaced by S.C. 2007, c. 35, s. 48(1), applicable to the 2007 and subsequent taxation years. S. 152(1)(*b*) formerly read:

"(*b*) the amount of tax, if any, deemed by subsection 120(2) or (2.2), 122.5(3), 122.51(2), 125.4(3), 125.5(3), 127.1(1), 127.41(3) or 210.2(3) or (4) to be paid on account of the taxpayer's tax payable under this Part for the year."

Paragraph 152(1)(*b*) was replaced by S.C. 2000, c. 19, s. 44(1), applicable to the 1999 and subsequent taxation years. Paragraph 152(1)(*b*) formerly read:

"(*b*) the amount of tax, if any, deemed by subsection 120(2), 122.5(3), 122.51(2), 125.4(3), 125.5(3), 127.1(1), 127.41(3) or 210.2(3) or (4) to be paid on account of the taxpayer's tax payable under this Part for the year."

S. 152(1)(*b*) was amended by S.C. 1998, c. 19, s. 42(1), applicable to the 1997 and subsequent taxation years except that, for the 1997 taxation year, the references to "subsection 120(2)," in paragraphs 152(1)(*b*) and (4.2)(*d*) of the Act, shall be read as references to "subsection 120(2), 120.1(4),". S. 152(1)(*b*) formerly read:

"(*b*) the amount of tax, if any, deemed by subsection 120(2), 120.1(4), 122.5(3), 125.4(3), 127.1(1), 127.41(3) or 210.2(3) or (4) to be paid on account of the taxpayer's tax payable under this Part for the year or deemed by subsection 119(2) to be an overpayment."

S. 152(1)(*b*) was amended by S.C. 1996, c. 21, s. 39(1), applicable to the 1995 and subsequent taxation years. S. 152(1)(*b*) formerly read:

"(*b*) the amount of tax, if any, deemed by subsection 120(2), 120.1(4), 122.5(3), 127.1(1), 127.41(3) or 210.2(3) or (4) to be paid on account of the taxpayer's tax payable under this Part for the year or deemed by subsection 119(2) to be an overpayment."

S. 152(1)(*b*) was amended by S.C. 1995, c. 3, s. 46(1), applicable to taxation years that end after February 22, 1994. S. 152(1)(*b*) formerly read:

"(*b*) the amount of tax, if any, deemed by subsection 120(2), 120.1(4), 122.5(3), 127.1(1) or 210.2(3) or (4) to be paid on account of the taxpayer's tax under this Part for the year or deemed by subsection 119(2) to be an overpayment."

S. 152(1)(*b*) was amended by S.C. 1994, c. 21, s. 76(1), applicable to the 1993 and subsequent taxation years. S. 152(1)(*b*) formerly read:

"(*b*) the amount of tax, if any, deemed by subsection 120(2), 120.1(4), 122.5(3), 127.1(1), 144(9) or 210.2(3) or (4) to be paid on account of the taxpayer's tax under this Part for the year or deemed by subsection 119(2) to be an overpayment."

S. 152(1)(*b*) was amended by S.C. 1994, c. 7, Sched. VII, s. 15(1), applicable to the 1993 and subsequent taxation years. S. 152(1)(*b*) formerly read:

"(*b*) the amount of tax, if any, deemed under subsection 119(2), 120(2), 120.1(4), 122.2(1), 122.5(3), 127.1(1), 127.2(2), 144(9) or 210.2(3) or (4) to be paid on account of the taxpayer's tax under this Part for the year."

Editorial Note: Under subsection 152(1), the Minister is required, with all due dispatch, to examine a return for the taxation year and assess any tax, interest and penalties payable. The Minister is also required to determine the amount of refund, if any, that may be available to the taxpayer for the year in the following circumstances:

(1) The refund of refundable dividend tax on hand to a private corporation upon payment of a taxable dividend.

(2) The refund of refundable capital gains tax on hand to a mutual fund corporation upon the paying of a capital gains dividend or the making of a capital gains redemption.

(3) The refund of refundable capital gains tax on hand to a mutual fund trust upon the trust making a capital gains redemption.

(4) The refund of allowable refundable tax on hand to a non-resident-owned investment corporation upon payment of a taxable dividend.

In addition, the Minister is required to determine the amount of tax deemed to have been paid by a taxpayer in respect of: the partial abatement of tax for income earned in Quebec under subsection 120(2); the individual's income tax payable to an Aboriginal government under subsection 120(2.2); the goods and services tax credit under subsection 122.5(3); the medical expense supplement under subsection 122.51(2); the working income tax benefit under subsections 122.7(2) or (3); the refundable Canadian film or video production service tax credit under subsections 125.4(3) and 125.5(3); the refundable investment tax credit available to the taxpayer under subsection 127.1(1); the tax credit that a beneficiary of a mining reclamation trust may claim under subsection 127.41(3); or amounts included as designated income of trusts under subsections 210.2(3) or (4).

Related Sections: S. 152(4) Assessment and reassessment; s. 152(5) Limitation on assessments.

Cases: The non-resident taxpayer sold its shares of a Canadian corporation and the purchaser paid $5,350,603 to the Receiver General in escrow under s. 116. The taxpayer's assessment (and refund) was delayed by a GAAR audit. The taxpayer's application for an order of *mandamus* requiring such assessment together with the release of the $5,350,603 was dismissed because the GAAR audit constituted "special circumstances" justifying the Minister's delay in issuing the assessment. *Merlis Investments Limited v. The Queen*, 2000 DTC 6634 (F.C.T.D.).

Following a related Auditor General's report, the plaintiff was granted public interest standing to challenge the alleged preferential tax treatment given to certain family trusts. Standing was granted because: (a) no one apart from the plaintiff was likely to challenge what the Minister had done; (b) a serious issue was involved; (c) the plaintiff had a serious interest in the matter; and (d) there was no other way to bring the matter before the Court. *The Queen et al. v. Harris*, 2000 DTC 6373 (F.C.A.), affirming 99 DTC 5018 (F.C.T.D.).

Although the Minister's original assessment of the taxpayer's returns had not been made "with all due dispatch", the taxpayer's tax liability was not affected by the fact that no assessment had been made. *The Queen v. Ginsberg*, 96 DTC 6372 (F.C.A.), reversing 94 DTC 1430 (T.C.C.).

A return filed on March 2, 1977 and not assessed until July 5, 1983 was not assessed "with all due dispatch". If those words were not to be deprived of all meaning, the lapse of time in this case must be considered to be outside

the period contemplated. *J. Stollar Construction Ltd. v. M.N.R.*, 89 DTC 134 (T.C.C.).

► 152(1.1) ◄

(1.1) Determination of losses. Where the Minister ascertains the amount of a taxpayer's non-capital loss, net capital loss, restricted farm loss, farm loss or limited partnership loss for a taxation year and the taxpayer has not reported that amount as such a loss in the taxpayer's return of income for that year, the Minister shall, at the request of the taxpayer, determine, with all due dispatch, the amount of the loss and shall send a notice of determination to the person by whom the return was filed.

Related Sections: S. 152(1.2) Provisions applicable.
Interpretation Bulletins: *Primary* — IT-512 Determination and redetermination of losses. *Secondary* — IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].
Information Circulars: IC 84-1 Revision of capital cost allowance claims and other permissive deductions.

► 152(1.11) ◄

(1.11) Determination pursuant to s. 245(2). Where at any time the Minister ascertains the tax consequences to a taxpayer by reason of subsection 245(2) with respect to a transaction, the Minister

(*a*) shall, in the case of a determination pursuant to subsection 245(8), or

(*b*) may, in any other case,

determine any amount that is relevant for the purposes of computing the income, taxable income or taxable income earned in Canada of, tax or other amount payable by, or amount refundable to, the taxpayer under this Act and, where such a determination is made, the Minister shall send to the taxpayer, with all due dispatch, a notice of determination stating the amount so determined.

Related Sections: S. 152(1.12) When determination not to be made; s. 152(1.2) Provisions applicable; s. 245(6) Request for adjustments; s. 245(7) Exception.
Interpretation Bulletins: *Primary* — IT-512 Determination and redetermination of losses.

► 152(1.111) ◄

(1.111) Application of s. 245(1). The definitions in subsection 245(1) apply to subsection (1.11).

► 152(1.12) ◄

(1.12) When determination not to be made. A determination of an amount shall not be made with respect to a taxpayer under subsection (1.11) at a time where that amount is relevant only for the purposes of computing the income, taxable income or taxable income earned in Canada of, tax or other amount payable by, or amount refundable to, the taxpayer under this Act for a taxation year ending before that time.

Interpretation Bulletins: *Primary* — IT-512 Determination and redetermination of losses.

► 152(1.2) ◄

(1.2) Provisions applicable. Paragraphs 56(1)(*l*) and 60(*o*), this Division and Division J, as they relate to an assessment or a reassessment and to assessing or reassessing tax, apply, with such modifications as the circumstances require, to a determination or redetermination of an amount under this Division or an amount deemed under section 122.61 or 126.1 to be an overpayment on account of a taxpayer's liability under this Part, except that

(*a*) subsections (1) and (2) do not apply to determinations made under subsections (1.1) and (1.11);

(*b*) an original determination of a taxpayer's non-capital loss, net capital loss, restricted farm loss, farm loss or limited partnership loss for a taxation year may be made by the Minister only at the request of the taxpayer; and

(*c*) subsection 164(4.1) does not apply to a determination made under subsection (1.4).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 152(1.2) of the Act before paragraph (*a*) is replaced by the following:

(1.2) Provisions applicable. Paragraphs 56(1)(*l*) and 60(*o*), this Division and Division J, as they relate to an assessment or a reassessment and to assessing or reassessing tax, apply, with any modifications that the circumstances require, to a determination or a redetermination of an amount under this Division or an amount deemed under section 122.61 to be an overpayment on account of a taxpayer's liability under this Part, except that

Applicable: In respect of forms filed after March 20, 2003.

Explanatory Note:

Provisions Applicable

Subsection 152(1.2) is amended to delete the reference to section 126.1 of the Act, consequential to the repeal of that section. For additional information, see the commentary to section 126.1.

This change applies in respect of forms filed after March 20, 2003.

History: S. 152(1.2) was amended by S.C. 1998, c. 19, s. 181(1), applicable in respect of determinations made after the day on which S.C. 1998, c. 19, is assented to, June 18, 1998. S. 152(1.2) formerly read:

"(1.2) *Provisions applicable.* Paragraphs 56(1)(*l*) and 60(*o*), this Division and Division J, as they relate to an assessment or a reassessment and to assessing or reassessing tax, apply, with such modifications as the circumstances require, to a determination or redetermination of an amount under this Division or an amount deemed under section 122.61 or 126.1 to be an overpayment on account of a taxpayer's liability under this Part, except that subsections (1) and (2) do not apply to determinations made under subsections (1.1) and (1.11) and, for greater certainty, an original determination of a taxpayer's non-capital loss, net capital loss, restricted farm loss, farm loss or limited partnership loss for a taxation year may be made by the Minister only at the request of the taxpayer."

S. 152(1.2) was amended by S.C. 1994, c. 8, s. 20(1), applicable after 1992. S. 152(1.2) formerly read:

"(1.2) Paragraphs 56(1)(*l*) and 60(*o*), this Division and Division J, as they relate to an assessment or a reassessment and to assessing or reassessing tax, are applicable, with such modifications as the circumstances require, to a determination or a redetermination and to determining or redetermining amounts under this Division, except that subsections (1) and (2) are not applicable to determinations made under subsections (1.1) and (1.11) and, for greater certainty, an original determination of a taxpayer's non-capital loss, net capital loss, restricted farm loss, farm loss or limited partnership loss for a taxation year may be made by the Minister only at the request of the taxpayer."

Interpretation Bulletins: *Primary* — IT-512 Determination and redetermination of losses. *Secondary* — IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].

► 152(1.3) ◄

(1.3) Determination binding. For greater certainty, where the Minister makes a determination of the amount of

a taxpayer's non-capital loss, net capital loss, restricted farm loss, farm loss or limited partnership loss for a taxation year or makes a determination under subsection (1.11) with respect to a taxpayer, the determination is (subject to the taxpayer's rights of objection and appeal in respect of the determination and to any redetermination by the Minister) binding on both the Minister and the taxpayer for the purpose of calculating the income, taxable income or taxable income earned in Canada of, tax or other amount payable by, or amount refundable to, the taxpayer, as the case may be, for any taxation year.

Interpretation Bulletins: *Primary* — IT-512 Determination and redetermination of losses. *Secondary* — IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].

► 152(1.4) ◄

(1.4) Determination in respect of a partnership. The Minister may, within 3 years after the day that is the later of

(*a*) the day on or before which a member of a partnership is, or but for subsection 220(2.1) would be, required under section 229 of the *Income Tax Regulations* to make an information return for a fiscal period of the partnership, and

(*b*) the day the return is filed,

determine any income or loss of the partnership for the fiscal period and any deduction or other amount, or any other matter, in respect of the partnership for the fiscal period that is relevant in determining the income, taxable income or taxable income earned in Canada of, tax or other amount payable by, or any amount refundable to or deemed to have been paid or to have been an overpayment by, any member of the partnership for any taxation year under this Part.

History: S. 152(1.4) was added by S.C. 1998, c. 19, s. 181(2), applicable in respect of determinations made after June 18, 1998 (Royal Assent).

Related Sections: S. 165(1.15) Partnership.

Tax Topics: No. 1831, Should You File a Partnership Information Return?.

► 152(1.5) ◄

(1.5) Notice of determination. Where a determination is made under subsection (1.4) in respect of a partnership for a fiscal period, the Minister shall send a notice of the determination to the partnership and to each person who was a member of the partnership during the fiscal period.

History: S. 152(1.5) was added by S.C. 1998, c. 19, s. 181(2), applicable in respect of determinations made after June 18, 1998 (Royal Assent).

► 152(1.6) ◄

(1.6) Absence of notification. No determination made under subsection (1.4) in respect of a partnership for a fiscal period is invalid solely because one or more persons who were members of the partnership during the period did not receive a notice of the determination.

History: S. 152(1.6) was added by S.C. 1998, c. 19, s. 181(2), applicable in respect of determinations made after June 18, 1998 (Royal Assent).

► 152(1.7) ◄

(1.7) Binding effect of determination. Where the Minister makes a determination under subsection (1.4) or a redetermination in respect of a partnership,

(*a*) subject to the rights of objection and appeal of the member of the partnership referred to in subsection 165(1.15) in respect of the determination or redetermination, the determination or redetermination is binding on the Minister and each member of the partnership for the purposes of calculating the income, taxable income or taxable income earned in Canada of, tax or other amount payable by, or any amount refundable to or deemed to have been paid or to have been an overpayment by, the members for any taxation year under this Part; and

(*b*) notwithstanding subsections (4), (4.01), (4.1) and (5), the Minister may, before the end of the day that is one year after the day on which all rights of objection and appeal expire or are determined in respect of the determination or redetermination, assess the tax, interest, penalties or other amounts payable and determine an amount deemed to have been paid or to have been an overpayment under this Part in respect of any member of the partnership and any other taxpayer for any taxation year as may be necessary to give effect to the determination or redetermination or a decision of the Tax Court of Canada, the Federal Court of Appeal or the Supreme Court of Canada.

History: S. 152(1.7)(*b*) was amended by S.C. 2002, c. 8, s. 184, to replace the expression "Federal Court of Canada" with the expression "Federal Court of Appeal", in force July 2, 2003.

S. 152(1.7) was added by S.C. 1998, c. 19, s. 181(2), applicable in respect of determinations made after June 18, 1998 (Royal Assent).

► 152(1.8) ◄

(1.8) Time to assess. Where, as a result of representations made to the Minister that a person was a member of a partnership in respect of a fiscal period, a determination is made under subsection (1.4) for the period and the Minister, the Tax Court of Canada, the Federal Court of Appeal or the Supreme Court of Canada concludes at a subsequent time that the partnership did not exist for the period or that, throughout the period, the person was not a member of the partnership, the Minister may, notwithstanding subsections (4), (4.1) and (5), within one year after that subsequent time, assess the tax, interest, penalties or other amounts payable, or determine an amount deemed to have been paid or to have been an overpayment under this Part, by any taxpayer for any taxation year, but only to the extent that the assessment or determination can reasonably be regarded

(*a*) as relating to any matter that was relevant in the making of the determination made under subsection (1.4);

(*b*) as resulting from the conclusion that the partnership did not exist for the period; or

(*c*) as resulting from the conclusion that the person was, throughout the period, not a member of the partnership.

History: S. 152(1.8) was amended by S.C. 2002, c. 8, s. 184, to replace the expression "Federal Court of Canada" with the expression "Federal Court of Appeal", in force July 2, 2003.

S. 152(1.8) was added by S.C. 1998, c. 19, s. 181(2), applicable in respect of determinations made after June 18, 1998 (Royal Assent).

Related Sections: S. 165(1.1) Limitation of right to object to assessments or determinations; s. 169(2) Limitation of right to appeal from assessments or determinations.

► 152(2) ◄

(2) Notice of assessment. After examination of a return, the Minister shall send a notice of assessment to the person by whom the return was filed.

Related Sections: S. 152(4) Assessment and reassessment; s. 165 Objections to assessment; s. 166 Irregularities; s. 169 Appeal; s. 220(1) Minister's Duty.

Forms: T1132.

► 152(3) ◄

(3) Liability not dependent on assessment. Liability for the tax under this Part is not affected by an incorrect or incomplete assessment or by the fact that no assessment has been made.

Editorial Note: This provision should be read together with subsection 152(4), which gives the Minister power to reassess within a certain period. It should be observed, however, that under section 166, an assessment shall not be set aside because of any irregularity, informality, omission or error in the observation of any provision in the Act of a directory nature. Also, under subsection 152(8), an assessment will be valid and binding notwithstanding any error unless it is appealed from in the manner prescribed by sections 165, 169 and 172, or is replaced by a reassessment voluntarily made by the Minister.

Related Sections: S. 152(4) Assessment and reassessment; s. 152(8) Assessment deemed valid and binding; s. 165 Objections to assessment; s. 166 Irregularities; s. 169 Appeal.

Cases: Under former s. 46(3) (now s. 152(3)) liability for tax was not affected by an incorrect or incomplete assessment. Hence, if a transaction entered into by a taxpayer attracted tax, it did not escape tax because the Minister availed himself of one section of the Act rather than another. *Belle-Isle v. M.N.R.*, 66 DTC 5100 (S.C.C.), affirming 64 DTC 5041 (Ex. Ct.) and 63 DTC 347 (T.A.B.).

► 152(3.1) ◄

(3.1) Definition of "normal reassessment period". For the purposes of subsections (4), (4.01), (4.2), (4.3), (5) and (9), the normal reassessment period for a taxpayer in respect of a taxation year is

(*a*) where at the end of the year the taxpayer is a mutual fund trust or a corporation other than a Canadian-controlled private corporation, the period that ends 4 years after the earlier of the day of mailing of a notice of an original assessment under this Part in respect of the taxpayer for the year and the day of mailing of an original notification that no tax is payable by the taxpayer for the year; and

(*b*) in any other case, the period that ends 3 years after the earlier of the day of mailing of a notice of an original assessment under this Part in respect of the taxpayer for the year and the day of mailing of an original notification that no tax is payable by the taxpayer for the year.

History: S. 152(3.1), the portion before paragraph (*a*) was amended by S.C. 1999, c. 22, s. 63.1(1), applicable to appeals disposed of after June 17, 1999. S. 152(3.1), the portion before paragraph (*a*) formerly read:

"(3.1) *Definition of 'normal reassessment period'.* For the purposes of subsections (4), (4.01), (4.2), (4.3) and (5), the normal reassessment period for a taxpayer in respect of a taxation year is"

S. 152(3.1) was amended by S.C. 1998, c. 19, s. 181(3), applicable after April 27, 1989. S. 152(3.1) formerly read:

"(3.1) For the purposes of subsections (4), (4.2), (4.3) and (5), the normal reassessment period for a taxpayer in respect of a taxation year is

(*a*) where at the end of the year the taxpayer is a mutual fund trust or a corporation other than a Canadian-controlled private corporation, the period that ends 4 years after the day of mailing of a notice of an original assessment under this Part in respect of the taxpayer for the year or the day of mailing of a notification that no tax is payable by the taxpayer for the year; and

(*b*) in any other case, the period that ends 3 years after the day of mailing of a notice of an original assessment under this Part in respect of the taxpayer for the year or the day of mailing of a notification that no tax is payable by the taxpayer for the year."

S. 152(3.1), that portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 90(1), by adding "(4.3)" immediately after "(4.2)". For application, see s. 90(3), c. 7, Sched. VIII, S.C. 1994, following s. 152(4.4) below.

S. 152(3.1), that portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 125(1), by adding "(4.2)" immediately after "subsections (4)", applicable with respect to assessments and redeterminations made in respect of the 1985 and subsequent taxation years.

► 152(3.2) ◄

(3.2) Determination of deemed overpayment. A taxpayer may, during any month, request in writing that the Minister determine the amount deemed by subsection 122.61(1) to be an overpayment on account of the taxpayer's liability under this Part for a taxation year that arose during the month or any of the 11 preceding months.

History: S. 152(3.2) was added by S.C. 1994, c. 7, Sched. VII, s. 15(2), applicable with respect to months that are after 1992.

► 152(3.3) ◄

(3.3) Notice of determination. On receipt of the request referred to in subsection (3.2), the Minister shall, with all due dispatch, determine the amounts deemed by subsection 122.61(1) to be overpayments on account of the taxpayer's liability under this Part that arose during the months in respect of which the request was made or determine that there is no such amount, and shall send a notice of the determination to the taxpayer.

History: S. 152(3.3) was added by S.C. 1994, c. 7, Sched. VII, s. 15(2), applicable with respect to months that are after 1992.

► 152(3.4) ◄

(3.4) Determination of UI premium tax credit. A taxpayer may request in writing that the Minister determine the amount deemed by subsection 126.1(6) or (7) to be an overpayment on account of the taxpayer's liability under this Part for a taxation year.

Editorial Note: See the pending amendment repealing subsection 152(3.4) reproduced after subsection 152(3.5).

History: S. 152(3.4) was added by S.C. 1994, c. 8, s. 20(2), applicable after 1992.

► 152(3.5) ◄

(3.5) Notice of determination. On receipt of the request referred to in subsection (3.4), the Minister shall, with all due dispatch, determine the amount deemed by subsection 126.1(6) or (7), as the case may be, to be an overpayment on account of the taxpayer's liability under this Part for a taxation year, or determine that there is no such amount, and shall send a notice of the determination to the taxpayer.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsections 152(3.4) and (3.5) of the Act are repealed.

(3.4) Determination of UI premium tax credit. [Repealed.]

(3.5) Notice of determination. [Repealed.]

Applicable: In respect of forms filed after March 20, 2003.

Explanatory Note:

Subsection 152(3.4) — Determination of UI Premium Tax Credit

This subsection enables a taxpayer to request the Minister of National Revenue to determine the amount deemed by subsection 126.1(6) or (7) of the Act to be an overpayment on account of the taxpayer's liability under Part I of the Act.

This subsection is repealed consequential to the repeal of section 126.1. For additional information, see the commentary to section 126.1.

This change applies in respect of forms filed after March 20, 2003.

Subsection 152(3.5) — Notice of Determination

Subsection 152(3.5) of the Act requires the Minister of National Revenue to respond to a request for a determination of the UI premium tax credit. This subsection is repealed consequential to the repeal of section 126.1. For additional information, see the commentary to section 126.1.

This change applies in respect of forms filed after March 20, 2003.

History: S. 152(3.5) was added by S.C. 1994, c. 8, s. 20(2), applicable after 1992.

► 152(4) ◄

(4) Assessment and reassessment. The Minister may at any time make an assessment, reassessment or additional assessment of tax for a taxation year, interest or penalties, if any, payable under this Part by a taxpayer or notify in writing any person by whom a return of income for a taxation year has been filed that no tax is payable for the year, except that an assessment, reassessment or additional assessment may be made after the taxpayer's normal reassessment period in respect of the year only if

(*a*) the taxpayer or person filing the return

(i) has made any misrepresentation that is attributable to neglect, carelessness or wilful default or has committed any fraud in filing the return or in supplying any information under this Act, or

(ii) has filed with the Minister a waiver in prescribed form within the normal reassessment period for the taxpayer in respect of the year;

(*b*) the assessment, reassessment or additional assessment is made before the day that is 3 years after the end of the normal reassessment period for the taxpayer in respect of the year and

(i) is required pursuant to subsection (6) or would be so required if the taxpayer had claimed an amount by filing the prescribed form referred to in that subsection on or before the day referred to therein,

(ii) is made as a consequence of the assessment or reassessment pursuant to this paragraph or subsection (6) of tax payable by another taxpayer,

(iii) is made as a consequence of a transaction involving the taxpayer and a non-resident person with whom the taxpayer was not dealing at arm's length,

(iii.1) is made, if the taxpayer is non-resident and carries on a business in Canada, as a consequence of

(A) an allocation by the taxpayer of revenues or expenses as amounts in respect of the Canadian business (other than revenues and expenses that relate solely to the Canadian business, that are recorded in the books of account of the Canadian business, and the documentation in support of which is kept in Canada), or

(B) a notional transaction between the taxpayer and its Canadian business, where the transaction is recognized for the purposes of the computation of an amount under this Act or an applicable tax treaty,

(iv) is made as a consequence of a payment or reimbursement of any income or profits tax to or by the government of a country other than Canada or a government of a state, province or other political subdivision of any such country,

(v) is made as a consequence of a reduction under subsection 66(12.73) of an amount purported to be renounced under section 66, or

(vi) is made in order to give effect to the application of subsection 118.1(15) or (16);

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 152(4)(*b*)(vi) of the Act is replaced by the following:

(vi) is made in order to give effect to the application of subsection 94(9) or (10) or 118.1(15) or (16).

Applicable: After 2006, except that, if section 94 applies to a taxation year of a taxpayer that begins before 2007, subparagraph 152(4)(*b*)(vi) applies on or after the first day of the first such taxation year of the taxpayer to which that section 94 applies.

Explanatory Note: In general terms, subsection 152(4) of the Act provides that the Minister of National Revenue may not reassess tax payable by a taxpayer for a taxation year after the normal reassessment period for the taxpayer in respect of the year unless certain conditions described in paragraph 152(4)(*a*) or (*b*) have been met. Subparagraph 152(4)(*b*)(vi) allows the Minister to reassess a taxpayer within 3 years after the end of the normal reassessment period for the taxpayer in respect of the year where the reassessment is made in order to give effect to the application of subsection 118.1(15) or (16) of the Act.

Subparagraph 152(4)(*b*)(vi) is amended to also allow the Minister to reassess a taxpayer within three years after the end of the normal reassessment period where the reassessment is made in order to give effect to the application of subsection 94(9) or (10). For more information on subsections 94(9) and (10), see the commentary on those subsections.

This amendment applies after 2006.

(*c*) the taxpayer or person filing the return has filed with the Minister a waiver in prescribed form within the additional 3-year period referred to in paragraph (*b*); or

(*d*) as a consequence of a change in the allocation of the taxpayer's taxable income earned in a province as determined under the law of a province that provides rules similar to those prescribed for the purposes of section 124, an assessment, reassessment or additional assessment of tax for a taxation year payable by a corporation under a law of a province that imposes on the corporation a tax similar to the tax imposed under this Part (in this paragraph referred to as a "provincial reassessment") is made, and as a consequence of the provincial reassessment, an assessment, reassessment or additional assessment is made on or before the day that is one year after the later of

(i) the day on which the Minister is advised of the provincial reassessment, and

(ii) the day that is 90 days after the day of mailing of a notice of the provincial reassessment.

History: S. 152(4)(*c*) and (*d*) were added by S.C. 2009, c. 2, s. 58(1), in force on Royal Assent, March 12, 2009.

S. 152(4)(*b*)(iii.1) was added by S.C. 2001, c. 17, s. 149(1), applicable to the 2000 and subsequent taxation years.

Sec. 146, Chap. 12, S.C. 2000

146. Despite subsections 152(4) to (5) of the *Income Tax Act*, the Minister of National Revenue may make any assessment or reassessment and addi-

tional assessment of tax, interest and penalties and may make any determinations and redeterminations that are necessary to give effect to section 144 for any taxation year.

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 152(4) was amended by S.C. 1998, c. 19, s. 181(4), applicable after April 27, 1989, except that

(*a*) in applying subsection 152(4) to the Act before August 1997, it shall be read without reference to subparagraph (*b*)(vi);

(*b*) in applying subsection 152(4) of the Act to a taxation year before the 1996 taxation year, it shall be read without reference to subparagraph (*b*)(v).

S. 152(4) formerly read:

"(4) Subject to subsection (5), the Minister may at any time assess tax for a taxation year, interest or penalties, if any, payable under this Part by a taxpayer or notify in writing any person by whom a return of income for a taxation year has been filed that no tax is payable for the year, and may

(*a*) at any time, if the taxpayer or person filing the return

(i) has made any misrepresentation that is attributable to neglect, carelessness or wilful default or has committed any fraud in filing the return or in supplying any information under this Act, or

(ii) has filed with the Minister a waiver in prescribed form within the normal reassessment period for the taxpayer in respect of the year,

(*b*) before the day that is 3 years after the expiration of the normal reassessment period for the taxpayer in respect of the year, if

(i) an assessment or reassessment of the tax of the taxpayer was required pursuant to subsection (6) or would have been required if the taxpayer had claimed an amount by filing the prescribed form referred to in that subsection on or before the day referred to therein,

(ii) there is reason, as a consequence of the assessment or reassessment of another taxpayer's tax pursuant to this paragraph or subsection (6), to assess or reassess the taxpayer's tax for any relevant taxation year,

(iii) there is reason, as a consequence of a transaction involving the taxpayer and a non-resident person with whom the taxpayer was not dealing at arm's length, to assess or reassess the taxpayer's tax for any relevant taxation year, or

(iv) there is reason, as a consequence of an additional payment or reimbursement of any income or profits tax to or by the government of a country other than Canada, to assess or reassess the taxpayer's tax for any relevant taxation year, and

(*c*) within the normal reassessment period for the taxpayer in respect of the year, in any other case,

reassess or make additional assessments, or assess tax, interest or penalties under this Part, as the circumstances require, except that a reassessment, an additional assessment or an assessment may be made under paragraph (*b*) after the normal reassessment period for the taxpayer in respect of the year only to the extent that it may reasonably be regarded as relating to

(*d*) the assessment or reassessment referred to in subparagraph (*b*)(i) or (ii),

(*e*) the transaction referred to in subparagraph (*b*)(iii), or

(*f*) the additional payment or reimbursement referred to in subparagraph (*b*)(iv)."

Editorial Note: Under subsection 152(4), the Minister may make an original assessment, reassessment or additional assessment for taxes, interest or penalties at any time. However, the Minister may assess, reassess or make additional assessments, as a general rule, only within the "normal reassessment period" (defined in subsection 152(3.1)) for the taxpayer with respect to the year in question. For mutual fund trusts and corporations other than Canadian-controlled private corporations, this reassessment period is four years from the earlier of (i) the date of mailing of a notice of an original assessment, and (ii) the date of mailing of an original notification that no tax is payable for the taxation year. For all other taxpayers, the normal reassessment period is three years from the earlier of the two above-stated dates.

In certain circumstances, where a reassessment of a taxpayer is required by subsection 152(6) or as a result of a deduction claim in respect of losses, gifts, tax credits, or other deductions carried back from subsequent taxation years of the taxpayer or another taxpayer, the reassessment period is extended by three years to either six or seven years, for the purpose of taking into account the effects of the deduction claimed (subparagraphs 152(4)(*b*)(i) and (ii)).

Related Sections: S. 152(5) Limitation on assessments; s. 165(5) Validity of reassessment; s. 173(2) Time during consideration not to count; s. 174(5) Time during consideration of question not counted; s. 244(14) Mailing date; s. 244(15) Date when assessment made; ITAR s. 62(1) Assessments.

Interpretation Bulletins: *Secondary* — IT-121R3 Election to capitalize cost of borrowed money [Archived by the CRA]; IT-384R Reassessment where option exercised in subsequent year.

Information Circulars: IC 71-17R5 Guidance on competent authority assistance under Canada's tax conventions; IC 75-7R3 Reassessment of a return of income; IC 77-11 Sales tax reassessments — Deductibility in computing income; IC 84-1 Revision of capital cost allowance claims and other permissive deductions; IC 07-1 Taxpayer Relief Provisions.

Forms: T2029.

Tax Topics: No. 1919-20, 2008 Canadian Tax Foundation Annual Conference — Department of Finance Presentation and CRA Round Table; No. 1810, FAPI and Tax Treaty Interpretation: *Canwest Mediaworks Inc. v. Her Majesty the Queen*; No. 1797, To Waive or Not To Waive ... That is Not the Only Question!; No. 1577, Corporate Reassessments Outside the Normal Reassessment Period.

Canadian Tax Foundation: Innes and Bissell, "Basis for Assessment, Arguments, and Assumptions: An Examination of the Underlying Policy Considerations", *2004 Canadian Tax Journal*, No. 1, 59; Meghji and Grenon, "New Life for the Limitation Period", *2000 Canadian Tax Journal*, No. 5, 1650.

Cases: The word "transaction" in s. 152(4)(*b*)(iii) does not include an arrangement or series of transactions. The definition of "transaction" in s. 247 does not apply to that word as it is used in s. 152. Accordingly, a reassessment based on a series of transactions was statute-barred since it did not fall within the excepting provisions of s. 152(4)(*b*)(iii). *Blackburn Radio Inc. v. The Queen*, 2009 DTC 1099 (T.C.C.).

When a taxpayer who had been given shares by a venture capitalist had declared a cost of acquisition in excess of nil, this misrepresentation was considered sufficiently substantial to be attributable to neglect, carelessness or willful default. *Angus v. The Queen*, 98 DTC 6661 (F.C.A.), affirming 96 DTC 1823 (T.C.C.).

When the taxpayer's 1981 return, prepared by an accountant, reported the taxpayer's share of a capital gain as $71,392 rather than $711,392, the Minister could reassess in 1989 since the taxpayer's perfuntory perusal of the return did not amount to reasonable care. *Nesbitt v. The Queen*, 96 DTC 6588 (F.C.A.), affirming 96 DTC 6045 (F.C.T.D.).

Although a taxpayer failed to keep cash register tapes as supporting documentation evidencing sales and also combined personal finances with those of the business in one bank account, the taxpayer's conduct did not amount to gross negligence considering that the discrepancy between the taxpayer's available income and reported income was not so great that it could not have been explained in part by the taxpayer's gambling activities. *Dowling v. The Queen*, 96 DTC 1250 (T.C.C.).

A notice of assessment sent on December 28, 1981 was a determination by the Minister of the taxes payable by a corporation for the relevant fiscal period, even if that determination was erroneous as to the amount of tax payable. This notice of original assessment began the limitation period to assess or reassess so that the reassessment issued on October 26, 1987 was statute-barred. *Paramount Productions Inc. v. The Queen*, 93 DTC 5285 (F.C.T.D.).

► 152(4.01) ◄

(4.01) Assessment to which paragraph 152(4)(*a*), (*b*) or (*c*) applies. Notwithstanding subsections (4) and (5), an assessment, reassessment or additional assessment to which paragraph (4)(*a*), (*b*) or (*c*) applies in respect of a taxpayer for a taxation year may be made after the taxpayer's normal reassessment period in respect of the year to the extent that, but only to the extent that, it can reasonably be regarded as relating to,

(*a*) where paragraph (4)(*a*) applies to the assessment, reassessment or additional assessment,

(i) any misrepresentation made by the taxpayer or a person who filed the taxpayer's return of income for the year that is attributable to neglect, carelessness or wilful default or any fraud committed by the taxpayer or that person in filing the return or supplying any information under this Act, or

(ii) a matter specified in a waiver filed with the Minister in respect of the year; and

(*b*) where paragraph 4(*b*) or (*c*) applies to the assessment, reassessment or additional assessment,

(i) the assessment, reassessment or additional assessment to which subparagraph (4)(*b*)(i) applies,

(ii) the assessment or reassessment referred to in subparagraph (4)(*b*)(ii),

(iii) the transaction referred to in subparagraph (4)(*b*)(iii),

(iv) the payment or reimbursement referred to in subparagraph (4)(*b*)(iv),

(v) the reduction referred to in subparagraph (4)(*b*)(v), or

(vi) the application referred to in subparagraph (4)(*b*)(vi).

History: S. 152(4.01), the portion before paragraph (*a*) was replaced by S.C. 2009, c. 2, s. 58(2), in force on Royal Assent, March 12, 2009. S. 152(4.01), the portion before paragraph (*a*) formerly read:

"(4.01) *Assessment to which par. 152(4)(a) or (b) applies.* Notwithstanding subsections (4) and (5), an assessment, reassessment or additional assessment to which paragraph (4)(*a*) or (*b*) applies in respect of a taxpayer for a taxation year may be made after the taxpayer's normal reassessment period in respect of the year to the extent that, but only to the extent that, it can reasonably be regarded as relating to,"

S. 152(4.01)(*b*), the portion before subparagraph (i) was replaced by S.C. 2009, c. 2, s. 58(3), in force on Royal Assent, March 12, 2009. S. 152(4.01)(*b*), the portion before subparagraph (i) formerly read:

"(*b*) where paragraph (4)(*b*) applies to the assessment, reassessment or additional assessment,"

[See the transitional rule contained in Sec. 146, Chap. 12, S.C. 2000 that is reproduced in the history following subsection 152(4).]

S. 152(4.01) was added by S.C. 1998, c. 19, s. 181(4), applicable after April 27, 1989, except that

(*a*) in applying subsection 152(4.01) before August 1997, it shall be read without reference to subparagraph (*b*)(vi); and

(*b*) in applying subsection 152(4.01) to a taxation year before the 1996 taxation year, it shall be read without reference to subparagraph (*b*)(v).

Editorial Note: In general, subsection 152(4.01) limits the circumstances in which the Minister can reassess where a reassessment to which paragraph 152(4)(*a*) or (*b*) applies is made beyond the normal reassessment period for a taxpayer.

Related Sections: S. 165(5) Validity of reassessment.

Cases: The taxpayer signed waivers allowing reassessment beyond the normal reassessment period on the basis of GAAR. The Minister could not amend the Reply to provide for an alternative justification for the reassessments under the FAPI rules. The new basis for reassessment could not be justified under s. 152(4.01) because it was not reasonably related to a matter specified in the waivers. *The Queen v. Honeywell Limited,* 2007 DTC 5073 (F.C.A.), affirming 2006 DTC 3124 (T.C.C.).

► 152(4.1) ◄

(4.1) Where waiver revoked. Where the Minister would, but for this subsection, be entitled to reassess, make an additional assessment or assess tax, interest or penalties by virtue only of the filing of a waiver under subparagraph (4)(*a*)(ii), the Minister may not make such a reassessment, additional assessment or assessment after the day that is six months after the date on which a notice of revocation of the waiver in prescribed form is filed.

History: [See the transitional rule contained in Sec. 146, Chap. 12, S.C. 2000 that is reproduced in the history following subsection 152(4).]

Forms: T652.

► 152(4.2) ◄

(4.2) Reassessment with taxpayer's consent. Notwithstanding subsections (4), (4.1) and (5), for the purpose of determining, at any time after the end of the normal reassessment period of a taxpayer who is an individual (other than a trust) or a testamentary trust in respect of a taxation year, the amount of any refund to which the taxpayer is entitled at that time for the year, or a reduction of an amount payable under this Part by the taxpayer for the year, the Minister may, if the taxpayer makes an application for that determination on or before the day that is ten calendar years after the end of that taxation year,

(*a*) reassess tax, interest or penalties payable under this Part by the taxpayer in respect of that year; and

(*b*) redetermine the amount, if any, deemed by subsection 120(2) or (2.2), 122.5(3), 122.51(2), 122.7(2) or (3), 127.1(1), 127.41(3) or 210.2(3) or (4) to be paid on account of the taxpayer's tax payable under this Part for the year or deemed by subsection 122.61(1) to be an overpayment on account of the taxpayer's liability under this Part for the year.

History: S. 152(4.2)(*b*) was replaced by S.C. 2007, c. 35, s. 48(2), applicable to the 2007 and subsequent taxation years. S. 152(4.2)(*b*) formerly read:

"(*b*) redetermine the amount, if any, deemed by subsection 120(2) or (2.2), 122.5(3), 122.51(2), 127.1(1), 127.41(3) or 210.2(3) or (4) to be paid on account of the taxpayer's tax payable under this Part for the year or deemed by subsection 122.61(1) to be an overpayment on account of the taxpayer's liability under this Part for the year."

S. 152(4.2) was replaced by S.C. 2005, c. 19, s. 36(1), applicable to applications made after 2004. S. 152(4.2) formerly read:

"(4.2) *Idem.* Notwithstanding subsections (4), (4.1) and (5), for the purpose of determining, at any time after the expiration of the normal reassessment period for a taxpayer who is an individual (other than a trust) or a testamentary trust in respect of a taxation year,

(*a*) the amount of any refund to which the taxpayer is entitled at that time for that year, or

(*b*) a reduction of an amount payable under this Part by the taxpayer for that year,

the Minister may, if application therefor has been made by the taxpayer,

(*c*) reassess tax, interest or penalties payable under this Part by the taxpayer in respect of that year, and

(*d*) redetermine the amount, if any, deemed by subsection 120(2) or (2.2), 122.5(3), 122.51(2), 127.1(1), 127.41(3), or 210.2(3) or (4) to be paid on account of the taxpayer's tax payable under this Part for the year or deemed by subsection 122.61(1) to be an overpayment on account of the taxpayer's liability under this Part for the year."

[See the transitional rule contained in Sec. 146, Chap. 12, S.C. 2000 that is reproduced in the history following subsection 152(4).]

Paragraph 152(4.2)(*d*) was replaced by S.C. 2000, c. 19, s. 44(2), applicable to the 1999 and subsequent taxation years. Paragraph 152(4.2)(*d*) formerly read:

"(*d*) redetermine the amount, if any, deemed by subsection 120(2), 122.5(3), 122.51(2), 127.1(1), 127.41(3) or 210.2(3) or (4) to be paid on account of the taxpayer's tax payable under this Part for the year or deemed by subsection 122.61(1) to be an overpayment on account of the taxpayer's liability under this Part for the year."

S. 152(4.2)(*d*) was amended by S.C. 1998, c. 19, s. 42(2), applicable to the 1997 and subsequent taxation years except that, for the 1997 taxation year, the references to "subsection 120(2)," in paragraphs 152(1)(*b*) and (4.2)(*d*) of the Act shall be read as references to "subsection 120(2), 120.1(4),". S. 152(4.2)(*d*) formerly read:

"(*d*) redetermine the amount, if any, deemed by subsection 120(2), 120.1(4), 122.5(3), 127.1(1), 127.41(3) or 210.2(3) or (4) to be paid on account of the taxpayer's tax payable under this Part for the year or deemed by subsection 119(2), 122.61(1) or 126.1(6) or (7) to be an overpayment on account of the taxpayer's liability under this Part for the year."

S. 152(4.2)(*d*) was amended by S.C. 1995, c. 3, s. 46(2), applicable to taxation years that end after February 22, 1994. S. 152(4.2)(*d*) formerly read:

"(*d*) redetermine the amount, if any, deemed by subsection 120(2), 120.1(4), 122.5(3), 127.1(1), 144(9) or 210.2(3) or (4) to be paid on account of the taxpayer's tax under this Part for the year or deemed by subsection 119(2), 122.61(1) or 126.1(6) or (7) to be an overpayment on account of the taxpayer's liability under this Part for the year."

S. 152(4.2)(*d*) was amended by S.C. 1994, c. 8, s. 20(3), applicable after 1992, except that in its application to redeterminations made in respect of the 1991 and 1992 taxation years, paragraph 152(4.2)(*d*) shall be read as follows:

"(*d*) redetermine the amount, if any, deemed by subsection 120(2), 120.1(4), 122.2(1), 122.5(3), 127.1(1), 144(9) or 210.2(3) or (4) to be paid on account of the taxpayer's tax under this Part for the year or deemed by subsection 119(2) or 122.61(1) to be an overpayment on account of the taxpayer's liability under this Part for the year."

S. 152(4.2)(*d*) formerly read:

"(*d*) redetermine the amount, if any, deemed by subsection 120(2), 120.1(4), 122.5(3), 127.1(1), 144(9) or 210.2(3) or (4) to be paid on account of the taxpayer's tax under this Part for the year or deemed by subsection 119(2) or 122.61(1) to be an overpayment on account of the taxpayer's liability under this Part for the year."

S. 152(4.2)(*d*) was amended by S.C. 1994, c. 7, Sched. VII, s. 15(3), applicable with respect to redeterminations made in respect of the 1991 and subsequent taxation years except that, in its application to redeterminations made in respect of the 1991 and 1992 taxation years, paragraph 152(4.2)(*d*) shall be read as follows:

"(*d*) redetermine the amount, if any, deemed by subsection 120(2), 120.1(4), 122.2(1), 122.5(3), 127.1(1), 144(9) or 210.2(3) or (4) to be paid on account of the taxpayer's tax under this Part for the year or deemed by subsection 119(2) or 122.61(1) to be an overpayment on account of the taxpayer's liability under this Part for the year."

S. 152(4.2)(*d*) formerly read:

"(*d*) redetermine the amount of tax, if any, deemed by subsection 119(2), 120(2), 120.1(4), 122.2(1), 122.5(3), 127.1(1), 144(9) or 210.2(3) or (4) of this Act or subsection 122.4(3) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it applied to taxation years ending before 1991, to have been paid on account of the taxpayer's tax under this Part for that year."

S. 152(4.2) was added by S.C. 1994, c. 7, Sched. II, s. 125(2), applicable with respect to assessments and redeterminations made in respect of the 1985 and subsequent taxation years.

Editorial Note: Subsection 152(4.2) permits the Minister to reassess outside the normal reassessment period at the request of the taxpayer, but only where the taxpayer makes an application on or before the day that is 10 calendar years after the end of that taxation year.

Information Circulars: IC 75-7R3 Reassessment of a return of income.

► 152(4.3) ◄

(4.3) Consequential assessment. Notwithstanding subsections (4), (4.1) and (5), where the result of an assessment or a decision on an appeal is to change a particular balance of a taxpayer for a particular taxation year, the Minister may, or where the taxpayer so requests in writing, shall, before the later of the expiration of the normal reassessment period in respect of a subsequent taxation year and the end of the day that is one year after the day on which all rights of objection and appeal expire or are determined in respect of the particular year, reassess the tax, interest or penalties payable, or redetermine an amount deemed to have been paid or to have been an overpayment, under this Part by the taxpayer in respect of the subsequent taxation year, but only to the extent that the reassessment or redetermination can reasonably be considered to relate to the change in the particular balance of the taxpayer for the particular year.

History: [See the transitional rule contained in Sec. 146, Chap. 12, S.C. 2000 that is reproduced in the history following subsection 152(4).]

S. 152(4.3) was amended by S.C. 1994, c. 21, s. 76(2), applicable to reassessments and redeterminations in respect of taxation years made after June 10, 1993 that relate to changes in balances for other taxation years made as a result of assessments made, or decisions on appeals rendered, after December 20, 1991 except that, where the day referred to in subsection 152(4.3) of the Act, as "the day on which all rights of objection and appeal expire or are determined in respect of the particular year" occurred before June 10, 1993, that subsection of the Act shall be read as if that reference were to "June 10, 1993". S. 152(4.3) formerly read:

"(4.3) Notwithstanding subsections (4), (4.1) and (5), where the result of an assessment or a decision on an appeal is to change a particular balance of a taxpayer for a particular taxation year, the Minister may or, where the taxpayer so requests in writing, shall, before the later of the expiration of the normal reassessment period in respect of another taxation year and the end of the day that is one year after the day on which all rights of objection and appeal have expired or been determined in respect of the particular year, reassess the tax, interest or penalties payable, or redetermine an amount deemed to have been paid, under this Part by the taxpayer in respect of the other taxation year, but only for the purpose of giving effect to any provision of this Act requiring the inclusion, or allowing the deduction, of an amount in computing a balance of the taxpayer for the other year, to the extent that the inclusion or deduction can reasonably be considered to relate to the change in the particular balance of the taxpayer for the particular year."

S. 152(4.3) was added by S.C. 1994, c. 7, Sched. VIII, s. 90(2). For application, see s. 90(3), c. 7, Sched. VIII, S.C. 1994, following s. 152(4.4) below.

► 152(4.4) ◄

(4.4) Definition of "balance". For the purpose of subsection (4.3), a "balance" of a taxpayer for a taxation year is the income, taxable income, taxable income earned in Canada or any loss of the taxpayer for the year, or the tax or other amount payable by, any amount refundable to, or any amount deemed to have been paid or to have been an overpayment by, the taxpayer for the year.

History: [See the transitional rule contained in Sec. 146, Chap. 12, S.C. 2000 that is reproduced in the history following subsection 152(4).]

S. 152(4.4) was amended by S.C. 1994, c. 21, s. 76(2), applicable to reassessments and redeterminations in respect of taxation years made after June 10, 1993 that relate to changes in balances for other taxation years made as a result of assessments made, or decisions on appeals rendered, after December 20, 1991. S. 152(4.4) formerly read:

"(4.4) For the purposes of subsection (4.3), a 'balance' of a taxpayer for a taxation year is the income, taxable income, taxable income earned in Canada or any loss of the taxpayer for the year, or the tax or other amount payable by, any amount refundable to, or any amount deemed to have been paid by, the taxpayer for the year."

S. 152(4.4) was added by S.C. 1994, c. 7, Sched. VIII, s. 90(2). For application, see s. 90(3), c. 7, Sched. VIII, S.C. 1994 below.

Sec. 90(3), Sched. VIII, Chap. 7, S.C. 1994

(3) [Application of 152(3.1), (4.3) and (4.4) to assessments and appeals rendered after December 20, 1991.] Subsections [(3.1), (4.3) and (4.4)] apply to reassessments and redeterminations in respect of taxation years made after June 10, 1993 that relate to changes in balances for other taxation years made as a result of assessments made, or decisions on appeals rendered, after December 20, 1991 except that, where the day referred to in subsection 152(4.3) [. . .] as "the day on which all rights of objection and appeal have expired or been determined in respect of the particular year" occurs before June 10, 1993, [. . .] shall be read as if that reference were to June 10, 1993.

► 152(5) ◄

(5) Limitation on assessments. There shall not be included in computing the income of a taxpayer for a taxation year, for the purpose of an assessment, reassessment or additional assessment made under this Part after the taxpayer's normal reassessment period in respect of the year, any amount that was not included in computing the taxpayer's income for the purpose of an assessment, reassessment or additional assessment made under this Part before the end of the period.

History: [See the transitional rule contained in Sec. 146, Chap. 12, S.C. 2000 that is reproduced in the history following subsection 152(4).]

S. 152(5) was amended by S.C. 1998, c. 19, s. 181(5), applicable after April 27, 1989. S. 152(5) formerly read:

"(5) There shall not be included in computing the income of a taxpayer for a taxation year, for the purposes of any reassessment, additional assessment or assessment of tax, interest or penalties under this Part that is made after the normal reassessment period for the taxpayer in respect of the year, any amount

(*a*) that was not included in computing the taxpayer's income for the purposes of an assessment of tax under this Part made before the end of the normal reassessment period for the taxpayer;

(*b*) in respect of which the taxpayer establishes that the failure so to include it did not result from any misrepresentation that is attributable to negligence, carelessness or wilful default or from any fraud in filing a return of the taxpayer's income or supplying any information under this Act; and

(*c*) where any waiver has been filed by the taxpayer with the Minister, in the form and within the time referred to in subsection (4), with respect to a taxation year to which the reassessment, additional assessment or assessment of tax, interest or penalties, as the case may be, relates, that the taxpayer establishes cannot reasonably be regarded as relating to a matter specified in the waiver."

Editorial Note: It should be noted that subsection 152(5) only limits the ability of the Minister to include additional amounts in computing the "income" of a taxpayer. However, this provision does not appear to impose any limitations in respect of reassessments validly issued under subsection 152(4) after the expiration of the normal limitation period where the reassessments merely vary the taxpayer's "taxable income" (Division C of the Act) or "tax" (Division E of the Act) without altering the taxpayer's "income" (Division B of the Act).

Related Sections: ITAR s. 62(1) Assessments.

Interpretation Bulletins: *Primary* — IT-241 Reassessments made after the four-year limit [Archived by the CRA].

Forms: T2029.

► 152(6) ◄

(6) Reassessment where certain deductions claimed. Where a taxpayer has filed for a particular taxation year the return of income required by section 150 and an amount is subsequently claimed by the taxpayer or on the taxpayer's behalf for the year as

(*a*) a deduction under paragraph 3(*e*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, by virtue of the taxpayer's death in a subsequent taxation year and the consequent application of section 71 of that Act in respect of an allowable capital loss for the year,

(*b*) a deduction under section 41 in respect of the taxpayer's listed-personal-property loss for a subsequent taxation year,

(*b*.1) a deduction under paragraph 60(*i*) in respect of a premium (within the meaning assigned by subsection 146(1)) paid in a subsequent taxation year under a registered retirement savings plan where the premium is deductible by reason of subsection 146(6.1),

(*c*) a deduction under section 118.1 in respect of a gift made in a subsequent taxation year or under section 111 in respect of a loss for a subsequent taxation year,

(*c*.1) a deduction under section 119 in respect of a disposition in a subsequent taxation year,

(*d*) a deduction under subsection 127(5) in respect of property acquired or an expenditure made in a subsequent taxation year,

(*e*) a deduction under section 125.2 in respect of an unused Part VI tax credit (within the meaning assigned by subsection 125.2(3)) for a subsequent taxation year,

(*f*) a deduction under section 125.3 in respect of an unused Part I.3 tax credit (within the meaning assigned by subsection 125.3(3)) for a subsequent taxation year,

(*f*.1) a deduction under subsection 126(2) in respect of an unused foreign tax credit (within the meaning assigned by subsection 126(7)), or under subsection 126(2.21) or (2.22) in respect of foreign taxes paid, for a subsequent taxation year,

(*f*.2) a deduction under subsection 128.1(8) as a result of a disposition in a subsequent taxation year,

(*f*.3) a deduction (including for the purposes of this subsection a reduction of an amount otherwise required to be included in computing a taxpayer's income) under subsection 146(8.9) or (8.92) or 146.3(6.2) or (6.3),

(*g*) a deduction under subsection 147.2(4) because of the application of subsection 147.2(6) as a result of the taxpayer's death in the subsequent taxation year, or

(*h*) a deduction by virtue of an election for a subsequent taxation year under paragraph 164(6)(*c*) or (*d*) by the taxpayer's legal representative,

by filing with the Minister, on or before the day on or before which the taxpayer is, or would be if a tax under this Part were payable by the taxpayer for that subsequent taxation year, required by section 150 to file a return of income for that subsequent taxation year, a prescribed form amending the return, the Minister shall reassess the taxpayer's tax for any relevant taxation year (other than a taxation year preceding the particular taxation year) in order to take into account the deduction claimed.

History: S. 152(6)(*f*.3) was added by S.C. 2009, c. 2, s. 58(4), applicable in respect of a registered retirement income fund or a registered retirement savings plan in respect of which the last payment out of the fund or plan is made after 2008.

S. 152(6)(*c*.1) was amended by S.C. 2001, c. 17, s. 149(2), applicable to taxation years that end after October 1, 1996. S. 152(6)(*c*.1) formerly read:

"(*c*.1) a deduction under subsection 126(2) in respect of an unused foreign tax credit (within the meaning assigned by subsection 126(7)) for a subsequent taxation year,"

Ss. 152(6)(*f*.1) and (*f*.2) were added by S.C. 2001, c. 17, s. 149(3), applicable to taxation years that end after October 1, 1996.

Sec. 150(8), Chap. 17, S.C. 2001

(8) In respect of

(*a*) a deduction under section 119 of the Act or an adjustment under subsection 128.1(8) of the Act in respect of a disposition by a taxpayer, or

(*b*) a deduction under subsection 126(2.21) or (2.22) of the Act in respect of foreign taxes paid by a taxpayer,

the taxpayer is deemed to have filed the prescribed form described in subsection 152(6) of the Act in a timely manner if the taxpayer files the form with the Minister of National Revenue on or before the later of the day on or before which the taxpayer would, but for this subsection, be required to file the form and the taxpayer's filing-due date for the taxation year that includes the day on which this Act receives royal assent.

S. 152(6)(*g*) was added by S.C. 1998, c. 19, s. 181(6), applicable to taxpayers who die after 1992.

Interpretation Bulletins: *Secondary* — IT-124R6 Contributions to registered retirement savings plans; IT-232R3 Non-capital losses, net capital losses, restricted farm losses, farm losses and limited partnership losses — Their composition and deductibility in computing taxable income; IT-520 (Consolid.) Unused foreign tax credits — Carryforward and carryback.
Information Circulars: IC 75-7R3 Reassessment of a return of income.
Forms: T1-Adj.

► 152(6.1) ◄

(6.1) Reassessment where amount included in income under subsection 91(1) is reduced. Where

(*a*) a taxpayer has filed for a particular taxation year the return of income required by section 150,

(*b*) the amount included in computing the taxpayer's income for the particular year under subsection 91(1) is subsequently reduced because of a reduction in the foreign accrual property income of a foreign affiliate of the taxpayer for a taxation year of the affiliate that ends in the particular year and is

(i) attributable to the amount prescribed to be the deductible loss of the affiliate for the year that arose in a subsequent year of the affiliate that ends in a subsequent taxation year of the taxpayer, and

(ii) included in the description of F of the definition "foreign accrual property income" in subsection 95(1) in respect of the affiliate for the year, and

(*c*) the taxpayer has filed with the Minister, on or before the filing-due-date for the taxpayer's subsequent taxation year, a prescribed form amending the return,

the Minister shall reassess the taxpayer's tax for any relevant taxation year (other than a taxation year preceding the particular taxation year) in order to take into account the reduction in the amount included under subsection 91(1) in computing the income of the taxpayer for the year.

History: S. 152(6.1) was added by S.C. 2001, c. 17, s. 149(4), applicable to taxation years of foreign affiliates that begin after November 1999.

Editorial Note: Subsection 152(6.1), applicable to taxation years of a foreign affiliate that begin after November 1999, provides for the reassessment of all relevant taxation years (other than taxation years preceding the particular taxation year) where the taxpayer has filed a prescribed form carrying back a deductible loss from a subsequent taxation year that reduces the

taxpayer's income for the particular year under subsection 91(1). Subsection 152(6.1) was introduced as a consequence of the extension of the deductible loss carryover period for foreign accrued property losses in the description of F in the definition of "foreign accrual property income" in subsection 95(1) and section 5903 of the *Income Tax Regulations*.

Related Sections: S. 95(1), "foreign affiliate", "foreign accrual property income"; s. 150(1) Filing returns of income — general rule; s. 248(1), "filing-due date".
Regulations: 5903(1).
Forms: T1-Adj.

► 152(6.2) ◄

(6.2) Extended reassessment period. The Minister shall reassess a taxpayer's tax for a particular taxation year, in order to take into account the application of paragraph (*d*) of the definition "excluded property" in subsection 142.2(1), or the application of subsection 142.6(1.6), in respect of property held by the taxpayer, if

(*a*) the taxpayer has filed for the particular taxation year the return of income required by section 150; and

(*b*) the taxpayer files with the Minister a prescribed form amending the return, on or before the filing-due date for the taxpayer's taxation year that

(i) if the filing is in respect of paragraph (*d*) of that definition "excluded property", includes the acquisition of control time referred to in that paragraph, and

(ii) if the filing is in respect of subsection 142.6(1.6), immediately follows the particular taxation year.

History: S. 152(6.2) was added by S.C. 2009, c. 2, s. 58(5), applicable to taxation years that begin after 2001, except that

(*a*) for taxation years that begin before October 1, 2006, each reference in subsection 152(6.2) to paragraph (*d*) of the definition "excluded property" shall be read as a reference to paragraph (*d.3*) of the definition "mark-to-market property"; and

(*b*) a prescribed form referred to in paragraph 152(6.2)(*b*) is deemed to have been filed by a taxpayer on a timely basis if it is filed by the taxpayer on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act is assented to [R.A. March 12, 2009].

► 152(7) ◄

(7) Assessment not dependent on return or information. The Minister is not bound by a return or information supplied by or on behalf of a taxpayer and, in making an assessment, may, notwithstanding a return or information so supplied or if no return has been filed, assess the tax payable under this Part.

Editorial Note: Subsection 152(7) is of importance mainly in cases where no return has been filed by a taxpayer, or where the Minister regards the return filed to be grossly inaccurate. In such cases, the Minister normally makes what is known as an arbitrary or net worth assessment.

Related Sections: S. 152(4) Assessment and reassessment.

► 152(8) ◄

(8) Assessment deemed valid and binding. An assessment shall, subject to being varied or vacated on an objection or appeal under this Part and subject to a reassessment, be deemed to be valid and binding notwithstanding any error, defect or omission in the assessment or in any proceeding under this Act relating thereto.

Related Sections: S. 166 Irregularities.

► 152(9) ◄

(9) Alternative basis for assessment. The Minister may advance an alternative argument in support of an assessment at any time after the normal reassessment period unless, on an appeal under this Act

(*a*) there is relevant evidence that the taxpayer is no longer able to adduce without the leave of the court; and

(*b*) it is not appropriate in the circumstances for the court to order that the evidence be adduced.

History: S. 152(9) was added by S.C. 1999, c. 22, s. 63.1(2), applicable to appeals disposed of after June 17, 1999.
Editorial Note: Subsection 152(9) was introduced in direct response to certain comments made by the Supreme Court of Canada in *The Queen v. Continental Bank of Canada* 98 DTC 6501. In that decision, the Supreme Court stated that the Minister should not be allowed to advance a new basis for a reassessment once the applicable limitation period had expired.

Tax Topics: No. 1900, Taxpayers Elude Surprise Procedural Skirmish; No. 1679, Challenging Crown Pleadings in Tax Litigation.
Canadian Tax Foundation: Innes and Bissell, "Basis for Assessment, Arguments, and Assumptions: An Examination of the Underlying Policy Considerations", *2004 Canadian Tax Journal*, No. 1, 59; Meghji and Grenon, "New Life for the Limitation Period", *2000 Canadian Tax Journal*, No. 5, 1650; Bendin, "Challenging and Defending Assessments Before the Tax Court of Canada and Appellate Courts: A Postscript to the Continental Bank Case", *2000 Canadian Tax Journal*, No. 1, 35.

► 152(10) ◄

(10) Where tax deemed not to be assessed. Notwithstanding any other provision of this section, an amount of tax for which adequate security is accepted by the Minister under subsection 220(4.5) or (4.6) is, until the end of the period during which the security is accepted by the Minister, deemed for the purpose of any agreement entered into by or on behalf of the Government of Canada under section 7 of the *Federal–Provincial Fiscal Arrangements Act* not to have been assessed under this Act.

History: S. 152(10) was added by S.C. 2001, c. 17, s. 149(5), applicable to taxation years that end after October 1, 1996.

Payment of Tax

SECTION 153:

► 153(1) ◄

(1) Withholding. Every person paying at any time in a taxation year

(*a*) salary, wages or other remuneration, other than amounts described in subsection 115(2.3) or 212(5.1),

(*b*) a superannuation or pension benefit,

(*c*) a retiring allowance,

(*d*) a death benefit,

(*d.1*) an amount described in subparagraph 56(1)(*a*)(iv),

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 153(1)(*d.1*) of the Act is replaced by the following:

(*d.*1) an amount described in subparagraph 56(1)(*a*)(iv) or (vii),

Applicable: To the 2006 and subsequent taxation years.

Explanatory Note: Section 153 of the Act requires the withholding of tax from certain payments, described in paragraphs (*a*) to (*t*). The person making such a payment is required to remit the amount withheld to the Receiver General on behalf of the payee. Paragraph (*d.*1) is amended consequential to the introduction of the new Quebec Parental Insurance Plan introduced on January 1, 2006. This amendment applies to the 2006 and subsequent taxation years.

(*e*) an amount as a benefit under a supplementary unemployment benefit plan,

(*f*) an annuity payment or a payment in full or partial commutation of an annuity,

(*g*) fees, commissions or other amounts for services, other than amounts described in subsection 115(2.3) or 212(5.1),

(*h*) a payment under a deferred profit sharing plan or a plan referred to in section 147 as a revoked plan,

(*i*) a payment from a registered disability savings plan,

(*j*) a payment out of or under a registered retirement savings plan or a plan referred to in subsection 146(12) as an "amended plan",

(*k*) an amount as, on account or in lieu of payment of, or in satisfaction of, proceeds of the surrender, cancellation or redemption of an income-averaging annuity contract,

(*l*) a payment out of or under a registered retirement income fund or a fund referred to in subsection 146.3(11) as an "amended fund",

(*m*) a prescribed benefit under a government assistance program,

(*m.*1) [Repealed by S.C. 1994, c. 21, s. 77(1).]

(*n*) one or more amounts to an individual who has elected for the year in prescribed form in respect of all such amounts,

(*o*) an amount described in paragraph 115(2)(*c.*1),

(*p*) a contribution under a retirement compensation arrangement,

(*q*) an amount as a distribution to one or more persons out of or under a retirement compensation arrangement,

(*r*) an amount on account of the purchase price of an interest in a retirement compensation arrangement

(*s*) an amount described in paragraph 56(1)(*r*), or

(*t*) a payment made under a plan that was a registered education savings plan

shall deduct or withhold from the payment the amount determined in accordance with prescribed rules and shall, at the prescribed time, remit that amount to the Receiver General on account of the payee's tax for the year under this Part or Part XI.3, as the case may be, and, where at that prescribed time the person is a prescribed person, the remittance shall be made to the account of the Receiver General at a designated financial institution.

History: S. 153(1)(*i*) was added by S.C. 2007, c. 35, s. 117, applicable to the 2008 and subsequent taxation years.

S. 153(1)(*a*) was replaced by S.C. 2007, c. 35, s. 49(1), in force on Royal Assent, December 14, 2007. S. 153(1)(*a*) formerly read:

"(*a*) salary, wages or other remuneration, other than amounts described in subsection 212(5.1),"

S. 153(1)(*g*) was replaced by S.C. 2007, c. 35, s. 49(2), in force on Royal Assent, December 14, 2007. S. 153(1)(*g*) formerly read:

"(*g*) fees, commissions or other amounts for services, other than amounts described in subsection 212(5.1),"

S. 153(1)(*a*) was amended by S.C. 2001, c. 17, s. 151(1), applicable in respect of amounts paid, credited or provided after 2000. S. 153(1)(*a*) formerly read:

"(*a*) salary or wages or other remuneration,"

S. 153(1)(*g*) was amended by S.C. 2001, c. 17, s. 151(2), applicable in respect of amounts paid, credited or provided after 2000. S. 153(1)(*g*) formerly read:

"(*g*) fees, commissions or other amounts for services,"

S. 153(1), the portion after paragraph (*t*) was amended by S.C. 2001, c. 17, s. 151(3), applicable after June 27, 1999. S. 153(1), the portion after paragraph (*t*) formerly read:

"shall deduct or withhold therefrom such amount as is determined in accordance with prescribed rules and shall, at such time as is prescribed, remit that amount to the Receiver General on account of the payee's tax for the year under this Part or Part XI.3, as the case may be, and, where at that prescribed time the person is a prescribed person, the remittance shall be made to the account of the Receiver General at a financial institution (within the meaning that would be assigned by the definition 'financial institution' in subsection 190(1) if that definition were read without reference to paragraphs (*d*) and (*e*) thereof)."

S. 153(1)(*d.*1) was amended by S.C. 1998, c. 19, s. 182(1), deemed to have come into force on June 30, 1996. S. 153(1)(*d.*1) formerly read:

"(*d.*1) an amount as a benefit under the *Employment Insurance Act*,"

S. 153(1)(*s*) was added by S.C. 1998, c. 19, s. 43(1), applicable to payments made after 1992.

S. 153(1)(*t*) was added by S.C. 1998, c. 19, s. 43(1), applicable to payments made after 1997.

S. 153(1)(*i*) was repealed by S.C. 1996, c. 23, s. 175, effective January 1, 1998. S. 153(1)(*i*) formerly read:

"(*i*) a training allowance under the *National Training Act*,"

S. 153(1)(*d.*1) was amended by S.C. 1996, c. 23, s. 187, by replacing the expression "Unemployment Insurance Act" with the expression "Employment Insurance Act", effective June 30, 1996.

S. 153(1)(*m*) was amended by S.C. 1994, c. 21, s. 77(1), applicable to payments made after October 1991. S. 153(1)(*m*) formerly read:

"(*m*) an amount as a benefit under the *Labour Adjustment Benefits Act*,"

S. 153(1)(*m.*1) was repealed by S.C. 1994, c. 21, s. 77(1), applicable to payments made after October 1991. S. 153(1)(*m.*1) formerly read:

"(*m.*1) an income assistance payment made pursuant to an agreement under section 5 of the *Department of Labour Act*,"

S. 153(1), that portion following paragraph (*r*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 91(1), applicable after 1992. That portion of s. 153(1) following paragraph (*r*) formerly read:

"shall deduct or withhold therefrom such amount as may be determined in accordance with prescribed rules and shall, at such time as may be prescribed, remit that amount to the Receiver General on account of the payee's tax for the year under this Part or Part XI.3, as the case may be."

S. 153(1)(*f*) was amended by S.C. 1994, c. 7, Sched. II, s. 126(1), applicable with respect to payments made after July 13, 1990. S. 153(1)(*f*) formerly read:

"(*f*) an annuity payment,"

S. 153(1)(*l*) was amended by S.C. 1994, c. 7, Sched. II, s. 126(2), applicable to payments made after July 13, 1990. S. 153(1)(*l*) formerly read:

"(*l*) a payment out of or under a registered retirement income fund,"

S. 153(1)(*m.*1) was added by S.C. 1994, c. 7, Sched. II, s. 126(3), applicable with respect to payments made after July 13, 1990.

Related Sections: S. 56(1)(*a*) Pension benefits, unemployment insurance benefits, etc.; s. 56(1)(*l*) Legal expenses; s. 60(*n*) Repayment of pension or benefits; s. 60(*o*) Legal expenses; s. 60(*v.*1) UI and EI benefit repayment; s. 78(1) Unpaid amounts — winding-up of a corporation; s. 146.4(1), "registered disability savings plan"; s. 153(1.1) Undue hardship; s. 153(1.2) Election to increase withholding; s. 153(1.3) Split-pension amount; s. 153(3) Deemed effect of deduction; s. 154 Agreements providing for tax transfer payments; s. 227(8) Penalty; s. 227(9) Penalty; s. 227(9.1) Penalty; s. 227.1(1) Liability of directors for failure to deduct; s. 238(2) Compliance orders; s. 241(1) Provision of information; s. 241(3) Communication where proceedings have been commenced; s. 241(4) Where taxpayer information may be disclosed; s. 241(10) Definitions.

Regulations: 100; 101; 102; 103; 105; 105.1; 106(1); 108; 110; 5502; Schedule I.

Interpretation Bulletins: *Secondary* — IT-75R4 Scholarships, fellowships, bursaries, prizes, research grants and financial assistance; IT-109R2 Unpaid amounts; IT-337R4 (Consolid.) Retiring allowances; IT-379R Employees profit sharing plans — Allocations to beneficiaries.

Information Circulars: IC 75-6R2 Required withholding from amounts paid to non-residents providing services in Canada; IC 98-1R3 Collections policies.

Forms: T737-RCA; T737-RCA SUM; T4A-RCA; T4A-RCA SUM; T3D; TD3F; T4; T4A; T4 Sum.; T4A Sum.; T4 Seg.; T4F Sum.; T4F.

Guides: RC4120 Employers' Guide — Filing the T4 Slip and Summary Form; RC4157 Employers' Guide — Filing the T4A Slip and Summary Form; RC4200 Employers' Guide — Filing the T4F Slip and Summary Form;

RC4163 Employers' Guide — Remitting Payroll Deductions; T4001 Employer's Guide to Payroll Deductions (Basic Information).

Tax Topics: No. 1819, The Implications of Withholding Requirements on Non-Residents Providing Services in Canada; No. 1719, Withholding Taxes — Purchase of Software from a Non-Resident; No. 1706, Retiring Allowances and E.I. Reimbursements: How Many Times Do You Have To Withhold?; No. 1477, Death and Taxes: The Two Inevitables? Some Are Disputing at Least One.

Tax Profile: August 2005 — Canada Revenue Agency's Recent Attack on U.S. Companies; September 2002 — Canadian Withholding Taxes Update; August 2007 — Professionals and Other Service Providers Beware — A Canadian Trap.

Canadian Tax Foundation: Boddez, "Regulation 105: Non-Resident Withholding in Light of Weyerhaeuser", *2007 British Columbia Tax Conference*, 7:1; Baker and Meister, "Non-residents Rendering Services in Canada: Regulation 105 and Other Issues", *1999 Canadian Tax Journal*, No. 5, 1321.

Cases: The s. 153(1)(*g*) withholding requirements do not apply to payments made to non-resident service providers for services rendered outside of Canada and reimbursement of out-of-pocket expenses. The phrase "fees, commissions or other amounts for services" must be limited to amounts having the character of income earned in Canada by non-resident recipients, since only those amounts are potentially subject to tax under s. 2(3). *Weyerhaeuser Company Limited v. The Queen*, 2007 DTC 392 (T.C.C.).

When the taxpayer was dismissed from his employment, he negotiated a settlement of $111,540 from which source deductions were to be withheld. He received the net amount of $72,500 but the employer never remitted the source deductions. The taxpayer was credited with $39,040 under s. 227(9.4). *Suermondt v. The Queen et al.*, 2001 DTC 5389 (F.C.A.), reversing 99 DTC 3513 (T.C.C.).

A U.S. resident produced a figure skating show which took place in facilities owned by the taxpayers. After each show, the taxpayers paid the net revenues to the producer. Because the payments were in respect of services provided in Canada, the taxpayers were liable for tax which they should have withheld under paragraph 153(1)(*g*). *Ogden Palladium Services (Canada) Inc. et al. v. The Queen*, 2001 DTC 345 (T.C.C.).

► 153(1.1) ◄

(1.1) Undue hardship. Where the Minister is satisfied that the deducting or withholding of the amount otherwise required to be deducted or withheld under subsection (1) from a payment would cause undue hardship, the Minister may determine a lesser amount and that amount shall be deemed to be the amount determined under that subsection as the amount to be deducted or withheld from that payment.

Related Sections: S. 212(5.3) Reduction of withholding.
Regulations: Part I.

► 153(1.2) ◄

(1.2) Election to increase withholding. Where a taxpayer so elects in prescribed manner and prescribed form, the amount required to be deducted or withheld under subsection (1) from any payment to the taxpayer shall be deemed to be the total of

(*a*) the amount, if any, otherwise required to be deducted or withheld under that subsection from that payment, and

(*b*) the amount specified by the taxpayer in that election with respect to that payment or with respect to a class of payments that includes that payment.

Regulations: 109.
Forms: TD1.

► 153(1.3) ◄

(1.3) Split-pension amount. A joint election made or expected to be made under section 60.03 is not to be considered a basis on which the Minister may determine a lesser amount under subsection (1.1).

History: S. 153(1.3) was added by S.C. 2007, c. 29, s. 22(1), applicable to the 2007 and subsequent taxation years.

S. 153(1.3) was repealed by S.C. 1996, c. 21, s. 40, applicable June 20, 1996. S. 153(1.3) formerly read:

"(1.3) *Payments by trustee, etc.* For the purposes of subsection (1), where a trustee who is administering, managing, distributing, winding up, controlling or otherwise dealing with the property, business, estate or income of another person authorizes or otherwise causes a payment referred to in that subsection to be made on behalf of that other person, the trustee shall be deemed to be a person making the payment and the trustee and that other person shall be jointly and severally liable in respect of the amount required under that subsection to be deducted or withheld and to be remitted on account of the payment."

Related Sections: S. 153(1.4) Exception — remittance to designated financial institution.

► 153(1.4) ◄

(1.4) Exception — remittance to designated financial institution. For the purpose of subsection (1), a prescribed person referred to in that subsection is deemed to have remitted an amount to the account of the Receiver General at a designated financial institution if the prescribed person has remitted the amount to the Receiver General at least one day before the day upon which the amount is due.

History: S. 153(1.4) was added by S.C. 2008, c. 28, s. 29(1), applicable in respect of remittances by a prescribed person that are first due after February 25, 2008.

S. 153(1.4) was repealed by S.C. 1996, c. 21, s. 40, applicable June 20, 1996. S. 153(1.4) formerly read:

"(1.4) *Definition of 'trustee'.* In subsection (1.3), 'trustee' includes a liquidator, receiver, receiver-manager, trustee in bankruptcy, assignee, executor, administrator, sequestrator or any other person performing a function similar to that performed by any such person."

► 153(2) ◄

(2) Deemed withholding. If a pensioner and a pension transferee (as those terms are defined in section 60.03) make a joint election under section 60.03 in respect of a split-pension amount (as defined in that section) for a taxation year, the portion of the amount deducted or withheld under subsection (1) that may be reasonably considered to be in respect of the split-pension amount is deemed to have been deducted or withheld on account of the pension transferee's tax for the taxation year under this Part and not on account of the pensioner's tax for the taxation year under this Part.

History: S. 153(2) was added by S.C. 2007, c. 29, s. 22(1), applicable to the 2007 and subsequent taxation years.

S. 153(2) was repealed by S.C. 1994, c. 8, s. 21(1), applicable to the 1995 and subsequent taxation years. For the application of subsection 153(2) to the 1994 taxation year, see s. 21(3), c. 8, S.C. 1994 below.

S. 153(2) formerly read:

"(2) Where amounts were deducted or withheld under this section from the remuneration or other payments received by an individual in a taxation year, if the total of the remuneration and other payments from which the amounts were deducted or withheld and which the individual received in the year is equal to or greater than 3/4 of the individual's income for the year, the individual shall, on or before the individual's balance-due day for the year, pay to the Receiver General the remainder of the individual's tax for the year as estimated under section 151."

S. 153(2) was amended by S.C. 1994, c. 7, Sched. II, s. 126(4), applicable to the 1990 and subsequent taxation years. S. 153(2) formerly read:

"(2) Where amounts have been deducted or withheld under this section from the remuneration or other payments received by an individual in a taxation year, if the total of the remuneration and other payments from which such amounts have been deducted or withheld and which the individual had received in the year is equal to or greater than 3/4 of the individual's income for the year, the individual shall, on or before April 30 in the next year, pay to the Receiver General the remainder of the individual's tax for the year as estimated under section 151."

Related Sections: S. 156.1 No instalment required; s. 227(2) Return filed with person withholding; s. 227(3) Failure to file return; s. 227(6) Excess withheld, returned or applied; s. 248(1), "balance due day".

Sec. 21(3), Chap. 8, S.C. 1994

(3) [Application of s. 153(2).] In its application to the 1994 taxation year, subsection 153(2) of the Act shall be read as follows:

"**(2)** Subject to sections 155, 156 and 156.1, where amounts have been deducted or withheld under this section from the remuneration or other payments received by an individual in a taxation year, if the total of the remuneration and other payments from which such amounts have been deducted or withheld and which the individual had received in the year is equal to

or greater than 3/4 of the individual's income for the year, the individual shall, on or before the individual's balance-due day for the year, pay to the Receiver General the remainder of the individual's tax for the year as estimated under section 151."

► 153(3) ◄

(3) Deemed effect of deduction. When an amount has been deducted or withheld under subsection (1), it shall, for all the purposes of this Act, be deemed to have been received at that time by the person to whom the remuneration, benefit, payment, fees, commissions or other amounts were paid.

Related Sections: S. 227(1) Withholding taxes; s. 227(12) Agreement not to deduct void; s. 227(13) Minister's receipt discharges debtor.
Cases: Federal income tax must be calculated on the entire salary receivable and not the net amount received after deduction of provincial tax. *Morin v. The Queen*, 75 DTC 5061 (F.C.T.D.).

► 153(4) ◄

(4) Unclaimed dividends, interest and proceeds. Where at the end of a taxpayer's taxation year the person beneficially entitled to an amount received by the taxpayer after 1984 and before the year as or in respect of dividends, interest or proceeds of disposition of property is unknown to the taxpayer, the taxpayer shall remit to the Receiver General on or before the day that is 60 days after the end of the year on account of the tax payable under this Act by that person an amount equal to

(*a*) in the case of dividends, 33 1/3% of the total amount of the dividends,

(*b*) in the case of interest, 50% of the total amount of the interest, and

(*c*) in the case of proceeds of disposition of property, 50% of the total of all amounts each of which is the amount, if any, by which the proceeds of disposition of a property exceed the total of any outlays and expenses made or incurred by the taxpayer for the purpose of disposing of the property (to the extent that those outlays and expenses were not deducted in computing the taxpayer's income for any taxation year or attributable to any other property),

except that no remittance under this subsection shall be required in respect of an amount that was included in computing the taxpayer's income for the year or a preceding taxation year or in respect of an amount on which the tax under this subsection was previously remitted.

Related Sections: S. 153(5) Deemed effect of remittance.
Regulations: 108(3); 108(4).
Information Circulars: IC 71-9R Unclaimed dividends.

► 153(5) ◄

(5) Deemed effect of remittance. An amount remitted by a taxpayer under subsection (4) in respect of dividends, interest or proceeds of disposition of property shall be deemed

(*a*) to have been received by the person beneficially entitled thereto; and

(*b*) to have been deducted or withheld from the amount otherwise payable by the taxpayer to the person beneficially entitled thereto.

Related Sections: S. 78 Unpaid amounts — winding-up of a corporation; s. 145(1), "supplementary unemployment benefit plan"; s. 146(1), "registered retirement savings plan"; s. 147(1), "deferred profit sharing plan"; s. 227(6) Excess withheld, returned or applied; s. 227(9) Penalty; s. 227(10) Assessment — failure to deduct or withhold tax; s. 227(13) Minister's receipt discharges debtor; s. 248(1), "amount", "annuity", "dividend", "employees", "prescribed", "registered retirement income fund", "retirement compensation arrangement", "retiring allowance", "salary or wages", "share", "superannuation or pension benefit".

► 153(6) ◄

(6) Meaning of "designated financial institution". In this section, "designated financial institution" means a corporation that

(*a*) is a bank, other than an authorized foreign bank that is subject to the restrictions and requirements referred to in subsection 524(2) of the *Bank Act*;

(*b*) is authorized under the laws of Canada or a province to carry on the business of offering its services as a trustee to the public; or

(*c*) is authorized under the laws of Canada or a province to accept deposits from the public and carries on the business of lending money on the security of real estate or investing in mortgages or hypothecs on real estate.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 153(6)(c) of the Act is replaced by the following:

(*c*) is authorized under the laws of Canada or a province to accept deposits from the public and carries on the business of lending money on the security of real property or immovables or investing in indebtedness on the security of mortgages on real property or of hypothecs on immovables.

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

History: S. 153(6) was added by S.C. 2001, c. 17, s. 151(4), applicable after June 27, 1999.

SECTION 154:

► 154(1) ◄

(1) Agreements providing for tax transfer payments. The Minister may, with the approval of the Governor in Council, enter into an agreement with the government of a province to provide for tax transfer payments and the terms and conditions relating to such payments.

Related Sections: S. 154(2) Tax transfer payment; s. 154(3) Payment deemed received by individual; s. 154(4) Payment deemed received by Receiver General.

► 154(2) ◄

(2) Tax transfer payment. Where, on account of the tax for a taxation year payable by an individual under this Part, an amount has been deducted or withheld under subsection 153(1) on the assumption that the individual was resident in a place other than the province in which the individual resided on the last day of the year, and the individual

(*a*) has filed a return of income for the year with the Minister,

(*b*) is liable to pay tax under this Part for the year, and

(*c*) is resident on the last day of the year in a province with which an agreement described in subsection (1) has been entered into,

the Minister may make a tax transfer payment to the government of the province not exceeding an amount equal to the product obtained by multiplying the amount or the total of the amounts so deducted or withheld by a prescribed rate.

History: S. 154(2)(*a*) was amended by S.C. 1998, c. 19, s. 183(1), applicable to the 1996 and subsequent taxation years. S. 154(2)(*a*) formerly read: "(*a*) has filed a return under this Act,"

Related Sections: S. 153(1) Withholding.
Regulations: 3300.

► 154(3) ◄

(3) Payment deemed received by individual. Where, pursuant to an agreement entered into under subsection (1), an amount has been transferred by the Minister to the government of a province with respect to an individual, the amount shall, for all purposes of this Act, be deemed to have been received by the individual at the time the amount was transferred.

► 154(4) ◄

(4) Payment deemed received by Receiver General. Where, pursuant to an agreement entered into under subsection (1), an amount has been transferred by the government of a province to the Minister with respect to an individual, the amount shall, for all purposes of this Act, be deemed to have been received by the Receiver General on account of the individual's tax under this Part for the year in respect of which the amount was transferred.

► 154(5) ◄

(5) Amount not to include refund. In this section, an amount deducted or withheld does not include any refund made in respect of that amount.

Related Sections: S. 219(3) Provisions applicable to Part; s. 248(1), "amount", "individual", "prescribed".

SECTION 155:

► 155(1) ◄

(1) Farmers and fishermen. Subject to section 156.1, every individual whose chief source of income for a taxation year is farming or fishing shall, on or before December 31 in the year, pay to the Receiver General in respect of the year, 2/3 of

(*a*) the amount estimated by the individual to be the tax payable under this Part by the individual for the year, or

(*b*) the individual's instalment base for the preceding taxation year.

History: S. 155(1) was amended by S.C. 1994, c. 8, s. 22(1), applicable to the 1994 and subsequent taxation years. S. 155(1) formerly read:

"(1) Subject to section 156.1, every individual whose chief source of income is farming or fishing, other than an individual to whom subsection 153(2) applies, shall pay to the Receiver General in respect of each taxation year

(*a*) on or before December 31 in the year, 2/3 of

(i) the amount estimated by the individual to be the tax payable under this Part by the individual for the year, or

(ii) the individual's instalment base for the immediately preceding taxation year; and

(*b*) on or before the individual's balance-due day for the year, the remainder of the individual's tax as estimated under section 151."

S. 155(1) was amended by S.C. 1994, c. 7, Sched. II, s. 127(1), applicable to the 1990 and subsequent taxation years. S. 155(1) formerly read:

"(1) Subject to section 156.1, every individual whose chief source of income is farming or fishing, other than an individual to whom subsection 153(2) applies, shall pay to the Receiver General

(*a*) on or before December 31 in each taxation year, 2/3 of

(i) the amount estimated by the individual to be the tax payable under this Part by the individual for the year computed without reference to sections 127.2 and 127.3, or

(ii) the individual's instalment base for the immediately preceding taxation year, and

(*b*) on or before April 30 in the next year, the remainder of the individual's tax as estimated under section 151."

Related Sections: S. 248(1), "balance due day".
Guides: P110 Paying Your Income Tax by Instalments Rev. 98.

► 155(2) ◄

(2) Definition of "instalment base". In this section, "instalment base" of an individual for a taxation year means the amount determined in prescribed manner to be the individual's instalment base for the year.

Related Sections: S. 2(2) Taxable income; s. 119 Former resident — credit for tax paid; s. 151 Estimate of tax; s. 156(1) Other individuals; s. 161(2) Interest on instalments; s. 161(4) Limitation — farmers and fishermen; s. 248(1), "farming", "fishing", "individual"; s. 249 Definition of "taxation year".
Regulations: 5300(1).

SECTION 156:

► 156(1) ◄

(1) Other individuals. Subject to section 156.1, in respect of each taxation year every individual (other than one to whom section 155 applies for the year) shall pay to the Receiver General

(*a*) on or before March 15, June 15, September 15 and December 15 in the year, an amount equal to 1/4 of

(i) the amount estimated by the individual to be the tax payable under this Part by the individual for the year, or

(ii) the individual's instalment base for the preceding taxation year, or

(*b*) on or before

(i) March 15 and June 15 in the year, an amount equal to 1/4 of the individual's instalment base for the second preceding taxation year, and

(ii) September 15 and December 15 in the year, an amount equal to 1/2 of the amount, if any, by which

(A) the individual's instalment base for the preceding taxation year

exceeds

(B) 1/2 of the individual's instalment base for the second preceding taxation year.

History: S. 156(1), that portion preceding paragraph (*a*), was amended by S.C. 1994, c. 8, s. 23(1), applicable to amounts that become payable after June 1994. That portion of s. 156(1) preceding paragraph (*a*) formerly read:

"(1) Subject to section 156.1, every individual, other than one to whom subsection 153(2) or section 155 applies, shall pay to the Receiver General in respect of each taxation year"

S. 156(1), the portion following paragraph (*b*) was repealed by S.C. 1994, c. 8, s. 23(2), applicable to the 1994 and subsequent taxation years. The portion of s. 156(1) following paragraph (*b*) formerly read:

"and, on or before the individual's balance-due day for the year, the remainder of the individual's tax estimated under section 151."

S. 156(1) was amended by S.C. 1994, c. 7, Sched. VIII, s. 92(1), applicable to the 1992 and subsequent taxation years. S. 156(1) formerly read:

"(1) Subject to section 156.1, every individual, other than one to whom subsection 153(2) or section 155 applies, shall pay to the Receiver General in respect of each taxation year

(*a*) on or before March 15, June 15, September 15 and December 15 in the year, an amount equal to 1/4 of

(i) the amount estimated by the individual to be the tax payable under this Part by the individual for the year, or

(ii) the individual's instalment base for the immediately preceding taxation year; and

(*b*) on or before the individual's balance-due day for the year, the remainder of the individual's tax estimated under section 151."

S. 156(1) was amended by S.C. 1994, c. 7, Sched. II, s. 128(1), applicable to the 1990 and subsequent taxation years. S. 156(1) formerly read:

"(1) Subject to section 156.1, every individual, other than one to whom subsection 153(2) or section 155 applies, shall pay the Receiver General

(*a*) on or before March 15, June 15, September 15 and December 15 in each taxation year, an amount equal to ¼ of

(i) the amount estimated by the individual to be the tax payable under this Part by the individual for the year computed without reference to sections 127.2 and 127.3, or

(ii) the individual's instalment base for the immediately preceding taxation year; and

(*b*) on or before April 30 in the next year, the remainder of the individual's tax as estimated under section 151."

Editorial Note: The CRA uses the method of computing instalment payments under paragraph 156(1)(*b*) when it sends out instalment notices to individuals. However, individuals are allowed to use any of the three methods described in subsection 156(1) without the imposition of interest charges. Generally speaking, instalment payments are required for individuals in a taxation year if their federal plus provincial tax payable minus amounts withheld at source is greater than $3,000 ($2,000 prior to 2008) in the year and in one of the two preceding years (see subsection 156.1(2); the monetary threshold for Quebec residents is $1,800 ($1,200 prior to 2008) of federal tax).

Related Sections: S. 248(1), "balance-due day".
Forms: T1162A.
Guides: P110 Paying Your Income Tax by Instalments.

► 156(2) ◄

(2) Payment by mutual fund trusts. Notwithstanding subsection (1), the amount payable by a mutual fund trust to the Receiver General on or before any day referred to in paragraph (1)(*a*) in a taxation year shall be deemed to be the amount, if any, by which

(*a*) the amount so payable otherwise determined under that subsection,

exceeds

(*b*) ¼ of the trust's capital gains refund (within the meaning assigned by section 132) for the year.

► 156(3) ◄

(3) Definition of "instalment base". In this section, "instalment base" of an individual for a taxation year means the amount determined in prescribed manner to be the individual's instalment base for the year.

Related Sections: S. 155(2) Definition of "instalment base"; s. 161(9) Definitions of "instalment base", etc.
Regulations: 5300(1).

SECTION 156.1: [No instalment required].

► 156.1(1) ◄

(1) Definitions. For the purposes of this section,

"instalment threshold" — "instalment threshold" of an individual for a taxation year means

(*a*) in the case of an individual resident in the Province of Quebec at the end of the year, $1,800, and

(*b*) in any other case, $3,000;

History: S. 156.1(1), paragraphs (*a*) and (*b*) of the definition "instalment threshold" were replaced by S.C. 2007, c. 35, s. 50(1), applicable to the 2008 and subsequent taxation years and, for the purpose of applying subsection 156.1(2) of the Act in respect of the 2008 and 2009 taxation years, to the 2006 and 2007 taxation years. S. 156.1(1), paragraphs (*a*) and (*b*) of the definition "instalment threshold" formerly read:

"(*a*) in the case of an individual resident in the Province of Quebec at the end of the year, $1,200, and

(*b*) in any other case, $2,000;"

S. 156.1(1), the definition of "instalment threshold", was added by S.C. 1994, c. 8, s. 24(1), applicable with respect to amounts that become payable after June 1994. S. 156.1(1) formerly read:

"S. 156.1. *'No instalment required'.*

(1) Where the total of the taxes payable (before taking into consideration any amount referred to in any of subparagraphs 161(7)(*a*)(ii) to (v) or (viii) that was excluded or deducted, as the case may be) under this Part and Part I.1 by an individual for a particular taxation year or for the taxation year preceding that year is not more than the total of $1,000 and the amount, if any, determined in respect of the individual for that year under subsection 120(2),

(*a*) sections 155 and 156 do not apply to that individual for the particular year; and

(*b*) the individual shall pay to the Receiver General, on or before the individual's balance-due day for the particular year, the individual's tax as estimated under section 151 for the particular year."

Related Sections: S. 248(1), "Specified future tax consequences".

"net tax owing" — "net tax owing" by an individual for a taxation year means

(*a*) in the case of an individual resident in the Province of Quebec at the end of the year, the amount determined by the formula

A - C - D - F

and

(*b*) in any other case, the amount determined by the formula

A + B - C - E - F

where

A is the total of the taxes payable under this Part and Parts I.2 and X.5 by the individual for the year,

B is the total of all income taxes payable by the individual for the year under any law of a province or of an Aboriginal government with which the Minister of Finance has entered into an agreement for the collection of income taxes payable by individuals to the province or Aboriginal government under that law,

C is the total of the taxes deducted or withheld under section 153 and Part I.2 on behalf of the individual for the year,

D is the amount determined under subsection 120(2) in respect of the individual for the year,

E is the total of all amounts deducted or withheld on behalf of the individual for the year under a law of a province or of an Aboriginal government with which the Minister of Finance has entered into an agreement for the collection of income taxes payable by individuals to the province or Aboriginal government under that law, and

F is the amount determined under subsection 120(2.2) in respect of the individual for the year.

History: S. 156.1(1), the description of A in paragraph (*b*) of the definition "net tax owing" was amended by S.C. 2001, c. 17, s. 152(1), applicable to the 2001 and subsequent taxation years. S. 156.1(1), the description of A in paragraph (*b*) of the definition "net tax owing" formerly read:

"A is the total of the taxes payable under this Part and Parts I.1, I.2 and X.5 by the individual for the year,"

S. 156.1(1), the formula in paragraph (*a*) of the definition of "net tax owing" was replaced by S.C. 2000, c. 19, s. 45(1), applicable to the 1999 and subsequent taxation years. S. 156.1, the formula in paragraph (*a*) of the definition of "net tax owing" formerly read:

"A – C – D"

S. 156.1(1), the formula in paragraph (*b*) of the definition of "net tax owing" as replaced by S.C. 2000, c. 19, s. 45(2), applicable to the 1999 and subsequent taxation years. S. 156.1(1), the formula in paragraph (*b*) of the definition of "net tax owing" formerly read:

"A + B – C – E"

S. 156.1(1), the description of B in paragraph (*b*) of the definition "net tax owing" was replaced by S.C. 2000, c. 19, s. 45(3), applicable to the 1999 and subsequent taxation years. S. 156.1(1), the description of B in paragraph (*b*) of the definition "net tax owing" formerly read:

"B is the total of all income taxes payable by the individual for the year under any Act of a province with which the Minister of Finance has entered into an agreement for the collection of income taxes payable by individuals to the province under that Act,"

S. 156.1(1), the description of E was amended, and the description of F was added in paragraph (*b*) of the definition "net tax owing", by S.C. 2000, c. 19, s. 45(4), applicable to the 1999 and subsequent taxation years. S. 156.1(1), the description of E in paragraph (*b*) of the definition "net tax owing" formerly read:

"E is the total of all income taxes deducted or withheld on behalf of the individual for the year under any Act of a province with which the Minister of Finance has entered into an agreement for the collection of income taxes payable by individuals to the province under that Act."

S. 156.1(1), the definition "net tax owing", the description of A in paragraph (*b*), was amended by S.C. 1998, c. 19, s. 44(1), applicable to the 1998 and subsequent taxation years. S. 156.1(1), the definition "net tax owing", the description of A in paragraph (*b*) formerly read:

"A is the total of the taxes payable under this Part and Parts I.1 and I.2 by the individual for the year,"

S. 156.1(1), the portion of the definition "net tax owing" after the description of E, was repealed by S.C. 1997, c. 25, s. 48(1), applicable to amounts that become payable after 1995. That part formerly read:

"and for the purposes of this definition, income taxes payable for a taxation year by an individual are determined after deducting all tax credits to which the individual is entitled for the year relating to those taxes (other than tax credits that become payable to the individual after the individual's balance-due day for the year and prescribed tax credits) and before taking into consideration amounts referred to in subparagraphs 161(7)(*a*)(ii) to (v)."

S. 156.1(1), the description of A in the definition "net tax owing", was amended by S.C. 1996, c. 21, s. 40.1(1), applicable to the 1996 and subsequent taxation years, except that, in its application to the 1996 taxation year, the description of A in the definition "net tax owing" in subsection 156.1(1) shall be read as follows:

"A is the total of

(i) the taxes payable under this Part and Part I.1 by the individual for the year, and

(ii) half the tax payable under Part I.2 by the individual for the year,"

S. 156.1(1), the description of A in the definition "net tax owing", formerly read:

"A is the total of the income taxes payable by the individual for the year under this Part and Part I.1,"

S. 156.1(1), the description of C in the definition "net tax owing", was amended by S.C. 1996, c. 21, s. 40.1(2), applicable to the 1996 and subsequent taxation years. That part formerly read:

"C is the total of all income taxes deducted or withheld under section 153 on behalf of the individual for the year,"

S. 156.1(1), the definition of "net tax owing", was added by S.C. 1994, c. 8, s. 24(1), applicable with respect amounts that become payable after June 1994. See above for how s. 156.1(1) formerly read.

S. 156.1(1), the portion preceding paragraph (*a*) was amended by S.C. 1994, c. 7, Sched. VI, s. 6(1), to add the reference to s. 161(7)(*a*)(viii), applicable to the 1992 and subsequent taxation years.

S. 156.1(1) was amended by S.C. 1994, c. 7, Sched. II, s. 129(1), applicable to the 1990 and subsequent taxation years, and with respect to the amounts referred to in paragraph 161(7)(*a*) in respect of subsequent taxation years referred to in that paragraph ending after 1989, except that, in its application to a taxation year ending before 1990, the reference in paragraph 156.1(1)(*b*) to "the individual's balance-due day for" shall be read as "April 30 in the year immediately following". S. 156.1 formerly read:

"S. 156.1. Where the aggregate of the taxes payable under this Part and Part I.1 by an individual for a particular taxation year or for the taxation year immediately preceding that year is not more than the aggregate of $1,000 and the amount, if any, determined in respect of the individual for that year under subsection 120(2),

(*a*) section 155 or 156, as the case may be, is not applicable in respect of that individual for the particular taxation year, and

(*b*) the taxpayer shall pay to the Receiver General, on or before April 30 in the year immediately following the particular taxation year, his tax as estimated under section 151 for the particular taxation year."

Related Sections: S. 155(1) Farmers and fishermen; s. 156(1) Other individuals; s. 248(1), "balance-due day", "specified future tax consequences".

► 156.1(1.1) ◄

(1.1) Values of A and B in "net tax owing". For the purposes of determining the values of A and B in the definition "net tax owing" in subsection (1), income taxes payable by an individual for a taxation year are determined

(*a*) before taking into consideration the specified future tax consequences for the year; and

(*b*) after deducting all tax credits to which the individual is entitled for the year relating to those taxes (other than tax credits that become payable to the individual after the individual's balance-due day for the year, prescribed tax credits and amounts deemed to have been paid because of the application of either subsection 120(2) or (2.2)).

History: Paragraph 156.1(1.1)(*b*) was replaced by S.C. 2000, c. 19, s. 45(5), applicable to the 1999 and subsequent taxation years. Paragraph 156.1(1.1)(*b*) formerly read:

"(*b*) after deducting all tax credits to which the individual is entitled for the year relating to those taxes (other than tax credits that become payable to the individual after the individual's balance-due day for the year, prescribed tax credits and the amount deemed to have been paid because of the application of subsection 120(2))."

S. 156.1(1.1) was added by S.C. 1997, c. 25, s. 48(2), applicable to amounts that become payable after 1995.

► 156.1(1.2) ◄

(1.2) Value of D in "net tax owing". For the purpose of determining the value of D in the definition "net tax owing" in subsection (1), the amount deemed by subsection 120(2) to have been paid on account of an individual's tax under this Part for a taxation year is determined before taking into consideration the specified future tax consequences for the year.

History: S. 156.1(1.2) was added by S.C. 1997, c. 25, s. 48(2), applicable to amounts that become payable after 1995.

► 156.1(1.3) ◄

(1.3) Value of F in "net tax owing". For the purpose of determining the value of F in the definition "net tax owing" in subsection (1), the amount deemed by subsection 120(2.2) to have been paid on account of an individual's tax under this Part for a taxation year is determined before taking into consideration the specified future tax consequences for the year.

History: S. 156.1(1.3) was added by S.C. 2000, c. 19, s. 45(6), applicable to the 1999 and subsequent taxation years.

► 156.1(2) ◄

(2) No instalment required. Sections 155 and 156 do not apply to an individual for a particular taxation year where

(*a*) the individual's chief source of income for the particular year is farming or fishing and the individual's net tax owing for the particular year, or either of the 2 preceding taxation years, does not exceed the individual's instalment threshold for that year; or

(*b*) the individual's net tax owing for the particular year, or for each of the 2 preceding taxation years, does not exceed the individual's instalment threshold for that year.

History: S. 156.1(2) was amended by S.C. 1994, c. 8, s. 24(1), applicable with respect to amounts that become payable after June 1994. S. 156.1(2) formerly read:

"(2) *Idem.* Paragraphs 155(1)(*a*) and 156(1)(*a*) and (*b*) do not require the payment of any amount in respect of an individual that would otherwise become due under any of those paragraphs on or after the day on which the individual died."

S. 156.1(2) was amended by S.C. 1994, c. 7, Sched. VIII, s. 93(1), applicable to the 1992 and subsequent taxation years. S. 156.1(2) formerly read:

"(2) *Idem.* Paragraphs 155(1)(*a*) and 156(1)(*a*) do not require the payment of any amount in respect of an individual that would otherwise become due under either of those paragraphs on or after the day on which the individual dies."

S. 156.1(2) was added by S.C. 1994, c. 7, Sched. II, s. 129(1), applicable to the 1990 and subsequent taxation years.

Related Sections: S. 128.1(5) Instalment interest.

► 156.1(3) ◄

(3) Idem. Sections 155 and 156 do not require the payment of any amount in respect of an individual that would otherwise become due under either of those sections on or after the day on which the individual dies.

History: S. 156.1(3) was added by S.C. 1994, c. 8, s. 24(1), applicable with respect to amounts that become payable after June 1994.

► 156.1(4) ◄

(4) Payment of remainder. Every individual shall, on or before the individual's balance-due day for each taxation year, pay to the Receiver General in respect of the year

the amount, if any, by which the individual's tax payable under this Part for the year exceeds the total of

(*a*) all amounts deducted or withheld under section 153 from remuneration or other payments received by the individual in the year, and

(*b*) all other amounts paid to the Receiver General on or before that day on account of the individual's tax payable under this Part for the year.

History: S. 156.1(4) was added by S.C. 1994, c. 8, s. 24(1), applicable to the 1994 and subsequent taxation years.

Related Sections: S. 156 Instalments for individuals; s. 161 Interest; s. 227(2) Return filed with person withholding; s. 227(3) Failure to file return; s. 227(6) Excess withheld, returned or applied; s. 248(1), "balance-due day".

Information Circulars: IC 98-1R3 Collections policies.

SECTION 157:

► 157(1) ◄

(1) Payment by corporation. Subject to subsections (1.1) and (1.5), every corporation shall, in respect of each of its taxation years, pay to the Receiver General

(*a*) either

(i) on or before the last day of each month in the year, an amount equal to 1/12 of the total of the amounts estimated by it to be the taxes payable by it under this Part and Parts VI, VI.1 and XIII.1 for the year,

(ii) on or before the last day of each month in the year, an amount equal to 1/12 of its first instalment base for the year, or

(iii) on or before the last day of each of the first two months in the year, an amount equal to 1/12 of its second instalment base for the year, and on or before the last day of each of the following months in the year, an amount equal to 1/10 of the amount remaining after deducting the amount computed pursuant to this subparagraph in respect of the first two months from its first instalment base for the year; and

(*b*) the remainder of the taxes payable by it under this Part and Parts VI, VI.1 and XIII.1 for the year on or before its balance-due day for the year.

History: S. 157(1), the portion before subparagraph (*a*)(ii) was replaced by S.C. 2007, c. 35, s. 51(1), applicable to taxation years that begin after 2007. S. 157(1), the portion before subparagraph (*a*)(ii) formerly read:

"S. 157. (1) *Payment by corporations.* Every corporation shall, in respect of each of its taxation years, pay to the Receiver General

(*a*) either

(i) on or before the last day of each month in the year, an amount equal to 1/12 of the total of the amounts estimated by it to be the taxes payable by it under this Part and Parts I.3, VI, VI.1 and XIII.1 for the year,"

S. 157(1)(*b*) was replaced by S.C. 2007, c. 35, s. 51(2), applicable to taxation years that begin after 2007. S. 157(1)(*b*) formerly read:

"(*b*) the remainder of the taxes payable by it under this Part and Parts I.3, VI, VI.1 and XIII.1 for the year on or before its balance-due day for the year."

S. 157(1)(*b*) was amended by S.C. 2002, c. 9, s. 41(1), applicable to taxation years that end after 2001. S. 157(1)(*b*) formerly read:

"(*b*) the remainder of the taxes payable by it under this Part and Parts I.3, VI, VI.1 and XIII.1 for the year

(i) on or before the end of the third month following the end of the year, where

(A) an amount was deducted by virtue of section 125 in computing the tax payable under this Part by the corporation for the year or its immediately preceding taxation year,

(B) the corporation is, throughout the year, a Canadian-controlled private corporation,

(C) a particular calendar year immediately preceded the calendar year in which the year ends, and

(D) either

(I) the corporation is not associated with another corporation in the taxation year and its taxable income for its immediately preceding taxation year (determined before taking into consideration the specified future tax consequences for that preceding year) does not exceed its business limit for that preceding year, or

(II) where the corporation is associated with another corporation in the taxation year, the total of all amounts each of which is the taxable income of the corporation or such an associated corporation for its last taxation year that ended in the particular calendar year (determined before taking into consideration the specified future tax consequences for that last year) does not exceed the total of all amounts each of which is the business limit of the corporation or such an associated corporation for that last year, or

(ii) on or before the end of the second month following the end of the year, in any other case."

S. 157(1)(*a*)(i) was amended by S.C. 2001, c. 17, s. 153(1), applicable to the 2001 and subsequent taxation years. S. 157(1)(*a*)(i) formerly read:

"(i) on or before the last day of each month in the year, an amount equal to 1/12 of the total of the amounts estimated by it to be the taxes payable by it under this Part and Parts I.3, VI and VI.1 for the year,"

S. 157(1)(*b*), the portion before subparagraph (i) was amended by S.C. 2001, c. 17, s. 153(2), applicable to the 2001 and subsequent taxation years. S. 157(1)(*b*), the portion before subparagraph (i) formerly read:

"(*b*) the remainder of the taxes payable by it under this Part and Parts I.3, VI and VI.1 for the year"

S. 157(1)(*b*)(i)(B) was amended, and clauses (C) and (D) were added, by S.C. 1997, c. 25, s. 49(1), applicable to amounts that become payable after 1995, except that, for taxation years that end before 1998, subclause 157(1)(*b*)(i)(D)(II) shall be read as follows:

"(II) where the corporation is associated with another corporation in the year,

1. the total of the taxable income of the corporation for its immediately preceding taxation year (determined before taking into consideration the specified future tax consequences for that preceding year) and the total of the taxable incomes of all such associated corporations for their taxation years that ended in the particular calendar year (determined before taking into consideration the specified future tax consequences for those years)

does not exceed

2. the total of the business limit of the corporation for its immediately preceding taxation year and the total of the business limits of all such associated corporations for their taxation years that ended in the particular calendar year, or"

Clause 157(1)(*b*)(i)(B) formerly read:

"(B) the corporation is, throughout the year, a Canadian-controlled private corporation whose taxable income for the immediately preceding taxation year together with the taxable incomes of all corporations with which it was associated in the year for their taxation years ending in the calendar year immediately preceding the calendar year in which the taxation year of the corporation ended does not exceed the total of the business limits (as determined under section 125) of the corporation and the associated corporations for those preceding years, or"

S. 157(1)(*a*)(i) was amended by S.C. 1994, c. 7, Sched. VIII, s. 94(1), applicable to the 1992 and subsequent taxation years. S. 157(1)(*a*)(i) formerly read:

"(i) on or before the last day of each month in the year, an amount equal to 1/12 of the total of the amounts estimated by it to be the taxes payable under this Part and Part VI.1 by it for the year,"

S. 157(1)(*b*), that portion preceding subparagraph (i), was amended by S.C. 1994, c. 7, Sched. VIII, s. 94(2), applicable to the 1992 and subsequent taxation years. That portion of s. 157(1)(*b*) preceding subparagraph (i) formerly read:

"(*b*) the remainder of the taxes payable by it under this Part and Part VI.1 for the year"

Related Sections: S. 87(2)(*oo*) Investment tax credit; s. 88(1) Winding-up; s. 137(7) Credit union not private corporation; s. 151 Estimate of tax; s. 161(2) Interest on instalments; s. 248(1), "specified future tax consequences"; s. 249 Definition of "taxation year".

Guides: T7B-CORP Corporation Installment Guide.

Canadian Tax Foundation: Feltham and Macnaughton, "Optimal Payment Strategy for Corporate Income Tax Instalments", *2000 Canadian Tax Journal*, No. 1, 60.

Cases: Where the previous year's income was reassessed by the Minister as being higher than originally computed by the corporation, interest was held to have been properly assessed on the deficient instalments which had been based on the incorrect lower figure of the previous year's income *No. 384 v. M.N.R.*, 57 DTC 67 (T.A.B.).

► 157(1.1) ◄

(1.1) Special case. A small-CCPC may, in respect of each of its taxation years, pay to the Receiver General

(*a*) one of the following:

(i) on or before the last day of each three-month period in the taxation year (or if the period that remains in a taxation year after the end of the last such three-month period is less than three months, on or before the last day of that remaining period), an amount equal to 1/4 of the total of the amounts estimated by it to be the taxes payable by it under this Part and Part VI.1 for the taxation year,

(ii) on or before the last day of each three-month period in the taxation year (or if the period that remains in a taxation year after the end of the last such three-month period is less than three months, on or before the last day of that remaining period), an amount equal to 1/4 of its first instalment base for the taxation year, or

(iii) on or before the last day

(A) of the first period in the taxation year not exceeding three months, an amount equal to 1/4 of its second instalment base for the taxation year, and

(B) of each of the following three-month periods in the taxation year (or if the period that remains in a taxation year after the end of the last such three-month period is less than three months, on or before the last day of that remaining period), an amount equal to 1/3 of the amount remaining after deducting the amount computed pursuant to clause (A) from its first instalment base for the taxation year; and

(*b*) the remainder of the taxes payable by it under this Part and Part VI.1 for the taxation year on or before its balance-due day for the taxation year.

History: S. 157(1.1) was added by S.C. 2007, c. 35, s. 51(3), applicable to taxation years that begin after 2007.

► 157(1.2) ◄

(1.2) Small-CCPC. For the purpose of subsection (1.1), a small-CCPC, at a particular time during a taxation year, is a Canadian-controlled private corporation

(*a*) for which the amount determined under subsection (1.3) for the taxation year, or for the preceding taxation year, does not exceed $500,000;

(*b*) for which the amount determined under subsection (1.4) for the taxation year, or for the preceding taxation year, does not exceed $10 million;

(*c*) in respect of which an amount is deducted under section 125 of the Act in computing the corporation's tax payable for the taxation year or for the preceding taxation year; and

(*d*) that has throughout the 12-month period that ends at the time its last remittance under this section is due,

(i) remitted, on or before the day on or before which the amounts were required to be remitted, all amounts that were required to be remitted under subsection 153(1), under Part IX of the *Excise Tax Act*, under subsection 82(1) of the *Employment Insurance Act* or under subsection 21(1) of the *Canada Pension Plan*; and

(ii) filed, on or before the day on or before which the returns were required to be filed, all returns that were required to be filed under this Act or under Part IX of the *Excise Tax Act*.

History: S. 157(1.2)(*a*) was replaced by S.C. 2009, c. 2, s. 59(1), applicable to taxation years ending after 2008, except that for taxation years that end in 2009, paragraph 157(1.2)(*a*) shall be read as follows:

"(*a*) for which

(i) the amount determined under subsection (1.3) for the taxation year does not exceed the amount that is the total of $400,000 and that proportion of $100,000 that the number of days in the taxation year that are in 2009 is of the number of days in the taxation year, or

(ii) the amount determined under subsection (1.3) for the preceding taxation year does not exceed $400,000;"

S. 157(1.2)(*a*) formerly read:

"(*a*) for which the amount determined under subsection (1.3) for the taxation year, or for the preceding taxation year, does not exceed $400,000;"

S. 157(1.2) was added by S.C. 2007, c. 35, s. 51(3), applicable to taxation years that begin after 2007.

► 157(1.3) ◄

(1.3) Taxable income — small-CCPC. The amount determined under this subsection in respect of a corporation for a particular taxation year is

(*a*) if the corporation is not associated with another corporation in the particular taxation year, the amount that is the corporation's taxable income for the particular taxation year; or

(*b*) if the corporation is associated with another corporation in the particular taxation year, the amount that is the total of all amounts each of which is the taxable income of the corporation for the particular taxation year or the taxable income of a corporation with which it is associated in the particular taxation year for a taxation year of that other corporation that ends in the particular taxation year.

History: S. 157(1.3) was added by S.C. 2007, c. 35, s. 51(3), applicable to taxation years that begin after 2007.

► 157(1.4) ◄

(1.4) Taxable capital — small-CCPC. The amount determined under this subsection in respect of a corporation for a particular taxation year is

(*a*) if the corporation is not associated with another corporation in the particular taxation year, the amount that is the corporation's taxable capital employed in Canada (within the meaning assigned by section 181.2) for the particular taxation year; or

(*b*) if the corporation is associated with another corporation in the particular taxation year, the amount that is the total of all amounts each of which is the taxable capital employed in Canada (within the meaning assigned by section 181.2) of the corporation for the particular taxation year or the taxable capital employed in Canada (within the meaning assigned by section 181.2) of a corporation with which it is associated in the particular taxation year for a taxation year of that other corporation that ends in the particular taxation year.

History: S. 157(1.4) was added by S.C. 2007, c. 35, s. 51(3), applicable to taxation years that begin after 2007.

► 157(1.5) ◄

(1.5) No longer a small-CCPC. Notwithstanding subsection (1), where a corporation, that has remitted amounts in accordance with subsection (1.1), ceases at any particular time in a taxation year to be eligible to remit in accordance with subsection (1.1), the corporation shall pay to the Receiver General, the following amounts for the taxation year,

(*a*) on or before the last day of each month, in the taxation year, that ends after the particular time, either

(i) the amount determined by the formula

$$(A - B)/C$$

where

A is the total of the amounts estimated by the corporation to be the taxes payable by it under this Part and Parts VI, VI.1 and XIII.1 for the taxation year,

B is the total of all payments payable by the corporation in the taxation year in accordance with subsection (1.1), and

C is the number of months that end in the taxation year and after the particular time, or

(ii) the total of

(A) the amount determined by the formula

$$(A - B)/C$$

where

A is the corporation's first instalment base for the taxation year,

B is the total of all payments payable by the corporation in the taxation year in accordance with subsection (1.1), and

C is the number of months that end in the taxation year and after the particular time; and

(B) the amount obtained when the estimated tax payable by the corporation, if any, under Part VI and XIII.1 for the taxation year is divided by the number of months that end in the taxation year and after the particular time; and

(*b*) the remainder of the taxes payable by it under this Part and Parts VI, VI.1 and XIII.1 for the taxation year on or before its balance-due date for the taxation year.

History: S. 157(1.5) was added by S.C. 2007, c. 35, s. 51(3), applicable to taxation years that begin after 2007.

► 157(2) ◄

(2) Special case. [Repealed by S.C. 2003, c. 15, s. 115(1).]

History: S. 157(2) was repealed by S.C. 2003, c. 15, s. 115(1), applicable to taxation years that begin after June 2003. S. 157(2) formerly read:

"(2) *Special case.* Where in a taxation year a corporation

(*a*) has held out the prospect that it will make allocations in proportion to patronage as described in section 135, or

(*b*) is a credit union,

and for the year or the preceding taxation year

(*c*) its taxable income (determined before taking into consideration the specified future tax consequences for the year or that preceding year, as the case may be) was not more than $10,000, and

(*d*) no tax was payable by it under any of Parts I.3, VI and VI.1 (determined before taking into consideration the specified future tax consequences for the year or that preceding year, as the case may be),

it may, instead of paying the instalments required by subsection (1), pay to the Receiver General at the end of the third month following the end of the year the total of the taxes payable by it under this Part and Parts I.3, VI and VI.1 for the year."

S. 157(2), the portion before paragraph (*c*) was amended by S.C. 1998, c. 19, s. 184(1), applicable to taxation years that end after February 22, 1994. S. 157(2), the portion before paragraph (*c*) formerly read:

"(2) *Special case.* Where a corporation

(*a*) has held out the prospect that it will make allocations in proportion to patronage to its customers of a taxation year as described by section 135, or

(*b*) is a credit union,

and for the year or the immediately preceding taxation year"

S. 157(2)(*c*) and (*d*) were amended by S.C. 1997, c. 25, s. 49(2), applicable to amounts that become payable after 1995. Those paragraphs formerly read:

"(*c*) its taxable income was not more than $10,000, and

(*d*) no tax was payable by it under any of Parts I.3, VI and VI.1,"

S. 157(2), that portion following paragraph (*c*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 94(3), applicable to the 1992 and subsequent taxation years. That portion of s. 157(2) following paragraph (*c*) formerly read:

"(*d*) no tax was payable by it under Part VI.1,

it may, instead of paying the instalments required by subsection (1), pay to the Receiver General at the end of the third month following the end of the year the total of the taxes payable by it under this Part and Part VI.1 for the year."

Related Sections: S. 151 Estimate of tax; s. 161(3) Special case.

► 157(2.1) ◄

(2.1) $3,000 threshold. A corporation may, instead of paying the instalments required for a taxation year by paragraph (1)(*a*) or by subsection (1.1), pay to the Receiver General, under paragraph (1)(*b*), the total of the taxes payable by it under this Part and Parts VI, VI.1 and XIII.1 for the taxation year, if

(*a*) the total of the taxes payable under this Part and Parts VI, VI.1 and XIII.1 by the corporation for the taxation year (determined before taking into consideration the specified future tax consequences for the year) is equal to or less than $3,000; or

(*b*) the corporation's first instalment base for the year is equal to or less than $3,000.

History: S. 157(2.1) was replaced by S.C. 2007, c. 35, s. 51(4), applicable to taxation years that begin after 2007. S. 157(2.1) formerly read:

"(2.1) *$1,000 threshold.* Where

(*a*) the total of the taxes payable under this Part and Parts I.3, VI, VI.1 and XIII.1 by a corporation for a taxation year (determined before taking into consideration the specified future tax consequences for the year), or

(*b*) the corporation's first instalment base for the year,

is not more than $1,000, the corporation may, instead of paying the instalments required for the year by paragraph (1)(*a*), pay to the Receiver General, under paragraph (1)(*b*), the total of the taxes payable by it under this Part and Parts I.3, VI, VI.1 and XIII.1 for the year."

S. 157(2.1) was amended by S.C. 2001, c. 17, s. 153(3), applicable to the 2001 and subsequent taxation years. S. 157(2.1) formerly read:

"(2.1) *Idem.* Where

(*a*) the total of the taxes payable under this Part and Parts I.3, VI and VI.1 by a corporation for a taxation year (determined before taking into consideration the specified future tax consequences for the year), or

(*b*) the corporation's first instalment base for the year

is not more than $1,000, the corporation may, instead of paying the instalments required for the year by paragraph (1)(*a*), pay to the Receiver General, under paragraph (1)(*b*), the total of the taxes payable by it under this Part and Parts I.3, VI and VI.1 for the year."

S. 157(2.1)(*a*) was amended by S.C. 1997, c. 25, s. 49(3), applicable to amounts that become payable after 1995. S. 157(2.1)(*a*) formerly read:

"(*a*) the total of the taxes payable (before taking into consideration any amount referred to in any of subparagraphs 161(7)(*a*)(ii) to (x) that was excluded or deducted, as the case may be) under this Part and Parts I.3, VI and VI.1 by a corporation for a taxation year, or"

S. 157(2.1) was amended by S.C. 1994, c. 7, Sched. VIII, s. 94(4), applicable to the 1992 and subsequent taxation years to substitute "161(7)(*a*)(ii) to (x)" for "161(7)(*a*)(ii) to (viii)" and "this Part and Parts I.3, VI, and VI.1" for "this Part and Part VI.1".

S. 157(2.1)(*a*) was amended by S.C. 1994, c. 7, Sched. VI, s. 7(1), to substitute "161(7)(*a*)(ii) to (viii)" for "161(7)(*a*)(ii) to (vii)", applicable to the 1992 and subsequent taxation years.

S. 157(2.1)(*a*) was amended by S.C. 1994, c. 7, Sched. II, s. 130(1), applicable to the 1990 and subsequent taxation years; and with respect to amounts referred to in paragraph 161(7)(*a*) in respect of subsequent taxation years referred to in that paragraph ending after 1989. S. 157(2.1)(*a*) formerly read:

"(*a*) the aggregate of the taxes payable under this Part, Part I.3 and Part VI.1 by a corporation for a taxation year, or"

Regulations: 5301.

► 157(3) ◄

(3) Reduced instalments. Notwithstanding subsection (1) and (1.5), the amount payable under subsection (1) or (1.5) for a taxation year by a corporation to the Receiver

General on or before the last day of any month in the year is deemed to be the amount, if any, by which

(*a*) the amount so payable as determined under that subsection for the month

exceeds

(*b*) where the corporation is neither a mutual fund corporation nor a non-resident-owned investment corporation, 1/12 of the corporation's dividend refund (within the meaning assigned by subsection 129(1)) for the year,

(*c*) where the corporation is a mutual fund corporation, 1/12 of the total of

(i) the corporation's capital gains refund (within the meaning assigned by section 131) for the year, and

(ii) the amount that, by virtue of subsection 131(5), is the corporation's dividend refund (within the meaning assigned by section 129) for the year,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 157(3)(*c*) of the Act is replaced by the following:

(*c*) if the corporation is a mutual fund corporation, 1/12 of the total of

(i) the corporation's capital gains refund (within the meaning assigned by section 131) for the year, and

(ii) the amount that, because of subsection 131(5) or, where the corporation is a prescribed labour-sponsored venture capital corporation, because of subsection 131(11), is the corporation's dividend refund (within the meaning assigned by section 129) for the year,

Applicable: To the 1999 and subsequent taxation years.

Explanatory Note: Section 157 of the Act requires a corporation to pay monthly instalments of its total tax payable under Parts I, I.3, VI, VI.1 and XIII.1 of the Act. Subsection 157(3) allows corporations to reduce each monthly instalment by 1/12 of the amount of certain tax refunds, including the "dividend refund" under section 129 of the Act. For most mutual fund corporations, the dividend refund amount is computed according to rules set out in subsection 131(5) of the Act. Paragraph 157(3)(*c*), which allows a mutual fund corporation to apply its dividend refund to reduce its instalments, therefore refers to subsection 131(5). However, prescribed labour-sponsored venture capital corporations (LSVCCs), which are by definition mutual fund corporations, do not use subsection 131(5) to compute their dividend refunds — instead, they use special rules in subsection 131(11) of the Act. To ensure that subsection 157(3) applies appropriately to LSVCCs, this amendment adds to paragraph 157(3)(*c*) a reference to subsection 131(11). The amendment applies for the 1999 and subsequent taxation years.

(*d*) where the corporation is a non-resident-owned investment corporation, 1/12 of the corporation's allowable refund (within the meaning assigned by section 133) for the year, and

(*e*) 1/12 of the total of the amounts each of which is deemed by subsection 125.4(3), 125.5(3), 127.1(1) or 127.41(3) to have been paid on account of the corporation's tax payable under this Part for the year.

History: S. 157(3), the portion before paragraph (*a*) was replaced by S.C. 2007, c. 35, s. 51(5), applicable to taxation years that begin after 2007. S. 157(3), the portion before paragraph (*a*) formerly read:

"(3) *Private, mutual fund and non-resident-owned investment corporations.* Notwithstanding subsection (1), the amount payable for a taxation year by a corporation to the Receiver General on or before the last day of any month in the year shall be deemed to be the amount, if any, by which"

S. 157(3)(*e*) was amended by S.C. 1998, c. 19, s. 184(2), applicable to taxation years that end after February 22, 1994 except that,

(*a*) for taxation years that ended before 1995, paragraph 157(3)(*e*) of the Act shall be read without reference to subsection 125.4(3) of the Act; and

(*b*) for taxation years that ended before November 1997, paragraph 157(3)(*e*) of the Act shall be read without reference to subsection 125.5(3) of the Act. S. 157(3)(*e*) formerly read:

"(*e*) 1/12 of the total of all amounts each of which is an amount deemed by subsection 125.4(3) or 127.41(3) to have been paid on account of the corporation's tax payable under this Part for the year."

S. 157(3)(*e*) was amended by S.C. 1996, c. 21, s. 41(1), applicable to the 1995 and subsequent taxation years. S. 157(3)(*e*) formerly read:

"(*e*) 1/12 of the amount deemed by subsection 127.41(3) to have been paid on account of the corporation's tax payable under this Part for the year."

S. 157(3)(*e*) was added by S.C. 1995, c 3, s. 47(1), applicable to taxation years that end after February 22, 1994.

S. 157(3)(*b*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 94(5), applicable to the 1993 and subsequent taxation years. S. 157(3)(*b*) formerly read:

"(*b*) where the corporation is a private corporation, 1/12 of the corporation's dividend refund (within the meaning assigned by section 129) for the year,"

Related Sections: S. 131(8) Meaning of "mutual fund corporation"; s. 133(8), "non-resident owned investment corporation".

► 157(3.1) ◄

(3.1) Amount of payment — three-month period. Notwithstanding subsection (1.1), the amount payable under subsection (1.1) for a taxation year by a corporation to the Receiver General on or before the last day of any period in the year is deemed to be the amount, if any, by which

(*a*) the amount so payable as determined under that subsection for the period

exceeds the total of

(*b*) 1/4 of the corporation's dividend refund (within the meaning assigned by subsection 129(1)) for the taxation year, and

(*c*) 1/4 of the total of the amounts each of which is deemed by subsection 125.4(3), 125.5(3), 127.1(1) or 127.41(3) to have been paid on account of the corporation's tax payable under this Part for the taxation year.

History: S. 157(3.1) was added by S.C. 2007, c. 35, s. 51(6), applicable to taxation years that begin after 2007.

► 157(4) ◄

(4) Definitions. In this section, "first instalment base" and "second instalment base" of a corporation for a taxation year have the meanings prescribed by regulation.

Regulations: 5301.

SECTION 157.1:

► 157.1(1) ◄

(1) Instalment deferral for January, February and March 2002 — definitions. The following definitions apply in this section.

"*eligible corporation*" "eligible corporation", for a particular taxation year, means a corporation

(*a*) that is resident in Canada throughout the particular taxation year; and

(*b*) of which the taxable capital employed in Canada, within the meaning assigned by Part I.3, for its preceding taxation year did not exceed,

(i) if the corporation is not associated with any other corporation in the particular taxation year, $15 million, and

(ii) if the corporation is associated with one or more other corporations in the particular taxation year, the amount by which $15 million exceeds the total of the taxable capital employed in Canada, within the meaning assigned by Part I.3, of those other corporations for their last taxation years that ended in the last calendar year that ended before the end of the particular taxation year.

History: S. 157.1(1), the definition "eligible corporation" was added by S.C. 2002, c. 9, s. 42(1), applicable to taxation years that end after 2001.

"eligible instalment day" — "eligible instalment day" of an eligible corporation means a day in January, February or March, 2002, on which an instalment on account of the corporation's tax payable under this Part for the taxation year that includes that day would become payable

(*a*) if this Act were read without reference to this section; and

(*b*) if, in the case of a corporation that is not required by section 157 to make instalment payments on account of its tax payable under this Part for the taxation year, it were so required.

History: S. 157.1(1), the definition "eligible instalment day" was added by S.C. 2002, c. 9, s. 42(1), applicable to taxation years that end after 2001.

► 157.1(2) ◄

(2) Deferred balance-due day. An eligible corporation's balance-due day for a taxation year that ends after 2001 is deemed to be the later of

(*a*) the day that would otherwise be the corporation's balance-due day for the taxation year, and

(*b*) the day that is six months after the corporation's last eligible instalment day in the taxation year.

History: S. 157.1(2) was added by S.C. 2002, c. 9, s. 42(1), applicable to taxation years that end after 2001.

Related Sections: S. 157(1) Payment by corporations; s. 248(1), "balance-due day".

► 157.1(3) ◄

(3) Deferred instalment day. An amount that would, because of paragraph 157(1)(*a*), otherwise become payable in respect of a taxation year by an eligible corporation on an eligible instalment day of the corporation does not become payable on that day but becomes payable

(*a*) if the particular day that is six months after the eligible instalment day is in the taxation year, on the particular day; and

(*b*) in any other case, on the day that is deemed by subsection (2) to be the corporation's balance-due day for the taxation year.

History: S. 157.1(3) was added by S.C. 2002, c. 9, s. 42(1), applicable to taxation years that end after 2001.

Related Sections: S. 157(1) Payment by corporations; s. 248(1), "balance-due day".

SECTION 158: Payment of remainder.

Where the Minister mails a notice of assessment of any amount payable by a taxpayer, that part of the amount assessed then remaining unpaid is payable forthwith by the taxpayer to the Receiver General.

Related Sections: S. 164(4) Interest on interest repaid; s. 187(3) Provisions applicable to Part; s. 189(3) Share deemed to be debt; s. 202(3) Provisions applicable to Part; s. 207(3) Multiple holders; s. 207.2(3) Provisions applicable to Part; s. 219(3) Provisions applicable to Part; s. 220(4) Security; s. 223–225; s. 248(1), "assessment".

Information Circulars: IC 98-1R3 Collections policies.

SECTION 159:

► 159(1) ◄

(1) Person acting for another. For the purposes of this Act, where a person is a legal representative of a taxpayer at any time,

(*a*) the legal representative is jointly and severally liable with the taxpayer

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of paragraph 159(1)(*a*) of the English version of the Act before subparagraph (i) is replaced by the following:

(*a*) the legal representative is jointly and severally, or solidarily, liable with the taxpayer

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(i) to pay each amount payable under this Act by the taxpayer at or before that time and that remains unpaid, to the extent that the legal representative is at that time in possession or control, in the capacity of legal representative, of property that belongs or belonged to, or that is or was held for the benefit of, the taxpayer or the taxpayer's estate, and

(ii) to perform any obligation or duty imposed under this Act on the taxpayer at or before that time and that remains outstanding, to the extent that the obligation or duty can reasonably be considered to relate to the responsibilities of the legal representative acting in that capacity; and

(*b*) any action or proceeding in respect of the taxpayer taken under this Act at or after that time by the Minister may be so taken in the name of the legal representative acting in that capacity and, when so taken, has the same effect as if it had been taken directly against the taxpayer and, if the taxpayer no longer exists, as if the taxpayer continued to exist.

History: S. 159(1) was amended by S.C. 1998, c. 19, s. 185, applicable on Royal Assent, June 18, 1998. S. 159(1) formerly read:

"S. 159. *Payment on behalf of others.*

(1) Where the Minister mails to a person required by section 150 to file a return of the income of a taxpayer for a taxation year a notice of assessment of any amount payable for the year by or in respect of the taxpayer, that part of the amount assessed then remaining unpaid is payable forthwith by the person to the Receiver General to the extent that the person has or had, at any time after the end of the taxation year, in his or her possession or control property belonging to the taxpayer or the taxpayer's estate and on payment thereof the person shall be deemed to have made the payment on behalf of the taxpayer."

Editorial Note: In general terms, subsection 159(1) provides that the legal representative of a taxpayer is jointly and severally liable with the taxpayer to pay amounts owing by the taxpayer under the Act, to the extent that the legal representative has possession or control of the taxpayer's property. If the representative distributes any such property without obtaining a certificate under subsection 159(2) in respect of the taxpayer's amounts owing under the Act, the representative will be personally liable to pay such amounts under subsection 159(3) to the extent of the value of the distributed property.

Related Sections: S. 248(1), "legal representative".

► 159(2) ◄

(2) Certificate before distribution. Every legal representative (other than a trustee in bankruptcy) of a taxpayer shall, before distributing to one or more persons any property in the possession or control of the legal representative acting in that capacity, obtain a certificate from the Minister, by applying for one in prescribed form, certifying that all amounts

(*a*) for which the taxpayer is or can reasonably be expected to become liable under this Act at or before the time the distribution is made, and

(*b*) for the payment of which the legal representative is or can reasonably be expected to become liable in that capacity

have been paid or that security for the payment thereof has been accepted by the Minister.

History: S. 159(2) was amended by S.C. 1998, c. 19, s. 185, applicable on Royal Assent, June 18, 1998. S. 159(2) formerly read:

"(2) *Certificate before distribution.* Every person (other than a trustee in bankruptcy) who is an assignee, liquidator, receiver, receiver-manager, administrator, executor or any other like person (in this section referred to as the 'responsible representative') administering, winding up, controlling or otherwise dealing with a property, business or estate of another person shall, before distributing to one or more persons any property over which the responsible representative has control in the capacity of the responsible representative, obtain a certificate from the Minister, by applying therefor in prescribed form, certifying that all amounts

(*a*) for which any taxpayer is liable under this Act in respect of the taxation year in which the distribution is made, or any preceding taxation year, and

(*b*) for the payment of which the responsible representative is or can reasonably be expected to become liable in that capacity

have been paid or that security for the payment thereof has been accepted by the Minister."

S. 159(2), that portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 131(1), applicable to applications made after December 17, 1991. That portion of s. 159(2) preceding paragraph (*a*) formerly read:

"(2) Every person (other than a trustee in bankruptcy) who is an assignee, liquidator, receiver, receiver-manager, administrator, executor, or any other like person (in this section referred to as the 'responsible representative'), administering, winding-up, controlling or otherwise dealing with a property, business or estate of another person, before distributing to one or more persons any property over which the responsible representative has control in that capacity, shall obtain a certificate from the Minister certifying that all amounts"

Editorial Note: See the editorial note under subsection 159(1).

Related Sections: S. 248(1), "legal representative".
Interpretation Bulletins: *Secondary* — IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].
Information Circulars: IC 82-6R6 Clearance certificate.
Forms: TX19.
Cases: The issuance of a clearance certificate does not preclude the Minister from seeking to recover any unpaid tax from an estate or its beneficiaries. It merely relieves the personal representatives of the estate from personal liability for such tax. *Bougie et al. v. The Queen*, 90 DTC 6387 (F.C.T.D.).

► 159(3) ◄

(3) Personal liability. Where a legal representative (other than a trustee in bankruptcy) of a taxpayer distributes to one or more persons property in the possession or control of the legal representative, acting in that capacity, without obtaining a certificate under subsection (2) in respect of the amounts referred to in that subsection, the legal representative is personally liable for the payment of those amounts to the extent of the value of the property distributed, and the Minister may at any time assess the legal representative in respect of any amount payable because of this subsection, and the provisions of this Division apply, with any modifications that the circumstances require, to an assessment made under this subsection as though it had been made under section 152.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 159(3) of the Act is replaced by the following:

(3) Personal liability. If a legal representative (other than a trustee in bankruptcy) of a taxpayer distributes to one or more persons property in the possession or control of the legal representative, acting in that capacity, without obtaining a certificate under subsection (2) in respect of the amounts referred to in that subsection,

(*a*) the legal representative is personally liable for the payment of those amounts to the extent of the value of the property distributed;

(*b*) the Minister may at any time assess the legal representative in respect of any amount payable because of this subsection; and

(*c*) the provisions of this Division (including, for greater certainty, the provisions in respect of interest payable) apply, with any modifications that the circumstances require, to an assessment made under this subsection as though it had been made under section 152 in respect of taxes payable under this Part.

Applicable: To assessments made after December 20, 2002.

Explanatory Note: Subsection 159(1) of the Act provides, in part, that a legal representative acting for another person is jointly and severally liable for each amount payable by the other person under the Act, to the extent that the representative has possession and control of the other person's assets. If the representative distributes assets of the other person before obtaining a certificate from the Minister of National Revenue that the other person's tax debts have been paid, the Minister may, under subsection 159(3) of the Act, assess the representative for the amount of the debt.

Subsection 159(3) is amended to clarify that a legal representative so assessed after December 20, 2002 is subject to interest on the assessment without any limit on the amount of interest for which the representative may be liable.

History: S. 159(3) was amended by S.C. 1998, c. 19, s. 185, applicable on Royal Assent, June 18, 1998. S. 159(3) formerly read:

"(3) *Personal liability.* Where a responsible representative distributes to one or more persons property over which the responsible representative has control in that capacity without obtaining a certificate under subsection (2) in respect of the amounts referred to in that subsection, the responsible representative is personally liable for the payment of those amounts to the extent of the value of the property distributed and the Minister may assess the responsible representative therefor in the same manner and with the same effect as an assessment made under section 152."

Editorial Note: See the editorial note under subsection 159(1).

Related Sections: S. 248(1), "legal representative".
Interpretation Bulletins: *Secondary* — IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].
Information Circulars: IC 98-1R3 Collections policies.

► 159(3.1) ◄

(3.1) Appropriation of property. For the purposes of subsections (2) and (3), an appropriation by a legal representative of a taxpayer of property in the possession or control of the legal representative acting in that capacity is deemed to be a distribution of the property to a person.

History: S. 159(3.1) was added by S.C. 1998, c. 19, s. 185, applicable on Royal Assent, June 18, 1998.

Related Sections: S. 248(1), "legal representative".

► 159(4) ◄

(4) Election on emigration. [Repealed by S.C. 2001, c. 17, s. 154(1).]

History: S. 159(4) was repealed by S.C. 2001, c. 17, s. 154(1), applicable to individuals who cease to be resident in Canada after October 1, 1996. S. 159(4) formerly read:

"(4) *Election on emigration.* Where an individual to whom subsection 128.1(4) applies

(*a*) so elects in prescribed manner on or before the individual's balance-due day for the taxation year in which the individual ceased to be resident in Canada, and

(*b*) furnishes to the Minister security acceptable to the Minister for payment of any tax under this Act the payment of which is deferred by the election,

all or any portion of such part of that tax as is equal to the amount, if any, by which that tax exceeds the amount that would be that tax if this Act were read without reference to subsection 128.1(4) may, subject to subsection (4.1), be paid in such number of equal annual instalments as is specified in the election by the individual."

S. 159(4) was amended by S.C. 1994, c. 21, s. 78(1), applicable to changes in residence occurring after 1992. S. 159(4) formerly read:

"(4) *Election where s. 48(1) applicable.* Where subsection 48(1) is applicable in respect of a taxpayer who has ceased to be resident in Canada in a taxation year, and the taxpayer so elects and furnishes the Minister with security acceptable to the Minister for payment of any tax the payment of which is deferred by the election, notwithstanding any provision of this Part respecting the time within which payment shall be made of the tax payable under this Part by the taxpayer for the year, all or any portion of such part of that tax as is equal to the amount, if any, by which that tax exceeds the amount that that tax would be, if this Act were read without reference to subsection 48(1), may be paid in such number (not exceeding 6) of equal consecutive annual instalments as is specified by the taxpayer in the election, the first instalment of which shall be paid on or before the day on or before which payment of that tax would, but for the election, have been required to be made and each subsequent instalment of which shall be paid on or before the next following anniversary of that day."

Regulations: 1301.
Interpretation Bulletins: *Secondary* — IT-451R Deemed disposition and acquisition on ceasing to be or becoming resident in Canada.

► 159(4.1) ◄

(4.1) Idem. [Repealed by S.C. 2001, c. 17, s. 154(1).]

History: S. 159(4.1) was repealed by S.C. 2001, c. 17, s. 154(1), applicable to individuals who cease to be resident in Canada after October 1, 1996. S. 159(4.1) formerly read:

"(4.1) *Idem.* Where an individual to whom subsection 128.1(4) applies elects under subsection (4),

(*a*) the number of equal annual instalments provided in the election shall be deemed to be the lesser of 6 and such other number as is specified in the election by the individual;

(*b*) the first instalment shall be paid on or before the individual's balance-due day for the taxation year; and

(*c*) each subsequent instalment shall be paid on or before the next following anniversary of the day described in paragraph (*b*)."

S. 159(4.1) was added by S.C. 1994, c. 21, s. 78(1), applicable to changes in residence occurring after 1992.

► 159(5) ◄

(5) Election where certain provisions applicable. Where subsection 70(2), (5) or (5.2) of this Act or subsection 70(9.4) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, is applicable in respect of a taxpayer who has died, and the taxpayer's legal representative so elects and furnishes the Minister with security acceptable to the Minister for payment of any tax the payment of which is deferred by the election, notwithstanding any provision of this Part or the *Income Tax Application Rules* respecting the time within which payment shall be made of the tax payable under this Part by the taxpayer for the taxation year in which the taxpayer died, all or any portion of such part of that tax as is equal to the amount, if any, by which that tax exceeds the amount that that tax would be, if this Act were read without reference to subsections 70(2), (5) and (5.2) and the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, were read without reference to subsections 70(2), (5), (5.2) and (9.4) of that Act, may be paid in such number (not exceeding 10) of equal consecutive annual instalments as is specified by the legal representative in the election, the first instalment of which shall be paid on or before the day on or before which payment of that tax would, but for the election, have been required to be made and each subsequent instalment of which shall be paid on or before the next following anniversary of that day.

Regulations: 1001.
Forms: T2075.
Interpretation Bulletins: *Secondary* — IT-125R4 Disposition of resource properties; IT-212R3 Income of deceased persons — Rights or things; IT-278R2 Death of a partner or of a retired partner.

► 159(5.1) ◄

(5.1) Idem. Where, in the taxation year in which a taxpayer dies, an amount is included in computing the taxpayer's income by virtue of paragraph 23(3)(*c*) of the *Income Tax Application Rules*, the provisions of subsection (5) apply, with such modifications as the circumstances require, as though the amount were an amount included in computing the taxpayer's income for the year by virtue of subsection 70(2) or an amount deemed to have been received by the taxpayer by virtue of subsection 70(5).

Related Sections: S. 70(2) Amounts receivable; s. 70(5) Capital property of a deceased taxpayer; s. 159(5) Election where certain provisions applicable; ITAR s. 23(3) Rules applicable.
Interpretation Bulletins: *Secondary* — IT-212R3 Income of deceased persons — Rights or things; IT-278R2 Death of a partner or of a retired partner.

► 159(6) ◄

(6) Idem. For the purposes of subsection (5), the "tax payable under this Part" by a taxpayer for the taxation year in which the taxpayer died includes any tax payable under this Part by virtue of an election in respect of the taxpayer's death made by the taxpayer's legal representative under subsection 70(2) or under the provisions of that subsection as they are required to be read by virtue of the *Income Tax Application Rules*.

► 159(6.1) ◄

(6.1) Election where subsection 104(4) applicable. Where a time determined under paragraph 104(4)(*a*), (*a*.1), (*a*.2), (*a*.3), (*a*.4), (*b*) or (*c*) in respect of a trust occurs in a taxation year of the trust and the trust so elects and furnishes to the Minister security acceptable to the Minister for payment of any tax the payment of which is deferred by the election, notwithstanding any other provision of this Part respecting the time within which payment shall be made of the tax payable under this Part by the trust for the year, all or any portion of the part of that tax that is equal to the amount, if any, by which that tax exceeds the amount that that tax would be if this Act were read without reference to paragraph 104(4)(*a*), (*a*.1), (*a*.2), (*a*.3), (*a*.4), (*b*) or (*c*), as the case may be, may be paid in the number (not exceeding 10) of equal consecutive annual instalments that is specified by the trust in the election, the first instalment of which shall be paid on or before the day on or before which payment of that tax would, but for the election, have been required to be made and each subsequent instalment of which shall be paid on or before the next following anniversary of that day.

History: S. 159(6.1) was amended by S.C. 2001, c. 17, s. 154(2), applicable to the 2000 and subsequent taxation years. S. 159(6.1) formerly read:

"(6.1) *Election where subsection 104(4) applicable.* Where a day determined under paragraph 104(4)(*a*), (*a*.1), (*b*) or (*c*) in respect of a trust occurs in a taxation year of the trust and the trust so elects and furnishes to the Minister security acceptable to the Minister for payment of any tax the payment of which is deferred by the election, notwithstanding any other provision of this Part respecting the time within which payment shall be made of

the tax payable under this Part by the trust for the year, all or any portion of such part of that tax as is equal to the amount, if any, by which that tax exceeds the amount that that tax would be if this Act were read without reference to paragraph 104(4)(*a*), (*a*.1), (*b*) or (*c*), as the case may be, may be paid in such number (not exceeding 10) of equal consecutive annual instalments as is specified by the trust in the election, the first instalment of which shall be paid on or before the day on or before which payment of that tax would, but for the election, have been required to be made and each subsequent instalment of which shall be paid on or before the next following anniversary of that day."

S. 159(6.1) was added by S.C. 1994, c. 7, Sched. VIII, s. 95(1), applicable to the 1993 and subsequent taxation years.

Related Sections: S. 104(5.3) Election.
Forms: T2223.

► 159(7) ◄

(7) Form and manner of election and interest. Every election made by a taxpayer under subsection (4) or (6.1) or by the legal representative of a taxpayer under subsection (5) shall be made in prescribed form and on condition that, at the time of payment of any amount payment of which is deferred by the election, the taxpayer shall pay to the Receiver General interest on the amount at the prescribed rate in effect at the time the election was made, computed from the day on or before which the amount would, but for the election, have been required to be paid to the day of payment.

History: S. 159(7) was amended by S.C. 1994, c. 7, Sched. VIII, s. 95(1), applicable to the 1993 and subsequent taxation years to substitute "under subsection (4) or (6.1)" for "under subsection (4)" and to delete "and in prescribed manner" after "in prescribed form".

Related Sections: S. 104(1) Reference to trust or estate; s. 187(3) Provisions applicable to Part; s. 189(3) Share deemed to be debt; s. 219(3) Provisions applicable to Part; s. 248(1), "assessment", "property"; s. 248(11) Compound interest.
Regulations: 4301.

SECTION 160:

► 160(1) ◄

(1) Tax liability re property transferred not at arm's length. Where a person has, on or after May 1, 1951, transferred property, either directly or indirectly, by means of a trust or by any other means whatever, to

(*a*) the person's spouse or common-law partner or a person who has since become the person's spouse or common-law partner,

(*b*) a person who was under 18 years of age, or

(*c*) a person with whom the person was not dealing at arm's length,

the following rules apply:

(*d*) the transferee and transferor are jointly and severally liable to pay a part of the transferor's tax under this Part for each taxation year equal to the amount by which the tax for the year is greater than it would have been if it were not for the operation of sections 74.1 to 75.1 of this Act and section 74 of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, in respect of any income from, or gain from the disposition of, the property so transferred or property substituted therefor, and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 160(1)(*d*) of the English version of the Act is replaced by the following:

(*d*) the transferee and transferor are jointly and severally, or solidarily, liable to pay a part of the transferor's tax under this Part for each taxation year equal to the amount by which the tax for the year is greater than it would have been if it were not for the operation of sections 74.1 to 75.1 of this Act and section 74 of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, in respect of any income from, or gain from the disposition of, the property so transferred or property substituted therefor, and

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*e*) the transferee and transferor are jointly and severally liable to pay under this Act an amount equal to the lesser of

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of paragraph 160(1)(*e*) of the English version of the Act before subparagraph (i) is replaced by the following:

(*e*) the transferee and transferor are jointly and severally, or solidarily, liable to pay under this Act an amount equal to the lesser of

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(i) the amount, if any, by which the fair market value of the property at the time it was transferred exceeds the fair market value at that time of the consideration given for the property, and

(ii) the total of all amounts each of which is an amount that the transferor is liable to pay under this Act in or in respect of the taxation year in which the property was transferred or any preceding taxation year,

but nothing in this subsection shall be deemed to limit the liability of the transferor under any other provision of this Act.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 160(1) of the Act after subparagraph (*e*)(i) is replaced by the following:

(ii) the total of all amounts each of which is an amount that the transferor is liable to pay under this Act (including, for greater certainty, an amount that the transferor is liable to pay under this section, regardless of whether the Minister has made an assessment under

subsection (2) for that amount) in or in respect of the taxation year in which the property was transferred or any preceding taxation year,

but nothing in this subsection limits the liability of the transferor under any other provision of this Act or of the transferee for the interest that the transferee is liable to pay under this Act on an assessment in respect of the amount that the transferee is liable to pay because of this subsection.

Applicable: In respect of assessments made after December 20, 2002.

Explanatory Note: The amount that a taxpayer is liable to pay in respect of the transfer of property from a non-arm's length tax debtor is determined under subsection 160(1) of the Act. The Minister may assess the taxpayer for such a liability under subsection 160(2) of the Act. Paragraph 160(1)(*e*) is amended, in respect of assessments made after December 20, 2002, to clarify that the assessment of the taxpayer is subject to interest, without any limit on the amount of interest for which the taxpayer may be liable.

History: S. 160(1)(*a*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.26), applicable January 1, 2001, coming into force on July 31, 2000. S. 160(1)(*a*) formerly read:

"(*a*) the person's spouse or a person who has since become the person's spouse,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Editorial Note: There are two separate joint and several liability scenarios in subsection 160(1). The first, found in paragraph (*d*), relates to the transferor's tax payable in respect of post-transfer income from the transferred property owing to the application of the income attribution rules. The second, found in paragraph (*e*), relates to any of the transferor's tax payable in the year of transfer and preceding years to the extent of the value of the transferred property in excess of the value of any consideration received therefor.

Interpretation Bulletins: *Secondary*— IT-369R Attribution of trust income to settlor.

Information Circulars: IC 07-1 Taxpayer Relief Provisions; IC 98-1R3 Collections policies.

Tax Topics: No. 1880, The Effectiveness of Section 160: Darte v. Her Majesty the Queen, 2008 DTC 2567; No. 1702, Income Tax Issues To Be Considered in Negotiating Marriage Contracts.

Tax Profile: July 2007 — Canadian Tax Traps; July 2006 — Asset Protection Planning.

Canadian Tax Foundation: Sibson, "Revenue Canada's Long Collection Arm: Jeopardy Orders, Section 160 Assessments, and Directors Liability", *1998 Conference Report*, 26:1.

Cases: Judicial review is not available to challenge the length of the Minister's delay in issuing a s. 160 assessment since s. 160 provides that the Minister may assess "at any time". Furthermore, judicial review should not be used to circumvent the existing statutory appeal scheme. *The Queen et al. v. Addison & Leyen Ltd. et al.*, 2007 DTC 5368 (S.C.C.), reversing 2006 DTC 6248 (F.C.A.), reversing 2005 DTC 5212 (F.C.).

While he owed tax, the taxpayer's common-law partner made mortgage payments on the taxpayer's house. The taxpayer was not liable under s. 160(1) since the value of the consideration she provided (by allowing him to live in the house) exceeded the amount of the mortgage payments. *The Queen v. Ducharme*, 2005 DTC 5249 (F.C.A), affirming 2004 DTC 2807 (T.C.C.).

The taxpayer received dividends from a corporation that owed tax at the time but the s. 160(1) assessment against the taxpayer was vacated because there was an arm's length relationship between the two corporations at the time of payment. *Gestion Yvan Drouin Inc. v. The Queen*, 2001 DTC 72 (T.C.C.).

The taxpayer was permitted to challenge her s. 160 assessment on the basis that the reassessments of C (the primary taxpayer) were statute-barred. Although C's underlying reassessments had been affirmed in another appeal, the taxpayer was not a party to those proceedings. *Gaucher v. The Queen*, 2000 DTC 6678 (F.C.A.), reversing 2000 DTC 2084 (T.C.C.).

The taxpayer's spouse deposited amounts from his RRSP into a joint bank account with her. The property in the deposits never vested in the taxpayer in her personal capacity, but only in her capacity as her spouse's agent. She never exercised the kind of personal control necessary to find that there had been a transfer of property within the meaning of s. 160(12). *Leblanc v. The Queen*, 99 DTC 410 (T.C.C.)

Taxpayer's husband made mortgage interest, property tax and other similar payments in respect of the matrimonial home directly to third parties through corporations of which he was a major shareholder. The payments did constitute a "transfer" of property by the husband to the taxpayer since the corporations were mere conduits. However, since these payments had been made in satisfaction of the husband's legal obligation to support his wife and children, they did not constitute a "transfer" within the meaning of s. 160. *Ferracuti v. The Queen*, 99 DTC 194 (T.C.C.).

Since her husband's mortgage payments resulted in a reduction of the taxpayer's own mortgage liability, an indirect transfer of property had been made while tax was owing by him and it fell within the purview of ss. 160(1). *Medland v. The Queen*, 98 DTC 6358 (F.C.A.), affirming 96 DTC 3302 (T.C.C.).

The taxpayer's liability for tax owing by her husband at the time at which he transferred his interest in their principal residence to her arose at the moment of the transfer so that the Minister could assess her even after her husband's discharge from bankruptcy. *The Queen v. Heavyside*, 97 DTC 5026 (F.C.A.).

When a taxpayer could not prove that her husband had never had a beneficial interest in the matrimonial home that he had transferred to a trustee to be transferred back to her alone for a nominal consideration and when she did not have sufficient funds of her own to pay for the home, she was personally liable for payment of the tax owed by her husband. *Cooke v. The Queen*, 97 DTC 5208 (F.C.A.), affirming 93 DTC 1561 (T.C.C.).

There was a "transfer of property" and joint liability for unpaid tax when a cash dividend was paid since property was taken from one patrimony and placed in another one. The same, however, could not be said for a stock dividend inasmuch as its payment does not involve a transfer of property, in the sense that the payor corporation does not divest itself of its assets. *Algoa Trust et al. v. The Queen*, 93 DTC 405 (T.C.C.).

The taxpayer's husband transferred land to her at a time when he owed tax. There was sufficient evidence of common intent to justify a finding that her husband was holding the properties in a resulting trust to the extent of one-half for the taxpayer and there was a sufficient element of unjust enrichment to warrant a finding that the properties were being held on a constructive trust with a 50% interest to the taxpayer. *Savoie v. the Queen*, 93 DTC 552 (T.C.C.).

The Minister could not assess transferees in respect of their transferor's provincial income tax liability. *Phillips v. the Queen*, 93 DTC 573(T.C.C.).

The taxpayer was not liable for the tax his parents owed when they purported to transfer him their house without his consent since their attempt did not divest them of their beneficial right to their house. *Mah v. the Queen*, 93 DTC 5267 (F.C.T.D.).

A taxpayer who had purchased land for $100,000 from her brother-in-law at a time when the fair market value of the land was $275,000 was jointly liable for the $16,198.14 of tax owed by her brother-in-law. *Ayoub v. The Queen*, 93 DTC 1118 (T.C.C.).

The taxpayer could not be held personally liable for the tax owed by her husband when she could prove the sums of cash he transferred to her were a combination of his contributions towards the charges of the house and family and the repayment of debts owing by him. *Dupuis v. the Queen*, 93 DTC 723 (T.C.C.).

The taxpayer received from her husband his pay cheques which she deposited in her own account or in a joint account to maintain the family home and the family. She was jointly liable for the payment of her husband's tax. *Fine v. M.N.R.*, 91 DTC 133 (T.C.C.).

However a taxpayer, whose father transferred property to her for subsequent transfer to her mother, as part of a separation agreement, was not jointly liable for the tax he owed at the time of the transfer, i.e. time of execution of the separation agreement on September 8, 1981. Prior to the amendments to s. 160(1)(*c*) on November 12, 1981, liability for tax was not imposed on transferees of property in the taxpayer's position who were not at arm's length with the transferors. *Kostiuk v. the Queen*, 93 DTC 5511 (F.C.T.D.), reversing 89 DTC 548 (T.C.C.).

► 160(1.1) ◄

(1.1) Joint liability where s. 69(11) applies. Where a particular person or partnership is deemed by subsection 69(11) to have disposed of a property at any time, the person referred to in that subsection to whom a benefit described in that subsection was available in respect of a subsequent disposition of the property or property substituted for the property is jointly and severally liable with each other taxpayer to pay a part of the other taxpayer's liabilities under this Act in respect of each taxation year equal to the amount determined by the formula

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 160(1.1) of the English version of the Act before the formula is replaced by the following:

(1.1) **Joint and several, or solidary, liability — subsection 69(11).** Where a particular person or partnership is deemed by subsection 69(11) to have disposed of a property at any time, the person referred to in that subsection to whom a benefit described in that subsection was available in respect of a subsequent disposition of the property or property substituted for the property is jointly and severally, or solidarily, liable with each other taxpayer to pay a part of the other taxpayer's liabilities under this Act in respect of each taxation year equal to the amount determined by the formula

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

A – B

where

A is the total of amounts payable under this Act by the other taxpayer in respect of the year, and

B is the amount that would, if the particular person or partnership were not deemed by subsection 69(11) to have disposed of the property, be determined for A in respect of the other taxpayer in respect of the year,

but nothing under this subsection is deemed to limit the liability of the other taxpayer under any other provision of this Act.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 160(1.1) of the Act after the description of B is replaced by the following:

but nothing in this subsection limits the liability of the other taxpayer under any other provision of this Act or of any person for the interest that the person is liable to pay under this Act on an assessment in respect of the amount that the person is liable to pay because of this subsection.

Applicable: In respect of assessments made after December 20, 2002.

Explanatory Note:

Joint Liability Where subsection 69(11) Applies

Subsection 160(1.1) of the Act provides that where subsection 69(11) of the Act applies to deem a disposition of property to have occurred at fair market value, both the person disposing of the property and the person acquiring the property are jointly and severally liable for the payment of each other's liabilities arising under the Act as a result of that disposition. The Minister of National Revenue may assess the person for such a liability under subsection 160(2) of the Act. Subsection 160(1.1) is amended, in respect of assessments made after December 20, 2002, to clarify that the assessment of the taxpayer is subject to interest.

History: S. 160(1.1) was added by S.C. 1998, c. 19, s. 186(1), applicable in respect of dispositions that are deemed by subsection 69(11) of the Act to occur after April 26, 1995.

Editorial Note: See the editorial note to subsection 69(11).

► 160(1.2) ◄

(1.2) Joint liability — tax on split income. A parent of a specified individual is jointly and severally liable with the individual for the amount required to be added because of subsection 120.4(2) in computing the specified individual's tax payable under this Part for a taxation year if, during the year, the parent

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 160(1.2) of the English version of the Act before paragraph (*a*) is replaced by the following:

(1.2) **Joint and several, or solidary, liability — tax on split income.** A parent of a specified individual is jointly and severally, or solidarily, liable with the individual for the amount required to be added because of subsection 120.4(2) in computing the specified individual's tax payable under this Part for a taxation year if, during the year, the parent

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*a*) carried on a business that purchased goods or services from a business the income of which is directly or indirectly included in computing the individual's split income for the year;

(*b*) was a specified shareholder of a corporation that purchased goods or services from a business the income of which is directly or indirectly included in computing the individual's split income for the year;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraphs 160(1.2)(*a*) and (*b*) of the Act are replaced by the following:

(*a*) carried on a business that was provided property or services by a partnership or trust all or a portion of the income of which partnership or trust is directly or indirectly included in computing the individual's split income for the year,

(*b*) was a specified shareholder of a corporation that was provided property or services by a partnership or trust all or a portion of the income of which partnership or

trust is directly or indirectly included in computing the individual's split income for the year,

Applicable: After December 20, 2002.

Explanatory Note:

Joint Liability — Tax on Split Income

Subsection 160(1.2) of the Act, which applies in respect of tax owing on split income, is amended in two respects.

First, paragraphs 160(1.2)(*a*), (*b*) and (*d*) are amended to replace the phrase "goods or services" with the phrase "property or services" as a consequence of the same changes made to paragraphs (*b*) and (*c*) of the definition "split income" in subsection 120.4(1). These amendments apply after December 20, 2002.

Second, a "postamble" is added to subsection 160(1.2) to clarify that, in respect of assessments made under subsection 160(2) after December 20, 2002, the assessment is subject to interest.

(*c*) was a specified shareholder of a corporation, dividends on the shares of the capital stock of which were directly or indirectly included in computing the individual's split income for the year;

(*d*) was a shareholder of a professional corporation that purchased goods or services from a business the income of which is directly or indirectly included in computing the individual's split income for the year; or

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 160(1.2)(*d*) of the Act is replaced by the following:

(*d*) was a shareholder of a professional corporation that was provided property or services by a partnership or trust all or a portion of the income of which partnership or trust is directly or indirectly included in computing the individual's split income for the year, or

Applicable: After December 20, 2002.

Explanatory Note: See the Explanatory Note following the amendment to paragraphs 160(1.2)(*a*) and (*b*).

(*e*) was a shareholder of a professional corporation, dividends on the shares of the capital stock of which were directly or indirectly included in computing the individual's split income for the year.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 160(1.2) of the Act is amended by adding the following after paragraph (*e*):

but nothing in this subsection limits the liability of the specified individual under any other provision of this Act or of the parent for the interest that the parent is liable to pay under this Act on an assessment in respect of the amount that the parent is liable to pay because of this subsection.

Applicable: In respect of assessments made after December 20, 2002.

Explanatory Note: See the Explanatory Note following the amendment to paragraphs 160(1.2)(*a*) and (*b*).

History: S. 160(1.2) was added by S.C. 2000, c. 19, s. 46(1), applicable to the 2000 and subsequent taxation years.

Related Sections: S. 120.4(1), "specified individual", "split income"; s. 248(1), "professional corporation", "specified shareholder".

► 160(1.3) ◄

(1.3) Joint liability — tax on split-pension income. Where a pensioner and a pension transferee (as those terms are defined in section 60.03) make a joint election under section 60.03 in respect of a split-pension amount (as defined in that section) for a taxation year, they are jointly and severally, or solidarily, liable for the tax payable by the pension transferee under this Part for the taxation year to the extent that that tax payable is greater than it would have been if no amount were required to be added because of paragraph 56(1)(*a*.2) in computing the income of the pension transferee under this Part for the taxation year.

History: S. 160(1.3) was added by S.C. 2007, c. 29, s. 23(1), applicable to the 2007 and subsequent taxation years.

► 160(2) ◄

(2) Assessment. The Minister may at any time assess a taxpayer in respect of any amount payable because of this section and the provisions of this Division apply, with any modifications that the circumstances require, in respect of an assessment made under this section as though it had been made under section 152.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 160(2) of the Act is replaced by the following:

(2) Assessment. The Minister may at any time assess a taxpayer in respect of any amount payable because of this section, and the provisions of this Division (including, for greater certainty, the provisions in respect of interest payable) apply, with any modifications that the circumstances require, in respect of an assessment made under this section as though it had been made under section 152 in respect of taxes payable under this Part.

Applicable: In respect of assessments made after December 20, 2002.

Explanatory Note:

Assessment

Subsection 160(2) of the Act allows the Minister of National Revenue to assess a taxpayer at any time in respect of liabilities arising under section 160, with such assessment having the same effect as if it had been made under section 152 of the Act. Subsection 160(2) is amended, in respect of assessments made after December 20, 2002, to clarify that the assessment is subject to interest.

History: S. 160(2) was amended by S.C. 1998, c. 19, s. 186(2), applicable on Royal Assent, June 18, 1998. S. 160(2) formerly read:

"(2) *Minister may assess transferee.* The Minister may at any time assess a transferee in respect of any amount payable by virtue of this section and the provisions of this Division are applicable, with such modifications as the circumstances require, in respect of an assessment made under this section as though it had been made under section 152."

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 160 of the Act is amended by adding the following after subsection (2):

(2.1) **Assessment.** The Minister may at any time assess a taxpayer in respect of any amount payable because of paragraph 94(3)(*d*) or (*e*) and the provisions of this Division (including, for greater certainty, the provisions in respect of interest payable) apply, with any modifications that the circumstances require, in respect of an assessment made under this section as though it had been made under section 152 in respect of taxes payable under this Part.

Applicable: To assessments made after 2006, except that, if section 94 applies to a taxation year of a taxpayer that begins before 2007, subsection 160(2.1) applies to assessments made on or after the first day of the first such taxation year of the taxpayer to which that section 94 applies.

Explanatory Note:

Assessment

New subsection 160(2.1) of the Act allows the Minister of National Revenue to assess a taxpayer at any time in respect of any amount payable because of paragraph 94(3)(*d*) or (*e*). Such an assessment has the same effect as if it had been made under section 152 of the Act and is subject to interest. For more information on paragraphs 94(3)(*d*) and (*e*), see the commentary on those provisions.

This amendment applies to assessments made after 2006.

► 160(3) ◄

(3) Discharge of liability. Where a particular taxpayer has become jointly and severally liable with another taxpayer under this section in respect of part or all of a liability under this Act of the other taxpayer,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 160(3) of the Act before paragraph (*a*) is replaced by the following:

(3) Discharge of liability. Where a particular taxpayer has become jointly and severally, or solidarily, liable with another taxpayer under this section or because of paragraph 94(3)(*d*) or (*e*) in respect of part or all of a liability under this Act of the other taxpayer,

Applicable: To assessments made after 2006.

Explanatory Note:

Discharge of Liability

Subsection 160(3) of the Act provides that, where a taxpayer becomes jointly and severally liable with another taxpayer under subsection 160(1) or (1.1) with respect to a tax liability of the other person, a payment by the particular taxpayer on account of the particular taxpayer's tax liability will discharge the joint liability to the extent of the payment.

Subsection 160(3) is amended so that it also applies where the particular taxpayer has become jointly and severally, or solidarily, liable with another taxpayer under because of paragraph 94(3)(*d*) or (*e*) in respect of Part or all of a liability under this Act of the other taxpayer. (The expression "solidarily" is added to ensure that the Act appropriately reflects both the civil law of the province of Quebec and the law of other provinces.) For more information on paragraphs 94(3)(*d*) and (*e*), see the commentary on those provisions.

This amendment applies to assessments made after 2006.

(*a*) a payment by the particular taxpayer on account of that taxpayer's liability shall to the extent of the payment discharge the joint liability; but

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 160(3)(*a*) of the Act is replaced by the following:

(*a*) a payment by the particular taxpayer on account of that taxpayer's liability shall to the extent of the payment discharge their liability; but

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*b*) a payment by the other taxpayer on account of that taxpayer's liability discharges the particular taxpayer's liability only to the extent that the payment operates to reduce that other taxpayer's liability to an amount less than the amount in respect of which the particular taxpayer is, by this section, made jointly and severally liable.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 160(3)(*b*) of the English version of the Act is replaced by the following:

(*b*) a payment by the other taxpayer on account of that taxpayer's liability discharges the particular taxpayer's liability only to the extent that the payment operates to reduce that other taxpayer's liability to an amount less than the amount in respect of which the particular taxpayer is, by this section, made jointly and severally, or solidarily, liable.

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

History: S. 160(3) was amended by S.C. 1998, c. 19, s. 186(2), applicable on Royal Assent, June 18, 1998. S. 160(3) formerly read:

"(3) *Rules applicable.* Where a transferor and transferee have, by virtue of subsection (1), become jointly and severally liable in respect of part or all of a liability of the transferor under this Act, the following rules apply:

(*a*) a payment by the transferee on account of the transferee's liability shall to the extent thereof discharge the joint liability; but

(*b*) a payment by the transferor on account of the transferor's liability only discharges the transferee's liability to the extent that the payment operates to reduce the transferor's liability to an amount less than the amount in respect of which the transferee was, by subsection (1), made jointly and severally liable."

Related Sections: S. 104(1) Reference to trust or estate; s. 248(1), "amount", "assessment", "property".

► 160(3.1) ◄

(3.1) Fair market value of undivided interest. For the purposes of this section and section 160.4, the fair market value at any time of an undivided interest in a property, expressed as a proportionate interest in that property, is, subject to subsection (4), deemed to be equal to the same proportion of the fair market value of that property at that time.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 160(3.1) of the Act is replaced by the following:

(3.1) Fair market value of undivided interest or right. For the purposes of this section and section 160.4, the fair market value at any time of an undivided interest, or for civil law an undivided right, in a property, expressed as a proportionate interest or right in that property, is, subject to subsection (4), deemed to be equal to the same proportion of the fair market value of that property at that time.

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

History: S. 160(3.1) was added by S.C. 2000, c. 30, s. 170(1), applicable to transfers of property made after June 4, 1999.

► 160(4) ◄

(4) Special rules re transfer of property to spouse. Notwithstanding subsection (1), where at any time a taxpayer has transferred property to the taxpayer's spouse or common-law partner pursuant to a decree, order or judgment of a competent tribunal or pursuant to a written separation agreement and, at that time, the taxpayer and the spouse or common-law partner were separated and living apart as a result of the breakdown of their marriage or common-law partnership, the following rules apply:

(*a*) in respect of property so transferred after February 15, 1984,

(i) the spouse or common-law partner shall not be liable under subsection (1) to pay any amount with respect to any income from, or gain from the disposition of, the property so transferred or property substituted therefor, and

(ii) for the purposes of paragraph (1)(*e*), the fair market value of the property at the time it was transferred shall be deemed to be nil, and

(*b*) in respect of property so transferred before February 16, 1984, where the spouse or common-law partner would, but for this paragraph, be liable to pay an amount under this Act by virtue of subsection (1), the spouse's or common-law partner's liability in respect of that amount shall be deemed to have been discharged on February 16, 1984,

but nothing in this subsection shall operate to reduce the taxpayer's liability under any other provision of this Act.

History: S. 160(4), the portion before paragraph (*a*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.26) and 9(p), applicable January 1, 2001, coming into force on July 31, 2000. S. 160(4), the portion before paragraph (*a*) formerly read:

"(4) *Special rules re transfer of property to spouse.* Notwithstanding subsection (1), where at any time a taxpayer has transferred property to the taxpayer's spouse pursuant to a decree, order or judgment of a competent tribunal or pursuant to a written separation agreement and, at that time, the taxpayer and the spouse were separated and living apart as a result of the breakdown of their marriage, the following rules apply:"

S. 160(4)(*a*)(i) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.26), applicable January 1, 2001, coming into force on July 31, 2000. S. 160(4)(*a*)(i) formerly read:

"(i) the spouse shall not be liable under subsection (1) to pay any amount with respect to any income from, or gain from the disposition of, the property so transferred or property substituted therefor, and"

S. 160(4)(*b*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.26) and 7(j), applicable January 1, 2001, coming into force on July 31, 2000. S. 160(4)(*b*) formerly read:

"(*b*) in respect of property so transferred before February 16, 1984, where the spouse would, but for this paragraph, be liable to pay an amount under this Act by virtue of subsection (1), the spouse's liability in respect of that amount shall be deemed to have been discharged on February 16, 1984,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Information Circulars: IC 98-1R3 Collections policies.
Tax Topics: No. 1702, Income Tax Issues To Be Considered in Negotiating Marriage Contracts.

SECTION 160.1:

► 160.1(1) ◄

(1) Where excess refunded. Where at any time the Minister determines that an amount has been refunded to a taxpayer for a taxation year in excess of the amount to which the taxpayer was entitled as a refund under this Act, the following rules apply:

(*a*) the excess shall be deemed to be an amount that became payable by the taxpayer on the day on which the amount was refunded; and

(*b*) the taxpayer shall pay to the Receiver General interest at the prescribed rate on the excess (other than any portion thereof that can reasonably be considered to arise as a consequence of the operation of section 122.5 or 122.61) from the day it became payable to the date of payment.

History: S. 160.1(1)(*b*) was amended by S.C. 1994, c. 7, Sched. VII, s. 16(1), applicable after 1992. S. 160.1(1)(*b*) formerly read:

"(*b*) the taxpayer shall pay to the Receiver General interest at the prescribed rate on the excess (other than any portion thereof that can reasonably be considered to arise as a consequence of the operation of section 122.5) from the day it became payable to the date of payment."

S. 160.1(1)(*b*) was amended by S.C. 1994, c. 7, Sched. II, s. 132(1), applicable to the 1989 and subsequent taxation years. S. 160.1(1)(*b*) formerly read:

"(*b*) the taxpayer shall pay to the Receiver General interest at the prescribed rate on the excess from the day it became payable to the date of payment."

Related Sections: S. 161.1 Offset of refund interest and arrears interest; s. 248(11) Compound interest.
Regulations: 4301.

► 160.1(1.1) ◄

(1.1) Liability for refund by reason of s. 122.5. If a person is a qualified relation of an individual (within the meaning assigned by subsection 122.5(1)), in relation to one or more months specified for a taxation year, the person and the individual are jointly and severally, or solidarily, liable to pay the lesser of

(*a*) any excess described in subsection (1) that was refunded in respect of the taxation year to, or

applied to a liability of, the individual as a consequence of the operation of section 122.5, and

(*b*) the total of the amounts deemed by subsection 122.5(3) to have been paid by the individual during those specified months.

History: S. 160.1(1.1) was amended by S.C. 2002, c. 9, s. 43(1), applicable to amounts deemed to be paid during months specified for the 2001 and subsequent taxation years. S. 160.1(1.1) formerly read:

"(1.1) *Liability for refunds by reason of s. 122.5.* Where a person is a qualified relation of an individual for a taxation year (within the meaning assigned by subsection 122.5(1)), the person and the individual are jointly and severally liable to pay any excess described in subsection (1) that was refunded in respect of the year to, or applied to a liability of, the individual as a consequence of the operation of section 122.5, but nothing in this subsection shall be deemed to limit the liability of any person under any other provision of this Act."

Cases: The interest on an excess dividend refund ran from the date of the original payment. *A. J. Giles Investments Ltd. v. M.N.R.,* 91 DTC 606 (T.C.C.).

► 160.1(2) ◄

(2) Liability under other provisions. Subsection (1.1) does not limit a person's liability under any other provision of this Act.

History: S. 160.1(2) was added by S.C. 2002, c. 9, s. 43(1), applicable to amounts deemed to be paid during months specified for the 2001 and subsequent taxation years.

S. 160.1(2) was repealed by S.C. 1994, c. 7, Sched. VII, s. 16(2), applicable to the 1993 and subsequent taxation years. S. 160.1(2) formerly read:

"(2) Where an individual resided at the end of a taxation year with a person who was a supporting person (within the meaning assigned by subsection 122.2(2)) of an eligible child of the individual for that year, the individual and that person are jointly and severally liable to pay any excess described in subsection (1) that was refunded to the individual in respect of the year as a consequence of the operation of section 122.2 or 164.1 and interest on such excess, but nothing in this subsection shall be deemed to limit the liability of any person under any other provision of this Act."

► 160.1(2.1) ◄

(2.1) Liability for refunds by reason of section 122.61. Where a person was a cohabiting spouse or common-law partner (within the meaning assigned by section 122.6) of an individual at the end of a taxation year, the person and the individual are jointly and severally liable to pay any excess described in subsection (1) that was refunded in respect of the year to, or applied to a liability of, the individual as a consequence of the operation of section 122.61 if the person was the individual's cohabiting spouse or common-law partner at the time the excess was refunded, but nothing in this subsection shall be deemed to limit the liability of any person under any other provision of this Act.

Editorial Note: See the pending amendment for subsection 160.1(2.1) reproduced following subsection 160.1(2.2).

History: S. 160.1(2.1) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.27), applicable January 1, 2001, coming into force on July 31, 2000. S. 160.1(2.1) formerly read:

"(2.1) *Liability for refunds by reason of section 122.61.* Where a person was a cohabiting spouse (within the meaning assigned by section 122.6) of an individual at the end of a taxation year, the person and the individual are jointly and severally liable to pay any excess described in subsection (1) that was refunded in respect of the year to, or applied to a liability of, the individual as a consequence of the operation of section 122.61 if the person was the individual's cohabiting spouse at the time the excess was refunded, but nothing in this subsection shall be deemed to limit the liability of any person under any other provision of this Act."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 160.1(2.1) was added by S.C. 1994, c. 7, Sched. VII, s. 16(3), applicable to the 1991 and subsequent taxation years.

► 160.1(2.2) ◄

(2.2) Liability for excess refunds under section 126.1 to partners. Every taxpayer who, on the day on which an amount has been refunded to, or applied to the liability of, a member of a partnership as a consequence of the operation of subsection 126.1(7) or (13) in excess of the amount to which the member was so entitled, is a member of that partnership is jointly and severally liable with each other taxpayer who on that day is a member of the partnership to pay the excess and to pay interest on the excess, but nothing in this subsection shall be deemed to limit the liability of any person under any other provision of this Act.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsections 160.1(2.1) and (2.2) of the English version of the Act are replaced by the following:

(2.1) Liability for refunds by reason of section 122.61. Where a person was a cohabiting spouse or common-law partner (within the meaning assigned by section 122.6) of an individual at the end of a taxation year, the person and the individual are jointly and severally, or solidarily, liable to pay any excess described in subsection (1) that was refunded in respect of the year to, or applied to a liability of, the individual as a consequence of the operation of section 122.61 if the person was the individual's cohabiting spouse or common-law partner at the time the excess was refunded, but nothing in this subsection shall be deemed to limit the liability of any person under any other provision of this Act.

(2.2) Liability for excess refunds under section 126.1 to partners. Every taxpayer who, on the day on which an amount has been refunded to, or applied to the liability of, a member of a partnership as a consequence of the operation of subsection 126.1(7) or (13) in excess of the amount to which the member was so entitled, is a member of that partnership is jointly and severally, or solidarily, liable with each other taxpayer who on that day is a member of the partnership to pay the excess and to pay interest on the excess, but nothing in this subsection shall be deemed to limit the liability of any person under any other provision of this Act.

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

History: S. 160.1(2.2) was added by S.C. 1994, c. 8, s. 25(1), applicable to the 1993 and subsequent taxation years.

► 160.1(3) ◄

(3) Assessment. The Minister may at any time assess a taxpayer in respect of any amount payable by the taxpayer because of subsection (1) or (1.1) or for which the taxpayer is liable because of subsection (2.1) or (2.2), and this Division applies, with such modifications as the circumstances require, in respect of an assessment made under this section as though it were made under section 152.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 160.1(3) of the Act is replaced by the following:

(3) Assessment. The Minister may at any time assess a taxpayer in respect of any amount payable by the taxpayer because of subsection (1) or (1.1) or for which the taxpayer is liable because of subsection (2.1) or (2.2), and the provisions of this Division (including, for greater certainty, the provisions in respect of interest payable) apply, with any modifications that the circumstances require, in respect of an assessment made under this section, as though it were made under section 152 in respect of taxes payable under this Part, except that no interest is payable on an amount assessed in respect of an excess referred to in subsection (1) that can reasonably be considered to arise as a consequence of the operation of section 122.5 or 122.61.

Applicable: To assessments made after December 20, 2002.

Explanatory Note: Subsection 160.1(3) of the Act allows the Minister of National Revenue to assess a taxpayer in respect of excess refunds and overpayments for which the taxpayer is jointly and severally liable under subsection 160.1(1), (1.1), (2.1) or (2.2) of the Act. Subsection 160.1(3) is amended, in respect of such assessments made after December 20, 2002, to clarify that such an assessment is subject to interest, except that no interest is payable to the extent that the excess refund is attributable to the overpayment of a GST tax credit or a child tax benefit.

History: S. 160.1(3) was amended by S.C. 1994, c. 8, s. 25(1) to add the reference to subsection (2.2), applicable to the 1993 and subsequent taxation years.

S. 160.1(3) was amended by S.C. 1994, c. 7, Sched. VII, s. 16(3), applicable to the 1991 and subsequent taxation years except that, in its application to the 1991 and 1992 taxation years, subsection 160.1(3) shall be read as follows:

"(3) The Minister may at any time assess a taxpayer in respect of any amount payable by the taxpayer because of subsection (1) or (1.1) or for which the taxpayer is liable because of subsection (2) or (2.1), and the provisions of this Division apply, with such modifications as the circumstances require, in respect of an assessment made under this section as though it had been made under section 152."

S. 160.1(3) formerly read:

"(3) The Minister may at any time assess a taxpayer in respect of any amount payable by the taxpayer by virtue of subsection (1) or (1.1) or for which the taxpayer is liable by virtue of subsection (2) of this section or subsection 160.1(2.1) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, and the provisions of this Division are applicable, with such modifications as the circumstances require, in respect of an assessment made under this section as though it had been made under section 152."

► 160.1(4) ◄

(4) Where amount applied to liability. Where an amount is applied to a liability of a taxpayer to Her Majesty in right of Canada in excess of the amount to which the taxpayer is entitled as a refund under this Act, this section applies as though that amount had been refunded to the taxpayer on the day it was so applied.

History: S. 160.1(4) was added by S.C. 1994, c. 7, Sched. II, s. 132(2), applicable to the 1990 and subsequent taxation years.

SECTION 160.2:

► 160.2(1) ◄

(1) Joint and several liability in respect of amounts received out of or under RRSP. Where

(*a*) an amount is received out of or under a registered retirement savings plan by a taxpayer other than an annuitant (within the meaning assigned by subsection 146(1)) under the plan, and

(*b*) that amount or part thereof would, but for paragraph (*a*) of the definition "benefit" in subsection 146(1), be received by the taxpayer as a benefit (within the meaning assigned by that definition),

the taxpayer and the last annuitant under the plan are jointly and severally liable to pay a part of the annuitant's tax under this Part for the year of the annuitant's death equal to that proportion of the amount by which the annuitant's tax for the year is greater than it would have been if it were not for the operation of subsection 146(8.8) that the total of all amounts each of which is an amount determined under paragraph (*b*) in respect of the taxpayer is of the amount included in computing the annuitant's income by virtue of that subsection, but nothing in this subsection shall be deemed to limit the liability of the annuitant under any other provision of this Act.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 160.2(1) of the Act after paragraph (*b*) is replaced by the following:

the taxpayer and the last annuitant under the plan are jointly and severally, or solidarily, liable to pay a part of the annuitant's tax under this Part for the year of the annuitant's death equal to that proportion of the amount by which the annuitant's tax for the year is greater than it would have been if it were not for the operation of subsection 146(8.8) that the total of all amounts each of which is an amount determined under paragraph (*b*) in respect of the taxpayer is of the amount included in computing the annuitant's income because of that subsection, but nothing in this subsection limits the liability of the annuitant under any other provision of this Act or of the taxpayer for the interest that the taxpayer is liable to pay under this Act on an assessment in respect of the amount that the taxpayer is liable to pay because of this subsection.

Applicable: To assessments made after December 20, 2002.

Explanatory Note: Subsection 160.2(1) of the Act provides that a taxpayer who receives benefits out of another person's registered retirement savings plan is jointly and severally liable for the portion of that other person's tax that is attributable to those benefits. Subsection 160.2(2) of the Act provides a similar result with respect to benefits received out of another person's registered retirement income fund. The Minister may assess the taxpayer for such a liability under subsection 160.2(3) of the Act.

Subsections 160.2(1), (2) and (3) are amended, in respect of assessments made after December 20, 2002, to clarify that the assessment is subject to interest, without any limit on the amount of interest for which the taxpayer may be liable.

Interpretation Bulletins: *Secondary* — IT-500R Registered retirement savings plans — Death of annuitant.

► 160.2(2) ◄

(2) Joint and several liability in respect of amounts received out of or under RRIF. Where

(*a*) an amount is received out of or under a registered retirement income fund by a taxpayer other than an annuitant (within the meaning assigned by subsection 146.3(1)) under the fund, and

(*b*) that amount or part thereof would, but for paragraph 146.3(5)(*a*), be included in computing the taxpayer's income for the year of receipt pursuant to subsection 146.3(5),

the taxpayer and the annuitant are jointly and severally liable to pay a part of the annuitant's tax under this Part for the year of the annuitant's death equal to that proportion of the amount by which the annuitant's tax for the year is greater than it would have been if it were not for the opera-

tion of subsection 146.3(6) that the amount determined under paragraph (*b*) is of the amount included in computing the annuitant's income by virtue of that subsection, but nothing in this subsection shall be deemed to limit the liability of the annuitant under any other provision of this Act.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 160.2(2) of the Act after paragraph (*b*) is replaced by the following:

the taxpayer and the annuitant are jointly and severally, or solidarily, liable to pay a part of the annuitant's tax under this Part for the year of the annuitant's death equal to that proportion of the amount by which the annuitant's tax for the year is greater than it would have been if it were not for the operation of subsection 146.3(6) that the amount determined under paragraph (*b*) is of the amount included in computing the annuitant's income because of that subsection, but nothing in this subsection limits the liability of the annuitant under any other provision of this Act or of the taxpayer for the interest that the taxpayer is liable to pay under this Act on an assessment in respect of the amount that the taxpayer is liable to pay because of this subsection.

Applicable: To assessments made after December 20, 2002.

Explanatory Note: See the Explanatory Note following the amendment to the portion of subsection 160.2(1) of the Act after paragraph (*b*).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 160.2 of the Act is amended by adding the following after subsection (2):

(2.1) Joint and several liability in respect of a qualifying trust annuity. Where a taxpayer is deemed by section 75.2 to have received at any time an amount out of or under an annuity that is a qualifying trust annuity with respect to the taxpayer, the taxpayer, the annuitant under the annuity and the policyholder are jointly and severally, or solidarily, liable to pay the part of the taxpayer's tax under this Part for the taxation year of the taxpayer that includes that time that is equal to the amount, if any, determined by the formula

A – B

where

A is the amount of the taxpayer's tax under this Part for that taxation year; and

B is the amount that would be the taxpayer's tax under this Part for that taxation year if no amount were deemed by section 75.2 to have been received by the taxpayer out of or under the annuity in that taxation year.

(2.2) No limitation on liability. Subsection (2.1) limits neither

(*a*) the liability of the taxpayer referred to in that subsection under any other provision of this Act; nor

(*b*) the liability of an annuitant or policyholder referred to in that subsection for the interest that the annuitant or policyholder is liable to pay under this Act on an assessment in respect of the amount that the annuitant or policyholder is liable to pay because of that subsection.

Applicable: To assessments made after 2005.

Explanatory Note:

Subsection 160.2(2.1) — Joint and Several Liability in Respect of a Qualifying Trust Annuity

New subsection 160.2(2.1) applies to annuities that are "qualifying trust annuities" with respect to a taxpayer (as defined in new subsection 60.011(2)).

A distinguishing feature of a qualifying trust annuity with respect to a taxpayer is that the annuitant thereunder is a trust under which the taxpayer is a beneficiary. Such an annuity will typically be acquired and held either by the trust that is the annuitant under the annuity, or by the estate of a deceased spouse, common-law partner, parent or grandparent of the taxpayer which acquired the annuity with proceeds received from a registered retirement savings plan or registered retirement income fund of the deceased individual or from a registered pension plan in which the deceased individual participated.

Where the cost of a qualifying trust annuity with respect to a taxpayer is deductible by the taxpayer under paragraph 60(*l*) and the taxpayer has not died before 2006, new section 75.2 deems amounts payable out of or under the annuity after 2005 and before the taxpayer's death to have been received by the taxpayer. Section 75.2 also deems the taxpayer to have received, immediately before death, an amount out of or under the annuity equal to the fair market value of the annuity. By virtue of paragraph 56(1)(*d.2*), the taxpayer is required to include these amounts in computing income under Part I.

New subsection 160.2(2.1) provides that, where a taxpayer is deemed by section 75.2 to have received an amount from a qualifying trust annuity, the annuitant and the policyholder (which may be one and the same) are jointly and severally, or solidarily, liable for the portion of the taxpayer's tax that is attributable to the amounts that the taxpayer is deemed to have received from the annuity. The Minister of National Revenue may reassess the annuitant and the policyholder for such a liability under subsection 160.2(3) of the Act.

Subsection 160.2(2.1) applies to assessments made after 2005.

Subsection 160.2(2.2) — No Limitation on Liability

New subsection 160.2(2.2) of the Act provides that the provisions of new subsection 160.2(2.1), which make the annuitant and policyholder of a "qualifying trust annuity" with respect to a taxpayer (as defined in new subsection 60.011(2)) jointly and severally, or solidarily, liable for a portion of the taxpayer's tax, do not limit the liability of the taxpayer under any provision of the Act. It also provides that there is no limitation on the liability of the annuitant or policyholder for the interest for which the annuitant or policyholder is liable under the Act on an assessment in respect of an amount that the annuitant or policyholder is liable to pay because of subsection 160.2(2.1).

Subsection 160.2(2.2) applies to assessments made after 2005.

► 160.2(3) ◄

(3) Minister may assess recipient. The Minister may at any time assess a taxpayer in respect of any amount payable by virtue of this section and the provisions of this Division are applicable, with such modifications as the circumstances require, in respect of an assessment made under this section as though it had been made under section 152.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 160.2(3) of the Act is replaced by the following:

(3) **Assessment.** The Minister may at any time assess a taxpayer in respect of any amount payable because of this section, and the provisions of this Division (including, for greater certainty, the provisions in respect of interest payable) apply, with any modifications that the circumstances require, in respect of an assessment made under this section as though it had been made under section 152 in respect of taxes payable under this Part.

Applicable: To assessments made after December 20, 2002.

Explanatory Note: See the Explanatory Note following the amendment to the portion of subsection 160.2(1) of the Act after paragraph (*b*).

► 160.2(4) ◄

(4) Rules applicable. Where a taxpayer and an annuitant have, by virtue of subsection (1) or (2), become jointly and severally liable in respect of part or all of a liability of the annuitant under this Act, the following rules apply:

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 160.2(4) of the English version of the Act before paragraph (*a*) is replaced by the following:

(4) **Rules applicable.** Where a taxpayer and an annuitant have, by virtue of subsection (1) or (2), become jointly and severally, or solidarily, liable in respect of part or all of a liability of the annuitant under this Act, the following rules apply:

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*a*) a payment by the taxpayer on account of the taxpayer's liability shall to the extent thereof discharge the joint liability; but

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 160.2(4)(*a*) of the Act is replaced by the following:

(*a*) a payment by the taxpayer on account of the taxpayer's liability shall to the extent thereof discharge their liability; but

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*b*) a payment by the annuitant on account of the annuitant's liability only discharges the taxpayer's liability to the extent that the payment operates to reduce the annuitant's liability to an amount less than the amount in respect of which the taxpayer was, by subsection (1) or (2), as the case may be, made jointly and severally liable.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 160.2(4)(*b*) of the English version of the Act is replaced by the following:

(*b*) a payment by the annuitant on account of the annuitant's liability discharges the taxpayer's liability only to the extent that the payment operates to reduce the annuitant's liability to an amount less than the amount in respect of which the taxpayer was, by subsection (1) or (2), as the case may be, made jointly and severally, or solidarily, liable.

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 160.2 of the Act is amended by adding the following after subsection (4):

(5) **Rules applicable — qualifying trust annuity.** Where an annuitant or policyholder has, because of subsection (2.1), become jointly and severally, or solidarily, liable with a taxpayer in respect of part or all of a liability of the taxpayer under this Act, the following rules apply:

(*a*) a payment by the annuitant on account of the annuitant's liability, or by the policyholder on account of the policyholder's liability, shall to the extent of the payment discharge their liability, but

(*b*) a payment by the taxpayer on account of the taxpayer's liability only discharges the annuitant's and the policyholder's liability to the extent that the payment operates to reduce the taxpayer's liability to an amount less than the amount in respect of which the annuitant and the policyholder were, by subsection (2.1), made liable.

Applicable: To assessments made after 2005.

Explanatory Note:

Rules Applicable — Qualifying Trust Annuity

New subsection 160.2(5) of the Act provides that a payment by the annuitant or policyholder of a "qualifying trust annuity" with respect to a taxpayer (as defined in new subsection 60.011(2)), on account of the annuitant's or policyholder's joint liability for a portion of the taxpayer's tax, directly reduces the joint liability to the extent of the payment. However, a payment by the taxpayer on account of the taxpayer's tax liability reduces the joint liability of the annuitant and the policyholder only to the extent that the payment reduces the total liability of the taxpayer to an amount that is less than the amount in respect of which the annuitant and policyholder were made jointly liable under subsection 160.2(2.1).

Subsection 160.2(5) applies to assessments made after 2005.

SECTION 160.21:

► 160.21(1) ◄

(1) Joint and several liability — registered disability savings plan. Where, in computing income for a taxation year, a taxpayer is required to include an amount in respect of a disability assistance payment (as defined in subsection 146.4(1)) that is deemed by subsection 146.4(10) to have been made at any particular time from a registered disability savings plan, the taxpayer and each holder (as defined in subsection 146.4(1)) of the plan immediately after the particular time are jointly and severally, or solidarily, liable to pay the part of the taxpayer's tax under this Part for that taxation year that is equal to the amount, if any, determined by the formula

$$A - B$$

where

A is the amount of the taxpayer's tax under this Part for that taxation year; and

B is the amount that would be the taxpayer's tax under this Part for that taxation year if no disability assistance payment were deemed by subsection 146.4(10) to have been paid from the plan at the particular time.

History: S. 160.21(1) was added by S.C. 2007, c. 35, s. 118, applicable to the 2008 and subsequent taxation years.

► 160.21(2) ◄

(2) No limitation on liability. Subsection (1) limits neither

(*a*) the liability of the taxpayer referred to in that subsection under any other provision of this Act, nor

(*b*) the liability of any holder referred to in that subsection for the interest that the holder is liable to pay under this Act on an assessment in respect of the amount that the holder is liable to pay because of that subsection.

History: S. 160.21(2) was added by S.C. 2007, c. 35, s. 118, applicable to the 2008 and subsequent taxation years.

► 160.21(3) ◄

(3) Rules applicable — registered disability savings plans. Where a holder (as defined in subsection 146.4(1)) of a registered disability savings plan has, because of subsection (1), become jointly and severally, or solidarily, liable with a taxpayer in respect of part or all of a liability of the taxpayer under this Act, the following rules apply:

(*a*) a payment by the holder on account of the holder's liability shall to the extent of the payment discharge the holder's liability, but

(*b*) a payment by the taxpayer on account of the taxpayer's liability only discharges the holder's liability to the extent that the payment operates to reduce the taxpayer's liability to an amount less than the amount in respect of which the holder was, by subsection (1), made liable.

History: S. 160.21(3) was added by S.C. 2007, c. 35, s. 118, applicable to the 2008 and subsequent taxation years.

► 160.21(4) ◄

(4) Assessment. The Minister may at any time assess a taxpayer in respect of any amount payable because of this section, and the provisions of this Division (including, for greater certainty, the provisions in respect of interest payable) apply, with any modifications that the circumstances require, in respect of an assessment made under this section as though it had been made under section 152 in respect of taxes payable under this Part.

History: S. 160.21(4) was added by S.C. 2007, c. 35, s. 118, applicable to the 2008 and subsequent taxation years.

SECTION 160.3:

► 160.3(1) ◄

(1) Liability in respect of amounts received out of or under RCA trust. Where an amount required to be included in the income of a taxpayer by virtue of paragraph 56(1)(*x*) is received by a person with whom the taxpayer is not dealing at arm's length, that person is jointly and severally liable with the taxpayer to pay a part of the taxpayer's tax under this Part for the taxation year in which the amount is received equal to the amount by which the taxpayer's tax for the year exceeds the amount that would be the taxpayer's tax for the year if the amount had not been received, but nothing in this subsection shall be deemed to limit the liability of the taxpayer under any other provision of this Act.

Editorial Note: See the pending amendment for subsection 160.3(1) following subsection 160.3(2).

Related Sections: S. 160.3(2) Minister may assess recipient; s. 160.3(3) Rules applicable.

► 160.3(2) ◄

(2) Minister may assess recipient. The Minister may at any time assess a person in respect of any amount payable by the person by virtue of this section and the provisions of this Division are applicable, with such modifications as the circumstances require, in respect of an assessment made under this section as though it had been made under section 152.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsections 160.3(1) and (2) of the Act are replaced by the following:

SECTION 160.3:

(1) Liability in respect of amounts received out of or under RCA trust. If an amount required to be included in the income of a taxpayer because of paragraph 56(1)(x) is received by a person with whom the taxpayer is not dealing at arm's length, that person is jointly and severally, or solidarily, liable with the taxpayer to pay a part of the taxpayer's tax under this Part for the taxation year in which the amount is received equal to the amount by which the taxpayer's tax for the year exceeds the amount that would be the taxpayer's tax for the year if the amount had not been received, but nothing in this subsection limits the liability of the taxpayer under any other provision of this Act or of the person for the interest that the person is liable to pay under this Act on an assessment in respect of the amount that the person is liable to pay because of this subsection.

(2) Assessment. The Minister may at any time assess a person in respect of any amount payable because of this section, and the provisions of this Division (including, for greater certainty, the provisions in respect of interest payable) apply, with any modifications that the circumstances require, in respect of an assessment made under this section as though it had been

made under section 152 in respect of taxes payable under this Part.

Applicable: To assessments made after December 20, 2002.

Explanatory Note: Subsection 160.3(1) of the Act provides that a person who receives benefits from a retirement compensation arrangement that relate to another taxpayer's employment is jointly and severally liable for the portion of that other taxpayer's tax that is attributable to such benefits. The Minister of National Revenue may assess the person for such a liability under subsection 160.3(2) of the Act. Subsections 160.3(1) and (2) are amended, in respect of assessments made after December 20, 2002, to clarify that such an assessment is subject to interest, without any limit on the amount of interest for which the person may be liable.

► 160.3(3) ◄

(3) Rules applicable. Where a taxpayer and another person have, by virtue of subsection (1), become jointly and severally liable in respect of part or all of a liability of the taxpayer under this Act, the following rules apply:

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 160.3(3) of the English version of the Act before paragraph (*a*) is replaced by the following:

(3) Rules applicable. Where a taxpayer and another person have, by virtue of subsection (1), become jointly and severally, or solidarily, liable in respect of part or all of a liability of the taxpayer under this Act, the following rules apply:

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*a*) a payment by the other person on account of the other person's liability shall to the extent thereof discharge the joint liability; but

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 160.3(3)(*a*) of the Act is replaced by the following:

(*a*) a payment by the other person on account of the other person's liability shall to the extent thereof discharge their liability; but

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*b*) a payment by the taxpayer on account of the taxpayer's liability only discharges the other person's liability to the extent that the payment operates to reduce the taxpayer's liability to an amount less than the amount in respect of which the other person was, by subsection (1), made jointly and severally liable.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 160.3(3)(*b*) of the English version of the Act is replaced by the following:

(*b*) a payment by the taxpayer on account of the taxpayer's liability discharges the other person's liability only to the extent that the payment operates to reduce the taxpayer's liability to an amount less than the amount in respect of which the other person was, by subsection (1), made jointly and severally, or solidarily, liable.

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

SECTION 160.4:

► 160.4(1) ◄

(1) Liability in respect of transfers by insolvent corporations. Where property is transferred at any time by a corporation to a taxpayer with whom the corporation does not deal at arm's length at that time and the corporation is not entitled because of subsection 61.3(3) to deduct an amount under section 61.3 in computing its income for a taxation year because of the transfer or because of the transfer and one or more other transactions, the taxpayer is jointly and severally liable with the corporation to pay an amount of the corporation's tax under this Part for the year equal to the amount, if any, by which the fair market value of the property at that time exceeds the fair market value at that time of the consideration given for the property, but nothing in this subsection limits the liability of the corporation under any other provision of this Act.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 160.4(1) of the Act is replaced by the following:

SECTION 160.4:

(1) Liability in respect of transfers by insolvent corporations. If property is transferred at any time by a corporation to a taxpayer with whom the corporation does not deal at arm's length at that time and the corporation is not entitled because of subsection 61.3(3) to deduct an amount under section 61.3 in computing its income for a taxation year because of the transfer or because of the transfer and one or more other transactions, the taxpayer is jointly and severally, or solidarily, liable with the corporation to pay the lesser of the corporation's tax payable under this Part for the year and the amount, if any, by which the fair market value of the property at that time exceeds the fair market value at that time of the consideration given for the property, but nothing in this subsection limits the liability of the

corporation under any other provision of this Act or of the taxpayer for the interest that the taxpayer is liable to pay under this Act on an assessment in respect of the amount that the taxpayer is liable to pay because of this subsection.

Applicable: To assessments made after December 20, 2002.

Explanatory Note: Subsection 160.4(1) of the Act applies where a transfer of property has been made by a corporation and, as a consequence of the transfer (or the transfer combined with other transactions), the corporation is precluded under subsection 61.3(3) of the Act from deducting an amount under section 61.3. Where this is the case, the transferee is jointly and severally liable with the transferor under subsection 160.4(1) for the transferor's tax under Part I of the Act for the first taxation year of the transferor that ends after the time of the transfer and for preceding taxation years. The liability of the transferee applies up to the amount, if any, by which the fair market value of the property at the time of the transfer exceeds the fair market value of the consideration given for the property transferred.

In addition, subsection 160.4(2) of the Act provides for joint and several liability of subsequent non-arm's length transferees for the corporation's Part I tax if the original transferee makes a further non-arm's length transfer and one of the reasons that the transfer was made was to prevent the enforcement of section 160.4.

Under subsection 160.4(3) of the Act, the Minister of National Revenue may assess a transferee for a liability arising under subsections 160.4(1) or (2).

Subsections 160.4(1), (2) and (3) are amended, in respect of assessments made after December 20, 2002, to clarify that such an assessment is subject to interest, without any limit on the amount of interest for which the transferee may be liable.

History: S. 160.4(1) was added by S.C. 1995, c. 21, s. 40(1), applicable to transfers that occur after December 20, 1994.

► 160.4(2) ◄

(2) Indirect transfers. Where

(*a*) property is transferred at any time from a taxpayer (in this subsection referred to as the "transferor") to another taxpayer (in this subsection referred to as the "transferee") with whom the transferor does not deal at arm's length,

(*b*) the transferor is liable because of subsection (1) or this subsection to pay an amount of the tax of another person (in this subsection referred to as the "debtor") under this Part, and

(*c*) it can reasonably be considered that one of the reasons of the transfer would, but for this subsection, be to prevent the enforcement of this section,

the transferee is jointly and severally liable with the transferor and the debtor to pay an amount of the debtor's tax under this Part equal to the lesser of the amount of such tax that the transferor was liable to pay at that time and the amount, if any, by which the fair market value of the property at that time exceeds the fair market value at that time of the consideration given for the property, but nothing in this subsection limits the liability of the debtor or the transferor under any provision of this Act.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 160.4(2) of the Act after paragraph (*c*) is replaced by the following:

the transferee is jointly and severally, or solidarily, liable with the transferor and the debtor to pay an amount of the debtor's tax under this Part equal to the lesser of the amount of that tax that the transferor was liable to pay at that time and the amount, if any, by which the fair market value of the property at that time exceeds the fair market value at that time of the consideration given for the property, but nothing in this subsection limits the liability of the debtor or the transferor under any provision of this Act or of the transferee for the interest that the transferee is liable to pay under this Act on an assessment in respect of the amount that the transferee is liable to pay because of this subsection.

Applicable: To assessments made after December 20, 2002.

Explanatory Note: See the Explanatory Note following the amendment to subsection 160.4(1).

History: S. 160.4(2) was added by S.C. 1995, c. 21, s. 40(1), applicable to transfers that occur after December 20, 1994.

► 160.4(3) ◄

(3) Minister may assess recipient. The Minister may at any time assess a person in respect of any amount payable by the person because of this section and the provisions of this Division apply, with such modifications as the circumstances require, in respect of an assessment made under this section, as though it had been made under section 152.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 160.4(3) of the Act is replaced by the following:

(3) **Assessment.** The Minister may at any time assess a person in respect of any amount payable by the person because of this section, and the provisions of this Division (including, for greater certainty, the provisions in respect of interest payable) apply, with any modifications that the circumstances require, in respect of an assessment made under this section, as though it had been made under section 152 in respect of taxes payable under this Part.

Applicable: To assessments made after December 20, 2002.

Explanatory Note: See the Explanatory Note following the amendment to subsection 160.4(1).

History: S. 160.4(3) was added by S.C. 1995, c. 21, s. 40(1), applicable to transfers that occur after December 20, 1994.

► 160.4(4) ◄

(4) Rules applicable. Where a corporation and another person have, because of subsection (1) or (2), become jointly and severally liable in respect of part or all of a liability of the corporation under this Act

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 160.4(4) of the English version of the Act before paragraph (*a*) is replaced by the following:

(4) Rules applicable. Where a corporation and another person have, because of subsection (1) or (2), become jointly and severally, or solidarily, liable in respect of part or all of a liability of the corporation under this Act

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*a*) a payment by the other person on account of that person's liability shall to the extent thereof discharge the joint liability; and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 160.4(4)(*a*) of the Act is replaced by the following:

(*a*) a payment by the other person on account of that person's liability shall to the extent thereof discharge their liability; and

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*b*) a payment by the corporation on account of the corporation's liability discharges the other person's liability only to the extent that the payment operates to reduce the corporation's liability to an amount less than the amount in respect of which the other person was, by subsection (1) or (2), as the case may be, made liable.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 160.4(4)(*b*) of the English version of the Act is replaced by the following:

(*b*) a payment by the corporation on account of the corporation's liability discharges the other person's liability only to the extent that the payment operates to reduce the corporation's liability to an amount less than the amount in respect of which the other person was, by subsection (1) or (2), as the case may be, made jointly and severally, or solidarily, liable.

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

History: S. 160.4(4) was added by S.C. 1995, c. 21, s. 40(1), applicable to transfers that occur after December 20, 1994.

Interest*

SECTION 161:

▶ 161(1) ◀

(1) General. Where at any time after a taxpayer's balance-due day for a taxation year

(*a*) the total of the taxpayer's taxes payable under this Part and Parts I.3, VI and VI.1 for the year

exceeds

(*b*) the total of all amounts each of which is an amount paid at or before that time on account of the taxpayer's tax payable and applied as at that time by the Minister against the taxpayer's liability for an amount payable under this Part or Part I.3, VI or VI.1 for the year,

the taxpayer shall pay to the Receiver General interest at the prescribed rate on the excess, computed for the period during which that excess is outstanding.

History: S. 161(1), the portion before paragraph (*a*), was amended by S.C. 1997, c. 25, s. 50(1), applicable to the 1996 and subsequent taxation years. That part formerly read:

"(1) *General.* Where at any time after the day on or before which a taxpayer is required to pay the remainder of the taxpayer's tax payable under this Part for a taxation year (or would be so required if a remainder of such tax were payable),"

S. 161(1) was amended by S.C. 1994, c. 7, Sched. VIII, s. 96(1), applicable to the 1992 and subsequent taxation years. S. 161(1) formerly read:

"(1) Where at any time after the day on or before which a taxpayer is required to pay the remainder of the taxpayer's tax payable under this Part for a taxation year,

(*a*) the amount of the taxpayer's tax payable for the year under this Part exceeds

(*b*) the total of all amounts each of which is an amount paid at or before that time on account of the taxpayer's tax payable and applied as at that time by the Minister against the taxpayer's liability for an amount payable under this Part for the year,

the person liable to pay the tax shall pay to the Receiver General interest at the prescribed rate on the excess computed for the period during which that excess is outstanding."

Related Sections: S. 161.1 Offset of refund interest and arrears interest; s. 202(3) Provisions applicable to Part; s. 202(5) Interest; s. 207(3) Multiple holders; s. 207.2(3) Provisions applicable to Part; s. 248(1), "balance-due day"; s. 248(11) Compound interest; and ITAR s. 62(2) Interest.

Regulations: 4301.

Information Circulars: IC 07-1 Taxpayer Relief Provisions; IC 98-1R3 Collections policies.

▶ 161(2) ◀

(2) Interest on instalments. In addition to the interest payable under subsection (1), where a taxpayer who is required by this Part to pay a part or instalment of tax has failed to pay all or any part thereof on or before the day on

* Specified rates by quarter. Please note that, for the 1990 and subsequent taxation years, the rate is two percentage points lower for deemed interest on employee and shareholder loans. Effective July 1, 1995, the rate is two percentage points higher for late or deficient income tax payments and unremitted withholdings: 2009 — (1) 4%, (2) 3%, (3) 3%; 2008 — (1) 6%, (2) 6%, (3) 5%, (4) 5%; 2007 — (1) 7%, (2) 7%, (3) 7%, (4) 7%; 2006 — (1) 5%, (2) 6%, (3) 6%, (4) 7%; 2005 — (1) 5%, (2) 5%, (3) 5%, (4) 5%; 2004 — (1) 5%, (2) 5%, (3) 4%, (4) 5%; 2003 — (1) 5%, (2) 5%, (3) 6%, (4) 5%; 2002 — (1) 5%, (2) 4%, (3) 5%, (4) 5%; 2001 — (1) 8%, (2) 8%, (3) 7%, (4) 7%; 2000 — (1) 7%, (2) 8%, (3) 8%, (4) 8%; 1999 — (1) 7%, (2) 7%, (3) 7%; (4) 7%; 1998 — (1) 6%, (2) 7%, (3) 7%, (4) 7%; 1997 — (1) 6%, (2) 5%, (3) 6%; (4) 7%; 1996 — (1) 9%, (2) 8%, (3) 7%, (4) 7%; 1995 — (1) 8%, (2) 10%; (3) 11%; (4) 9%; 1994 — (1) 7%, (2) 6%, (3) 8%, (4) 9%; 1993 — (1) 10%, (2) 9%, (3) 8%, (4) 7%; 1992 — (1) 11%, (2) 10%, (3) 9%, (4) 8%; 1991 — (1) 15%, (2) 13%, (3) 12%, (4) 11%; 1990 — (1) 15%, (2) 15%, (3) 16%, (4) 16%; 1989 — (1) 11%, (2) 12%, (3) 13%, (4) 15% (13%); 1988 — (1) 9%, (2) 9%, (3) 9%, (4) 10%; 1987 — (1) 9%, (2) 8%, (3) 8%, (4) 9%; 1986 — (1) 9%, (2) 11%, (3) 10%, (4) 9%; 1985 — (1) 12%, (2) 10%, (3) 10%, (4) 10%; 1984 — (1) 10%, (2) 10%, (3) 11%, (4) 13%.

or before which the tax or instalment, as the case may be, was required to be paid, the taxpayer shall pay to the Receiver General interest at the prescribed rate on the amount that the taxpayer failed to pay computed from the day on or before which the amount was required to be paid to the day of payment, or to the beginning of the period in respect of which the taxpayer is required to pay interest thereon under subsection (1), whichever is earlier.

Related Sections: S. 155(1) Farmers and fishermen; s. 156(1) Other individuals; s. 157(1) Payment by corporations; S. 161(2.2) Contra interest; s. 161(4) Limitation — farmers and fishermen; s. 161(4.1) Limitation — corporations; s. 161(7) Effect of carryback of loss, etc; s. 164(4) Interest on interest repaid; s. 248(11) Compound interest; and ITAR s. 62(2) Interest.
Regulations: 4301.
Information Circulars: IC 07-1 Taxpayer Relief Provisions.
Cases: Interest was not to be charged after the date on which the taxpayer instructed the Minister to apply his refund to his instalment liability. *Smith v. M.N.R.*, 91 DTC 526 (T.C.C.).

Sec. 49(4), Chap. 21, 1996

(4) No interest is payable under subsection 161(2) of the Act in respect of any amount that became payable before July 1995 because of subsection 190.1(1.2) of the Act, as enacted by S.C. 1996, c. 21, s. 49(4).

► 161(2.1) ◄

(2.1) Exception. [Repealed by S.C. 2003, c. 15, s. 116(1).]

History: S. 161(2.1) was repealed by S.C. 2003, c. 15, s. 116(1), applicable to taxation years that end after June 2003. S. 161(2.1) formerly read:

"(2.1) *Exception.* Where the total of all amounts each of which is an amount of interest payable under subsection (2) by a taxpayer, including any interest payable under subsection (2) because of its application under section 36 of the *Canada Pension Plan* to any amount paid or payable under that Act, or under any provision of an Act of a province with which the Minister of Finance has entered into an agreement for the collection of the taxes payable to the province under that Act that is similar to subsection (2) does not exceed $25 for a taxation year, the Minister shall not assess the interest."

S. 161(2.1) was amended by S.C. 1994, c. 7, Sched. II, s. 133(1), effective December 17, 1991. S. 161(2.1) formerly read:

"(2.1) Where the total of all amounts each of which is an amount of interest payable by a taxpayer under subsection (2) or under any similar provision of an Act of a province with which the Minister of Finance has entered into an agreement for the collection of the taxes payable to the province under that Act does not exceed $25 for a taxation year, the Minister shall not assess that interest."

Related Sections: S. 248(1), "balance due day".

► 161(2.2) ◄

(2.2) Contra interest. Notwithstanding subsections (1) and (2), the total amount of interest payable by a taxpayer (other than a testamentary trust) under those subsections, for the period that begins on the first day of the taxation year for which a part or instalment of tax is payable and ends on the taxpayer's balance-due day for the year, in respect of the taxpayer's tax or instalments of tax payable for the year shall not exceed the amount, if any, by which

(*a*) the total amount of interest that would be payable for the period by the taxpayer under subsections (1) and (2) in respect of the taxpayer's tax and instalments of tax payable for the year if no amount were paid on account of the tax or instalments

exceeds

(*b*) the amount of interest that would be payable under subsection 164(3) to the taxpayer in respect of the period on the amount that would be refunded to the taxpayer in respect of the year or applied to another liability if

(i) no tax were payable by the taxpayer for the year,

(ii) no amount had been remitted under section 153 to the Receiver General on account of the taxpayer's tax for the year,

(iii) the rate of interest prescribed for the purpose of subsection (1) were prescribed for the purpose of subsection 164(3), and

(iv) the latest of the days described in paragraphs 164(3)(*a*), (*b*) and (*c*) were the first day of the year.

History: S. 161(2.2) was amended by S.C. 1997, c. 25, s. 50(2), applicable to the 1996 and subsequent taxation years. S. 161(2.2) formerly read:

"(2.2) *Interest on instalments.* Notwithstanding subsections (1) and (2), the total amount of interest payable by a taxpayer (other than a testamentary trust) under those subsections for the period commencing on the first day of the taxation year for which a part or instalment of tax is payable and ending

(*a*) where the taxpayer is a corporation, on the day on or before which the corporation is, pursuant to paragraph 157(1)(*b*), required to pay the remainder of its tax payable under this Part for the year or would be so required if a remainder of the tax were payable, and

(*b*) in the case of an individual, on the individual's balance-due day for the year,

in respect of the tax or instalments thereof payable for the year shall not exceed the amount, if any, by which

(*c*) the total amount of interest that would be payable for the period by the taxpayer under subsections (1) and (2) in respect of the taxpayer's tax and instalments thereof payable for the year if no amount were paid on account of the tax or instalments

exceeds

(*d*) the amount of interest that would be payable under subsection 164(3) to the taxpayer in respect of the period on the amount that would be refunded to the taxpayer in respect of the year or applied to another liability if

(i) no tax were payable by the taxpayer for the year,

(ii) no amount had been remitted under section 153 to the Receiver General on account of the taxpayer's tax for the year,

(iii) the rate of interest prescribed for the purpose of subsection (1) were prescribed for the purpose of subsection 164(3), and

(iv) the latest of the days described in paragraphs 164(3)(*a*), (*b*) and (*c*) were the first day of the year."

S. 161(2.2)(*d*) was amended by S.C. 1996, c. 21, s. 42(1), applicable to interest that is calculated in respect of periods after June 1995. S. 161(2.2)(*d*) formerly read:

"(*d*) the amount of interest that would be payable under subsection 164(3) to the taxpayer in respect of the period on the amount that would be refunded to the taxpayer in respect of the year or applied to another liability if no tax were payable by the taxpayer for the year, no amount had been remitted to the Receiver General on account of the taxpayer's tax for the year under section 153 and the latest of the days described in paragraphs 164(3)(*a*), (*b*) and (*c*) were the first day of the year."

S. 161(2.2)(*b*) was amended by S.C. 1994, c. 7, Sched. II, s. 133(2), applicable to the 1990 and subsequent taxation years. S. 161(2.2)(*b*) formerly read:

"(*b*) in any other case, on April 30 in the taxation year immediately following the year,"

Related Sections: S. 248(1), "balance-due day".
Regulations: 4301.

► 161(3) ◄

(3) Special case. [Repealed by S.C. 1994, c. 7, Sched. II, s. 133(3).]

History: S. 161(3) was repealed by S.C. 1994, c. 7, Sched. II, s. 133(3), applicable to the 1988 and subsequent taxation years. S. 161(3) formerly read:

"(3) In addition to the interest payable under subsection (1), where a corporation that paid tax for a taxation year under subsection 157(2) had a taxable income for the year of more than $10,000 or had a tax payable for the year under Part VI.1, it shall, forthwith after assessment, pay to the Receiver General an amount of interest equal to 3% of the aggregate of the taxes payable by it under this Part and Part VI.1 for the year."

► 161(4) ◄

(4) Limitation — farmers and fishermen. For the purposes of subsection (2) and section 163.1, where an individual is required to pay a part or instalment of tax for a taxation year computed by reference to a method described in subsection 155(1), the individual shall be deemed to have been liable to pay on or before the day referred to in subsection 155(1) a part or instalment computed by reference to

(*a*) the amount, if any, by which

(i) the tax payable under this Part by the individual for the year, determined before taking into consideration the specified future tax consequences for the year,

exceeds

(ii) the amounts deemed by subsections 120(2) and (2.2) to have been paid on account of the individual's tax under this Part for the year, determined before taking into consideration the specified future tax consequences for the year,

(*b*) the individual's instalment base for the preceding taxation year, or

(*c*) the amount stated to be the amount of the instalment payable by the individual for the year in the notice, if any, sent to the individual by the Minister,

whichever method gives rise to the least amount required to be paid by the individual on or before that day.

History: S. 161(4)(*a*)(ii) was amended by S.C. 2000, c. 19, s. 47(1), applicable to the 1999 and subsequent taxation years. S. 161(4)(*a*)(ii) formerly read:

"(ii) the amount deemed by subsection 120(2) to have been paid on account of the individual's tax under this Part for the year, determined before taking into consideration the specified future tax consequences for the year,"

S. 161(4)(*a*) was amended by S.C. 1997, c. 25, s. 50(3), applicable to the 1996 and subsequent taxation years. S. 161(4)(*a*) formerly read:

"(*a*) the amount, if any, by which the tax payable under this Part by the individual for the year exceeds the amount deemed by subsection 120(2) to have been paid on account of the individual's tax under this Part for the year,"

S. 161(4) was amended by S.C. 1994, c. 7, Sched. VIII, s. 96(2), applicable to the 1992 and subsequent taxation years except with respect to instalments of tax that became payable before June 11, 1993, it shall be read without reference to the words "and section 163.1". S. 161(4) formerly read:

"(4) *Limitation respecting individuals.* For the purposes of subsection (2), where an individual is required to pay a part or instalment of tax for a taxation year computed by reference to

(*a*) the amount estimated by the individual to be the tax payable under this Part by the individual for the year computed without reference to sections 127.2 and 127.3, or

(*b*) the individual's instalment base for the immediately preceding taxation year,

the individual shall be deemed to have been liable to pay a part or instalment computed by reference to the lesser of

(*c*) the amount, if any, by which the tax payable under this Part by the individual for the year computed without reference to sections 127.2 and 127.3 exceeds the amount deemed by subsection 120(2) to have been paid on account of the individual's tax under this Part for the year, and

(*d*) the individual's instalment base for the immediately preceding taxation year."

Related Sections: S. 155 Farmers and fishermen; s. 248(1), "specified future tax consequences".

► 161(4.01) ◄

(4.01) Limitation — other individuals. For the purposes of subsection (2) and section 163.1, where an individual is required to pay a part or instalment of tax for a taxation year computed by reference to a method described in subsection 156(1), the individual shall be deemed to have been liable to pay on or before each day referred to in subsection 156(1) a part or instalment computed by reference to

(*a*) the amount, if any, by which

(i) the tax payable under this Part by the individual for the year, determined before taking into consideration the specified future tax consequences for the year,

exceeds

(ii) the amounts deemed by subsections 120(2) and (2.2) to have been paid on account of the individual's tax under this Part for the year, determined before taking into consideration the specified future tax consequences for the year,

(*b*) the individual's instalment base for the preceding taxation year,

(*c*) the amounts determined under paragraph 156(1)(*b*) in respect of the individual for the year, or

(*d*) the amounts stated to be the amounts of instalments payable by the individual for the year in the notices, if any, sent to the individual by the Minister,

reduced by the amount, if any, determined under paragraph 156(2)(*b*) in respect of the individual for the year, whichever method gives rise to the least total amount of such parts or instalments required to be paid by the individual by that day.

History: S. 161(4.01)(*a*)(ii) was amended by S.C. 2000, c. 19, s. 47(2), applicable to the 1999 and subsequent taxation years. S. 161(4.01)(*a*)(ii) formerly read:

"(ii) the amount deemed by subsection 120(2) to have been paid on account of the individual's tax under this Part for the year, determined before taking into consideration the specified future tax consequences for the year,"

S. 161(4.01)(*a*) was amended by S.C. 1997, c. 25, s. 50(4), applicable to the 1996 and subsequent taxation years. S. 161(4.01)(*a*) formerly read:

"(*a*) the amount, if any, by which the tax payable under this Part by the individual for the year exceeds the amount deemed by subsection 120(2) to have been paid on account of the individual's tax under this Part for the year,"

S. 161(4.01), that portion following paragraph (*d*), was amended by S.C. 1994, c. 21, s. 79(1), applicable to the 1992 and subsequent taxation years. S. 161(4.01), that portion following paragraph (*d*), formerly read:

"reduced by the amount, if any, determined under paragraph 156(2)(*b*) in respect of the individual for the year, whichever method gives rise to the least amount required to be paid by the individual on or before that day."

S. 161(4.01) was added by S.C. 1994, c. 7, Sched. VIII, s. 96(2), applicable to the 1992 and subsequent taxation years except with respect to instalments of tax that became payable before June 11, 1993, it shall be read without reference to the words "and section 163.1".

Related Sections: S. 248(1), "specified future tax consequences".

► 161(4.1) ◄

(4.1) Limitation — corporations. For the purposes of subsection (2) and section 163.1, where a corporation is required to pay a part or instalment of tax for a taxation year computed by reference to a method described in subsection 157(1), (1.1) or (1.5), as the case may be, the corporation is deemed to have been liable to pay on or before each day on or before which subparagraph 157(1)(*a*)(i), (ii) or (iii), subparagraph 157(1.1)(*a*)(i), (ii) or (iii), or subparagraph 157(1.5)(*a*)(i) or (ii), as the case may be, requires a part or instalment to be made equal to the amount, if any, by which

(*a*) the part or instalment due on that day computed in accordance with whichever allowable method in the circumstances gives rise to the least total amount of such parts or instalments of tax for the year, computed by reference to

(i) the total of the taxes payable under this Part and Parts VI, VI.1 and XIII.1 by the corporation for the year, determined before taking into consideration the specified future tax consequences for the year,

(ii) its first instalment base for the year, or

(iii) its second instalment base and its first instalment base for the year,

exceeds

(*b*) the amount, if any, determined under any of paragraphs 157(3)(*b*) to (*e*) or under para-

graph 157(3.1)(*b*) or (*c*), as the case may be, in respect of that instalment.

History: S. 161(4.1) was replaced by S.C. 2007, c. 35, s. 52(1), applicable to taxation years that begin after 2007. S. 161(4.1) formerly read:

"(4.1) *Limitation — corporations.* For the purposes of subsection (2) and section 163.1, where a corporation is required to pay a part or instalment of tax for a taxation year computed by reference to a method described in subsection 157(1), the corporation shall be deemed to have been liable to pay on or before each day referred to in subparagraphs 157(1)(*a*)(i) to (iii) a part or instalment computed by reference to

(*a*) the total of the taxes payable under this Part and Parts I.3, VI and VI.1 by the corporation for the year, determined before taking into consideration the specified future tax consequences for the year,

(*b*) its first instalment base for the year, or

(*c*) its second instalment base and its first instalment base for the year,

reduced by the amount, if any, determined under any of paragraphs 157(3)(*b*) to (*d*) in respect of the corporation for the year, whichever method gives rise to the least total amount of such parts or instalments of tax for the year."

S. 161(4.1)(*a*) was amended by S.C. 1997, c. 25, s. 50(5), applicable to the 1996 and subsequent taxation years. S. 161(4.1)(*a*) formerly read:

"(*a*) the total of the taxes payable under this Part and Parts I.3, VI and VI.1 by the corporation for the year,"

S. 161(4.1), that portion following paragraph (*c*), was amended by S.C. 1994, c. 21, s. 79(2), applicable to the 1992 and subsequent taxation years. S. 161(4.1), that portion following paragraph (*c*), formerly read:

"reduced by the amount, if any, determined under any of paragraphs 157(3)(*b*) to (*d*) in respect of the corporation for the year, whichever method gives rise to the least amount required to be paid by the corporation on or before that day."

S. 161(4.1) was amended by S.C. 1994, c. 7, Sched. VIII, s. 96(2), applicable to the 1992 and subsequent taxation years except that with respect to instalments of tax that became payable before June 11, 1993, it shall be read without reference to the words "section 163.1". S. 161(4.1) formerly read:

"(4.1) *Limitation respecting corporations.* For the purposes of subsection (2), where a corporation is required to pay a part or instalment of tax for a taxation year computed by reference to a method described in subsection 157(1), the corporation shall be deemed to have been liable to pay a part or instalment computed by reference to

(*a*) the total of the taxes payable under this Part and Part VI.1 by it for the year,

(*b*) its first instalment base for the year, or

(*c*) its second instalment base and its first instalment base for the year,

whichever method gives rise to the least amount required to be paid by the corporation on or before the days referred to in subparagraphs 157(1)(*a*)(i) to (iii)."

Related Sections: S. 248(1), "specified future tax consequences".

► 161(5) ◄

(5) Participation certificates. Notwithstanding any other provision in this section, no interest is payable in respect of the amount by which the tax payable by a person is increased by a payment made by The Canadian Wheat Board on a participation certificate previously issued to the person until 30 days after the payment is made.

► 161(6) ◄

(6) Income of resident from a foreign country in blocked currency. Where the income of a taxpayer for a taxation year, or part thereof, is from sources in another country and the taxpayer by reason of monetary or exchange restrictions imposed by the law of that country is unable to transfer it to Canada, the Minister may, if the Minister is satisfied that payment as required by this Part of the whole of the additional tax under this Part for the year reasonably attributable to income from sources in that country would impose extreme hardship on the taxpayer, postpone the time for payment of the whole or a part of that additional tax for a period to be determined by the Minister, but no such postponement may be granted if any of the income for the year from sources in that country has been

(*a*) transferred to Canada,

(*b*) used by the taxpayer for any purpose whatever, other than payment of income tax to the government of that other country on income from sources in that country, or

(*c*) disposed of by the taxpayer,

and no interest is payable under this section in respect of that additional tax, or part thereof, during the period of postponement.

Interpretation Bulletins: *Primary* — IT-351 Income from a foreign source — Blocked currency [Archived by the CRA].

► 161(6.1) ◄

(6.1) Foreign tax credit adjustment. Notwithstanding any other provision in this section, where the tax payable under this Part by a taxpayer for a particular taxation year is increased because of

(*a*) an adjustment of an income or profits tax payable by the taxpayer to the government of a country other than Canada or to the government of a state, province or other political subdivision of such a country, or

(*b*) a reduction in the amount of foreign tax deductible under subsection 126(1) or (2) in computing the taxpayer's tax otherwise payable under this Part for the particular year, as a result of the application of subsection 126(4.2) in respect of a share or debt obligation disposed of by the taxpayer in the taxation year following the particular year,

no interest is payable, in respect of the increase in the taxpayer's tax payable, for the period

(*c*) that ends 90 days after the day on which the taxpayer is first notified of the amount of the adjustment, if paragraph (*a*) applies, and

(*d*) before the date of the disposition, if paragraph (*b*) applies.

History: S. 161(6.1) was amended by S.C. 1999, c. 22, s. 64(1), applicable to the 1998 and subsequent taxation years. S. 161(6.1) formerly read:

"(6.1) *Adjustment of foreign tax payable.* Notwithstanding any other provision in this section, where the tax payable under this Part by a taxpayer for a taxation year is increased by virtue of an adjustment of an income or profits tax payable by the taxpayer to the government of a country other than Canada or to the government of a state, province or other political subdivision of any such country, no interest is payable, in respect of the increase in the taxpayer's tax payable, for the period ending 90 days after the day on which the taxpayer is first notified of the amount of the adjustment."

► 161(6.2) ◄

(6.2) Flow-through share renunciations. Where the tax payable under this Part by a taxpayer for a taxation year is more than it otherwise would be because of a consequence for the year described in paragraph (*b*) of the definition "specified future tax consequence" in subsection 248(1) in respect of an amount purported to be renounced in a calendar year, for the purposes of the provisions of this Act (other than this subsection) relating to interest payable under this Act, an amount equal to the additional tax payable is deemed

(*a*) to have been paid on the taxpayer's balance-due day for the taxation year on account of the taxpayer's tax payable under this Part for the year; and

(*b*) to have been refunded on April 30 of the following calendar year to the taxpayer on account of the taxpayer's tax payable under this Part for the taxation year.

History: S. 161(6.2) was added by S.C. 1997, c. 25, s. 50(6), applicable to the 1996 and subsequent taxation years.

Related Sections: S. 66(12.6) Canadian exploration expenses to flow-through shareholder; s. 66(12.601) Flow-through share rules for first $1 million of Canadian development expenses; s. 66(12.66) Expenses in the first 60 days of year; s. 66(12.73) Reductions in renunciations; s. 248(1), "specified future tax consequences".

► 161(7) ◄

(7) Effect of carryback of loss, etc. For the purpose of computing interest under subsection (1) or (2) on tax or a part of an instalment of tax for a taxation year, and for the purpose of section 163.1,

(*a*) the tax payable under this Part and Parts I.3, VI and VI.1 by the taxpayer for the year is deemed to be the amount that it would be if the consequences of the deduction or exclusion of the following amounts were not taken into consideration:

(i) any amount deducted under section 119 in respect of a disposition in a subsequent taxation year,

(ii) any amount deducted under section 41 in respect of the taxpayer's listed-personal-property loss for a subsequent taxation year,

(iii) any amount excluded from the taxpayer's income for the year by virtue of section 49 in respect of the exercise of an option in a subsequent taxation year,

(iv) any amount deducted under section 118.1 in respect of a gift made in a subsequent taxation year or under section 111 in respect of a loss for a subsequent taxation year,

(iv.1) any amount deducted under subsection 126(2) in respect of an unused foreign tax credit (within the meaning assigned by subsection 126(7)), or under subsection 126(2.21) or (2.22) in respect of foreign taxes paid, for a subsequent taxation year,

(iv.2) any amount deducted in computing the taxpayer's income for the year by virtue of an election in a subsequent taxation year under paragraph 164(6)(*c*) or (*d*) by the taxpayer's legal representative,

(v) any amount deducted under subsection 127(5) in respect of property acquired or an expenditure made in a subsequent taxation year,

(vi) any amount deducted under section 125.2 in respect of an unused Part VI tax credit (within the meaning assigned by subsection 125.2(3)) for a subsequent taxation year,

(vi.1) [Repealed by 1988, c. 55, s. 140(5).]

(vii) any amount deducted under section 125.3 in respect of an unused Part I.3 tax credit (within the meaning assigned by subsection 125.3(3)) for a subsequent taxation year,

(viii) any amount deducted, in respect of a repayment under subsection 68.4(7) of the *Excise Tax Act* made in a subsequent taxation year, in computing the amount determined under subparagraph 12(1)(*x.1*)(ii),

(viii.1) any amount deducted under subsection 147.2(4) in computing the taxpayer's income for the year because of the application of subsection 147.2(6) as a result of the taxpayer's death in the subsequent taxation year,

(ix) any amount deducted under subsection 181.1(4) in respect of any unused surtax credit (within the meaning assigned by subsection 181.1(6)) of the taxpayer for a subsequent taxation year,

(x) any amount deducted under subsection 190.1(3) in respect of any unused Part I tax credit (within the meaning assigned by subsection 190.1(5)) of the taxpayer for a subsequent taxation year, and

(xi) any amount deducted under any of subsections 128.1(6) to (8) from the taxpayer's proceeds of disposition of a property because of an election made in a return of income for a subsequent taxation year; and

(*b*) the amount by which the tax payable under this Part and Parts I.3, VI and VI.1 by the taxpayer for the year is reduced as a consequence of the deduction or exclusion of amounts described in paragraph (*a*) is deemed to have been paid on account of the taxpayer's tax payable under this Part for the year on the day that is 30 days after the latest of

(i) the first day immediately following that subsequent taxation year,

(ii) the day on which the taxpayer's or the taxpayer's legal representative's return of income for that subsequent taxation year was filed,

(iii) where an amended return of the taxpayer's income for the year or a prescribed form amending the taxpayer's return of income for the year was filed in accordance with subsection 49(4) or 152(6) or paragraph 164(6)(*e*), the day on which the amended return or prescribed form was filed, and

(iv) where, as a consequence of a request in writing, the Minister reassessed the taxpayer's tax for the year to take into account the deduction or exclusion, the day on which the request was made.

History: S. 161(7)(*b*), the portion before subparagraph (i) was replaced by S.C. 2003, c. 15, s. 116(2), applicable in respect of applications received after June 2003. S. 161(7)(*b*, the portion before subparagraph (i) formerly read:

"(*b*) the amount by which the tax payable under this Part and Parts I.3, VI and VI.1 by the taxpayer for the year is reduced as a consequence of the deduction or exclusion of amounts described in paragraph (*a*) is deemed to have been paid on account of the taxpayer's tax payable under this Part for the year on the day that is the latest of"

S. 161(7)(*a*)(i) was added by S.C. 2001, c. 17, s. 155(1), applicable to taxation years that end after October 1, 1996.

S. 161(7)(*a*)(iv.1) was amended by S.C. 2001, c. 17, s. 155(2), applicable to taxation years that end after October 1, 1996. S. 161(7)(*a*)(iv.1) formerly read:

"(iv.1) any amount deducted under subsection 126(2) in respect of an unused foreign tax credit (within the meaning assigned by subsection 126(7)) for a subsequent taxation year,"

S. 161(7)(*a*)(xi) was added by S.C. 2001, c. 17, s. 155(3), applicable to taxation years that end after October 1, 1996.

S. 161(7)(*a*), the portion before subparagraph (i) was amended by S.C. 1998, c. 19, s. 187(1), applicable to amounts that become payable after December 1995. S. 161(7)(*a*), the portion before subparagraph (i) formerly read:

"(*a*) the tax payable by the taxpayer under this Part and Parts I.3, VI and VI.1 for the year shall be deemed to be the amount that it would have been if none of the following amounts, namely,"

S. 161(7)(*a*)(viii.1) was added by S.C. 1998, c. 19, s. 187(2), applicable to taxpayers who die after 1992.

S. 161(7)(*a*), the portion after subparagraph (x) was repealed by S.C. 1998, c. 19, s. 187(3), applicable to amounts that become payable after December 1995. S. 161(7)(*a*), the portion after subparagraph (x) formerly read:

"were so excluded or deducted for the year, as the case may be; and"

S. 161(7)(*b*), the portion before subparagraph (i) was amended by S.C. 1998, c. 19, s. 187(4), applicable to amounts that become payable after December 1995. S. 161(7)(*b*), the portion before subparagraph (i) formerly read:

"(*b*) the amount by which the tax payable by the taxpayer under this Part and Parts I.3, VI and VI.1 for the year is reduced because of the exclusion or deduction, as the case may be, of an amount described in any of subparagraphs (*a*)(ii) to (x) of this subsection and subparagraph

161(7)(*a*)(i) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952 shall be deemed to have been paid by the taxpayer on account of the taxpayer's tax payable for the year under this Part on the day that is the latest of"

S. 161(7)(*a*)(viii) was amended by S.C. 1997, c. 26, s. 85(1), applicable to the 1997 and subsequent taxation years. S. 161(7)(*a*)(viii) formerly read:

"(viii) any amount excluded from the amount determined under clause 12(1)(x.1)(ii)(A) because of subclause 12(1)(x.1)(ii)(A)(II) in respect of a fuel tax rebate repayment made in a subsequent taxation year,"

S. 161(7)(*a*)(ix) and (x) were amended by S.C. 1997, c. 25, s. 50(7). The amendment to subparagraph (ix) is applicable to the 1992 and subsequent taxation years, and the amendment to subparagraph (x) is applicable to the 1991 and subsequent taxation years. Those subparagraphs formerly read:

"(ix) any amount deducted for a subsequent taxation year under subsection 181.1(4) in respect of any unused surtax credit (within the meaning assigned by subsection 181.1(6)) of the taxpayer, or

(x) any amount deducted for a subsequent taxation year under subsection 190.1(3) in respect of any unused Part I tax credit (within the meaning assigned by subsection 190.1(5)) of the taxpayer,"

S. 161(7), that portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 96(3), applicable with respect to instalments of tax that became payable after June 10, 1993, to add the phrase "and for the purpose of section 163.1".

S. 161(7)(*a*), the portion preceding subparagraph (i), was amended by S.C. 1994, c. 7, Sched. VIII, s. 96(4), applicable to the 1992 and subsequent taxation years to add the words "Parts I.3, VI and VI.1".

S. 161(7)(*a*)(ix) was added by S.C. 1994, c. 7, Sched. VIII, s. 96(5), applicable to the 1992 and subsequent taxation years.

S. 161(7)(*a*)(x) was added by S.C. 1994, c. 7, Sched. VIII, s. 96(5), applicable to the 1991 and subsequent taxation years.

S. 161(7)(*b*), that portion preceding subparagraph (i), was amended by S.C. 1994, c. 7, Sched. VIII, s. 96(6), applicable to the 1991 and subsequent taxation years except that in its application to the 1991 taxation year, it shall be read without reference to the words "and Parts I.3, VI and VI.1". That portion of s. 161(7)(*b*) preceding subparagraph (i) formerly read:

"(*b*) the amount by which the tax payable under this Part for the year is reduced because of the exclusion or deduction, as the case may be, of an amount described in any of subparagraphs (*a*)(ii) to (viii) of this subsection and subparagraph 161(7)(*a*)(i) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, is deemed to have been paid by the taxpayer on account of the taxpayer's tax payable for the year under this Part on the day that is the latest of"

S. 161(7)(*a*)(viii) was added by S.C. 1994, c. 7, Sched. VI, s. 8(1), applicable to the 1992 and subsequent taxation years.

S. 161(7)(*b*), the portion preceding subparagraph (i), was amended by S.C. 1994, c. 7, Sched. VI, s. 8(2), applicable to the 1992 and subsequent taxation years. S. 161(7)(*b*) formerly read:

"(*b*) the amount by which the tax payable by the taxpayer under this Part for the year is reduced by virtue of the exclusion or deduction, as the case may be, of an amount described in any of subparagraphs (*a*)(ii) to (vii) of this subsection and subparagraph 161(7)(*a*)(i) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, shall be deemed to have been paid by the taxpayer on account of the taxpayer's tax payable for the year under this Part on the day that is the latest of"

Cases: Since s. 161(7) refers to "tax payable" on the basis of the particular way in which a taxpayer has chosen to compute its taxable income and not to the tax which might have been payable had another option been chosen, interest was owed by the taxpayer on an unreported taxable capital gain in 1981 which could have been offset by his capital losses in 1982. *Connaught Laboratories Limited v. The Queen*, 94 DTC 6697 (F.C.T.D.).

► 161(8) ◄

(8) Certain amounts deemed to be paid as instalments. For the purposes of subsection (2), where in a taxation year an amount has been paid by a non-resident person pursuant to subsection 116(2) or (4) or an amount has been paid on that person's behalf by another person in accordance with subsection 116(5), the amount shall be deemed to have been paid by that non-resident person in the year as an instalment of tax on the first day on which the non-resident person was required under this Act to pay an instalment of tax for that year.

Related Sections: S. 116(2) Certificate in respect of proposed disposition; s. 116(4) Certificate in respect of property disposed of; s. 116(5) Liability of purchaser; s. 161(2) Interest on instalments.

► 161(9) ◄

(9) Definitions of "instalment base", etc. In this section,

(*a*) "instalment base" of an individual for a taxation year means the amount determined in prescribed manner to be the individual's instalment base for the year; and

(*b*) "first instalment base" and "second instalment base" of a corporation for a taxation year have the meanings prescribed by regulation.

Regulations: 5300; 5301.

► 161(10) ◄

(10) When amount deemed paid. For the purposes of subsection (2), where an amount has been deducted by virtue of paragraph 127.2(1)(*a*) or 127.3(1)(*a*) in computing the tax payable under this Part by a taxpayer for a taxation year, the amount so deducted shall be deemed to have been paid by the taxpayer

(*a*) in the case of a taxpayer who has filed a return of income under this Part for the year as required by section 150, on the last day of the year; and

(*b*) in any other case, on the day on which the taxpayer filed the taxpayer's return of income under this Part for the year.

► 161(11) ◄

(11) Interest on penalties. Where a taxpayer is required to pay a penalty, the taxpayer shall pay the penalty to the Receiver General together with interest thereon at the prescribed rate computed,

(*a*) in the case of a penalty payable under section 162, 163 or 235, from the day on or before which

(i) the taxpayer's return of income for a taxation year in respect of which the penalty is payable was required to be filed, or would have been required to be filed if tax under this Part were payable by the taxpayer for the year, or

(ii) the information return, return, ownership certificate or other document in respect of which the penalty is payable was required to be made,

as the case may be, to the day of payment;

(*b*) in the case of a penalty payable for a taxation year because of section 163.1, from the taxpayer's balance-due day for the year to the day of payment of the penalty;

(*b*.1) in the case of a penalty under subsection 237.1(7.4), from the day on which the taxpayer became liable to the penalty to the day of payment; and

(*c*) in the case of a penalty payable by reason of any other provision of this Act, from the day of mailing of the notice of original assessment of the penalty to the day of payment.

History: S. 161(11)(*b*.1) was added by S.C. 1998, c. 19, s. 187(5), applicable after December 1, 1994.

S. 161(11)(*b*) was amended by S.C. 1997, c. 25, s. 50(8), applicable to the 1996 and subsequent taxation years. S. 161(11)(*b*) formerly read:

"(*b*) in the case of a penalty payable for a taxation year by reason of section 163.1, from the day on or before which the taxpayer is required to pay the remainder of the taxpayer's tax payable under this Part for the year to the day of payment of the penalty; and"

S. 161(11)(*a*), that portion preceding subparagraph (i), was amended by S.C. 1994, c. 7, Sched. II, s. 133(4), by substituting ", 163 or 235" for "or 163", effective December 17, 1991.

Related Sections: S. 235 Penalty for failing to file corporate returns; s. 248(1), "balance-due day"; s. 248(11) Compound interest.

Regulations: 4301.

Information Circulars: IC 07-1 Taxpayer Relief Provisions.

► 161(12) ◄

(12) Partnership liable to interest. [Repealed by S.C. 2000, c. 19, s. 47(3).]

History: S. 161(12) was repealed by S.C. 2000, c. 19, s. 47(3), applicable on Royal Assent, June 29, 2000. S. 161(12) formerly read:

"(12) *Partnership liable to interest.* Where a partnership is liable to a penalty under subsection 237.1(7.4), sections 152, 158 to 160.1, this section and sections 164 to 167 and Division J apply, with such modifications as the circumstances require, with respect to interest on the penalty as if the partnership were a corporation."

S. 161(12) was added by S.C. 1998, c. 19, s. 187(6), applicable after December 1, 1994.

Related Sections: S. 163(2.9) Where partnership liable to penalty.

Offset of Refund Interest and Arrears Interest

SECTION 161.1:

► 161.1(1) ◄

(1) Definitions. The definitions in this subsection apply in this section.

"accumulated overpayment amount" — "accumulated overpayment amount", of a corporation for a period, means the overpayment amount of the corporation for the period together with refund interest (including, for greater certainty, compound interest) that accrued with respect to the overpayment amount before the date specified under paragraph (3)(*b*) by the corporation in its application for the period.

History: S. 161.1(1), the definition "accumulated overpayment amount" was added by S.C. 2000, c. 19, s. 48(1), applicable after 1999.

"accumulated underpayment amount" — "accumulated underpayment amount", of a corporation for a period, means the underpayment amount of the corporation for the period together with arrears interest (including, for greater certainty, compound interest) that accrued with respect to the underpayment amount before the date specified under paragraph (3)(*b*) by the corporation in its application for the period.

History: S. 161.1(1), the definition "accumulated underpayment amount" was added by S.C. 2000, c. 19, s. 48(1), applicable after 1999.

"arrears interest" — "arrears interest" means interest computed under paragraph (5)(*b*), 129(2.2)(*b*), 131(3.2)(*b*), 132(2.2)(*b*), 133(7.02)(*b*) or 160.1(1)(*b*), subsection 161(1) or (11), paragraph 164(3.1)(*b*) or (4)(*b*) or subsection 187(2).

History: S. 161.1(1), the definition "arrears interest" was added by S.C. 2000, c. 19, s. 48(1), applicable after 1999.

"overpayment amount" — "overpayment amount", of a corporation for a period, means the amount referred to in subparagraph (2)(*a*)(i) that is refunded to the corporation, or the amount referred to in subparagraph (2)(*a*)(ii) to which the corporation is entitled.

History: S. 161.1(1), the definition "overpayment amount" was added by S.C. 2000, c. 19, s. 48(1), applicable after 1999.

"refund interest" — "refund interest" means interest computed under subsection 129(2.1), 131(3.1), 132(2.1), 133(7.01) or 164(3) or (3.2).

History: S. 161.1(1), the definition "refund interest" was added by S.C. 2000, c. 19, s. 48(1), applicable after 1999.

"underpayment amount" — "underpayment amount", of a corporation for a period, means the amount referred to in paragraph (2)(*b*) payable by the corporation on which arrears interest is computed.

History: S. 161.1(1), the definition "underpayment amount" was added by S.C. 2000, c. 19, s. 48(1), applicable after 1999.

Department of Finance Press Release

Information Released with Draft Legislation December 21, 2000

[Reproduced below is an excerpt from the Backgrounder released with Department of Finance News Release No. 2000-101, dated December 21, 2000, which accompanied the draft legislation arising from the 2000 Budget and the October 2000 Economic Statement and Budget Update.]

Offset Interest

The 2000 budget proposed an interest offset mechanism in respect of overpayments and underpayments of tax by individuals. The Department of Finance and the Canada Customs and Revenue Agency are working to develop a mechanism under which this proposal can be given effect, for implementation at the earliest opportunity.

For further information:

Tax Legislation Division — General Number

(613) 943-9412

2000 Federal Budget Resolution

Offsetting of Interest on Personal Tax Overpayments and Underpayments

(23) That, for individuals other than trusts, the taxable amount of refund interest accruing over any period after 1999 on overpayments of income tax be reduced by the amount of any arrears interest accruing over the same period on unpaid income tax.

Editorial Comment: Interest that is paid to an individual taxpayer on a refund resulting from an overpayment of tax is included in the individual's income. However, if the individual is subject to interest on tax arrears, the interest paid by the individual is not deductible from income. Accordingly, in those situations where an individual owes arrears interest in respect of a taxation year and is owed refund interest in respect of another taxation year, an element of double taxation results.

The budget proposal allows the individual's refund interest accruing over a period to be offset by any arrears interest that accrued over the same period to which the refund interest relates. Only the excess refund interest will be taxable to the individual. (Note that a similar rule was announced in last year's budget for corporate taxpayers.) The proposal applies to individuals, other than trusts, in respect of refund and arrears interest that accrues after 1999, regardless of the taxation year to which the amounts relate.

► 161.1(2) ◄

(2) Concurrent refund interest and arrears interest. A corporation may apply in writing to the Minister for the reallocation of an accumulated overpayment amount for a period that begins after 1999 on account of an accumulated underpayment amount for the period if, in respect of tax paid or payable by the corporation under this Part or Part I.3, II, IV, IV.1, VI, VI.1 or XIV,

(*a*) refund interest for the period

(i) is computed on an amount refunded to the corporation, or

(ii) would be computed on an amount to which the corporation is entitled, if that amount were refunded to the corporation; and

(*b*) arrears interest for the period is computed on an amount payable by the corporation.

History: S. 161.1(2) was added by S.C. 2000, c. 19, s. 48(1), applicable after 1999.

► 161.1(3) ◄

(3) Contents of application. A corporation's application referred to in subsection (2) for a period is deemed not to have been made unless

(*a*) it specifies the amount to be reallocated, which shall not exceed the lesser of the corporation's accumulated overpayment amount for the period and its accumulated underpayment amount for the period;

(*b*) it specifies the effective date for the reallocation, which shall not be earlier than the latest of

(i) the date from which refund interest is computed on the corporation's overpayment amount for the period, or would be so computed if the overpayment amount were refunded to the corporation,

(ii) the date from which arrears interest is computed on the corporation's underpayment amount for the period, and

(iii) January 1, 2000; and

(*c*) it is made on or before the day that is 90 days after the latest of

(i) the day of mailing of the first notice of assessment giving rise to any portion of the corporation's overpayment amount to which the application relates,

(ii) the day of mailing of the first notice of assessment giving rise to any portion of the corporation's underpayment amount to which the application relates,

(iii) if the corporation has served a notice of objection to an assessment referred to in subparagraph (i) or (ii), the day of mailing of the notification under subsection 165(3) by the Minister in respect of the notice of objection,

(iv) if the corporation has appealed, or applied for leave to appeal, from an assessment referred to in subparagraph (i) or (ii) to a court of competent jurisdiction, the day on which the court dismisses the application, the application or appeal is discontinued or final judgment is pronounced in the appeal, and

(v) the day of mailing of the first notice to the corporation indicating that the Minister has determined any portion of the corporation's overpayment amount to which the application relates, if the overpayment amount has not been determined as a result of a notice of assessment mailed before that day.

History: S. 161.1(3) was added by S.C. 2000, c. 19, s. 48(1), applicable after 1999.

► 161.1(4) ◄

(4) Reallocation. The amount to be reallocated that is specified under paragraph (3)(*a*) by a corporation is deemed to have been refunded to the corporation and paid on account of the accumulated underpayment amount on the date specified under paragraph (3)(*b*) by the corporation.

History: S. 161.1(4) was added by S.C. 2000, c. 19, s. 48(1), applicable after 1999.

► 161.1(5) ◄

(5) Repayment of refund. If an application in respect of a period is made under subsection (2) by a corporation and a portion of the amount to be reallocated has been refunded to the corporation, the following rules apply:

(*a*) a particular amount equal to the total of

(i) the portion of the amount to be reallocated that was refunded to the corporation, and

(ii) refund interest paid or credited to the corporation in respect of that portion

is deemed to have become payable by the corporation on the day on which the portion was refunded; and

(*b*) the corporation shall pay to the Receiver General interest at the prescribed rate on the particular amount from the day referred to in paragraph (*a*) to the date of payment.

History: S. 161.1(5) was added by S.C. 2000, c. 19, s. 48(1), applicable after 1999.

Related Sections: S. 248(11) Compound interest.

► 161.1(6) ◄

(6) Consequential reallocations. If a particular reallocation of an accumulated overpayment amount under subsection (4) results in a new accumulated overpayment amount of the corporation for a period, the new accumulated overpayment amount shall not be reallocated under this section unless the corporation so applies in its application for the particular reallocation.

History: S. 161.1(6) was added by S.C. 2000, c. 19, s. 48(1), applicable after 1999.

► 161.1(7) ◄

(7) Assessments. Notwithstanding subsections 152(4), (4.01) and (5), the Minister shall assess or reassess interest and penalties payable by a corporation in respect of any taxation year as necessary in order to take into account a reallocation of amounts under this section.

History: S. 161.1(7) was added by S.C. 2000, c. 19, s. 48(1), applicable after 1999.

SECTION 161.2: Period where interest not payable.

Notwithstanding any other provision of this Act, if the Minister notifies a taxpayer that the taxpayer is required to pay a specified amount under this Act and the taxpayer pays the specified amount in full before the end of the period that the Minister specifies with the notice, interest is not payable on the specified amount for the period.

History: S. 161.2 was added by S.C. 2003, c. 15, s. 117(1), and comes into force or is deemed to have come into force on July 1, 2003.

Related Sections: S. 161(1) Interest; s. 161(2) Interest on instalments.

Small Amounts Owing

SECTION 161.3: Interest and penalty amounts of $25 or less.

If, at any time, a person pays an amount not less than the total of all amounts, other than interest and penalty, owing at that time to Her Majesty in right of Canada under this Act for a taxation year of the person and the total amount of interest and penalty payable by the person under this Act for that year is not more than $25.00, the Minister may cancel the interest and penalty.

History: S. 161.3 was added by S.C. 2003, c. 15, s. 117(1), applicable to taxation years that end after June 2003.

SECTION 161.4:

► 161.4(1) ◄

(1) Taxpayer. If the Minister determines, at any time, that the total of all amounts owing by a person to Her Majesty in right of Canada under this Act does not exceed two dollars, those amounts are deemed to be nil.

History: S. 161.4(1) was added by S.C. 2003, c. 15, s. 117(1), applicable to amounts owing or payable, as the case may be, after June 2003.

► 161.4(2) ◄

(2) Minister. If, at any time, the total of all amounts payable by the Minister to a person under this Act does not exceed two dollars, the Minister may apply those amounts against any amount owing, at that time, by the person to Her Majesty in right of Canada. However, if the person, at that time, does not owe any amount to Her Majesty in right of Canada, those amounts payable are deemed to be nil.

History: S. 161.4(2) was replaced by S.C. 2006, c. 4, s. 162(1), applicable to amounts owing on or after April 1, 2007. S. 161.4(2) formerly read:

"(2) *Minister.* If, at any time, the total of all amounts payable by the Minister to a person under this Act does not exceed two dollars, the Minister shall apply those amounts against any amount owing, at that time, by the person to Her Majesty in right of Canada. However, if the person, at that time, does not owe any amount to Her Majesty, those amounts payable are deemed to be nil."

S. 161.4(2) was added by S.C. 2003, c. 15, s. 117(1), applicable to amounts owing or payable, as the case may be, after June 2003.

Penalties

SECTION 162:

► 162(1) ◄

(1) Failure to file return of income. Every person who fails to file a return of income for a taxation year as and when required by subsection 150(1) is liable to a penalty equal to the total of

(*a*) an amount equal to 5% of the person's tax payable under this Part for the year that was unpaid when the return was required to be filed, and

(*b*) the product obtained when 1% of the person's tax payable under this Part for the year that was unpaid when the return was required to be filed is multiplied by the number of complete months, not exceeding 12, from the date on which the return was required to be filed to the date on which the return was filed.

History: S. 162(1) was amended by 1988, c. 55, s. 141(1), as amended by S.C. 1994, c. 7, Sched. II, s. 245(1), effective September 13, 1988. S. 162(1) formerly read:

"S. 162. *Failure to file return.*

(1) Every person who has failed to file a return of income for a taxation year as and when required by subsection 150(1) is liable to a penalty equal to the total of

(*a*) an amount equal to 5% of the person's tax for the year that was unpaid when the return was required to be filed, and

(*b*) the product obtained when 1% of the person's tax for the year that was unpaid when the return was required to be filed is multiplied by the number of complete months, not exceeding 12, from the date on which the return was required to be filed to the date on which the return was filed."

Related Sections: S. 150(1) Filing returns of income — general rule; s. 161(11) Interest on penalties; s. 162(11) Effect of subsequent events; s. 239(3) Penalty on conviction; s. 248(1), "amount", "individual", "prescribed".

Information Circulars: IC 07-1 Taxpayer Relief Provisions; IC 00-1R2 Voluntary disclosures program.

Tax Profile: August 2005 — Canada Revenue Agency's Recent Attack on U.S. Companies.

Cases: A late filing penalty still applied although the tax owing had been subsequently reduced to nil through the application of a non-capital loss carry-back. All late filing penalties are to be computed as a percentage of the tax actually owing when the return was required to be filed. *Reemark Chelsea Terraces Project Ltd. v. the Queen,* 93 DTC 469 (T.C.C.).

Due to his wife's illness followed by her death on April 29, 1986, the taxpayer's 1985 tax return was not filed until May 16, 1986. Despite the obvious sympathy for the taxpayer, the penalty provisions of s. 162(1) left the Court with no alternative but to affirm the penalty of $1,314 which the Minister had imposed. *Biello v. M.N.R.,* 93 DTC 1169 (T.C.C.).

► 162(2) ◄

(2) Repeated failure to file. Every person

(*a*) who fails to file a return of income for a taxation year as and when required by subsection 150(1),

(*b*) on whom a demand for a return for the year has been served under subsection 150(2), and

(*c*) by whom, before the time of failure, a penalty was payable under this subsection or subsection (1) in respect of a return of income for any of the 3 preceding taxation years

is liable to a penalty equal to the total of

(*d*) an amount equal to 10% of the person's tax payable under this Part for the year that was unpaid when the return was required to be filed, and

(*e*) the product obtained when 2% of the person's tax payable under this Part for the year that was unpaid when the return was required to be filed is multiplied by the number of complete months, not exceeding 20, from the date on which the return was required to be filed to the date on which the return was filed.

History: S. 162(2) was amended by 1988, c. 55, s. 141(1), as amended by S.C. 1994, c. 7, Sched. II, s. 245(1), effective September 13, 1988. S. 162(2) formerly read:

"(2) *Repeated penalties.* Every person

(*a*) who has failed to file a return of income for a taxation year as and when required by subsection 150(1),

(*b*) on whom a demand for a return for the year has been made under subsection 150(2), and

(*c*) who, at the time of failure, had been assessed for a penalty under subsection (1) or this subsection in respect of a return of income for any of the three preceding taxation years,

is liable to a penalty equal to the total of

(*d*) an amount equal to 10% of the person's tax for the year that was unpaid when the return was required to be filed, and

(*e*) the product obtained when 2% of the tax for the year that was unpaid when the return was required to be filed is multiplied by the number of complete months, not exceeding 20, from the date on which the return was required to be filed to the date on which the return was filed."

Related Sections: S. 150(3) Trustees, etc; s. 161(11) Interest on penalties; s. 162(11) Effect of subsequent events; s. 239(3) Penalty on conviction.

Information Circulars: IC 07-1 Taxpayer Relief Provisions; IC 00-1R2 Voluntary disclosures program.

► 162(2.1) ◄

(2.1) Failure to file — non-resident corporation. Notwithstanding subsections (1) and (2), if a non-resident corporation is liable to a penalty under subsection (1) or (2) for failure to file a return of income for a taxation year, the amount of the penalty is the greater of

(*a*) the amount computed under subsection (1) or (2), as the case may be, and

(*b*) an amount equal to the greater of

(i) $100, and

(ii) $25 times the number of days, not exceeding 100, from the day on which the return was required to be filed to the day on which the return is filed.

History: S. 162(2.1) was added by S.C. 1999, c. 22, s. 65(1), applicable to taxation years that begin after 1998.

Related Sections: S. 239(3) Penalty on conviction.

► 162(3) ◄

(3) Failure to file by trustee. Every person who fails to file a return as required by subsection 150(3) is liable to a penalty of $10 for each day of default but not exceeding $50.

History: S. 162(3) was amended by 1988, c. 55, s. 141(1), as amended by S.C. 1994, c. 7, Sched. II, s. 245(1), effective September 13, 1988. S. 162(3) formerly read:

"(3) Every person who has failed to file a return as required by subsection 150(3) is liable to a penalty of $10 for each day of default but not exceeding $50."

Related Sections: S. 239(3) Penalty on conviction.
Information Circulars: IC 07-1 Taxpayer relief provisions; IC 00-1R2 Voluntary disclosures program.

► 162(4) ◄

(4) Ownership certificate. Every person who

(*a*) fails to complete an ownership certificate as required by section 234,

(*b*) fails to deliver an ownership certificate in the manner prescribed at the time prescribed and at the place prescribed by regulations made under that section, or

(*c*) cashes a coupon or warrant for which an ownership certificate has not been completed pursuant to that section,

is liable to a penalty of $50.

History: S. 162(4) was added by 1988, c. 55, s. 141(1), as amended by S.C. 1994, c. 7, Sched. II, s. 245(1), effective September 13, 1988.

Related Sections: S. 239(3) Penalty on conviction.
Information Circulars: IC 07-1 Taxpayer relief provisions; IC 00-1R2 Voluntary disclosures program.

► 162(5) ◄

(5) Failure to provide information on form. Every person who fails to provide any information required on a prescribed form made pursuant to this Act or a regulation is liable to a penalty of $100 for each such failure unless

(*a*) in the case of information required in respect of another person or partnership, a reasonable effort was made by the person to obtain the information from the other person or partnership; or

(*b*) in the case of a failure to provide a Social Insurance Number on a return of income, the person had applied for the assignment of the Number and had not received it at the time the return was filed.

History: S. 162(5)(*a*) was amended by S.C. 1998, c. 19, s. 188(1), applicable on Royal Assent, June 18, 1998. S. 162(5)(*a*) formerly read:

"(*a*) in the case of information required in respect of another person, a reasonable effort was made by the person to obtain the information from the other person; or"

S. 162(5), that portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 134(1), effective December 17, 1991. That portion of s. 162(5) preceding paragraph (*a*) formerly read:

"(5) Every person who fails to provide any information required on a prescribed form made pursuant to this Act or a regulation is, except where, in the case of an individual, the Minister has waived the penalty, liable to a penalty of $100 for each such failure unless"

S. 162(5) was added by 1988, c. 55, s. 141(1), as amended by S.C. 1994, c. 7, Sched. II, s. 245(1), effective September 13, 1988.

Related Sections: S. 237(2) Number required in information returns; s. 239(3) Penalty on conviction.
Information Circulars: IC 82-2R2 Social insurance number legislation that relates to the preparation of information slips; IC 07-1 Taxpayer relief provisions; IC 00-1R2 Voluntary disclosures program.

► 162(6) ◄

(6) Failure to provide identification number. Every person or partnership who fails to provide on request their Social Insurance Number or their business number to a person required under this Act or a regulation to make an information return requiring the number is liable to a penalty of $100 for each such failure, unless

(*a*) an application for the assignment of the number is made within 15 days after the request was received; and

(*b*) the number is provided to the person who requested the number within 15 days after the person or partnership received it.

History: S. 162(6) was amended by S.C. 1998, c. 19, s. 188(2), applicable on Royal Assent, June 18, 1998. S. 162(6) formerly read:

"(6) *Failure to provide Social Insurance Number.* Every individual who fails to provide on request the individual's Social Insurance Number to a person required under this Act or a regulation to make an information return requiring the individual's Social Insurance Number is liable to a penalty of $100 for each such failure, unless

(*a*) an application by the individual for the assignment of a Social Insurance Number was made not later than 15 days after the person made the request; and

(*b*) the Number was provided to the person within 15 days after the individual received it."

S. 162(6), that portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 134(2) by substituting "request the individual's" for "request his" and "each such failure" for "every failure", effective December 17, 1991.

Related Sections: S. 237 Social Insurance Number; s. 239(2.3) Offence with respect to an identification number; s. 239(3) Penalty on conviction; s. 248(1), "business number".
Information Circulars: IC 82-2R2 Social insurance number legislation that relates to the preparation of information slips; IC 07-1 Taxpayer relief provisions; IC 00-1R2 Voluntary disclosures program.

► 162(7) ◄

(7) Failure to comply. Every person (other than a registered charity) or partnership who fails

(*a*) to file an information return as and when required by this Act or the regulations, or

(*b*) to comply with a duty or obligation imposed by this Act or the regulations

is liable in respect of each such failure, except where another provision of this Act (other than subsection (10) or (10.1) or 163(2.22)) sets out a penalty for the failure, to a penalty equal to the greater of $100 and the product obtained when $25 is multiplied by the number of days, not exceeding 100, during which the failure continues.

History: S. 162(7) was amended by S.C. 1997, c. 25, s. 51(1), applicable to returns required to be filed on or before a day that is after 1997 and to duties and obligations first imposed after 1997. S. 162(7) formerly read:

"(7) *Failure to comply with regulation.* Every person (other than a registered charity) who fails

(*a*) to file an information return as and when required by this Act or a regulation, or

(*b*) to comply with a duty or obligation imposed by this Act or a regulation is liable in respect of each such failure, except where another provision of this Act (other than subsection (10)) sets out a penalty for the failure, to a penalty equal to the greater of $100 and the product obtained when $25 is multiplied by the number of days, not exceeding 100, during which the failure continues."

S. 162(7), that portion preceding paragraph (*a*), was amended by S.C. 1994, c. 21, s. 80, effective on June 15, 1994. S. 162(7), that portion preceding paragraph (*a*), formerly read:

"(7) *Failure to comply with Act or regulation.* Every person who fails"

S. 162(7) was added by 1988, c. 55, s. 141(1), as amended by S.C. 1994, c. 7, Sched. II, s. 245(1), effective September 13, 1988.

Related Sections: S. 239(3) Penalty on conviction.
Information Circulars: IC 89-4 Tax shelter reporting; IC 07-1 Taxpayer relief provisions; IC 00-1R2 Voluntary disclosures program.
Tax Profile: August 2005 — Canada Revenue Agency's Recent Attack on U.S. Companies.

► 162(7.01) ◄

(7.01) Late filing penalty — prescribed information returns. Every person (other than a registered charity) or partnership who fails to file, when required by this Act or the regulations, one or more information returns of a type

prescribed for the purpose of this subsection is liable to a penalty equal to the greater of $100 and

(*a*) where the number of those information returns is less than 51, $10 multiplied by the number of days, not exceeding 100, during which the failure continues;

(*b*) where the number of those information returns is greater than 50 and less than 501, $15 multiplied by the number of days, not exceeding 100, during which the failure continues;

(*c*) where the number of those information returns is greater than 500 and less than 2,501, $25 multiplied by the number of days, not exceeding 100, during which the failure continues;

(*d*) where the number of those information returns is greater than 2,500 and less than 10,001, $50 multiplied by the number of days, not exceeding 100, during which the failure continues; and

(*e*) where the number of those information returns is greater than 10,000, $75 multiplied by the number of days, not exceeding 100, during which the failure continues.

History: S. 162(7.01) was added by S.C. 2009, c. 2, s. 60(1), applicable to returns required to be filed after 2009.

► 162(7.02) ◄

(7.02) Failure to file in appropriate manner — prescribed information returns. Every person (other than a registered charity) or partnership who fails to file, in the manner required by the regulations, one or more information returns of a type prescribed for the purpose of this subsection is liable to a penalty equal to

(*a*) where the number of those information returns is greater than 50 and less than 251, $250;

(*b*) where the number of those information returns is greater than 250 and less than 501, $500;

(*c*) where the number of those information returns is greater than 500 and less than 2,501, $1,500;

(*d*) where the number of those information returns is greater than 2,500, $2,500; and

(*e*) in any other case, nil.

History: S. 162(7.02) was added by S.C. 2009, c. 2, s. 60(1), applicable to returns required to be filed after 2009.

► 162(7.1) ◄

(7.1) Failure to make partnership information return. Where a member of a partnership fails to file an information return as a member of the partnership for a fiscal period of the partnership as and when required by this Act or the regulations and subsection (10) does not set out a penalty for the failure, the partnership is liable to a penalty equal to the greater of $100 and the product obtained when $25 is multiplied by the number of days, not exceeding 100, during which the failure continues.

History: S. 162(7.1) was amended by S.C. 1997, c. 25, s. 51(1), applicable to returns required to be filed on or before a day that is after 1997 and to duties and obligations first imposed after 1997. S. 162(7.1) formerly read:

"(7.1) *Failure to make partnership information return.* Where a member of a partnership fails to file an information return as a member of the partnership for a fiscal period of the partnership as and when required by this Act or a regulation, the partnership is liable to a penalty equal to the greater of $100 and the product obtained when $25 is multiplied by the number of days, not exceeding 100, during which the failure continues."

S. 162(7.1) was added by 1988, c. 55, s. 141(1), as amended by S.C. 1994, c. 7, Sched. II, s. 245(1), effective September 13, 1988, except that s. 162(7.1) does not apply before December 17, 1991.

Related Sections: S. 239(3) Penalty on conviction.

Information Circulars: IC 00-1R2 Voluntary disclosures program.

► 162(7.2) ◄

[Editorial note: Applicable to taxation years that end after 2010. See history note.]

(7.2) Failure to file in appropriate manner — return of income. Every person who fails to file a return of income for a taxation year as required by subsection 150.1(2.1) is liable to a penalty equal to $1,000.

History: S. 162(7.2) was added by S.C. 2009, c. 2, s. 60(2), applicable to taxation years that end after 2010 except that, in its application to the 2011 and 2012 taxation years, the reference to $1,000 in subsection 162(7.2) is to be read as

(*a*) $250, for the 2011 taxation year; and

(*b*) $500, for the 2012 taxation year.

► 162(8) ◄

(8) Repeated failure to file. Where

(*a*) a penalty was payable under subsection (7.1) in respect of a failure by a member of a partnership to file an information return as a member of the partnership for a fiscal period of the partnership,

(*b*) a demand for the return or for information required to be contained in the return has been served under section 233 on the member, and

(*c*) a penalty was payable under subsection (7.1) in respect of the failure by a member of a partnership to file an information return as a member of the partnership for any of the 3 preceding fiscal periods,

the partnership is liable, in addition to the penalty under subsection (7.1), to a penalty of $100 for each member of the partnership for each month or part of a month, not exceeding 24 months, during which the failure referred to in paragraph (*a*) continues.

History: S. 162(8) was added by 1988, c. 55, s. 141(1), as amended by S.C. 1994, c. 7, Sched. II, s. 245(1), effective September 13, 1988, except that s. 162(8) does not apply before December 17, 1991.

Related Sections: S. 239(3) Penalty on conviction.

► 162(8.1) ◄

(8.1) Rules where partnership liable to a penalty. Where a partnership is liable to a penalty under subsection (5), (6), (7), (7.1), (8) or (10), sections 152, 158 to 160.1, 161 and 164 to 167 and Division J apply, with any modifications that the circumstances require, to the penalty as if the partnership were a corporation.

History: S. 162(8.1) was amended by S.C. 1998, c. 19, s. 188(3), applicable on Royal Assent, June 18, 1998. S. 162(8.1) formerly read:

"(8.1) *Where partnership liable to penalty.* Where a partnership is liable to a penalty under subsection (7), (7.1), (8), (10) or (10.1), sections 152, 158 to 160.1, 161 and 164 to 167 and Division J apply, with any modifications that the circumstances require, to the penalty as if the partnership were a corporation."

S. 162(8.1) was amended by S.C. 1997, c. 25, s. 51(2), applicable to returns required to be filed on or before a day that is after 1997 and to duties and obligations first imposed after 1997. S. 162(8.1) formerly read:

"(8.1) *Rules where partnership is liable to penalty.* Where a partnership is liable to a penalty under subsection (7.1) or (8), sections 152, 158 to 160.1, 161 and 164 to 167 and Division J apply, with such modifications as the circumstances require, with respect to the penalty as if the partnership were a corporation."

S. 162(8.1) was added by 1988, c. 55, s. 141(1), as amended by S.C. 1994, c. 7, Sched. II, s. 245(1), effective September 13, 1988, except that s. 162(8.1) does not apply before December 17, 1991.

► 162(9) ◄

(9) Tax shelter identification number. [Repealed by S.C. 1998, c. 19, s. 188(4).]

History: S. 162(9) was repealed by S.C. 1998, c. 19, s. 188(4), applicable after December 1, 1994. S. 162(9) formerly read:

"(9) *Tax shelter identification number.* Every person who

(*a*) files false or misleading information with the Minister in an application under subsection 237.1(2) for an identification number for a tax shelter, or

(*b*) whether as a principal or as an agent, sells, issues or accepts a contribution for the acquisition of an interest in a tax shelter before the Minister has issued an identification number therefor,

is liable to a penalty equal to the greater of

(*c*) $500, and

(*d*) 3% of the total of all amounts each of which is the cost to each person who acquired an interest in the tax shelter before the correct information is filed with the Minister or the identification number is issued, as the case may be."

S. 162(9) was added by 1988, c. 55, s. 141(1), as amended by S.C. 1994, c. 7, Sched. II, s. 245(1), effective September 1, 1989.

Related Sections: S. 237.1(4) Sales prohibited; s. 237.1(7.4) Penalty.

► 162(10) ◄

(10) Failure to furnish foreign-based information. Every person or partnership who,

(*a*) knowingly or under circumstances amounting to gross negligence, fails to file an information return as and when required by any of sections 233.1 to 233.4, or

(*b*) where paragraph (*a*) does not apply, knowingly or under circumstances amounting to gross negligence, fails to comply with a demand under section 233 to file a return

is liable to a penalty equal to the amount determined by the formula

$$(\$500 \times A \times B) - C$$

where

A is

(*c*) where paragraph (*a*) applies, the lesser of 24 and the number of months, beginning with the month in which the return was required to be filed, during any part of which the return has not been filed, and

(*d*) where paragraph (*b*) applies, the lesser of 24 and the number of months, beginning with the month in which the demand was served, during any part of which the return has not been filed,

B is

(*e*) where the person or partnership has failed to comply with a demand under section 233 to file a return, 2, and

(*f*) in any other case, 1, and

C is the penalty to which the person or partnership is liable under subsection (7) in respect of the return.

History: S. 162(10) was amended by S.C. 1997, c. 25, s. 51(3), applicable to returns required to be filed on or before a day that is after April 29, 1998. S. 162(10) formerly read:

"(10) *Failure to furnish foreign-based information.* Every corporation

(*a*) that fails to file an information return required by section 233.1,

(*b*) on which a demand under section 233 has been served for the return, and

(*c*) that does not comply with the demand within 90 days after the day the demand was served on it,

is liable in respect of each such failure, in addition to the penalty under subsection (7), to a penalty of $1,000 for each month or part of a month, not exceeding 24 months, during which the failure continues."

S. 162(10) was added by 1988, c. 55, s. 141(1), as amended by S.C. 1994, c. 7, Sched. II, s. 245(1), effective September 13, 1988.

Related Sections: S. 239(3) Penalty on conviction.
Information Circulars: IC 00-1R2 Voluntary disclosures program.

► 162(10.1) ◄

(10.1) Additional penalty. Where

(*a*) a person or partnership is liable to a penalty under subsection (10) for the failure to file a return (other than an information return required to be filed under section 233.1),

(*b*) if paragraph (10)(*a*) applies, the number of months, beginning with the month in which the return was required to be filed, during any part of which the return has not been filed exceeds 24, and

(*c*) if paragraph (10)(*b*) applies, the number of months, beginning with the month in which the demand referred to in that paragraph was served, during any part of which the return has not been filed exceeds 24,

the person or partnership is liable, in addition to the penalty determined under subsection (10), to a penalty equal to the amount determined by the formula

$$A - B$$

where

A is

(*d*) where the return is required to be filed under section 233.2, 5% of the total of all amounts each of which is the fair market value of property transferred or loaned (determined as of the time of the transfer or loan) because of which there would, if no other transfer or loan were taken into account, be an obligation to file the return,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*d*) of the description of A in subsection 162(10.1) of the English version of the Act is replaced by the following:

(*d*) where the return is required to be filed under section 233.2 in respect of a trust, 5% of the total of all amounts each of which is the fair market value, at the time it was made, of a contribution of the person or partnership made to the trust before the end of the last taxation year of the trust in respect of which the return is required,

Applicable: To returns in respect of taxation years that begin after 2006. [This amendment] also applies to returns in respect of taxation years that begin

(*a*) after 2000, if the return relates to a trust that makes a valid election under paragraph [(*a*) of the application for new proposed section 94];

(*b*) after 2001, if the return relates to a trust that makes a valid election under paragraph [(*a*) or (*b*) of the application for new proposed section 94];

(*c*) after 2002, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*c*) of the application for new proposed section 94];

(*d*) after 2003, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*d*) of the application for new proposed section 94]; and

(*e*) after 2004, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*e*) of the application for new proposed section 94]; and

(*f*) after 2005, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*f*) of the application for new proposed section 94].

Explanatory Note: Subsection 162(10.1) of the Act imposes a penalty on any person or partnership that is more than 24 months late in filing an information return that the person or partnership was required to file under any of sections 233.1 to 233.4. (This penalty applies in addition to the penalties imposed under subsections 162(7) and (10).)

The penalty imposed under subsection 162(10.1) with respect to a particular information return is equal to a specified amount less the amount of the penalties imposed under subsections 162(7) and (10) with respect to the return. The specified amount with respect to an information return for a trust

required to be filed by a person or partnership under section 233.2 is equal to 5% of the total fair market value of any property transferred or loaned to the trust that, if no other loan or transfer were taken into account, would have imposed an obligation on the person or partnership to file the return.

Subsection 162(10.1) is amended, as a consequence of amendments made to section 233.2, by changing the manner in which the specified amount is determined. The specified amount is now to be determined with reference to the fair market value of "contributions" made by the person or partnership to the trust.

New subsection 162(10.11) provides that, for the purpose of the calculation in subsection 162(10.1), the definitions and rules in subsections 94(1), (2) and (9) generally apply. Subsection 162(10.11) is similar to amended subsection 233.2(2), described in greater detail in the commentary below.

These amendments apply to returns in respect of taxation years that begin after 2006. They also apply to returns in respect of taxation years that begin after 2000, after 2001, after 2002, after 2003, after 2004 or after 2005 if the trust makes the appropriate election under the coming-into-force provision for new section 94 of the Act.

(*e*) where the return is required to be filed under section 233.3 for a taxation year or fiscal period, 5% of the greatest of all amounts each of which is the total of the cost amounts to the person or partnership at any time in the year or period of a specified foreign property (as defined by subsection 233.3(1)) of the person or partnership, and

(*f*) where the return is required to be filed under section 233.4 for a taxation year or fiscal period in respect of a foreign affiliate of the person or partnership, 5% of the greatest of all amounts each of which is the total of the cost amounts to the person or partnership at any time in the year or period of a property of the person or partnership that is a share of the capital stock or indebtedness of the affiliate, and

B is the total of the penalties to which the person or partnership is liable under subsections (7) and (10) in respect of the return.

History: S. 162(10.1) was added by S.C. 1997, c. 25, s. 51(3), applicable to returns required to be filed on or before a day that is after April 29, 1998.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 162 of the Act is amended by adding the following after subsection (10.1):

(10.11) Application to trust contributions. In paragraph (*d*) of the description of A in subsection (10.1), subsections 94(1), (2) and (9) apply, except that the references to the expression "(other than a restricted property)" in the definition "arm's length transfer" in subsection 94(1) are to be read as references to the expression "(other than property that is not described in any of subclauses (*b*)(i)(A)(I) to (III) but to which paragraph 94(2)(*g*) applies)".

Applicable: To returns in respect of taxation years that begin after 2006. [This amendment] also applies to returns in respect of taxation years that begin

(*a*) after 2000, if the return relates to a trust that makes a valid election under paragraph [(*a*) of the application for new proposed section 94];

(*b*) after 2001, if the return relates to a trust that makes a valid election under paragraph [(*a*) or (*b*) of the application for new proposed section 94];

(*c*) after 2002, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*c*) of the application for new proposed section 94];

(*d*) after 2003, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*d*) of the application for new proposed section 94];

(*e*) after 2004, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*e*) of the application for new proposed section 94]; and

(*f*) after 2005, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*f*) of the application for new proposed section 94].

Explanatory Note: See the Explanatory Note following the amendment to paragraph (*d*) of the description of A in subsection 162(10.1).

▶ 162(10.2) ◀

(10.2) Shares or debt owned by controlled foreign affiliate. For the purpose of paragraph (*f*) of the description of A in subsection (10.1),

(*a*) shares or indebtedness owned by a controlled foreign affiliate of a person or partnership are deemed to be owned by the person or partnership; and

(*b*) the cost amount at any time of such shares or indebtedness to the person or partnership is deemed to be equal to 20% of the cost amount at that time to the controlled foreign affiliate of the shares or indebtedness.

History: S. 162(10.2) was added by S.C. 1997, c. 25, s. 51(3), applicable to returns required to be filed on or before a day that is after April 29, 1998.

▶ 162(10.3) ◀

(10.3) Application to partnerships. For the purposes of paragraph (*f*) of the description of A in subsection (10.1) and subsection (10.2), in determining whether a non-resident corporation or trust is a foreign affiliate or a controlled foreign affiliate of a partnership,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 162(10.3) of the Act before paragraph (*a*) is replaced by the following:

(10.3) Application to partnerships. For the purposes of paragraph (*f*) of the description of A in subsection (10.1) and subsection (10.2), in determining whether a non-resident corporation is a foreign affiliate or a controlled foreign affiliate of a partnership,

Applicable: To returns in respect of taxation years that begin after 2006. [This amendment] also applies to returns in respect of taxation years that begin

(*a*) after 2000, if the return relates to a trust that makes a valid election under paragraph [(*a*) of the application for new proposed section 94];

(*b*) after 2001, if the return relates to a trust that makes a valid election under paragraph [(*a*) or (*b*) of the application for new proposed section 94];

(*c*) after 2002, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*c*) of the application for new proposed section 94];

(*d*) after 2003, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*d*) of the application for new proposed section 94];

(*e*) after 2004, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*e*) of the application for new proposed section 94]; and

(*f*) after 2005, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*f*) of the application for new proposed section 94].

Explanatory Note: Existing paragraph 94(1)(*d*) of the Act provides for non-resident trusts to be treated as foreign affiliates. It is being repealed as a consequence of the introduction of new rules for non-resident trusts in section 94. Subsections 162(10.3) and (10.4) are rules that affect the calculation of penalty tax in respect of a person's or partnership's failure to file a return in respect of a foreign affiliate.

Subsections 163(2.6) and (2.91) are similar provisions that affect the calculation of penalty tax in respect of false statements and omissions in such a return.

Subsections 162(10.3) and 163(2.6) are amended to reflect the changes to section 94 under which non-resident trusts are no longer treated as foreign affiliates. Subsections 162(10.4) and 163(2.91) are repealed for the same reason.

These amendments apply to returns in respect of taxation years that begin after 2006. They also apply to returns in respect of taxation years that begin after 2000, after 2001, after 2002, after 2003, after 2004 or after 2005 if the trust makes the appropriate election under the coming-into-force provision for new section 94 of the Act.

(*a*) the definitions "direct equity percentage" and "equity percentage" in subsection 95(4) shall be read as if a partnership were a person; and

(*b*) the definitions "controlled foreign affiliate" and "foreign affiliate" in subsection 95(1) shall be read as if a partnership were a taxpayer resident in Canada.

History: S. 162(10.3) was added by S.C. 1997, c. 25, s. 51(3), applicable to returns required to be filed on or before a day that is after April 29, 1998.

► 162(10.4) ◄

(10.4) Application to non-resident trusts. For the purposes of this subsection, paragraph (*f*) of the description of A in subsection (10.1) and subsection (10.2),

(*a*) a non-resident trust is deemed to be a controlled foreign affiliate of each beneficiary of which the trust is a controlled foreign affiliate for the purpose of section 233.4;

(*b*) the trust is deemed to be a non-resident corporation having a capital stock of a single class divided into 100 issued shares;

(*c*) each beneficiary under the trust is deemed to own at any time the number of the issued shares of the corporation that is equal to the proportion of 100 that

(i) the fair market value at that time of the beneficiary's beneficial interest in the trust

is of

(ii) the fair market value at that time of all beneficial interests in the trust; and

(*d*) the cost amount to a beneficiary at any time of a share of the corporation is deemed to be equal to the amount determined by the formula

A/B

where

A is the fair market value at that time of the beneficiary's beneficial interest in the trust, and

B is the number of shares deemed under paragraph (*c*) to be owned at that time by the beneficiary in respect of the corporation.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 162(10.4) of the Act is repealed.

(10.4) Application to non-resident trusts. [Repealed.]

Applicable: To returns in respect of taxation years that begin after 2006. [This amendment] also applies to returns in respect of taxation years that begin

(*a*) after 2000, if the return relates to a trust that makes a valid election under paragraph [(*a*) of the application for new proposed section 94];

(*b*) after 2001, if the return relates to a trust that makes a valid election under paragraph [(*a*) or (*b*) of the application for new proposed section 94];

(*c*) after 2002, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*c*) of the application for new proposed section 94];

(*d*) after 2003, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*d*) of the application for new proposed section 94];

(*e*) after 2004, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*e*) of the application for new proposed section 94]; and

(*f*) after 2005, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*f*) of the application for new proposed section 94].

Explanatory Note: See the Explanatory Note following the amendment to the portion of subsection 162(10.3) of the Act before paragraph (*a*).

History: S. 162(10.4) was added by S.C. 1997, c. 25, s. 51(3), applicable to returns required to be filed on or before a day that is after April 29, 1998.

► 162(11) ◄

(11) Effect of subsequent events. For the purpose of computing a penalty under subsection (1) or (2) in respect of a person's return of income for a taxation year, the person's tax payable under this Part for the year shall be determined before taking into consideration the specified future tax consequences for the year.

History: S. 162(11) was amended by S.C. 1997, c. 25, s. 51(4), applicable to the 1996 and subsequent taxation years. S. 162(11) formerly read:

"(11) *Effect of carryback of losses etc.* In determining a person's tax for a taxation year for the purpose of computing a penalty under subsection (1) or (2) in respect of the person's return of income for the year, paragraph 161(7)(*a*) applies with such modifications as the circumstances require."

S. 162(11) was added by S.C. 1994, c. 7, Sched. II, s. 134(3), applicable to amounts referred to in paragraph 161(7)(*a*) in respect of subsequent taxation years referred to in that paragraph ending after July 13, 1990.

Information Circulars: IC 00-1R2 Voluntary disclosures program.

SECTION 163:

► 163(1) ◄

(1) Repeated failures. Every person who

(*a*) fails to report an amount required to be included in computing the person's income in a return filed under section 150 for a taxation year, and

(*b*) had failed to report an amount required to be so included in any return filed under section 150 for any of the three preceding taxation years

is liable to a penalty equal to 10% of the amount described in paragraph (*a*), except where the person is liable to a penalty under subsection (2) in respect of that amount.

Related Sections: S. 161(11) Interest on penalties.

Information Circulars: IC 73-10R3 Tax evasion; IC 00-1R2 Voluntary disclosures program.

► 163(2) ◄

(2) False statements or omissions. Every person who, knowingly, or under circumstances amounting to gross negligence, has made or has participated in, assented to or acquiesced in the making of, a false statement or omission in a return, form, certificate, statement or answer (in this section referred to as a "return") filed or made in

respect of a taxation year for the purposes of this Act, is liable to a penalty of the greater of $100 and 50% of the total of

(*a*) the amount, if any, by which

(i) the amount, if any, by which

(A) the tax for the year that would be payable by the person under this Act

exceeds

(B) the amounts that would be deemed by subsections 120(2) and (2.2) to have been paid on account of the person's tax for the year

if the person's taxable income for the year were computed by adding to the taxable income reported by the person in the person's return for the year that portion of the person's understatement of income for the year that is reasonably attributable to the false statement or omission and if the person's tax payable for the year were computed by subtracting from the deductions from the tax otherwise payable by the person for the year such portion of any such deduction as may reasonably be attributable to the false statement or omission

exceeds

(ii) the amount, if any, by which

(A) the tax for the year that would have been payable by the person under this Act

exceeds

(B) the amounts that would be deemed by subsections 120(2) and (2.2) to have been paid on account of the person's tax for the year

had the person's tax payable for the year been assessed on the basis of the information provided in the person's return for the year,

(*b*) [Repealed by S.C. 1994, c. 7, Sched. VII, s. 17(1).]

(*c*) the total of all amounts each of which is the amount, if any, by which

(i) the amount that would be deemed by subsection 122.61(1) to be an overpayment on account of the person's liability under this Part for the year that arose during a particular month or, where that person is a cohabiting spouse or common-law partner (within the meaning assigned by section 122.6) of an individual at the end of the year and at the beginning of the particular month, of that individual's liability under this Part for the year that arose during the particular month, as the case may be, if that total were calculated by reference to the information provided

exceeds

(ii) the amount that is deemed by subsection 122.61(1) to be an overpayment on account of the liability of that person or that individual, as the case may be, under this Part for the year that arose during the particular month,

(*c.1*) the amount, if any, by which

(i) the total of all amounts each of which is an amount that would be deemed by section 122.5 to be paid by that person during a month specified for the year or, where that person is a qualified relation of an individual for the year (within the meaning assigned by subsection 122.5(1)), by that individual, as the case may be, if that total were calculated by reference to the information provided in the prescribed form filed for the year under section 122.5

exceeds

(ii) the total of all amounts each of which is an amount that is deemed under section 122.5 to be paid by that person or that qualified relation during a month specified for the year,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 163(2)(c.1) of the Act is replaced by the following:

(c.1) the amount, if any, by which

(i) the total of all amounts each of which is an amount that would be deemed by section 122.5 to be paid by that person during a month specified for the year or, where that person is the qualified relation of an individual in relation to that specified month (within the meaning assigned by subsection 122.5(1)), by that individual, if that total were calculated by reference to the information provided in the person's return of income (within the meaning assigned by subsection 122.5(1)) for the year

exceeds

(ii) the total of all amounts each of which is an amount that is deemed by section 122.5 to be paid by that person or by an individual of whom the person is the qualified relation in relation to a month specified for the year (within the meaning assigned to subsection 122.5(1)),

Applicable: To amounts deemed to be paid during months specified for the 2001 and subsequent taxation years.

Explanatory Note: Subsection 163(2) of the Act imposes a penalty where a taxpayer knowingly, or in circumstances amounting to gross negligence, participates in or makes a false statement for the purposes of the Act. The penalty is determined with reference to the understatement of tax or the overstatement of amounts deemed to be paid on account of tax. Paragraph 163(2)(c.1) imposes a penalty where the false statement relates to the goods and services tax credit (GSTC).

The GSTC provisions were recently amended (S.C. 2002, chapter 9, formerly Bill C-49) to make the credit more responsive to changes in family circumstances by providing that the eligibility to the credit and the amount paid in each quarter reflect such changes that occurred before the end of the preceding quarter rather than in the preceding taxation year.

Paragraph 163(2)(c.1) is amended to reflect the new quarterly calculation of the GSTC. This amendment applies to amounts deemed to be paid during months specified for the 2001 and subsequent taxation years.

(*c.2*) the amount, if any, by which

(i) the amount that would be deemed under subsection 122.51(2) to be paid on account of the person's tax payable under this Part for the year if the amount were calculated by reference to the information provided in the return

exceeds

(ii) the amount that is deemed under subsection 122.51(2) to be paid on account of the person's tax payable under this Part for the year,

(*c*.3) the amount, if any, by which

(i) the total of all amounts each of which is an amount that would be deemed by subsection 122.7(2) or (3) to be a payment on account of the person's tax payable under this Part or another person's tax payable under this Part for the year if those amounts were calculated by reference to the information provided in the return

exceeds

(ii) the total of all amounts each of which is an amount that is deemed by subsection 122.7(2) or (3) to be a payment on account of the person's tax payable under this Part and, where applicable, the other person's tax payable under this Part for the year,

(*d*) the amount, if any, by which

(i) the amount that would be deemed by subsection 127.1(1) to be paid for the year by the person if that amount were calculated by reference to the information provided in the return or form filed for the year pursuant to that subsection

exceeds

(ii) the amount that is deemed by that subsection to be paid for the year by the person,

(*e*) the amount, if any, by which

(i) the amount that would be deemed by subsection 127.41(3) to have been paid for the year by the person if that amount were calculated by reference to the person's claim for the year under that subsection

exceeds

(ii) the maximum amount that the person is entitled to claim for the year under subsection 127.41(3),

(*f*) the amount, if any, by which

(i) the amount that would be deemed by subsection 125.4(3) to have been paid for the year by the person if that amount were calculated by reference to the information provided in the return filed for the year pursuant to that subsection

exceeds

(ii) the amount that is deemed by that subsection to be paid for the year by the person and

(*g*) the amount, if any, by which

(i) the amount that would be deemed by subsection 125.5(3) to have been paid for the year by the person if that amount were calculated by reference to the information provided in the return filed for the year pursuant to that subsection

exceeds

(ii) the amount that is deemed by that subsection to be paid for the year by the person.

History: S. 163(2)(*c*.3) was added by S.C. 2007, c. 35, s. 53(1), applicable to the 2007 and subsequent taxation years.

Clause 163(2)(*a*)(i)(B) was replaced by S.C. 2000, c. 19, s. 49(1), applicable to the 1999 and subsequent taxation years. Clause 163(2)(*a*)(i)(B) formerly read:

"(B) the amount that would be deemed by subsection 120(2) to have been paid on account of the person's tax for the year"

Clause 163(2)(*a*)(ii)(B) was replaced by S.C. 2000, c. 19, s. 49(2), applicable to the 1999 and subsequent taxation years. Clause 163(2)(*a*)(ii)(B) formerly read:

"(B) the amount that would have been deemed by subsection 120(2) to have been paid on account of the person's tax for the year"

S. 163(2)(*c*)(i) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.28), applicable January 1, 2001, coming into force on July 31, 2000. S. 163(2)(*c*)(i) formerly read:

"(i) the amount that would be deemed by subsection 122.61(1) to be an overpayment on account of the person's liability under this Part for the year that arose during a particular month or, where that person is a cohabiting spouse (within the meaning assigned by section 122.6) of an individual at the end of the year and at the beginning of the particular month, of that individual's liability under this Part for the year that arose during the particular month, as the case may be, if that total were calculated by reference to the information provided"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 163(2), the portion before paragraph (*a*) was amended by S.C. 1998, c. 19, s. 189(1), applicable after June 20, 1996. S. 163(2), the portion before paragraph (*a*) formerly read:

"(2) *False statements or omissions.* Every person who, knowingly, or under circumstances amounting to gross negligence in the carrying out of any duty or obligation imposed by or under this Act, has made or has participated in, assented to or acquiesced in the making of, a false statement or omission in a return, form, certificate, statement or answer (in this section referred to as a 'return') filed or made in respect of a taxation year as required by or under this Act or a regulation, is liable to a penalty of the greater of $100 and 50% of the total of"

S. 163(2)(*c*.2) was amended by S.C. 1998, c. 19, s. 45(1), applicable to the 1997 and subsequent taxation years. S. 163(2)(*c*.2) formerly read:

"(*c*.2) the amount, if any, by which

(i) the amount that would be deemed under section 126.1 to be an overpayment on account of the person's liability under this Part for the year if the amount were calculated by reference to the information provided

exceeds

(ii) the amount that is deemed under section 126.1 to be an overpayment on account of the person's liability under this Part for the year,"

S. 163(2)(*g*) was added by S.C. 1998, c. 19, s. 189(2), applicable after October 1997.

S. 163(2)(*f*) was added by S.C. 1996, c. 21, s. 43(1), applicable to the 1995 and subsequent taxation years.

S. 163(2)(*e*) was added by S.C. 1995, c 3, s. 48(1), applicable to taxation years that end after February 22, 1994.

S. 163(2)(*c*.2) was added by S.C. 1994, c. 8, s. 26(1), applicable after 1992.

S. 163(2)(*b*) was repealed by S.C. 1994, c. 7, Sched. VII, s. 17(1), applicable to the 1993 and subsequent taxation years. S. 163(2)(*b*) formerly read:

"(*b*) the amount, if any, by which

(i) the amount that would be deemed by subsection 122.2(1) to be paid for the year by the person or, where the person is a supporting person of an eligible child of an individual for the year (within the meaning assigned by subsection 122.2(2)) and resided with the individual at the end of the year, by that individual, as the case may be, if that amount were calculated by reference to the information provided in the return filed for the year pursuant to that subsection

exceeds

(ii) the amount that is deemed by subsection 122.2(1) to be paid for the year by the person or the individual referred to in subparagraph (i), as the case may be,"

S. 163(2)(*c*) was added by S.C. 1994, c. 7, Sched. VII, s. 17(2), applicable to the 1991 and subsequent taxation years.

Related Sections: S. 161(11) Interest on penalties; s. 163(2.1) Interpretation; s. 163.2 Misrepresentation of a tax matter by a third party; s. 239(1) Other offences and punishment; s. 239(3) Penalty on conviction.

Interpretation Bulletins: *Secondary*— IT-256R Gains from theft, defalcation or embezzlement.

Information Circulars: IC 73-10R3 Tax evasion; IC 00-1R2 Voluntary disclosures program.

Tax Profile: April 2001 — Draft Information Circular on Third-Party Civil Penalties.

SR&ED Application Policies: Application Policy 96-05, Penalties Under Subsection 163(2).

Canadian Tax Foundation: Campbell, " Application of the Charter to Civil Penalties in the Income Tax Act", *2002 Canadian Tax Journal*, No. 1, 1.

Cases: The taxpayer transferred assets to a corporation under a section 85 rollover but failed to report the resulting capital gain. Penalties were not

justified because the gross negligence of the taxpayer's outside experts was not attributable to him. The Minister had failed to show that the taxpayer had knowledge of the omission. *Findlay v. The Queen,* 2000 DTC 6345 (F.C.A.), reversing 97 DTC 1150 (T.C.C.).

A penalty imposed under s. 163(2) is a civil penalty and is not imposed pursuant to a criminal proceeding. Therefore, where tax evasion charges are also brought, the issue of whether the two proceedings constitute double punishment contrary to the Charter, does not arise. *The Queen v. Sharma,* 87 DTC 5424 (S.C. Ont.). See also *Sommers v. M.N.R.,* 91 DTC 656 (T.C.C.).

► 163(2.1) ◄

(2.1) Interpretation. For the purposes of subsection (2), the taxable income reported by a person in the person's return for a taxation year shall be deemed not to be less than nil and the "understatement of income" for a year of a person means the total of

(*a*) the amount, if any, by which

(i) the total of all amounts that were not reported by the person in the person's return and that were required to be included in computing the person's income for the year

exceeds

(ii) the total of such of the amounts deductible by the person in computing the person's income for the year under the provisions of this Act as were wholly applicable to the amounts referred to in subparagraph (i) and were not deducted by the person in computing the person's income for the year reported by the person in the person's return,

(*b*) the amount, if any, by which

(i) the total of all amounts deducted by the person in computing the person's income for the year reported by the person in the person's return

exceeds

(ii) the total of such of the amounts referred to in subparagraph (i) as were deductible by the person in computing the person's income for the year in accordance with the provisions of this Act, and

(*c*) the amount, if any, by which

(i) the total of all amounts deducted by the person (otherwise than by virtue of section 111) from the person's income for the purpose of computing the person's taxable income for the year reported by the person in the person's return

exceeds

(ii) the total of all amounts deductible by the person (otherwise than by virtue of section 111) from the person's income for the purpose of computing the person's taxable income for the year in accordance with the provisions of this Act.

SR&ED Application Policies: Application Policy 96-05, Penalties Under Subsection 163(2).

► 163(2.2) ◄

(2.2) False statement or omission. Every person who, knowingly or under circumstances amounting to gross negligence, has made or has participated in, assented to or acquiesced in the making of, a false statement or omission in a renunciation that was to have been effective as of a particular date and that is purported to have been made under any of subsections 66(10) to (10.3), (12.6), (12.601) and (12.62), otherwise than because of the application of subsection 66(12.66), is liable to a penalty of 25% of the amount, if any, by which

(*a*) the amount set out in the renunciation in respect of Canadian exploration expenses, Canadian development expenses or Canadian oil and gas property expenses

exceeds

(*b*) the amount in respect of Canadian exploration expenses, Canadian development expenses or Canadian oil and gas property expenses, as the case may be, that the corporation was entitled under the applicable subsection to renounce as of that particular date.

History: S. 163(2.2), the portion before paragraph (*a*), was amended by S.C. 1997, c. 25, s. 52(1), applicable to acts and omissions that occur after the April 25, 1997 except that, in connection with purported renunciations made before 1999, the expression "(12.601) and (12.62)" in subsection 163(2.2) shall be read as "(12.601), (12.62) and (12.64)". The amended portion formerly read:

"(2.2) *False statement or omission.* Every person who, knowingly or under circumstances amounting to gross negligence, has made or has participated in, assented to or acquiesced in the making of, a false statement or omission in any renunciation that is effective as of a particular date and that is made under any of subsections 66(10) to (10.3), (12.6), (12.601), (12.62) and (12.64) is liable to a penalty of 25% of the amount, if any, by which"

S. 163(2.2), that portion preceding paragraph (*a*), was amended by S.C. 1994, c. 8, s. 26(2) to add the reference to subsection 66(12.601), effective on May 12, 1994.

Related Sections: S. 66.1(6), "Canadian exploration expense"; s. 66.2(5), "Canadian development expense"; s. 66.4(5), "Canadian oil and gas property expense"; s. 163(4) Effect of carryback of losses etc; s. 163.2 Misrepresentation of a tax matter by a third party; s. 239(3) Penalty on conviction.

► 163(2.21) ◄

(2.21) False statement or omissions with respect to look-back rule. A person is liable to the penalty determined under subsection (2.22) where the person,

(*a*) knowingly or under circumstances amounting to gross negligence has made or has participated in, assented to or acquiesced in the making of, a false statement or omission in a document required to be filed under subsection 66(12.73) in respect of a renunciation purported to have been made because of the application of subsection 66(12.66); or

(*b*) fails to file the document on or before the day that is 24 months after the day on or before which it was required to be filed.

History: S. 163(2.21) was added by S.C. 1997, c. 25, s. 52(2), applicable April 25, 1997.

► 163(2.22) ◄

(2.22) Penalty. For the purpose of subsection (2.21), the penalty to which a person is liable in respect of a document required to be filed under subsection 66(12.73) is equal to 25% of the amount, if any, by which

(*a*) the portion of the excess referred to in subsection 66(12.73) in respect of the document that was known or that ought to have been known by the person

exceeds

(*b*) where paragraph (2.21)(*b*) does not apply, the portion of the excess identified in the document, and

(*c*) in any other case, nil.

History: S. 163(2.22) was added by S.C. 1997, c. 25, s. 52(2), applicable April 25, 1997.

Related Sections: S. 163.2 Misrepresentation of a tax matter by a third party; s. 239(3) Penalty on conviction.

► 163(2.3) ◄

(2.3) Idem. Every person who, knowingly or under circumstances amounting to gross negligence, makes or participates in, assents to or acquiesces in the making of, a false statement or omission in a prescribed form required to be filed under subsection 66(12.691) or (12.701) is liable to a penalty of 25% of the amount, if any, by which

(*a*) the assistance required to be reported in respect of a person or partnership in the prescribed form

exceeds

(*b*) the assistance reported in the prescribed form in respect of the person or partnership.

History: S. 163(2.3) was added by S.C. 1994, c. 7, Sched. II, s. 135(1), effective December 17, 1991.

Related Sections: S. 66(12.691) Filing re assistance; s. 66(12.701) Filing re assistance; s. 163.2 Misrepresentation of a tax matter by a third party; s. 239(3) Penalty on conviction.

► 163(2.4) ◄

(2.4) False statement or omission. Every person or partnership who, knowingly or under circumstances amounting to gross negligence, makes or participates in, assents to or acquiesces in, the making of a false statement or omission in a return is liable to a penalty of

(*a*) where the return is required to be filed under section 233.1, $24,000;

(*b*) where the return is required to be filed under section 233.2, the greater of

(i) $24,000, and

(ii) 5% of the total of all amounts each of which is the fair market value of property transferred or loaned (determined as of the time of the transfer or loan) because of which there would, if no other transfer or loan were taken into account, be an obligation to file the return;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 163(2.4)(*b*) of the Act is replaced by the following:

(*b*) where the return is required to be filed under section 233.2 in respect of a trust, the greater of

(i) $24,000, and

(ii) 5% of the total of all amounts each of which is the fair market value, at the time it was made, of a contribution of the person or partnership made to the trust before the end of the last taxation year of the trust in respect of which the return is required;

Applicable: To returns in respect of taxation years that begin after 2006. [This amendment] also applies to returns in respect of taxation years that begin

(*a*) after 2000, if the return relates to a trust that makes a valid election under paragraph [(*a*) of the application for new proposed section 94];

(*b*) after 2001, if the return relates to a trust that makes a valid election under paragraph [(*a*) or (*b*) of the application for new proposed section 94];

(*c*) after 2002, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*c*) of the application for new proposed section 94];

(*d*) after 2003, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*d*) of the application for new proposed section 94];

(*e*) after 2004, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*e*) of the application for new proposed section 94]; and

(*f*) after 2005, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*f*) of the application for new proposed section 94].

Explanatory Note: Subsection 163(2.4) of the Act imposes a penalty on any person or partnership that, knowingly or under circumstances amounting to gross negligence, has made or has participated in, assented to, or acquiesced in, the making of a false statement or omission in a return required to be filed under any of sections 233.1 to 233.6. The penalty under paragraph 163(2.4)(*b*) relates to a return required to be filed under section 233.2. The existing penalty is the greater of $24,000 and 5% of the total fair market value of the property that the person or partnership loaned or transferred to the trust that gave rise to the obligation to file.

Paragraph 163(2.4)(*b*) is amended as a consequence of changes made to the non-resident trust rules in section 94 and the annual reporting requirement in respect of non-resident trusts under section 233.2. Under amended section 233.2, a person is subject to the annual reporting requirement where the person makes a "contribution" to the trust.

Accordingly, amended paragraph 163(2.4)(*b*) provides for a penalty for a person equal the greater of $24,000 and a specified amount in respect of the return. The specified amount for a person is essentially equal to 5% of the fair market value of "contributions" made by the person. The specified amount is calculated in the same way as the specified amount under amended subsection 162(10.1) in respect of late-filed returns. Under new subsection 163(2.41), the definitions and rules in subsections 94(1), (2) and (9) generally apply. Subsection 163(2.41) is similar to amended subsection 233.2(2), described in greater detail in the commentary below.

These amendments apply to returns in respect of taxation years that begin after 2006. They also apply to returns in respect of taxation years that begin after 2000, after 2001, after 2002, after 2003, after 2004 or after 2005 if the trust makes the appropriate election under the coming-into-force provision for new section 94 of the Act.

(*c*) where the return is required to be filed under section 233.3 for a taxation year or fiscal period, the greater of

(i) $24,000, and

(ii) 5% of the greatest of all amounts each of which is the total of the cost amounts to the person or partnership at any time in the year or period of a specified foreign property (as defined by subsection 233.3(1)(*a*) of the person or partnership in respect of which the false statement or omission is made;

(*d*) where the return is required to be filed under section 233.4 for a taxation year or fiscal period, the greater of

(i) $24,000, and

(ii) 5% of the greatest of all amounts each of which is the total of the cost amounts to the person or partnership at any time in the year or period of a property of the person or partnership that is a share of the capital stock or indebtedness of the foreign affiliate in respect of which the return is being filed; and

(*e*) where the return is required to be filed under section 233.6 for a taxation year or fiscal period, the greater of

(i) $2,500, and

(ii) 5% of the total of

(A) all amounts each of which is the fair market value of a property that is distributed to the person or partnership in the year or period by

the trust and in respect of which the false statement or omission is made, and

(B) all amounts each of which is the greatest unpaid principal amount of a debt that is owing to the trust by the person or partnership in the year or period and in respect of which the false statement or omission is made.

History: S. 163(2.4) was added by S.C. 1997, c. 25, s. 52(3), applicable to returns required to be filed on or before a day that is after April 29, 1998.

Related Sections: S. 163.2 Misrepresentation of a tax matter by a third party; s. 239(3) Penalty on conviction.

Information Circulars: IC 00-1R2 Voluntary disclosures program.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 163 of the Act is amended by adding the following after subsection (2.4):

(2.41) **Application to trust contributions.** In subparagraph (2.4)(*b*)(ii), subsections 94(1), (2) and (9) apply, except that the references to the expression "(other than a restricted property)" in the definition "arm's length transfer" in subsection 94(1) are to be read as references to the expression "(other than property that is not described in any of subclauses (*b*)(i)(A)(I) to (III) but to which paragraph 94(2)(*g*) applies)".

Applicable: To returns in respect of taxation years that begin after 2006. [This amendment] also applies to returns in respect of taxation years that begin

(*a*) after 2000, if the return relates to a trust that makes a valid election under paragraph [(*a*) of the application for new proposed section 94];

(*b*) after 2001, if the return relates to a trust that makes a valid election under paragraph [(*a*) or (*b*) of the application for new proposed section 94];

(*c*) after 2002, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*c*) of the application for new proposed section 94];

(*d*) after 2003, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*d*) of the application for new proposed section 94];

(*e*) after 2004, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*e*) of the application for new proposed section 94]; and

(*f*) after 2005, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*f*) of the application for new proposed section 94].

Explanatory Note: See the Explanatory Note following the amendment to paragraph 163(2.4)(*b*).

► 163(2.5) ◄

(2.5) Shares or debt owned by controlled foreign affiliate. For the purpose of paragraph (2.4)(*d*),

(*a*) shares or indebtedness owned by a controlled foreign affiliate of a person or partnership are deemed to be owned by the person or partnership; and

(*b*) the cost amount at any time of such shares or indebtedness to the person or partnership is deemed to be equal to 20% of the cost amount at that time to the controlled foreign affiliate of the shares or indebtedness.

History: S. 163(2.5) was added by S.C. 1997, c. 25, s. 52(3), applicable to returns required to be filed on or before a day that is after April 29, 1998.

► 163(2.6) ◄

(2.6) Application to partnerships. For the purposes of paragraph (2.4)(*d*) and subsection (2.5), in determining whether a non-resident corporation or trust is a foreign affiliate or a controlled foreign affiliate of a partnership

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 163(2.6) of the Act before paragraph (*a*) is replaced by the following:

(2.6) **Application to partnerships.** For the purposes of paragraph (2.4)(*d*) and subsection (2.5), in determining whether a non-resident corporation is a foreign affiliate or a controlled foreign affiliate of a partnership,

Applicable: To returns in respect of taxation years that begin after 2006. [This amendment] also applies to returns in respect of taxation years that begin

(*a*) after 2000, if the return relates to a trust that makes a valid election under paragraph [(*a*) of the application for new proposed section 94];

(*b*) after 2001, if the return relates to a trust that makes a valid election under paragraph [(*a*) or (*b*) of the application for new proposed section 94];

(*c*) after 2002, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*c*) of the application for new proposed section 94];

(*d*) after 2003, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*d*) of the application for new proposed section 94];

(*e*) after 2004, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*e*) of the application for new proposed section 94]; and

(*f*) after 2005, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*f*) of the application for new proposed section 94].

Explanatory Note: See the Explanatory Note following the amendment to the portion of subsection 162(10.3) of the Act before paragraph (*a*).

(*a*) the definitions "direct equity percentage" and "equity percentage" in subsection 95(4) shall be read as if a partnership were a person; and

(*b*) the definitions "controlled foreign affiliate" and "foreign affiliate" in subsection 95(1) shall be read as if a partnership were a taxpayer resident in Canada.

History: S. 163(2.6) was added by S.C. 1997, c. 25, s. 52(3), applicable to returns required to be filed on or before a day that is after April 29, 1998.

► 163(2.7) ◄

(2.7) Application to partnerships. For the purpose of subsection (2.4), each act or omission of a member of a partnership in respect of an information return required to be filed by the partnership under section 233.3, 233.4 or 233.6 is deemed to be an act or omission of the partnership in respect of the return.

History: S. 163(2.7) was added by S.C. 1997, c. 25, s. 52(3), applicable to returns required to be filed on or before a day that is after April 29, 1998.

► 163(2.8) ◄

(2.8) Application to members of partnerships. For the purposes of this subsection and subsection (2.7), a person who is a member of a partnership that is a member of another partnership is deemed to be a member of the other partnership.

History: S. 163(2.8) was added by S.C. 1997, c. 25, s. 52(3), applicable to returns required to be filed on or before a day that is after April 29, 1998.

► 163(2.9) ◄

(2.9) Where partnership liable to penalty. Where a partnership is liable to a penalty under subsection (2.4) or section 163.2 or 237.1, sections 152, 158 to 160.1, 161 and

164 to 167 and Division J apply, with any changes that the circumstances require, in respect of the penalty as if the partnership were a corporation.

History: S. 163(2.9) was replaced by S.C. 2000, c. 19, s. 49(3), applicable on Royal Assent, June 29, 2000. S. 163(2.9) formerly read:

"(2.9) *Where partnership liable to penalty.* Where a partnership is liable to a penalty under subsection (2.4), sections 152, 158 to 160.1, 161 and 164 to 167 and Division J apply, with any modifications that the circumstances require, to the penalty as if the partnership were a corporation."

S. 163(2.9) was added by S.C. 1997, c. 25, s. 52(3), applicable to returns required to be filed on or before a day that is after April 29, 1998.

► 163(2.91) ◄

(2.91) Application to non-resident trusts. For the purposes of this subsection, paragraph (2.4)(*d*) and subsection (2.5),

(*a*) a non-resident trust is deemed to be a controlled foreign affiliate of each beneficiary of which the trust is a controlled foreign affiliate for the purpose of section 233.4;

(*b*) the trust is deemed to be a non-resident corporation having a capital stock of a single class divided into 100 issued shares;

(*c*) each beneficiary under the trust is deemed to own at any time the number of the issued shares of the corporation that is equal to the proportion of 100 that

(i) the fair market value at that time of the beneficiary's beneficial interest in the trust

is of

(ii) the fair market value at that time of all beneficial interests in the trust; and

(*d*) the cost amount to a beneficiary at any time of a share of the corporation is deemed to be equal to the amount determined by the formula

A/B

where

A is the fair market value at that time of the beneficiary's beneficial interest in the trust, and

B is the number of shares deemed under paragraph (*c*) to be owned at that time by the beneficiary in respect of the corporation.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 163(2.91) of the Act is repealed.

(2.91) Application to non-resident trusts. [Repealed.]

Applicable: To returns in respect of taxation years that begin after 2006. [This amendment] also applies to returns in respect of taxation years that begin

(*a*) after 2000, if the return relates to a trust that makes a valid election under paragraph [(*a*) of the application for new proposed section 94];

(*b*) after 2001, if the return relates to a trust that makes a valid election under paragraph [(*a*) or (*b*) of the application for new proposed section 94];

(*c*) after 2002, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*c*) of the application for new proposed section 94];

(*d*) after 2003, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*d*) of the application for new proposed section 94];

(*e*) after 2004, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*e*) of the application for new proposed section 94]; and

(*f*) after 2005, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*f*) of the application for new proposed section 94].

Explanatory Note: See the Explanatory Note following the amendment to the portion of subsection 162(10.3) of the Act before paragraph (*a*).

History: S. 163(2.91) was added by S.C. 1997, c. 25, s. 52(3), applicable to returns required to be filed on or before a day that is after April 29, 1998.

► 163(3) ◄

(3) Burden of proof in respect of penalties. Where, in an appeal under this Act, a penalty assessed by the Minister under this section or section 163.2 is in issue, the burden of establishing the facts justifying the assessment of the penalty is on the Minister.

History: S. 163(3) was replaced by S.C. 2000, c. 19, s. 49(4), applicable on Royal Assent, June 29, 2000. S. 163(3) formerly read:

"(3) *Burden of proof in respect of penalties.* Where, in any appeal under this Act, any penalty assessed by the Minister under this section is in issue, the burden of establishing the facts justifying the assessment of the penalty is on the Minister."

Related Sections: S. 248(1), "amount", "assessment"; ITAR s. 62(3) Penalties.

Cases: While the burden of proof of willful or gross negligence with respect to penalties assessed under s. 163(3) clearly lies with the Minister, this does not alter the usual burden on the taxpayer to show that the Minister's assessment is wrong. *Can-Am Realty Ltd. v. the Queen*, 94 DTC 6069 (F.C.T.D.).

► 163(4) ◄

(4) Effect of carryback of losses etc. In determining under subsection (2.1) the understatement of income for a taxation year of a person, the following amounts shall be deemed not to be deductible or excludable in computing the person's income for the year:

(*a*) any amount that may be deducted under section 41 in respect of the person's listed-personal-property loss for a subsequent taxation year;

(*b*) any amount that may be excluded from the person's income because of section 49 in respect of the exercise of any option in a subsequent taxation year;

(*b*.1) any amount that may be deducted under subsection 147.2(4) in computing the person's income for the year because of the application of subsection 147.2(6) as a result of the person's death in the subsequent taxation year; and

(*c*) any amount that may be deducted in computing the person's income for the year because of an election made under paragraph 164(6)(*c*) or (*d*) in a subsequent taxation year by the person's legal representative.

History: S. 163(4)(*b*.1) was added by S.C. 1998, c. 19, s. 189(3), applicable to taxpayers who die after 1992.

S. 163(4) was added by S.C. 1994, c. 7, Sched. II, s. 135(2), applicable to amounts referred to in subsection 163(4) in respect of subsequent taxation years ending after July 13, 1990.

SECTION 163.1: Penalty for late or deficient instalments.

Every person who fails to pay all or any part of an instalment of tax for a taxation year on or before the day on or before which the instalment is required by this Part to be paid is liable to a penalty equal to 50% of the amount, if any, by which

(*a*) the interest payable by the person under section 161 in respect of all instalments for the year

exceeds the greater of

(*b*) $1,000, and

(*c*) 25% of the interest that would have been payable by the person under section 161 in respect of all instalments for the year if no instalment had been made for that year.

Information Circulars: IC 07-1 Taxpayer Relief Provisions; IC 00-1R2 Voluntary disclosures program.

Misrepresentation of a Tax Matter by a Third Party

SECTION 163.2:

► 163.2(1) ◄

(1) Definitions. The definitions in this subsection apply in this section.

Canadian Tax Foundation: Carr, Lalonde and Neville, "The New Civil Penalty Proposals", *1999 Conference Report*, 18:1.

"culpable conduct" — "culpable conduct" means conduct, whether an act or a failure to act, that

(*a*) is tantamount to intentional conduct;

(*b*) shows an indifference as to whether this Act is complied with; or

(*c*) shows a wilful, reckless or wanton disregard of the law.

History: S. 163.2(1), the definition "culpable conduct" was added by S.C. 2000, c. 19, s. 50(1), applicable to statements made after June 29, 2000.

"entity" — "entity" includes an association, a corporation, a fund, a joint venture, an organization, a partnership, a syndicate and a trust.

History: S. 163.2(1), the definition "entity" was added by S.C. 2000, c. 19, s. 50(1), applicable to statements made after June 29, 2000.

"excluded activity" — "excluded activity", in respect of a false statement, means the activity of

(*a*) promoting or selling (whether as principal or agent or directly or indirectly) an arrangement, an entity, a plan, a property or a scheme (in this definition referred to as the "arrangement") where it can reasonably be considered that

(i) subsection 66(12.68) applies to the arrangement,

(ii) the definition "tax shelter" in subsection 237.1(1) applies to a person's interest in the arrangement, or

(iii) one of the main purposes for a person's participation in the arrangement is to obtain a tax benefit; or

(*b*) accepting (whether as principal or agent or directly or indirectly) consideration in respect of the promotion or sale of an arrangement.

History: S. 163.2(1), the definition "excluded activity" was added by S.C. 2000, c. 19, s. 50(1), applicable to statements made after June 29, 2000.

"false statement" — "false statement" includes a statement that is misleading because of an omission from the statement.

History: S. 163.2(1), the definition "false statement" was added by S.C. 2000, c. 19, s. 50(1), applicable to statements made after June 29, 2000.

"gross compensation" — "gross compensation" of a particular person at any time, in respect of a false statement that could be used by or on behalf of another person, means all amounts to which the particular person, or any person not dealing at arm's length with the particular person, is entitled, either before or after that time and either absolutely or contingently, to receive or obtain in respect of the statement.

History: S. 163.2(1), the definition "gross compensation" was added by S.C. 2000, c. 19, s. 50(1), applicable to statements made June 29, 2000.

"gross entitlements" — "gross entitlements" of a person at any time, in respect of a planning activity or a valuation activity of the person, means all amounts to which the person, or another person not dealing at arm's length with the person, is entitled, either before or after that time and either absolutely or contingently, to receive or obtain in respect of the activity.

History: S. 163.2(1), the definition "gross entitlements" was added by S.C. 2000, c. 19, s. 50(1), applicable to statements made after June 29, 2000.

"participate" — "participate" includes

(*a*) to cause a subordinate to act or to omit information; and

(*b*) to know of, and to not make a reasonable attempt to prevent, the participation by a subordinate in an act or an omission of information.

History: S. 163.2(1), the definition "participate" was added by S.C. 2000, c. 19, s. 50(1), applicable to statements made after June 29, 2000.

"person" — "person" includes a partnership.

History: S. 163.2(1), the definition "person" was added by S.C. 2000, c. 19, s. 50(1), applicable to statements made after June 29, 2000.

"planning activity" — "planning activity" includes

(*a*) organizing or creating, or assisting in the organization or creation of, an arrangement, an entity, a plan or a scheme; and

(*b*) participating, directly or indirectly, in the selling of an interest in, or the promotion of, an arrangement, an entity, a plan, a property or a scheme.

History: S. 163.2(1), the definition "planning activity" was added by S.C. 2000, c. 19, s. 50(1), applicable to statements made after June 29, 2000.

"subordinate" — "subordinate", in respect of a particular person, includes any other person over whose activities the particular person has direction, supervision or control whether or not the other person is an employee of the particular person or of another person, except that, if the particular person is a member of a partnership, the other person is not a subordinate of the particular person solely because the particular person is a member of the partnership.

History: S. 163.2(1), the definition "subordinate" was added by S.C. 2000, c. 19, s. 50(1), applicable to statements made after June 29, 2000.

"tax benefit" — "tax benefit" means a reduction, avoidance or deferral of tax or other amount payable under this Act or an increase in a refund of tax or other amount under this Act.

History: S. 163.2(1), the definition "tax benefit" was added by S.C. 2000, c. 19, s. 50(1), applicable to statements made after June 29, 2000.

"valuation activity" — "valuation activity" of a person means anything done by the person in determining the value of a property or a service.

History: S. 163.2(1), the definition "valuation activity" was added by S.C. 2000, c. 19, s. 50(1), applicable to statements made after June 29, 2000.

► 163.2(2) ◄

(2) Penalty for misrepresentations in tax planning arrangements. Every person who makes or furnishes, participates in the making of or causes another person to make or furnish a statement that the person knows, or would reasonably be expected to know but for circumstances amounting to culpable conduct, is a false statement that could be used by another person (in subsections (6) and (15) referred to as the "other person") for a purpose of this Act is liable to a penalty in respect of the false statement.

History: S. 163.2(2) was added by S.C. 2000, c. 19, s. 50(1), applicable to statements made after June 29, 2000.

Editorial Note: This controversial provision imposes harsh penalties on advisors who participate in the making or furnishing of false statements in circumstances amounting to "culpable conduct", the definition of which is based on court cases involving the meaning of gross negligence under the (50%-of-tax) penalty in subsection 163(2).

Subsections 163.2(2) and (4) are intended to apply to planning and valuation, and compliance activities, respectively. The penalties for the former can be based on the person's "gross entitlement", whereas the latter can be based on the subsection 163(2) penalty of the taxpayer, to a ceiling of $100,000 plus the person's "gross compensation" in respect of the false statement.

Exceptions may apply to good faith reliance on information (subsection 163.2(6)), secretarial or clerical services other than bookkeeping (subsection 163.2(9)) and certain employees (subsection 163.2(15)). However, the good faith reliance exception does not apply to an "excluded activity", which includes certain sales and promotion activities.

While the provisions have been referred to by the Department of Finance as "civil penalties", commentators have indicated that the penalties may be criminal in nature, so that Charter of Rights protections may apply, and so on.

Per subsections 163.2(10) and (11), there would be a "reverse onus rule" whereby valuations in the course of an "excluded activity" are deemed to be "culpable conduct", if outside certain prescribed limits, unless otherwise established (this would not necessarily mean that there is no "culpable conduct" if the valuation is within the limits). However, particulars of the prescribed limits have not been announced, and it is not clear whether these provisions will ever become operative.

See subsection 163.2(1) for definitions of "culpable conduct", "excluded activity", "gross compensation", and "gross entitlements".

Related Sections: S. 18(1)(*t*) Payments under Act; s. 163(2) False statements or omissions; s. 163(2.9) Where partnership liable to penalty; s. 163(3) Burden of proof in respect of penalties; s. 188.1(9) False information; s. 188.1(10) Maximum amount; s. 239(3) Penalty on conviction.
Information Circulars: IC 01-1 Third Party Civil Penalties.
Income Tax Technical News: Issue No. 34, Third Party Penalties.
Tax Topics: No. 1700, 2004 Canadian Tax Foundation Conference - CRA Round Table; No. 1531, Civil Penalties Roundtable; No. 1491, Wake Up Call: the CCRA's Views on the Civil Penalties — Part I; No. 1492, Wake Up Call: the CCRA's Views on the Civil Penalties — Part II.
Tax Profile: November 2004 — Application of Penalties; April 2001 — Draft Information Circular on Third-Party Civil Penalties.
Canadian Tax Foundation: Innes and Williams, "Penalizing Tax Planners: Section 163.2 and the Role of the Courts", *2001 Ontario Tax Conference*, 7:1; Campbell, " Application of the Charter to Civil Penalties in the Income Tax Act", *2002 Canadian Tax Journal*, No. 1, 1; Innes and Burke, "Advisor Penalties: How Will the Courts Construe Section 163.2", *2001 Annual Conference*, 37:1; Mitchell, "Civil Penalties - A Wolf In Sheep's Clothing", *2000 Conference Report*, 16:1.

► 163.2(3) ◄

(3) Amount of penalty. The penalty to which a person is liable under subsection (2) in respect of a false statement is

(*a*) where the statement is made in the course of a planning activity or a valuation activity, the greater of $1,000 and the total of the person's gross entitlements, at the time at which the notice of assessment of the penalty is sent to the person, in respect of the planning activity and the valuation activity; and

(*b*) in any other case, $1,000.

History: S. 163.2(3) was added by S.C. 2000, c. 19, s. 50(1), applicable to statements made after June 29, 2000.

► 163.2(4) ◄

(4) Penalty for participating in a misrepresentation. Every person who makes, or participates in, assents to or acquiesces in the making of, a statement to, or by or on behalf of, another person (in this subsection, subsections (5) and (6), paragraph (12)(*c*) and subsection (15) referred to as the "other person") that the person knows, or would reasonably be expected to know but for circumstances amounting to culpable conduct, is a false statement that could be used by or on behalf of the other person for a purpose of this Act is liable to a penalty in respect of the false statement.

History: S. 163.2(4) was added by S.C. 2000, c. 19, s. 50(1), applicable to statements made after June 29, 2000.

Editorial Note: See the editorial note to subsection 163.2(2).

Related Sections: S. 18(1)(*t*) Payments under Act; s. 163(2) False statements or omissions; s. 163(2.9) Where partnership liable to penalty; s. 163(3) Burden of proof in respect of penalties; s. 188.1(9) False information; s. 188.1(10) Maximum amount; s. 239(3) Penalty on conviction.
Information Circulars: IC 00-1R2 Voluntary disclosures program.
Income Tax Technical News: Issue No. 34, Third Party Penalties; Issue No. 32, Application of Penalties.
Tax Topics: No. 1566, Third Party Civil Penalties: Caution Needed When Filing T2 and T106 Returns; No. 1531, Civil Penalties Roundtable; No. 1491, Wake Up Call: the CCRA's Views on the Civil Penalties — Part I; No. 1492, Wake Up Call: the CCRA's Views on the Civil Penalties — Part II.
Tax Profile: November 2004 — Application of Penalties; April 2001 — Draft Information Circular on Third-Party Civil Penalties.

► 163.2(5) ◄

(5) Amount of penalty. The penalty to which a person is liable under subsection (4) in respect of a false statement is the greater of

(*a*) $1,000, and

(*b*) the lesser of

(i) the penalty to which the other person would be liable under subsection 163(2) if the other person made the statement in a return filed for the purposes of this Act and knew that the statement was false, and

(ii) the total of $100,000 and the person's gross compensation, at the time at which the notice of assessment of the penalty is sent to the person, in respect of the false statement that could be used by or on behalf of the other person.

History: S. 163.2(5) was added by S.C. 2000, c. 19, s. 50(1), applicable to statements made after June 29, 2000.

► 163.2(6) ◄

(6) Reliance in good faith. For the purposes of subsections (2) and (4), a person (in this subsection and in subsection (7) referred to as the "advisor") who acts on behalf of the other person is not considered to have acted in circumstances amounting to culpable conduct in respect of the false statement referred to in subsection (2) or (4) solely because the advisor relied, in good faith, on information provided to the advisor by or on behalf of the other person or, because of such reliance, failed to verify, investigate or correct the information.

History: S. 163.2(6) was added by S.C. 2000, c. 19, s. 50(1), applicable to statements made after June 29, 2000.

Editorial Note: An advisor will not be considered to act in circumstances amounting to "culpable conduct" solely because the person relies "in good faith" on information provided to the advisor or, because of such reliance, fails to verify, investigate or correct the information. However, per subsection 163.2(7), this exclusion does not apply in the course of an "excluded activity" which (per subsection 163.2(1)) pertains to:

(a) Promoting or selling arrangements/plans (etc.) where it can reasonably considered that:

(i) subsection 66(12.68) applies in respect of "flow through shares";

(ii) the definition of "tax shelter" in subsection 237.1(1) applies;

(iii) one of the main purposes for a person's participation in the arrangement is to obtain a "tax benefit", the definition of which is similar to GAAR in subsection 245(1).

(b) Accepting consideration in respect of the promotion or sale of an arrangement/plan (etc.).

Related Sections: S. 66(12.68) Filing selling instruments; s. 237.1 Tax shelters; s. 245 General anti-avoidance rule.
Tax Topics: No. 1531, Civil Penalties Roundtable.

► 163.2(7) ◄

(7) Non-application of subsection (6). Subsection (6) does not apply in respect of a statement that an advisor

makes (or participates in, assents to or acquiesces in the making of) in the course of an excluded activity.

History: S. 163.2(7) was added by S.C. 2000, c. 19, s. 50(1), applicable to statements made after June 29, 2000.

► 163.2(8) ◄

(8) False statements in respect of a particular arrangement. For the purpose of applying this section (other than subsections (4) and (5)),

(*a*) where a person makes or furnishes, participates in the making of or causes another person to make or furnish two or more false statements, the false statements are deemed to be one false statement if the statements are made or furnished in the course of

(i) one or more planning activities that are in respect of a particular arrangement, entity, plan, property or scheme, or

(ii) a valuation activity that is in respect of a particular property or service; and

(*b*) for greater certainty, a particular arrangement, entity, plan, property or scheme includes an arrangement, an entity, a plan, a property or a scheme in respect of which

(i) an interest is required to have, or has, an identification number issued under section 237.1 that is the same number as the number that applies to each other interest in the property,

(ii) a selling instrument in respect of flow-through shares is required to be filed with the Minister because of subsection 66(12.68), or

(iii) one of the main purposes for a person's participation in the arrangement, entity, plan or scheme, or a person's acquisition of the property, is to obtain a tax benefit.

History: S. 163.2(8) was added by S.C. 2000, c. 19, s. 50(1), applicable to statements made after June 29, 2000.

Editorial Note: Two or more false statements are deemed to be one false statement if made in the course of either one or more planning activities that are in respect of a particular arrangement/plan (etc.) or a valuation activity in respect of a particular property or service. Apparently, it was not intended that this relieving provision would apply to those who counsel tax return filing positions, who would therefore be liable for each false statement in a tax return.

Tax Topics: No. 1531, Civil Penalties Roundtable.

► 163.2(9) ◄

(9) Clerical services. For the purposes of this section, a person is not considered to have made or furnished, or participated in, assented to or acquiesced in the making of, a false statement solely because the person provided clerical services (other than bookkeeping services) or secretarial services with respect to the statement.

History: S. 163.2(9) was added by S.C. 2000, c. 19, s. 50(1), applicable to statements made after June 29, 2000.

► 163.2(10) ◄

(10) Valuations. Notwithstanding subsections (6) and 163(3), a statement as to the value of a property or a service (which value is in this subsection referred to as the "stated value"), made by the person who opined on the stated value or by a person in the course of an excluded activity is deemed to be a statement that the person would reasonably be expected to know, but for circumstances amounting to culpable conduct, is a false statement if the stated value is

(*a*) less than the product obtained when the prescribed percentage for the property or service is multiplied by the fair market value of the property or service; or

(*b*) greater than the product obtained when the prescribed percentage for the property or service is multiplied by the fair market value of the property or service.

Department of Finance Comfort Letter
[Deviation Range for Valuations Under 163.2(10)]

July 11, 2000

Dear XXXX

Thank you for your letter of February 4, 2000 concerning our meeting of November 4, 1999 regarding the 1999 budget proposal to introduce a civil penalty in respect of misrepresentations of tax matters by third parties. As you may know, the legislation implementing this proposal received Royal Assent on June 29, 2000 (i.e., S.C. 2000, c. 19).

Your letter replies to our request for input from the XXXX on the appropriate prescribed percentages for the purpose of establishing a deviation range under new subsection 163.2(10) of the *Income Tax Act* (the "Act"). In your letter, you have indicated that the Institute has concluded that, if a percentage threshold is to be set by the government, it should be the 200% test adopted by the U.S. under section 6700 of the *Internal Revenue Code* (the "IRC"). The Institute is also of the view that providing separate prescribed percentages for different industries would be inappropriate because it would be unworkable from a practical perspective — diversifications and business combinations defeat industry classification.

We agree with your observation that it may be impractical to have prescribed percentages that differ for various industries. However, we remain of the view that the deviation range established by prescribed percentages should be narrower than that which would exist under a range that is based upon a 200% standard.

It is our understanding that the U.S. 200% test for gross overstatements results in an automatic application of the penalty under section 6700 of the IRC, subject only to an exception for valuations for which there is a reasonable basis, which were made in good faith and then only if the Secretary of the Treasury waives the penalty under the authority of subsection 6700(*b*)(2) of the IRC. In contrast, section 163.2 of the Act merely provides a reverse onus. That is to say, in the case of valuations outside of the range, the onus is on the valuator to establish to the Minister of National Revenue or the judiciary that the valuation was reasonable in the circumstances, was made in good faith and was not based on a misleading assumption. The Canadian approach favours Canadian valuators.

The objective of the reverse onus rule in the Canadian provisions is to ensure that valuators and tax shelter promoters justify a substantial deviation from actual value. We would expect that a *bona fide* professional valuator would be prepared to substantiate that a particular valuation is reasonable in the circumstances (regardless of whether it is, on an *ex post facto* basis, proven to be inaccurate), that the valuation was made in good faith and that it is not based upon misleading assumptions. In this regard, therefore, it would be inappropriate to permit valuators to refuse to justify valuations that are proven to be inaccurate by a wide margin.

We anticipate a deviation range for all valuations that is narrower than 200%. However, consideration will be given within this parameter as to whether the deviation range for valuations used in a non-tax shelter context should differ from valuations used in a tax-shelter context and, if so, the appropriate percentages. If you wish to make further representations to the Department on this issue, please contact Mr. Kerry Harnish at (613) 992-4385.

Finally, you should be aware that we intend to recommend that the percentages, which are "prescribed" for the purpose of applying new subsection 163.2(10) of the Act, be effective only for statements made after the day on which they are announced.

Thank you again for bringing your concerns to our attention.

Yours sincerely,

Len Farber
General Director
Tax Legislation Division
Tax Policy Branch

History: S. 163.2(10) was added by S.C. 2000, c. 19, s. 50(1), applicable to statements made after June 29, 2000.

Editorial Note: See the editorial note to subsection 163.2(2).

Tax Topics: No. 1531, Civil Penalties Roundtable.

► 163.2(11) ◄

(11) Exception. Subsection (10) does not apply to a person in respect of a statement as to the value of a property or a service if the person establishes that the stated value was reasonable in the circumstances and that the statement was made in good faith and, where applicable, was not based on one or more assumptions that the person knew or would reasonably be expected to know, but for circumstances amounting to culpable conduct, were unreasonable or misleading in the circumstances.

History: S. 163.2(11) was added by S.C. 2000, c. 19, s. 50(1), applicable to statements made after June 29, 2000.

► 163.2(12) ◄

(12) Special rules. For the purpose of applying this section,

(*a*) where a person is assessed a penalty that is referred to in subsection (2) the amount of which is based on the person's gross entitlements at any time in respect of a planning activity or a valuation activity and another assessment of the penalty is made at a later time,

(i) if the person's gross entitlements in respect of the activity are greater at that later time, the assessment of the penalty made at that later time is deemed to be an assessment of a separate penalty, and

(ii) in any other case, the notice of assessment of the penalty sent before that later time is deemed not to have been sent;

(*b*) a person's gross entitlements at any time in respect of a planning activity or a valuation activity, in the course of which the person makes or furnishes, participates in the making of or causes another person to make or furnish a false statement, shall exclude the total of all amounts each of which is the amount of a penalty (other than a penalty the assessment of which is void because of subsection (13)) determined under paragraph (3)(*a*) in respect of the false statement for which notice of the assessment was sent to the person before that time; and

(*c*) where a person is assessed a penalty that is referred to in subsection (4), the person's gross compensation at any time in respect of the false statement that could be used by or on behalf of the other person shall exclude the total of all amounts each of which is the amount of a penalty (other than a penalty the assessment of which is void because of subsection (13)) determined under subsection (5) to the extent that the false statement was used by or on behalf of that other person and for which notice of the assessment was sent to the person before that time.

History: S. 163.2(12) was added by S.C. 2000, c. 19, s. 50(1), applicable to statements made after June 29, 2000.

► 163.2(13) ◄

(13) Assessment void. For the purposes of this Act, if an assessment of a penalty that is referred to in subsection (2) or (4) is vacated, the assessment is deemed to be void.

History: S. 163.2(13) was added by S.C. 2000, c. 19, s. 50(1), applicable to statements made after June 29, 2000.

► 163.2(14) ◄

(14) Maximum penalty. A person who is liable at any time to a penalty under both subsections (2) and (4) in respect of the same false statement is liable to pay a penalty that is not more than the greater of

(*a*) the total amount of the penalties to which the person is liable at that time under subsection (2) in respect of the statement, and

(*b*) the total amount of the penalties to which the person is liable at that time under subsection (4) in respect of the statement.

History: S. 163.2(14) was added by S.C. 2000, c. 19, s. 50(1), applicable to statements made after June 29, 2000.

► 163.2(15) ◄

(15) Employees. Where an employee (other than a specified employee or an employee engaged in an excluded activity) is employed by the other person referred to in subsections (2) and (4),

(*a*) subsections (2) to (5) do not apply to the employee to the extent that the false statement could be used by or on behalf of the other person for a purpose of this Act; and

(*b*) the conduct of the employee is deemed to be that of the other person for the purposes of applying subsection 163(2) to the other person.

History: S. 163.2(15) was added by S.C. 2000, c. 19, s. 50(1), applicable to statements made after June 29, 2000.

Canadian Tax Foundation: Carr, Lalonde and Neville, "The New Civil Penalty Proposals", *1999 Conference Report*, 18:1.

Refunds

SECTION 164:

► 164(1) ◄

(1) Refunds. If the return of a taxpayer's income for a taxation year has been made within 3 years from the end of the year, the Minister

(*a*) may,

(i) before mailing the notice of assessment for the year, where the taxpayer is, for any purpose of the definition "refundable investment tax credit" (as defined in subsection 127.1(2)), a qualifying corporation (as defined in that subsection) and claims in its return of income for the year to have paid an amount on account of its tax payable under this Part for the year because of subsection 127.1(1) in respect of its refundable investment tax credit (as defined in subsection 127.1(2)), refund all or part of any amount claimed in the return as an overpayment for the year, not exceeding the amount by which the total determined under paragraph (*f*) of the definition "refundable investment tax credit" in subsection 127.1(2) in respect of the taxpayer for the year exceeds the total determined under paragraph (*g*)

of that definition in respect of the taxpayer for the year,

(ii) before mailing the notice of assessment for the year, where the taxpayer is a qualified corporation (as defined in subsection 125.4(1)) or an eligible production corporation (as defined in subsection 125.5(1)) and an amount is deemed under subsection 125.4(3) or 125.5(3) to have been paid on account of its tax payable under this Part for the year, refund all or part of any amount claimed in the return as an overpayment for the year, not exceeding the total of those amounts so deemed to have been paid, and

(iii) on or after mailing the notice of assessment for the year, refund any overpayment for the year, to the extent that the overpayment was not refunded pursuant to subparagraph (i) or (ii); and

(*b*) shall, with all due dispatch, make the refund referred to in subparagraph (*a*)(iii) after mailing the notice of assessment if application for it is made in writing by the taxpayer within the period within which the Minister would be allowed under subsection 152(4) to assess tax payable under this Part by the taxpayer for the year if that subsection were read without reference to paragraph 152(4)(*a*).

History: S. 164(1)(*a*)(i) was replaced by S.C. 2005, c. 19, s. 37(1), applicable to taxation years that end after March 22, 2004. S. 164(1)(*a*)(i) formerly read:

"(i) before mailing the notice of assessment for the year, where the taxpayer is a qualifying corporation (as defined in subsection 127.1(2)) and claims in its return of income for the year to have paid an amount on account of its tax payable under this Part for the year because of subsection 127.1(1) in respect of its refundable investment tax credit (as defined in subsection 127.1(2)), refund all or part of any amount claimed in the return as an overpayment for the year, not exceeding the amount by which the total determined under paragraph (*f*) of the definition 'refundable investment tax credit' in subsection 127.1(2) in respect of the taxpayer for the year exceeds the total determined under paragraph (*g*) of that definition in respect of the taxpayer for the year,"

Ss. 164(1)(*a*) and (*b*) were amended by S.C. 2001, c. 17, s. 156(1), applicable to the 1999 and subsequent taxation years. Ss. 164(1)(*a*) and (*b*) formerly read:

"(*a*) may,

(i) before mailing the notice of assessment for the year, where the taxpayer is a qualifying corporation (as defined in subsection 127.1(2)) and claims in its return of income under this Part for the year to have paid an amount on account of its tax payable under this Part for the year by reason of subsection 127.1(1) in respect of its refundable investment tax credit (as defined in subsection 127.1(2)), refund without application therefor, all or any part of any amount claimed in the return as an overpayment for the year, not exceeding the amount by which the total determined under paragraph (*f*) of the definition 'refundable investment tax credit' in subsection 127.1(2) in respect of the taxpayer for the year exceeds the total determined under paragraph (*g*) of that definition in respect of the taxpayer for the year, and

(ii) on or after mailing the notice of assessment for the year, refund without application therefor, any overpayment for the year, to the extent that the overpayment was not refunded pursuant to subparagraph (i); and

(*b*) shall, with all due dispatch, make the refund referred to in subparagraph (*a*)(ii) after mailing the notice of assessment if application for it is made in writing by the taxpayer within the period within which the Minister would be allowed under subsection 152(4) to assess tax payable under this Part by the taxpayer for the year if that subsection were read without reference to paragraph 152(4)(*a*)."

S. 164(1)(*a*)(i) was amended by S.C. 1998, c. 19, s. 190(1), applicable to taxation years that end after December 2, 1992. S. 164(1)(*a*)(i) formerly read:

"(i) before mailing the notice of assessment for the year, where the taxpayer is a qualifying corporation (within the meaning assigned by subsection 127.1(2)) and claims in the taxpayer's return of income under this Part for the year to have paid an amount on account of the taxpayer's tax under this Part for the year by reason of subsection 127.1(1) in respect of the taxpayer's refundable investment tax credit for the year (within the meaning assigned by subsection 127.1(2)), refund without application therefor, all or any part of any amount claimed in the return as an overpayment for the year, not exceeding the amount by which the total determined under subparagraph (*a*)(vi) of the definition 'refundable investment tax credit' in subsection 127.1(2) in respect of the taxpayer for the year exceeds the total determined under subparagraph (*a*)(vii) of that definition in respect of the taxpayer for the year, and"

S. 164(1)(*b*) was amended by S.C. 1998, c. 19, s. 190(2), applicable after April 27, 1989. S. 164(1)(*b*) formerly read:

"(*b*) shall, with all due dispatch, make the refund referred to in subparagraph (*a*)(ii) after mailing the notice of assessment if application therefor has been made in writing by the taxpayer within the period determined under paragraph 152(4)(*b*) or (*c*), as the case may be, within which the Minister may reassess tax payable by the taxpayer for the year."

Related Sections: S. 144(9) Deduction for forfeited amounts; s. 164(7) Definition of "overpayment".

Information Circulars: IC 75-7R3 Reassessment of a return of income; IC 07-1 Taxpayer relief provisions; IC 01-1 Third-party civil penalties.

Tax Topics: No. 1902, Regulation 105 Withholding for Services Rendered By a Canadian Subcontractor.

Cases: The Tax Court of Canada lacked jurisdiction to hear an appeal for refund since the taxpayer was not seeking relief from an assessment, but rather the recovery of a debt allegedly owing. *Toner v. M.N.R.*, 90 DTC 1675 (T.C.C.).

The taxpayer failed to qualify for the refunds being sought where she had not filed returns for the taxation years in question within the requisite times. *Hughes v. The Queen*, 91 DTC 5290 (T.C.C.).

► 164(1.1) ◄

(1.1) Repayment on objections and appeals. Subject to subsection (1.2), where a taxpayer

(*a*) has under section 165 served a notice of objection to an assessment and the Minister has not within 120 days after the day of service confirmed or varied the assessment or made a reassessment in respect thereof, or

(*b*) has appealed from an assessment to the Tax Court of Canada,

and has applied in writing to the Minister for a payment or surrender of security, the Minister shall, where no authorization has been granted under subsection 225.2(2) in respect of the amount assessed, with all due dispatch repay all amounts paid on account of that amount or surrender security accepted therefor to the extent that

(*c*) the lesser of

(i) the total of the amounts so paid and the value of the security, and

(ii) the amount so assessed

exceeds

(*d*) the total of

(i) the amount, if any, so assessed that is not in controversy, and

(ii) where the taxpayer is a large corporation (within the meaning assigned by subsection 225.1(8)), 1/2 of the amount so assessed that is in controversy.

History: S. 164(1.1)(*d*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 97(1), applicable after June 10, 1993 except that, where a taxpayer has served a notice of objection with respect to a notice of assessment of tax, interest or penalties mailed before 1992, the reference in subparagraph 164(1.1)(*d*)(ii) to "1/2" shall, in its application before 1994 with respect to that notice of objection, be read as "1/4". S. 164(1.1)(*d*) formerly read:

"(*d*) the amount, if any, so assessed that is not in controversy."

Related Sections: S. 164(1.2) Collection in jeopardy; s. 164(1.7) Limitation of repayment on objections and appeals; s. 164(5.1) Interest — disputed amounts.

Information Circulars: IC 07-1 Taxpayer relief provisions.

Tax Topics: No. 1901, Narrowing of the Collection Restrictions – Set-Off Can Occur!

► 164(1.2) ◄

(1.2) Collection in jeopardy. Notwithstanding subsection (1.1), where, on application by the Minister made within 45 days after the receipt by the Minister of a written request by a taxpayer for repayment of an amount or surrender of a security, a judge is satisfied that there are

reasonable grounds to believe that the collection of all or any part of an amount assessed in respect of the taxpayer would be jeopardized by the repayment of the amount or the surrender of the security to the taxpayer under that subsection, the judge shall order that the repayment of the amount or a part thereof not be made or that the security or part thereof not be surrendered or make such other order as the judge considers reasonable in the circumstances.

Related Sections: S. 164(1.3) Notice of application; s. 164(1.31) Application of ss. 225.2(4), (10), (12) and (13).
Information Circulars: IC 07-1 Taxpayer relief provisions; IC 98-1R3 Collections policies.

► 164(1.3) ◄

(1.3) Notice of application. The Minister shall give 6 clear days notice of an application under subsection (1.2) to the taxpayer in respect of whom the application is made.

► 164(1.31) ◄

(1.31) Application of ss. 225.2(4), (10), (12) and (13). Where an application under subsection (1.2) is made by the Minister, subsections 225.2(4), (10), (12) and (13) are applicable in respect of the application with such modifications as the circumstances require.

► 164(1.4) ◄

(1.4) Provincial refund. Where, at any time, a taxpayer is entitled to a refund or repayment on account of taxes imposed by a province or as a result of a deduction in computing the taxes imposed by a province and the Government of Canada has agreed to make the refund or repayment on behalf of the province, the amount thereof shall be a liability of the Minister of National Revenue to the taxpayer.

► 164(1.5) ◄

(1.5) Idem. Notwithstanding subsection (1), the Minister may, on or after mailing a notice of assessment for a taxation year, refund all or any portion of any overpayment of a taxpayer for the year

(*a*) if the taxpayer is an individual (other than a trust) or is a testamentary trust and the taxpayer's return of income under this Part for the year was filed on or before the day that is ten calendar years after the end of the taxation year; or

(*b*) where an assessment or a redetermination was made under subsection 152(4.2) or 220(3.1) or (3.4) in respect of the taxpayer.

History: S. 164(1.5)(*a*) was replaced by S.C. 2005, c. 19, s. 37(2), applicable in respect of returns filed after 2004. S. 164(1.5)(*a*) formerly read:

"(*a*) if the taxpayer is an individual (other than a trust) or a testamentary trust and the taxpayer's return of income under this Part for the year was filed later than 3 years after the end of the year; or"

S. 164(1.5)(*b*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 97(2), applicable to the 1985 and subsequent taxation years to add the reference to s. 220(3.1).

S. 164(1.5) was added by S.C. 1994, c. 7, Sched. II, s. 136(1), applicable to refunds for the 1985 and subsequent taxation years.

Related Sections: S. 152(4.2) Reassessment with taxpayer's consent; s. 220(3.4) Assessments.
Information Circulars: IC 75-7R3 Reassessment of a return of income; IC 07-1 Taxpayer relief provisions.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 164 of the Act is amended by adding the following after subsection (1.5):

(1.51) Where subsection (1.52) applies. Subsection (1.52) applies to a taxpayer for a taxation year if, at any time after the beginning of the year

(*a*) the taxpayer has, in respect of the tax payable by the taxpayer under this Part (and, if the taxpayer is a corporation, Parts I.3, VI, VI.1 and XIII.1) for the year, paid under any of sections 155 to 157 one or more instalments of tax;

(*b*) it is reasonable to conclude that the total amount of those instalments exceeds the total amount of taxes that will be payable by the taxpayer under those Parts for the year; and

(*c*) the Minister is satisfied that the payment of the instalments has caused or will cause undue hardship to the taxpayer.

(1.52) Instalment refund. If this subsection applies to a taxpayer for a taxation year, the Minister may refund to the taxpayer all or any part of the excess referred to in paragraph (1.51)(*b*).

(1.53) Penalties, interest not affected. For the purpose of the calculation of any penalty or interest under this Act, an instalment is deemed not to have been paid to the extent that all or any part of the instalment can reasonably be considered to have been refunded under subsection (1.52).

Applicable: Royal Assent.

Explanatory Note:

Refund of Instalment — Hardship

New subsections 164(1.51) to (1.53) of the Act, which apply on Royal Assent, allow the Minister of National Revenue to refund excessive instalment amounts paid on account of a taxpayer's tax liability. In order for such a refund to be made, four conditions must be met. Three of these are set out in new subsection 164(1.51). First, the taxpayer must have paid one or more instalments of tax under Part I or, where the taxpayer is a corporation, Part I.3, VI, VI.1 or XIII of the Act. Second, it must be reasonable to conclude that the total amount of the instalments the taxpayer has paid exceeds the total amount of taxes payable by the taxpayer under those Parts for the year. Third, the Minister must be satisfied that the payment of the instalments has caused or will cause the taxpayer undue hardship.

The last condition is implied in new subsection 164(1.52) of the Act. The availability of an instalment refund in a particular case is a matter of the Minister's discretion. The final condition is therefore that the Minister agree to make the refund. Similarly, new subsection 164(1.52) makes it clear that the amount of any instalment refund is to be decided by the Minister: the Minister may refund all or any part of an excessive instalment.

New subsection 164(1.53) of the Act provides that, for the purposes of computing interest and penalties, a taxpayer that receives an instalment refund is treated as not having paid the instalment to that extent.

► 164(1.6) ◄

(1.6) Refund of UI premium tax credit. Notwithstanding subsection (1), where an overpayment on account of a taxpayer's liability under this Part is deemed to have arisen under subsection 126.1(6) or (7), the Minister shall, with all due dispatch, refund the amount of the overpayment without application for it.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was

dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 164(1.6) of the Act is repealed.

(1.6) [Repealed.]

Applicable: After March 20, 2003.

Explanatory Note:

Refund of UI Premium Tax Credit

Subsection 164(1.6) of the Act provides rules concerning refunds of the UI premium tax credit. This subsection is repealed consequential to the repeal of section 126.1. For additional information, see the commentary to section 126.1.

This change applies in respect of forms filed after March 20, 2003.

History: S. 164(1.6) was added by S.C. 1994, c. 8, s. 27(1), applicable after 1992.

► 164(1.7) ◄

(1.7) Limitation of repayment on objections and appeals. Subsection (1.1) does not apply in respect of an amount paid or security furnished under section 116 by a non-resident person.

History: S. 164(1.7) was added by S.C. 1994, c. 8, s. 27(1), effective on May 12, 1994.

► 164(1.8) ◄

(1.8) Request to pay refund to province. An individual (other than a trust) may, in the individual's return of income for a taxation year, request the Minister to pay to Her Majesty in right of a prescribed province all or any part of a refund for the year claimed by the individual in the return and, where the individual makes such a request,

(*a*) the Minister may make the payment to Her Majesty in right of the province in accordance with the request; and

(*b*) the amount of the payment is deemed to have been refunded under this section to the individual at the time a notice of an original assessment of tax payable under this Part by the individual for the year, or a notification that no tax is payable under this Part by the individual for the year, is sent to the individual.

History: S. 164(1.8) was added by S.C. 1998, c. 19, s. 190(3), applicable to requests made in returns of income for the 1997 and subsequent taxation years filed after 1997.

Sec. 190(12), Chap. 19, 1998

(12) For the purpose of applying subsection 164(1.8) of the Act, Ontario is deemed to be a prescribed province until the *Income Tax Regulations* are amended to prescribe a province for the purpose of subsection 164(1.8) of the Act.

► 164(2) ◄

(2) Application to other debts. Instead of making a refund or repayment that might otherwise be made under this section, the Minister may, where the taxpayer is, or is about to become, liable to make any payment to Her Majesty in right of Canada or in right of a province, apply the amount of the refund or repayment to that other liability and notify the taxpayer of that action.

History: S. 164(2) was amended by S.C. 1998, c. 19, s. 190(4), applicable on Royal Assent, June 18, 1998. S. 164(2) formerly read:

"(2) *Application to other debts.* Instead of making a refund or repayment that might otherwise be made under this section, the Minister may, where the taxpayer is liable or about to become liable to make any payment to Her Majesty in right of Canada, apply the amount of the refund or repayment to that other liability and notify the taxpayer of that action."

S. 164(2) was amended by S.C. 1994, c. 7, Sched. II, s. 136(2), by substituting "to Her Majesty in right of Canada" for "under this Act", effective December 17, 1991.

Related Sections: S. 164(7) Definition of "overpayment"; s. 227(6) Excess withheld, returned or applied.

Information Circulars: IC 07-1 Taxpayer Relief Provisions.

► 164(2.01) ◄

(2.01) Withholding of refunds. The Minister shall not, in respect of a taxpayer, refund, repay, apply to other debts or set-off amounts under this Act at any time unless all returns of which the Minister has knowledge and that are required to be filed by the taxpayer at or before that time under this Act, the *Air Travellers Security Charge Act*, the *Excise Act, 2001* and the *Excise Tax Act* have been filed with the Minister.

History: S. 164(2.01) was added by S.C. 2006, c. 4, s. 163(1), and comes into force on April 1, 2007.

► 164(2.1) ◄

(2.1) Application respecting refunds under s. 122.5. Where an amount deemed under section 122.5 to be paid by an individual during a month specified for a taxation year is applied under subsection (2) to a liability of the individual and the individual's return of income for the year is filed on or before the individual's balance-due day for the year, the amount is deemed to have been so applied on the day on which the amount would have been refunded if the individual were not liable to make a payment to Her Majesty in right of Canada.

History: S. 164(2.1) was amended by S.C. 1998, c. 19, s. 190(5), applicable on Royal Assent, June 18, 1998. S. 164(2.1) formerly read:

"(2.1) *Application respecting refunds under s. 122.5.* Where an amount deemed under section 122.5 to be paid by an individual during a month specified for a taxation year is, in accordance with subsection (2), applied to a liability of the individual, for the purposes of that subsection, the amount shall, to the extent that it is so applied, be deemed to be paid on the latest of

(*a*) the last day of the month,

(*b*) where the month is the first month specified for a taxation year ending after 1989, the day that is the earlier of the day the amount is applied and the last day of the second month specified for the year, and

(*c*) where the individual's return of income for the year or the individual's prescribed form for the year referred to in subsection 122.5(3) is filed after the day on or before which the return is required to be filed, the day the amount is applied."

► 164(2.2) ◄

(2.2) Application respecting refunds re section 122.61. Subsection (2) does not apply to a refund to be made to a taxpayer and arising because of section 122.61 except to the extent that the taxpayer's liability referred to in that subsection arose from the operation of paragraph 160.1(1)(*a*) with respect to an amount refunded to the taxpayer in excess of the amount to which the taxpayer was entitled because of section 122.61.

History: S. 164(2.2) was added by S.C. 1994, c. 7, Sched. VII, s. 18(1), applicable with respect to overpayments arising after 1992.

► 164(2.3) ◄

(2.3) Form deemed to be a return of income. For the purpose of subsection (1), where a taxpayer files the form referred to in paragraph (*b*) of the definition "return of income" in section 122.6 for a taxation year, the form shall be deemed to be a return of the taxpayer's income for that year and a notice of assessment thereof shall be deemed to have been mailed by the Minister.

History: S. 164(2.3) was added by S.C. 1994, c. 7, Sched. VII, s. 18(1), applicable with respect to overpayments arising after 1992.

► 164(3) ◄

(3) Interest on refunds and repayments. Where under this section an amount in respect of a taxation year (other than an amount or portion of it that can reasonably be considered to arise from the operation of section 122.5,

122.61 or 126.1) is refunded or repaid to a taxpayer or applied to another liability of the taxpayer, the Minister shall pay or apply interest on it at the prescribed rate for the period beginning on the day that is the latest of the days referred to in the following paragraphs and ending on the day on which the amount is refunded, repaid or applied:

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 164(3) of the Act before paragraph (*a*) is replaced by the following:

(3) Interest on refunds and repayments. If, under this section, an amount in respect of a taxation year (other than an amount, or a portion of the amount, that can reasonably be considered to arise from the operation of section 122.5 or 122.61) is refunded or repaid to a taxpayer or applied to another liability of the taxpayer, the Minister shall pay or apply interest on it at the prescribed rate for the period that begins on the day that is the latest of the days referred to in the following paragraphs and that ends on the day on which the amount is refunded, repaid or applied:

Applicable: In respect of forms filed after March 20, 2003.

Explanatory Note:

Interest on Refunds and Repayments

Subsection 164(3) of the Act provides for the payment of interest on tax refunds. Two amendments are made to the subsection. First, the preamble of that subsection is being amended to adapt the wording to the new terminology now used elsewhere the Act. Second, the reference to section 126.1 is deleted consequential on the repeal of that section.

These changes apply in respect of forms filed after March 20, 2003.

(*a*) if the taxpayer is an individual, the day that is 30 days after the individual's balance-due day for the year;

(*b*) if the taxpayer is a corporation, the day that is 120 days after the end of the year;

(*c*) if the taxpayer is

(i) a corporation, the day that is 30 days after the day on which its return of income for the year was filed under section 150, unless the return was filed on or before the corporation's filing-due date for the year, and

(ii) an individual, the day that is 30 days after the day on which the individual's return of income for the year was filed under section 150;

(*d*) in the case of a refund of an overpayment, the day on which the overpayment arose, and

(*e*) in the case of a repayment of an amount in controversy, the day on which an overpayment equal to the amount of the repayment would have arisen if the total of all amounts payable on account of the taxpayer's liability under this Part for the year were the amount by which

(i) the lesser of the total of all amounts paid on account of the taxpayer's liability under this Part for the year and the total of all amounts assessed by the Minister as payable under this Part by the taxpayer for the year

exceeds

(ii) the amount repaid,

History: S. 164(3) was replaced by S.C. 2003, c. 15, s. 118(1), applicable to taxation years that end after June 2003. S. 164(3) formerly read:

"(3) *Interest on refunds and repayments.* Where under this section an amount in respect of a taxation year (other than an amount or portion thereof that can reasonably be considered to arise from the operation of section 122.5, 122.61 or 126.1) is refunded or repaid to a taxpayer or applied to another liability of the taxpayer, the Minister shall pay or apply interest on it at the prescribed rate for the period beginning on the day that is the latest of

(*a*) where the taxpayer is an individual, the day that is 45 days after the individual's balance-due day for the year,

(*b*) where the taxpayer is a corporation, the day that is 120 days after the end of the year,

(*c*) where the taxpayer is

(i) a corporation, the day on which its return of income for the year was filed under section 150, unless the return was filed on or before the corporation's filing-due date for the year, and

(ii) an individual, the day that is 45 days after the day on which the individual's return of income for the year was filed under section 150,

(*d*) in the case of a refund of an overpayment, the day the overpayment arose, and

(*e*) in the case of a repayment of an amount in controversy, the day an overpayment equal to the amount of the repayment would have arisen if the total of all amounts payable on account of the taxpayer's liability under this Part for the year were the amount by which

(i) the lesser of the total of all amounts paid on account of the taxpayer's liability under this Part for the year and the total of all amounts assessed by the Minister as payable under this Part by the taxpayer for the year

exceeds

(ii) the amount repaid,

and ending on the day the amount is refunded, repaid or applied, unless the amount of the interest so calculated is less than $1, in which event no interest shall be paid or applied under this subsection."

S. 164(3)(*a*) was amended by S.C. 1996, c. 21, s. 44(1), applicable to the 1995 and subsequent taxation years. S. 164(3)(*a*) formerly read:

"(*a*) where the taxpayer is an individual, the day that is 45 days after the day on or before which the taxpayer's return of income under this Part for the year was required to be filed under section 150 or would have been required to be so filed if tax under this Part were payable by the taxpayer for the year,"

S. 164(3)(*c*) was amended by S.C. 1996, c. 21, s. 44(2), applicable to the 1995 and subsequent taxation years. S. 164(3)(*c*) formerly read:

"(*c*) the day or, where the taxpayer is an individual, the day that is 45 days after the day, on which the taxpayer's return of income under this Part for the year was filed under section 150, unless the return was filed on or before the day on or before which it was required to be filed,"

S. 164(3), that portion preceding paragraph (*a*), was amended by S.C. 1994, c. 8, s. 27(2) to add the reference to section 126.1, applicable after 1992.

S. 164(3)(*a*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 97(3), applicable with respect to returns of income filed after 1992 to add the phrase "the day that is 45 days after".

S. 164(3)(*c*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 97(4), applicable with respect to returns of income filed after 1992. S. 164(3)(*c*) formerly read:

"(*c*) the day on which the taxpayer's return of income under this Part for the year was filed under section 150, unless the return was filed on or before the day on or before which it was required to be filed, or would have been required to be filed if tax under this Part were payable by the taxpayer for the year,"

S. 164(3), that portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. VII, s. 18(2), applicable with respect to overpayments arising after 1992. That portion of s. 164(3) formerly read:

"(3) Where under this section an amount in respect of a taxation year (other than an amount or portion thereof that can reasonably be considered to arise from the operation of section 122.5) is refunded or repaid to a taxpayer or applied to another liability of the taxpayer, the Minister shall pay or apply interest thereon at the prescribed rate for the period beginning on the day that is the latest of"

Related Sections: S. 164(4) Interest on interest repaid; s. 164(5) Effect of carryback of loss, etc; s. 164(5.1) Interest — disputed amounts; s. 161.1 Offset of refund interest and arrears interest; s. 248(1), "balance-due date", "filing-due date"; s. 248(11) Compound interest; and ITAR s. 62(2) Interest.

Regulations: 4301.

Cases: Because the taxpayer made a tax overpayment out of profits earned in its business, when it received a tax refund, such refund represented a return of money that was intended for use in its business. Hence, the refund interest was active business income, and had to be included in its "adjusted business income" for MPP tax credit purposes. *The Queen v. Irving Oil Limited*, 2002 DTC 6716 (F.C.A.), affirming 2000 DTC 2164 (T.C.C.).

► 164(3.1) ◄

(3.1) Idem. Where at a particular time interest has been paid to, or applied to a liability of, a taxpayer under subsection (3) or (3.2) in respect of an overpayment and it is determined at a subsequent time that the actual overpayment was less than the overpayment in respect of which interest was paid or applied,

(*a*) the amount by which the interest that has been paid or applied exceeds the interest, if any, computed in respect of the amount that is determined at the subsequent time to be the actual overpayment shall be deemed to be an amount (in this subsection referred to as "the amount payable") that became payable under this Part by the taxpayer at the particular time;

(*b*) the taxpayer shall pay to the Receiver General interest at the prescribed rate on the amount payable computed from that particular time to the day of payment; and

(*c*) the Minister may at any time assess the taxpayer in respect of the amount payable and, where the Minister makes such an assessment, the provisions of this Division are applicable, with such modifications as the circumstances require, in respect of the assessment as though it had been made under section 152.

History: S. 164(3.1), that portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 136(3), by substituting "under subsection (3) or (3.2)" for "pursuant to subsection (3)"; applicable with respect to refunds for the 1985 and subsequent taxation years.

Related Sections: S. 248(11) Compound interest.
Regulations: 4301.

► 164(3.2) ◄

(3.2) Interest where amounts cancelled. Notwithstanding subsection (3), if an overpayment of a taxpayer for a taxation year is determined because of an assessment made under subsection 152(4.2) or 220(3.1) or (3.4) and an amount in respect of the overpayment is refunded to, or applied to another liability of, the taxpayer under subsection (1.5) or (2), the Minister shall pay or apply interest on the overpayment at the prescribed rate for the period beginning on the day that is 30 days after the day on which the Minister received a request in a manner satisfactory to the Minister to apply those subsections and ending on the day on which the amount is refunded or applied.

History: S. 164(3.2) was replaced by S.C. 2003, c. 15, s. 118(2), applicable in respect of requests received by the Minister of National Revenue after June 2003. S. 164(3.2) formerly read:

"(3.2) *Idem.* Notwithstanding subsection (3), where the amount of an overpayment of a taxpayer for a taxation year is determined because of an assessment made under subsection 152(4.2) or 220(3.1) or (3.4) and an amount in respect thereof is refunded to, or applied to another liability of, the taxpayer under subsection (1.5) or (2), the Minister shall pay or apply interest thereon at the prescribed rate for the period beginning on the day the Minister received the application therefor, in a form satisfactory to the Minister, and ending on the day the amount is refunded or applied, unless the amount of the interest so calculated is less than $1, in which case no interest shall be paid or applied under this subsection."

S. 164(3.2) was amended by S.C. 1994, c. 7, Sched. VIII, s. 97(5), applicable to the 1985 and subsequent taxation years. S. 164(3.2) formerly read:

"(3.2) Notwithstanding subsection (3), where the amount of an overpayment of a taxpayer for a taxation year is determined because of subsection 152(4.2) or 220(3.4) and an amount in respect thereof is refunded to, or applied to another liability of, the taxpayer under subsection (1.5) or (2), the Minister shall pay or apply interest thereon at the prescribed rate for the period beginning on the day that the Minister received, in a form satisfactory to the Minister, the relevant application and ending on the day the amount is refunded or applied, unless the amount of the interest so calculated is less than $1, in which case no interest shall be paid or applied under this subsection."

S. 164(3.2) was added by S.C. 1994, c. 7, Sched. II, s. 136(4), applicable to refunds for the 1985 and subsequent taxation years.

► 164(4) ◄

(4) Interest on interest repaid. Where at any particular time interest has been paid to, or applied to a liability of, a taxpayer pursuant to subsection (3) in respect of the repayment of an amount in controversy made to, or applied to a liability of, the taxpayer and it is determined at a subsequent time that the repayment or a part thereof is payable by the taxpayer under this Part, the following rules apply:

(*a*) the interest so paid or applied on that part of the repayment that is determined at the subsequent time to be payable by the taxpayer under this Part shall be deemed to be an amount (in this subsection referred to as the "interest excess") that became payable under this Part by the taxpayer at the particular time;

(*b*) the taxpayer shall pay to the Receiver General interest at the prescribed rate on the interest excess computed from the particular time to the day of payment; and

(*c*) the Minister may at any time assess the taxpayer in respect of the interest excess and, where the Minister makes such an assessment, the provisions of this Division and Division J are applicable, with such modifications as the circumstances require, in respect of the assessment as though it had been made under section 152.

Related Sections: S. 161.1 Offset of refund interest and arrears interest; s. 248(11) Compound interest; ITAR s. 62(2) Interest.
Regulations: 4301.
Canadian Tax Foundation: Cuperfain, "Got Me Those Capital Gain, High Dividend Tax, Stop-loss Rules, Estate Planning Blues", *2001 Canadian Tax Journal*, No. 3, 764.

► 164(4.1) ◄

(4.1) Duty of Minister. Where the Tax Court of Canada, the Federal Court of Appeal or the Supreme Court of Canada has, on the disposition of an appeal in respect of taxes, interest or a penalty payable under this Act by a taxpayer resident in Canada,

(*a*) referred an assessment back to the Minister for reconsideration and reassessment, or

(*b*) varied or vacated an assessment,

the Minister shall with all due dispatch, whether or not an appeal from the decision of the Court has been or may be instituted,

(*c*) where the assessment has been referred back to the Minister, reconsider the assessment and make a reassessment in accordance with the decision of the Court, unless otherwise directed in writing by the taxpayer, and

(*d*) refund any overpayment resulting from the variation, vacation or reassessment,

and the Minister may repay any tax, interest or penalties or surrender any security accepted therefor by the Minister to that taxpayer or any other taxpayer who has filed another objection or instituted another appeal if, having regard to the reasons given on the disposition of the appeal, the Minister is satisfied that it would be just and equitable to do so, but for greater certainty, the Minister may, in accordance with the provisions of this Act, the *Tax Court of Canada Act*, the *Federal Courts Act* or the *Supreme Court Act*

as they relate to appeals from decisions of the Tax Court of Canada or the Federal Court of Appeal, appeal from the decision of the Court notwithstanding any variation or vacation of any assessment by the Court or any reassessment made by the Minister under paragraph (*c*).

History: S. 164(4.1), the portion after paragraph (*d*), was amended by S.C. 2002, c. 8, ss. 182(1)(*t*) and 184(*c*) to replace the expressions "*Federal Court Act*" and "Federal Court" with the expressions "*Federal Courts Act*" and "Federal Court of Appeal", respectively, in force on July 2, 2003.

Related Sections: S. 164(5.1) Interest — disputed amounts.

► 164(5) ◄

(5) Effect of carryback of loss, etc. For the purpose of subsection (3), the portion of any overpayment of the tax payable by a taxpayer for a taxation year that arose as a consequence of

(*a*) the deduction of an amount, in respect of a repayment under subsection 68.4(7) of the *Excise Tax Act* made in a subsequent taxation year, in computing the amount determined under subparagraph 12(1)(x.1)(ii),

(*a.1*) any amount deducted under section 119 in respect of the disposition of a taxable Canadian property in a subsequent taxation year,

(*b*) the deduction of an amount under section 41 in respect of the taxpayer's listed-personal property loss for a subsequent taxation year,

(*c*) the exclusion of an amount from the taxpayer's income for the year by virtue of section 49 in respect of the exercise of an option in a subsequent taxation year,

(*d*) the deduction of an amount under section 118.1 in respect of a gift made in a subsequent taxation year or under section 111 in respect of a loss for a subsequent taxation year,

(*e*) the deduction of an amount under subsection 126(2) in respect of an unused foreign tax credit (within the meaning assigned by subsection 126(7)), or under subsection 126(2.21) or (2.22) in respect of foreign taxes paid, for a subsequent taxation year,

(*f*) the deduction of an amount under subsection 127(5) in respect of property acquired or an expenditure made in a subsequent taxation year,

(*g*) the deduction of an amount under section 125.2 in respect of an unused Part VI tax credit (within the meaning assigned by subsection 125.2(3)) for a subsequent taxation year,

(*h*) the deduction of an amount under section 125.3 in respect of an unused Part I.3 tax credit (within the meaning assigned by subsection 125.3(3)) for a subsequent taxation year,

(*h.01*) the deduction of an amount under subsection 147.2(4) in computing the taxpayer's income for the year because of the application of subsection 147.2(6) as a result of the taxpayer's death in the following taxation year,

(*h.02*) the deduction under any of subsections 128.1(6) to (8) of an amount from the taxpayer's proceeds of disposition of a property, because of an election made in a return of income for a subsequent taxation year,

(*h.1*) the deduction of an amount in computing the taxpayer's income for the year by virtue of an election for a subsequent taxation year under paragraph (6)(*c*) or (*d*) by the taxpayer's legal representative,

(*h.2*) the deduction of an amount under subsection 181.1(4) in respect of an unused surtax credit (within the meaning assigned by subsection 181.1(6)) of the taxpayer for a subsequent taxation year, or

(*h.3*) the deduction of an amount under subsection 190.1(3) in respect of an unused Part I tax credit (within the meaning assigned by subsection 190.1(5)) of the taxpayer for a subsequent taxation year,

is deemed to have arisen on the day that is 30 days after the latest of

(*i*) the first day immediately following that subsequent taxation year,

(*j*) the day on which the taxpayer's or the taxpayer's legal representative's return of income for that subsequent taxation year was filed,

(*k*) where an amended return of the taxpayer's income for the year or a prescribed form amending the taxpayer's return of income for the year was filed under paragraph (6)(*e*) or subsection 49(4) or 152(6), the day on which the amended return or prescribed form was filed, and

(*l*) where, as a consequence of a request in writing, the Minister reassessed the taxpayer's tax for the year to take into account the deduction or exclusion, the day on which the request was made.

History: S. 164(5), the portion after paragraph (*h.3*) and before paragraph (*i*) was replaced by S.C. 2003, c. 15, s. 118(3), applicable to taxation years that end after June 2003. S. 164(5), the portion after paragraph (*h.3*) and before paragraph (*i*) formerly read:

"shall be deemed to have arisen on the day that is the latest of"

S. 164(5)(*a.1*) was added by S.C. 2001, c. 17, s. 156(2), applicable to taxation years that end after October 1, 1996.

S. 164(5)(*e*) was amended by S.C. 2001, c. 17, s. 156(3), applicable to taxation years that end after October 1, 1996. S. 164(5)(*e*) formerly read:

"(*e*) the deduction of an amount under subsection 126(2) in respect of an unused foreign tax credit (within the meaning assigned by subsection 126(7)) for a subsequent taxation year,"

S. 164(5)(*h.02*) was added by S.C. 2001, c. 17, s. 156(4), applicable to taxation years that end after October 1, 1996.

S. 164(5)(*h.01*) was added by S.C. 1998, c. 19, s. 190(6), applicable to taxpayers who die after 1992.

S. 164(5)(*a*) was amended by S.C. 1997, c. 26, s. 86(1), applicable to the 1997 and subsequent taxation years. S. 164(5)(*a*) formerly read:

"(*a*) the deduction of an amount under subclause 12(1)(x1)(ii)(A)(II) in respect of a fuel tax rebate repayment made in a subsequent taxation year,"

S. 164(5)(*h.2*) was added by S.C. 1994, c. 7, Sched. VIII, s. 97(6), applicable to the 1992 and subsequent taxation years.

S. 164(5)(*h.3*) was added by S.C. 1994, c. 7, Sched. VIII, s. 97(6), applicable to the 1991 and subsequent taxation years.

S. 164(5)(*a*) was added by S.C. 1994, c. 7, Sched. VI, s. 9(1), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 161(7) Effect of carryback of loss, etc.

► 164(5.1) ◄

(5.1) Interest — disputed amounts. Where a portion of a repayment made under subsection (1.1) or (4.1), or an amount applied under subsection (2) in respect of a repayment, can reasonably be regarded as being in respect of a claim made by the taxpayer in an objection to or appeal from an assessment of tax for a taxation year for a deduction or exclusion described in subsection (5) in respect of a subsequent taxation year, interest shall not be paid or applied on the portion for any part of a period that is before the latest of the dates described in paragraphs (5)(*i*) to (*l*).

History: S. 164(5.1) was amended by S.C. 2001, c. 17, s. 156(5), applicable to taxation years that end after October 1, 1996. S. 164(5.1) formerly read:

"(5.1) *Idem.* Where a repayment made under subsection (1.1) or (4.1) or an amount applied under subsection (2) in respect of a repayment, or a part thereof, may reasonably be regarded as being in respect of a claim made by a taxpayer in an objection to or appeal from an assessment of tax for a taxation year for

(*a*) the deduction of an amount, in respect of a repayment under subsection 68.4(7) of the *Excise Tax Act* made in a subsequent taxation year, in computing the amount determined under subparagraph 12(1)(x1)(ii),

(*b*) the deduction of an amount under section 41 in respect of the taxpayer's listed-personal-property loss for a subsequent taxation year,

(*c*) the exclusion of an amount from the taxpayer's income for the year by virtue of section 49 in respect of the exercise of an option in a subsequent taxation year,

(*d*) the deduction of an amount under section 118.1 in respect of a gift made in a subsequent taxation year or under section 111 in respect of a loss for a subsequent taxation year,

(*e*) the deduction of an amount under subsection 126(2) in respect of an unused foreign tax credit (within the meaning assigned by subsection 126(7)) for a subsequent taxation year,

(*f*) the deduction of an amount under subsection 127(5) in respect of property acquired or an expenditure made in a subsequent taxation year,

(*g*) the deduction of an amount under section 125.2 in respect of an unused Part VI tax credit (within the meaning assigned by subsection 125.2(3)) for a subsequent taxation year,

(*h*) the deduction of an amount under section 125.3 in respect of an unused Part I.3 tax credit (within the meaning assigned by subsection 125.3(3)) for a subsequent taxation year,

(*h*.01) the deduction of an amount under subsection 147.2(4) in computing the taxpayer's income for the year because of the application of subsection 147.2(6) as a result of the taxpayer's death in the following taxation year,

(*h*.1) the deduction of an amount in computing the taxpayer's income for the year by virtue of an election for a subsequent taxation year under paragraph (6)(*c*) or (*d*) by the taxpayer's legal representative,

(*h*.2) the deduction of an amount under subsection 181.1(4) in respect of an unused surtax credit (within the meaning assigned by subsection 181.1(6)) of the taxpayer for a subsequent taxation year, or

(*h*.3) the deduction of an amount under subsection 190.1(3) in respect of an unused Part I tax credit (within the meaning assigned by subsection 190.1(5)) of the taxpayer for a subsequent taxation year,

interest shall not be paid or applied thereon for any part of a period that is before the latest of

(*i*) the first day immediately following that subsequent taxation year,

(*j*) the day on which the taxpayer's or the taxpayer's legal representative's return of income for that subsequent taxation year was filed,

(*k*) where an amended return of the taxpayer's income for the year or a prescribed form amending the taxpayer's return of income for the year was filed under paragraph (6)(*e*) or subsection 49(4) or 152(6), the day on which the amended return or prescribed form was filed, and

(*l*) where, as a consequence of a request in writing, the Minister reassessed the taxpayer's tax for the year to take into account the deduction or exclusion, the day on which the request was made."

S. 164(5.1)(*h*.01) was added by S.C. 1998, c. 19, s. 190(7), applicable to taxpayers who die after 1992.

S. 164(5.1)(*a*) was amended by S.C. 1997, c. 26, s. 86(2), applicable to the 1997 and subsequent taxation years. S. 164(5.1)(*a*) formerly read:

"(*a*) the deduction of an amount under subclause 12(1)(x1)(ii)(A)(II) in respect of a fuel tax rebate repayment made in a subsequent taxation year,"

S. 164(5.1)(*h*.2) was added by S.C. 1994, c. 7, Sched. VIII, s. 97(7), applicable to the 1992 and subsequent taxation years.

S. 164(5.1)(*h*.3) was added by S.C. 1994, c. 7, Sched. VIII, s. 97(7), applicable to the 1991 and subsequent taxation years.

S. 164(5.1)(*a*) was added by S.C. 1994, c. 7, Sched. VI, s. 9(2), applicable to the 1992 and subsequent taxation years.

► 164(6) ◄

(6) Where disposition of property by legal representative of deceased taxpayer. Where in the course of administering the estate of a deceased taxpayer, the taxpayer's legal representative has, within the first taxation year of the estate,

(*a*) disposed of capital property of the estate so that the total of all amounts each of which is a capital loss from the disposition of a property exceeds the total of all amounts each of which is a capital gain from the disposition of a property, or

(*b*) disposed of all of the depreciable property of a prescribed class of the estate so that the undepreciated capital cost to the estate of property of that class at the end of the first taxation year of the estate is, by virtue of subsection 20(16) or any regulation made under paragraph 20(1)(*a*), deductible in computing the income of the estate for that year,

notwithstanding any other provision of this Act, the following rules apply:

(*c*) such parts of one or more capital losses of the estate from the disposition of properties in the year (the total of which is not to exceed the excess referred to in paragraph (*a*)) as the legal representative so elects, in prescribed manner and within a prescribed time, are deemed (except for the purpose of subsection 112(3) and this paragraph) to be capital losses of the deceased taxpayer from the disposition of the properties by the taxpayer in the taxpayer's last taxation year and not to be capital losses of the estate from the disposition of those properties,

(*d*) such part of the amount of any deduction described in paragraph (*b*) (not exceeding the amount that, but for this subsection, would be the total of the non-capital loss and the farm loss of the estate for its first taxation year) as the legal representative so elects, in prescribed manner and within a prescribed time, shall be deductible in computing the income of the taxpayer for the taxpayer's taxation year in which the taxpayer died and shall not be an amount deductible in computing any loss of the estate for its first taxation year,

(*e*) the legal representative shall, at or before the time prescribed for filing the election referred to in paragraphs (*c*) and (*d*), file an amended return of income for the deceased taxpayer for the taxpayer's taxation year in which the taxpayer died to give effect to the rules in those paragraphs, and

(*f*) in computing the taxable income of the deceased taxpayer for a taxation year preceding the year in which the taxpayer died, no amount may be deducted in respect of an amount referred to in paragraph (*c*) or (*d*).

History: S. 164(6)(*c*) was amended by S.C. 1998, c. 19, s. 190(8), applicable to deaths that occur after 1993. S. 164(6)(*c*) formerly read:

"(*c*) such part of one or more capital losses from the disposition of properties referred to in paragraph (*a*) (the total of which amounts is not to exceed the excess referred to in that paragraph) as the legal representative so elects, in prescribed manner and within a prescribed time, shall be deemed to be capital losses of the deceased taxpayer from the disposition of the properties by the taxpayer in the taxpayer's taxation year in which the taxpayer died and not to be capital losses of the estate from the disposition of those properties for its first taxation year,"

Related Sections: S. 70(5) Capital property of a deceased taxpayer; s. 220(3.2) Late, amended or revoked elections.

Regulations: 600(b); 1000.

Interpretation Bulletins: *Secondary* — IT-140R3 Buy-sell agreements; IT-484R2 Business investment losses.

Information Circulars: IC 07-1 Taxpayer Relief Provisions.

Tax Topics: No. 1690, Estate Planning In The 21st Century; No. 1681, Life Insurance: Exploring the Corporate Edge — Part I; No. 1635, Estate Planning in the Twenty-First Century; No. 1595, Estate Planning in the 21st Century; No. 1582, Estate Planning in the 21st Century; No. 1570, Estate Planning in the 21st Century.

Tax Profile: September 2004 — Review of Tax Implications of Corporate-Owned Life Insurance Buy-Sell Arrangements; June 2004 — Planning For

Aging Parents; June 2001 — Double Tax Issues on Section 85 Rollovers; November 2000 — Life Insurance Corporate Buy-Sell Arrangements.
Canadian Tax Foundation: Ireland, C., "Selected Developments in Post Mortem Planning", *2005 Conference Report*, 13:1; Sibson, "Private Companies", *2001 Annual Conference*, 5:1; Rees, "Testamentary Planning to Avoid Double Taxation", *2000 Canadian Tax Journal*, No. 1, 155.

Sec. 191, Chap. 19, 1998

Sec. 191. [Transitional provision.] Where

(*a*) the first taxation year of an estate of an individual ended after April 26, 1995 and before 1997,

(*b*) the estate had a capital loss from the disposition after the year and before 1997 of a share of the capital stock of a corporation that was owned by the individual or the estate on April 26, 1995 and acquired by the estate as a consequence of the individual's death, and

(*c*) the individual's legal representative so elects in writing filed with the Minister of National Revenue within 6 months after the month in which this Act is assented to [Royal Assent June 18, 1998],

the following rules apply:

(*d*) the disposition is deemed to have occurred in the first taxation year of the estate,

(*e*) an election under paragraph 164(6)(*c*) of the Act, as enacted by subsection 190(8), for the year is deemed to have been filed on time if it is filed with the Minister of National Revenue within 6 months after the month in which this Act is assented to [Royal Assent June 18, 1998], and

(*f*) an amended return of income under Part I of the Act for the individual's last taxation year is deemed for the purpose of paragraph 164(6)(*e*) of the Act to have been filed on time if it is filed with the Minister of National Revenue within 6 months after the month in which this Act is assented to [Royal Assent June 18, 1998].

► 164(6.1) ◄

(6.1) Realization of deceased employees' options. Notwithstanding any other provision of this Act, if a right to acquire securities (as defined in subsection 7(7)) under an agreement in respect of which a benefit was deemed by paragraph 7(1)(*e*) to have been received by a taxpayer (in this subsection referred to as "the right") is exercised or disposed of by the taxpayer's legal representative within the first taxation year of the estate of the taxpayer and the representative so elects in prescribed manner and on or before a prescribed day,

(*a*) the amount, if any, by which

(i) the amount of the benefit deemed by paragraph 7(1)(*e*) to have been received by the taxpayer in respect of the right

exceeds the total of

(ii) the amount, if any, by which the value of the right immediately before the time it was exercised or disposed of exceeds the amount, if any, paid by the taxpayer to acquire the right, and

(iii) where in computing the taxpayer's taxable income for the taxation year in which the taxpayer died an amount was deducted under paragraph 110(1)(*d*) in respect of the benefit deemed by paragraph 7(1)(*e*) to have been received by the taxpayer in that year by reason of paragraph 7(1)(*e*) in respect of that right, 1/2 of the amount, if any, by which the amount determined under subparagraph (i) exceeds the amount determined under subparagraph (ii),

shall be deemed to be a loss of the taxpayer from employment for the year in which the taxpayer died;

(*b*) there shall be deducted in computing the adjusted cost base to the estate of the right at any time the amount of the loss that would be determined under paragraph (*a*) if that paragraph were read without reference to subparagraph (*a*)(iii); and

(*c*) the legal representative shall, at or before the time prescribed for filing the election under this subsection, file an amended return of income for the taxpayer for the taxation year in which the taxpayer died to give effect to paragraph (*a*).

History: S. 164(6.1)(*a*)(iii) was amended by S.C. 2001, c. 17, s. 156(6), by replacing the reference to the fraction "1/4" with a reference to the fraction "1/2", applicable to deaths that occur after February 27, 2000 except that, for deaths that occurred after February 27, 2000 and before October 18, 2000, the reference to the fraction "1/2" in subparagraph 164(6.1)(*a*)(iii) of the Act shall be read as a reference to the fraction "1/3".

S. 164(6.1), the portion before paragraph (*a*) was amended by S.C. 1999, c. 22, s. 66(1), applicable to deaths that occur after February 1998. S. 164(6.1), the portion before paragraph (*a*) formerly read:

"(6.1) *Exercise or disposition of employee stock option by legal representative of deceased employee.* Where, within the first taxation year of the estate of a deceased taxpayer, a right to acquire shares under an agreement in respect of which a benefit was deemed by paragraph 7(1)(*e*) to have been received by the taxpayer (in this subsection referred to as 'the right') is exercised or disposed of by the taxpayer's legal representative, notwithstanding any other provision of this Act, where the taxpayer's legal representative elects in prescribed manner and on or before a prescribed day,"

S. 164(6.1) was added by S.C. 1994, c. 7, Sched. VIII, s. 97(8), applicable with respect to deaths occurring after July 13, 1990.

Related Sections: S. 7(1) Agreement to issue securities to employees; s. 53(2)(*t*) Amounts to be deducted — Right to acquire shares or units; s. 110(1)(*d*) Employee options.
Regulations: 600(*b*); 1000.1.

► 164(7) ◄

(7) Definition of "overpayment". In this section, "overpayment" of a taxpayer for a taxation year means

(*a*) where the taxpayer is not a corporation, the total of all amounts paid on account of the taxpayer's liability under this Part for the year minus all amounts payable in respect thereof, and

(*b*) where the taxpayer is a corporation, the total of all amounts paid on account of the corporation's liability under this Part or Parts I.3, VI or VI.1 for the year minus all amounts payable in respect thereof.

History: S. 164(7) was amended by S.C. 1994, c. 7, Sched. VIII, s. 97(9), applicable to the 1992 and subsequent taxation years. S. 164(7) formerly read:

"(7) In this section, 'overpayment' of a taxpayer for a taxation year means the total of all amounts paid on account of the taxpayer's liability under this Part for the year minus all amounts payable in respect thereof."

Cases: A dividend refund is not an "overpayment of tax" entitling the taxpayer to interest. *McMillen Holdings Ltd. v. M.N.R.*, 87 DTC 585 (T.C.C.).

SECTION 164.1: Prepayment of child tax credit. [Repealed by S.C. 1994, c. 7, Sched. VII, s. 19(2).]

History: S. 164.1 was repealed by S.C. 1994, c. 7, Sched. VII, s. 19(2), applicable to the 1993 and subsequent taxation years. S. 164.1 formerly read:

"(1) *Prepayment of child tax credit.* Notwithstanding any other provision of this Act, the Minister may, after the beginning of a taxation year and without application therefor, pay to an individual for the year in respect of each eligible child (within the meaning assigned by subsection 122.2(2)) of the individual for the year, one or more amounts, the total of which does not exceed 2/3 of,

(*a*) where the child was under 6 years of age at the end of the preceding taxation year and no amount was deducted under section 63 for that year in respect of any child of the individual under 6 years of age at the end of that year, the total of the amounts of $559 and $200 referred to in paragraph 122.2(1)(*a*), and

(*b*) in any other case, $559,

if, for the preceding taxation year,

(*c*) an amount was deemed under subsection 122.2(1) to have been paid for the preceding taxation year by

(i) the individual, or

(ii) the individual's spouse, where that spouse died after the end of that preceding year,

in respect of the child, and

(*d*) for that preceding year,

(i) the total determined under subparagraph 122.2(1)(*b*)(i) in respect of the individual, or

(ii) the individual's income, where the individual's spouse died after the end of that preceding year,

did not exceed,

(iii) where the amount or amounts to be paid because of this subsection are in respect of 3 or more eligible children of the individual, $24,090, and

(iv) in any other case, 2/3 of $24,090.

(2) *Nature of payment.* Each amount paid under subsection (1) to or applied under subsection (4) in respect of an individual for a taxation year shall be deemed to be on account of an amount deemed by subsection 122.2(1) to have been paid by the individual for the year.

(3) *Idem.* Where the total of all amounts paid under subsection (1) to or applied under subsection (4) in respect of an individual for a taxation year exceeds the amount deemed by subsection 122.2(1) to have been paid by the individual for the year, the excess shall be deemed to have been refunded to the individual on account of the individual's tax under this Part for the year on the day on or before which the individual's return of income under this Part for the year is required to be filed under section 150 or would be required to be so filed if tax under this Part were payable by the individual for the year.

(4) *Applying amount on debt.* Where an individual is liable or about to become liable to make any payment under this Act, the Minister may, instead of paying to the individual an amount that might otherwise be paid in a taxation year under subsection (1), apply the amount to the liability and notify the individual of that action."

S. 164.1(1), that portion following paragraph (*b*), was amended by S.C. 1994, c. 7, Sched. VII, s. 19(1), applicable to the 1992 taxation year. That portion of s. 164.1 following paragraph (*b*) formerly read:

"(*c*) an amount was deemed under subsection 122.2(1) to have been paid by the individual in respect of the child, and

(*d*) the total determined under subparagraph 122.2(1)(*b*)(i) in respect of the individual did not exceed,

(i) where the amount or amounts to be paid by reason of this subsection are in respect of 3 or more eligible children of the individual, $24,090, and

(ii) in any other case, 2/3 of $24,090."

S. 164.1(1)(*a*) was amended by S.C. 1994, c. 7, Sched. II, s. 137(1), applicable to the 1989 and subsequent taxation years. S. 164(1)(*a*) formerly read:

"(*a*) where the child was under 6 years of age at the end of the preceding taxation year and no amount was deducted for that year under section 63 in respect of the child, the total of the amounts of $559 and $200 referred to in paragraph 122.2(1)(*a*), and"

Related Sections: S. 160.1(1) Where excess refunded; s. 248(1), "amount", "individual"; s. 252(1), "child".

Regulations: 7301.

Objections to Assessments

SECTION 165:

► 165(1) ◄

(1) Objections to assessment. A taxpayer who objects to an assessment under this Part may serve on the Minister a notice of objection, in writing, setting out the reasons for the objection and all relevant facts,

(*a*) where the assessment is in respect of the taxpayer for a taxation year and the taxpayer is an individual (other than a trust) or a testamentary trust, on or before the later of

(i) the day that is one year after the taxpayer's filing-due date for the year, and

(ii) the day that is 90 days after the day of mailing of the notice of assessment; and

(*b*) in any other case, on or before the day that is 90 days after the day of mailing of the notice of assessment.

History: S. 165(1)(*a*)(i) was amended by S.C. 1996, c. 21, s. 45(1), applicable to the 1995 and subsequent taxation years. S. 165(1)(*a*)(i) formerly read:

"(i) the day that is one year after the balance-due day of the taxpayer for the year, and"

S. 165(1) was amended by S.C. 1994, c. 7, Sched. II, s. 138(1), applicable with respect to objections made after December 17, 1991. S. 165(1) formerly read:

"(1) A taxpayer who objects to an assessment under this Part may, within 90 days from the day of mailing of the notice of assessment, serve on the Minister a notice of objection in duplicate in prescribed form setting out the reasons for the objection and all relevant facts."

Related Sections: S. 165(6) Validity of notice of objection; s. 167(1) Extension of time to appeal; s. 207.2(3) Provisions applicable to Part; s. 248(1), "filing-due date".

Information Circulars: IC 07-1 Taxpayer Relief Provisions; IC 98-1R3 Collections Policies.

Forms: T400A.

Guides: P148 Your appeal Rights Under the Income Tax Act.

Tax Topics: No. 1495, Breathing Life Into Expired Limitation Periods — The Carlson Story.

Tax Profile: October 2006 — Tax Controversies in Canada: A Variety of Issues.

Cases: Although s. 165(1) requires a notice of objection to be served within 90 days after the day of "mailing" a notice of assessment, personal service of notices of assessment was held to be sufficient to begin the limitation periods for filing objections and applications for time extensions. *Grunwald v. The Queen*, 2006 DTC 6016 (F.C.A.), affirming 2006 DTC 2075 (T.C.C.).

The appeal provisions in the Act may not be circumvented by direct appeal to the Federal Court. A notice of objection must be filed. *M.N.R. v. Parsons et al.*, 84 DTC 6345 (F.C.A.), reversing in part 83 DTC 5329 (F.C.T.D.); *Gibbs v. M.N.R. and Deputy M.N.R., Taxation*, 84 DTC 6418 (F.C.T.D.). See also *Khan v. M.N.R.*, 85 DTC 5140 (F.C.A.).

► 165(1.1) ◄

(1.1) Limitation of right to object to assessments or determinations. Notwithstanding subsection (1), where at any time the Minister assesses tax, interest, penalties or other amounts payable under this Part by, or makes a determination in respect of, a taxpayer

(*a*) under subsection 67.5(2) or 152(1.8), subparagraph 152(4)(*b*)(i) or subsection 152(4.3) or (6), 161.1(7), 164(4.1), 220(3.4) or 245(8) or in accordance with an order of a court vacating, varying or restoring an assessment or referring the assessment back to the Minister for reconsideration and reassessment,

(*b*) under subsection (3) where the underlying objection relates to an assessment or a determination made under any of the provisions or circumstances referred to in paragraph (*a*), or

(*c*) under a provision of an Act of Parliament requiring an assessment to be made that, but for that provision, would not be made because of subsections 152(4) to (5),

the taxpayer may object to the assessment or determination within 90 days after the day of mailing of the notice of assessment or determination, but only to the extent that the reasons for the objection can reasonably be regarded

(*d*) where the assessment or determination was made under subsection 152(1.8), as relating to any matter or conclusion specified in paragraph 152(1.8)(*a*), (*b*) or (*c*), and

(*e*) in any other case, as relating to any matter that gave rise to the assessment or determination

and that was not conclusively determined by the court, and this subsection shall not be read or construed as limiting the right of the taxpayer to object to an assessment or a determination issued or made before that time.

History: Paragraph 165(1.1)(*a*) was replaced by S.C. 2000, c. 19, s. 51(1), applicable after 1999. Paragraph 165(1.1)(*a*) formerly read:

"(*a*) under subsection 67.5(2) or 152(1.8), subparagraph 152(4)(*b*)(i) or subsection 152(4.3) or (6), 164(4.1), 220(3.4) or 245(8) or in accordance with an order of a court vacating, varying or restoring the assessment or referring the assessment back to the Minister for reconsideration and reassessment,"

S. 165(1.1), the portion before paragraph (*b*) was amended by S.C. 1998, c. 19, s. 192(1), applicable in respect of determinations made after the day on

which this Act is assented to, June 18, 1998. S. 165(1.1), the portion before paragraph (*b*) formerly read:

"(1.1) *Limitation of right to object to assessments or determinations.* Notwithstanding subsection (1), where at any time the Minister assesses tax, interest or penalties payable under this Part by, or makes a determination in respect of, a taxpayer

(*a*) under subsection 67.5(2), subparagraph 152(4)(*b*)(i) or subsection 152(4.3) or (6) or 164(4.1), 220(3.4) or 245(8) or in accordance with an order of a court vacating, varying or restoring the assessment or referring the assessment back to the Minister for reconsideration and reassessment,"

S. 165(1.1), the portion after paragraph (*c*) was amended by S.C. 1998, c. 19, s. 192(2), applicable in respect of determinations made after the day on which this Act is assented to, June 18, 1998. S. 165(1.1), the portion after paragraph (*c*) formerly read:

"the taxpayer may object to the assessment or determination within 90 days after the day of mailing of the notice of assessment or determination, but only to the extent that the reasons for the objection can reasonably be regarded as relating to a matter that gave rise to the assessment or determination and that was not conclusively determined by the court, and this subsection shall not be read or construed as limiting the right of the taxpayer to object to an assessment or a determination issued or made before that time."

S. 165(1.1)(*d*) was added by S.C. 1998, c. 19, s. 192(2), applicable in respect of determinations made after the day on which this Act is assented to, June 18, 1998.

S. 165(1.1)(*e*) was added by S.C. 1998, c. 19, s. 192(2), applicable in respect of determinations made after the Royal Assent date, June 18, 1998.

S. 165(1.1)(*a*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 98(1), effective June 10, 1993, to add the reference to subsection 152(4.3).

S. 165(1.1) was added by S.C. 1994, c. 7, Sched. II, s. 138(1), applicable to objections made after December 17, 1991.

Related Sections: S. 169(2) Limitation of right to appeal from assessments or determinations.

Income Tax Technical News: Issue No. 32, Notice of Objection of Large Corporation: Impact of the Potash Corporation Case.

► 165(1.11) ◄

(1.11) Objections by large corporations. Where a corporation that was a large corporation in a taxation year (within the meaning assigned by subsection 225.1(8)) objects to an assessment under this Part for the year, the notice of objection shall

(*a*) reasonably describe each issue to be decided;

(*b*) specify in respect of each issue, the relief sought, expressed as the amount of a change in a balance (within the meaning assigned by subsection 152(4.4)) or a balance of undeducted outlays, expenses or other amounts of the corporation; and

(*c*) provide facts and reasons relied on by the corporation in respect of each issue.

History: S. 165(1.11) was added by S.C. 1995, c. 21, s. 70(1), applicable after September 26, 1994 to notices of objection filed at any time except a notice of objection to an assessment for a taxation year where an appeal under Division J of the Act of the assessment has been instituted on or before June 22, 1995.

Income Tax Technical News: Issue No. 32, Notice of Objection of Large Corporation: Impact of the *Potash Corporation* Case.

Tax Topics: No. 1700, 2004 Canadian Tax Foundation Conference - CRA Round Table.

Tax Profile: November 2004 — Notice of Objection for Large Corporations — Impact of Potash Corporation.

Canadian Petroleum Tax Journal: Canada Customs and Revenue Agency 1999 Roundtable Questions and Answers, Question 7, Vol. 13 No. 1 2000.

Sec. 70(3), Chap. 21, S.C. 1995

(3) [Deemed compliance with subsection 165(1.11).] Where a taxpayer submits, to a Chief of Appeals referred to in subsection 165(2), in writing before March 1995 the information required by subsection 165(1.11) to be provided in a notice of objection served by the taxpayer before 1995, the taxpayer shall be deemed to have complied with subsection 165(1.11) of the Act with respect to that notice.

► 165(1.12) ◄

(1.12) Late compliance. Notwithstanding subsection (1.11), where a notice of objection served by a corporation to which that subsection applies does not include the information required by paragraph (1.11)(*b*) or (*c*) in respect of an issue to be decided that is described in the notice, the Minister may in writing request the corporation to provide the information, and those paragraphs shall be deemed to be complied with in respect of the issue if, within 60 days after the request is made, the corporation submits the information in writing to a Chief of Appeals referred to in subsection (2).

History: S. 165(1.12) was added by S.C. 1995, c. 21, s. 70(1), applicable after September 26, 1994 to notices of objection filed at any time except a notice of objection to an assessment for a taxation year where an appeal under Division J of the Act of the assessment has been instituted on or before June 22, 1995.

► 165(1.13) ◄

(1.13) Limitation on objections by large corporations. Notwithstanding subsections (1) and (1.1), where under subsection (3) a particular assessment was made for a taxation year pursuant to a notice of objection served by a corporation that was a large corporation in the year (within the meaning assigned by subsection 225.1(8)), except where the objection was made to an earlier assessment made under any of the provisions or circumstances referred to in paragraph (1.1)(*a*), the corporation may object to the particular assessment in respect of an issue

(*a*) only if the corporation complied with subsection (1.11) in the notice with respect to that issue; and

(*b*) only with respect to the relief sought in respect of that issue as specified by the corporation in the notice.

History: S. 165(1.13) was added by S.C. 1995, c. 21, s. 70(1), applicable after September 26, 1994 to notices of objection filed at any time except a notice of objection to an assessment for a taxation year where an appeal under Division J of the Act of the assessment has been instituted on or before June 22, 1995.

► 165(1.14) ◄

(1.14) Application of subsection (1.13). Where a particular assessment is made under subsection (3) pursuant to an objection made by a taxpayer to an earlier assessment, subsection (1.13) does not limit the right of the taxpayer to object to the particular assessment in respect of an issue that was part of the particular assessment and not part of the earlier assessment.

History: S. 165(1.14) was added by S.C. 1995, c. 21, s. 70(1), applicable after September 26, 1994 to notices of objection filed at any time except a notice of objection to an assessment for a taxation year where an appeal under Division J of the Act of the assessment has been instituted on or before June 22, 1995.

► 165(1.15) ◄

(1.15) Partnership. Notwithstanding subsection (1), where the Minister makes a determination under subsection 152(1.4) in respect of a fiscal period of a partnership, an objection in respect of the determination may be made only by one member of the partnership, and that member must be either

(*a*) designated for that purpose in the information return made under section 229 of the *Income Tax Regulations* for the fiscal period; or

(*b*) otherwise expressly authorized by the partnership to so act.

History: S. 165(1.15) was added by S.C. 1998, c. 19, s. 190(3), applicable in respect of determinations made after the day on which this Act is assented to, June 18, 1998.

► 165(1.2) ◄

(1.2) Limitation on objections. Notwithstanding subsections (1) and (1.1), no objection may be made by a taxpayer to an assessment made under subsection 118.1(11), 152(4.2), 169(3) or 220(3.1) nor, for greater certainty, in respect of an issue for which the right of objection has been waived in writing by the taxpayer.

History: S. 165(1.2) was amended by S.C. 1995, c. 38, s. 9, effective July 12, 1996. S. 165(1.2) formerly read:

"(1.2) *Limitation on objections.* Notwithstanding subsections (1) and (1.1), no objection may be made by a taxpayer to an assessment made under subsection 152(4.2), 169(3) or 220(3.1) nor, for greater certainty, in respect of an issue for which the right of objection has been waived in writing by the taxpayer."

S. 165(1.2) was amended by S.C. 1995, c. 21, s. 70(1), applicable after September 26, 1994 to waivers signed at any time. S. 165(1.2) formerly read:

"(1.2) *Idem.* Notwithstanding subsection (1), no objection may be made to an assessment made under subsection 152(4.2), 169(3) or 220(3.1)."

S. 165(1.2) was amended by S.C. 1994, c. 7, Sched. VIII, s. 98(2), effective June 10, 1993, to add the reference to subsections 169(3) and 220(3.1).

S. 165(1.2) was added by S.C. 1994, c. 7, Sched. II, s. 138(1), applicable after 1990.

Related Sections: S. 152(4.2) Reassessment with taxpayer's consent.

► 165(2) ◄

(2) Service. A notice of objection under this section shall be served by being addressed to the Chief of Appeals in a District Office or a Taxation Centre of the Canada Revenue Agency and delivered or mailed to that Office or Centre.

History: S. 165(2) was amended by S.C. 2005, c. 38, s. 138, by replacing "Canada Customs and Revenue Agency" with "Canada Revenue Agency", in force December 12, 2005.

S. 165(2) was amended by S.C. 1999, c. 17, s. 168, by replacing "Department of National Revenue" with "Canada Customs and Revenue Agency", coming into force on November 1, 1999.

S. 165(2) was amended by S.C. 1994, c. 13, s. 8(1), by replacing "Department of National Revenue, Taxation" with "Department of National Revenue", effective May 12, 1994.

S. 165(2) was amended by S.C. 1994, c. 7, Sched. II, s. 138(1), applicable with respect to objections made after December 17, 1991. S. 165(2) formerly read:

"(2) A notice of objection under this section shall be served by being sent by registered mail addressed to the Deputy Minister of National Revenue for Taxation at Ottawa."

Related Sections: S. 165(6) Validity of notice of objection.

► 165(2.1) ◄

(2.1) Application. Notwithstanding any other provision of this Act, paragraph (1)(*a*) shall apply only in respect of assessments, determinations and redeterminations under this Part and Part I.2.

History: S. 165(2.1) was amended by S.C. 2001, c. 17, s. 157(1), applicable to the 2001 and subsequent taxation years. S. 165(2.1) formerly read:

"(2.1) *Application.* Notwithstanding any other provision of this Act, paragraph (1)(*a*) shall apply only in respect of assessments, determinations and redeterminations under this Part, Part I.1 and Part I.2."

S. 165(2.1) was added by S.C. 1994, c. 7, Sched. II, s. 138(1), applicable with respect to objections made after December 17, 1991.

► 165(3) ◄

(3) Duties of Minister. On receipt of a notice of objection under this section, the Minister shall, with all due dispatch, reconsider the assessment and vacate, confirm or vary the assessment or reassess, and shall thereupon notify the taxpayer in writing of the Minister's action.

History: S. 165(3) was amended by S.C. 1994, c. 7, Sched. VIII, s. 98(3), effective June 10, 1993. S. 165(3) formerly read:

"(3) On receipt of a notice of objection under this section, the Minister shall,

(*a*) with all due dispatch reconsider the assessment and vacate, confirm or vary the assessment or reassess, or

(*b*) where the taxpayer indicates in the notice of objection that the taxpayer wishes to appeal immediately to the Tax Court of Canada and waives reconsideration of the assessment and the Minister consents, file a copy of the notice of objection with the Registrar of that Court,

and the Minister shall thereupon notify the taxpayer by registered mail of the action taken."

Related Sections: S. 164(1.1) Repayment on objections and appeals; s. 165(4) Effect of filing of notice of objection; s. 165(5) Validity of reassessment; s. 169 Appeal; s. 172(2) Appeal to Federal Court of Canada.

Interpretation Bulletins: *Secondary* — IT-241 Reassessments made after the four-year limit [Archived by the CRA].

Information Circulars: IC 98-1R3 Collections Policies.

Cases: Although a taxpayer had filed a notice of objection on May 12, 1992 and the Minister had not dealt with it until March 31, 1993, it could not be said that he had failed to act "with all due dispatch" considering that the taxpayer had refused to speak on the phone to Revenue Canada and his files were complex. *Godsell v. The Queen,* 2001 DTC 5384 (F.C.A.), affirming 96 DTC 1292 (T.C.C.).

If the Minister does not act "with all due dispatch" upon receipt of a Notice of Objection by the taxpayer, his failure does not have the effect of vacating his assessment and the taxpayer's only recourse is to appeal under s. 169. *Bolton v. The Queen,* 96 DTC 6413 (F.C.A.). See also *James v. The Queen,* 96 DTC 6416 (F.C.T.D.).

Nothing in s. 165(3) requires that the confirmation of an assessment be served personally by the Minister on the taxpayer or that it be received by the taxpayer. *Kilroy v. The Queen,* 95 DTC 344 (T.C.C.).

► 165(3.1) ◄

(3.1) Decision by Minister of Human Resources Development. [Repealed by S.C. 1998, c. 19, s. 192(4).]

History: S. 165(3.1) was repealed by S.C. 1998, c. 19, s. 192(4), applicable after August 27, 1995. S. 165(3.1) formerly read:

"(3.1) *Decision by Minister of Human Resources Development.* Notwithstanding subsection (3), on receipt of a notice of objection to a determination that includes matters relating to whether, for the purposes of subdivision a.1 of Division E,

(*a*) a taxpayer is an eligible individual in respect of a qualified dependant,

(*b*) a person is a qualified dependant, or

(*c*) a person is a taxpayer's cohabiting spouse,

the Minister of National Revenue shall refer those matters to the Minister of Human Resources Development who shall, with all due dispatch, decide the matters and notify the Minister of National Revenue of the decision."

S. 165(3.1) was amended by S.C. 1996, c. 11, s. 95, by replacing the term "Minister of National Health and Welfare" with the term "Minister of Human Resources Development", effective July 12, 1996.

S. 165(3.1) was added by S.C. 1994, c. 7, Sched. VII, s. 20(1), effective January 1, 1993.

► 165(3.2) ◄

(3.2) Reconsideration of determination. [Repealed by S.C. 1998, c. 19, s. 192(4).]

History: S. 165(3.2) was repealed by S.C. 1998, c. 19, s. 192(4), applicable after August 27, 1995. S. 165(3.2) formerly read:

"(3.2) *Reconsideration of determination.* On receipt of the notification of a decision of the Minister of Human Resources Development under subsection (3.1), the Minister of National Revenue shall, with all due dispatch, reconsider the determination to which the decision relates and vacate, confirm or vary the determination or redetermine in accordance with the decision, and shall thereupon notify the taxpayer in writing of that action."

S. 165(3.2) was amended by S.C. 1996, c. 11, s. 95, by replacing the term "Minister of National Health and Welfare" with the term "Minister of Human Resources Development", effective July 12, 1996.

S. 165(3.2) was added by S.C. 1994, c. 7, Sched. VII, s. 20(1), effective January 1, 1993.

► 165(4) ◄

(4) Effect of filing of notice of objection. [Repealed by S.C. 1994, c. 7, Sched. VIII, s. 98(3).]

History: S. 165(4) was repealed by S.C. 1994, c. 7, Sched. VIII, s. 98(3), effective June 10, 1993. S. 165(4) formerly read:

"(4) Where the Minister files a copy of a notice of objection pursuant to paragraph (3)(*b*), the Minister shall be deemed, for the purpose of section 169, to have confirmed the assessment to which the notice relates and the taxpayer who served the notice shall be deemed to have thereupon instituted an appeal in accordance with that section."

► 165(5) ◄

(5) Validity of reassessment. The limitations imposed under subsections 152(4) and (4.01) do not apply to a reassessment made under subsection (3).

History: S. 165(5) was amended by S.C. 1998, c. 19, s. 192(5), applicable after April 27, 1989. S. 165(5) formerly read:

"(5) *Validity of reassessment.* A reassessment made by the Minister pursuant to subsection (3) is not invalid by reason only of its not having been

made within the period determined under paragraph 152(4)(*b*) or (*c*), as the case may be, within which the Minister may reassess tax payable."

Related Sections: S. 152(4) Assessment and reassessment.
Interpretation Bulletins: *Secondary* — IT-241 Reassessments made after the four-year limit [Archived by the CRA].

► 165(6) ◄

(6) Validity of notice of objection. The Minister may accept a notice of objection served under this section that was not served in the manner required by subsection (2).

History: S. 165(6) was amended by S.C. 1994, c. 7, Sched. II, s. 138(2), by adding "served" immediately after "notice of objection", applicable with respect to objections made after January 16, 1992.

Related Sections: S. 165(2) Service.

► 165(7) ◄

(7) Notice of objection not required. Where a taxpayer has served in accordance with this section a notice of objection to an assessment and thereafter the Minister reassesses the tax, interest, penalties or other amount in respect of which the notice of objection was served or makes an additional assessment in respect thereof and sends to the taxpayer a notice of the reassessment or of the additional assessment, as the case may be, the taxpayer may, without serving a notice of objection to the reassessment or additional assessment,

(*a*) appeal therefrom to the Tax Court of Canada in accordance with section 169; or

(*b*) amend any appeal to the Tax Court of Canada that has been instituted with respect to the assessment by joining thereto an appeal in respect of the reassessment or the additional assessment in such manner and on such terms, if any, as the Tax Court of Canada directs.

History: S. 165(7), that portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 138(3), applicable to the 1986 and subsequent taxation years. That portion of s. 165(7) preceding paragraph (*a*) formerly read:

"(7) Where a taxpayer has served a notice of objection to an assessment in accordance with this section and thereafter the Minister reassesses the taxpayer's tax for the taxation year in respect of which the notice of objection was served or makes an additional assessment in respect thereof, and sends to the taxpayer a notice of the reassessment or of the additional assessment, as the case may be, the taxpayer may, without serving a notice of objection to the reassessment or additional assessment,"

Related Sections: S. 167(1) Extension of time to appeal; s. 169 Appeal; s. 173(2) Time during consideration not to count; s. 174(5) Time during consideration of question not counted; s. 248(1), "assessment", "prescribed".
Cases: While an appeal from an assessment was before the court, a taxpayer filed directly with the court a Notice of Appeal dealing with a second, unrelated, matter. The Notice of Appeal was held to be invalid, because it had not been preceded by a Notice of Objection. Subsection 165(7) did not apply because the two assessments concerned different transactions, issues and taxpayers. *Graham v. The Queen*, 92 DTC 1012 (T.C.C.).

General

SECTION 166: Irregularities.

An assessment shall not be vacated or varied on appeal by reason only of any irregularity, informality, omission or error on the part of any person in the observation of any directory provision of this Act.

Related Sections: S. 152(8) Assessment deemed valid and binding; s. 165(3) Duties of Minister; s. 248(1), "assessment".

SECTION 166.1:

► 166.1(1) ◄

(1) Extension of time by Minister. Where no notice of objection to an assessment has been served under section 165, nor any request under subsection 245(6) made, within the time limited by those provisions for doing so, the taxpayer may apply to the Minister to extend the time for serving the notice of objection or making the request.

History: S. 166.1(1) was added by S.C. 1994, c. 7, Sched. II, s. 139(1), applicable with respect to applications filed after January 16, 1992.

Related Sections: S. 245(6) Request for adjustments.
Tax Topics: No. 1495, Breathing Life Into Expired Limitation Periods — The Carlson Story.

► 166.1(2) ◄

(2) Contents of application. An application made under subsection (1) shall set out the reasons why the notice of objection or the request was not served or made, as the case may be, within the time otherwise limited by this Act for doing so.

History: S. 166.1(2) was added by S.C. 1994, c. 7, Sched. II, s. 139(1), applicable with respect to applications filed after January 16, 1992.

Tax Topics: No. 1495, Breathing Life Into Expired Limitation Periods — The Carlson Story.

► 166.1(3) ◄

(3) How application made. An application under subsection (1) shall be made by being addressed to the Chief of Appeals in a District Office or a Taxation Centre of the Canada Revenue Agency and delivered or mailed to that Office or Centre, accompanied by a copy of the notice of objection or a copy of the request, as the case may be.

History: S. 166.1(3) was amended by S.C. 2005, c. 38, s. 138, by replacing "Canada Customs and Revenue Agency" with "Canada Revenue Agency", in force December 12, 2005.

S. 166.1(3) was amended by S.C. 1999, c. 17, s. 168, by replacing "Department of National Revenue" with "Canada Customs and Revenue Agency", coming into force on November 1, 1999.

S 166.1(3) was amended by S.C. 1994, c. 13, s. 8(1), by replacing "Department of National Revenue, Taxation" with "Department of National Revenue", effective May 12, 1994.

S. 166.1(3) was added by S.C. 1994, c. 7, Sched. II, s. 139(1), applicable with respect to applications filed after January 16, 1992.

► 166.1(4) ◄

(4) Idem. The Minister may accept an application under this section that was not made in the manner required by subsection (3).

History: S. 166.1(4) was added by S.C. 1994, c. 7, Sched. II, s. 139(1), applicable with respect to applications filed after January 16, 1992.

► 166.1(5) ◄

(5) Duties of Minister. On receipt of an application made under subsection (1), the Minister shall, with all due dispatch, consider the application and grant or refuse it, and shall thereupon notify the taxpayer in writing of the Minister's decision.

History: S. 166.1(5) was amended by S.C. 1994, c. 7, Sched. VIII, s. 99, effective June 10, 1993. S. 166.1(5) formerly read:

"(5) On receipt of an application made under subsection (1), the Minister shall, with all due dispatch, consider the application and grant or refuse it, and shall thereupon notify the taxpayer of the decision by registered mail."

S. 166.1(5) was added by S.C. 1994, c. 7, Sched. II, s. 139(1), applicable to applications filed after January 16, 1992.

► 166.1(6) ◄

(6) Date of objection or request if application granted. Where an application made under subsection (1) is granted, the notice of objection or the request, as the case may be, shall be deemed to have been served or made on the day the decision of the Minister is mailed to the taxpayer.

History: S. 166.1(6) was added by S.C. 1994, c. 7, Sched. II, s. 139(1), applicable with respect to applications filed after January 16, 1992.

► 166.1(7) ◄

(7) When order to be made. No application shall be granted under this section unless

(*a*) the application is made within one year after the expiration of the time otherwise limited by this Act for serving a notice of objection or making a request, as the case may be; and

(*b*) the taxpayer demonstrates that

(i) within the time otherwise limited by this Act for serving such a notice or making such a request, as the case may be, the taxpayer

(A) was unable to act or to instruct another to act in the taxpayer's name, or

(B) had a *bona fide* intention to object to the assessment or make the request,

(ii) given the reasons set out in the application and the circumstances of the case, it would be just and equitable to grant the application, and

(iii) the application was made as soon as circumstances permitted.

History: S. 166.1(7) was added by S.C. 1994, c. 7, Sched. II, s. 139(1), applicable with respect to applications filed after January 16, 1992.

Tax Topics: No. 1495, Breathing Life Into Expired Limitation Periods — The Carlson Story.

SECTION 166.2:

► 166.2(1) ◄

(1) Extension of time by Tax Court. A taxpayer who has made an application under subsection 166.1 may apply to the Tax Court of Canada to have the application granted after either

(*a*) the Minister has refused the application, or

(*b*) 90 days have elapsed after service of the application under subsection 166.1(1) and the Minister has not notified the taxpayer of the Minister's decision,

but no application under this section may be made after the expiration of 90 days after the day on which notification of the decision was mailed to the taxpayer.

History: S. 166.2(1) was added by S.C. 1994, c. 7, Sched. II, s. 139(1), applicable with respect to applications filed after January 16, 1992.

Tax Topics: No. 1495, Breathing Life Into Expired Limitation Periods — The Carlson Story.

► 166.2(2) ◄

(2) How application made. An application under subsection (1) shall be made by filing in the Registry of the Tax Court of Canada, in accordance with the provisions of the *Tax Court of Canada Act*, three copies of the documents referred to in subsection 166.1(3) and three copies of the notification, if any, referred to in subsection 166.1(5).

History: S. 166.2(2) was amended by S.C. 2000, c. 30, s. 171, applicable on Royal Assent, October 20, 2000. S. 166.2(2) formerly read:

"(2) *How application made.* An application under subsection (1) shall be made by filing in the Registry of the Tax Court of Canada, or by sending by registered mail addressed to an office of the Registry, 3 copies of the documents referred to in subsection 166.1(3) and 3 copies of the notification, if any, referred to in subsection 166.1(5)."

S. 166.2(2) was added by S.C. 1994, c. 7, Sched. II, s. 139(1), applicable with respect to applications filed after January 16, 1992.

Cases: Applications for extensions of time to file Notices of Objection must either be filed in person or by registered mail, and service by courier was simply not authorized by s. 166.2(2). *Bordieri et al. v. The Queen*, 95 DTC 5243 (F.C.A.).

► 166.2(3) ◄

(3) Copy to Commissioner of Revenue. The Tax Court of Canada shall send a copy of each application made under this section to the office of the Commissioner of Revenue.

History: S. 166.2(3) was amended by S.C. 2005, c. 38, s. 140, by replacing "Commissioner of Customs and Revenue" with "Commissioner of Revenue", in force December 12, 2005.

S. 166.2(3) was amended by S.C. 1999, c. 17, s. 167, by replacing "Deputy Minister of National Revenue" with "Commissioner of Customs and Revenue", coming into force on November 1, 1999.

S. 166.2(3) was amended by S.C. 1994, c. 13, s. 7(1), by replacing "Deputy Minister of National Revenue for Taxation" with "Deputy Minister of National Revenue", effective upon proclamation.

S. 166.2(3) was added by S.C. 1994, c. 7, Sched. II, s. 139(1), applicable with respect to applications filed after January 16, 1992.

► 166.2(4) ◄

(4) Powers of Court. The Tax Court of Canada may grant or dismiss an application made under subsection (1) and, in granting an application, may impose such terms as it deems just or order that the notice of objection be deemed to have been served on the date of its order.

History: S. 166.2(4) was added by S.C. 1994, c. 7, Sched. II, s. 139(1), applicable with respect to applications filed after January 16, 1992.

Tax Topics: No. 1495, Breathing Life Into Expired Limitation Periods — The Carlson Story.

► 166.2(5) ◄

(5) When application to be granted. No application shall be granted under this section unless

(*a*) the application was made under subsection 166.1(1) within one year after the expiration of the time otherwise limited by this Act for serving a notice of objection or making a request, as the case may be; and

(*b*) the taxpayer demonstrates that

(i) within the time otherwise limited by this Act for serving such a notice or making such a request, as the case may be, the taxpayer

(A) was unable to act or to instruct another to act in the taxpayer's name, or

(B) had a *bona fide* intention to object to the assessment or make the request,

(ii) given the reasons set out in the application and the circumstances of the case, it would be just and equitable to grant the application, and

(iii) the application was made under subsection 166.1(1) as soon as circumstances permitted.

History: S. 166.2(5) was added by S.C. 1994, c. 7, Sched. II, s. 139(1), applicable with respect to applications filed after January 16, 1992.

Tax Topics: No. 1495, Breathing Life Into Expired Limitation Periods — The Carlson Story.

SECTION 167:

► 167(1) ◄

(1) Extension of time to appeal. Where an appeal to the Tax Court of Canada has not been instituted by a taxpayer under section 169 within the time limited by that section for doing so, the taxpayer may make an application to the Court for an order extending the time within which the appeal may be instituted and the Court may make an order extending the time for appealing and may impose such terms as it deems just.

History: S. 167(1) was amended by S.C. 1994, c. 7, Sched. II, s. 139(1), applicable with respect to applications filed after January 16, 1992. S. 167(1) formerly read:

"S. 167. *Application to Tax Court of Canada for time extension.*

(1) Where no objection to an assessment under section 165, appeal to the Tax Court of Canada under section 169 or request under subsection 245(6) has been made or instituted within the time limited by that provision for doing so, an application may be made to the Tax Court of Canada for an order

extending the time within which a notice of objection may be served, an appeal instituted or a request made, and the Court may, if in its opinion the circumstances of the case are such that it would be just and equitable to do so, make an order extending the time of objecting, appealing or making a request and may impose such terms as it deems just."

Related Sections: S. 167(2) Contents of application; s. 167(3) How application made; s. 167(5) When order to be made.

Cases: An extension to file a notice of objection was granted where the taxpayer, a student with a limited knowledge of income tax, did not mention the assessment to her tax lawyer. *Stanwood v. M.N.R.*, 91 DTC 636 (T.C.C.).

An application for extension of time to appeal was dismissed when the taxpayer had not filed his returns within the three-year limitation period. *Michael v. M.N.R.*, 91 DTC 836 (T.C.C.).

► 167(2) ◄

(2) Contents of application. An application made under subsection (1) shall set out the reasons why the appeal was not instituted within the time limited by section 169 for doing so.

History: S. 167(2) was amended by S.C. 1994, c. 7, Sched. II, s. 139(1), applicable with respect to applications filed after January 16, 1992.

► 167(3) ◄

(3) How application made. An application made under subsection (1) shall be made by filing in the Registry of the Tax Court of Canada, in accordance with the provisions of the *Tax Court of Canada Act*, three copies of the application accompanied by three copies of the notice of appeal.

History: S. 167(3) was amended by S.C. 2000, c. 30, s. 172, applicable on Royal Assent, October 20, 2000. S. 167(3) formerly read:

"(3) *How application made.* An application under subsection (1) shall be made by filing in the Registry of the Tax Court of Canada, or by sending by registered mail addressed to an office of the Registry, 3 copies of the application accompanied by 3 copies of the notice of appeal."

S. 167(3) was amended by S.C. 1994, c. 7, Sched. II, s. 139(1), applicable with respect to applications filed after January 16, 1992.

Related Sections: S. 165(2) Service.

► 167(4) ◄

(4) Copy to Deputy Attorney General. The Tax Court of Canada shall send a copy of each application made under this section to the office of the Deputy Attorney General of Canada.

History: S. 167(4) was added by S.C. 1994, c. 7, Sched. II, s. 139(1), applicable with respect to applications filed after January 16, 1992.

► 167(5) ◄

(5) When order to be made. No order shall be made under this section unless

(*a*) the application is made within one year after the expiration of the time limited by section 169 for appealing; and

(*b*) the taxpayer demonstrates that

(i) within the time otherwise limited by section 169 for appealing the taxpayer

(A) was unable to act or to instruct another to act in the taxpayer's name, or

(B) had a *bona fide* intention to appeal,

(ii) given the reasons set out in the application and the circumstances of the case, it would be just and equitable to grant the application,

(iii) the application was made as soon as circumstances permitted, and

(iv) there are reasonable grounds for the appeal.

History: S. 167(5) was amended by S.C. 1994, c. 7, Sched. II, s. 139(1), applicable with respect to applications filed after January 16, 1992. S. 167(5) formerly read:

"(5) No order shall be made under subsection (1)

(*a*) unless the application to extend the time for objecting or appealing, or making the request, as the case may be, is made within one year after the expiration of the time otherwise limited by this Act for objecting to or appealing from the assessment in respect of which the application is made or for making the request under subsection 245(6), as the case may be;

(*b*) if the Tax Court of Canada has previously made an order extending the time for objecting to or appealing from the assessment or making the request, as the case may be; and

(*c*) unless the Tax Court of Canada is satisfied that

(i) but for the circumstances mentioned in subsection (1) an objection, appeal or request would have been made or instituted within the time otherwise limited by this Act for doing so,

(ii) the application was brought as soon as circumstances permitted it to be brought, and

(iii) there are reasonable grounds for objecting to or appealing from the assessment or making the request."

Related Sections: S. 169 Appeal; s. 248(1), "assessment".

Cases: Extension of time for filing an objection was allowed where the application was mailed in time but received late; and where an RCMP officer had been constrained from exercising a choice by an RCMP directive. See, respectively, *Batey v. M.N.R.*, 86 DTC 1294 (T.C.C.); and *Charpentier v. M.N.R.*, 86 DTC 1768 (T.C.C.). However, where the Minister had sent a letter advising the taxpayer to apply "no later than one-year from the 90-day limit" and efforts were being made to settle, no extension was allowed. *Pennington v. M.N.R.*, 87 DTC 5107 (F.C.A.), reversing 86 DTC 1371 (T.C.C.).

Revocation of Registration of Certain Organizations and Associations

SECTION 168:

► 168(1) ◄

(1) Notice of intention to revoke registration. Where a registered charity or a registered Canadian amateur athletic association

(*a*) applies to the Minister in writing for revocation of its registration,

(*b*) ceases to comply with the requirements of this Act for its registration as such,

(*c*) fails to file an information return as and when required under this Act or a regulation,

(*d*) issues a receipt for a gift or donation otherwise than in accordance with this Act and the regulations or that contains false information,

(*e*) fails to comply with or contravenes any of sections 230 to 231.5, or

(*f*) in the case of a registered Canadian amateur athletic association, accepts a gift or donation the granting of which was expressly or impliedly conditional on the association making a gift or donation to another person, club, society or association,

the Minister may, by registered mail, give notice to the registered charity or registered Canadian amateur athletic association that the Minister proposes to revoke its registration.

Related Sections: S. 149.1(2) Revocation of registration of charitable organization; s. 149.1(3) Revocation of registration of public foundation; s. 149.1(4) Revocation of registration of private foundation; s. 180(1) Appeals to Federal Court of Appeal; s. 231 Definitions; s. 248(1), "registered charity", "registered Canadian amateur athletic association".

Interpretation Bulletins: *Secondary* — IT-496 Non-profit organizations.

Forms: T3010A.

Guides: T4033A Completing the Registered Charity Information Return; RC4108 Registered Charities and the Income Tax Act.

Registered Charities Newsletters: No. 27, Introducing guidelines for applying the new sanctions; No. 23, Procedural fairness when a result is inevitable; No. 17, Questions and Answers on New Form T3010A; No. 16, Our charity is ceasing operations. What do we need to do about the charity's registration?; No. 13, About Auditing Charities.

Cases: The taxpayer's registration as a charity was revoked on the ground that the magazine it published did not fall within the category of the advancement of education nor were its articles restricted to matters of direct relevance to Canada's poor. *Briarpatch Inc. v. The Queen*, 96 DTC 6294 (F.C.A.).

No member of a charitable society was to apply for an order requiring the Minister to revoke the society's status as registered charity. *Reed v. The Queen*, 89 DTC 5230 (F.C.T.D.).

► 168(2) ◄

(2) Revocation of registration. Where the Minister gives notice under subsection (1) to a registered charity or to a registered Canadian amateur athletic association,

(*a*) if the charity or association has applied to the Minister in writing for the revocation of its registration, the Minister shall, forthwith after the mailing of the notice, publish a copy of the notice in the *Canada Gazette*, and

(*b*) in any other case, the Minister may, after the expiration of 30 days from the day of mailing of the notice, or after the expiration of such extended period from the day of mailing of the notice as the Federal Court of Appeal or a judge of that Court, on application made at any time before the determination of any appeal pursuant to subsection 172(3) from the giving of the notice, may fix or allow, publish a copy of the notice in the *Canada Gazette*,

and on that publication of a copy of the notice, the registration of the charity or association is revoked.

Related Sections: S. 172(3) Appeal from refusal to register, revocation of registration, etc.; s. 180(1) Appeals to Federal Court of Appeal; s. 248(1), "registered Canadian amateur athletic association", "registered charity", "regulation".

Cases: The de-registration of a charitable organization did not violate the Bill of Rights. The onus is on the charity to prove that its status should not be revoked. The Minister did not err in concluding that the charity failed to comply with the requirements of the Act and was not in control or direction of its international agent. *The Canadian Committee for the Tel Aviv Foundation v. The Queen*, 2002 DTC 6843 (F.C.A.).

► 168(3) ◄

(3) *Charities Registration (Security Information) Act*. Notwithstanding subsections (1), (2) and (4), if a registered charity is the subject of a certificate that is determined to be reasonable under subsection 7(1) of the *Charities Registration (Security Information) Act*, the registration of the charity is revoked as of the making of that determination.

History: S. 168(3) was replaced by S.C. 2005, c. 19, s. 38(1), applicable in respect of notices issued by the Minister of National Revenue after [June 12, 2005]. S. 168(3) formerly read:

"(3) *Charities Registration (Security Information) Act*. Notwithstanding subsections (1) and (2), if a registered charity is the subject of a certificate that is determined to be reasonable under subsection 7(1) of the *Charities Registration (Security Information) Act*, the registration of the charity is revoked as of the making of that determination."

S. 168(3) was amended by S.C. 2001, c. 41, s. 127(2), coming into force on June 28, 2002. S. 168(3) formerly read:

"(3) *Charities Registration (Security Information) Act*. Notwithstanding subsections (1) and (2), if a registered charity is the subject of a certificate that is determined to be reasonable under paragraph 6(1)(*d*) of the *Charities Registration (Security Information) Act*, the registration of the charity is revoked as of the making of that determination."

S. 168(3) was added by S.C. 2001, c. 41, s. 114, coming into force on December 24, 2001.

Registered Charities Newsletters: No. 20, Anti-terrorism legislation; No. 12, The New Anti-Terrorism Law: Impact on Charities.

► 168(4) ◄

(4) Objection to proposal or designation. A person that is or was registered as a registered charity or is an applicant for registration as a registered charity that objects to a notice under subsection (1) or any of subsections 149.1(2) to (4.1), (6.3), (22) and (23) may, on or before the day that is 90 days after the day on which the notice was mailed, serve on the Minister a written notice of objection in the manner authorized by the Minister, setting out the reasons for the objection and all the relevant facts, and the provisions of subsections 165(1), (1.1) and (3) to (7) and sections 166, 166.1 and 166.2 apply, with any modifications that the circumstances require, as if the notice were a notice of assessment made under section 152.

History: S. 168(4) was added by S.C. 2005, c. 19, s. 38(1), applicable in respect of notices issued by the Minister of National Revenue after [June 12, 2005].

Registered Charities Newsletters: No. 28, Objections and Appeals on Issues Relating to Charities; No. 28, New Re-registration Process.
Tax Topics: No. 1743, Objections to Decisions Regarding Charities.

DIVISION J — Appeals to the Tax Court of Canada and the Federal Court of Appeal

SECTION 169:

► 169(1) ◄

(1) Appeal. Where a taxpayer has served notice of objection to an assessment under section 165, the taxpayer may appeal to the Tax Court of Canada to have the assessment vacated or varied after either

(*a*) the Minister has confirmed the assessment or reassessed, or

(*b*) 90 days have elapsed after service of the notice of objection and the Minister has not notified the taxpayer that the Minister has vacated or confirmed the assessment or reassessed,

but no appeal under this section may be instituted after the expiration of 90 days from the day notice has been mailed to the taxpayer under section 165 that the Minister has confirmed the assessment or reassessed.

History: The heading before s. 169 was amended by S.C. 2002, c. 8, s. 148, and came into force on July 2, 2003. The heading before s. 169 formerly read:

"Division J — Appeals to the Tax Court of Canada and the Federal Court"

S. 169 was renumbered as 169(1) by S.C. 1994, c. 7, Sched. II, s. 140(1), applicable with respect to appeals from assessments or determinations objected to after December 17, 1991.

Related Sections: S. 165 Objections to assessment; s. 167 Extension of time to appeal; s. 170(2) Notice, etc., to be forwarded to Tax Court of Canada; s. 172(2) Appeal to Federal Court of Canada; s. 173(2) Time during consideration not to count; s. 174(5) Time during consideration of question not counted; s. 196(4) Provisions applicable to Part; s. 248(1), "assessment"; ITAR s. 62(5) Appeals.

Guides: P148 Your appeal Rights Under the Income Tax Act.

Tax Topics: No. 1923, A "New" Way To Challenge Decisions of the Minister of National Revenue?; No. 1908, Wait! Don't Strike Those Assumptions; No. 1906, Principles of *Res Judicata* Upheld; No. 1871, The Burden of Proof in Tax Cases; Anchor Pointe v. The Queen; No. 1499, The Informal Procedure or Not?.

Tax Profile: October 2006 — Tax Controversies in Canada: A Variety of Issues.

► 169(1.1) ◄

(1.1) Ecological gifts. Where at any particular time a taxpayer has disposed of a property, the fair market value of which has been confirmed or redetermined by the Minister of the Environment under subsection 118.1(10.4), the taxpayer may, within 90 days after the day on which that Minister has issued a certificate under subsection 118.1(10.5), appeal the confirmation or redetermination to the Tax Court of Canada.

History: S. 169(1.1) was added by S.C. 2001, c. 17, s. 158(1), applicable in respect of gifts made after February 27, 2000 except that, where a certificate has been issued under subsection 118.1(10.5) of the Act, as enacted by subsection 94(7), before this Act receives royal assent, subsection 169(1.1) of the Act shall be read as follows:

"(1.1) Where at any particular time a taxpayer has disposed of a property, the fair market value of which has been confirmed or redetermined by the Minister of the Environment under subsection 118.1(10.4), the taxpayer may, within 90 days after the day on which the *Income Tax Amendments Act, 2000* receives royal assent [S.C. 2001, c. 17, Royal Assent June 14, 2001], appeal the confirmation or redetermination to the Tax Court of Canada."

► 169(2) ◄

(2) Limitation of right to appeal from assessments or determinations. Notwithstanding subsection (1), where at any time the Minister assesses tax, interest, penalties or other amounts payable under this Part by, or makes a determination in respect of, a taxpayer

(*a*) under subsection 67.5(2) or 152(1.8), subparagraph 152(4)(*b*)(i) or subsection 152(4.3) or (6), 164(4.1), 220(3.4) or 245(8) or in accordance with an order of a court vacating, varying or restoring the assessment or referring the assessment back to the Minister for reconsideration and reassessment,

(*b*) under subsection 165(3) where the underlying objection relates to an assessment or a determination made under any of the provisions or circumstances referred to in paragraph (*a*), or

(*c*) under a provision of an Act of Parliament requiring an assessment to be made that, but for that provision, would not be made because of subsections 152(4) to (5),

the taxpayer may appeal to the Tax Court of Canada within the time limit specified in subsection (1), but only to the extent that the reasons for the appeal can reasonably be regarded

(*d*) where the assessment or determination was made under subsection 152(1.8), as relating to any matter specified in paragraph 152(1.8)(*a*), (*b*) or (*c*), and

(*e*) in any other case, as relating to any matter that gave rise to the assessment or determination

and that was not conclusively determined by the Court, and this subsection shall not be read or construed as limiting the right of the taxpayer to appeal from an assessment or a determination issued or made before that time.

History: S. 169(2), the portion before paragraph (*b*) was amended by S.C. 1998, c. 19, s. 193(1), applicable in respect of determinations made after the day of Royal Assent, June 18, 1998. S. 169(2), the portion before paragraph (*b*) formerly read:

"(2) *Limitation of right to appeal from assessments or determinations.* Notwithstanding subsection (1), where at any time the Minister assesses tax, interest or penalties payable under this Part by, or makes a determination in respect of, a taxpayer,

(*a*) under subsection 67.5(2), subparagraph 152(4)(*b*)(i) or subsection 152(4.3) or (6), 164(4.1), 220(3.4) or 245(8) or in accordance with an order of a court vacating, varying or restoring the assessment or referring the assessment back to the Minister for reconsideration and reassessment,"

S. 169(2), the portion after paragraph (*c*) was amended by S.C. 1998, c. 19, s. 193(2), applicable in respect of determinations made after the day of Royal Assent, June 18, 1998. S. 169(2), the portion after paragraph (*c*) formerly read:

"the taxpayer may appeal to the Tax Court of Canada within the time limit specified in subsection (1), but only to the extent that the reasons for the appeal can reasonably be regarded as relating to a matter that gave rise to the assessment or determination and that was not conclusively determined by the Court, and this subsection shall not be read or construed as limiting the right of the taxpayer to appeal from an assessment or a determination issued or made before that time."

S. 169(2)(*d*) was added by S.C. 1998, c. 19, s. 193(2), applicable in respect of determinations made after the day of Royal Assent, June 18, 1998.

S. 169(2)(*e*) was added by S.C. 1998, c. 19, s. 193(2), applicable in respect of determinations made after the day of Royal Assent, June 18, 1998.

S. 169(2)(*a*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 100(1), effective June 10, 1993, to add the reference to subsection 152(4.3).

S. 169(2) was added by S.C. 1994, c. 7, Sched. II, s. 140(1), applicable with respect to appeals from assessments or determinations objected to after December 17, 1991.

Related Sections: S. 165(1.1) Limitation of right to object to assessments or determinations.

► 169(2.1) ◄

(2.1) Limitation on appeals by large corporations. Notwithstanding subsections (1) and (2), where a corporation that was a large corporation in a taxation year (within the meaning assigned by subsection 225.1(8)) served a notice of objection to an assessment under this Part for the year, the corporation may appeal to the Tax Court of Canada to have the assessment vacated or varied only with respect to

(*a*) an issue in respect of which the corporation has complied with subsection 165(1.11) in the notice, or

(*b*) an issue described in subsection 165(1.14) where the corporation did not, because of subsection 165(7), serve a notice of objection to the assessment that gave rise to the issue

and, in the case of an issue described in paragraph (*a*), the corporation may so appeal only with respect to the relief sought in respect of the issue as specified by the corporation in the notice.

History: S. 169(2.1) was added by S.C. 1995, c. 21, s. 71(1), applicable to appeals instituted after June 22, 1995.

Income Tax Technical News: Issue No. 32, Notice of Objection of Large Corporation: Impact of the Potash Corporation Case.
Tax Topics: No. 1680, Large Corporation Tax Objections: Assert It Or Lose It.
Cases: The taxpayer was not entitled to amend its Notice of Appeal to include five new items in its computation of resource profits that were not described in the Notice of Objection. The taxpayer did not comply with s. 165(1.1) by simply specifying the issue to be tried as the computation of "resource allowance" or "resource profits", without specifying the particular elements of that computation that required a determination. *The Queen v. Potash Corporation of Saskatchewan Inc.*, 2004 DTC 6002 (F.C.A.), reversing 2003 DTC 509 (T.C.C.).

► 169(2.2) ◄

(2.2) Waived issues. Notwithstanding subsections (1) and (2), for greater certainty a taxpayer may not appeal to the Tax Court of Canada to have an assessment under this Part vacated or varied in respect of an issue for which the right of objection or appeal has been waived in writing by the taxpayer.

History: S. 169(2.2) was added by S.C. 1995, c. 21, s. 71(1), applicable after June 22, 1995 to waivers signed at any time.

► 169(3) ◄

(3) Disposition of appeal on consent. Notwithstanding section 152, for the purpose of disposing of an appeal made under a provision of this Act, the Minister may at any time, with the consent in writing of the taxpayer, reassess tax, interest, penalties or other amounts payable under this Act by the taxpayer.

History: S. 169(3) was added by S.C. 1994, c. 7, Sched. VIII, s. 100(2), effective June 10, 1993.

► 169(4) ◄

(4) Provisions applicable. Division I applies, with such modifications as the circumstances require, in respect of a reassessment made under subsection (3) as though it had been made under section 152.

History: S. 169(4) was added by S.C. 1994, c. 7, Sched. VIII, s. 100(2), effective June 10, 1993.

SECTION 170:

► 170(1) ◄

(1) Notice to Commissioner. Where an appeal is made to the Tax Court of Canada under section 18 of the *Tax Court of Canada Act*, the Court shall forthwith send a copy of the notice of the appeal to the office of the Commissioner of Revenue.

History: S. 170(1) was amended by S.C. 2005, c. 38, s. 140, by replacing "Commissioner of Customs and Revenue" with "Commissioner of Revenue", in force December 12, 2005.

S. 170(1) was amended by S.C. 1999, c. 17, s. 167, by replacing "Deputy Minister of National Revenue" with "Commissioner of Customs and Revenue", coming into force on November 1, 1999.

S. 170(1) was amended by S.C. 1994, c. 13, s. 7(1), by replacing "Deputy Minister of National Revenue for Taxation" with "Deputy Minister of National Revenue", effective upon proclamation.

► 170(2) ◄

(2) Notice, etc., to be forwarded to Tax Court of Canada. Forthwith after receiving notice under subsection (1) of an appeal, the Commissioner of Revenue shall forward to the Tax Court of Canada copies of all returns, notices of assessment, notices of objection and notification, if any, that are relevant to the appeal.

History: S. 170(2) was amended by S.C. 2005, c. 38, s. 140, by replacing "Commissioner of Customs and Revenue" by "Commissioner of Revenue", in force December 12, 2005.

S. 170(2) was amended by S.C. 1999, c. 17, s. 167, by replacing "Deputy Minister of National Revenue" with "Commissioner of Customs and Revenue", coming into force on November 1, 1999.

S. 170(2) was amended by S.C. 1994, c. 13, s. 7(1), by replacing "Deputy Minister of National Revenue for Taxation" with "Deputy Minister of National Revenue", effective upon proclamation.

Related Sections: S. 119(3) Former resident — credit for tax paid; s. 165(3) Duties of Minister; s. 179 Hearings in camera; s. 248(1), "assessment"; ITAR s. 62(5) Appeals.

SECTION 171:

► 171(1) ◄

(1) Disposal of Appeal. The Tax Court of Canada may dispose of an appeal by

(*a*) dismissing it; or

(*b*) allowing it and

(i) vacating the assessment,

(ii) varying the assessment, or

(iii) referring the assessment back to the Minister for reconsideration and reassessment.

Related Sections: S. 169 Appeal.
Interpretation Bulletins: *Secondary* — IT-241 Reassessments made after the four-year limit [Archived by the CRA].

► 171(1.1) ◄

(1.1) Ecological gifts. On an appeal under subsection 169(1.1), the Tax Court of Canada may confirm or vary the amount determined to be the fair market value of a property and the value determined by the Court is deemed to be the fair market value of the property determined by the Minister of the Environment.

History: S. 171(1.1) was added by S.C. 2001, c. 17, s. 159(1), applicable in respect of gifts made after February 27, 2000.

► 171(2) ◄

(2) Assessment under s. 246. [Repealed by 1984, c. 45, s. 71(1).]

► 171(3) ◄

(3) Costs. [Repealed by 1984, c. 45, s. 71(1).]

► 171(4) ◄

(4) Copy of decision to Minister and appellant. [Repealed by S.C. 1994, c. 7, Sched. IX, s. 215.]

History: S. 171(4) was repealed by S.C. 1994, c. 7, Sched. IX, s. 215, applicable on June 10, 1993. S. 171(4) formerly read:

"(4) On the disposition of an appeal referred to in section 18 of the *Tax Court of Canada Act*, the Tax Court of Canada shall forthwith forward, by registered mail, a copy of the decision and written reasons, if any, given therefor to the Minister and the appellant."

Related Sections: S. 248(1), "assessment"; ITAR s. 62(5) Appeals.

SECTION 172:

► 172(1) ◄

(1) Appeal from refusal to register, revocation of registration, etc. [Repealed by 1988, c. 61, s. 18(1).]

► 172(2) ◄

(2) Appeal to Federal Court of Canada. [Repealed by 1988, c. 61, s. 18(1).]

► 172(3) ◄

(3) Appeal from refusal to register, revocation of registration, etc. Where the Minister

(*a*) refuses to register an applicant for registration as a Canadian amateur athletic association,

(*a*.1) confirms a proposal, decision or designation in respect of which a notice was issued by the Minister to a person that is or was registered as a registered charity, or is an applicant for registration as a registered charity, under any of subsections 149.1(2) to (4.1), (6.3), (22) and (23) and 168(1), or does not confirm or vacate that proposal, decision or designation within 90 days after service of a notice of objection by the person under subsection 168(4) in respect of that proposal, decision or designation,

(*b*) refuses to accept for registration for the purposes of this Act any retirement savings plan,

(*c*) refuses to accept for registration for the purposes of this Act any profit sharing plan or revokes the registration of such a plan,

(*d*) refuses to issue a certificate of exemption under subsection 212(14),

(*e*) refuses to accept for registration for the purposes of this Act an education savings plan,

(*e*.1) sends notice under subsection 146.1(12.1) to a promoter that the Minister proposes to revoke the registration of an education savings plan,

(*f*) refuses to register for the purposes of this Act any pension plan or gives notice under subsection 147.1(11) to the administrator of a registered pension plan that the Minister proposes to revoke its registration,

(*f*.1) refuses to accept an amendment to a registered pension plan, or

(*g*) refuses to accept for registration for the purposes of this Act any retirement income fund,

the applicant or the organization, foundation, association or registered charity, as the case may be, in a case described in paragraph (*a*) or (*a*.1), the applicant in a case described in paragraph (*b*), (*d*), (*e*) or (*g*), a trustee under the plan or an employer of employees who are beneficiaries under the plan, in a case described in paragraph (*c*), the promoter in a case described in paragraph (*e*.1), or the administrator of the plan or an employer who participates in the plan, in a case described in paragraph (*f*) or (*f*.1), may appeal from the Minister's decision, or from the giving of the notice by the Minister, to the Federal Court of Appeal.

History: S. 172(3)(*a*) and (*a*.1) were replaced by S.C. 2005, c. 19, s. 39(1), applicable in respect of notices issued by the Minister of National Revenue after [June 12, 2005]. S. 172(3)(*a*) and (*a*.1) formerly read:

"(*a*) refuses to register an applicant for registration as a charitable organization, private foundation, public foundation or Canadian amateur athletic association, or gives notice under subsection 149.1(2), (3), (4) or (4.1) or 168(1) to any such organization, foundation or association that the Minister proposes to revoke its registration,

(*a*.1) designates or refuses to designate a registered charity pursuant to subsection 149.1(6.3) of this Act or subsection 110(8.1) or (8.2) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952,"

S. 172(3)(*e*) was amended by S.C. 1998, c. 19, s. 46(1), applicable after 1997. S. 172(2)(*e*) formerly read:

"(*e*) refuses to accept for registration for the purposes of this Act any education savings plan or revokes the registration of any such plan,"

S. 172(3)(*e*.1) was added by S.C. 1998, c. 19, s. 46(1), applicable after 1997.

S. 172(3), the portion after paragraph (*g*) was amended by S.C. 1998, c. 19, s. 46(2), applicable after 1997. S. 172(3), the portion after paragraph (*g*) formerly read:

"the applicant or the organization, foundation, association or registered charity, as the case may be, in a case described in paragraph (*a*) or (*a*.1), the applicant in a case described in paragraph (*b*), (*d*), (*e*) or (*g*), a trustee under the plan or an employer of employees who are beneficiaries under the plan, in a case described in paragraph (*c*), or the administrator of the plan or an employer who participates in the plan, in a case described in paragraph (*f*) or (*f*.1), may appeal from the Minister's decision, or from the giving of the notice by the Minister, to the Federal Court of Appeal."

S. 172(3)(*a*) was amended by S.C. 1994, c. 7, Sched. II, s. 141(1), applicable after 1989. S. 172(3)(*a*) formerly read:

"(*a*) refuses to register an applicant for registration as a charitable organization, private foundation, public foundation or Canadian amateur athletic association, or gives notice under subsection 168(1) to any such organization, foundation or association that the Minister proposes to revoke its registration,"

Related Sections: S. 146(2) Acceptance of plan for registration — prohibited conditions; s. 146(3) Acceptance of plan for registration — acceptable conditions; s. 146.1 Registered education savings plans; s. 146.3(2) Acceptance of fund for registration; s. 147(2) Acceptance of plan for registration; s. 147(3) Acceptance of employees profit sharing plan for registration; s. 146.1(13) Revocation of registration; s. 180(1) Appeals to Federal Court of Appeal.

Forms: T285.

Cases: A community legal clinic's appeal from the Minister's refusal to register it as a charitable organization was denied as the decision was purely administrative and in compliance with procedural fairness. The clinic's political activities also precluded charitable status. *Scarborough Community Legal Services v. The Queen*, 85 DTC 5102 (F.C.A.).

► 172(3.1) ◄

(3.1) Exception — *Charities Registration (Security Information) Act*. Paragraphs (3)(*a*) and (*a*.1) do not apply to an applicant or a registered charity that is the subject of a certificate that has been determined to be reasonable under subsection 7(1) of the *Charities Registration (Security Information) Act*.

History: S. 172(3.1) was amended by S.C. 2001, c. 41, s. 127(3), coming into force on June 28, 2002. S. 172(3.1) formerly read:

"(3.1) *Exception — Charities Registration (Security Information) Act.* Paragraphs (3)(*a*) and (*a*.1) do not apply to an applicant or a registered charity that is the subject of a certificate that has been determined to be reasonable under paragraph 6(1)(*d*) of the *Charities Registration (Security Information) Act*."

S. 172(3.1) was added by S.C. 2001, c. 41, s. 115(1), coming into force on December 24, 2001.

► 172(4) ◄

(4) Deemed refusal to register. For the purposes of subsection (3), the Minister shall be deemed to have refused

(*a*) to register an applicant for registration as a Canadian amateur athletic association,

(*a*.1) [Repealed.]

(*b*) to accept for registration for the purposes of this Act any retirement savings plan or profit sharing plan,

(*c*) to issue a certificate of exemption under subsection 212(14),

(*d*) to accept for registration for the purposes of this Act any education savings plan, or

(*e*) [Repealed by 1986, c. 6, s. 92(3).]

(*f*) to accept for registration for the purposes of this Act any retirement income fund,

where the Minister has not notified the applicant of the disposition of the application within 180 days after the filing of the application with the Minister, and, in any such case, subject to subsection (3.1), an appeal from the refusal to the Federal Court of Appeal pursuant to subsection (3) may, notwithstanding subsection 180(1), be instituted under section 180 at any time by filing a notice of appeal in the Court.

History: S. 172(4)(*a*) was replaced, and paragraph (*a*.1) was repealed, by S.C. 2005, c. 19, s. 39(2), applicable in respect of notices issued by the Minister of National Revenue after [June 12, 2005]. S. 172(4)(*a*) and (*a*.1) formerly read:

"(*a*) to register an applicant for registration as a charitable organization, private foundation, public foundation or Canadian amateur athletic association,

(*a*.1) to designate a registered charity pursuant to an application under subsection 149.1(6.3) of this Act or subsection 110(8.2) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952,"

S. 172(4), the portion after paragraph (*f*) was amended by S.C. 2001, c. 41, s. 115(2), coming into force on December 24, 2001. S. 172(4), the portion after paragraph (*f*) formerly read:

"where the Minister has not notified the applicant of the disposition of the application within 180 days after the filing of the application with the Minister, and, in any such case, an appeal from the refusal to the Federal Court of Appeal pursuant to subsection (3) may, notwithstanding anything in subsection 180(1), be instituted under section 180 at any time by filing a notice of appeal in the Court."

Related Sections: S. 146(1), "retirement savings plan"; s. 146.1(1), "registered education savings plan"; s. 146.3(1), "registered retirement income fund"; s. 147(1), "profit sharing plan"; s. 248(1), "assessment"; ITAR s. 62(5) Appeals.

► 172(4.1) ◄

(4.1) Exception — *Charities Registration (Security Information) Act*. An appeal referred to in subsection (3) or (4) is suspended when an applicant or a registered charity is, under subsection 5(1) of the *Charities Registration (Security Information) Act*, served with a copy of a certificate that has been signed under that Act, whether the appeal was instituted before or after the certificate was so signed, and the appeal is

(*a*) discontinued on the determination, under subsection 7(1) of that Act, that the certificate is reasonable; or

(*b*) reinstated as of the date the certificate is, under subsection 7(2) of that Act, quashed.

History: S. 172(4.1)(*a*) and (*b*) were amended by S.C. 2001, c. 41, s. 127(4), coming into force on June 28, 2002. S. 172(4.1)(*a*) and (*b*) formerly read:

"(*a*) discontinued on the determination that the certificate is reasonable under paragraph 6(1)(*d*) of that Act; or

(*b*) reinstated as of the date the certificate is quashed under paragraph 6(1)(*d*) of that Act."

S. 172(4.1) was added by S.C. 2001, c. 41, s. 115(3), coming into force on December 24, 2001.

► 172(5) ◄

(5) Idem. For the purposes of subsection (3), the Minister shall be deemed to have refused

(*a*) to register for the purposes of this Act any pension plan, or

(*b*) to accept an amendment to a registered pension plan

where the Minister has not notified the applicant of the Minister's disposition of the application within 1 year after the filing of the application with the Minister, and, in any such case, an appeal from the refusal to the Federal Court of Appeal pursuant to subsection (3) may, notwithstanding anything in subsection 180(1), be instituted under section 180 at any time by filing a notice of appeal in the Court.

► 172(6) ◄

(6) Application of s. 149.1(1). The definitions in subsection 149.1(1) apply to this section.

SECTION 173:

► 173(1) ◄

(1) References to Tax Court of Canada. Where the Minister and a taxpayer agree in writing that a question of law, fact or mixed law and fact arising under this Act, in respect of any assessment, proposed assessment, determination or proposed determination, should be determined by the Tax Court of Canada, that question shall be determined by that Court.

Related Sections: S. 225.1(4) Collection restrictions — reference to Tax Court of Canada.

Cases: Application dismissed where no agreement as to facts. *Wright v. The Queen*, 87 DTC 5138 (F.C.T.D.).

► 173(2) ◄

(2) Time during consideration not to count. The time between the day on which proceedings are instituted in the Tax Court of Canada to have a question determined pursuant to subsection (1) and the day on which the question is finally determined shall not be counted in the computation of

(*a*) the periods determined under subsection 152(4),

(*b*) the time for service of a notice of objection to an assessment under section 165, or

(*c*) the time within which an appeal may be instituted under section 169,

for the purpose of making an assessment of the tax payable by the taxpayer who agreed in writing to the determination of the question, for the purpose of serving a notice of objection thereto or for the purpose of instituting an appeal therefrom, as the case may be.

Related Sections: S. 248(1), "assessment".

SECTION 174:

► 174(1) ◄

(1) Reference of common questions to Tax Court of Canada. Where the Minister is of the opinion that a question of law, fact or mixed law and fact arising out of one and the same transaction or occurrence or series of transactions or occurrences is common to assessments or proposed assessments in respect of two or more taxpayers, the Minister may apply to the Tax Court of Canada for a determination of the question.

Related Sections: S. 225.1(4) Collection restrictions — reference to Tax Court of Canada.

► 174(2) ◄

(2) Application to Court. An application under subsection (1) shall set out

(*a*) the question in respect of which the Minister requests a determination,

(*b*) the names of the taxpayers that the Minister seeks to have bound by the determination of the question, and

(*c*) the facts and reasons on which the Minister relies and on which the Minister based or intends to base assessments of tax payable by each of the taxpayers named in the application,

and a copy of the application shall be served by the Minister on each of the taxpayers named in the application and on any other persons who, in the opinion of the Tax Court of Canada, are likely to be affected by the determination of the question.

Related Sections: S. 174(5) Time during consideration of question not counted.

► 174(3) ◄

(3) Where Tax Court of Canada may determine question. Where the Tax Court of Canada is satisfied that a determination of the question set out in an application under this section will affect assessments or proposed assessments in respect of two or more taxpayers who have been served with a copy of the application and who are named in an order of the Tax Court of Canada pursuant to this subsection, it may

(*a*) if none of the taxpayers so named has appealed from such an assessment, proceed to determine the question in such manner as it considers appropriate; or

(*b*) if one or more of the taxpayers so named has or have appealed, make such order joining a party or parties to that or those appeals as it considers appropriate and proceed to determine the question.

Related Sections: S. 174(4) Determination final and conclusive; s. 174(5) Time during consideration of question not counted.
Cases: Where the Minister's allocation of purchase price between land and buildings was challenged, the purchaser and vendor were joined as parties in the appeal. *Crown Trust Co. (Suburban Realty Co.) v. The Queen*, 77 DTC 5173 (F.C.T.D.).

► 174(4) ◄

(4) Determination final and conclusive. Subject to subsection (4.1), where a question set out in an application under this section is determined by the Tax Court of Canada, the determination thereof is final and conclusive for the purposes of any assessments of tax payable by the taxpayers named by it pursuant to subsection (3).

► 174(4.1) ◄

(4.1) Appeal. Where a question set out in an application under this section is determined by the Tax Court of Canada, the Minister or any of the taxpayers who have been served with a copy of the application and who are named in an order of the Court pursuant to subsection (3) may, in accordance with the provisions of this Act, the *Tax Court of Canada Act* or the *Federal Courts Act*, as they relate to appeals from decisions of the Tax Court of Canada, appeal from the determination.

History: S. 174(4.1) was amended by S.C. 2002, c. 8, s. 182(1)(t) to replace the expression "*Federal Court Act*" with the expression "*Federal Courts Act*", in force July 2, 2003.

► 174(5) ◄

(5) Time during consideration of question not counted. The time between the day on which an application under this section is served on a taxpayer pursuant to subsection (2) and

(*a*) in the case of a taxpayer named in an order of the Tax Court of Canada pursuant to subsection (3), the day on which the determination becomes final and conclusive and not subject to any appeal, or

(*b*) in the case of any other taxpayer, the day on which the taxpayer is served with notice that the taxpayer has not been named in an order of the Tax Court of Canada pursuant to subsection (3),

shall not be counted in the computation of

(*c*) the periods determined under subsection 152(4),

(*d*) the time for service of a notice of objection to an assessment under section 165, or

(*e*) the time within which an appeal may be instituted under section 169,

for the purpose of making an assessment of the tax, interest or penalties payable by the taxpayer, serving a notice of objection thereto or instituting an appeal therefrom, as the case may be.

Related Sections: S. 152(4) Assessment and reassessment; s. 172(2) Appeal to Federal Court of Canada; s. 248(1), "assessment".

SECTION 175: Institution of appeals.

An appeal to the Tax Court of Canada under this Act, other than one referred to in section 18 of the *Tax Court of Canada Act*, shall be instituted in the manner set out in that Act or in any rules made under that Act.

History: S. 175 was amended by S.C. 1994, c. 7, Sched. VIII, s. 101, effective June 10, 1993. S. 175 formerly read:

"(1) An appeal to the Tax Court of Canada under this Act, other than one referred to in section 18 of the *Tax Court of Canada Act*, shall be instituted

(*a*) in the manner set out in the *Tax Court of Canada Act* or any rules made under that Act; or

(*b*) by the filing by the Minister in the Registry of the Tax Court of Canada of a copy of a notice of objection pursuant to paragraph 165(3)(*b*)."

Tax Topics: No. 1499, The Informal Procedure or Not?.

SECTION 176:

► 176(1) ◄

(1) Notice, etc., to be forwarded to Tax Court of Canada. As soon as is reasonably practicable after receiving notice of an appeal to the Tax Court of Canada, other than one referred to in section 18 of the *Tax Court of Canada Act*, the Minister shall cause to be transmitted to the Tax Court of Canada and to the appellant, copies of all returns, notices of assessment, notices of objection and notifications, if any, that are relevant to the appeal.

Cases: Subsection 176(1) is to be struck down in its entirety since it constitutes a significant intrusion on the privacy interests of an individual, and thus constitutes an unreasonable seizure, contrary to s. 8 of the Charter, since it creates the potential for any person to view a taxpayer's return. It is not saved by s. 1 of the Charter since its objective is not sufficiently important to warrant overriding a Charter right. *Gernhart v. The Queen*, 99 DTC 5749 (F.C.A.), reversing 97 DTC 5038 (F.C.T.D.).

► 176(2) ◄

(2) Documents to be transferred to Federal Court of Appeal. As soon as is reasonably practicable after receiving notice of an appeal to the Federal Court of Appeal in respect of which section 180 applies, the Minister shall cause to be transmitted to the registry of that Court copies of all documents that are relevant to the decision of the Minister appealed from.

History: S. 176(2) was amended by S.C. 2002, c. 8, s. 149, coming into force on July 2, 2003. S. 176(2) formerly read:

"(2) *Documents to be transferred to Federal Court.* As soon as is reasonably practicable after receiving notice of an appeal to the Federal Court of Appeal in respect of which section 180 applies, the Minister shall cause to be transmitted to the Registry of the Federal Court copies of all documents that are relevant to the decision of the Minister appealed from."

Related Sections: S. 180(1) Appeals to Federal Court of Appeal; s. 248(1), "assessment". See also ITAR s. 62(5) Appeals.

SECTION 177: Disposal of appeal. [Repealed by 1988, c. 61, s. 21.]

SECTION 178:

► 178(1) ◄

(1) Court may order payment of tax, etc. [Repealed by 1988, c. 61, s. 21.]

► 178(2) ◄

(2) Costs payable by Minister in certain cases. [Repealed by 1988, c. 61, s. 21.]

SECTION 179: Hearings *in camera*.

Proceedings in the Federal Court of Appeal under this Division may, on the application of the taxpayer, be held *in camera* if the taxpayer establishes to the satisfaction of the Court that the circumstances of the case justify *in camera* proceedings.

History: S. 179 was amended by S.C. 2002, c. 8, s. 184, to replace the expression "Federal Court" with the expression "Federal Court of Appeal", in force July 2, 2003.

Related Sections: S. 248(1) Definitions.

SECTION 179.1: No reasonable grounds for appeal.

Where the Tax Court of Canada disposes of an appeal by a taxpayer in respect of an amount payable under this Part or where such an appeal has been discontinued or dismissed without trial, the Court may, on the application of the Minister and whether or not it awards costs, order the taxpayer to pay to the Receiver General an amount not exceeding 10% of any part of the amount that was in controversy in respect of which the Court determines that there were no reasonable grounds for the appeal, if in the opinion of the Court one of the main purposes for instituting or maintaining any part of the appeal was to defer the payment of any amount payable under this Part.

History: S. 179.1 was amended by S.C. 1994, c. 7, Sched. VIII, s. 102(1), applicable after June 10, 1993 to appeals instituted after June 1992. S. 179.1 formerly read:

"S. 179.1. Where the Tax Court of Canada disposes of an appeal by a taxpayer in respect of an amount payable under this Part or where such an appeal has been discontinued or dismissed without trial, the Court may, on the application of the Minister and whether or not it awards costs, order the taxpayer to pay to the Receiver General an amount not exceeding 10% of the amount that was in controversy if it determines that there were no reasonable grounds for the appeal and one of the main purposes for instituting or maintaining the appeal was to defer the payment of an amount payable under this Part."

Cases: The fact that the taxpayer's statements of claim were poorly drawn by lawyers' standards, and had not, in any event, been properly prosecuted by the taxpayer, justified the dismissal thereof for want of prosecution. *Raynier v. M.N.R.*, 90 DTC 1387 (T.C.C.).

SECTION 180:

► 180(1) ◄

(1) Appeals to Federal Court of Appeal. An appeal to the Federal Court of Appeal pursuant to subsection 172(3) may be instituted by filing a notice of appeal in the Court within 30 days from

(*a*) the day on which the Minister notifies a person under subsection 165(3) of the Minister's action in respect of a notice of objection filed under subsection 168(4),

(*b*) the mailing of notice to a registered Canadian amateur athletic association under subsection 168(1),

(*c*) the mailing of notice to the administrator of the registered pension plan under subsection 147.1(11),

(*c*.1) the sending of a notice to a promoter of a registered education savings plan under subsection 146.1(12.1), or

(*d*) the time the decision of the Minister to refuse the application for acceptance of the amendment to the registered pension plan was mailed, or otherwise communicated in writing, by the Minister to any person,

as the case may be, or within such further time as the Court of Appeal or a judge thereof may, either before or after the expiration of those 30 days, fix or allow.

History: S. 180(1)(*a*) and (*b*) were replaced by S.C. 2005, c. 19, s. 40(1), applicable in respect of notices issued by the Minister of National Revenue after [June 12, 2005]. S. 180(1)(*a*) and (*b*) formerly read:

"(*a*) the time the decision of the Minister to refuse the application for registration or for a certificate of exemption, to revoke the registration, to designate or to refuse to designate was mailed, or otherwise communicated in writing, by the Minister to the party instituting the appeal,

(*b*) the mailing of notice to the registered charity or registered Canadian amateur athletic association under subsection 149.1(2), (3), (4) or (4.1) or 168(1),"

S. 180(1)(c.1) was added by S.C. 1998, c. 19, s. 47(1), applicable after 1997.

S. 180(1)(*b*) was amended by S.C. 1994, c. 7, Sched. II, s. 142(1), by substituting "subsection 149.1(2), (3), (4) or (4.1) or 168(1)" for "subsection 168(1)", applicable after 1989.

Related Sections: S. 168(1) Notice of intention to revoke registration; s. 172(3) Appeal from refusal to register, revocation of registration, etc.; s. 172(4) Deemed refusal to register — no notification within 180 days; s. 212(14) Certificate of exemption.

Cases: "We think that in all appeals from judgments of the Exchequer Court in proceedings by way of appeal from the Income Tax Appeal Board the reasons for judgment given by members of the Board should be included in the Appeal Case filed in this Court" (i.e., the Supreme Court of Canada). *Beament v. M.N.R.*, 52 DTC 1183 [1952] 2 S.C.R. 486; (S.C.C.) at 1186.

► 180(2) ◄

(2) No jurisdiction in a Tax Court of Canada or Federal Court. Neither the Tax Court of Canada nor the Federal Court has jurisdiction to entertain any proceeding in respect of a decision of the Minister from which an appeal may be instituted under this section.

History: S. 180(2) was amended by S.C. 2002, c. 8, s. 183(1), to replace the expression "Federal Court–Trial Division" with the expression "Federal Court", in force July 2, 2003.

► 180(3) ◄

(3) Summary disposition of appeal. An appeal to the Federal Court of Appeal instituted under this section shall be heard and determined in a summary way.

Part I.1
Individual Surtax

SECTION 180.1: Individual surtax. [Repealed by S.C. 2001, c. 17, s. 161(1).]

History: S. 180.1 was repealed by S.C. 2001, c. 17, s. 161(1), applicable to the 2001 and subsequent taxation years. S. 180.1 formerly read:

"S. 180.1. *Individual surtax.*

(1) Every individual shall pay a tax under this Part for each taxation year equal to 5% of the amount, if any, by which the tax payable under Part I by the individual for the year exceeds $15,500.

(1.1) *Foreign tax deduction.* There may be deducted from the tax otherwise payable under this Part for a taxation year (computed without reference to subsection (1.2)) by an individual the amount, if any, by which

(*a*) the total of all amounts that would be

(i) deductible by the individual under section 126 for the year, or

(ii) the individual's special foreign tax credit for the year determined under section 127.54,

if the references in section 126 to 'the tax for the year otherwise payable under this Part by the taxpayer' were read as 'the total of the tax for the year otherwise payable under this Part by the individual and the tax for the year that would be payable by the individual under Part I.1 but for subsections 180.1(1.1) and (1.2)'

exceeds

(*b*) the total of all amounts deductible by the individual under section 126 for the year and the individual's special foreign tax credit for the year determined under section 127.54.

(1.2) *Deduction from tax.* There may be deducted from the tax otherwise payable under this Part for a taxation year by an individual the amount, if any, by which the amount determined under paragraph 127(5)(*a*) in respect of the individual for the year exceeds the amount, if any, deducted under subsection 127(5) for the year by the individual other than an amount deemed by subsection (1.3) to be so deducted.

(1.3) *Idem.* For the purposes of this Act, the amount deducted under subsection (1.2) for a taxation year shall be deemed to be an amount deducted under subsection 127(5) for the year.

(1.4) *Former resident credit for tax paid.* There may be deducted from the tax otherwise payable under this Part by an individual for a taxation year (computed without reference to subsections (1.1) and (1.2)) the amount, if any, by which

(*a*) the amount that would be deductible under section 119 in computing the individual's tax payable under Part I for the year if, in applying for that purpose paragraph (*a*) of the definition 'tax for the year otherwise payable under this Part' in subsection 126(7), the reference in that paragraph to 'tax payable under this Part for the year' were read as a reference to 'the total of taxes that, but for subsections 180.1(1.1), (1.2) and (1.4), would be payable under this Part and Part I.1 for the year'

exceeds

(*b*) the amount deductible under section 119 in computing the individual's tax payable under Part I for the year.

(2) *Meaning of tax payable under Part I.* For the purposes of subsection (1), the tax payable under Part I by an individual for a taxation year is the amount, if any, by which

(*a*) the amount that would be the individual's tax payable under that Part for the year if that Part were read without reference to section 119, subsection 120(1) and sections 122.3, 126, 127, 127.4 and 127.54

exceeds

(*b*) if the individual was throughout the year a mutual fund trust, the least of the amounts determined under paragraphs (*a*), (*b*) and (*c*) of the description of A in the definition 'refundable capital gains tax on hand' in subsection 132(4) in respect of the trust for the year, and

(*c*) in any other case, nil.

(3) *Return.* Every individual liable to pay tax under this Part for a taxation year shall, on or before the day on or before which the individual is required by section 150 to file a return of income for the year under Part I, or would be so required if the individual were liable to pay tax under Part I for the year,

(*a*) file with the Minister, without notice or demand therefor, a return for the year under this Part in prescribed form and containing prescribed information; and

(*b*) pay the tax under this Part for the year for which the individual is liable.

(4) *Provisions applicable to Part.* Sections 151, 152, 155, 156, 156.1 and 158 to 167 and Division J of Part I are applicable to this Part with such modifications as the circumstances require."

S. 180.1(1) was amended by S.C. 2001, c. 17, s. 160(1), applicable to the 2000 taxation year. S. 180.1(1) formerly read:

"S. 180.1. *Individual surtax.*

(1) Every individual shall pay a tax under this Part for each taxation year equal to 5% of the amount, if any, by which the tax payable under Part I by the individual for the year exceeds $12,500."

S. 180.1(1.4) was added by S.C. 2001, c. 17, s. 160(2), applicable after October 1, 1996.

S. 180.1(2) was amended by S.C. 2001, c. 17, s. 160(2), applicable after October 1, 1996. S. 180.1(2) formerly read:

"(2) *Meaning of tax payable under Part I.* For the purposes of subsection (1), the tax payable under Part I by an individual for a taxation year is the amount, if any, by which

(*a*) where section 119 is applicable in computing the individual's tax payable for the year, the amount that would be the individual's average tax for the year of averaging, as determined under paragraph 119(1)(*d*), if the expression 'deductible under subsection 127(5)' in that paragraph were read as 'added under subsection 120(1) or deductible under sections 122.3, 126, 127 and 127.2 to 127.4', and

(*b*) in any other case, the amount that would be the individual's tax payable under that Part for the year if that Part were read without reference to subsection 120(1) and sections 122.3, 126, 127, 127.2 to 127.4 and 127.54

exceeds

(*c*) where the individual was throughout the year a mutual fund trust, the least of the amounts determined under paragraphs (*a*), (*b*) and (*c*) of the description of A in the definition 'refundable capital gains tax on hand' in subsection 132(4) in respect of the trust for the year, and

(*d*) in any other case, nil."

S. 180.1(1) was replaced by S.C. 2000, c. 19, s. 52(2), applicable to the 2000 and subsequent taxation years. S. 180.1(1) formerly read:

"(1) Every individual shall pay a tax under this Part for each taxation year equal to the total of

(*a*) 1/2 of the amount, if any, by which

(i) 3% of the individual's tax payable under Part I for the year

exceeds

(ii) the amount, if any, by which

(A) $250

exceeds

(B) 6% of the amount, if any, by which

(I) the individual's tax payable under Part I for the year

exceeds

(II) $8,333, and

(*b*) 5% of the amount, if any, by which the tax payable under Part I by the individual for the year exceeds $12,500."

Paragraph 180.1(1)(*a*) before subparagraph (i) was replaced by S.C. 2000, c. 19, s. 52(1), applicable to the 1999 taxation year. Paragraph 180.1(1)(*a*) formerly read:

"(*a*) the amount, if any, by which"

S. 180.1(1)(*a*) was amended by S.C. 1999, c. 22, s. 67(1), applicable to the 1998 and subsequent taxation years except that, in its application to the 1998 taxation year, the portion of subparagraph 180.1(1)(*a*)(ii) of the Act before clause (B) shall be read as follows:

"(ii) 50% of the amount, if any, by which

(A) the lesser of $250 and the amount computed under subparagraph

(i) for the year

exceeds"

S. 180.1(1)(*a*) formerly read:

"(*a*) 3% of the tax payable under Part I by the individual for the year, and"

S. 180.1(1)(*a*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 103(1), applicable to the 1992 and subsequent taxation years except that, for the 1992 taxation years, the reference to "3%" shall be read as a reference to "4 1/2%". S. 180.1(1)(*a*) formerly read:

"(*a*) 5% of tax payable under Part I by the individual for the year, and"

S. 180.1(1)(*b*) was amended by S.C. 1994, c. 7, Sched. II, s. 143(1), applicable to the 1991 and subsequent taxation years. S. 180.1(1)(*b*) formerly read:

"(*b*) 3% of the amount, if any, by which the tax payable under Part I by the individual for the year exceeds $15,000."

S. 180.1(1.1) was amended by S.C. 1994, c. 7, Sched. VIII, s. 103(2), applicable to the 1988 and subsequent taxation years. S. 180.1(1.1) formerly read:

"(1.1) There may be deducted from the tax otherwise payable under this Part for a taxation year by an individual the amount, if any, by which

(*a*) the total of all amounts that would be

(i) deductible by the individual under section 126 for the year, or

(ii) the individual's special foreign tax credit for the year determined under section 127.54,

if the references in section 126 to 'the tax for the year otherwise payable under this Part by the individual (or "taxpayer")' were read as 'the total of the tax for the year otherwise payable under this Part by the individual (or "taxpayer") and the tax for the year that would be payable by the individual (or "taxpayer") under Part I.1 but for subsection 180.1(1.1)' exceeds

(*b*) the total of all amounts deductible by the individual (or 'taxpayer') under section 126 for the year and the individual's special foreign tax credit for the year determined under section 127.54."

S. 180.1(1.2) was amended by S.C. 1994, c. 8, s. 28(1), applicable to taxation years that begin after 1993. S. 180.1(1.2) formerly read:

"(1.2) There may be deducted from the tax otherwise payable under this Part for a taxation year by an individual an amount not exceeding the lesser of

(*a*) 3/4 of the amount that would be the individual's tax otherwise payable under this Part for the year if the individual deducted the amount, if any, allowed to be deducted under subsection (1.1) for the year, and

(*b*) the amount, if any, by which the amount determined under paragraph 127(5)(*b*) in respect of the individual for the year exceeds the amount, if any, deducted by the individual under subsection 127(5) for the year."

S. 180.1(1.3) was amended by S.C. 1994, c. 8, s. 28(1), applicable to taxation years that begin after 1993. S. 180.1(1.3) formerly read:

"(1.3) *Amount deemed deducted under s. (1.2).* For the purposes of this Act, other than for the purpose of determining the amount under paragraph (1.2)(*b*) for the year, the amount deducted under subsection (1.2) for a taxation year shall be deemed to be an amount deducted under subsection 127(5) for the year."

Related Sections: S. 40(3.7) Losses of non-resident; s. 117(2) Rates for years after 2000; s. 126(1) Foreign tax deduction — non-business income; s. 127.54(2) Foreign tax credit.

Interpretation Bulletins: *Secondary* — IT-270R3 Foreign tax credit.

Cases: The surtax is to be calculated before the Quebec tax abatement is deducted. *Thompson v. M.N.R.*, 89 DTC 66 (T.C.C.); *Greenstone Estate v. M.N.R.*, 91 DTC 969 (T.C.C.).

Part I.2
Tax on Old Age Security Benefits

SECTION 180.2: Tax on Old Age Security Benefits.

► 180.2(1) ◄

(1) Definitions. In this Part,

"adjusted income" — "adjusted income" of an individual for a taxation year means the amount that would be the individual's income under Part I for the year if no amount were included under paragraph 56(1)(*q.1*) or subsection 56(6) or in respect of a gain from a disposition of property to which section 79 applies in computing that income and if no amount were deductible under paragraph 60(*w*), (*y*) or (*z*) in computing that income;

History: S. 180.2(1), the definition "adjusted income" was replaced by S.C. 2007, c. 35, s. 119, applicable to the 2008 and subsequent taxation years. S. 180.2(1), the definition "adjusted income" formerly read:

" '*adjusted income*'— 'adjusted income' of an individual for a taxation year means the amount that would be the individual's income under Part I for the year if no amount were included under subsection 56(6) or in respect of a gain from a disposition of property to which section 79 applies in computing that income and if no amount were deductible under paragraph 60(*w*) or (*y*) in computing that income;"

S. 180.2(1), the definition "adjusted income" was replaced by S.C. 2006, c. 4, s. 178(1), applicable to the 2006 and subsequent taxation years.

S. 180.2(1), the definition "adjusted income" formerly read:

" '*adjusted income*'— 'adjusted income' of an individual for a taxation year means the amount that would be the individual's income under Part I for the year if no amount were deductible under paragraph 60(*w*) nor included in respect of a gain from a disposition of property to which section 79 applies."

"base taxation year" — "base taxation year" in relation to a month, means

(*a*) where the month is any of the first 6 months of a calendar year, the taxation year that ended on December 31 of the second preceding calendar year, and

(*b*) where the month is any of the last 6 months of a calendar year, the taxation year that ended on December 31 of the preceding calendar year.

"return of income" — "return of income" in respect of an individual for a taxation year means

(*a*) where the individual was resident in Canada throughout the year, the individual's return of income (other than a return of income filed under subsection 70(2) or 104(23), paragraph 128(2)(*e*) or subsection 150(4)) that is filed or required to be filed under Part I for the year, and

(*b*) in any other case, a prescribed form containing prescribed information.

History: S. 180.2(1) was amended by S.C. 1996, c. 21, s. 46(1), applicable after June 1996. S. 180.2(1) formerly read:

"S. 180.2. *Tax payable.*

(1) Every individual (other than a trust) shall pay a tax under this Part for each taxation year that is equal to the lesser of

(*a*) the total of all amounts each of which is the amount of any pension, supplement or spouse's allowance under the *Old Age Security Act* included in computing the individual's income under Part I for the year, to the extent that no deduction is allowed under paragraph 60(*n*) for the year or any subsequent taxation year in respect of that amount, and

(*b*) 15% of the amount, if any, by which

(i) the amount that would be the individual's income under Part I for the year if no amount were

(A) deductible under paragraph 60(*w*), or

(B) included in respect of a gain from a disposition of property to which section 79 applies

in computing that income

exceeds

(ii) $50,000."

S. 180.2(1)(*a*) was amended by S.C. 1994, c. 7, Sched. VII, s. 21(1), applicable to the 1993 and subsequent taxation years. S. 180.2(1)(*a*) formerly read:

"(*a*) the total of all amounts each of which is the amount of any pension, supplement or spouse's allowance under the *Old Age Security Act* or family allowance under the *Family Allowances Act* included in computing the individual's income under Part I for the year, to the extent that no deduction is allowed under paragraph 60(*n*) or (*p*) for the year or any subsequent taxation year in respect of that amount, and"

S. 180.2(1)(*b*)(i) was amended by S.C. 1994, c. 7, Sched. II, s. 144(1), applicable to the 1989 and subsequent taxation years. S. 180.2(1)(*b*)(i) formerly read:

"(i) the amount that would, but for paragraph 60(*w*), be the individual's income under Part I for the year"

Related Sections: S. 60(*w*) Tax under Part I.2; s. 180.2(4) Determination of amount to be withheld.

Cases: The inclusion of foreign pension income in the calculation of the "clawback" does not have the effect of imposing a tax on such income. *Swantje v. The Queen,* 96 DTC 6310 (S.C.C.), affirming 94 DTC 6633 (F.C.A.), reversing 94 DTC 1359 (T.C.C.).

Considering that the *Old Age Security Act* does not provide a contributory pension plan and the criterion on which the OAS clawback tax is levied is income level, not age, s. 180.2(1) did not contravene s. 15(1) of the Charter. *Lancey v. the Queen,* 94 DTC 6075 (F.C.A.).

► 180.2(2) ◄

(2) Tax payable. Every individual shall pay a tax under this Part for each taxation year equal to the amount determined by the formula

$$A(1 - B)$$

where

A is the lesser of

(*a*) the amount, if any, by which

(i) the total of all amounts each of which is the amount of any pension, supplement or spouse's or common-law partner's allowance under the *Old Age Security Act* included in computing the individual's income under Part I for the year

exceeds

(ii) the amount of any deduction allowed under subparagraph 60(*n*)(i) in computing the individual's income under Part I for the year, and

(*b*) 15% of the amount, if any, by which the individual's adjusted income for the year exceeds $50,000; and

B is the rate of tax payable by the individual under Part XIII on amounts described in paragraph (*a*) of the description of A.

CRA Press Release

2.5% Indexation Factor for 2009

See CRA Fact Sheet, dated December 8, 2008, that is reproduced following subsection 117.1(1). This release announces a 2.5% indexation factor applicable for 2009 tax bracket thresholds, personal amounts and other amounts relating to non-refundable credits, as well as the refundable medical expense supplement and Old Age Security repayment threshold. Increases to the Canada Child Tax Benefit (including the National Child Benefit supplement and the Child Disability Ben-

efit) and the Goods and Services Tax Credit will take effect as of July 1, 2009.

History: S. 180.2(2), subparagraph (*a*)(i) of the description of A was amended by S.C. 2000, c. 12, Sched. 2, s. 7(k), applicable January 1, 2001, coming into force on July 31, 2000. S. 180.2(2), subparagraph (*a*)(i) of the description of A formerly read:

"(i) the total of all amounts each of which is the amount of any pension, supplement or spouse's allowance under the *Old Age Security Act* included in computing the individual's income under Part I for the year"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 180.2(2) was amended by S.C. 1996, c. 21, s. 46(1), applicable to the 1996 and subsequent taxation years. S. 180.2(2) formerly read:

"(2) *Return.* Every individual liable to pay tax under this Part for a taxation year shall, on or before the day on or before which the individual is required by section 150 to file a return of income for the year under Part I, or would be so required if the individual were liable to pay tax under Part I for the year,

(*a*) file with the Minister, without notice or demand therefor, a return for the year under this Part in prescribed form and containing prescribed information; and

(*b*) pay the tax under this Part for the year for which the individual is liable."

Related Sections: S. 117.1 Tax payable under this Part.

► 180.2(3) ◄

(3) Withholding. Where at any time Her Majesty pays an amount described in paragraph (*a*) of the description of A in subsection (2) in respect of a month to an individual, there shall be deducted or withheld from that amount on account of the individual's tax payable under this Part for the year the amount determined under subsection (4) in respect of that amount.

History: S. 180.2(3) was amended by S.C. 1996, c. 21, s. 46(1), applicable to amounts paid after June 1996. S. 180.2(3) formerly read:

"(3) *Provisions applicable to Part.* Sections 151, 152 and 158 to 167 and Division J of Part I are applicable to this Part with such modifications as the circumstances require."

► 180.2(4) ◄

(4) Determination of amount to be withheld. The amount determined in respect of a particular amount described in subsection (3) is

(*a*) where the individual has filed a return of income for the base taxation year in relation to the month in which the particular amount is paid, the lesser of

(i) the amount by which the particular amount exceeds the amount of tax payable under Part XIII by the individual on the particular amount, and

(ii) the amount determined by the formula

$$(0.0125A - \$665)(1 - B)$$

where

A is the individual's adjusted income for the base taxation year, and

B is the rate of tax payable under Part XIII by the individual on the particular amount;

(*b*) where the individual has not filed a return of income for the base taxation year in relation to the month and

(i) the Minister has demanded under subsection 150(2) that the individual file the return, or

(ii) the individual was non-resident at any time in the base taxation year,

the amount by which the particular amount exceeds the amount of tax payable under Part XIII by the individual on the particular amount; and

(*c*) in any other case, nil.

History: S. 180.2(4)(*a*)(ii), the formula was amended by S.C. 2001, c. 17, s. 162(1), applicable to amounts paid after November 1999. S. 180.2(4)(*a*)(ii) formerly read:

"(0.0125A – $625)(1 – B)"

S. 180.2(4) was added by S.C. 1996, c. 21, s. 46(1), applicable to amounts paid after June 1996.

Forms: NR4-OAS.

Guides: T4155 Old Age Security Return of Income Guide for Non-Residents.

► 180.2(5) ◄

(5) Return. Every individual liable to pay tax under this Part for a taxation year shall

(*a*) file with the Minister, without notice or demand therefor,

(i) where the individual is resident in Canada throughout the taxation year, a return for the year under this Part in prescribed form and containing prescribed information on or before the individual's filing-due date for the year, and

(ii) in any other case, a return of income for the year on or before the individual's balance-due day for the year; and

(*b*) pay the individual's tax payable under this Part for the year on or before the individual's balance-due day for the year.

History: S. 180.2(5) was added by S.C. 1996, c. 21, s. 46(1), applicable to the 1996 and subsequent taxation years.

Forms: T1136.

► 180.2(6) ◄

(6) Provisions applicable to this Part. Subsection 150(3), sections 150.1, 151 and 152, subsections 153(1.1), (1.2) and (3), sections 155 to 156.1 and 158 to 167 and Division J of Part I apply to this Part with any modifications that the circumstances require.

History: S. 180.2(6) was added by S.C. 1996, c. 21, s. 46(1), applicable to the 1996 and subsequent taxation years.

Part I.3
Tax on Large Corporations

SECTION 181:

► 181(1) ◄

(1) Definitions. For the purposes of this Part,

Interpretation Bulletins: *Primary* — IT-532 Part I.3 — Tax on Large Corporations.

"financial institution" — "financial institution", in respect of a taxation year, means a corporation that at any time in the year is

(*a*) a bank or credit union,

(*b*) an insurance corporation that carries on business in Canada,

(*c*) authorized under the laws of Canada or a province to carry on the business of offering its services as a trustee to the public,

(*d*) authorized under the laws of Canada or a province to accept deposits from the public and carries on the business of lending money on the security of real estate or investing in mortgages or hypothecary claims on real estate,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*d*) of the definition "financial institution" in subsection 181(1) of the Act is replaced by the following:

(*d*) authorized under the laws of Canada or a province to accept deposits from the public and carries on the business of lending money on the security of real property or immovables or investing in indebtedness on the security of mortgages on real property or of hypothecs on immovables,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*e*) a registered securities dealer,

(*f*) a mortgage investment corporation, or

(*g*) a prescribed corporation;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*g*) of the definition "financial institution" in subsection 181(1) of Act is replaced by the following:

(*g*) a corporation

(i) listed in the schedule, or

(ii) all or substantially all of the assets of which are shares or indebtedness of financial institutions to which the corporation is related;

Applicable: After December 22, 1997, but in applying paragraph (*g*) of the definition "financial institution" in subsection 181(1) in respect of taxation years that end before December 20, 2002, that paragraph is to be read as follows:

"(*g*) prescribed, or listed in the schedule;"

Explanatory Note:

"financial institution"

Subsection 181(1) of the Act sets out definitions for the purposes of the Part I.3 tax on large corporations. Among these is the term "financial institution," which is relevant for a number of purposes. Most importantly, corporations that are financial institutions compute their capital for the purposes of Part I.3 differently from other corporations. The status of a particular corporation is also relevant to corporations that invest in the particular corporation or hold its debt, since whether certain of those investments are counted in the investor corporation's "investment allowance" — and thus whether they will reduce their own tax under Part I.3 — depends, in part, on whether the particular corporation is a financial institution.

In addition to listing several types of corporations, the definition "financial institution" provides, in its paragraph (*g*), that the definition applies as well to a prescribed corporation. Currently, such corporations are prescribed under section 8604 of the Regulations. Paragraph (*a*) of that regulation provides that a corporation of which all or substantially all of the assets of which are shares or indebtedness of a financial institution (as defined in subsection 181(1) of the Act) to which the corporation is related, is itself prescribed to be a financial institution; the remaining paragraphs list particular corporations by name.

Paragraph (g) of the definition is amended to reflect a fundamental change in the technique by which these corporations will be identified as financial institutions. Rather than listing corporations in a regulation, this new approach is to list them in a schedule to the Act. Amended paragraph (g) therefore refers to corporations that are either listed in the schedule, as per new subparagraph (g)(i), or that are described in new subparagraph (g)(ii), currently paragraph (*a*) of section 8604 of the Regulations.

These changes to paragraph (g) of the definition apply after December 22, 1997.

As a consequence to the changes to paragraph (g) of the definition, section 8604 of the Regulations is to be repealed and a schedule is added at the end of the Act. Subject to a number of deletions due primarily to name changes and amalgamations, the schedule lists those corporations that are currently prescribed under section 8604 immediately before its repeal. The schedule also lists a number of corporations that are not currently prescribed, but meet the requirements for treatment as financial institutions and have asked to be treated as such.

Transitional rules for paragraph (g) of the definition ensure that corporations prescribed before the repeal of Regulation 8604 retain the status that they would have had under paragraph (g) had it not been amended to exclude prescribed corporations.

As described above, a number of corporations currently not prescribed are listed in the schedule, effective as of dates that precede December 20, 2002. Transitional rules ensure that, for any taxation year that begins before December 20, 2002, no corporation that deals at arm's length with any of these corporations will lose an investment allowance as a result the corporation's change in status to a financial institution under paragraph (g) of the definition.

Editorial Note: See the Schedule of Listed Corporations, reproduced following section 262.

History: S. 181(1), paragraph (*d*) of the definition "financial institution" was amended by S.C. 2001, c. 17, s. 220, applicable on Royal Assent, June 14, 2001. S. 181(1), paragraph (*d*) of the definition "financial institution" formerly read:

"(*d*) authorized under the laws of Canada or a province to accept deposits from the public and carries on the business of lending money on the security of real estate or investing in mortgages on real estate,"

S. 181(1), paragraph (*e*) of the definition "financial institution" was amended by S.C. 1995, c. 21, s. 72(1), applicable to taxation years that end after June 1989. That paragraph formerly read:

"(*e*) registered or licensed under the laws of a province to trade in securities,"

S. 181(1), paragraph (*f*) of the definition "financial institution" was amended by S.C. 1994, c. 7, Sched. II, s. 145(1), applicable to taxation years ending after June 1989. Paragraph (*f*) of the definition of "financial institution" formerly read:

"(*f*) a deposit insurance corporation (within the meaning assigned by subsection 137.1(5)) or a corporation deemed by subsection 137.1(5.1) to be a deposit insurance corporation; or"

Regulations: 8604
Forms: T2 SCH 33; T2 SCH 34; T2 SCH 35; T2 SCH 36.

"long-term debt" "long-term debt" means

(*a*) in the case of a bank, its subordinated indebtedness (within the meaning assigned by section 2 of the *Bank Act*) evidenced by obligations issued for a term of not less than 5 years,

(*b*) in the case of an insurance corporation, its subordinated indebtedness (within the meaning assigned by section 2 of the *Insurance Companies Act*) evidenced by obligations issued for a term of not less than 5 years, and

(*c*) in the case of any other corporation, its subordinated indebtedness (within the meaning that would be assigned by section 2 of the *Bank Act* if the definition of that expression in that section were applied with such modifications as the circumstances require) evidenced by obligations issued for a term of not less than 5 years,

but does not include, where the corporation is a prescribed federal Crown corporation for the purpose of section 27, any indebtedness evidenced by obligations issued to and held by Her Majesty in right of Canada;

History: S. 181(1), the definition "long-term debt", was amended by S.C. 1994, c. 21, s. 81(1), applicable after May 31, 1992. S. 181(1), the definition "long-term debt", formerly read:

"'long-term debt' means,

(*a*) in the case of a bank, its indebtedness evidenced by bank debentures within the meaning assigned by the *Bank Act*, and

(*b*) in the case of a financial institution that is not a bank, its subordinate indebtedness evidenced by obligations issued for a term of not less than 5 years (other than, where the financial institution is a prescribed federal Crown corporation for the purposes of section 27, such indebtedness evidenced by obligations issued to and held by Her Majesty in right of Canada);"

S. 181(1), paragraph (*b*) of the definition of "long-term debt" was amended by S.C. 1994, c. 7, Sched. VIII, s. 104(1), applicable to the 1991 and subsequent taxation years. Paragraph (*b*) of the definition of "long-term debt" formerly read:

"(*b*) in the case of a corporation that is not a bank, its subordinate indebtedness evidenced by obligations issued for a term of not less than 5 years;"

Related Sections: S. 130.1(6) Meaning of "mortgage investment corporation"; s. 248(1), "mortgage investment corporation".
Regulations: 7100.
Income Tax Technical News: Issue No. 28, Large Corporations Tax — Long-Term Debt.
Forms: T2 SCH 33; T2 SCH 34; T2 SCH 35; T2 SCH 36.

"reserves" — "reserves", in respect of a corporation for a taxation year, means the amount at the end of the year of all of the corporation's reserves, provisions and allowances (other than allowances in respect of depreciation or depletion) and, for greater certainty, includes any provision in respect of deferred taxes.

Related Sections: S. 130.1(6) Meaning of "mortgage investment corporation"; s. 248(1), "mortgage investment corporation".
Forms: T2 SCH 33; T2 SCH 34; T2 SCH 35; T2 SCH 36.
Tax Topics: No. 1741, Large Corporation Tax Update.

► 181(2) ◄

(2) Prescribed expressions. For the purposes of this Part, the expressions "attributed surplus", "Canadian assets", "Canadian premiums", "Canadian reserve liabilities", "permanent establishment", "total assets", "total premiums" and "total reserve liabilities" have such meanings as may be prescribed.

Regulations: 8600.
Interpretation Bulletins: *Secondary* — IT-347R2 Crown corporations [Archived by the CRA].

► 181(3) ◄

(3) Determining values and amounts. For the purposes of determining the carrying value of a corporation's assets or any other amount under this Part in respect of a corporation's capital, investment allowance, taxable capital or taxable capital employed in Canada for a taxation year or in respect of a partnership in which a corporation has an interest,

(*a*) the equity and consolidation methods of accounting shall not be used; and

(*b*) subject to paragraph (*a*) and except as otherwise provided in this Part, the amounts reflected in the balance sheet

(i) presented to the shareholders of the corporation (in the case of a corporation that is neither an insurance corporation to which subparagraph (ii) applies nor a bank) or the members of the partnership, as the case may be, or, where such a balance sheet was not prepared in accordance with generally accepted accounting principles or no such balance sheet was prepared, the amounts that would be reflected if such a balance sheet had been prepared in accordance with generally accepted accounting principles, or

(ii) accepted by the Superintendent of Financial Institutions, in the case of a bank or an insurance corporation that is required by law to report to the Superintendent, or the superintendent of insurance or other similar officer or authority of the province under whose laws the corporation is incorporated, in the case of an insurance corporation that is required by law to report to that officer or authority,

shall be used.

Tax Topics: No. 1741, Large Corporation Tax Update.

► 181(4) ◄

(4) Limitations respecting inclusions and deductions. Unless a contrary intention is evident, no provision of this Part shall be read or construed to require the inclusion or to permit the deduction, in computing the amount of a corporation's capital, investment allowance, taxable capital or taxable capital employed in Canada for a taxation year, of any amount to the extent that that amount has been included or deducted, as the case may be, in computing the first-mentioned amount under, in accordance with or by reason of any other provision of this Part.

SECTION 181.1:

► 181.1(1) ◄

(1) Tax payable. Every corporation shall pay a tax under this Part for each taxation year equal to the amount obtained by multiplying the corporation's specified percentage for the taxation year by the amount, if any, by which

(*a*) its taxable capital employed in Canada for the year

exceeds

(*b*) its capital deduction for the year.

History: S. 181.1(1) was replaced by S.C. 2003, c. 15, s. 85(1), applicable to the 2004 and subsequent taxation years. S. 181.1(1) formerly read:

"S. 181.1. *Tax payable.*

(1) Every corporation shall pay a tax under this Part for each taxation year equal to 0.225% of the amount, if any, by which

(*a*) its taxable capital employed in Canada for the year

exceeds

(*b*) its capital deduction for the year."

S. 181.1(1), that portion preceding paragraph (*a*), was amended by S.C. 1996, c. 21, s. 47(1), applicable to taxation years that end after February 27, 1995, except that, in its application to taxation years that began before February 28, 1995, there shall be deducted from the tax otherwise payable under subsection 181.1(1), an amount equal to that proportion of 1/9 of the tax otherwise payable under that subsection of the Act that the number of days in the year that were before February 28, 1995 is of the number of days in the year. S. 181.1(1), that portion preceding paragraph (*a*), formerly read:

"(1) Every corporation shall pay a tax under this Part for each taxation year equal to 0.2% of the amount, if any, by which"

S. 181.1(1), that portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 146(1), by substituting "0.2%" for "0.175%", applicable to the 1991 and subsequent taxation years, except that, in its application to taxation years beginning before 1991 and ending after 1990, there may be deducted from the tax otherwise payable under subsection 181.1(1) an amount equal to that proportion of 1/8 of the tax otherwise payable under subsection 181.1(1) that the number of days in the year that are before 1991 is of the number of days in the year.

Related Sections: S. 125.3 Deduction of Part I.3 tax — general corporations.

Interpretation Bulletins: *Primary* — IT-532 Part I.3 — Tax on large corporations.

Forms: T2 SCH 33; T2 SCH 34; T2 SCH 35; T2 SCH 342; T2 SCH 343; T2 SCH 361; T2 SCH 362; T2 SCH 34.

Tax Topics: No. 1741, Large Corporation Tax Update.

Sec. 47(3), Chap. 21, 1996

(3) For the purpose of applying subsection 125(5.1) of the Act, the amount that would, but for subsections 181.1(2) and (4) of the Act, be a corporation's tax payable under Part I.3 of the Act for a taxation year that began before February 28, 1995 shall be determined without reference to the amendment made by subsection (1).

► 181.1(1.1) ◄

(1.1) Specified percentage. For the purpose of subsection (1), the specified percentage of a corporation for a taxation year that ends after 2003 is the total of

(*a*) that proportion of 0.225% that the number of days in the taxation year that are before 2004 is of the number of days in the taxation year,

(*b*) that proportion of 0.200% that the number of days in the taxation year that are in 2004 is of the number of days in the taxation year, and

(*c*) that proportion of 0.175% that the number of days in the taxation year that are in 2005 is of the number of days in the taxation year.

(*d*) [Repealed.]

(*e*) [Repealed.]

History: S. 181.1(1.1)(*d*) and (*e*) were repealed by S.C. 2006, c. 4, s. 82(1), applicable to the 2006 and subsequent taxation years.

S. 181.1(1.1)(*d*) and (*e*) formerly read:

"(*d*) that proportion of 0.125% that the number of days in the taxation year that are in 2006 is of the number of days in the taxation year, and

(*e*) that proportion of 0.0625% that the number of days in the taxation year that are in 2007 is of the number of days in the taxation year."

S. 181.1(1.1) was added by S.C. 2003, c. 15, s. 85(1), applicable to the 2004 and subsequent taxation years.

► 181.1(1.2) ◄

(1.2) Exceptions. Notwithstanding subsection (1.1), for the purposes of applying subsection 125(5.1) and the definitions "unused surtax credit" in subsections (6) and 190.1(5), the amount of tax in respect of a corporation under subsection (1) for a taxation year is to be determined as if the specified percentage of the corporation for the taxation year were 0.225%.

History: S. 181.1(1.2) was added by S.C. 2003, c. 15, s. 85(1), applicable to the 2004 and subsequent taxation years.

► 181.1(2) ◄

(2) Short taxation years. Where a taxation year of a corporation is less than 51 weeks, the amount determined under subsection (1) for the year in respect of the corporation shall be reduced to that proportion of that amount that the number of days in the year is of 365.

History: S. 181.1(2) was amended by S.C. 1994, c. 7, Sched. VIII, s. 105(1), applicable to the 1992 and subsequent taxation years. S. 181.1(2) formerly read:

"(2) Where a taxation year of a corporation is less than 51 weeks, the tax payable under this Part for the year by the corporation shall be that proportion of its tax otherwise payable under this Part for the year that the number of days in the year is of 365."

Related Sections: S. 248(11) Compound interest.

► 181.1(3) ◄

(3) Where tax not payable. No tax is payable under this Part for a taxation year by a corporation

(*a*) that was a non-resident-owned investment corporation throughout the year;

(*b*) that was a bankrupt (within the meaning assigned by subsection 128(3)) at the end of the year;

(*c*) that was throughout the year exempt from tax under section 149 on all of its taxable income;

(*d*) that neither was resident in Canada nor carried on business through a permanent establishment in Canada at any time in the year;

(*e*) that was throughout the year a deposit insurance corporation (within the meaning assigned by subsection 137.1(5)) or a corporation deemed by subsection 137.1(5.1) to be a deposit insurance corporation; or

(*f*) that was throughout the year a corporation described in subsection 136(2) the principal business of which was marketing (including processing incidental to or connected therewith) natural products belonging to or acquired from its members or customers.

History: S. 181.1(3)(*f*) was added by S.C. 1994, c. 7, Sched. VIII, s. 105(2), applicable to taxation years ending after June 1989.

S. 181.1(3)(*e*) was added by S.C. 1994, c. 7, Sched. II, s. 146(2), applicable to taxation years ending after June 1989.

Related Sections: S. 128(3) Definitions of "bankrupt" and "estate of the bankrupt"; s. 133(8), "non-resident-owned investment corporation"; s. 136(2) Definition of "cooperative corporation"; s. 137.1(5), "deposit insurance corporation"; s. 137.1(5.1) Deeming provision; s. 149(1) Miscellaneous exemptions; s. 181(2) Prescribed expressions; s. 248(1), "non-resident-owned investment corporation".

Regulations: 8600.

Interpretation Bulletins: *Secondary* — IT-347R2 Crown corporations [Archived by the CRA].

► 181.1(4) ◄

(4) Deduction. There may be deducted from a corporation's tax otherwise payable under this Part for a taxation year an amount equal to the total of

(*a*) its Canadian surtax payable for the year, and

(*b*) such part as the corporation claims of its unused surtax credits for its 7 immediately preceding and 3 immediately following taxation years,

to the extent that that total does not exceed the amount by which

(*c*) the amount that would, but for this subsection, be its tax payable under this Part for the year

exceeds

(*d*) the total of all amounts each of which is the amount deducted under subsection 125.3(1) in computing the corporation's tax payable under Part I for a taxation year ending before 1992 in respect of its unused Part I.3 tax credit (within the meaning assigned by section 125.3) for the year.

History: S. 181.1(4)(*c*) was amended by S.C. 1994, c. 21, s. 82(1), applicable to the 1992 and subsequent taxation years. S. 181.1(4)(*c*) formerly read:

"(*c*) the amount that would, but for this section, be its tax payable under this Part for the year"

S. 181.1(4) was added by S.C. 1994, c. 7, Sched. VIII, s. 105(3), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 125.3(1) Deduction of Part I.3 tax — general corporations.

Forms: T2 SCH 37.

► 181.1(5) ◄

(5) Idem. For the purposes of this subsection and subsections (4), (6) and (7),

(*a*) an amount may not be claimed under subsection (4) in computing a corporation's tax payable under this Part for a particular taxation year in espect of its unused surtax credit for another taxation year until its unused surtax credits, if any, for taxation years preceding the other year that may be claimed under this Part for the particular year have been claimed; and

(*b*) an amount in respect of a corporation's unused surtax credit for a taxation year may be claimed under subsection (4) in computing its tax payable under this Part for another taxation year only to the extent that it exceeds the total of all amounts each of which is an amount claimed in respect of that unused surtax credit in computing its tax payable under this Part or Part VI for a taxation year preceding that other year.

History: S. 181.1(5) was added by S.C. 1994, c. 7, Sched. VIII, s. 105(3), applicable to the 1992 and subsequent taxation years.

► 181.1(6) ◄

(6) Definitions. For the purposes of this subsection and subsections (4), (5) and (7),

"*Canadian surtax payable*" — "Canadian surtax payable" of a corporation for a taxation year has the meaning assigned by subsection 125.3(4);

History: S. 181.1(6), the definition of "Canadian surtax payable", was added by S.C. 1994, c. 7, Sched. VIII, s. 105(3), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 125.3(1) Deduction of Part I.3 tax — general corporations; s. 125.3(4), "Canadian surtax payable", "unused Part I.3 tax credit"; s. 190(1), "financial institution"; s. 190.1(3) Deduction; Part VI.

"*unused surtax credit*" — "unused surtax credit" for a taxation year ending after 1991

(*a*) of a corporation (other than a corporation that was throughout the year a financial institution, within the meaning assigned by section 190) means the amount, if any, by which

(i) its Canadian surtax payable for the year

exceeds the total of

(ii) the amount that would, but for subsection (4), be its tax payable under this Part for the year, and

(iii) the amount, if any, deducted under section 125.3 in computing the corporation's tax payable under Part I for the year, and

(*b*) of a corporation that was throughout the year a financial institution (within the meaning assigned by section 190) means the lesser of

(i) the amount, if any, by which

(A) its Canadian surtax payable for the year

exceeds the total of

(B) the amount that would, but for subsection (4), be its tax payable under this Part for the year, and

(C) the amount, if any, deducted under section 125.3 in computing the corporation's tax payable under Part I for the year, and

(ii) the amount, if any, by which its tax payable under Part I for the year exceeds the amount that would, but for subsection (4) and subsection 190.1(3), be the total of its taxes payable under Parts I.3 and VI for the year.

History: S. 181.1(6), the definition of "unused surtax credit", was added by S.C. 1994, c. 7, Sched. VIII, s. 105(3), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 125.3(1) Deduction of Part I.3 tax — general corporations; s. 125.3(4), "Canadian surtax payable", "unused Part I.3 tax credit"; s. 190(1), "financial institution"; s. 190.1(3) Deduction; Part VI.

► 181.1(7) ◄

(7) Acquisition of control. Where at any time control of a corporation has been acquired by a person or group of persons, no amount in respect of its unused surtax credit for a taxation year ending before that time is deductible by the corporation for a taxation year ending after that time and no amount in respect of its unused surtax credit for a taxation year ending after that time is deductible by the corporation for a taxation year ending before that time, except that

(*a*) the corporation's unused surtax credit for a particular taxation year that ended before that time is deductible by the corporation for a taxation year that ends after that time (in this paragraph referred to as the "subsequent year") to the extent of that proportion of the corporation's Canadian surtax payable for the particular year that

(i) the amount, if any, by which

(A) the total of all amounts each of which is

(I) its income under Part I for the particular year from a business that was carried on by the corporation throughout the subsequent year for profit or with a reasonable expectation of profit, or

(II) where properties were sold, leased, rented or developed or services were rendered in the course of carrying on that business before

that time, its income under Part I for the particular year from any other business all or substantially all of the income of which was derived from the sale, leasing, rental or development, as the case may be, of similar properties or the rendering of similar services

exceeds

(B) the total of all amounts each of which is an amount deducted under paragraph 111(1)(*a*) or (*d*) in computing its taxable income for the particular year in respect of a non-capital loss or a farm loss, as the case may be, for taxation year in respect of any business referred to in clause (A)

is of the greater of

(ii) the amount determined under subparagraph (i), and

(iii) the corporation's taxable income for the particular year; and

(*b*) the corporation's unused surtax credit for a particular taxation year that ends after that time is deductible by the corporation for a taxation year that ended before that time (in this paragraph referred to as the "preceding year") to the extent of that proportion of the corporation's Canadian surtax payable for the particular year that

(i) the amount, if any, by which

(A) the total of all amounts each of which is

(I) its income under Part I for the particular year from a business that was carried on by the corporation in the preceding year and throughout the particular year for profit or with a reasonable expectation of profit, or

(II) where properties were sold, leased, rented or developed or services were rendered in the course of carrying on that business before that time, the corporation's income under Part I for the particular year from any other business all or substantially all of the income of which was derived from the sale, leasing, rental or development, as the case may be, of similar properties or the rendering of similar services

exceeds

(B) the total of all amounts each of which is an amount deducted under paragraph 111(1)(*a*) or (*d*) in computing the corporation's taxable income for the particular year in respect of a non-capital loss or a farm loss, as the case may be, for a taxation year in respect of any business referred to in clause (A)

is of the greater of

(ii) the amount determined under subparagraph (i), and

(iii) the corporation's taxable income for the particular year.

History: S. 181.1(7)(*a*) was amended by S.C. 1998, c. 19, s. 194(1), applicable to acquisitions of control that occur after April 26, 1995. S. 181.1(7)(*a*) formerly read:

"(*a*) where a business was carried on by the corporation in a taxation year ending before that time, its unused surtax credit for that year is deductible by the corporation for a particular taxation year ending after that time only if that business was carried on by the corporation for profit or with a reasonable expectation of profit throughout the particular year and only to the extent of that proportion of the corporation's tax payable under this Part for the particular year that

(i) the amount, if any, by which

(A) the total of its income under Part I for the particular year from that business and, where properties were sold, leased, rented or developed or services were rendered in the course of carrying on that business before that time, its income under Part I for the particular year from any other business substantially all of the income of which was derived from the sale, leasing, rental or development, as the case may be, of similar properties or the rendering of similar services

exceeds

(B) the total of all amounts each of which is an amount deducted under paragraph 111(1)(*a*) or (*d*) in computing its taxable income under Part I for the particular year in respect of a non-capital loss or a farm loss, as the case may be, for a taxation year in respect of that business or the other business

is of the greater of

(ii) the amount determined under subparagraph (i), and

(iii) the corporation's taxable income under Part I for the particular year; and"

S. 181.1(7)(*b*) was amended by S.C. 1998, c. 19, s. 194(1), applicable to acquisitions of control that occur after April 26, 1995. S. 181.1(7)(*b*) formerly read:

"(*b*) where a business was carried on by the corporation throughout a taxation year ending after that time, its unused surtax credit for that year is deductible by the corporation for a particular taxation year ending before that time only if that business was carried on by the corporation for profit or with a reasonable expectation of profit in the particular year and only to the extent of that proportion of the corporation's tax payable under this Part for the particular year that

(i) the amount, if any, by which

(A) the total of its income under Part I for the particular year from that business and, where properties were sold, leased, rented or developed or services were rendered in the course of carrying on that business before that time, its income under Part I for the particular year from any other business substantially all the income of which was derived from the sale, leasing, rental or development, as the case may be, of similar properties of the rendering of similar services

exceeds

(B) the total of all amounts each of which is an amount deducted under paragraph 111(1)(*a*) or (*d*) in computing its taxable income under Part I for the particular year in respect of a non-capital loss or a farm loss, as the case may be, for a taxation year in respect of that business or the other business

is of the greater of

(ii) the amount determined under subparagraph (i), and

(iii) the corporation's taxable income under Part I for the particular year."

S. 181.1(7) was added by S.C. 1994, c. 7, Sched. VIII, s. 105(3), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 111(1) Losses deductible; s. 111(4) Acquisition of control.

SECTION 181.2:

► 181.2(1) ◄

(1) Taxable capital employed in Canada. The taxable capital employed in Canada of a corporation for a taxation year (other than a financial institution or a corporation that was throughout the year not resident in Canada) is the prescribed proportion of the corporation's taxable capital for the year.

Related Sections: S. 181(1), "financial institution".
Regulations: 8601.
Interpretation Bulletins: *Primary* — IT-532 Part I.3 — Tax on large corporations.

► 181.2(2) ◄

(2) Taxable capital. The taxable capital of a corporation (other than a financial institution) for a taxation year is the amount, if any, by which its capital for the year exceeds its investment allowance for the year.

Related Sections: S. 181(1), "financial institution"; s. 181.2(4) Investment allowance.

► 181.2(3) ◄

(3) Capital. The capital of a corporation (other than a financial institution) for a taxation year is the amount, if any, by which the total of

(*a*) the amount of its capital stock (or, in the case of a corporation incorporated without share capital, the amount of its members' contributions), retained earnings, contributed surplus and any other surpluses at the end of the year,

(*b*) the amount of its reserves for the year, except to the extent that they were deducted in computing its income for the year under Part I,

(*b*.1) the amount of its deferred unrealized foreign exchange gains at the end of the year,

(*c*) the amount of all loans and advances to the corporation at the end of the year,

(*d*) the amount of all indebtedness of the corporation at the end of the year represented by bonds, debentures, notes, mortgages, hypothecary claims, banker's acceptances or similar obligations,

(*e*) the amount of any dividends declared but not paid by the corporation before the end of the year,

(*f*) the amount of all other indebtedness (other than any indebtedness in respect of a lease) of the corporation at the end of the year that has been outstanding for more than 365 days before the end of the year, and

(*g*) where the corporation was a member of a partnership at the end of the year, that proportion of the amount, if any, by which

(i) the total of all amounts (other than amounts owing to the member or to other corporations that are members of the partnership) that would be determined under this paragraph and paragraphs (*b*) to (*d*) and (*f*) in respect of the partnership at the end of its last fiscal period that ends at or before the end of the year (if paragraphs (*b*) to (*d*) and (*f*) applied to partnerships in the same way that they apply to corporations)

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 181.2(3)(g)(i) of the Act is replaced by the following:

(i) the total of all amounts (other than amounts owing to the member or to other corporations that are members of the partnership) that would, if this paragraph and paragraphs (*b*) to (*d*) and (*f*) applied to partnerships in the same way that they apply to corporations, be determined under those paragraphs in respect of the partnership at the end of its last fiscal period that ends at or before the end of the year

Applicable: To taxation years that begin after December 20, 2002.

Explanatory Note: Section 181.2 of the Act provides rules for determining the capital, taxable capital, taxable capital employed in Canada and investment allowance of corporations (other than financial institutions) resident in Canada for the purposes of the Part I.3 tax on large corporations.

Section 181.2 is amended in two respects. First, subsections 181.2(3) and (5) of the Act are amended to clarify the effect of tiered partnerships: structures in which one partnership is a member of another partnership. Second, an amendment is made to subsection 181.2(3) to accommodate a change to the accounting presentation of redeemable preferred shares.

Tiered Partnerships

Subsection 181.2(3) defines the "capital" of a corporation, and in paragraph 181.2(3)(*g*) includes in a corporation's capital a pro-rata share of the reserves, deferred foreign exchange gains and indebtedness of any partnership of which it is a member. To determine those amounts, the relevant paragraphs of subsection 181.2(3) are applied to the partnership in the same way as they apply to corporations. Paragraph 181.2(3)(*g*) is amended so that it itself applies on this basis. As a result, the proration of the reserve, deferred gain and debt amounts will carry through any number of tiered partnerships.

Subsection 181.2(4) of the Act provides for the "investment allowance" by which, in broad terms, one corporation's investment in another is excluded from the first corporation's taxable capital. Subsection 181.2(5) determines the carrying value of an interest of a corporation in a partnership for this purpose. Subsection 181.2(5) is amended to ensure that the carrying value of an interest of a corporation in a particular partnership, for the purposes of subsection 181.2(4), includes the carrying value of an interest of the particular partnership in another partnership.

These changes to paragraph 181.2(3)(*g*) and subsection 181.2(5) apply after December 20, 2002.

Preferred Shares

In general, a corporation's tax payable under Part I.3 of the Act is computed with reference to amounts reflected in the balance sheet of the corporation, as prepared in accordance with generally accepted accounting principles (GAAP).

The Canadian Institute of Chartered Accountants' *Handbook* (the Handbook), which is the principal authority of GAAP in Canada, requires that a liability of a corporation in respect of a redeemable preferred share be reflected on the corporation's balance sheet. The Handbook provides that this liability may be accounted for in one of two ways. Under the first method, the difference between the stated capital of a share and its redemption value is charged to retained earnings, which in some cases may result in the corporation having negative retained earnings or a deficit. Retained earnings are unaffected under the second method, under which a line account is set up reflecting the redemption liability of the preferred shares.

Current paragraph 181.2(3)(*i*) of the Act allows for a reduction of a corporation's capital, to the extent of any deficit deducted in computing the corporation's shareholders' equity. To accommodate the alternative presentation of a provision for the redemption of preferred shares, the paragraph is amended to refer explicitly to the amount of such a provision.

This amendment applies to taxation years that begin after 1995.

exceeds

(ii) the amount of the partnership's deferred unrealized foreign exchange losses at the end of that period

that the member's share of the partnership's income or loss for that period is of the partnership's income or loss for that period

exceeds the total of

(*h*) the amount of its deferred tax debit balance at the end of the year,

(*i*) the amount of any deficit deducted in computing its shareholders' equity at the end of the year,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 181.2(3)(*i*) of the Act is replaced by the following:

(*i*) the amount of any deficit deducted in computing its shareholders' equity (including, for this purpose, the amount of any provision for the redemption of preferred shares) at the end of the year,

Applicable: To taxation years that begin after 1995.

Explanatory Note: See the Explanatory Note following the amendment to subparagraph 181.2(3)(*g*)(i).

(*j*) any amount deducted under subsection 135(1) in computing its income under Part I for the year, to the extent that the amount can reasonably be regarded as being included in the amount determined under any of paragraphs (*a*) to (*g*) in respect of the corporation for the year, and

(*k*) the amount of its deferred unrealized foreign exchange losses at the end of the year.

Department of Finance Comfort Letter [Application of the LCT to Joint Debt]

August 6, 1997

Dear XXXX

This is in response to your memorandum dated July 29, 1997 respecting the application of the Large Corporations Tax (LCT) to joint debt. You are concerned that joint debt may be fully taxed in the hands of each co-borrower under the LCT, even though the advance is divided among those borrowers. Using the example provided in your note, a joint debt in the amount of $400 million might be shared so that one party is advanced $100 million and the other, $300 million. You believe that the aggregate addition to capital in respect of the debt should be $400 million for the two borrowers; your concern is that, under the current law, each of them would be required to add $400 million to capital with the result that a total of $800 million would be subject to LCT.

Your concern is based on the current wording of subsection 181(3) of the Act, which provides that, "except as otherwise provided under this Part", the amounts to be used in calculating LCT are those set out on the taxpayer's balance sheet, prepared in accordance with GAAP. You feel that the definition of capital in paragraph 181.2(3) of the Act "provides otherwise" for these purposes, and hence, that the amounts set out on the balance sheet may not be relevant.

As you have described it, GAAP currently provides that only the portion of a jointly-incurred debt that is actually advanced to a borrower is recorded as a liability on the balance sheet. A note to the balance sheet indicates the full value of the joint debt in order to disclose the legal liability of the borrower for that part of the debt that was not received by that borrower. If subsection 181(3) applies, you reason that the taxpayers in your example would be taxed on $100 million and $300 million in capital respectively. If subsection 181(3) does not apply, each taxpayer would be taxed on the full amount of their legal indebtedness, being $400 million.

In our view, the definition of capital in subsection 181.2(3) of the Act does not constitute an exception to the application of subsection 181(3) of the Act. Rather, our intention — which we believe to be reflected in the existing legislation — is that subsection 181(3) apply to use the amounts reflected in a borrower's balance sheet to quantify the amounts included in its capital.

That being said, there may be a risk of double-counting in the application of the LCT to jointly-incurred debt. As notes to the financial statements are an integral part of the balance sheet, there is a possibility that the amount set out in the notes would be assessed as the corporation's capital in respect of a joint debt. If this were to occur, each co-borrower under a joint debt would be taxed for the full amount of the debt, irrespective of the amount actually advanced to that borrower.

In principle, we agree that the amount of a joint debt should only be taxed once, and we hope to discuss this matter further with Revenue Canada officials to determine whether that result can be achieved under the current law. If that proves unsuccessful, we are prepared to consider legislative changes to ensure this outcome. As noted, GAAP currently allocates joint debt based on the amount of cash advanced to each co-borrower — for LCT purposes, other factors may be relevant in making such an allocation. If a change to the law should prove necessary, we would be pleased have your views in this respect.

If you would like to discuss this matter in more detail, please feel free to contact Robin Maley (992-4859) or Brian Ernewein (992-3045) of the division directly.

Yours sincerely,

Len Farber
Director General
Tax Legislation Division

History: S. 181.2(3)(*d*) was amended by S.C. 2001, c. 17, s. 221, applicable on Royal Assent, June 14, 2001. S. 181.2(3)(*d*) formerly read:

"(*d*) the amount of all indebtedness of the corporation at the end of the year represented by bonds, debentures, notes, mortgages, bankers' acceptances or similar obligations,"

S. 181.2(3)(*b*.1) was added by S.C. 1998, c. 19, s. 195(1), applicable to the 1995 and subsequent taxation years.

S. 181.2(3)(*g*) was amended by S.C. 1998, c. 19, s. 195(2), applicable to the 1995 and subsequent taxation years. S. 181.2(3)(*g*) formerly read:

"(*g*) where the corporation was a member of a partnership at the end of the year, that proportion of the total of all amounts (other than amounts owing to the member or to corporations that are other members of the partnership) that would be determined under this paragraph and paragraphs (*b*) to (*f*) in respect of the partnership at the end of its last fiscal period ending at or before the end of the year (if the references in paragraphs (*b*) to (*f*) to 'corporation' were read as references to 'partnership') that the member's share of the partnership's income or loss for that period is of the partnership's income or loss for that period,"

S. 181.2(3)(*k*) was added by S.C. 1998, c. 19, s. 195(3), applicable to the 1995 and subsequent taxation years.

S. 181.2(3)(*d*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 106(1), applicable to taxation years ending after December 20, 1991. S. 181.2(3)(*d*) formerly read:

"(*d*) the amount of all indebtedness of the corporation at the end of the year represented by bonds, debentures, notes, mortgages or similar obligations,"

S. 181.2(3)(*j*) was added by S.C. 1994, c. 7, Sched. II, s. 147(1), applicable to taxation years ending after June 1989.

Related Sections: S. 135(1) Deduction in computing income; s. 181(1), "financial institution"; s. 248(1), "dividend".

Income Tax Technical News: Issue No. 29, Large Corporation Tax; Issue No. 18, Oerlikon Aérospatiale Inc. v. The Queen.

Tax Topics: No. 1741, Large Corporation Tax Update.

Cases: The taxpayer acquired buses financed by way of sales contracts with manufacturers, under which title did not pass until all payments were made. The manufacturer assigned these contracts to a bank. Amounts owing by the taxpayer to the bank under the contracts had to be included in the computation of the taxpayer's capital, since the relationship was one of lender-borrower and not vendor-purchaser. *Autobus Thomas Inc. v. The Queen*, 2001 DTC 5665 (S.C.C.), affirming 2000 DTC 6165 (F.C.A.), which affirmed 99 DTC 259 (T.C.C.).

Amounts owing by the corporate taxpayer to its customers must be included in the computation of its "capital" as "advances" for Part I.3 tax purposes. *Oerlikon Aérospatiale Inc. v. The Queen*, 99 DTC 5318 (F.C.A.), affirming 97 DTC 962 (T.C.C.).

► 181.2(4) ◄

(4) Investment allowance. The investment allowance of a corporation (other than a financial institution) for a taxation year is the total of all amounts each of which is the carrying value at the end of the year of an asset of the corporation that is

(*a*) a share of another corporation,

(*b*) a loan or advance to another corporation (other than a financial institution),

(*c*) a bond, debenture, note, mortgage, hypothecary claim or similar obligation of another corporation (other than a financial institution),

(*d*) long-term debt of a financial institution,

(*d*.1) a loan or advance to, or a bond, debenture, note, mortgage, hypothecary claim or similar obligation of, a partnership all of the members of which, throughout the year, were other corporations (other

than financial institutions) that were not exempt from tax under this Part (otherwise than because of paragraph 181.1(3)(*d*)),

(*e*) an interest in a partnership, or

(*f*) a dividend payable to the corporation at the end of the year on a share of the capital stock of another corporation,

other than a share of the capital stock of, a dividend payable by, or indebtedness of, a corporation that is exempt from tax under this Part (otherwise than because of paragraph 181.1(3)(*d*)).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Application

(6) In applying paragraphs 181.2(4)(*b*), (*c*) and (*d.1*) to a particular corporation in respect of an asset that is a loan or an advance to, or an obligation of, another corporation or partnership that the particular corporation holds at the end of a taxation year of the particular corporation that began before December 20, 2002, those paragraphs are to be read without reference to "(other than a financial institution)" and to "(other than financial institutions)" if, at the end of the taxation year,

(*a*) the particular corporation deals at arm's length with the other corporation or the partnership, as the case may be; and

(*b*) the other corporation is a financial institution, or the partnership is not a partnership described in paragraph 181.2(4)(*d.1*), as the case may be, solely because of section 162 and subsections 195(1) and (3) of this Act [the amendment to paragraph (*g*) of the definition "financial institution" in s. 181(1) and the addition and application of the Schedule following s. 260].

Applicable: Royal Assent.

Department of Finance Comfort Letter [Investment Allowance Where Multiple Partnership Tiers]

May 25, 2004

Dear XXXX

Thank you for your letter of February 3, 2004, in which you provide additional material regarding the application, to tiered partnership structures, of the investment allowance provisions in Part 1.3 of the *Income Tax Act*. Further to our meeting on this matter, it was helpful to see set out the particular criteria that in your view ought to apply in order for a corporation that loans or advances funds to such a structure to recognize an investment allowance in respect of that debt.

As you know, although the proposed amendments to the Act announced in December 2002 and released again in February 2004 address certain issues around partnerships and the Part 1.3 tax, they do not — and were not intended to — deal with the question you have raised. That question, in short, is whether under any circumstances the investment allowance of a corporation ought to include an amount in respect of the corporation's holding of debt of a partnership, not all of the members of which are corporations. In its current form, paragraph 181.2(4)(*d.1*) recognizes partnership debt only if all the members of the partnership are corporations (other than financial institutions) that either are not exempt from Part 1.3 tax or are neither resident in Canada nor carrying on business in Canada through a permanent establishment. The provision thus has the effect that advances or loans to second- or lower-tiered partnerships do not support an investment allowance, since one or more members of such partnerships are necessarily not corporations.

You have suggested that the investment allowance ought to be available in some cases of multiple partnership tiers. That is, subject to certain additional criteria which I will return to in a moment, you propose that a debt investment in a particular partnership support an investment allowance if all of the members of the partnership that are not corporations are themselves partnerships that, either directly or through further layers of partnerships, are made up of corporations. This concept can perhaps be expressed most succinctly by defining a new term, "eligible partnership". An eligible partnership would (again, subject to some further criteria) be one all of the members of which are either corporations or other eligible partnerships. The carrying value of any loan or advance to (or bond, etc. of) an eligible partnership would be included in computing the investment allowance of a corporation other than a financial institution.

I agree that this is in principle an appropriate result. In policy terms, the fact that the debtor's corporate structure has been arranged to include more than one layer of partnerships ought not necessarily to deny the holder of a debt an investment allowance. While as a practical matter there will often be ways of avoiding such a structure, or at least of relocating the debt, it is recognized that business and other considerations may make it difficult or undesirable in a particular instance to do that. For that reason, I am prepared to recommend an amendment to paragraph 181.2(4)(*d.1*), to be effective for the 2004 and subsequent taxation years, that would include in the investment allowance calculation the debt of what I have called "eligible partnerships."

At the same time, it will in my view be necessary both to define "eligible partnership", and to set out additional criteria that would be applicable in respect of debt issued by partnerships within a tiered partnership structure, with some care. In this regard, we would expect to make recommendations along the following lines:

- An eligible partnership could have no member that is a financial institution, or that is a corporation that is exempt from tax under Part 1.3 (otherwise than because it is non-resident and does not carry on business in Canada through a permanent establishment).
- Where a partnership's status as an eligible partnership is relevant in respect of a debt for a particular taxation year, the partnership would be required to maintain that status throughout the taxation year.
- For the purposes of including amounts in capital under paragraph 181.2(3)(*g*) in respect of a loan or an advance to an eligible partnership, the fiscal year-end of any intervening or higher-tiered partnership would be deemed to be the same as that of the debtor partnership.

Of course, we cannot offer any assurance that either the Minister of Finance or Parliament will agree with the recommendations that we intend to make in this regard. Nonetheless, we trust that this statement of our position is helpful.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 181.2(4)(*c*) was amended by S.C. 2001, c. 17, s. 221(2), applicable on Royal Assent, June 14, 2001. S. 181.2(4)(*c*) formerly read:

"(*c*) a bond, debenture, note, mortgage or similar obligation of another corporation (other than a financial institution),"

S. 181.2(4)(*d.1*) was amended by S.C. 2001, c. 17, s. 221(3), applicable on Royal Assent, June 14, 2001. S. 181.2(4)(*d.1*) formerly read:

"(*d.1*) a loan or advance to, or a bond, debenture, note, mortgage or similar obligation of, a partnership all of the members of which, throughout the year, were other corporations (other than financial institutions) that were not exempt from tax under this Part (otherwise than because of paragraph 181.1(3)(*d*)),"

S. 181.2(4)(*d.1*) was added by S.C. 1994, c. 7, Sched. VIII, s. 106(2), applicable to the 1991 and subsequent taxation years.

S. 181.2(4), that portion following paragraph (*e*), was amended by S.C. 1994, c. 7, Sched. II, s. 147(2), applicable to taxation years ending after June 1989. That portion of s. 181.2(4) following paragraph (*e*) formerly read:

"other than a share of the capital stock or indebtedness of a corporation that is exempt from tax under section 149 on all of its taxable income."

Related Sections: S. 181(1), "financial institution", "long-term debt"; s. 181.1(3) Where tax not payable.

Cases: The taxpayer was not entitled to deduct its bankers' acceptances from its investment allowance when computing its capital for Part I.3 tax purposes. *Federated Co-Operatives Limited v. The Queen*, 2001 DTC 5414 (F.C.A.), affirming 2000 DTC 1946 (T.C.C.).

► 181.2(5) ◄

(5) Value of interest in partnership. For the purposes of subsection (4), the carrying value, at the end of a taxation year, of an interest of a corporation in a partnership shall be deemed to be an amount equal to that proportion of

(*a*) the total of all amounts each of which is the carrying value of an asset of the partnership, at the end of its last fiscal period ending at or before the end of the year, described in any of paragraphs (4)(*a*) to (*d*) and (*f*), other than an asset that is a share of the capital stock of, a dividend payable by, or indebtedness of, a corporation that is exempt from tax under this Part (otherwise than because of paragraph 181.1(3)(*d*)),

that

(*b*) the corporation's share of the partnership's income or loss for that period

is of

(*c*) the partnership's income or loss for that period.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 181.2(5) of the Act is replaced by the following:

(5) Value of interest in partnership. For the purposes of subsection (4) and this subsection, the carrying value at the end of a taxation year of an interest of a corporation or of a partnership (each of which is referred to in this subsection as the "member") in a particular partnership is deemed to be the member's specified proportion, for the particular partnership's last fiscal period that ends at or before the end of the taxation year, of the amount that would, if the particular partnership were a corporation, be the particular partnership's investment allowance at the end of that fiscal period.

Applicable: To taxation years that begin after December 20, 2002.

Explanatory Note: See the Explanatory Note following the amendment to subparagraph 181.2(3)(*g*)(i).

History: S. 181.2(5)(*a*) was amended by S.C. 1994, c. 7, Sched. II, s. 147(3), applicable to taxation years ending after June 1989. S. 181.2(5)(*a*) formerly read:

"(*a*) the total of all amounts each of which is the carrying value of an asset of the partnership, at the end of its last fiscal period ending at or before the end of the year, described in paragraphs (4)(*a*) to (*d*) (other than an asset that is a share of the capital stock or indebtedness of a corporation that is exempt from tax under section 149 on all of its taxable income)"

Related Sections: S. 181.1(3) Where tax not payable.

► 181.2(6) ◄

(6) Loan. For the purpose of subsection (4), where a corporation made a particular loan to a trust that neither

(*a*) made any loans or advances to nor received any loans or advances from, nor

(*b*) acquired any bond, debenture, note, mortgage, hypothecary claim or similar obligation of nor issued any bond, debenture, note, mortgage, hypothecary claim or similar obligation to

a person not related to the corporation, as part of a series of transactions in which the trust made a loan to another corporation (other than a financial institution) to which the corporation is related, the least of

(*c*) the amount of the particular loan,

(*d*) the amount of the loan from the trust to the other corporation, and

(*e*) the amount, if any, by which

(i) the total of all amounts each of which is the amount of a loan from the trust to any corporation

exceeds

(ii) the total of all amounts each of which is the amount of a loan (other than the particular loan) from any corporation to the trust

at any time shall be deemed to be the amount of a loan from the corporation to the other corporation at that time.

History: S. 181.2(6)(*b*) was amended by S.C. 2001, c. 17, s. 221(4), applicable on Royal Assent, June 14, 2001. S. 181.2(6)(*b*) formerly read:

"(*b*) acquired any bond, debenture, note, mortgage or similar obligation of nor issued any bond, debenture, note, mortgage or similar obligation to"

S. 181.2(6) was added by S.C. 1994, c. 7, Sched. VIII, s. 106(3), applicable after June 1989.

Related Sections: S. 181(1), "financial institution"; s. 248(10) Series of transactions.

SECTION 181.3:

► 181.3(1) ◄

(1) Taxable capital employed in Canada of financial institution. The taxable capital employed in Canada of a financial institution for a taxation year is the total of

(*a*) the total of all amounts each of which is the carrying value at the end of the year of an asset of the financial institution (other than property held by the institution primarily for the purpose of resale that was acquired by the financial institution, in the year or the preceding taxation year, as a consequence of another person's default, or anticipated default, in respect of a debt owed to the institution) that is tangible property used in Canada and, in the case of a financial institution that is an insurance corporation, that is non-segregated property, within the meaning assigned by subsection 138(12),

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 181.3(1)(*a*) of the Act is replaced by the following:

(*a*) the total of all amounts each of which is the carrying value at the end of the year of an asset of the financial institution (other than property held by the institution primarily for the purpose of resale that was acquired by the financial institution, in the year or the preceding taxation year, as a consequence of another person's default, or anticipated default, in respect of a debt owed

to the institution) that is tangible, or for civil law corporeal, property used in Canada and, in the case of a financial institution that is an insurance corporation, that is non-segregated property, within the meaning assigned by subsection 138(12),

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*b*) the total of all amounts each of which is an amount in respect of a partnership in which the financial institution has an interest at the end of the year equal to that proportion of

(i) the total of all amounts each of which is the carrying value of an asset of the partnership, at the end of its last fiscal period ending at or before the end of the year, that is tangible property used in Canada

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 181.3(1)(*b*)(i) of the Act is replaced by the following:

(i) the total of all amounts each of which is the carrying value of an asset of the partnership, at the end of its last fiscal period ending at or before the end of the year, that is tangible, or for civil law corporeal, property used in Canada

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

that

(ii) the financial institution's share of the partnership's income or loss for that period

is of

(iii) the partnership's income or loss for that period, and

(*c*) an amount that is equal to

(i) in the case of a financial institution other than an insurance corporation, that proportion of its taxable capital for the year that its Canadian assets at the end of the year is of its total assets at the end of the year,

(ii) in the case of an insurance corporation that was resident in Canada at any time during the year and carried on a life insurance business at any time in the year, the total of

(A) that proportion of the amount, if any, by which the total of

(I) its taxable capital for the year, and

(II) the amount prescribed for the year in respect of the corporation

exceeds

(III) the amount prescribed for the year in respect of the corporation

that its Canadian reserve liabilities as at the end of the year is of the total of

(IV) its total reserve liabilities as at the end of the year, and

(V) the amount prescribed for the year in respect of the corporation, and

(B) [Repealed.]

(iii) in the case of an insurance corporation that was resident in Canada at any time in the year and throughout the year did not carry on a life insurance business, that proportion of its taxable capital for the year that the total amount of its Canadian premiums for the year is of its total premiums for the year, and

(iv) in the case of an insurance corporation that was throughout the year not resident in Canada and carried on an insurance business in Canada at any time in the year, its taxable capital for the year.

History: S. 181.3(1)(*c*)(ii)(B) was repealed by S.C. 2009, c. 2, s. 61(1), applicable to taxation years that begin after September 2006. S. 181.3(1)(*c*)(ii)(B) formerly read:

"(B) the amount, if any, by which

(I) the amount of its reserves for the year (other than its reserves in respect of amounts payable out of segregated funds) that may reasonably be regarded as having been established in respect of its insurance businesses carried on in Canada

exceeds the total of

(II) the total of all amounts each of which is the amount of a reserve (other than a reserve described in subparagraph 138(3)(*a*)(i)) to the extent that it was included in the amount determined under subclause (I) and was deducted in computing its income under Part I for the year,

(III) the total of all amounts each of which is the amount of a reserve described in subparagraph 138(3)(*a*)(i) to the extent that it was included in the amount determined under subclause (I) and was deductible under subparagraph 138(3)(*a*)(i) in computing its income under Part I for the year, and

(IV) the total of all amounts each of which is the amount outstanding (including any interest accrued thereon) as at the end of the year in respect of a policy loan (within the meaning assigned by subsection 138(12)) made by the corporation, to the extent that it was deducted in computing the total determined under subclause (III),"

S. 181.3(1)(*c*)(ii)(A) was amended by S.C. 1994, c. 21, s. 83(1), applicable

(*a*) to taxation years that end after February 25, 1992; and

(*b*) where a corporation elects under paragraph 88(2)(*b*), to its 1991 and subsequent taxation years and, notwithstanding subsections 152(4) to (5) of the Act, such assessments and determinations in respect of any taxation year shall be made as are consequential on the application of subsection (1) to the corporation's taxation years that end before February 26, 1992.

S. 181.3(1)(*c*)(ii)(A) formerly read:

"(A) that proportion of its taxable capital for the year that its Canadian reserve liabilities as at the end of the year is of its total reserve liabilities as at the end of the year, and"

S. 181.3(1)(*a*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 107(1), applicable to taxation years ending after June 1989. S. 181.3(1)(*a*) formerly read:

"(*a*) the total of all amounts each of which is the carrying value at the end of the year of an asset of the financial institution that is tangible property used in Canada (and, in the case of a financial institution that is an insurance corporation, that is non-segregated property, within the meaning assigned by subsection 138(12)),"

Related Sections: S. 138(3) Deductions allowed in computing income; s. 138(12), "non-segregated property", "policy loan"; s. 181(1), "financial institution"; s. 181(2), "Canadian assets", "Canadian premiums", "Canadian reserve liabilities", "total assets", "total premiums", "total reserve liabilities".

Regulations: 8600; 8601; 8605.

Interpretation Bulletins: *Secondary* — IT-532 Part I.3 — Tax on large corporations.

Forms: T2 SCH 34.

Sec. 117, Chap. 21, S.C. 1994

Sec. 117. [Application of s. 181.3(1)(*c*)(ii)(A) before March 15, 1993.] Notwithstanding any other provision of the Act or of this Act, nothing in this

Act shall affect the amount of any interest payable under the *Income Tax Act* by a life insurance corporation in respect of any period, or part of a period, that is before March 15, 1993.

► 181.3(2) ◄

(2) Taxable capital of financial institution. The taxable capital of a financial institution for a taxation year is the amount, if any, by which its capital for the year exceeds its investment allowance for the year.

Related Sections: S. 181(1), "financial institution"; s. 181.2(4) Investment allowance.

► 181.3(3) ◄

(3) Capital of financial institution. The capital of a financial institution for a taxation year is

(*a*) in the case of a financial institution, other than an authorized foreign bank or an insurance corporation, the amount, if any, by which the total at the end of the year of

(i) the amount of its long-term debt,

(ii) the amount of its capital stock (or, in the case of an institution incorporated without share capital, the amount of its members' contributions), retained earnings, contributed surplus and any other surpluses, and

(iii) the amount of its reserves for the year, except to the extent that they were deducted in computing its income under Part I for the year,

exceeds the total of

(iv) the amount of its deferred tax debit balance at the end of the year,

(v) the amount of any deficit deducted in computing its shareholders' equity at the end of the year; and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 181.3(3)(*a*)(v) of the Act is replaced by the following:

(v) the amount of any deficit deducted in computing its shareholders' equity (including, for this purpose, the amount of any provision for the redemption of preferred shares) at the end of the year, and

Applicable: To taxation years that begin after 1995.

Explanatory Note: Section 181.3 of the Act provides rules for determining the capital, taxable capital, taxable capital employed in Canada and investment allowance of a financial institution (as defined in subsection 181(1)) for the purposes of the Part I.3 tax on large corporations.

Section 181.3 is amended in two respects. First, changes are made to several paragraphs of subsection 181.3(3) to accommodate a change to the accounting presentation of redeemable preferred shares. Second, a new subparagraph and a new clause are added, respectively, to paragraph 181.3(3)(*c*) and subparagraph 181.3(3)(*d*)(iv) to reflect the manner in which property and casualty insurers are required to account for claims reserves.

Preferred Shares

The accounting procedures described in the notes to amended section 181.2 of the Act are relevant to financial institutions as well as to other corporations, and readers may consult those notes for additional background. As in that section, the amendments introduced to section 181.3 include, in the computation of a deficit deducted in computing shareholders' equity, the amount of any provision for the redemption of preferred shares. This inclusion is added to three specific provisions: subparagraph 181.3(3)(*a*)(v) in respect of financial institutions other than insurers and authorized foreign banks; subparagraph 181.3(3)(*b*)(iv) in respect of Canadian-resident life insurance corporations; and subparagraph 181.3(3)(*c*)(v) in respect of other Canadian-resident insurance companies.

These amendments apply to taxation years that begin after 1995.

Claims Reserves

In general, a corporation is required to compute amounts relevant in determining its tax payable under Part I.3 of the Act using generally accepted accounting principles (GAAP).

The Canadian Institute of Chartered Accountants' *Handbook* (the Handbook), which is the principle authority of GAAP in Canada, requires that property and casualty insurers account for claims reserves on a gross basis, rather than net of reinsurance.

Paragraphs 181.3(3)(*c*) and (*d*) of the Act stipulate the amounts to be included in determining the capital of an insurance corporation resident in Canada (other than a life insurance corporation) and an insurance corporation not resident in Canada, respectively. Among other things, claims reserves are required under these paragraphs to be included in computing the capital of such a corporation.

New subparagraph 181.3(3)(*c*)(vii) and clause 181.3(3)(*d*)(iv)(F) allow such corporations to reduce their capital by an amount that is recoverable through reinsurance, to the extent that the amount relates to an amount that was included in capital as a claims reserve. In this way, claims reserves are included on a net of reinsurance basis under paragraphs 181.3(3)(*c*) and (*d*).

New subparagraph 181.3(3)(*c*)(vii) and clause 181.3(3)(*d*)(iv)(F) apply to taxation years that begin after 1995.

(vi) any amount deducted under subsection 130.1(1) or 137(2) in computing its income under Part I for the year, to the extent that the amount can reasonably be regarded as being included in the amount determined under subparagraph (i), (ii) or (iii) in respect of the institution for the year;

(*b*) in the case of an insurance corporation that was resident in Canada at any time in the year and carried on a life insurance business at any time in the year, the amount, if any, by which the total at the end of the year of

(i) the amount of its long-term debt, and

(ii) the amount of its capital stock (or, in the case of an insurance corporation incorporated without share capital, the amount of its members' contributions), retained earnings, contributed surplus and any other surpluses

exceeds the total of

(iii) the amount of its deferred tax debit balance at the end of the year, and

(iv) the amount of any deficit deducted in computing its shareholders' equity at the end of the year;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 181.3(3)(*b*)(iv) of the Act is replaced by the following:

(iv) the amount of any deficit deducted in computing its shareholders' equity (including, for this purpose, the amount of any provision for the redemption of preferred shares) at the end of the year;

Applicable: To taxation years that begin after 1995.

Explanatory Note: See the Explanatory Note following the amendment to subparagraph 181.3(3)(*a*)(v).

(*c*) in the case of an insurance corporation that was resident in Canada at any time in the year and throughout the year did not carry on a life insurance business, the amount, if any, by which the total at the end of the year of

(i) the amount of its long-term debt,

(ii) the amount of its capital stock (or, in the case of an insurance corporation incorporated without share capital, the amount of its members' contributions), retained earnings, contributed surplus and any other surpluses, and

(iii) the amount of its reserves for the year, except to the extent that they were deducted in computing its income under Part I for the year,

exceeds the total of

(iv) the amount of its deferred tax debit balance at the end of the year,

(v) the amount of any deficit deducted in computing its shareholders' equity at the end of the year; and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 181.3(3)(*c*)(v) of the Act is replaced by the following:

(v) the amount of any deficit deducted in computing its shareholders' equity (including, for this purpose, the amount of any provision for the redemption of preferred shares) at the end of the year,

Applicable: To taxation years that begin after 1995.

Explanatory Note: See the Explanatory Note following the amendment to subparagraph 181.3(3)(*a*)(v).

(vi) the total amount of its deferred acquisition expenses in respect of its property and casualty insurance business in Canada, to the extent that it can reasonably be attributed to an amount included in the amount determined under subparagraph (iii);

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 181.3(3)(*c*) of the Act is amended by striking out the word "and" at the end of subparagraph (v), by adding the word "and" at the end of subparagraph (vi) and by adding the following after subparagraph (vi):

(vii) any amount recoverable through reinsurance, to the extent that it can reasonably be regarded as being included in the amount determined under subparagraph (iii) in respect of a claims reserve;

Applicable: To taxation years that begin after 1995.

Explanatory Note: See the Explanatory Note following the amendment to subparagraph 181.3(3)(*a*)(v).

(*d*) in the case of an insurance corporation that was throughout the year not resident in Canada and carried on an insurance business in Canada at any time in the year, the total at the end of the year of

(i) the amount that is the greater of

(A) the amount, if any, by which

(I) the corporation's surplus funds derived from operations (as defined in subsection 138(12)) as of the end of the year, computed as if no tax were payable under this Part or Part VI for the year

exceeds the total of all amounts each of which is

(II) an amount on which the corporation was required to pay, or would but for subsection 219(5.2) have been required to pay, tax under Part XIV for a preceding taxation year, except the portion, if any, of the amount on which tax was payable, or would have been payable, because of subparagraph 219(4)(*a*)(i.1), and

(III) an amount on which the corporation was required to pay, or would but for subsection 219(5.2) have been required to pay, tax under subsection 219(5.1) for the year because of the transfer of an insurance business to which subsection 138(11.5) or (11.92) has applied, and

(B) the corporation's attributed surplus for the year,

(ii) any other surpluses relating to its insurance businesses carried on in Canada,

(iii) the amount of its long-term debt that may reasonably be regarded as relating to its insurance businesses carried on in Canada, and

(iv) the amount, if any, by which

(A) the amount of its reserves for the year (other than its reserves in respect of amounts payable out of segregated funds) that may reasonably be regarded as having been established in respect of its insurance businesses carried on in Canada

exceeds the total of

(B) the total of all amounts each of which is the amount of a reserve (other than a reserve described in subparagraph 138(3)(*a*)(i)) to the extent that it was included in the amount determined under clause (A) and was deducted in computing its income under Part I for the year,

(C) the total of all amounts each of which is the amount of a reserve described in subparagraph 138(3)(*a*)(i) to the extent that it was included in the amount determined under clause (A) and was deductible under subparagraph 138(3)(*a*)(i) in computing its income under Part I for the year,

(D) the total of all amounts each of which is the amount outstanding (including any interest accrued thereon) as at the end of the year in respect of a policy loan (within the meaning assigned by subsection 138(12)) made by the corporation, to the extent that it was deducted in computing the amount determined under clause (C), and

(E) the total amount of its deferred acquisition expenses in respect of its property and casualty insurance business in Canada, to the extent that it can reasonably be attributed to an amount included in the amount determined under clause (A); and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 181.3(3)(*d*)(iv) of the Act is amended by striking out the word "and" at the end of clause (D) and by adding the following after clause (E):

(F) the total of all amounts each of which is an amount recoverable through reinsurance, to the extent that it can reasonably be regarded as being included in the amount determined under clause (A) in respect of a claims reserve; and

Applicable: To taxation years that begin after 1995.

Explanatory Note: See the Explanatory Note following the amendment to subparagraph 181.3(3)(*a*)(v).

(*e*) in the case of an authorized foreign bank, the total of

(i) 10% of the total of all amounts, each of which is the risk-weighted amount at the end of the year of an on-balance sheet asset or an off-balance sheet exposure of the bank in respect of its Canadian banking business that the bank would be required to report under the OSFI risk-weighting guidelines if those guidelines applied and required a report at that time, and

(ii) the total of all amounts, each of which is an amount at the end of the year in respect of the bank's Canadian banking business that

(A) if the bank were a bank listed in Schedule II to the *Bank Act*, would be required under the risk-based capital adequacy guidelines issued by the Superintendent of Financial Institutions and applicable at that time to be deducted from the bank's capital in determining the amount of capital available to satisfy the Superintendent's requirement that capital equal a particular proportion of risk weighted assets and exposures, and

(B) is not an amount in respect of a loss protection facility required to be deducted from capital under the Superintendent's guidelines respecting asset securitization applicable at that time.

History: S. 181.3(3)(*a*), the portion before subparagraph (i) was amended by S.C. 2001, c. 17, s. 163(1), applicable after June 27, 1999, except that in its application to taxpayers other than authorized foreign banks for taxation years that end before 2002, paragraph 181.3(5)(*a*) of the Act shall be read without reference to subparagraph (iii). S. 181.3(3)(*a*), the portion before subparagraph (i) formerly read:

"(*a*) in the case of a financial institution other than an insurance corporation, the amount, if any, by which the total at the end of the year of"

S. 181.3(3)(*e*) was added by S.C. 2001, c. 17, s. 163(2), applicable after June 27, 1999.

S. 181.3(3)(*d*)(i) was amended by S.C. 1998, c. 19, s. 196(1), applicable to the 1994 and subsequent taxation years. S. 181.3(3)(*d*)(i) formerly read:

"(i) the greater of its surplus funds derived from operations (within the meaning assigned by subsection 138(12)), computed as if no tax were payable under this Part or Part VI for the year, and its attributed surplus for the year,"

S. 181.3(3)(*c*)(vi) was added by S.C. 1994, c. 21, s. 83(2), applicable to the 1992 and subsequent taxation years.

S. 181.3(3)(*d*)(i) was amended by S.C. 1994, c. 21, s. 83(3), applicable to the 1992 and subsequent taxation years. S. 181.3(3)(*d*)(i) formerly read:

"(i) the greater of its surplus funds derived from operations (within the meaning assigned by subsection 138(12)) and its attributed surplus for the year,"

S. 181.3(3)(*d*)(iv)(E) was added by S.C. 1994, c. 21, s. 83(4), applicable to the 1992 and subsequent taxation years.

S. 181.3(3)(*a*)(vi) was added by S.C. 1994, c. 7, Sched. II, s. 148(1), applicable to taxation years ending after June 1989.

Related Sections: S. 130.1(1) Deduction from tax; s. 137(2) Payments pursuant to allocations in proportion to borrowing; s. 138(3) Deductions allowed in computing income; s. 138(12), "policy loan", "surplus funds derived from operations"; s. 181(1), "long-term debt"; s. 181(2), "attributed surplus"; s. 248(1), "Canadian banking business", "OSFI risk-weighting guidelines".

Regulations: "attributed surplus", Part LXXXVI.

Cases: Under accounting rules, the unamortized portion of realized gains were treated as an adjustment to the total carrying value of the relevant class of assets, rather than being shown as reserves or surpluses on the taxpayer's balance sheet. There was no scope for the Minister to change the amounts, or their characterizations, from those that have been accepted by the Superintendent of Financial Institutions. *The Queen v. The Manufacturers Life Insurance Company*, 2001 DTC 5396 (F.C.A.), affirming 2000 DTC 1600 (T.C.C.).

Sec. 117, Chap. 21, S.C. 1994

Sec. 117. [Application of s. 181.3(3) before March 15, 1993.] Notwithstanding any other provision of the Act or of this Act, nothing in this Act shall affect the amount of any interest payable under the *Income Tax Act* by a life insurance corporation in respect of any period, or part of a period, that is before March 15, 1993.

► 181.3(4) ◄

(4) Investment allowance of financial institution. The investment allowance for a taxation year of a corporation that is a financial institution is

(*a*) in the case of a corporation that was resident in Canada at any time in the year, the total of all amounts each of which is the carrying value at the end of the year of an eligible investment of the corporation;

(*b*) in the case of an insurance corporation that was throughout the year not resident in Canada, the total of all amounts each of which is the carrying value at the end of the year of an eligible investment of the corporation that was used or held by it in the year in the course of carrying on an insurance business in Canada;

(*c*) in the case of an authorized foreign bank, the total of all amounts each of which is the amount at the end of the year, before the application of risk

weights, that the bank would be required to report under the OSFI risk-weighting guidelines if those guidelines applied and required a report at that time, of an eligible investment used or held by the bank in the year in the course of carrying on its Canadian banking business; and

(*d*) in any other case, nil.

History: S. 181.3(4) was amended by S.C. 2001, c. 17, s. 163(3), applicable after June 27, 1999, except that in its application to taxpayers other than authorized foreign banks for taxation years that end before 2002, paragraph 181.3(5)(*a*) of the Act shall be read without reference to subparagraph (iii). S. 181.3(4) formerly read:

"(4) *Investment allowance of financial institution.* The investment allowance of a financial institution for a taxation year is,

(*a*) in the case of a financial institution that was resident in Canada at any time in the year, the total of all amounts each of which is the carrying value at the end of the year of an asset of the financial institution that is a share of the capital stock or long-term debt of another financial institution (other than an institution that is exempt from tax under this Part) that is related to the institution (and, in the case of a financial institution that is an insurance corporation, that is non-segregated property within the meaning assigned by subsection 138(12)),

(*b*) in the case of an insurance corporation that was throughout the year not resident in Canada, the total of all amounts each of which is the carrying value at the end of the year of an asset of the financial institution that

(i) is non-segregated property (within the meaning assigned by subsection 138(12)),

(ii) is a share of the capital stock or long-term debt of another financial institution (other than an institution that is exempt from tax under this Part) that is related to the institution, and

(iii) was used by it in the year in, or held by it in the year in the course of, carrying on an insurance business in Canada, and

(*c*) in any other case, nil,

and, for the purposes of this subsection, a credit union and another credit union of which the credit union is a shareholder or member shall be deemed to be related to each other."

S. 181.3(4)(*a*) was amended by S.C. 1994, c. 7, Sched. II, s. 148(3), by substituting "total" for "aggregate" and adding "(other than an institution that is exempt from tax under this Part)" immediately after "another financial institution", applicable to taxation years ending after June 1989.

S. 181.3(4)(*b*)(ii) was amended by S.C. 1994, c. 7, Sched. II, s. 148(4), by adding "(other than an institution that is exempt from tax under this Part)"immediately after "another financial institution", applicable to taxation years ending after June 1989.

S. 181.3(4), that portion following paragraph (*c*), was amended by S.C. 1994, c. 7, Sched. II, s. 148(5), applicable to taxation years ending after June 1989. That portion of s. 181.3(4) following paragraph (*c*) formerly read: "and, for the purposes of this subsection,

(*d*) a credit union and another credit union of which the credit union is a shareholder or member, as the case may be, shall be deemed to be related to each other, and

(*e*) a particular deposit insurance corporation (within the meaning assigned by subsection 137.1(5)), a subsidiary wholly owned corporation of the particular deposit insurance corporation that is deemed by subsection 137.1(5.1) to be a deposit insurance corporation and a corporation that in relation to the particular deposit insurance corporation is a member institution (within the meaning assigned by subsection 137.1(5)) shall be deemed to be related to each other.".

Related Sections: S. 138(12), "non-segregated property"; s. 181(1), "financial institution", "long-term debt"; s. 181.5(6) Government-controlled corporation; s. 181.5(7) Related corporations that are not associated; s. 248(1), "Canadian banking business", "OSFI risk-weighting guidelines".

► 181.3(5) ◄

(5) Interpretation. For the purpose of subsection (4),

(*a*) an eligible investment of a corporation is a share of the capital stock or long-term debt (and, where the corporation is an insurance corporation, is non-segregated property within the meaning assigned by subsection 138(12)) of a financial institution that at the end of the year

(i) is related to the corporation,

(ii) is not exempt from tax under this Part, and

(iii) is resident in Canada or can reasonably be regarded as using the proceeds of the share or debt in a business carried on by the institution through a permanent establishment (as defined by regulation) in Canada; and

(*b*) a credit union and another credit union of which the credit union is a shareholder or member are deemed to be related to each other.

History: S. 181.3(5) was added by S.C. 2001, c. 17, s. 163(3), applicable after June 27, 1999, except that in its application to taxpayers other than authorized foreign banks for taxation years that end before 2002, paragraph 181.3(5)(*a*) of the Act shall be read without reference to subparagraph (iii).

Related Sections: S. 138(12), "non-segregated property"; s. 181(1), "financial institution", "long-term debt"; s. 248(1), "authorized foreign bank".
Regulations: 8201.

SECTION 181.4: Taxable capital employed in Canada of non-resident

The taxable capital employed in Canada for a taxation year of a corporation (other than a financial institution) that was throughout the year not resident in Canada is the amount, if any, by which

(*a*) the total of all amounts each of which is the carrying value at the end of the year of an asset of the corporation used by it in the year in, or held by it in the year in the course of, carrying on any business carried on by it during the year through a permanent establishment in Canada

exceeds the total of

(*b*) the amount of the corporation's indebtedness at the end of the year (other than indebtedness described in any of paragraphs 181.2(3)(*c*) to (*f*)) that may reasonably be regarded as relating to a business carried on by it during the year through a permanent establishment in Canada,

(*c*) the total of all amounts each of which is the carrying value at the end of the year of an asset described in subsection 181.2(4) of the corporation that was used by it in the year in, or held by it in the year in the course of, carrying on any business carried on by it during the year through a permanent establishment in Canada; and

(*d*) the total of all amounts each of which is the carrying value at the end of the year of an asset of the corporation that

(i) is a ship or aircraft operated by the corporation in international traffic or is personal property used in its business of transporting passengers or goods by ship or aircraft in international traffic, and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 181.4(*d*)(i) of the Act is replaced by the following:

(i) is a ship or aircraft operated by the corporation in international traffic or is personal or movable prop-

erty used in its business of transporting passengers or goods by ship or aircraft in international traffic, and

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(ii) was used by the corporation in the year in, or held by it in the year in the course of, carrying on any business during the year through a permanent establishment in Canada,

if the country in which the corporation is resident imposed neither a capital tax for the year on similar assets nor a tax for the year on the income from the operation of a ship or aircraft in international traffic, of any corporation resident in Canada during the year.

History: S. 181.4(*d*)(i) was amended by S.C. 1998, c. 19, s. 197(1), applicable to the 1995 and subsequent taxation years. S. 181.4(*d*)(i) formerly read:

"(i) is a ship or aircraft operated by the corporation in international traffic or is personal property used in its business of transporting passengers or goods in international traffic, and"

S. 181.4(1)(*d*) was added by S.C. 1994, c. 7, Sched. II, s. 149(1), applicable to taxation years ending after June 1989.

Related Sections: S. 181(1), "financial institution"; s. 181(2), "permanent establishment".

Regulations: 8600.

Interpretation Bulletins: *Secondary* — IT-532 Part I.3 — Tax on large corporations.

SECTION 181.5:

► 181.5(1) ◄

(1) Capital deduction. Subject to subsection (1.1), the capital deduction of a corporation for a taxation year is $50 million unless the corporation is related to another corporation at any time in the taxation year, in which case, subject to subsection (4), its capital deduction for the year is nil.

History: S. 181.5(1) was replaced by S.C. 2003, c. 15, s. 86(1), applicable to the 2004 and subsequent taxation years. S. 181.5(1) formerly read:

"S. 181.5. *Capital deduction.*

(1) The capital deduction of a corporation for a taxation year is $10,000,000 unless the corporation was related to another corporation at any time in the year, in which case, subject to subsection (4), its capital deduction for the year is nil."

Interpretation Bulletins: *Primary* — IT-532 Part I.3 — Tax on large corporations.

► 181.5(1.1) ◄

(1.1) Exceptions. For the purposes of applying subsection 125(5.1), the definitions "unused surtax credit" in subsections 181.1(6) and 190.1(5), and subsection 225.1(8), the amount of tax in respect of a corporation under subsection 181.1(1) for a taxation year is to be determined as if the reference to "$50 million" in subsection (1) were a reference to "$10 million".

History: S. 181.5(1.1) was added by S.C. 2003, c. 15, s. 86(1), applicable to the 2004 and subsequent taxation years.

► 181.5(2) ◄

(2) Related corporations. Subject to subsection (4.1), a corporation that is related to any other corporation at any time in a taxation year of the corporation that ends in a calendar year may file with the Minister in prescribed form an agreement on behalf of the related group of which the corporation is a member under which an amount that does not exceed $50 million is allocated among all corporations that are members of the related group for each taxation year of each such corporation ending in the calendar year and at a time when it was a member of the related group.

History: S. 181.5(2) was replaced by S.C. 2003, c. 15, s. 86(1), applicable to the 2004 and subsequent taxation years. S. 181.5(2) formerly read:

"(2) *Related corporations.* A corporation that is related to any other corporation at any time in a taxation year of the corporation ending in a calendar year may file with the Minister in prescribed form an agreement on behalf of the related group of which the corporation is a member under which an amount that does not exceed $10,000,000 is allocated among all corporations that are members of the related group for each taxation year of each such corporation ending in the calendar year and at a time when it was a member of the related group."

Related Sections: S. 251(2) Definition of "related persons"; s. 251(5) Control by related groups, options, etc.

► 181.5(3) ◄

(3) Allocation by Minister. Subject to subsection (4.1), the Minister may request a corporation that is related to any other corporation at the end of a taxation year to file with the Minister an agreement referred to in subsection (2) and, if the corporation does not file such an agreement within 30 days after receiving the request, the Minister may allocate an amount among the members of the related group of which the corporation is a member for the taxation year not exceeding $50 million.

History: S. 181.5(3) was replaced by S.C. 2003, c. 15, s. 86(1), applicable to the 2004 and subsequent taxation years. S. 181.5(3) formerly read:

"(3) *Idem.* The Minister may request a corporation that is related to any other corporation at the end of a taxation year to file with the Minister an agreement referred to in subsection (2) and, if the corporation does not file such an agreement within 30 days after receiving the request, the Minister may allocate an amount among the members of the related group of which the corporation is a member for the year not exceeding $10,000,000."

► 181.5(4) ◄

(4) Idem. The least amount allocated for a taxation year to a member of a related group under an agreement described in subsection (2) or by the Minister pursuant to subsection (3) is the capital deduction of that member for that taxation year.

► 181.5(4.1) ◄

(4.1) Exceptions. For the purposes of applying subsection 125(5.1), the definitions "unused surtax credit" in subsections 181.1(6) and 190.1(5), and subsection 225.1(8), subsections (2) to (4) are to be read as if the amount determined under subsection (2) or (3), as the case may be, in respect of the corporation for the taxation year were that proportion of $10 million that the amount otherwise determined in respect of the corporation for the taxation year under that subsection is of $50 million.

History: S. 181.5(4.1) was added by S.C. 2003, c. 15, s. 86(2), applicable to the 2004 and subsequent taxation years.

► 181.5(5) ◄

(5) Idem. Where a corporation (in this subsection referred to as the "first corporation") has more than one taxation year ending in the same calendar year and is related in 2 or more of those taxation years to another corporation that has a taxation year ending in that calendar year, the capital deduction of the first corporation for each such taxation year at the end of which it is related to the other corporation is an amount equal to its capital deduction for the first such taxation year.

► 181.5(6) ◄

(6) Idem. Two corporations that would, but for this subsection, be related to each other by reason only of

(*a*) the control of any corporation by Her Majesty in right of Canada or a province, or

(*b*) a right referred to in paragraph 251(5)(*b*),

are, for the purposes of this section and subsection 181.3(4), deemed not to be related to each other except

that, where at any time a taxpayer has a right referred to in paragraph 251(5)(*b*) with respect to shares and it can reasonably be considered that one of the main purposes for the acquisition of the right was to avoid any limitation on the amount of a corporation's capital deduction for a taxation year, for the purpose of determining whether a corporation is related to any other corporation, the corporations are, for the purposes of this section, deemed to be in the same position in relation to each other as if the right were immediate and absolute and as if the taxpayer had exercised the right at that time.

History: S. 181.5(6), the portion after paragraph (*b*), was amended by S.C. 1998, c. 19, s. 198(1), applicable after April 26, 1995. S. 181.5(6), the portion after paragraph (*b*) formerly read:

"shall, for the purposes of this section and subsection 181.3(4), be deemed not to be related to each other except that, where at any time a taxpayer has a right referred to in paragraph 251(5)(*b*) with respect to shares and it may reasonably be considered that one of the main purposes of the acquisition of the right was to avoid any limitation on the amount of a corporation's capital deduction for a taxation year, for the purposes of determining whether a corporation is related to any other corporation, the corporations shall, for the purposes of this section, be deemed to be in the same position in relation to each other as if the taxpayer owned the shares."

Related Sections: S. 190.15(6) Government-controlled corporation; s. 256(8) Deemed exercise of right.

► 181.5(7) ◄

(7) Related corporations that are not associated. For the purposes of subsection 181.3(4) and this section, a Canadian-controlled private corporation and another corporation to which it would, but for this subsection, be related at any time shall be deemed not to be related to each other at that time where the corporations are not associated with each other at that time.

History: S.C. 1994, c. 7, Sched. VIII, s. 159, reproduced below, deems the election to have been made before 1992.

S. 181.5(7) was added by S.C. 1994, c. 7, Sched. II, s. 150(1), applicable to the 1991 and subsequent taxation years and, where a corporation so elects by notifying the Minister of National Revenue in writing before 1992 (and, where applicable, by filing with the Minister in prescribed form a revised agreement for the purposes of subsection 181.5(2) of the Act), to its 1989 and 1990 taxation years.

Related Sections: S. 125(7), "Canadian-controlled private corporation".

Sec. 159, Sched. VIII, Chap. 7, S.C. 1994

Sec. 159. [Deemed date of s. 181.5(7) requests.] Where an election or request referred to in subsection [... 150(2) ... of Schedule II, which established the application date for subsection 181.5(7)] was made before December 11, 1993, the election or request shall be deemed to have been made before 1992.

SECTION 181.6: Return.

Every corporation that is or would, but for subsection 181.1(4), be liable to pay tax under this Part for a taxation year shall file with the Minister, not later than the day on or before which the corporation is required by section 150 to file its return of income for the year under Part I, a return of capital for the year in prescribed form containing an estimate of the tax payable under this Part by it for the year.

History: S. 181.6 was amended by S.C. 1994, c. 7, Sched. VIII, s. 108(1), applicable to the 1992 and subsequent taxation years to add the phrase "that is or would, but for subsection 181.1(4), be".

Related Sections: S. 181.1(4) Deduction.
Forms: T2 SCH 33; T2 SCH 34; T2 SCH 35; T2 SCH 37.

SECTION 181.7:

► 181.7(1) ◄

(1) Provisions applicable to Part. Sections 152, 158 and 159, subsection 161(11), sections 162 to 167 and Division J of Part I apply to this Part with such modifications as the circumstances require and, for the purpose of this section, paragraph 152(6)(*a*) shall be read as follows:

"(*a*) a deduction under section 181.1(4) in respect of any unused surtax credit (within the meaning assigned by subsection 181.1(6)) for a subsequent taxation year,"

History: S.C. 1994, c. 7, Sched. VIII, s. 159, reproduced below, deems certain elections in s. 181.7(1)(*b*) to have been made before 1992.

S. 181.7 was amended by S.C. 1994, c. 7, Sched. VIII, s. 109(1), applicable to the 1992 and subsequent taxation years. Note that a similar provision was previously enacted as s. 181.9. S. 181.7 formerly read:

"S. 181.7. *Payment of tax.*

(1) Every corporation liable to pay tax under this Part for a taxation year shall pay to the Receiver General in respect of the year

(*a*) either

(i) on or before the last day of each month in the year, 1/12 of the amount estimated by it to be its tax payable under this Part for the year,

(ii) on or before the last day of each month in the year, 1/12 of its first instalment base for the year, or

(iii) on or before the last day of each of the first two months in the year, 1/12 of its second instalment base for the year, and on or before the last day of each of the following months in the year, 1/10 of the amount by which its first instalment base for the year exceeds 1/6 of its second instalment base for the year; and

(*b*) the remainder of its tax payable under this Part for the year, on or before the day on or before which the corporation is, pursuant to paragraph 157(1)(*b*), required to pay the remainder of its tax payable under Part I for the year or would be so required if a remainder of that tax were payable and, where the corporation so elects in its return of income under this Part for the year, if clause 157(1)(*b*)(i)(A) were read as follows:

'(A) the corporation carried on an active business in Canada in the year or in its immediately preceding taxation year, and'"

S. 181.7(1)(*b*) was amended by S.C. 1994, c. 7, Sched. II, s. 151(1), applicable to taxation years ending after June 1989, except that, in its application to taxation years ending before 1991, an election referred to in paragraph 181.7(1)(*b*) made by a corporation by notifying the Minister of National Revenue in writing before 1992 shall be deemed to have been made by the corporation in its return of income under Part I.3 for the taxation year to which the election relates. S. 181.7(1)(*b*) formerly read:

"(*b*) the remainder of its tax payable under this Part for the year, on or before the day on or before which the corporation is, pursuant to paragraph 157(1)(*b*), required to pay the remainder of its tax payable under Part I for the year or would be so required if a remainder of that tax were payable."

Interpretation Bulletins: *Primary* — IT-532 Part I.3 — Tax on large corporations.

Sec. 159, Sched. VIII, Chap. 7, S.C. 1994

Sec. 159. [Deemed date of s. 181.7(1)(b) requests.] Where an election or request referred to in subsection [... 151(2) ... of Schedule II, which established the application date for subsection 181.7(1)(*b*)] was made before December 11, 1993, the election or request shall be deemed to have been made before 1992.

► 181.7(2) ◄

(2) Instalment bases. [Repealed by S.C. 1994, c. 7, Sched. VIII, s. 109(1).]

History: S. 181.7(2) was repealed by S.C. 1994, c. 7, Sched. VIII, s. 109(1), applicable to the 1992 and subsequent taxation years. S. 181.7(2) formerly read:

"(2) In this section,

(*a*) the first instalment base of a corporation for a particular taxation year is the product obtained when the tax payable under this Part by the corporation for its taxation year immediately preceding the particular year is multiplied by the ratio that 365 is of the number of days in that preceding year, and

(*b*) the second instalment base of a corporation for a particular taxation year is the amount of the first instalment base of the corporation for its taxation year immediately preceding the particular year,

but where a particular taxation year of a corporation that was formed as a result of an amalgamation or merger is its first taxation year ending after the amalgamation or merger, as the case may be,

(*c*) its first instalment base for the particular year is the total of all amounts each of which is the product obtained when the tax payable under this Part by a corporation that entered into the amalgamation or merger, for its last taxation year preceding the amalgamation or merger, is multiplied by the ratio that 365 is of the number of days in that year, and

(*d*) its second instalment base for the particular year is the total of all amounts each of which is an amount equal to the first instalment base of a corporation that entered into the amalgamation or merger, for its last taxation year preceding the amalgamation or merger."

SECTION 181.71: Provisions applicable — Crown corporations.

Section 27 applies to this Part with any modifications that the circumstances require.

History: S. 181.71 was added by S.C. 1998, c. 19, s. 199(1), applicable to taxation years that end after June 1989.

Related Sections: S. 187.61 Provisions applicable — Crown corporations; s. 190.211 Provisions applicable — Crown corporations; s. 191.4(3) Provisions applicable — Crown corporations.

Interpretation Bulletins: *Primary* — IT-532 Part I.3 — Tax on large corporations.

SECTION 181.8: Interest. [Repealed by S.C. 1994, c. 7, Sched. VIII, s. 109(1).]

History: S. 181.8 was repealed by S.C. 1994, c. 7, Sched. VIII, s. 109(1), applicable to the 1992 and subsequent taxation years. S. 181.8(1) formerly read:

"(1) *Interest.* Where, at any time after the day on or before which a corporation is required to pay the remainder of its tax payable under this Part for a taxation year,

(*a*) the amount of its tax payable under this Part for the year

exceeds

(*b*) the total of all amounts each of which is the amount paid at or before that time on account of its tax payable and applied as at that time by the Minister against the corporation's liability for an amount payable under this Part for the year,

the corporation shall pay to the Receiver General interest at a prescribed rate on the excess, computed for the period during which that excess is outstanding.

(2) *Idem.* Where a corporation that is required by this Part to pay an instalment of tax has failed to pay all or any part thereof on or before the day on or before which the instalment was required to be paid, it shall pay to the Receiver General, in addition to the interest payable under subsection (1), interest at a prescribed rate on the amount that it failed to pay, computed from the day on or before which the amount was required to be paid to the earlier of the day of payment and the beginning of the period in respect of which the corporation is required to pay interest thereon under that subsection.

(3) *Limitation on instalments.* For the purposes of subsection (2), where a corporation is required to pay an instalment of tax for a taxation year computed by reference to a method described in subsection 181.7(1), the corporation shall be deemed to have been liable to pay an instalment computed by reference to

(*a*) its tax payable under this Part for the year,

(*b*) its first instalment base for the year, or

(*c*) its second instalment base for the year and its first instalment base for the year,

whichever method gives rise to the least amount required to be paid by the corporation on or before the days referred to in subparagraphs 181.7(1)(*a*)(i) to (iii)."

Related Sections: S. 248(11) Compound interest.

SECTION 181.9: Provisions applicable to Part. [Repealed by S.C. 1994, c. 7, Sched. VIII, s. 109(1).]

History: S. 181.9 was repealed by S.C. 1994, c. 7, Sched. VIII, s. 109(1), applicable to the 1992 and subsequent taxation years. Note that a similar provision is enacted as s. 181.7. S. 181.9 formerly read:

"S. 181.9. Sections 152, 158 and 159, subsections 161(2.1), (2.2) and (11), sections 162 to 167 and Division J of Part I are applicable to this Part with such modifications as the circumstances require."

Part II
Tobacco Manufacturers' Surtax

SECTION 182:

► 182(1) ◄

(1) Surtax. Every corporation shall pay a tax under this Part for each taxation year equal to 50% of the corporation's Part I tax on tobacco manufacturing profits for the year.

History: S. 182(1) was amended by S.C. 2001, c. 16, s. 43(1), applicable to taxation years ending after April 5, 2001, except that, in its application to a corporation's taxation year that includes that day, subsection 182(1) shall be read as follows:

"S. 182.

(1) Every corporation shall pay a tax under this Part for the corporation's taxation year that includes April 5, 2001, equal to the total of

(*a*) 40% of that proportion of the corporation's Part I tax on tobacco manufacturing profits for the year that the number of days in the year that are before April 6, 2001, is of the total number of days in the year, and

(*b*) 50% of that proportion of the corporation's Part I tax on tobacco manufacturing profits for the year that the number of days in the year that are after April 5, 2001, is of the total number of days in the year."

S. 182(1) formerly read:

"S. 182. *Surtax.*

(1) Every corporation shall pay a tax under this Part for each taxation year equal to 40% of the corporation's Part I tax on tobacco manufacturing profits for the year."

S. 182(1) was amended by S.C. 2000, c. 30, s. 173, applicable to taxation years that end after February 8, 2000. S. 182(1) formerly read:

"(1) *Surtax.* Every corporation shall pay a tax under this Part for each taxation year equal to 40% of that proportion of the corporation's Part I tax on tobacco manufacturing profits for the year that

(*a*) the number of days in the year that are after February 8, 1994 and before February 9, 2000

is of

(*b*) the number of days in the year."

S. 182(1)(*a*) was amended by S.C. 1997, c. 26, s. 77(1), applicable to taxation years ending after February 8, 1997. S. 182(1)(*a*) formerly read:

"(*a*) the number of days in the year that are after February 8, 1994 and before February 9, 1997"

S. 182(1) was added by S.C. 1994, c. 29, s. 16(1), applicable to taxation years ending after February 8, 1994.

► 182(2) ◄

(2) Definitions. In this Part,

"*exempt activity*" — "exempt activity", of a particular corporation, means

(*a*) farming; or

(*b*) processing leaf tobacco, if

(i) that processing is done by, and is the principal business of, the particular corporation,

(ii) the particular corporation does not manufacture any tobacco product, and

(iii) the particular corporation is not related to any other corporation that carries on tobacco manufacturing (determined, in respect of the other corporation, as if the particular corporation did not exist and the definition "tobacco manufacturing" were read without reference to the words "in Canada");

History: S. 182(2), the definition "exempt activity" was added by S.C. 2007, c. 35, s. 54(2), applicable to taxation years that end after 2006.

"*Part I tax on tobacco manufacturing profits*" — "Part I tax on tobacco manufacturing profits" of a corporation for a taxation year means 21% of the amount determined by the formula

$$(A \times \frac{B}{C}) - D$$

where

A is the amount that would be the corporation's Canadian manufacturing and processing profits for the year, within the meaning assigned by subsection 125.1(3), if the total of all amounts, each of which is the corporation's loss for the year from an active business, other than tobacco manufacturing, carried on by it in Canada, were equal to the lesser of

(*a*) that total otherwise determined, and

(*b*) the total of all amounts, each of which is the amount of the corporation's income for the year from an active business, other than tobacco manufacturing, carried on by it in Canada,

B is the corporation's tobacco manufacturing capital and labour cost for the year,

C is the total of the corporation's cost of manufacturing and processing capital for the year and its cost of manufacturing and processing labour for the year, within the meanings assigned by regulations made for the purposes of section 125.1, and

D is

(*a*) where the corporation is a Canadian-controlled private corporation throughout the year, the corporation's business limit for the year as determined for the purpose of section 125, and

(*b*) in any other case, nil;

History: S. 182(2) was added by S.C. 1994, c. 29, s. 16(1), applicable to taxation years ending after February 8, 1994.

"*tobacco manufacturing*" — "tobacco manufacturing" means any activity, other than an exempt activity, relating to the manufacture or processing in Canada of tobacco or tobacco products in or into any form that is, or would after any further activity become, suitable for smoking;

History: S. 182(2), the definition "tobacco manufacturing" was replaced by S.C. 2007, c. 35, s. 54(1), applicable to taxation years that end after 2006. S. 182(2), the definition "tobacco manufacturing" formerly read;

"'*tobacco manufacturing*'— 'tobacco manufacturing' means any activity (other than farming) relating to the manufacture or processing in Canada of tobacco or tobacco products in or into any form that is, or would after any further activity become, suitable for smoking;"

The definition "tobacco manufacturing" was added by S.C. 1994, c. 29, s. 16(1), applicable to taxation years ending after February 8, 1994.

"*tobacco manufacturing capital and labour cost*" — "tobacco manufacturing capital and labour cost" of a corporation for a taxation year means the total of the amounts that would be the corporation's cost of manufacturing and processing capital for the year and its cost of manufacturing and processing labour for the year, within the meanings assigned by regulations made for the purpose of section 125.1, if the manufacturing or processing referred to in the definition "qual-

ified activities" in those regulations were tobacco manufacturing.

History: The definition "tobacco manufacturing capital and labour cost" was added by S.C. 1994, c. 29, s. 16(1), applicable to taxation years ending after February 8, 1994.

SECTION 183:

► 183(1) ◄

(1) Return. Every corporation that is liable to pay tax under this Part for a taxation year shall file with the Minister a return for the year in prescribed form not later than the day on or before which the corporation is required by section 150 to file its return of income for the year under Part I.

History: S. 183(1) was added by S.C. 1994, c. 29, s. 16(1), applicable to taxation years ending after February 8, 1994.

Forms: T2 SCH 46.

► 183(2) ◄

(2) Payment. Every corporation shall pay to the Receiver General on or before its balance-due day for each taxation year its tax payable under this Part for the year.

History: S. 183(2) was amended by S.C. 2000, c. 30, s. 174(1), applicable to taxation years that end after February 8, 2000. S. 183(2) formerly read:

"(2) *Payment.* Every corporation shall pay to the Receiver General on or before the later of June 30, 1994 and the last day of the second month after the end of each taxation year its tax payable under this Part for the year."

S. 183(2) was added by S.C. 1994, c. 29, s. 16(1), applicable to taxation years ending after February 8, 1994.

► 183(3) ◄

(3) Provisions applicable. Subsections 150(2) and (3), sections 151, 152, 158 and 159, subsections 161(1) and (11), sections 162 to 167 and Division J of Part I apply to this Part with such modifications as the circumstances require.

History: S. 183(3) was added by S.C. 1994, c. 29, s. 16(1), applicable to taxation years ending after February 8, 1994.

Part II.1
Tax on Corporate Distributions

SECTION 183.1:

► 183.1(1) ◄

(1) Application of Part. This Part applies to a corporation (other than a mutual fund corporation) for a taxation year in which the corporation, at any time in the year,

(*a*) was a public corporation; or

(*b*) was resident in Canada and had a class of shares outstanding that were purchased and sold in the manner in which such shares normally are purchased and sold by any member of the public in the open market.

Related Sections: S. 54, "proceeds of disposition"; s. 89(1)(*g*), "public corporation"; s. 248(1), "corporation", "dividend", "property", "share", "stock dividend".
Forms: T2141.

► 183.1(2) ◄

(2) Tax payable. Where, as a part of a transaction or series of transactions or events,

(*a*) a corporation, or any person with whom the corporation was not dealing at arm's length, has, at any time, paid an amount, directly or indirectly, to any person as proceeds of disposition of any property, and

(*b*) all or any portion of the amount may reasonably be considered, having regard to all the circumstances, to have been paid as a substitute for dividends that would otherwise have been paid in the normal course by the corporation,

the corporation shall, on or before its balance-due day for its taxation year that includes that time, pay tax of 45% of that amount or portion of it, as the case may be.

History: S. 183.1(2), the portion after paragraph (*b*) was replaced by S.C. 2003, c. 15, s. 119(1), applicable to taxation years that begin after June 2003. S. 183.1(2), the portion after paragraph (*b*) formerly read:
"the corporation shall, on or before the day on or before which it is required to file its return of income under Part I for its taxation year that includes that time, pay a tax of 45% of that amount or portion thereof, as the case may be."

Related Sections: S. 150(1)(*a*) Corporations; s. 183.1(3)–(6); s. 248(10) Series of transactions.
Information Circulars: IC 88-2 General anti-avoidance rule — Section 245 of the Income Tax Act.

► 183.1(3) ◄

(3) Stock dividend. Where, as a part of a transaction or series of transactions or events,

(*a*) a share was issued by a corporation as a stock dividend and the amount of the stock dividend was less than the fair market value of the share at the time that it was issued, and

(*b*) the share or any other share of the capital stock of the corporation was purchased, directly or indirectly, by the corporation, or by a person with whom the corporation was not dealing at arm's length, for an amount in excess of its paid-up capital,

that excess shall, for the purposes of subsection (2), be deemed to have been paid as a substitute for dividends that would otherwise have been paid in the normal course by the corporation.

Related Sections: S. 248(10) Series of transactions.

► 183.1(4) ◄

(4) Purchase of shares. Where, as a part of a transaction or series of transactions or events,

(*a*) a share of the capital stock of a corporation was purchased, directly or indirectly, by the corporation, or by any person with whom the corporation was not dealing at arm's length, and

(*b*) any portion of the amount paid for the share may reasonably be considered, having regard to all the circumstances, as consideration for a dividend that had been declared, but not yet paid, on the share,

that portion of the amount shall, for the purposes of subsection (2), be deemed to have been paid as a substitute for dividends that would otherwise have been paid in the normal course by the corporation notwithstanding that the dividend was actually paid thereafter.

Related Sections: S. 150(1)(*a*) Corporations; s. 248(10) Series of transactions.
Regulations: 6207.

► 183.1(5) ◄

(5) Indirect payment. Where, as a part of a transaction or series of transactions or events, a person received a payment from a corporation, or from any person with whom the corporation was not dealing at arm's length, in consideration, in whole or in part, for paying an amount to any other person as proceeds of disposition of any property, the corporation shall, for the purposes of subsection (2), be deemed to have paid the amount indirectly to the other person.

Related Sections: S. 248(10) Series of transactions.

► 183.1(6) ◄

(6) Where s. (2) does not apply. Subsection (2) does not apply if none of the purposes of the transaction or series of transactions or events referred to therein may reasonably be considered, having regard to all the circumstances, to have been to enable shareholders of a corporation who are individuals or non-resident persons to receive an amount, directly or indirectly, as proceeds of disposition of property rather than as a dividend on a share that was of a class that was listed on a stock exchange or that was purchased and sold in the manner in which shares are normally purchased and sold by any member of the public in the open market.

Related Sections: S. 248(10) Series of transactions.

► 183.1(7) ◄

(7) Where s. 110.6(8) does not apply. Where this section has been applied in respect of an amount, subsection 110.6(8) does not apply to the capital gain in respect of which the amount formed all or a part of the proceeds of disposition.

SECTION 183.2:

► 183.2(1) ◄

(1) Return. Every corporation liable to pay tax under this Part for a taxation year shall, on or before the day on or before which it is required to file its return of income under Part I for the year, file with the Minister a return for the year under this Part in prescribed form.

Forms: T2141.

► 183.2(2) ◄

(2) Provisions applicable to Part. Subsections 150(2) and (3), sections 152, 158 and 159, subsections 160.1(1) and 161(1) and (11), sections 162 to 167 and Division J of Part I are applicable to this Part with such modifications as the circumstances require.

Part III
Additional Tax on Excessive Elections

SECTION 184:

► 184(1) ◄

(1) Tax on excess of dividend paid over portion payable out of tax-paid undistributed surplus or 1971 capital surplus. [Repealed by 1977-78, c. 1, s. 83(1).]

► 184(2) ◄

(2) Tax on excessive elections. Where a corporation has elected in accordance with subsection 83(2), 130.1(4) or 131(1) in respect of the full amount of any dividend payable by it on shares of any class of its capital stock and the full amount of the dividend exceeds the portion thereof deemed by that subsection to be a capital dividend or capital gains dividend, as the case may be, the corporation shall, at the time of the election, pay a tax under this Part equal to 3/4 of the excess.

Editorial Note: The penalty tax will apply if the full amount of an elected dividend under subsection 83(2) (or subsection 130.1(4) or 131(1)) exceeds the corporation's "capital dividend account" (subsection 89(1)) such that the excess is not a capital dividend. As an alternative to the penalty tax, the corporation may elect under subsection 184(3) to have the excess treated as a separate taxable dividend.

See the pending amendments to subsections 184(2)–(5) following subsection 184(5).

Related Sections: S. 184(2.1) Reduction of excess; s. 184(3) Election to treat excess as separate dividend; s. 185(1) Assessment of tax.
Interpretation Bulletins: *Secondary* — IT-66R6 Capital dividends.
Tax Topics: No. 1489, Excess CDA Dividends and Options.

► 184(2.1) ◄

(2.1) Reduction of excess. Notwithstanding subsection (2), where a corporation has elected in accordance with subsection 83(2) in respect of the full amount of a dividend that became payable by it at a particular time in its 1988 taxation year and before June 18, 1987, the amount of the excess referred to in subsection (2) in respect of the dividend shall be deemed, for the purposes of subsection (2), to be the amount of the excess that would have been determined under subsection (2) in respect of the dividend if the corporation's taxation year had ended on December 31, 1987.

Editorial Note: See the pending amendments to subsections 184(2)–(5) following subsection 184(5).

► 184(3) ◄

(3) Election to treat excess as separate dividend. Where, in respect of a dividend payable at a particular time after 1971, a corporation would, but for this subsection, be required to pay a tax under this Part equal to all or a portion of an excess referred to in subsection (2) of this section or subsection 184(1) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, it may elect in prescribed manner on or before a day that is not later than 90 days after the day that is the later of December 15, 1977 and the day of mailing of the notice of assessment in respect of the tax that would otherwise be payable under this Part, and on such an election being made, subject to subsection (4), the following rules apply:

(*a*) the amount by which the full amount of the dividend exceeds the amount of the excess shall be deemed for the purposes of the election that the corporation made in respect of the dividend under subsection 83(2), 130.1(4) or 131(1) of this Act or subsection 83(1) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, and for all other purposes of this Act to be the full amount of a separate dividend that became payable at the particular time;

(*b*) such part of the excess as the corporation may claim shall, for the purposes of any election in respect thereof under subsection 83(2), 130.1(4) or 131(1) of this Act or subsection 83(1) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, and, where the corporation has so elected, for all purposes of this Act, be deemed to be the full amount of a separate dividend that became payable immediately after the particular time;

(*c*) the amount by which the excess exceeds any portion deemed by paragraph (*b*) to be a separate dividend for all purposes of this Act shall be deemed to be a separate dividend that is a taxable dividend that became payable at the particular time; and

(*d*) each person who held any of the issued shares of the class of shares of the capital stock of the corporation in respect of which the full amount of the dividend was paid shall be deemed

(i) not to have received any portion of the dividend, and

(ii) to have received at the time the dividend was paid the proportion of any separate dividend, determined under paragraph (*a*), (*b*) or (*c*), that the number of shares of that class held by the person at the time the dividend was paid is of the number of shares of that class outstanding at that time except that, for the purpose of Part XIII, a separate dividend that is a taxable dividend, a capital dividend or a life insurance capital dividend shall be deemed to have been paid on the day that the election in respect of this subsection is made.

Editorial Note: See the editorial note under subsection 184(2).

See the pending amendments to subsections 184(2)–(5) following subsection 184(5).

Related Sections: S. 184(3.1) Election to treat dividend as loan — qualifying dividend; s. 220(3.2) Late, amended or revoked elections.
Regulations: 600(b); 2106.
Interpretation Bulletins: *Secondary* — IT-66R6 Capital dividends.
Information Circulars: IC 07-1 Taxpayer Relief Provisions.
Tax Topics: No. 1489, Excess CDA Dividends and Options.
Tax Profile: October 2004 — Taxation of Dividends: A Survey in the Context of Private Corporations and Their Shareholders.

► 184(3.1) ◄

(3.1) Election to treat dividend as loan. Where a corporation has elected in accordance with subsection 83(1) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, in respect of the full amount of any dividend that became payable by it at a particular time after March 31, 1977 and before 1979 and the corporation made a reasonable attempt to correctly determine its tax-

paid undistributed surplus on hand immediately before the particular time and its 1971 capital surplus on hand immediately before the particular time and all or any portion of the dividend

(*a*) has given rise to a gain from the disposition of a share of the corporation by virtue of subsection 40(3), or

(*b*) is an excess referred to in subsection 184(1) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952,

if the corporation so elects under this subsection,

(*c*) in any case referred to in paragraph (*a*), not later than December 31, 1982 or such earlier day as is 90 days after the latest of

(i) February 26, 1981,

(ii) the day on which a notice of assessment or reassessment is mailed to a shareholder of the corporation in respect of a gain referred to in paragraph (*a*), and

(iii) such day as is agreed to by the Minister in writing, or

(*d*) in any other case, not later than 90 days after the later of

(i) February 26, 1981, and

(ii) the day on which the Minister notifies the corporation by registered letter that it has an excess referred to in subsection 184(1) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, in respect of the dividend,

and the penalty referred to in subsection (5) in respect of the election is paid by the corporation at the time the election is made, the following rules apply:

(*e*) the whole dividend or such portion of it as the corporation may claim shall, for the purposes of this Act, be deemed not to be a dividend but to be a loan made at the particular time by the corporation to the persons who received all or any portion of the dividend if the full amount of the loan is repaid to the corporation before such date as is stipulated by the Minister and the corporation satisfies such terms and conditions as are specified by the Minister, and

(*f*) sections 15 and 80.4 do not apply to such a loan.

Editorial Note: See the pending amendments to subsections 184(2)–(5) following subsection 184(5).

Related Sections: S. 184(4) Concurrence with election; s. 184(5) Penalty.

Cases: Taxpayer was assessed on the basis that it had made an excessive election. It appealed. At the same time, it elected pursuant to s. 184(3.1), purporting to postpone the effect of the election pending determination of its appeal. After the appeal was decided against it, the taxpayer purported to put the election into effect and sought a refund of the penalty paid pursuant to the assessment. The Court declined to strike out the taxpayer's statement of claim. No distinction could be made between an assessment which was finalized by passage of time and one which had been finalized by judgment of a court *The Queen v. Special Risks Holdings Inc.*, 95 DTC 5414 (F.C.A.), affirming 94 DTC 6151 (F.C.T.D.).

► 184(3.2) ◄

(3.2) Idem. Where a corporation has elected in accordance with subsection 83(2) in respect of the full amount of any dividend that became payable by it at a particular time after December 3, 1985 and before 1986 and the corporation made a reasonable attempt to correctly determine its capital dividend account immediately before the particular time and all or any portion of the dividend is an excess referred to in subsection (2), if

(*a*) the corporation so elects under this subsection not later than 90 days after the later of

(i) December 19, 1986, and

(ii) the day on which the Minister notifies the corporation by registered letter that it has an excess referred to in subsection (2) in respect of the dividend, and

(*b*) the penalty referred to in subsection (5) in respect of the election is paid by the corporation at the time the election under this subsection is made,

the following rules apply:

(*c*) the whole dividend or such portion of it as the corporation may claim shall, for the purposes of this Act, be deemed not to be a dividend but to be a loan made at the particular time by the corporation to the persons who received all or any portion of the dividend if the full amount of the loan is repaid to the corporation before such date as is stipulated by the Minister and the corporation satisfies such terms and conditions as are specified by the Minister, and

(*d*) sections 15 and 80.4 do not apply to such a loan.

Editorial Note: See the pending amendments to subsections 184(2)–(5) following subsection 184(5).

Related Sections: S. 184(4) Concurrence with election; s. 184(5) Penalty.

► 184(4) ◄

(4) Concurrence with election. An election under subsection (3) is not valid unless

(*a*) it is made with the concurrence of the corporation and all its shareholders

(i) who received or were entitled to receive all or any portion of the dividend in respect of which a tax would, but for subsection (3), be payable under this Part, and

(ii) whose addresses were known to the corporation; and

(*b*) either

(i) it is made on or before the day that is 30 months after the day on which the dividend became payable, or

(ii) each shareholder described in subparagraph (*a*)(i) concurs with the election, in which case, notwithstanding subsections 152(4) to (5), such assessment of the tax, interest and penalties payable by each such shareholder for any taxation year may be made as is necessary to take the corporation's election into account.

Editorial Note: See the pending amendments to subsections 184(2)–(5) following subsection 184(5).

History: S. 184(4) was amended by S.C. 1994, c. 7, Sched. II, s. 152(1), applicable to elections made after July 13, 1990. S. 184(4) formerly read:

"(4) An election under subsection (3), (3.1) or (3.2) is not valid unless it is made with the concurrence of the corporation and all the shareholders who received or were entitled to receive all or any portion of the dividend in respect of which a tax would, but for subsection (3), (3.1) or (3.2), be payable under this Part or under Part I and whose addresses were known to the corporation."

Interpretation Bulletins: *Secondary* — IT-66R6 Capital dividends.

► 184(5) ◄

(5) Penalty. The penalty in respect of an election under subsection (3.1) or (3.2) in relation to a particular dividend is an amount equal to the product obtained when $500 is multiplied by the proportion that the number of months or parts of months during the period commencing

on the day the dividend became payable and ending on the day on which that election was made is of 12.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsections 184(2) to (5) of the Act are replaced by the following:

(2) Tax on excessive elections. If a corporation has elected in accordance with subsection 83(2), 130.1(4) or 131(1) in respect of the full amount of any dividend payable by it on shares of any class of its capital stock (in this section referred to as the "original dividend") and the full amount of the original dividend exceeds the portion of the original dividend deemed by that subsection to be a capital dividend or capital gains dividend, as the case may be, the corporation shall, at the time of the election, pay a tax under this Part equal to 3/5 of the excess.

(3) Election to treat excess as separate dividend. If, in respect of an original dividend payable at a particular time, a corporation would, but for this subsection, be required to pay a tax under this Part in respect of an excess referred to in subsection (2), and the corporation elects in prescribed manner on or before the day that is 90 days after the day of mailing of the notice of assessment in respect of the tax that would otherwise be payable under this Part, the following rules apply:

(*a*) the portion of the original dividend deemed by subsection 83(2), 130.1(4) or 131(1) to be a capital dividend or capital gains dividend, as the case may be, is deemed for the purposes of this Act to be the amount of a separate dividend that became payable at the particular time;

(*b*) if the corporation identifies in its election any part of the excess, that part is, for the purposes of any election under subsection 83(2), 130.1(4) or 131(1) in respect of that part, and, where the corporation has so elected, for all purposes of this Act, deemed to be the amount of a separate dividend that became payable immediately after the particular time;

(*c*) the amount by which the excess exceeds any portion deemed by paragraph (*b*) to be a separate dividend for all purposes of this Act is deemed to be a separate taxable dividend that became payable at the particular time; and

(*d*) each person who held any of the issued shares of the class of shares of the capital stock of the corporation in respect of which the original dividend was paid is deemed

(i) not to have received any portion of the original dividend, and

(ii) to have received, at the time that any separate dividend determined under any of paragraphs (*a*) to (*c*) became payable, the proportion of that dividend that the number of shares of that class held by the person at the particular time is of the number of shares of that class outstanding at the particular time except that, for the purpose of Part XIII, the separate dividend is deemed to be paid on the day that the election in respect of this subsection is made.

(4) Concurrence with election. An election under subsection (3) is valid only if

(*a*) it is made with the concurrence of the corporation and all its shareholders

(i) who received or were entitled to receive all or any portion of the original dividend, and

(ii) whose addresses were known to the corporation, and

(*b*) either

(i) it is made on or before the day that is 30 months after the day on which the original dividend became payable, or

(ii) each shareholder described in subparagraph (*a*)(i) concurs with the election, in which case, notwithstanding subsections 152(4) to (5), any assessment of the tax, interest and penalties payable by each of those shareholders for any taxation year shall be made that is necessary to take the corporation's election into account.

(5) Exception for non-taxable shareholders. If each person who, in respect of an election made under subsection (3), is deemed by subsection (3) to have received a dividend at a particular time is also, at the particular time, a person all of whose taxable income is exempt from tax under Part I,

(*a*) subsection (4) does not apply to the election; and

(*b*) the election is valid only if it is made on or before the day that is 30 months after the day on which the original dividend became payable.

Applicable: To original dividends paid by a corporation after its 1999 taxation year except that, for the purpose of subsection 184(5), an election made before the 90th day after this Act is assented to is deemed to have been made in a timely manner.

Explanatory Note: Under section 83 of the Act, a private corporation can identify a dividend as a "capital dividend," with the result that the dividend is not taxable to the shareholders who receive it. In concept, a capital dividend is a distribution of the non-taxable portion of the corporation's capital gains, which portion is recorded in the corporation's "capital dividend account". A similar mechanism allows mutual fund corporations and mortgage investment corporations to designate a dividend as a "capital gains dividend" — which is taxable to the shareholder, but as a capital gain.

Part III of the Act (sections 184 and 185) applies a special tax to a corporation that designates as a capital dividend or a capital gains dividend an amount that exceeds the amount available to be paid as such a dividend. If the corporation obtains the consent of its shareholders, it can avoid the special tax by treating the excess amount as a separate taxable dividend.

These amendments simplify Part III and update its language, reduce the rate of the special tax, and modify the requirement for shareholder consent to the recharacterization of an excessive dividend. These amendments apply to dividends that are paid by a corporation after its 1999 taxation year, with a special transitional rule for elections, described below in the notes to subsection 184(5) of the Act.

Subsection 184(2) — Tax on Excessive Elections

Subsection 184(2) of the Act applies the tax under Part III of the Act to the amount by which a dividend paid by a corporation as a capital dividend or a capital gains dividend exceeds the amount eligible to be so designated. For greater clarity, the subsection is amended to refer to the full amount of the initial dividend as the "original dividend." That term is then used elsewhere in amended Part III.

The rate of tax imposed by subsection 184(2) is also changed, as part of a series of amendments that reflect recent and planned reductions in tax rates. The rate is reduced from 75% of the excess capital gains dividend to 60% of the excess.

Subsection 184(2.1) — Reduction of Excess

Subsection 184(2.1) of the Act is a transitional rule that applies to certain dividends that became payable before June 18, 1987. That subsection has lapsed and is repealed.

Subsection 184(3) — Election to Treat Excess as Separate Dividend

Subsection 184(3) of the Act allows a corporation that would otherwise be liable to tax under Part III in respect of an excessive capital dividend or capital gains dividend to treat the excess as a separate taxable dividend, and thus to avoid the tax. The subsection is amended to update and clarify its language.

Subsection 184(4) — Concurrence with Election

Subsection 184(4) of the Act sets out the requirements for shareholders' consent to the recharacterization, under subsection 184(3), of an excessive capital dividend or capital gains dividend. This subsection is amended to update and clarify its language.

Subsection 184(5) — Exception for Non-taxable Shareholders

New subsection 184(5) of the Act provides an exception to the shareholder consent requirements of subsection 184(4). Where a corporation wishes to recharacterize an excessive dividend under subsection 184(3), and the dividend was paid on a class of shares all of the holders of which are persons all of whose taxable income is exempt from tax (for example, registered plans), the corporation need not obtain the shareholders' consent. Instead, the only requirement imposed by new subsection 184(5) is that the corporation's election be made within 30 months after the time that the original (excessive) dividend became payable.

An election under new subsection 184(5) will be deemed to have been made in a timely manner if it is made within 90 days after these amendments receive Royal Assent.

Related Sections: S. 39, "capital gain"; s. 83(2), "capital dividend"; s. 248(1), "corporation", "dividend", "share".

SECTION 185:

► 185(1) ◄

(1) Assessment of tax. The Minister shall, with all due dispatch, examine each election made by a corporation in accordance with subsection 83(2), 130.1(4) or 131(1), assess the tax, if any, payable under this Part in respect of the election and send a notice of assessment to the corporation.

Related Sections: S. 83(1) Qualifying dividends.

► 185(2) ◄

(2) Payment of tax and interest. Where an election has been made by a corporation in accordance with subsection 83(2), 130.1(4) or 131(1) and the Minister mails a notice of assessment under this Part in respect of the election, that part of the amount assessed then remaining unpaid and interest thereon at the prescribed rate computed from the day of the election to the day of payment is payable forthwith by the corporation to the Receiver General.

Related Sections: S. 248(11) Compound interest.
Regulations: 4301.

► 185(3) ◄

(3) Provisions applicable to Part. Subsections 152(3), (4), (5), (7) and (8) and 161(11), sections 163 to 167 and Division J of Part I are applicable to this Part with such modifications as the circumstances require.

Related Sections: S. 248(1), "assessment", "corporation", "prescribed".

► 185(4) ◄

(4) Joint and several liability from excessive elections. Each person who has received a dividend from a corporation in respect of which the corporation elected under subsection 83(2), 130.1(4) or 131(1) is jointly and severally liable with the corporation to pay that proportion of the corporation's tax payable under this Part because of the election that

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 185(4) of the English version of the Act before paragraph (*a*) is replaced by the following:

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(4) Joint and several, or solidary, liability from excessive elections. Each person who has received a dividend from a corporation in respect of which the corporation elected under subsection 83(2), 130.1(4) or 131(1) is jointly and severally, or solidarily, liable with the corporation to pay that proportion of the corporation's tax payable under this Part because of the election that

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Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*a*) the amount of the dividend received by the person is of

(*b*) the full amount of the dividend in respect of which the election was made,

but nothing in this subsection limits the liability of any person under any other provision of this Act.

History: S. 185(4) was added by S.C. 1994, c. 7, Sched. II, s. 153(1), applicable with respect to dividends paid after July 13, 1990.

► 185(5) ◄

(5) Assessment. The Minister may, at any time after the last day on which a corporation may make an election under subsection 184(3) in respect of a dividend, assess a person in respect of any amount payable under subsection (4) in respect of the dividend, and the provisions of Division I of Part I apply, with such modifications as the circumstances require, to an assessment made under this subsection as though it were made under section 152.

History: S. 185(5) was added by S.C. 1994, c. 7, Sched. II, s. 153(1), applicable with respect to dividends paid after July 13, 1990.

► 185(6) ◄

(6) Rules applicable. Where under subsection (4) a corporation and another person have become jointly and severally liable to pay part or all of the corporation's tax payable under this Part in respect of a dividend described in subsection (4),

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 185(6) of the English version of the Act before paragraph (*a*) is replaced by the following:

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(6) Rules applicable: Where under subsection (4) a corporation and another person have become jointly and severally, or solidarily, liable to pay part or all of the corporation's tax payable under this Part in respect of a dividend described in subsection (4),

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Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*a*) a payment at any time by the other person on account of the liability shall, to the extent of the payment, discharge the joint liability after that time; and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 185(6)(*a*) of the Act is replaced by the following:

(*a*) a payment at any time by the other person on account of the liability shall, to the extent of the payment, discharge their liability after that time; and

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*b*) a payment at any time by the corporation on account of its liability shall discharge the other person's liability only to the extent of the amount determined by the formula

$$(A - B) \times \frac{C}{D}$$

where

A is the total of

(i) the amount of the corporation's liability, immediately before that time, under this Part in respect of the full amount of the dividend, and

(ii) the amount of the payment,

B is the amount of the corporation's liability, immediately before that time, under this Act,

C is the amount of the dividend received by the other person, and

D is the full amount of the dividend.

History: S. 185(6) was added by S.C. 1994, c. 7, Sched. II, s. 153(1), applicable with respect to dividends paid after July 13, 1990.

Part III.1
Additional Tax on Excessive Eligible Dividend Designations

SECTION 185.1:

► 185.1(1) ◄

(1) Tax on excessive eligible dividend designations. A corporation that has made an excessive eligible dividend designation in respect of an eligible dividend paid by it at any time in a taxation year shall, on or before the corporation's balance-due day for the taxation year, pay a tax under this Part for the taxation year equal to the total of

(*a*) 20% of the excessive eligible dividend designation, and

(*b*) if the excessive eligible dividend designation arises because of the application of paragraph (*c*) of the definition "excessive eligible dividend designation" in subsection 89(1), 10% of the excessive eligible dividend designation.

History: S. 185.1(1) was added by S.C. 2007, c. 2, s. 51(1), applicable to taxation years that end after 2005.

Editorial Note: Part III.1 of the Act normally imposes a 20% tax on "excessive eligible dividend designations" (see the definition in subsection 89(1)). Reminiscent of Part III tax on excessive capital dividends, a corporation subject to this tax can elect to treat a part of the excess eligible dividend designation as a separate ineligible dividend to which Part III.1 tax will not apply, provided that the election is made within 90 days after the notice of assessment in respect of the Part III.1 tax. Where the anti-avoidance rule in paragraph (*c*) of the "excessive eligible dividend designation" applies, the penalty tax is 30% of the eligible dividend; there is no ability to elect to have a portion of the dividend treated as an ineligible dividend.

Related Sections: S. 87(2)(*z.2*) Application of Parts III and III.1; s. 88(1)(*e.2*) Winding-up; s. 89(1), "eligible dividend", "excessive eligible dividend designation"; s. 185.2 Return; s. 248(1), "eligible dividend", "excessive eligible dividend designation".

Forms: T2 Schedule 55.

Tax Profile: January 2007 — Update on New Rules for the Taxation of Dividends.

► 185.1(2) ◄

(2) Election to treat excessive eligible dividend designation as an ordinary dividend. If, in respect of an excessive eligible dividend designation that is not described in paragraph (1)(*b*) and that is made by a corporation in respect of an eligible dividend (in this subsection and subsection (3) referred to as the "original dividend") paid by it at a particular time, the corporation would, if this Act were read without reference to this subsection, be required to pay a tax under subsection (1), and it elects in prescribed manner on or before the day that is 90 days after the day of mailing the notice of assessment in respect of that tax that would otherwise be payable under subsection (1), the following rules apply:

(*a*) notwithstanding the definition "eligible dividend" in subsection 89(1), the amount of the original dividend paid by the corporation is deemed to be the amount, if any, by which

(i) the amount of the original dividend, determined without reference to this subsection

exceeds

(ii) the amount claimed by the corporation in the election not exceeding the excessive eligible dividend designation, determined without reference to this subsection;

(*b*) an amount equal to the amount claimed by the corporation in the election is deemed to be a separate taxable dividend (other than an eligible dividend) that was paid by the corporation immediately before the particular time;

(*c*) each shareholder of the corporation who at the particular time held any of the issued shares of the class of shares in respect of which the original dividend was paid is deemed

(i) not to have received the original dividend, and

(ii) to have received at the particular time

(A) as an eligible dividend, the shareholder's *pro rata* portion of the amount of any dividend determined under paragraph (*a*), and

(B) as a taxable dividend (other than an eligible dividend) the shareholder's *pro rata* portion of the amount of any dividend determined under paragraph (*b*); and

(*d*) a shareholder's *pro rata* portion of a dividend paid at any time on a class of the shares of the capital stock of a corporation is that proportion of the dividend that the number of shares of that class held by the shareholder at that time is of the number of shares of that class outstanding at that time.

History: S. 185.1(2) was added by S.C. 2007, c. 2, s. 51(1), applicable to taxation years that end after 2005 except that, in respect of a dividend paid before February 21, 2007, an election under subsection 185.1(2) is deemed to have been made in a timely manner if it is made on or before August 21, 2009 [30 months after the day on which this Act is assented to].

Editorial Note: See the editorial note to subsection 185.1(1).

Related Sections: S. 82(1) Taxable dividends received; s. 82(3) Dividends received by spouse or common-law partner; s. 87(2)(*z.2*) Application of Parts III and III.1; s. 88(1)(*e.2*) Winding-up; s. 89(1), "eligible dividend", "excessive eligible dividend designation"; s. 185.2 Return; s. 248(1), "eligible dividend", "excessive eligible dividend designation".

Tax Profile: January 2007 — Update on New Rules for the Taxation of Dividends.

► 185.1(3) ◄

(3) Concurrence with election. An election under subsection (2) in respect of an original dividend is valid only if

(*a*) it is made with the concurrence of the corporation and all its shareholders

(i) who received or were entitled to receive all or any portion of the original dividend, and

(ii) whose addresses were known to the corporation; and

(*b*) either

(i) it is made on or before the day that is 30 months after the day on which the original dividend was paid, or

(ii) each shareholder described in subparagraph (*a*)(i) concurs with the election, in which case,

notwithstanding subsections 152(4) to (5), any assessment of the tax, interest and penalties payable by each of those shareholders for any taxation year shall be made that is necessary to take the corporation's election into account.

History: S. 185.1(3) was added by S.C. 2007, c. 2, s. 51(1), applicable to taxation years that end after 2005.

Editorial Note: Elections to treat a part of the excess eligible dividend designation as a separate non-eligible dividend must generally be made either: (a) within 30 months of the original payment with the consent of all shareholders entitled to receive any portion of the dividend whose names and addresses are known to the corporation; or (b) if later, with the consent of all shareholders so entitled.

► 185.1(4) ◄

(4) Exception for non-taxable shareholders. If each shareholder who, in respect of an election made under subsection (2), is deemed by subsection (2) to have received a dividend at a particular time is also, at the particular time, a person all of whose taxable income is exempt from tax under Part I,

(*a*) subsection (3) does not apply to the election; and

(*b*) the election is valid only if it is made on or before the day that is 30 months after the day on which the original dividend was paid.

History: S. 185.1(4) was added by S.C. 2007, c. 2, s. 51(1), applicable to taxation years that end after 2005.

SECTION 185.2:

► 185.2(1) ◄

(1) Return. Every corporation resident in Canada that pays a taxable dividend (other than a capital gains dividend within the meaning assigned by subsection 130.1(4) or 131(1)) in a taxation year shall file with the Minister, not later than the corporation's filing-due date for the taxation year, a return for the year under this Part in prescribed form containing an estimate of the taxes payable by it under this Part for the taxation year.

History: S. 185.2(1) was added by S.C. 2007, c. 2, s. 51(1), applicable to taxation years that end after 2005.

► 185.2(2) ◄

(2) Provisions applicable to Part. Subsections 150(2) and (3), sections 151, 152, 158 and 159, subsections 161(1) and (11), sections 162 to 167 and Division J of Part I are applicable to this Part with such modifications as the circumstances require.

History: S. 185.2(2) was added by S.C. 2007, c. 2, s. 51(1), applicable to taxation years that end after 2005.

► 185.2(3) ◄

(3) Joint and several liability from excessive eligible dividend designations. Without limiting the liability of any person under any other provision of this Act, if a Canadian-controlled private corporation or a deposit insurance corporation pays an eligible dividend in respect of which it has made an excessive eligible dividend designation to a shareholder with whom it does not deal at arm's length, the shareholder is jointly and severally, or solidarily, liable with the corporation to pay that proportion of the corporation's tax payable under this Part because of the designation that the amount of the eligible dividend received by the shareholder is of the total of all amounts each of which is a dividend in respect of which the designation was made.

History: S. 185.2(3) was added by S.C. 2007, c. 2, s. 51(1), applicable to taxation years that end after 2005.

► 185.2(4) ◄

(4) Assessment. The Minister may, at any time after the last day on which a corporation may make an election under subsection 185.1(2) in respect of an excessive eligible dividend designation, assess a person in respect of any amount payable under subsection (3) in respect of the designation, and the provisions of Division I of Part I (including, for greater certainty, the provisions in respect of interest payable) apply, with any modifications that the circumstances require, to an assessment made under this subsection as though it were made under section 152.

History: S. 185.2(4) was added by S.C. 2007, c. 2, s. 51(1), applicable to taxation years that end after 2005.

► 185.2(5) ◄

(5) Rules applicable. If under subsection (3) a corporation and a shareholder have become jointly and severally, or solidarily, liable to pay part or all of the corporation's tax payable under this Part in respect of an excessive eligible dividend designation described in subsection (3),

(*a*) a payment at any time by the shareholder on account of the liability shall, to the extent of the payment, discharge their liability after that time; and

(*b*) a payment at any time by the corporation on account of its liability shall discharge the shareholder's liability only to the extent of the amount determined by the formula

$$(A - B) \times C/D$$

where

A is the total of

(i) the amount of the corporation's liability, immediately before that time, under this Part in respect of the designation, and

(ii) the amount of the payment,

B is the amount of the corporation's liability, immediately before that time, under this Act,

C is the amount of the eligible dividend received by the shareholder, and

D the total of all amounts each of which is a dividend in respect of which the designation was made.

History: S. 185.2(5) was added by S.C. 2007, c. 2, s. 51(1), applicable to taxation years that end after 2005.

Part IV
Tax on Taxable Dividends Received by Private Corporations

SECTION 186:

► 186(1) ◄

(1) Tax on assessable dividends. Every corporation (in this section referred to as the "particular corporation") that is at any time in a taxation year a private corporation or a subject corporation shall, on or before its balance-due day for the year, pay a tax under this Part for the year equal to the amount, if any, by which the total of

(*a*) 1/3 of all assessable dividends received by the particular corporation in the year from corporations other than payer corporations connected with it, and

(*b*) all amounts, each of which is an amount in respect of an assessable dividend received by the particular corporation in the year from a private corporation or a subject corporation that was a payer corporation connected with the particular corporation, equal to that proportion of the payer corporation's dividend refund (within the meaning assigned by paragraph 129(1)(*a*)) for its taxation year in which it paid the dividend that

(i) the amount of the dividend received by the particular corporation

is of

(ii) the total of all taxable dividends paid by the payer corporation in its taxation year in which it paid the dividend and at a time when it was a private corporation or a subject corporation

exceeds 1/3 of the total of

(*c*) such part of the particular corporation's non-capital loss and farm loss for the year as it claims, and

(*d*) such part of the particular corporation's

(i) non-capital loss for any of its 20 taxation years immediately preceding or 3 taxation years immediately following the year, and

(ii) farm loss for any of its 20 taxation years immediately preceding or 3 taxation years immediately following the year

as it claims, not exceeding the portion thereof that would have been deductible under section 111 in computing its taxable income for the year if subparagraph 111(3)(*a*)(ii) were read without reference to the words "the particular taxation year and" and if the corporation had sufficient income for the year.

History: S. 186(1)(*d*)(i) and (ii) were replaced by S.C. 2006, c. 4, s. 83(1), applicable in respect of losses that arise in the 2006 and subsequent taxation years.

S. 186(1)(*d*)(i) and (ii) formerly read:

"(i) non-capital loss for any of its 10 taxation years immediately preceding or 3 taxation years immediately following the year, and

(ii) farm loss for any of its 10 taxation years immediately preceding or 3 taxation years immediately following the year"

S. 186(1)(*d*)(i) was replaced by S.C. 2005, c. 19, s. 41(1), applicable in respect of losses that arise in taxation years that end after March 22, 2004. S. 186(1)(*d*)(i) formerly read:

"(i) non-capital loss for any of its 7 taxation years immediately preceding or 3 taxation years immediately following the year, and"

S. 186(1), the portion before paragraph (*a*) was replaced by S.C. 2003, c. 15, s. 120(1), applicable to taxation years that begin after June 2003. S. 186(1), the portion before paragraph (*a*) formerly read:

"S. 186. *Tax on assessable dividends.*

(1) Every corporation (in this section referred to as the 'particular corporation') that is at any time in a taxation year a private corporation or a subject corporation shall, on or before the last day of the third month after the end of the year, pay a tax under this Part for the year equal to the amount, if any, by which the total of"

S. 186(1) was amended by S.C. 1996, c. 21, s. 48(1), applicable to taxation years that end after June 1995 except that, in applying subsection (1) to any such taxation year that begins before July 1995,

(*a*) in the application of subsection 186(1) to amounts described in paragraphs 186(1)(*a*) and (*b*) that were received by the corporation in the year and before July 1995, the references in that subsection to "1/3" shall be read as "1/4";

(*b*) amounts deducted by the corporation for the year under paragraphs 186(1)(*c*) and (*d*)

(i) are deemed to have been deducted in respect of amounts described in paragraphs 186(1)(*a*) and (*b*) that were received by the corporation in the year and after June 1995, and

(ii) to the extent that the amounts so deducted exceed the amounts referred to in subparagraph (i), are deemed to have been deducted in respect of amounts described in paragraphs 186(1)(*a*) and (*b*) that were received by the corporation in the year and before July 1995. S. 186(1) formerly read:

"S. 186. *Tax on certain taxable dividends.*

(1) Every corporation (in this section referred to as the 'particular corporation') that was, at any time in a taxation year, a corporation (other than a private corporation) resident in Canada and controlled, whether by reason of a beneficial interest in one or more trusts or otherwise, by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts) (in this Part referred to as a 'subject corporation') or a private corporation shall, on or before the last day of the third month after the end of the year, pay a tax under this Part for the year equal to 1/4 of the amount, if any, by which the total of

(*a*) all amounts received by the particular corporation in the year and at a time when it was a subject corporation or a private corporation as, on account of, in lieu of payment of or in satisfaction of, taxable dividends from corporations (other than payer corporations connected with it),

(i) that are deductible under subsection 112(1) from its income for the year, or

(ii) to the extent of the amounts in respect of those dividends that are deductible under paragraph 113(1)(*a*), (*b*) or (*d*) or subsection 113(2) from its income for the year, and

(*b*) all amounts, each of which is an amount in respect of a taxable dividend, in respect of which an amount is deductible under subsection 112(1) in computing its taxable income for the year, received by the particular corporation in the year and at a time when it was a subject corporation or a private corporation from a subject corporation or a private corporation that was a payer corporation connected with the particular corporation equal to that proportion of

(i) 4 times the dividend refund of the payer corporation for its taxation year in which it paid the dividend

that

(ii) the amount in respect of the dividend so received by the particular corporation

is of

(iii) the total of all taxable dividends paid by the payer corporation in its taxation year in which it paid the dividend and at a time when it was a subject corporation or a private corporation

(*b*.1) [Repealed by 1984, c. 45, S. 77(1).]

exceeds the total of

(*c*) such part of the particular corporation's non-capital loss and such part of its farm loss for the year as it may claim, and

(*d*) such part of the particular corporation's

(i) non-capital loss for a taxation year that is any of the 7 taxation years immediately preceding or the 3 taxation years immediately following the year, and

(ii) farm loss for a taxation year that is any of the 10 taxation years immediately preceding or the 3 taxation years immediately following the year

as it may claim, not exceeding the portion thereof that would have been deductible under section 111 in computing the corporation's taxable income for the year if subparagraph 111(3)(*a*)(ii) were read without reference to the words 'the particular taxation year and' and if the corporation had sufficient income for the year."

S. 186(1)(*a*), the part preceding subparagraph (i), was amended by S.C. 1994, c. 7, Sched. VIII, s. 110(1), applicable to dividends received after 1992. That part formerly read:

"(*a*) all amounts received by the particular corporation in the year as, on account or in lieu of payment of, or in satisfaction of, taxable dividends from corporations other than payer corporations connected with it,"

S. 186(1)(*b*), the part preceding subparagraph (i), was amended by S.C. 1994, c. 7, Sched. VIII, s. 110(2), applicable to dividends received after 1992. That part formerly read:

"(*b*) all amounts, each of which is an amount in respect of a taxable dividend, in respect of which an amount is deductible under subsection 112(1) from its income for the year, received by the particular corporation in the year from a corporation (in this section referred to as the 'payer corporation') connected with the particular corporation equal to that proportion of"

Subparagraph 186(1)(*b*)(iii) was amended by S.C. 1994, c. 7, Sched. VIII, s. 110(3), applicable to dividends paid in the 1992 or a subsequent taxation year except that, with respect to dividends paid in a taxation year beginning before 1993 and ending after 1992, s. 186(1)(*b*)(iii) shall be read as provided in s. 110(6) of 1994, c. 7, Sched. VIII, reproduced below.

Subparagraph 186(1)(*b*)(iii) formerly read:

"(iii) the total of all taxable dividends paid by the payer corporation in its taxation year in which it paid the dividend,"

Editorial Note: Part IV of the Act prevents the deferral of tax on dividends when received by a corporation rather than an individual, by effectively imposing a 33 1/3% refundable tax on dividends which would otherwise be tax free under Part I ("assessable dividends"). There is no special Part IV rate for "eligible dividends" (defined in subsection 89(1)), which were proposed in the 2006 Federal Budget. Part IV tax is applicable to taxable dividends received by "private corporations" (see subsection 89(1)) and "subject corporations" (non-private corporations controlled for the benefits of an individual or related group of individuals, other than trusts — see subsection 186(3)).

Part IV tax is based on: (a) 1/3 of assessable dividends from non-connected corporations; and (b) an amount equivalent to the recipient's portion of the dividend refund in respect to assessable dividends from connected (private or subject) corporations.

The meaning of "connected" is found in subsection 186(4) and related provisions.

Related Sections: S. 15.1(1) Interest on small business development bonds; s. 15.2(1) Interest on small business bond; s. 55(2) Deemed proceeds or capital gain; s. 88(1.1) Non-capital losses, etc., of subsidiary; s. 88(1.3) Computation of income and tax of parent; s. 89(1)(*f*), "private corporation"; s. 89(1)(*j*), "taxable dividend"; s. 104(1) Reference to trust or estate; s. 111(3) Limitation on deductibility; s. 111(8), "non-capital loss", "farm loss"; s. 112(1) Deduction of taxable dividends received by corporation resident in Canada; s. 113(1) Deduction in respect of dividend received from foreign affiliate; s. 113(2) Additional deduction; s. 129(1) Dividend refund to private corporation; s. 129(3) Definition of "refundable dividend tax on hand"; s. 131(5) Dividend refund to mutual fund corporation; s. 186(3) Definitions; s. 186.1 Exempt corporations; s. 186.2 Exempt dividends; s. 227(14) Application of other Parts; s. 227(16) Municipal or provincial corporation excepted; s. 248(1), "corporation", "dividend", "individual", "private corporation", "taxable dividend", "trust"; s. 248(25) Beneficially interested; s. 249(1) Definition of "taxation year".

Interpretation Bulletins: *Primary* — IT-269R4 Part IV tax on taxable dividends received by a private corporation or a subject corporation. *Secondary* — IT-232R3 Non-capital losses, net capital losses, restricted farm losses, farm losses and limited partnership losses — Their composition and deductibility in computing taxable income; IT-302R3 Losses of a corporation — The effect on their deductibility of changes in control, amalgamation and winding-up; IT-328R3 Losses on shares on which dividends have been received.

Information Circulars: IC 88-2 General anti-avoidance rule — Section 245 of the Income Tax Act.

Forms: T2 SCH 3.

Advance Tax Rulings: ATR-32 Roll-over of fixed assets from Opco into Holdco.; ATR-35 Partitioning of assets to get specific ownership — "Butterfly".

Tax Profile: October 2004 — Taxation of Dividends: A Survey in the Context of Private Corporations and Their Shareholders.

Sec. 110(6), Chap. 7, Sched. VIII, 1994

(6) [Dividends paid in the taxation year commencing before 1993 and ending after 1992.] Subsection [186(1)(*b*)(iii)] applies to dividends paid in the 1992 or a subsequent taxation year except that, with respect to dividends paid in a taxation year beginning before 1993 and ending after 1992, subparagraph 186(1)(*b*)(iii) of the Act shall be read as follows:

"(iii) the total of all taxable dividends paid by the payer corporation in its taxation year in which it paid the dividend that were paid before 1993 or at a time when the payer corporation was a subject corporation or a private corporation"

► 186(1.1) ◄

(1.1) Reduction where Part IV.1 tax payable. Notwithstanding subsection (1), where an assessable dividend was received by a corporation in a taxation year and was included in an amount in respect of which tax under Part IV.1 was payable by the corporation for the year, the tax otherwise payable under this Part by the corporation for the year shall be reduced

(*a*) where the assessable dividend is described in paragraph (1)(*a*), by 10% of the assessable dividend, and

(*b*) where the assessable dividend is described in paragraph (1)(*b*), by 30% of the amount determined under that paragraph in respect of the assessable dividend.

History: S. 186(1.1) was amended by S.C. 1996, c. 21, s. 48(1), applicable to taxation years that end after June 1995 except that, in applying subsection (1) to any such taxation year that begins before July 1995, in the application of subsection 186(1.1) to amounts described in paragraph 186(1.1)(*b*) that were received by the corporation in the year and before July 1, 1995, the reference in that paragraph to "30%" shall be read as "40%". S. 186(1.1) formerly read:

"(1.1) *Reduction in tax.* Notwithstanding subsection (1), where a taxable dividend referred to in paragraph (1)(*a*) or (*b*) was received by a corporation in a taxation year and was included in an amount in respect of which tax under Part IV.1 was payable by the corporation for the year, the tax otherwise payable under this Part by the corporation for the year shall be reduced

(*a*) where the dividend is a taxable dividend referred to in paragraph (1)(*a*), by 10% of the amount determined in respect of that dividend under that paragraph; and

(*b*) where the dividend is a taxable dividend referred to in paragraph (1)(*b*), by 10% of the amount determined in respect of that dividend under that paragraph."

► 186(2) ◄

(2) When corporation controlled. For the purposes of this Part, other than for the purpose of determining whether a corporation is a subject corporation, one corporation is controlled by another corporation if more than 50% of its issued share capital (having full voting rights under all circumstances) belongs to the other corporation, to persons with whom the other corporation does not deal at arm's length, or to the other corporation and persons with whom the other corporation does not deal at arm's length.

Editorial Note: See the editorial note to subsection 186(4).

Related Sections: S. 111(1)(*a*) Non-capital losses; s. 112(1) Deduction of taxable dividends received by corporation resident in Canada.

Tax Topics: No. 1478, Restricted Meaning of "Connected" for Section 84.1.

Cases: The reference in s. 84.1 of the Act to s. 186(4) incorporates the definition of the word "control" as found in s. 186(2). *The Queen v. Olsen*, 2002 DTC 6770 (F.C.A.), reversing 2000 DTC 2121 (T.C.C.).

► 186(3) ◄

(3) Definitions. The definitions in this subsection apply in this Part.

"assessable dividend" — "assessable dividend" means an amount received by a corporation at a time when it is a private corporation or a subject corporation as, on account of, in lieu of payment of or in satisfaction of, a taxable dividend from a corporation, to the extent of the amount in respect of the dividend that is deductible under section 112, paragraph 113(1)(*a*), (*b*) or (*d*)

or subsection 113(2) in computing the recipient corporation's taxable income for the year.

"subject corporation" — "subject corporation" means a corporation (other than a private corporation) resident in Canada and controlled, whether because of a beneficial interest in one or more trusts or otherwise, by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts).

History: S. 186(3) was added by S.C. 1996, c. 21, s. 48(2), applicable to taxation years that end after June 1995.

► 186(4) ◄

(4) Corporations connected with particular corporation. For the purposes of this Part, a payer corporation is connected with a particular corporation at any time in a taxation year (in this subsection referred to as the "particular year") of the particular corporation if

(*a*) the payer corporation is controlled (otherwise than by virtue of a right referred to in paragraph 251(5)(*b*)) by the particular corporation at that time; or

(*b*) the particular corporation owned, at that time,

(i) more than 10% of the issued share capital (having full voting rights under all circumstances) of the payer corporation, and

(ii) shares of the capital stock of the payer corporation having a fair market value of more than 10% of the fair market value of all of the issued shares of the capital stock of the payer corporation.

Editorial Note: A corporation will be connected to a particular corporation if it owns more than 10% of the issued capital, in terms of both the fair market value and voting rights (full voting rights under all circumstances). In the former respect, the impact of minority discounts should be considered. A corporation will also be connected to another if it is "controlled" by the particular corporation.

Per subsection 186(2), a corporation is controlled if more than 50% of the issued shares having full voting rights under all circumstances belong either to the other corporation or a non-arm's length person. (Per subsection 186(7), subsection 186(2) applies for the entire *Income Tax Act*)

Related Sections: s. 84(11) Computation of contributed surplus; s. 84.1(1) Non-arm's length sale of shares; s. 89(1), "private corporation", "taxable dividends"; s. 110.6(1), "qualified small business corporation share"; s. 110.6(15)(a) Value of assets of corporations; s. 111(8), "farm loss", "non-capital loss"; s. 186(1) Tax on assessable dividends; s. 186(2) When corporation controlled; s. 186(7) Interpretation; s. 212.1(1) Non-arm's length sales of shares by non-residents; s. 248(1), "amount", "corporation", "dividend", "share", "small business corporation"; s. 249 Definition of "taxation year".

Tax Topics: No. 1478, Restricted Meaning of "Connected" for Section 84.1.

► 186(5) ◄

(5) Deemed private corporation. A corporation that is at any time in a taxation year a subject corporation shall, for the purposes of paragraph 87(2)(*aa*) and section 129, be deemed to be a private corporation at that time, except that its refundable dividend tax on hand (within the meaning assigned by subsection 129(3)) at the end of the year shall be determined without reference to paragraph 129(3)(*a*).

History: S. 186(5) was amended by S.C. 1996, c. 21, s. 48(3), applicable to taxation years that end after June 1995. S. 186(5) formerly read:

"(5) *Deemed private corporation.* A corporation that is at any time a subject corporation shall, for the purposes of paragraphs 87(2)(*aa*) and 88(1)(*e.5*) and section 129, be deemed to be a private corporation at that time, except that its refundable dividend tax on hand at the end of any taxation year shall be deemed to be the amount, if any, by which the total of

(*a*) the total of the taxes under this Part payable by the corporation for the year and any previous taxation years ending after it last became a subject corporation, and

(*a.1*) the amount, if any, of the corporation's addition at December 31, 1986 of refundable dividend tax on hand (within the meaning assigned by subsection 129(3.3)),

exceeds the total of

(*b*) the total of the corporation's dividend refunds for taxation years ending after it last became a subject corporation and before the year, and

(*c*) the amount, if any, of the corporation's reduction at December 31, 1987 of refundable dividend tax on hand (within the meaning assigned by subsection 129(3.5))."

S. 186(5), that portion preceding paragraph (*a*), was amended by 1994, c. 7, Sched. VIII, s. 110(4), applicable to 1993 and subsequent taxation years. S. 186(5), that portion preceding paragraph (*a*), formerly read:

"(5) *Presumption.* A corporation that was at the end of a taxation year commencing after November 12, 1981 a subject corporation or a private corporation that was at any time in the year a subject corporation shall, for the purposes of paragraphs 87(2)(*aa*) and 88(1)(*e.5*) and section 129, be deemed to have been a private corporation at the times in the year that it was a subject corporation, except that its refundable dividend tax on hand at the end of the year shall be deemed to be the amount, if any, by which the total of"

Related Sections: S. 87(2)(*aa*) Refundable dividend tax on hand; s. 88(1)(*e.5*) Winding-up; s. 89(1)(*f*), "private corporation"; s. 129(1) Dividend refund to private corporation; s. 129(3.5) Definition of "reduction at December 31, 1987 of refundable dividend tax on hand"; s. 186(1) Tax on assessable dividends; s. 248(1), "private corporation"; s. 249(1) Definition of "taxation year".

► 186(6) ◄

(6) Partnerships. For the purposes of this Part,

(*a*) all amounts received in a fiscal period by a partnership as, on account or in lieu of payment of, or in satisfaction of, taxable dividends shall be deemed to have been received by each member of the partnership in the member's fiscal period or taxation year in which the partnership's fiscal period ends, to the extent of that member's share thereof; and

(*b*) each member of a partnership shall be deemed to own at any time that proportion of the number of the shares of each class of the capital stock of a corporation that are property of the partnership at that time that the member's share of all dividends received on those shares by the partnership in its fiscal period that includes that time is of the total of all those dividends.

► 186(7) ◄

(7) Interpretation. For greater certainty, where a provision of this Act or the regulations indicates that the term "connected" has the meaning assigned by subsection 186(4), that meaning shall be determined by taking into account the application of subsection 186(2) unless the provision expressly provides otherwise.

History: S. 186(7) was added by S.C. 2001, c. 17, s. 164(1), applicable on and after March 16, 2001, [except that s. 186(7)] does not apply for the purposes of applying the Act on and after March 16, 2001 with respect to actions or transactions of a taxpayer required to be carried out under an agreement in writing made by the taxpayer before March 16, 2001 if the taxpayer elects in writing that this subsection apply by filing the election including a copy of the agreement with the Minister of National Revenue before August 13, 2001 [the day that is 60 days after the day on which this Act receives royal assent (June 14, 2001)].

Related Sections: S. 84.1(1) Non-arm's length sale of shares; s. 212.1(1) Non-arm's length sales of shares by non-residents.

SECTION 186.1: Exempt corporations. No tax is payable under this Part for a taxation year by a corporation

(*a*) that was, at any time in the year, a bankrupt (within the meaning assigned by subsection 128(3)); or

(*b*) that was, throughout the year,

(i) a bank,

(ii) a corporation licensed or otherwise authorized under the laws of Canada or a province to carry

on in Canada the business of offering to the public its services as a trustee,

(iii) an insurance corporation,

(iy) a prescribed labour-sponsored venture capital corporation,

(v) a prescribed investment contract corporation,

(vi) a non-resident-owned investment corporation, or

(vii) a registered securities dealer that was throughout the year a member, or a participating organization, of a designated stock exchange in Canada.

History: S. 186.1(*b*)(vii) was replaced by S.C. 2007, c. 35, s. 55(1), applicable after April 2, 2000, except that, in its application before December 14, 2007, the reference to "designated stock exchange" in subparagraph 186.1(*b*)(vii) shall be read as a reference to "prescribed stock exchange". S. 186.1(*b*)(vii) formerly read:

"(vii) a registered securities dealer that was throughout the year a member of a prescribed stock exchange in Canada."

S. 186.1(*b*) was amended by S.C. 1998, c. 19, s. 200(1), applicable after February 22, 1994 except that, in its application to taxation years that ended before 1997, paragraph 186.1(*b*) of the Act, shall be read without reference to subparagraph 186.1(*b*)(vii) of the Act. S. 186.1(*b*) formerly read:

"(*b*) that was, throughout the year, a prescribed labour-sponsored venture capital corporation, a prescribed investment contract corporation, an insurance corporation, a corporation described in paragraph 39(5)(*b*) or (*c*) or a non-resident-owned investment corporation."

Related Sections: S. 133(8) Definitions; s. 248(1), "insurance corporation".
Regulations: 6701; 6703.
Interpretation Bulletins: *Primary* — IT-269R4 Part IV tax on taxable dividends received by a private corporation or a subject corporation. *Secondary* — IT-302R3 Losses of a corporation — The effect on their deductibility of changes in control, amalgamation and winding-up.

SECTION 186.2: Exempt dividends.

For the purposes of subsection 186(1), dividends received in a taxation year by a corporation that was, throughout the year, a prescribed venture capital corporation from a corporation that was a prescribed qualifying corporation with respect to those dividends shall be deemed not to be taxable dividends.

Regulations: 6700; 6704.
Interpretation Bulletins: *Primary* — IT-269R4 Part IV tax on taxable dividends received by a private corporation or a subject corporation.

SECTION 187:

► 187(1) ◄

(1) Information return. Every corporation that is liable to pay tax under this Part for a taxation year in respect of a dividend received by it in the year shall, on or before the day on or before which it is required to file its return of income under Part I for the year, file a return for the year under this Part in prescribed form.

Related Sections: S. 150(1)(*a*) Corporations; s. 186(1) Tax on assessable dividends.
Interpretation Bulletins: *Secondary* — IT-269R4 Part IV tax on taxable dividends received by a private corporation or a subject corporation; IT-302R3 Losses of a corporation — The effect on their deductibility of changes in control, amalgamation and winding-up.

► 187(2) ◄

(2) Interest. Where a corporation is liable to pay tax under this Part and has failed to pay all or any part thereof on or before the day on or before which the tax was required to be paid, it shall pay to the Receiver General interest at the prescribed rate on the amount that it failed to pay computed from the day on or before which the tax was required to be paid to the day of payment.

Related Sections: S. 161.1 Offset of refund interest and arrears interest; s. 248(11) Compound interest.
Regulations: 4301.
Interpretation Bulletins: *Secondary* — IT-302R3 Losses of a corporation — The effect on their deductibility of changes in control, amalgamation and winding-up.

► 187(3) ◄

(3) Provisions applicable to Part. Sections 151, 152, 158 and 159, subsections 161(7) and (11), sections 162 to 167 and Division J of Part I are applicable to this Part with such modifications as the circumstances require.

Related Sections: S. 248(1), "amount", "corporation", "dividend", "share", "taxable dividend".
Interpretation Bulletins: *Secondary* — IT-302R3 Losses of a corporation — The effect on their deductibility of changes in control, amalgamation and winding-up.

Part IV.1
Taxes on Dividends on Certain Preferred Shares Received by Corporations

SECTION 187.1: Definition of "excepted dividend".

In this Part, "excepted dividend" means a dividend

(*a*) received by a corporation on a share of the capital stock of a foreign affiliate of the corporation, other than a dividend received by a specified financial institution on a share acquired in the ordinary course of the business carried on by the institution;

(*b*) received by a corporation from another corporation (other than a corporation described in any of paragraphs (*a*) to (*f*) of the definition "financial intermediary corporation" in subsection 191(1)) in which it has or would have, if the other corporation were a taxable Canadian corporation, a substantial interest (as determined under section 191) at the time the dividend was paid;

(*c*) received by a corporation that was, at the time the dividend was received, a private corporation or a financial intermediary corporation (within the meaning assigned by subsection 191(1));

(*d*) received by a corporation on a short-term preferred share of the capital stock of a taxable Canadian corporation other than a dividend described in paragraph (*b*) or (*c*) of the definition "excluded dividend" in subsection 191(1); or

(*e*) received by a corporation on a share (other than a taxable RFI share or a share that would be a taxable preferred share if the definition "taxable preferred share" in subsection 248(1) were read without reference to paragraph (*a*) of that definition) of the capital stock of a mutual fund corporation.

History: S. 187.1(*a*) was amended by S.C. 1994, c. 7, Sched. II, s. 154(1), applicable with respect to dividends received after 1987. S. 187.1(*a*) formerly read:

"(*a*) received by a corporation on a share of the capital stock of a foreign affiliate of the corporation where the share was not acquired by the corporation in the ordinary course of the business carried on by the corporation;"

Related Sections: S. 89(1), "taxable Canadian corporation"; s. 95(1), "foreign affiliate"; s. 248(1), "corporation", "dividend", "share", "short-term preferred share", "taxable preferred share", "taxable RFI share".

SECTION 187.2: Tax on dividends on taxable preferred shares.

Every corporation shall, on or before its balance-due day for a taxation year, pay a tax under this Part for the year equal to 10% of the total of all amounts each of which is a dividend, other than an excepted dividend, received by the corporation in the year on a taxable preferred share (other than a share of a class in respect of which an election under subsection 191.2(1) has been made) to the extent that an amount in respect of the dividend was deductible under section 112 or 113 or subsection 138(6) in computing its taxable income for the year or under subsection 115(1) in computing its taxable income earned in Canada for the year.

History: S. 187.2 was replaced by S.C. 2003, c. 15, s. 121(1), applicable to taxation years that begin after June 2003. S. 187.2 formerly read:

"S. 187.2. *Tax on dividends on taxable preferred shares.* Every corporation shall, on or before the last day of the second month after the end of each taxation year, pay a tax under this Part for the year equal to 10% of the total of all amounts each of which is a dividend, other than an excepted dividend, received by the corporation in the year on a taxable preferred share (other than a share of a class in respect of which an election under subsection 191.2(1) has been made) to the extent that an amount in respect of the dividend was deductible under section 112 or 113 or subsection 138(6) in computing its taxable income for the year or under subsection 115(1) in computing its taxable income earned in Canada for the year."

Related Sections: S. 227(14) Application of other Parts; s. 248(1), "amount", "corporation", "dividend", "taxable income", "taxable income earned in Canada", "taxable preferred share".

Forms: T2 SCH 43.

Canadian Tax Foundation: Moskowitz, "The Preferred Share Rules: Yes, They Can Apply to You!", *1997 Conference Report*, 9:1.

SECTION 187.3:

► 187.3(1) ◄

(1) Tax on dividends on taxable RFI shares. Every restricted financial institution shall, on or before its balance-due day for a taxation year, pay a tax under this Part for the year equal to 10% of the total of all amounts each of which is a dividend, other than an excepted dividend, received by the institution at any time in the year on a share acquired by any person before that time and after 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987 that was, at the time the dividend was paid, a taxable RFI share to the extent that an amount in respect of the dividend was deductible under section 112 or 113 or subsection 138(6) in computing its taxable income for the year or under subsection 115(1) in computing its taxable income earned in Canada for the year.

History: S. 187.3(1) was replaced by S.C. 2003, c. 15, s. 122(1), applicable to taxation years that begin after June 2003. S. 187.3(1) formerly read:

"S. 187.3. *Tax on dividends on taxable RFI shares.*

(1) Every restricted financial institution shall, on or before the last day of the second month after the end of each taxation year, pay a tax under this Part for the year equal to 10% of the total of all amounts each of which is a dividend, other than an excepted dividend, received by the institution at any time in the year on a share acquired by any person before that time and after 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987 that was, at the time the dividend was paid, a taxable RFI share to the extent that an amount in respect of the dividend was deductible under section 112 or 113 or subsection 138(6) in computing its taxable income for the year or under subsection 115(1) in computing its taxable income earned in Canada for the year."

Related Sections: S. 248(1), "amount", "corporation", "dividend", "restricted financial institution", "share", "taxable income", "taxable income earned in Canada", "taxable RFI share".

► 187.3(2) ◄

(2) Time of acquisition of share. For the purposes of subsection (1),

(*a*) a share of the capital stock of a corporation acquired by a person after 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987 pursuant to an agreement in writing entered into before that time shall be deemed to have been acquired by that person before that time;

(*b*) a share of the capital stock of a corporation acquired by a person after 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987 and before

1988 as part of a distribution to the public made in accordance with the terms of a prospectus, preliminary prospectus, registration statement, offering memorandum or notice filed before 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987 with a public authority pursuant to and in accordance with the securities legislation of the jurisdiction in which the shares are distributed shall be deemed to have been acquired by that person before that time;

(*c*) a share (in this paragraph referred to as the "new share") of the capital stock of a corporation that is acquired by a person after 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987 in exchange for

(i) a share of a corporation that was issued before 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987 or is a grandfathered share, or

(ii) a debt obligation of a corporation that was issued before 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987, or issued after that time pursuant to an agreement in writing entered into before that time,

where the right to the exchange for the new share and all or substantially all the terms and conditions of the new share were established in writing before that time shall be deemed to have been acquired by that person before that time;

(*d*) a share of a class of the capital stock of a Canadian corporation listed on a designated stock exchange in Canada that is acquired by a person after 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987 on the exercise of a right

(i) that was issued before that time and listed on a prescribed stock exchange in Canada, and

(ii) the terms of which at that time included the right to acquire the share,

where all or substantially all the terms and conditions of the share were established in writing before that time shall be deemed to have been acquired by that person before that time;

(*e*) where a share that was owned by a particular restricted financial institution at 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987 has, by one or more transactions between related restricted financial institutions, been transferred to another restricted financial institution, the share shall be deemed to have been acquired by the other restricted financial institution before that time unless at any particular time after 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987 and before the share was transferred to the other restricted financial institution the share was owned by a shareholder who, at that particular time, was a person other than a restricted financial institution related to the other restricted financial institution; and

(*f*) where, at any particular time, there has been an amalgamation within the meaning assigned by section 87, and

(i) each of the predecessor corporations was a restricted financial institution throughout the period from 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987 to the particular time and the predecessor corporations were related to each other throughout that period, or

(ii) each of the predecessor corporations and the new corporation is a corporation described in any of paragraphs (*a*) to (*d*) of the definition "restricted financial institution" in subsection 248(1),

a taxable RFI share acquired by the new corporation from a predecessor corporation on the amalgamation shall be deemed to have been acquired by the new corporation at the time it was acquired by the predecessor corporation.

History: S. 187.3(2)(*d*), the portion before subparagraph (i) was amended by S.C. 2007, c. 35, s. 68(1), by replacing "prescribed stock exchange" with "designated stock exchange", applicable on and after December 14, 2007 [the day on which this Act is assented to].

Regulations: 3200.

SECTION 187.4: Partnerships.

For the purposes of this Part,

(*a*) all amounts received in a fiscal period by a partnership as, on account or in lieu of payment of, or in satisfaction of, dividends shall be deemed to have been received by each member of the partnership in the member's fiscal period or taxation year in which the partnership's fiscal period ends, to the extent of that member's share thereof;

(*b*) each member of a partnership shall be deemed to own at any time that proportion of the number of the shares of each class of the capital stock of a corporation that are property of the partnership at that time that the member's share of all dividends received on those shares by the partnership in its fiscal period that includes that time is of the total of all those dividends; and

(*c*) a reference to a person includes a partnership.

SECTION 187.5: Information return.

Every corporation liable to pay tax under this Part for a taxation year shall file with the Minister, not later than the day on or before which it is required by section 150 to file its return of income for the year under Part I, a return for the year under this Part in prescribed form containing an estimate of the taxes payable by it under sections 187.2 and 187.3 for the year.

Forms: T2 SCH 43.

SECTION 187.6: Provisions applicable to Part.

Sections 152, 158 and 159, subsections 161(1), (2) and (11), sections 162 to 167 and Division J of Part I are applicable to this Part with such modifications as the circumstances require.

SECTION 187.61: Provisions applicable — Crown corporations.

Section 27 applies to this Part with any modifications that the circumstances require.

History: S. 187.61 was added by S.C. 1998, c. 19, s. 201(1), applicable after 1987.

Part V
Tax and Penalties in Respect of Registered Charities

SECTION 187.7: Application of s. 149.1(1).

The definitions in subsection 149.1(1) apply to this Part.

History: The heading for Part V was replaced by S.C. 2005, c. 19, s. 42(1), deemed to have come into force on March 23, 2004. The heading for Part V formerly read:
"Tax in Respect of Registered Charities"

SECTION 188:

► 188(1) ◄

(1) Deemed year-end on notice of revocation. If on a particular day the Minister issues a notice of intention to revoke the registration of a taxpayer as a registered charity under any of subsections 149.1(2) to (4.1) and 168(1) or it is determined, under subsection 7(1) of the *Charities Registration (Security Information) Act*, that a certificate served in respect of the charity under subsection 5(1) of that Act is reasonable on the basis of information and evidence available,

(*a*) the taxation year of the charity that would otherwise have included that day is deemed to end at the end of that day;

(*b*) a new taxation year of the charity is deemed to begin immediately after that day; and

(*c*) for the purpose of determining the charity's fiscal period after that day, the charity is deemed not to have established a fiscal period before that day.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Application

In applying the description of B in paragraph 188(1)(*a*) of the Act in respect of gifts made to a charity after December 20, 2002, to the extent that those gifts are relevant in respect of notices of intention to revoke the registration of the charity and certificates under subsection 5(1) of the *Charities Registration (Security Information) Act* that are issued by the Minister of National Revenue before June 13, 2005, that description is to be read as follows:

"B is the total of all amounts each of which is the eligible amount of a gift for which it issued a receipt described in subsection 110.1(2) or 118.1(2) in the period (in this section referred to as the 'winding-up period') that begins on the valuation day and ends immediately before the payment day, or an amount received by it in the winding-up period from a registered charity,"

Applicable: Royal Assent.

Explanatory Note: Subsection 188(1) of the Act imposes a tax payable by a registered charity in respect of the revocation of the charity's registration. The tax is generally equal to the total of the value of the assets of the charity plus the amount of receipted donations and inter-charity gifts received by the charity after the "valuation day" of the charity's assets, net of certain eligible disbursements.

Subsection 188(1) is amended consequential to the addition of new subsection 248(31) of the Act, in respect of gifts made after December 20, 2002, to refer to the "eligible amount" of a gift for which a receipt was issued by the charity. For additional information, see the commentary to new subsection 248(31). [**Editorial Note**: See the history note for subsection 188(1) for the description of B in paragraph 188(1)(*a*).]

History: S. 188(1) was replaced by S.C. 2005, c. 19, s. 43(1), applicable in respect of notices issued and certificates served by the Minister of National Revenue after the day that is 30 days after the day on which this Act is assented to [June 12, 2005, Royal Assent May 13, 2005]. S. 188(1) formerly read:

"S. 188. (1) *Revocation tax.* Where the registration of a charity is revoked, the charity shall, on or before the day (in this subsection referred to as the 'payment day') in a taxation year that is one year after the day on which the revocation is effective,

(*a*) pay a tax under this Part for the year equal to the amount determined by the formula

A + B – C – D – E – F

where

A is the total of all amounts each of which is the fair market value of an asset of the charity on the day (in this section referred to as the 'valuation day') that is 120 days before the day on which

(i) the notice of the Minister's intention to revoke the charity's registration is mailed, if the registration is revoked under subsection 168(2), or

(ii) the charity is, under subsection 5(1) of the *Charities Registration (Security Information) Act*, served with a copy of a certificate, if the registration is revoked under subsection 168(3),

B is the total of all amounts each of which is the amount of a gift for which it issued a receipt described in subsection 110.1(2) or 118.1(2) in the period (in this section referred to as the 'winding-up period') that begins on the valuation day and ends immediately before the payment day, or an amount received by it in the winding-up period from a registered charity,

C is the total of all amounts each of which is the fair market value, at the time of the transfer, of an asset transferred by it in the winding-up period to a qualified donee,

D is the total of all amounts each of which is expended by it in the winding-up period on charitable activities carried on by it,

E is the total of all amounts each of which is paid by it in the winding-up period in respect of its debts that were outstanding on the valuation day and not included in determining the value of D, and

F is the total of all amounts each of which is a reasonable expense incurred by it in the winding-up period and not included in determining the value of D; and

(*b*) file with the Minister a return in prescribed form and containing prescribed information, without notice or demand therefor."

S. 188(1)(*a*), the description of A was amended by S.C. 2001, c. 41, s. 116, coming into force on December 24, 2001. S. 188(1)(*a*), the description of A formerly read:

"A is the total of all amounts each of which is the fair market value of an asset of the charity on the day (in this section referred to as the 'valuation day') that is 120 days before the day on which notice of the Minister's intention to revoke its registration is mailed,"

S. 188(1) was amended by S.C. 1994, c. 21, s. 84(1), applicable to cases where the registration of a charity is revoked pursuant to a notice of intention to revoke its registration that is mailed after 1992. S. 188(1) formerly read:

"(1) Where the registration of a charity is revoked, the charity shall, on or before the day in a taxation year that is one year after the day on which the revocation is effective, pay a tax for the year under this Part equal to the amount, if any, by which the total of

(*a*) the fair market value, on the day that notice of the Minister's intention to revoke its registration is mailed, of all its assets on that day, and

(*b*) the total of all gifts for which it issued receipts described in subsection 110.1(2) or 118.1(2) after the day referred to in paragraph (*a*) and all amounts received after that day from registered charities

exceeds the total of

(*c*) the fair market value on the day referred to in paragraph (*a*) of each asset of the charity transferred by it to a qualified donee within the period commencing immediately after that day and expiring at the end of one year from the day on which the revocation is effective,

(*d*) amounts expended by it within the period described in paragraph (*c*) on charitable activities carried on by it,

(*e*) amounts paid by the charity after the day referred to in paragraph (*a*) in respect of *bona fide* debts of the charity that were outstanding on that day, and

(*f*) the amount of such reasonable expenses as are incurred by the charity within the period described in paragraph (*c*)."

S. 188(1)(*b*) was amended by S.C. 1994, c. 7, Sched. II, s. 155(1), applicable to the 1988 and subsequent taxation years. S. 188(1)(*b*) formerly read:

"(*b*) the total of all amounts each of which is an amount of a gift for which it issued a receipt described in paragraph 110.1(1)(*a*) or subsection 118.1(2) after the day referred to in paragraph (*a*) or an amount received after that date from a registered charity,"

Related Sections: S. 110.1(2) Proof of gift; s. 118.1(2) Proof of gift.
Registered Charities Newsletters: No. 16, What is the revocation tax?.
Cases: The taxpayer whose registration as a registered Canadian charitable organization had been revoked, had to be represented by counsel, although it was impecunious *Institute of Applied Methodology v. The Queen*, 91 DTC 5237 (F.C.T.D.).

► 188(1.1) ◄

(1.1) Revocation tax. A charity referred to in subsection (1) is liable to a tax, for its taxation year that is deemed to have ended, equal to the amount determined by the formula

A – B

where

A is the total of all amounts, each of which is

(*a*) the fair market value of a property of the charity at the end of that taxation year,

(*b*) the amount of an appropriation (within the meaning assigned by subsection (2)) in respect of a property transferred to another person in the 120-day period that ended at the end of that taxation year, or

(*c*) the income of the charity for its winding-up period, including gifts received by the charity in that period from any source and any income that would be computed under section 3 as if that period were a taxation year; and

B is the total of all amounts (other than the amount of an expenditure in respect of which a deduction has been made in computing income for the winding-up period under paragraph (*c*) of the description of A), each of which is

(*a*) a debt of the charity that is outstanding at the end of that taxation year,

(*b*) an expenditure made by the charity during the winding-up period on charitable activities carried on by it, or

(*c*) an amount in respect of a property transferred by the charity during the winding-up period and not later than the latter [(*sic*) later — CCH] of one year from the end of the taxation year and the day, if any, referred to in paragraph (1.2)(*c*), to a person that was at the time of the transfer an eligible donee in respect of the charity, equal to the amount, if any, by which the fair market value of the property, when transferred, exceeds the consideration given by the person for the transfer.

History: S. 188(1.1) was added by S.C. 2005, c. 19, s. 43(1), applicable in respect of notices issued and certificates served by the Minister of National Revenue after the day that is 30 days after the day on which this Act is assented to [June 12, 2005, Royal Assent May 13, 2005].

► 188(1.2) ◄

(1.2) Winding-up period. In this Part, the winding-up period of a charity is the period, that begins immediately after the day on which the Minister issues a notice of intention to revoke the registration of a taxpayer as a registered charity under any of subsections 149.1(2) to (4.1) and 168(1) (or, if earlier, immediately after the day on which it is determined, under subsection 7(1) of the *Charities Registration (Security Information) Act*, that a certificate served in respect of the charity under subsection 5(1) of that Act is reasonable on the basis of information and evidence available), and that ends on the day that is the latest of

(*a*) the day, if any, on which the charity files a return under subsection 189(6.1) for the taxation year deemed by subsection (1) to have ended, but not later than the day on which the charity is required to file that return,

(*b*) the day on which the Minister last issues a notice of assessment of tax payable under subsection (1.1) for that taxation year by the charity, and

(*c*) if the charity has filed a notice of objection or appeal in respect of that assessment, the day on which the Minister may take a collection action under section 225.1 in respect of that tax payable.

History: S. 188(1.2) was added by S.C. 2005, c. 19, s. 43(1), applicable in respect of notices issued and certificates served by the Minister of National Revenue after the day that is 30 days after the day on which this Act is assented to [June 12, 2005, Royal Assent May 13, 2005].

► 188(1.3) ◄

(1.3) Eligible donee. In this Part, an eligible donee in respect of a particular charity is a registered charity

(*a*) of which more than 50% of the members of the board of directors or trustees of the registered charity deal at arm's length with each member of the board of directors or trustees of the particular charity;

(*b*) that is not the subject of a suspension under subsection 188.2(1);

(*c*) that has no unpaid liabilities under this Act or under the *Excise Tax Act*;

(*d*) that has filed all information returns required by subsection 149.1(14); and

(*e*) that is not the subject of a certificate under subsection 5(1) of the *Charities Registration (Security Information) Act* or, if it is the subject of such a certificate, the certificate has been determined under subsection 7(1) of that Act not to be reasonable.

History: S. 188(1.3) was added by S.C. 2005, c. 19, s. 43(1), applicable in respect of notices issued and certificates served by the Minister of National Revenue after the day that is 30 days after the day on which this Act is assented to [June 12, 2005, Royal Assent May 13, 2005].

► 188(2) ◄

(2) Shared liability — revocation tax. A person who, after the time that is 120 days before the end of the taxation year of a charity that is deemed by subsection (1) to have ended, receives property from the charity, is jointly and severally, or solidarily, liable with the charity for the tax payable under subsection (1.1) by the charity for that taxation year for an amount not exceeding the total of all appropriations, each of which is the amount by which the fair market value of such a property at the time it was so received by the person exceeds the consideration given by the person in respect of the property.

History: S. 188(2) was replaced by S.C. 2005, c. 19, s. 43(1), applicable in respect of notices issued and certificates served by the Minister of National Revenue after the day that is 30 days after the day on which this Act is assented to [June 12, 2005, Royal Assent May 13, 2005]. S. 188(2) formerly read:

"(2) *Idem.* A person (other than a qualified donee) who, after the valuation day of a charity, receives an amount from the charity is jointly and severally liable with the charity for the tax payable under subsection (1) by the charity in an amount not exceeding the amount by which the total of all such amounts so received by the person exceeds the total of all amounts each of which is

(*a*) a portion of such an amount that is included in determining an amount in the description of C, D, E or F in subsection (1) in respect of the charity; or

(*b*) the consideration given by the person in respect of such an amount."

S. 188(2) was amended by S.C. 1994, c. 21, s. 84(1), applicable to cases where the registration of a charity is revoked pursuant to a notice of intention to revoke its registration that is mailed after 1992. S. 188(2) formerly read:

"(2) A person (other than a qualified donee) who, on or after the day that notice of the Minister's intention to revoke the registration of a charity is mailed, receives any amount from that charity is jointly and severally liable with the charity for the tax imposed on the charity by subsection (1) in an amount not exceeding the amount by which the amount so received by the person from the charity exceeds the total of

(*a*) the total of amounts so received by the person from the charity each of which is an amount described in paragraph (1)(*d*), (*e*) or (*f*), and

(*b*) the consideration, if any, given by the person in respect of the amount so received by the person."

► 188(2.1) ◄

(2.1) Non-application of revocation tax. Subsections (1) and (1.1) do not apply to a charity in respect of a notice of intention to revoke given under any of subsections 149.1(2) to (4.1) and 168(1) if the Minister abandons the intention and so notifies the charity or if

(*a*) within the one-year period that begins immediately after the taxation year of the charity otherwise deemed by subsection (1) to have ended, the Minister has registered the charity as a charitable organization, private foundation or public foundation; and

(*b*) the charity has, before the time that the Minister has so registered the charity,

(i) paid all amounts, each of which is an amount for which the charity is liable under this Act (other than subsection (1.1)) or the *Excise Tax Act* in respect of taxes, penalties and interest, and

(ii) filed all information returns required by or under this Act to be filed on or before that time.

History: S. 188(2.1) was added by S.C. 2005, c. 19, s. 43(1), applicable in respect of notices issued and certificates served by the Minister of National Revenue after the day that is 30 days after the day on which this Act is assented to [June 12, 2005, Royal Assent May 13, 2005].

► 188(3) ◄

(3) Transfer of property tax. Where, as a result of a transaction or series of transactions, property owned by a registered charity that is a charitable foundation and having a net value greater than 50% of the net asset amount of the charitable foundation immediately before the transaction or series of transactions, as the case may be, is transferred before the end of a taxation year, directly or indirectly, to one or more charitable organizations and it may reasonably be considered that the main purpose of the transfer is to effect a reduction in the disbursement quota of the foundation, the foundation shall pay a tax under this Part for the year equal to the amount by which 25% of the net value of that property determined as of the day of its transfer exceeds the total of all amounts each of which is its tax payable under this subsection for a preceding taxation year in respect of the transaction or series of transactions.

Related Sections: S. 248(10) Series of transactions.

► 188(3.1) ◄

(3.1) Non-application of subsection (3). Subsection (3) does not apply to a transfer that is a gift to which subsection 188.1(11) applies.

History: S. 188(3.1) was added by S.C. 2005, c. 19, s. 43(2), applicable in respect of taxation years that begin after March 22, 2004.

► 188(4) ◄

(4) Idem. Where property has been transferred to a charitable organization in circumstances described in subsection (3) and it may reasonably be considered that the organization acted in concert with a charitable foundation for the purpose of reducing the disbursement quota of the foundation, the organization is jointly and severally liable with the foundation for the tax imposed on the foundation by that subsection in an amount not exceeding the net value of the property.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 188(4) of the English version of the Act is replaced by the following:

(4) Joint and several, or solidary, liability — tax transfer. Where property has been transferred to a charitable organization in circumstances described in subsection (3) and it may reasonably be considered that the organization acted in concert with a charitable foundation for the purpose of reducing the disbursement quota of the foundation, the organization is jointly and severally, or solidarily, liable with the foundation for the tax imposed on the foundation by that subsection in an amount not exceeding the net value of the property.

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

► 188(5) ◄

(5) Definitions. In this section,

"*net asset amount*" — "net asset amount" of a charitable foundation at any time means the amount determined by the formula

A – B

where

A is the fair market value at that time of all the property owned by the foundation at that time, and

B is the total of all amounts each of which is the amount of a debt owing by or any other obligation of the foundation at that time;

"*net value*" — "net value" of property owned by a charitable foundation, as of the day of its transfer, means the amount determined by the formula

A – B

where

A is the fair market value of the property on that day, and

B is the amount of any consideration given to the foundation for the transfer.

SECTION 188.1:

► 188.1(1) ◄

(1) Penalties for charities — carrying on business. Subject to subsection (2), a registered charity is liable to a penalty under this Part equal to 5% of its gross revenue for a taxation year from any business that it carries on in the taxation year, if the registered charity

(*a*) is a private foundation; or

(*b*) is not a private foundation and the business is not a related business in relation to the charity.

History: S. 188.1(1) was added by S.C. 2005, c. 19, s. 44(1), applicable to taxation years that begin after March 22, 2004.

Editorial Note: Section 188.1 was enacted in 2005 and is applicable to taxation years of registered charities that begin after March 22, 2004. The provision was designed to avoid the perceived harshness of the former rule where the only remedy available to the Minister where a registered charity infringed any of the various operating requirements set out in section 149.1 was to revoke the charity's registration. Section 188.1 now gives the Minister a number of remedies targeted at specific infractions. These provisions do not, however, eliminate the Minister's discretionary power to revoke the registration of a charity in an appropriate case (although one would anticipate that this would be an infrequent occurrence confined to extreme cases or serial offenders). Subsection 189(8) provides that these intermediate penalties are subject to the normal notice of objection procedure and provides for an appeal to the Tax Court of Canada where there is no satisfactory resolution of these penalties at the notice of objection level.

Paragraphs 149.1(2)(*a*) and (3)(*a*) provide for the revocation of the registration of a charitable organization or public foundation, respectively, that carry on "a business that is not a related business"; paragraph 149.1(4)(*a*) provides for the revocation of the registration of a private foundation that carries on "any business". Subsection 188.1(1) provides an alternative sanction being 5% of the "gross revenue" of the offending charity from the business in question. The severity of the penalty will obviously depend on the profitability of the business.

Subsection 188.1(2) provides a more severe penalty where a registered charity has been penalized for carrying on an impermissible business activity in the past five years. The penalty in such a case amounts to all of the gross revenue in the year from the same or another impermissible business activity.

Related Sections: S. 149.1(1), "charity", "charitable foundation", "charitable organization", "private foundation", "public foundation", "related business"; s. 149.1(2)(*a*) Revocation of registration of charitable organization; s. 149.1(3)(*a*) Revocation of registration of public foundation; s. 149.1(4)(*a*) Revocation of registration of private foundation; s. 248(1), "registered charity".

Canadian Tax Foundation: Hayhoe and Owens, "The New Tax Sanctions for Canadian Charities: Learning from the US Experience", *2006 Canadian Tax Journal*, No. 1, 57.

► 188.1(2) ◄

(2) Increased penalty for subsequent assessment. A registered charity that, less than five years before a particular time, was assessed a liability under subsection (1) or this subsection, for a taxation year, is liable to a penalty under this Part equal to its gross revenue for a subsequent taxation year from any business that, after that assessment and in the subsequent taxation year, it carries on at the particular time if the registered charity

(*a*) is a private foundation; or

(*b*) is not a private foundation and the business is not a related business in relation to the charity.

History: S. 188.1(2) was added by S.C. 2005, c. 19, s. 44(1), applicable to taxation years that begin after March 22, 2004.

Related Sections: See related sections under s. 188.1(1) and s. 149.1(2)(*a*), s. 149.1(3)(*a*) and s. 149.1(4)(*a*).

► 188.1(3) ◄

(3) Control of corporation by a charitable foundation. If at a particular time a charitable foundation has acquired control (within the meaning of subsection 149.1(12)) of a particular corporation, the foundation is liable to a penalty under this Part for a taxation year equal to

(*a*) 5% of the total of all amounts, each of which is a dividend received by the foundation from the particular corporation in the taxation year and at a time when the foundation so controlled the particular corporation, except if the foundation is liable under paragraph (*b*) for a penalty in respect of the dividend; or

(*b*) if the Minister has, less than five years before the particular time, assessed a liability under paragraph (*a*) or this paragraph for a preceding taxation year of the foundation in respect of a dividend received from any corporation, the total of all amounts, each of which is a dividend received, after the particular time, by the foundation, from the particular corporation, in the taxation year and at a time when the foundation so controlled the particular corporation.

History: S. 188.1(3) was added by S.C. 2005, c. 19, s. 44(1), applicable to taxation years that begin after March 22, 2004.

Editorial Note: Paragraphs 149.1(3)(*c*) and 149.1(4)(*c*) provide for the revocation of the registration of a public foundation or private foundation, respectively, that have acquired control of a corporation since June 1, 1950. Control is defined for these purposes by paragraph 149.1(12)(*a*) and excludes control acquired in situations where the charity has not purchased or otherwise acquired for valuable consideration more than 5% of the issued shares of any class of the capital stock of that corporation. The initial penalty is set at 5% of dividends received in the taxation year at a time when the charity controlled the payor corporation but, in the case of a second penalty within a year period, the penalty is increased to 100% of dividends received in the taxation year at a time when the charity controlled the payor corporation.

Related Sections: See related sections under s. 188.1(1) and s. 149.1(3)(*c*) and s. 149.1(4)(*c*) and s. 149.1(12)(*a*).

► 188.1(3.1) ◄

(3.1) Penalty for excess corporate holdings. A private foundation is liable to a penalty under this Part for a taxation year, in respect of a class of shares of the capital stock of a corporation, equal to

(*a*) 5% of the amount, if any, determined by multiplying the divestment obligation percentage of the private foundation for the taxation year in respect of the class by the total fair market value of all of the issued and outstanding shares of the class, except if the private foundation is liable for the taxation year under paragraph (*b*) for a penalty in respect of the class; or

(*b*) 10% of the amount, if any, determined by multiplying the divestment obligation percentage of the private foundation for the taxation year in respect of the class by the total fair market value of all of the issued and outstanding shares of the class, if

(i) the private foundation has failed to disclose, in its return required under subsection 149.1(14) for the taxation year,

(A) a material transaction, in the taxation year, of the private foundation in respect of the class,

(B) a material interest held at the end of the taxation year by a relevant person in respect of the private foundation, or

(C) the total corporate holdings percentage of the private foundation in respect of the class at the end of the taxation year, unless at no time in the taxation year the private foundation held greater than an insignificant interest in respect of the class, or

(ii) the Minister has, less than five years before the end of the taxation year, assessed a liability under paragraph (*a*) or this paragraph for a preceding taxation year of the private foundation in respect of any divestment obligation percentage.

History: S. 188.1(3.1) was added by S.C. 2007, c. 35, s. 56(1), in force on Royal Assent, December 14, 2007.

► 188.1(3.2) ◄

(3.2) Avoidance of divestiture. If, at the end of a taxation year, a private foundation would — but for a transaction or series of transactions entered into by the private foundation or a relevant person in respect of the private foundation (in this subsection referred to as the "holder") a result of which is that the holder holds, directly or indirectly, an interest (or for civil law, a right), in a corporation other than shares — have a divestment obligation percentage for that taxation year in respect of the private foundation's holdings of a class of shares of the capital stock of the corporation, and it can reasonably be considered that a purpose of the transaction or series is to avoid that divestment obligation percentage by substituting shares of the class for that interest or right, for the purposes of applying this section, subsection 149.1(1) and section 149.2,

(*a*) each of those interests or rights is deemed to have been converted, immediately after the time it was first held, directly or indirectly by the holder, into that number of shares of that class that would, if those shares were shares of the class that were issued by the corporation, have a fair market value equal to the fair market value of the interest or right at that time;

(*b*) each such share is deemed to be a share that is issued by the corporation and outstanding and to continue to be held by the holder until such time as the holder no longer holds the interest or right; and

(*c*) each of those shares is deemed to have a fair market value, at the particular time, equal to the fair market value, at the particular time, of a share of the class issued by the corporation, determined without reference to this subsection.

History: S. 188.1(3.2)(*c*) was replaced by S.C. 2009, c. 2, s. 62(1), applicable to taxation years, of private foundations, that begin on or after February 26, 2008. S. 188.1(3.2)(*c*) formerly read:

"(*c*) each such share is deemed to have a fair market value, at any particular time, equal to the fair market value, at the particular time, of a share of the class issued by the corporation."

S. 188.1(3.2) was added by S.C. 2007, c. 35, s. 56(1), in force on Royal Assent, December 14, 2007.

► 188.1(3.3) ◄

(3.3) Where subsection (3.5) applies. Subsection (3.5) applies to a private foundation at a particular time in a taxation year if

(*a*) at the particular time, a person (in this subsection and subsection (3.5) referred to as an "insider" of the private foundation) that is the private foundation, or is a relevant person in respect of the private foundation, is a beneficiary under a trust;

(*b*) at or before the particular time

(i) the insider acquired an interest in or under the trust, or

(ii) the trust acquired a property;

(*c*) it may reasonably be considered that a purpose of the acquisition described in paragraph (*b*) was to hold, directly or indirectly, shares of a class of the capital stock of a corporation (referred to in subsection (3.5) as the "subject corporation");

(*d*) the shares described in paragraph (*c*) would, if they were held by the insider, cause the private foundation to have a divestment obligation percentage for the taxation year; and

(*e*) at the particular time, the insider holds the interest described in subparagraph (*b*)(i), or the trust holds the property described in subparagraph (*b*)(ii), as the case may be.

History: S. 188.1(3.3) was added by S.C. 2009, c. 2, s. 62(2), applicable to taxation years, of private foundations, that begin on or after February 26, 2008.

► 188.1(3.4) ◄

(3.4) Rules applicable. For the purpose of subsections (3.3) and (3.5),

(*a*) interests (or, for civil law, rights), other than shares, of a trust in a corporation that entitle the trust to a right described in paragraph 251(5)(*b*) in respect of a class of the capital stock of the corporation, are deemed to be converted into shares of that class in the manner described by paragraph (3.2)(*a*); and

(*b*) if the amount of income or capital of the trust that a person may receive as a beneficiary under the trust depends on the exercise by any person of, or the failure by any person to exercise, a discretionary power, that person is deemed to have fully exercised, or to have failed to exercise, the power, as the case may be.

History: S. 188.1(3.4) was added by S.C. 2009, c. 2, s. 62(2), applicable to taxation years, of private foundations, that begin on or after February 26, 2008.

► 188.1(3.5) ◄

(3.5) Avoidance of divestiture. If this subsection applies to a private foundation at a particular time in respect of an interest of an insider of the private foundation in a trust, for the purposes of applying this section, subsection 149.1(1) and section 149.2,

(*a*) the insider is deemed to hold at the particular time, in addition to any shares of the capital stock of the subject corporation that it holds otherwise than because of this subsection, the number of shares, of the class of shares referred to in paragraph (3.3)(*c*), determined by the formula

$$A \times B/C$$

where

A is the number of shares of that class that are held, directly or indirectly, by the trust at the particular time,

B is the total fair market value of all interests held by the insider in the trust at the particular time, and

C is the total fair market value of all property held by the trust at the particular time;

(*b*) each of those shares is deemed to be a share that is issued by the subject corporation and outstanding and to continue to be held by the holder until such time as the holder no longer holds the interest or right; and

(*c*) each of those shares is deemed to have a fair market value, at the particular time, equal to the fair

market value, at the particular time, of a share of the class issued by the subject corporation, determined without reference to this subsection.

History: S. 188.1(3.5) was added by S.C. 2009, c. 2, s. 62(2), applicable to taxation years, of private foundations, that begin on or after February 26, 2008.

► 188.1(4) ◄

(4) Undue benefits. A registered charity that, at a particular time in a taxation year, confers on a person an undue benefit is liable to a penalty under this Part for the taxation year equal to

(*a*) 105% of the amount of the benefit, except if the charity is liable under paragraph (*b*) for a penalty in respect of the benefit; or

(*b*) if the Minister has, less than five years before the particular time, assessed a liability under paragraph (*a*) or this paragraph for a preceding taxation year of the charity and the undue benefit was conferred after that assessment, 110% of the amount of the benefit.

History: S. 188.1(4) was added by S.C. 2005, c. 19, s. 44(1), applicable to taxation years that begin after March 22, 2004.

Editorial Note: The concept of "undue benefit" found in subsections 188.1(4) and 188.1(5) is new but it derives, in general terms, from prohibitions contained in the definitions of "charitable foundation" and "charitable organization" in subsection 149.1(1) that provide that "no part of the income of which [charity] is payable to, or is otherwise available for, the personal benefit of any proprietor, member, shareholder, trustee or settler thereof, [and that is not a charitable organization]". The last parenthetical expression is only found in the definition of "charitable foundation". The original penalty is 105% of the benefit in question, increasing to 110% in the case of a second penalty within a five year period.

An "undue benefit" is defined in subsection 188.1(5) and, in general terms, includes any income, rights, property or resources of the charity that is paid, payable, assigned or otherwise made available for the personal benefit ("Benefits") of any proprietor, member, shareholder, trustee or settlor of the charity who has contributed or otherwise paid into the charity more than 50% of its capital. It also includes Benefits to a person who does not deal at arm's length with such a donor. It also includes Benefits to a person who does not deal at arm's length with the charity itself. It also includes any Benefits conferred upon a beneficiary by another person, at the direction or with the consent of the charity, that would otherwise be an amount to which the charity would have a right. Excluded from the concept of "undue benefit" are reasonable payments for property or services, gifts made by a charity in the ordinary course of its charitable activities (except where the eligibility for the gift relates solely to the relationship of the beneficiary to the charity) and gifts to qualified donees.

Related Sections: See related sections under s. 188.1(1).

► 188.1(5) ◄

(5) Meaning of undue benefits. For the purposes of this Part, an undue benefit conferred on a person (referred to in this Part as the "beneficiary") by a registered charity includes a disbursement by way of a gift or the amount of any part of the income, rights, property or resources of the charity that is paid, payable, assigned or otherwise made available for the personal benefit of any person who is a proprietor, member, shareholder, trustee or settlor of the charity, who has contributed or otherwise paid into the charity more than 50% of the capital of the charity, or who deals not at arm's length with such a person or with the charity, as well as any benefit conferred on a beneficiary by another person, at the direction or with the consent of the charity, that would, if it were not conferred on the beneficiary, be an amount in respect of which the charity would have a right, but does not include a disbursement or benefit to the extent that it is

(*a*) an amount that is reasonable consideration or remuneration for property acquired by or services rendered to the charity;

(*b*) a gift made, or a benefit conferred, in the course of a charitable act in the ordinary course of the charitable activities carried on by the charity, unless it can reasonably be considered that the eligibility of the beneficiary for the benefit relates solely to the relationship of the beneficiary to the charity; or

(*c*) a gift to a qualified donee.

History: S. 188.1(5) was added by S.C. 2005, c. 19, s. 44(1), applicable to taxation years that begin after March 22, 2004.

Related Sections: See related sections under s. 188.1(1) and s. 251(1), "arm's length".

► 188.1(6) ◄

(6) Failure to file information returns. Every registered charity that fails to file a return for a taxation year as and when required by subsection 149.1(14) is liable to a penalty equal to $500.

History: S. 188.1(6) was added by S.C. 2005, c. 19, s. 44(1), applicable to taxation years that begin after March 22, 2004.

Related Sections: S. 149.1(14) Information returns.
Registered Charities Newsletters: No. 28, New Re-registration Process.

► 188.1(7) ◄

(7) Incorrect information. Except where subsection (8) or (9) applies, every registered charity that issues, in a taxation year, a receipt for a gift otherwise than in accordance with this Act and the regulations is liable for the taxation year to a penalty equal to 5% of the amount reported on the receipt as representing the amount in respect of which a taxpayer may claim a deduction under subsection 110.1(1) or a credit under subsection 118.1(3).

History: S. 188.1(7) was added by S.C. 2005, c. 19, s. 44(1), applicable to taxation years that begin after March 22, 2004.

Editorial Note: Subsection 188.1(7) provides for a new penalty equal to 5% of the amount of a receipt issued by a registered charity that is not in accordance with the provisions of the Act.

Subsection 188.1(8) provides for a new penalty equal to 10% of the amount of a receipt issued by a registered charity that is not in accordance with the provisions of the Act where within the past five years that charity has been the subject of a penalty under subsection 188.1(7). The penalty is not applicable where the more severe penalty under subsection 188.1(9) applies.

Subsection 188.1(9) is designed to tie into the "advisor penalty" provisions contained in section 163.2. That provision defines the terms "culpable conduct" and "false statement". Where an officer, employee, official or agent of a registered charity makes or furnishes, or causes another person to make or furnish a statement that the first person knows, or would reasonably be expected to know but for circumstances amounting to culpable conduct, is a false statement and that false statement is found in a receipt issued by such registered charity, the charity is liable to a penalty equal to 125% of the amount reported on the receipt.

Subsection 188.1(10) provides that where a person is liable to penalties under both subsection 188.1(9) and section 163.2 in respect of the same false statement, the person is only liable to pay the greater of the two penalties.

► 188.1(8) ◄

(8) Increased penalty for subsequent assessment. Except where subsection (9) applies, if the Minister has, less than five years before a particular time, assessed a penalty under subsection (7) or this subsection for a taxation year of a registered charity and, after that assessment and in a subsequent taxation year, the charity issues, at the particular time, a receipt for a gift otherwise than in accordance with this Act and the regulations, the charity is liable for the subsequent taxation year to a penalty equal to 10% of the amount reported on the receipt as representing the amount in respect of which a taxpayer may claim a deduction under subsection 110.1(1) or a credit under subsection 118.1(3).

History: S. 188.1(8) was added by S.C. 2005, c. 19, s. 44(1), applicable to taxation years that begin after March 22, 2004.

► 188.1(9) ◄

(9) False information. If at any time a person makes or furnishes, participates in the making of or causes another person to make or furnish a statement that the person knows, or would reasonably be expected to know but for circumstances amounting to culpable conduct (within the meaning assigned by subsection 163.2(1)), is a false statement (within the meaning assigned by subsection 163.2(1)) on a receipt issued by, on behalf of or in the name of another person for the purposes of subsection 110.1(2) or 118.1(2), the person (or, where the person is an officer, employee, official or agent of a registered charity, the registered charity) is liable for their taxation year that includes that time to a penalty equal to 125% of the amount reported on the receipt as representing the amount in respect of which a taxpayer may claim a deduction under subsection 110.1(1) or a credit under subsection 118.1(3).

History: S. 188.1(9) was added by S.C. 2005, c. 19, s. 44(1), applicable to taxation years that begin after March 22, 2004.

Related Sections: S. 163.2(1), "culpable conduct", "false statement".

► 188.1(10) ◄

(10) Maximum amount. A person who is liable at any time to penalties under both section 163.2 and subsection (9) in respect of the same false statement is liable to pay only the greater of those penalties.

History: S. 188.1(10) was added by S.C. 2005, c. 19, s. 44(1), applicable to taxation years that begin after March 22, 2004.

► 188.1(11) ◄

(11) Delay of expenditure. If, in a taxation year, a registered charity has made a gift of property to another registered charity and it may reasonably be considered that one of the main purposes for the making of the gift was to unduly delay the expenditure of amounts on charitable activities, each of those charities is jointly and severally, or solidarily, liable to a penalty under this Act for its respective taxation year equal to 110% of the fair market value of the property.

History: S. 188.1(11) was added by S.C. 2005, c. 19, s. 44(1), applicable to taxation years that begin after March 22, 2004.

Editorial Note: Paragraphs 149.1(2)(*b*), 149.1(3)(*b*) and 149.1(4)(*b*) require that charitable organizations, public foundations and private foundations, respectively, expend amounts at least equal to their disbursement quotas (defined in subsection 149.1(1)) in each year on charitable activities and gifts to "qualified donees". Subsection 188.1(11) provides that where property is transferred by one registered charity to another under circumstances where it may reasonably be considered that one of the main purposes for the making of the gift was to unduly delay such expenditure each of the charities is jointly and severally, or solidarily, liable for a penalty for that taxation year equal to 110% of the fair market value of the property.

Related Sections: S. 149.1(1), "disbursement quota"; s. 149.1(2)(*b*) Revocation of registration of charitable organization; s. 149.1(3)(*b*) Revocation of registration of public foundation s. 149.1(4)(*b*) Revocation of registration of private foundation.

SECTION 188.2:

► 188.2(1) ◄

(1) Notice of suspension with assessment. The Minister shall, with an assessment referred to in this subsection, give notice by registered mail to a registered charity that the authority of the charity to issue an official receipt referred to in Part XXXV of the *Income Tax Regulations* is suspended for one year from the day that is seven days after the notice is mailed, if the Minister has assessed the charity for a taxation year for

(*a*) a penalty under subsection 188.1(2);

(*b*) a penalty under paragraph 188.1(4)(*b*) in respect of an undue benefit, other than an undue benefit conferred by the charity by way of a gift; or

(*c*) a penalty under subsection 188.1(9) if the total of all such penalties for the taxation year exceeds $25,000.

History: S. 188.2(1) was added by S.C. 2005, c. 19, s. 44(1), applicable to taxation years that begin after March 22, 2004.

► 188.2(2) ◄

(2) Notice of suspension — general. The Minister may give notice by registered mail to a registered charity that the authority of the charity to issue an official receipt referred to in Part XXXV of the *Income Tax Regulations* is suspended for one year from the day that is seven days after the notice is mailed

(*a*) if the charity contravenes any of sections 230 to 231.5; or

(*b*) if it may reasonably be considered that the charity has acted, in concert with another charity that is the subject of a suspension under this section, to accept a gift or transfer of property on behalf of that other charity.

History: S. 188.2(2) was added by S.C. 2005, c. 19, s. 44(1), applicable to taxation years that begin after March 22, 2004.

► 188.2(3) ◄

(3) Effect of suspension. If the Minister has issued a notice to a registered charity under subsection (1) or (2), subject to subsection (4),

(*a*) the charity is deemed, in respect of gifts made and property transferred to the charity within the one-year period that begins on the day that is seven days after the notice is mailed, not to be a donee, described in paragraph 110.1(1)(*a*) or in the definition "total charitable gifts" in subsection 118.1(1), for the purposes of

(i) subsections 110.1(1) and 118.1(1),

(ii) the definitions "qualified donee" and "registered charity" in subsection 248(1), and

(iii) Part XXXV of the *Income Tax Regulations*; and

(*b*) if the charity is, during that period, offered a gift from any person, the charity shall, before accepting the gift, inform that person that

(i) it has received the notice,

(ii) no deduction under subsection 110.1(1) or credit under subsection 118.1(3) may be claimed in respect of a gift made to it in the period, and

(iii) a gift made in the period is not a gift to a qualified donee.

History: S. 188.2(3) was added by S.C. 2005, c. 19, s. 44(1), applicable to taxation years that begin after March 22, 2004.

► 188.2(4) ◄

(4) Application for postponement. If a notice of objection to a suspension under subsection (1) or (2) has been filed by a registered charity, the charity may file an application to the Tax Court of Canada for a postponement of that portion of the period of suspension that has not elapsed until the time determined by the Court.

History: S. 188.2(4) was added by S.C. 2005, c. 19, s. 44(1), applicable to taxation years that begin after March 22, 2004.

► 188.2(5) ◄

(5) Grounds for postponement. The Tax Court of Canada may grant an application for postponement only if it would be just and equitable to do so.

History: S. 188.2(5) was added by S.C. 2005, c. 19, s. 44(1), applicable to taxation years that begin after March 22, 2004.

SECTION 189:

► 189(1) ◄

(1) Tax regarding non-qualified investment. Where at any particular time in a taxation year a debt (other than a debt in respect of which subsection 80.4(1) applies or would apply but for subsection 80.4(3)) is owing by a taxpayer to a registered charity that is a private foundation and at that time the debt was a non-qualified investment of the foundation, the taxpayer shall pay a tax under this Part for the year equal to the amount, if any, by which

(*a*) the amount that would be payable as interest on that debt for the period in the year during which it was outstanding and was a non-qualified investment of the foundation if the interest were payable at such prescribed rates as are in effect from time to time during the period

exceeds

(*b*) the amount of interest for the year paid on that debt by the taxpayer not later than 30 days after the end of the year.

Related Sections: S. 149.1(1) Definitions; s. 248, "registered charity".
Regulations: Part XLIII.
Forms: T2140.

► 189(2) ◄

(2) Computation of interest on debt. For the purpose of paragraph (1)(*a*), where a debt in respect of which subsection (1) applies (other than a share or right that is deemed by subsection (3) to be a debt) is owing by a taxpayer to a private foundation, interest on that debt for the period referred to in that paragraph shall be computed at the least of

(*a*) such prescribed rates as are in effect from time to time during the period,

(*b*) the rate per annum of interest on that debt that, having regard to all the circumstances (including the terms and conditions of the debt), would have been agreed on, at the time the debt was incurred, had the taxpayer and the foundation been dealing with each other at arm's length and had the ordinary business of the foundation been the lending of money, and

(*c*) where that debt was incurred before April 22, 1982, a rate per annum equal to 6% plus 2% for each calendar year after 1982 and before the taxation year referred to in subsection (1).

Regulations: Part XLIII.

► 189(3) ◄

(3) Share deemed to be debt. For the purpose of subsection (1), where a share, or a right to acquire a share, of the capital stock of a corporation held by a private foundation at any particular time during the corporation's taxation year was at that time a non-qualified investment of the foundation, the share or right shall be deemed to be a debt owing at that time by the corporation to the foundation

(*a*) the amount of which was equal to,

(i) in the case of a share or right last acquired before April 22, 1982, the greater of its fair market value on April 21, 1982 and its cost amount to the foundation at the particular time, or

(ii) in any other case, its cost amount to the foundation at the particular time,

(*b*) that was outstanding throughout the period for which the share or right was held by the foundation during the year, and

(*c*) in respect of which the amount of interest paid in the year is equal to the total of all amounts each of which is the amount of a dividend received on the share by the foundation in the year,

and the reference in paragraph (1)(*a*) to "such prescribed rates as are in effect from time to time during the period" shall be read as a reference to "2/3 of such prescribed rates as are in effect from time to time during the period".

► 189(4) ◄

(4) Computation of interest with respect to a share. For the purposes of subsection (3), where a share or right in respect of which that subsection applies was last acquired before April 22, 1982, the reference therein to "2/3 of such prescribed rates as are in effect from time to time during the period" shall be read as a reference to "the lesser of

(*a*) a rate per annum equal to 4% plus 1% for each 5 calendar years contained in the period commencing after 1982 and ending before the particular time, and

(*b*) a rate per annum equal to 2/3 of such prescribed rates as are in effect from time to time during the year".

► 189(5) ◄

(5) Share substitution. For the purpose of subsection (3), where a share or right is acquired by a charity in exchange for another share or right in a transaction after April 21, 1982 to which section 51, 85, 85.1, 86 or 87 applies, it shall be deemed to be the same share or right as the one for which it was substituted.

► 189(6) ◄

(6) Taxpayer to file return and pay tax. Every taxpayer who is liable to pay tax under this Part (except a charity that is liable to pay tax under section 188(1)) for a taxation year shall, on or before the day on or before which the taxpayer is, or would be if tax were payable by the taxpayer under Part I for the year, required to file a return of income or an information return under Part I for the year,

(*a*) file with the Minister a return for the year in prescribed form and containing prescribed information, without notice or demand therefor;

(*b*) estimate in the return the amount of tax payable by the taxpayer under this Part for the year; and

(*c*) pay to the Receiver General the amount of tax payable by the taxpayer under this Part for the year.

History: S. 189(6), that portion preceding paragraph (*a*), was amended by S.C. 1994, c. 21, s. 85(1), applicable after 1992. The portion of s. 189(6) preceding paragraph (*a*) formerly read:

"(6) Every taxpayer who is liable to pay tax under this Part for a taxation year shall, on or before the day on or before which the taxpayer is required, or would be required if tax were payable by the taxpayer under Part I or if, in the case of a charity, the registration thereof had not been revoked, to file a return of income or an information return under Part I for the year,"

S. 189(6)(*c*) was amended by S.C. 1994, c. 21, s. 85(2), applicable after 1992. S. 189(6)(*c*) formerly read:

"(*c*) except where subsection 188(1) applies with respect to the payment of the tax, pay to the Receiver General the amount of tax payable by the taxpayer under this Part for the year."

Forms: T2140; T2046.

► 189(6.1) ◄

(6.1) Revoked charity to file returns. Every taxpayer who is liable to pay tax under subsection 188(1.1) for a taxation year shall, on or before the day that is one year from the end of the taxation year, and without notice or demand,

(*a*) file with the Minister

(i) a return for the taxation year, in prescribed form and containing prescribed information, and

(ii) both an information return and a public information return for the taxation year, each in the form prescribed for the purpose of subsection 149.1(14); and

(*b*) estimate in the return referred to in subparagraph (*a*)(i) the amount of tax payable by the taxpayer under subsection 188(1.1) for the taxation year; and

(*c*) pay to the Receiver General the amount of tax payable by the taxpayer under subsection 188(1.1) for the taxation year.

History: S. 189(6.1) was added by S.C. 2005, c. 19, s. 45(1), applicable in respect of notices issued by the Minister of National Revenue after June 12, 2005.

► 189(6.2) ◄

(6.2) Reduction of revocation tax liability. If the Minister has, during the one-year period beginning immediately after the end of a taxation year of a person, assessed the person in respect of the person's liability for tax under subsection 188(1.1) for that taxation year, has not after that period reassessed the tax liability of the person, and that liability exceeds $1,000, that liability is, at any particular time, reduced by the total of

(*a*) the amount, if any, by which

(i) the total of all amounts, each of which is an expenditure made by the charity, on charitable activities carried on by it, before the particular time and during the period (referred to in this subsection as the "post-assessment period") that begins immediately after a notice of the latest such assessment was mailed and ends at the end of the one-year period

exceeds

(ii) the income of the charity for the post-assessment period, including gifts received by the charity in that period from any source and any income that would be computed under section 3 if that period were a taxation year, and

(*b*) all amounts, each of which is an amount, in respect of a property transferred by the charity before the particular time and during the post-assessment period to a person that was at the time of the transfer an eligible donee in respect of the charity, equal to the amount, if any, by which the fair market value of the property, when transferred, exceeds the consideration given by the person for the transfer.

History: S. 189(6.2) was added by S.C. 2005, c. 19, s. 45(1), applicable in respect of notices issued by the Minister of National Revenue after June 12, 2005.

► 189(6.3) ◄

(6.3) Reduction of liability for penalties. If the Minister has assessed a registered charity in respect of the charity's liability for penalties under section 188.1 for a taxation year, and that liability exceeds $1,000, that liability is, at any particular time, reduced by the total of all amounts, each of which is an amount, in respect of a property transferred by the charity after the day on which the Minister first assessed that liability and before the particular time to a person that was at the time of the transfer an eligible donee in respect of the charity, equal to the amount, if any, by which the fair market value of the property, when transferred, exceeds the total of

(*a*) the consideration given by the person for the transfer, and

(*b*) the part of the amount in respect of the transfer that has resulted in a reduction of an amount otherwise payable under subsection 188(1.1).

History: S. 189(6.3) was added by S.C. 2005, c. 19, s. 45(1), applicable in respect of notices issued by the Minister of National Revenue after June 12, 2005.

► 189(7) ◄

(7) Minister may assess. Without limiting the authority of the Minister to revoke the registration of a registered charity, the Minister may also at any time assess a taxpayer in respect of any amount that a taxpayer is liable to pay under this Part.

History: S. 189(7) was replaced by S.C. 2005, c. 19, s. 45(1), applicable in respect of notices issued by the Minister of National Revenue after June 12, 2005. S. 189(7) formerly read:

"(7) *Interest.* Where a taxpayer is liable to pay tax under this Part and has failed to pay all or any part thereof on or before the day on or before which the tax was required to be paid, the taxpayer shall pay to the Receiver General interest at the prescribed rate on the amount that the taxpayer failed to pay computed from the day on or before which the tax was required to be paid to the day of payment."

Related Sections: S. 248(11) Compound interest.

► 189(8) ◄

(8) Provisions applicable to Part. Subsections 150(2) and (3), sections 152 and 158, subsection 161(11), sections 162 to 167 and Division J of Part I apply in respect of an amount assessed under this Part and of a notice of suspension under subsection 188.2(1) or (2) as if the notice were a notice of assessment made under section 152, with any modifications that the circumstances require including, for greater certainty, that a notice of suspension that is reconsidered or reassessed may be confirmed or vacated, but not varied, except that

(*a*) section 162 does not apply in respect of a return required to be filed under paragraph (6.1)(*a*); and

(*b*) the reference in each of subsections 165(2) and 166.1(3) to the expression "Chief of Appeals in a District Office or a Taxation Centre" is to be read as a reference to the expression "Assistant Commissioner, Appeals Branch".

History: S. 189(8) was replaced by S.C. 2005, c. 19, s. 45(1), applicable in respect of notices issued by the Minister of National Revenue after June 12, 2005. S. 189(7) formerly read:

"(8) *Provisions applicable to Part.* Subsections 150(2) and (3), sections 152 and 158, subsection 161(11), sections 162 to 167 and Division J of Part I are applicable to this Part with such modifications as the circumstances require."

► 189(8.1) ◄

(8.1) Clarification re objections under subsection 168(4). For greater certainty, in applying the provisions

referred to in subsection (8), with any modifications that the circumstances require,

(*a*) a notice of objection referred to in subsection 168(4) does not constitute a notice of objection to a tax assessed under subsection 188(1.1); and

(*b*) an issue that could have been the subject of a notice of objection referred to in subsection 168(4) may not be appealed to the Tax Court of Canada under subsection 169(1).

History: S. 189(8.1) was added by S.C. 2005, c. 19, s. 45(1), applicable in respect of notices issued by the Minister of National Revenue after June 12, 2005.

► 189(9) ◄

(9) Interest. Subsection 161(11) does not apply to a liability of a taxpayer for a taxation year

(*a*) under subsection 188(1.1) to the extent that the liability is reduced by subsection (6.2), or paid, before the end of the one-year period that begins immediately after the end of the taxation year deemed to have ended by paragraph 188(1)(*a*); or

(*b*) under section 188.1 to the extent that the liability is reduced by subsection (6.3), or paid, before the end of the one-year period that begins immediately after the liability was first assessed.

History: S. 189(9) was added by S.C. 2005, c. 19, s. 45(1), applicable in respect of notices issued by the Minister of National Revenue after June 12, 2005.

Part VI
Tax on Capital of Financial Institutions

SECTION 190:

► 190(1) ◄

(1) Definitions. For the purposes of this Part,

"financial institution" — "financial institution" means a corporation that

(*a*) is a bank,

(*b*) is authorized under the laws of Canada or a province to carry on the business of offering its services as a trustee to the public,

(*c*) is authorized under the laws of Canada or a province to accept deposits from the public and carries on the business of lending money on the security of real estate or investing in mortgages or hypothecary claims on real estate;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*c*) of the definition "financial institution" in subsection 190(1) of the Act is replaced by the following:

(*c*) is authorized under the laws of Canada or a province to accept deposits from the public and carries on the business of lending money on the security of real property or immovables or investing in indebtedness on the security of mortgages on real property or of hypothecs on immovables,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*d*) is a life insurance corporation that carries on business in Canada, or

(*e*) is a corporation all or substantially all of the assets of which are shares or indebtedness of corporations described in any of paragraphs (*a*) to (*d*) or this paragraph to which the corporation is related;

History: S. 190(1), paragraph (*c*) of the definition "financial institution" was amended by S.C. 2001, c. 17, s. 222, applicable on Royal Assent, June 14, 2001. S. 190(1), paragraph (*c*) of the definition "financial institution" formerly read:

"(*c*) is authorized under the laws of Canada or a province to accept deposits from the public and carries on the business of lending money on the security of real estate or investing in mortgages on real estate;"

Paragraphs (*d*) and (*e*) of the definition "financial institution" were added by S.C. 1994, c. 7, Sched. II, s. 156(1), applicable to taxation years ending after February 20, 1990.

"long-term debt" — "long-term debt" means

(*a*) in the case of a bank, its subordinated indebtedness (within the meaning assigned by section 2 of the *Bank Act*) evidenced by obligations issued for a term of not less than 5 years,

(*b*) in the case of an insurance corporation, its subordinated indebtedness (within the meaning assigned by section 2 of the *Insurance Companies Act*) evidenced by obligations issued for a term of not less than 5 years, and

(*c*) in the case of any other corporation, its subordinated indebtedness (within the meaning that would be assigned by section 2 of the *Bank Act* if the definition of that expression in that section were applied with such modifications as the circumstances require) evidenced by obligations issued for a term of not less than 5 years;

History: The definition of "long-term debt" in subsection 190(1) was amended by S.C. 1994, c. 21, s. 86(1), applicable after May 31, 1992. The definition of "long-term debt" in subsection 190(1) formerly read:

" 'long-term debt' means,

(*a*) in the case of a bank, its indebtedness evidenced by bank debentures, within the meaning assigned by the *Bank Act*, and

(*b*) in the case of a corporation that is not a bank, its subordinate indebtedness evidenced by obligations issued for a term of not less than 5 years."

"reserves" — "reserves", in respect of a financial institution for a taxation year, means the amount at the end of the year of all of the institution's reserves, provisions and allowances (other than allowances in respect of depreciation or depletion) and, for greater certainty, includes any provision in respect of deferred taxes.

History: The definition of "reserves" in subsection 190(1) was added by S.C. 1994, c. 21, s. 86(2), applicable to the 1992 and subsequent taxation years.

Regulations: 8603.

► 190(1.1) ◄

(1.1) Prescribed meanings. For the purposes of this Part, the expressions "attributed surplus", "Canadian assets", "Canadian reserve liabilities", "total assets" and "total reserve liabilities" have the meanings that are prescribed.

History: S. 190(1.1) was amended by S.C. 1994, c. 7, Sched. II, s. 156(2), applicable to taxation years ending after February 20, 1990. S. 190(1.1) formerly read:

"(1.1) *Prescribed expressions.* For the purposes of this Part, the expressions 'Canadian assets' and 'total assets' have such meanings as may be prescribed."

Regulations: 8603.

► 190(2) ◄

(2) Application of ss. 181(3) and (4). Subsections 181(3) and (4) apply to this Part with such modifications as the circumstances require.

History: S. 190(2) was amended by S.C. 1994, c. 21, s. 86(3), applicable to the 1992 and subsequent taxation years. S. 190(2) formerly read:

"(2) *Accounting method.* For the purposes of reporting, calculating or determining an amount under this Part on a non-consolidated basis, the equity method of accounting shall not be used."

Interpretation Bulletins: *Secondary* — IT-483 Credit unions [Archived by the CRA].

Calculation of Capital Tax

SECTION 190.1:

► 190.1(1) ◄

(1) Tax payable. Every corporation that is a financial institution at any time during a taxation year shall pay a tax under this Part for the year equal to 1.25% of the amount, if any, by which its taxable capital employed in

Canada for the year exceeds its capital deduction for the year.

Related Sections: S. 125.2 Deduction of Part VI tax; s. 190.11 Taxable capital employed in Canada; s. 190.15 Capital deduction; s. 227(14) Application of other Parts.
Regulations: 5301(10)(b).
Forms: T2 SCH 38.

Sec. 157, Sched. II, Chap. 7, S.C. 1994

Sec. 157. [Applicability of section 190.1 to certain corporations.] In its application to taxation years beginning before February 21, 1990 of corporations described in paragraph (*d*) or (*e*) of the definition "financial institution" in subsection 190(1) of the Act, section 190.1 of the *Income Tax Act* shall be read as follows:

"**SEC. 190.1.** Every corporation that is a financial institution at any time during a taxation year shall pay a tax under this Part for the year equal to that proportion of 1.25% of the amount, if any, by which its taxable capital employed in Canada for the year exceeds its capital deduction for the year that the number of days in the year that are after February 20, 1990 is of 365."

► 190.1(1.1) ◄

(1.1) Additional tax payable by life insurance corporations. [Repealed by S.C. 2007, c. 2, s. 40(1).]

History: S. 190.1(1.1) was repealed by S.C. 2007, c. 2, s. 40(1), applicable in respect of taxation years that end on or after July 1, 2006.

S. 190.1(1.1) formerly read:

"(1.1) *Additional tax payable by life insurance corporations.* Every life insurance corporation that carries on business in Canada at any time in a taxation year shall pay a tax under this Part for the year, in addition to any tax payable under subsection (1), equal to 1% of the amount determined by the formula

$$(A - B) \times \frac{C}{365}$$

where

A is its taxable capital employed in Canada for the year;

B is its capital allowance for the year; and

C is the number of days in the year that are after February 25, 1992 and before 2001."

S. 190.1(1.1), the description of C was amended by S.C. 2001, c. 17, s. 165(1), applicable to taxation years that end after 1998. S. 190.1(1.1), the description of C formerly read:

"C is the number of days in the year that are after February 27, 1995 and before November 2000."

S. 190.1(1.1), the description of C was replaced by S.C. 2000, c. 19, s. 53(1), applicable to taxation years that end after February 27, 1995. S. 190.1(1.1) formerly read:

"C is the number of days in the year that are after February 25, 1992 and before 1999."

S. 190.1(1.1), the description of C, was amended by S.C. 1997, c. 25, s. 53(1), applicable after February 25, 1992. That part formerly read:

"C is the number of days in the year that are after February 25, 1992 and before 1996."

Sec. 206, Chap. 19, S.C. 1998

206. Where an amount in respect of deferred realized gains or losses of a life insurance corporation is added or deducted, as the case may be, in computing its taxable capital employed in Canada or capital under Part VI of the Act for a taxation year that ends after February 25, 1992 and began before 2001, the amount determined by the formula

$$(A - B) \times C/D$$

shall be deducted, or, where the amount is negative, the absolute value of the amount shall be added, in computing the corporation's taxable capital employed in Canada under Part VI of the Act for the year, where

A is the corporation's taxable capital employed in Canada for the year under Part VI of the Act (determined without reference to this section);

B is the amount that would be the value of A if no amount were added or deducted in computing the corporation's taxable capital employed in Canada or capital for the year under Part VI of the Act in respect of its deferred realized gains or losses, as the case may be;

C is the number of days in the year that are after February 25, 1992 and before 2001; and

D is the number of days in the year.

History: Sec. 206, Chap. 19, S.C. 1998 was amended by S.C. 2001, c. 17, s. 252(1), by replacing the references to "1999" with references to "2001", applicable to taxation years that end after 1998.

S. 190.1(1.1) was added by S.C. 1994, c. 21, s. 87(1), applicable to taxation years that end after February 25, 1992 and, where a corporation elects under paragraph 88(2)(*b*), to its 1991 and subsequent taxation years, in which case

(*a*) the reference in subsection 190.1(1.1) to "February 25, 1992" shall be read as "the day immediately before the first day of the corporation's first taxation year that ends after 1990"; and

(*b*) notwithstanding subsections 152(4) to (5) of the Act, such assessments and determinations in respect of any taxation year shall be made as are consequential on the application of subsection (1) to the corporation's taxation years that end before February 26, 1992.

Sec. 117, Chap. 21, S.C. 1994

117. [*Application of s. 190.1(1.1) before March 15, 1993.*] Notwithstanding any other provision of the Act or of this Act, nothing in this Act shall affect the amount of any interest payable under the *Income Tax Act* by a life insurance corporation in respect of any period, or part of a period, that is before March 15, 1993.

► 190.1(1.2) ◄

(1.2) Additional tax payable by deposit-taking institutions. [Repealed by S.C. 2007, c. 2, s. 40(1).]

History: S. 190.1(1.2) was repealed by S.C. 2007, c. 2, s. 40(1), applicable in respect of taxation years that end on or after July 1, 2006.

S. 190.1(1.2) formerly read:

"(1.2) *Additional tax payable by deposit-taking institutions.* Every corporation (other than a life insurance corporation) that is a financial institution at any time in a taxation year shall pay a tax under this Part for the year, in addition to any tax payable under subsection (1), equal to the amount determined by the formula

$$.0015 \times (A - B) \times \frac{C}{365}$$

where

A is the corporation's taxable capital employed in Canada for the year;

B is its enhanced capital deduction for the year; and

C is the number of days in the year that are after February 27, 1995 and before November 2000."

S. 190.1(1.2), the description of C was replaced by S.C. 2000, c. 19, s. 53(1), applicable to taxation years that end after February 27, 1995. S. 190.1(1.2), the description of C formerly read:

"C is the number of days in the year that are after February 27, 1995 and before November 1999."

S. 190.1(1.2), the description of C, was amended by S.C. 1999, c. 22, s. 68(1), applicable to taxation years that end after February 27, 1995. S. 190.1(1.2), the description of C formerly read:

"C is the number of days in the year that are after February 27, 1995 and before November 1998."

S. 190.1(1.2), the description of C, was amended by S.C. 1998, c. 19, s. 48(1), applicable to taxation years that end after February 27, 1995. S. 190.1(1.2), the description of C formerly read:

"C is the number of days in the year that are after February 27, 1995 and before November 1997."

S. 190.1(1.2), the description of C, was amended by S.C. 1997, c. 25, s. 53(2), applicable to taxation years that end after February 27, 1995. That part formerly read:

"C is the number of days in the year that are after February 27, 1995 and before November 1996."

S. 190.1(1.2) was added by S.C. 1996, c. 21, s. 49(1), applicable to taxation years that end after February 27, 1995.

Related Sections: S. 190.1(3) Deduction; s. 190.17 Enhanced capital deduction.

Sec. 49(4), Chap. 21, 1996

(4) No interest is payable under subsection 161(2) of the Act in respect of any amount that became payable before July 1995 because of subsection 190.1(1.2) of the Act, as enacted by subsection (1).

► 190.1(2) ◄

(2) Short taxation years. Where a taxation year of a corporation is less than 51 weeks, the amount determined under subsection (1) for the year in respect of the corporation shall be reduced to that proportion of that amount that the number of days in the year is of 365.

History: S. 190.1(2) was amended by S.C. 1994, c. 7, Sched. VIII, s. 111(1), applicable to the 1992 and subsequent taxation years. S. 190.1(2) formerly read:

"(2) Where a taxation year of a corporation is less than 51 weeks, the tax payable for the year by the corporation under this Part shall be that propor-

tion of its tax otherwise payable under this Part for the year that the number of days in the year is of 365."

For the application of s. 190.1 to taxation years beginning before February 21, 1990 of corporations described in paragraph (*d*) or (*e*) of the definition "financial institution" in subsection 190(1) of the Act, see section 157, Sched. II, c. 7, S.C. 1994 reproduced under subsection 190.1(1).

S. 190.1(2) was amended by S.C. 1994, c. 7, Sched. II, s. 111(1), applicable to the 1992 and subsequent taxation years. S. 190.1(2) formerly read:

"(2) Where a taxation year of a corporation is less than 51 weeks, the tax payable for the year by the corporation under this Part shall be that proportion of its tax otherwise payable under this Part for the year that the number of days in the year is of 365."

Related Sections: S. 248(1), "amount", "corporation"; s. 249(1) Definition of "taxation year".

► 190.1(3) ◄

(3) Deduction. There may be deducted in computing a corporation's tax payable under this Part for a taxation year an amount equal to the total of

(*a*) the amount, if any, by which

(i) the corporation's tax payable under Part I for the year

exceeds the lesser of

(ii) the corporation's Canadian surtax payable (within the meaning assigned by section 125.3) for the year, and

(iii) the amount that would, but for subsection 181.1(4), be its tax payable under Part I.3 for the year, and

(*b*) such part as the corporation claims of its unused Part I tax credits and unused surtax credits for its 7 taxation years immediately before and its 3 taxation years immediately after the year.

History: S. 190.1(3), the portion after paragraph (*b*) was repealed by S.C. 2007, c. 2, s. 40(2), applicable in respect of taxation years that end on or after July 1, 2006.

S. 190.1(3), the portion after paragraph (*b*) formerly read:

"to the extent that that amount does not exceed the amount by which

(*c*) the amount that would, but for subsection (1.2) and this subsection, be its tax payable under this Part for the year

exceeds

(*d*) the total of all amounts each of which is the amount deducted under subsection 125.2(1) in computing the corporation's tax payable under Part I for a taxation year ending before 1992 in respect of its unused Part VI tax credit (within the meaning assigned by section 125.2) for the year."

S. 190.1(3)(*c*) was amended by S.C. 1996, c. 21, s. 49(2), applicable to taxation years that end after February 27, 1995. S. 190.1(3)(*c*) formerly read:

"(*c*) the amount that would, but for this subsection, be its tax payable under this Part for the year"

S. 190.1(3) was added by S.C. 1994, c. 7, Sched. VIII, s. 111(1), applicable to the 1992 and subsequent taxation years. For its application to taxation years ending in 1991, see s. 111(2) of S.C. 1994, c. 7, Sched. VIII, reproduced below.

Related Sections: S. 3 Income for taxation year; s. 125.2(1) Deduction of Part VI tax; s. 125.3(4), "Canadian surtax payable"; s. 181.1(4) Deduction; s. 190.1(1.2) Additional tax payable by deposit-taking institutions; s. 190.1(5), "unused Part I tax credit", "unused surtax credit".

Forms: T2 SCH 42.

Sec. 111(2), Sched. VIII, Chap. 7, S.C. 1994

(2) [Application of s. 190.1(3), 190.1(4), 190.1(5) and 190.1(6), to taxation years ending in 1991.] [S. 190.1(3), 190.1(4), 190.1(5) and 190.1(6) apply] to the 1992 and subsequent taxation years and, where a corporation that was a financial institution (within the meaning assigned by section 190 of the Act) throughout each of its taxation years ending in 1991 so elects by notifying the Minister of National Revenue in writing on or before December 11, 1993, to its taxation years ending in 1991 except that, in its application to such years,

(*a*) paragraphs 190.1(3)(*a*) and (*b*) of the Act, as enacted by subsection (1), shall be read as follows:

"(*a*) the corporation's tax payable under Part I for the year, and

(*b*) such part as the corporation claims of its unused Part I tax credits for its 7 taxation years immediately before and 3 taxation years immediately after the year,"

(*b*) the reference in paragraph 190.1(3)(*d*) of the Act, as enacted by subsection (1), to "1992" shall be read as "1991";

(*c*) subsection 190.1(4) of the Act, as enacted by subsection (1), shall be read without reference to subparagraphs 190.1(4)(*a*)(ii) and (*b*)(ii);

(*d*) subsection 190.1(5) of the Act, as enacted by subsection (1), shall be read as follows:

"**(5)** For the purposes of this subsection and subsections (3), (4), and (6), 'unused Part I tax credit' of a corporation for a taxation year ending after 1990 means the amount, if any, by which its tax payable under Part I for the year exceeds the amount that would, but for subsection (3), be its tax payable under this Part for the year."; and

(*e*) subsection 190.1(6) of the Act, as enacted by subsection (1), shall be read without reference to the expressions "or unused surtax credit" and "and unused surtax credit".

► 190.1(4) ◄

(4) Idem. For the purposes of this subsection and subsections (3), (5) and (6),

(*a*) an amount may not be claimed under subsection (3) in computing a corporation's tax payable under this Part for a particular taxation year

(i) in respect of its unused Part I tax credit for another taxation year, until its unused Part I tax credits for taxation years preceding the other year that may be claimed under this Part for the particular year have been claimed, and

(ii) in respect of its unused surtax credit for another taxation year, until its unused surtax credits for taxation years preceding the other year that may be claimed under Part I.3 or this Part for the particular year have been claimed;

(*b*) an amount may be claimed under subsection (3) in computing a corporation's tax payable under this Part for a particular taxation year

(i) in respect of its unused Part I tax credit for another taxation year, only to the extent that it exceeds the total of all amounts each of which is the amount claimed in respect of that unused Part I tax credit in computing its tax payable under this Part for a taxation year preceding the particular year, and

(ii) in respect of its unused surtax credit for another taxation year, only to the extent that it exceeds the total of all amounts each of which is the amount claimed in respect of the unused surtax credit

(A) in computing its tax payable under this Part for a taxation year preceding the particular year, or

(B) in computing its tax payable under Part I.3 for the particular year or a taxation year preceding the particular year; and

(*c*) an amount may be claimed under paragraph (3)(*b*) in computing a corporation's tax payable under this Part for a taxation year that ends before July 1, 2006

in respect of its unused Part I tax credit for a taxation year that ends after July 1, 2006 (referred to in this paragraph as the "credit taxation year") only to the extent that the unused Part I tax credit exceeds the amount, if any, by which

(i) the amount that would, if this Part were read as it applied to the 2005 taxation year, be the corporation's tax payable under this Part for the credit taxation year

exceeds

(ii) the corporation's tax payable under this Part for the credit taxation year.

History: S. 190.1(4)(*c*) was added by S.C. 2007, c. 2, s. 40(3), applicable in respect of taxation years that end on or after July 1, 2006.

S. 190.1(4) was added by S.C. 1994, c. 7, Sched. VIII, s. 111(1), applicable to the 1992 and subsequent taxation years. For its application to taxation years ending in 1991, see s. 111(2) of S.C. 1994, c. 7, Sched. VIII, reproduced following s. 190.1(3), above.

Related Sections: S. 3 Income for taxation year; s. 190.1(5), "unused Part I tax credit", "unused surtax credit"; s. 249(1) Definition of "taxation year"; Part I.

► 190.1(5) ◄

(5) Definitions. For the purposes of subsections (3), (4) and (6),

Related Sections: S. 181.1(1.2) Exceptions; s. 181.5(1.1) Lower capital deduction; s. 181.5(4.1) Lower capital deduction allocation.

"unused Part I tax credit" — "unused Part I tax credit" of a corporation for a taxation year ending after 1991 means the amount, if any, by which

(*a*) the corporation's tax payable under Part I for the year

exceeds the total of

(*b*) the amount that would, but for subsection (3), be its tax payable under this Part for the year, and

(*c*) the corporation's Canadian surtax payable (within the meaning assigned by section 125.3) for the year;

"unused surtax credit" — "unused surtax credit" of a corporation for a taxation year has the meaning assigned by subsection 181.1(6).

History: S. 190.1(5) was added by S.C. 1994, c. 7, Sched. VIII, s. 111(1), applicable to the 1992 and subsequent taxation years. For its application to taxation years ending in 1991, see s. 111(2) of S.C. 1994, c. 7, Sched. VIII, reproduced following s. 190.1(3), above.

Related Sections: S. 125.3(4), "Canadian surtax payable"; s. 181.1(6), "unused surtax credit"; s. 248(1), "amount", "corporation".

Sec. 87(3), Chap. 21, S.C. 1994

(3) [Application of subsection 190.1(5) to determine corporation's unused Part I tax credit for 1991 taxation year.] Where

(*a*) a corporation elected under subsection 111(2) of *An Act to amend the Income Tax Act, the Canada Pension Plan, the Income Tax Conventions Interpretation Act, the Tax Rebate Discounting Act, the Unemployment Insurance Act and certain related Acts*, being chapter 24 of the Statutes of Canada, 1993, and

(*b*) the corporation does not elect under paragraph 88(2)(*b*),

for the purpose of determining the corporation's unused Part I tax credit for the 1991 taxation year, subsection 190.1(5) of the *Income Tax Act* shall be read as follows:

"**(5)** For the purpose of computing the amount that may, because of paragraph (3)(*b*), be deducted by a corporation in computing its tax payable under this Part for a particular taxation year, in respect of its tax payable under Part I for a taxation year ending in 1991, and for the purposes of subsections (4) and (6), the corporation's 'unused Part I tax credit' for the 1991 taxation year is the lesser of

(*a*) the amount, if any, by which its tax payable under Part I for the 1991 taxation year exceeds the amount that would, but for subsection (3), be its tax payable under this Part for that year, and

(*b*) its tax payable under this Part (determined without reference to subsections (1.1) and (3)) for the particular year."

► 190.1(6) ◄

(6) Acquisition of control. Where at any time control of a corporation was acquired by a person or group of persons, no amount in respect of its unused Part I tax credit or unused surtax credit for a taxation year ending before that time is deductible by the corporation for a taxation year ending after the time and no amount in respect of its unused Part I tax credit or unused surtax credit for a taxation year ending after that time is deductible by the corporation for a taxation year ending before that time, except that

(*a*) the corporation's unused Part I tax credit and unused surtax credit for a particular taxation year that ended before that time is deductible by the corporation for a taxation year that ends after that time (in this paragraph referred to as the "subsequent year") to the extent of that proportion of the corporation's tax payable under Part I for the particular year that

(i) the amount, if any, by which

(A) the total of all amounts each of which is

(I) its income under Part I for the particular year from a business that was carried on by the corporation for profit or with a reasonable expectation of profit throughout the subsequent year, or

(II) where properties were sold, leased, rented or developed or services were rendered in the course of carrying on that business before that time, its income under Part I for the particular year from any other business all or substantially all of the income of which was derived from the sale, leasing, rental or development, as the case may be, of similar properties or the rendering of similar services

exceeds

(B) the total of all amounts each of which is an amount deducted under paragraph 111(1)(*a*) or (*d*) in computing its taxable income for the particular year in respect of a non-capital loss or a farm loss, as the case may be, for a taxation year in respect of any business referred to in clause (A)

is of the greater of

(ii) the amount determined under subparagraph (i), and

(iii) the corporation's taxable income for the particular year; and

(*b*) the corporation's unused Part I tax credit and unused surtax credit for a particular taxation year that ends after that time is deductible by the corporation for a taxation year (in this paragraph referred to as the "preceding year") that ended before that time to the extent of that proportion of the corpora-

tion's tax payable under Part I for the particular year that

(i) the amount, if any, by which

(A) the total of all amounts each of which is

(I) its income under Part I for the particular year from a business that was carried on by the corporation in the preceding year and throughout the particular year for profit or with a reasonable expectation of profit, or

(II) where properties were sold, leased, rented or developed or services were rendered in the course of carrying on that business before that time, its income under Part I for the particular year from any other business all or substantially all of the income of which was derived from the sale, leasing, rental or development, as the case may be, of similar properties or the rendering of similar services

exceeds

(B) the total of all amounts each of which is an amount deducted under paragraph 111(1)(*a*) or (*d*) in computing its taxable income for the particular year in respect of a non-capital loss or a farm loss, as the case may be, for a taxation year in respect of any business referred to in clause (A)

is of the greater of

(ii) the amount determined under subparagraph (i), and

(iii) the corporation's taxable income for the particular year.

History: S. 190.1(6)(*a*) was amended by S.C. 1998, c. 19, s. 202(1), applicable to acquisitions of control that occur after April 26, 1995. S. 190.1(6)(*a*) formerly read:

"(*a*) where a business was carried on by the corporation in a taxation year ending before that time, its unused Part I tax credit and unused surtax credit for that year are deductible by the corporation for a particular taxation year ending after that time only if that business was carried on by the corporation for profit or with a reasonable expectation of profit throughout the particular year and only to the extent of that proportion of the corporation's tax payable under this Part for the particular year that

(i) the amount, if any, by which

(A) the total of its income under Part I for the particular year from that business and, where properties were sold, leased, rented or developed or services were rendered in the course of carrying on that business before that time, its income under Part I for the particular year from any other business substantially all the income of which was derived from the sale, leasing, rental or development, as the case may be, of similar properties or the rendering of similar services

exceeds

(B) the total of all amounts each of which is an amount deducted under paragraph 111(1)(*a*) or (*d*) in computing its taxable income under Part I for the particular year in respect of a non-capital loss or a farm loss, as the case may be, for a taxation year in respect of that business or the other business

is of the greater of

(ii) the amount determined under subparagraph (i), and

(iii) the corporation's taxable income under Part I for the particular year; and"

S. 190.1(6)(*b*) was amended by S.C. 1998, c. 19, s. 202(1), applicable to acquisitions of control that occur after April 26, 1995. S. 190.1(6)(*b*) formerly read:

"(*b*) where a business was carried on by the corporation throughout a taxation year ending after that time, its unused Part I tax credit and unused surtax credit for that year are deductible by the corporation for a particular taxation year ending before that time only if that business was carried on by the corporation for profit or with a reasonable expectation of profit in the particular year and only to the extent of that proportion of the corporation's tax payable under this Part for the particular year that

(i) the amount, if any, by which

(A) the total of its income under Part I for the particular year from that business and, where properties were sold, leased, rented or developed or services were rendered in the course of carrying on that business before that time, its income under Part I for the particular year from any other business substantially all the income of which was derived from the sale, leasing, rental or development, as the case may be, of similar properties or the rendering of similar services

exceeds

(B) the total of all amounts each of which is an amount deducted under paragraph 111(1)(*a*) or (*d*) in computing its taxable income under Part I for the particular year in respect of a non-capital loss or a farm loss, as the case may be, for a taxation year in respect of that business or the other business

is of the greater of

(ii) the amount determined under subparagraph (i), and

(iii) the corporation's taxable income under Part I for the particular year."

S. 190.1(6) was added by S.C. 1994, c. 7, Sched. VIII, s. 111(1), applicable to the 1992 and subsequent taxation years. For its application to taxation years ending in 1991, see s. 111(2) of S.C. 1994, c. 7, Sched. VIII, reproduced following s. 190.1(3), above.

Related Sections: S. 111(1)(*a*) Non-capital losses; s. 111(1)(*d*) Farm losses; s. 111(8), "non-capital loss", "farm loss"; s. 190.1(5), "unused Part I tax credit", "unused surtax credit"; s. 248(1), "amount", "business", "corporation", "property", "taxation year".

SECTION 190.11: Taxable capital employed in Canada.

For the purposes of this Part, the taxable capital employed in Canada of a financial institution for a taxation year is,

(*a*) in the case of a financial institution other than a life insurance corporation, that proportion of its taxable capital for the year that its Canadian assets at the end of the year is of its total assets at the end of the year;

(*b*) in the case of a life insurance corporation that was resident in Canada at any time in the year, the total of

(i) that proportion of the amount, if any, by which the total of

(A) its taxable capital for the year, and

(B) the amount prescribed for the year in respect of the corporation

exceeds

(C) the amount prescribed for the year in respect of the corporation

that its Canadian reserve liabilities as at the end of the year is of the total of

(D) its total reserve liabilities as at the end of the year, and

(E) the amount prescribed for the year in respect of the corporation, and

(ii) [Repealed.]

(*c*) in the case of a life insurance corporation that was non-resident throughout the year, its taxable capital for the year.

History: S. 190.11(*b*)(ii) was repealed by S.C. 2009, c. 2, s. 63(1), applicable to taxation years that begin after September 2006. S. 190.11(*b*)(ii) formerly read:

"(ii) the amount, if any, by which

(A) the amount of its reserves for the year (other than its reserves in respect of amounts payable out of segregated funds) that can reasonably be regarded as having been established in respect of its insurance businesses carried on in Canada

exceeds the total of

(B) all amounts each of which is the amount of a reserve (other than a reserve described in subparagraph 138(3)(*a*)(i)), to the extent that it is included in the amount determined under clause (A) and is deducted in computing its income under Part I for the year,

(C) all amounts each of which is the amount of a reserve described in subparagraph 138(3)(*a*)(i), to the extent that it is included in the amount determined under clause (A) and is deductible under subparagraph 138(3)(*a*)(i) in computing its income under Part I for the year, and

(D) all amounts each of which is the amount outstanding (including any interest accrued thereon) at the end of the year in respect of a policy loan (within the meaning assigned by subsection 138(12)) made by the corporation, to the extent that it is deducted in computing the total determined under clause (C); and"

S. 190.11(*b*)(i) was amended by S.C. 1994, c. 21, s. 88(1), applicable

(*a*) to taxation years that end after February 25, 1992; and

(*b*) where a corporation so elects by notifying the Minister of National Revenue in writing before the end of the sixth month after the month in which this Act is assented to [June 15, 1994], to its 1991 and subsequent taxation years, and, where such an election is made, notwithstanding subsections 152(4) to (5) of the Act, such assessments and determinations in respect of any taxation year shall be made to the corporation's taxation years that end before February 26, 1992 as are consequential on the election.

S. 190.11(*b*)(i) formerly read:

"(i) that proportion of its taxable capital for the year that its Canadian reserve liabilities at the end of the year is of its total reserve liabilities at the end of the year, and"

S. 190.11 was amended by S.C. 1994, c. 7, Sched. II, s. 158, applicable to taxation years ending after February 20, 1990. S. 190.11 formerly read:

"S. 190.11. For the purposes of this Part, the taxable capital employed in Canada of a corporation for a taxation year is that proportion of its taxable capital for the year that its Canadian assets for the year are of its total assets for the year."

Regulations: 8603; 8605.

Sec. 117, Chap. 21, S.C. 1994

Sec. 117. [Application of s. 190.11(*b*)(i) before March 15, 1993.] Notwithstanding any other provision of the Act or of this Act, nothing in this Act shall affect the amount of any interest payable under the *Income Tax Act* by a life insurance corporation in respect of any period, or part of a period, that is before March 15, 1993.

SECTION 190.12: Taxable capital.

For the purposes of this Part, the taxable capital of a corporation for a taxation year is the amount, if any, by which its capital for the year exceeds the total determined under section 190.14 in respect of its investments for the year in financial institutions related to it.

Related Sections: S. 251(2) Definition of "related persons".

Cases: For the purposes of calculating capital under Part VI, where a particular tax reserve exceeds its matching book reserve, a negative amount should not be included in the calculation. Rather, the value of the book reserve should be reduced to zero. *National Trust Co. v. The Queen*, 96 DTC 6234 (F.C.T.D.).

SECTION 190.13: Capital.

For the purposes of this Part, the capital of a financial institution for a taxation year is,

(*a*) in the case of a financial institution, other than an authorized foreign bank or a life insurance corporation, the amount, if any, by which the total at the end of the year of

(i) the amount of its long-term debt,

(ii) the amount of its capital stock (or, in the case of an institution incorporated without share capital, the amount of its members' contributions), retained earnings, contributed surplus and any other surpluses, and

(iii) the amount of its reserves, except to the extent that they were deducted in computing its income under Part I for the year,

exceeds the total at the end of the year of

(iv) the amount of its deferred tax debit balance, and

(v) the amount of any deficit deducted in computing its shareholders' equity;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 190.13(*a*)(v) of the Act is replaced by the following:

(v) the amount of any deficit deducted in computing its shareholders' equity (including, for this purpose, the amount of any provision for the redemption of preferred shares);

Applicable: To taxation years that begin after 1995.

Explanatory Note: Section 190.13 of the Act contains the rules for determining the capital of a financial institution for the purpose of Part VI of the Act. Section 190.13 is amended to accommodate a change to the accounting presentation of provisions for the redemption of preferred shares.

Generally accepted accounting principles (GAAP) are relevant to the determination of amounts referred to in section 190.13. The accounting procedures described in the notes to amended section 181.2 of the Act are therefore relevant in the context of Part VI of the Act, and readers may consult those notes for additional background. As in that section, the amendments introduced to section 190.13 include, in the computation of a deficit deducted in computing shareholders' equity, the amount of any provision for the redemption of preferred shares. This inclusion is added to two specific provisions: subparagraph 190.13(*a*)(v), in respect of financial institutions other than life insurers and authorized foreign banks; and subparagraph 190.13(*b*)(iv) in respect of Canadian-resident life insurance corporations.

These amendments apply to taxation years that begin after 1995.

(*b*) in the case of a life insurance corporation that was resident in Canada at any time in the year, the amount, if any, by which the total at the end of the year of

(i) the amount of its long-term debt, and

(ii) the amount of its capital stock (or, in the case of an insurance corporation incorporated without share capital, the amount of its members' contributions), retained earnings, contributed surplus and any other surpluses

exceeds the total at the end of the year of

(iii) the amount of its deferred tax debit balance, and

(iv) the amount of any deficit deducted in computing its shareholders' equity;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 190.13(*b*)(iv) of the Act is replaced by the following:

(iv) the amount of any deficit deducted in computing its shareholders' equity (including, for this purpose, the

amount of any provision for the redemption of preferred shares);

Applicable: To taxation years that begin after 1995.

Explanatory Note: See the Explanatory Note following the amendment to subparagraph 190.13(*a*)(v).

(*c*) in the case of a life insurance corporation that was non-resident throughout the year, the total at the end of the year of

(i) the amount that is the greater of

(A) the amount, if any, by which

(I) its surplus funds derived from operations (as defined in subsection 138(12)) as of the end of the year, computed as if no tax were payable under Part I.3 or this Part for the year

exceeds the total of all amounts each of which is

(II) an amount on which it was required to pay, or would but for subsection 219(5.2) have been required to pay, tax under Part XIV for a preceding taxation year, except the portion, if any, of the amount on which tax was payable, or would have been payable, because of subparagraph 219(4)(*a*)(i.1), and

(III) an amount on which it was required to pay, or would but for subsection 219(5.2) have been required to pay, tax under subsection 219(5.1) for the year because of the transfer of an insurance business to which subsection 138(11.5) or (11.92) has applied, and

(B) its attributed surplus for the year,

(ii) any other surpluses relating to its insurance businesses carried on in Canada,

(iii) the amount of its long-term debt that can reasonably be regarded as relating to its insurance businesses carried on in Canada, and

(iv) [Repealed.]

(*d*) in the case of an authorized foreign bank, the total of

(i) 10% of the total of all amounts, each of which is the risk-weighted amount at the end of the year of an on-balance sheet asset or an off-balance sheet exposure of the bank in respect of its Canadian banking business that the bank would be required to report under the OSFI risk-weighting guidelines if those guidelines applied and required a report at that time, and

(ii) the total of all amounts, each of which is an amount at the end of the year in respect of the bank's Canadian banking business that

(A) if the bank were a bank listed in Schedule II to the *Bank Act*, would be required under the risk-based capital adequacy guidelines issued by the Superintendent of Financial Institutions and applicable at that time to be deducted from the bank's capital in determining the amount of capital available to satisfy the Superintendent's requirement that capital equal a particular proportion of risk-weighted assets and exposures, and

(B) is not an amount in respect of a loss protection facility required to be deducted from capital under the Superintendent's guidelines respecting asset securitization applicable at that time.

History: S. 190.13(*c*)(iv) was repealed by S.C. 2009, c. 2, s. 64(1), applicable to taxation years that begin after September 2006. S. 190.13(*c*)(iv) formerly read:

"(iv) the amount, if any, by which

(A) the amount of its reserves for the year (other than its reserves in respect of amounts payable out of segregated funds) that can reasonably be regarded as having been established in respect of its insurance businesses carried on in Canada

exceeds the total of

(B) all amounts each of which is the amount of a reserve (other than a reserve described in subparagraph 138(3)(*a*)(i)), to the extent that it is included in the amount determined under clause (A) and is deducted in computing its income under Part I for the year,

(C) all amounts each of which is the amount of a reserve described in subparagraph 138(3)(*a*)(i), to the extent that it is included in the amount determined under clause (A) and is deductible under subparagraph 138(3)(*a*)(i) in computing its income under Part I for the year, and

(D) all amounts each of which is the amount outstanding (including any interest accrued thereon) at the end of the year in respect of a policy loan (within the meaning assigned by subsection 138(12)) made by the corporation, to the extent that it is deducted in computing the amount determined under clause (C); and"

S. 190.13(*a*) was added by S.C. 2001, c. 17, s. 166(2), applicable after June 27, 1999.

S. 190.13(*a*), the portion before subparagraph (i) was amended by S.C. 2001, c. 17, s. 166(1), applicable after June 27, 1999. S. 190.13(*a*), the portion before subparagraph (i) formerly read:

"(*a*) in the case of a financial institution other than a life insurance corporation, the amount, if any, by which the total at the end of the year of"

S. 190.13(*c*)(i) was amended by S.C. 1998, c. 19, s. 203(1), applicable to the 1994 and subsequent taxation years. S. 190.13(*c*)(i) formerly read:

"(i) the greater of its surplus funds derived from operations (within the meaning assigned by subsection 138(12)), computed as if no tax were payable by it under Part I.3 or this Part for the year, and its attributed surplus for the year,"

S. 190.13, that portion preceding subparagraph (i), was amended by S.C. 1994, c. 21, s. 89(1), applicable to the 1992 and subsequent taxation years. That portion of s. 190.13 preceding subparagraph (i) formerly read:

"(*a*) in the case of a financial institution other than a life insurance corporation, the amount, if any, by which the total, computed at the end of the year on a non-consolidated basis, of"

S. 190.13(*a*), that portion following subparagraph (ii) and preceding subparagraph (iv), was amended by S.C. 1994, c. 21, s. 89(2), applicable to the 1992 and subsequent taxation years. This portion formerly read:

"(iii) the amount of its provisions or reserves (including, for greater certainty, any provision or reserve in respect of deferred taxes), except to the extent that they are deducted in computing its income under Part I for the year,

exceeds the total so computed of"

S. 190.13(*b*), that portion preceding subparagraph (i), was amended by S.C. 1994, c. 21, s. 89(3), applicable to the 1992 and subsequent taxation years. That portion of s. 190.13(*b*) preceding subparagraph (i) formerly read:

"(*b*) in the case of a life insurance corporation that was resident in Canada at any time in the year, the amount, if any, by which the total, computed at the end of the year on a non-consolidated basis, of"

S. 190.13(*b*), that portion following subparagraph (ii) and preceding subparagraph (iii), was amended by S.C. 1994, c. 21, s. 89(4), applicable to the 1992 and subsequent taxation years. That portion of s. 190.13(*b*) following subparagraph (ii) and preceding subparagraph (iii) formerly read:

"exceeds the total so computed of"

S. 190.13(*c*), that portion preceding subparagraph (ii), was amended by S.C. 1994, c. 21, s. 89(5), applicable to the 1992 and subsequent taxation years. That portion of s. 190.13(*c*) preceding subparagraph (ii) formerly read:

"(*c*) in the case of a life insurance corporation that was non-resident throughout the year, the total, computed at the end of the year on a non-consolidated basis, of

(i) the greater of its surplus funds derived from operations (within the meaning assigned by subsection 138(12)) and its attributed surplus for the year,"

S. 190.13 was amended by S.C. 1994, c. 7, Sched. II, s. 159, applicable to taxation years ending after February 20, 1990. S. 190.13 formerly read:

"S. 190.13. For the purposes of this Part, the capital of a corporation for a taxation year is the amount, if any, by which the total, computed at the end of the year on a non-consolidated basis, of

(*a*) the amount of its long-term debt,

(*b*) the amount of its capital stock (or, in the case of a corporation incorporated without share capital, the amount of its members' contributions), retained earnings, contributed surplus and any other surpluses, and

(*c*) the amount of its provisions or reserves (including, for greater certainty, any reserve or provision in respect of deferred taxes), except to the extent that they were deducted in computing its income under Part I for the year,

exceeds the total of

(*d*) the amount of its deferred tax debit balance at the end of the year, and

(*e*) the amount of any deficit deducted in computing its shareholders' equity at the end of the year."

Related Sections: S. 181.3(3) Capital of financial institution; s. 248(1), "authorized foreign bank", "Canadian banking business", "OSFI risk-weighting guidelines".

Sec. 117, Chap. 21, S.C. 1994

Sec. 117. [Application of s. 190.13(*c*)(i) before March 15, 1993.] Notwithstanding any other provision of the Act or of this Act, nothing in this Act shall affect the amount of any interest payable under the *Income Tax Act* by a life insurance corporation in respect of any period, or part of a period, that is before March 15, 1993.

SECTION 190.14:

► 190.14(1) ◄

(1) Investment in related institutions. A corporation's investment for a taxation year in a financial institution related to it is

(*a*) in the case of a corporation that was resident in Canada at any time in the year, the total of all amounts each of which is the carrying value (or in the case of contributed surplus, the amount) at the end of the year of an eligible investment of the corporation in the financial institution;

(*b*) in the case of a life insurance corporation that was non-resident throughout the year, the total of all amounts each of which is the carrying value (or is, in the case of contributed surplus, the amount) at the end of the year of an eligible investment of the corporation in the financial institution that was used or held by the corporation in the year in the course of carrying on an insurance business in Canada (or that, in the case of contributed surplus, was contributed by the corporation in the course of carrying on that business); and

(*c*) in the case of a corporation that is an authorized foreign bank, the total of all amounts each of which is the amount at the end of the year, before the application of risk weights, that would be required to be reported under the OSFI risk- weighting guidelines if those guidelines applied and required a report at that time, of an eligible investment of the corporation in the financial institution that was used or held by the corporation in the year in the course of carrying on its Canadian banking business or, in the case of an eligible investment that is contributed surplus of the financial institution at the end of the year, the amount of the surplus contributed by the corporation in the course of carrying on that business.

History: S. 190.14 was repealed, and subsection (1) was added, by S.C. 2001, c. 17, s. 167(1), applicable after June 27, 1999. S. 190.14 formerly read:

"S. 190.14. *Investment in related institutions.* A corporation's investments for a taxation year in a financial institution related to it is,

(*a*) in the case of a corporation that was resident in Canada at any time in the year, the total of

(i) all amounts each of which is the carrying value at the end of the year of

(A) any share of the capital stock of the financial institution, or

(B) any long-term debt of the financial institution that is owned by the corporation at the end of the year (and, where the corporation is a life insurance corporation, that is non-segregated property within the meaning assigned by subsection 138(12)), and

(ii) the amount of any surplus of the financial institution contributed by the corporation, other than an amount included under subparagraph (i); and

(*b*) in the case of a life insurance corporation that was non-resident throughout the year, the total that would, if the corporation were resident in Canada in the year, be determined under paragraph (*a*) in respect of the corporation for the year in respect of shares and long-term debt of the financial institution that were used by the corporation in, or held by it in the year in the course of, carrying on an insurance business in Canada and in respect of surplus of the financial institution contributed by the corporation."

S. 190.14(*a*)(i), that portion preceding clause (B), was amended by S.C. 1994, c. 21, s. 90(1), applicable to the 1992 and subsequent taxation years. That portion of s. 190.14(*a*)(i) preceding clause (B) formerly read:

"(i) the cost to it, that would be shown on its balance sheet at the end of the year if its balance sheet were prepared on a non-consolidated basis, of

(A) any share of the capital stock of the financial institution, and"

S. 190.14 was amended by S.C. 1994, c. 7, Sched. II, s. 159, applicable to taxation years ending after February 20, 1990. S. 190.14 formerly read:

"S. 190.14. A corporation's investments for a taxation year in a financial institution related to it is the total of

(*a*) the cost to it, which would be shown on its balance sheet at the end of the year if its balance sheet were prepared on a non-consolidated basis, of

(i) any share of the capital stock of the financial institution, and

(ii) any long-term debt of the financial institution

owned by the corporation at the end of the year, and

(*b*) the amount of any surplus of the institution at the end of the year contributed by the corporation, other than an amount included under paragraph (*a*)."

Related Sections: S. 248(1), "authorized foreign bank", "Canadian banking business", "OSFI risk-weighting guidelines".

► 190.14(2) ◄

(2) Interpretation. For the purpose of subsection (1), an eligible investment of a corporation in a financial institution is a share of the capital stock or long-term debt (and, where the corporation is an insurance corporation, is non-segregated property within the meaning assigned by subsection 138(12)) of the financial institution or any surplus of the financial institution contributed by the corporation (other than an amount otherwise included as a share or debt) if the financial institution at the end of the year is

(*a*) related to the corporation; and

(*b*) resident in Canada or can reasonably be regarded as using the surplus or the proceeds of the share or debt in a business carried on by the financial institution through a permanent establishment (as defined by regulation) in Canada.

History: S. 190.14(2) was added by S.C. 2001, c. 17, s. 167(1), applicable after June 27, 1999 except that, in its application to taxpayers other than authorized foreign banks for taxation years that end before 2002, subsection 190.14(2) of the Act shall be read without reference to paragraph (*b*).

Regulations: 8201.

SECTION 190.15:

► 190.15(1) ◄

(1) Capital deduction. For the purposes of this Part, the capital deduction of a corporation for a taxation year during which it was at any time a financial institution is $1 billion unless the corporation was related to another financial institution at the end of the year, in which case, subject to subsection (4), its capital deduction for the year is nil.

History: S. 190.15(1) was replaced by S.C. 2007, c. 2, s. 41(1), applicable to taxation years that end on or after July 1, 2006.

S. 190.15(1) formerly read:

"S. 190.15. (1) *Capital deduction.* For the purposes of this Part, the capital deduction of a corporation for a taxation year during which it was at any time a financial institution is the total of $200,000,000 and the lesser of

(*a*) $20,000,000, and

(*b*) 1/5 of the amount, if any, by which its taxable capital employed in Canada for the year exceeds $200,000,000,

unless the corporation was related to another financial institution at the end of the year, in which case, subject to subsection (4), its capital deduction for the year is nil."

S. 190.15(1)(*b*) was amended by S.C. 1994, c. 7, Sched. II, s. 160, applicable to 1990 and subsequent taxation years. S. 190.15(1)(*b*) formerly read:

"(*b*) 1/5 of the amount, if any, by which the amount that would be the corporation's taxable capital for the year if its capital deduction for the year were nil exceeds $200,000,000,"

► 190.15(2) ◄

(2) Related financial institution. A corporation that is a financial institution at any time during a taxation year and that was related to another financial institution at the end of the year may file with the Minister an agreement in prescribed form on behalf of the related group of which the corporation is a member under which an amount that does not exceed $1 billion is allocated among the members of the related group for the taxation year.

History: S. 190.15(2) was replaced by S.C. 2007, c. 2, s. 41(1), applicable to taxation years that end on or after July 1, 2006.

S. 190.15(2) formerly read:

"(2) *Related financial institution.* A corporation that is a financial institution at any time during a taxation year and that was related to another financial institution at the end of the year may file with the Minister an agreement in prescribed form on behalf of the related group of which the corporation is a member under which an amount that does not exceed the total of $200,000,000 and the lesser of

(*a*) $20,000,000, and

(*b*) 1/5 of the amount, if any, by which the total of all amounts, each of which is the taxable capital employed in Canada of a financial institution for the year that is a member of the related group, exceeds $200,000,000

is allocated among the members of the related group for the taxation year."

S. 190.15(2)(*b*) was amended by S.C. 1994, c. 7, Sched. II, s. 160(2), applicable to the 1990 and subsequent taxation years. S. 190.15(2)(*b*) formerly read:

"(*b*) 1/5 of the amount, if any, by which the total of all amounts, each of which is the amount that would be the taxable capital of a financial institution that is a member of the related group if its capital deduction for the year were nil, exceeds $200,000,000"

Forms: T2 SCH 39.

► 190.15(3) ◄

(3) Allocation by Minister. The Minister may request a corporation that is a financial institution at any time during a taxation year and that was related to any other financial institution at the end of the year to file with the Minister an agreement referred to in subsection (2) and, if the corporation does not file such an agreement within 30 days after receiving the request, the Minister may allocate an amount among the members of the related group of which the corporation is a member for the year not exceeding $1 billion.

History: S. 190.15(3) was replaced by S.C. 2007, c. 2, s. 41(1), applicable to taxation years that end on or after July 1, 2006.

S. 190.15(3) formerly read:

"(3) *Idem.* The Minister may request a corporation that is a financial institution at any time during a taxation year and that was related to any other financial institution at the end of the year to file with the Minister an agreement referred to in subsection (2) and, if the corporation does not file such an agreement within 30 days after receiving the request, the Minister may allocate an amount among the members of the related group of which the corporation is a member for the year not exceeding the total of $200,000,000 and the lesser of

(*a*) $20,000,000, and

(*b*) 1/5 of the amount, if any, by which the total of all amounts, each of which is the taxable capital employed in Canada of a financial institution for the year that is a member of the related group, exceeds $200,000,000."

S. 190.15(3)(*b*) was amended by S.C. 1994, c. 7, Sched. II, s. 160(3), applicable to the 1990 and subsequent taxation years. S. 190.15(3)(*b*) formerly read:

"(*b*) 1/5 of the amount if any, by which the total of all amounts, each of which is the amount that would be the taxable capital of a financial institution that is a member of the related group if its capital deduction for the year were nil, exceeds $200,000,000."

► 190.15(4) ◄

(4) Idem. For the purposes of this Part, the least amount allocated for a taxation year to each member of a related group under an agreement described in subsection (2) or by the Minister pursuant to subsection (3) is the capital deduction for the taxation year of that member, but, if no such allocation is made, the capital deduction of each member of the related group for that year is nil.

► 190.15(5) ◄

(5) Idem. Where a corporation (in this subsection referred to as the "first corporation") has more than one taxation year ending in the same calendar year and is related in 2 or more of those taxation years to another corporation that has a taxation year ending in that calendar year, the capital deduction of the first corporation for each such taxation year at the end of which it is related to the other corporation is, for the purposes of this Part, an amount equal to its capital deduction for the first such taxation year.

► 190.15(6) ◄

(6) Idem. Two corporations that would, but for this subsection, be related to each other solely because of

(*a*) the control of any corporation by Her Majesty in right of Canada or a province, or

(*b*) a right referred to in paragraph 251(5)(*b*),

are, for the purposes of this section and section 190.14, deemed not to be related to each other except that, where at any time a taxpayer has a right referred to in paragraph 251(5)(*b*) with respect to shares and it can reasonably be considered that one of the main purposes for the acquisition of the right was to avoid any limitation on the amount of a corporation's capital deduction for a taxation year, for the purpose of determining whether a corporation is related to any other corporation, the corporations are, for the purpose of this section, deemed to be in the same position in relation to each other as if the right were immediate and absolute and as if the taxpayer had exercised the right at that time.

History: S. 190.15(6), the portion after paragraph (*b*) was amended by S.C. 1998, c. 19, s. 204(1), applicable after April 26, 1995. S. 190.15(6), the portion after paragraph (*b*) formerly read:

"shall, for the purposes of this section and section 190.14, be deemed not to be related to each other except that, where at any time a taxpayer has a right referred to in paragraph 251(5)(*b*) with respect to shares and it can reasonably be considered that one of the main purposes of the acquisition of the right was to avoid any limitation on the amount of a corporation's capital deduction for a taxation year, for the purpose of determining whether a corporation is related to any other corporation, the corporations shall, for the purposes of this section, be deemed to be in the same position in relation to each other as if the taxpayer owned the shares."

S. 190.15(6) was added by S.C. 1994, c. 7, Sched. VIII, s. 112(1), applicable to the 1989 and subsequent taxation years.

Related Sections: S. 181.5(6) Government-controlled corporation; s. 190.14 Investment in related institutions; s. 190.17(5) Provisions applicable to Part; s. 248(1), "corporation", "share"; s. 249(1) Definition of "taxation year"; s. 251(2) Definition of "related persons"; s. 256(8) Deemed exercise of right.

Transitional Provisions

SECTION 190.16:

► 190.16(1) ◄

(1) Application to taxation year including July 1, 2006. If a taxation year of a corporation begins before and ends on or after July 1, 2006, notwithstanding any other provision of this Part, the tax payable under this Part

by the corporation for the taxation year is equal to the total of

(*a*) that proportion of the amount that would be the tax payable by the corporation under this Part for the taxation year, if this Part were read as it applied to the 2005 taxation year, that the number of days in the taxation year that are before that day is of the number of days in the taxation year, and

(*b*) that proportion of the amount that would, if this Part were read without reference to this section, be the tax payable by the corporation under this Part for the taxation year that the number of days in the taxation year that are on or after that day is of the number of days in the taxation year.

History: S. 190.16(1) was replaced by S.C. 2007, c. 2, s. 42(1), applicable to taxation years that end on or after July 1, 2006.

S. 190.16(1) formerly read:

"S. 190.16. (1) *Capital allowance.* For the purposes of this Part, the capital allowance for a taxation year of a life insurance corporation that carries on business in Canada at any time in the year is the total of

(*a*) $10,000,000,

(*b*) 1/2 of the amount, if any, by which the lesser of

(i) $50,000,000, and

(ii) its taxable capital employed in Canada for the year

exceeds $10,000,000,

(*c*) 1/4 of the amount, if any, by which the lesser of

(i) $100,000,000, and

(ii) its taxable capital employed in Canada for the year

exceeds $50,000,000,

(*d*) 1/2 of the amount, if any, by which the lesser of

(i) $300,000,000, and

(ii) its taxable capital employed in Canada for the year

exceeds $200,000,000, and

(*e*) 3/4 of the amount, if any, by which its taxable capital employed in Canada for the year exceeds $300,000,000,

unless the corporation is related at the end of the year to another life insurance corporation that carries on business in Canada, in which case, subject to subsection (4), its capital allowance for the year is nil."

S. 190.16(1) was added by S.C. 1994, c. 21, s. 91(1), applicable

(*a*) to taxation years that end after February 25, 1992; and

(*b*) where a corporation elects under paragraph 88(2)(*b*), to its 1991 and subsequent taxation years, and, notwithstanding subsections 152(4) to (5) of the Act, such assessments and determinations in respect of any taxation year shall be made as are consequential on the application of subsection (1) to the corporation's taxation years that end before February 26, 1992.

Sec. 117, Chap. 21, S.C. 1994

Sec. 117. [Application of s. 190.16 before March 15, 1993.] Notwithstanding any other provision of the Act or of this Act, nothing in this Act shall affect the amount of any interest payable under the *Income Tax Act* by a life insurance corporation in respect of any period, or part of a period, that is before March 15, 1993.

► 190.16(2) ◄

(2) Proportionate allocation. Any allocation made for the purpose of paragraph (1)(*a*) under subsection 190.15(2) or (3) shall be in the same proportion as the allocation, if any, made for the purpose of paragraph (1)(*b*) under subsection 190.15(2) or (3).

History: S. 190.16(2) was replaced by S.C. 2007, c. 2, s. 42(1), applicable to taxation years that end on or after July 1, 2006.

S. 190.16(2) formerly read:

"(2) *Related life insurance corporation.* A life insurance corporation that carries on business in Canada at any time in a taxation year and that is related at the end of the year to another life insurance corporation that carries on business in Canada may file with the Minister an agreement, in prescribed form on behalf of the related group of life insurance corporations of which the corporation is a member, under which an amount that does not exceed the total of

(*a*) $10,000,000,

(*b*) 1/2 of the amount, if any, by which the lesser of

(i) $50,000,000, and

(ii) the total of all amounts, each of which is the taxable capital employed in Canada of a life insurance corporation for the year that is a member of the related group,

exceeds $10,000,000,

(*c*) 1/4 of the amount, if any, by which the lesser of

(i) $100,000,000, and

(ii) the total of all amounts, each of which is the taxable capital employed in Canada of a life insurance corporation for the year that is a member of the related group,

exceeds $50,000,000,

(*d*) 1/2 of the amount, if any, by which the lesser of

(i) $300,000,000, and

(ii) the total of all amounts, each of which is the taxable capital employed in Canada of a life insurance corporation for the year that is a member of the related group,

exceeds $200,000,000, and

(*e*) 3/4 of the amount, if any, by which the total of all amounts, each of which is the taxable capital employed in Canada of a life insurance corporation for the year that is a member of the related group, exceeds $300,000,000

is allocated among the members of that related group for the year."

S. 190.16(2) was added by S.C. 1994, c. 21, s. 91(1), applicable

(*a*) to taxation years that end after February 25, 1992; and

(*b*) where a corporation elects under paragraph 88(2)(*b*), to its 1991 and subsequent taxation years, and, notwithstanding subsections 152(4) to (5) of the Act, such assessments and determinations in respect of any taxation year shall be made as are consequential on the application of subsection (1) to the corporation's taxation years that end before February 26, 1992.

Forms: T2 SCH 40.

► 190.16(3) ◄

(3) Capital deduction deemed. For the purpose of applying subsection 190.15(5) to a corporation for a taxation year that is described in that subsection in circumstances where the "first such taxation year" referred to in that subsection is a taxation year to which subsection (1) applies, the capital deduction of the corporation for that "first such taxation year" is deemed to be the total of

(*a*) that proportion of the capital deduction amount allocated to the corporation for the purposes of paragraph (1)(*a*) that the number of days in the taxation year that are before July 1, 2006 is of the number of days in the taxation year, and

(*b*) that proportion of the capital deduction amount allocated to the corporation for the purposes of paragraph (1)(*b*) that the number of days in the taxation year that are after June 30, 2006 is of the number of days in the taxation year.

History: S. 190.16(3) was replaced by S.C. 2007, c. 2, s. 42(1), applicable to taxation years that end on or after July 1, 2006.

S. 190.16(3) formerly read:

"(3) *Idem.* The Minister may request a life insurance corporation that carries on business in Canada at any time in a taxation year and that, at the end of the year, is related to any other life insurance corporation that carries on business in Canada to file with the Minister an agreement referred to in subsection (2) and, if the corporation does not file such an agreement within 30 days after receiving the request, the Minister may allocate among the members of the related group of life insurance corporations of which the corporation is a member for the year an amount not exceeding the total of

(*a*) $10,000,000,

(*b*) 1/2 of the amount, if any, by which the lesser of

(i) $50,000,000, and

(ii) the total of all amounts, each of which is the taxable capital employed in Canada of a life insurance corporation for the year that is a member of the related group,

exceeds $10,000,000,

(*c*) 1/4 of the amount, if any, by which the lesser of

(i) $100,000,000, and

(ii) the total of all amounts, each of which is the taxable capital employed in Canada of a life insurance corporation for the year that is a member of the related group,

exceeds $50,000,000,

(*d*) 1/2 of the amount, if any, by which the lesser of

(i) $300,000,000, and

(ii) the total of all amounts, each of which is the taxable capital employed in Canada of a life insurance corporation for the year that is a member of the related group,

exceeds $200,000,000, and

(*e*) 3/4 of the amount, if any, by which the total of all amounts, each of which is the taxable capital employed in Canada of a life insurance

corporation for the year that is a member of the related group, exceeds $300,000,000."

S. 190.16(3) was added by S.C. 1994, c. 21, s. 91(1), applicable

(*a*) to taxation years that end after February 25, 1992; and

(*b*) where a corporation elects under paragraph 88(2)(*b*), to its 1991 and subsequent taxation years, and, notwithstanding subsections 152(4) to (5) of the Act, such assessments and determinations in respect of any taxation year shall be made as are consequential on the application of subsection (1) to the corporation's taxation years that end before February 26, 1992.

► 190.16(4) ◄

(4) Idem. [Repealed by S.C. 2007, c. 2, s. 42(1).]

History: S. 190.16(4) was repealed by S.C. 2007, c. 2, s. 42(1), applicable to taxation years that end on or after July 1, 2006.

S. 190.16(4) formerly read:

"(4) *Idem.* For the purposes of this Part, the least amount allocated for a taxation year to a member of a related group under an agreement described in subsection (2) or by the Minister under subsection (3) is the capital allowance for that year of the member."

S. 190.16(4) was added by S.C. 1994, c. 21, s. 91(1), applicable

(*a*) to taxation years that end after February 25, 1992; and

(*b*) where a corporation elects under paragraph 88(2)(*b*), to its 1991 and subsequent taxation years, and, notwithstanding subsections 152(4) to (5) of the Act, such assessments and determinations in respect of any taxation year shall be made as are consequential on the application of subsection (1) to the corporation's taxation years that end before February 26, 1992.

► 190.16(5) ◄

(5) Provisions applicable to Part. [Repealed by S.C. 2007, c. 2, s. 42(1).]

History: S. 190.16(5) was repealed by S.C. 2007, c. 2, s. 42(1), applicable to taxation years that end on or after July 1, 2006.

S. 190.16(5) formerly read:

"(5) *Provisions applicable to Part.* Subsections 190.15(5) and (6) apply to this section with such modifications as the circumstances require."

S. 190.16(5) was added by S.C. 1994, c. 21, s. 91(1), applicable

(*a*) to taxation years that end after February 25, 1992; and

(*b*) where a corporation elects under paragraph 88(2)(*b*), to its 1991 and subsequent taxation years, and, notwithstanding subsections 152(4) to (5) of the Act, such assessments and determinations in respect of any taxation year shall be made as are consequential on the application of subsection (1) to the corporation's taxation years that end before February 26, 1992.

SECTION 190.17: Enhanced capital deduction.

[Repealed by S.C. 2007, c. 2, s. 42(1).]

History: S. 190.17 was repealed by S.C. 2007, c. 2, s. 42(1), applicable to taxation years that end on or after July 1, 2006.

S. 190.17 formerly read:

"S. 190.17. (1) *Enhanced capital deduction.* For the purpose of subsection 190.1(1.2), the enhanced capital deduction of a corporation for a taxation year is $400,000,000, unless the corporation was related to a financial institution (other than a life insurance corporation) at the end of the year, in which case, subject to subsection (4), the corporation's enhanced capital deduction for the year is nil.

(2) *Related financial institution.* A corporation that is a financial institution at any time in a taxation year and that is related to another financial institution (other than a life insurance corporation) at the end of the year may file with the Minister an agreement in prescribed form on behalf of the related group of which the corporation is a member under which an amount that does not exceed $400,000,000 is allocated among the members of the group for the year.

(3) *Minister's powers.* The Minister may request a corporation that is a financial institution at any time in a taxation year and that is related to any other financial institution (other than a life insurance corporation) at the end of the year to file with the Minister an agreement referred to in subsection (2) and, if the corporation does not file such an agreement within 30 days after receiving the request, the Minister may allocate an amount that does not exceed $400,000,000 among the members of the related group of which the corporation is a member for the year.

(4) *Least amount allocated.* The least amount allocated for a taxation year to a member of a related group under an agreement described in subsection (2) or by the Minister under subsection (3) is the enhanced capital deduction for the taxation year of the member, but, if no such allocation is made, the enhanced capital deduction of the member for the year is nil.

(5) *Provisions applicable to Part.* Subsections 190.15(5) and (6) apply to this section with such modifications as the circumstances require."

S. 190.17 was added by S.C. 1996, c. 21, s. 50(1), applicable to taxation years that end after February 27, 1995.

Special Rules

SECTION 190.18:
[Repealed by 1990, c. 39, s. 50(1).]

SECTION 190.19: Artificial reduction of capital tax.
[Repealed by 1988, c. 55, s. 157(1).]

Administrative Provisions

SECTION 190.2: Return.

A corporation that is or would, but for subsection 190.1(3), be liable to pay tax under this Part for a taxation year shall file with the Minister, not later than the day on or before which the corporation is required by section 150 to file its return of income for the year under Part I, a return of capital for the year in prescribed form containing an estimate of the tax payable under this Part by it for the year.

History: S. 190.2 was amended by S.C. 1994, c. 7, Sched. VIII, s. 113(1), applicable to the 1991 and subsequent taxation years. S. 190.2 formerly read:

"S. 190.2. A corporation liable to pay a tax under this Part for a taxation year shall file with the Minister, not later than the day on or before which the corporation is required by section 150 to file its return of income for the year under Part I, a return of capital for that year in prescribed form containing an estimate of the tax payable by it for the year."

Related Sections: S. 150(1) Filing returns of income — general rule; s. 150.1(5) Application to other Parts; s. 248(1), "corporation"; s. 249(1) Definition of "taxation year".

Forms: T2 SCH 42; T2 SCH 38.

SECTION 190.21: Provisions applicable to Part.

Sections 152, 158 and 159, subsection 161(11), sections 162 to 167 and Division J of Part I apply to this Part with such modifications as the circumstances require and, for the purpose of this section, paragraph 152(6)(*a*) shall be read as follows:

> "(*a*) a deduction under subsection 190.1(3) in respect of any unused surtax credit or unused Part I tax credit (within the meanings assigned by subsection 190.1(5)) for a subsequent taxation year,".

History: S. 190.21 was amended by S.C. 1994, c. 7, Sched. VIII, s. 114(1), applicable to the 1992 and subsequent taxation years. S. 190.21 formerly read:

"S. 190.21. *Payment of tax.* Every corporation liable to pay tax under this Part for a taxation year shall pay to the Receiver General in respect of the year

(*a*) either

(i) on or before the last day of each month in the year, 1/12 of the amount estimated by it to be its tax payable under this Part for the year,

(ii) on or before the last day of each month in the year, 1/12 of its first instalment base for the year, or

(iii) on or before the last day of each of the first two months in the year, 1/12 of its second instalment base for the year, and on or before the last day of each of the following months in the year, 1/10 of the amount by which its first instalment base for the year exceeds 1/6 of its second instalment base for the year; and

(*b*) on or before the end of the second month following the end of the year, the remainder of its tax payable under this Part for the year."

A special reading of s. 190.21 applies to taxation years beginning before July 1990 of corporations described in paragraphs (*d*) or (*e*) of the definition of "financial institution" in s. 190(1). See s. 161(1)(*a*) of S.C. 1994, c. 7, Sched. II, reproduced below.

Related Sections: S. 152(1) Assessment; s. 152(6) Reassessment where certain deductions claimed; s. 158 Payment of remainder; s. 159(1) Person acting for another; s. 161(11) Interest on penalties; s. 190(1) Tax on capital of financial institutions; s. 190.1(3) Deduction; s. 190.1(5), "unused Part I tax credit"; s. 249(1) Definition of "taxation year"; Division J.

Sec. 161, Sched. II, Chap. 7, S.C. 1994

SEC. 161(1) [Application of section 190.21 to certain corporations.] In its application to taxation years beginning before July 1990 of corporations described in paragraph (*d*) or (*e*) of the definition "financial institution" in subsection 190(1),

(*a*) section 190.21 of the *Income Tax Act* shall be read as follows:

"**SEC. 190.21.** Every corporation liable to pay tax under this Part for a taxation year shall pay to the Receiver General in respect of the year

(*a*) where the year ended before July 1990, the tax payable by it under this Part for the year on or before the later of July 31, 1990 and the end of the second month following the end of the year; and

(*b*) where the year ended after June 1990,

(i) either

(A) on or before July 31, 1990, an amount equal to that proportion of the amount estimated by it to be its tax payable under this Part for the year that

(I) the number of days in the year that are after February 20, 1990 and before July 1990

is of

(II) the number of days in the year that are after February 20, 1990,

and on or before the last day of each month ending in the year and after June 1990, an amount equal to the amount, if any, by which

(III) the amount estimated by it to be its tax payable under this Part for the year

exceeds

(IV) the amount payable by the corporation on or before July 31, 1990, as would be determined under this clause if this clause were read without reference to that part thereof following subclause (II) thereof

divided by the number of months ending in the year and after June 1990, or

(B) on or before July 31, 1990, an amount equal to that proportion of its first instalment base for the year that

(I) the number of days in the year that are after February 20, 1990 and before July 1990

is of

(II) the number of days in the year,

and on or before the last day of each month ending in the year and after June 1990, an amount equal to its first instalment base for the year divided by the number of months in the year, and

(ii) on or before the end of the second month following the end of the year, the remainder of its tax payable under this Part for the year." and

(*b*) subsection 190.23(3) of the Act shall be read as follows:

"**(3)** For the purposes of subsection (2), where a corporation is required to pay an instalment of tax for a taxation year computed by reference to a method described in section 190.21, the corporation shall be deemed to have been liable to pay an instalment computed by reference to

(*a*) its tax payable under this Part for the year, or

(*b*) its first instalment base for the year,

whichever method gives rise to the least amount required to be paid by the corporation on or before the days referred to in clauses 190.21(*b*)(i)(A) and (B)."

(2) For the purposes of section 190.22 of the Act, the tax payable under Part VI of the Act by a corporation described in paragraph (*d*) or (*e*) of the definition "financial institution" in subsection 190(1) of the Act, as enacted by subsection 156(1) of this Act, shall be deemed to be

(*a*) for a taxation year ending before February 21, 1990, the amount that would be its tax payable under that Part for the year if that Part applied in respect of that year and its capital deduction under that Part for that year were its capital deduction under that Part for its first taxation year ending after February 20, 1990; and

(*b*) for its first taxation year ending after February 20, 1990, the product obtained when its tax payable under that Part for the year is multiplied by the ratio that the number of days in the year is of the number of days in the year after February 20, 1990.

SECTION 190.211: Provisions applicable — Crown corporations.

Section 27 applies to this Part with any modifications that the circumstances require.

History: S. 190.211 was added by S.C. 1998, c. 19, s. 205(1), applicable after May 23, 1985.

Related Sections: S. 181.71 Provisions applicable — Crown corporations; s. 187.61 Provisions applicable — Crown corporations; s. 191.4(3) Provisions applicable — Crown corporations.

SECTION 190.22: Instalment bases. [Repealed by S.C. 1994, c. 7, Sched. VIII, s. 114(1).]

History: S. 190.22 was repealed by S.C. 1994, c. 7, Sched. VIII, s. 114(1), applicable to the 1992 and subsequent taxation years. s. 190.22 formerly read:

"S. 190.22. For the purposes of section 190.21,

(*a*) the first instalment base of a corporation for a particular taxation year is the product obtained when the tax payable under this Part by the corporation for its taxation year immediately preceding the particular year is multiplied by the ratio that 365 is of the number of days in that preceding year, and

(*b*) the second instalment base of a corporation for a particular taxation year is the amount of the first instalment base of the corporation for its taxation year immediately preceding the particular year,

but where a particular taxation year of a corporation that was formed as a result of an amalgamation or merger is its first taxation year ending after the amalgamation or merger, as the case may be,

(*c*) its first instalment base for the particular year is the total of all amounts each of which is the product obtained when the tax payable under this Part by a corporation, that entered into the amalgamation or merger, for its last taxation year preceding the amalgamation or merger is multiplied by the ratio that 365 is of the number of days in that year, and

(*d*) its second instalment base for the particular year is the total of all amounts each of which is an amount equal to the first instalment base of a corporation, that entered into the amalgamation or merger, for its last taxation year preceding the amalgamation or merger."

SECTION 190.23: Interest. [Repealed by S.C. 1994, c. 7, Sched. VIII, s. 114(1).]

History: S. 190.23 was repealed by S.C. 1994, c. 7, Sched. VIII, s. 114(1), applicable to the 1992 and subsequent taxation years. S. 190.23(1) formerly read:

"(1) *Interest.* Where at any time after the day on or before which a corporation is required to pay the remainder of its tax payable under this Part for a taxation year,

(*a*) the amount of its tax payable under this Part for the year

exceeds

(*b*) the total of all amounts each of which is an amount paid at or before that time on account of its tax payable and applied as at that time by the Minister against the corporation's liability for an amount payable under this Part for the year,

the corporation shall pay to the Receiver General interest at a prescribed rate on the excess, computed for the period during which that excess is outstanding.

(2) *Idem.* Where a corporation that is required by this Part to pay an instalment of tax has failed to pay all or any part thereof on or before the day on or before which the instalment was required to be paid, it shall pay to the

Receiver General, in addition to the interest payable under subsection (1), interest at a prescribed rate on the amount that it failed to pay, computed from the day on or before which the amount was required to be paid to the earlier of the day of payment and the beginning of the period in respect of which the corporation is required to pay interest thereon under that subsection.

(3) *Limitation on instalments.* For the purposes of subsection (2), where a corporation is required to pay an instalment of tax for a taxation year computed by reference to a method described in section 190.21, the corporation shall be deemed to have been liable to pay an instalment computed by reference to

(*a*) its tax payable under this Part for the year,

(*b*) its first instalment base for the year, or

(*c*) its second instalment base for the year and its first instalment base for the year,

whichever method gives rise to the least amount required to be paid by the corporation on or before the days referred to in subparagraphs 190.21(*a*)(i) to (iii)."

For the application of s. 190.23(3) as it applies to certain corporations for their taxation years commencing before July 1990, see s. 161(1)(*b*) of S.C. 1994, c. 7, Sched. II, reproduced following s. 190.21, above.

Related Sections: S. 248(11) Compound interest.

SECTION 190.24: Provisions applicable to Part. [Repealed by S.C. 1994, c. 7, Sched. VIII, s. 114(1).]

History: S. 190.24 was repealed by S.C. 1994, c. 7, Sched. VIII, s. 114(1), applicable to the 1992 and subsequent taxation years. In its application to the 1991 taxation year, it shall be read as follows:

"S. 190.24. Section 152, subsection 157(2.1), sections 158 and 159, subsections 161(2.1), (2.2), (7) and (11), sections 162 to 167 and Division J of Part I apply to this Part with such modifications as the circumstances require and, for the purpose of this section, paragraph 152(6)(*a*) shall be read as follows:

'(*a*) a deduction under subsection 190.1(3) in respect of any unused Part I tax credit (within the meaning assigned by subsection 190.1(5)) for a subsequent taxation year,'"

S. 190.24 formerly read:

"S. 190.24. Section 152, subsection 157(2.1), sections 158 and 159, subsections 161(2.1), (2.2) and (11), sections 162 and 167 and Division J of Part I are applicable to this Part with such modifications as the circumstances require."

Part VI.1
Tax on Corporations Paying Dividends on Taxable Preferred Shares

SECTION 191:

► 191(1) ◄

(1) Definitions. In this Part,

"excluded dividend" — "excluded dividend" means a dividend

(*a*) paid by a corporation to a shareholder that had a substantial interest in the corporation at the time the dividend was paid,

(*b*) paid by a corporation that was a financial intermediary corporation or a private holding corporation at the time the dividend was paid,

(*c*) paid by a particular corporation that would, but for paragraphs (*h*) and (*i*) of the definition "financial intermediary corporation" in this subsection, have been a financial intermediary corporation at the time the dividend was paid, except where the dividend was paid to a controlling corporation in respect of the particular corporation or to a specified person (within the meaning assigned by paragraph (*h*) of the definition "taxable preferred share" in subsection 248(1)) in relation to such a controlling corporation,

(*d*) paid by a mortgage investment corporation, or

(*e*) that is a capital gains dividend within the meaning assigned by subsection 131(1);

"financial intermediary corporation" — "financial intermediary corporation" means a corporation that is

(*a*) a corporation described in subparagraph (*b*)(ii) of the definition "retirement savings plan" in subsection 146(1),

(*b*) an investment corporation,

(*c*) a mortgage investment corporation,

(*d*) a mutual fund corporation,

(*e*) a prescribed venture capital corporation, or

(*f*) a prescribed labour-sponsored venture capital corporation,

but does not include

(*g*) a prescribed corporation,

(*h*) a corporation that is controlled by or for the benefit of one or more corporations (each of which is referred to in this subsection as a "controlling corporation") other than financial intermediary corporations or private holding corporations unless the controlling corporations and specified persons (within the meaning assigned by paragraph (*h*) of the definition "taxable preferred share" in subsection 248(1)) in relation to the controlling corporations do not own in the aggregate shares of the capital stock of the corporation having a fair market value of more than 10% of the fair market value of all of the issued and outstanding shares of the capital stock of the corporation (those fair market values being determined without regard to any voting rights attaching to those shares), or

(*i*) any particular corporation in which another corporation (other than a financial intermediary corporation or a private holding corporation) has a substantial interest unless the other corporation and specified persons (within the meaning assigned by paragraph (*h*) of the definition "taxable preferred share" in subsection 248(1)) in relation to the other corporation do not own in the aggregate shares of the capital stock of the particular corporation having a fair market value of more than 10% of the fair market value of all of the issued and outstanding shares of the capital stock of the particular corporation (those fair market values being determined without regard to any voting rights attaching to those shares);

Regulations: 6700, 6701.

"private holding corporation" — "private holding corporation" means a private corporation the only undertaking of which is the investing of its funds, but does not include

(*a*) a specified financial institution,

(*b*) any particular corporation that owns shares of another corporation in which it has a substantial interest, except where the other corporation would, but for that substantial interest, be a financial intermediary corporation or a private holding corporation, or

(*c*) any particular corporation in which another corporation owns shares and has a substantial interest, except where the other corporation would, but for that substantial interest, be a private holding corporation.

History: S. 191(1), paragraph (*b*) of the definition "private holding corporation" was amended by S.C. 1994, c. 7, Sched. II, s. 162(1), applicable to the 1988 and subsequent taxation years. S. 191(1)(*b*) formerly read:

"(*b*) any particular corporation that owns shares of another corporation in which it has a substantial interest except where the other corporation is a financial intermediary corporation or a corporation that would, but for that substantial interest, be a private holding corporation, or"

Related Sections: S. 248(1), "specified financial institution"; s. 253.1 Investments in limited partnerships.
Regulations: 6700, 6701.

► 191(2) ◄

(2) Substantial interest. For the purposes of this Part, a shareholder has a substantial interest in a corporation at any time if the corporation is a taxable Canadian corporation and

(*a*) the shareholder is related (otherwise than by reason of a right referred to in paragraph 251(5)(*b*)) to the corporation at that time; or

(*b*) the shareholder owned, at that time,

(i) shares of the capital stock of the corporation that would give the shareholder 25% or more of

the votes that could be cast under all circumstances at an annual meeting of shareholders of the corporation,

(ii) shares of the capital stock of the corporation having a fair market value of 25% or more of the fair market value of all the issued shares of the capital stock of the corporation,

and either

(iii) shares (other than shares that would be taxable preferred shares if the definition "taxable preferred share" in subsection 248(1) were read without reference to subparagraph (*b*)(iv) thereof and if they were issued after June 18, 1987 and were not grandfathered shares) of the capital stock of the corporation having a fair market value of 25% or more of the fair market value of all those shares of the capital stock of the corporation, or

(iv) in respect of each class of shares of the capital stock of the corporation, shares of that class having a fair market value of 25% or more of the fair market value of all the issued shares of that class,

and for the purposes of this paragraph, a shareholder shall be deemed to own at any time each share of the capital stock of a corporation that is owned, otherwise than by reason of this paragraph, at that time by a person to whom the shareholder is related (otherwise than by reason of a right referred to in paragraph 251(5)(*b*)).

Editorial Note: A dividend paid by a corporation to a shareholder having a "substantial interest" in the corporation is exempt from Part VI.1 tax as an "excluded dividend". A shareholder can have a substantial interest in a corporation based on either of the following: (a) the shareholder is related to the corporation at the particular time (otherwise than by reason of a right to acquire shares etc. (i.e., referred to in paragraph 251(5)(*b*)); or (b) the shareholder owns shares that represent 25% or more of both the "votes and value" and either: (i) 25% or more (on a fair market value basis) of the shares of the corporation that are not taxable preferred shares; or (ii) 25% or more (on a fair market value basis) of each class of shares of the corporation.

A shareholder is usually considered to own any shares owned by a related person. There are more stringent requirements in the case of a shareholder which is a partnership or trust.

Related Sections: S. 191(3) Substantial interest — anti-avoidance rule; s. 248(11) Compound interest; s. 251(2) Definition of "related persons".

► 191(3) ◄

(3) Idem. Notwithstanding subsection (2),

(*a*) where it can reasonably be considered that the principal purpose for a person acquiring an interest that would, but for this subsection, be a substantial interest in a corporation is to avoid or limit the application of Part I or IV.1 or this Part, the person shall be deemed not to have a substantial interest in the corporation;

(*b*) where it can reasonably be considered that the principal purpose for an acquisition of a share of the capital stock of a corporation (in this paragraph referred to as the "issuer") by any person (in this paragraph referred to as the "acquirer") who had, immediately after the time of the acquisition, a substantial interest in the issuer from another person who did not, immediately before that time, have a substantial interest in the issuer, was to avoid or limit the application of Part I or IV.1 or this Part with respect to a dividend on the share, the acquirer and specified persons (within the meaning assigned by paragraph (*h*) of the definition "taxable preferred share" in subsection 248(1)) in relation to the acquirer shall be deemed not to have a substantial interest in the issuer with respect to any dividend paid on the share;

(*c*) a corporation described in paragraphs (*a*) to (*f*) of the definition "financial intermediary corporation" in subsection (1) shall be deemed not to have a substantial interest in another corporation unless it is related (otherwise than by reason of a right referred to in paragraph 251(5)(*b*)) to the other corporation;

(*d*) any partnership or trust, other than

(i) a partnership all the members of which are related to each other otherwise than by reason of a right referred to in paragraph 251(5)(*b*),

(ii) a trust in which each person who is beneficially interested is

(A) related (otherwise than because of a right referred to in paragraph 251(5)(*b*)) to each other person who is beneficially interested in the trust and who is not a registered charity, or

(B) a registered charity

and, for the purpose of this subparagraph, where a particular person who is beneficially interested in the trust is an aunt, uncle, niece or nephew of another person, the particular person and any person who is a child or descendant of the particular person shall be deemed to be related to the other person and to any person who is the child or descendant of the other person, or

(iii) a trust in which only one person (other than a registered charity) is beneficially interested,

shall be deemed not to have a substantial interest in a corporation; and

(*e*) where at any time a shareholder holds a share of the capital stock of a corporation to which paragraph (*g*) of the definition "taxable preferred share" in subsection 248(1) or paragraph (*e*) of the definition "taxable RFI share" in that subsection applies to deem the share to be a taxable preferred share or a taxable RFI share, the shareholder shall be deemed not to have a substantial interest in the corporation at that time.

History: S. 191(3)(*a*) and (*b*) were amended by S.C. 1994, c. 7, Sched. VIII, s. 115(1), applicable to dividends paid or received after December 20, 1991. S. 191(3)(*a*) and (*b*) formerly read:

"(*a*) where it may reasonably be considered, having regard to all the circumstances, that the principal purpose for a person acquiring an interest that would, but for this subsection, be a substantial interest in a corporation is to avoid or limit the application of this Part or Part IV.1, the person shall be deemed not to have a substantial interest in the corporation;

(*b*) where it may reasonably be considered, having regard to all the circumstances, that the principal purpose for an acquisition of a share of the capital stock of a corporation (in this paragraph referred to as the 'issuer') by any person (in this paragraph referred to as the 'acquirer') that had, immediately after the time of the acquisition, a substantial interest in the issuer from another person that did not, immediately before that time, have a substantial interest in the issuer, was to avoid or limit the application of this Part or Part IV.1 with respect to a dividend on the share, the acquirer and specified persons (within the meaning assigned by paragraph (*h*) of the definition 'taxable preferred share' in subsection 248(1)) in relation to the acquirer shall be deemed not to have a substantial interest in the issuer with respect to any dividend paid on the share;"

Ss. 191(3)(*d*)(ii) and (iii) were amended by S.C. 1994, c. 7, Sched. VIII, s. 115(2), applicable after 1990. Ss. 191(3)(*d*)(ii) and (iii) formerly read:

"(ii) a trust in which all persons who are beneficially interested, within the meaning assigned by subsection 94(7), are related to each other (otherwise than by reason of a right referred to in paragraph 251(5)(*b*)) and, for the purposes of this subparagraph, where a particular person who is so beneficially interested in the trust is an aunt, uncle, niece or nephew of another person, the particular person and any person who is a child or descendant of the particular person shall be deemed to be related to the other person and any person who is a child or descendant of the other person, or

(iii) a trust in which only one person is beneficially interested, within the meaning assigned by subsection 94(7),"

Related Sections: S. 104(1) Reference to trust or estate; s. 191(1), "financial intermediary corporation"; s. 191(2) Substantial interest; s. 248(1), "corporation", "dividend", "registered charity", "share", "shareholder", "taxable preferred share", "taxable RFI share", "trust"; s. 248(25) Beneficially interested; s. 252(1) Extended meaning of "child"; Part IV.

▶ 191(4) ◀

(4) Deemed dividends. Where at any particular time

(*a*) a share of the capital stock of a corporation is issued,

(*b*) the terms or conditions of a share of the capital stock of a corporation are changed, or

(*c*) an agreement in respect of a share of the capital stock of a corporation is changed or entered into,

and the terms or conditions of the share or the agreement in respect of the share specify an amount in respect of the share, including an amount for which the share is to be redeemed, acquired or cancelled (together with, where so provided, any accrued and unpaid dividends thereon) and where paragraph (*a*) applies, the specified amount does not exceed the fair market value of the consideration for which the share was issued, and where paragraph (*b*) or (*c*) applies, the specified amount does not exceed the fair market value of the share immediately before the particular time, the amount of any dividend deemed to have been paid on a redemption, acquisition or cancellation of the share to which subsection 84(2) or (3) applies shall

(*d*) for the purposes of this Part and section 187.2, be deemed to be an excluded dividend and an excepted dividend, respectively, unless

(i) where paragraph (*a*) applies, the share was issued for consideration that included a taxable preferred share, or

(ii) where paragraph (*b*) or (*c*) applies, the share was, immediately before the particular time, a taxable preferred share, and

(*e*) be deemed not to be a dividend to which subsection 112(2.1) or 138(6) applies to deny a deduction with respect to the dividend in computing the taxable income of a corporation under subsection 112(1) or (2) or 138(6), unless

(i) where paragraph (*a*) applies, the share was issued for consideration that included a term preferred share or for the purpose of raising capital or as part of a series of transactions or events the purpose of which was to raise capital, and

(ii) where paragraph (*b*) or (*c*) applies, the share was, immediately before the particular time, a term preferred share, or the terms or conditions of the share were changed, or the agreement in respect of the share was changed or entered into for the purpose of raising capital or as part of a series of transactions or events the purpose of which was to raise capital.

Editorial Note: Subsections 191(4) and (5) provide exemptions from Part VI.1 tax in respect of deemed dividends arising under subsections 84(2) and (3) (relating to redemptions, acquisitions, etc.) which will apply in respect of many reorganizations, etc. The provisions may apply to exempt such a dividend where the terms or conditions of the share or an agreement in respect of the share specify an amount for which the share is to be redeemed, acquired or cancelled, which amount does not exceed the fair market value of the consideration for which the share was issued. Where either the terms or conditions of the share are changed or an agreement in respect of the share is changed or entered into, the specified amount cannot exceed the fair market value of the share immediately before the particular time. The CRA's administrative position is that a specified amount must be a fixed dollar amount, not subject to adjustment nor fixed by formula.

Related Sections: S. 248(10) Series of transactions; s. 256(1) Associated corporations.

Tax Profile: December 2004 — Taxation of Dividends: A Survey in the Context of Private Corporations and Their Shareholders — Part 2.

▶ 191(5) ◀

(5) Where subsection (4) does not apply. Subsection (4) does not apply to the extent that the total of

(*a*) the amount paid on the redemption, acquisition or cancellation of the share, and

(*b*) all amounts each of which is an amount (other than an amount deemed by subsection 84(4) to be a dividend) paid, after the particular time and before the redemption, acquisition or cancellation of the share, on a reduction of the paid-up capital of the corporation in respect of the share

exceeds the specified amount referred to in subsection (4).

Editorial Note: Subsection 191(5) limits the application of the subsection 191(4) exemption to the extent that the total of the amount paid on the redemption, acquisition or cancellation of the share and all amounts paid upon a reduction in the paid-up capital of the share (other than an amount deemed to be a dividend under subsection 84(4)) exceeds the specified amount referred to in subsection (4).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 191 of the Act is amended by adding the following after subsection (5):

(6) **Excluded dividend — partner.** If at any time a corporation pays a dividend to a partnership, the corporation is, for the purposes of this subsection and paragraph (*a*) of the definition "excluded dividend" in subsection (1), deemed to have paid at that time to each member of the partnership a dividend equal to the amount determined by the formula

$$A \times B$$

where

A is the amount of the dividend paid to the partnership; and

B is the member's specified proportion for the last fiscal period of the partnership that ended before that time (or, if the partnership's first fiscal period includes that time, for that first fiscal period).

Applicable: To dividends paid after December 20, 2002.

Explanatory Note: Section 191 of the Act sets out a number of rules relating to the taxes imposed, under Part VI.1 of the Act, on taxable Canadian corporations that pay dividends of certain kinds. Those taxes are not payable in respect of "excluded dividends," a term defined in subsection 191(1) of the Act. Dividends paid by a corporation to a shareholder that holds a "substantial interest" in the corporation are excluded dividends.

"Substantial interest" is itself defined in subsection 191(2) of the Act. In general, a shareholder has a substantial interest in a corporation if the shareholder is related to the corporation (otherwise than because of a right under paragraph 251(5)(*b*)) or if the shareholder's holdings meet certain thresholds in terms of votes and value.

If a shareholder has a substantial interest in a corporation, and is also a member of a partnership that holds shares of the corporation, it is appropriate that a dividend paid by the corporation to the partnership be an excluded dividend, to the extent of the shareholder's interest in the dividend. To ensure this result, new subsection 191(6) is added to the rules that govern the Part VI taxes. The new subsection provides that a dividend paid to a partnership is, for the purposes of the "excluded dividend" definition, considered to have been paid ratably to each member of the partnership.

Three technical aspects of the new rule bear special mention. First, the apportionment of the dividend among the partners is based upon each partner's share of the partnership's income for its last fiscal period that ended before the corporation paid the dividend. (If the dividend was paid during the partnership's first fiscal period, the apportionment looks to that period.)

Second, to ensure appropriate effects where there is more than one tier of partnerships between the dividend-paying corporation and the person that holds a substantial interest in the corporation, the new provision applies to itself. That is, if a member of a partnership is itself a partnership, the rule will treat the dividend-paying corporation as having paid a proportionate amount as a dividend not only to the second partnership, but also to that second partnership's members.

Third, in apportioning a dividend among members of a partnership, new subsection 191(6) uses the new definition of "specified proportion," which is added to subsection 248(1) of the Act. For further information, see the commentary to that amendment.

New subsection 191(6) applies to dividends paid after December 20, 2002.

SECTION 191.1:

► 191.1(1) ◄

(1) Tax on taxable dividends. Every taxable Canadian corporation shall pay a tax under this Part for each taxation year equal to the amount, if any, by which

(*a*) the total of

(i) 66⅔% of the amount, if any, by which the total of all taxable dividends (other than excluded dividends) paid by the corporation in the year and after 1987 on short-term preferred shares exceeds the corporation's dividend allowance for the year,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 191.1(1)(*a*)(i) of the Act is replaced by the following:

(i) 50% of the amount, if any, by which the total of all taxable dividends (other than excluded dividends) paid by the corporation in the year on short-term preferred shares exceeds the corporation's dividend allowance for the year,

Applicable: To dividends paid by a corporation in its 2003 and subsequent taxation years.

Explanatory Note: Subsection 191.1(1) of the Act provides for a tax to be paid by a corporation that has paid taxable dividends on taxable preferred shares. In the case of short-term preferred shares, paragraph 191.1(1)(*a*) sets the rate of the tax at 66 2/3% of the dividend. This rate produces an amount of tax equal to the amount of income tax that would have been collected had a corporate shareholder sought the same after-tax return in the form of interest. That result obtains, at the current 66 2/3 percent rate, if interest income is assumed to be taxed at 40%.

As part of a series of amendments reflecting recent and planned reductions in income tax rates, the rate of tax under paragraph 191.1(1)(*a*) is reduced to 50% of the dividend amount. This provides the desired result on the basis of an assumed tax of 33.3% on interest income, as shown below.

	Dividend	Interest
Issuer		
To Holder	$ 66.67	$100.00
191.1(1)(*a*) tax	33.33	n/a
Total paid	$100.00	$100.00
Shareholder		
Receives	$ 66.67	$100.00
Part I tax	NIL	33.33
After tax	$ 66.67	$ 66.67

This amendment applies to the 2003 and subsequent taxation years.

(ii) 40% of the amount, if any, by which the total of all taxable dividends (other than excluded dividends) paid by the corporation in the year and after 1987 on taxable preferred shares (other than short-term preferred shares) of all classes in respect of which an election under subsection 191.2(1) has been made exceeds the amount, if any, by which the corporation's dividend allowance for the year exceeds the total of the dividends referred to in subparagraph (i),

(iii) 25% of the amount, if any, by which the total of all taxable dividends (other than excluded dividends) paid by the corporation in the year and after 1987 on taxable preferred shares (other than short-term preferred shares) of all classes in respect of which an election under subsection 191.2(1) has not been made exceeds the amount, if any, by which the corporation's dividend allowance for the year exceeds the total of the dividends referred to in subparagraphs (i) and (ii), and

(iv) the total of all amounts each of which is an amount determined for the year in respect of the corporation under paragraph 191.3(1)(*d*)

exceeds

(*b*) the total of all amounts each of which is an amount determined for the year in respect of the corporation under paragraph 191.3(1)(*c*).

Editorial Note: Parts IV.1 and VI.1 may be applicable in respect of many situations involving private corporations, where larger actual or deemed dividends (e.g., on a redemption of shares) are involved. The "taxable preferred share" definition in subsection 248(1) is very broadly defined and will include most shares with special arrangements relating to dividends, repayment (e.g., on liquidation, redemption or reduction of paid-up capital) protection from losses, or returns. Such an arrangement may be in a shareholder's or other agreement, rather than the actual share terms.

Important exceptions may include the annual dividend allowance in subsection 191.1(2) ($500,000 per associated group of corporations), dividends received by shareholders with a "substantial interest" in the payor, and subsection 191(4), which may exempt a specified amount for which the share is to be redeemed, acquired or cancelled.

Related Sections: S. 87(4.2) Exchanged shares — amalgamations after November 27, 1986; 89(1), "taxable Canadian corporation", "taxable dividend"; s. 110(1)(*k*) Part VI.1 tax; s. 157(1) Payment by corporations; s. 186(1.1) Reduction where Part IV.1 tax payable; s. 190.1 Taxable capital employed in Canada; s. 191 Tax on corporations paying dividends on taxable preferred shares; s. 191.2(1) Election; s. 191.3(1) Agreement respecting liability for tax; s. 227(14) Application of other Parts; s. 248(1), "amount", "short-term preferred share", "taxable preferred share"; Part IV.1.

Forms: T2 SCH 43.

Tax Profile: December 2004 — Taxation of Dividends: A Survey in the Context of Private Corporations and Their Shareholders — Part 2.

Canadian Tax Foundation: Moskowitz, "The Preferred Share Rules: Yes, They Can Apply to You!", *1997 Conference Report*, 9:1.

► 191.1(2) ◄

(2) Dividend allowance. For the purposes of this section, a taxable Canadian corporation's "dividend allowance" for a taxation year is the amount, if any, by which

(*a*) $500,000

exceeds

(*b*) the amount, if any, by which the total of taxable dividends (other than excluded dividends) paid by it on taxable preferred shares, or shares that would be taxable preferred shares if they were issued after June 18, 1987 and were not grandfathered shares, in the calendar year immediately preceding the calendar year in which the taxation year ended exceeds $1,000,000,

unless the corporation is associated in the taxation year with one or more other taxable Canadian corporations, in which case, except as otherwise provided in this section, its dividend allowance for the year is nil.

► 191.1(3) ◄

(3) Associated corporations. If all of the taxable Canadian corporations that are associated with each other in a taxation year and that have paid taxable dividends (other than excluded dividends) on taxable preferred shares in the year have filed with the Minister in prescribed form an agreement whereby, for the purposes of this section, they allocate an amount to one or more of them for the taxation year, and the amount so allocated or the total of the amounts so allocated, as the case may be, is equal to the total dividend allowance for the year of those corporations and all other taxable Canadian corporations with which each such corporation is associated in the year, the dividend allowance for the year for each of the corporations is the amount so allocated to it.

Related Sections: S. 89(1), "taxable Canadian corporation", "taxable dividend"; s. 248(1), "short-term preferred share", "taxable preferred shares"; s. 249 Definition of "taxation year".
Forms: T2 SCH 45.

► 191.1(4) ◄

(4) Total dividend allowance. For the purposes of this section, the "total dividend allowance" of a group of taxable Canadian corporations that are associated with each other in a taxation year is the amount, if any, by which

(*a*) $500,000

exceeds

(*b*) the amount, if any, by which the total of taxable dividends (other than excluded dividends) paid by those corporations on taxable preferred shares, or shares that would be taxable preferred shares if they were issued after June 18, 1987 and were not grandfathered shares, in the calendar year immediately preceding the calendar year in which the taxation year ended exceeds $1,000,000.

► 191.1(5) ◄

(5) Failure to file agreement. If any of the taxable Canadian corporations that are associated with each other in a taxation year and that have paid taxable dividends (other than excluded dividends) on taxable preferred shares in the year has failed to file with the Minister an agreement as contemplated by subsection (3) within 30 days after notice in writing by the Minister has been forwarded to any of them that such an agreement is required for the purpose of any assessment of tax under this Part, the Minister shall, for the purpose of this section, allocate an amount to one or more of them for the taxation year, which amount or the total of which amounts, as the case may be, shall equal the total dividend allowance for the year for those corporations and all other taxable Canadian corporations with which each such corporation is associated in the year, and the dividend allowance for the year of each of the corporations is the amount so allocated to it.

► 191.1(6) ◄

(6) Dividend allowance in short years. Notwithstanding any other provision of this section,

(*a*) where a corporation has a taxation year that is less than 51 weeks, its dividend allowance for the year is that proportion of its dividend allowance for the year determined without reference to this paragraph that the number of days in the year is of 365; and

(*b*) where a taxable Canadian corporation (in this paragraph referred to as the "first corporation") has more than one taxation year ending in a calendar year and is associated in two or more of those taxation years with another taxable Canadian corporation that has a taxation year ending in that calendar year, the dividend allowance of the first corporation for each taxation year in which it is associated with the other corporation ending in that calendar year is, subject to the application of paragraph (*a*), an amount equal to the amount that would be its dividend allowance for the first such taxation year if the allowance were determined without reference to paragraph (*a*).

SECTION 191.2:

► 191.2(1) ◄

(1) Election. For the purposes of determining the tax payable by reason of subparagraphs 191.1(1)(*a*)(ii) and (iii), a taxable Canadian corporation (other than a financial intermediary corporation or a private holding corporation) may make an election with respect to a class of its taxable preferred shares the terms and conditions of which require an election to be made under this subsection by filing a prescribed form with the Minister

(*a*) not later than the day on or before which its return of income under Part I is required by section 150 to be filed for the taxation year in which shares of that class are first issued or first become taxable preferred shares; or

(*b*) within the 6 month period commencing on any of the following days, namely,

(i) the day of mailing of any notice of assessment of tax payable under this Part or Part I by the corporation for that year,

(ii) where the corporation has served a notice of objection to an assessment described in subparagraph (i), the day of mailing of a notice that the Minister has confirmed or varied the assessment,

(iii) where the corporation has instituted an appeal in respect of an assessment described in subparagraph (i) to the Tax Court of Canada, the day of mailing of a copy of the decision of the Court to the taxpayer, and

(iv) where the corporation has instituted an appeal in respect of an assessment described in subparagraph (i) to the Federal Court of Appeal or the Supreme Court of Canada, the day on which the

judgment of the Court is pronounced or delivered or the day on which the corporation discontinues the appeal.

History: S. 191.2(1)(*b*)(iv) was amended by S.C. 2002, c. 8, s. 184 to replace the expression "Federal Court" with the expression "Federal Court of Appeal", in force July 2, 2003.

Related Sections: S. 89(1), "taxable Canadian corporation"; s. 248(1), "taxable preferred shares".
Forms: T769.

► 191.2(2) ◄

(2) Time of election. An election with respect to a class of taxable preferred shares filed in accordance with subsection (1) shall be deemed to have been filed before any dividend on a share of that class is paid.

► 191.2(3) ◄

(3) Assessment. Where an election has been filed under subsection (1), the Minister shall, notwithstanding subsections 152(4) and (5), assess or reassess the tax, interest or penalties payable under this Act by any corporation for any relevant taxation year in order to take into account the election.

SECTION 191.3:

► 191.3(1) ◄

(1) Agreement respecting liability for tax. Where a corporation (in this section referred to as the "transferor corporation") and a taxable Canadian corporation (in this section referred to as the "transferee corporation") that was related (otherwise than because of a right referred to in paragraph 251(5)(*b*) or because of the control of any corporation by Her Majesty in right of Canada or a province) to the transferor corporation

(*a*) throughout a particular taxation year of the transferor corporation (or, where the transferee corporation came into existence in that year, throughout the part of that year in which the transferee corporation was in existence), and

(*b*) throughout the last taxation year of the transferee corporation ending at or before the end of the particular taxation year (or, where the transferor corporation came into existence in that last taxation year of the transferee corporation, throughout that part of that last year in which the transferor corporation was in existence)

file as provided in subsection (2) an agreement or amended agreement with the Minister under which the transferee corporation agrees to pay all or any portion, as is specified in the agreement, of the tax for that taxation year of the transferor corporation that would, but for the agreement, be payable under this Part by the transferor corporation (other than any tax payable by the transferor corporation by reason of another agreement made under this section), the following rules apply, namely,

(*c*) the amount of tax specified in the agreement is an amount determined for that taxation year of the transferor corporation in respect of the transferor corporation for the purpose of paragraph 191.1(1)(*b*),

(*d*) the amount of tax specified in the agreement is an amount determined in respect of the transferee corporation for its last taxation year ending at or before the end of that taxation year of the transferor corporation for the purpose of subparagraph 191.1(1)(*a*)(iv), and

(*e*) the transferor corporation and the transferee corporation are jointly and severally liable to pay the amount of tax specified in the agreement and any interest or penalty in respect thereof.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 191.3(1)(*e*) of the English version of the Act is replaced by the following:

(*e*) the transferor corporation and the transferee corporation are jointly and severally, or solidarily, liable to pay the amount of tax specified in the agreement and any interest or penalty in respect thereof.

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

History: S. 191.3(1), the portion before paragraph (*a*), paragraphs (*a*) and (*b*) were amended by S.C. 1998, c. 19, s. 207(1), applicable to taxation years of a transferor corporation that begin after 1994, except that the amendment to the portion of subsection 191.3(1) of the Act before paragraph (*a*) applies only to taxation years of the transferor corporation that end after April 26, 1995. It formerly read:

"S. 191.3. *Agreement respecting liability for tax.*

(1) Where a corporation (in this section referred to as the 'transferor corporation') and a taxable Canadian corporation (in this section referred to as the 'transferee corporation') which was related (otherwise than by reason of a right referred to in paragraph 251(5)(*b*)) to the transferor corporation

(*a*) throughout a taxation year of the transferor corporation, and

(*b*) throughout the last taxation year of the transferee corporation ending at or before the end of that taxation year of the transferor corporation,"

Related Sections: S. 89(1), "taxable Canadian corporation".
Forms: T2 SCH 45.

► 191.3(1.1) ◄

(1.1) Consideration for agreement. For the purposes of Part I of this Act, where property is acquired at any time by a transferee corporation as consideration for entering into an agreement with a transferor corporation that is filed under this section,

(*a*) where the property was owned by the transferor corporation immediately before that time,

(i) the transferor corporation shall be deemed to have disposed of the property at that time for proceeds equal to the fair market value of the property at that time, and

(ii) the transferor corporation shall not be entitled to deduct any amount in computing its income as a consequence of the transfer of the property, except any amount arising as a consequence of subparagraph (i);

(*b*) the cost at which the property was acquired by the transferee corporation at that time shall be deemed to be equal to the fair market value of the property at that time;

(*c*) the transferee corporation shall not be required to add an amount in computing its income solely because of the acquisition at that time of the property; and

(*d*) no benefit shall be deemed to have been conferred on the transferor corporation as a consequence of

the transferor corporation entering into an agreement filed under this section.

History: S. 191.3(1.1) was added by S.C. 1995, c. 21, s. 41(1), applicable to the 1988 and subsequent taxation years.

► 191.3(2) ◄

(2) Manner of filing agreement. An agreement or amended agreement referred to in subsection (1) between a transferor corporation and a transferee corporation shall be deemed not to have been filed with the Minister unless

(*a*) it is in prescribed form;

(*b*) it is filed on or before the day on or before which the transferor corporation's return for the year in respect of which the agreement is filed is required to be filed under this Part or within the 90 day period commencing on the day of mailing of a notice of assessment of tax payable under this Part or Part I by the transferor corporation for the year or by the transferee corporation for its taxation year ending in the calendar year in which the taxation year of the transferor corporation ends or the mailing of a notification that no tax is payable under this Part or Part I for that taxation year;

(*c*) it is accompanied by,

(i) where the directors of the transferor corporation are legally entitled to administer its affairs, a certified copy of their resolution authorizing the agreement to be made,

(ii) where the directors of the transferor corporation are not legally entitled to administer its affairs, a certified copy of the document by which the person legally entitled to administer the corporation's affairs authorized the agreement to be made,

(iii) where the directors of the transferee corporation are legally entitled to administer its affairs, a certified copy of their resolution authorizing the agreement to be made, and

(iv) where the directors of the transferee corporation are not legally entitled to administer its affairs, a certified copy of the document by which the person legally entitled to administer the corporation's affairs authorized the agreement to be made; and

(*d*) where the agreement is not an agreement to which subsection (4) applies, an agreement amending the agreement has not been filed in accordance with this section.

(*e*) [Repealed by S.C. 1994, c. 7, Sched. II, s. 163(1).]

History: S. 191.3(2)(*e*) was repealed by S.C. 1994, c. 7, Sched. II, s. 163(1), applicable to the 1989 and subsequent taxation years. S. 191.3(2)(*e*) formerly read:

"(*e*) no tax is payable under Part I by the transferor corporation for its taxation year in respect of which the agreement is filed."

Sec. 207(3), Chap. 19, 1998

(3) Where an agreement under subsection 191.3(2) of the Act can be made between a transferor corporation and a transferee corporation solely because of the amendment to paragraph 191.3(1)(*a*) or (*b*) of the Act, the agreement is deemed to have been filed on time if it is filed with the Minister of National Revenue before the end of the third month after the month in which this Act is assented to [Royal Assent June 18, 1998].

► 191.3(3) ◄

(3) Assessment. Where an agreement or amended agreement between a transferor corporation and a transferee corporation has been filed under this section with the Minister, the Minister shall, notwithstanding subsections 152(4) and (5), assess or reassess the tax, interest and penalties payable under this Act by the transferor corporation and the transferee corporation for any relevant taxation year in order to take into account the agreement or amended agreement.

► 191.3(4) ◄

(4) Related corporations. Where, at any time, a corporation has become related to another corporation and it may reasonably be considered, having regard to all the circumstances, that the main purpose of the corporation becoming related to the other corporation was to transfer, by filing an agreement or an amended agreement under this section, the benefit of a deduction under paragraph 110(1)(*k*) to a transferee corporation, the amount of the tax specified in the agreement shall, for the purposes of paragraph (1)(*c*), be deemed to be nil.

► 191.3(5) ◄

(5) Assessment of transferor corporation. The Minister may at any time assess a transferor corporation in respect of any amount for which it is jointly and severally liable by reason of paragraph (1)(*e*) and the provisions of Division I of Part I are applicable in respect of the assessment as though it had been made under section 152.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 191.3(5) of the English version of the Act is replaced by the following:

(5) Assessment of transferor corporation. The Minister may at any time assess a transferor corporation in respect of any amount for which it is jointly and severally, or solidarily, liable by reason of paragraph (1)(*e*) and the provisions of Division I of Part I are applicable in respect of the assessment as though it had been made under section 152.

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

► 191.3(6) ◄

(6) Payment by transferor corporation. Where a transferor corporation and a transferee corporation are by reason of paragraph (1)(*e*) jointly and severally liable in respect of tax payable by the transferee corporation under subparagraph 191.1(1)(*a*)(iv) and any interest or penalty in respect thereof, the following rules apply:

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 191.3(6) of the English version of the Act before paragraph (*a*) is replaced by the following:

(6) Payment by transferor corporation. Where a transferor corporation and a transferee corporation are by reason of paragraph (1)(*e*) jointly and severally, or solidarily, liable in respect of tax payable by the transferee corporation under subparagraph 191.1(1)(*a*)(iv) and any interest or penalty in respect thereof, the following rules apply:

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*a*) a payment by the transferor corporation on account of the liability shall, to the extent thereof, discharge the joint liability; and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 191.3(6)(*a*) of the Act is replaced by the following:

(*a*) a payment by the transferor corporation on account of the liability shall, to the extent thereof, discharge their liability; and

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*b*) a payment by the transferee corporation on account of its liability discharges the transferor corporation's liability only to the extent that the payment operates to reduce the transferee corporation's liability under this Act to an amount less than the amount in respect of which the transferor corporation was, by paragraph (1)(*e*), made jointly and severally liable.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 191.3(6)(*b*) of the English version of the Act is replaced by the following:

(*b*) a payment by the transferee corporation on account of its liability discharges the transferor corporation's liability only to the extent that the payment operates to reduce the transferee corporation's liability under this Act to an amount less than the amount in respect of which the transferor corporation was, by paragraph (1)(*e*), made jointly and severally, or solidarily, liable.

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

SECTION 191.4:

► 191.4(1) ◄

(1) Information return. Every corporation that is or would, but for section 191.3, be liable to pay tax under this Part for a taxation year shall, not later than the day on or before which it is required by section 150 to file its return of income for the year under Part I, file with the Minister a return for the year under this Part in prescribed form containing an estimate of the tax payable by it under this Part for the year.

Forms: T2 SCH 43.

► 191.4(2) ◄

(2) Provisions applicable to Part. Sections 152, 158 and 159, subsection 161(11), sections 162 to 167 and Division J of Part I apply to this Part with such modifications as the circumstances require.

History: S. 191.4(2) was amended by S.C. 1994, c. 7, Sched. VIII, s. 116(1), applicable to the 1992 and subsequent taxation years. S. 191.4(2) formerly read:

"(2) Sections 152, 158 and 159, subsections 161(1), (2) and (11), sections 162 to 167 and Division J of Part I are applicable to this Part with such modifications as the circumstances require."

► 191.4(3) ◄

(3) Provisions applicable — Crown corporations. Section 27 applies to this Part with any modifications that the circumstances require.

History: S. 191.4(3) was added by S.C. 1998, c. 19, s. 208(1), applicable after 1987.

Related Sections: S. 181.71 Provisions applicable — Crown corporations; s. 187.61 Provisions applicable — Crown corporations; s. 190.211 Provisions applicable — Crown corporations.

Part VII
Refundable Tax on Corporations Issuing Qualifying Shares

SECTION 192:

► 192(1) ◄

(1) Corporation to pay tax. Every corporation shall pay a tax under this Part for a taxation year equal to the total of all amounts each of which is an amount designated under subsection (4) in respect of a share issued by it in the year.

Interpretation Bulletins: *Secondary*—IT-328R3 Losses on shares on which dividends have been received.

► 192(2) ◄

(2) Definition of "Part VII refund". In this Part, the "Part VII refund" of a corporation for a taxation year means an amount equal to the lesser of

(*a*) the total of

(i) the amount, if any, by which the share-purchase tax credit of the corporation for the year exceeds the amount, if any, deducted in respect thereof by it for the year under subsection 127.2(1) from its tax otherwise payable under Part I for the year or the amount deemed by subsection 127.2(2) to have been paid on account of its tax payable under Part I for the year, as the case may be, and

(ii) such amount as the corporation may claim, not exceeding the amount that would, if paragraph (*i*) of the definition "investment tax credit" in subsection 127(9) were read without reference to the words "the year or", be its investment tax credit at the end of the year in respect of property acquired, or an expenditure made, after April 19, 1983 and on or before the last day of the year, and

(*b*) the refundable Part VII tax on hand of the corporation at the end of the year.

► 192(3) ◄

(3) Definition of "refundable Part VII tax on hand". In this Part, "refundable Part VII tax on hand" of a corporation at the end of a taxation year means the amount, if any, by which

(*a*) the total of the taxes payable by it under this Part for the year and all preceding taxation years

exceeds the total of

(*b*) the total of its Part VII refunds for all preceding taxation years, and

(*c*) the total of all amounts each of which is an amount of tax included in the total described in paragraph (*a*) in respect of a share that was issued by the corporation and that, at the time it was issued, was not a qualifying share.

► 192(4) ◄

(4) Corporation may designate amount. Every taxable Canadian corporation may, by filing a prescribed form with the Minister at any time on or before the last day of the month immediately following the month in which it issued a qualifying share of its capital stock (other than a share issued before July, 1983 or after 1986, or a share in respect of which the corporation has, on or before that day, designated an amount under subsection 194(4)), designate, for the purposes of this Part and Part I, an amount in respect of that share not exceeding 25% of the amount by which

(*a*) the amount of the consideration for which the share was issued

exceeds

(*b*) the amount of any assistance (other than an amount included in computing the share-purchase tax credit of a taxpayer in respect of that share) provided or to be provided by a government, municipality or any other public authority in respect of, or for the acquisition of, the share.

Related Sections: S. 89(1)(*i*), "taxable Canadian corporation"; s. 127.2 Share-purchase tax credit; s. 192(4.1) Computing paid-up capital after designation; s. 192(6) Definition of "qualifying share".
Regulations: 227; 5101–5103.

► 192(4.1) ◄

(4.1) Computing paid-up capital after designation. Where a corporation has designated an amount under subsection (4) in respect of shares issued at any time after May 23, 1985, in computing, at any particular time after that time, the paid-up capital in respect of the class of shares of the capital stock of the corporation that includes those shares

(*a*) there shall be deducted the amount, if any, by which

(i) the increase as a result of the issue of those shares in the paid-up capital in respect of all shares of that class, determined without reference to this subsection as it applies to those shares,

exceeds

(ii) the amount, if any, by which the total amount of consideration for which those shares were issued exceeds the total amount designated by the corporation under subsection (4) in respect of those shares; and

(*b*) there shall be added an amount equal to the lesser of

(i) the amount, if any, by which

(A) the total of all amounts each of which is an amount deemed by subsection 84(3), (4) or (4.1) to be a dividend on shares of that class paid by the corporation after May 23, 1985 and before the particular time

exceeds

(B) the total that would be determined under clause (A) if this Act were read without reference to paragraph (*a*), and

(ii) the total of all amounts each of which is an amount required by paragraph (*a*) to be deducted in computing the paid-up capital in respect of

that class of shares after May 23, 1985 and before the particular time.

Cases: The filing by the issuer of Form T-2110 designating the shares as "qualified shares" is fundamental to the investors' entitlement to an SPTC in respect of those shares and is not a mere administrative requirement but a statutory pre-condition. *598606 Ontario Ltd. v. the Queen,* 93 DTC 142 (T.C.C.).

► 192(5) ◄

(5) Presumption. For the purposes of this Act, the Part VII refund of a corporation for a taxation year shall be deemed to be an amount paid on account of its tax under this Part for the year on the last day of the second month following the end of the year.

► 192(6) ◄

(6) Definition of "qualifying share". In this Part, "qualifying share", at any time, means a prescribed share of the capital stock of a taxable Canadian corporation issued after May 22, 1985 and before 1987.

Regulations: 6203.
Interpretation Bulletins: *Secondary* — IT-113R4 Benefits to employees — Stock options.

► 192(7) ◄

(7) Effect of obligation to acquire shares. When determining under section 251 whether a corporation and any other person do not deal with each other at arm's length for the purposes of any regulations made for the purposes of subsection (6), a person who has an obligation in equity, under a contract or otherwise, either immediately or in the future and either absolutely or contingently, to acquire shares in a corporation, shall be deemed to be in the same position in relation to the control of the corporation as if that person owned the shares.

► 192(8) ◄

(8) Late designation. Where a taxable Canadian corporation that issued a share does not designate an amount under subsection (4) in respect of the share on or before the day on or before which the designation was required by that subsection, the corporation shall be deemed to have made the designation on that day if

(*a*) the corporation has filed with the Minister a prescribed information return relating to the share-purchase tax credit in respect of the share within the time that it would have been so required to file the return had the designation been made on that day, and

(*b*) within 3 years after that day, the corporation has

(i) designated an amount in respect of the share by filing a prescribed form with the Minister, and

(ii) paid to the Receiver General, at the time the prescribed form referred to in subparagraph (i) is filed, an amount that is a reasonable estimate of the penalty payable by the corporation for the late designation in respect of the share,

except that, where the Minister has mailed a notice to the corporation that a designation has not been made in respect of the share under subsection (4), the designation and payment described in paragraph (*b*) must be made by the corporation on or before the day that is 90 days after the day of the mailing.

► 192(9) ◄

(9) Penalty for late designation. Where, pursuant to subsection (8), a corporation made a late designation in respect of a share issued in a month, the corporation shall pay, for each month or part of a month that elapsed during the period beginning on the last day on or before which an amount could have been designated by the corporation under subsection (4) in respect of the share and ending on the day that the late designation is made, a penalty for the late designation in respect of the share in an amount equal to 1% of the amount designated in respect of the share, except that the maximum penalty payable under this subsection by the corporation for a month shall not exceed $500.

► 192(10) ◄

(10) Deemed deduction. For the purposes of this Act, other than the definition "investment tax credit" in subsection 127(9), the amount, if any, claimed under subparagraph (2)(*a*)(ii) by a taxpayer for a taxation year shall be deemed to have been deducted by the taxpayer under subsection 127(5) for the year.

► 192(11) ◄

(11) Restriction. Where at any time a corporation has designated an amount under subsection (4) in respect of a share, no amount may be designated by the corporation at any subsequent time in respect of that share.

SECTION 193:

► 193(1) ◄

(1) Corporation to file return. Every corporation that is liable to pay tax under this Part for a taxation year shall, on or before the day on or before which it is required to file its return of income under Part I for the year, file with the Minister a return for the year under this Part in prescribed form.

► 193(2) ◄

(2) Corporation to make payment on account of tax. Where, in a particular month in a taxation year, a corporation issues a share in respect of which it designates an amount under section 192, the corporation shall, on or before the last day of the month following the particular month, pay to the Receiver General on account of its tax payable under this Part for the year an amount equal to the total of all amounts so designated.

Regulations: Part XLIII.

► 193(3) ◄

(3) Interest. Where a corporation is liable to pay tax under this Part and has failed to pay all or any part or instalment thereof on or before the day on or before which the tax or instalment, as the case may be, was required to be paid, it shall pay to the Receiver General interest at the prescribed rate on the amount that it failed to pay computed from the day on or before which the amount was required to be paid to the day of payment.

Related Sections: S. 248(11) Compound interest.
Regulations: 4301.

► 193(4) ◄

(4) Idem. For the purposes of computing interest payable by a corporation under subsection (3) for any month or months in the period commencing on the first day of a taxation year and ending two months after the last day of the year in which period the corporation has designated an amount under section 192 in respect of a share issued by it in a particular month in the year, the corporation shall be deemed to have been liable to pay, on or before the last day of the month immediately following the

particular month, a part or an instalment of tax for the year equal to that proportion of the amount, if any, by which its tax payable under this Part for the year exceeds its Part VII refund for the year that

(*a*) the total of all amounts so designated by it under section 192 in respect of shares issued by it in the particular month

is of

(*b*) the total of all amounts so designated by it under section 192 in respect of shares issued by it in the year.

► 193(5) ◄

(5) Evasion of tax. Where a corporation that is liable to pay tax under this Part in respect of a share issued by it wilfully, in any manner whatever, evades or attempts to evade payment of the tax and a purchaser of the share or, where the purchaser is a partnership, a member of the partnership knew or ought to have known, at the time the share was acquired, that the corporation would wilfully evade or attempt to evade the tax, for the purposes of section 127.2, the share shall be deemed not to have been acquired.

► 193(6) ◄

(6) Undue deferral. Where, in a transaction or as part of a series of transactions, a taxpayer acquires a share of a corporation that the taxpayer controls (within the meaning assigned by subsection 186(2)) and it may reasonably be considered that one of the main purposes of the acquisition was to reduce for a period interest on the taxpayer's liability for tax under this Part, the share shall, for the purposes of section 127.2 and this Part (other than this subsection), be deemed not to have been acquired by the taxpayer and not to have been issued by the corporation until the end of that period.

Related Sections: S. 248(10) Series of transactions.

► 193(7) ◄

(7) Avoidance of tax. Where, as part of a series of transactions or events one of the main purposes of which may reasonably be considered to be the avoidance of tax that might otherwise have been or become payable under Part II by any corporation, a particular corporation has issued a share in a taxation year in respect of which it has designated an amount under subsection 192(4), the particular corporation shall, on or before the last day of the second month after the end of the year, pay a tax under this Part for the year equal to 125% of the amount of tax under Part II that is or may be avoided by reason of the series of transactions or events.

Related Sections: S. 248(10) Series of transactions.

► 193(7.1) ◄

(7.1) Tax on excess. Where a corporation has in a taxation year made an election under subsection 127.2(10) in respect of any share that was part of a distribution of shares referred to in that subsection and, at the end of that year or any subsequent taxation year,

(*a*) the total of the amounts designated under subsection 192(4) in respect of those shares as evidenced by the prescribed information returns required by regulation to be filed with the Minister by a taxpayer other than the corporation

exceeds

(*b*) the total of the amounts designated under subsection 192(4) in respect of those shares acquired by the taxpayer and in respect of which another taxpayer was required by regulation to provide the taxpayer with a prescribed information return relating to the designation under that subsection,

the taxpayer is liable to pay a tax under this Part for the taxation year at the end of which there is such an excess equal to the amount of the excess, which tax is to be paid to the Receiver General within 60 days after the end of the taxation year, and the excess shall be included in determining the total under paragraph (*b*) for any taxation year of the taxpayer subsequent to that year.

► 193(8) ◄

(8) Provisions applicable to Part. Sections 151, 152, 158 and 159, subsection 161(11), sections 162 to 167 and Division J of Part I are applicable to this Part with such modifications as the circumstances require.

Part VIII
Refundable Tax on Corporations in Respect of Scientific Research and Experimental Development Tax Credit

SECTION 194:

► 194(1) ◄

(1) Corporation to pay tax. Every corporation shall pay a tax under this Part for a taxation year equal to 50% of the total of all amounts each of which is an amount designated under subsection (4) in respect of a share or debt obligation issued by it in the year or a right granted by it in the year.

Interpretation Bulletins: *Secondary* — IT-151R5 (Consolid.) — Scientific research and experimental development expenditures; IT-151R4 Scientific research and experimental development expenditures [Archived by the CRA].

► 194(2) ◄

(2) Definition of "Part VIII refund". In this Part, the "Part VIII refund" of a corporation for a taxation year means an amount equal to the lesser of

(*a*) the total of

(i) the amount, if any, by which the scientific research and experimental development tax credit of the corporation for the year exceeds the amount, if any, deducted by it under subsection 127.3(1) from its tax otherwise payable under Part I for the year, and

(ii) such amount as the corporation may claim, not exceeding 50% of the amount, if any, by which

(A) the total of all expenditures made by it after April 19, 1983 and in the year or the immediately preceding taxation year each of which is an expenditure (other than an expenditure prescribed for the purposes of the definition "qualified expenditure" in subsection 127(9)) claimed under paragraph 37(1)(*a*) or (*b*) to the extent that the expenditure is specified by the corporation in its return of income under Part I for the year

exceeds the total of

(B) the total of all expenditures each of which is an expenditure made by it in the immediately preceding taxation year, to the extent that the expenditure was included in determining the total under clause (A) and resulted in

(I) a refund to it under this Part for the immediately preceding taxation year,

(II) a deduction by it under subsection 37(1) for the immediately preceding taxation year, or

(III) a deduction by it under subsection 127(5) for any taxation year, and

(C) twice the portion of the total of amounts each of which is an amount deducted by it in computing its income for the year or the immediately preceding taxation year under section 37.1 that can reasonably be considered to relate to expenditures that were included in determining the total under clause (A), and

(*b*) the refundable Part VIII tax on hand of the corporation at the end of the year.

Regulations: 2902.

► 194(3) ◄

(3) Definitions. In this Part,

"*debt obligation*" — "debt obligation" has the meaning assigned by paragraph (*d*) of the description of A in the formula found in the definition "scientific research and experimental development tax credit" in subsection 127.3(2);

"*refundable Part VIII tax on hand*" — "refundable Part VIII tax on hand" of a corporation at the end of a taxation year means the amount, if any, by which

(*a*) the total of the taxes payable by it under this Part for the year and all preceding taxation years

exceeds

(*b*) the total of its Part VIII refunds for all preceding taxation years.

► 194(4) ◄

(4) Corporation may designate amount. Every taxable Canadian corporation may, by filing a prescribed form with the Minister at any time on or before the last day of the month immediately following a month in which it issued a share or debt obligation or granted a right under a scientific research and experimental development financing contract (other than a share or debt obligation issued or a right granted before October, 1983, or a share in respect of which the corporation has, on or before that day, designated an amount under subsection 192(4)) designate, for the purposes of this Part and Part I, an amount in respect of that share, debt obligation or right not exceeding the amount by which

(*a*) the amount of the consideration for which it was issued or granted, as the case may be,

exceeds

(*b*) in the case of a share, the amount of any assistance (other than an amount included in computing the scientific research and experimental development tax credit of a taxpayer in respect of that share) provided, or to be provided by a government, municipality or any other public authority in respect of, or for the acquisition of, that share.

Related Sections: S. 89(1)(*i*), "taxable Canadian corporation"; s. 127.3(2) Definitions; s. 194(4.1) Computing paid-up capital after designation; s. 194(4.2) Where amount may not be designated; s. 194(6) Definition of "scientific research and experimental development financing contract"; s. 194(7) Late designation.
Regulations: 226.

► 194(4.1) ◄

(4.1) Computing paid-up capital after designation. Where a corporation has designated an amount under subsection (4) in respect of shares issued at any time after May 23, 1985, in computing, at any particular time after that time, the paid-up capital in respect of the class of shares of the capital stock of the corporation that includes those shares

(*a*) there shall be deducted the amount, if any, by which

(i) the increase as a result of the issue of those shares in the paid-up capital in respect of all shares of that class, determined without reference to this subsection as it applies to those shares,

exceeds

(ii) the amount, if any, by which the total amount of consideration for which those shares were issued exceeds 50% of the amount designated by the corporation under subsection (4) in respect of those shares; and

(*b*) there shall be added an amount equal to the lesser of

(i) the amount, if any, by which

(A) the total of all amounts each of which is an amount deemed by subsection 84(3), (4) or (4.1) to be a dividend on shares of that class paid by the corporation after May 23, 1985 and before the particular time

exceeds

(B) the total that would be determined under clause (A) if this Act were read without reference to paragraph (*a*), and

(ii) the total of all amounts each of which is an amount required by paragraph (*a*) to be deducted in computing the paid-up capital in respect of that class of shares after May 23, 1985 and before the particular time.

► 194(4.2) ◄

(4.2) Where amount may not be designated. Notwithstanding subsection (4), no amount may be designated by a corporation in respect of

(*a*) a share issued by the corporation after October 10, 1984, other than

(i) a qualifying share issued before May 23, 1985, or

(ii) a qualifying share issued after May 22, 1985 and before 1986

(A) under the terms of an agreement in writing entered into by the corporation before May 23, 1985, other than pursuant to an option to acquire the share if the option was not exercised before May 23, 1985, or

(B) as part of a lawful distribution to the public in accordance with a prospectus, preliminary prospectus or registration statement filed before May 24, 1985 with a public authority in Canada pursuant to and in accordance with the securities legislation of Canada or of any province and, where required by law, accepted for filing by that public authority;

(*b*) a share or debt obligation issued or a right granted by the corporation after October 10, 1984, other than a share or debt obligation issued or a right granted before 1986

(i) under the terms of an agreement in writing entered into by the corporation before October 11, 1984, other than pursuant to an option to acquire the share, debt obligation or right if the option was not exercised before October 11, 1984, or

(ii) where arrangements, evidenced in writing, for the issue of the share or debt obligation or the granting of the right were substantially advanced before October 10, 1984; or

(*c*) a share or debt obligation issued, or a right granted, at any time after June 15, 1984, by a corporation that was an excluded corporation (within the meaning assigned by subsection 127.1(2)) at that time.

Cases: The fact that the filing of a formal prospectus had been dispensed with by the Securities Commission did not make the document filed by the taxpayer fall outside the provisions of clause 194(4.2)(*a*)(ii)(B). *Gupta et al. v. M.N.R.*, 92 DTC 1542 (T.C.C.).

The designation made by a company did not comply with s. 194(4.2)(*b*)(ii) since the debt obligation was perfected after October 10, 1984 and had not been incurred pursuant to "arrangements evidenced in writing". *First Fund Genesis Corp. v. The Queen*, 90 DTC 6337 (F.C.T.D.).

► 194(5) ◄

(5) Presumption. For the purposes of this Act, the Part VIII refund of a corporation for a taxation year shall be deemed to be an amount paid on account of its tax under this Part for the year on the last day of the second month following the end of the year.

Cases: Five taxpayers purchased shares in a numbered company which had been designated under s. 194(4) pursuant to an agreement made effective May 21, 1985. On May 22, 1985, they sold them to OA Ltd. and on July 31, 1985, they caused the numbered company to be dissolved. Since the taxpayers were dealing at arm's length and they could not have expected the winding-up of the numbered company to occur within the 2-year period contemplated in clause 192(6)(*d*)(iii)(A), the numbered company's shares were "qualifying shares" under s. 192(6). *Penner et al. v. The Queen*, 94 DTC 6567 (F.C.T.D.).

► 194(6) ◄

(6) Definition of "scientific research and experimental development financing contract". In this Part, "scientific research and experimental development financing contract" means a contract in writing pursuant to which an amount is paid by a person to a corporation as consideration for the granting by the corporation to that person of any right, either absolute or contingent, to receive income, other than interest or dividends.

► 194(7) ◄

(7) Late designation. Where a taxable Canadian corporation that issued a share or debt obligation or granted a right under a scientific research and experimental development financing contract does not designate an amount under subsection (4) in respect of the share, debt obligation or right on or before the day on or before which the designation was required by that subsection, the corporation shall be deemed to have made the designation on that day if

(*a*) the corporation has filed with the Minister a prescribed information return relating to the scientific research and experimental development tax credit in respect of the share, debt obligation or right within the time that it would have been so required to file

the return had the designation been filed on that day, and

(*b*) within 3 years after that day, the corporation has

(i) designated an amount in respect of the share, debt obligation or right by filing a prescribed form with the Minister, and

(ii) paid to the Receiver General, at the time the prescribed form referred to in subparagraph (i) is filed, an amount that is a reasonable estimate of the penalty payable by the corporation for the late designation in respect of the share, debt obligation or right,

except that, where the Minister has mailed a notice to the corporation that a designation has not been made in respect of the share, debt obligation or right under subsection (4), the designation and payment described in paragraph (*b*) must be made by the corporation on or before the day that is 90 days after the day of the mailing.

Cases: The Minister returned the taxpayer's late-filed SRTC designation, indicating in an accompanying letter that it could be resubmitted with penalty within 30 days. The letter did not constitute a notice of the type contemplated in s. 194(7). Accordingly, the taxpayer's failure to file the prescribed information returns on time was fatal to its claim that the late designation had been validly filed. *The Queen v. United Equities Limited*, 95 DTC 5042 (F.C.A.), reversing 92 DTC 6572 (F.C.T.D.), affirming 89 DTC 391 (T.C.C.).

► 194(8) ◄

(8) Penalty for late designation. Where, pursuant to subsection (7), a corporation made a late designation in respect of a share or debt obligation issued, or a right granted, in a month, the corporation shall pay, for each month or part of a month that elapsed during the period beginning on the last day on or before which an amount could have been designated by the corporation under subsection (4) in respect of the share, debt obligation or right and ending on the day that the late designation is made, a penalty for the late designation in respect of the share, debt obligation or right in an amount equal to 1% of the amount designated in respect of the share, debt obligation or right, except that the maximum penalty payable under this subsection by the corporation for a month shall not exceed $500.

Cases: The Minister returned the taxpayer's late-filed SRTC designation, indicating in an accompanying letter that it could be resubmitted with penalty within 30 days. The letter did not constitute a notice of the type contemplated in s. 194(7). Accordingly, the taxpayer's failure to file the prescribed information returns on time was fatal to its claim that the late designation had been validly filed. *The Queen v. United Equities Limited*, 95 DTC 5042 (F.C.A.), reversing 92 DTC 6572 (F.C.T.D.), affirming 89 DTC 391 (T.C.C.).

► 194(9) ◄

(9) Restriction. Where at any time a corporation has designated an amount under subsection (4) in respect of a share, debt obligation or right, no amount may be designated by the corporation at any subsequent time in respect of that share, debt obligation or right.

SECTION 195:

► 195(1) ◄

(1) Corporation to file return. Every corporation that is liable to pay tax under this Part for a taxation year shall, on or before the day on or before which it is required to file its return of income under Part I for the year, file with the Minister a return for the year under this Part in prescribed form.

Regulations: Part XLIII.

Cases: A promissory note had been issued to the taxpayer in the amount of $120,000 which was designated in 1984 under s. 194(4) so that, in computing its 1984 income, the taxpayer claimed a SR&ED tax credit of $60,000. It would be contrary to the intent of the *Income Tax Act* to deprive the taxpayer of its $60,000 SR&ED tax credit, by unduly narrowly construing the words "consideration for which it (i.e. the note) was issued" in s. 194(4). *Groupmark Canada Ltd. v. The Queen*, 93 DTC 5179 (F.C.T.D.).

► 195(2) ◄

(2) Corporation to make payment on account of tax. Where, in a particular month in a taxation year, a corporation issues a share or debt obligation, or grants a right, in respect of which it designates an amount under section 194, the corporation shall, on or before the last day of the month following the particular month, pay to the Receiver General on account of its tax payable under this Part for the year an amount equal to 50% of the total of all amounts so designated.

► 195(3) ◄

(3) Interest. Where a corporation is liable to pay tax under this Part and has failed to pay all or any part or instalment thereof on or before the day on or before which the tax or instalment, as the case may be, was required to be paid, it shall pay to the Receiver General interest at the prescribed rate on the amount that it failed to pay computed from the day on or before which the amount was required to be paid to the day of payment.

Related Sections: S. 248(11) Compound interest.
Regulations: Part XLIII.

► 195(4) ◄

(4) Idem. For the purposes of computing interest payable by a corporation under subsection (3) for any month or months in the period commencing on the first day of a taxation year and ending two months after the last day of the year in which period the corporation has designated an amount under section 194 in respect of a share or debt obligation issued, or right granted, by it in a particular month in the year, the corporation shall be deemed to have been liable to pay, on or before the last day of the month immediately following the particular month, a part or an instalment of tax for the year equal to that proportion of the amount, if any, by which its tax payable under this Part for the year exceeds its Part VIII refund for the year that

(*a*) the total of all amounts so designated by it under section 194 in respect of shares or debt obligations issued, or rights granted, by it in the particular month

is of

(*b*) the total of all amounts so designated by it under section 194 in respect of shares or debt obligations issued, or rights granted, by it in the year.

► 195(5) ◄

(5) Evasion of tax. Where a corporation that is liable to pay tax under this Part in respect of a share or debt obligation issued or a right granted by it wilfully, in any manner whatever, evades or attempts to evade payment of the tax and a purchaser of the share, debt obligation or right or, where the purchaser is a partnership, a member of the partnership knew or ought to have known, at the time the share, debt obligation or right was acquired, that the corporation would wilfully evade or attempt to evade the tax, for the purposes of section 127.3, the share, debt obligation or right shall be deemed not to have been acquired.

► 195(6) ◄

(6) Undue deferral. Where, in a transaction or as part of a series of transactions, a taxpayer acquires a share or debt obligation of a corporation or a right granted by a

corporation and the corporation is controlled (within the meaning assigned by subsection 186(2)) by the taxpayer and it may reasonably be considered that one of the main purposes of the acquisition was to reduce for a period interest on the taxpayer's liability for tax under this Part, the share, debt obligation or right shall, for the purposes of this Part (other than this subsection) and section 127.3, be deemed not to have been acquired by the taxpayer and not to have been issued or granted, as the case may be, by the corporation until the end of that period.

Related Sections: S. 248(10) Series of transactions.

► 195(7) ◄

(7) Avoidance of tax. Where, as part of a series of transactions or events one of the main purposes of which may reasonably be considered to be the avoidance of tax that might otherwise have been or become payable under Part II of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, by any corporation, a particular corporation has issued a share or debt obligation or granted a right in a taxation year in respect of which it has designated an amount under subsection 194(4), the particular corporation shall, on or before the last day of the second month after the end of the year, pay a tax under this Part for the year equal to 125% of the amount of tax under Part II of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, that is or may be avoided by reason of the series of transactions or events.

Related Sections: S. 248(10) Series of transactions.

► 195(7.1) ◄

(7.1) Tax on excess. Where a corporation has in a taxation year made an election under subsection 127.3(9) in respect of any share or debt obligation that was part of a distribution of shares or debt obligations referred to in that subsection and, at the end of that year or any subsequent taxation year,

(*a*) the total of the amounts designated under subsection 194(4) in respect of those shares or debt obligations as evidenced by the prescribed information returns required by regulation to be filed with the Minister by a taxpayer other than the corporation

exceeds

(*b*) the total of the amounts designated under subsection 194(4) in respect of those shares or debt obligations acquired by the taxpayer and in respect of which another taxpayer was required by regulation to provide the taxpayer with a prescribed information return relating to the designation under that subsection,

the taxpayer is liable to pay a tax under this Part, for the taxation year at the end of which there is such an excess, equal to 50% of the excess, which tax is to be paid to the Receiver General within 60 days after the end of the taxation year, and the excess shall be included in determining the total under paragraph (*b*) for any taxation year of the taxpayer subsequent to that year.

► 195(8) ◄

(8) Provisions applicable to Part. Sections 151, 152, 158 and 159, subsection 161(11), sections 162 to 167 (except subsections 164(1.1) to (1.3)) and Division J of Part I are applicable to this Part with such modifications as the circumstances require and, for greater certainty, the Minister may assess, before the end of a taxation year, an amount payable under this Part for the year.

Part IX
Tax on Deduction Under Section 66.5

SECTION 196:

► 196(1) ◄

(1) Tax in respect of cumulative offset account. Every corporation shall pay a tax under this Part for each taxation year equal to 30% of the amount deducted under subsection 66.5(1) in computing its income for the year.

► 196(2) ◄

(2) Return. Every corporation that is liable to pay tax under this Part for a taxation year shall file with the Minister, not later than the day on or before which it is required under section 150 to file a return of its income for the year under Part I, a return for the year under this Part in prescribed form containing an estimate of the amount of tax payable by it under this Part for the year.

► 196(3) ◄

(3) Instalments. Where a corporation is liable to pay tax for a taxation year under this Part, the corporation shall pay in respect of the year, to the Receiver General

(*a*) on or before the last day of each month in the year, an amount equal to 1/12 of the amount of tax payable by it under this Part for the year; and

(*b*) the remainder, if any, of the tax payable by it under this Part for the year, on or before its balance-due day for the year.

History: S. 196(3)(*b*) was replaced by S.C. 2003, c. 15, s. 123(1), applicable to taxation years that begin after June 2003. S. 196(3)(*b*) formerly read:

"(*b*) the remainder, if any, of the tax payable by it under this Part for the year, on or before the end of the second month following the end of the year."

► 196(4) ◄

(4) Provisions applicable to Part. Sections 152, 158 and 159, subsections 161(1) and (2), sections 162 to 167 and Division J of Part I are applicable to this Part, with such modifications as the circumstances require.

Regulations: Part XXI; Part XLIII.

Part IX.1
Tax on SIFT Partnerships

SECTION 197:

▶ 197(1) ◀

(1) Definitions. The following definitions apply in this Part and in section 96.

Canadian Petroleum Tax Journal: The Sift Rules: An Oil & Gas Perspective, Hegedus, Vol. 20 No. 1 2007.

"non-portfolio earnings" — "non-portfolio earnings", of a SIFT partnership for a taxation year, means the total of

(*a*) the amount, if any, by which

(i) the total of all amounts each of which is the SIFT partnership's income for the taxation year from a business carried on by it in Canada or from a non-portfolio property, other than income that is a taxable dividend received by the SIFT partnership,

exceeds

(ii) the total of all amounts each of which is the SIFT partnership's loss for the taxation year from a business carried on by it in Canada or from a non-portfolio property, and

(*b*) the amount, if any, by which all taxable capital gains of the SIFT partnership from dispositions of non-portfolio properties during the taxation year exceeds the total of the allowable capital losses of the SIFT partnership for the taxation year from dispositions of non-portfolio properties during the taxation year.

History: S. 197(1), the definition "non-portfolio earnings" was added by S.C. 2007, c. 29, s. 24(1), deemed to have come into force on October 31, 2006.

Related Sections: S. 89(1), "taxable dividend"; s. 248(1), "non-portfolio property".

"SIFT partnership" — "SIFT partnership", being a specified investment flow-through partnership, for any taxation year, means a partnership other than an excluded subsidiary entity (as defined in subsection 122.1(1)) for the taxation year that meets the following conditions at any time during the taxation year:

(*a*) the partnership is a Canadian resident partnership;

(*b*) investments (as defined in subsection 122.1(1)) in the partnership are listed or traded on a stock exchange or other public market; and

(*c*) the partnership holds one or more non-portfolio properties.

History: S. 197(1), the portion of the definition "SIFT partnership" before paragraph (*a*) was replaced by S.C. 2009, c. 2, s. 65(1), deemed to have come into force on October 31, 2006. S. 197(1), the portion of the definition "SIFT partnership" before paragraph (*a*) formerly read:

" 'SIFT partnership' — 'SIFT partnership', being a specified investment flow-through partnership, for any taxation year, means a partnership that meets the following conditions at any time during the taxation year:"

S. 197(1), the definition "SIFT partnership" was added by S.C. 2007, c. 29, s. 24(1), deemed to have come into force on October 31, 2006.

Related Sections: S. 122.1(1), "SIFT trust"; s. 248(1), "Canadian resident partnership", "non-portfolio property".

"taxable non-portfolio earnings" — "taxable non-portfolio earnings" of a SIFT partnership, for a taxation year, means the lesser of

(*a*) the amount that would, if the SIFT partnership were a taxpayer for the purposes of Part I and if subsection 96(1) were read without reference to its paragraph (*d*), be its income for the taxation year as determined under section 3; and

(*b*) its non-portfolio earnings for the taxation year.

History: S. 197(1), the definition "taxable non-portfolio earnings" was added by S.C. 2007, c. 29, s. 24(1), deemed to have come into force on October 31, 2006.

▶ 197(2) ◀

(2) Tax on partnership income. Every partnership that is a SIFT partnership for a taxation year is liable to a tax under this Part equal to the amount determined by the formula

$$A \times (B + C)$$

where

A is the taxable non-portfolio earnings of the SIFT partnership for the taxation year;

B is the net corporate income tax rate in respect of the SIFT partnership for the taxation year; and

C is the provincial SIFT tax rate of the SIFT partnership for the taxation year.

History: S. 197(2), the description of C was replaced by S.C. 2008, c. 28, s. 30(1), applicable to the 2009 and subsequent taxation years, except that it also applies for a SIFT partnership's earlier taxation year if the definition "provincial SIFT tax rate" in subsection 248(1) applies to that earlier taxation year. S. 197(2), the description of C formerly read:

"C is the provincial SIFT tax factor for the taxation year."

S. 197(2) was added by S.C. 2007, c. 29, s. 24(1), deemed to have come into force on October 31, 2006.

Editorial Note: If Part IX.1 tax is payable by a SIFT partnership in a taxation year, subsection 96(1.11) provides that the partnership is deemed to have received a taxable dividend in the year from a taxable Canadian corporation equal to the amount by which the partnership's taxable non-portfolio earnings for the year exceeds the partnership's Part IX.1 tax payable for the year. In other words, the partnership's taxable non-portfolio earnings, net of the Part IX.1 tax, are treated as a deemed taxable dividend, and an eligible dividend, which is included in the Part 1 income of the partners pursuant to the general rules of paragraph 96(1).

Related Sections: S. 248(1), "net corporate income tax rate", "provincial tax factor", "provincial SIFT tax rate".

Regulations: 414.

▶ 197(3) ◀

(3) Ordering. This Part and section 122.1 are to be applied as if this Act were read without reference to subsection 96(1.11).

History: S. 197(3) was added by S.C. 2007, c. 29, s. 24(1), deemed to have come into force on October 31, 2006.

▶ 197(4) ◀

(4) Partnership to file return. Every member of a partnership that is liable to pay tax under this Part for a taxation year shall — on or before the day on or before which the partnership return is required to be filed for the year under section 229 of the *Income Tax Regulations* — file with the Minister a return for the taxation year under

this Part in prescribed form containing an estimate of the tax payable by the partnership under this Part for the taxation year.

History: S. 197(4) was added by S.C. 2007, c. 29, s. 24(1), deemed to have come into force on October 31, 2006.

► 197(5) ◄

(5) Authority to file return. For the purposes of subsection (4), if, in respect of a taxation year of a partnership, a particular member of the partnership has authority to act for the partnership,

(*a*) if the particular member has filed a return as required by this Part for a taxation year, each other person who was a member of the partnership during the taxation year is deemed to have filed the return; and

(*b*) a return that has been filed by any other member of the partnership for the taxation year is not valid and is deemed not to have been filed by any member of the partnership.

History: S. 197(5) was added by S.C. 2007, c. 29, s. 24(1), deemed to have come into force on October 31, 2006.

► 197(6) ◄

(6) Provisions applicable to Part. Subsection 150(2), sections 152, 156, 156.1, 158, 159 and 161 to 167 and Division J of Part I apply to this Part, with any modifications that the circumstances require, and for greater certainty,

(*a*) a notice of assessment referred to in subsection 152(2) in respect of tax payable under this Part is valid notwithstanding that a partnership is not a person; and

(*b*) notwithstanding subsection 152(4), the Minister may at any time make an assessment or reassessment of tax payable under this Part or Part I to give effect to a determination made by the Minister under subsection 152(1.4), including the assessment or reassessment of Part I tax payable in respect of the disposition of an interest in a SIFT partnership by a member of the partnership.

History: S. 197(6) was added by S.C. 2007, c. 29, s. 24(1), deemed to have come into force on October 31, 2006.

► 197(7) ◄

(7) Payment. Every SIFT partnership shall pay to the Receiver General, on or before its SIFT partnership balance-due day for each taxation year, its tax payable under this Part for the taxation year.

History: S. 197(7) was added by S.C. 2007, c. 29, s. 24(1), deemed to have come into force on October 31, 2006.

Related Sections: S. 248(1), "SIFT partnership balance-due day".

► 197(8) ◄

(8) Application of definition "SIFT partnership". The definition "SIFT partnership" applies to a partnership for a taxation year of the partnership that ends after 2006, except that if the partnership would have been a SIFT partnership on October 31, 2006 had that definition been in force and applied to the partnership as of that date, that definition does not apply to the partnership for a taxation year of the partnership that ends before the earlier of

(*a*) 2011, and

(*b*) the first day after December 15, 2006 on which the partnership exceeds normal growth as determined by reference to the normal growth guidelines issued by the Department of Finance on December 15, 2006, as amended from time to time, unless that excess arose as a result of a prescribed transaction.

History: S. 197(8) was added by S.C. 2007, c. 29, s. 24(1), deemed to have come into force on October 31, 2006.

Explanatory Note Extract
SIFT Transitional Rules

[Reproduced below is an extract from the Explanatory Notes released with Bill C-10, *Budget Implementation Act, 2009* (S.C. 2009, c. 2) (Department of Finance Release No. 2009-014, dated February 2, 2009). Although there was no amendment to subsection 197(8) in that Act, the Department of Finance has used this explanatory note to provide notification that the normal growth guidelines described in Department of Finance News Release No. 2006-082 (reproduced below), dated December 15, 2006, and referred to in subsections 122.1(2) and 197(8) have been revised.]

Subsection 197(8) — SIFT transitional rules

Subsection 197(8) of the Act limits the application of the definition "SIFT partnership" in subsection (1) for the 2007 to 2010 taxation years. Where a partnership (in this commentary referred to as a "transitional SIFT") would, under the text of that definition, be a SIFT partnership on October 31, 2006, subsection 197(8) provides that the SIFT partnership definition will not apply until the earlier of the partnership's 2011 taxation year or the taxation year in which the partnership exceeds its normal growth (as determined by guidelines issued by the Department of Finance on December 15, 2006), unless that excess arose as a result of a prescribed transaction.

For this purpose, the normal growth guidelines set the maximum growth from November 2006 to December 2010. Specifically, during each of the staging periods described below the maximum growth is the greater of $50 million and a safe harbour amount. That safe harbour amount is measured with respect to the transitional SIFT's market capitalization on October 31, 2006 and is staged as follows: 40% for Nov 2006 – Dec 2007; 20% for 2008; 20% for 2009; and 20% for 2010. These percentages are cumulative (in contrast, the $50 million "*de minimis*" amounts cannot be carried forward from one staging period to the next) such that a transitional SIFT will have been able to issue, as of January 2010, new equity of up to 100% of its October 31, 2006 market capitalization.

This note is included to serve as notification that the Department's normal growth guidelines are revised, effective December 4, 2008.

The first revision applies to certain situations involving a transitional SIFT, units of which are publicly traded, that holds securities in another transitional SIFT (whether a trust or partnership and referred to in this commentary as the "second transitional SIFT") the units of which are not publicly traded. If the transitional SIFT's securities in the second transitional SIFT are non-portfolio property of the transitional SIFT (determined for purposes of this revision to the guidelines as though the definition "non-portfolio property" in subsection 122.1(1) of the Act were read without reference to its paragraphs (*b*) and (*c*) and as though a reference to "10%" in its paragraph (*a*) were a reference to "25%"), then new equity issued by the second transitional SIFT will count towards the growth of the transitional SIFT and not the second transitional SIFT, provided that at least one of the following conditions is met:

- that the new equity is convertible into the equity of the transitional SIFT;
- that the new equity can reasonably be regarded to be funded by the issuance of new equity in the transitional SIFT.

This revision of the normal growth guidelines is intended to prevent, in the particular circumstances described, an inappropriate duplication of growth as between the transitional SIFT and the second transitional SIFT where there is a sufficient level of non-arm's length relations between the two entities.

The normal growth guidelines are also being revised to accelerate the remaining growth room for transitional SIFTs by making the safe harbour, and the $50M *de minimis* amounts, for each of 2009 and 2010 available on and after December 4, 2008.

This change does not affect the maximum available growth of a transitional SIFT, but allows it to use all of its remaining growth room in a single year, rather than staging it (i.e., at the greater of 20% and $50M per year) over the 2009 and 2010 years. In effect, the revision preserves the original 2008 staging period, and combines the 2009 and 2010 staging periods into a single period that starts on December 4, 2008.

The examples in the notes under subsection 122.1(2) illustrate the application of this second revision to the normal growth guidelines.

Department of Finance Press Release
Department of Finance Provides Guidance on "Normal Growth" for Income Trusts and Other Flow-Through Entities

[Reproduced is Department of Finance News Release 2006-082, dated December 15, 2006, which describes what the government considers to be "normal growth" with respect to the implementation date for the tax on income trusts and public partnerships announced on October 31, 2006.]

Following the close of financial markets today, the Department of Finance provided further guidance on "normal growth" in respect of the tax measures announced on October 31, 2006 regarding income trusts and other flow-through entities.

On October 31, 2006, the Minister of Finance, the Honourable Jim Flaherty, announced a Tax Fairness Plan. The Plan includes a Distribution Tax on certain amounts distributed by a "specified investment flow-through" (SIFT) trust or SIFT partnership. This new tax applies as of 2007 to new entities, but is deferred until 2011 for SIFTs that were publicly traded as of October 31, 2006.

The deferred application of these measures is, however, conditional on existing SIFTs respecting the policy objectives of the proposals. Materials released with the Minister's announcement indicated that, for example, the undue expansion of an existing SIFT might cause the deferral to be rescinded. On the other hand, the continuation of the normal growth of a SIFT would not raise concerns.

This document provides existing SIFTs with more detail as to what is meant by "normal growth" in this context. The Department's guidance has been prepared following consultations with many publicly-traded trusts and partnerships, and is based on its observations as to the range of growth arising in the normal course of business.

Specifically, the Department will not recommend any change to the 2011 date in respect of any SIFT whose equity capital grows as a result of issuances of new equity, in any of the intervening periods described below, by an amount that does not exceed the greater of $50 million and an objective "safe harbour" described below.

The safe harbour amount will be measured by reference to a SIFT's market capitalization as of the end of trading on October 31, 2006. Market capitalization is to be measured in terms of the value of a SIFT's issued and outstanding publicly-traded units. For this purpose, it would not include debt (whether or not that debt carried a conversion right or was itself publicly-traded), options or other interests that were convertible into units of the SIFT.

For the period from November 1, 2006 to the end of 2007, a SIFT's safe harbour will be 40 percent of that October 31, 2006 benchmark. A SIFT's safe harbour for each of the 2008 through 2010 calendar years will be 20 percent of that benchmark, together allowing growth of up to 100 percent over the four-year transition period.

The following are additional details of the Department's approach:

- The annual safe harbour amounts are cumulative: for example, a SIFT that issues no new equity in 2007 will as a result enjoy a greater safe harbour amount in 2008. The $50 million amounts, in contrast, are not cumulative.
- New equity for these purposes includes units and debt that is convertible into units; if attempts are made to develop other such substitutes for equity, those may be included as well.
- Replacing debt that was outstanding as of October 31, 2006 with new equity, whether through a debenture conversion or otherwise, will not be considered growth for these purposes. New, non-convertible debt can also be issued without affecting the safe harbour; however, the replacement of that new debt with equity will be counted as growth.
- An issuance by a SIFT of new equity will not be considered growth to the extent that the issuance is made in satisfaction of the exercise by another person or partnership of a right in place on October 31, 2006 to exchange an interest in a partnership, or a share of a corporation, into that new equity.
- The merger of two or more SIFTs each of which was publicly-traded on October 31, 2006, or a reorganization of such a SIFT, will not be considered growth to the extent that there is no net addition to equity as a result of the merger or reorganization.

Consistent with the objectives of Tax Fairness Plan, the Department of Finance will monitor developments in the market and will take action accordingly to ensure that this guidance is respected.

Conversion of Trusts to Corporations

It is intended that conversions of a SIFT to a corporation be allowed to take place without any tax consequences to investors on the conversion. The Department has received a number of representations concerning the rules applying on the conversion of a SIFT to a corporation, and is examining whether any impediments to conversion exist under the current income tax rules. If so, changes will be recommended to ensure that appropriate rules are in place to facilitate such conversions.

Part X
Taxes on Deferred Profit Sharing Plans and Revoked Plans

SECTION 198:

► 198(1) ◄

(1) Tax on non-qualified investments and use of assets as security. Every trust governed by a deferred profit sharing plan or revoked plan that

(*a*) acquires a non-qualified investment, or

(*b*) uses or permits to be used any property of the trust as security for a loan,

shall pay a tax equal to the fair market value of

(*c*) the non-qualified investment at the time it was acquired by the trust, or

(*d*) the property used as security at the time it commenced to be so used.

Related Sections: S. 130(3) Meaning of expressions "investment corporation" and "taxed capital gains"; s. 146(1), "retirement savings plan"; s. 147(1)(*a*) Definitions; s. 147(14) Revocation of registration; s. 198(3) Trustee liable for tax; s. 198(6) Life insurance policies — special rules; s. 198(7) Life insurance policies — 25% of annual DPSP contributions; s. 198(8) Life insurance policies — surrender, cancellation, assignment etc.; s. 199–204; s. 207.1(2) Tax payable by trust under deferred profit sharing plan; s. 259(1) Proportional holdings in trust property.

Information Circulars: IC 77-1R5 Deferred profit sharing plan.

► 198(2) ◄

(2) Payment of tax. A trustee of a trust liable to pay tax under subsection (1) shall remit the amount of the tax to the Receiver General within 10 days of the day on which the non-qualified investment is acquired or the property is used as security for a loan, as the case may be.

► 198(3) ◄

(3) Trustee liable for tax. Where a trustee of a trust liable to pay tax under subsection (1) does not remit to the Receiver General the amount of the tax within the time specified in subsection (2), the trustee is personally liable to pay on behalf of the trust the full amount of the tax and is entitled to recover from the trust any amount paid by the trustee as tax under this section.

► 198(4) ◄

(4) Refund of tax on disposition of non-qualified investment. Where a trust disposes of a property that, when acquired, was a non-qualified investment, the trust is, on application in accordance with section 202, entitled to a refund of an amount equal to the lesser of

(*a*) the amount of the tax imposed under this section as a result of the acquisition of the property, and

(*b*) the proceeds of disposition of the property.

Related Sections: S. 198(6) Life insurance policies — special rules; s. 198(8) Life insurance policies — surrender, cancellation, assignment etc.; s. 200 Distribution deemed disposition; s. 202(4) Provisions applicable to refunds; s. 203 Application to other taxes.

► 198(5) ◄

(5) Refund of tax on recovery of property given as security. Where a loan, for which a trust has used or permitted to be used trust property as security, ceases to be extant, the trust is, on application in accordance with section 202, entitled to a refund of an amount equal to the amount remaining, if any, when

(*a*) the net loss (exclusive of payments by the trust as or on account of interest) sustained by the trust in consequence of its using or permitting to be used the property as security for the loan and not as a result of a change in the fair market value of the property

is deducted from

(*b*) the tax imposed under this section in consequence of the trust's using or permitting to be used the property as security for the loan.

Related Sections: S. 198(1) Tax on non-qualified investments and use of assets as security; s. 198(6)–(8); s. 203 Application to other taxes.

► 198(6) ◄

(6) Special rules relating to life insurance policies. For the purposes of this section,

(*a*) the acquisition of an interest in or the payment of an amount under a life insurance policy shall be deemed not to be the acquisition of a non-qualified investment, and

(*b*) the disposition of an interest in a life insurance policy shall be deemed not to be the disposition of a non-qualified investment,

except that where a trust governed by a deferred profit sharing plan or revoked plan makes a payment under or to acquire an interest in a life insurance policy, other than a life insurance policy under which

(*c*) the trust is, or by virtue of the payment about to become, the only person entitled to any rights or benefits under the policy (other than the rights or benefits of the insurer),

(*d*) the cash surrender value of the policy (exclusive of accumulated dividends) is or will be, at or before the end of the year in which the insured person attains 71 years of age, if all premiums under the policy are paid, not less than the maximum total amount (exclusive of accumulated dividends) payable by the insurer under the policy, and

(*e*) the total of the premiums payable in any year under the policy is not greater than the total of the amounts that, if the annual premiums had been payable in monthly instalments, would have been payable as such instalments in the 12 months commencing with the date the policy was issued,

the making of the payment shall be deemed to be the acquisition of a non-qualified investment at a cost equal to the amount of the payment.

History: S. 198(6)(*d*) was replaced by S.C. 2007, c. 29, s. 25(1), applicable after 2006. S. 198(6)(*d*) formerly read:

"(*d*) the cash surrender value of the policy (exclusive of accumulated dividends) is or will be, at or before the end of the year in which the insured person attains 69 years of age, if all premiums under the policy are paid,

not less than the maximum total amount (exclusive of accumulated dividends) payable by the insurer under the policy, and"

S. 198(6)(*d*) was amended by S.C. 1997, c. 25, s. 54(1), applicable after 1996, except that

(*a*) it does not apply to a policy held by a trust where the trust acquired the policy before 1997;

(*b*) it does not apply to a policy where the insured person attained 70 years of age before 1997; and

(*c*) in applying paragraph 198(6)(*d*) to a policy where the insured person attained 69 years of age in 1996, the reference in that paragraph to "69 years of age" shall be read as "70 years of age".

S. 198(6)(*d*) formerly read:

"(*d*) the cash surrender value of the policy (exclusive of accumulated dividends) is or will be, at a time before the 71st anniversary of the birth of the insured person, if all premiums under the policy are paid, not less than the maximum total amount (exclusive of accumulated dividends) payable by the insurer under the policy, and"

Related Sections: S. 139.1(13) RRSP registration rules, etc; s. 146(11) Life insurance policies; s. 198(7) Life insurance policies — 25% of annual DPSP contributions; s. 198(8) Life insurance policies — surrender, cancellation, assignment etc..

Interpretation Bulletins: *Primary* — IT-408R Life insurance policies as investments of registered retirement savings plans and deferred profit sharing plans [Archived by the CRA].

Information Circulars: IC 77-1R5 Deferred profit sharing plan.

▶ 198(6.1) ◀

(6.1) Idem. A life insurance policy giving an option to the policyholder to receive annuity payments that otherwise complies with paragraph (6)(*d*) shall be deemed,

(*a*) where the option has not been exercised, to comply with that paragraph; and

(*b*) where at a particular time the option is exercised, to have been disposed of at that time for an amount equal to the cash surrender value of the policy immediately before that time, and an annuity contract shall be deemed to have been acquired at that time at a cost equal to that amount.

Related Sections: S. 198(6) Life insurance policies — special rules.

Interpretation Bulletins: *Secondary* — IT-408R Life insurance policies as investments of registered retirement savings plans and deferred profit sharing plans [Archived by the CRA].

▶ 198(7) ◀

(7) Idem. Notwithstanding subsection (6), where the total of all payments made in a year by a trust governed by a deferred profit sharing plan or revoked plan under or to acquire interests in life insurance policies in respect of which the trust is the only person entitled to any rights or benefits (other than the rights or benefits of the insurer) does not exceed an amount equal to 25% of the total of all amounts paid by employers to the trust in the year under the plan for the benefit of beneficiaries thereunder, the making of the payments under or to acquire interests in such policies shall be deemed, for the purposes of this section, not to be the acquisition of non-qualified investments.

Interpretation Bulletins: *Secondary* — IT-408R Life insurance policies as investments of registered retirement savings plans and deferred profit sharing plans [Archived by the CRA].

▶ 198(8) ◀

(8) Idem. Where a trust surrenders, cancels, assigns or otherwise disposes of its interest in a life insurance policy,

(*a*) the trust shall be deemed, for the purposes of subsection (4), to have disposed of each non-qualified investment that, by virtue of payments under the policy, it was deemed by subsection (6) to have acquired; and

(*b*) the proceeds of the disposition shall be deemed to be the amount, if any, by which

(i) the amount received by the trust in consequence of the surrender, cancellation, assignment or other disposition of its interest in the policy

exceeds the total of

(ii) each amount paid by the trust under or to acquire an interest in the policy, the payment of which is deemed by this section not to be the acquisition of a non-qualified investment, and

(iii) the cash surrender value on December 21, 1966 of the interest of the trust in the policy on that date.

Related Sections: S. 104(1) Reference to trust or estate; s. 108(1), "beneficiary"; s. 146(11) Life insurance policies; s. 147(1), "deferred profit sharing plan"; s. 202(5) Interest; s. 204, "non-qualified investment", "qualified investment"; s. 248(1), "amount", "dividend", "employer", "insurer", "property".

SECTION 199:

▶ 199(1) ◀

(1) Tax on initial non-qualified investments not disposed of. Every trust governed by a deferred profit sharing plan or revoked plan shall pay a tax

(*a*) for 1967, equal to the amount, if any, by which 20% of the initial base of the trust exceeds the proceeds of disposition of its initial non-qualified investments disposed of after December 21, 1966 and before 1968;

(*b*) for 1968, equal to the amount, if any, by which 40% of the initial base of the trust exceeds the total of

(i) the proceeds of disposition of its initial non-qualified investments disposed of after December 21, 1966 and before 1969, and

(ii) the tax payable by the trust determined under paragraph (*a*);

(*c*) for 1969, equal to the amount, if any, by which 60% of the initial base of the trust exceeds the total of

(i) the proceeds of disposition of its initial non-qualified investments disposed of after December 21, 1966 and before 1970, and

(ii) the tax payable by the trust determined under paragraphs (*a*) and (*b*); and

(*d*) for 1970, equal to the amount, if any, by which 100% of the initial base of the trust exceeds the total of

(i) the proceeds of disposition of its initial non-qualified investments disposed of after December 21, 1966 and before 1971, and

(ii) the tax payable by the trust determined under paragraphs (*a*), (*b*) and (*c*).

Related Sections: S. 201 Tax where inadequate consideration on purchase or sale.

Information Circulars: IC 77-1R5 Deferred profit sharing plan.

▶ 199(2) ◀

(2) Refund. Where at the end of a year,

(*a*) the total of all taxes paid by a trust under subsection (1)

exceeds

(*b*) the total of

(i) all refunds made to the trust under this subsection, and

(ii) the amount, if any, by which the initial base of the trust exceeds the proceeds of disposition of its

initial non-qualified investments disposed of after December 21, 1966 and before the end of the year,

the trust is, on application in accordance with section 202, entitled to a refund equal to the amount by which the total described in paragraph (*a*) exceeds the total described in paragraph (*b*).

Related Sections: S. 104(1) Reference to trust or estate; s. 147(1), "deferred profit sharing plan"; s 201 Tax where inadequate consideration on purchase or sale; s. 204, "non-qualified investment"; s. 203 Application to other taxes; s. 248(1), "amount".

SECTION 200: Distribution deemed disposition.

For the purposes of this Part, a distribution by a trust of a non-qualified investment to a beneficiary of the trust shall be deemed to be a disposition of that non-qualified investment and the proceeds of disposition of that non-qualified investment shall be deemed to be its fair market value at the time of the distribution.

Related Sections: S. 104(1) Reference to trust or estate; s. 108(1), "beneficiary"; s. 198(6) Life insurance policies — special rules; s. 198(7) Life insurance policies — 25% of annual DPSP contributions; s. 204, "non-qualified investment".
Information Circulars: IC 77-1R5 Deferred profit sharing plan.

SECTION 201: Tax where inadequate consideration on purchase or sale.

Every trust governed by a deferred profit sharing plan or a revoked plan shall, for each calendar year after 1990, pay a tax equal to 50% of the total of all amounts each of which is, by reason of subsection 147(18), an amount taxable under this section for the year.

Related Sections: S. 104(1) Reference to trust or estate; s. 108(1), "beneficiary"; s. 147(1), "deferred profit sharing plan"; s. 147(7) No tax while trust governed by plan; s. 147(12) Exemption of employee contributions to the plan; s. 147(13) Appropriation of trust property by employer; s. 147(18) Inadequate consideration on purchase from or sale to trust; s. 248(1), "amount", "employee", "employer", "property".
Interpretation Bulletins: *Secondary* — IT-396R Interest income.
Information Circulars: IC 77-1R5 Deferred profit sharing plan.
Guides: T4126 How to File the T5 Return of Investment Income.

SECTION 202:

► 202(1) ◄

(1) Returns and payment of estimated tax. Within 90 days from the end of each year after 1965, a trustee of every trust governed by a deferred profit sharing plan or revoked plan shall

(*a*) file with the Minister a return for the year under this Part in prescribed form and containing prescribed information, without notice or demand therefor;

(*b*) estimate in the return the amount of tax payable by the trust under this Part for the year;

(*c*) estimate in the return the amount of any refund to which the trust is entitled under this Part for the year; and

(*d*) pay to the Receiver General the unpaid balance of the trust's tax for the year minus any refund to which it is entitled under this Part, or apply in the return for any amount owing to it.

Related Sections: S. 202(2) Consideration of application for refund.
Information Circulars: IC 77-1R5 Deferred Profit Sharing Plan; IC 78-14R4 Guidelines for trust companies and other persons responsible for filing T3GR, T3D, T3P, T3S, T3RI, and T3F returns.
Forms: T3D.

► 202(2) ◄

(2) Consideration of application for refund. Where a trustee of a trust has made application for an amount owing to it pursuant to subsection (1), the Minister shall

(*a*) consider the application;

(*b*) determine the amount of any refund; and

(*c*) send to the trustee a notice of refund and any amount owing to the trust, or a notice that no refund is payable.

Related Sections: S. 198(4) Refund of tax on disposition of non-qualified investment; s. 198(5) Refund of tax on recovery of property given as security.

► 202(3) ◄

(3) Provisions applicable to Part. Subsection 150(2), sections 152 and 158, subsections 161(1) and (11), sections 162 to 167 and Division J of Part I are applicable to this Part with such modifications as the circumstances require and, for the purposes of the application of those provisions to this Part, a notice of refund under this section shall be deemed to be a notice of assessment.

► 202(4) ◄

(4) Provisions applicable to refunds. Subsections 164(3) to (4) are applicable, with such modifications as the circumstances require, to refunds of tax under subsection 198(4) or (5) or 199(2).

Related Sections: S. 150(2) Demands for returns; s. 161–167.

► 202(5) ◄

(5) Interest. In addition to the interest payable under subsection 161(1), where a taxpayer is required by section 198 to pay a tax and has failed to pay all or any part thereof on or before the day on or before which the tax was required to be paid, the taxpayer shall pay to the Receiver General interest at the prescribed rate on the amount that the taxpayer failed to pay computed from the day on or before which the amount was required to be paid to the day of payment or to the beginning of the period in respect of which the taxpayer is required by subsection 161(1) to pay interest thereon, whichever is earlier.

Related Sections: S. 248(11) Compound interest.
Regulations: 4301.

► 202(6) ◄

(6) Deemed payment of tax. For the purposes of subsections 161(1) and 202(5), where a trust is liable to pay tax under this Part on the acquisition by it of a non-qualified investment or on the use of its property as security for a loan, it shall, except to the extent that the tax has previously been paid, be deemed to have paid tax on the date on which the property is disposed of or on which the loan ceases to be extant, as the case may be, in an amount equal to the refund referred to in subsection 198(4) in respect of that property or subsection 198(5) in respect of the loan, as the case may be.

Related Sections: S. 104(1) Reference to trust or estate; s. 147(1), "deferred profit sharing plan"; s. 161(1) Interest s. 248(1), "amount", "assessment", "prescribed"; s. 198(4) Refund of tax on disposition of non-qualified investment; s. 198(5) Refund of tax on recovery of property given as security; s. 199(2) Refund; ITAR s. 62(2) Interest.

SECTION 203: Application to other taxes.

Instead of making a refund to which a trust is entitled under subsection 198(4) or (5) or 199(2), the Minister may,

where the trust is liable or about to become liable to make another payment under this Act, apply the amount of the refund or any part thereof to that other liability and notify a trustee of the trust of that action.

Related Sections: S. 104(1) Reference to trust or estate; s. 248(1), "amount".

SECTION 204: Definitions.

In this Part,

Information Circulars: IC 77-1R5 Deferred Profit Sharing Plan.

"debt obligation" — "debt obligation" means a bond, debenture, note or similar obligation;

History: S. 204, the definition "debt obligation" was added by S.C. 2007, c. 29, s. 26(4), applicable in determining whether a property is, at any time after March 18, 2007, a qualified investment.

"equity share" — "equity share" means

(*a*) a share, other than an excluded share or a non-participating share, the owner of which has, as owner thereof, a right

(i) to a dividend, and

(ii) to a part of the surplus of the corporation after repayment of capital and payment of dividend arrears on the redemption of the share, a reduction of the capital of the corporation or the winding-up of the corporation,

at least as great, in any event, as the right of the owner of any other share, other than a non-participating share, of the corporation, when the magnitude of the right in each case is expressed as a rate based on the paid-up capital value of the share to which the right relates, or

(*b*) a share, other than an excluded share or a non-participating share, the owner of which has, as owner thereof, a right

(i) to a dividend, after a dividend at a rate not in excess of 12% per annum of the paid-up capital value of each share has been paid to the owners of shares of a class other than the class to which that share belongs, and

(ii) to a part of the surplus of the corporation after repayment of capital and payment of dividend arrears on the redemption of the share, a reduction of the capital of the corporation or the winding-up of the corporation, after a payment of a part of the surplus at a rate not in excess of 10% of the paid-up capital value of each share has been made to the owners of shares of a class other than the class to which that share belongs,

at least as great, in any event, as the right of the owner of any other share, other than a non-participating share, of the corporation, when the magnitude of the right in each case is expressed as a rate based on the paid-up capital value of the share to which the right relates;

"excluded property" — "excluded property", in relation to a trust governed by a deferred profit sharing plan or revoked plan, means a debt obligation or bankers' acceptance issued by

(*a*) an employer by whom payments are made in trust to a trustee under the plan for the benefit of beneficiaries under the plan, or

(*b*) a corporation with whom that employer does not deal at arm's length;

History: S. 204, the definition "excluded property" was added by S.C. 2007, c. 29, s. 26(4), applicable in determining whether a property is, at any time after March 18, 2007, a qualified investment.

"excluded share" — "excluded share" means each share of the capital stock of a private corporation where

(*a*) the paid-up capital of the corporation that is represented by all its issued and outstanding shares that would, but for this definition, be equity shares is less than 50% of the paid-up capital of the corporation that is represented by all its issued and outstanding shares other than non-participating shares, or

(*b*) a non-participating share of the corporation is issued and outstanding and the owner of which has, as owner thereof, a right to a dividend

(i) at a fixed annual rate in excess of 12%, or

(ii) at an annual rate not in excess of a fixed maximum annual rate, if the fixed maximum annual rate is in excess of 12%,

when the right to the dividend is expressed as a rate based on the paid-up capital value of the share to which the right relates;

"initial base" — "initial base" of a trust means the total of the values of all initial non-qualified investments held by the trust on December 21, 1966 when each such investment is valued at the lower of

(*a*) its cost to the trust, and

(*b*) its fair market value on December 21, 1966;

"initial non-qualified investment" — "initial non-qualified investment" of a trust means an investment held by the trust on December 21, 1966 that was, on that date, a non-qualified investment but does not include

(*a*) any interest in a life insurance policy, or

(*b*) an equity share that would be a qualified investment if the date of acquisition of the share were December 21, 1966;

"non-participating share" — "non-participating share" means

(*a*) in the case of a private corporation, a share the owner of which is not entitled to receive, as owner thereof, any dividend, other than a dividend, whether cumulative or not,

(i) at a fixed annual rate or amount, or

(ii) at an annual rate or amount not in excess of a fixed annual rate or amount, and

(*b*) in the case of a corporation other than a private corporation, any share other than a common share;

"non-qualified investment" — "non-qualified investment" means property that is not a qualified investment for a trust governed by a deferred profit sharing plan or revoked plan within the meaning of the definition "qualified investment" in this subsection;

"paid-up capital value" — "paid-up capital value" of a share means the amount determined by the formula

$$\frac{A}{B}$$

where

A is the paid-up capital of the corporation that is represented by the shares of the class to which that share belongs, and

B is the number of shares of that class that are in fact issued and outstanding;

"qualified investment" — "qualified investment" for a trust governed by a deferred profit sharing plan or revoked plan means, with the exception of excluded property in relation to the trust,

(*a*) money (other than money the fair market value of which exceeds its stated value as legal tender in the country of issuance or money that is held for its numismatic value) and deposits (within the meaning assigned by the *Canada Deposit Insurance Corporation Act* or with a branch in Canada of a bank) of such money standing to the credit of the trust,

(*b*) debt obligations described in paragraph (*a*) of the definition "fully exempt interest" in subsection 212(3),

(*c*) debt obligations issued by

(i) a corporation, mutual fund trust or limited partnership the shares or units of which are listed on a designated stock exchange in Canada,

(ii) a corporation the shares of which are listed on a designated stock exchange outside Canada, or

(iii) an authorized foreign bank and payable at a branch in Canada of the bank,

(*c.1*) debt obligations that meet the following criteria, namely,

(i) any of

(A) the debt obligations had, at the time of acquisition by the trust, an investment grade rating with a prescribed credit rating agency,

(B) the debt obligations have an investment grade rating with a prescribed credit rating agency, or

(C) the debt obligations were acquired by the trust in exchange for debt obligations that satisfied the condition in clause (A) and as part of a proposal to, or an arrangement with, the creditors of the issuer of the debt obligations that has been approved by a court under the *Bankruptcy and Insolvency Act* or the *Companies' Creditors Arrangement Act*, and

(ii) either

(A) the debt obligations were issued as part of a single issue of debt of at least $25 million, or

(B) in the case of debt obligations that are issued on a continuous basis under a debt issuance program, the issuer of the debt obligations had issued and outstanding debt under the program of at least $25 million,

(*d*) securities (other than futures contracts or other derivative instruments in respect of which the holder's risk of loss may exceed the holder's cost) that are listed on a designated stock exchange,

(*e*) equity shares of a corporation by which, before the date of acquisition by the trust of the shares, payments have been made in trust to a trustee under the plan for the benefit of beneficiaries thereunder, if the shares are of a class in respect of which

(i) there is no restriction on their transferability, and

(ii) in each of 4 taxation years of the corporation in the period of the corporation's 5 consecutive taxation years that ended less than 12 months before the date of acquisition of the shares by the trust, and in the corporation's last taxation year in that period, the corporation

(A) paid a dividend on each share of the class of an amount not less than 4% of the cost per share of the shares to the trust, or

(B) had earnings attributable to the shares of the class of an amount not less than the amount obtained when 4% of the cost per share to the trust of the shares is multiplied by the total number of shares of the class that were outstanding immediately after the acquisition,

(*f*) guaranteed investment certificates issued by a trust company incorporated under the laws of Canada or of a province,

(*g*) investment contracts described in subparagraph (*b*)(ii) of the definition "retirement savings plan" in subsection 146(1) and issued by a corporation approved by the Governor in Council for the purposes of that subparagraph, and

(*h*) prescribed investments.

(*i*) [Repealed.]

History: S. 204, paragraph (*c.1*) of the definition "qualified investment" was replaced by S.C. 2009, c. 2, s. 66(1), applicable in determining whether a property is, at any time after March 18, 2007, a qualified investment. S. 204, paragraph (*c.1*) of the definition "qualified investment" formerly read:

"(*c.1*) debt obligations that, at the time of acquisition by the trust, met the following criteria, namely,

(i) the debt obligations had an investment grade rating with a prescribed credit rating agency, and

(ii) either

(A) the debt obligations were issued as part of a single issue of debt of at least $25 million, or

(B) in the case of debt obligations that are issued on a continuous basis, the issuer of the debt obligations had issued and outstanding debt of that type of at least $25 million,"

S. 204, paragraph (*b*) of the definition "qualified investment" was replaced by S.C. 2007, c. 35, s. 57(1), applicable after 2007. S. 204, paragraph (*b*) of the definition "qualified investment" formerly read:

"(*b*) debt obligations described in clause 212(1)(*b*)(ii)(C),"

S. 204, subparagraphs (*c*)(i) and (ii) of the definition "qualified investment" were replaced by S.C. 2007, c. 35, s. 57(2), applicable on and after December 14, 2007. S. 204, subparagraphs (*c*)(i) and (ii) of the definition "qualified investment" formerly read:

"(i) a corporation, mutual fund trust or limited partnership the shares or units of which are listed on a prescribed stock exchange in Canada,

(ii) a corporation the shares of which are listed on a prescribed stock exchange outside Canada, or"

S. 204, paragraph (*d*) of the definition "qualified investment" was replaced by S.C. 2007, c. 35, s. 57(3), applicable on and after December 14, 2007. S. 204, paragraph (*d*) of the definition "qualified investment" formerly read:

"(*d*) securities (other than futures contracts or other derivative instruments in respect of which the holder's risk of loss may exceed the holder's cost) that are listed on a prescribed stock exchange,"

S. 204, the portion of the definition "qualified investment" before paragraph (*a*) was replaced by S.C. 2007, c. 29, s. 26(1), applicable in determining whether a property is, at any time after March 18, 2007, a qualified investment. S. 204, the portion of the definition "qualified investment" before paragraph (*a*) formerly read:

"*'qualified investment'* — 'qualified investment' for a trust governed by a deferred profit sharing plan or revoked plan means"

S. 204, paragraphs (*b*) to (*d*) of the definition "qualified investment" were replaced, and paragraph (*c.1*) was added, by S.C. 2007, c. 29, s. 26(2), applicable in determining whether a property is, at any time after March 18, 2007, a qualified investment. S. 204, paragraphs (*b*) to (*d*) of the definition "qualified investment" formerly read:

"(*b*) bonds, debentures, notes, mortgages, hypothecary claims or similar obligations described in clause 212(1)(*b*)(ii)(C), whether issued before, on or after April 15, 1966,

(*c*) bonds, debentures, notes or similar obligations (other than those described in paragraph 147(2)(*c*))

(i) issued by a corporation the shares of which are listed on a prescribed stock exchange in Canada, or

(ii) issued by an authorized foreign bank and payable at a branch in Canada of the bank,

(*d*) shares listed on a prescribed stock exchange in Canada,"

S. 204, paragraph (*h*) of the definition "qualified investment" was replaced, and paragraph (*i*) was repealed, by S.C. 2007, c. 29, s. 26(3), applicable in determining whether a property is, at any time after March 18, 2007, a qualified investment. S. 204, paragraphs (*h*) and (*i*) of the definition "qualified investment" formerly read:

"(*h*) shares listed on a prescribed stock exchange in a country other than Canada, and

(*i*) such other investments as may be prescribed by regulations of the Governor in Council made on the recommendation of the Minister of Finance;"

S. 204, paragraph (*a*) of the definition "qualified investment" was amended by S.C. 2001, c. 17, s. 168(1), applicable after June 27, 1999 except that, before 2003, paragraph (*a*) of the definition "qualified investment" in section 204 of the Act shall be read as follows:

"(*a*) money (other than money the fair market value of which exceeds its stated value as legal tender in the country of issuance or money that is held for its numismatic value) and deposits (within the meaning assigned by the *Canada Deposit Insurance Corporation Act* or with a bank listed in Schedule I or II to the *Bank Act* or with a branch in Canada of an authorized foreign bank) of such money standing to the credit of the trust,"

S. 204, paragraph (*a*) of the definition "qualified investment" formerly read:

"(*a*) money that is legal tender in Canada, other than money the fair market value of which exceeds its stated value as legal tender, and deposits (within the meaning assigned by the *Canada Deposit Insurance Corporation Act* or with a bank) of such money standing to the credit of the trust,"

S. 204, paragraph (*b*) of the definition "qualified investment" was amended by S.C. 2001, c. 17, s. 223, applicable on Royal Assent, June 14, 2001. S. 204, paragraph (*b*) of the definition "qualified investment" formerly read:

"(*b*) bonds, debentures, notes, mortgages or similar obligations described in clause 212(1)(*b*)(ii)(C), whether issued before, on or after April 15, 1966,"

S. 204, paragraph (*c*) of the definition "qualified investment" was amended by S.C. 2001, c. 17, s. 168(2), applicable after June 27, 1999. S. 204, paragraph (*c*) of the definition "qualified investment" formerly read:

"(*c*) bonds, debentures, notes or similar obligations of a corporation the shares of which are listed on a prescribed stock exchange in Canada, other than those described in paragraph 147(2)(*c*),"

Related Sections: S. 146(1), "qualified investment"; s. 146.1(1), "qualified investment"; s. 146.3(1), "qualified investment"; s. 207.1(2) Tax payable by trust under deferred profit sharing plan.

Regulations: 221; 3200; 3201; 4900(1) — (3), (7), (11).

Interpretation Bulletins: *Secondary* — IT-320R3 RRSPs — Qualified investments.

Forms: T3F.

"revoked plan" — "revoked plan" means a deferred profit sharing plan the registration of which has been revoked by the Minister pursuant to subsection 147(14) or (14.1).

Related Sections: S. 89(1), "public corporation"; s. 104(1) Reference to trust or estate; s. 108(1), "beneficiary"; s. 130(3) Meaning of expressions "investment corporation" and "taxed capital gains"; s. 131(8) Meaning of "mutual fund corporation"; s. 132(6) Meaning of "mutual fund trust"; s. 146(1), "qualified investment"; s. 147(1), "deferred profit sharing plan"; s. 248(1), "amount", "business", "corporation", "dividend", "prescribed", "property", "regulation", "share"; s. 255 Canada.

Regulations: Part XV.

Part X.1
Tax in Respect of Over-Contributions to Deferred Income Plans

SECTION 204.1:

► 204.1(1) ◄

(1) Tax payable by individuals. Where, at the end of any month after May, 1976, an individual has an excess amount for a year in respect of registered retirement savings plans, the individual shall, in respect of that month, pay a tax under this Part equal to 1% of that portion of the total of all those excess amounts that has not been paid by those plans to the individual before the end of that month.

Interpretation Bulletins: *Secondary* — IT-124R6 Contributions to registered retirement savings plans.
Information Circulars: IC 77-1R5 Deferred Profit Sharing Plan.
Advance Tax Rulings: ATR-24 RRSP damages suit against investment management companies.
Forms: T1-OVP-S.

► 204.1(2) ◄

(2) Amount deemed repaid. For the purposes of subsection (1), where an amount in respect of a plan has been included in computing an individual's income pursuant to paragraph 146(12)(*b*), that amount shall be deemed to have been paid to the individual by the plan at the time referred to in that paragraph.

► 204.1(2.1) ◄

(2.1) Tax payable by individuals — contributions after 1990. Where, at the end of any month after December, 1990, an individual has a cumulative excess amount in respect of registered retirement savings plans, the individual shall, in respect of that month, pay a tax under this Part equal to 1% of that cumulative excess amount.

► 204.1(3) ◄

(3) Tax payable by deferred profit sharing plan. Where, at the end of any month after May, 1976, a trust governed by a deferred profit sharing plan has an excess amount, the trust shall, in respect of that month, pay a tax under this Part equal to 1% of the excess amount.

► 204.1(4) ◄

(4) Waiver of tax. Where an individual would, but for this subsection, be required to pay a tax under subsection (1) or (2.1) in respect of a month and the individual establishes to the satisfaction of the Minister that

(*a*) the excess amount or cumulative excess amount on which the tax is based arose as a consequence of reasonable error, and

(*b*) reasonable steps are being taken to eliminate the excess,

the Minister may waive the tax.

SECTION 204.2:

► 204.2(1) ◄

(1) Definition of "excess amount for a year in respect of registered retirement savings plans". "Excess amount for a year in respect of registered retirement savings plans" of an individual at a particular time means,

(*a*) where the excess amount is for a year after 1990, nil; and

(*b*) where the excess amount is for a year before 1991, the amount, if any, by which the total of

(i) all amounts paid by the individual to such plans under which the individual or the individual's spouse or common-law partner is the annuitant, other than amounts

(A) to which paragraph 60(*j*), (*j*.01), (*j*.1), (*j*.2) or (*l*) applies or would, if the individual were resident in Canada throughout the year, apply, or

(B) transferred to the plan in accordance with any of subsections 146(16), 147(19) and 147.3(1) and (4) to (7), and

(ii) all gifts made to such a plan under which the individual is the annuitant, other than gifts made thereto by the individual's spouse or common-law partner,

in the year and before the particular time, exceeds the total of

(iii) all amounts that may be deducted in computing the individual's income for the immediately preceding year in respect of those payments, and

(iv) the greater of $5,500 and the amount that may be deducted in computing the individual's income for the year in respect of those payments.

History: S. 204.2(1)(*b*)(i) and (ii) were amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.29), applicable January 1, 2001, coming into force on July 31, 2000. S. 204.2(1)(*b*)(i) and (ii) formerly read:

"(i) all amounts paid by the individual to such plans under which the individual or the individual's spouse is the annuitant, other than amounts

(A) to which paragraph 60(*j*), (*j*.01), (*j*.1), (*j*.2) or (*l*) applies or would, if the individual were resident in Canada throughout the year, apply, or

(B) transferred to the plan in accordance with any of subsections 146(16), 147(19) and 147.3(1) and (4) to (7), and

(ii) all gifts made to such a plan under which the individual is the annuitant, other than gifts made thereto by the individual's spouse,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for

the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Related Sections: S. 248(1), "common-law partner".
Interpretation Bulletins: *Secondary* — IT-124R6 Contributions to registered retirement savings plans; IT-500R Registered retirement savings plans — Death of an annuitant.
Advance Tax Rulings: ATR-24 RRSP damages suit against investment management companies.

► 204.2(1.1) ◄

(1.1) Cumulative excess amount in respect of RRSPs. The cumulative excess amount of an individual in respect of registered retirement savings plans at any time in a taxation year is the amount, if any, by which

(*a*) the amount of the individual's undeducted RRSP premiums at that time

exceeds

(*b*) the amount determined by the formula

A + B + R + C + D + E

where

A is the individual's unused RRSP deduction room at the end of the preceding taxation year,

B is the amount, if any, by which

(i) the lesser of the RRSP dollar limit for the year and 18% of the individual's earned income (as defined in subsection 146(1)) for the preceding taxation year

exceeds the total of all amounts each of which is

(ii) the individual's pension adjustment for the preceding taxation year in respect of an employer, or

(iii) a prescribed amount in respect of the individual for the year,

C is, where the individual attained 18 years of age in a preceding taxation year, $2,000, and in any other case, nil,

D is the group RRSP amount in respect of the individual at that time,

E is, where the individual attained 18 years of age before 1995, the individual's transitional amount at that time, and in any other case, nil, and

R is the individual's total pension adjustment reversal for the year.

History: S. 204.2(1.1), the formula in paragraph (*b*) was amended by S.C. 1998, c. 19, s. 49(1), applicable to the 1998 and subsequent taxation years. S. 204.2(1.1), the formula in paragraph (*b*) formerly read:

"A + B + C + D + E"

S. 204.2(1.1)(*b*), the description of R was added by S.C. 1998, c. 19, s. 49(2), applicable to the 1998 and subsequent taxation years.

S. 204.2(1.1)(*b*) was amended by S.C. 1996, c. 21, s. 51(1), applicable to the 1996 and subsequent taxation years. S. 204.2(1.1)(*b*) formerly read:

"(*b*) the amount determined by the formula

A + B – C + M

where

A is the individual's unused RRSP deduction room at the end of the immediately preceding taxation year,

B is the amount, if any, by which the lesser of the RRSP dollar limit for the year and 18% of the individual's earned income (within the meaning assigned by subsection 146(1)) for the immediately preceding taxation year exceeds the total of all amounts each of which is the individual's pension adjustment for the immediately preceding taxation year in respect of an employer or a prescribed amount in respect of the taxpayer for the year,

C is the individual's net past service pension adjustment, at that time, for the year, and

M is, where the individual attained 18 years of age in a preceding taxation year, $8,000, and otherwise, nil."

Related Sections: S. 204.2(1.3) Group RRSP amount; s. 204.2(1.5) Transitional amount.
Regulations: 8308(2); 8308.2; 8308.4; 8309.
Interpretation Bulletins: *Secondary* — IT-307R4 Spousal registered retirement savings plans.

► 204.2(1.2) ◄

(1.2) Undeducted RRSP premiums. For the purposes of subsection (1.1) and the description of K in paragraph (1.3)(*a*), the amount of undeducted RRSP premiums of an individual at any time in a taxation year is the amount determined by the formula

H + I – J

where

H is, for taxation years ending before 1992, nil, and for taxation years ending after 1991, the amount, if any, by which

(*a*) the amount of the individual's undeducted RRSP premiums at the end of the immediately preceding taxation year

exceeds

(*b*) the total of the amounts deducted under subsections 146(5) and (5.1) in computing the individual's income for the immediately preceding taxation year, to the extent that each amount was deducted in respect of premiums paid under registered retirement savings plans in or before that preceding year,

I is the total of all amounts each of which is

(*a*) a premium (within the meaning assigned by subsection 146(1)) paid by the individual in the year and before that time under a registered retirement savings plan under which the individual or the individual's spouse or common-law partner was the annuitant (within the meaning assigned by subsection 146(1)) at the time the premium was paid, other than

(i) an amount paid to the plan in the first 60 days of the year and deducted in computing the individual's income for the immediately preceding taxation year,

(ii) an amount paid to the plan in the year and deducted under paragraph 60(*j*), (*j*.1), (*j*.2) or (*l*) in computing the individual's income for the year or the immediately preceding taxation year,

(iii) an amount transferred to the plan on behalf of the individual in accordance with any of subsections 146(16), 147(19) and 147.3(1) and (4) to (7) or in circumstances to which subsection 146(21) applies,

(iv) an amount deductible under subsection 146(6.1) in computing the individual's income for the year or a preceding taxation year,

(v) where the individual is a non-resident person, an amount that would, if the individual were resident in Canada throughout the year and the immediately preceding taxation year, be deductible under paragraph 60(*j*), (*j*.1), (*j*.2) or (*l*) in computing the individual's income for the year or the immediately preceding taxation year, or

(vi) an amount paid to the plan in the year that is not deductible in computing the individual's income for the year because of subparagraph 146(5)(*a*)(iv.1) or (5.1)(*a*)(iv), or

(*b*) a gift made in the year and before that time to a registered retirement savings plan under which the individual is the annuitant (within the meaning assigned by subsection 146(1)), other than a gift made thereto by the individual's spouse or common-law partner, and

J is the amount, if any, by which

(*a*) the total of all amounts each of which is an amount (other than the portion thereof that reduces the amount on which tax is payable by the individual under subsection 204.1(1)) received by the individual in the year and before that time out of or under a registered retirement savings plan or a registered retirement income fund and included in computing the individual's income for the year

exceeds

(*b*) the amount deducted under paragraph 60(*l*) in computing the individual's income for the year.

History: S. 204.2(1.2), paragraphs (*a*) and (*b*) of the description of I were amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.29), applicable January 1, 2001, coming into force on July 31, 2000. S. 204.2(1.2), paragraphs (*a*) and (*b*) of the description of I formerly read:

"(*a*) a premium (within the meaning assigned by subsection 146(1)) paid by the individual in the year and before that time under a registered retirement savings plan under which the individual or the individual's spouse was the annuitant (within the meaning assigned by subsection 146(1)) at the time the premium was paid, other than

(i) an amount paid to the plan in the first 60 days of the year and deducted in computing the individual's income for the immediately preceding taxation year,

(ii) an amount paid to the plan in the year and deducted under paragraph 60(*j*), (*j.1*), (*j.2*) or (*l*) in computing the individual's income for the year or the immediately preceding taxation year,

(iii) an amount transferred to the plan on behalf of the individual in accordance with any of subsections 146(16), 147(19) and 147.3(1) and (4) to (7) or in circumstances to which subsection 146(21) applies,

(iv) an amount deductible under subsection 146(6.1) in computing the individual's income for the year or a preceding taxation year,

(v) where the individual is a non-resident person, an amount that would, if the individual were resident in Canada throughout the year and the immediately preceding taxation year, be deductible under paragraph 60(*j*), (*j.1*), (*j.2*) or (*l*) in computing the individual's income for the year or the immediately preceding taxation year, or

(vi) an amount paid to the plan in the year that is not deductible in computing the individual's income for the year because of subparagraph 146(5)(*a*)(iv.1) or (5.1)(*a*)(iv), or

(*b*) a gift made in the year and before that time to a registered retirement savings plan under which the individual is the annuitant (within the meaning assigned by subsection 146(1)), other than a gift made thereto by the individual's spouse, and".

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 204.2(1.2), the portion before the formula was amended by S.C. 1996, c. 21, s. 51(2), applicable to the 1996 and subsequent taxation years. That portion formerly read:

"(1.2) *Undeducted RRSP premiums.* For the purposes of subsection (1.1), the amount of undeducted RRSP premiums of an individual at any time in a taxation year is the amount determined by the formula"

S. 204.2(1.2), subparagraph (*a*)(vi) of the description of I was added by S.C. 1995, c. 3, s. 49(1), applicable to the 1994 and subsequent taxation years.

S. 204.2(1.2), subparagraph (*a*)(iii) of the description of I was amended by S.C. 1994, c. 21, s. 92(1), to add the reference to subsection 146(21), applicable to the 1992 and subsequent taxation years. Subparagraph 204.2(1.2)(*a*)(iii) formerly read:

"(iii) an amount transferred to the plan on behalf of the individual in accordance with any of subsections 146(16), 147(19) and 147.3(1) and (4) to (7),"

Related Sections: S. 252(4) Extended meaning of spouse.

► 204.2(1.3) ◄

(1.3) Group RRSP amount. For the purposes of this section, the group RRSP amount in respect of an individual at any time in a taxation year is the lesser of

(*a*) the lesser of the value of F and the amount determined by the formula

$$F - (G - K)$$

where

F is the lesser of

(i) the total of all amounts each of which is a qualifying group RRSP premium paid by the individual, to the extent that the premium is included in determining the value of I in subsection (1.2) in respect of the individual at that time, and

(ii) the RRSP dollar limit for the following taxation year,

G is the amount that would be determined under paragraph (1.1)(*b*) in respect of the individual at that time if the values of C, D and E in that paragraph were nil, and

K is

(i) where the year is the 1996 taxation year, the amount, if any, by which the amount of the individual's undeducted RRSP premiums at the beginning of the year exceeds the individual's cumulative excess amount in respect of registered retirement savings plans at the end of the 1995 taxation year, and

(ii) in any other case, the group RRSP amount in respect of the individual at the end of the preceding taxation year, and

(*b*) the amount that would be the individual's cumulative excess amount in respect of registered retirement savings plans at that time if the value of D in paragraph (1.1)(*b*) were nil.

History: S. 204.2(1.3) was amended by S.C. 1996, c. 21, s. 51(3), applicable to the 1996 and subsequent taxation years. S. 204.2(1.3) formerly read:

"(1.3) *Net past service pension adjustment.* For the purposes of subsection (1.1), the net past service pension adjustment of an individual, at any time, for a taxation year is the positive or negative amount determined by the formula

$$P - G$$

where

P is the total of all amounts each of which is the accumulated PSPA of the individual for the year in respect of an employer, determined as of that time in accordance with prescribed rules; and

G is the amount of the individual's PSPA withdrawals for the year, determined as of that time in accordance with prescribed rules."

S. 204.2(1.3), the portion preceding the description of G, was amended by S.C. 1994, c. 7, Sched. VIII, s. 117(1), applicable after 1988. That part formerly read:

"(1.3) For the purposes of subsection (1.1), the net past service pension adjustment of an individual, at any time, for a taxation year is the amount determined by the formula

$$P - (F + G)$$

where

P is the total of all amounts each of which is the accumulated PSPA of the individual for the year in respect of an employer, determined as of that time in accordance with prescribed rules,

F is the amount of the individual's PSPA transfers for the year, determined as of that time in accordance with prescribed rules, and"

Related Sections: S. 248(1), "individual", "past service pension adjustment"; s. 249(1) Definition of "taxation year".

Regulations: "past service pension adjustment", 8303(1), 8303(2); 8307(5).

► 204.2(1.31) ◄

(1.31) Qualifying group RRSP premium. For the purpose of the description of F in paragraph (1.3)(*a*), a qualifying group RRSP premium paid by an individual is a premium paid under a registered retirement savings plan where

(*a*) the plan is part of a qualifying arrangement,

(*b*) the premium is an amount to which the individual is entitled for services rendered by the individual (whether or not as an employee), and

(*c*) the premium was remitted to the plan on behalf of the individual by the person or body of persons that is required to remunerate the individual for the services, or by an agent for that person or body,

but does not include the part, if any, of a premium that, by making (or failing to make) an election or exercising (or failing to exercise) any other right under the arrangement after beginning to participate in the arrangement and within 12 months before the time the premium was paid, the individual could have prevented from being paid under the plan and that would not as a consequence have been required to be remitted on behalf of the individual to another registered retirement savings plan or to a registered pension plan in respect of a money purchase provision of the plan.

History: S. 204.2(1.31) was added by S.C. 1996, c. 21, s. 51(3), applicable to the 1996 and subsequent taxation years.

► 204.2(1.32) ◄

(1.32) Qualifying arrangement. For the purpose of paragraph (1.31)(*a*), a qualifying arrangement is an arrangement under which premiums that satisfy the conditions in paragraphs (1.31)(*b*) and (*c*) are remitted to registered retirement savings plans on behalf of two or more individuals, but does not include an arrangement where it is reasonable to consider that one of the main purposes of the arrangement is to reduce tax payable under this Part.

History: S. 204.2(1.32) was added by S.C. 1996, c. 21, s. 51(3), applicable to the 1996 and subsequent taxation years.

► 204.2(1.4) ◄

(1.4) Deemed receipt where RRSP or RRIF amended. For the purposes of subsection (1.2),

(*a*) where an amount in respect of a registered retirement savings plan has been included in computing an individual's income pursuant to paragraph 146(12)(*b*), that amount shall be deemed to have been received by the individual out of the plan at the time referred to in that paragraph; and

(*b*) where an amount in respect of a registered retirement income fund has been included in computing an individual's income pursuant to paragraph 146.3(11)(*b*), that amount shall be deemed to have been received by the individual out of the fund at the time referred to in that paragraph.

► 204.2(1.5) ◄

(1.5) Transitional amount. For the purpose of the description of E in paragraph (1.1)(*b*), an individual's transitional amount at any time in a taxation year is the lesser of

(*a*) $6,000, and

(*b*) where the value of L is nil, nil, and in any other case, the amount determined by the formula

L – M

where

L is the amount, if any, by which

(i) the amount that would be determined under subsection (1.2) to be the amount of the individual's undeducted RRSP premiums at that time if

(A) the value of I in that subsection were determined for the 1995 taxation year without including premiums paid after February 26, 1995,

(B) the value of I in that subsection were nil for the 1996 and subsequent taxation years, and

(C) the value of J in that subsection were determined for the 1995 and subsequent taxation years without including the part, if any, of an amount received by the individual out of or under a registered retirement savings plan or registered retirement income fund that can reasonably be considered to be in respect of premiums paid after February 26, 1995 by the individual under a registered retirement savings plan

exceeds

(ii) the total of all amounts each of which is an amount deducted under subsection 146(5) or (5.1) in computing the individual's income for a preceding taxation year, to the extent that the amount was deducted in respect of premiums paid after that year (other than premiums paid before February 27, 1995), and

M is the amount that would be determined by the formula in paragraph (1.1)(*b*) in respect of the individual at that time if the values of D and E in that paragraph were nil and section 257 did not apply to that formula.

History: S. 204.2(1.5) was added by S.C. 1996, c. 21, s. 51(4), applicable to the 1996 and subsequent taxation years.

► 204.2(2) ◄

(2) Where terminated plan deemed to continue to exist. Notwithstanding paragraph 146(12)(*a*), for the purposes of this Part, where a registered retirement savings plan ceases to exist and a payment or transfer of funds out of that plan has been made to which subsection 146(16) applied, if an individual's excess amount for a year in respect of registered retirement savings plans would have been greater had that plan not ceased to exist, for the purpose of computing the excess amount for a year in respect of registered retirement savings plans for so long as the individual or the individual's spouse or common-law partner is the annuitant under any registered retirement savings plan under which an annuity has not commenced to be paid to the annuitant, the plan that ceased to exist shall be deemed to remain in existence and the individual or the individual's spouse or common-law partner, as the case may be, shall be deemed to continue to be the annuitant thereunder.

History: S. 204.2(2) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.29), applicable January 1, 2001, coming into force on July 31, 2000. S. 204.2(2) formerly read:

"(2) *Where terminated plan deemed to continue to exist.* Notwithstanding paragraph 146(12)(*a*), for the purposes of this Part, where a registered retirement savings plan ceases to exist and a payment or transfer of

funds out of that plan has been made to which subsection 146(16) applied, if an individual's excess amount for a year in respect of registered retirement savings plans would have been greater had that plan not ceased to exist, for the purpose of computing the excess amount for a year in respect of registered retirement savings plans for so long as the individual or the individual's spouse is the annuitant under any registered retirement savings plan under which an annuity has not commenced to be paid to the annuitant, the plan that ceased to exist shall be deemed to remain in existence and the individual or the individual's spouse, as the case may be, shall be deemed to continue to be the annuitant thereunder."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Related Sections: S. 248(1), "common-law partner".

► 204.2(3) ◄

(3) When retirement savings plan deemed to be a registered plan. Where a retirement savings plan under which an individual or the individual's spouse or common-law partner is the annuitant (within the meaning assigned by subsection 146(1)) is accepted by the Minister for registration, for the purpose of determining

(*a*) the amount of undeducted RRSP premiums of the individual at any time, and

(*b*) the excess amount for a year in respect of registered retirement savings plans of the individual at any time,

the retirement savings plan shall be deemed to have become a registered retirement savings plan on the later of the day on which the plan came into existence and May 25, 1976.

History: S. 204.2(3) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.29), applicable January 1, 2001, coming into force on July 31, 2000. S. 204.2(3) formerly read:

"(3) *When retirement savings plan deemed to be a registered plan.* Where a retirement savings plan under which an individual or the individual's spouse is the annuitant (within the meaning assigned by subsection 146(1)) is accepted by the Minister for registration, for the purpose of determining

(*a*) the amount of undeducted RRSP premiums of the individual at any time, and

(*b*) the excess amount for a year in respect of registered retirement savings plans of the individual at any time,

the retirement savings plan shall be deemed to have become a registered retirement savings plan on the later of the day on which the plan came into existence and May 25, 1976."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Related Sections: S. 248(1), "common-law partner".

► 204.2(4) ◄

(4) Definition of "excess amount" for a DPSP. "Excess amount" at any time for a trust governed by a deferred profit sharing plan means the total of all amounts each of which is

(*a*) such portion of the total of all contributions made to the trust before that time and after May 25, 1976 by a beneficiary under the plan, other than

(i) contributions that have been deducted by the beneficiary under paragraph 60(*k*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952,

(ii) amounts transferred to the plan on behalf of the beneficiary in accordance with subsection 147(19), or

(iii) the portion of the contributions (other than contributions referred to in subparagraphs (i) and (ii)) made by the beneficiary in each calendar year before 1991 not in excess of $5,500,

as has not been returned to the beneficiary before that time; or

(*b*) a gift received by the trust before that time and after May 25, 1976.

SECTION 204.3:

► 204.3(1) ◄

(1) Return and payment of tax. Within 90 days after the end of each year after 1975, a taxpayer to whom this Part applies shall

(*a*) file with the Minister a return for the year under this Part in prescribed form and containing prescribed information, without notice or demand therefor;

(*b*) estimate in the return the amount of tax, if any, payable by the taxpayer under this Part in respect of each month in the year; and

(*c*) pay to the Receiver General the amount of tax, if any, payable by the taxpayer under this Part in respect of each month in the year.

Interpretation Bulletins: *Secondary* — IT-124R6 Contributions to registered retirement savings plans.

Information Circulars: IC 78-14R4 Guidelines for trust companies and other persons responsible for filing T3GR, T3D, T3P, T3S, T3RI, and T3F returns.

Forms: T1-OVP.

► 204.3(2) ◄

(2) Provisions applicable to Part. Subsections 150(2) and (3), sections 152 and 158, subsections 161(1) and (11), sections 162 to 167 and Division J of Part I are applicable to this Part with such modifications as the circumstances require.

Part X.2
Tax in Respect of Registered Investments

SECTION 204.4:

► 204.4(1) ◄

(1) Definition of "registered investment". In this Part, "registered investment" means a trust or a corporation that has applied in prescribed form as of a particular date in the year of application and has been accepted by the Minister as of that date as a registered investment for one or more of the following:

(*a*) registered retirement savings plans,

(*b*) [Repealed by 1986, c. 6, s. 107(1).]

(*c*) registered retirement income funds, and

(*d*) deferred profit sharing plans

and that has not been notified by the Minister that it is no longer registered under this Part.

Related Sections: S. 146.3(1), "qualified investment"; s. 204, "qualified investment"; s. 259(1) Proportional holdings in trust property.
Interpretation Bulletins: *Secondary* — IT-320R3 RRSPs — Qualified investments.
Information Circulars: IC 78-14R4 Guidelines for trust companies and other persons responsible for filing T3GR, T3D, T3P, T3S, T3RI, and T3F returns.
Tax Topics: No. 1697, Registered Investments.

► 204.4(2) ◄

(2) Acceptance of applicant for registration. The Minister may accept for registration for the purposes of this Part any applicant that is

(*a*) a trust that has as its sole trustee a corporation licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering to the public its services as trustee if, on the particular date referred to in subsection (1),

(i) all the property of the applicant is held in trust for the benefit of not fewer than 20 beneficiaries and

(A) not fewer than 20 beneficiaries are taxpayers described in any of paragraphs 149(1)(*o*) to (*o*.2), (*o*.4) or (*s*), or

(B) not fewer than 100 beneficiaries are taxpayers described in paragraph 149(1)(*r*) or (*x*),

(ii) the total of

(A) the fair market value at the time of acquisition of its

(I) shares, marketable securities and cash, and

(II) bonds, debentures, mortgages, hypothecary claims, notes and other similar obligations, and

(B) the amount by which the fair market value at the time of acquisition of its real property that may reasonably be regarded as being held for the purpose of producing income from property exceeds the total of all amounts each of which is owing by it on account of its acquisition of the real property

is not less than 80% of the amount by which the fair market value at the time of acquisition of all its property exceeds the total of all amounts each of which is owing by it on account of its acquisition of real property,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subparagraph 204.4(2)(*a*)(ii) of the Act after clause (A) is replaced by the following:

(B) the amount by which the fair market value at the time of acquisition of its real or immovable property that may reasonably be regarded as being held for the purpose of producing income from property exceeds the total of all amounts each of which is owing by it on account of its acquisition of the real or immovable property

is not less than 80% of the amount by which the fair market value at the time of acquisition of all its property exceeds the total of all amounts each of which is owing by it on account of its acquisition of real or immovable property,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(iii) the fair market value at the time of acquisition of its shares, bonds, mortgages, hypothecary claims and other securities of any one corporation or debtor (other than bonds, mortgages, hypothecary claims and other securities of or guaranteed by Her Majesty in right of Canada or a province or Canadian municipality) is not more than 10% of the amount by which the fair market value at the time of acquisition of all its property exceeds the total of all amounts each of which is an amount owing by it on account of its acquisition of real property,

(iv) the amount by which

(A) the fair market value at the time of acquisition of any one of its real properties

exceeds

(B) the total of all amounts each of which is owing by it on account of its acquisition of the real property

is not more than 10% of the amount by which the fair market value at the time of acquisition of all its property exceeds the total of all amounts each of which is owing by it on account of its acquisition of real property,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraphs 204.4(2)(*a*)(iii) and (iv) of the Act are replaced by the following:

(iii) the fair market value at the time of acquisition of its shares, bonds, mortgages, hypothecary claims and other securities of any one corporation or debtor (other than bonds, mortgages, hypothecary claims and other securities of or guaranteed by Her Majesty in right of Canada or a province or Canadian municipality) is not more than 10% of the amount by which the fair market value at the time of acquisition of all its property exceeds the total of all amounts each of which is an amount owing by it on account of its acquisition of real or immovable property,

(iv) the amount by which

(A) the fair market value at the time of acquisition of any one of its real or immovable properties

exceeds

(B) the total of all amounts each of which is owing by it on account of its acquisition of the real or immovable property

is not more than 10% of the amount by which the fair market value at the time of acquisition of all its property exceeds the total of all amounts each of which is owing by it on account of its acquisition of real or immovable property,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(v) not less than 95% of the income of the applicant for its most recently completed fiscal period, or where no such period exists, that part of its current fiscal period before the particular date, was derived from investments described in subparagraph (ii),

(vi) the total value of all interests in the applicant owned by all trusts or corporations described in any of paragraphs 149(1)(*o*) to (*o*.2), (*o*.4) or (*s*) to which any one employer, either alone or together with persons with whom the employer was not dealing at arm's length, has made contributions does not exceed 25% of the value of all its property,

(vii) the total value of all interests in the applicant owned by all trusts described in paragraph 149(1)(*r*) or (*x*) to which any one taxpayer, either alone or together with persons with whom the taxpayer was not dealing at arm's length, has made contributions does not exceed 25% of the value of all its property, and

(viii) the applicant does not hold property acquired by it after May 26, 1975 that is

(A) a mortgage or hypothecary claim (other than a mortgage or hypothecary claim insured under the *National Housing Act* or by a corporation that offers its services to the public in Canada as an insurer of mortgages and that is approved as a private insurer of mortgages by the Superintendent of Financial Institutions pursuant to the powers assigned to the Superintendent under subsection 6(1) of the *Office of the Superintendent of Financial Institutions Act*), or an interest therein, in respect of which the mortgagor or hypothecary debtor is the annuitant under a registered retirement savings plan or a registered retirement income fund, or a person with whom the annuitant is not dealing at arm's length, if any of the funds of a trust governed by such a plan or fund have been used to acquire an interest in the applicant, or

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Clause 204.4(2)(*a*)(viii)(A) of the Act is replaced by the following:

(A) a mortgage or hypothecary claim (other than a mortgage or hypothecary claim insured under the *National Housing Act* or by a corporation that offers its services to the public in Canada as an insurer of mortgages or hypothecary claims and that is approved as a private insurer of mortgages or hypothecary claims by the Superintendent of Financial Institutions pursuant to the powers assigned to the Superintendent under subsection 6(1) of the *Office of the Superintendent of Financial Institutions Act*), or an interest therein, or for civil law a right therein, in respect of which the mortgagor or hypothecary debtor is the annuitant under a registered retirement savings plan or registered retirement income fund, or a person with whom the annuitant is not dealing at arm's length, if any of the funds of a trust governed by such a plan or fund have been used to acquire an interest in the applicant, or

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(B) a bond, debenture, note or similar obligation issued by a cooperative corporation (within the meaning assigned by subsection 136(2)) or a credit union that has granted any benefit or privilege to any annuitant or beneficiary under a plan or fund referred to in subsection (1) that is dependent on or related to

(I) ownership by a trust governed by any such plan or fund of shares, bonds, debentures, notes or similar obligations of the cooperative corporation or credit union, or

(II) ownership by the applicant of shares, bonds, debentures, notes or similar obligations of the cooperative corporation or credit union if the trust governed by any such plan or fund has used any of its funds to acquire an interest in the applicant;

(*b*) a trust that

(i) would be a trust described in paragraph (*a*) if that paragraph were read without reference to subparagraphs (*a*)(i), (vi) and (vii), and

(ii) holds only prescribed investments for the type of plan or fund in respect of which it has applied for registration;

(*c*) a mutual fund trust;

(*d*) a trust that

(i) would be a mutual fund trust if paragraph 132(6)(*c*) were not applicable, and

(ii) holds only prescribed investments for the type of plan or fund in respect of which it has applied for registration;

(*e*) a mutual fund corporation or investment corporation; or

(*f*) a corporation that

(i) would be a mutual fund corporation or investment corporation if it could have elected to be a public corporation under paragraph (*b*) of the definition "public corporation" in subsection 89(1) had the conditions prescribed therefor required only that a class of shares of its capital stock be qualified for distribution to the public, and

(ii) holds only prescribed investments for the type of plan or fund in respect of which it has applied for registration.

History: S. 204.4(2)(*a*)(i)(A) and (B) were replaced by S.C. 2005, c. 30, s. 12(1), applicable to taxation years that begin after 2004. S. 204.4(2)(*a*)(i)(A) and (B) formerly read:

"(A) not fewer than 20 beneficiaries are taxpayers described in paragraph 205(*a*) or (*c*), or

(B) not fewer than 100 beneficiaries are taxpayers described in paragraph 205(*b*) or (*e*),"

S. 204.4(2)(*a*)(vi) and (vii) were replaced by S.C. 2005, c. 30, s. 12(2), applicable to taxation years that begin after 2004. S. 204.4(2)(*a*)(vi) and (vii) formerly read:

"(vi) the total value of all interests in the applicant owned by all trusts or corporations described in paragraph 205(*a*) or (*c*) to which any one employer, either alone or together with persons with whom the employer was not dealing at arm's length, has made contributions does not exceed 25% of the value of all its property,

(vii) the total value of all interests in the applicant owned by all trusts described in paragraph 205(*b*) or (*e*) to which any one taxpayer, either alone or together with persons with whom the taxpayer was not dealing at arm's length, has made contributions does not exceed 25% of the value of all its property, and"

S. 204.4(2)(*a*)(ii)(A) was amended by S.C. 2001, c. 17, s. 224(1), applicable to property acquired after March 16, 2001. S. 204.4(2)(*a*)(ii)(A) formerly read:

"(A) the fair market value at the time of acquisition of its shares, bonds, mortgages, marketable securities and cash, and"

S. 204.4(2)(*a*)(iii) was amended by S.C. 2001, c. 17, s. 224(2), applicable on Royal Assent, June 14, 2001. S. 204.4(2)(*a*)(iii) formerly read:

"(iii) the fair market value at the time of acquisition of its shares, bonds, mortgages and other securities of any one corporation or debtor (other than bonds, mortgages and other securities of or guaranteed by Her Majesty in right of Canada or a province or Canadian municipality) is not more than 10% of the amount by which the fair market value at the time of acquisition of all its property exceeds the total of all amounts each of which is an amount owing by it on account of its acquisition of real property,"

S. 204.4(2)(*a*)(viii)(A) was amended by S.C. 2001, c. 17, s. 224(3), applicable to property acquired after March 16, 2001. S. 204.4(2)(*a*)(viii)(A) formerly read:

"(A) a mortgage (other than a mortgage insured under the *National Housing Act*), or an interest therein, in respect of which the mortgagor is the annuitant under a registered retirement savings plan or a registered retirement income fund, or a person with whom the annuitant is not dealing at arm's length, if any of the funds of a trust governed by such a plan or fund have been used to acquire an interest in the applicant, or"

Related Sections: S. 204.4(6) Successor trust; s. 204.4(7) Deemed registration of registered investment; s. 204.6(1) Tax payable — non-prescribed investment; s. 204.6(2) Tax payable — share, bond, mortgage, hypothecary claim etc.; s. 204.6(3) Tax payable — real property.

Regulations: 4901(1).

Information Circulars: IC 78-14R4 Guidelines for trust companies and other persons responsible for filing T3GR, T3D, T3P, T3S, T3RI, and T3F returns.

Forms: T3RI; T2217.

► 204.4(3) ◄

(3) Revocation of registration. The Minister shall notify a registered investment that it is no longer registered

(*a*) on being satisfied that, at a date subsequent to its registration date, it no longer satisfies one or more of the conditions necessary for it to be acceptable for registration under this Part, other than a condition the failure of which to satisfy would make it liable for tax under section 204.6; or

(*b*) within 30 days after receipt of a request in prescribed form from the registered investment for termination of its registration.

Related Sections: S. 204.4(4) Suspension of revocation; s. 204.4(5) Cancellation of revocation.

► 204.4(4) ◄

(4) Suspension of revocation. Notwithstanding a notification to a taxpayer under subsection (3), for the purposes of sections 204.6 and 204.7, the taxpayer is deemed to be a registered investment for each month or part of a month after the notification during which an interest in, or a share of the capital stock of, the taxpayer continues, by virtue of having been a registered investment, to be a qualified investment for a plan or fund referred to in subsection (1).

History: S. 204.4(4) was replaced by S.C. 2005, c. 30, s. 12(3), applicable to taxation years that begin after 2004. S. 204.4(4) formerly read:

"(4) *Suspension of revocation.* Notwithstanding a notification to a taxpayer under subsection (3), for the purposes of sections 204.6 and 204.7 and Part XI, the taxpayer shall be deemed to be a registered investment for each month or part thereof after the notification during which an interest in, or a share of the capital stock of, the taxpayer continues, by virtue of having been a registered investment, to be a qualified investment for a plan or fund referred to in subsection (1)."

► 204.4(5) ◄

(5) Cancellation of revocation. Where a registered investment has been notified pursuant to paragraph (3)(*a*) and within 3 months from the date of notification it satisfies the Minister that it is acceptable for registration under this Part, the Minister may declare the notification to be a nullity.

► 204.4(6) ◄

(6) Successor trust. Where at any time in a year a particular trust described in paragraph (2)(*a*) or (*b*) has substantially the same beneficiaries and can reasonably be regarded as being a continuation of another trust that was a registered investment in the year or the immediately preceding year, for the purposes of this Part, the particular trust shall be deemed to be the same trust as the other trust.

► 204.4(7) ◄

(7) Deemed registration of registered investment. Where at the end of any month a registered investment could qualify for acceptance at that time under subsection (2), it shall be deemed for the purposes of section 204.6 to have been registered under the first of the following paragraphs under which it is registrable regardless of the paragraph under which it was accepted for registration by the Minister:

(*a*) paragraph (2)(*c*) or (*e*), as the case may be;

(*b*) paragraph (2)(*a*);
(*c*) paragraph (2)(*d*) or (*f*), as the case may be; and
(*d*) paragraph (2)(*b*).

SECTION 204.5: **Publication of list in *Canada Gazette*.**

Each year the Minister shall cause to be published in the *Canada Gazette* a list of all registered investments as of December 31 of the preceding year.

Tax Topics: No. 1697, Registered Investments.

SECTION 204.6:

► 204.6(1) ◄

(1) Tax payable. Where at the end of any month a taxpayer that is a registered investment described in paragraph 204.4(2)(*b*), (*d*) or (*f*) holds property that is not a prescribed investment for that taxpayer, it shall, in respect of that month, pay a tax under this Part equal to 1% of the fair market value at the time of its acquisition of each such property.

Related Sections: S. 204.4(3) Revocation of registration; s. 204.4(4) Suspension of revocation.
Regulations: 4901(1).
Information Circulars: IC 78-14R4 Guidelines for trust companies and other persons responsible for filing T3GR, T3D, T3P, T3S, T3RI, and T3F returns.

► 204.6(2) ◄

(2) Tax payable. Where at the end of any month a taxpayer that is a registered investment described in paragraph 204.4(2)(*a*) or (*b*) holds property that is a share, bond, mortgage, hypothecary claim or other security of a corporation or debtor (other than bonds, mortgages, hypothecary claims and other securities of or guaranteed by Her Majesty in right of Canada or a province or Canadian municipality), it shall, in respect of that month, pay a tax under this Part equal to 1% of the amount, if any, by which

(*a*) the total of all amounts each of which is the fair market value of such a property at the time of its acquisition

exceeds

(*b*) 10% of the amount by which

(i) the total of all amounts each of which is the fair market value, at the time of acquisition, of one of its properties

exceeds

(ii) the total of all amounts each of which is an amount owing by the trust at the end of the month in respect of the acquisition of real property.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 204.6(2)(*b*)(ii) of the Act is replaced by the following:

(ii) the total of all amounts each of which is an amount owing by the trust at the end of the month in respect of the acquisition of real property or immovables.

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

History: S. 204.6(2), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 225, applicable on Royal Assent, June 14, 2001. S. 204.6(2), the portion before paragraph (*a*) formerly read:

"(2) *Idem.* Where at the end of any month a taxpayer that is a registered investment described in paragraph 204.4(2)(*a*) or (*b*) holds property that is a share, bond, mortgage or other security of a corporation or debtor (other than bonds, mortgages and other securities of or guaranteed by Her Majesty in right of Canada or a province or Canadian municipality), it shall, in respect of that month, pay a tax under this Part equal to 1% of the amount, if any, by which"

Information Circulars: IC 78-14R4 Guidelines for trust companies and other persons responsible for filing T3GR, T3D, T3P, T3S, T3RI, and T3F returns.

► 204.6(3) ◄

(3) Idem. Where at the end of any month a taxpayer that is a registered investment described in paragraph 204.4(2)(*a*) holds real property, it shall, in respect of that month, pay a tax under this Part equal to 1% of the total of all amounts each of which is the amount by which the excess of

(*a*) the fair market value at the time of its acquisition of any one real property of the taxpayer

over

(*b*) the total of all amounts each of which was an amount owing by it at the end of the month on account of its acquisition of the real property

was greater than 10% of the amount by which the total of all amounts each of which is the fair market value at the time of its acquisition of a property held by it at the end of the month exceeds the total of all amounts each of which was an amount owing by it at the end of the month on account of its acquisition of real property.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 204.6(3) of the Act is replaced by the following:

(3) Tax payable — real property or immovables. Where at the end of any month a taxpayer that is a registered investment described in paragraph 204.4(2)(*a*) holds real or immovable property, it shall, in respect of that month, pay a tax under this Part equal to 1% of the total of all amounts each of which is the amount by which the excess of

(*a*) the fair market value at the time of its acquisition of any one real or immovable property of the taxpayer

over

(*b*) the total of all amounts each of which was an amount owing by it at the end of the month on account of its acquisition of the real or immovable property

was greater than 10% of the amount by which the total of all amounts each of which is the fair market value at the time of its acquisition of a property held by it at the end of the month exceeds the total of all amounts each of which was an amount owing by it at the end of the month on account of its acquisition of real or immovable property.

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

SECTION 204.7:

► 204.7(1) ◄

(1) Return and payment of tax. Within 90 days from the end of each taxation year commencing after 1980, a registered investment shall

(*a*) file with the Minister a return for the year under this Part in prescribed form and containing prescribed information, without notice or demand therefor;

(*b*) estimate in the return the amount of tax, if any, payable by it under this Part for the year; and

(*c*) pay to the Receiver General the amount of tax, if any, payable by it under this Part for the year.

Related Sections: S. 204.4(4) Suspension of revocation; s. 204.7(2) Liability of trustee.
Forms: T3RI.

► 204.7(2) ◄

(2) Liability of trustee. Where the trustee of a registered investment that is liable to pay tax under this Part does not remit to the Receiver General the amount of the tax within the time specified in subsection (1), the trustee is personally liable to pay on behalf of the registered investment the full amount of the tax and is entitled to recover from the registered investment any amount paid by the trustee as tax under this section.

► 204.7(3) ◄

(3) Provisions applicable to Part. Subsections 150(2) and (3), sections 152 and 158, subsections 161(1) and (11), sections 162 to 167 and Division J of Part I are applicable to this Part with such modifications as the circumstances require.

Part X.3
Labour-Sponsored Venture Capital Corporations

SECTION 204.8:

► 204.8(1) ◄

(1) Definitions. In this Part,

"annuitant" — "annuitant" has the meaning assigned by subsection 146(1);

History: The heading before s. 204.8 was amended by S.C. 1998, c. 19, s. 50(1), applicable after February 18, 1997. The heading before s. 204.8 formerly read:

"Part X.3
Registered Labour-Sponsored Venture Capital Corporations"

S. 204.8 was added by S.C. 1994, c. 7, Sched. II, s. 164(1), applicable after 1988.

"eligible business entity" — "eligible business entity", at any time, means a particular entity that is

(*a*) a prescribed corporation, or

(*b*) a Canadian partnership or a taxable Canadian corporation, all or substantially all of the fair market value of the property of which is, at that time, attributable to

(i) property used in a specified active business carried on by the particular entity or by a corporation controlled by the particular entity,

(ii) shares of the capital stock or debt obligations of one or more entities that, at that time, are eligible business entities related to the particular entity, or

(iii) any combination of properties described in subparagraph (i) or (ii);

History: S. 204.8(1), the definition of "eligible business entity" was replaced by S.C. 2000, c. 19, s. 54(2), applicable to the 1999 and subsequent taxation years. S. 204.8(1), the definition of "eligible business entity" formerly read:

" *'eligible business entity'* — 'eligible business entity', at any time, means a particular entity that is a Canadian partnership or a taxable Canadian corporation, all or substantially all of the fair market value of the property of which is, at that time, attributable to

(*a*) property used in a specified active business carried on by the particular entity or by a corporation controlled by the particular entity,

(*b*) shares of the capital stock or debt obligations of one or more entities that, at that time, are eligible business entities related to the particular entity, or

(*c*) any combination of properties described in paragraph (*a*) or (*b*);"

S. 204.8 was added by S.C. 1994, c. 7, Sched. II, s. 164(1), applicable after 1988.

Editorial Note: For these purposes, the Canada Revenue Agency's long held position is that "all or substantially all" means 90% (see for example, IT-320R3 Qualified Investments — Trusts Governed by Registered Retirement Savings Plans, Registered Education Savings Plans and Registered Retirement Income Funds, dated July 1, 2002.)

Related Sections: S. 248(1), "Canadian partnership", "taxable Canadian corporation"; s. 251 Arm's length; s. 256(6) Saving provision — controlled corporations; s. 256(6.1) Simultaneous control.

Regulations: 4801.02.

"eligible investment" — "eligible investment" of a particular corporation means

(*a*) a share that was issued to the particular corporation and that is a share of the capital stock of a corporation that was an eligible business entity at the time the share was issued,

(*b*) a particular debt obligation that was issued to the particular corporation by an entity that was an eligible business entity at the time the particular debt obligation was issued where

(i) the entity is not restricted by the terms of the particular debt obligation or by the terms of any agreement related to that obligation from incurring other debts,

(ii) the particular debt obligation, if secured, is secured solely by a floating charge on the assets of the entity or by a guarantee referred to in paragraph (*c*), and

(iii) the particular debt obligation, by its terms or any agreement relating to that obligation, is subordinate to all other debt obligations of the entity, except that, where the entity is a corporation, the particular debt obligation need not be subordinate to

(A) a debt obligation, issued by the entity, that is prescribed to be a small business security, or

(B) a debt obligation owing to a shareholder of the entity or to a person related to any such shareholder,

(*c*) a guarantee provided by the particular corporation in respect of a debt obligation that would, if the debt obligation had been issued to the particular corporation at the time the guarantee was provided, have been at that time an eligible investment because of paragraph (*b*), or

(*d*) an option or a right granted by an eligible business entity that is a corporation, in conjunction with the issue of a share or debt obligation that is an eligible investment, to acquire a share of the capital stock of the eligible business entity that would be an eligible investment if that share were issued at the time that the option or right was granted,

if the following conditions are satisfied:

(*e*) immediately after the time the share or debt obligation was issued, the guarantee was provided or the option or right was granted, as the case may be, the total of the costs to the particular corporation of all shares, options, rights and debt obligations of the eligible business entity and all corporations related to it and 25% of the amount of all guarantees provided by the particular corporation in respect of debt obligations of the eligible business entity and the related corporations does not exceed the lesser of $15,000,000 and 10% of the shareholders' equity in the particular corporation, determined in accordance with generally accepted accounting principles, on a cost basis and without taking into account any unrealized gains or losses on the investments of the particular corporation, and

(*f*) immediately before the time the share or debt obligation was issued, the guarantee was provided or the option or right was granted, as the case may be,

(i) the carrying value of the total assets of the eligible business entity and all corporations (other than prescribed labour-sponsored venture capital corporations) related to it (determined in accordance with generally accepted accounting principles on a consolidated or combined basis, where applicable) did not exceed $50,000,000, and

(ii) the total of

(A) the number of employees of the eligible business entity and all corporations related to it who normally work at least 20 hours per week for the entity and the related corporations, and

(B) ½ of the number of other employees of the entity and the related corporations,

did not exceed 500;

(*g*) [Repealed by 1998, c. 19, s. 51(1).]

History: S. 204.8(1), clause (*b*)(iii)(A) of the definition "eligible investment" was replaced by S.C. 2005, c. 30, s. 13(1), applicable to taxation years that begin after 2004. S. 204.8(1), clause (*b*)(iii)(A) of the definition "eligible investment" formerly read:

"(A) a debt obligation issued by the entity that is prescribed to be a small business security for the purposes of paragraph (*a*) of the definition 'small business property' in subsection 206(1), or"

S. 204.8, the portion of the definition "eligible investment" after paragraph (*d*), paragraphs (*e*) and (*f*) were amended, and paragraph (*g*) was repealed, by S.C. 1998, c. 19, s. 51(1), applicable to property acquired after February 18, 1997. That portion formerly read:

"if, immediately after the time the share or debt obligation was issued, the guarantee was provided or the option or right was granted, as the case may be,

(*e*) the total of the costs to the particular corporation of all shares, options, rights and debt obligations of the eligible business entity and all corporations related to it and 25% of the amount of all guarantees provided by the particular corporation in respect of debt obligations of such eligible business entity and any corporation related to it does not exceed the lesser of $10,000,000 and 10% of the shareholders' equity in the particular corporation at that time, determined in accordance with generally accepted accounting principles, on a cost basis and without taking into account any unrealized gains or losses on the investments of the particular corporation,

(*f*) the carrying value of the total assets of the eligible business entity and all corporations related to it (determined in accordance with generally accepted accounting principles on a consolidated or combined basis, where applicable) does not exceed $50,000,000, and

(*g*) the number of employees of the eligible business entity and all corporations related to it does not exceed 500;"

S. 204.8, paragraph (*a*) of the definition of "eligible investment", was amended by S.C. 1994, c. 8, s. 29(1), applicable after December 2, 1992. That paragraph formerly read:

"(*a*) a share that was issued to the particular corporation, that is prescribed for the purposes of subsections 110.6(8) and (9) and that is a share of the capital stock of a corporation that was an eligible business entity at the time the share was issued,"

S. 204.8, paragraph (*f*) of the definition of "eligible investment", was amended by S.C. 1994, c. 7, Sched. VIII, s. 118(1), applicable to the 1992 and subsequent taxation years. That paragraph formerly read:

"(*f*) the carrying value of the total assets of the eligible business entity and all corporations related to it (determined in accordance with generally accepted accounting principles on a consolidated or combined basis, where applicable) does not exceed $35,000,000, and"

S. 204.8 was added by S.C. 1994, c. 7, Sched. II, s. 164(1), applicable after 1988.

Regulations: 5100(2); 6701.

"eligible labour body" — "eligible labour body" means a trade union, as defined in the *Canada Labour Code*, that represents employees in more than one province, or an organization that is composed of 2 or more such unions;

History: S. 204.8, the definition of "eligible labour body" was added by S.C. 1994, c. 7, Sched. VIII, s. 118(3), applicable to the 1992 and subsequent taxation years.

S. 204.8 was added by S.C. 1994, c. 7, Sched. II, s. 164(1), applicable after 1988.

"labour-sponsored funds tax credit" — [Repealed by S.C. 1997, c. 25, s. 55(1).]

History: S. 204.8, the definition "labour-sponsored funds tax credit", was repealed by S.C. 1997, c. 25, s. 55(1), applicable after 1995. That definition formerly read:

"*'labour-sponsored funds tax credit'* — 'labour-sponsored funds tax credit' has the meaning assigned by subsection 127.4(1);"

S. 204.8 was added by S.C. 1994, c. 7, Sched. II, s. 164(1), applicable after 1988.

"national central labour body" — [Repealed by S.C. 1994, c. 7, Sched. VIII, s. 118(2).]

History: S. 204.8, the definition "national central labour body", was repealed by S.C. 1994, c. 7, Sched. VIII, s. 118(2), applicable to the 1992 and subsequent taxation years. That part formerly read:

"*'national central labour body'* — 'national central labour body' means an organization that is composed of not fewer than 2 trade unions, as defined in the *Canada Labour Code*, each of which represents employees in more than one province;"

S. 204.8 was added by S.C. 1994, c. 7, Sched. II, s. 164(1), applicable after 1988.

"original acquisition" — "original acquisition" of a share has the meaning assigned by subsection 127.4(1);

History: S. 204.8, the definition "original acquisition", was added by S.C. 1997, c. 25, s. 55(4), applicable after 1995.

"original purchaser" — [Repealed by S.C. 1997, c. 25, s. 55(2).]

History: S. 204.8, the definition "original purchaser", was amended by S.C. 1997, c. 25, s. 55(2), applicable to corporations that are incorporated after March 5, 1996. That definition formerly read:

"*'original purchaser'* — 'original purchaser', in relation to a share, means the individual to whom the share was issued;"

S. 204.8 was added by S.C. 1994, c. 7, Sched. II, s. 164(1), applicable after 1988.

"registered labour-sponsored venture capital corporation" — [Repealed by S.C. 1997, c. 25, s. 55(1).]

History: S. 204.8, the definition "registered labour-sponsored venture capital corporation", was amended by S.C. 1997, c. 25, s. 55(1), applicable after 1995. That definition formerly read:

"*'registered labour-sponsored venture capital corporation'* — 'registered labour-sponsored venture capital corporation' means a corporation registered under subsection 204.81(1);"

S. 204.8 was added by S.C. 1994, c. 7, Sched. II, s. 164(1), applicable after 1988.

"reserve" — "reserve" means property described in any of paragraphs (*a*), (*b*), (*c*), (*f*) and (*g*) of the definition "qualified investment" in section 204;

Department of Finance Comfort Letter
[Definition of "Reserve" to be Amended to Include Deposits with Credit Unions]

May 22, 2008

Dear XXXX

SUBJECT: Subsection 204.8(1) of the *Income Tax Act* (Act)

I am writing in response to your letter dated October 4, 2007 in which you identified an issue with respect to the application of the definition "reserve" in subsection 204.8(1) of the *Income Tax Act* (Act).

Under the Act, federally registered Labour-Sponsored Venture Capital Corporations ("LSVCCs") are generally required to invest at least 60 per cent of their assets in eligible small businesses. Any amount not invested in eligible small businesses must be held in investments that meet the definition "reserve". Under this provision, "reserve" is defined as property described in any of paragraphs (*a*), (*b*), (*c*), (*f*) and (*g*) of the definition "qualified investment" in section 204 of the Act.

You have expressed a concern that deposits with credit unions are excluded from the definition "reserve" in subsection 204.8(1) of the Act. We agree with your concern, and as such, we are prepared to recommend to the Minister that the definition "reserve" be amended to include deposits with credit unions that are "member institutions", as that term is defined in subsection 137.1(5) of the Act. If our recommendation is acted upon, we anticipate that the amendments would be included in a future technical bill and would apply with respect to taxation years that end on or after January 1, 2007. While I cannot offer any assurance that the Minister will agree with our recommen-

dation, I hope that this statement of our intentions is helpful to you.

Thank you for writing.

Yours sincerely,

Gerard Lalonde
Director
Tax Legislation Division
Tax Policy Branch

History: S. 204.8 was added by S.C. 1994, c. 7, Sched. II, s. 164(1), applicable after 1988.

"revoked corporation" — "revoked corporation" means a corporation the registration of which has been revoked under subsection 204.81(6);

History: S. 204.8 was added by S.C. 1994, c. 7, Sched. II, s. 164(1), applicable after 1988.

"specified active business" — "specified active business", at any time, means an active business that is carried on in Canada where

(*a*) at least 50% of the full-time employees employed at that time in respect of the business are employed in Canada, and

(*b*) at least 50% of the salaries and wages paid to employees employed at that time in respect of the business are reasonably attributable to services rendered in Canada by the employees;

History: S. 204.8, the definition "specified active business" was amended by S.C. 1998, c. 19, s. 209(1), applicable after 1988. S. 204.8, the definition "specified active business" formerly read:

" *'specified active business'* — 'specified active business', at any time, means an active business that is carried on in Canada where, at that time,

(*a*) at least 50% of the full-time employees employed in respect of the business are employed in Canada, and

(*b*) at least 50% of the salaries and wages paid to employees employed in respect of the business are reasonably attributable to services rendered in Canada by the employees."

S. 204.8 was added by S.C. 1994, c. 7, Sched. II, s. 164(1), applicable after 1988.

"specified individual" — "specified individual", in respect of a share, means an individual (other than a trust) whose labour-sponsored funds tax credit (as defined by subsection 127.4(6)) in respect of the original acquisition of the share is not nil or would not be nil if this Act were read without reference to paragraphs 127.4(6)(*b*) and (*d*).

History: S. 204.8, the definition "specified individual", was amended by S.C. 1997, c. 25, s. 55(3), applicable after 1995. That definition formerly read:

" *'specified individual'* — 'specified individual', in respect of a share, means an individual (other than a trust) whose labour-sponsored funds tax credit for a taxation year would take into account the amount of consideration paid to acquire, or to subscribe for, the share if the information return described in paragraph 204.81(6)(*c*) in respect of the share were filed as required under paragraph 127.4(3)(*b*)."

S. 204.8, the definition of "specified individual", was added by S.C. 1994, c. 8, s. 29(2), applicable after December 2, 1992.

S. 204.8 was added by S.C. 1994, c. 7, Sched. II, s. 164(1), applicable after 1988.

"start-up period" — "start-up period" of a corporation means

(*a*) subject to paragraph (*c*), in the case of a corporation that first issued Class A shares before February 17, 1999, the corporation's taxation year in which it first issued those shares and the four following taxation years,

(*b*) subject to paragraph (*c*), in the case of a corporation that first issues Class A shares after February 16, 1999, the corporation's taxation year in which it first issues those shares and the following taxation year, or

(*c*) where a corporation files an election with its return under this Part for a particular taxation year of the corporation that ends after 1998 and that is referred to in paragraph (*a*) or (*b*), the period, if any, consisting of the taxation years referred to in paragraph (*a*) or (*b*), as the case may be, other than the particular year and all taxation years following the particular year.

History: S. 204.8(1), the definition of "start-up period" was added by S.C. 2000, c. 19, s. 54(3), applicable after 1997.

Related Sections: S. 204.82(1) Recovery of credit; s. 204.82(2) Liability for tax.

► 204.8(2) ◄

(2) When venture capital business discontinued. For the purposes of section 127.4, this Part and Part XII.5, a corporation discontinues its venture capital business

(*a*) at the time its articles cease to comply with paragraph 204.81(1)(*c*) and would so cease to comply if it had been incorporated after December 5, 1996;

(*b*) at the time it begins to wind-up;

(*c*) immediately before the time it amalgamates or merges with one or more other corporations to form one corporate entity (other than an entity deemed by paragraph 204.85(3)(*d*) to have been registered under this Part);

(*d*) at the time it becomes a revoked corporation, if one of the grounds on which the Minister could revoke its registration for the purposes of this Part is set out in paragraph 204.81(6)(*a*.1); or

(*e*) at the first time after the revocation of its registration for the purposes of this Part that it fails to comply with any of the provisions of its articles governing its authorized capital, the management of its business and affairs, the reduction of paid-up capital or the redemption or transfer of its Class A shares.

Department of Finance Comfort Letter
[Labour-Sponsored Venture Capital Corporations — Asset Purchase Merger]

October 17, 2005

Dear XXXX,

I am writing in response to your letter of September 26, 2005, requesting that subsection 204.8(2) of the *Income Tax Act* (the "Act") be amended in order to accommodate "asset purchase mergers" involving labour-sponsored venture capital corporations to occur without triggering any penalty tax under Part X.3 of the Act.

As you state in your letter, it is the intention of a number of existing LSVCCs all managed by XXXX to consolidate their operations. It is intended that they do this, generally, in three steps. First, one LSVCC (the "Continuing Fund") will purchase, at fair market value, all the assets of one or more LSVCCs (each such LSVCC, a "Terminating Fund") in exchange for Class A shares of the Continuing Fund. Once this is done, the Terminating Fund will redeem the shares of its individual investors, providing, as payment for the redemption, the Class A shares of the Continuing Fund. Afterward, the shell Terminating Fund will be wound up or dissolved. You have informed us that you have obtained a ruling from the Canada Revenue Agency that such a transaction will qualify as a "merger" under subsection 204.85(3) of the Act so that the Continuing Fund will, for the purpose of the LSVCC rules, be treated as a continuation of both the Continuing Fund and the Terminating Fund and that there will be no recovery of the labour-sponsored funds tax credit from the existing investors in the Terminating Fund.

You have informed us that, in order to complete the merger, the articles of incorporation of the Continuing Fund will have to be amended to allow for Class A shares to be issued to a corporation, and to allow a transfer of those Class A shares

from the Terminating Fund to the individual investors of the Terminating Fund. However, if the Continuing Fund amends its articles in this way, under the present wording of the Act, paragraph 204.8(2)(*a*) (which, in conjunction with section 204.841, levies a penalty tax on a registered LSVCC if its articles cease to comply with paragraph 204.81(1)(*c*)) will be triggered.

The "asset purchase merger" transaction described in your letter does not appear to contravene the tax policy underlying the labour-sponsored funds tax credit program. Consequently, we are prepared to recommend to the Minister of Finance modifications to the income tax provisions concerning the labour-sponsored funds tax credit that would permit, without triggering a penalty tax under section 204.841, a Continuing Fund to issue, in the course of an asset purchase merger of the Continuing Fund and the Terminating Fund, its Class A shares to a Terminating Fund in exchange for the net assets of the Terminating Fund if those Class A shares of the Continuing Fund are transferred to the Terminating Fund's Class A shareholders upon the redemption by the terminating fund of the Class A shares of the Terminating Fund. We would also recommend that those modifications be made effective in respect of asset purchase mergers completed after 2004.

While we cannot offer any assurance that our recommendation in this matter will be accepted, we hope our statement of intent in this matter will be helpful in responding to your concern.

Thank you for writing.

Yours sincerely,

Len Farber
General Director
Tax Legislation Division
Tax Policy Branch

History: S. 204.8(2) was added by S.C. 2000, c. 19, s. 54(4), applicable after February 16, 1999.

Related Sections: S. 204.841 Penalty tax where venture capital business discontinued.

► 204.8(3) ◄

(3) Date of issue of Class A shares. For the purposes of this Part and subsection 211.8(1), in determining the time of the issue or the original acquisition of Class A shares, identical Class A shares held by a person are deemed to be disposed of by the person in the order in which the shares were issued.

History: S. 204.8(3) was added by S.C. 2000, c. 19, s. 54(4), applicable after February 16, 1999.

SECTION 204.81:

► 204.81(1) ◄

(1) Conditions for registration. The Minister may register a corporation for the purposes of this Part if, in the opinion of the Minister, it complies with the following conditions:

(*a*) the corporation has applied in prescribed form to the Minister for registration;

(*b*) the corporation was caused to be incorporated under the *Canada Business Corporations Act* by an eligible labour body; and

(*c*) the articles of the corporation provide that

(i) the business of the corporation is restricted to assisting the development of eligible business entities and to creating, maintaining and protecting jobs by providing financial and managerial advice to such entities and by investing funds of the corporation in eligible investments and reserves,

(ii) the authorized capital of the corporation shall consist only of

(A) Class A shares that are issuable only to individuals (other than trusts), trusts governed by registered retirement savings plans and trusts governed by TFSAs and that entitle their holders

(I) to receive notice of and, subject to the *Canada Business Corporations Act*, to attend and vote at all meetings of the shareholders of the corporation,

(II) to receive dividends at the discretion of the board of directors of the corporation, and

(III) to receive, on dissolution of the corporation, all the assets of the corporation that remain after payment of all amounts payable to the holders of all other classes of shares of the corporation,

(B) Class B shares that are issuable only to and may be held only by eligible labour bodies, that entitle each of those shareholders

(I) to receive notice of and, subject to the *Canada Business Corporations Act*, to attend and vote at all meetings of the shareholders of the corporation, and

(II) to receive, on dissolution of the corporation, an amount equal to the amount of the consideration received by the corporation on the issue of the Class B shares,

but that do not entitle them to receive dividends, and

(C) any additional classes of shares that are authorized, if the rights, privileges, restrictions and conditions attached to the shares are approved by the Minister of Finance,

(iii) the business and affairs of the corporation shall be managed by a board of directors, at least 1/2 of whom are appointed by the Class B shareholders,

(iv) the corporation shall not reduce its paid-up capital in respect of a class of shares (other than Class B shares) otherwise than by way of a redemption of shares of the corporation or in such other manner as is prescribed,

(v) the corporation shall not redeem a Class A share in respect of which an information return described in paragraph (6)(*c*) has been issued unless

(A) where the share is held by the specified individual in respect of the share, a spouse or common-law partner or former spouse or common-law partner of that individual or a trust governed by a registered retirement savings plan or registered retirement income fund under which that individual, spouse or common-law partner is the annuitant,

(I) a request in writing to redeem the share is made by the holder to the corporation and the information return referred to in paragraph (6)(*c*) has been returned to the corporation, or

(II) [Repealed by S.C. 1997, c. 25, s. 56(4).]

(III) the corporation is notified in writing that the specified individual in respect of the share became disabled and permanently unfit for work or terminally ill after the share was issued,

(B) there is no specified individual in respect of the share,

(C) [Repealed by S.C. 1997, c. 25, s. 56(5).]

(D) the corporation is notified in writing that the share is held by a person on whom the share has devolved as a consequence of the death of

(I) a holder of the share, or

(II) an annuitant under a trust governed by a registered retirement savings plan or registered retirement income fund that was a holder of the share,

(E) the redemption occurs more than 8 years after the day on which the share was issued, or

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Clause 204.81(1)(c)(v)(E) of the Act is replaced by the following:

(E) the redemption occurs

(I) more than eight years after the day on which the share was issued, or

(II) if the day that is eight years after that issuance is in February or March of a calendar year, in February or on March 1st of that calendar year but not more than 31 days before that day, or

Applicable: After February 6, 2000 to corporations incorporated at any time.

Explanatory Note: Section 204.81 of the Act sets out the conditions for the registration of labour-sponsored venture capital corporations (LSVCCs). Subsection 204.81(1) permits the Minister of National Revenue to register a corporation as an LSVCC under Part X.3 if its articles satisfy specified conditions, and other requirements are met. Subparagraph 204.81(1)(c)(v) sets out the requirements of a federally-registered LSVCC's articles regarding the circumstances in which the LSVCC may redeem shares of its capital stock. The current rule generally provides, pursuant to clause 204.81(1)(c)(v)(E), a minimum holding period of eight years for corporations that are incorporated after March 5, 1996.

Clause 204.81(1)(c)(v)(E) is amended to require that the articles of a federally-registered LSVCC provide that the LSVCC shall not redeem its shares unless the redemption occurs either

- more than eight years after the day on which the share was issued, or
- in February or on March 1st but not more than 31 days before the day that is eight years after the day on which the share was issued.

This amendment applies to corporations after February 6, 2000 regardless of when they were incorporated.

However, federally-registered LSVCCs that were incorporated before March 6, 1996 may contain statements in their articles that provide that the LSVCC shall not redeem certain of its shares unless the redemption occurs more than five years after the day on which such a share was issued. New subsection 204.81(1.1) provides that in applying clause 204.81(1)(c)(v)(E), at any time before 2004, in respect of a corporation incorporated before March 6, 1996, the references in that clause to the word "eight" are replaced with references to the word "five" if, at that time, the relevant statements in the corporation's articles refer to the word "five". This is intended to ensure that the extended (February, or March 1st) redemption provisions required of a federally-registered LSVCC's articles apply equally to shares originally subject to a minimum five year holding period and those subject to a minimum eight year holding period.

New subsection 204.81(1.2) is a transitional rule that provides a federally-registered LSVCC, incorporated before February 7, 2000, with a reasonable amount of time to amend its articles as required by clause 204.81(1)(c)(v)(E). Subsection 204.81(1.2) provides that, in applying subsection 204.81(1) at any time before 2004 to such an LSVCC, if the LSVCC's articles comply with subclause 204.81(1)(c)(v)(E)(I) (as modified by subsection 204.81(1.1)) those articles are deemed to provide the statement required by subclause 204.81(1)(c)(v)(E)(II).

New subsections 204.81(1.1) and (1.2) apply after February 6, 2000. These amendments are part of a set of amendments, announced by the Minister of Finance (News Release 2000-009, dated February 7, 2000) concerning the redemption requirements for federally-registered LSVCCs. For information on a related amendment, see the commentary to subsection 211.8(1) of the Act.

(F) the holder of the share has satisfied such other conditions as are prescribed,

(vi) [Repealed by S.C. 1997, c. 25, s. 56(7).]

(vii) the corporation shall not register a transfer of a Class A share by the specified individual in respect of the share, a spouse or common-law partner of the specified individual or a trust governed by a registered retirement savings plan or registered retirement income fund under which the specified individual or spouse or common-law partner is the annuitant, unless

(A) no information return has been issued under paragraph (6)(c) in respect of the share,

(B) [Repealed by S.C. 1997, c. 25, s. 56(8).]

(C) the transfer is to the specified individual, a spouse or common-law partner or former spouse or common-law partner of the specified individual or a trust governed by a registered retirement savings plan or registered retirement income fund under which the specified individual or the spouse or common-law partner or former spouse or common-law partner of the specified individual is the annuitant,

(D) the corporation is notified in writing that the transfer occurs as a consequence of the death of the specified individual or a spouse or common-law partner of the specified individual,

(E) the corporation is notified in writing that the transfer occurs after the specified individual dies,

(F) [Repealed by S.C. 1997, c. 25, s. 56(9).]

(G) the corporation is notified in writing that the specified individual became disabled and permanently unfit for work or terminally ill after the share was issued and before the transfer, or

(H) such other conditions as are prescribed are satisfied.

(viii) the corporation shall not pay any fee or remuneration to a shareholder, director or officer of the corporation unless the payment was approved by a resolution of the directors of the corporation, and

(ix) the corporation shall not make any investment in an eligible business entity with which the corporation or any of the directors of the corporation does not deal at arm's length unless

(A) the corporation would deal at arm's length with the eligible business entity but for the corporation's interest as the holder of eligible investments in such entity, or

(B) the investment was approved by special resolution of the shareholders of the corporation before the investment was made.

Department of Finance Comfort Letter
[No Recapture of Labour-Sponsored Tax Credit in Conversion of Shares]

May 13, 2004

Dear XXXX

I am writing in response to your letter of September 24, 2003, concerning the application of the *Income Tax Act* (the "Act") to investors owning shares in a labour-sponsored venture capital corporation ("LSVCC") that are convertible into another series of class A share. Specifically, you are concerned that the labour-sponsored fund tax credit recovery mechanism contained in Part X II.5 will apply to an investor in such an LSVCC upon the conversion of their shares, and submit that this result is inconsistent with the policy of the LSVCC program.

You have informed us that XXXX is now a manager of XXXX, a federally registered LSVCC. It is your wish to have XXXX issue its class A shares in series, with shareholders having the ability to convert from one series to another at their request. The only difference between the series will be the investments selected for the non-eligible investment portion, or reserve, of XXXX portfolio. The venture capital portion of the shareholder's equity will be the same for all series. On that basis, we understand that under your proposed structure no eligible investment will be at risk of divestment as the result of a conversion from one series of class A share to another.

Based on our understanding that the issue of convertible shares by XXXX would not put at risk the capital placed in eligible investments, restrict the LSVCC from investing more than the minimal requirement in eligible investments nor allow an investor to withdraw their investment from the LSVCC before the eight-year holding period expires without a recovery of the tax credit given in respect of those shares, your proposal does not appear to contravene the policy underlying the LSVCC program. Accordingly, we intend to recommend to the Minister of Finance that changes to the Act be implemented to allow for such conversions without creating a recapture of the labour-sponsored tax credit. It is contemplated that accommodation would be made only for exchanges subject to section 51 of the Act, where the conversion is made from one series of class A share to another series of class A share, and where the series differ only in respect of the reserve portion of the shareholder's equity, as described above. In conjunction with this accommodation, it is also envisioned that changes to section 127.4 of the Act will be made to ensure that a new labour-sponsored tax credit is not available upon the issuance of new class A shares by a LSVCC pursuant to a share conversion. We will be recommending that these changes be effective for conversions that take place after 2003. If our recommendations are acted upon, we anticipate that the amendments would be included in an upcoming technical bill.

Thank you for writing.

Yours sincerely,

Len Farber
General Director
Tax Legislation Division
Tax Policy Branch

History: S. 204.81(1)(*c*)(ii)(A), the portion before subclause (I) was replaced by S.C. 2009, c. 2, s. 67(1), applicable to the 2009 and subsequent taxation years. S. 204.81(1)(*c*)(ii)(A), the portion before subclause (I) formerly read:

"(A) Class A shares that are issuable only to individuals (other than trusts) and trusts governed by registered retirement savings plans, that entitle their holders"

S. 204.81(1)(*c*)(v)(A) was amended by S.C. 2000, c. 12, s. 137, applicable January 1, 2001, coming into force on July 31, 2000. S. 204.81(1)(*c*)(v)(A) formerly read:

"(A) where the share is held by the specified individual in respect of the share, a spouse or former spouse of that individual or a trust governed by a registered retirement savings plan or registered retirement income fund under which that individual or spouse is the annuitant,"

S. 204.81(1)(*c*)(vii), the portion before clause A, was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.30), applicable January 1, 2001, coming into force on July 31, 2000. S. 204.81(1)(*c*)(vii), the portion before clause A, formerly read:

"(vii) the corporation shall not register a transfer of a Class A share by the specified individual in respect of the share, a spouse of the specified individual or a trust governed by a registered retirement savings plan or registered retirement income fund under which the specified individual or spouse is the annuitant, unless"

S. 204.81(1)(*c*)(vii)(C) and (D) were amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.30), applicable January 1, 2001, coming into force on July 31, 2000. S. 204.81(1)(*c*)(vii)(C) and (D) formerly read:

"(C) the transfer is to the specified individual, a spouse or former spouse of the specified individual or a trust governed by a registered retirement savings plan or registered retirement income fund under which the specified individual or the spouse or former spouse of the specified individual is the annuitant,

(D) the corporation is notified in writing that the transfer occurs as a consequence of the death of the specified individual or a spouse of the specified individual,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 204.81(1)(*c*)(ii)(C) was amended by S.C. 1998, c. 19, s. 52(1), applicable after 1996. S. 204.81(1)(*c*)(ii)(C) formerly read:

"(C) such additional classes of shares without voting rights (except as may be required by law) as are authorized, where the rights, privileges, restrictions and conditions attached to the shares are determined by the board of directors of the corporation and approved by the Minister of Finance,"

S. 204.81(1)(*c*)(ii)(B) was amended by S.C. 1997, c. 25, s. 56(1), applicable to corporations that are incorporated after March 5, 1996. S. 204.81(1)(*c*)(ii)(B) formerly read:

"(B) Class B shares that are issuable only to and may be held only by the eligible labour body that caused the corporation to be incorporated and that entitle the eligible labour body

(I) to receive notice of and, subject to the *Canada Business Corporations Act*, to attend and vote at all meetings of the shareholders of the corporation, and

(II) to receive, on dissolution of the corporation, an amount equal to the amount of the consideration received by the corporation on the issue of the Class B shares,

but that do not entitle the eligible labour body to receive dividends, and"

S. 204.81(1)(*c*)(iii) was amended by S.C. 1997, c. 25, s. 56(2), applicable to corporations that are incorporated after March 5, 1996. S. 204.81(1)(*c*)(iii) formerly read:

"(iii) the business and affairs of the corporation shall be managed by a board of directors at least 1/2 of whom are appointed by the eligible labour body that caused the corporation to be incorporated,"

S. 204.81(1)(*c*)(v), the portion before clause (A), was amended by S.C. 1997, c. 25, s. 56(3), applicable to corporations that are incorporated after March 5, 1996. That part formerly read:

"(v) subject to the provision described in subparagraph (vi), the corporation may redeem a Class A share in respect of which an information return described in paragraph (6)(*c*) has been issued only if"

S. 204.81(1)(*c*)(v)(A)(I) was amended, and (II) was repealed, by S.C. 1997, c. 25, s. 56(4), applicable to corporations that are incorporated after March 5, 1996. S. 204.81(1)(*c*)(v)(A)(I) formerly read:

"(I) a request in writing to redeem the share is made by the holder to the corporation within 60 days after the day on which the share was issued to the original purchaser and the information return referred to in paragraph (6)(*c*) has been returned to the corporation,

(II) the corporation is notified in writing that the specified individual in respect of the share has retired from the workforce or ceased to be resident in Canada, or"

S. 204.81(1)(*c*)(v)(C) was repealed by S.C. 1997, c. 25, s. 56(5), applicable to corporations that are incorporated after March 5, 1996. 204.81(1)(*c*)(v)(C) formerly read:

"(C) the time of redemption is on or after the day on which the specified individual in respect of the share attained, or would, but for death, have attained the age of 65 years,"

S. 204.81(1)(*c*)(v)(E) was amended by S.C. 1997, c. 25, s. 56(6), applicable to corporations that are incorporated after March 5, 1996. S. 204.81(1)(*c*)(v)(E) formerly read:

"(E) the redemption occurs more than 5 years after the day on which the share was issued, or"

S. 204.81(1)(*c*)(vi) was repealed by S.C. 1997, c. 25, s. 56(7), applicable to corporations that are incorporated after March 5, 1996. S. 204.81(1)(*c*)(vi) formerly read:

"(vi) unless a Class A share has been issued and outstanding for at least 2 years, the corporation shall not be permitted to redeem the share solely because the specified individual in respect of the share attains 65 years of age or the corporation is notified that the specified individual

(A) has retired from the workforce, or

(B) has ceased to be resident in Canada,"

S. 204.81(1)(*c*)(vii)(B) was repealed by S.C. 1997, c. 25, s. 56(8), applicable to corporations that are incorporated after March 5, 1996. S. 204.81(1)(*c*)(vii)(B) formerly read:

"(B) the transfer occurs more than 5 years after the day on which the share was issued,"

S. 204.81(1)(*c*)(vii)(E) was amended, and (F) was repealed, by S.C. 1997, c. 25, s. 56(9), applicable to corporations that are incorporated after December 5, 1996. Those clauses formerly read:

"(E) the corporation is notified in writing that the transfer occurs after the specified individual dies, retires from the workforce or ceases to be resident in Canada,

(F) the specified individual attains 65 years of age,"

S. 204.81(1)(*c*), that portion before subparagraph (i), was amended by S.C. 1994, c. 8, s. 30(1), applicable after 1988. That part formerly read:

"(*c*) the articles of incorporation of the corporation provide that"

S. 204.81(1)(*c*)(ii)(A), the portion before subclause (I), was amended by S.C. 1994, c. 8, s. 30(2), applicable after December 2, 1992, except that, where a corporation was registered under subsection 204.81(1) of the Act before December 3, 1992, those subsections apply to the corporation on and after the earlier of

(*a*) the last day of the sixth month after the month in which this Act is assented to [Royal Assent May 12, 1994], and

(*b*) the first day after December 2, 1992 on which the articles of incorporation of the corporation are amended.

That part formerly read:

"(A) Class A shares that are issuable only to individuals (other than trusts), that entitle the holders thereof"

S. 204.81(1)(*c*)(ii)(A), the portion following subclause (III), was repealed by S.C. 1994, c. 8, s. 30(3), applicable after December 2, 1992, except that, where a corporation was registered under subsection 204.81(1) of the Act before December 3, 1992, those subsections apply to the corporation on and after the earlier of

(*a*) the last day of the sixth month after the month in which this Act is assented to [May 12, 1994], and

(*b*) the first day after December 2, 1992 on which the articles of incorporation of the corporation are amended.

That part formerly read:

"and that, where an information return described in paragraph (6)(*c*) was issued in respect thereof, are redeemable or transferable only in the circumstances described in subparagraph (v) or (vii), as the case may be,"

Ss. 204.81(1)(*c*)(v) to (vii) were amended by S.C. 1994, c. 8, s. 30(4), applicable after December 2, 1992, except that, where a corporation was registered under subsection 204.81(1) of the Act before December 3, 1992, those subsections apply to the corporation on and after the earlier of

(*a*) the last day of the sixth month after the month in which this Act is assented to [Royal Assent May 12, 1994], and

(*b*) the first day after December 2, 1992 on which the articles of incorporation of the corporation are amended.

The amended parts formerly read:

"(v) subject to the provision described in subparagraph (vi), the corporation may redeem a Class A share in respect of which an information return described in paragraph (6)(*c*) was issued only if the corporation is requested in writing by the holder of the share to redeem it and

(A) where the share is held by the original purchaser,

(I) the request is made within 60 days after the day on which the share was issued to the original purchaser, the information return referred to in paragraph (6)(*c*) was returned to the corporation and the share is not held as an investment of a registered retirement savings plan, or

(II) the corporation is notified in writing that the original purchaser has retired from the workforce, has attained 65 years of age, has ceased to be a resident of Canada or has, after acquiring the share, become disabled and permanently unfit for work or become terminally ill,

(B) where the holder of the share is not the original purchaser, the time of redemption is on or after the day on which the original purchaser attained, or would, but for death, have attained the age of 65 years,

(C) the share is held by an individual who notifies the corporation in writing that the share has devolved on the individual as a consequence of the death of a shareholder of the corporation,

(D) the share is held as an investment of a registered retirement savings plan under which the original purchaser or the original purchaser's spouse is the annuitant and the original purchaser has died or, where the original purchaser is living, the corporation is notified in writing that the original purchaser

(I) has retired from the workforce or has attained 65 years of age,

(II) has, after acquiring the share, become disabled and permanently unfit for work or become terminally ill, or

(III) has ceased to be a resident of Canada,

(E) the share is held as an investment of a registered retirement savings plan under which the original purchaser or the original purchaser's spouse is not an annuitant and the time of redemption is on or after the day on which the original purchaser attained, or would, but for death, have attained the age of 65 years,

(F) the redemption occurs more than 5 years after the day on which the share was issued, or

(G) the holder of the share has satisfied such other conditions as are prescribed,

(vi) the corporation shall not, because of the original purchaser of a share described in subparagraph (v)

(i) having retired from the workforce,

(ii) having attained 65 years of age, or

(iii) having ceased to be a resident of Canada,

redeem the share until it has been issued and outstanding for at least 2 years,

(vii) the corporation shall not register a transfer by the original purchaser, or by a registered retirement savings plan under which the original purchaser or the original purchaser's spouse is the annuitant, of a Class A share in respect of which an information return described in paragraph (6)(*c*) was issued, except where the transfer occurs more than 5 years after the day on which the share was issued, or where the corporation is notified in writing that the share is being transferred

(A) to be held as an investment of a registered retirement savings plan under which the original purchaser or the original purchaser's spouse is the annuitant,

(B) as a consequence of the death of the original purchaser,

(C) at a time when the original purchaser

(I) has retired from the workforce or has attained 65 years of age,

(II) has, after acquiring the share, become disabled and permanently unfit for work or become terminally ill, or

(III) has ceased to be a resident of Canada, or

(D) in accordance with such other conditions as are prescribed,"

S. 204.81(1) was amended by S.C. 1994, c. 7, Sched. VIII, s. 119(1), applicable to the 1992 and subsequent taxation years, by replacing the expression "national central labour body" with the expression "eligible labour body", with such grammatical modifications as the circumstances required.

S. 204.81(1) was added by S.C. 1994, c. 7, Sched. II, s. 164(1), applicable after 1988, except that subparagraph 204.81(1)(*c*)(vi) does not apply to shares purchased before 1991.

Editorial Note: In most cases, a labour-sponsored venture capital corporation is registered only under provincial legislation and individual shareholders may qualify for federal tax credits by virtue of the meaning of "approved share" in subsection 127.4(1) and Regulation 6701. However, Part X.3 provides that a labour-sponsored venture capital corporation can also be registered under the *Income Tax Act*.

Individuals acquiring shares of a labour-sponsored venture capital corporation that is registered only under the *Income Tax Act* would not generally qualify for provincial tax credits.

Related Sections: S. 127.4(1) Definitions.
Regulations: 6706.
Forms: T5005.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 204.81 of the Act is amended by adding the following after subsection (1):

(1.1) Corporations incorporated before March 6, 1996. In applying clause (1)(*c*)(v)(E) in relation to any time before 2004 in respect of a corporation incorporated before March 6, 1996, the references in that clause to "eight" are replaced with references to "five" if, at that time, the relevant statements in the corporation's articles refer to "five".

(1.2) Deemed provisions in articles. In applying subsection (1) in relation to any time before 2004, to a corporation incorporated before February 7, 2000, if the articles of the corporation comply with subclause (1)(*c*)(v)(E)(I) (as modified, where relevant, by subsection (1.1)), those articles are deemed to provide the statement required by subclause (1)(*c*)(v)(E)(II).

Applicable: After February 6, 2000.

Explanatory Note: See the Explanatory Note following the amendment to clause 204.81(1)(*c*)(v)(E).

► 204.81(2) ◄

(2) Registration number. On registering a corporation under subsection (1), the Minister shall assign to it a registration number.

History: S. 204.81(2) was added by S.C. 1994, c. 7, Sched. II, s. 164(1), applicable after 1988.

Related Sections: S. 127.4(1) Definitions.

► 204.81(3) ◄

(3) Successive registrations. Where an eligible labour body causes more than one corporation to be registered under this Part, for the purposes of paragraph (6)(*h*) and section 204.82, each of those corporations shall be deemed

(*a*) to have issued a Class A share at the earliest time any such corporation issued a Class A share,

and, where the corporation did not exist at the time referred to in paragraph (*a*),

(*b*) to have been in existence during the particular period beginning immediately before that time and ending immediately after the corporation was incorporated, and

(*c*) to have had, throughout the particular period, fiscal periods ending on the same calendar day in each year in the particular period as the calendar day on which its first fiscal period after it was incorporated ended.

History: S. 204.81(3) was amended by S.C. 1994, c. 7, Sched. VIII, s. 119(1), applicable to the 1992 and subsequent taxation years, by substituting the expression "national central labour body" with the expression "eligible labour body", with such grammatical modifications as the circumstances required.

S. 204.81(3) was added by S.C. 1994, c. 7, Sched. II, s. 164(1), applicable after 1988.

Related Sections: S. 127.4(1) Definitions.
Forms: T5006 SUM; T5006.

► 204.81(4) ◄

(4) Determination of cost. For the purposes of this Part, the cost at any time to a corporation of an eligible investment that is a guarantee shall be deemed to be 25% of the amount of the debt obligation subject to the guarantee at that time.

History: S. 204.81(4) was added by S.C. 1994, c. 7, Sched. II, s. 164(1), applicable after 1988.

Related Sections: S. 127.4(1) Definitions.

► 204.81(5) ◄

(5) Registration date. Where the Minister registers a corporation for the purposes of this Part, the corporation shall be deemed to have become so registered on the later of

(*a*) the day the application for registration of the plan is received by the Minister, and

(*b*) where in the application for registration a day is specified as the day on which the registration is to take effect, that day.

History: S. 204.81(5) was added by S.C. 1994, c. 7, Sched. II, s. 164(1), applicable after 1988.

Related Sections: S. 127.4(1) Definitions.

► 204.81(6) ◄

(6) Revocation of registration. The Minister may revoke the registration of a corporation for the purposes of this Part where

(*a*) the articles of the corporation do not comply with paragraph (1)(*c*) and would not comply with that paragraph if the corporation had been incorporated after December 5, 1996;

(*a*.1) the corporation does not comply with any of the provisions of its articles described in paragraph (1)(*c*), except where there would be no failure to comply if the provisions of its articles were consistent with the articles of a corporation that would be permitted to be registered under this Part if it had been incorporated after December 5, 1996;

(*b*) an individual acquires or irrevocably subscribes and pays for a Class A share of the capital stock of the corporation in the period beginning on the 61st day of a calendar year and ending on the 60th day of the following calendar year and the corporation fails to file with the Minister an information return in prescribed form containing prescribed information before April of that following calendar year;

(*c*) an individual acquires or irrevocably subscribes and pays for a Class A share of the capital stock of the corporation in the period beginning on the 61st day of a calendar year and ending on the 60th day of the following calendar year and the corporation fails to issue to the individual before April of that following calendar year an information return in prescribed form stating the amount of the consideration paid for the share in that period;

(*d*) the corporation issues more than one information return described in paragraph (*c*) in respect of the same acquisition of or subscription for a Class A share;

(*e*) the financial statements of the corporation presented to its shareholders are not prepared in accordance with generally accepted accounting principles;

(*f*) the corporation fails within 6 months after the end of any taxation year to have an independent valuation of its shares made as of the end of that year;

(*g*) [Repealed by 2000, c. 19, s. 55(1).]

(*h*) the corporation does not pay the tax or penalty payable under section 204.82 by it on or before the

day on or before which that tax or penalty is required to be paid;

(*i*) tax was payable under subsection 204.82(3) by the corporation for 3 or more taxation years;

(*j*) the corporation provides a guarantee that is an eligible investment and fails to maintain, at any time during the term of the guarantee, a reserve equal to the cost to the corporation of the guarantee at that time;

(*k*) the corporation pays a fee or commission in excess of a reasonable amount in respect of the offering for sale, or the sale, of its shares; or

(*l*) the corporation has a monthly deficiency in 18 or more months in any 36-month period.

History: Paragraph 204.81(6)(*g*) was repealed by S.C. 2000, c. 19, s. 55(1), applicable after February 16, 1999. Paragraph 204.81(6)(*g*) formerly read:

"(*g*) at any time in any of the first 5 taxation years of the corporation beginning with the taxation year in which the corporation first issues a Class A share, the corporation does not have eligible investments or reserves the cost to the corporation of which equals or is greater than 80% of the amount by which the total consideration received by it for Class A shares issued by it before that time exceeds the total of all amounts paid by it before that time to its shareholders as a return of capital on such shares;"

S. 204.81(6)(*a*) and (*a*.1) were amended by S.C. 1997, c. 25, s. 56(10), applicable after March 5, 1996. Those paragraphs formerly read:

"(*a*) the articles of the corporation do not comply with paragraph (1)(*c*);

(*a*.1) the corporation does not comply with any of the provisions of its articles of incorporation described in paragraph (1)(*c*);"

S. 204.81(6)(*a*) was amended and (*a*.1) was added by S.C. 1994, c. 8, s. 30(5), applicable after 1988. S. 204.81(6)(*a*) formerly read:

"(*a*) the corporation fails to comply with any of the provisions of its articles of incorporation described in paragraph (1)(*c*);"

S. 204.81(6) was added by S.C. 1994, c. 7, Sched. II, s. 164(1), applicable after 1988.

Related Sections: S. 127.4(1) Definitions; s. 204.8(2) When venture capital business discontinued; s. 204.81(4) Determination of cost; s. 204.81(7) Notice of intent to revoke registration; s. 204.81(8) Publication in Canada Gazette; s. 204.84 Penalty.

Forms: T2152; T5006 SUM; T5006.

► 204.81(7) ◄

(7) Notice of intent to revoke registration. Where the Minister proposes to revoke the registration of a corporation under subsection (6), the Minister shall, by registered mail, give notice to the corporation of the proposal.

History: S. 204.81(7) was added by S.C. 1994, c. 7, Sched. II, s. 164(1), applicable after 1988.

Related Sections: S. 127.4(1) Definitions.

► 204.81(8) ◄

(8) Idem. Where the Minister gives notice under subsection (7) to a registered labour-sponsored venture capital corporation, the Minister may, after the expiration of 30 days after the day of mailing of the notice, or after the expiration of such extended period after the day of mailing as the Federal Court of Appeal or a judge thereof, on application made at any time before the determination of any appeal under subsection (9) from the giving of the notice, may fix or allow, publish a copy of the notice in the *Canada Gazette* and, on the publication of a copy of the notice, the registration of the corporation is revoked.

History: S. 204.81(8) was added by S.C. 1994, c. 7, Sched. II, s. 164(1), applicable after 1988.

Related Sections: S. 127.4(1) Definitions.

► 204.81(8.1) ◄

(8.1) Voluntary de-registration. Where at any time the Minister receives a certified copy of a resolution of the directors of a corporation seeking the revocation of the corporation's registration under this Part,

(*a*) the registration is revoked at that time; and

(*b*) the Minister shall, with all due dispatch, give notice in the *Canada Gazette* of the revocation.

History: S. 204.81(8.1) was added by S.C. 2000, c. 19, s. 55(2), applicable to resolutions received by the Minister of National Revenue after June 29, 2000.

Related Sections: S. 204.81(8.2) Application of subsection 248(7).

► 204.81(8.2) ◄

(8.2) Application of subsection 248(7). Subsection 248(7) does not apply for the purpose of subsection (8.1).

History: S. 204.81(8.2) was added by S.C. 2000, c. 19, s. 55(2), applicable to resolutions received by the Minister of National Revenue after June 29, 2000.

► 204.81(9) ◄

(9) Right of appeal. Where the Minister refuses to accept a corporation for registration under subsection (1) or gives notice of a proposal to revoke the registration of a corporation under subsection (7), the corporation may appeal to the Federal Court of Appeal from the decision or from the giving of the notice.

History: S. 204.81(9) was added by S.C. 1994, c. 7, Sched. II, s. 164(1), applicable after 1988.

Related Sections: S. 127.4(1) Definitions.

SECTION 204.82:

► 204.82(1) ◄

(1) Recovery of credit. Where, at any time that is both in a taxation year included in the start-up period of a corporation that was registered under this Part and before its venture capital business is first discontinued,

(*a*) 80% of the amount, if any, by which the total consideration received by it for Class A shares issued by it before that time exceeds the total of all amounts paid by it before that time to its shareholders as a return of capital on such shares

exceeds

(*b*) the total of all amounts each of which is the cost to the corporation of an eligible investment or reserve of the corporation at that time,

the corporation shall pay a tax under this Part for the year equal to the amount determined by the formula

$$(A \times 20\%) - B$$

where

A is the greatest amount by which the amount determined under paragraph (*a*) exceeds the amount determined under paragraph (*b*) for the year, and

B is the total of all taxes payable under this subsection by the corporation for preceding taxation years,

History: S. 204.82(1), the portion before paragraph (*a*) was replaced by S.C. 2000, c. 19, s. 56(1), applicable to the 1999 and subsequent taxation years. S. 204.82(1), the portion before paragraph (*a*) formerly read:

"(1) Where, at any time in a taxation year referred to in paragraph 204.81(6)(*g*) of a corporation that was registered under this Part,"

S. 204.82(1) was added by S.C. 1994, c. 7, Sched. II, s. 164(1), applicable after 1988.

Editorial Note: This provision imposes a tax on a federally registered labour-sponsored venture capital corporation that is intended to recover the tax credits claimed by the individual shareholders where the corporation has failed to meet certain threshold investment levels during its start-up period.

Related Sections: S. 204.8(1), "start-up period"; s. 204.8(2) When venture capital business discontinued; s. 204.81(4) Determination of cost.

► 204.82(2) ◄

(2) Liability for tax. Each corporation that has been registered under this Part shall, in respect of each month that ends before its venture capital business is first discontinued and in a particular taxation year of the corporation that begins after the end of the corporation's start-up

period (or, where the corporation has no start-up period, that begins after the time the corporation first issues a Class A share), pay a tax under this Part equal to the amount obtained when the greatest investment shortfall at any time that is in the month and in the particular year (in this section and sections 204.81 and 204.83 referred to as the "monthly deficiency") is multiplied by 1/60 of the prescribed rate of interest in effect during the month.

History: S. 204.82(2) was replaced by S.C. 2000, c. 19, s. 56(2), applicable to the 1999 and subsequent taxation years. S. 204.82(2) formerly read:

"(2) *Liability for tax.* Each corporation that has been registered under this Part shall, in respect of each month that ends in a particular taxation year of the corporation that begins after the end of the corporation's last taxation year referred to in paragraph 204.81(6)(*g*), pay a tax under this Part equal to the amount obtained when the greatest investment shortfall at any time that is in the month and in the particular year (in this section and sections 204.81 and 204.83 referred to as the 'monthly deficiency') is multiplied by 1/60 of the prescribed rate of interest during the month."

S. 204.82(2) was amended by S.C. 1998, c. 19, s. 53(3), applicable to taxation years that end after February 1997 except that, for taxation years that end before 1999, the amount determined under paragraph (*b*) of the description of B in subsection 204.82(2.1) of the Act is deemed to be nil. S. 204.82(2) formerly read:

"(2) *Liability for tax.* Where, at any time in a month in a particular taxation year of a corporation that was registered under this Part that began after the end of the corporation's last taxation year referred to in paragraph 204.81(6)(*g*), 60% of the least of

(*a*) the amount of the shareholders' equity in the corporation determined at the end of the taxation year immediately preceding the particular taxation year, without taking into account any unrealized gains or losses in respect of eligible investments of the corporation,

(*a*.1) the amount of the shareholders' equity in the corporation determined at the end of the second taxation year before the particular taxation year, without taking into account any unrealized gains or losses in respect of eligible investments of the corporation, and

(*b*) the amount of the shareholders' equity in the corporation, determined at the end of the particular taxation year, without taking into account any unrealized gains or losses in respect of eligible investments of the corporation,

exceeds

(*c*) the total of all amounts, each of which is the cost to the corporation of an eligible investment of the corporation at that time,

the corporation shall, in respect of that month, pay a tax under this Part equal to the amount obtained when the greatest such excess in the month (in this section and sections 204.81 and 204.83 referred to as the 'monthly deficiency') is multiplied by a percentage equal to 1/60 of the prescribed rate of interest in effect for the month."

S. 204.82(2), the portion before paragraph (*a*) was amended by S.C. 1998, c. 19, s. 53(1), applicable to taxation years that end after 1994 and before March 1997. S. 204.82(2), the portion before paragraph (*a*) formerly read:

"(2) *Liability for tax.* Where, at any time in a month in a particular taxation year of a corporation that was registered under this Part beginning after the end of the corporation's last taxation year referred to in paragraph 204.81(6)(*g*), 60% of the lesser of"

S. 204.82(2)(*a*.1) was added by S.C. 1998, c. 19, s. 53(2), applicable to taxation years that end after 1994 and before March 1997.

S. 204.82(2) was added by S.C. 1994, c. 7, Sched. II, s. 164(1), applicable after 1988.

Editorial Note: Subsection 204.82(2) applies a tax on federally-registered labour-sponsored venture capital corporations that fail to maintain certain investment levels after the applicable start-up period. Where these shortfalls persist for 12 consecutive months there may be additional taxes imposed under subsection 204.82(3) and penalties imposed under subsection 204.82(4). However, there is a mechanism provided for in subsection 204.83(1) to claim a refund of the taxes and a portion of the penalties imposed under subsections 204.82(3) and (4).

Related Sections: S. 204.8(1), "start-up period"; s. 204.8(2) When venture capital business discontinued; s. 204.82(2.1) Determination of investment shortfall; s. 204.82(2.2) Investment shortfall; s. 204.82(3) Recovery of credit; s. 204.82(4) Penalty; s. 204.83(1) Refunds for federally registered LSVCCs.
Regulations: 4301.

► 204.82(2.1) ◄

(2.1) Determination of investment shortfall. Subject to subsection (2.2), a corporation's investment shortfall at any time in a particular taxation year is the amount determined by the formula

$$A - B + C$$

where

A is 60% of the lesser of

(*a*) the amount, if any, by which the amount of the shareholders' equity in the corporation at the end of the preceding taxation year exceeds the specified adjustment in respect of the shareholders' equity in the corporation at the end of that year, and

(*b*) the amount, if any, by which the amount of the shareholders' equity in the corporation at the end of the particular taxation year exceeds the specified adjustment in respect of the shareholders' equity in the corporation at the end of the particular year;

B is the greater of

(*a*) the total of all amounts each of which is the adjusted cost to the corporation of an eligible investment of the corporation at that time, and

(*b*) 50% of the total of all amounts each of which is

(i) the adjusted cost to the corporation of an eligible investment of the corporation at the beginning of the particular year, or

(ii) the adjusted cost to the corporation of an eligible investment of the corporation at the end of the particular year, and

C is 60% of the amount, if any, by which

(*a*) the total of all amounts each of which is a tax or penalty under subsection (3) or (4), or a prescribed tax or penalty, paid before that time by the corporation (other than the portion, if any, of that tax or penalty the liability for which resulted in a reduction in the amount of the shareholders' equity at the end of any preceding taxation year)

exceeds

(*b*) the total of all amounts each of which is a refund before that time of any portion of the total described in paragraph (*a*).

History: S. 204.82(2.1), the description of C was added by S.C. 1999, c. 22, s. 69(3), applicable to taxation years that begin after 1997.

S. 204.82(2.1), paragraphs (*a*) and (*b*) of the description of A, were amended by S.C. 1999, c. 22, s. 69(2), applicable to taxation years that begin after 1997. S. 204.82(2.1), paragraphs (*a*) and (*b*) of the description of A formerly read:

"(*a*) the amount of the shareholders' equity in the corporation at the end of the preceding taxation year, and

(*b*) the amount of the shareholders' equity in the corporation at the end of the particular year; and"

The formula in s. 204.82(2.1) was amended by S.C. 1999, c. 22, s. 69(1), applicable to taxation years that begin after 1997. That formula formerly read:

"A – B"

S. 204.82(2.1) was added by S.C. 1998, c. 19, s. 53(3), applicable to taxation years that end after February 1997 except that, for taxation years that end before 1999, the amount determined under paragraph (*b*) of the description of B in subsection 204.82(2.1) of the Act is deemed to be nil.

► 204.82(2.2) ◄

(2.2) Investment shortfall. For the purpose of this subsection and for the purpose of computing a corporation's investment shortfall under subsection (2.1) at any time in a taxation year (in this subsection referred to as the "relevant year"),

(*a*) unrealized gains and losses in respect of its eligible investments shall not be taken into account in computing the amount of the shareholders' equity in the corporation;

(*b*) where

(i) the relevant year ends after 1998, and

(ii) it is expected that a redemption of its Class A shares will occur after the end of a particular

taxation year and, as a consequence, the amount of the shareholders' equity in the corporation at the end of the particular year would otherwise be reduced to take into account the expected redemption,

subject to paragraph (*c*), the amount (or, where the relevant year ends in 1999, 2000, 2001 or 2002, 20%, 40%, 60% or 80%, respectively of the amount) expected to be redeemed shall not be taken into account in determining the amount of the shareholders' equity in the corporation at the end of the particular year;

(*c*) paragraph (*b*) does not apply to a redemption expected to be made after the end of a taxation year where

(i) the redemption is made within 60 days after the end of the year, and

(ii) either

(A) tax under Part XII.5 became payable as a consequence of the redemption, or

(B) tax under Part XII.5 would not have become payable as a consequence of the redemption if the redemption had occurred at the end of the year;

(*c*.1) the specified adjustment in respect of shareholders' equity in the corporation at the end of a taxation year is the amount determined by the formula

$$(A \times (B/C)) - D$$

where

A is the shareholders' equity at the end of the year,

B is the total of

(i) the fair market value at the end of the year of all Class A shares issued by it before March 6, 1996 and more than five years before the end of the year,

(ii) the fair market value at the end of the year of all Class A shares issued by it after March 5, 1996 and more than eight years before the end of the year,

(iii) the fair market value at the end of the year of all Class A shares issued by it in the last 60 days of the year, and

(iv) if the corporation so elects in writing filed with the Minister not more than six months after the end of the year and is not a revoked corporation at the end of the year, the fair market value at the end of the year of all shares of classes, of the capital stock of the corporation, to which clause 204.81(1)(*c*)(ii)(C) applies,

C is the fair market value at the end of the year of all shares issued by it, and

D is the amount by which the shareholders' equity in the corporation at the end of the year has been reduced to take into account the expected subsequent redemption of shares of the capital stock of the corporation; and

(*d*) the adjusted cost to the corporation of an eligible investment of the corporation at any time is

(i) 150% of the cost to the corporation of the eligible investment at that time where the eligible investment is

(A) a property acquired by the corporation after February 18, 1997 (other than a property to which subparagraph (i.1) applies) that would be an eligible investment of the corporation if the reference to "$50,000,000" in paragraph (*f*) of the definition "eligible investment" in subsection 204.8(1) were read as "$10,000,000", or

(B) a share of the capital stock of a prescribed corporation,

(i.1) 200% of the cost to the corporation of the eligible investment at that time where the eligible investment is a property acquired by the corporation after February 16, 1999 (other than a property described in clause (i)(B)) that would be an eligible investment of the corporation if the reference to "$50,000,000" in paragraph (*f*) of the definition "eligible investment" in subsection 204.8(1) were read as "$2,500,000", and

(ii) in any other case, the cost to the corporation of the eligible investment of the corporation at that time.

History: Subparagraph 204.82(2.2)(*d*)(i) was replaced by S.C. 2000, c. 19, s. 56(3), applicable to the 1999 and subsequent taxation years. Subparagraph 204.82(2.2)(*d*)(i) formerly read:

"(i) where the eligible investment is a property acquired by the corporation after February 18, 1997 that would be an eligible investment of the corporation if the reference to '$50,000,000' in paragraph (*f*) of the definition 'eligible investment' in section 204.8 were read as '$10,000,000', 150% of the cost to the corporation of the eligible investment of the corporation at that time, and"

S. 204.82(2.2), the portion before paragraph (*a*) was amended by S.C. 1999, c. 22, s. 69(4), applicable to taxation years that begin after 1997. S. 204.82(2.2), the portion before paragraph (*a*) formerly read:

"(2.2) *Investment shortfall.* For the purpose of computing a corporation's investment shortfall under subsection (2.1) at any time in a taxation year (in this subsection referred to as the 'relevant year'),"

S. 204.82(2.2)(*c*.1) was added by S.C. 1999, c. 22, s. 69(5), applicable to taxation years that begin after 1997.

S. 204.82(2.2) was added by S.C. 1998, c. 19, s. 53(3), applicable to taxation years that end after February 1997 except that, for taxation years that end before 1999, the amount determined under paragraph (*b*) of the description of B in subsection 204.82(2.1) of the Act is deemed to be nil.

Regulations: 4801.02.

► 204.82(3) ◄

(3) Recovery of credit. Where a corporation is liable under subsection (2) to pay a tax in respect of 12 consecutive months (in this subsection referred to as the "particular period"), the corporation shall pay a tax under this Part for a taxation year in respect of each particular period that ends in the year equal to the total of the amounts determined by the formula

$$(\frac{A}{12} \times 20\%) - (B - C)$$

where

A is the total of the monthly deficiencies for each month in the particular period;

B is the total of all taxes payable by the corporation under subsection (1) for preceding taxation years and taxes payable by it under this subsection in respect of a period ending before the end of the particular period; and

C is the total of all amounts refunded under section 204.83 in respect of the tax paid under this subsection by the corporation for preceding taxation years.

History: S. 204.82(3) was added by S.C. 1994, c. 7, Sched. II, s. 164(1), applicable after 1988.

Related Sections: S. 204.82(4) Penalty; s. 204.83(1) Refunds for federally registered LSVCCs.

► 204.82(4) ◄

(4) Penalty. Where a corporation is liable under subsection (3) to pay a tax for a taxation year, the corporation shall pay, in addition to the tax payable under that subsection, a penalty for the year equal to that tax.

History: S. 204.82(4) was added by S.C. 1994, c. 7, Sched. II, s. 164(1), applicable after 1988.

Related Sections: S. 204.82(3) Recovery of credit; s. 204.83(1) Refunds for federally registered LSVCCs.

► 204.82(5) ◄

(5) Provincially registered LSVCCs. Where

(*a*) an amount (other than interest on an amount to which this subsection applies or an amount payable under or as a consequence of a prescribed provision of a law of a province) is payable to the government of a province by a corporation,

(*b*) the amount is payable as a consequence of a failure to acquire sufficient properties of a character described in the law of the province,

(*c*) the corporation has been prescribed for the purpose of the definition "approved share" in subsection 127.4(1), and

(*d*) the corporation is not a registered labour-sponsored venture capital corporation or a revoked corporation,

the corporation shall pay a tax under this Part for the taxation year in which the amount became payable equal to that amount.

History: S. 204.82(5) was added by S.C. 1998, c. 19, s. 53(4), applicable to liabilities arising after February 18, 1997.

Editorial Note: Payments (other than interest) to provincial tax authorities by certain LSVCCs that are only registered provincially and that are made as a consequence of the corporation's failure to meet certain investment thresholds established by provincial law will trigger taxes payable by the corporation under this provision of the *Income Tax Act* for an equal amount. The provisions of subsection 204.83(2) may apply to refund such amounts.

Related Sections: S. 204.83(2) Refunds of amounts payable to provinces.
Regulations: 6707.
Forms: T2152A.

► 204.82(6) ◄

(6) Further matching of amounts payable to a province. Where

(*a*) a particular amount is payable (other than interest on an amount to which this subsection applies) by a registered labour-sponsored venture capital corporation or a revoked corporation to the government of a province as a consequence of a failure of a prescribed corporation to acquire sufficient properties of a character described in a law of the province, and

(*b*) the particular amount became payable before the corporation first discontinued its venture capital business,

the corporation shall pay a tax under this Part for the taxation year in which the particular amount became payable equal to that amount.

History: S. 204.82(6) was added by S.C. 2000, c. 19, s. 56(4), applicable to the 1999 and subsequent taxation years.

Editorial Note: Federally registered LSVCCs that are liable to pay amounts to a provincial tax authority prior to discontinuing its business as a consequence of the corporation's failure to meet certain investment thresholds established by provincial law will trigger taxes for an equal amount payable by the corporation under this provision of the *Income Tax Act*. The provisions of subsection 204.83(2) may apply to refund such amounts.

Related Sections: S. 204.8(2) When venture capital business discontinued; s. 204.83(2) Refunds of amounts payable to provinces.
Regulations: 4801.02.

SECTION 204.83:

► 204.83(1) ◄

(1) Refunds for federally registered LSVCCs. If a corporation is required, under subsections 204.82(3) and (4), to pay a tax and a penalty under this Part for a taxation year, it has no monthly deficiency throughout any period of 12 consecutive months (in this section referred to as the "second period") that begins after the 12-month period in respect of which the tax became payable (in this section referred to as the "first period") and it so requests in an application filed with the Minister in prescribed form, the Minister shall refund to it an amount equal to the total of the amount that was paid under subsection 204.82(3) and 80% of the amount that was paid under subsection 204.82(4) in respect of the first period on or before the later of

(*a*) the 30th day after receiving the application, and

(*b*) the 60th day after the end of the second period.

History: S. 204.83(1) was amended by S.C. 1999, c. 22, s. 70(1), applicable on and after the day on which this Act is assented to [Royal Assent June 17, 1999], except that for the purpose of subsection 204.83(1) of the Act, as enacted by subsection (1), applications received by the Minister of National Revenue before that day are deemed to have been received on that day. S. 204.83(1) formerly read:

"S. 204.83. *Refunds for federally registered LSVCCs.*

(1) If a corporation is required, under subsections 204.82(3) and (4), to pay a tax and a penalty under this Part for a taxation year and, throughout any period of 12 consecutive months (in this section referred to as the 'second period') that begins after the 12-month period in respect of which the tax became payable (in this section referred to as the 'first period'), the corporation has no monthly deficiency and files with the Minister the return required under this Part for the taxation year in which the second period ends, the Minister shall refund to the corporation an amount equal to the total of the amount that was paid under subsection 204.82(3) and 80% of the amount that was paid under subsection 204.82(4) in respect of the first period."

S. 204.83 was amended, and subsection (1) was added by S.C. 1998, c. 19, s. 54(1), applicable after February 18, 1997. S. 204.83 formerly read:

"S. 204.83. *Refund of tax and penalty.* Where a corporation is required, under subsections 204.82(3) and (4), to pay a tax and a penalty under this Part for a taxation year and, throughout any period of 12 consecutive months (in this section referred to as the 'second period') beginning after the 12-month period in respect of which the tax became payable (in this section referred to as the 'first period'), the corporation has no monthly deficiency and files with the Minister the return required under this Part for the taxation year in which the second period ends, the Minister shall refund to the corporation an amount equal to the total of the amount that was paid under subsection 204.82(3) and 80% of the amount that was paid under subsection 204.82(4) in respect of the first period."

S. 204.83 was added by S.C. 1994, c. 7, Sched. II, s. 164(1), applicable after 1988.

Forms: T2152A.

► 204.83(2) ◄

(2) Refunds of amounts payable to provinces. Where

(*a*) the government of a province refunds, at any time, an amount to a corporation,

(*b*) the refund is of an amount that had been paid in satisfaction of a particular amount payable in a taxation year of the corporation, and

(*c*) tax was payable under subsection 204.82(5) or (6) by the corporation for a taxation year because the particular amount became payable,

the corporation is deemed to have paid at that time an amount equal to the refund on account of its tax payable under this Part for the year.

History: S. 204.83(2) was replaced by S.C. 2000, c. 19, s. 57(1), applicable to the 1999 and subsequent taxation years. S. 204.83(2) formerly read:

"(2) *Refunds for other LSVCCs.* Where

(*a*) the government of a province refunds, at any time, an amount to a corporation,

(*b*) the refund is of an amount that had been paid in satisfaction of a particular amount payable in a taxation year of the corporation, and

(*c*) tax was payable under subsection 204.82(5) by the corporation for a taxation year because the particular amount became payable,

the corporation is deemed to have paid at that time an amount equal to the refund on account of its tax payable under this Part for the year."

S. 204.83 was amended and subsection (2) was added by S.C. 1998, c. 19, s. 54(1), applicable after February 18, 1997. S. 204.83 formerly read:

"S. 204.83. *Refund of tax and penalty.* Where a corporation is required, under subsections 204.82(3) and (4), to pay a tax and a penalty under this Part for a taxation year and, throughout any period of 12 consecutive months (in this section referred to as the 'second period') beginning after the 12-month period in respect of which the tax became payable (in this section referred to as the 'first period'), the corporation has no monthly deficiency and files with the Minister the return required under this Part for the taxation year in which the second period ends, the Minister shall refund to the corporation an amount equal to the total of the amount that was paid under subsection 204.82(3) and 80% of the amount that was paid under subsection 204.82(4) in respect of the first period."

S. 204.83 was added by S.C. 1994, c. 7, Sched. II, s. 164(1), applicable after 1988.

SECTION 204.84: Penalty.

Every corporation that for a taxation year issues an information return described in paragraph 204.81(6)(*c*) in respect of

(*a*) the issuance of a share when the corporation was a revoked corporation, or

(*b*) a subscription in respect of a share if the share is not issued on or before the day that is 180 days after the day the information return was issued,

is liable to a penalty for the year equal to the amount of the consideration for which the share was or was to be issued.

History: S. 204.84 was added by S.C. 1994, c. 7, Sched. II, s. 164(1), applicable after 1988.

SECTION 204.841: Penalty tax where venture capital business discontinued.

Where, at a particular time in a taxation year, a particular corporation that is a registered labour-sponsored venture capital corporation or a revoked corporation first discontinues its venture capital business, the particular corporation shall pay a tax under this Part for the year equal to the total of all amounts each of which is the amount in respect of a Class A share of the capital stock of the particular corporation outstanding immediately before the particular time that is determined by the formula

$$A \times B$$

where

A is

(*a*) if the original acquisition of the share was before March 6, 1996 and less than five years before the particular time, 4% of the consideration received by the particular corporation for the issue of the share,

(*b*) if the original acquisition of the share was after March 5, 1996 and less than eight years before the particular time, 1.875% of the consideration received by the particular corporation for the issue of the share, and

(*c*) in any other case, nil; and

B is

(*a*) if the original acquisition of the share was before March 6, 1996, the number obtained when the number of whole years throughout which the share was outstanding before the particular time is subtracted from five, and

(*b*) in any other case, the number obtained when the number of whole years throughout which the share was outstanding is subtracted from eight.

History: S. 204.841 was added by S.C. 2000, c. 19, s. 58(1), applicable to businesses discontinued after February 16, 1999.

Related Sections: S. 204.8(2) When venture capital business discontinued.

SECTION 204.85:

► 204.85(1) ◄

(1) Dissolution of federally registered LSVCCs. A registered labour-sponsored venture capital corporation or a revoked corporation that has issued any Class A shares shall send written notification of any proposed amalgamation, merger, liquidation or dissolution of the corporation to the Minister at least 30 days before the amalgamation, merger, liquidation or dissolution, as the case may be.

History: S. 204.85(1) was replaced by S.C. 2000, c. 19, s. 59(1), applicable to amalgamations, mergers, liquidations and dissolutions that occur later than 30 days after June 29, 2000. S. 204.85(1) formerly read:

"(1) If a registered labour-sponsored venture capital corporation or a revoked corporation has issued any Class A shares, it shall not be amalgamated or merged with another corporation, or be liquidated or dissolved, except with the written permission of the Minister of Finance and on any terms and conditions that are specified by that Minister."

S. 204.85 was amended and subsection (1) was added by S.C. 1998, c. 19, s. 55(1), applicable after July 1997. S. 204.85 formerly read:

"S. 204.85. *Prohibition against dissolution.* A registered labour-sponsored venture capital corporation or a revoked corporation shall not, if it has issued any Class A shares, liquidate or dissolve except with the written permission of the Minister of Finance and on such terms and conditions as are specified by that Minister."

S. 204.85 was added by S.C. 1994, c. 7, Sched. II, s. 164(1), applicable after 1988.

► 204.85(2) ◄

(2) Dissolution of other LSVCCs. Where

(*a*) an amount (other than interest on an amount to which this subsection applies or an amount payable under or as a consequence of a prescribed provision of a law of a province) is payable to the government of a province by a corporation,

(*b*) the amount is payable as a consequence of the amalgamation or merger of the corporation with another corporation, the winding-up or dissolution of the corporation or the corporation ceasing to be registered under a law of the province,

(*c*) the corporation has been prescribed for the purpose of the definition "approved share" in subsection 127.4(1), and

(*d*) the corporation is not a registered labour-sponsored venture capital corporation or a revoked corporation,

the corporation shall pay a tax under this Part for the taxation year in which the amount became payable equal to that amount.

History: S. 204.85 was amended and subsection (2) was added by S.C. 1998, c. 19, s. 55(1), applicable after February 18, 1997. S. 204.85 formerly read:

"S. 204.85. *Prohibition against dissolution.* A registered labour-sponsored venture capital corporation or a revoked corporation shall not, if it has issued any Class A shares, liquidate or dissolve except with the written permission of the Minister of Finance and on such terms and conditions as are specified by that Minister."

S. 204.85 was added by S.C. 1994, c. 7, Sched. II, s. 164(1), applicable after 1988.

Editorial Note: Payments (other than interest) to provincial tax authorities by certain LSVCCs that are only registered provincially and that are made as a consequence of the amalgamation or winding-up of the corporation or upon the ceasing of the corporation to be registered under provincial law will trigger taxes for an equal amount payable by the corporation under this provision of the *Income Tax Act*.

Forms: T2152A.

► 204.85(3) ◄

(3) Amalgamations and mergers. For the purposes of section 127.4, this Part and Part XII.5, where two or more corporations (each of which is referred to in this subsection as a "predecessor corporation") amalgamate or merge to form one corporate entity (in this subsection referred to as the "new corporation") and at least one of the predecessor corporations was, immediately before the amalgamation or merger, a registered labour-sponsored venture capital corporation or a revoked corporation,

(*a*) subject to paragraphs (*d*) and (*e*), the new corporation is deemed to be the same corporation as, and a continuation of, each predecessor corporation;

(*b*) where a predecessor corporation was authorized to issue a class of shares to which clause 204.81(1)(*c*)(ii)(C) applies, the new corporation is deemed to have received approval from the Minister of Finance to issue substantially similar shares at the time of the amalgamation or merger;

(*c*) where a share of a predecessor corporation (in this paragraph referred to as the "predecessor share") is replaced on the amalgamation or merger by a new share of the new corporation,

(i) the new share

(A) is deemed not to have been issued on the amalgamation or merger, and

(B) is deemed to have been issued by the new corporation at the time the predecessor corporation issued the predecessor share, and

(ii) if the new share was issued to a person who acquired the predecessor share as a consequence of a transfer the registration of which by the predecessor corporation was permitted under paragraph 204.81(1)(*c*), the issuance of the new share is deemed to be in compliance with the conditions described in paragraph 204.81(1)(*c*);

(*d*) the Minister is deemed to have registered the new corporation for the purposes of this Part unless

(i) the new corporation is not governed by the *Canada Business Corporations Act*,

(ii) one or more of the predecessor corporations was a registered labour-sponsored venture capital corporation the venture capital business of which was discontinued before the amalgamation or merger,

(iii) one or more of the predecessor corporations was, immediately before the amalgamation or merger, a revoked corporation,

(iv) immediately after the amalgamation or merger, the articles of the new corporation do not comply with paragraph 204.81(1)(*c*), or

(v) shares other than Class A shares of the capital stock of the new corporation were issued to any shareholder of the new corporation in satisfaction of any share (other than a share to which clause 204.81(1)(*c*)(ii)(B) or (C) applied) of a predecessor corporation;

(*e*) where paragraph (*d*) does not apply, the new corporation is deemed to be a revoked corporation;

(*f*) subsection 204.82(1) does not apply to the new corporation; and

(*g*) subsection 204.82(2) shall, in its application to the new corporation, be read without reference to the words "that begins after the end of the corporation's start-up period (or, where the corporation has no start-up period, that begins after the time the corporation first issues a Class A share)".

History: S. 204.85(3) was added by S.C. 2000, c. 19, s. 59(2), applicable to amalgamations and mergers that occur after February 16, 1999.

Related Sections: S. 87 Amalgamations; s. 211.7(2) Amalgamations and mergers.

Tax Window Files: Merger LSVCC, August 30, 2006, CRA Document No. 2006-0184981R3; Labour Sponsored Venture Capital Corporation, May 17, 2006, CRA Document No. 2006-0171471R3; Labour Sponsored Venture Capital Corporation, November 2, 2005, CRA Document No. 2005-0130171R3; Merger of Labour-Sponsored Venture Capital Corporations, 2005, CRA Document No. 2005-0129801R3.

SECTION 204.86:

► 204.86(1) ◄

(1) Return and payment of tax for federally-registered LSVCCs. Every registered labour-sponsored venture capital corporation and every revoked corporation shall

(*a*) on or before its filing-due date for a taxation year, file with the Minister a return for the year under this Part in prescribed form and containing prescribed information, without notice or demand therefor;

(*b*) estimate in the return the amount of tax and penalties, if any, payable under this Part by it for the year; and

(*c*) on or before its balance-due day for the year, pay to the Receiver General the amount of tax and penalties, if any, payable under this Part by it for the year.

History: S. 204.86(1)(*c*) was replaced by S.C. 2003, c. 15, s. 124(1), applicable to taxation years that begin after June 2003. S. 204.86(1)(*c*) formerly read:

"(*c*) within 90 days after the end of the year, pay to the Receiver General the amount of tax and penalties, if any, payable under this Part by it for the year."

S. 204.86 was amended and subsection (1) was added by S.C. 1998, c. 19, s. 56(1), applicable to taxation years that end after February 18, 1997. S. 204.86 formerly read:

"S. 204.86. *Return and payment of tax.* Every registered labour-sponsored venture capital corporation and every revoked corporation shall

(*a*) on or before the day on or before which it is required by section 150 to file its return of income under Part I for a taxation year, file with the Minister a return for the year under this Part in prescribed form and containing prescribed information, without notice or demand therefor;

(*b*) estimate in the return the amount of tax and penalties, if any, payable under this Part by it for the year; and

(*c*) within 90 days after the end of each taxation year, pay to the Receiver General the amount of tax and penalties, if any, payable under this Part by it for the year."

S. 204.86 was added by S.C. 1994, c. 7, Sched. II, s. 164(1), applicable after 1988.

Forms: T2152.

► 204.86(2) ◄

(2) Return and payment of tax for other LSVCCs. Where tax is payable under this Part for a taxation year by a corporation because of subsection 204.82(5) or 204.85(2), the corporation shall

(*a*) on or before its filing-due date for the year, file with the Minister a return for the year under this Part in prescribed form and containing prescribed information, without notice or demand therefor;

(*b*) estimate in the return the amount of tax payable under this Part by it for the year; and

(*c*) on or before its balance-due day for the year, pay to the Receiver General the amount of tax payable under this Part by it for the year.

History: S. 204.86(2)(*c*) was replaced by S.C. 2003, c. 15, s. 124(2), applicable to taxation years that begin after June 2003. S. 204.86(2)(*c*) formerly read:

"(*c*) within 90 days after the end of the year, pay to the Receiver General the amount of tax payable under this Part by it for the year."

S. 204.86 was amended and subsection (2) was added by S.C. 1998, c. 19, s. 56(1), applicable to taxation years that end after February 18, 1997. S. 204.86 formerly read:

"S. 204.86. *Return and payment of tax.* Every registered labour-sponsored venture capital corporation and every revoked corporation shall

(*a*) on or before the day on or before which it is required by section 150 to file its return of income under Part I for a taxation year, file with the Minister a return for the year under this Part in prescribed form and containing prescribed information, without notice or demand therefor;

(*b*) estimate in the return the amount of tax and penalties, if any, payable under this Part by it for the year; and

(*c*) within 90 days after the end of each taxation year, pay to the Receiver General the amount of tax and penalties, if any, payable under this Part by it for the year."

S. 204.86 was added by S.C. 1994, c. 7, Sched. II, s. 164(1), applicable after 1988.

Forms: T2152A

SECTION 204.87: Provisions applicable to Part.

Subsection 150(3), sections 152 and 158, subsections 161(1) and (11), sections 162 to 164 and 165 to 167, Division J of Part I and section 227.1 apply to this Part, with such modifications as the circumstances require.

History: S. 204.87 was added by S.C. 1994, c. 7, Sched. II, s. 164(1), applicable after 1988.

Part X.4
Tax in Respect of Overpayment to Registered Education Savings Plans

SECTION 204.9:

► 204.9(1) ◄

(1) Definitions. The definitions in this subsection apply in this Part.

Information Circulars: IC 93-3R Registered Education Savings Plans.

"excess amount" — "excess amount" for a year at any time in respect of an individual means

(*a*) for years before 2007, the amount, if any, by which the total of all contributions made after February 20, 1990 in the year and before that time into all registered education savings plans by or on behalf of all subscribers in respect of the individual exceeds the lesser of

(i) the RESP annual limit for the year, and

(ii) the amount, if any, by which the RESP lifetime limit for the year exceeds the total of all contributions made into registered education savings plans by or on behalf of all subscribers in respect of the individual in all preceding years; and

(*b*) for years after 2006, the amount, if any, by which the total of all contributions made in the year and before that time into all registered education savings plans by or on behalf of all subscribers in respect of the individual exceeds the amount, if any, by which

(i) the RESP lifetime limit for the year

exceeds

(ii) the total of all contributions made into registered education savings plans by or on behalf of all subscribers in respect of the individual in all preceding years.

History: S. 204.9(1), the definition "excess amount" was replaced by S.C. 2007, c. 29, s. 27(1), applicable for the purpose of determining tax under Part X.4 of the Act for months that are after 2006. S. 204.9(1), the definition "excess amount" formerly read:

" *'excess amount'* — 'excess amount' for a year at any time in respect of an individual means the amount, if any, by which the total of all contributions made after February 20, 1990 in the year and before that time into all registered education savings plans by or on behalf of all subscribers in respect of the individual exceeds the lesser of

(*a*) the RESP annual limit for the year, and

(*b*) the amount, if any, by which the RESP lifetime limit for the year exceeds the total of all contributions made into registered education savings plans by or on behalf of all subscribers in respect of the individual in all preceding years."

S. 204.9(1), the definition "excess amount" was amended by S.C. 1998, c. 19, s. 57(1), applicable for the purpose of determining tax under Part X.4 of the Act for months that are after 1996. S. 204.9(1), the definition "excess amount" formerly read:

"S. 204.9. *[Tax on overpayment to registered education savings plan].*

(1) *Definitions.* In this Part, subject to subsection (2),

'excess amount' — 'excess amount', for a year at any time in respect of a beneficiary, means the amount, if any, by which the total of all payments made after February 20, 1990 in the year and before that time into all registered education savings plans by or on behalf of all subscribers in respect of the beneficiary exceeds the lesser of

(*a*) $2,000, and

(*b*) the amount, if any, by which $42,000 exceeds the total of all payments made into registered education savings plans by or on behalf of all subscribers in respect of the beneficiary in all preceding years;"

S. 204.9(1), paragraphs (*a*) and (*b*) of the definition "excess amount", were amended by S.C. 1997, c. 25, s. 57(1), applicable to months that end after 1995, except that, for payments made after 1989 and before 1996,

(*a*) the reference to "$2,000" in paragraph (*a*) of the definition "excess amount" in subsection 204.9(1) shall be read as "$1,500"; and

(*b*) the reference to "$42,000" in paragraph (*b*) of that definition shall be read as "$31,500".

Paragraphs (*a*) and (*b*) formerly read:

"(*a*) $1,500, and

(*b*) the amount, if any, by which $31,500 exceeds the total of all payments made into registered education savings plans by or on behalf of all subscribers in respect of the beneficiary in all preceding years;"

"RESP lifetime limit" — "RESP lifetime limit" for a year means

(*a*) for 1990 to 1995, $31,500;

(*b*) for 1996 to 2006, $42,000; and

(*c*) for 2007 and subsequent years, $50,000.

History: S. 204.9(1), the definition "RESP lifetime limit" was replaced by S.C. 2007, c. 29, s. 27(1), applicable for the purpose of determining tax under Part X.4 of the Act for months that are after 2006. S. 204.9(1), the definition "RESP lifetime limit" formerly read:

" *'RESP lifetime limit'* — 'RESP lifetime limit' for a year means,

(*a*) for 1990 to 1995, $31,500; and

(*b*) for 1996 and subsequent years, $42,000."

S. 204.9(1), the definition "RESP lifetime limit" was added by S.C. 1998, c. 19, s. 57(1), applicable for the purpose of determining tax under Part X.4 of the Act for months that are after 1996.

"subscriber's gross cumulative excess" — "subscriber's gross cumulative excess" at any time in respect of an individual means the total of all amounts each of which is the subscriber's share of the excess amount for a relevant year at that time in respect of the individual and, for the purpose of this definition, a relevant year at any time is a year that began before that time.

History: S. 204.9(1), the definition "subscriber's gross cumulative excess" was added by S.C. 1998, c. 19, s. 57(1), applicable for the purpose of determining tax under Part X.4 of the Act for months that are after 1996.

"subscriber's share of the excess amount" — "subscriber's share of the excess amount" for a year at any time in respect of an individual means the amount determined by the formula

$$(A/B) \times C$$

where

A is the total of all contributions made after February 20, 1990, in the year and before that time into all registered education savings plans by or on behalf of the subscriber in respect of the individual;

B is the total of all contributions made after February 20, 1990, in the year and before that time into all registered education savings plans by or on behalf of all subscribers in respect of the individual; and

C is the excess amount for the year at that time in respect of the individual.

History: S. 204.9(1), the definition "subscriber's share of the excess amount" was amended by S.C. 1998, c. 19, s. 57(1), applicable for the purpose of determining tax under Part X.4 of the Act for months that are after

1996. S. 204.9(1), the definition "subscriber's share of the excess amount" formerly read:

"*'subscriber's share of the excess amount'*— 'subscriber's share of the excess amount', for a year at any time in respect of a beneficiary, means the amount determined by the formula

$$\frac{A}{B} \times C$$

where

A is the total of all payments made in the year and before that time into all registered education savings plans by or on behalf of the subscriber in respect of the beneficiary,

B is the total of all payments made in the year and before that time into all registered education savings plans by or on behalf of all subscribers in respect of the beneficiary, and

C is the excess amount for the year at that time in respect of the beneficiary."

S. 204.9(1) was added by S.C. 1994, c. 7, Sched. II, s. 165(1), applicable to months ending after January 1990.

► 204.9(1.1) ◄

(1.1) Application of s. 146.1(1). The definitions in subsection 146.1(1) apply to this Part.

History: S. 204.9(1.1) was added by S.C. 1994, c. 7, Sched. II, s. 165(1), applicable to months ending after January 1990.

► 204.9(2) ◄

(2) Agreements before February 21, 1990. Where a subscriber is required, pursuant to an agreement in writing entered into before February 21, 1990, to make payments of specified amounts on a periodic basis into a registered education savings plan in respect of a beneficiary, and the subscriber makes at least one payment under the agreement before that day,

(*a*) the excess amount for a year in respect of the beneficiary shall be deemed not to exceed the excess amount for the year that would be determined under subsection (1) if the total of all such payments made in the year and, where the agreement so provides, amounts paid in the year in satisfaction of the requirement to make such payments under all such agreements by all such subscribers in respect of the beneficiary were equal to the lesser of the amounts described in paragraphs (*a*) and (*b*) of the definition "excess amount" in subsection (1); and

(*b*) in determining a subscriber's share of an excess amount for a year, any payment included in the total described in paragraph (*a*) in respect of the year shall be excluded in determining the values for A and B in the definition "subscriber's share of the excess amount" in subsection (1).

History: S. 204.9(2) was added by S.C. 1994, c. 7, Sched. II, s. 165(1), applicable to months ending after January 1990.

► 204.9(3) ◄

(3) Refunds from unregistered plans. For the purposes of subsection (1) and section 146.1, where an individual entered into an education savings plan before February 21, 1990, pursuant to a preliminary prospectus issued by a promoter, and the promoter refunds all payments made into the plan and all income accrued thereon to the individual, each payment made by the individual into a registered education savings plan before December 31, 1990 shall be deemed to be a payment made before February 21, 1990, to the extent that the total of all such payments does not exceed the amount so refunded to the individual.

History: S. 204.9(3) was added by S.C. 1994, c. 7, Sched. II, s. 165(1), applicable to months ending after January 1990.

► 204.9(4) ◄

(4) New beneficiary. For the purposes of this Part, if at any particular time an individual (in this subsection referred to as the "new beneficiary") becomes a beneficiary under a registered education savings plan in place of another individual (in this subsection referred to as the "former beneficiary") who ceased at or before the particular time to be a beneficiary under the plan,

(*a*) except as provided by paragraph (*b*), each contribution made at an earlier time by or on behalf of a subscriber into the plan in respect of the former beneficiary is deemed also to have been made at that earlier time in respect of the new beneficiary;

(*b*) except for the purpose of applying this subsection to a replacement of a beneficiary after the particular time, applying subsection (5) to a distribution after the particular time and applying subsection 204.91(3) to events after the particular time, paragraph (*a*) does not apply as a consequence of the replacement at the particular time of the former beneficiary if

(i) the new beneficiary had not attained 21 years of age before the particular time and a parent of the new beneficiary was a parent of the former beneficiary, or

(ii) both beneficiaries were connected by blood relationship or adoption to an original subscriber under the plan and neither had attained 21 years of age before the particular time; and

(*c*) except where paragraph (*b*) applies, each contribution made by or on behalf of a subscriber under the plan in respect of the former beneficiary under the plan is, without affecting the determination of the amount withdrawn from the plan in respect of the new beneficiary, deemed to have been withdrawn at the particular time from the plan to the extent that it was not withdrawn before the particular time.

History: S. 204.9(4)(*b*) was amended by S.C. 1999, c. 22, s. 71(1), applicable to replacements of beneficiaries that occur after 1997. S. 204.9(4)(*b*) formerly read:

"(*b*) except for the purpose of applying this subsection to a replacement of a beneficiary after the particular time, applying subsection (5) to a distribution after the particular time and applying subsection 204.91(3) to events after the particular time, paragraph (*a*) does not apply as a consequence of the replacement at the particular time of the former beneficiary where the new beneficiary had not attained 21 years of age at the particular time and a parent of the new beneficiary was a parent of the former beneficiary; and"

S. 204.9(4) was amended by S.C. 1998, c. 19, s. 57(2), applicable to replacements of beneficiaries and distributions that occur after 1996. S. 204.9(4) formerly read:

"(4) *New beneficiary.* For the purposes of this Part,

(*a*) where at any time an individual (in this paragraph referred to as the 'new beneficiary') becomes a beneficiary under a registered education savings plan in place of another individual (in this paragraph referred to as the 'former beneficiary') who ceases at that time to be a beneficiary under the plan, all payments made before that time into the plan in respect of the former beneficiary shall be deemed to have been made in respect of the new beneficiary; and

(*b*) where at any time property is transferred from a trust governed by a registered education savings plan (in this paragraph referred to as the 'transferor plan') to a trust governed by another registered education savings plan (in this paragraph referred to as the 'transferee plan'), unless a beneficiary under the transferee plan was, immediately before that time, a beneficiary under the transferor plan, all payments made before that time in respect of all beneficiaries under the transferor plan shall be deemed to have been made in respect of the beneficiaries under the transferee plan."

S. 204.9(4) was added by S.C. 1994, c. 7, Sched. II, s. 165(1), applicable to months ending after January 1990.

Related Sections: S. 251(6) Blood relationship, etc.

► 204.9(5) ◄

(5) Transfers between plans. For the purposes of this Part, if property held by a trust governed by a registered education savings plan (in this subsection referred to as the "transferor plan") is distributed at a particular time to a trust governed by another registered education savings plan (in this subsection referred to as the "transferee plan"),

(*a*) except as provided by paragraphs (*b*) and (*c*), the amount of the distribution is deemed not to have been contributed into the transferee plan;

(*b*) subject to paragraph (*c*), each contribution made at any earlier time by or on behalf of a subscriber into the transferor plan in respect of a beneficiary under the transferor plan is deemed also to have been made at that earlier time by the subscriber in respect of each beneficiary under the transferee plan;

(*c*) except for the purpose of applying this subsection to a distribution after the particular time, applying subsection (4) to a replacement of a beneficiary after the particular time and applying subsection 204.91(3) to events after the particular time, paragraph (*b*) does not apply as a consequence of the distribution where

(i) any beneficiary under the transferee plan was, immediately before the particular time, a beneficiary under the transferor plan, or

(ii) a beneficiary under the transferee plan had not attained 21 years of age at the particular time and a parent of the beneficiary was a parent of an individual who was, immediately before the particular time, a beneficiary under the transferor plan;

(*d*) where subparagraph (c)(i) or (ii) applies in respect of the distribution, the amount of the distribution is deemed not to have been withdrawn from the transferor plan; and

(*e*) each subscriber under the transferor plan is deemed to be a subscriber under the transferee plan.

History: S. 204.9(5) was added by S.C. 1998, c. 19, s. 57(2), applicable to replacements of beneficiaries and distributions that occur after 1996.

SECTION 204.91:

► 204.91(1) ◄

(1) Tax payable by subscribers. Every subscriber under a registered education savings plan shall pay a tax under this Part in respect of each month equal to 1% of the amount, if any, by which

(*a*) the total of all amounts each of which is the subscriber's gross cumulative excess at the end of the month in respect of an individual

exceeds

(*b*) the total of all amounts each of which is the portion of such an excess that has been withdrawn from a registered education savings plan before the end of the month.

History: S. 204.91 was amended and subsection (1) was added by S.C. 1998, c. 19, s. 58(1), applicable for the purpose of determining tax under Part X.4 of the Act for months that are after 1996. S. 204.91 formerly read:

"S. 204.91. *Tax payable by subscribers.* Each subscriber under a registered education savings plan shall, in respect of each month, pay a tax under this Part equal to 1% of the subscriber's share of each excess amount for a year at the end of that month in respect of a beneficiary or former beneficiary under the plan, to the extent that the amount of the share is not withdrawn from the plan before the end of that month."

S. 204.91 was added by S.C. 1994, c. 7, Sched. II, s. 165(1), applicable to months ending after January 1990.

Editorial Note: After 2006, the "excess amount" and therefore a "subscriber's gross cumulative excess" reflects the amount by which the total of all contributions made in the year to an RESP in respect of the beneficiary, plus contributions made before the year, exceeds the lifetime limit of $50,000. In other words, after 2006, there no longer is an annual contribution limit, although there remains a lifetime contribution limit per beneficiary, which has been increased from $42,000 to $50,000. Contributions that go over the $50,000 lifetime limit will be subject to the Part X.4 tax. If there is more than one subscriber, each may be subject to the tax based on their pro rata shares of the excess amount (see subsection 204.9(1) "subscriber's share of the excess amount").

Information Circulars: IC 93-3R Registered Education Savings Plans.

► 204.91(2) ◄

(2) Waiver of tax. If a subscriber under a registered education savings plan would, but for this subsection, be required to pay a tax in respect of a month under subsection (1) in respect of an individual, the Minister may waive or cancel all or part of the tax where it is just and equitable to do so having regard to all the circumstances, including

(*a*) whether the tax arose as a consequence of reasonable error;

(*b*) whether, as a consequence of one or more transactions or events to which subsection 204.9(4) or (5) applies, the tax is excessive; and

(*c*) the extent to which further contributions could be made into registered education savings plans in respect of the individual before the end of the month without causing additional tax to be payable under this Part if this Part were read without reference to this subsection.

History: S. 204.91 was amended and subsection (2) was added by S.C. 1998, c. 19, s. 58(1), applicable for the purpose of determining tax under Part X.4 of the Act for months that are after January 1990. S. 204.91 formerly read:

"S. 204.91. *Tax payable by subscribers.* Each subscriber under a registered education savings plan shall, in respect of each month, pay a tax under this Part equal to 1% of the subscriber's share of each excess amount for a year at the end of that month in respect of a beneficiary or former beneficiary under the plan, to the extent that the amount of the share is not withdrawn from the plan before the end of that month."

S. 204.91 was added by S.C. 1994, c. 7, Sched. II, s. 165(1), applicable to months ending after January 1990.

► 204.91(3) ◄

(3) Marriage breakdown. If at any time an individual (in this subsection referred to as the "former subscriber") ceases to be a subscriber under a registered education savings plan as a consequence of the settlement of rights arising out of, or on the breakdown of, the marriage or common-law partnership of the former subscriber and another individual (in this subsection referred to as the "current subscriber") who is a subscriber under the plan immediately after that time, for the purpose of determining tax payable under this Part in respect of a month that ends after that time, each contribution made before that time into the plan by or on behalf of the former subscriber is deemed to have been made into the plan by the current subscriber and not by or on behalf of the former subscriber.

History: S. 204.91(3) was amended by S.C. 2000, c. 12, Sched. 2, s. 9(q), applicable January 1, 2001, coming into force on July 31, 2000. S. 204.91(3) formerly read:

"(3) *Marriage breakdown.* If at any time an individual (in this subsection referred to as the 'former subscriber') ceases to be a subscriber under a registered education savings plan as a consequence of the settlement of rights arising out of, or on the breakdown of, the marriage of the former subscriber and another individual (in this subsection referred to as the 'current subscriber') who is a subscriber under the plan immediately after that

time, for the purpose of determining tax payable under this Part in respect of a month that ends after that time, each contribution made before that time into the plan by or on behalf of the former subscriber is deemed to have been made into the plan by the current subscriber and not by or on behalf of the former subscriber."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 204.91 was amended and subsection (3) was added by S.C. 1998, c. 19, s. 58(1), applicable for the purpose of determining tax under Part X.4 of the Act for months that are after 1997. S. 204.91 formerly read:

"S. 204.91. *Tax payable by subscribers.* Each subscriber under a registered education savings plan shall, in respect of each month, pay a tax under this Part equal to 1% of the subscriber's share of each excess amount for a year at the end of that month in respect of a beneficiary or former beneficiary under the plan, to the extent that the amount of the share is not withdrawn from the plan before the end of that month."

S. 204.91 was added by S.C. 1994, c. 7, Sched. II, s. 165(1), applicable to months ending after January 1990.

► 204.91(4) ◄

(4) Deceased subscribers. For the purpose of applying this section where a subscriber has died, the subscriber's estate is deemed to be the same person as, and a continuation of, the subscriber for each month that ends after the death.

History: S. 204.91 was amended and subsection (4) was added by S.C. 1998, c. 19, s. 58(1), applicable for the purpose of determining tax under Part X.4 of the Act for months that are after 1997. S. 204.91 formerly read:

"S. 204.91. *Tax payable by subscribers.* Each subscriber under a registered education savings plan shall, in respect of each month, pay a tax under this Part equal to 1% of the subscriber's share of each excess amount for a year at the end of that month in respect of a beneficiary or former beneficiary under the plan, to the extent that the amount of the share is not withdrawn from the plan before the end of that month."

S. 204.91 was added by S.C. 1994, c. 7, Sched. II, s. 165(1), applicable to months ending after January 1990.

SECTION 204.92: Return and payment of tax.

Every person who is liable to pay tax under this Part in respect of a month in a year shall, within 90 days after the end of the year,

(*a*) file with the Minister a return for the year under this Part in prescribed form and containing prescribed information, without notice or demand therefor;

(*b*) estimate in the return the amount of tax, if any, payable under this Part by the person in respect of each month in the year; and

(*c*) pay to the Receiver General the amount of tax, if any, payable by the person under this Part in respect of each month in the year.

History: S. 204.92 was added by S.C. 1994, c. 7, Sched. II, s. 165(1), applicable to months ending after January 1990, except that a return referred to in section 204.92 that was filed before March 16, 1992 shall be deemed to have been filed in accordance with the requirements of that section and a payment referred to in that section, as so enacted, that was paid before March 16, 1992 shall be deemed to have been paid in accordance with the requirements of that section.

Forms: T1E-OVP.

SECTION 204.93: Provisions applicable to Part.

Subsections 150(2) and (3), sections 152, 158 and 159, subsections 161(1) and (11), sections 162 to 167 and Division J of Part I are applicable to this Part, with such modifications as the circumstances require.

History: S. 204.93 was added by S.C. 1994, c. 7, Sched. II, s. 165(1), applicable to months ending after January 1990.

Part X.5
Payments Under Registered Education Savings Plans

SECTION 204.94:

► 204.94(1) ◄

(1) Definitions. The definitions in subsection 146.1(1) apply for the purposes of this Part, except that the definition "subscriber" in that subsection shall be read without reference to paragraph (*c*).

History: S. 204.94(1) was added by S.C. 1998, c. 19, s. 59(1), applicable to the 1998 and subsequent taxation years.

► 204.94(2) ◄

(2) Charging provision. Every person shall pay a tax under this Part for each taxation year equal to the amount determined by the formula

$$(A + B - C) \times D$$

where

A is the total of all amounts each of which is an accumulated income payment made at any time that is
- (*a*) either
  - (i) under a registered education savings plan under which the person is a subscriber at that time, or
  - (ii) under a registered education savings plan under which there is no subscriber at that time, where the person has been a spouse or common-law partner of an individual who was a subscriber under the plan, and
- (*b*) included in computing the person's income under Part I for the year;

B is the total of all amounts each of which is an accumulated income payment that is
- (*a*) not included in the value of A in respect of the person for the year, and
- (*b*) included in computing the person's income under Part I for the year;

C is the lesser of
- (*a*) the lesser of the value of A in respect of the person for the year and the total of all amounts each of which is an amount deducted under subsection 146(5) or (5.1) in computing the person's income under Part I for the year, and
- (*b*) the amount, if any, by which $50,000 exceeds the total of all amounts each of which is an amount determined under paragraph (*a*) in respect of the person for a preceding taxation year; and

D is
- (*a*) where a tax, similar to the tax provided under this Part, is payable by the person for the year under a law of the province of Quebec, 12%, and
- (*b*) in any other case, 20%.

Department of Finance Comfort Letter

[Part X.5 Tax Re RESP Payments Not Applicable to "Public Primary Caregiver"]

January 7, 2008

Ms. Lenore Burton
Director General
Canada Education Savings Program
Human Resources and Social Development Canada
140 Promenade du Portage, Phase IV
Gatineau, QC K1A DJ9

Dear Ms. Burton:

This is in reply to your letter of April 13, 2007 in which you request that we consider an amendment to the *Income Tax Act* ("Act") to address an anomaly in the tax treatment of child welfare organizations that have established registered education savings plans ("RESPs") on behalf of children in their care. We also acknowledge several discussions between our respective officials on this matter. Please excuse the delay in replying.

Under section 146.1 of the Act, an RESP may be established on behalf of a child in care by the child's "public primary caregiver", which is defined as the department, agency or institution that maintains the child or the public trustee or curator of the province in which the child resides. We understand that child welfare services generally are administered by a provincial government department. However, Ontario and Nova Scotia have created independent non-profit organizations to provide child welfare services.

We understand that, in the course of coordinating a common RESP provider for children in care across Canada, concern was raised that the child welfare agencies in Ontario and Nova Scotia may be subject to the 20 percent tax on accumulated income payments in Part X.5 of the Act .

As you know, this special tax generally applies where an RESP is terminated because the beneficiary does not pursue post-secondary education and the accumulated investment income is paid out to the subscriber. The tax is intended to discourage the use of RESPs strictly for tax deferral purposes and is in addition to regular income tax .

While paragraph 149(1)(*l*) of the Act will provide an exemption from regular income tax with respect to any accumulated income payments made to child welfare agencies in these provinces, there is no comparable exemption from Part X.5 tax.

We understand that this is not an issue for most provinces, as any accumulated income payments made from an RESP established by a provincial government department would be immune from taxation under the constitution. However, because Ontario and Nova Scotia use non-profit organizations, constitutional immunity is not available.

You have asked that the Act be amended to expressly exempt child welfare organizations from being liable for Part X.5 tax. This will ensure that all child welfare organizations — regardless of legal structure — are able to reallocate the full amount of any investment income of an RESP that is not used for the beneficiary's post-secondary education to other RESPs established for other children under the organization's care.

We have considered your request and are prepared to recommend to the Minister of Finance that Part X.5 of the Act be amended so that it does not apply to a "public primary

caregiver" as defined in subsection 146.1(1) of the Act. This is consistent with the fact that non-profit child welfare organizations are already exempt from regular income tax on accumulated income payments and will provide comparable tax treatment for all RESPs established by child welfare organizations.

I trust that this statement of our intentions is helpful to you. Please feel free to share this letter with the child welfare organizations and the financial institution that was selected to be the common RESP provider.

Yours sincerely,

Gerard Lalonde
Director
Tax Legislation Division
Tax Policy Branch

History: S. 204.94(2), subparagraph (*a*)(ii) of the description of A, was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.31), applicable January 1, 2001, coming into force on July 31, 2000. S. 204.94(2), subparagraph (*a*)(ii) of the description of A formerly read:

"(ii) under a registered education savings plan under which there is no subscriber at that time, where the person has been a spouse of an individual who was a subscriber under the plan, and"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 204.94(2), the description of D was added by S.C. 1999, c. 22, s. 72(3), applicable to the 1998 and subsequent taxation years.

S. 204.94(2), paragraph (*b*) of the description of C, was amended by S.C. 1999, c. 22, s. 72(2), applicable to the 1999 and subsequent taxation years. S. 204.94(2), paragraph (*b*) of the description of C formerly read:

"(*b*) the amount, if any, by which $40,000 exceeds the total of all amounts each of which is an amount determined under paragraph (*a*) in respect of the person for a preceding taxation year."

The formula in s. 204.94(2) was amended by S.C. 1999, c. 22, s. 72(1), applicable to the 1998 and subsequent taxation years. The formula in s. 204.94(2) formerly read:

"0.2 × (A + B – C)"

S. 204.94(2) was added by S.C. 1998, c. 19, s. 59(1), applicable to the 1998 and subsequent taxation years.

Related Sections: S. 248(1), "common-law partner".
Information Circulars: IC 93-3R Registered Education Savings Plans.

► 204.94(3) ◄

(3) Return and payment of tax. Every person who is liable to pay tax under this Part for a taxation year shall, on or before the person's filing-due date for the year,

(*a*) file with the Minister a return for the year under this Part in prescribed form and containing prescribed information, without notice or demand therefor;

(*b*) estimate in the return the amount of tax payable under this Part by the person for the year; and

(*c*) pay to the Receiver General the amount of tax payable under this Part by the person for the year.

History: S. 204.94(3) was added by S.C. 1998, c. 19, s. 59(1), applicable to the 1998 and subsequent taxation years.

Forms: T1171; T1172.

► 204.94(4) ◄

(4) Administrative rules. Subsections 150(2) and (3), sections 152, 155 to 156.1 and 158 to 167 and Division J of Part I apply with any modifications that the circumstances require.

History: S. 204.94(4) was added by S.C. 1998, c. 19, s. 59(1), applicable to the 1998 and subsequent taxation years.

Part XI
Taxes in Respect of Registered Disability Savings Plans

History: Part XI (sections 205 to 207) was added by S.C. 2007, c. 35, s. 120, applicable to the 2008 and subsequent taxation years.

Part XI was repealed by S.C. 2005, c. 30, s. 14(1), applicable to months that end after 2004. The heading for Part XI formerly read:

"Tax in Respect of Certain Property Acquired by Trusts, etc., Governed by Deferred Income Plans"

SECTION 205:

► 205(1) ◄

(1) Definitions. The following definitions apply in this Part.

"advantage" — "advantage", in relation to a registered disability savings plan, means any benefit or loan that is conditional in any way on the existence of the plan other than

(*a*) a disability assistance payment;

(*b*) a contribution made by, or with the written consent of, a holder of the plan;

(*c*) a transfer in accordance with subsection 146.4(8);

(*d*) an amount paid under the *Canada Disability Savings Act*;

(*e*) a benefit derived from the provision of administrative or investment services in respect of the plan; or

(*f*) a loan

(i) made in the ordinary course of the lender's ordinary business of lending money if, at the time the loan was made, *bona fide* arrangements were made for repayment of the loan within a reasonable time, and

(ii) whose sole purpose was to enable a person to make a contribution to the plan.

History: S. 205(1), the definition "advantage" was added by S.C. 2007, c. 35, s. 120, applicable to the 2008 and subsequent taxation years.

Related Sections: S. 206.2(1) Tax payable where advantage extended; s. 206.2(2) Amount of tax payable.

"allowable refund" — "allowable refund" of a person for a calendar year means the total of all amounts each of which is a refund to which the person is entitled under subsection 206.1(4) for the year.

History: S. 205(1), the definition "allowable refund" was added by S.C. 2007, c. 35, s. 120, applicable to the 2008 and subsequent taxation years.

"benefit" — "benefit", in relation to a registered disability savings plan, includes any payment or allocation of an amount to the plan that is represented to be a return on investment in respect of property held by the plan trust, but which cannot reasonably be considered, having regard to all the circumstances, to be on terms and conditions that would apply to a similar transaction in an open market between parties dealing with each other at arm's length and acting prudently, knowledgeably and willingly.

History: S. 205(1), the definition "benefit" was added by S.C. 2007, c. 35, s. 120, applicable to the 2008 and subsequent taxation years.

Related Sections: S. 206.2(2) Amount of tax payable.

"qualified investment" — "qualified investment" for a trust governed by a registered disability savings plan means

(*a*) an investment that would be described by any of paragraphs (*a*) to (*d*), (*f*) and (*g*) of the definition "qualified investment" in section 204 if the reference in that definition to "a trust governed by a deferred profit sharing plan or revoked plan" were read as a reference to "a trust governed by a registered disability savings plan" and if that definition were read without reference to the words "with the exception of excluded property in relation to the trust";

(*b*) a contract for an annuity issued by a licensed annuities provider where

(i) the trust is the only person who, disregarding any subsequent transfer of the contract by the trust, is or may become entitled to any annuity payments under the contract, and

(ii) the holder of the contract has a right to surrender the contract at any time for an amount that would, if reasonable sales and administration charges were ignored, approximate the value of funds that could otherwise be applied to fund future periodic payments under the contract;

(*c*) a contract for an annuity issued by a licensed annuities provider where

(i) annual or more frequent periodic payments are or may be made under the contract to the holder of the contract,

(ii) the trust is the only person who, disregarding any subsequent transfer of the contract by the trust, is or may become entitled to any annuity payments under the contract,

(iii) neither the time nor the amount of any payment under the contract may vary because of the length of any life, other than the life of the beneficiary under the plan,

(iv) the day on which the periodic payments began or are to begin is not later than the end of the later of

(A) the year in which the beneficiary under the plan attains the age of 60 years, and

(B) the year following the year in which the contract was acquired by the trust,

(v) the periodic payments are payable for the life of the beneficiary under the plan and either there is no guaranteed period under the contract or there is a guaranteed period that does not exceed 15 years,

(vi) the periodic payments

(A) are equal, or

(B) are not equal solely because of one or more adjustments that would, if the contract were an annuity under a retirement savings plan, be in accordance with subparagraphs 146(3)(*b*)(iii) to

(v) or that arise because of a uniform reduction in the entitlement to the periodic payments as a consequence of a partial surrender of rights to the periodic payments, and

(vii) the contract requires that, in the event the plan must be terminated in accordance with paragraph 146.4(4)(*p*), any amounts that would otherwise be payable after the termination be commuted into a single payment; and

(*d*) a prescribed investment.

History: S. 205(1), the definition "qualified investment" was added by S.C. 2007, c. 35, s. 120, applicable to the 2008 and subsequent taxation years.

Related Sections: S. 146.4(5) Trust not taxable; s. 206.1(1) Tax payable on non-qualified investment.
Regulations: 221(2); 4900; 4901.

► 205(2) ◄

(2) Definitions in subsection 146.4(1). The definitions in subsection 146.4(1) apply in this Part.

History: S. 205(2) was added by S.C. 2007, c. 35, s. 120, applicable to the 2008 and subsequent taxation years.

Section 205 was repealed by S.C. 2005, c. 30, s. 14(1), applicable to months that end after 2004. Section 205 formerly read:

"S. 205. *Application of Part.* This Part applies in respect of a taxpayer that is

(*a*) a corporation described in paragraph 149(1)(*o.1*) or (*o.2*) or a trust described in paragraph 149(1)(*o*) or (*o.4*), other than a trust described in paragraph 149(1)(*o*)

(i) established for the exclusive benefit of non-residents working outside Canada, or

(ii) the only beneficiaries of which are persons whose entitlement thereunder arises by virtue of employment outside Canada;

(*b*) a trust governed by a registered retirement savings plan;

(*c*) a trust governed by a deferred profit sharing plan;

(*d*) [Repealed by 1986, c. 6, S. 109(1).]

(*e*) a trust governed by a registered retirement income fund;

(*f*) a registered investment; or

(*g*) any other person, other than a prescribed person, exempt from tax under Part I on its taxable income."

Related Sections: S. 104(1) Reference to trust or estate; s. 146(1), "registered retirement savings plan"; s. 146.3(1), "registered income fund"; s. 147(1), "deferred profit sharing plan"; s. 204.2(2) Where terminated plan deemed to continue to exist; s. 204.4(1) Definition of "registered investment"; s. 207.1(1) Tax payable by trust under registered retirement savings plan; s. 248(1), "corporation", "registered pension plan"; s. 259(1) Proportional holdings in trust property; s. 259(2) Proportional holdings in corporate property; ITAR s. 65(1) Part XI of amended Act — foreign property acquired after June 18, 1971 and before July 1, 1972; s. 65(1.1) Part XI of amended Act — foreign property acquired after October 13, 1971 and before July 1, 1972; s. 65(2) Definition of "foreign investment limit".
Regulations: Part L (Repealed.).
Interpretation Bulletins: *Secondary* — IT-412R2 Foreign property of registered plans.
Tax Profile: June 2005 — The Foreign Property Rules: The End of an Era?.

SECTION 206:

► 206(1) ◄

(1) Tax payable where inadequate consideration. A tax is payable under this Part for a calendar year in connection with a registered disability savings plan if, in the year, a trust governed by the plan

(*a*) disposes of property for consideration less than the fair market value of the property at the time of the disposition, or for no consideration; or

(*b*) acquires property for consideration greater than the fair market value of the property at the time of the acquisition.

History: S. 206(1) was added by S.C. 2007, c. 35, s. 120, applicable to the 2008 and subsequent taxation years.

Related Sections: S. 146.4(1) , "registered disability savings plan".

► 206(2) ◄

(2) Amount of tax payable. The amount of tax payable in respect of each disposition or acquisition described in subsection (1) is

(*a*) the amount by which the fair market value differs from the consideration; or

(*b*) if there is no consideration, the amount of the fair market value.

History: S. 206(2) was added by S.C. 2007, c. 35, s. 120, applicable to the 2008 and subsequent taxation years.

► 206(3) ◄

(3) Liability for tax. Each person who is a holder of a registered disability savings plan at the time that a tax is imposed under subsection (1) in connection with the plan is jointly and severally, or solidarily, liable to pay the tax.

History: S. 206(3) was added by S.C. 2007, c. 35, s. 120, applicable to the 2008 and subsequent taxation years.

Related Sections: S. 146.4(1) , "holder".

► 206(4) ◄

(4) Payment of amount collected to RDSP. Where a tax has been imposed under subsection (1) in connection with a registered disability savings plan of a beneficiary, the Minister may pay all or part of any amount collected in respect of the tax to a trust governed by a registered disability savings plan of the beneficiary (referred to in this subsection as the "current plan") if

(*a*) it is just and equitable to do so having regard to all circumstances; and

(*b*) the Minister is satisfied that neither the beneficiary nor any existing holder of the current plan was involved in the transaction that gave rise to the tax.

History: S. 206(4) was added by S.C. 2007, c. 35, s. 120, applicable to the 2008 and subsequent taxation years.

► 206(5) ◄

(5) Deemed not to be a contribution. A payment under subsection (4) is deemed not to be a contribution to a registered disability savings plan for the purposes of section 146.4.

History: S. 206(5) was added by S.C. 2007, c. 35, s. 120, applicable to the 2008 and subsequent taxation years.

Former s. 206 was repealed by S.C. 2005, c. 30, s. 14(1), applicable to months that end after 2004. S. 206 formerly read:

"S. 206. *[Tax on certain property acquired by deferred income plan].*

(1) *Definitions.* In this Part,

'affiliate' — 'affiliate' of a corporation (in this definition referred to as the 'parent corporation') at any time is any other corporation where, at that time,

(*a*) the parent corporation controls the other corporation,

(*b*) the parent corporation or a corporation controlled by the parent corporation owns

(i) shares of the capital stock of the other corporation that would give the parent corporation or the corporation controlled by the parent corporation 25% or more of the votes that could be cast under all circumstances at an annual meeting of shareholders of that other corporation, and

(ii) shares of the capital stock of the other corporation having a fair market value of 25% or more of the fair market value of all the issued shares of the capital stock of that other corporation, or

(*c*) the other corporation is controlled by a particular corporation and the parent corporation or a corporation controlled by the parent corporation owns

(i) shares of the capital stock of the particular corporation that would give the parent corporation or the corporation controlled by the parent corporation 25% or more of the votes that could be cast under all circumstances at an annual meeting of shareholders of the particular corporation, and

(ii) shares of the capital stock of the particular corporation having a fair market value of 25% or more of the fair market value of all the issued shares of the capital stock of the particular corporation;

'carrying value' — 'carrying value' of a property of a corporation or partnership at any time means

(*a*) where a balance sheet of the corporation or the partnership as of that time was presented to the shareholders of the corporation or the members of the partnership and the balance sheet was prepared using generally accepted accounting principles and was not prepared using the equity or consolidation method of accounting, the amount in respect of the property reflected in the balance sheet, and

(*b*) in any other case, the amount that would have been reflected in a balance sheet of the corporation or the partnership as of that time if the balance sheet had been prepared in accordance with generally acceptable accounting principles and neither the equity nor consolidation method of accounting were used;

'cost amount' — 'cost amount' at any time of a taxpayer's capital interest in a trust that is foreign property is deemed to be the greater of

(*a*) the cost amount of the interest, determined without reference to this definition, and

(*b*) where that time is more than 60 days after the end of a taxation year of the trust, the amount that would be the cost amount of the interest if new units of the trust had been issued in satisfaction of each amount payable

(i) after 2000 and at or before the end of the taxation year, by the trust in respect of the interest,

(ii) to which subparagraph 53(2)(*h*)(i.1) applies (or would apply if that subparagraph were read without reference to clauses (A) and (B) of that subparagraph), and

(iii) that has not been satisfied at or before that time by the issue of new units of the trust or by a payment of an amount by the trust;

'designated value' — 'designated value' of a property at any time means the greater of

(*a*) the fair market value at that time of the property, and

(*b*) the carrying value at that time of the property;

'excluded share' — 'excluded share' means

(*a*) a share that is of a class of shares listed on a prescribed stock exchange in Canada, where no share of that class has been issued after December 4, 1985 (otherwise than pursuant to an agreement in writing entered into before 5:00 p.m. Eastern Standard Time on December 4, 1985),

(*b*) a share last acquired after 1995 that is of a class of shares listed on a prescribed stock exchange in Canada, where

(i) no share of that class has been issued after July 20, 1995 (otherwise than pursuant to an agreement in writing made before July 21, 1995), and

(ii) the share would not be foreign property if the expression 'primarily from foreign property' in paragraph (*d*.1) of the definition 'foreign property' in this subsection were read as 'primarily from portfolio investments in property that is foreign property' and that paragraph were read without reference to '(other than an excluded share)', and

(*c*) a share last acquired after 1995 as a consequence of the exercise of a right acquired before 1996 where the share would not be foreign property if the expression 'primarily from foreign property' in paragraph (*d*.1) of the definition 'foreign property' in this subsection were read as 'primarily from portfolio investments in property that is foreign property' and that paragraph were read without reference to '(other than an excluded share)';

'foreign property' — 'foreign property' means

(*a*) tangible property situated outside Canada except automotive equipment registered in Canada,

(*b*) automotive equipment not registered in Canada pursuant to the laws of Canada or a province,

(*c*) intangible property (other than any property described in paragraphs (*d*) to (*g*) situated outside Canada including, without restricting the generality of the foregoing, any patent under the laws of a country other than Canada and any licence in respect thereof,

(*d*) any share of the capital stock of a corporation other than a Canadian corporation,

(*d*.1) except as provided by subsection (1.1), any share (other than an excluded share) of the capital stock of, or any debt obligation issued by, a corporation (other than an investment corporation, mutual fund corporation or registered investment) that is a Canadian corporation, where shares of the corporation can reasonably be considered to derive their value, directly or indirectly, primarily from foreign property,

(*e*) except as prescribed, any share of the capital stock of a mutual fund corporation or investment corporation that is not a registered investment, other than a share of the capital stock of an investment corporation that was last acquired before October 14, 1971,

(*f*) any property that, under the terms or conditions thereof or any agreement relating thereto, is convertible into, is exchangeable for or confers a right to acquire, property that is foreign property, but not including property that is

(i) a share of the capital stock of a Canadian corporation listed on a prescribed stock exchange in Canada, or

(ii) a right issued before 1984 and listed on a prescribed stock exchange in Canada to acquire a share of the capital stock of a Canadian corporation,

(*g*) indebtedness of a non-resident person, other than

(i) indebtedness issued by an authorized foreign bank and payable at a branch in Canada of the bank, or

(ii) indebtedness issued or guaranteed by

(A) the International Bank for Reconstruction and Development,

(B) the International Finance Corporation,

(C) the Inter-American Development Bank,

(D) the Asian Development Bank,

(E) the Caribbean Development Bank,

(F) the European Bank for Reconstruction and Development,

(G) the African Development Bank, or

(H) a prescribed person,

(*h*) any interest in or right to any property that is foreign property by virtue of paragraphs (*a*) to (*g*), and

(*i*) except as prescribed by regulation, any interest in, or right to acquire an interest in, a trust (other than a registered investment) or a partnership;

'investment activity' — 'investment activity' of a particular corporation means any business carried on by the corporation, or any holding of property by the corporation otherwise than as part of a business carried on by the corporation, the principal purpose of which is to derive income from, or to derive profits from the disposition of,

(*a*) shares (other than shares of the capital stock of another corporation in which the particular corporation has a significant interest, where the primary activity of the other corporation is not an investment activity),

(*b*) interests in trusts,

(*c*) indebtedness (other than indebtedness owing by another corporation in which the particular corporation has a significant interest, where the primary activity of the other corporation is not an investment activity),

(*d*) annuities,

(*e*) commodities or commodities futures purchased or sold, directly or indirectly in any manner whatever, on a commodities or commodities futures exchange (except commodities manufactured, produced, grown, extracted or processed by the corporation or another corporation with which the corporation does not deal at arm's length),

(*f*) currencies (other than currencies in the form of numismatic coins),

(*g*) interests in funds or entities other than corporations, partnerships and trusts,

(*h*) interests or options in respect of property described in any of paragraphs (*a*) to (*g*), or

(*i*) any combination of properties described in any of paragraphs (*a*) to (*h*);

'qualified property' — 'qualified property' of a corporation means a property (other than a debt obligation or share issued by an affiliate of the corporation or by any corporation related to the corporation) owned by the corporation and used by it or an affiliate of the corporation in a specified active business carried on by it or the affiliate;

'significant interest' — 'significant interest' has the meaning that would be assigned by section 142.2 if that section were read without reference to paragraphs 142.2(3)(*b*) and (*c*);

'small business investment amount' — 'small business investment amount' of a taxpayer for a month means the greater of

(*a*) the total of the cost amounts of all small business properties to the taxpayer at the end of the month, and

(*b*) the quotient obtained when the total of all amounts determined for each of the three preceding months, each of which is the total of the cost amounts of all small business properties to the taxpayer at the end of that preceding month, is divided by three;

'small business property' — 'small business property' of a taxpayer at a particular time means property acquired by the taxpayer after October 31, 1985 that is at that particular time

(*a*) a property prescribed to be a small business security,

(*b*) a share of a class of the capital stock of a corporation prescribed to be a small business investment corporation,

(*c*) an interest of a limited partner in a partnership prescribed to be a small business investment limited partnership, or

(*d*) an interest in a trust prescribed to be a small business investment trust, where

(*e*) the taxpayer is a prescribed person in respect of the property, or

(*f*) throughout the period that began at the time the property was first acquired (otherwise than by a broker or dealer in securities) and ends at the particular time, the property was not owned by any person other than

(i) the taxpayer,

(ii) a trust governed by a particular registered retirement income fund or registered retirement savings plan if

(A) the taxpayer is another trust governed by a registered retirement income fund or registered retirement savings plan, and

(B) the annuitant under the particular fund or plan (or the spouse, common-law partner, former spouse or former common-law partner of that annuitant) is also the annuitant under the fund or plan referred to in clause (A), or

(iii) an annuitant under a registered retirement income fund or registered retirement savings plan that governs the taxpayer, or a spouse, common-law partner, former spouse or former common-law partner of that annuitant;

'specified active business' — 'specified active business' carried on by a corporation, at any time, means a particular business that is carried on by the corporation in Canada where

(*a*) the corporation employs in the particular business at that time more than 5 full-time employees and at least

(i) 50% of the full-time employees employed by the corporation at that time in the particular business are employed in Canada, and

(ii) 50% of the salaries and wages paid to employees employed at that time in the particular business are reasonably attributable to services rendered in Canada by the employees, or

(*b*) one or more other corporations associated with the corporation provide, in the course of carrying on one or more other active businesses, managerial, administrative, financial, maintenance or other similar services to the corporation in respect of the particular business and

(i) the corporation could reasonably be expected to require more than 5 full-time employees at that time in respect of the particular business if those services had not been provided,

(ii) at least 50% of the full-time employees employed at that time by the corporation in the particular business and by the other corporations in the other active businesses are employed in Canada, and

(iii) at least 50% of the salaries and wages paid to employees employed at that time by the corporation in the particular business and by the other corporations in the other active businesses are reasonably attributable to services rendered in Canada by the employees,

but does not include a business carried on by the corporation the principal purpose of which is to derive income from, or from the disposition of, shares and debt obligations the value of which can reasonably be considered to derive, directly or indirectly, primarily from foreign property;

'specified proportion' — 'specified proportion' of a member of a partnership for a fiscal period of the partnership means the proportion that the member's share of the total income or loss of the partnership for the partnership's fiscal period is of the partnership's total income or loss for that period and, for the purpose of this definition, where that income or loss for a period is nil, that proportion shall be computed as if the partnership had income for that period in the amount of $1,000,000.

(1.1) *Exception where substantial Canadian presence.* Property described in paragraph (*d*.1) of the definition 'foreign property' in subsection (1) does not, at a particular time, include property of a taxpayer that is a share or debt obligation that was issued by a corporation that, at the particular time, is a Canadian corporation where

(*a*) either at any time in any of the last 15 months beginning before the time (in this subsection referred to as the 'acquisition time') when the property was last acquired before the particular time by the taxpayer or at any time in the calendar year that includes the acquisition time, the total of all amounts each of which is the designated value of a qualified property of the corporation or an affiliate of the corporation exceeded $50,000,000;

(*b*) the particular time is not later than the end of the 15th month ending after the acquisition time and, at any time in any of the last 15 months beginning before the acquisition time, the total of all amounts each of which is the designated value of a qualified property of the corporation or another corporation controlled by the corporation exceeded 50% of the lesser of the fair market value of all of the corporation's property and the carrying value of all of the corporation's property;

(*c*) the particular time is after the acquisition time and, at any time in any of the first 15 months beginning after the acquisition time, the total of all amounts each of which is the designated value of a qualified property of the corporation or another corporation controlled by the corporation exceeded 50% of the lesser of the fair market value of all of the corporation's property and the carrying value of all of the corporation's property;

(*d*) the particular time is after 1995 and, at the particular time,

(i) either

(A) the corporation was incorporated or otherwise formed under the laws of Canada or a province, or

(B) where the corporation was not required to maintain an office under the laws by or under which it was incorporated, the maintenance of an office in Canada is required under the constitutional documents of the corporation,

(ii) the corporation maintains an office in Canada, and

(iii) any of the following conditions applies, namely,

(A) the corporation employs more than 5 individuals in Canada full time and those individuals are not employed primarily in connection with

(I) an investment activity of the corporation or another corporation with which the corporation does not deal at arm's length,

(II) a business carried on by the corporation through a partnership of which the corporation is not a majority interest partner, or

(III) a business carried on by another corporation with which the corporation does not deal at arm's length through a partnership of which that other corporation is not a majority interest partner,

(B) another corporation that is controlled by the corporation employs more than 5 individuals in Canada full time and those individuals are not employed primarily in connection with

(I) an investment activity of the other corporation or another corporation with which the other corporation does not deal at arm's length,

(II) a business carried on by the other corporation through a partnership of which the other corporation is not a majority interest partner, or

(III) a business carried on by another corporation with which the other corporation does not deal at arm's length through a partnership of which that other corporation is not a majority interest partner,

(C) the total amount incurred by the corporation for the services (other than services relating to an investment activity of the corporation or another corporation with which the corporation does not deal at arm's length) of employees and other individuals rendered in Canada in any calendar year that ends in any of the last 15 months that end before the particular time exceeds $250,000,

(D) the total amount incurred by another corporation that is controlled by the corporation for the services (other than services relating to an investment activity of the other corporation or another corporation with which the other corporation does not deal at arm's length) of employees and other individuals rendered in Canada in any calendar year that ends in any of the last 15 months that end before the particular time exceeds $250,000, or

(E) in the calendar year that includes the particular time the corporation was continued from a jurisdiction outside Canada, or incorporated or otherwise formed and the total amount incurred in the year by the corporation for the services (other than services relating to an investment activity of the corporation or another corporation with which the corporation does not deal at arm's length) of employees and other individuals rendered in Canada exceeds $250,000; or

(*e*) the particular time is after 1995 and, at the particular time, all or substantially all of the property of the corporation is not foreign property.

(1.2) *Partnerships.* For the purposes of paragraphs (1.1)(*a*) to (*c*) and this subsection,

(*a*) a member of a partnership

(i) is deemed not to own any interest in the partnership at any time, and

(ii) is deemed to own the member's specified proportion for the partnership's first fiscal period that ends at or after that time of each property that would, if the assumption in paragraph 96(1)(*c*) were made, be owned by the partnership at that time; and

(*b*) the carrying value at that time of that specified proportion of a partnership's property is deemed to be that specified proportion of the carrying value at that time to the partnership of that property.

(1.3) *Interpretation.* For the purpose of paragraph (1.1)(*d*),

(*a*) an employee of a corporation is deemed to be employed in Canada where the corporation's permanent establishment (as defined by regulation) to which the employee principally reports is situated in Canada; and

(*b*) services are deemed to be rendered in Canada to a corporation where the permanent establishment (as defined by regulation) for which the services are rendered is situated in Canada.

(1.4) *Rights in respect of foreign property.* For the purpose of determining whether a property owned by a taxpayer is foreign property at any time because of paragraph (*f*) or (*h*) of the definition 'foreign property' in subsection (1), it shall be assumed that each other property not owned at that time by the taxpayer was acquired immediately before that time by the taxpayer.

(1.5) *Identical property.* Notwithstanding paragraphs (*d*.1), (*f*) and (*h*) of the definition 'foreign property' in subsection (1), a property shall not be considered to be foreign property at a particular time of a taxpayer because of any of those paragraphs where

(*a*) the property is

(i) a share or debt obligation issued by a Canadian corporation, or

(ii) an interest in, a right to, a property that is convertible into or a property that is exchangeable for, a share or debt obligation issued by a Canadian corporation; and

(*b*) the property, or the share or obligation referred to in subparagraph (*a*)(ii), is identical to another property that is owned at the particular time by the taxpayer and that is not foreign property at the particular time of the taxpayer.

(2) *Tax payable.* Where, at the end of any month,

(*a*) the amount, if any, by which

(i) the total of all amounts each of which is the cost amount of a foreign property to a taxpayer described in any of paragraphs 205(*a*) to (*f*) exceeds the total of

(ii) where the taxpayer is described in any of paragraphs 205(*b*), (*c*) and (*e*), all amounts each of which is the cost amount to the taxpayer of a

foreign property that was not at the end of the month a qualified investment (within the meaning assigned by subsection 146(1) or 146.3(1) or section 204, as the case may be) of the taxpayer, and

(iii) all amounts (other than an amount included in respect of the taxpayer for the month under subparagraph (ii)) each of which is the cost amount to the taxpayer of foreign property that became foreign property of the taxpayer after its last acquisition by the taxpayer and at a time that is not more than 24 months before the end of the month,

exceeds the total of

(*b*) 30% of the total of all amounts each of which is the cost amount of a property to the taxpayer, and

(*c*) in the case of a taxpayer described in paragraph 205(*a*), (*b*), (*c*) or (*e*), other than a taxpayer described in paragraph 149(1)(*o.2*), the lesser of

(i) three times the small business investment amount of the taxpayer for the month, and

(ii) 20% of the total of all amounts each of which is the cost amount of a property to the taxpayer,

the taxpayer shall, in respect of that month, pay a tax under this Part equal to 1% of the lesser of the excess and the total of all amounts each of which is the cost amount to the taxpayer of each of its foreign properties that was acquired after June 18, 1971.

(2.01) *Registered investments.* Notwithstanding subsection (2), the tax payable under this section by a registered investment in respect of a month is equal to the lesser of

(*a*) the tax that would, but for this subsection, be payable by the registered investment in respect of the month, and

(*b*) the greater of

(i) 20% of the amount determined under paragraph (*a*), and

(ii) the amount determined by the formula

$$\$5{,}000 + (A \times B/C)$$

where

A is equal to the amount determined under paragraph (*a*),

B is equal to

(A) where the registered investment is a trust, the total of all amounts each of which is the fair market value at the end of the month of an interest in the registered investment that is held at that time by a taxpayer described in any of paragraphs 205(*a*) to (*f*) or by a mutual fund corporation, investment corporation, mutual fund trust, prescribed trust or prescribed partnership, and

(B) where the registered investment is a corporation, the total of all amounts each of which is the fair market value at the end of the month of a share of the capital stock of the registered investment that is held at that time by a taxpayer described in any of paragraphs 205(*a*) to (*f*) or by a mutual fund corporation, investment corporation, mutual fund trust, prescribed trust or prescribed partnership, and

C is equal to

(A) where the registered investment is a trust, the total of all amounts each of which is the fair market value at the end of the month of an interest in the registered investment that is held at that time, and

(B) where the registered investment is a corporation, the total of all amounts each of which is the fair market value at the end of the month of a share of the capital stock of the registered investment that is held at that time.

(2.1) *Exemption.* Notwithstanding section 205, subsection (2) does not apply to a trust described in paragraph 149(1)(*o.4*) or a corporation described in paragraph 149(1)(*o.2*) in respect of any month that falls within a period for which the trustee or the corporation, as the case may be, elects in accordance with subsections 259(1) and (3).

(3) *Shares in investment corporation.* Notwithstanding the definition 'foreign property' in subsection (1), a share of the capital stock of an investment corporation (other than a registered investment) acquired after October 13, 1971 by a taxpayer to whom this Part applies and owned by the taxpayer at a particular time shall, except as prescribed by regulation, be deemed to be a foreign property of the taxpayer at that time.

(3.1) *Acquisition of qualifying security.* For the purpose of applying subparagraph (2)(*a*)(iii) at or after a particular time, where a qualifying security in relation to another security is acquired at the particular time by the taxpayer referred to in subsection (3.2) in respect of the security, and the security is foreign property at that time,

(*a*) the qualifying security is deemed to have been last acquired by the taxpayer at the time the other security was last acquired by the taxpayer;

(*b*) where the other security was not foreign property immediately before the particular time, the qualifying security is deemed to have become foreign property at the particular time; and

(*c*) where the other security was foreign property immediately before the particular time, the qualifying security is deemed to have become foreign property at the time the other security became foreign property.

(3.2) *Qualifying security.* For the purpose of subsection (3.1), a qualifying security in relation to another security means

(*a*) a security issued at any time by a corporation to a taxpayer

(i) in exchange for another security acquired before that time by the taxpayer, and

(ii) in the course of

(A) a corporate merger or reorganization of capital,

(B) a transaction or series of transactions in which control of the corporation that issued the other security is acquired by a person or group of persons, or

(C) a transaction or series of transactions in which all or substantially all of the issued and outstanding shares (other than shares held immediately before the transaction or the beginning of the series by a particular person or related group) of the corporation that issued the other security are acquired by the particular person or related group; or

(*b*) a security acquired by a taxpayer from a corporation pursuant to a distribution with respect to another security that is an eligible distribution described in subsection 86.1(2).

(4) *Non-arm's length transactions.* For the purposes of this Part, where at any time a taxpayer acquires property, otherwise than pursuant to a transfer of property to which paragraph (*f*) or (*g*) of the definition 'disposition' in subsection 248(1) applies, from a person with whom the taxpayer does not deal at arm's length for no consideration or for consideration less than the fair market value of the property at that time, the taxpayer is deemed to acquire the property at that fair market value, and for those purposes, a particular trust is deemed not to deal at arm's length with another trust if a person who is beneficially interested in the particular trust is at that time also beneficially interested in the other trust."

S. 206(1), the definition "cost amount" was added by S.C. 2001, c. 17, s. 169(2), applicable to months that end after February 2001.

S. 206(1), paragraph (*g*) of the definition "foreign property" was amended by S.C. 2001, c. 17, s. 169(1), applicable after June 27, 1999. S. 206(1), paragraph (*g*) of the definition "foreign property" formerly read:

"(*g*) indebtedness of a non-resident person, other than indebtedness issued or guaranteed by

(i) the International Bank for Reconstruction and Development,

(i.1) the International Finance Corporation,

(ii) the Inter-American Development Bank,

(iii) the Asian Development Bank,

(iv) the Caribbean Development Bank,

(iv.1) the European Bank for Reconstruction and Development,

(iv.2) the African Development Bank, or

(v) a prescribed person,"

S. 206(1), clause (*f*)(ii)(B) and subparagraph (iii) of the definition "small business property" were amended, by S.C. 2001, c. 17, s. 247, applicable to the 2001 and following taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act* [See Sec. 144, Chap. 12, S.C. 2000, reproduced below], in respect of the 1998, 1999 or 2000 taxation years, s. 206(1)(*f*)(ii)(B) and subparagraph (iii) of the definition "small business property" apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years. S. 206(1), clause (*f*)(ii)(B) of the definition "small business property" formerly read:

"(B) the annuitant under the particular fund or plan (or the spouse or former spouse of that annuitant) is also the annuitant under the fund or plan referred to in clause (A), or

(iii) an annuitant under a registered retirement income fund or registered retirement savings plan that governs the taxpayer, or a spouse or former spouse of that annuitant;"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 206(3.1) was amended by S.C. 2001, c. 17, s. 169(3), applicable to months that end after 1997. S. 206(3.1) formerly read:

"(3.1) *Reorganizations, etc.* Where

(*a*) a security (in this subsection referred to as the 'new security') is issued at a particular time by a corporation to a taxpayer

(i) in exchange for another security acquired before the particular time by the taxpayer, and

(ii) in the course of

(A) a corporate merger or reorganization of capital, or

(B) a transaction in which control of the corporation that issued the other security is acquired by a person or a group of persons, and

(*b*) the new security is foreign property at the particular time,

for the purpose of applying subparagraph (2)(*a*)(iii) to the taxpayer at or after the particular time,

(*c*) the new security shall be deemed to have been last acquired by the taxpayer at the time the other security was last acquired by the taxpayer,

(*d*) where the other security was not foreign property immediately before the particular time, the new security shall be deemed to have become foreign property at the particular time, and

(*e*) where the other security was foreign property immediately before the particular time, the new security shall be deemed to have become foreign property at the time the other security became foreign property."

S. 206(3.2) was added by S.C. 2001, c. 17, s. 169(3), applicable to months that end after 1997.

S. 206(4) was amended by S.C. 2001, c. 17, s. 169(4), applicable in respect of property acquired after December 23, 1998. S. 206(4) formerly read:

"(4) *Non-arm's length transactions.* For the purposes of this Part, where a taxpayer has acquired property from a person with whom the taxpayer was not dealing at arm's length for no consideration or for consideration less than the fair market value thereof at the time of the acquisition, the taxpayer shall be deemed to have acquired the property at that fair market value, and for those purposes, a trust shall be deemed not to deal at arm's length with another trust if any person is beneficially interested in both trusts."

S. 206(1), the definition "small business property" after paragraph (*d*) was replaced by S.C. 2000, c. 19, s. 60(2), applicable to months that end after 1997. S. 206(1), the definition "small business property" after paragraph (*d*) formerly read:

"where the taxpayer is

(*e*) a prescribed person in respect of the property, or

(*f*) the first person (other than a broker or dealer in securities) to have acquired the property and the taxpayer has owned the property continuously since it was so acquired;"

S. 206(1), the definition of "small business investment amount" was replaced by S.C. 2000, c. 19, s. 60(1), applicable to months that end after 1997. S. 206(1), the definition of "small business investment amount" formerly read:

"*small business investment amount* — 'small business investment amount' of a taxpayer for a month means the quotient obtained when the total of all amounts determined for each of the three preceding months, each of which is the total of the cost amounts of all small business properties to the taxpayer at the end of that preceding month, is divided by three;"

S. 206(2)(*b*) was amended by S.C. 2000, c. 14, s. 41(1), applicable to months that end after 1999, except that for months in 2000 the reference to "30%" in paragraph 206(2)(*b*) of the Act shall be read as "25%". S. 206(2)(*b*) formerly read:

"(*b*) 20% of the total of all amounts each of which is the cost amount of a property to the taxpayer, and"

S. 206(1), the definitions "affiliate", "carrying value", "designated value", "excluded share", "qualified property", "specified active business" and "specified property" were added by S.C. 1998, c. 19, s. 210(3), applicable to shares and indebtedness acquired after December 4, 1985 (otherwise than pursuant to an agreement in writing made before 5:00 p.m. Eastern Standard Time on December 4, 1985) except that, with respect to shares and indebtedness last acquired before 1996, the reference to "primarily from foreign property" in that paragraph shall be read as a reference to "primarily from portfolio investments in property that is foreign property".

S. 206(1), paragraph (*d*.1) of the definition "foreign property" was amended by S.C. 1998, c. 19, s. 210(1), applicable to shares and indebtedness acquired after December 4, 1985 (otherwise than pursuant to an agreement in writing made before 5:00 p.m. Eastern Standard Time on December 4, 1985) except that, with respect to shares and indebtedness last acquired before 1996, the reference to "primarily from foreign property" in that paragraph shall be read as a reference to "primarily from portfolio investments in property that is foreign property". S. 206(1), paragraph (*d*.1) of the definition "foreign property" formerly read:

"(*d*.1) any share of the capital stock of or any debt obligation issued by a Canadian corporation, if shares of the corporation may reasonably be considered to derive their value, directly or indirectly, primarily from portfolio investments in property that is foreign property, but not including a share of a corporation listed on a prescribed stock exchange in Canada that is of a class of the capital stock of the corporation no share of which has been issued after December 4, 1985 (otherwise than pursuant to an agreement in writing entered into before 5:00 p.m. Eastern Standard Time on December 4, 1985),"

S. 206(1), paragraph (*e*) of the definition "foreign property" was amended by S.C. 1998, c. 19, s. 210(1), applicable to months that end after June 1995. S. 206(1), paragraph (*e*) of the definition "foreign property" formerly read:

"(*e*) any share of the capital stock of a mutual fund corporation that is neither an investment corporation nor a registered investment, except as prescribed by regulation,"

S. 206(1)(*g*)(iv.1) and (iv.2) of the definition "foreign property" were added by S.C. 1998, c. 19, s. 210(2), applicable to months after March 1991, except that subparagraph (*g*)(iv.2) of the definition "foreign property" in subsection 206(1) of the Act, does not apply to months before 1997.

S. 206(1), the definition "significant interest" was added by S.C. 1998, c. 19, s. 210(3), applicable after 1995.

S. 206(1.1)–(1.5) were added by S.C. 1998, c. 19, s. 210(4), applicable after December 4, 1985.

S. 206(2.01) was added by S.C. 1998, c. 19, s. 210(5), applicable to months that end after 1992.

S. 206(1), the portion of paragraph (*g*) of the definition of "foreign property" preceding subparagraph (i), was amended by S.C. 1994, c. 21, s. 93(1), applicable to months after 1992. The portion of paragraph (*g*) formerly read:

"(*g*) any bond, debenture, mortgage, note or similar obligation of, or issued by, a person not resident in Canada, except any such bond, debenture, mortgage, note or similar obligation issued or guaranteed by"

S. 206(1), subparagraph (*g*)(i.1) of the definition "foreign property", was added by S.C. 1994, c. 7, Sched. II, s. 166(1), applicable after July 13, 1990.

S. 206(2)(*a*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 120(1), applicable to months ending after December 20, 1991. S. 206(2)(*a*) formerly read:

"(*a*) the total of all amounts each of which is the cost amount of a foreign property to a taxpayer described in any of paragraphs 205(*a*) to (*f*) (other than, where the taxpayer is described in any of paragraphs 205(*b*), (*c*) and (*e*), a foreign property that was not at the end of the month a qualified investment, within the meaning assigned by subsection 146(1) or 146.3(1) or section 204, as the case may be, of the taxpayer)"

S. 206(2)(*b*) was amended by S.C. 1994, c. 7, Sched. II, s. 166(2), applicable to months ending after 1989, except that for months in 1990, 1991, 1992 and 1993, the reference in paragraph 206(2)(*b*) to "20%" shall be read as "12%", "14%", "16%" and "18%", respectively. S. 206(2)(*b*) formerly read:

"(*b*) 10% of the total of all amounts each of which is the cost amount of a property to the taxpayer, and"

S. 206(2)(*c*)(ii) was amended by S.C. 1994, c. 7, Sched. II, s. 166(3), applicable to months ending after 1989. S. 206(2)(*c*)(ii) formerly read:

"(ii) two times the amount determined under paragraph (*b*),"

S. 206(2.1) was amended by S.C. 1994, c. 21, s. 93(2), applicable to the 1992 and subsequent taxation years. S. 206(2.1) formerly read:

"(2.1) Notwithstanding section 205, subsection (2) shall not apply in respect of a trust described in paragraph 149(1)(*o*.4) in respect of any month that falls within a period in respect of which the trustee has elected in accordance with subsection 259(2)."

S. 206(3.1) was added by S.C. 1994, c. 7, Sched. VIII, s. 120(2), applicable to months ending after December 20, 1991.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Application

(2) In their application to months that end after December 20, 2002 and before 2005, subparagraphs (*b*)(i) to (iii) of the definition "cost amount" in subsection 206(1) shall be read as follows:

"(i) after 2000 and at or before the end of the taxation year, by the trust in respect of the interest (otherwise than as proceeds of disposition of the interest), and

(ii) that has not been satisfied at or before that time by the issue of new units of the trust or by a payment of an amount by the trust;"

Applicable: Royal Assent.

Explanatory Note: Part XI of the Act set out rules for a 1% per month penalty tax on excess foreign property held by deferred income plans. Part XI was repealed, effective for months that end after 2004, in *Budget Implementation Act, 2005, S.C. 2005, c.30*. A number of amendments are being made to Part XI that are effective prior to its repeal.

Subsection 206(1) — Definitions

"cost amount"

"Cost amount" is defined in subsection 206(1) of the Act for the purposes of Part XI. The definition was introduced in 2001 to deal with arrangements that provided for trust income to be "capitalized" without the trust issuing new units. Under the definition, the cost amount otherwise determined of a taxpayer's interest in such a trust reflects the capitalized amounts. For months that end after December 20, 2002 and before 2005, the definition is to be read to clarify that it applies to trusts under which all beneficiaries are registered plan trusts (e.g., trusts described in paragraph (*e*) of the definition "trust" in subsection 108(1)).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Application

(3) In its application to months that end after October 2003 and before 2005, paragraph (*d*.1) of the definition "foreign property" in subsection 206(1) shall be read as follows:

"(*d*.1) any share (other than an excluded share) of the capital stock of, or any debt obligation (other than a debt obligation described in subparagraph (*g*)(iii)) issued by, a corporation (other than an investment corporation, a mutual fund corporation or a registered investment) that is a Canadian corporation, if shares of the corporation can reasonably be considered to derive their value, directly or indirectly, primarily from foreign property,"

(4) In its application to months that end after October 2003 and before 2005, paragraph (*g*) of the definition "foreign property" in subsection 206(1) shall be read as follows:

"(*g*) indebtedness of a non-resident person, other than

(i) indebtedness issued by an authorized foreign bank and payable at a branch in Canada of the bank,

(ii) indebtedness issued or guaranteed by

(A) the International Bank for Reconstruction and Development,

(B) the International Finance Corporation,

(C) the Inter-American Development Bank,

(D) the Asian Development Bank,

(E) the Caribbean Development Bank,

(F) the European Bank for Reconstruction and Development,

(G) the African Development Bank, or

(H) a prescribed person, or

(iii) a debt obligation that is fully secured by a mortgage, charge, hypothec or similar instrument in respect of real or immovable property situated in Canada or that would be fully secured were it not for a decline in the fair market value of the property after the debt obligation was issued,"

Applicable: Royal Assent.

Explanatory Note:

"foreign property"

"Foreign property" is defined in subsection 206(1) of the Act. Under paragraph (*d*.1) of the definition, foreign property includes certain shares and debt issued by Canadian corporations, if shares of the corporation may reasonably be considered to derive their value primarily from foreign property. Paragraph (*g*) of the definition treats as foreign property the indebtedness of a non-resident person other than indebtedness issued by various international organizations or indebtedness issued by an authorized foreign bank and payable at a Canadian branch of that bank.

For months that end after October 2003 and before 2005, paragraphs (*d*.1) and (*g*) are to be read to provide that a mortgage obligation that is fully secured by real property situated in Canada is not foreign property.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The definition "specified proportion" in subsection 206(1) of the Act is repealed.

"specified proportion" — [Repealed.]

Applicable: Deemed to have come into force on December 21, 2002.

Explanatory Note:

"specified proportion"

Subsection 206(1) of the Act includes a definition of a partner's "specified proportion" of a partnership for a fiscal period. To enable the definition to be used for other purposes as well, it is moved to subsection 248(1) of the Act, and is repealed in subsection 206(1), effective after December 20, 2002.

SECTION 206.1:

► 206.1(1) ◄

(1) Tax payable on non-qualified investment. A tax is payable under this Part for a calendar year in connection with a registered disability savings plan if, in the year,

(*a*) the trust governed by the plan acquires property that is not a qualified investment for the trust; or

(*b*) property held by the trust governed by the plan ceases to be a qualified investment for the trust.

History: S. 206.1(1) was added by S.C. 2007, c. 35, s. 120, applicable to the 2008 and subsequent taxation years.

Related Sections: S. 146.4(1), "registered disability savings plan"; s. 205(1), "qualified investment".

► 206.1(2) ◄

(2) Amount of tax payable. The amount of tax payable,

(*a*) in respect of each property described in paragraph (1)(*a*), is 50% of the fair market value of the property at the time it was acquired by the trust; and

(*b*) in respect of each property described in paragraph (1)(*b*), is 50% of the fair market value of the property at the time immediately before the time it ceased to be a qualified investment for the trust.

History: S. 206.1(2) was added by S.C. 2007, c. 35, s. 120, applicable to the 2008 and subsequent taxation years.

► 206.1(3) ◄

(3) Liability for tax. Each person who is a holder of a registered disability savings plan at the time that a tax is imposed under subsection (1) in connection with the plan is jointly and severally, or solidarily, liable to pay the tax.

History: S. 206.1(3) was added by S.C. 2007, c. 35, s. 120, applicable to the 2008 and subsequent taxation years.

Related Sections: S. 146.4(1), "holder".

► 206.1(4) ◄

(4) Refund of tax on disposition of non-qualified investment. Where in a calendar year a trust governed by a registered disability savings plan disposes of a property in respect of which a tax is imposed under subsection (1), the person or persons who are liable to pay the tax are entitled to a refund for the year of an amount equal to

(*a*) except where paragraph (*b*) applies, the lesser of

(i) the amount of the tax so imposed, and

(ii) the proceeds of disposition of the property; and

(*b*) nil,

(i) if it is reasonable to expect that any of those persons knew or ought to have known at the time

the property was acquired by the trust that it was not, or would cease to be, a qualified investment for the trust, or

(ii) if the property is not disposed of by the trust before the end of the calendar year following the calendar year in which the tax arose, or any later time that the Minister considers reasonable in the circumstances.

History: S. 206.1(4) was added by S.C. 2007, c. 35, s. 120, applicable to the 2008 and subsequent taxation years.

► 206.1(5) ◄

(5) Apportionment of refund. Where more than one person is entitled to a refund under subsection (4) for a calendar year in respect of the disposition of a property, the total of all amounts so refundable shall not exceed the amount that would be so refundable for the year to any one of those persons in respect of that disposition if that person were the only person entitled to a refund for the year under that subsection in respect of the disposition. If the persons cannot agree as to what portion of the refund each can so claim, the Minister may fix the portions.

History: S. 206.1(5) was added by S.C. 2007, c. 35, s. 120, applicable to the 2008 and subsequent taxation years.

► 206.1(6) ◄

(6) Deemed disposition and reacquisition. For the purposes of this Act, where at any time property held by a plan trust in respect of which a tax was imposed under subsection (1) subsequently becomes a qualified investment for the trust, the trust is deemed to have disposed of the property at that time for proceeds of disposition equal to its fair market value at that time and to have reacquired it immediately after that time at a cost equal to that fair market value.

History: S. 206.1(6) was added by S.C. 2007, c. 35, s. 120, applicable to the 2008 and subsequent taxation years.

S. 206.1 was repealed by S.C. 2005, c. 30, s. 14(1), applicable to months that end after 2004. S. 206.1 formerly read:

"S. 206.1. *Tax in respect of acquisition of shares.* Where at any time a taxpayer to which this Part applies makes an agreement (otherwise than as a consequence of the acquisition or writing by it of an option listed on a prescribed stock exchange) to acquire a share of the capital stock of a corporation (otherwise than from the corporation) at a price that may differ from the fair market value of the share at the time the share may be acquired, the taxpayer shall, in respect of each month during which the taxpayer is a party to the agreement, pay a tax under this Part equal to the total of all amounts each of which is the amount, if any, by which

(*a*) the amount of a dividend paid on the share at a time in the month at which the taxpayer is a party to the agreement

exceeds

(*b*) the amount, if any, of the dividend that is received by the taxpayer."

S. 206.1 was amended by S.C. 1998, c. 19, s. 211(1), applicable to agreements entered into after 1992 except that, in its application to agreements entered into after 1992 and before April 26, 1995, section 206.1 of the Act shall be read as follows:

"S. 206.1. Where at any time a taxpayer to which this Part applies enters into an agreement (otherwise than as a consequence of the acquisition or writing by it of an option listed on a prescribed stock exchange) to acquire a share of the capital stock of a corporation (otherwise than from the corporation) at a price that may differ from the fair market value of the share at the time the share may be acquired, the taxpayer shall, in respect of each month during which the taxpayer is a party to the agreement, pay a tax under this Part equal to the lesser of

(*a*) the total of all amounts each of which is the amount, if any, by which

(i) the amount of a dividend paid on the share at a time in the month at which the taxpayer is a party to the agreement

exceeds

(ii) the amount, if any, of the dividend that is received by the taxpayer, and

(*b*) 1% of the fair market value of the share at the time the agreement is entered into."

"S. 206.1. *Tax in respect of acquisition of shares.* Where at any time a taxpayer to which this Part applies enters into an agreement (otherwise than as a consequence of the acquisition or writing by it of an option listed on a prescribed stock exchange) to acquire a share of the capital stock of a corporation (otherwise than from the corporation) at a price that may differ from the fair market value thereof at the time the share may be acquired, the taxpayer shall, in respect of each month during which the taxpayer is a party to the agreement, pay a tax under this Part equal to 1% of the fair market value of the share at the time that the agreement is entered into."

S. 206.1 was amended by S.C. 1994, c. 7, Sched. II, s. 167(1), applicable to agreements entered into after July 13, 1990. S. 206.1 formerly read:

"S. 206.1. Where at any time a taxpayer to which this Part applies has entered into an agreement (otherwise than pursuant to the acquisition or writing by it of an option listed on a prescribed stock exchange) to acquire shares of the capital stock of a corporation from a person other than the corporation at a price that may differ from the fair market value thereof at the time they may be acquired, the taxpayer shall, in respect of each month during which it is a party to the agreement, pay a tax under this Part equal to 1% of the maximum amount that the taxpayer is or may be required to pay for the shares under the agreement."

SECTION 206.2:

► 206.2(1) ◄

(1) Tax payable where advantage extended. A tax is payable under this Part for a calendar year in connection with a registered disability savings plan if, in the year, an advantage in relation to the plan is extended to a person who is, or who does not deal at arm's length with, a beneficiary under, or a holder of, the plan.

History: S. 206.2(1) was added by S.C. 2007, c. 35, s. 120, applicable to the 2008 and subsequent taxation years.

Related Sections: S. 146.4(1), "registered disability savings plan"; s. 205(1), "advantage".

► 206.2(2) ◄

(2) Amount of tax payable. The amount of tax payable in respect of an advantage described in subsection (1) is

(*a*) in the case of a benefit, the fair market value of the benefit; and

(*b*) in the case of a loan, the amount of the loan.

History: S. 206.2(2) was added by S.C. 2007, c. 35, s. 120, applicable to the 2008 and subsequent taxation years.

Related Sections: S. 205(1), "benefit".

► 206.2(3) ◄

(3) Liability for tax. Each person who is a holder of a registered disability savings plan at the time that a tax is imposed under subsection (1) in connection with the plan is jointly and severally, or solidarily, liable to pay the tax. If, however, the advantage is extended by the issuer of the plan or by a person not dealing at arm's length with the issuer, the issuer is liable to pay the tax and not the holders.

History: S. 206.2(3) was added by S.C. 2007, c. 35, s. 120, applicable to the 2008 and subsequent taxation years.

Related Sections: S. 146.4(1), "holder".

SECTION 206.3:

► 206.3(1) ◄

(1) Tax payable on use of property as security. Every issuer of a registered disability savings plan shall pay a tax under this Part for a calendar year if, in the year, with the consent or knowledge of the issuer, a trust governed by the plan uses or permits to be used any property held by the trust as security for indebtedness of any kind.

History: S. 206.3(1) was added by S.C. 2007, c. 35, s. 120, applicable to the 2008 and subsequent taxation years.

Related Sections: S. 146.4(1), "disability savings plan", "registered disability savings plan".

► 206.3(2) ◄

(2) Amount of tax payable. The amount of tax payable in respect of each property described in subsection (1) is equal to the fair market value of the property at the time the property commenced to be used as security.

History: S. 206.3(2) was added by S.C. 2007, c. 35, s. 120, applicable to the 2008 and subsequent taxation years.

SECTION 206.4: Waiver of liability.

If a person would otherwise be liable to pay a tax under this Part for a calendar year, the Minister may waive or cancel all or part of the liability where it is just and equitable to do so having regard to all the circumstances, including

(*a*) whether the tax arose as a consequence of reasonable error; and

(*b*) the extent to which the transaction which gave rise to the tax also gave rise to another tax under this Part.

History: S. 206.4 was added by S.C. 2007, c. 35, s. 120, applicable to the 2008 and subsequent taxation years.

SECTION 207:

► 207(1) ◄

(1) Return and payment of tax. Every person who is liable to pay tax under this Part for a calendar year shall within 90 days after the end of the year

(*a*) file with the Minister a return for the year under this Part in prescribed form and containing prescribed information including

(i) an estimate of the amount of tax payable under this Part by the person for the year, and

(ii) an estimate of the amount of any refund to which the person is entitled under this Part for the year; and

(*b*) pay to the Receiver General the amount, if any, by which the amount of the person's tax payable under this Part for the year exceeds the person's allowable refund for the year.

History: S. 207(1) was added by S.C. 2007, c. 35, s. 120, applicable to the 2008 and subsequent taxation years.

► 207(2) ◄

(2) Refund. Where a person has filed a return under this Part for a calendar year within three years after the end of the year, the Minister

(*a*) may, on mailing the notice of assessment for the year, refund without application any allowable refund of the person for the year, to the extent that it was not applied against the person's tax payable under paragraph (1)(*b*); and

(*b*) shall, with all due dispatch, make the refund referred to in paragraph (*a*) after mailing the notice of assessment if an application for it has been made in writing by the person within three years after the mailing of an original notice of assessment for the year.

History: S. 207(2) was added by S.C. 2007, c. 35, s. 120, applicable to the 2008 and subsequent taxation years.

► 207(3) ◄

(3) Multiple holders. Where two or more holders of a registered disability savings plan are jointly and severally, or solidarily, liable with each other to pay a tax under this Part for a calendar year in connection with the plan,

(*a*) a payment by any of the holders on account of that tax liability shall to the extent of the payment discharge the joint liability; and

(*b*) a return filed by one of the holders as required by this Part for the year is deemed to have been filed by each other holder in respect of the joint liability to which the return relates.

History: S. 207(3) was added by S.C. 2007, c. 35, s. 120, applicable to the 2008 and subsequent taxation years.

Related Sections: S. 146.4(1), "holder", "registered disability savings plan".

► 207(4) ◄

(4) Provisions applicable to Part. Subsections 150(2) and (3), sections 152 and 158 to 167 and Division J of Part I apply to this Part with any modifications that the circumstances require.

History: S. 207(4) was added by S.C. 2007, c. 35, s. 120, applicable to the 2008 and subsequent taxation years.

S. 207 was repealed by S.C. 2005, c. 30, s. 14(1), applicable to months that end after 2004. S. 207(1) formerly read:

"S. 207. (1) *Return and payment of tax.* Within 90 days after the end of each year after 1971, a taxpayer to whom this Part applies shall

(*a*) file with the Minister a return for the year under this Part in prescribed form and containing prescribed information, without notice or demand therefor;

(*b*) estimate in the return the amount of tax, if any, payable by the taxpayer under this Part in respect of each month in the year; and

(*c*) pay to the Receiver General the amount of tax, if any, payable by the taxpayer under this Part in respect of each month in the year.

(2) *Liability of trustee.* Where the trustee of a taxpayer who is liable to pay tax under this Part does not remit to the Receiver General the amount of the tax within the time specified in subsection (1), the trustee is personally liable to pay on behalf of the taxpayer the full amount of the tax and is entitled to recover from the taxpayer any amount paid by the trustee as tax under this section.

(3) *Provisions applicable to Part.* Subsections 150(2) and (3), sections 152 and 158, subsections 161(1) and (11), sections 162 to 167 and Division J of Part I are applicable to this Part with such modifications as the circumstances require."

Part XI.01
Taxes in Respect of TFSAs

SECTION 207.01:

► 207.01(1) ◄

(1) Definitions. The definitions in subsection 146.2(1) and the following definitions apply in this Part.

"advantage" — "advantage", in relation to a TFSA, means

(*a*) any benefit, loan or indebtedness that is conditional in any way on the existence of the TFSA, other than

(i) a benefit derived from the provision of administrative or investment services in respect of the TFSA,

(ii) a loan or an indebtedness (including the use of the TFSA as security for a loan or an indebtedness) the terms and conditions of which are terms and conditions that persons dealing at arm's length with each other would have entered into,

(iii) a distribution under the TFSA, and

(iv) the payment or allocation of any amount to the TFSA by the issuer; and

(*b*) a benefit that is an increase in the total fair market value of the property held in connection with the TFSA if it is reasonable to consider, having regard to all the circumstances, that the increase is attributable, directly or indirectly, to

(i) a transaction or event or a series of transactions or events that

(A) would not have occurred in an open market in which parties deal with each other at arm's length and act prudently, knowledgeably and willingly, and

(B) had as one of its main purposes to enable a person or a partnership to benefit from the exemption from tax under Part I of any amount in respect of the TFSA, or

(ii) a payment received as, on account or in lieu of, or in satisfaction of, a payment

(A) for services provided by a person who is, or who does not deal at arm's length with, the holder of the TFSA, or

(B) of interest, of a dividend, of rent, of a royalty or of any other return on investment, or of proceeds of disposition, in respect of property (other than property held in connection with the TFSA) held by a person who is, or who does not deal at arm's length with, the holder of the TFSA; and

(*c*) a prescribed benefit.

History: S. 207.01(1), subparagraphs (*a*)(iii) and (iv) of the definition "advantage" were added by S.C. 2009, c. 2, s. 68(2), applicable to the 2009 and subsequent taxation years.

S. 207.01(1), paragraph (*b*) of the definition "advantage" was replaced, and paragraph (*c*) was added, by S.C. 2009, c. 2, s. 68(3), applicable to the 2009 and subsequent taxation years. S. 207.01(1), paragraph (*b*) of the definition "advantage" formerly read:

"(*b*) a prescribed benefit."

S. 207.01(1), the definition "advantage" was added by S.C. 2008, c. 28, s. 31(1), applicable to the 2009 and subsequent taxation years.

"allowable refund" — "allowable refund" of a person for a calendar year means the total of all amounts each of which is a refund, for the year, to which the person is entitled under subsection 207.04(4).

History: S. 207.01(1), the definition "allowable refund" was added by S.C. 2008, c. 28, s. 31(1), applicable to the 2009 and subsequent taxation years.

"excess TFSA amount" — "excess TFSA amount" of an individual at a particular time in a calendar year means the amount, if any, determined by the formula

A – B – C – D – E

where

A is the total of all amounts each of which is a contribution made under a TFSA by the individual in the calendar year and at or before the particular time, other than a contribution that is

(*a*) a qualifying transfer, or

(*b*) an exempt contribution;

B is the individual's unused TFSA contribution room at the end of the preceding calendar year;

C is the total of all amounts each of which was a distribution made in the preceding calendar year under a TFSA of which the individual was the holder at the time of the distribution, other than a distribution that is

(*a*) a qualifying transfer, or

(*b*) a prescribed distribution;

D is

(*a*) the TFSA dollar limit for the calendar year if, at any time in the calendar year, the individual is resident in Canada, and

(*b*) nil, in any other case; and

E is the total of all amounts each of which is the qualifying portion of a distribution made in the calendar year and at or before the particular time under a TFSA of which the individual was the holder at the time of the distribution and, for this purpose, the qualifying portion of a distribution is

(*a*) nil, if the distribution is a qualifying transfer or a prescribed distribution, and

(*b*) in any other case, the lesser of

(i) the amount of the distribution, and

(ii) the amount that would be the individual's excess TFSA amount at the time of the distribution if the amount of the distribution were nil.

History: S. 207.01(1), the description of E in the definition "excess TFSA amount" was replaced by S.C. 2009, c. 2, s. 68(4), applicable to the 2009 and subsequent taxation years. S. 207.01(1), the description of E in the definition "excess TFSA amount" formerly read:

"E is the total of all amounts each of which is a distribution made in the calendar year and at or before the particular time under a TFSA of which

the individual was the holder at the time of the distribution, other than a distribution that is

(*a*) a qualifying transfer, or

(*b*) a prescribed distribution."

S. 207.01(1), the definition "excess TFSA amount" was added by S.C. 2008, c. 28, s. 31(1), applicable to the 2009 and subsequent taxation years.

Related Sections: S. 146.2(1), "distribution"; s. 146.2(3) TFSA.

"exempt contribution" — "exempt contribution" means a contribution made in a calendar year under a TFSA by the survivor of an individual if

(*a*) the contribution is made during the period (in this definition referred to as the "rollover period") that begins when the individual dies and that ends at the end of the first calendar year that begins after the individual dies (or at any later time that is acceptable to the Minister);

(*b*) a payment (in this definition referred to as the "survivor payment") was made to the survivor during the rollover period, as a consequence of the individual's death, directly or indirectly out of or under an arrangement that ceased, because of the individual's death, to be a TFSA;

(*c*) the survivor designates, in prescribed form filed in prescribed manner within 30 days after the day on which the contribution is made, the contribution in relation to the survivor payment; and

(*d*) the amount of the contribution does not exceed the least of

(i) the amount, if any, by which

(A) the amount of the survivor payment

exceeds

(B) the total of all other contributions designated by the survivor in relation to the survivor payment,

(ii) the amount, if any, by which

(A) the total proceeds of disposition that would, if section 146.2 were read without reference to subsection 146.2(9), be determined in respect of the arrangement under paragraph 146.2(8)(*a*), (10)(*a*) or (11)(*a*), as the case may be,

exceeds

(B) the total of all other exempt contributions in respect of the arrangement made by the survivor at or before the time of the contribution, and

(iii) if the individual had, immediately before the individual's death, an excess TFSA amount or if payments described in paragraph (*b*) are made to more than one survivor of the individual, nil or the greater amount, if any, allowed by the Minister in respect of the contribution.

History: S. 207.01(1), the definition "exempt contribution" was added by S.C. 2009, c. 2, s. 68(7), applicable to the 2009 and subsequent taxation years.

"non-qualified investment" — "non-qualified investment" for a trust governed by a TFSA means property that is not a qualified investment for the trust.

History: S. 207.01(1), the definition "non-qualified investment" was added by S.C. 2008, c. 28, s. 31(1), applicable to the 2009 and subsequent taxation years.

"prohibited investment" — "prohibited investment", at any time, for a trust governed by a TFSA means property (other than prescribed property) that is at that time

(*a*) a debt of the holder of the TFSA;

(*b*) a share of the capital stock of, an interest in, or a debt of

(i) a corporation, partnership or trust in which the holder has a significant interest, or

(ii) a person or partnership that does not deal at arm's length with the holder or with a person or partnership described in subparagraph (i);

(*c*) an interest (or, for civil law, a right) in, or a right to acquire, a share, interest or debt described in paragraph (*a*) or (*b*); or

(*d*) prescribed property.

History: S. 207.01(1), the portion of the definition "prohibited investment" before paragraph (*a*) was replaced by S.C. 2009, c. 2, s. 68(5), applicable to the 2009 and subsequent taxation years. S. 207.01(1), the portion of the definition "prohibited investment" before paragraph (*a*) formerly read:

" *'prohibited investment'* — 'prohibited investment', at any time, for a trust governed by a TFSA means property (other than prescribed property in relation to the trust) that is at that time"

S. 207.01(1), paragraph (*d*) of the definition "prohibited investment" was replaced by S.C. 2009, c. 2, s. 68(6), applicable to the 2009 and subsequent taxation years. S. 207.01(1), paragraph (*d*) of the definition "prohibited investment" formerly read:

"(*d*) restricted property."

S. 207.01(1), the definition "prohibited investment" was added by S.C. 2008, c. 28, s. 31(1), applicable to the 2009 and subsequent taxation years.

Regulations: 5000; 5001.

"qualified investment" — "qualified investment" for a trust governed by a TFSA means

(*a*) an investment that would be described by any of paragraphs (*a*) to (*d*), (*f*) and (*g*) of the definition "qualified investment" in section 204 if the reference in that definition to "a trust governed by a deferred profit sharing plan or revoked plan" were read as a reference to "a trust governed by a TFSA" and if that definition were read without reference to the words "with the exception of excluded property in relation to the trust";

(*b*) a contract for an annuity issued by a licensed annuities provider if

(i) the trust is the only person who, disregarding any subsequent transfer of the contract by the trust, is or may become entitled to any annuity payments under the contract, and

(ii) the holder of the contract has a right to surrender the contract at any time for an amount that would, if reasonable sales and administration charges were ignored, approximate the value of funds that could otherwise be applied to fund future periodic payments under the contract; and

(*c*) a prescribed investment.

History: S. 207.01(1), the definition "qualified investment" was added by S.C. 2008, c. 28, s. 31(1), applicable to the 2009 and subsequent taxation years.

Regulations: 221(2); 4900.

"qualifying transfer" — "qualifying transfer" means the transfer of an amount from a TFSA of which a particular individual is the holder if

(*a*) the amount is transferred directly to another TFSA, the holder of which is the particular individual; or

(*b*) the amount is transferred directly to another TFSA, the holder of which is a spouse or common-law partner or former spouse or common-law partner of the particular individual, and the following conditions are satisfied:

(i) the individuals are living separate and apart at the time of the transfer, and

(ii) the transfer is made under a decree, order or judgment of a competent tribunal, or under a written separation agreement, relating to a division of property between the individuals in settlement of rights arising out of, or on the breakdown of, their marriage or common-law partnership.

History: S. 207.01(1), the definition "qualifying transfer" was added by S.C. 2008, c. 28, s. 31(1), applicable to the 2009 and subsequent taxation years.

"restricted property" — [Repealed by S.C. 2009, c. 2, s. 68(1).]

History: S. 207.01(1), the definition "restricted property" was repealed by S.C. 2009, c. 2, s. 68(1), applicable to the 2009 and subsequent taxation years. S. 207.01(1), the definition "restricted property" formerly read:

" *'restricted property'* — 'restricted property' has the meaning assigned by regulation."

S. 207.01(1), the definition "restricted property" was added by S.C. 2008, c. 28, s. 31(1), applicable to the 2009 and subsequent taxation years.

"TFSA dollar limit" — "TFSA dollar limit" for a calendar year means,

(*a*) for 2009, $5,000; and

(*b*) for each year after 2009, the amount (rounded to the nearest multiple of $500, or if that amount is equidistant from two such consecutive multiples, to the higher multiple) that is equal to $5,000 adjusted for each year after 2009 in the manner set out in section 117.1.

History: S. 207.01(1), the definition "TFSA dollar limit" was added by S.C. 2008, c. 28, s. 31(1), applicable to the 2009 and subsequent taxation years.

"unused TFSA contribution room" — "unused TFSA contribution room" of an individual at the end of a calendar year means,

(*a*) if the year is before 2009, nil; and

(*b*) in any other case, the positive or negative amount determined by the formula

$$A + B + C - D$$

where

A is the individual's unused TFSA contribution room at the end of the preceding calendar year,

B is the total of all amounts each of which was a distribution made in the preceding calendar year under a TFSA of which the individual was the holder at the time of the distribution, other than a distribution that is

(i) a qualifying transfer, or

(ii) a prescribed distribution,

C is

(i) the TFSA dollar limit for the calendar year, if at any time in the calendar year the individual is 18 years of age or older and resident in Canada, and

(ii) nil, in any other case, and

D is the total of all amounts each of which is a contribution made under a TFSA by the individual in the calendar year, other than a contribution that is

(i) a qualifying transfer, or

(ii) an exempt contribution.

History: S. 207.01(1), the definition "unused TFSA contribution room" was added by S.C. 2008, c. 28, s. 31(1), applicable to the 2009 and subsequent taxation years.

Related Sections: S. 146.2(1), "distribution".

Editorial Note: The concept of the tax-free savings account (TFSA) was introduced in the 2008 federal budget, effective beginning in 2009. The TFSA allows Canadian resident individuals to earn investment income, including interest, dividends and capital gains, on a tax-free basis. Contributions to the TFSA are not deductible, but the income in the account is not subject to tax either while in the account or upon withdrawal. However, the TFSA may be subject to tax if it acquires a non-qualified investment or carries on a business. The requirements relating to the TFSA are found largely in section 146.2.

Part XI.01 imposes penalties on a TFSA or holder or certain other individuals in certain circumstances. Excess contributions to the TFSA are subject to a 1% tax per month (section 207.02). For these purposes, in general terms, the annual contribution limit for a TFSA begins at $5,000 for 2009, and will be increased annually to inflation, and rounded to the nearest $500. Withdrawals from the account will free up more TFSA room. Unused TFSA room can be carried forward indefinitely. See the definitions of "excess TFSA amount" and "unused TFSA contribution room" in subsection 207.02(1). Other potential penalties apply if a non-resident contributes to the TFSA (section 207.03), the TFSA acquires a non-qualified investment (section 207.04), or the TSFA confers an advantage on the holder or a person not at arm's length with the holder (sections 207.05).

► 207.01(2) ◄

(2) Exempt contribution to survivor TFSA. [Repealed by S.C. 2009, c. 2, s. 68(8).]

History: S. 207.01(2) was repealed by S.C. 2009, c. 2, s. 68(8), applicable to the 2009 and subsequent taxation years. S. 207.01(2) formerly read:

"(2) *Exempt contribution to survivor TFSA.* A contribution made in a taxation year under a TFSA by the survivor of an individual is an exempt contribution if

(*a*) the contribution is made during the period (in this subsection referred to as the 'rollover period') that begins when the individual dies and that ends on the second anniversary of the individual's death (or on any later day that is acceptable to the Minister);

(*b*) a payment (in this subsection referred to as the 'survivor payment') was made to the survivor during the rollover period, as a consequence of the individual's death, directly or indirectly out of or under an arrangement that ceased, because of the individual's death, to be a TFSA;

(*c*) the survivor designates, in prescribed form filed with the survivor's return of income for the taxation year, the contribution in relation to the survivor payment; and

(*d*) the amount of the contribution does not exceed the least of

(i) the amount, if any, by which

(A) the amount of the survivor payment

exceeds

(B) the total of all other contributions designated by the survivor in relation to the survivor payment,

(ii) the amount, if any, by which

(A) the total proceeds of disposition determined in respect of the arrangement under paragraph 146.2(6)(*a*), (7)(*a*) or (8)(*a*), as the case may be,

exceeds

(B) the total of all other exempt contributions in respect of the arrangement made by the survivor at or before the time of the contribution, and

(iii) if the individual had, immediately before the individual's death, an excess TFSA amount or if payments described in paragraph (*b*) are made to more than one survivor of the individual, nil or the greater amount, if any, allowed by the Minister in respect of the contribution."

S. 207.01(2) was added by S.C. 2008, c. 28, s. 31(1), applicable to the 2009 and subsequent taxation years.

Related Sections: S. 146.2(1), "holder", "survivor".

► 207.01(3) ◄

(3) Survivor as successor holder. If an individual's survivor becomes the holder of a TFSA as a consequence of the individual's death and, immediately before the individual's death, the individual had an excess TFSA amount, the survivor is deemed (other than for the purposes of the definition "exempt contribution") to have made, at the beginning of the month following the individual's death, a contribution under a TFSA equal to the amount, if any, by which

(*a*) that excess TFSA amount

exceeds

(*b*) the total fair market value immediately before the individual's death of all property held in connection

with arrangements that ceased, because of the individual's death, to be TFSAs.

History: S. 207.01(3), the portion before paragraph (*a*) was replaced by S.C. 2009, c. 2, s. 68(9), applicable to the 2009 and subsequent taxation years. S. 207.01(3), the portion before paragraph (*a*) formerly read:

"(3) *Survivor as successor holder.* If an individual's survivor becomes the holder of a TFSA as a consequence of the individual's death and, immediately before the individual's death, the individual had an excess TFSA amount, the survivor is deemed (other than for the purposes of subsection (2)) to have made, at the beginning of the month following the individual's death, a contribution under a TFSA equal to the amount, if any, by which"

S. 207.01(3) was added by S.C. 2008, c. 28, s. 31(1), applicable to the 2009 and subsequent taxation years.

Related Sections: S. 146.2(1), "holder", "survivor; s. 207.01(1), "excess TFSA amount".

► 207.01(4) ◄

(4) Significant interest. An individual has a significant interest in a corporation, partnership or trust at any time if

(*a*) in the case of a corporation, the individual is a specified shareholder of the corporation at that time;

(*b*) in the case of a partnership, the individual, or the individual together with persons and partnerships with which the individual does not deal at arm's length, holds at that time interests as a member of the partnership that have a fair market value of 10% or more of the fair market value of the interests of all members in the partnership; and

(*c*) in the case of a trust, the individual, or the individual together with persons and partnerships with which the individual does not deal at arm's length, holds at that time interests as a beneficiary (in this paragraph, as defined in subsection 108(1)) under the trust that have a fair market value of 10% or more of the fair market value of the interests of all beneficiaries under the trust.

History: S. 207.01(4) was added by S.C. 2008, c. 28, s. 31(1), applicable to the 2009 and subsequent taxation years.

► 207.01(5) ◄

(5) Obligation of issuer. The issuer of a TFSA shall exercise the care, diligence and skill of a reasonably prudent person to minimize the possibility that a trust governed by the TFSA holds a non-qualified investment.

History: S. 207.01(5) was added by S.C. 2008, c. 28, s. 31(1), applicable to the 2009 and subsequent taxation years.

SECTION 207.02: Tax payable on excess TFSA amount

If, at any time in a calendar month, an individual has an excess TFSA amount, the individual shall, in respect of that month, pay a tax under this Part equal to 1% of the highest such amount in that month.

History: S. 207.02 was added by S.C. 2008, c. 28, s. 31(1), applicable to the 2009 and subsequent taxation years.

Editorial Note: See the editorial note following the definitions in subsection 207.01(1).

Related Sections: S. 207.01(1), "excess TFSA amount".

SECTION 207.03: Tax payable on non-resident contributions.

If, at a particular time, a non-resident individual makes a contribution under a TFSA (other than a contribution that is a qualifying transfer or an exempt contribution), the individual shall pay a tax under this Part equal to 1% of the amount of the contribution in respect of each month that ends after the particular time and before the earlier of

(*a*) the first time after the particular time at which the amount of the contribution is equalled or exceeded by the total of all amounts each of which is a distribution

(i) that is made after the particular time under a TFSA of which the individual is the holder, and

(ii) that the individual designates in prescribed manner to be a distribution in connection with the contribution and not in connection with any other contribution, and

(*b*) the time at which the individual becomes resident in Canada.

History: S. 207.03, the portion before paragraph (*a*) was replaced by S.C. 2009, c. 2, s. 69(1), applicable to the 2009 and subsequent taxation years. S. 207.03, the portion before paragraph (*a*) formerly read:

"S. 207.03. *Tax payable on non-resident contributions.* If, at a particular time, a non-resident individual makes a contribution under a TFSA, the individual shall pay a tax under this Part equal to 1% of the amount of the contribution in respect of each month that ends after the particular time and before the earlier of"

S. 207.03 was added by S.C. 2008, c. 28, s. 31(1), applicable to the 2009 and subsequent taxation years.

Editorial Note: See the editorial note following the definitions in subsection 207.01(1).

SECTION 207.04:

► 207.04(1) ◄

(1) Tax payable on prohibited or non-qualified investment. The holder of a TFSA that governs a trust shall pay a tax under this Part for a calendar year if, at any time in the year,

(*a*) the trust acquires property that is a prohibited investment, or a non-qualified investment, for the trust; or

(*b*) property held by the trust becomes a prohibited investment, or a non-qualified investment, for the trust.

History: S. 207.04(1) was added by S.C. 2008, c. 28, s. 31(1), applicable to the 2009 and subsequent taxation years.

Editorial Note: See the editorial note following the definitions in subsection 207.01(1).

Related Sections: S. 146.2(4) Trust not taxable; s. 207.01(1), "qualified investment", "non-qualified investment".

► 207.04(2) ◄

(2) Amount of tax payable. The amount of tax payable in respect of each property described in subsection (1) is 50% of the fair market value of the property at the time referred to in that subsection.

History: S. 207.04(2) was added by S.C. 2008, c. 28, s. 31(1), applicable to the 2009 and subsequent taxation years.

► 207.04(3) ◄

(3) Where both prohibited and non-qualified investment. For the purposes of this section and subsection 146.2(6), if a trust governed by a TFSA holds property at any time that is, for the trust, both a prohibited investment and a non-qualified investment, the property is deemed at that time not to be a non-qualified investment, but remains a prohibited investment, for the trust.

History: S. 207.04(3) was replaced by S.C. 2009, c. 2, s. 70(1), applicable to the 2009 and subsequent taxation years. S. 207.04(3) formerly read:

"(3) *Where both prohibited and non-qualified investment.* For the purposes of subsection 146.2(4) and this section, if a trust governed by a TFSA holds property at any time that is, for the trust, both a prohibited investment and a non-qualified investment, the property is deemed at that time not to be a non-qualified investment, but remains a prohibited investment, for the trust."

S. 207.04(3) was added by S.C. 2008, c. 28, s. 31(1), applicable to the 2009 and subsequent taxation years.

► 207.04(4) ◄

(4) Refund of tax on disposition of investment. If in a calendar year a trust governed by a TFSA disposes of a property in respect of which a tax is imposed under subsection (1) on the holder of the TFSA, the holder is entitled to a refund for the year of an amount equal to

(*a*) except where paragraph (*b*) applies, the amount of the tax so imposed; or

(*b*) nil,

(i) if it is reasonable to consider that the holder knew, or ought to have known, at the time the property was acquired by the trust, that it was, or would become, a property described in subsection (1), or

(ii) if the property is not disposed of by the trust before the end of the calendar year following the calendar year in which the tax arose, or any later time that the Minister considers reasonable in the circumstances.

History: S. 207.04(4) was added by S.C. 2008, c. 28, s. 31(1), applicable to the 2009 and subsequent taxation years.

► 207.04(5) ◄

(5) Deemed disposition and reacquisition. For the purposes of this Act, if property held by a trust in respect of which a tax was imposed under subsection (1) ceases, at any particular time after the tax is imposed, to be a prohibited investment, or a non-qualified investment, for the trust, the trust is deemed to have disposed of the property immediately before the particular time for proceeds of disposition equal to its fair market value at the particular time and to have reacquired it immediately after the particular time at a cost equal to that fair market value.

History: S. 207.04(5) was added by S.C. 2008, c. 28, s. 31(1), applicable to the 2009 and subsequent taxation years.

► 207.04(6) ◄

(6) Additional tax payable on prohibited investment. The holder of a TFSA that governs a trust shall pay a tax under this Part for a calendar year, in addition to any tax imposed under subsection (1) for the year, if at any time in the year the trust holds one or more properties that are prohibited investments for the trust.

History: S. 207.04(6) was added by S.C. 2008, c. 28, s. 31(1), applicable to the 2009 and subsequent taxation years.

► 207.04(7) ◄

(7) Amount of additional tax payable. The amount of tax payable under subsection (6) for a calendar year is 150% of the amount of tax that would be payable under Part I by the trust for the taxation year that ends in the calendar year if

(*a*) the Act were read without reference to paragraph 82(1)(*b*), section 121 and subsection 146.2(6); and

(*b*) the trust had no incomes or losses from sources other than the properties referred to in subsection (6), and no capital gains or capital losses other than from dispositions of those properties, and for that purpose,

(i) "income" includes dividends described in section 83, and

(ii) the trust's taxable capital gain or allowable capital loss from the disposition of a property is equal to its capital gain or capital loss, as the case may be, from the disposition.

History: S. 207.04(7), the portion before paragraph (*b*) was replaced by S.C. 2009, c. 2, s. 70(2), applicable to the 2009 and subsequent taxation years. S. 207.04(7), the portion before paragraph (*b*) formerly read:

"(7) *Amount of additional tax payable.* The amount of tax payable under subsection (6) for a calendar year is the amount of tax that would be payable under Part I by the trust for the taxation year that ends in the calendar year if

(*a*) the Act were read without reference to paragraph 82(1)(*b*), section 121 and subsection 146.2(4); and"

S. 207.04(7) was added by S.C. 2008, c. 28, s. 31(1), applicable to the 2009 and subsequent taxation years.

SECTION 207.05:

► 207.05(1) ◄

(1) Tax payable where advantage extended. A tax is payable under this Part for a calendar year in connection with a TFSA if, in the year, an advantage in relation to the TFSA is extended to a person who is, or who does not deal at arm's length with, the holder of the TFSA.

History: S. 207.05(1) was added by S.C. 2008, c. 28, s. 31(1), applicable to the 2009 and subsequent taxation years.

Editorial Note: See the editorial note following the definitions in subsection 207.01(1).

Related Sections: S. 207.01(1), "advantage".

► 207.05(2) ◄

(2) Amount of tax payable. The amount of tax payable in respect of an advantage described in subsection (1) is

(*a*) in the case of a benefit, the fair market value of the benefit; and

(*b*) in the case of a loan or an indebtedness, the amount of the loan or indebtedness.

History: S. 207.05(2) was added by S.C. 2008, c. 28, s. 31(1), applicable to the 2009 and subsequent taxation years.

► 207.05(3) ◄

(3) Liability for tax. The holder of a TFSA in connection with which a tax is imposed under subsection (1) is liable to pay the tax except that, if the advantage is extended by the issuer of the TFSA or by a person with whom the issuer is not dealing at arm's length, the issuer, and not the holder, is liable to pay the tax.

History: S. 207.05(3) was added by S.C. 2008, c. 28, s. 31(1), applicable to the 2009 and subsequent taxation years.

SECTION 207.06:

► 207.06(1) ◄

(1) Waiver of tax payable. If an individual would otherwise be liable to pay a tax under this Part because of section 207.02 or 207.03, the Minister may waive or cancel all or part of the liability if

(*a*) the individual establishes to the satisfaction of the Minister that the liability arose as a consequence of a reasonable error; and

(*b*) the individual acts without delay to cause one or more distributions to be made, under one or more TFSAs, the total amount of which is not less than the amount in respect of which the individual would otherwise be liable to pay the tax.

History: S. 207.06(1) was added by S.C. 2008, c. 28, s. 31(1), applicable to the 2009 and subsequent taxation years.

► 207.06(2) ◄

(2) Waiver of tax payable. If a person would otherwise be liable to pay a tax under this Part because of subsection 207.04(1) or section 207.05, the Minister may waive or cancel all or part of the liability where the Minister considers it just and equitable to do so having regard to all the circumstances, including

(*a*) whether the tax arose as a consequence of reasonable error; and

(*b*) the extent to which the transaction that gave rise to the tax also gave rise to another tax under this Part.

History: S. 207.06(2), the portion before paragraph (*a*) was replaced by S.C. 2009, c. 2, s. 71(1), applicable to the 2009 and subsequent taxation years. S. 207.06(2), the portion before paragraph (*a*) formerly read:

"(2) *Waiver of tax payable.* If a person would otherwise be liable to pay a tax under this Part because of section 207.04 or 207.05, the Minister may waive or cancel all or part of the liability where the Minister considers it just and equitable to do so having regard to all the circumstances, including"

S. 207.06(2) was added by S.C. 2008, c. 28, s. 31(1), applicable to the 2009 and subsequent taxation years.

SECTION 207.07:

► 207.07(1) ◄

(1) Return and payment of tax. A person who is liable to pay tax under this Part for all or any part of a calendar year shall within 90 days after the end of the year

(*a*) file with the Minister a return for the year under this subsection in prescribed form and containing prescribed information including

(i) an estimate of the amount of tax payable under this Part by the person in respect of the year, and

(ii) an estimate of the amount of the person's allowable refund, if any, for the year; and

(*b*) pay to the Receiver General the amount, if any, by which the amount of the person's tax payable under this Part in respect of the year exceeds the person's allowable refund, if any, for the year.

History: S. 207.07(1) was added by S.C. 2008, c. 28, s. 31(1), applicable to the 2009 and subsequent taxation years.

► 207.07(2) ◄

(2) Refund. If a person has filed a return under this Part for a calendar year within three years after the end of the year, the Minister

(*a*) may, on mailing the notice of assessment for the year, refund without application any allowable refund of the person for the year, to the extent that it was not applied against the person's tax payable under paragraph (1)(*b*); and

(*b*) shall, with all due dispatch, make the refund referred to in paragraph (*a*) after mailing the notice of assessment if an application for it has been made in writing by the person within three years after the mailing of an original notice of assessment for the year.

History: S. 207.07(2) was added by S.C. 2008, c. 28, s. 31(1), applicable to the 2009 and subsequent taxation years.

► 207.07(3) ◄

(3) Provisions applicable to Part. Subsections 150(2) and (3), sections 152 and 158 to 167 and Division J of Part I apply to this Part with any modifications that the circumstances require.

History: S. 207.07(3) was added by S.C. 2008, c. 28, s. 31(1), applicable to the 2009 and subsequent taxation years.

Part XI.1
Tax in Respect of Deferred Income Plans and Other Tax Exempt Persons

History: The heading of Part XI.1 was replaced by S.C. 2005, c. 30, s. 15(1), applicable to months that end after 2004. The heading of Part XI.1 formerly read:

"Part XI.1
Tax in Respect of Certain Property Held by Trusts Governed by Deferred Income Plans"

SECTION 207.1:

► 207.1(1) ◄

(1) Tax payable by trust under registered retirement savings plan. Where, at the end of any month, a trust governed by a registered retirement savings plan holds property that is neither a qualified investment (within the meaning assigned by subsection 146(1)) nor a life insurance policy in respect of which, but for subsection 146(11), subsection 146(10) would have applied as a consequence of its acquisition, the trust shall, in respect of that month, pay a tax under this Part equal to 1% of the fair market value of the property at the time it was acquired by the trust of all such property held by it at the end of the month, other than

(*a*) property, the fair market value of which was included, by virtue of subsection 146(10), in computing the income, for any year, of an annuitant (within the meaning assigned by subsection 146(1)) under the plan; and

(*b*) property acquired by the trust before August 25, 1972.

Related Sections: S. 146(1), "annuitant", "registered retirement savings plan"; s. 205(1) Definitions; s. 205(2) Definitions in subsection 146.4(1); s. 259(1) Proportional holdings in trust property; ITAR s. 65 Part XI of amended Act — foreign property acquired after June 18, 1971 and before July 1, 1972.
Interpretation Bulletins: *Secondary* — IT-320R3 RRSPs — Qualified investments.
Information Circulars: IC 93-3R Registered Education Savings Plans.

► 207.1(2) ◄

(2) Tax payable by trust under deferred profit sharing plan. Where, at the end of any month, a trust governed by a deferred profit sharing plan holds property that is neither a qualified investment (within the meaning assigned by section 204) nor a life insurance policy (referred to in paragraphs 198(6)(*c*) to (*e*) or subsection 198(6.1)), the trust shall, in respect of that month, pay a tax under this Part equal to 1% of the fair market value of the property at the time it was acquired by the trust of all such property held by it at the end of the month, other than

(*a*) property in respect of the acquisition of which the trust has paid or is liable to pay a tax under subsection 198(1); and

(*b*) property acquired by the trust before August 25, 1972.

Related Sections: S. 147(1), "deferred profit sharing plan"; s. 204 Definitions; s. 206 Tax payable where inadequate consideration.

► 207.1(3) ◄

(3) Tax payable by trust under registered education savings plan. Every trust governed by a registered education savings plan shall, in respect of any month, pay a tax under this Part equal to 1% of the total of all amounts each of which is the fair market value of a property, at the time it was acquired by the trust, that

(*a*) is not a qualified investment (as defined in subsection 146.1(1)) for the trust; and

(*b*) is held by the trust at the end of the month.

History: S. 207.1(3) was added by S.C. 1999, c. 22, s. 73(1), applicable to the 1999 and subsequent taxation years. S. 207.1(3) was previously repealed by the former Act.

Related Sections: S. 146.1(2.1) RESP is revocable; s. 146.1(12.1) Notice of intent to revoke registration.
Interpretation Bulletins: *Secondary* — IT-320R3 RRSPs — Qualified investments.

► 207.1(4) ◄

(4) Tax payable by trust under registered retirement income fund. Where, at the end of any month after 1978, a trust governed by a registered retirement income fund holds property that is not a qualified investment (within the meaning assigned by subsection 146.3(1)), the trust shall, in respect of that month, pay a tax under this Part equal to 1% of the fair market value of the property at the time it was acquired by the trust of all such property held by it at the end of the month other than property, the fair market value of which was included by virtue of subsection 146.3(7) in computing the income for any year of an annuitant (within the meaning assigned by subsection 146.3(1)) under the fund.

Interpretation Bulletins: *Secondary* — IT-320R3 RRSPs — Qualified investments.
Information Circulars: IC 77-1R5 Deferred profit sharing plan; IC 78-18R6 Registered Retirement Income Funds.

► 207.1(5) ◄

(5) Tax payable in respect of agreement to acquire shares. Where at any time a taxpayer whose taxable income is exempt from tax under Part I makes an agreement (otherwise than as a consequence of the acquisition or writing by it of an option listed on a designated stock exchange) to acquire a share of the capital stock of a corporation (otherwise than from the corporation) at a price that may differ from the fair market value of the share at the time the share may be acquired, the taxpayer shall, in respect of each month during which the taxpayer is a party to the agreement, pay a tax under this Part equal to the total of all amounts each of which is the amount, if any, by which the amount of a dividend paid on the share at a time in the month at which the taxpayer is a party to the agreement exceeds the amount, if any, of the dividend that is received by the taxpayer.

History: S. 207.1(5) was replaced by S.C. 2007, c. 35, s. 58(1), applicable on and after December 14, 2007. S. 207.1(5) formerly read:

"(5) *Tax payable in respect of agreement to acquire shares.* Where at any time a taxpayer whose taxable income is exempt from tax under Part I makes an agreement (otherwise than as a consequence of the acquisition or writing by it of an option listed on a prescribed stock exchange) to acquire a share of the capital stock of a corporation (otherwise than from the corporation) at a price that may differ from the fair market value of the share at the time the share may be acquired, the taxpayer shall, in respect of each month during

which the taxpayer is a party to the agreement, pay a tax under this Part equal to the total of all amounts each of which is the amount, if any, by which the amount of a dividend paid on the share at a time in the month at which the taxpayer is a party to the agreement exceeds the amount, if any, of the dividend that is received by the taxpayer."

S. 207.1(5) was added by S.C. 2005, c. 30, s. 16(1), applicable to months that end after 2004.

Former s. 207.1(5) was repealed by S.C. 1994, c. 8, s. 31(1), applicable to property held after October 31, 1985. S. 207.1(5) formerly read:

"(5) Where at the end of any month a trust governed by a registered retirement savings plan or registered retirement income fund holds a prescribed property, the trust shall, in respect of that month, pay a tax under this Part equal to 1% of the amount, if any, by which

(*a*) the total of the fair market values, at the time of acquisition, of all prescribed properties held by the trust at the end of the month

exceeds

(*b*) 50% of the total of the fair market values, at the time of acquisition, of all properties held by the trust at the end of the month."

Regulations: Part XLIX; 4901(1.1).
Forms: T2000.

SECTION 207.2:

► 207.2(1) ◄

(1) Return and payment of tax. Within 90 days after the end of each year, a taxpayer to whom this Part applies shall

(*a*) file with the Minister a return for the year under this Part in prescribed form and containing prescribed information, without notice or demand therefor;

(*b*) estimate in the return the amount of tax, if any, payable by it under this Part in respect of each month in the year; and

(*c*) pay to the Receiver General the amount of tax, if any, payable by it under this Part in respect of each month in the year.

Interpretation Bulletins: *Secondary* — IT-320R3 RRSPs — Qualified investments.
Information Circulars: IC 78-14R4 Guidelines for trust companies and other persons responsible for filing T3GR, T3D, T3P, T3S, T3RI, and T3F returns.
Forms: T3GR; T3D.

► 207.2(2) ◄

(2) Liability of trustee. Where the trustee of a trust that is liable to pay tax under this Part does not remit to the Receiver General the amount of the tax within the time specified in subsection (1), the trustee is personally liable to pay on behalf of the trust the full amount of the tax and is entitled to recover from the trust any amount paid by the trustee as tax under this section.

► 207.2(3) ◄

(3) Provisions applicable to Part. Subsections 150(2) and (3), sections 152 and 158, subsections 161(1) and (11), sections 162 to 167 and Division J of Part I are applicable to this Part with such modifications as the circumstances require.

Part XI.2
Tax in Respect of Dispositions of Certain Properties

SECTION 207.3: Tax payable by institution or public authority.

Every institution or public authority that, at any time in a year, disposes of an object within 10 years after the object became an object described in subparagraph 39(1)(*a*)(i.1) shall pay a tax under this Part, in respect of the year, equal to 30% of the object's fair market value at that time, unless the disposition was made to another institution or public authority that was, at that time, designated under subsection 32(2) of the *Cultural Property Export and Import Act* either generally or for a specified purpose related to that object.

History: S. 207.3 was amended by S.C. 1999, c. 22, s. 74(1), applicable to dispositions made after February 23, 1998. S. 207.3 formerly read:

"S. 207.3. *Tax payable by institution or public authority.* Any institution or public authority that, at any time in a year, disposes of an object within 5 years after the object became an object described in subparagraph 39(1)(*a*)(i.1) shall, in respect of that year, pay a tax under this Part equal to 30% of the fair market value of the object at the time the object was so disposed of, unless the disposition was made to another institution or public authority that was, at the time of the disposition, designated under subsection 32(2) of the *Cultural Property Export and Import Act* either generally or for a specified purpose related to that object."

The heading of Part XI.2 was amended by S.C. 1996, c. 21, s. 52(1), applicable after February 27, 1995. The heading formerly read:

"Part XI.2
Tax in Respect of Certain Property Disposed of by Certain Public Authorities or Institutions"

S. 207.3 was amended by S.C. 1994, c. 7, Sched. II, s. 168(1), applicable to dispositions made after December 11, 1988. S. 207.3 formerly read:

"S. 207.3. *Tax payable by institution or public authority in Canada.* Any institution or public authority that, at any time in a year, disposes of an object within five years of the object becoming an object described in subparagraph 39(1)(*a*)(i.1) shall, in respect of that year, pay a tax under this Part equal to thirty per cent of the fair market value of the object at the time the object was so disposed of, unless the disposition was made to another institution or public authority that was, at the time of the disposition, designated under subsection 32(2) of the *Cultural Property Export and Import Act* either generally or for a purpose related to that object."

Interpretation Bulletins: *Secondary*— IT-407R4 (Consolid.) Disposition after 1987 of Canadian cultural property.
Forms: T913.

SECTION 207.31: Tax payable by recipient of an ecological gift.

Any charity or municipality that at any time in a taxation year, without the authorization of the Minister of the Environment or a person designated by that Minister, disposes of or changes the use of a property described in paragraph 110.1(1)(*d*) or in the definition "total ecological gifts" in subsection 118.1(1) and given to the charity or municipality after February 27, 1995 shall, in respect of the year, pay a tax under this Part equal to 50% of the amount that would be determined for the purposes of section 110.1 or 118.1, if this Act were read without reference to subsections 110.1(3) and 118.1(6), to be the fair market value of the property if the property were given to the charity or municipality immediately before the disposition or change.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 207.31 of the Act is replaced by the following:

SECTION 207.31: Tax payable by recipient of an ecological gift.

Any charity, municipality or public body performing a function of government in Canada (referred to in this section as the "recipient") that at any time in a taxation year, without the authorization of the Minister of the Environment or a person designated by that Minister, disposes of or changes the use of a property described in paragraph 110.1(1)(*d*) or in the definition "total ecological gifts" in subsection 118.1(1) and given to the recipient shall, in respect of the year, pay a tax under this Part equal to 50% of the amount that would be determined for the purposes of section 110.1 or 118.1, if this Act were read without reference to subsections 110.1(3) and 118.1(6), to be the fair market value of the property if the property were given to the recipient immediately before the disposition or change.

Applicable: In respect of dispositions of or changes of use of property after July 18, 2005.

Explanatory Note: Section 207.31 of the Act imposes a tax on charities and Canadian municipalities where, without the approval of the Minister of the Environment, they dispose of or change the use of property donated to them as an ecological gift. The tax is equal to 50% of the amount that is the fair market value of the property at the time of the disposition or change in use as determined for the purposes of section 110.1 or 118.1 of the Act.

Section 207.31 is amended, in respect of dispositions of or changes of use of property after July 18, 2005, to clarify that it also applies to a public body performing a function of government in Canada. For more information, refer to the commentary for subsection 118.1(1) and paragraph 149(1)(*d.5*).

History: S. 207.31 was amended by S.C. 2001, c. 17, s. 170(1), applicable in respect of dispositions or changes of use that occur after November 1999. S. 207.31 formerly read:

"S. 207.31. *Tax payable by recipient of an ecological gift.* Any charity or municipality that, at any time in a taxation year, without the authorization of the Minister of the Environment, or a person designated by that Minister, disposes or changes the use of a property described in paragraph 110.1(1)(*d*) or in the definition 'total ecological gifts' in subsection 118.1(1) and given to the charity or municipality after February 27, 1995 shall, in respect of the year pay a tax under this Part equal to 50% of the fair market value of the property at the time of the disposition or change."

S. 207.31 was added by S.C. 1996, c. 21, s. 53(1), applicable after February 27, 1995.

Related Sections: S. 110.1 Deduction for gifts; s. 110.1(1)(*d*) Ecological gifts; s. 118.1 Charitable gifts; s. 118.1(1), "total ecological gifts".

SECTION 207.4:

► 207.4(1) ◄

(1) Return and payment of tax. Any institution, public authority, charity or municipality that is liable to pay a tax under subsection 207.3 or 207.31 in respect of a year shall, within 90 days after the end of the year,

(*a*) file with the Minister a return for the year under this Part in prescribed form and containing prescribed information without notice or demand therefor;

(*b*) estimate in the return the amount of tax payable by it under this Part in respect of the year; and

(*c*) pay to the Receiver General the amount of tax payable by it under this Part in respect of the year.

History: S. 207.4(1), that portion before paragraph (*a*), was amended by S.C. 1996, c. 21, s. 54(1), applicable after February 27, 1995. That portion formerly read:

"(1) Any institution or public authority that is liable to pay a tax under section 207.3 in respect of a year shall, within 90 days after the end of that year,"

► 207.4(2) ◄

(2) Provisions applicable to Part. Subsections 150(2) and (3), sections 152 and 158, subsections 161(1) and (11), sections 162 to 167 and Division J of Part I are applicable to this Part with such modifications as the circumstances require.

Part XI.3
Tax in Respect of Retirement Compensation Arrangements

SECTION 207.5:

► 207.5(1) ◄

(1) Definitions. In this Part,

"RCA trust" — "RCA trust" under a retirement compensation arrangement means

(*a*) any trust deemed by subsection 207.6(1) to be created in respect of subject property of the arrangement, and

(*b*) any trust governed by the arrangement;

Related Sections: S. 248(1), "retirement compensation arrangement".

"refundable tax" — "refundable tax" of a retirement compensation arrangement at the end of a taxation year of an RCA trust under the arrangement means the amount, if any, by which the total of

(*a*) 50% of all contributions made under the arrangement while it was a retirement compensation arrangement and before the end of the year, and

(*b*) 50% of the amount, if any, by which

(i) the total of all amounts each of which is the income (determined as if this Act were read without reference to paragraph 82(1)(*b*)) of an RCA trust under the arrangement from a business or property for the year or a preceding taxation year or a capital gain of the trust for the year or a preceding taxation year,

exceeds

(ii) the total of all amounts each of which is a loss of an RCA trust under the arrangement from a business or property for the year or a preceding taxation year or a capital loss of the trust for the year or a preceding taxation year,

exceeds

(*c*) 50% of all amounts paid as distributions to one or more persons (including amounts that are required by paragraph 12(1)(*n.3*) to be included in computing the recipient's income) under the arrangement while it was a retirement compensation arrangement and before the end of the year, other than a distribution paid where it is established, by subsequent events or otherwise, that the distribution was paid as part of a series of payments and refunds of contributions under the arrangement;

Related Sections: S. 248(1), "retirement compensation arrangement".

"subject property of a retirement compensation arrangement" — "subject property of a retirement compensation arrangement" means property that is held in connection with the arrangement.

Related Sections: S. 248(1), "retirement compensation arrangement".

► 207.5(2) ◄

(2) Election. Notwithstanding the definition "refundable tax" in subsection (1), where the custodian of a retirement compensation arrangement so elects in the return under this Part for a taxation year of an RCA trust under the arrangement and all the subject property, if any, of the arrangement (other than a right to claim a refund under subsection 164(1) or 207.7(2)) at the end of the year consists only of cash, debt obligations, shares listed on a designated stock exchange, or any combination thereof, an amount equal to the total of

(*a*) the amount of that cash at the end of the year,

(*b*) the total of all amounts each of which is the greater of the principal amount of such a debt obligation outstanding at the end of the year and the fair market value of the obligation at the end of the year, and

(*c*) the fair market value of those shares at the end of the year

shall be deemed for the purposes of this Part to be the refundable tax of the arrangement at the end of the year.

History: S. 207.5(2) was amended by S.C. 2007, c. 35, s. 68(2), by replacing "prescribed stock exchange" with "designated stock exchange", applicable on and after December 14, 2007 [the day on which this Act is assented to].

Related Sections: S. 207.7(3) Payment of tax.
Regulations: 3200; 3201.
Forms: T3-RCA.
Guides: T4041 Retirement Compensation Arrangements Guide.

SECTION 207.6:

► 207.6(1) ◄

(1) Creation of trust. In respect of the subject property of a retirement compensation arrangement, other than subject property of the arrangement held by a trust governed by a retirement compensation arrangement, for the purposes of this Part and Part I, the following rules apply:

(*a*) an *inter vivos* trust is deemed to be created on the day that the arrangement is established;

(*b*) the subject property of the arrangement is deemed to be property of the trust and not to be property of any other person; and

(*c*) the custodian of the arrangement is deemed to be the trustee having ownership or control of the trust property.

Related Sections: S. 108(1), "inter vivos trust", "trust"; s. 138(12), "life insurance policy"; s. 248(1), "employee benefit plan", "retirement compensation arrangement".
Regulations: 6804; 8308.1.
Forms: T733; T735.
Guides: T4041 Retirement Compensation Arrangements Guide.

► 207.6(2) ◄

(2) Life insurance policies. For the purposes of this Part and Part I, where by virtue of a plan or arrangement an employer is obliged to provide benefits that are to be received or enjoyed by any person on, after or in contemplation of any substantial change in the services rendered by a taxpayer, the retirement of a taxpayer or the loss of an office or employment of a taxpayer, and where the employer, former employer or a person or partnership with whom or which the employer or former employer does not deal at arm's length acquires an interest in a life insurance policy that may reasonably be considered to be acquired to fund, in whole or in part, those benefits, the following rules apply in respect of the plan or arrangement if it is not otherwise a retirement compensation arrangement and is

not excluded from the definition "retirement compensation arrangement", in subsection 248(1), by any of paragraphs (*a*) to (*l*) and (*n*) thereof:

(*a*) the person or partnership that acquired the interest is deemed to be the custodian of a retirement compensation arrangement;

(*b*) the interest is deemed to be subject property of the retirement compensation arrangement;

(*c*) an amount equal to twice the amount of any premium paid in respect of the interest or any repayment of a policy loan thereunder is deemed to be a contribution under the retirement compensation arrangement; and

(*d*) any payment received in respect of the interest, including a policy loan, and any amount received as a refund of refundable tax is deemed to be an amount received out of or under the retirement compensation arrangement by the recipient and not to be a payment of any other amount.

► 207.6(3) ◄

(3) Incorporated employee. For the purpose of the provisions of this Act relating to retirement compensation arrangements, where

(*a*) a corporation that at any time carried on a personal services business, or an employee of the corporation, enters into a plan or arrangement with a person or partnership (referred to in this subsection as the "employer") to whom or which the corporation renders services, and

(*b*) the plan or arrangement provides for benefits to be received or enjoyed by any person on, after or in contemplation of the cessation of, or any substantial change in, the services rendered by the corporation, or an employee of the corporation, to the employer,

the following rules apply:

(*c*) the employer and the corporation are deemed to be an employer and employee, respectively, in relation to each other, and

(*d*) any benefits to be received or enjoyed by any person under the plan or arrangement are deemed to be benefits to be received or enjoyed by the person on, after or in contemplation of a substantial change in the services rendered by the corporation.

► 207.6(4) ◄

(4) Deemed contribution. Where at any time an employee benefit plan becomes a retirement compensation arrangement as a consequence of a change of the custodian of the plan or as a consequence of the custodian ceasing either to carry on business through a fixed place of business in Canada or to be licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering to the public its services as trustee,

(*a*) for the purposes of this Part and Part I, the custodian of the plan is deemed to have made a contribution to the arrangement immediately after that time, in an amount equal to the fair market value at that time of all the properties of the plan; and

(*b*) for the purposes of section 32.1, that amount is deemed to be a payment made at that time out of or under the plan to or for the benefit of employees or former employees of the employers who contributed to the plan.

► 207.6(5) ◄

(5) Residents' arrangement. For the purposes of this Act, where a resident's contribution has been made under a plan or arrangement (in this subsection referred to as the "plan"),

(*a*) the plan is deemed, in respect of its application to all resident's contributions made under the plan and all property that can reasonably be considered to be derived from those contributions, to be a separate arrangement (in this subsection referred to as the "residents' arrangement") independent of the plan in respect of its application to all other contributions and property that can reasonably be considered to derive from those other contributions;

(*b*) the residents' arrangement is deemed to be a retirement compensation arrangement; and

(*c*) each person and partnership to whom a contribution is made under the residents' arrangement is deemed to be a custodian of the residents' arrangement.

History: S. 207.6(5) was amended by S.C. 1994, c. 21, s. 94(1), applicable after October 8, 1986. S. 207.6(5) formerly read:

"(5) For the purposes of the provisions of this Act relating to retirement compensation arrangements, where a contribution has been made under a plan or arrangement (in this subsection referred to as the 'plan') that would, but for paragraph (*l*) of the definition 'retirement compensation arrangement', in subsection 248(1), be a retirement compensation arrangement, to the extent that the contribution can reasonably be considered to have been made at any particular time in respect of services rendered by an employee who

(*a*) was resident in Canada at the time the services were rendered, and

(*b*) where the employee was a member of the plan before the employee became a resident of Canada, had been so resident for more than 60 of the 72 months preceding the time the services were rendered,

the following rules apply:

(*c*) another plan or arrangement (in this subsection referred to as the 'resident's arrangement') is deemed to be established at the particular time,

(*d*) the resident's arrangement is deemed to be a separate arrangement independent of the plan,

(*e*) the resident's arrangement is deemed to be a retirement compensation arrangement the custodian of which is the recipient of the contribution,

(*f*) the contribution is deemed to have been made under the resident's arrangement and not under the plan, and

(*g*) all property that can reasonably be considered to derive from the contribution is deemed to be property held in connection with the resident's arrangement and not in connection with the plan."

► 207.6(5.1) ◄

(5.1) Resident's contribution. For the purpose of subsection (5), "resident's contribution" means such part of a contribution made under a plan or arrangement (in this subsection referred to as the "plan") at a time when the plan would, but for paragraph (*l*) of the definition "retirement compensation arrangement" in subsection 248(1), be a retirement compensation arrangement as

(*a*) is not a prescribed contribution; and

(*b*) can reasonably be considered to have been made in respect of services rendered by an individual to an employer in a period

(i) throughout which the individual was resident in Canada and rendered services to the employer that were primarily services rendered in Canada or services rendered in connection with a business carried on by the employer in Canada (or a combination of such services), and

(ii) at the beginning of which the individual had been resident in Canada throughout at least 60 of the 72 preceding calendar months, where the individual was non-resident at any time before the

period and became a member of the plan before the end of the month after the month in which the individual became resident in Canada,

and, for the purpose of this paragraph, where benefits provided to an individual under a particular plan or arrangement are replaced by benefits under another plan or arrangement, the other plan or arrangement shall be deemed, in respect of the individual, to be the same plan or arrangement as the particular plan or arrangement.

History: S. 207.6(5.1) was added by S.C. 1994, c. 21, s. 94(1), applicable after October 8, 1986.

Regulations: 6804(4)–(7).

► 207.6(6) ◄

(6) Prescribed plan or arrangement. For the purposes of the provisions of this Act relating to retirement compensation arrangements, the following rules apply in respect of a prescribed plan or arrangement:

(*a*) the plan or arrangement shall be deemed to be a retirement compensation arrangement;

(*b*) an amount credited at any time to the account established in the accounts of Canada or a province in connection with the plan or arrangement shall be, except to the extent that it is in respect of a refund determined under subsection 207.7(2), deemed to be a contribution under the plan or arrangement at that time;

(*c*) the custodian of the plan or arrangement shall be deemed to be

(i) where the account is established in the accounts of Canada, Her Majesty in right of Canada, and

(ii) where the account is established in the accounts of a province, Her Majesty in right of that province; and

(*d*) the subject property of the plan or arrangement, at any time, shall be deemed to include an amount of cash equal to the balance at that time in the account.

History: S. 207.6(6) was added by S.C. 1994, c. 7, Sched. VIII, s. 121(1), applicable after 1991.

Related Sections: S. 8(1)(*m*.2) Employee RCA contributions; s. 207.5(1), "subject property of a retirement compensation arrangement"; s. 207.7(2) Refund; s. 248(1), "retirement compensation arrangement".

Regulations: 6801.1(2).

► 207.6(7) ◄

(7) Transfers. Where an amount (other than an amount that is part of a series of periodic payments) is transferred directly to a retirement compensation arrangement (other than an arrangement the custodian of which is non-resident or which is deemed by subsection (5) to be a retirement compensation arrangement) from another retirement compensation arrangement,

(*a*) the amount shall not, solely because of the transfer, be included in computing a taxpayer's income under Part I;

(*b*) no deduction may be made in respect of the amount in computing a taxpayer's income under Part I; and

(*c*) the amount is considered, for the purpose of the definition "refundable tax" in subsection 207.5(1), to be paid as a distribution to one or more persons under the arrangement from which the amount is transferred and to be a contribution made under the arrangement to which the amount is transferred.

History: S. 207.6(7) was added by S.C. 1998, c. 19, s. 212(1), applicable to amounts transferred after 1995.

Related Sections: S. 8(1)(*m*.2) Employee RCA contributions; s. 12(1)(*n*.3) Retirement compensation arrangement; s. 20(1)(*r*) Employer's contributions under retirement compensation arrangement; s. 56(1)(*x*) Retirement compensation arrangement — employee recipient; s. 56(1)(*z*) Retirement compensation arrangement — non-employee recipient; s. 60(*t*) RCA distributions; s. 60(*u*) RCA dispositions; s. 212(1)(*j*) Benefits.

SECTION 207.7:

► 207.7(1) ◄

(1) Tax payable. Every custodian of a retirement compensation arrangement shall pay a tax under this Part for each taxation year of an RCA trust under the arrangement equal to the amount, if any, by which the refundable tax of the arrangement at the end of the year exceeds the refundable tax of the arrangement at the end of the immediately preceding taxation year, if any.

Forms: T3-RCA.

► 207.7(2) ◄

(2) Refund. Where the custodian of a retirement compensation arrangement has filed a return under this Part for a taxation year within three years after the end of the year, the Minister

(*a*) may, on mailing the notice of assessment for the year or a notification that no tax is payable for the year, refund without application therefor an amount equal to the amount, if any, by which the refundable tax of the arrangement at the end of the immediately preceding year exceeds the refundable tax of the arrangement at the end of the year; and

(*b*) shall, with all due dispatch, make such a refund after mailing the notice of assessment if application therefor has been made in writing by the custodian within three years after the day of mailing of a notice of an original assessment for the year or of a notification that no tax is payable for the year.

Forms: T3-RCA.

► 207.7(3) ◄

(3) Payment of tax. Every custodian of a retirement compensation arrangement shall, within 90 days after the end of each taxation year of an RCA trust under the arrangement,

(*a*) file with the Minister a return for the year under this Part in prescribed form and containing prescribed information, without notice or demand therefor;

(*b*) estimate in the return the amount of tax, if any, payable by the custodian under this Part for the year; and

(*c*) pay to the Receiver General the amount of tax, if any, payable by the custodian under this Part for the year.

Forms: T3-RCA.

Guides: T4041 Retirement Compensation Arrangements Guide.

► 207.7(4) ◄

(4) Provisions applicable to Part. Subsections 150(2) and (3), sections 152 and 158, subsections 161(1) and (11), sections 162 to 167 and Division J of Part I are applicable to this Part with such modifications as the circumstances require.

Forms: T3-RCA.

Guides: T4041 Retirement Compensation Arrangements Guide.

Part XII

Tax in Respect of Certain Royalties, Taxes, Lease Rentals, etc., Paid to a Government by a Tax Exempt Person [Repealed]

History: Part XII [s. 208] was repealed by S.C. 2003, c. 28, s. 15(1), applicable to taxation years that begin after 2006.

SECTION 208:

► 208(1) ◄

(1) Tax payable by exempt person. [Repealed by S.C. 2003, c. 28, s. 15(1).]

History: S. 208(1) was repealed by S.C. 2003, c. 28, s. 15(1), applicable to taxation years that begin after 2006. S. 208(1) formerly read:

"S. 208. (1) *Tax payable by exempt person.* Where in a taxation year an amount (other than an amount to which paragraph 18(1)(*l.1*) or (*m*) applies) was paid, payable, distributed or distributable in any manner whatever by a person (other than a prescribed person) who was exempt from tax under Part I on that person's taxable income to anyone in respect of any production from a Canadian resource property of the person of petroleum, natural gas or other related hydrocarbons or of metals or minerals to any stage that is not beyond the specified stage or in respect of any revenue or income that may reasonably be regarded as attributable to that production, the person shall, in respect of the year, pay a tax under this Part equal to 33 1/3% of the lesser of

(*a*) the total of all amounts in respect of the property, each of which is

(i) an amount that became receivable in the year and that was required by paragraph 12(1)(*o*) to be included in computing the person's income for the year,

(ii) an amount that was paid or became payable by the person in the year and that by virtue of paragraph 18(1)(*l.1*) or (*m*) was not deductible in computing the person's income for the year,

(iii) an amount by which the person's proceeds of disposition were increased by virtue of subsection 69(6) in the year, or

(iv) an amount by which the person's cost of acquisition was decreased by virtue of subsection 69(7) in the year, and

(*b*) the proportion of the amount determined under paragraph (*a*) that

(i) the total of all amounts each of which is an amount (other than an amount to which paragraph 18(1)(*l.1*) or (*m*) applies) that was paid, payable, distributed or distributable by the person in the year in any manner whatever to

(A) another person (other than a person whose taxable income is exempt from tax under Part I), or

(B) another person whose taxable income is exempt from tax under Part I, where the amount was paid, payable, distributed or distributable as part of a transaction or event or series of transactions or events to which any person whose taxable income is not exempt from tax under Part I was a party

in respect of any production from the property of petroleum, natural gas or other related hydrocarbons or of metals or minerals to any stage that is not beyond the specified stage or in respect of any revenue or income that can reasonably be regarded as attributable to that production

is of

(ii) the amount, if any, by which the total of

(A) the income of the person from the property for the year from the production of petroleum, natural gas or other related hydrocarbons or of metals or minerals to any stage that is not beyond the specified stage, computed in accordance with Part I on the assumption that the property was the person's only source of income and that the person was allowed only those deductions in computing income from the property (other than a deduction under paragraph 20(1)(*v.1*) or section 65) that may reasonably be regarded as applicable to that income from the property, and

(B) the amount determined under subparagraph (i)

exceeds

(C) the amount determined under paragraph (*a*)."

S. 208(1)(*b*)(i) was amended by S.C. 1994, c. 7, Sched. II, s. 169(1), applicable to the 1988 and subsequent taxation years. S. 208(1)(*b*)(i) formerly read:

"(i) the total of all amounts each of which is an amount (other than an amount to which paragraph 18(1)(*l.1*) or (*m*) applies) that was paid, payable, distributed or distributable in the year in any manner whatever to anyone in respect of any production from the property of petroleum, natural gas or other related hydrocarbons or of metals or minerals to any stage that is not beyond the specified stage or in respect of any revenue or income that may reasonably be regarded as attributable to that production"

Related Sections: S. 208(1.1) Definition of "specified stage"; s. 248(10) Series of transactions.
Regulations: 1216.

► 208(1.1) ◄

(1.1) Definition of "specified stage". [Repealed by S.C. 2003, c. 28, s. 15(1).]

History: S. 208(1.1) was repealed by S.C. 2003, c. 28, s. 15(1), applicable to taxation years that begin after 2006. S. 208(1.1) formerly read:

"(1.1) *Definition of 'specified stage'.* For the purpose of subsection (1), 'specified stage' means, in respect of the production from a Canadian resource property of a substance,

(*a*) where the substance is petroleum or related hydrocarbons (other than natural gas), the crude oil stage or its equivalent;

(*b*) where the substance is natural gas, the stage of natural gas that is acceptable to a common carrier of natural gas;

(*c*) where the substance is a metal or mineral (other than iron, sulphur or petroleum or related hydrocarbons), the prime metal stage or its equivalent;

(*d*) where the substance is iron, the pellet stage or its equivalent; and

(*e*) where the substance is sulphur, the marketable sulphur stage."

S. 208(1.1) was amended by S.C. 1997, c. 25, s. 58(1), applicable to taxation years that begin after 1996. S. 208(1.1) formerly read:

"(1.1) *Definition of 'specified stage'.* For the purpose of subsection (1), 'specified stage' means, in respect of the production from a Canadian resource property

(*a*) where the production is petroleum, natural gas or related hydrocarbons from an oil or gas well or a mineral resource, the crude oil stage or its equivalent;

(*b*) where the production is metal or minerals (other than iron or petroleum or related hydrocarbons) from a mineral resource, the prime metal stage or its equivalent; and

(*c*) where the production is iron from a mineral resource, the pellet stage or its equivalent."

► 208(2) ◄

(2) Return and payment of tax. [Repealed by S.C. 2003, c. 28, s. 15(1).]

History: S. 208(2) was repealed by S.C. 2003, c. 28, s. 15(1), applicable to taxation years that begin after 2006. S. 208(2) formerly read:

"(2) *Return and payment of tax.* A person liable to pay a tax under this Part in respect of a year shall, on or before its balance-due day for a taxation year,

(*a*) file with the Minister a return for the year under this Part in prescribed form and containing prescribed information, without notice or demand therefor;

(*b*) estimate in the return the amount of tax payable by the person under this Part in respect of the year; and

(*c*) pay to the Receiver General the tax payable by the person under this Part for the year."

S. 208(2), the portion before paragraph (*a*) was replaced by S.C. 2003, c. 15, s. 125(1), applicable to taxation years that begin after June 2003. S. 208(2), the portion before paragraph (*a*) formerly read:

"(2) *Return and payment of tax.* A person liable to pay a tax under this Part in respect of a year shall, within 3 months from the end of the year,"

Forms: T2026.

► 208(3) ◄

(3) Liability of trustee. [Repealed by S.C. 2003, c. 28, s. 15(1).]

History: S. 208(3) was repealed by S.C. 2003, c. 28, s. 15(1), applicable to taxation years that begin after 2006. S. 208(3) formerly read:

"(3) *Liability of trustee.* Where a trustee of a trust liable to pay tax under subsection (1) does not pay to the Receiver General the amount of the tax within the time specified in subsection (2), the trustee is personally liable to pay on behalf of the trust the full amount of the tax and is entitled to recover from the trust any amount paid by the trustee as tax under this section."

► 208(4) ◄

(4) Provisions applicable to Part. [Repealed by S.C. 2003, c. 28, s. 15(1).]

History: S. 208(4) was repealed by S.C. 2003, c. 28, s. 15(1), applicable to taxation years that begin after 2006. S. 208(4) formerly read:

"(4) *Provisions applicable to Part.* Subsections 150(2) and (3), sections 152 and 158, subsections 161(1) and (11), sections 162 to 167 and Division J of Part I are applicable to this Part with such modifications as the circumstances require."

Part XII.1
Tax on Carved-Out Income

SECTION 209:

► 209(1) ◄

(1) Definitions. For the purposes of this Part,

"carved-out income" — "carved-out income" of a person for a taxation year from a carved-out property means the amount, if any, by which

(*a*) the person's income for the year attributable to the property computed under Part I on the assumption that in computing income no deduction was allowed under section 20, subdivision e of Division B of Part I or section 104,

exceeds the total of

(*b*) the amount deducted under subsection 66.4(2) in computing the person's income for the year to the extent that it may reasonably be considered to be attributable to the property, and

(*c*) to the extent that the property is an interest in a bituminous sands deposit or oil shale deposit, the amount deducted under subsection 66.2(2) in computing the person's income for the year to the extent that it can reasonably be considered to be attributable to the cost of that interest;

History: S. 209(1), paragraph (*a*) of the definition "carved-out income" was replaced by S.C. 2003, c. 28, s. 16(1), applicable to taxation years that begin after 2006. S. 209(1), paragraph (*a*) of the definition "carved-out income" formerly read:

"(*a*) the person's income for the year attributable to the property computed under Part I on the assumption that in computing that income no deduction was allowed under section 20 (other than a deduction under paragraph 20(1)(*v.1*)), subdivision e of Division B of Part I or section 104,"

S. 209(1), paragraph (*c*) of the definition "carved-out income" was amended by S.C. 1997, c. 25, s. 59(1), applicable after March 6, 1996. That part formerly read:

"(*c*) to the extent that the property is an interest in a bituminous sands deposit, oil sands deposit or oil shale deposit, the amount deducted under subsection 66.2(2) in computing the person's income for the year to the extent that it may reasonably be considered to be attributable to the cost of that interest;"

Related Sections: S. 66(14.6) Deduction of carved-out income.

"carved-out property" — "carved-out property" of a person means

(*a*) a Canadian resource property where

(i) all or substantially all of the amount that the person is or may become entitled to receive in respect of the property may reasonably be considered to be limited to a maximum amount or to an amount determinable by reference to a stated quantity of production from a mineral resource or an accumulation of petroleum, natural gas or related hydrocarbons,

(ii) the period of time during which the person's interest in the income attributable to the property may reasonably be expected to continue is

(A) where the property is a head lease or may reasonably be considered to derive from a head lease, less than the lesser of 10 years and the remainder of the term of the head lease, and

(B) in any other case, less than 10 years,

(iii) the person's interest in the income attributable to the property, expressed as a percentage of production for any period, may reasonably be expected to be reduced substantially,

(A) where the property is a head lease or may reasonably be considered to derive from a head lease, at any time before

(I) the expiration of a period of 10 years commencing when the property was acquired, or

(II) the expiration of the term of the head lease,

whichever occurs first, and

(B) in any other case, at any time before the expiration of a period of 10 years commencing when the property was acquired, or

(iv) another person has a right under an arrangement to acquire, at any time, the property or a portion thereof or a similar property from the person and it is reasonable to consider that one of the main reasons for the arrangement, or any series of transactions or events that includes the arrangement, was to reduce or postpone tax that would, but for this subparagraph, be payable under this Part, or

(*b*) an interest in a partnership or trust that holds a Canadian resource property where it is reasonable to consider that one of the main reasons for the existence of the interest is to reduce or postpone the tax that would, but for this paragraph, be payable under this Part,

but does not include

(*c*) an interest in respect of a property that was acquired by the person solely in consideration of the person's undertaking under an agreement to incur Canadian exploration expense or Canadian development expense in respect of the property and, where the agreement so provides, to acquire gas or oil well equipment (as defined in subsection 1104(2) of the *Income Tax Regulations*) in respect of the property,

(*c.1*) an interest in respect of a property that was retained by the person under an agreement under which another person obtained an absolute or conditional right to acquire another interest in respect of the property, if the other interest is not carved-out property of the other person because of paragraph (*c*),

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraphs (*c*) and (*c.1*) of the definition "carved-out property" in subsection 209(1) of the Act are replaced by the following:

(*c*) an interest, or for civil law a right, in respect of a property that was acquired by the person solely in consideration of the person's undertaking under an agreement to incur Canadian exploration expense or Canadian development expense in respect of the property and, where the agreement so provides, to acquire gas or

oil well equipment (as defined in subsection 1104(2) of the *Income Tax Regulations*) in respect of the property,

(*c.1*) an interest, or for civil law a right, in respect of a property that was retained by the person under an agreement under which another person obtained an absolute or conditional right to acquire another interest, or for civil law another right, in respect of the property, if the other interest or right is not carved-out property of the other person because of paragraph (*c*),

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*d*) a particular property acquired by the person under an arrangement solely as consideration for the sale of a Canadian resource property (other than a property that, immediately before the sale was a carved-out property of the person) that relates to the particular property except where it is reasonable to consider that one of the main reasons for the arrangement, or any series of transactions or events that includes the arrangement, was to reduce or postpone tax that would, but for this paragraph, be payable under this Act,

(*e*) a property retained or reserved by the person out of a Canadian resource property (other than a property that, immediately before the transaction by which the retention or reservation is made, was a carved-out property of the person) that was disposed of by the person except where it is reasonable to consider that one of the main reasons for the retention or reservation, or any series of transactions or events in which the property or interest was retained or reserved, was to reduce or postpone tax that would, but for this paragraph, be payable under this Act,

(*f*) a property acquired by the person from a taxpayer with whom the person did not deal at arm's length at the time of the acquisition and the property was acquired by the taxpayer or a person with whom the taxpayer did not deal at arm's length

(i) pursuant to an agreement in writing to do so entered into before July 20, 1985, or

(ii) under the circumstances described in this paragraph or paragraph (*d*) or (*e*),

except where it is reasonable to consider that one of the main reasons for the acquisition of the property, or any series of transactions or events in which the property was acquired, was to reduce or postpone tax that would, but for this paragraph, be payable under this Act,

(*f.1*) where the taxable income of the person is exempt from tax under Part I, a property of the person that

(i) does not relate to property of a person whose taxable income is not exempt from tax under Part I, and

(ii) is not, and does not relate to, property that was at any time a carved-out property of any other person, or

(*g*) a prescribed property;

History: S. 209(1), paragraph (*c*) of the definition of "carved-out property", was amended, and paragraph (*c.1*) was added, by S.C. 1994, c. 7, Sched. II, s. 170(1), applicable to property acquired after July 19, 1985. Paragraph (*c*) formerly read:

"(*c*) an interest in respect of a property that was acquired by the person under an agreement solely in consideration of the person's undertaking to incur Canadian exploration expense or Canadian development expense in respect of the property,"

S. 209(1), paragraph (*f.1*) of the definition of "carved-out property" was added by S.C. 1994, c. 7, Sched. II, s. 170(2), applicable to property acquired after 1987.

Related Sections: S. 66(15), "Canadian resource property"; s. 248(10) Series of transactions.

Regulations: 7600.

"*head lease*" — "head lease" means a contract under which

(*a*) Her Majesty in right of Canada or a province grants, or

(*b*) an owner in fee simple, other than Her Majesty in right of Canada or a province, grants for a period of not less than 10 years

any right, licence or privilege to explore for, drill for or take petroleum, natural gas or related hydrocarbons in Canada or to prospect, explore, drill or mine for minerals in a mineral resource in Canada;

"*term*" — "term" of a head lease includes all renewal periods in respect of the head lease.

► 209(2) ◄

(2) Tax. Every person shall pay a tax under this Part for each taxation year equal to 45% of the total of the person's carved-out incomes for the year from carved-out properties.

History: S. 209(2) was amended by S.C. 1994, c. 21, s. 95(1), applicable to the 1992 and subsequent taxation years. S. 209(2) formerly read:

"(2) Every person shall pay a tax under this Part for each taxation year equal to 50% of the total of the person's carved-out incomes for the year from carved-out properties."

Related Sections: S. 66(14.6) Deduction of carved-out income.

► 209(3) ◄

(3) Return. Every person liable to pay tax under this Part for a taxation year shall file with the Minister, not later than the day on or before which the person is or would be, if the person were liable to pay tax under Part I for the year, required under section 150 to file a return of the person's income for the year under Part I, a return for the year under this Part in prescribed form containing an estimate of the amount of tax payable by the person under this Part for the year.

Forms: T2096.

► 209(4) ◄

(4) Payment of tax. Where a person is liable to pay tax for a taxation year under this Part, the person shall pay in respect of the year, to the Receiver General

(*a*) on or before the last day of each month in the year, an amount equal to 1/12 of the amount of tax payable by the person under this Part for the year; and

(*b*) the remainder, if any, of the tax payable by the person under this Part for the year, on or before the person's balance-due day for the year.

History: S. 209(4)(*b*) was replaced by S.C. 2003, c. 15, s. 126(1), applicable to taxation years that begin after June 2003. S. 209(4)(*b*) formerly read:

"(*b*) the remainder, if any, of the tax payable by the person under this Part for the year, on or before the end of the second month following the end of the year."

► 209(5) ◄

(5) Provisions applicable to Part. Subsections 150(2) and (3) and sections 152, 158 and 159, subsections 161(1), (2) and (11), sections 162 to 167 and Division J of Part I are applicable to this Part with such modifications as the circumstances require.

► 209(6) ◄

(6) Partnerships. For the purposes of subsection (1), a partnership shall be deemed to be a person and its taxation year shall be deemed to be its fiscal period.

Part XII.2
Tax on Designated Income of Certain Trusts

SECTION 210: Designated beneficiary.

In this Part, a "designated beneficiary" under a trust at any time means a beneficiary under the trust that was, at that time,

(*a*) a non-resident person;

(*b*) a non-resident-owned investment corporation;

(*c*) a person exempt from tax under Part I by reason of subsection 149(1), where that person acquired an interest in the trust after October 1, 1987 directly or indirectly from a beneficiary under the trust except

(i) where the interest was owned continuously since October 1, 1987 or the date on which the interest was created, whichever is later, by persons exempt from tax under Part I by reason of subsection 149(1), or

(ii) where the person was a trust governed by

(A) a registered retirement savings plan, or

(B) a registered retirement income fund,

and acquired the interest, directly or indirectly, from an individual or the spouse or common-law partner or former spouse or common-law partner of the individual who was, immediately after the interest was acquired, a beneficiary under the trust governed by the fund or plan;

(*d*) a trust resident in Canada (other than a testamentary trust, a mutual fund trust or a trust exempt, because of subsection 149(1), from tax under Part I on all or part of its taxable income), if

(i) a person described in paragraph (*a*), (*b*) or (*c*),

(ii) a partnership described in paragraph (*e*), or

(iii) a trust (other than a trust resident in Canada that is a testamentary trust)

is, at that time, a beneficiary thereunder; or

(*e*) a partnership, if a person described in paragraph (*a*), (*b*) or (*d*), a partnership or a person exempt from tax under Part I by reason of subsection 149(1) is, at that time, a member thereof.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Sections 210 and 210.1 of the Act are replaced by the following:

SECTION 210:

(1) Definitions. The following definitions apply in this Part.

"designated beneficiary" — "designated beneficiary", under a particular trust at any time, means a beneficiary, under the particular trust, who is at that time

(*a*) a non-resident person;

(*b*) a non-resident-owned investment corporation;

(*c*) a person who is, because of subsection 149(1), exempt from tax under Part I on all or part of their taxable income and who acquired an interest as a beneficiary under the particular trust after October 1, 1987 directly or indirectly from a beneficiary under the particular trust except if

(i) the interest was, at all times after the later of October 1, 1987 and the day on which the interest was created, held by persons who were exempt from tax under Part I on all of their taxable income because of subsection 149(1), or

(ii) the person is a trust, governed by a registered retirement savings plan or a registered retirement income fund, who acquired the interest, directly or indirectly, from an individual or the spouse or common-law partner, or former spouse or common-law partner, of the individual who was, immediately after the interest was acquired, a beneficiary under the trust governed by the fund or plan;

(*d*) another trust (referred to in this paragraph as the "other trust") that is not a testamentary trust, a mutual fund trust or a trust that is exempt because of subsection 149(1) from tax under Part I on all or part of its taxable income, if any beneficiary under the other trust is at that time

(i) a non-resident person,

(ii) a non-resident-owned investment corporation,

(iii) a trust that is not

(A) a testamentary trust,

(B) a mutual fund trust,

(C) a trust that is exempt because of subsection 149(1) from tax under Part I on all or part of its taxable income, or

(D) a trust

(I) whose interest, at that time, in the other trust was held, at all times after the day on which the interest was created, either by it or by persons who were exempt because of subsection 149(1) from tax under Part I on all of their taxable income, and

(II) none of the beneficiaries under which is, at that time, a designated beneficiary under it, or

(iv) a person or partnership that

(A) is a designated beneficiary under the other trust because of paragraph (*c*) or (*e*), or

(B) would be a designated beneficiary under the particular trust because of paragraph (*c*) or (*e*) if, instead of being a beneficiary under the other trust, the person or partnership were at that time a beneficiary, under the particular trust, whose interest as a beneficiary under the particular trust were

(I) identical to its interest (referred to in this clause as the "particular interest") as a beneficiary under the other trust,

(II) acquired from each person or partnership from whom it acquired the particular interest, and

(III) held, at all times after the later of October 1, 1987 and the day on which the particular interest was created, by the same persons or partnerships that held the particular interest at those times; or

(*e*) a particular partnership any of the members of which is at that time

(i) another partnership, except if

(A) each such other partnership is a Canadian partnership,

(B) the interest of each such other partnership in the particular partnership is held, at all times after the

day on which the interest was created, by the other partnership or by persons who were exempt because of subsection 149(1) from tax under Part I on all of their taxable income,

(C) the interest of each member, of each such other partnership, that is a person exempt because of subsection 149(1) from tax under Part I on all or part of its taxable income was held, at all times after the day on which the interest was created, by that member or by persons who were exempt because of subsection 149(1) from tax under Part I on all of their taxable income, and

(D) the interest of the particular partnership in the particular trust was held, at all times after the day on which the interest was created, by the particular partnership or by persons who were exempt because of subsection 149(1) from tax under Part I on all of their taxable income,

(ii) a non-resident person,

(iii) a non-resident-owned investment corporation,

(iv) another trust that is, under paragraph (*d*), a designated beneficiary of the particular trust or that would, under paragraph (*d*), be a designated beneficiary of the particular trust if the other trust were at that time a beneficiary under the particular trust whose interest as a beneficiary under the particular trust were

(A) acquired from each person or partnership from whom the particular partnership acquired its interest as a beneficiary under the particular trust, and

(B) held, at all times after the later of October 1, 1987 and the day on which the particular partnership's interest as a beneficiary under the particular trust was created, by the same persons or partnerships that held that interest of the particular partnership at those times, or

(v) a person exempt because of subsection 149(1) from tax under Part I on all or part of its taxable income except if the interest of the particular partnership in the particular trust was held, at all times after the day on which the interest was created, by the particular partnership or by persons who were exempt because of subsection 149(1) from tax under Part I on all of their taxable income.

"*designated income*" — "designated income", of a trust for a taxation year, means the amount that would be the income of the trust for the year determined under section 3 if

(*a*) this Act were read without reference to subsections 104(6), (12) and (30);

(*b*) the trust had no income other than taxable capital gains from dispositions described in paragraph (*c*) and incomes from

(i) real or immovable properties in Canada (other than Canadian resource properties),

(ii) timber resource properties,

(iii) Canadian resource properties (other than properties acquired by the trust before 1972), and

(iv) businesses carried on in Canada;

(*c*) the only taxable capital gains and allowable capital losses referred to in paragraph 3(*b*) were from

(i) dispositions of taxable Canadian property, and

(ii) dispositions of particular property (other than property described in any of subparagraphs 128.1(4)(*b*)(i) to (iii)), or property for which the particular property is substituted, that was transferred at any particular time to a particular trust in circumstances in which subsection 73(1) or 107.4(3) applied, if

(A) it is reasonable to conclude that the property was so transferred in anticipation that a person beneficially interested at the particular time in the particular trust would subsequently cease to reside in Canada, and a person beneficially interested at the particular time in the particular trust did subsequently cease to reside in Canada, or

(B) when the property was so transferred, the terms of the particular trust satisfied the conditions in subparagraph 73(1.01)(*c*)(i) or (iii), and it is reasonable to conclude that the transfer was made in connection with the cessation of residence, on or before the transfer, of a person who was, at the time of the transfer, beneficially interested in the particular trust and a spouse or common-law partner, as the case may be, of the transferor of the property to the particular trust; and

(*d*) the only losses referred to in paragraph 3(*d*) were losses from sources described in any of subparagraphs (*b*)(i) to (iv).

(2) Tax not payable. No tax is payable under this Part for a taxation year by a trust that was throughout the year

(*a*) a testamentary trust;

(*b*) a mutual fund trust;

(*c*) exempt from tax under Part I because of subsection 149(1);

(*d*) a trust to which paragraph (*a*), (*a.1*) or (*c*) of the definition "trust" in subsection 108(1) applies; or

(*e*) non-resident.

SECTION 210.1: Application of Part. [Repealed.]

Applicable: To the 1996 and subsequent taxation years, except that paragraph (*c*) of the definition "designated income" in subsection 210(1) is to be read

(*a*) in respect of dispositions that occur after October 1, 1996 and before December 21, 2002, as follows:

"(*c*) the only taxable capital gains and allowable capital losses referred to in paragraph 3(*b*) were from dispositions of taxable Canadian property; and"

(*b*) in respect of dispositions that occur in a 1996 taxation year and before October 2, 1996, as follows:

"(*c*) the only taxable capital gains and allowable capital losses referred to in paragraph 3(*b*) were from dispositions of property that would have been taxable Canadian property if, at no time in the year, the trust had been resident in Canada; and"

Explanatory Note: Part XII.2 of the Act imposes a special tax on the designated income (as defined in subsection 210.2(2) of the Act) of certain trusts that are resident in Canada with respect to distributions to non-residents and other designated beneficiaries. One of the objectives of Part XII.2 tax is to prevent the minimization of tax on specified Canadian-source income that would otherwise arise where a Canadian trust's income is distributed to a non-resident and is subject only to Part XIII tax. Part XII.2 tax is also meant to discourage transactions between taxable and tax-exempt beneficiaries designed to allow taxable income earned by a trust to be flowed-through to tax-exempt beneficiaries after the acquisition of a trust unit by the tax-exempt beneficiary from the taxable beneficiary.

Section 210 — Definitions and Application

Section 210 of the Act defines "designated beneficiary" for the purpose of Part XII.2.

Section 210 is amended so that a number of definitions that apply for the purposes of Part XII.2 are now found in new subsection 210(1). In addition, new subsection 210(2) replaces section 210.1 of the Act, which is being repealed.

Subsection 210(1) — Definitions

New subsection 210(1) of the Act contains the definitions "designated beneficiary" (previously found in section 210 of the Act) and "designated income" (previously found in subsection 210.2(2) of the Act). These definitions apply in Part XII.2.

"designated beneficiary"

Under paragraphs (*a*) and (*b*) of the definition "designated beneficiary", a designated beneficiary includes, respectively, a non-resident person and a non-resident-owned investment corporation. Under paragraph (*c*) of the definition, a person exempt from tax under Part I of the Act is treated as a designated beneficiary because of owning an interest in a trust (acquired from a beneficiary under the trust) unless, generally speaking, no taxable entity previously owned that interest. Under paragraph (*d*) of the definition, a trust is a designated beneficiary of another trust if a beneficiary of the trust includes, generally, either a person or partnership described in any of paragraphs (*a*), (*b*), (*c*) or (*e*) of the definition or another trust (other than a testamentary trust resident in Canada). Under paragraph (*e*) of the definition, a partnership is a designated beneficiary of a trust if a member of the partnership is a person

described in paragraph (*a*), (*b*) or (*d*) of the definition, another partnership or a person exempt from tax under Part I by reason of subsection 149(1) of the Act.

The opening words of the definition "designated beneficiary" are amended so that the references in the definition to a "trust" under which there may be a designated beneficiary are references to a "particular trust".

Paragraph (*c*) of the definition "designated beneficiary" is amended to clarify that a designated beneficiary of a particular trust includes, except as provided in subparagraphs (*c*)(i) and (ii) of the definition, a person who is, because of subsection 149(1), exempt from tax under Part I on all or part of their taxable income and who acquired an interest in the particular trust after October 1, 1987 directly or indirectly from a beneficiary under the particular trust.

Paragraph (*d*) of the definition "designated beneficiary" is amended so that a designated beneficiary of a particular trust includes another trust (in this commentary referred to as the "other trust") having as a beneficiary any one of the following persons or partnerships:

- under subparagraphs (*d*)(i) and (ii) of the definition, a non-resident person (including a trust) or a non-resident-owned investment corporation;
- under subparagraphs (*d*)(iii) of the definition, any trust, other than
  - a testamentary trust (however, note that if the testamentary trust were non-resident, the other trust would be treated as a designated beneficiary of the particular trust because of subparagraph (*d*)(i)),
  - a mutual fund trust,
  - a trust that is exempt because of subsection 149(1) from tax under Part I on all or part of its taxable income (however, note that under subparagraph (*d*)(iv), described below, such a trust may cause the other trust to be a designated beneficiary of the particular trust), and
  - a trust none of the beneficiaries under which is, at that time, a designated beneficiary under it and whose interest, at that time, in the other trust was held, at all times after the day on which the interest was created, either by it or by persons who were exempt because of subsection 149(1) from tax under Part I on all of their taxable income;
- under subparagraph (*d*)(iv) of the definition, a person (including a trust) or partnership that
  - is a designated beneficiary under the other trust because of paragraph (*c*) of the definition (i.e., a person who is, because of subsection 149(1), exempt from tax under Part I on all or part of their taxable income and who acquired an interest in the particular trust after October 1, 1987 directly or indirectly from a beneficiary under the particular trust) or because of paragraph (*e*) of the definition, or
  - would, based on the assumptions set out it in clause (*d*)(iv)(B), be a designated beneficiary under the particular trust because of paragraph (*c*) or (*e*) of the definition.

Note that a person or partnership that is a beneficiary of the other trust need only be described in any of one of subparagraphs (*d*)(i) to (iv) in order for the other trust to be a designated beneficiary of the particular trust. Note also that references in paragraph (*d*) of the definition to the expression "resident in Canada" are removed as these are unnecessary given that paragraph (*a*) of the definition provides that a non-resident person is a designated beneficiary.

Paragraph (*d*) of the definition is also amended to provide that the other trust will not be treated, under that paragraph, as a designated beneficiary of the particular trust if it is a testamentary trust, a mutual fund trust, or a trust that is exempt because of subsection 149(1) from tax under Part I on all or part of its taxable income. However, these excluded trusts may be treated as designated beneficiaries of the particular trust under paragraphs (*a*) or (*c*) of that definition (e.g., a non-resident testamentary trust).

Amended paragraph (*e*) of the definition provides, in new subparagraph (*e*)(i), that a designated beneficiary of a particular trust includes a particular partnership any of the members of which is another partnership. However, no such other partnership will cause the particular partnership to be a designated beneficiary under the particular partnership if

- all such other partnerships are Canadian partnerships (as defined in subsection 102(1) of the Act),
- the interest of each such other partnership in the particular partnership is held, at all times after the day on which the interest was created, by the other partnership or by persons who were exempt because of subsection 149(1) from tax under Part I on all of their taxable income,
- the interest of each member, of each such other partnership, that is a person exempt because of subsection 149(1) from tax under Part I on all or part of its taxable income was held, at all times after the day on which the interest was created, by that member or by persons who were exempt because of subsection 149(1) from tax under Part I on all of their taxable income, and
- the particular partnership's beneficial interest in the particular trust is held, at all times after the day on which the interest was created, by the particular partnership or by persons who were exempt because of subsection 149(1) from tax under Part I on all of their taxable income.

Under subparagraphs (*e*)(ii) to (iv), a particular partnership will be a designated beneficiary under a particular trust if any one of the partnership's members is a non-resident person, a non-resident-owned investment corporation, or a specified person. For this purpose, a specified person means a trust that is a designated beneficiary of the particular trust because of paragraph (*d*) of the definition or a trust that would be such a designated beneficiary on the following assumptions: the other trust were at that time a beneficiary under the particular trust whose interest as a beneficiary under the particular trust were

- acquired from each person or partnership from whom the particular partnership acquired its interest as a beneficiary under the particular trust, and
- held at all times after the later of October 1, 1987 and the day on which the particular partnership's interest as a beneficiary under the particular trust was created, by the same persons or partnerships that held at those times that interest of the particular partnership.

New subparagraph (*e*)(v) of the definition provides that a particular partnership will be a designated beneficiary of a particular trust if any of the members of the particular partnership is a person exempt because of subsection 149(1) from tax under Part I on all or part of its taxable income, unless the interest of the particular partnership in the particular trust was held, at all times after the day on which the interest was created, by the particular partnership or by persons who were exempt because of subsection 149(1) from tax under Part I on all of their taxable income.

Note that, for the purposes of the definition "designated beneficiary", a new rule in section 132.2 applies in respect of certain trust units acquired by a beneficiary under a "qualifying exchange" (as defined in subsection 132.2(1)). For more detail, see the commentary on section 132.2.

Note as well that paragraph 210.2(3)(*b*) is amended to ensure that subsection 210.2(3) does not apply to a non-resident person that would be a designated beneficiary under the trust if the definition "designated beneficiary" in subsection 210(1) were read without reference to its paragraph (*a*). This amendment applies to the 1996 and subsequent taxation years.

This amendment applies to the 1996 and subsequent taxation years.

"designated income"

The tax under Part XII.2 of the Act is calculated by reference to a trust's "designated income" (as determined under subsection 210.2(2)).

Subsection 210.2(2) is being replaced (for more detail, see the commentary below) and the definition "designated income" is now found in subsection 210(1) of the Act.

Paragraphs (*a*), (*b*) and (*d*) of the new definition "designated income" in subsection 210(1) are largely unchanged from the equivalent provisions found in repealed subsection 210.2(2).

Paragraph (*c*) of the new definition replaces paragraph 210.2(2)(*b*). Under subparagraph (*c*)(i), designated income is calculated by reference to taxable capital gains and allowable cap-

ital losses from dispositions of the trust's taxable Canadian property. Subparagraph (*c*)(ii) provides that a trust's designated income is also calculated by reference to taxable capital gains and allowable capital losses from a disposition by the trust of particular property (other than property described in any of subparagraphs 128.1(4)(*b*)(i) to (iii) of the Act).

In this context, particular property (or property for which the particular property is a substitute) must be property (referred to in this commentary as the "transferred property") that was transferred to a particular trust in circumstances in which subsection 73(1) or 107.4(3) of the Act applied. This condition will be met whether the particular trust is the trust in respect of which the designated income is being determined, or any other trust to which the transferred property was transferred in circumstances in which subsection 73(1) or 107.4(3) applied and that subsequently transferred, directly or indirectly, the property to the trust in respect of which the designated income is being determined.

In addition, clauses (*c*)(ii)(A) and (B) of the definition require

- that it be reasonable to conclude that the transferred property was, at a particular time, transferred to the particular trust in anticipation of the emigration of a person beneficially interested at the particular time in the particular trust and that a person (whether the anticipated person or another) beneficially interested at that time in the particular trust subsequently ceases to reside in Canada, or
- at the particular time that the transferred property was transferred to the particular trust, that the terms of the particular trust satisfy the conditions in subparagraph 73(1.01)(*c*)(i) or (iii) of the Act and that it be reasonable to conclude that the transfer was made in connection with the cessation of residence, on or before that time, of a person who was, at that time, beneficially interested in the particular trust and a spouse or common-law partner, as the case may be, of the transferor of the transferred property to the particular trust.

These amendments generally apply for the 1996 and subsequent taxation years. Subparagraph (*c*)(ii) of the definition as described above applies, in effect, to dispositions, of property by a trust, that occur after December 20, 2002.

Subsection 210(2) and section 210.1 — Application of Part XII.2

Section 210.1 of the Act provides a list of types of trusts to which Part XII.2 does not apply.

Section 210.1 is being repealed. The list of types of trusts to which Part XII.2 does not apply is now found in new subsection 210(2). New subsection 210(2), consequential on the amendments to the definition "designated beneficiary" (described in the commentary above), also clarifies that it applies only to determine to which trusts the special Part XII.2 tax does not apply. Subsection 210(2) does not apply, for example, to determine whether a trust referred to in that subsection may have a designated beneficiary.

This amendment applies to the 1996 and subsequent taxation years.

History: S. 210(*c*)(ii), the portion after clause (B) was amended by S.C. 2000, c. 12, Sched. 2, s. 2(k), applicable January 1, 2001, coming into force on July 31, 2000. S. 210(*c*)(ii), the portion after clause (B) formerly read: "and acquired the interest, directly or indirectly, from an individual or the spouse or former spouse of the individual who was, immediately after the interest was acquired, a beneficiary under the trust governed by the fund or plan;"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 210(*d*), that portion preceding subparagraph (i), was amended by S.C. 1994, c. 21, s. 96(1), applicable to the 1993 and subsequent taxation years. That portion formerly read:

"(*d*) a trust resident in Canada (other than a testamentary trust or a trust exempt from tax under Part I by reason of subsection 149(1)), if"

Related Sections: S. 104(1) Reference to trust or estate; s. 108(1), "inter vivos trust", "testamentary trust"; s. 132(6) Meaning of "mutual fund trust"; s. 133(8), "non-resident-owned investment corporation"; s. 146(1), "registered retirement savings plan"; s. 146.3(1), "registered retirement income fund".

SECTION 210.1: Application of Part.

This Part does not apply in a taxation year to a trust that was throughout the year

(*a*) a testamentary trust;

(*b*) a mutual fund trust;

(*c*) a trust that was exempt from tax under Part I by reason of subsection 149(1);

(*d*) a trust described in paragraph (*a*), (*a*.1) or (*c*) of the definition "trust" in subsection 108(1); or

(*e*) a non-resident trust.

Editorial Note: Former Bill C-10 proposes to repeal section 210.1, applicable to the 1996 and subsequent taxation years. See the pending amendment following section 210.

History: S. 210.1(*d*) was amended by S.C. 2001, c. 17, s. 171(1), applicable to the 1999 and subsequent taxation years. S. 210.1(*d*) formerly read:

"(*d*) a trust described in paragraph (*a*) or (*c*) of the definition of that expression in subsection 108(1); or"

SECTION 210.2:

► 210.2(1) ◄

(1) Tax on income of trust. Subject to section 210.3, where an amount in respect of the income of a trust for a taxation year is or would, if all beneficiaries under the trust were persons resident in Canada to whom Part I was applicable, be included in computing the income under Part I of a person by reason of subsection 104(13) or 105(2), the trust shall pay a tax under this Part in respect of the year equal to 36% of the least of

(*a*) the designated income of the trust for the year,

(*b*) the amount that, but for subsections 104(6) and (30), would be the income of the trust for the year, and

(*c*) $^{100}/_{64}$ of the amount deducted under paragraph 104(6)(*b*) in computing the trust's income under Part I for the year.

Information Circulars: IC 77-1R5 Deferred profit sharing plan.
Tax Profile: December 2007 — Non-Resident Investment in Canadian Real Estate; September 2003 — Non-resident Investment in Canadian Real Estate.

► 210.2(1.1) ◄

(1.1) Amateur athlete trusts. Notwithstanding section 210.1, where an amount described in subsection 143.1(2) in respect of an amateur athlete trust would, if Part I were applicable, be required to be included in computing the income for a taxation year of a designated beneficiary under the trust, the trust shall pay a tax under this Part in respect of the year equal to 36% of $^{100}/_{64}$ of that amount.

Editorial Note: See the pending amendment reproduced following subsection 210.2(2), which would replace subsections 210.2(1.1) and (2).

History: S. 210.2(1.1) was added by S.C. 1994, c. 7, Sched. VIII, s. 122(1), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 143.1(1) Amateur athletes' reserve funds; s. 143.1(2) Amounts included in beneficiary's income; s. 210 Designated beneficiary; s. 248(1), "amateur athlete trust".
Forms: T3ATH(IND).

► 210.2(2) ◄

(2) Designated income. For the purposes of subsection (1), the designated income of a trust for a taxation year means the amount that, but for subsections 104(6), (12) and (30), would be the income of the trust for the year determined under section 3 if

(*a*) it had no income other than taxable capital gains from dispositions described in paragraph (*b*) and incomes from

(i) real properties in Canada (other than Canadian resource properties),

(ii) timber resource properties,

(iii) Canadian resource properties (other than properties acquired by the trust before 1972), and

(iv) businesses carried on in Canada;

(*b*) the only taxable capital gains and allowable capital losses referred to in paragraph 3(*b*) were from dispositions of taxable Canadian property; and

(*c*) the only losses referred to in paragraph 3(*d*) were losses from sources described in subparagraphs (*a*)(i) to (iv).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsections 210.2(1.1) and (2) of the Act are replaced by the following:

(1.1) Amateur athlete trusts. [Repealed.]

(2) Amateur athlete trusts. Notwithstanding subsection 210(2), a trust shall pay a tax under this Part in respect of a particular taxation year of the trust equal to 56.25% of the amount that is required by subsection 143.1(2) to be included in computing the income under Part I for a taxation year of a beneficiary under the trust, if

(*a*) the beneficiary is at any time in the particular taxation year a designated beneficiary under the trust; and

(*b*) the particular taxation year ends in that taxation year of the beneficiary.

Applicable: To the 1996 and subsequent taxation years.

Explanatory Note: Subsection 210.2(1.1) of the Act extends the tax under Part XII.2 to amateur athlete trusts, which are provided for in section 143.1, in circumstances where amounts are distributed by such trusts to non-resident beneficiaries.

Subsection 210.2(1.1) of the Act is amended by renumbering it as subsection 210.2(2). In addition, the reference in that subsection to section 210.1 is, given that section's renumbering as subsection 210(2), replaced with a reference to subsection 210(2). The amended subsection also replaces the existing reference to the phrase "36% of 100/64" with the numerical equivalent of "56.25%". Finally, the provision is amended to clarify that Part XII.2 tax applies to a trust for a particular taxation year of the trust on the amount that is required by subsection 143.1(2) to be included in computing the income under Part I for a taxation year of a beneficiary under the trust, only if

- the beneficiary is at any time in the particular taxation year a designated beneficiary under the trust, and
- the particular taxation year ends in that taxation year of the beneficiary.

This amendment applies to the 1996 and subsequent taxation years.

History: S. 210.2(2)(*b*) was amended by S.C. 2001, c. 17, s. 172(1), applicable after October 1, 1996. S. 210.2(2)(*b*) formerly read:

"(*b*) the only taxable capital gains and allowable capital losses referred to in paragraph 3(*b*) were from dispositions of property that would have been taxable Canadian property if, at no time in the year, the trust had been resident in Canada; and"

► 210.2(3) ◄

(3) Tax deemed paid by beneficiary. Where an amount (in this subsection and subsection 210.3(2) referred to as the "income amount") in respect of the income of a trust for a taxation year is, by reason of subsection 104(13) or 105(2), included in computing

(*a*) the income under Part I of a person who was not at any time in the year a designated beneficiary under the trust, or

(*b*) the income of a non-resident person (other than a person who, at any time in the year, would be a designated beneficiary under the trust if section 210 were read without reference to paragraph 210(*a*)) that is subject to tax under Part I by reason of subsection 2(3) and is not exempt from tax under Part I by reason of a provision contained in a tax convention or agreement with another country that has the force of law in Canada,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 210.2(3)(*b*) of the English version of the Act is replaced by the following:

(*b*) the income of a non-resident person (other than a person who, at any time in the year, would be a designated beneficiary under the trust if section 210 were read without reference to paragraph (*a*) of the definition "designated beneficiary" in that section) that is subject to tax under Part I by reason of subsection 2(3) and is not exempt from tax under Part I by reason of a provision contained in a tax treaty,

Applicable: To the 1996 and subsequent taxation years, except that in applying paragraph 210.2(3)(*b*) for the 1996 and 1997 taxation years the reference to "treaty" is to be read as a reference to "convention or agreement with another country that has the force of law in Canada".

Explanatory Note: Note as well that paragraph 210.2(3)(*b*) is amended to ensure that subsection 210.2(3) does not apply to a non-resident person that would be a designated beneficiary under the trust if the definition "designated beneficiary" in subsection 210(1) were read without reference to its paragraph (*a*). This amendment applies to the 1996 and subsequent taxation years.

This amendment applies to the 1996 and subsequent taxation years.

an amount determined by the formula

$$A \times \frac{B}{C}$$

where

A is the tax paid under this Part by the trust for the year,

B is the income amount in respect of the person, and

C is the total of all amounts each of which is an amount that is or would be, if all beneficiaries under the trust were persons resident in Canada to whom Part I was applicable, included in computing the income under Part I of a beneficiary under the trust by reason of subsection 104(13) or 105(2) in respect of the year,

shall, if designated by the trust in respect of the person in its return for the year under this Part, be deemed to be an amount paid on account of the person's tax payable under Part I for the person's taxation year in which the taxation year of the trust ends, on the day that is 90 days after the end of the taxation year of the trust.

Interpretation Bulletins: *Secondary* — IT-342R Trusts — Income payable to beneficiaries.

► 210.2(4) ◄

(4) Designations in respect of partnerships. Where a taxpayer is a member of a partnership in respect of which an amount is designated by a trust for a taxation year of the trust (in this subsection referred to as the "particular year") under subsection (3),

(*a*) no amount shall be deemed to be paid on account of the partnership's tax payable under Part I by reason of subsection (3) except in the application of that subsection for the purposes of subsection 104(31), and

(*b*) an amount determined by the formula

$$A \times \frac{B}{C}$$

where

A is the amount so designated,

B is the amount that may reasonably be regarded as the share of the taxpayer in the designated income of the trust received by the partnership in the fiscal period of the partnership in which the particular year ends (that fiscal period being referred to in this subsection as the "partnership's period"), and

C is the designated income received by the partnership from the trust in the partnership's period,

shall be deemed to be an amount paid on account of the taxpayer's tax payable under Part I for the person's taxation year in which the partnership's period ends, on the last day of that year.

► 210.2(5) ◄

(5) Returns. A trust shall, within 90 days after the end of each taxation year,

(*a*) file with the Minister a return for the year under this Part in prescribed form and containing prescribed information, without notice or demand therefor;

(*b*) estimate in the return the amount of tax, if any, payable by it under this Part for the year; and

(*c*) pay to the Receiver General the tax, if any, payable by it under this Part for the year.

Forms: T3 SCH 10.

► 210.2(6) ◄

(6) Liability of trustee. A trustee of a trust is personally liable to pay to the Receiver General on behalf of the trust the full amount of any tax payable by the trust under this Part to the extent that the amount is not paid to the Receiver General within the time specified in subsection (5), and the trustee is entitled to recover from the trust any such amount paid by the trustee.

► 210.2(7) ◄

(7) Provisions applicable to Part. Subsections 150(2) and (3), sections 152 and 158, subsections 161(1) and (11), sections 162 to 167 and Division J of Part I are applicable to this Part with such modifications as the circumstances require.

SECTION 210.3:

► 210.3(1) ◄

(1) Where no designated beneficiaries. No tax is payable under this Part by a trust for a taxation year in respect of which the trustee has certified in the trust's return under this Part for the year that no beneficiary under the trust was a designated beneficiary in the year.

► 210.3(2) ◄

(2) Where beneficiary deemed not designated. Where a trust would, if the trust paid tax under this Part for a taxation year, be entitled to designate an amount under subsection 210.2(3) in respect of a non-resident beneficiary and the income amount in respect of the beneficiary is included in computing the income of the beneficiary which is subject to tax under Part I by reason of subsection 2(3) and is not exempt from tax under Part I by reason of a provision contained in a tax convention or agreement with another country that has the force of law in Canada, for the purposes of subsection (1), the beneficiary shall be deemed not to be a designated beneficiary of the trust at any time in the year.

Part XII.3
Tax on Investment Income of Life Insurers

SECTION 211:

► 211(1) ◄

(1) Definitions. For the purposes of this Part,

"existing guaranteed life insurance policy" — "existing guaranteed life insurance policy", at any time, means a non-participating life insurance policy in Canada in respect of which

(*a*) the amount of every premium that became payable before that time and after December 31, 1989,

(*b*) the number of premium payments under the policy, and

(*c*) the amount of each benefit under the policy at that time

were fixed and determined on or before December 31, 1989;

History: S. 211 was amended and renumbered 211(1) by S.C. 1994, c. 7, Sched. II, s. 171(1), applicable to taxation years beginning after 1989 and, where an insurer has elected under subsection 172(3), to all taxation years of the insurer to which the election relates and, where such an election was made,

(*a*) in respect of each taxation year of the insurer to which the election relates, each reference to "December 31, 1989" in the definitions in subsection 211(1), as the reference relates to a life insurance policy, shall be read as a reference to the later of
(i) the day the policy was issued, and
(ii) March 2, 1988, and

(*b*) notwithstanding subsections 152(4) to (5), such assessments of tax, interest and penalties shall be made as are necessary to give effect to the election to the extent it applies in respect of this section.

S. 211 was amended by S.C. 1994, c. 7, Sched. II, s. 171(2), to provide that in its application to taxation years ending after 1987 and beginning before 1990, except a taxation year of an insurer to which subsection 172(1) of that Act applies because of an election made by the insurer under subsection 172(3) of that Act, section 211 of the Act shall be read as though it included the following definition:

" *'benefits payable under a life insurance policy'* — 'benefits payable under a life insurance policy' includes

(*a*) a policy dividend, an experience rating refund and a refund of premiums under the policy,

(*b*) any amount payable under a reinsurance arrangement in respect of the policy, and

(*c*) any amount deemed by paragraph 138.1(1)(*g*) to be a payment under the terms and conditions of the policy,

but does not include a policy loan or interest on funds left on deposit with the insurer under the terms of the policy;"

S. 211 formerly read:

"S. 211. *Definitions.* For the purposes of this Part,

'Canada security' — 'Canada security' has the meaning assigned by subsection 138(12);

'gross investment revenue' — 'gross investment revenue' has the meaning assigned by subsection 138(12);

'life insurance policy' and 'life insurance policy in Canada' — 'life insurance policy' and 'life insurance policy in Canada' do not include any part of the policy in respect of which the policyholder is deemed by paragraph 138.1(1)(*e*) to have an interest in a related segregated fund trust;

'non-segregated property' — 'non-segregated property' has the meaning assigned by subsection 138(12);

'policy loan' — 'policy loan' has the meaning assigned by subsection 138(12);

'property used in the year in, or held in the year in the course of' — 'property used in the year in, or held in the year in the course of' carrying on a life insurance business in Canada, in the case of an insurer (other than a resident of Canada that does not carry on a life insurance business) that carried on an insurance business in Canada and in a country other than Canada, has the meaning assigned by subsection 138(12);

'registered life insurance policy' — 'registered life insurance policy' means a life insurance policy (other than an annuity contract) issued or effected as a registered retirement savings plan or pursuant to such a plan, a deferred profit sharing plan or a registered pension fund or plan;

'segregated fund' — 'segregated fund' has the meaning assigned by subsection 138(12)."

Regulations: 1900.

"life insurance policy" — "life insurance policy" includes a benefit under

(*a*) a group life insurance policy, and

(*b*) a group annuity contract

but does not include

(*c*) that part of a policy in respect of which the policyholder is deemed by paragraph 138.1(1)(*e*) to have an interest in a related segregated fund trust, or

(*d*) a reinsurance arrangement;

History: S. 211(1), the definition "life insurance policy", was amended by S.C. 1997, c. 25, s. 60(1), applicable to the 1996 and subsequent taxation years. That definition formerly read:

" *'life insurance policy' and 'life insurance policy in Canada'* — 'life insurance policy' and 'life insurance policy in Canada' do not include

(*a*) that part of a policy in respect of which the policyholder is deemed by paragraph 138.1(1)(*e*) to have an interest in a related segregated fund trust, or

(*b*) a reinsurance arrangement;"

See the history note following the definition of "existing guaranteed life insurance policy" in subsection 211(1).

Regulations: 1900.

"life insurance policy in Canada" — "life insurance policy in Canada" means a life insurance policy issued or effected by an insurer on the life of a person resident in Canada at the time the policy was issued or effected;

History: See the history note following the definition of "existing guaranteed life insurance policy" in subsection 211(1).

Regulations: 1900.

"net interest rate" — "net interest rate", in respect of a liability, benefit, risk or guarantee under a life insurance policy of an insurer for a taxation year, is the positive amount, if any, determined by the formula

$$(A - B) \times C$$

where

A is the simple arithmetic average determined as of the first day of the year of the average yield (expressed as a percentage per year rounded to 2 decimal points) in each of the 60 immediately preceding months prevailing on all domestic Canadian-dollar Government of Canada bonds outstanding on the last Wednesday of that month that have a remaining term to maturity of more than 10 years,

B is

(*a*) in the case of a guaranteed benefit provided under the terms and conditions of the policy as they existed on March 2, 1988, other than a policy where, at any time after March 2, 1988, its terms and conditions relating to premiums and benefits were changed (otherwise than to give effect to the terms and conditions that were determined before March 3, 1988), the greater of

(i) the rate of interest (expressed as a percentage per year) used by the insurer in deter-

mining the amount of the guaranteed benefit, and

(ii) 4%, and

(*b*) in any other case, nil, and

C is

(*a*) in the case of a guaranteed benefit to which paragraph (*a*) of the description of B applies, 65%, and

(*b*) in any other case, 55%;

History: See the history note following the definition of "existing guaranteed life insurance policy" in subsection 211(1).

Regulations: 1900.

"non-participating life insurance policy" — "non-participating life insurance policy" means a life insurance policy that is not a participating life insurance policy;

History: See the history note following the definition of "existing guaranteed life insurance policy" in subsection 211(1).

Regulations: 1900.

"participating life insurance policy" — "participating life insurance policy" has the meaning assigned by subsection 138(12);

History: See the history note following the definition of "existing guaranteed life insurance policy" in subsection 211(1).

Regulations: 1900.

"policy loan" — "policy loan" has the meaning assigned by subsection 138(12);

History: See the history note following the definition of "existing guaranteed life insurance policy" in subsection 211(1).

Regulations: 1900.

"registered life insurance policy" — "registered life insurance policy" means a life insurance policy issued or effected

(*a*) as a registered retirement savings plan, or

(*b*) pursuant to a registered retirement savings plan, a deferred profit sharing plan or a registered pension plan;

History: S. 211(1), paragraph (*a*) of the definition "registered life insurance policy" was replaced by S.C. 2009, c. 2, s. 72(1), applicable to the 2009 and subsequent taxation years. S. 211(1), paragraph (*a*) of the definition "registered life insurance policy" formerly read:

"(*a*) as a registered retirement savings plan or TFSA, or"

S. 211(1), paragraph (*a*) of the definition "registered life insurance policy" was replaced by S.C. 2008, c. 28, s. 32(1), applicable to the 2009 and subsequent taxation years. S. 211(1), paragraph (*a*) of the definition "registered life insurance policy" formerly read:

"(*a*) as a registered retirement savings plan, or"

See the history note following the definition of "existing guaranteed life insurance policy" in subsection 211(1).

Regulations: 1900.

"reinsurance arrangement" — "reinsurance arrangement" does not include an arrangement under which an insurer has assumed the obligations of the issuer of a life insurance policy to the policyholder;

History: See the history note following the definition of "existing guaranteed life insurance policy" in subsection 211(1).

Regulations: 1900.

"segregated fund" — "segregated fund" has the meaning given that expression in subsection 138.1(1);

History: See the history note following the definition of "existing guaranteed life insurance policy" in subsection 211(1).

Regulations: 1900.

"specified transaction or event" — "specified transaction or event", in respect of a life insurance policy, means

(*a*) a change in underwriting class,

(*b*) a change in premium because of a change in frequency of premium payments within a year that does not alter the present value, at the beginning of the year, of the total premiums to be paid under the policy in the year,

(*c*) an addition under the terms of the policy as they existed on

(i) in the case of an existing guaranteed life insurance policy, December 31, 1989,

(ii) in any other case, March 2, 1988,

of accidental death, dismemberment, disability or guaranteed purchase option benefits,

(*d*) the deletion of a rider,

(*e*) redating lapsed policies within the reinstatement period referred to in paragraph (*g*) of the definition "disposition" in subsection 148(9) or redating for policy loan indebtedness,

(*f*) a change in premium because of a correction of erroneous information,

(*g*) the payment of a premium after its due date, or no more than 30 days before its due date, as established on or before

(i) in the case of an existing guaranteed life insurance policy, December 31, 1989, and

(ii) in any other case, March 2, 1988, and

(*h*) the payment of an amount described in paragraph (*a*) of the definition "premium" in subsection 148(9);

History: See the history note following the definition of "existing guaranteed life insurance policy" in subsection 211(1).

Regulations: 1900.

"taxable life insurance policy" — "taxable life insurance policy" of an insurer at any time means a life insurance policy in Canada issued by the insurer (or in respect of which the insurer has assumed the obligations of the issuer of the policy to the policyholder), other than a policy that is at that time

(*a*) an existing guaranteed life insurance policy,

(*b*) an annuity contract (including a settlement annuity),

(*c*) a registered life insurance policy,

(*d*) a registered pension plan, or

(*e*) a retirement compensation arrangement,

History: See the history note following the definition of "existing guaranteed life insurance policy" in subsection 211(1).

Regulations: 1900.

Tax Window Files: RCA's Life Insurance Policies, July 20, 2001, CRA Document No. 2001-0080005; Part XII.3 — Taxable Life Insurance Policy, May 8, 2001, CRA Document No. 2001-0072815.

► 211(2) ◄

(2) Riders and changes in terms. For the purposes of this Part,

(*a*) any rider added at any time after March 2, 1988 to a life insurance policy shall be deemed to be a separate life insurance policy issued and effected at that time; and

(*b*) a change in the terms or conditions of a life insurance policy resulting from a specified transaction or event shall be deemed not to have occurred and not to be a change.

History: See the history note following the definition of "existing guaranteed life insurance policy" in subsection 211(1).

Regulations: 1900.

SECTION 211.1:

► 211.1(1) ◄

(1) Tax payable. Every life insurer shall pay a tax under this Part for each taxation year equal to 15% of its taxable Canadian life investment income for the year.

Tax Window Files: Tax on Investment Income of Life Insurers — Universal Life Policies, March 28, 2006, CRA Document No. 2005-0145821E5.; Tax on Investment Income of Life Insurers, June 1, 1990, CRA Document No. AC59081

► 211.1(2) ◄

(2) Taxable Canadian life investment income. For the purposes of this Part, the taxable Canadian life investment income of a life insurer for a taxation year is the amount, if any, by which its Canadian life investment income for the year exceeds the total of its Canadian life investment losses for the 20 taxation years immediately preceding the year, to the extent that those losses were not deducted in computing its taxable Canadian life investment income for any preceding taxation year.

History: S. 211.1(2) was replaced by S.C. 2006, c. 4, s. 84(1), applicable in respect of losses that arise in the 2006 and subsequent taxation years.

S. 211.1(2) formerly read:

"(2) *Taxable Canadian life investment income.* For the purposes of this Part, the taxable Canadian life investment income of a life insurer for a taxation year is the amount, if any, by which its Canadian life investment income for the year exceeds the total of its Canadian life investment losses for the ten taxation years immediately preceding the year, to the extent that those losses were not deducted in computing its taxable Canadian life investment income for any preceding taxation year."

S. 211.1(2) was replaced by S.C. 2005, c. 19, s. 46(1), applicable in respect of losses that arise in taxation years that end after March 22, 2004. S. 211.1(2) formerly read:

"(2) *Taxable Canadian life investment income.* For the purposes of this Part, the taxable Canadian life investment income of a life insurer for a taxation year is the amount, if any, by which its Canadian life investment income for the year exceeds the total of its Canadian life investment losses for such of the 7 taxation years immediately preceding the year that begin after 1989, to the extent that those losses were not deducted in computing its taxable Canadian life investment income for any preceding taxation year."

S. 211.1(2) was amended by S.C. 1994, c. 7, Sched. II, s. 172(1), applicable to taxation years beginning after 1989 and, where an insurer so elected in respect of the insurer's taxation years beginning after 1987 or 1988 and before 1990 by notifying the Minister of National Revenue in writing before July 1991, to all taxation years of the insurer to which the election relates and, where such an election was made,

(*a*) in respect of each taxation year of the insurer to which the election relates, each reference to "1989" in subsection 211.1(3) of the Act, as enacted by subsection (1), shall be read as a reference to the year immediately preceding the first taxation year to which the election relates; and

(*b*) notwithstanding subsections 152(4) to (5) of the Act, such assessments of tax, interest and penalties shall be made as are necessary to give effect to the election.

S. 211.1(2) formerly read:

"(2) For the purposes of this Part, the taxable Canadian life investment income of a life insurer for a taxation year is the amount, if any, by which its Canadian life investment income for the year exceeds the total of its Canadian life investment losses for such of the 7 taxation years immediately preceding the year that commence after June 17, 1987 and end after 1987, to the extent that those losses have not been deducted in computing its taxable Canadian life investment income for any preceding taxation year."

► 211.1(3) ◄

(3) Canadian life investment income. For the purposes of this Part, the Canadian life investment income or loss of a life insurer for a taxation year is the positive or negative amount determined by the formula

$$A + B - C$$

where

A is, subject to subsection (4), the total of all amounts, each of which is in respect of a liability, benefit, risk or guarantee under a life insurance policy that was at any time in the year a taxable life insurance policy of the insurer, determined by multiplying the net interest rate in respect of the liability, benefit, risk or guarantee for the year by ½ of the total of

(*a*) the maximum amount that would be determined under paragraph 1401(1)(*a*), (*c*) or (*d*) of the *Income Tax Regulations* (other than an amount that would be determined under subparagraph 1401(1)(*d*)(ii) of those Regulations in respect of a disabled life) in respect of the insurer for the year in respect of the liability, benefit, risk or guarantee if subsection 1401(1) of those Regulations applied to all life insurance policies and if that amount were determined without reference to any policy loan or reinsurance arrangement, and

(*b*) the maximum amount that would be determined under paragraph 1401(1)(*a*), (*c*) or (*d*) of the *Income Tax Regulations* (other than an amount that would be determined under subparagraph 1401(1)(*d*)(ii) of those Regulations in respect of a disabled life) in respect of the insurer for the preceding taxation year in respect of the liability, benefit, risk or guarantee if subsection 1401(1) of those Regulations applied to all life insurance policies and if that amount were determined without reference to any policy loan or reinsurance arrangement;

B is the total of all amounts, each of which is the positive or negative amount in respect of a life insurance policy that was at any time in the year a taxable life insurance policy of the insurer, determined by the formula

$$D - E$$

where

D is, subject to subsection (4), the amount determined by multiplying the percentage determined in the description of A in the definition "net interest rate" in subsection 211(1) in respect of the year by ½ of the total of

(*a*) the maximum amount that would be determined under paragraph 1401(1)(c.1) of the *Income Tax Regulations* in respect of the insurer for the year in respect of the policy if subsection 1401(1) of those Regulations applied to all life insurance policies and if that amount were determined without reference to any policy loan or reinsurance arrangement, and

(*b*) the maximum amount that would be determined under paragraph 1401(1)(c.1) of the *Income Tax Regulations* in respect of the insurer for the preceding taxation year in respect of the policy if subsection 1401(1) of those Regulations applied to all life insurance policies and if that amount were determined without reference to any policy loan or reinsurance arrangement, and

E is the amount, if any, by which

(*a*) the total of all amounts determined in respect of the insurer under the description of D in respect of the policy for the year and any preceding taxation years ending after 1989

exceeds the total of

(*b*) all amounts determined in respect of the insurer under the description of E in respect of

the policy for taxation years ending before the year, and

(*c*) the amount, if any, by which

(i) the maximum amount that would be determined under paragraph 1401(1)(c.1) of the *Income Tax Regulations* in respect of the insurer for the year in respect of the policy if subsection 1401(1) of those Regulations applied to all life insurance policies and if that amount were determined without reference to any policy loan or reinsurance arrangement

exceeds

(ii) the maximum amount that would be determined under paragraph 1401(1)(c.1) of the *Income Tax Regulations* in respect of the insurer for its last 1989 taxation year in respect of the policy if subsection 1401(1) of those Regulations applied to all life insurance policies and if that amount were determined without reference to any policy loan or reinsurance arrangement; and

C is the total of all amounts each of which is 100% of the amount required to be included in computing the income of a policyholder under section 12.2 or paragraph 56(1)(*j*) for which the insurer is required by regulation to prepare an information return in respect of the calendar year ending in the taxation year, in respect of a taxable life insurance policy of the insurer, except that the reference in this description to 100% shall be read as a reference to,

(*a*) where paragraph (*a*) of the description of B in the definition "net interest rate" in subsection 211(1) applies for any taxation year in respect of a guaranteed benefit under the policy,

0% for calendar years before 1991,
5% for 1991,
10% for 1992,
15% for 1993,
20% for 1994,
25% for 1995,
30% for 1996,
35% for 1997,
40% for 1998,
45% for 1999, and
50% for calendar years after 1999, and

(*b*) where the policy was at any time after 1989 an existing guaranteed life insurance policy,

0% for the calendar year in which it became a taxable life insurance policy of the insurer,
0% for the first following calendar year,
0% for the second following calendar year,
5% for the third following calendar year,
10% for the fourth following calendar year,
15% for the fifth following calendar year,
20% for the sixth following calendar year,
25% for the seventh following calendar year,
30% for the eighth following calendar year,
35% for the ninth following calendar year,
40% for the tenth following calendar year,
45% for the eleventh following calendar year, and
50% for the twelfth following and subsequent calendar years.

History: S. 211.1(3), the description of A before paragraph (*a*) is amended by S.C. 1998, c. 19, s. 213(1), applicable to the 1992 and subsequent taxation years. This part formerly read:

"A is the total of all amounts, each of which is in respect of a liability, benefit, risk or guarantee under a life insurance policy that was at any time in the year a taxable life insurance policy of the insurer, determined by multiplying the net interest rate in respect of the liability, benefit, risk or guarantee for the year by the amount equal to 1/2 of the total of"

S. 211.1(3), the description of D before paragraph (*a*) is amended by S.C. 1998, c. 19, s. 213(2), applicable to the 1992 and subsequent taxation years. This part formerly read:

"D is the amount determined by multiplying the percentage determined in the description of A in the definition 'net interest rate' in subsection 211(1) in respect of the year by the amount equal to 1/2 of the total of"

S. 211.1(3), paragraphs (*a*) and (*b*) of the description of A, were amended by S.C. 1997, c. 25, s. 61(1), applicable to the 1996 and subsequent taxation years. Those paragraphs formerly read:

"(*a*) the maximum amount that would be deductible under paragraph 1401(1)(*a*), (*c*) or (*d*) of the *Income Tax Regulations* (other than an amount that the insurer can claim under subparagraph 1401(1)(*d*)(ii) of the Regulations in respect of a disabled life) in computing the insurer's income for the year in respect of the liability, benefit, risk or guarantee, if that amount were determined without reference to any policy loan or reinsurance arrangement, and

(*b*) the maximum amount that would have been deductible under paragraph 1401(1)(*a*), (*c*) or (*d*) of the Regulations (other than an amount that the insurer can claim under subparagraph 1401(1)(*d*)(ii) of the Regulations in respect of a disabled life) in computing the insurer's income for the immediately preceding taxation year in respect of the liability, benefit, risk or guarantee, if that amount were determined without reference to any policy loan or reinsurance arrangement;"

S. 211.1(3), paragraphs (*a*) and (*b*) of the description of D in the description of B, were amended by S.C. 1997, c. 25, s. 61(2), applicable to the 1996 and subsequent taxation years. Those paragraphs formerly read:

"(*a*) the maximum amount that would be deductible under paragraph 1401(1)(c.1) of the *Income Tax Regulations* in computing the insurer's income for the year in respect of the policy, if that amount were determined without reference to any policy loan or reinsurance arrangement, and

(*b*) the maximum amount that would have been deductible under paragraph 1401(1)(c.1) of the Regulations in computing the insurer's income for the immediately preceding taxation year in respect of the policy, if that amount were determined without reference to any policy loan or reinsurance arrangement, and"

S. 211.1(3), paragraph (*c*) of the description of E in the description of B, was amended by S.C. 1997, c. 25, s. 61(3), applicable to the 1996 and subsequent taxation years. That paragraph formerly read:

"(*c*) the amount, if any, by which

(i) the maximum amount that would be deductible under paragraph 1401(1)(c.1) of the *Income Tax Regulations* in computing the insurer's income for the year in respect of the policy, if that amount were determined without reference to any policy loan or reinsurance arrangement

exceeds

(ii) the maximum amount that would be deductible under paragraph 1401(1)(c.1) of the Regulations in computing the insurer's income for the insurer's last 1989 taxation year in respect of the policy, if that amount were determined without reference to any policy loan or reinsurance arrangement; and"

S. 211.1(3) was amended by S.C. 1994, c. 7, Sched. II, s. 172(1), applicable to taxation years beginning after 1989 and, where an insurer so elected in respect of the insurer's taxation years beginning after 1987 or 1988 and before 1990 by notifying the Minister of National Revenue in writing before July 1991, to all taxation years of the insurer to which the election relates and, where such an election was made,

(*a*) in respect of each taxation year of the insurer to which the election relates, each reference to "1989" in subsection 211.1(3) of the Act, as enacted by subsection (1), shall be read as a reference to the year immediately preceding the first taxation year to which the election relates; and

(*b*) notwithstanding subsections 152(4) to (5) of the Act, such assessments of tax, interest and penalties shall be made as are necessary to give effect to the election.

See also s. 172(2) of S.C. 1994, c. 7, Sched. II, reproduced below.

S. 211.1(3) formerly read:

"(3) For the purposes of this Part, the Canadian life investment income or loss, as the case may be, of a life insurer for a taxation year is the positive or negative amount, respectively, determined by the formula

A – B – C – D + E – F – G

where

A is the positive or negative amount, as the case may be, determined by totalling the following amounts in respect of the insurer for the year:

(*a*) the total of all amounts included under subsection 138(9) in computing the insurer's income for the year from carrying on a life insurance business in Canada,

(*b*) where subsection 138(9) does not apply to the insurer, its gross investment revenue for the year from such of its non-segregated property as was property used in the year in, or held in the year in the course of, carrying on a life insurance business in Canada,

(*c*) the amount included under paragraph 138(4)(*b*) in computing the insurer's income for the year,

(*d*) the amount included under paragraph 138(4)(*c*) in computing the insurer's income for the year,

(*e*) the total of all amounts that accrued to, or became receivable or were received by, the insurer in the year as, on account of or in lieu of payment of, interest in respect of policy loans made under the terms of its life insurance policies in Canada, to the extent not included in computing its Canadian life investment income for a preceding taxation year,

(*f*) the total of all gains made by the insurer in the year from dispositions of such of its non-segregated property (other than property that is a Canada security or capital property) as was property used in the year in, or held in the year in the course of, carrying on a life insurance business in Canada, and

(*g*) the amount, if any, by which

(i) the total of all taxable capital gains of the insurer for the year from dispositions of such of its non-segregated property as was property used in the year in, or held in the year in the course of, carrying on a life insurance business in Canada

exceeds

(ii) the total of all allowable capital losses of the insurer for the year and all preceding taxation years commencing after June 17, 1987 and ending after 1987 from dispositions of such of its non-segregated property as was property used in the year in, or held in the year in the course of, carrying on a life insurance business in Canada to the extent that those losses have not reduced an amount determined under this paragraph in determining the Canadian life investment income for a preceding taxation year,

and deducting from that total the total of the following amounts in respect of the insurer for the year:

(*h*) the amount deductible under paragraph 138(3)(*b*) in computing the insurer's income for the year,

(*i*) the amount deductible under paragraph 138(3)(*d*) in computing the insurer's income for the year,

(*j*) the total of all losses sustained by the insurer in the year from dispositions of such of its non-segregated property (other than property that is a Canada security or capital property) as was property used in the year in, or held in the year in the course of, carrying on a life insurance business in Canada,

(*k*) the total of all expenses deducted in computing the insurer's income under Part I for the year to the extent that those expenses were incurred for the purposes of managing its non-segregated property and may reasonably be regarded as having been incurred for the purposes of earning any amount included under paragraphs (*a*) to (*f*) for the year,

(*l*) the total of all amounts that became payable by the insurer in respect of the year as, on account of or in lieu of payment of, interest on amounts on deposit with the insurer in accordance with the terms of its life insurance policies in Canada, and

(*m*) the total of amounts (other than amounts included under paragraph (*k*) or (*l*)) deducted in computing the insurer's income for the year under paragraphs 20(1)(*a*), (*c*) (*d*) and (*p*), to the extent that each such amount may reasonably be regarded as relating to any amount included under paragraphs (*a*) to (*f*) for the year;

B is the total of all amounts deducted in computing the insurer's income for the year under Part I from carrying on a life insurance business in Canada (net of expense allowances under reinsurance arrangements included in computing that income) except to the extent that any such amount

(*a*) is included in an amount determined in respect of the insurer for the year under any of paragraphs (*j*) to (*m*) of the description of A,

(*b*) was paid or payable by the insurer in respect of benefits payable under a life insurance policy,

(*c*) is deductible under paragraph 20(1)(*l*) or (*l.1*) or subsection 20(26) or 138(3) in computing its income from carrying on a life insurance business in Canada, or

(*d*) may reasonably be considered to relate to segregated funds of the insurer;

C is the positive or negative amount, as the case may be, that would be determined to be the insurer's income or loss, respectively, for the year under Part I from carrying on a life insurance business in Canada, if

(*a*) no amount were included in that determination in respect of segregated funds of the insurer,

(*b*) no amount were included in that determination under paragraph 12(1)(*d*) or (*d.1*), section 12.3, paragraph 20(1)(*l*) or (*l.1*) or subsection 20(26), under a prescribed provision of this Act, or under paragraph 138(4)(*a*) in respect of the amount deducted under paragraph 138(3)(*c*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, in computing its income for the immediately preceding taxation year,

(*c*) the amount, if any, determined under paragraph (*g*) of the description of A in respect of the insurer for the year were included in that determination, and

(*d*) the maximum amounts deductible under subparagraphs 138(3)(*a*)(i), (ii) and (iv) in computing the insurer's income for the year were deducted in that determination and on the assumption that the maximum amounts so deductible in computing its income for the immediately preceding year had been deducted;

D is the positive or negative amount, as the case may be, attributable to registered life insurance policies, registered pension funds or plans, annuity contracts and prescribed arrangements, determined in accordance with prescribed rules, in respect of the insurer for the year;

E is the positive or negative amount, as the case may be, determined by totalling the term insurance component and the amortization adjustment amount, determined in accordance with prescribed rules, in respect of the insurer for the year;

F is the amount of guaranteed interest, determined in accordance with prescribed rules, in respect of the insurer for the year; and

G is the prescribed portion of amounts that would, but for subsection 12(8) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, be included in computing the income of policyholders under section 12.2, paragraph 56(1)(*j*) or subparagraph 115(1)(*a*)(vi), for taxation years ending in the year, if all taxation years were calendar years, in respect of life insurance policies in Canada (other than annuity contracts and prescribed arrangements) of the insurer."

Regulations: 1401(1); 1900.

Tax Window Files: Insurer's Investment Income Tax, March 28, 2006, CRA Document No. 2005-0145821E5; Insurance Contracts Providing Disability Benefits, March 3, 1993, CRA Document No. 9214825.

Sec. 172(2), Sched. II, Chap. 7, S.C. 1994

(2) [Application of s. 211.1(3) to taxation years beginning after June 17, 1987 and before 1990.] In their application to taxation years beginning after June 17, 1987 and before 1990 that ended after 1987, except a taxation year of an insurer to which subsection (1) applies because of an election made under subsection (3) by the insurer,

(*a*) the description of C in subsection 211.1(3) of the Act shall be read as follows:

"C is the positive or negative amount that would be determined to be the insurer's income or loss, respectively, for the year under Part I from carrying on a life insurance business in Canada, if

(*a*) no amount were included in that determination in respect of segregated funds of the insurer,

(*b*) no amount were included in that determination under paragraph 12(1)(*d*) or (*d.1*), section 12.3, paragraph 20(1)(*l*) or (*l.1*) or subsection 20(26), under a prescribed provision of this Act or, in respect of the amount deducted under paragraph 138(3)(*c*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it applied to taxation years beginning before June 18, 1987, in computing its income for the immediately preceding taxation year, under paragraph 138(4)(*a*),

(*c*) the amount, if any, determined under paragraph (*g*) of the description of A in respect of the insurer for the year were included in that determination,

(*d*) the maximum amounts deductible in computing that income under subparagraphs 138(3)(*a*)(i), (ii) and (iv) were deducted in that determination,

(*e*) for the purposes of paragraph 138(4)(*a*), the maximum amounts deductible under subparagraphs 138(3)(*a*)(i), (ii) and (iv) were deducted in computing the insurer's income or loss, as the case

may be, for the immediately preceding taxation year, and

(*f*) in respect of the insurer's first taxation year beginning after June 17, 1987 and ending after 1987,

(i) the amounts referred to in paragraph (*e*) in respect of the insurer's immediately preceding taxation year were the maximum amounts that would be deductible under subparagraphs 138(3)(*a*)(i), (ii) and (iv) for that preceding year if those subparagraphs applied to that year, and

(ii) the prescribed amount of the insurer's 1968 reserve adjustment were nil."

and

(*b*) the description of G in subsection 211.1(3) of the Act shall be read as follows:

"G is the total of all amounts each of which is the prescribed portion of an amount that would be included under section 12.2 or paragraph 56(1)(*j*) in computing the income of a policyholder for a taxation year ending in the year, if all taxation years were calendar years, in respect of life insurance policies in Canada (other than annuity contracts and prescribed arrangements) of the insurer."

► 211.1(4) ◄

(4) Short taxation year. Where a taxation year of a life insurer is less than 51 weeks, the values of A and D in subsection (3) for the year are that proportion of those values otherwise so determined that the number of days in the year (other than February 29) is of 365.

History: S. 211.1(4) was added by S.C. 1998, c. 19, s. 213(3), applicable to the 1992 and subsequent taxation years.

SECTION 211.2: Return.

Every life insurer shall file with the Minister, not later than the day on or before which it is required by section 150 to file its return of income for a taxation year under Part I, a return of taxable Canadian life investment income for that year in prescribed form containing an estimate of the tax payable by it under this Part for the year.

Forms: T2142.

SECTION 211.3:

► 211.3(1) ◄

(1) Instalments. Every life insurer shall, in respect of each of its taxation years, pay to the Receiver General on or before the last day of each month in the year, an amount equal to $^1/_{12}$ of the lesser of

(*a*) the amount estimated by the insurer to be the annualized tax payable under this Part by it for the year, and

(*b*) the annualized tax payable under this Part by the insurer for the immediately preceding taxation year.

History: S. 211.3 was renumbered as s. 211.3(1) and was amended by S.C. 1998, c. 19, s. 214(1), applicable to taxation years that begin after 1995. S. 211.3(1) formerly read:

"S. 211.3. *Instalments.* Every life insurer shall pay to the Receiver General on or before the last day of each three month period, if any, in a taxation year an instalment determined by the formula

$$\frac{A}{B} \times C$$

where

A is the number of months in the year within the three month period;

B is the number of months in the year; and

C is the lesser of

(*a*) the tax payable under this Part by the insurer for the year, and

(*b*) the tax payable under this Part by the insurer for the immediately preceding taxation year."

► 211.3(2) ◄

(2) Annualized tax payable. For the purposes of subsections (1) and 211.5(2), the annualized tax payable under this Part by a life insurer for a taxation year is the amount determined by the formula

$$(365/A) \times B$$

where

A is

(*a*) if the year is less than 357 days, the number of days in the year (other than February 29), and

(*b*) otherwise, 365; and

B is the tax payable under this Part by the insurer for the year.

History: S. 211.3(2) was added by S.C. 1988, c. 19, s. 214(1), applicable to taxation years that begin after 1995.

SECTION 211.4: Payment of remainder of tax.

Every life insurer shall pay, on or before its balance-due day for a taxation year, the remainder, if any, of the tax payable under this Part by the insurer for the year.

History: S. 211.4 was replaced by S.C. 2003, c. 15, s. 127(1), applicable to taxation years that begin after June 2003. S. 211.4 formerly read:

"S. 211.4. *Payment of remainder of tax.* Every life insurer shall pay, on or before the last day of the second month ending after the end of a taxation year, the remainder, if any, of the tax payable under this Part by the insurer for the year."

SECTION 211.5:

► 211.5(1) ◄

(1) Provisions applicable to Part. Section 152, subsection 157(2.1), sections 158 and 159, subsections 161(1), (2), (2.1), (2.2) and (11), sections 162 to 167 and Division J of Part I apply to this Part, with such modifications as the circumstances require.

History: S. 211.5 was renumbered as s. 211.5(1) by S.C. 1998, c. 19, s. 215(1), applicable to taxation years that begin after 1995.

► 211.5(2) ◄

(2) Interest on instalments. For the purposes of subsection 161(2) and section 163.1 as they apply to this Part, a life insurer is, in respect of a taxation year, deemed to have been liable to pay, on or before the last day of each month in the year, an instalment equal to $^1/_{12}$ of the lesser of

(*a*) the annualized tax payable under this Part by the insurer for the year, and

(*b*) the annualized tax payable under this Part by the insurer for the immediately preceding taxation year.

History: S. 211.5(2) was added by S.C. 1998, c. 19, s. 215(1), applicable to taxation years that begin after 1995.

S. 211.5 was amended by S.C. 1994, c. 7, Sched. II, s. 173(1), applicable to the 1990 and subsequent taxation years. S. 211.5 formerly read:

"S. 211.5. *Interest.* Where a life insurer has failed to pay all or any instalment of tax under this Part on or before the day on or before which it was required to be paid, the insurer shall pay to the Receiver General interest at the prescribed rate on the amount that it failed to pay, computed from the day on or before which the amount was required to be paid to the day of payment."

Regulations: Part XLIII.

Part XII.4
Tax on Qualifying Environmental Trusts

SECTION 211.6:

► 211.6(1) ◄

(1) Charging provision. Every trust that is a qualifying environmental trust at the end of a taxation year shall pay a tax under this Part for the year equal to 28% of its income under Part I for the year.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 211.6(1) of the Act is replaced by the following:

SECTION 211.6:

(1) Charging provision. Every trust that is a qualifying environmental trust at the end of a taxation year (other than a trust that is at that time described by paragraph 149(1)(z.1) or (z.2)) shall pay a tax under this Part for the year equal to 28% of its income under Part I for that taxation year.

Applicable: To the 1997 and subsequent taxation years.

Explanatory Note: Part XII.4 imposes a special tax on qualifying environmental trusts, as defined under subsection 248(1). Subsection 211.6(1) is the charging provision of Part XII.4. It requires a qualifying environmental trust to pay a tax equal to 28% of its income for the year.

Subsection 211.6(1) is amended to provide that a trust that is described by new paragraphs 149(1)(z.1) or (z.2), even if it is a qualifying environmental trust, is not subject to Part XII.4 tax.

This amendment applies to the 1997 and subsequent taxation years.

History: The heading before s. 211.6 was amended by S.C. 1998, c. 19, s. 60(1), applicable to the 1997 and subsequent taxation years. The heading before s. 211.6 formerly read:

"Part XII.4
Tax on Mining Reclamation Trusts"

S. 211.6(1) was amended by S.C. 1998, c. 19, s. 61(1), applicable to the 1997 and subsequent taxation years. S. 211.6(1) formerly read:

"S. 211.6. *Charging provision.*

(1) Every trust that is a mining reclamation trust at the end of a taxation year shall pay a tax under this Part for the year equal to 28% of its income under Part I for the year."

S. 211.6(1) was added by S.C. 1995, c. 3, s. 50(1), applicable to the 1994 and subsequent taxation years.

S. 211.6 was repealed by S.C. 1994, c. 7, Sched. II, s. 173(1), applicable to the 1990 and subsequent taxation years. S. 211.6 formerly read:

"S. 211.6. *Provisions applicable to Part.* Sections 152, 158 and 159, subsection 161(1), sections 162 to 167 and Division J of Part I are applicable to this Part with such modifications as the circumstances require."

Related Sections: S. 107.3(1) Treatment of beneficiaries under qualifying environmental trusts; s. 127.41 Part XII.4 tax credit; s. 149(1)(z) Qualifying environmental trust; s. 248(1), "qualifying environmental trust"; s. 250(7) Residence of a qualifying environmental trust.

Canadian Tax Foundation: Frankovic, "The Case for 'Reverse Depreciation' of Reclamation Costs ", *2004 Canadian Tax Journal*, No. 1, 1.

► 211.6(2) ◄

(2) Computation of income. For the purpose of subsection (1), the income under Part I of a qualifying environmental trust shall be computed as if this Act were read without reference to subsections 104(4) to (31) and sections 105 to 107.

History: S. 211.6(2) was amended by S.C. 1998, c. 19, s. 61(1), applicable to the 1997 and subsequent taxation years. S. 211.6(2) formerly read:

"(2) *Computation of income.* For the purpose of subsection (1), the income under Part I of a mining reclamation trust shall be computed as if this Act were read without reference to subsections 104(4) to (31) and sections 105 to 107."

S. 211.6(2) was added by S.C. 1995, c. 3, s. 50(1), applicable to the 1994 and subsequent taxation years.

► 211.6(3) ◄

(3) Return. Every trust that is a qualifying environmental trust at the end of a taxation year shall file with the Minister on or before its filing-due date for the year a return for the year under this Part in prescribed form containing an estimate of the amount of its tax payable under this Part for the year.

History: S. 211.6(3) was amended by S.C. 1998, c. 19, s. 61(1), applicable to the 1997 and subsequent taxation years. S. 211.6(3) formerly read:

"(3) *Return.* Every trust that is a mining reclamation trust at the end of a taxation year shall file with the Minister on or before the day that is 90 days after the end of the year a return for the year under this Part in prescribed form containing an estimate of the amount of tax payable under this Part for the year by the trust."

S. 211.6(3) was added by S.C. 1995, c. 3, s. 50(1), applicable to the 1994 and subsequent taxation years.

Forms: T3M.

► 211.6(4) ◄

(4) Payment of tax. Every trust shall pay to the Receiver General its tax payable under this Part for each taxation year on or before its balance-due day for the year.

History: S. 211.6(4) was amended by S.C. 1998, c. 19, s. 61(1), applicable to the 1997 and subsequent taxation years. S. 211.6(4) formerly read:

"(4) *Payment of tax.* Each trust shall pay in respect of each taxation year to the Receiver General its tax payable under this Part for the year on or before the day that is 90 days after the end of the year."

S. 211.6(4) was added by S.C. 1995, c. 3, s. 50(1), applicable to the 1994 and subsequent taxation years.

► 211.6(5) ◄

(5) Provisions applicable to Part. Subsections 150(2) and (3), sections 152, 158 and 159, subsections 161(1) and (11), sections 162 to 167 and Division J of Part I apply to this Part, with such modifications as the circumstances require.

History: S. 211.6(5) was added by S.C. 1995, c. 3, s. 50(1), applicable to the 1994 and subsequent taxation years.

Part XII.5
Recovery of Labour-Sponsored Funds Tax Credit

SECTION 211.7:

► 211.7(1) ◄

(1) Definitions. The definitions in this section apply for the purposes of this Part.

History: Part XII.5 was added by S.C. 1997, c. 25, s. 62(1).

S. 211.7 was added by S.C. 1997, c. 25, s. 62(1), applicable to redemptions, acquisitions, cancellations and dispositions that occur after November 15, 1995, except that it does not apply

(*a*) to any redemption that occurs before 1998 of a share of the capital stock of a corporation that was registered under subsection 204.81(1), where an amount determined under regulations made for the purpose of clause 204.81(1)(*c*)(v)(F) is directed to be remitted to the Receiver General in order to permit the redemption; and

(*b*) to any disposition that occurs before 1998, where an amount is required to be remitted to the government of a province as a consequence of the disposition and a portion of the amount is in respect of the recovery of a tax credit that is provided under subsection 127.4(2) in respect of the share.

"approved share" — "approved share" has the meaning assigned by subsection 127.4(1).

History: S. 211.7, the definition "approved share", was added by S.C. 1997, c. 25, s. 62(1), applicable to redemptions, acquisitions, cancellations and dispositions that occur after November 15, 1995, except that it does not apply

(*a*) to any redemption that occurs before 1998 of a share of the capital stock of a corporation that was registered under subsection 204.81(1), where an amount determined under regulations made for the purpose of clause 204.81(1)(*c*)(v)(F) is directed to be remitted to the Receiver General in order to permit the redemption; and

(*b*) to any disposition that occurs before 1998, where an amount is required to be remitted to the government of a province as a consequence of the disposition and a portion of the amount is in respect of the recovery of a tax credit that is provided under subsection 127.4(2) in respect of the share.

"labour-sponsored funds tax credit" — "labour-sponsored funds tax credit" in respect of a share is

(*a*) where the original acquisition of the share occurred before 1996, 20% of the net cost of the share on that acquisition; and

(*b*) in any other case, the amount that would be determined under subsection 127.4(6) in respect of the share if this Act were read without reference to paragraphs 127.4(6)(*b*) and (*d*).

History: S. 211.7, the definition "labour-sponsored tax credit", was added by S.C. 1997, c. 25, s. 62(1), applicable to redemptions, acquisitions, cancellations and dispositions that occur after November 15, 1995, except that it does not apply

(*a*) to any redemption that occurs before 1998 of a share of the capital stock of a corporation that was registered under subsection 204.81(1), where an amount determined under regulations made for the purpose of clause 204.81(1)(*c*)(v)(F) is directed to be remitted to the Receiver General in order to permit the redemption; and

(*b*) to any disposition that occurs before 1998, where an amount is required to be remitted to the government of a province as a consequence of the disposition and a portion of the amount is in respect of the recovery of a tax credit that is provided under subsection 127.4(2) in respect of the share.

"net cost" — "net cost" has the meaning assigned by subsection 127.4(1).

History: S. 211.7, the definition "net cost", was added by S.C. 1997, c. 25, s. 62(1), applicable to redemptions, acquisitions, cancellations and dispositions that occur after November 15, 1995, except that it does not apply

(*a*) to any redemption that occurs before 1998 of a share of the capital stock of a corporation that was registered under subsection 204.81(1), where an amount determined under regulations made for the purpose of clause 204.81(1)(*c*)(v)(F) is directed to be remitted to the Receiver General in order to permit the redemption; and

(*b*) to any disposition that occurs before 1998, where an amount is required to be remitted to the government of a province as a consequence of the disposition and a portion of the amount is in respect of the recovery of a tax credit that is provided under subsection 127.4(2) in respect of the share.

"original acquisition" — "original acquisition" has the meaning assigned by subsection 127.4(1).

History: S. 211.7, "original acquisition", was added by S.C. 1997, c. 25, s. 62(1), applicable to redemptions, acquisitions, cancellations and dispositions that occur after November 15, 1995, except that it does not apply

(*a*) to any redemption that occurs before 1998 of a share of the capital stock of a corporation that was registered under subsection 204.81(1), where an amount determined under regulations made for the purpose of clause 204.81(1)(*c*)(v)(F) is directed to be remitted to the Receiver General in order to permit the redemption; and

(*b*) to any disposition that occurs before 1998, where an amount is required to be remitted to the government of a province as a consequence of the disposition and a portion of the amount is in respect of the recovery of a tax credit that is provided under subsection 127.4(2) in respect of the share.

"qualifying trust" — "qualifying trust" has the meaning assigned by subsection 127.4(1).

History: S. 211.7, the definition "qualifying trust", was added by S.C. 1997, c. 25, s. 62(1), applicable to redemptions, acquisitions, cancellations and dispositions that occur after November 15, 1995, except that it does not apply

(*a*) to any redemption that occurs before 1998 of a share of the capital stock of a corporation that was registered under subsection 204.81(1), where an amount determined under regulations made for the purpose of clause 204.81(1)(*c*)(v)(F) is directed to be remitted to the Receiver General in order to permit the redemption; and

(*b*) to any disposition that occurs before 1998, where an amount is required to be remitted to the government of a province as a consequence of the disposition and a portion of the amount is in respect of the recovery of a tax credit that is provided under subsection 127.4(2) in respect of the share.

"revoked corporation" — "revoked corporation" means a corporation the registration of which has been revoked under subsection 204.81(6).

History: S. 211.7, the definition "revoked corporation", was added by S.C. 1997, c. 25, s. 62(1), applicable to redemptions, acquisitions, cancellations and dispositions that occur after November 15, 1995, except that it does not apply

(*a*) to any redemption that occurs before 1998 of a share of the capital stock of a corporation that was registered under subsection 204.81(1), where an amount determined under regulations made for the purpose of clause 204.81(1)(*c*)(v)(F) is directed to be remitted to the Receiver General in order to permit the redemption; and

(*b*) to any disposition that occurs before 1998, where an amount is required to be remitted to the government of a province as a consequence of the disposition and a portion of the amount is in respect of the recovery of a tax credit that is provided under subsection 127.4(2) in respect of the share.

► 211.7(2) ◄

(2) Amalgamations and mergers. For the purposes of this Part, where two or more corporations (each of which is referred to in this subsection as a "predecessor corporation") amalgamate or merge to form a corporate entity deemed by paragraph 204.85(3)(*d*) to have been registered under Part X.3, the shares of each predecessor corporation are deemed not to be redeemed, acquired or cancelled by the predecessor corporation on the amalgamation or merger.

History: S. 211.7(2) was added by S.C. 2000, c. 19, s. 61(1), applicable after February 16, 1999.

SECTION 211.8:

► 211.8(1) ◄

(1) Disposition of approved share. Where an approved share of the capital stock of a registered labour-sponsored venture capital corporation or a revoked corporation is, before the first discontinuation of its venture capital business, redeemed, acquired or cancelled by the corporation less than eight years after the day on which the share was issued (other than in circumstances described in subclause 204.81(1)(*c*)(v)(A)(I) or (III) or clause 204.81(1)(*c*)(v)(B) or (D)) or any other share that was issued by any other labour-sponsored venture capital corporation is disposed of, the person who was the shareholder immediately before the redemption, acquisition, cancellation or disposition shall pay a tax under this Part equal to the lesser of

(*a*) the amount determined by the formula

$$A \times B$$

where

A is

(i) where the share was issued by a registered labour-sponsored venture capital corporation or a revoked corporation, the labour-sponsored funds tax credit in respect of the share, and

(ii) where the share was issued by any other labour-sponsored venture capital corporation and was at any time an approved share, the amount, if any, required to be remitted to the government of a province as a consequence of the redemption, acquisition, cancellation or disposition (otherwise than as a consequence of an increase in the corporation's liability for a penalty under a law of the province), and

B is

(i) nil, where the share was issued by a registered labour-sponsored venture capital corporation or a revoked corporation, the original acquisition of the share was before March 6, 1996 and the redemption, acquisition, cancellation or disposition is

(A) more than 2 years after the day on which it was issued, where the redemption, acquisition, cancellation or disposition is permitted under the articles of the corporation because an individual attains 65 years of age, retires from the workforce or ceases to be resident in Canada, or

(B) more than 5 years after the day on which it was issued,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph (i) of the description of B in paragraph 211.8(1)(*a*) of the Act is amended by striking out the word "or" at the end of clause (A) and by replacing clause (B) with the following:

(B) more than five years after its issuance, or

(C) if the day that is five years after its issuance is in February or March of a calendar year, in February or on March 1st of that calendar year but not more than 31 days before that day,

Applicable: To redemptions, acquisitions, cancellations and dispositions that occur after November 15, 1995.

Explanatory Note: Part XII.5 of the Act (sections 211.7 to 211.9) provides for a special tax that is designed to recover the federal tax credit under section 127.4 of the Act with respect to the original acquisition of a share issued by a labour-sponsored venture capital corporation (LSVCC). This tax applies where there is a disposition of an "approved share", as defined in subsection 127.4(1) of the Act.

Subsection 211.8(1) — Disposition of Approved Share

Subsection 211.8(1) of the Act provides that the special tax under Part XII.5 generally applies where shares in a federally-registered LSVCC that qualify for the federal LSVCC tax credit are redeemed prior to the expiry of a minimum period. In the case of shares the "original acquisition" (as defined in subsection 127.4(1) of the Act) of which occurred before March 6, 1996, there is no recovery of the tax credit for a share redeemed more than five years after the day on which the share was issued. For shares the original acquisition of which occurs after March 5, 1996, the recovery generally applies where a share is redeemed less than eight years after the day on which it was issued.

Subsection 211.8(1) is amended so that there is no Part XII.5 tax in respect of the redemption by a federally-registered LSVCC of a share the original acquisition of which was after March 5, 1996, if the redemption occurs on a day that is in February or on March 1st of a calendar year and that day is no more than 31 days before the day that is eight years after the day on which the share was issued. For a share the original acquisition of which occurred before March 6, 1996, the circumstances in which there is no recovery of the tax credit are extended to include the redemption of the share on a day that is in February or on March 1st of a calendar year if that day is no more than 31 days before the day that is five years after the day on which the share was issued.

This amendment applies to redemptions, acquisitions, cancellations and dispositions that occur after November 15, 1995.

This amendment is part of a set of amendments, announced by the Minister of Finance (News Release 2000-009, dated February 7, 2000) concerning the redemption requirements for federally-registered LSVCCs. The set of amendments is intended to accommodate taxpayers wishing to acquire new LSVCC shares in the first 60 days of a year using the proceeds from the redemption of LSVCC shares. Other related changes include amendments to section 204.81 of the Act. For additional information, see the commentary on those provisions.

Example 1

On February 2nd, 1998 a federally-registered LSVCC redeemed 200 Class A shares owned by Charles. The original acquisition by Charles of the shares was on March 1, 1993, the same day on which the shares were issued. The issuing LSVCC was incorporated on December 1, 1992. The LSVCC's Articles comply with the applicable registration requirements.

Results:

1. Under new clause (i)(C) of the description of B in paragraph 211.8(1)(*a*), there will be no recovery of the tax credit on the redemption of the 200 shares because the original acquisition of the shares was before March 6, 1996 and the redemption occurred on a day in February not more than 31 days before the day that is five years after the day on which the shares were issued.

2. Because of new subsection 204.81(1.2), subsection 204.81(6) of the Act would not apply to allow the Minister of National Revenue to revoke the LSVCC's registration solely because of the redemption.

Example 2

On February 15, 2005 a federally-registered LSVCC redeemed 200 Class A shares owned by Marguerite. The circumstances of the redemption are not described in any of the provisions, described in clauses 204.81(1)(*c*)(v)(A) to (D) of the Act, of the LSVCC's articles. The original acquisition by Marguerite of the first 100 shares was on March 1, 1997, although the shares were issued on March 12th, 1997. The original acquisition by Marguerite of the second 100 shares was on February 29, 2000, the same day on which the shares were issued. The LSVCC was incorporated on May 1, 1996.

Results:

1. Under new subparagraph (*i*.1) of the description of B in paragraph 211.8(1)(*a*), there will be no recovery of the tax credit on the redemption of the first 100 shares because the redemption occurred in February on a day not more than 31 days before the day that is eight years after the day on which the shares were issued. Subparagraph (i) of the description of variable B in paragraph 211.8(1)(*a*) does not apply because the original acquisition of the shares was not before March 6, 1996.

2. Under new subparagraph (*i*.1) of the description of B in paragraph 211.8(1)(*a*), there will be a recovery of the tax credit on the redemption of the second 100 shares because the redemption occurred less than eight years after the day on which the share was issued and more than 31 days before the day that is eight years after the day on which the shares were issued.

3. Because of new subsection 204.81(1.2), subsection 204.81(6) would not apply to allow the Minister of National Revenue to revoke the LSVCC's registration solely because of the redemption of the first 100 shares. However, the early redemption by the corporation of the second 100 shares, in violation of the provisions of its articles described in clause 204.81(1)(*c*)(v)(E), authorizes the Minister of National Revenue to revoke the LSVCC's registration under subsection 204.81(6).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The description of B in paragraph 211.8(1)(*a*) of the Act is amended by adding the following after subparagraph (i):

(i.1) nil, where the share was issued by a registered labour-sponsored venture capital corporation or a revoked corporation, the original acquisition of the share was after March 5, 1996 and the redemption, acquisition or cancellation is in February or on March 1st of a calendar year but is not more than 31 days before the day that is eight years after the day on which the share was issued,

Applicable: To redemptions, acquisitions, cancellations and dispositions that occur after November 15, 1995.

Explanatory Note: See the Explanatory Note following the amendment to clause (B) of subparagraph (i) of the description of B in paragraph 211.8(1)(*a*).

(ii) one, in any other case where the share was issued by a registered labour-sponsored venture capital corporation or a revoked corporation, and

(iii) in any other case, the quotient obtained when the labour-sponsored fund tax credit in respect of the share is divided by the tax credit provided under a law of a province in respect of any previous acquisition of the share, and

(*b*) the amount that would, but for subsection (2), be payable to the shareholder because of the redemption, acquisition, cancellation or disposition (determined after taking into account the amount determined under subparagraph (ii) of the description of A in paragraph (*a*)).

Department of Finance Comfort Letter
[No Recapture of Labour-Sponsored Tax Credit in Conversion of Shares]

May 13, 2004

Dear XXXX

I am writing in response to your letter of September 24, 2003, concerning the application of the *Income Tax Act* (the "Act") to investors owning shares in a labour-sponsored venture capital corporation ("LSVCC") that are convertible into another series of class A share. Specifically, you are concerned that the labour-sponsored fund tax credit recovery mechanism contained in Part XII.5 will apply to an investor in such an LSVCC upon the conversion of their shares, and submit that this result is inconsistent with the policy of the LSVCC program.

You have informed us that XXXX is now a manager of XXXX, a federally registered LSVCC. It is your wish to have XXXX issue its class A shares in series, with shareholders having the ability to convert from one series to another at their request. The only difference between the series will be the investments selected for the non-eligible investment portion, or reserve, of XXXX portfolio. The venture capital portion of the shareholder's equity will be the same for all series. On that basis, we understand that under your proposed structure no eligible investment will be at risk of divestment as the result of a conversion from one series of class A share to another.

Based on our understanding that the issue of convertible shares by XXXX would not put at risk the capital placed in eligible investments, restrict the LSVCC from investing more than the minimal requirement in eligible investments nor allow an investor to withdraw their investment from the LSVCC before the eight-year holding period expires without a recovery of the tax credit given in respect of those shares, your proposal does not appear to contravene the policy underlying the LSVCC program. Accordingly, we intend to recommend to the Minister of Finance that changes to the Act be implemented to allow for such conversions without creating a recapture of the labour-sponsored tax credit. It is contemplated that accommodation would be made only for exchanges subject to section 51 of the Act, where the conversion is made from one series of class A share to another series of class A share, and where the series differ only in respect of the reserve portion of the shareholder's equity, as described above. In conjunction with this accommodation, it is also envisioned that changes to section 127.4 of the Act will be made to ensure that a new labour-sponsored tax credit is not available upon the issuance of new class A shares by a LSVCC pursuant to a share conversion. We will be recommending that these changes be effective for conversions that take place after 2003. If our recommendations are acted upon, we anticipate that the amendments would be included in an upcoming technical bill.

Thank you for writing.

Yours sincerely,

Len Farber
General Director
Tax Legislation Division
Tax Policy Branch

History: S. 211.8(1), the portion before paragraph (*a*) was replaced by S.C. 2000, c. 19, s. 62(1), applicable to redemptions, acquisitions, cancellations and dispositions that occur after February 16, 1999. S. 211.8(1) formerly read:

"(1) Where an approved share of the capital stock of a registered labour-sponsored venture capital corporation or a revoked corporation is redeemed, acquired or cancelled by the corporation less than 8 years after the day on which the share was issued (other than in circumstances described in subclause 204.81(1)(*c*)(v)(A)(I) or (III) or clause 204.81(1)(*c*)(v)(B) or (D)) or any other share that was issued by any other labour-sponsored venture capital corporation is disposed of, the person who was the shareholder immediately

before the redemption, acquisition, cancellation or disposition shall pay a tax under this Part equal to the lesser of"

S. 211.8(1) was added by S.C. 1997, c. 25, s. 62(1), applicable to redemptions, acquisitions, cancellations and dispositions that occur after November 15, 1995, except that it does not apply

(*a*) to any redemption that occurs before 1998 of a share of the capital stock of a corporation that was registered under subsection 204.81(1), where an amount determined under regulations made for the purpose of clause 204.81(1)(*c*)(v)(F) is directed to be remitted to the Receiver General in order to permit the redemption; and

(*b*) to any disposition that occurs before 1998, where an amount is required to be remitted to the government of a province as a consequence of the disposition and a portion of the amount is in respect of the recovery of a tax credit that is provided under subsection 127.4(2) in respect of the share.

► 211.8(1.1) ◄

(1.1) Rules of application. Subsections 204.8(2) and (3) and 204.85(3) apply for the purpose of subsection (1).

History: S. 211.8(1.1) was added by S.C. 2000, c. 19, s. 62(2), applicable to redemptions, acquisitions, cancellations and dispositions that occur after February 16, 1999.

► 211.8(2) ◄

(2) Withholding and remittance of tax. Where a person or partnership (in this section referred to as the "transferee") redeems, acquires or cancels a share and, as a consequence, tax is payable under this Part by the person who was the shareholder immediately before the redemption, acquisition or cancellation, the transferee shall

(*a*) withhold from the amount otherwise payable on the redemption, acquisition or cancellation to the shareholder the amount of the tax;

(*b*) within 30 days after the redemption, acquisition or cancellation, remit the amount of the tax to the Receiver General on behalf of the shareholder; and

(*c*) submit with the remitted amount a statement in prescribed form.

History: S. 211.8(2) was added by S.C. 1997, c. 25, s. 62(1), applicable to redemptions, acquisitions and cancellations that occur after April 25, 1997.

Forms: T1149.

► 211.8(3) ◄

(3) Liability for tax. Where a transferee has failed to withhold any amount as required by subsection (2) from an amount paid or credited to a shareholder, the transferee is liable to pay as tax under this Part on behalf of the shareholder the amount the transferee failed to withhold, and is entitled to recover that amount from the shareholder.

History: S. 211.8(3) was added by S.C. 1997, c. 25, s. 62(1), applicable to redemptions, acquisitions and cancellations that occur after April 25, 1997.

SECTION 211.9: Refund.

The Minister may pay to an individual (other than a trust) in respect of the disposition of a share, if application for the payment has been made in writing by the individual and filed with the Minister no later than two years after the end of the calendar year in which the disposition occurred, an amount not exceeding the lesser of

(*a*) the tax paid under this Part in respect of a disposition of the share, and

(*b*) 15% of the net cost of the share on the original acquisition by the individual (or by a qualifying trust for the individual in respect of the share).

History: S. 211.9 was replaced by S.C. 2000, c. 19, s. 63(1), applicable to dispositions that occur after 1998. S. 211.9 formerly read:

"S. 211.9. *Refund of clawback.* The Minister may pay to an individual (other than a trust) an amount not exceeding the lesser of

(*a*) either

(i) the tax paid under this Part in respect of a disposition of a share, or

(ii) the amount determined under regulations made for the purpose of clause 204.81(1)(*c*)(v)(F) that was remitted to the Receiver General in respect of a disposition of an approved share, and

(*b*) the amount, if any, by which

(i) 15% of the net cost of the share on the original acquisition by the individual (or by a qualifying trust for the individual in respect of the share)

exceeds

(ii) the amount deducted under subsection 127.4(2) in respect of the original acquisition of the share by the individual (or by a qualifying trust for the individual in respect of the share)

if application for the payment has been made in writing by the individual and filed with the Minister no later than 2 years after the end of the calendar year in which the disposition occurred."

S. 211.9 was added by S.C. 1997, c. 25, s. 62(1), applicable after April 25, 1997, except that

(*a*) the reference to "15%" in subparagraph 211.9(*b*)(i) shall be read as "20%" in respect of a disposition of a share the original acquisition of which was before March 6, 1996; and

(*b*) any application filed under that section before 1998 is deemed to be filed on a timely basis.

Related Sections: S. 127.4(2) Deduction of labour-sponsored funds tax credit; s. 204.8(2) When venture capital business discontinued; s. 204.85(3) Amalgamations and mergers.

Part XII.6
Tax on Flow-Through Shares

SECTION 211.91:

► 211.91(1) ◄

(1) Tax imposed. Every corporation shall pay a tax under this Part in respect of each month (other than January) in a calendar year equal to the amount determined by the formula

$$(A + B/2 - C - D/2) \times (E/12 + F/10)$$

where

A is the total of all amounts each of which is an amount that the corporation purported to renounce in the year under subsection 66(12.6) or (12.601) because of the application of subsection 66(12.66) (other than an amount purported to be renounced in respect of expenses incurred or to be incurred in connection with production or potential production in a province where a tax, similar to the tax provided under this Part, is payable by the corporation under the laws of the province as a consequence of the failure to incur the expenses that were purported to be renounced);

B is the total of all amounts each of which is an amount that the corporation purported to renounce in the year under subsection 66(12.6) or (12.601) because of the application of subsection 66(12.66) and that is not included in the value of A;

C is the total of all expenses described in paragraph 66(12.66)(*b*) that are

(*a*) made or incurred by the end of the month by the corporation, and

(*b*) in respect of the purported renunciations in respect of which an amount is included in the value of A;

D is the total of all expenses described in paragraph 66(12.66)(*b*) that are

(*a*) made or incurred by the end of the month by the corporation, and

(*b*) in respect of the purported renunciations in respect of which an amount is included in the value of B;

E is the rate of interest prescribed for the purpose of subsection 164(3) for the month; and

F is

(*a*) one, where the month is December, and

(*b*) nil, in any other case.

History: Part XII.6 was added by S.C. 1997, c. 25, s. 62(1), applicable to the 1997 and subsequent calendar years.

S. 211.91(1) was added by S.C. 1997, c. 25, s. 62(1), applicable to the 1997 and subsequent calendar years.

Regulations: 4301.

Canadian Petroleum Tax Journal: Flow-Through Shares: An Update, Angelo F. Toselli, Vol. 10 No. 1 1997.

► 211.91(2) ◄

(2) Return and payment of tax. A corporation liable to tax under this Part in respect of one or more months in a calendar year shall, before March of the following calendar year,

(*a*) file with the Minister a return for the year under this Part in prescribed form containing an estimate of the tax payable under this Part by it in respect of each month in the year; and

(*b*) pay to the Receiver General the amount of tax payable under this Part by it in respect of each month in the year.

History: S. 211.91(2) was added by S.C. 1997, c. 25, s. 62(1), applicable to the 1997 and subsequent calendar years.

Forms: T100; T101C.

► 211.91(3) ◄

(3) Provisions applicable to Part. Subsections 150(2) and (3), sections 152, 158 and 159, subsections 161(1) and (11), sections 162 to 167 and Division J of Part I apply to this Part, with any modifications that the circumstances require.

History: S. 211.91(3) was added by S.C. 1997, c. 25, s. 62(1), applicable to the 1997 and subsequent calendar years.

Part XIII
Tax on Income from Canada of Non-Resident Persons

SECTION 212:

► 212(1) ◄

(1) Tax. Every non-resident person shall pay an income tax of 25% on every amount that a person resident in Canada pays or credits, or is deemed by Part I to pay or credit, to the non-resident person as, on account or in lieu of payment of, or in satisfaction of,

Editorial Note: The 25% withholding tax generally applies to passive investment income received by non-residents from Canadian sources (as more particularly set out in subsection (1); see also subsection (2), which deals with dividends, and subsection (5), which deals with amounts paid for the use of motion picture film or television video). The tax is often reduced by treaty. Although the non-resident is liable for the tax, the Canadian resident payer of the income is obligated to withhold the tax and remit it to the Receiver General on behalf of the non-resident (subsection 215(1)). See also subsections 212(13) through (13.2) regarding non-resident payers, and payers or payees who are partnerships. The rest of section 212 provides various interpretive and application rules for the purposes of the withholding tax.

Related Sections: S. 2(3) Tax payable by non-resident persons; s. 134.1(2) Application; s. 142.7(8)(*d*) Assumption of debt obligation; s. 212(13)–(13.3); s. 214 Special rules applicable to non-residents; s. 215 Withholding and remittance of tax; s. 216 Alternatives re rents and timber royalties; s. 216.1 Alternative re: acting services; s. 217 Alternative re Canadian benefits; s. 227 Withholding taxes; ITAR s. 10(6) Limitation on non-resident's tax rate.
Regulations: Part II; Part VIII.
Interpretation Bulletins: *Secondary* — IT-77R Securities in satisfaction of an income debt [Archived by the CRA]; IT-119R4 Debts of shareholders, certain persons connected with shareholders, etc.; IT-168R3 Athletes and players employed by football, hockey and similar clubs; IT-360R2 Interest payable in a foreign currency; IT-500R Registered retirement savings plans (maturing after June 29, 1978) — Death of annuitant after June 29, 1978.
Information Circulars: IC 76-12R6 Applicable rate of Part XIII tax on amounts paid or credited to persons in countries with which Canada has a Tax Convention; IC 77-16R4 Non-resident income tax (para. 15); IC 87-2R International Transfer Pricing.
Advance Tax Rulings: ATR-29 Amalgamation of social clubs.
Income Tax Technical News: Issue No. 35, Treaty Residence — Resident of Convenience; Issue No. 14, Meaning of "credited" for the purpose of Part XIII withholding tax.
Forms: NR4 Sum.; NRTA1.
Guides: T4061 Non-Resident Withholding Tax Guide.
Tax Topics: No. 1812, Beneficial Ownership: Indofood Run Wild.
Tax Profile: December 2006 — "Beneficial Ownership" under Canadian Tax Treaties — Canadian Revenue Authorities Take Aim; September 2002 — Canadian Withholding Taxes Update; July 2002 — Doing Business in Canada.
Canadian Tax Foundation: Ward et al., "A Resident of a Contracting State for Tax Treaty Purposes: A Case Comment on Crown Forest Industries", *1996 Canadian Tax Journal*, No. 2, 408.
Cases: The word "credit" in s. 212(1) should be interpreted as "making available to" rather than defined in terms of the accounting entries that had been made in respect of capitalized interest. *La Compagnie Minière Quebec Cartier*, 84 DTC 1348 (T.C.C.).

Treaties often contain definitions of their own for certain purposes; where these conflict with definitions under the *Income Tax Act*, the treaty will prevail. *The Queen v. Saint John Shipbuilding and Dry Dock Co. Ltd.*, 80 DTC 6272 (F.C.A.). See also *The Queen v. Melford Developments Inc.*, 82 DTC 6281 (S.C.C.).

► 212(1)(a) ◄

(a) Management fee — a management or administration fee or charge;

Related Sections: S. 212(4) Interpretation of "management or administration fee or charge".
Regulations: Part II.
Interpretation Bulletins: *Primary* — IT-468R Management or administration fees paid to non-residents.
Information Circulars: IC 77-16R4 Non-resident income tax (paras. 15 and 16).
Forms: NR4 Sum.; NR4.
Tax Profile: January 2008 — Tax Ramifications of Non-Resident Purchases of Canadian Businesses.
Canadian Tax Foundation: Purdy and Zanchelli, "Calculating and Supporting Management Fees (A Departure from the 'Back of the Envelope' Approach", *1996 Canadian Tax Journal*, No. 1, 157.
Cases: A non-resident portfolio investment fund manager made all the taxpayer's investment planning decisions and the taxpayer's profitability depended directly upon such decisions, which could be characterized as management tasks. *Peter Cundill & Associates Limited*, 91 DTC 5543 (F.C.A.), affirming 91 DTC 5085 (F.C.T.D.).

► 212(1)(b) ◄

(b) Interest — interest that

(i) is not fully exempt interest, and is paid or payable to a person with whom the payer is not dealing at arm's length, or

(ii) is participating debt interest;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 212(1)(*b*)(iv) of the Act is replaced by the following:

(iv) interest payable to a person with whom the payer is dealing at arm's length and to whom a certificate of exemption that is in force on the day the amount is paid or credited was issued under subsection (14),

Applicable: To the 1998 and subsequent taxation years.
Editorial Note: This amendment applies to s. 212(1)(*b*) as it read prior to 2008. See the history note for s. 212(1)(*b*). S. 97(1) of S.C. 2007, c. 35, which is a coordinating amendment with Bill C-10, provides that if Bill C-10 receives royal assent, this Bill C-10 amendment applies as though Bill C-10 had received royal assent before S.C. 2007, c. 35.

Explanatory Note:

Non-resident Withholding Tax — Interest

Paragraph 212(1)(*b*) of the Act both applies tax under Part XIII of the Act to interest paid or credited by a person resident in Canada to a non-resident person and includes a number of exemptions from the tax. One of these, in subparagraph 212(1)(*b*)(iv), is for interest payable to an arm's length person who holds a valid "certificate of exemption". These certificates, issued by the Minister of National Revenue under the authority provided by subsection 212(14) of the Act, are generally available to foreign pension entities, charities and certain other tax-exempt entities.

In its current form, subparagraph 212(1)(*b*)(iv) applies only to interest on a "bond, debenture or similar obligation." Since this restriction may unduly limit the scope of the provision, it is broadened to encompass all forms of indebtedness. It should be noted, however, that no change is made to the requirement that the Canadian-resident payer of the interest and the non-resident recipient deal at arm's length.

This amendment applies to the 1998 and subsequent taxation years.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subparagraph 212(1)(*b*)(xii) of the Act before clause (A) is replaced by the following:

(xii) interest payable by a lender under a securities lending arrangement, if the lender and the borrower deal with each other at arm's length and the lender is a financial institution prescribed for the purpose of clause (iii)(D), or a registered securities dealer resident in Canada, on money provided to the lender either as collateral or as consideration for the particular security lent or transferred under the arrangement where

Applicable: To arrangements made after 2002.

Editorial Note: This amendment applies to s. 212(1)(*b*) as it read prior to 2008. See the history note for s. 212(1)(*b*). S. 97(1) of S.C. 2007, c. 35, which is a coordinating amendment with Bill C-10, provides that if Bill C-10 receives royal assent, this Bill C-10 amendment applies as though Bill C-10 had received royal assent before S.C. 2007, c. 35.

Explanatory Note: Subparagraph 212(1)(*b*)(xii) provides an exemption for interest payable under certain securities lending arrangements by registered or licensed securities dealers resident in Canada. Given the current definition of "securities lending arrangement" in subsection 260(1) of the Act, this exemption is only available to dealers who are dealing at arm's length with the other parties to the arrangements.

Consequential to the amendments to the definition of "securities lending arrangement" in subsection 260(1), which now includes certain arrangements between non-arm's length parties, the amendment to subparagraph 212(1)(*b*)(xii) confirms that the exemption is limited to arm's length arrangements.

This amendment applies to arrangements made after 2002.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 212(1)(*b*) of the Act is amended by striking out the word "and" at the end of subparagraph (xi), by adding the word "and" at the end of subparagraph (xii) and by adding the following after subparagraph (xii):

(xiii) an amount paid or credited under a securities lending arrangement that is deemed by subparagraph 260(8)(*c*)(i) to be a payment made by a borrower to a lender of interest if

(A) the securities lending arrangement was entered into by the borrower in the course of carrying on a business outside Canada, and

(B) the security that is transferred or lent to the borrower under the securities lending arrangement is described in paragraph (*b*) or (*c*) of the definition "qualified security" in subsection 260(1) and issued by a non-resident issuer;

Applicable: To securities lending arrangements entered into after May 1995, except that, in its application to arrangements made before 2002, the reference to "subparagraph 260(8)(*c*)(i)" in subparagraph 212(1)(*b*)(xiii) is to be read as a reference to "subparagraph 260(8)(*a*)(i)".

Editorial Note: This amendment applies to s. 212(1)(*b*) as it read prior to 2008. See the history note for s. 212(1)(*b*). S. 97(1) of S.C. 2007, c. 35, which is a coordinating amendment with Bill C-10, provides that if Bill C-10 receives royal assent, this Bill C-10 amendment applies as though Bill C-10 had received royal assent before S.C. 2007, c. 35.

Explanatory Note:

Non-resident Withholding Tax — Interest

Securities lending arrangements often include an obligation for one party to compensate the other for certain income amounts. In the absence of special rules, these compensation payments may be subject to tax under Part XIII if they are paid by a person resident in Canada to a non-resident person.

New subparagraph 212(1)(*b*)(xiii) exempts from tax under Part XIII certain interest compensation payments made to a non-resident by a borrower resident in Canada under a securities lending arrangement. For this exemption to apply,

- the payments must be made by the borrower in the course of carrying on its business outside of Canada; and
- the borrowed securities must be issued by a non-resident issuer.

This amendment applies to securities lending arrangements entered into after May 1995, except that, before 2002, the reference to "subparagraph 260(8)(*c*)(i)" should be read as "subparagraph 260(8)(*a*)(i)".

History: S. 212(1)(*b*) was replaced by S.C. 2007, c. 35, s. 59(2), applicable after 2007. S. 212(1)(*b*) formerly read:

"(*b*) *Interest* — interest except

(i) interest payable by a non-resident-owned investment corporation,

(ii) interest payable on

(A) bonds of or guaranteed by the Government of Canada issued on or before December 20, 1960,

(B) bonds of or guaranteed by the Government of Canada issued after December 20, 1960, and before April 16, 1966, the interest on which is payable to the government or central bank of a country other than Canada or to any international organization or agency prescribed by regulation, or

(C) bonds, debentures, notes, mortgages, hypothecary claims or similar obligations

(I) of or guaranteed by the Government of Canada,

(II) of the government of a province or an agent thereof,

(III) of a municipality in Canada or a municipal or public body performing a function of government in Canada,

(IV) of a corporation, commission or association to which any of paragraphs 149(1)(*d*) to (*d*.6) applies, or

(V) of an educational institution or a hospital if repayment of the principal amount thereof and payment of the interest thereon is to be made, or is guaranteed, assured or otherwise specifically provided for or secured by the government of a province,

issued after April 15, 1966,

(iii) interest payable in a currency other than Canadian currency to a person with whom the payer is dealing at arm's length, on

(A) any obligation where the evidence of indebtedness was issued on or before December 20, 1960,

(B) any obligation where the evidence of indebtedness was issued after December 20, 1960, if the obligation was entered into under an agreement in writing made on or before that day, under which the obligee undertook to advance, on or before a specified day, a specified amount at a specified rate of interest or a rate of interest to be determined as provided in the agreement, to the extent that the interest payable on the obligation is payable

(I) in respect of a period ending not later than the earliest day on which, under the terms of the obligation determined as of the time it was entered into, the obligee would be entitled to demand payment of the principal amount of the obligation or the amount outstanding as or on account of the principal amount thereof, as the case may be, if the terms of the obligation determined as of that time provided for that payment on or after a specified day, or

(II) in respect of a period ending not later than one year after the time the obligation was entered into, in any other case,

(C) any bond, debenture or similar obligation issued after December 20, 1960, for the issue of which arrangements were made on or before that day with a dealer in securities, if the existence of the arrangements for the issue of the bond, debenture or similar obligation can be established by evidence in writing given or made on or before that day,

(D) an amount not repayable in Canadian currency deposited with an institution that was at the time the amount was deposited or at the

time the interest was paid or credited a prescribed financial institution,

(E) any obligation entered into in the course of carrying on a business in a country other than Canada, to the extent that the interest payable on the obligation is deductible in computing the income of the payer under Part I from a business carried on by the payer in such a country, or that, but for subsection 18(2) or section 21, would have been so deductible, or

(F) any obligation entered into by the payer after December 20, 1960, on assuming an obligation referred to in clause (A) in consideration or partial consideration for the purchase by the payer of property of the vendor that constituted security for that obligation, if the payer on entering into the obligation undertook to pay the same amount of money on or before the same date and at the same rate of interest as the vendor of the property had undertaken in respect of the obligation under which the vendor was the obligor,

for the purpose of this subparagraph, interest expressed to be computed by reference to Canadian currency shall be deemed to be payable in Canadian currency),

(iv) interest payable on any bond, debenture or similar obligation to a person with whom the payer is dealing at arm's length and to whom a certificate of exemption that is in force on the day the amount is paid or credited was issued under subsection (14),

(v) interest payable to a person with whom the payer is dealing at arm's length on any obligation entered into in the course of carrying on a life insurance business in a country other than Canada,

(vi) [Repealed by 1988, c. 55, S. 161(2).]

(vii) interest payable by a corporation resident in Canada to a person with whom that corporation is dealing at arm's length on any obligation where the evidence of indebtedness was issued by that corporation after June 23, 1975 if under the terms of the obligation or any agreement relating thereto the corporation may not under any circumstances be obliged to pay more than 25% of

(A) where the obligation is one of a number of obligations that comprise a single debt issue of obligations that are identical in respect of all rights (in equity or otherwise, either immediately or in the future and either absolutely or contingently) attaching thereto, except as regards the principal amount thereof, the total of the principal amount of those obligations, or

(B) in any other case, the principal amount of the obligation,

within 5 years from the date of issue of that single debt issue or that obligation, as the case may be, except

(C) in the event of a failure or default under the said terms or agreement,

(D) if the terms of the obligation or any agreement relating thereto become unlawful or are changed by virtue of legislation or by a court, statutory board or commission,

(E) if the person exercises a right under the terms of the obligation or any agreement relating thereto to convert the obligation into, or exchange the obligation for, a prescribed security,

(F) in the event of the person's death, or

(G) in the event that a change to this Act or to a tax treaty has the effect of relieving the non-resident person from liability for tax under this Part in respect of the interest;

(viii) interest payable on a mortgage, hypothecary claim or similar obligation secured by, or on an agreement for sale or similar obligation with respect to, real property situated outside Canada or an interest in any such real property except to the extent that the interest payable on the obligation is deductible in computing the income of the payer under Part I from a business carried on by the payer in Canada or from property other than real property situated outside Canada,

(ix) interest payable in Canadian currency on account of an amount in Canadian currency deposited in a country other than Canada with a branch or office of a payer who

(A) is, or is eligible to become, a member of the Canadian Payments Association, or

(B) is a credit union that is a shareholder or member of a body corporate or organization that is a central for the purposes of the *Canadian Payments Association Act*,

to a person with whom the payer is dealing at arm's length,

(x) interest payable to a prescribed international organization or agency,

(xi) interest payable on an amount deposited with a prescribed financial institution for the period during which the amount was an eligible deposit (within the meaning assigned by subsection 33.1(1)) of the institution, and

(xii) interest payable under a securities lending arrangement by a lender under the arrangement that is a financial institution prescribed for the purpose of clause (iii)(D), or a registered securities dealer resident in Canada, on money provided to the lender either as collateral or as consideration for the particular security lent or transferred under the arrangement where

(A) the particular security is an obligation referred to in subparagraph (ii) or an obligation of the government of any country, province, state, municipality or other political subdivision,

(B) the amount of money so provided at any time during the term of the arrangement does not exceed 110% of the fair market value at that time of the particular security, and

(C) the arrangement was neither intended, nor made as a part of a series of securities lending arrangements, loans or other transactions that was intended, to be in effect for more than 270 days,

and for the purpose of this paragraph, where interest is payable on an obligation, other than a prescribed obligation, and all or any portion of the interest is contingent or dependent on the use of or production from property in Canada or is computed by reference to revenue, profit, cash flow, commodity price or any other similar criterion or by reference to dividends paid or payable to shareholders of any class of shares of the capital stock of a corporation, the interest shall be deemed not to be interest described in subparagraphs (ii) to (vii) and (ix);"

S. 212(1)(*b*)(vii)(G) was added by S.C. 2007, c. 35, s. 59(1), applicable to obligations entered into on or after March 19, 2007.

S. 212(1)(*b*)(ii)(C)(IV) was amended by S.C. 2001, c. 17, s. 173(1), applicable to amounts paid or credited after 1998. S. 212(1)(*b*)(ii)(C)(IV) formerly read:

"(IV) of a corporation, commission or association not less than 90% of the shares or capital of which is owned by Her Majesty in right of a province or by a Canadian municipality, or of a subsidiary wholly-owned corporation that is subsidiary to such a corporation, commission or association, or"

S. 212(1)(*b*)(ii)(C) was amended by S.C. 2001, c. 17, s. 226(1), applicable on Royal Assent, June 14, 2001. S. 212(1)(*b*)(ii)(C) formerly read:

"(C) bonds, debentures, notes, mortgages or similar obligations"

S. 212(1)(*b*)(viii) was amended by S.C. 2001, c. 17, s. 226(2), applicable on Royal Assent, June 14, 2001. S. 212(1)(*b*)(viii) formerly read:

"(viii) interest payable on a mortgage or similar obligation secured by, or on an agreement for sale or similar obligation with respect to, real property situated outside Canada or an interest in any such real property except to the extent that the interest payable on the obligation is deductible in computing the income of the payer under Part I from a business carried on by the payer in Canada or from property other than real property situated outside Canada,"

S. 212(1)(*b*)(xii), that portion preceding clause (A), was amended by S.C. 1995, c. 21, s. 73(1), applicable to securities lending arrangements entered into after May 28, 1993. S. 212(1)(*b*)(xii), that portion preceding clause (A), formerly read:

"(xii) interest payable under a securities lending arrangement by a lender under the arrangement that is a financial institution prescribed for the purpose of clause (iii)(D), or a person resident in Canada who is registered or licensed under the laws of a province to trade in securities, on money provided to the lender either as collateral or as consideration for the particular security lent or transferred under the arrangement where"

S. 212(1)(*b*)(xii) was added by S.C. 1994, c. 21, s. 97(1), applicable to securities lending arrangements entered into after May 28, 1993.

S. 212(1)(*b*)(iv) was amended by S.C. 1994, c. 7, Sched. VIII, s. 123(1), applicable to amounts paid or credited after 1991 except that, in its application to amounts paid or credited in respect of obligations issued before 1992, it applies with respect to amounts paid or credited after 1992. S. 212(1)(*b*)(iv) formerly read:

"(iv) interest payable on any bond, debenture or similar obligation issued after June 13, 1963 to a person to whom a certificate of exemption that is in force on the day the amount is paid or credited has been issued under subsection (14),"

S. 212(1)(*b*)(vii)(F) was added by S.C. 1994, c. 7, Sched. VIII, s. 123(2), applicable to amounts paid or credited after 1991.

S. 212(1)(*b*)(vii)(C) was amended by S.C. 1994, c. 7, Sched. II, s. 174(1), applicable to amounts paid or credited after 1986. S. (1)(*b*)(vii)(C) formerly read:

"(C) in the event of a failure or default under the terms of the agreement relating to the obligation,"

Related Sections: s. 204, "qualified investment"; s. 212(3) Interest — definitions; s. 212(6)–(7); s. 212(8) Bonds issued after December 20, 1960 in exchange for earlier bonds; s. 212(14) Certificate of exemption; s. 212(15) Certain obligations; s. 212(18) Return by financial institutions and registered securities dealers; s. 212(19) Tax on registered securities dealers; s. 214(2) Income and capital combined; s. 214(3)(*e*) Deemed payments; s. 214(6) Deemed interest; s. 214(7)–(7.1); s. 214(8)(a) Meaning of "excluded obligation"; s. 214(11) Application of para. 212(1)(b); s. 214(15) Standby charges and guarantee fees; s. 218 Loan to wholly-owned subsidiary — direct borrowing by wholly-owned subsidiary whose principal business is money-lending; s. 240 Definition of "taxable obligation" and "non-taxable obligation"; s. 248(10) Series of transactions; s. 248(12) Identical properties; s. 251(1) Arm's length; s. 260(1), "securities lending arrangement"; s. 260(8) Non-resident withholding tax; ITAR s. 10(5) Certificates of exemption.

Regulations: 806; 806.1; 806.2; 6208; 7900.

Interpretation Bulletins: *Primary* — IT-155R3 Exemption from non-resident tax on interest payable on certain bonds, debentures, notes, hypothecs or similar obligations; IT-360R2 Interest payable in a foreign currency; IT-361R3 Exemption from tax on interest payments to non-residents. *Secon-*

dary — IT-320R3 Qualified investments — Trusts governed by registered retirement savings plans, registered education savings plans and registered retirement income funds.

Information Circulars: IC 76-12R6 Applicable rate of Part XIII tax on amounts paid or credited to persons in countries with which Canada has a Tax Convention; IC 77-16R4 Non-resident income tax (paras. 17 to 33).

Advance Tax Rulings: ATR-69 Withholding tax on interest paid to non-resident persons.

Income Tax Technical News: Issue No. 38, Application of Subparagraph 212(1)(*b*)(VII); Issue No. 30, Withholding Tax on Interest; Issue No. 11, Paragraph 212(1)(*b*) — Postamble; Issue No. 9, Exemption from withholding tax on interest — Clause 212(1)(*b*)(vii)(C).

Forms: NR4 Sum.; NR4.

Tax Topics: No. 1929, Canada — U.S. Tax Treaty Protocol — Coming into Force Update; No. 1916, Withholding Tax Implications of Participating Interest and Convertible Debt; No. 1863, Amendments Affecting Non-Resident Withholding Tax; No. 1821, Recent CRA Rulings Relating to Subparagraph 212(1)(*b*)(vii); No. 1812, Beneficial Ownership: Indofood Run Wild.

Tax Profile: November 2008 — 2008 Cross-Border Developments in Canada; October 2008 — Tax Consequences of Debt Restructuring and Workouts in Canada; August 2008 — Fifth Protocol to the Canada–U.S. Tax Convention: A Canadian Perspective; January 2008 — Tax Ramifications of Non-Resident Purchases of Canadian Businesses; December 2007 — Non-Resident Investment in Canadian Real Estate; October 2007 — Important Changes Announced to the Canada — U.S. Income Tax Convention; October 2007 — Will Canadian Unlimited Liability Companies Survive?; May 2007 — Impact of 2007 Federal Budget on Cross-Border Transactions; May 2007 — Why Canada Should End Roadblock to Foreign Private Equity; March 2007 — Beneficial Ownership: An International Perspective; July 2005 — Alberta Introduces Alberta Unlimited Liability Corporations; November 2003 — Revenue Canada Round Table.

Canadian Tax Foundation: Kopstein and Pantry, "Subparagraph 212(1)(b)(vii) Withholding Tax Exemption", *2005 Conference Report*, 15:1.

Canadian Petroleum Tax Journal: Café Annie's Tasty Inbound Financing, Jim McKee, Vol. 15 No. 1 2002.

Cases: Construction interest capitalized under s. 18(3.1) lost its character as "interest" and was therefore not subject to Part XIII tax when paid out to a non-resident lender. *Eastern Success Co. Ltd. v. The Queen,* 2004 DTC 3521 (T.C.C.).

The taxpayers owned fishing trawlers. A non-resident corporation, U, provided financing for the ships and marketed and sold all of the taxpayers' products in Denmark in return for a commission. Interest paid to U was subject to withholding tax but since the taxpayers were carrying on a business in Denmark, through U as their agent, s. 212(1)(*b*)(iii)(E) decreased their withholding tax liability. *Kinguk Trawl Inc. et al. v. The Queen,* 2003 DTC 5168 (F.C.A.), reversing 2002 DTC 1399 (T.C.C.).

The taxpayer's predecessor issued subordinated promissory notes to non-resident corporations. The terms of the notes were subsequently altered to such an extent as to result in the creation of completely new obligations, which were outside the exempting provisions of s. 212(1)(b)(vii). *General Electric Capital Equipment Finance Inc. v. The Queen,* 2002 DTC 6734 (F.C.A.), affirming 2000 DTC 6513 (F.C.T.D.).

A U.S. real estate company selling U.S. land to Canadians in Washington was not carrying on business in Canada, and was therefore subject to withholding tax on the interest portion of payments made by purchasers. *Sudden Valley Inc. v. The Queen,* 76 DTC 6448 (F.C.A.).

► 212(1)(c) ◄

(c) Estate or trust income — income of or from an estate or a trust to the extent that the amount

(i) is included in computing the income of the non-resident person under subsection 104(13), except to the extent that the amount is deemed by subsection 104(21) to be a taxable capital gain of the non-resident person, or

(ii) can reasonably be considered (having regard to all the circumstances including the terms and conditions of the estate or trust arrangement) to be a distribution of, or derived from, an amount received by the estate or trust as, on account of, in lieu of payment of or in satisfaction of, a dividend on a share of the capital stock of a corporation resident in Canada, other than a taxable dividend;

History: S. 212(1)(c)(i) was amended by S.C. 2001, c. 17, s. 173(2), applicable to amounts paid or credited after December 17, 1999. S. 212(1)(*c*)(i) formerly read:

"(i) would, if the non-resident person were a person resident in Canada to whom Part I applied, be included in computing the income of the non-resident person under subsection 104(13), except to the extent that the amount is deemed by subsection 104(21) to be a taxable capital gain of the non-resident person, or"

S. 212(1)(*c*) was amended by S.C. 1994, c. 7, Sched. II, s. 174(2), applicable to amounts paid or credited or deemed under the Act to have been paid or credited by an estate or a trust after July 13, 1990. S. 212(1)(*c*) formerly read:

"(c) income of or from an estate or trust to the extent that the amount would, if the non-resident person were a person resident in Canada to whom Part I was applicable, be included in computing the income of the non-resident person by reason of subsection 104(13), except to the extent that the amount is deemed by subsection 104(21) to be a taxable capital gain of the non-resident person;"

Related Sections: S. 53(2)(*h*) Amounts to be deducted — Capital interest in a trust; s. 104(11) Dividend received from non-resident-owned investment corporation; s. 132(5.1)–(5.2) TCP gains distribution; Part XII.2 (s. 210–210.3) Tax on designated income of certain trusts; s. 212(9)–(11); s. 212(17) Exception; s. 214(3) Deemed payments; Part XIII.2 (s. 218.3) Non-Resident investors in Canadian mutual funds; s. 250.1 Non-resident person's taxation year and income.

Regulations: Part II.

Interpretation Bulletins: *Primary* — IT-465R Non-resident beneficiaries of trusts. *Secondary* — IT-342R Trusts — Income payable to beneficiaries.

Information Circulars: IC 76-12R6 Applicable rate of Part XIII tax on amounts paid or credited to persons in countries with which Canada has a Tax Convention; IC 77-16R4 Non-resident income tax (paras. 34 to 37).

Forms: NR4 Sum.; NR4.

Tax Profile: April 2004 — Mutual Funds and the 2004 Budget.

Cases: Estate income credited but not paid to a non-resident co-executor was held to be part of the non-resident's income. *Berry v. M.N.R.,* 81 DTC 224 (T.R.B.).

Income paid by a trust to a non-resident who was not a beneficiary of the trust under Quebec law was nonetheless held to be subject to withholding tax. *Doriga Trust v. M.N.R.,* 81 DTC 85 (T.R.B.).

► 212(1)(d) ◄

(d) Rents, royalties, etc. — rent, royalty or similar payment, including, but not so as to restrict the generality of the foregoing, any payment

(i) for the use of or for the right to use in Canada any property, invention, trade-name, patent, trade-mark, design or model, plan, secret formula, process or other thing whatever,

(ii) for information concerning industrial, commercial or scientific experience where the total amount payable as consideration for that information is dependent in whole or in part on

(A) the use to be made of, or the benefit to be derived from, that information,

(B) production or sales of goods or services, or

(C) profits,

(iii) for services of an industrial, commercial or scientific character performed by a non-resident person where the total amount payable as consideration for those services is dependent in whole or in part on

(A) the use to be made of, or the benefit to be derived from, those services,

(B) production or sales of goods or services, or

(C) profits,

but not including a payment made for services performed in connection with the sale of property or the negotiation of a contract,

(iv) made pursuant to an agreement between a person resident in Canada and a non-resident person under which the non-resident person agrees not to use or not to permit any other person to use any thing referred to in subparagraph (i) or any information referred to in subparagraph (ii), or

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 212(1)(*d*)(iv) of the Act is replaced by the following:

(iv) unless paragraph (*i*) applies to the amount, made pursuant to an agreement between a person resident in Canada and a non-resident person under which the non-resident person agrees not to use or not to permit any other person to use any thing referred to in subparagraph (i) or any information referred to in subparagraph (ii), or

Applicable: To amounts paid or credited after October 7, 2003.

Explanatory Note:

Rents, Royalties, etc.

Paragraph 212(1)(*d*) of the Act describes various amounts, in the nature of rent, royalties and similar payments, on which tax under Part XIII of the Act is imposed. Subparagraphs 212(1)(*d*)(vi) through (xi) list payments to which the tax does not apply. Three changes have been made to paragraph 212(1)(*d*).

First, subparagraph 212(1)(*d*)(iv), which concerns payments made in respect of an agreement between a person resident in Canada and a non-resident person under which the non-resident person agrees not to use or not to permit any other person to use any thing referred to in subparagraph (*d*)(i), is amended so that it does not apply to certain restrictive covenant amounts to which new paragraph 212(1)(*i*) applies. This change applies to amounts paid or credited after October 7, 2003.

Second, subparagraph 212(1)(*d*)(xi), which currently provides that Part XIII tax does not apply to payments made to an arm's length person for the use of property that is an aircraft, certain attachments thereto as well as to spare parts for such property, is amended, applicable after July 2003, to also apply to air navigation equipment utilized in the provision of services under the *Civil Air Navigation Services Commercialization Act*, and to computer software that is necessary to the operation of that equipment that is used by the payer for no other purpose.

Third, new subparagraph 212(1)(*d*)(xii) clarifies that subsection 212(5) of the Act, which is amended as described below, is the sole provision in Part XIII that applies the tax to payments for rights in or to use a film or video that is used or reproduced in Canada. This change applies for the 2000 and subsequent taxation years.

(v) that was dependent on the use of or production from property in Canada whether or not it was an instalment on the sale price of the property, but not including an instalment on the sale price of agricultural land,

but not including

(vi) a royalty or similar payment on or in respect of a copyright in respect of the production or reproduction of any literary, dramatic, musical or artistic work,

(vii) a payment in respect of the use by a railway company or by a person whose principal business is that of a common carrier of property that is railway rolling stock as defined in the definition "rolling stock" in section 2 of the *Railway Act*

(A) if the payment is made for the use of that property for a period or periods not expected to exceed in the aggregate 90 days in any 12 month period, or

(B) in any other case, if the payment is made pursuant to an agreement in writing entered into before November 19, 1974;

(viii) a payment made under a *bona fide* cost-sharing arrangement under which the person making the payment shares on a reasonable basis with one or more non-resident persons research and development expenses in exchange for an interest in any or all property or other things of value that may result therefrom,

(ix) a rental payment for the use of or the right to use outside Canada any corporeal property,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraphs 212(1)(*d*)(viii) and (ix) of the Act are replaced by the following:

(viii) a payment made under a *bona fide* cost-sharing arrangement under which the person making the payment shares on a reasonable basis with one or more non-resident persons research and development expenses in exchange for an interest, or for civil law a right, in any or all property or other things of value that may result therefrom,

(ix) a rental payment for the use of or the right to use outside Canada any tangible, or for civil law corporeal, property,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(x) any payment made to a person with whom the payer is dealing at arm's length, to the extent that the amount thereof is deductible in computing the income of the payer under Part I from a business carried on by the payer in a country other than Canada, or

(xi) a payment made to a person with whom the payer is dealing at arm's length for the use of or the right to use property that is

(A) an aircraft,

(B) furniture, fittings or equipment attached to an aircraft, or

(C) a spare part for property described in clause (A) or (B);

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 212(1)(*d*)(xi) of the Act is amended by striking out the word "or" at the end of clause (B), by

adding the word "or" at the end of clause (C) and by adding the following after clause (C):

(D) air navigation equipment utilized in the provision of services under the *Civil Air Navigation Services Commercialization Act* or computer software the use of which is necessary for the operation of that equipment that is used by the payer for no other purpose;

Applicable: To payments made after July 2003.

Explanatory Note: See the Explanatory Note following the amendment to subparagraph 212(1)(*d*)(iv).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 212(1)(*d*) of the Act is amended by striking out the word "or" at the end of subparagraph (x), by adding the word "or" at the end of subparagraph (xi) and by adding the following after subparagraph (xi):

(xii) an amount to which subsection (5) would apply if that subsection were read without reference to "to the extent that the amount relates to that use or reproduction";

Applicable: To the 2000 and subsequent taxation years.

Explanatory Note: See the Explanatory Note following the amendment to subparagraph 212(1)(*d*)(iv).

History: S. 212(1)(*d*)(xi) was added by S.C. 1994, c. 7, Sched. VI, s. 10(1), applicable to payments made after December 6, 1991 under agreements entered into after 1990.

Related Sections: S. 212(5) Motion picture films; s. 212(9) Exemptions; s. 212(16) Payments for temporary use of rolling stock; s. 216 Alternatives re rents and timber royalties; s. 251(1) Arm's length.
Regulations: 202(1), (3).
Interpretation Bulletins: *Primary* — IT-303 Know-how and similar payments to non-residents; IT-494 Hire of ships and aircraft from non-residents. *Secondary* — IT-393R2 Election re tax on rents and timber royalties — Non-residents; IT-438R2 Crown charges — Resource properties in Canada.
Information Circulars: IC 76-12R6 Applicable rate of Part XIII tax on amounts paid or credited to persons in countries with which Canada has a Tax Convention; IC 77-16R4 Non-resident income tax (paras. 38 to 44).
Income Tax Technical News: Issue No. 25, E-Commerce; Issue No. 23, Computer Software.
Forms: NR4 Sum.; NR4; NR6.
Tax Topics: No. 1812, Beneficial Ownership: Indofood Run Wild; No. 1719, Withholding Taxes — Purchase of Software from a Non-Resident; No. 1524, Income Taxation and Electronic Commerce.
Tax Profile: August 2008 — Fifth Protocol to the Canada–U.S. Tax Convention: A Canadian Perspective; January 2008 — Tax Ramifications of Non-Resident Purchases of Canadian Businesses; May 2007 — Impact of 2007 Federal Budget on Cross-Border Transactions; May 2007 — Why Canada Should End Roadblock to Foreign Private Equity; March 2007 — Beneficial Ownership: An International Perspective; December 2006 — "Beneficial Ownership" under Canadian Tax Treaties — Canadian Revenue Authorities Take Aim; March 2006 — Some Tax Considerations for Investing in Silicon Valley North; May 2001 — U.S. Federal Taxation of Electronic Commerce.
Canadian Tax Foundation: Osborne, "Revisiting Royalties in the Age of Electronic Commerce", *1999 Canadian Tax Journal*, No. 2, 410.
Cases: The phrase "in lieu of rent" in s. 212(1)(*d*) includes compensation for the anticipatory breach of a rental agreement. *Transocean Offshore Limited v. The Queen*, 2005 DTC 5201 (F.C.A.), affirming 2004 DTC 2915 (T.C.C.).

A "one-time license fee" accompanying an application for a franchise was not a rent or a royalty, but an application fee, and was not subject to Part XIII tax. *Zainul et al. v. The Queen*, 2004 DTC 3015 (T.C.C.).

The taxpayer had a license to reproduce and distribute software and paid royalties in respect of each software license agreement entered into. The royalties were exempt under s. 212(1)(*d*)(vi). *Syspro Software Ltd. v. The Queen*, 2003 DTC 931 (T.C.C.).

A payment for the use of a computer source code was made "on or in respect of a copyright in respect of the production or reproduction of any literary . . . work", and, hence, was exempt from Part XIII non-resident withholding tax under s. 212(1)(d)(vi). *Angoss International Limited v. The Queen*, 99 DTC 567 (T.C.C.).

As they were made for services performed "in connection with the sale of property", the commissions paid by the taxpayer to its non-resident purchasing agents on the basis of a percentage of the amount invoiced as the price of the toys purchased by them were not subject to withholding tax. *Hasbro Canada Inc. v. The Queen*, 98 DTC 2129 (T.C.C.).

When a taxpayer rented barges from a non-resident Bahamian corporation carrying on business in the U.S., the 25% withholding rate applied rather than the 10% rate under the Canada–U.S. Convention since the corporation's liability for U.S. tax was source income based whereas the grounds for taxation under the Convention were world-wide income based. *The Queen v. Crown Forest Industries Limited et al.*, 95 DTC 5389 (S.C.C.), reversing 94 DTC 6107 (F.C.A.) and 92 DTC 6305 (F.C.T.D.).

The taxpayer agreed to sell moulds under an agreement entitling it to lease them back for 3 years and buy them back afterward for $1. Despite its form, this agreement was a deferred purchase pursuant to which the taxpayer was paying for capital property by way of instalments and the non-resident withholding tax was not exigible. *Viceroy Rubber and Plastics Limited v. M.N.R.*, 93 DTC 347 (T.C.C.).

Treaties often contain definitions of their own for certain purposes; where these conflict with definitions under the *Income Tax Act*, the treaty will prevail. *The Queen v. Saint John Shipbuilding and Dry Dock Co. Ltd.*, 80 DTC 6272 (F.C.A.). See also *The Queen v. Melford Developments Inc.*, 82 DTC 6281 (S.C.C.).

Payments described in subparagraphs 212(1)(*d*)(i) to 212(1)(*d*)(v) are subject to withholding whether or not they are payments of a type that might traditionally be considered royalty payments. *The Queen v. Farmparts Distributing Ltd.*, 80 DTC 6157 (F.C.A.).

► 212(1)(e) ◄

(e) **Timber royalties** — a timber royalty in respect of a timber resource property or a timber limit in Canada (which, for the purposes of this Part, includes any consideration for a right under or pursuant to which a right to cut or take timber from a timber resource property or a timber limit in Canada is obtained or derived, to the extent that the consideration is dependent on, or computed by reference to, the amount of timber cut or taken);

Related Sections: S. 13(21), "timber resource property"; s. 212(13)(*b*) Rent and other payments; s. 216 Alternatives re rents and timber royalties.
Regulations: Part II.
Interpretation Bulletins: *Secondary* — IT-393R2 Election re tax on rents and timber royalties — Non-residents.
Information Circulars: IC 77-16R4 Non-resident income tax (para. 6).
Forms: NR4 Sum.; NR4.

► 212(1)(f) ◄

(f) **Alimony** — [Repealed by S.C. 1997, c. 25, s. 63(1).]

History: S. 212(1)(*f*) was repealed by S.C. 1997, c. 25, s. 63(1), applicable to amounts paid and credited after April 1997. S. 212(1)(*f*) formerly read:

"(*f*) *Alimony* — alimony or other payment for the support of the non-resident person, children of the non-resident person or both the non-resident person and children of the non-resident person that would, under paragraph 56(1)(*b*), (*c*) or (*c*.1), be included in computing the non-resident person's income if the non-resident person were resident in Canada;"

Regulations: Part II.
Forms: NR4 Sum.; NR4.
Cases: Alimony paid by a U.S. citizen, resident in Canada, to his wife, resident in the U.S.A., was subject to the 15% [25% after 1975] withholding tax, assessable against the payer. *Meyer v. M.N.R.*, 59 DTC 197 (T.A.B.).

► 212(1)(g) ◄

(g) **Patronage dividend** — a patronage dividend, that is, a payment made pursuant to an allocation in proportion to patronage as defined by section 135 or an amount that would, under subsection 135(7), be included in computing the non-resident person's income if that person were resident in Canada;

Regulations: Part II.
Interpretation Bulletins: *Secondary* — IT-362R Patronage dividends.
Information Circulars: IC 77-16R4 Non-resident income tax (para. 6).
Forms: NR4 Sum.; NR4.

► 212(1)(h) ◄

(h) Pension benefits — a payment of a superannuation or pension benefit, other than

(i) [Repealed by 1996, c. 21, s. 55(1).]

(ii) [Repealed by 1996, c. 21, s. 55(1).]

(iii) an amount or payment referred to in subsection 81(1) to the extent that that amount or payment would not, if the non-resident person had been resident in Canada throughout the taxation year in which the payment was made, be included in computing that person's income,

(iii.1) the portion of the payment that is transferred by the payer on behalf of the non-resident person, pursuant to an authorization in prescribed form, to a registered pension plan, registered retirement savings plan or registered retirement income fund and that

(A) because of subsection 146(21) or 147.3(9) would not, if the non-resident person had been resident in Canada throughout the taxation year in which the payment was made, be included in computing the non-resident person's income, or

(B) by reason of paragraph 60(*j*) or (*j.2*) would, if the non-resident person had been resident in Canada throughout the year, be deductible in computing the non-resident person's income for the year,

(iii.2) an amount referred to in paragraph 110(1)(*f*) to the extent that the amount would, if the non-resident person had been resident in Canada throughout the taxation year in which the amount was paid, be deductible in computing that person's taxable income or that of the spouse or common-law partner of that person,

(iv) in the case of a payment described in section 57, that portion of the payment that would, by virtue of that section, not be included in the recipient's income for the taxation year in which it was received, if the recipient were resident in Canada throughout that year, or

(iv.1) the portion of the payment that is transferred by the payer on behalf of the non-resident person, pursuant to an authorization in prescribed form, to acquire an annuity contract in circumstances to which subsection 146(21) applies,

except such portion, if any, of the payment as may reasonably be regarded as attributable to services rendered by the person, to or in respect of whom the payment is made, in taxation years

(v) during which the person at no time was resident in Canada, and

(vi) throughout which the person was not employed, or was only occasionally employed, in Canada;

History: S. 212(1)(*h*)(iii.2) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.32), applicable January 1, 2001, coming into force on July 31, 2000. S. 212(1)(*h*)(iii.2) formerly read:

"(iii.2) an amount referred to in paragraph 110(1)(*f*) to the extent that the amount would, if the non-resident person had been resident in Canada throughout the taxation year in which the amount was paid, be deductible in computing that person's taxable income or that of the spouse of that person,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 212(1)(*h*)(i) and (ii) were repealed by S.C. 1996, c. 21, s. 55(1), applicable to payments made after 1995. S. 212(1)(*h*)(i) and (ii) formerly read:

"(i) a pension or supplement under the *Old Age Security Act* or a similar payment under a law of a province,

(ii) a benefit under the *Canada Pension Plan* or a provincial pension plan as defined in section 3 of that Act,"

S. 212(1)(*h*)(iii.1)(A) was amended by S.C. 1994, c. 21, s. 97(2), applicable to payments made after August 1992. S. 212(1)(*h*)(iii.1)(A) formerly read:

"(A) by reason of subsection 147.3(9) would not, if the non-resident person had been resident in Canada throughout the taxation year in which the payment was made, be included in computing the non-resident person's income, or"

S. 212(1)(*h*)(iv) was added by S.C. 1994, c. 21, s. 97(3), applicable to payments made after August 1992.

S. 212(1)(*h*)(iii.1), the portion before clause (A), was amended by S.C. 1994, c. 7, Sched. VIII, s. 123(3), applicable to payments made after August 29, 1990. That part formerly read:

"(iii.1) that portion of the payment that is transferred by the payer on behalf of the non-resident person, pursuant to an authorization in prescribed form, to a registered pension plan or registered retirement savings plan and that"

Related Sections: S. 56(1)(*a*)(i) Pension benefits, unemployment insurance benefits, etc.; s. 128.1(10)(*a*)(viii) and (*g*) Definitions; s. 180.2(2) Tax payable; s. 180.2(4) Determination of amount to be withheld; s. 212(13)(*c*) Rent and other payments; s. 215(5) Regulations reducing deduction or withholding; s. 217 Alternative re Canadian benefits; s. 248(1), "common-law partner", "superannuation or pension benefit".

Regulations: Part II; Part VIII.

Interpretation Bulletins: *Primary* — IT-76R2 Exempt portion of pension when employee has been a non-resident. *Secondary* — IT-397R Amounts excluded from income — Statutory exemptions and certain service or RCMP pensions, allowances and compensation; IT-451R Deemed disposition and acquisition on ceasing to be or becoming resident in Canada.

Information Circulars: IC 76-12R6 Applicable rate of Part XIII tax on amounts paid or credited to persons in countries with which Canada has a Tax Convention; IC 77-16R4 Non-resident income tax (para. 6).

Forms: NR4 Sum.; NR4; NRTA1.

Cases: CCP payments received by a Swiss resident were subject to 25% withholding tax rather than the 15% rate provided in the Canada-Swiss Tax Convention since payments made pursuant to social security legislation do not constitute a "pension" under article 18 of the Convention. *Dumoulin v. The Queen,* 2001 DTC 999 (T.C.C.).

The taxpayers were NHL hockey players who were not resident in Canada, and were employed and paid by U.S. corporations. They played only a small number of their total games in Canada. The taxpayers were "only occasionally employed in Canada" within the meaning of s. 212(1)(*h*) and therefore, no Part XIII withholding tax was exigible in respect of their pension payments. *Nanne et al. v. The Queen,* 2000 DTC 1653 (T.C.C.).

Benefits accrued under a pension fund to the benefit of former employees who were non-residents were paid at their direction to a Canadian RRSP. No withholding tax was payable as there was no payment to a non-resident in satisfaction of a pension benefit. *Forest et al., Trustees of the Academic Pension Plan of the University of Alberta v. The Queen,* 80 DTC 6149 (F.C.T.D.).

► 212(1)(i) ◄

(i) Canada Pension Plan benefits — [Repealed by 1976-77, c. 4, s. 71(4).]

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 212(1) of the Act is amended by adding the following after paragraph (*h*):

(i) **Restrictive covenant amount** — an amount that would, if the non-resident person had been resident in Canada throughout the taxation year in which the amount was received or receivable, be required by paragraph 56(1)(*m*) or subsection 56.4(2) to be included in computing the non-resident person's income for the taxation year;

Applicable: To amounts paid or credited after October 7, 2003.

Explanatory Note:

Restrictive Covenant Amount

New paragraph 212(1)(*i*) of the Act includes, as amounts subject to the withholding tax, two amounts. First, the withholding tax applies to an amount in respect of a restrictive covenant to which new subsection 56.4(2) applies. Second, the withholding tax applies to an amount to which new paragraph 56(1)(*m*) applies (an amount received on a bad debt previously deducted).

New paragraph 212(1)(*i*) applies to amounts paid or credited after October 7, 2003.

► 212(1)(j) ◄

(j) **Benefits** — any benefit described in any of subparagraphs 56(1)(*a*)(iii) to (vi), any amount described in paragraph 56(1)(*x*) or (*z*) (other than an amount transferred under circumstances in which subsection 207.6(7) applies) or the purchase price of an interest in a retirement compensation arrangement;

History: S. 212(1)(*j*) was amended by S.C. 1998, c. 19, s. 216(1), applicable to amounts paid or credited after 1995. S. 212(1)(*j*) formerly read:

"(*j*) *Benefits* — any benefit described in any of subparagraphs 56(1)(*a*)(iii) to (vi), any amount described in paragraph 56(1)(*x*) or (*z*) or the purchase price of an interest in a retirement compensation arrangement;"

Related Sections: S. 128.1(10)(*a*)(ix) and (*h*); s. 214(3)(*b*.1) Deemed payments; s. 215(5) Regulations reducing deduction or withholding; s. 217 Alternative re Canadian benefits.
Regulations: 202(2), (3); Part VIII.
Interpretation Bulletins: *Secondary* — IT-451R Deemed disposition and acquisition on ceasing to be or becoming resident in Canada.
Information Circulars: IC 77-16R4 Non-resident income tax (para. 6).
Forms: NR4 Sum.; NR4.

► 212(1)(j.1) ◄

(j.1) **Retiring allowances** — a payment of any allowance described in subparagraph 56(1)(*a*)(ii), except

(i) such portion, if any, of the payment as may reasonably be regarded as attributable to services rendered by the person, to or in respect of whom the payment is made, in taxation years

(A) during which the person at no time was resident in Canada, and

(B) throughout which the person was not employed, or was only occasionally employed, in Canada, and

(ii) the portion of the payment transferred by the payer on behalf of the non-resident person pursuant to an authorization in prescribed form to a registered pension plan or to a registered retirement savings plan under which the non-resident person is the annuitant (within the meaning assigned by subsection 146(1)) that would, if the non-resident person had been resident in Canada throughout the year, be deductible in computing the income of the non-resident person by virtue of paragraph 60(*j*.1);

Related Sections: S. 128.1(10)(*d*) Definitions; s. 215(5) Regulations reducing deduction or withholding; s. 248(1), "retiring allowance".
Interpretation Bulletins: *Secondary* — IT-337R4 (Consolid.) Retiring allowances; IT-451R Deemed disposition and acquisition on ceasing to be or becoming resident in Canada.
Information Circulars: IC 77-16R4 Non-resident income tax (para. 6).

► 212(1)(k) ◄

(k) **Supplementary unemployment benefit plan payments** — a payment by a trustee under a registered supplementary unemployment benefit plan;

Related Sections: S. 56(1)(*g*) Supplementary unemployment benefit plan; s. 128.1(10)(*a*)(xi) Definitions; s. 145(1), "registered supplementary unemployment benefit plan"; s. 212(13)(*e*) Rent and other payments; s. 215(5) Regulations reducing deduction or withholding; s. 217 Alternative re Canadian benefits.
Regulations: Part II.
Forms: NR4 Sum.; NR4.

► 212(1)(l) ◄

(l) **Registered retirement savings plan payments** — a payment out of or under a registered retirement savings plan or a plan referred to in subsection 146(12) as an "amended plan" that would, if the non-resident person had been resident in Canada throughout the taxation year in which the payment was made, be required by section 146 to be included in computing the income of the non-resident person for the year, other than the portion thereof that

(i) has been transferred by the payer on behalf of the non-resident person pursuant to an authorization in prescribed form

(A) to a registered retirement savings plan under which the non-resident person is the annuitant (within the meaning assigned by subsection 146(1)),

(B) to acquire an annuity described in subparagraph 60(*l*)(ii) under which the non-resident person is the annuitant, or

(C) to a carrier (within the meaning assigned by subsection 146.3(1)) as consideration for a registered retirement income fund under which the non-resident person is the annuitant (within the meaning assigned by subsection 146.3(1)), and

(ii) would, if the non-resident person had been resident in Canada throughout the year, be deductible in computing the income of the non-resident person for the year by virtue of paragraph 60(*l*);

Related Sections: S. 56(1)(*h*) Registered retirement savings plan, etc.; s. 128.1(10)(*a*)(i) Definitions; s. 146(1), "registered retirement savings plan", "retirement savings plan"; s. 146(8) Benefits taxable; s. 146(9) Where disposition of property by trust; s. 146(16) Transfer of funds; s. 212(13)(*e*) Rent and other payments; s. 214(3)(*c*) Deemed payments; s. 215(5) Regulations reducing deduction or withholding; s. 217 Alternative re Canadian benefits.
Regulations: Part II; Part VIII.
Interpretation Bulletins: *Secondary* — IT-451R Deemed disposition and acquisition on ceasing to be or becoming resident in Canada.
Information Circulars: IC 76-12R6 Applicable rate of Part XIII tax on amounts paid or credited to persons in countries with which Canada has a Tax Convention; IC 77-16R4 Non-resident income tax (para. 6).
Forms: NR4 Sum.; NR4.

► 212(1)(m) ◄

(m) **Deferred profit sharing plan payments** — a payment under a deferred profit sharing plan or a plan referred to in subsection 147(15) as a "revoked plan" that would, if the non-resident person had been resident in Canada throughout the taxation year in which the payment was made, be required by section 147, if it were read without reference to subsections 147(10.1) and (20), to be included in computing the non-resident person's income for the year, other than the portion thereof that is transferred by the payer on behalf of the non-resident person, pursuant to an authorization in prescribed

form, to a registered pension plan or registered retirement savings plan and that

(i) by reason of subsection 147(20) would not, if the non-resident person had been resident in Canada throughout the year, be included in computing the non-resident person's income, or

(ii) by reason of paragraph 60(*j.2*) would, if the non-resident person had been resident in Canada throughout the year, be deductible in computing the non-resident person's income for the year;

Related Sections: S. 56(1)(*i*) Deferred profit sharing plan; s. 128.1(10)(*a*)(iv) Definitions; s. 147(1), "deferred profit sharing plan"; s. 147(10) Amounts received taxable; s. 147(10.1) Single payment on retirement, etc; s. 147(12) Exemption of employee contributions to the plan; s. 147(15) Rules applicable to revoked plan; s. 147(19) Transfer to RPP, RRSP or DPSP; s. 212(13)(*e*) Rent and other payments; s. 214(3)(*d*) Deemed payments; s. 215(5) Regulations reducing deduction or withholding; s. 217 Alternative re Canadian benefits.
Regulations: Part II; Part VIII.
Interpretation Bulletins: *Secondary* — IT-451R Deemed disposition and acquisition on ceasing to be or becoming resident in Canada.
Information Circulars: IC 77-16R4 Non-resident income tax (para. 6).
Forms: NR4 Sum.; NR4.

► 212(1)(n) ◄

(n) Income-averaging annuity contract payments — a payment under an income-averaging annuity contract, any proceeds of the surrender, cancellation, redemption, sale or other disposition of an income-averaging annuity contract, or any amount deemed by subsection 61.1(1) to have been received by the non-resident person as proceeds of the disposition of an income-averaging annuity contract;

Related Sections: S. 56(1)(*d*) Annuity payments; s. 128.1(10)(*f*)(ii) Definitions; s. 212(13)(*e*) Rent and other payments; s. 214(3)(*b*) Deemed payments; s. 248(1), "income-averaging annuity contract".
Regulations: Part II.
Interpretation Bulletins: *Secondary* — IT-451R Deemed disposition and acquisition on ceasing to be or becoming resident in Canada.
Information Circulars: IC 76-12R6 Applicable rate of Part XIII tax on amounts paid or credited to persons in countries with which Canada has a Tax Convention; IC 77-16R4 Non-resident income tax (para. 6).
Forms: NR4 Sum.; NR4.
Cases: The commuted value of an income-averaging annuity contract paid to a U.S. resident is subject to Part XIII tax because such amounts do not fall under the exemption for "life-annuities" set out in the Protocol to the Canada–U.S. Tax Treaty. *Scott Estate v. The Queen,* 88 DTC 6012 (F.C.T.D.).

► 212(1)(o) ◄

(o) Other annuity payments — a payment under an annuity contract (other than a payment in respect of an annuity issued in the course of carrying on a life insurance business in a country other than Canada) to the extent of the amount in respect of the interest of the non-resident person in the contract that, if the non-resident person had been resident in Canada throughout the taxation year in which the payment was made,

(i) would be required to be included in computing the income of the non-resident person for the year, and

(ii) would not be deductible in computing that income;

Related Sections: S. 56(1)(*d*) Annuity payments; s. 60(*a*) Capital element of annuity payments; s. 128.1(10)(*f*)(i) Definitions; s. 148(9) Definitions; ITAR s. 10(4) Application of Part XIII of Amended Act.
Regulations: Part II.
Interpretation Bulletins: *Secondary* — IT-451R Deemed disposition and acquisition on ceasing to be or becoming resident in Canada.
Information Circulars: IC 76-12R6 Applicable rate of Part XIII tax on amounts paid or credited to persons in countries with which Canada has a Tax Convention; IC 77-16R4 Non-resident income tax (para. 6).
Forms: NR4 Sum.; NR4.
Cases: A taxpayer was liable for Part XIII tax that was not withheld from income annuities purchased prior to his departure from Canada. A letter to the insurance company holding the annuities informing them that the taxpayer was non-resident did not exonerate him from liability for the tax. *Tremblay v. M.N.R.,* 90 DTC 1120 (T.C.C.), 1124.

► 212(1)(p) ◄

(p) Former TFSA — an amount that would, if the non-resident person had been resident in Canada at the time at which the amount was paid, be required by paragraph 12(1)(*z.5*) to be included in computing the non-resident person's income for the taxation year that includes that time;

History: S. 212(1)(*p*) was replaced by S.C. 2009, c. 2, s. 73(1), applicable to the 2009 and subsequent taxation years. S. 212(1)(*p*) formerly read:

"(*p*) *Payments from R.H.O.S.P.* — a payment out of or under a fund, plan or trust that was at the end of 1985 a registered home ownership savings plan (within the meaning assigned by paragraph 146.2(1)(*h*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read in its application to the 1985 taxation year), other than

(i) the portion of the payment that is a refund of an excess described in paragraph 146.2(7)(*a*) of that Act (as it read in its application to the 1985 taxation year) made on or before April 30, 1986, and

(ii) the portion of the payment that can reasonably be considered to be income of the fund, plan or trust after 1985;"

Related Sections: S. 214(3)(*g*) Deemed payments.
Regulations: 202(2), (3).
Interpretation Bulletins: *Secondary* — IT-451R Deemed disposition and acquisition on ceasing to be or becoming resident in Canada.
Information Circulars: IC 77-16R4 Non-resident income tax (para. 6).
Forms: NR4 Sum.; NR4.

► 212(1)(q) ◄

(q) Registered retirement income fund payments — a payment out of or under a registered retirement income fund that would, if the non-resident person had been resident in Canada throughout the taxation year in which the payment was made, be required by section 146.3 to be included in computing the non-resident person's income for the year, other than the portion thereof that

(i) has been transferred by the payer on behalf of the non-resident person pursuant to an authorization in prescribed form

(A) to a registered retirement savings plan under which the non-resident person is the annuitant (within the meaning assigned by subsection 146(1)),

(B) to acquire an annuity described in subparagraph 60(*l*)(ii) under which the non-resident person is the annuitant, or

(C) to a carrier (within the meaning assigned by subsection 146.3(1)) as consideration for a registered retirement income fund under which the non-resident person is the annuitant (within the meaning assigned by subsection 146.3(1)), and

(ii) would, if the non-resident person had been resident in Canada throughout the year, be deductible in computing the non-resident person's income for the year by reason of paragraph 60(*l*);

Related Sections: S. 56(1)(*t*) Registered retirement income fund; s. 128.1(10)(*a*)(ii) Definitions; s. 146.3(1), "registered retirement income fund", "retirement income fund"; s. 146.3(5) Benefits taxable; s. 146.3(5.1) Amount included in income; s. 212(13)(*e*) Rent and other payments; s. 214(3)(*i*) Deemed payments; s. 215(5) Regulations reducing deduction or withholding; s. 217 Alternative re Canadian benefits.
Regulations: Part II.
Interpretation Bulletins: *Secondary* — IT-451R Deemed disposition and acquisition on ceasing to be or becoming resident in Canada.
Information Circulars: IC 76-12R6 Applicable rate of Part XIII tax on amounts paid or credited to persons in countries with which Canada has a Tax Convention; IC 77-16R4 Non-resident income tax (para. 6).
Forms: NR4 Sum.; NR4.

► 212(1)(r) ◄

(r) Registered education savings plan — a payment that is

(i) required by paragraph 56(1)(*q*) to be included in computing the non-resident person's income under Part I for a taxation year, and

(ii) not required to be included in computing the non-resident person's taxable income or taxable income earned in Canada for the year;

History: S. 212(1)(*r*) was amended by S.C. 1998, c. 19, s. 62(1), applicable to amounts paid or credited after February 28, 1979. S. 212(1)(*r*) formerly read:

"(*r*) *Registered education savings plan* — a payment in respect of a registered education savings plan that would, if the non-resident person had been resident in Canada throughout the taxation year in which the payment was made, be required by section 146.1 to be included in computing the person's income for the year;"

Related Sections: S. 128.1(10)(*a*)(iii) Definitions; s. 146.1(1), "education savings plan", "registered education savings plan"; s. 146.1(7)–(7.1) RESP income inclusions.
Regulations: 202(2), (3).
Information Circulars: IC 77-16R4 Non-resident income tax (para. 6).
Forms: NR4 Sum.; NR4.

► 212(1)(r.1) ◄

(r.1) Registered disability savings plan — an amount that would, if the non-resident person had been resident in Canada throughout the taxation year in which the amount was paid, be required by paragraph 56(1)(*q.1*) to be included in computing the non-resident person's income for the taxation year;

History: S. 212(1)(*r.1*) was added by S.C. 2007, c. 35, s. 121, applicable to the 2008 and subsequent taxation years.

Related Sections: S. 146.4(6) Taxation of disability assistance payments; s. 146.4(10) Non-compliance — cessation of registered status.

► 212(1)(s) ◄

(s) Home insulation or energy conversion grants — a grant under a prescribed program of the Government of Canada relating to home insulation or energy conversion.

Related Sections: S. 12(1)(*u*) Home insulation or energy conversion grants; s. 56(1)(*s*) Grants under prescribed programs.
Regulations: 202(2), (3); 224; 5500; 5501.
Information Circulars: IC 77-16R4 Non-resident income tax (para. 6).
Forms: NR4 Sum.; NR4.

► 212(1)(t) ◄

(t) NISA Fund No. 2 payments — a payment out of a NISA Fund No. 2 to the extent that that amount would, if Part I applied, be required by subsection 12(10.2) to be included in computing the person's income for a taxation year;

History: S. 212(1)(*t*) was added by S.C. 1994, c. 7, Sched. VIII, s. 123(4), applicable to payments made after 1990.

Related Sections: S. 12(10.2) NISA receipts; s. 128.1(10)(*i*) Definitions; s. 214(3)(*l*) Deemed payments; s. 248(1), "NISA Fund No. 2"; s. 249(1) Definition of "taxation year".
Information Circulars: IC 77-16R4 Non-resident income tax.

► 212(1)(u) ◄

(u) Amateur athlete trust payments — a payment in respect of an amateur athlete trust that would, if Part I applied, be required by section 143.1 to be included in computing the person's income for a taxation year; or

History: S. 212(1)(*u*) was added by S.C. 1994, c. 7, Sched. VIII, s. 123(4), applicable to payments made after 1991.

Related Sections: S. 128.1(10)(*e*)(ii) Definitions; s. 143.1(1), "amateur athlete trust"; s. 143.1(2) Amounts included in beneficiary's income; s. 214(3)(*k*) Deemed payments; s. 248(1), "amateur athlete trust"; s. 249(1) Definition of "taxation year".
Information Circulars: IC 77-16R4 Non-resident income tax.

► 212(1)(v) ◄

(v) Payments under an eligible funeral arrangement — a payment made by a custodian (within the meaning assigned by subsection 148.1(1)) of an arrangement that was, at the time it was established, an eligible funeral arrangement, to the extent that such amount would, if the non-resident person were resident in Canada, be included because of subsection 148.1(3) in computing the person's income.

History: S. 212(1)(*v*) was added by S.C. 1995, c. 21, s. 64(1), applicable to amounts paid or credited after October 21, 1994.

Related Sections: S. 128.1(10)(*e*)(iv) Definitions; s. 212(13)(*e*) Rent and other payments.
Information Circulars: IC 77-16R4 Non-resident income tax.

► 212(2) ◄

(2) Tax on dividends. Every non-resident person shall pay an income tax of 25% on every amount that a corporation resident in Canada pays or credits, or is deemed by Part I or Part XIV to pay or credit, to the non-resident person as, on account or in lieu of payment of, or in satisfaction of,

(*a*) a taxable dividend (other than a capital gains dividend within the meaning assigned by subsection 130.1(4), 131(1) or 133(7.1)); or

(*b*) a capital dividend.

(*b.1*) [Repealed by 1986, c. 6, s. 116(6).]

(*c*) [Repealed by 1986, c. 6, s. 116(6).]

Related Sections: S. 40(3.7) Losses of non-resident; s. 83(2) Capital dividend; s. 84(1) Deemed dividend; s. 89(1), "taxable dividend"; s. 128.1(1)(*c.1*)–(*c.2*) Deemed dividends for immigrating corporations; s. 131(5.1)–(5.2) Deemed dividends for distributions of gains from taxable Canadian properties by mutual fund corporations; s. 212(1)(*b*)(xiii) Interest; s. 212(1)(*c*)(ii) Estate or trust income; s. 212(11) Payment to beneficiary as income of trust; s. 212(13.3)(*a*) Rent and other payments; s. 212.1–212.2 Deemed dividends to prevent surplus stripping by non-resident shareholders; s. 213(1) Tax non-payable by non-resident person; s. 214(3)(*a*) Deemed payments; s. 215(1.1) Exception — corporate immigration; s. 218.3 Tax deduction from mutual fund distributions to non-resident investors; s. 219 Branch tax; s. 250(5).
Regulations: Part II.
Information Circulars: IC 77-16R4 Non-resident income tax (paras. 45 to 49); IC 88-2 General anti-avoidance rule — Section 245 of the Income Tax Act.
Forms: NR4 Sum.; NR4.
Interpretation Bulletins: *Secondary* — IT-66R6 Capital dividends; IT-465R Non-resident beneficiaries of trusts; IT-468R Management or administration fees paid to non-residents.
Income Tax Technical News: Issue No. 38, Limited Liability Company Under the Protocol.
Tax Topics: No. 1931, Prévost Car Inc. (FCA): Holdco Confirmed as Beneficial Owner of Dividends; No. 1887, *Prévost Car* and Beneficial Ownership: The Triumph of Reason; No. 1812, Beneficial Ownership: Indofood Run Wild.
Tax Profile: March 2009 — Beneficial Ownership Under Canadian Treaties — Canadian Court Respects Dutch Holding Company; November 2008 — 2008 Cross-Border Developments in Canada; August 2008 — Fifth Protocol to the Canada–U.S. Tax Convention: A Canadian Perspective; May 2008 — Beneficial Ownership by Holding Company Respected; December 2007 — Non-Resident Investment in Canadian Real Estate; October 2007 — Important Changes Announced to the Canada — U.S. Income Tax Convention; October 2007 — Will Canadian Unlimited Liability Companies Survive?; May 2007 — Impact of 2007 Federal Budget on Cross-Border Transactions; May 2007 — Why Canada Should End Roadblock to Foreign Private Equity; March 2007 — Beneficial Ownership: An International Perspective; December 2006 — "Beneficial Ownership" under Canadian Tax Treaties — Canadian Revenue Authorities Take Aim; April 2004 — Mutual Funds and the 2004 Budget.
Cases: A Canadian corporation paid dividends to a Dutch holding company and withheld 5% tax under the Canada–Netherlands Treaty. The Dutch company then paid similar dividends to its Swedish and U.K. shareholders. The Canadian dividends were not beneficially owned by the Dutch company's shareholders, which would require higher Canadian withholding tax, since the Dutch company enjoyed all the attributes of ownership and was not a conduit for its shareholders. *The Queen v. Prévost Car Inc.*, 2009 DTC 5053 (F.C.A.), affirming 2008 DTC 3080 (T.C.C.).

The taxpayer purchased common shares of two Canadian corporations from non-residents. The payment to the non-residents was deemed to be a dividend from which withholding tax should have been deducted. *Placements Serco Ltée v. The Queen*, 87 DTC 5425 (F.C.A.).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 212 of the Act is amended by adding the following after subsection (2):

(2.1) **Exempt dividends.** Subsection (2) does not apply to an amount paid or credited, by a borrower, under a securities lending arrangement if

(*a*) the amount is deemed by subparagraph 260(8)(*c*)(i) to be a dividend;

(*b*) the securities lending arrangement was entered into by the borrower in the course of carrying on a business outside Canada; and

(*c*) the security that is transferred or lent to the borrower under the securities lending arrangement is a share of a class of the capital stock of a non-resident corporation.

Applicable: To securities lending arrangements entered into after May 1995, except that, in its application to arrangements made before 2002, the reference to "subparagraph 260(8)(*c*)(i)" in paragraph 212(2.1)(*a*) is to be read as a reference to "subparagraph 260(8)(*a*)(i)".

Editorial Note: S. 97(1) of S.C. 2007, c. 35, which is a coordinating amendment with Bill C-10, provides that if Bill C-10 receives royal assent, this Bill C-10 amendment applies as though Bill C-10 had received royal assent before S.C. 2007, c. 35.

Explanatory Note:

Exempt Dividends

New subsection 212(2.1) is added to exempt from Part XIII tax certain dividend compensation payments made to a non-resident by a Canadian securities borrower under a securities lending arrangement if

- the payments were deemed to be dividends by subparagraph 260(8)(*c*)(i) of the Act;
- the payments were made by the borrower in the course of carrying on its business outside of Canada; and
- the borrowed securities were issued by a non-resident issuer.

This amendment applies to securities lending arrangements entered into after May 1995, except that, before 2002, the reference to "subparagraph 260(8)(*c*)(i)" should be read as "subparagraph 260(8)(*a*)(i)".

► 212(3) ◄

(3) Interest — definitions. The following definitions apply for the purpose of paragraph (1)(*b*).

"fully exempt interest" — "fully exempt interest" means

(*a*) interest that is paid or payable on a bond, debenture, note, mortgage, hypothecary claim or similar debt obligation

(i) of, or guaranteed (otherwise than by being insured by the Canada Deposit Insurance Corporation) by, the Government of Canada,

(ii) of the government of a province,

(iii) of an agent of a province,

(iv) of a municipality in Canada or a municipal or public body performing a function of government in Canada,

(v) of a corporation, commission or association to which any of paragraphs 149(1)(*d*) to (*d.6*) applies, or

(vi) of an educational institution or a hospital if repayment of the principal amount of the obligation and payment of the interest is to be made, or is guaranteed, assured or otherwise specifically provided for or secured by the government of a province;

(*b*) interest that is paid or payable on a mortgage, hypothecary claim or similar debt obligation secured by, or on an agreement for sale or similar obligation with respect to, real property situated outside Canada or an interest in any such real property, or to immovables situated outside Canada or a real right in any such immovable, except to the extent that the interest payable on the obligation is deductible in computing the income of the payer under Part I from a business carried on by the payer in Canada or from property other than real or immovable property situated outside Canada;

(*c*) interest that is paid or payable to a prescribed international organization or agency; or

(*d*) an amount paid or payable or credited under a securities lending arrangement that is deemed by subparagraph 260(8)(*a*)(i) to be a payment made by a borrower to a lender of interest, if

(i) the securities lending arrangement was entered into by the borrower in the course of carrying on a business outside Canada, and

(ii) the security that is transferred or lent to the borrower under the securities lending arrangement is described in paragraph (*b*) or (*c*) of the definition "qualified security" in subsection 260(1) and issued by a non-resident issuer.

Coordinating Amendment

S.C. 2007 c. 35 (Bill C-28) — Coordinating Amendments With Former Bill C-10 — Income Tax Amendments Act, 2006 — December 14, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The following applies if former Bill C-10, introduced in the 2nd session of the 39th Parliament and entitled the *Income Tax Amendments Act, 2006* (referred to as the "other Act"), receives royal assent: If subsection 194(8) of the other Act [the addition of subsections 260(7) to (8.2)] comes into force, then, on the day on which this Act is assented to (December 14, 2007), the portion of paragraph (*d*) of the definition "fully exempt interest" in subsection 212(3) of the *Income Tax Act* before subparagraph (i), as enacted by subsection 59(3) of S.C. 2007, c. 35, is replaced by the following:

(*d*) an amount paid or payable or credited under a securities lending arrangement that is deemed by subparagraph 260(8)(*c*)(i) to be a payment made by a borrower to a lender of interest, if

Applicable: December 14, 2007.

History: S. 212(3), the definition "fully exempt interest" was added by S.C. 2007, c. 35, s. 59(3), applicable after 2007.

"participating debt interest" — "participating debt interest" means interest (other than interest described in any of paragraphs (*b*) to (*d*) of the definition "fully exempt

interest") that is paid or payable on an obligation, other than a prescribed obligation, all or any portion of which interest is contingent or dependent on the use of or production from property in Canada or is computed by reference to revenue, profit, cash flow, commodity price or any other similar criterion or by reference to dividends paid or payable to shareholders of any class of shares of the capital stock of a corporation.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 212(3) of the Act is amended by adding the word "and" at the end of paragraph (*a*) and by repealing paragraph (*b*).

(*b*) [Repealed.]

Applicable: To replacement obligations issued after 2000.
Editorial Note: S. 97(1) of S.C. 2007, c. 35, which is a coordinating amendment with former Bill C-10, provides that if former Bill C-10 receives royal assent, this former Bill C-10 amendment to the former reading of s. 212(3) applies as though former Bill C-10 had received royal assent before S.C. 2007, c. 35.

Explanatory Note:

Replacement Obligations

Among the exceptions to the imposition of tax under Part XIII of the Act on interest is one found in subparagraph 212(1)(*b*)(vii) for interest paid by a corporation resident in Canada on its medium- and long-term arm's length debt. Subsection 212(3), which applies for the purpose of subparagraph 212(1)(*b*)(vii), allows a corporation in certain circumstances of financial difficulty to treat a debt obligation that replaces another as having been issued when that other obligation was issued. The circumstances in which this is possible are set out in paragraphs 212(3)(*a*) to (*c*). Paragraph 212(3)(*b*) requires that, for the subsection to apply, it must be possible to regard the proceeds of the replacement borrowing as being used in financing an active business that was carried on in Canada, by the issuing company or one with which it does not deal at arm's length, immediately before the replacement obligation was issued.

There is no clear basis in tax policy for this requirement. The condition in paragraph 212(3)(*b*) is repealed for replacement debt obligations that are issued after 2000.

History: S. 212(3), the definition "participating debt interest" was added by S.C. 2007, c. 35, s. 59(3), applicable after 2007.

S. 212(3) was replaced by S.C. 2007, c. 35, s. 59(3), applicable after 2007. S. 212(3) formerly read:

"(3) *Replacement obligations.* For the purpose of subparagraph (1)(*b*)(vii), an obligation (in this subsection referred to as the 'replacement obligation') issued by a corporation resident in Canada wholly or in substantial part and either directly or indirectly in exchange or substitution for an obligation or a part of an obligation (in this subsection referred to as the 'former obligation') shall, where

(*a*) the replacement obligation was issued

(i) as part of a proposal to, or an arrangement with, its creditors that was approved by a court under the *Bankruptcy and Insolvency Act*,

(ii) at a time when all or substantially all of its assets were under the control of a receiver, receiver-manager, sequestrator or trustee in bankruptcy, or

(iii) at a time when, because of financial difficulty, the issuing corporation or another corporation resident in Canada with which it does not deal at arm's length was in default, or could reasonably be expected to default, on the former obligation,

(*b*) the proceeds from the issue of the replacement obligation can reasonably be regarded as having been used by the issuing corporation or another corporation with which it does not deal at arm's length in the financing of its active business carried on in Canada immediately before the time when the replacement obligation was issued, and

(*c*) all interest on the former obligation was (or would be, if the person to whom that interest was paid or credited were non-resident) exempt from tax under this Part because of subparagraph (1)(*b*)(vii),

be deemed to have been issued when the former obligation was issued."

S. 212(3) was added by S.C. 1994, c. 21, s. 97(4), applicable to replacement obligations issued after June 1993.

Related Sections: S. 251(1) Arm's length.
Tax Topics: No. 1916, Withholding Tax Implications of Participating Interest and Convertible Debt.
Tax Profile: November 2008 — 2008 Cross-Border Developments in Canada.

► 212(4) ◄

(4) Interpretation of "management or administration fee or charge". For the purpose of paragraph (1)(*a*), "management or administration fee or charge" does not include any amount paid or credited or deemed by Part I to have been paid or credited to a non-resident person as, on account or in lieu of payment of, or in satisfaction of,

(*a*) a service performed by the non-resident person if, at the time the non-resident person performed the service

(i) the service was performed in the ordinary course of a business carried on by the non-resident person that included the performance of such a service for a fee, and

(ii) the non-resident person and the payer were dealing with each other at arm's length, or

(*b*) a specific expense incurred by the non-resident person for the performance of a service that was for the benefit of the payer,

to the extent that the amount so paid or credited was reasonable in the circumstances.

Related Sections: S. 67 General limitation re expenses; s. 251(1) Arm's length.
Regulations: Part II.
Interpretation Bulletins: *Secondary* — IT-468R Management or administration fees paid to non-residents.
Information Circulars: IC 76-12R6 Applicable rate of Part XIII tax on amounts paid or credited to persons in countries with which Canada has a Tax Convention; IC 77-16R4 Non-resident income tax (para. 15).
Cases: A non-resident portfolio investment fund manager made all the taxpayer's investment planning decisions and the taxpayer's profitability depended directly upon such decisions, which could be characterized as management tasks. *Peter Cundill & Associates Limited*, 91 DTC 5543 (F.C.A.), affirming 91 DTC 5085 (F.C.T.D.).

► 212(5) ◄

(5) Motion picture films. Every non-resident person shall pay an income tax of 25% on every amount that a person resident in Canada pays or credits, or is deemed by Part I to pay or credit, to the non-resident person as, on account or in lieu of payment of, or in satisfaction of, payment for a right in or to the use of

(*a*) a motion picture film, or

(*b*) a film, video tape or other means of reproduction for use in connection with television (other than solely in connection with and as part of a news program produced in Canada),

that has been or is to be used or reproduced in Canada.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 212(5) of the English version of the Act after paragraph (*b*) is replaced by the following:

that has been, or is to be, used or reproduced in Canada to the extent that the amount relates to that use or reproduction.

Applicable: To the 2000 and subsequent taxation years.

Explanatory Note:

Motion Picture Films

Subsection 212(5) of the Act applies tax under Part XIII to, in general terms, any amount that a person resident in Canada pays to a non-resident person for a right in or to the use of a motion picture film or video product that has been or is to be used or reproduced in Canada (otherwise than for a news program). As presently worded, the subsection can be read as applying even if the payment in question is not for that Canadian use or reproduction, but relates instead to employment of the film or video in some other country. Accordingly, subsection 212(5) is amended to impose tax only to the extent that the amount of the payment relates to the use or reproduction of the product in Canada. This amendment applies to the 2000 and subsequent taxation years.

Related Sections: S. 212(1)(*d*) Rents, royalties, etc..
Regulations: 202.
Information Circulars: IC 77-16R4 Non-resident income tax.
Forms: NR4 Sum.; NR4.
Interpretation Bulletins: *Secondary* — IT-303 Know-how and similar payments to non-residents.
Cases: Since the term "motion picture films" was used in relation to materials produced only for theatrical exhibition, but not for television, the royalties paid for exhibition of television films and video tapes were exempt from non-resident withholding tax under Art. XIIIC of the Canada-U.S. Income Tax Convention. Furthermore, the payments had been made on the own account of the wholly owned Canadian subsidiaries of the American taxpayer (rather than as its agent). *The Queen v. MCA Television Ltd.*, 96 DTC 411 (F.C.A.), affirming 94 DTC 6375. (F.C.T.D.).

A film distributing company, Head Office in Paris, made agreements with CBC whereby CBC obtained the possession and the exclusive right to broadcast certain films, for a fixed sum of money for each film and for a limited time. The film distributing company was taxable under s. 106(2) (now s. 212(5)). The agreement between the parties contained all the elements of a lease; the fact that payment was made in a lump sum did not alter the situation. *Vauban Productions Ltd. v. M.N.R.*, 79 DTC 5186 (F.C.A.).

► 212(5.1) ◄

(5.1) Acting services. Notwithstanding any regulation made under paragraph 214(13)(*c*), every person who is either a non-resident individual who is an actor or that is a corporation related to such an individual shall pay an income tax of 23% on every amount paid or credited, or provided as a benefit, to or on behalf of the person for the provision in Canada of the acting services of the actor in a film or video production.

History: S. 212(5.1) was added by S.C. 2001, c. 17, s. 173(3), applicable to amounts paid, credited or provided after 2000.

Related Sections: S. 115(2.1) Non-resident actors; s. 115(2.2) Deferred payment by actor's corporation; s. 150(1)(*a*)(i)(B) Filing returns of income — general rule; s. 153(1)(*a*) and (*g*) Withholding; s. 212(13.1)(*a.1*) Application of Part XIII tax where payer or payee is a partnership; s. 216.1(1) Alternative re: acting services; s. 216.1(2) Deemed Part I payment; s. 251 Arm's length.
Regulations: 201(1.1).
Forms: NR603.
Tax Topics: No. 1521, Withholding Tax in "Hollywood North".
Tax Profile: September 2002 — Canadian Withholding Taxes Update.

► 212(5.2) ◄

(5.2) Relief from double taxation. Where a corporation is liable to tax under subsection (5.1) in respect of an amount for acting services of an actor (in this subsection referred to as the "corporation payment") and the corporation pays, credits or provides as a benefit to the actor an amount for those acting services (in this subsection referred to as the "actor payment"), no tax is payable under subsection (5.1) with respect to the actor payment except to the extent that it exceeds the corporation payment.

History: S. 212(5.2) was added by S.C. 2001, c. 17, s. 173(3), applicable to amounts paid, credited or provided after 2000.

Related Sections: S. 115(2.1) Non-resident actors; s. 115(2.2) Deferred payment by actor's corporation; s. 216.1(3) Deemed election and restriction.

► 212(5.3) ◄

(5.3) Reduction of withholding. If the Minister is satisfied that the deduction or withholding otherwise required by section 215 from an amount described in subsection (5.1), would cause undue hardship, the Minister may determine a lesser amount to be deducted or withheld and that lesser amount is deemed to be the amount so required to be deducted or withheld.

History: S. 212(5.3) was added by S.C. 2001, c. 17, s. 173(3), applicable to amounts paid, credited or provided after 2000.

Related Sections: S. 153(1.1) Undue hardship.

► 212(6) ◄

(6) Interest on provincial bonds from wholly-owned subsidiaries. Where an amount described by subsection (1) relates to interest on bonds or other obligations of or guaranteed by Her Majesty in right of a province or interest on bonds or other obligations provision for the payment of which was made by a statute of a provincial legislature, the tax payable under subsection (1) is 5% of that amount.

Related Sections: S. 212(7) Where s. (6) does not apply; s. 240(1) Definition of "taxable obligation" and "non-taxable obligation".
Information Circulars: IC 77-16R4 Non-resident income tax (para. 19).

► 212(7) ◄

(7) Where s. (6) does not apply. Subsection (6) does not apply to interest on any bond or other obligation described therein that was issued after December 20, 1960, except any such bond or other obligation for the issue of which arrangements were made on or before that day with a dealer in securities, if the existence of the arrangements for the issue of the bond or other obligation can be established by evidence in writing given or made on or before that day.

Information Circulars: IC 77-16R4 Non-resident income tax (para. 19).

► 212(8) ◄

(8) Bonds issued after December 20, 1960 in exchange for earlier bonds. For the purposes of this Part, where any bond, except a bond to which clause (1)(*b*)(ii)(C) applies, was issued after December 20, 1960 in exchange for a bond issued on or before that day, it hall, if the terms on which the bond for which it was exchanged was issued conferred on the holder thereof the right to make the exchange, be deemed to have been issued on or before December 20, 1960.

Interpretation Bulletins: *Secondary* — IT-360R2 Interest payable in a foreign currency.
Information Circulars: IC 77-16R4 Non-resident income tax (para. 19).

► 212(9) ◄

(9) Exemptions. Where

(*a*) a dividend or interest is received by a trust from a non-resident-owned investment corporation,

(*b*) an amount (in this subsection referred to as the "royalty payment") is received by a trust as, on account of, in lieu of payment of or in satisfaction of, a royalty on or in respect of a copyright in respect of the production or reproduction of any literary, dramatic, musical or artistic work, or

(*c*) interest is received by a mutual fund trust maintained primarily for the benefit of non-resident persons,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 212(9) of the Act is amended by striking out the word "or" at the end of paragraph (*b*), by adding the word "or" at the end of paragraph (*c*) and by adding the following after paragraph (*c*):

(*d*) a dividend or interest is received by a trust created under a reinsurance trust agreement, to which the Superintendent of Financial Institutions is a party, established in accordance with guidelines issued by the Superintendent relating to reinsurance arrangements with unregistered insurers

Applicable: To amounts paid or credited after 2000 to non-resident persons.

Explanatory Note:

Exemptions

Subsection 212(9) of the Act provides an exemption from withholding tax under Part XIII of the Act with respect to certain amounts of a trust's income that are paid or credited to a non-resident beneficiary under the trust and that would otherwise be subject to withholding tax under paragraph 212(1)(*c*). The exemption currently applies only in respect of amounts that are attributable to income of the trust in the form of: dividends or interest received by the trust from a non-resident-owned investment corporation; certain artistic royalties; and interest, where the trust is a mutual fund maintained primarily for the benefit of non-resident persons. If no Part XIII tax would have been payable with respect to the dividends, interest or royalties if they had been paid directly to the beneficiary, no Part XIII tax is payable with respect to a distribution from trust income to non-resident beneficiaries that derives from the dividends, interest or royalties.

Subsection 212(9) is amended to add a fourth type of trust income to this list of exemptions. In certain circumstances, Canada's Superintendent of Financial Institutions may require a non-resident reinsurer that reinsures Canadian risks to place assets in a trust in Canada. Such a "reinsurance trust" may earn dividend or interest income, which is payable to the non-resident. In recognition of the regulatory requirement for these trusts, subsection 212(9) is amended to provide that, if the dividends or interest would not have borne Canadian tax if the non-resident had earned them directly, they may be distributed to the non-resident free of Part XIII tax.

This amendment applies to amounts paid or credited to non-residents after 2000.

and a particular amount is paid or credited to a non-resident person as income of or from the trust and can reasonably be regarded as having been derived from the dividend, interest or royalty payment, as the case may be, no tax is payable because of paragraph (1)(*c*) as a consequence of the payment or crediting of the particular amount if no tax would have been payable under this Part in respect of the dividend, interest or royalty payment, as the case may be, if it had been paid directly to the non-resident person instead of to the trust.

History: S. 212(9) is amended by S.C. 1998, c. 19, s. 216(2), applicable to amounts paid or credited after April 1995 to non-resident persons. S. 212(9) formerly read:

"(9) *Exemptions.* No tax is payable under paragraph (1)(*c*) on an amount paid or credited to a non-resident person as income of or from a trust if it may reasonably be regarded as having been derived from

(*a*) dividends or interest received by the trustee from a non-resident-owned investment corporation, or

(*b*) amounts received as, on account or in lieu of payment of, or in satisfaction of a royalty on or in respect of a copyright in respect of the production or reproduction of any literary, dramatic, musical or artistic work,

on which no tax would have been payable under this Part if they had been paid by the non-resident-owned investment corporation or person paying the amounts in respect of copyright to the non-resident person instead of to the trustee."

Related Sections: S. 104(1) Reference to trust or estate; s. 104(11) Dividend received from non-resident-owned investment corporation; s. 132(6) Meaning of "mutual fund trust"; s. 133(8), "non-resident owned investment corporation"; s. 134.1(1) NRO — transition.

Interpretation Bulletins: *Secondary* — IT-465R Non-resident beneficiaries of trusts.

Information Circulars: IC 77-16R4 Non-resident income tax.

► 212(10) ◄

(10) Trust beneficiaries residing outside of Canada. Where all the beneficiaries of a trust established before 1949 reside, during a taxation year, in one country other than Canada and all amounts included in computing the income of the trust for the taxation year were received from persons resident in that country, no tax is payable under paragraph (1)(*c*) on an amount paid or credited in the taxation year to a beneficiary as income of or from the trust.

Interpretation Bulletins: *Secondary* — IT-465R Non-resident beneficiaries of trusts.

► 212(11) ◄

(11) Payment to beneficiary as income of trust. An amount paid or credited by a trust or an estate to a beneficiary or other person beneficially interested therein shall be deemed, for the purpose of paragraph (1)(*c*) and without limiting the generality thereof, to have been paid or credited as income of the trust or estate, regardless of the source from which the trust or estate derived it.

History: S. 212(11) was amended by S.C. 1994, c. 7, Sched. II, s. 174(3), applicable with respect to amounts paid or credited after July 13, 1990. S. 212(11) formerly read:

"(11) Where an amount has been paid or credited by a trust or estate to a beneficiary or other person beneficially interested therein (otherwise than on a distribution or payment of capital), it shall, regardless of the source from which the trust or estate derived it, be deemed, for the purpose of paragraph (1)(*c*) and without limiting the generality of that paragraph, to have been paid or credited as income of the trust or estate."

Related Sections: s. 107(5) Distribution to non-resident; Part XII.2 (s. 210–210.3) Tax on Designated Income of Certain Trusts; s. 248(25) Beneficially interested.

Interpretation Bulletins: *Secondary* — IT-465R Non-resident beneficiaries of trusts.

► 212(11.1) ◄

(11.1) Idem. [Repealed by 1988, c. 55, s. 161(6).]

► 212(11.2) ◄

(11.2) Idem. [Repealed by 1988, c. 55, s. 161(6).]

► 212(12) ◄

(12) Deemed payments to spouse, etc. Where by reason of subsection 56(4) or (4.1) or any of sections 74.1 to 75 of this Act or section 74 of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, there is included in computing a taxpayer's income under Part I for a taxation year an amount paid or credited to a non-resident person in the year, no tax is payable under this section on that amount.

Interpretation Bulletins: *Secondary* — IT-369R Attribution of trust income to settlor; IT-440R2 Transfer of rights to income.

► 212(13) ◄

(13) Rent and other payments. For the purposes of this section, where a non-resident person pays or credits an amount as, on account or in lieu of payment of, or in satisfaction of,

(*a*) rent for the use in Canada of property (other than property that is rolling stock as defined in section 2 of the *Railway Act*),

(*b*) a timber royalty in respect of a timber resource property or a timber limit in Canada,

(*c*) a payment of a superannuation or pension benefit under a registered pension plan or of a distribution to one or more persons out of or under a retirement compensation arrangement,

(*d*) a payment of a retiring allowance or a death benefit to the extent that the payment is deductible in computing the payer's taxable income earned in Canada,

(*e*) a payment described in any of paragraphs (1)(*k*) to (*n*), (*q*) and (*v*), or

(*f*) interest on any mortgage, hypothecary claim or other indebtedness entered into or issued or modified after March 31, 1977 and secured by real property situated in Canada or an interest therein to the extent that the amount so paid or credited is deductible in computing the non-resident person's taxable income earned in Canada or the amount on which the non-resident person is liable to pay tax under Part I,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 212(13)(*f*) of the Act is replaced by the following:

(*f*) interest on any mortgage, hypothecary claim or other indebtedness entered into or issued or modified after March 31, 1977 and secured by real property situated in Canada or an interest therein, or by immovables situated in Canada or real rights therein, to the extent that the amount so paid or credited is deductible in computing the non-resident person's taxable income earned in Canada or the amount on which the non-resident person is liable to pay tax under Part I,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 212(13) of the Act is amended by striking out the word "or" at the end of paragraph (*e*), by adding the word "or" at the end of paragraph (*f*) and by adding the following after paragraph (*f*):

(*g*) an amount to which paragraph (1)(*i*) applies if that amount affects, or is intended to affect, in any way whatever,

(i) the acquisition or provision of property or services in Canada,

(ii) the acquisition or provision of property or services outside Canada by a person resident in Canada, or

(iii) the acquisition or provision outside Canada of a taxable Canadian property,

Applicable: To amounts paid or credited after October 7, 2003.

Explanatory Note:

Rent and Other Payments

Subsection 212(13) of the Act imposes non-resident withholding tax on certain payments made by one non-resident to another non-resident. Subsection 212(13) is amended to add new paragraph (g), which imposes non-resident withholding tax on amounts paid or credited by a non-resident for a restrictive covenant to which new paragraph 212(1)(*i*) applies, if the amount affects, or is intended to affect, in any way whatever,

- the acquisition or provision of property or services in Canada,
- the acquisition or provision of property or services outside Canada by a person resident in Canada, or
- the acquisition or provision outside of Canada of a taxable Canadian property.

New paragraph 212(13)(g) applies to amounts paid or credited after October 7, 2003.

the non-resident person shall be deemed in respect of that payment to be a person resident in Canada.

History: S. 212(13)(*f*) was amended by S.C. 2001, c. 17, s. 226(3), applicable on Royal Assent, June 14, 2001. S. 212(13)(*f*) formerly read:

"(*f*) interest on any mortgage or other indebtedness entered into or issued or modified after March 31, 1977 and secured by real property situated in Canada or an interest therein to the extent that the amount so paid or credited is deductible in computing the non-resident person's taxable income earned in Canada or the amount on which the non-resident person is liable to pay tax under Part I,"

S. 212(13)(*e*) was amended by S.C. 1995, c. 21, s. 64(2), applicable to amounts paid or credited after October 21, 1994. S. 212(13)(*e*) formerly read:

"(*e*) a payment described in any of paragraphs (1)(*k*) to (*n*) and (*q*), or"

Related Sections: S. 13(21), "timber resource property"; s. 212(1)(*d*) Rents, royalties, etc., (*e*) Timber royalties, (*h*) Pension benefits, (*j*) Benefits and (*j*.1) Retiring allowances; s. 248(1), "retiring allowance", "death benefit", "superannuation or pension benefit"; s. 248(4.1) Real right in immovables.

Regulations: 202(4); 211.

Interpretation Bulletins: *Secondary* — IT-303 Know-how and similar payments to non-residents.

Information Circulars: IC 77-16R4 Non-resident income tax.

► 212(13.1) ◄

(13.1) Application of Part XIII tax where payer or payee is a partnership. For the purposes of this Part, other than section 216,

(*a*) where a partnership pays or credits an amount to a non-resident person, the partnership shall, in respect of the portion of that amount that is deductible, or that would but for section 21 be deductible in computing the amount of the income or loss, as the case may be, referred to in paragraph 96(1)(*f*) or (*g*) if the references therein to "a particular place" and "that particular place" were read as references to "Canada", be deemed to be a person resident in Canada; and

(*a*.1) where a partnership pays, credits or provides to a non-resident person an amount described in subsection (5.1), the partnership is deemed in respect of the amount to be a person; and

(*b*) where a person resident in Canada pays or credits an amount to a partnership (other than a Canadian partnership within the meaning assigned by section 102), the partnership shall be deemed, in respect of that payment, to be a non-resident person.

History: S. 212(13.1)(*a*.1) was added by S.C. 2001, c. 17, s. 173(4), applicable to amounts paid, credited or provided after 2000.

Related Sections: S. 212(13.3)(b) Application of Part XIII to authorized foreign bank; s. 227(15) Partnership included in "person".
Regulations: 202(5).
Interpretation Bulletins: *Secondary* — IT-81R Partnerships — Income of non-resident partners; IT-303 Know-how and similar payments to non-residents.
Information Circulars: IC 77-16R4 Non-resident income tax.
Tax Topics: No. 1802, Non-Resident Partners and Canadian Real Estate.
Tax Profile: December 2007 — Non-Resident Investment in Canadian Real Estate.
Canadian Petroleum Tax Journal: Update on Cross-Border Tax Issues, Stan R. Ebel and Edward C. Osterberg, Jr., Vol. 10 No. 1 1997.
Tax Window Files: Interest Incurred by U.S. Limited Partnership, May 25, 2004, CRA Document No. 2003-0039231E5 [Canadian partners of U.S. limited partnership may be considered to be the payers of the interest paid by the partnership to a non-resident person].
Cases: The taxpayer held a note from a non-resident partnership which it converted into another form of indebtedness. The conversion did not constitute a payment or credit within the meaning of s. 212(13.1)(*b*) since the original note did not give rise to a credit, payment or loan and one instrument was simply substituted for another. *The Queen v. Gillette Canada Inc.*, 2003 DTC 5078 (F.C.A.), affirming 2001 DTC 895 (T.C.C.).

► 212(13.2) ◄

(13.2) Application of Part XIII tax where non-resident operates in Canada. For the purposes of this Part, where in a taxation year

(*a*) a non-resident person whose business was carried on principally in Canada, or

(*b*) a non-resident person who

(i) manufactures or processes goods in Canada,

(ii) operates an oil or gas well in Canada or extracts petroleum or natural gas from a natural accumulation thereof in Canada, or

(iii) extracts minerals from a mineral resource in Canada

pays or credits an amount (other than an amount to which subsection (13) applies) to another non-resident person, the first-mentioned non-resident person shall be deemed, in respect of the portion of that amount that was deductible in computing that person's taxable income earned in Canada for any taxation year, to be a person resident in Canada.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 212(13.2) of the Act is replaced by the following:

(13.2) **Application of Part XIII tax — non-resident operates in Canada.** For the purposes of this Part, a particular non-resident person, who in a taxation year pays or credits to another non-resident person an amount other than an amount to which subsection (13) applies, is deemed to be a person resident in Canada in respect of the portion of the amount that is deductible in computing the particular non-resident person's taxable income earned in Canada for any taxation year from a source that is neither a treaty-protected business nor a treaty-protected property.

Applicable: To amounts paid or credited under obligations entered into after December 20, 2002.

Explanatory Note:

Application of Part XIII Tax Where Non-Resident Operates in Canada

Subsection 212(13.2) of the Act is one of several provisions that extend Part XIII tax to apply in particular circumstances — in this case, for the most part, the payment by a non-resident of royalties and similar amounts in respect of a Canadian income source. The principle that underlies subsection 212(13.2) is that if a non-resident has Canadian-source business or resource income, and can deduct in computing that income (strictly speaking, in computing "taxable income earned in Canada") a payment to another non-resident, that payment ought to be treated for purposes of Part XIII tax as though it had been made by a person resident in Canada. This is accomplished by treating the first non-resident — the one making the payment — as a person resident in Canada for those purposes.

In its current form, subsection 212(13.2) applies only if the non-resident making the payment carries on business principally in Canada, manufactures or processes goods in Canada or carries out any of various resource activities here. On the other hand, the rule does not explicitly link that business or activity to the deductibility of the payment: it can be read as applying whether or not the payment is made in relation to the particular business or activity.

Accordingly, subsection 212(13.2) is amended to apply in respect of any portion of a payment (other than one to which the generally comparable rule in subsection 212(13) applies) made by one non-resident person to another that is deductible in computing the first non-resident's taxable income earned in Canada from any source. The only exceptions are payments that are deductible in respect of treaty-protected businesses or treaty-protected properties (as defined in subsection 248(1) of the Act).

This amendment applies to amounts paid or credited under obligations entered into after December 20, 2002.

Regulations: 202(6).
Interpretation Bulletins: *Secondary* — IT-303 Know-how and similar payments to non-residents.
Information Circulars: IC 77-16R4 Non-resident income tax.
Tax Profile: December 2007 — Non-Resident Investment in Canadian Real Estate.
Canadian Tax Foundation: Wertschek, "Current Issues on Withholding Tax: Interest Paid by Non-Residents of Canada", *2004 British Columbia Tax Conference*, 1:1.
Cases: Construction interest capitalized under s. 18(3.1) was not "deductible in computing" the taxpayer's "taxable income earned in Canada for any taxation year" within the meaning of s. 212(13.2). *Eastern Success Co. Ltd. v. The Queen*, 2004 DTC 3521 (T.C.C.).

► 212(13.3) ◄

(13.3) Application of Part XIII to authorized foreign bank. An authorized foreign bank is deemed to be resident in Canada for the purposes of

(*a*) this Part, in respect of any amount paid or credited to or by the bank in respect of its Canadian banking business; and

(*b*) the application in paragraph (13.1)(*b*) of the definition "Canadian partnership" in respect of a partnership interest held by the bank in the course of its Canadian banking business.

History: S. 212(13.3) was added by S.C. 2001, c. 17, s. 173(4), applicable after June 27, 1999.

Related Sections: S. 94.1(2)(*f*) Authorized foreign bank deemed Canadian resident; s. 102(1) Definition of "Canadian partnership"; s. 218.2 Branch interest tax; s. 248(1), "authorized foreign bank", "Canadian banking business".

► 212(14) ◄

(14) Certificate of exemption. [Repealed by S.C. 2007, c. 35, s. 59(4).]

History: S. 212(14) was repealed by S.C. 2007, c. 35, s. 59(4), applicable after 2007. S. 212(14) formerly read:

"(14) *Certificate of exemption.* The Minister may, on application, issue a certificate of exemption to any non-resident person who establishes to the satisfaction of the Minister that

(*a*) an income tax is imposed under the laws of the country of which the non-resident person is a resident;

(*b*) the non-resident person is exempt under the laws referred to in paragraph (*a*) from the payment of income tax to the government of the country of which the non-resident person is a resident; and

(*c*) the non-resident person is

(i) a person who is or would be, if the non-resident person were resident in Canada, exempt from tax under section 149,

(ii) a trust or corporation that is operated exclusively to administer or provide superannuation, pension, retirement or employee benefits, or

(iii) a trust, corporation or other organization constituted and operated exclusively for charitable purposes, no part of the income of which is payable to, or is otherwise available for, the personal benefit of any proprietor, member, shareholder, trustee or settlor thereof."

S. 212(14)(*c*)(ii) was amended by S.C. 1999, c. 22, s. 75(1), applicable to applications for certificates of exemption under subsection 212(14) of the Act made after February 23, 1998 except that, with respect to applications submitted before 1999, the reference to "operated exclusively" in subparagraph 212(14)(*c*)(ii) of the Act shall be read as a reference to "operated principally". S. 212(14)(*c*)(ii) formerly read:

"(ii) a trust or corporation established or incorporated principally in connection with, or the principal purpose of which is to administer or provide benefits under, one or more superannuation, pension or retirement funds or plans or any funds or plans established to provide employee benefits, or"

Related Sections: S. 172(3)(*d*) Appeal from refusal to register, revocation of registration, etc.; s. 172(4)(*c*) Deemed refusal to register — no notification within 180 days; s. 212(1)(*b*)(iv) Interest.
Information Circulars: IC 77-16R4 Non-resident income tax (paras. 79 to 82).
Forms: NR6A; NR7-R.

► 212(15) ◄

(15) Certain obligations. For the purposes of subparagraph (1)(*b*)(ii), after November 18, 1974 interest on a bond, debenture, note, mortgage, hypothecary claim or similar obligation that is insured by the Canada Deposit Insurance Corporation is deemed not to be interest with respect to an obligation guaranteed by the Government of Canada.

History: S. 212(15) was amended by S.C. 2001, c. 17, s. 226(4), applicable on Royal Assent, June 14, 2001. S. 212(15) formerly read:

"(15) *Certain obligations.* For the purposes of subparagraph (1)(*b*)(ii), after November 18, 1974 interest on a bond, debenture, note, mortgage or similar obligation that is insured by the Canada Deposit Insurance Corporation shall be deemed not to be interest with respect to an obligation guaranteed by the Government of Canada."

Interpretation Bulletins: *Secondary* — IT-155R3 Exemption from non-resident tax on interest payable on certain bonds, debentures, notes, hypothecs or similar obligations.

► 212(16) ◄

(16) Payments for temporary use of rolling stock. Clause (1)(*d*)(vii)(A) does not apply to a payment in a year for the temporary use of railway rolling stock by a railway company to a person resident in a country other than Canada unless that country grants substantially similar relief for the year to the company in respect of payments received by it for the temporary use by a person resident in that country of railway rolling stock.

Information Circulars: IC 77-16R4 Non-resident income tax.

► 212(17) ◄

(17) Exception. This section is not applicable to payments out of or under an employee benefit plan or employee trust.

Related Sections: S. 2(3) Tax payable by non-resident persons; s. 248(1), "employee benefit plan", "employee trust".
Interpretation Bulletins: *Secondary* — IT-502 Employee benefit plans and employee trusts.

► 212(17.1) ◄

(17.1) Payments to the International Olympic Committee and the International Paralympic Committee. Notwithstanding subsections (1) and (2),

(*a*) the International Olympic Committee is not taxable under this Part on any amount paid or credited to it, after 2005 and before 2011, in respect of the 2010 Olympic Winter Games, and

(*b*) the International Paralympic Committee is not taxable under this Part on any amount paid or credited to it, after 2005 and before 2011, in respect of the 2010 Paralympic Winter Games.

History: S. 212(17.1) was added by S.C. 2007, c. 35, s. 59(5), in force on Royal Assent, December 14, 2007.

► 212(18) ◄

(18) Undertaking. Every person who in a taxation year is a prescribed financial institution or a person resident in Canada who is a registered securities dealer shall on demand from the Minister, served personally or by registered letter, file within such reasonable time as may be stipulated in the demand, an undertaking in prescribed form relating to the avoidance of payment of tax under this Part.

History: S. 212(18) was replaced by S.C. 2007, c. 35, s. 59(6), applicable after 2007. S. 212(18) formerly read:

"(18) *Return by financial institutions and registered securities dealers.* Every person who in a taxation year is a prescribed financial institution for the purpose of clause (1)(*b*)(iii)(D) or a person resident in Canada who is a registered securities dealer shall

(*a*) within 6 months after the end of the year file with the Minister a return in prescribed form if in the year the person paid or credited an amount to a non-resident person in respect of which the non-resident person is, because of clause (1)(*b*)(iii)(D) or subparagraph (1)(*b*)(xii), not liable to pay tax under this Part; and

(*b*) on demand from the Minister, served personally or by registered letter, file within such reasonable time as may be stipulated in the demand, an undertaking in prescribed form relating to the avoidance of payment of tax under this Part."

S. 212(18), that portion preceding paragraph (*a*), was amended by S.C. 1995, c. 21, s. 73(2), applicable to taxation years that end after May 28, 1993. S. 212(18), that portion preceding paragraph (*a*), formerly read:

"(18) *Return by financial institution or securities trader.* Every person who in a taxation year is a prescribed financial institution for the purpose of clause (1)(*b*)(iii)(D) or a person resident in Canada who is registered or licensed under the laws of a province to trade in securities shall"

S. 212(18), that portion preceding paragraph (*b*), was amended by S.C. 1994, c. 21, s. 97(5), applicable to taxation years ending after May 28, 1993. The portion of s. 212(18) preceding paragraph (*b*) formerly read:

"(18) *Return by financial institutions.* Every person who in a taxation year is a prescribed financial institution for the purposes of clause (1)(*b*)(iii)(D) shall

(*a*) within 6 months from the end of the taxation year file with the Minister a return in prescribed form containing prescribed information if in the taxation year the person paid or credited an amount to a non-resident person in respect of which the non-resident person is by virtue of clause (1)(*b*)(iii)(D) not liable to pay tax under this Part; and"

Related Sections: S. 248(1), "registered securities dealer".
Regulations: 806.
Forms: NR4 Sum.; NR4.

► 212(19) ◄

(19) Tax on registered securities dealers. Every taxpayer who is a registered securities dealer resident in Canada shall pay a tax under this Part equal to the amount determined by the formula

$$1/365 \times .25 \times (A - B) \times C$$

where

A is the total of all amounts each of which is the amount of money provided before the end of a day to the taxpayer (and not returned or repaid before the end of the day) by or on behalf of a non-resident person as collateral or as consideration for a security that was lent or transferred under a designated securities lending arrangement,

B is the total of

(*a*) all amounts each of which is the amount of money provided before the end of the day by or on behalf of the taxpayer (and not returned or repaid before the end of the day) to a non-resident person as collateral or as consideration for a security that is described in paragraph (*a*) of the definition "fully

exempt interest" in subsection (3), or that is an obligation of the government of any country, province, state, municipality or other political subdivision, and that was lent or transferred under a securities lending arrangement, and

(*b*) the greater of

(i) 10 times the greatest amount determined, under the laws of the province or provinces in which the taxpayer is a registered securities dealer, to be the capital employed by the taxpayer at the end of the day, and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph (*b*)(i) of the description of B in subsection 212(19) of the Act is replaced by the following:

(i) 10 times the greatest amount determined, under the laws of the province or provinces in which the taxpayer is a registered securities dealer, to be the capital employed by the taxpayer at the end of the day, and

Applicable: To securities lending arrangements entered into after May 28, 1993.

Editorial Note: S. 97(1) of S.C. 2007, c. 35, which is a coordinating amendment with Bill C-10, provides that if Bill C-10 receives royal assent, this Bill C-10 amendment applies as though Bill C-10 had received royal assent before S.C. 2007, c. 35.

Explanatory Note:

Tax on Registered Securities Dealers

Subsection 212(19) of the Act imposes a tax on Canadian-resident registered securities dealers that enter into certain securities lending arrangements described in subparagraph 212(1)(*b*)(xii) of the Act. The tax is calculated, by formula, based in Part on the capital or the margin requirement of the relevant provincial laws governing the registration or license of securities dealers.

An earlier amendment to subsection 212(19) removed a reference to the provincial laws under which the taxpayer is registered or licensed. The subsection is further amended, as a consequence of that earlier change, to replace the words "those laws" in subparagraph (*b*)(i) of the description of B in the formula (which no longer have any clear antecedent), with a specific reference to the provincial legislation that govern the registration or license of securities dealers.

This amendment applies to securities lending arrangements entered into after May 28, 1993.

(ii) 20 times the greatest amount of capital required, under the laws of the province or provinces in which the taxpayer is a registered securities dealer, to be maintained by the taxpayer as a margin in respect of securities described in paragraph (*a*) of the definition "fully exempt interest" in subsection (3), or that is an obligation of the government of any country, province, state, municipality or other political subdivision, at the end of the day, and

C is the prescribed rate of interest in effect for the day,

and shall remit that amount to the Receiver General on or before the 15th day of the month after the month in which the day occurs.

History: S. 212(19) was replaced by S.C. 2007, c. 35, s. 59(6), applicable after 2007. S. 212(19) formerly read:

"(19) *Tax on registered securities dealers.* Every taxpayer who is a registered securities dealer resident in Canada shall pay a tax under this Part equal to the amount determined by the formula

$$\frac{1}{365} \times .25 \times (A - B) \times C$$

where

A is the total of all amounts each of which is the amount of money provided before the end of a day to the taxpayer (and not returned or repaid before the end of the day) by or on behalf of a non-resident person as collateral or as consideration for a security that was lent or transferred under a securities lending arrangement described in subparagraph (1)(*b*)(xii),

B is the total of

(*a*) all amounts each of which is the amount of money provided before the end of the day by or on behalf of the taxpayer (and not returned or repaid before the end of the day) to a non-resident person as collateral or as consideration for a security described in clause (1)(*b*)(xii)(A) that was lent or transferred under a securities lending arrangement, and

(*b*) the greater of

(i) 10 times the greatest amount determined under those laws to be the capital employed by the taxpayer at the end of the day, and

(ii) 20 times the greatest amount of capital required under those laws to be maintained by the taxpayer as a margin in respect of securities described in clause (1)(*b*)(xii)(A) at the end of the day, and

C is the prescribed rate of interest in effect for the day,and shall remit that amount to the Receiver General on or before the 15th day of the month after the month in which the day occurs."

S. 212(19), all that portion before the formula, was amended by S.C. 1995, c. 21, s. 73(3), applicable to securities lending arrangements entered into after May 28, 1993. S. 212(19), all that portion before the formula, formerly read:

"(19) *Tax on securities traders.* Every taxpayer resident in Canada who is registered or licensed under the laws of one or more provinces to trade in securities shall pay a tax under this Part equal to the amount determined by the formula"

S. 212(19) was added by S.C. 1994, c. 21, s. 97(6), applicable to securities lending arrangements entered into after May 28, 1993.

Related Sections: S. 260(1), "securities lending arrangement".
Regulations: 4301.

► 212(20) ◄

(20) Designated SLA. For the purpose of subsection (19), a designated securities lending arrangement is a securities lending arrangement

(*a*) under which

(i) the lender is a prescribed financial institution or a registered securities dealer resident in Canada,

(ii) the particular security lent or transferred is an obligation described in paragraph (*a*) of the definition "fully exempt interest" in subsection (3) or an obligation of the government of any country, province, state, municipality or other political subdivision,

(iii) the amount of money provided to the lender at any time during the term of the arrangement either as collateral or as consideration for the particular security does not exceed 110% of the fair market value at that time of the particular security, and

(*b*) that was neither intended, nor made as a part of a series of securities lending arrangements, loans or other transactions that was intended, to be in effect for more than 270 days.

History: S. 212(20) was added by S.C. 2007, c. 35, s. 59(6), applicable after 2007.

SECTION 212.1

► 212.1(1) ◄

(1) Non-arm's length sales of shares by non-residents. If a non-resident person, a designated partnership or a non-resident-owned investment corporation (in this section referred to as the "non-resident person") disposes of shares (in this section referred to as the "subject shares") of any class of the capital stock of a corporation

resident in Canada (in this section referred to as the "subject corporation") to another corporation resident in Canada (in this section referred to as the "purchaser corporation") with which the non-resident person does not (otherwise than because of a right referred to in paragraph 251(5)(*b*)) deal at arm's length and, immediately after the disposition, the subject corporation is connected (within the meaning that would be assigned by subsection 186(4) if the references in that subsection to "payer corporation" and "particular corporation" were read as "subject corporation" and "purchaser corporation", respectively) with the purchaser corporation,

(*a*) the amount, if any, by which the fair market value of any consideration (other than any share of the capital stock of the purchaser corporation) received by the non-resident person from the purchaser corporation for the subject shares exceeds the paid-up capital in respect of the subject shares immediately before the disposition shall, for the purposes of this Act, be deemed to be a dividend paid at the time of the disposition by the purchaser corporation to the non-resident person and received at that time by the non-resident person from the purchaser corporation; and

(*b*) in computing the paid-up capital at any particular time after March 31, 1977 of any particular class of shares of the capital stock of the purchaser corporation, there shall be deducted that proportion of the amount, if any, by which the increase, if any, by virtue of the disposition, in the paid-up capital, computed without reference to this section as it applies to the disposition, in respect of all of the shares of the capital stock of the purchaser corporation exceeds the amount, if any, by which

(i) the paid-up capital in respect of the subject shares immediately before the disposition

exceeds

(ii) the fair market value of the consideration described in paragraph (*a*),

that the increase, if any, by virtue of the disposition, in the paid-up capital, computed without reference to this section as it applies to the disposition, in respect of the particular class of shares is of the increase, if any, by virtue of the disposition, in the paid-up capital, computed without reference to this section as it applies to the disposition, in respect of all of the issued shares of the capital stock of the purchaser corporation.

History: S. 212.1(1), the portion before paragraph (*a*) was amended by S.C. 1999, c. 22, s. 76(1), applicable after February 23, 1998. S. 212.1(1), the portion before paragraph (*a*) formerly read:

"S. 212.1. *Non-arm's length sales of shares by non-residents.*

(1) Where a non-resident person or a non-resident-owned investment corporation (in this section referred to as the 'non-resident person') disposes of shares (in this section referred to as the 'subject shares') of any class of the capital stock of a Canadian corporation (in this section referred to as the 'subject corporation') to another Canadian corporation (in this section referred to as the 'purchaser corporation') with which the non-resident person does not (otherwise than by reason of a right referred to in paragraph 251(5)(*b*)) deal at arm's length and, immediately after the disposition, the subject corporation is connected (within the meaning of subsection 186(4), on the assumption that the references therein to 'payer corporation' and 'particular corporation' were read as 'subject corporation' and 'purchaser corporation', respectively) with the purchaser corporation,"

Related Sections: S. 54, "proceeds of disposition"; s. 84(7) When dividend payable; s. 84.1(1) Non-arm's length sale of shares; s. 89(1), "Canadian corporation", "paid-up capital"; s. 133(8), "non-resident-owned investment corporation"; s. 134 Non-resident-owned corporation not a Canadian corporation, etc; s. 186(7) Interpretation; s. 212(2) Tax on dividends; s. 212.1(3)(*e*) Meaning of "designated partnership"; s. 212.1(4) Where section does not apply. s. 215(6) Liability for tax; s. 227(8) Penalty; s. 212.2(1)(*b*) Application;
Interpretation Bulletins: *Primary* — IT-489R Non-arm's length sale of shares to a corporation. *Secondary* — IT-463R2 Paid-up capital.
Information Circulars: IC 77-16R4 Non-resident income tax.
Forms: NR4 Sum.; NR4.
Tax Profile: December 2004 — Taxation of Dividends: A Survey in the Context of Private Corporations and Their Shareholders — Part 2.
Cases: The taxpayer purchased common shares of two Canadian corporations from non-residents. The payment to the non-residents was deemed to be a dividend from which withholding tax should have been deducted. *Placements Serco Ltée v. The Queen,* 87 DTC 5425 (F.C.A.).

► 212.1(2) ◄

(2) Idem. In computing the paid-up capital at any particular time after March 31, 1977 of any particular class of shares of the capital stock of a corporation, there shall be added an amount equal to the lesser of

(*a*) the amount, if any, by which

(i) the total of all amounts each of which is an amount deemed by subsection 84(3), (4) or (4.1) to be a dividend on shares of the particular class paid after March 31, 1977 and before the particular time by the corporation and received by a non-resident-owned investment corporation or by a person who is not a corporation resident in Canada

exceeds

(ii) the total that would be determined under subparagraph (i) if this Act were read without reference to paragraph (1)(*b*), and

(*b*) the total of all amounts each of which is an amount required by paragraph (1)(*b*) to be deducted in computing the paid-up capital in respect of the particular class of shares after March 31, 1977 and before the particular time.

Related Sections: S. 84.1(3) Addition to paid-up capital.

► 212.1(3) ◄

(3) Idem. For the purposes of this section,

(*a*) in respect of any disposition described in subsection (1) by a non-resident person of shares of the capital stock of a subject corporation to a purchaser corporation, the non-resident person shall, for greater certainty, be deemed not to deal at arm's length with the purchaser corporation if the non-resident person was,

(i) immediately before the disposition, one of a group of less than 6 persons that controlled the subject corporation, and

(ii) immediately after the disposition, one of a group of less than 6 persons that controlled the purchaser corporation, each member of which was a member of the group referred to in subparagraph (i);

(*b*) for the purposes of determining whether or not a particular non-resident person (in this paragraph referred to as the "taxpayer") referred to in paragraph (*a*) was a member of a group of less than 6 persons that controlled a corporation at any time, any shares of the capital stock of that corporation owned at that time by

(i) the taxpayer's child (within the meaning assigned by subsection 70(10)), who is under 18 years of age, or the taxpayer's spouse or common-law partner,

(ii) a trust of which the taxpayer, a person described in subparagraph (i) or a corporation described in subparagraph (iii) is a beneficiary,

(iii) a corporation controlled by the taxpayer, a person described in subparagraph (i), a trust described in subparagraph (ii) or any combination thereof, or

(iv) a partnership of which the taxpayer or a person described in one of paragraphs (i) to (iii) is a majority interest partner or a member of a majority interest group of partners (as defined in subsection 251.1(3))

shall be deemed to be owned at that time by the taxpayer and not by the person who actually owned the shares at that time;

(*c*) a trust and a beneficiary of the trust or a person related to a beneficiary of the trust shall be deemed not to deal with each other at arm's length;

(*d*) for the purpose of paragraph (*a*),

(i) a group of persons in respect of a corporation means any 2 or more persons each of whom owns shares of the capital stock of the corporation,

(ii) a corporation that is controlled by one or more members of a particular group of persons in respect of that corporation shall be considered to be controlled by that group of persons, and

(iii) a corporation may be controlled by a person or a particular group of persons notwithstanding that the corporation is also controlled or deemed to be controlled by another person or group of persons;

(*e*) a "designated partnership" means a partnership of which either a majority interest partner or every member of a majority interest group of partners (as defined in subsection 251.1(3)) is a non-resident person or a non-resident-owned investment corporation; and

(*f*) in this subsection, a person includes a partnership.

History: S. 212.1(3)(*b*)(i) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.33), applicable January 1, 2001, coming into force on July 31, 2000. S. 212.1(3)(*b*)(i) formerly read:

"(i) the taxpayer's child (within the meaning assigned by subsection 70(10)), who is under 18 years of age, or the taxpayer's spouse,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 212.1(3)(*e*) and (*f*) were added by S.C. 1999, c. 22, s. 76(3), applicable after February 23, 1998.

S. 212.1(3)(*b*)(iv) was added by S.C. 1999, c. 22, s. 76(2), applicable after February 23, 1998.

S. 212.1(3)(*d*) was added by S.C. 1994, c. 7, Sched. VIII, s. 124(1), applicable to dispositions occurring after December 20, 1991.

Ss. 212.1(3)(*b*)(i) to (iii) were amended by S.C. 1994, c. 7, Sched. II, s. 175(1), applicable to dispositions occurring after July 13, 1990. Those parts formerly read:

"(i) the taxpayer's spouse,

(ii) an *inter vivos* trust of which the taxpayer, the spouse, a corporation described in subparagraph (iii) or any combination thereof is a beneficiary, or

(iii) a corporation controlled by the taxpayer, the spouse, a trust described in subparagraph top (ii) or any combination thereof"

S. 212.1(3)(c) was added by S.C. 1994, c. 7, Sched. II, s. 175(2), applicable to dispositions occurring after July 13, 1990.

Related Sections: S. 248(1), "common-law partner"; s. 251(1) Arm's length; s. 256(6) Exception to control; s. 256(6.1) Simultaneous control; s. 256(6.2) Application to control in fact.

► 212.1(4) ◄

(4) Where section does not apply. Notwithstanding subsection (1), this section does not apply in respect of a disposition by a non-resident corporation of shares of a subject corporation to a purchaser corporation that immediately before the disposition controlled the non-resident corporation.

Related Sections: S. 256(6) Exception to control; s. 256(6.1) Simultaneous control; s. 256(6.2) Application to control in fact.

SECTION 212.2:

► 212.2(1) ◄

(1) Application. This section applies where

(*a*) a taxpayer disposes at a particular time of a share of the capital stock of a corporation resident in Canada (or any property more than 10% of the fair market value of which can be attributed to shares of the capital stock of corporations resident in Canada) to

(i) a person resident in Canada,

(ii) a partnership in which any person resident in Canada has, directly or indirectly, an interest, or

(iii) a person or partnership that acquires the share or the property in the course of carrying on a business through a permanent establishment in Canada, as defined in the *Income Tax Regulations*;

(*b*) subsection 212.1(1) does not apply to the disposition;

(*c*) the taxpayer is non-resident at the particular time;

(*d*) it is reasonable to conclude that the disposition is part of an expected series of transactions or events that includes the issue after December 15, 1998 of a particular share of the capital stock of a particular insurance corporation resident in Canada on the demutualization (within the meaning assigned by subsection 139.1(1)) of the particular corporation and

(i) after the particular time, the redemption, acquisition or cancellation of the particular share, or a share substituted for the particular share, by the particular corporation or the issuer of the substituted share, as the case may be,

(ii) after the particular time, an increase in the level of dividends declared or paid on the particular share or a share substituted for the particular share, or

(iii) the acquisition, at or after the particular time, of the particular share or a share substituted for the particular share by

(A) a person not dealing at arm's length with the particular corporation or with the issuer of the substituted share, as the case may be, or

(B) a partnership any direct or indirect interest in which is held by a person not dealing at arm's length with the particular corporation or with the issuer of the substituted share, as the case may be; and

(*e*) at the particular time, the person described in subparagraph (*a*)(i) or (iii) or any person who has, directly or indirectly, an interest in the partnership

described in subparagraph (*a*)(ii) or (iii) knew, or ought reasonably to have known, of the expected series of transactions or events described in paragraph (*d*).

History: S. 212.2(1) was added by S.C. 2000, c. 19, s. 64(1), applicable after December 15, 1998.

Related Sections: S. 248(10) Series of transactions; s. 251(1) Arm's length.

► 212.2(2) ◄

(2) Deemed dividend. For the purposes of this Part, where property is disposed of at any time by a taxpayer to a person or partnership in circumstances in which this section applies,

(*a*) a taxable dividend is deemed to be paid at that time by the person or partnership to the taxpayer and received at the time by the taxpayer;

(*b*) the amount of the dividend is deemed to be equal to the amount determined by the formula

$$A - ((A/B) \times C)$$

where

A is the portion of the proceeds of disposition of the property that can reasonably be attributed to the fair market value of shares of a class of the capital stock of a corporation resident in Canada,

B is the fair market value immediately before that time of shares of that class, and

C is the paid-up capital immediately before that time of that class of shares; and

(*c*) in respect of the dividend, the person or partnership is deemed to be a corporation resident in Canada.

History: S. 212.2(2) was added by S.C. 2000, c. 19, s. 64(1), applicable after December 15, 1998.

Related Sections: S. 54, "proceeds of disposition"; s. 89(1), "paid-up capital", "taxable dividend"; s. 139.1 Demutualization of insurance corporations; s. 139.2 Mutual holding corporations; s. 248(1), "insurance corporation".

SECTION 213:

► 213(1) ◄

(1) Tax non-payable by non-resident person. Tax is not payable by a non-resident person under subsection 212(2) on a dividend in respect of a share of the capital stock of a foreign business corporation if not less than 90% of the total of the amounts received or receivable by it that are required to be included in computing its income for the taxation year in which the dividend was paid was received or receivable in respect of the operation by it of public utilities or from mining, transporting and processing of ore in a country in which

(*a*) if the non-resident person is an individual, the non-resident person resides; or

(*b*) if the non-resident person is a corporation, individuals who own more than 50% of its share capital (having full voting rights under all circumstances) reside.

► 213(2) ◄

(2) Idem. For the purposes of this section, if 90% of the total of the amounts received or receivable by a corporation that are required to be included in computing its income for a taxation year was received or receivable in respect of the operation by it of public utilities or from the mining, transporting and processing of ore, an amount received or receivable in that year from that corporation by another corporation shall, if it is required to be included in computing the receiving corporation's income for the year, be deemed to have been received by the receiving corporation in respect of the operation by it of public utilities or from the mining, transporting and processing of ore by it in the country in which the public utilities were operated or the mining, transporting and processing of ore was carried out by the payer corporation.

► 213(3) ◄

(3) Corporation deemed to be foreign business corporation. For the purposes of this section, a corporation shall be deemed to be a foreign business corporation at a particular time if it would have been a foreign business corporation within the meaning of section 71 of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952 (as that section read in its application to the 1971 taxation year), for the taxation year of the corporation in which the particular time occurred, if that section had been applicable to that taxation year.

Related Sections: S. 248(1), "amount", "dividend", "individual", "non-resident", "share"; s. 249 Definition of "taxation year".

SECTION 214: [Special rules applicable to non-residents].

► 214(1) ◄

(1) No deductions. The tax payable under section 212 is payable on the amounts described therein without any deduction from those amounts whatever.

Related Sections: S. 216 Taxation of non-residents on a net basis.
Interpretation Bulletins: *Secondary* — IT-438R2 Crown charges — Resource properties in Canada; IT-465R Non-resident beneficiaries of trusts.
Information Circulars: IC 77-16R4 Non-resident income tax.
Cases: Deduction of interest expenses was not permitted in computing the amount of interest subject to non-resident withholding tax. *Barki v. M.N.R.*, (T.R.B.) 75 DTC 228.

► 214(2) ◄

(2) Income and capital combined. Where paragraph 16(1)(*b*) would, if Part I were applicable, result in a part of an amount being included in computing the income of a non-resident person, that part of the amount shall, for the purposes of this Part, be deemed to have been paid or credited to the non-resident person in respect of property, services or otherwise, depending on the nature of that part of the amount.

Related Sections: S. 214(12) Where s. (2) does not apply.
Interpretation Bulletins: *Secondary* — IT-265R3 Payments of income and capital combined [Archived by the CRA].
Information Circulars: IC 77-16R4 Non-resident income tax.

► 214(3) ◄

(3) Deemed payments. For the purposes of this Part,

(*a*) where section 15 or subsection 56(2) would, if Part I were applicable, require an amount to be included in computing a taxpayer's income, that amount shall be deemed to have been paid to the taxpayer as a dividend from a corporation resident in Canada;

(*b*) where paragraph 56(1)(*f*) would, if Part I were applicable, require an amount to be included in computing an individual's income, that amount shall be deemed to have been paid to the individual under an income-averaging annuity contract;

(*b*.1) where paragraph 56(1)(*y*) would, if Part I were applicable, require an amount to be included in computing a taxpayer's income, that amount shall be deemed to have been paid to the taxpayer to

acquire an interest in a retirement compensation arrangement;

(*c*) where, because of subsection 146(8.1), (8.8), (8.91), (9), (10) or (12), an amount would, if Part I applied, be required to be included in computing a taxpayer's income, that amount shall be deemed to have been paid to the taxpayer as a payment under a registered retirement savings plan or an amended plan (within the meaning assigned by subsection 146(12)), as the case may be;

(*d*) where, by virtue of subsection 147(10), (13) or (15), an amount would, if Part I were applicable, be required to be included in computing a taxpayer's income, that amount shall be deemed to have been paid to the taxpayer as a payment under a deferred profit sharing plan or a plan referred to in subsection 147(15) as a "revoked plan", as the case may be;

(*e*) where subsection 130.1(2) would, if Part I were applicable, deem an amount received by a shareholder of a mortgage investment corporation to have been received by the shareholder as interest, that amount shall be deemed to have been paid to the shareholder as interest on a bond issued after 1971;

(*f*) where subsection 104(13) would, if Part I were applicable, require any part of an amount payable by a trust in its taxation year to a beneficiary to be included in computing the income of the non-resident person who is a beneficiary of the trust, that part shall be deemed to be an amount paid or credited to that person as income of or from the trust on the earlier of

(i) the day on which the amount was paid or credited, and

(ii) the day that is 90 days after the end of the taxation year

and not at any subsequent time when the amount was actually paid or credited;

(*f.1*) where paragraph 132.1(1)(*d*) would, if Part I were applicable, require an amount to be included in computing a taxpayer's income for a taxation year by reason of a designation by a mutual fund trust under subsection 132.1(1), that amount shall be deemed to be an amount paid or credited to that person as income of or from the trust on the day of the designation;

(*g*) where an individual who is a beneficiary under a fund, plan or trust that was a registered home ownership savings plan (within the meanings assigned by subparagraphs 146.2(1)(*a*) and (*h*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as they read in their application to the 1985 taxation year) on December 31, 1985 dies, an amount equal to the fair market value of the property in the fund, plan or trust at the time of death shall be deemed, for the purposes of section 212, to have been paid to the individual at the time of death as a payment out of or under a fund, plan or trust that was at the end of 1985 a registered home ownership savings plan;

(*h*) [Repealed by 1988, c. 55, s. 163(3).]

(*i*) where, because of subsection 146.3(4), (6), (6.1), (7) or (11), an amount would, if Part I applied, be required to be included in computing a taxpayer's income, that amount shall be deemed to have been paid to the taxpayer as a payment under a registered retirement income fund;

(*j*) [Repealed by 1998, c. 19, s. 63(1).]

(*k*) where, because of subsection 143.1(2), an amount distributed at any time by an amateur athlete trust would, if Part I were applicable, be required to be included in computing an individual's income, that amount shall be deemed to have been paid at that time to the individual as a payment in respect of an amateur athlete trust; and

(*l*) where, because of subsection 12(10.2), an amount would at any particular time, if Part I were applicable, be required to be included in computing a taxpayer's income, that amount shall be deemed to have been paid by Her Majesty in right of Canada at that time to the taxpayer out of the taxpayer's NISA Fund No. 2.

History: S. 214(3)(*j*) was repealed by S.C. 1998, c. 19, s. 63(1), applicable after 1997. S. 214(3)(*j*) formerly read:

"(*j*) where, by virtue of subsection 146.1(14), an amount would, if Part I were applicable, be required to be included in computing a taxpayer's income, that amount shall be deemed to have been paid to the taxpayer as a payment in respect of a registered education savings plan."

S. 214(3)(*c*) was amended by S.C. 1994, c. 21, s. 98(1), applicable to payments made after 1992. S. 214(3)(*c*) formerly read:

"(*c*) where, by virtue of subsection 146(8.1), (8.8), (8.91), (9), (10) or (12) or 146.3(6.1), an amount would, if Part I were applicable, be required to be included in computing a taxpayer's income, that amount shall be deemed to have been paid to the taxpayer as a payment under a registered retirement savings plan or a plan referred to in subsection 146(12) as an 'amended plan', as the case may be;"

S. 214(3)(*i*) was amended by S.C. 1994, c. 21, s. 98(2), applicable to payments made after 1992. S. 214(3)(*i*) formerly read:

"(*i*) where, by reason of subsection 146.3(4), (6), (7) or (11), an amount would, if Part I were applicable, be required to be included in computing a taxpayer's income, that amount shall be deemed to have been paid to the taxpayer as a payment under a registered retirement income fund;"

S. 214(3)(*k*) was added by S.C. 1994, c. 7, Sched. VIII, s. 125(1), applicable to amounts distributed after 1991.

S. 214(3)(*l*) was added by S.C. 1994, c. 7, Sched. VIII, s. 125(1), applicable after 1990.

Related Sections: S. 214(3.1) Time of deemed payment s. 218.3(10) Provisions applicable; s. 227(6.1) Repayment of non-resident shareholder loan; s. 245 General anti-avoidance rule; s. 248(1), "dividend", "shareholder".

Regulations: Part VIII.

Interpretation Bulletins: *Secondary* — IT-96R6 Options granted by corporations to acquire shares, bonds or debentures; IT-119R4 Debts of shareholders, certain persons connected with shareholders, etc.; IT-335R2 Indirect payments; IT-432R2 Benefits conferred on shareholders; IT-465R Non-resident beneficiaries of trusts; IT-468R Management or administration fees paid to non-residents; IT-500R Registered retirement savings plans — Death of an annuitant.

Information Circulars: IC 72-22R9 Registered Retirement Savings Plans; IC 77-16R4 Non-resident income tax.

► 214(3.1) ◄

(3.1) Time of deemed payment. Except as otherwise expressly provided, each amount deemed by subsection (3) to have been paid shall be deemed to have been paid at the time of the event or transaction as a consequence of which the amount would, if Part I were applicable, be required to be included in computing a taxpayer's income.

Cases: To pay for the corporate taxpayer's stock, an American corporation borrowed various sums interest-free from it without any arrangements for repayment. Such loans constituted deemed dividends subject to the withholding tax. *Industries P.W.I. Inc. v. M.N.R.*, 93 DTC 852 (T.C.C.).

A payment to a non-resident shareholder by way of a shareholder loan was deemed to be a dividend subject to withholding tax. *Euramca International Co. Ltd. v. M.N.R.*, 85 DTC 57 (T.C.C.).

► 214(4) ◄

(4) Securities. Where, if section 76 were applicable in computing a non-resident person's income, that section would require an amount to be included in computing the income, that amount shall, for the purpose of this Part, be deemed to have been, at the time the non-resident person received the security, right, certificate or other evidence of indebtedness, paid to the non-resident person on account of the debt in respect of which the non-resident person received it.

Related Sections: S. 214(5) Interpretation.
Interpretation Bulletins: *Secondary* — IT-77R Securities in satisfaction of an income debt [Archived by the CRA].
Information Circulars: IC 77-16R4 Non-resident income tax (paras. 23 to 31).

► 214(5) ◄

(5) Interpretation. Subsection (4) is enacted for greater certainty and shall not be construed as limiting the generality of the other provisions of this Part defining amounts on which tax is payable.

Cases: Where a non-resident parent company guaranteed repayment of money borrowed by its Canadian subsidiary, the fees paid for such guarantee were not subject to withholding tax. In the face of a tax treaty, the fees could not be deemed to constitute interest, and were therefore exempt from Canadian tax. *The Queen v. Associates Corporation of North America,* 80 DTC 6140 (F.C.A.).

► 214(6) ◄

(6) Deemed interest. Where, in respect of interest stipulated to be payable, on a bond, debenture, bill, note, mortgage, hypothecary claim or similar obligation that has been assigned or otherwise transferred by a non-resident person to a person resident in Canada, subsection 20(14) would, if Part I were applicable, require an amount to be included in computing the transferor's income, that amount is, for the purposes of this Part, deemed to be a payment of interest on that obligation made by the transferee to the transferor at the time of the assignment or other transfer of the obligation, if

(*a*) the obligation was issued by a person resident in Canada;

(*b*) the obligation was not an obligation described in paragraph (8)(*a*) or (*b*); and

(*c*) the assignment or other transfer is not an assignment or other transfer referred to in paragraph (7.1)(*b*).

History: S. 214(6), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 227(1), applicable on Royal Assent, June 14, 2001. S. 214(6), the portion before paragraph (*a*) formerly read:

"(6) *Deemed interest.* Where, in respect of interest stipulated to be payable, on a bond, debenture, bill, note, mortgage or similar obligation that has been assigned or otherwise transferred by a non-resident person to a person resident in Canada, subsection 20(14) would, if Part I were applicable, require an amount to be included in computing the transferor's income, that amount shall, for the purposes of this Part, be deemed to be a payment of interest on that obligation made by the transferee to the transferor at the time of the assignment or other transfer of the obligation, if"

S. 214(6)(*b*) was amended by S.C. 1994, c. 7, Sched. II, s. 176(1), applicable to obligations assigned or otherwise transferred after July 13, 1990. S. 214(6)(*b*) formerly read:

"(*b*) the obligation was not an obligation referred to in paragraph (8)(*a*), (*b*) or (*c*); and"

Related Sections: S. 214(9)–s. 214(11); s. 214(13)–(14).
Interpretation Bulletins: *Secondary* — IT-410R Debt obligations — Accrued interest on transfer [Archived by the CRA].

► 214(7) ◄

(7) Sale of obligation. Where

(*a*) a non-resident person has at any time assigned or otherwise transferred to a person resident in Canada a bond, debenture, bill, note, mortgage, hypothecary claim or similar obligation issued by a person resident in Canada,

(*b*) the obligation was not an excluded obligation, and

(*c*) the assignment or other transfer is not an assignment or other transfer referred to in paragraph (7.1)(*b*),

the amount, if any, by which

(*d*) the price for which the obligation was assigned or otherwise transferred at that time,

exceeds

(*e*) the price for which the obligation was issued,

shall, for the purposes of this Part, be deemed to be a payment of interest on that obligation made by the person resident in Canada to the non-resident person at that time.

History: S. 214(7)(*a*) was amended by S.C. 2001, c. 17, s. 227(2), applicable on Royal Assent, June 14, 2001. S. 214(7)(*a*) formerly read:

"(*a*) a non-resident person has at any time assigned or otherwise transferred to a person resident in Canada a bond, debenture, bill, note, mortgage or similar obligation issued by a person resident in Canada,"

Related Sections: S. 214(8)–(14).
Interpretation Bulletins: *Secondary* — IT-360R2 Interest payable in a foreign currency.
Information Circulars: IC 77-16R4 Non-resident income tax (paras. 23 to 31).
Tax Topics: No. 1919-20, 2008 Canadian Tax Foundation Annual Conference — Department of Finance Presentation and CRA Round Table; No. 1916, Withholding Tax Implications of Participating Interest and Convertible Debt.
Tax Profile: November 2008 — 2008 Cross-Border Developments in Canada.

► 214(7.1) ◄

(7.1) Idem. Where

(*a*) a person resident in Canada has at a particular time assigned or otherwise transferred an obligation to a non-resident person,

(*b*) the non-resident person has at a subsequent time assigned or otherwise transferred the obligation back to the person resident in Canada, and

(*c*) subsection (6) or (7) would apply with respect to the assignment or other transfer referred to in paragraph (*b*), if those subsections were read without reference to paragraphs (6)(*c*) and (7)(*c*),

the amount, if any, by which

(*d*) the price for which the obligation was assigned or otherwise transferred at the subsequent time,

exceeds

(*e*) the price for which the obligation was assigned or otherwise transferred at the particular time,

shall, for the purposes of this Part, be deemed to be a payment of interest on that obligation made by the person resident in Canada to the non-resident person at the subsequent time.

Related Sections: S. 214(11) Application of para. 212(1)(b) –214(14) Assignment of obligation.
Interpretation Bulletins: *Secondary* — IT-410R Debt obligations — Accrued interest on transfer [Archived by the CRA].

► 214(8) ◄

(8) Meaning of "excluded obligation". For the purposes of subsection (7), "excluded obligation" means any bond, debenture, bill, note, mortgage, hypothecary claim or similar obligation

(*a*) that is described in paragraph (*a*) of the definition "fully exempt interest" in subsection 212(3), or on which the interest would have been exempt under

subparagraph 212(1)(*b*)(iii) or (vii) as they applied to the 2007 taxation year;

(*b*) that is prescribed to be a public issue security; or

(*c*) that is not an indexed debt obligation and that was issued for an amount not less than 97% of the principal amount thereof, and the yield from which, expressed in terms of an annual rate on the amount for which the obligation was issued (which annual rate shall, if the terms of the obligation or any agreement relating thereto conferred on the holder thereof a right to demand payment of the principal amount of the obligation or the amount outstanding as or on account of the principal amount thereof, as the case may be, before the maturity of the obligation, be calculated on the basis of the yield that produces the highest annual rate obtainable either on the maturity of the obligation or conditional on the exercise of any such right) does not exceed 4/3 of the interest stipulated to be payable on the obligation, expressed in terms of an annual rate on

(i) the principal amount thereof, if no amount is payable on account of the principal amount before the maturity of the obligation, and

(ii) the amount outstanding from time to time as or on account of the principal amount thereof, in any other case.

History: S. 214(8)(*a*) was replaced by S.C. 2007, c. 35, s. 60(1), applicable after 2007. S. 214(8)(*a*) formerly read:

"(*a*) the interest on which is exempt from tax under this Part because of subparagraph 212(1)(*b*)(ii), (iii) or (vii);"

S. 214(8), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 227(3), applicable on Royal Assent, June 14, 2001. S. 214(8), the portion before paragraph (*a*) formerly read:

"(8) *Meaning of 'excluded obligation'.* For the purposes of subsection (7), 'excluded obligation' means any bond, debenture, bill, note, mortgage or similar obligation"

S. 214(8)(*c*), that portion preceding subparagraph (i), was amended by S.C. 1994, c. 7, Sched. VIII, s. 125(2), applicable to indexed debt obligations issued after October 16, 1991. That part formerly read:

"(*c*) that was issued for an amount not less than 97% of the principal amount thereof, and the yield from which, expressed in terms of an annual rate on the amount for which the obligation was issued (which annual rate shall, if the terms of the obligation or any agreement relating thereto conferred on the holder thereof a right to demand payment of the principal amount of the obligation or the amount outstanding as or on account of the principal amount thereof, as the case may be, before the maturity of the obligation, be calculated on the basis of the yield that produces the highest annual rate obtainable either on the maturity of the obligation or conditional on the exercise of any such right) does not exceed 4/3 of the interest stipulated to be payable on the obligation, expressed in terms of an annual rate on"

S. 214(8) was amended by S.C. 1994, c. 7, Sched. II, s. 176(2), applicable with respect to obligations assigned or otherwise transferred after July 13, 1990. S. 214(8) formerly read:

"(8) *Definition of 'excluded obligation'.* In subsection (7), 'excluded obligation' means any bond, debenture, bill, note, mortgage or similar obligation,

(*a*) referred to in subparagraph 212(1)(*b*)(ii) or (iii);

(*b*) if, under the terms of the obligation or any agreement relating thereto, the issuer thereof is not obliged to pay more than 25% of the principal amount thereof within 5 years of the date of its issue except in the event of a failure or default under the said terms or agreement;

(*c*) that is prescribed to be a public issue security; or

(*d*) that was issued for an amount not less than 97% of the principal amount thereof, and the yield from which, expressed in terms of an annual rate on the amount for which the obligation was issued (which annual rate shall, if the terms of the obligation or any agreement relating thereto conferred on the holder thereof a right to demand payment of the principal amount of the obligation or the amount outstanding as or on account of the principal amount thereof, as the case may be, before the maturity of the obligation, be calculated on the basis of the yield that produces the highest annual rate obtainable either on the maturity of the obligation or conditional on the exercise of any such right) does not exceed 4/3 of the interest stipulated to be payable on the obligation, expressed in terms of an annual rate on

(i) the principal amount of the obligation, if no amount is payable on account of the principal amount before the maturity of the obligation, or

(ii) the amount outstanding from time to time as or on account of the principal amount of the obligation, in any other case."

Related Sections: S. 16(6) Indexed debt obligations; s. 214(6) Deemed interest; s. 248(1), "indexed debt obligation", "principal amount".
Interpretation Bulletins: *Secondary* — IT-410R Debt obligations — Accrued interest on transfer [Archived by the CRA].
Tax Topics: No. 1919-20, 2008 Canadian Tax Foundation Annual Conference — Department of Finance Presentation and CRA Round Table; No. 1916, Withholding Tax Implications of Participating Interest and Convertible Debt.
Tax Profile: November 2008 — 2008 Cross-Border Developments in Canada.

► 214(9) ◄

(9) Deemed resident. Where

(*a*) the assignment or other transfer of an obligation to a non-resident person carrying on business in Canada would be described in subsection (6) or (7) if those subsections were read without reference to paragraphs (6)(*c*) and (7)(*c*) and if that non-resident person were a person resident in Canada, and

(*b*) that non-resident person

(i) may deduct, under subsection 20(14), in computing the non-resident person's taxable income earned in Canada for a taxation year an amount in respect of interest on the obligation, or

(ii) may deduct, under Part I, in computing the non-resident person's taxable income earned in Canada for a taxation year an amount in respect of any amount paid on account of the principal amount of the obligation,

the non-resident person shall, with respect to the assignment or other transfer of the obligation, be deemed, for the purposes of this Part, to be a person resident in Canada.

Related Sections: S. 214(13)–(14); s. 248(1), "business", "principal amount"; s. 249(1) Definition of "taxation year".
Interpretation Bulletins: *Secondary* — IT-410R Debt obligations — Accrued interest on transfer [Archived by the CRA].

► 214(10) ◄

(10) Reduction of tax. Where a non-resident person has assigned or otherwise transferred to a person resident in Canada an obligation

(*a*) on which an amount of interest was deemed by subsection (6) or (7) to have been paid, and

(*b*) that the non-resident person had previously acquired from a person resident in Canada,

the amount of the tax under this Part that the non-resident person is liable to pay in respect thereof shall be deemed, for the purpose of subsection 227(6), to be that proportion of the tax the non-resident person would otherwise have been liable to pay in respect thereof that

(*c*) the number of days in the period commencing with the day the obligation was last acquired by the non-resident person from a person resident in Canada and ending with the day the obligation was last assigned or otherwise transferred by the non-resident person to a person resident in Canada

is of

(*d*) the number of days in the period commencing with the day the obligation was issued and ending with the day the obligation was last assigned or

otherwise transferred by the non-resident person to a person resident in Canada.

Related Sections: S. 214(13)–(14).
Interpretation Bulletins: *Secondary* — IT-410R Debt obligations — Accrued interest on transfer [Archived by the CRA].

► 214(11) ◄

(11) Application of para. 212(1)(*b*). [Repealed by S.C. 2007, c. 35, s. 60(2).]

History: S. 214(11) was repealed by S.C. 2007, c. 35, s. 60(2), applicable after 2007. S. 214(11) formerly read:

"(11) *Application of para. 212(1)(b).* In respect of any payment of interest deemed by subsection (6), (7) or (7.1) to have been made by a non-resident-owned investment corporation on the assignment or other transfer of an obligation, paragraph 212(1)(*b*) shall be read and construed without reference to subparagraph 212(1)(*b*)(i)."

Related Sections: S. 133(8), "non-resident-owned investment corporation"; s. 214(14) Assignment of obligation.

► 214(12) ◄

(12) Where s. (2) does not apply. Subsection (2) does not apply in respect of a payment to a non-resident person under any obligation in respect of which that person is liable to pay tax under this Part by reason of subsection (7) or (7.1).

► 214(13) ◄

(13) Regulations respecting residents. The Governor in Council may make general or special regulations, for the purposes of this Part, prescribing

(*a*) who is or has been at any time resident in Canada;

(*b*) where a person was resident in Canada as well as in some other place, what amounts are taxable under this Part; and

(*c*) where a non-resident person carried on business in Canada, what amounts are taxable under this Part or what portion of the tax under this Part is payable by that person.

Related Sections: S. 212(5.1) Acting services; s. 248(1), "prescribed", "regulation"; s. 255 Canada.
Regulations: 802; 805.

► 214(14) ◄

(14) Assignment of obligation. For the purposes of this section, any transaction or event by which an obligation held by a non-resident person is redeemed in whole or in part or is cancelled shall be deemed to be an assignment of the obligation by the non-resident person.

Interpretation Bulletins: *Secondary* — IT-360R2 Interest payable in a foreign currency.

► 214(15) ◄

(15) Standby charges and guarantee fees. For the purposes of this Part,

(*a*) where a non-resident person has entered into an agreement under the terms of which the non-resident person agrees to guarantee the repayment, in whole or in part, of the principal amount of a bond, debenture, bill, note, mortgage, hypothecary claim or similar obligation of a person resident in Canada, any amount paid or credited as consideration for the guarantee is deemed to be a payment of interest on that obligation; and

(*b*) where a non-resident person has entered into an agreement under the terms of which the non-resident person agrees to lend money, or to make money available, to a person resident in Canada, any amount paid or credited as consideration for so agreeing to lend money or to make money available shall, if the non-resident person would be liable to tax under this Part in respect of interest payable on any obligation issued under the terms of the agreement on the date it was entered into, be deemed to be a payment of interest.

History: S. 214(15)(*a*) was amended by S.C. 2001, c. 17, s. 227(4), deemed to have come into force on March 1, 1994. S. 214(15)(*a*) formerly read:

"(*a*) where a non-resident person has entered into an agreement under the terms of which the non-resident person agrees to guarantee the repayment, in whole or in part, of the principal amount of a bond, debenture, bill, note, mortgage or similar obligation of a person resident in Canada, any amount paid or credited as consideration for the guarantee shall be deemed to be a repayment of interest on that obligation; and"

Related Sections: S. 12(1)(*c*) Interest; s. 133(8), "non-resident-owned investment corporation"; s. 212(1)(*b*) Interest; s. 214(13) Regulations respecting residents; s. 248(1), "amount", "non-resident", "principal amount".
Information Circulars: IC 77-16R4 Non-resident income tax (para. 21).
Tax Profile: August 2008 — Fifth Protocol to the Canada–U.S. Tax Convention: A Canadian Perspective.

SECTION 215:

► 215(1) ◄

(1) Withholding and remittance of tax. When a person pays, credits or provides, or is deemed to have paid, credited or provided, an amount on which an income tax is payable under this Part, or would be so payable if this Part were read without reference to subsection 216.1(1), the person shall, notwithstanding any agreement or law to the contrary, deduct or withhold from it the amount of the tax and forthwith remit that amount to the Receiver General on behalf of the non-resident person on account of the tax and shall submit with the remittance a statement in prescribed form.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 215(1) of the Act is replaced by the following:

SECTION 215:

(1) Withholding and remittance of tax. When a person pays, credits or provides, or is deemed to have paid, credited or provided, an amount on which an income tax is payable under this Part, or would be so payable if this Act were read without reference to subparagraph 94(3)(*a*)(viii) and to subsection 216.1(1), the person shall, notwithstanding any agreement or law to the contrary, deduct or withhold from it the amount of the tax and forthwith remit that amount to the Receiver General on behalf of the non-resident person on account of the tax and shall submit with the remittance a statement in prescribed form.

Applicable: To trust taxation years that begin after 2006. [This amendment] also applies to trust taxation years that begin

(*a*) after 2000, if the trust makes a valid election under paragraph [(*a*) of the application for new proposed section 94];

(*b*) after 2001, if the trust makes a valid election under paragraph [(*a*) or (*b*) of the application for new proposed section 94];

(*c*) after 2002, if the trust makes a valid election under any of paragraphs [(*a*) to (*c*) of the application for new proposed section 94];

(*d*) after 2003, if the trust makes a valid election under any of paragraphs [(*a*) to (*d*) of the application for new proposed section 94];

(*e*) after 2004, if the trust makes a valid election under any of paragraphs [(*a*) to (*e*) of the application for new proposed section 94]; and

(*f*) after 2005, if the trust makes a valid election under any of paragraphs [(*a*) to (*f*) of the application for new proposed section 94].

Explanatory Note: Subsection 215(1) provides that, where a resident of Canada pays or is deemed to pay an amount to a non-resident person in respect of which the non-resident person is liable for withholding tax under Part XIII, the payer is required to withhold the tax from the amount and remit it to the Receiver General on behalf of the non-resident.

Subsection 215(1) is amended to ensure that, where an amount is paid or credited (or deemed to be paid or credited) to a trust that is deemed, by paragraph 94(3)(*a*), to be resident in Canada for the purpose of determining the trust's liability for tax under Part XIII, the payer is required to withhold the tax that would otherwise be payable by the trust and to remit it to the Receiver General.

For more detail on the application of Part XIII to trusts deemed, under paragraph 94(3)(*a*), to be resident in Canada, and to payers of amounts to such trusts, see the commentary on subsection 94(3) and (4) and subsections 216(4.1).

This amendment applies to trust taxation years that begin after 2006. It also applies to trust taxation years that begin

- after 2000 if the trust makes a valid election under the coming-into-force provision of new section 94,
- after 2001 if the trust makes a valid election under the coming-into-force provision of new section 94,
- after 2002 if the trust makes a valid election under the coming-into-force provision of new section 94,
- after 2003 if the trust makes a valid election under the coming-into-force provision of new section 94,
- after 2004 if the trust makes a valid election under the coming-into-force provision of new section 94, and
- after 2005 if the trust makes a valid election under the coming-into-force provision of new section 94.

History: S. 215(1) was amended by S.C. 2001, c. 17, s. 174(1), applicable to amounts paid, credited or provided after 2000. S. 215(1) formerly read:

"S. 215. *Deduction and payment of tax.*

(1) When a person pays or credits or is deemed to have paid or credited an amount on which an income tax is payable under this Part, the person shall, notwithstanding any agreement or law to the contrary, deduct or withhold therefrom the amount of the tax and forthwith remit that amount to the Receiver General on behalf of the non-resident person on account of the tax and shall submit therewith a statement in prescribed form."

Related Sections: S. 212(5.3) Reduction of withholding; s. 227; s. 227.1 Directors' liability; s. 248(1), "amount", "non-resident", "prescribed", "regulation"; s. 248(7)(*b*)(i) Receipt of things mailed; s. 255 Canada.
Interpretation Bulletins: *Secondary* — IT-362R Patronage dividends; IT-465R Non-resident beneficiaries of trusts; IT-494 Hire of ships and aircraft from non-residents.
Advance Tax Rulings: ATR-69 Withholding tax on interest paid to non-resident persons.
Information Circulars: IC 76-12R6 Applicable rate of Part XIII tax on amounts paid or credited to persons in countries with which Canada has a Tax Convention; IC 77-16R4 Non-resident income tax.
Forms: T3 SCH 10; NR4; NR4 Sum.; NR4 Seg.; NR603.

► 215(1.1) ◄

(1.1) Exception — corporate immigration. Subsection (1) does not apply in respect of a dividend deemed to be paid under paragraph 128.1(1)(*c.1*) by a corporation to a non-resident corporation with which the corporation was dealing at arm's length.

History: S. 215(1.1) was added by S.C. 1999, c. 22, s. 77(1), applicable after February 23, 1998.

Related Sections: S. 251(1) Arm's length.

► 215(2) ◄

(2) Idem. Where an amount on which an income tax is payable under this Part is paid or credited by an agent or other person on behalf of the debtor either by way of redemption of bearer coupons or warrants or otherwise, the agent or other person by whom the amount was paid or credited shall, notwithstanding any agreement or law to the contrary, deduct or withhold and remit the amount of the tax and shall submit therewith a statement in prescribed form as required by subsection (1) and shall thereupon, for purposes of accounting to or obtaining reimbursement from the debtor, be deemed to have paid or credited the full amount to the person otherwise entitled to payment.

Related Sections: S. 218.3(10) Provisions applicable; s. 227; s. 227.1 Directors' liability;
Interpretation Bulletins: *Secondary* — IT-362R Patronage dividends.
Information Circulars: IC 76-12R6 Applicable rate of Part XIII tax on amounts paid or credited to persons in countries with which Canada has a Tax Convention.

► 215(3) ◄

(3) Idem. Where an amount on which an income tax is payable under this Part was paid or credited to an agent or other person for or on behalf of the person entitled to payment without the tax having been deducted or withheld under subsection (1), the agent or other person shall, notwithstanding any agreement or law to the contrary, deduct or withhold therefrom the amount of the tax and forthwith remit that amount to the Receiver General on behalf of the person entitled to payment in payment of the tax and shall submit therewith a statement in prescribed form, and the agent or other person shall thereupon, for purposes of accounting to the person entitled to payment, be deemed to have paid or credited that amount to that person.

Related Sections: S. 216(4) Optional method of payment; s. 218.3(10) Provisions applicable; s. 227; s. 227.1 Directors' liability.
Interpretation Bulletins: *Secondary* — IT-362R Patronage dividends.
Information Circulars: IC 76-12R6 Applicable rate of Part XIII tax on amounts paid or credited to persons in countries with which Canada has a Tax Convention.

► 215(4) ◄

(4) Regulations creating exceptions. The Governor in Council may make regulations with reference to any non-resident person or class of non-resident persons who carries or carry on business in Canada, providing that subsections (1) to (3) are not applicable to amounts paid to or credited to that person or those persons and requiring the person or persons to file an annual return on a prescribed form and to pay the tax imposed by this Part within a time limited in the regulations.

Related Sections: S. 162(7) Failure to comply; s. 225.1(6) Where ss. (1) to (4) do not apply; s. 227(9) Penalty; s. 227(9.3) Interest on certain tax not paid; s. 235 Penalty for failing to file corporate returns.
Regulations: 800 — 803; 805.
Interpretation Bulletins: *Secondary* — IT-362R Patronage dividends.

► 215(5) ◄

(5) Regulations reducing deduction or withholding. The Governor in Council may make regulations in respect of any non-resident person or class of non-resident persons to whom any amount is paid or credited as, on account of, in lieu of payment of or in satisfaction of, any amount described in any of paragraphs 212(1)(*h*), (*j*) to (*m*) and (*q*) reducing the amount otherwise required by any of subsections (1) to (3) to be deducted or withheld from the amount so paid or credited.

History: S. 215(5) was amended by S.C. 2001, c. 17, s. 174(1), applicable after April 1997. S. 215(5) formerly read:

"(5) *Regulations reducing deduction or withholding.* The Governor in Council may make regulations in respect of any non-resident person or class of non-resident persons to whom any amount is paid or credited as, on account of, in lieu of payment of or in satisfaction of, any amount described in any of paragraphs 212(1)(*f*), (*h*), (*j*) to (*m*) and (*q*) reducing the amount otherwise required by any of subsections (1) to (3) to be deducted or withheld from the amount so paid or credited."

S. 215(5) was amended by S.C. 1994, c. 7, Sched. II, s. 177(1), applicable to amounts paid or credited after July 13, 1990. S. 215(5) formerly read:

"(5) *Regulations reducing amount to be deducted or withheld.* The Governor in Council may make regulations with reference to any non-resident person or class of non-resident persons to whom any amount is paid or credited as, on account or in lieu of payment of, or in satisfaction of, any amount described in paragraph 212(1)(*f*), (*h*), (*j*), (*k*), (*l*), (*m*) or (*q*) reducing the

amount otherwise required by subsections (1) to (3) to be deducted or withheld from the amount so paid or credited."

Related Sections: S. 115(1) Non-resident's taxable income in Canada; s. 162(7) Failure to comply; s. 217(1) Alternative re Canadian benefits.
Regulations: 809.
Interpretation Bulletins: *Secondary* — IT-362R Patronage dividends.
Forms: NR5.

► 215(6) ◄

(6) Liability for tax. Where a person has failed to deduct or withhold any amount as required by this section from an amount paid or credited or deemed to have been paid or credited to a non-resident person, that person is liable to pay as tax under this Part on behalf of the non-resident person the whole of the amount that should have been deducted or withheld, and is entitled to deduct or withhold from any amount paid or credited by that person to the non-resident person or otherwise recover from the non-resident person any amount paid by that person as tax under this Part on behalf thereof.

Related Sections: S. 218.3(10) Provisions applicable; s. 227(1) Withholding taxes; s. 227(6) Excess withheld, returned or applied; s. 227(8) Penalty–(8.1) Joint and several liability; s. 227(8.3) Interest on amounts not deducted or withheld, s. (8.4) Liability to pay amount not deducted or withheld.
Regulations: 105.
Interpretation Bulletins: *Secondary* — IT-362R Patronage dividends.
Information Circulars: IC 77-16R4 Non-resident income tax.

SECTION 216:

► 216(1) ◄

(1) Alternatives re rents and timber royalties. Where an amount has been paid during a taxation year to a non-resident person or to a partnership of which that person was a member as, on account of, in lieu of payment of or in satisfaction of, rent on real property in Canada or a timber royalty, that person may, within 2 years (or, where that person has filed an undertaking described in subsection (4) in respect of the year, within 6 months) after the end of the year, file a return of income under Part I in the form prescribed for a person resident in Canada for that year and the non-resident person shall, without affecting the liability of the non-resident person for tax otherwise payable under Part I, thereupon be liable, in lieu of paying tax under this Part on that amount, to pay tax under Part I for the year as though

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 216(1) of the Act before paragraph (*a*) is replaced by the following:

SECTION 216:

(1) Alternatives re rents and timber royalties. If an amount has been paid during a taxation year to a non-resident person or to a partnership of which that person was a member as, on account of, in lieu of payment of or in satisfaction of, rent on real or immovable property in Canada or a timber royalty, that person may, within two years (or, if that person has filed an undertaking described in subsection (4) in respect of the year, within six months) after the end of the year, file a return of income under Part I for that year in prescribed form. On so filing and without affecting the liability of the non-resident person for tax otherwise payable under Part I, the non-resident person is, in lieu of paying tax under this Part on that amount, liable to pay tax under Part I for the year as though

Applicable: To taxation years that end after December 20, 2002.

Explanatory Note: Section 216 of the Act allows a non-resident person to file a return of income under Part I in respect of rent on real property in Canada or timber royalties and to pay, instead of the non-resident withholding tax under Part XIII, tax under Part I on the basis of the non-resident's income from the rent or royalties.

Subsection 216(1), which provides the basic rule permitting a non-resident to be taxed under Part I of the Act on this income, is amended to improve its structure and language. Most of the changes are stylistic; the amendment also updates the subsection's reference to the form of the non-resident's Part I tax return, to reflect the implementation of a special return for these non-residents. This amendment applies to taxation years that end after December 20, 2002.

In general terms, subsection 216(5) of the Act requires that a person who has previously made an election under subsection 216(1), and who has claimed capital cost allowance in computing income under the subsection, must file a return of income for the year in which the property that was the subject of the election is disposed of. Subsection 216(5) is modified in the same manner as subsection 216(1), again with the main change being an updated description of the relevant form. This amendment applies to taxation years that end after December 20, 2002.

Subsection 216(7) of the Act provides that the rules in section 61 of the Act, dealing with income averaging annuity contracts, do not apply in computing a non-resident person's income for a taxation year in respect of which subsection 216(5) applies to the person. Since section 61 is no longer relevant to any current transaction, subsection 216(7) is repealed. This repeal takes effect on Royal assent.

(*a*) the non-resident person were a person resident in Canada and not exempt from tax under section 149;

(*b*) the non-resident person's income from the non-resident person's interest in real property in Canada, timber resource properties and timber limits in Canada and the non-resident person's share of the income of a partnership of which the non-resident person was a member from its interest in real property in Canada, timber resource properties and timber limits in Canada were the non-resident person's only income;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 216(1)(*b*) of the Act is replaced by the following:

(*b*) the non-resident person's income from the non-resident person's interest in real property, or real right in immovables, in Canada and interest in, or for civil law right in, timber resource properties and timber limits in Canada, and the non-resident person's share of the income of a partnership of which the non-resident person was a member from its interest in real property, or real right in immovables, in Canada and interest in, or for civil law right in, timber resource properties and

timber limits in Canada, were the non-resident person's only income;

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*c*) the non-resident person were entitled to no deductions from income for the purpose of computing the non-resident person's taxable income; and

(*d*) the non-resident person were entitled to no deductions under sections 118 to 118.9 in computing the non-resident person's tax payable under Part I for the year.

History: S. 216(1), the portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 178(1), applicable to taxation years ending after July 13, 1990. That part formerly read:

"(1) Where an amount has been paid during a taxation year to a non-resident person, or to a partnership of which the non-resident person was a member, as, on account or in lieu of payment of, or in satisfaction of, rent on real property in Canada or a timber royalty, the non-resident person may, within 2 years from the end of the taxation year, file a return of income under Part I in the form prescribed for a person resident in Canada for that taxation year and shall, without affecting the non-resident person's liability for tax otherwise payable under Part I, thereupon be liable, in lieu of paying tax under this Part on that amount, to pay tax under Part I for that taxation year as though"

Editorial Note: Subsection 216(1) allows a non-resident to report rental income from real property in Canada or a timber royalty as Part I income instead of paying the Part XIII withholding tax. Note that the Part I income will be net income as opposed to gross income to which Part XIII applies.

Related Sections: S. 2(3); s. 13(21), "timber resource property"; s. 115(1) Non-resident's taxable income in Canada; s. 120(1) Income not earned in a province; s. 150 Manual filing of income return; s. 150.1 Electronic filing of income return; s. 212(1)(*d*) Rents, royalties, etc.–(*e*) Timber royalties; s. 220(3) Extensions for returns; s. 248(1), "amount", "non-resident", "prescribed", "property"; s. 248(4) Interest in real property; s. 249 Definition of "taxation year"; s. 250.1 Non-resident person's taxation year and income; s. 255 Canada.

Interpretation Bulletins: *Primary* — IT-393R2 Election re tax on rents and timber royalties — Non-residents. *Secondary* — IT-81R Partnerships — Income of non-resident partners; IT-121R3 Election to capitalize cost of borrowed money [Archived by the CRA]; IT-434R Rental of real property by individual.

Information Circulars: IC 77-16R4 Non-resident income tax (paras. 42 to 44).

Forms: T2Sch97; NR6; T1159.

Guides: T4144 Income Tax Guide for Non-Residents Electing Under Section 216.

Tax Topics: No. 1904, Section 216 Shortfall; No. 1802, Non-Resident Partners and Canadian Real Estate; No. 1560, CCRA Softens Stance on Late-Filed Subsection 216(1) Returns.

Tax Profile: December 2007 — Non-Resident Investment in Canadian Real Estate; March 2002 — Selected Tax Issues for Commercial Landlords and Tenants.

Tax Window Files: Interest Expense — Rental Income Earned By Non-Resident Through Partnership, December 19, 2002, CRA Document No. 2002-0148705 [Non-resident partner can deduct interest on money borrowed to acquire an interest in a partnership if section 216 election made]; Normal Assessment Period — 216 Return, September 20, 2002, CRA Document No. 2002-0146627 [Normal reassessment period in respect of subsection 216(1) assessment does not apply to an assessment of other Part 1 income].

Cases: Rent from an aircraft does not qualify under section 110 [216] since an aircraft is not real property. *Lea-Don Canada Ltd. v. M.N.R.*, 70 DTC 6271 (S.C.C.).

► 216(2) ◄

(2) Idem. Where a non-resident person has filed a return of income under Part I as permitted by this section, the amount deducted under this Part from

(*a*) rent on real property or from timber royalties paid to the person, and

(*b*) the person's share of the rent on real property or from timber royalties paid to a partnership of which the person is a member

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraphs 216(2)(*a*) and (*b*) of the Act are replaced by the following:

(*a*) rent on real or immovable property or from timber royalties paid to the person, and

(*b*) the person's share of the rent on real or immovable property or from timber royalties paid to a partnership of which the person is a member

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

and remitted to the Receiver General shall be deemed to have been paid on account of tax under this section and any portion of the amount so remitted to the Receiver General in a taxation year on the person's behalf in excess of the person's liability for tax under this Act for the year shall be refunded to the person.

Related Sections: S. 212(1)(*d*) Rents, royalties, etc.–(*e*) Timber royalties.

► 216(3) ◄

(3) Idem. Part I is applicable, with such modifications as the circumstances require, to payment of tax under this section.

Cases: Rent from an aircraft does not qualify under section 110 [216] since an aircraft is not real property. *Lea-Don Canada Ltd. v. M.N.R.*, 70 DTC 6271 (S.C.C.).

► 216(4) ◄

(4) Optional method of payment. Where a non-resident person or, in the case of a partnership, each non-resident person who is a member of the partnership files with the Minister an undertaking in prescribed form to file within 6 months after the end of a taxation year a return of income under Part I for the year as permitted by this section, a person who is otherwise required by subsection 215(3) to remit in the year, in respect of the non-resident person or the partnership, an amount to the Receiver General in payment of tax on rent on real property or on a timber royalty may elect under this section not to remit under that subsection, and if that election is made, the elector shall,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 216(4) of the Act before paragraph (*a*) is replaced by the following:

(4) Optional method of payment. Where a non-resident person or, in the case of a partnership, each non-resident person who is a member of the partnership files with the Minister an undertaking in prescribed form to file within 6 months after the end of a taxation year a return of income under Part I for the year as permitted by this section, a person who is other-

wise required by subsection 215(3) to remit in the year, in respect of the non-resident person or the partnership, an amount to the Receiver General in payment of tax on rent on real or immovable property or on a timber royalty may elect under this section not to remit under that subsection, and if that election is made, the elector shall,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*a*) when any amount is available out of the rent or royalty received for remittance to the non-resident person or the partnership, as the case may be, deduct 25% of the amount available and remit the amount deducted to the Receiver General on behalf of the non-resident person or the partnership on account of the tax under this Part; and

(*b*) if the non-resident person or, in the case of a partnership, a non-resident person who is a member of the partnership

(i) does not file a return for the year in accordance with the undertaking, or

(ii) does not pay under this section the tax the non-resident person or member is liable to pay for the year within the time provided for payment,

pay to the Receiver General, on account of the non-resident person's or the partnership's tax under this Part, on the expiration of the time for filing or payment, as the case may be, the full amount that the elector would otherwise have been required to remit in the year in respect of the rent or royalty minus the amounts that the elector has remitted in the year under paragraph (*a*) in respect of the rent or royalty.

History: S. 216(4) was amended by S.C. 1998, c. 19, s. 217(1), applicable to amounts paid or credited after November 1991. S. 216(4) formerly read:

"(4) *Optional method of payment.* Where a non-resident person or each non-resident person who is a member of a partnership has filed with the Minister an undertaking in prescribed form to file a return of income under Part I for a taxation year as permitted by this section but within 6 months from the end of the taxation year, a person who is otherwise required by subsection 215(3) to remit in the year an amount to the Receiver General in payment of tax on rent on real property or in payment of tax on a timber royalty may elect, by virtue of this section, not to remit under that subsection but if the non-resident person or member does so elect

(*a*) the non-resident person or member shall, when any amount is available out of the rent or royalty received for remittance to the non-resident person or the partnership, as the case may be, deduct therefrom 25% thereof and remit the amount deducted to the Receiver General on behalf of the non-resident person or the partnership on account of the tax under this Part; and

(*b*) the non-resident person or member shall, if the non-resident person or each non-resident person who is a member of the partnership

(i) does not file a return for the taxation year in accordance with the undertaking filed by the non-resident person or member with the Minister, or

(ii) does not pay the tax the non-resident person or member is liable to pay for the taxation year under this section within the time limited for payment,

pay to the Receiver General, on the expiration of the time for filing or payment, as the case may be, the full amount that the non-resident person or member would otherwise have been required to remit in the year minus the amounts that the non-resident person or member has remitted in the year under paragraph (*a*)."

Related Sections: S. 212(1)(*d*) Rents, royalties, etc.–(*e*) Timber royalties.
Information Circulars: IC 77-16R4 Non-resident income tax (paras. 42 to 44).
Forms: NR6.
Tax Topics: No. 1904, Section 216 Shortfall.
Cases: Rent from an aircraft does not qualify under section 110 [216] since an aircraft is not real property. *Lea-Don Canada Ltd. v. M.N.R.*, 70 DTC 6271 (S.C.C.).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 216 of the Act is amended by adding the following after subsection (4):

(4.1) Optional method of payment. If a trust is deemed by subsection 94(3) to be resident in Canada for a taxation year for the purpose of computing the trust's income for the year, a person who is otherwise required by subsection 215(3) to remit in the year, in respect of the trust, an amount to the Receiver General in payment of tax on rent on real or immovable property or on a timber royalty may elect in prescribed form filed with the Minister under this subsection not to remit under subsection 215(3) in respect of amounts received after the election is made, and if that election is made, the elector shall,

(*a*) when any amount is available out of the rent or royalty received for remittance to the trust, deduct 25% of the amount available and remit the amount deducted to the Receiver General on behalf of the trust on account of the trust's tax under Part I; and

(*b*) if the trust does not file a return for the year as required by section 150, or does not pay the tax that the trust is liable to pay under Part I for the year within the time required by that Part, on the expiration of the time for filing or payment, as the case may be, pay to the Receiver General, on account of the trust's tax under Part I, the amount by which the full amount that the elector would otherwise have been required to remit in the year in respect of the rent or royalty exceeds the amounts that the elector has remitted in the year under paragraph (*a*) in respect of the rent or royalty.

Applicable: To trust taxation years that begin after 2006, except that

(*a*) that subsection also applies to a trust taxation year beginning before 2007 if section 94 applies to that taxation year of the trust; and

(*b*) an election referred to in subsection 216(4.1) is deemed to have been filed with the Minister of National Revenue on a timely basis if it is filed with the Minister of National Revenue on or before the trust's filing-due date for the taxation year of the trust that includes the day on which this Act is assented to.

Explanatory Note:

Rents and Timber Royalties — Optional Method of Payment

In general, Part XIII of the Act imposes a withholding tax of 25% on rental payments made by Canadians to non-resident owners of Canadian real property. An exception to this general rule exists where a non-resident chooses, under subsection 216(4) of the Act, to file a Canadian income tax return in respect of the rental income and timber royalty income and pay tax on the net amount of such income. Where the conditions of subsection 216(4) are satisfied, the rule requiring a Canadian payer (or agent of the payee pursuant to s. 215(3)) to remit 25% of the gross payment to the Canada Revenue Agency does not apply; instead, only 25% of the net amount of income received by the non-resident's agent need be remitted.

Although an otherwise non-resident trust to which paragraph 94(3)(*a*) of the Act applies is deemed resident in Canada for the purposes of determining the trust's liability under Part XIII on amounts paid or credited to the trust, for the purpose of determining the liability of a Canadian payer on amounts paid or credited to the trust, the trust is effectively treated as resident in Canada (see paragraph 94(4)(*c*) and section 215).

Subsection 216(4.1) is introduced to provide a measure of relief in these circumstances. Under that subsection, if a trust is deemed by subsection 94(3) to be resident in Canada for a taxation year for the purpose of computing the trust's income for the year, a person who is otherwise required by subsection

215(3) to remit in the year, in respect of the trust, an amount to the Receiver General in payment of tax on rent on real property or on a timber royalty may elect in prescribed form filed with the Minister under this subsection not to remit under subsection 215(3) in respect of amounts received after the election is made. Under paragraphs 216(4.1)(*a*) and (*b*), if that election is made, the elector shall,

- when any amount is available out of the rent or royalty received for remittance to the trust, deduct 25% of the amount available and remit the amount deducted to the Receiver General on behalf of the trust on account of the trust's tax under Part I; and
- if the trust does not file a return for the year as required by section 150, or does not pay the tax that the trust is liable to pay under Part I for the year within the time required by that Part, on the expiration of the later of the time for filing or payment, as the case may be, pay to the Receiver General, on account of the trust's tax under Part I, the amount by which the full amount that the elector would otherwise have been required to remit in the year in respect of the rent or royalty exceeds the amounts that the elector has remitted in the year under paragraph 216(4.1)(*a*) in respect of the rent or royalty.

This amendment applies to trust taxation years that begin after 2006.

► 216(5) ◄

(5) Disposition by non-resident of interest in real property, timber resource property or timber limit. Where a person or a trust of which that person is a beneficiary has filed a return of income under Part I for a taxation year as permitted by this section or as required by section 150 and, in computing the amount of the person's income under Part I an amount has been deducted under paragraph 20(1)(*a*), or is deemed by subsection 107(2) to have been allowed under that paragraph, in respect of real property in Canada, a timber resource property or a timber limit in Canada, the person shall, within the time prescribed by section 150 for filing a return of income under Part I, file a return of income under Part I, in the form prescribed for a person resident in Canada, for any subsequent taxation year in which the person was a non-resident person and in which that real property, timber resource property or timber limit or any interest therein is disposed of, within the meaning of section 13, by the person or by a partnership of which the person is a member, and the person shall, without affecting the person's liability for tax otherwise payable under Part I, thereupon be liable, in lieu of paying tax under this Part on any amount paid, or deemed by this Part to have been paid to the person or to a partnership of which the person is a member in that subsequent taxation year in respect of any interest in real property, timber resource property or timber limit in Canada, to pay tax under Part I for that subsequent taxation year as though

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 216(5) of the Act before paragraph (*a*) is replaced with the following:

(5) Disposition by non-resident. If a person or a trust under which a person is a beneficiary has filed a return of income under Part I for a taxation year as permitted by this section or as required by section 150 and, in computing the amount of the person's income under Part I an amount has been deducted under paragraph 20(1)(*a*), or is deemed by subsection 107(2) to have been allowed under that paragraph, in respect of property that is real property in Canada — or an interest therein — or an immovable in Canada — or a real right therein —, a timber resource property or a timber limit in Canada, the person shall file a return of income under Part I in prescribed form on or before the person's filing-due date for any subsequent taxation year in which the person is non-resident and in which the person, or a partnership of which the person is a member, disposes of that property or any interest, or for civil law any right, in it. On so filing and without affecting the person's liability for tax otherwise payable under Part I, the person is, in lieu of paying tax under this Part on any amount paid, or deemed by this Part to have been paid, in that subsequent taxation year in respect of any interest in, or for civil law any right in, that property to the person or to a partnership of which the person is a member, liable to pay tax under Part I for that subsequent taxation year as though

Applicable: To taxation years that end after December 20, 2002.

Explanatory Note: See the Explanatory Note following the amendment to the portion of subsection 216(1) of the Act before paragraph (*a*).

(*a*) the person were a person resident in Canada and not exempt from tax under section 149;

(*b*) the person's income from the person's interest in real property, timber resource property or timber limits in Canada and the person's share of the income of a partnership of which the person was a member from its interest in real property, timber resource property or timber limits in Canada were the person's only income;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 216(5)(*b*) of the Act is replaced by the following:

(*b*) the person's income from the person's interest in real property, or real right in immovables, in Canada or interest in, or for civil law right in, timber resource properties and timber limits in Canada, and the person's share of the income of a partnership of which the person was a member from its interest in real property, or real right in immovables, in Canada or interest in, or for civil law right in, timber resource properties and timber limits in Canada, were the person's only income;

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*c*) the person were entitled to no deductions from income for the purpose of computing the person's taxable income; and

(*d*) the person were entitled to no deductions under sections 118 to 118.9 in computing the person's tax payable under Part I for the year.

Related Sections: S. 13(21), "timber resource property"; s. 110.1(3)(*a*)(ii) Gifts of capital property; s. 118.1(6)(*b*) Gift of capital property; s. 248(4) Interest in real property.

Cases: Where a non-resident had never elected to be taxed as a Canadian resident, he was not subject to tax on recaptured capital cost allowance. *The Queen v. Amos et al.*, 82 DTC 6165 (F.C.A.) affirming 81 DTC 5126 (F.C.T.D.).

Rent from an aircraft does not qualify under section 110 [216] since an aircraft is not real property. *Lea-Don Canada Ltd. v. M.N.R.*, 70 DTC 6271 (S.C.C.).

► 216(6) ◄

(6) Saving provision. Subsection (5) does not apply to require a non-resident person

(*a*) to file a return of income under Part I for a taxation year unless, by filing that return, there would be included in computing the non-resident person's income under Part I for that year an amount by virtue of section 13; or

(*b*) to include in computing the non-resident person's income for a taxation year any amount to the extent that that amount has been included in computing the non-resident person's taxable income earned in Canada for that taxation year by virtue of any provision of this Act other than subsection (5).

Related Sections: S. 115 Non-resident's taxable income in Canada; s. 217 Non-resident's Canadian benefits.
Cases: Rent from an aircraft does not qualify under section 110 [216] since an aircraft is not real property. *Lea-Don Canada Ltd. v. M.N.R.*, 70 DTC 6271 (S.C.C.).

► 216(7) ◄

(7) Election. Where, by virtue of subsection (5), a non-resident person is liable to pay tax under Part I for a taxation year, for greater certainty section 61 is not applicable in computing the non-resident person's income for the year.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 216(7) of the Act is repealed.

(7) Election. [Repealed.]

Applicable: Royal Assent.

Explanatory Note: See the Explanatory Note following the amendment to the portion of subsection 216(1) of the Act before paragraph (*a*).

Forms: T1159.
Cases: Rent from an aircraft does not qualify under section 110 [216] since an aircraft is not real property. *Lea-Don Canada Ltd. v. M.N.R.*, 70 DTC 6271 (S.C.C.).

► 216(8) ◄

(8) Restriction on deduction. For greater certainty, in determining the amount of tax payable by a non-resident person under Part I for a taxation year by reason of subsection (1) or (5), no deduction in computing the non-resident person's income or tax payable under Part I for the year shall be made to the extent that such a deduction by non-resident persons is not permitted under Part I.

Related Sections: S. 104(7) Non-resident beneficiary.
Cases: Rent from an aircraft does not qualify under section 110 [216] since an aircraft is not real property. *Lea-Don Canada Ltd. v. M.N.R.*, 70 DTC 6271 (S.C.C.).

SECTION 216.1:

► 216.1(1) ◄

(1) Alternative re: acting services. No tax is payable under this Part on any amount described in subsection 212(5.1) that is paid, credited or provided to a non-resident person in a taxation year if the person

(*a*) files with the Minister, on or before the person's filing- due date for the year, a return of income under Part I for the year; and

(*b*) elects in the return to have this section apply for the year.

History: S. 216.1(1) was added by S.C. 2001, c. 17, s. 175(1), applicable to the 2001 and subsequent taxation years.

Related Sections: S. 115(2.1) Non-resident actors–(2.2) Deferred payment by actor's corporation; s. 150 Filing returns of income — general rule; s. 150.1 Definition of "electronic filing"; s. 215(1) Withholding and remittance of tax; s. 249 Definition of "taxation year"; s. 250.1 Non-resident person's taxation year and income.
Forms: T1287; T1288.

► 216.1(2) ◄

(2) Deemed Part I payment. If in respect of a particular amount paid, credited or provided in a taxation year, a non-resident person has complied with paragraphs (1)(*a*) and (*b*), any amount deducted or withheld and remitted to the Receiver General on behalf of the person on account of tax under subsection 212(5.1) in respect of the particular amount is deemed to have been paid on account of the person's tax under Part I.

History: S. 216.1(2) was added by S.C. 2001, c. 17, s. 175(1), applicable to the 2001 and subsequent taxation years.

Related Sections: S. 115 Non-resident's taxable income in Canada.

► 216.1(3) ◄

(3) Deemed election and restriction. Where a corporation payment (within the meaning assigned by subsection 212(5.2)) has been made to a non-resident corporation in respect of an actor and at any time the corporation makes an actor payment (within the meaning assigned by subsection 212(5.2)) to or for the benefit of the actor, if the corporation makes an election under subsection (1) for the taxation year in which the corporation payment is made, the actor is deemed to make an election under subsection (1) for the taxation year of the actor in which the corporation makes the actor payment.

History: S. 216.1(3) was added by S.C. 2001, c. 17, s. 175(1), applicable to the 2001 and subsequent taxation years.

SECTION 217:

► 217(1) ◄

(1) Alternative re Canadian benefits. In this section, a non-resident person's "Canadian benefits" for a taxation year is the total of all amounts each of which is an amount paid or credited in the year and in respect of which tax under this Part would, but for this section, be payable by the person because of any of paragraphs 212(1)(*h*), (*j*) to (*m*) and (*q*).

History: S. 217 was amended by the addition of subsection (1) by S.C. 1997, c. 25, s. 64(1), applicable to the 1997 and subsequent taxation years. S. 217 formerly read:

"S. 217. *Election respecting certain payments.* Where by virtue of any one or more of paragraphs 212(1)(*f*), (*h*), (*j*) to (*m*) and (*q*) a non-resident person would otherwise be liable to pay tax under this Part on one or more amounts paid or credited to the non-resident person in a taxation year and that person has, within 6 months after the end of the year, filed a return of income under Part I for the year and so elected therein, the following rules apply:

(*a*) notwithstanding subsection 212(1), no tax under this Part is payable by the non-resident person on those amounts;

(*b*) notwithstanding section 115, for the purposes of computing that person's taxable income earned in Canada for the year,

(i) paragraph 115(1)(*a*) shall be read as though it included the following subparagraph:

'(i.1) amounts paid or credited to the non-resident person in the year on which that person would, under any of paragraphs 212(1)(*f*), (*h*), (*j*) to (*m*) and (*q*) be liable to pay tax under Part XIII if no election were made under section 217,'and

(ii) all that portion of subsection 115(1) following paragraph (*c*) shall be read as follows:

'minus the total of such of the deductions from income permitted for the purpose of computing taxable income as may reasonably be considered wholly applicable'; and

(*c*) notwithstanding sections 118.91 and 118.94, where the non-resident person is an individual more than 1/2 of whose income for the year is included in the individual's taxable income or taxable income earned in Canada for the year, as the case may be, section 118.94 shall, where the individual so elects in the return, be applied in respect of the individual for the year as if it read as follows:

'S. 118.94. Sections 118 to 118.91 do not apply for the purpose of computing the tax payable under this Part for a taxation year by an individual who was non-resident at any time in the year, except that for the purpose of computing the tax payable under this Part for the year there may be deducted the total of

(*a*) such of the amounts that would have been deductible under any of section 118.2, subsections 118.3(2) and (3) and sections 118.6, 118.8 and 118.9 for the purpose of computing the individual's tax payable under this Part for the year if the individual had been resident in Canada throughout the year, as can reasonably be considered wholly applicable, and

(*b*) the amounts that would have been deductible under sections 118 and 118.1, subsection 118.3(1) and sections 118.5 and 118.7 for the purpose of computing the individual's tax payable under this Part for the year if the individual had been resident in Canada throughout the year,

not exceeding the appropriate percentage for the year of the total of all amounts each of which is an amount paid or credited to the individual in the year on which the individual would, under any of paragraphs 212(1)(*f*), (*h*), (*j*) to (*m*) and (*q*) be liable to pay tax under Part XIII if no election were made under section 217.'"

S. 217(*b*)(i) was amended by S.C. 1996, c. 21, s. 56(1), applicable to the 1996 and subsequent taxation years. S. 217(*b*)(i) formerly read:

"(i) there shall be added to the total of the amounts determined under subparagraphs 115(1)(*a*)(i) to (v) in respect of that person the total of all amounts each of which is an amount paid or credited to the non-resident person in the year on which that person would, by virtue of any one or more of paragraphs 212(1)(*f*), (*h*), (*j*) to (*m*) and (*q*), be liable to pay tax under this Part if paragraph 212(1)(*h*) were read without reference to subparagraphs 212(1)(*h*)(i) and (ii), and"

S. 217(*c*), the portion following paragraph 118.94(*b*) was amended by S.C. 1996, c. 21, s. 56(2), applicable to the 1996 and subsequent taxation years. That portion formerly read:

"not exceeding the appropriate percentage for the year of the total of all amounts each of which is an amount paid or credited to the individual in the year on which the individual would, under any of paragraphs 212(1)(*f*), (*h*), (*j*) to (*m*) and (*q*), be liable to pay tax under Part XIII if paragraph 212(1)(*h*) were read without reference to subparagraphs 212(1)(*h*)(i) and (ii), and no election were made under section 217."

S. 217(*c*) was amended by S.C. 1994, c. 7, Sched. II, s. 179(1), applicable to the 1991 and subsequent taxation years. S. 217(*c*) formerly read:

"(*c*) notwithstanding section 118.94, where the person is an individual, that section shall be read as follows:

'S. 118.94. Sections 118 to 118.9 do not apply for the purpose of computing the tax payable under this Part for a taxation year by a non-resident individual except that for the purpose of computing the individual's tax payable under this Part for the year there may be deducted

(*a*) such of the amounts that would have been deductible under any of sections 118.1 and 118.2, subsections 118.3(2) and (3) and sections 118.5 to 118.9 for the purpose of computing the individual's tax payable under this Part for the year had the individual been resident in Canada throughout the year, as may reasonably be considered wholly applicable; and

(*b*) the amounts that would have been deductible under section 118 and subsection 118.3(1) for the purpose of computing the individual's tax payable under this Part for the year had the individual been resident in Canada throughout the year.'"

Editorial Note: Section 217 provides that a non-resident may elect to pay tax under Part I rather than Part XIII withholding tax on certain Canadian-source pension payments and similar amounts, including payments out of RRSPs, RRIFs and DPSPs (the various amounts are described in paragraphs 212(1)(*h*), (*j*) to (*m*) and (*q*)). In general terms, section 217 ensures that the non-resident who receives such payments is not put in a less favourable position than if he or she were resident in Canada in regards to such payments, and could take certain deductions or tax credits that would reduce the tax payable under Part I; see subsections 217(4) and (5) regarding the application of the tax credits.

Related Sections: S. 2(2) Taxable income; s. 114 Individual resident in Canada for only part of year; s. 115 Non-resident's taxable income in Canada; s. 120(1) Income not earned in a province; s. 150 Manual filing of income return; s. 150.1 Electronic filing of income return. s. 248(1), "amount", "non-resident"; s. 249 Definition of "taxation year"; s. 255 Canada.

Regulations: Part VIII.

Interpretation Bulletins: *Secondary* — IT-171R2 Non-resident individuals — Taxable income earned in Canada [Archived by the CRA].

Forms: T1261; NR5.

Guides: T4145 Electing Under Section 217 of the Income Tax Act.

Sec. 179(3), Sched. II, Chap. 7, S.C. 1994

(3) [Applicability of paragraphs 118.94(a) and (b) for the purposes of paragraph 217(c).] For the 1988 to 1990 taxation years, paragraphs 118.94(*a*) and (*b*), as those paragraphs apply for the purposes of paragraph 217(*c*), shall be read as follows:

"(*a*) such of the amounts that would have been deductible under any of section 118.2, subsections 118.3(2) and (3) and sections 118.6, 118.8 and 118.9 for the purpose of computing the individual's tax payable under this Part for the year if the individual had been resident in Canada throughout the year, as can reasonably be considered to be wholly applicable; and

(*b*) the amounts that would have been deductible under sections 118 and 118.1, subsection 118.3(1) and sections 118.5 and 118.7 for the purpose of computing the individual's tax payable under this Part for the year if the individual had been resident in Canada throughout the year."

► 217(2) ◄

(2) Part I return. No tax is payable under this Part in respect of a non-resident person's Canadian benefits for a taxation year if the person

(*a*) files with the Minister, within 6 months after the end of the year, a return of income under Part I for the year; and

(*b*) elects in the return to have this section apply for the year.

History: S. 217 was amended by the addition of subsection (2) by S.C. 1997, c. 25, s. 64(1), applicable to the 1997 and subsequent taxation years. S. 217 formerly read:

"S. 217. *Election respecting certain payments.* Where by virtue of any one or more of paragraphs 212(1)(*f*), (*h*), (*j*) to (*m*) and (*q*) a non-resident person would otherwise be liable to pay tax under this Part on one or more amounts paid or credited to the non-resident person in a taxation year and that person has, within 6 months after the end of the year, filed a return of income under Part I for the year and so elected therein, the following rules apply:

(*a*) notwithstanding subsection 212(1), no tax under this Part is payable by the non-resident person on those amounts;

(*b*) notwithstanding section 115, for the purposes of computing that person's taxable income earned in Canada for the year,

(i) paragraph 115(1)(*a*) shall be read as though it included the following subparagraph:

'(i.1) amounts paid or credited to the non-resident person in the year on which that person would, under any of paragraphs 212(1)(*f*), (*h*), (*j*) to (*m*) and (*q*) be liable to pay tax under Part XIII if no election were made under section 217,'and

(ii) all that portion of subsection 115(1) following paragraph (*c*) shall be read as follows:

'minus the total of such of the deductions from income permitted for the purpose of computing taxable income as may reasonably be considered wholly applicable'; and

(*c*) notwithstanding sections 118.91 and 118.94, where the non-resident person is an individual more than 1/2 of whose income for the year is included in the individual's taxable income or taxable income earned in

Canada for the year, as the case may be, section 118.94 shall, where the individual so elects in the return, be applied in respect of the individual for the year as if it read as follows:

'S. 118.94. Sections 118 to 118.91 do not apply for the purpose of computing the tax payable under this Part for a taxation year by an individual who was non-resident at any time in the year, except that for the purpose of computing the tax payable under this Part for the year there may be deducted the total of

(*a*) such of the amounts that would have been deductible under any of section 118.2, subsections 118.3(2) and (3) and sections 118.6, 118.8 and 118.9 for the purpose of computing the individual's tax payable under this Part for the year if the individual had been resident in Canada throughout the year, as can reasonably be considered wholly applicable, and

(*b*) the amounts that would have been deductible under sections 118 and 118.1, subsection 118.3(1) and sections 118.5 and 118.7 for the purpose of computing the individual's tax payable under this Part for the year if the individual had been resident in Canada throughout the year,

not exceeding the appropriate percentage for the year of the total of all amounts each of which is an amount paid or credited to the individual in the year on which the individual would, under any of paragraphs 212(1)(*f*), (*h*), (*j*) to (*m*) and (*q*) be liable to pay tax under Part XIII if no election were made under section 217.'"

S. 217(*b*)(i) was amended by S.C. 1996, c. 21, s. 56(1), applicable to the 1996 and subsequent taxation years. S. 217(*b*)(i) formerly read:

"(i) there shall be added to the total of the amounts determined under subparagraphs 115(1)(*a*)(i) to (v) in respect of that person the total of all amounts each of which is an amount paid or credited to the non-resident person in the year on which that person would, by virtue of any one or more of paragraphs 212(1)(*f*), (*h*), (*j*) to (*m*) and (*q*), be liable to pay tax under this Part if paragraph 212(1)(*h*) were read without reference to subparagraphs 212(1)(*h*)(i) and (ii), and"

S. 217(*c*), the portion following paragraph 118.94(*b*) was amended by S.C. 1996, c. 21, s. 56(2), applicable to the 1996 and subsequent taxation years. That portion formerly read:

"not exceeding the appropriate percentage for the year of the total of all amounts each of which is an amount paid or credited to the individual in the year on which the individual would, under any of paragraphs 212(1)(*f*), (*h*), (*j*) to (*m*) and (*q*), be liable to pay tax under Part XIII if paragraph 212(1)(*h*) were read without reference to subparagraphs 212(1)(*h*)(i) and (ii), and no election were made under section 217."

S. 217(*c*) was amended by S.C. 1994, c. 7, Sched. II, s. 179(1), applicable to the 1991 and subsequent taxation years. S. 217(*c*) formerly read:

"(*c*) notwithstanding section 118.94, where the person is an individual, that section shall be read as follows:

'S. 118.94. Sections 118 to 118.9 do not apply for the purpose of computing the tax payable under this Part for a taxation year by a non-resident individual except that for the purpose of computing the individual's tax payable under this Part for the year there may be deducted

(*a*) such of the amounts that would have been deductible under any of sections 118.1 and 118.2, subsections 118.3(2) and (3) and sections 118.5 to 118.9 for the purpose of computing the individual's tax payable under this Part for the year had the individual been resident in Canada throughout the year, as may reasonably be considered wholly applicable; and

(*b*) the amounts that would have been deductible under section 118 and subsection 118.3(1) for the purpose of computing the individual's tax payable under this Part for the year had the individual been resident in Canada throughout the year.'"

Regulations: Part VIII.

Interpretation Bulletins: *Secondary* — IT-171R2 Non-resident individuals — Taxable income earned in Canada [Archived by the CRA].

Forms: NR5.

Guides: T4145 Electing Under Section 217 of the Income Tax Act

Sec. 179(3), Sched. II, Chap. 7, S.C. 1994

(3) [Applicability of paragraphs 118.94(a) and (b) for the purposes of paragraph 217(c).] For the 1988 to 1990 taxation years, paragraphs 118.94(*a*) and (*b*), as those paragraphs apply for the purposes of paragraph 217(*c*), shall be read as follows:

"(*a*) such of the amounts that would have been deductible under any of section 118.2, subsections 118.3(2) and (3) and sections 118.6, 118.8 and 118.9 for the purpose of computing the individual's tax payable under this Part for the year if the individual had been resident in Canada throughout the year, as can reasonably be considered to be wholly applicable; and

(*b*) the amounts that would have been deductible under sections 118 and 118.1, subsection 118.3(1) and sections 118.5 and 118.7 for the purpose of computing the individual's tax payable under this Part for the year if the individual had been resident in Canada throughout the year."

► 217(3) ◄

(3) Taxable income earned in Canada. Where a non-resident person elects under paragraph (2)(*b*) for a taxation year, for the purposes of Part I

(*a*) the person is deemed to have been employed in Canada in the year; and

(*b*) the person's taxable income earned in Canada for the year is deemed to be the greater of

(i) the amount that would, but for subparagraph (ii), be the person's taxable income earned in Canada for the year if

(A) paragraph 115(1)(*a*) included the following subparagraph after subparagraph (i):

"(i.1) the non-resident person's Canadian benefits for the year, within the meaning assigned by subsection 217(1),", and

(B) paragraph 115(1)(*f*) were read as follows:

"(*f*) such of the other deductions permitted for the purpose of computing taxable income as can reasonably be considered wholly applicable to the amounts described in subparagraphs (*a*)(i) to (vi).", and

(ii) the person's income (computed without reference to subsection 56(8)) for the year minus the total of such of the deductions permitted for the purpose of computing taxable income as can reasonably be considered wholly applicable to the amounts described in subparagraphs 115(1)(*a*)(i) to (vi).

History: S. 217(3)(*b*)(ii) was amended by S.C. 1998, c. 19, s. 64(1), applicable to the 1997 and subsequent taxation years. S. 217(3)(*b*) formerly read:

"(ii) the person's income for the year, minus the total of such of the deductions permitted for the purpose of computing taxable income as can reasonably be considered wholly applicable to the amounts described in subparagraphs 115(1)(*a*)(i) to (vi)."

S. 217 was amended by the addition of subsection (3) by S.C. 1997, c. 25, s. 64(1), applicable to the 1997 and subsequent taxation years. S. 217 formerly read:

"S. 217. *Election respecting certain payments.* Where by virtue of any one or more of paragraphs 212(1)(*f*), (*h*), (*j*) to (*m*) and (*q*) a non-resident person would otherwise be liable to pay tax under this Part on one or more amounts paid or credited to the non-resident person in a taxation year and that person has, within 6 months after the end of the year, filed a return of income under Part I for the year and so elected therein, the following rules apply:

(*a*) notwithstanding subsection 212(1), no tax under this Part is payable by the non-resident person on those amounts;

(*b*) notwithstanding section 115, for the purposes of computing that person's taxable income earned in Canada for the year,

(i) paragraph 115(1)(*a*) shall be read as though it included the following subparagraph:

'(i.1) amounts paid or credited to the non-resident person in the year on which that person would, under any of paragraphs 212(1)(*f*), (*h*), (*j*) to (*m*) and (*q*) be liable to pay tax under Part XIII if no election were made under section 217, and'

(ii) all that portion of subsection 115(1) following paragraph (*c*) shall be read as follows:

'minus the total of such of the deductions from income permitted for the purpose of computing taxable income as may reasonably be considered wholly applicable'; and

(*c*) notwithstanding sections 118.91 and 118.94, where the non-resident person is an individual more than 1/2 of whose income for the year is included in the individual's taxable income or taxable income earned in Canada for the year, as the case may be, section 118.94 shall, where the individual so elects in the return, be applied in respect of the individual for the year as if it read as follows:

'S. 118.94. Sections 118 to 118.91 do not apply for the purpose of computing the tax payable under this Part for a taxation year by an

individual who was non-resident at any time in the year, except that for the purpose of computing the tax payable under this Part for the year there may be deducted the total of

(*a*) such of the amounts that would have been deductible under any of section 118.2, subsections 118.3(2) and (3) and sections 118.6, 118.8 and 118.9 for the purpose of computing the individual's tax payable under this Part for the year if the individual had been resident in Canada throughout the year, as can reasonably be considered wholly applicable, and

(*b*) the amounts that would have been deductible under sections 118 and 118.1, subsection 118.3(1) and sections 118.5 and 118.7 for the purpose of computing the individual's tax payable under this Part for the year if the individual had been resident in Canada throughout the year,

not exceeding the appropriate percentage for the year of the total of all amounts each of which is an amount paid or credited to the individual in the year on which the individual would, under any of paragraphs 212(1)(*f*), (*h*), (*j*) to (*m*) and (*q*) be liable to pay tax under Part XIII if no election were made under section 217.'"

S. 217(*b*)(i) was amended by S.C. 1996, c. 21, s. 56(1), applicable to the 1996 and subsequent taxation years. S. 217(*b*)(i) formerly read:

"(i) there shall be added to the total of the amounts determined under subparagraphs 115(1)(*a*)(i) to (v) in respect of that person the total of all amounts each of which is an amount paid or credited to the non-resident person in the year on which that person would, by virtue of any one or more of paragraphs 212(1)(*f*), (*h*), (*j*) to (*m*) and (*q*), be liable to pay tax under this Part if paragraph 212(1)(*h*) were read without reference to subparagraphs 212(1)(*h*)(i) and (ii), and"

S. 217(*c*), the portion following paragraph 118.94(*b*) was amended by S.C. 1996, c. 21, s. 56(2), applicable to the 1996 and subsequent taxation years. That portion formerly read:

"not exceeding the appropriate percentage for the year of the total of all amounts each of which is an amount paid or credited to the individual in the year on which the individual would, under any of paragraphs 212(1)(*f*), (*h*), (*j*) to (*m*) and (*q*), be liable to pay tax under Part XIII if paragraph 212(1)(*h*) were read without reference to subparagraphs 212(1)(*h*)(i) and (ii), and no election were made under section 217."

S. 217(*c*) was amended by S.C. 1994, c. 7, Sched. II, s. 179(1), applicable to the 1991 and subsequent taxation years. S. 217(*c*) formerly read:

"(*c*) notwithstanding section 118.94, where the person is an individual, that section shall be read as follows:

'S. 118.94. Sections 118 to 118.9 do not apply for the purpose of computing the tax payable under this Part for a taxation year by a non-resident individual except that for the purpose of computing the individual's tax payable under this Part for the year there may be deducted

(*a*) such of the amounts that would have been deductible under any of sections 118.1 and 118.2, subsections 118.3(2) and (3) and sections 118.5 to 118.9 for the purpose of computing the individual's tax payable under this Part for the year had the individual been resident in Canada throughout the year, as may reasonably be considered wholly applicable; and

(*b*) the amounts that would have been deductible under section 118 and subsection 118.3(1) for the purpose of computing the individual's tax payable under this Part for the year had the individual been resident in Canada throughout the year.'"

Related Sections: S. 2(3) Tax payable by non-resident persons; s. 250.1 Non-resident person's taxation year and income.
Regulations: Part VIII.
Interpretation Bulletins: *Secondary* — IT-171R2 Non-resident individuals — Taxable income earned in Canada [Archived by the CRA].
Forms: NR5.

Sec. 179(3), Sched. II, Chap. 7, S.C. 1994

(3) [Applicability of paragraphs 118.94(a) and (b) for the purposes of paragraph 217(c).] For the 1988 to 1990 taxation years, paragraphs 118.94(*a*) and (*b*), as those paragraphs apply for the purposes of paragraph 217(*c*), shall be read as follows:

"(*a*) such of the amounts that would have been deductible under any of section 118.2, subsections 118.3(2) and (3) and sections 118.6, 118.8 and 118.9 for the purpose of computing the individual's tax payable under this Part for the year if the individual had been resident in Canada throughout the year, as can reasonably be considered to be wholly applicable; and

(*b*) the amounts that would have been deductible under sections 118 and 118.1, subsection 118.3(1) and sections 118.5 and 118.7 for the purpose of computing the individual's tax payable under this Part for the year if the individual had been resident in Canada throughout the year."

► 217(4) ◄

(4) Tax credits — limitation. Sections 118 to 118.91 and 118.94 do not apply in computing the tax payable under Part I for a taxation year by a non-resident person who elects under paragraph (2)(*b*) for the year, unless

(*a*) where section 114 applies to the person for the year, all or substantially all of the person's income for the year is included in computing the person's taxable income for the year; or

(*b*) in any other case, all or substantially all of the person's income for the year is included in computing the amount determined under subparagraph (3)(*b*)(i) in respect of the person for the year.

History: S. 217 was amended by the addition of subsection (4) by S.C. 1997, c. 25, s. 64(1), applicable to the 1997 and subsequent taxation years. S. 217 formerly read:

"S. 217. *Election respecting certain payments.* Where by virtue of any one or more of paragraphs 212(1)(*f*), (*h*), (*j*) to (*m*) and (*q*) a non-resident person would otherwise be liable to pay tax under this Part on one or more amounts paid or credited to the non-resident person in a taxation year and that person has, within 6 months after the end of the year, filed a return of income under Part I for the year and so elected therein, the following rules apply:

(*a*) notwithstanding subsection 212(1), no tax under this Part is payable by the non-resident person on those amounts;

(*b*) notwithstanding section 115, for the purposes of computing that person's taxable income earned in Canada for the year,

(i) paragraph 115(1)(*a*) shall be read as though it included the following subparagraph:

'(i.1) amounts paid or credited to the non-resident person in the year on which that person would, under any of paragraphs 212(1)(*f*), (*h*), (*j*) to (*m*) and (*q*) be liable to pay tax under Part XIII if no election were made under section 217, 'and

(ii) all that portion of subsection 115(1) following paragraph (*c*) shall be read as follows:

'minus the total of such of the deductions from income permitted for the purpose of computing taxable income as may reasonably be considered wholly applicable'; and

(*c*) notwithstanding sections 118.91 and 118.94, where the non-resident person is an individual more than 1/2 of whose income for the year is included in the individual's taxable income or taxable income earned in Canada for the year, as the case may be, section 118.94 shall, where the individual so elects in the return, be applied in respect of the individual for the year as if it read as follows:

'S. 118.94. Sections 118 to 118.91 do not apply for the purpose of computing the tax payable under this Part for a taxation year by an individual who was non-resident at any time in the year, except that for the purpose of computing the tax payable under this Part for the year there may be deducted the total of

(*a*) such of the amounts that would have been deductible under any of section 118.2, subsections 118.3(2) and (3) and sections 118.6, 118.8 and 118.9 for the purpose of computing the individual's tax payable under this Part for the year if the individual had been resident in Canada throughout the year, as can reasonably be considered wholly applicable, and

(*b*) the amounts that would have been deductible under sections 118 and 118.1, subsection 118.3(1) and sections 118.5 and 118.7 for the purpose of computing the individual's tax payable under this Part for the year if the individual had been resident in Canada throughout the year,

not exceeding the appropriate percentage for the year of the total of all amounts each of which is an amount paid or credited to the individual in the year on which the individual would, under any of paragraphs 212(1)(*f*), (*h*), (*j*) to (*m*) and (*q*) be liable to pay tax under Part XIII if no election were made under section 217.'"

S. 217(*b*)(i) was amended by S.C. 1996, c. 21, s. 56(1), applicable to the 1996 and subsequent taxation years. S. 217(*b*)(i) formerly read:

"(i) there shall be added to the total of the amounts determined under subparagraphs 115(1)(*a*)(i) to (v) in respect of that person the total of all amounts each of which is an amount paid or credited to the non-resident person in the year on which that person would, by virtue of any one or more of paragraphs 212(1)(*f*), (*h*), (*j*) to (*m*) and (*q*), be liable to pay tax under this Part if paragraph 212(1)(*h*) were read without reference to subparagraphs 212(1)(*h*)(i) and (ii), and"

S. 217(*c*), the portion following paragraph 118.94(*b*) was amended by S.C. 1996, c. 21, s. 56(2), applicable to the 1996 and subsequent taxation years. That portion formerly read:

"not exceeding the appropriate percentage for the year of the total of all amounts each of which is an amount paid or credited to the individual in the year on which the individual would, under any of paragraphs 212(1)(*f*), (*h*), (*j*)

to (*m*) and (*q*), be liable to pay tax under Part XIII if paragraph 212(1)(*h*) were read without reference to subparagraphs 212(1)(*h*)(i) and (ii), and no election were made under section 217."

S. 217(*c*) was amended by S.C. 1994, c. 7, Sched. II, s. 179(1), applicable to the 1991 and subsequent taxation years. S. 217(*c*) formerly read:

"(*c*) notwithstanding section 118.94, where the person is an individual, that section shall be read as follows:

'S. 118.94. Sections 118 to 118.9 do not apply for the purpose of computing the tax payable under this Part for a taxation year by a non-resident individual except that for the purpose of computing the individual's tax payable under this Part for the year there may be deducted

(*a*) such of the amounts that would have been deductible under any of sections 118.1 and 118.2, subsections 118.3(2) and (3) and sections 118.5 to 118.9 for the purpose of computing the individual's tax payable under this Part for the year had the individual been resident in Canada throughout the year, as may reasonably be considered wholly applicable; and

(*b*) the amounts that would have been deductible under section 118 and subsection 118.3(1) for the purpose of computing the individual's tax payable under this Part for the year had the individual been resident in Canada throughout the year.'"

Regulations: Part VIII.
Interpretation Bulletins: *Secondary* — IT-171R2 Non-resident individuals — Taxable income earned in Canada [Archived by the CRA].
Forms: T1234; NR5.

Sec. 179(3), Sched. II, Chap. 7, S.C. 1994

(3) [Applicability of paragraphs 118.94(a) and (b) for the purposes of paragraph 217(c).] For the 1988 to 1990 taxation years, paragraphs 118.94(*a*) and (*b*), as those paragraphs apply for the purposes of paragraph 217(*c*), shall be read as follows:

"(*a*) such of the amounts that would have been deductible under any of section 118.2, subsections 118.3(2) and (3) and sections 118.6, 118.8 and 118.9 for the purpose of computing the individual's tax payable under this Part for the year if the individual had been resident in Canada throughout the year, as can reasonably be considered to be wholly applicable; and

(*b*) the amounts that would have been deductible under sections 118 and 118.1, subsection 118.3(1) and sections 118.5 and 118.7 for the purpose of computing the individual's tax payable under this Part for the year if the individual had been resident in Canada throughout the year."

► 217(5) ◄

(5) Tax credits allowed. In computing the tax payable under Part I for a taxation year by a non-resident person to whom neither paragraph (4)(*a*) nor paragraph (4)(*b*) applies for the year there may, notwithstanding section 118.94 and subsection (4), be deducted the lesser of

(*a*) the total of

(i) such of the amounts that would have been deductible under any of section 118.2, subsections 118.3(2) and (3) and sections 118.6, 118.8 and 118.9 in computing the person's tax payable under Part I for the year if the person had been resident in Canada throughout the year, as can reasonably be considered wholly applicable, and

(ii) the amounts that would have been deductible under any of sections 118 and 118.1, subsection 118.3(1) and sections 118.5 and 118.7 in computing the person's tax payable under Part I for the year if the person had been resident in Canada throughout the year, and

(*b*) the appropriate percentage for the year of the person's Canadian benefits for the year.

History: S. 217 was amended by the addition of subsection (5) by S.C. 1997, c. 25, s. 64(1), applicable to the 1997 and subsequent taxation years. S. 217 formerly read:

"S. 217. *Election respecting certain payments.* Where by virtue of any one or more of paragraphs 212(1)(*f*), (*h*), (*j*) to (*m*) and (*q*) a non-resident person would otherwise be liable to pay tax under this Part on one or more amounts paid or credited to the non-resident person in a taxation year and that person has, within 6 months after the end of the year, filed a return of income under Part I for the year and so elected therein, the following rules apply:

(*a*) notwithstanding subsection 212(1), no tax under this Part is payable by the non-resident person on those amounts;

(*b*) notwithstanding section 115, for the purposes of computing that person's taxable income earned in Canada for the year,

(i) paragraph 115(1)(*a*) shall be read as though it included the following subparagraph:

'(i.1) amounts paid or credited to the non-resident person in the year on which that person would, under any of paragraphs 212(1)(*f*), (*h*), (*j*) to (*m*) and (*q*) be liable to pay tax under Part XIII if no election were made under section 217,'and

(ii) all that portion of subsection 115(1) following paragraph (*c*) shall be read as follows:

'minus the total of such of the deductions from income permitted for the purpose of computing taxable income as may reasonably be considered wholly applicable'; and

(*c*) notwithstanding sections 118.91 and 118.94, where the non-resident person is an individual more than 1/2 of whose income for the year is included in the individual's taxable income or taxable income earned in Canada for the year, as the case may be, section 118.94 shall, where the individual so elects in the return, be applied in respect of the individual for the year as if it read as follows:

'S. 118.94. Sections 118 to 118.91 do not apply for the purpose of computing the tax payable under this Part for a taxation year by an individual who was non-resident at any time in the year, except that for the purpose of computing the tax payable under this Part for the year there may be deducted the total of

(*a*) such of the amounts that would have been deductible under any of section 118.2, subsections 118.3(2) and (3) and sections 118.6, 118.8 and 118.9 for the purpose of computing the individual's tax payable under this Part for the year if the individual had been resident in Canada throughout the year, as can reasonably be considered wholly applicable, and

(*b*) the amounts that would have been deductible under sections 118 and 118.1, subsection 118.3(1) and sections 118.5 and 118.7 for the purpose of computing the individual's tax payable under this Part for the year if the individual had been resident in Canada throughout the year,

not exceeding the appropriate percentage for the year of the total of all amounts each of which is an amount paid or credited to the individual in the year on which the individual would, under any of paragraphs 212(1)(*f*), (*h*), (*j*) to (*m*) and (*q*) be liable to pay tax under Part XIII if no election were made under section 217.'"

S. 217(*b*)(i) was amended by S.C. 1996, c. 21, s. 56(1), applicable to the 1996 and subsequent taxation years. S. 217(*b*)(i) formerly read:

"(i) there shall be added to the total of the amounts determined under subparagraphs 115(1)(*a*)(i) to (v) in respect of that person the total of all amounts each of which is an amount paid or credited to the non-resident person in the year on which that person would, by virtue of any one or more of paragraphs 212(1)(*f*), (*h*), (*j*) to (*m*) and (*q*), be liable to pay tax under this Part if paragraph 212(1)(*h*) were read without reference to subparagraphs 212(1)(*h*)(i) and (ii), and"

S. 217(*c*), the portion following paragraph 118.94(*b*) was amended by S.C. 1996, c. 21, s. 56(2), applicable to the 1996 and subsequent taxation years. That portion formerly read:

"not exceeding the appropriate percentage for the year of the total of all amounts each of which is an amount paid or credited to the individual in the year on which the individual would, under any of paragraphs 212(1)(*f*), (*h*), (*j*) to (*m*) and (*q*), be liable to pay tax under Part XIII if paragraph 212(1)(*h*) were read without reference to subparagraphs 212(1)(*h*)(i) and (ii), and no election were made under section 217."

S. 217(*c*) was amended by S.C. 1994, c. 7, Sched. II, s. 179(1), applicable to the 1991 and subsequent taxation years. S. 217(*c*) formerly read:

"(*c*) notwithstanding section 118.94, where the person is an individual, that section shall be read as follows:

'S. 118.94. Sections 118 to 118.9 do not apply for the purpose of computing the tax payable under this Part for a taxation year by a non-resident individual except that for the purpose of computing the individual's tax payable under this Part for the year there may be deducted

(*a*) such of the amounts that would have been deductible under any of sections 118.1 and 118.2, subsections 118.3(2) and (3) and sections 118.5 to 118.9 for the purpose of computing the individual's tax payable under this Part for the year had the individual been resident in Canada throughout the year, as may reasonably be considered wholly applicable; and

(*b*) the amounts that would have been deductible under section 118 and subsection 118.3(1) for the purpose of computing the individual's tax payable under this Part for the year had the individual been resident in Canada throughout the year.'"

Regulations: Part VIII.
Interpretation Bulletins: *Secondary* — IT-171R2 Non-resident individuals — Taxable income earned in Canada [Archived by the CRA].
Forms: T1234; NR5.

Sec. 179(3), Sched. II, Chap. 7, S.C. 1994

(3) [Applicability of paragraphs 118.94(a) and (b) for the purposes of paragraph 217(c).] For the 1988 to 1990 taxation years, paragraphs 118.94(*a*) and (*b*), as those paragraphs apply for the purposes of paragraph 217(*c*), shall be read as follows:

"(*a*) such of the amounts that would have been deductible under any of section 118.2, subsections 118.3(2) and (3) and sections 118.6, 118.8 and 118.9 for the purpose of computing the individual's tax payable under this Part for the year if the individual had been resident in Canada throughout the year, as can reasonably be considered to be wholly applicable; and

(*b*) the amounts that would have been deductible under sections 118 and 118.1, subsection 118.3(1) and sections 118.5 and 118.7 for the purpose of computing the individual's tax payable under this Part for the year if the individual had been resident in Canada throughout the year."

► 217(6) ◄

(6) Special credit. In computing the tax payable under Part I for a taxation year by a non-resident who elects under paragraph (2)(*b*) for the year, there may be deducted the amount determined by the formula

$$A \times [(B - C) / B]$$

where

A is the amount of tax under Part I that would, but for this subsection, be payable by the person for the year;

B is the amount determined under subparagraph (3)(*b*)(ii) in respect of the person for the year; and

C is the amount determined under subparagraph (3)(*b*)(i) in respect of the person for the year.

History: S. 217 was amended by the addition of subsection (6) by S.C. 1997, c. 25, s. 64(1), applicable to the 1997 and subsequent taxation years. S. 217 formerly read:

"S. 217. *Election respecting certain payments.* Where by virtue of any one or more of paragraphs 212(1)(*f*), (*h*), (*j*) to (*m*) and (*q*) a non-resident person would otherwise be liable to pay tax under this Part on one or more amounts paid or credited to the non-resident person in a taxation year and that person has, within 6 months after the end of the year, filed a return of income under Part I for the year and so elected therein, the following rules apply:

(*a*) notwithstanding subsection 212(1), no tax under this Part is payable by the non-resident person on those amounts;

(*b*) notwithstanding section 115, for the purposes of computing that person's taxable income earned in Canada for the year,

(i) paragraph 115(1)(*a*) shall be read as though it included the following subparagraph:

'(i.1) amounts paid or credited to the non-resident person in the year on which that person would, under any of paragraphs 212(1)(*f*), (*h*), (*j*) to (*m*) and (*q*) be liable to pay tax under Part XIII if no election were made under section 217,'and

(ii) all that portion of subsection 115(1) following paragraph (*c*) shall be read as follows:

'minus the total of such of the deductions from income permitted for the purpose of computing taxable income as may reasonably be considered wholly applicable'; and

(*c*) notwithstanding sections 118.91 and 118.94, where the non-resident person is an individual more than 1/2 of whose income for the year is included in the individual's taxable income or taxable income earned in Canada for the year, as the case may be, section 118.94 shall, where the individual so elects in the return, be applied in respect of the individual for the year as if it read as follows:

'S. 118.94. Sections 118 to 118.91 do not apply for the purpose of computing the tax payable under this Part for a taxation year by an individual who was non-resident at any time in the year, except that for the purpose of computing the tax payable under this Part for the year there may be deducted the total of

(*a*) such of the amounts that would have been deductible under any of section 118.2, subsections 118.3(2) and (3) and sections 118.6, 118.8 and 118.9 for the purpose of computing the individual's tax payable under this Part for the year if the individual had been resident in Canada throughout the year, as can reasonably be considered wholly applicable, and

(*b*) the amounts that would have been deductible under sections 118 and 118.1, subsection 118.3(1) and sections 118.5 and 118.7 for the purpose of computing the individual's tax payable under this Part for the year if the individual had been resident in Canada throughout the year,

not exceeding the appropriate percentage for the year of the total of all amounts each of which is an amount paid or credited to the individual in the year on which the individual would, under any of paragraphs 212(1)(*f*), (*h*), (*j*) to (*m*) and (*q*) be liable to pay tax under Part XIII if no election were made under section 217.'"

S. 217(*b*)(i) was amended by S.C. 1996, c. 21, s. 56(1), applicable to the 1996 and subsequent taxation years. S. 217(*b*)(i) formerly read:

"(i) there shall be added to the total of the amounts determined under subparagraphs 115(1)(*a*)(i) to (v) in respect of that person the total of all amounts each of which is an amount paid or credited to the non-resident person in the year on which that person would, by virtue of any one or more of paragraphs 212(1)(*f*), (*h*), (*j*) to (*m*) and (*q*), be liable to pay tax under this Part if paragraph 212(1)(*h*) were read without reference to subparagraphs 212(1)(*h*)(i) and (ii), and"

S. 217(*c*), the portion following paragraph 118.94(*b*) was amended by S.C. 1996, c. 21, s. 56(2), applicable to the 1996 and subsequent taxation years. That portion formerly read:

"not exceeding the appropriate percentage for the year of the total of all amounts each of which is an amount paid or credited to the individual in the year on which the individual would, under any of paragraphs 212(1)(*f*), (*h*), (*j*) to (*m*) and (*q*), be liable to pay tax under Part XIII if paragraph 212(1)(*h*) were read without reference to subparagraphs 212(1)(*h*)(i) and (ii), and no election were made under section 217."

S. 217(*c*) was amended by S.C. 1994, c. 7, Sched. II, s. 179(1), applicable to the 1991 and subsequent taxation years. S. 217(*c*) formerly read:

"(*c*) notwithstanding section 118.94, where the person is an individual, that section shall be read as follows:

'S. 118.94. Sections 118 to 118.9 do not apply for the purpose of computing the tax payable under this Part for a taxation year by a non-resident individual except that for the purpose of computing the individual's tax payable under this Part for the year there may be deducted

(*a*) such of the amounts that would have been deductible under any of sections 118.1 and 118.2, subsections 118.3(2) and (3) and sections 118.5 to 118.9 for the purpose of computing the individual's tax payable under this Part for the year had the individual been resident in Canada throughout the year, as may reasonably be considered wholly applicable; and

(*b*) the amounts that would have been deductible under section 118 and subsection 118.3(1) for the purpose of computing the individual's tax payable under this Part for the year had the individual been resident in Canada throughout the year.'"

Related Sections: S. 2(2) Taxable income; s. 248(1), "amount", "non-resident"; s. 255 Canada; s. 257 Negative amounts.
Regulations: Part VIII.
Interpretation Bulletins: *Primary — Secondary* — IT-171R2 Non-resident individuals — Taxable income earned in Canada [Archived by the CRA].
Forms: NR5.

Sec. 179(3), Sched. II, Chap. 7, S.C. 1994

(3) [Applicability of paragraphs 118.94(a) and (b) for the purposes of paragraph 217(c).] For the 1988 to 1990 taxation years, paragraphs 118.94(*a*) and (*b*), as those paragraphs apply for the purposes of paragraph 217(*c*), shall be read as follows:

"(*a*) such of the amounts that would have been deductible under any of section 118.2, subsections 118.3(2) and (3) and sections 118.6, 118.8 and 118.9 for the purpose of computing the individual's tax payable under this Part for the year if the individual had been resident in Canada throughout the year, as can reasonably be considered to be wholly applicable; and

(*b*) the amounts that would have been deductible under sections 118 and 118.1, subsection 118.3(1) and sections 118.5 and 118.7 for the purpose of computing the individual's tax payable under this Part for the year if the individual had been resident in Canada throughout the year."

SECTION 218:

► 218(1) ◄

(1) Loan to wholly-owned subsidiary. For the purposes of this Act, where

(*a*) a non-resident corporation (in this section referred to as the "parent corporation") is indebted to

(i) a person resident in Canada, or

(ii) a non-resident insurance corporation carrying on business in Canada,

(in this section referred to as the "creditor") under an arrangement whereby the parent corporation is required to pay interest in Canadian currency, and

(*b*) the parent corporation has lent the money in respect of which it is so indebted, or a part thereof, to a subsidiary wholly-owned corporation resident in Canada whose principal business is the making of loans (in this section referred to as the "subsidiary corporation") under an arrangement whereby the subsidiary corporation is required to repay the loan to the parent corporation with interest at the same rate as is payable by the parent corporation to the creditor,

the amount so lent by the parent corporation to the subsidiary corporation shall be deemed to have been borrowed by the parent corporation as agent of the subsidiary corporation and interest paid by the subsidiary corporation to the parent corporation that has been paid by the parent corporation to the creditor shall be deemed to have been paid by the subsidiary corporation to the creditor and not by the subsidiary corporation to the parent corporation or by the parent corporation to the creditor.

Related Sections: S. 248(1), "corporation", "insurance corporation", "non-resident", "prescribed", "subsidiary wholly-owned corporation".

► 218(2) ◄

(2) Idem. Where a parent corporation has lent money to a subsidiary wholly-owned corporation resident in Canada whose principal business is not the making of loans and the money has been lent by that corporation to a subsidiary corporation wholly-owned by it and resident in Canada whose principal business is the making of loans, the loan by the parent corporation shall be deemed, for the purpose of subsection (1), to have been a loan to a subsidiary wholly-owned corporation whose principal business is the making of loans.

► 218(3) ◄

(3) Election. This section does not apply in respect of any payment of interest unless the parent corporation and the creditor have executed, and filed with the Minister, an election in prescribed form.

Forms: T2023.

► 218(4) ◄

(4) Application of election. An election filed under subsection (3) does not apply in respect of any payment of interest made more than 12 months before the date on which the election was filed with the Minister.

SECTION 218.1: Application of s. 138.1.

In respect of life insurance policies for which all or any part of an insurer's reserves vary in amount depending on the fair market value of a specified group of properties, the rules contained in section 138.1 apply for the purposes of this Part.

Related Sections: S. 138.1 Rules relating to segregated funds; s. 248(1), "insurer", "life insurance policy".

Part XIII.1
Additional Tax on Authorized Foreign Banks

SECTION 218.2:

► 218.2(1) ◄

(1) Branch interest tax. Every authorized foreign bank shall pay a tax under this Part for each taxation year equal to 25% of its taxable interest expense for the year.

History: S. 218.2(1) was added by S.C. 2001, c. 17, s. 176(1), applicable to taxation years that end after June 27, 1999.

Related Sections: S. 18(1)(*v*) Interest — authorized foreign bank; s. 20.2(5) Notional interest; s. 157(1) Payment by corporations; s. 218.2(2) Taxable interest expense; s. 212(13.3) Application of Part XIII to authorized foreign bank; s. 219 Branch tax; s. 248(1), "authorized foreign bank".

Forms: T2Sch97.

► 218.2(2) ◄

(2) Taxable interest expense. The taxable interest expense of an authorized foreign bank for a taxation year is 15% of the amount, if any, by which

(*a*) the total of all amounts on account of interest that are deducted under section 20.2 in computing the bank's income for the year from its Canadian banking business

exceeds

(*b*) the total of all amounts that are included in paragraph (*a*) and that are in respect of a liability of the bank to another person or partnership.

History: S. 218.2(2) was added by S.C. 2001, c. 17, s. 176(1), applicable to taxation years that end after June 27, 1999.

► 218.2(3) ◄

(3) Where tax not payable. No tax is payable under this Part for a taxation year by an authorized foreign bank if

(*a*) the bank is resident in a country with which Canada has a tax treaty at the end of the year; and

(*b*) no tax similar to the tax under this Part would be payable in that country for the year by a bank resident in Canada carrying on business in that country during the year.

History: S. 218.2(3) was added by S.C. 2001, c. 17, s. 176(1), applicable to taxation years that end after June 27, 1999.

► 218.2(4) ◄

(4) Rate limitation. Notwithstanding any other provision of this Act, the reference in subsection (1) to 25% shall, in respect of a taxation year of an authorized foreign bank that is resident in a country with which Canada has a tax treaty on the last day of the year, be read as a reference to,

(*a*) if the treaty specifies the maximum rate of tax that Canada may impose under this Part for the year on residents of that country, that rate;

(*b*) if the treaty does not specify a maximum rate as described in paragraph (*a*) but does specify the maximum rate of tax that Canada may impose on a payment of interest in the year by a person resident in Canada to a related person resident in that country, that rate; and

(*c*) in any other case, 25%.

History: S. 218.2(4) was added by S.C. 2001, c. 17, s. 176(1), applicable to taxation years that end after June 27, 1999.

► 218.2(5) ◄

(5) Provisions applicable to Part. Sections 150 to 152, 158, 159, 160.1 and 161 to 167 and Division J of Part I apply to this Part with any modifications that the circumstances require.

History: S. 218.2(5) was added by S.C. 2001, c. 17, s. 176(1), applicable to taxation years that end after June 27, 1999.

Part XIII.2
Non-Resident Investors in Canadian Mutual Funds

SECTION 218.3:

► 218.3(1) ◄

(1) Definitions. The following definitions apply in this Part.

"assessable distribution" — "assessable distribution", in respect of a Canadian property mutual fund investment, means the portion of any amount that is paid or credited (otherwise than as a SIFT trust wind-up event), by the mutual fund that issued the investment, to a non-resident investor who holds the investment, and that is not otherwise subject to tax under Part I or Part XIII.

History: S. 218.3(1), the definition "assessable distribution" was replaced by S.C. 2009, c. 2, s. 74(1), applicable after July 14, 2008. S. 218.3(1), the definition "assessable distribution" formerly read:

" *'assessable distribution'* — 'assessable distribution', in respect of a Canadian property mutual fund investment, means the portion of any amount that is paid or credited, by the mutual fund that issued the investment, to a non-resident investor who holds the investment, and that is not otherwise subject to tax under Part I or Part XIII."

S. 218.3(1), the definition "assessable distribution" was added by S.C. 2005, c. 19, s. 47(1), applicable to distributions paid or credited after 2004.

Related Sections: S. 53(2)(*h*) Amounts to be deducted — Capital interest in a trust.

"Canadian property mutual fund investment" — "Canadian property mutual fund investment" means a share of the capital stock of a mutual fund corporation, or a unit of a mutual fund trust, if

(*a*) the share or unit is listed on a designated stock exchange; and

(*b*) more than 50% of the fair market value of the share or unit is attributable to one or more properties each of which is real property in Canada, a Canadian resource property or a timber resource property.

History: S. 218.3(1), paragraph (*a*) of the definition "Canadian property mutual fund investment" was amended by S.C. 2007, c. 35, s. 68(2), by replacing "prescribed stock exchange" with "designated stock exchange", applicable on and after December 14, 2007.

S. 218.3(1), the definition "Canadian property mutual fund investment" was added by S.C. 2005, c. 19, s. 47(1), applicable to distributions paid or credited after 2004.

Related Sections: S. 131(8) Meaning of "mutual fund corporation"; s. 132(6) Meaning of "mutual fund trust".

"Canadian property mutual fund loss" — "Canadian property mutual fund loss" — of a non-resident investor for a taxation year for which the non-resident investor has filed, on or before their filing-due date for the taxation year, a return of income under this Part in prescribed form, in respect of a Canadian property mutual fund investment — means the lesser of

(*a*) the non-resident investor's loss (for greater certainty as determined under section 40) for the taxation year from the disposition of the Canadian property mutual fund investment, and

(*b*) the total of all assessable distributions that were paid or credited on the Canadian property mutual fund investment after the non-resident investor last acquired the investment and at or before the time of the disposition.

History: S. 218.3(1), the definition "Canadian property mutual fund loss" was added by S.C. 2005, c. 19, s. 47(1), applicable to distributions paid or credited after 2004.

"non-resident investor" — "non-resident investor" means a non-resident person or a partnership other than a Canadian partnership.

History: S. 218.3(1), the definition "non-resident investor" was added by S.C. 2005, c. 19, s. 47(1), applicable to distributions paid or credited after 2004.

Related Sections: S. 102(1) Definition of "Canadian partnership".

"unused Canadian property mutual fund loss" — "unused Canadian property mutual fund loss", of a non-resident investor for a taxation year, means the portion of the total of the non-resident investor's Canadian mutual fund property losses for preceding taxation years that has neither reduced under subsection (3) the amount of tax payable, nor increased under subsection (5) the amount of a refund of tax paid, under this Part for any preceding taxation year.

History: S. 218.3(1), the definition "unused Canadian property mutual fund loss" was added by S.C. 2005, c. 19, s. 47(1), applicable to distributions paid or credited after 2004.

► 218.3(2) ◄

(2) Tax payable. If at any time a person (referred to in this section as the "payer") pays or credits, to a non-resident investor who holds a Canadian property mutual fund investment, an amount as, on account of, in lieu of payment of or in satisfaction of, an assessable distribution,

(*a*) the non-resident investor is deemed for the purposes of this Act, other than section 150, to have disposed at that time, for proceeds equal to the amount of the assessable distribution, of a property

(i) that is a taxable Canadian property the adjusted cost base of which to the non-resident investor immediately before that time is nil, and

(ii) that is in all other respects identical to the Canadian property mutual fund investment;

(*b*) the non-resident investor is liable to pay an income tax of 15% on the amount of any gain (for greater certainty as determined under section 40) from the disposition; and

(*c*) the payer shall, notwithstanding any agreement or law to the contrary,

(i) deduct or withhold 15% from the amount paid or credited,

(ii) immediately remit that amount to the Receiver General on behalf of the non-resident investor on account of the tax, and

(iii) submit with the remittance a statement in prescribed form.

Department of Finance Comfort Letter [Mutual Fund Merger Rules]

February 14, 2006

Dear XXXX,

I am writing in response to your letter of January 31, 2006 requesting that we recommend several technical amendments to the mutual fund merger rules in section 132.2 of the *Income Tax Act* (the "Act"). These rules are already the subject of extensive proposed amendments, and all section references in this letter refer to the proposed legislation released in draft on July 18, 2005.

1. Timing

You note that there appears to be an inconsistency in the time periods referred to in the definition of "qualifying exchange" in subsection 132.2(1) and in the preamble of paragraph 132.2(3)(*g*). The definition of "qualifying exchange" requires that all or substantially all of the shares or units of the Transferor (as defined in section 132.2 of the Act) be disposed of to the Transferor within 60 days after the "transfer time", which is defined to be the time when all or substantially all of the property of the Transferor is transferred to the Transferee (as defined in section 132.2 of the Act). The preamble to paragraph 132.2(3)(*g*) requires that the exchange of shares or units of the Transferor back to the Transferor in exchange for units of the Transferee occur on a tax-deferred basis only if the exchange takes place within 60 days after *the day that includes* the transfer time.

You have requested that the Act be amended to clarify that the two 60-day periods start at the same time. We note that the time period in paragraph 132.2(3)(*f*) also refers to an event within 60 days after *the day that includes* the transfer time. We can confirm that in both instances it was not intended by the addition of the words "the day that includes" to refer to a commencement date on the day following the day that includes the transfer time; rather it has always been intended that the commencement date be the day that includes the transfer time.

To clarify that all of the references to a 60-day period in section 132.2 are intended to refer to the same time period, and that the period is to commence on the day that includes the transfer time, we intend to recommend to the Minister of Finance that the references to "the day that includes" in paragraphs 132.2(3)(*f*) and (*g*) be deleted. We will also recommend that these changes be applicable to qualifying exchanges that occur after 1998 — the date that the proposed amendments that include the addition of the words "the day that includes" are proposed to come into effect.

2. Application of Section 116

You have noted that there is a concern that where a Transferor acquires its own shares or units in exchange for units of a Transferee in the course of a qualifying exchange, section 116 of the Act may apply to impose a reporting and withholding obligation. Section 116 generally applies when a non-resident person disposes of taxable Canadian property that is not excluded property. If the Transferor is a mutual fund trust or a mutual fund corporation at the time of the exchange by a non-resident unitholder or shareholder of the Transferor, the shares or units of the Transferor that the unitholder disposes of will generally not be taxable Canadian property at that time and therefore section 116 would not be applicable. However, your concern arises because paragraph 132.2(3)(*n*) deems the Transferor not to be a mutual fund corporation or a mutual fund trust, as the case may be, for its taxation years beginning after the transfer time. Pursuant to paragraph 132.2(3)(*b*), the first taxation year of the Transferor after the transfer time begins immediately after the "acquisition time". Given that the Act provides that the exchange may occur within 60 days after the transfer time, it is possible that the exchange will occur after the acquisition time — generally the time that the Transferee is treated as having acquired the property (other than depreciable property) transferred to it by the Transferor — and thus that the shares or units of the Transferor will be taxable Canadian property.

From a policy perspective it is not intended that the exchange of units or shares of a Transferor for units of the Transferee by a non-resident in the course of a qualifying exchange should be subject to section 116. As a result, we are prepared to recommend that the Act be amended to ensure that such a transaction is not subject to section 116. Given that this is an unintended technical deficiency in the Act, we will recommend that the amendment be applicable to qualifying exchanges that occur after June 1994, the date the mutual fund merger rules were introduced.

3. Application of Part XIII.2

You have also noted that there is a concern that where a Transferor acquires its own shares or units in exchange for units of a Transferee in the course of a qualifying exchange, Part XIII.2 of the Act may apply to impose a 15% tax. Unlike the discussion above, the concern arises only if the exchange occurs prior to the acquisition time, when the Transferor is a mutual fund trust or a mutual fund corporation. In general, Part XIII.2 will apply only if the units or shares of the Transferor are listed on a prescribed stock exchange and their value is primarily attributable to real property in Canada, Canadian resource property or timber resource property. If the units or shares meet those conditions, a 15% tax will apply to any amount that is paid or credited to a non-resident investor that is not otherwise subject to tax under Part I or Part XIII.2.

From a policy perspective it is not intended that the exchange of units or shares of a Transferor for units of the Transferee by a non-resident in the course of a qualifying exchange should be subject to Part XIII.2. As a result, we are prepared to recommend that the Act be amended to ensure that such a transaction is not subject to Part XIII.2. We will recommend that the amendment be applicable to qualifying exchanges that occur after 2004, the date Part XIII.2 was introduced.

In conclusion, we will recommend to the Minister of Finance that the Act be amended as discussed above to clarify the commencement of the 60-day period and to clarify that the exchange of units or shares of a Transferor for units of the Transferee by a non-resident in the course of a qualifying exchange is not subject to section 116 or Part XIII.2.

While we cannot offer any assurance that the Minister or Parliament will agree with our recommendation in this regard, I hope that this statement of our position is helpful to you.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 218.3(2) was added by S.C. 2005, c. 19, s. 47(1), applicable to distributions paid or credited after 2004.

Related Sections: S. 115(1)(b) Non-resident's taxable income in Canada; s. 131(5.1) TCP gains distribution; s. 132(5.1) TCP gains distribution.
Forms: T1262.

► 218.3(3) ◄

(3) Use of losses. If a non-resident investor files, on or before their filing-due date for a taxation year, a return of income under this Part in prescribed form for the taxation year, the non-resident investor is liable, instead of paying tax under paragraph (2)(*b*) in respect of any amount paid or credited in the taxation year, to pay an income tax of 15% for the taxation year on the amount, if any, by which

(*a*) the total of the non-resident investor's gains under subsection (2) for the taxation year

exceeds

(*b*) the total of the non-resident investor's Canadian property mutual fund losses for the year and the non-resident investor's unused Canadian property mutual fund loss for the taxation year.

History: S. 218.3(3) was added by S.C. 2005, c. 19, s. 47(1), applicable to distributions paid or credited after 2004.

Related Sections: S. 150(1) Filing returns of income — general rule; s. 248(1), "filing-due date".

► 218.3(4) ◄

(4) Deemed tax paid. If a non-resident investor files, on or before their filing-due date for a taxation year, a

return of income under this Part in prescribed form for the taxation year, any amount that is remitted to the Receiver General in respect of an assessable distribution paid or credited to the non-resident investor in the taxation year is deemed to have been paid on account of the non-resident investor's tax under subsection (3) for the taxation year.

History: S. 218.3(4) was added by S.C. 2005, c. 19, s. 47(1), applicable to distributions paid or credited after 2004.

Related Sections: S. 150(1) Filing returns of income — general rule; s. 248(1), "filing-due date".

► 218.3(5) ◄

(5) Refund. The amount, if any, by which the total of all amounts paid on account of a non-resident investor's tax under subsection (3) for a taxation year exceeds the non-resident investor's liability for tax under this Part for the taxation year shall be refunded to the non-resident investor.

History: S. 218.3(5) was added by S.C. 2005, c. 19, s. 47(1), applicable to distributions paid or credited after 2004.

► 218.3(6) ◄

(6) Excess loss — carryback. If a non-resident investor files, on or before their filing-due date for a taxation year, a return of income under this Part in prescribed form for the taxation year, the Minister shall refund to the non-resident investor an amount equal to the lesser of

(*a*) the total amount of tax under this Part paid by the non-resident investor in each of the three preceding taxation years, to the extent that the Minister has not previously refunded that tax, and

(*b*) 15% of the amount, if any, by which

(i) the total of the non-resident investor's Canadian property mutual fund losses for the taxation year and the non-resident investor's unused Canadian property mutual fund loss for the taxation year

exceeds

(ii) the total of all assessable distributions paid or credited to the non-resident investor in the taxation year.

History: S. 218.3(6) was added by S.C. 2005, c. 19, s. 47(1), applicable to distributions paid or credited after 2004.

Related Sections: S. 150(1) Filing returns of income — general rule; s. 248(1), "filing-due date".

► 218.3(7) ◄

(7) Ordering. In applying subsection (6), amounts of tax are to be considered to be refunded in the order in which they were paid.

History: S. 218.3(7) was added by S.C. 2005, c. 19, s. 47(1), applicable to distributions paid or credited after 2004.

► 218.3(8) ◄

(8) Partnership filing-due date. For the purposes of this Part, the taxation year of a partnership is its fiscal period and the filing-due date for the taxation year is to be determined as if the partnership were a corporation.

History: S. 218.3(8) was added by S.C. 2005, c. 19, s. 47(1), applicable to distributions paid or credited after 2004.

Related Sections: S. 150(1) Filing returns of income — general rule; s. 248(1), "filing-due date".

► 218.3(9) ◄

(9) Partnership — member resident in Canada. If a non-resident investor is a partnership a member of which is resident in Canada, the portion of the tax paid by the partnership under this Part in respect of an assessable distribution paid or credited to the partnership in a particular taxation year of the partnership (or, if the partnership files a return of income for the particular taxation year in accordance with subsection (3), the portion of the tax paid by the partnership under that subsection for the taxation year) that can reasonably be considered to be the member's share is deemed

(*a*) to be an amount paid on account of that member's liability for tax under Part I for that member's taxation year in which the particular taxation year of the partnership ends; and

(*b*) except for the purposes of this subsection, to be neither a tax paid on account of the partnership's tax under this Part nor a tax paid by the partnership.

History: S. 218.3(9) was added by S.C. 2005, c. 19, s. 47(1), applicable to distributions paid or credited after 2004.

► 218.3(10) ◄

(10) Provisions applicable. Section 150.1, subsections 161(1), (7) and (11), sections 162 to 167, Division J of Part I, paragraph 214(3)(*f*), subsections 215(2), (3) and (6) and sections 227 and 227.1 apply to this Part with any modifications that the circumstances require.

History: S. 218.3(10) was added by S.C. 2005, c. 19, s. 47(1), applicable to distributions paid or credited after 2004.

Part XIV
Additional Tax on Non-Resident Corporations

SECTION 219:

► 219(1) ◄

(1) Additional tax. Every corporation that is non-resident in a taxation year shall, on or before its balance-due day for the year, pay a tax under this Part for the year equal to 25% of the amount, if any, by which the total of

(*a*) the corporation's taxable income earned in Canada for the year (in this subsection referred to as the corporation's "base amount"),

(*b*) the amount deducted because of section 112 and paragraph 115(1)(*e*) in computing the corporation's base amount,

(*c*) [Repealed by S.C. 2003, c. 28, s. 17(1).]

(*d*) the amount, if any, by which the total of all amounts each of which is a taxable capital gain of the corporation for the year from a disposition of a taxable Canadian property exceeds the total of all amounts each of which is

(i) an allowable capital loss of the corporation for the year from a disposition of a taxable Canadian property, or

(ii) an amount deductible because of paragraphs 111(1)(*b*) and 115(1)(*e*) in computing the corporation's base amount,

(*e*) the total of all amounts each of which is an amount in respect of a grant or credit that

(i) can reasonably be considered to have been received by the corporation in the year as a reimbursement or repayment of, or as indemnification or compensation for, an amount deducted because of paragraph (*j*), as it read in its application to the 1995 taxation year, in computing the amount determined under this subsection for a preceding taxation year that began before 1996, and

(ii) was not included in computing the corporation's base amount for any taxation year,

(*f*) where, at any time in the year, the corporation has made one or more dispositions described in paragraph (*l*) of qualified property, the total of all amounts each of which is an amount in respect of one of those dispositions equal to the amount, if any, by which the fair market value of the qualified property at the time of the disposition exceeds the corporation's proceeds of disposition of the property, and

(*g*) the amount, if any, claimed for the immediately preceding taxation year under paragraph (*j*) by the corporation,

exceeds the total of

(*h*) that proportion of the total of

(i) the total of the taxes payable under Parts I, I.3 and VI for the year by the corporation, determined without reference to subsection (1.1), and

(ii) the total of the income taxes payable to the government of a province for the year by the corporation, determined without reference to subsection (1.1),

that the corporation's base amount is of the amount that would, if this Act were read without reference to subsection (1.1), be the corporation's base amount,

(*i*) the total of all amounts each of which is the amount of interest or a penalty paid by the corporation in the year

(i) under this Act, or

(ii) on or in respect of an income tax payable by it to the government of a province under a law of the province relating to income tax,

to the extent that the interest or penalty was not deductible in computing its base amount for any taxation year,

(*j*) where the corporation was carrying on business in Canada at the end of the year, the amount claimed by the corporation for the year, not exceeding the amount prescribed to be its allowance for the year in respect of its investment in property in Canada,

(*k*) [Repealed by S.C. 2003, c. 28, s. 17(3).]

(*l*) where the corporation has at any time in the year disposed of property (in this paragraph and paragraph (*f*) referred to as "qualified property") used by it immediately before that time for the purpose of gaining or producing income from a business carried on by it in Canada to a Canadian corporation (in this paragraph referred to as the "purchaser corporation") that was, immediately after the disposition, a qualified related corporation of the corporation for consideration that includes a share of the capital stock of the purchaser corporation, the total of all amounts each of which is an amount in respect of a disposition in the year of a qualified property equal to the amount, if any, by which

(i) the fair market value of the qualified property at the time of the disposition

exceeds the total of

(ii) the amount, if any, by which the paid-up capital in respect of the issued and outstanding shares of the capital stock of the purchaser corporation increased because of the disposition, and

(iii) the fair market value, at the time of receipt, of the consideration (other than shares) given by the purchaser corporation for the qualified property.

History: S. 219(1)(*c*) was repealed by S.C. 2003, c. 28, s. 17(1), applicable to taxation years that begin after 2006. S. 219(1)(*c*) formerly read:

"(*c*) the amount deducted under paragraph 20(1)(*v.1*) in computing the corporation's base amount, other than any portion of the amount so deducted that was deductible because of the membership of the corporation in a partnership,"

S. 219(1)(*e*) was replaced by S.C. 2003, c. 28, s. 17(2), applicable to taxation years that begin after 2006. S. 219(1)(*e*) formerly read:

"(*e*) the total of all amounts each of which

(i) is an amount in respect of a grant or credit that can reasonably be considered to have been received by the corporation in the year as a reimbursement or repayment of, or as indemnification or compensation for, an amount deducted because of

(A) paragraph (*j*), as it read in its application to the 1995 taxation year, in computing the amount determined under this subsection for a preceding taxation year that began before 1996, or

(B) paragraph (*k*) in computing the amount determined under this subsection for the year or for a preceding taxation year that began after 1995, and

(ii) was not included in computing the corporation's base amount for any taxation year,"

S. 219(1)(*k*) was repealed by S.C. 2003, c. 28, s. 17(3), applicable to taxation years that begin after 2006. S. 219(1)(*k*) formerly read:

"(*k*) the portion of the total of all amounts, each of which is an amount by which the corporation's base amount is increased because of paragraph 12(1)(*o*) or 18(1)(*l.1*) or (*m*) or subsection 69(6) or (7), that is not deductible under paragraph (*h*) or (*j*), and"

S. 219(1), the portion before paragraph (*a*) was replaced by S.C. 2003, c. 15, s. 128(1), applicable to taxation years that begin after June 2003. S. 219(1), the portion before paragraph (*a*) formerly read:

"S. 219. *Additional tax.*

(1) Every corporation that is non-resident in a taxation year shall, on or before its filing-due date for the year, pay a tax under this Part for the year equal to 25% of the amount, if any, by which the total of"

S. 219(1)(*b*) was amended by S.C. 2001, c. 17, s. 177(1), applicable to the 1998 and subsequent taxation years. S. 219(1)(*b*) formerly read:

"(*b*) the amount deducted because of section 112 and paragraph 115(1)(*d.1*) in computing the corporation's base amount,"

S. 219(1)(*d*) was amended by S.C. 2001, c. 17, s. 177(2), by replacing the reference to the expression "1/3 of the amount" with a reference to the expression "the amount", applicable to taxation years that end after February 27, 2000 except that, for such taxation years that ended before October 18, 2000, the reference in paragraph 219(1)(*d*) of the Act to the expression "the amount" shall be read as a reference to the expression "1/2 of the amount".

Part XIV, the heading before s. 219 was amended by S.C. 1998, c. 19, s. 218, applicable on Royal Assent, June 18, 1998. This heading formerly read:

"Part XIV

Additional Tax on Corporations (Other than Canadian Corporations) Carrying on Business in Canada"

S. 219(1) was amended by S.C. 1998, c. 19, s. 219(1), applicable to taxation years that begin after 1995 except that, in its application to taxation years that began in 1996, the reference in paragraph 219(1)(*g*) of the Act to "paragraph (*j*)" shall be read as a reference to "paragraph (*h*), as it read in its application to the 1995 taxation year, or paragraph (*j*)".

"S. 219. *Additional tax.*

(1) Every corporation carrying on business in Canada at any time in a taxation year (other than a corporation that was, throughout the year, a Canadian corporation) shall, on or before the day on or before which it is required to file a return of income under Part I for the year, pay a tax under this Part for the year equal to 25% of the amount by which the total of

(*a*) the corporation's amount taxable (within the meaning given that expression in section 123) for the taxation year,

(*a.1*) the amount deducted by the corporation under section 112 in computing the amount referred to in paragraph (*a*),

(*a.2*) the amount deducted by the corporation under subsection 115(1) in computing the amount referred to in paragraph (*a*) that was an amount the deduction of which was permitted under section 112,

(*a.3*) the amount deducted under paragraph 20(1)(*v.1*) by the corporation in computing the amount referred to in paragraph (*a*), other than any portion of the amount so deducted that was deductible because of the membership of the corporation in a partnership,

(*a.4*) where, at any time in the taxation year, the corporation has made one or more dispositions as described in paragraph (*k*) of qualified property, the total of all amounts each of which is an amount in respect of such a disposition equal to the amount, if any, by which the fair market value of the qualified property at the time of the disposition exceeds the amount of the corporation's proceeds of disposition of the property,

(*b*) the amount claimed by the corporation under paragraph (*h*) for the immediately preceding taxation year, and

(*c*) where the corporation was resident in Canada at any time in the year, the amount claimed under paragraph (*i*) for the immediately preceding taxation year,

exceeds the total of,

(*d*) where the corporation was, throughout the year, not resident in Canada, the lesser of

(i) the amount, if any, by which the total of amounts each of which is a taxable capital gain of the corporation for the year from a disposition of a taxable Canadian property that was not property used in the year in, or held in the year in the course of, carrying on business in Canada, exceeds the total of amounts each of which is an allowable capital loss of the corporation for the year from a disposition of any such property, and

(ii) the amount that would be determined under subparagraph (i) for the year if it were read without reference to the expression 'that was not property used in the year in, or held in the year in the course of, carrying on business in Canada',

(*e*) the total of the taxes payable by it under Parts I, I.3 and VI for the year less, where the corporation was at no time in the year resident in Canada, that proportion of the tax payable by it under Part I for the year that the amount determined under paragraph (*d*) in respect of the corporation for the year is of the corporation's amount taxable for the year,

(*f*) any income taxes payable by the corporation to the government of a province in respect of the year (to the extent that those taxes were not deductible under Part I in computing its income for the year from businesses carried on by it in Canada) less, where the corporation was, at no time in the year, resident in Canada, that proportion thereof that the amount determined under paragraph (*d*) in respect of the corporation for the year is of the corporation's amount taxable for the year,

(*f.1*) the total of all amounts each of which is the amount of interest or a penalty paid by it in the year

(i) under this Act, or

(ii) on or in respect of income taxes payable by it to the government of a province under a law of the province relating to income tax,

to the extent that the interest or penalty was not deductible in computing its income under Part I for any taxation year from a business carried on by it in Canada,

(*g*) where the corporation was resident in Canada at any time in the year

(i) the amount deducted under section 126 from the tax for the year otherwise payable by the corporation under Part I, and

(ii) 1/2 of the lesser of the corporation's taxable income for the year and the amount, if any, by which

(A) the total of such of its incomes for the year from businesses or properties and its taxable capital gains for the year from dispositions of property as were from sources in countries other than Canada

exceeds

(B) the total of such of its losses for the year from businesses or properties and its allowable capital losses for the year from dispositions of property as were from sources in countries other than Canada,

(*h*) where the corporation was, at the end of the year, carrying on business in Canada, such amount as the corporation may claim for the year, not exceeding the amount prescribed to be its allowance for the year in respect of its investment in property in Canada,

(*i*) where the corporation was resident in Canada at any time in the year, such amount as the corporation may claim for the year, not exceeding the amount, if any, by which

(i) the total of dividends paid by it after it last became resident in Canada, while it was resident in Canada and before the end of the year

exceeds

(ii) the total of amounts determined under subparagraph (*g*)(ii) in respect of the corporation for taxation years ending after it last became resident in Canada and not later than the end of the year,

(*j*) such portion of the total of all amounts, each of which is an amount by which the amount referred to in paragraph (*a*) is increased by virtue of paragraph 12(1)(*o*), 18(1)(*l.1*) or (*m*) or subsection 69(6) or (7), as is not deductible under paragraph (*f*) or (*h*), and

(*k*) where, at any time after December 11, 1979, the corporation has, in the taxation year, disposed of property (in this paragraph and paragraph (*a.4*) referred to as 'qualified property') used by it immediately before that time for the purpose of gaining or producing income from a business carried on by it in Canada to a Canadian corporation that was, immediately after the disposition, its subsidiary wholly-owned corporation (in this paragraph referred to as the 'purchaser corporation') for consideration that includes shares of the capital stock of the purchaser corporation, the total of all amounts each of which is an amount in respect of a disposition in the year of a qualified property equal to the amount, if any, by which

(i) the fair market value of the qualified property at the time of its disposition

exceeds the total of

(ii) the amount, if any, by which the paid-up capital in respect of the issued and outstanding shares of the capital stock of the purchaser corporation increased by virtue of the disposition, and

(iii) the fair market value, at the time of receipt, of the consideration (other than shares) given by the purchaser corporation for the qualified property."

S. 219(1)(*a.3*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 126(1), applicable after December 20, 1991. S. 219(1)(*a.3*) formerly read:

"(*a.3*) the amount deducted by the corporation under paragraph 20(1)(*v.1*) in computing the amount referred to in paragraph (*a*),"

S. 219(1)(*e*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 126(2), applicable to taxation years ending after June 1989. S. 219(1)(*e*) formerly read:

"(*e*) the tax payable by it under Part I for the year less, where the corporation was, at no time in the year, resident in Canada, that proportion thereof that the amount determined under paragraph (*d*) in respect of the

corporation for the year is of the corporation's amount taxable for the year,"

S. 219(1)(f.1) was added by S.C. 1994, c. 7, Sched. II, s. 180(1), applicable to interest and penalties paid in the 1988 and subsequent taxation years.

Related Sections: S. 18(1)(t) Payments under Act; s. 52(7) Cost of shares of subsidiary; s. 54, "proceeds of disposition"; s. 89(1), "Canadian corporation"; S. 115.2 Definitions; s. 125.1(2) Electrical energy and steam; s. 134 Non-resident-owned corporation not a Canadian corporation, etc; s. 142.7(9) Branch-establishment dividend–(10) Treatment of dividend; s. 212(2) Tax on dividends; s. 218.2 Deemed dividend; s. 219(4) Non-resident insurers; s. 219.1 Corporate emigration; s. 219.2 Limitation on rate of branch tax; s. 248(1), "allowable capital loss", "amount", "balance-due day", "corporation", "dividend", "non-resident", "paid-up capital", "prescribed", "property", "taxable Canadian property", "taxable capital gain"; s. 255 Canada.

Regulations: 808.

Interpretation Bulletins: *Primary* — IT-137R3 Additional tax on certain corporations carrying on business in Canada.

Forms: T2SCH20; T2Sch97.

Tax Profile: December 2007 — Non-Resident Investment in Canadian Real Estate; October 2007 — Will Canadian Unlimited Liability Companies Survive?; July 2002 — Doing Business in Canada.

Cases: A company incorporated in England which held its directors' meetings there was held not to be a non-resident corporation. The place of central management and control is the place of paramount authority. If paramount authority is divided between two or more countries, then the corporation is resident in each of the countries. *Crossley Carpets (Canada) Ltd. v. M.N.R.*, (Ex. Ct.) 69 DTC 5015.

► 219(1.1) ◄

(1.1) Excluded gains. For the purpose of subsection (1), the definition "taxable Canadian property" in subsection 248(1) shall be read without reference to paragraphs (*a*) and (*c*) to (*k*) of that definition and as if the only interests or options referred to in paragraph (*l*) of that definition were those in respect of property described in paragraph (*b*) of that definition.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 219(1.1) of the Act is replaced by the following:

(1.1) Excluded gains. For the purpose of subsection (1), the definition "taxable Canadian property" in subsection 248(1) shall be read without reference to paragraphs (*a*) and (*c*) to (*k*) of that definition and as if the only options, interests or rights referred to in paragraph (*l*) of that definition were those in respect of property described in paragraph (*b*) of that definition.

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

History: S. 219(1.1) was amended by S.C. 2001, c. 17, s. 177(3), applicable after October 1, 1996. S. 219(1.1) formerly read:

"(1.1) *Excluded gains.* For the purposes of subsection (1), paragraph 115(1)(*b*) shall be read without reference to subparagraphs (i) and (iii) to (xii)."

S. 219(1.1) was added by S.C. 1998, c. 19, s. 219(1), applicable to taxation years that begin after 1995.

► 219(2) ◄

(2) Exempt corporations. No tax is payable under this Part for a taxation year by a corporation that was, throughout the year,

(*a*) [Repealed by S.C. 2001, c. 17, s. 177(4).]

(*b*) a corporation whose principal business was

(i) the transportation of persons or goods,

(ii) communications, or

(iii) mining iron ore in Canada; or

(*c*) a corporation exempt from tax under section 149.

History: S. 219(2)(*a*) was repealed by S.C. 2001, c. 17, s. 177(4), applicable to taxation years that end after June 27, 1999. S. 219(2)(*a*) formerly read:

"(*a*) a bank;"

► 219(3) ◄

(3) Provisions applicable to Part. Sections 150 to 152, 154, 158, 159 and 161 to 167 and Division J of Part I are applicable to this Part with such modifications as the circumstances require.

► 219(4) ◄

(4) Non-resident insurers. No tax is payable under subsection (1) for a taxation year by a non-resident insurer, but where it elects, in prescribed manner and within the prescribed time, to deduct, in computing its Canadian investment fund as of the end of the immediately following taxation year, an amount not greater than the amount, if any, by which

(*a*) the amount, if any, by which the total of

(i) the insurer's surplus funds derived from operations as of the end of the year, and

(i.1) where, in any particular taxation year that began before the end of the year, the insurer transferred to a taxable Canadian corporation with which it did not deal at arm's length any designated insurance property of the insurer for the particular year, and

(A) the property was transferred before December 16, 1987 and subsection 138(11.5) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, applied in respect of the transfer, or

(B) the property was transferred before November 22, 1985 and subsection 85(1) of that Act applied in respect of the transfer,

the amount, if any, by which

(C) the total of the fair market value, at the time of the transfer, of all such property

exceeds

(D) the total of the insurer's proceeds of disposition of all such property,

exceeds the total of

(ii) each amount on which the insurer has paid tax under this Part for a previous taxation year,

(iii) the amount, if any, by which the insurer's accumulated 1968 deficit exceeds the amount of the insurer's maximum tax actuarial reserves for its 1968 taxation year for its life insurance policies in Canada,

(iv) the insurer's loss, if any, for each of its 5 consecutive taxation years ending with its 1968 taxation year, from all insurance businesses (other than its life insurance business) carried on by it in Canada (computed without reference to section 30 of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read in its application to those years), except to the extent that any such loss was deductible in computing its taxable income for any of its taxation years ending before 1969, and

(v) the total of all amounts in respect of which the insurer has filed an election under subsection

(5.2) for a previous taxation year in accordance with that subsection,

exceeds

(*b*) the amount of the insurer's attributed surplus for the year,

the insurer shall, on or before the day on or before which it is required to file a return under Part I for the year, pay a tax for the year equal to 25% of the amount, if any, by which the amount it has so elected to deduct exceeds the amount in respect of which it filed an election under subsection (5.2) for the year in accordance with that subsection.

History: S. 219(4)(*a*)(i.1), the portion before clause (A), was amended by S.C. 1997, c. 25, s. 65(1), applicable to the 1997 and subsequent taxation years. That part formerly read:

"(i.1) where, in any taxation year commencing before the end of the year, the insurer transferred to a taxable Canadian corporation with which it did not deal at arm's length any property used by it in the year in, or held by it in the year in the course of (within the meaning assigned by subsection 138(12)), carrying on an insurance business in Canada, and"

Related Sections: S. 54, "proceeds of disposition"; s. 138(9) Computation of income; s. 181.3(3)(*d*)(i)(A) Capital of financial institution; s. 190.13(*c*)(i)(A) Capital; s. 248(1), "insurer", "insurance corporation", "taxable Canadian corporation"; s. 249(1) Definition of "taxation year"; s. 251(1) Arm's length.
Regulations: 2403(1).

► 219(5) ◄

(5) Additional tax on insurer. [Repealed by 1977-78, c. 32, s. 52(1).]

► 219(5.1) ◄

(5.1) Additional tax on insurer. Where a non-resident insurer ceases in a taxation year to carry on all or substantially all of an insurance business in Canada, it shall, on or before its filing-due date for the year, pay a tax for the year equal to 25% of the amount, if any, by which

(*a*) that portion of the amount determined under paragraph (4)(*a*) for the year in respect of the insurer that can reasonably be attributed to the business, including the disposition by it of property that was its designated insurance property in respect of the business for the year in which the disposition occurred,

exceeds

(*b*) the amount the insurer and a qualified related corporation of the insurer jointly elect in accordance with subsection (5.2) for the year in respect of the business.

History: S. 219(5.1) was amended by S.C. 1997, c. 25, s. 65(2), applicable to the 1997 and subsequent taxation years. S. 219(5.1) formerly read:

"(5.1) *Additional tax on insurer.* Where, in a particular taxation year, a non-resident insurer has ceased to carry on all or substantially all of an insurance business in Canada, it shall, on or before the day on or before which it is required to file a return of income under Part I for the particular year, pay a tax for the year equal to 25% of the amount, if any, by which

(*a*) that portion of the amount determined under paragraph (4)(*a*) for the particular year in respect of the non-resident insurer that can reasonably be attributed to the business including the disposition by it of property that was, at the time of the disposition, used by it in the year in, or held by it in the year in the course of (within the meaning assigned by subsection 138(12)), carrying on the business

exceeds

(*b*) the amount in respect of which the non-resident insurer and a qualified related corporation of the insurer have jointly elected in accordance with subsection (5.2) for the particular year in respect of the business."

Related Sections: S. 18(1)(*t*) Payments under Act.

► 219(5.2) ◄

(5.2) Election by non-resident insurer. Where

(*a*) a non-resident insurer has ceased to carry on all or substantially all of an insurance business in Canada in a taxation year, and

(*b*) the insurer has transferred the business to a qualified related corporation of the insurer and the insurer and the corporation have elected to have subsection 138(11.5) apply in respect of the transfer,

the insurer and the corporation may elect, in prescribed manner and within prescribed time, to reduce the amount in respect of which the insurer would otherwise be liable to pay tax under subsection (5.1) by an amount not exceeding the lesser of

(*c*) the amount determined under paragraph (5.1)(*a*) in respect of the insurer in respect of the business, and

(*d*) the total of the paid-up capital of the shares of the capital stock of the corporation received by the insurer as consideration for the transfer of the business and any contributed surplus arising on the issue of those shares.

Related Sections: S. 85(2.1) Computing paid-up capital; s. 138(11.7) Computation of paid-up capital; s. 138(11.9) Computation of contributed surplus.
Regulations: 2403(2), (3).

► 219(5.3) ◄

(5.3) Deemed payment of dividend. Where, at any time in a taxation year,

(*a*) a qualified related corporation of a non-resident insurer ceases to be a qualified related corporation of that insurer, or

(*b*) the tax deferred account of a qualified related corporation of a non-resident insurer exceeds the total of the paid-up capital in respect of all the shares of the capital stock of the corporation and its contributed surplus,

the corporation shall be deemed to have paid, immediately before that time, a dividend to the insurer in an amount equal to

(*c*) where paragraph (*a*) is applicable, the balance of the tax deferred account of the corporation at that time, or

(*d*) where paragraph (*b*) is applicable, the amount of the excess referred to in that paragraph at that time.

► 219(6) ◄

(6) Where election under ss. 138(9). [Repealed by 1977-78, c. 32, s. 52(1).]

► 219(7) ◄

(7) Definitions. In this Part,

"accumulated 1968 deficit" — "accumulated 1968 deficit" of a life insurer means such amount as can be established by the insurer to be its deficit as of the end of its 1968 taxation year from carrying on its life insurance business in Canada on the assumption that the amounts of its assets and liabilities (including reserves of any kind)

(*a*) as of the end of any taxation year before its 1968 taxation year, were the amounts thereof determined for the purposes of the Superintendent of Insurance for Canada or other similar officer, and

(*b*) as of the end of its 1968 taxation year, were

(i) in respect of depreciable property, the capital cost thereof as of the first day of its 1969 taxation year,

(ii) in respect of policy reserves, the insurer's maximum tax actuarial reserves for its 1968 taxation year for life insurance policies issued by it in the course of carrying on its life insurance business in Canada, and

(iii) in respect of other assets and liabilities, the amounts thereof determined as of the end of that year for the purpose of computing its income for its 1969 taxation year;

History: S. 219(7), the definition "accumulated 1968 deficit", was amended by S.C. 1997, c. 25, s. 65(3), applicable to the 1997 and subsequent taxation years. That definition formerly read:

" '*accumulated 1968 deficit*' — 'accumulated 1968 deficit' has the meaning assigned by subsection 138(12);"

Related Sections: S. 248(1), "depreciable property", "life insurer", "life insurance business", "life insurance corporation".

"*attributed surplus*" — "attributed surplus" of an insurer for a taxation year has the meaning assigned by regulation;

History: S. 219(7), the definition "attributed surplus for the year", was amended by S.C. 1997, c. 25, s. 65(3), applicable to the 1997 and subsequent taxation years. That part formerly read:

" '*attributed surplus for the year*' — 'attributed surplus for the year' has the meaning prescribed for that expression;"

Regulations: 2400(1); 2405(3).

"*Canadian investment fund*" — "Canadian investment fund" has the meaning prescribed for that expression;

Regulations: 2400(1); 2405(3).

"*maximum tax actuarial reserves*" — "maximum tax actuarial reserves" has the meaning assigned by subsection 138(12);

"*surplus funds derived from operations*" — "surplus funds derived from operations" has the meaning assigned by subsection 138(12);

"*tax deferred account*" — "tax deferred account" of a qualified related corporation at any time means the amount determined by the formula

$$A - B$$

where

A is the total of all amounts each of which is an amount in respect of which the qualified related corporation and a non-resident insurer have elected jointly before that time in accordance with subsection (5.2), and

B is the total of all amounts each of which is the amount of a dividend deemed by subsection (5.3) to have been paid by the qualified related corporation before that time.

► 219(8) ◄

(8) Meaning of "qualified related corporation". For the purposes of this Part, a corporation is a "qualified related corporation" of a particular corporation if it is resident in Canada and all of the issued and outstanding shares (other than directors' qualifying shares) of its capital stock (having full voting rights under all circumstances) are owned by

(*a*) the particular corporation,

(*b*) a subsidiary wholly-owned corporation of the particular corporation,

(*c*) a corporation of which the particular corporation is a subsidiary wholly-owned corporation,

(*d*) a subsidiary wholly-owned corporation of a corporation of which the particular corporation is also a subsidiary wholly-owned corporation, or

(*e*) any combination of corporations each of which is a corporation described in paragraph (*a*), (*b*), (*c*) or (*d*),

and, for the purpose of this subsection, a subsidiary wholly-owned corporation of a particular corporation includes any subsidiary wholly-owned corporation of a corporation that is a subsidiary wholly-owned corporation of the particular corporation.

History: S. 219(8) was amended by S.C. 1998, c. 19, s. 219(1), applicable to taxation years that begin after 1995. S. 219(8) formerly read:

"(8) *Meaning of 'qualified related corporation'.* For the purposes of this Part, a corporation is a 'qualified related corporation' of a non-resident insurer if it is resident in Canada and all of the issued and outstanding shares (other than directors' qualifying shares) of the capital stock of the corporation (having full voting rights under all circumstances) are owned by

(*a*) the insurer,

(*b*) a subsidiary wholly-owned corporation of the insurer,

(*c*) a corporation of which the insurer is a subsidiary wholly-owned corporation,

(*d*) a subsidiary wholly-owned corporation of a corporation of which the insurer is also a subsidiary wholly-owned corporation, or

(*e*) any combination of corporations each of which is a corporation described in paragraph (*a*), (*b*), (*c*) or (*d*),

and, for the purpose of this subsection, a subsidiary wholly-owned corporation of a particular corporation includes any subsidiary wholly-owned corporation of a corporation that is a subsidiary wholly-owned corporation of the particular corporation."

Related Sections: S. 134 Non-resident-owned corporation not a Canadian corporation, etc; s. 138(12), "qualified related corporation"; s. 248(1), "subsidiary wholly-owned corporation".

SECTION 219.1: Corporate emigration.

Where a taxation year of a corporation is deemed by paragraph 128.1(4)(*a*) to have ended at any time, the corporation shall, on or before its filing-due date for the year, pay a tax under this Part for the year equal to 25% of the amount, if any, by which

(*a*) the fair market value of all the property owned by the corporation immediately before that time

exceeds the total of

(*b*) the paid-up capital in respect of all the issued and outstanding shares of the capital stock of the corporation immediately before that time,

(*c*) all amounts (other than amounts payable by the corporation in respect of dividends and amounts payable under this section) each of which is a debt owing by the corporation, or an obligation of the corporation to pay an amount, that is outstanding at that time, and

(*d*) where a tax was payable by the corporation under subsection 219(1) or this section for a preceding taxation year that began before 1996 and after the corporation last became resident in Canada, 4 times the total of all amounts that would, but for sections 219.2 and 219.3 and any agreement or convention between the Government of Canada and the government of any other country that has the force of law in Canada, have been so payable.

History: S. 219.1 was amended by S.C. 1998, c. 19, s. 220(1) applicable to the 1996 and subsequent taxation years. S. 219.1 formerly read:

"S. 219.1. *Corporate emigration.* Where at any time a corporation ceases to be a Canadian corporation, it shall, on or before the day on or before which it is required to file a return of income under Part I for its last taxation year that began before that time, pay a tax under this Part for that year equal to 25% of the amount, if any, by which the fair market value at that time of all the property owned by the corporation exceeds the total of

(*a*) the paid-up capital in respect of all the issued and outstanding shares of the capital stock of the corporation at that time, and

(*b*) all amounts, other than amounts payable by the corporation in respect of dividends and amounts payable under this section, each of which is the amount of any debt owing by the corporation, or any other obligation of the corporation to pay an amount, that is outstanding at that time."

S. 219.1 was amended by S.C. 1994, c. 21, s. 99(1), applicable after 1992 except that, where a corporation elects in accordance with paragraph 111(4)(*a*), subsection (1) applies to the corporation from the corporation's time of continuation (within the meaning assigned by that paragraph). S. 219.1 formerly read:

"S. 219.1. Where a taxation year of a corporation is deemed by section 88.1 to have ended, it shall, on or before the day on or before which it is required to file a return of income under Part I for the year, pay a tax under this Part for that year equal to 25% of the amount, if any, by which

(*a*) the total of all amounts each of which is the proceeds of disposition deemed by virtue of paragraph 88.1(*e*) to have been received by the corporation

exceeds the total of

(*b*) the paid-up capital in respect of all the issued and outstanding shares of the capital stock of the corporation immediately before the end of the year, and

(*c*) all amounts, other than amounts payable by the corporation in respect of dividends, each of which is the amount of any debt owing by the corporation, or any other obligation of the corporation to pay an amount, that was outstanding at the end of the year."

Related Sections: S. 89(1), "paid-up capital"; s. 248(1), "dividend", "filing-due date"; s. 249(1) Definition of "taxation year"; s. 250(5.1) Continued corporation.

Interpretation Bulletins: *Primary* — IT-451R Deemed disposition and acquisition on ceasing to be or becoming resident in Canada. *Secondary* — IT-137R3 Additional tax on certain corporations carrying on business in Canada.

Forms: T2Sch97.

SECTION 219.2: Limitation on rate of branch tax.

Notwithstanding any other provision of this Act, where an agreement or convention between the Government of Canada and the government of another country that has the force of law in Canada

(*a*) does not limit the rate of tax under this Part on corporations resident in that other country, and

(*b*) provides that, where a dividend is paid by a corporation resident in Canada to a corporation resident in that other country that owns all of the shares of the capital stock of the corporation resident in Canada, the rate of tax imposed on the dividend shall not exceed a specified rate,

any reference in section 219 to a rate of tax shall, in respect of a taxation year of a corporation to which that agreement or convention applies on the last day of that year, be read as a reference to the specified rate.

History: S. 219.2 was amended by S.C. 1994, c. 21, s. 100(1), applicable to the 1985 and subsequent taxation years. S. 219.2 formerly read:

"S. 219.2. *Limitation on rate of Part XIV tax.* Notwithstanding any other provision of this Act, where an agreement or convention between the Government of Canada and the government of any other country that has the force of law in Canada

(*a*) does not limit the rate of tax under this Part on corporations resident in that other country, and

(*b*) provides that where a dividend is paid by a corporation resident in Canada to a resident of that other country the rate of tax imposed thereon shall not exceed a specified rate,

any reference in this Part to a rate of tax shall, in respect of a taxation year of a corporation to which that agreement or convention applies on the last day of that year, be read as a reference to the specified rate."

Related Sections: S. 219.1 Corporate emigration; s. 248(1), "corporation", "dividend"; s. 249(1) Definition of "taxation year".

Interpretation Bulletins: *Secondary* — IT-137R3 Additional tax on certain corporations carrying on business in Canada.

SECTION 219.3: Effect of tax treaty.

For the purpose of section 219.1, where an agreement or convention between the Government of Canada and the government of another country that has the force of law in Canada provides that the rate of tax imposed on a dividend paid by a corporation resident in Canada to a corporation resident in the other country that owns all of the shares of the capital stock of the corporation resident in Canada shall not exceed a specified rate, the reference in section 219.1 to "25%" shall, in respect of a corporation that ceased to be resident in Canada and to which the agreement or convention applies at the beginning of its first taxation year after its taxation year that is deemed by paragraph 128.1(4)(*a*) to have ended, be read as a reference to the specified rate unless it can reasonably be concluded that one of the main reasons that the corporation became resident in the other country was to reduce the amount of tax payable under this Part or Part XIII.

History: S. 219.3 was amended by S.C. 1998, c. 19, s. 220.1(1), applicable to the 1996 and subsequent taxation years. S. 219.3 formerly read:

"S. 219.3. *Effect of tax agreement or convention.* For the purpose of section 219.1, where an agreement or convention between the Government of Canada and the government of another country that has the force of law in Canada provides that, where a dividend is paid by a corporation resident in Canada to a corporation resident in that other country that owns all of the shares of the capital stock of the corporation resident in Canada, the rate of tax imposed on the dividend shall not exceed a specified rate, the reference in section 219.1 to a rate of tax shall, in respect of a corporation that ceased to be a Canadian corporation and to which the agreement or convention applies on the first day of the taxation year after the taxation year in which the corporation ceased to be a Canadian corporation, be read as a reference to the specified rate unless, having regard to all the circumstances, it can reasonably be concluded that one of the main reasons for the corporation becoming resident in that other country was to reduce the amount of tax payable under this Part or Part XIII."

S. 219.3 was added by S.C. 1994, c. 21, s. 100(1), applicable to the 1985 and subsequent taxation years except that, in applying section 219.3 to taxation years that end before July 1993, it shall be read without reference to the words "unless, having regard to all the circumstances, it can reasonably be concluded that one of the main reasons for the corporation becoming resident in that other country was to reduce the amount of tax payable under this Part of Part XIII."

Related Sections: S. 248(1), "corporation", "dividend".

Part XV
Administration and Enforcement

Administration

SECTION 220:

► 220(1) ◄

(1) Minister's Duty. The Minister shall administer and enforce this Act and the Commissioner of Revenue may exercise all the powers and perform the duties of the Minister under this Act.

History: S. 220(1) was amended by S.C. 2005, c. 38, s. 140, by replacing "Commissioner of Customs and Revenue" with "Commissioner of Revenue", in force December 12, 2005.

S. 220(1) was amended by S.C. 1999, c. 17, s. 164(1), coming into force on November 1, 1999. S. 220(1) formerly read:

"S. 220. *Minister's duty.*

(1) The Minister shall administer and enforce this Act and control and supervise all persons employed to carry out or enforce this Act and the Deputy Minister of National Revenue may exercise all the powers and perform the duties of the Minister under this Act."

S. 220(1) was amended by S.C. 1994, c. 13, s. 7(1), to replace "Deputy Minister of National Revenue for Taxation" with "Deputy Minister of National Revenue", effective upon proclamation.

► 220(2) ◄

(2) Officers, clerks and employees. Such officers, clerks and employees as are necessary to administer and enforce this Act shall be appointed or employed in the manner authorized by law.

► 220(2.01) ◄

(2.01) Delegation. The Minister may authorize an officer or a class of officers to exercise powers or perform duties of the Minister under this Act.

Sec. 221(3), Chap. 19, 1998

(3) Any power or duty of the Minister of National Revenue delegated to an officer or a class of officers by a regulation made under paragraph 221(1)(*f*) of the Act before the day on which this Act is assented to [Royal Assent June 18, 1998] continues to be delegated to that officer or that class of officers until an authorization by that Minister made under subsection 220(2.01) of the Act, changes the delegation of that power or duty.

History: S. 220(2.01) was added by S.C. 1998, c. 19, s. 221(1), applicable on Royal Assent, June 19, 1998.

► 220(2.1) ◄

(2.1) Waiver of filing of documents. Where any provision of this Act or a regulation requires a person to file a prescribed form, receipt or other document, or to provide prescribed information, the Minister may waive the requirement, but the person shall provide the document or information at the Minister's request.

History: S. 220(2.1) was added by S.C. 1994, c. 7, Sched. VIII, s. 127(1), applicable to the 1992 and subsequent taxation years.

Interpretation Bulletins: *Secondary* — IT-495R3 Child care expenses.
SR&ED Application Policies: Application Policy 2000-02R, Guidelines for resolving claimants' SR&ED concerns; Application Policy 96-01, Reclassification of SR&ED expenditures per subsection 127(11.4).
Tax Topics: No. 1831, Should You File a Partnership Information Return?; No. 1770, Reversal of a Taxpayer Concession: The Bul River Decision.
Cases: Revenue Canada refused the taxpayer's request for a Ministerial waiver of filing requirements based on a departmental policy. The taxpayer's request for judicial review was granted because the refusal had elevated the departmental policy to the equivalent of a statutory requirement, and thus had unduly narrowly construed s. 220(2.1). *Alex Parallel Computers Research Inc. v. The Queen*, 99 DTC 5283 (F.C.T.D.).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 220 of the Act is amended by adding the following after subsection 220(2.1):

(2.2) Exception. Subsection (2.1) does not apply in respect of a prescribed form, receipt or document, or prescribed information, that is filed with the Minister on or after the day specified, in respect of the form, receipt, document or information, in subsection 37(11) or paragraph (*m*) of the definition "investment tax credit" in subsection 127(9).

Applicable: In respect of a prescribed form, receipt and document, and prescribed information, filed with the Minister of National Revenue on or after November 17, 2005 other than a prescribed form, receipt or document, or prescribed information, in respect of which the Minister of National Revenue has received, before November 17, 2005, a request made in writing with the Minister that the Minister waive the filing requirements in subsection 37(11) and paragraph (*m*) of the definition "investment tax credit" in subsection 127(9) that apply, but for any waiver, to the expenditures to which the prescribed form, receipt or document, or prescribed information, relates.

Explanatory Note:

Waiver of filing of documents

Under subsection 220(2.1) of the Act, if a provision of the Act or the Regulations requires a person to file a prescribed form, receipt or other document, or to provide prescribed information, the Minister may waive the requirement, but the document or information shall be provided at the Minister's request.

New subsection 220(2.2) provides that subsection 220(2.1) does not extend to a prescribed form, receipt, document or information, or prescribed information, that is filed on or after the day specified — in respect of the form, receipt, document or information — in subsection 37(11) or paragraph (*m*) of the definition "investment tax credit" in subsection 127(9) of the Act. Those provisions provide, in general, that a taxpayer's claim for SR&ED treatment be made in a prescribed form that must be received by the Minister no later than 12 months after the taxpayer's filing-due date for the taxation year in which the expenditures were made.

The effect of new subsection 220(2.2) is that a person cannot deduct a scientific research and experimental development (SR&ED) expenditure under section 37 of the Act, or claim an investment tax credit in respect of an expenditure, if the person takes more than the additional 12 months allowed to make a claim with the Minister.

In general, new subsection 220(2.2) applies on and after November 17, 2005.

► 220(3) ◄

(3) Extensions for returns. The Minister may at any time extend the time for making a return under this Act.

History: S. 220(3) was replaced by S.C. 2006, c. 4, s. 164(1), applicable in respect of extensions granted on or after April 1, 2007. S. 220(3) formerly read:

"(3) *Extensions for returns.* The Minister may at any time extend the time for making a return under this Act. However, the extension does not apply for the purpose of calculating a penalty that a person is liable to pay under section 162 if the person fails to make the return within the period of the extension."

S. 220(3) was replaced by S.C. 2003, c. 15, s. 129(1), applicable in respect of extensions granted after February 18, 2003. S. 220(3) formerly read:

"(3) *Extensions for returns.* The Minister may at any time extend the time for making a return under this Act."

► 220(3.1) ◄

(3.1) Waiver of penalty or interest. The Minister may, on or before the day that is ten calendar years after the end of a taxation year of a taxpayer (or in the case of a partnership, a fiscal period of the partnership) or on application by the taxpayer or partnership on or before that day, waive or cancel all or any portion of any penalty or interest otherwise payable under this Act by the taxpayer or partnership in respect of that taxation year or fiscal period, and notwithstanding subsections 152(4) to (5), any assessment of the interest and penalties payable by the taxpayer or partnership shall be made that is necessary to take into account the cancellation of the penalty or interest.

History: S. 220(3.1) was replaced by S.C. 2005, c. 19, s. 48(1), applicable after 2004 except that if a taxpayer or a partnership has, before 2005, applied to the Minister of National Revenue under subsection 220(3.1) in respect of a taxation year or fiscal period, that subsection is to be read in respect of that taxation year or fiscal period as follows:

"(3.1) The Minister may waive or cancel all or any portion of any penalty or interest otherwise payable under this Act by a taxpayer or partnership in respect of a taxation year or fiscal period, as the case may be, and notwithstanding subsections 152(4) to (5), any assessment of the interest and penalties payable by the taxpayer or partnership shall be made that is necessary to take into account the cancellation of the penalty or interest."

S. 220(3.1) formerly read:

"(3.1) *Waiver of penalty or interest.* The Minister may at any time waive or cancel all or any portion of any penalty or interest otherwise payable under this Act by a taxpayer or partnership and, notwithstanding subsections 152(4) to (5), such assessment of the interest and penalties payable by the taxpayer or partnership shall be made as is necessary to take into account the cancellation of the penalty or interest."

S. 220(3.1) was amended by S.C. 1994, c. 7, Sched. VIII, s. 127(2), applicable to the 1985 and subsequent taxation years. S. 220(3.1) formerly read:

"(3.1) The Minister may at any time waive or cancel all or any portion of any penalty or interest otherwise payable under this Act by a taxpayer or a partnership."

S. 220(3.1) was added by S.C. 1994, c. 7, Sched. II, s. 181(1), applicable to penalties and interest in respect of the 1985 and subsequent taxation years.

Related Sections: S. 152(4) Assessment and reassessment; s. 165(1.2) Determination of fair market value; s. 248(1) Definitions.

Information Circulars: IC 98-1R3 Collections Policies; IC 00-1R2 Voluntary disclosures program; IC 07-1 Taxpayer Relief Provisions.

Forms: RC199.

Guides: T4060 Canada Customs and Revenue Agency's Collections Policies Individual Income Tax (T1).

Tax Topics: No. 1645, Federal Court Allows Fairness Application; No. 1572, Auditor General's Report; No. 1581, Fairness Provisions; No. 1540, Seeking Absolution — Remission Orders; No. 1537, Can Applications for Judicial Review Succeed?.

Tax Profile: December 2008 — Canadian Voluntary Disclosure Program; October 2006 — Tax Controversies in Canada: A Variety of Issues; December 2005 — Voluntary Disclosures: Holding the CRA to Account.

Canadian Tax Foundation: Hirsch, "Fairness Package Update", *1998 Conference Report*, 24:1.

Cases: The taxpayer's request to waive interest and penalties was denied. An application for judicial review was granted because the same departmental official who made the initial decision was also a member of the review committee who conducted an administrative review of that decision. *Edison et al. v. The Queen*, 2001 DTC 5428 (F.C.T.D.).

There was a 31-month delay between the filing of Notices of Objection and the commencement of a review. This delay must be considered by the Minister in assessing a fairness request for the waiver of interest. *Hillier v. A.G. Canada*, 2001 DTC 5399 (F.C.A.), reversing 2000 DTC 6627 (F.C.T.D.).

When the taxpayer was dismissed from his employment, he negotiated a settlement of $111,540 from which source deductions were to be withheld. He received the net amount of $72,500 but the employer never remitted the source deductions. The taxpayer was credited with $39,040 under s. 227(9.4). *Suermondt v. The Queen et al.*, 2001 DTC 5389 (F.C.A.), reversing 99 DTC 3513 (T.C.C.).

Since the taxpayers' illnesses had not prevented them from complying with the Act, they could not be heard to argue that the Minister had disregarded relevant facts, in the exercise of his discretion not to waive the interest owing by them. *Young et al. v. The Queen*, 98 DTC 6028 (F.C.T.D.).

The taxpayers' request for a waiver of interest arising in respect of a tax assessment issued with regard to their 1984 taxation year was refused on the ground the Minister's discretion under s. 220(3.1) is limited to the interest payable on returns filed for the 1985 and subsequent taxation years. *Montgomery et al. v. M.N.R.*, 95 DTC 5032 (F.C.A.), affirming 94 DTC 6367 (F.C.T.D.).

The Minister's refusal to waive interest was upheld when the evidence confirmed that the taxpayer's situation was not entirely a result of extraneous circumstances (the operative criterion in the guidelines set out in IC 92-2) and there was nothing to suggest that the Minister had not fulfilled his duty to act fairly or that he had ignored relevant evidence. *Towers v. The Queen*, 94 DTC 6118 (F.C.T.D.).

The Chief of Appeals had waived only the portion of the interest that referred to the period during which the Minister had misplaced the taxpayer's Notice of Objection. The unforgiven portion was the result of errors made in her returns. Since the Chief of Appeals had acted fairly within the parameters and spirit of IC 92-2, there was no reason to interfere with his administrative decision. *Guimont v. M.N.R.*, 93 DTC 5497 (F.C.T.D.).

In computing the income of a deceased taxpayer's estate for 1990, an arithmetical error was made which went undetected in the initial assessment of September 9, 1991 but was finally detected and a reassessment issued on May 22, 1992, showing additional tax liability with interest. The Minister's discretion not to waive the interest had been properly exercised considering that the original error giving rise to the problem was not the Minister's but that of the estate. *Floyd Estate v. M.N.R.*, 93 DTC 5499 (F.C.T.D.).

► 220(3.2) ◄

(3.2) Late, amended or revoked elections. The Minister may extend the time for making an election or grant permission to amend or revoke an election if

(*a*) the election was otherwise required to be made by a taxpayer or by a partnership, under a prescribed provision, on or before a day in a taxation year of the taxpayer (or in the case of a partnership, a fiscal period of the partnership); and

(*b*) the taxpayer or the partnership applies, on or before the day that is ten calendar years after the end of the taxation year or the fiscal period, to the Minister for that extension or permission.

History: S. 220(3.2) was replaced by S.C. 2005, c. 19, s. 48(1), applicable in respect of applications made after 2004. S. 220(3.2) formerly read:

"(3.2) *Late, amended or revoked elections.* Where

(*a*) an election by a taxpayer or a partnership under a provision of this Act or a regulation that is a prescribed provision was not made on or before the day on or before which the election was otherwise required to be made, or

(*b*) a taxpayer or partnership has made an election under a provision of this Act or a regulation that is a prescribed provision,

the Minister may, on application by the taxpayer or the partnership, extend the time for making the election referred to in paragraph (*a*) or grant permission to amend or revoke the election referred to in paragraph (*b*)."

S. 220(3.2) was added by S.C. 1994, c. 7, Sched. II, s. 181(1), applicable to elections in respect of the 1985 and subsequent taxation years.

Related Sections: S. 13(4) Exchanges of property; s. 14(6) Exchange of property; s. 44(1) Exchanges of property; s. 66.7(7)(*c*) Acquisition of Canadian resource property; s. 66.7(7)(*d*) Acquisition of Canadian resource property; s. 66.7(7)(*e*) Acquisition of Canadian resource property; s. 66.7(8)(*c*) Acquisition of foreign resource property; s. 66.7(8)(*d*) Acquisition of foreign resource property; s. 66.7(8)(*e*) Acquisition of foreign resource property; s. 70(6.2) Election; s. 70(9) When subsection (9.01) applies; s. 70(9.1) When subsection (9.11) applies; s. 70(9.3) When subsection (9.31) applies; s. 72(2) Election by legal representative and transferee re reserves; s. 73(1) Inter vivos transfers by individuals; s. 104(14) Election by trust and preferred beneficiary; s. 220(3.3)-(3.7); Part VI.

Regulations: 600.

Interpretation Bulletins: *Secondary* — IT-120R6 Principal residence.

Information Circulars: IC 07-1 Taxpayer Relief Provisions.

Tax Profile: June 2007 — Tax Impact of Modifying or Unwinding Transactions — Canada.

Canadian Tax Foundation: Hirsch, "Fairness Package Update", *1998 Conference Report*, 24:1.

Cases: In response to the taxpayer trust's Fairness legislation application, the Minister's representatives decided that the trust was not entitled to relief from the late filing of certain preferred beneficiary elections. This decision not to allow the Fairness applications was reasonable and was not based on any error in law. *The Johnston Family 1991 Trust v. M.N.R.*, 99 DTC 5508 (F.C.T.D.).

► 220(3.201) ◄

(3.201) Joint election — pension income split. On application by a taxpayer, the Minister may extend the time for making an election, or grant permission to amend or revoke an election, under section 60.03 if

(*a*) the application is made on or before the day that is three calendar years after the taxpayer's filing-due date for the taxation year to which the election applies; and

(*b*) the taxpayer is resident in Canada

(i) if the taxpayer is deceased at the time of the application, at the time that is immediately before the taxpayer's death, or

(ii) in any other case, at the time of the application.

History: S. 220(3.201) was added by S.C. 2007, c. 35, s. 61(1), applicable to the 2007 and subsequent taxation years.

► 220(3.21) ◄

(3.21) Designations and allocations. For the purpose of subsection (3.2),

(*a*) a designation in any form prescribed for the purpose of paragraph 80(2)(*i*) or any of subsections 80(5) to (11) or 80.03(7) is deemed to be an election under a prescribed provision of this Act; and

(*b*) a designation or allocation under subsection 132.11(6) is deemed to be an election under a prescribed provision of this Act.

History: S. 220(3.21) was amended by S.C. 1999, c. 22, s. 78, applicable on Royal Assent, June 17, 1999. S. 220(3.21) formerly read:

"(3.21) *Designations under section 80 and subsection 80.03(7).* For the purposes of subsection (3.2), a designation in any form prescribed for the purpose of paragraph 80(2)(*i*) or any of subsections 80(5) to (11) or 80.03(7) shall be deemed to be an election under a prescribed provision of this Act."

S. 220(3.21) was added by S.C. 1995, c. 21, s. 42, applicable on Royal Assent, June 22, 1995.

► 220(3.3) ◄

(3.3) Date of late election, amended election or revocation. Where, under subsection (3.2), the Minister has extended the time for making an election or granted permission to amend or revoke an election,

(*a*) the election or the amended election, as the case may be, shall be deemed to have been made on the day on or before which the election was otherwise required to be made and in the manner in which the election was otherwise required to be made, and, in the case of an amendment to an election, that election shall be deemed, otherwise than for the purposes of this section, never to have been made; and

(*b*) the election that was revoked shall be deemed, otherwise than for the purposes of this section, never to have been made.

History: S. 220(3.3) was added by S.C. 1994, c. 7, Sched. II, s. 181(1), applicable to elections in respect of the 1985 and subsequent taxation years.

► 220(3.4) ◄

(3.4) Assessments. Notwithstanding subsections 152(4), (4.01), (4.1) and (5), such assessment of the tax, interest and penalties payable by each taxpayer in respect of any taxation year that began before the day an application is made under subsection (3.2) to the Minister shall be made as is necessary to take into account the election, the amended election or the revocation, as the case may be, referred to in subsection (3.3).

History: S. 220(3.4) was amended by S.C. 1998, c. 19, s. 221(2), applicable to elections in respect of the 1985 and subsequent taxation years. S. 220(3.4) formerly read:

"(3.4) *Assessments.* Notwithstanding subsections 152(4), (4.1) and (5), such assessment of the tax, interest and penalties payable by each taxpayer in respect of any taxation year commencing before the day an application is made under subsection (3.2) to the Minister shall be made as is necessary to take into account the election, the amended election or the revocation, as the case may be, referred to in subsection (3.3)."

S. 220(3.4) was added by S.C. 1994, c. 7, Sched. II, s. 181(1), applicable to elections in respect of the 1985 and subsequent taxation years.

► 220(3.5) ◄

(3.5) Penalty for late filed, amended or revoked elections. Where, on application by a taxpayer or a partnership, the Minister extends the time for making an election or grants permission to amend or revoke an election (other than an extension or permission under subsection (3.201)), the taxpayer or the partnership, as the case may be, is liable to a penalty equal to the lesser of

(*a*) $8,000, and

(*b*) the product obtained when $100 is multiplied by the number of complete months from the day on or before which the election was required to be made to the day the application was made in a form satisfactory to the Minister.

History: S. 220(3.5), the portion before paragraph (*a*) was replaced by S.C. 2007, c. 35, s. 61(2), applicable to the 2007 and subsequent taxation years. S. 220(3.5), the portion before paragraph (*a*) formerly read:

"(3.5) *Penalty for late filed, amended or revoked elections.* Where, on application by a taxpayer or a partnership, the Minister extends the time for making an election or grants permission to amend or revoke an election, the taxpayer or the partnership, as the case may be, is liable to a penalty equal to the lesser of"

S. 220(3.5) was added by S.C. 1994, c. 7, Sched. II, s. 181(1), applicable to elections in respect of the 1985 and subsequent taxation years.

► 220(3.6) ◄

(3.6) Unpaid balance of penalty. The Minister shall, with all due dispatch, examine each election, amended election and revoked election referred to in subsection (3.3), assess any penalty payable and send a notice of assessment to the taxpayer or the partnership, as the case may be, and the taxpayer or the partnership, as the case may be, shall pay forthwith to the Receiver General the amount, if any, by which the penalty so assessed exceeds the total of all amounts previously paid on account of that penalty.

History: S. 220(3.6) was added by S.C. 1994, c. 7, Sched. II, s. 181(1), applicable to elections in respect of the 1985 and subsequent taxation years.

► 220(3.7) ◄

(3.7) Idem. The provisions of Divisions I and J of Part I apply, with such modifications as the circumstances require, to an assessment made under this section as though it had been made under section 152.

History: S. 220(3.7) was added by S.C. 1994, c. 7, Sched. II, s. 181(1), applicable to elections in respect of the 1985 and subsequent taxation years.

► 220(3.8) ◄

(3.8) Dishonoured instruments. For the purposes of this Act and section 155.1 of the *Financial Administration Act*

(*a*) any charge that becomes payable at any time by a person under the *Financial Administration Act* in respect of an instrument tendered in payment or settlement of an amount that is payable or remittable under this Act is deemed to be an amount that becomes payable or remittable by the person at that time under this Act;

(*b*) sections 152, 158 and 159, subsections 161(1), (2) and (11), sections 162 to 167 and Division J of this Part are applicable to the amount deemed to become payable or remittable by this subsection with any modifications that the circumstances require;

(*c*) Part II of the *Interest and Administrative Charges Regulations* does not apply to the charge; and

(*d*) any debt under subsection 155.1(3) of the *Financial Administration Act* in respect of the charge is deemed to be extinguished at the time the total of the

amount and any applicable interest under this Act is paid.

History: S. 220(3.8) was added by S.C. 2006, c. 4, s. 164(2), applicable in respect of any instrument that is dishonoured on or after April 1, 2007.

► 220(4) ◄

(4) Security. The Minister may, if the Minister considers it advisable in a particular case, accept security for payment of any amount that is or may become payable under this Act.

Related Sections: S. 159(2) Certificate before distribution.
Regulations: 2200.
Information Circulars: IC 98-1R3 Collections Policies.

► 220(4.1) ◄

(4.1) Idem. Where a taxpayer has objected to or appealed from an assessment under this Act, the Minister shall, while the objection or appeal is outstanding, accept adequate security furnished by or on behalf of the taxpayer for payment of the amount in controversy except to the extent that the Minister may collect the amount because of subsection 225.1(7).

History: S. 220(4.1) was amended by S.C. 1994, c. 7, Sched. VIII, s. 127(3), effective on Royal Assent, May 12, 1994. S. 220(4.1) formerly read:
"(4.1) *Idem, where objection or appeal.* Where a taxpayer has objected to or appealed from an assessment under this Act, the Minister shall accept adequate security furnished by or on behalf of the taxpayer for payment of the amount in controversy while the objection of appeal is outstanding."

Related Sections: S. 225.1(7) Where ss. (1) to (4) do not apply — large corporations; s. 248(1) Definitions.

► 220(4.2) ◄

(4.2) Surrender of excess security. Where at any time a taxpayer requests in writing that the Minister surrender any security accepted by the Minister under subsection (4) or (4.1), the Minister shall surrender the security to the extent that the value of the security exceeds the total of amounts payable under this Act by the taxpayer at that time.

► 220(4.3) ◄

(4.3) Security furnished by a member institution of a deposit insurance corporation. The Minister shall accept adequate security furnished by or on behalf of a taxpayer that is a member institution in relation to a deposit insurance corporation (within the meaning assigned by subsection 137.1(5)) for payment of

(*a*) the tax payable under this Act by the taxpayer for a taxation year, to the extent that the amount of that tax exceeds the amount that that tax would be if no amount that the taxpayer is obliged to repay to the corporation were included under paragraph 137.1(10)(*a*) or (*b*) in computing the taxpayer's income for the year or a preceding taxation year, and

(*b*) interest payable under this Act by the taxpayer on the amount determined under paragraph (*a*),

until the earlier of

(*c*) the day on which the taxpayer's obligation referred to in paragraph (*a*) to repay the amount to the corporation is settled or extinguished, and

(*d*) the day that is 10 years after the end of the year.

History: S. 220(4.3)(*a*) was amended by S.C. 1994, c. 7, Sched. II, s. 181(2), applicable after July 13, 1990. S. 220(4.3)(*a*) formerly read:
"(*a*) the tax payable under this Act by the taxpayer for a taxation year to the extent that the amount of that tax exceeds the amount that that tax would be if no amount that the taxpayer is obliged to repay to the corporation were included under paragraph 137.1(10)(*a*) or (*b*) in computing the taxpayer's income for the year, and"

► 220(4.4) ◄

(4.4) Additional security. The adequacy of security furnished by or on behalf of a taxpayer under subsection (4.3) shall be determined by the Minister and the Minister may require additional security to be furnished from time to time by or on behalf of the taxpayer where the Minister determines that the security that has been furnished is no longer adequate.

► 220(4.5) ◄

(4.5) Security for departure tax. If an individual who is deemed by subsection 128.1(4) to have disposed of a property (other than a right to a benefit under, or an interest in a trust governed by, an employee benefit plan) at any particular time in a taxation year (in this section referred to as the individual's "emigration year") elects, in prescribed manner on or before the individual's balance-due day for the emigration year, that this subsection and subsections (4.51) to (4.54) apply in respect of the emigration year,

(*a*) the Minister shall, until the individual's balance-due day for a particular taxation year that begins after the particular time, accept adequate security furnished by or on behalf of the individual on or before the individual's balance-due day for the emigration year for the lesser of

(i) the amount determined by the formula

$$A - B - [(A - B)/A) \times C]$$

where

A is the total amount of taxes under Parts I and I.1 that would be payable by the individual for the emigration year if the exclusion or deduction of each amount referred to in paragraph 161(7)(*a*) were not taken into account,

B is the total amount of taxes under those Parts that would have been so payable if each property (other than a right to a benefit under, or an interest in a trust governed by, an employee benefit plan) deemed by subsection 128.1(4) to have been disposed of at the particular time, and that has not been subsequently disposed of before the beginning of the particular year, were not deemed by subsection 128.1(4) to have been disposed of by the individual at the particular time, and

C is the total of all amounts deemed under this or any other Act to have been paid on account of the individual's tax under this Part for the emigration year, and

(ii) if the particular year immediately follows the emigration year, the amount determined under subparagraph (i), and in any other case, the amount determined under this paragraph in respect of the individual for the taxation year that immediately precedes the particular year, and

(*b*) except for the purposes of subsections 161(2), (4) and (4.01),

(i) interest under this Act for any period that ends on the individual's balance-due day for the partic-

ular year and throughout which security is accepted by the Minister, and

(ii) any penalty under this Act computed with reference to an individual's tax payable for the year that was, without reference to this paragraph, unpaid

shall be computed as if the particular amount for which adequate security has been accepted under this subsection were an amount paid by the individual on account of the particular amount.

History: S. 220(4.5) was added by S.C. 2001, c. 17, s. 178(1), applicable to dispositions and distributions that occur at any time after October 1, 1996 except that, if an individual ceased to be resident in Canada, or a distribution by a trust occurred to which paragraph 220(4.6)(*a*) of the Act applies in respect of the trust, before the particular day on which this Act receives Royal Assent [June 14, 2001], an election by the individual under subsection 220(4.5) of the Act, or by the trust under subsection 220(4.6) of the Act, as the case may be in respect of the taxation year that includes that time is deemed to have been made in a timely manner if it is made on or before the individual's filing-due date for the taxation year that includes the particular day, and security furnished by or on behalf of the individual under subsection 220(4.5) of the Act, or by or on behalf of the trust under subsection 220(4.6) of the Act, as the case may be, as enacted by subsection (1), is deemed to have been furnished in a timely manner if it is furnished on or before the individual's filing-due date for the taxation year that includes the particular day.

Forms: T1244.
Tax Topics: No. 1850, Elections Available Under the Emigration Rules.
Tax Profile: December 2008 — Tax Planning for Emigration from Canada to the United States; September 2008 — Mission Impossible: The Provision of Private Company Shares as Security for Canadian Departure Tax; August 2003 — Taxpayer Emigration: The Provision of Security for Departure Tax.

► 220(4.51) ◄

(4.51) Deemed security. If an individual (other than a trust) elects under subsection (4.5) that that subsection apply in respect of a taxation year, for the purposes of this subsection and subsections (4.5) and (4.52) to (4.54), the Minister is deemed to have accepted at any time after the election is made adequate security for a total amount of taxes payable under Parts I and I.1 by the individual for the emigration year equal to the lesser of

(*a*) the total amount of those taxes that would be payable for the year by an *inter vivos* trust resident in Canada (other than a trust described in subsection 122(2)) the taxable income of which for the year is $50,000, and

(*b*) the greatest amount for which the Minister is required to accept security furnished by or on behalf of the individual under subsection (4.5) at that time in respect of the emigration year,

and that security is deemed to have been furnished by the individual before the individual's balance-due day for the emigration year.

History: S. 220(4.51) was added by S.C. 2001, c. 17, s. 178(1), applicable to dispositions and distributions that occur at any time after October 1, 1996 except that, the reference to "$50,000" in paragraph 220(4.51)(*a*) shall be read as a reference to "$75,000" in respect of emigration years that are before 2001.

► 220(4.52) ◄

(4.52) Limit. Notwithstanding subsections (4.5) and (4.51), the Minister is deemed at any time not to have accepted security under subsection (4.5) in respect of an individual's emigration year for any amount greater than the amount, if any, by which

(*a*) the total amount of taxes that would be payable by the individual under Parts I and I.1 for the year if the exclusion or deduction of each amount referred to in paragraph 161(7)(*a*), in respect of which the day determined under paragraph 161(7)(*b*) is after that time, were not taken into account

exceeds

(*b*) the total amount of taxes that would be determined under paragraph (*a*) if this Act were read without reference to subsection 128.1(4).

History: S. 220(4.52) was added by S.C. 2001, c. 17, s. 178(1), applicable to dispositions and distributions that occur at any time after October 1, 1996.

► 220(4.53) ◄

(4.53) Inadequate security. Subject to subsection (4.7), if it is determined at any particular time that security accepted by the Minister under subsection (4.5) is not adequate to secure the particular amount for which it was furnished by or on behalf of an individual,

(*a*) subject to a subsequent application of this subsection, the security shall be considered after the particular time to secure only the amount for which it is adequate security at the particular time;

(*b*) the Minister shall notify the individual in writing of the determination and shall accept adequate security, for all or any part of the particular amount, furnished by or on behalf of the individual within 90 days after the day of notification; and

(*c*) any security accepted in accordance with paragraph (*b*) is deemed to have been accepted by the Minister under subsection (4.5) on account of the particular amount at the particular time.

History: S. 220(4.53) was added by S.C. 2001, c. 17, s. 178(1), applicable to dispositions and distributions that occur at any time after October 1, 1996.

► 220(4.54) ◄

(4.54) Extension of time. If in the opinion of the Minister it would be just and equitable to do so, the Minister may at any time extend

(*a*) the time for making an election under subsection (4.5);

(*b*) the time for furnishing and accepting security under subsection (4.5); or

(*c*) the 90-day period for the acceptance of security under paragraph (4.53)(*b*).

History: S. 220(4.54) was added by S.C. 2001, c. 17, s. 178(1), applicable to dispositions and distributions that occur at any time after October 1, 1996.

► 220(4.6) ◄

(4.6) Security for tax on distributions of taxable Canadian property to non-resident beneficiaries. Where

(*a*) solely because of the application of subsection 107(5), paragraphs 107(2)(*a*) to (*c*) do not apply to a distribution by a trust in a particular taxation year (in this section referred to as the trust's "distribution year") of taxable Canadian property, and

(*b*) the trust elects, in prescribed manner on or before the trust's balance-due day for the distribution year, that this subsection and subsections (4.61) to (4.63) apply in respect of the distribution year,

the following rules apply:

(*c*) the Minister shall, until the trust's balance-due day for a subsequent taxation year, accept adequate security furnished by or on behalf of the trust on or before the trust's balance-due day for the distribution year for the lesser of

(i) the amount determined by the formula

$A - B - [(A - B)/A) \times C]$

where

A is the total amount of taxes under Parts I and I.1 that would be payable by the trust for the distribution year if the exclusion or deduction of each amount referred to in paragraph 161(7)(*a*) were not taken into account,

B is the total amount of taxes under those Parts that would have been so payable if the rules in subsection 107(2) (other than the election referred to in that subsection) had applied to each disposition by the trust in the distribution year of property (other than property subsequently disposed of before the beginning of the subsequent year) to which paragraph (*a*) applies, and

C is the total of all amounts deemed under this or any other Act to have been paid on account of the trust's tax under this Part for the distribution year, and

(ii) where the subsequent year immediately follows the distribution year, the amount determined under subparagraph (i), and in any other case, the amount determined under this paragraph in respect of the trust for the taxation year that immediately precedes the subsequent year, and

(*d*) except for the purposes of subsections 161(2), (4) and (4.01),

(i) interest under this Act for any period that ends on the trust's balance-due day for the subsequent year and throughout which security is accepted by the Minister, and

(ii) any penalty under this Act computed with reference to the trust's tax payable for the year that was, without reference to this paragraph, unpaid

shall be computed as if the particular amount for which adequate security has been accepted under this subsection were an amount paid by the trust on account of the particular amount.

History: S. 220(4.6) was added by S.C. 2001, c. 17, s. 178(1), applicable to dispositions and distributions that occur at any time after October 1, 1996 except that, if an individual ceased to be resident in Canada, or a distribution by a trust occurred to which paragraph 220(4.6)(*a*) of the Act applies in respect of the trust, before the particular day on which this Act receives Royal Assent [June 14, 2001], an election by the individual under subsection 220(4.5) of the Act, or by the trust under subsection 220(4.6) of the Act, as the case may be in respect of the taxation year that includes that time is deemed to have been made in a timely manner if it is made on or before the individual's filing-due date for the taxation year that includes the particular day, and security furnished by or on behalf of the individual under subsection 220(4.5) of the Act, or by or on behalf of the trust under subsection 220(4.6) of the Act, as the case may be, as enacted by subsection (1), is deemed to have been furnished in a timely manner if it is furnished on or before the individual's filing-due date for the taxation year that includes the particular day.

► 220(4.61) ◄

(4.61) Limit. Notwithstanding subsection (4.6), the Minister is deemed at any time not to have accepted security under that subsection in respect of a trust's distribution year for any amount greater than the amount, if any, by which

(*a*) the total amount of taxes that would be payable by the trust under Parts I and I.1 for the year if the exclusion or deduction of each amount referred to in paragraph 161(7)(*a*), in respect of which the day determined under paragraph 161(7)(*b*) is after that time, were not taken into account

exceeds

(*b*) the total amount of taxes that would be determined under paragraph (*a*) if paragraphs 107(2)(*a*) to (*c*) had applied to each distribution by the trust in the year of property to which paragraph (1)(*a*) applies.

History: S. 220(4.61) was added by S.C. 2001, c. 17, s. 178(1), applicable to dispositions and distributions that occur at any time after October 1, 1996.

► 220(4.62) ◄

(4.62) Inadequate security. Subject to subsection (4.7), where it is determined at any particular time that security accepted by the Minister under subsection (4.6) is not adequate to secure the particular amount for which it was furnished by or on behalf of a trust,

(*a*) subject to a subsequent application of this subsection, the security shall be considered after the particular time to secure only the amount for which it is adequate security at the particular time;

(*b*) the Minister shall notify the trust in writing of the determination and shall accept adequate security, for all or any part of the particular amount, furnished by or on behalf of the trust within 90 days after the notification; and

(*c*) any security accepted in accordance with paragraph (*b*) is deemed to have been accepted by the Minister under subsection (4.6) on account of the particular amount at the particular time.

History: S. 220(4.62) was added by S.C. 2001, c. 17, s. 178(1), applicable to dispositions and distributions that occur at any time after October 1, 1996.

► 220(4.63) ◄

(4.63) Extension of time. Where in the opinion of the Minister it would be just and equitable to do so, the Minister may at any time extend

(*a*) the time for making an election under subsection (4.6);

(*b*) the time for furnishing and accepting security under subsection (4.6); or

(*c*) the 90-day period for the acceptance of the security under paragraph (4.62)(*b*).

History: S. 220(4.63) was added by S.C. 2001, c. 17, s. 178(1), applicable to dispositions and distributions that occur at any time after October 1, 1996.

► 220(4.7) ◄

(4.7) Undue hardship. If, in respect of any period of time, the Minister determines that an individual who has made an election under either subsection (4.5) or (4.6)

(*a*) cannot, without undue hardship, pay or reasonably arrange to have paid on the individual's behalf, an amount of taxes to which security under that subsection would relate, and

(*b*) cannot, without undue hardship, provide or reasonably arrange to have provided on the individual's behalf, adequate security under that subsection,

the Minister may, in respect of the election, accept for the period security different from, or of lesser value than, that which the Minister would otherwise accept under that subsection.

History: S. 220(4.7) was added by S.C. 2001, c. 17, s. 178(1), applicable to dispositions and distributions that occur at any time after October 1, 1996.

► 220(4.71) ◄

(4.71) Limit. In making a determination under subsection (4.7), the Minister shall ignore any transaction that is a disposition, lease, encumbrance, mortgage, hypothec, or other voluntary restriction by a person or partnership of the person's or partnership's rights in respect of a property, if the transaction can reasonably be considered to have been entered into for the purpose of influencing the determination.

History: S. 220(4.71) was added by S.C. 2001, c. 17, s. 178(1), applicable to dispositions and distributions that occur at any time after October 1, 1996.

► 220(5) ◄

(5) Administration of oaths. Any officer or servant employed in connection with the administration or enforcement of this Act, if designated by the Minister for the purpose, may, in the course of that employment, administer oaths and take and receive affidavits, declarations and affirmations for the purposes of or incidental to the administration or enforcement of this Act or regulations made thereunder, and every officer or servant so designated has for those purposes all the powers of a commissioner for administering oaths or taking affidavits.

Related Sections: S. 248(1), "employee", "employment", "property"; ITAR s. 65.1 Part XV of amended Act.

► 220(6) ◄

(6) Assignment by corporation. Notwithstanding section 67 of the *Financial Administration Act* and any other provision of a law of Canada or a province, a corporation may assign any amount payable to it under this Act.

History: S. 220(6) was added by S.C. 1997, c. 25, s. 66(1), applicable to assignments made after March 5, 1996.

► 220(7) ◄

(7) Effect of assignment. An assignment referred to in subsection (6) is not binding on Her Majesty in right if Canada and, without limiting the generality of the foregoing,

(*a*) the Minister is not required to pay to the assignee the assigned amount;

(*b*) the assignment does not create any liability of Her Majesty in right of Canada to the assignee; and

(*c*) the rights of the assignee are subject to all equitable and statutory rights of set-off in favour of Her Majesty in right of Canada.

History: S. 220(7) was added by S.C. 1997, c. 25, s. 66(1), applicable to assignments made after March 5, 1996.

SECTION 221:

► 221(1) ◄

(1) Regulations. The Governor in Council may make regulations

(*a*) prescribing anything that, by this Act, is to be prescribed or is to be determined or regulated by regulation;

(*b*) prescribing the evidence required to establish facts relevant to assessments under this Act;

(*c*) to facilitate the assessment of tax where deductions or exemptions of a taxpayer have changed in a taxation year;

(*d*) requiring any class of persons to make information returns respecting any class of information required in connection with assessments under this Act;

(*d.1*) requiring any person or partnership to provide any information including their name, address, Social Insurance Number or business number to any class of persons required to make an information return containing that information;

(*d.2*) requiring any class of persons to make information available to the public for the purpose of making information returns respecting any class of information required in connection with assessments under this Act;

(*e*) requiring a person who is, by a regulation made under paragraph (*d*), required to make an information return to supply a copy of the information return or of a prescribed part thereof to the person to whom the information return or part thereof relates;

(*f*) [Repealed by 1998, c. 19, s. 222(2).]

(*g*) providing for the retention by way of deduction or set-off of the amount of a taxpayer's income tax or other indebtedness under this Act out of any amount or amounts that may be or become payable by Her Majesty to the taxpayer in respect of salary or wages;

(*h*) defining the classes of persons who may be regarded as dependent for the purposes of this Act;

(*i*) defining the classes of non-resident persons who may be regarded for the purposes of this Act

(i) as a spouse or common-law partner supported by a taxpayer, or

(ii) as a person dependent or wholly dependent on a taxpayer for support,

and specifying the evidence required to establish that a person belongs to any such class; and

(*j*) generally to carry out the purposes and provisions of this Act.

History: S. 221(1)(*d.2*) was added by S.C. 2007, c. 35, s. 62(1), applicable to information in respect of taxation years of taxpayers and fiscal periods of partnerships that end on or after July 4, 2007.

S. 221(1)(*i*)(i) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.34), applicable January 1, 2001, coming into force on July 31, 2000. S. 221(1)(*i*)(i) formerly read:

"(i) as a spouse supported by a taxpayer, or"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 221(1)(*d.1*) was amended by S.C. 1998, c. 19, s. 222(1), applicable on Royal Assent, June 18, 1998. S. 221(1)(*d.1*) formerly read:

"(*d.1*) requiring any person to provide any information including that person's name, address and Social Insurance Number to any class of persons required to make an information return containing that information;"

S. 221(1)(*f*) was repealed by S.C. 1998, c. 19, s. 222(2). S. 221(1)(*f*) formerly read:

"(*f*) authorizing a designated officer or class of officers to exercise powers or perform duties of the Minister under this Act;"

Related Sections: S. 248(1), "common-law partner".

Regulations: Part II; Part IX.

Cases: Allegations that an income tax regulation is *ultra vires* have been made in several cases, but have never succeeded. See for instance *Attorney General of Canada v. Compagnie de Publication La Presse Limitée*, 66 DTC 5492 (S.C.C.) and *Regina v. Kerns Motor Town Sales Ltd.*, 68 DTC 5141 (B.C.C.A.).

► 221(2) ◄

(2) Effect. A regulation made under this Act shall have effect from the date it is published in the *Canada*

Gazette or at such time thereafter as may be specified in the regulation unless the regulation provides otherwise and it

(*a*) has a relieving effect only;

(*b*) corrects an ambiguous or deficient enactment that was not in accordance with the objects of this Act or the *Income Tax Regulations*;

(*c*) is consequential on an amendment to this Act that is applicable before the date the regulation is published in the *Canada Gazette*; or

(*d*) gives effect to a budgetary or other public announcement, in which case the regulation shall not, except where paragraph (*a*), (*b*) or (*c*) applies, have effect

(i) before the date on which the announcement was made, in the case of a deduction or withholding from an amount paid or credited, and

(ii) before the taxation year in which the announcement is made, in any other case.

Related Sections: S. 248(1), "amount", "assessment", "employee", "non-resident", "prescribed", "regulation", "salary or wages".

► 221(3) ◄

(3) Regulations binding Crown. Regulations made under paragraph (1)(*d*) or (*e*) are binding on Her Majesty in right of Canada or a province.

History: S. 221(3) was added by S.C. 1994, c. 7, Sched. II, s. 182(1), applicable after 1990.

► 221(4) ◄

(4) Incorporation by reference. A regulation made under this Act may incorporate by reference material as amended from time to time.

History: S. 221(4) was added by S.C. 1998, c. 19, s. 222(3), applicable to any regulation, regardless of whether it is made before or after this Act is assented to, June 18, 1998.

SECTION 221.1: Application of interest

For greater certainty, where an amendment to this Act or an amendment or enactment that relates to this Act applies to or in respect of any transaction, event or time, or any taxation year, fiscal period or other period of time or part thereof (in this section referred to as the "application time") occurring, or that is, before the day on which the amendment or enactment is assented to or promulgated, for the purposes of the provisions of this Act that provide for payment of, or liability to, any interest, the amendment or enactment shall, unless a contrary intention is evident, be deemed to have come into force at the beginning of the last taxation year beginning before the application time.

History: S. 221.1 was added by S.C. 1994, c. 7, Sched. II, s. 183(1), applicable to amendments and enactments assented to or promulgated after 1989 and shall be deemed to have come into force on January 1, 1990.

SECTION 221.2:

► 221.2(1) ◄

(1) Re-appropriation of amounts. Where a particular amount was appropriated to an amount (in this section referred to as the "debt") that is or may become payable by a person under any enactment referred to in paragraphs 223(1)(*a*) to (*d*), the Minister may, on application by the person, appropriate the particular amount, or a part thereof, to another amount that is or may become payable under any such enactment and, for the purposes of any such enactment,

(*a*) the later appropriation shall be deemed to have been made at the time of the earlier appropriation;

(*b*) the earlier appropriation shall be deemed not to have been made to the extent of the later appropriation; and

(*c*) the particular amount shall be deemed not to have been paid on account of the debt to the extent of the later appropriation.

History: S. 221.2 was renumbered as subsection 221.2(1) by S.C. 2006, c. 4, s. 165(1), applicable in respect of re-appropriation applications made on or after April 1, 2007.

S. 221.2 was added by S.C. 1994, c. 7, Sched. VIII, s. 128, effective on Royal Assent, May 12, 1994.

► 221.2(2) ◄

(2) Re-appropriation of amounts. Where a particular amount was appropriated to an amount (in this section referred to as the "debt") that is or may become payable by a person under this Act, the *Excise Tax Act*, the *Air Travellers Security Charge Act* or the *Excise Act, 2001*, the Minister may, on application by the person, appropriate the particular amount, or a part of it, to another amount that is or may become payable under any of those Acts and, for the purposes of any of those Acts,

(*a*) the later appropriation is deemed to have been made at the time of the earlier appropriation;

(*b*) the earlier appropriation is deemed not to have been made to the extent of the later appropriation; and

(*c*) the particular amount is deemed not to have been paid on account of the debt to the extent of the later appropriation.

History: S. 221.2(2) was added by S.C. 2006, c. 4, s. 165(1), applicable in respect of re-appropriation applications made on or after April 1, 2007.

SECTION 222: [Limitation period for collection of tax debts].

► 222(1) ◄

(1) Definitions. The following definitions apply in this section.

"*action*" — "action" means an action to collect a tax debt of a taxpayer and includes a proceeding in a court and anything done by the Minister under subsection 129(2), 131(3), 132(2) or 164(2), section 203 or any provision of this Part.

History: S. 222(1), the definition "action" was added by S.C. 2004, c. 22, s. 50, in force on Royal Assent, May 14, 2004.

S. 222 was replaced, and subsection (1) was added, by S.C. 2004, c. 22, s. 50, effective on Royal Assent, May 14, 2004. S. 222 formerly read:

"S. 222. *Debts to Her Majesty.* All taxes, interest, penalties, costs and other amounts payable under this Act are debts due to Her Majesty and recoverable as such in the Federal Court of Canada or any other court of competent jurisdiction or in any other manner provided by this Act."

"*tax debt*" — "tax debt" means any amount payable by a taxpayer under this Act.

History: S. 222(1), the definition "tax debt" was added by S.C. 2004, c. 22, s. 50, in force on Royal Assent, May 14, 2004.

► 222(2) ◄

(2) Debts to Her Majesty. A tax debt is a debt due to Her Majesty and is recoverable as such in the Federal Court or any other court of competent jurisdiction or in any other manner provided by this Act.

History: S. 222(2) was added by S.C. 2004, c. 22, s. 50, in force on Royal Assent, May 14, 2004.

Information Circulars: IC 98-1R3 Collections Policies.

► 222(3) ◄

(3) No actions after limitation period. The Minister may not commence an action to collect a tax debt after the

end of the limitation period for the collection of the tax debt.

History: S. 222(3) was added by S.C. 2004, c. 22, s. 50, in force on Royal Assent, May 14, 2004.

► 222(4) ◄

(4) Limitation period. The limitation period for the collection of a tax debt of a taxpayer

(*a*) begins

(i) if a notice of assessment, or a notice referred to in subsection 226(1), in respect of the tax debt is mailed to or served on the taxpayer, after March 3, 2004, on the day that is 90 days after the day on which the last one of those notices is mailed or served, and

(ii) if subparagraph (i) does not apply and the tax debt was payable on March 4, 2004, or would have been payable on that date but for a limitation period that otherwise applied to the collection of the tax debt, on March 4, 2004; and

(*b*) ends, subject to subsection (8), on the day that is 10 years after the day on which it begins.

History: S. 222(4) was added by S.C. 2004, c. 22, s. 50, in force on Royal Assent, May 14, 2004.

► 222(5) ◄

(5) Limitation period restarted. The limitation period described in subsection (4) for the collection of a tax debt of a taxpayer restarts (and ends, subject to subsection (8), on the day that is 10 years after the day on which it restarts) on any day, before it would otherwise end, on which

(*a*) the taxpayer acknowledges the tax debt in accordance with subsection (6);

(*b*) the Minister commences an action to collect the tax debt; or

(*c*) the Minister, under subsection 159(3) or 160(2) or paragraph 227(10)(*a*), assesses any person in respect of the tax debt.

History: S. 222(5) was added by S.C. 2004, c. 22, s. 50, in force on Royal Assent, May 14, 2004.

► 222(6) ◄

(6) Acknowledgement of tax debts. A taxpayer acknowledges a tax debt if the taxpayer

(*a*) promises, in writing, to pay the tax debt;

(*b*) makes a written acknowledgement of the tax debt, whether or not a promise to pay can be inferred from the acknowledgement and whether or not it contains a refusal to pay; or

(*c*) makes a payment, including a purported payment by way of a negotiable instrument that is dishonoured, on account of the tax debt.

History: S. 222(6) was added by S.C. 2004, c. 22, s. 50, in force on Royal Assent, May 14, 2004.

► 222(7) ◄

(7) Agent or legal representative. For the purposes of this section, an acknowledgement made by a taxpayer's agent or legal representative has the same effect as if it were made by the taxpayer.

History: S. 222(7) was added by S.C. 2004, c. 22, s. 50, in force on Royal Assent, May 14, 2004.

► 222(8) ◄

(8) Extension of limitation period. In computing the day on which a limitation period ends, there shall be added the number of days on which one or more of the following is the case:

(*a*) the Minister may not, because of any of subsections 225.1(2) to (5), take any of the actions described in subsection 225.1(1) in respect of the tax debt;

(*b*) the Minister has accepted and holds security in lieu of payment of the tax debt;

(*c*) if the taxpayer was resident in Canada on the applicable date described in paragraph (4)(*a*) in respect of the tax debt, the taxpayer is non-resident; or

(*d*) an action that the Minister may otherwise take in respect of the tax debt is restricted or not permitted under any provision of the *Bankruptcy and Insolvency Act*, of the *Companies' Creditors Arrangement Act* or of the *Farm Debt Mediation Act*.

History: S. 222(8) was added by S.C. 2004, c. 22, s. 50, in force on Royal Assent, May 14, 2004.

► 222(9) ◄

(9) Bar to claims. Notwithstanding any law of Canada or a province, Her Majesty is not liable for any claim that arises because the Minister collected a tax debt after the end of any limitation period that applied to the collection of the tax debt and before March 4, 2004.

History: S. 222(9) was added by S.C. 2004, c. 22, s. 50, in force on Royal Assent, May 14, 2004.

► 222(10) ◄

(10) Orders after March 3, 2004 and before effect. Notwithstanding any order or judgment made after March 3, 2004 that declares a tax debt not to be payable by a taxpayer, or that orders the Minister to reimburse to a taxpayer a tax debt collected by the Minister, because a limitation period that applied to the collection of the tax debt ended before royal assent to any measure giving effect to this section, the tax debt is deemed to have become payable on March 4, 2004.

History: S. 222(10) was added by S.C. 2004, c. 22, s. 50, in force on Royal Assent, May 14, 2004.

Information Circulars: IC 98-1R3 Collections Policies.

Cases: Federal income tax collection proceedings are subject to the limitation period in s. 32 of the *Crown Liability and Proceedings Act*. In addition, s. 3(5) of the *B.C. Limitation Act* barred the Crown from collecting the taxpayer's provincial tax debt. *The Queen v. Markevich et al.*, 2003 DTC 5185 (S.C.C.), affirming 2001 DTC 5305 (F.C.A.), reversing 99 DTC 5136 (F.C.T.D.).

SECTION 222.1: Court costs.

Where an amount is payable by a person to Her Majesty because of an order, judgment or award of a court in respect of the costs of litigation relating to a matter to which this Act applies, subsections 220(4) and (4.2) and sections 223, 224 to 225 and 226 apply to the amount as if the amount were a debt owing by the person to Her Majesty on account of tax payable by the person under this Act.

History: S. 222.1 was added by S.C 1998, c. 19, s. 223(1), applicable to amounts that are payable after this Act is assented to, including amounts that became payable before this Act is assented to, June 18, 1998.

SECTION 223:

► 223(1) ◄

(1) Definition of "amount payable". For the purposes of subsection (2), an "amount payable" by a person means any or all of

(*a*) an amount payable under this Act by the person;

(*b*) an amount payable under the *Employment Insurance Act* by the person;

(*b*.1) an amount payable under the *Unemployment Insurance Act* by the person;

(*c*) an amount payable under the *Canada Pension Plan* by the person; and

(*d*) an amount payable by the person under an Act of a province with which the Minister of Finance has entered into an agreement for the collection of taxes payable to the province under that Act.

History: S. 223(1)(*b*.1) was added by S.C. 1998, c. 19, s. 224(1), deemed to have come into force on June 30, 1996.

S. 223(1)(*b*) was amended by S.C. 1996, c. 23, s. 187, by replacing the expression "Unemployment Insurance Act" with the expression "Employment Insurance Act", effective June 30, 1996.

Related Sections: S. 225.1 Collection restrictions; s. 248(1), "amount".
Information Circulars: IC 98-1R3 Collections Policies.

► 223(2) ◄

(2) Certificates. An amount payable by a person (in this section referred to as a "debtor") that has not been paid or any part of an amount payable by the debtor that has not been paid may be certified by the Minister as an amount payable by the debtor.

Related Sections: S. 223(3) Registration in court; s. 223(4) Costs; s. 223(9) Sale, etc; s. 223(12) Details in certificates and memorials.
Cases: The Federal Court did not have jurisdiction to amend a certificate since the certificate, when registered, did not become a judgment or order of the Court but remained a certificate of the Minister who was the proper person to amend it. *The Queen v. Star Treck Holdings Ltd. et al.*, 77 DTC 5311 (F.C.T.D.).

► 223(3) ◄

(3) Registration in court. On production to the Federal Court, a certificate made under subsection (2) in respect of a debtor shall be registered in the Court and when so registered has the same effect, and all proceedings may be taken thereon, as if the certificate were a judgment obtained in the Court against the debtor for a debt in the amount certified plus interest thereon to the day of payment as provided by the statute or statutes referred to in subsection (1) under which the amount is payable and, for the purpose of any such proceedings, the certificate shall be deemed to be a judgment of the Court against the debtor for a debt due to Her Majesty, enforceable in the amount certified plus interest thereon to the day of payment as provided by that statute or statutes.

History: S. 223(3) was amended by S.C. 1994, c. 7, Sched. VIII, s. 129, effective on Royal Assent, May 12, 1994. S. 223(3) formerly read:

"(3) On production to the Federal Court, a certificate made under subsection (2) in respect of a debtor shall be registered in the Court and when so registered has the same effect, and all proceedings may be taken thereon, as if the certificate were a judgment obtained in the Court against the debtor for a debt in the amount certified plus interest thereon to the day of payment as provided by law and, for the purposes of any such proceedings, the certificate shall be deemed to be a judgment of the Court against the debtor for a debt due to Her Majesty enforceable in the amount certified plus interest thereon to the day of payment as provided by law."

Related Sections: S. 223(5)–(8).
Cases: The registration of a certificate within six years of the commencement of the limitation period was capable of supporting a writ of execution. Because the effect of filing a certificate was to make the taxpayer liable to execution, he continued to be liable to make a payment under the Act and his debt was not extinguished under the *B.C. Limitation Act*. *Ross v. The Queen*, 2002 DTC 6884 (F.C.T.D.).

A taxpayer's RRSP could be seized in the hands of a trust company in Manitoba since writs of execution for the enforcement of judgments of the Federal Court are to be executed in the same manner as similar writs issued out of the Superior Court of the province in which the property to be seized is situated. *M.N.R. v. Sinclair*, 93 DTC 5239 (F.C.T.D.).

An opposition by a taxpayer to the seizure of his RRSP on the grounds that an RRSP constitutes an annuity for a fixed term and, as such, is exempt from seizure under Quebec law was dismissed. The fact that the taxpayer could withdraw the proceeds of his RRSP at any time prior to its maturity meant that it could not be shown that the method of distribution of the revenues accumulated therein was in the nature of a fixed term annuity. *In re Jean Crevier and the Royal Bank of Canada*, 93 DTC 5510 (F.C.T.D.).

Such damages, however, had to be limited to half the sale price and municipal school taxes, so that the co-owner was not entitled to additional damages for the additional land value of which he had allegedly been deprived by being required to reconvey his undivided share. *The Queen v. Lovell et al.*, 93 DTC 5432 (F.C.A.), reversing in part 90 DTC 6116 (F.C.T.D.).

► 223(4) ◄

(4) Costs. All reasonable costs and charges incurred or paid in respect of the registration in the Court of a certificate made under subsection (2) or in respect of any proceedings taken to collect the amount certified are recoverable in like manner as if they had been included in the amount certified in the certificate when it was registered.

► 223(5) ◄

(5) Charge on property. A document issued by the Federal Court evidencing a certificate in respect of a debtor registered under subsection (3), a writ of that Court issued pursuant to the certificate or any notification of the document or writ (such document, writ or notification in this section referred to as a "memorial") may be filed, registered or otherwise recorded for the purpose of creating a charge, lien or priority on, or a binding interest in, property in a province, or any interest in such property, held by the debtor in the same manner as a document evidencing

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 223(5) of the Act before paragraph (*a*) is replaced by the following:

(5) Charge on property. A document issued by the Federal Court evidencing a certificate in respect of a debtor registered under subsection (3), a writ of that Court issued pursuant to the certificate or any notification of the document or writ (such document, writ or notification in this section referred to as a "memorial") may be filed, registered or otherwise recorded for the purpose of creating a charge, lien or priority on, or a binding interest in, property in a province, or any interest in, or for civil law any right in, such property, held by the debtor in the same manner as a document evidencing

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*a*) a judgment of the superior court of the province against a person for a debt owing by the person, or

(*b*) an amount payable or required to be remitted by a person in the province in respect of a debt owing to Her Majesty in right of the province

may be filed, registered or otherwise recorded in accordance with or pursuant to the law of the province to create a charge, lien or priority on, or a binding interest in, the property or interest.

History: S. 223(5) was amended by S.C. 1998, c. 19, s. 224(2), applicable on Royal Assent, June 18, 1998. S. 223(5) formerly read:

"(5) *Charge on land.* A document (in this section referred to as a 'memorial') issued by the Federal Court evidencing a certificate in respect of a debtor registered under subsection (3) may be filed, registered or otherwise recorded for the purpose of creating a charge or lien on or otherwise binding land in a province, or any interest therein, held by the debtor in the same manner as a document evidencing a judgment of the superior court of the

province against a person for a debt owing by the person may be filed, registered or otherwise recorded in accordance with the law of the province to create a charge or lien on or otherwise bind land, or any interest therein, held by the person."

► 223(6) ◄

(6) Creation of charge. If a memorial has been filed, registered or otherwise recorded under subsection (5),

(*a*) a charge, lien or priority is created on, or a binding interest is created in, property in the province, or any interest in such property, held by the debtor, or

(*b*) such property or interest in the property is otherwise bound,

in the same manner and to the same extent as if the memorial were a document evidencing a judgment referred to in paragraph (5)(*a*) or an amount referred to in paragraph (5)(*b*), and the charge, lien, priority or binding interest created shall be subordinate to any charge, lien, priority or binding interest in respect of which all steps necessary to make it effective against other creditors were taken before the time the memorial was filed, registered or otherwise recorded.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 223(6) of the Act is replaced by the following:

(6) Creation of charge. If a memorial has been filed, registered or otherwise recorded under subsection (5),

(*a*) a charge, lien or priority is created on, or a binding interest is created in, property in the province, or any interest in, or for civil law any right in, such property, held by the debtor, or

(*b*) such property, or interest or right in the property, is otherwise bound,

in the same manner and to the same extent as if the memorial were a document evidencing a judgment referred to in paragraph (5)(*a*) or an amount referred to in paragraph (5)(*b*), and the charge, lien, priority or binding interest created shall be subordinate to any charge, lien, priority or binding interest in respect of which all steps necessary to make it effective against other creditors were taken before the time the memorial was filed, registered or otherwise recorded.

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

History: S. 223(6) was amended by S.C. 1998, c. 19, s. 224(2), applicable on Royal Assent, June 18, 1998. S. 223(6) formerly read:

"(6) *Idem.* Where a memorial has been filed, registered or otherwise recorded under subsection (5), a charge or lien is created on land in the province, or any interest therein, held by the debtor, or such land or interest is otherwise bound, in the same manner and to the same extent as if the memorial were a document evidencing a judgment of the superior court of the province."

► 223(7) ◄

(7) Proceedings in respect of memorial. If a memorial is filed, registered or otherwise recorded in a province under subsection (5), proceedings may be taken in the province in respect of the memorial, including proceedings

(*a*) to enforce payment of the amount evidenced by the memorial, interest on the amount and all costs and charges paid or incurred in respect of

(i) the filing, registration or other recording of the memorial, and

(ii) proceedings taken to collect the amount,

(*b*) to renew or otherwise prolong the effectiveness of the filing, registration or other recording of the memorial,

(*c*) to cancel or withdraw the memorial wholly or in respect of any of the property or interests affected by the memorial, or

(*d*) to postpone the effectiveness of the filing, registration or other recording of the memorial in favour of any right, charge, lien or priority that has been or is intended to be filed, registered or otherwise recorded in respect of any property or interest affected by the memorial,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraphs 223(7)(*c*) and (*d*) of the Act are replaced by the following:

(*c*) to cancel or withdraw the memorial wholly or in respect of any of the property, or interests or rights, affected by the memorial, or

(*d*) to postpone the effectiveness of the filing, registration or other recording of the memorial in favour of any right, charge, lien or priority that has been or is intended to be filed, registered or otherwise recorded in respect of any property, or interest or right, affected by the memorial,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

in the same manner and to the same extent as if the memorial were a document evidencing a judgment referred to in paragraph (5)(*a*) or an amount referred to in paragraph (5)(*b*), except that if in any such proceeding or as a condition precedent to any such proceeding any order, consent or ruling is required under the law of the province to be made or given by the superior court of the province or a judge or official of the court, a like order, consent or ruling may be made or given by the Federal Court or a judge or official of the Federal Court and, when so made or given, has the same effect for the purposes of the proceeding as if it were made or given by the superior court of the province or a judge or official of the court.

History: S. 223(7) was amended by S.C. 1998, c. 19, s. 224(2), applicable on Royal Assent, June 18, 1998. S. 223(7) formerly read:

"(7) *Proceedings in respect of memorial.* Where a memorial of a certificate in respect of a debtor registered under subsection (3) is filed, registered or otherwise recorded as permitted under subsection (5), proceedings may be taken in respect thereof, including proceedings

(*a*) to enforce payment of the amount certified in the certificate, interest thereon and all costs and charges paid or incurred in respect of

(i) the filing, registration or other recording of the memorial, and

(ii) proceedings taken to collect the amount,

(*b*) to renew or otherwise prolong the effectiveness of the filing, registration or other recording of the memorial,

(*c*) to cancel or withdraw the memorial wholly or in respect of one or more parcels of land or interests in land affected by the memorial, or

(*d*) to postpone the effectiveness of the filing, registration or other recording of the memorial in favour of any right, charge or lien that has been or is intended to be filed, registered or otherwise recorded in respect of any land or interest in land affected by the memorial,

in the same manner and subject to the same restrictions and limitations as though the memorial were a document evidencing a judgment of the superior court of the province except that, where in any such proceeding or as a condition precedent to any such proceeding any order, consent or ruling is required under the law of the province to be made or given by the superior court of the province or a judge or official thereof, a like order, consent or ruling may be made or given by the Federal Court or a judge or official thereof and, when so made or given, has the same effect for the purposes of the proceeding as though made or given by the superior court of the province or a judge or official thereof."

► 223(8) ◄

(8) Presentation of documents. If

(*a*) a memorial is presented for filing, registration or other recording under subsection (5) or a document relating to the memorial is presented for filing, registration or other recording for the purpose of any proceeding described in subsection (7) to any official in the land, personal property or other registry system of a province, it shall be accepted for filing, registration or other recording, or

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 223(8)(*a*) of the English version of the Act is replaced by the following:

(*a*) a memorial is presented for filing, registration or other recording under subsection (5) or a document relating to the memorial is presented for filing, registration or other recording for the purpose of any proceeding described in subsection (7) to any official in the land registry system, personal property or movable property registry system, or other registry system, of a province, it shall be accepted for filing, registration or other recording, or

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*b*) access is sought to any person, place or thing in a province to make the filing, registration or other recording, the access shall be granted

in the same manner and to the same extent as if the memorial or document relating to the memorial were a document evidencing a judgment referred to in paragraph (5)(*a*) or an amount referred to in paragraph (5)(*b*) for the purpose of a like proceeding, as the case may be, except that, if the memorial or document is issued by the Federal Court or signed or certified by a judge or official of the Court, any affidavit, declaration or other evidence required under the law of the province to be provided with or to accompany the memorial or document in the proceedings is deemed to have been provided with or to have accompanied the memorial or document as so required.

History: S. 223(8) was amended by S.C. 1998, c. 19, s. 224(2), applicable on Royal Assent, June 18, 1998. S. 223(8) formerly read:

"(8) *Presentation of documents.* Where a memorial of a certificate registered under subsection (3) is presented for filing, registration or other recording as permitted under subsection (5), or any document relating to the memorial is presented for filing, registration or other recording for the purpose of any proceeding described in subsection (7), to any officer of a superior court of a province or to any official in the land registry system of a province, it shall be accepted for filing, registration or other recording as though it were a like document issued from the superior court of the province or prepared in respect of a document evidencing a judgment of the superior court of the province for the purpose of a like proceeding, as the case may be, except that, where the memorial or document is issued by the Federal Court or signed or certified by a judge or official thereof, any affidavit, declaration or other evidence required under the law of the province to be provided with or to accompany the memorial or document in such proceedings shall be deemed to have been provided with or to have accompanied the memorial or document as so required."

► 223(9) ◄

(9) Sale, etc. Notwithstanding any law of Canada or of a province, a sheriff or other person shall not, without the written consent of the Minister, sell or otherwise dispose of any property, or publish any notice or otherwise advertise in respect of any sale or other disposition of any property pursuant to any process issued or charge, lien, priority or binding interest created in any proceeding to collect an amount certified in a certificate made under subsection (2), interest on the amount and costs, but if that consent is subsequently given, any property that would have been affected by such a process, charge, lien, priority or binding interest if the Minister's consent had been given at the time the process was issued or the charge, lien, priority or binding interest was created, as the case may be, shall be bound, seized, attached, charged or otherwise affected as it would be if that consent had been given at the time the process was issued or the charge, lien, priority or binding interest was created, as the case may be.

History: S. 223(9) was amended by S.C. 1998, c. 19, s. 224(2), applicable on Royal Assent, June 18, 1998. S. 223(9) formerly read:

"(9) *Sale, etc.* Notwithstanding any law of Canada or of a province, a sheriff or other person shall not, without the written consent of the Minister, sell or otherwise dispose of any property, or publish any notice or otherwise advertise in respect of any sale or other disposition of any property pursuant to any process issued or charge or lien created in any proceeding to collect an amount certified in a certificate ade under subsection (2), interest thereon and costs but any property that would have been affected by such a process, charge or lien had the Minister's consent been given at the time the process was issued or the charge or lien was created, as the case may be, shall be bound, seized, attached, charged or otherwise affected as it would be had that consent been given at the time the process was issued or the charge or lien was created, as the case may be."

► 223(10) ◄

(10) Completion of notices, etc. If information required to be set out by any sheriff or other person in a minute, notice or document required to be completed for any purpose cannot, by reason of subsection (9), be so set out, the sheriff or other person shall complete the minute, notice or document to the extent possible without that information and, when the consent of the Minister is given under that subsection, a further minute, notice or document setting out all the information shall be completed for the same purpose, and the sheriff or other person having complied with this subsection is deemed to have complied with the Act, regulation or rule requiring the information to be set out in the minute, notice or document.

History: S. 223(10) was amended by S.C. 1998, c. 19, s. 224(2), applicable on Royal Assent, June 18, 1998. S. 223(10) formerly read:

"(10) *Completion of notices, etc.* Where information required to be set out by any sheriff or other person in a minute, notice or document required to be completed for any purpose cannot, by reason of subsection (9), be so set out, the sheriff or other person shall complete the minute, notice or document to the extent possible without that information and, when the consent of the Minister is given for the purpose of that subsection, a further minute, notice or document setting out all the information shall be completed for the same purpose, and the sheriff or other person having complied with this subsection shall be deemed to have complied with the Act, regulation or rule requiring the information to be set out in the minute, notice or document."

► 223(11) ◄

(11) Application for an order. A sheriff or other person who is unable, by reason of subsection (9) or (10), to comply with any law or rule of court is bound by any order made by a judge of the Federal Court, on an *ex parte* application by the Minister, for the purpose of giving effect to the proceeding, charge, lien, priority or binding interest.

History: S. 223(11) was amended by S.C. 1998, c. 19, s. 224(2), applicable on Royal Assent, June 18, 1998. S. 223(11) formerly read:

"(11) *Application for an order.* A sheriff or other person who is unable, by reason of subsection (9) or (10), to comply with any law or rule of court shall be bound by such order as may be made by a judge of the Federal Court, on an *ex parte* application by the Minister, for the purpose of giving effect to the proceeding, charge or lien."

► 223(11.1) ◄

(11.1) Deemed security. When a charge, lien, priority or binding interest created under subsection (6) by filing, registering or otherwise recording a memorial under subsection (5) is registered in accordance with subsection 87(1) of the *Bankruptcy and Insolvency Act*, it is deemed

(*a*) to be a claim that is secured by a security and that, subject to subsection 87(2) of that Act, ranks as a secured claim under that Act; and

(*b*) to also be a claim referred to in paragraph 86(2)(*a*) of that Act.

History: S. 223(11.1)(*a*) was amended by S.C. 2000, c. 30, s. 175(1), deemed to have come into force on June 18, 1998. S. 223(11.1)(*a*) formerly read:

"(*a*) to be a claim that is secured by a security and that, subject to subsection 87(2) of that Act, ranks as a security claim under that Act; and"

S. 223(11.1) was added by S.C. 1998, c. 19, s. 224(2), applicable on Royal Assent, June 18, 1998.

► 223(12) ◄

(12) Details in certificates and memorials. Notwithstanding any law of Canada or of a province, in any certificate made under subsection (2) in respect of a debtor, in any memorial evidencing the certificate or in any writ or document issued for the purpose of collecting an amount certified, it is sufficient for all purposes

(*a*) to set out, as the amount payable by the debtor, the total of amounts payable by the debtor without setting out the separate amounts making up that total; and

(*b*) to refer to the rate of interest to be charged on the separate amounts making up the amount payable in general terms as interest at the rate prescribed under this Act applicable from time to time on amounts payable to the Receiver General without indicating the specific rates of interest to be charged on each of the separate amounts or to be charged for any particular period of time.

Regulations: 4301.

SECTION 223.1:

► 223.1(1) ◄

(1) Application of ss. 223(1) to (8) and (12). Subsections 223(1) to (8) and (12) are applicable with respect to certificates made under section 223 or section 223 of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, after 1971 and documents evidencing such certificates that were issued by the Federal Court and that were filed, registered or otherwise recorded after 1977 under the laws of a province, except that, where any such certificate or document was the subject of an action pending in a court on February 10, 1988 or the subject of a court decision given on or before that date, section 223 shall be read, for the purposes of applying it with respect to that certificate or document, as section 223 of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, read at the time the certificate was registered or the document was issued, as the case may be.

► 223.1(2) ◄

(2) Application of ss. 223(9) to (11). Subsections 223(9) to (11) are applicable with respect to certificates made under section 223, or section 223 of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, after September 13, 1988.

SECTION 224:

► 224(1) ◄

(1) Garnishment. Where the Minister has knowledge or suspects that a person is, or will be within one year, liable to make a payment to another person who is liable to make a payment under this Act (in this subsection and subsections (1.1) and (3) referred to as the "tax debtor"), the Minister may in writing require the person to pay forthwith, where the moneys are immediately payable, and in any other case as and when the moneys become payable, the moneys otherwise payable to the tax debtor in whole or in part to the Receiver General on account of the tax debtor's liability under this Act.

History: S. 224(1) was amended by S.C. 1994, c. 21, s. 101(1), applicable to requirements and notifications made after 1992 except that, in applying subsection 224(1) to requirements and notifications made on or before the day this Act is assented to [Royal Assent June 15, 1994], the reference in that subsection to "one year" shall be read as "90 days". S. 224(1) formerly read:

"(1) Where the Minister has knowledge or suspects that a person is or will be, within 90 days, liable to make a payment to another person who is liable to make a payment under this Act (in this subsection and subsections (1.1) and (3) referred to as the 'tax debtor'), the Minister may, by registered letter or by a letter served personally, require that person to pay forthwith, where the moneys are immediately payable, and in any other case, as and when the moneys become payable, the moneys otherwise payable to the tax debtor in whole or in part to the Receiver General on account of the tax debtor's liability under this Act."

Related Sections: S. 225.1 Collection restrictions.
Information Circulars: IC 98-1R3 Collections Policies.

► 224(1.1) ◄

(1.1) Idem. Without limiting the generality of subsection (1), where the Minister has knowledge or suspects that within 90 days

(*a*) a bank, credit union, trust company or other similar person (in this section referred to as the "institution") will lend or advance moneys to, or make a payment on behalf of, or make a payment in respect of a negotiable instrument issued by, a tax debtor who is indebted to the institution and who has granted security in respect of the indebtedness, or

(*b*) a person, other than an institution, will lend or advance moneys to, or make a payment on behalf of, a tax debtor who the Minister knows or suspects

(i) is employed by, or is engaged in providing services or property to, that person or was or will be, within 90 days, so employed or engaged, or

(ii) where that person is a corporation, is not dealing at arm's length with that person,

the Minister may in writing require the institution or person, as the case may be, to pay in whole or in part to the Receiver General on account of the tax debtor's liability under this Act the moneys that would otherwise be so lent, advanced or paid and any moneys so paid to the Receiver

General shall be deemed to have been lent, advanced or paid, as the case may be, to the tax debtor.

History: S. 224(1.1), that portion following paragraph (*b*), was amended by S.C. 1994, c. 21, s. 101(2), applicable to requirements and notifications made after 1992. That portion of s. 224(1.1) following paragraph (*b*) formerly read:

"the Minister may, by registered letter or by a letter served personally, require the institution or person, as the case may be, to pay in whole or in part to the Receiver General on account of the tax debtor's liability under this Act the moneys that would otherwise be so lent, advanced or paid and any moneys so paid to the Receiver General shall be deemed to have been lent, advanced or paid, as the case may be, to the tax debtor."

Related Sections: S. 225.1 Collection restrictions.

Cases: Inasmuch as no outstanding payroll deductions had been made prior to an assignment of inventory, a bank's security created by such an assignment took priority over the Crown's deemed trust in the unremitted source deductions since the bank had legal title to that inventory. *The Queen v. Royal Bank of Canada*, 97 DTC 5089 (S.C.C.).

► 224(1.2) ◄

(1.2) Garnishment. Notwithstanding any other provision of this Act, the *Bankruptcy and Insolvency Act*, any other enactment of Canada, any enactment of a province or any law, but subject to subsections 69(1) and 69.1(1) of the *Bankruptcy and Insolvency Act* and section 11.4 of the *Companies' Creditors Arrangement Act*, where the Minister has knowledge or suspects that a particular person is, or will become within one year, liable to make a payment

Pending Amendment

Bill C-12 — Consequential Amendment to the Income Tax Act — Royal Assent December 14, 2007 (S.C. 2007, c. 36), not yet in force

The portion of subsection 224(1.2) of the *Income Tax Act* before paragraph (*a*) is replaced by the following:

(1.2) Garnishment. Notwithstanding any other provision of this Act, the *Bankruptcy and Insolvency Act*, any other enactment of Canada, any enactment of a province or any law, but subject to subsections 69(1) and 69.1(1) of the *Bankruptcy and Insolvency Act* and section 11.09 of the *Companies' Creditors Arrangement Act*, if the Minister has knowledge or suspects that a particular person is, or will become within one year, liable to make a payment

Applicable: Comes into force on a day or days to be fixed by order of the Governor in Council.

Editorial Note: The amendment to subsection 224(1.2) in Bill C-12 is identical to that contained in Bill C-55 (S.C. 2005, c. 47, Royal Assent November 25, 2005), but which did not come into force.

(*a*) to another person (in this subsection referred to as the "tax debtor") who is liable to pay an amount assessed under subsection 227(10.1) or a similar provision, or

(*b*) to a secured creditor who has a right to receive the payment that, but for a security interest in favour of the secured creditor, would be payable to the tax debtor,

the Minister may in writing require the particular person to pay forthwith, where the moneys are immediately payable, and in any other case as and when the moneys become payable, the moneys otherwise payable to the tax debtor or the secured creditor in whole or in part to the Receiver General on account of the tax debtor's liability under subsection 227(10.1) or the similar provision, and on receipt of that requirement by the particular person, the amount of those moneys that is so required to be paid to the Receiver General shall, notwithstanding any security interest in those moneys, become the property of Her Majesty to the extent of that liability as assessed by the Minister and shall be paid to the Receiver General in priority to any such security interest.

History: S. 224(1.2), the portion before paragraph (*a*), was amended by S.C. 1997, c. 12, s. 128, applicable upon Proclamation (September 30, 1997). That part formerly read:

"(1.2) *Idem.* Notwithstanding any other provision of this Act, the *Bankruptcy and Insolvency Act*, any other enactment of Canada, any enactment of a province or any law, but subject to subsections 69(1) and 69.1(1) of the *Bankruptcy and Insolvency Act*, where the Minister has knowledge or suspects that a particular person is, or will become within one year, liable to make a payment"

S. 224(1.2), that portion preceding paragraph (*a*), was amended by S.C. 1994, c. 21, s. 101(3), applicable to requirements and notifications made after Royal Assent, June 15, 1994. The portion of s. 224(1.2) preceding paragraph (*a*) formerly read:

"(1.2) Notwithstanding any other provision of this Act, the *Bankruptcy and Insolvency Act* (except paragraphs 69(1)(*c*) and 69.1(1)(*c*) of that Act), any other enactment of Canada, any enactment of a province or any law, but subject to paragraphs 69(1)(*c*) and 69.1(1)(*c*) of the *Bankruptcy and Insolvency Act*, where the Minister has knowledge or suspects that a particular person is or will become, within 90 days, liable to make a payment"

S. 224(1.2), that portion following paragraph (*b*), was amended by S.C. 1994, c. 21, s. 101(4), applicable to requirements and notifications made after 1992. The portion of s. 224(1.2) following paragraph (*b*) formerly read: "the Minister may, by registered letter or by a letter served personally, require the particular person to pay forthwith, where the moneys are immediately payable, and in any other case, as and when the moneys become payable, the moneys otherwise payable to the tax debtor or the secured creditor in whole or in part to the Receiver General on account of the tax debtor's liability under subsection 227(10.1) or a similar provision, and on receipt of that letter by the particular person, the amount of those moneys that is required by that letter to be paid to the Receiver General shall, notwithstanding any security interest in those moneys, become the property of Her Majesty to the extent of that liability as assessed by the Minister and shall be paid to the Receiver General in priority to any such security interest."

S. 224(1.2), the portion after paragraph (*b*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 130, effective June 10, 1993, to add the phrase "to the extent of that liability as assessed by the Minister" after "Her Majesty".

S. 224(1.2), the portion before paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. V, s. 91, applicable on November 30, 1992. That portion formerly read:

"(1.2) Notwithstanding any other provision of this Act, the *Bankruptcy Act*, any other enactment of Canada, any enactment of a province or any law, where the Minister has knowledge or suspects that a particular person is or will become, within 90 days, liable to make a payment"

Related Sections: S. 224(1.3), "secured creditor", "security interest", "similar provision"; s. 227(10.1) Assessment — failure to remit tax; s. 248(1) Definitions.

Income Tax Technical News: Issue No. 6, Enhanced garnishment in a construction setting.

Cases: A Requirement to Pay issued under s. 224(1.2) takes priority over secured creditors. In this context, a "secured creditor" does not include any person who owns property absolutely. However, a general assignment of book debts does not confer absolute ownership. It is collateral security, and falls within the definition of "security interest" set out in s. 224(1.3). *The Queen v. Province of Alberta Treasury Branches et al.*, 96 DTC 6245 (S.C.C.), reversing 94 DTC 6650 (Alta. C.A.).

Under the very clearly worded provisions of ss. 224(1.1)-(1.3), Revenue Canada's third party demand took priority over a bank, in its capacity as a secured creditor, notwithstanding the decision of the Alberta Court of Appeal to the contrary in *Lloyds Bank v. International Warranty Co. Ltd.*, a case involving an identical fact situation which was wrongly decided. *The Royal Bank of Canada v. Saskatchewan Power Corp. et al.*, 90 DTC 6330 (Sask. Q.B.), affirmed by (Sask. C.A.), [1991] 1 W.W.R. 1.

The Minister could issue third party demands to the the taxpayer's debtors, notwithstanding the fact that it had previously filed a bankruptcy proposal. *Air Atonabee Ltd. v. The Queen*, 90 DTC 6573 (Ont. S.C.).

► 224(1.3) ◄

(1.3) Definitions. In subsection (1.2),

"secured creditor" — "secured creditor" means a person who has a security interest in the property of another person or who acts for or on behalf of that person with respect to the security interest and includes a trustee appointed under a trust deed relating to a security interest, a receiver or receiver-manager appointed by a secured creditor or by a court on the application of a secured creditor, a sequestrator or any other person performing a similar function;

Income Tax Technical News: Issue No. 6, Enhanced garnishment in a construction setting.

"security interest" — "security interest" means any interest in property that secures payment or performance of an obligation and includes an interest created by or arising out of a debenture, mortgage, hypothec, lien, pledge, charge, deemed or actual trust, assignment or encumbrance of any kind whatever, however or whenever arising, created, deemed to arise or otherwise provided for;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The definition "security interest" in subsection 224(1.3) of the Act is replaced by the following:

"security interest" — "security interest" means any interest in, or for civil law any right in, property that secures payment or performance of an obligation and includes an interest, or for civil law a right, created by or arising out of a debenture, mortgage, hypothec, lien, pledge, charge, deemed or actual trust, assignment or encumbrance of any kind whatever, however or whenever arising, created, deemed to arise or otherwise provided for;

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

History: S. 224(1.3), the definition "security interest" was amended by S.C. 2001, c. 17, s. 228, applicable on Royal Assent, June 14, 2001. S. 224(1.3), the definition "security interest" formerly read:

" *'security interest'* — 'security interest' means any interest in property that secures payment or performance of an obligation and includes an interest created by or arising out of a debenture, mortgage, lien, pledge, charge, deemed or actual trust, assignment or encumbrance of any kind whatever, however or whenever arising, created, deemed to arise or otherwise provided for;"

"similar provision" — "similar provision" means a provision, similar to subsection 227(10.1), of any Act of a province that imposes a tax similar to the tax imposed under this Act, where the province has entered into an agreement with the Minister of Finance for the collection of the taxes payable to the province under that Act.

► 224(1.4) ◄

(1.4) Garnishment. Provisions of this Act that provide that a person who has been required to do so by the Minister must pay to the Receiver General an amount that would otherwise be lent, advanced or paid to a taxpayer who is liable to make a payment under this Act, or to that taxpayer's secured creditor, apply to Her Majesty in right of Canada or a province.

History: S. 224(1.4) was added by S.C. 1994, c. 21, s. 101(5), effective on Royal Assent, June 15, 1994.

► 224(2) ◄

(2) Minister's receipt discharges original liability. The receipt of the Minister for moneys paid as required under this section is a good and sufficient discharge of the original liability to the extent of the payment.

► 224(3) ◄

(3) Idem. Where the Minister has, under this section, required a person to pay to the Receiver General on account of a liability under this Act of a tax debtor moneys otherwise payable by the person to the tax debtor as interest, rent, remuneration, a dividend, an annuity or other periodic payment, the requirement applies to all such payments to be made by the person to the tax debtor until the liability under this Act is satisfied and operates to require payments to the Receiver General out of each such payment of such amount as is stipulated by the Minister in the requirement.

History: S. 224(3) was amended by S.C. 1994, c. 21, s. 101(6), applicable to requirements and notifications made after 1992. S. 224(3) formerly read:

"(3) *Continuing garnishment until liability satisfied.* Where the Minister has, under this section, required a person to pay to the Receiver General on account of the liability under this Act of a tax debtor moneys otherwise payable by the person to the tax debtor as interest, rent, remuneration, a dividend, an annuity or other periodic payment, the requirement is applicable to all such payments to be made by the person to the tax debtor until the liability under this Act is satisfied and operates to require payments to the Receiver General out of each such payment of such amount as may be stipulated by the Minister in the registered letter or letter served personally."

► 224(4) ◄

(4) Failure to comply with s. (1), (1.2) or (3) requirement. Every person who fails to comply with a requirement under subsection (1), (1.2) or (3) is liable to pay to Her Majesty an amount equal to the amount that the person was required under subsection (1), (1.2) or (3), as the case may be, to pay to the Receiver General.

► 224(4.1) ◄

(4.1) Failure to comply with s. (1.1) requirement. Every institution or person that fails to comply with a requirement under subsection (1.1) with respect to moneys to be lent, advanced or paid is liable to pay to Her Majesty an amount equal to the lesser of

(*a*) the total of moneys so lent, advanced or paid, and

(*b*) the amount that the institution or person was required under that subsection to pay to the Receiver General.

► 224(5) ◄

(5) Service of garnishee. Where a person carries on business under a name or style other than the person's own name, notification to the person of a requirement under subsection (1), (1.1) or (1.2) may be addressed to the name or style under which the person carries on business and, in the case of personal service, shall be deemed to be validly served if it is left with an adult person employed at the place of business of the addressee.

History: S. 224(5) was amended by S.C. 1994, c. 21, s. 101(7), applicable to requirements and notifications made after 1992. S. 224(5) formerly read:

"(5) Where the person who is or is about to become indebted or liable under this section carries on business under a name or style other than the person's own name, the registered or other letter under subsections (1) and (1.2) may be addressed to the name or style under which the person carries on business and, in the case of personal service, shall be deemed to have been validly served if it has been left with an adult person employed at the place of business of the addressee."

► 224(6) ◄

(6) Idem. Where persons carry on business in partnership, notification to the persons of a requirement under subsection (1), (1.1) or (1.2) may be addressed to the partnership name and, in the case of personal service, shall be

deemed to be validly served if it is served on one of the partners or left with an adult person employed at the place of business of the partnership.

History: S. 224(6) was amended by S.C. 1994, c. 21, s. 101(7), applicable to requirements and notifications made after 1992. S. 224(6) formerly read:

"(6) *Service on partnership.* Where the persons who are or are about to become indebted or liable under this section carry on business in partnership, the registered or other letter under subsections (1) and (1.2) may be addressed to the partnership name and, in the case of personal service, shall be deemed to have been validly served if it has been served on one of the partners or left with an adult person employed at the place of business of the partnership."

Related Sections: S. 248(1), "business"; "employee", "employer"; s. 251(1), "arm's length"; ITAR s. 65.1 Part XV of amended Act.

SECTION 224.1: Recovery by deduction or set-off.

Where a person is indebted to Her Majesty under this Act or under an Act of a province with which the Minister of Finance has entered into an agreement for the collection of the taxes payable to the province under that Act, the Minister may require the retention by way of deduction or set-off of such amount as the Minister may specify out of any amount that may be or become payable to the person by Her Majesty in right of Canada.

Related Sections: S. 225.1 Collection restrictions.
Information Circulars: IC 98-1R3 Collections Policies.
Tax Topics: No. 1901, Narrowing of the Collection Restrictions — Set-Off Can Occur!.
Cases: Set-off was denied where the Minister failed to follow the correct procedure, *Clarkson Co. Ltd. as Receiver and Manager of Aero Trades (Western) Ltd. v. The Queen*, 89 DTC 5050 (F.C.A.), reversing in part 88 DTC 6256 (F.C.T.D.).

SECTION 224.2: Acquisition of debtor's property.

For the purpose of collecting debts owed by a person to Her Majesty under this Act or under an Act of a province with which the Minister of Finance has entered into an agreement for the collection of taxes payable to the province under that Act, the Minister may purchase or otherwise acquire any interest in the person's property that the Minister is given a right to acquire in legal proceedings or under a court order or that is offered for sale or redemption and may dispose of any interest so acquired in such manner as the Minister considers reasonable.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 224.2 of the Act is replaced by the following:

SECTION 224.2: Acquisition of debtor's property.

For the purpose of collecting debts owed by a person to Her Majesty under this Act or under an Act of a province with which the Minister of Finance has entered into an agreement for the collection of taxes payable to the province under that Act, the Minister may purchase or otherwise acquire any interest in, or for civil law any right in, the person's property that the Minister is given a right to acquire in legal proceedings or under a court order or that is offered for sale or redemption and may dispose of any interest or right so acquired in such manner as the Minister considers reasonable.

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

Information Circulars: IC 98-1R3 Collections Policies.

SECTION 224.3:

► 224.3(1) ◄

(1) Payment of moneys seized from tax debtor. Where the Minister has knowledge or suspects that a particular person is holding moneys that were seized by a police officer in the course of administering or enforcing the criminal law of Canada from another person (in this section referred to as the "tax debtor") who is liable to make a payment under this Act or under an Act of a province with which the Minister of Finance has entered into an agreement for the collection of taxes payable to the province under that Act and that are restorable to the tax debtor, the Minister may in writing require the particular person to turn over the moneys otherwise restorable to the tax debtor in whole or in part to the Receiver General on account of the tax debtor's liability under this Act or under the Act of the province, as the case may be.

History: S. 224.3(1) was amended by S.C. 1994, c. 21 s. 102(1), applicable to requirements made after 1992. S. 224.3(1) formerly read:

"(1) Where the Minister has knowledge or suspects that a person is holding moneys that were seized by a police officer in the course of administering or enforcing the criminal law of Canada from another person who is liable to make a payment under this Act or under an Act of a province with which the Minister of Finance has entered into an agreement for the collection of taxes payable to the province under that Act (in this section referred to as the 'tax debtor') and that are restorable to the tax debtor, the Minister may, by registered letter or by a letter served personally, require that person to turn over the moneys otherwise restorable to the tax debtor in whole or in part to the Receiver General on account of the tax debtor's liability under this Act or under the Act of the province, as the case may be."

Related Sections: S. 225.1 Collection restrictions.
Information Circulars: IC 98-1R3 Collections Policies.

► 224.3(2) ◄

(2) Receipt of Minister. The receipt of the Minister for moneys turned over as required by this section is a good and sufficient discharge of the requirement to restore the moneys to the tax debtor to the extent of the amount so turned over.

SECTION 225:

► 225(1) ◄

(1) Seizure of chattels. Where a person has failed to pay an amount as required by this Act, the Minister may give 30 days notice to the person by registered mail addressed to the person's latest known address of the Minister's intention to direct that the person's goods and chattels be seized and sold, and, if the person fails to make the payment before the expiration of the 30 days, the Minister may issue a certificate of the failure and direct that the person's goods and chattels be seized.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 225(1) of the Act is replaced by the following:

SECTION 225:

(1) Seizure of goods, chattels or movable property. Where a person has failed to pay an amount as required by this Act, the Minister may give 30 days notice to the person by registered mail addressed to the person's latest known address of the Minister's intention to direct that the person's goods and chattels, or movable property, be seized and sold, and, if the person fails to make the payment before the expiration of the 30 days, the Minister may issue a certificate of the failure and direct that the person's goods and chattels, or movable property, be seized.

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

Related Sections: S. 225.1 Collection restrictions.
Information Circulars: IC 98-1R3 Collections Policies.
Cases: The seizure of paintings and objects of art was valid against a third party claiming to be the owner of the art. The third party was unable to provide even approximate details of ownership or acquisition of the art. *In re assessment by M.N.R. v. Levine et al.*, 89 DTC 5295 (F.C.T.D.).

► 225(2) ◄

(2) Sale of seized property. Property seized under this section shall be kept for 10 days at the cost and charges of the owner and, if the owner does not pay the amount owing together with the costs and charges within the 10 days, the property seized shall be sold by public auction.

Related Sections: S. 226 Taxpayer leaving Canada.

► 225(3) ◄

(3) Notice of sale. Except in the case of perishable goods, notice of the sale setting out the time and place thereof, together with a general description of the property to be sold shall, a reasonable time before the goods are sold, be published at least once in one or more newspapers of general local circulation.

► 225(4) ◄

(4) Surplus returned to owner. Any surplus resulting from the sale after deduction of the amount owing and all costs and charges shall be paid or returned to the owner of the property seized.

► 225(5) ◄

(5) Exemptions from seizure. Such goods and chattels of any person in default as would be exempt from seizure under a writ of execution issued out of a superior court of the province in which the seizure is made are exempt from seizure under this section.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 225(5) of the Act is replaced by the following:

(5) Exemptions from seizure. Such goods and chattels, or movable property, of any person in default as would be exempt from seizure under a writ of execution issued out of a superior court of the province in which the seizure is made are exempt from seizure under this section.

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

Related Sections: S. 226(2) Taxpayer leaving Canada — seizure; s. 248(1), "assessment", "property", "province"; ITAR s. 65.1 Part XV of amended Act.

SECTION 225.1:

► 225.1(1) ◄

(1) Collection restrictions. If a taxpayer is liable for the payment of an amount assessed under this Act, other than an amount assessed under subsection 152(4.2), 169(3) or 220(3.1), the Minister shall not, until after the collection-commencement day in respect of the amount, do any of the following for the purpose of collecting the amount:

(*a*) commence legal proceedings in a court,

(*b*) certify the amount under section 223,

(*c*) require a person to make a payment under subsection 224(1),

(*d*) require an institution or a person to make a payment under subsection 224(1.1),

(*e*) [Repealed by S.C. 2006, c. 4, s. 166(1).]

(*f*) require a person to turn over moneys under subsection 224.3(1), or

(*g*) give a notice, issue a certificate or make a direction under subsection 225(1).

History: S. 225.1(1)(*e*) was repealed by S.C. 2006, c. 4, s. 166(1), in force on April 1, 2007. S. 225.1(1)(*e*) formerly read:

"(*e*) require the retention of the amount by way of deduction or set-off under section 224.1,"

S. 225.1(1), the portion before paragraph (*a*) was replaced by S.C. 2005, c. 19, s. 49(2), applicable in respect of notices issued by the Minister of National Revenue after the day that is 30 days after the day on which this Act is assented to [June 12, 2005, Royal Assent May 13, 2005]. S. 225.1(1), the portion before paragraph (*a*) formerly read:

"S. 225.1. (1) *Collection restrictions.* Where a taxpayer is liable for the payment of an amount assessed under this Act, other than an amount assessed under subsection 152(4.2), 169(3) or 220(3.1), the Minister shall not, for the purpose of collecting the amount,"

S. 225.1(1), the portion after paragraph (*g*) was repealed by S.C. 2005, c. 19, s. 49(2), applicable in respect of notices issued by the Minister of National Revenue after the day that is 30 days after the day on which this Act is assented to [June 12, 2005, Royal Assent May 13, 2005]. S. 225.1(1), the portion after paragraph (*g*) formerly read:

"until after the day that is 90 days after the day of the mailing of the notice of assessment."

S. 225.1(1) was amended by S.C. 1998, c. 19, s. 225, deemed to have come into force on June 15, 1994. S. 225.1(1) formerly read:

"S. 225.1. *Collection restrictions.*

(1) Where a taxpayer is liable for the payment of an amount assessed under this Act, the Minister shall not, for the purpose of collecting the amount,"

S. 225.1(1), the portion after paragraph (*g*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 131(1), effective June 10, 1993. That portion formerly read: "before the day that is 90 days after the day of mailing of the notice of assessment."

Related Sections: S. 164(1.1) Repayment on objections and appeals; s. 179.1 No reasonable grounds for appeal; s. 225.2(2) Authorization to proceed forthwith; s. 248(1), "assessment".
Information Circulars: IC 07-1 Taxpayer Relief Provisions; IC 98-1R3 Collections Policies.
Tax Topics: No. 1901, Narrowing of the Collection Restrictions — Set-Off Can Occur!.
Tax Profile: April 2003 — The Clock is Ticking for the Tax Man!.
Cases: Federal income tax collection proceedings are subject to the limitation period in s. 32 of the *Crown Liability and Proceedings Act*. In addition, s. 3(5) of the *B.C. Limitation Act* barred the Crown from collecting the taxpayer's provincial tax debt. *The Queen v. Markevich et al.*, 2003 DTC 5185 (S.C.C.), affirming 2001 DTC 5305 (F.C.A.), reversing 99 DTC 5136 (F.C.T.D.).

► 225.1(1.1) ◄

(1.1) Collection-commencement day. The collection-commencement day in respect of an amount is

(*a*) in the case of an amount assessed under subsection 188(1.1) in respect of a notice of intention to revoke given under subsection 168(1) or any of subsections 149.1(2) to (4.1), one year after the day on which the notice was mailed;

(*b*) in the case of an amount assessed under section 188.1, one year after the day on which the notice of assessment was mailed; and

(*c*) in any other case, 90 days after the day on which the notice of assessment was mailed.

History: S. 225.1(1.1) was added by S.C. 2005, c. 19, s. 49(3), applicable in respect of notices issued by the Minister of National Revenue after the day that is 30 days after the day on which this Act is assented to [June 12, 2005, Royal Assent May 13, 2005].

► 225.1(2) ◄

(2) Idem. Where a taxpayer has served a notice of objection under this Act to an assessment of an amount payable under this Act, the Minister shall not, for the purpose of collecting the amount in controversy, take any of the actions described in paragraphs (1)(*a*) to (*g*) until after the day that is 90 days after the day on which notice is mailed to the taxpayer that the Minister has confirmed or varied the assessment.

History: S. 225.1(2) was amended by S.C. 1994, c. 7, Sched. VIII, s. 131(2), to replace "before" with "until after", effective June 10, 1993.

Related Sections: S. 248(1), "assessment".

► 225.1(3) ◄

(3) Idem. Where a taxpayer has appealed from an assessment of an amount payable under this Act to the Tax Court of Canada, the Minister shall not, for the purpose of collecting the amount in controversy, take any of the actions described in paragraphs (1)(*a*) to (*g*) before the day of mailing of a copy of the decision of the Court to the taxpayer or the day on which the taxpayer discontinues the appeal, whichever is the earlier.

Cases: A taxpayer was bound by the terms of an abeyance letter signed on his behalf by his authorized agent. *Doyle v. M.N.R.*, 89 DTC 5483 (F.C.T.D.). See also *McCall v. The Queen*, 89 DTC 5148 (F.C.T.D.).

► 225.1(4) ◄

(4) Idem. Where a taxpayer has agreed under subsection 173(1) that a question should be determined by the Tax Court of Canada, or where a taxpayer is served with a copy of an application made under subsection 174(1) to that Court for the determination of a question, the Minister shall not take any of the actions described in paragraphs (1)(*a*) to (*g*) for the purpose of collecting that part of an amount assessed, the liability for payment of which will be affected by the determination of the question, before the day on which the question is determined by the Court.

► 225.1(5) ◄

(5) Idem. Notwithstanding any other provision in this section, where a taxpayer has served a notice of objection under this Act to an assessment or has appealed to the Tax Court of Canada from an assessment and agrees in writing with the Minister to delay proceedings on the objection or appeal, as the case may be, until judgment has been given in another action before the Tax Court of Canada, the Federal Court of Appeal or the Supreme Court of Canada in which the issue is the same or substantially the same as that raised in the objection or appeal of the taxpayer, the Minister may take any of the actions described in paragraphs (1)(*a*) to (*g*) for the purpose of collecting the amount assessed, or a part thereof, determined in a manner consistent with the decision or judgment of the Court in the other action at any time after the Minister notifies the taxpayer in writing that

(*a*) the decision of the Tax Court of Canada in that action has been mailed to the Minister,

(*b*) judgment has been pronounced by the Federal Court of Appeal in that action, or

(*c*) judgment has been delivered by the Supreme Court of Canada in that action,

as the case may be.

History: S. 225.1(5) was amended by S.C. 1994, c. 7, Sched. II, s. 184(1), deemed to have come into force on January 1, 1991. S. 225.1(5) formerly read:

"(5) Notwithstanding any other provision in this section, where a taxpayer has served a notice of objection under this Act to an assessment or has appealed to the Tax Court of Canada or the Federal Court–Trial Division from the assessment and agrees in writing with the Minister to delay proceedings on the objection or appeal, as the case may be, until judgment has been given in another action before the Tax Court of Canada, the Federal Court or the Supreme Court of Canada in which the issue is the same or substantially the same as that raised in the objection or appeal of the taxpayer, the Minister may take any of the actions described in paragraphs (1)(*a*) to (*g*) for the purpose of collecting the amount assessed, or a part thereof, determined in a manner consistent with the decision or judgment of the Court in the other action at any time after the Minister notifies the taxpayer in writing that

(*a*) the decision of the Tax Court of Canada in that action has been mailed to the Minister,

(*b*) judgment has been pronounced by the Federal Court in that action, or

(*c*) judgment has been delivered by the Supreme Court of Canada in that action,

as the case may be."

Tax Topics: No. 1891, The Collections Implications of an Agreement To Hold an Objection or Appeal in Abeyance.

► 225.1(6) ◄

(6) Where ss. (1) to (4) do not apply. Subsections (1) to (4) do not apply with respect to

(*a*) an amount payable under Part VIII;

(*b*) an amount required to be deducted or withheld, and required to be remitted or paid, under this Act or the Regulations;

(*c*) an amount of tax required to be paid under section 116 or a regulation made under subsection 215(4) but not so paid;

(*d*) the amount of any penalty payable for failure to remit or pay an amount referred to in paragraph (*b*) or (*c*) as and when required by this Act or a regulation made under this Act; and

(*e*) any interest payable under a provision of this Act on an amount referred to in this paragraph or any of paragraphs (*a*) to (*d*).

History: S. 225.1(6)(*b*) was amended by S.C. 2001, c. 17, s. 179, applicable on Royal Assent, June 14, 2001. S. 225.1(6)(*b*) formerly read:

"(*b*) an amount deducted or withheld, and required to be remitted or paid, under this Act or a regulation made under this Act;"

► 225.1(7) ◄

(7) Idem — large corporations. Where an amount has been assessed under this Act in respect of a corporation for a taxation year in which it was a large corporation, subsections (1) to (4) do not apply to limit any action of the Minister to collect

(*a*) at any time on or before the particular day that is 90 days after the day of the mailing of the notice of assessment, ½ of the amount so assessed; and

(*b*) at any time after the particular day, the amount, if any, by which the amount so assessed exceeds the total of

(i) all amounts collected before that time with respect to the assessment, and

(ii) ½ of the amount in controversy at that time.

History: S. 225.1(7) was added by S.C. 1994, c. 7, Sched. VIII, s. 131(3), applicable after June 10, 1993 except that, where a taxpayer served a notice of objection or instituted an appeal under the *Income Tax Act* with respect to

a notice of assessment of tax, interest or penalties under the Act mailed before 1992,

(*a*) the reference in paragraph 225.1(7)(*a*) of the Act, as enacted by subsection (3), to "1/2" shall, in its application before 1994 to all proceedings concerning the subject-matter of the notice of objection or the appeal, be read as "1/4"; and

(*b*) the reference in subparagraph 225.1(7)(*b*)(ii) of the Act, as enacted by subsection (3), to "1/2" shall, in its application before 1994 to all proceedings concerning the subject-matter of the notice of objection or the appeal, be read as "3/4".

Related Sections: S. 248(1), "corporation"; s. 249(1) Definition of "taxation year".

► 225.1(8) ◄

(8) Definition of "large corporation". For the purposes of this section and section 235, a corporation (other than a corporation described in subsection 181.1(3)) is a "large corporation" in a particular taxation year if the total of the taxable capital employed in Canada of the corporation, at the end of the particular taxation year, and the taxable capital employed in Canada of any other corporation, at the end of the other corporation's last taxation year that ends at or before the end of the particular taxation year, if the other corporation is related (within the meaning assigned for the purposes of section 181.5) to the corporation at the end of the particular taxation year, exceeds $10 million, and, for the purpose of this subsection, a corporation formed as a result of the amalgamation or merger of 2 or more predecessor corporations is deemed to be the same corporation as, and a continuation of, each predecessor corporation.

History: S. 225.1(8) was replaced by S.C. 2006, c. 4, s. 85(1), applicable to the 2006 and subsequent taxation years.

S. 225.1(8) formerly read:

"(8) *Definition of 'large corporation'.* For the purposes of this section, a 'large corporation' in a particular taxation year means

(*a*) a corporation by which tax under Part I.3 is payable,

(i) where the particular year ended before July 1989, for its first taxation year that ends after June 1989, or

(ii) where the particular year ended after June 1989, for the particular year,

or would, but for subsection 181.1(4), have been so payable, or

(*b*) a corporation that, at the end of the particular year, is related (for the purpose of section 181.5, as that section reads in its application to the 1992 taxation year) to a corporation that is a large corporation in its taxation year that includes the end of the particular year,

and, for the purpose of subparagraph (*a*)(i), a corporation formed as a result of the amalgamation or merger of 2 or more predecessor corporations shall be deemed to be the same corporation as, and a continuation of, each of the predecessor corporations."

S. 225.1(8)(*a*) and (*b*) were amended by S.C. 1994, c. 21, s. 103, effective on Royal Assent, June 15, 1994. S. 225.1(8)(*a*) and (*b*) formerly read:

"(*a*) a corporation by which tax under Part I.3 is payable,

(i) where the particular year ended before July 1989, for its first taxation year ending after June 1989, or

(ii) where the particular year ended after June 1989, for the particular year,

or would, but for section 181.1, have been so payable, or

(*b*) a corporation that, at the end of the particular year, is related (for the purposes of section 181.5) to a corporation that is a large corporation in its taxation year that includes the end of the particular year,"

S. 225.1(8) was added by S.C. 1994, c. 7, Sched. VIII, s. 131(3), applicable after June 10, 1993.

Related Sections: S. 3 Income for taxation year; s. 181.5(1) Capital deduction; s. 248(1), "corporation"; s. 249(1) Definition of "taxation year"; Part I.

SECTION 225.2: [Authorization to collect assessed amount].

► 225.2(1) ◄

(1) Definition of "judge". In this section, "judge" means a judge or a local judge of a superior court of a province or a judge of the Federal Court.

Related Sections: S. 248(1), "assessment".

Canadian Tax Foundation: Sibson, "Revenue Canada's Long Collection Arm: Jeopardy Orders, Section 160 Assessments, and Directors Liability", *1998 Conference Report*, 26:1.

► 225.2(2) ◄

(2) Authorization to proceed forthwith. Notwithstanding section 225.1, where, on *ex parte* application by the Minister, a judge is satisfied that there are reasonable grounds to believe that the collection of all or any part of an amount assessed in respect of a taxpayer would be jeopardized by a delay in the collection of that amount, the judge shall, on such terms as the judge considers reasonable in the circumstances, authorize the Minister to take forthwith any of the actions described in paragraphs 225.1(1)(*a*) to (*g*) with respect to the amount.

Information Circulars: IC 73-10R3 Tax evasion; IC 07-1 Taxpayer Relief Provisions; IC 98-1R3 Collections Policies.

Cases: The Court had no authority to order a taxpayer to appear personally for examination under oath where the taxpayer had applied to the Federal Court for an order vacating the Minister's direction that tax owing be collected forthwith. *Cuffaro v. The Queen*, 89 DTC 5192 (F.C.T.D.).

A motion was dismissed as inappropriate where the taxpayer sought to challenge the Minister's proposed collection of taxes, the assessment of which was disputed by the taxpayer. *McCall v. The Queen*, 88 DTC 6466 (F.C.T.D.).

See also *Neeb v. The Queen*, 90 DTC 6666 (F.C.T.D.).

► 225.2(3) ◄

(3) Notice of assessment not sent. An authorization under subsection (2) in respect of an amount assessed in respect of a taxpayer may be granted by a judge notwithstanding that a notice of assessment in respect of that amount has not been sent to the taxpayer at or before the time the application is made where the judge is satisfied that the receipt of the notice of assessment by the taxpayer would likely further jeopardize the collection of the amount, and for the purposes of sections 222, 223, 224, 224.1, 224.3 and 225, the amount in respect of which an authorization is so granted shall be deemed to be an amount payable under this Act.

► 225.2(4) ◄

(4) Affidavits. Statements contained in an affidavit filed in the context of an application under this section may be based on belief with the grounds therefor.

► 225.2(5) ◄

(5) Service of authorization and of notice of assessment. An authorization granted under this section in respect of a taxpayer shall be served by the Minister on the taxpayer within 72 hours after it is granted, except where the judge orders the authorization to be served at some other time specified in the authorization, and, where a notice of assessment has not been sent to the taxpayer at or before the time of the application, the notice of assessment shall be served together with the authorization.

► 225.2(6) ◄

(6) How service effected. For the purposes of subsection (5), service on a taxpayer shall be effected by

(*a*) personal service on the taxpayer; or

(*b*) service in accordance with directions, if any, of a judge.

► 225.2(7) ◄

(7) Application to judge for direction. Where service on a taxpayer cannot reasonably otherwise be effected as and when required under this section, the Minister may, as soon as practicable, apply to a judge for further direction.

► 225.2(8) ◄

(8) Review of authorization. Where a judge of a court has granted an authorization under this section in respect of a taxpayer, the taxpayer may, on 6 clear days notice to the Deputy Attorney General of Canada, apply to a judge of the court to review the authorization.

► 225.2(9) ◄

(9) Limitation period for review application. An application under subsection (8) shall be made

(*a*) within 30 days from the day on which the authorization was served on the taxpayer in accordance with this section; or

(*b*) within such further time as a judge may allow, on being satisfied that the application was made as soon as practicable.

Cases: The 30-day limitation period set out in s. 225.2(9) does not run during settlement negotiations between the taxpayer and the Department. *M.N.R. v. Rudyk*, 96 DTC 6192 (F.C.T.D.).

► 225.2(10) ◄

(10) Hearing *in camera*. An application under subsection (8) may, on the application of the taxpayer, be heard *in camera*, if the taxpayer establishes to the satisfaction of the judge that the circumstances of the case justify *in camera* proceedings.

► 225.2(11) ◄

(11) Disposition of application. On an application under subsection (8), the judge shall determine the question summarily and may confirm, set aside or vary the authorization and make such other order as the judge considers appropriate.

► 225.2(12) ◄

(12) Directions. Where any question arises as to the course to be followed in connection with anything done or being done under this section and there is no direction in this section with respect thereto, a judge may give such direction with regard thereto as, in the opinion of the judge, is appropriate.

► 225.2(13) ◄

(13) No appeal from review order. No appeal lies from an order of a judge made pursuant to subsection (11).

SECTION 226:

► 226(1) ◄

(1) Taxpayer leaving Canada. Where the Minister suspects that a taxpayer has left or is about to leave Canada, the Minister may, before the day otherwise fixed for payment, by notice served personally or by registered letter addressed to the taxpayer's latest known address, demand payment of the amount of all taxes, interest and penalties for which the taxpayer is liable or would be liable if the time for payment had arrived, and that amount shall be paid forthwith by the taxpayer notwithstanding any other provision of this Act.

History: S. 226(1) was amended by S.C. 1994, c. 7, Sched. II, s. 185, effective December 17, 1991. S. 226(1) formerly read:

"(1) *Taxpayer leaving Canada or defaulting.* Where the Minister suspects that a taxpayer is about to leave Canada, the Minister may before the day otherwise fixed for payment, by notice served personally or by registered letter addressed to the taxpayer, demand payment of all taxes, interest and penalties for which the taxpayer is liable or would be liable if the time for payment had arrived, and the same shall be paid forthwith notwithstanding any other provision of this Act."

Regulations: Part XIII.

► 226(2) ◄

(2) Idem. Where a taxpayer fails to pay, as required, any tax, interest or penalties demanded under this section, the Minister may direct that the goods and chattels of the taxpayer be seized and subsections 225(2) to (5) apply, with respect to the seizure, with such modifications as the circumstances require.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 226(2) of the Act is replaced by the following:

(2) Seizure in case of default of payment. Where a taxpayer fails to pay, as required, any tax, interest or penalties demanded under this section, the Minister may direct that the goods and chattels, or movable property, of the taxpayer be seized and subsections 225(2) to (5) apply, with respect to the seizure, with such modifications as the circumstances require.

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

History: S. 226(2) was amended by S.C. 1994, c. 7, Sched. II, s. 185, effective December 17, 1991. S. 226(2) formerly read:

"(2) *Seizure on failure to pay.* Where a person has failed to pay tax, interest or penalties demanded under this section as required, the Minister may direct that the goods and chattels of the taxpayer be seized and subsections 225(2) to (5) are, thereupon, applicable with such modifications as the circumstances require."

Related Sections: S. 248(1) Definitions; ITAR s. 65.1 Part XV of amended Act.

Cases: Seizure of visitor's chattels for non-payment of tax has been held valid. *Carolus et al. v. M.N.R.*, 76 DTC 6359 (F.C.T.D.).

SECTION 227:

► 227(1) ◄

(1) Withholding taxes. No action lies against any person for deducting or withholding any sum of money in compliance or intended compliance with this Act.

► 227(2) ◄

(2) Return filed with person withholding. Where a person (in this subsection referred to as the "payer") is required by regulations made under subsection 153(1) to deduct or withhold from a payment to another person an amount on account of that other person's tax for the year, that other person shall, from time to time as prescribed, file a return with the payer in prescribed form.

Related Sections: S. 227(3) Failure to file return; s. 235 Penalty for failing to file corporate returns.
Regulations: 107(1).
Information Circulars: IC 98-1R3 Collections Policies.
Forms: T1213; TD1-WS; TD1.
Tax Topics: No. 1477, Death and Taxes: The Two Inevitables? Some Are Disputing at Least One.

► 227(3) ◄

(3) Failure to file return. Every person who fails to file a return as required by subsection (2) is liable to have the deduction or withholding under section 153 on account of the person's tax made as though the person were a person who is neither married nor in a common-law partnership and is without dependants.

History: S. 227(3) was amended by S.C. 2000, c. 12, s. 138, applicable January 1, 2001, coming into force on July 31, 2000. S. 227(3) formerly read:

"(3) *Failure to file return.* Every person who fails to file a return as required by subsection (2) is liable to have the deduction or withholding under section 153 on account of the person's tax made as though the person were an unmarried person without dependants."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Tax Topics: No. 1477, Death and Taxes: The Two Inevitables? Some Are Disputing at Least One.

► 227(4) ◄

(4) Trust for moneys deducted. Every person who deducts or withholds an amount under this Act is deemed, notwithstanding any security interest (as defined in subsection 224(1.3)) in the amount so deducted or withheld, to hold the amount separate and apart from the property of the person and from property held by any secured creditor (as defined in subsection 224(1.3)) of that person that but for the security interest would be property of the person, in trust for Her Majesty and for payment to Her Majesty in the manner and at the time provided under this Act.

History: S. 227(4) was amended by S.C. 1998, c. 19, s. 226(1), deemed to have come into force on June 15, 1994. S. 227(4) formerly read:

"(4) *Money held in trust.* Every person who deducts or withholds an amount under this Act shall be deemed to hold the amount so deducted or withheld in trust, separate and apart from the person's own moneys, for Her Majesty and for payment to Her Majesty in the manner and at the time provided under this Act, and Her Majesty has a lien and charge on the property and assets of the person whether or not the person has kept the amount separate and apart or is in receivership, bankruptcy or liquidation or has made an assignment."

S. 227(4) was amended by S.C. 1994, c. 21, s. 104(1), effective on Royal Assent, June 15, 1994. S. 227(4) formerly read:

"(4) *Money held in trust for Her Majesty.* Every person who deducts or withholds any amount under this Act shall be deemed to hold the amount so deducted or withheld in trust for Her Majesty."

Regulations: 2201.

Tax Topics: No. 1477, Death and Taxes: The Two Inevitables? Some Are Disputing at Least One.

Cases: Crown's claim did not take priority over the bank's general security agreement or *Bank Act* security created by an assignment of inventory. *The Queen v. Royal Bank of Canada,* 97 DTC 5089 (S.C.C.).

A claim by a provincial Ministry of Labour in respect of unpaid wages took priority over the Minister of National Revenue's claim for unremitted source deductions. At the time that the trust relied on by Revenue came into existence, the monies had already been impressed with the trust created under the *Payment of Wages Act. The Queen in Right of Manitoba (Minister of Labour) v. Coopers & Lybrand, Receiver and Manager of Omega Autobody Ltd. et al.,* 88 DTC 6514 (Man. Q.B.).

► 227(4.1) ◄

(4.1) Extension of trust. Notwithstanding any other provision of this Act, the *Bankruptcy and Insolvency Act* (except sections 81.1 and 81.2 of that Act), any other enactment of Canada, any enactment of a province or any other law, where at any time an amount deemed by subsection (4) to be held by a person in trust for Her Majesty is not paid to Her Majesty in the manner and at the time provided under this Act, property of the person and property held by any secured creditor (as defined in subsection 224(1.3)) of that person that but for a security interest (as defined in subsection 224(1.3)) would be property of the person, equal in value to the amount so deemed to be held in trust is deemed

(*a*) to be held, from the time the amount was deducted or withheld by the person, separate and apart from the property of the person, in trust for Her Majesty whether or not the property is subject to such a security interest, and

(*b*) to form no part of the estate or property of the person from the time the amount was so deducted or withheld, whether or not the property has in fact been kept separate and apart from the estate or property of the person and whether or not the property is subject to such a security interest

and is property beneficially owned by Her Majesty notwithstanding any security interest in such property and in the proceeds thereof, and the proceeds of such property shall be paid to the Receiver General in priority to all such security interests.

History: S. 227(4.1) was added by S.C. 1998, c. 19, s. 226(1), deemed to have come into force on June 15, 1994.

Cases: A deemed trust arises at the time when source deductions are actually made and is similar to a floating charge over all of a tax debtor's assets. As property comes into the possession of the tax debtor, it is caught by the trust, and property disposed of by the tax debtor is released from the trust. The deemed trust, however, does not operate over assets which a tax debtor sells in the ordinary course to third party purchasers. *The Queen v. First Vancouver Finance et al.,* 2002 DTC 6998 (S.C.C.).

► 227(4.2) ◄

(4.2) Meaning of security interest. For the purposes of subsections (4) and (4.1), a security interest does not include a prescribed security interest.

History: S. 227(4.2) was added by S.C. 1998, c. 19, s. 226(1), deemed to have come into force on June 15, 1994.

Regulations: 2201.

► 227(4.3) ◄

(4.3) Application to Crown. For greater certainty, subsections (4) to (4.2) apply to Her Majesty in right of Canada or a province where Her Majesty in right of Canada or a province is a secured creditor (within the meaning assigned by subsection 224(1.3)) or holds a security interest (within the meaning assigned by that subsection).

History: S. 227(4.3) was added by S.C. 2001, c. 17, s. 180(1), applicable on Royal Assent, June 14, 2001.

► 227(5) ◄

(5) Payments by trustees, etc. Where a specified person in relation to a particular person (in this subsection referred to as the "payer") has any direct or indirect influence over the disbursements, property, business or estate of the payer and the specified person, alone or together with another person, authorizes or otherwise causes a payment referred to in subsection 135(3), 135.1(7) or 153(1), or on or in respect of which tax is payable under Part XII.5 or XIII, to be made by or on behalf of the payer, the specified person

(*a*) is, for the purposes of subsections 135(3) and 153(1), section 215 and this section, deemed to be a person who made the payment;

(*a.1*) is, for the purposes of subsections 135.1(7) and 211.8(2), deemed to be a person who redeemed, acquired or cancelled a share and made the payment as a consequence of the redemption, acquisition or cancellation;

(*b*) is jointly and severally liable with the payer to pay to the Receiver General

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of paragraph 227(5)(*b*) of the English version of the Act before subparagraph (i) is replaced by the following:

(*b*) is jointly and severally, or solidarily, liable with the payer to pay to the Receiver General

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(i) all amounts payable by the payer because of any of subsections 135(3), 135.1(7), 153(1) and 211.8(2) and section 215 in respect of the payment, and

(ii) all amounts payable under this Act by the payer because of any failure to comply with any of those provisions in respect of the payment; and

(*c*) is entitled to deduct or withhold from any amount paid or credited by the specified person to the payer or otherwise recover from the payer any amount paid under this subsection by the specified person in respect of the payment.

History: S. 227(5), the portion before paragraph (*a*) was replaced by S.C. 2006, c. 4, s. 86(1), applicable after 2005.

S. 227(5), the portion before paragraph (*a*) formerly read:

"(5) *Payments by trustees, etc.* Where a specified person in relation to a particular person (in this subsection referred to as the 'payer') has any direct or indirect influence over the disbursements, property, business or estate of the payer and the specified person, alone or together with another person, authorizes or otherwise causes a payment referred to in subsection 135(3) or 153(1), or on or in respect of which tax is payable under Part XII.5 or XIII, to be made by or on behalf of the payer, the specified person"

S. 227(5)(*a*.1) was replaced by S.C. 2006, c. 4, s. 86(2), applicable after 2005.

S. 227(5)(*a*.1) formerly read:

"(*a*.1) is, for the purpose of subsection 211.8(2), deemed to be a person who redeemed, acquired or cancelled a share and made the payment as a consequence of the redemption, acquisition or cancellation;"

S. 227(5)(*b*)(i) was replaced by S.C. 2006, c. 4, s. 86(3), applicable after 2005.

S. 227(5)(*b*)(i) formerly read:

"(i) all amounts payable by the payer because of any of subsections 135(3), 153(1) and 211.8(2) and section 215 in respect of the payment, and"

S. 227(5), the portion before subparagraph (*b*)(i), was amended, and paragraph (*a*.1) was added, by S.C. 1997, c. 25, s. 67(1), applicable April 25, 1997. That part formerly read:

"(5) *Payments by trustees, etc.* Where a specified person in relation to a particular person (in this subsection referred to as the 'payer') has any direct or indirect influence over the disbursements, property, business or estate of the payer and the specified person, alone or together with another person, authorizes or otherwise causes a payment referred to in subsection 135(3) or 153(1), or on which tax is payable under Part XIII, to be made by or on behalf of the payer, the specified person

(*a*) is, for the purposes of subsections 135(3) and 153(1), section 215 and this section, deemed to be a person who made the payment;

(*b*) is jointly and severally liable with the payer to pay to the Receiver General

(i) all amounts payable by the payer because of any of subsections 135(3) and 153(1) and section 215 in respect of the payment, and"

S. 227(5) was added by S.C. 1996, c. 21, s. 57(1), applicable on Royal Assent, June 20, 1996.

S. 227(5) was repealed by S.C. 1994, c. 21, s. 104(1), effective on Royal Assent, June 15, 1994. S. 227(5) formerly read:

"(5) Notwithstanding any provision of the *Bankruptcy and Insolvency Act*, in the event of any liquidation, assignment, receivership or bankruptcy of or by a person, an amount equal to any amount

(*a*) deemed by subsection (4) to be held in trust for Her Majesty, or

(*b*) deducted or withheld under an Act of a province with which the Minister of Finance has entered into an agreement for the collection of taxes payable to the province under that Act that is deemed under that Act to be held in trust for Her Majesty in right of the province

shall be deemed to be separate from and form no part of the estate in liquidation, assignment, receivership or bankruptcy, whether or not that amount has in fact been kept separate and apart from the person's own moneys or from the assets of the estate."

S. 227(5) was amended by S.C. 1994, c. 7, Sched. V, s. 90(1), to change "*Bankruptcy Act*" to "*Bankruptcy and Insolvency Act*", effective June 23, 1992.

Related Sections: S. 238(2) Compliance orders.

► 227(5.1) ◄

(5.1) Definition of "specified person". In subsection (5), a "specified person" in relation to a particular person means a person who is, in relation to the particular person or the disbursements, property, business or estate of the particular person,

(*a*) a trustee;

(*b*) a liquidator;

(*c*) a receiver;

(*d*) an interim receiver;

(*e*) a receiver-manager;

(*f*) a trustee in bankruptcy or other person appointed under the *Bankruptcy and Insolvency Act*;

(*g*) an assignee;

(*h*) a secured creditor (as defined in subsection 224(1.3));

(*i*) an executor, a liquidator of a succession or an administrator;

(*j*) any person acting in a capacity similar to that of a person referred to in any of paragraphs (*a*) to (*i*);

(*k*) a person appointed (otherwise than as an employee of the creditor) at the request of, or on the advice of, a secured creditor in relation to the particular person to monitor, or provide advice in respect of, the disbursements, property, business or estate of the particular person under circumstances such that it is reasonable to conclude that the person is appointed to protect or advance the interests of the creditor; or

(*l*) an agent of a specified person referred to in any of paragraphs (*a*) to (*k*).

History: S. 227(5.1)(*i*) was amended by S.C. 2001, c. 17, s. 229, applicable on Royal Assent, June 14, 2001. S. 227(5.1)(*i*) formerly read:

"(*i*) an executor or administrator;"

S. 227(5.1) was added by S.C. 1996, c. 21, s. 57(1), applicable on Royal Assent, June 20, 1996.

► 227(5.2) ◄

(5.2) "Person" includes partnership. For the purposes of this section, references in subsections (5) and (5.1) to persons include partnerships.

History: S. 227(5.2) was added by S.C. 1996, c. 21, s. 57(1), applicable on Royal Assent, June 20, 1996.

► 227(6) ◄

(6) Excess withheld, returned or applied. Where a person on whose behalf an amount has been paid under Part XII.5 or XIII to the Receiver General was not liable to pay tax under that Part or where the amount so paid is in excess of the amount that the person was liable to pay, the Minister shall, on written application made no later than 2 years after the end of the calendar year in which the amount was paid, pay to the person the amount so paid or such part of it as the person was not liable to pay, unless the person is or is about to become liable to make a pay-

ment to Her Majesty in right of Canada, in which case the Minister may apply the amount otherwise payable under this subsection to that liability and notify the person of that action.

History: S. 227(6) was amended by S.C. 1997, c. 25, s. 67(2), applicable April 25, 1997. S. 227(6) formerly read:

"(6) *Excess withheld, returned or applied.* Where a person on whose behalf an amount has been paid under Part XIII to the Receiver General was not liable to pay tax under that Part or where the amount so paid is in excess of the amount that the person was liable to pay, the Minister shall, on written application made no later than 2 years after the end of the calendar year in which the amount was paid, pay to the person the amount so paid or such part of it as the person was not liable to pay, unless the person is or is about to become liable to make a payment to Her Majesty in right of Canada, in which case the Minister may apply the amount otherwise payable under this subsection to that liability and notify the person of that action."

S. 227(6) was amended by S.C. 1994, c. 21, s. 104(1), effective on Royal Assent, June 15, 1994. S. 227(6) formerly read:

"(6) *Withheld money returned or applied otherwise.* Where a person on whose behalf an amount has been paid to the Receiver General after having been deducted or withheld under Part XIII was not liable to pay any tax under that Part or where the amount so paid to the Receiver General on the person's behalf is in excess of the tax that the person was liable to pay, the Minister shall, on application in writing made within two years from the end of the calendar year in which the amount was paid, pay to the person the amount so paid or such part thereof as the person was not liable to pay, unless the person is otherwise liable or about to become liable to make a payment under this Act, in which case the Minister may apply the amount otherwise payable under this subsection to that payment and notify the person of that fact."

Information Circulars: IC 77-16R4 Non-resident income tax (paras. 67 to 77).
Forms: NR7-R.

► 227(6.1) ◄

(6.1) Repayment of non-resident shareholder loan. Where, in respect of a loan from or indebtedness to a corporation or partnership, a person on whose behalf an amount was paid to the Receiver General under Part XIII because of subsection 15(2) and paragraph 214(3)(*a*) repays the loan or indebtedness or a portion of it and it is established by subsequent events or otherwise that the repayment was not made as part of a series of loans or other transactions and repayments, the Minister shall, on written application made no later than 2 years after the end of the calendar year in which the repayment is made, pay to the person an amount equal to the lesser of

(*a*) the amount so paid to the Receiver General in respect of the loan or indebtedness or portion of it, as the case may be, and

(*b*) the amount that would be payable to the Receiver General under Part XIII if a dividend described in paragraph 212(2)(*a*) equal in amount to the amount of the loan or indebtedness repaid were paid by the corporation or partnership to the person at the time of the repayment,

unless the person is or is about to become liable to make a payment to Her Majesty in right of Canada, in which case the Minister may apply the amount otherwise payable under this subsection to that liability and notify the person of that action.

History: S. 227(6.1) was added by S.C. 1994, c. 21, s. 104(1), applicable to repayments made after December 21, 1992.

► 227(7) ◄

(7) Application for assessment. Where, on application under subsection (6) by or on behalf of a person to the Minister in respect of an amount paid under Part XII.5 or XIII to the Receiver General, the Minister is not satisfied

(*a*) that the person was not liable to pay any tax under that Part, or

(*b*) that the amount paid was in excess of the tax that the person was liable to pay,

the Minister shall assess any amount payable under that Part by the person and send a notice of assessment to the person, and sections 150 to 163, subsections 164(1) and (1.4) to (7), sections 164.1 to 167 and Division J of Part I apply with any modifications that the circumstances require.

History: S. 227(7) was amended by S.C. 1997, c. 25, s. 67(3), applicable April 25, 1997. S. 227(7) formerly read:

"(7) *Application for assessment.* Where, on application under subsection (6) by or on behalf of a person to the Minister in respect of an amount paid under Part XIII to the Receiver General, the Minister is not satisfied

(*a*) that the person was not liable to pay any tax under that Part, or

(*b*) that the amount paid was in excess of the tax that the person was liable to pay,

the Minister shall assess the person for any amount payable under Part XIII by the person and send a notice of assessment to the person, and sections 150 to 163, subsections 164(1) and (1.4) to (7), sections 164.1 to 167 and Division J of Part I apply with such modifications as the circumstances require."

S. 227(7) was amended by S.C. 1994, c. 21, s. 104(1), effective on Royal Assent, June 15, 1994. S. 227(7) formerly read:

"(7) *Idem.* Where, on application by or on behalf of a person to the Minister pursuant to subsection (6) in respect of an amount paid to the Receiver General that was deducted or withheld under Part XIII, the Minister is not satisfied

(*a*) that the person was not liable to pay any tax under that Part, or

(*b*) that the amount paid to the Receiver General was in excess of the tax that the person was liable to pay,

the Minister shall assess the person for any amount payable by the person under Part XIII and send a notice of assessment to the person, whereupon sections 150 to 163, subsections 164(1) and (1.4) to (7), sections 164.1 to 167 and Division J of Part I are applicable with such modifications as the circumstances require."

► 227(7.1) ◄

(7.1) Application for determination. Where, on application under subsection (6.1) by or on behalf of a person to the Minister in respect of an amount paid under Part XIII to the Receiver General, the Minister is not satisfied that the person is entitled to the amount claimed, the Minister shall, at the person's request, determine, with all due dispatch, the amount, if any, payable under subsection (6.1) to the person and shall send a notice of determination to the person, and sections 150 to 163, subsections 164(1) and (1.4) to (7), sections 164.1 to 167 and Division J of Part I apply with such modifications as the circumstances require.

History: S. 227(7.1) was amended by S.C. 1994, c. 21, s. 104(1), applicable to repayments made after December 21, 1992.

► 227(8) ◄

(8) Penalty. Subject to subsection (8.5), every person who in a calendar year has failed to deduct or withhold any amount as required by subsection 153(1) or section 215 is liable to a penalty of

(*a*) 10% of the amount that should have been deducted or withheld; or

(*b*) where at the time of the failure a penalty under this subsection was payable by the person in respect of an amount that should have been deducted or withheld during the year and the failure was made knowingly or under circumstances amounting to gross negligence, 20% of that amount.

History: S. 227(8)(*b*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 132(1), applicable after 1992, other than with respect to amounts required to be remitted before 1993. S. 227(8)(*b*) formerly read:

"(*b*) where the person had at the time of the failure been assessed a penalty under this subsection in respect of an amount that should have been deducted or withheld during the year, 20% of the amount that should have been deducted or withheld."

Related Sections: S. 147.1(3) Deemed registration; s. 153(1) Withholding; s. 215(1) Withholding and remittance of tax; s. 220(3.1) Waiver of penalty or interest; s. 227(8.5) Payments from same establishment; s. 227(9) Penalty; s. 227(10) Assessment — failure to deduct or withhold tax; s. 248(1) Definitions; ITAR s. 62(2) Interest.
Regulations: Part XLIII.
Interpretation Bulletins: *Secondary* — IT-494 Hire of ships and aircraft from non-residents.
Information Circulars: IC 75-6R2 Required withholding from amounts paid to non-residents providing services in Canada; IC 77-16R4 Non-resident income tax; IC 07-1 Taxpayer relief provisions.
Tax Topics: No. 1819, The Implications of Withholding Requirements on Non-Residents Providing Services in Canada; No. 1477, Death and Taxes: The Two Inevitables? Some Are Disputing at Least One.

► 227(8.1) ◄

(8.1) Joint and several liability. Where a particular person has failed to deduct or withhold an amount as required under subsection 153(1) or section 215 in respect of an amount that has been paid to a non-resident person, the non-resident person is jointly and severally liable with the particular person to pay any interest payable by the particular person pursuant to subsection (8.3) in respect thereof.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 227(8.1) of the English version of the Act is replaced by the following:

(8.1) **Joint and several, or solidary, liability.** Where a particular person has failed to deduct or withhold an amount as required under subsection 153(1) or section 215 in respect of an amount that has been paid to a non-resident person, the non-resident person is jointly and severally, or solidarily, liable with the particular person to pay any interest payable by the particular person pursuant to subsection (8.3) in respect thereof.

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

Related Sections: S. 227(10) Assessment — failure to deduct or withhold tax.

► 227(8.2) ◄

(8.2) Retirement compensation arrangement deductions. Where a person has failed to deduct or withhold any amount as required under subsection 153(1) in respect of a contribution under a retirement compensation arrangement, that person is liable to pay to Her Majesty an amount equal to the amount of the contribution, and each payment on account of that amount is deemed to be, in the year in which the payment is made,

(*a*) for the purposes of paragraph 20(1)(*r*), a contribution by the person to the arrangement; and

(*b*) an amount on account of tax payable by the custodian under Part XI.3.

Related Sections: S. 227(10) Assessment — failure to deduct or withhold tax; s. 248(1), "retirement compensation arrangement".

► 227(8.3) ◄

(8.3) Interest on amounts not deducted or withheld. A person who fails to deduct or withhold any amount as required by subsection 135(3), 135.1(7), 153(1) or 211.8(2) or section 215 shall pay to the Receiver General interest on the amount at the prescribed rate, computed

(*a*) in the case of an amount required by subsection 153(1) to be deducted or withheld from a payment to another person, from the fifteenth day of the month immediately following the month in which the amount was required to be deducted or withheld, or from such earlier day as may be prescribed for the purposes of subsection 153(1), to,

(i) where that other person is not resident in Canada, the day of payment of the amount to the Receiver General, and

(ii) where that other person is resident in Canada, the earlier of the day of payment of the amount to the Receiver General and April 30 of the year immediately following the year in which the amount was required to be deducted or withheld;

(*b*) in the case of an amount required by subsection 135(3) or 135.1(7) or section 215 to be deducted or withheld, from the day on which the amount was required to be deducted or withheld to the day of payment of the amount to the Receiver General; and

(*c*) in the case of an amount required by subsection 211.8(2) to be withheld, from the day on or before which the amount was required to be remitted to the Receiver General to the day of the payment of the amount to the Receiver General.

History: S. 227(8.3), the portion before paragraph (*a*), was replaced by S.C. 2006, c. 4, s. 86(4), applicable after 2005.

S. 227(8.3), the portion before paragraph (*a*) formerly read:

"(8.3) *Interest on amounts not deducted or withheld.* A person who fails to deduct or withhold any amount as required by subsection 135(3), 153(1) or 211.8(2) or section 215 shall pay to the Receiver General interest on the amount at the prescribed rate, computed"

S. 227(8.3)(*b*) was replaced by S.C. 2006, c. 4, s. 86(5), applicable after 2005.

S. 227(8.3)(*b*) formerly read:

"(*b*) in the case of an amount required by subsection 135(3) or section 215 to be deducted or withheld, from the day on which the amount was required to be deducted or withheld to the day of payment of the amount to the Receiver General; and"

S. 227(8.3), the portion before paragraph (*a*), was amended by S.C. 1997, c. 25, s. 67(4), applicable April 25, 1997. That part formerly read:

"(8.3) *Interest on amounts not deducted or withheld.* A person who fails to deduct or withhold any amount as required by subsection 135(3) or 153(1) or section 215 shall pay to the Receiver General interest on the amount at the prescribed rate, computed"

S. 227(8.3)(*c*) was added by S.C. 1997, c. 25, s. 67(5), applicable April 25, 1997.

S. 227(8.3), the portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 186(1), applicable after July 13, 1990. That portion formerly read:

"(8.3) Where a person has failed to deduct or withhold any amount as required by subsection 153(1) or section 215, the person shall pay to the Receiver General interest on the amount at the prescribed rate computed"

S. 227(8.3)(*b*) was amended by S.C. 1994, c. 7, Sched. II, s. 186(2), applicable after July 13, 1990. S. 227(8.3)(*b*) formerly read:

"(*b*) in the case of an amount required by section 215 to be deducted or withheld, from the day on which the amount was required to be deducted or withheld to the day of payment of the amount to the Receiver General."

Related Sections: S. 227(10) Assessment — failure to deduct or withhold tax; s. 248(11) Compound interest.
Regulations: 4301.
Information Circulars: IC 77-16R4 Non-resident income tax; IC 07-1 Taxpayer relief provisions.

► 227(8.4) ◄

(8.4) Liability to pay amount not deducted or withheld. A person who fails to deduct or withhold any

amount as required under subsection 135(3) or 135.1(7) in respect of a payment made to another person or under subsection 153(1) in respect of an amount paid to another person who is non-resident or who is resident in Canada solely because of paragraph 250(1)(*a*) is liable to pay as tax under this Act on behalf of the other person the whole of the amount that should have been so deducted or withheld and is entitled to deduct or withhold from any amount paid or credited by the person to the other person or otherwise to recover from the other person any amount paid by the person as tax under this Part on behalf of the other person.

History: S. 227(8.4) was replaced by S.C. 2006, c. 4, s. 86(6), applicable after 2005.

S. 227(8.4) formerly read:

"(8.4) *Liability to pay amount not deducted or withheld.* A person who fails to deduct or withhold any amount as required under

(*a*) subsection 135(3) in respect of a payment made to another person, or

(*b*) subsection 153(1) in respect of an amount paid to another person who is non-resident or who is resident in Canada solely because of paragraph 250(1)(*a*)

is liable to pay as tax under this Act on behalf of the other person the whole of the amount that should have been so deducted or withheld and is entitled to deduct or withhold from any amount paid or credited by the person to the other person or otherwise to recover from the other person any amount paid by the person as tax under this Part on behalf of the other person."

S. 227(8.4) was amended by S.C. 1994, c. 7, Sched. II, s. 186(3), applicable after July 13, 1990. S. 227(8.4) formerly read:

"(8.4) A person who has failed to deduct or withhold any amount as required under subsection 153(1) in respect of an amount paid to another person who is not resident in Canada, or who is resident in Canada only by reason of paragraph 250(1)(*a*), is liable to pay as tax under this Act on behalf of the other person the whole of the amount that should have been deducted or withheld, and is entitled to deduct or withhold from any amount the person pays or credits to the other person or otherwise recover from the other person any amount paid by the person as tax under this Part on behalf of the other person."

Related Sections: S. 227(10) Assessment — failure to deduct or withhold tax.

Tax Topics: No. 1819, The Implications of Withholding Requirements on Non-Residents Providing Services in Canada.

► 227(8.5) ◄

(8.5) Payments from same establishment. [Repealed by S.C. 1994, c. 7, Sched. VIII, s. 132(2).]

History: S. 227(8.5) was repealed by S.C. 1994, c. 7, Sched. VIII, s. 132(2), applicable after 1992, other than with respect to amounts required to be remitted before 1993. S. 227(8.5) formerly read:

"(8.5) Where a person has failed to deduct or withhold any amount in respect of a payment described in paragraph 153(1)(*a*), subsection (8) shall be read as follows:

'(8) Every person who in a calendar year has failed to deduct or withhold a particular amount as required by paragraph 153(1)(*a*) in respect of a payment made by the person from an establishment of the person is liable to a penalty of

(*a*) 10% of the particular amount that should have been deducted or withheld; or

(*b*) where the person had at the time of the failure been assessed a penalty under this subsection for failing to deduct or withhold during the year another amount so required to be deducted or withheld in respect of a payment made by the person from the same establishment of the person, 20% of the particular amount that should have been deducted or withheld.'"

► 227(9) ◄

(9) Penalty. Subject to subsection (9.5), every person who in a calendar year has failed to remit or pay as and when required by this Act or a regulation an amount deducted or withheld as required by this Act or a regulation or an amount of tax that the person is, by section 116 or by a regulation made under subsection 215(4), required to pay is liable to a penalty of

(*a*) subject to paragraph (*b*), if

(i) the Receiver General receives that amount on or before the day it was due, but that amount is not paid in the manner required, 3% of that amount,

(ii) the Receiver General receives that amount

(A) no more than three days after it was due, 3% of that amount,

(B) more than three days and no more than five days after it was due, 5% of that amount, or

(C) more than five days and no more than seven days after it was due, 7% of that amount, or

(iii) that amount is not paid or remitted on or before the seventh day after it was due, 10% of that amount; or

(*b*) where at the time of the failure a penalty under this subsection was payable by the person in respect of an amount that should have been remitted or paid during the year and the failure was made knowingly or under circumstances amounting to gross negligence, 20% of that amount.

History: S. 227(9)(*a*) was replaced by S.C. 2008, c. 28, s. 33(1), applicable in respect of payments and remittances that are required to be first made after February 25, 2008. S. 227(9)(*a*) formerly read:

"(*a*) 10% of that amount; or"

S. 227(9)(*b*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 132(3), applicable after 1992, other than with respect to amounts required to be remitted before 1993. S. 227(9)(*b*) formerly read:

"(*b*) 20% of that amount, where the person had at the time of the failure been assessed a penalty under this subsection in respect of a previous failure during the year."

Related Sections: S. 116(5) Liability of purchaser; s. 220(3.1) Waiver of penalty or interest; s. 227(8) Penalty; s. 227(9.5) Payment from same establishment; s. 227(10.1) Assessment — failure to remit tax; ITAR s. 62(2) Interest.

Regulations: Part VIII; Part XLIII.

Information Circulars: IC 07-1 Taxpayer Relief Provisions.

Tax Topics: No. 1819, The Implications of Withholding Requirements on Non-Residents Providing Services in Canada; No. 1477, Death and Taxes: The Two Inevitables? Some Are Disputing at Least One.

Cases: By the taxpayer's own admission, the payment was late, and the Court was therefore without jurisdiction to grant relief from the penalty assessed on compassionate grounds. *Steen Contractors Ltd. v. M.N.R.*, 91 DTC 145 (T.C.C.).

A penalty for failure to remit taxes imposed after a proposal in bankruptcy was filed could not be proven in bankruptcy. *Re Wosk's Ltd.*, 86 DTC 6243 (B.C.S.C.).

► 227(9.1) ◄

(9.1) Penalty. Notwithstanding any other provision of this Act, any other enactment of Canada, any enactment of a province or any other law, the penalty for failure to remit an amount required to be remitted by a person on or before a prescribed date under subsection 153(1), subsection 21(1) of the *Canada Pension Plan*, subsection 53(1) of the *Unemployment Insurance Act* and subsection 82(1) of the *Employment Insurance Act* shall, unless the person who is required to remit the amount has, knowingly or under circumstances amounting to gross negligence, delayed in remitting the amount or has, knowingly or under circumstances amounting to gross negligence, remitted an amount less than the amount required, apply only to the amount by which the total of all amounts so required to be remitted on or before that date exceeds $500.

History: S. 227(9.1) was amended by S.C. 1998, c. 19, s. 226(1), deemed to have come into force on June 30, 1996. S. 227(9.1) formerly read:

"(9.1) *Penalty.* Notwithstanding any other provision of this Act, any other enactment of Canada, any enactment of a province or any other law, the penalty for failure to remit an amount required to be remitted by a person on or before a prescribed date under subsection 153(1), subsection 21(1) of the *Canada Pension Plan* and subsection 82(1) of the *Employment Insurance Act* shall, unless the person who is required to remit the amount has, knowingly or under circumstances amounting to gross negligence, delayed in remitting the amount or has, knowingly or under circumstances amounting to gross negligence, remitted an amount less than the amount required, apply only to the amount by which the total of all amounts so required to be remitted on or before that date exceeds $500."

S. 227(9.1) was amended by S.C. 1996, c. 23, s. 176, effective June 30, 1996. S. 227(9.1) formerly read:

"(9.1) *Idem.* Notwithstanding any other provision of this Act, any other enactment of Canada, any enactment of a province or any other law, the

penalty for failure to remit an amount required to be remitted by a person on or before a prescribed date under subsection 153(1), subsection 21(1) of the *Canada Pension Plan* and subsection 53(1) of the *Unemployment Insurance Act* shall, unless the person who is required to remit the amount has, knowingly or under circumstances amounting to gross negligence, delayed in remitting the amount or has, knowingly or under circumstances amounting to gross negligence, remitted an amount less than the amount required, apply only to the amount by which the total of all amounts so required to be remitted on or before that date exceeds $500."

S. 227(9.1) was amended by S.C. 1994, c. 7, Sched. VIII, s. 132(4), applicable after 1992, other than with respect to amounts required to be remitted before 1993. S. 227(9.1) formerly read:

"(9.1) Notwithstanding any other provision of this Act, any other enactment of Canada, any enactment of a province or any law, the penalty for failure to remit an amount required to be remitted by a person on or before a prescribed date under subsection 153(1), subsection 21(1) of the *Canada Pension Plan*and subsection 53(1) of the *Unemployment Insurance Act* shall, unless the person required to remit the amount has wilfully delayed in remitting the amount or wilfully remitted an amount less than the amount required, apply only to the amount by which the total of all amounts each of which is an amount so required to be remitted on or before that date exceeds $500."

Related Sections: S. 153(1) Withholding; s. 248(1) Definitions.

► 227(9.2) ◄

(9.2) Interest on amounts deducted or withheld but not remitted. Where a person has failed to remit as and when required by this Act or a regulation an amount deducted or withheld as required by this Act or a regulation, the person shall pay to the Receiver General interest on the amount at the prescribed rate computed from the day on which the person was so required to remit the amount to the day of remittance of the amount to the Receiver General.

Related Sections: S. 227(10.1) Assessment — failure to remit tax; s. 248(11) Compound interest.
Regulations: 4301.
Information Circulars: IC 07-1 Taxpayer Relief Provisions.

► 227(9.3) ◄

(9.3) Interest on certain tax not paid. Where a person fails to pay an amount of tax that, because of section 116, subsection 212(19) or a regulation made under subsection 215(4), the person is required to pay, as and when the person is required to pay it, the person shall pay to the Receiver General interest on the amount at the prescribed rate computed from the day on or before which the amount was required to be paid to the day of payment of the amount to the Receiver General.

History: S. 227(9.3) was amended by S.C. 1994, c. 21, s. 104(2), applicable after May 28, 1993. S. 227(9.3) formerly read:

"(9.3) Where a person has failed to pay an amount of tax that the person is, by section 116 or a regulation made under subsection 215(4), required to pay, as and when the person was so required to pay it, the person shall pay to the Receiver General interest on the amount at the prescribed rate computed from the day on or before which the amount was required to be paid to the day of payment of the amount to the Receiver General."

Related Sections: S. 116(1) Disposition by non-resident person of certain property; s. 215(4) Regulations creating exceptions; s. 227(10.1) Assessment — failure to remit tax; s. 248(1), "amount"; s. 248(11) Compound interest.
Regulations: 4301.

► 227(9.4) ◄

(9.4) Liability to pay amount not remitted. A person who has failed to remit as and when required by this Act or a regulation an amount deducted or withheld from a payment to another person as required by this Act or a regulation is liable to pay as tax under this Act on behalf of the other person the amount so deducted or withheld.

Related Sections: S. 227(10.1) Assessment — failure to remit tax.
Cases: When the taxpayer was dismissed from his employment, he negotiated a settlement of $111,540 from which source deductions were to be withheld. He received the net amount of $72,500 but the employer never remitted the source deductions. The taxpayer was credited with $39,040 under s. 227(9.4). *Suermondt v. The Queen et al.*, 2001 DTC 5389 (F.C.A.), reversing 99 DTC 3513 (T.C.C.).

► 227(9.5) ◄

(9.5) Payment from same establishment. In applying paragraphs (8)(*b*) and (9)(*b*) in respect of an amount required by paragraph 153(1)(*a*) to be deducted or withheld, each establishment of a person shall be deemed to be a separate person.

History: S. 227(9.5) was amended by S.C. 1994, c. 7, Sched. VIII, s. 132(5), applicable after 1992, other than with respect to amounts required to be remitted before 1993. S. 227(9.5) formerly read:

"(9.5) Where a person has failed to remit or pay an amount deducted or withheld in respect of a payment described in paragraph 153(1)(*a*), subsection (9) shall be read as follows:

'(9) Every person who in a calendar year has failed to remit or pay as and when required by this Act or a regulation a particular amount deducted or withheld as required by paragraph 153(1)(*a*) in respect of a payment made by the person from an establishment of the person is liable to a penalty of

(*a*) 10% of the particular amount that should have been remitted or paid; or

(*b*) where the person had at the time of the failure been assessed a penalty under this subsection for failure to remit or pay during the year another amount so required to be remitted or paid in respect of an amount so deducted or withheld by the person in respect of a payment made by the person from the same establishment of the person, 20% of the amount that should have been remitted or paid.'"

Related Sections: S. 153(1) Withholding; s. 227(8) Penalty; s. 227(9) Penalty; s. 248(1) Definitions.

► 227(10) ◄

(10) Assessment. The Minister may at any time assess any amount payable under

(*a*) subsection (8), (8.1), (8.2), (8.3) or (8.4) or 224(4) or (4.1) or section 227.1 or 235 by a person,

(*b*) subsection 237.1(7.4) by a person or partnership,

(*c*) subsection (10.2) by a person as a consequence of a failure of a non-resident person to deduct or withhold any amount, or

(*d*) Part XIII by a person resident in Canada,

and, where the Minister sends a notice of assessment to that person or partnership, Divisions I and J of Part I apply with any modifications that the circumstances require.

History: S. 227(10) was amended by S.C. 1998, c. 19, s. 226(3), applicable after December 1, 1994. S. 227(10) formerly read:

"(10) *Assessment.* The Minister may assess

(*a*) any person for any amount payable by that person under subsection (8), (8.1), (8.2), (8.3) or (8.4) or 224(4) or (4.1) or section 227.1 or 235,

(*a.1*) any person for any amount payable under subsection (10.2) by the person as a consequence of a failure by a non-resident person to deduct or withhold any amount, and

(*b*) any person resident in Canada for any amount payable by that person under Part XIII,

and, where the Minister sends a notice of assessment to that person, Divisions I and J of Part I are applicable with such modifications as the circumstances require."

S. 227(10)(*a.1*) was added by S.C. 1994, c. 21, s. 104(3), effective on Royal Assent, June 15, 1994.

S. 227(10)(*a*) was amended by S.C. 1994, c. 7, Sched. II, s. 186(4), effective December 17, 1991. S. 227(10)(*a*) formerly read:

"(*a*) any person for any amount payable by that person under subsection (8), (8.1), (8.2), (8.3) or (8.4) or 224(4) or (4.1) or section 227.1, and"

► 227(10.01) ◄

(10.01) Part XII.5. The Minister may at any time assess any amount payable under Part XII.5 by a person resident in Canada and, where the Minister sends a notice of assessment to that person, Divisions I and J of Part I apply with any modifications that the circumstances require.

History: S. 227(10.01) was added by S.C. 1997, c. 25, s. 67(6), applicable April 25, 1997.

► 227(10.1) ◄

(10.1) Idem. The Minister may at any time assess

(*a*) any amount payable under section 116 or subsection (9), (9.2), (9.3) or (9.4) by any person,

(*a*.1) [Repealed by S.C. 1997, c. 25, s. 67(7).]

(*b*) any amount payable under subsection (10.2) by any person as a consequence of a failure by a non-resident person to remit any amount, and

(*c*) any amount payable under Part XII.5 or XIII by any non-resident person,

and, where the Minister sends a notice of assessment to the person, sections 150 to 163, subsections 164(1) and (1.4) to (7), sections 164.1 to 167 and Division J of Part I apply with such modifications as the circumstances require.

History: S. 227(10.1)(*a*) and (*b*) were amended, paragraph (*a*.1) was repealed, and paragraph (*c*) was added by S.C. 1997, c. 25, s. 67(7), applicable April 25, 1997. Paragraphs 227(10.1)(*a*) to (*b*) formerly read:

"(*a*) any person for any amount payable under section 116 or subsection (9), (9.2), (9.3) or (9.4) by the person,

(*a*.1) any person for any amount payable under subsection (10.2) by the person as a consequence of a failure by a non-resident person to remit any amount, and

(*b*) any non-resident person for any amount payable under Part XIII by the person,"

S. 227(10.1) was amended by S.C. 1994, c. 21, s. 104(4), applicable to amounts that become payable after 1990 except that, in applying subsection 227(10.1) to amounts that became payable before the day this Act is assented to [Royal Assent June 15, 1994], it shall be read without reference to paragraph (*a*.1). S. 227(10.1) formerly read:

"(10.1) The Minister may assess

(*a*) any person for any amount payable by that person under subsection (9), (9.2), (9.3) or (9.4), and

(*b*) any non-resident person for any amount payable by that person under Part XIII,

and, where the Minister sends a notice of assessment to that person, sections 150 to 163, subsections 164(1) and (1.4) to (7), sections 164.1 to 167 and Division J of Part I are applicable with such modifications as the circumstances require."

► 227(10.2) ◄

(10.2) Joint and several liability re contributions to RCA. Where a non-resident person fails to deduct, withhold or remit an amount as required by subsection 153(1) in respect of a contribution under a retirement compensation arrangement that is paid on behalf of the employees or former employees of an employer with whom the non-resident person does not deal at arm's length, the employer is jointly and severally liable with the non-resident person to pay any amount payable under subsection (8), (8.2), (8.3), (9), (9.2) or (9.4) by the non-resident person in respect of the contribution.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 227(10.2) of the English version of the Act is replaced by the following:

(10.2) Joint and several, or solidary, liability re contributions to RCA. Where a non-resident person fails to deduct, withhold or remit an amount as required by subsection 153(1) in respect of a contribution under a retirement compensation arrangement that is paid on behalf of the employees or former employees of an employer with whom the non-resident person does not deal at arm's length, the employer is jointly and severally, or solidarily, liable with the non-resident person to pay any amount payable under subsection (8), (8.2), (8.3), (9), (9.2) or (9.4) by the non-resident person in respect of the contribution.

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

History: S. 227(10.2) was added by S.C. 1994, c. 21, s. 104(5), effective on Royal Assent, June 15, 1994.

S. 227(10.2) was repealed by S.C. 1994, c. 7, Sched. VIII, s. 153, effective June 10, 1993. S. 227(10.2) formerly read:

"(10.2) *Priority.* Notwithstanding any other provision of this Act, any other enactment of Canada, any enactment of a province or any law, where a person has been assessed under subsection (10.1) or a similar provision, the amount determined under subsection (10.3) is secured by a charge on the property referred to in subsection (10.4) and the charge has priority over all other claims and all other security interests."

Related Sections: S. 207.6(5) Residents' arrangement.

► 227(10.3)–(10.9) ◄

(10.3)–(10.9) [Tax withholding and remittance]. [Repealed by S.C. 1994, c. 7, Sched. VIII, s. 153.]

History: S. 227(10.3)–(10.9) were repealed by S.C. 1994, c. 7, Sched. VIII, s. 153, effective June 10, 1993. S. 227(10.3)–(10.9) formerly read:

"(10.3) *Amount secured.* The amount that, pursuant to subsection (10.2), is secured by a charge on the property of a person is that part, if any, of the amount for which the person was assessed under subsection (10.1) or a similar provision that is equal to the total of all amounts each of which is an amount that

(*a*) the person has deducted or withheld as required by this Act or a regulation at any time during the 90 day period immediately preceding

(i) the day of mailing of a notice of an original assessment under subsection (10.1) or a similar provision, or

(ii) where the person has been assessed in respect of an amount deducted or withheld during the 90 day period immediately preceding the day of the appointment of a trustee to administer, manage, distribute, wind up, control or otherwise deal with the property, business, estate or income of that person, that day; and

(*b*) the person has failed to remit to the Receiver General.

(10.4) *Property charged.* The property of a person on which a charge is created under subsection (10.2) is all the property held by that person

(*a*) at any time after the day on which a certificate in respect of the amount assessed under subsection (10.1) or a similar provision is registered in the Federal Court; or

(*b*) where the person has been assessed in respect of an amount deducted or withheld during the 90 day period immediately preceding the day of the appointment of a trustee to administer, manage, distribute, wind up, control or otherwise deal with the property, business, estate or income of that person, immediately before that day.

(10.5) *Third party demand.* Without limiting the generality of subsection (10.2), where the Minister has knowledge or suspects that, but for a claim or security interest in favour of a person (in this subsection referred to as the 'secured creditor'), a taxpayer would be or would become, within 90 days, liable to make a payment to another person who has been assessed under subsection (10.1) or a similar provision (in this subsection referred to as the 'tax debtor'), the Minister may, by registered letter or by a letter served personally, require the taxpayer to pay forthwith, where the moneys are immediately payable and, in any other case, as and when the moneys become payable, the moneys otherwise payable to the secured creditor in whole or in part to the Receiver General on account of the tax debtor's liability under this Act, to the extent of the portion of the assessed amount in respect of which a charge on the tax debtor's property has been created under subsection (10.2).

(10.6) *Application of certain provisions.* Where the Minister imposes a requirement under subsection (10.5), subsections (10) and 224(2), (3), (4), (5) and (6) are applicable to the requirement with such modifications as the circumstances require.

(10.7) *Amounts recoverable.* An amount assessed under a similar provision shall be deemed to be an amount payable under this Act.

(10.8) *Definitions.* In subsections (10.2) to (10.7),

'claim' means a claim of any kind whatever, however or whenever arising, absolute or contingent, legal or equitable in nature, consensual or statutory in origin, secured or unsecured, including a claim of Her Majesty in right of Canada or any province, or in any other right, but does not include a charge created under subsection (10.2);

'property' includes
(*a*) an interest, legal or equitable in nature, immediate or future, absolute or contingent, in all property, real and personal, tangible and intangible, whether subject to a security interest or not, and
(*b*) property substituted for the interest described in paragraph (*a*),
but does not include property that is subject to a security interest in favour of the seller or lessor of the property to secure payment of all or part of its price or performance in whole or in part of an obligation, if that security interest has not been transferred or assigned to a third party without recourse against the seller or lessor, as the case may be, to the extent of the interest of the seller or lessor in the property subject to that security interest;
'security interest' includes a security interest, debenture, mortgage, lien, pledge, charge, deemed or actual trust, assignment or encumbrance of any kind whatever, however or whenever arising, created, deemed to arise or otherwise provided for;
'similar provision' means a provision, similar to subsection (10.1), of any Act of a province that imposes a tax similar to the tax imposed under this Act, where the province has entered into an agreement with the Minister of Finance for the collection of the taxes payable to the province under that Act;
'trustee' means an assignee, liquidator, receiver, receiver-manager, trustee in bankruptcy, sequestrator or any other person performing a function similar to that performed by any such person.

(10.9) *Application of ss. (10.2) to (10.8).* Subsections (10.2) to (10.8) are applicable to assessments in respect of amounts that were deducted or withheld after a day to be fixed by proclamation."

S. 227(10.9) was not part of the former Act.

► 227(11) ◄

(11) Withholding tax. Provisions of this Act requiring a person to deduct or withhold an amount in respect of taxes from amounts payable to a taxpayer are applicable to Her Majesty in right of Canada or a province.

► 227(12) ◄

(12) Agreement not to deduct void. Where this Act requires an amount to be deducted or withheld, an agreement by the person on whom that obligation is imposed not to deduct or withhold is void.

► 227(13) ◄

(13) Minister's receipt discharges debtor. The receipt of the Minister for an amount deducted or withheld by any person as required by or under this Act is a good and sufficient discharge of the liability of any debtor to the debtor's creditor with respect thereto to the extent of the amount referred to in the receipt.

Cases: The fact that a receipt under former s. 123(13) (now s. 227(13)) may not have discharged the liability of the payer according to the law of the country where the taxpayer is incorporated, does not relieve the payer of his obligation to deduct and remit the tax. *B.C. Electric Railway v. The King*, 2 DTC 839 (P.C.).

► 227(14) ◄

(14) Application of other Parts. Parts IV, IV.1, VI and VI.1 do not apply to any corporation for any period throughout which it is exempt from tax because of section 149.

History: S. 227(14) was amended by S.C. 1994, c. 7, Sched. II, s. 186(5), applicable to any period or part of a period referred to in subsection 227(14) that is after 1989. S. 227(14) formerly read:

"(14) *Where Parts III, IV, IV.1, VI and VI.1 are not applicable.* Parts III, IV, IV.1, VI and VI.1 are not applicable to any corporation for any period throughout which it is exempt from tax under section 149."

Interpretation Bulletins: *Secondary* — IT-269R4 Part IV tax on taxable dividends received by a private corporation or a subject corporation; IT-347R2 Crown corporations [Archived by the CRA].

► 227(15) ◄

(15) Partnership included in "person". In this section, a reference to a "person" with respect to any amount deducted or withheld or required to be deducted or withheld is deemed to include a partnership.

History: S. 227(15) was amended by S.C. 1997, c. 25, s. 67(8), applicable April 25, 1997. S. 227(15) formerly read:

"(15) *Partnership included in 'person'.* In this section a reference to 'person' with respect to any amount or any tax deducted or withheld from an amount under Part XIII shall be deemed to include a partnership that is with respect to that amount deemed for the purposes of that Part to be a person resident in Canada or a non-resident person."

Related Sections: S. 96 General rules; s. 212(13.1) Application of Part XIII tax where payer or payee is a partnership.

► 227(16) ◄

(16) Municipal or provincial corporation excepted. A corporation that at any time in a taxation year would be a corporation described in any of paragraphs 149(1)(*d*) to (*d*.6) but for a provision of an appropriation Act is deemed not to be a private corporation for the purposes of Part IV with respect to that year.

History: S. 227(16) was amended by S.C. 2001, c. 17, s. 180(2), applicable to taxation years that begin after 1998. S. 227(16) formerly read:

"(16) *Municipal or provincial corporation excepted.* A corporation that at any time during the taxation year would be a corporation described in paragraph 149(1)(*d*) but for a provision of an appropriation Act shall be deemed not to be a private corporation for the purposes of Part IV."

Related Sections: S. 89(1), "private corporation"; s. 104(1) Reference to trust or estate; s. 149(1)(*d*) Corporations owned by the Crown; s. 238(3) Saving; s. 248(1), "amount", "assessment", "corporation", "employer", "prescribed", "regulation", "salary or wages"; s. 255 Canada; ITAR s. 65.1 Part XV of amended Act.

Interpretation Bulletins: *Secondary* — IT-269R4 Part IV tax on taxable dividends received by a private corporation or a subject corporation; IT-347R2 Crown corporations [Archived by the CRA].

SECTION 227.1:

► 227.1(1) ◄

(1) Liability of directors for failure to deduct. Where a corporation has failed to deduct or withhold an amount as required by subsection 135(3) or 135.1(7) or section 153 or 215, has failed to remit such an amount or has failed to pay an amount of tax for a taxation year as required under Part VII or VIII, the directors of the corporation at the time the corporation was required to deduct, withhold, remit or pay the amount are jointly and severally, or solidarily, liable, together with the corporation, to pay that amount and any interest or penalties relating to it.

History: S. 227.1(1) was replaced by S.C. 2006, c. 4, s. 87(1), applicable after 2005.

S. 227.1(1) formerly read:

"S. 227.1. (1) *Liability of directors for failure to deduct.* Where a corporation has failed to deduct or withhold an amount as required by subsection 135(3) or section 153 or 215, has failed to remit such an amount or has failed to pay an amount of tax for a taxation year as required under Part VII or VIII, the directors of the corporation at the time the corporation was required to deduct, withhold, remit or pay the amount are jointly and severally liable, together with the corporation, to pay that amount and any interest or penalties relating thereto.".

Editorial Note: In certain situations, directors of a corporation are jointly and severally liable with the corporation if the corporation fails to deduct, withhold, remit or pay tax as required by certain provisions of the Act. The potential liability of the director does not extend to the corporation's ordinary Part I tax liability. Rather, the potential liability is limited to cases where the corporation has failed to deduct or withhold taxes pursuant to subsection 135(3) or 135.1(7) (patronage dividends), section 153 (source deductions) or 215 (non-resident withholding), where the corporation has failed to remit such taxes deducted or withheld, or where the corporation has failed to pay the special taxes under Part VII or Part VIII (former SR&ED regimes).

Information Circulars: IC 89-2R2 Directors' Liability.

Tax Topics: No. 1819, The Implications of Withholding Requirements on Non-Residents Providing Services in Canada; No. 1710, Section 227.1 and Director's Liability After the Peoples Decision: A Clarification from Above?; No. 1615, Director's Liability - The Two-Year Rule; No. 1485, Are There Still Some Unexplored Facets to the "Due Diligence" Defence Available to Corporate Directors?.

Cases: An inside director tried to ascertain the amount of the company's liabilities and relied on corporate officers and on inaccurate information from Revenue Canada. Given his limited experience in tax and business affairs, it was reasonable for him to accept the Revenue Canada information. The fact that his efforts were unsuccessful does not mean that he failed to act reason-

ably. *Smith v. The Queen*, 2001 DTC 5226 (F.C.A.), reversing 2000 DTC 1888 (T.C.C.).

The responsibilities of a director require more than merely doing one's best, and complying with the demands of a corporation's most immediately pressing creditors, while ignoring the corporation's tax remittance obligations. On the evidence, the taxpayer failed to show the requisite degree of care, diligence and skill that would enable him to take advantage of the due diligence defence. *Short v. The Queen*, 99 DTC 5348 (F.C.T.D.), affirming 91 DTC 67 (T.C.C.).

The Tax Court did not apply the proper test when it held a director liable for failing to exercise the required standard of care to ensure that the corporation properly calculated and remitted GST. On judicial review, the Federal Court of Appeal referred the case back to the Tax Court for a determination in a manner consistent with the principles enunciated in *Soper. Drover v. The Queen*, 98 DTC 6378 (F.C.A.), reversing unreported (T.C.C.).

Inside directors (i.e., those involved in a corporation's day to day management) are likely to have the most difficulty in establishing a due diligence defence. Conversely, to demonstrate due diligence, outside directors are not required to establish and monitor a trust account to pay unremitted source deductions. They are, however, required to take some action when becoming aware of facts possibly leading to the conclusion that there could be a potential problem with remissions. The extent of the director's business knowledge and experience should also be considered. *Soper v. The Queen*, 97 DTC 5407 (F.C.A.), affirming unreported (T.C.C.).

► 227.1(2) ◄

(2) Limitations on liability. A director is not liable under subsection (1), unless

(*a*) a certificate for the amount of the corporation's liability referred to in that subsection has been registered in the Federal Court under section 223 and execution for that amount has been returned unsatisfied in whole or in part;

(*b*) the corporation has commenced liquidation or dissolution proceedings or has been dissolved and a claim for the amount of the corporation's liability referred to in that subsection has been proved within six months after the earlier of the date of commencement of the proceedings and the date of dissolution; or

(*c*) the corporation has made an assignment or a bankruptcy order has been made against it under the *Bankruptcy and Insolvency Act* and a claim for the amount of the corporation's liability referred to in that subsection has been proved within six months after the date of the assignment or bankruptcy order.

History: S. 227.1(2)(*c*) was replaced by S.C. 2004 c. 25, s. 202, applicable on Royal Assent, December 15, 2004. S. 227.1(2)(*c*) formerly read:

"(*c*) the corporation has made an assignment or a receiving order has been made against it under the *Bankruptcy and Insolvency Act* and a claim for the amount of the corporation's liability referred to in that subsection has been proved within six months after the date of the assignment or receiving order."

S. 227.1(2)(*c*) was amended by S.C. 1994, c. 7, Sched. V, s. 90(1), to change "*Bankruptcy Act*" to "*Bankruptcy and Insolvency Act*", effective June 23, 1992.

Editorial Note: A director's liability is limited to situations in which the corporation is dissolved (or has commenced liquidation or dissolution proceedings), bankrupt, or where an execution under section 223 against the corporation has been returned unsatisfied.

► 227.1(3) ◄

(3) Idem. A director is not liable for a failure under subsection (1) where the director exercised the degree of care, diligence and skill to prevent the failure that a reasonably prudent person would have exercised in comparable circumstances.

Editorial Note: A director is not liable for the failure of a corporation to remit if he or she exercises the degree of care, diligence and skill to prevent the failure that a reasonably prudent person would have exercised in comparable circumstances (i.e., the "due diligence" defence). There are numerous cases relating to the due diligence defence, although they tend to turn on a consideration of all the facts and circumstances. Some guiding principles are provided in the cases as follows: the standard of care is an "objective subjective" standard — it can be flexible depending on the director (i.e., "inside" directors will have a higher standard of care than "outside" directors); reliance on those to whom the task to remit has been delegated is not a sufficient due diligence defence; and the involvement of a trustee in bankruptcy may tie a director's hands.

Information Circulars: IC 89-2R2 Directors' Liability.

Tax Topics: No. 1710, Section 227.1 and Director's Liability After the Peoples Decision: A Clarification from Above?; No. 1485, Are There Still Some Unexplored Facets to the "Due Diligence" Defence Available to Corporate Directors?.

Cases: A director was not held personally liable for unremitted source deductions, because, although he was a lawyer, he was not involved in the day-to-day operation of the corporation and had only limited influence on management. His inquiries and actions met the standard of due diligence required of him in the circumstances. *Cameron v. The Queen*, 2001 DTC 5405 (F.C.A.), reversing 2000 DTC 1495 (T.C.C.).

► 227.1(4) ◄

(4) Limitation period. No action or proceedings to recover any amount payable by a director of a corporation under subsection (1) shall be commenced more than two years after the director last ceased to be a director of that corporation.

Editorial Note: A director is not liable unless the action or proceeding to recover an amount payable has been commenced against him or her within two years after he or she last ceased to be a director of the corporation. If a director's resignation is technically defective, he or she will avoid liability if there are reasonable grounds to support the belief that he or she is no longer a director. Conversely, a person who may have resigned but continues to act as a "*de facto*" director could still be liable.

► 227.1(5) ◄

(5) Amount recoverable. Where execution referred to in paragraph (2)(*a*) has issued, the amount recoverable from a director is the amount remaining unsatisfied after execution.

Editorial Note: The amount recoverable from a director in the case where an execution under section 223 against the corporation has been returned unsatisfied is only the amount remaining unsatisfied after execution. It should be noted that a judgment against a corporation could be registered after the assessment has been issued, even if a notice of objection has been filed.

► 227.1(6) ◄

(6) Preference. Where a director pays an amount in respect of a corporation's liability referred to in subsection (1) that is proved in liquidation, dissolution or bankruptcy proceedings, the director is entitled to any preference that Her Majesty in right of Canada would have been entitled to had that amount not been so paid and, where a certificate that relates to that amount has been registered, the director is entitled to an assignment of the certificate to the extent of the director's payment, which assignment the Minister is hereby empowered to make.

Editorial Note: If a director pays an amount in respect of the liability of a corporation under subsection 227(1), which amount is proved in dissolution or bankruptcy proceedings, he or she is given the same preference as a creditor of the corporation as the Crown would have been entitled to if the amount owed by the corporation had remained unpaid.

► 227.1(7) ◄

(7) Contribution. A director who has satisfied a claim under this section is entitled to contribution from the other directors who were liable for the claim.

Editorial Note: A director who has satisfied a claim under section 227.1 is entitled to contribution from his or her fellow directors who were liable for the claim unless such directors have satisfied the due diligence defence or ceased to be directors for more than two years before the action commenced.

SECTION 228: Applying payments under collection agreements.

Where a payment is made to the Minister on account of tax under this Act, an Act of a province that imposes a tax similar to the tax imposed under this Act, or any two or more such Acts, such part of that payment as is applied by the Minister in accordance with the provisions of a collec-

tion agreement entered into under Part III of the *Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act* against the tax payable by a taxpayer for a taxation year under this Act discharges the liability of the taxpayer for that tax only to the extent of the part of the payment so applied, notwithstanding that the taxpayer directed that the payment be applied in a manner other than that provided in the collection agreement or made no direction as to its application.

Related Sections: S. 154 Tax transfer payments.

SECTION 229: Receipt of taxes by banks. [Repealed by R.S.C. 1985, c. 1, 5th Supplement, s. 229.1(1).]

History: S. 229 was repealed by R.S.C. 1985, c. 1, 5th Supplement, s. 229.1(1), applicable on a day to be fixed by proclamation. See s. 229.1 below. S. 229 formerly read:

"S. 229. A bank in Canada shall receive for deposit, without any charge for discount or commission, any cheque made payable to the Receiver General in payment of tax, interest or penalty imposed by this Act, whether drawn on the bank receiving the cheque or on any other bank in Canada."

SECTION 229.1:

► 229.1(1) ◄

(1) Repeal of s. 229. Section 229 is repealed.

History: S. 229.1(1) was not part of the former Act.

► 229.1(2) ◄

(2) Coming into force. Subsection (1) shall come into force on a day to be fixed by proclamation.

History: S. 229.1(2) was not part of the former Act.

General

SECTION 230:

► 230(1) ◄

(1) Records and books. Every person carrying on business and every person who is required, by or pursuant to this Act, to pay or collect taxes or other amounts shall keep records and books of account (including an annual inventory kept in prescribed manner) at the person's place of business or residence in Canada or at such other place as may be designated by the Minister, in such form and containing such information as will enable the taxes payable under this Act or the taxes or other amounts that should have been deducted, withheld or collected to be determined.

Related Sections: S. 230(2.1) Records and books — lawyers.
Regulations: Part XVIII.
Information Circulars: IC 77-9R Books, records and other requirements for taxpayers having foreign affiliates; IC 78-10R4 Books and records retention/destruction; IC 05-1 Electronic book keeping.
Forms: T137; T183.
Tax Topics: No. 1562, Are Your Documentary Records Ready for a Tax Dispute?.
Canadian Tax Foundation: Quigley, "Controlling Tax Information: Limits to Record-Keeping and Disclosure Obligations", *1999 Canadian Tax Journal*, No. 1, 1.

► 230(1.1) ◄

(1.1) Idem. [Repealed by 1986, c. 6, s. 120(1).]

► 230(2) ◄

(2) Idem. Every registered charity and registered Canadian amateur athletic association shall keep records and books of account at an address in Canada recorded with the Minister or designated by the Minister containing

(*a*) information in such form as will enable the Minister to determine whether there are any grounds for the revocation of its registration under this Act;

(*b*) a duplicate of each receipt containing prescribed information for a donation received by it; and

(*c*) other information in such form as will enable the Minister to verify the donations to it for which a deduction or tax credit is available under this Act.

History: S. 230(2) was amended by S.C. 1994, c. 21, s. 105(1), applicable after December 21, 1992. S. 230(2) formerly read:

"(2) *Idem, charities, etc.* Every registered charity and registered Canadian amateur athletic association shall keep records and books of account (including a duplicate of each receipt containing prescribed information for a donation received by it) at an address in Canada recorded with the Minister or designated by the Minister in such form and containing such information as will enable the donations to it that are deductible under this Act to be verified."

Regulations: Part II; Part XXXV.
Registered Charities Newsletters: No. 31, Court News; No. 26, Books and records; No. 13, About Auditing Charities; No. 5, Where and why does the Department require your registered charity to keep books and records?.
Cases: A CRA auditor asked a charitable foundation to provide a donor list, which was then used to reassess the donors. The taxpayer was required to collect the information under s. 230(2) and the Minister was entitled to obtain it under s. 231.1. Reassessment of the donors was a logical consequence of the determination that the taxpayer was not operating a valid charitable program, and was a proper exercise of audit powers. No judicial authorization was required since the information was requested to verify the taxpayer's compliance with the Act. *Redeemer Foundation v. M.N.R.*, 2008 DTC 6474 (S.C.C.), affirming 2006 DTC 6712 (F.C.A.), reversing 2005 DTC 5617 (F.C.).

► 230(2.1) ◄

(2.1) Idem, lawyers. For greater certainty, the records and books of account required by subsection (1) to be kept by a person carrying on business as a lawyer (within the meaning assigned by subsection 232(1)) whether by means of a partnership or otherwise, include all accounting records of the lawyer, including supporting vouchers and cheques.

► 230(3) ◄

(3) Minister's requirement to keep records, etc. Where a person has failed to keep adequate records and books of account for the purposes of this Act, the Minister may require the person to keep such records and books of account as the Minister may specify and that person shall thereafter keep records and books of account as so required.

► 230(4) ◄

(4) Limitation period for keeping records, etc. Every person required by this section to keep records and books of account shall retain

(*a*) the records and books of account referred to in this section in respect of which a period is prescribed, together with every account and voucher necessary to verify the information contained therein, for such period as is prescribed; and

(*b*) all other records and books of account referred to in this section, together with every account and voucher necessary to verify the information contained therein, until the expiration of six years from the end of the last taxation year to which the records and books of account relate.

Related Sections: S. 168(1) Notice of intention to revoke registration; s. 230.1(3) Application of subsections 230(3) to (8); s. 238(2) Compliance orders; s. 248(1), "amount", "business", "inventory", "prescribed", "registered Canadian amateur athletic association", "registered charity"; s. 255 Canada.
Regulations: 5800(1).
Information Circulars: IC 78-10R4 Books and records retention/destruction; IC 05-1 Electronic book keeping.
Forms: T137.

► 230(4.1) ◄

(4.1) Electronic records. Every person required by this section to keep records who does so electronically shall retain them in an electronically readable format for the retention period referred to in subsection (4).

History: S. 230(4.1) was added by S.C. 1998, c. 19, s. 227, applicable on Royal Assent, June 18, 1998.

Related Sections: S. 231.5(1) Copies; s. 244(9) Proof of documents; s. 248(1), "record".

Tax Topics: No. 1768, Electronic and Other Record-Keeping Requirements — The CRA's Views.

► 230(4.2) ◄

(4.2) Exemptions. The Minister may, on such terms and conditions as are acceptable to the Minister, exempt a person or a class of persons from the requirement in subsection (4.1).

History: S. 230(4.2) was added by S.C. 1998, c. 19, s. 227, applicable on Royal Assent, June 18, 1998.

► 230(5) ◄

(5) Exception where no return filed. Where, in respect of any taxation year, a person referred to in subsection (1) has not filed a return with the Minister as and when required by section 150, that person shall retain every record and book of account that is required by this section to be kept and that relates to that taxation year, together with every account and voucher necessary to verify the information contained therein, until the expiration of six years from the day the return for that taxation year is filed.

Forms: T137.

► 230(6) ◄

(6) Exception where objection or appeal. Where a person required by this section to keep records and books of account serves a notice of objection or where that person is a party to an appeal to the Tax Court of Canada under this Act, that person shall retain every record, book of account, account and voucher necessary for dealing with the objection or appeal until, in the case of the serving of a notice of objection, the time provided by section 169 to appeal has elapsed or, in the case of an appeal, until the appeal is disposed of and any further appeal in respect thereof is disposed of or the time for filing any such further appeal has expired.

Forms: T137.

► 230(7) ◄

(7) Exception where demand by Minister. Where the Minister is of the opinion that it is necessary for the administration of this Act, the Minister may, by registered letter or by a demand served personally, require any person required by this section to keep records and books of account to retain those records and books of account, together with every account and voucher necessary to verify the information contained therein, for such period as is specified in the letter or demand.

Forms: T137.

► 230(8) ◄

(8) Permission for earlier disposal. A person required by this section to keep records and books of account may dispose of the records and books of account referred to in this section, together with every account and voucher necessary to verify the information contained therein, before the expiration of the period in respect of which those records and books of account are required to be kept if written permission for their disposal is given by the Minister.

Information Circulars: IC 78-10R4 Books and records retention/destruction; IC 05-1 Electronic book keeping.

Forms: T137.

SECTION 230.1:

► 230.1(1) ◄

(1) Records re monetary contributions — *Canada Elections Act*. Every agent authorized under the *Canada Elections Act* to accept monetary contributions referred to in that Act shall keep records, sufficient to enable each monetary contribution within the meaning assigned by subsection 127(4.1) that they receive and the expenditures that they make to be verified, (including a duplicate of the receipt referred to in subsection 127(3) for each of those monetary contributions) at

(*a*) in the case of an agent other than an official agent of a candidate, the address recorded in the registry of parties or of electoral district associations referred to in the *Canada Elections Act*; and

(*b*) in the case of an official agent of a candidate, the agent's address set out in the nomination papers filed under that Act with the returning officer when the candidate was a prospective candidate or any other address that the Minister designates.

History: S. 230.1(1) was replaced by S.C. 2003, c. 19, s. 74(1), in force on January 1, 2004.

On and after the day on which this Act [S.C. 2003, c. 19] receives Royal Assent [June 19, 2003] but before January 1, 2004, section 230.1 is to be read as amended except that paragraph 230.1(1)(*a*) is to be read without reference to the expression "or of registered associations".

If the day on which [the amendment to section 230.1] comes into force [January 1, 2004] occurs during an election period, within the meaning assigned by the *Canada Elections Act*, paragraph 230.1(1)(*a*) of the *Income Tax Act* is to be read, in respect of that election, as described [in the paragraph above].

Editorial Note: The First Reading version of Bill C-24 (S.C. 2003, c. 19) referred to "registered associations" in paragraph 230.1(1)(*a*). This was changed to "electoral district associations" by the Standing Committee on Procedure and House Affairs; however, the wording for the application was not changed.

S. 230.1(1) formerly read:

"S. 230.1. *Books and records re political contributions.*

(1) Every registered agent of a registered party and the official agent of each candidate at an election of a member or members to serve in the House of Commons of Canada shall keep records and books of account sufficient to enable the amounts contributed that are received by the agent and expenditures that are made by the agent to be verified (including duplicates of all receipts for amounts contributed, containing prescribed information and signed by the agent) at

(*a*) in the case of a registered agent, the agent's address recorded in the registry maintained by the Chief Electoral Officer pursuant to subsection 33(1) of the *Canada Elections Act*, and

(*b*) in the case of an official agent, an address in Canada recorded with or designated by the Minister."

S. 230.1(1), the portion before paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 133(1), applicable to the 1992 and subsequent taxation years. The portion formerly read:

"(1) *Records and books relating to political contributions.* Every registered agent of a registered party and the official agent of each candidate at an election of a member or members to serve in the House of Commons of Canada shall keep records and books of account sufficient to enable the amounts contributed received by the agent and expenditures made by the agent to be verified (including duplicates of all receipts for amounts contributed, signed by the registered agent or official agent, as the case may be, other than any such duplicate receipts filed by the agent under subsection (2)) at"

Regulations: Part XX.

Information Circulars: IC 78-10R4 Books and records retention/destruction; IC 05-1 Electronic book keeping.

► 230.1(2) ◄

(2) Information return. Each agent to whom subsection (1) applies shall file with the Minister an information return in prescribed form and containing prescribed information. The return is to be filed within the period for the filing of a financial transactions return or an electoral

campaign return, as the case may be, under the *Canada Elections Act*.

History: S. 230.1(2) was replaced by S.C. 2003, c. 19, s. 74(1), and comes into force on January 1, 2004.

On and after the day on which this Act [S.C. 2003, c. 19] receives royal assent [June 19, 2003] but before January 1, 2004, section 230.1 is to be read as amended [except for the wording change noted in the application for subsection 230.1(1)].

S. 230.1(2) formerly read:

"(2) *Return of information.* Each person to whom subsection (1) applies shall,

(*a*) in the case of a registered agent, at such times, not more frequently than annually, as are prescribed by the Minister, and

(*b*) in the case of an official agent, within the time within which a return is required to be submitted by the agent to a returning officer under section 228 of the *Canada Elections Act*,

file with the Minister a return of information in prescribed form and containing prescribed information."

S. 230.1(2), the portion after paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 133(2), applicable to the 1992 and subsequent taxation years. The portion formerly read:

"(*b*) in the case of an official agent, within the time within which a return is required to be submitted by the agent to a returning officer pursuant to section 228 of the *Canada Elections Act*,

file with the Minister a return of information, in prescribed form and containing prescribed information, together with the duplicates of all receipts referred to in that subsection signed by that person since the later of the day any previous such information return was filed by that person and August 1, 1974."

Regulations: 2001.
Forms: T2092; T2093.

► 230.1(3) ◄

(3) Application of subsections 230(3) to (8). Subsections 230(3) to (8) apply, with any modifications that the circumstances require, in respect of the keeping of records by agents as required by subsection (1).

History: S. 230.1(3) was replaced by S.C. 2003, c. 19, s. 74(1), and comes into force on January 1, 2004.

On and after the day on which this Act [S.C. 2003, c. 19] receives royal assent [June 19, 2003] but before January 1, 2004, section 230.1 is to be read as amended [except for the wording change noted in the application for subsection 230.1(1)].

S. 230.1(3) formerly read:

"(3) *Application of ss. 230(3) to (8).* Subsections 230(3) to (8) apply, with such modifications as the circumstances require, in respect of the records and books of account required by subsection (1) to be kept and in respect of the persons thereby required to keep them."

Regulations: 5800(2).

► 230.1(4) ◄

(4) Reports to chief electoral officer. [Repealed by S.C. 1994, c. 21, s. 106.]

History: S. 230.1(4) was repealed by S.C. 1994, c. 21, s. 106, effective on Royal Assent, June 15, 1994. S. 230.1(4) formerly read:

"(4) Notwithstanding section 241, the Minister shall, as soon as is reasonably possible after each election and at such other time as is appropriate having regard to the time of receipt by the Minister of returns of information under subsection (2), forward to the Chief Electoral Officer a report that is based on all such returns of information as have been received by the Minister since the most recent such report and that sets out the total of amounts contributed to each registered party and the total of amounts contributed to each candidate at an election of a member or members to serve in the House of Commons of Canada since the most recent such report, and, on receipt thereof by the Chief Electoral Officer, the report is a public record and may be inspected by any person on request during normal business hours."

S. 230.1(4) was amended by S.C. 1994, c. 7, Sched. VIII, s. 133(3), applicable to the 1992 and subsequent taxation years. S. 230.1(4) formerly read:

"(4) The Minister shall, notwithstanding section 241, as soon as is reasonably possible after each election and at such other time as is appropriate having regard to the time of receipt by the Minister of returns of information under subsection (2), forward to the Chief Electoral Officer a report based on all such returns of information and duplicate receipts as have been received by the Minister since the most recent such report, setting out the total of amounts contributed to each registered party and the total of amounts contributed to each candidate at an election of a member or members to serve in the House of Commons of Canada since the most recent such report, and, on receipt thereof by the Chief Electoral Officer, the report is a public record and may be inspected by any person on request during normal business hours."

► 230.1(5) ◄

(5) No report to enable identification of contributor. [Repealed by S.C. 1994, c. 21, s. 106.]

History: S. 230.1(5) was repealed by S.C. 1994, c. 21, s. 106, effective on Royal Assent, June 15, 1994. S. 230.1(5) formerly read:

"(5) No report under subsection (4) shall contain information that would enable any person to identify a person by whom a contribution to a registered party or candidate was made."

► 230.1(6) ◄

(6) Definitions. [Repealed by S.C. 2003, c. 19, s. 74(1).]

History: S. 230.1(6) was repealed by S.C. 2003, c. 19, s. 74(1), and comes into force on January 1, 2004.

On and after the day on which this Act [S.C. 2003, c. 19] receives royal assent [June 19, 2003] but before January 1, 2004, section 230.1 is to be read as amended [except for the wording change noted in the application for subsection 230.1(1)].

S. 230.1(6) formerly read:

"(6) *Definitions.* In this section, the terms 'candidate', 'official agent', 'registered agent' and 'registered party' have the meanings assigned to them by section 2 of the *Canada Elections Act*."

► 230.1(7) ◄

(7) Definition of "amount contributed". [Repealed by S.C. 2003, c. 19, s. 74(1).]

History: S. 230.1(7) was repealed by S.C. 2003, c. 19, s. 74(1), and comes into force on January 1, 2004.

On and after the day on which this Act [S.C. 2003, c. 19] receives royal assent [June 19, 2003] but before January 1, 2004, section 230.1 is to be read as amended [except for the wording change noted in the application for subsection 230.1(1)].

S. 230.1(7) formerly read:

"(7) *Definition of 'amount contributed'.* In this section, 'amount contributed' by a taxpayer has the meaning assigned by subsection 127(4.1)."

S. 230.1(7) was not part of the former Act.

SECTION 231: Definitions.

In sections 231.1 to 231.7,

History: S. 231, the portion before the definition "authorized person" was amended by S.C. 2001, c. 17, s. 181, applicable on Royal Assent, June 14, 2001. S. 231, the portion before the definition "authorized person" formerly read:

"S. 231. *Definitions.* In sections 231.1 to 231.6,"

"authorized person" — "authorized person" means a person authorized by the Minister for the purposes of sections 231.1 to 231.5;

"document" — "document" includes money, a security and a record;

History: S. 231, the definition of "documents" was amended by S.C. 1998, c. 19, s.228, applicable on Royal Assent, June 18, 1998. The definition of "documents" formerly read:

" *'documents'* — 'documents' includes money, securities and any of the following, whether computerized or not: books, records, letters, telegrams, vouchers, invoices, accounts and statements (financial or otherwise);"

Related Sections: S. 248(1), "Record".

"dwelling-house" — "dwelling-house" means the whole or any part of a building or structure that is kept or occupied as a permanent or temporary residence and includes

(*a*) a building within the curtilage of a dwelling-house that is connected to it by a doorway or by a covered and enclosed passageway, and

(*b*) a unit that is designed to be mobile and to be used as a permanent or temporary residence and that is being used as such a residence;

"judge" — "judge" means a judge of a superior court having jurisdiction in the province where the matter arises or a judge of the Federal Court.

SECTION 231.1:

► 231.1(1) ◄

(1) Inspections. An authorized person may, at all reasonable times, for any purpose related to the administration or enforcement of this Act,

(*a*) inspect, audit or examine the books and records of a taxpayer and any document of the taxpayer or of any other person that relates or may relate to the information that is or should be in the books or records of the taxpayer or to any amount payable by the taxpayer under this Act, and

(*b*) examine property in an inventory of a taxpayer and any property or process of, or matter relating to, the taxpayer or any other person, an examination of which may assist the authorized person in determining the accuracy of the inventory of the taxpayer or in ascertaining the information that is or should be in the books or records of the taxpayer or any amount payable by the taxpayer under this Act,

and for those purposes the authorized person may

(*c*) subject to subsection (2), enter into any premises or place where any business is carried on, any property is kept, anything is done in connection with any business or any books or records are or should be kept, and

(*d*) require the owner or manager of the property or business and any other person on the premises or place to give the authorized person all reasonable assistance and to answer all proper questions relating to the administration or enforcement of this Act and, for that purpose, require the owner or manager to attend at the premises or place with the authorized person.

Related Sections: S. 232(3.1) Examination of certain documents where privilege claimed; s. 238(2) Compliance orders.

Information Circulars: IC 71-14R3 The tax audit; IC 73-10R3 Tax evasion.

Guides: RC4024 Enhancing Service to Large Businesses.

Registered Charities Newsletters: No. 31, Court News.

Tax Topics: No. 1811, CRA's Use of Audit Powers "Redeemed"; No. 1763-64, When Audit Obligations Conflict with Rights to Privilege — Who Wins?.

Tax Profile: October 2006 — Tax Controversies in Canada: A Variety of Issues.

Canadian Tax Foundation: Heddema and Russell, "CRA Requests for Information Under The Income Tax Act: A Review Of Sections 231.1 And 231.2", *2008 British Columbia Tax Conference*, 1:1; Innes and Williams, "Protection Against Self-Incrimination in Income Tax Audits, Investigations, and Inquiries", *2001 Canadian Tax Journal*, No. 6, 1459.

Cases: A CRA auditor asked a charitable foundation to provide a donor list, which was then used to reassess the donors. The taxpayer was required to collect the information under s. 230(2) and the Minister was entitled to obtain it under s. 231.1. Reassessment of the donors was a logical consequence of the determination that the taxpayer was not operating a valid charitable program, and was a proper exercise of audit powers. No judicial authorization was required since the information was requested to verify the taxpayer's compliance with the Act. *Redeemer Foundation v. M.N.R.*, 2008 DTC 6474 (S.C.C.), affirming 2006 DTC 6712 (F.C.A.), reversing 2005 DTC 5617 (F.C.).

Evidence gathered by the CCRA under s. 231.1(1) and 231.2(1) may be used in a subsequent investigation or prosecution for tax offences. However, where the predominant purpose of a question or inquiry is the determination of criminal liability, CCRA relinquishes the authority to use s. 231.1(1) and 231.2(1). There is no clear formula to determine when an audit inquiry becomes a criminal investigation and there is nothing to prevent the CCRA from carrying out an audit and a criminal investigation simultaneously. *Jarvis v. The Queen et al.*, 2002 DTC 7547 (S.C.C.), affirming 271 A.R. 263, (Alta C.A.) (2000), affirming 98 DTC 6308 (Alta Q.B.). *Ling v. The Queen et al.*, 2002 DTC 7566 (S.C.C.), affirming 149 C.C.C. (3d) 127 (B.C.C.A.), (2000), affirming [1999] 3 C.T.C. 386 (B.C.S.C.).

A requirement for information pursuant to [former] s. 231(3) is not a seizure within s. 8 of the Charter and does not contravene it. Various grounds of attack are available, including failure to provide a reasonable time for production, privileged documents, irrelevancy of documents to the matters in issue and any attempt by the Minister to conduct a "fishing expedition". The *Queen v. McKinlay Transport Ltd.*, 90 DTC 6243 (S.C.C.).

► 231.1(2) ◄

(2) Prior authorization. Where any premises or place referred to in paragraph (1)(*c*) is a dwelling-house, an authorized person may not enter that dwelling-house without the consent of the occupant except under the authority of a warrant under subsection (3).

► 231.1(3) ◄

(3) Application. Where, on *ex parte* application by the Minister, a judge is satisfied by information on oath that

(*a*) there are reasonable grounds to believe that a dwelling-house is a premises or place referred to in paragraph (1)(*c*),

(*b*) entry into the dwelling-house is necessary for any purpose relating to the administration or enforcement of this Act, and

(*c*) entry into the dwelling-house has been, or there are reasonable grounds to believe that entry will be, refused,

the judge may issue a warrant authorizing an authorized person to enter the dwelling-house subject to such conditions as are specified in the warrant but, where the judge is not satisfied that entry into the dwelling-house is necessary for any purpose relating to the administration or enforcement of this Act, the judge may

(*d*) order the occupant of the dwelling-house to provide to an authorized person reasonable access to any document or property that is or should be kept in the dwelling-house, and

(*e*) make such other order as is appropriate in the circumstances to carry out the purposes of this Act,

to the extent that access was or may be expected to be refused and that the document or property is or may be expected to be kept in the dwelling-house.

History: S. 231.1(3) was amended by S.C. 1994, c. 21, s. 107, effective on Royal Assent, June 15, 1994. S. 231.1(3) formerly read:

"(3) Where, on *ex parte* application by the Minister, a judge is satisfied by information on oath

(*a*) that there are reasonable grounds to believe that a dwelling-house is a premises or place referred to in paragraph (1)(*c*),

(*b*) that entry into the dwelling-house is necessary for any purpose relating to the administration or enforcement of this Act, and

(*c*) that entry into the dwelling-house has been refused or that there are reasonable grounds to believe that entry thereto will be refused,

the judge shall issue a warrant authorizing an authorized person to enter that dwelling-house subject to such conditions as may be specified in the warrant but, where the judge is not satisfied that entry into that dwelling-house is necessary for any purpose relating to the administration or enforcement of this Act, the judge shall

(*d*) order the occupant of the dwelling-house to provide reasonable access to an authorized person to any document or property that is or should be kept therein, and

(*e*) make such other order as is appropriate in the circumstances to carry out the purposes of this Act

to the extent that access has been or may be expected to be refused and that the document or property is or may be expected to be kept in the dwelling-house,"

SECTION 231.2:

► 231.2(1) ◄

(1) Requirement to provide documents or information. Notwithstanding any other provision of this Act, the Minister may, subject to subsection (2), for any purpose related to the administration or enforcement of this Act (including the collection of any amount payable under this Act by any person), of a comprehensive tax information

exchange agreement between Canada and another country or jurisdiction that is in force and has effect or, for greater certainty, of a tax treaty with another country, by notice served personally or by registered or certified mail, require that any person provide, within such reasonable time as stipulated in the notice,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 231.2(1) of the Act before paragraph (*a*) is replaced by the following:

SECTION 231.2:

(1) Requirement to provide documents or information. Notwithstanding any other provision of this Act, the Minister may, subject to subsection (2), for any purpose related to the administration or enforcement of this Act (including the collection of any amount payable under this Act by any person), of a listed international agreement or, for greater certainty, of a tax treaty with another country, by notice served personally or by registered or certified mail, require that any person provide, within such reasonable time as is stipulated in the notice,

Applicable: Royal Assent.

Explanatory Note: Subsection 231.2(1) of the Act provides that, notwithstanding any other provision of the Act, the Minister of National Revenue may by notice require that any person provide information or any document for any purpose relating to the administration or enforcement of the Act. An exception is made where the information or document relates to an unnamed person or persons, in which case the procedure set out in subsections 231.1(2) to (6) of the Act must be followed.

Subsection 231.2(1) is amended to provide that the Minister may by notice require any person to provide information or any document relating to the administration or enforcement of the Act, of a listed international agreement or, for greater certainty, of a tax treaty with another country.

A "listed international agreement" is newly defined in subsection 248(1) to mean the *Convention on Mutual Administrative Assistance in Tax Matters*, concluded at Strasbourg on January 25, 1988 and the *Convention between the Government of Canada and the Government of the United Mexican States for the Exchange of Information with Respect to Taxes*, signed at Mexico City on March 16, 1990. A "tax treaty" is defined in subsection 248(1) to mean a comprehensive agreement for the elimination of double taxation on income between the Canadian and foreign government that has the force of law in Canada at that time.

This amendment applies on Royal Assent.

(*a*) any information or additional information, including a return of income or a supplementary return; or

(*b*) any document.

History: S. 231.2(1), the portion before paragraph (*a*) was replaced by S.C. 2007, c. 35, s. 63, in force on Royal Assent, December 14, 2007. S. 231.2(1), the portion before paragraph (*a*) formerly read:

"S. 231.2. (1) *Requirement to provide documents or information.* Notwithstanding any other provision of this Act, the Minister may, subject to subsection (2), for any purpose related to the administration or enforcement of this Act, including the collection of any amount payable under this Act by any person, by notice served personally or by registered or certified mail, require that any person provide, within such reasonable time as is stipulated in the notice,"

S. 231.2(1), the portion before paragraph (*a*) was amended by S.C. 2000, c. 30, s. 176, applicable on Royal Assent, October 20, 2000. S. 231.2(1), the portion before paragraph (*a*) formerly read:

"S. 231.2. *Requirement to provide documents or information.*

(1) Notwithstanding any other provision of this Act, the Minister may, subject to subsection (2), for any purpose related to the administration or enforcement of this Act, by notice served personally or by registered or certified mail, require that any person provide, within such reasonable time as is stipulated in the notice,"

Related Sections: S. 232(3.1) Examination of certain documents where privilege claimed.

Information Circulars: IC 73-10R3 Tax evasion.

Tax Topics: No. 1640, Required Reading Regarding Requirements; No. 1530, The CCRA's Administrative Powers Under the *Income Tax Act* and the Canada-United States Income Tax Convention.

Tax Profile: October 2006 — Tax Controversies in Canada: A Variety of Issues; November 2003 — Current Cases.

Canadian Tax Foundation: Heddema and Russell, "CRA Requests for Information Under The Income Tax Act: A Review Of Sections 231.1 And 231.2", *2008 British Columbia Tax Conference*, 1:1; Innes and Williams, "Protection Against Self-Incrimination in Income Tax Audits, Investigations, and Inquiries", *2001 Canadian Tax Journal*, No. 6, 1459.

Cases: The taxpayers were required to produce information relating to some of their Canadian customers, in order to verify the customers' compliance with the Act. Although the information was stored electronically on U.S. servers, owned by the taxpayers' parent corporation, it was not "foreign-based information", since it was readily accessible in Canada for the taxpayers' use. *eBay Canada Limited et al. v. M.N.R.*, 2008 DTC 6728 (F.C.A.), affirming 2007 DTC 5573 (F.C.).

Although CCRA Requirements issued against individuals during a criminal investigation violated s. 7 and s. 8 of the Charter, corporations do not have the same rights. Requirements issued to the individual applicants were quashed, whereas those issued to the corporate applicants were upheld. *Kligman et al. v. M.N.R.*, 2003 DTC 5100 (F.C.T.D.).

Evidence gathered by the CCRA under s. 231.1(1) and 231.2(1) may be used in a subsequent investigation or prosecution for tax offences. However, where the predominant purpose of a question or inquiry is the determination of criminal liability, CCRA relinquishes the authority to use s. 231.1(1) and 231.2(1). There is no clear formula to determine when an audit inquiry becomes a criminal investigation and there is nothing to prevent the CCRA from carrying out an audit and a criminal investigation simultaneously. *Jarvis v. The Queen et al.*, 2002 DTC 7547 (S.C.C.), affirming, 271 A.R. 263, (Alta C.A.) (2000), affirming 98 DTC 6308 (Alta Q.B.). *Ling v. The Queen et al.*, 2002 DTC 7566 (S.C.C.), affirming 149 C.C.C. (3d) 127, (B.C.C.A.), (2000), affirming 3 C.T.C. 386 (B.C.S.C.)[1999].

Requirements demanding tax planning information were valid. A requirement can be valid even if its sole purpose is to determine whether there was an avoidance transaction. *Fraser Milner Casgrain LLP et al. v. M.N.R.*, 2002 DTC 7310 (F.C.T.D.).

Subsection 231.2(1) authorizes the Minister to demand responses to written questions. In addition, the applicants were not entitled to any accountant-client privilate. *Tower et al. v. M.N.R. et al.*, 2003 DTC 5540 (F.C.A.), reversing in part 2002 DTC 7315 (F.C.T.D.).

The Minister issued certain requirements for the production of information under s. 231.2(1). The requirements were not stayed pending the outcome of the plaintiff's proceedings against the Crown for certain declaratory relief. *Bisaillon et al. v. The Queen*, 99 DTC 5695 (F.C.A.), affirming 99 DTC 5270 (F.C.T.D.) .

If the required statements concerning the taxpayer's expenses and net worth were communicated to the RCMP while narcotics-related charges against him still remained outstanding, his right to remain silent would be infringed. *Tyler v. M.N.R.*, 91 DTC 5022 (F.C.A.).

The demand for information must provide a reasonable time within which such information or document is to be provided. It has been held that a demand to produce "without delay" does not satisfy this requirement: *Joseph et al. v. M.N.R.*, 85 DTC 5391 (Ont. H.C.) .

► 231.2(2) ◄

(2) Unnamed persons. The Minister shall not impose on any person (in this section referred to as a "third party") a requirement under subsection (1) to provide information or any document relating to one or more unnamed persons unless the Minister first obtains the authorization of a judge under subsection (3).

Tax Topics: No. 1917, Requirement Letters and Technology — *eBay Canada Limited*; No. 1913, The *Amex* Decision: Further Expansion of the CRA's Audit Powers and Requirement for Third Parties To Provide Information on Unnamed Persons.

Cases: A CRA auditor asked a charitable foundation to provide a donor list, which was then used to reassess the donors. The taxpayer was required to collect the information under s. 230(2) and the Minister was entitled to obtain it under s. 231.1. Reassessment of the donors was a logical consequence of the determination that the taxpayer was not operating a valid charitable program, and was a proper exercise of audit powers. No judicial authorization was required since the information was requested to verify the taxpayer's compliance with the Act. *Redeemer Foundation v. M.N.R.*, 2008 DTC 6474 (S.C.C.), affirming 2006 DTC 6712 (F.C.A.), reversing 2005 DTC 5617 (F.C.).

► 231.2(3) ◄

(3) Judicial authorization. On *ex parte* application by the Minister, a judge may, subject to such conditions as the judge considers appropriate, authorize the Minister to impose on a third party a requirement under subsection (1) relating to an unnamed person or more than one unnamed person (in this section referred to as the "group") where the judge is satisfied by information on oath that

(*a*) the person or group is ascertainable; and

(*b*) the requirement is made to verify compliance by the person or persons in the group with any duty or obligation under this Act.

(*c*) [Repealed by 1996, c. 21, s. 58(1).]

(*d*) [Repealed by 1996, c. 21, s. 58(1).]

History: S. 231.2(3)(*c*) and (*d*) were repealed by S.C. 1996, c. 21, s. 58(1), applicable on Royal Assent, June 20, 1996. S. 231.2(3)(*c*) and (*d*) formerly read:

"(*c*) it is reasonable to expect, based on any grounds, including information (statistical or otherwise) or past experience relating to the group or any other persons, that the person or any person in the group may have failed or may be likely to fail to provide information that is sought pursuant to the requirement or to otherwise comply with this Act; and

(*d*) the information or document is not otherwise more readily available."

Tax Topics: No. 1917, Requirement Letters and Technology — *eBay Canada Limited*; No. 1913, The *Amex* Decision: Further Expansion of the CRA's Audit Powers and Requirement for Third Parties To Provide Information on Unnamed Persons; No. 1811, CRA's Use of Audit Powers "Redeemed".

Cases: Since the Minister was seeking information relating to the tax returns of unidentified taxpayers, prior judicial authorization was required in order for the Minister to proceed by way of s. 231.2(3). *Canadian Forest Products Ltd. et al. v. M.N.R.*, 96 DTC 6506 (F.C.T.D.).

► 231.2(4) ◄

(4) Service of authorization. Where an authorization is granted under subsection (3), it shall be served together with the notice referred to in subsection (1).

► 231.2(5) ◄

(5) Review of authorization. Where an authorization is granted under subsection (3), a third party on whom a notice is served under subsection (1) may, within 15 days after the service of the notice, apply to the judge who granted the authorization or, where the judge is unable to act, to another judge of the same court for a review of the authorization.

► 231.2(6) ◄

(6) Powers on review. On hearing an application under subsection (5), a judge may cancel the authorization previously granted if the judge is not then satisfied that the conditions in paragraphs (3)(*a*) and (*b*) have been met and the judge may confirm or vary the authorization if the judge is satisfied that those conditions have been met.

History: S. 231.2(6) was amended by S.C. 1996, c. 21, s. 58(2), applicable on Royal Assent, June 20, 1996. S. 231.2(6) formerly read:

"(6) *Powers on review.* On hearing an application under subsection (5), a judge may cancel the authorization previously granted if the judge is not then satisfied that the conditions in paragraphs (3)(*a*) to (*d*) have been met and the judge may confirm or vary the authorization if the judge is satisfied that those conditions have been met."

► 231.2(7) ◄

(7) Additional remedy. [Repealed by 1988, c. 55, s. 174.]

SECTION 231.3:

► 231.3(1) ◄

(1) Search warrant. A judge may, on *ex parte* application by the Minister, issue a warrant in writing authorizing any person named therein to enter and search any building, receptacle or place for any document or thing that may afford evidence as to the commission of an offence under this Act and to seize the document or thing and, as soon as practicable, bring it before, or make a report in respect of it to, the judge or, where the judge is unable to act, another judge of the same court to be dealt with by the judge in accordance with this section.

Information Circulars: 73-10R3 Tax evasion.

Canadian Tax Foundation: Innes and Williams, "Protection Against Self-Incrimination in Income Tax Audits, Investigations, and Inquiries", *2001 Canadian Tax Journal*, No. 6, 1459.

Cases: A stolen safe was recovered by police. Documents from the safe, that were photocopied by police and provided to Revenue Canada, were inadmissible in tax proceedings since they were obtained through unreasonable search, contrary to s. 8 of the Charter and their admission would bring the administration of justice into disrepute. *Law et al v. The Queen*, 2002 DTC 6789 (S.C.C.), reversing 2001 DTC 5664 (N.B.C.A.), which reversed 2001 DTC 5661 (N.B.Q.B.).

Section 231.3 was found to be of no force and effect as a result of the Supreme Court of Canada decision in *Baron v. Her Majesty the Queen*, 93 DTC 5018. As a result of this decision, subsection 231.3(3) was amended, effective June 15, 1994, to replace the word "shall", with the word "may", apparently giving a judge the prerequisite discretion to make the provision valid under the Charter.

► 231.3(2) ◄

(2) Evidence in support of application. An application under subsection (1) shall be supported by information on oath establishing the facts on which the application is based.

► 231.3(3) ◄

(3) Evidence. A judge may issue the warrant referred to in subsection (1) where the judge is satisfied that there are reasonable grounds to believe that

(*a*) an offence under this Act was committed;

(*b*) a document or thing that may afford evidence of the commission of the offence is likely to be found; and

(*c*) the building, receptacle or place specified in the application is likely to contain such a document or thing.

History: S. 231.3(3) was amended by S.C. 1994, c. 21, s. 108, effective on Royal Assent, June 15, 1994. S. 231.3(3) formerly read:

"(3) A judge shall issue the warrant referred to in subsection (1) where the judge is satisfied that there are reasonable grounds to believe that

(*a*) an offence under this Act has been committed;

(*b*) a document or thing that may afford evidence of the commission of the offence is likely to be found; and

(*c*) the building, receptacle or place specified in the application is likely to contain such a document or thing."

Cases: Section 231.3 was found to be of no force and effect as a result of the Supreme Court of Canada decision in *Baron v. Her Majesty the Queen*, 93 DTC 5018. As a result of this decision, subsection 231.3(3) was amended, effective June 15, 1994, to replace the word "shall", with the word "may", apparently giving a judge the prerequisite discretion to make the provision valid under the Charter.

► 231.3(4) ◄

(4) Contents of warrant. A warrant issued under subsection (1) shall refer to the offence for which it is issued, identify the building, receptacle or place to be searched and the person alleged to have committed the offence and it shall be reasonably specific as to any document or thing to be searched for and seized.

► 231.3(5) ◄

(5) Seizure of document. Any person who executes a warrant under subsection (1) may seize, in addition to the document or thing referred to in that subsection, any other document or thing that the person believes on reasonable grounds affords evidence of the commission of an offence under this Act and shall as soon as practicable bring the document or thing before, or make a report in respect

thereof to, the judge who issued the warrant or, where the judge is unable to act, another judge of the same court to be dealt with by the judge in accordance with this section.

► 231.3(6) ◄

(6) Retention of things seized. Subject to subsection (7), where any document or thing seized under subsection (1) or (5) is brought before a judge or a report in respect thereof is made to a judge, the judge shall, unless the Minister waives retention, order that it be retained by the Minister, who shall take reasonable care to ensure that it is preserved until the conclusion of any investigation into the offence in relation to which the document or thing was seized or until it is required to be produced for the purposes of a criminal proceeding.

► 231.3(7) ◄

(7) Return of things seized. Where any document or thing seized under subsection (1) or (5) is brought before a judge or a report in respect thereof is made to a judge, the judge may, of the judge's own motion or on summary application by a person with an interest in the document or thing on three clear days notice of application to the Deputy Attorney General of Canada, order that the document or thing be returned to the person from whom it was seized or the person who is otherwise legally entitled thereto if the judge is satisfied that the document or thing

(*a*) will not be required for an investigation or a criminal proceeding; or

(*b*) was not seized in accordance with the warrant or this section.

► 231.3(8) ◄

(8) Access and copies. The person from whom any document or thing is seized pursuant to this section is entitled, at all reasonable times and subject to such reasonable conditions as may be imposed by the Minister, to inspect the document or thing and to obtain one copy of the document at the expense of the Minister.

Cases: Although search warrants were defective, the evidence obtained was still to be admitted, since, to do so would not "bring the administration of justice into disrepute" within the meaning of s. 24(2) of the Charter. *The Queen v. Hazlewood et al.*, 93 DTC 5406 (S.C. B.C.).

However, the evidence obtained under s. 231.3, in violation of the Charter, was excluded where the Crown could have attempted to return the seized items and immediately seize them properly again. *The Queen v. Agopsowicz*, 93 DTC 5412 (Prov.Ct. Sask.).

SECTION 231.4:

► 231.4(1) ◄

(1) Inquiry. The Minister may, for any purpose related to the administration or enforcement of this Act, authorize any person, whether or not the person is an officer of the Canada Revenue Agency, to make such inquiry as the person may deem necessary with reference to anything relating to the administration or enforcement of this Act.

History: S. 231.4(1) was amended by S.C. 2005, c. 38, s. 138, by replacing "Canada Customs and Revenue Agency" with "Canada Revenue Agency", in force December 12, 2005.

S. 231.4(1) was amended by S.C. 1999, c. 17, s. 168, by replacing "Department of National Revenue" with "Canada Customs and Revenue Agency", coming into force on November 1, 1999.

Information Circulars: IC 73-10R3 Tax evasion.

Canadian Tax Foundation: Innes and Williams, "Protection Against Self-Incrimination in Income Tax Audits, Investigations, and Inquiries", *2001 Canadian Tax Journal*, No. 6, 1459.

► 231.4(2) ◄

(2) Appointment of hearing officer. Where the Minister, pursuant to subsection (1), authorizes a person to make an inquiry, the Minister shall forthwith apply to the Tax Court of Canada for an order appointing a hearing officer before whom the inquiry will be held.

► 231.4(3) ◄

(3) Powers of hearing officer. For the purposes of an inquiry authorized under subsection (1), a hearing officer appointed under subsection (2) in relation thereto has all the powers conferred on a commissioner by sections 4 and 5 of the *Inquiries Act* and that may be conferred on a commissioner under section 11 thereof.

► 231.4(4) ◄

(4) When powers to be exercised. A hearing officer appointed under subsection (2) in relation to an inquiry shall exercise the powers conferred on a commissioner by section 4 of the *Inquiries Act* in relation to such persons as the person authorized to make the inquiry considers appropriate for the conduct thereof but the hearing officer shall not exercise the power to punish any person unless, on application by the hearing officer, a judge of a superior or county court certifies that the power may be exercised in the matter disclosed in the application and the applicant has given to the person in respect of whom the applicant proposes to exercise the power 24 hours notice of the hearing of the application or such shorter notice as the judge considers reasonable.

► 231.4(5) ◄

(5) Rights of witness at inquiry. Any person who gives evidence in an inquiry authorized under subsection (1) is entitled to be represented by counsel and, on request made by the person to the Minister, to receive a transcript of the evidence given by the person.

► 231.4(6) ◄

(6) Rights of person whose affairs are investigated. Any person whose affairs are investigated in the course of an inquiry authorized under subsection (1) is entitled to be present and to be represented by counsel throughout the inquiry unless the hearing officer appointed under subsection (2) in relation to the inquiry, on application by the Minister or a person giving evidence, orders otherwise in relation to the whole or any part of the inquiry on the ground that the presence of the person and the person's counsel, or either of them, would be prejudicial to the effective conduct of the inquiry.

Cases: The holding of an inquiry and the issuing of *subpoenas duces tecum* cannot be seen as inevitably leading to an unreasonable seizure within the meaning of section 8 of the Charter. As well, inasmuch as the taxpayer had not been subpoenaed, it was premature for him to evoke the self-incrimination provisions of section 7 of the Charter. The inquiry under s. 231.4 was not unconstitutional. *The Queen et al. v. Del Zotto et al.*, 99 DTC 5029 (S.C.C.), reversing 97 DTC 5328 (F.C.A.), and affirming 97 DTC 5145 (F.C.T.D.).

SECTION 231.5:

► 231.5(1) ◄

(1) Copies. Where any document is seized, inspected, audited, examined or provided under any of sections 231.1 to 231.4, the person by whom it is seized, inspected, audited or examined or to whom it is provided or any officer of the Canada Revenue Agency may make, or

cause to be made, one or more copies thereof and, in the case of an electronic document, make or cause to be made a print-out of the electronic document, and any document purporting to be certified by the Minister or an authorized person to be a copy of the document, or to be a print-out of an electronic document, made pursuant to this section is evidence of the nature and content of the original document and has the same probative force as the original document would have if it were proven in the ordinary way.

History: S. 231.5(1) was amended by S.C. 2005, c. 38, s. 138, by replacing "Canada Customs and Revenue Agency" with "Canada Revenue Agency", in force December 12, 2005.

S. 231.5(1) was amended by S.C. 1999, c. 17, s. 168, by replacing "Department of National Revenue" with "Canada Customs and Revenue Agency", coming into force on November 1, 1999.

S. 231.5(1) was amended by S.C. 1998, c. 19, s. 229(1), applicable to copies and print-outs made after June 18, 1998. S. 231.5(1) formerly read:

"S. 231.5. *Copies.*

(1) Where any document is seized, inspected, examined or provided under sections 231.1 to 231.4, the person by whom it is seized, inspected or examined or to whom it is provided or any officer of the Department of National Revenue may make, or cause to be made, one or more copies thereof and any document purporting to be certified by the Minister or an authorized person to be a copy made pursuant to this section is evidence of the nature and content of the original document and has the same probative force as the original document would have if it had been proven in the ordinary way."

Related Sections: S. 230(4.1) Electronic records; s. 244(9) Proof of documents.

Information Circulars: IC 73-10R3 Tax evasion.

Cases: The copying of a letter during an audit did not violate the Charter as there was no formal search or seizure. *Thyssen Canada Limited v. The Queen*, 84 DTC 6049 (F.C.T.D.).

► 231.5(2) ◄

(2) Compliance. No person shall, physically or otherwise, interfere with, hinder or molest an official (in this subsection having the meaning assigned by subsection 241(10)) doing anything that the official is authorized to do under this Act or attempt to interfere with, hinder or molest any official doing or prevent or attempt to prevent an official from doing, anything that the official is authorized to do under this Act, and every person shall, unless the person is unable to do so, do everything that the person is required to do by or under subsection (1) or sections 231.1 to 231.4.

History: S. 231.5(2) was amended by S.C. 2001, c. 17, s. 182, applicable on Royal Assent, June 14, 2001. S. 231.5(2) formerly read:

"(2) *Compliance.* No person shall hinder, molest or interfere with any person doing anything that the person is authorized by or pursuant to subsection (1) or sections 231.1 to 231.4 to do or prevent or attempt to prevent any person doing any such thing and, notwithstanding any other Act or law, every person shall, unless the person is unable to do so, do everything the person is required to do by or pursuant to subsection (1) or sections 231.1 to 231.4."

SECTION 231.6:

► 231.6(1) ◄

(1) Definition of "foreign-based information or document". For the purposes of this section, "foreign-based information or document" means any information or document that is available or located outside Canada and that may be relevant to the administration or enforcement of this Act, including the collection of any amount payable under this Act by any person.

History: S. 231.6(1) was amended by S.C. 2000, c. 30, s. 177, applicable on Royal Assent, October 20, 2000. S. 231.6(1) formerly read:

"(1) For the purposes of this section, 'foreign-based information or document' means any information or document that is available or located outside Canada and may be relevant to the administration or enforcement of this Act."

Related Sections: S. 231 Definitions; s. 248(1) Definitions.

Tax Topics: No. 1917, Requirement Letters and Technology — *eBay Canada Limited*.

Cases: There was no time period in s. 231.6 within which the request for the information had to be made. The Department was therefore not limited to producing the request for information prior to the taxpayer's filing of a notice of objection to a notice of reassessment. *Merko v. M.N.R.*, 90 DTC 6643 (F.C.T.D.).

► 231.6(2) ◄

(2) Requirement to provide foreign-based information. Notwithstanding any other provision of this Act, the Minister may, by notice served personally or by registered or certified mail, require that a person resident in Canada or a non-resident person carrying on business in Canada provide any foreign-based information or document.

Information Circulars: IC 77-9R Books, records and other requirements for taxpayers having foreign affiliates.

Tax Topics: No. 1917, Requirement Letters and Technology — *eBay Canada Limited*; No. 1739, CRA's Use of Foreign-Based Requirements Under Section 231.6 — Are There Any Limits?; No. 1716, Managing CRA Requirements To Provide Foreign-Based Information; No. 1530, The CCRA's Administrative Powers Under the *Income Tax Act* and the Canada-United States Income Tax Convention.

► 231.6(3) ◄

(3) Notice. The notice referred to in subsection (2) shall set out

(*a*) a reasonable period of time of not less than 90 days for the production of the information or document;

(*b*) a description of the information or document being sought; and

(*c*) the consequences under subsection (8) to the person of the failure to provide the information or documents being sought within the period of time set out in the notice.

► 231.6(4) ◄

(4) Review of foreign information requirement. The person on whom a notice of a requirement is served under subsection (2) may, within 90 days after the service of the notice, apply to a judge for a review of the requirement.

► 231.6(5) ◄

(5) Powers on review. On hearing an application under subsection (4) in respect of a requirement, a judge may

(*a*) confirm the requirement;

(*b*) vary the requirement as the judge considers appropriate in the circumstances; or

(*c*) set aside the requirement if the judge is satisfied that the requirement is unreasonable.

Tax Topics: No. 1739, CRA's Use of Foreign-Based Requirements Under Section 231.6 — Are There Any Limits?.

► 231.6(6) ◄

(6) Idem. For the purposes of paragraph (5)(*c*), the requirement to provide the information or document shall not be considered to be unreasonable because the information or document is under the control of or available to a non-resident person that is not controlled by the person served with the notice of the requirement under subsection (2) if that person is related to the non-resident person.

► 231.6(7) ◄

(7) Time during consideration not to count. The period of time between the day on which an application for review of a requirement is made pursuant to subsection (4) and the day on which the review is decided shall not be counted in the computation of

(*a*) the period of time set out in the notice of the requirement; and

(*b*) the period of time within which an assessment may be made pursuant to subsection 152(4).

► 231.6(8) ◄

(8) Consequence of failure. If a person fails to comply substantially with a notice served under subsection (2) and if the notice is not set aside by a judge pursuant to subsection (5), any court having jurisdiction in a civil proceeding relating to the administration or enforcement of this Act shall, on motion of the Minister, prohibit the introduction by that person of any foreign-based information or document covered by that notice.

Tax Topics: No. 1637, Subsection 231.6(8): Multinationals Beware!!!.

SECTION 231.7:

► 231.7(1) ◄

(1) Compliance order. On summary application by the Minister, a judge may, notwithstanding subsection 238(2), order a person to provide any access, assistance, information or document sought by the Minister under section 231.1 or 231.2 if the judge is satisfied that

(*a*) the person was required under section 231.1 or 231.2 to provide the access, assistance, information or document and did not do so; and

(*b*) in the case of information or a document, the information or document is not protected from disclosure by solicitor-client privilege (within the meaning of subsection 232(1)).

History: S. 231.7(1) was added by S.C. 2001, c. 17, s. 183, applicable on Royal Assent, June 14, 2001.

► 231.7(2) ◄

(2) Notice required. An application under subsection (1) must not be heard before the end of five clear days from the day the notice of application is served on the person against whom the order is sought.

History: S. 231.7(2) was added by S.C. 2001, c. 17, s. 183, applicable on Royal Assent, June 14, 2001.

► 231.7(3) ◄

(3) Judge may impose conditions. A judge making an order under subsection (1) may impose any conditions in respect of the order that the judge considers appropriate.

History: S. 231.7(3) was added by S.C. 2001, c. 17, s. 183, applicable on Royal Assent, June 14, 2001.

► 231.7(4) ◄

(4) Contempt of court. If a person fails or refuses to comply with an order, a judge may find the person in contempt of court and the person is subject to the processes and the punishments of the court to which the judge is appointed.

History: S. 231.7(4) was added by S.C. 2001, c. 17, s. 183, applicable on Royal Assent, June 14, 2001.

► 231.7(5) ◄

(5) Appeal. An order by a judge under subsection (1) may be appealed to a court having appellate jurisdiction over decisions of the court to which the judge is appointed. An appeal does not suspend the execution of the order unless it is so ordered by a judge of the court to which the appeal is made.

History: S. 231.7(5) was added by S.C. 2001, c. 17, s. 183, applicable on Royal Assent, June 14, 2001.

SECTION 232: [Solicitor-client privilege].

► 232(1) ◄

(1) Definitions. In this section,

Tax Topics: No. 1601, Revisiting Solicitor-Client Privilege.

"custodian" — "custodian" means a person in whose custody a package is placed pursuant to subsection (3);

"judge" — "judge" means a judge of a superior court having jurisdiction in the province where the matter arises or a judge of the Federal Court;

"lawyer" — "lawyer" means, in the province of Quebec, an advocate or notary and, in any other province, a barrister or solicitor;

Related Sections: S. 230(2.1) Records and books — lawyers.

"officer" — "officer" means a person acting under the authority conferred by or under sections 231.1 to 231.5;

"solicitor-client privilege" — "solicitor-client privilege" means the right, if any, that a person has in a superior court in the province where the matter arises to refuse to disclose an oral or documentary communication on the ground that the communication is one passing between the person and the person's lawyer in professional confidence, except that for the purposes of this section an accounting record of a lawyer, including any supporting voucher or cheque, shall be deemed not to be such a communication.

Related Sections: S. 232(10) Directions.

Tax Topics: No. 1698, Solicitor-Client Privilege: Commonwealth Cases Without Common Ground.

Tax Profile: October 2006 — Tax Controversies in Canada: A Variety of Issues.

Canadian Tax Foundation: Geddes, "The Fragile Privilege: Establishing and Safeguarding Solicitor-Client Privilege", *1999 Canadian Tax Journal*, No. 4, 799.

Cases: Where documents evidencing legal advice obtained by a corporate taxpayer had been provided to its outside firm of auditors to assist in the audit and examination of its financial statements, such waiver did not extent to a waiver for other purposes such as disclosure by the firm in response to a Minister's demand for information. *Interprovincial Pipe Line Inc. et al. v. The Queen*, 95 DTC 5642 (F.C.T.D.).

Under s. 232 Parliament intended that a judge deciding the issue of privilege, should act in his judicial capacity. There was nothing unusual about an issue of solicitor-client privilege arising in a civil or criminal case. It was a routine exercise of judicial power to dispose of the issue. *Herman et al. v. The Deputy Attorney General of Canada*, 78 DTC 6456 (S.C.C.). It was held that the decision of a judge regarding solicitor-client privilege in respect of documents was not subject to appeal. *Herman et al. v. The Deputy Attorney General of Canada*, 79 DTC 5372 (Ont. C.A.).

► 232(2) ◄

(2) Solicitor-client privilege defence. Where a lawyer is prosecuted for failure to comply with a requirement under section 231.2 with respect to information or a document, the lawyer shall be acquitted if the lawyer establishes to the satisfaction of the court

(*a*) that the lawyer, on reasonable grounds, believed that a client of the lawyer had a solicitor-client privilege in respect of the information or document; and

(*b*) that the lawyer communicated to the Minister, or some person duly authorized to act for the Minister, the lawyer's refusal to comply with the requirement together with a claim that a named client of the lawyer had a solicitor-client privilege in respect of the information or document.

Related Sections: S. 232(10) Directions; s. 232(14) Waiver of claim of privilege.

Cases: Section 488.1 of the *Criminal Code* (which is very similar to s. 232 of the *Income Tax Act*) was struck down as unconstitutional. The Court restated the common law principles and guidelines that should be complied with when searching a law office. *The Queen v. Lavallee, Rackel and Heintz et al.*, 2002 DTC 7267 (S.C.C.), affirming (2000) 184 D.L.R. (4th) 25, affirming (1998), 126 C.C.C. (3d) 129 (Alta. Q.B.).

► 232(3) ◄

(3) Seizure of certain documents where privilege claimed. Where, pursuant to section 231.3, an officer is about to seize a document in the possession of a lawyer and the lawyer claims that a named client of the lawyer has a solicitor-client privilege in respect of that document, the officer shall, without inspecting, examining or making copies of the document,

(*a*) seize the document and place it, together with any other document in respect of which the lawyer at the same time makes the same claim on behalf of the same client, in a package and suitably seal and identify the package; and

(*b*) place the package in the custody of the sheriff of the district or county in which the seizure was made or, if the officer and the lawyer agree in writing on a person to act as custodian, in the custody of that person.

Related Sections: S. 232(1), "custodian"; s. 232(4) Application to judge; s. 232(6) Order to deliver or make available; s. 232(12) Prohibition — inspection, examination or seizure of document; s. 232(14) Waiver of claim of privilege.

► 232(3.1) ◄

(3.1) Examination of certain documents where privilege claimed. Where, pursuant to section 231.1, an officer is about to inspect or examine a document in the possession of a lawyer or where, pursuant to section 231.2, the Minister has required provision of a document by a lawyer, and the lawyer claims that a named client or former client of the lawyer has a solicitor-client privilege in respect of the document, no officer shall inspect or examine the document and the lawyer shall

(*a*) place the document, together with any other document in respect of which the lawyer at the same time makes the same claim on behalf of the same client, in a package and suitably seal and identify the package or, if the officer and the lawyer agree, allow the pages of the document to be initialed and numbered or otherwise suitably identified; and

(*b*) retain it and ensure that it is preserved until it is produced to a judge as required under this section and an order is issued under this section in respect of the document.

History: S. 232(3.1) was amended by S.C. 1998, c. 19, s. 230, applicable on Royal Assent, June 18, 1998. S. 232(3.1) formerly read:

"(3.1) *Examination of certain documents where privilege claimed.* Where, pursuant to sections 231.1 and 231.2, an officer is about to inspect or examine a document in the possession of a lawyer and the lawyer claims that a named client of the lawyer has a solicitor-client privilege in respect of that document, the officer shall not inspect or examine the document and the lawyer shall"

Related Sections: S. 232(4) Application to judge; s. 232(6) Order to deliver or make available; s. 232(12) Prohibition — inspection, examination or seizure of document; s. 232(14) Waiver of claim of privilege.

► 232(4) ◄

(4) Application to judge. Where a document has been seized and placed in custody under subsection (3) or is being retained under subsection (3.1), the client, or the lawyer on behalf of the client, may

(*a*) within 14 days after the day the document was so placed in custody or commenced to be so retained apply, on three clear days notice of motion to the Deputy Attorney General of Canada, to a judge for an order

(i) fixing a day, not later than 21 days after the date of the order, and place for the determination of the question whether the client has a solicitor-client privilege in respect of the document, and

(ii) requiring the production of the document to the judge at that time and place;

(*b*) serve a copy of the order on the Deputy Attorney General of Canada and, where applicable, on the custodian within 6 days of the day on which it was made and, within the same time, pay to the custodian the estimated expenses of transporting the document to and from the place of hearing and of safeguarding it; and

(*c*) if the client or lawyer has proceeded as authorized by paragraph (*b*), apply at the appointed time and place for an order determining the question.

Related Sections: S. 232(5) Disposition of application; s. 232(6) Order to deliver or make available; s. 232(8) Continuation by another judge.

Guides: T4115 Return of Benefits.

Cases: A law firm (FMC) acted for a group of companies (Group A) that negotiated the formation of two business partnerships with another group of companies (Group B). During the negotiations, FMC communicated orally and in writing with Group B regarding legal matters that were of common interest to both groups. The documents that were disclosed to Group B were protected by a common interest privilege. *Fraser Milner Casgrain LLP et al v. M.N.R.*, 2003 DTC 5048 (B.C.S.C.).

Documents in the possession of a lawyer were seized and placed in custody of the sheriff under the authority of s. 232(2). On an application by the Attorney-General, the judge was satisfied that no application had been pursued under s. 232(4) to establish privilege, and ordered the documents to be delivered to the Minister. The judge's order was held to be proper. *Easton v. Attorney-General of Canada*, 76 DTC 6174 (F.C.A.).

► 232(5) ◄

(5) Disposition of application. An application under paragraph (4)(*c*) shall be heard *in camera*, and on the application

(*a*) the judge may, if the judge considers it necessary to determine the question, inspect the document and, if the judge does so, the judge shall ensure that it is repackaged and resealed; and

(*b*) the judge shall decide the matter summarily and,

(i) if the judge is of the opinion that the client has a solicitor-client privilege in respect of the document, shall order the release of the document to the lawyer, and

(ii) if the judge is of the opinion that the client does not have a solicitor-client privilege in respect of the document, shall order

(A) that the custodian deliver the document to the officer or some other person designated by the Commissioner of Revenue, in the case of a document that was seized and placed in custody under subsection (3), or

(B) that the lawyer make the document available for inspection or examination by the officer or other person designated by the Commissioner of Revenue, in the case of a document that was retained under subsection (3.1),

and the judge shall, at the same time, deliver concise reasons in which the judge shall identify the document without divulging the details thereof.

History: S. 232(5) was amended by S.C. 2005, c. 38, s. 140, by replacing "Commissioner of Customs and Revenue" with "Commissioner of Revenue", in force December 12, 2005.

S. 232(5) was amended by S.C. 1999, c. 17, s. 167, by replacing "Deputy Minister of National Revenue" with "Commissioner of Customs and Revenue", coming into force on November 1, 1999.

Ss. 232(5)(*b*)(ii)(A) and (B) were amended by S.C. 1994, c. 13, s. 7(1) to replace "Deputy Minister of National Revenue for Taxation" with "Deputy Minister of National Revenue", effective upon proclamation [May 12, 1994].

► 232(6) ◄

(6) Order to deliver or make available. Where a document has been seized and placed in custody under subsection (3) or where a document is being retained under subsection (3.1) and a judge, on the application of the Attorney General of Canada, is satisfied that neither the client nor the lawyer has made an application under paragraph (4)(*a*) or, having made that application, neither the client nor the lawyer has made an application under paragraph (4)(*c*), the judge shall order

(*a*) that the custodian deliver the document to the officer or some other person designated by the Commissioner of Revenue, in the case of a document that was seized and placed in custody under subsection (3); or

(*b*) that the lawyer make the document available for inspection or examination by the officer or other person designated by the Commissioner of Revenue, in the case of a document that was retained under subsection (3.1).

History: S. 232(6) was amended by S.C. 2005, c. 38, s. 140, by replacing "Commissioner of Customs and Revenue" with "Commissioner of Revenue", in force December 12, 2005.

S. 232(6) was amended by S.C. 1999, c. 17, s. 167, by replacing "Deputy Minister of National Revenue" with "Commissioner of Customs and Revenue", coming into force on November 1, 1999.

Ss. 232(6)(*a*) and (*b*) were amended by S.C. 1994, c. 13, s. 7(1) to replace "Deputy Minister of National Revenue for Taxation" with "Deputy Minister of National Revenue", effective upon proclamation [May 12, 1994].

► 232(7) ◄

(7) Delivery by custodian. The custodian shall

(*a*) deliver the document to the lawyer

(i) in accordance with a consent executed by the officer or by or on behalf of the Deputy Attorney General of Canada or the Commissioner of Revenue, or

(ii) in accordance with an order of a judge under this section; or

(*b*) deliver the document to the officer or some other person designated by the Commissioner of Revenue

(i) in accordance with a consent executed by the lawyer or the client, or

(ii) in accordance with an order of a judge under this section.

History: S. 232(7) was amended by S.C. 2005, c. 38, s. 140, by replacing "Commissioner of Customs and Revenue" with "Commissioner of Revenue", in force December 12, 2005.

S. 232(7) was amended by S.C. 1999, c. 17, s. 167, by replacing "Deputy Minister of National Revenue" with "Commissioner of Customs and Revenue", coming into force on November 1, 1999.

Ss. 232(7)(*a*)(i) and (*b*) were amended by S.C. 1994, c. 13, s. 7(1) to replace "Deputy Minister of National Revenue for Taxation" with "Deputy Minister of National Revenue", effective upon proclamation [May 12, 1994].

► 232(8) ◄

(8) Continuation by another judge. Where the judge to whom an application has been made under paragraph (4)(*a*) cannot for any reason act or continue to act in the application under paragraph (4)(*c*), the application under paragraph (4)(*c*) may be made to another judge.

► 232(9) ◄

(9) Costs. No costs may be awarded on the disposition of any application under this section.

► 232(10) ◄

(10) Directions. Where any question arises as to the course to be followed in connection with anything done or being done under this section, other than subsection (2), (3) or (3.1), and there is no direction in this section with respect thereto, a judge may give such direction with regard thereto as, in the judge's opinion, is most likely to carry out the object of this section of allowing solicitor-client privilege for proper purposes.

► 232(11) ◄

(11) Prohibition. The custodian shall not deliver a document to any person except in accordance with an order of a judge or a consent under this section or except to any officer or servant of the custodian for the purposes of safeguarding the document.

► 232(12) ◄

(12) Idem. No officer shall inspect, examine or seize a document in the possession of a lawyer without giving the lawyer a reasonable opportunity of making a claim under this section.

► 232(13) ◄

(13) Authority to make copies. At any time while a document is in the custody of a custodian under this section, a judge may, on an *ex parte* application of the lawyer, authorize the lawyer to examine or make a copy of the document in the presence of the custodian or the judge by an order that shall contain such provisions as may be necessary to ensure that the document is repackaged and that the package is resealed without alteration or damage.

► 232(14) ◄

(14) Waiver of claim of privilege. Where a lawyer has, for the purpose of subsection (2), (3) or (3.1), made a claim that a named client of the lawyer has a solicitor-client privilege in respect of information or a document, the lawyer shall at the same time communicate to the Minister or some person duly authorized to act for the Minister the address of the client last known to the lawyer so that the Minister may endeavour to advise the client of the claim of privilege that has been made on the client's behalf and may thereby afford the client an opportunity, if it is practicable within the time limited by this section, of waiving the claim of privilege before the matter is to be decided by a judge or other tribunal.

► 232(15) ◄

(15) Compliance. No person shall hinder, molest or interfere with any person doing anything that that person is authorized to do by or pursuant to this section or prevent or attempt to prevent any person doing any such thing and, notwithstanding any other Act or law, every person shall, unless the person is unable to do so, do everything the person is required to do by or pursuant to this section.

SECTION 233:

► 233(1) ◄

(1) Information return. Every person shall, on written demand from the Minister served personally or otherwise, whether or not the person has filed an information return as required by this Act or the regulations, file with the Minister, within such reasonable time as is stipulated in the demand, the information return if it has not been filed or such information as is designated in the demand.

History: S. 233 was amended by the addition of subsection (1) by S.C. 1997, c. 25, s. 68(1), applicable to returns required to be filed on or before a day that is after April 29, 1998. S. 233 formerly read:

"S. 233. *Information return.* Every person shall, on written demand from the Minister served personally or otherwise, whether or not the person has filed an information return as required by this Act or a regulation, file with the Minister, within such reasonable time as is stipulated in the demand, such information as is designated therein."

S. 233 was amended by S.C. 1994, c. 7, Sched. VIII, s. 134, effective June 10, 1993. S. 233 formerly read:

"S. 233. Every person shall, on demand from the Minister, served personally or by registered mail, and whether or not the person has filed an information return as required by a regulation made under paragraph 221(1)(*d*), file with the Minister, within such reasonable time as may be stipulated in the demand, such information as is designated therein."

Related Sections: S. 162(10) Failure to furnish foreign-based information; s. 221(1)(*d*) Regulations; s. 248(1), "prescribed", "regulation"; ITAR s. 65.1 Part XV of amended Act.
Regulations: Part II.
Information Circulars: IC 77-9R Books, records and other requirements for taxpayers having foreign affiliates.

► 233(2) ◄

(2) Partnerships. Every partnership shall, on written demand from the Minister served personally or otherwise on any member of the partnership, file with the Minister, within such reasonable time as is stipulated in the demand, an information return required under section 233.3, 233.4 or 233.6.

History: S. 233 was amended by the addition of subsection (2) by S.C. 1997, c. 25, s. 68(1), applicable to returns required to be filed on or before a day that is after April 29, 1998. S. 233 formerly read:

"S. 233. *Information return.* Every person shall, on written demand from the Minister served personally or otherwise, whether or not the person has filed an information return as required by this Act or a regulation, file with the Minister, within such reasonable time as is stipulated in the demand, such information as is designated therein."

S. 233 was amended by S.C. 1994, c. 7, Sched. VIII, s. 134, effective June 10, 1993. S. 233 formerly read:

"S. 233. Every person shall, on demand from the Minister, served personally or by registered mail, and whether or not the person has filed an information return as required by a regulation made under paragraph 221(1)(*d*), file with the Minister, within such reasonable time as may be stipulated in the demand, such information as is designated therein."

Related Sections: S. 248(1), "prescribed", "regulation"; ITAR s. 65.1 Part XV of amended Act.
Regulations: Part II.

► 233(3) ◄

(3) Application to members of partnerships. For the purposes of this subsection and subsection (2), a person who is a member of a partnership that is a member of another partnership is deemed to be a member of the other partnership.

History: S. 233 was amended by the addition of subsection (3) by S.C. 1997, c. 25, s. 68(1), applicable to returns required to be filed on or before a day that is after April 29, 1998. S. 233 formerly read:

"S. 233. *Information return.* Every person shall, on written demand from the Minister served personally or otherwise, whether or not the person has filed an information return as required by this Act or a regulation, file with the Minister, within such reasonable time as is stipulated in the demand, such information as is designated therein."

S. 233 was amended by S.C. 1994, c. 7, Sched. VIII, s. 134, effective June 10, 1993. S. 233 formerly read:

"S. 233. Every person shall, on demand from the Minister, served personally or by registered mail, and whether or not the person has filed an information return as required by a regulation made under paragraph 221(1)(*d*), file with the Minister, within such reasonable time as may be stipulated in the demand, such information as is designated therein."

Related Sections: S. 248(1), "prescribed", "regulation"; ITAR s. 65.1 Part XV of amended Act.
Regulations: Part II.

SECTION 233.1: [Reporting for non-arm's length transactions with non-residents].

► 233.1(1) ◄

(1) Definitions. The definitions in this subsection apply in this section.

"*reportable transaction*" — "reportable transaction" means

(*a*) in the case of

(i) a reporting person for a taxation year who is not resident in Canada at any time in the year, or

(ii) a reporting partnership for a fiscal period no member of which is resident in Canada in the period,

a transaction or series of transactions that relate in any manner whatever to a business carried on in Canada by the reporting person or partnership in the year or period or a preceding taxation year or period; and

(*b*) in any other case, a transaction or series of transactions that relate in any manner whatever to a business carried on by a reporting person (other than a business carried on by a reporting person as a member of a partnership) or partnership in a taxation year or fiscal period.

Related Sections: S. 249.1(1) Definition of "fiscal period".

"*reporting partnership*" — "reporting partnership" for a fiscal period means a partnership

(*a*) a member of which is resident in Canada in the period; or

(*b*) that carries on a business in Canada in the period.

"*reporting person*" — "reporting person" for a taxation year means a person who, at any time in the year,

(*a*) is resident in Canada; or

(*b*) is non-resident and carries on a business (other than a business carried on as a member of a partnership) in Canada.

"*transaction*" — "transaction" includes an arrangement or event.

► 233.1(2) ◄

(2) Reporting person's information return. Subject to subsection (4), a reporting person for a taxation year shall, on or before the reporting person's filing-due date for the year, file with the Minister, in respect of each non-resident person with whom the reporting person does not deal at arm's length in the year and each partnership of which such a non-resident person is a member, an information return for the year in prescribed form containing prescribed information in respect of the reportable transactions in which the reporting person and the non-resident person or the partnership, as the case may be, participated in the year.

Related Sections: S. 248(1), "Filing-due-date"; s. 251 Arm's length.

► 233.1(3) ◄

(3) Reporting partnership's information return. Subject to subsection (4), a reporting partnership for a fiscal period shall, on or before the day on or before which a return is required by section 229 of the *Income Tax Regulations* to be filed in respect of the period or would be required to be so filed if that section applied to the reporting partnership, file with the Minister, in respect of each non-resident person with whom the reporting partnership, or a member of the reporting partnership, does not deal at arm's length in the period and each partnership of which such a non-resident person is a member, an information return for the period in prescribed form containing prescribed information in respect of the reportable transactions in which the reporting partnership and the non-resi-

dent person or the partnership, as the case may be, participated in the period.

Related Sections: S. 249.1(1) Definition of "fiscal period".
Guides: T4068 Guide for the Partnership Information Return.

► 233.1(4) ◄

(4) *De minimis* exception. A reporting person or partnership that, but for this subsection, would be required under subsection (2) or (3) to file an information return for a taxation year or fiscal period is not required to file the return unless the total of all amounts, each of which is the total fair market value of the property or services that relate to a reportable transaction in which the reporting person or partnership and any non-resident person with whom the reporting person or partnership, or a member of the reporting partnership, does not deal at arm's length in the year or period, or a partnership of which such a non-resident person is a member, as the case may be, participated in the year or period, exceeds $1,000,000.

► 233.1(5) ◄

(5) Deemed member of partnership. For the purposes of this section, a person who is a member of a partnership that is a member of another partnership is deemed to be a member of the other partnership.

History: S. 233.1 was amended by S.C. 1998, c. 19, s. 231(1), applicable to taxation years and fiscal periods that begin after 1997. S. 233.1 formerly read:

"S. 233.1. *Information return with respect to certain non-resident persons.* Every corporation that, at any time in a taxation year, was resident in Canada or carried on business in Canada shall, in respect of each non-resident person with whom it was not dealing at arm's length at any time in the year, file with the Minister, within 6 months from the end of the year, an annual information return for the year in prescribed form and containing prescribed information in respect of transactions with that person."

Forms: T106.

SECTION 233.2: [Reporting for loans or transfers to non-resident trusts].

► 233.2(1) ◄

(1) Definitions. The definitions in this subsection apply in this section.

History: S. 233.2(1) was added by S.C. 1997, c. 25, s. 69(1), applicable to returns in respect of trusts' taxation years that begin after 1995, except that such a return in respect of a taxation year that ends in 1996, 1997 or 1998 is required to be filed on or before the later of

(*a*) April 30, 1998, and

(*b*) the day on or before which the return is otherwise required to be filed.

Related Sections: S. 248(1), "Foreign retirement arrangement"; s. 248(25), "beneficially interested".

"*exempt trust*" — "exempt trust" means

(*a*) a trust that is governed by a foreign retirement arrangement;

(*b*) a trust that

(i) is resident in a country under the laws of which an income tax is imposed,

(ii) is exempt under the laws referred to in subparagraph (i) from the payment of income tax to the government of that country,

(iii) is established principally in connection with, or the principal purpose of which is to administer or provide benefits under, one or more superannuation, pension or retirement funds or plans or any funds or plans established to provide employee benefits, and

(iv) is either

(A) maintained primarily for the benefit of non-resident individuals, or

(B) governed by an employees profit sharing plan; or

(*c*) a trust

(i) where the interest of each beneficiary under the trust is described by reference to units, and

(ii) that complies with prescribed conditions.

History: S. 233.2(1), paragraph (*b*)(iv) of the definition of "exempt trust", was amended by S.C. 1998, c. 19, s. 232(1), applicable to returns in respect of trusts' taxation years that begin after 1995. Paragraph (*b*)(iv) formerly read:

"(iv) is maintained primarily for the benefit of non-resident individuals; or"

S. 233.2(1), the definition "exempt trust", was added by S.C. 1997, c. 25, s. 69(1), applicable to returns in respect of trusts' taxation years that begin after 1995, except that such a return in respect of a taxation year that ends in 1996, 1997 or 1998 is required to be filed on or before the later of

(*a*) April 30, 1998, and

(*b*) the day on or before which the return is otherwise required to be filed.

Related Sections: S. 248(1), "Foreign retirement arrangement"; s. 248(25), "beneficially interested".
Regulations: 4801.1

"*specified beneficiary*" — "specified beneficiary" at any time under a trust means

(*a*) any person beneficially interested in the trust who is not at that time

(i) a mutual fund corporation,

(ii) a non-resident-owned investment corporation,

(iii) a person (other than a trust) all of whose taxable income for the person's taxation year that includes that time is exempt from tax under Part I,

(iv) a trust all of the taxable income of which for its taxation year that includes that time is exempt from tax under Part I,

(v) a mutual fund trust,

(vi) a trust described in any of paragraphs (*a*) to (*e*.1) of the definition "trust" in subsection 108(1),

(vii) a registered investment,

(viii) a trust in which all persons beneficially interested are persons described in subparagraphs (i) to (vii),

(ix) a particular person who is beneficially interested in the trust solely because the particular person is beneficially interested in an exempt trust or a trust described in this subparagraph or any of subparagraphs (iv) to (vi), nor

(x) a particular person who is beneficially interested in the trust only because of a right that is subject to a contingency, where at that time the identity of the particular person as a person beneficially interested in the trust is impossible to determine; or

(*b*) any person described at that time in any of subparagraphs (*a*)(i) to (x) who is beneficially interested in the trust, where it is reasonable to consider that the person became beneficially interested in the trust as part of a transaction or event or series of transactions or events one of the purposes of which is to limit the reporting in respect of the trust that would, but for this paragraph, be required under subsection (4).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The definition "specified beneficiary" in subsection 233.2(1) of the Act is repealed.

"specified beneficiary" — [Repealed.]

Applicable: To returns in respect of trust taxation years that begin after 2006. [This amendment] also applies to returns in respect of trust taxation years that begin

(*a*) after 2000, if the return relates to a trust that makes a valid election under paragraph [(*a*) of the application for new proposed section 94];

(*b*) after 2001, if the return relates to a trust that makes a valid election under paragraph [(*a*) or (*b*) of the application for new proposed section 94];

(*c*) after 2002, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*c*) of the application for new proposed section 94];

(*d*) after 2003, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*d*) of the application for new proposed section 94];

(*e*) after 2004, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*e*) of the application for new proposed section 94]; and

(*f*) after 2005, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*f*) of the application for new proposed section 94].

Explanatory Note: Existing section 233.2 of the Act requires certain persons who have made transfers or loans to a "specified foreign trust", or to a non-resident corporation that is a controlled foreign affiliate of such a trust, to file annual information returns with respect to the trust. A "specified foreign trust", as defined in subsection 233.2, includes a trust with a "specified beneficiary" resident in Canada. As defined in subsection 233.2(1), a "specified beneficiary" is generally any beneficiary under the trust with the exception of persons listed in subparagraphs (*a*)(i) to (x) of the definition. For a return to be required to be filed as a consequence of a transfer or loan, it is necessary to have a "non-arm's length indicator", as set out in subsection 233.2(2), apply in respect of the transfer or loan. One of the cases where a "non-arm's length indicator" applies in respect of a transfer to a trust is where the transferor is a "specified beneficiary" under the trust. Subsection 233.2(3) provides a look-through rule so that, where a partnership transfers property, it is considered to have been transferred by members of the partnership.

New section 94 sets out new rules governing the taxation of non-resident trusts. In order to be consistent with the new rules:

- the definitions "specified beneficiary" and "specified foreign trust" in section 233.2 are repealed,
- there is no longer a requirement for a "non-arm's length indicator", so the existing rule in subsection 233.2(2) is repealed,
- except as described below, the definitions and rules of application in subsections 94(1), (2) and (10) to (13) apply because of amended subsection 233.2(2), and
- there is no longer a requirement for an explicit look-through rule for partnerships in section 233.2, given that the rule in paragraph 94(2)(*o*) applies because of amended subsection 233.2(2). Consequently, subsection 233.2(3) is repealed.

Under amended subsection 233.2(4), reporting will generally be required for a taxation year of a person if the person is a "contributor", "connected contributor" or "resident contributor" to a trust that is non-resident at a "specified time" in the taxation year, of the trust, that ends in that taxation year of the taxpayer. Because of amended subsection 233.2(2), the expressions "contributor", "contribution", "connected contributor", "resident contributor" and "specified time" generally carry the same meaning as in new section 94 (including by reference to deeming rules such as, for example, 94(12) and (13)), with most of the same exceptions for "arm's length transfers" contained in the definition of that expression in subsection 94(1). However, the exception in that definition against transfers of "restricted property" (as defined in subsection 94(1)) is extended to apply to most transfers described in paragraph 94(2)(*g*) (unless the transfer involves, generally, an issuance of a unit or share from a mutual fund trust, a mutual fund corporation or a corporation other than a closely-held corporation, as the case may be), with the result that such transfers do not give rise to an exception to the obligations for reporting under subsection 233.2(4). It should be noted that amended subsection 233.2(2) also applies for the purpose of new paragraph 233.5(*c*.1).

New subparagraph 233.2(4)(*c*)(ii) sets out a list of persons for whom reporting obligations are not imposed. This list is consistent with the list of beneficiaries who are not treated as "specified beneficiaries" under the existing rules in section 233.2.

Amended subsection 233.2(4) of the Act also exempts contributors from filing information returns under section 233.2 with regard to trusts described in paragraphs (*c*) to (*h*) of the new definition "exempt foreign trust" in subsection 94(1). For more information in this regard, see the commentary on that definition.

These amendments generally apply to returns in respect of trust taxation years that begin after 2006. They also apply to returns in respect of trust taxation years that begin after 2000, after 2001, after 2002, after 2003, after 2004 or after 2005 if the trust makes the appropriate election under the coming-into-force provision for new section 94 of the Act.

History: S. 233.2(1), the definition "specified beneficiary", was added by S.C. 1997, c. 25, s. 69(1), applicable to returns in respect of trusts' taxation years that begin after 1995, except that such a return in respect of a taxation year that ends in 1996, 1997 or 1998 is required to be filed on or before the later of

(*a*) April 30, 1998, and

(*b*) the day on or before which the return is otherwise required to be filed.

Related Sections: S. 248(1), "Foreign retirement arrangement"; s. 248(25), "beneficially interested".

"specified foreign trust" — "specified foreign trust" at any time means a trust (other than an exempt trust) that is non-resident at that time where either

(*a*) there is a specified beneficiary under the trust who at that time

(i) is resident in Canada,

(ii) is a corporation or trust with which a person resident in Canada does not deal at arm's length, or

(iii) is a controlled foreign affiliate of a person resident in Canada; or

(*b*) at that time the terms or conditions of the trust or any arrangement in respect of the trust

(i) permit persons (other than persons described in any of subparagraphs (*a*)(i) to (viii) of the definition "specified beneficiary") who are not beneficially interested in the trust at that time to become, because of the exercise of any discretion by any person or partnership, beneficially interested in the trust after that time, or

(ii) allow property to be distributed, directly or indirectly, to another trust that immediately after the receipt of the distribution can reasonably be expected to be a specified foreign trust.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The definition "specified foreign trust" in subsection 233.2(1) of the Act is repealed.

"specified foreign trust" — [Repealed.]

Applicable: To returns in respect of trust taxation years that begin after 2006. [This amendment] also applies to returns in respect of trust taxation years that begin

(*a*) after 2000, if the return relates to a trust that makes a valid election under paragraph [(*a*) of the application for new proposed section 94];

(*b*) after 2001, if the return relates to a trust that makes a valid election under paragraph [(*a*) or (*b*) of the application for new proposed section 94];

(*c*) after 2002, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*c*) of the application for new proposed section 94];

(*d*) after 2003, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*d*) of the application for new proposed section 94];

(*e*) after 2004, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*e*) of the application for new proposed section 94]; and

(*f*) after 2005, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*f*) of the application for new proposed section 94].

Explanatory Note: See the Explanatory Note following the repeal of the definition "specified beneficiary" in subsection 233.2(1).

History: S. 233.2(1), paragraph (*b*)(i) of the definition of "specified foreign trust" was amended by S.C. 1998, c. 19, s. 232(2), applicable after November 1997. This paragraph formerly read:

"(*b*) at that time the terms of the trust

(i) permit persons (other than persons described in any of subparagraphs (*a*)(i) to (viii) of the definition 'specified beneficiary') to be added as beneficiaries under the trust after that time who are not beneficially interested in the trust at that time and who may be resident in Canada at the time of being so added, or"

S. 233.2, the definition "specified foreign trust", was added by S.C. 1997, c. 25, s. 69(1), applicable to returns in respect of trusts' taxation years that begin after 1995, except that such a return in respect of a taxation year that ends in 1996, 1997 or 1998 is required to be filed on or before the later of

(*a*) April 30, 1998, and

(*b*) the day on or before which the return is otherwise required to be filed.

Related Sections: S. 248(1), "Foreign retirement arrangement"; s. 248(25), "beneficially interested".

► 233.2(2) ◄

(2) Non-arm's length indicators. For the purpose of this section,

(*a*) a non-arm's length indicator applies to a trust at a particular time with respect to a transfer of property made at an earlier time to the trust or a corporation where

(i) immediately after the earlier time the transferor was

(A) a specified beneficiary under the trust,

(B) a person related to a specified beneficiary under the trust,

(C) an uncle, aunt, nephew or niece of a specified beneficiary under the trust, or

(D) a trust or corporation that had, directly or indirectly in any manner whatever, previously acquired the transferred property from a person described in clause (A), (B) or (C),

(ii) the fair market value at the earlier time of the transferred property was greater than the amount, if any, by which

(A) the total fair market value at the earlier time of the consideration, if any, given to the transferor for the transfer of property at the earlier time

exceeds

(B) the portion of the total described in clause (A) that is attributable to the fair market value of an interest as a beneficiary in the trust or a share or debt issued by the corporation,

(iii) the consideration received by the transferor in respect of the transfer included indebtedness on which

(A) interest was not charged in respect of a period that began before the particular time,

(B) interest was charged in respect of a period that began before the particular time at a rate that was less than the lesser of

(I) the prescribed rate that was in effect at the earlier time, and

(II) the rate that would, having regard to all the circumstances, have been agreed on at the earlier time between parties dealing with each other at arm's length,

(C) any interest that was payable at the end of any calendar year that ended at or before the particular time was unpaid on the day that is 180 days after the end of that calendar year, or

(D) the amount of interest that was payable at the end of any calendar year that ended at or before the particular time was paid on or before the day that is 180 days after the end of that calendar year and it is established, by subsequent events or otherwise, that the payment was made as part of a series of loans or other transactions and repayments,

(iv) the property transferred was a share of the capital stock of a corporation or an interest in another trust and a specified beneficiary under the trust is related to the corporation or the other trust or would be so related if paragraph 80(2)(*j*) applied for the purposes of this subparagraph, or

(v) the transfer was made as part of a series of transactions or events one of the purposes of which was to avoid the application of this paragraph; and

(*b*) a non-arm's length indicator applies to a trust at a particular time with respect to a loan made at an earlier time where

(i) interest was not charged on the loan in respect of a period that began before the particular time,

(ii) interest was charged on the loan in respect of a period that began before the particular time at a rate that was less than the lesser of

(A) the prescribed rate that was in effect at the earlier time, and

(B) the rate that would, having regard to all the circumstances, have been agreed on at the earlier time between parties dealing with each other at arm's length,

(iii) any interest on the loan that was payable at the end of any calendar year that ended at or before the particular time was unpaid on the day that is 180 days after the end of that calendar year,

(iv) the amount of interest on the loan that was payable at the end of any calendar year that ended

at or before the particular time was paid on or before the day that is 180 days after the end of that calendar year and it is established, by subsequent events or otherwise, that the payment was made as part of a series of loans or other transactions and repayments, or

(v) the loan was made as part of a series of transactions or events one of the purposes of which was to avoid the application of this paragraph.

Editorial Note: See the pending amendment for subsection 233.2(2) reproduced after 233.2(3).

History: S. 233.2(2) was added by S.C. 1997, c. 25, s. 69(1), applicable to returns in respect of trusts' taxation years that begin after 1995, except that such a return in respect of a taxation year that ends in 1996, 1997 or 1998 is required to be filed on or before the later of

(*a*) April 30, 1998, and

(*b*) the day on or before which the return is otherwise required to be filed.

► 233.2(3) ◄

(3) Partnerships. For the purpose of this section, where property is transferred or lent at any time by a partnership, the property is deemed to have been transferred or lent at that time by each of the members of the partnership.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsections 233.2(2) and (3) of the Act are replaced by the following:

(2) Rule of application. In this section and paragraph 233.5(*c.1*), subsections 94(1), (2) and (10) to (13) apply, except that the references to the expression "(other than a restricted property)" in the definition "arm's length transfer" in subsection 94(1) are to be read as references to the expression "(other than property that is not described in any of subclauses (*b*)(i)(A)(I) to (III) but to which paragraph 94(2)(*g*) applies)".

(3) Partnerships. [Repealed.]

Applicable: To returns in respect of trust taxation years that begin after 2006. [This amendment] also applies to returns in respect of trust taxation years that begin

(*a*) after 2000, if the return relates to a trust that makes a valid election under paragraph [(*a*) of the application for new proposed section 94];

(*b*) after 2001, if the return relates to a trust that makes a valid election under paragraph [(*a*) or (*b*) of the application for new proposed section 94];

(*c*) after 2002, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*c*) of the application for new proposed section 94];

(*d*) after 2003, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*d*) of the application for new proposed section 94];

(*e*) after 2004, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*e*) of the application for new proposed section 94]; and

(*f*) after 2005, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*f*) of the application for new proposed section 94].

Explanatory Note: See the Explanatory Note following the repeal of the definition "specified beneficiary" in subsection 233.2(1).

History: S. 233.2(3) was added by S.C. 1997, c. 25, s. 69(1), applicable to returns in respect of trusts' taxation years that begin after 1995, except that such a return in respect of a taxation year that ends in 1996, 1997 or 1998 is required to be filed on or before the later of

(*a*) April 30, 1998, and

(*b*) the day on or before which the return is otherwise required to be filed.

► 233.2(4) ◄

(4) Filing information on specified foreign trusts. Where

(*a*) at any time (in this subsection referred to as the "transfer time") before the end of a trust's taxation year (in this subsection referred to as the "trust's year"), property was transferred or lent, either directly or indirectly in any manner whatever, by any person (in this subsection referred to as the "transferor") to

(i) the trust, or

(ii) a corporation that, at the transfer time, would have been a controlled foreign affiliate of the trust if the trust had been resident in Canada,

(*b*) the trust was a specified foreign trust at any time in the trust's year, and

(*c*) a non-arm's length indicator applied to the trust at the end of the trust's year in respect of the transfer or loan,

the following rules apply:

(*d*) where the transferor is resident in Canada at the end of the trust's year, the transferor shall make an information return in respect of the trust's year in prescribed form and file it with the Minister on or before the transferor's filing-due date for the transferor's taxation year that includes the end of the trust's year, and

(*e*) where

(i) the transferor was, at the transfer time, a corporation that would have been a controlled foreign affiliate of a particular person if the particular person had been resident in Canada, and

(ii) the particular person is resident in Canada at the end of the trust's year,

the particular person shall make an information return in respect of the trust's year in prescribed form and file it with the Minister on or before the filing-due date for the particular person's taxation year that includes the end of the trust's year.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 233.2(4) of the Act is replaced by the following:

(4) Filing information on foreign trusts. A person shall file an information return in prescribed form, in respect of a taxation year of a particular trust (other than an exempt trust or a trust described in any of paragraphs (*c*) to (*h*) of the definition "exempt foreign trust" in subsection 94(1)), with the Minister on or before the person's filing-due date for the person's taxation year in which the particular trust's taxation year ends if

(*a*) the particular trust is non-resident at a specified time in that taxation year of the particular trust;

(*b*) the person is a contributor, a connected contributor or a resident contributor to the particular trust; and

(*c*) the person

(i) is resident in Canada at that specified time, and

(ii) is not, at that specified time,

(A) a mutual fund corporation,

(B) a non-resident-owned investment corporation,

(C) a person all of whose taxable income for the person's taxation year that includes that time is exempt from tax under Part I,

(D) a mutual fund trust,

(E) a trust described in any of paragraphs (*a*) to (*e.1*) of the definition "trust" in subsection 108(1),

(F) a registered investment,

(G) a trust in which all persons beneficially interested are persons described in clauses (A) to (F), or

(H) a person who is a contributor to the particular trust by reason only of being a contributor to a trust described in any of clauses (C) to (G).

(4.1) Similar arrangements. In this section and sections 162, 163 and 233.5, a person's obligations under subsection (4) (except to the extent that they are waived in writing by the Minister) are to be determined as if a transfer or loan were a contribution to which paragraph (4)(*b*) applied, an arrangement or entity were a non-resident trust throughout the calendar year that includes the time referred to in paragraph (*a*) and that calendar year were a taxation year of the arrangement or entity, if

(*a*) the person at any time, directly or indirectly, transferred or loaned the property to be held

(i) under the arrangement and the arrangement is governed by laws that are not laws of Canada or a province, or

(ii) by the entity and the entity is a non-resident entity (as defined by subsection 94.1(1));

(*b*) the transfer or loan is not an arm's length transfer;

(*c*) the transfer or loan is not solely in exchange for property that would be described in paragraphs (*a*) to (*i*) of the definition "specified foreign property" in subsection 233.3(1) if that definition were read without reference to paragraphs (*j*) to (*q*);

(*d*) the arrangement or entity is not a trust in respect of which the person would, if this Act were read without reference to this subsection, be required to file an information return for a taxation year that includes that time; and

(*e*) the arrangement or entity is, for a taxation year or fiscal period of the arrangement or entity that includes that time, not

(i) an exempt foreign trust (as defined in subsection 94(1)),

(ii) a foreign affiliate in respect of which the person is a reporting entity (within the meaning assigned by subsection 233.4(1)), or

(iii) an exempt trust.

Applicable: To returns in respect of trust taxation years that begin after 2006. [This amendment] also applies to returns in respect of trust taxation years that begin

(*a*) after 2000, if the return relates to a trust that makes a valid election under paragraph [(*a*) of the application for new proposed section 94];

(*b*) after 2001, if the return relates to a trust that makes a valid election under paragraph [(*a*) or (*b*) of the application for new proposed section 94];

(*c*) after 2002, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*c*) of the application for new proposed section 94];

(*d*) after 2003, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*d*) of the application for new proposed section 94];

(*e*) after 2004, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*e*) of the application for new proposed section 94]; and

(*f*) after 2005, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*f*) of the application for new proposed section 94].

However, for returns in respect of trust taxation years that end on or before July 18, 2005, paragraphs 233.2(4)(*a*) and (*b*) of the Act, as enacted by subsection (3), are to be read as follows:

"(*a*) the particular trust is non-resident at the end of that taxation year of the particular trust;

(*b*) a contribution has been made by the person to the particular trust at any time in that taxation year of the particular trust or in a preceding taxation year of the particular trust; and"

A return required to be filed by a person because of subsection 233.2(4) is deemed to have been filed with the Minister of National Revenue on a timely basis if it is filed with the Minister of National Revenue on or before the person's filing-due date for the person's taxation year that includes the day on which this Act is assented to.

Explanatory Note: [See the Explanatory Note following the repeal of the definition "specified beneficiary" in subsection 233.2(1) for a description of the amendment to subsection 233.2(4).]

New subsection 94(3) of the Act provides that, where a non-resident trust has a resident contributor or resident beneficiary at the end of the trust's taxation year, the trust is generally taxed on its income in Canada for the year as if the trust were resident in Canada. However, the deeming provisions in subsection 94(3) apply only to arrangements that are considered to be trusts for Canadian income tax purposes. In some cases, there may be doubt as to whether a given arrangement is a trust for Canadian income tax purposes.

New subsection 233.2(4.1), in combination with subsection 233.2(4), imposes a filing obligation on contributors to certain entities or arrangements in respect of which reporting is not otherwise required. One of the key objectives of subsection 233.2(4.1) is to ensure that claims that section 94 does not apply can be reviewed by the Canada Revenue Agency.

More specifically, new subsection 233.2(4.1) applies where property has, directly or indirectly, been transferred or loaned by a person to be held

- under an arrangement governed by laws that are not laws of Canada or a province, or
- by a non-resident entity (as defined in subsection 94.1(1)).

The person must, where certain additional conditions are satisfied, file the information return referred to in amended subsection 233.2(4).

New subsection 233.2(4.1) provides that, except as the Minister of National Revenue otherwise permits in writing, the person has obligations under amended subsection 233.2(4) if all of the following conditions are satisfied:

- the transfer or loan is not an arm's length transfer (within the meaning that would be assigned by the definition "arm's length transfer" in subsection 94(1) as amended by subsection 233.2(2));
- the transfer or loan is not solely in exchange for property that would be described in paragraphs (*a*) to (*i*) of the definition "specified foreign property" in subsection 233.3(1) if that definition were read without reference to paragraphs (*j*) to (*q*) of that definition;
- the entity or arrangement is not a trust in respect of which the person would, without reference to subsection 233.2(4.1) and the explicit exemptions for filing returns contained in subsection 233.2(4), be required to file an information return for a taxation year that includes that time; and
- the entity or arrangement is, for a taxation year or fiscal period that includes that time, not
  - (i) an exempt foreign trust (as defined in subsection 94(1)),
  - (ii) foreign affiliate in respect of which the person is a reporting entity (as defined in subsection 233.4(1)), or
  - (iii) an exempt trust (as defined in subsection 233.2(1)).

Where the above conditions are satisfied, the person's obligations under subsection 233.2(4) and related provisions are determined as if:

- the transfer were a contribution to which paragraph 233.2(4)(*a*) applied;
- the entity or arrangement were a trust not resident in Canada throughout the calendar year that includes the time of the transfer or loan; and
- the taxation year of the entity or arrangement were that calendar year.

These amendments apply to returns in respect of taxation years that begin after 2006. They also apply to returns in respect of taxation years that begin after 2000, after 2001, after 2002, after 2003, after 2004 or after 2005 if the trust makes the appro-

priate election under the coming-into-force provision for new section 94 of the Act.

History: S. 233.2(4), paragraph (*c*), was amended by S.C. 1998, c. 19, s. 232(3), applicable after November 1997. S. 233.2(4)(*c*) formerly read:

"(*c*) unless paragraph (*b*) of the definition 'specified foreign trust' in subsection (1) applies, a non-arm's length indicator applied to the trust at the end of the trust's year with respect to the transfer or loan,"

S. 233.2(4) was added by S.C. 1997, c. 25, s. 69(1), applicable to returns in respect of trusts' taxation years that begin after 1995, except that such a return in respect of a taxation year that ends in 1996, 1997 or 1998 is required to be filed on or before the later of

(*a*) April 30, 1998, and

(*b*) the day on or before which the return is otherwise required to be filed.

Forms: T1141.

Tax Profile: January 2003 — Foreign Reporting Requirements in Respect of Non-Resident Trusts.

► 233.2(5) ◄

(5) Joint filing. Where information returns in respect of a trust's taxation year would, but for this subsection, be required to be filed under subsection 4 by a particular person and another person, and the particular person identifies the other person in an election filed in writing with the Minister, for the purposes of applying this Act to the particular person

(*a*) the information return filed by the other person shall be treated as if it had been filed by the particular person;

(*b*) the information required to be provided with the return by the particular person shall be deemed to be the information required to be provided by the other person with the return;

(*c*) the day on or before which the return is required to be filed by the particular person is deemed to be the later of the day on or before which

(i) the return would, but for this subsection, have been required to have been filed by the particular person, and

(ii) the return is required to have been filed by the other person; and

(*d*) each act and omission of the other person in respect of the return is deemed to be an act or omission of the particular person.

History: S. 233.2(5) was added by S.C. 1997, c. 25, s. 69(1), applicable to returns in respect of trusts' taxation years that begin after 1995, except that such a return in respect of a taxation year that ends in 1996, 1997 or 1998 is required to be filed on or before the later of

(*a*) April 30, 1998, and

(*b*) the day on or before which the return is otherwise required to be filed.

SECTION 233.3: [Reporting for ownership of specified foreign property].

► 233.3(1) ◄

(1) Definitions. The definitions in this subsection apply in this section.

History: S. 233.3(1) was added by S.C. 1997, c. 25, s. 69(1). The application of s. 233 was amended by S.C. 1999, c. 22, s. 91(1), and now reads: applicable to returns for taxation years and fiscal periods that begin after 1997, except that such a return for a taxation year or fiscal period that ends in 1998 is required to be filed on or before the later of

(*a*) April 30, 1999, and

(*b*) the day on or before which the return is otherwise required to be filed,

That application formerly read:

"for applicable to returns for taxation years and fiscal periods that begin after 1995, except that such a return for a taxation year or fiscal period that ends in 1996, 1997 or 1998 is required to be filed on or before the later of

(*a*) April 30, 1998, and

(*b*) the day on or before which the return is otherwise required to be filed."

"reporting entity" — "reporting entity" for a taxation year or fiscal period means a specified Canadian entity for the year or period where, at any time (other than a time when the entity is non-resident) in the year or period, the total of all amounts each of which is the cost amount to the entity of a specified foreign property of the entity exceeds $100,000.

History: S. 233.3(1), the definition "reporting entity", was added by S.C. 1997, c. 25, s. 69(1). The application for s. 233 was amended by S.C. 1999, c. 22, s. 91(1), and now reads: applicable to returns for taxation years and fiscal periods that begin after 1997, except that such a return for a taxation year or fiscal period that ends in 1998 is required to be filed on or before the later of

(*a*) April 30, 1999, and

(*b*) the day on or before which the return is otherwise required to be filed.

That application formerly read:

"applicable to returns for taxation years and fiscal periods that begin after 1995, except that such a return for a taxation year or fiscal period that ends in 1996, 1997 or 1998 is required to be filed on or before the later of

(*a*) April 30, 1998, and

(*b*) the day on or before which the return is otherwise required to be filed."

"specified Canadian entity" — "specified Canadian entity" for a taxation year or fiscal period means

(*a*) a taxpayer resident in Canada in the year that is not

(i) a mutual fund corporation,

(ii) a non-resident-owned investment corporation,

(iii) a person (other than a trust) all of whose taxable income for the year is exempt from tax under Part I,

(iv) a trust all of the taxable income of which for the year is exempt from tax under Part I,

(v) a mutual fund trust,

(vi) a trust described in any of paragraphs (*a*) to (*e.1*) of the definition "trust" in subsection 108(1),

(vii) a registered investment, nor

(viii) a trust in which all persons beneficially interested are persons described in subparagraphs (i) to (vii); and

(*b*) a partnership (other than a partnership all the members of which are taxpayers referred to in any of subparagraphs (*a*)(i) to (viii)) where the total of all amounts, each of which is a share of the partnership's income or loss for the period of a non-resident member, is less than 90% of the income or loss of the partnership for the period, and, where the income and loss of the partnership are nil for the period, the income of the partnership for the period is deemed to be $1,000,000 for the purpose of determining a member's share of the partnership's income for the purpose of this paragraph.

History: S. 233.3(1), the definition "specified Canadian entity", was added by S.C. 1997, c. 25, s. 69(1). The application was amended by S.C. 1999, c. 22, s. 91(1), and now reads: applicable to returns for taxation years and fiscal periods that begin after 1997, except that such a return for a taxation year or fiscal period that ends in 1998 is required to be filed on or before the later of

(*a*) April 30, 1999, and

(*b*) the day on or before which the return is otherwise required to be filed.

The application formerly read:

"applicable to returns for taxation years and fiscal periods that begin after 1995, except that such a return for a taxation year or fiscal period that ends in 1996, 1997 or 1998 is required to be filed on or before the later of

(*a*) April 30, 1998, and

(*b*) the day on or before which the return is otherwise required to be filed."

"specified foreign property" — "specified foreign property" of a person or partnership means any property of the person or the partnership that is

(*a*) funds or intangible property which are situated, deposited or held outside Canada,

(*b*) tangible property situated outside Canada,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraphs (*a*) and (*b*) of the definition "specified foreign property" in subsection 233.3(1) of the English version of the Act are replaced by the following:

(*a*) funds or intangible property, or for civil law incorporeal property, situated, deposited or held outside Canada,

(*b*) tangible property, or for civil law corporeal property, situated outside Canada,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*c*) a share of the capital stock of a non-resident corporation,

(*d*) an interest in a non-resident trust or a trust that, but for section 94, would be a non-resident trust for the purpose of this section,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*d*) of the definition "specified foreign property" in subsection 233.3(1) of the English version of the Act is replaced by the following:

(*d*) an interest in a non-resident trust,

Applicable: To returns in respect of trust taxation years that begin after 2006. [This amendment] also applies to returns in respect of trust taxation years that begin

(*a*) after 2000, if the return relates to a trust that makes a valid election under paragraph [(*a*) of the application for new proposed section 94];

(*b*) after 2001, if the return relates to a trust that makes a valid election under paragraph [(*a*) or (*b*) of the application for new proposed section 94];

(*c*) after 2002, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*c*) of the application for new proposed section 94];

(*d*) after 2003, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*d*) of the application for new proposed section 94];

(*e*) after 2004, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*e*) of the application for new proposed section 94]; and

(*f*) after 2005, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*f*) of the application for new proposed section 94].

Explanatory Note: Section 233.3 of the Act provides reporting requirements in respect of foreign property. In general terms, it provides that certain taxpayers resident in Canada and certain partnerships must file an information return with respect to their "specified foreign property" if the total cost amount of such property exceeds $100,000. For this purpose, "specified foreign property" (as defined in subsection 233.3(1)) includes an interest in a non-resident trust or a trust that would be non-resident were it not for section 94. It does not include an interest in a non-resident trust that was not acquired for consideration by the person or partnership or a related person or partnership.

Paragraph (*d*) of the definition "specified foreign property" is amended by eliminating the reference to section 94. Under new subparagraph 94(3)(*a*)(vi), a trust is deemed to be resident in Canada only for the purpose of determining its obligation to file a return under section 233.3. As a result, such a deemed resident trust will be treated as resident in Canada in determining whether it is a specified Canadian entity and a reporting entity for purposes of section 233.3. In respect of the obligations of a person or partnership that has an interest in the trust, new paragraph 94(3)(*a*) does not apply to deem the trust to be resident in Canada. As a result, an interest in a trust, otherwise deemed to be resident in Canada, will be considered a specified foreign property unless otherwise expressly excluded.

Paragraph (*d*.1) of the definition is introduced so that specified foreign property includes an interest in an insurance policy issued by a non-resident insurer, if the mark-to-market regime in section 94.2 applies in respect of the interest. New paragraph (*d*.1) of the definition applies to returns for taxation years that begin after 2006. For further information in this regard, see the commentary on new subsection 94.2(11).

Paragraph (*l*) of the definition is repealed to eliminate a reference to trusts that are treated as foreign affiliates. This reference is no longer necessary in light of new section 94, under which non-resident trusts are no longer treated as foreign affiliates.

Except as indicated above, these amendments generally apply to returns in respect of trust taxation years that begin after 2006. In addition, amended paragraphs (*d*) of the definition "specified foreign property" and the repeal of paragraph (*l*) of that definition apply to returns in respect of trust taxation years that begin after 2000, after 2001, after 2002, after 2003, after 2004 or after 2005 if the trust makes the appropriate election under the coming-into-force provision for new section 94 of the Act.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The definition "specified foreign property" in subsection 233.3(1) of the English version of the Act is amended by adding the following after paragraph (*d*):

(*d*.1) an interest in an insurance policy that is deemed by subsection 94.2(11) to be a participating interest in a non-resident entity,

Applicable: To returns for taxation years that begin after 2006.

Explanatory Note: See the Explanatory Note following the amendment to paragraph (*d*) of the definition "specified foreign property" in subsection 233.3(1).

(*e*) an interest in a partnership that owns or holds specified foreign property,

(*f*) an interest in, or right with respect to, an entity that is non-resident,

(*g*) indebtedness owed by a non-resident person,

(*h*) an interest in or right, under a contract, in equity or otherwise, either immediately or in the future and either absolutely or contingently, to any property (other than any property owned by a corporation or trust that is not the person) that is specified foreign property, and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*h*) of the definition "specified foreign property" in subsection 233.3(1) of the English version of the Act is replaced by the following:

(*h*) an interest in, or for civil law a right in, or a right — under a contract in equity or otherwise either immediately or in the future and either absolutely or contingently — to, any property (other than any property owned by a corporation or trust that is not the person) that is specified foreign property, and

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*i*) property that, under the terms or conditions thereof or any agreement relating thereto, is convertible into, is exchangeable for or confers a right to acquire, property that is specified foreign property,

but does not include

(*j*) property that is used or held exclusively in the course of carrying on an active business of the person or partnership (determined as if the person or partnership were a corporation resident in Canada),

(*k*) a share of the capital stock or indebtedness of a non-resident corporation that is a foreign affiliate of the person or partnership for the purpose of section 233.4,

(*l*) an interest in, or indebtedness of, a non-resident trust that is a foreign affiliate of the person or partnership for the purpose of section 233.4,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*l*) of the definition "specified foreign property" in subsection 233.3(1) of the English version of the Act is repealed.

(*l*) [Repealed.]

Applicable: To returns in respect of trust taxation years that begin after 2006. [This amendment] also applies to returns in respect of trust taxation years that begin

(*a*) after 2000, if the return relates to a trust that makes a valid election under paragraph [(*a*) of the application for new proposed section 94];

(*b*) after 2001, if the return relates to a trust that makes a valid election under paragraph [(*a*) or (*b*) of the application for new proposed section 94];

(*c*) after 2002, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*c*) of the application for new proposed section 94];

(*d*) after 2003, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*d*) of the application for new proposed section 94];

(*e*) after 2004, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*e*) of the application for new proposed section 94]; and

(*f*) after 2005, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*f*) of the application for new proposed section 94].

Explanatory Note: See the Explanatory Note following the amendment to paragraph (*d*) of the definition "specified foreign property" in subsection 233.3(1).

(*m*) an interest in a non-resident trust that was not acquired for consideration by either the person or partnership or a person related to the person or partnership,

(*n*) an interest in a trust described in paragraph (*a*) or (*b*) of the definition "exempt trust" in subsection 233.2(1),

(*o*) an interest in a partnership that is a specified Canadian entity,

(*o*.1) a right with respect to, or indebtedness of, an authorized foreign bank that is issued by, and payable or otherwise enforceable at, a branch in Canada of the bank,

(*p*) personal-use property of the person or partnership, and

(*q*) an interest in or right to acquire a property that is described in any of paragraphs (*j*) to (*p*).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*q*) of the definition "specified foreign property" in subsection 233.3(1) of the English version of the Act is replaced by the following:

(*q*) an interest in, or for civil law a right in, or a right to acquire, a property that is described in any of paragraphs (*j*) to (*p*).

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

History: S. 233.3, paragraph (*o*.1) of the definition "specified foreign property", was added by S.C. 2001, c. 17, s. 184(1), applicable after June 27, 1999.

S. 233.3, the definition "specified foreign property", was added by S.C. 1997, c. 25, s. 69(1). The application was amended by S.C. 1999, c. 22, s. 91(1), and now reads: applicable to returns for taxation years and fiscal periods that begin after 1997, except that such a return for a taxation year or fiscal period that ends in 1998 is required to be filed on or before the later of

(*a*) April 30, 1999, and

(*b*) the day on or before which the return is otherwise required to be filed.

"applicable to returns for taxation years and fiscal periods that begin after 1995, except that such a return for a taxation year or fiscal period that ends in 1996, 1997 or 1998 is required to be filed on or before the later of

(*a*) April 30, 1998, and

(*b*) the day on or before which the return is otherwise required to be filed."

Related Sections: S. 248(1), "authorized foreign bank".

► 233.3(2) ◄

(2) Application to members of partnerships. For the purpose of this section, a person who is a member of a partnership that is a member of another partnership

(*a*) is deemed to be a member of the other partnership; and

(*b*) the person's share of the income or loss of the other partnership is deemed to be equal to the

amount of that income or loss to which the person is directly or indirectly entitled.

History: S. 233.3(2) was added by S.C. 1997, c. 25, s. 69(1). The application was amended by S.C. 1999, c. 22, s. 91(1), and now reads: applicable to returns for taxation years and fiscal periods that begin after 1997, except that such a return for a taxation year or fiscal period that ends in 1998 is required to be filed on or before the later of

(*a*) April 30, 1999, and

(*b*) the day on or before which the return is otherwise required to be filed.

The application formerly read:

"applicable to returns for taxation years and fiscal periods that begin after 1995, except that such a return for a taxation year or fiscal period that ends in 1996, 1997 or 1998 is required to be filed on or before the later of

(*a*) April 30, 1998, and

(*b*) the day on or before which the return is otherwise required to be filed."

► 233.3(3) ◄

(3) Returns respecting foreign property. A reporting entity for a taxation year or fiscal period shall file with the Minister for the year or period a return in prescribed form on or before the day that is

(*a*) where the entity is a partnership, the day on or before which a return is required by section 229 of the Income Tax Regulations to be filed in respect of the fiscal period of the partnership or would be required to be so filed if that section applied to the partnership; and

(*b*) where the entity is not a partnership, the entity's filing-due date for the year.

History: S. 233.3(3) was added by S.C. 1997, c. 25, s. 69(1). The application was amended by S.C. 1999, c. 22, s. 91(1), and now reads: applicable to returns for taxation years and fiscal periods that begin after 1997, except that such a return for a taxation year or fiscal period that ends in 1998 is required to be filed on or before the later of

(*a*) April 30, 1999, and

(*b*) the day on or before which the return is otherwise required to be filed.

The application formerly read:

"applicable to returns for taxation years and fiscal periods that begin after 1995, except that such a return for a taxation year or fiscal period that ends in 1996, 1997 or 1998 is required to be filed on or before the later of

(*a*) April 30, 1998, and

(*b*) the day on or before which the return is otherwise required to be filed."

Forms: T1135.

SECTION 233.4: [Reporting in respect of foreign affiliates].

► 233.4(1) ◄

(1) Reporting entity. For the purpose of this section, "reporting entity" for a taxation year or fiscal period means

(*a*) a taxpayer resident in Canada (other than a taxpayer all of whose taxable income for the year is exempt from tax under Part I) of which a non-resident corporation is a foreign affiliate at any time in the year;

(*b*) a taxpayer resident in Canada (other than a taxpayer all of whose taxable income for the year is exempt from tax under Part I) of which a non-resident trust is a foreign affiliate at any time in the year; and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 233.4(1) of the Act is amended by adding the word "and" at the end of paragraph (*a*) and by repealing paragraph (*b*).

(*b*) [Repealed.]

Applicable: To taxation years and fiscal periods that begin after 2006. [This amendment] also applies to taxation years and fiscal periods that begin

(*a*) after 2000, if the taxation year or fiscal period relates to a trust the taxation year of which begins in 2001, 2002, 2003, 2004, 2005 or 2006 and the trust makes a valid election under paragraph [(*a*) of the application for new proposed section 94];

(*b*) after 2001, if the taxation year or fiscal period relates to a trust the taxation year of which begins in 2002, 2003, 2004, 2005 or 2006 and the trust makes a valid election under paragraph [(*a*) or (*b*) of the application for new proposed section 94];

(*c*) after 2002, if the taxation year or fiscal period relates to a trust the taxation year of which begins in 2003, 2004, 2005 or 2006 and the trust makes a valid election under any of paragraphs [(*a*) to (*c*) of the application for new proposed section 94];

(*d*) after 2003, if the taxation year or fiscal period relates to a trust the taxation year of which begins in 2004, 2005 or 2006 and the trust makes a valid election under any of [17(2)(*a*) to (*d*) of the application for new proposed section 94];

(*e*) after 2004, if the taxation year or fiscal period relates to a trust the taxation year of which begins in 2005 or 2006 and the trust makes a valid election under any of paragraphs [(*a*) to (*e*) of the application for new proposed section 94]; and

(*f*) after 2005, if the taxation year or fiscal period relates to a trust the taxation year of which begins in 2006 and the trust makes a valid election under any of paragraphs [(*a*) to (*f*) of the application for new proposed section 94].

Explanatory Note: Section 233.4 of the Act provides reporting requirements in respect of foreign affiliates. In general terms, it provides that taxpayers resident in Canada (or certain partnerships) of which a non-resident corporation or non-resident trust is a foreign affiliate must file an information return in respect of the affiliate.

Subsections 233.4(1) and (2) are amended to eliminate references to foreign affiliates that are non-resident trusts. These references are no longer necessary in light of new subsection 94(1), under which non-resident trusts are no longer treated as foreign affiliates.

These amendments apply to taxation years and fiscal periods that begin after 2006. They apply to taxation years and fiscal periods that begin after 2000, after 2001, after 2002, after 2003, after 2004 or after 2005 if the trust makes the appropriate election under the coming-into-force provision for new section 94 of the Act.

(*c*) a partnership

(i) where the total of all amounts, each of which is a share of the partnership's income or loss for the period of a non-resident member, is less than 90% of the income or loss of the partnership for the period, and, where the income and loss of the partnership are nil for the period, the income of the partnership for the period is deemed to be $1,000,000 for the purpose of determining a member's share of the partnership's income for the purpose of this subparagraph, and

(ii) of which a non-resident corporation or trust is a foreign affiliate of which at any time in the fiscal period.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 233.4(1)(c)(ii) of the Act is replaced by the following:

(ii) of which a non-resident corporation is a foreign affiliate at any time in the fiscal period.

Applicable: To taxation years and fiscal periods that begin after 2006. [This amendment] also applies to taxation years and fiscal periods that begin

(*a*) after 2000, if the taxation year or fiscal period relates to a trust the taxation year of which begins in 2001, 2002, 2003, 2004, 2005 or 2006 and the trust makes a valid election under paragraph [(*a*) of the application for new proposed section 94];

(*b*) after 2001, if the taxation year or fiscal period relates to a trust the taxation year of which begins in 2002, 2003, 2004, 2005 or 2006 and the trust makes a valid election under paragraph [(*a*) or (*b*) of the application for new proposed section 94];

(*c*) after 2002, if the taxation year or fiscal period relates to a trust the taxation year of which begins in 2003, 2004, 2005 or 2006 and the trust makes a valid election under any of paragraphs [(*a*) to (*c*) of the application for new proposed section 94];

(*d*) after 2003, if the taxation year or fiscal period relates to a trust the taxation year of which begins in 2004, 2005 or 2006 and the trust makes a valid election under any of [17(2)(*a*) to (*d*) of the application for new proposed section 94];

(*e*) after 2004, if the taxation year or fiscal period relates to a trust the taxation year of which begins in 2005 or 2006 and the trust makes a valid election under any of paragraphs [(*a*) to (*e*) of the application for new proposed section 94]; and

(*f*) after 2005, if the taxation year or fiscal period relates to a trust the taxation year of which begins in 2006 and the trust makes a valid election under any of paragraphs [(*a*) to (*f*) of the application for new proposed section 94].

Explanatory Note: See the Explanatory Note following the repeal of paragraph 233.4(1)(*b*).

History: S. 233.4(1) was added by S.C. 1997, c. 25, s. 69(1), applicable to returns for taxation years and fiscal periods that begin after 1995, except that such a return for a taxation year or fiscal period that ends in 1996, 1997 or 1998 is required to be filed on or before the later of

(*a*) June 30, 1998, and

(*b*) the day on or before which the return is otherwise required to be filed.

Guides: T4068 Guide for the Partnership Information Return.
Canadian Tax Foundation: Bourque and Bronstetter, "Foreign Affiliate Reporting: The First Filing", *1998 Conference Report*, 19:1.

► 233.4(2) ◄

(2) Rules of application. For the purpose of this section, in determining whether a non-resident corporation or trust is a foreign affiliate or a controlled foreign affiliate of a taxpayer resident in Canada or of a partnership

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 233.4(2) of the Act before paragraph (*a*) is replaced by the following:

(2) Rules of application. For the purpose of this section, in determining whether a non-resident corporation is a foreign affiliate or a controlled foreign affiliate of a taxpayer resident in Canada or of a partnership

Applicable: To taxation years and fiscal periods that begin after 2006. [This amendment] also applies to taxation years and fiscal periods that begin

(*a*) after 2000, if the taxation year or fiscal period relates to a trust the taxation year of which begins in 2001, 2002, 2003, 2004, 2005 or 2006 and the trust makes a valid election under paragraph [(*a*) of the application for new proposed section 94];

(*b*) after 2001, if the taxation year or fiscal period relates to a trust the taxation year of which begins in 2002, 2003, 2004, 2005 or 2006 and the trust makes a valid election under paragraph [(*a*) or (*b*) of the application for new proposed section 94];

(*c*) after 2002, if the taxation year or fiscal period relates to a trust the taxation year of which begins in 2003, 2004, 2005 or 2006 and the trust makes a valid election under any of paragraphs [(*a*) to (*c*) of the application for new proposed section 94];

(*d*) after 2003, if the taxation year or fiscal period relates to a trust the taxation year of which begins in 2004, 2005 or 2006 and the trust makes a valid election under any of [17(2)(*a*) to (*d*) of the application for new proposed section 94];

(*e*) after 2004, if the taxation year or fiscal period relates to a trust the taxation year of which begins in 2005 or 2006 and the trust makes a valid election under any of paragraphs [(*a*) to (*e*) of the application for new proposed section 94]; and

(*f*) after 2005, if the taxation year or fiscal period relates to a trust the taxation year of which begins in 2006 and the trust makes a valid election under any of paragraphs [(*a*) to (*f*) of the application for new proposed section 94].

Explanatory Note: See the Explanatory Note following the repeal of paragraph 233.4(1)(*b*).

(*a*) paragraph (*b*) of the definition "equity percentage" in subsection 95(4) shall be read as if the reference to "any corporation" were a reference to "any corporation other than a corporation resident in Canada";

(*b*) the definitions "direct equity percentage" and "equity percentage" in subsection 95(4) shall be read as if a partnership were a person; and

(*c*) the definitions "controlled foreign affiliate" and "foreign affiliate" in subsection 95(1) shall be read as if a partnership were a taxpayer resident in Canada.

History: S. 233.4(2) was added by S.C. 1997, c. 25, s. 69(1), applicable to returns for taxation years and fiscal periods that begin after 1995, except that such a return for a taxation year or fiscal period that ends in 1996, 1997 or 1998 is required to be filed on or before the later of

(*a*) June 30, 1998, and

(*b*) the day on or before which the return is otherwise required to be filed.

► 233.4(3) ◄

(3) Application to members of partnerships. For the purpose of this section, a person who is a member of a partnership that is a member of another partnership

(*a*) is deemed to be a member of the other partnership; and

(*b*) the person's share of the income or loss of the other partnership is deemed to be equal to the amount of that income or loss to which the person is directly or indirectly entitled.

History: S. 233.4(3) was added by S.C. 1997, c. 25, s. 69(1), applicable to returns for taxation years and fiscal periods that begin after 1995, except that such a return for a taxation year or fiscal period that ends in 1996, 1997 or 1998 is required to be filed on or before the later of

(*a*) June 30, 1998, and

(*b*) the day on or before which the return is otherwise required to be filed.

► 233.4(4) ◄

(4) Returns respecting foreign affiliates. A reporting entity for a taxation year or fiscal period shall file with the Minister for the year or period a return in prescribed form in respect of each foreign affiliate of the entity in the year or period within 15 months after the end of the year or period.

History: S. 233.4(4) was added by S.C. 1997, c. 25, s. 69(1), applicable to returns for taxation years and fiscal periods that begin after 1995, except that such a return for a taxation year or fiscal period that ends in 1996, 1997 or 1998 is required to be filed on or before the later of

(*a*) June 30, 1998, and

(*b*) the day on or before which the return is otherwise required to be filed.

Related Sections: S. 249(1) Definition of "taxation year"; s. 249.1(1) Definition of "fiscal period".
Forms: T1134-A; T1134-B.
Canadian Tax Foundation: Pantaleo, "Foreign Reporting for Foreign Affiliates: A Practical Approach", *1997 Conference Report*, 45:1.

SECTION 233.5: Due diligence exception.

The information required in a return filed under section 233.2 or 233.4 does not include information that is not

available, on the day on which the return is filed, to the person or partnership required to file the return where

(*a*) there is a reasonable disclosure in the return of the unavailability of the information;

(*b*) before that day, the person or partnership exercised due diligence in attempting to obtain the information;

(*c*) if

(i) the return is required to be filed under section 233.2, or

(ii) the return is required to be filed under section 233.4 by a person or partnership in respect of a corporation that is a controlled foreign affiliate, for the purpose of that section, of the person or partnership,

it was reasonable to expect, at the time of each transaction, if any, entered into by the person or partnership after March 5, 1996 that gives rise to the requirement to file the return or that affects the information to be reported in the return, that sufficient information would be available to the person or partnership to comply with that section; and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 233.5(c) of the Act is replaced by the following:

(*c*) if the return is required to be filed under section 233.2 in respect of a trust, at the time of each transaction, if any, entered into by the person or partnership after March 5, 1996 and before June 23, 2000 that gave rise to the requirement to file a return for a taxation year of the trust that began before 2007 or that affects the information to be reported in the return, it was reasonable to expect that sufficient information would be available to the person or partnership to comply with section 233.2 in respect of each taxation year of the trust that began before 2007;

(*c*.1) if the return is required to be filed under section 233.2, at the time of each contribution (determined with reference to subsection 233.2(2)) made by the person or partnership after June 22, 2000 that gives rise to the requirement to file the return or that affects the information to be reported in the return, it was reasonable to expect that sufficient information would be available to the person or partnership to comply with section 233.2;

(*c*.2) if the return is required to be filed under section 233.4 by a person or partnership in respect of a corporation that is a controlled foreign affiliate for the purpose of that section of the person or partnership, at the time of each transaction, if any, entered into by the person or partnership after March 5, 1996 that gives rise to the requirement to file the return or that affects the information to be reported in the return, it was reasonable to expect that sufficient information would be available to the person or partnership to comply with section 233.4; and

Applicable: To returns in respect of taxation years that begin after 2006. [This amendment] also applies to returns in respect of taxation years that begin

(*a*) in 2001, 2002, 2003, 2004, 2005 or 2006, if the return relates to a trust that makes a valid election under paragraph [(*a*) of the application for new proposed section 94];

(*b*) in 2002, 2003, 2004, 2005 or 2006, if the return relates to a trust that makes a valid election under paragraph [(*a*) or (*b*) of the application for new proposed section 94];

(*c*) in 2003, 2004, 2005 or 2006, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*c*) of the application for new proposed section 94];

(*d*) in 2004, 2005 or 2006, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*d*) of the application for new proposed section 94];

(*e*) in 2005 or 2006, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*e*) of the application for new proposed section 94]; and

(*f*) in 2006, if the return relates to a trust that makes a valid election under any of paragraphs [(*a*) to (*f*) of the application for new proposed section 94].

Explanatory Note: Section 233.5 of the Act provides that, where specified conditions set out in paragraphs 233.5(*a*) to (*d*) are met, information required in a return filed under section 233.2 or 233.4 does not include information that is not available to the person or partnership required to file the return. In the case of a return required to be filed by a person or partnership under section 233.2, paragraph 233.5(*c*) provides that it must be reasonable for the person or partnership to expect, at the time of each transaction entered into by the person or partnership after March 5, 1996 that either gives rise to the requirement to file the return or that affects the information to be reported in the return, that sufficient information would be available to the person or partnership to comply with section 233.2.

Paragraph 233.5(*c*) is amended so that it applies only in connection with transactions entered into before June 23, 2000 that gave rise to the requirement to file a return for a taxation year of the trust that began before 2003. In connection with trust returns required to be filed for trust taxation years that began before 2003, it must be reasonable for the person or partnership to expect that sufficient information would have been available to the person or partnership to comply with section 233.2 if the proposed amendments to section 94 were not taken into account.

Paragraph 223.5(*c*) is also amended so that it does not apply to returns required to be filed under section 233.4. It is replaced in this respect by new paragraph 233.5(*c*.2), without any change in the specified conditions for such returns.

Paragraph 233.5(*c*.1) is introduced in connection with returns required to be filed under section 233.2 by a person or partnership for a taxation year of the trust that begins after 2006. Where "contributions" (determined with reference to subsection 233.2(2), referred to in the commentary above) are made after June 22, 2000, relief under section 233.5 is available only if it was reasonable for the person or partnership to expect, at the time of each such contribution that either gives rise to the requirement to file the return or that affects the information to be reported in the return, that sufficient information would be available to the person or partnership to comply with section 233.2.

This amendment applies to returns in respect of taxation years that begin after 2006. It also applies to returns in respect of taxation years that begin

- in 2001, 2002, 2003, 2004, 2005 or 2006, if the trust makes a valid election under the coming-into-force provision for new section 94 of the Act, in which case section 233.5 of the Act shall be read, in respect of the trust, without reference to paragraph 233.5(*c*),
- in 2002, 2003, 2004, 2005 or 2006, if the trust makes a valid election under the coming-into-force provision of new section 94 Act, in which case section 233.5 of the Act shall be read, in respect of the trust, without reference to paragraph 233.5(*c*)
- in 2003, 2004, 2005 or 2006, if the trust makes a valid election under the coming-into-force provision of new section 94, in which case section 233.5 of the Act shall be read, in respect of the trust, without reference to paragraph 233.5(*c*),
- in 2004, 2005 or 2006, if the trust makes a valid election under the coming-into-force provision of new section 94, in which case section 233.5 of the Act shall be read, in respect of the trust, without reference to paragraph 233.5(*c*),
- in 2005 or 2006, if the trust makes a valid election under the coming-into-force provision of new section 94, in

which case section 233.5 of the Act shall be read, in respect of the trust, without reference to paragraph 233.5(*c*), and

- in 2006, if the trust makes a valid election under the coming-into-force provision of new section 94, in which case section 233.5 of the Act shall be read, in respect of the trust, without reference to paragraph 233.5(*c*).

(*d*) if the information subsequently becomes available to the person or partnership, it is filed with the Minister not more than 90 days after it becomes so available.

History: S. 233.5 was added by S.C. 1997, c. 25, s. 69(1), applicable to returns required to be filed on or before a day that is after April 29, 1998.

Related Sections: S. 163(2.4) False statement or omission.

SECTION 233.6:

► 233.6(1) ◄

(1) Returns respecting distributions from non-resident trusts. Where a specified Canadian entity (as defined by subsection 233.3(1)) for a taxation year or fiscal period receives a distribution of property from, or is indebted to, a non-resident trust (other than a trust that was an excluded trust in respect of the year or period of the entity or an estate that arose on and as a consequence of the death of an individual) in the year or period and the entity is beneficially interested in the trust at any time in the year or period, the entity shall file with the Minister for the year or period a return in prescribed form on or before the day that is

(*a*) where the entity is a partnership, the day on or before which a return is required by section 229 of the *Income Tax Regulations* to be filed in respect of the fiscal period of the partnership or would be required to be so filed if that section applied to the partnership; and

(*b*) where the entity is not a partnership, the entity's filing-due date for the year.

History: S. 233.6(1) was added by S.C. 1997, c. 25, s. 69(1). The application was amended by S.C. 1999, c. 22, s. 91(2), and now reads: applicable to returns for taxation years and fiscal periods that begin after 1995, except that

(*a*) such a return for a taxation year or fiscal period that ended in 1996, 1997 or 1998 is required to be filed on or before the later of
(i) April 30, 1998, and
(ii) the day on or before which the return is otherwise required to be filed;

(*b*) for taxation years and fiscal periods that began before 1998, subsection 233.6(2) of the Act shall be read without reference to paragraph 233.6(2)(*c*); and

(*c*) for returns for taxation years and fiscal periods that began after 1995 and before 1998, the reference to "specified Canadian entity" in subsection 233.6(1) of the Act shall have the meaning that would be assigned to that expression by subsection 233.3(1) of the Act, as enacted by subsection (1), if it applied for those returns. The application formerly read:

"applicable to returns for taxation years and fiscal periods that begin after 1995, except that such a return for a taxation year or fiscal period that ends in 1996, 1997 or 1998 is required to be filed on or before the later of
(*a*) April 30, 1998, and
(*b*) the day on or before which the return is otherwise required to be filed."

Related Sections: S. 248(25) Beneficially interested.
Forms: T1142.

► 233.6(2) ◄

(2) Excluded trust defined. For the purpose of subsection (1), an excluded trust in respect of the taxation year or fiscal period of an entity means

(*a*) a trust described in paragraph (*a*) or (*b*) of the definition "exempt trust" in subsection 233.2(1) throughout the portion of the year or period during which the trust was extant;

(*b*) a trust in respect of which the entity is required by section 233.2 to file a return in respect of each taxation year of the trust that ends in the entity's year;

(*c*) a trust an interest in which is at any time in the year or period specified foreign property (as defined by subsection 233.3(1)) of the entity, where the entity is a reporting entity (as defined by subsection 233.3(1)) for the year or period; and

(*d*) a trust in respect of which the entity is required by section 233.4 to file a return for the year or period.

History: S. 233.6(2) was added by S.C. 1997, c. 25, s. 69(1). The application was amended by S.C. 1999, c. 22, s. 91(2), and now reads: applicable to returns for taxation years and fiscal periods that begin after 1995, except that

(*a*) such a return for a taxation year or fiscal period that ended in 1996, 1997 or 1998 is required to be filed on or before the later of
(i) April 30, 1998, and
(ii) the day on or before which the return is otherwise required to be filed;

(*b*) for taxation years and fiscal periods that began before 1998, subsection 233.6(2) of the Act shall be read without reference to paragraph 233.6(2)(*c*); and

(*c*) for returns for taxation years and fiscal periods that began after 1995 and before 1998, the reference to "specified Canadian entity" in subsection 233.6(1) of the Act shall have the meaning that would be assigned to that expression by subsection 233.3(1) of the Act, as enacted by subsection (1), if it applied for those returns. The application formerly read:

"applicable to returns for taxation years and fiscal periods that begin after 1995, except that such a return for a taxation year or fiscal period that ends in 1996, 1997 or 1998 is required to be filed on or before the later of
(*a*) April 30, 1998, and
(*b*) the day on or before which the return is otherwise required to be filed."

SECTION 233.7: Exception for first-year residents.

Notwithstanding sections 233.2, 233.3, 233.4 and 233.6, a person who, but for this section, would be required under any of those sections to file an information return for a taxation year, is not required to file the return if the person is an individual (other than a trust) who first became resident in Canada in the year.

History: S. 233.7 was added by S.C. 1997, c. 25, s. 69(1), applicable to returns required to be filed on or before a day that is after April 29, 1998.

SECTION 234:

► 234(1) ◄

(1) Ownership certificates. Before the bearer coupon or warrant representing either interest or dividends payable by any debtor or cheque representing dividends or interest payable by a non-resident debtor is negotiated by or on behalf of a resident of Canada, there shall be completed by or on behalf of the resident an ownership certificate in prescribed form.

Regulations: 201(3), (6)–(7); 207.
Forms: NR601; NR602; T600; T600B.

► 234(2) ◄

(2) Idem. An ownership certificate completed pursuant to subsection (1) shall be delivered in such manner, at such time and at such place as may be prescribed.

► 234(3) ◄

(3) Idem. The operation of this section may be extended by regulation to bearer coupons or warrants negotiated by or on behalf of non-resident persons.

► 234(4) ◄

(4) Idem. [Repealed by 1988, c. 55, s. 177(2).]

► 234(5) ◄

(5) Withholding. [Repealed by 1980-81-82-83, c. 48, s. 106(1).]

► 234(6) ◄

(6) Amount withheld deemed paid or credited. [Repealed by 1980-81-82-83, c. 48, s. 106(1).]

SECTION 234.1: Aviation turbine fuel. [Repealed by 1983-84, c. 1, s. 102(1).]

SECTION 235: Penalty for failing to file corporate returns.

Every large corporation (within the meaning assigned by subsection 225.1(8)) that fails to file a return for a taxation year as and when required by section 150 or 190.2 is liable, in addition to any penalty otherwise provided, to a penalty for each such failure equal to the amount determined by the formula

$$A \times B$$

where

A is the total of

(*a*) 0.0005% of the corporation's taxable capital employed in Canada at the end of the taxation year, and

(*b*) 0.25% of the tax that would be payable under Part VI by the corporation for the year if this Act were read without reference to subsection 190.1(3); and

B is the number of complete months, not exceeding 40, from the day on or before which the return was required to be filed to the day on which the return is filed.

History: S. 235 was replaced by S.C. 2006, c. 4, s. 88(1), applicable to the 2006 and subsequent taxation years.

S. 235 formerly read:

"S. 235. *Penalty for failing to file corporate returns.* Every corporation that fails to file a return for a taxation year as and when required by section 150, 181.6 or 190.2 is liable, in addition to any penalty otherwise provided, to a penalty for each such failure equal to the amount determined by the formula

$$0.0025 A \times B$$

where

A is the total of the taxes that would be payable under Parts I.3 and VI by the corporation for the year if this Act were read without reference to subsections 181.1(4) and 190.1(3); and

B is the number of complete months, not exceeding 40, from the later of

(*a*) the day on or before which the return was required to be filed, and

(*b*) December 17, 1991,

to the day on which the return is filed."

S. 235, the description of "A", was amended by S.C. 1994, c. 7, Sched. VIII, s. 135(1), applicable to the 1991 and subsequent taxation years. The description formerly read:

"A is the total of the taxes payable under Parts I.3 and VI by the corporation for the year; and"

S. 235 was added by S.C. 1994, c. 7, Sched. II, s. 187, effective December 17, 1991.

Related Sections: S. 150(1) Filing returns of income — general rule; s. 161(11) Interest on penalties; s. 181–181.9; s. 190.1(3) Deduction; s. 190.2 Return; s. 248(1), "corporation".

SECTION 236: Execution of documents by corporations.

A return, certificate or other document made by a corporation pursuant to this Act or a regulation shall be signed on its behalf by the President, Secretary or Treasurer of the corporation or by any other officer or person thereunto duly authorized by the Board of Directors or other governing body of the corporation.

Related Sections: S. 248(1), "corporation", "regulation"; ITAR s. 65.1 Part XV of amended Act.

SECTION 237:

► 237(1) ◄

(1) Social Insurance Number. Every individual (other than a trust) who was resident or employed in Canada at any time in a taxation year and who files a return of income under Part I for the year, or in respect of whom an information return is to be made by a person pursuant to a regulation made under paragraph 221(1)(*d*), shall,

(*a*) on or before the first day of February of the year immediately following the year for which the return of income is filed, or

(*b*) within 15 days after the individual is requested by the person to provide his Social Insurance Number,

apply to the Canada Employment Insurance Commission in prescribed form and manner for the assignment to the individual of a Social Insurance Number unless the individual has previously been assigned, or made application to be assigned, a Social Insurance Number.

History: S. 237(1), the portion after paragraph (*b*) was replaced by S.C. 2005, c. 34, s. 70, in force on October 5, 2005. The portion after paragraph (*b*) formerly read:

"apply to the Minister of Human Resources Development in prescribed form and manner for the assignment to the individual of a Social Insurance Number unless the individual has previously been assigned, or made application to be assigned, a Social Insurance Number."

S. 237(1) was amended by S.C. 1998, c. 19, s. 233(1), in force on Royal Assent, June 18, 1998. S. 237(1) formerly read:

"apply to the Minister of Human Resources Development in prescribed form and manner for the assignment to the individual of a Social Insurance Number unless the individual has previously been assigned, or made application to be assigned, a Social Insurance Number and shall provide that number in any return filed under this Act or, at the request of any person required to make an information return pursuant to this Act or the regulations requiring the individual's Social Insurance Number, to that person."

S. 237(1) was amended by S.C. 1996, c. 11, s. 95, by replacing the term "Minister of National Health and Welfare" with the term "Minister of Human Resources Development", effective July 12, 1996.

Regulations: Part XXXVIII.

Information Circulars: IC 82-2R2 Social insurance number legislation that relates to the preparation of information slips.

► 237(1.1) ◄

(1.1) Production of number. Every person and partnership shall provide

(*a*) in the case of an individual (other than a trust), the individual's Social Insurance Number, and

(*b*) in any other case, the person's or partnership's business number

in any return filed under this Act or, at the request of any person required to make an information return pursuant to this Act or the regulations requiring either number, to that person.

History: S. 237(1.1) was added by S.C. 1998, c. 19, s. 233(2), in force on Royal Assent, June 18, 1998.

Related Sections: S. 162(6) Failure to provide identification number; s. 221(1)(*d*.1) Regulations; s. 237(2) Number required in information returns; s. 237.1(7) Information return; s. 239(2.3) Offence with respect to an identification number; s. 248(1), "business number".

► 237(2) ◄

(2) Number required in information returns. For the purposes of this Act and the regulations, a person required to make an information return requiring a Social Insurance Number or a business number of a person or partnership

(*a*) shall make a reasonable effort to obtain the number from the person or partnership; and

(*b*) shall not knowingly use, communicate or allow to be communicated, otherwise than as required or authorized under this Act or a regulation, the number without the written consent of the person or partnership.

History: Paragraph 237(2)(*b*) was replaced by S.C. 2000, c. 19, s. 65(1), in force on Royal Assent, June 29, 2000. Paragraph 237(2)(*b*) formerly read:

"(*b*) shall not knowingly use, communicate or allow to be communicated, otherwise than as required under this Act or a regulation, the number without the written consent of the person or partnership."

S. 237(2) was amended by S.C. 1998, c. 19, s. 233(2), in force on Royal Assent, June 18, 1998. S. 237(2) formerly read:

"(2) *Idem.* For the purposes of this Act and the regulations, a person required to make an information return requiring an individual's Social Insurance Number

(*a*) shall make a reasonable effort to obtain from the individual the individual's Social Insurance Number; and

(*b*) shall not knowingly use, communicate or allow to be communicated, otherwise than as required under this Act or a regulation, the individual's Social Insurance Number without the individual's written consent."

Related Sections: S. 104(1) Reference to trust or estate; s. 162(5) Failure to provide information on form; s. 162(6) Failure to provide identification number; s. 221(1)(*d.1*) Regulations; s. 237(1.1) Production of number; s. 237.1(7) Information return; s. 239(2.3) Offence with respect to an identification number; s. 248(1), "business number", "individual", "prescribed".

Information Circulars: IC 82-2R2 Social insurance number legislation that relates to the preparation of information slips.

► 237(3) ◄

(3) Authority to communicate number. A particular person may communicate, or allow to be communicated, a Social Insurance Number or business number to another person related to the particular person where the other person is required, by this Act or the Regulations, to make an information return that requires the Social Insurance Number or business number.

History: S. 237(3) was added by S.C. 2000, c. 19, s. 65(2), in force on Royal Assent, June 29, 2000.

► 237(4) ◄

(4) Authority to communicate number. An insurance corporation may communicate, or allow to be communicated, to another person the Social Insurance Number or business number of a particular person or partnership where

(*a*) the other person became the holder of a share of the capital stock of the insurance corporation, or of a holding corporation (in this subsection having the meaning assigned by subsection 139.1(1)) in respect of the insurance corporation, on the share's issuance in connection with the demutualization (as defined by subsection 139.1(1)) of the insurance corporation;

(*b*) the other person became the holder of the share in the other person's capacity as nominee or agent for the particular person or partnership pursuant to an arrangement established by the insurance corporation or a holding corporation in respect of the insurance corporation; and

(*c*) the other person is required, by this Act or the Regulations, to make an information return, in respect of the disposition of the share or income from the share, that requires the Social Insurance Number or business number.

History: S. 237(4) was added by S.C. 2000, c. 19, s. 65(2), in force on Royal Assent, June 29, 2000.

Related Sections: S. 248(1), "insurance corporation".

SECTION 237.1: [Tax shelters].

► 237.1(1) ◄

(1) Definitions. In this section,

Information Circulars: IC 89-4 Tax shelter reporting.

"gifting arrangement" — "gifting arrangement" means any arrangement under which it may reasonably be considered, having regard to statements or representations made or proposed to be made in connection with the arrangement, that if a person were to enter into the arrangement, the person would

(*a*) make a gift to a qualified donee, or a contribution referred to in subsection 127(4.1), of property acquired by the person under the arrangement; or

(*b*) incur a limited-recourse amount that can reasonably be considered to relate to a gift to a qualified donee or a contribution referred to in subsection 127(4.1).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*b*) of the definition "gifting arrangement" in subsection 237.1(1) of the Act is replaced by the following:

(*b*) incur a limited-recourse debt, determined under subsection 143.2(6.1), that can reasonably be considered to relate to a gift to a qualified donee or a monetary contribution referred to in subsection 127(4.1);

Applicable: In respect of gifts and monetary contributions made after 6:00 p.m. (Eastern Standard Time) on December 5, 2003.

Explanatory Note:

Definitions

Subsection 237.1(1) of the Act provides definitions of terms that apply for the purpose of tax shelter identification and the definition of "tax shelter investment" in subsection 143.2(1) of the Act. The definition "gifting arrangement" includes an arrangement in respect of which it may reasonably be expected, having regard to representations made, that if a taxpayer makes a gift or political contribution under the arrangement, a person (whether or not it is the taxpayer) will incur an indebtedness in respect of which recourse is limited. This definition is amended in respect of gifts and contributions made after 6:00 p.m. (EST), December 5, 2003, to also refer to a limited-recourse debt determined under new subsection 143.2(6.1) of the Act. For additional details regarding limited-recourse debt in respect of a gift, see the commentary to subsection 143.2(6.1).

History: S. 237.1(1), the definition "gifting arrangement" was added by S.C. 2003, c. 15, s. 87(2), applicable as follows:

The portion of the definition "gifting arrangement" before paragraph (*a*) applies after February 18, 2003.

Paragraph (*a*) of the definition "gifting arrangement" applies in respect of property acquired, and statements and representations made, after February 18, 2003.

Paragraph (*b*) of the definition "gifting arrangement" applies in respect of property acquired, and gifts, contributions, statements and representations made, after February 18, 2003.

"person" — "person" includes a partnership;

History: S. 237.1(1), the definition of "person" was added by S.C. 1998, c. 19, s. 234(3), applicable after November 1994.

"promoter" — "promoter" in respect of a tax shelter means a person who in the course of a business

(*a*) sells or issues, or promotes the sale, issuance or acquisition of, the tax shelter,

(*b*) acts as an agent or adviser in respect of the sale or issuance, or the promotion of the sale, issuance or acquisition, of the tax shelter, or

(*c*) accepts, whether as a principal or agent, consideration in respect of the tax shelter,

and more than one person may be a tax shelter promoter in respect of the same tax shelter;

History: S. 237.1(1), the definition of "promoter", was amended by S.C. 1998, c. 19, s. 234(2), applicable after December 1, 1994 except that in applying subsection 237.1(7) of the Act, before the day this Act is assented to [Royal Assent June 18, 1998] the reference therein to "either the Social Insurance Number or business number" shall be read as "the Social Insurance Number". S. 237.1(1), the definition of "promoter" formerly read:

" '*promoter*' — 'promoter' in respect of a tax shelter means a person who in the course of a business

(*a*) sells, issues or promotes the sale, issuance or acquisition of an interest in the tax shelter, or

(*b*) acts as an agent or adviser in respect of the sale or issuance, or the promotion of the sale, issuance or acquisition, of an interest in the tax shelter,

and more than one person may be a tax shelter promoter in respect of the same tax shelter;"

"*tax shelter*" — "tax shelter" means

(*a*) a gifting arrangement described by paragraph (*b*) of the definition "gifting arrangement"; and

(*b*) a gifting arrangement described by paragraph (*a*) of the definition "gifting arrangement", or a property (including any right to income) other than a flow-through share or a prescribed property, in respect of which it can reasonably be considered, having regard to statements or representations made or proposed to be made in connection with the gifting arrangement or the property, that, if a person were to enter into the gifting arrangement or acquire an interest in the property, at the end of a particular taxation year that ends within four years after the day on which the gifting arrangement is entered into or the interest is acquired,

(i) the total of all amounts each of which is

(A) an amount, or a loss in the case of a partnership interest, represented to be deductible in computing the person's income for the particular year or any preceding taxation year in respect of the gifting arrangement or the interest in the property (including, if the property is a right to income, an amount or loss in respect of that right that is stated or represented to be so deductible), or

(B) any other amount stated or represented to be deemed under this Act to be paid on account of the person's tax payable, or to be deductible in computing the person's income, taxable income or tax payable under this Act, for the particular year or any preceding taxation year in respect of the gifting arrangement or the interest in the property, other than an amount so stated or represented that is included in computing a loss described in clause (A),

would equal or exceed

(ii) the amount, if any, by which

(A) the cost to the person of the property acquired under the gifting arrangement, or of the interest in the property at the end of the particular year, determined without reference to section 143.2,

would exceed

(B) the total of all amounts each of which is the amount of any prescribed benefit that is expected to be received or enjoyed, directly or indirectly, in respect of the property acquired under the gifting arrangement, or of the interest in the property, by the person or another person with whom the person does not deal at arm's length.

History: S. 237.1(1), the definition "tax shelter" was replaced by S.C. 2003, c. 15, s. 87(1), applicable as follows:

The portion of the definition "tax shelter" before paragraph (*a*), applies after February 18, 2003.

Paragraph (*a*) of the definition "tax shelter" applies in respect of property acquired, and gifts, contributions, statements and representations made, after February 18, 2003.

Paragraph (*b*) of the definition "tax shelter" applies in respect of property acquired, and statements and representations made, after February 18, 2003.

S. 237.1(1), the definition "tax shelter" formerly read:

" '*tax shelter*' — 'tax shelter' means any property (including, for greater certainty, any right to income) in respect of which it can reasonably be considered, having regard to statements or representations made or proposed to be made in connection with the property, that, if a person were to acquire an interest in the property, at the end of a particular taxation year that ends within 4 years after the day on which the interest is acquired,

(*a*) the total of all amounts each of which is

(i) an amount, or a loss in the case of a partnership interest, represented to be deductible in computing income in respect of the interest in the property (including, where the property is a right to income, an amount or loss in respect of that right that is represented to be deductible) and expected to be incurred by or allocated to the person for the particular year or any preceding taxation year, or

(ii) any other amount represented to be deductible in computing income or taxable income in respect of the interest in the property and expected to be incurred by or allocated to the person for the particular year or any preceding taxation year, other than any amount included in computing a loss described in subparagraph (i),

would equal or exceed

(*b*) the amount, if any, by which

(i) the cost to the person of the interest in the property at the end of the particular year, determined without reference to section 143.2,

would exceed

(ii) the total of all amounts each of which is the amount of any prescribed benefit that is expected to be received or enjoyed, directly or indirectly, in respect of the interest in the property by the person or another person with whom the person does not deal at arm's length,

but does not include property that is a flow-through share or a prescribed property."

S. 237.1, the definition of "tax shelter", was amended by S.C. 1998, c. 19, s. 234(1), applicable after November 1994. S. 237.1, the definition of "tax shelter" formerly read:

" '*tax shelter*' — 'tax shelter' means any property in respect of which it may reasonably be considered having regard to statements or representations made or proposed to be made in connection with the property that, if a person were to acquire an interest in the property, at the end of any particular taxation year ending within 4 years after the day on which the interest is acquired,

(*a*) the total of all amounts each of which is

(i) a loss represented to be deductible in computing income in respect of the interest in the property and expected to be incurred by or allocated to the person for the particular year or any preceding taxation year, or

(ii) any other amount represented to be deductible in computing income or taxable income in respect of the interest in the property and expected to be incurred by or allocated to the person for the particular year or any preceding taxation year, other than any amount included in computing a loss described in subparagraph (i),

would exceed

(*b*) the amount, if any, by which

(i) the cost to the person of the interest in the property at the end of the particular year,

would exceed

(ii) the total of all amounts each of which is the amount of any prescribed benefit that is expected to be received or enjoyed directly or indirectly in respect of the interest in the property, by the person or another person with whom the person does not deal at arm's length

but does not include property that is a flow-through share or a prescribed property."

S. 237.1, subparagraph (*a*)(ii) of the definition "tax shelter", was amended by S.C. 1994, c. 7, Sched. II, s. 188(1), applicable to interests acquired after August 31, 1989. The subparagraph formerly read:

"(ii) any other amount represented to be deductible in computing income or taxable income in respect of the interest in the property and expected to be incurred by or allocated to the person for the particular year, other than any amount included in computing a loss described in subparagraph (i),"

Related Sections: S. 163.2 Definitions; s. 239(2.1) Providing incorrect tax shelter identification number; s. 248(1), "prescribed", "property", "taxable income", "taxable income earned in Canada".
Regulations: 231(6), (6.1), (7).
Information Circulars: IC 89-4 Tax shelter reporting.
Forms: T5001.
Tax Topics: No. 1919-20, 2008 Canadian Tax Foundation Annual Conference — Department of Finance Presentation and CRA Round Table; No. 1837, Tax Shelters — Presumed Cognizant?; No. 1814, 2006 Canadian Tax Foundation Annual Conference CRA Round Table.
Canadian Petroleum Tax Journal: The Tax Shelter Minefield, Vincent M. Bjorndahl, Vol. 10 No. 1 1997.
Canadian Tax Foundation: Watkins, "The Tax Shelter Rules: An Update", *1998 Conference Report*, 5:1.

► 237.1(2) ◄

(2) Application. A promoter in respect of a tax shelter shall apply to the Minister in prescribed form for an identification number for the tax shelter unless an identification number therefor has previously been applied for.

Forms: T5001.

► 237.1(3) ◄

(3) Identification. On receipt of an application under subsection (2) for an identification number for a tax shelter, together with prescribed information and an undertaking satisfactory to the Minister that books and records in respect of the tax shelter will be kept and retained at a place in Canada that is satisfactory to the Minister, the Minister shall issue an identification number for the tax shelter.

Forms: T5001.

► 237.1(4) ◄

(4) Sales prohibited. No person shall, whether as a principal or an agent, sell or issue, or accept consideration in respect of, a tax shelter before the Minister has issued an identification number for the tax shelter.

History: S. 237.1(4) was amended by S.C. 1998, c. 19, s. 234(4), applicable after December 1, 1994. S. 237(4) formerly read:

"(4) *Sales prohibited.* No person shall, whether as a principal or an agent, sell or issue, or accept a contribution towards the acquisition of, an interest in a tax shelter before the Minister has issued an identification number for the tax shelter."

Forms: T5001.

► 237.1(5) ◄

(5) Providing tax shelter number. Every promoter in respect of a tax shelter shall

(*a*) make reasonable efforts to ensure that all persons who acquire or otherwise invest in the tax shelter are provided with the identification number issued by the Minister for the tax shelter;

(*b*) prominently display on the upper right-hand corner of any statement of earnings prepared by or on behalf of the promoter in respect of the tax shelter the identification number issued for the tax shelter; and

(*c*) on every written statement made after 1995 by the promoter that refers either directly or indirectly and either expressly or impliedly to the issuance by the Canada Revenue Agency of an identification number for the tax shelter, as well as on the copies of the portion of the information return to be forwarded pursuant to subsection (7.3), prominently display

(i) where the statement or return is wholly or partly in English, the following:

"The identification number issued for this tax shelter shall be included in any income tax return filed by the investor. Issuance of the identification number is for administrative purposes only and does not in any way confirm the entitlement of an investor to claim any tax benefits associated with the tax shelter."

(ii) where the statement or return is wholly or partly in French, the following:

"Le numéro d'inscription attribué à cet abri fiscal doit figurer dans toute déclaration d'impôt sur le revenu produite par l'investisseur. L'attribution de ce numéro n'est qu'une formalité administrative et ne confirme aucunement le droit de l'investisseur aux avantages fiscaux découlant de cet abri fiscal."

and

(iii) where the statement includes neither English nor French, the following:

"The identification number issued for this tax shelter shall be included in any income tax return filed by the investor. Issuance of the identification number is for administrative purposes only and does not in any way confirm the entitlement of an investor to claim any tax benefits associated with the tax shelter.

Le numéro d'inscription attribué à cet abri fiscal doit figurer dans toute déclaration d'impôt sur le revenu produite par l'investisseur. L'attribution de ce numéro n'est qu'une formalité administrative et ne confirme aucunement le droit de l'investisseur aux avantages fiscaux découlant de cet abri fiscal."

History: S. 237.1(5)(*c*) was amended by S.C. 2005, c. 38, s. 138, by replacing "Canada Customs and Revenue Agency" with "Canada Revenue Agency", in force December 12, 2005.

S. 237.1(5)(*c*) was amended by S.C. 1999, c. 17, s. 169, by replacing "Department of National Revenue" with "Canada Customs and Revenue Agency", coming into force on November 1, 1999.

S. 237.1(5) was amended by S.C. 1998, c. 19, s. 234(4), applicable after December 1, 1994. S. 237.1(5) formerly read:

"(5) *Providing identification number.* Every promoter in respect of a tax shelter shall make reasonable efforts to ensure that all persons who acquire an interest in the tax shelter are provided with the identification number issued by the Minister for the tax shelter."

Information Circulars: IC 89-4 Tax shelter reporting.
Forms: T5001.

► 237.1(6) ◄

(6) Deductions and claims disallowed. No amount may be deducted or claimed by a person in respect of a tax shelter unless the person files with the Minister a prescribed form containing prescribed information, including the identification number for the tax shelter.

History: S. 237.1(6) was amended by S.C. 1998, c. 19, s. 234(4), applicable after December 1, 1994. S. 237.1(6) formerly read:

"(6) *Deduction disallowed.* In computing the amount of income, taxable income or taxable income earned in Canada of, or tax or other amount payable by, or refundable to, a taxpayer under this Act for a taxation year, or any other amount that is relevant for the purposes of computing that amount, no amount may be deducted in respect of an interest in a tax shelter unless the taxpayer files with the Minister a prescribed form containing prescribed information, including the identification number for the shelter."

S. 237.1(6) was amended by S.C. 1994, c. 7, Sched. II, s. 188(2), applicable to interests acquired after 1990. S. 237.1(6) formerly read:

"(6) In computing the amount of income, taxable income, taxable income earned in Canada, tax or other amount payable by, or refundable to a taxpayer under this Act for a taxation year, or any other amount that is relevant for the purposes of computing that amount, no amount may be claimed or deducted by the taxpayer in respect of an interest in a tax shelter unless the taxpayer provides the Minister with the identification number for the shelter."

Forms: T5004.

► 237.1(6.1) ◄

(6.1) Deductions and claims disallowed. No amount may be deducted or claimed by any person for any taxation year in respect of a tax shelter of the person where any person is liable to a penalty under subsection (7.4) or 162(9) in respect of the tax shelter or interest on the penalty and

(*a*) the penalty or interest has not been paid; or

(*b*) the penalty and interest have been paid, but an amount on account of the penalty or interest has been repaid under subsection 164(1.1) or applied under subsection 164(2).

History: S. 237.1(6.1) was added by S.C. 1998, c. 19, s. 234(4), applicable after December 1, 1994.

► 237.1(6.2) ◄

(6.2) Assessments. Notwithstanding subsections 152(4) to (5), such assessments, determinations and redeterminations may be made as are necessary to give effect to subsection (6.1).

History: S. 237.1(6.2) was added by S.C. 1998, c. 19, s. 234(4), applicable after December 1, 1994.

► 237.1(7) ◄

(7) Information return. Every promoter in respect of a tax shelter who accepts consideration in respect of the tax shelter or who acts as a principal or agent in respect of the tax shelter in a calendar year shall, in prescribed form and manner, file an information return for the year containing

(*a*) the name, address and either the Social Insurance Number or business number of each person who so acquires or otherwise invests in the tax shelter in the year,

(*b*) the amount paid by each of those persons in respect of the tax shelter, and

(*c*) such other information as is required by the prescribed form

unless an information return in respect of the tax shelter has previously been filed.

History: S. 237.1(7) was amended by S.C. 1998, c. 19, s. 234(4), applicable after December 1, 1994 except that in applying subsection 237.1(7) before the day this Act is assented to [Royal Assent June 18, 1998] the reference therein to "either the Social Insurance Number or business number" shall be read as "the Social Insurance Number". S. 237.1(7) formerly read:

"(7) *Information return.* Every promoter in respect of a tax shelter from whom an interest in the tax shelter was acquired, who accepted a contribution in respect of an acquisition of an interest in the tax shelter or who acted as an agent in respect of an acquisition of an interest in the tax shelter in a calendar year shall, in the prescribed form and manner, make an information return for that year containing

(*a*) the name, address and Social Insurance Number of each person who so acquired an interest in the tax shelter in the year,

(*b*) the amount paid by each such person for the interest, and

(*c*) such other information as may be required by the prescribed form,

unless an information return in respect of the acquisition has previously been made."

Related Sections: S. 162(6) Failure to provide identification number; s. 221(1)(*d.1*) Regulations; s. 237(1.1) Production of number; s. 237(2) Number required in information returns; s. 239(2.3) Offence with respect to an identification number; s. 248(1), "business number".

Information Circulars: IC 89-4 Tax shelter reporting.

Forms: T5003 SUM; T5003; T5004.

► 237.1(7.1) ◄

(7.1) Time for filing return. An information return required under subsection (7) to be filed in respect of the acquisition of an interest in a tax shelter in a calendar year shall be filed with the Minister on or before the last day of February of the following calendar year.

History: S. 237.1(7.1) was added by S.C. 1998, c. 19, s. 234(4), applicable after December 1, 1994.

► 237.1(7.2) ◄

(7.2) Time for filing — special case. Notwithstanding subsection (7.1), where a person is required under subsection (7) to file an information return in respect of a business or activity and the person discontinues that business or activity, the return shall be filed on or before the earlier of

(*a*) the day referred to in subsection (7.1); and

(*b*) the day that is 30 days after the day of the discontinuance.

History: S. 237.1(7.2) was added by S.C. 1998, c. 19, s. 234(4), applicable after December 1, 1994.

► 237.1(7.3) ◄

(7.3) Copies to be provided. Every person required to file a return under subsection (7) shall, on or before the day on or before which the return is required to be filed with the Minister, forward to each person to whom the return relates 2 copies of the portion of the return relating to that person.

History: S. 237.1(7.3) was added by S.C. 1998, c. 19, s. 234(4), applicable after December 1, 1994.

► 237.1(7.4) ◄

(7.4) Penalty. Every person who files false or misleading information with the Minister in respect of an application under subsection (2) or, whether as a principal or as an agent, sells, issues or accepts consideration in respect of a tax shelter before the Minister has issued an identification number for the tax shelter is liable to a penalty equal to the greater of

(*a*) $500, and

(*b*) 25% of the total of all amounts each of which is the consideration received or receivable from a person in respect of the tax shelter before the correct information is filed with the Minister or the identification number is issued, as the case may be.

History: S. 237.1(7.4) was added by S.C. 1998, c. 19, s. 234(4), applicable after December 1, 1994.

Related Sections: S. 161(11)(*b.1*) Interest on penalties; s. 161(12) Partnership liable to interest; s. 163.2 Definitions.

► 237.1(8) ◄

(8) Application of ss. 231 to 231.3. Without restricting the generality of sections 231 to 231.3, where an application under subsection (2) with respect to a tax shelter has been made, notwithstanding that a return of income has not been filed by any taxpayer under section 150 for the taxation year of the taxpayer in which an amount is claimed as a deduction in respect of the tax shelter, sections 231 to 231.3 apply, with such modifications as the circumstances require, for the purpose of permitting the Minister to verify or ascertain any information in respect of the tax shelter.

SECTION 237.2: Application of s. 237.1.

Section 237.1 is applicable with respect to interests acquired after August 31, 1989.

Offences and Punishment

SECTION 238:

► 238(1) ◄

(1) Offences and punishment. Every person who has failed to file or make a return as and when required by or under this Act or a regulation or who has failed to comply with subsection 116(3), 127(3.1) or (3.2), 147.1(7) or 153(1), any of sections 230 to 232 or a regulation made under subsection 147.1(18) or with an order made under subsection (2) is guilty of an offence and, in addition to any penalty otherwise provided, is liable on summary conviction to

(*a*) a fine of not less than $1,000 and not more than $25,000; or

(*b*) both the fine described in paragraph (*a*) and imprisonment for a term not exceeding 12 months.

Information Circulars: IC 98-1R3 Collections Policies.

Cases: The failure on each successive day to file a return, after demand, constituted a separate offence. *The Queen v. Subacious,* 78 DTC 6441 (Ont. C.A.).

► 238(2) ◄

(2) Compliance orders. Where a person has been convicted by a court of an offence under subsection (1) for a failure to comply with a provision of this Act or a regulation, the court may make such order as it deems proper in order to enforce compliance with the provision.

► 238(3) ◄

(3) Saving. Where a person has been convicted under this section of failing to comply with a provision of this Act or a regulation, the person is not liable to pay a penalty imposed under section 162 or 227 for the same failure unless the person was assessed for that penalty or that penalty was demanded from the person before the information or complaint giving rise to the conviction was laid or made.

Related Sections: S. 248(1), "assessment", "regulation".

SECTION 239:

► 239(1) ◄

(1) Other offences and punishment. Every person who has

(*a*) made, or participated in, assented to or acquiesced in the making of, false or deceptive statements in a return, certificate, statement or answer filed or made as required by or under this Act or a regulation,

(*b*) to evade payment of a tax imposed by this Act, destroyed, altered, mutilated, secreted or otherwise disposed of the records or books of account of a taxpayer,

(*c*) made, or assented to or acquiesced in the making of, false or deceptive entries, or omitted, or assented to or acquiesced in the omission, to enter a material particular, in records or books of account of a taxpayer,

(*d*) wilfully, in any manner, evaded or attempted to evade compliance with this Act or payment of taxes imposed by this Act, or

(*e*) conspired with any person to commit an offence described in paragraphs (*a*) to (*d*),

is guilty of an offence and, in addition to any penalty otherwise provided, is liable on summary conviction to

(*f*) a fine of not less than 50%, and not more than 200%, of the amount of the tax that was sought to be evaded, or

(*g*) both the fine described in paragraph (*f*) and imprisonment for a term not exceeding 2 years.

Related Sections: S. 163(2) False statements or omissions; ITAR s. 65.1 Part XV of amended Act.

Information Circulars: IC 73-10R3 Tax evasion.

Registered Charities Newsletters: No. 11, Audit of Tax Preparer Lands Registered Charities and Executive Director in Hot Water.

Tax Topics: No. 1801, The Challenge of Proving Wilful Blindness in Tax Evasion Cases.

Canadian Tax Foundation: Cook and Gill, "Potential Civil and Criminal Liability of Promoting Tax Avoidance Products", *2005 Prairie Provinces Tax Conference,* 19:1.

Cases: The arrangement between a taxpayer company and two other companies involving scientific research expenditures was a scheme where it contained a false budget and was false and misleading. *Schmidt v. The Queen,* 93 DTC 5319 (B.C.C.A.), affirming 91 DTC 5440 (B.C. Prov. Ct.).

Taxpayers were found guilty of tax evasion for creating inflated invoices and backdating documents in order to create the impression that R&D work had been done in Canada. *The Queen v. Cancor Software Corp. et al.,* 94 DTC 6102 (Ont. C.A.), affirming 92 DTC 6090 (Ont. C.J.).

Taxpayer's failure to report income in calendar year was not culpable as he had option of reporting income in fiscal year. *Matthys v. The Queen,* 86 DTC 6385 (Ont. Dist. Ct.).

► 239(1.1) ◄

(1.1) Offences re refunds and credits. Every person who obtains or claims a refund or credit under this Act to which the person or any other person is not entitled or obtains or claims a refund or credit under this Act in an amount that is greater than the amount to which the person or other person is entitled

(*a*) by making, or participating in, assenting to or acquiescing in the making of, a false or deceptive statement in a return, certificate, statement or answer filed or made under this Act or a regulation,

(*b*) by destroying, altering, mutilating, hiding or otherwise disposing of a record or book of account of the person or other person,

(*c*) by making, or assenting to or acquiescing in the making of, a false or deceptive entry in a record or book of account of the person or other person,

(*d*) by omitting, or assenting to or acquiescing in an omission to enter a material particular in a record or book of account of the person or other person,

(*e*) wilfully in any manner, or

(*f*) by conspiring with any person to commit any offence under this subsection,

is guilty of an offence and, in addition to any penalty otherwise provided, is liable on summary conviction to

(*g*) a fine of not less than 50% and not more than 200% of the amount by which the amount of the refund or credit obtained or claimed exceeds the amount, if any, of the refund or credit to which the person or other person, as the case may be, is entitled, or

(*h*) both the fine described in paragraph (*g*) and imprisonment for a term not exceeding 2 years.

History: S. 239(1.1) was added by S.C. 1998, c. 19, s. 235(1), applicable on Royal Assent, June 18, 1998.

Information Circulars: IC 73-10R3 Tax evasion.

► 239(2) ◄

(2) Prosecution on indictment. Every person who is charged with an offence described in subsection (1) or (1.1) may, at the election of the Attorney General of Canada, be prosecuted on indictment and, if convicted, is, in addition to any penalty otherwise provided, liable to

(*a*) a fine of not less than 100% and not more than 200% of

(i) where the offence is described in subsection (1), the amount of the tax that was sought to be evaded, and

(ii) where the offence is described in subsection (1.1), the amount by which the amount of the refund or credit obtained or claimed exceeds the amount, if any, of the refund or credit to which the person or other person, as the case may be, is entitled; and

(*b*) imprisonment for a term not exceeding 5 years.

History: S. 239(2) was amended by S.C. 1998, c. 19, s. 235(2), applicable on Royal Assent, June 18, 1998. S. 239(2) formerly read:

"(2) *Prosecution on indictment.* Every person who is charged with an offence described in subsection (1) may, at the election of the Attorney General of Canada, be prosecuted on indictment and, if convicted, is, in addition to any penalty otherwise provided, liable to

(*a*) a fine of not less than 100%, and not more than 200%, of the amount of the tax that was sought to be evaded; and

(*b*) imprisonment for a term not exceeding 5 years."

Information Circulars: IC 73-10R3 Tax evasion.

► 239(2.1) ◄

(2.1) Providing incorrect tax shelter identification number. Every person who wilfully provides another person with an incorrect identification number for a tax shelter is guilty of an offence and, in addition to any penalty otherwise provided, is liable on summary conviction to

(*a*) a fine of not less than 100%, and not more than 200%, of the cost to the other person of that person's interest in the shelter;

(*b*) imprisonment for a term not exceeding 2 years; or

(*c*) both the fine described in paragraph (*a*) and the imprisonment described in paragraph (*b*).

Information Circulars: IC 89-4 Tax shelter reporting.

► 239(2.2) ◄

(2.2) Offence with respect to confidential information. Every person who

(*a*) contravenes subsection 241(1), or

(*b*) knowingly contravenes an order made under subsection 241(4.1)

is guilty of an offence and liable on summary conviction to a fine not exceeding $5,000 or to imprisonment for a term not exceeding 12 months, or to both.

History: S. 239(2.2) was amended by S.C. 1994, c. 7, Sched. VIII, s. 136, effective June 10, 1993. S. 239(2.2) formerly read:

"(2.2) Every person

(*a*) who contravenes subsection 241(1), or

(*b*) to whom information has been provided pursuant to subsection 241(4) and who knowingly uses, communicates or allows to be communicated that information for any purpose other than that for which it was provided,

is guilty of an offence and liable on summary conviction to a fine not exceeding $5,000 or to imprisonment for a term not exceeding 12 months or to both."

Related Sections: S. 239(2.22), "official"; s. 241(1) Provision of information; s. 241(4.1) Measures to prevent unauthorized use or disclosure; s. 241(10), "official".

► 239(2.21) ◄

(2.21) Idem. Every person

(*a*) to whom taxpayer information has been provided for a particular purpose under paragraph 241(4)(*b*), (*c*), (*e*), (*h*), (*k*), (*n*), (*o*) or (*p*), or

(*b*) who is an official to whom taxpayer information has been provided for a particular purpose under paragraph 241(4)(*a*), (*d*), (*f*), (*f*.1), (*i*) or (*j*.1)

and who for any other purpose knowingly uses, provides to any person, allows the provision to any person of, or allows any person access to, that information is guilty of an offence and liable on summary conviction to a fine not exceeding $5,000 or to imprisonment for a term not exceeding 12 months, or to both.

History: S. 239(2.21)(*b*) was amended by S.C. 2001, c. 41, s. 117, coming into force on December 24, 2001. S. 239(2.21)(*b*) formerly read:

"(*b*) who is an official to whom taxpayer information has been provided for a particular purpose under paragraph 241(4)(*a*), (*d*), (*f*), (*i*) or (*j*.1)"

S. 239(2.21)(*a*) was amended by S.C. 2001, c. 17, s. 185, applicable on Royal Assent, June 14, 2001. S. 239(2.21)(*a*) formerly read:

"(*a*) to whom taxpayer information has been provided for a particular purpose under paragraph 241(4)(*b*), (*c*), (*e*), (*h*), (*k*) or (*n*), or"

S. 239(2.21)(*a*) was amended by S.C. 1999, c. 26, s. 44, applicable on Royal Assent, June 17, 1999. S. 239(2.21)(*a*) formerly read:

"(*a*) to whom taxpayer information has been provided for a particular purpose under paragraph 241(4)(*b*), (*c*), (*e*), (*h*) or (*k*), or"

S. 239(2.21)(*b*) was amended by S.C. 1998, c. 21, s. 96, applicable on Royal Assent, June 18, 1998. S. 239(2.21)(*b*) formerly read:

"(*b*) who is an official to whom taxpayer information has been provided for a particular purpose under paragraph 241(4)(*a*), (*d*), (*f*) or (*i*)"

S. 239(2.21) was added by S.C. 1994, c. 7, Sched. VIII, s. 136, effective June 10, 1993.

Related Sections: S. 239(2.22) Definitions; s. 241(4) Where taxpayer information may be disclosed; s. 241(10) Definitions.

► 239(2.22) ◄

(2.22) Definitions. In subsection (2.21), "official" and "taxpayer information" have the meanings assigned by subsection 241(10).

History: S. 239(2.22) was added by S.C. 1994, c. 7, Sched. VIII, s. 136, effective June 10, 1993.

Related Sections: S. 241(10), "official".

► 239(2.3) ◄

(2.3) Offence with respect to an identification number. Every person to whom the Social Insurance Number of an individual or to whom the business number of a taxpayer or partnership has been provided under this Act or a regulation, and every officer, employee and agent of such a person, who without written consent of the individual, taxpayer or partnership, as the case may be, knowingly uses, communicates or allows to be communicated the number (otherwise than as required or authorized by law, in the course of duties in connection with the administration or enforcement of this Act or for a purpose for which it was provided by the individual, taxpayer or partnership, as the case may be) is guilty of an offence and liable on summary conviction to a fine not exceeding $5,000 or to imprisonment for a term not exceeding 12 months, or to both.

History: S. 239(2.3) was amended by S.C. 1998, c. 19, s. 235(3), applicable on Royal Assent, June 18, 1998. S. 239(2.3) formerly read:

"(2.3) *Offence with respect to Social Insurance Number.* Every person to whom the Social Insurance Number of an individual has been provided under this Act or a regulation, and every officer, employee and agent of such a person, who without the individual's written consent knowingly uses, communicates or allows to be communicated the Social Insurance Number (otherwise than as required or authorized by law, in the course of duties in connection with the administration or enforcement of this Act, or for a purpose for which it was provided by the individual) is guilty of an offence and liable on summary conviction to a fine not exceeding $5,000 or to imprisonment for a term not exceeding 12 months, or to both."

S. 239(2.3) was amended by S.C. 1994, c. 7, Sched. II, s. 189, effective December 17, 1991. S. 239(2.3) formerly read:

"(2.3) Every person to whom the Social Insurance Number of an individual has been provided pursuant to this Act or a regulation who knowingly uses or

communicates, or allows to be communicated, the number for any purpose other than that for which it was so provided or for which the person has been authorized in writing by the individual is guilty of an offence and liable on summary conviction to a fine not exceeding $5,000 or to imprisonment for a term not exceeding 12 months or to both."

Related Sections: S. 162(6) Failure to provide identification number; s. 221(1)(*d.1*) Regulations; s. 237(1.1) Production of number; s. 237(2) Number required in information returns; s. 237.1(7) Information return; s. 248(1), "business number".
Information Circulars: IC 82-2R2 Social insurance number legislation that relates to the preparation of information slips.

► 239(3) ◄

(3) Penalty on conviction. Where a person is convicted under this section, the person is not liable to pay a penalty imposed under section 162, 163 or 163.2 for the same contravention unless the penalty is assessed before the information or complaint giving rise to the conviction was laid or made.

History: S. 239(3) was replaced by S.C. 2000, c. 19, s. 66, in force on Royal Assent, June 29, 2000. S. 239(3) formerly read:
"(3) *Penalty on conviction.* Where a person is convicted under this section, the person is not liable to pay a penalty imposed under section 162 or 163 for the same contravention unless the penalty was assessed before the information or complaint giving rise to the conviction was laid or made."
S. 239(3) was amended by S.C. 1998, c. 19, s. 235(4), in force on Royal Assent, June 18, 1998. S. 239(3) formerly read:
"(3) *Penalty on conviction.* Where a person has been convicted under this section of wilfully, in any manner, evading or attempting to evade payment of taxes imposed by Part I, the person is not liable to pay a penalty imposed under section 162 or 163 for the same evasion or attempt unless the person was assessed for that penalty before the information or complaint giving rise to the conviction was laid or made."

Information Circulars: IC 73-10R3 Tax evasion.

► 239(4) ◄

(4) Stay of appeal. Where, in any appeal under this Act, substantially the same facts are at issue as those that are at issue in a prosecution under this section, the Minister may file a stay of proceedings with the Tax Court of Canada and thereupon the proceedings before that Court are stayed pending final determination of the outcome of the prosecution.

Related Sections: S. 248(1), "assessment", "regulation"; ITAR s. 65.1 Part XV of amended Act.

► 239(5) ◄

(5) Offence and punishment without reference to subsection 120(2.2). In determining whether an offence under this Act, for which a person may on summary conviction or indictment be liable for a fine or imprisonment, has been committed, and in determining the punishment for such an offence, this Act is to be read without reference to subsection 120(2.2).

History: S. 239(5) was added by S.C. 2005, c. 19, s. 50; in force on Royal Assent, May 13, 2005.

SECTION 240:

► 240(1) ◄

(1) Definition of "taxable obligation" and "non-taxable obligation". In this section, "taxable obligation" means any bond, debenture or similar obligation the interest on which would, if paid by the issuer to a non-resident person, be subject to the payment of tax under Part XIII by that non-resident person at the rate provided in subsection 212(1) (otherwise than by virtue of subsection 212(6)), and "non-taxable obligation" means any bond, debenture or similar obligation the interest on which would not, if paid by the issuer to a non-resident person, be subject to the payment of tax under Part XIII by that non-resident person.

► 240(2) ◄

(2) Interest coupon to be identified in prescribed manner — offence and punishment. Every person who, at any time after July 14, 1966, issues

(*a*) any taxable obligation, or

(*b*) any non-taxable obligation

the right to interest on which is evidenced by a coupon or other writing that does not form part of, or is capable of being detached from, the evidence of indebtedness under the obligation is, unless the coupon or other writing is marked or identified in prescribed manner by the letters "AX" in the case of a taxable obligation, and by the letter "F" in the case of a non-taxable obligation, on the face thereof, guilty of an offence and liable on summary conviction to a fine not exceeding $500.

Related Sections: S. 248(1), "non-resident", "prescribed"; ITAR s. 65.1 Part XV of amended Act.
Regulations: 807.

SECTION 241:

► 241(1) ◄

(1) Provision of information. Except as authorized by this section, no official or other representative of a government entity shall

(*a*) knowingly provide, or knowingly allow to be provided, to any person any taxpayer information;

(*b*) knowingly allow any person to have access to any taxpayer information; or

(*c*) knowingly use any taxpayer information otherwise than in the course of the administration or enforcement of this Act, the *Canada Pension Plan*, the *Unemployment Insurance Act* or the *Employment Insurance Act* or for the purpose for which it was provided under this section.

History: S. 241(1), the portion before paragraph (*a*) was replaced by S.C. 2009, c. 2, s. 75(1), in force on Royal Assent, March 12, 2009. S. 241(1), the portion before paragraph (*a*) formerly read:
"S. 241. (1) *Provision of information.* Except as authorized by this section, no official shall"
S. 241(1)(*c*) was amended by S.C. 1998, c. 19, s. 236(1), deemed to have come into force on June 30, 1996. S. 241(1)(*c*) formerly read:
"(*c*) knowingly use any taxpayer information otherwise than in the course of the administration or enforcement of this Act, the *Canada Pension Plan* or the *Employment Insurance Act* or for the purpose for which it was provided under this section."
S. 241(1)(*c*) was amended by S.C. 1996, c. 23, s. 187, by replacing the expression "Unemployment Insurance Act" with the expression "Employment Insurance Act", effective June 30, 1996.
S. 241(1) was amended by S.C. 1994, c. 7, Sched. VIII, s. 137(1), effective June 10, 1993. S. 241(1) formerly read:
"(1) *Prohibited communication of information.* Except as authorized by this section, no official or authorized person shall
(*a*) knowingly communicate or knowingly allow to be communicated to any person any information obtained by or on behalf of the Minister for the purposes of this Act or the *Petroleum and Gas Revenue Tax Act*;
(*b*) knowingly allow any person to inspect or to have access to any book, record, writing, return or other document obtained by or on behalf of the Minister for the purposes of this Act or the *Petroleum and Gas Revenue Tax Act*; or
(*c*) knowingly use, other than in the course of the duties of the official or authorized person in connection with the administration or enforcement of this Act or the *Petroleum and Gas Revenue Tax Act*, any information obtained by or on behalf of the Minister for the purposes of this Act or the *Petroleum and Gas Revenue Tax Act*."

Related Sections: S. 149.1(15) Information may be communicated; s. 230.1(4) Reports to chief electoral officer; s. 239(2.2) Offence with respect to confidential information; s. 241(3) Communication where proceedings have been commenced; s. 241(3.1) Circumstances involving danger; s. 241(9) Offence; s. 241(10), "official"; s. 241(11) References to Petroleum and Gas Revenue Tax Act.

Information Circulars: IC 94-4R International Transfer Pricing: Advance Pricing Arrangements (APAs).
SR&ED Application Policies: Application Policy 95-04, Conflict of Interest.
Canadian Tax Foundation: Bendin, "The Requirement of Confidentiality Under the Income Tax Act and Its Effect on the Conduct of Appeals Before the Tax Court of Canada", *1996 Canadian Tax Journal*, No. 3, 680.
Cases: Although s. 241 does not preclude the Minister from disclosing taxpayer information in a legal proceeding, s. 37 of the *Evidence Act* may prevent the disclosure if there is a specified public interest that outweighs the public interest in the disclosure of the information. *The Queen et al. v. Harris*, 2001 DTC 5247 (F.C.A.), reversing in part 2001 DTC 5058 (F.C.T.D.).

In divorce proceedings in which it was alleged that a taxpayer had kidnapped the children of the marriage and was in contempt of custody orders, it was not within the power of the Court to order the Minister to release the addresses of the taxpayer and of the co-respondent. Neither the judge nor the petitioner in the divorce proceedings was a person "otherwise entitled" to such information. *Glover v. M.N.R.*, 82 DTC 6035 (S.C.C.).

► 241(2) ◄

(2) Evidence relating to taxpayer information. Notwithstanding any other Act of Parliament or other law, no official or other representative of a government entity shall be required, in connection with any legal proceedings, to give or produce evidence relating to any taxpayer information.

History: S. 241(2) was replaced by S.C. 2009, c. 2, s. 75(2), in force on Royal Assent, March 12, 2009. S. 241(2) formerly read:

"(2) *Idem.* Notwithstanding any other Act of Parliament or other law, no official shall be required, in connection with any legal proceedings, to give or produce evidence relating to any taxpayer information."

S. 241(2) was amended by S.C. 1994, c. 7, Sched. VIII, s. 137(1), effective June 10, 1993. S. 241(2) formerly read:

"(2) *Idem, in legal proceedings.* Notwithstanding any other Act or law, no official or authorized person shall be required, in connection with any legal proceedings,

(*a*) to give evidence relating to any information obtained by or on behalf of the Minister for the purposes of this Act or the *Petroleum and Gas Revenue Tax Act*; or

(*b*) to produce any book, record, writing, return or other document obtained by or on behalf of the Minister for the purposes of this Act or the *Petroleum and Gas Revenue Tax Act*."

Related Sections: S. 241(3) Communication where proceedings have been commenced; s. 241(10), "official".

► 241(3) ◄

(3) Communication where proceedings have been commenced. Subsections (1) and (2) do not apply in respect of

(*a*) criminal proceedings, either by indictment or on summary conviction, that have been commenced by the laying of an information or the preferring of an indictment, under an Act of Parliament; or

(*b*) any legal proceedings relating to the administration or enforcement of this Act, the *Canada Pension Plan*, the *Unemployment Insurance Act* or the *Employment Insurance Act* or any other Act of Parliament or law of a province that provides for the imposition or collection of a tax or duty.

History: S. 241(3)(*b*) was amended by S.C. 1998, c. 19, s. 236(2), deemed to have come into force on June 30, 1996. S. 241(3)(*b*) formerly read:

"(*b*) any legal proceedings relating to the administration or enforcement of this Act, the *Canada Pension Plan* or the *Employment Insurance Act* or any other Act of Parliament or law of a province that provides for the imposition or collection of a tax or duty."

S. 241(3)(*b*) was amended by S.C. 1996, c. 23, s. 187, by replacing the expression "Unemployment Insurance Act" with the expression "Employment Insurance Act", effective June 30, 1996.

S. 241(3) was amended by S.C. 1994, c. 7, Sched. VIII, s. 137(1), effective June 10, 1993. S. 241(3) formerly read:

"(3) *Exception for criminal or tax proceedings.* Subsections (1) and (2) do not apply in respect of criminal proceedings, either by indictment or on summary conviction, that have been commenced by the laying of an information, under an Act of Parliament, or in respect of proceedings relating to the administration or enforcement of this Act or the *Petroleum and Gas Revenue Tax Act*."

Related Sections: S. 241(11) References to Petroleum and Gas Revenue Tax Act.

Cases: Confidential information was admissible in bankruptcy proceedings since it fell within the exception contained in s. 241(3), the text or context of which was simply too broad to support the argument that the only proceedings it envisaged were the ones expressly provided for in Part XV of the *Income tax Act*. *Slattery v. Doane Raymond Limited*, 93 DTC 5443 (S.C.C.).

► 241(3.1) ◄

(3.1) Circumstances involving danger. The Minister may provide to appropriate persons any taxpayer information relating to imminent danger of death or physical injury to any individual.

History: S. 241(3.1) was added by S.C. 1994, c. 7, Sched. VIII, s. 137(1), effective June 10, 1993.

Related Sections: S. 241(10) Definitions.

► 241(3.2) ◄

(3.2) Registered charities. An official may provide to any person the following taxpayer information relating to another person that was at any time a registered charity (in this subsection referred to as the "charity"):

(*a*) a copy of the charity's governing documents, including its statement of purpose;

(*b*) any information provided in prescribed form to the Minister by the charity on applying for registration under this Act;

(*c*) the names of the persons who at any time were the charity's directors and the periods during which they were its directors;

(*d*) a copy of the notification of the charity's registration, including any conditions and warnings;

(*e*) if the registration of the charity has been revoked or annulled, a copy of the entirety of or any part of any letter sent by or on behalf of the Minister to the charity relating to the grounds for the revocation or annulment;

(*f*) financial statements required to be filed with an information return referred to in subsection 149.1(14);

(*g*) a copy of the entirety of or any part of any letter or notice by the Minister to the charity relating to a suspension under section 188.2 or an assessment of tax or penalty under this Act (other than the amount of a liability under subsection 188(1.1)); and

(*h*) an application by the charity, and information filed in support of the application, for a designation, determination or decision by the Minister under subsection 149.1(6.3), (7), (8) or (13).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 241(3.2)(*h*) of the Act is replaced by the following:

(*h*) an application by the charity, and information filed in support of the application, for a designation, determination or decision by the Minister under subsection 149.1(5), (6.3), (7), (8) or (13).

Applicable: To documents that are sent by the Minister of National Revenue, or that are filed or required to be filed with that Minister, after May 13, 2005.

Explanatory Note:

Disclosure of Information — Registered Charities

Paragraph 241(3.2)(*h*) of the Act permits a government official to release information that a registered charity has filed in support of an application for special status or an exemption under the Act, as well as any response to such an application (e.g., a request for permission to accumulate assets). Paragraph 241(3.2)(*h*) is amended, applicable upon Royal Assent, to include information relating to an application made under subsection 149.1(5) of the Act for an amount to be deemed an expenditure on charitable activities carried on by the charity.

History: S. 241(3.2)(*e*) was replaced, and paragraphs (*f*), (*g*) and (*h*) were added, by S.C. 2005, c. 19, s. 51(1), applicable to documents that are sent by the Minister of National Revenue, or that are filed or required to be filed, after May 13, 2005 (Royal Assent). S. 241(3.2)(*e*) formerly read:

"(*e*) if the registration of the charity has been revoked, a copy of any letter sent by or on behalf of the Minister to the charity relating to the grounds for the revocation."

S. 241(3.2), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 186(1), applicable on Royal Assent, June 14, 2001. S. 241(3.2), the portion before paragraph (*a*) formerly read:

"(3.2) *Registered charities.* An official may provide to any person the following taxpayer information relating to a charity that at any time was a registered charity:"

S. 241(3.2) was added by S.C. 1998, c. 19, s. 65(1), applicable on Royal Assent, June 18, 1998.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 241 of the Act is amended by adding the following after subsection (3.2):

(3.3) Information may be communicated. The Minister of Canadian Heritage may communicate or otherwise make available to the public, in any manner that that Minister considers appropriate, the following taxpayer information in respect of a Canadian film or video production certificate (as defined under subsection 125.4(1)) that has been issued or revoked:

(*a*) the title of the production for which the Canadian film or video production certificate was issued;

(*b*) the name of the taxpayer to whom the Canadian film or video production certificate was issued;

(*c*) the names of the producers of the production;

(*d*) the names of the individuals in respect of whom and places in respect of which that Minister has allotted points in respect of the production in accordance with regulations made for the purpose of section 125.4;

(*e*) the total number of points so allotted; and

(*f*) any revocation of the Canadian film or video production certificate.

Applicable: Royal Asent.

Explanatory Note:

Information may be communicated

New subsection 241(3.3) of the Act, which applies on Royal Assent, is added to provide authority to the Minister of Canadian Heritage to publish certain information relevant to the Canadian film or video production tax credit program. The information includes the title of a film or video production in respect of which a certificate has been issued or revoked by that Minister, as well as the names of producers and artists in respect of which that Minister has allotted "points" in determining whether the production is a "Canadian film or video production" under proposed section 1106 of the Regulations.

► 241(4) ◄

(4) Where taxpayer information may be disclosed. An official may

(*a*) provide to any person taxpayer information that can reasonably be regarded as necessary for the purposes of the administration or enforcement of this Act, the *Canada Pension Plan*, the *Unemployment Insurance Act* or the *Employment Insurance Act*, solely for that purpose;

(*b*) provide to any person taxpayer information that can reasonably be regarded as necessary for the purposes of determining any tax, interest, penalty or other amount that is or may become payable by the person, or any refund or tax credit to which the person is or may become entitled, under this Act or any other amount that is relevant for the purposes of that determination;

(*c*) provide to the person who seeks a certification referred to in paragraph 147.1(10)(*a*) the certification or a refusal to make the certification, solely for the purposes of administering a registered pension plan;

(*d*) provide taxpayer information

(i) to an official of the Department of Finance solely for the purposes of the formulation or evaluation of fiscal policy,

(ii) to an official solely for the purposes of the initial implementation of a fiscal policy or for the purposes of the administration or enforcement of an Act of Parliament that provides for the imposition and collection of a tax or duty,

(iii) to an official solely for the purposes of the administration or enforcement of a law of a province that provides for the imposition or collection of a tax or duty,

(iv) to an official of the government of a province solely for the purposes of the formulation or evaluation of fiscal policy,

(v) to an official of the Department of Natural Resources or of the government of a province solely for the purposes of the administration or enforcement of a program of the Government of Canada or of the province relating to the exploration for or exploitation of Canadian petroleum and gas resources,

(vi) to an official of the government of a province that has received or is entitled to receive a payment referred to in this subparagraph, or to an official of the Department of Natural Resources, solely for the purposes of the provisions relating to payments to a province in respect of the taxable income of corporations earned in the offshore area with respect to the province under the *Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation Act*, chapter 28 of the Statutes of Canada, 1988, the *Canada-Newfoundland Atlantic Accord Implementation Act*, chapter 3 of the Statutes of Canada, 1987, or similar Acts relating to the exploration for or exploitation of offshore Canadian petroleum and gas resources,

(vi.1) to an official of the Department of Natural Resources solely for the purpose of determining whether property is prescribed energy conserva-

tion property or whether an outlay or expense is a Canadian renewable and conservation expense,

(vii) to an official solely for the purposes of the administration or enforcement of the *Pension Benefits Standards Act, 1985* or a similar law of a province,

(vii.1) to an official solely for the purpose of the administration or enforcement of the *Canada Education Savings Act* or a program administered pursuant to an agreement entered into under section 12 of that Act,

(vii.2) to an official solely for the purposes of the administration and enforcement of Part 1 of the *Energy Costs Assistance Measures Act*,

(vii.3) to an official solely for the purposes of the administration and enforcement of the *Children's Special Allowances Act* or the evaluation or formation of policy for that Act,

(vii.4) to an official solely for the purposes of the administration and enforcement of the *Universal Child Care Benefit Act* or the evaluation or formation of policy for that Act,

(vii.5) to an official solely for the purposes of the administration and enforcement of the *Canada Disability Savings Act*,

(viii) to an official of the Department of Veterans Affairs solely for the purposes of the administration of the *War Veterans Allowance Act*, the *Canadian Forces Members and Veterans Re-establishment and Compensation Act* or Part XI of the *Civilian War-related Benefits Act*,

(ix) to an official of a department or agency of the Government of Canada or of a province as to the name, address, occupation, size or type of business of a taxpayer, solely for the purposes of enabling that department or agency to obtain statistical data for research and analysis,

(x) to an official of the Canada Employment Insurance Commission, the Department of Human Resources and Skills Development or the Department of Social Development, solely for the purpose of the administration or enforcement of the *Employment Insurance Act*, an employment program of the Government of Canada or the evaluation or formation of policy for that Act or program,

(xi) to an official of the Department of Agriculture and Agri-Food or of the government of a province solely for the purposes of the administration or enforcement of a program of the Government of Canada or of the province established under an agreement entered into under the *Farm Income Protection Act*,

(xii) to an official of the Department of Canadian Heritage or a member of the Canadian Cultural Property Export Review Board solely for the purposes of administering sections 32 to 33.2 of the *Cultural Property Export and Import Act*,

(xiii) to an official solely for the purposes of setting off against any sum of money that may be due or payable by Her Majesty in right of Canada a debt due to

(A) Her Majesty in right of Canada, or

(B) Her Majesty in right of a province, or

(xiv) to an official solely for the purposes of section 7.1 of the *Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act*;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 241(4)(*d*) of the Act is amended by striking out the word "or" at the end of subparagraph (xiii) and by adding the following after subparagraph (xiv):

(xv) to a person employed or engaged in the service of an office or agency, of the Government of Canada or of a province, whose mandate includes the provision of assistance (as defined in subsection 125.4(1) or 125.5(1)) in respect of film or video productions or film or video production services, solely for the purpose of the administration or enforcement of the program under which the assistance is offered, or

(xvi) to an official of the Canadian Radio-television and Telecommunications Commission, solely for the purpose of the administration or enforcement of a regulatory function of that Commission;

Applicable: Royal Assent.

Explanatory Note:

Disclosure of Taxpayer Information

Subsection 241(4) of the Act authorizes the limited communication of information to government officials outside of the Canada Revenue Agency.

New subparagraph 241(4)(*d*)(xv) allows information in respect of film or video productions to be communicated to officials of an office or agency of the government of Canada or of a province that provides a program of assistance for such productions. The information may be communicated only for the purpose of administration or enforcement under the program. New subparagraph 241(4)(*d*)(xvi) extends this authority to communicate information to an official of the Canadian Radio-television and Telecommunications Commission, solely for the purpose of the administration or enforcement of a regulatory function of that Commission.

New subparagraphs 241(4)(*d*)(xv) and (xvi) apply on Royal Assent.

Subparagraph 241(4)(*e*)(xii) is amended to provide that an official may provide taxpayer information, or allow the inspection of or access to taxpayer information under and solely for the purposes of a provision contained in a tax treaty or in a listed international agreement.

A "listed international agreement" is newly defined in subsection 248(1) to mean the *Convention on Mutual Administrative Assistance in Tax Matters*, concluded at Strasbourg on January 25, 1988 and the *Convention between the Government of Canada and the Government of the United Mexican States for the Exchange of Information with Respect to Taxes*, signed at Mexico City on March 16, 1990. A "tax treaty" is defined in subsection 248(1) to mean a comprehensive agreement for the elimination of double taxation on income between the Canadian and foreign government that has the force of law in Canada at that time.

This amendment applies on Royal Assent.

(*e*) provide taxpayer information, or allow the inspection of or access to taxpayer information, as the case may be, under, and solely for the purposes of,

(i) subsection 36(2) or section 46 of the *Access to Information Act*,

(ii) section 13 of the *Auditor General Act*,
(iii) section 92 of the *Canada Pension Plan*,
(iv) a warrant issued under subsection 21(3) of the *Canadian Security Intelligence Service Act*,
(v) an order made under subsection 462.48(3) of the *Criminal Code*,
(vi) section 26 of the *Cultural Property Export and Import Act*,
(vii) section 79 of the *Family Orders and Agreements Enforcement Assistance Act*,
(viii) paragraph 33.11(*a*) of the *Old Age Security Act*,
(ix) subsection 34(2) or section 45 of the *Privacy Act*,
(x) section 24 of the *Statistics Act*,
(xi) section 9 of the *Tax Rebate Discounting Act*, or
(xii) a provision contained in a tax treaty with another country or in a comprehensive tax information exchange agreement between Canada and another country or jurisdiction that is in force and has effect;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 241(4)(*e*)(xii) of the Act is replaced by the following:

(xii) a provision contained in a tax treaty or in a listed international agreement;

Applicable: Royal Assent.

Explanatory Note: See the Explanatory Note following the addition of subparagraphs 241(4)(*d*)(xv) and (xvi).

(*f*) provide taxpayer information solely for the purposes of sections 23 to 25 of the *Financial Administration Act;*
(*f*.1) provide taxpayer information to an official for the purposes of the administration and enforcement of the *Charities Registration (Security Information) Act*, and where an official has so received taxpayer information, the official may provide that information to another official as permitted by subsection (9.1);
(*g*) use taxpayer information to compile information in a form that does not directly or indirectly reveal the identity of the taxpayer to whom the information relates;
(*h*) use, or provide to any person, taxpayer information solely for a purpose relating to the supervision, evaluation or discipline of an authorized person by Her Majesty in right of Canada in respect of a period during which the authorized person was employed by or engaged by or on behalf of Her Majesty in right of Canada to assist in the administration or enforcement of this Act, the *Canada Pension Plan*, the *Unemployment Insurance Act* or the *Employment Insurance Act*, to the extent that the information is relevant for the purpose;
(*i*) provide access to records of taxpayer information to the Librarian and Archivist of Canada or a person acting on behalf of or under the direction of the Librarian and Archivist, solely for the purposes of section 12 of the *Library and Archives of Canada Act*, and transfer such records to the care and control of such persons solely for the purposes of section 13 of that Act;
(*j*) use taxpayer information relating to a taxpayer to provide information to the taxpayer;
(*j*.1) provide taxpayer information to an official or a designated person solely for the purpose of permitting the making of an adjustment to
(i) a social assistance payment made on the basis of a means, needs or income test, or
(ii) a payment pursuant to a prescribed law of a province in respect of a child within the meaning of the prescribed law,
where the purpose of the adjustment is to take into account the amount determined for C in subsection 122.61(1) in respect of a person for a taxation year;
(*k*) provide, or allow inspection of or access to, taxpayer information to or by any person otherwise legally entitled to it under an Act of Parliament solely for the purposes for which that person is entitled to the information;
(*l*) subject to subsection (9.2), provide to a representative of a government entity the business number of, the name of (including any trade name or other name used by), and any contact information, corporate information and registration information in respect of, the holder of a business number (other than an excluded individual), if the information is provided solely for the purposes of the administration or enforcement of
(i) an Act of Parliament or of a legislature of a province, or
(ii) a by-law of a municipality in Canada or a law of an aboriginal government;
(*m*) provide taxpayer information to an official of the government of a province solely for use in the management or administration by that government of a program relating to payments under subsection 164(1.8);
(*n*) provide taxpayer information to any person, solely for the purposes of the administration or enforcement of a law of a province that provides for workers' compensation benefits;
(*o*) provide taxpayer information to any person solely for the purpose of enabling the Chief Statistician, within the meaning assigned by section 2 of the *Statistics Act*, to provide to a statistical agency of a province data concerning business activities carried on in the province, where the information is used by the agency solely for research and analysis and the agency is authorized under the law of the province to collect the same or similar information on its own behalf in respect of such activities;
(*p*) provide taxpayer information to a police officer (within the meaning assigned by subsection 462.48(17) of the *Criminal Code*) solely for the purpose of investigating whether an offence has been committed under the *Criminal Code*, or the laying of an information or the preferring of an indictment, where

(i) such information can reasonably be regarded as being necessary for the purpose of ascertaining the circumstances in which an offence under the *Criminal Code* may have been committed, or the identity of the person or persons who may have committed an offence, with respect to an official, or with respect to any person related to that official,

(ii) the official was or is engaged in the administration or enforcement of this Act, and

(iii) the offence can reasonably be considered to be related to that administration or enforcement; or

(*q*) provide taxpayer information to an official of the government of a province solely for the use in the management or administration by that government of a program relating to earning supplementation or income support.

History: S. 241(4)(*l*) was replaced by S.C. 2009, c. 2, s. 75(3), in force on Royal Assent, March 12, 2009. S. 241(4)(*l*) formerly read:

"(*l*) provide the business number, name, address, telephone number and facsimile number of a holder of a business number to an official of a department or agency of the Government of Canada or of a province solely for the purpose of the administration or enforcement of an Act of Parliament or a law of a province, if the holder of the business number is required by that Act or that law to provide the information (other than the business number) to the department or agency;"

S. 241(4)(*d*)(vii.5) was added by S.C. 2007, c. 35, s. 122, applicable to the 2008 and subsequent taxation years.

S. 241(4)(*e*)(xii) was replaced by S.C. 2007, c. 35, s. 64(1), in force on Royal Assent, December 14, 2007. S. 241(4)(*e*)(xii) formerly read:

"(xii) a provision contained in a tax convention or agreement between Canada and another country that has the force of law in Canada;"

S. 241(4)(*q*) was added by S.C. 2007, c. 35, s. 64(2), in force on Royal Assent, December 14, 2007.

S. 241(4)(*f*.1) was replaced by S.C. 2006, c. 12, s. 45(1), in force February 10, 2007. S. 241(4)(*f*.1) formerly read:

"(*f*.1) provide taxpayer information to an official solely for the purposes of the administration and enforcement of the *Charities Registration (Security Information) Act*;"

S. 241(4)(*d*)(vii.3) was added by S.C. 2006, c. 4, s. 179(1), applicable after June 2003.

S. 241(4)(*d*)(vii.4) was added by S.C. 2006, c. 4, s. 179(1), applicable after June 2006.

S. 241(4)(*d*)(vii.2) was added by S.C. 2005, c. 49, s. 6, applicable on Royal Assent, November 25, 2005.

S. 241(4)(*d*)(x) was replaced by S.C. 2005, c. 34, s. 71(2), in force on October 5, 2005. S. 241(4)(*d*)(x) formerly read:

"(x) to an official of the Canada Employment Insurance Commission or the Department of Employment and Immigration solely for the purpose of the administration or enforcement of, or the evaluation or formation of policy for the purposes of, the *Unemployment Insurance Act*, the *Employment Insurance Act* or an employment program of the Government of Canada,"

S. 241(4)(*d*)(viii) was replaced by S.C. 2005, c. 21, s. 103, and comes into force on April 1, 2006. S. 241(4)(*d*)(viii) formerly read:

"(viii) to an official of the Department of Veterans Affairs solely for the purposes of the administration of the *War Veterans Allowance Act* or Part XI of the *Civilian War-related Benefits Act*,"

S. 241(4)(*d*)(vii.1) was replaced by S.C. 2004, c. 26, s. 22, applicable on Royal Assent, December 15, 2004. S. 241(4)(*d*)(vii.1) formerly read:

"(vii.1) to an official of the Department of Human Resources Development or to a prescribed official solely for the purpose of the administration or enforcement of Part III.1 of the *Department of Human Resources Development Act*,"

S. 241(4)(*i*) was replaced by S.C. 2004, c. 11, s. 33, and comes into force on May 21, 2004. S. 241(4)(*i*) formerly read:

"(*i*) provide access to records of taxpayer information to the National Archivist of Canada or a person acting on behalf of or under the direction of the National Archivist of Canada, solely for the purposes of section 5 of the *National Archives of Canada Act*, and transfer such records to the care and control of such persons solely for the purposes of section 6 of that Act;"

S. 241(4)(*f*.1) was added by S.C. 2001, c. 41, s. 118, coming into force on December 24, 2001.

S. 241(4)(*o*) was added by S.C. 2001, c. 17, s. 186(2), applicable after this Act receives Royal Assent [June 14, 2001] to information relating to the 1997 and subsequent taxation years and, for the purpose of subsection 17(2) of the *Statistics Act*, where such information was collected before this Act receives royal assent, the information is deemed to have been collected at the time at which it is provided to a provincial agency pursuant to paragraph 241(4)(*o*) of the *Income Tax Act*.

S. 241(4)(*p*) was added by S.C. 2001, c. 17, s. 186(2), applicable on Royal Assent, June 14, 2001.

S. 241(4)(*d*)(viii) was amended by S.C. 1999, c. 10, s. 45, coming into force on May 1, 1999. S. 241(4)(*d*)(viii) formerly read:

"(viii) to an official of the Department of Veterans Affairs solely for the purposes of the administration of the *War Veterans Allowance Act* or Part XI of the *Merchant Navy Veteran and Civilian War-related Benefits Act*,"

S. 241(4)(*n*) was added by S.C. 1999, c. 26, s. 45, applicable on Royal Assent, June 17, 1999.

S. 241(4)(*e*)(viii) was amended by S.C. 1998, c. 21, s. 120, applicable on Royal Assent, June 18, 1998. S. 241(4)(*e*)(viii) formerly read:

"(viii) paragraph 33(3)(*a*) of the *Old Age Security Act*,"

S. 241(4)(*j*.1) was added by S.C. 1998, c. 21, s. 97, applicable on Royal Assent, June 18, 1998.

S. 241(4)(*d*)(vii.1) was added by S.C. 1998, c. 21, s. 75, applicable on Royal Assent, June 18, 1998.

S. 241(4)(*m*) was added by S.C. 1998, c. 19, s. 236(8), applicable on Royal Assent, June 18, 1998.

S. 241(4)(*h*) was amended by S.C. 1998, c. 19, s. 236(7), deemed to have come into force on June 30, 1996. S. 241(4)(*h*) formerly read:

"(*h*) use, or provide to any person, taxpayer information solely for a purpose relating to the supervision, evaluation or discipline of an authorized person by Her Majesty in right of Canada in respect of a period during which the authorized person was employed by or engaged by or on behalf of Her Majesty in right of Canada to assist in the administration or enforcement of this Act, the *Canada Pension Plan* or the *Employment Insurance Act*, to the extent that the information is relevant for that purpose;"

S. 241(4)(*e*)(vii) was amended by S.C. 1998, c. 19, s. 236(6), deemed to have come into force on May 1, 1997. S. 241(4)(*e*)(vii) formerly read:

"(vii) section 62 of the *Family Orders and Agreements Enforcement Assistance Act*,"

S. 241(4)(*d*)(xiii)(B) was amended by S.C. 1998, c. 19, s. 236(5), applicable on Royal Assent, June 18, 1998. S. 241(4)(*d*)(xii)(B) formerly read:

"(B) Her Majesty in right of a province on account of taxes payable to the province where an agreement exists between Canada and the province under which Canada is authorized to collect the taxes on behalf of the province, or"

S. 241(4)(*d*)(x) was amended by S.C. 1998, c. 19, s. 236(4), deemed to have come into force on June 30, 1996. S. 241(4)(*d*)(x) formerly read:

"(x) to an official of the Canada Employment and Immigration Commission or the Department of Employment and Immigration solely for the purposes of the administration or enforcement of, or the evaluation or formulation of policy for the purposes of, the *Employment Insurance Act* or an employment program of the Government of Canada,"

S. 241(4)(*a*) was amended by S.C. 1998, c. 19, s. 236(3), deemed to have come into force on June 30, 1996. S. 241(4)(*a*) formerly read:

"(*a*) provide to any person taxpayer information that can reasonably be regarded as necessary for the purposes of the administration or enforcement of this Act, the *Canada Pension Plan* or the *Employment Insurance Act*, solely for that purpose;"

S. 241(4)(*d*)(v.1) was amended by S.C. 1997, c. 25, s. 70, applicable April 25, 1997. S. 241(4)(*d*)(v.1) formerly read:

"(vi.1) to an official of the Department of Energy, Mines and Resources solely for the purpose of determining whether property is prescribed energy conservation property,"

S. 241(4)(*l*) was added by S.C. 1996, c. 21, s. 59(1), applicable on Royal Assent, June 20, 1996.

S. 241(4)(*a*) was amended by S.C. 1996, c. 23, s. 187, by replacing the expression "Unemployment Insurance Act" with the expression "Employment Insurance Act", effective June 30, 1996.

S. 241(4)(*d*)(x) and (*h*) were amended by S.C. 1996, c. 23, s. 187, by replacing the expression "Unemployment Insurance Act" with the expression "Employment Insurance Act", effective June 30, 1996.

S. 241(4)(*d*)(xii) was amended by S.C. 1995, c. 38, s. 5, effective July 12, 1996. S. 241(4)(*d*)(xii) formerly read:

"(xii) to an official of the Department of Canadian Heritage or a member of the Canadian Cultural Property Export Review Board solely for the purposes of administering sections 32 and 33 of the *Cultural Property Export and Import Act*,"

S. 241(4)(*d*)(xii) was amended by S.C. 1995, c. 11, s. 45, to change the expression "official of the Department of Communications" to "official of the Department of Canadian Heritage", effective July 12, 1996.

S. 241(4)(*d*)(vi.1) was added by S.C. 1995, c. 3, s. 51(1), applicable after February 21, 1994.

S. 241(4)(*d*)(v) and (vi) were amended by S.C. 1994, c. 41, s. 38(1), to change the expression "Department of Energy, Mines and Resources" to "Department of Natural Resources", effective upon proclamation.

S. 241(4)(*d*)(xi) was amended by S.C. 1994, c. 38, s. 26(1), by replacing the expression "Department of Agriculture" with the expression "Department of Agriculture and Agri-Food", effective upon proclamation.

S. 241(4) was amended by S.C. 1994, c. 7, Sched. VIII, s. 137(1), effective June 10, 1993. S. 241(4) formerly read:

"(4) *Other exceptions.* An official or authorized person may,

(*a*) in the course of the duties of the official or authorized person in connection with the administration or enforcement of this Act or the *Petroleum and Gas Revenue Tax Act*,

(i) communicate or allow to be communicated to an official or authorized person information obtained by or on behalf of the Minister for the purposes of this Act or the *Petroleum and Gas Revenue Tax Act*, and

(ii) allow an official or authorized person to inspect or to have access to any book, record, writing, return or other document obtained by or on behalf of the Minister for the purposes of this Act or the *Petroleum and Gas Revenue Tax Act*;

(*b*) under prescribed conditions, communicate or allow to be communicated information obtained under this Act or the *Petroleum and Gas Revenue Tax Act*, or allow inspection of or access to any written statement furnished under this Act or the *Petroleum and Gas Revenue Tax Act*, to the government of any province in respect of which information and written statements obtained by the government of the province, for the purpose of a law of the province that imposes a tax similar to the tax imposed under this Act or the *Petroleum and Gas Revenue Tax Act*, are communicated or furnished on a reciprocal basis to the Minister;

(*c*) communicate or allow to be communicated information obtained under this Act or the *Petroleum and Gas Revenue Tax Act*, or allow inspection of or access to any book, record, writing, return or other document obtained by or on behalf of the Minister for the purposes of this Act or the *Petroleum and Gas Revenue Tax Act*, to or by any person otherwise legally entitled thereto;

(*d*) communicate or allow to be communicated to a taxpayer information obtained under this Act or the *Petroleum and Gas Revenue Tax Act* that may reasonably be regarded as necessary for the purposes of determining any tax, interest, penalty or other amount payable by the taxpayer or any refund or tax credit to which the taxpayer is entitled under this Act or the *Petroleum and Gas Revenue Tax Act*;

(*e*) communicate or allow to be communicated to a taxpayer information obtained under this Act or the *Petroleum and Gas Revenue Tax Act* from a transferor of property to the taxpayer that relates to the cost, capital cost or adjusted cost base to the taxpayer of the property, if, under any provision of this Act or the *Petroleum and Gas Revenue Tax Act* or the *Income Tax Application Rules*, the cost, capital cost or adjusted cost base is an amount other than the consideration paid by the taxpayer for that property;

(*e.1*) communicate or allow to be communicated to the person who seeks a certification referred to in paragraph 147.1(10)(*a*) the certification or a refusal to make the certification, for the purposes of administering a registered pension plan;

(*f*) communicate or allow to be communicated information obtained under this Act or the *Petroleum and Gas Revenue Tax Act*

(i) to an official of the Department of Finance solely for the purposes of evaluating and formulating tax policy,

(ii) to an official of the Department of National Revenue, Customs and Excise solely for the purposes of administering or enforcing the *Customs Act*, the *Customs Tariff*, the *Excise Tax Act* or the *Excise Act*,

(iii) to an official of the Department of Energy, Mines and Resources or to the government of a province solely for the purposes of administering or enforcing a prescribed program of the Government of Canada or of the province relating to the exploration for or exploitation of Canadian petroleum and gas resources,

(iv) to an official of the appropriate department or agency of the Government of Canada solely for the purpose of administering subsection 127(11.3) and the definitions 'approved project' and 'approved project property' in subsection 127(9),

(v) to the government of a province that has received or is entitled to receive a payment referred to in this subparagraph or to an official of the Department of Energy, Mines and Resources solely for the purposes of the provisions relating to payments to a province in respect of the taxable income of corporations earned in the offshore area with respect to the province under the *Canada-Nova Scotia Oil and Gas Agreement Act*, chapter 29 of the Statutes of Canada, 1984, the *Canada-Newfoundland Atlantic Accord Implementation Act*, chapter 3 of the Statutes of Canada, 1987, or similar Acts relating to the exploration for or exploitation of offshore Canadian petroleum and gas resources, and

(vi) to an official of the Office of the Superintendent of Financial Institutions solely for the purpose of providing the Minister with advice with respect to any matter relating to pension plans;

(*f.1*) communicate or allow to be communicated information obtained under this Act or the *Petroleum and Gas Revenue Tax Act* to an official of the Department of Veterans Affairs solely for the purpose of administering the *War Veterans Allowance Act* or Part XI of the *Merchant Navy Veteran and Civilian War-related Benefits Act*;

(*g*) communicate or allow to be communicated information obtained under this Act or the *Petroleum and Gas Revenue Tax Act* as to the name, address, occupation or size or type of business of a taxpayer to an official of a department or agency of the Government of Canada or of a province, solely for the purpose of enabling that department or agency to obtain statistical data for research and analysis;

(*h*) communicate or allow to be communicated information obtained under this Act or the *Petroleum and Gas Revenue Tax Act* to an official of the Canada Employment and Immigration Commission or the Department of Employment and Immigration solely for the purposes of administering, evaluating or enforcing the *Unemployment Insurance Act* or a prescribed employment program;

(*h.1*) communicate or allow to be communicated to a taxpayer information obtained under this Act, regarding expenses in respect of which a deduction is denied under subsection 18(2) or (3.1) to any other taxpayer, that is necessary for the purpose of determining the cost or adjusted cost base, as the case may be, to the taxpayer of any property;

(*h.2*) communicate or allow to be communicated to a taxpayer information obtained under this Act from a corporation that previously owned or had an interest in property of the taxpayer that relates to the control of the corporation or the question whether the corporation was exempt from tax under Part I on its taxable income if it is necessary for the purposes of determining under this Act whether a gain from a disposition of the property accrued while the property was a property of a corporation controlled directly or indirectly in any manner whatever by one or more non-resident persons or of a corporation exempt from tax under Part I on its taxable income;

(*i*) communicate or allow to be communicated, pursuant to an order made under subsection 462.48(3) of the *Criminal Code*, information obtained under this Act;

(*j*) communicate or allow to be communicated to an official, solely for the purposes of administering or enforcing the *Pension Benefits Standards Act, 1985* or a similar law of a province,

(i) information obtained under this Act

(A) as to the identity of a pension plan in respect of which application for registration for the purposes of this Act has, at any time, been made,

(B) as to the names and addresses of the persons who are, have been or will be responsible for the administration of a pension plan referred to in clause (A),

(C) as to the names and addresses of the employers who participate, have participated or will participate in a pension plan referred to in clause (A),

(D) as to the terms of a pension plan referred to in clause (A), a trust deed, insurance contract or other document relating to the funding of benefits under such a plan or an amendment or proposed amendment to such a plan or document, or

(E) as to the date of termination or partial termination of a pension plan referred to in clause (A),

(ii) information as to whether a pension plan is or was a registered pension plan,

(iii) the date of registration of a pension plan that is or was a registered pension plan, or

(iv) in the case of a pension plan the registration of which under this Act has been refused or revoked, the date of the refusal or revocation and the reason therefor;

(*k*) communicate or allow to be communicated information obtained under this Act to an official of the Department of Agriculture or to an official of the government of a province solely for the purposes of administering or enforcing a program of the Government of Canada or of the province established under an agreement entered into pursuant to the *Farm Income Protection Act*;

(*l*) communicate or allow to be communicated information obtained under this Act to an official of the Department of Communications or a member of the Canadian Cultural Property Export Review Board, solely for the purpose of administering the provisions of sections 32 and 33 of the *Cultural Property Export and Import Act*; or

(*m*) communicate or allow to be communicated information obtained under this Act to an official or authorized person for the purpose of setting off against any sum of money that is due or payable by Her Majesty in right of Canada a debt due to

(i) Her Majesty in right of Canada, or

(ii) Her Majesty in right of a province on account of taxes payable to the province where an agreement exists between Canada and the province under which Canada is authorized to collect the taxes on behalf of the province."

S. 241(4)(*f.1*) was amended by S.C. 1994, c. 7, Sched. IV, s. 16, deemed to have come into force on July 1, 1992. S. 241(4)(*f.1*) formerly read:

"(*f.1*) communicate or allow to be communicated information obtained under this Act or the *Petroleum and Gas Revenue Tax Act* to an official of the Department of Veterans Affairs solely for the purposes of administering the *War Veterans Allowance Act* or Part XI of the *Civilian War Pensions and Allowances Act*;"

S. 241(4)(*g*) was amended by S.C. 1994, c. 7, Sched. II, s. 190(1), effective December 17, 1991. S. 241(4)(*g*) formerly read:

"(*g*) communicate or allow to be communicated information obtained under this Act or the *Petroleum and Gas Revenue Tax Act* as to the name, address, occupation or type of business of a taxpayer to an official of a

department or agency of the Government of Canada or of a province solely for the purposes of enabling that department or agency to obtain statistical data for research and analysis;"

Ss. 241(4)(l) and (m) were added by S.C. 1994, c. 7, Sched. II, s. 190(2), effective December 17, 1991.

Related Sections: S. 66.1(6) Definitions; s. 146.1(14) Former Act; s. 147.1(10)(a) Past service benefits; s. 241(10), "authorized person", "official"; s. 241(11) References to Petroleum and Gas Revenue Tax Act; s. 248(1), "business number".

Regulations: 3004; 8200.1.

► 241(4.1) ◄

(4.1) Measures to prevent unauthorized use or disclosure. The person who presides at a legal proceeding relating to the supervision, evaluation or discipline of an authorized person may order such measures as are necessary to ensure that taxpayer information is not used or provided to any person for any purpose not relating to that proceeding, including

(a) holding a hearing *in camera*;

(b) banning the publication of the information;

(c) concealing the identity of the taxpayer to whom the information relates; and

(d) sealing the records of the proceeding.

History: S. 241(4.1) was added by S.C. 1994, c. 7, Sched. VIII, s. 137(1), effective June 10, 1993.

Related Sections: S. 241(10), "authorized person".

► 241(5) ◄

(5) Disclosure to taxpayer or on consent. An official or other representative of a government entity may provide taxpayer information relating to a taxpayer

(a) to the taxpayer; and

(b) with the consent of the taxpayer, to any other person.

History: S. 241(5), the portion before paragraph (a) was replaced by S.C. 2009, c. 2, s. 75(4), in force on Royal Assent, March 12, 2009. S. 241(5), the portion before paragraph (a) formerly read:

"(5) *Disclosure to taxpayer or on consent.* An official may provide taxpayer information relating to a taxpayer"

S. 241(5) was amended by S.C. 1994, c. 7, Sched. VIII, s. 137(1), effective June 10, 1993. S. 241(5) formerly read:

"(5) *Return of copy of books, etc.* Notwithstanding anything in this section, the Minister may permit a copy of any book, record, writing, return or other document obtained by or on behalf of the Minister for the purposes of this Act or the *Petroleum and Gas Revenue Tax Act* to be given to the person from whom the book, record, writing, return or other document was obtained or the legal representative of that person, or to the agent of that person or of the legal representative authorized in writing in that behalf."

Forms: RC59; T1013; T1153.

► 241(6) ◄

(6) Appeal from order or direction. An order or direction that is made in the course of or in connection with any legal proceedings and that requires an official, other representative of a government entity or authorized person to give or produce evidence relating to any taxpayer information may, by notice served on all interested parties, be appealed forthwith by the Minister or by the person against whom the order or direction is made to

(a) the court of appeal of the province in which the order or direction is made, in the case of an order or direction made by a court or other tribunal established by or pursuant to the laws of the province, whether or not that court or tribunal is exercising a jurisdiction conferred by the laws of Canada; or

(b) the Federal Court of Appeal, in the case of an order or direction made by a court or other tribunal established by or pursuant to the laws of Canada.

History: S. 241(6), the portion before paragraph (a) was replaced by S.C. 2009, c. 2, s. 75(5), in force on Royal Assent, March 12, 2009. S. 241(6), the portion before paragraph (a) formerly read:

"(6) *Appeal from order or direction.* An order or direction that is made in the course of or in connection with any legal proceedings and that requires an official or authorized person to give or produce evidence relating to any taxpayer information may, by notice served on all interested parties, be appealed forthwith by the Minister or by the person against whom the order or direction is made to"

S. 241(6), the portion before paragraph (a), was amended by S.C. 1994, c. 7, Sched. VIII, s. 137(2), effective June 10, 1993. The portion formerly read:

"(6) An order or direction made in the course of or in connection with any legal proceedings requiring an official or authorized person to give evidence relating to any information or produce any book, record, writing, return or other document obtained by or on behalf of the Minister for the purposes of this Act or the *Petroleum and Gas Revenue Tax Act*, may, by notice served on all interested parties, be appealed forthwith by the Minister or by the person against whom the order or direction is made to"

Related Sections: S. 241(10), "authorized person", "official".

► 241(7) ◄

(7) Disposition of appeal. The court to which an appeal is taken pursuant to subsection (6) may allow the appeal and quash the order or direction appealed from or dismiss the appeal, and the rules of practice and procedure from time to time governing appeals to the courts shall apply, with such modifications as the circumstances require, to an appeal instituted pursuant to that subsection.

► 241(8) ◄

(8) Stay of order or direction. An appeal instituted pursuant to subsection (6) shall stay the operation of the order or direction appealed from until judgment is pronounced.

► 241(9) ◄

(9) Threats to security. An official may provide, to an official of the Canadian Security Intelligence Service, of the Royal Canadian Mounted Police or of the Financial Transactions and Reports Analysis Centre of Canada,

(a) publicly accessible charity information;

(b) designated taxpayer information, if there are reasonable grounds to suspect that the information would be relevant to

(i) an investigation by the Canadian Security Intelligence Service of whether the activity of any person may constitute threats to the security of Canada, as defined in section 2 of the *Canadian Security Intelligence Service Act*,

(ii) an investigation of whether an offence may have been committed under

(A) Part II.1 of the *Criminal Code*, or

(B) section 462.31 of the *Criminal Code*, if that investigation is related to an offence under Part II.1 of that Act, or

(iii) the prosecution of an offence referred to in subparagraph (ii); and

(c) information setting out the reasonable grounds referred to in paragraph (b), to the extent that any such grounds rely on information referred to in paragraph (a) or (b).

History: S. 241(9) was added by S.C. 2006, c. 12, s. 45(2), in force February 10, 2007.

► 241(9.1) ◄

(9.1) Threats to security. Information — other than designated donor information — provided to an official of the Canadian Security Intelligence Service or the Royal

Canadian Mounted Police, as permitted by paragraph (4)(*f*.1), may be used by such an official, or communicated by such an official to another official of the Canadian Security Intelligence Service or the Royal Canadian Mounted Police for use by that other official, for the purpose of

(*a*) investigating whether an offence may have been committed, ascertaining the identity of a person or persons who may have committed an offence, or prosecuting an offence, which offence is

(i) described in Part II.1 of the *Criminal Code*, or

(ii) described in section 462.31 of the *Criminal Code*, if that investigation, ascertainment or prosecution is related to an investigation, ascertainment or prosecution in respect of an offence described in Part II.1 of that Act; or

(*b*) investigating whether the activities of any person may constitute threats to the security of Canada, as defined in section 2 of the *Canadian Security Intelligence Service Act*.

History: S. 241(9.1) was added by S.C. 2006, c. 12, s. 45(2), in force February 10, 2007.

► 241(9.2) ◄

(9.2) Restrictions on information sharing. No information may be provided to a representative of a government entity under paragraph (4)(*l*) in connection with a program, activity or service provided or undertaken by the government entity unless the government entity uses the business number as an identifier in connection with the program, activity or service.

History: S. 241(9.2) was added by S.C. 2009, c. 2, s. 75(6), in force on Royal Assent, March 12, 2009.

► 241(9.3) ◄

(9.3) Public disclosure. The Minister may, in connection with a program, activity or service provided or undertaken by the Minister, make available to the public the business number of, and the name of (including any trade name or other name used by), the holder of a business number (other than an excluded individual).

History: S. 241(9.3) was added by S.C. 2009, c. 2, s. 75(6), in force on Royal Assent, March 12, 2009.

► 241(9.4) ◄

(9.4) Public disclosure by representative of government entity. A representative of a government entity may, in connection with a program, activity or service provided or undertaken by the government entity, make available to the public the business number of, and the name of (including any trade name or other name used by), the holder of a business number (other than an excluded individual), if

(*a*) a representative of the government entity was provided with that information pursuant to paragraph (4)(*l*); and

(*b*) the government entity uses the business number as an identifier in connection with the program, activity or service.

History: S. 241(9.4) was added by S.C. 2009, c. 2, s. 75(6), in force on Royal Assent, March 12, 2009.

► 241(10) ◄

(10) Definitions. In this section,

"aboriginal government" — "aboriginal government" means an aboriginal government as defined in subsection 2(1) of the *Federal-Provincial Fiscal Arrangements Act*;

History: S. 241(10), the definition "aboriginal government" was added by S.C. 2009, c. 2, s. 75(8), in force on Royal Assent, March 12, 2009.

"authorized person" — "authorized person" means a person who is engaged or employed, or who was formerly engaged or employed, by or on behalf of Her Majesty in right of Canada to assist in carrying out the provisions of this Act, the *Canada Pension Plan*, the *Unemployment Insurance Act* or the *Employment Insurance Act*;

History: S. 241(10), the definition of "authorized person", was amended by S.C. 1998, c. 19, s. 236(10), deemed to have come into force on June 30, 1996. The definition of "authorized person" formerly read:

"'authorized person' — 'authorized person' means a person who is engaged or employed, or who was formerly engaged or employed, by or on behalf of Her Majesty in right of Canada to assist in carrying out the provisions of this Act, the *Canada Pension Plan* or the *Employment Insurance Act*;"

S. 241(10), the definition of "authorized person", was amended by S.C. 1996, c. 23, s. 187, by replacing the expression "Unemployment Insurance Act" with the expression "Employment Insurance Act", effective June 30, 1996.

S. 241(10), the definition of "authorized person", was amended by S.C. 1994, c. 7, Sched. VIII, s. 137(3), effective June 10, 1993. The definition formerly read:

"'authorized person' means any person engaged or employed, or formerly engaged or employed, by or on behalf of Her Majesty in right of Canada or a province to assist in carrying out the purposes and provisions of this Act or the *Petroleum and Gas Revenue Tax Act*;"

Related Sections: S. 241(11) References to Petroleum and Gas Revenue Tax Act; s. 248(1), "employed".

"business number" — [Repealed by S.C. 1998, c. 19, s. 236(9).]

History: S. 241(10), the definition "business number", was repealed by S.C. 1998, c. 19, s. 236(9), in force on Royal Assent, June 18, 1998. S. 241(10) formerly read:

"'business number' — 'business number' means the number (other than a Social Insurance Number) used by the Minister to identify

(*a*) a corporation or partnership, or

(*b*) any other association or taxpayer that carries on a business or is required by this Act to deduct or withhold an amount from an amount paid or credited or deemed to be paid or credited under this Act;"

S. 241(10), the definition "business number" was added by S.C. 1996, c. 21, s. 59(2), applicable on Royal Assent, June 20, 1996.

"contact information" — "contact information", in respect of a holder of a business number, means the name, address, telephone number, facsimile number and preferred language of communication of the holder, or similar information as specified by the Minister in respect of the holder, and includes such information in respect of one or more

(*a*) trustees of the holder, if the holder is a trust,

(*b*) members of the holder, if the holder is a partnership,

(*c*) officers of the holder, if the holder is a corporation, or

(*d*) officers or members of the holder, if the holder is not described by any of paragraphs (*a*) to (*c*);

History: S. 241(10), the definition "contact information" was added by S.C. 2009, c. 2, s. 75(8), in force on Royal Assent, March 12, 2009.

"corporate information" — "corporate information", in respect of a holder of a business number that is a corporation, means the name (including the number assigned by the incorporating authority), date of incorporation, jurisdiction of incorporation and any information on the dissolution, reorganization, amalgamation, winding-up or revival of the corporation;

History: S. 241(10), the definition "corporate information" was added by S.C. 2009, c. 2, s. 75(8), in force on Royal Assent, March 12, 2009.

"court of appeal" — "court of appeal" has the meaning assigned by the definition "court of appeal" in section 2 of the *Criminal Code*;

History: S. 241(10), the definition of "court of appeal", was amended by S.C. 1994, c. 7, Sched. VIII, s. 137(3), effective June 10, 1993. The definition formerly read:

" 'court of appeal' has the meaning assigned by paragraphs (*a*) to (*j*) of the definition 'court of appeal' in section 2 of the *Criminal Code*;"

"designated donor information" — "designated donor information" means information of a charity, or of a person who has at any time made an application for registration as a registered charity, that is directly attributable to a gift that has been made or proposed to be made to the charity or applicant and that is presented in any form that directly or indirectly reveals the identity of the donor or prospective donor, other than a donor or prospective donor who is not resident in Canada and is neither a citizen of Canada nor a person described in subsection 2(3);

History: S. 241(10), the definition "designated donor information" was added by S.C. 2006, c. 12, s. 45(3), in force February 10, 2007.

"designated person" — "designated person" means any person who is employed in the service of, who occupies a position of responsibility in the service of, or who is engaged by or on behalf of,

(*a*) a municipality in Canada, or

(*b*) a public body performing a function of government in Canada,

or any person who was formerly so employed, who formerly occupied such a position or who was formerly so engaged;

History: S. 241(10), the definition "designated person" was added by S.C. 1998, c. 21, s. 97(3), in force on Royal Assent, June 18, 1998.

"designated taxpayer information" — "designated taxpayer information" means taxpayer information — other than designated donor information — of a registered charity, or of a person who has at any time made an application for registration as a registered charity, that is

(*a*) in respect of a financial transaction

(i) relating to the importation or exportation of currency or monetary instruments by the charity or applicant, or

(ii) in which the charity or applicant has engaged a person to whom section 5 of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* applies,

(*b*) information provided to the Minister by the Canadian Security Intelligence Service, the Royal Canadian Mounted Police or the Financial Transactions and Reports Analysis Centre of Canada,

(*c*) the name, address, date of birth and citizenship of any current or former director, trustee or like official, or of any agent, mandatary or employee, of the charity or applicant,

(*d*) information submitted by the charity or applicant in support of an application for registration as a registered charity that is not publicly accessible charity information,

(*e*) publicly available, including commercially available databases, or

(*f*) information prepared from publicly accessible charity information and information referred to in paragraphs (*a*) to (*e*);

History: S. 241(10), the definition "designated taxpayer information" was added by S.C. 2006, c. 12, s. 45(3), in force February 10, 2007.

"excluded individual" — "excluded individual" means an individual who is a holder of a business number solely because the individual is required under this Act to deduct or withhold an amount from an amount paid or credited or deemed to be paid or credited;

History: S. 241(10), the definition "excluded individual" was added by S.C. 2009, c. 2, s. 75(8), in force on Royal Assent, March 12, 2009.

"government entity" — "government entity" means

(*a*) a department or agency of the government of Canada or of a province,

(*b*) a municipality in Canada,

(*c*) an aboriginal government,

(*d*) a corporation all of the shares (except directors' qualifying shares) of the capital stock of which are owned by one or more persons each of which is

(i) Her Majesty in right of Canada,

(ii) Her Majesty in right of a province,

(iii) a municipality in Canada, or

(iv) a corporation described in this paragraph, or

(*e*) a board or commission, established by Her Majesty in right of Canada or Her Majesty in right of a province, that performs an administrative or regulatory function of government, or by one or more municipalities in Canada, that performs an administrative or regulatory function of a municipality;

History: S. 241(10), the definition "government entity" was added by S.C. 2009, c. 2, s. 75(8), in force on Royal Assent, March 12, 2009.

"official" — "official" means any person who is employed in the service of, who occupies a position of responsibility in the service of, or who is engaged by or on behalf of,

(*a*) Her Majesty in right of Canada or a province, or

(*b*) an authority engaged in administering a law of a province similar to the *Pension Benefits Standards Act, 1985*,

or any person who was formerly so employed, who formerly occupied such a position or who was formerly so engaged and, for the purposes of subsection 239(2.21), subsections (1) and (2), the portion of subsection (4) before paragraph (*a*), and subsections (5) and (6), includes a designated person;

History: S. 241(10), the portion of the definition "official" after paragraph (*b*) was amended by S.C. 1998, c. 21, s. 97(2), in force on Royal Assent, June 18, 1998. That portion formerly read:

" or any person who was formerly so employed, who formerly occupied such a position or who was formerly so engaged;"

S. 241(10), the definition of "official", was amended by S.C. 1994, c. 7, Sched. VIII, s. 137(3), effective June 10, 1993. The definition formerly read:

" 'official' means any person employed in or occupying a position of responsibility

(*a*) in the service of Her Majesty in right of Canada or a province, or

(*b*) in the service of an authority engaged in administering a law of a province similar to the *Pension Benefits Standards Act, 1985*,

or any person formerly so employed or formerly occupying a position therein."

Related Sections: S. 241(11) References to Petroleum and Gas Revenue Tax Act; s. 248(1), "employed".

"publicly accessible charity information" — "publicly accessible charity information" means taxpayer information that is

(*a*) described in subsection (3.2), or that would be described in that subsection if the words "that was at any time a registered charity" were read as "that

has at any time made an application for registration as a registered charity",

(*b*) information — other than designated donor information — submitted to the Minister with, or required to be contained in, any public information return filed or required to be filed under subsection 149.1(14), or

(*c*) information prepared from information referred to in paragraph (*a*) or (*b*);

History: S. 241(10), the definition "publicly accessible charity information" was added by S.C. 2006, c. 12, s. 45(3), in force February 10, 2007.

"*registration information*" — "registration information", in respect of a holder of a business number, means

(*a*) any information pertaining to the legal form of the holder,

(*b*) the type of activities carried on or proposed to be carried on by the holder,

(*c*) each date on which

(i) the business number was issued to the holder,

(ii) the holder began activities,

(iii) the holder ceased or resumed activities, or

(iv) the business number assigned to the holder was changed, and

(*d*) the reasons for the cessation, resumption or change referred to in subparagraph (*c*)(iii) or (iv);

History: S. 241(10), the definition "registration information" was added by S.C. 2009, c. 2, s. 75(8), in force on Royal Assent, March 12, 2009.

"*representative*" — "representative" of a government entity means a person who is employed in the service of, who occupies a position of responsibility in the service of, or who is engaged by or on behalf of, a government entity, and includes, for the purposes of subsections (1), (2), (5) and (6), a person who was formerly so employed, who formerly occupied such a position or who formerly was so engaged;

History: S. 241(10), the definition "representative" was added by S.C. 2009, c. 2, s. 75(8), in force on Royal Assent, March 12, 2009.

"*taxpayer information*" — "taxpayer information" means information of any kind and in any form relating to one or more taxpayers that is

(*a*) obtained by or on behalf of the Minister for the purposes of this Act, or

(*b*) prepared from information referred to in paragraph (*a*),

but does not include information that does not directly or indirectly reveal the identity of the taxpayer to whom it relates and, for the purposes of applying subsections (2), (5) and (6) to a representative of a government entity that is not an official, taxpayer information includes only the information referred to in paragraph (4)(*l*);

History: S. 241(10), the portion of the definition "taxpayer information" following paragraph (*b*) was replaced by S.C. 2009, c. 2, s. 75(7), in force on Royal Assent, March 12, 2009. S. 241(10), the portion of the definition "taxpayer information" following paragraph (*b*) formerly read:

"but does not include information that does not directly or indirectly reveal the identity of the taxpayer to whom it relates.".

S. 241(10), the definition of "taxpayer information", was added by S.C. 1994, c. 7, Sched. VIII, s. 137(3), effective June 10, 1993.

Related Sections: S. 248(1), "employed", "prescribed".

► 241(11) ◄

(11) References to *Petroleum and Gas Revenue Tax Act*. The references in subsections (1), (3), (4) and (10) to "this Act" shall be read as references to "this Act or the *Petroleum and Gas Revenue Tax Act*".

History: S. 241(11) was added by S.C. 1994, c. 7, Sched. VIII, s. 137(3), effective June 10, 1993.

SECTION 242: Officers, etc., of corporations.

Where a corporation commits an offence under this Act, any officer, director or agent of the corporation who directed, authorized, assented to, acquiesced in or participated in the commission of the offence is a party to and guilty of the offence and is liable on conviction to the punishment provided for the offence whether or not the corporation has been prosecuted or convicted.

Related Sections: S. 248(1), "corporation"; ITAR s. 65.1 Part XV of amended Act.

Information Circulars: IC 73-10R3 Tax evasion.

Cases: Although failure to remit is a strict liability offence, the Crown must still prove that the officer participated in the commission of the offence. *The Queen v. Swendson*, 87 DTC 5335 (Alta. Q.B.).

SECTION 243: Power to decrease punishment.

Notwithstanding the *Criminal Code* or any other statute or law in force on June 30, 1948, the court has, in any prosecution or proceeding under this Act, no power to impose less than the minimum fine or imprisonment fixed by this Act or to suspend sentence.

Related Sections: ITAR s. 65.1 Part XV of amended Act.

Procedure and Evidence

SECTION 244:

► 244(1) ◄

(1) Information or complaint. An information or complaint under this Act may be laid or made by any officer of the Canada Revenue Agency, by a member of the Royal Canadian Mounted Police or by any person thereto authorized by the Minister and, where an information or complaint purports to have been laid or made under this Act, it shall be deemed to have been laid or made by a person thereto authorized by the Minister and shall not be called in question for lack of authority of the informant or complainant except by the Minister or by a person acting for the Minister or Her Majesty.

History: S. 244(1) was amended by S.C. 2005, c. 38, s. 138, by replacing "Canada Customs and Revenue Agency" with "Canada Revenue Agency", in force December 12, 2005.

S. 244(1) was amended by S.C. 1999, c. 17, s. 168, by replacing "Department of National Revenue" with "Canada Customs and Revenue Agency", coming into force on November 1, 1999.

► 244(2) ◄

(2) Two or more offences. An information or complaint in respect of an offence under this Act may be for one or more offences and no information, complaint, warrant, conviction or other proceeding in a prosecution under this Act is objectionable or insufficient by reason of the fact that it relates to two or more offences.

► 244(3) ◄

(3) Venue. An information or complaint in respect of an offence under this Act may be heard, tried or determined by any court, judge or justice if the accused is resident, carrying on business, found or apprehended or is in custody within the territorial jurisdiction of the court, judge or justice, as the case may be, although the matter of the information or complaint did not arise within that jurisdiction.

► 244(4) ◄

(4) Limitation period. An information or complaint under the provisions of the *Criminal Code* relating to summary convictions, in respect of an offence under this Act, may be laid or made at any time within but not later than 8 years after the day on which the matter of the information or complaint arose.

Cases: An application to quash a subpoena to be issued to a Director of Taxation for the purpose of challenging the Minister's certificate as to when sufficient evidence to justify prosecution became available for the purposes of the one-year limitation period was dismissed on the basis of the taxpayer's intention to raise at trial a Charter right to equality. *Giles v. Print Three Inc.*, 87 DTC 5462 (S.C. Ont.).

► 244(5) ◄

(5) Proof of service by mail. Where, by this Act or a regulation, provision is made for sending by mail a request for information, notice or demand, an affidavit of an officer of the Canada Revenue Agency, sworn before a commissioner or other person authorized to take affidavits, setting out that the officer has knowledge of the facts in the particular case, that such a request, notice or demand was sent by registered letter on a named day to the person to whom it was addressed (indicating the address) and that the officer identifies as exhibits attached to the affidavit the post office certificate of registration of the letter or a true copy of the relevant portion thereof and a true copy of the request, notice or demand, shall, in the absence of proof to the contrary, be received as evidence of the sending and of the request, notice or demand.

History: S. 244(5) was amended by S.C. 2005, c. 38, s. 138, by replacing "Canada Customs and Revenue Agency" with "Canada Revenue Agency", in force December 12, 2005.

S. 244(5) was amended by S.C. 1999, c. 17, s. 168, by replacing "Department of National Revenue" with "Canada Customs and Revenue Agency", coming into force on November 1, 1999.

► 244(6) ◄

(6) Proof of personal service. Where, by this Act or a regulation, provision is made for personal service of a request for information, notice or demand, an affidavit of an officer of the Canada Revenue Agency, sworn before a commissioner or other person authorized to take affidavits, setting out that the officer has knowledge of the facts in the particular case, that such a request, notice or demand was served personally on a named day on the person to whom it was directed and that the officer identifies as an exhibit attached to the affidavit a true copy of the request, notice or demand, shall, in the absence of proof to the contrary, be received as evidence of the personal service and of the request, notice or demand.

History: S. 244(6) was amended by S.C. 2005, c. 38, s. 138, by replacing "Canada Customs and Revenue Agency" with "Canada Revenue Agency", in force December 12, 2005.

S. 244(6) was amended by S.C. 1999, c. 17, s. 168, by replacing "Department of National Revenue" with "Canada Customs and Revenue Agency", coming into force on November 1, 1999.

► 244(7) ◄

(7) Proof of failure to comply. Where, by this Act or a regulation, a person is required to make a return, statement, answer or certificate, an affidavit of an officer of the Canada Revenue Agency, sworn before a commissioner or other person authorized to take affidavits, setting out that the officer has charge of the appropriate records and that after a careful examination and search of those records the officer has been unable to find in a given case that the return, statement, answer or certificate, as the case may be, has been made by that person, shall, in the absence of proof to the contrary, be received as evidence that in that case that person did not make the return, statement, answer or certificate, as the case may be.

History: S. 244(7) was amended by S.C. 2005, c. 38, s. 138, by replacing "Canada Customs and Revenue Agency" with "Canada Revenue Agency", in force December 12, 2005.

S. 244(7) was amended by S.C. 1999, c. 17, s. 168, by replacing "Department of National Revenue" with "Canada Customs and Revenue Agency", coming into force on November 1, 1999.

► 244(8) ◄

(8) Proof of time of compliance. Where, by this Act or a regulation, a person is required to make a return, statement, answer or certificate, an affidavit of an officer of the Canada Revenue Agency, sworn before a commissioner or other person authorized to take affidavits, setting out that the officer has charge of the appropriate records and that after careful examination of those records the officer has found that the return, statement, answer or certificate was filed or made on a particular day, shall, in the absence of proof to the contrary, be received as evidence that it was filed or made on that day and not prior thereto.

History: S. 244(8) was amended by S.C. 2005, c. 38, s. 138, by replacing "Canada Customs and Revenue Agency" with "Canada Revenue Agency", in force December 12, 2005.

S. 244(8) was amended by S.C. 1999, c. 17, s. 168, by replacing "Department of National Revenue" with "Canada Customs and Revenue Agency", coming into force on November 1, 1999.

► 244(9) ◄

(9) Proof of documents. An affidavit of an officer of the Canada Revenue Agency, sworn before a commissioner or other person authorized to take affidavits, setting out that the officer has charge of the appropriate records and that a document annexed to the affidavit is a document or true copy of a document, or a print-out of an electronic document, made by or on behalf of the Minister or a person exercising a power of the Minister or by or on behalf of a taxpayer, is evidence of the nature and contents of the document.

History: S. 244(9) was amended by S.C. 2005, c. 38, s. 138, by replacing "Canada Customs and Revenue Agency" with "Canada Revenue Agency", in force December 12, 2005.

S. 244(9) was amended by S.C. 1999, c. 17, s. 168, by replacing "Department of National Revenue" with "Canada Customs and Revenue Agency", coming into force on November 1, 1999.

S. 244(9) was amended by S.C. 1998, c. 19, s. 237(1), applicable on Royal Assent, June 18, 1998. S. 244(9) formerly read:

"(9) *Proof of documents.* An affidavit of an officer of the Department of National Revenue, sworn before a commissioner or other person authorized to take affidavits, setting out that the officer has charge of the appropriate records and that a document annexed thereto is a document or true copy of a document made by or on behalf of the Minister or a person exercising the powers of the Minister or by or on behalf of a taxpayer, shall, in the absence of proof to the contrary, be received as evidence of the nature and contents of the document and shall be admissible in evidence and have the same probative force as the original document would have if it had been proven in the ordinary way."

Related Sections: S. 230(4.1) Electronic records; s. 231.5(1) Copies.

► 244(10) ◄

(10) Proof of no appeal. An affidavit of an officer of the Canada Revenue Agency, sworn before a commissioner or other person authorized to take affidavits, setting out that the officer has charge of the appropriate records and has knowledge of the practice of the Agency and that an examination of those records shows that a notice of assessment for a particular taxation year or a notice of determination was mailed or otherwise communicated to a taxpayer on a particular day under this Act and that, after careful examination and search of those records, the officer has been unable to find that a notice of objection or of appeal from the assessment or determination or a request under subsection 245(6), as the case may be, was

received within the time allowed, shall, in the absence of proof to the contrary, be received as evidence of the statements contained in it.

History: S. 244(10) was amended by S.C. 2005, c. 38, s. 138, by replacing "Canada Customs and Revenue Agency" with "Canada Revenue Agency", in force December 12, 2005.

S. 244(10) was amended by S.C. 1999, c. 17, s. 166(1), coming into force on November 1, 1999. S. 244(10) formerly read:

"(10) *Proof of no appeal.* An affidavit of an officer of the Department of National Revenue, sworn before a commissioner or other person authorized to take affidavits, setting out that the officer has charge of the appropriate records and has knowledge of the practice of the Department and that an examination of those records shows that a notice of assessment for a particular taxation year or a notice of determination was mailed or otherwise communicated to a taxpayer on a particular day pursuant to this Act and that, after careful examination and search of those records, the officer has been unable to find that a notice of objection or of appeal from the assessment or determination or a request under subsection 245(6), as the case may be, was received within the time allowed therefor, shall, in the absence of proof to the contrary, be received as evidence of the statements contained therein."

► 244(11) ◄

(11) Presumption. Where evidence is offered under this section by an affidavit from which it appears that the person making the affidavit is an officer of the Canada Revenue Agency, it is not necessary to prove the person's signature or that the person is such an officer nor is it necessary to prove the signature or official character of the person before whom the affidavit was sworn.

History: S. 244(11) was amended by S.C. 2005, c. 38, s. 138, by replacing "Canada Customs and Revenue Agency" with "Canada Revenue Agency", in force December 12, 2005.

S. 244(11) was amended by S.C. 1999, c. 17, s. 168, by replacing "Department of National Revenue" with "Canada Customs and Revenue Agency", coming into force on November 1, 1999.

► 244(12) ◄

(12) Judicial notice. Judicial notice shall be taken of all orders or regulations made under this Act without those orders or regulations being specially pleaded or proven.

► 244(13) ◄

(13) Proof of documents. Every document purporting to have been executed under, or in the course of the administration or enforcement of, this Act over the name in writing of the Minister, the Deputy Minister of National Revenue, the Commissioner of Customs and Revenue, the Commissioner of Revenue or an officer authorized to exercise a power or perform a duty of the Minister under this Act is deemed to have been signed, made and issued by the Minister, the Deputy Minister, the Commissioner of Customs and Revenue, the Commissioner of Revenue or the officer unless it has been called in question by the Minister or by a person acting for the Minister or Her Majesty.

History: S. 244(13) was replaced by S.C. 2005, c. 38, s. 120, in force December 12, 2005.

S. 244(13) formerly read:

"(13) *Proof of documents.* Every document purporting to have been executed under, or in the course of the administration or enforcement of, this Act over the name in writing of the Minister, the Deputy Minister of National Revenue, the Commissioner of Customs and Revenue or an officer authorized to exercise a power or perform a duty of the Minister under this Act is deemed to have been signed, made and issued by the Minister, the Deputy Minister, the Commissioner or the officer unless it has been called in question by the Minister or by a person acting for the Minister or Her Majesty."

S. 244(13) was amended by S.C. 1999, c. 17, s. 169(f), coming into force on November 1, 1999. S. 244(13) formerly read:

"(13) *Proof of documents.* Every document purporting to have been executed under, or in the course of the administration or enforcement of, this Act over the name in writing of the Minister, the Deputy Minister of National Revenue or an officer authorized to exercise a power or perform a duty of the Minister under this Act is deemed to have been signed, made and issued by the Minister, the Deputy Minister or the officer unless it has been called in question by the Minister or by a person acting for the Minister or Her Majesty."

S. 244(13) was amended by S.C. 1998, c. 19, s. 237(2), applicable on Royal Assent, June 18, 1998. S. 244(13) formerly read:

"(13) *Proof of documents.* Every document purporting to be an order, direction, demand, notice, certificate, requirement, decision, assessment, discharge of mortgage or other document purporting to have been executed under, or in the course of administration or enforcement of, this Act over the name in writing of the Minister, the Deputy Minister of National Revenue or any officer authorized by regulation to exercise powers or perform duties of the Minister under this Act shall be deemed to be a document signed, made and issued by the Minister, the Deputy Minister or the officer unless it has been called in question by the Minister or by a person acting for the Minister or Her Majesty."

S. 244(13) was amended by S.C. 1994, c. 13, s. 7(1) to replace "Deputy Minister of National Revenue for Taxation" with "Deputy Minister of National Revenue", effective upon proclamation.

► 244(13.1) ◄

(13.1) Revenue Canada, Taxation. [Repealed by S.C. 1994, c. 13, s. 10.]

History: S. 244(13.1) was repealed by S.C. 1994, c. 13, s. 10, effective upon proclamation, May 12, 1994. S. 244(13.1) formerly read:

"(13.1) *Revenue Canada, Taxation.* The words 'Revenue Canada, Taxation' and the words '*Revenu Canada (Impôt)*' in any document issued or executed under or in the course of the administration or enforcement of this Act over the name in writing of the Minister, the Deputy Minister of National Revenue for Taxation or any officer authorized by regulation to exercise powers or perform duties of the Minister under this Act are deemed to be a reference to the 'Department of National Revenue' and '*ministère du Revenu national*'."

► 244(14) ◄

(14) Mailing date. For the purposes of this Act, where any notice or notification described in subsection 149.1(6.3), 152(3.1), 165(3) or 166.1(5) or any notice of assessment or determination is mailed, it shall be presumed to be mailed on the date of that notice or notification.

History: S. 244(14) was amended by S.C. 1998, c. 19, s. 237(2), effective on Royal Assent, June 18, 1998. S. 244(14) formerly read:

"(14) *Mailing date.* For the purposes of this Act, the day of mailing of any notice or notification described in subsection 149.1(6.3), 152(4) or 166.1(5) or of any notice of assessment shall be presumed to be the date of that notice or notification."

S. 244(14) was amended by S.C. 1994, c. 7, Sched. II, s. 191(1), effective December 17, 1991. S. 244(14) formerly read:

"(14) For the purposes of this Act, the day of mailing of any notice or notification described in subsection 149.1(6.3), 152(4), 192(8) or 194(7) or of any notice of assessment shall be presumed to be the date of that notice or notification."

Related Sections: S. 248(7) Receipt of things mailed.

► 244(15) ◄

(15) Date when assessment made. Where any notice of assessment or determination has been sent by the Minister as required by this Act, the assessment or determination is deemed to have been made on the day of mailing of the notice of the assessment or determination.

History: S. 244(15) was amended by S.C. 1998, c. 19, s. 237(2), effective on Royal Assent, June 18, 1998. S. 244(15) formerly read:

"(15) *Date when assessment made.* Where any notice of an assessment has been sent by the Minister as required by this Act, the assessment shall be deemed to have been made on the day of mailing of the notice of the assessment."

► 244(16) ◄

(16) Forms prescribed or authorized. Every form purporting to be a form prescribed or authorized by the Minister shall be deemed to be a form authorized under this Act by the Minister unless called in question by the Minister or by a person acting for the Minister or Her Majesty.

History: S. 244(16) was amended by S.C. 1994, c. 7, Sched. II, s. 191(2), effective December 17, 1991. S. 244(16) formerly read:

"(16) Every form purporting to be a form prescribed or authorized by the Minister shall be deemed to be a form prescribed by order of the Minister

under this Act unless called in question by the Minister or a person acting for the Minister or Her Majesty."

Related Sections: S. 150.1(2) Filing of return by electronic transmission.

► 244(17) ◄

(17) Proof of return in prosecution for offence. In any prosecution for an offence under this Act, the production of a return, certificate, statement or answer required by or under this Act or a regulation, purporting to have been filed or delivered by or on behalf of the person charged with the offence or to have been made or signed by or on behalf of that person shall, in the absence of proof to the contrary, be received as evidence that the return, certificate, statement or answer was filed or delivered, or was made or signed, by or on behalf of that person.

► 244(18) ◄

(18) Idem, in proceedings under Division J of Part I. In any proceedings under Division J of Part I, the production of a return, certificate, statement or answer required by or under this Act or a regulation, purporting to have been filed or delivered, or to have been made or signed, by or on behalf of the taxpayer shall, in the absence of proof to the contrary, be received as evidence that the return, certificate, statement or answer was filed or delivered, or was made or signed, by or on behalf of the taxpayer.

► 244(19) ◄

(19) Proof of statement of non-receipt. In any prosecution for an offence under this Act, an affidavit of an officer of the Canada Revenue Agency, sworn before a commissioner or other person authorized to take affidavits, setting out that the officer has charge of the appropriate records and that an examination of those records shows that an amount required under this Act to be remitted to the Receiver General on account of tax for a year has not been received by the Receiver General, shall, in the absence of proof to the contrary, be received as evidence of the statements contained therein.

History: S. 244(19) was amended by S.C. 2005, c. 38, s. 138, by replacing "Canada Customs and Revenue Agency" with "Canada Revenue Agency", in force December 12, 2005.

S. 244(19) was amended by S.C. 1999, c. 17, s. 168, by replacing "Department of National Revenue" with "Canada Customs and Revenue Agency", coming into force on November 1, 1999.

Related Sections: S. 248(1), "amount", "assessment", "business", "employee", "prescribed", "regulation".

► 244(20) ◄

(20) Members of partnerships. For the purposes of this Act,

(*a*) a reference in any notice or other document to the firm name of a partnership shall be read as a reference to all the members thereof; and

(*b*) any notice or other document shall be deemed to have been provided to each member of a partnership if the notice or other document is mailed to, served on or otherwise sent to the partnership

(i) at its latest known address or place of business, or

(ii) at the latest known address

(A) where it is a limited partnership, of any member thereof whose liability as a member is not limited, or

(B) in any other case, of any member thereof.

History: S. 244(20) was added by S.C. 1994, c. 7, Sched. II, s. 191(3), effective December 17, 1991.

► 244(21) ◄

(21) Proof of return filed. For the purposes of this Act, a document presented by the Minister purporting to be a print-out of the information in respect of a taxpayer received under section 150.1 by the Minister from a person shall be received as evidence and, in the absence of evidence to the contrary, is proof of the return filed by the person under that section.

History: S. 244(21) was added by S.C. 1994, c. 7, Sched. VIII, s. 138(1), applicable to the 1992 and subsequent taxation years.

Related Sections: S. 150.1(1) Definition of "electronic filing".

► 244(22) ◄

(22) Filing of information returns. Where a person who is required by this Act or a regulation to file an information return in prescribed form with the Minister meets the criteria specified in writing by the Minister, the person may at any time file the information return with the Minister by way of electronic filing (within the meaning assigned by subsection 150.1(1)) and the person shall be deemed to have filed the information return with the Minister at that time, and a document presented by the Minister purporting to be a print-out of the information so received by the Minister shall be received as evidence and, in the absence of evidence to the contrary, is proof of the information return so deemed to have been filed.

History: S. 244(22) was added by S.C. 1994, c. 7, Sched. VIII, s. 138(1), applicable after 1991.

Related Sections: S. 150.1(1) Definition of "electronic filing"; s. 248(1), "prescribed".

Part XVI
Tax Avoidance

SECTION 245: [General anti-avoidance rule].

► 245(1) ◄

(1) Definitions. In this section,

Interpretation Bulletins: *Secondary* — IT-532 Part I.3 — Tax on large corporations.
Information Circulars: IC 73-10R3 Tax evasion; IC 88-2 General anti-avoidance rule — Section 245 of the Income Tax Act.

"*tax benefit*" — "tax benefit" means a reduction, avoidance or deferral of tax or other amount payable under this Act or an increase in a refund of tax or other amount under this Act, and includes a reduction, avoidance or deferral of tax or other amount that would be payable under this Act but for a tax treaty or an increase in a refund of tax or other amount under this Act as a result of a tax treaty;

History: S. 245(1), the definition "tax benefit" was replaced by S.C. 2005, c. 19, s. 52(1), applicable with respect to transactions entered into after September 12, 1988, and the definition "tax treaty" in subsection 248(1) of the Act is deemed, for the purpose of section 245 of the Act, to have come into force on September 13, 1988. S. 245(1), the definition "tax benefit" formerly read:

" 'tax benefit' — 'tax benefit' means a reduction, avoidance or deferral of tax or other amount payable under this Act or an increase in a refund of tax or other amount under this Act;"

"*tax consequences*" — "tax consequences" to a person means the amount of income, taxable income, or taxable income earned in Canada of, tax or other amount payable by or refundable to the person under this Act, or any other amount that is relevant for the purposes of computing that amount;

"*transaction*" — "transaction" includes an arrangement or event.

Related Sections: S. 248(1), "assessment", "taxable income earned in Canada"; s. 248(10) Series of transactions.
Interpretation Bulletins: *Secondary* — IT-441 Capital cost allowance — Certified feature productions and certified short productions [Archived by the CRA].
Information Circulars: IC 73-10R3 Tax evasion; IC 88-2 General anti-avoidance rule — Section 245 of the Income Tax Act.
Advance Tax Rulings: ATR-6 Vendor reacquires business assets following default by purchaser; ATR-14 Non-arm's length interest charges; ATR-35 Partitioning of assets to get specific ownership — "Butterfly".

► 245(1.1) ◄

(1.1) Idem. [Repealed by 1988, c. 55, s. 185(1).]

► 245(2) ◄

(2) General anti-avoidance provision. Where a transaction is an avoidance transaction, the tax consequences to a person shall be determined as is reasonable in the circumstances in order to deny a tax benefit that, but for this section, would result, directly or indirectly, from that transaction or from a series of transactions that includes that transaction.

Related Sections: S. 17(2) Anti-avoidance rule — indirect loan; s. 248(10) Series of transactions.
Interpretation Bulletins: *Secondary* — IT-291R3 Transfer of property to a corporation under subsection 85(1); IT-474R2 Amalgamations of Canadian corporations.
Information Circulars: IC 73-10R3 Tax evasion; IC 88-2 General anti-avoidance rule — Section 245 of the Income Tax Act.
Advance Tax Rulings: ATR-15 Employee stock option plan; ATR-27 Exchange and acquisition of interests in capital properties through rollovers and winding-up ("Butterfly"); ATR-29 Amalgamation of social clubs; ATR-36 Estate freeze; ATR-42 Transfer of shares; ATR-66 Non-arm's length transfer of debt followed by a winding-up and a sale of shares.
Income Tax Technical News: Issue No. 34, Creation of Capital Losses; Issue No. 34, General Anti-Avoidance Rule and Audit Issues/Concerns; Issue No. 32, Update on GAAR Reviews; Issue No. 30, Tax Avoidance; Issue No. 19, Change of Position in Respect of GAAR — Section 7.
Tax Topics: No. 1927, Quebec Putting the Screws on Aggressive Tax Planning; No. 1845, MIL (Investments) — A Resounding Win for the Taxpayer; No. 1780, Claude Desmarais: The Latest Float in the GAAR Parade; No. 1669, GAAR: Clear And Unambiguous Policy An Ever So Elusive Target For The Crown.
Tax Profile: August 2007 — Case Comment on MIL (Investments) S.A.; December 2006 — GAAR and Treaty Shopping: A Taxpayer Victory; March 2005 — GAAR and Treaty Shopping — An International Perspective; August 2004 — Canadian Tax Treatment of Index Participation Units and Exchange-Traded Index Derivatives.
Canadian Tax Foundation: Kearl and Lemons, "GAAR in the Tax Court After Canada Trustco: A Practitioner's Guide", *2007 Canadian Tax Journal*, No. 4, 745; Arnold, "Policy Forum: Confusion Worse Confounded — The Supreme Court's GAAR Decisions", *2006 Canadian Tax Journal*, No. 1, 167; Li, "Economic Substance: Drawing the Line Between Legitimate Tax Minimization and Abusive Tax Avoidance", *2006 Canadian Tax Journal*, No. 1, 23; Sandler, "The Minister's Burden Under GAAR", *2006 Canadian Tax Journal*, No. 1, 3; Various authors, "Policy Forum: Canada Trustco and Beyond", *2005 Canadian Tax Journal*, No. 4, 1007; Arnold, "The Long, Slow, Steady Demise of the General Anti-Avoidance Rule", *2004 Canadian Tax Journal*, No. 2, 488.
Cases: The non-resident taxpayer had a substantial capital gain which was exempt from Canadian tax under the Canada-Luxembourg Tax Convention. GAAR did not apply due to a lack of evidence that the tax benefit was an abuse or misuse of the Act or the treaty. Crown arguments justifying the taxation of the gain in Canada based on the lack of taxation in Luxembourg were inappropriate in the context of the GAAR. *The Queen v. MIL (Investments) S.A.*, 2007 DTC 5437 (F.C.A.), affirming 2006 DTC 3307 (T.C.C.).

GAAR was used to deny tax benefits where a taxpayer engaged in a series of transactions under which he held a rental property through the use of two partnerships, thereby deferring the recognition of rental income for two years while taking annual expense deductions on a calendar year basis. *Fredette v. The Queen*, 2001 DTC 263 (T.C.C.).

The liquidator of an insolvent trust company transferred some of the company's non-performing mortgages to a partnership at an ACB in excess of market value. The trust company's interest in the partnership was later sold in an arm's length transaction, thereby allowing the corporate purchaser to deduct the losses. This was a series of avoidance transactions. The tax benefit does not have to be enjoyed by the party entering into the impugned transactions. *OSFC Holdings Ltd. v. The Queen*, 2001 DTC 5471 (F.C.A.), affirming 99 DTC 1044 (T.C.C.).

The transactions that resulted in a class of shares being redeemed after the paid-up capital of the shares was increased significantly were designed solely to allow the taxpayer to reduce her tax burden by stripping the surplus from the company without recognizing a dividend. GAAR applied and no discrimination under the Charter was involved. *Nadeau v. The Queen*, 99 DTC 324 (T.C.C.).

► 245(3) ◄

(3) Avoidance transaction. An avoidance transaction means any transaction

(*a*) that, but for this section, would result, directly or indirectly, in a tax benefit, unless the transaction may reasonably be considered to have been undertaken or arranged primarily for *bona fide* purposes other than to obtain the tax benefit; or

(*b*) that is part of a series of transactions, which series, but for this section, would result, directly or indirectly, in a tax benefit, unless the transaction may reasonably be considered to have been undertaken or arranged primarily for *bona fide* purposes other than to obtain the tax benefit.

Related Sections: S. 248(10) Series of transactions.

Income Tax Technical News: Issue No. 19, Change of Position in Respect of GAAR — Section 7; Issue No. 16, Duha (Western) Printers Ltd. v. The Queen; Issue No. 3, Loss utilization within a corporate group.
Tax Topics: No. 1886, *MacKay*: A Potential Threat to the Duke; No. 1806, Expanding GAAR to Tax Treaties? Or Not; No. 1692, Income Tax Implications of Buy-Sell Provisions; No. 1669, GAAR: Clear And Unambiguous Policy An Ever So Elusive Target For The Crown; No. 1578, After REOP, Where Do We GAAR From Here?.
Canadian Tax Foundation: Couzin, "Subsection 245(3): A Framework", *1997 Conference Report*, 4:1.
Cases: A partnership acquired a shopping centre from a bank as part of foreclosure proceedings. The partnership wrote down the value of the property to its FMV, realizing a $6 million loss. Although the series of transactions, as a whole, had a *bona fide* business purpose, the transactions that resulted in the transfer of the accrued loss from the bank to the partnership comprised an abusive avoidance transaction and the partnership losses were denied. *The Queen v. MacKay et al.*, 2008 DTC 6238 (F.C.A.), reversing 2007 DTC 425 (T.C.C.).

The taxpayer's wife borrowed $2.3 million from a bank and used it to buy shares from the taxpayer. He used the proceeds to pay down a shareholder loan, thus avoiding having it included in income. Her interest and loan guarantee fees resulted in losses that were attributed back to him since he didn't elect to avoid the application of s. 73(1). There may have been a tax benefit, but GAAR could not be used to disallow his deduction of losses since there was no avoidance transaction or abuse of the Act. *Overs v. The Queen*, 2006 DTC 2192 (T.C.C.).

In return for an interest-bearing promissory note, the taxpayer sold shares of his professional corporation to a partnership consisting of his wife and children. All dividends received by the partnership were used to pay the taxpayer interest and capital repayments on the note. The Minister was not justified in using GAAR to re-characterize these interest and capital repayments as dividends from a surplus strip. *Evans v. The Queen*, 2005 DTC 1762 (T.C.C.).

The taxpayer, Univar, was a subsidiary of UC. Univar incorporated B, a Barbadian subsidiary. B used the money received from Univar's share subscription to purchase a debt from UC. After paying 2.5% Barbadian tax on interest received on this debt, B paid dividends to Univar. The Minister could not use s. 95(6) and s. 245 to re-characterize these dividends as interest since his premise that the debt was purchased by Univar, rather than by B, was not true. *Univar Canada Ltd. v. The Queen*, 2005 DTC 1478 (T.C.C.).

A series of agreements were used to effect a sale of the taxpayers' beneficial interests in real property while utilizing the losses of a corporation owned by the taxpayers. Although the primary purpose of the transactions was to obtain a tax benefit, they were in accordance with normal business practices, and were entered into for *bona fide* purposes. There was no misuse or abuse of the Act. *Loyens et al. v. The Queen*, 2003 DTC 355 (T.C.C.).

The taxpayer's bank debt was sold to a holding company in order to "park" the debt, thereby avoiding settlement or extinguishment, preventing the application of s. 80, and preserving the taxpayer's accumulated losses for future use. GAAR did not apply since the transaction resulted in a non-use, not a misuse, of s. 80. Also, since the debt had not been legally extinguished, the policy behind s. 80 had not been abused. *The Queen v. Jabin Investments Ltd.*, 2003 DTC 5027 (F.C.A.), affirming 2001 DTC 1002 (T.C.C.).

GAAR was inapplicable to a series of transactions designed to take advantage of an ABIL deduction since there had been no abuse of the Act. The Act does not prohibit a taxpayer from realizing a loss on corporate shares sold at arm's length to third parties, even if an important portion of the corporation's assets (to which such loss was attributable) remain outside the corporation but with other members of the corporate group. *The Queen v. Produits Forestiers Donohue Inc.*, 2002 DTC 7512 (F.C.A.), affirming 2001 DTC 86 (T.C.C.).

The taxpayer borrowed Australian currency (at a higher rate than it could have borrowed in Canadian currency) as part of a series of transactions resulting in a large foreign exchange gain. This was not an avoidance transaction. It was arranged primarily to raise capital which is a *bona fide* business purpose even though it resulted in significant tax benefits. In addition, deducting the excess interest did not result in an abuse of the Act as a whole. *The Queen v. Canadian Pacific Limited*, 2002 DTC 6742 (F.C.A.), affirming 2000 DTC 2428 (T.C.C.).

In a complex series of transactions, the corporate taxpayer purported to gift an interest in certain properties to a registered charity not at arm's length, using the rollover provisions of s. 110.1(3). The charity then sold the properties at arm's length, and loaned the proceeds back to the taxpayer. The said transactions were not avoidance transactions. *Jabs Construction Limited v. The Queen*, 99 DTC 729 (T.C.C.).

When a group of taxpayers reported a capital gain on the disposition of their shares of a holding company, the only asset of which had been a building that had previously been sold, the transaction was held to be an "avoidance transaction". *McNichol et al. v. The Queen*, 97 DTC 111 (T.C.C.).

► 245(4) ◄

(4) Application of subsection (2). Subsection (2) applies to a transaction only if it may reasonably be considered that the transaction

(*a*) would, if this Act were read without reference to this section, result directly or indirectly in a misuse of the provisions of any one or more of

(i) this Act,

(ii) the *Income Tax Regulations*,

(iii) the *Income Tax Application Rules*,

(iv) a tax treaty, or

(v) any other enactment that is relevant in computing tax or any other amount payable by or refundable to a person under this Act or in determining any amount that is relevant for the purposes of that computation; or

(*b*) would result directly or indirectly in an abuse having regard to those provisions, other than this section, read as a whole.

History: S. 245(4) was replaced by S.C. 2005, c. 19, s. 52(2), applicable with respect to transactions entered into after September 12, 1988, and the definition "tax treaty" in subsection 248(1) of the Act is deemed, for the purpose of section 245 of the Act, to have come into force on September 13, 1988. S. 245(4) formerly read:

"(4) *Where s. (2) does not apply.* For greater certainty, subsection (2) does not apply to a transaction where it may reasonably be considered that the transaction would not result directly or indirectly in a misuse of the provisions of this Act or an abuse having regard to the provisions of this Act, other than this section, read as a whole."

Income Tax Technical News: Issue No. 38, Interprovincial Tax Planning Arrangements; Issue No. 34, Loss Consolidation — Provincial Tax.
Tax Topics: No. 1924, Lipson (SCC) — A Unanimously Divided Supreme Court; No. 1919-20, 2008 Canadian Tax Foundation Annual Conference — Department of Finance Presentation and CRA Round Table; No. 1883, Supreme Court To Consider GAAR in *Lipson Appeal*; No. 1856, *Copthorne Holdings Ltd. v. The Queen*: Backward Contemplation Bad for the Taxpayer; No. 1833, Lipson (FCA): All-Purpose Logic?; No. 1806, Expanding GAAR to Tax Treaties? Or Not; No. 1782, Walk the Line — *Lipson v. The Queen*; No. 1767, U.K. Decision Challenges Rule Against Treaty Shopping; No. 1756, The Supreme Court on GAAR: "The Line is Far from Bright" (No Kidding); No. 1669, GAAR: Clear And Unambiguous Policy An Ever So Elusive Target For The Crown; No. 1578, After REOP, Where Do We GAAR From Here?.
Canadian Tax Foundation: Arnold, "Reflections on the Relationship Between Statutory Interpretation and Tax Avoidance", *2001 Canadian Tax Journal*, No. 1, 1.
Cases: The taxpayer's wife obtained a bank loan to purchase shares of a family corporation from him. He used the proceeds to buy a new house. They then took out a mortgage on the house and used it to pay off the bank loan. The mortgage interest was deducted from her dividend income and the resulting loss was attributed to him under s. 74.1(1). This was not an abuse of s. 20(1)(*c*) or 20(3). However, it was an abuse of the attribution rules. *Lipson et al. v. The Queen*, 2009 DTC 5015 (S.C.C.), affirming 2007 DTC 5172 (F.C.A.), affirming 2006 DTC 2687 (T.C.C.).

A 1993 share sale, implemented to preserve $67 million in PUC, was an avoidance transaction. A 1995 share redemption resulted in a tax benefit through the distribution of the $67 million PUC. The redemption was undertaken in contemplation of the series of transactions which included the 1993 share sale. Therefore, the avoidance transaction formed part of a series of related transactions that also gave rise to the tax benefit, and resulted in a misuse of s. 84(3), 87(3)(*a*) and 89(1). However, GAAR does not allow the Minister to levy penalties. *Copthorne Holdings Ltd. v. The Queen*, 2007 DTC 1230 (T.C.C.).

The taxpayer's wife borrowed $2.3 million from a bank and used it to buy shares from the taxpayer. He used the proceeds to pay down a shareholder loan, thus avoiding having it included in income. Her interest and loan guarantee fees resulted in losses that were attributed back to him since he didn't elect to avoid the application of s. 73(1). There may have been a tax benefit, but GAAR could not be used to disallow his deduction of losses since there was no avoidance transaction or abuse of the Act. *Overs v. The Queen*, 2006 DTC 2192 (T.C.C.).

Purchasing equipment and circuitously leasing it back to the vendor, in order to generate CCA with minimal financial risk, was not an abuse or misuse of the Act. The onus is on the Minister to establish abusive tax avoidance. Determinations of misuse and abuse are not separate inquiries. In analyzing s. 245(4), a unified textual, contextual, and purposive analysis of the relevant provisions must be conducted. The Court must then determine whether the avoidance transaction has frustrated the object, spirit, or purpose of the provisions. *The Queen v. Canada Trustco Mortgage Company*, 2005 DTC 5523 (S.C.C.), affirming 2004 DTC 6119 (F.C.A.), affirming 2003 DTC 587 (T.C.C.).

Using a unified textual, contextual, and purposive approach to the interpretation of s. 18(13) and s. 96, the Court concluded that using these provisions

to preserve and sell an unrealized loss to an arm's length party constitutes abusive tax avoidance under s. 245(4). *Mathew v. The Queen (sub nom. Kaulius v. The Queen)*, 2005 DTC 5538 (S.C.C.), affirming 2003 DTC 5644 (F.C.A.), affirming 2002 DTC 1637 (T.C.C.).

The taxpayer made loans to subsidiaries of two banks. Since the subsidiaries were not "financial institutions", the loans were included in the taxpayer's investment allowance, thereby reducing taxable capital. This was not an abuse or misuse of the Act. *The Queen v. Imperial Oil Limited*, 2004 DTC 6044 (F.C.A.), affirming 2002 DTC 1954 (T.C.C.).

The taxpayer and others purchased land which they immediately sold and leased back. They borrowed funds from the purchaser to construct an office building on the land. Cash flow above a certain amount was paid to the owner as either interest or rent based on a formula. These were avoidance transactions but did not result in a misuse or abuse of the Act. *Hill v. The Queen*, 2002 DTC 1749 (T.C.C.).

A series of transactions entered into primarily to obtain increased CCA deductions were avoidance transactions but GAAR was inapplicable since s. 245(4) does not contemplate a tax benefit which contravenes the regulations. *Rousseau-Houle v. The Queen*, 2001 DTC 250 (T.C.C.). See also *Fredette v. The Queen*, 2001 DTC 263 (T.C.C.).

The distribution of a corporation's accumulated surplus through a sale of its shares rather than through liquidating dividend, resulted in misuse or abuse to the extent that its surplus had been used to fund the purchase price of the shares. *McNichol v. The Queen*, 97 DTC 111 (T.C.C.).

► 245(5) ◄

(5) Determination of tax consequences. Without restricting the generality of subsection (2), and notwithstanding any other enactment,

(*a*) any deduction, exemption or exclusion in computing income, taxable income, taxable income earned in Canada or tax payable or any part thereof may be allowed or disallowed in whole or in part,

(*b*) any such deduction, exemption or exclusion, any income, loss or other amount or part thereof may be allocated to any person,

(*c*) the nature of any payment or other amount may be recharacterized, and

(*d*) the tax effects that would otherwise result from the application of other provisions of this Act may be ignored,

in determining the tax consequences to a person as is reasonable in the circumstances in order to deny a tax benefit that would, but for this section, result, directly or indirectly, from an avoidance transaction.

History: S. 245(5), the portion before paragraph (*c*), was replaced by S.C. 2005, c. 19, s. 52(3), applicable with respect to transactions entered into after September 12, 1988. S. 245(5), the portion of subsection 245(5) before paragraph (*c*) formerly read:

"(5) *Determination of tax consequences.* Without restricting the generality of subsection (2),

(*a*) any deduction in computing income, taxable income, taxable income earned in Canada or tax payable or any part thereof may be allowed or disallowed in whole or in part,

(*b*) any such deduction, any income, loss or other amount or part thereof may be allocated to any person,"

► 245(6) ◄

(6) Request for adjustments. Where with respect to a transaction

(*a*) a notice of assessment, reassessment or additional assessment involving the application of subsection (2) with respect to the transaction has been sent to a person, or

(*b*) a notice of determination pursuant to subsection 152(1.11) has been sent to a person with respect to the transaction,

any person (other than a person referred to in paragraph (*a*) or (*b*)) shall be entitled, within 180 days after the day of mailing of the notice, to request in writing that the Minister make an assessment, reassessment or additional assessment applying subsection (2) or make a determination applying subsection 152(1.11) with respect to that transaction.

Related Sections: S. 166.1 Extension of time by Minister.

► 245(7) ◄

(7) Exception. Notwithstanding any other provision of this Act, the tax consequences to any person, following the application of this section, shall only be determined through a notice of assessment, reassessment, additional assessment or determination pursuant to subsection 152(1.11) involving the application of this section.

► 245(8) ◄

(8) Duties of Minister. On receipt of a request by a person under subsection (6), the Minister shall, with all due dispatch, consider the request and, notwithstanding subsection 152(4), assess, reassess or make an additional assessment or determination pursuant to subsection 152(1.11) with respect to that person, except that an assessment, reassessment, additional assessment or determination may be made under this subsection only to the extent that it may reasonably be regarded as relating to the transaction referred to in subsection (6).

SECTION 246:

► 246(1) ◄

(1) Benefit conferred on a person. Where at any time a person confers a benefit, either directly or indirectly, by any means whatever, on a taxpayer, the amount of the benefit shall, to the extent that it is not otherwise included in the taxpayer's income or taxable income earned in Canada under Part I and would be included in the taxpayer's income if the amount of the benefit were a payment made directly by the person to the taxpayer and if the taxpayer were resident in Canada, be

(*a*) included in computing the taxpayer's income or taxable income earned in Canada under Part I for the taxation year that includes that time; or

(*b*) where the taxpayer is a non-resident person, deemed for the purposes of Part XIII to be a payment made at that time to the taxpayer in respect of property, services or otherwise, depending on the nature of the benefit.

Interpretation Bulletins: *Secondary*— IT-432R2 Benefits conferred on shareholders.

► 246(2) ◄

(2) Arm's length. Where it is established that a transaction was entered into by persons dealing at arm's length, *bona fide* and not pursuant to, or as part of, any other transaction and not to effect payment, in whole or in part, of an existing or future obligation, no party thereto shall be regarded, for the purpose of this section, as having conferred a benefit on a party with whom the first-mentioned party was so dealing.

Related Sections: S. 251 Arm's length.

Part XVI.1
Transfer Pricing

SECTION 247:

Information Circulars: IC 87-2R International Transfer Pricing.

Editorial Note: Part XVI.1 contains Canada's transfer pricing tax legislation which consists of two principal components that may apply where transactions are entered into between Canadian taxpayers and non-arm's length non-residents. Firstly, these provisions allow the Minister to make adjustments to the determination of amounts in respect of a taxpayer or a partnership that are part of a transaction with a non-resident that are not made in accordance with the internationally recognized arm's length standard. Secondly, these provisions impose penalties on a taxpayer where a transfer pricing adjustment is made in excess of certain thresholds and where the taxpayer has failed to make reasonable efforts to determine arm's length transfer prices or allocations in respect of a transaction.

► 247(1) ◄

(1) Definitions.

The definitions in this subsection apply in this section.

Information Circulars: IC 87-2R International Transfer Pricing; IC 94-4R International Transfer Pricing: Advance Pricing Arrangements (APAs).

Canadian Tax Foundation: Oatway, "Current Issues in Transfer Pricing", *2007 Conference Report*, 22:1.

"arm's length allocation" — "arm's length allocation" means, in respect of a transaction, an allocation of profit or loss that would have occurred between the participants in the transaction if they had been dealing at arm's length with each other.

"arm's length transfer price" — "arm's length transfer price" means, in respect of a transaction, an amount that would have been a transfer price in respect of the transaction if the participants in the transaction had been dealing at arm's length with each other.

Editorial Note: The "arm's length standard" is at the heart of the transfer pricing rules in jurisdictions that are member states of the OECD, including Canada. However, section 247 does not define how the arm's length transfer prices are to be determined. Instead, the CRA has publicly endorsed the methods of determining an arm's length transfer price used by the OECD in its published *Guidelines for Multinational Enterprises*.

"documentation-due date" — "documentation-due date" for a taxation year or fiscal period of a person or partnership means

(*a*) in the case of a person, the person's filing-due date for the year; or

(*b*) in the case of a partnership, the day on or before which a return is required by section 229 of the *Income Tax Regulations* to be filed in respect of the period or would be required to be so filed if that section applied to the partnership.

Related Sections: S. 150 Filing returns of income — general rule; s. 248(1), "filing due date".

"qualifying cost contribution arrangement" — "qualifying cost contribution arrangement" means an arrangement under which reasonable efforts are made by the participants in the arrangement to establish a basis for contributing to, and to contribute on that basis to, the cost of producing, developing or acquiring any property, or acquiring or performing any services, in proportion to the benefits which each participant is reasonably expected to derive from the property or services, as the case may be, as a result of the arrangement.

Related Sections: S. 247(3) Penalty; s. 247(4) Contemporaneous documentation.

Tax Profile: June 2008 — International Tax Planning for the Owner-Manager; March 2006 — Some Tax Considerations for Investing in Silicon Valley North.

Canadian Petroleum Tax Journal: High Tech in the Oil Patch: Planning Considerations For Transferring Technology Offshore, Derek A. Kurrant, Vol. 13 No. 1 2000.

"tax benefit" — "tax benefit" has the meaning assigned by subsection 245(1).

History: S. 247(1), the definition "tax benefit" was replaced by S.C. 2005, c. 19, s. 53(1), applicable to taxation years and fiscal periods that begin after 1997. S. 247(1), the definition "tax benefit" formerly read:

" *'tax benefit'* — 'tax benefit' means a reduction, avoidance or deferral of tax or other amount payable under this Act or an increase in a refund of tax or other amount under this Act."

Information Circulars: IC 88-2 General anti-avoidance rule — Section 245 of the Income Tax Act.

"transaction" — "transaction" includes an arrangement or event.

"transfer price" — "transfer price" means, in respect of a transaction, an amount paid or payable or an amount received or receivable, as the case may be, by a participant in the transaction as a price, a rental, a royalty, a premium or other payment for, or for the use, production or reproduction of, property or as consideration for services (including services provided as an employee and the insurance or reinsurance of risks) as part of the transaction.

"transfer pricing capital adjustment" — "transfer pricing capital adjustment" of a taxpayer for a taxation year means the total of

(*a*) all amounts each of which is

(i) 1/2 of the amount, if any, by which the adjusted cost base to the taxpayer of a capital property (other than a depreciable property) is reduced in the year because of an adjustment made under subsection (2),

(ii) 3/4 of the amount, if any, by which the adjusted cost base to the taxpayer of an eligible capital expenditure of the taxpayer in respect of a business is reduced in the year because of an adjustment made under subsection (2), or

(iii) the amount, if any, by which the capital cost to the taxpayer of a depreciable property is reduced in the year because of an adjustment made under subsection (2); and

(*b*) all amounts each of which is that proportion of the total of

(i) 1/2 of the amount, if any, by which the adjusted cost base to a partnership of a capital property (other than a depreciable property) is reduced in a fiscal period that ends in the year because of an adjustment made under subsection (2),

(ii) 3/4 of the amount, if any, by which the adjusted cost base to a partnership of an eligible capital expenditure of the partnership in respect of a business is reduced in a fiscal period that ends in the year because of an adjustment made under subsection (2), and

(iii) the amount, if any, by which the capital cost to a partnership of a depreciable property is reduced in the period because of an adjustment made under subsection (2),

that

(iv) the taxpayer's share of the income or loss of the partnership for the period

is of

(v) the income or loss of the partnership for the period,

and where the income and loss of the partnership are nil for the period, the income of the partnership for the period is deemed to be $1,000,000 for the purpose of determining a taxpayer's share of the partnership's income for the purpose of this definition.

History: S. 247(1), the definition "transfer pricing capital adjustment" was amended by S.C. 2001, c. 17, s. 187(1), applicable to taxation years that end after February 27, 2000 except that, for a taxation year of a taxpayer that includes February 28, 2000 or October 17, 2000 or began after February 28, 2000 or ended before October 17, 2000, the reference to the fraction "1/2" in the definition "transfer pricing capital adjustment" in subsection 247(1) of the Act shall be read as a reference to the fraction in paragraph 38(*a*) of the Act that applies to the taxpayer for the year. S. 247(1), the definition "transfer pricing capital adjustment" formerly read:

"'*transfer pricing capital adjustment*'— 'transfer pricing capital adjustment' of a taxpayer for a taxation year means the total of

(*a*) all amounts each of which is

(i) 3/4 of the amount, if any, by which the adjusted cost base to the taxpayer of a capital property (other than a depreciable property) or an eligible capital expenditure of the taxpayer in respect of a business is reduced in the year because of an adjustment made under subsection (2), or

(ii) the amount, if any, by which the capital cost to the taxpayer of a depreciable property is reduced in the year because of an adjustment made under subsection (2); and

(*b*) all amounts each of which is that proportion of the total of

(i) 3/4 of the amount, if any, by which the adjusted cost base to a partnership of a capital property (other than a depreciable property) or an eligible capital expenditure of a partnership in respect of a business is reduced in a fiscal period that ends in the year because of an adjustment made under subsection (2), and

(ii) the amount, if any, by which the capital cost to a partnership of a depreciable property is reduced in the period because of an adjustment made under subsection (2),

that

(iii) the taxpayer's share of the income or loss of the partnership for the period

is of

(iv) the income or loss of the partnership for the period,

and where the income and loss of the partnership are nil for the period, the income of the partnership for the period is deemed to be $1,000,000 for the purpose of determining a taxpayer's share of the partnership's income for the purpose of this definition."

"*transfer pricing capital setoff adjustment*" — "transfer pricing capital setoff adjustment" of a taxpayer for a taxation year means the amount, if any, that would be the taxpayer's transfer pricing capital adjustment for the year if the references, in the definition "transfer pricing capital adjustment", to "reduced" were read as "increased".

"*transfer pricing income adjustment*" — "transfer pricing income adjustment" of a taxpayer for a taxation year means the total of all amounts each of which is the amount, if any, by which an adjustment made under subsection (2) (other than an adjustment included in determining a transfer pricing capital adjustment of the taxpayer for a taxation year) would result in an increase in the taxpayer's income for the year or a decrease in a loss of the taxpayer for the year from a source if that adjustment were the only adjustment made under subsection (2).

"*transfer pricing income setoff adjustment*" — "transfer pricing income setoff adjustment" of a taxpayer for a taxation year means the total of all amounts each of which is the amount, if any, by which an adjustment made under subsection (2) (other than an adjustment included in determining a transfer pricing capital setoff adjustment of the taxpayer for a taxation year) would result in a decrease in the taxpayer's income for the year or an increase in a loss of the taxpayer for the year from a source if that adjustment were the only adjustment made under subsection (2).

History: S. 247(1) was added by S.C. 1998, c. 19, s. 238(1), applicable to taxation years and fiscal periods that begin after 1997.

► 247(2) ◄

(2) Transfer pricing adjustment. Where a taxpayer or a partnership and a non-resident person with whom the taxpayer or the partnership, or a member of the partnership, does not deal at arm's length (or a partnership of which the non-resident person is a member) are participants in a transaction or a series of transactions and

(*a*) the terms or conditions made or imposed, in respect of the transaction or series, between any of the participants in the transaction or series differ from those that would have been made between persons dealing at arm's length, or

(*b*) the transaction or series

(i) would not have been entered into between persons dealing at arm's length, and

(ii) can reasonably be considered not to have been entered into primarily for *bona fide* purposes other than to obtain a tax benefit,

any amounts that, but for this section and section 245, would be determined for the purposes of this Act in respect of the taxpayer or the partnership for a taxation year or fiscal period shall be adjusted (in this section referred to as an "adjustment") to the quantum or nature of the amounts that would have been determined if,

(*c*) where only paragraph (*a*) applies, the terms and conditions made or imposed, in respect of the transaction or series, between the participants in the transaction or series had been those that would have been made between persons dealing at arm's length, or

(*d*) where paragraph (*b*) applies, the transaction or series entered into between the participants had been the transaction or series that would have been entered into between persons dealing at arm's length, under terms and conditions that would have been made between persons dealing at arm's length.

History: S. 247(2) was added by S.C. 1998, c. 19, s. 238(1), applicable to taxation years and fiscal periods that begin after 1997.

Editorial Note: The transfer pricing adjustment provisions may apply to any transaction between a taxpayer or a partnership and a non-resident person with whom the taxpayer or the partnership or a member of the partnership does not deal at arm's length.

Adjustments may be made by the Minister so that transactions entered into by the taxpayer better reflect terms and conditions that arm's length parties would have agreed to.

The Minister also has the power to recharacterize transactions where it is concluded that transactions would not have been entered into by arm's length parties and were entered into by the parties primarily to obtain a tax benefit. Prior to issuing a reassessment resulting from a recharacterization, the Transfer Pricing Review Committee must approve it. The Minister has the ability to make these adjustments three years after the typical limitation periods for reassessment expire pursuant to subparagraph 152(4)(*b*)(iii). Transfer pricing adjustments can create the potential for double taxation

where a corresponding adjustment is not made in the jurisdiction of the non-resident. Canada's income tax treaties generally contain mutual agreement procedures whereby the two competent authorities can attempt to resolve any double taxation that may result from a transfer pricing adjustment.

See also the following CRA Transfer Memorandums: TPM-02 Repatriation of Funds by Non-residents — Part XIII Assessments; TPM-03 Downward Transfer Pricing Adjustments Under Subsection 247(2); TPM-04 Third-Party Information; TPM-05 Contemporaneous Documentation; TPM-06 Bundled Transactions; TPM-07 Referrals to the Transfer Pricing Review Committee; TPM-09 Reasonable Efforts under Section 247 of the *Income Tax Act*; TPM-11 Advance Pricing Arrangement Rollback; TPM-12 Accelerated Competent Authority Procedure.

See Department of Finance comfort letters, dated January 24, 2005, December 7, 2004, and March 11, 2003, after s. 247(7).

Related Sections: S. 115.2(4) Transfer pricing s. 152(4)(*b*)(iii) Assessment and reassessment; s. 247(3) Penalty; s. 247(6) Deemed member of partnership; s. 247(7) Exclusion for loans to certain controlled foreign affiliates.
Information Circulars: IC 87-2R International Transfer Pricing; IC 94-4R International Transfer Pricing: Advance Pricing Arrangements (APAs); IC 06-1 Income Tax Transfer Pricing and Customs Valuation.
Income Tax Technical News: Issue No. 34, Update on Transfer Pricing; Issue No. 32, Application of Penalties.
Tax Topics: No. 1895, Transfer Pricing Decision — GlaxoSmithKline Inc. v. The Queen; No. 1897, Unmasking "Management Fees" — What's in a Name?; No. 1885, OECD Reviews Transfer Pricing Methodologies — Will the CRA Follow Suit?; No. 1783, Paragraph 247(2)(*b*) Demystified; No. 1717, OECD Transfer Pricing Updates; No. 1687, Proposed U.S. Regulations on Services and Intangible Property: Implications for Canada; No. 1687, PATA Releases Guidance Documents Re Transfer Pricing; No. 1664, How Comparable Are Your CUPs?; No. 1661, Intercompany Interest Rates: an Overlooked Transfer Pricing Issue; No. 1634, Repatriation of Funds by Non-Residents - Part XIII Assessments; No. 1567, Contract Manufacturing Strategies: Tax-Saving Options for Intercompany Profit Allocation; No. 1566, Third Party Civil Penalties: Caution Needed When Filing T2 and T106 Returns; No. 1536, Transfer Pricing: An Outline of the Canadian Rules; No. 1534, Revised Circular on Advance Pricing Arrangements: The Rebirth of the APA Program?.
Tax Profile: January 2009 — Enhancing Canada's International Tax Advantage; June 2008 — International Tax Planning for the Owner-Manager; October 2006 — Tax Controversies in Canada: A Variety of Issues; January 2005 — CRA Threatens Use of Transfer Pricing in Non-Commercial Transactions; April 2002 — Tax Considerations for Canadian Businesses Expanding to the U.S.; July 2001 — International Fiscal Association (Canadian Branch), International Tax Seminars; July 2000 — Transfer Pricing in Canada.
Canadian Tax Foundation: Mawani and Reid, "Transfer Pricing and Employee Stock Options", *2005 Canadian Tax Journal*, No. 3, 607; Turner, "Transfer-Pricing Compliance Standards", *2003 Conference Report*, 11:1; Vincent, "Transfer Pricing: Range and Multiple-Year Data in Perspective", *2002 Conference Report*, 16:1.
Canadian Petroleum Tax Journal: Canada Customs and Revenue Agency 1999 Roundtable Questions and Answers, Question 3, Vol. 13 No. 1 2000.

► 247(3) ◄

(3) Penalty. A taxpayer (other than a taxpayer all of whose taxable income for the year is exempt from tax under Part I) is liable to a penalty for a taxation year equal to 10% of the amount determined under paragraph (*a*) in respect of the taxpayer for the year, where

(*a*) the amount, if any, by which

(i) the total of

(A) the taxpayer's transfer pricing capital adjustment for the year, and

(B) the taxpayer's transfer pricing income adjustment for the year

exceeds the total of

(ii) the total of all amounts each of which is the portion of the taxpayer's transfer pricing capital adjustment or transfer pricing income adjustment for the year that can reasonably be considered to relate to a particular transaction, where

(A) the transaction is a qualifying cost contribution arrangement in which the taxpayer or a partnership of which the taxpayer is a member is a participant, or

(B) in any other case, the taxpayer or a partnership of which the taxpayer is a member made reasonable efforts to determine arm's length transfer prices or arm's length allocations in respect of the transaction, and to use those prices or allocations for the purposes of this Act, and

(iii) the total of all amounts, each of which is the portion of the taxpayer's transfer pricing capital setoff adjustment or transfer pricing income setoff adjustment for the year that can reasonably be considered to relate to a particular transaction, where

(A) the transaction is a qualifying cost contribution arrangement in which the taxpayer or a partnership of which the taxpayer is a member is a participant, or

(B) in any other case, the taxpayer or a partnership of which the taxpayer is a member made reasonable efforts to determine arm's length transfer prices or arm's length allocations in respect of the transaction, and to use those prices or allocations for the purposes of this Act,

is greater than

(*b*) the lesser of

(i) 10% of the amount that would be the taxpayer's gross revenue for the year if this Act were read without reference to subsection (2), subsections 69(1) and (1.2) and section 245, and

(ii) $5,000,000.

History: S. 247(3) was added by S.C. 1998, c. 19, s. 238(1), applicable with respect to adjustments made under subsection 247(2) of the Act for taxation years and fiscal periods that begin after 1998, except that

(*a*) subsections 247(3) to (5) and (9) of the Act, do not apply to transactions completed before September 11, 1997; and

(*b*) a record or document made or obtained or provided to the Minister of National Revenue by a taxpayer or a partnership on or before the taxpayer's or partnership's documentation-due date for the taxpayer's or partnership's first taxation year or fiscal period, as the case may be, that begins after 1998 is deemed for the purpose of subsection 247(4) of the Act to have been so made, obtained or provided on a timely basis.

Editorial Note: The transfer pricing penalty provision serves two purposes. It provides a deterrent to non-compliance with the arm's length standard on transfer pricing and it encourages the preparation of contemporaneous documentation to support transfer prices without actually requiring it. The penalty is imposed at a rate of 10% of the transfer pricing adjustment and because the penalty is a function of the income adjustment and not the tax payable, the penalty cannot be sheltered and accrues non-deductible interest from the date of assessment.

Related Sections: S. 152(4)(*b*)(iii) Assessment and reassessment; s. 247(5) Partner's gross revenue; s. 247(6) Deemed member of partnership; s. 247(9) Anti-avoidance; s. 247(11) Provisions applicable to Part.
Information Circulars: IC 94-4R International Transfer Pricing: Advance Pricing Arrangements (APAs); IC 06-1 Income Tax Transfer Pricing and Customs Valuation.
Tax Topics: No. 1536, Transfer Pricing: An Outline of the Canadian Rules.
Tax Profile: July 2000 — Transfer Pricing in Canada.

► 247(4) ◄

(4) Contemporaneous documentation. For the purposes of subsection (3) and the definition "qualifying cost contribution arrangement" in subsection (1), a taxpayer or a partnership is deemed not to have made reasonable efforts to determine and use arm's length transfer prices or arm's length allocations in respect of a transaction or not to have participated in a transaction that is a qualifying cost contribution arrangement, unless the taxpayer or the partnership, as the case may be,

(*a*) makes or obtains, on or before the taxpayer's or partnership's documentation-due date for the taxation year or fiscal period, as the case may be, in

which the transaction is entered into, records or documents that provide a description that is complete and accurate in all material respects of

(i) the property or services to which the transaction relates,

(ii) the terms and conditions of the transaction and their relationship, if any, to the terms and conditions of each other transaction entered into between the participants in the transaction,

(iii) the identity of the participants in the transaction and their relationship to each other at the time the transaction was entered into,

(iv) the functions performed, the property used or contributed and the risks assumed, in respect of the transaction, by the participants in the transaction,

(v) the data and methods considered and the analysis performed to determine the transfer prices or the allocations of profits or losses or contributions to costs, as the case may be, in respect of the transaction, and

(vi) the assumptions, strategies and policies, if any, that influenced the determination of the transfer prices or the allocations of profits or losses or contributions to costs, as the case may be, in respect of the transaction;

(*b*) for each subsequent taxation year or fiscal period, if any, in which the transaction continues, makes or obtains, on or before the taxpayer's or partnership's documentation-due date for that year or period, as the case may be, records or documents that completely and accurately describe each material change in the year or period to the matters referred to in any of subparagraphs (*a*)(i) to (vi) in respect of the transaction; and

(*c*) provides the records or documents described in paragraphs (*a*) and (*b*) to the Minister within 3 months after service, made personally or by registered or certified mail, of a written request therefor.

History: S. 247(4) was added by S.C. 1998, c. 19, s. 238(1), applicable with respect to adjustments made under subsection 247(2) of the Act, for taxation years and fiscal periods that begin after 1998, except that

(*a*) subsections 247(3) to (5) and (9) of the Act, do not apply to transactions completed before September 11, 1997; and

(*b*) a record or document made or obtained or provided to the Minister of National Revenue by a taxpayer or a partnership on or before the taxpayer's or partnership's documentation-due date for the taxpayer's or partnership's first taxation year or fiscal period, as the case may be, that begins after 1998 is deemed for the purpose of subsection 247(4) of the Act, to have been so made, obtained or provided on a timely basis.

Editorial Note: This deeming provision provides that a taxpayer or partnership will be deemed not to have made reasonable efforts to determine and use arm's length transfer prices in respect of a transaction (and thereby be exposed to the potential for penalties under subsection 247(3)) unless the taxpayer makes or obtains on or before the taxpayer's or partnership's documentation-due date for the taxation year in which the transaction was entered into, records or documents that accurately describe the details of the transaction as set out in subparagraphs 247(4)(*a*)(i) to (vi). While these documents are not filed with the CRA, the taxpayer must provide these records and documents to the CRA within three months after service of a written request for them from the Minister. This section deems a taxpayer who has not complied with the conditions specified therein to have not made reasonable efforts. The corollary is not true. The Minister has the authority to conclude that a taxpayer has not made reasonable efforts and is subject to a penalty, even where contemporaneous documentation has been prepared and provided to the Minister within the applicable time limits.

See also Pacific Association of Tax Administrators (PATA) Transfer Pricing Documentation Package.

Related Sections: S. 248(1), "record".

Information Circulars: IC 87-2R International Transfer Pricing; 94-4R International Transfer Pricing: Advance Pricing Arrangements (APAs).
Forms: T106.
Tax Topics: No. 1860, Transfer Pricing — How Long Does the Canada Revenue Agency Have To Reassess a Taxpayer?; No. 1860, Transfer Pricing — Shareholder Costs: To Allocate or Not To Allocate, That Is the Question; No. 1765, Canadian Distributors, Marketing Intangibles and Profit: The Transfer Pricing Connection; No. 1762, Foreign Exchange Fluctuations and Transfer Pricing Analysis; No. 1761, Transfer Pricing — Defending Intra-Group Service Charges under Audit; No. 1597, PATA Transfer Pricing Documentation Proposal Confuses Rather Than Clarifies; No. 1536, Transfer Pricing: An Outline of the Canadian Rules.
Tax Profile: July 2000 — Transfer Pricing in Canada.

► 247(5) ◄

(5) Partner's gross revenue. For the purpose of subparagraph (3)(*b*)(i), where a taxpayer is a member of a partnership in a taxation year, the taxpayer's gross revenue for the year as a member of the partnership from any activities carried on by means of the partnership is deemed to be that proportion of the amount that would be the partnership's gross revenue from the activities if it were a taxpayer (to the extent that amount does not include amounts received or receivable from other partnerships of which the taxpayer is a member in the year), for a fiscal period of the partnership that ends in the year, that

(*a*) the taxpayer's share of the income or loss of the partnership from its activities for the period

is of

(*b*) the income or loss of the partnership from its activities for the period,

and where the income and loss of the partnership from its activities are nil for the period, the income of the partnership from its activities for the period is deemed to be $1,000,000 for the purpose of determining a taxpayer's share of the partnership's income from its activities for the purpose of this subsection.

History: S. 247(5) was added by S.C. 1998, c. 19, s. 238(1), applicable with respect to adjustments made under subsection 247(2) of the Act, for taxation years and fiscal periods that begin after 1998, except that

(*a*) subsections 247(3) to (5) and (9) of the Act, as enacted by subsection (1), do not apply to transactions completed before September 11, 1997; and

(*b*) a record or document made or obtained or provided to the Minister of National Revenue by a taxpayer or a partnership on or before the taxpayer's or partnership's documentation-due date for the taxpayer's or partnership's first taxation year or fiscal period, as the case may be, that begins after 1998 is deemed for the purpose of subsection 247(4) of the Act, to have been so made, obtained or provided on a timely basis.

Related Sections: S. 247(9) Anti-avoidance; s. 248(1), "gross revenue".

► 247(6) ◄

(6) Deemed member of partnership. For the purposes of this section, where a person is a member of a partnership that is a member of another partnership,

(*a*) the person is deemed to be a member of the other partnership; and

(*b*) the person's share of the income or loss of the other partnership is deemed to be equal to the amount of that income or loss to which the person is directly or indirectly entitled.

History: S. 247(6) was added by S.C. 1998, c. 19, s. 238(1), applicable to taxation years and fiscal periods that begin after 1997.

► 247(7) ◄

(7) Exclusion for loans to certain controlled foreign affiliates. Where, in a taxation year of a corporation resident in Canada, a non-resident person owes an amount to the corporation, the non-resident person is a controlled foreign affiliate of the corporation for the purpose of sec-

tion 17 throughout the period in the year during which the amount is owing and it is established that the amount owing is an amount owing described in paragraph 17(8)(*a*) or (*b*), subsection (2) does not apply to adjust the amount of interest paid, payable or accruing in the year on the amount owing.

Department of Finance Comfort Letter [Transfer Pricing — Debt Guarantee]

January 24, 2005

Dear XXXX

I am writing in response to your letters dated October 27 and 28, 2004 in connection with section 247 of the *Income Tax Act* (the "Act").

In a comfort letter dated March 11, 2003 issued on behalf of the Tax Legislation Division, we indicated that we were prepared to recommend to the Minister of Finance an amendment to the Act in connection with section 247. The March 11, 2003 letter was drafted to address particular sets of circumstances.

In your correspondence, you ask that our recommended amendments to the Minister be modified to address a broader range of circumstances under which a corporation resident in Canada may guarantee an amount owing by a non-resident but not provide that guarantee in writing. To support your request, you cite examples of where a corporation resident in Canada could provide a guarantee of a non-resident's debt without written agreements between the corporation resident in Canada and the lender.

We concur with your view. Accordingly, we are prepared to recommend to the Minister of Finance that the Act be amended so that subsection 247(2) of the Act will not apply to adjust the amount of consideration paid, payable or accruing to a corporation resident in Canada (the "parent") in a particular taxation year of the parent for the provision of a guarantee of the repayment, in whole or in part, of an amount owing by a non-resident person, if

- the non-resident person is a controlled foreign affiliate of the parent for the purpose of section 17 of the Act throughout the period in the particular year during which the amount owing is owing, and
- it is established that the amount owing would, if the amount owing were an amount owing to the parent, be an amount owing described in paragraph 17(8)(*a*) or (*b*).

If these recommendations are acted upon, I would anticipate that the amendment would be included in a future technical bill.

We will recommend that the amendment apply prospectively, with taxpayers having an option to also apply it to taxation years that begin after 1997. For taxation years that begin before February 24, 1998, the above-noted definition (of "controlled foreign affiliate") and descriptions from section 17, as it currently reads, would be applied.

In your correspondence, you also suggested that the Act be amended to provide that subsection 247(2) of the Act not apply to adjust the amount of consideration paid, payable or accruing to a corporation resident in Canada for the giving of a guarantee of the amounts owing by a controlled foreign affiliate of the corporation resident in Canada as lessee under a lease of property. Although there may be some similarities as between a guarantee relating to a debt obligation and a guarantee relating to a lease obligation, I am not prepared, at this time, to recommend such an amendment without comprehensive review of the facts and information concerning the lease arrangements referred to in your letter. Should you provide the required facts and information, we will study your suggestion as part of our ongoing review of the provisions of the Act.

Thank your for your correspondence.

Yours sincerely,

Len Farber
General Director
Tax Legislation Division
Tax Policy Branch

Department of Finance Comfort Letter [Broadening of Exception from Application of Transfer Pricing Rules for Debt Guarantees]

December 7, 2004

Dear XXXX

SUBJECT: Section 247 of the *Income Tax Act*

I am writing in response to your letter dated October 4, 2004 in connection with section 247 of the *Income Tax Act* (the "Act").

In a comfort letter dated March 11, 2003 issued by the Tax Legislation Division, we indicated that we were prepared to recommend to the Minister of Finance an amendment to the Act in connection with section 247. The March 11, 2003 letter was drafted to address particular sets of circumstances.

In your letter, you ask that our recommended amendments to the Minister be modified to address a broader range of circumstances under which a corporation resident in Canada may guarantee an amount owing by a non-resident but not provide that guarantee in writing. To support your request, you cite examples of where a corporation resident in Canada could provide a guarantee of a non-resident's debt without written agreements between the corporation resident in Canada and the lender.

We are of the view that your arguments have merit. Accordingly, we are prepared to recommend to the Minister of Finance that the Act be amended so that subsection 247(2) of the Act will not apply to adjust the amount of consideration paid, payable or accruing to a corporation resident in Canada (the "parent") in a particular taxation year of the parent for the provision of a guarantee of the repayment, in whole or in part, of an amount owing by a non-resident person, if

- the non-resident person is a controlled foreign affiliate of the parent for the purpose of section 17 of the Act throughout the period in the particular year during which the amount owing is owing, and
- it is established that the amount owing would, if the amount owing were an amount owing to the parent, be an amount owing described in paragraph 17(8)(*a*) or (*b*).

If these recommendations are acted upon, I would anticipate that the amendment would be included in a future technical bill.

We will recommend that the amendment apply prospectively, with taxpayers having an option to also apply it to taxation years that begin after 1997. For taxation years that begin before February 24, 1998, the above-noted definition (of "controlled foreign affiliate") and descriptions from section 17, as it currently reads, would be applied.

I wish to thank you for raising this matter with us.

Yours sincerely,

Len Farber
General Director
Tax Legislation Division
Tax Policy Branch

Department of Finance Comfort Letter [Exception from Application of Transfer Pricing Rules for Debt Guarantees]

March 11, 2003

Dear XXXX:

I am writing in response to your letter dated December 19, 2002 in which you requested that an amendment be made to the transfer pricing rules in section 247 of the *Income Tax Act* to exclude explicitly from the ambit of those rules, certain loan guarantees provided by Canadian resident corporations in respect of their controlled foreign affiliates.

In your letter, you noted that subsection 247(7) of the Act provides an exception, from the ambit of the transfer pricing rules, for certain loans made by a Canadian resident parent corporation to its controlled foreign affiliates. Specifically, that subsection provides that where a non-resident person owes an

amount to a corporation resident in Canada, the non-resident person is a controlled foreign affiliate of the corporation for the purposes of section 17 of the Act and the amount owing is described in either paragraph 17(8)(*a*) or (*b*), subsection 247(2) will not apply to adjust the amount of interest paid, payable or accruing in the year on the amount owing. In general terms, an amount owing is described in paragraph 17(8)(*a*) or (*b*) if it arose as a loan, or advance of money, that was used by the affiliate to earn active business income or if it arose in the course of an active business carried on by the affiliate.

We agree that it would be appropriate in tax policy terms to provide for a parallel exception to the transfer pricing rules for guarantees provided by Canadian resident corporations in respect of controlled foreign affiliates. Accordingly, we are prepared to recommend to the Minister of Finance that the Act be amended to provide that subsection 247(2) of the Act will not apply to adjust the amount of consideration paid, payable or accruing to a corporation resident in Canada (the "parent") in a particular taxation year of the parent for the providing of a guarantee of the repayment, in whole or in part, of an amount owing by a non-resident person to a person or partnership (the "lender"), if

- the parent provided the guarantee pursuant to an agreement in writing entered into with the lender or with a person related to the lender,
- the non-resident person is a controlled foreign affiliate of the parent for the purpose of section 17 of the Act throughout the period in the particular year during which the amount owing is owing, and
- it is established that the amount owing would, if the amount owing were an amount owing to the parent, be an amount owing described in paragraph 17(8)(*a*) or (*b*).

If these recommendations are acted upon, I would anticipate that the amendment would be included in a future technical bill.

We will recommend that the amendment apply prospectively, with taxpayers having an option to also apply it to taxation years that begin after 1997. For taxation years that begin before February 24, 1998, the above-noted definition (of "controlled foreign affiliate") and descriptions from section 17, as it currently reads, would be applied.

I wish to thank you for raising this matter with us.

Yours sincerely,

Len Farber
General Director
Tax Legislation Division
Tax Policy Branch

Draft Amendments to the *Income Tax Act*

(version: February 25, 2003)

Re: Proposed Comfort Letter to XXXX

Incoming letter dated December 19, 2002

(1) Section 247 of the Income Tax Act is amended by adding the following after subsection (7):

Exclusion for guarantees in respect of certain controlled foreign affiliates

(7.1) Subsection (2) will not apply to adjust the amount of consideration paid, payable or accruing to a corporation resident in Canada (referred to in this subsection as the "parent") in a particular taxation year of the parent for the providing of a guarantee of the repayment, in whole or in part, of an amount owing by a non-resident person to a person or partnership (referred to in this subsection as the "lender"), if

(a) the parent provided the guarantee pursuant to an agreement in writing entered into with the lender or with a person or partnership related to the lender,

(b) the non-resident person is a controlled foreign affiliate of the parent for the purpose of section 17 throughout the period in the particular year during which the amount owing is owing, and

(c) it is established that the amount owing would, if the amount owing were an amount owing to the parent, be an amount owing described in paragraph 17(8)(*a*) or (*b*).

(2) Subsection (1) applies to taxation years of a taxpayer that begin after ANNOUNCEMENT DATE, except that, if the taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act is assented to,

(a) this subsection applies to taxation years of the taxpayer that begin after 1997,

(b) in applying subsection 247(7.1) of the *Income Tax Act*, as enacted by subsection (1), to taxation years that begin before February 24, 1998, section 17 of that Act shall be read as it read on ANNOUNCEMENT DATE, and

(c) in applying subsection 247(7.1) of the *Income Tax Act*, as enacted by subsection (1), any assessment of a taxpayer's tax, interest and penalties payable under that Act for any of those taxation years of the taxpayer that begin before [ANNOUNCEMENT DATE + 1] shall, notwithstanding subsections 152(4) to (5) of that Act, be made that is necessary to take the election into account.

History: S. 247(7) was amended by S.C. 1999, c. 22, s. 79(1), applicable to taxation years that begin after February 23, 1998. S. 247(7) formerly read:

"(7) *Exclusion for loans to subsidiary.* Subsection (2) does not apply to a transaction that is a loan referred to in subsection 17(3)."

S. 247(7) was added by S.C. 1998, c. 19, s. 238(1), applicable to taxation years and fiscal periods that begin after 1997.

Tax Window Files: Transfer Pricing Adjustment — Loan to Non-resident Corporation, February 6, 2004, CRA Document No. 2003-0033891E5

► 247(8) ◄

(8) Provisions not applicable. Where subsection (2) would, if this Act were read without reference to sections 67 and 68 and subsections 69(1) and (1.2), apply to adjust an amount under this Act, sections 67 and 68 and subsections 69(1) and (1.2) shall not apply to determine the amount if subsection (2) is applied to adjust the amount.

History: S. 247(8) was added by S.C. 1998, c. 19, s. 238(1), applicable to taxation years and fiscal periods that begin after 1997.

► 247(9) ◄

(9) Anti-avoidance. For the purposes of determining a taxpayer's gross revenue under subparagraph (3)(*b*)(i) and subsection (5), a transaction or series of transactions is deemed not to have occurred, if one of the purposes of the transaction or series was to increase the taxpayer's gross revenue for the purpose of subsection (3).

History: S. 247(9) was added by S.C. 1998, c. 19, s. 238(1), applicable with respect to adjustments made under subsection 247(2) of the Act, for taxation years and fiscal periods that begin after 1998, except that

(*a*) subsections 247(3) to (5) and (9) of the Act do not apply to transactions completed before September 11, 1997; and

(*b*) a record or document made or obtained or provided to the Minister of National Revenue by a taxpayer or a partnership on or before the taxpayer's or partnership's documentation-due date for the taxpayer's or partnership's first taxation year or fiscal period, as the case may be, that begins after 1998 is deemed for the purpose of subsection 247(4) of the Act, to have been so made, obtained or provided on a timely basis.

Related Sections: S. 248(10) Series of transactions.

► 247(10) ◄

(10) No adjustment unless appropriate. An adjustment (other than an adjustment that results in or increases a transfer pricing capital adjustment or a transfer pricing income adjustment of a taxpayer for a taxation year) shall not be made under subsection (2) unless, in the opinion of the Minister, the circumstances are such that it would be appropriate that the adjustment be made.

History: S. 247(10) was added by S.C. 1998, c. 19, s. 238(1), applicable to taxation years and fiscal periods that begin after 1997.

► 247(11) ◄

(11) Provisions applicable to Part. Sections 152, 158, 159, 162 to 167 and Division J of Part I apply to this Part, with such modifications as the circumstances require.

History: S. 247(11) was added by S.C. 1998, c. 19, s. 238(1), applicable to taxation years and fiscal periods that begin after 1997.

Part XVII
Interpretation

SECTION 248:

► 248(1) ◄

(1) Definitions. In this Act,

Interpretation Bulletins: *Secondary* — IT-151R5 (Consolid.) — Scientific research and experimental development expenditures; IT-151R4 Scientific research and experimental development expenditures [Archived by the CRA]; IT-291R3 Transfer of property to a corporation under subsection 85(1); IT-474R2 Amalgamations of Canadian corporations.

"active business" — "active business", in relation to any business carried on by a taxpayer resident in Canada, means any business carried on by the taxpayer other than a specified investment business or a personal services business;

Interpretation Bulletins: *Secondary* — IT-73R6 The small business deduction; IT-320R3 RRSPs — Qualified investments; IT-373R2 (Consolid.) Woodlots.

"additional voluntary contribution" — "additional voluntary contribution" to a registered pension plan means a contribution that is made by a member to the plan, that is used to provide benefits under a money purchase provision (within the meaning assigned by subsection 147.1(1)) of the plan and that is not required as a general condition of membership in the plan;

Related Sections: S. 8(1)(*m*) Employee's registered pension plan contributions; s. 8(8) Employees' contributions to pension fund for arrears; s. 60.2 Refund of undeducted past service AVCs; s. 147.2(4) Amount of employee's pension contributions deductible.

"adjusted cost base" — "adjusted cost base" has the meaning assigned by section 54;

"adjustment time" — "adjustment time" has the meaning assigned by subsection 14(5);

Related Sections: S. 54, "adjusted cost base".

"aggregate investment income" — "aggregate investment income" has the meaning assigned by subsection 129(4);

History: S. 248(1), the definition "aggregate investment income" was added by S.C. 2007, c. 2, s. 52(1), applicable to taxation years that end after 2005.

"allowable business investment loss" — "allowable business investment loss" has the meaning assigned by section 38;

"allowable capital loss" — "allowable capital loss" has the meaning assigned by section 38;

"alter ego trust" — "alter ego trust" means a trust to which paragraph 104(4)(*a*) would apply if that paragraph were read without reference to subparagraph 104(4)(*a*)(iii) and clauses 104(4)(*a*)(iv)(B) and (C);

History: S. 248(1), the definition "alter ego trust" was added by S.C. 2001, c. 17, s. 188(5), applicable to trusts created after 1999.

Related Sections: S. 73(1) Inter vivos transfers by individuals; s. 73(1.01) Qualifying transfers; s. 73(1.02) Exception for transfers; s. 104(4) Deemed disposition by trust; s. 104(5.8) Trust transfers; s. 104(6) Deduction in computing income of trust; s. 104(15) Allocable amount for preferred beneficiary; s. 108(1), "trust".

Tax Topics: No. 1455, Joint Spousal Trusts and Alter-Ego Trusts: Effective Will Substitutes.

Tax Profile: February 2002 — Transferring Property to a Trust After the Enactment of Bill C-22.

Canadian Tax Foundation: Brown, "Alter Ego, Joint Conjugal, and Self-Benefit Trusts Revisited: Some Troubling Tax Issues and a Search for Better Alternatives", *2005 Canadian Tax Journal*, 1, 224; Hoffstein, "Alter Ego Trusts/Joint Partner Trusts — Tips, Traps & Planning", *2004 Ontario Tax Conference*, 12A:1-47.

"amateur athlete trust" — "amateur athlete trust" has the meaning assigned by subsection 143.1(1.2);

History: S. 248(1), the definition "amateur athlete trust" was replaced by S.C. 2009, c. 2, s. 76(2), applicable to the 2008 and subsequent taxation years. S. 248(1), the definition "amateur athlete trust" formerly read:

" *'amateur athlete trust'* — 'amateur athlete trust' has the meaning assigned by subsection 143.1(1);"

S. 248(1), the definition of "amateur athlete trust", was added by S.C. 1994, c. 7, Sched. VIII, s. 139(7), applicable to the 1988 and subsequent taxation years.

Related Sections: S. 143.1(1) Amateur athletes' reserve funds.

"amortized cost" — "amortized cost" of a loan or lending asset at any time to a taxpayer means the amount, if any, by which the total of

(*a*) in the case of a loan made by the taxpayer, the total of all amounts advanced in respect of the loan at or before that time,

(*b*) in the case of a loan or lending asset acquired by the taxpayer, the cost of the loan or lending asset to the taxpayer,

(*c*) in the case of a loan or lending asset acquired by the taxpayer, the part of the amount, if any, by which

(i) the principal amount of the loan or lending asset at the time it was so acquired

exceeds

(ii) the cost to the taxpayer of the loan or lending asset

that was included in computing the taxpayer's income for any taxation year ending at or before that time,

(*c*.1) the total of all amounts each of which is an amount in respect of the loan or lending asset that was included in computing the taxpayer's income for a taxation year that ended at or before that time in respect of changes in the value of the loan or lending asset attributable to the fluctuation in the value of a currency of a country other than Canada relative to Canadian currency,

(*d*) where the taxpayer is an insurer, any amount in respect of the loan or lending asset that was deemed by reason of paragraph 142(3)(*a*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read in its application to the 1977 taxation year, to be a gain for any taxation year ending at or before that time, and

(*e*) the total of all amounts each of which is an amount in respect of the loan or lending asset that was included under paragraph 12(1)(*i*) in computing the taxpayer's income for any taxation year ending at or before that time

exceeds the total of

(*f*) the part of the amount, if any, by which

(i) the amount referred to in subparagraph (*c*)(ii)

exceeds

(ii) the amount referred to in subparagraph (*c*)(i)

that was deducted in computing the taxpayer's income for any taxation year ending at or before that time,

(*f*.1) the total of all amounts each of which is an amount in respect of the loan or lending asset that was deducted in computing the taxpayer's income for a taxation year that ended at or before that time in respect of changes in the value of the loan or lending asset attributable to the fluctuation in the value of a currency of a country other than Canada relative to Canadian currency,

(*g*) the total of all amounts that, at or before that time, the taxpayer had received as or on account or in lieu of payment of or in satisfaction of the principal amount of the loan or lending asset,

(*h*) where the taxpayer is an insurer, any amount in respect of the loan or lending asset that was deemed by reason of paragraph 142(3)(*b*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read in its application to the 1977 taxation year, to be a loss for any taxation year ending at or before that time, and

(*i*) the total of all amounts each of which is an amount in respect of the loan or lending asset deducted under paragraph 20(1)(*p*) in computing the taxpayer's income for any taxation year ending at or before that time;

History: S. 248(1), paragraph (*c*.1) of the definition "amortized cost" was added by S.C. 1995, c. 21, s. 59(1), applicable to taxation years that begin after June 17, 1987 and end after 1987.

S. 248(1), paragraph (*f*.1) of the definition "amortized cost" was added by S.C. 1995, c. 21, s. 59(2), applicable to taxation years that begin after June 17, 1987 and end after 1987.

"*amount*" — "amount" means money, rights or things expressed in terms of the amount of money or the value in terms of money of the right or thing, except that,

(*a*) notwithstanding paragraph (*b*), in any case where subsection 112(2.1), (2.2) or (2.4), or section 187.2 or 187.3 or subsection 258(3) or (5) applies to a stock dividend, the "amount" of the stock dividend is the greater of

(i) the amount by which the paid-up capital of the corporation that paid the dividend is increased by reason of the payment of the dividend, and

(ii) the fair market value of the share or shares paid as a stock dividend at the time of payment,

(*b*) in any case where section 191.1 applies to a stock dividend, the "amount" of the stock dividend for the purposes of Part VI.1 is the greater of

(i) the amount by which the paid-up capital of the corporation that paid the dividend is increased by reason of the payment of the dividend, and

(ii) the fair market value of the share or shares paid as a stock dividend at the time of payment,

and for any other purpose the amount referred to in subparagraph (i), and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The definition "amount" in subsection 248(1) of the Act is amended by striking out the word "and" at the end of paragraph (*b*) and by adding the following after paragraph (*b*):

(*b*.1) in the case of a stock dividend paid by a corporation that is, when the dividend is paid, a non-resident corporation, the "amount" of any stock dividend is, except where subsection 95(7) applies to the dividend, the greater of

(i) the amount by which the paid-up capital of the corporation that paid the dividend is increased by reason of the payment of the dividend, and

(ii) the fair market value of the share or shares paid as a stock dividend at the time of payment, and

Applicable: To dividends declared on or after July 18, 2005.

Explanatory Note: Section 248 of the Act defines a number of terms that apply for the purposes of the Act, and sets out various rules relating to the interpretation and application of various provisions of the Act.

"amount".

The expression "amount" is defined in subsection 248(1) of the Act to mean money, rights or things expressed in terms of the amount of money or the value in terms of money of the right or thing. A number of special definitions, that apply in limited circumstances, of "amount" are set out in paragraphs (*a*) to (*c*) of the definition.

The definition "amount" is amended to add new paragraph (*b*.1). New paragraph (*b*.1) of that definition provides that in the case of a stock dividend paid by a non-resident corporation, the amount of any stock dividend is, except where subsection 95(7) applies to the dividend, the greater of two amounts. The first is the amount by which the paid-up capital of the corporation that paid the dividend is increased by reason of the payment of the dividend. The second is the fair market value of the share or shares paid as a stock dividend at the time of payment.

This amendment applies to dividends declared on or after July 18, 2005.

(*c*) in any other case, the "amount" of any stock dividend is the amount by which the paid-up capital of the corporation that paid the dividend is increased by reason of the payment of the dividend;

Interpretation Bulletins: *Primary* — IT-88R2 Stock dividends.
Tax Topics: No. 1683, *Imperial Oil Limited v. The Queen.*
Cases: Board and lodging received by a ship engineer under his employment contract and in accordance with the *Canada Shipping Act*, was held not to be an amount within the meaning of former s. 139(1)(*a*) [now s. 248(1)]. *Williams v. M.N.R.*, 55 DTC 1006 (Ex. Ct.).

"*annuity*" — "annuity" includes an amount payable on a periodic basis whether payable at intervals longer or shorter than a year and whether payable under a contract, will or trust or otherwise;

"*appropriate percentage*" — "appropriate percentage" for a taxation year means the lowest percentage referred to in subsection 117(2) that is applicable in determining tax payable under Part I for the year;

"*assessment*" — "assessment" includes a reassessment;

"authorized foreign bank" — "authorized foreign bank" has the meaning assigned by section 2 of the *Bank Act*;

History: S. 248(1), the definition "authorized foreign bank" was added by S.C. 2001, c. 17, s. 188(5), applicable after June 27, 1999.

Related Sections: S. 18(1)(*v*) Interest — authorized foreign bank; s. 20.2(5) Notional interest; s. 115(1)(*a*)(ii) Non-resident's taxable income in Canada; s. 181.3(3)(*e*) Capital; s. 190.13(*d*) Capital; s. 190.14(1)(*c*) Investment in related institutions; s. 212(13.3) Application of Part XIII to authorized foreign bank; s. 218.2(1) Branch interest tax; s. 218.2(2) Taxable interest expense; s. 219 Branch tax; s. 233.3(1), "specified foreign property".

"automobile" — "automobile" means

(*a*) a motor vehicle that is designed or adapted primarily to carry individuals on highways and streets and that has a seating capacity for not more than the driver and 8 passengers,

but does not include

(*b*) an ambulance,

(*b.1*) a clearly marked emergency-response vehicle that is used in connection with or in the course of an individual's office or employment with a fire department or the police;

(*b.2*) a clearly marked emergency medical response vehicle that is used, in connection with or in the course of an individual's office or employment with an emergency medical response or ambulance service, to carry emergency medical equipment together with one or more emergency medical attendants or paramedics,

(*c*) a motor vehicle acquired primarily for use as a taxi, a bus used in a business of transporting passengers or a hearse used in the course of a business of arranging or managing funerals,

(*d*) except for the purposes of section 6, a motor vehicle acquired to be sold, rented or leased in the course of carrying on a business of selling, renting or leasing motor vehicles or a motor vehicle used for the purpose of transporting passengers in the course of carrying on a business of arranging or managing funerals, and

(*e*) a motor vehicle

(i) of a type commonly called a van or pick-up truck, or a similar vehicle, that has a seating capacity for not more than the driver and two passengers and that, in the taxation year in which it is acquired or leased, is used primarily for the transportation of goods or equipment in the course of gaining or producing income,

(ii) of a type commonly called a van or pick-up truck, or a similar vehicle, the use of which, in the taxation year in which it is acquired or leased, is all or substantially all for the transportation of goods, equipment or passengers in the course of gaining or producing income, or

(iii) of a type commonly called a pick-up truck that is used in the taxation year in which it is acquired or leased primarily for the transportation of goods, equipment or passengers in the course of earning or producing income at one or more locations in Canada that are

(A) described, in respect of any of the occupants of the vehicle, in subparagraph 6(6)(*a*)(i) or (ii), and

(B) at least 30 kilometres outside the nearest point on the boundary of the nearest urban area, as defined by the last census dictionary published by Statistics Canada before the year, that has a population of at least 40,000 individuals as determined in the last census published by Statistics Canada before the year.

History: S. 248(1), paragraph (*b.2*) of the definition "automobile" was added by S.C. 2005, c. 30, s. 17(1), applicable to the 2005 and subsequent taxation years.

S. 248(1), paragraph (*b.1*) of the definition "automobile" was added by S.C. 2003, c. 15, s. 88(2), applicable to the 2003 and subsequent taxation years.

S. 248(1), paragraph (*e*) of the definition "automobile" was replaced by S.C. 2003, c. 15, s. 88(4), applicable to taxation years that begin after 2002. S. 248(1), paragraph (*e*) of the definition "automobile" formerly read:

"(*e*) a motor vehicle of a type commonly called a van or pick-up truck or a similar vehicle

(i) that has a seating capacity for not more than the driver and 2 passengers and that, in the taxation year in which it is acquired, is used primarily for the transportation of goods or equipment in the course of gaining or producing income, or

(ii) the use of which, in the taxation year in which it is acquired, is all or substantially all for the transportation of goods, equipment or passengers in the course of gaining or producing income;"

S. 248(1), the definition "automobile", was amended by S.C. 1994, c. 7, Sched. II, s. 192(1), applicable to taxation years and fiscal periods beginning after June 17, 1987 that end after 1987. The definition formerly read:

" 'automobile' means

(*a*) a motor vehicle that is designed or adapted primarily to carry individuals and their personal luggage and that has a seating capacity for not more than the driver and 8 passengers, and

(*b*) a motor vehicle that is

(i) of a type commonly called a station wagon or van or a similar vehicle if it is equipped in a reasonably permanent way to carry more than the driver and 2 passengers but not more than the driver and 8 passengers, or

(ii) of a type commonly called a van or pick-up truck or a similar vehicle unless it is designed or adapted to carry not more than the driver and 2 passengers and is used primarily for the transportation of goods or equipment in the course of a business or for the purpose of earning income,

but does not include

(*c*) an ambulance,

(*d*) a motor vehicle acquired primarily for use as a taxi or in connection with funerals, or

(*e*) except for the purposes of section 6, a motor vehicle acquired to be sold, rented or leased in the course of carrying on a business of selling, renting or leasing motor vehicles;"

Interpretation Bulletins: *Secondary* — IT-521 Motor vehicle expenses claimed by self-employed individuals; IT-522R Vehicle, Travel and Sales Expenses of Employees.

"balance-due day" — "balance-due day" of a taxpayer for a taxation year means,

(*a*) where the taxpayer is a trust, the day that is 90 days after the end of the year,

(*b*) where the taxpayer is an individual who died after October in the year and before May in the following taxation year, the day that is 6 months after the day of death,

(*c*) in any other case where the taxpayer is an individual, April 30 in the following taxation year, and

(*d*) where the taxpayer is a corporation,

(i) the day that is three months after the day on which the taxation year (in this subparagraph referred to as the "current year") ends, if

(A) an amount was deducted under section 125 in computing the corporation's tax payable under this Part for the current year or for its preceding taxation year,

(B) the corporation is, throughout the current year, a Canadian-controlled private corporation, and

(C) either

(I) in the case of a corporation that is not associated with another corporation in the current year, its taxable income for its preceding taxation year (determined before taking into consideration the specified future tax consequences for that preceding taxation year) does not exceed its business limit for that preceding taxation year, or

(II) in the case of a corporation that is associated with one or more other corporations in the current year, the total of the taxable incomes of the corporation and of those other corporations for their last taxation years that ended in the last calendar year that ended before the end of the current year (determined before taking into consideration the specified future tax consequences for those last taxation years) does not exceed the total of the business limits of the corporation and of those other corporations for those last taxation years, and

(ii) the day that is two months after the day on which the taxation year ends, in any other case;

History: S. 248(1), paragraph (*d*) of the definition "balance-due day" was amended by S.C. 2002, c. 9, s. 44(1), applicable to taxation years that end after 2001. S. 248(1), paragraph (*d*) of the definition "balance-due day" formerly read:

"(*d*) where the taxpayer is a corporation, the day on or before which the corporation is required under section 157 to pay the remainder of its tax payable under Part I for the year or would be so required if such a remainder were payable;"

S. 248(1), the definition "balance-due day", was amended by S.C. 1997, c. 25, s. 71(1), applicable to the 1996 and subsequent taxation years. That definition formerly read:

" '*balance-due day*' — 'balance-due day' of an individual for a taxation year means

(*a*) where the individual is a trust, the day that is 90 days after the end of the year,

(*b*) where the individual died after October in the year and before May in the immediately following taxation year, the day that is 6 months after the day of death, and

(*c*) in any other case, April 30 in the immediately following taxation year;"

The definition "balance-due day" was added to s. 248(1) by S.C. 1994, c. 7, Sched. II, s. 192(14), applicable after 1989.

Related Sections: S. 125.4(3) Tax credit; s. 127.1(1) Refundable investment tax credit; s. 127.41(3) Deemed payment of Part I tax; s. 153(2) Deemed withholding; s. 156.1 No instalment required; s. 157(1) Payment by corporations; s. 161(2.2) Contra interest; s. 161(6.2) Flow-through share renunciations.

Information Circulars: IC 98-1R3 Collections Policies.

"*bank*" — "bank" means a bank within the meaning assigned by section 2 of the *Bank Act* or an authorized foreign bank;

History: S. 248(1), the definition "bank" was added by S.C. 2001, c. 17, s. 188(5), applicable after June 27, 1999.

Related Sections: S. 20.2 Interest — authorized foreign bank — interpretation.

"*bankrupt*" — "bankrupt" has the meaning assigned by the *Bankruptcy and Insolvency Act*;

History: S. 248(1), the definition "bankrupt" was added by S.C. 1995, c. 21, s. 43(2), applicable to taxation years that end after February 21, 1994.

"*benefit under a deferred profit sharing plan*" — "benefit under a deferred profit sharing plan" received by a taxpayer in a taxation year means the total of all amounts each of which is an amount received by the taxpayer in the year from a trustee under the plan, minus any amounts deductible under subsections 147(11) and (12) in computing the income of the taxpayer for the year;

"*bituminous sands*" — "bituminous sands" means sands or other rock materials containing naturally occurring hydrocarbons (other than coal) which hydrocarbons have

(*a*) a viscosity, determined in a prescribed manner, equal to or greater than 10,000 centipoise, or

(*b*) a density, determined in a prescribed manner, equal to or less than 12 degrees API;

History: S. 248(1), the definition "bituminous sands", was added by S.C. 1997, c. 25, s. 71(3), applicable after March 6, 1996.

Regulations: 1107.

"*borrowed money*" — "borrowed money" includes the proceeds to a taxpayer from the sale of a post-dated bill drawn by the taxpayer on a bank;

Interpretation Bulletins: *Secondary* — IT-533 Interest Deductibility and Related Issues.

"*business*" — "business" includes a profession, calling, trade, manufacture or undertaking of any kind whatever and, except for the purposes of paragraph 18(2)(*c*), section 54.2, subsection 95(1) and paragraph 110.6(14)(*f*), an adventure or concern in the nature of trade but does not include an office or employment;

History: S. 248(1), the definition "business" was amended by S.C. 1995, c. 21, s. 47(1), applicable to taxation years that end after 1994. S. 248(1), the definition "business" formerly read:

" '*business*' — 'business' includes a profession, calling, trade, manufacture or undertaking of any kind whatever and, except for the purposes of paragraph 18(2)(*c*), section 54.2 and paragraph 110.6(14)(*f*), an adventure or concern in the nature of trade but does not include an office or employment;"

Related Sections: S. 18(2)(*c*) Limit on certain interest and property tax; s. 54.2 Certain shares deemed to be capital property; s. 110.6(14) Related persons, etc

Interpretation Bulletins: *Primary* — IT-459 Adventure or concern in the nature of trade. *Secondary* — IT-218R Profit, capital gains and losses from the sale of real estate, including farmland and inherited land and conversion of real estate from capital property to inventory and vice versa.

Cases: The taxpayers participated extensively in sports lotteries using a methodology that increased their potential payout and risk significantly. Although they lost 95% of the time, they had net winnings of $5,523,088. However, they were not professional gamblers who had a system to assess and minimize risks. The winnings were not business income but tax-exempt capital gains. *Leblanc et al. v. The Queen,* 2007 DTC 307 (T.C.C.).

The meaning of an "adventure in the nature of trade" has been discussed at length in *M.N.R. v. Taylor,* 56 DTC 1125 (Ex. Ct.).

"*business limit*" — "business limit" of a corporation for a taxation year means the amount determined under section 125 to be its business limit for the year;

History: S. 248(1), the definition "business limit", was added by S.C. 1997, c. 25, s. 71(3), applicable after May 23, 1985.

Related Sections: S. 87(2)(*oo.1*) Refundable investment tax credit and balance-due day; s. 88(1)(*e.9*) Winding-up.

"*business number*" — "business number" means the number (other than a Social Insurance Number) used by the Minister to identify

(*a*) a corporation or partnership, or

(*b*) any other association or taxpayer that carries on a business or is required by this Act to deduct or withhold an amount from an amount paid or credited or deemed to be paid or credited under this Act

and of which the Minister has notified the corporation, partnership, association or taxpayer;

History: S. 248(1), the definition of "business number" was added by S.C. 1998, c. 19, s. 239(6), applicable on Royal Assent, June 18, 1998.

Related Sections: S. 162(6) Failure to provide identification number; s. 221(1) Regulations; s. 237(1.1) Production of number; s. 237(2) Number required in information returns; s. 237.1(7) Information return; s. 239(2.3) Offence with respect to an identification number; s. 241(4) Where taxpayer information may be disclosed.

"Canadian banking business" — "Canadian banking business" means the business carried on by an authorized foreign bank through a permanent establishment (as defined by regulation) in Canada, other than business conducted through a representative office registered or required to be registered under section 509 of the *Bank Act*;

History: S. 248(1), the definition "Canadian banking business" was added by S.C. 2001, c. 17, s. 188(5), applicable after June 27, 1999.

Related Sections: S. 18(5), "outstanding debts to specified non residents"; s. 20.2 Interest — authorized foreign bank — interpretation; s. 33.1(1), "foreign bank"; s. 115(1)(*a*)(ii) Non-resident's taxable income in Canada; s. 116(6)(*f*) Definition of "excluded property"; s. 126(1.1) Authorized foreign bank; s. 142.7(3) Branch-establishment rollover; s. 142.7(7) Reserves; s. 142.7(8) Assumption of debt obligation; s. 181.3(3)(*e*) Capital of financial institution; s. 181.3(4)(*c*) Investment allowance of financial institution; s. 190.13(*d*) Capital; s. 190.14(1)(*c*) Investment in related institutions; s. 212(13.3) Application of Part XIII to authorized foreign bank; s. 218.2(2)(*a*) Taxable interest expense.
Regulations: 8201.

"Canadian-controlled private corporation" — "Canadian-controlled private corporation" has the meaning assigned by subsection 125(7);

"Canadian corporation" — "Canadian corporation" has the meaning assigned by subsection 89(1);

"Canadian development expense" — "Canadian development expense" has the meaning assigned by subsection 66.2(5);

Interpretation Bulletins: *Secondary* — IT-458R2 Canadian-controlled private corporation.

"Canadian exploration and development expenses" — "Canadian exploration and development expenses" has the meaning assigned by subsection 66(15);

"Canadian exploration expense" — "Canadian exploration expense" has the meaning assigned by subsection 66.1(6);

"Canadian field processing" — "Canadian field processing" means, except as otherwise prescribed,

(*a*) the processing in Canada of raw natural gas at a field separation and dehydration facility,

(*b*) the processing in Canada of raw natural gas at a natural gas processing plant to any stage that is not beyond the stage of natural gas that is acceptable to a common carrier of natural gas,

(*c*) the processing in Canada of hydrogen sulphide derived from raw natural gas to any stage that is not beyond the marketable sulphur stage,

(*d*) the processing in Canada of natural gas liquids, at a natural gas processing plant where the input is raw natural gas derived from a natural accumulation of natural gas, to any stage that is not beyond the marketable liquefied petroleum stage or its equivalent,

(*e*) the processing in Canada of crude oil (other than heavy crude oil recovered from an oil or gas well or a tar sands deposit) recovered from a natural accumulation of petroleum to any stage that is not beyond the crude oil stage or its equivalent, and

(*f*) prescribed activities

and, for the purposes of paragraphs (*b*) to (*d*),

(*g*) gas is not considered to cease to be raw natural gas solely because of its processing at a field separation and dehydration facility until it is received by a common carrier of natural gas, and

(*h*) where all or part of a natural gas processing plant is devoted primarily to the recovery of ethane, the plant, or the part of the plant, as the case may be, is considered not to be a natural gas processing plant;

History: S. 248(1)(*g*), of the definition of "Canadian field processing" was amended by S.C. 1998, c. 19, s. 239(2), applicable after 1996. S. 248(1)(*g*) formerly read:

"(*g*) gas is not considered to cease to be raw natural gas solely because of its processing at a field separation and dehydration facility, and"

S. 248(1), the definition "Canadian field processing", was added by S.C. 1997, c. 25, s. 71(3), applicable after 1996.

Related Sections: S. 125.1(3) Definitions.
Interpretation Bulletins: *Primary* — IT-476R Capital Cost Allowance — Equipment Used in Petroleum and Natural Gas Activities.
Canadian Petroleum Tax Journal: Resource Allowance — The New Certainty?, B. David Nielsen and Nelson M. Whitmore, Vol. 10 No. 1 1997.

"Canadian oil and gas property expense" — "Canadian oil and gas property expense" has the meaning assigned by subsection 66.4(5);

"Canadian partnership" — "Canadian partnership" has the meaning assigned by section 102;

"Canadian real, immovable or resource property" — "Canadian real, immovable or resource property" means

(*a*) a property that would, if this Act were read without reference to the definition "real or immovable property" in subsection 122.1(1), be a real or immovable property situated in Canada,

(*b*) a Canadian resource property,

(*c*) a timber resource property,

(*d*) a share of the capital stock of a corporation, an income or capital interest in a trust or an interest in a partnership (other than a taxable Canadian corporation, a SIFT trust or a SIFT partnership), if more than 50% of the fair market value of the share or interest is derived directly or indirectly from one or any combination of properties described in paragraphs (*a*) to (*c*), or

(*e*) any right to or interest in — or, for civil law, any right to or in — any property described in any of paragraphs (*a*) to (*d*);

History: S. 248(1), paragraph (*d*) of the definition "Canadian real or immovable property" was replaced by S.C. 2009, c. 2, s. 76(3), deemed to have come into force on October 31, 2006. S. 248(1), paragraph (*d*) of the definition "Canadian real or immovable property" formerly read:

"(*d*) a share of the capital stock of a corporation, an income or a capital interest in a trust or an interest in a partnership, if more than 50% of the fair market value of the share or interest is derived directly or indirectly from one or any combination of properties described in paragraphs (*a*) to (*c*), or"

S. 248(1), the definition "Canadian real, immovable or resource property" was added by S.C. 2007, c. 29, s. 28(1), deemed to have come into force on October 31, 2006.

"Canadian resident partnership" — "Canadian resident partnership" means a partnership that, at any time in respect of which the expression is relevant,

(*a*) is a Canadian partnership,

(*b*) would, if it were a corporation, be resident in Canada (including, for greater certainty, a partnership that has its central management and control in Canada), or

(*c*) was formed under the laws of a province;

History: S. 248(1), the definition "Canadian resident partnership" was added by S.C. 2007, c. 29, s. 28(1), deemed to have come into force on October 31, 2006.

Related Sections: S. 102, s. 197(1), "SIFT partnership".

"Canadian resource property" — "Canadian resource property" has the meaning assigned by subsection 66(15);

"capital dividend" — "capital dividend" has the meaning assigned by section 83;

"capital gain" — "capital gain" for a taxation year from the disposition of any property has the meaning assigned by section 39;

"capital interest" — "capital interest" of a taxpayer in a trust has the meaning assigned by subsection 108(1);

"capital loss" — "capital loss" for a taxation year from the disposition of any property has the meaning assigned by section 39;

"capital property" — "capital property" has the meaning assigned by section 54;

"cash method" — "cash method" has the meaning assigned by subsection 28(1);

History: S. 248(1), the definition "cash method", was added by S.C. 1994, c. 7, Sched. II, s. 192(14), applicable after 1988.

"cemetery care trust" — "cemetery care trust" has the meaning assigned by subsection 148.1(1);

History: S. 248(1), the definition of "cemetery care trust" was added by S.C. 1998, c. 19, s. 239(6), applicable after 1992.

"common-law partner" — "common-law partner", with respect to a taxpayer at any time, means a person who cohabits at that time in a conjugal relationship with the taxpayer and

(*a*) has so cohabited with the taxpayer for a continuous period of at least one year, or

(*b*) would be the parent of a child of whom the taxpayer is a parent, if this Act were read without reference to paragraphs 252(1)(*c*) and (*e*) and subparagraph 252(2)(*a*)(iii),

and, for the purposes of this definition, where at any time the taxpayer and the person cohabit in a conjugal relationship, they are, at any particular time after that time, deemed to be cohabiting in a conjugal relationship unless they were not cohabiting at the particular time for a period of at least 90 days that includes the particular time because of a breakdown of their conjugal relationship;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The definition "common-law partner" in subsection 248(1) of the Act is replaced by the following:

"common-law partner" — "common-law partner", with respect to a taxpayer at any time, means a person who cohabits at that time in a conjugal relationship with the taxpayer and

(*a*) has so cohabited throughout the 12-month period that ends at that time, or

(*b*) would be the parent of a child of whom the taxpayer is a parent, if this Act were read without reference to paragraphs 252(1)(*c*) and (*e*) and subparagraph 252(2)(*a*)(iii),

and, for the purpose of this definition, where at any time the taxpayer and the person cohabit in a conjugal relationship, they are, at any particular time after that time, deemed to be cohabiting in a conjugal relationship unless they were living separate and apart at the particular time for a period of at least 90 days that includes the particular time because of a breakdown of their conjugal relationship;

Applicable: In determining whether a person is, for the 2001 and subsequent taxation years, a common-law partner of a taxpayer, except that subsection does not apply to so determine whether a person is a common-law partner of a taxpayer for a taxation year to which a valid election, made under section 144 of the *Modernization of Benefits and Obligations Act*, applied before February 27, 2004. However, on and after February 27, 2004, no such election may be made to affect a current or subsequent taxation year.

Explanatory Note:

"common-law partner"

An individual becomes the common-law partner of another individual once they have cohabited in a conjugal relationship for at least one year. Paragraph (*a*) of the definition "common-law partner" in subsection 248(1) is amended, effective for the 2001 and subsequent taxation years, to clarify that, for an individual to be considered the common-law partner of another person at a particular time, the individual and that other person need to have cohabited in a conjugal relationship throughout the twelve-month period that ends at that particular time.

History: S. 248(1), the definition "common-law partner" was added by S.C. 2000, c. 12, s. 139(2), applicable January 1, 2001, coming into force on July 31, 2000.

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Interpretation Bulletins: *Secondary* — IT-307R4 Spousal or common-law partner registered retirement savings plans; IT-495R3 Child care expenses.
Tax Topics: No. 1473, Same-Sex Partner Rules; No. 1474, Same-Sex Partner Rules — Part II.

"common-law partnership" — "common-law partnership" means the relationship between two persons who are common-law partners of each other;

History: S. 248(1), the definition "common-law partnership" was added by S.C. 2000, c. 12, s. 139(2), applicable January 1, 2001, coming into force on July 31, 2000.

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

"common share" — "common share" means a share the holder of which is not precluded on the reduction or redemption of the capital stock from participating in the assets of the corporation beyond the amount paid up on that share plus a fixed premium and a defined rate of dividend;

Interpretation Bulletins: *Secondary* — IT-116R3 Rights to buy additional shares.
Tax Profile: December 2000 — Preferred Share Design: Tax Free Reorganizations and Benefit Conferrals.

"controlled foreign affiliate" — "controlled foreign affiliate" has the meaning assigned by subsection 95(1);

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was

dissolved on September 7, 2008 and has not yet been reintroduced.]

The definition "controlled foreign affiliate" in subsection 248(1) of the Act is replaced by the following:

"controlled foreign affiliate" — "controlled foreign affiliate" has, except as expressly otherwise provided in this Act, the meaning assigned by subsection 95(1);

Applicable: To taxation years that begin after 2006, except that the definition "controlled foreign affiliate" also applies to a taxation year of a taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the taxpayer.

Explanatory Note:

"controlled foreign affiliate"

The expression "controlled foreign affiliate" is defined to have the meaning assigned by subsection 95(1).

This definition is amended so that it applies except as expressly otherwise provided in the Act. See, for example, the definition "controlled foreign affiliate" in subsection 17(15).

This amendment applies to taxation years that begin after 2006.

History: S. 248(1), the definition "controlled foreign affiliate", was added by S.C. 1997, c. 25, s. 71(3), applicable after 1995.

"corporation" — "corporation" includes an incorporated company;

Interpretation Bulletins: *Secondary* — IT-432R2 Benefits conferred on shareholders.
Income Tax Technical News: Issue No. 38, Foreign Entity Classification.
Tax Topics: No. 1836, Oh Say Can You (LL)C? A Case Comment on Boliden Westmin Ltd. v. British Columbia.
Tax Profile: October 2007 — Will Canadian Unlimited Liability Companies Survive?; July 2005 — Alberta Introduces Alberta Unlimited Liability Corporations; November 2000 — Canada views Delaware Partnership as a Corporation.
Cases: A reference in the *Income Tax Act* simply to a "corporation" will include any corporation regardless of where it is incorporated. See *International Fruit Distributors Ltd. v. M.N.R.*, 55 DTC 1186 (S.C.C.).

"corporation incorporated in Canada" — "corporation incorporated in Canada" includes a corporation incorporated in any part of Canada before or after it became part of Canada;

"cost amount" — "cost amount" to a taxpayer of any property at any time means, except as expressly otherwise provided in this Act,

(*a*) where the property was depreciable property of the taxpayer of a prescribed class, the amount that would be that proportion of the undepreciated capital cost to the taxpayer of property of that class at that time that the capital cost to the taxpayer of the property is of the capital cost to the taxpayer of all property of that class that had not been disposed of by the taxpayer before that time if subsection 13(7) were read without reference to paragraph 13(7)(*e*) and if

(i) paragraph 13(7)(*b*) were read as follows:

"(*b*) where a taxpayer, having acquired property for some other purpose, has commenced at a later time to use it for the purpose of gaining or producing income, the taxpayer shall be deemed to have acquired it at that later time at a capital cost to the taxpayer equal to the fair market value of the property at that later time;", and

(ii) subparagraph 13(7)(*d*)(i) were read as follows:

"(i) if the use regularly made by the taxpayer of the property for the purpose of gaining or producing income has increased, the taxpayer shall be deemed to have acquired at that time depreciable property of that class at a capital cost equal to the proportion of its fair market value at that time that the amount of the increase in the use regularly made by the taxpayer of the property for that purpose is of the whole of the use regularly made of the property, and"

(*b*) where the property was capital property (other than depreciable property) of the taxpayer, its adjusted cost base to the taxpayer at that time,

(*c*) where the property was property described in an inventory of the taxpayer, its value at that time as determined for the purpose of computing the taxpayer's income,

(*c.1*) where the taxpayer was a financial institution in its taxation year that includes that time and the property was a mark-to-market property for the year, the cost to the taxpayer of the property,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The definition "cost amount" in subsection 248(1) of the Act is amended by adding the following after paragraph (*c.1*):

(*c.2*) where the cost at that time to the taxpayer of the property is determined under subsection 94.2(13), the cost so determined,

Applicable: To taxation years that begin after 2006, except that paragraph (*c.2*) of the definition "cost amount" also applies to a taxation year of a taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the taxpayer.

Explanatory Note:

"cost amount"

This definition is used throughout the Act, particularly in provisions relating to the transfer of properties to and from corporations, trusts and partnerships.

New paragraph (*c.2*) of the definition provides that, where a cost of property to a taxpayer is determined as of any time under new subsection 94.2(13), that cost is also the "cost amount", under subsection 248(1), of the property to the taxpayer at that time.

This amendment applies to taxation years that begin after 2006.

(*d*) where the property was eligible capital property of the taxpayer in respect of a business, 4/3 of the amount that would, but for subsection 14(3), be determined by the formula

$$A \times \frac{B}{C}$$

where

A is the cumulative eligible capital of the taxpayer in respect of the business at that time,

B is the fair market value at that time of the property, and

C is the fair market value at that time of all the eligible capital property of the taxpayer in respect of the business,

(*d.1*) where the property was a loan or lending asset (other than a net income stabilization account or a property in respect of which paragraph (*b*), (*c*), (*c.1*) or (*d.2*) applies), the amortized cost of the property to the taxpayer at that time,

(*d.2*) where the taxpayer was a financial institution in its taxation year that includes that time and the property was a specified debt obligation (other than a mark-to-market property for the year), the tax basis of the property to the taxpayer at that time,

(*e*) where the property was a right of the taxpayer to receive an amount, other than property that is

(i) a debt the amount of which was deducted under paragraph 20(1)(*p*) in computing the taxpayer's income for a taxation year that ended before that time,

(ii) a net income stabilization account,

(iii) a right in respect of which paragraph (*b*), (*c*), (*c.1*), (*d.1*) or (*d.2*) applies, or

(iv) a right to receive production (as defined in subsection 18.1(1)) to which a matchable expenditure (as defined in subsection 18.1(1)) relates,

the amount the taxpayer has a right to receive,

(*e.1*) where the property was a policy loan (within the meaning assigned by subsection 138(12)) of an insurer, nil,

(*e.2*) where the property is an interest of a beneficiary under a qualifying environmental trust, nil, and

(*f*) in any other case, the cost to the taxpayer of the property as determined for the purpose of computing the taxpayer's income, except to the extent that that cost has been deducted in computing the taxpayer's income for any taxation year ending before that time;

and, for the purposes of this definition, "financial institution", "mark-to-market property" and "specified debt obligation" have the meanings assigned by subsection 142.2(1), and "tax basis" has the meaning assigned by subsection 142.4(1);

History: S. 248(1), paragraph (*e*) of the definition of "cost amount" was amended by S.C. 1998, c. 19, s. 139(3), by striking our the word "or" after subparagraph (ii), by adding the word "or" at the end of subparagraph (iii) and by adding subparagraph (iv), applicable after November 17, 1996.

S. 248(1), paragraph (*e.2*) of the definition "cost amount" was amended by S.C. 1998, c. 19, s. 66(2), applicable after 1995. S. 248(1), paragraph (*e.2*) of the definition "cost amount" formerly read:

"(*e.2*) where the property is an interest of a beneficiary under a mining reclamation trust, nil, and"

S. 248(1), paragraph (*c.1*) of the definition "cost amount" was added by S.C. 1995, c. 21, s. 59(3), applicable to taxation years that begin after October 1994.

S. 248(1), paragraph (*d.1*) of the definition "cost amount" was added by S.C. 1995, c. 21, s. 59(4), applicable to the determination of cost amount at a time after February 22, 1994.

S. 248(1), paragraph (*d.2*) of the definition "cost amount" was added by S.C. 1995, c. 21, s. 59(4), applicable to the determination of cost amount at a time after February 22, 1994.

S. 248(1), paragraph (*e*) of the definition "cost amount" was amended by S.C. 1995, c. 21, s. 59(4), applicable to the determination of cost amount at a time after February 22, 1994. S. 248(1), paragraph (*e*) formerly read:

"(*e*) where the property was a debt owing to the taxpayer (other than the amount in respect of such property that was deducted under paragraph 20(1)(*p*) in computing the taxpayer's income for a taxation year ending before that time or of a net income stabilization account) or any other right of the taxpayer to receive an amount (other than a right to receive an amount in respect of a net income stabilization account), the amortized cost of the property to the taxpayer at that time or, where the property does not have an amortized cost to the taxpayer, the amount of the debt or right that was outstanding at that time,"

S. 248(1), the portion following paragraph (*f*) was added by S.C. 1995, c. 21, s. 59(5), applicable to the determination of cost amount at a time after February 22, 1994.

S. 248(1), paragraph (*e.2*) of the definition "cost amount" was added by S.C. 1995, c. 3, s. 52(3), applicable after 1993.

S. 248(1), paragraphs (*d*) and (*e*) of the definition "cost amount", were amended by S.C. 1994, c. 7, Sched. VIII, s. 139(2). For application of paragraph (*d*), see s. 139(11), c. 7, Sched. VIII, S.C. 1994 below. Paragraph (*e*) applies to the 1991 and subsequent taxation years. Both paragraphs formerly read:

"(*d*) where the property was eligible capital property of the taxpayer in respect of a business, the amount that would, but for subsection 14(3), be that proportion of the cumulative eligible capital of the taxpayer in respect of the business at that time that

(i) the fair market value at that time of the property

is of

(ii) the fair market value at that time of all of the eligible capital property of the taxpayer in respect of the business,

(*e*) where the property was a debt owing to the taxpayer (other than the amount in respect of that property that was deducted under paragraph 20(1)(*p*) in computing the taxpayer's income for a taxation year ending before that time) or any other right of the taxpayer to receive an amount, the amortized cost of the property to the taxpayer at that time or, where the property does not have an amortized cost to the taxpayer, the amount of the debt or right that was outstanding at that time,"

S. 248(1), paragraph (*a*) of the definition "cost amount", was amended by S.C. 1994, c. 7, Sched. II, s. 192(2), applicable after May 22, 1985. Paragraph (*a*) formerly read:

"(*a*) where the property was depreciable property of the taxpayer of a prescribed class, that proportion of the undepreciated capital cost to the taxpayer of property of that class at that time that the capital cost to the taxpayer of the property is of the capital cost to the taxpayer of all property of that class,"

S. 248(1), paragraph (*d*) of the definition "cost amount", was amended by S.C. 1994, c. 7, Sched. II, s. 192(3), applicable after 1987, except that, in applying that subsection after 1987 and before July 14, 1990, paragraph (*d*) shall be read as follows:

"(*d*) where the property was eligible capital property of the taxpayer in respect of a business, the amount that would, but for subsection 14(3), be the cumulative eligible capital of the taxpayer in respect of the business at that time,"

Paragraph (*d*) formerly read:

"(*d*) where the property was eligible capital property of the taxpayer in respect of a business, the cumulative eligible capital of the taxpayer in respect of the business at that time,"

Related Sections: S. 13(7) Rules applicable; s. 14(3) Acquisition of eligible capital property; s. 20(1)(*p*) Bad debts; s. 54, "adjusted cost base", "eligible capital property"; s. 132(6) Meaning of "mutual fund trust"; s. 132.2(1) Mutual funds — qualifying exchange; s. 248(1), "adjusted cost base", "amortized cost", "amount", "business", "eligible capital property", "inventory", "lending asset", "net income stabilization account", "property", "qualifying environmental trust", "taxpayer"; s. 257 Negative amounts.

Interpretation Bulletins: *Secondary* — IT-142R3 Settlement of debts on the winding-up of a corporation; IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA]; IT-528 Transfers of funds between registered plans.

Sec. 139(11), Chap. 7, Sched. VIII, S.C. 1994

(11) [Application of s. 139(2).] Paragraph (*d*) of the definition "cost amount" in subsection 248(1) applies

(*a*) in the case of a corporation, to taxation years of the corporation beginning after June 1987, and

(*b*) in any other case, to fiscal periods beginning after 1987,

except that, in its application before July 14, 1990, paragraph (*d*) of the definition "cost amount" in subsection 248(1) of the Act, as enacted by subsection (2), shall be read as follows:

"(*d*) where the property was eligible capital property in respect of a business, 4/3 of the amount that would, but for subsection 14(3), be the cumulative eligible capital of the taxpayer in respect of the business at that time,"

"credit union" — "credit union" has the meaning assigned by subsection 137(6);

"cumulative eligible capital" — "cumulative eligible capital" has the meaning assigned by subsection 14(5);

"death benefit" — "death benefit" means the total of all amounts received by a taxpayer in a taxation year on or after the death of an employee in recognition of the employee's service in an office or employment minus

(*a*) where the taxpayer is the only person who has received such an amount and who is a surviving spouse or common-law partner of the employee (which person is, in this definition, referred to as the "surviving spouse or common-law partner"), the lesser of

(i) the total of all amounts so received by the taxpayer in the year, and

(ii) the amount, if any, by which $10,000 exceeds the total of all amounts received by the taxpayer in preceding taxation years on or after the death of the employee in recognition of the employee's service in an office or employment, or

(*b*) where the taxpayer is not the surviving spouse or common-law partner of the employee, the lesser of

(i) the total of all amounts so received by the taxpayer in the year, and

(ii) that proportion of

(A) the amount, if any, by which $10,000 exceeds the total of all amounts received by the surviving spouse or common-law partner of the employee at any time on or after the death of the employee in recognition of the employee's service in an office or employment

that

(B) the amount described in subparagraph (i)

is of

(C) the total of all amounts received by all taxpayers other than the surviving spouse or common-law partner of the employee at any time on or after the death of the employee in recognition of the employee's service in an office or employment;

History: S. 248(1), paragraphs (*a*) and (*b*) of the definition "death benefit" was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.35), applicable January 1, 2001, coming into force on July 31, 2000. S. 248(1), paragraphs (*a*) and (*b*) of the definition "death benefit" formerly read:

"(*a*) where the taxpayer is the only person who has received such an amount and who is a surviving spouse of the employee (which person is, in this definition, referred to as the 'surviving spouse'), the lesser of

(i) the total of all amounts so received by the taxpayer in the year, and

(ii) the amount, if any, by which $10,000 exceeds the total of all amounts received by the taxpayer in preceding taxation years on or after the death of the employee in recognition of the employee's service in an office or employment, or

(*b*) where the taxpayer is not the surviving spouse of the employee, the lesser of

(i) the total of all amounts so received by the taxpayer in the year, and

(ii) that proportion of

(A) the amount, if any, by which $10,000 exceeds the total of all amounts received by the surviving spouse of the employee at any time on or after the death of the employee in recognition of the employee's service in an office or employment

that

(B) the amount described in subparagraph (i)

is of

(C) the total of all amounts received by all taxpayers other than the surviving spouse of the employee at any time on or after the death of the employee in recognition of the employee's service in an office or employment;"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 248(1), the portion of paragraph (*a*) of the definition "death benefit" before subparagraph (i), was amended by S.C. 1994, c. 7, Sched. VIII, s. 139(3), applicable to the 1993 and subsequent taxation years. That portion formerly read:

"(*a*) where the taxpayer is the surviving spouse of the employee, the lesser of"

Related Sections: S. 248(1), "amount", "common-law partner", "employee", "employment", "office"; s. 249(1) Definition of "taxation year".
Interpretation Bulletins: *Primary* — IT-508R Death benefits.

"deferred amount" — "deferred amount" at the end of a taxation year under a salary deferral arrangement in respect of a taxpayer means

(*a*) in the case of a trust governed by the arrangement, any amount that a person has a right under the arrangement at the end of the year to receive after the end of the year where the amount has been received, is receivable or may at any time become receivable by the trust as, on account or in lieu of salary or wages of the taxpayer for services rendered in the year or a preceding taxation year, and

(*b*) in any other case, any amount that a person has a right under the arrangement at the end of the year to receive after the end of the year,

and, for the purposes of this definition, a right under the arrangement shall include a right that is subject to one or more conditions unless there is a substantial risk that any one of those conditions will not be satisfied;

"deferred profit sharing plan" — "deferred profit sharing plan" has the meaning assigned by subsection 147(1);

"depreciable property" — "depreciable property" has the meaning assigned by subsection 13(21);

"designated insurance property" — "designated insurance property" has the meaning assigned by subsection 138(12);

History: S. 248(1), the definition "designated insurance property", was added by S.C. 1997, c. 25, s. 71(3), applicable to the 1997 and subsequent taxation years.

Related Sections: S. 85(1.1) Definition of "eligible property"; s. 115(1)(*b*) Non-resident's taxable income in Canada; s. 219 Branch tax.

"designated stock exchange" — "designated stock exchange" means a stock exchange, or that part of a stock exchange, for which a designation by the Minister of Finance under section 262 is in effect;

History: S. 248(1), the definition "designated stock exchange" was added by S.C. 2007, c. 35, s. 65(2), applicable on and after December 14, 2007.

"Designated surplus" — [Repealed by 1977-78, c. 1, s. 98(1).]

"disposition" — "disposition" of any property, except as expressly otherwise provided, includes

(*a*) any transaction or event entitling a taxpayer to proceeds of disposition of the property,

(*b*) any transaction or event by which,

(i) where the property is a share, bond, debenture, note, certificate, mortgage, agreement of sale or similar property, or an interest in it, the property is redeemed in whole or in part or is cancelled,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was

dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph (*b*)(i) of the definition "disposition" in subsection 248(1) of the Act is replaced by the following:

(i) where the property is a share, bond, debenture, note, certificate, mortgage, hypothecary claim, agreement of sale or similar property, or an interest, or for civil law a right, in it, the property is in whole or in part redeemed, acquired or cancelled,

Applicable: To redemptions, acquisitions and cancellations that occur after December 23, 1998 and, where a particular redemption, acquisition or cancellation occurs before December 21, 2002, any assessment of a taxpayer's tax, interest and penalties payable under the Act for a taxation year that includes the time at which the particular redemption, acquisition or cancellation occurred shall, notwithstanding subsections 152(4) to (5) be made that is necessary to take into account the application of [the amendment to subparagraph (*b*)(i) of the definition "disposition" in subsection 248(1)].

Explanatory Note:

"disposition"

The expression "disposition" is used throughout the Act, particularly in provisions relating to transactions involving property.

The definition "disposition" was added to subsection 248(1) by S.C. 2001, chapter 17, ss. 188(5) [formerly Bill C-22]. In general, that definition is applicable to transactions and events that occur after December 23, 1998. The former definition "disposition" was contained in section 54 of the Act, applicable to transactions and events that occurred before December 24, 1998.

Under the definition "disposition" in subsection 248(1), a "disposition" of any property includes a transaction or an event described in any of paragraphs (*a*) to (*d*) of that definition but does not include a transaction or an event described in any of paragraphs (*e*) to (*m*) of that definition.

Under subparagraph (*b*)(i) of that definition, a disposition of a property includes any transaction or event by which, where the property is a share, bond, debenture, note, certificate, mortgage, agreement of sale or similar property, or an interest in it, the property "is redeemed in whole or in Part or is cancelled".

The definition "disposition" in subsection 248(1) is amended in the following ways.

First, subparagraph (*b*)(i) of the definition now provides that a disposition of property includes any transaction or event by which, where the property is a share, bond, debenture, note, certificate, mortgage, agreement of sale or similar property, or an interest in it, the property "is in whole or in Part redeemed, acquired or cancelled". This amendment makes it clear that a disposition will also include a transaction or event by which the property is acquired.

Second, paragraph (*n*) is added to the definition. New paragraph (*n*) provides that a redemption, an acquisition or a cancellation of a share, or of a right to be issued a share, (which share or which right, as the case may be, is referred to as the "security") of the capital stock of a corporation (the "issuing corporation") held by another corporation (the "disposing corporation") is considered not to be a "disposition" in the case where

- the redemption, acquisition or cancellation occurs as part of a particular merger or combination of two or more corporations (including the issuing corporation and the disposing corporation) to form one corporate entity (referred to as the "new corporation"),
- the particular merger or combination
  - is an amalgamation (within the meaning assigned by subsection 87(1) of the Act) to which subsection 87(11) of the Act does not apply,
  - is an amalgamation (within the meaning assigned by subsection 87(1)) to which subsection 87(11) applies, if the issuing corporation and the disposing corporation are described by subsection 87(11) as the parent and the subsidiary, respectively, or
  - is a merger or combination of non-resident corporations (referred to in these Notes as a "subject merger") that would be a foreign merger (within the meaning assigned by subsection 87(8.1) of the Act) if subparagraph 87(8.1)(*c*)(ii) were read without reference to the words "that was resident in a country other than Canada", and
- either
  - the disposing corporation receives no consideration for the security, or
  - in the case of where the particular merger or combination is a subject merger, the disposing corporation receives no consideration for the security other than property that was, immediately before the particular merger or combination, owned by the issuing corporation and that, on the foreign merger, becomes property of the new corporation.

Both amendments apply to redemptions, acquisitions and cancellations that occur after December 23, 1998, and, where the redemption, acquisition or cancellation takes place before December 21, 2002, the Minister of National Revenue shall, notwithstanding subsections 152(4) to (5) of the Act, make any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation years that include the time at which such a redemption, acquisition or cancellation occurred that is necessary to take into account the application of the amendments.

In connection with redemptions, acquisitions and cancellations that occur before December 24, 1998, see the commentary to new subsection 248(1.1) of the Act.

Third, the definition "disposition" in subsection 248(1) is also amended by restricting the circumstances in which a transfer of property between trusts will not be treated as a disposition. In particular, paragraph (*f*) of the definition is amended so that a transfer of property from a trust to another trust will avoid, under that paragraph, characterization as a disposition only if both trusts are, at the time of the transfer, resident in Canada.

This amendment applies to transfers that occur after February 27, 2004.

(ii) where the property is a debt or any other right to receive an amount, the debt or other right is settled or cancelled,

(iii) where the property is a share, the share is converted because of an amalgamation or merger,

(iv) where the property is an option to acquire or dispose of property, the option expires, and

(v) a trust, that can reasonably be considered to act as agent for all the beneficiaries under the trust with respect to all dealings with all of the trust's property (unless the trust is described in any of paragraphs (*a*) to (*e*.1) of the definition "trust" in subsection 108(1)), ceases to act as agent for a beneficiary under the trust with respect to any dealing with any of the trust's property,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The definition "disposition" in subsection 248(1) of the Act is amended by adding the following after paragraph (*b*):

(*b*.1) where the property is an interest in a life insurance policy, a disposition within the meaning of section 148,

Applicable: To taxation years that begin after 2006, except that paragraph (*b*.1) of the definition "disposition" also applies to a taxation year of a taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the taxpayer.

Explanatory Note:

"disposition"

The expression "disposition" is used throughout the Act, particularly in provisions relating to transactions involving property.

The definition "disposition" is amended to add new paragraph (*b.1*). New paragraph (*b.1*) of the definition ensures that, where a property is an interest in a life insurance policy, what would constitute a disposition for the purposes of section 148 will also constitute a disposition for the entire Act.

(*c*) any transfer of the property to a trust or, where the property is property of a trust, any transfer of the property to any beneficiary under the trust, except as provided by paragraph (*f*) or (*k*), and

(*d*) where the property is, or is part of, a taxpayer's capital interest in a trust, except as provided by paragraph (*h*) or (*i*), a payment made after 1999 to the taxpayer from the trust that can reasonably be considered to have been made because of the taxpayer's capital interest in the trust,

but does not include

(*e*) any transfer of the property as a consequence of which there is no change in the beneficial ownership of the property, except where the transfer is

(i) from a person or a partnership to a trust for the benefit of the person or the partnership,

(ii) from a trust to a beneficiary under the trust, or

(iii) from one trust maintained for the benefit of one or more beneficiaries under the trust to another trust maintained for the benefit of the same beneficiaries,

(*f*) any transfer of the property as a consequence of which there is no change in the beneficial ownership of the property, where

(i) the transferor and the transferee are trusts,

(ii) the transfer is not by a trust resident in Canada to a non-resident trust,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraphs (*f*)(i) and (ii) of the definition "disposition" in subsection 248(1) of the Act are replaced by the following:

(i) the transferor and the transferee are trusts that are, at the time of the transfer, resident in Canada,

(ii) [Repealed.]

Applicable: To transfers that occur after February 27, 2004.

Explanatory Note: See the Explanatory Note following the amendment to subparagraph (*b*)(i) of the definition "disposition" in subsection 248(1).

(iii) the transferee does not receive the property in satisfaction of the transferee's right as a beneficiary under the transferor trust,

(iv) the transferee held no property immediately before the transfer (other than property the cost of which is not included, for the purposes of this Act, in computing a balance of undeducted outlays, expenses or other amounts in respect of the transferee),

(v) the transferee does not file a written election with the Minister on or before the filing-due date for its taxation year in which the transfer is made (or on such later date as is acceptable to the Minister) that this paragraph not apply,

(vi) if the transferor is an amateur athlete trust, a cemetery care trust, an employee trust, an *inter vivos* trust deemed by subsection 143(1) to exist in respect of a congregation that is a constituent part of a religious organization, a related segregated fund trust (in this paragraph having the meaning assigned by section 138.1), a trust described in paragraph 149(1)(*o.4*) or a trust governed by an eligible funeral arrangement, an employees profit sharing plan, a registered disability savings plan, a registered education savings plan, a registered supplementary unemployment benefit plan or a TFSA, the transferee is the same type of trust, and

(vii) the transfer results, or is part of a series of transactions or events that results, in the transferor ceasing to exist and, immediately before the time of the transfer or the beginning of that series, as the case may be, the transferee never held any property or held only property having a nominal value,

(*g*) [Repealed.]

(*h*) where the property is part of a capital interest of a taxpayer in a trust (other than a personal trust or a trust prescribed for the purpose of subsection 107(2)) that is described by reference to units issued by the trust, a payment after 1999 from the trust in respect of the capital interest, where the number of units in the trust that are owned by the taxpayer is not reduced because of the payment,

(*i*) where the property is a taxpayer's capital interest in a trust, a payment to the taxpayer after 1999 in respect of the capital interest to the extent that the payment

(i) is out of the income of the trust (determined without reference to subsection 104(6)) for a taxation year or out of the capital gains of the trust for the year, if the payment was made in the year or the right to the payment was acquired by the taxpayer in the year, or

(ii) is in respect of an amount designated in respect of the taxpayer by the trust under subsection 104(20),

(*j*) any transfer of the property for the purpose only of securing a debt or a loan, or any transfer by a creditor for the purpose only of returning property that had been used as security for a debt or a loan,

(*k*) any transfer of the property to a trust as a consequence of which there is no change in the beneficial ownership of the property, where the main purpose of the transfer is

(i) to effect payment under a debt or loan,

(ii) to provide assurance that an absolute or contingent obligation of the transferor will be satisfied, or

(iii) to facilitate either the provision of compensation or the enforcement of a penalty, in the event that an absolute or contingent obligation of the transferor is not satisfied,

(*l*) any issue of a bond, debenture, note, certificate, mortgage or hypothecary claim, and

(*m*) any issue by a corporation of a share of its capital stock, or any other transaction that, but for this paragraph, would be a disposition by a corporation of a share of its capital stock;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The definition "disposition" in subsection 248(1) of the Act is amended by striking out the word "and" at the end of paragraph (*l*), by adding the word "and" at the end of paragraph (*m*) and by adding the following after paragraph (*m*):

(*n*) a redemption, an acquisition or a cancellation of a share or of a right to acquire a share (which share or which right, as the case may be, is referred to in this paragraph as the "security") of the capital stock of a corporation (referred to in this paragraph as the "issuing corporation") held by another corporation (referred to in this paragraph as the "disposing corporation") if

(i) the redemption, acquisition or cancellation occurs as part of a merger or combination of two or more corporations (including the issuing corporation and the disposing corporation) to form one corporate entity (referred to in this paragraph as the "new corporation"),

(ii) the merger or combination

(A) is an amalgamation (within the meaning assigned by subsection 87(1)) to which subsection 87(11) does not apply,

(B) is an amalgamation (within the meaning assigned by subsection 87(1)) to which subsection 87(11) applies, if the issuing corporation and the disposing corporation are described by subsection 87(11) as the parent and the subsidiary, respectively,

(C) is a foreign merger (within the meaning assigned by subsection 87(8.1)), or

(D) would be a foreign merger (within the meaning assigned by subsection 87(8.1)) if subparagraph 87(8.1)(*c*)(ii) were read without reference to the words "that was resident in a country other than Canada", and

(iii) either

(A) the disposing corporation receives no consideration for the security, or

(B) in the case where the merger or combination is described by clause (ii)(C), the disposing corporation receives no consideration for the security other than property that was, immediately before the merger or combination, owned by the issuing corporation and that, on the merger or combination, becomes property of the new corporation;

Applicable: To redemptions, acquisitions and cancellations that occur after December 23, 1998 and, where a particular redemption, acquisition or cancellation occurs before December 21, 2002, any assessment of a taxpayer's tax, interest and penalties payable under the Act for a taxation year that includes the time at which the particular redemption, acquisition or cancellation occurred shall, notwithstanding subsections 152(4) to (5) of the Act, be made that is necessary to take into account the application of [the addition of paragraph (*n*) of the definition "disposition" in subsection 248(1)].

Explanatory Note: See the Explanatory Note following the amendment to subparagraph (*b*)(i) of the definition "disposition" in subsection 248(1).

History: S. 248(1), subparagraph (*f*)(vi) of the definition "disposition" was replaced by S.C. 2008, c. 28, s. 34(2), applicable to the 2009 and subsequent taxation years. S. 248(1), subparagraph (*f*)(vi) of the definition "disposition" formerly read:

"(vi) if the transferor is an amateur athlete trust, a cemetery care trust, an employee trust, an *inter vivos* trust deemed by subsection 143(1) to exist in respect of a congregation that is a constituent part of a religious organization, a related segregated fund trust (in this paragraph having the meaning assigned by section 138.1), a trust described in paragraph 149(1)(*o.4*) or a trust governed by an eligible funeral arrangement, an employees profit sharing plan, a registered disability savings plan, a registered education savings plan or a registered supplementary unemployment benefit plan, the transferee is the same type of trust, and"

S. 248(1), subparagraph (*f*)(vi) of the definition "disposition" was replaced by S.C. 2007, c. 35, s. 123(1), applicable to the 2008 and subsequent taxation years. S. 248(1), subparagraph (*f*)(vi) formerly read:

"(vi) if the transferor is an amateur athlete trust, a cemetery care trust, an employee trust, an inter vivos trust deemed by subsection 143(1) to exist in respect of a congregation that is a constituent part of a religious organization, a related segregated fund trust (in this paragraph having the meaning assigned by section 138.1), a trust described in paragraph 149(1)(*o.4*) or a trust governed by an eligible funeral arrangement, an employees profit sharing plan, a registered education savings plan or a registered supplementary unemployment benefit plan, the transferee is the same type of trust, and"

S. 248(1), paragraph (*c*) of the definition "disposition" was replaced by S.C. 2005, c. 30, s. 17(2), applicable to dispositions that occur after 2004. S. 248(1), paragraph (*c*) of the definition "disposition" formerly read:

"(*c*) any transfer of the property to a trust or, where the property is property of a trust, any transfer of the property to any beneficiary under the trust, except as provided by paragraph (*f*), (*g*) or (*k*), and"

S. 248(1), paragraph (*g*) of the definition "disposition" was repealed by S.C. 2005, c. 30, s. 17(3), applicable to dispositions that occur after 2004. S. 248(1), paragraph (*g*) of the definition "disposition" formerly read:

"(*g*) any transfer of the property where

(i) the transferor is a trust governed by a registered retirement savings plan or a trust governed by a registered retirement income fund,

(ii) the transferee is a trust governed by a registered retirement savings plan or a trust governed by a registered retirement income fund,

(iii) the annuitant under the plan or fund that governs the transferor is also the annuitant under the plan or fund that governs the transferee,

(iv) the transferee held no property immediately before the transfer (other than property the cost of which is not included, for the purposes of this Act, in computing a balance of undeducted outlays, expenses or other amounts in respect of the transferee),

(v) the transferee does not file a written election with the Minister on or before the filing-due date for its taxation year in which the transfer is made (or on such later day as is acceptable to the Minister) that this paragraph not apply, and

(vi) the transfer results, or is part of a series of transactions or events that results, in the transferor ceasing to exist and, immediately before the time of the transfer or the beginning of that series, as the case may be, the transferee never held any property or held only property having a nominal value,"

S. 248(1), the definition "disposition" was added by S.C. 2001, c. 17, s. 188(5), applicable to transactions and events that occur after December 23, 1998, except that paragraphs (*f*) and (*g*) of that definition shall not apply for the purposes of the Act (other than section 107.4 of the Act, as enacted by subsection 82(1)) to a transfer of property, that occurred before 2000, by a trust governed by a registered retirement savings plan or by a registered retirement income fund to a trust governed by a registered retirement income fund (or to a transfer by a trust governed by a registered retirement income fund to a trust governed by a registered retirement savings plan) unless the transferee trust files a written election with the Minister of National Revenue on or before the filing-due date for its taxation year in which the transfer is made (or on such later day as is acceptable to the Minister) that paragraph (*f*) or (*g*), as the case may be, of that definition apply.

Related Sections: S. 13(21), "proceeds of disposition"; s. 43(2) Ecological gifts; s. 54, "proceeds of disposition"; s. 52(6) Cost of right to receive from trust; s. 107(2) Distribution by personal trust; s. 107(2.1) Other distributions; s. 107.4(1) Qualifying disposition; s. 108(1), "capital interest"; s. 248(25.1) Trust-to-trust transfers; s. 248(25.2) Trusts to ensure obligations fulfilled.

Interpretation Bulletins: *Primary* — IT-133 Stock exchange transactions — Date of disposition of shares; IT-146R4 Shares entitling shareholders to choose taxable or capital dividends; IT-170R Sale of property — When

included in income computation; IT-325R2 Property transfers after separation, divorce and annulment; IT-444R Corporations — Involuntary Dissolutions; IT-448 Dispositions — Changes in terms of securities [Archived by the CRA]; IT-460 Dispositions — Absence of consideration. *Secondary* — IT-96R6 Options granted by corporations to acquire shares, bonds or debentures; IT-102R2 Conversion of property, other than real property, from or to inventory; IT-124R6 Contributions to registered retirement savings plans; IT-125R4 Disposition of resource properties; IT-126R2 Meaning of "winding-up"; IT-170R Sale of property — When included in income computation; IT-218R Profit, capital gains and losses from the sale of real estate, including farmland and inherited land and conversion of real estate from capital property to inventory and vice versa; IT-220R2 Capital cost allowance — Proceeds of disposition of depreciable property; IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA]; IT-505 Mortgage foreclosures and conditional sales repossessions [Archived by the CRA].

Income Tax Technical News: Issue No. 14, Changes in terms of debt obligations; Issue No. 15, The tax consequences of the adoption of the "Euro" currency; Issue No. 7, Revocable living trusts; Issue No. 3, Loss utilization within a corporate group.

Tax Topics: No. 1663, Vive la Différence: The Tax Consequences of Conditional Obligations Under Civil Law and Common Law.

Tax Profile: February 2002 — Transferring Property to a Trust After the Enactment of Bill C-22.

Canadian Tax Foundation: Arnold and Ward, "Dispositions — A Critique of Revenue Canada's Interpretation", *1980 Canadian Tax Journal*, No. 5, 559.

"dividend" — "dividend" includes a stock dividend (other than a stock dividend that is paid to a corporation or to a mutual fund trust by a non-resident corporation);

History: S. 248(1), the definition "dividend", was amended by S.C. 1994, c. 7, Sched. II, s. 192(1), applicable to stock dividends paid to a corporation or to a mutual fund trust

(*a*) after May 23, 1985 and before 1991, where the corporation or trust, as the case may be, so elected by notifying the Minister of National Revenue in writing before July 1991, and

(*b*) in any other case, after 1990,

and, notwithstanding subsections 152(4) to (5) of the Act, such assessments of tax, interest and penalties shall be made as are necessary to give effect to an election by a taxpayer under paragraph (*a*).

That definition formerly read:

" 'dividend' includes a stock dividend;"

Interpretation Bulletins: *Primary* — IT-88R2 Stock dividends.

"dividend rental arrangement" — "dividend rental arrangement" of a person means any arrangement entered into by the person where it may reasonably be considered that

(*a*) the main reason for the person entering into the arrangement was to enable the person to receive a dividend on a share of the capital stock of a corporation, other than a dividend on a prescribed share or a share described in paragraph (*e*) of the definition "term preferred share" in this subsection or an amount deemed to be received as a dividend on a share of the capital stock of a corporation by reason of subsection 15(3), and

(*b*) under the arrangement someone other than that person bears the risk of loss or enjoys the opportunity for gain or profit with respect to the share in any material respect;

and for greater certainty includes any arrangement under which

(*c*) a corporation at any time receives on a particular share a taxable dividend that would, but for subsection 112(2.3), be deductible in computing its taxable income or taxable income earned in Canada for the taxation year that includes that time, and

(*d*) the corporation is obligated to pay to another person an amount as compensation for

(i) that dividend,

(ii) a dividend on a share that is identical to the particular share, or

(iii) a dividend on a share that, during the term of the arrangement, can reasonably be expected to provide to a holder of the share the same or substantially the same proportionate risk of loss or opportunity for gain as the particular share,

that, if paid, would be deemed by subsection 260(5) to have been received by that other person as a taxable dividend;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The definition "dividend rental arrangement" in subsection 248(1) of the Act is replaced by the following:

"dividend rental arrangement" — "dividend rental arrangement", of a person or a partnership (each of which is referred to in this definition as the "person"),

(*a*) means any arrangement entered into by the person where it can reasonably be considered that

(i) the main reason for the person entering into the arrangement was to enable the person to receive a dividend on a share of the capital stock of a corporation, other than a dividend on a prescribed share or on a share described in paragraph (*e*) of the definition "term preferred share" in this subsection or an amount deemed by subsection 15(3) to be received as a dividend on a share of the capital stock of a corporation, and

(ii) under the arrangement someone other than that person bears the risk of loss or enjoys the opportunity for gain or profit with respect to the share in any material respect, and

(*b*) includes, for greater certainty, any arrangement under which

(i) a corporation at any time receives on a particular share a taxable dividend that would, if this Act were read without reference to subsection 112(2.3), be deductible in computing its taxable income or taxable income earned in Canada for the taxation year that includes that time, and

(ii) the corporation or a partnership of which the corporation is a member is obligated to pay to another person or partnership an amount

(A) that is compensation for

(I) the dividend described in subparagraph (i),

(II) a dividend on a share that is identical to the particular share, or

(III) a dividend on a share that, during the term of the arrangement, can reasonably be expected to provide to a holder of the share the same or substantially the same proportionate risk of loss or opportunity for gain as the particular share, and

(B) that, if paid, would be deemed by subsection 260(5.1) to have been received by that other person or partnership, as the case may be, as a taxable dividend;

Applicable:

(*a*) To arrangements made after December 20, 2002; and

(*b*) to an arrangement made after November 2, 1998 and before December 21, 2002 if the parties to the arrangement jointly so elect in writing and file the election with the Minister of National Revenue within 90 days after the day on which this Act is assented to, except that the reference to "subsection 260(5.1)" in clause (*b*)(ii)(B) of the definition "dividend rental arrangement" in subsection 248(1) is to be, in the application of that definition to any of those arrangements made before 2002, read as a reference to "subsection 260(5)".

For arrangements made after 2001 and before December 21, 2002, other than an arrangement to which paragraph (*b*) [of the application above] applies, the portion of paragraph (*d*) of the defi-

nition "dividend rental arrangement" in subsection 248(1) after subparagraph (iii) is to be read as follows:
" that, if paid, would be deemed by subsection 260(5.1) to have been received by that other person as a taxable dividend; "

Explanatory Note:

"dividend rental arrangement"

A "dividend rental arrangement" is, in general terms, an arrangement under which one person receives a dividend on a share that has been borrowed from another person who retains the risk of loss or opportunity for gain from fluctuations in the share value. To clarify its application where a partnership is a party to the arrangement, the definition is restructured and amended; its language is also updated in certain respects.

Under the amended definition, the "person" who is the subject of the arrangement — that is, the person who enters into the arrangement in order to receive a dividend — may be a partnership or a person as otherwise defined.

Existing paragraph (*c*) of the definition ensures that the definition includes an arrangement under which a corporation receives a taxable dividend that would be deductible but for subsection 112(2.3) of the Act, and is obligated to make dividend compensation payments. This paragraph is replaced by new paragraph (*b*), which adds to the arrangements described one in which it is not the corporation receiving the dividend that is obligated to make the compensation payment, but rather a partnership of which the corporation is a member.

At first reading, new paragraph (*b*) may seem asymmetrical, in that it expressly covers the case where a partnership is obligated to make the compensation payment, but not the case where a partnership receives the taxable dividend. In fact, the paragraph covers both: since in the latter case the corporate partner is itself already considered to receive the dividend, it is not necessary to add a reference to the partnership in that regard.

The reference to "subsection 260(5)" in this definition is replaced with "subsection 260(5.1)" consequential to the amendments to section 260. This amendment applies to paragraph (*d*) of the former definition and clause (*b*)(ii)(B) of the amended definition.

The amendment to paragraph (*d*) of the former definition applies between January 1, 2002 and December 20, 2002 unless an election noted below is filed.

The amended definition applies to arrangements made after December 20, 2002; it also applies to an arrangement made after November 2, 1998 and before the day after December 20, 2002, if the parties jointly elect in writing filed with the Minister of National Revenue within 90 days after this Act has been assented to, except that before 2002 the reference to "subsection 260(5.1)" in the amended definition should be read as "subsection 260(5)".

History: S. 248(1), all that portion following paragraph (*b*) of the definition "dividend rental arrangement", was added by S.C. 1995, c. 21, s. 74(1), applicable to dividends received at any time by a corporation on shares acquired

(*a*) before that time and after April 1989, where the corporation so elects by notifying the Minister of National Revenue in writing before 1996; and

(*b*) before that time and after June 1994, in any other case.

Editorial Note: See the Editorial Note to subsection 112(2.3).

"eligible capital amount" — "eligible capital amount" has the meaning assigned by subsection 14(1);

"eligible capital expenditure" — "eligible capital expenditure" has the meaning assigned by subsection 14(5);

Interpretation Bulletins: *Secondary* — IT-143R3 Meaning of eligible capital expenditure.

"eligible capital property" — "eligible capital property" has the meaning assigned by section 54;

"eligible dividend" — "eligible dividend" has the meaning assigned by subsection 89(1);

History: S. 248(1), the definition "eligible dividend" was added by S.C. 2007, c. 2, s. 52(1), applicable to taxation years that end after 2005.

"eligible funeral arrangement" — "eligible funeral arrangement" has the meaning assigned by subsection 148.1(1);

History: S. 248(1), the definition "eligible funeral arrangement" was added by S.C. 1995, c. 21, s. 65(1), applicable after 1992.

"eligible relocation" — "eligible relocation" means a relocation of a taxpayer where

(*a*) the relocation occurs to enable the taxpayer

(i) to carry on a business or to be employed at a location in Canada (in section 62 and this subsection referred to as "the new work location"), or

(ii) to be a student in full-time attendance enrolled in a program at a post-secondary level at a location of a university, college or other educational institution (in section 62 and in this subsection referred to as "the new work location"),

(*b*) both the residence at which the taxpayer ordinarily resided before the relocation (in section 62 and this subsection referred to as "the old residence") and the residence at which the taxpayer ordinarily resided after the relocation (in section 62 and this subsection referred to as "the new residence") are in Canada, and

(*c*) the distance between the old residence and the new work location is not less than 40 kilometres greater than the distance between the new residence and the new work location

except that, in applying subsections 6(19) to (23) and section 62 in respect of a relocation of a taxpayer who is absent from but resident in Canada, this definition shall be read without reference to the words "in Canada" in subparagraph (*a*)(i), and without reference to paragraph (*b*);

History: S. 248(1), the definition "eligible relocation" was added by S.C. 1999, c. 22, s. 80(12), applicable to all taxation years.

Related Sections: S. 6(22) Eligible housing loss; s. 62(1) Moving expenses; s. 62(2) Moving expenses of students; s. 64.1 Individuals absent from Canada; s. 80.4(1.1) Loan or debt from office or employment; s. 115(2)(*f*) Non-resident's taxable income in Canada; s. 248(1), "home relocation loan".

"employed" — "employed" means performing the duties of an office or employment;

Related Sections: S. 54, "eligible capital property".

"employee" — "employee" includes officer;

"employee benefit plan" — "employee benefit plan" means an arrangement under which contributions are made by an employer or by any person with whom the employer does not deal at arm's length to another person (in this Act referred to as the "custodian" of an employee benefit plan) and under which one or more payments are to be made to or for the benefit of employees or former employees of the employer or persons who do not deal at arm's length with any such employee or former employee (other than a payment that, if section 6 were read without reference to subparagraph 6(1)(*a*)(ii) and paragraph 6(1)(*g*), would not be required to be included in computing the income of the recipient), but does not include

(*a*) a fund or plan referred to in subparagraph 6(1)(*a*)(i) or paragraph 6(1)(*d*) or (*f*),

(*b*) a trust described in paragraph 149(1)(*y*),

(*c*) an employee trust,

(*c*.1) a salary deferral arrangement, in respect of a taxpayer, under which deferred amounts are required to be included as benefits under paragraph 6(1)(*a*) in computing the taxpayer's income,

(*c*.2) a retirement compensation arrangement,

(*d*) an arrangement the sole purpose of which is to provide education or training for employees of the employer to improve their work or work-related skills and abilities, or

(*e*) a prescribed arrangement;

History: S. 248(1), paragraph (*e*) of the definition "employee benefit plan", was amended by S.C. 1994, c. 21, s. 109(2), applicable after 1979. That paragraph formerly read:

"(*e*) a prescribed fund or plan;"

Regulations: 6800.

Interpretation Bulletins: *Secondary* — IT-499R Superannuation or pension benefits; IT-502 Employee benefit plans and employee trusts.

Advance Tax Rulings: ATR-17 Employee benefit plan — Purchase of company shares; ATR-21 Pension benefit from an unregistered pension plan.

"employee trust" — "employee trust" means an arrangement (other than an employees profit sharing plan, a deferred profit sharing plan or a plan referred to in subsection 147(15) as a "revoked plan") established after 1979

(*a*) under which payments are made by one or more employers to a trustee in trust solely to provide to employees or former employees of

(i) the employer, or

(ii) a person with whom the employer does not deal at arm's length,

benefits the right to which vests at the time of each such payment and the amount of which does not depend on the individual's position, performance or compensation as an employee,

(*b*) under which the trustee has, since the commencement of the arrangement, each year allocated to individuals who are beneficiaries thereunder, in such manner as is reasonable, the amount, if any, by which the total of all amounts each of which is

(i) an amount received under the arrangement by the trustee in the year from an employer or from a person with whom the employer does not deal at arm's length,

(ii) the amount that would, if this Act were read without reference to subsection 104(6), be the income of the trust for the year (other than a taxable capital gain from the disposition of property) from a property or other source other than a business, or

(iii) a capital gain of the trust for the year from the disposition of property

exceeds the total of all amounts each of which is

(iv) the loss of the trust for the year (other than an allowable capital loss from the disposition of property) from a property or other source other than a business, or

(v) a capital loss of the trust for the year from the disposition of property, and

(*c*) the trustee of which has elected to qualify the arrangement as an employee trust in its return of income filed within 90 days from the end of its first taxation year;

Interpretation Bulletins: *Secondary* — IT-502 Employee benefit plans and employee trusts.

"employees profit sharing plan" — "employees profit sharing plan" has the meaning assigned by subsection 144(1);

"employer" — "employer", in relation to an officer, means the person from whom the officer receives the officer's remuneration;

"employment" — "employment" means the position of an individual in the service of some other person (including Her Majesty or a foreign state or sovereign) and "servant" or "employee" means a person holding such a position;

Cases: Dancers at the Royal Winnipeg Ballet were independent contractors, not employees. Although the company exercised extensive control over their work, this was required to stage a season of performances. The understanding of the parties as to the nature of their legal relationship was relevant, although not conclusive. *The Royal Winnipeg Ballet v. M.N.R.*, 2006 DTC 6323 (F.C.A.), reversing 2004 DTC 390 (T.C.C.).

The Federal Court of Appeal laid down its view of the prevailing Canadian tests for determining whether a relationship is one of employment in *Wiebe Door Services Ltd. v. M.N.R.*, 87 DTC 5025 (F.C.A.).

"estate" — "estate" has the meaning assigned by subsection 104(1);

Related Sections: S. 104(1) Reference to trust or estate.

"estate of the bankrupt" — "estate of the bankrupt" has the same meaning as in the *Bankruptcy and Insolvency Act*;

History: S. 248(1), the definition "estate of the bankrupt" was added by S.C. 1995, c. 21, s. 43(2), applicable to taxation years that end after February 21, 1994.

"excessive eligible dividend designation" — "excessive eligible dividend designation" has the meaning assigned by subsection 89(1);

History: S. 248(1), the definition "excessive eligible dividend designation" was added by S.C. 2007, c. 2, s. 52(1), applicable to taxation years that end after 2005.

"exempt income" — "exempt income" means property received or acquired by a person in such circumstances that it is, because of any provision of Part I, not included in computing the person's income, but does not include a dividend on a share or a support amount (as defined in subsection 56.1(4));

History: S. 248(1), the definition "exempt income", was amended by S.C. 1997, c. 25, s. 71(1), applicable after 1996. That definition formerly read:

" '*exempt income*' — 'exempt income' means money or property received or acquired by a person in such circumstances that it is, by reason of any provision in Part I, not included in computing the person's income, but for greater certainty does not include a dividend on a share;"

Related Sections: S. 18(1)(*c*) Limitation re exempt income.

Interpretation Bulletins: *Secondary* — IT-121R3 Election to capitalize cost of borrowed money [Archived by the CRA].

"farming" — "farming" includes tillage of the soil, livestock raising or exhibiting, maintaining of horses for racing, raising of poultry, fur farming, dairy farming, fruit growing and the keeping of bees, but does not include an office or employment under a person engaged in the business of farming;

Interpretation Bulletins: *Primary* — IT-156R Feedlot operators [Archived by the CRA]. *Secondary* — IT-268R4 Inter vivos transfer of farm property to child; IT-433R Farming or fishing — Use of cash method.

Cases: The breeding of dogs to be sold as pets and the operation of a kennel are not considered as farming activities. *Partington v. M.N.R.*, 91 DTC 347 (T.C.C.).

Buying cattle and feeding them for sale is included in "livestock raising" and therefore constitutes farming. *Stringham v. M.N.R.*, 54 DTC 45 (T.A.B.).

"farm loss" — "farm loss" has the meaning assigned by subsection 111(8);

"filing-due date" — "filing-due date" for a taxation year of a taxpayer means the day on or before which the taxpayer's return of income under Part I for the year is required to be filed or would be required to be filed if

tax under that Part were payable by the taxpayer for the year;

History: S. 248(1), the definition "filing due date" was added by S.C. 1996, c. 21, s. 60(2), applicable after 1993.

"fiscal period" — [Repealed by S.C. 1996, c. 21, s. 60(1).]

History: S. 248(1), the definition "fiscal period" was repealed by S.C. 1996, c. 21, s. 60(1), applicable to fiscal periods that begin after 1994. That definition formerly read:

" *'fiscal period'* — 'fiscal period' means the period for which the accounts of the business of the taxpayer have been ordinarily made up and accepted for purposes of assessment under this Act and, in the absence of an established practice, the fiscal period is that adopted by the taxpayer, but no fiscal period may exceed
(*a*) in the case of a corporation, 53 weeks, and
(*b*) in the case of any other taxpayer, 12 months,
and no change in a usual and accepted fiscal period may be made for the purposes of this Act without the concurrence of the Minister;"

"fishing" — "fishing" includes fishing for or catching shellfish, crustaceans and marine animals but does not include an office or employment under a person engaged in the business of fishing;

Cases: The taxpayer's appeal was dismissed when he failed to show that he was engaged in fishing with a reasonable expectation of profit. *Smith v. M.N.R.*, 80 DTC 1220 (T.R.B.).

"flow-through share" — "flow-through share" has the meaning assigned by subsection 66(15);

History: S. 248(1), the definition of "flow-through share" was added by S.C. 1998, c. 19, s. 239(6), applicable after November 1994.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 248(1) of the Act is amended by adding the following in alphabetical order:

"foreign accrual property income" — "foreign accrual property income" has the meaning assigned by section 95;

Applicable: To taxation years that begin after 2006, except that the definition "foreign accrual property income" also applies to a taxation year of a taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the taxpayer.

Explanatory Note:

"foreign accrual property income"

The definition "foreign accrual property income" is included in subsection 248(1) so that the definition of this expression in section 95 of the Act applies for the purposes of the Act.

This amendment applies to taxation years that begin after 2006.

"foreign affiliate" — "foreign affiliate" has the meaning assigned by subsection 95(1);

"foreign currency" — "foreign currency" means currency of a country other than Canada;

History: S. 248(1), the definition "foreign currency" was added by S.C. 2001, c. 17, s. 188(5), applicable after June 27, 1999.

Related Sections: S. 76.1 Non-resident moving debt from Canadian business; s. 142.7(8) Assumption of debt obligation.

"foreign currency debt" — "foreign currency debt" has the meaning assigned by subsection 111(8);

History: S. 248(1), the definition "foreign currency debt" was added by S.C. 2009, c. 2, s. 76(4), applicable after 2005.

"foreign exploration and development expenses" — "foreign exploration and development expenses" has the meaning assigned by subsection 66(15);

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 248(1) of the Act is amended by adding the following in alphabetical order:

"foreign investment entity" — "foreign investment entity" has the meaning assigned by section 94.1;

Applicable: To taxation years that begin after 2006, except that the definition "foreign investment entity" also applies to a taxation year of a taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the taxpayer.

Explanatory Note:

"foreign investment entity"

The definition "foreign investment entity" is included in subsection 248(1) so that the definition of this expression in subsection 94.1(1) of the Act applies for the purposes of the Act.

This amendment applies to taxation years that begin after 2006.

"foreign resource expense" — "foreign resource expense" has the meaning assigned by subsection 66.21(1);

History: S. 248(1), the definition "foreign resource expense" was added by S.C. 2001, c. 17, s. 188(5), applicable after 2000.

"foreign resource pool expenses" — "foreign resource pool expenses" of a taxpayer means the taxpayer's foreign resource expenses in respect of all countries and the taxpayer's foreign exploration and development expenses;

History: S. 248(1), the definition "foreign resource pool expenses" was added by S.C. 2001, c. 17, s. 188(5), applicable after 2000.

"foreign resource property" — "foreign resource property" has the meaning assigned by subsection 66(15), and a foreign resource property in respect of a country means a foreign resource property that is

(*a*) a right, licence or privilege to explore for, drill for or take petroleum, natural gas or related hydrocarbons in that country,

(*b*) a right, licence or privilege to

(i) store underground petroleum, natural gas or related hydrocarbons in that country, or

(ii) prospect, explore, drill or mine for minerals in a mineral resource in that country,

(*c*) an oil or gas well in that country or real property in that country the principal value of which depends on its petroleum or natural gas content (but not including depreciable property),

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (c) of the definition "foreign resource property" in subsection 248(1) of the Act is replaced by the following:

(*c*) an oil or gas well in that country or real or immovable property in that country the principal value of which depends on its petroleum or natural gas content (but not including depreciable property),

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*d*) a rental or royalty computed by reference to the amount or value of production from an oil or gas well in that country or from a natural accumulation of petroleum or natural gas in that country,

(*e*) a rental or royalty computed by reference to the amount or value of production from a mineral resource in that country,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraphs (*d*) and (*e*) of the definition "foreign resource property" in subsection 248(1) of the Act are replaced by the following:

(*d*) any right to a rental or royalty computed by reference to the amount or value of production from an oil or gas well in that country, or from a natural accumulation of petroleum or natural gas in that country, if the payer of the rental or royalty has an interest in, or for civil law a right in, the well or accumulation, as the case may be, and 90% or more of the rental or royalty is payable out of, or from the proceeds of, the production from the well or accumulation,

(*e*) any right to a rental or royalty computed by reference to the amount or value of production from a mineral resource in that country, if the payer of the rental or royalty has an interest in, or for civil law a right in, the mineral resource and 90% or more of the rental or royalty is payable out of, or from the proceeds of, the production from the mineral resource,

Applicable: To property acquired after December 20, 2002.

Explanatory Note:

"foreign resource property"

The definition "foreign resource property" in subsection 248(1) of the Act is structured to parallel the definition "Canadian resource property" in subsection 66(15) of the Act, with the necessary modifications to reflect the location of the property outside Canada. This definition is amended, effective for property acquired after December 20, 2002, as a consequence of changes to the definition "Canadian resource property".

(*f*) a real property in that country the principal value of which depends upon its mineral resource content (but not including depreciable property), or

(*g*) a right to or interest in any property described in any of paragraphs (*a*) to (*f*), other than such a right or interest that the taxpayer has by reason of being a beneficiary of a trust;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraphs (*f*) and (*g*) of the definition "foreign resource property" in subsection 248(1) of the Act are replaced by the following:

(*f*) a real or immovable property in that country the principal value of which depends upon its mineral resource content (but not including depreciable property),

(*g*) a right to or an interest in — or for civil law a right to or in — any property described in any of paragraphs (*a*) to (*e*), other than a right or an interest that the taxpayer has because the taxpayer is a beneficiary under a trust or a member of a partnership, or

(*h*) an interest in real property described in paragraph (*f*) or a real right in an immovable described in that paragraph, other than an interest or a right that the taxpayer has because the taxpayer is a beneficiary under a trust or a member of a partnership;

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

History: S. 248(1), the definition "foreign resource property" was amended by S.C. 2001, c. 17, s. 188(1), applicable after 2000. S. 248(1), the definition "foreign resource property" formerly read:

" '*foreign resource property*' — 'foreign resource property' has the meaning assigned by subsection 66(15);"

"foreign retirement arrangement" — "foreign retirement arrangement" means a prescribed plan or arrangement;

History: The definition "foreign retirement arrangement" was added to s. 248(1) by S.C. 1994, c. 7, Sched. II, s. 192(14), applicable to the 1990 and subsequent taxation years.

Related Sections: S. 12(11) Definitions; s. 60(*j*) Transfer of superannuation benefits; s. 81(1)(*h*) Foreign retirement arrangements.
Regulations: 6803.

"former business property" — "former business property" of a taxpayer means a capital property of the taxpayer that was used by the taxpayer or a person related to the taxpayer primarily for the purpose of gaining or producing income from a business, and that was real property of the taxpayer or an interest of the taxpayer in real property, but does not include

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of the definition "former business property" in subsection 248(1) of the Act before paragraph (*a*) is replaced by the following:

"former business property" — "former business property", in respect of a taxpayer, means a capital property of the taxpayer that was used by the taxpayer or a person related to the taxpayer primarily for the purpose of gaining or producing income from a business, and that was real or immovable property of the taxpayer, an interest of the taxpayer in real property, a right of the taxpayer in an immovable or a property that is the subject of a valid election under subsection 13(4.2), but does not include

Applicable: In respect of dispositions and terminations that occur after December 20, 2002.

Explanatory Note:

"former business property"

The definition "former business property" in subsection 248(1) of the Act describes properties the voluntarily disposition of which by a taxpayer are eligible for elections under subsections 13(4) and 44(1) of the Act to defer the recapture of depreciation and capital gains. Subject to certain exceptions, a former business property is generally real property or an interest in real property used primarily in a business. The definition is amended, applicable after December 20, 2002, to include a franchise, concession or license for a limited period that is wholly attributable to the carrying on of a business in a fixed place and that is the subject of a valid election under new subsection 13(4.2) of the Act. For further information, refer to the commentary to new subsections 13(4.2) and (4.3).

(*a*) a rental property of the taxpayer,

(*b*) land subjacent to a rental property of the taxpayer,

(*c*) land contiguous to land referred to in paragraph (*b*) that is a parking area, driveway, yard or garden or that is otherwise necessary for the use of the rental property referred to in that paragraph, or

(*d*) a leasehold interest in any property described in paragraphs (*a*) to (*c*),

and, for the purpose of this definition, "rental property" of a taxpayer means real property owned by the taxpayer, whether jointly with another person or otherwise, and used by the taxpayer in the taxation year in respect of which the expression is being applied principally for the purpose of gaining or producing gross revenue that is rent (other than property leased by the taxpayer to a person related to the taxpayer and used by that related person principally for any other purpose), but, for greater certainty, does not include a property leased by the taxpayer or the related person to a lessee, in the ordinary course of a business of the taxpayer or the related person of selling goods or rendering services, under an agreement by which the lessee undertakes to use the property to carry on the business of selling or promoting the sale of the goods or services of the taxpayer or the related person;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of the definition "former business property" in subsection 248(1) of the Act after paragraph (*d*) is replaced by the following:

and for the purpose of this definition, "rental property" of a taxpayer means real or immovable property owned by the taxpayer, whether jointly with another person or otherwise, and used by the taxpayer in the taxation year in respect of which the expression is being applied principally for the purpose of gaining or producing gross revenue that is rent (other than property leased by the taxpayer to a person related to the taxpayer and used by that related person principally for any other purpose), but, for greater certainty, does not include a property leased by the taxpayer or the related person to a lessee, in the ordinary course of a business of the taxpayer or the related person of selling goods or rendering services, under an agreement by which the lessee undertakes to use the property to carry on the business of selling or promoting the sale of the goods or services of the taxpayer or the related person;

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

History: S. 248(1), the portion of the definition "former business property" before paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 192(4), applicable to dispositions of property occurring after July 13, 1990. That portion formerly read:

" 'former business property' of a taxpayer means a capital property that was used by the taxpayer primarily for the purpose of gaining or producing income from a business, and that was real property or an interest therein of the taxpayer, but does not include"

S. 248(1), the portion of the definition "former business property" after paragraph (*d*), was amended by S.C. 1994, c. 7, Sched. II, s. 192(5), applicable to dispositions of property occurring after July 13, 1990. The portion formerly read:

"and, for the purposes of this definition, 'rental property' of a taxpayer means real property owned by the taxpayer, whether jointly with another person or otherwise, if the property was used by the taxpayer in the taxation year in respect of which the expression is being applied principally for the purpose of gaining or producing gross revenue that is rent, but, for greater certainty, does not include a property leased by the taxpayer to a lessee, in the ordinary course of the taxpayer's business of selling goods or rendering services, under an agreement by which the lessee undertakes to use the property to carry on the business of selling or promoting the sale of the taxpayer's goods or services;"

Related Sections: S. 13(4) Exchanges of property; s. 44 Exchanges of property.

Interpretation Bulletins: *Primary* — IT-491 Former Business Property.

"functional currency" — [Repealed by S.C. 2009, c. 2, s. 76(1).]

History: S. 248(1), the definition "functional currency" was repealed by S.C. 2009, c. 2, s. 76(1), applicable in respect of taxation years that begin after December 13, 2007. S. 248(1), the definition "functional currency" formerly read:

" *'functional currency'* — 'functional currency' of a taxpayer for a particular taxation year has the meaning assigned by section 261;"

S. 248(1), the definition "functional currency" was added by S.C. 2007, c. 35, s. 65(2), applicable in respect of taxation years that begin on or after December 14, 2007.

"general rate income pool" — "general rate income pool" has the meaning assigned by subsection 89(1);

History: S. 248(1), the definition "general rate income pool" was added by S.C. 2007, c. 2, s. 52(1), applicable to taxation years that end after 2005.

"goods and services tax" — "goods and services tax" means the tax payable under Part IX of the *Excise Tax Act*;

"grandfathered share" — "grandfathered share" means

(*a*) a share of the capital stock of a corporation issued after 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987 pursuant to an agreement in writing entered into before that time,

(*b*) a share of the capital stock of a corporation issued after 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987 and before 1988 as part of a distribution to the public made in accordance with the terms of a prospectus, preliminary prospectus, registration statement, offering memorandum or notice filed before 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987 with a public authority pursuant to and in accordance with the securities legislation of the jurisdiction in which the shares are distributed,

(*c*) a share (in this paragraph referred to as the "new share") of the capital stock of a corporation that is issued after 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987 in exchange for

(i) a share of a corporation that was issued before 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987 or is a grandfathered share, or

(ii) a debt obligation of a corporation that was

(A) issued before 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987, or

(B) issued after 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987 under an agreement in writing entered into before that time, or after that time and before 1988 as part of a distribution to the public made in accordance with the terms of a prospectus, preliminary prospectus, registration statement, offering memorandum or notice filed before that time with a public authority under and in accordance with the securities legislation of the jurisdiction in which the debt obligation is distributed,

where the right to the exchange and all or substantially all the terms and conditions of the new share were established in writing before that time, and

(*d*) a share of a class of the capital stock of a Canadian corporation listed on a designated stock exchange that is issued after 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987 on the exercise of a right that

(i) was issued before that time, that was issued after that time under an agreement in writing entered into before that time or that was issued after that time and before 1988 as part of a distribution to the public made in accordance with the terms of a prospectus, preliminary prospectus, registration statement, offering memorandum or notice filed before that time with a public authority under and in accordance with the securities legislation of the jurisdiction in which the rights were distributed, and

(ii) was listed on a designated stock exchange,

where all or substantially all the terms and conditions of the right and the share were established in writing before that time,

except that a share that is deemed under the definition "short-term preferred share", "taxable preferred share" or "term preferred share" in this subsection or under subsection 112(2.22) to have been issued at any time is deemed after that time not to be a grandfathered share for the purposes of that provision;

History: S. 248(1), paragraph (*d*) of the definition "grandfathered share" was amended by S.C. 2007, c. 35, s. 68(2), by replacing "prescribed stock exchange" with "designated stock exchange", applicable on and after December 14, 2007 [the day on which this Act is assented to].

S. 248(1), the portion of the definition "grandfathered share" after paragraph (*d*) was amended by S.C. 2001, c. 17, s. 188(3), applicable in respect of dividends received after 1998. S. 248(1), the portion of the definition "grandfathered share" after paragraph (*d*) formerly read:

"except that a share that is deemed under the definition 'short-term preferred share', 'taxable preferred share' or 'term preferred share' in this subsection or under subsection 112(2.2) to have been issued at any time shall be deemed after that time not to be a grandfathered share for the purposes of that provision;"

S. 248(1), subparagraph (*c*)(ii) of the definition "grandfathered share", was amended by S.C. 1994, c. 7, Sched. II, s. 192(6), applicable to shares issued after 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987 and to shares deemed by the Act to have been issued after that time. Subparagraph (*c*)(ii) formerly read:

"(ii) a debt obligation of a corporation that was issued before 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987, or issued after that time pursuant to an agreement in writing entered into before that time"

S. 248(1), paragraph (*d*) of the definition "grandfathered share", was amended by S.C. 1994, c. 7, Sched. II, s. 192(7), applicable to shares issued after 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987 and to shares deemed by the Act to have been issued after that time. Paragraph (*d*) formerly read:

"(*d*) a share of a class of the capital stock of a Canadian corporation listed on a prescribed stock exchange that is issued after 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987 on the exercise of a right

(i) that was issued before that time and listed on a prescribed stock exchange in Canada, and

(ii) the terms of which at that time included the right to acquire the share, where all or substantially all the terms and conditions of the share were established in writing before that time,"

Related Sections: S. 87(4.2) Exchanged shares — amalgamations after November 27, 1986; s. 87(4.3) Exchanged rights; s. 112(2.21) Exceptions; s. 187.3(2)(*c*) Time of acquisition of share; s. 258(3) Deemed interest on preferred shares; s. 262 Designated stock exchanges.

Regulations: 3200; 3201.

"*gross revenue*" — "gross revenue" of a taxpayer for a taxation year means the total of

(*a*) all amounts received in the year or receivable in the year (depending on the method regularly followed by the taxpayer in computing the taxpayer's income) otherwise than as or on account of capital, and

(*b*) all amounts (other than amounts referred to in paragraph (*a*)) included in computing the taxpayer's income from a business or property for the year because of subsection 12(3) or (4) or section 12.2 of this Act or subsection 12(8) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952.

History: S. 248(1), paragraph (*b*) of the definition "gross revenue" was replaced by S.C. 2003, c. 28, s. 18(1), applicable to taxation years that begin after 2006. S. 248(1), paragraph (*b*) of the definition "gross revenue" formerly read:

"(*b*) all amounts (other than amounts referred to in paragraph (*a*)) included in computing the taxpayer's income from a business or property for the year by virtue of paragraph 12(1)(*o*) or subsection 12(3) or (4) or section 12.2 of this Act or subsection 12(8) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952;"

"*group term life insurance policy*" — "group term life insurance policy" means a group life insurance policy under which the only amounts payable by the insurer are

(*a*) amounts payable on the death or disability of individuals whose lives are insured in respect of, in the course of or because of, their office or employment or former office or employment, and

(*b*) policy dividends or experience rating refunds;

History: S. 248(1), the definition "group term life insurance policy" was amended by S.C. 1995, c. 3, s. 52(2), applicable to insurance provided in respect of periods that are after June 1994. That definition formerly read:

"'*group term life insurance policy*' — 'group term life insurance policy', with respect to a taxpayer, means, subject to subsection 138(15), a group life insurance policy under which no amount is payable to a person other than the group policyholder as a result of contributions made to or under the policy by the employer of the taxpayer before the death or disability of the taxpayer;"

Related Sections: S. 138(15) Definition not to apply.

Regulations: Part XIV.

"*home relocation loan*" — "home relocation loan" means a loan received by an individual or the individual's spouse or common-law partner in circumstances where the individual has commenced employment at a location in Canada (in this definition referred to as the "new work location") and by reason thereof has moved from the residence in Canada at which, before the move, the individual ordinarily resided (in this definition referred to as the "old residence") to a residence in Canada at which, after the move, the individual ordinarily resided (in this definition referred to as the "new residence") if

(*a*) the distance between the old residence and the new work location is at least 40 kilometres greater

than the distance between the new residence and the new work location,

(*b*) the loan is used to acquire a dwelling, or a share of the capital stock of a cooperative housing corporation acquired for the sole purpose of acquiring the right to inhabit a dwelling owned by the corporation, where the dwelling is for the habitation of the individual and is the individual's new residence,

(*c*) the loan is received in the circumstances described in subsection 80.4(1), or would have been so received if subsection 80.4(1.1) had applied to the loan at the time it was received, and

(*d*) the loan is designated by the individual to be a home relocation loan, but in no case shall more than one loan in respect of a particular move, or more than one loan at any particular time, be designated as a home relocation loan by the individual;

History: S. 248(1), the definition "home relocation loan" was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.35), applicable January 1, 2001, coming into force on July 31, 2000. S. 248(1), the definition "home relocation loan" formerly read:

" *'home relocation loan'* — 'home relocation loan' means a loan received by an individual or the individual's spouse in circumstances where the individual has commenced employment at a location in Canada (in this definition referred to as the 'new work location') and by reason thereof has moved from the residence in Canada at which, before the move, the individual ordinarily resided (in this definition referred to as the 'old residence') to a residence in Canada at which, after the move, the individual ordinarily resided (in this definition referred to as the 'new residence') if

(*a*) the distance between the old residence and the new work location is at least 40 kilometres greater than the distance between the new residence and the new work location,

(*b*) the loan is used to acquire a dwelling, or a share of the capital stock of a cooperative housing corporation acquired for the sole purpose of acquiring the right to inhabit a dwelling owned by the corporation, where the dwelling is for the habitation of the individual and is the individual's new residence,

(*c*) the loan is received in the circumstances described in subsection 80.4(1), or would have been so received if subsection 80.4(1.1) had applied to the loan at the time it was received, and

(*d*) the loan is designated by the individual to be a home relocation loan, but in no case shall more than one loan in respect of a particular move, or more than one loan at any particular time, be designated as a home relocation loan by the individual;"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 248(1), paragraph (*c*) of the definition "home relocation loan" was amended by S.C. 1999, c. 22, s. 80(1), applicable after February 23, 1998. S. 248(1), paragraph (*c*) of the definition "home relocation loan" formerly read:

"(*c*) the loan is received in the circumstances described in subsection 80.4(1), and"

S. 248(1), paragraph (*b*) of the definition "home relocation loan", was amended by S.C. 1994, c. 7, Sched. II, s. 192(8), applicable to the 1985 and subsequent taxation years. Paragraph (*b*) formerly read:

"(*b*) the loan is used to acquire a dwelling for the habitation of the individual that is the new residence,"

Related Sections: S. 80.4(1.1) Loan or debt from office or employment; s. 110(1)(*j*) Home relocation loan; s. 115(2)(*f*) Non-resident's taxable income in Canada; s. 248(1), "common-law partner", "eligible relocation".

"income-averaging annuity contract" — "income-averaging annuity contract" of an individual means, except for the purposes of section 61, a contract

(*a*) that is an income-averaging annuity contract within the meaning assigned by subsection 61(4), and

(*b*) in respect of which the individual has made a deduction under section 61 in computing the individual's income for a taxation year;

"income bond" or "income debenture" — "income bond" or "income debenture" of a corporation (in this definition referred to as the "issuing corporation") means a bond or debenture in respect of which interest or dividends are payable only to the extent that the issuing corporation has made a profit before taking into account the interest or dividend obligation and that was issued

(*a*) before November 17, 1978,

(*b*) after November 16, 1978 and before 1980 pursuant to an agreement in writing to do so made before November 17, 1978 (in this definition referred to as an "established agreement"), or

(*c*) by an issuing corporation resident in Canada for a term that may not, in any circumstances, exceed 5 years,

(i) as part of a proposal to or an arrangement with its creditors that had been approved by a court under the *Bankruptcy Act*,

(ii) at a time when all or substantially all of its assets were under the control of a receiver, receiver-manager, sequestrator or trustee in bankruptcy, or

(iii) at a time when, by reason of financial difficulty, the issuing corporation or another corporation resident in Canada with which it does not deal at arm's length was in default, or could reasonably be expected to default, on a debt obligation held by a person with whom the issuing corporation or the other corporation was dealing at arm's length and the bond or debenture was issued either wholly or in substantial part and either directly or indirectly in exchange or substitution for that obligation or a part thereof,

and, in the case of a bond or debenture issued after November 12, 1981, the proceeds from the issue may reasonably be regarded as having been used by the issuing corporation or a corporation with which it was not dealing at arm's length in the financing of its business carried on in Canada immediately before the bond or debenture was issued,

and, for the purposes of this definition,

(*d*) where the terms or conditions of an established agreement were amended after November 16, 1978, the agreement shall be deemed to have been made after that date, and

(*e*) where

(i) at any particular time the terms or conditions of a bond or debenture issued pursuant to an established agreement or of any agreement relating to such a bond or debenture have been changed,

(ii) under the terms or conditions of a bond or debenture acquired in the ordinary course of the business carried on by a specified financial institution or a partnership or trust (other than a testamentary trust) or under the terms or conditions of any agreement relating to any such bond or debenture (other than an agreement made

before October 24, 1979 to which the issuing corporation or any person related thereto was not a party), the owner thereof could at any particular time after November 16, 1978 require, either alone or together with one or more taxpayers, the repayment, acquisition, cancellation or conversion of the bond or debenture otherwise than by reason of a failure or default under the terms or conditions of the bond or debenture or any agreement that related to, and was entered into at the time of, the issuance of the bond or debenture,

(iii) at any particular time after November 16, 1978, the maturity date of a bond or debenture was extended or the terms or conditions relating to the repayment of the principal amount thereof were changed,

(iv) at a particular time a specified financial institution (or a partnership or trust of which a specified financial institution or a person related to the institution is a member or beneficiary) acquires a bond or debenture that

(A) was issued before November 17, 1978 or under an established agreement,

(B) was issued to a person other than a corporation that was, at the time of issue,

(I) described in any of paragraphs (*a*) to (*e*) of the definition "specified financial institution", or

(II) a corporation that was controlled by one or more corporations described in subclause (I) and, for the purpose of this subclause, one corporation is controlled by another corporation if more than 50% of its issued share capital (having full voting rights under all circumstances) belongs to the other corporation, to persons with whom the other corporation does not deal at arm's length, or to the other corporation and persons with whom the other corporation does not deal at arm's length,

(C) was acquired from a person that was, at the time the person last acquired the bond or debenture and at the particular time, a person other than a corporation described in any of paragraphs (*a*) to (*f*) of that definition, and

(D) was acquired otherwise than under an agreement in writing made before October 24, 1979, or

(v) at a particular time after November 12, 1981, a specified financial institution (or a partnership or trust of which a specified financial institution or a person related to the institution is a member or beneficiary) acquires a bond or debenture that

(A) was not a bond or debenture referred to in paragraph (*c*),

(B) was acquired from a person that was, at the particular time, a corporation described in any of paragraphs (*a*) to (*f*) of the definition "specified financial institution", and

(C) was acquired subject to or conditional on a guarantee agreement (within the meaning that would be assigned by subsection 112(2.2) if the reference in that subsection to a "share" were read as a reference to an "income bond" or "income debenture") that was entered into after November 12, 1981,

the bond or debenture shall, for the purposes of determining at any time after the particular time whether it is an income bond or income debenture, be deemed to have been issued at the particular time otherwise than pursuant to an established agreement;

History: S. 248(1), subparagraphs (*e*)(iv) and (v) of the definition "income bond" or "income debenture" was amended by S.C. 1999, c. 22, s. 80(2), applicable to taxation years that begin after 1998 except that, in the application of subsection (2) to a bond or debenture acquired from a corporation that last acquired the bond or debenture in a taxation year that began before 1999,

(*a*) the expression "at the time the person last acquired the bond or debenture and at the particular time, a person other than a corporation described in any of paragraphs (*a*) to (*f*) of that definition" in clause (*e*)(iv)(C) of the definition "income bond" or "income debenture" in subsection 248(1) of the Act, shall be read as "at the time the person last acquired the bond or debenture, a corporation described in subclause (B)(I) or (II), and at the particular time, a corporation described in any of paragraphs (*a*) to (*f*) of that definition"; and

(*b*) the expression "a corporation described in any of paragraphs (*a*) to (*f*) of the definition" in clause (*e*)(v)(B) of the definition "income bond" or "income debenture" in subsection 248(1) of the Act, shall be read as "a corporation described in subclause (iv)(B)(I) or (II) of the definition". S. 248(1), subparagraphs (*e*)(iv) and (v) of the definition "income bond" or "income debenture" formerly read:

"(iv) at any particular time after October 23, 1979, a bond or debenture issued before November 17, 1978 or a bond or debenture issued pursuant to an established agreement (other than a bond or debenture issued to a corporation described in any of paragraphs (*a*) to (*f*) of the definition 'specified financial institution' in this subsection) is acquired (otherwise than pursuant to an agreement in writing made before October 24, 1979) from a person (other than a corporation described in any of paragraphs (*a*) to (*f*) of that definition) by a specified financial institution or by a partnership or trust of which a specified financial institution or a person related thereto is a member or beneficiary, or

(v) at any particular time after November 12, 1981, a bond or debenture (other than a bond or debenture referred to in paragraph (*c*)) is acquired by a specified financial institution or by a partnership or trust of which a specified financial institution or a person related thereto is a member or beneficiary from a corporation described in any of paragraphs (*a*) to (*f*) of the definition 'specified financial institution' in this subsection and the acquisition is subject to or conditional on a guarantee agreement (within the meaning that would be assigned by subsection 112(2.2) if the reference therein to a 'share' were read as a reference to an 'income bond' or 'income debenture') that was entered into after November 12, 1981."

S. 248(1), subparagraph (*c*)(i) of the definition "income bond", was amended by S.C. 1994, c. 7, Sched. V, s. 90(1), to change "*Bankruptcy Act*" to "*Bankruptcy and Insolvency Act*", deemed to have come into force on November 30, 1992.

Interpretation Bulletins: *Secondary* — IT-52R4 Income bonds and income debentures [Archived by the CRA]; IT-527 Distress preferred shares.

"*income interest*" — "income interest" of a taxpayer in a trust has the meaning assigned by subsection 108(1);

"*indexed debt obligation*" — "indexed debt obligation" means a debt obligation the terms or conditions of which provide for an adjustment to an amount payable in respect of the obligation for a period during which the obligation was outstanding that is determined by reference to a change in the purchasing power of money;

History: The definition "indexed debt obligation" was added to s. 248(1) by S.C. 1994, c. 7, Sched. VIII, s. 139(7), applicable to indexed debt obligations issued after October 16, 1991.

Related Sections: S. 248(1), "amount".

"*Indexed security*" — [Repealed by 1986, c. 6, s. 126(1).]

"*Indexed security investment plan*" — [Repealed by 1986, c. 6, s. 126(1).]

"*individual*" — "individual" means a person other than a corporation;

"insurance corporation" — "insurance corporation" means a corporation that carries on an insurance business;

"insurance policy" — "insurance policy" includes a life insurance policy;

History: S. 248(1), the definition of "insurance policy" was added by S.C. 2000, c. 19, s. 67(1), applicable after December 15, 1998.

Related Sections: S. 138(12), "life insurance policy".

"insurer" — "insurer" has the meaning assigned by this subsection to the expression "insurance corporation";

"international traffic" — "international traffic" means, in respect of a non-resident person carrying on the business of transporting passengers or goods, any voyage made in the course of that business where the principal purpose of the voyage is to transport passengers or goods

(*a*) from Canada to a place outside Canada,

(*b*) from a place outside Canada to Canada, or

(*c*) from a place outside Canada to another place outside Canada;

Related Sections: S. 108(1), "inter vivos trust"; s. 248(3) Rules applicable in relation to the Province of Quebec.

"inter vivos trust" — "inter vivos trust" has the meaning assigned by subsection 108(1);

"inventory" — "inventory" means a description of property the cost or value of which is relevant in computing a taxpayer's income from a business for a taxation year or would have been so relevant if the income from the business had not been computed in accordance with the cash method and, with respect to a farming business, includes all of the livestock held in the course of carrying on the business;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The definition "inventory" in subsection 248(1) of the Act is replaced by the following:

"inventory" — "inventory" means a description of property of a taxpayer (other than a property in respect of which subsection 94.1(4) or 94.2(3) applies to the taxpayer for a taxation year) the cost or value of which is relevant in computing the taxpayer's income from a business for a taxation year or would have been so relevant if the income from the business had not been computed in accordance with the cash method and, with respect to a farming business, includes all of the livestock held in the course of carrying on the business;

Applicable: To fiscal periods that begin after 2006, except that the definition "inventory" also applies to a fiscal period of a partnership that begins before 2007 if sections 94.1 to 94.4 apply to that fiscal period of the partnership.

Explanatory Note:

"inventory"

A taxpayer's "inventory" is generally described in subsection 248(1) of the Act as a description of property the cost or value of which is relevant in computing a taxpayer's income from a business for a taxation year. Rules for "inventory" in section 10 and elsewhere in the Act affect the calculation of a taxpayer's income from business.

The definition "inventory" is amended to exclude property of a taxpayer that is subject to the application of subsection 94.1(4) or 94.2(3) of the Act in respect of the taxpayer.

This amendment applies to fiscal periods that begin after 2006.

History: S. 248(1), the definition "inventory", was amended by S.C. 1994, c. 7, Sched. II, s. 192(1), applicable to fiscal periods beginning after 1988. That definition formerly read:

" 'inventory' means a description of property the cost or value of which is relevant in computing a taxpayer's income from a business for a taxation year;"

Interpretation Bulletins: *Secondary* — IT-51R2 Supplies on hand at the end of a fiscal period; IT-92R2 Income of contractors; IT-102R2 Conversion of property, other than real property, from or to inventory; IT-457R Election by professionals to exclude work in progress from income; IT-473R Inventory valuation.

"investment corporation" — "investment corporation" has the meaning assigned by subsection 130(3);

"investment tax credit" — "investment tax credit" has the meaning assigned by subsection 127(9);

"joint spousal or common-law partner trust" — "joint spousal or common-law partner trust" means a trust to which paragraph 104(4)(*a*) would apply if that paragraph were read without reference to subparagraph 104(4)(*a*)(iii) and clause 104(4)(*a*)(iv)(A);

History: S. 248(1), the definition "joint spousal or common-law partner trust" was added by S.C. 2001, c. 17, s. 188(5), applicable to trusts created after 1999.

Related Sections: S. 73(1) Inter vivos transfers by individuals; s. 73(1.01) Qualifying transfers; s. 73(1.02) Exception for transfers; s. 104(4) Deemed disposition by trust; s. 104(5.8) Trust transfers; s. 104(6) Deduction in computing income of trust; s. 104(15) Allocable amount for preferred beneficiary; s. 107(4) Trusts in favour of spouse, common-law partner or self; s. 108(1), "trust".

Tax Topics: No. 1455, Joint Spousal Trusts and Alter-Ego Trusts: Effective Will Substitutes.

Tax Profile: February 2002 — Transferring Property to a Trust After the Enactment of Bill C-22.

Canadian Tax Foundation: Brown, "Alter Ego, Joint Conjugal, and Self-Benefit Trusts Revisited: Some Troubling Tax Issues and a Search for Better Alternatives", *2005 Canadian Tax Journal*, 1, 224; Hoffstein, "Alter Ego Trusts/Joint Partner Trusts — Tips, Traps & Planning", *2004 Ontario Tax Conference*, 12A:1-47.

"lawyer" — "lawyer" has the meaning assigned by subsection 232(1);

"legal representative" — "legal representative" of a taxpayer means a trustee in bankruptcy, an assignee, a liquidator, a curator, a receiver of any kind, a trustee, an heir, an administrator, an executor, a liquidator of a succession, a committee, or any other like person, administering, winding up, controlling or otherwise dealing in a representative or fiduciary capacity with the property that belongs or belonged to, or that is or was held for the benefit of, the taxpayer or the taxpayer's estate;

History: S. 248(1), the definition "legal representative" was amended by S.C. 2001, c. 17, s. 230, applicable on Royal Assent, June 14, 2001. S. 248(1), the definition "legal representative" formerly read:

" *'legal representative'* — 'legal representative' of a taxpayer means a trustee in bankruptcy, an assignee, a liquidator, a curator, a receiver of any kind, a trustee, an heir, an administrator, an executor, a committee, or any other like person, administering, winding up, controlling or otherwise dealing in a representative or fiduciary capacity with the property that belongs or belonged to, or that is or was held for the benefit of, the taxpayer or the taxpayer's estate;"

S. 248(1), the definition of "legal representative" was added by S.C. 1998, c. 19, s. 239(6), applicable on Royal Assent, June 18, 1998.

Related Sections: S. 34.1(9) Death of partner or proprietor; s. 34.2(8) Death of partner or proprietor; s. 150(1)(*b*) Deceased individuals; s. 150(1)(*d*) Individuals; s. 159(1)–(3.1).

"lending asset" — "lending asset" means a bond, debenture, mortgage, hypothecary claim, note, agreement of sale or any other indebtedness or a prescribed share, but does not include a prescribed property;

History: S. 248(1), the definition "lending asset" was amended by S.C. 2001, c. 17, s. 230(1), applicable on Royal Assent, June 14, 2001. S. 248(1), the definition "lending asset" formerly read:

" *'lending asset'* — 'lending asset' means a bond, debenture, mortgage, note, agreement of sale or any other indebtedness or a prescribed share, but does not include a prescribed property;"

S. 248(1), the definition of "lending asset", was amended by S.C. 1998, c. 19, s. 239(1), applicable

(*a*) to taxation years that end after September 1997; and

(*b*) to a taxpayer's taxation years that end after 1995 and before October 1997 where the taxpayer files an election in accordance with paragraph 81(1)(*b*).

S. 248(1), the definition of "lending asset" formerly read:

" *'lending asset'* — 'lending asset' means a bond, debenture, mortgage, note, agreement of sale or any other indebtedness or a prescribed share, but does not include a prescribed security;"

Related Sections: S. 20(1)(*l*) Doubtful or impaired debts; s. 20(1)(*p*) Bad debts; s. 95(1), "lending of money"; s. 248(1), "cost amount".

Regulations: 6209.

"licensed annuities provider" — "licensed annuities provider" has the meaning assigned by subsection 147(1);

History: S. 248(1), the definition of "licenced annuities provider" was added by S.C. 1998, c. 19, s. 239(6), applicable after 1996.

"life insurance business" — "life insurance business" includes

(*a*) an annuities business, and

(*b*) the business of issuing contracts all or any part of the issuer's reserves for which vary in amount depending on the fair market value of a specified group of assets,

carried on by a life insurance corporation or a life insurer;

"life insurance capital dividend" — "life insurance capital dividend" has the meaning assigned by subsection 83(2.1);

"life insurance corporation" — "life insurance corporation" means a corporation that carries on a life insurance business that is not a business described in paragraph (*a*) or (*b*) of the definition "life insurance business" in this subsection, whether or not the corporation also carries on a business described in either of those paragraphs;

"life insurance policy" — "life insurance policy" has the meaning assigned by subsection 138(12);

"life insurance policy in Canada" — "life insurance policy in Canada" has the meaning assigned by subsection 138(12);

"life insurer" — "life insurer" has the meaning assigned by this subsection to the expression "life insurance corporation";

"limited partnership loss" — "limited partnership loss" has the meaning assigned by subsection 96(2.1);

"limited-recourse amount" — "limited-recourse amount" means an amount that is a limited-recourse amount under section 143.2.

History: S. 248(1), the definition "limited-recourse amount" was added by S.C. 2003, c. 15, s. 88(5), applicable after February 18, 2003.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 248(1) of the Act is amended by adding the following in alphabetical order:

"listed international agreement" — "listed international agreement" means

(*a*) the *Convention on Mutual Administrative Assistance in Tax Matters*, concluded at Strasbourg on January 25, 1988, and

(*b*) the *Convention between the Government of Canada and the Government of the United Mexican States for the Exchange of Information with Respect to Taxes*, signed at Mexico City on March 16, 1990;

Applicable: Royal Assent.

Explanatory Note:

"listed international agreement"

The definition of "listed international agreement" is added to subsection 248(1) as a consequence of the amendments to subsection 231.2(1) and subparagraph 241(4)(*e*)(xii). The agreements included in the definition are the *Convention on Mutual Administrative Assistance in Tax Matters*, concluded at Strasbourg on January 25, 1988 and the *Convention between the Government of Canada and the Government of the United Mexican States for the Exchange of Information with Respect to Taxes*, signed at Mexico City on March 16, 1990.

This amendment applies on Royal Assent.

Coordinating Amendment

S.C. 2007 c. 35 (Bill C-28) — Coordinating Amendments With Former Bill C-10 — Income Tax Amendments Act, 2006 — December 14, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The following applies if former Bill C-10, introduced in the 2nd session of the 39th Parliament and entitled the *Income Tax Amendments Act, 2006* (referred to as the "other Act"), receives royal assent: On the later of the day on which the other Act receives royal assent and the day on which this Act [S.C. 2007, c. 35], receives royal assent, paragraph (*b*) of the definition "listed international agreement" in subsection 248(1) of the *Income Tax Act*, as enacted by subsection 187(11) of the other Act, is replaced by the following:

(*b*) a comprehensive tax information exchange agreement between Canada and another country or jurisdiction;

Applicable: Royal Assent.

"listed personal property" — "listed personal property" has the meaning assigned by section 54;

"low rate income pool" — "low rate income pool" has the meaning assigned by subsection 89(1);

History: S. 248(1), the definition "low rate income pool" was added by S.C. 2007, c. 2, s. 52(1), applicable to taxation years that end after 2005.

"majority interest partner" — "majority interest partner" of a particular partnership at any time means a person or partnership (in this definition referred to as the "taxpayer")

(*a*) whose share of the particular partnership's income from all sources for the last fiscal period of the particular partnership that ended before that time (or, if the particular partnership's first fiscal period includes that time, for that period) would have exceeded 1/2 of the particular partnership's income from all sources for that period if the taxpayer had held throughout that period each interest in the partnership that the taxpayer or a person affiliated with the taxpayer held at that time, or

(*b*) whose share, if any, together with the shares of every person with whom the taxpayer is affiliated, of the total amount that would be paid to all members of the particular partnership (otherwise than as a share of any income of the partnership) if it were wound up at that time exceeds 1/2 of that amount;

History: S. 248(1), the definition of "majority interest partner" was added by S.C. 1998, c. 19, s. 239(2), applicable after April 26, 1995.

"*mineral*" — "mineral" includes ammonite gemstone, bituminous sands, calcium chloride, coal, kaolin, oil shale and silica, but does not include petroleum, natural gas or a related hydrocarbon not expressly referred to in this definition;

History: S. 248(1), the definition "mineral" was amended by S.C. 1998, c. 19, s. 239(1), applicable to taxation years and fiscal periods that begin after 1996 except that,

(*a*) for greater certainty, that definition shall not result in a characterization of expenditures made or costs incurred in a taxation year or fiscal period that began before 1997 as a Canadian exploration expense, Canadian development expense, Canadian exploration and development expense or foreign exploration and development expense or an increase in any amount deductible under section 65 of the Act as a consequence of an expenditure made or cost incurred before 1997; and

(*b*) where, as a consequence of the application of that definition and that subsection, a person's property would, but for this paragraph, be recharacterized as Canadian resource property or foreign resource property at the beginning of the person's first taxation year or fiscal period that begins after 1996, for the purposes of the Act the property is deemed

(i) to have been disposed of by the person immediately before that time for proceeds equal to its cost amount to the person at that time, and

(ii) to have been reacquired at that time by the person for the same amount.

S. 248(1), the definition "mineral" formerly read:

" '*mineral*' — 'mineral' includes bituminous sands, calcium chloride, coal, kaolin, oil sands, oil shale and silica, but does not include petroleum, natural gas or a related hydrocarbon not expressly referred to in this definition;"

S. 248(1), the definition "mineral", was added by S.C. 1994, c. 21, s. 109(5), applicable to taxation years that begin after 1984, except that the definition "mineral" in subsection 248(1) shall be read without reference to the word "kaolin" in respect of taxation years that end before 1988.

Note that a similar provision was formerly enacted as the definition "minerals" in alphabetical order in s. 248(1).

Interpretation Bulletins: *Secondary* — IT-125R4 Disposition of resource properties.

"*mineral resource*" — "mineral resource" means

(*a*) a base or precious metal deposit,

(*b*) a coal deposit,

(*c*) a bituminous sands deposit or oil shale deposit, or

(*d*) a mineral deposit in respect of which

(i) the Minister of Natural Resources has certified that the principal mineral extracted is an industrial mineral contained in a non-bedded deposit,

(ii) the principal mineral extracted is ammonite gemstone, calcium chloride, diamond, gypsum, halite, kaolin or sylvite, or

(iii) the principal mineral extracted is silica that is extracted from sandstone or quartzite;

History: S. 248(1), paragraph (*d*)(ii) of the definition of "mineral resource" was amended by S.C. 1998, c. 19, s. 139(4), applicable to taxation years and fiscal periods that begin after 1996 except that,

(*a*) for greater certainty, that definition shall not result in a characterization of expenditures made or costs incurred in a taxation year or fiscal period that began before 1997 as a Canadian exploration expense, Canadian development expense, Canadian exploration and development expense or foreign exploration and development expense or an increase in any amount deductible under section 65 of the Act as a consequence of an expenditure made or cost incurred before 1997; and

(*b*) where, as a consequence of the application of that definition and that subsection, a person's property would, but for this paragraph, be recharacterized as Canadian resource property or foreign resource property at the beginning of the person's first taxation year or fiscal period that begins after 1996, for the purposes of the Act the property is deemed

(i) to have been disposed of by the person immediately before that time for proceeds equal to its cost amount to the person at that time, and

(ii) to have been reacquired at that time by the person for the same amount.

S. 248(1), paragraph (*d*)(ii) of the definition of "mineral resource" formerly read:

"(ii) the principal mineral extracted is calcium chloride, diamond, gypsum, halite, kaolin or sylvite, or"

S. 248(1), paragraph (*c*) of the definition "mineral resource", was amended by S.C. 1997, c. 25, s. 71(2), applicable after March 6, 1996. That paragraph formerly read:

"(*c*) a bituminous sands deposit, oil sands deposit or oil shale deposit, or"

S. 248(1), subparagraph (*d*)(i) of the definition "mineral resource", was amended by S.C. 1994, c. 41, s. 37(1), to change the expression "Minister of Energy, Mines and Resources" to "Minister of Natural Resources", effective upon proclamation.

S. 248(1), subparagraph (*d*)(ii) of the definition "mineral resource", was amended by S.C. 1994, c. 21, s. 109(3), applicable to taxation years that begin after 1984, except that subparagraph (*d*)(ii) of the definition "mineral resource" in subsection 248(1) shall be read without reference to the word "kaolin" in respect of taxation years that end before 1988 and without reference to the word "diamond" in respect of taxation years that end before 1993.

That subparagraph formerly read:

"(ii) the principal mineral extracted is sylvite, halite, gypsum or kaolin, or"

Interpretation Bulletins: *Secondary* — IT-125R4 Disposition of resource properties.

"*minerals*" — [Repealed by S.C. 1994, c. 21, s. 109(1).]

History: S. 248(1), the definition of "minerals", was repealed by S.C. 1994, c. 21, s. 109(1), applicable to taxation years that begin after 1984. That definition formerly read:

" 'minerals' does not include petroleum, natural gas or related hydrocarbons (except coal, bituminous sands, oil sands or oil shale);"

Note that a similar provision was enacted as the definition "mineral" in alphabetical order in s. 248(1) by S.C. 1994, c. 21, s. 109(4).

"*mining reclamation trust*" — [Repealed by S.C. 1998, c. 19, s. 66(1).]

History: The definition "mining reclamation trust" was repealed by S.C. 1998, c. 19, s. 66(1), applicable after 1997 and, if an election is made by a trust in accordance with paragraph (*l*) of the definition "qualifying environmental trust" in subsection 248(1) of the Act,

(*a*) the trust is deemed to have never been a mining reclamation trust; and

(*b*) notwithstanding subsections 152(4) to (5) of the Act, the Minister of National Revenue may before 2000 make any assessments and reassessments that are necessary to give effect to the election. The definition "mining reclamation trust" formerly read:

" '*mining reclamation trust*' — 'mining reclamation trust' at any time means a trust resident in a province and maintained at that time for the sole purpose of funding the reclamation of a mine in the province, where the first contribution to the trust was made after 1991, no amount was distributed before February 23, 1994 from the trust and the maintenance of the trust is or may become required under the terms of a contract entered into with Her Majesty in right of Canada or the province or is or may become required pursuant to a law of Canada or the province, but does not include a trust

(*a*) where that contract was not entered into or that law was not enacted, as the case may be, on or before the later of

(i) the day that is one year after the day the trust was created, and

(ii) January 1, 1996,

(*b*) that relates to the reclamation of a mine that at that time is a clay pit (other than a kaolin pit), a deposit of peat, a gravel pit, a peat bog, a sand pit, a shale pit or a stone quarry or that relates to the reclamation of a well,

(*c*) that is not maintained at that time to secure the mining reclamation obligations of one or more persons or partnerships that are beneficiaries under the trust,

(*d*) that at that time has a trustee other than

(i) Her Majesty in right of Canada or the province, or

(ii) a corporation resident in Canada that is licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering to the public its services as trustee,

(*e*) that borrows money at that time,

(*f*) that acquired at that time any property that is not described in any of paragraphs (*a*), (*b*) and (*f*) of the definition 'qualified investment' in section 204,

(*g*) that did not comply with prescribed conditions at that time, or

(*h*) that was at any previous time not a mining reclamation trust;"

The definition "mining reclamation trust" was added by S.C. 1995, c. 3, s. 52(4), applicable after 1993 except with respect to a trust the first contribution to which was made before February 23, 1994 and that elects in writing filed with the Minister of National Revenue before 1996 that this definition not apply to the trust.

"Minister" — "Minister" means the Minister of National Revenue;

"money purchase limit" — "money purchase limit" for a calendar year has the meaning assigned by subsection 147.1(1);

"mortgage investment corporation" — "mortgage investment corporation" has the meaning assigned by subsection 130.1(6);

"motor vehicle" — "motor vehicle" means an automotive vehicle designed or adapted to be used on highways and streets but does not include

(*a*) a trolley bus, or

(*b*) a vehicle designed or adapted to be operated exclusively on rails;

History: S. 248(1), the definition "mining reclamation trust" was added by S.C. 1995, c. 3, s. 52(4), applicable after 1993 except with respect to a trust the first contribution to which was made before February 23, 1994 and that elects in writing filed with the Minister of National Revenue before 1996 that subsection (4) not apply to the trust.

Interpretation Bulletins: *Secondary* — IT-521R Motor vehicle expenses claimed by self-employed individuals; IT-522R Vehicle, Travel and Sales Expenses of Employees.

"mutual fund corporation" — "mutual fund corporation" has the meaning assigned by subsection 131(8);

"mutual fund trust" — "mutual fund trust" has the meaning assigned by subsection 132(6);

"net capital loss" — "net capital loss" has the meaning assigned by subsection 111(8), except as otherwise expressly provided;

History: S. 248(1), the definition "net capital loss" was amended by S.C. 2001, c. 17, s. 188(1), applicable to taxation years that end after February 27, 2000. S. 248(1), the definition "net capital loss" formerly read:

" *'net capital loss'* — 'net capital loss' has the meaning assigned by subsection 111(8);"

"net corporate income tax rate" — "net corporate income tax rate" in respect of a SIFT trust or SIFT partnership for a taxation year means the amount, expressed as a decimal fraction, by which

(*a*) the percentage rate of tax provided under paragraph 123(1)(*a*) for the taxation year

exceeds

(*b*) the total of

(i) the percentage that would, if the SIFT trust or SIFT partnership were a corporation, be its general rate reduction percentage, within the meaning assigned by subsection 123.4(1), for the taxation year, and

(ii) the percentage deduction from tax provided under subsection 124(1) for the taxation year;

History: S. 248(1), the definition "net corporate income tax rate" was added by S.C. 2007, c. 29, s. 28(1), deemed to have come into force on October 31, 2006.

Related Sections: S. 122(1) Tax payable by inter vivos trust; s. 197(2) Tax on partnership income.

"net income stabilization account" — "net income stabilization account" means an account of a taxpayer under the net income stabilization account program under the *Farm Income Protection Act*;

History: The definition "net income stabilization account" was added to s. 248(1) by S.C. 1994, c. 7, Sched. VIII, s. 139(7), applicable to the 1991 and subsequent taxation years.

Related Sections: S. 12(10.2) NISA receipts; s. 12(10.3) Amount credited or added not included in income; s. 12(10.4) Acquisition of control of corporate NISA Fund No. 2.

Guides: RC4060 Farming Income and the AgriStability and AgriInvest Program Guide; RC4408 Farming Income and the AgriStability and AgriInvest Programs Harmonized Guide.

"Newfoundland offshore area" — "Newfoundland offshore area" has the meaning assigned to the expression "offshore area" by the *Canada-Newfoundland Atlantic Accord Implementation Act*, chapter 3 of the Statutes of Canada, 1987;

"NISA Fund No. 2" — "NISA Fund No. 2" means the portion of a taxpayer's net income stabilization account

(*a*) that is described in paragraph 8(2)(*b*) of the *Farm Income Protection Act*, and

(*b*) that can reasonably be considered to be attributable to a program that allows the funds in the account to accumulate;

History: S. 248(1), the definition "NISA Fund No. 2" was replaced by S.C. 2007, c. 35, s. 65(1), applicable to the 2008 and subsequent taxation years. S. 248(1), the definition "NISA Fund No. 2" formerly read:

" *'NISA Fund No. 2'* — 'NISA Fund No. 2' means the portion of a taxpayer's net income stabilization account described in paragraph 8(2)(*b*) of the *Farm Income Protection Act*;"

The definition "NISA Fund No. 2" was added to s. 248(1) by S.C. 1994, c. 7, Sched. VIII, s. 139(7), applicable to the 1991 and subsequent taxation years.

"non-capital loss" — "non-capital loss" has the meaning assigned by subsection 111(8);

"non-portfolio property" — "non-portfolio property" has the same meaning as in subsection 122.1(1);

History: S. 248(1), the definition "non-portfolio property" was added by S.C. 2007, c. 29, s. 28(1), deemed to have come into force on October 31, 2006.

"non-resident" — "non-resident" means not resident in Canada;

"non-resident-owned investment corporation" — "non-resident-owned investment corporation" has the meaning assigned by subsection 133(8);

"Nova Scotia offshore area" — "Nova Scotia offshore area" has the meaning assigned to the expression "offshore area" by the *Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation Act*, chapter 28 of the Statutes of Canada, 1988;

"office" — "office" means the position of an individual entitling the individual to a fixed or ascertainable stipend or remuneration and includes a judicial office, the office of a minister of the Crown, the office of a member of the Senate or House of Commons of Canada, a member of a legislative assembly or a member of a legislative or executive council and any other office, the incumbent of which is elected by popular vote or is elected or appointed in a representative capacity and also includes the position of a corporation director, and "officer" means a person holding such an office;

Interpretation Bulletins: *Secondary* — IT-377R Director's, executor's and juror's fees [Archived by the CRA].

Cases: It has been held that the position of mayor or alderman of a city is an "office" (*Badanai v. M.N.R.*, 51 DTC 378 (T.A.B.); *Mitchell v. M.N.R.*, 51 DTC 380 (T.A.B.)). It has also been held that a professor delivering a series of lectures for a fixed remuneration occupies an office (*Blatz v. M.N.R.*, 51 DTC 382 (T.A.B.)).

"oil or gas well" — "oil or gas well" means any well (other than an exploratory probe or a well drilled from below the surface of the earth) drilled for the purpose of producing petroleum or natural gas or of determining the existence, location, extent or quality of a natural accumulation of petroleum or natural gas, but, for the purpose of applying sections 13 and 20 and any regulations made for the purpose of paragraph 20(1)(*a*) in respect of property acquired after March 6, 1996, does

not include a well for the extraction of material from a deposit of bituminous sands or oil shales;

History: S. 248(1), the definition "oil or gas well", was amended by S.C. 1997, c. 25, s. 71(1), applicable after March 6, 1996. That definition formerly read:

" *'oil or gas well'* — 'oil or gas well' means any well (other than an exploratory probe or a well drilled from below the surface of the earth) drilled for the purpose of producing petroleum or natural gas or of determining the existence, location, extent or quality of a natural accumulation of petroleum or natural gas;"

Interpretation Bulletins: *Secondary* — IT-125R4 Disposition of resource properties.

"OSFI risk-weighting guidelines" — "OSFI risk-weighting guidelines" means the guidelines, issued by the Superintendent of Financial Institutions under the authority of section 600 of the *Bank Act*, requiring an authorized foreign bank to provide to the Superintendent on a periodic basis a return of the bank's risk-weighted on-balance sheet assets and off-balance sheet exposures, that apply as of August 8, 2000;

History: S. 248(1), the definition "OSFI risk-weighting guidelines" was added by S.C. 2001, c. 17, s. 188(5), applicable after June 27, 1999.

Related Sections: S. 181.3(3) Capital of financial institution; s. 181.3(4) Investment allowance of financial institution; s. 190.13 Capital; s. 190.14 Investment in related institutions.

"overseas Canadian Forces school staff" — "overseas Canadian Forces school staff" means personnel employed outside Canada whose services are acquired by the Minister of National Defence under a prescribed order relating to the provision of educational facilities outside Canada;

Regulations: Part LXVI.

"paid-up capital" — "paid-up capital" has the meaning assigned by subsection 89(1);

Related Sections: S. 89(1), "paid-up capital".

"Paid-up capital deficiency" — [Repealed by 1977-78, c. 1, s. 98(5).]

"Part VII refund" — "Part VII refund" has the meaning assigned by subsection 192(2);

History: The definition "Part VII refund" was not part of the former Act.

"Part VIII refund" — "Part VIII refund" has the meaning assigned by subsection 194(2);

History: The definition "Part VIII refund" was not part of the former Act.

"Participant" — [Repealed by 1986, c. 6, s. 126(1).]

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 248(1) of the Act is amended by adding the following in alphabetical order:

"participating interest" — "participating interest" has the meaning assigned by section 94.1;

Applicable: To taxation years that begin after 2006 except that the definition "participating interest" also applies to a taxation year of a taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the taxpayer.

Explanatory Note:

"participating interest"

The definition "participating interest" is included in subsection 248(1) so that the definition of this expression in subsection 94.1(1) of the Act applies for the purposes of the Act.

This amendment applies to taxation years that begin after 2006.

"passenger vehicle" — "passenger vehicle" means an automobile acquired after June 17, 1987 (other than an automobile acquired after that date pursuant to an obligation in writing entered into before June 18, 1987) and an automobile leased under a lease entered into, extended or renewed after June 17, 1987;

Related Sections: S. 13(2) Recaptured depreciation for passenger vehicle; s. 20(16.1) Terminal loss for passenger vehicle.

Interpretation Bulletins: *Secondary* — IT-521R Motor vehicle expenses claimed by self-employed individuals; IT-522R Vehicle, travel and sales expenses of employees.

"past service pension adjustment" — "past service pension adjustment" of a taxpayer for a calendar year in respect of an employer has the meaning assigned by regulation;

Regulations: 8303; 8304.

Interpretation Bulletins: *Secondary* — IT-528 Transfers of Funds Between Registered Plans.

"pension adjustment" — "pension adjustment" of a taxpayer for a calendar year in respect of an employer has the meaning assigned by regulation;

Regulations: 8301; 8303(1)–(4); 8308(4)–(5).

"person" — "person", or any word or expression descriptive of a person, includes any corporation, and any entity exempt, because of subsection 149(1), from tax under Part I on all or part of the entity's taxable income and the heirs, executors, liquidators of a succession, administrators or other legal representatives of such a person, according to the law of that part of Canada to which the context extends;

History: S. 248(1), the definition "person" was amended by S.C. 2001, c. 17, s. 230(1), applicable on Royal Assent, June 14, 2001. S. 248(1), the definition "person" formerly read:

" *'person'* — 'person', or any word or expression descriptive of a person, includes any corporation, and any entity exempt, because of subsection 149(1), from tax under Part I on all or part of the entity's taxable income and the heirs, executors, administrators or other legal representatives of such a person, according to the law of that part of Canada to which the context extends;"

S. 248(1), the definition "person", was amended by S.C. 1994, c. 7, Sched. VIII, s. 139(1), effective June 10, 1993. The definition formerly read:

" 'person', or any word or expression descriptive of a person, includes any body corporate, and the heirs, executors, administrators or other legal representatives of the person, according to the law of that part of Canada to which the context extends;"

Related Sections: S. 149(1) Miscellaneous exemptions; s. 248(1), "corporation"; s. 255 Canada.

"personal or living expenses" — "personal or living expenses" includes

(*a*) the expenses of properties maintained by any person for the use or benefit of the taxpayer or any person connected with the taxpayer by blood relationship, marriage or common-law partnership or adoption, and not maintained in connection with a business carried on for profit or with a reasonable expectation of profit,

(*b*) the expenses, premiums or other costs of a policy of insurance, annuity contract or other like contract if the proceeds of the policy or contract are payable to or for the benefit of the taxpayer or a person connected with the taxpayer by blood relationship, marriage or common-law partnership or adoption, and

(*c*) expenses of properties maintained by an estate or trust for the benefit of the taxpayer as one of the beneficiaries;

History: S. 248(1), paragraphs (*a*) and (*b*) of the definition "personal or living expenses" were amended by S.C. 2000, c. 12, Sched. 2, s. 9(*r*), applicable January 1, 2001, coming into force on July 31, 2000. S. 248(1), paragraphs (*a*) and (*b*) of the definition "personal or living expenses" formerly read:

"(*a*) the expenses of properties maintained by any person for the use or benefit of the taxpayer or any person connected with the taxpayer by blood relationship, marriage or adoption, and not maintained in connection with a business carried on for profit or with a reasonable expectation of profit,

(*b*) the expenses, premiums or other costs of a policy of insurance, annuity contract or other like contract if the proceeds of the policy or contract are payable to or for the benefit of the taxpayer or a person connected with the taxpayer by blood relationship, marriage or adoption, and"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Related Sections: S. 251(6) Blood relationship, etc

Interpretation Bulletins: *Secondary* — IT-322R Farm losses.

"personal services business" — "personal services business" has the meaning assigned by subsection 125(7);

Related Sections: S. 125(7) Definitions.

"personal trust" — "personal trust" means a trust (other than a trust that is, or was at any time after 1999, a unit trust) that is

(*a*) a testamentary trust, or

(*b*) an *inter vivos* trust no beneficial interest in which was acquired for consideration payable directly or indirectly to

(i) the trust, or

(ii) any person or partnership that has made a contribution to the trust by way of transfer, assignment or other disposition of property;

History: S. 248(1), the definition "personal trust" was replaced by S.C. 2009, c. 2, s. 76(2), applicable after July 14, 2008. S. 248(1), the definition "personal trust" formerly read:

"*'personal trust'* — 'personal trust' means

(*a*) a testamentary trust, or

(*b*) an *inter vivos* trust, no beneficial interest in which was acquired for consideration payable directly or indirectly to

(i) the trust, or

(ii) any person who has made a contribution to the trust by way of transfer, assignment or other disposition of property,

but, after 1999, does not include a unit trust;"

S. 248(1), the portion of paragraph (*b*) of the definition "personal trust" after subparagraph (ii) was amended by S.C. 2001, c. 17, s. 188(4), applicable after December 23, 1998. S. 248(1), the portion of paragraph (*b*) of the definition "personal trust" after subparagraph (ii) formerly read:

"and, for the purposes of this paragraph and paragraph 53(2)(*h*), where all the beneficial interests in a particular *inter vivos* trust acquired by way of the transfer, assignment or other disposition of property to the particular trust were acquired by

(iii) one person, or

(iv) 2 or more persons who would be related to each other if

(A) a trust and another person were related to each other, where the other person is a beneficiary under the trust or is related to a beneficiary under the trust, and

(B) a trust and another trust were related to each other, where a beneficiary under the trust is a beneficiary under the other trust or is related to a beneficiary under the other trust,

any beneficial interest in the particular trust acquired by such a person shall be deemed to have been acquired for no consideration;"

S. 248(1), the portion of paragraph (*b*) after subparagraph (ii), was amended by S.C. 1994, c. 7, Sched. VIII, s. 139(4), applicable after 1987. That portion formerly read:

"and, for the purposes of this paragraph and paragraph 53(2)(*h*), where an *inter vivos* trust is created by way of the transfer, assignment or other disposition of property by an individual (or two or more individuals each of whom was, at the time the trust was created, related to the other or to each of the other individuals), any beneficial interest in the trust acquired by the individual, or individuals, at the time the trust was created shall be deemed to have been acquired for no consideration;"

Related Sections: S. 53(2)(*h*) Amounts to be deducted — Capital interest in a trust; S. 104(1) Reference to trust or estate; s. 108(1), "inter vivos trust"; s. 108(6) Variation of trusts; s. 108(7) Interests acquired for consideration; s. 248(1), "individual", "inter vivos trust", "property", "testamentary trust", "trust"; s. 248(3) Rules applicable in relation to the Province of Quebec; s. 248(25) Beneficially interested; s. 251(2) Definition of "related persons"; s. 252(1) Extended meaning of "child".

Interpretation Bulletins: *Secondary* — IT-342R Trusts — Income payable to beneficiaries.

"personal-use property" — "personal-use property" has the meaning assigned by section 54;

Related Sections: S. 54 Definitions.

"post-1971 spousal or common-law partner trust" — "post-1971 spousal or common-law partner trust" means a trust that would be described in paragraph 104(4)(*a*) if that paragraph were read without reference to subparagraph 104(4)(*a*)(iv);

History: S. 248(1), the definition "post-1971 spousal or common-law partner trust" was added by S.C. 2001, c. 17, s. 188(5), applicable to trusts created after 1971.

"preferred share" — "preferred share" means a share other than a common share;

Tax Profile: December 2000 — Preferred Share Design: Tax Free Reorganizations and Benefit Conferrals.

"prescribed" — "prescribed" means

(*a*) in the case of a form, the information to be given on a form or the manner of filing a form, authorized by the Minister,

(*a*.1) in the case of the manner of making or filing an election, authorized by the Minister, and

(*b*) in any other case, prescribed by regulation or determined in accordance with rules prescribed by regulation;

History: S. 248(1), paragraph (*a*) of the definition "prescribed", was amended and paragraph (*a*.1) of the same definition was added by S.C. 1994, c. 7, Sched. II, s. 192(9), effective December 17, 1991. Paragraph (*a*) formerly read:

"(*a*) in the case of a form or the information to be given on a form, prescribed by order of the Minister, and"

"principal amount" — "principal amount", in relation to any obligation, means the amount that, under the terms of the obligation or any agreement relating thereto, is the maximum amount or maximum total amount, as the case may be, payable on account of the obligation by the issuer thereof, otherwise than as or on account of interest or as or on account of any premium payable by the issuer conditional on the exercise by the issuer of a right to redeem the obligation before the maturity thereof;

Department of Finance Comfort Letter
[Reserve for Premium on Bond Issue]

October 24, 2001

Dear XXXX

I am writing in response to your letter dated October 17, 2001 concerning the income tax treatment of a premium received by a taxpayer upon the re-opening of a bond issue where the bond's interest rate is higher than the market rate of interest for similar debt instruments at the time of such re-opening.

You have requested that we consider recommending a provision that would permit a taxpayer to claim a reserve in respect of such a premium with the intended effect that the income tax treatment would follow the accounting treatment. This would avoid having the premium included in income at the outset, only to be offset by increased interest expense over the remaining term of the debt.

We are sympathetic to your request. Consequently it will be recommended to the Minister of Finance that an amendment be introduced to the Act that will have the effect of matching the premium income and the enhanced interest expense that gives rise to the premium. Our recommendation regarding the timing of the effective date will likely depend on the exact nature of our recommendation, however, we would, at a minimum, recommend that a taxpayer be able to elect to have the amendment apply to debts issued after 2000.

While I can, as you know, offer no assurance that either the Minister or Parliament will accept our recommendation, I have no reason to believe that this would be controversial.

We trust that this letter addresses your concerns.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

Interpretation Bulletins: *Secondary* — IT-142R3 Settlement of debts on the winding-up of a corporation.
Cases: The principal amount of a convertible debenture is the value of the debt as reflected under the terms of the trust indenture. The principal amount can not fluctuate between the date of issuance and the date of redemption. *Provigo Inc. et al. v. The Queen,* 2008 DTC 6601 (F.C.A.), affirming 2007 DTC 3232 (T.C.C.).

"private corporation" — "private corporation" has the meaning assigned by subsection 89(1);

Related Sections: S. 89(1), "private corporation".
Interpretation Bulletins: *Secondary* — IT-458R2 Canadian-controlled private corporation.

"private foundation" — "private foundation" has the meaning assigned by section 149.1;

History: S. 248(1), the definition "private foundation" was added by S.C. 1998, c. 19, s. 66(3), applicable after 1996.

"private health services plan" — "private health services plan" means

(*a*) a contract of insurance in respect of hospital expenses, medical expenses or any combination of such expenses, or

(*b*) a medical care insurance plan or hospital care insurance plan or any combination of such plans,

except any such contract or plan established by or pursuant to

(*c*) a law of a province that establishes a health care insurance plan as defined in section 2 of the *Canada Health Act*, or

(*d*) an Act of Parliament or a regulation made thereunder that authorizes the provision of a medical care insurance plan or hospital care insurance plan for employees of Canada and their dependants and for dependants of members of the Royal Canadian Mounted Police and the regular force where such employees or members were appointed in Canada and are serving outside Canada;

History: S. 248(1), paragraph (*c*) of the definition "private health services plan" was amended by S.C. 1999, c. 22, s. 80(3), deemed to have come into force on April 1, 1996. S. 248(1), paragraph (*c*) of the definition "private health services plan" formerly read:

"(*c*) a law of a province that establishes a health care insurance plan in respect of which the province receives contributions from Canada for insured health services provided under the plan pursuant to the *Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act*, or"

Related Sections: S. 6(1)(*a*) Value of benefits; s. 20.01(1) PHSP premiums; s. 118.2(2) Medical expenses.
Interpretation Bulletins: *Primary* — IT-339R2 Meaning of "private health services plan". *Secondary* — IT-470R (Consolid.) Employees' fringe benefits.
Advance Tax Rulings: ATR-23 Private health services plan.

"professional corporation" — "professional corporation" means a corporation that carries on the professional practice of an accountant, dentist, lawyer, medical doctor, veterinarian or chiropractor;

History: S. 248(1), the definition "professional corporation" was added by S.C. 1996, c. 21, s. 60(2), applicable after 1994.

Related Sections: S. 249.1 Definition of "fiscal period".
Tax Profile: May 2006 — Professional Corporations for Physicians and Dentists in Ontario.

"profit sharing plan" — "profit sharing plan" has the meaning assigned by subsection 147(1);

"property" — "property" means property of any kind whatever whether real or personal or corporeal or incorporeal and, without restricting the generality of the foregoing, includes

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of the definition "property" in subsection 248(1) of the Act before paragraph (*a*) is replaced by the following:

"property" — "property" means property of any kind whatever whether real or personal, immovable or movable, tangible or intangible, or corporeal or incorporeal and, without restricting the generality of the foregoing, includes

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*a*) a right of any kind whatever, a share or a chose in action,

(*b*) unless a contrary intention is evident, money,

(*c*) a timber resource property, and

(*d*) the work in progress of a business that is a profession;

Interpretation Bulletins: *Secondary* — IT-432R2 Benefits conferred on shareholders.
Tax Topics: No. 1827, The Nature of "Property" Remains Open to Question.
Cases: The right to compete is not "property", and therefore payments under a non-competition agreement are non-taxable capital receipts. *Manrell v. The Queen,* 2003 DTC 5225 (F.C.A.), reversing 2002 DTC 1222 (T.C.C.).

Province — [Repealed by 1980-81-82-83, c. 48, s. 108(8).]

"provincial SIFT tax factor" — [Repealed by S.C. 2008, c. 28, s. 34(1).]

History: S. 248(1), the definition "provincial SIFT tax factor" was repealed by S.C. 2008, c. 28, s. 34(1), applicable to the 2009 and subsequent taxation years, except that the repeal of this definition also applies

(*a*) to the 2007 and 2008 taxation years of a SIFT trust if the SIFT trust so elects in its return of income for the 2007 taxation year;

(*b*) to the 2007 and 2008 taxation years of a SIFT partnership if the SIFT partnership so elects in its return for 2007 required under Part IX.1 of the Act;

(*c*) to the 2008 taxation year of a SIFT trust if the SIFT trust so elects in its return of income for the 2008 taxation year; and

(*d*) to the 2008 taxation year of a SIFT partnership if the SIFT partnership so elects in its return for 2008 required under Part IX.1 of the Act.

S. 248(1), the definition "provincial SIFT tax factor" formerly read:

" '*provincial SIFT tax factor*' — 'provincial SIFT tax factor' for a taxation year means the decimal fraction 0.13;"

S. 248(1), the definition "provincial SIFT tax factor" was added by S.C. 2007, c. 29, s. 28(1), deemed to have come into force on October 31, 2006.

Related Sections: S. 122(1) Tax payable by inter vivos trust; s. 197(2) Tax on partnership income.

Regulations: 414(3).

"provincial SIFT tax rate" — "provincial SIFT tax rate" of a SIFT trust or a SIFT partnership for a taxation year means the prescribed amount determined in respect of the SIFT trust or SIFT partnership for the taxation year;

History: S. 248(1), the definition "provincial SIFT tax rate" was added by S.C. 2008, c. 28, s. 34(3), applicable to the 2009 and subsequent taxation years, except that it also applies

(*a*) to the 2007 and 2008 taxation years of a SIFT trust if the SIFT trust so elects in its return of income for the 2007 taxation year;

(*b*) to the 2007 and 2008 taxation years of a SIFT partnership if the SIFT partnership so elects in its return for 2007 required under Part IX.1 of the Act;

(*c*) to the 2008 taxation year of a SIFT trust if the SIFT trust so elects in its return of income for the 2008 taxation year; and

(*d*) to the 2008 taxation year of a SIFT partnership if the SIFT partnership so elects in its return for 2008 required under Part IX.1 of the Act.

Related Sections: S. 122(1) Tax payable by inter vivos trust; s. 122.1(1), "SIFT trust"; s. 197(1), "SIFT partnership"; s. 197(2) Tax on partnership income.

Regulations: 414(3).

"public corporation" — "public corporation" has the meaning assigned by subsection 89(1);

Interpretation Bulletins: *Secondary* — IT-458R2 Canadian-controlled private corporation.

"public foundation" — "public foundation" has the meaning assigned by section 149.1;

History: S. 248(1), the definition "public foundation" was added by S.C. 1998, c. 19, s. 66(3), applicable after 1996.

"public market" — "public market" has the same meaning as in subsection 122.1(1);

History: S. 248(1), the definition "public market" was added by S.C. 2007, c. 29, s. 28(1), deemed to have come into force on October 31, 2006.

"qualified donee" — "qualified donee" has the meaning assigned by subsection 149.1(1).

History: S. 248(1), the definition "qualified donee" was added by S.C. 2001, c. 17, s. 188(5), applicable after 1998.

"qualifying environmental trust" — "qualifying environmental trust" at any time means a trust resident in a province and maintained at that time for the sole purpose of funding the reclamation of a site in the province that had been used primarily for, or for any combination of, the operation of a mine, the extraction of clay, peat, sand, shale or aggregates (including dimension stone and gravel) or the deposit of waste, where the maintenance of the trust is or may become required under the terms of a contract entered into with Her Majesty in right of Canada or the province or is or may become required under a law of Canada or the province and the contract was entered into or that law was enacted, as the case may be, on or before the later of January 1, 1996 and the day that is one year after the day on which the trust was created, but does not include a trust

(*a*) that relates at that time to the reclamation of a well,

(*b*) that is not maintained at that time to secure the reclamation obligations of one or more persons or partnerships that are beneficiaries under the trust,

(*c*) that at that time has a trustee other than

(i) Her Majesty in right of Canada or the province, or

(ii) a corporation resident in Canada that is licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering to the public its services as trustee,

(*d*) that borrows money at that time,

(*e*) that acquired at that time any property that is not described in any of paragraphs (*a*), (*b*) and (*f*) of the definition "qualified investment" in section 204,

(*f*) to which the first contribution was made before 1992,

(*g*) from which any amount was distributed before February 23, 1994,

(*h*) if that time is before 1998 and the trust is not a mining reclamation trust at that time,

(i) to which the first contribution was made before 1996,

(ii) from which any amount was distributed before February 19, 1997, or

(iii) any interest in which was disposed of before February 19, 1997,

(*i*) that elected in writing filed with the Minister, before 1998 or before April of the year following the year in which the first contribution to the trust was made, never to have been a qualifying environmental trust, or

(*j*) that was at any previous time during its existence not a qualifying environmental trust;

History: S. 248(1), the definition "qualifying environmental trust" was added by S.C. 1998, c. 19, s. 66(3), applicable after 1991.

Related Sections: S. 12(1)(z1) Qualifying environmental trusts; s. 12(1)(z2) Dispositions of interests in qualifying environmental trusts; s. 20(1)(*ss*) Qualifying environmental trusts; s. 20(1)(*tt*) Acquisition of interests in qualifying environmental trusts; s. 39(1) Meaning of capital gain and capital loss; s. 75(3) Exceptions; s. 107.3 Treatment of beneficiaries under qualifying environmental trusts; s. 149(1)(*z*) Qualifying environmental trust; s. 211.6(1) Tax on qualifying environmental trusts; s. 250(7) Residence of a qualifying environmental trust.

Pending Amendment

Draft Legislation — Foreign Affiliates — February 27, 2004

Subsection 248(1) of the Act is amended by adding the following in alphabetical order:

"qualifying member" — "qualifying member", in respect of a partnership at any time, means a person that is at that time a qualifying member of the partnership for the purposes of subdivision i of Division B because of paragraph 95(2)(*o*);

Applicable: To taxation years that end after 1999.

Explanatory Note:

Definitions

"qualifying member"

The definition "qualifying member" is added to subsection 248(1) of the Act.

Under this definition a qualifying member, in respect of a partnership at any time, means a person that is at that time a qualifying member of the partnership for the purposes of subdivision i of Division B of Part I of the Act because of paragraph 95(2)(*o*) of the Act. For more detail, see the commentary to new paragraphs 95(2)(*o*) and (*q*).

This definition is also relevant for the purposes of the amendments to the definitions exempt earnings and exempt loss in subsection 5907(1) of the Regulations. For more detail, see the commentary to that subsection.

The addition of the definition qualifying member applies to taxation years that end after 1999.

"qualifying share" — "qualifying share" has the meaning assigned by subsection 192(6);

History: The definition "qualifying share" was not part of the former Act.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 248(1) of the Act is amended by adding the following in alphabetical order:

"qualifying trust annuity" — "qualifying trust annuity" has the meaning assigned by subsection 60.011(2);

Applicable: After 1988.

Explanatory Note:

"qualifying trust annuity"

The term "qualifying trust annuity" is added to subsection 248(1) of the Act, and is defined to have the meaning assigned by new subsection 60.011(2). A distinguishing feature of a qualifying trust annuity is that the annuitant is a trust. Special provisions relating to qualifying trust annuities are set out in sections 60.011, 75.2, 148 and 160.2 of the Act. (Refer to the explanatory notes on those provisions for further details.)

"recognized stock exchange" — "recognized stock exchange" means

(*a*) a designated stock exchange, and

(*b*) any other stock exchange, if that other stock exchange is located in Canada or in a country that is a member of the Organisation for Economic Co-operation and Development and that has a tax treaty with Canada;

History: S. 248(1), the definition "recognized stock exchange" was added by S.C. 2007, c. 35, s. 65(2), applicable on and after December 14, 2007.

"record" — "record" includes an account, an agreement, a book, a chart or table, a diagram, a form, an image, an invoice, a letter, a map, a memorandum, a plan, a return, a statement, a telegram, a voucher, and any other thing containing information, whether in writing or in any other form;

History: S. 248(1), the definition of "record" was added by S.C. 1998, c. 19, s. 239(6), applicable on Royal Assent, June 18, 1998.

Related Sections: S. 230(4.1) Electronic records; s. 231, "document".
Tax Topics: No. 1562, Are Your Documentary Records Ready for a Tax Dispute?.

"refundable Part VII tax on hand" — "refundable Part VII tax on hand" has the meaning assigned by subsection 192(3);

History: The definition "refundable Part VII tax on hand" was not part of the former Act.

"refundable Part VIII tax on hand" — "refundable Part VIII tax on hand" has the meaning assigned by subsection 194(3);

History: The definition "refundable Part VIII tax on hand" was not part of the former Act.

"registered Canadian amateur athletic association" — "registered Canadian amateur athletic association" means an association that was created under any law in force in Canada, that is resident in Canada and that

(*a*) is a person described in paragraph 149(1)(*l*), and

(*b*) has, as its primary purpose and its primary function, the promotion of amateur athletics in Canada on a nation-wide basis,

that has applied to the Minister in prescribed form for registration, that has been registered and whose registration has not been revoked under subsection 168(2);

Interpretation Bulletins: *Secondary* — IT-496R Non-profit organizations.
Forms: T1189.

"registered charity" — "registered charity" at any time means

(*a*) a charitable organization, private foundation or public foundation, within the meanings assigned by subsection 149.1(1), that is resident in Canada and was either created or established in Canada, or

(*b*) a branch, section, parish, congregation or other division of an organization or foundation described in paragraph (*a*), that is resident in Canada and was either created or established in Canada and that receives donations on its own behalf,

that has applied to the Minister in prescribed form for registration and that is at that time registered as a charitable organization, private foundation or public foundation;

Interpretation Bulletins: *Secondary* — IT-496R Non-profit organizations.
Registered Charities Newsletters: No. 32, What's New; No. 31, What's New; No. 21, Changes to governing documents; No. 21, When is an amalgamation not an amalgamation?.
Forms: T2050.
Guides: T4063 Registering a Charity for Income Tax Purposes.

"registered disability savings plan" — "registered disability savings plan" has the same meaning as in subsection 146.4(1);

History: S. 248(1), the definition "registered disability savings plan" was added by S.C. 2007, c. 35, s. 123(2), applicable to the 2008 and subsequent taxation years.

"registered education savings plan" — "registered education savings plan" has the meaning assigned by subsection 146.1(1);

Related Sections: S. 146.1 Registered education savings plans.

Registered home ownership savings plan — [Repealed by 1986, c. 6, s. 126(1).]

"registered investment" — "registered investment" has the meaning assigned by subsection 204.4(1);

"registered labour-sponsored venture capital corporation" — "registered labour-sponsored venture capital corporation" means a corporation that was registered under subsection 204.81(1), the registration of which has not been revoked;

History: S. 248(1), the definition "registered labour-sponsored venture capital corporation", was added by S.C. 1997, c. 25, s. 71(3), applicable after 1995.

"registered national arts service organization" — "registered national arts service organization", at any time, means a national arts service organization that has been registered by the Minister under subsection 149.1(6.4), which registration has not been revoked;

History: The definition "registered national arts service organization" was added to s. 248(1) by S.C. 1994, c. 7, Sched. II, s. 192(14), applicable after July 13, 1990.

Related Sections: S. 56(1)(*aa*) Value of benefits; s. 149.1(6.4) National arts service organizations; s. 149.1(6.5) Revocation of designation.

Registered pension fund or plan — [Repealed by 1990, c. 35, s. 27(1).]

"registered pension plan" — "registered pension plan" means a pension plan that has been registered by the Minister for the purposes of this Act, which registration has not been revoked;

Related Sections: S. 147.1 Registered pension plans; s. 147.2 Pension contributions deductible — employer contributions; s. 147.3 Transfer — money purchase to money purchase, RRSP or RRIF.
Interpretation Bulletins: *Secondary* — IT-528 Transfers of funds between registered plans.
Forms: T510.
Cases: A company pension plan was held not to qualify as a registered pension plans because the company did not carry on an active business and had no employees. Accordingly, funds transferred to the plan from the RPP of

another company were not sheltered under the rollover provisions of s. 60(*j*), nor were payments from the plan eligible for the pension income tax credit. *Feldstein et al. v. M.N.R.*, 92 DTC 1015 (T.C.C.).

"registered retirement income fund" — "registered retirement income fund" has the meaning assigned by subsection 146.3(1);

"registered retirement savings plan" — "registered retirement savings plan" has the meaning assigned by subsection 146(1);

"registered securities dealer" — "registered securities dealer" means a person registered or licensed under the laws of a province to trade in securities, in the capacity of an agent or principal, without any restriction as to the types or kinds of securities in which that person may trade;

History: S. 248(1), the definition "registered securities dealer" was added by S.C. 1995, c. 21, s. 74(2), applicable after April 26, 1989.

"registered supplementary unemployment benefit plan" — "registered supplementary unemployment benefit plan" has the meaning assigned by subsection 145(1);

"regulation" — "regulation" means a regulation made by the Governor in Council under this Act;

"restricted farm loss" — "restricted farm loss" has the meaning assigned by subsection 31(1.1);

History: S. 248(1), the definition "restricted farm loss" was amended by S.C. 1995, c. 21, s. 43(1), applicable to taxation years that end after February 21, 1994. That definition formerly read:

" *'restricted farm loss'* — 'restricted farm loss' has the meaning assigned by subsection 31(1);"

"restricted financial institution" — "restricted financial institution" means

(*a*) a bank,

(*b*) a corporation licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering to the public its services as trustee,

(*c*) a credit union,

(*d*) an insurance corporation,

(*e*) a corporation whose principal business is the lending of money to persons with whom the corporation is dealing at arm's length or the purchasing of debt obligations issued by such persons or a combination thereof,

(*e.1*) a corporation described in paragraph (*g*) of the definition "financial institution" in subsection 181(1), or

(*f*) a corporation that is controlled by one or more corporations described in any of paragraphs (*a*) to (*e.1*);

History: S. 248(1), paragraph (*e.1*) of the definition "restricted financial institution" was added, and paragraph (*f*) was amended, by S.C. 1999, c. 22, s. 80(4), applicable to taxation years that begin after 1998. Paragraph (*f*) formerly read:

"(*f*) a corporation that is controlled by one or more corporations described in any of paragraphs (*a*) to (*e*);"

Related Sections: S. 142.2(1), "Financial institution".

"retirement compensation arrangement" — "retirement compensation arrangement" means a plan or arrangement under which contributions (other than payments made to acquire an interest in a life insurance policy) are made by an employer or former employer of a taxpayer, or by a person with whom the employer or former employer does not deal at arm's length, to another person or partnership (in this definition and in Part XI.3 referred to as the "custodian") in connection with benefits that are to be or may be received or enjoyed by any person on, after or in contemplation of any substantial change in the services rendered by the taxpayer, the retirement of the taxpayer or the loss of an office or employment of the taxpayer, but does not include

(*a*) a registered pension plan,

(*b*) a disability or income maintenance insurance plan under a policy with an insurance corporation,

(*c*) a deferred profit sharing plan,

(*d*) an employees profit sharing plan,

(*e*) a registered retirement savings plan,

(*f*) an employee trust,

(*g*) a group sickness or accident insurance plan,

(*h*) a supplementary unemployment benefit plan,

(*i*) a vacation pay trust described in paragraph 149(1)(*y*),

(*j*) a plan or arrangement established for the purpose of deferring the salary or wages of a professional athlete for his services as such with a team that participates in a league having regularly scheduled games (in this definition referred to as an "athlete's plan"), where

(i) the plan or arrangement would, but for paragraph (*j*) of the definition "salary deferral arrangement" in this subsection, be a salary deferral arrangement, and

(ii) in the case of a Canadian team, the custodian of the plan or arrangement carries on business through a fixed place of business in Canada and is licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering to the public its services as trustee,

(*k*) a salary deferral arrangement, whether or not deferred amounts thereunder are required to be included as benefits under paragraph 6(1)(*a*) in computing a taxpayer's income,

(*l*) a plan or arrangement (other than an athlete's plan) that is maintained primarily for the benefit of non-residents in respect of services rendered outside Canada,

(*m*) an insurance policy, or

(*n*) a prescribed plan or arrangement,

and, for the purposes of this definition, where a particular person holds property in trust under an arrangement that, if the property were held by another person, would be a retirement compensation arrangement, the arrangement shall be deemed to be a retirement compensation arrangement of which the particular person is the custodian;

Regulations: 6802.

Income Tax Technical News: Issue No. 34, Retirement Compensation Arrangements.

Canadian Petroleum Tax Journal: Current Trends in Executive Compensation Structures and Their Taxation, Rachel Colabella and Denise McMullen, Vol. 13 No. 1 2000.

"retirement income fund" — "retirement income fund" has the meaning assigned by subsection 146.3(1);

"retirement savings plan" — "retirement savings plan" has the meaning assigned by subsection 146(1);

"retiring allowance" — "retiring allowance" means an amount (other than a superannuation or pension benefit, an amount received as a consequence of the

death of an employee or a benefit described in subparagraph 6(1)(*a*)(iv)) received

(*a*) on or after retirement of a taxpayer from an office or employment in recognition of the taxpayer's long service, or

(*b*) in respect of a loss of an office or employment of a taxpayer, whether or not received as, on account or in lieu of payment of, damages or pursuant to an order or judgment of a competent tribunal,

by the taxpayer or, after the taxpayer's death, by a dependant or a relation of the taxpayer or by the legal representative of the taxpayer;

Interpretation Bulletins: *Secondary* — IT-365R2 Damages, settlement, and similar receipts; IT-337R4 (Consolid.) Retiring allowances.
Advance Tax Rulings: ATR-12 Retiring allowance.
Income Tax Technical News: Issue No. 20, Retiring Allowances - Effect of Re-Employment or Employment With Affiliate; Issue No. 19, Retiring Allowances — Clarification to Interpretation Bulletin IT-337R3.
SR&ED Application Policies: Application Policy 2004-01, Retiring Allowance.
Cases: The taxpayer was demoted by his employer due to the interference of the employer's major customer. When the taxpayer sued the customer, the damage award he received was not a "retiring allowance" since it was not related to loss of employment. *Ahmad v. The Queen*, 2002 DTC 2065 (T.C.C.).

Severance pay received by a taxpayer upon his retirement in 1991 after 26 years of service in the Public Service constituted a "retiring allowance" within the meaning of s. 248(1) and was included in his income. *Adler v. The Queen*, 94 DTC 6605 (F.C.A.).

"*RRSP deduction limit*" — "RRSP deduction limit" has the meaning assigned by subsection 146(1);

"*RRSP dollar limit*" — "RRSP dollar limit" has the meaning assigned by subsection 146(1);

"*salary deferral arrangement*" — "salary deferral arrangement", in respect of a taxpayer, means a plan or arrangement, whether funded or not, under which any person has a right in a taxation year to receive an amount after the year where it is reasonable to consider that one of the main purposes for the creation or existence of the right is to postpone tax payable under this Act by the taxpayer in respect of an amount that is, or is on account or in lieu of, salary or wages of the taxpayer for services rendered by the taxpayer in the year or a preceding taxation year (including such a right that is subject to one or more conditions unless there is a substantial risk that any one of those conditions will not be satisfied), but does not include

(*a*) a registered pension plan,

(*b*) a disability or income maintenance insurance plan under a policy with an insurance corporation,

(*c*) a deferred profit sharing plan,

(*d*) an employees profit sharing plan,

(*e*) an employee trust,

(*f*) a group sickness or accident insurance plan,

(*g*) a supplementary unemployment benefit plan,

(*h*) a vacation pay trust described in paragraph 149(1)(*y*),

(*i*) a plan or arrangement the sole purpose of which is to provide education or training for employees of an employer to improve their work or work-related skills and abilities,

(*j*) a plan or arrangement established for the purpose of deferring the salary or wages of a professional athlete for the services of the athlete as such with a team that participates in a league having regularly scheduled games,

(*k*) a plan or arrangement under which a taxpayer has a right to receive a bonus or similar payment in respect of services rendered by the taxpayer in a taxation year to be paid within 3 years following the end of the year, or

(*l*) a prescribed plan or arrangement;

Regulations: 6801.
Advance Tax Rulings: ATR-64 Phantom stock award plan.
Income Tax Technical News: Issue No. 7, Salary deferral arrangement — paragraph (*k*).

"*salary or wages*" — "salary or wages", except in sections 5 and 63 and the definition "death benefit" in this subsection, means the income of a taxpayer from an office or employment as computed under subdivision a of Division B of Part I and includes all fees received for services not rendered in the course of the taxpayer's business but does not include superannuation or pension benefits or retiring allowances;

Interpretation Bulletins: *Secondary* — IT-377R Director's, executor's and juror's fees [Archived by the CRA].
Cases: Stock option benefits granted by the taxpayer to its employees fell within the definition of "salary or wages". *Alcatel Canada Inc. v. The Queen*, 2005 DTC 387 (T.C.C.).

"*scientific research and experimental development*" — "scientific research and experimental development" means systematic investigation or search that is carried out in a field of science or technology by means of experiment or analysis and that is

(*a*) basic research, namely, work undertaken for the advancement of scientific knowledge without a specific practical application in view,

(*b*) applied research, namely, work undertaken for the advancement of scientific knowledge with a specific practical application in view, or

(*c*) experimental development, namely, work undertaken for the purpose of achieving technological advancement for the purpose of creating new, or improving existing, materials, devices, products or processes, including incremental improvements thereto,

and, in applying this definition in respect of a taxpayer, includes

(*d*) work undertaken by or on behalf of the taxpayer with respect to engineering, design, operations research, mathematical analysis, computer programming, data collection, testing or psychological research, where the work is commensurate with the needs, and directly in support, of work described in paragraph (*a*), (*b*), or (*c*) that is undertaken in Canada by or on behalf of the taxpayer,

but does not include work with respect to

(*e*) market research or sales promotion,

(*f*) quality control or routine testing of materials, devices, products or processes,

(*g*) research in the social sciences or the humanities,

(*h*) prospecting, exploring or drilling for, or producing, minerals, petroleum or natural gas,

(*i*) the commercial production of a new or improved material, device or product or the commercial use of a new or improved process,

(*j*) style changes, or

(*k*) routine data collection;

History: S. 248(1), the definition "scientific research and experimental development" was amended by S.C. 1998, c. 19, s. 239(1), applicable to work performed by a taxpayer after February 27, 1995 except that, for the purposes of paragraphs 149(1)(*j*) and (8)(*b*) of the Act, that definition does not apply to work performed pursuant to an agreement in writing made by the taxpayer before February 28, 1995.

S. 248(1), the definition "scientific research and experimental development" formerly read:

" '*scientific research and experimental development*' — 'scientific research and experimental development' has the meaning assigned by regulation;"

S. 248(1), the definition "scientific research and experimental development" was added by S.C. 1996, c. 21, s. 60(2), applicable to work performed after February 27, 1995 except that, for the purposes of paragraphs 149(1)(*j*) and (8)(*b*) of the Act, that definition did not apply to work performed pursuant to an agreement in writing entered into before February 28, 1995.

Related Sections: S. 37 Scientific research and experimental development; s. 127 Logging tax deduction; s. 149 Miscellaneous exemptions.
Regulations: 2900.
Information Circulars: IC 97-1 Scientific Research and Experimental Development Administrative Guidelines for Software Development.
Guides: Claiming Scientific Research and Experimental Development Expenditures 1998.
SR&ED Application Policies: Application Policy 2002-02R2, Experimental Production and Commercial Production with Experimental Development Work — Allowable SR&ED Expenditures; Application Policy 2004-03, Prototypes, Pilot Plants/Commercial Plants, Custom Products and Commercial Assets; Application Policy 2001-02, Multinational Clinical Trials.

"*scientific research and experimental development financing contract*" — "scientific research and experimental development financing contract" has the meaning assigned by subsection 194(6);

History: The definition "scientific research and experimental development financing contract" was not part of the former Act.

"*scientific research and experimental development tax credit*" — "scientific research and experimental development tax credit" of a taxpayer for a taxation year has the meaning assigned by subsection 127.3(2);

History: The definition "scientific research and experimental development tax credit" was not part of the former Act.

"*securities lending arrangement*" — "securities lending arrangement" has the meaning assigned by subsection 260(1);

History: S. 248(1), the definition "securities lending arrangement", was added by S.C. 1994, c. 21, s. 109(6), applicable to the 1993 and subsequent taxation years.

"*self-contained domestic establishment*" — "self-contained domestic establishment" means a dwelling-house, apartment or other similar place of residence in which place a person as a general rule sleeps and eats;

Interpretation Bulletins: *Secondary* — IT-352R2 Employee's expenses, including work space in home expenses; IT-513R Personal tax credits.

"*separation agreement*" — "separation agreement" includes an agreement by which a person agrees to make payments on a periodic basis for the maintenance of a former spouse or common-law partner, children of the marriage or common-law partnership or both the former spouse or common-law partner and children of the marriage or common-law partnership, after the marriage or common-law partnership has been dissolved, whether the agreement was made before or after the marriage or common-law partnership was dissolved;

History: S. 248(1), the definition "separation agreement" was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.35) and 9(r), applicable January 1, 2001, coming into force on July 31, 2000. S. 248(1), the definition "separation agreement" formerly read:

" '*separation agreement*' — 'separation agreement' includes an agreement by which a person agrees to make payments on a periodic basis for the maintenance of a former spouse, children of the marriage or both the former spouse and children of the marriage, after the marriage has been dissolved, whether the agreement was made before or after the marriage was dissolved;"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Related Sections: S. 248(1), "common-law partner".
Tax Topics: No. 1702, Income Tax Issues To Be Considered in Negotiating Marriage Contracts.

"*share*" — "share" means a share or fraction of a share of the capital stock of a corporation and, for greater certainty, a share of the capital stock of a corporation includes a share of the capital of a cooperative corporation (within the meaning assigned by subsection 136(2)) and a share of the capital of a credit union;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The definition "share" in subsection 248(1) of the Act is replaced by the following:

"*share*" — "share", except as the context otherwise requires, means a share or a fraction of a share of the capital stock of a corporation and, for greater certainty, a share of the capital stock of a corporation includes a share of the capital of a cooperative corporation (within the meaning assigned by subsection 136(2)), a share of the capital of an agricultural cooperative corporation (within the meaning assigned by subsection 135.1(1)) and a share of the capital of a credit union;

Applicable: To taxation years that begin after 2006, except that the definition "share" also applies to a taxation year of a taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the taxpayer.

Explanatory Note:

"share"

The definition "share" is amended so that it applies except as the context otherwise requires. For example, if the context requires that the expression "share" refer to a portion of an amount or thing, then it would not carry the meaning otherwise assigned by subsection 248(1).

This amendment applies to taxation years that begin after 2006.

History: S. 248(1), the definition "share", was amended by S.C. 1994, c. 7, Sched. II, s. 192(1), applicable after 1988. The definition formerly read:

" 'share' means a share or fraction thereof of the capital stock of a corporation;"

Interpretation Bulletins: *Secondary* — IT-116R3 Right to buy additional shares.

"*shareholder*" — "shareholder" includes a member or other person entitled to receive payment of a dividend;

Interpretation Bulletins: *Secondary* — IT-116R3 Rights to buy additional shares; IT-432R2 Benefits conferred on shareholders.

"*share-purchase tax credit*" — "share-purchase tax credit" of a taxpayer for a taxation year has the meaning assigned by subsection 127.2(6);

History: The definition "share-purchase tax credit" was not part of the former Act.

"*short-term preferred share*" — "short-term preferred share" of a corporation at any particular time means a

share, other than a grandfathered share, of the capital stock of the corporation issued after December 15, 1987 that at that particular time

(*a*) is a share where, under the terms and conditions of the share, any agreement relating to the share or any modification of those terms and conditions or that agreement, the corporation or a specified person in relation to the corporation is or may, at any time within 5 years after the date of its issue, be required to redeem, acquire or cancel, in whole or in part, the share (unless the requirement to redeem, acquire or cancel the share arises only in the event of the death of the shareholder or by reason only of a right to convert or exchange the share) or to reduce the paid-up capital of the share, and for the purposes of this paragraph

(i) an agreement in respect of a share of the capital stock of a corporation shall be read without reference to that part of the agreement under which a person agrees to acquire the share for an amount

(A) in the case of a share (other than a share that would, but for that part of the agreement, be a taxable preferred share) the agreement in respect of which provides that the share is to be acquired within 60 days after the day on which the agreement was entered into, that does not exceed the greater of the fair market value of the share at the time the agreement was entered into, determined without reference to the agreement, and the fair market value of the share at the time of the acquisition, determined without reference to the agreement, or

(B) that does not exceed the fair market value of the share at the time of the acquisition, determined without reference to the agreement, or for an amount determined by reference to the assets or earnings of the corporation where that determination may reasonably be considered to be used to determine an amount that does not exceed the fair market value of the share at the time of the acquisition, determined without reference to the agreement, and

(ii) "shareholder" includes a shareholder of a shareholder, or

(*b*) is a share that is convertible or exchangeable at any time within 5 years after the date of its issue, unless

(i) it is convertible into or exchangeable for

(A) another share of the corporation or a corporation related to the corporation that, if issued, would not be a short-term preferred share,

(B) a right or warrant that, if exercised, would allow the person exercising it to acquire only a share of the corporation or a corporation related to the corporation that, if issued, would not be a short-term preferred share, or

(C) both a share described in clause (A) and a right or warrant described in clause (B), and

(ii) all the consideration receivable for the share on the conversion or exchange is the share described in clause (i)(A) or the right or warrant described in clause (i)(B) or both, as the case may be, and for the purposes of this subparagraph, where a taxpayer may become entitled on the conversion or exchange of a share to receive any particular consideration (other than consideration described in any of clauses (i)(A) to (C)) in lieu of a fraction of a share, the particular consideration shall be deemed not to be consideration unless it may reasonably be considered that the particular consideration was receivable as part of a series of transactions or events one of the main purposes of which was to avoid or limit the application of Part IV.1 or VI.1,

and, for the purposes of this definition,

(*c*) where at any particular time after December 15, 1987, otherwise than pursuant to a written arrangement to do so entered into before December 16, 1987, the terms or conditions of a share of the capital stock of a corporation that are relevant to any matter referred to in any of paragraphs (*a*), (*b*), (*f*) and (*h*) are established or modified, or any agreement in respect of any such matter to which the corporation or a specified person in relation to the corporation is a party, is changed or entered into, the share shall be deemed after that particular time to have been issued at that particular time,

(*d*) where at any particular time after December 15, 1987 a particular share of the capital stock of a corporation has been issued or its terms or conditions have been modified or an agreement in respect of the share is modified or entered into, and it may reasonably be considered, having regard to all the circumstances, including the rate of interest on any debt obligation or the dividend provided on any short-term preferred share, that

(i) but for the existence at any time of such a debt obligation or such a short-term preferred share, the particular share would not have been issued or its terms or conditions modified or the agreement in respect of the share would not have been modified or entered into, and

(ii) one of the main purposes for the issue of the particular share or the modification of its terms or conditions or the modification or entering into the agreement in respect of the share was to avoid or limit the tax payable under subsection 191.1(1),

the particular share shall be deemed after that particular time to have been issued at that particular time and to be a short-term preferred share of the corporation,

(*e*) where at any particular time after December 15, 1987, otherwise than pursuant to a written arrangement to do so entered into before December 16, 1987, the terms or conditions of a share of the capital stock of a corporation are modified or established or any agreement in respect of the share has been changed or entered into, and as a consequence thereof the corporation or a specified person in relation to the corporation may reasonably be expected to redeem, acquire or cancel (otherwise than by reason of the death of the shareholder or by reason only of a right to convert or exchange the share that would not cause the share to be a short-term preferred share by reason of paragraph (*b*)), in whole or in part, the share, or to reduce its paid-up

capital, within 5 years after the particular time, the share shall be deemed to have been issued at that particular time and to be a short-term preferred share of the corporation after the particular time until the time that that reasonable expectation ceases to exist and, for the purposes of this paragraph,

(i) an agreement in respect of a share of the capital stock of a corporation shall be read without reference to that part of the agreement under which a person agrees to acquire the share for an amount

(A) in the case of a share (other than a share that would, but for that part of the agreement, be a taxable preferred share) the agreement in respect of which provides that the share is to be acquired within 60 days after the day on which the agreement was entered into, that does not exceed the greater of the fair market value of the share at the time the agreement was entered into, determined without reference to the agreement, and the fair market value of the share at the time of the acquisition, determined without reference to the agreement, or

(B) that does not exceed the fair market value of the share at the time of the acquisition, determined without reference to the agreement, or for an amount determined by reference to the assets or earnings of the corporation where that determination may reasonably be considered to be used to determine an amount that does not exceed the fair market value of the share at the time of the acquisition, determined without reference to the agreement, and

(ii) "shareholder" includes a shareholder of a shareholder,

(*f*) where a share of the capital stock of a corporation was issued after December 15, 1987 and at the time the share was issued the existence of the corporation was, or there was an arrangement under which it could be, limited to a period that was within 5 years after the date of its issue, the share shall be deemed to be a short-term preferred share of the corporation unless the share is a grandfathered share and the arrangement is a written arrangement entered into before December 16, 1987,

(*g*) where a share of the capital stock of a corporation is acquired at any time after December 15, 1987 by the corporation or a specified person in relation to the corporation and the share is at any particular time after that time acquired by a person with whom the corporation or a specified person in relation to the corporation was dealing at arm's length if this Act were read without reference to paragraph 251(5)(*b*), from the corporation or a specified person in relation to the corporation, the share shall be deemed after that particular time to have been issued at that particular time,

(*h*) where at any particular time after December 15, 1987, otherwise than pursuant to a written arrangement to do so entered into before December 16, 1987, as a result of the terms or conditions of a share of the capital stock of a corporation or any agreement entered into by the corporation or a specified person in relation to the corporation, any person (other than the corporation or an individual other than a trust) was obligated, either absolutely or contingently and either immediately or in the future, to effect any undertaking within 5 years after the day on which the share was issued (in this paragraph referred to as a "guarantee agreement") including any guarantee, covenant or agreement to purchase or repurchase the share, and including the lending of funds or the placing of amounts on deposit with, or on behalf of the shareholder or a specified person in relation to the shareholder given

(i) to ensure that any loss that the shareholder or a specified person in relation to the shareholder may sustain, by reason of the ownership, holding or disposition of the share or any other property is limited in any respect, and

(ii) as part of a transaction or event or series of transactions or events that included the issuance of the share,

the share shall be deemed after that particular time to have been issued at the particular time and to be at and immediately after the particular time a short-term preferred share, and for the purposes of this paragraph, where a guarantee agreement in respect of a share is given at any particular time after December 15, 1987, otherwise than pursuant to a written arrangement to do so entered into before December 16, 1987, the share shall be deemed to have been issued at the particular time and the guarantee agreement shall be deemed to have been given as part of a series of transactions that included the issuance of the share,

(*i*) a share that is, at the time a dividend is paid thereon, a share described in paragraph (*e*) of the definition "term preferred share" in this subsection during the applicable time period referred to in that paragraph or a prescribed share shall, notwithstanding any other provision of this definition, be deemed not to be a short-term preferred share at that time, and

(*j*) "specified person" has the meaning assigned by paragraph (*h*) of the definition "taxable preferred share" in this subsection;

Department of Finance Comfort Letter
[Definition of "Short-Term Preferred Share"]

May 11, 2005

Dear XXXX:

Thank you for your letter of April 14, 2005 regarding paragraph (*f*) of the definition of "short-term preferred share" in subsection 248(1) of the *Income Tax Act*. That provision specifies that a share of the capital stock of a corporation that is issued in circumstances where the existence of the corporation was, or there was an agreement under which it could be, limited to a period within 5 years from the date of its issue is deemed to be a short-term preferred share of the corporation.

In your letter you have described a situation where employees of a company were granted stock options under an employee stock option plan at a time when the existence of the company was not limited. Although the options remain unvested, they will automatically vest following the decision of the company to sell all or substantially all of its assets and then liquidate, which it intends to do in the near future. Since the employees will be able to exercise their options only following the decision to liquidate the corporation, any share issued in those circumstances would be deemed to be a short-term preferred share.

The rules applicable to taxable preferred shares, of which short-term preferred shares are a subset, are intended to apply to situations where corporations that are not in need of an interest deduction, instead of issuing debt, issue equity having debt-like characteristics. One such debt-like characteristic is repayment within a fixed time period, which can be achieved indirectly with a limitation on the existence of the corporation, effectively guaranteeing that the "equity" investment will be returned within a certain period of time.

You have asked that shares issued pursuant to a grant of options occurring under an employee stock option plan or other employee arrangement, where such grant occurs at a time when the existence of the corporation was not limited to a period within 5 years from the date of grant, be excluded from the definition of short-term preferred share.

It does not seem appropriate that shares issued in the circumstances you describe should be brought into the ambit of the taxable preferred share rules. Consequently, we are prepared to recommend to the Minister of Finance that such an amendment be made to the definition. Of course, we cannot offer any assurance that either the Minister of Finance or Parliament will agree with the recommendation that we intend to make in this regard. Nonetheless, we trust that this statement of our position is helpful.

Thank you for bringing this matter to our attention.

Your sincerely,

Len Farber
General Director
Tax Legislation Division
Tax Policy Branch

Related Sections: S. 248(10) Series of transactions.

"SIFT partnership" — "SIFT partnership" has the meaning assigned by section 197;

History: S. 248(1), the definition "SIFT partnership" was added by S.C. 2007, c. 29, s. 28(1), deemed to have come into force on October 31, 2006.

"SIFT partnership balance-due day" — "SIFT partnership balance-due day", in respect of a taxation year of a SIFT partnership, means the day on or before which the partnership is required to file a return for the taxation year under section 229 of the *Income Tax Regulations*;

History: S. 248(1), the definition "SIFT partnership balance-due day" was added by S.C. 2007, c. 29, s. 28(1), deemed to have come into force on October 31, 2006.

"SIFT trust" — "SIFT trust" has the meaning assigned by section 122.1;

History: S. 248(1), the definition "SIFT trust" was added by S.C. 2007, c. 29, s. 28(1), deemed to have come into force on October 31, 2006.

"SIFT trust wind-up event" — "SIFT trust wind-up event" means a distribution by a particular trust resident in Canada of property to a taxpayer in respect of which the following conditions are met:

(*a*) the distribution occurs before 2013,

(*b*) there is a resulting disposition of all of the taxpayer's interest as a beneficiary under the particular trust,

(*c*) the particular trust is

(i) a SIFT wind-up entity,

(ii) a trust whose only beneficiary throughout the period (referred to in this definition as the "qualifying period") that begins on July 14, 2008 and that ends at the time of the distribution is another trust that throughout the qualifying period

(A) is resident in Canada, and

(B) is a SIFT wind-up entity or a trust described by this subparagraph, or

(iii) a trust whose only beneficiary at the time of distribution is another trust that throughout the qualifying period

(A) is resident in Canada,

(B) is a SIFT wind-up entity or a trust described by subparagraph (ii), and

(C) is a majority interest beneficiary (within the meaning that would be assigned by section 251.1 if the references in the definition "majority interest beneficiary" in subsection 251.1(3) to "50%" were read as references to "25%") of the particular trust,

(*d*) the particular trust ceases to exist immediately after the distribution or immediately after the last of a series of SIFT trust wind-up events (determined without reference to this paragraph) of the particular trust that includes the distribution, and

(*e*) the property was not acquired by the particular trust as a result of a transfer or an exchange

(i) that is

(A) a "qualifying exchange" as defined in subsection 132.2(1) or a "qualifying disposition" as defined in subsection 107.4(1),

(B) made after February 2, 2009, and

(C) from any person other than a SIFT wind-up entity, or

(ii) to which any of sections 51, 85, 85.1, 86, 87, 88, 107.4 or 132.2 applies, of another property acquired as a result of a transfer or an exchange described by subparagraph (i) or this subparagraph;

History: S. 248(1), the definition "SIFT trust wind-up event" was added by S.C. 2009, c. 2, s. 76(4), applicable after December 19, 2007.

"SIFT wind-up corporation" — "SIFT wind-up corporation", in respect of a SIFT wind-up entity, means at any particular time a corporation

(*a*) that, at any time that is after July 13, 2008 and before the earlier of the particular time and January 1, 2013, owns all of the equity in the SIFT wind-up entity, or

(*b*) shares of the capital stock of which are at or before the particular time distributed on a SIFT trust wind-up event of the SIFT wind-up entity;

History: S. 248(1), the definition "SIFT wind-up corporation" was added by S.C. 2009, c. 2, s. 76(4), applicable after December 19, 2007.

"SIFT wind-up entity" — "SIFT wind-up entity" means a trust or partnership that at any time in the period that began on October 31, 2006 and that ends on July 14, 2008 is

(*a*) a SIFT trust (determined without reference to subsection 122.1(2)),

(*b*) a SIFT partnership (determined without reference to subsection 197(8)), or

(*c*) a real estate investment trust (as defined in subsection 122.1(1));

History: S. 248(1), the definition "SIFT wind-up entity" was added by S.C. 2009, c. 2, s. 76(4), applicable after December 19, 2007.

"SIFT wind-up entity equity" — "SIFT wind-up entity equity", or equity in a SIFT wind-up entity, means

(*a*) if the SIFT wind-up entity is a trust, a capital interest (determined without reference to subsection (25)) in the trust, and

(*b*) if the SIFT wind-up entity is a partnership, an interest as a member of the partnership where, by operation of any law governing the arrangement in respect of the partnership, the liability of the member as a member of the partnership is limited,

except that if all of the interests described in paragraph (*a*) or (*b*), as the case may be, in the SIFT wind-up entity are described by reference to units, it means the part of the interest represented by such a unit;

History: S. 248(1), the definition "SIFT wind-up entity equity" was added by S.C. 2009, c. 2, s. 76(4), applicable after December 19, 2007.

"small business bond" — "small business bond" has the meaning assigned by section 15.2;

"small business corporation" — "small business corporation", at any particular time, means, subject to subsection 110.6(15), a particular corporation that is a Canadian-controlled private corporation all or substantially all of the fair market value of the assets of which at that time is attributable to assets that are

(*a*) used principally in an active business carried on primarily in Canada by the particular corporation or by a corporation related to it,

(*b*) shares of the capital stock or indebtedness of one or more small business corporations that are at that time connected with the particular corporation (within the meaning of subsection 186(4) on the assumption that the small business corporation is at that time a "payer corporation" within the meaning of that subsection), or

(*c*) assets described in paragraphs (*a*) and (*b*),

including, for the purpose of paragraph 39(1)(*c*), a corporation that was at any time in the 12 months preceding that time a small business corporation, and, for the purpose of this definition, the fair market value of a net income stabilization account shall be deemed to be nil;

History: S. 248(1), the portion of the definition "small business corporation" after paragraph (*c*), was amended by S.C. 1994, c. 7, Sched. VIII, s. 139(5), applicable to the 1991 and subsequent taxation years. That portion formerly read:

"and, for the purposes of paragraph 39(1)(*c*), includes a corporation that was at any time in the 12 months preceding that time a small business corporation;"

S. 248(1), the portion of the definition "small business corporation" before paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 192(10), applicable after June 17, 1987, except that, in applying that portion of the definition after June 17, 1987 and before September 14, 1988, the portion shall be read as follows:

"'small business corporation' at any particular time means, subject to subsection 110.6(15), a particular corporation that is a Canadian-controlled private corporation all or substantially all of the assets of which were at that time"

That portion formerly read:

"'small business corporation' at any particular time means a particular corporation that is a Canadian-controlled private corporation all or substantially all of the fair market value of the assets of which at that time was attributable to assets that were"

S. 248(1), paragraphs (*a*) and (*b*) of the definition "small business corporation", was amended by S.C. 1994, c. 7, Sched. II, s. 192(11), applicable to the 1988 and subsequent taxation years. Paragraphs (*a*) and (*b*) formerly read:

"(*a*) used in an active business carried on primarily in Canada by the particular corporation or by a corporation related to it,

(*b*) shares of the capital stock of one or more small business corporations that were at that time connected with the particular corporation (within the meaning of subsection 186(4) on the assumption that the small business corporation was at that time a 'payer corporation' within the meaning of that subsection) or a bond, debenture, bill, note, mortgage or similar obligation issued by such a connected corporation, or"

Editorial Note: Small business corporation status is a prerequisite for a number of important income tax incentives, including the capital gains exemption and ABILs. The CRA's position is that "all or substantially all" means 90% or more, although case law has supported a lesser proportion. Per paragraph (*b*), a corporation is generally connected with another corporation if it controls that other corporation (within the extended meaning of subsection 186(2)) or owns shares representing more than 10% of both votes and value. The CRA has issued a large number of technical interpretations as to circumstances in which particular types of assets are considered to be used in a business.

Related Sections: S. 15.1 Interest on small business development bonds; s. 39(1)(*c*) Meaning of capital gain and capital loss; s. 40(1.1) Reserve — property disposed of to a child; s. 44.1 Reserve — property disposed of to a child; s. 48.1 Gain when small business corporation becomes public; s. 74.4(2) Transfers and loans to corporations; s. 110.6(2.1) Capital gains deduction — qualified small business corporation shares; s. 110.6(15) Value of assets of corporations; s. 125(7), "Canadian-controlled private corporation"; s. 186(4) Corporations connected with particular corporation; s. 248(1), "active business", "Canadian-controlled private corporation", "corporation", "net income stabilization account"; s. 255 Canada; s. 256(6.1) Simultaneous control.

Regulations: 4900(12).

Interpretation Bulletins: *Secondary* — IT-320R3 RRSPs — Qualified investments; IT-349R3 Intergenerational transfers of farm property on death.

"small business development bond" — "small business development bond" has the meaning assigned by section 15.1;

"specified employee" — "specified employee" of a person means an employee of the person who is a specified shareholder of the person or who does not deal at arm's length with the person;

History: The definition "specified employee" was added to s. 248(1) by S.C. 1994, c. 8, s. 32(1), applicable to taxation years that end after December 2, 1992.

Related Sections: S. 37(9) Salary or wages.

Regulations: 2900(5).

"specified financial institution" — "specified financial institution", at any time, means

(*a*) a bank,

(*b*) a corporation licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering to the public its services as trustee,

(*c*) a credit union,

(*d*) an insurance corporation,

(*e*) a corporation whose principal business is the lending of money to persons with whom the corporation is dealing at arm's length or the purchasing of debt obligations issued by such persons or a combination thereof,

(*e.1*) a corporation described in paragraph (*g*) of the definition "financial institution" in subsection 181(1),

(*f*) a corporation that is controlled by one or more corporations described in any of paragraphs (*a*) to (*e.1*) and, for the purpose of this paragraph, one corporation is controlled by another corporation if more than 50% of its issued share capital (having full voting rights under all circumstances) belongs to the other corporation, to persons with whom the other corporation does not deal at arm's length, or to the other corporation and persons with whom the other corporation does not deal at arm's length, or

(*g*) a corporation that is related to a particular corporation described in any of paragraphs (*a*) to (*f*), other than a particular corporation described in paragraph (*e*) or (*e.1*) the principal business of which is the factoring of trade accounts receivable that

(i) the particular corporation acquired from a related person,

(ii) arose in the course of an active business carried on by a person (in this paragraph referred to as the "business entity") related at that time to the particular corporation, and

(iii) at no particular time before that time were held by a person other than a person who was related to the business entity;

History: S. 248(1), paragraph (*e.1*) of the definition "specified financial institution" was added, and paragraphs (*f*) and (*g*) were amended, by S.C. 1999, c. 22, s. 80(6), applicable for the purpose of determining the status of a particular corporation as a specified financial institution, for all purposes of the Act, for taxation years of the particular corporation that begin after 1998. Paragraphs (*f*) and (*g*) formerly read:

"(*f*) a corporation that is controlled by one or more corporations described in any of paragraphs (*a*) to (*e*) and, for the purposes of this paragraph, one corporation is controlled by another corporation if more than 50% of its issued share capital (having full voting rights under all circumstances) belongs to the other corporation, to persons with whom the other corporation does not deal at arm's length, or to the other corporation and persons with whom the other corporation does not deal at arm's length, or

(*g*) a corporation related to a corporation described in any of paragraphs (*a*) to (*f*);"

S. 248(1), the portion of the definition "specified financial institution" before paragraph (*a*) was amended by S.C. 1999, c. 22, s. 80(5), applicable for the purpose of determining the status of a particular corporation as a specified financial institution, for all purposes of the Act, for taxation years of the particular corporation that begin after 1998. S. 248(1), the portion of the definition "specified financial institution" before paragraph (*a*) formerly read: "*'specified financial institution'* — 'specified financial institution' means"

Related Sections: S. 112(2.1) Where no deduction permitted; s. 112(2.2) Guaranteed shares; s. 187.1 Definition of "excepted dividend"; s. 191(1), "private holding corporation"; s. 248(14) Related corporations.

"specified future tax consequence" — "specified future tax consequence" for a taxation year means

(*a*) the consequence of the deduction or exclusion of an amount referred to in paragraph 161(7)(*a*),

(*b*) the consequence of a reduction under subsection 66(12.73) of a particular amount purported to be renounced by a corporation after the beginning of the year to a person or partnership under subsection 66(12.6) or (12.601) because of the application of subsection 66(12.66), determined as if the purported renunciation would, but for subsection 66(12.73), have been effective only where

(i) the purported renunciation occurred in January, February or March of a calendar year,

(ii) the effective date of the purported renunciation was the last day of the preceding calendar year,

(iii) the corporation agreed in that preceding calendar year to issue a flow-though share to the person or partnership,

(iv) the particular amount does not exceed the amount, if any, by which the consideration for which the share is to be issued exceeds the total of all other amounts purported by the corporation to have been renounced under subsection 66(12.6) or (12.601) in respect of that consideration,

(v) paragraphs 66(12.66)(*c*) and (*d*) are satisfied with respect to the purported renunciation, and

(vi) the form prescribed for the purpose of subsection 66(12.7) in respect of the purported renunciation is filed with the Minister before May of the calendar year; and

(*c*) the consequence of an adjustment or a reduction described in subsection 161(6.1);

History: S. 248(1), paragraph (*c*) of the definition "specified future tax consequence" was added by S.C. 1999, c. 22, s. 80(7), applicable to the 1998 and subsequent taxation years.

S. 248(1), the definition "specified future tax consequence", was added by S.C. 1997, c. 25, s. 71(3), applicable to the 1996 and subsequent taxation years and, for greater certainty, for taxation years that ended before 1996, there are deemed to be no specified future tax consequences.

Related Sections: S. 87(2)(*oo*) Investment tax credit; s. 88(1)(*e.8*) Winding-up; s. 88(1)(*e.9*) Winding-up; s. 127(10.2) Expenditure limit determined; s. 127.1(2) Definitions; s. 156.1(1.1) Values of A and B in "net tax owing"; s. 156.1(1.2) Value of D in "net tax owing"; s. 157(2) Special case; s. 157(2.1) $3,000 threshold; s. 161(4) Limitation — farmers and fishermen; s. 161(6.2) Flow-through share renunciations.

"specified individual" — "specified individual" has the meaning assigned by subsection 120.4(1);

History: S. 248(1), the definition of "specified individual" was added by S.C. 2000, c. 19, s. 67(1), applicable to the 2000 and subsequent taxation years.

"specified investment business" — "specified investment business" has the meaning assigned by subsection 125(7);

"specified member" — "specified member" of a partnership in a fiscal period or taxation year of the partnership, as the case may be, means

(*a*) any member of the partnership who is a limited partner (within the meaning assigned by subsection 96(2.4)) of the partnership at any time in the period or year, and

(*b*) any member of the partnership, other than a member who is

(i) actively engaged in those activities of the partnership business that are other than the financing of the partnership business, or

(ii) carrying on a similar business as that carried on by the partnership in its taxation year, otherwise than as a member of a partnership,

on a regular, continuous and substantial basis throughout that part of the period or year during which the business of the partnership is ordinarily carried on and during which the member is a member of the partnership;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 1 — Foreign Investment Entities and Non-Resident Trusts — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 248(1) of the Act is amended by adding the following in alphabetical order:

"specified participating interest" — "specified participating interest", means a property of a taxpayer that is

(*a*) a participating interest of the taxpayer, other than an exempt interest (as defined by subsection 94.1(1)) of the taxpayer, in a foreign investment entity, or

(*b*) a participating interest of the taxpayer in a tracking entity (in this paragraph, as defined by subsection 94.2(1)), other than

(i) an exempt interest (as would be defined by subsection 94.1(1) if the definition "exempt interest" in that subsection were read without reference to subparagraphs (*a*)(i) and (ii) of that definition) of the taxpayer, in a tracking entity, or

(ii) a participating interest in respect of which subsection 94.2(9) does not apply to the taxpayer solely because of paragraph 94.2(9)(*e*);

Applicable: To taxation years that begin after 2006 except that the definition "specified participating interest" also applies to a taxation year of a taxpayer that begins before 2007 if sections 94.1 to 94.4 apply to that taxation year of the taxpayer.

Explanatory Note:

"specified participating interest"

This definition is used throughout the Act, particularly in provisions relating to the transfer of properties to and from corporations, trusts, partnerships, spouses or common-law partners. In general, a transfer of property that is a specified participating interest will not qualify for special rules in the Act that would otherwise allow the transferor of the property to defer recognition, for income tax purposes, of any accrued gains or losses in respect of the property.

A specified participating interest at any time means a property of a taxpayer that at that time is a "participating interest" (e.g., a share of a non-resident corporation, or a beneficial interest in a non-resident trust) of the taxpayer in a "foreign investment entity" (as those expressions are defined in subsection 94.1(1)). However, if the interest is at that time an "exempt interest" (as defined in subsection 94.1(1)) of the taxpayer in the foreign investment entity, it will not be at that time a specified participating interest.

A specified participating interest at any time also means a property of a taxpayer that at that time is a participating interest of the taxpayer in a "tracking entity" (as defined in subsection 94.2(1)). However, if the interest is at that time an exempt interest of the taxpayer in the tracking entity, it will not be at that time a specified participating interest, unless the tracking entity is a controlled foreign affiliate of the taxpayer or is a qualifying entity that is a foreign affiliate of the taxpayer in respect of which the taxpayer has a qualifying interest (within the meaning assigned by paragraph 95(2)(*m*) of the Act). In addition, if the interest is at that time an interest, of the taxpayer in the tracking entity, that is a participating interest in respect of which subsection 94.2(9) does not apply to the taxpayer solely because of paragraph 94.2(9)(*e*), it will not be at that time a specified participating interest.

For more detail on the definitions "participating interest", "tracking entity", "exempt interest", and "foreign investment entity", see the commentary on those definitions.

This amendment applies to taxation years that begin after 2006.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 248(1) of the Act is amended by adding the following in alphabetical order:

"*specified proportion*" — "specified proportion", of a member of a partnership for a fiscal period of the partnership, means the proportion that the member's share of the total income or loss of the partnership for the partnership's fiscal period is of the partnership's total income or loss for that period and, for the purpose of this definition, where that income or loss for a period is nil, that proportion shall be computed as if the partnership had income for that period in the amount of $1,000,000;

Applicable: After December 20, 2002.

Explanatory Note:

"specified proportion"

The definition "specified proportion" of a member of a partnership for a fiscal period of the partnership is currently found in subsection 206(1) of the Act. The apportionment that results from the definition is, however, useful for many purposes of the Act, and a number of other provisions apply the same concept. For simplicity, the definition is moved to subsection 248(1) of the Act. As a result, for all purposes of the Act a partner's specified proportion for the period is that proportion of the partnership's total income or loss for that period that is the member's share. If the partnership's income or loss for the period is nil, the proportion is computed as if the partnership had $1 million of income for the period.

This amendment applies after December 20, 2002.

"*specified shareholder*" — "specified shareholder" of a corporation in a taxation year means a taxpayer who owns, directly or indirectly, at any time in the year, not less than 10% of the issued shares of any class of the capital stock of the corporation or of any other corporation that is related to the corporation and, for the purposes of this definition,

(*a*) a taxpayer shall be deemed to own each share of the capital stock of a corporation owned at that time by a person with whom the taxpayer does not deal at arm's length,

(*b*) each beneficiary of a trust shall be deemed to own that proportion of all such shares owned by the trust at that time that the fair market value at that time of the beneficial interest of the beneficiary in the trust is of the fair market value at that time of all beneficial interests in the trust,

(*c*) each member of a partnership shall be deemed to own that proportion of all the shares of any class of the capital stock of a corporation that are property of the partnership at that time that the fair market value at that time of the member's interest in the partnership is of the fair market value at that time of the interests of all members in the partnership,

(*d*) an individual who performs services on behalf of a corporation that would be carrying on a personal services business if the individual or any person related to the individual were at that time a specified shareholder of the corporation shall be deemed to be a specified shareholder of the corporation at that time if the individual, or any person or partnership with whom the individual does not deal at arm's length, is, or by virtue of any arrangement may become, entitled, directly or indirectly, to not less than 10% of the assets or the shares of any class of the capital stock of the corporation or any corporation related thereto, and

(*e*) notwithstanding paragraph (*b*), where a beneficiary's share of the income or capital of the trust depends on the exercise by any person of, or the failure by any person to exercise, any discretionary power, the beneficiary shall be deemed to own each share of the capital stock of a corporation owned at that time by the trust;

Department of Finance Comfort Letter [Exclusion from Definition "Specified Shareholder" for Purposes of Investment Corporations]

March 12, 2003

Dear XXXX:

We are responding to your letter to me of January 8, 2003, your letter of February 3, 2003 to Stephanie Smith and subsequent discussions with Ms. Smith concerning the special transitional rules that apply to exempt from the application of subparagraph 130(3)(*a*)(vii) an investment corporation that had at least one "existing specified shareholder" on June 20, 1996. In general, the exemption is lost where the existing specified shareholder and certain "newly related persons" acquire more shares of the corporation after June 20, 1996, other than by certain permitted acquisitions. For this purpose, if any such person has

an interest in a partnership or trust, the exemption is lost if the partnership or trust acquires a share of the investment corporation after that date.

Your letter describes an investment corporation that had an individual who was an existing specified shareholder (the "Specified Shareholder") on June 20, 1996. The transitional rules provide that in determining who is a specified shareholder of an investment corporation, a person is deemed to own the shares of any corporation that are owned by a related person. Related persons are specifically defined for the purpose of these rules. As a result of the rules, if any of the Specified Shareholder's spouse's grandchildren under 19 years of age (the "Grandchildren") acquire or are deemed to acquire a share of the investment corporation after June 20, 1996, other than in a permitted acquisition, the transitional relief afforded in the transitional rules from the application of subparagraph 130(3)(*a*)(vii) would be lost.

In the situation you have described, the Specified Shareholder's daughter, who is over 19 years of age, (the "Daughter") established a registered education savings plan ("RESP") in the late 1980s for a number of persons including certain of the Grandchildren. In 1997, 1998 and 1999, the Daughter transferred shares of the investment corporation to the RESP and the dividend income received on the shares held in the RESP was, in part, paid by the RESP to the Grandchildren. In 2000, the shares of the investment corporation were reacquired by the Daughter from the RESP. The deemed acquisition of shares of the investment corporation by the Grandchildren would result in the investment corporation losing its exemption from the application of subparagraph 130(3)(*a*)(vii) provided for in the transitional rules and, therefore, losing its status as an investment corporation in 1997. You have asked us to expand the scope of the transitional rules to accommodate your client's situation.

We are sympathetic to this request and intend to recommend to the Minister of Finance that the *Income Tax Act* and the transitional rules that apply to investment corporations be amended to exclude from the definition of "specified shareholder", as it applies for the purpose of investment corporations, a beneficiary's interest in a trust governed by a RESP where the beneficiary of the trust is less than 19 years of age. Furthermore, we intend to recommend that the amendment be effective only for taxation years that begin before the date detailed legislative proposals are made public.

While we cannot offer any assurance that our recommendation in this matter will be accepted, we hope our statement of intent in this letter will be helpful in responding to your concern.

Yours sincerely,
Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: Paragraph (*e*) was added to the definition "specified shareholder" in s. 248(1) by S.C. 1994, c. 7, Sched. VIII, s. 139(6), applicable after 1991.

Related Sections: S. 7(9) Meaning of "qualifying acquisition"; s. 18(5), "specified shareholder"; s. 18(5.1) Person deemed not to be specified shareholder; s. 104(1) Reference to trust or estate; s. 125(7) Definitions; s. 248(1), "corporation", "individual", "property", "share", "trust"; s. 249(1) Definition of "taxation year"; s. 251(1) Arm's length; s. 251(2) Definition of "related persons".

Interpretation Bulletins: *Secondary* — IT-73R6 The small business deduction; IT-320R3 RRSPs — Qualified investments; IT-432R2 Benefits conferred on shareholders.

"split income" — "split income" has the meaning assigned by subsection 120.4(1);

History: S. 248(1), the definition of "split income" was added by S.C. 2000, c. 19, s. 67(1), applicable to the 2000 and subsequent taxation years.

"stock dividend" — "stock dividend" includes any dividend (determined without reference to the definition "dividend" in this subsection) paid by a corporation to the extent that it is paid by the issuance of shares of any class of the capital stock of the corporation;

History: S. 248(1), the definition "stock dividend", was amended by S.C. 1994, c. 7, Sched. II, s. 192(1), effective December 17, 1991. The definition formerly read:

" 'stock dividend' includes any dividend paid by a corporation to the extent that it is paid by the issuance of shares of any class of the capital stock of the payer corporation;"

"subsidiary controlled corporation" — "subsidiary controlled corporation" means a corporation more than 50% of the issued share capital of which (having full voting rights under all circumstances) belongs to the corporation to which it is subsidiary;

History: The above definition is analagous to s. 139(1)(*aq*), R.S.C. 1952, c. 148.

"subsidiary wholly-owned corporation" — "subsidiary wholly-owned corporation" means a corporation all the issued share capital of which (except directors' qualifying shares) belongs to the corporation to which it is subsidiary;

Department of Finance Comfort Letter
[Definition of "Subsidiary Wholly-Owned Corporation" to be Modified]

November 5, 2004

Dear XXXX:

Thank you for your letter of September 16, 2004 regarding the definition of "subsidiary wholly-owned corporation" in subsection 248(1) of the *Income Tax Act* (the "Act") as it relates to subsection 138(11.94) of the Act. Subsection 138(11.94) of the Act provides for the transfer on a rollover basis of an insurance business carried on in Canada by an insurer resident in Canada to a corporation resident in Canada that is a "subsidiary wholly-owned corporation" of that insurer.

In your letter and in your conversations with officials of the department, you requested that, for the purposes of subsection 138(11.94), the definition "subsidiary wholly-owned corporation" be modified in anticipation of a proposed transfer of an insurance business as part of a reorganization of a corporate group. At present, the definition "subsidiary wholly-owned corporation" means a corporation all of the issued shares of which (other than directors' qualifying shares) belong to the particular corporation of which it is a subsidiary. You have asked that, for the purposes of subsection 138(11.94), the definition "subsidiary wholly-owned corporation" be defined in respect of a particular corporation in such a manner that the holding of issued shares of the capital stock of the subsidiary by other corporations that are subsidiary wholly-owned corporations of the particular corporation are permitted.

We are of the view that, for the purposes of subsection 138(11.94), it would be appropriate to modify the definition "subsidiary wholly-owned corporation" in the manner requested. We are prepared to recommend that, for the purposes of subsection 138(11.94), the definition "subsidiary wholly-owned corporation" be defined in respect of a particular corporation resident in Canada, in effect, to have the same meaning as "qualified related corporation" in subsection 219(8) of the Act.

In the absence of any information suggesting that this issue has arisen in the past, we would recommend that the modified definition "subsidiary wholly-owned corporation" apply to transfers, after October 2004, of insurance businesses to which subsection 138(11.94) applies. If this recommendation is acted upon, the amendment will be included in a future technical bill.

Thank you for bringing this matter to our attention.

Yours sincerely,
Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

Related Sections: S. 87(1.4), "subsidiary wholly-owned corporation".

Interpretation Bulletins: *Secondary* — IT-98R2 Investment corporations [Archived by the CRA].

"superannuation or pension benefit" — "superannuation or pension benefit" includes any amount received out of or under a superannuation or pension fund or plan and, without restricting the generality of the foregoing, includes any payment made to a beneficiary

under the fund or plan or to an employer or former employer of the beneficiary thereunder

(*a*) in accordance with the terms of the fund or plan,

(*b*) resulting from an amendment to or modification of the fund or plan, or

(*c*) resulting from the termination of the fund or plan;

"supplementary unemployment benefit plan" — "supplementary unemployment benefit plan" has the meaning assigned by subsection 145(1);

"tar sands" — "tar sands" means bituminous sands or oil shales extracted, otherwise than by a well, from a mineral resource, but, for the purpose of applying sections 13 and 20 and any regulations made for the purpose of paragraph 20(1)(*a*) in respect of property acquired after March 6, 1996, includes material extracted by a well from a deposit of bituminous sands or oil shales;

History: S. 248(1), the definition "tar sands" was amended by S.C. 1997, c. 25, s. 71(1), applicable after March 6, 1996. That definition formerly read: "'tar sands' — 'tar sands' means bituminous sands, oil sands or oil shales extracted, otherwise than by a well, from a mineral resource;"

"tax shelter" — "tax shelter" has the meaning assigned by subsection 237.1(1);

"tax treaty" — "tax treaty" with a country at any time means a comprehensive agreement or convention for the elimination of double taxation on income, between the Government of Canada and the government of the country, which has the force of law in Canada at that time;

History: S. 248(1), the application of the definition "tax treaty" was amended by S.C. 2005, c. 19, s. 52(4), deemed, for the purpose of section 245 of the Act, to have come into force on September 13, 1988.

S. 248(1), the definition "tax treaty" was added by S.C. 1999, c. 22, s. 80(12), applicable to the 1998 and subsequent taxation years.

Related Sections: S. 126(1) Foreign tax deduction — non-business income; s. 126(2.1) Amount determined for purposes of para. (2)(b); s. 126(7), "tax-exempt income"; s. 250(5) Deemed non-resident.

"taxable Canadian corporation" — "taxable Canadian corporation" has the meaning assigned by subsection 89(1);

Related Sections: S. 89(1), "taxable Canadian corporation".

"taxable Canadian property" — "taxable Canadian property" of a taxpayer at any time in a taxation year means a property of the taxpayer that is

(*a*) real property situated in Canada,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*a*) of the definition "taxable Canadian property" in subsection 248(1) of the Act is replaced by the following:

(*a*) real or immovable property situated in Canada,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*b*) property used or held by the taxpayer in, eligible capital property in respect of, or property described in an inventory of, a business carried on in Canada, other than

(i) property used in carrying on an insurance business, and

(ii) where the taxpayer is non-resident, ships and aircraft used principally in international traffic and personal property pertaining to their operation if the country in which the taxpayer is resident does not impose tax on gains of persons resident in Canada from dispositions of such property,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph (*b*)(ii) of the definition "taxable Canadian property" in subsection 248(1) of the Act is replaced by the following:

(ii) where the taxpayer is non-resident, ships and aircraft used principally in international traffic and personal or movable property pertaining to their operation if the country in which the taxpayer is resident does not impose tax on gains of persons resident in Canada from dispositions of such property,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*c*) if the taxpayer is an insurer, its designated insurance property for the year,

(*d*) a share of the capital stock of a corporation resident in Canada (other than a non-resident-owned investment corporation if, on the first day of the year, the corporation owns neither taxable Canadian property nor property referred to in any of paragraphs (*m*) to (*o*), or a mutual fund corporation) that is not listed on a designated stock exchange,

(*e*) a share of the capital stock of a non-resident corporation that is not listed on a designated stock exchange if, at any particular time during the 60-month period that ends at that time,

(i) the fair market value of all of the properties of the corporation each of which was

(A) a taxable Canadian property,

(B) a Canadian resource property,

(C) a timber resource property,

(D) an income interest in a trust resident in Canada, or

(E) an interest in or option in respect of a property described in any of clauses (B) to (D), whether or not the property exists,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Clause (*e*)(i)(E) of the definition "taxable Canadian property" in subsection 248(1) of the Act is replaced by the following:

(E) an option in respect of, or an interest in, or for civil law a right in, a property described in any of clauses (B) to (D), whether or not the property exists,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

was greater than 50% of the fair market value of all of its properties, and

(ii) more than 50% of the fair market value of the share was derived directly or indirectly from one or any combination of

(A) real property situated in Canada,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Clause (*e*)(ii)(A) of the definition "taxable Canadian property" in subsection 248(1) of the Act is replaced by the following:

(A) real or immovable property situated in Canada,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(B) Canadian resource properties, and

(C) timber resource properties,

(*f*) a share that is listed on a designated stock exchange and that would be described in paragraph (*d*) or (*e*) if those paragraphs were read without reference to the words "that is not listed on a designated stock exchange", or a share of the capital stock of a mutual fund corporation, if at any time during the 60-month period that ends at that time the taxpayer, persons with whom the taxpayer did not deal at arm's length, or the taxpayer together with all such persons owned 25% or more of the issued shares of any class of the capital stock of the corporation that issued the share,

(*g*) an interest in a partnership if, at any particular time during the 60-month period that ends at that time, the fair market value of all of the properties of the partnership each of which was

(i) a taxable Canadian property,

(ii) a Canadian resource property,

(iii) a timber resource property,

(iv) an income interest in a trust resident in Canada, or

(v) an interest in or option in respect of a property described in any of subparagraphs (ii) to (iv), whether or not that property exists,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph (g)(v) of the definition "taxable Canadian property" in subsection 248(1) of the Act is replaced by the following:

(v) an option in respect of, or an interest in, or for civil law a right in, a property described in any of subparagraphs (ii) to (iv), whether or not that property exists,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

was greater than 50% of the fair market value of all of its properties,

(*h*) a capital interest in a trust (other than a unit trust) resident in Canada,

(*i*) a unit of a unit trust (other than a mutual fund trust) resident in Canada,

(*j*) a unit of a mutual fund trust if, at any time during the 60-month period that ends at that time, not less than 25% of the issued units of the trust belonged to the taxpayer, to persons with whom the taxpayer did not deal at arm's length, or to the taxpayer and persons with whom the taxpayer did not deal at arm's length,

(*k*) an interest in a non-resident trust if, at any particular time during the 60-month period that ends at that time,

(i) the fair market value of all of the properties of the trust each of which was

(A) a taxable Canadian property,

(B) a Canadian resource property,

(C) a timber resource property,

(D) an income interest in a trust resident in Canada, or

(E) an interest in or option in respect of a property described in any of clauses (B) to (D), whether or not that property exists

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Clause (*k*)(i)(E) of the definition "taxable Canadian property" in subsection 248(1) of the Act is replaced by the following:

(E) an option in respect of, or an interest in, or for civil law a right in, a property described in any of

clauses (B) to (D), whether or not that property exists

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

was greater than 50% of the fair market value of all of its properties, and

(ii) more than 50% of the fair market value of the interest was derived directly or indirectly from one or any combination of

(A) real property situated in Canada,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Clause (*k*)(ii)(A) of the definition "taxable Canadian property" in subsection 248(1) of the Act is replaced by the following:

(A) real or immovable property situated in Canada,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(B) Canadian resource properties, and

(C) timber resource properties, or

(*l*) an interest in or option in respect of a property described in any of paragraphs (*a*) to (*k*), whether or not that property exists,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*l*) of the definition "taxable Canadian property" in subsection 248(1) of the Act is replaced by the following:

(*l*) an option in respect of, or an interest in, or for civil law a right in, a property described in any of paragraphs (*a*) to (*k*), whether or not that property exists,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

and, for the purposes of section 2, subsection 107(2.001) and sections 128.1 and 150, and for the purpose of applying paragraphs 85(1)(*i*) and 97(2)(*c*) to a disposition by a non-resident person, includes

(*m*) a Canadian resource property,

(*n*) a timber resource property,

(*o*) an income interest in a trust resident in Canada,

(*p*) a right to a share of the income or loss under an agreement referred to in paragraph 96(1.1)(*a*), and

(*q*) a life insurance policy in Canada;

History: S. 248(1), paragraphs (*d*) to (*f*) of the definition "taxable Canadian property" were amended by S.C. 2007, c. 35, s. 68(2), by replacing "prescribed stock exchange" with "designated stock exchange", applicable on and after December 14, 2007 [the day on which this Act is assented to].

S. 248(1), the definition "taxable Canadian property" was amended by S.C. 2001, c. 17, s. 188(2), applicable after October 1, 1996 except that, in its application before December 24, 1998, the portion of paragraph (*b*) of the definition "taxable Canadian property" in subsection 248(1) of the Act before subparagraph (i) shall be read as follows:

"(*b*) capital property used by the taxpayer in carrying on a business in Canada, other than"

S. 248(1), the definition "taxable Canadian property" formerly read:

"*'taxable Canadian property'* — 'taxable Canadian property' has the meaning assigned by subsection 115(1) except that, for the purposes only of sections 2, 128.1 and 150, the expression 'taxable Canadian property' includes

(*a*) a Canadian resource property,

(*b*) a timber resource property,

(*c*) an income interest in a trust resident in Canada,

(*d*) a right to a share of the income or loss under an agreement referred to in paragraph 96(1.1)(*a*), and

(*e*) a life insurance policy in Canada;"

S. 248(1), the portion of the definition "taxable Canadian property" before paragraph (*a*) was amended by S.C. 1999, c. 22, s. 80(8), applicable to taxation years that begin after 1998. That portion formerly read:

"*'taxable Canadian property'* — 'taxable Canadian property' has the meaning assigned by subsection 115(1) except that, for the purposes only of sections 2 and 128.1, the expression 'taxable Canadian property' includes"

S. 248(1), the portion of the definition "taxable Canadian property" before paragraph (*a*), was amended by S.C. 1994, c. 21, s. 109(4), applicable after 1992 except that, where a corporation elects in accordance with paragraph 111(4)(*a*), the definition "taxable Canadian property" applies to the corporation from the corporation's time of continuation (within the meaning assigned by that paragraph). That portion formerly read:

"'taxable Canadian property' has the meaning assigned by subsection 115(1) except that, for the purposes only of section 2, the expression 'taxable Canadian property' includes"

Paragraph (*e*) was added to the definition "taxable Canadian property" in s. 248(1) by S.C. 1994, c. 7, Sched. II, s. 192(12), applicable to dispositions occurring after July 13, 1990.

Related Sections: S. 115(1) Non-resident's taxable income in Canada; s. 116(6) Definition of "excluded property"; s. 250(5.1) Continued corporation.

Interpretation Bulletins: *Secondary* — IT-420R3 Non-residents — Income earned in Canada.

Canadian Tax Foundation: Raizenne and Nikolakakis, "Taxable Canadian Property", *1996 Conference Report*, Vol. 2, 46:1.

Canadian Petroleum Tax Journal: Taxable Canadian Property, Tony Van Rooyen, Vol. 13 No. 1 2000.

"taxable capital gain" — "taxable capital gain" has the meaning assigned by section 38;

"taxable dividend" — "taxable dividend" has the meaning assigned by subsection 89(1);

"taxable income" — "taxable income" has the meaning assigned by subsection 2(2), except that in no case may a taxpayer's taxable income be less than nil;

"taxable income earned in Canada" — "taxable income earned in Canada" means a taxpayer's taxable income earned in Canada determined in accordance with Division D of Part I, except that in no case may a taxpayer's taxable income earned in Canada be less than nil;

Related Sections: S. 115(1) Non-resident's taxable income in Canada.

"taxable net gain" — "taxable net gain" from dispositions of listed personal property has the meaning assigned by section 41;

"taxable preferred share" — "taxable preferred share" at any particular time means

(*a*) a share issued after December 15, 1987 that is a short-term preferred share at that particular time, or

(*b*) a share (other than a grandfathered share) of the capital stock of a corporation issued after 8:00 p.m

Eastern Daylight Saving Time, June 18, 1987 where, at that particular time by reason of the terms or conditions of the share or any agreement in respect of the share or its issue to which the corporation, or a specified person in relation to the corporation, is a party,

(i) it may reasonably be considered, having regard to all the circumstances, that the amount of the dividends that may be declared or paid on the share (in this definition referred to as the "dividend entitlement") is, by way of a formula or otherwise

(A) fixed,

(B) limited to a maximum, or

(C) established to be not less than a minimum (including any amount determined on a cumulative basis) and with respect to the dividend that may be declared or paid on the share there is a preference over any other dividend that may be declared or paid on any other share of the capital stock of the corporation,

(ii) it may reasonably be considered, having regard to all the circumstances, that the amount that the shareholder is entitled to receive in respect of the share on the dissolution, liquidation or winding-up of the corporation or on the redemption, acquisition or cancellation of the share (unless the requirement to redeem, acquire or cancel the share arises only in the event of the death of the shareholder or by reason only of a right to convert or exchange the share) or on a reduction of the paid-up capital of the share by the corporation or by a specified person in relation to the corporation (in this definition referred to as the "liquidation entitlement") is, by way of a formula or otherwise

(A) fixed,

(B) limited to a maximum, or

(C) established to be not less than a minimum,

and, for the purposes of this subparagraph, "shareholder" includes a shareholder of a shareholder,

(iii) the share is convertible or exchangeable at any time, unless

(A) it is convertible into or exchangeable for

(I) another share of the corporation or a corporation related to the corporation that, if issued, would not be a taxable preferred share,

(II) a right or warrant that, if exercised, would allow the person exercising it to acquire only a share of the corporation or a corporation related to the corporation that, if issued, would not be a taxable preferred share, or

(III) both a share described in subclause (I) and a right or warrant described in subclause (II), and

(B) all the consideration receivable for the share on the conversion or exchange is the share described in subclause (A)(I) or the right or warrant described in subclause (A)(II) or both, as the case may be, and, for the purposes of this clause, where a taxpayer may become entitled on the conversion or exchange of a share to receive any particular consideration (other than consideration described in any of subclauses (A)(I) to (III)) in lieu of a fraction of a share, the particular consideration shall be deemed not to be consideration unless it may reasonably be considered that the particular consideration was receivable as part of a series of transactions or events one of the main purposes of which was to avoid or limit the application of Part IV.1 or VI.1, or

(iv) any person (other than the corporation) was, at or immediately before that particular time, obligated, either absolutely or contingently, and either immediately or in the future, to effect any undertaking (in this subparagraph referred to as a "guarantee agreement"), including any guarantee, covenant or agreement to purchase or repurchase the share, and including the lending of funds to or the placing of amounts on deposit with, or on behalf of, the shareholder or any specified person in relation to the shareholder given

(A) to ensure that any loss that the shareholder or a specified person in relation to the shareholder may sustain by reason of the ownership, holding or disposition of the share or any other property is limited in any respect, or

(B) to ensure that the shareholder or a specified person in relation to the shareholder will derive earnings by reason of the ownership, holding or disposition of the share or any other property,

and the guarantee agreement was given as part of a transaction or event or a series of transactions or events that included the issuance of the share and, for the purposes of this paragraph, where a guarantee agreement in respect of a share is given at any particular time after 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987, otherwise than pursuant to a written arrangement to do so entered into before 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987, the share shall be deemed to have been issued at the particular time and the guarantee agreement shall be deemed to have been given as part of a series of transactions that included the issuance of the share,

but does not include a share that is at the particular time a prescribed share or a share described in paragraph (*e*) of the definition "term preferred share" in this subsection during the applicable time period referred to in that paragraph and, for the purposes of this definition,

(*c*) the dividend entitlement of a share of the capital stock of a corporation shall be deemed not to be fixed, limited to a maximum or established to be not less than a minimum where all dividends on the share are determined solely by reference to the dividend entitlement of another share of the capital stock of the corporation or of another corporation that controls the corporation that would not be a taxable preferred share if

(i) this definition were read without reference to paragraph (*f*),

(ii) the other share were issued after June 18, 1987, and

(iii) the other share were not a grandfathered share, a prescribed share or a share described in paragraph (*e*) of the definition "term preferred share" in this subsection,

(*d*) the liquidation entitlement of a share of the capital stock of a corporation shall be deemed not to be fixed, limited to a maximum or established to be not less than a minimum where all the liquidation entitlement is determinable solely by reference to the liquidation entitlement of another share of the capital stock of the corporation or of another corporation that controls the corporation that would not be a taxable preferred share if

(i) this definition were read without reference to paragraph (*f*),

(ii) the other share were issued after June 18, 1987, and

(iii) the other share were not a grandfathered share, a prescribed share or a share described in paragraph (*e*) of the definition "term preferred share" in this subsection,

(*e*) where at any particular time after 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987, otherwise than pursuant to a written arrangement to do so entered into before 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987, the terms or conditions of a share of the capital stock of a corporation that are relevant to any matter referred to in any of subparagraphs (*b*)(i) to (iv) are established or modified or any agreement in respect of any such matter, to which the corporation or a specified person in relation to the corporation is a party, is changed or entered into, the share shall, for the purpose of determining after the particular time whether it is a taxable preferred share, be deemed to have been issued at that particular time, unless

(i) the share is a share described in paragraph (*b*) of the definition "grandfathered share" in this subsection, and

(ii) the particular time is before December 16, 1987 and before the time at which the share is first issued,

(*f*) an agreement in respect of a share of the capital stock of a corporation shall be read without reference to that part of the agreement under which a person agrees to acquire the share for an amount

(i) in the case of a share the agreement in respect of which provides that the share is to be acquired within 60 days after the day on which the agreement was entered into, that does not exceed the greater of the fair market value of the share at the time the agreement was entered into, determined without reference to the agreement, and the fair market value of the share at the time of the acquisition, determined without reference to the agreement, or

(ii) that does not exceed the fair market value of the share at the time of the acquisition, determined without reference to the agreement, or for an amount determined by reference to the assets or earnings of the corporation where that determination may reasonably be considered to be used to determine an amount that does not exceed the fair market value of the share at the time of the acquisition, determined without reference to the agreement,

(*g*) where

(i) it may reasonably be considered that the dividends that may be declared or paid to a shareholder at any time on a share (other than a prescribed share or a share described in paragraph (*e*) of the definition "term preferred share" in this subsection during the applicable time period referred to in that paragraph) of the capital stock of a corporation issued after December 15, 1987 or acquired after June 15, 1988 are derived primarily from dividends received on taxable preferred shares of the capital stock of another corporation, and

(ii) it may reasonably be considered that the share was issued or acquired as part of a transaction or event or series of transactions or events one of the main purposes of which was to avoid or limit the application of Part IV.1 or VI.1,

the share shall be deemed at that time to be a taxable preferred share, and

(*h*) "specified person", in relation to any particular person, means another person with whom the particular person does not deal at arm's length or any partnership or trust of which the particular person or the other person is a member or beneficiary, respectively;

Related Sections: S. 248(10) Series of transactions.
Income Tax Technical News: Issue No. 7, Taxable preferred shares — Stock dividend in lieu of cash dividend.
Canadian Tax Foundation: Moskowitz, "The Preferred Share Rules: Yes, They Can Apply to You!", *1997 Conference Report*, 9:1.

"taxable RFI share" — "taxable RFI share" at any particular time means a share of the capital stock of a corporation issued before 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987 or a grandfathered share of the capital stock of a corporation, where at the particular time under the terms or conditions of the share or any agreement in respect of the share,

(*a*) it may reasonably be considered, having regard to all the circumstances, that the amount of the dividends that may be declared or paid on the share (in this definition referred to as the "dividend entitlement") is, by way of a formula or otherwise

(i) fixed,

(ii) limited to a maximum, or

(iii) established to be not less than a minimum, or

(*b*) it may reasonably be considered, having regard to all the circumstances, that the amount that the shareholder is entitled to receive in respect of the share on the dissolution, liquidation or winding-up of the corporation (in this definition referred to as the "liquidation entitlement") is, by way of formula or otherwise

(i) fixed,

(ii) limited to a maximum, or

(iii) established to be not less than a minimum,

but does not include a share that is at the particular time a prescribed share, a term preferred share, a share

described in paragraph (*e*) of the definition "term preferred share" in this subsection during the applicable time period referred to in that paragraph or a taxable preferred share and, for the purposes of this definition,

(*c*) the dividend entitlement of a share of the capital stock of a corporation shall be deemed not to be fixed, limited to a maximum or established to be not less than a minimum where all dividends on the share are determined solely by reference to the dividend entitlement of another share of the capital stock of the corporation or of another corporation that controls the corporation that would not be a taxable preferred share if

(i) the definition "taxable preferred share" in this subsection were read without reference to paragraph (*f*) of that definition,

(ii) the other share were issued after June 18, 1987, and

(iii) the other share were not a grandfathered share, a prescribed share or a share described in paragraph (*e*) of the definition "term preferred share" in this subsection,

(*d*) the liquidation entitlement of a share of the capital stock of a corporation shall be deemed not to be fixed, limited to a maximum or established to be not less than a minimum where all the liquidation entitlement is determinable solely by reference to the liquidation entitlement of another share of the capital stock of the corporation or of another corporation that controls the corporation that would not be a taxable preferred share if

(i) the definition "taxable preferred share" in this subsection were read without reference to paragraph (*f*) of that definition,

(ii) the other share were issued after June 18, 1987, and

(iii) the other share were not a grandfathered share, a prescribed share or a share described in paragraph (*e*) of the definition "term preferred share" in this subsection, and

(*e*) where

(i) it may reasonably be considered that the dividends that may be declared or paid to a shareholder at any time on a share (other than a prescribed share or a share described in paragraph (*e*) of the definition "term preferred share" in this subsection during the applicable time period referred to in that paragraph) of the capital stock of a corporation issued after December 15, 1987 or acquired after June 15, 1988 are derived primarily from dividends received on taxable RFI shares of the capital stock of another corporation, and

(ii) it may reasonably be considered that the share was issued or acquired as part of a transaction or event or series of transactions or events one of the main purposes of which was to avoid or limit the application of Part IV.1,

the share shall be deemed at that time to be a taxable RFI share;

Related Sections: S. 248(10) Series of transactions.
Regulations: 6201(4); 6201(5), (10), (11).

"taxpayer" — "taxpayer" includes any person whether or not liable to pay tax;

Cases: The Supreme Court of Canada denied a Part I deduction premised on the assumption that a non-resident company was a "taxpayer", although the company was clearly subject to non-resident withholding tax *Lea-Don Canada Ltd. v. M.N.R.*, 70 DTC 6271 (S.C.C.).

Tax-paid undistributed surplus on hand — [Repealed by 1977-78, c. 1, s. 98(6).]

"term preferred share" — "term preferred share" of a corporation (in this definition referred to as the "issuing corporation") means a share of a class of the capital stock of the issuing corporation if the share was issued or acquired after June 28, 1982 and, at the time the share was issued or acquired, the existence of the issuing corporation was, or there was an arrangement under which it could be, limited or, in the case of a share issued after November 16, 1978 if

(*a*) under the terms or conditions of the share, any agreement relating to the share or any modification of those terms or conditions or that agreement,

(i) the owner thereof may cause the share to be redeemed, acquired or cancelled (unless the owner of the share may cause the share to be redeemed, acquired or cancelled by reason only of a right to convert or exchange the share) or cause its paid-up capital to be reduced,

(ii) the issuing corporation or any other person or partnership is or may be required to redeem, acquire or cancel, in whole or in part, the share (unless the requirement to redeem, acquire or cancel the share arises by reason only of a right to convert or exchange the share) or to reduce its paid-up capital,

(iii) the issuing corporation or any other person or partnership provides or may be required to provide any form of guarantee, security or similar indemnity or covenant (including the lending of funds to or the placing of amounts on deposit with, or on behalf of, the holder thereof or any person related thereto) with respect to the share, or

(iv) the share is convertible or exchangeable unless

(A) it is convertible into or exchangeable for

(I) another share of the issuing corporation or a corporation related to the issuing corporation that, if issued, would not be a term preferred share,

(II) a right or warrant that, if exercised, would allow the person exercising it to acquire only a share of the issuing corporation or a corporation related to the issuing corporation that, if issued, would not be a term preferred share, or

(III) both a share described in subclause (I) and a right or warrant described in subclause (II), and

(B) all the consideration receivable for the share on the conversion or exchange is the share described in subclause (A)(I) or the right or warrant described in subclause (A)(II) or both, as the case may be, and, for the purposes of this clause, where a taxpayer may become entitled

on the conversion or exchange of a share to receive any particular consideration (other than consideration described in any of subclauses (A)(I) to (III)) in lieu of a fraction of a share, the particular consideration shall be deemed not to be consideration unless it may reasonably be considered that the particular consideration was receivable as part of a series of transactions or events one of the main purposes of which was to avoid or limit the application of subsection 112(2.1) or 258(3), or

(*b*) the owner thereof acquired the share after October 23, 1979 and is

(i) a corporation described in any of paragraphs (*a*) to (*e*.1) of the definition "specified financial institution",

(ii) a corporation that is controlled by one or more corporations described in subparagraph (i),

(iii) a corporation that acquired the share after December 11, 1979 and is related to a corporation referred to in subparagraph (i) or (ii), or

(iv) a partnership or trust of which a corporation referred to in subparagraph (i) or (ii) or a person related thereto is a member or a beneficiary,

that (either alone or together with any of such corporations, partnerships or trusts) controls or has an absolute or contingent right to control or to acquire control of the issuing corporation,

but does not include a share of the capital stock of a corporation

(*c*) that was issued after November 16, 1978 and before 1980 pursuant to an agreement in writing to do so made before November 17, 1978 (in this definition referred to as an "established agreement"),

(*d*) that was issued as a stock dividend

(i) before April 22, 1980 on a share of the capital stock of a public corporation that was not a term preferred share, or

(ii) after April 21, 1980 on a share that was, at the time the stock dividend was paid, a share prescribed for the purposes of paragraph (*f*),

(*d*.1) that is listed on a designated stock exchange in Canada and was issued before April 22, 1980 by

(i) a corporation referred to in any of paragraphs (*a*) to (*d*) of the definition "specified financial institution" in this subsection,

(ii) a corporation whose principal business is the lending of money or the purchasing of debt obligations or a combination thereof, or

(iii) an issuing corporation associated with a corporation described in subparagraph (i) or (ii),

(*e*) for a period not exceeding ten years and, in the case of a share issued after November 12, 1981, for a period not exceeding five years, from the date of its issuance, which share was issued by a corporation resident in Canada,

(i) as part of a proposal to, or an arrangement with, its creditors that had been approved by a court under the *Bankruptcy and Insolvency Act*,

(ii) at a time when all or substantially all of its assets were under the control of a receiver, receiver-manager, sequestrator or trustee in bankruptcy, or

(iii) at a time when, by reason of financial difficulty, the issuing corporation or another corporation resident in Canada with which it does not deal at arm's length was in default, or could reasonably be expected to default, on a debt obligation held by a person with whom the issuing corporation or the other corporation was dealing at arm's length and the share was issued either wholly or in substantial part and either directly or indirectly in exchange or substitution for that obligation or a part thereof,

and, in the case of a share issued after November 12, 1981, the proceeds from the issue may reasonably be regarded as having been used by the issuing corporation or a corporation with which it was not dealing at arm's length in the financing of its business carried on in Canada immediately before the share was issued,

(*f*) that is a prescribed share, or

(*f*.1) that is a taxable preferred share held by a specified financial institution that acquired the share

(i) before December 16, 1987, or

(ii) before 1989 pursuant to an agreement in writing entered into before December 16, 1987,

other than a share deemed by paragraph (*c*) of the definition "short-term preferred share" in this subsection or by paragraph (*i*.2) to have been issued after December 15, 1987 or a share that would be deemed by paragraph (*e*) of the definition "taxable preferred share" in this subsection to have been issued after December 15, 1987 if the references therein to "8:00 p.m. Eastern Daylight Saving Time, June 18, 1987" were read as references to "December 15, 1987",

and, for the purposes of this definition,

(*g*) where the terms or conditions of an established agreement were amended after November 16, 1978, the agreement shall be deemed to have been made after that date,

(*h*) where

(i) at any particular time the terms or conditions of a share issued pursuant to an established agreement or of any agreement relating to such a share have been changed,

(ii) under the terms or conditions of

(A) a share of a class of the capital stock of the issuing corporation issued before November 17, 1978 (other than a share that was listed on November 16, 1978 on a prescribed stock exchange in Canada),

(B) a share issued pursuant to an established agreement,

(C) any agreement between the issuing corporation and the owner of a share described in clause (A) or (B), or

(D) any agreement relating to a share described in clause (A) or (B) made after October 23, 1979,

the owner thereof could at any particular time after November 16, 1978 require, either alone or together with one or more taxpayers, the redemption, acquisition, cancellation, conversion or

reduction of the paid-up capital of the share otherwise than by reason of a failure or default under the terms or conditions of the share or any agreement that related to, and was entered into at the time of, the issuance of the share,

(iii) in respect of a share issued before November 17, 1978, at any particular time after November 16, 1978 the redemption date was extended or the terms or conditions relating to its redemption, acquisition, cancellation, conversion or reduction of its paid-up capital were changed,

(iv) at a particular time after October 23, 1979 and before November 13, 1981, a specified financial institution (or a partnership or trust of which a specified financial institution or a person related to the institution is a member or beneficiary) acquired a share that

(A) was issued before November 17, 1978 or under an established agreement,

(B) was issued to a person other than a corporation that was, at the time of issue,

(I) described in any of paragraphs (*a*) to (*e*) of the definition "specified financial institution", or

(II) a corporation that was controlled by one or more corporations described in subclause (I) and, for the purpose of this subclause, one corporation is controlled by another corporation if more than 50% of its issued share capital (having full voting rights under all circumstances) belongs to the other corporation, to persons with whom the other corporation does not deal at arm's length, or to the other corporation and persons with whom the other corporation does not deal at arm's length,

(C) was acquired from a person that was, at the particular time, a person other than a corporation described in subclause (B)(I) or (II), and

(D) was acquired otherwise than under an agreement in writing made before October 24, 1979,

(v) at any particular time after November 12, 1981

(A) in respect of

(I) a share (other than a share referred to in paragraph (*e*) or a share listed on November 13, 1981 on a prescribed stock exchange in Canada) issued after November 16, 1978 and before November 13, 1981, or

(II) a share issued after November 12, 1981 and before 1983 pursuant to an agreement in writing to do so made before November 13, 1981 (in this definition referred to as a "specified agreement")

the owner thereof could require, either alone or together with one or more taxpayers, the redemption, acquisition, cancellation, conversion or reduction of the paid-up capital of the share otherwise than by reason of a failure or default under the terms or conditions of the share or any agreement that related to, and was entered into at the time of, the issuance of the share, or

(B) the redemption date of

(I) a share issued after November 16, 1978 and before November 13, 1981 or

(II) a share issued pursuant to a specified agreement

was extended or the terms or conditions relating to its redemption, acquisition, cancellation, conversion or reduction of its paid-up capital were changed, or

(vi) at a particular time after November 12, 1981, a specified financial institution (or a partnership or trust of which a specified financial institution or a person related to the institution is a member or beneficiary) acquired a share (other than a share referred to in paragraph (*e*)) that

(A) was issued before November 13, 1981 or under a specified agreement,

(B) was acquired from a partnership or person, other than a person that was, at the particular time, a corporation described in any of paragraphs (*a*) to (*f*) of the definition "specified financial institution" in this subsection,

(C) was acquired in an acquisition that was not subject to nor conditional on a guarantee agreement, within the meaning assigned by subsection 112(2.2), entered into after November 12, 1981, and

(D) was acquired otherwise than under an agreement in writing made before October 24, 1979 or a specified agreement,

the share shall, for the purposes of determining at any time after the particular time whether it is a term preferred share, be deemed to have been issued at the particular time otherwise than pursuant to an established or specified agreement,

(*i*) where the terms or conditions of a share of the capital stock of the issuing corporation are modified or established after June 28, 1982 and as a consequence thereof the issuing corporation, any person related thereto or any partnership or trust of which the issuing corporation or a person related thereto is a member or a beneficiary may reasonably be expected at any time to redeem, acquire or cancel, in whole or in part, the share or to reduce its paid-up capital, the share shall be deemed as from the date of the modification or as from the date of the establishment, as the case may be, to be a share described in paragraph (*a*),

(*i*.1) where

(i) it may reasonably be considered that the dividends that may be declared or paid at any time on a share (other than a prescribed share or a share described in paragraph (*e*) during the applicable time period referred to in that paragraph) of the capital stock of a corporation issued after December 15, 1987 or acquired after June 15, 1988 are derived primarily from dividends received on term preferred shares of the capital stock of another corporation, and

(ii) it may reasonably be considered that the share was issued or acquired as part of a transaction or event or series of transactions or events one of the main purposes of which was to avoid or limit the application of subsection 112(2.1) or 138(6),

the share shall be deemed at that time to be a term preferred share acquired in the ordinary course of business,

(*i.2*) where at any particular time after December 15, 1987, otherwise than pursuant to a written arrangement to do so entered into before December 16, 1987, the terms or conditions of a taxable preferred share of the capital stock of a corporation relating to any matter referred to in subparagraphs (*a*)(i) to (iv) have been modified or established, or any agreement in respect of the share relating to any such matter has been changed or entered into by the corporation or a specified person (within the meaning assigned by paragraph (*h*) of the definition "taxable preferred share" in this subsection) in relation to the corporation, the share shall be deemed after that particular time to have been issued at that particular time, and,

(*j*) where a particular share of the capital stock of a corporation has been issued or its terms and conditions have been modified and it may reasonably be considered, having regard to all circumstances (including the rate of interest on any debt or the dividend provided on any term preferred share), that

(i) but for the existence at any time of the debt or the term preferred share, the particular share would not have been issued or its terms or conditions modified, and

(ii) one of the main purposes for the issue of the particular share or for the modification of its terms or conditions was to avoid a limitation provided by subsection 112(2.1) or 138(6) in respect of a deduction,

the particular share shall be deemed after December 31, 1982 to be a term preferred share of the corporation;

History: S. 248(1), paragraph (*d.1*) of the definition "term preferred share" was amended by S.C. 2007, c. 35, s. 68(1), by replacing "prescribed stock exchange" with "designated stock exchange", applicable on and after December 14, 2007.

S. 248(1), subparagraph (*h*)(vi) of the definition "term preferred share" was amended by S.C. 1999, c. 22, s. 80(11), applicable to taxation years that begin after 1998 except that, in its application to a share acquired from a corporation that last acquired the share in a taxation year that began before 1999, the expression "described in any of paragraphs (*a*) to (*f*) of the definition 'specified financial institution' in this subsection," in clause (*h*)(vi)(B) of the definition "term preferred share" in subsection 248(1) of the Act, as enacted by subsection (11), shall be read as "described in subclause (iv)(B)(I) or (II)". S. 248(1), subparagraph (*h*)(vi) of the definition "term preferred share" formerly read:

"(vi) a share (other than a share referred to in paragraph (*e*)) issued before November 13, 1981 or a share issued pursuant to a specified agreement is, at any particular time after November 12, 1981, acquired (otherwise than pursuant to an agreement in writing made before October 24, 1979 or otherwise than pursuant to a specified agreement) from a partnership or person (other than an acquisition from a corporation described in any of paragraphs (*a*) to (*f*) of the definition 'specified financial institution' in this subsection where that acquisition is neither subject to nor conditional on a guarantee agreement, within the meaning assigned by subsection 112(2.2), entered into after November 12, 1981) by a specified financial institution or by a partnership or trust of which a specified financial institution or a person related thereto is a member or a beneficiary,"

S. 248(1), subparagraph (*h*)(iv) of the definition "term preferred share" was amended by S.C. 1999, c. 22, s. 80(10), applicable to taxation years that begin after 1998. S. 248(1), subparagraph (*h*)(iv) of the definition "term preferred share" formerly read:

"(iv) a share issued before November 17, 1978 or a share issued pursuant to an established agreement (other than a share issued to a corporation described in any of paragraphs (*a*) to (*f*) of the definition 'specified financial institution' in this subsection), is, at any particular time after October 23, 1979 and before November 13, 1981 acquired (otherwise than pursuant to an agreement in writing made before October 24, 1979) from a person (other than a corporation described in any of paragraphs (*a*) to (*f*) of that definition) by a specified financial institution or by a partnership or trust of which a specified financial institution or a person related thereto is a member or a beneficiary,"

S. 248(1), subparagraph (*b*)(i) of the definition "term preferred share" was amended by S.C. 1999, c. 22, s. 80(9), applicable to taxation years that begin after 1998. S. 248(1), subparagraph (*b*)(i) of the definition "term preferred share" formerly read:

"(i) a corporation described in any of paragraphs (*a*) to (*e*) of the definition 'specified financial institution' in this subsection,"

S. 248(1), subparagraph (*d.1*) of the definition of "term preferred share", was amended by S.C. 1998, c. 19, s. 239(5), applicable after February 22, 1994. Subparagraph (*d.1*) of the definition of "term preferred share" formerly read:

"(*d.1*) that was issued before April 22, 1980 by a corporation described in any of paragraphs 39(5)(*b*) to (*f*) or by an issuing corporation associated with any such corporation and is listed on a prescribed stock exchange in Canada,"

S. 248(1), subparagraph (*e*)(i) of the definition "term preferred share", was amended by S.C. 1994, c. 7, Sched. V, s. 90(1), to change "*Bankruptcy Act*" to "*Bankruptcy and Insolvency Act*", deemed to have come into force on November 30, 1992.

S. 248(1), paragraph (*a*) of the definition "term preferred share", was amended by S.C. 1994, c. 7, Sched. II, s. 192(13), to add the word "or" at the end, applicable after June 18, 1987.

Related Sections: S. 87(4.1) Exchanged shares — amalgamations after November 16, 1978; s. 248(10) Series of transactions.
Regulations: 3200; 6201(1)–(3), (5), (6), (8)–(11).
Interpretation Bulletins: *Secondary* — IT-527 Distress preferred shares.
Advance Tax Rulings: ATR-5 Preferred shares exchangeable for common shares; ATR-10 Issue of term preferred shares; ATR-18 Term preferred shares.
Canadian Tax Foundation: Hanly and McCay, "'Convertible Preferred Shares Not Term Preferred Shares', in 'Current Cases' feature", *2001 Canadian Tax Journal*, No.2, 368; Moskowitz, "The Preferred Share Rules: Yes, They Can Apply to You!", *1997 Conference Report*, 9:1.
Cases: The taxpayer acquired preferred shares that included the right to convert to common shares at a ratio determined at the time of conversion. The conversion right did not constitute a "form of guarantee, security or similar indemnity or covenant". Therefore the shares were not "term preferred shares" and the taxpayer was entitled to deduct the dividends received thereon. *The Queen v. Citibank Canada*, 2002 DTC 6876 (F.C.A.), affirming 2001 DTC 111 (T.C.C.).

Termination payment — [Repealed by 1980-81-82-83, c. 140, s. 128(13).]

"*testamentary trust*" — "testamentary trust" has the meaning assigned by subsection 108(1);

Related Sections: S. 248(3) Rules applicable in relation to the Province of Quebec.

"*TFSA*" — "TFSA", being a tax-free savings account, has the meaning assigned by subsection 146.2(5);

History: S. 248(1), the definition "TFSA" was replaced by S.C. 2009, c. 2, s. 76(2), applicable to the 2009 and subsequent taxation years. S. 248(1), the definition "TFSA" formerly read:

" '*TFSA*' — 'TFSA', being a tax-free savings account, has the meaning assigned by subsection 146.2(3);"

S. 248(1), the definition "TFSA" was added by S.C. 2008, c. 28, s. 34(3), applicable to the 2009 and subsequent taxation years.

"*timber resource property*" — "timber resource property" has the meaning assigned by subsection 13(21);

"*total pension adjustment reversal*" — "total pension adjustment reversal" of a taxpayer for a calendar year has the meaning assigned by regulation;

History: S. 248(1), the definition "total pension adjustment reversal" was added by S.C. 1998, c. 19, s. 66(3), applicable after 1996.

Related Sections: S. 146(1), "RRSP deduction limit"; s. 147.1(18) Regulations; s. 204.2(1.1) Cumulative excess amount in respect of RRSPs.
Regulations: 8304.1

"*Treasury Board*" — "Treasury Board" means the Treasury Board established by section 5 of the *Financial Administration Act*;

"*treaty-protected business*" — "treasury-protected business" of a taxpayer at any time means a business in respect of which any income of the taxpayer for a period that

includes that time would, because of a tax treaty with another country, be exempt from tax under Part I;

History: S. 248(1), the definition "treaty-protected business" was added by S.C. 1999, c. 22, s. 80(12), applicable to the 1998 and subsequent taxation years.

Related Sections: S. 111(9) Exception; s. 115(1) Non-resident's taxable income in Canada; s. 248(1), "treaty-protected property".
Forms: T2 SCH 91.

"treaty-protected property" — "treaty-protected property" of a taxpayer at any time means property any income or gain from the disposition of which by the taxpayer at that time would, because of a tax treaty with another country, be exempt from tax under Part I;

History: S. 248(1), the definition "treaty-protected property" was added by S.C. 1999, c. 22, s. 80(12), applicable to the 1998 and subsequent taxation years.

Related Sections: S. 13(4.1) Replacement for a former property; s. 44(5) Replacement property; s. 80(1), "excluded property"; s. 111(9) Exception; s. 115(1) Non-resident's taxable income in Canada; s. 128.1(1)(c.1) Deemed dividend to immigrating corporation; s. 248(1), "treaty-protected business".
Forms: T2 SCH 91.

"trust" — "trust" has the meaning assigned by subsection 104(1);

Related Sections: S. 248(3) Rules applicable in relation to the Province of Quebec.

"undepreciated capital cost" — "undepreciated capital cost" to a taxpayer of depreciable property of a prescribed class has the meaning assigned by subsection 13(21);

"unit trust" — "unit trust" has the meaning assigned by subsection 108(2);

"unused RRSP deduction room" — "unused RRSP deduction room" of a taxpayer at the end of a taxation year has the meaning assigned by subsection 146(1);

"unused scientific research and experimental development tax credit" — "unused scientific research and experimental development tax credit" of a taxpayer for a taxation year has the meaning assigned by subsection 127.3(2);

History: The above definition was not part of the former Act.

"unused share-purchase tax credit" — "unused share-purchase tax credit" of a taxpayer for a taxation year has the meaning assigned by subsection 127.2(6).

History: The above definition was not part of the former Act.

1971 capital surplus on hand — [Repealed by 1977-78, c. 1, s. 98(7).]

1971 undistributed income on hand — [Repealed by 1977-78, c. 1, s. 98(7).]

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 248 of the Act is amended by adding the following after subsection (1):

(1.1) **Non-disposition before December 24, 1998.** A redemption, an acquisition or a cancellation, at any particular time after 1971 and before December 24, 1998, of a share or of a right to acquire a share (which share or which right, as the case may be, is referred to in this subsection as the "security") of the capital stock of a corporation (referred to in this subsection as the "issuing corporation") held by another corporation (referred to in this subsection as the "disposing corporation") is not a disposition (within the meaning of the definition "disposition" in section 54 as that section read in its application to transactions and events that occurred at the particular time) of the security if

(*a*) the redemption, acquisition or cancellation occurred as part of a merger or combination of two or more corporations (including the issuing corporation and the disposing corporation) to form one corporate entity (referred to in this subsection as the "new corporation");

(*b*) the merger or combination

(i) is an amalgamation (within the meaning assigned by subsection 87(1) as it read at the particular time) to which subsection 87(11) if in force, and as it read, at the particular time did not apply,

(ii) is an amalgamation (within the meaning assigned by subsection 87(1) as it read at the particular time) to which subsection 87(11) if in force, and as it read, at the particular time applies, if the issuing corporation and the disposing corporation are described by subsection 87(11) (if in force, and as it read, at the particular time) as the parent and the subsidiary, respectively,

(iii) occurred before November 13, 1981 and is a merger of corporations that is described by subsection 87(8) (as it read in respect of the merger or combination), or

(iv) occurred after November 12, 1981 and

(A) is a foreign merger (within the meaning assigned by subsection 87(8.1) as it read in respect of the merger or combination), or

(B) all of the following conditions are met, namely

(I) the merger or combination is not a foreign merger (within the meaning assigned by subsection 87(8.1) as it read in respect of the merger or combination),

(II) subsection 87(8.1), as it read in respect of the merger or combination, contained a subparagraph (*c*)(ii), and

(III) the merger or combination would be a foreign merger (within the meaning of subsection 87(8.1), as it read in respect of the merger or combination) if that subparagraph 87(8.1)(*c*)(ii) were read as follows:

"(ii) if, immediately after the merger, the new foreign corporation was controlled by another foreign corporation (in this subsection referred to as the 'parent corporation'), shares of the capital stock of the parent corporation,"and

(*c*) either

(i) the disposing corporation received no consideration for the security, or

(ii) in the case where the merger or combination is described by subparagraph (*b*)(iv), the disposing corporation received no consideration for the security other than property that was, immediately before the merger or combination, owned by the issuing corporation and that, on the merger or combination, became property of the new corporation.

Applicable: In applying subsection 248(1.1) to a particular redemption, acquisition or cancellation, any assessment of a taxpayer's tax, interest and penalties payable under the Act for a taxation year that includes the time at which the particular redemption, acquisition or cancellation occurred shall, notwithstanding subsections 152(4) to (5) of the Act, be made that is necessary to take into account the application of [the addition of subsection 248(1.1)].

Explanatory Note:

Non-Disposition Before December 24, 1998

The definition "disposition" was added to subsection 248(1) of the Act by S.C. 2001, chapter 17, subsection 188(5) [formerly Bill C-22]. In general, that definition applies to transactions and events that occur after December 23, 1998. The former definition "disposition" was contained in section 54 of the Act, applicable to transactions and events that occurred before December 24, 1998.

New paragraph (*n*) is added to the definition "disposition" in subsection 248(1), applicable to redemptions, acquisitions and cancellations of certain securities that occur after December 23,

1998. For more detail, see the commentary to subsection 248(1).

New subsection 248(1.1) of the Act is added to deal, in a corresponding fashion, with such redemptions, acquisitions and cancellations that occurred before December 24, 1998.

New subsection 248(1.1) provides that a redemption, an acquisition or a cancellation, at any particular time after 1971 and before December 24, 1998, of a share or of a right to acquire a share (which share or which right, as the case may be, is referred to as the "security") of the capital stock of a corporation (referred to as the "issuing corporation") held by another corporation (referred to as the "disposing corporation") is not a disposition of the security within the meaning of the definition "disposition" in section 54 (as that section read in its application to transactions and events that occur at the particular time), if

- the redemption, acquisition or cancellation occurred as part of a particular merger or combination of two or more corporations (including the issuing corporation and the disposing corporation) to form one corporate entity (referred to as the "new corporation"),
- the particular merger or combination
  - is an amalgamation (within the meaning assigned by subsection 87(1) of the Act as it read at the particular time) to which subsection 87(11) of the Act if in force, and as it read, at the particular time did not apply,
  - is an amalgamation (within the meaning assigned by subsection 87(1) as it read at the particular time) to which subsection 87(11) if in force, and as it read, at the particular time applies, if the issuing corporation and the disposing corporation are described by subsection 87(11) (if in force, and as it read, at the particular time) as the parent and the subsidiary, respectively,
  - occurred before November 13, 1981 and is a merger of corporations that is described by subsection 87(8) (as it read in respect of the particular merger or combination), or
  - is a merger or combination of non-resident corporations (referred to in these Notes as a "subject merger") that occurred after November 12, 1981 and
    - is a foreign merger (within the meaning assigned by subsection 87(8.1) as it read in respect of the particular merger or combination), or
    - all of the following conditions are met, namely
      - 1. the particular merger or combination is not a foreign merger (within the meaning assigned by subsection 87(8.1) as it read in respect of the particular merger or combination),
      - 2. subsection 87(8.1), as read in respect of the particular merger or combination, contained a subparagraph (c)(ii), and
      - 3. the particular merger or combination would be a foreign merger (within the meaning of subsection 87(8.1), as it read in respect of the particular merger or combination) if that subparagraph 87(8.1)(c)(ii) were read as follows:

        "(ii) if, immediately after the merger, the new foreign corporation was controlled by another foreign corporation (in this subsection referred to as the "parent corporation"), shares of the capital stock of the parent corporation," and
- either
  - the disposing corporation received no consideration for the security, or
  - in the case where the particular merger or combination is a subject merger, the disposing corporation received no consideration for the security other than property that was, immediately before the particular merger or combination, owned by the issuing corporation and that, on the particular merger or combination, became property of the new corporation.

New subsection 248(1.1) applies on Royal Assent and, notwithstanding subsections 152(4) to (5) of the Act, the Minister of National Revenue may make any assessment of a taxpayer's tax, interest and penalties payable under the Act for a taxation year that includes the time at which a redemption, acquisition or cancellation occurred that is necessary to take into account the application of new subsection 248(1.1) in respect of the redemption, acquisition or cancellation.

► 248(2) ◄

(2) Tax payable. In this Act, the tax payable by a taxpayer under any Part of this Act by or under which provision is made for the assessment of tax means the tax payable by the taxpayer as fixed by assessment or reassessment subject to variation on objection or on appeal, if any, in accordance with the provisions of that Part.

► 248(3) ◄

(3) Property subject to certain Quebec institutions and arrangements. For the purposes of this Act, if property is subject to an institution or arrangement that is described by this subsection and that is governed by the laws of the Province of Quebec, the following rules apply in respect of the property:

(*a*) if at any time property is subject to a usufruct, right of use or habitation, or substitution,

(i) the usufruct, right of use or habitation, or substitution, as the case may be, is deemed to be at that time

(A) a trust, and

(B) where the usufruct, right of use or habitation, or substitution, as the case may be, is created by will, a trust created by will,

(ii) the property is deemed

(A) where the usufruct, right of use or habitation, or substitution, as the case may be, arises on the death of a testator, to have been transferred to the trust on and as a consequence of the death of the testator, and not otherwise, and

(B) where the usufruct, right of use or habitation, or substitution, as the case may be, arises otherwise, to have been transferred (at the time it first became subject to the usufruct, right of use or habitation, or substitution, as the case may be) to the trust by the person that granted the usufruct, right of use or habitation, or substitution, and

(iii) the property is deemed to be, throughout the period in which it is subject to the usufruct, right of use or habitation, or substitution, as the case may be, held by the trust, and not otherwise;

(*b*) an arrangement (other than a partnership, a qualifying arrangement or an arrangement that is a trust determined without reference to this paragraph) is deemed to be a trust and property subject to rights and obligations under the arrangement is, if the arrangement is deemed by this paragraph to be a trust, deemed to be held in trust and not otherwise, where the arrangement

(i) is established before October 31, 2003 by or under a written contract that

(A) is governed by the laws of the Province of Quebec, and

(B) provides that, for the purposes of this Act, the arrangement shall be considered to be a trust, and

(ii) creates rights and obligations that are substantially similar to the rights and obligations under a trust (determined without reference to this subsection);

(*c*) if the arrangement is a qualifying arrangement,

(i) the arrangement is deemed to be a trust,

(ii) any property contributed at any time to the arrangement by an annuitant, a holder or a subscriber of the arrangement, as the case may be, is deemed to have been transferred, at that time, to the trust by the contributor, and

(iii) property subject to rights and obligations under the arrangement is deemed to be held in trust and not otherwise;

(*d*) a person who has a right (whether immediate or future and whether absolute or contingent) to receive all or part of the income or capital in respect of property that is referred to in paragraph (*a*) or (*b*) is deemed to be beneficially interested in the trust; and

(*e*) notwithstanding that a property is at any time subject to a servitude, the property is deemed to be beneficially owned by a person at that time if, at that time, the person has in relation to the property

(i) the right of ownership,

(ii) a right as a lessee under an emphyteusis, or

(iii) a right as a beneficiary in a trust.

History: S. 248(3) was replaced by S.C. 2009, c. 2, s. 76(5), applicable to taxation years that begin after October 30, 2003 except that for taxation years that end before 2008, subparagraph 248(3)(*c*)(ii) shall be read without reference to the expression "a holder".

For taxation years that begin after 1988 and before October 31, 2003, paragraph 248(3)(*d*) shall, in its application to each arrangement that is entered into between an individual and a corporation licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering to the public its services as trustee and that is accepted by the Minister for registration under section 146 or 146.3, be read without reference to

(*a*) clause (i)(B) of that paragraph, if the arrangement is presented as a declaration of trust but does not provide that, for the purposes of the Act, the arrangement shall be considered to be a trust; and

(*b*) subparagraph (ii) of that paragraph.

S. 248(3) formerly read:

"(3) *Rules applicable in relation to the Province of Quebec.* For the purposes of the application of this Act in relation to the Province of Quebec,

(*a*) a usufruct shall be deemed to be a trust, created by will where the usufruct was so established, and property subject to a usufruct shall be deemed to have been transferred to the trust, on the death of the testator and as a consequence thereof where the usufruct arises on death, and to be held in trust and not otherwise;

(*b*) a right of use or habitation shall be deemed to be a trust, created by will where the right was so established, and property subject to such a right shall be deemed to have been transferred to the trust, on the death of the testator and as a consequence thereof where the right arises on death, and to be held in trust and not otherwise;

(*c*) a substitution shall be deemed to be a trust, created by will where the substitution was so established, and property subject to a substitution shall be deemed to have been transferred to the trust, on the death of the testator and as a consequence thereof where the substitution arises on death, and to be held in trust and not otherwise;

(*d*) property subject to rights and obligations under an arrangement (other than a trust) that

(i) is established by or under a written contract that

(A) is governed by the laws of the Province of Quebec, and

(B) provides that, for the purposes of this Act, the arrangement shall be considered to be a trust, and

(ii) creates rights and obligations that are substantially similar to the rights and obligations under a trust (determined without reference to this subsection),

shall be deemed to be held in trust and not otherwise, and such an arrangement shall be deemed to be a trust;

(*e*) a person who has a right (whether immediate or future and whether absolute or contingent) to receive all or any part of the income or capital in respect of property referred to in paragraph (*a*), (*b*), (*c*) or (*d*) shall be deemed to be beneficially interested in the trust referred to in that paragraph; and

(*f*) property in relation to which any person has, at any time,

(i) the right of ownership,

(ii) a right as a lessee in an emphyteutic lease, or

(iii) a right as a beneficiary in a trust

shall, notwithstanding that such property is subject to a servitude, be deemed to be beneficially owned by the person at that time."

S.C. 1994, c. 7, Sched. VIII, s. 159, reproduced below, deems certain elections referred to in the application provision immediately below of s. 248(3), contained in S.C. 1994, c. 7, Sched. II, s. 192(35), to have been made before 1992.

S. 248(3) was amended by S.C. 1994, c. 7, Sched. II, s. 192(15), applicable

(*a*) after 1990 with respect to property the ownership of which was acquired after 1990;

(*b*) after 1990 with respect to property that became subject to a usufruct, a right of use or habitation, a substitution, an emphyteutic lease or a trust after 1990;

(*c*) after 1989 with respect to property that became subject to a usufruct, a right of use or habitation or a substitution after 1989 and before 1991, where the persons who so acquired interests in the property elected jointly by notifying the Minister of National Revenue in writing before 1992; and

(*d*) to the 1989 and subsequent taxation years with respect to property that became subject to an arrangement referred to in paragraph 248(3)(*d*) in the 1989 or any subsequent taxation year.

S. 248(3) formerly read:

"(3) *References to property beneficially owned and to beneficial owner of property.* In its application in relation to the Province of Quebec, a reference in this Act to any property that is or was beneficially owned by any person shall be read as including a reference to property in relation to which any person has or had the full ownership whether or not the property is or was subject to a servitude, or has or had a right as a usufructuary, a lessee in an emphyteutic lease, an institute in a substitution or a beneficiary in a trust, and a reference in this Act to the beneficial owner of any property shall be read as including a reference to a person who has or had, accordingly as the context requires, such ownership as a right in relation to that property."

Related Sections: S. 108(1), "beneficiary", "trust".

Interpretation Bulletins: *Secondary* — IT-437R Ownership of property (principal residence).

Tax Profile: December 2003 — Non-Resident Trust Rules To Apply To Usufructs And Foundations.

Canadian Tax Foundation: Brender, "Beneficial Ownership in Canadian Income Tax Law: Required Reform and Impact on Harmonization of Quebec Civil Law", *2003 Canadian Tax Journal*, No. 1, 311.

Sec. 159, Chap. 7, Sched. VIII, S.C. 1994

Sec. 159. [Deemed date of elections and requests.] Where an election or request referred to in subsection [... 192(35) of S.C. 1994, c. 7, Sched. II, which established the application date for subsections 248(3)] was made before December 11, 1993, the election or request shall be deemed to have been made before 1992.

► 248(3.1) ◄

(3.1) Gift of bare ownership of immovables. Subsection (3) does not apply in respect of a usufruct or a right of use of an immovable in circumstances where a taxpayer disposes of the bare ownership of the immovable by way of a gift to a donee described in the definition "total charitable gifts", "total Crown gifts" or "total ecological gifts" in subsection 118.1(1) and retains, for life, the usufruct or the right of use.

History: S. 248(3.1) was added by S.C. 2009, c. 2, s. 76(5), applicable to dispositions that occur after July 18, 2005.

► 248(3.2) ◄

(3.2) Qualifying arrangement. For the purposes of paragraphs 248(3)(*b*) and (*c*), an arrangement is a qualifying arrangement if it is

(*a*) entered into with a corporation that is licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering to the public its services as trustee;

(*b*) established by or under a written contract that is governed by the laws of the Province of Quebec;

(*c*) presented as a declaration of trust or provides that, for the purposes of this Act, it shall be considered to be a trust; and

(*d*) presented as an arrangement in respect of which the corporation is to take action for the arrangement to become a registered disability savings plan,

a registered education savings plan, a registered retirement income fund, a registered retirement savings plan or a TFSA.

History: S. 248(3.2) was added by S.C. 2009, c. 2, s. 76(5), applicable to taxation years that begin after October 30, 2003 except that for taxation years that end before 2008, paragraph 248(3.2)(*d*) shall be read without reference to registered disability savings plans and TFSAs; and for taxation years that end in 2008, paragraph 248(3.2)(*d*) shall be read without reference to TFSAs.

► 248(4) ◄

(4) Interest in real property. In this Act, an interest in real property includes a leasehold interest in real property but does not include an interest as security only derived by virtue of a mortgage, hypothecary claim, agreement for sale or similar obligation.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 248(4) of the Act is replaced by the following:

(4) Interest in real property. In this Act, an interest in real property includes a leasehold interest in real property but does not include an interest as security only derived by virtue of a mortgage, agreement for sale or similar obligation.

(4.1) Real right in immovables. In this Act, a real right in an immovable includes a lease but does not include a security right derived by virtue of a hypothec, agreement for sale or similar obligation.

Applicable: Royal Assent.

Explanatory Note: Subsections 248(4) and 248(4.1): Interest in Real Property and Real Right in Immovables

Subsection 248(4) of the current legislation uses the term "*droit sur un bien immeuble*" in the French version as equivalent for the term "interest in real property" used in the English version. The term refers to the relationship between a person and property and for purposes of the I.T.A. includes a leasehold interest but not an interest as security.

Subsection 248(4) is amended so as to provide, for common law purposes, the scope of the term "interest in real property." Reference to the civil law term "hypothecary claim" is removed from the English version of the provision. Furthermore, the term "*intérêt sur un bien réel*" is added in the French version of the Act. This term is the French equivalent of the common law term "interest in real property".

For civil law purposes, new subsection 248(4.1) is added in both linguistic versions of the Act. The scope of the civil law term "real right in immovables" / "*droit réel sur un immeuble*" is adjusted in a similar manner as its common law counterpart by including the lease and excluding security rights.

History: S. 248(4) was amended by S.C. 2001, c. 17, s. 230(2), applicable on Royal Assent, June 14, 2001. S. 248(4) formerly read:

"(4) *Interest in real property.* In this Act, an interest in real property includes a leasehold interest in real property but does not include an interest as security only derived by virtue of a mortgage, agreement for sale or similar obligation."

Related Sections: S. 43.1(1) Life estates in real property; s. 85(1.1) Definition of "eligible property"; s. 108(2) When trust is a unit trust; s. 131(8) Meaning of "mutual fund corporation"; s. 132(6) Meaning of "mutual fund trust"; s. 216(1) Alternatives re rents and timber royalties; s. 216(5) Disposition by non-resident of interest in real property, timber resource property or timber limit.

► 248(5) ◄

(5) Substituted property. For the purposes of this Act, other than paragraph 98(1)(*a*),

(*a*) where a person has disposed of or exchanged a particular property and acquired other property in substitution therefor and subsequently, by one or more further transactions, has effected one or more further substitutions, the property acquired by any such transaction shall be deemed to have been substituted for the particular property; and

(*b*) any share received as a stock dividend on another share of the capital stock of a corporation shall be deemed to be property substituted for that other share.

Related Sections: S. 248(1), "stock dividend".
Interpretation Bulletins: *Secondary* — IT-244R3 Gifts by individuals of life insurance policies as charitable donations; IT-369R Attribution of trust income to settlor; IT-511R Interspousal and certain other transfers and loans of property.

► 248(6) ◄

(6) "Class" of shares issued in series. In its application in relation to a corporation that has issued shares of a class of its capital stock in one or more series, a reference in this Act to the "class" shall be read, with such modifications as the circumstances require, as a reference to a "series of the class."

► 248(7) ◄

(7) Receipt of things mailed. For the purposes of this Act,

(*a*) anything (other than a remittance or payment described in paragraph (*b*)) sent by first class mail or its equivalent shall be deemed to have been received by the person to whom it was sent on the day it was mailed; and

(*b*) the remittance or payment of an amount

(i) deducted or withheld, or

(ii) payable by a corporation,

as required by this Act or a regulation shall be deemed to have been made on the day on which it is received by the Receiver General.

Related Sections: S. 150.1(3) Deemed date of filing; s. 244(14) Mailing date.
Tax Window Files: Timing of Income Recognition — Cheques Mailed to Taxpayer, December 23, 2003, CRA Document No. 2003-0049497 [No receipt of employment income where cheques were mailed but not actually received by taxpayer].

► 248(8) ◄

(8) Occurrences as a consequence of death. For the purpose of this Act,

(*a*) a transfer, distribution or acquisition of property under or as a consequence of the terms of the will or other testamentary instrument of a taxpayer or the taxpayer's spouse or common-law partner or as a consequence of the law governing the intestacy of a taxpayer or the taxpayer's spouse or common-law partner shall be considered to be a transfer, distribution or acquisition of the property as a consequence of the death of the taxpayer or the taxpayer's spouse or common-law partner, as the case may be;

(*b*) a transfer, distribution or acquisition of property as a consequence of a disclaimer, release or surrender by a person who was a beneficiary under the will or other testamentary instrument or on the intestacy of a taxpayer or the taxpayer's spouse or common-law partner shall be considered to be a transfer, distribution or acquisition of the property

as a consequence of the death of the taxpayer or the taxpayer's spouse or common-law partner, as the case may be; and

(*c*) a release or surrender by a beneficiary under the will or other testamentary instrument or on the intestacy of a taxpayer with respect to any property that was property of the taxpayer immediately before the taxpayer's death shall be considered not to be a disposition of the property by the beneficiary.

History: S. 248(8)(*a*) and (*b*) were amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.35), applicable January 1, 2001, coming into force on July 31, 2000. S. 248(8)(*a*) and (*b*) formerly read:

"(*a*) a transfer, distribution or acquisition of property under or as a consequence of the terms of the will or other testamentary instrument of a taxpayer or the taxpayer's spouse or as a consequence of the law governing the intestacy of a taxpayer or the taxpayer's spouse shall be considered to be a transfer, distribution or acquisition of the property as a consequence of the death of the taxpayer or the taxpayer's spouse, as the case may be;

(*b*) a transfer, distribution or acquisition of property as a consequence of a disclaimer, release or surrender by a person who was a beneficiary under the will or other testamentary instrument or on the intestacy of a taxpayer or the taxpayer's spouse shall be considered to be a transfer, distribution or acquisition of the property as a consequence of the death of the taxpayer or the taxpayer's spouse, as the case may be; and"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Related Sections: S. 248(1), "common-law partner".

Interpretation Bulletins: *Secondary* — IT-305R4 Establishment of testamentary spouse trust; IT-349R3 Intergenerational transfers of farm property on death; IT-313R2 Eligible capital property — Rules where a taxpayer has ceased carrying on a business or has died; IT-449R Meaning of "vested indefeasibly" [Archived by the CRA].

► 248(9) ◄

(9) Definitions. In subsection (8),

"*disclaimer*" — "disclaimer" includes a renunciation of a succession made under the laws of the Province of Quebec that is not made in favour of any person, but does not include any disclaimer made after the period ending 36 months after the death of the taxpayer unless written application therefor has been made to the Minister by the taxpayer's legal representative within that period and the disclaimer is made within such longer period as the Minister considers reasonable in the circumstances;

History: S. 248(9), the definition "disclaimer", was amended by S.C. 1994, c. 21, s. 109(7), applicable on Royal Assent, June 15, 1994. That definition formerly read:

" 'disclaimer' includes a renunciation of a succession made under the laws of the Province of Quebec that is not made in favour of any person;"

Interpretation Bulletins: *Secondary* — IT-305R4 Establishment of testamentary spouse trust; IT-313R2 Eligible capital property — Rules where a taxpayer has ceased carrying on a business or has died.

"*release or surrender*" — "release or surrender" means

(*a*) a release or surrender made under the laws of a province (other than the Province of Quebec) that does not direct in any manner who is entitled to benefit therefrom, or

(*b*) a gift *inter vivos* made under the laws of the Province of Quebec of an interest in, or right to property of, a succession that is made to the person or persons who would have benefited if the donor had made a renunciation of the succession that was not made in favour of any person,

and that is made within the period ending 36 months after the death of the taxpayer or, where written application therefor has been made to the Minister by the taxpayer's legal representative within that period, within such longer period as the Minister considers reasonable in the circumstances.

Interpretation Bulletins: *Secondary* — IT-305R4 Establishment of testamentary spouse trust.

► 248(9.1) ◄

(9.1) How trust created. For the purposes of this Act, a trust shall be considered to be created by a taxpayer's will if the trust is created

(*a*) under the terms of the taxpayer's will; or

(*b*) by an order of a court in relation to the taxpayer's estate made under any law of a province that provides for the relief or support of dependants.

History: S. 248(9.1) was added by S.C. 1994, c. 7, Sched. VIII, s. 139(8), applicable to the 1990 and subsequent taxation years.

Related Sections: S. 104(1) Reference to trust or estate; s. 248(1), "estate", "trust"; s. 248(3) Rules applicable in relation to the Province of Quebec.

► 248(9.2) ◄

(9.2) Vested indefeasibly. For the purposes of this Act, property shall be deemed not to have vested indefeasibly

(*a*) in a trust under which a taxpayer's spouse or common-law partner is a beneficiary, where the trust is created by the will of the taxpayer, unless the property vested indefeasibly in the trust before the death of the spouse or common-law partner; and

(*b*) in an individual (other than a trust), unless the property vested indefeasibly in the individual before the death of the individual.

History: S. 248(9.2)(*a*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.35), applicable January 1, 2001, coming into force on July 31, 2000. S. 248(9.2)(*a*) formerly read:

"(*a*) in a trust under which a taxpayer's spouse is a beneficiary, where the trust is created by the will of the taxpayer, unless the property vested indefeasibly in the trust before the death of the spouse; and"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 248(9.2) was added by S.C. 1994, c. 7, Sched. VIII, s. 139(8), applicable in respect of deaths occurring after December 20, 1991.

Related Sections: S. 104(1) Reference to trust or estate; s. 248(1), "common-law partner", "individual", "property", "trust"; s. 252(4) Extended meaning of spouse.

► 248(10) ◄

(10) Series of transactions. For the purposes of this Act, where there is a reference to a series of transactions or events, the series shall be deemed to include any related transactions or events completed in contemplation of the series.

Related Sections: S. 212(1)(*b*) Interest; s. 212.2(1) Application.

Tax Topics: No. 1856, *Copthorne Holdings Ltd. v. The Queen:* Backward Contemplation Bad for the Taxpayer; No. 1775, Series of Transactions After Canada Trustco: When Does Paragraph 55(3)(a) Apply?.

Canadian Tax Foundation: Brender, "Series of Transactions: A Case for a Purposive Interpretation, in Corporate Tax Planning Feature", *2007 Canadian Tax Journal*, No. 1, 210.

Canadian Petroleum Tax Journal: Recent Developments in Tax Jurisprudence, Edward Rowe and Catherine Bradley, Vol. 15 No. 1 2002.

Cases: A first series of transactions, including a 1993 share sale, was concluded to preserve $67 million in PUC. A second series of transactions,

including a 1995 share redemption, resulted in the distribution of the $67 million PUC. The Court held that the 1995 transactions were "completed in contemplation" of the 1993 transactions, since the taxpayer had knowledge of the prior preservation of PUC and took this into account when completing the redemption. *Copthorne Holdings Ltd. v. The Queen,* 2007 DTC 1230 (T.C.C.).

► 248(11) ◄

(11) Compound interest. Interest computed at a prescribed rate under any of subsections 129(2.1) and (2.2), 131(3.1) and (3.2), 132(2.1) and (2.2), 133(7.01) and (7.02), 159(7), 160.1(1), 161(1), (2) and (11), 161.1(5), 164(3) to (4), 181.8(1) and (2) (as those two subsections read in their application to the 1991 and earlier taxation years), 185(2), 187(2) and 189(7), section 190.23 (as it read in its application to the 1991 and earlier taxation years) and subsections 193(3), 195(3), 202(5) and 227(8.3), (9.2) and (9.3) of this Act and subsection 182(2) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952 (as that subsection read in its application to taxation years beginning before 1986) and subsection 191(2) of that Act (as that subsection read in its application to the 1984 and earlier taxation years) shall be compounded daily and, where interest is computed on an amount under any of those provisions and is unpaid or unapplied on the day it would, but for this subsection, have ceased to be computed under that provision, interest at the prescribed rate shall be computed and compounded daily on the unpaid or unapplied interest from that day to the day it is paid or applied and shall be paid or applied as would be the case if interest had continued to be computed under that provision after that day.

History: S. 248(11) was replaced by S.C. 2000, c. 19, s. 67(2), applicable after 1999. S. 2248(11) formerly read:

"(11) *Compound interest.* Interest computed at a prescribed rate under any of subsections 129(2.1) and (2.2), 131(3.1) and (3.2), 132(2.1) and (2.2), 133(7.01) and (7.02), 159(7), 160.1(1), 161(1), (2) and (11), 164(3) to (4), 181.8(1) and (2) (as these two subsections read in their application to the 1991 and earlier taxation years), 185(2), 187(2) and 189(7), section 190.23 (as it read in its application to the 1991 and earlier taxation years) and subsections 193(3), 195(3), 202(5), and 227(8.3), (9.2) and (9.3) of this Act and subsection 182(2) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952 (as that subsection read in its application to taxation years beginning before 1986) and subsection 191(2) of that Act (as that subsection read in its application to the 1984 and earlier taxation years) shall be compounded daily and, where interest is computed on an amount under any of those provisions and is unpaid or unapplied on the day it would, but for this subsection, have ceased to be computed under that provision, interest at the prescribed rate shall be computed and compounded daily on the unpaid or unapplied interest from that day to the day it is paid or applied and shall be paid or applied as would be the case if interest had continued to be computed under that provision after that day."

S. 248(11) was amended by S.C. 1994, c. 7, Sched. VIII, s. 139(9), applicable to refunds paid or applied with respect to taxation years beginning after 1991. S. 248(11) formerly read:

"(11) Interest computed at a prescribed rate under any of subsections 159(7), 160.1(1), 161(1), (2) and (11), 164(3) to (4), 181.8(1) and (2), 185(2), 187(2) and 189(7), section 190.23, subsections 193(3), 195(3), 202(5) and 227(8.3), (9.2) and (9.3) of this Act, subsection 182(2) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it applied to taxation years beginning before 1987, and subsection 191(2) of that Act as it applied to the 1972 to 1984 taxation years shall be compounded daily and, where interest is computed on an amount under any of those provisions and is unpaid on the day it would, but for this subsection, have ceased to be computed under that provision, interest at the prescribed rate shall be computed and compounded daily on the unpaid interest from that day to the day it is paid and shall be paid or credited as would have been the case if interest had continued to be computed under that provision after that day."

S. 248(11) was amended by S.C. 1994, c. 7, Sched. II, s. 192(16), applicable to the 1990 and subsequent taxation years. S. 248(11) formerly read:

"(11) Interest computed at a prescribed rate under any of subsections 159(7), 160.1(1), 161(1), (2) and (11), 164(3) to (4), 181.8(1) and (2), 185(2), 187(2) and 189(7), section 190.23, subsections 191(2), 193(3), 195(3) and 202(5), section 211.5 and subsections 227(8.3), (9.2) and (9.3) of this Act and subsection 182(2) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, shall be compounded daily and, where interest is computed on an amount under any of those provisions and is unpaid on the day it would, but for this subsection, have ceased to be computed under that provision, interest at the prescribed rate shall be computed and compounded daily on the unpaid interest from that day to the day it is paid and shall be paid or credited as would have been the case if interest had continued to be computed under that provision after that day."

Regulations: 4301.

► 248(12) ◄

(12) Identical properties. For the purposes of this Act, one bond, debenture, bill, note or similar obligation issued by a debtor is identical to another such obligation issued by that debtor if both are identical in respect of all rights (in equity or otherwise, either immediately or in the future and either absolutely or contingently) attaching thereto, except as regards the principal amount thereof.

Related Sections: S. 14(13) Deemed identical property; s. 18(16) Deemed identical property; s. 40(3.5) Deemed identical property; S. 212(1)(*b*) Interest.
Interpretation Bulletins: *Secondary*— IT-387R2 (Consolid.) Meaning of "identical properties".

► 248(13) ◄

(13) Interests in trusts and partnerships. Where after November 12, 1981 a person has an interest in a trust or partnership, whether directly or indirectly through an interest in any other trust or partnership or in any manner whatever, the person shall, for the purposes of the definitions "income bond", "income debenture" and "term preferred share" in subsection (1), paragraph (*h*) of the definition "taxable preferred share" in that subsection, subsections 84(4.2) and (4.3) and 112(2.6) and section 258, be deemed to be a beneficiary of the trust or a member of the partnership, as the case may be.

► 248(14) ◄

(14) Related corporations. For the purpose of paragraph (*g*) of the definition "specified financial institution" in subsection (1), where in the case of 2 or more corporations it can reasonably be considered, having regard to all the circumstances, that one of the main reasons for the separate existence of those corporations in a taxation year is to limit or avoid the application of subsection 112(2.1) or (2.2) or 138(6), the 2 or more corporations shall be deemed to be related to each other and to each other corporation to which any such corporation is related.

History: S. 248(14) was amended by S.C. 1994, c. 7, Sched. II, s. 192(17), applicable after July 13, 1990. S. 248(14) formerly read:

"(14) For the purposes of paragraph (*g*) of the definition 'specified financial institution' in subsection (1), where, in the case of two or more corporations, it may reasonably be considered, having regard to all the circumstances, that one of the main reasons for the separate existence of those corporations in a taxation year is to limit or avoid the application of subsection 112(2.1) or (2.2) or 138(6), the two or more corporations shall be deemed to be related to each other."

► 248(15) ◄

(15) Goods and services tax — change of use. For the purposes of this Act, where a liability for the goods and services tax is incurred in respect of a change of use at any time of a property, the liability so incurred shall be deemed to have been incurred immediately after that time in respect of the acquisition of the property.

► 248(16) ◄

(16) Goods and services tax — input tax credit and rebate. For the purposes of this Act, other than this subsection and subsection 6(8), an amount claimed by a taxpayer as an input tax credit or rebate with respect to the goods and services tax in respect of a property or service shall be deemed to be assistance from a government in respect of the property or service that is received by the taxpayer

(*a*) where the amount was claimed by the taxpayer as an input tax credit in a return under Part IX of the *Excise Tax Act* for a reporting period under that Act,

(i) at the time the goods and services tax in respect of the input tax credit was paid or became payable, if the tax was paid or became payable in the reporting period, or

(ii) if no such tax was paid or became payable in respect of the input tax credit in the reporting period, at the end of the reporting period; or

(*b*) where the amount was claimed as a rebate with respect to the goods and services tax, at the time the amount was received or credited.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 248(16) of the Act is replaced by the following:

(16) Goods and services tax — input tax credit and rebate. For the purposes of this Act, other than this subsection and subsection 6(8), an amount claimed by a taxpayer as an input tax credit or rebate with respect to the goods and services tax in respect of a property or service is deemed to be assistance from a government in respect of the property or service that is received by the taxpayer

(*a*) where the amount was claimed by the taxpayer as an input tax credit in a return under Part IX of the *Excise Tax Act* for a reporting period under that Act,

(i) at the particular time that is the earlier of the time that the goods and services tax in respect of the input tax credit was paid and the time that it became payable,

(A) if the particular time is in the reporting period, or

(B) if,

(I) the taxpayer's threshold amount, determined in accordance with subsection 249(1) of the *Excise Tax Act*, is greater than $500,000 for the taxpayer's fiscal year (within the meaning assigned by that Act) that includes the particular time, and

(II) the taxpayer claimed the input tax credit at least 120 days before the end of the normal reassessment period, as determined under subsection 152(3.1), for the taxpayer in respect of the taxation year that includes the particular time,

(ii) at the end of the reporting period, if

(A) subparagraph (i) does not apply, and

(B) the taxpayer's threshold amount, determined in accordance with subsection 249(1) of the *Excise Tax Act*, is $500,000 or less for the fiscal year (within the meaning assigned by that Act) of the taxpayer that includes the particular time, and

(iii) in any other case, on the last day of the taxpayer's earliest taxation year

(A) that begins after the taxation year that includes the particular time, and

(B) for which the normal reassessment period, as determined under subsection 152(3.1), for the taxpayer ends at least 120 days after the time that the input tax credit was claimed; or

(*b*) where the amount was claimed as a rebate with respect to the goods and services tax, at the time the amount was received or credited.

Applicable: In respect of input tax credits that become eligible to be claimed in taxation years that begin after December 20, 2002.

Explanatory Note:

Goods and Services Tax — Input Tax Credit and Rebate

Subsection 248(16) of the Act provides rules under which amounts received by, or credited to, a taxpayer as an input tax credit or rebate with respect to the goods and services tax (GST) are deemed to be assistance from a government received by a taxpayer. As a consequence, such amounts are either included in income or reduce the cost or capital cost of the related property, or the amount of the related expenditure or expenditure pool, for tax purposes.

Subsection 248(16) also specifies the time at which the receipt (or credit) of an input tax credit or rebate is deemed to be received as assistance. With respect to input tax credits, subparagraph 248(16)(*a*)(i) provides that the assistance (i.e., the input tax credit) is considered to be received by a taxpayer at the time the GST in respect of the input tax credit was paid or became payable by the taxpayer if the GST was paid or became payable in the same reporting period under the *Excise Tax Act* in which the input tax credit was claimed. If a taxpayer does not claim the input tax credit in the same reporting period in which the GST was paid or became payable, subparagraph 248(16)(*a*)(ii) includes the amount of assistance in the taxpayer's income for the taxation year that includes the end of the reporting period in which the taxpayer claimed the input tax credit.

Subsection 248(16) is amended in three respects for input tax credits that become eligible to be claimed in taxation years that begin after December 20, 2002.

First, subparagraph 248(16)(*a*)(i) is amended to extend its application to cases where the input tax credit is claimed by a taxpayer in a reporting period that is subsequent to the period in which the related GST was paid or became payable if

- the taxpayer's threshold amount (as determined under subsection 249(1) of the *Excise Tax Act*) is greater than $500,000 for the taxpayer's fiscal year (as defined by that Act) that includes the earlier of the time that the GST in respect of the input tax credit was paid and the time that it became payable, and
- the taxpayer claimed the input tax credit at least 120 days before the end of the normal reassessment period (as determined under subsection 152(3.1) of the *Income Tax Act*) for the taxpayer in respect of the taxation year that includes that earlier time.

In general, the change to this subparagraph means that an input tax credit of a taxpayer (who is a GST filer with a threshold amount greater than $500,000 for GST purposes) is considered to have been received at the time the related GST was paid or became payable, even though the input tax credit is claimed in a later GST reporting period. However, this is the case only if the taxpayer claims the input tax credit at least 120 days before the taxation year in which the GST was paid or became payable becomes statute-barred for income tax purposes.

Second, subparagraph 248(16)(*a*)(ii) is amended to provide that an input tax credit is considered to be received at the end of the reporting period in which it is claimed only if

- subparagraph 248(16)(*a*)(i) does not apply, and
- the taxpayer's threshold amount (as determined under subsection 249(1) of the *Excise Tax Act*) is $500,000 or less for the fiscal year of the taxpayer that includes the earlier of the time that the GST in respect of the input tax credit was paid or became payable.

Thus, subparagraph 248(16)(*a*)(ii) does not apply if subparagraph 248(16)(*a*)(i) applies. Where subparagraph 248(16)(*a*)(i) does not apply, subparagraph 248(16)(*a*)(ii) provides that the input tax credit is considered to have been received at the end of the reporting period in which it is claimed only if the taxpayer's threshold amount for GST purposes was $500,000 or less at the time the GST was paid or became payable.

Third, new subparagraph 248(16)(*a*)(iii) is added to apply in any other case. If applicable, that subparagraph provides that the input tax credit is considered to have been received on the last day of the taxpayer's earliest taxation year

- that begins after the taxation year that includes the earlier of the time that the GST in respect of the input tax credit was paid and the time that it became payable, and

- for which the normal reassessment period for the taxpayer ends at least 120 days after the time at which the input tax credit was claimed.

Reference should also made to the commentary to new subsection 248(17.1) of the *Income Tax Act* which provides a special rule in respect of the timing of a claim in respect of certain input tax credits assessed under the *Excise Tax Act*.

Interpretation Bulletins: *Secondary* — IT-273R2 Government assistance — General comments.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 248 of the Act is amended by adding the following after subsection (16):

(16.1) Quebec input tax refund and rebate. For the purpose of this Act, other than this subsection and subsection 6(8), an amount claimed by a taxpayer as an input tax refund or a rebate with respect to the Quebec sales tax in respect of a property or service is deemed to be assistance from a government in respect of the property or service that is received by the taxpayer

(*a*) where the amount was claimed by the taxpayer as an input tax refund in a return under *An Act respecting the Québec sales tax*, R.S.Q., c. T-0.1, for a reporting period under that Act,

(i) at the particular time that is the earlier of the time that the Quebec sales tax in respect of the input tax refund was paid and the time that it became payable,

(A) if the particular time is in the reporting period, or

(B) if,

(I) the taxpayer's threshold amount, determined in accordance with section 462 of that Act is greater than $500,000 for the taxpayer's fiscal year (within the meaning assigned by that Act) that includes the particular time, and

(II) the taxpayer claimed the input tax refund at least 120 days before the end of the normal reassessment period, as determined under subsection 152(3.1), for the taxpayer in respect of the taxation year that includes the particular time,

(ii) at the end of the reporting period, if

(A) subparagraph (i) does not apply, and

(B) the taxpayer's threshold amount, determined in accordance with section 462 of that Act is $500,000 or less for the fiscal year (within the meaning assigned by that Act) of the taxpayer that includes the particular time, and

(iii) in any other case, on the last day of the taxpayer's earliest taxation year

(A) that begins after the taxation year that includes the particular time, and

(B) for which the normal reassessment period, as determined under subsection 152(3.1), for the taxpayer ends at least 120 days after the time that the input tax refund was claimed; or

(*b*) where the amount was claimed as a rebate with respect to the Quebec sales tax, at the time the amount was received or credited.

Applicable: In respect of input tax refunds and rebates that become eligible to be claimed in taxation years that begin after February 27, 2004.

Explanatory Note:

Quebec Sales Tax — Input Tax Refund and Rebate

New subsection 248(16.1) of the Act provides special rules for amounts received, or credited to, a taxpayer as an input tax refund or rebate in respect of Quebec sales tax. Such amounts are either included in a taxpayer's income or reduce the cost or capital cost of the related property, or the amount of the related expenditure or expenditure pool, for tax purposes.

In general, an input tax refund in respect of Quebec sales tax may — depending on the circumstances — have to be included in a taxpayer's income in the taxation year in which the taxpayer may first claim the refund, rather than the year in which it is received. A rebate of Quebec sales tax is included in income at the time the rebate is received or credited. For a more detailed explanation of the application of subsection 248(16.1), reference should be made to the commentary accompanying amendments to subsection 248(16), which provides analogous special rules in respect of the timing of the inclusion in income of certain input tax credits and rebates assessed under the *Excise Tax Act*.

Subsection 248(16.1) applies in respect of Quebec input tax refunds and rebates that become eligible to be claimed in taxation years that begin after February 27, 2004.

► 248(17) ◄

(17) Application of s. (16) to passenger vehicles and aircraft. Where the input tax credit of a taxpayer under Part IX of the *Excise Tax Act* in respect of a passenger vehicle or aircraft is determined with reference to subsection 202(4) of the *Excise Tax Act*, subparagraphs (16)(*a*)(i) and (ii) shall, as they apply in respect of such property, be read as follows:

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 248(17) of the Act before the portion enclosed by quotation marks is replaced by the following:

(17) Application of subsection (16) to passenger vehicles and aircraft. If the input tax credit of a taxpayer under Part IX of the *Excise Tax Act* in respect of a passenger vehicle or aircraft is determined with reference to subsection 202(4) of that Act, subparagraphs (16)(*a*)(i) to (iii) are to be read as they apply in respect of the passenger vehicle or aircraft, as the case may be, as follows:

Applicable: In respect of input tax credits that become eligible to be claimed in taxation years that begin after December 20, 2002.

Explanatory Note:

Application of Subsection (16) to Passenger Vehicles and Aircraft

Subsection 248(17) of the Act applies in the case of an input tax credit in respect of a passenger vehicle or aircraft claimable by an individual or partnership where the credit is determined by reference to capital cost allowance in respect of the vehicle or aircraft (i.e., where there is less than exclusive use in commercial activity). Subsection 248(17) is amended to reflect the amendments made to subsection 248(16) as described in the commentary to that subsection.

The amendments to subsection 248(17) apply in respect of input tax credits that become eligible to be claimed in taxation years that begin after December 20, 2002.

"(i) at the beginning of the first taxation year or fiscal period of the taxpayer commencing after the end of the taxation year or fiscal period, as the case may be, in which the goods and services tax in respect of such property was considered for the purposes of determining the input tax credit to be payable, if the tax was considered for the

purposes of determining the input tax credit to have become payable in the reporting period, or

(ii) if no such tax was considered for the purposes of determining the input tax credit to have become payable in the reporting period, at the end of the reporting period; or"

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 248 of the Act is amended by adding the following after subsection (17):

(17.1) Application of subsection (16.1) to passenger vehicles and aircraft. If the input tax refund of a taxpayer under *An Act respecting the Québec sales tax*, R.S.Q., c. T-0.1, in respect of a passenger vehicle or aircraft is determined with reference to section 252 of that Act, subparagraphs (16.1)(*a*)(i) to (iii) are to be read as they apply in respect of the passenger vehicle or aircraft, as the case may be, as follows:

"(i) at the beginning of the first taxation year or fiscal period of the taxpayer that begins after the end of the taxation year or fiscal period, as the case may be, in which the Quebec sales tax in respect of such property was considered for the purposes of determining the input tax refund to be payable, if the tax was considered for the purposes of determining the input tax refund to have become payable in the reporting period, or

(ii) if no such tax was considered for the purposes of determining the input tax refund to have become payable in the reporting period, at the end of the reporting period; or"

Applicable: In respect of input tax refunds and rebates that become eligible to be claimed in taxation years that begin after February 27, 2004.

(17.2) Input tax credit on assessment. An amount in respect of an input tax credit that is deemed by subsection 296(5) of the *Excise Tax Act* to have been claimed in a return or application filed under Part IX of that Act is deemed to have been so claimed for the reporting period under that Act that includes the time when the Minister makes the assessment referred to in that subsection.

Applicable: In respect of input tax credits that become eligible to be claimed in taxation years that begin after December 20, 2002.

(17.3) Quebec input tax refund on assessment. An amount in respect of an input tax refund that is deemed by section 30.5 of *An Act respecting the Ministère du Revenu*, R.S.Q., c. M-31, to have been claimed is deemed to have been so claimed for the reporting period under *An Act respecting the Québec sales tax*, R.S.Q., c. T- 0.1, that includes the day on which an assessment is issued to the taxpayer indicating that the refund has been allocated under that section 30.5.

Applicable: In respect of input tax refunds and rebates that become eligible to be claimed in taxation years that begin after February 27, 2004.

Explanatory Note:

Subsection 248(17.1) — Application of Subsection (16) to Passenger Vehicles and Aircraft

New subsection 248(17.1) of the Act applies in the case of an input tax refund of Quebec sales tax, in respect of a passenger vehicle or aircraft, claimable by an individual or partnership where the credit is determinable by reference to capital cost allowance in respect of the vehicle or aircraft (that is, where there is less than exclusive use in commercial activity). In general, this subsection defers the time the input tax refund is considered to be received for income tax purposes to the taxation year or fiscal period following that in which Quebec sales tax in respect of the property is considered as payable for the purposes of determining the input tax refund. This avoids circularity with subsection 248(16.1). The provision preserves the proper timing between the input tax refund entitlement and the adjustment to the capital cost. This change applies in respect of Quebec input tax refunds that become eligible to be claimed in taxation years that begin after February 27, 2004.

Subsection 248(17.2) — Input Tax Credit on Assessment

New subsection 248(17.2) of the Act determines, in respect of input tax credits that become eligible to be claimed in taxation years that begin after December 20, 2002, the time at which an input tax credit is considered to have been claimed in respect of certain input tax credit assessments made under the *Excise Tax Act* (ETA).

This subsection provides that, if an amount in respect of an input tax credit is deemed by subsection 296(5) of the ETA to have been claimed in a return or application filed under Part IX of that Act, the input tax credit is deemed to have been claimed for the GST reporting period that includes the time the Minister of National Revenue makes the GST assessment.

Accordingly, the rule in clause 248(16)(*a*)(i)(A) of the *Income Tax Act* (ITA) relating to the time at which an input tax credit is considered to have been received cannot apply to an input tax credit to which subsection 296(5) of the ETA applies. However, the other rules in paragraph 248(16)(*a*) of the ITA that determine the time at which an input tax credit is received are to be applied on the basis that an input tax credit (to which subsection 296(5) of the ETA applies) is not claimed by the taxpayer until the reporting period that includes the time at which the input tax credit is actually assessed — i.e., not the reporting period to which the assessment relates but the reporting period in which the input tax credit is deemed to be claimed for GST purposes.

Subsection 248(17.3) — Quebec Input Tax Credit on Assessment

New subsection 248(17.3) of the Act provides that an input tax refund of Quebec sales tax, that is deemed to be claimed by section 30.5 of *An Act respecting the Quebec Revenue Minister*, is deemed to be claimed for the reporting period under *An Act respecting Quebec Sales Tax* that includes the day on which an assessment is issued to the taxpayer indicating that the refund has been allocated to the taxpayer. This change applies in respect of Quebec input tax refunds and rebates that become eligible to be claimed in taxation years that begin after February 27, 2004.

► 248(18) ◄

(18) Goods and services tax — repayment of input tax credit. For the purposes of this Act, where an amount is added at a particular time in determining the net tax of a taxpayer under Part IX of the *Excise Tax Act* in respect of an input tax credit relating to property or a service that had been previously deducted in determining the net tax of the taxpayer, that amount shall be deemed to be assistance repaid at the particular time in respect of the property or service pursuant to a legal obligation to repay all or part of that assistance.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 248 of the Act is amended by adding the following after subsection (18):

(18.1) Repayment of Quebec input tax refund. For the purposes of this Act, if an amount is added at a particular time in determining the net tax of a taxpayer under *An Act respecting the Québec sales tax*, R.S.Q., c. T-0.1, in respect of an input tax refund relating to property or service that had been previously

deducted in determining the net tax of the taxpayer, that amount is deemed to be assistance repaid at the particular time in respect of the property or service under a legal obligation to repay all or part of that assistance.

Applicable: After February 27, 2004.

Explanatory Note:

Repayment of Quebec Input Tax Refund

New subsection 248(18.1) of the Act provides that an amount added in determining net tax of a taxpayer under *An Act respecting Quebec Sales Tax* in respect of an input tax refund relating to a property or service that had previously been deducted in computing such net tax is treated as assistance repaid under a legal obligation to repay that assistance. Such an amount could be so added under Quebec law pursuant to an assessment of Quebec sales tax. As a consequence, such an amount will either be deducted in computing income under paragraph 20(1)(*hh*) or will increase the cost or capital cost of the related property or the amount of the related expenditure or expenditure pool for tax purposes (as provided under subsection 13(7.1), paragraphs 37(1)(*c*) and 53(2)(*k*) and under the definitions "cumulative Canadian exploration expense" in subsection 66.1(6), "cumulative Canadian development expense" in subsection 66.2(5) and "cumulative Canadian oil and gas property expense" in subsection 66.4(5)). This change applies after February 27, 2004.

► 248(19) ◄

(19) When property available for use. Except as otherwise provided, property shall be considered to have become available for use for the purposes of this Act at the time at which it has, or would have if it were depreciable property, become available for use for the purpose of subsection 13(26).

History: S. 248(19) was added by S.C. 1994, c. 7, Sched. II, s. 192(18), applicable after 1989.

Related Sections: S. 13(26) Restriction on deduction before available for use; s. 37(1.2) Deemed time of capital expenditure; s. 127(11.2) Time of expenditure and acquisition.

► 248(20) ◄

(20) Partition of property. Subject to subsections (21) to (23), for the purposes of this Act, where at any time a property owned by two or more persons is the subject of a partition, the following rules apply, notwithstanding any retroactive or declaratory effect of the partition:

(*a*) each such person who had an interest in the property immediately before that time shall be deemed not to have disposed at that time of that proportion, not exceeding 100%, of the interest that the fair market value of that person's interest in the property immediately after that time is of the fair market value of that person's interest in the property immediately before that time,

(*b*) each such person who has an interest in the property immediately after that time shall be deemed not to have acquired at that time that proportion of the interest that the fair market value of that person's interest in the property immediately before that time is of the fair market value of that person's interest in the property immediately after that time,

(*c*) each such person who had an interest in the property immediately before that time shall be deemed to have had until that time, and to have disposed at that time of, that proportion of the person's interest to which paragraph (*a*) does not apply,

(*d*) each such person who has an interest in the property immediately after that time shall be deemed not to have had before that time, and to have acquired at that time, that proportion of the person's interest to which paragraph (*b*) does not apply, and

(*e*) paragraphs (*a*) to (*d*) do not apply where the interest of the person is an interest in fungible tangible property described in that person's inventory,

and, for the purposes of this subsection, where an interest in the property is an undivided interest, the fair market value of the interest at any time shall be deemed to be equal to that proportion of the fair market value of the property at that time that the interest is of all the undivided interests in the property.

Editorial Note: See the pending amendment for subsection 248(20) reproduced following subsection 248(21).

History: S. 248(20), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 230(3), applicable on Royal Assent, June 14, 2001. S. 248(20), the portion before paragraph (*a*) formerly read:

"(20) *Partition of property.* Subject to subsections (21) to (23), for the purposes of this Act, where at any time a property owned jointly by 2 or more persons is the subject of a partition, the following rules apply, notwithstanding any retroactive or declaratory effect of the partition:"

S. 248(20) was added by S.C. 1994, c. 7, Sched. II, s. 192(18), applicable after July 13, 1990, except that subsection 248(20) does not apply to a partition made after that day and before 1992

(*a*) pursuant to the terms of an agreement in writing entered into on or before that day; or

(*b*) in accordance with a confirmation in writing from the Department of National Revenue or a provincial department of revenue as to the tax consequences of that partition, where the confirmation is in respect of a written request received by that department on or before that day.

► 248(21) ◄

(21) Subdivision of property. Where a property that was owned by two or more persons is the subject of a partition among those persons and, as a consequence thereof, each such person has, in the property, a new interest the fair market value of which immediately after the partition, expressed as a percentage of the fair market value of all the new interests in the property immediately after the partition, is equal to the fair market value of that person's undivided interest immediately before the partition, expressed as a percentage of the fair market value of all the undivided interests in the property immediately before the partition,

(*a*) subsection (20) does not apply to the property, and

(*b*) the new interest of each such person shall be deemed to be a continuation of that person's undivided interest in the property immediately before the partition,

and, for the purposes of this subsection,

(*c*) subdivisions of a building or of a parcel of land that are established in the course of, or in contemplation of, a partition and that are co-owned by the same persons who co-owned the building or the parcel of land, or by their assignee, shall be regarded as one property, and

(*d*) where an interest in the property is or includes an undivided interest, the fair market value of the interest shall be determined without regard to any discount or premium that applies to a minority or majority interest in the property.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsections 248(20) and (21) of the Act are replaced by the following:

(20) Partition of property. Subject to subsections (21) to (23), for the purposes of this Act, where at any time a property owned by two or more persons is the subject of a partition, the following rules apply, notwithstanding any retroactive or declaratory effect of the partition:

(*a*) each such person who had, immediately before that time, an interest in, or for civil law a right in, the property (which interest or right in the property is referred to in this subsection and subsection (21) as an "interest" or a "right", as the case may be) shall be deemed not to have disposed at that time of that proportion, not exceeding 100%, of the interest or right that the fair market value of that person's interest or right in the property immediately after that time is of the fair market value of that person's interest or right in the property immediately before that time,

(*b*) each such person who has an interest or right in the property immediately after that time shall be deemed not to have acquired at that time that proportion of the interest or right that the fair market value of that person's interest or right in the property immediately before that time is of the fair market value of that person's interest or right in the property immediately after that time,

(*c*) each such person who had an interest or a right in the property immediately before that time shall be deemed to have had until that time, and to have disposed at that time of, that proportion of the person's interest or right to which paragraph (*a*) does not apply,

(*d*) each such person who has an interest or a right in the property immediately after that time shall be deemed not to have had before that time, and to have acquired at that time, that proportion of the person's interest or right to which paragraph (*b*) does not apply, and

(*e*) paragraphs (*a*) to (*d*) do not apply where the interest or right of the person is an interest or a right in fungible tangible property, or for civil law fungible corporeal property described in that person's inventory,

and, for the purposes of this subsection, where an interest or a right in the property is an undivided interest or right, the fair market value of the interest or right at any time shall be deemed to be equal to that proportion of the fair market value of the property at that time that the interest or right is of all the undivided interests or rights in the property.

(21) Subdivision of property. Where a property that was owned by two or more persons is the subject of a partition among those persons and, as a consequence thereof, each such person has, in the property, a new interest or right the fair market value of which immediately after the partition, expressed as a percentage of the fair market value of all the new interests or rights in the property immediately after the partition, is equal to the fair market value of that person's undivided interest or right immediately before the partition, expressed as a percentage of the fair market value of all the undivided interests or rights in the property immediately before the partition,

(*a*) subsection (20) does not apply to the property, and

(*b*) the new interest or right of each such person shall be deemed to be a continuation of that person's undivided interest or right in the property immediately before the partition,

and, for the purposes of this subsection,

(*c*) subdivisions of a building or of a parcel of land that are established in the course of, or in contemplation of, a partition and that are co-owned by the same persons who co-owned the building or the parcel of land, or by their assignee, shall be regarded as one property, and

(*d*) where an interest or a right in the property is or includes an undivided interest or right, the fair market value of the interest or right shall be determined without regard to any discount or premium that applies to a minority or majority interest or right in the property.

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

History: S. 248(21)(*c*) was amended by S.C. 2001, c. 17, s. 230(5), applicable on Royal Assent, June 14, 2001. S. 248(21)(*c*) formerly read:

"(*c*) subdivisions of a building or of a parcel of land that are established in the course of, or in contemplation of, a partition and that are jointly owned by the same persons who jointly owned the building or the parcel of land, or by their assignee, shall be regarded as one property, and"

S. 248(21), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 230(4), applicable on Royal Assent, June 14, 2001. S. 248(21), the portion before paragraph (*a*) formerly read:

"(21) *Subdivision of property.* Where a property that was owned jointly by 2 or more persons is the subject of a partition among those persons and, as a consequence thereof, each such person has, in the property, a new interest the fair market value of which immediately after the partition, expressed as a percentage of the fair market value of all the new interests in the property immediately after the partition, is equal to the fair market value of that person's undivided interest immediately before the partition, expressed as a percentage of the fair market value of all the undivided interests in the property immediately before the partition,"

S. 248(21) was added by S.C. 1994, c. 7, Sched. II, s. 192(18), applicable after July 13, 1990.

► 248(22) ◄

(22) Matrimonial regimes. Where at any time property could, as a consequence of the dissolution of a matrimonial regime between 2 spouses or common-law partners, be the subject of a partition, for the purposes of this Act

(*a*) where that property was owned by one of the spouses or common-law partners immediately before it became subject to that regime and had not subsequently been disposed of before that time, it shall be deemed to be owned at that time by that spouse or common-law partner and not by the other spouse or common-law partner; and

(*b*) in any other case, the property shall be deemed to be owned by the spouse or common-law partner who has the administration of that property at that time and not by the other spouse or common-law partner.

History: S. 248(22) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.35), applicable January 1, 2001, coming into force on July 31, 2000. S. 248(22) formerly read:

"(22) *Matrimonial regimes.* Where at any time property could, as a consequence of the dissolution of a matrimonial regime between 2 spouses, be the subject of a partition, for the purposes of this Act

(*a*) where that property was owned by one of the spouses immediately before it became subject to that regime and had not subsequently been disposed of before that time, it shall be deemed to be owned at that time by that spouse and not by the other spouse; and

(*b*) in any other case, the property shall be deemed to be owned by the spouse who has the administration of that property at that time and not by the other spouse."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 248(22) was added by S.C. 1994, c. 7, Sched. II, s. 192(18), applicable after July 13, 1990.

Related Sections: S. 252(3) Extended meaning of "spouse" and "former spouse".

▶ 248(23) ◀

(23) Dissolution of a matrimonial regime. Where, immediately after the dissolution of a matrimonial regime (other than a dissolution occurring as a consequence of death), the owner of a property that was subject to that regime is not the person, or the estate of the person, who is deemed by subsection (22) to have been the owner of the property immediately before the dissolution, the person shall be deemed for the purposes of this Act to have transferred the property to the person's spouse or common-law partner immediately before the dissolution.

History: S. 248(23) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.35), applicable January 1, 2001, coming into force on July 31, 2000. S. 248(23) formerly read:

"(23) *Dissolution of a matrimonial regime.* Where, immediately after the dissolution of a matrimonial regime (other than a dissolution occurring as a consequence of death), the owner of a property that was subject to that regime is not the person, or the estate of the person, who is deemed by subsection (22) to have been the owner of the property immediately before the dissolution, the person shall be deemed for the purposes of this Act to have transferred the property to the person's spouse immediately before the dissolution."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 248(23) was amended by S.C. 1994, c. 21, s. 109(8), applicable to dissolutions and deaths occurring after December 21, 1992. S. 248(23) formerly read:

"(23) Where the owner, immediately after the dissolution of a matrimonial regime, of a property that was subject to that regime is not the person, or the estate of the person, who, because of subsection (22), was the owner of the property immediately before the dissolution, that person shall be deemed, for the purposes of this Act, to have transferred the property to that person's spouse immediately before the dissolution or, if the dissolution occurs as a consequence of the death of one of the spouses, immediately before the time that is immediately before the death."

S. 248(23) was added by S.C. 1994, c. 7, Sched. II, s. 192(18), applicable after July 13, 1990.

▶ 248(23.1) ◀

(23.1) Transfers after death. Where, as a consequence of the laws of a province relating to spouses' or common-law partners' interests in respect of property as a result of marriage or common-law partnership, property is, after the death of a taxpayer,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 248(23.1) of the Act before paragraph (*a*) is replaced by the following:

(23.1) Transfers after death. Where, as a consequence of the laws of a province relating to spouses' or common-law partners' interests or rights in respect of property as a result of marriage or common-law partnership, property is, after the death of a taxpayer:

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

(*a*) transferred or distributed to a person who was the taxpayer's spouse or common-law partner at the time of the death, or acquired by that person, the property shall be deemed to have been so transferred, distributed or acquired, as the case may be, as a consequence of the death; or

(*b*) transferred or distributed to the taxpayer's estate, or acquired by the taxpayer's estate, the property shall be deemed to have been so transferred, distributed or acquired, as the case may be, immediately before the time that is immediately before the death.

History: S. 248(23.1)(*a*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.35), applicable January 1, 2001, coming into force on July 31, 2000. S. 248(23.1)(*a*) formerly read:

"(*a*) transferred or distributed to a person who was the taxpayer's spouse at the time of the death, or acquired by that person, the property shall be deemed to have been so transferred, distributed or acquired, as the case may be, as a consequence of the death; or"

S. 248(23.1), the portion before paragraph (*a*) was amended by S.C. 2000, c. 12, Sched. 2, s. 7(l) and 9(r), applicable January 1, 2001, coming into force on July 31, 2000. S. 248(23.1), the portion before paragraph (*a*) formerly read:

"(23.1) *Transfers after death.* Where, as a consequence of the laws of a province relating to spouses' interests in respect of property as a result of marriage, property is, after the death of a taxpayer,"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 248(23.1) was added by S.C. 1994, c. 21, s. 109(8), applicable to dissolutions and deaths occurring after December 21, 1992.

Interpretation Bulletins: *Secondary* — IT-313R2 Eligible capital property — Rules where a taxpayer has ceased carrying on a business or has died.

▶ 248(24) ◀

(24) Accounting methods. For greater certainty, it is hereby declared that, unless specifically required, neither the equity nor the consolidation method of accounting shall be used to determine any amount for the purposes of this Act.

History: S. 248(24) was added by S.C. 1994, c. 7, Sched. II, s. 192(18), effective December 17, 1991.

▶ 248(25) ◀

(25) Beneficially interested. For the purposes of this Act,

(*a*) a person or partnership beneficially interested in a particular trust includes any person or partnership that has any right (whether immediate or future, whether absolute or contingent or whether conditional on or subject to the exercise of any discretion by any person or partnership) as a beneficiary under a trust to receive any of the income or capital of the particular trust either directly from the particular trust or indirectly through one or more trusts or partnerships;

(*b*) except for the purpose of this paragraph, a particular person or partnership is deemed to be beneficially interested in a particular trust at a particular time where

(i) the particular person or partnership is not beneficially interested in the particular trust at the particular time,

(ii) because of the terms or conditions of the particular trust or any arrangement in respect of the particular trust at the particular time, the particular person or partnership might, because of the exercise of any discretion by any person or partnership, become beneficially interested in the particular trust at the particular time or at a later time, and

(iii) at or before the particular time, either

(A) the particular trust has acquired property, directly or indirectly in any manner whatever, from

(I) the particular person or partnership,

(II) another person with whom the particular person or partnership, or a member of the particular partnership, does not deal at arm's length,

(III) a person or partnership with whom the other person referred to in subclause (II) does not deal at arm's length,

(IV) a controlled foreign affiliate of the particular person or of another person with whom the particular person or partnership, or a member of the particular partnership, does not deal at arm's length, or

(V) a non-resident corporation that would, if the particular partnership were a corporation resident in Canada, be a controlled foreign affiliate of the particular partnership, or

(B) a person or partnership described in any of subclauses (A)(I) to (V) has given a guarantee on behalf of the particular trust or provided any other financial assistance whatever to the particular trust; and

(*c*) a member of a partnership that is beneficially interested in a trust is deemed to be beneficially interested in the trust.

History: S. 248(25) was amended by S.C. 1998, c. 19, s. 239(7), applicable after 1997. S. 248(25) formerly read:

"(25) *Beneficially interested.* For the purposes of this Act, a person or partnership beneficially interested in a particular trust includes any person or partnership that has any right (whether immediate or future, whether absolute or contingent or whether conditional on or subject to the exercise of any discretionary power by any person or persons) as a beneficiary under a trust to receive any of the income or capital of the particular trust either directly from the particular trust or indirectly through one or more other trusts."

S. 248(25) was amended by S.C. 1997, c. 25, s. 71(4), applicable after 1996. S. 248(25) formerly read:

"(25) *Beneficially interested.* For the purposes of this Act, a person or partnership is beneficially interested in a particular trust if the person or partnership has any right (whether immediate or future, whether absolute or contingent or whether conditional on or subject to the exercise of any discretionary power by any person or persons) as a beneficiary under a trust to receive any of the income or capital of the particular trust either directly from the particular trust or indirectly through one or more other trusts."

S. 248(25) was amended by S.C. 1994, c. 21, s. 109(9), applicable after 1990. S. 248(25) formerly read:

"(25) For the purposes of this Act, a person or partnership is beneficially interested in a trust if the person or partnership has any right (whether immediate or future, whether absolute or contingent or whether conditional on or subject to the exercise of any discretionary power by any person or persons) to receive any of the income or capital of the trust either directly from the trust or indirectly through one or more other trusts."

S. 248(25) was added by S.C. 1994, c. 7, Sched. VIII, s. 139(10), applicable after 1990.

Related Sections: S. 233.2(1), "specified foreign trust"; s. 233.6(1) Returns respecting distributions from non-resident trusts; s. 248(1), "trust"; s. 248(3) Rules applicable in relation to the Province of Quebec.

Interpretation Bulletins: *Secondary* — IT-394R2 Preferred beneficiary election.

Canadian Tax Foundation: Fortin, "Hidden Traps Of Offshore Trusts", *1999 Conference Report*, 40:1.

► 248(25.1) ◄

(25.1) Trust-to-trust transfers. Where at any time a particular trust transfers property to another trust (other than a trust governed by a registered retirement savings plan or by a registered retirement income fund) in circumstances to which paragraph (*f*) of the definition "disposition" in subsection (1) applies, without affecting the personal liabilities under this Act of the trustees of either trust or the application of subsection 104(5.8) and paragraph 122(2)(*f*), the other trust is deemed to be after that time the same trust as, and a continuation of, the particular trust, and, for greater certainty, if the property was deemed to be taxable Canadian property of the particular trust by paragraph 51(1)(*f*), 85(1)(*i*) or 85.1(1)(*a*) or (8)(*b*), subsection 85.1(5) or 87(4) or (5) or paragraph 97(2)(*c*) or 107(2)(*d.1*) or (3.1)(*d*), the property is deemed to be taxable Canadian property of the other trust.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 248(25.1) of the Act is replaced by the following:

(25.1) Trust-to-trust transfers. Where at any time a particular trust transfers property to another trust (other than a trust governed by a registered retirement savings plan or by a registered retirement income fund) in circumstances to which paragraph (*f*) of the definition "disposition" in subsection (1) applies, without affecting the personal liabilities under this Act of the trustees of either trust or the application of subsection 104(5.8) and paragraph 122(2)(*f*), the other trust is deemed to be after that time the same trust as, and a continuation of, the particular trust, and, for greater certainty, if the property was deemed to be taxable Canadian property of the particular trust by paragraph 51(1)(*f*), 85(1)(*i*) or 85.1(1)(*a*), subsection 85.1(5) or 87(4) or (5) or paragraph 97(2)(*c*) or 107(2)(*d.1*), the property is deemed to be taxable Canadian property of the other trust.

Applicable: In respect of transfers that occur after December 23, 1998.

Explanatory Note:

Trust-to-trust Transfers

Subsection 248(25.1) of the Act applies where there is a transfer of a property from a particular trust to another trust (other than a RRSP trust or RRIF trust) in circumstances to which paragraph (*f*) of the definition "disposition" in subsection 248(1) (see the commentary above) applies. The result of the application of paragraph (*f*) is that the transfer does not constitute a disposition. Where this is the case, subsection 248(25.1) deems the other trust after the particular time to be the same trust as, and a continuation of, the particular trust.

Subsection 248(25.1) is amended, for greater certainty, to ensure that where the transferred property is deemed under a number of specified provisions to be taxable Canadian property of the particular trust, the property continues to be taxable Canadian property of the other trust.

This amendment applies in respect of transfers that occur after December 23, 1998.

History: S. 248(25.1) was replaced by S.C. 2009, c. 2, s. 76(6), applicable after December 19, 2007. S. 248(25.1) formerly read:

"(25.1) *Trust-to-trust transfers.* Where at any time a particular trust transfers property to another trust (other than a trust governed by a registered retirement savings plan or by a registered retirement income fund) in circum-

stances to which paragraph (*f*) of the definition 'disposition' in subsection (1) applies, without affecting the personal liabilities under this Act of the trustees of either trust or the application of subsection 104(5.8) and paragraph 122(2)(*f*), the other trust is deemed to be after that time the same trust as, and a continuation of, the particular trust."

S. 248(25.1) was added by S.C. 2001, c. 17, s. 188(6), applicable to transfers that occur after December 23, 1998.

► 248(25.2) ◄

(25.2) Trusts to ensure obligations fulfilled. Except for the purpose of this subsection, where at any time property is transferred to a trust in circumstances to which paragraph (*k*) of the definition "disposition" in subsection (1) applies, the trust is deemed to deal with the property as agent for the transferor throughout the period that begins at the time of the transfer and ends at the time of the first change after that time in the beneficial ownership of the property.

History: S. 248(25.2) was added by S.C. 2001, c. 17, s. 188(6), applicable to transfers that occur after December 23, 1998.

► 248(25.3) ◄

(25.3) Cost of trust interest. The cost to a taxpayer of a particular unit of a trust is deemed to be equal to the amount described in paragraph (*a*) where

(*a*) the trust issues the particular unit to the taxpayer directly in satisfaction of a right to enforce payment of an amount by the trust in respect of the taxpayer's capital interest in the trust;

(*b*) at the time that the particular unit is issued, the trust is neither a personal trust nor a trust prescribed for the purpose of subsection 107(2); and

(*c*) either

(i) the particular unit is capital property and subparagraph 53(2)(*h*)(i.1) applies in respect of the amount described in paragraph (*a*), or would apply if that subparagraph were read without reference to clauses 53(2)(*h*)(i.1) (A) and (B), or

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 248(25.3)(*c*)(i) of the Act is replaced by the following:

(i) the particular unit is capital property and the amount is not proceeds of disposition of a capital interest in the trust, or

Applicable: To units issued after December 20, 2002.

Explanatory Note:

Cost of Trust Interest

Subsection 248(25.3) of the *Income Tax Act* applies where a trust (other than a personal trust or a trust prescribed for the purpose of subsection 107(2) of the Act) issues particular units of the trust to a taxpayer directly in satisfaction of a right to a qualifying amount payable from the trust in respect of the taxpayer's capital interest in the trust. In such a case, the cost to the taxpayer of the particular units is deemed to equal the amount so payable. Subparagraph 248(25.3)(*c*)(i) provides that in the case of particular units of a trust that are capital property, a qualifying amount payable is one that causes, or but for clauses 53(2)(*h*)(i.1)(A) and (B) would cause, a reduction under subparagraph 53(2)(*h*)(i.1) of the Act to the adjusted cost base of the taxpayer's capital interest in the trust.

Subparagraph 248(25.3)(*c*)(i) is amended to provide that, in the case of particular units of a trust that are capital property, a qualifying amount payable is an amount payable that does not represent proceeds of disposition of a capital interest in the trust.

This amendment applies to trust units issued after December 20, 2002.

(ii) the particular unit is not capital property and subparagraph 53(2)(*h*)(i.1) does not apply in respect of the amount described in paragraph (*a*) but would so apply if that subparagraph were read without reference to clauses 53(2)(*h*)(i.1)(A) and (B).

History: S. 248(25.3) was added by S.C. 2001, c. 17, s. 188(6), applicable to the 1999 and subsequent taxation years.

► 248(25.4) ◄

(25.4) Where acquisition by another of right to enforce. If at a particular time a taxpayer's capital interest in a trust includes a right to enforce payment of an amount by the trust, the amount shall be added at the particular time to the cost otherwise determined to the taxpayer of the capital interest where

(*a*) immediately after the particular time there is a disposition by the taxpayer of the capital interest;

(*b*) as a consequence of the disposition, the right to enforce payment of the amount is acquired by another person or partnership; and

(*c*) if the right to enforce payment of the amount had been satisfied by a payment to the taxpayer by the trust, there would have been no disposition of that right for the purposes of this Act because of the application of paragraph (*i*) of the definition "disposition" in subsection (1).

History: S. 248(25.4) was added by S.C. 2001, c. 17, s. 188(6), applicable to transfers that occur after December 23, 1998.

► 248(26) ◄

(26) Debt obligations. For greater certainty, where at any time a person or partnership (in this subsection referred to as the "debtor") becomes liable to repay money borrowed by the debtor or becomes liable to pay an amount (other than interest)

(*a*) as consideration for any property acquired by the debtor or services rendered to the debtor, or

(*b*) that is deductible in computing the debtor's income,

for the purposes of applying the provisions of this Act relating to the treatment of the debtor in respect of the liability, the liability shall be considered to be an obligation, issued at that time by the debtor, that has a principal amount at that time equal to the amount of the liability at that time.

History: S. 248(26) was added by S.C. 1995, c. 21, s. 43(3), applicable to taxation years that end after February 21, 1994.

► 248(27) ◄

(27) Parts of debt obligations. For greater certainty,

(*a*) unless the context requires otherwise, an obligation issued by a debtor includes any part of a larger obligation that was issued by the debtor;

(*b*) the principal amount of that part shall be considered to be the portion of the principal amount of that larger obligation that relates to that part; and

(*c*) the amount for which that part was issued shall be considered to be the portion of the amount for which that larger obligation was issued that relates to that part.

History: S. 248(27) was added by S.C. 1995, c. 21, s. 43(3), applicable to taxation years that end after February 21, 1994.

► 248(28) ◄

(28) Limitation respecting inclusions, deductions and tax credits. Unless a contrary intention is evident, no provision of this Act shall be read or construed

(*a*) to require the inclusion or permit the deduction, either directly or indirectly, in computing a taxpayer's income, taxable income or taxable income earned in Canada, for a taxation year or in computing a taxpayer's income or loss for a taxation year from a particular source or from sources in a particular place, of any amount to the extent that the amount has already been directly or indirectly included or deducted, as the case may be, in computing such income, taxable income, taxable income earned in Canada or loss, for the year or any preceding taxation year;

(*b*) to permit the deduction, either directly or indirectly, in computing a taxpayer's tax payable under any Part of this Act for a taxation year of any amount to the extent that the amount has already been directly or indirectly deducted in computing such tax payable for the year or any preceding taxation year; or

(*c*) to consider an amount to have been paid on account of a taxpayer's tax payable under any Part of this Act for a taxation year to the extent that the amount has already been considered to have been paid on account of such tax payable for the year or any preceding taxation year.

History: S. 248(28) was added by S.C. 1996, c. 21, s. 60(3), applicable to taxation years that end after July 19, 1995.

Related Sections: S. 20(12.1) Foreign tax where no economic profit; s. 62(1) Moving expenses; s. 126(4.1) No economic profit.

► 248(29) ◄

(29) Prescribed stock exchange rule. [Repealed by S.C. 2007, c. 35, s. 65(3).]

History: S. 248(29) was repealed by S.C. 2007, c. 35, s. 65(3), applicable on and after December 14, 2007. S. 248(29) formerly read:

"(29) *Prescribed stock exchange rule.* A part, division or subdivision of a stock exchange that is prescribed for the purpose of any provision of this Act is deemed for that purpose to be a prescribed stock exchange."

S. 248(29) was added by S.C. 2001, c. 17, s. 188(7), applicable after October 1999.

Regulations: 3200; 3201.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 248 of the Act is amended by adding the following after subsection (29):

(30) Intention to give. The existence of an amount of an advantage in respect of a transfer of property does not in and by itself disqualify the transfer from being a gift to a qualified donee if

(*a*) the amount of the advantage does not exceed 80% of the fair market value of the transferred property; or

(*b*) the transferor of the property establishes to the satisfaction of the Minister that the transfer was made with the intention to make a gift.

(31) Eligible amount of gift or monetary contribution. The eligible amount of a gift or monetary contribution is the amount by which the fair market value of the property that is the subject of the gift or monetary contribution exceeds the amount of the advantage, if any, in respect of the gift or monetary contribution.

(32) Amount of advantage. The amount of the advantage in respect of a gift or monetary contribution by a taxpayer is the total of

(*a*) the total of all amounts, other than an amount referred to in paragraph (*b*), each of which is the value, at the time the gift or monetary contribution is made, of any property, service, compensation, use or other benefit that the taxpayer, or a person or partnership who does not deal at arm's length with the taxpayer, has received, obtained or enjoyed, or is entitled, either immediately or in the future and either absolutely or contingently, to receive, obtain, or enjoy

(i) that is consideration for the gift or monetary contribution,

(ii) that is in gratitude for the gift or monetary contribution, or

(iii) that is in any other way related to the gift or monetary contribution, and

(*b*) the limited-recourse debt, determined under subsection 143.2(6.1), in respect of the gift or monetary contribution at the time the gift or monetary contribution is made.

(33) Cost of property acquired by donor. The cost to a taxpayer of a property, acquired by the taxpayer in circumstances where subsection (32) applies to include the value of the property in computing the amount of the advantage in respect of a gift or monetary contribution, is equal to the fair market value of the property at the time the gift or monetary contribution is made.

(34) Repayment of limited-recourse debt. If at any time in a taxation year a taxpayer has paid an amount (in this subsection referred to as the "repaid amount") on account of the principal amount of an indebtedness which was, before that time, an unpaid principal amount that was a limited-recourse debt referred to in subsection 143.2(6.1) (in this subsection referred to as the "former limited-recourse debt") in respect of a gift or monetary contribution (in this subsection referred to as the "original gift"or "original monetary contribution", respectively, as the case may be) of the taxpayer (otherwise than by way of an assignment or transfer of a guarantee, security or similar indemnity or covenant, or by way of a payment in respect of which any taxpayer referred to in subsection 143.2(6.1) has incurred an indebtedness that would be a limited-recourse debt referred to in that subsection if that indebtedness were in respect of a gift or monetary contribution made at the time that that indebtedness was incurred), the following rules apply:

(*a*) if the former limited-recourse debt is in respect of the original gift, for the purposes of sections 110.1 and 118.1, the taxpayer is deemed to have made in the taxation year a gift to a qualified donee, the eligible amount of which deemed gift is the amount, if any, by which

(i) the amount that would have been the eligible amount of the original gift, if the total of all such repaid amounts paid at or before that time were paid immediately before the original gift was made,

exceeds

(ii) the total of

(A) the eligible amount of the original gift, and

(B) the eligible amount of all other gifts deemed by this paragraph to have been made before that time in respect of the original gift; and

(*b*) if the former limited-recourse debt is in respect of the original monetary contribution, for the purposes of subsection 127(3), the taxpayer is deemed to have made in the taxation year a monetary contribution referred to in

that subsection, the eligible amount of which is the amount, if any, by which

(i) the amount that would have been the eligible amount of the original monetary contribution, if the total of all such repaid amounts paid at or before that time were paid immediately before the original monetary contribution was made,

exceeds

(ii) the total of

(A) the eligible amount of the original monetary contribution, and

(B) the eligible amount of all other monetary contributions deemed by this paragraph to have been made before that time in respect of the original monetary contribution.

(35) Deemed fair market value. For the purposes of subsection (31), paragraph 69(1)(*b*) and subsections 110.1(2.1) and (3) and 118.1(5.4) and (6), the fair market value of a property that is the subject of a gift made by a taxpayer to a qualified donee is deemed to be the lesser of the fair market value of the property otherwise determined and the cost, or in the case of capital property, the adjusted cost base, of the property to the taxpayer immediately before the gift is made if

(*a*) the taxpayer acquired the property under a gifting arrangement that is a tax shelter as defined in subsection 237.1(1); or

(*b*) except where the gift is made as a consequence of the taxpayer's death,

(i) the taxpayer acquired the property less than 3 years before the day that the gift is made, or

(ii) the taxpayer acquired the property less than 10 years before the day that the gift is made and it is reasonable to conclude that, at the time the taxpayer acquired the property, one of the main reasons for the acquisition was to make a gift of the property to a qualified donee.

(36) Non-arm's length transaction. If a taxpayer acquired a property that is the subject of a gift to which subsection (35) applies because of subparagraph (35)(*b*)(i) or (ii) and the property was, at any time within the 3-year or 10-year period, respectively, that ends when the gift was made, acquired by a person or partnership with whom the taxpayer does not deal at arm's length, for the purpose of applying subsection (35) to the taxpayer, the cost, or in the case of capital property, the adjusted cost base, of the property to the taxpayer immediately before the gift is made is deemed to be equal to the lowest amount that is the cost, or in the case of capital property, the adjusted cost base, to the taxpayer or any of those persons or partnerships immediately before the property was disposed of by that person or partnership.

(37) Non-application of subsection (35). Subsection (35) does not apply to a gift

(*a*) of inventory;

(*b*) of real property or an immovable situated in Canada;

(*c*) of an object referred to in subparagraph 39(1)(*a*)(i.1);

(*d*) of property to which paragraph 38(*a*.1) or (*a*.2) would apply, if those paragraphs were read without reference to "other than a private foundation";

(*e*) of a share of the capital stock of a corporation if

(i) the share was issued by the corporation to the donor,

(ii) immediately before the gift, the corporation was controlled by the donor, a person related to the donor or a group of persons each of whom is related to the donor, and

(iii) subsection (35) would not have applied in respect of the consideration for which the share was issued had that consideration been donated by the donor to the qualified donee when the share was so donated;

(*f*) by a corporation of property if

(i) the property was acquired by the corporation in circumstances to which subsection 85(1) or (2) applied,

(ii) immediately before the gift, the shareholder from whom the corporation acquired the property controlled the corporation or was related to a person or each member of a group of persons that controlled the corporation, and

(iii) subsection (35) would not have applied in respect of the property had the property not been transferred to the corporation and had the shareholder made the gift to the qualified donee when the corporation so made the gift; or

(*g*) of a property that was acquired in circumstances where subsection 70(6) or (9) or 73(1), (3) or (4) applied, unless subsection (36) would have applied if this subsection were read without reference to this paragraph.

(38) Artificial transactions. The eligible amount of a particular gift of property by a taxpayer is nil if it can reasonably be concluded that the particular gift relates to a transaction or series of transactions

(*a*) one of the purposes of which is to avoid the application of subsection (35) to a gift of any property; or

(*b*) that would, if this Act were read without reference to this paragraph, result in a tax benefit to which subsection 245(2) applies.

(39) Substantive gift. If a taxpayer disposes of a property (in this subsection referred to as the "substantive gift") that is a capital property or an eligible capital property of the taxpayer, to a recipient that is a registered party, a provincial division of a registered party, a registered association or a candidate, as those terms are defined in the *Canada Elections Act*, or that is a qualified donee, subsection (35) would have applied in respect of the substantive gift if it had been the subject of a gift by the taxpayer to a qualified donee, and all or a part of the proceeds of disposition of the substantive gift are (or are substituted, directly or indirectly in any manner whatever, for) property that is the subject of a gift or monetary contribution by the taxpayer to the recipient or any person dealing not at arm's length with the recipient, the following rules apply:

(*a*) for the purpose of subsection (31), the fair market value of the property that is the subject of the gift or monetary contribution made by the taxpayer is deemed to be that proportion of the lesser of the fair market value of the substantive gift and the cost, or if the substantive gift is capital property of the taxpayer, the adjusted cost base, of the substantive gift to the taxpayer immediately before the disposition to the recipient, that the fair market value otherwise determined of the property that is the subject of the gift or monetary contribution is of the proceeds of disposition of the substantive gift;

(*b*) if the substantive gift is capital property of the taxpayer, for the purpose of the definitions "proceeds of disposition" of property in subsection 13(21) and section 54, the sale price of the substantive gift is to be reduced by the amount by which the fair market value of the property that is the subject of the gift (determined without reference to this section) exceeds the fair market value determined under paragraph (*a*); and

(*c*) if the substantive gift is eligible capital property of the taxpayer, the amount determined under paragraph (*a*) in the description of E in the definition "cumulative eligible capital" in subsection 14(5) in respect of the substantive gift is to be reduced by the amount by which the fair market value of the property that is the subject of the gift (determined without reference to this section) exceeds the fair market value determined under paragraph (*a*).

(40) Inter-charity gifts. Subsection (30) does not apply in respect of a gift received by a qualified donee from a registered charity.

(41) Information not provided. Notwithstanding subsection (31), the eligible amount of a gift or monetary contribution made by a taxpayer is nil if the taxpayer does not — before a receipt referred to in subsection 110.1(2), 118.1(2) or 127(3), as the case may be, is issued in respect of the gift or monetary contribution — inform the qualified donee or the recipient, as the case may be, of any circumstances in respect of which subsection (31), (35), (36), (38) or (39) requires that the eligible amount of the gift or monetary contribution be less than the fair market value, determined without reference to subsection (35) and subsections 110.1(3) and 118.1(6), of the property that is the subject of the gift or monetary contribution.

Applicable: In respect of gifts and monetary contributions made after December 20, 2002, except that

(*a*) subsection 248(32) is to be read without reference to

(i) its paragraph (*b*) in respect of gifts and monetary contributions made before February 19, 2003, and

(ii) its subparagraph (*a*)(iii) in respect of gifts and monetary contributions made before 6:00 p.m. (Eastern Standard Time) on December 5, 2003;

(*b*) subsection 248(34) does not apply in respect of gifts and monetary contributions made before February 19, 2003;

(*c*) subsections 248(35), (37) and (38) do not apply in respect of gifts made before 6:00 p.m. (Eastern Standard Time) on December 5, 2003 and, in respect of gifts made after that time but before July 18, 2005, subsection 248(38) is to be read as follows:

"(38) If it can reasonably be concluded that one of the reasons for a series of transactions, that includes a disposition or acquisition of a property of a taxpayer that is the subject of a gift by the taxpayer, is to increase the amount that would be deemed by subsection (35) to be the fair market value of the property, the cost of the property for the purpose of that subsection is deemed to be the lowest cost to the taxpayer to acquire that property or an identical property at any time."

(*d*) subsection 248(36) does not apply in respect of gifts or monetary contributions made before July 18, 2005;

(*e*) subsection 248(39) does not apply in respect of gifts or monetary contributions made before February 27, 2004;

(*f*) subsection 248(40) does not apply in respect of gifts made before November 9, 2006; and

(*g*) subsection 248(41) does not apply in respect of gifts and monetary contributions made before 2006.

Explanatory Note:

Gifts and Contributions

At common law, it is generally the view that a gift includes only a property transferred voluntarily, without any contractual obligation and with no advantage of a material character returned to the transferor.

In contrast, under section 1806 of the *Civil Code of Quebec* ("CCQ"), a gift in Quebec is a contract by which ownership of property is transferred by gratuitous title. However, the rights of ownership may be separated, such that it may be possible for a transferor to transfer part of the rights of ownership without any material advantage returned (i.e., by way of gift) and to transfer the other Part separately for consideration. It is therefore possible, in Quebec, to sell a property to a charity at a price below fair market value, resulting in a gift of the difference.

Under both the common law and the CCQ, it is generally accepted that a transfer of property is not a gift unless the donor is impoverished by the transfer to the benefit of the donee and it is the donor's intention to enrich the donee without consideration.

At common law there is generally no ability to separate the rights of ownership of a single property in the course of making a gift. As such, at common law a contract to dispose of a property to a charity at a price below fair market value would not generally be considered to include a gift.

Nevertheless, there have been certain decisions made under the common law where it has been found that a transfer of property to a charity was made partly in consideration for services and partly as a gift.

Subsections 248(30), (31) and (32) are added to the Act to clarify the circumstances under which taxpayers and donees may be eligible for tax benefits available under the Act in respect of the impoverishment of a taxpayer in favour of a donee. In addition to the clarification provided by these new rules, on December 24, 2002, the Canada Revenue Agency released guidelines (*Income Tax Technical News No. 26*) that describe how it will apply the new rules to various situations and fundraising methods commonly used in the charitable sector. Subsection 248(34) provides technical rules regarding the repayment of debt that previously reduced the eligible amount of a gift. Subsections 248(35) to (39) provide technical rules, regarding the eligible amount of a gift or the value of property transferred and benefits receivable, that apply in calculating the eligible amount of a gift or political contribution. New subsection (40) provides that the rule in subsection 248(30) does not generally apply to inter-charity transfers. New subsection (41) deems the eligible amount of a gift to be nil if a donor fails to provide that information.

In general, these provisions are intended to reflect the policy that the amount eligible for an income tax benefit to a donor, by way of a charitable donation deduction or credit or a political contributions tax credit, should reflect the economic impact on the donor (before considering the income tax benefit) of the gift or contribution.

Subsection 248(30) — Intention to Give

For the transfer of property to qualify as a gift, it is necessary that the transfer be voluntary and with the intention to make a gift. At common law, where the transferor of the property has received any form of consideration or benefit, it is generally presumed that such an intention is not present. New subsection 248(30) of the Act, which applies in respect of transfers of property after December 20, 2002 to qualified donees (such as registered charities), allows the opportunity to rebut this presumption. New paragraph 248(30)(*a*) provides that the existence of an amount of an advantage to the transferor will not necessarily disqualify the transfer from being a gift if the amount of the advantage does not exceed 80% of the fair market value of the transferred property.

Example

Mr. Short transfers land and a building with a fair market value of $300,000 to a registered charity. The charity assumes liability for an outstanding $100,000 mortgage on the property. The assumption of the mortgage by the charity does not necessarily disqualify the transfer from being a gift for the purposes of the Act.

If the value of the mortgage is equal to the outstanding amount (e.g., the interest rate and terms and conditions are representative of current market conditions), the eligible amount of the gift, in respect of which Mr. Short may be entitled to a tax credit under subsection 118.1(3), is $200,000.

If the amount of an advantage in respect of a transfer of property exceeds 80% of the fair market value of the transferred property, new paragraph 248(30)(*b*) provides that the transfer will not necessarily be disqualified from being a gift if the transferor can establish to the satisfaction of the Minister of National Revenue that the transfer was made with the intention to make a gift.

In the above example, if the amount of the mortgage outstanding had been greater than $240,000, Mr. Short (or the charity on Mr. Short's behalf) could apply to the Minister of National Revenue for a determination as to whether the transfer was made with the intention to make a gift.

It is generally accepted that the tax benefit available to a taxpayer, by way of a charitable donation deduction or credit, is not considered an advantage or benefit that would reflect a lack of donative intent on the part of a taxpayer. However, there may be circumstances where the intention of a taxpayer to make a gift is in doubt because of the combination of tax and other benefits to the taxpayer. If the primary motivation of a taxpayer for entering into a transaction or series of transactions is to return a profit to the taxpayer by way of a combination of tax and other benefits, the taxpayer may not be impoverished by the transfer of a property to a charity. Subsection 248(30) is not intended to allow a taxpayer to profit by the making of a gift.

Subsection 248(31) — Eligible Amount of Gift or Monetary Contribution

New subsection 248(31) of the Act, which applies in respect of gifts and political contributions made after December 20, 2002, defines the eligible amount of a gift or contribution as the amount by which the fair market value of the property that is the subject of the gift or contribution exceeds the amount of the advantage, if any, in respect of the gift or contribution. Subsection 248(31) is added concurrently with amendments to subsections 110.1(1) and 118.1(1) of the Act, which describe the types of gifts in respect of which an eligible amount will qualify for a deduction (for corporations) or a tax credit (for individuals). The amount of the advantage in respect of a gift or contribution is described in new subsection 248(32) of the Act.

It is proposed that subsections 3501(1), (1.1) and (6) of the Regulations be amended to provide that official receipts issued by a registered organization in respect of a gift made after December 20, 2002 contain, in addition to the information already prescribed, the eligible amount of the gift.

Subsection 248(32) — Amount of Advantage

New subsection 248(32), which generally applies in respect of gifts or political contributions made after December 20, 2002, describes the amount of an advantage in respect of a gift or

contribution as, in general, the total value of all property, services, compensation or other benefits to which the donor of a property is entitled.

Subsection 248(32) is added concurrently with the addition of subsection 248(31) of the Act, which defines the eligible amount of a gift or contribution, and with the amendment of subsection 127(3) of the Act in respect of contributions to a political party. The amount of an advantage reduces the eligible amount of a gift or contribution.

In general, new subsection 248(32) is intended to apply in respect of any transaction or series of transactions having either the purpose or the effect of reducing the economic impact to a donor of a gift or contribution. This includes, for instance, situations where a charity invests funds or acquires property in a manner that benefits the donor. The reduction to an eligible amount also includes an advantage that is partial consideration for, or in gratitude for, the gift or contribution, or is in any way related to the gift or contribution. An example would include the option of a donor to satisfy or pay a loan by assigning or transferring to another person a property (including the rights under an insurance policy) that has less economic value than the amount of loan outstanding. Another example would include an assumption of a donor's risk by a charity, where the acquisition, directly or indirectly, of an interest in a property of the donor by the charity may have the effect of reducing the potential loss of the donor from that investment. (However, a tax credit or deduction resulting from a charitable donation is not considered a benefit.)

An advantage may exist even though it is not received at the time of the gift or contribution. For example, it may have been received prior to the time of the gift or may be contingent or receivable in the future. The advantage may accrue either to the donor or to a person not dealing at arm's length with the donor. It is not necessary that the advantage be receivable from the donee.

Paragraph 248(32)(*b*) includes as an advantage any limited-recourse debt in respect of the gift or contribution. For additional details regarding limited-recourse debt, see the commentary to new subsection 143.2(6.1) of the Act.

It is proposed that subsections 2000(1) and (6) and 3501(1), (1.1) and (6) of the Regulations be amended to provide that official receipts issued by a registered organization or political party in respect of a gift or contribution contain, in addition to the information already prescribed, the eligible amount and the amount of the advantage, if any, in respect of the gift or contribution.

Subsection 248(33) — Cost of Property Acquired by Donor

New subsection 248(33) of the Act, which applies in respect of gifts or political contributions made after December 20, 2002, provides that the cost to a taxpayer of property acquired by the taxpayer in the course of the making of a gift or contribution by the taxpayer is the fair market value of the property at the time of the making of the gift or contribution. The fair market value of such a property is relevant in computing the amount of the advantage in respect of the gift or contribution under subsection 248(32).

Subsection 248(34) — Repayment of Limited Recourse Debt

New subsection 248(34) of the Act, which applies in respect of gifts or political contributions made after February 18, 2003, generally provides that a repayment of the principal amount of a limited-recourse debt in respect of a gift or political contribution is deemed to be a gift in the year it is paid. However, in some circumstances the total amount of limited-recourse debt and other advantages to the donor may exceed the fair market value of the property transferred to a charity, resulting in no eligible amount to the donor under subsection 248(31) of the Act. In this case, the donor must pay off the excess amount before any amount will be allowed as a gift. Also, a payment financed by other limited-recourse debt or made by way of assignment or transfer of a guarantee, security or similar indemnity or covenant is not recognized for these purposes. For example, the assumption of a taxpayer's limited-recourse debt by another person, in exchange for an insurance policy in favour of the taxpayer that guarantees a particular rate of return on an investment held by any person, would not qualify as a deemed gift under subsection 248(34).

Subsection 248(35) — Deemed Fair Market Value

New subsection 248(35) of the Act, which applies in respect of gifts made after 6:00 p.m. (EST), December 5, 2003, provides that the fair market value of a property that is the subject of a gift is, for the purposes of determining the eligible amount of a gift under subsection 248(31), deemed to be the lesser of the actual fair market value of the property and its cost to the donor. This rule applies if the property was acquired by the donor as part of a gifting arrangement that is a tax shelter. For more information on gifting arrangements, refer to the commentary for subsection 237.1(1) of the Act.

Unless the donation is made as a consequence of the donor's death, this rule also applies if the property was acquired

- less than three years before the time of donation, or
- less than 10 years before that time, if one of the main purposes of acquisition was to gift the property to a qualified donee.

Subsection 248(36) — Non-arm's Length Transactions

New subsection 248(36) of the Act applies in conjunction with subsection 248(35), to "look-back" to discern whether a donated property was previously acquired by a person dealing non-arm's length with the donor. If subsection 248(35) applies because the donor acquired the property within the three years of donation, then if a non-arm's length person owned that property within that three-year period, the value of the gift to the donor will be the lower of the taxpayer's cost and the lowest cost to any such non-arm's length person.

Similarly, the rule will apply if subsection (35) applies because the taxpayer acquired the property within the last ten years and one of the main reasons of the acquisition was to gift the property, if a non-arm's length person acquired that property within that ten-year period.

Subsection 248(36) applies to gifts made on or after July 18, 2005.

Subsection 248(37) — Non-application of Subsection (35)

New subsection 248(37) of the Act provides exceptions to the application of subsection 248(35) of the Act where the property that is the subject of a gift is an ecological gift, inventory, real property situated in Canada, publicly-traded securities or cultural property, the value of which is certified by the *Cultural Property Export Review Board*.

In some circumstances, a shareholder might transfer a property to a controlled corporation in exchange for shares issued by the corporation, and then donate the shares. Alternatively, the corporation might donate the property it received. If subsection 248(35) would not have applied to a gift of a property by a shareholder, either because it is a type of property referred to above or because subsection 248(35) would not apply to the shareholder in any event, and if the shareholder donates the share, subsection 248(37) will further exempt the share from the application of subsection 248(35). If subsections 85(1) or 85(2) of the Act applied to the transfer of such an exempt property to the corporation, then subsection 248(37) will preclude the application of subsection 248(35) to that property if it is then donated by the corporation.

Similarly, sometimes a donor will make a gift of a property that was acquired in circumstances where subsection 70(6) or (9) or 73(1), (3) or (4) of the Act applied. In such a case, the donor has acquired the property from a transferor (such as a spouse) on a tax-deferred "rollover" basis. Unless the transferor acquired the property within the 3-year period referred to in subsection 248(35) (or the 10-year period, if applicable), subsection 248(37) provides that subsection 248(35) will not apply in these circumstances to deem the value of the gift to be the donor's rollover cost or adjusted cost base.

Subsection 248(38) — Artificial Transactions

New subsection 248(38) of the Act applies in respect of gifts made after 6:00 p.m. (EST), December 5, 2003, to prevent a donor from avoiding the application of subsection 248(35) by disposing and reacquiring a property before donating it to a qualified donee. If this is the purpose of any transaction or series of transactions that includes a disposition or acquisition of a property, for such gifts made before July 18, 2005, the cost of the property to the donor for the purpose of subsection 248(35) is deemed to be the lowest cost incurred by the taxpayer at any time to acquire that property or an identical property.

For gifts made on or after July 18, 2005, the eligible amount is deemed to be nil if a transaction or series of transactions

- has, as one of its purposes, the avoidance of the application of subsection 248(35), or
- would otherwise result in a tax benefit to which the General Anti-Avoidance Rule in subsection 245(2) would otherwise apply.

For example, the eligible amount of a gift resulting from a transaction or series to which subsection 248(38) would apply, if the gift were made before July 18, 2005, would be deemed to be nil if instead the gift were made on or on or after July 18, 2005.

The objectives of the provisions in the Act related to gifting are generally described above under the heading "Gifts and Contributions", but are not limited to that description.

Subsection 248(39) — Substantive Gift

New subsection 248(39) of the Act, which applies in respect of gifts made after February 26, 2004, prevents a donor from avoiding the application of subsection 248(35) by disposing a property (the "substantive gift") to a qualified donee and donating the proceeds, rather than donating the property itself. The provision applies similarly in respect of political contributions. The fair market value of the gift or contribution of the proceeds, for the purpose of determining its eligible amount under subsection 248(31), is deemed to be the lesser of the fair market value of the property sold and its cost. Subsection 248(39) does not apply if subsection 248(35) would not have applied to a gift by the taxpayer of that property.

Subsection 248(40) — Reasonable Inquiry

The July 18, 2005 proposal in respect of subsection 248(40) of the Act has been removed and replaced with an unrelated amendment.

Subsection 248(40) — Inter-charity gifts

New subsection 248(30) of the Act allows the opportunity for a donor to rebut the general presumption that the receipt of any form of consideration or benefit reflects that lack of an intention to make a gift. Such a rule is unnecessary in the context of inter-charity transfers and could lead to complication of the "disbursement quota" calculation of a charity under section 149.1 of the Act. New subsection 248(40) therefore precludes the application of subsection 248(30) to transfers made by a registered charity to a qualified donee. Consequently, the eligible amount of a gift under new subsection 248(31) should always equal its fair market value.

New subsection 248(40) of the Act applies in respect of transfers made on or after November 9, 2006.

Subsection 248(41) — Information Not Provided

New subsection 248(41) of the Act, which applies in respect of gifts and monetary contributions made after 2005, provides that the eligible amount of a gift is nil if, before an official charitable receipt is issued by a donee, the donor fails to inform the donee of information that would be relevant to the application of subsections 248(31), (35), (36), (38) or (39) of the Act. The donee requires such information for correct preparation of the receipt.

SECTION 249:

► 249(1) ◄

(1) Definition of "taxation year". For the purpose of this Act, a "taxation year" is

(*a*) in the case of a corporation or Canadian resident partnership, a fiscal period, and

(*b*) in the case of an individual, a calendar year,

and when a taxation year is referred to by reference to a calendar year, the reference is to the taxation year or years coinciding with, or ending in, that year.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 249(1) of the Act is replaced by the following:

SECTION 249:

(1) Definition of "taxation year". Except as expressly otherwise provided in this Act, a "taxation year" is

(*a*) in the case of a corporation, a fiscal period;

(*b*) in the case of an individual (other than a testamentary trust), a calendar year; and

(*c*) in the case of a testamentary trust, the period for which the accounts of the trust are made up for purposes of assessment under this Act.

(1.1) References to calendar year. When a taxation year is referred to by reference to a calendar year, the reference is to the taxation year or taxation years that coincide with, or that end in, that calendar year.

Applicable: After December 20, 2002.

Editorial Note: A coordinating amendment in Bill C-52 (S.C. 2007, c. 29) provides that if former Bill C-10 receives Royal Assent, paragraph (*d*) will be added to subsection 249(1), as amended by former Bill C-10, to read as follows: "(*d*) in the case of a Canadian resident partnership, a fiscal period", deemed to have come into force on October 31, 2006.

Explanatory Note: Subsection 249(1) of the Act sets out, for purposes of the Act, the definition "taxation year". Paragraph 249(1)(*a*) provides that in the case of a corporation, a taxation year is a fiscal period. Paragraph 249(1)(*b*) provides that the taxation year of an individual is the calendar year. Subsection 249(1) also provides that when a taxation year is referred to by reference to a calendar year, the reference is to the taxation year or years coinciding with, or ending in, that year.

Subsection 249(1) is amended to clarify that the definition "taxation year" contained in that subsection applies for purposes of the Act except as otherwise provided. For examples of exceptions, which apply for limited purposes, see the definitions "taxation year" in subsections 95(1) and 149.1(1).

Subsection 249(1) is also amended to add new paragraph 249(1)(*c*), which provides that the taxation year of a testamentary trust is the period for which the accounts of the trust are made up for purposes of assessment under the Act. This definition was previously contained in paragraph 104(23)(*a*), which is being repealed.

New subsection 249(1.1) of the Act provides that, when a taxation year is referred to by reference to a calendar year, the reference is to the taxation year or taxation years that coincide with, or that end in, that calendar year. This rule combines the identical rules previously found in paragraph 104(23)(*b*), which is repealed, and subsection 249(1).

These amendments apply after December 20, 2002. For a related set of amendments, see the commentary on paragraphs 104(23)(*a*) and (*b*).

History: S. 249(1)(*a*) was replaced by S.C. 2007, c. 29, s. 29(1), deemed to have come into force on October 31, 2006. S. 249(1)(*a*) formerly read: "(*a*) in the case of a corporation, a fiscal period, and"

Related Sections: S. 70(1) Death of a taxpayer; s. 104(23) Testamentary trusts; s. 128(2)(*d*) Where individual bankrupt; s. 128(2)(*d.1*) Where individual bankrupt; s. 128(2)(*d.2*) Where individual bankrupt; s. 248(1), "Canadian resident partnership".

Interpretation Bulletins: *Secondary* — IT-172R Capital cost allowance — Taxation year of individual [Archived by the CRA]; IT-184R Deferred cash purchase tickets issued for grain.

► 249(2) ◄

(2) References to certain taxation years and fiscal periods. For the purposes of this Act,

(*a*) a reference to a taxation year ending in another year includes a reference to a taxation year ending coincidentally with that other year; and

(*b*) a reference to a fiscal period ending in a taxation year includes a reference to a fiscal period ending coincidentally with that year.

History: S. 249(2)(*b*) was amended by S.C. 1995, c. 3, s. 53(1), applicable to fiscal periods that end after 1993. S. 249(2)(*b*) formerly read:

"(*b*) a reference to a fiscal period of a partnership ending in a taxation year includes a reference to a fiscal period of the partnership ending coincidentally with that year."

► 249(3) ◄

(3) Deemed year end where fiscal period exceeds 365 days. Notwithstanding subsection (1), where the fiscal period of a corporation exceeds 365 days and by reason thereof the corporation does not have a taxation year that ends in a particular calendar year, for the purposes of this Act, the corporation's first taxation year ending in the immediately following calendar year shall be deemed to end on the last day of the particular calendar year.

Related Sections: S. 248(1), "corporation", "individual"; s. 249.1(1) Definition of "fiscal period".

► 249(3.1) ◄

(3.1) Year end on status change. If at any time a corporation becomes or ceases to be a Canadian-controlled private corporation, otherwise than because of an acquisition of control to which subsection (4) would, if this Act were read without reference to this subsection, apply,

(*a*) subject to paragraph (*c*), the corporation's taxation year that would, if this Act were read without reference to this subsection, include that time is deemed to end immediately before that time;

(*b*) a new taxation year of the corporation is deemed to begin at that time;

(*c*) notwithstanding subsections (1) and (3), the corporation's taxation year that would, if this Act were read without reference to this subsection, have been its last taxation year that ended before that time is deemed instead to end immediately before that time if

(i) were this Act read without reference to this paragraph, that taxation year would, otherwise than because of paragraph 128(1)(*d*), section 128.1 and paragraphs 142.6(1)(*a*) or 149(10)(*a*), have ended within the 7-day period that ended immediately before that time,

(ii) within that 7-day period no person or group of persons acquired control of the corporation, and the corporation did not become or cease to be a Canadian-controlled private corporation, and

(iii) the corporation elects, in its return of income under Part I for that taxation year to have this paragraph apply; and

(*d*) for the purpose of determining the corporation's fiscal period after that time, the corporation is deemed not to have established a fiscal period before that time.

History: S. 249(3.1) was added by S.C. 2007, c. 2, s. 53(1), applicable to taxation years that end after 2005.

Editorial Note: This provision deems a year-end immediately before a change of status to/from a CCPC, after which the corporation can then set a new year-end. Situations include where there is an agreement to acquire control of the corporation by a public company and/or a non-resident (see paragraph 251(5)(*b*)), the corporation becomes public, or the controlling shareholder becomes non-resident. This permits the small business deduction and RDTOH build-up for the stub taxation year preceding the change of status, since CCPC status would be maintained throughout that year. Opening GRIP/LRIP accounts (re: eligible dividends) are calculated (using a "tax balance sheet" approach) immediately before the end of the stub taxation year (see subsections 89(4) and (8)). Subsection 249(3.1) does not apply where subsection 249(4) (providing a separate deemed year end on an acquisition of *de jure* control) applies, nor does it apply to "change of status" elections/revocations re: subsections 89(11) or (12).

Related Sections: S. 89(11) Election: non-CCPC; s. 125(5) Special rules for business limit; s. 125(7), "Canadian-controlled private corporation"; s. 249(4) Year end on change of control; s. 251(5)(*b*) Control by related groups, options, etc.

► 249(4) ◄

(4) Year end on change of control. Where at any time control of a corporation (other than a corporation that is a foreign affiliate of a taxpayer resident in Canada and that did not carry on a business in Canada at any time in its last taxation year beginning before that time) is acquired by a person or group of persons, for the purposes of this Act,

(*a*) subject to paragraph (*c*), the taxation year of the corporation that would, but for this paragraph, have included that time shall be deemed to have ended immediately before that time;

(*b*) a new taxation year of the corporation shall be deemed to have commenced at that time;

(*c*) subject to paragraph 128(1)(*d*), section 128.1, and paragraphs 142.6(1)(*a*) and 149(10)(*a*), and notwithstanding subsections (1) and (3), where the taxation year of the corporation that would, but for this subsection, have been its last taxation year that ended before that time would, but for this paragraph, have ended within the 7-day period that ended immediately before that time, that taxation year shall, except where control of the corporation was acquired by a person or group of persons within that period, be deemed to end immediately before that time where the corporation so elects in its return of income under Part I for that taxation year; and

(*d*) for the purpose of determining the corporation's fiscal period after that time, the corporation shall be deemed not to have established a fiscal period before that time.

History: S. 249(4)(*c*) was amended by S.C. 1995, c. 21, s. 60(1), applicable after February 22, 1994. S. 249(4)(*c*) formerly read:

"(*c*) subject to paragraph 128(1)(*d*), section 128.1 and paragraph 149(10)(*a*), and notwithstanding subsections (1) and (3), where the taxation year of the corporation that would, but for this subsection, have been its last taxation year that ended before that time would, but for this paragraph, have ended within the 7-day period that ended immediately before that time, that taxation year shall, except where control of the corporation was acquired by a person or group of persons within that period, be deemed to end immediately before that time where the corporation so elects in its return of income under Part I for that taxation year; and"

S. 249(4)(*c*) was amended by S.C. 1994, c. 21, s. 110(1), applicable after 1992 except that, where a corporation elects in accordance with paragraph 111(4)(*a*), s. 249(4)(*c*) applies to the corporation from the corporation's time of continuation (within the meaning assigned by paragraph 111(4)(*a*). S. 249(4)(*c*) formerly read:

"(*c*) subject to paragraphs 88.1(*c*), 128(1)(*d*) and 149(10)(*a*), and notwithstanding subsections (1) and (3), where the taxation year of the corporation that would, but for this subsection, have been its last taxation year ending before that time and would, but for this paragraph, have ended within the seven day period ending immediately before that time, that taxation year shall, except where control of the corporation has been acquired by a person or group of persons within the seven day period ending immediately before that time, be deemed to end immediately before that time where the corporation so elects in its return of income under Part I for that taxation year; and"

S. 249(4), that portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 193(1), applicable to acquisitions of control occurring after July 13, 1990. That part formerly read:

"(4) *Deemed year end where change of control occurs.* Where, at any time, control of a corporation has been acquired by a person or group of persons, the following rules apply:"

Related Sections: S. 125(5) Special rules for business limit; s. 249(3.1) Year end on status change; s. 250(5.1) Continued corporation; s. 256(7) Acquiring control; s. 256(8) Deemed exercise of right.
Interpretation Bulletins: *Secondary* — IT-151R5 (Consolid.) — Scientific research and experimental development expenditures; IT-151R4 Scientific research and experimental development expenditures [Archived by the CRA].

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 249 of the Act is amended by adding the following after subsection (4):

(5) Testamentary trusts. The period for which the accounts of a testamentary trust are made up for the purposes of an assessment under this Act may not exceed 12 months, and no change in the time when such a period ends may be made for the purposes of this Act without the concurrence of the Minister.

Applicable: After December 20, 2002.

(6) Loss of testamentary trust status. If at a particular time after December 20, 2002 a transaction or event, described in any of paragraphs (*b*) to (*d*) of the definition "testamentary trust" in subsection 108(1), occurs and as a result of that occurrence a trust or estate is not a testamentary trust, the following rules apply:

(*a*) the fiscal period for a business or property of the trust or estate that would, if this Act were read without reference to this subsection and those paragraphs, have included the particular time is deemed to have ended immediately before the particular time;

(*b*) the taxation year of the trust or estate that would, if this Act were read without reference to this subsection and those paragraphs, have included the particular time is deemed to have ended immediately before the particular time;

(*c*) a new taxation year of the trust or estate is deemed to have started at the particular time; and

(*d*) in determining the fiscal period for a business or property of the trust or estate after the particular time, the trust or estate is deemed not to have established a fiscal period before that time.

Applicable: After July 18, 2005 and, if a trust or estate so elects in writing by filing the election with the Minister of National Revenue on or before its filing-due date for its taxation year in which this Act is assented to, it also applies to that trust or estate, as the case may be, after December 20, 2002.

Explanatory Note:

Subsection 249(5) — Testamentary Trusts

New subsection 249(5) of the Act is added consequential on the repeal of paragraph 104(23)(*a*) of the Act.

Subsection 249(5) provides that the period for which the accounts of a testamentary trust are made up for purposes of assessment under the Act may not exceed 12 months and that no change in the time when such a period ends may be made for the purposes of the Act without the concurrence of the Minister of National Revenue. The rule was previously found in paragraph 104(23)(*a*) of the Act, which is being repealed.

This amendment applies after December 20, 2002. For a related set of amendments, see the commentary on paragraphs 104(23)(*a*) and (*b*) and subsection 249(1) and (1.1).

Subsection 249(6) — Loss of Testamentary Trust Status

New subsection 249(6) of the Act provides a set of rules that apply where a trust or estate loses its status under the Act as a "testamentary trust". This loss of status will generally occur where property has been contributed or loaned to the trust or estate in circumstances described in any of paragraphs (*b*) to (*d*) of the definition "testamentary trust" in subsection 108(1) or where the trust or estate has been created by someone other than the deceased person on and as a consequence of whose death the trust or estate arose (in this regard, see paragraph (*a*) of that definition). Under the existing rules in the Act, where a transaction or event described in any of those paragraphs occurs at a particular time, the trust or estate will lose its status as a testamentary trust for its entire taxation year that would otherwise include that time. As a result, the trust will be treated as an *inter vivos* trust at all times after the end of its last taxation year, if any, throughout which it was a testamentary trust. As such, its first taxation year after that last taxation year will be, given the definition "taxation year" in subsection 249(1), the calendar year.

New subsection 249(6) provides transitional relief for trusts or estates that lose their "testamentary trust" status. Under that subsection, if at a particular time after December 20, 2002 a transaction or event, described in any of paragraphs (*b*) to (*d*) of the definition "testamentary trust" in subsection 108(1), occurs and as a result of that occurrence a trust or estate is not a testamentary trust, a number of special rules apply in determining its taxation years and fiscal periods. (Note that a trust or estate that fails to qualify as a testamentary trust because of paragraph (*a*) of the definition "testamentary trust" will be an *inter vivos* trust from its creation and is, therefore, not in need of this transitional relief.) In particular,

- under paragraph 249(6)(*a*), the fiscal period, for a business or property of the trust or estate, that would , if the Act were read without reference to subsection 249(6) and paragraphs (*b*) to (*d*) of the definition "testamentary trust", have included the particular time, is deemed to have ended immediately before the particular time. Subsection 249.1(3) ensures that the next fiscal period starts at the particular time and subsection 249.1(1) requires that that next fiscal period end no later than the calendar year in which it began (i.e. the new taxation year) — this is because the trust would then have become an *inter vivos* trust.
- the taxation year of the trust or estate that would, if this Act were read without reference to this subsection and paragraphs (*b*) to (*d*) of the definition "testamentary trust", have included the particular time is deemed to have ended immediately before the particular time. As a result, the trust or estate maintains testamentary trust status until the offside event occurs.
- a new taxation year of the trust or estate is deemed to have started at the particular time.
- in determining the fiscal period for a business or property of the trust or estate after the particular time, the trust or estate is deemed not to have established a fiscal period before that time.

New subsection 249(6) of the Act applies after November 9, 2006. However, if a trust or estate elects in writing filed with the Minister of National Revenue on or before its filing-due date for its taxation year in which the subsection receives Royal Assent, it also applies to that trust or estate, as the case may be, after December 20, 2002.

Example:

Trust A was created on and as a consequence of the death of John Smith in 2004. Trust A has a November 30 year-end. For its 2004 and 2005 taxation years, Trust A is a testamentary trust. On April 15, 2006, Trust A becomes indebted to a beneficiary of the trust by way of an interest-free loan.

Results:

(i) Existing scheme of the Act

Because of paragraph (d) of the definition "testamentary trust", Trust A cannot qualify as a testamentary trust at any time in its taxation year that began December 1, 2005. Therefore, Trust A becomes an *inter vivos* trust effective December 1, 2005. Trust A would, as an *inter vivos* trust, have a December 31, 2005 year-end, with an April 1, 2006 filing-due date.

(ii) New Subsection 249(6)

Because of paragraph (d) of the definition "testamentary trust", Trust A cannot qualify as a testamentary trust. Its taxation year that began December 1, 2005 is deemed to have ended immediately before April 15, 2006 — that is to say, on April 14, 2006 (Assume that a reference to time in the legislation is to a day.) Therefore, Trust A maintains its status as a testamentary trust throughout the stub year that began on December 1, 2005 and ended on April 14, 2006. The trust would have 90 days from the end of that taxation year to file its return of income for the

stub year. A new taxation year is deemed to begin April 15, 2006. As the April 15, 2006 loan occurs in the new taxation year, Trust A is an *inter vivos* trust throughout the new taxation year, which, accordingly, will end on December 31, 2006. As a result, Trust A is able to maintain testamentary trust status until the time immediately before the offside event. With respect to any late-filing for the stub year, relief may be available under the provisions in section 220 of the Act.

SECTION 249.1:

► 249.1(1) ◄

(1) Definition of "fiscal period". For the purposes of this Act, a "fiscal period" of a business or a property of a person or partnership means the period for which the person's or partnership's accounts in respect of the business or property are made up for purposes of assessment under this Act, but no fiscal period may end

(*a*) in the case of a corporation, more than 53 weeks after the period began,

(*b*) in the case of

(i) an individual (other than an individual to whom section 149 or 149.1 applies or a testamentary trust),

(i.1) a fiscal period of an *inter vivos* trust (other than a fiscal period to which paragraph 132.11(1)(*c*) applies),

(ii) a partnership of which

(A) an individual (other than a testamentary trust or an individual to whom section 149 or 149.1 applies),

(B) a professional corporation, or

(C) a partnership to which this subparagraph applies,

would, if the fiscal period ended at the end of the calendar year in which the period began, be a member of the partnership in the period, or

(iii) a professional corporation that would, if the fiscal period ended at the end of the calendar year in which the period began, be in the period a member of a partnership to which subparagraph (ii) applies,

after the end of the calendar year in which the period began unless, in the case of a business, the business is not carried on in Canada, is a prescribed business or is carried on by a prescribed person or partnership,

(*c*) in any other case, more than 12 months after the period began,

and, for the purpose of this subsection, the activities of a person to whom section 149 or 149.1 applies are deemed to be a business.

History: S. 249.1(1)(*b*), the portion after subparagraph (iii) was amended by S.C. 2001, c. 17, s. 189(1), applicable to fiscal periods that begin after 1994. S. 249.1(1)(*b*), the portion after subparagraph (iii) formerly read:

"after the end of the calendar year in which the period began unless, in the case of a business, the business is not carried on in Canada or is a prescribed business, and"

S. 249.1(1)(*b*)(i) was amended, and subparagraph (i.1) was added, by S.C. 1999, c. 22, s. 81(1), applicable to fiscal periods that begin after December 15, 1997. S. 249.1(1)(*b*)(i) formerly read:

"(i) an individual (other than a testamentary trust or an individual to whom section 149 or 149.1 applies),"

S. 249.1(1) was added by S.C. 1996, c. 21, s. 61(1), applicable to fiscal periods that begin after 1994.

Related Sections: S. 10(1) Valuation of inventory; s. 11(2) Reference to "taxation year"; s. 13(3) "Taxation year"; "year" and "income" of individual; s. 34.1 Additional business income; s. 34.2 Reserve for December 31, 1995 income; s. 95(1), "taxation year"; s. 125(5) Special rules for business limit; s. 128.1(1)(*a*) Year-end, fiscal period; s. 128.1(4)(*a*) Year-end, fiscal period; s. 132.11(1) Taxation year of mutual fund trust; s. 99(4), "professional corporation"; s. 249(3) Deemed year end where fiscal period exceeds 365 days.

Regulations: 8901.

Interpretation Bulletins: *Primary* — IT-179R Change of Fiscal Period.

Income Tax Technical News: Issue No. 8, Bankrupt corporation — Change of fiscal period.

Tax Topics: No. 1889, Taxation Year of a Foreign Affiliate.

► 249.1(2) ◄

(2) Not a member of a partnership. For the purpose of subparagraph (1)(*b*)(ii) and subsection (4), a person or partnership that would not have a share of any income or loss of a partnership for a fiscal period of the partnership, if the period ended at the end of the calendar year in which the period began, is deemed not to be a member of the partnership in that fiscal period.

History: S. 249.1(2) was added by S.C. 1996, c. 21, s. 61(1), applicable to fiscal periods that begin after 1994.

► 249.1(3) ◄

(3) Subsequent fiscal periods. Where a fiscal period of a business or a property of a person or partnership ends at any time, the subsequent fiscal period, if any, of the business or property of the person or partnership is deemed to begin immediately after that time.

History: S. 249.1(3) was added by S.C. 1996, c. 21, s. 61(1), applicable to fiscal periods that begin after 1994.

► 249.1(4) ◄

(4) Alternative method. Paragraph (1)(*b*) does not apply to a fiscal period of a business carried on, throughout the period of time that began at the beginning of the fiscal period and ended at the end of the calendar year in which the fiscal period began,

(*a*) by an individual (otherwise than as a member of a partnership), or

(*b*) by an individual as a member of a partnership, where throughout that period

(i) each member of the partnership is an individual, and

(ii) the partnership is not a member of another partnership,

where

(*c*) in the case of an individual

(i) who is referred to in paragraph (*a*), or

(ii) who is a member of a partnership no member of which is a testamentary trust,

an election in prescribed form to have paragraph (1)(*b*) not apply is filed with the Minister by the individual on or before the individual's filing-due date, and with the individual's return of income under Part I, for the taxation year that includes the first day of the first fiscal period of the business that begins after 1994, and

(*d*) in the case of an individual who is a member of a partnership a member of which is a testamentary trust, an election in prescribed form to have paragraph (1)(*b*) not apply is filed with the Minister by the individual on or before the earliest of the filing-due dates of the members of the partnership for a taxation year that includes the first day of the first fiscal period of the business that begins after 1994.

History: S. 249.1(4) was added by S.C. 1996, c. 21, s. 61(1), applicable to fiscal periods that begin after 1994.

Related Sections: S. 96(3) Agreement or election of partnership members; s. 99(2) Fiscal period of terminated partnership for individual member.

Forms: T1139.

► 249.1(5) ◄

(5) Alternative method not applicable to tax shelter investments. Subsection (4) does not apply to a particular fiscal period of a business where, in a preceding fiscal period or throughout the period of time that began at the beginning of the particular period and ended at the end of the calendar year in which the particular period began, the expenditures made in the course of carrying on the business were primarily the cost or capital cost of tax shelter investments (as defined in subsection 143.2(1)).

History: S. 249.1(5) was amended by S.C. 1998, c. 19, s. 240(1), applicable to fiscal periods that begin after 1994. S. 249.1(5) formerly read:

"(5) *Alternative method not applicable to tax shelter.* Subsection (4) does not apply to a particular fiscal period of a business where, in a preceding fiscal period or throughout the period of time that began at the beginning of the particular period and ended at the end of the calendar year in which the particular period began, the expenditures made in the course of carrying on the business were primarily the cost or capital cost of tax shelters (within the meaning assigned by subsection 237.1(1))."

S. 249.1(5) was added by S.C. 1996, c. 21, s. 61(1), applicable to fiscal periods that begin after 1994.

► 249.1(6) ◄

(6) Revocation of election. Subsection (4) does not apply to fiscal periods of a business carried on by an individual that begin after the beginning of a particular taxation year of the individual where

(*a*) an election in prescribed form to revoke an election filed under subsection (4) in respect of the business is filed with the Minister; and

(*b*) the election to revoke is filed

(i) in the case of an individual

(A) who is not a member of a partnership, or

(B) who is a member of a partnership no member of which is a testamentary trust,

by the individual on or before the individual's filing-due date, and with the individual's return of income under Part I, for the particular taxation year, and

(ii) in case of an individual who is a member of a partnership a member of which is a testamentary trust, by the individual on or before the earliest of the filing-due dates of the members of the partnership for a taxation year that includes the first day of the first fiscal period of the business that begins after the beginning of the particular year.

History: S. 249.1(6) was added by S.C. 1996, c. 21, s. 61(1), applicable to fiscal periods that begin after 1994.

Related Sections: S. 96(3) Agreement or election of partnership members.

► 249.1(7) ◄

(7) Change of fiscal period. No change in the time when a fiscal period ends may be made for the purposes of this Act without the concurrence of the Minister.

History: S. 249.1(7) was added by S.C. 1996, c. 21, s. 61(1), applicable to fiscal periods that begin after 1994.

SECTION 250:

► 250(1) ◄

(1) Person deemed resident. For the purposes of this Act, a person shall, subject to subsection (2), be deemed to have been resident in Canada throughout a taxation year if the person

(*a*) sojourned in Canada in the year for a period of, or periods the total of which is, 183 days or more;

(*b*) was, at any time in the year, a member of the Canadian Forces;

(*c*) was, at any time in the year,

(i) an ambassador, minister, high commissioner, officer or servant of Canada, or

(ii) an agent-general, officer or servant of a province,

and was resident in Canada immediately prior to appointment or employment by Canada or the province or received representation allowances in respect of the year;

(*d*) performed services, at any time in the year, in a country other than Canada under a prescribed international development assistance program of the Government of Canada and was resident in Canada at any time in the 3 month period preceding the day on which those services commenced;

(*d*.1) was, at any time in the year, a member of the overseas Canadian Forces school staff who filed his or her return for the year on the basis that the person was resident in Canada throughout the period during which the person was such a member;

(*e*) [Repealed by 1999, c. 22, s. 82(1).]

(*f*) was at any time in the year a child of, and dependent for support on, an individual to whom paragraph (*b*), (*c*), (*d*) or (*d*.1) applies and the person's income for the year did not exceed the amount used under paragraph (*c*) of the description of B in subsection 118(1) for the year;

(*g*) was at any time in the year, under an agreement or a convention with one or more other countries that has the force of law in Canada, entitled to an exemption from an income tax otherwise payable in any of those countries in respect of income from any source (unless all or substantially all of the person's income from all sources was not so exempt), because at that time the person was related to or a member of the family of an individual (other than a trust) who was resident in Canada.

History: Paragraph 250(1)(*f*) was amended by S.C. 2000, c. 19, s. 68(1), applicable to the 1999 and subsequent taxation years except that, in its application to the 1999 taxation year, the reference to "the amount used under paragraph (*c*) of the description of B in subsection 118(1) for the year" in paragraph 250(1)(*f*) shall be read as a reference to "$7,044". Paragraph 250(1)(*f*) formerly read:

"(*f*) was at any time in the year a child of, and dependent for support on, an individual to whom paragraph (*b*), (*c*), (*d*) or (*d*.1) applies and the person's income for the year did not exceed the total of $500 and the amount used under paragraph (*c*) of the description of B in subsection 118(1) for the year; or"

S. 250(1)(*e*) was repealed by S.C. 1999, c. 22, s. 82(1), applicable after February 23, 1998 except that, where

(*a*) any person would, but for paragraph 250(1)(*e*) of the Act,

(i) have been non-resident at any time before February 24, 1998, and

(ii) not have become resident in Canada after that time and before February 24, 1998, and

(*b*) the person does not elect in writing filed with the Minister of National Revenue with the person's return of income under Part I of the Act for the 1998 taxation year to have subsection (1) apply after February 23, 1998,

subsection (1) does not apply in respect of the person before the first time after February 23, 1998 that the person would, but for paragraph 250(1)(*e*) of the Act, cease to be resident in Canada. S. 250(1)(*e*) formerly read:

"(*e*) was resident in Canada in any previous year and was, at any time in the year, the spouse of a person described in paragraph (*b*), (*c*), (*d*) or (*d*.1) living with that person; or"

S. 250(1)(*f*) was amended by S.C. 1999, c. 22, s. 82(2), applicable to the 1998 and subsequent taxation years. S. 250(1)(*f*) formerly read:

"(*f*) was at any time in the year a child of, and dependent for support on, an individual to whom paragraph (*b*), (*c*), (*d*) or (*d*.1) applies and the person's income for the year did not exceed the amount used for the year under paragraph (*c*) of the description of B in subsection 118(1),"

S. 250(1)(*g*) was added by S.C. 1999, c. 22, s. 82(3), applicable after February 23, 1998.

S. 250(1)(*f*) was amended by S.C. 1994, c. 21, s. 111(1), applicable to the 1993 and subsequent taxation years. S. 250(1)(*f*) formerly read:

"(*f*) was at any time in the year a child of an individual described in paragraph (*b*), (*c*), (*d*) or (*d.1*) and the person's income for the year did not exceed the amount used under paragraph (*c*) of the description of B in subsection 118(1) for the year."

S. 250(1)(*f*) was amended by S.C. 1994, c. 7, Sched. VII, s. 22(1), applicable with respect to the 1993 and subsequent taxation years. S. 250(1)(*f*) formerly read:

"(*f*) was at any time in the year a child of a person described in paragraph (*b*), (*c*), (*d*) or (*d.1*) and a dependant, as described in paragraph 118(1)(*d*), of that person."

Editorial Note: Paragraph 250(1)(*a*) extends residency status by deeming a person who "sojourns" in Canada for a period of 183 days or more in a taxation year to be resident in Canada throughout that year and therefore taxable on his or her worldwide income. The CRA's position is that a "day" means any part of a day and that "sojourn" means a temporary stay, even if of a very short duration. If an individual is in Canada less than 183 days, he or she may still be a part or full-time resident under the common law test.

The remainder of subsection 250(1) specifies other deemed residents, who may include members of the Canadian Forces (paragraph 250(1)(*b*)), federal or provincial employees (paragraph 250(1)(*c*)), service providers under a prescribed international assistance program (paragraph 250(1)(*d*)), overseas Canadian Forces school staff (paragraph 250(1)(*d.1*)), dependent children of the foregoing (paragraph 250(1)(*f*)), or persons exempt from foreign income tax under a tax agreement (paragraph 250(1)(*g*)). If a person ceases to be subject to paragraphs 250(1)(*b*) to (*d.1*), subsection 250(2) deems that person (and his or her dependent children) to have been resident in Canada only during the part of the year preceding that time, unless common-law residence applies.

Related Sections: S. 2 Tax payable by persons resident in Canada; s. 6(1)(*b*)(iii) Personal or living expenses; s. 114 Individual resident in Canada for only part of year; s. 122.5(2) Persons not eligible individuals, qualified relations or qualified dependants; s. 122.6, "eligible individual"; s. 227(8.4) Liability to pay amount not deducted or withheld; s. 252(1) Extended meaning of "child".

Regulations: 2601(5); 3400.

Interpretation Bulletins: *Primary* — IT-106R3 Crown corporation employees abroad. *Secondary* — IT-178R3 (Consolid.) Moving expenses; IT-221R3 (Consolid.) — Determination of an individual's residence status; IT-451R Deemed disposition and acquisition on ceasing to be or becoming resident in Canada; IT-516R2 Tuition tax credit.

Forms: T1248; NR73; NR74.

Tax Topics: No. 1497, To Reside or Not to Reside, That is the Question (with Apologies to Shakespeare).

Tax Profile: June 2002 — Canadian Residency Update for Individuals.

Cases: In calculating the number of days that a taxpayer sojourned in Canada during a taxation year, the Minister may not count fractional days where the taxpayer was present for only for one hour. *Stephens v. M.N.R.*, 88 DTC 1170 (T.C.C.).

▶ 250(2) ◀

(2) Idem. Where at any time in a taxation year a person described in paragraph (1)(*b*), (*c*) or (*d*) ceases to be a person so described, or a person described in paragraph (1)(*d.1*) ceases to be a member of the overseas Canadian Forces school staff, that person shall be deemed to have been resident in Canada throughout the part of the year preceding that time and the spouse or common-law partner and child of that person who by reason of paragraph (1)(*e*) or (*f*) would, but for this subsection, be deemed to have been resident in Canada throughout the year shall be deemed to have been resident in Canada throughout that part of the year.

History: S. 250(2) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.36), applicable January 1, 2001, coming into force on July 31, 2000. S. 250(2) formerly read:

"(2) *Idem.* Where at any time in a taxation year a person described in paragraph (1)(*b*), (*c*) or (*d*) ceases to be a person so described, or a person described in paragraph (1)(*d.1*) ceases to be a member of the overseas Canadian Forces school staff, that person shall be deemed to have been resident in Canada throughout the part of the year preceding that time and the spouse and child of that person who by reason of paragraph (1)(*e*) or (*f*) would, but for this subsection, be deemed to have been resident in Canada throughout the year shall be deemed to have been resident in Canada throughout that part of the year."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Editorial Note: See the editorial note to subsection 250(1).

▶ 250(3) ◀

(3) Ordinarily resident. In this Act, a reference to a person resident in Canada includes a person who was at the relevant time ordinarily resident in Canada.

Editorial Note: This provision is relevant to the common law test of residence, per subsection 2(1).

Related Sections: S. 2(1) Tax payable by persons resident in Canada; s. 128.1(1) Immigration; s. 128.1(2) Paid-up capital adjustment; s. 128.1(4) Emigration.

Tax Profile: December 2008 — Tax Planning for Emigration from Canada to the United States; June 2002 — Canadian Residency Update for Individuals.

▶ 250(4) ◀

(4) Corporation deemed resident. For the purposes of this Act, a corporation shall be deemed to have been resident in Canada throughout a taxation year if

(*a*) in the case of a corporation incorporated after April 26, 1965, it was incorporated in Canada;

(*b*) in the case of a corporation that

(i) was incorporated before April 9, 1959,

(ii) was, on June 18, 1971, a foreign business corporation (within the meaning of section 71 of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read in its application to the 1971 taxation year) that was controlled by a corporation resident in Canada,

(iii) throughout the 10 year period ending on June 18, 1971, carried on business in any one particular country other than Canada, and

(iv) during the period referred to in subparagraph (iii), paid dividends to its shareholders resident in Canada on which its shareholders paid tax to the government of the country referred to in that subparagraph,

it was incorporated in Canada and, at any time in the taxation year or at any time in any preceding taxation year commencing after 1971, it was resident in Canada or carried on business in Canada; and

(*c*) in the case of a corporation incorporated before April 27, 1965 (other than a corporation to which subparagraphs (*b*)(i) to (iv) apply), it was incorporated in Canada and, at any time in the taxation year or at any time in any preceding taxation year of the corporation ending after April 26, 1965, it was resident in Canada or carried on business in Canada.

Editorial Note: Unless a corporation was incorporated before April 27, 1965, paragraph 250(4)(*a*) stipulates that a corporation incorporated in Canada is deemed to be resident therein throughout a taxation year (so that the case law on residence does not need to be analyzed). A corporation incorporated in Canada on before April 26, 1965 is deemed resident if it was otherwise resident or carried on business in Canada at any time in a taxation year ending after that date (paragraph 250(4)(*c*)); paragraph 250(4)(*b*) deems certain "foreign business corporations" to be resident. Residence under a tax treaty (subsection 250(5)) "trumps" this subsection, as does continuation to another jurisdiction (once this has occurred — subsection 250(5.1)). Of course, a corporation may also be resident under common law tests (central management and control).

Related Sections: S. 2(1) Tax payable by persons resident in Canada; s. 89(1), "private corporation"; s. 133(8), "non-resident-owned investment corporation"; s. 248(1), "corporation incorporated in Canada"; s. 250(4) Corporation deemed resident; s. 250(5) Deemed non-resident; ITAR s. 59(2) Non-resident-owned investment corporation.

Tax Profile: June 2002 — Canadian Residency Update for Individuals.

Cases: A Canadian company acted as an intermediary for an associated U.S. company. Although incorporated before April 26, 1965, the corporation subsequently carried on business in Canada and was consequently deemed to be resident. *The Queen v. Gurd's Products Co. Ltd.*, 85 DTC 5314 (F.C.A.).

► 250(5) ◄

(5) Deemed non-resident. Notwithstanding any other provision of this Act (other than paragraph 126(1.1)(*a*)), a person is deemed not to be resident in Canada at a time if, at that time, the person would, but for this subsection and any tax treaty, be resident in Canada for the purposes of this Act but is, under a tax treaty with another country, resident in the other country and not resident in Canada.

History: S. 250(5) was amended by S.C. 2001, c. 17, s. 190(1), applicable after June 27, 1999, except that if on February 24, 1998 an individual who would, but for a tax treaty (within the meaning assigned by subsection 248(1) of the Act), be resident in Canada for the purposes of the Act is, under the tax treaty, resident in another country, the amendment to s. 250(5) does not apply to the individual until the first time after June 27, 1999 at which the individual becomes, under a tax treaty, resident in a country other than Canada. S. 250(5) formerly read:

"(5) *Deemed non-resident.* Notwithstanding any other provision of this Act, a person is deemed not to be resident in Canada at a time if, at that time, the person would, but for this subsection and any tax treaty, be resident in Canada for the purposes of this Act but is, under a tax treaty with another country, resident in the other country and not resident in Canada."

S. 250(5) was amended by S.C. 1999, c. 22, s. 82(4), applicable after February 24, 1998 except that, if on that day an individual who would, but for a tax treaty (as defined in subsection 248(1) of the *Income Tax Act*, as amended by this Act), be resident in Canada for the purposes of the *Income Tax Act*, is, under the tax treaty, resident in another country, the amendment to subsection 250(5) does not apply to the individual until the first time after February 24, 1998 at which the individual becomes, under a tax treaty, resident in a country other than Canada. S. 250(5) formerly read:

"(5) *Corporation deemed not resident.* Notwithstanding subsection (4), for the purposes of this Act, a corporation, other than a prescribed corporation, shall be deemed to be not resident in Canada at any time if, by virtue of an agreement or convention between the Government of Canada and the government of another country that has the force of law in Canada, it would at that time, if it had income from a source outside Canada, not be subject to tax on that income under Part I."

Editorial Note: Subsection 250(5) deems a person not to be resident in Canada if the person qualifies as a resident of Canada under the *Income Tax Act* but at the same time is a non-resident under one of Canada's tax treaties. This rule "trumps" nearly all other *Income Tax Act* provisions. Therefore, the cessation of residence because of the application of a treaty could trigger a deemed disposition under subsection 128.1(4); in addition Part XIII would apply.

Related Sections: S. 2(1) Tax payable by persons resident in Canada; s. 89(1), "Canadian corporation", "private corporation"; s. 128.1(4) Emigration; s. 248(1), "tax treaty".

Interpretation Bulletins: *Secondary* — IT-221R3 (Consolid.) — Determination of an individual's residence status.

Forms: T2Sch97; T1248.

Tax Profile: December 2008 — Tax Planning for Emigration from Canada to the United States; June 2002 — Canadian Residency Update for Individuals; April 2002 — Tax Considerations for Canadian Businesses Expanding to the U.S.

► 250(5.1) ◄

(5.1) Continued corporation. Where a corporation is at any time (in this subsection referred to as the "time of continuation") granted articles of continuance (or similar constitutional documents) in a particular jurisdiction, the corporation shall

(*a*) for the purposes of applying this Act (other than subsection (4)) in respect of all times from the time of continuation until the time, if any, of continuation in a different jurisdiction, be deemed to have been incorporated in the particular jurisdiction and not to have been incorporated in any other jurisdiction; and

(*b*) for the purpose of applying subsection (4) in respect of all times from the time of continuation until the time, if any, of continuation in a different jurisdiction, be deemed to have been incorporated in the particular jurisdiction at the time of continuation and not to have been incorporated in any other jurisdiction.

History: S. 250(5.1) was added by S.C. 1994, c. 21, s. 111(2), applicable

(*a*) to a corporation that was at any time before 1993 granted articles of continuance or similar constitutional documents in a jurisdiction and that elects, by notifying the Minister of National Revenue in writing before the end of the sixth month after the month in which this Act is assented to [Royal Assent June 15, 1994], to have subsection (2) apply to those articles or other documents, from the time (in this subsection referred to as the corporation's "time of continuation") at which the corporation was granted those articles or other documents, and

(*b*) to a corporation with respect to articles of continuance or similar constitutional documents granted after 1992, except where

(i) the articles or other documents were granted before July 1994,

(ii) arrangements, evidenced in writing, for obtaining the articles or other documents were substantially advanced before December 21, 1992, and

(iii) the corporation elects, by notifying the Minister of National Revenue in writing before the end of the sixth month after the month in which this Act is assented to [Royal Assent June 15, 1994], to have subsection (2) not apply,

and, notwithstanding subsections 152(4) to (5) of the *Income Tax Act*, such assessments and determinations in respect of any taxation year shall be made as are necessary to give effect to elections made under paragraph (*a*).

Editorial Note: A corporation may be continued or "exported" into a foreign jurisdiction, so that it becomes subject to the corporate law of the particular (new) jurisdiction rather than applicable Canadian corporate law. Generally, a continued corporation will be treated as incorporated in the new jurisdiction and not incorporated in Canada (or any other jurisdiction), so that the continued corporation is deemed to have been incorporated in the new jurisdiction as of the date of its original incorporation (paragraph 250(5.1)(*a*)). If the corporation was deemed to be Canadian resident because of incorporation in Canada by virtue of subsection 250(4), for these purposes, subsection 250(5.1) deems the continued corporation to have been incorporated in the new jurisdiction as of the date of continuance (paragraph 250(5.1)(*b*)); however, the corporation may nonetheless be resident in Canada under the common law residence test (central management and control) unless subsection 250(5) (residence for treaty purposes) applies to "trump" this.

Subsection 250(5.1) also applies to corporations continued into Canada, so that such a corporation would be deemed to be Canadian resident, as it would be considered to be incorporated in Canada for the purposes of subsection 250(4) as at the date of continuance into Canada (again, unless subsection 250(5) applies). Subsection 250(5.1) affects the status of a corporation as a "Canadian corporation" (and therefore its potential status as a "Canadian-controlled private corporation" and a "taxable Canadian corporation"), but not necessarily its residence.

Related Sections: S. 44(2)(*d*) Time of disposition and of receipt of proceeds; s. 52(8) Cost of shares of immigrant corporation; s. 54 Definitions; s. 89(1), "Canadian corporation"; s. 128.1 Immigration; s. 128.2 Cross-border mergers — treatment of resident predecessor; s. 219.1 Corporate emigration; s. 248(1), "corporation incorporated in Canada", "taxable Canadian property"; ITAR s. 26(10) Where paragraph 128.1(1)(b) of amended Act applies.

Forms: T2Sch97.

Tax Profile: February 2009 — Tax Consequences of a Corporate Continuance.

► 250(6) ◄

(6) Residence of international shipping corporation. For the purposes of this Act, a corporation that was incorporated or otherwise formed under the laws of a country other than Canada or of a state, province or other political subdivision of such a country shall be deemed to be resident in that country throughout a taxation year and not to be resident in Canada at any time in the year, where

(*a*) the corporation

(i) has as its principal business in the year the operation of ships that are used primarily in transporting passengers or goods in international traffic (determined on the assumption that the corporation is non-resident and that, except where paragraph (*c*) of the definition "international traffic" in subsection 248(1) applies, any port or other place on the Great Lakes or St. Lawrence River is in Canada), or

(ii) holds throughout the year shares of one or more other corporations, each of which

(A) is a subsidiary wholly-owned corporation of the corporation as defined by subsection 87(1.4), and

(B) is deemed by this subsection to be resident in a country other than Canada throughout the year,

and at no time in the year is the total of the cost amounts to the corporation of all those shares less than 50% of the total of the cost amounts to it of all its property;

(*b*) all or substantially all of the corporation's gross revenue for the year consists of

(i) gross revenue from the operation of ships in transporting passengers or goods in that international traffic,

(ii) dividends from one or more other corporations each of which

(A) is a subsidiary wholly-owned corporation of the corporation, as defined by subsection 87(1.4), and

(B) is deemed by this subsection to be resident in a country other than Canada throughout each of its taxation years that began after February 1991 and before the last time at which it paid any of those dividends, or

(iii) a combination of amounts described in subparagraph (i) or (ii); and

(*c*) the corporation was not granted articles of continuance in Canada before the end of the year.

History: S. 250(6)(*a*) and (*b*) were amended by S.C. 1998, c. 19, s. 240(1), applicable to the 1995 and subsequent taxation years. These paragraphs formerly read:

"(*a*) the corporation's principal business in the year consists of the operation of ships that are used primarily in transporting passengers or goods in international traffic (determined on the assumption that the corporation is non-resident and that, except where paragraph (*c*) of the definition 'international traffic' in subsection 248(1) applies, any port or other place on the Great Lakes or St. Lawrence River is in Canada);

(*b*) all or substantially all of the corporation's gross revenue for the year is from the operation of ships in transporting passengers or goods in such international traffic; and"

S. 250(6) was added by S.C. 1994, c. 7, Sched. II, s. 194(1), applicable to taxation years beginning after February 1991.

Forms: T2Sch97.

► 250(6.1) ◄

(6.1) Residence of inter vivos trusts. For the purposes of provisions of this Act that apply to a trust for a taxation year only where the trust has been resident in Canada throughout the year, where a particular trust ceases at any time to exist and the particular trust was resident in Canada immediately before that time, the particular trust is deemed to be resident in Canada throughout the period that begins at that time and ends at the end of the year.

History: S. 250(6.1) was added by S.C. 2001, c. 17, s. 190(2), applicable to the 1990 and subsequent taxation years.

► 250(7) ◄

(7) Residence of a qualifying environmental trust. For the purposes of this Act, where a trust resident in Canada would be a qualifying environmental trust at any time if it were resident at that time in the province in which the site to which the trust relates is situated, the trust is deemed to be resident at that time in that province and in no other province.

History: S. 250(7) was amended by S.C. 1998, c. 19, s. 67(1), applicable after 1995. S. 250(7) formerly read:

"(7) *Residence of a mining reclamation trust.* For the purposes of this Act, where a trust resident in Canada would be a mining reclamation trust at any time if it were resident at that time in the province in which the mine to which the trust relates is situated, the trust shall be deemed to be resident at that time in that province and in no other province."

S. 250(7) was added by S.C. 1995, c. 3, s. 54(1), applicable after 1993.

Related Sections: S. 12(1)(*z*.1) Qualifying environmental trusts; s. 12(1)(*z*.2) Dispositions of interests in qualifying environmental trusts; s. 20(1)(*ss*) Qualifying environmental trusts; s. 20(1)(*tt*) Acquisition of interests in qualifying environmental trusts; s. 107.3 Treatment of beneficiaries under qualifying environmental trusts; s. 149(1)(*z*) Qualifying environmental trust; s. 248(1), "qualifying environmental trust".

SECTION 250.1: Non-resident person's taxation year and income.

For greater certainty, unless the context requires otherwise

(*a*) a taxation year of a non-resident person shall be determined, except as otherwise permitted by the Minister, in the same manner as the taxation year of a person resident in Canada; and

(*b*) a person for whom income for a taxation year is determined in accordance with this Act includes a non-resident person.

History: S. 250.1 was added by S.C. 2001, c. 17, s. 191(1), applicable after December 17, 1999.

Related Sections: S. 212(1)(*c*) Estate or trust income; s. 216(1)(*b*) Alternatives re rents and timber royalties; s. 217(3) Taxable income earned in Canada.

Tax Topics: No. 1889, Taxation Year of a Foreign Affiliate.

SECTION 251:

► 251(1) ◄

(1) Arm's length. For the purposes of this Act,

(*a*) related persons shall be deemed not to deal with each other at arm's length;

(*b*) a taxpayer and a personal trust (other than a trust described in any of paragraphs (*a*) to (*e*.1) of the definition "trust" in subsection 108(1)) are deemed not to deal with each other at arm's length if the taxpayer, or any person not dealing at arm's length with the taxpayer, would be beneficially interested in the trust if subsection 248(25) were read without reference to subclauses 248(25)(*b*)(iii)(A)(II) to (IV); and

(*c*) where paragraph (*b*) does not apply, it is a question of fact whether persons not related to each other are at a particular time dealing with each other at arm's length.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 251(1)(c) of the Act is replaced by the following:

(*c*) in any other case, it is a question of fact whether persons not related to each other are, at a particular time, dealing with each other at arm's length.

Applicable: After December 23, 1998.

Explanatory Note: Subsection 251(1) of the Act provides a set of rules that determine whether persons are considered, for the purposes of the Act, to deal with each other at arm's length. Paragraph 251(1)(*a*) deems related persons not to deal with each other at arm's length. Paragraph 251(1)(*b*) deems a taxpayer and a personal trust (other than a trust described in any of paragraphs (*a*) to (*e*.1) of the definition "trust" in subsection 108(1) of the Act) not to deal with each other at arm's length if the taxpayer, or any person not dealing at arm's length with the taxpayer, is beneficially interested in the trust. Paragraph 251(1)(*c*) provides that, where paragraph 251(1)(*b*) does not apply, it is a question of fact whether persons not related to each other are at a particular time dealing with each other at arm's length.

Paragraph 251(1)(*c*) is amended to clarify that it applies in any case where paragraphs (*a*) and (*b*) do not apply.

This amendment applies after December 23, 1998.

History: S. 251(1)(*b*) was amended, and paragraph (*c*) was added, by S.C. 2001, c. 17, s. 192(1), applicable after December 23, 1998 except that paragraph 251(1)(*b*) of the Act shall, for the purpose of applying the definition "taxable Canadian property" in subsection 248(1) of the Act, not apply in respect of property acquired before December 24, 1998. S. 251(1)(*b*) formerly read:

"(*b*) it is a question of fact whether persons not related to each other were at a particular time dealing with each other at arm's length."

Editorial Note: Subsection 251(1) determines when persons do not deal at arm's length whenever that term is used in a large number of provisions throughout the *Income Tax Act*. Related persons, determined elsewhere in section 251, are deemed not to deal at arm's length. If a taxpayer, or non-arm's length person, is beneficially interested in a personal trust, the taxpayer is deemed not to deal at arm's length with the trust. Otherwise, non-arm's length status will be a question of fact, determined under case law by whether there is a "common mind" directing both sides of a transaction, the parties are acting in concert without separate interests, or there is *de facto* (effective) control by one party.

Related Sections: S. 7 Agreement to issue securities to employees; s. 13(7)(*e*) Rules applicable; s. 14(5), "cumulative eligible capital"; s. 15(2.1) Persons connected with a shareholder; s. 18(2) Limit on certain interest and property tax; s. 18(5) Definitions; s. 18(5.1) Person deemed not to be specified shareholder; s. 18(6) Loans made on condition; s. 39(1)(*c*) Meaning of capital gain and capital loss; s. 40(2)(*g*)(ii) Limitations; s. 55 Definitions; s. 56(4) Transfer of rights to income; s. 56(4.1) Interest free or low interest loans; s. 69 Inadequate considerations; s. 74.1(2) Transfers and loans to minors; s. 80.4 Loans; s. 84(8) Where s. (3) does not apply; s. 84.1 Non-arm's length sale of shares; s. 88 Winding-up; s. 95 Foreign accrual property income; s. 103(1.1) Agreement to share income, etc., in unreasonable proportions; s. 112 Deduction of taxable dividends received by corporation resident in Canada; s. 149.1(1) Definitions (various definitions); s. 160 Tax liability re property transferred not at arm's length; s. 186(2) When corporation controlled; s. 212(1)(*b*) Interest; s. 212(4) Interpretation of "management or administration fee or charge"; s. 212.1 Non-arm's length sales of shares by non-residents s. 246 Benefit conferred on a person; s. 248(1), "specified employee", "specified financial institution"; "specified shareholder"; s. 248(25) Beneficially interested; s. 251(2) Definition of "related persons"; s. 251(3) Corporations related through a third corporation; s. 251(3.1) Relation where amalgamation or merger; s. 251(3.2) Amalgamation of related corporations; s. 251(4) Definitions concerning groups; s. 251(5) Control by related groups, options, etc; s. 251(6) Blood relationship, etc; s. 260 Definitions.

Proposed Related Sections: S. 56.4; s. 94; s. 94.1; s. 248(36).

Regulations: 231(6); 1100; 1100A; 1101; 1102; Part XII; 4605; 4800.1; Part XLIX; Part LI; Part LXII; Part LXVII; Part LXVIII; Part LXXXV.

Interpretation Bulletins: *Primary* — IT-419R2 Meaning of arm's length. *Secondary* — IT-64R4 (Consolid.) Corporations: Association and control.

Canadian Tax Foundation: Stack, "Arm's Length as a Question of Fact", *1997 Conference Report*, 16:1.

► 251(2) ◄

(2) Definition of "related persons". For the purpose of this Act, "related persons", or persons related to each other, are

(*a*) individuals connected by blood relationship, marriage or common-law partnership or adoption;

(*b*) a corporation and

(i) a person who controls the corporation, if it is controlled by one person,

(ii) a person who is a member of a related group that controls the corporation, or

(iii) any person related to a person described in subparagraph (i) or (ii); and

(*c*) any two corporations

(i) if they are controlled by the same person or group of persons,

(ii) if each of the corporations is controlled by one person and the person who controls one of the corporations is related to the person who controls the other corporation,

(iii) if one of the corporations is controlled by one person and that person is related to any member of a related group that controls the other corporation,

(iv) if one of the corporations is controlled by one person and that person is related to each member of an unrelated group that controls the other corporation,

(v) if any member of a related group that controls one of the corporations is related to each member of an unrelated group that controls the other corporation, or

(vi) if each member of an unrelated group that controls one of the corporations is related to at least one member of an unrelated group that controls the other corporation.

History: S. 251(2)(*a*) was amended by S.C. 2000, c. 12, Sched. 2, s. 10(*c*), applicable January 1, 2001, coming into force on July 31, 2000. S. 251(2)(*a*) formerly read:

"(*a*) individuals connected by blood relationship, marriage or adoption;"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Editorial Note: This subsection, supplemented by subsections 251(3)–(6), provides a series of rules as to when individuals and corporations are related under the *Income Tax Act*. Subsection 251(1) determines non-arm's length status (see editorial note). Whereas individuals are related based on blood relationships (see subsection 251(6)), marriage or common-law relationships and adoption, corporations are related based on the concept of control, which for the purposes of paragraphs (*b*) and (*c*) means *de jure* (legal) control and not *de facto* control (which is described in subsection 256(5.1)). See also the cases summarized below ("Cases"). Particularly important are subsections 251(5), which expands the concept of control for certain purposes (see editorial note) and subsection 251(3), which provides a "connective" rule: where two corporations are related to the same corporation, they are generally related to one another. There are no general provisions in the *Income Tax Act* as to trusts or partnerships as related persons. Per *MNR v. Consolidated Holding Company Ltd.* (72 DTC 6007 (SCC), where shares of a corporation are held in a trust, the trustees will be relevant with respect to the question of control. The CRA's position is that, in the absence of evidence to the contrary, there is a presumption that all of the trustees of a trust constitute a group that controls the corporation. As for partnerships as related persons, see 1990 RCRT Question 28.

Related Sections: S. 6 Amounts to be included as income from office or employment; s. 15 Benefit conferred on shareholder; s. 17 Amount owing by non-resident; s. 40(2)(*e.1*) Limitations; s. 44.1 Reserve — property disposed of to a child; s. 51(2) Limitation of rollover benefit; s. 53(1)(*c*) Adjustments to cost base — Contributions of capital; s. 53(1)(*e*) Adjustments to cost base — Interest in a partnership; s. 54, "personal use property"; s. 55 Definitions; s. 74.4(2) Transfers and loans to corporations; s. 80 Definitions; s. 80.01(6) Specified obligation in relation to debt parking; s. 80.04 Definitions; s. 80.4 Loans; s. 83(2.4) Capital dividend — exception to anti-avoidance rule; s. 85(1)(*e.2*) Transfer of property to corporation by shareholders; s. 86(1)

Exchange of shares by a shareholder in course of reorganization of capital; s. 86(2) Disposition of old shares and benefit; s. 87(4) Computation of adjusted cost base; s. 88(1) Winding-up; s. 88(3) Dissolution of foreign affiliate; s. 94 Application of certain provisions to trusts not resident in Canada; s. 95 Foreign affiliate; s. 110.6(1), "qualified small business corporation share"; s. 112(2.21) Exceptions; s. 112(2.4) Where no deduction permitted; s. 120.4 Definitions; s. 125(7), "personal services business" s. 127 Logging tax deduction; s. 147(2) Acceptance of plan for registration; s. 191(2) Substantial interest; s. 191(3) Substantial interest — anti-avoidance rule; s. 191.3(1) Agreement respecting liability for tax; s. 191.3(4) Related corporations; s. 248(1), "small business corporation", "specified financial institution", "specified shareholder", "term preferred share"; s. 251(1) Arm's length; s. 251(3) Corporations related through a third corporation; s. 251(3.1) Relation where amalgamation or merger; s. 251(3.2) Amalgamation of related corporations; s. 251(4) Definitions concerning groups; s. 251(5) Control by related groups, options, etc; s. 251(6) Blood relationship, etc; s. 256(1) Associated corporations; s. 256(6.1) Simultaneous control; s. 256(7) Acquiring control.

Regulations: 4901(2); Part LI; 5907(1); Part LXXXV.

Interpretation Bulletins: *Secondary* — IT-64R4 (Consolid.) Corporations: Association and control; IT-419R2 Meaning of arm's length; IT-495R3 Child care expenses; IT-513R Personal tax credits.

Income Tax Technical News: Issue No. 16, Duha (Western) Printers Ltd. v. The Queen.

Tax Topics: No. 1692, Income Tax Implications of Buy-Sell Provisions.

Canadian Tax Foundation: Brender, "Developments in the Concept of Corporate Control", *2007 Conference Report*, 31:1; Diep and Micallef, ""Related", "Associated", "Affiliated, Parts 1 and 2,"", *2005 Conference Report*, 38:1 and 39:1; Marquette, "Selected Income Tax Issues of Particular Relevance to Shareholders' Agreements: Part 1", *2001 Canadian Tax Journal*, No. 1, 182; Hiseler, "Corporate Control", *1988 Conference Report*, No. 12:1.

Cases: A corporation was a CCPC even though more than 50% of its common shares were held by various non-residents. There was no sufficient common link or interest amongst the shareholders, or evidence that they acted together to exert control. *Silicon Graphics Limited v. The Queen*, 2002 DTC 7112 (F.C.A.), reversing 2001 DTC 379 (T.C.C.).

Although the parent company did not have *de facto* over both corporations, it did have *de jure* control, and that was sufficient to allow the non-capital losses to be transferred from one corporation to the other. *Duha Printers (Western) Ltd.*, 98 DTC 6334 (S.C.C.), reversing 96 DTC 6323 (F.C.A.), which reversed 95 DTC 828 (T.C.C.).

Two corporations were not associated by virtue of the *de jure* or "voting control" test and the attempt to show that one corporation enjoyed *de facto* control of the other corporation through its unexercised right, under certain circumstances, to force the redemption of its preferred shares was ill-conceived. *Harvard International Resources Ltd. v. Prov. Treasurer of Ontario*, 93 DTC 5254 (Alta. Q.B.).

One company held shares which gave it the right to wind-up the other company. It therefore controlled the other company, notwithstanding the fact that it only held 50% of the voting rights. *The Queen v. Imperial General Properties Ltd.*, 85 DTC 5500 (S.C.C.), reversing 83 DTC 5055 (F.C.A.), affirming 81 DTC 5191 (F.C.T.D.).

A group of shareholders was held to control several corporations because they had the right to authorize the surrender of the company's letters patent. These circumstances were sufficient to vest control in the group even though they only held 50% of the voting power. *Oakfield Developments (Toronto) Ltd. v. M.N.R.*, 71 DTC 5175 (S.C.C.), affirming 69 DTC 5175 (Ex. Ct.).

If a group of shareholders owns a majority of the voting shares of a company, and the same group owns a majority of the voting shares of a second company, that fact is sufficient to constitute the two companies associated. Moreover, in determining *de jure* control more than one group of persons can be aptly described as a "group of persons". It is immaterial whether other combinations of shareholders may own a majority of voting shares in either company. *Vina-Rug (Canada) Limited v. M.N.R.*, 68 DTC 5021 (S.C.C.), affirming 66 DTC 5373 (Ex. Ct).

Control means *de jure* control, and not *de facto*. The right of control rests in ownership of such a number of shares as carries with it the right to a majority of the votes in the election of the Board of Directors. The fact that a particular shareholder has a second or casting vote in the case of an equality of votes does not give that shareholder control of the company. *M.N.R. v. Dworkin Furs (Pembroke) Limited et al.*, 67 DTC 5035 (S.C.C.), affirming 65 DTC 5277 (Ex.Ct.), 66 DTC 5244 (Ex.Ct.), 66 DTC 5263 (Ex.Ct.) and 66 DTC 5303 (Ex.Ct.).

Where two individuals each owned half the shares of three companies either through personal holding or through ownership of two intermediary companies, the three companies were deemed controlled by the same group of persons. *Vineland Quarries and Crushed Stone Ltd. v. M.N.R.*, 66 DTC 5092 (Ex. Ct.), affirmed by 67 DTC 5283 (S.C.C.).

The word "controlled" contemplates the right of control that rests in ownership of such a number of shares as carries with it the right to a majority of the votes in the election of the Board of Directors. *Buckerfield's Limited v. M.N.R.*, 64 DTC 5301 (Ex. Ct.).

► 251(3) ◄

(3) Corporations related through a third corporation. Where two corporations are related to the same corporation within the meaning of subsection (2), they shall, for the purposes of subsections (1) and (2), be deemed to be related to each other.

Editorial Note: See the Editorial Note to subsection 251(2).

Regulations: Part XXXI.

► 251(3.1) ◄

(3.1) Relation where amalgamation or merger. Where there has been an amalgamation or merger of two or more corporations and the new corporation formed as a result of the amalgamation or merger and any predecessor corporation would have been related immediately before the amalgamation or merger if the new corporation were in existence at that time, and if the persons who were the shareholders of the new corporation immediately after the amalgamation or merger were the shareholders of the new corporation at that time, the new corporation and any such predecessor corporation shall be deemed to have been related persons.

Interpretation Bulletins: *Secondary* — IT-474R2 Amalgamations of Canadian corporations.

► 251(3.2) ◄

(3.2) Amalgamation of related corporations. Where there has been an amalgamation or merger of 2 or more corporations each of which was related (otherwise than because of a right referred to in paragraph (5)(*b*)) to each other immediately before the amalgamation or merger, the new corporation formed as a result of the amalgamation or merger and each of the predecessor corporations is deemed to have been related to each other.

History: S. 251(3.2) was added by S.C. 1998, c. 19, s. 242(1), applicable to amalgamations and mergers that occur after 1996.

Related Sections: S. 251.1(2) Affiliation where amalgamation or merger.
Interpretation Bulletins: *Secondary* — IT-474R2 Amalgamations of Canadian corporations.

► 251(4) ◄

(4) Definitions concerning groups. In this Act,

"related group" — "related group" means a group of persons each member of which is related to every other member of the group;

"unrelated group" — "unrelated group" means a group of persons that is not a related group.

► 251(5) ◄

(5) Control by related groups, options, etc. For the purposes of subsection (2) and the definition "Canadian-controlled private corporation" in subsection 125(7),

(*a*) where a related group is in a position to control a corporation, it shall be deemed to be a related group that controls the corporation whether or not it is part of a larger group by which the corporation is in fact controlled;

(*b*) where at any time a person has a right under a contract, in equity or otherwise, either immediately or in the future and either absolutely or contingently,

(i) to, or to acquire, shares of the capital stock of a corporation or to control the voting rights of such shares, the person shall, except where the right is

not exercisable at that time because the exercise thereof is contingent on the death, bankruptcy or permanent disability of an individual, be deemed to have the same position in relation to the control of the corporation as if the person owned the shares at that time,

(ii) to cause a corporation to redeem, acquire or cancel any shares of its capital stock owned by other shareholders of the corporation, the person shall, except where the right is not exercisable at that time because the exercise thereof is contingent on the death, bankruptcy or permanent disability of an individual, be deemed to have the same position in relation to the control of the corporation as if the shares were so redeemed, acquired or cancelled by the corporation at that time;

(iii) to, or to acquire or control, voting rights in respect of shares of the capital stock of a corporation, the person is, except where the right is not exercisable at that time because its exercise is contingent on the death, bankruptcy or permanent disability of an individual, deemed to have the same position in relation to the control of the corporation as if the person could exercise the voting rights at that time, or

(iv) to cause the reduction of voting rights in respect of shares, owned by other shareholders, of the capital stock of a corporation, the person is, except where the right is not exercisable at that time because its exercise is contingent on the death, bankruptcy or permanent disability of an individual, deemed to have the same position in relation to the control of the corporation as if the voting rights were so reduced at that time; and

(*c*) where a person owns shares in two or more corporations, the person shall as shareholder of one of the corporations be deemed to be related to himself, herself or itself as shareholder of each of the other corporations.

History: S. 251(5)(*b*) was amended and subparagraphs (iii) and (iv) were added by S.C. 1998, c. 19, s. 242(2) and (3), applicable after April 26, 1995. S. 251(5)(*b*) formerly read:

"(*b*) where a person has a right under a contract, in equity or otherwise, either immediately or in the future and either absolutely or contingently,"

S. 251(5)(*b*) was amended by S.C. 1994, c. 7, Sched. II, s. 195(1), applicable after July 13, 1990. S. 251(5)(*b*) formerly read:

"(*b*) where a person has a right under a contract, in equity or otherwise, either immediately or in the future and either absolutely or contingently

(i) to, or to acquire, shares in a corporation, or to control the voting rights of shares in a corporation, the person shall, except where the contract provides that the right is not exercisable until the death, bankruptcy or permanent disability of an individual designated therein, be deemed to have the same position in relation to the control of the corporation as if the person owned the shares, or

(ii) to cause a corporation to redeem, acquire or cancel any shares of its capital stock owned by other shareholders of the corporation, the person shall, except where the contract provides that the right is not exercisable until the death, bankruptcy or permanent disability of an individual designated therein, be deemed to have the same position in relation to the control of the corporation as if the shares were redeemed, acquired or cancelled by the corporation; and"

Editorial Note: Subsection 251(5) expands the control concept, for the purposes (only) of related person (and consequently non-arm's length) status and the CCPC definition in subsection 125(7). (A similar provision, subsection 256(1.4), applies re associated corporation status.) Subsection 251(5) does not apply, for example, to subsection 111(5) (loss streaming) or 249(4) (deemed year end). Paragraph 251(5)(*b*) applies to rights under contract (e.g., shareholders' or share purchase agreements), in equity or otherwise, including contingent rights, to acquire shares, control voting rights, or to cause a corporation to redeem/acquire shares owned by others. Exceptions apply to rights contingent on death, bankruptcy or permanent disability of an individual. The CRA's longstanding policy excludes a right of first refusal or shotgun arrangement, but it has recently indicated that it is not prepared to extend administrative concessions to other situations in shareholders agreements (see Doc. No. 2007-0243211C6); therefore one may question pre-existing administrative concessions based on the lack of a "clear right". A number of ITA provisions based on related-person status exclude rights under paragraph 251(5)(*b*). Paragraph 110.6(14)(*b*) ignores rights under a share purchase and sale agreement which might otherwise jeopardize the availability of the capital gains exemption. Subsection 256(8) may treat such subsection 251(5)(*b*) rights as exercised, if acquired to avoid/affect specified provisions.

Related Sections: S. 13(25) Early change of control; s. 13(30) Transfers of property; s. 13(31) Transfers of property — continuity of ownership; s. 17(11.1) Determination of whether persons related; s. 17(11.3) Determination of whether persons related; s. 17(13) Extended definition of controlled foreign affiliate; s. 37(1.1) Business of related corporations; s. 53(5)(*c*) Recomputation of adjusted cost base on other transfer; s. 55(5)(*e*)(iv) Applicable rules; s. 66(11.5)(*b*) Early change of control; s. 66(15), "principal business corporation"; s. 69(14)(*b*) New taxpayer; s. 80.01(6)(*a*)(ii) Specified obligation in relation to debt parking; s. 80.04(2) Eligible transferee; s. 83(2.4) Capital dividend — exception to anti-avoidance rule; s. 85(1.2)(*a*) Application of subsection (1); s. 85.1(2)(*a*) Where s. (1) does not apply; s. 85.1(6)(*a*) Where subsection (5) does not apply; s. 88(1)(*d.4*) Winding-up; s. 89(1), "designated property"; s. 94.1(1), "exempt property", "investment property", "significant interest"; s. 95(1), "investment business", "investment property"; s. 95(2) Determination of certain components of foreign accrual property income; s. 110.6(14)(*b*) Related persons, etc; s. 112(2.21) Exceptions; s. 112(2.4)(*b*) Where no deduction permitted; s. 125(7), "Canadian-controlled private corporation"; s. 142.2(2)(*a*) Significant interest; s. 142.2(3)(*a*) Rules re significant interest; s. 149.1(1), "relevant person"; s. 181.5(6) Government-controlled corporation; s. 186(4)(*a*) Corporations connected with particular corporation; s. 190.15(6) Government-controlled corporation; s. 191(2) Substantial interest; s. 191(3) Substantial interest — anti-avoidance rule; s. 191.3(1) Agreement respecting liability for tax; s. 212.1(1) Non-arm's length sales of shares by non-residents; s. 248(1), "short-term preferred share"; s. 251(2) Definition of "related persons"; s. 256(6) Saving provision — controlled corporations; s. 256(6.1) Simultaneous control; s. 256(7) Acquiring control; s. 256(8) Deemed exercise of right.

Proposed Related Sections: s. 56.4(1), "eligible corporation"; s. 56.4(3); s. 56.4(8)(*a*).

Regulations: 1100(2.2); 1100(19); 1100(28); 1101(1ad); 1102(1); 1102(14); 1102(14.1); 5202; 6204(3).

Interpretation Bulletins: *Secondary* — IT-64R4 (Consolid.) Corporations: Association and control; IT-151R5 (Consolid.) — Scientific research and experimental development expenditures; IT-151R4 Scientific research and experimental development expenditures [Archived by the CRA]; IT-302R3 Losses of a corporation — The effect on their deductibility of changes in control, amalgamation and winding-up; IT-400 Exploration and development expenses — Meaning of principal-business corporation; IT-458R2 Canadian-controlled private corporation.

Information Circulars: IC 72-25R4 Business equity valuations; IC 89-3 Policy statement on business equity valuations.

Advance Tax Rulings: ATR-13 Corporations not associated.

Income Tax Technical News: Issue No. 38, Canadian Controlled Private Corporation (CCPC) Determination — Impact of the Sedona Decision; Issue No. 38, Paragraph 251(5)(*b*) — Conditional Agreements.

Tax Topics: No. 1867-68, 2007 Canadian Tax Foundation Annual Conference CRA Round Table; No. 1692, Income Tax Implications of Buy-Sell Provisions; No. 1650, Family Shareholders' Agreements - Succession Planning's Missing Link?.

Tax Profile: April 2006 — Concept of Control.

Cases: *Sedona Networks Corporation v. The Queen*, 2007 DTC 5359 addresses the situation where rights are held by a number of persons, indicating that paragraph 251(5)(*b*) "is directed at the concept of ownership, not control ... [and that if paragraph 251(5)(*b*) is applicable to a person who has treasury share options] ... it is necessary to assume that the option is exercised and the related shares are actually acquired by" the option holder [paragraph 27]. This statement is not consistent with the CRA's pre-existing position, which is that, while the "fully diluted" approach is used in respect of subsection 256(1.4), it is not used for the purposes of paragraph 251(5)(*b*): in that case, "the determination of the control of a corporation must be determined person by person" ignoring rights of others (see, for example, Doc. No. 2004-008676). At the Round Table presented at the 2007 Canadian Tax Foundation Annual Conference, the CRA indicated that it does not believe that *Sedona* precludes it from applying its pre-existing position.

► 251(6) ◄

(6) Blood relationship, etc. For the purposes of this Act, persons are connected by

(*a*) blood relationship if one is the child or other descendant of the other or one is the brother or sister of the other;

(*b*) marriage if one is married to the other or to a person who is so connected by blood relationship to the other;

(*b*.1) common-law partnership if one is in a common-law partnership with the other or with a person who is connected by blood relationship to the other; and

(*c*) adoption if one has been adopted, either legally or in fact, as the child of the other or as the child of a person who is so connected by blood relationship (otherwise than as a brother or sister) to the other.

History: S. 251(6)(*b*.1) was added by S.C. 2000, c. 12, s. 140, applicable January 1, 2001, coming into force on July 31, 2000.

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*.] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Related Sections: S. 8(1)(*e*) Expenses of railway employees; s. 118.2(2) Medical expenses; s. 146.1(2) Conditions for registration; s. 204.9(4) New beneficiary; s. 248(1), "corporation", "individual", "share", "shareholder"; s. 256(6.1) Simultaneous control.

Interpretation Bulletins: *Secondary* — IT-495R3 Child care expenses; IT-513R Personal tax credits.

SECTION 251.1:

► 251.1(1) ◄

(1) Definition of "affiliated persons". For the purposes of this Act, "affiliated persons", or persons affiliated with each other, are

(*a*) an individual and a spouse or common-law partner of the individual;

(*b*) a corporation and

(i) a person by whom the corporation is controlled,

(ii) each member of an affiliated group of persons by which the corporation is controlled, and

(iii) a spouse or common-law partner of a person described in subparagraph (i) or (ii);

(*c*) two corporations, if

(i) each corporation is controlled by a person, and the person by whom one corporation is controlled is affiliated with the person by whom the other corporation is controlled,

(ii) one corporation is controlled by a person, the other corporation is controlled by a group of persons, and each member of that group is affiliated with that person, or

(iii) each corporation is controlled by a group of persons, and each member of each group is affiliated with at least one member of the other group;

(*d*) a corporation and a partnership, if the corporation is controlled by a particular group of persons each member of which is affiliated with at least one member of a majority-interest group of partners of the partnership, and each member of that majority-interest group is affiliated with at least one member of the particular group;

(*e*) a partnership and a majority interest partner of the partnership;

(*f*) two partnerships, if

(i) the same person is a majority-interest partner of both partnerships,

(ii) a majority-interest partner of one partnership is affiliated with each member of a majority-interest group of partners of the other partnership, or

(iii) each member of a majority-interest group of partners of each partnership is affiliated with at least one member of a majority-interest group of partners of the other partnership;

(*g*) a person and a trust, if the person

(i) is a majority-interest beneficiary of the trust, or

(ii) would, if this subsection were read without reference to this paragraph, be affiliated with a majority-interest beneficiary of the trust; and

(*h*) two trusts, if a contributor to one of the trusts is affiliated with a contributor to the other trust and

(i) a majority-interest beneficiary of one of the trusts is affiliated with a majority-interest beneficiary of the other trust,

(ii) a majority-interest beneficiary of one of the trusts is affiliated with each member of a majority-interest group of beneficiaries of the other trust, or

(iii) each member of a majority-interest group of beneficiaries of each of the trusts is affiliated with at least one member of a majority-interest group of beneficiaries of the other trust.

History: S. 251.1(1)(*g*) and (*h*) were added by S.C. 2005, c. 19, s. 54(1), applicable in determining whether persons are, at any time after March 22, 2004, affiliated.

S. 251.1(1)(*a*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.37), applicable January 1, 2001, coming into force on July 31, 2000. S. 251.1(1)(*a*) formerly read:

"(*a*) an individual and a spouse of the individual;"

S. 251.1(1)(*b*)(iii) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.37), applicable January 1, 2001, coming into force on July 31, 2000. S. 251.1(1)(*b*)(iii) formerly read:

"(iii) a spouse of a person described in subparagraph (i) or (ii);"

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*.] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 251.1(1) was added by S.C. 1998, c. 19, s. 243(1), applicable after April 26, 1995.

Editorial Note: The concept of an "affiliated person" was introduced into the Act in 1995 primarily in support of a number of new and amended anti-avoidance provisions, most of which deal with "stop-losses". Apparently, the Department of Finance must have determined that the application of these anti-avoidance provisions required a new concept that in some ways would be more focused than the existing arm's length and related concepts (only a person and the person's spouse can be affiliated to one another) and in some cases broader then these concepts (e.g., the concept of control used in the definition is *de facto* control see subsections 251.1(3) and 256(5.1)). Detailed rules are provided as to when persons, corporations, partnerships and trusts (see comment on the definition of "majority interest beneficiary" below) will be affiliated with one another.

Related Sections: S. 13(21.2) Loss on certain transfers; s. 13(24) Acquisition of control; s. 14(12) Loss on certain transfers; s. 18(13)–(15); s. 18.1(8) Non-arm's length disposition s. 18.1(10) Amount of deduction if non-arm's length disposition; s. 20.01(2) Limit; s. 40(3.3) When subsection (3.4) applies; s. 40(3.4) Loss on certain properties; s. 40(3.5) Deemed identical property; s. 40(3.6) Loss on shares; s. 40(3.61) Exception — estate loss carried back; s. 54(1), "superficial loss; s. 66(11.4) Change of control; s. 66(11.5) Early change of control; s. 69(11) Acquisition of control; s. 69(14) New taxpayer; s. 73(1) Inter vivos transfers by individuals; s. 84(2) Distribution on winding-up, etc; s. 84(3) Redemption, etc; s. 84(9) Shares disposed of on redemptions, etc; s. 84.1(1) Non-arm's length sale of shares; s. 107(6) Loss reduction; s. 115.2 Definitions; s. 118.1(18) Non-qualifying security defined; s. 122.1(1)

Definitions; s. 248(1), "majority interest partner"; s. 251(2) Definition of "related persons"; s. 251(3) Corporations related through a third corporation; s. 251(3.1) Relation where amalgamation or merger; s. 251(3.2) Amalgamation of related corporations; s. 251(4) Definitions concerning groups; s. 256(5.1) Control in fact.

Interpretation Bulletins: *Secondary* — IT-291R3 Transfer of property to a corporation under subsection 85(1).

Tax Topics: No. 1692, Income Tax Implications of Buy-Sell Provisions.

Tax Profile: September 2004 — Review of Tax Implications of Corporate-Owned Life Insurance Buy-Sell Arrangements.

Canadian Tax Foundation: Diep, ""Associated", "Affiliated", and "Related" Transactions, Part 1: A Technical Overview", *2005 Conference Report*, 38:1; Micallef, ""Associated", "Affiliated", and "Related" Transactions, Part 2: The Practical Applications of the Terms", *2005 Conference Report*, 39:1; Ireland, "The New Trust Affiliation Rule", *2005 Prairie Provinces Tax Conference*, 8:1.

► 251.1(2) ◄

(2) Affiliation where amalgamation or merger. Where at any time 2 or more corporations (in this subsection referred to as the "predecessors") amalgamate or merge to form a new corporation, the new corporation and any predecessor are deemed to have been affiliated with each other where they would have been affiliated with each other immediately before that time if

(*a*) the new corporation had existed immediately before that time; and

(*b*) the persons who were the shareholders of the new corporation immediately after that time had been the shareholders of the new corporation immediately before that time.

History: S. 251.1(2) was added by S.C. 1998, c. 19, s. 243(1), applicable after April 26, 1995.

Related Sections: S. 251(3.2) Amalgamation of related corporations.

► 251.1(3) ◄

(3) Definitions. The definitions in this subsection apply in this section.

"*affiliated group of persons*" — "affiliated group of persons" means a group of persons each member of which is affiliated with every other member.

"*beneficiary*" — "beneficiary", under a trust, includes a person beneficially interested in the trust.

History: S. 251.1(3), the definition "beneficiary" was added by S.C. 2005, c. 19, s. 54(2), applicable in determining whether persons are, at any time after March 22, 2004, affiliated.

"*contributor*" — "contributor", to a trust, means a person who has at any time made a loan or transfer of property, either directly or indirectly, in any manner whatever, to or for the benefit of the trust other than, if the person deals at arm's length with the trust at that time and is not immediately after that time a majority-interest beneficiary of the trust,

(*a*) a loan made at a reasonable rate of interest; or

(*b*) a transfer made for fair market value consideration.

History: S. 251.1(3), the definition "contributor" was added by S.C. 2005, c. 19, s. 54(2), applicable in determining whether persons are, at any time after March 22, 2004, affiliated.

"*controlled*" — "controlled" means controlled, directly or indirectly in any manner whatever.

"*majority-interest beneficiary*" — "majority-interest beneficiary", of a trust at any time, means a person whose interest as a beneficiary, if any, at that time

(*a*) in the income of the trust has, together with the interests as a beneficiary in the income of the trust of all persons with whom the person is affiliated, a fair market value that is greater than 50% of the fair market value of all the interests as a beneficiary in the income of the trust; or

(*b*) in the capital of the trust has, together with the interests as a beneficiary in the capital of the trust of all persons with whom the person is affiliated, a fair market value that is greater than 50% of the fair market value of all the interests as a beneficiary in the capital of the trust.

History: S. 251.1(3), the definition "majority-interest beneficiary" was added by S.C. 2005, c. 19, s. 54(2), applicable in determining whether persons are, at any time after March 22, 2004, affiliated.

Editorial Note: A person and a trust will be affiliated pursuant to paragraph 251.1(1)(*g*) where the person is a majority-interest beneficiary of the estate or is affiliated with such a person. Similarly two trusts will be affiliated pursuant to 251.1(1)(*h*) where "contributors" are affiliated and where a majority-interest beneficiary of each estate, majority-interest beneficiary of one estate and a majority-interest group of beneficiaries of another estate or two majority-interest groups of beneficiaries are affiliated with one another. In addition, notwithstanding the level of detail in paragraphs 251.1(1)(*g*) and (*h*), these provisions are not intended to comprehensively deal with all situations involving the affiliated person rules and trusts. For example, a trust and a corporation that the trust controls will be considered to be affiliated pursuant to the general rules in subparagraph 251.1(1)(*b*)(i).

A beneficiary will be a majority-interest beneficiary at any particular time if the beneficiary together with all person's affiliated to the beneficiary hold either an income interest or a capital interest having a fair market value in excess of, respectively, 50% of the fair market value of all income interests in the estate or 50% of the fair market value of all capital interests in the estate. Subparagraph 251.1(4)(*d*)(i) deems discretionary powers to receive income or capital to be fully exercised in favour of each beneficiary of an estate. Consequently, in a garden variety discretionary *inter-vivos* trust each beneficiary will usually be deemed to be entitled to 100% of the income or capital of the trust and will be a majority-interest beneficiary of the trust affiliated with the trust. Since interests in estates tend to be fixed as opposed to discretionary, except where under the terms of a will a particular beneficiary receives a bequest that would cause the beneficiary to control a particular corporation, subparagraph 256.1(4)(*d*)(i) will tend not to be as problematic in the estates arena.

The Affiliation Amendments have made the role of trustee irrelevant for purposes of the affiliation rules. In particular, paragraph 251.1(4)(*c*) deems the relationship of trustees to a corporation irrelevant to the affiliated person rules.

Related Sections: S. 251.1(1)(*g*) and (*h*); s. 251.1(3), "majority interest group of beneficiaries; 251.1(4) Interpretation.

"*majority-interest group of beneficiaries*" — "majority-interest group of beneficiaries", of a trust at any time, means a group of persons each of whom is a beneficiary under the trust at that time such that

(*a*) if one person held the interests as a beneficiary of all of the members of the group, that person would be a majority-interest beneficiary of the trust; and

(*b*) if any member of the group were not a member, the test described in paragraph (*a*) would not be met.

History: S. 251.1(3), the definition "majority-interest group of beneficiaries" was added by S.C. 2005, c. 19, s. 54(2), applicable in determining whether persons are, at any time after March 22, 2004, affiliated.

"*majority-interest group of partners*" — "majority-interest group of partners" of a partnership means a group of persons each of whom has an interest in the partnership such that

(*a*) if one person held the interests of all members of the group, that person would be a majority interest partner of the partnership; and

(*b*) if any member of the group were not a member, the test described in paragraph (*a*) would not be met.

History: S. 251.1(3) was added by S.C. 1998, c. 19, s. 243(1), applicable after April 26, 1995.

► 251.1(4) ◄

(4) Interpretation. For the purposes of this section,

(*a*) persons are affiliated with themselves;

(*b*) a person includes a partnership;

(*c*) notwithstanding subsection 104(1), a reference to a trust does not include a reference to the trustee or other persons who own or control the trust property; and

(*d*) in determining whether a person is affiliated with a trust,

(i) if the amount of income or capital of the trust that a person may receive as a beneficiary under the trust depends on the exercise by any person of, or the failure by any person to exercise, a discretionary power, that person is deemed to have fully exercised, or to have failed to exercise, the power, as the case may be,

(ii) the interest of a person in a trust as a beneficiary is disregarded in determining whether the person deals at arm's length with the trust if the person would, in the absence of the interest as a beneficiary, be considered to deal at arm's length with the trust,

(iii) a trust is not a majority interest beneficiary of another trust unless the trust has an interest as a beneficiary in the income or capital, as the case may be, of the other trust, and

(iv) in determining whether a contributor to one trust is affiliated with a contributor to another trust, individuals connected by blood, marriage, common-law partnership or adoption are deemed to be affiliated with one another.

History: S. 251.1(4)(*c*) and (*d*) were added by S.C. 2005, c. 19, s. 54(3), applicable in determining whether persons are, at any time after March 22, 2004, affiliated, except that paragraph 251.1(4)(*d*) is to be read without reference to subparagraph (iv) in determining whether persons are, before September 16, 2004, affiliated.

S. 251.1(4) was added by S.C. 1998, c. 19, s. 243(1), applicable after April 26, 1995.

SECTION 252:

► 252(1) ◄

(1) Extended meaning of "child". In this Act, words referring to a child of a taxpayer include

(*a*) a person of whom the taxpayer is the legal parent;

(*b*) a person who is wholly dependent on the taxpayer for support and of whom the taxpayer has, or immediately before the person attained the age of 19 years had, in law or in fact, the custody and control;

(*c*) a child of the taxpayer's spouse or common-law partner; and

(*d*) [Repealed.]

(*e*) a spouse or common-law partner of a child of the taxpayer.

History: S. 252(1)(*a*) was replaced by S.C. 2005, c. 33, s. s. 12(1), applicable on Royal Assent, July 20, 2005. S. 252(1)(*a*) formerly read:

"(*a*) a person of whom the taxpayer is the natural parent whether the person was born within or outside marriage;"

S. 252(1)(*d*) was repealed by S.C. 2005, c. 33, s. s. 12(2), applicable on Royal Assent, July 20, 2005. S. 252(1)(*d*) formerly read:

"(*d*) an adopted child of the taxpayer; and"

S. 252(1)(*c*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.38), applicable January 1, 2001, coming into force on July 31, 2000. S. 252(1)(*c*) formerly read:

"(*c*) a child of the taxpayer's spouse;"

S. 252(1)(*e*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.38), applicable January 1, 2001, coming into force on July 31, 2000. S. 252(1)(*e*) formerly read:

"(*e*) a spouse of a child of the taxpayer."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Related Sections: S. 63(3), "eligible child"; s. 248(1), "common-law partner".

Interpretation Bulletins: *Secondary* — IT-268R4 Inter vivos transfer of farm property to child; IT-349R3 Intergenerational transfers of farm property on death; IT-394R2 Preferred beneficiary election; IT-419R2 Meaning of arm's length; IT-495R3 Child care expenses; IT-513R Personal tax credits; IT-515R2 Education tax credit; IT-516R2 Tuition tax credit.

► 252(2) ◄

(2) Relationships. In this Act, words referring to

(*a*) a parent of a taxpayer include a person

(i) whose child the taxpayer is,

(ii) whose child the taxpayer had previously been within the meaning of paragraph (1)(*b*), or

(iii) who is a parent of the taxpayer's spouse or common-law partner;

(*b*) a brother of a taxpayer include a person who is

(i) the brother of the taxpayer's spouse or common-law partner, or

(ii) the spouse or common-law partner of the taxpayer's sister;

(*c*) a sister of a taxpayer include a person who is

(i) the sister of the taxpayer's spouse or common-law partner, or

(ii) the spouse or common-law partner of the taxpayer's brother;

(*d*) a grandparent of a taxpayer include a person who is

(i) the grandfather or grandmother of the taxpayer's spouse or common-law partner, or

(ii) the spouse or common-law partner of the taxpayer's grandfather or grandmother;

(*e*) an aunt or uncle of a taxpayer include the spouse or common-law partner of the taxpayer's aunt or uncle, as the case may be;

(*f*) a great-aunt or great-uncle of a taxpayer include the spouse or common-law partner of the taxpayer's great-aunt or great-uncle, as the case may be; and

(*g*) a niece or nephew of a taxpayer include the niece or nephew, as the case may be, of the taxpayer's spouse or common-law partner.

History: S. 252(2)(*a*)(iii) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.38), applicable January 1, 2001, coming into force on July 31, 2000. S. 252(2)(*a*)(iii) formerly read:

"(iii) who is a parent of the taxpayer's spouse;"

S. 252(2)(*b*)(i) and (ii) were amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.38), applicable January 1, 2001, coming into force on July 31, 2000. S. 252(2)(*b*)(i) and (ii) formerly read:

"(i) the brother of the taxpayer's spouse, or

(ii) the spouse of the taxpayer's sister;"

S. 252(2)(*c*)(i) and (ii) were amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.38), applicable January 1, 2001, coming into force on July 31, 2000. S. 252(2)(*c*)(i) and (ii) formerly read:

"(i) the sister of the taxpayer's spouse, or

(ii) the spouse of the taxpayer's brother;"

S. 252(2)(*d*)(i) and (ii) were amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.38), applicable January 1, 2001, coming into force on July 31, 2000. S. 252(2)(*d*)(i) and (ii) formerly read:

"(i) the grandfather or grandmother of the taxpayer's spouse, or

(ii) the spouse of the taxpayer's grandfather or grandmother;"

S. 252(2)(*e*) and (*f*) were amended by S.C. 2000, c. 12, s. 141(1), applicable January 1, 2001, coming into force on July 31, 2000. S. 252(2)(*e*) and (*f*) formerly read:

"(*e*) an aunt or great-aunt of a taxpayer include the spouse of the taxpayer's uncle or great-uncle, as the case may be;

(*f*) an uncle or great-uncle of a taxpayer include the spouse of the taxpayer's aunt or great aunt, as the case may be; and"

S. 252(2)(*g*) was amended by S.C. 2000, c. 12, Sched. 2, s. 1(z.38), applicable January 1, 2001, coming into force on July 31, 2000. S. 252(2)(*g*) formerly read:

"(*g*) a niece or nephew of a taxpayer include the niece or nephew, as the case may be, of the taxpayer's spouse."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 252(2) was amended by S.C. 1994, c. 7, Sched. VIII, s. 140(1), applicable after 1992. S. 252(2) formerly read:

"(2) *Definitions concerning parents and other relatives.* In this Act, words referring to a parent of a taxpayer include a person whose child the taxpayer is, in the taxation year in respect of which the expression is being employed, within the meaning of subsection (1) or whose child the taxpayer had previously been within the meaning of paragraph (1)(*b*), and

(*a*) 'brother' includes brother-in-law;

(*b*) 'grandparent' includes grandmother-in-law and grandfather-in-law;

(*c*) 'parent' includes mother-in-law and father-in-law; and

(*d*) 'sister' includes sister-in-law."

Related Sections: S. 248(1) Definitions.

Interpretation Bulletins: *Secondary* — IT-349R3 Intergenerational transfers of farm property on death; IT-495R3 Child care expenses; IT-515R2 Education tax credit; IT-516R2 Tuition tax credit.

► 252(3) ◄

(3) Extended meaning of "spouse" and "former spouse". For the purposes of paragraph 56(1)(*b*), section 56.1, paragraphs 60(*b*) and (*j*), section 60.1, subsections 70(6) and (6.1), 73(1) and (5) and 104(4), (5.1) and (5.4), the definition "pre-1972 spousal trust" in subsection 108(1), subsection 146(16), the definition "survivor" in subsection 146.2(1), subparagraph 146.3(2)(*f*)(iv), subsections 146.3(14), 147(19), 147.3(5) and (7) and 148(8.1) and (8.2), the definition "small business property" in subsection 206(1), the definition "qualifying transfer" in subsection 207.01(1), subparagraph 210(*c*)(ii) and subsections 248(22) and (23), "spouse" and "former spouse" of a particular individual include another individual who is a party to a void or voidable marriage with the particular individual.

Coordinating Amendment

S.C. 2008, c. 28 (Bill C-50) — Coordinating Amendments With Former Bill C-10 — June 18, 2008

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The following amendment applies if Bill C-10, introduced in the 2nd session of the 39th Parliament and entitled the *Income Tax Amendments Act, 2006*, receives royal assent: On the first day on which both subsection 190(1) of Bill C-10 and section 35 of this Act [the amendment to s. 252(3) by S.C. 2008, c. 28] are in force, subsection 252(3) of the *Income Tax Act* is replaced by the following:

(3) Extended meaning of "spouse" and "former spouse". For the purposes of paragraph 56(1)(*b*), section 56.1, paragraphs 60(*b*) and (*j*), section 60.1, subsections 70(6) and (6.1), 73(1) and (5) and 104(4), (5.1) and (5.4), the definition "pre-1972 spousal trust" in subsection 108(1), subsection 146(16), the definition "survivor" in subsection 146.2(1), subparagraph 146.3(2)(*f*)(iv), subsections 146.3(14), 147(19), 147.3(5) and (7) and 148(8.1) and (8.2), the definition "small business property" in subsection 206(1), the definition "qualifying transfer" in subsection 207.01(1), and subsections 210(1) and 248(22) and (23), "spouse" and "former spouse" of a particular individual include another individual who is a party to a void or voidable marriage with the particular individual.

Applicable: In respect of the 2009 and subsequent taxation years.

Explanatory Note: Bill C-10, introduced in the 2nd session of the 39th Parliament and entitled the *Income Tax Amendments Act, 2006*, includes a number of measures that enact or amend provisions that are also the subject of the present enactment. If both are enacted, it will be necessary to ensure that the changes to those provisions are coordinated. This is accomplished through a series of technical coordinating amendments in the present enactment.

The coordinating amendment in clause 42 ensures that the present enactment modifies the correct version of subsection 252(3) of the *Income Tax Act*, which provides extended meanings of "spouse" and "former spouse" for a number of purposes under that Act. Bill C-10 includes a change to one of the statutory references in the subsection, while the present enactment adds a reference in relation to the TFSA rules. Clause 42 ensures that both of these will operate as intended, regardless of the order of the two enactments.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 252(3) of the Act is amended by replacing the expression "subparagraph 210(*c*)(ii) and subsections 248(22) and (23)" with the expression "subsections 210(1) and 248(22) and (23)".

Applicable: To the 1996 and subsequent taxation years.

Explanatory Note: Subsection 252(3) of the Act extends the meaning of the terms "spouse" and "former spouse" to include, for a number of purposes, a party to a void or voidable marriage.

The provision is amended consequential on amendments to Part XII.2 of the Act, which add a new reference to "spouse" in the definition "designated income" and maintain the existing references to "spouse" and "former spouse" in the definition "designated beneficiary" in subsection 210(1) of the Act. For more detail, see the commentary on subsection 210(1).

This amendment generally applies to the 1996 and subsequent taxation years.

History: S. 252(3) was replaced by S.C. 2008, c. 28, s. 35(1), applicable to the 2009 and subsequent taxation years. S. 252(3) formerly read:

"(3) *Extended meaning of 'spouse' and 'former spouse'.* For the purposes of paragraph 56(1)(*b*), section 56.1, paragraphs 60(*b*) and (*j*), section 60.1, subsections 70(6) and (6.1), 73(1) and (5) and 104(4), (5.1) and (5.4), the definition 'pre-1972 spousal trust' in subsection 108(1), subsection 146(16), subparagraph 146.3(2)(*f*)(iv), subsections 146.3(14), 147(19), 147.3(5) and (7) and 148(8.1) and (8.2), the definition 'small business property' in subsection 206(1), subparagraph 210(*c*)(ii) and subsections 248(22) and (23), 'spouse' and 'former spouse' of a particular individual include another individual who is a party to a void or voidable marriage with the particular individual."

S. 252(3) was replaced by S.C. 2005, c. 33, s. 12(3), applicable on Royal Assent, July 20, 2005. S. 252(3) formerly read:

"(3) *Extended meaning of "spouse" and "former spouse".* For the purposes of paragraph 56(1)(*b*), section 56.1, paragraphs 60(*b*) and (*j*), section 60.1, subsections 70(6) and (6.1), 73(1) and (5) and 104(4), (5.1) and (5.4), the definition 'pre-1972 spousal trust' in subsection 108(1), subsection 146(16), subparagraph 146.3(2)(*f*)(iv), subsections 146.3(14), 147(19), 147.3(5) and (7) and 148(8.1) and (8.2), the definition 'small business property' in subsection

206(1), subparagraph 210(*c*)(ii) and subsections 248(22) and (23), 'spouse' and 'former spouse' of a particular individual include another individual of the opposite sex who is a party to a voidable or void marriage with the particular individual."

S. 252(3) was replaced by S.C. 2003, c. 15, s. 89(1), applicable after 2003. S. 252(3) formerly read:

"(3) *Extended meaning of 'spouse' and 'former spouse'.* For the purposes of paragraphs 56(1)(*b*) and (*c*), section 56.1, paragraphs 60(*b*), (*c*) and (*j*), section 60.1, subsections 70(6) and (6.1), 73(1) and (5) and 104(4), (5.1) and (5.4), the definition 'pre-1972 spousal trust' in subsection 108(1), subsection 146(16), subparagraph 146.3(2)(*f*)(iv), paragraph 146.3(14)(*b*), subsections 147.3(5) and (7) and 148(8.1) and (8.2), the definition 'small business property' in subsection 206(1), subparagraph 210(*c*)(ii) and subsections 248(22) and (23), 'spouse' and 'former spouse' of a particular individual include another individual of the opposite sex who is a party to a voidable or void marriage with the particular individual."

S. 252(3) was replaced by S.C. 2000, c. 19, s. 69(1), applicable to the 1998 and subsequent taxation years. S. 252(3) formerly read:

"(3) *Extended meaning of 'spouse' and 'former spouse'.* For the purposes of paragraphs 56(1)(*b*) and (*c*), section 56.1, paragraphs 60(*b*), (*c*) and (*j*), section 60.1, subsections 70(6) and (6.1), 73(1) and (5) and 104(4), (5.1) and (5.4), the definition 'pre-1972 spousal trust' in subsection 108(1), subsection 146(16), subparagraph 146.3(2)(*f*)(iv), paragraph 146.3(14)(*b*), subsections 147.3(5) and (7) and 148(8.1) and (8.2), subparagraph 210(*c*)(ii) and subsections 248(22) and (23), 'spouse' and 'former spouse' of a particular individual include another individual of the opposite sex who is a party to a voidable or void marriage with the particular individual."

S. 252(3) was amended by S.C. 1994, c. 7, Sched. VIII, s. 140(2), applicable to the 1991 and subsequent taxation years. S. 252(3) formerly read:

"(3) For the purposes of paragraphs 56(1)(*b*) and (*c*), section 56.1, paragraphs 60(*b*), (*c*) and (*j*), section 60.1, subsections 73(1) and 146(16), subparagraph 146.3(2)(*f*)(iv), paragraph 146.3(14)(*b*), subsections 147.3(5) and (7) and 148(8.1) and (8.2), subparagraph 210(*c*)(ii) and subsections 248(22) and (23), 'spouse' and 'former spouse' include a party to a voidable or void marriage, as the case may be."

S. 252(3) was amended by S.C. 1994, c. 7, Sched. II, s. 196(1), applicable after 1989. S. 252(3) formerly read:

"(3) For the purposes of paragraphs 56(1)(*b*) and (*c*), section 56.1, paragraphs 60(*b*), (*c*) and (*j*), section 60.1, subsections 73(1) and 146(16), subparagraph 146.3(2)(*f*)(iv), paragraph 146.3(14)(*b*), subsections 147.3(5) and (7) and 148(8) and subparagraph 210(*c*)(ii), 'spouse' and 'former spouse' include a party to a voidable or void marriage, as the case may be."

Related Sections: S. 148(8.1) Inter vivos transfer to spouse; s. 148(8.2) Transfer to spouse at death; s. 248(22) Matrimonial regimes; s. 248(23) Dissolution of a matrimonial regime.

Interpretation Bulletins: *Secondary* — IT-307R4 Spousal registered retirement savings plans.

► 252(4) ◄

(4) Idem. [Repealed by S.C. 2000, c. 12, s. 141(2).]

History: S. 252(4) was repealed by S.C. 2000, c. 12, s. 141(2), applicable January 1, 2001, coming into force on July 31, 2000. S. 252(4) formerly read:

"(4) *Idem.* In this Act,

(*a*) words referring to a spouse at any time of a taxpayer include the person of the opposite sex who cohabits at that time with the taxpayer in a conjugal relationship and

(i) has so cohabited with the taxpayer throughout a 12-month period ending before that time, or

(ii) would be a parent of a child of whom the taxpayer would be a parent, if this Act were read without reference to paragraph (1)(*e*) and subparagraph (2)(*a*)(iii)

and, for the purposes of this paragraph, where at any time the taxpayer and the person cohabit in a conjugal relationship, they shall, at any particular time after that time, be deemed to be cohabiting in a conjugal relationship unless they were not cohabiting at the particular time for a period of at least 90 days that includes the particular time because of a breakdown of their conjugal relationship;

(*b*) references to marriage shall be read as if a conjugal relationship between 2 individuals who are, because of paragraph (*a*), spouses of each other were a marriage;

(*c*) provisions that apply to a person who is married apply to a person who is, because of paragraph (*a*), a spouse of a taxpayer; and

(*d*) provisions that apply to a person who is unmarried do not apply to a person who is, because of paragraph (*a*), a spouse of a taxpayer."

Sec. 144, Chap. 12, S.C. 2000

144. [*Transitional Provision.*] Where a taxpayer and a person who would have been the taxpayer's common-law partner in the 1998, 1999 or 2000 taxation year, if sections 130 to 142 [of S.C. 2000, c. 12] applied to the applicable year, jointly elect in respect of that year by notifying the Minister of National Revenue in prescribed manner on or before their filing due date for the year in which this Act receives royal assent, those sections apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 252(4)(*a*)(ii) was amended by S.C. 1998, c. 19, s. 244(1), applicable after 1992. S. 252(4)(*a*)(ii) formerly read:

"(ii) is a parent of a child of whom the taxpayer is a parent (otherwise than because of the application of subparagraph (2)(*a*)(iii))"

S. 252(4)(*a*)(ii) was amended by S.C. 1994, c. 21, s. 112(1), applicable after 1992. S. 252(4)(*a*)(ii) formerly read:

"(ii) is a parent of a child of whom the taxpayer is a parent"

S. 252(4) was added by S.C. 1994, c. 7, Sched. VIII, s. 140(3), applicable after 1992.

Related Sections: S. 248(1), "individual".

Interpretation Bulletins: *Secondary* — IT-307R4 Spousal or common-law partner registered retirement savings plan; IT-313R2 Eligible capital property — Rules where a taxpayer has ceased carrying on a business or has died; IT-394R2 Preferred Beneficiary Election; IT-528 Transfers of Funds Between Registered Plans.

Income Tax Technical News: Issue No. 2, Meaning of "spouse" for income tax purposes.

SECTION 252.1: Union employer.

All the structural units of a trade union, including each local, branch, national and international unit, shall be deemed to be a single employer and a single entity for the purposes of the provisions of this Act and the regulations relating to

(*a*) pension adjustments and past service pension adjustments for years after 1994;

(*b*) the determination of whether a pension plan is, in a year after 1994, a multi-employer plan or a specified multi-employer plan (within the meanings assigned by subsection 147.1(1));

(*c*) the determination of whether a contribution made under a plan or arrangement is a resident's contribution (within the meaning assigned by subsection 207.6(5.1)); and

(*d*) the deduction or withholding and the remittance of any amount as required by subsection 153(1) in respect of a contribution made after 1991 under a retirement compensation arrangement.

History: S. 252.1 was added by S.C. 1994, c. 21, s. 113(1), applicable after October 8, 1986.

Related Sections: S. 227(8) Penalty; s. 227(9) Penalty.

Regulations: 8500(1); 8510(3).

SECTION 253: Extended meaning of "carrying on business".

For the purposes of this Act, where in a taxation year a person who is a non-resident person or a trust to which Part XII.2 applies

(*a*) produces, grows, mines, creates, manufactures, fabricates, improves, packs, preserves or constructs, in whole or in part, anything in Canada whether or not the person exports that thing without selling it before exportation,

(*b*) solicits orders or offers anything for sale in Canada through an agent or servant, whether the contract or transaction is to be completed inside or outside Canada or partly in and partly outside Canada, or

(*c*) disposes of

(i) Canadian resource property, except where an amount in respect of the disposition is included under paragraph 66.2(1)(*a*) or 66.4(1)(*a*),

(ii) property (other than depreciable property) that is a timber resource property or an interest therein or option in respect thereof, or

(iii) property (other than capital property) that is real property situated in Canada, including an

interest therein or option in respect thereof, whether or not the property is in existence,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 3 — Amendments Relating to Bijuralism — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraphs 253(*c*)(ii) and (iii) of the Act are replaced by the following:

(ii) property (other than depreciable property) that is a timber resource property, an option in respect of a timber resource property or an interest in, or for civil law a right in, a timber resource property, or

(iii) property (other than capital property) that is real or immovable property situated in Canada, including an option in respect of such property or an interest in, or for civil law a real right in, such property, whether or not the property is in existence,

Applicable: Royal Assent.

Explanatory Note: [See the Explanatory Note re amendments related to bijuralism following the amendment to paragraph 12(1)(*o*).]

the person shall be deemed, in respect of the activity or disposition, to have been carrying on business in Canada in the year.

History: S. 253 was amended by S.C. 1994, c. 7, Sched. II, s. 197(1), applicable to the 1990 and subsequent taxation years, except that, for dispositions occurring before February 21, 1990 and dispositions occurring after February 20, 1990 under agreements in writing entered into before February 21, 1990, section 253 of the Act shall be read without reference to paragraph 253(*c*) and the expression "in respect of the activity or disposition". S. 253 formerly read:

"S. 253. Where, in a taxation year, a non-resident person

(*a*) produced, grew, mined, created, manufactured, fabricated, improved, packed, preserved or constructed, in whole or in part, anything in Canada whether or not the person exported that thing without selling it prior to exportation, or

(*b*) solicited orders or offered anything for sale in Canada through an agent or servant whether the contract or transaction was to be completed inside or outside Canada or partly in and partly outside Canada,

the person shall be deemed, for the purposes of this Act, to have been carrying on business in Canada in the year."

Related Sections: S. 248(1), "business", "non-resident"; s. 255 Canada.

Interpretation Bulletins: *Secondary* — IT-420R3 Non-residents — Income earned in Canada.

Tax Profile: June 2008 — International Tax Planning for the Owner-Manager; August 2007 — Professionals and Other Service Providers Beware — A Canadian Trap; August 2005 — Canada Revenue Agency's Recent Attack on U.S. Companies; August 2003 — Distributorships-A Canadian Perspective.

Cases: An American insurance company was not carrying on business in Canada and all the matters which might suggest otherwise resulted solely, from the requirements of the Superintendent of Insurance. *Capitol Life Insurance Company v. The Queen*, 86 DTC 6164 (F.C.A.), affirming 84 DTC 6087 (F.C.T.D.).

A non-resident taxpayer who merely accepted offers to participate in the money-lending activities of a resident broker was not carrying on business in Canada. *Pullman v. The Queen*, 83 DTC 5080 (F.C.T.D.).

SECTION 253.1: Investments in limited partnerships.

For the purposes of subparagraph 108(2)(*b*)(ii), paragraphs 130.1(6)(*b*), 131(8)(*b*) and 132(6)(*b*), subsection 146.2(6), paragraphs 146.4(5)(*b*) and 149(1)(*o.2*), the definition "private holding corporation" in subsection 191(1) and regulations made for the purposes of paragraphs 149(1)(*o.3*) and (*o.4*), if a trust or corporation holds an interest as a member of a partnership and, by operation of any law governing the arrangement in respect of the partnership, the liability of the member as a member of the partnership is limited, the member shall not, solely because of its acquisition and holding of that interest, be considered to carry on any business or other activity of the partnership.

Coordinating Amendment

S.C. 2008, c. 28 (Bill C-50) — Coordinating Amendments With Former Bill C-10 — June 18, 2008

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The following amendment applies if Bill C-10, introduced in the 2nd session of the 39th Parliament and entitled the *Income Tax Amendments Act, 2006*, receives royal assent: On the first day on which both subsection 191(1) of Bill C-10 and section 36 of S.C. 2008, c. 28 [the amendment to section 253.1] are in force, section 253.1 of the *Income Tax Act* is replaced by the following:

SECTION 253.1: Investments in limited partnerships.

For the purposes of subparagraph 108(2)(*b*)(ii), paragraphs 130.1(6)(*b*), 131(8)(*b*), 132(6)(*b*) and 146.1(2.1)(*c*), subsection 146.2(4) [**Editorial Note:** Pursuant to the amendment by S.C. 2009, c. 2, this reference would be changed to s. 146.2(6).], paragraphs 146.4(5)(*b*) and 149(1)(*o.2*), the definition "private holding corporation" in subsection 191(1) and regulations made for the purposes of paragraphs 149(1)(*o.3*) and (*o.4*), if a trust or corporation holds an interest as a member of a partnership and, by operation of any law governing the arrangement in respect of the partnership, the liability of the member as a member of the partnership is limited, the member shall not, solely because of its acquisition and holding of that interest, be considered to carry on any business or other activity of the partnership.

Applicable: In respect of the 2009 and subsequent taxation years.

Explanatory Note: Bill C-10, introduced in the 2nd session of the 39th Parliament and entitled the *Income Tax Amendments Act, 2006*, includes a number of measures that enact or amend provisions that are also the subject of the present enactment. If both are enacted, it will be necessary to ensure that the changes to those provisions are coordinated. This is accomplished through a series of technical coordinating amendments in the present enactment.

Clause 43 performs a comparable function in respect of amendments to section 253.1 of the *Income Tax Act*, which treats the mere acquisition and holding of a limited partnership interest as not constituting the carrying on of the partnership's business for certain purposes of that Act.

Coordinating Amendment

S.C. 2007 c. 35 (Bill C-28) — Coordinating Amendments With Former Bill C-10 — Income Tax Amendments Act, 2006 — December 14, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The following applies if former Bill C-10, introduced in the 2nd session of the 39th Parliament and entitled the *Income Tax Amendments Act, 2006* (referred to as the "other Act"), receives royal assent: On the first day on which both subsection 191(1) of the other Act and section 124 of S.C. 2007, c. 35 [the amendment to section 253.1] are in force, section 253.1 of the *Income Tax Act* is replaced by the following:

SECTION 253.1: Investments in limited partnerships.

For the purposes of subparagraph 108(2)(*b*)(ii), paragraphs 130.1(6)(*b*), 131(8)(*b*), 132(6)(*b*), 146.1(2.1)(*c*), 146.4(5)(*b*) and 149(1)(*o.2*), the definition "private holding corporation" in subsection 191(1) and regulations made for the purposes of paragraphs 149(1)(*o.3*) and (*o.4*), if a trust or corporation holds an interest as a member of a partnership and, by operation of any law governing the arrangement in respect of the partnership, the liability of the member as a member of the partnership is limited, the member shall not, solely because of its acquisition and holding of that interest, be considered to carry on any business or other activity of the partnership.

Applicable: In respect of the 2008 and subsequent taxation years.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 253.1 of the Act is replaced by the following:

SECTION 253.1: Investments in limited partnerships.

For the purposes of subparagraph 108(2)(*b*)(ii), paragraphs 130.1(6)(*b*), 131(8)(*b*), 132(6)(*b*), 146.1(2.1)(*c*) and 149(1)(*o.2*), the definition "private holding corporation" in subsection 191(1) and regulations made for the purposes of paragraphs 149(1)(*o.3*) and (*o.4*), if a trust or corporation holds an interest as a member of a partnership and, by operation of any law governing the arrangement in respect of the partnership, the liability of the member as a member of the partnership is limited, the member shall not, solely because of its acquisition and holding of that interest, be considered to carry on any business or other activity of the partnership.

Applicable: After 1997 except that, for taxation years that end after December 16, 1999 and before 2003, section 253.1 is to be read as follows:

"S. 253.1. For the purposes of subparagraph 108(2)(*b*)(ii), paragraphs 130.1(6)(*b*), 131(8)(*b*), 132(6)(*b*), 146.1(2.1)(*c*) and 149(1)(*o.2*), the definition 'private holding corporation' in subsection 191(1) and regulations made for the purposes of paragraphs 149(1)(*o.3*) and (*o.4*), if a trust or corporation is a member of a partnership and, by operation of any law governing the arrangement in respect of the partnership, the liability of the member as a member of the partnership is limited, the member is deemed

(*a*) to undertake an investing of its funds because of its acquisition and holding of its interest as a member of the partnership; and

(*b*) not to carry on any business or other activity of the partnership."

Explanatory Note: Section 253.1 of the Act applies for specified provisions of the Act and Regulations where a trust or corporation holds an interest as a limited partner in a limited partnership. It provides that the trust or corporation will not, solely because of its acquisition and holding of the limited partnership interest, be considered to carry on any business or other activity of the partnership.

Section 253.1 is amended so that it also applies for the purpose of paragraph 146.1(2.1)(*c*) of the Act, which provides that the registration of a registered education savings plan (RESP) is revocable if a trust governed by the plan carries on a business. The amendment to section 253.1 ensures that the acquisition and holding of a limited partnership interest by an RESP trust does not jeopardize the registered status of the plan, provided the interest is a qualified investment for the trust.

This amendment generally applies after 1997.

History: S. 253.1 was replaced by S.C. 2009, c. 2, s. 77(1), applicable to the 2009 and subsequent taxation years. S. 253.1 formerly read:

"S. 253.1. *Investments in limited partnerships.* For the purposes of subparagraph 108(2)(*b*)(ii), paragraphs 130.1(6)(*b*), 131(8)(*b*) and 132(6)(*b*), subsection 146.2(4), paragraphs 146.4(5)(*b*) and 149(1)(*o.2*), the definition 'private holding corporation' in subsection 191(1) and regulations made for the purposes of paragraphs 149(1)(*o.3*) and (*o.4*), if a trust or corporation holds an interest as a member of a partnership and, by operation of any law governing the arrangement in respect of the partnership, the liability of the member as a member of the partnership is limited, the member shall not, solely because of its acquisition and holding of that interest, be considered to carry on any business or other activity of the partnership."

S. 253.1 was replaced by S.C. 2008, c. 28, s. 36(1), applicable to the 2009 and subsequent taxation years. S. 253.1 formerly read:

"S. 253.1. *Investments in limited partnerships.* For the purposes of subparagraph 108(2)(*b*)(ii), paragraphs 130.1(6)(*b*), 131(8)(*b*), 132(6)(*b*), 146.4(5)(*b*) and 149(1)(*o.2*), the definition 'private holding corporation' in subsection 191(1) and regulations made for the purposes of paragraphs 149(1)(*o.3*) and (*o.4*), if a trust or corporation holds an interest as a member of a partnership and, by operation of any law governing the arrangement in respect of the partnership, the liability of the member as a member of the partnership is limited, the member shall not, solely because of its acquisition and holding of that interest, be considered to carry on any business or other activity of the partnership."

S. 253.1 was replaced by S.C. 2007, c. 35, s. 124, applicable to the 2008 and subsequent taxation years. S. 253.1 formerly read:

"S. 253.1. *Investments in limited partnerships.* For the purposes of subparagraph 108(2)(*b*)(ii), paragraphs 130.1(6)(*b*), 131(8)(*b*), 132(6)(*b*) and 149(1)(*o.2*), the definition 'private holding corporation' in subsection 191(1) and regulations made for the purposes of paragraphs 149(1)(*o.3*) and (*o.4*), where a trust or corporation holds an interest as a member of a partnership and, by operation of any law governing the arrangement in respect of the partnership, the liability of the member as a member of the partnership is limited, the member shall not, solely because of its acquisition and holding of that interest, be considered to carry on any business or other activity of the partnership."

S. 253.1 was added by S.C. 2001, c. 17, s. 193(1), applicable After 1992, except that for taxation years that end after December 16, 1999 and before 2003, section 253.1 of the Act shall be read as follows:

"S. 253.1. For the purposes of subparagraph 108(2)(*b*)(ii), paragraphs 130.1(6)(*b*), 131(8)(*b*), 132(6)(*b*) and 149(1)(*o.2*), the definition 'private holding corporation' in subsection 191(1) and regulations made for the purposes of paragraphs 149(1)(*o.3*) and (*o.4*), where a trust or corporation is a member of a partnership and, by operation of any law governing the arrangement in respect of the partnership, the liability of the member as a member of the partnership is limited, the member is deemed

(*a*) to undertake an investing of its funds because of its acquisition and holding of its interest as a member of the partnership; and

(*b*) not to carry on any business or other activity of the partnership."

SECTION 254: Contract under pension plan.

Where a document has been issued or a contract has been entered into before July 31, 1997 purporting to create, to establish, to extinguish or to be in substitution for, a taxpayer's right to an amount or amounts, immediately or in the future, out of or under a superannuation or pension fund or plan,

(*a*) if the rights provided for in the document or contract are rights provided for by the superannuation or pension plan or are rights to a payment or payments out of the superannuation or pension fund, and the taxpayer acquired an interest under the document or in the contract before that day, any payment under the document or contract is deemed to be a payment out of or under the superannuation or pension fund or plan and the taxpayer is deemed not to have received, by the issuance of the document or entering into the contract, an amount out of or under the superannuation or pension fund or plan; and

(*b*) if the rights created or established by the document or contract are not rights provided for by the superannuation or pension plan or a right to payments out of the superannuation or pension fund, an amount equal to the value of the rights created or established by the document or contract shall be deemed to have been received by the taxpayer out of or under the superannuation or pension fund or plan when the document was issued or the contract was entered into.

History: S. 254, the portion before paragraph (*b*) was amended by S.C. 1998, c. 19, s. 245(1), applicable after July 30, 1997. S. 254, the portion before paragraph (*b*) formerly read:

"S. 254. *Contract under pension plan.* For greater certainty it is hereby declared that, where a document has been issued or a contract entered into (either before, on or after September 15, 1953) purporting to create, to establish, to extinguish or to be in substitution for, a taxpayer's right to an amount or amounts, immediately or in the future, out of or under a superannuation or pension fund or plan,

(*a*) if the rights provided for in the document or contract are rights provided for by the superannuation or pension plan or are rights to a payment or payments out of the superannuation or pension fund, any payment under the document or contract is a payment out of or under the superannuation or pension fund or plan and the taxpayer shall be deemed not to have received, by the issuance of the document or entering into the contract, an amount out of or under the superannuation or pension fund or plan; and"

Related Sections: S. 147.4 RPP annuity contract; s. 248(1), "amount".
Interpretation Bulletins: *Secondary* — IT-499R Superannuation or pension benefits.
Information Circulars: IC 72-13R8 Employees' pension plans; IC 74-1R5 Form T2037, notice of purchase of annuity with "plan" funds.
Forms: T2037.

SECTION 255: Canada.

For the purposes of this Act, "Canada" is hereby declared to include and to have always included

(*a*) the sea bed and subsoil of the submarine areas adjacent to the coasts of Canada in respect of which the Government of Canada or of a province grants a right, licence or privilege to explore for, drill for or take any minerals, petroleum, natural gas or any related hydrocarbons; and

(*b*) the seas and airspace above the submarine areas referred to in paragraph (*a*) in respect of any activities carried on in connection with the exploration for or exploitation of the minerals, petroleum, natural gas or hydrocarbons referred to in that paragraph.

Interpretation Bulletins: *Secondary* — IT-494 Hire of ships and aircraft from non-residents.
Canadian Petroleum Tax Journal: Offshore Oil & Gas Interests: A Perspective on Exploration & Development of Offshore Petroleum and Natural Gas Resources in Eastern Canada, Michael R. Smith, CA and B. David Nielsen, CA, Vol. 13 No. 1 2000.

SECTION 256:

► 256(1) ◄

(1) Associated corporations. For the purposes of this Act, one corporation is associated with another in a taxation year if, at any time in the year,

(*a*) one of the corporations controlled, directly or indirectly in any manner whatever, the other;

(*b*) both of the corporations were controlled, directly or indirectly in any manner whatever, by the same person or group of persons;

(*c*) each of the corporations was controlled, directly or indirectly in any manner whatever, by a person and the person who so controlled one of the corporations was related to the person who so controlled the other, and either of those persons owned, in respect of each corporation, not less than 25% of the issued shares of any class, other than a specified class, of the capital stock thereof;

(*d*) one of the corporations was controlled, directly or indirectly in any manner whatever, by a person and that person was related to each member of a group of persons that so controlled the other corporation, and that person owned, in respect of the other corporation, not less than 25% of the issued shares of any class, other than a specified class, of the capital stock thereof; or

(*e*) each of the corporations was controlled, directly or indirectly in any manner whatever, by a related group and each of the members of one of the related groups was related to all of the members of the other related group, and one or more persons who were members of both related groups, either alone or together, owned, in respect of each corporation, not less than 25% of the issued shares of any class, other than a specified class, of the capital stock thereof.

Editorial Note: The primary purpose of the associated corporation rules is to restrict corporate groups that meet certain tests of common "control" set out in subsection 256(1) from improperly accessing a number of specific tax incentives generally available to qualifying Canadian-controlled private corporations, such as the small business deduction in subsection 125(1), and certain refundable and enhanced investment tax credits, such as those in sections 127 and 127.1. For purposes of the associated corporation rules, the concept of control is broader than voting control (subject to certain expanded concepts in the case law, voting control is usually referred to as *de jure* control). It includes specific expanded concepts of control set out in subsection 256(1.2) as well as a factual analysis of indirect factors that evidence control (referred to as *de facto* control). See, in particular, subsections 256(5.1)–(6.2).

Related Sections: S. 15.1(6) Disqualification; s. 15.1(7) Exception; s. 15.2(3) Definitions; s. 15.2(7) Deemed eligible issuer; s. 18(2.2) Base level deduction; s. 18(2.3) Associated corporations; s. 18(2.4) Failure to file agreement; s. 18(2.5) Special rules for base level deduction; s. 37(9.2) Associated corporations; s. 37(9.3) Agreement among associated corporations; s. 37(9.4) Filing; s. 37(9.5) Deemed corporation; s. 66(12.6011) Taxable capital amount; s. 66(12.6012) Taxable capital employed in Canada; s. 66(12.6013) Amalgamations and mergers; s. 66(12.602) Deemed non-renunciation of Canadian development expenses; s. 87(2)(*oo*) Investment tax credit; s. 87(2)(*oo.1*) Refundable investment tax credit and balance-due day; s. 88(1) Winding-up; s. 125 Small business deduction; s. 126.1 Definitions; s. 127 Logging tax deduction; s. 127.1 Refundable investment tax credit; s. 129(6) Investment income from associated corporation deemed to be active business income; s. 157(1.3) Taxable income — small-CCPC; s. 157(1.4) Taxable capital — small-CCPC; s. 181.5(7) Related corporations that are not associated; s. 191.1 Tax on taxable dividends; s. 248(1), "balance due day", "term preferred share"; s. 256(1.1)–256(6.1).
Interpretation Bulletins: *Primary* — IT-64R4 (Consolid.) Corporations: Association and control.
Advance Tax Rulings: ATR-13 Corporations not associated.
Forms: T2 SCH 9.
Tax Topics: No. 1692, Income Tax Implications of Buy-Sell Provisions.
Canadian Tax Foundation: Diep, ""Associated", "Affiliated", and "Related" Transactions, Part 1: A Technical Overview", *2005 Conference Report*, 38:1; Micallef, ""Associated", "Affiliated", and "Related" Transactions, Part 2: The Practical Applications of the Terms", *2005 Conference Report*, 39:1; Marquette, "Selected Income Tax Issues of Particular Relevance to Shareholders' Agreements: Part 1", *2001 Canadian Tax Journal*, No. 1, 182; Donnelly and Young, "The Associated Corporation Rules: Getting Tax Reduction Under Control", *1998 Canadian Tax Journal*, No. 3, 589.
Cases: Two corporations were under the *de facto* control of a third corporation, and hence associated with it. Relevant factors included economic dependency, operational control and familial connection amongst the shareholders of all three corporations. *De jure* and *de facto* control can co-exist. *9044-2807 Québec Inc. v. The Queen*, 2004 DTC 6141 (F.C.A.), affirming 2003 DTC 817 (T.C.C.).

One company held shares which gave it the right to wind-up the other company. It therefore controlled the other company, notwithstanding the fact that it only held 50% of the voting rights. *The Queen v. Imperial General Properties Ltd.*, 85 DTC 5500 (S.C.C.), reversing 83 DTC 5055 (F.C.A.), affirming 81 DTC 5191 (F.C.T.D.).

A group of shareholders was held to control several corporations because they had the right to authorize the surrender of the company's letters patent. These circumstances were sufficient to vest control in the group even though they only held 50% of the voting power. *Oakfield Developments (Toronto) Ltd. v. M.N.R.*, 71 DTC 5175 (S.C.C.), affirming 69 DTC 5175 (Ex. Ct.).

If a group of shareholders owns a majority of the voting shares of a company, and the same group owns a majority of the voting shares of a second company, that fact is sufficient to constitute the two companies associated. Moreover, in determining *de jure* control more than one group of persons can be aptly described as a "group of persons". It is immaterial whether other combinations of shareholders may own a majority of voting shares in either company. *Vina-Rug (Canada) Limited v. M.N.R.*, 68 DTC 5021 (S.C.C.), affirming 66 DTC 5373 (Ex. Ct.).

Control means *de jure* control, and not *de facto*. The right of control rests in ownership of such a number of shares as carries with it the right to a

majority of the votes in the election of the Board of Directors. The fact that a particular shareholder has a second or casting vote in the case of an equality of votes does not give that shareholder control of the company. *M.N.R. v. Dworkin Furs (Pembroke) Limited et al.*, 67 DTC 5035 (S.C.C.), affirming 65 DTC 5277 (Ex.Ct.), 66 DTC 5244 (Ex.Ct.), 66 DTC 5263 (Ex.Ct.) and 66 DTC 5303 (Ex.Ct.).

Where two individuals each owned half the shares of three companies either through personal holding or through ownership of two intermediary companies, the three companies were deemed controlled by the same group of persons. *Vineland Quarries and Crushed Stone Ltd. v. M.N.R.*, 66 DTC 5092 (Ex. Ct.), affirmed by 67 DTC 5283 (S.C.C.).

The word "controlled" contemplates the right of control that rests in ownership of such a number of shares as carries with it the right to a majority of the votes in the election of the Board of Directors. *Buckerfield's Limited v. M.N.R.*, 64 DTC 5301 (Ex. Ct.).

Note that although the common law concept of control as determined in these cases is applicable for the purposes of subsection 256(1), the concept of control under subsection 256(1) is actually broader than the common law concept, owing to the statutory rules in the remainder of section 256.

► 256(1.1) ◄

(1.1) Definition of "specified class". For the purposes of subsection (1), "specified class" means a class of shares of the capital stock of a corporation where, under the terms or conditions of the shares or any agreement in respect thereof,

(*a*) the shares are not convertible or exchangeable;

(*b*) the shares are non-voting;

(*c*) the amount of each dividend payable on the shares is calculated as a fixed amount or by reference to a fixed percentage of an amount equal to the fair market value of the consideration for which the shares were issued;

(*d*) the annual rate of the dividend on the shares, expressed as a percentage of an amount equal to the fair market value of the consideration for which the shares were issued, cannot in any event exceed,

(i) where the shares were issued before 1984, the rate of interest prescribed for the purposes of subsection 161(1) at the time the shares were issued, and

(ii) where the shares were issued after 1983, the prescribed rate of interest at the time the shares were issued; and

(*e*) the amount that any holder of the shares is entitled to receive on the redemption, cancellation or acquisition of the shares by the corporation or by any person with whom the corporation does not deal at arm's length cannot exceed the total of an amount equal to the fair market value of the consideration for which the shares were issued and the amount of any unpaid dividends thereon.

History: S. 256(1.1)(*d*) was amended by S.C. 1994, c. 7, Sched. II, s. 198(1), applicable to the 1989 and subsequent taxation years. S. 256(1.1)(*d*) formerly read:

"(*d*) the annual rate of the dividend on the shares, expressed as a percentage of an amount equal to the fair market value of the consideration for which the shares were issued, cannot in any event exceed the prescribed rate of interest at the time the shares were issued; and"

Editorial Note: Meeting "specified class" status per the above requirements will be helpful in avoiding associated corporation status, as shares of a specified class are ignored for the purposes of the 25% cross-ownership provisions of paragraphs 256(1)(*c*)–(*e*), as well as the deeming provisions of subsection 256(1.2) (per paragraph 256(1.6)(*b*)). To avoid associating corporations in the course of implementing estate freezes, freeze shares could be designed to comply with subsection 256(1.1). The CRA has indicated that a dividend rate "up to" a percentage amount will not qualify under paragraph 256(1.1)(*c*) (Doc. No. 9309595).

Related Sections: S. 94(14)(*a*); s. 256(1) Associated corporations; s. 256(1.2) Control, etc.; s. 256(1.6) Exception.
Regulations: 4301.

► 256(1.2) ◄

(1.2) Control, etc. For the purposes of this subsection and subsections (1), (1.1) and (1.3) to (5),

(*a*) a group of persons in respect of a corporation means any two or more persons each of whom owns shares of the capital stock of the corporation;

(*b*) for greater certainty,

(i) a corporation that is controlled by one or more members of a particular group of persons in respect of that corporation shall be considered to be controlled by that group of persons, and

(ii) a corporation may be controlled by a person or a particular group of persons notwithstanding that the corporation is also controlled or deemed to be controlled by another person or group of persons;

(*c*) a corporation shall be deemed to be controlled by another corporation, a person or a group of persons at any time where

(i) shares of the capital stock of the corporation having a fair market value of more than 50% of the fair market value of all the issued and outstanding shares of the capital stock of the corporation, or

(ii) common shares of the capital stock of the corporation having a fair market value of more than 50% of the fair market value of all the issued and outstanding common shares of the capital stock of the corporation

are owned at that time by the other corporation, the person or the group of persons, as the case may be;

(*d*) where shares of the capital stock of a corporation are owned, or deemed by this subsection to be owned, at any time by another corporation (in this paragraph referred to as the "holding corporation"), those shares shall be deemed to be owned at that time by any shareholder of the holding corporation in a proportion equal to the proportion of all those shares that

(i) the fair market value of the shares of the capital stock of the holding corporation owned at that time by the shareholder

is of

(ii) the fair market value of all the issued shares of the capital stock of the holding corporation outstanding at that time;

(*e*) where, at any time, shares of the capital stock of a corporation are property of a partnership, or are deemed by this subsection to be owned by the partnership, those shares shall be deemed to be owned at that time by each member of the partnership in a proportion equal to the proportion of all those shares that

(i) the member's share of the income or loss of the partnership for its fiscal period that includes that time

is of

(ii) the income or loss of the partnership for its fiscal period that includes that time

and for this purpose, where the income and loss of the partnership for its fiscal period that includes that time are nil, that proportion shall be computed as if the partnership had had income for that period in the amount of $1,000,000;

(*f*) where shares of the capital stock of a corporation are owned, or deemed by this subsection to be owned, at any time by a trust,

(i) in the case of a testamentary trust under which one or more beneficiaries were entitled to receive all of the income of the trust that arose before the date of death of one or the last surviving of those beneficiaries (in this paragraph referred to as the "distribution date") and no other person could, before the distribution date, receive or otherwise obtain the use of any of the income or capital of the trust,

(A) where any such beneficiary's share of the income or capital therefrom depends on the exercise by any person of, or the failure by any person to exercise, any discretionary power, those shares shall be deemed to be owned at any time before the distribution date by the beneficiary, and

(B) where clause (A) does not apply, those shares shall be deemed to be owned at any time before the distribution date by any such beneficiary in a proportion equal to the proportion of all those shares that the fair market value of the beneficial interest in the trust of the beneficiary is of the fair market value of the beneficial interests in the trust of all those beneficiaries,

(ii) where a beneficiary's share of the accumulating income or capital therefrom depends on the exercise by any person of, or the failure by any person to exercise, any discretionary power, those shares shall be deemed to be owned at that time by the beneficiary, except where subparagraph (i) applies and that time is before the distribution date,

(iii) in any case where subparagraph (ii) does not apply, a beneficiary shall be deemed at that time to own the proportion of those shares that the fair market value of the beneficial interest in the trust of the beneficiary is of the fair market value of all beneficial interests in the trust, except where subparagraph (i) applies and that time is before the distribution date, and

(iv) in the case of a trust referred to in subsection 75(2), the person referred to in that subsection from whom property of the trust or property for which it was substituted was directly or indirectly received shall be deemed to own those shares at that time; and

(*g*) in determining the fair market value of a share of the capital stock of a corporation, all issued and outstanding shares of the capital stock of the corporation shall be deemed to be non-voting.

Editorial Note: This provision expands a number of key concepts in the association rules, including that of a group (paragraphs (*a*) and (*b*)); control (paragraph (*c*), which establishes a control test based on greater than 50% of the fair market value of all shares, or 50% of the fair market value of the common shares only); ownership (paragraphs (*d*), (*e*) and (*f*) provide look-through rules for corporations, partnerships and trusts); and valuation (paragraph (*g*) provides that, in determining fair market value, all shares are deemed to be non-voting). Further expansion of the ownership and control concepts are found in subsection 256(1.3), which deems shares owned by a child under 18 to be owned by a parent, unless the child manages the business on an independent basis, and subsection 256(1.4), which expands the concepts of ownership and control in respect of rights to acquire shares, control voting rights, or to cause a corporation to redeem/acquire shares owned by others.

Related Sections: S. 127(10.22) Expenditure limits — associated CCPCs; s. 127.1(2.2) Refundable investment tax credit — associated CCPCs; s. 248(25) Beneficially interested. s. 256(1) Associated corporations; s. 256(1.1) Definition of "specified class"; s. 256(1.3) Parent deemed to own shares; s. 256(1.4) Options and rights; s. 256(1.5) Person related to himself, herself or itself; s. 256(1.6) Exception.

Interpretation Bulletins: *Primary* — IT-64R4 (Consolid.) Corporations: Association and control.

Income Tax Technical News: Issue No. 38, Control of Corporation Owned by Income Trust — Impact of Change in Trustees.

► 256(1.3) ◄

(1.3) Parent deemed to own shares. Where at any time shares of the capital stock of a corporation are owned by a child who is under 18 years of age, for the purpose of determining whether the corporation is associated at that time with any other corporation that is controlled, directly or indirectly in any manner whatever, by a parent of the child or by a group of persons of which the parent is a member, the shares shall be deemed to be owned at that time by the parent unless, having regard to all the circumstances, it can reasonably be considered that the child manages the business and affairs of the corporation and does so without a significant degree of influence by the parent.

History: S. 256(1.3) was amended by S.C. 1994, c. 7, Sched. II, s. 198(2), applicable, for the purpose of determining whether 2 or more corporations are associated with each other,

(*a*) to the 1989 and subsequent taxation years where

(i) the taxation years of all the corporations began after 1988,

(ii) at least one of the corporations was incorporated, or was formed as a result of an amalgamation, after February 10, 1988,

(iii) at least one of the corporations acquired after February 10, 1988 from a person with whom it did not deal at arm's length all or substantially all of the assets used by it in its business, or

(iv) the 1989 taxation year of at least one of the corporations did not end on approximately the same calendar date in 1989 as the calendar date in 1987 on which a 1987 taxation year, if any, of that corporation ended; and

(*b*) in any other case, to the 1990 and subsequent taxation years.

S. 256(1.3) formerly read:

"(1.3) Where, at any time, shares of the capital stock of a corporation are owned by a child who is under 18 years of age, for the purposes of determining if the corporation is associated at that time with any other corporation that is controlled, directly or indirectly in any manner whatever, by a parent of the child or by a group of persons of which the parent is a member, those shares shall be deemed to be owned at that time by the parent or the group, as the case may be, unless, having regard to all the circumstances, it may reasonably be considered that the child manages the business and affairs of the corporation and does so without a significant degree of influence by the parent."

Editorial Note: See the editorial note to subsection 256(1.2).

Related Sections: S. 256(1) Associated corporations; s. 256(1.2) Control, etc.; s. 256(1.4) Options and rights; s. 256(5.1) Control in fact.

► 256(1.4) ◄

(1.4) Options and rights. For the purpose of determining whether a corporation is associated with another corporation with which it is not otherwise associated, where a person or any partnership in which the person has an interest has a right at any time under a contract, in equity or otherwise, either immediately or in the future and either absolutely or contingently,

(*a*) to, or to acquire, shares of the capital stock of a corporation, or to control the voting rights of shares of the capital stock of a corporation, the person or partnership shall, except where the right is not exercisable at that time because the exercise thereof is contingent on the death, bankruptcy or permanent disability of an individual, be deemed to own the

shares at that time, and the shares shall be deemed to be issued and outstanding at that time; or

(*b*) to cause a corporation to redeem, acquire or cancel any shares of its capital stock owned by other shareholders of a corporation, the person or partnership shall, except where the right is not exercisable at that time because the exercise thereof is contingent on the death, bankruptcy or permanent disability of an individual, be deemed at that time to have the same position in relation to control of the corporation and ownership of shares of its capital stock as if the shares were redeemed, acquired or cancelled by the corporation.

History: S. 256(1.4) was amended by S.C. 1994, c. 7, Sched. II, s. 198(2), applicable, for the purpose of determining whether 2 or more corporations are associated with each other,

(*a*) to the 1989 and subsequent taxation years where

(i) the taxation years of all the corporations began after 1988,

(ii) at least one of the corporations was incorporated, or was formed as a result of an amalgamation, after February 10, 1988,

(iii) at least one of the corporations acquired after February 10, 1988 from a person with whom it did not deal at arm's length all or substantially all of the assets used by it in its business, or

(iv) the 1989 taxation year of at least one of the corporations did not end on approximately the same calendar date in 1989 as the calendar date in 1987 on which a 1987 taxation year, if any, of that corporation ended; and

(*b*) in any other case, to the 1990 and subsequent taxation years.

S. 256(1.4) formerly read:

"(1.4) For the purposes of determining if a corporation is associated at any time with any other corporation that is controlled, directly or indirectly in any manner whatever, by a person, or by a group of persons of which the person is a member, where the person, or any partnership in which the person has an interest, has a right at any time under contract, in equity or otherwise, either immediately or in the future and either absolutely or contingently,

(*a*) to, or to acquire, shares of the capital stock of the corporation, or to control the voting rights of shares of the capital stock of the corporation, the person or partnership shall, except where the contract provides that the right is not exercisable until the death, bankruptcy or permanent disability of an individual designated therein, be deemed to own the shares at that time and the shares shall be deemed to be issued and outstanding at that time; or

(*b*) to cause the corporation to redeem, acquire or cancel any shares of its capital stock owned by other shareholders of the corporation, the person or partnership shall, except where the contract provides that the right is not exercisable until the death, bankruptcy or permanent disability of an individual designated therein, be deemed at that time to have had the same position in relation to control of the corporation and ownership of shares of its capital stock as if the shares were redeemed, acquired or cancelled by the corporation."

Editorial Note: This provision, which is similar to paragraph 251(5)(*b*), expands the concepts of ownership and control in respect of the association rules. Subsection 256(1.4) applies to rights under contract (e.g., shareholders' or share purchase agreements), in equity or otherwise, including contingent rights, to acquire shares, control voting rights, or to cause a corporation to redeem/acquire shares owned by others. Exceptions apply to rights contingent on death, bankruptcy or permanent disability of an individual. Although subsection 256(1.4) may be broad enough to include almost any "buy-sell" agreement, the CRA has indicated that it will not normally apply the provision solely because of a "right of first refusal" or a "shotgun arrangement" contained in a shareholder agreement. See also the editorial note to subsection 251(5).

Related Sections: S. 251(5) Control by related groups, options, etc; s. 256(1) Associated corporations; s. 256(1.2) Control, etc.; s. 256(1.3) Parent deemed to own shares; s. 256(1.5) Person related to himself, herself or itself; s. 256(1.6) Exception.

Regulations: 5100(3).

Tax Topics: No. 1650, Family Shareholders' Agreements - Succession Planning's Missing Link?.

Tax Profile: November 2003 — Current Cases.

Cases: See the note on *Sedona Networks*, at subsection 251(5).

► 256(1.5) ◄

(1.5) Person related to himself, herself or itself. For the purposes of subsections (1) to (1.4) and (1.6) to (5), where a person owns shares in two or more corporations, the person shall as shareholder of one of the corporations be deemed to be related to himself, herself or itself as shareholder of each of the other corporations.

► 256(1.6) ◄

(1.6) Exception. For the purposes of subsection (1.2) and notwithstanding subsection (1.4), any share that is

(*a*) described in paragraph (*e*) of the definition "term preferred share" in subsection 248(1) during the applicable time referred to in that paragraph, or

(*b*) a share of a specified class within the meaning of subsection (1.1)

shall be deemed not to have been issued and outstanding and not to be owned by any shareholder and an amount equal to the greater of the paid-up capital of the share and the amount, if any, that any holder of the share is entitled to receive on the redemption, cancellation or acquisition of the share by the corporation shall be deemed to be a liability of the corporation.

► 256(2) ◄

(2) Corporations associated through a third corporation. Where two corporations

(*a*) would, but for this subsection, not be associated with each other at any time, and

(*b*) are associated, or are deemed by this subsection to be associated, with the same corporation (in this subsection referred to as the "third corporation") at that time,

they shall, for the purposes of this Act, be deemed to be associated with each other at that time, except that, for the purposes of section 125, where the third corporation is not a Canadian-controlled private corporation at that time or elects, in prescribed form, for its taxation year that includes that time not to be associated with either of the other two corporations, the third corporation shall be deemed not to be associated with either of the other two corporations in that taxation year and its business limit for that taxation year shall be deemed to be nil.

Editorial Note: This subsection provides a "connective" rule: where two corporations not otherwise associated are associated with the same third corporation, they are generally deemed to be associated with one another. For the purposes of the small business deduction only, an exception applies where the third corporation is not a CCPC, or where it elects not to be associated with either of the other corporations, in which case the third corporation cannot claim the small business deduction. Multiple subsection 256(2) elections can be made in situations involving more than three corporations (see docs 2003-0038235, 2004-0108311E5).

Related Sections: S. 125(2) Business limit.

Advance Tax Rulings: ATR-13 Corporations not associated.

Forms: T2 SCH 28.

► 256(2.1) ◄

(2.1) Anti-avoidance. For the purposes of this Act, where, in the case of two or more corporations, it may reasonably be considered that one of the main reasons for the separate existence of those corporations in a taxation year is to reduce the amount of taxes that would otherwise be payable under this Act or to increase the amount of refundable investment tax credit under section 127.1, the two or more corporations shall be deemed to be associated with each other in the year.

Editorial Note: This subsection may associate two or more corporations where it may reasonably be considered that one of the main reasons for the separate existence of those corporations in a taxation year is to reduce the amount of taxes or increase the investment tax credit under section 127.1. This longstanding provision has become less frequently used by the CRA in recent years, particularly in view of the CRA's success in applying the *de facto* control provisions in subsection 256(5.1).

Related Sections: S. 127.1 Refundable investment tax credit; s. 256(5.1) Control in fact.

► 256(3) ◄

(3) Saving provision. Where one corporation (in this subsection referred to as the "controlled corporation") would, but for this subsection, be associated with another corporation in a taxation year by reason of being controlled, directly or indirectly in any manner whatever, by the other corporation or by reason of both of the corporations being controlled, directly or indirectly in any manner whatever, by the same person at a particular time in the year (which corporation or person so controlling the controlled corporation is in this subsection referred to as the "controller") and it is established to the satisfaction of the Minister that

(*a*) there was in effect at the particular time an agreement or arrangement enforceable according to the terms thereof, under which, on the satisfaction of a condition or the happening of an event that it is reasonable to expect will be satisfied or happen, the controlled corporation will

(i) cease to be controlled, directly or indirectly in any manner whatever, by the controller, and

(ii) be or become controlled, directly or indirectly in any manner whatever, by a person or group of persons, with whom or with each of the members of which, as the case may be, the controller was at the particular time dealing at arm's length, and

(*b*) the purpose for which the controlled corporation was at the particular time so controlled was the safeguarding of rights or interests of the controller in respect of

(i) any indebtedness owing to the controller the whole or any part of the principal amount of which was outstanding at the particular time, or

(ii) any shares of the capital stock of the controlled corporation that were owned by the controller at the particular time and that were, under the agreement or arrangement, to be redeemed by the controlled corporation or purchased by the person or group of persons referred to in subparagraph (*a*)(ii),

the controlled corporation and the other corporation with which it would otherwise be so associated in the year shall be deemed, for the purpose of this Act, not to be associated with each other in the year.

► 256(4) ◄

(4) Saving provision. Where one corporation would, but for this subsection, be associated with another corporation in a taxation year by reason of both of the corporations being controlled by the same executor, liquidator of a succession or trustee and it is established to the satisfaction of the Minister

(*a*) that the executor, liquidator or trustee did not acquire control of the corporations as a result of one or more estates or trusts created by the same individual or two or more individuals not dealing with each other at arm's length, and

(*b*) that the estate or trust under which the executor, liquidator or trustee acquired control of each of the corporations arose only on the death of the individual creating the estate or trust,

the two corporations are deemed, for the purposes of this Act, not to be associated with each other in the year.

History: S. 256(4) was amended by S.C. 2001, c. 17, s. 231, applicable on Royal Assent, June 14, 2001. S. 256(4) formerly read:

"(4) *Idem.* Where one corporation would, but for this subsection, be associated with another corporation in a taxation year by reason of both of the corporations being controlled by the same trustee or executor and it is established to the satisfaction of the Minister

(*a*) that the trustee or executor did not acquire control of the corporations as a result of one or more trusts or estates created by the same individual or two or more individuals not dealing with each other at arm's length, and

(*b*) that the trust or estate under which the trustee or executor acquired control of each of the corporations arose only on the death of the individual creating the trust or estate,

the two corporations shall be deemed, for the purposes of this Act, not to be associated with each other in the year."

Editorial Note: This provision, if applicable, relieves association between two corporations controlled by an executor, liquidator or trustee. However, it will not avoid the association rules where an individual executor, liquidator or trustee controls one or more corporations other than as an executor, i.e., he or she is the owner-manager of a corporation. Also the applicability of paragraphs (*a*) and (*b*) must be established to the satisfaction of the CRA.

► 256(5) ◄

(5) Idem. Where one corporation would, but for this subsection, be associated with another corporation in a taxation year, by reason only that the other corporation is a trustee under a trust pursuant to which the corporation is controlled, the two corporations shall be deemed, for the purposes of this Act, not to be associated with each other in the year unless, at any time in the year, a settlor of the trust controlled or is a member of a related group that controlled the other corporation that is the trustee under the trust.

Editorial Note: Subsection 256(5) may relieve association between a corporate executor and a controlled corporation. However, this provision does not speak to other effects of control. For example, CCPC status could be lost. The CRA's policy is generally to ignore this issue where control passes to an executor which has "public corporation" status, provided there is no undue delay in disposing of the shares (see paragraph 14 of IT-391R); however, at time of writing, this policy is under reconsideration.

Related Sections: S. 256(1.2) Control, etc.; s. 256(1.5) Person related to himself, herself or itself.

► 256(5.1) ◄

(5.1) Control in fact. For the purposes of this Act, where the expression "controlled, directly or indirectly in any manner whatever," is used, a corporation shall be considered to be so controlled by another corporation, person or group of persons (in this subsection referred to as the "controller") at any time where, at that time, the controller has any direct or indirect influence that, if exercised, would result in control in fact of the corporation, except that, where the corporation and the controller are dealing with each other at arm's length and the influence is derived from a franchise, licence, lease, distribution, supply or management agreement or other similar agreement or arrangement, the main purpose of which is to govern the relationship between the corporation and the controller regarding the manner in which a business carried on by the corporation is to be conducted, the corporation shall not be considered to be controlled, directly or indirectly in any manner whatever, by the controller by reason only of that agreement or arrangement.

Editorial Note: Applying throughout the *Income Tax Act*, subsection 256(5.1) requires the application of the *de facto* control test as specified in this subsection, whenever the expression "controlled, directly or indirectly in any manner whatever" is used in respect of control of a corporation. Potentially applying where *de jure* control does not, the CRA has increasingly relied on this provision to associate corporations. The *Silicon Graphics* case (2002 DTC 7112 (FCA)) indicates that *de facto* control requires the ability to effect a significant change in the board of directors or its powers, or to influence in a very direct way the shareholders who otherwise have the ability to elect the

board. However, other cases have focused on a broader test relating to operational and economic dependency. An exception pertains to arm's length situations where influence derives only from an agreement or arrangement (e.g., a franchise) the main purpose of which is to govern the manner in which a business is conducted.

Related Sections: S. 20(8)(*c*) No deduction in respect of property in certain circumstances; s. 24(2) Business carried on by spouse or controlled corporation; s. 40(2) Limitations; s. 44(7) Where subpara. (1)(e)(iii) does not apply; s. 83(2.2) Capital dividend — exception to anti-avoidance rule; s. 83(2.4) Capital dividend — exception to anti-avoidance rule; s. 87(2)(*kk*) Disposition of shares of controlled corporation; s. 89(1), "capital dividend account"; s. 89(1.1) Capital dividend account where control acquired; s. 125(6.2) Specified partnership income deemed nil; s. 125(7), "Canadian-controlled private corporation"; s. 125.5(1), "eligible production corporation"; s. 127.1(2), "excluded corporation"; s. 149(1)(*t*) Miscellaneous exemptions; s. 149(1.3) Capital ownership; s. 149.1(1), "public foundation", "charitable organization"; s. 149(4.1) Farmers' and fishermen's insurer; s. 149(4.2) Farmers' and fishermen's insurer; s. 251.1(3), "controlled"; s. 256(1)–s. 256(6.2).
Regulations: 1106(2); 2902(*e*)(i); 5100(3).
Interpretation Bulletins: *Primary* — IT-64R4 (Consolid.) Corporations: Association and control; *Secondary* — IT-236R4 Reserves — Disposition of capital property [Archived by the CRA]; IT-291R3 Transfer of property to a corporation under subsection 85(1); IT-313R2 Eligible capital property — Rules where a taxpayer has ceased carrying on a business or has died; IT-458R2 Canadian-controlled private corporation.
Income Tax Technical News: Issue No. 32, Control in Fact: Impact of Recent Jurisprudence; Issue No. 25, Silicon Graphics Ltd. v. The Queen; Issue No. 7, Control by a group — 50/50 arrangement.
Tax Topics: No. 1700, 2004 Canadian Tax Foundation Conference — CRA Round Table.
Tax Profile: April 2006 — Concept of Control; November 2004 — "Control in Fact" — Impact of Recent Jurisprudence.
Canadian Tax Foundation: Brender, "Developments in the Concept of Corporate Control", *2007 Conference Report*, 31:1.
Cases: There was nothing in franchise arrangements, including the documents, shareholders' agreements, leases, and franchise agreements, that could result in the franchisor having control in fact of its franchisees. *The Queen v. Lenester Sales Ltd. et al.*, 2004 DTC 6461 (F.C.A.), affirming 2003 DTC 997 (T.C.C.).

Two corporations were under the *de facto* control of a third corporation, and hence associated with it. Relevant factors included economic dependency, operational control and familial connection amongst the shareholders of all three corporations. *De jure* and *de facto* control can co-exist. *9044-2807 Québec Inc. v. The Queen*, 2004 DTC 6141 (F.C.A.), affirming 2003 DTC 817 (T.C.C.).

► 256(6) ◄

(6) Idem. For the purposes of this Act, where a corporation (in this subsection referred to as the "controlled corporation") would, but for this subsection, be regarded as having been controlled or controlled, directly or indirectly in any manner whatever, by a person or partnership (in this subsection referred to as the "controller") at a particular time and it is established that

(*a*) there was in effect at the particular time an agreement or arrangement enforceable according to the terms thereof, under which, on the satisfaction of a condition or the happening of an event that it is reasonable to expect will be satisfied or happen, the controlled corporation will

(i) cease to be controlled, or controlled, directly or indirectly in any manner whatever, as the case may be, by the controller, and

(ii) be or become controlled, or controlled, directly or indirectly in any manner whatever, as the case may be, by a person or group of persons, with whom or with each of the members of which, as the case may be, the controller was at the particular time dealing at arm's length, and

(*b*) the purpose for which the controlled corporation was at the particular time so controlled, or controlled, directly or indirectly in any manner whatever, as the case may be, was the safeguarding of rights or interests of the controller in respect of

(i) any indebtedness owing to the controller the whole or any part of the principal amount of which was outstanding at the particular time, or

(ii) any shares of the capital stock of the controlled corporation that were owned by the controller at the particular time and that were, under the agreement or arrangement, to be redeemed by the controlled corporation or purchased by the person or group of persons referred to in subparagraph (*a*)(ii),

the controlled corporation is deemed not to have been controlled by the controller at the particular time.

History: S. 256(6), the portion after paragraph (*b*) was amended by S.C. 1998, c. 19, s. 246(1), applicable to taxation years that begin after 1988. S. 256(6) formerly read:
"the controlled corporation shall be deemed, for the purposes of that provision, not to have been controlled by the controller at the particular time."

Related Sections: S. 256(6.1) Simultaneous control.
Interpretation Bulletins: *Secondary* — IT-458R2 Canadian-controlled private corporation.

► 256(6.1) ◄

(6.1) Simultaneous control. For the purposes of this Act and for greater certainty,

(*a*) where a corporation (in this paragraph referred to as the "subsidiary") would be controlled by another corporation (in this paragraph referred to as the "parent") if the parent were not controlled by any person or group of persons, the subsidiary is controlled by

(i) the parent, and

(ii) any person or group of persons by whom the parent is controlled; and

(*b*) where a corporation (in this paragraph referred to as the "subject corporation") would be controlled by a group of persons (in this paragraph referred to as the "first-tier group") if no corporation that is a member of the first-tier group were controlled by any person or group of persons, the subject corporation is controlled by

(i) the first-tier group, and

(ii) any group of one or more persons comprised of, in respect of every member of the first-tier group, either the member, or a person or group of persons by whom the member is controlled.

History: S. 256(6.1) was added by S.C. 2001, c. 17, s. 194(1), applicable after November 1999.
Editorial Note: Subsection 256(6.1) (which applies for the entire ITA) provides that control in a multi-tiered corporate structure is to be determined at each level in the corporate chain: a lower-tier corporation can be controlled by more than one person or group of persons higher up the chain. This provision effectively overrides *Parthenon Investments Ltd. v. MNR*, 97 DTC 5343 (FCA), which held that *de jure* control means ultimate control.

Related Sections: S. 125(7), "Canadian-controlled private corporation"; s. 248(1), "small business corporation"; s. 251(2) Definition of "related persons"; s. 251(5) Control by related groups, options, etc; s. 251(6) Blood relationship, etc.

► 256(6.2) ◄

(6.2) Application to control in fact. In its application to subsection (5.1), subsection (6.1) shall be read as if the references in subsection (6.1) to "controlled" were references to "controlled, directly or indirectly in any manner whatever,".

History: S. 256(6.2) was added by S.C. 2001, c. 17, s. 194(1), applicable after November 1999.

► 256(7) ◄

(7) Acquiring control. For the purposes of subsections 10(10), 13(21.2) and (24), 14(12) and 18(15), sections 18.1 and 37, subsection 40(3.4), the definition "superficial loss" in section 54, section 55, subsections 66(11), (11.4) and (11.5), 66.5(3) and 66.7(10) and (11), section 80, paragraph 80.04(4)(*h*), subsections 85(1.2), 88(1.1) and (1.2) and 110.1(1.2), sections 111 and 127, subsection 249(4) and this subsection,

(*a*) control of a particular corporation shall be deemed not to have been acquired solely because of

(i) the acquisition at any time of shares of any corporation by

(A) a particular person who acquired the shares from a person to whom the particular person was related (otherwise than because of a right referred to in paragraph 251(5)(*b*)) immediately before that time,

(B) a particular person who was related to the particular corporation (otherwise than because of a right referred to in paragraph 251(5)(*b*)) immediately before that time,

(C) an estate that acquired the shares because of the death of a person, or

(D) a particular person who acquired the shares from an estate that arose on the death of another person to whom the particular person was related, or

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subparagraph 256(7)(*a*)(i) of the Act is amended by striking out the word "or" at the end of clause (C) and by adding the following after clause (D):

(E) a corporation on a distribution (within the meaning assigned by subsection 55(1)) by a specified corporation (within the meaning assigned by that subsection) if a dividend, to which subsection 55(2) does not apply because of paragraph 55(3)(*b*), is received in the course of the reorganization in which the distribution occurs,

Applicable: To acquisitions of shares that occur after 2000.

Explanatory Note:

Acquiring Control

Subsection 256(7) of the Act describes circumstances in which control of a corporation will be deemed to have been acquired (or not to have been acquired) for specific provisions of the Act.

Paragraph 256(7)(*a*) of the Act describes the circumstances where control of a corporation (or a corporation controlled by the corporation) is considered not to have been acquired for the purposes of certain provisions of the Act. That paragraph is amended in two ways.

First, subparagraph 256(7)(*a*)(i) is amended effective with respect to the acquisition of shares after 2000 to add clause (E) which precludes an acquisition of control of a corporation on a distribution (within the meaning assigned by subsection 55(1) of the Act) by a specified corporation (within the meaning assigned by that subsection) if a dividend is received in the course of a spin-off distribution in which no portion of the dividend is treated as a capital gain by the anti-avoidance rule in subsection 55(2) of the Act because of the application of the exception for certain reorganizations under paragraph 55(3)(*b*) of the Act.

Example:

Facts:

Pubco is a specified corporation under the butterfly rules in section 55 and a person or group of persons does not control it. Pubco owns all of the shares of Subco. In the course of a distribution (as defined by subsection 55(1)), Pubco distributes the Subco shares to Newco, which is established in the course of the reorganization for the purposes of the distribution. The same shareholders that own all of the shares of Pubco own all of the shares of Newco. Because there is no person or group of persons that control Pubco and Newco, an acquisition of control of Subco would occur upon Newco's acquisition of the Subco shares on the distribution despite the fact the same shareholders own Pubco and Newco.

Application:

In this example, new clause 256(7)(*a*)(i)(E) provides that there is no acquisition of control of Subco by Newco if Pubco's distribution of its Subco shares to Newco is a distribution to which the anti-avoidance rule in subsection 55(2) does not apply because the distribution complies with the exception in paragraph 55(3)(*b*).

Second, new subparagraph 256(7)(*a*)(iii), which applies to the acquisition of shares after 2000, provides that, where there is an acquisition of any shares of a corporation, there is no acquisition of control of the corporation by a related group of persons if each member of each group of persons that controls the corporation was related to the corporation immediately before the change of control.

Example:

Facts:

Corporation X has issued 100 common shares with 1 vote per share. There are no other issued shares. Mr. X owns 51% of Corporation X's issued shares. Ms. D who is the daughter of Mr. X owns 49% of the common shares issued by Corporation X. Mr. X has de jure control of Corporation X.

Mr. X disposes of 10 shares of Corporation X to Mr. Z, an arm's length person. Consequently, Mr. X no longer has de jure control, and a group of persons acquires de jure control of Corporation X.

Application:

If Mr. X and Ms. D form a related group of persons that otherwise acquires control of Corporation X upon the disposition of shares by Mr. X, new subparagraph 256(7)(*a*)(iii) deems no acquisition of control if no other group of persons that includes Mr. Z acquires control of Corporation X. It is a question of fact whether Mr. X and Ms. D form a group of persons that would otherwise acquire control of Corporation X and, if so, whether there exists another group of persons that also acquires control. Depending on the circumstances, Mr. X and Ms. D; Mr. X and Mr. Z; Ms. D and Mr. Z; or Mr. X, Ms. D and Mr. Z could form a group of persons that acquires control of Corporation X. Consequently, new subparagraph 256(7)(*a*)(iii) applies only if, in this example, Mr. X and Ms. D form a group of persons that control Corporation X and there exists no other group of persons (which includes Mr. Z) that acquires control of Corporation X.

(ii) the redemption or cancellation at any particular time of, or a change at any particular time in the rights, privileges, restrictions or conditions attaching to, shares of the particular corporation or of a corporation controlling the particular corporation, where each person and each member of each group of persons that controls the particular corporation immediately after the particular time was related (otherwise than because of a right referred to in paragraph 251(5)(*b*)) to the corporation

(A) immediately before the particular time, or

(B) immediately before the death of a person, where the shares were held immediately before

the particular time by an estate that acquired the shares because of the person's death;

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 256(7)(*a*) of the Act is amended by adding the word "or" at the end of subparagraph (ii) and by adding the following after subparagraph (ii):

(iii) the acquisition at any time of shares of the particular corporation if

(A) the acquisition of those shares would otherwise result in the acquisition of control of the particular corporation at that time by a related group of persons, and

(B) each member of each group of persons that controls the particular corporation at that time was related (otherwise than because of a right referred to in paragraph 251(5)(*b*)) to the particular corporation immediately before that time;

Applicable: To acquisitions of shares that occur after 2000.

Explanatory Note: See the Explanatory Note following the amendment to subparagraph 256(7)(*a*)(i).

(*b*) where at any time 2 or more corporations (each of which is referred to in this paragraph as a "predecessor corporation") have amalgamated to form one corporate entity (in this paragraph referred to as the "new corporation"),

(i) control of a corporation is deemed not to have been acquired by any person or group of persons solely because of the amalgamation unless it is deemed by subparagraph (ii) or (iii) to have been so acquired,

(ii) a person or group of persons that controls the new corporation immediately after the amalgamation and did not control a predecessor corporation immediately before the amalgamation is deemed to have acquired immediately before the amalgamation control of the predecessor corporation and of each corporation it controlled immediately before the amalgamation (unless the person or group of persons would not have acquired control of the predecessor corporation if the person or group of persons had acquired all the shares of the predecessor corporation immediately before the amalgamation), and

(iii) control of a predecessor corporation and of each corporation it controlled immediately before the amalgamation is deemed to have been acquired immediately before the amalgamation by a person or group of persons

(A) unless the predecessor corporation was related (otherwise than because of a right referred to in paragraph 251(5)(*b*)) immediately before the amalgamation to each other predecessor corporation,

(B) unless, if one person had immediately after the amalgamation acquired all the shares of the new corporation's capital stock that the shareholders of the predecessor corporation, or of another predecessor corporation that controlled the predecessor corporation, acquired on the amalgamation in consideration for their shares of the predecessor corporation or of the other predecessor corporation, as the case may be, the person would have acquired control of the new corporation as a result of the acquisition of those shares, or

(C) unless this subparagraph would, but for this clause, deem control of each predecessor corporation to have been acquired on the amalgamation where the amalgamation is an amalgamation of

(I) two corporations, or

(II) two corporations (in this subclause referred to as the "parents") and one or more other corporations (each of which is in this subclause referred to as a "subsidiary") that would, if all the shares of each subsidiary's capital stock that were held immediately before the amalgamation by the parents had been held by one person, have been controlled by that person;

(*c*) subject to paragraph (*a*), where 2 or more persons (in this paragraph referred to as the "transferors") dispose of shares of the capital stock of a particular corporation in exchange for shares of the capital stock of another corporation (in this paragraph referred to as the "acquiring corporation"), control of the acquiring corporation and of each corporation controlled by it immediately before the exchange is deemed to have been acquired at the time of the exchange by a person or group of persons unless

(i) the particular corporation and the acquiring corporation were related (otherwise than because of a right referred to in paragraph 251(5)(*b*)) to each other immediately before the exchange, or

(ii) if all the shares of the acquiring corporation's capital stock that were acquired by the transferors on the exchange were acquired at the time of the exchange by one person, the person would not control the acquiring corporation;

(*d*) where at any time shares of the capital stock of a particular corporation are disposed of to another corporation (in this paragraph referred to as the "acquiring corporation") for consideration that includes shares of the acquiring corporation's capital stock and, immediately after that time, the acquiring corporation and the particular corporation are controlled by a person or group of persons who

(i) controlled the particular corporation immediately before that time, and

(ii) did not, as part of the series of transactions or events that includes the disposition, cease to control the acquiring corporation,

control of the particular corporation and of each corporation controlled by it immediately before that time is deemed not to have been acquired by the acquiring corporation solely because of the disposition;

(*e*) where at any time all the shares of the capital stock of a particular corporation are disposed of to another corporation (in this paragraph referred to as the "acquiring corporation") for consideration that consists solely of shares of the acquiring corporation's capital stock and, immediately after that time,

(i) the acquiring corporation is not controlled by any person or group of persons, and

(ii) the fair market value of the shares of the capital stock of the particular corporation is not less than 95% of the fair market value of all the assets of the acquiring corporation,

control of the particular corporation and of each corporation controlled by it immediately before that time is deemed not to have been acquired by the acquiring corporation solely because of the disposition; and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 256(7)(*e*) of the Act is replaced by the following:

(*e*) control of a particular corporation and of each corporation controlled by it immediately before a particular time is deemed not to have been acquired at the particular time by a corporation (in this paragraph referred to as the "acquiring corporation") if at the particular time, the acquiring corporation acquires shares of the particular corporation's capital stock for consideration that consists solely of shares of the acquiring corporation's capital stock, and if

(i) immediately after the particular time

(A) the acquiring corporation owns all the shares of each class of the particular corporation's capital stock (determined without reference to shares of a specified class, within the meaning assigned by paragraph 88(1)(*c.8*)),

(B) the acquiring corporation is not controlled by any person or group of persons, and

(C) the fair market value of the shares of the particular corporation's capital stock that are owned by the acquiring corporation is not less than 95% of the fair market value of all of the assets of the acquiring corporation, or

(ii) any of clauses (i)(A) to (C) do not apply and the acquisition occurs as part of a plan of arrangement that, on completion, results in

(A) the acquiring corporation (or a new corporation that is formed on an amalgamation of the acquiring corporation and a subsidiary wholly-owned corporation of the acquiring corporation) owning all the shares of each class of the particular corporation's capital stock (determined without reference to shares of a specified class, within the meaning assigned by paragraph 88(1)(*c.8*)),

(B) the acquiring corporation (or the new corporation) not being controlled by any person or group of persons, and

(C) the fair market value of the shares of the particular corporation's capital stock that are owned by the acquiring corporation (or the new corporation) being not less than 95% of the fair market value of all of the assets of the acquiring corporation (or the new corporation).

Applicable: In respect of shares acquired after 1999.

Explanatory Note: Paragraph 256(7)(*e*) of the Act provides that, where certain conditions are satisfied, control of a particular corporation will be considered not to have been acquired solely because of a disposition of all of the shares of the particular corporation for consideration consisting solely of shares of the acquiring corporation. These conditions include a requirement that, immediately after the disposition, the acquiring corporation is not controlled by a person or group of persons and that the fair market value of the shares of the particular corporation is not less than 95% of the fair market value of all of the assets of the acquiring corporation.

Paragraph 256(7)(*e*) is amended, for shares acquired after 1999, to ensure that it applies on the acquisition of any shares of the capital stock of the particular corporation by the acquiring corporation if, immediately after the acquisition, the acquiring corporation owns all of the shares of the capital stock of the particular corporation (other than shares of a specified class) and the 95% test is met. This provision is also amended to deem control not to be acquired if shares of the particular corporation are acquired as part of a plan of arrangement and, upon completion of the arrangement, the acquiring corporation owns all the shares of the capital stock of the particular corporation (other than shares of a specified class) and the 95% test is met. Thus, amended paragraph 256(7)(*e*) may apply in circumstances where the acquiring corporation owns shares of the capital stock of the particular corporation before the acquisition being examined. In addition, amended paragraph 256(7)(*e*) excludes shares of a specified class, as defined in paragraph 88(1)(*c.8*) of the Act, from the determination of whether the acquiring corporation has acquired all of the shares of the particular corporation. Shares of a specified class are excluded on the basis that they are non-voting securities similar to debt and should not be considered in determining whether control has been acquired for the purpose of paragraph 256(7)(*e*).

This amendment also ensures that, in circumstances where the acquisition occurs as part of a plan of arrangement, the acquiring corporation includes a new corporation formed on an amalgamation of the acquiring corporation and a subsidiary controlled corporation of the acquiring corporation. As a result, paragraph 256(7)(*e*) may apply to a situation where the acquiring corporation owns shares of the particular corporation indirectly through a subsidiary controlled corporation if the acquiring corporation and the subsidiary controlled corporation are amalgamated as part of a plan of arrangement that includes the acquisition.

(*f*) if a particular trust is the only beneficiary of another trust, the particular trust is described in paragraph (*c*) of the definition "SIFT trust wind-up event", the particular trust would, in the absence of this paragraph, acquire control of a corporation solely because of a SIFT trust wind-up event that is a distribution of shares of the capital stock of the corporation by the other trust, and the other trust controlled the corporation immediately before the distribution, the particular trust is deemed not to acquire control of the corporation because of the distribution.

History: S. 256(7)(*f*) was added by S.C. 2009, c. 2, s. 78(1), applicable after July 14, 2008.

S. 256(7), the portion before paragraph (*a*) was replaced by S.C. 2005, c. 19, s. 55(1), applicable in respect of gifts made after March 22, 2004. S. 256(7), the portion before paragraph (*a*) formerly read:

"(7) *Acquiring control.* For the purposes of subsections 10(10), 13(21.2) and (24), 14(12) and 18(15), sections 18.1 and 37, subsection 40(3.4), the definition 'superficial loss' in section 54, section 55, subsections 66(11), (11.4) and (11.5), 66.5(3) and 66.7(10) and (11), section 80, paragraph 80.04(4)(h), subsections 85(1.2) and 88(1.1) and (1.2), sections 111 and 127, subsection 249(4) and this subsection,

S. 256(7), that portion before paragraph (*a*) was amended by S.C. 1998, c. 19, s. 246(2), applicable after April 26, 1995 except that, before November

18, 1996, the reference in subsection 256(7) of the Act to "sections 18.1 and 37" shall be read as "section 37". That portion formerly read:

"(7) *Acquiring control.* For the purposes of subsection 13(24), sections 37 and 55, subsections 66(11), (11.4) and (11.5), 66.5(3) and 66.7(10) and (11), section 80, paragraph 80.04(4)(*h*), subsections 85(1.2), 87(2.1) and (2.11), 88(1.1) and (1.2) and 89(1.1), sections 111 and 127 and subsection 249(4),"

S. 256(7)(*a*)(ii) was amended by S.C. 1998, c. 19, s. 246(3), applicable to the 1994 and subsequent taxation years. S. 256(7)(*a*)(ii) formerly read:

"(ii) the redemption or cancellation at any time of shares of the particular corporation or of a corporation controlling the particular corporation, where the person or each member of the group of persons that controls the corporation immediately after that time was related to the corporation (otherwise than because of a right referred to in paragraph 251(5)(*b*)) immediately before that time; and"

S. 256(7)(*b*) was amended by S.C. 1998, c. 19, s. 246(4), applicable

(*a*) To mergers that occur after April 26, 1995, other than a merger that occurs pursuant to a written agreement made before that day where the corporate entity formed by the merger so elects before the end of the sixth month after the month in which this Act is assented to [Royal Assent June 18, 1998]; and

(*b*) to a merger that occurred after 1992 and before April 26, 1995 where the corporate entity formed by the merger so elects before the end of the sixth month after the month in which this Act is assented to [Royal Assent June 18, 1998].

S. 256(7)(*b*) formerly read:

"(*b*) where there has been an amalgamation (within the meaning assigned by section 87) of two or more corporations after November 12, 1981, and a person or group of persons controlled the new corporation immediately after the amalgamation and did not control a particular predecessor corporation immediately before the amalgamation, that person or group of persons shall be deemed to have acquired control of the particular predecessor corporation immediately before the amalgamation unless control would not have been acquired if the person or group of persons that controlled the new corporation immediately after the amalgamation had acquired all of the shares of the particular predecessor corporation immediately before the amalgamation."

S. 256(7)(*c*) was added by S.C. 1998, c. 19, s. 246(4), applicable to exchanges that occur after April 26, 1995, other than an exchange that occurs pursuant to a written agreement made before that day.

S. 256(7)(*d*) was added by S.C. 1998, c. 19, s. 246(4), applicable After April 26, 1995 except that, with respect to acquisitions of shares that occur before June 20, 1996 or pursuant to a written agreement made before June 20, 1996, subparagraph 256(7)(*e*)(ii) of the Act shall be read as follows:

"(ii) all or substantially all of the fair market value of the shares of the acquiring corporation's capital stock is attributable to the shares acquired by it at that time,"

S. 256(7)(*e*) was added by S.C. 1998, c. 19, s. 246(4), applicable After April 26, 1995 except that, with respect to acquisitions of shares that occur before June 20, 1996 or pursuant to a written agreement made before June 20, 1996, subparagraph 256(7)(*e*)(ii) of the Act shall be read as follows:

"(ii) all or substantially all of the fair market value of the shares of the acquiring corporation's capital stock is attributable to the shares acquired by it at that time,"

S. 256(7), that portion before paragraph (*a*) was amended by S.C. 1995, c. 21, s. 44(1), applicable to amalgamations, acquisitions, redemptions and cancellations that occur after February 21, 1994. S. 256(7), that portion before paragraph (*a*) formerly read:

"(7) *Acquiring control.* For the purposes of subsection 13(24), sections 37 and 55, subsections 66(11), (11.4) and (11.5), 66.5(3), 66.7(10) and (11), 85(1.2), 87(2.1) and (2.11), 88(1.1) and (1.2) and 89(1.1), sections 111 and 127 and subsection 249(4),"

S. 256(7), that portion before paragraph (*a*) was amended by S.C. 1995, c. 3, s. 55(1), applicable to amalgamations, acquisitions, redemptions and cancellations that occur after February 21, 1994. That portion formerly read:

"(7) *Acquiring control.* For the purposes of subsection 13(24), section 37, subsections 66(11), (11.4) and (11.5), 66.5(3), 66.7(10) and (11), 85(1.2), 87(2.1) and (2.11), 88(1.1) and (1.2) and 89(1.1), sections 111 and 127 and subsection 249(4),"

S. 256(7), the portion before paragraph (*b*), was amended by S.C. 1994, c. 21, s. 114(1), applicable to acquisitions, redemptions and cancellations occurring after 1992. That portion formerly read:

"(7) *Control deemed not to be acquired.* For the purposes of subsection 13(24), section 37, subsections 66(11), (11.4) and (11.5), 66.5(3), 66.7(10) and (11), 85(1.2), 87(2.1), 88(1.1) and (1.2) and 89(1.1), sections 111 and 127 and subsection 249(4),

(*a*) a person shall be deemed not to have acquired control of a particular corporation, or of any corporation controlled by it, because of the redemption, acquisition or cancellation of shares of the particular corporation if that person

(i) was, immediately before the share redemption, acquisition or cancellation, related (otherwise than because of a right referred to in paragraph 251(5)(*b*)) to the particular corporation,

(ii) was an executor, administrator or trustee of an estate who acquired the shares by virtue of the death of any other person,

(iii) acquired the shares by way of a distribution from an estate arising on the death of another person with whom the first-mentioned person was related, or

(iv) was a corporation formed by an amalgamation (within the meaning of section 87) of two or more predecessor corporations each of which was related (otherwise than by virtue of a right referred to in paragraph 251(5)(*b*)) to the particular corporation immediately before the amalgamation; and"

The application provision for S.C. 1994, c. 7, Sched. II, s. 198(4) [which amended s. 256(7)(*a*), that portion preceding subparagraph (ii),] was amended by S.C. 1994, c. 7, Sched. VIII, s. 159. As a result, the deadline for making the election set out with respect to the application of the amendment to s. 256(7)(*a*), that portion preceding subparagraph (ii), set out below, is extended to December 11, 1993. Where such an election or request is made before December 11, 1993, the election "shall be deemed to have been made before 1992".

S. 256(7), that portion preceding paragraph (*a*), was amended by S.C. 1994, c. 7, Sched. II, s. 198(3). The addition of the reference to subsection 85(1.2) in subsection 256(7) is applicable to dispositions occurring after 1984. That part formerly read:

"(7) *Control deemed not to be acquired.* For the purposes of subsection 13(24), section 37, subsections 66(11), (11.4) and (11.5), 66.5(3), 66.7(10) and (11), 87(2.1), 88(1.1) and (1.2), 89(1.1), sections 111 and 127 and subsection 249(4),"

S. 256(7)(*a*), the part preceding subparagraph (ii), was amended by S.C. 1994, c. 7, Sched. II, s. 198(4), applicable to redemptions, acquisitions and cancellations of shares occurring after 1989, except that, in applying paragraph 256(7)(*a*) to a person who so elected by notifying the Minister of National Revenue in writing before 1992, the references therein to "redemption" and "cancellation" shall be read as "redemption after July 13, 1990" and "cancellation after July 13, 1990", respectively. That part formerly read:

"(*a*) where shares of a particular corporation have been acquired by a person after March 31, 1977, that person shall be deemed not to have acquired control of the particular corporation by virtue of that share acquisition if that person

(i) was, immediately before the share acquisition, related (otherwise than by virtue of a right referred to in paragraph 251(5)(*b*)) to the particular corporation,"

Editorial Note: Without subsection 256(7), any acquisition of control (e.g., by a related person or a holding company) could trigger a number of anti-avoidance rules which rely on this concept (e.g., the loss streaming rules in subsection 111(5), deemed year end in subsection 249(4)). Subsection 256(7) provides for a number of exceptions which vitiate the effects of an acquisition of control for the purposes of the provisions enumerated at the beginning of the subsection. These may include transactions in respect of related persons, to and from an estate, qualifying share-for-share exchanges and amalgamations. Proposed amendments would extend the exceptions to include qualifying divisive reorganizations, plans of arrangement, and SIFT trust wind-ups. (Subsection 256(7) is also relevant to certain stop-loss rules which may otherwise cease to apply on an acquisition of control.)

Related Sections: S. 139.1(18) Acquisition of control; s. 256(8.1) Corporations without share capital.

Interpretation Bulletins: *Secondary* — IT-302R3 Losses of a corporation — The effect that acquisitions of control, amalgamations, and windings-up have on their deductibility — After January 15, 1987; IT-474R2 Amalgamations of Canadian corporations.

Advance Tax Rulings: ATR-7 Amalgamation involving losses and control.

Income Tax Technical News: Issue No. 34, Change in Trustees and Control; Issue No. 7, Control by a group — 50/50 arrangement.

Tax Profile: June 2003 — The December 20, 2002 Technical Amendments to the Income Tax Act.

Canadian Petroleum Tax Journal: Recent Developments in Corporate Reorganizations and International Transactions, Doug Richardson and Edward Rowe, Vol. 13 No. 1 2000.

► 256(8) ◄

(8) Deemed exercise of right. Where at any time a taxpayer acquires a right referred to in paragraph 251(5)(*b*) in respect of a share and it can reasonably be concluded that one of the main purposes of the acquisition is

(*a*) to avoid any limitation on the deductibility of any non-capital loss, net capital loss, farm loss or any expense or other amount referred to in subsection 66(11), 66.5(3) or 66.7(10) or (11),

(*b*) to avoid the application of subsection 10(10) or 13(24), paragraph 37(1)(*h*) or subsection 55(2) or 66(11.4) or (11.5), paragraph 88(1)(*c.3*) or subsection 111(4), (5.1), (5.2) or (5.3), 181.1(7) or 190.1(6),

(*c*) to avoid the application of paragraph (*j*) or (*k*) of the definition "investment tax credit" in subsection 127(9),

(*d*) to avoid the application of section 251.1, or

(*e*) to affect the application of section 80,

the taxpayer is deemed to be in the same position in relation to the control of the corporation as if the right were immediate and absolute and as if the taxpayer had exercised the right at that time for the purpose of determining whether control of a corporation has been acquired for the purposes of subsections 10(10) and 13(24), section 37, subsections 55(2), 66(11), (11.4) and (11.5), 66.5(3), 66.7(10) and (11), section 80, paragraph 80.04(4)(*h*), subparagraph 88(1)(*c*)(vi), paragraph 88(1)(*c*.3), sections 111 and 127 and subsections 181.1(7), 190.1(6) and 249(4), and in determining for the purpose of section 251.1 whether a corporation is controlled by any person or group of persons.

History: S. 256(8) was amended by S.C. 1998, c. 19, s. 246(5), applicable after February 21, 1994 except that,

(*a*) in its application after February 21, 1994 and before June 24, 1994, subsection 256(8) of the Act shall be read as follows:

"(8) Where at any time a taxpayer acquires a right referred to in paragraph 251(5)(*b*) in respect of shares and it can reasonably be concluded that one of the main purposes of the acquisition is

(*a*) to avoid any limitation on the deductibility of any non-capital loss, net capital loss, farm loss or any expense or other amount referred to in subsection 66(11), 66.5(3) or 66.7(10) or (11),

(*b*) to avoid the application of subsection 13(24), paragraph 37(1)(*h*), subsection 66(11.4) or (11.5), paragraph 88(1)(*c*.3) or subsection 111(4), (5.1), (5.2) or (5.3),

(*c*) to avoid the application of paragraph (*j*) or (*k*) of the definition 'investment tax credit' in subsection 127(9), or

(*d*) to affect the application of section 80,

the taxpayer is deemed to have acquired the shares at that time for the purpose of determining whether control of the corporation has been acquired for the purposes of subsection 13(24), section 37, subsections 66(11), (11.4) and (11.5), 66.5(3) and 66.7(10) and (11), section 80, paragraph 80.04(4)(*h*), subparagraph 88(1)(*c*)(vi), paragraph 88(1)(*c*.3), sections 111 and 127 and subsection 249(4)."

and

(*b*) in its application after June 23, 1994 and before April 27, 1995, subsection 256(8) of the Act shall be read as follows:

"(8) Where at any time a taxpayer acquires a right referred to in paragraph 251(5)(*b*) in respect of shares and it can reasonably be concluded that one of the main purposes of the acquisition is

(*a*) to avoid any limitation on the deductibility of any non-capital loss, net capital loss, farm loss or any expense or other amount referred to in subsection 66(11), 66.5(3) or 66.7(10) or (11),

(*b*) to avoid the application of subsection 13(24), paragraph 37(1)(*h*), subsection 55(2), 66(11.4) or (11.5), paragraph 88(1)(*c*.3) or subsection 111(4), (5.1), (5.2) or (5.3),

(*c*) to avoid the application of paragraph (*j*) or (*k*) of the definition 'investment tax credit' in subsection 127(9), or

(*d*) to affect the application of section 80,

the taxpayer is deemed to have acquired the shares at that time for the purpose of determining whether control of the corporation has been acquired for the purposes of subsection 13(24), sections 37 and 55, subsections 66(11), (11.4) and (11.5), 66.5(3) and 66.7(10) and (11), section 80, paragraph 80.04(4)(*h*) subparagraph 88(1)(*c*)(vi), paragraph 88(1)(*c*.3), sections 111 and 127 and subsection 249(4)."

S. 256(8) formerly read:

"(8) *Deemed acquisition of shares.* Where at any time a taxpayer acquires a right referred to in paragraph 251(5)(*b*) with respect to shares and it can reasonably be concluded that one of the main purposes of the acquisition is

(*a*) to avoid any limitation on the deductibility of any non-capital loss, net capital loss, farm loss, expense or other amount referred to in subsection 66(11), 66.5(3) or 66.7(10) or (11),

(*b*) to avoid the application of subsection 13(24), paragraph 37(1)(*h*) or subsection 55(2), 66(11.4) or (11.5) or 111(4), (5.1), (5.2) or (5.3),

(*c*) to avoid the application of paragraph (*j*) or (*k*) of the definition 'investment tax credit' in subsection 127(9), or

(*d*) to affect the application of section 80,

in determining whether control of the corporation is acquired for the purposes of subsection 13(24), sections 37 and 55, subsections 66(11), (11.4) and (11.5), 66.5(3) and 66.7(10) and (11), section 80, paragraph 80.04(4)(*h*), sections 111 and 127 and subsection 249(4), the taxpayer shall be deemed to have acquired the shares at that time."

S. 256(8) was amended by S.C. 1995, c. 21, s. 44(2), applicable to acquisitions that occur after February 21, 1994, except that, with respect to acquisitions that occur before June 24, 1993,

(*a*) the expression "subsection 55(2), 66(11.4)" in paragraph 256(8)(*b*) shall be read as "subsection 66(11.4)"; and

(*b*) the expression "sections 37 and 55" in the portion of subsection 256(8) after paragraph (*d*) shall be read as "section 37".

S. 256(8) formerly read:

"(8) *Deemed acquisition of shares.* Where at any time a taxpayer has acquired a right referred to in paragraph 251(5)(*b*) with respect to shares and it can reasonably be concluded that one of the main purposes of the acquisition was to avoid

(*a*) any limitation on the deductibility of any non-capital loss, net capital loss, farm loss, expense or other amount referred to in subsection 66(11), 66.5(3) or 66.7(10) or (11),

(*b*) the application of subsection 13(24), paragraph 37(1)(*h*), or subsection 55(2), 66(11.4) or (11.5), 111(4), (5.1), (5.2) or (5.3), or

(*c*) the application of paragraph (*j*) or (*k*) of the definition 'investment tax credit' in subsection 127(9),

in determining whether control of a corporation has been acquired for the purposes of subsection 13(24), sections 37 and 55, subsections 66(11), (11.4) and (11.5), 66.5(3) and 66.7(10) and (11), sections 111 and 127 and subsection 249(4), the taxpayer shall be deemed to have acquired the shares at that time."

S. 256(8), the part after paragraph (*a*), was amended by S.C. 1995, c. 3, s. 55(2), applicable to acquisitions that occur after June 23, 1994. That portion formerly read:

"(*b*) the application of subsection 13(24), paragraph 37(1)(*h*) or subsection 66(11.4) or (11.5), 111(4), (5.1), (5.2) or (5.3), or

(*c*) the application of paragraph (*j*) or (*k*) of the definition 'investment tax credit' in subsection 127(9),

in determining whether control of the corporation has been acquired for the purposes of subsection 13(24), section 37, subsections 66(11), (11.4) and (11.5), 66.5(3), 66.7(10) and (11), sections 111 and 127 and subsection 249(4), the taxpayer shall be deemed to have acquired the shares at that time."

Editorial Note: Subsection 256(8) treats rights under paragraph 251(5)(*b*) as having been exercised if one of the main purposes of the acquisition of such rights is to avoid/affect specified provisions (including loss streaming and debt forgiveness rules). Paragraph 251(5)(*b*) applies to rights (including contingent rights) to acquire shares, control voting rights, or to cause a corporation to redeem/acquire shares owned by others.

Related Sections: S. 181.5(6) Government-controlled corporation; s. 190.15(6) Government-controlled corporation; s. 251(5) Control by related groups, options, etc; s. 256(8.1) Corporations without share capital.

► 256(8.1) ◄

(8.1) Corporations without share capital. For the purposes of subsections (7) and (8),

(*a*) a corporation incorporated without share capital is deemed to have a capital stock of a single class;

(*b*) each member, policyholder and other participant in the corporation is deemed to be a shareholder of the corporation; and

(*c*) the membership, policy or other interest in the corporation of each of those participants is deemed to be the number of shares of the corporation's capital stock that the Minister considers reasonable in the circumstances, having regard to the total number of participants in the corporation and the nature of their participation.

History: S. 256(8.1) was added by S.C. 1998, c. 19, s. 246(5), applicable after April 26, 1995 except that, before November 18, 1996, the reference in subsection 256(7) of the Act to "sections 18.1 and 37" shall be read as "section 37".

► 256(9) ◄

(9) Date of acquisition of control. For the purposes of this Act, other than for the purposes of determining if a corporation is, at any time, a small business corporation or a Canadian-controlled private corporation, where control of a corporation is acquired by a person or group of persons at a particular time on a day, control of the corporation shall be deemed to have been acquired by the person or group of persons, as the case may be, at the beginning of

that day and not at the particular time unless the corporation elects in its return of income under Part I filed for its taxation year that ends immediately before the acquisition of control not to have this subsection apply.

History: S. 256(9) was replaced by S.C. 2009, c. 2, s. 78(2), applicable in respect of an acquisition of control of a corporation that occurs after 2005, other than in respect of such an acquisition of control that occurs before January 28, 2009 and in respect of which the taxpayer elects in writing, filed with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's 2009 taxation year, that subsection 256(9) not apply.

A taxpayer is deemed to have made the election described above in respect of an acquisition of control of a corporation that occurs before January 28, 2009 if it can reasonably be considered, having regard to a return of income, notice of objection, or notice of appeal, filed or served by the taxpayer under the Act before January 28, 2009, that the taxpayer has interpreted and applied subsection 256(9) for the purposes of determining if the corporation was a small business corporation or a Canadian-controlled private corporation at the time of the transfer of shares of the corporation that caused the acquisition of control to occur.

S. 256(9) formerly read:

"(9) *Date of acquisition of control.* For the purposes of this Act, where control of a corporation is acquired by a person or group of persons at a particular time on a day, control of the corporation shall be deemed to have been acquired by the person or group of persons, as the case may be, at the commencement of that day and not at the particular time unless the corporation elects in its return of income under Part I filed for its taxation year ending immediately before the acquisition of control not to have this subsection apply."

Editorial Note: Subsection 256(9) (which applies for the entire *Income Tax Act*) provides that, unless a corporation otherwise elects, control is deemed to have been acquired at the beginning of the particular day in question. While this provision may facilitate certain tax planning steps, per *La Survivance v. The Queen* (2007 DTC 5096), it may also change the status of the corporation at the actual time of sale. For example, if control of an otherwise qualifying corporation is acquired (i.e., at the beginning of the day) from a Canadian-resident individual by a public corporation and/or non-residents, CCPC status, and therefore the capital gains exemption, will be lost at the actual time of sale.

Related Sections: S. 39(1)(*c*) Meaning of capital gain and capital loss; s. 88(1)(*c.6*) Winding-up; s. 125(7), "Canadian-controlled private corporation"; s. 110.6(2.1) Capital gains deduction — qualified small business corporation shares; s. 220(3.2) Late, amended or revoked elections; s. 249(4) Year end on change of control.
Regulations: 600; 6204(4).
Tax Topics: No. 1881, Parallel Universe: La Survivance and the Capital Gains Exemption; No. 1879, Interaction of Subsections 110.6(2.1) and 256(9).

SECTION 257: Negative amounts.

Except as specifically otherwise provided, where an amount or a number is required under this Act to be determined or calculated by or in accordance with an algebraic formula, if the amount or number when so determined or calculated would, but for this section, be a negative amount or number, it shall be deemed to be nil.

Regulations: Part II; Part XXXI; Part XXXII.
Cases: "Taxable income" as defined in subsection 2(2) could not be negative, since "minus" therein was used in its ordinary and grammatical sense. Accordingly, a forward averaging calculation could not be made on the assumption that taxable income was negative. *Capling Estate v. M.N.R.*, 87 DTC 344 (T.C.C.).

SECTION 258:

► 258(1) ◄

(1) Deemed dividend on term preferred share. [Repealed by 1988, c. 55, s. 193(1).]

► 258(2) ◄

(2) Idem. Notwithstanding subsection 15(3), an amount paid or payable after 1978 as interest on or as an amount in lieu of interest in respect of

(*a*) any interest or dividend payable after November 16, 1978 on an income bond or an income debenture issued before November 17, 1978 or pursuant to an agreement in writing made before that date, or

(*b*) a dividend that became payable or in arrears after November 16, 1978 on a share of the capital stock of a corporation that is not a term preferred share by reason of having been issued before November 17, 1978 or pursuant to an agreement in writing made before that date,

shall, for the purposes of subsections 112(2.1) and 138(6), be deemed to be a dividend received on a term preferred share.

Related Sections: S. 89(1), "taxable Canadian corporation"; s. 248(1), "amount", "dividend", "income bond", "specified financial institution", "term preferred share".
Interpretation Bulletins: *Secondary* — IT-52R4 Income bonds and income debentures [Archived by the CRA].

► 258(3) ◄

(3) Deemed interest on preferred shares. Subject to subsection (4), for the purposes of paragraphs 12(1)(*c*) and (*k*) and sections 113 and 126, each amount that is a dividend received in a taxation year on

(*a*) a term preferred share by a specified financial institution resident in Canada from a corporation not resident in Canada, or

(*b*) any other share that

(i) is a grandfathered share, or

(ii) was issued before 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987 and is not deemed by subsection 112(2.22) to have been issued after that time

by a corporation from a corporation not resident in Canada, if the dividend would have been a dividend in respect of which no deduction could have been made under subsection 112(1) or (2) or 138(6) because of subsection 112(2.2) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read on June 17, 1987, if the corporation that paid the dividend were a taxable Canadian corporation

shall be deemed to be interest received in the year and not a dividend received on a share of the capital stock of a corporation.

History: S. 258(3)(*b*)(ii) was amended by S.C. 2001, c. 17, s. 195(1), applicable to taxation years that begin after November 1999. S. 258(3)(*b*)(ii) formerly read:

"(ii) was issued before 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987 and was not deemed by paragraph 112(2.2)(*f*) to have been issued after that time"

S. 258(3)(*b*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 141(1), applicable to dividends received or deemed to be received on shares acquired after 8:00 p.m. Eastern Daylight Saving Time, June 18, 1987. S. 258(3)(*b*) formerly read:

"(*b*) any other share by a corporation from a corporation not resident in Canada, if the dividend would have been a dividend in respect of which no deduction could have been made under subsection 112(1) or (2) or 138(6) by reason of subsection 112(2.2) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read on June 17, 1987 if the corporation that paid the dividend were a taxable Canadian corporation"

Related Sections: S. 12(1)(*c*) Interest; s. 12(1)(*k*) Dividends from other corporations; s. 89(1)(*i*), "taxable Canadian corporation"; s. 112(1) Deduction of taxable dividends received by corporation resident in Canada; s. 112(2) Dividends received from non-resident corporation; s. 112(2.2) Guaranteed shares; s. 113(1) Deduction in respect of dividend received from foreign affiliate; s. 126(1) Foreign tax deduction — non-business income; s. 138(6) Deduction for dividends from taxable corporations; s. 248(1), "corporation", "dividend", "grandfathered share", "taxable Canadian corporation"; s. 249(1) Definition of "taxation year"; s. 250(4) Corporation deemed resident; s. 250(5) Deemed non-resident; s. 258(4) Exception.
Interpretation Bulletins: *Secondary* — IT-88R2 Stock Dividends.

► 258(4) ◄

(4) Exception. Subsection (3) is not applicable to a dividend described in paragraph (3)(*a*) if the share on which the dividend was paid was not acquired in the ordinary course of the business carried on by the corporation.

► 258(5) ◄

(5) Deemed interest on certain shares. For the purposes of paragraphs 12(1)(*c*) and (*k*) and sections 113 and 126, a dividend received after June 18, 1987 and in a taxation year from a corporation not resident in Canada, other than a corporation in which the recipient had or would have, if the corporation were a taxable Canadian corporation, a substantial interest (within the meaning assigned by section 191), on a share, if the dividend would have been a dividend in respect of which no deduction could have been made under subsection 112(1) or (2) or 138(6) by reason of subsection 112(2.2) or (2.4) if the corporation that paid the dividend were a taxable Canadian corporation, shall be deemed to be interest received in the year and not a dividend received on a share of the capital stock of the payer corporation.

SECTION 259:

► 259(1) ◄

(1) Proportional holdings in trust property. For the purposes of subsections 146(6), (10) and (10.1), 146.2(6) and 146.3(7), (8) and (9) and Parts X, X.2 and XI to XI.1, if at any time a taxpayer that is a registered investment or that is described in any of paragraphs 149(1)(*r*), (*s*), (*u*) to (*u.2*) or (*x*) acquires, holds or disposes of a particular unit in a qualified trust and the qualified trust elects for any period that includes that time to have this subsection apply,

Coordinating Amendment

S.C. 2008, c. 28 (Bill C-50) — Coordinating Amendments With Former Bill C-10 — June 18, 2008

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The following amendment applies if Bill C-10, introduced in the 2nd session of the 39th Parliament and entitled the *Income Tax Amendments Act, 2006*, receives royal assent: On the first day on which both subsection 193(1) of Bill C-10 and section 37 of S.C. 2008, c. 28 [the amendment to s. 259(1)] are in force, the portion of subsection 259(1) of the *Income Tax Act* before paragraph (*a*) is replaced by the following:

SECTION 259:

(1) Proportional holdings in trust property. For the purposes of subsections 146(6), (10) and (10.1), 146.1(2.1), 146.2(4) [**Editorial Note:** Pursuant to the amendment by S.C. 2009, c. 2, this reference would be changed to s. 146.2(6)] and 146.3(7), (8) and (9) and Parts X, X.2 and XI to XI.1, if at any time a taxpayer that is a registered investment or that is described in any of paragraphs 149(1)(*r*), (*s*), (*u*) to (*u.2*) or (*x*) acquires, holds or disposes of a particular unit in a qualified trust and the qualified trust elects for any period that includes that time to have this subsection apply,

Applicable: In respect of the 2009 and subsequent taxation years.

Explanatory Note: Bill C-10, introduced in the 2nd session of the 39th Parliament and entitled the *Income Tax Amendments Act, 2006*, includes a number of measures that enact or amend provisions that are also the subject of the present enactment. If both are enacted, it will be necessary to ensure that the changes to those provisions are coordinated. This is accomplished through a series of technical coordinating amendments in the present enactment.

Clause 44 ensures the correct interaction of amendments in the two enactments to section 259 of the *Income Tax Act*, which provides a "look-through" rule that applies to registered plan trusts that acquire units of a "qualified trust".

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The portion of subsection 259(1) of the Act before paragraph (*a*) is replaced by the following:

SECTION 259:

(1) Proportional holdings in trust property. For the purposes of subsections 146(6), (10) and (10.1), 146.1(2.1) and 146.3(7), (8) and (9) and Parts X, X.2 and XI.1, if at any time a taxpayer that is a registered investment or that is described in paragraph 149(1)(*r*), (*s*), (*u*) or (*x*) acquires, holds or disposes of a particular unit in a qualified trust and the qualified trust elects for any period that includes that time to have this subsection apply,

Applicable: To the 2000 and subsequent taxation years, except that, in its application to taxation years that begin before 2005, the portion of subsection 259(1) before paragraph (*a*) is to be read as follows:

"S. 259. (1) For the purposes of subsections 146(6), (10) and (10.1), 146.1(2.1) and 146.3(7), (8) and (9) and Parts X, X.2, XI and XI.1, if at any time a taxpayer described in section 205 acquires, holds or disposes of a particular unit in a qualified trust and the qualified trust elects for any period that includes that time to have this subsection apply,"

Explanatory Note: Subsection 259(1) of the Act provides a "look-through" rule that applies to certain taxpayers (including trusts governed by RRSPs) that acquire units of a "qualified trust". If the qualified trust so elects, each taxpayer is deemed to acquire, hold and dispose of its proportionate interest in the underlying assets of the qualified trust. This rule can benefit a taxpayer where the direct investment in the units of the qualified trust would constitute a non-qualified investment. By "looking through" to the underlying assets of the qualified trust, a taxpayer may be able to reduce or eliminate the tax penalties that result from holding non-qualified investments.

Subsection 259(1) is amended so that it applies for the purpose of the registration rules for registered education savings plans (RESPs). Under subsection 146.1(2.1), the registration of an RESP is revocable if a trust governed by the plan holds a non-qualified investment. This amendment will permit an RESP trust to make a direct investment in a qualified trust that is itself a non-qualified investment, without jeopardizing the registered status of the RESP, provided the qualified trust restricts its holdings to qualified investments.

This amendment applies to the 2000 and subsequent taxation years.

(*a*) the taxpayer shall be deemed not to acquire, hold or dispose of at that time, as the case may be, the particular unit;

(*b*) where the taxpayer holds the particular unit at that time, the taxpayer shall be deemed to hold at that time that proportion (referred to in this subsection as the "specified portion") of each property (in this subsection referred to as a "relevant property") held by the trust at that time that one (or, where the particular unit is a fraction of a whole unit, that fraction) is of the number of units of the trust outstanding at that time;

(*c*) [Repealed.]

(*d*) where that time is the later of

(i) the time the trust acquires the relevant property, and

(ii) the time the taxpayer acquires the particular unit,

the taxpayer shall be deemed to acquire the specified portion of a relevant property at that time;

(*e*) where that time is the time the specified portion of a relevant property is deemed by paragraph (*d*) to have been acquired, the fair market value of the specified portion of the relevant property at that time shall be deemed to be the specified portion of the fair market value of the relevant property at the time of its acquisition by the trust;

(*f*) where that time is the time immediately before the time the trust disposes of a particular relevant property, the taxpayer shall be deemed to dispose of, immediately after that time, the specified portion of the particular relevant property for proceeds equal to the specified portion of the proceeds of disposition to the trust of the particular relevant property;

(*g*) where that time is the time immediately before the time the taxpayer disposes of the particular unit, the taxpayer shall be deemed to dispose of, immediately after that time, the specified portion of each relevant property for proceeds equal to the specified portion of the fair market value of that relevant property at that time; and

(*h*) where the taxpayer is deemed because of this subsection

(i) to have acquired a portion of a relevant property as a consequence of the acquisition of the particular unit by the taxpayer and the acquisition of the relevant property by the trust, and

(ii) subsequently to have disposed of the specified portion of the relevant property,

the specified portion of the relevant property shall, for the purposes of determining the consequences under this Act of the disposition and without affecting the proceeds of disposition of the specified portion of the relevant property, be deemed to be the portion of the relevant property referred to in subparagraph (i).

History: S. 259(1), the portion before paragraph (*a*) was replaced by S.C. 2009, c. 2, s. 79(1), applicable to the 2009 and subsequent taxation years. S. 259(1), the portion before paragraph (*a*) formerly read:

"S. 259. (1) *Proportional holdings in trust property.* For the purposes of subsections 146(6), (10) and (10.1), 146.2(4) and 146.3(7), (8) and (9) and Parts X, X.2 and XI to XI.1, if at any time a taxpayer that is a registered investment or that is described in any of paragraphs 149(1)(*r*), (*s*), (*u*) to (*u.2*) or (*x*) acquires, holds or disposes of a particular unit in a qualified trust and the qualified trust elects for any period that includes that time to have this subsection apply,"

S. 259(1), the portion before paragraph (*a*) was replaced by S.C. 2008, c. 28, s. 37(1), applicable to the 2009 and subsequent taxation years. S. 259(1), the portion before paragraph (*a*) formerly read:

"S. 259. (1) *Proportional holdings in trust property.* For the purposes of subsections 146(6), (10) and (10.1) and 146.3(7), (8) and (9) and Parts X, X.2 and XI.1, if at any time a taxpayer that is a registered investment or that is described in paragraph 149(1)(*r*), (*s*), (*u*) or (*x*) acquires, holds or disposes of a particular unit in a qualified trust and the qualified trust elects for any period that includes that time to have this subsection apply,"

S. 259(1), the portion before paragraph (*a*) was replaced by S.C. 2005, c. 30, s. 18(1), applicable to taxation years that begin after 2004. S. 259(1), the portion before paragraph (*a*) formerly read:

"S. 259. (1) *Proportional holdings in trust property.* For the purposes of subsections 146(6), (10) and (10.1) and 146.3(7), (8) and (9) and Parts X, X.2, XI and XI.1, where at any time a taxpayer described in section 205 acquires, holds or disposes of a particular unit in a qualified trust and the trust elects for any period that includes that time to have the provisions of this subsection apply,"

S. 259(1)(*c*) was repealed by S.C. 2005, c. 30, s. 18(2), applicable to taxation years that begin after 2004. S. 259(1)(*c*) formerly read:

"(*c*) the cost amount to the taxpayer at that time of the specified portion of a relevant property shall be deemed to be equal to the specified portion of the cost amount at that time to the trust of the relevant property;"

S. 259(1) was amended by S.C. 1994, c. 21, s. 115(1), applicable to periods occurring after 1985. S. 259(1) formerly read:

"(1) For the purposes of subsections 146(6), (10) and (10.1) and 146.3(7) to (9) and Parts X, X.2, XI and XI.1 of this Act and subsections 146.2(12), (13) and (14) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, where at any time a taxpayer described in section 205 acquires, holds or disposes of an interest in a qualified trust and the trust elects for any period that includes that time to have the provisions of this subsection apply, the taxpayer shall be deemed

(*a*) not to acquire, hold or dispose of at that time, as the case may be, that interest in the trust;

(*b*) to hold at that time that proportion (in this subsection referred to as the taxpayer's 'specified portion') of each property of the trust that the number of units of the trust held by the taxpayer at that time is of the number of units of the trust outstanding at that time, and the cost amount to the trust of the taxpayer's specified portion of each such property shall be deemed to be the cost amount to the taxpayer of the taxpayer's specified portion of the property;

(*c*) to acquire the taxpayer's specified portion of each property of the trust at the later of

(i) the date the trust acquires the property, and

(ii) the date the taxpayer acquires the interest in the trust,

and the fair market value, at the time of acquisition by the taxpayer, of the taxpayer's specified portion of the property shall be deemed to be the fair market value of that specified portion of the property at the time of its acquisition by the trust; and

(*d*) to dispose of the taxpayer's specified portion of each property of the trust at the earlier of

(i) the date the trust disposes of the property, and

(ii) the date the taxpayer disposes of the interest in the trust

for proceeds equal to,

(iii) where subparagraph (i) applies, the proceeds of disposition to the trust of the taxpayer's specified portion of the property, and

(iv) where subparagraph (ii) applies, the fair market value, immediately before the disposition of the interest, of the taxpayer's specified portion of the property."

► 259(2) ◄

(2) Proportional holdings in corporate property. [Repealed by S.C. 2005, c. 30, s. 18(3).]

History: S. 259(2) was repealed by S.C. 2005, c. 30, s. 18(3), applicable to taxation years that begin after 2004. S. 259(2) formerly read:

"(2) *Proportional holdings in corporate property.* Subsection (1) applies to an election by a qualified corporation as if

(*a*) the reference to 'a qualified trust' were read as 'the capital stock of a qualified corporation';

(*b*) the references to 'unit' were read as 'share'; and

(*c*) the references to 'the trust' were read as 'the corporation'."

S. 259(2) was amended by S.C. 1994, c. 21, s. 115(1), applicable to periods occurring after 1991. S. 259(2) formerly read:

"(2) *Election.* The election by a trust under subsection (1) shall be made by the trust filing a prescribed form with the Minister and shall be applicable in respect of the period commencing 15 months before the date of filing thereof (or such later time as the trust may designate in its election) and ending at such time as the election is revoked by the trust filing with the Minister a notice of revocation (or at such earlier time within the 15 month period immediately preceding the date on which the notice of revocation is filed with the Minister as the trust may designate in its notice of revocation)."

► 259(3) ◄

(3) Election. An election by a qualified trust under subsection (1) shall be made by the qualified trust filing a prescribed form with the Minister and shall apply for the period

(*a*) that begins on the later of

(i) the day that is 15 months before the day on which the election is filed, and

(ii) the day, if any, that is designated by the qualified trust in the election; and

(*b*) that ends on the earlier of

(i) the day on which the qualified trust files with the Minister a notice of revocation of the election, and

(ii) the day, if any, that is designated by the qualified trust in the notice of revocation and that is not before the day that is 15 months before the day on which the notice of revocation is filed.

History: S. 259(3) was replaced by S.C. 2005, c. 30, s. 18(4), applicable to taxation years that begin after 2004. S. 259(3) formerly read:

"(3) *Election.* The election by a trust or a corporation (in this subsection referred to as the 'elector') under subsection (1) shall be made by the elector filing a prescribed form with the Minister and shall apply for the period beginning 15 months before the day of filing thereof (or such later time as the elector designates in its election) and ending at such time as the election is revoked by the elector filing with the Minister a notice of revocation (or at such earlier time within the 15-month period before the day on which the notice of revocation is filed with the Minister as the elector designates in its notice of revocation)."

S. 259(3) was amended by S.C. 1994, c. 21, s. 115(1), applicable to periods occurring after 1985. S. 259(3) formerly read:

"(3) *Definition of 'qualified trust'.* In this section, 'qualified trust' means a trust, other than a registered investment or a trust that is prescribed to be a small business investment trust, where

(*a*) each trustee of the trust is a corporation that is licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering to the public its services as trustee or a person who is a trustee of a trust governed by a registered pension fund or plan;

(*b*) the interests of the beneficiaries under the trust are described by reference to units of the trust that are identical in all respects and any difference between the interest in the trust of each beneficiary and the interest in the trust of each other beneficiary is dependent solely on the difference in the number of units held by those beneficiaries;

(*c*) it has never borrowed money except where the borrowing was for a term not exceeding 90 days and was not part of a series of loans or other transactions and repayments;

(*d*) it has never accepted deposits; and

(*e*) it complies with prescribed conditions."

S. 259(3)(*c*) was amended by S.C. 1994, c. 7, Sched. VIII, s. 142(1), applicable to borrowings occurring after 1990. S. 259(3)(*c*) formerly read:

"(*c*) it has never borrowed money;"

Regulations: 5103(1).
Interpretation Bulletins: *Secondary* — IT-412R2 Foreign property of registered plans.
Forms: T1024.

► 259(4) ◄

(4) Requirement to provide information. Where a qualified trust elects under subsection (1),

(*a*) it shall provide notification of the election

(i) within 30 days after making the election, to each person who held a unit in the qualified trust at any time in the period before the election was made and during which the election is applicable, and

(ii) at the time of acquisition, to each person who acquires a unit in the qualified trust at any time in the period after the election was made and during which the election is applicable; and

(*b*) if a person who holds a unit in the qualified trust at any time in the period during which the election is applicable makes a written request to the qualified trust for information that is necessary for the purpose of determining the consequences under this Act of the election for that person, the qualified trust shall provide to the person that information within 30 days after receiving the request.

History: S. 259(4) was replaced by S.C. 2005, c. 30, s. 18(4), applicable to taxation years that begin after 2004. S. 259(4) formerly read:

"(4) *Requirement to provide information.* Where a trust or a corporation elects under subsection (1),

(*a*) it shall, not more than 30 days after making the election, notify each person who, before the election is made and during the period for which the election is made, held a unit in the trust or a share in the capital stock of the corporation, as the case may be, of the election; and

(*b*) where any person who holds such a unit or share during the period for which the election is made makes a written request to the trust or the corporation for information that is necessary for the purpose of determining the consequences under this Act of the election for that person, the trust or the corporation, as the case may be, shall provide the person with that information not more than 30 days after the receipt of the request."

S. 259(4) was added by S.C. 1994, c. 21, s. 115(1), applicable to elections made after December 21, 1992.

► 259(5) ◄

(5) Definitions. In this section,

"*qualified corporation*" — [Repealed by S.C. 2005, c. 30, s. 18(5).]

History: S. 259(5), the definition "qualified corporation" was repealed by S.C. 2005, c. 30, s. 18(5), applicable to taxation years that begin after 2004. S. 259(5), the definition "qualified corporation" formerly read:

" '*qualified corporation*' — ' qualified corporation ' at any time means a corporation described in paragraph 149(1)(*a*.2) where, at that time,

(*a*) all the issued and outstanding shares of the capital stock of the corporation are identical to each other, or

(*b*) all the issued and outstanding shares of the capital stock of the corporation are held by one person;"

S. 259(5), the definition of "qualified corporation", was added by S.C. 1994, c. 21, s. 115(1), applicable to periods occurring after 1985.

Related Sections: S. 104(1) Reference to trust or estate; s. 204.4(1), "registered investment"; s. 248(1), "corporation", "registered pension plan", "trust"; s. 248(10) Series of transactions.
Regulations: 5103(1).

"*qualified trust*" — "qualified trust" at any time means a trust (other than a registered investment or a trust that is prescribed to be a small business investment trust) where

(*a*) each trustee of the trust at that time is a corporation that is licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering to the public its services as a trustee or a person who is a trustee of a trust governed by a registered pension plan,

(*b*) all the interests of the beneficiaries under the trust at that time are described by reference to units of the trust all of which are at that time identical to each other,

(*c*) it has never before that time borrowed money except where the borrowing was for a term not exceeding 90 days and the borrowing was not part of a series of loans or other transactions and repayments, and

(*d*) it has never before that time accepted deposits.

History: S. 259(5), the definition of "qualified trust", was added by S.C. 1994, c. 21, s. 115(1), applicable to periods occurring after 1985.

Related Sections: S. 104(1) Reference to trust or estate; s. 204.4(1), "registered investment"; s. 248(1), "corporation", "registered pension plan", "trust"; s. 248(10) Series of transactions.
Regulations: 5103(1).

SECTION 260: [Securities lending arrangements].

► 260(1) ◄

(1) Definitions. In this section,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 260(1) of the Act is amended by adding the following in alphabetical order:

"dealer compensation payment" — "dealer compensation payment" means an amount received by a taxpayer as compensation, for an underlying payment,

(*a*) from a registered securities dealer resident in Canada who paid the amount in the ordinary course of a business of trading in securities, or

(*b*) in the ordinary course of the taxpayer's business of trading in securities, where the taxpayer is a registered securities dealer resident in Canada;

Applicable: To arrangements made after 2001.

Explanatory Note:

Definitions

Subsection 260(1) of the Act provides definitions that apply for the purposes of the special rules for securities lending arrangements. The existing definitions are modified, and additional definitions are added, as follows:

"dealer compensation payment"

"Dealer compensation payment" is one of the newly-defined terms, introduced not to effect any substantive change to the relevant rules but only for simplicity and clarity. A dealer compensation payment is an amount paid or received as compensation for an underlying payment by a registered securities dealer who is resident in Canada and who pays or receives the amount in the ordinary course of its business of trading in securities.

This new definition applies to securities lending arrangements made after 2001.

"qualified security" — "qualified security" means

(*a*) a share of a class of the capital stock of a corporation that is listed on a stock exchange or of a class of the capital stock of a corporation that is a public corporation by reason of the designation of the class by the corporation in an election made under subparagraph (*b*)(i) of the definition "public corporation" in subsection 89(1) or by the Minister in a notice to the corporation under subparagraph (*b*)(ii) of that definition,

(*b*) a bond, debenture, note or similar obligation of a corporation described in paragraph (*a*) or of a corporation that is controlled by such a corporation,

(*c*) a bond, debenture, note or similar obligation of or guaranteed by the government of any country, province, state, municipality or other political subdivision, or a corporation, commission, agency or association controlled by any such person, or

(*d*) a warrant, right, option or similar instrument with respect to a share described in paragraph (*a*);

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The definition "qualified security" in subsection 260(1) of the Act is amended by striking out the word "or" at the end of paragraph (*c*), by adding the word "or" at the end of paragraph (*d*) and by adding the following after paragraph (*d*):

(*e*) a qualified trust unit;

Applicable: To arrangements made after 2001.

Explanatory Note:

"qualified security"

The securities lending arrangement rules apply only to securities that are qualified securities. A new paragraph (*e*) is added to the definition "qualified security" to include a qualified trust unit.

This amended definition applies to securities lending arrangements made after 2001.

History: S. 260(1), paragraph (*a*) of the definition "qualified security" was replaced by S.C. 2007, c. 35, s. 66(1), applicable on and after December 14, 2007. S. 260(1), paragraph (*a*) of the definition "qualified security" formerly read:

"(*a*) a share of a class of the capital stock of a corporation that is listed on a prescribed stock exchange or of a class of the capital stock of a corporation that is a public corporation by reason of the designation of the class by the corporation in an election made under subparagraph (*b*)(i) of the definition 'public corporation' in subsection 89(1) or by the Minister in a notice to the corporation under subparagraph (*b*)(ii) of that definition,"

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 260(1) of the Act is amended by adding the following in alphabetical order:

"qualified trust unit" — "qualified trust unit" means a unit of a mutual fund trust that is listed on a prescribed stock exchange;

Applicable: To arrangements made after 2001.

Explanatory Note:

"qualified trust unit"

A "qualified trust unit" is defined to mean a unit of a mutual fund trust that is listed on a prescribed stock exchange.

This new definition applies to securities lending arrangements made after 2001.

Coordinating Amendment

S.C. 2007 c. 35 (Bill C-28) — Coordinating Amendments With Former Bill C-10 — Income Tax Amendments Act, 2006 — December 14, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The following applies if former Bill C-10, introduced in the 2nd session of the 39th Parliament and entitled the *Income Tax Amendments Act, 2006* (referred to as the "other Act"), receives royal assent: The definition "qualified trust unit" in subsection 260(1) of the Act, as enacted by subsection 194(5) of the other Act, is replaced by the following:

"qualified trust unit" — "qualified unit trust" means a unit of a mutual fund trust that is listed on a stock exchange;

Applicable: Royal Assent.

"securities lending arrangement" — "securities lending arrangement" means an arrangement under which

(*a*) a person (in this section referred to as the "lender") transfers or lends at any particular time a qualified security to another person (in this section referred to as the "borrower") with whom the lender deals at arm's length,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*a*) of the definition "securities lending arrangement" in subsection 260(1) of the Act is replaced by the following:

(*a*) a person (in this section referred to as the "lender") transfers or lends at any particular time a qualified security to another person (in this section referred to as the "borrower"),

Applicable: To arrangements made after 2002.

Explanatory Note:

"securities lending arrangement"

There are three amendments to the definition "securities lending arrangement".

Paragraph (*a*) of the existing definition provides that in order for there to be a securities lending arrangement, the lender and the borrower of a security must be dealing at arm's length. The amendment to paragraph (*a*) extends the definition to include an arrangement entered into by non-arm's length parties. New paragraph (*e*) provides that where the lender and borrower do not deal with each other at arm's length, the arrangement must be of a term not exceeding 270 days and must not be part of a series of securities lending arrangements, loans or other transactions intended to be in effect for more than 270 days.

Paragraph (*c*) of the existing definition provides that where a borrowed security is a share, the borrower must be obligated to pay to the lender a dividend compensation payment in order for the transaction to be a securities lending arrangement. This paragraph is amended to apply a comparable requirement in respect of all arrangements. This recognizes and codifies the commercial reality that compensation payments are required to be made by the borrower to the lender in all securities lending arrangements, and not just those arrangements involving shares.

The amendment to paragraph (*c*) applies to arrangements made after 2001. The amendments to paragraphs (*a*) and (*e*) apply to arrangements made after 2002.

(*b*) it may reasonably be expected, at the particular time, that the borrower will transfer or return after the particular time to the lender a security (in this section referred to as an "identical security") that is identical to the security so transferred or lent,

(*c*) where the qualified security is a share of the capital stock of a corporation, the borrower is obligated to pay to the lender amounts equal to and as compensation for all dividends, if any, paid on the security that would have been received by the borrower if the borrower had held the security throughout the period beginning after the particular time and ending at the time an identical security is transferred or returned to the lender, and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph (*c*) of the definition "securities lending arrangement" in subsection 260(1) of the Act is replaced by the following:

(*c*) the borrower is obligated to pay to the lender amounts equal to and as compensation for all amounts, if any, paid on the security that would have been received by the borrower if the borrower had held the security throughout the period that begins after the particular time and that ends at the time an identical security is transferred or returned to the lender,

Applicable: To arrangements made after 2001.

Explanatory Note: See the Explanatory Note following the amendment to paragraph (*a*) of the definition "securities lending arrangement" in subsection 260(1).

(*d*) the lender's risk of loss or opportunity for gain or profit with respect to the security is not changed in any material respect,

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The definition "securities lending arrangement" in subsection 260(1) of the Act is amended by adding the word "and" at the end of paragraph (*d*) and by adding the following after paragraph (*d*):

(*e*) if the lender and the borrower do not deal with each other at arm's length, it is intended that neither the arrangement nor any series of securities lending arrangements, loans or other transactions of which the arrangement is a part be in effect for more than 270 days,

Applicable: To arrangements made after 2002.

Explanatory Note: See the Explanatory Note following the amendment to paragraph (*a*) of the definition "securities lending arrangement" in subsection 260(1).

but does not include an arrangement one of the main purposes of which may reasonably be considered to be to avoid or defer the inclusion in income of any gain or profit with respect to the security.

History: S. 260(1), paragraph (*c*) of the definition "securities lending arrangement", was amended by S.C. 1994, c. 7, Sched. II, s. 199(1), applicable with respect to transfers, loans and payments made after April 26, 1989. That paragraph formerly read:

"(*c*) the borrower is obligated to pay to the lender amounts equal to and as compensation for all dividends, if any, paid on the security after the particular time and before an identical security is transferred or returned to the lender, and"

Tax Profile: November 2006 — Structuring and Taxation of Canadian Hedge Funds; February 2005 — The Canadian Treatment of Derivatives.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 260(1) of the Act is amended by adding the following in alphabetical order:

"security distribution" — "security distribution" means an amount that is

(*a*) an underlying payment, or

(*b*) an SLA compensation payment, or a dealer compensation payment, that is deemed by subsection (5.1) to be an amount received as an amount described by any of paragraphs (5.1)(*a*) to (*c*);

Applicable: To arrangements made after 2001.

Explanatory Note:

"security distribution"

"Security distribution" is a newly-defined term, introduced not to effect any substantive change to the relevant rules but only for simplicity and clarity. A security distribution is an amount, in respect of a borrowed security, that is either an underlying payment paid by the issuer of the security (for example as a dividend or a trust distribution) or a dealer compensation payment, or an SLA compensation payment.

This definition applies to securities lending arrangements made after 2001.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 260(1) of the Act is amended by adding the following in alphabetical order:

"SLA compensation payment" — "SLA compensation payment" means an amount paid pursuant to a securities lending arrangement as compensation for an underlying payment;

Applicable: To arrangements made after 2001.

Explanatory Note:

"SLA compensation payment"

"SLA compensation payment" is a newly-defined term, introduced not to effect any substantive change to the relevant rules but only for simplicity and clarity. An SLA compensation payment is an amount paid pursuant to a securities lending arrangement as compensation for an underlying payment.

This definition applies to securities lending arrangements made after 2001.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsection 260(1) of the Act is amended by adding the following in alphabetical order:

"underlying payment" — "underlying payment" means an amount paid on a qualified security by the issuer of the security.

Applicable: To arrangements made after 2001.

Explanatory Note:

"underlying payment"

"Underlying payment" is a newly-defined term. As with most of the other new definitions in this subsection, this term is defined for simplicity and clarity. An underlying payment is an amount paid on a qualified security by the issuer of the security.

This definition applies to securities lending arrangements made after 2001.

► 260(1.1) ◄

(1.1) Eligible dividend. This subsection applies to an amount if the amount is received by a person who is resident in Canada, the amount is deemed under subsection (5) to be a taxable dividend, and the amount is either

(*a*) received as compensation for an eligible dividend, within the meaning assigned by subsection 89(1); or

(*b*) received as compensation for a taxable dividend (other than an eligible dividend) paid by a corporation to a non-resident shareholder in circumstances where it is reasonable to consider that the corporation would, if that shareholder were resident in Canada, have designated the dividend to be an eligible dividend under subsection 89(14).

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 260 is amended by adding the following after subsection (1):

(1.1) Eligible dividend. This subsection applies to an amount if the amount is received by a person who is resident in Canada, is deemed under subsection (5.1) to be a taxable dividend, and is either

(*a*) received as compensation for an eligible dividend, within the meaning assigned by subsection 89(1); or

(*b*) received as compensation for a taxable dividend (other than an eligible dividend) paid by a corporation to a non-resident shareholder in circumstances where it is reasonable to consider that the corporation would, if that shareholder were resident in Canada, have designated the dividend to be an eligible dividend under subsection 89(14).

Applicable: To SLA compensation payments or dealer compensation payments received in respect of eligible dividends paid after 2005.

History: S. 260(1.1) was added by S.C. 2007, c. 2, s. 54(1), applicable to amounts received as compensation for dividends paid after 2005.

► 260(2) ◄

(2) Non-disposition. Subject to subsections (3) and (4), for the purposes of this Act, any transfer or loan by a lender of a security under a securities lending arrangement shall be deemed not to be a disposition of the security and the security shall be deemed to continue to be property of the lender and, for the purposes of this subsection, a security shall be deemed to include an identical security that has been transferred or returned to the lender under the arrangement.

► 260(3) ◄

(3) Disposition of right. Where, at any time, a lender receives property (other than an identical security or an amount deemed by subsection (4) to have been received as proceeds of disposition) in satisfaction of or in exchange for the lender's right under a securities lending arrangement to receive the transfer or return of an identical security, for the purposes of this Act the lender shall be deemed to have disposed at that time of the security that was transferred or lent for proceeds of disposition equal to the fair market

value of the property received for the disposition of the right (other than any portion thereof that is deemed to have been received by the lender as a taxable dividend), except that section 51, 85.1, 86 or 87, as the case may be, shall apply in computing the income of the lender with respect to any such disposition as if the security transferred or lent had continued to be the lender's property and the lender had received the property directly.

► 260(4) ◄

(4) Idem. Where, at any time, it may reasonably be considered that a lender would have received proceeds of disposition for a security that was transferred or lent under a securities lending arrangement, if the security had not been transferred or lent, the lender shall be deemed to have disposed of the security at that time for those proceeds of disposition.

► 260(5) ◄

(5) Deemed dividend. For the purposes of this Act, any amount received (other than an amount received as proceeds of disposition or an amount received by a corporation under an arrangement where it may reasonably be considered that one of the main reasons for the corporation entering into the arrangement was to enable it to receive an amount that would otherwise have been deemed by this subsection to be a dividend)

(*a*) under a securities lending arrangement from a person resident in Canada, or a person not resident in Canada where the amount was paid in the course of carrying on business in Canada through a permanent establishment as defined by regulation, or

(*b*) by or from a person who is a registered securities dealer resident in Canada, where the amount is received or paid, as the case may be, in the ordinary course of the business of trading in securities carried on by the dealer,

as compensation for a taxable dividend paid on a share of the capital stock of a public corporation that is a qualified security shall, to the extent of the amount of that dividend, be deemed to have been received as a taxable dividend and, if subsection (1.1) applies to the amount, as an eligible dividend on the share from the corporation.

Editorial Note: See the pending amendment for subsection 260(5) following subsection 260(6).

History: S. 260(5), the portion following paragraph (*b*) was replaced by S.C. 2007, c. 2, s. 54(2), applicable to amounts received as compensation for dividends paid after 2005. S. 260(5), the portion following paragraph (*b*) formerly read:

"as compensation for a taxable dividend paid on a share of the capital stock of a public corporation that is a qualified security shall, to the extent of the amount of that dividend, be deemed to have been received as a taxable dividend on the share from the corporation."

S. 260(5)(*b*) was amended by S.C. 1995, c. 21, s. 75(1), applicable to transfers, loans and payments made after April 26, 1989. S. 260(5)(*b*) formerly read:

"(*b*) by or from a person resident in Canada who is registered or licensed under the laws of a province to trade in securities where the amount is received or paid, as the case may be, in the ordinary course of the business of trading or dealing in securities carried on by that person,"

Regulations: 8201.

Tax Profile: February 2005 — The Canadian Treatment of Derivatives.

► 260(6) ◄

(6) Non-deductibility. In computing a taxpayer's income under Part I from a business or property

(*a*) where the taxpayer is not a registered securities dealer, no deduction shall be made in respect of an amount that, if paid, would be deemed by subsection (5) to have been received by another person as a taxable dividend; and

(*b*) where the taxpayer is a registered securities dealer, no deduction shall be made in respect of more than $^2/_3$ of that amount.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsections 260(5) and (6) of the Act are replaced by the following:

(5) Where subsection (5.1) applies. Subsection (5.1) applies to a taxpayer for a taxation year in respect of a particular amount (other than an amount received as proceeds of disposition or an amount received by a person under an arrangement where it may reasonably be considered that one of the main reasons for the person entering into the arrangement was to enable the person to receive an SLA compensation payment or a dealer compensation payment that would be deductible in computing the taxable income, or not included in computing the income, for any taxation year of the person) received by the taxpayer in the taxation year

(*a*) as an SLA compensation payment,

(i) from a person resident in Canada, or

(ii) from a non-resident person who paid the particular amount in the course of carrying on business in Canada through a permanent establishment as defined by regulation; or

(*b*) as a dealer compensation payment.

(5.1) Deemed character of compensation payments. If this subsection applies in respect of a particular amount received by a taxpayer in a taxation year as an SLA compensation payment or as a dealer compensation payment, the particular amount is deemed, to the extent of the underlying payment to which the amount relates, to have been received by the taxpayer in the taxation year as,

(*a*) where the underlying payment is a taxable dividend paid on a share of the capital stock of a public corporation (other than an underlying payment to which paragraph (*b*) applies), a taxable dividend on the share;

(*b*) where the underlying payment is paid by a trust on a qualified trust unit issued by the trust,

(i) an amount of the trust's income that was, to the extent that subsection 104(13) applied to the underlying payment,

(A) paid by the trust to the taxpayer as a beneficiary under the trust, and

(B) designated by the trust in respect of the taxpayer to the extent of a valid designation, if any, by the trust under this Act in respect of the recipient of the underlying payment, and

(ii) to the extent that the underlying payment is a distribution of a property from the trust, a distribution of that property from the trust; or

(*c*) in any other case, interest.

[**Editorial Note:** For payments received after 2005, see the reading for subsection 260(5.1) set out in the application below.]

(6) Deductibility. In computing the income of a taxpayer under Part I from a business or property for a taxation year, there may be deducted a particular amount, paid by the taxpayer in the year as an SLA compensation payment or as a dealer compensation payment, that is equal to

(*a*) if the taxpayer is a registered securities dealer and the particular amount is deemed by subsection (5.1) to have been received as a taxable dividend, no more than $^2/_3$ of the particular amount; or

(*b*) if the particular amount is in respect of an amount other than an amount that is, or is deemed by subsection (5.1) to have been, received as a taxable dividend,

(i) where the taxpayer disposes of the borrowed security and includes the gain or loss, if any, from the disposition in computing its income from a business, the particular amount, or

(ii) in any other case, the lesser of

(A) the particular amount, and

(B) the amount, if any, in respect of the security distribution to which the SLA compensation payment or dealer compensation payment relates that is included in computing the income, and not deducted in computing the taxable income, for any taxation year of the taxpayer or of any person to whom the taxpayer is related.

Applicable: To arrangements made after 2001, except that, if the parties to an arrangement jointly so elect in writing and file the election with the Minister of National Revenue within 90 days after the day on which this Act is assented to, subsection 260(5.1) is to be read, in its application to SLA compensation payments or dealer compensation payments received under the arrangement before February 28, 2004, without reference to paragraph 260(5.1)(*b*) or (*c*), or to both of those paragraphs, as specified by the parties in the election.

Subsection 260(5.1) of the *Income Tax Act* is replaced by the following, applicable to SLA compensation payments or dealer compensation payments received in respect of eligible dividends paid after 2005:

"(5.1) *Deemed character of compensation payments.* If this subsection applies in respect of a particular amount received by a taxpayer in a taxation year as an SLA compensation payment or as a dealer compensation payment, the particular amount is deemed for the purpose of this Act, to the extent of the underlying payment to which the amount relates, to have been received by the taxpayer in the taxation year as,

(*a*) where the underlying payment is a taxable dividend paid on a share of the capital stock of a public corporation (other than an underlying payment to which paragraph (*b*) applies), a taxable dividend and, if subsection (1.1) applies to the particular amount, an eligible dividend on the share;

(*b*) where the underlying payment is paid by a trust on a qualified trust unit issued by the trust,

(i) an amount of the trust's income that was, to the extent that subsection 104(13) applied to the underlying payment,

(A) paid by the trust to the taxpayer as a beneficiary under the trust, and

(B) designated by the trust in respect of the taxpayer to the extent of a valid designation, if any, by the trust under this Act in respect of the recipient of the underlying payment, and

(ii) to the extent that the underlying payment is a distribution of a property from the trust, a distribution of that property from the trust; or

(*c*) in any other case, interest."

Explanatory Note:

Deemed Character of Compensation Payments

Subsection 260(5) of the Act, in its current form, treats dividend compensation payments that are received under specified circumstances as dividends. The subsection also, however, denies this dividend treatment where the amount is received by a corporation and one of the main reasons for the corporation entering into the arrangement was to enable it to receive an amount that would be treated as a dividend by the subsection.

Subsection 260(5) is reorganized into two subsections, and these subsections incorporate three newly-defined terms: "dealer compensation payment", "SLA compensation payment" and "underlying payment".

New subsection 260(5) describes the circumstances under which the compensation payment deeming rule, now found in new subsection 260(5.1), applies. The deeming rule applies where an amount is received under a securities lending arrangement under one of these circumstances: from a person resident in Canada, from a person not resident in Canada where the amount was paid in the course of carrying on business in Canada through a permanent establishment, or from or by a registered securities dealer. These are essentially the same as the circumstances specified prior to the amendment.

Also, the anti-avoidance rule in this subsection — which currently addresses only the case of an amount that would otherwise be received by a corporation as a dividend — is amended to include all otherwise non-taxable amounts that may be received under a securities lending arrangement, by any person. This amendment recognizes that with the introduction of qualified trust units as "qualified securities," a person may be treated as having received any of several kinds of non-taxable amounts.

New subsection 260(5.1) of the Act treats a given compensation payment as one of three things: a dividend, an amount paid by a trust and having the same characteristics, source and purpose as the "underlying payment" amount paid by the trust directly, or interest. The overall effect of the provision is, in addition to replicating the former dividend deeming rule, to deem compensation payments in respect of payments from a trust to have the same characteristics, source and purpose as if the amounts were paid by the trust.

These amendments apply to securities lending arrangements made after 2001 except that if the parties to an arrangement file a joint election in writing within 90 days after Royal Assent of this amendment with the Minister of National Revenue, the parties may elect such that either one or both of the deeming rules in paragraph 260(5.1)(*b*) or (*c*) will not apply with respect to non-dividend compensation payments received before February 28, 2004. Taxpayers may wish to make this election to leave open the possibility that these non-dividend compensation payments had a different characterization under the law prior to these amendments.

Subsection 260(6) — Deductible Compensation Payment Amount

Subsection 260(6) of the Act limits the extent to which a person who makes a dividend compensation payment under a securities lending arrangement may deduct the payment in computing income from a business or property. In brief, the subsection denies a deduction for any dividend compensation payment made by persons other than registered securities dealers, and provides that registered securities dealers may deduct up to 2/3 of the dividend compensation payments they make.

Amended subsection 260(6) retains this 2/3 dividend compensation payment deduction for registered securities dealers. It also allows any taxpayer — including but not limited to registered securities dealers — a deduction in respect of compensation payments, either SLA compensation payments or dealer compensation payments, that are not dividend compensation payments. The amount of this new deduction is computed differently depending on the actions of the taxpayer in question (the one who made the payment and seeks to deduct it). If the taxpayer has disposed of the borrowed security and has included any resulting gain or loss in computing business income, the compensation payment is fully deductible. In any other case, new subsection 260(6) allows a deduction to the extent of the lesser of (i) the compensation payment and (ii) the amount, to which the compensation payment relates, included in the taxable income of the taxpayer or persons related to it.

Amended subsection 260(6) applies to securities lending arrangements made after 2001.

History: S. 260(6) was amended by S.C. 1995, c. 21, s. 75(2), applicable to payments made after June 1989. S. 260(6) formerly read:

"(6) In computing the income of a taxpayer under Part I from a business or property, no deduction shall be made in respect of an amount that, if paid, would be deemed by subsection (5) to have been received by another person as a taxable dividend."

► 260(6.1) ◄

(6.1) Deductible amount Notwithstanding subsection (6), there may be deducted in computing a corporation's income under Part I from a business or property for a taxation year an amount equal to the lesser of

(*a*) the amount that the corporation is obligated to pay to another person under an arrangement described in paragraphs (*c*) and (*d*) of the definition "dividend rental arrangement" in subsection 248(1) that, if paid, would be deemed by subsection (5) to have been received by another person as a taxable dividend, and

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Paragraph 260(6.1)(*a*) of the Act is replaced by the following:

(*a*) the total of all amounts each of which is an amount that the corporation becomes obligated in the taxation year to pay to another person under an arrangement described in paragraph (*b*) of the definition "dividend rental arrangement" in subsection 248(1) that, if paid, would be deemed by subsection (5.1) to have been received by another person as a taxable dividend, and

Applicable: To

(*a*) arrangements made after December 20, 2002;

(*b*) an arrangement made after November 2, 1998 and before December 21, 2002 if the parties to the arrangement have made the election referred to in paragraph 187(25)(*b*) of this Act [see the application for the pending amendment to the definition "dividend rental arrangement" in s. 248(1)], except that, in its application to an arrangement made before 2002, the reference to "subsection (5.1)" in paragraph 260(6.1)(*a*) is to be read as a reference to "subsection (5)"; and

(*c*) an arrangement, other than an arrangement to which paragraph (*b*) applies, made after 2001 and before December 21, 2002, except that, in its application before December 21, 2002, paragraph 260(6.1)(*a*) is to be read as follows:

"(*a*) the amount that the corporation is obligated to pay to another person under an arrangement described in paragraphs (*c*) and (*d*) of the definition 'dividend rental arrangement' in subsection 248(1) that, if paid, would be deemed by subsection (5.1) to have been received by another person as a taxable dividend, and"

Explanatory Note:

Deduction — Compensation Payments

Subsection 260(6.1) of the Act provides a deduction for dividend compensation payments made pursuant to certain dividend rental arrangements. The amount deductible is the lesser of the amount the corporation is obligated to pay as compensation under the arrangement and the amount of the dividends received by the corporation under the arrangement that were identified in its return of income as amounts which are not deductible because of subsection 112(2.3) of the Act.

Paragraph 260(6.1)(*a*) of the Act is amended to clarify that the amount described in that paragraph is the total of all amounts that the corporation becomes obligated in the taxation year to pay to another person as compensation under certain dividend rental arrangements.

Also, paragraph 260(6.1)(*a*) of the English version of the Act is amended, as a consequence of the amendments to the definition "dividend rental arrangement" in subsection 248(1) of the Act, by replacing the reference to "paragraphs (*c*) and (*d*)" of that definition to a reference to "paragraph (*b*)" of that definition.

This amendment applies to dividend rental arrangements made after December 20, 2002 and, if the parties jointly elect within 90 days after this Act has been assented to, it also applies to dividend rental arrangements made after November 2, 1998 and on or before December 21, 2002, except that before 2002 the reference to "subsection 260(5.1)" should be read as "subsection 260(5)".

For arrangements made after 2001 and before December 21, 2002 that are not the subject of the election described in the previous paragraph, the definition "dividend rental arrangement" in effect before December 21, 2002 is applicable, except that the reference to "subsection 260(5)" in that definition should be read as "subsection 260(5.1)".

(*b*) the amount of the dividends received by the corporation under the arrangement that were identified in its return of income under Part I for the year as an amount in respect of which no amount was deductible because of subsection 112(2.3) in computing the taxpayer's taxable income or taxable income earned in Canada.

History: S. 260(6.1) was added by S.C. 1995, c. 21, s. 75(2), applicable to payments made

(*a*) after April 1989, where the corporation has elected under subsection 74(3), except that, for the purposes of paragraph 260(6.1)(*b*), a dividend received after April 1989 and before July 1994 that was identified in the corporation's return of income under Part I of the Act for its first taxation year that ends after June 22, 1995 shall be deemed to have been identified in its return of income under that Part for its taxation year in which the dividend was received; and

(*b*) after June 1994, in any other case.

► 260(7) ◄

(7) Dividend refund. For the purposes of section 129,

(*a*) any amount paid by a corporation that is not a registered securities dealer (other than an amount for which a deduction in computing income may be claimed under subsection (6.1)), and

(*b*) 1/3 of any amount paid by a corporation that is a registered securities dealer (other than an amount for which a deduction in computing income may be claimed under subsection (6.1))

that is deemed by subsection (5) to have been received by another person as a taxable dividend shall be deemed to have been paid by the corporation as a taxable dividend.

Editorial Note: See the pending amendment for subsection 260(7) reproduced after subsection 260(8).

History: S. 260(7) was amended by S.C. 1995, c. 21, s. 75(2), applicable to payments made after June 1989, except that in its application to payments made after June 1989 and before July 1994 with respect to a corporation that has not elected under subsection 74(3), subsection 260(7) shall be read without reference to the expression "(other than an amount for which a deduction in computing income may be claimed under subsection (6.1))". S. 260(7) formerly read:

"(7) *Dividend refund.* For the purposes of section 129, any amount paid by a corporation that is deemed by subsection (5) to have been received by another person as a taxable dividend shall be deemed to have been paid by the corporation as a taxable dividend."

► 260(8) ◄

(8) Non-resident withholding tax. For the purposes of Part XIII,

(*a*) any amount paid or credited under a securities lending arrangement by or on behalf of the borrower to the lender as compensation for any interest or dividend paid in respect of the security shall be deemed to be a payment made by the borrower to the lender of interest, except that where, throughout the term of the securities lending arrangement, the borrower has provided the lender under the arrangement with money in an amount of, or securities described in paragraph (*c*) of the definition "qualified security" in subsection (1) that have a fair market value of, not less than 95% of the fair market value of the security and the borrower is entitled to enjoy, directly or indirectly, the benefits of all or substantially all income derived from, and opportunity for gain in respect of, the money or securities,

(i) the amount paid or credited shall, to the extent of the amount of the interest or dividend paid in respect of the security, be deemed to be a payment made by the borrower to the lender of interest or a dividend, as the case may be, payable on the security, and

(ii) the security is deemed to be a security described in paragraph (*a*) of the definition "fully exempt interest" in subsection 212(3) if the security is

described in paragraph (*c*) of the definition "qualified security" in subsection (1), and

(iii) [Repealed.]

(*b*) any amount paid or credited under a securities lending arrangement by or on behalf of the borrower to the lender as, on account of, in lieu of payment of or in satisfaction of, a fee for the use of the security shall be deemed to be a payment made by the borrower to the lender of interest and, for the purpose of this paragraph, where the borrower has at any time provided the lender with money, either as collateral or consideration for the security, and the borrower does not under the arrangement pay or credit a reasonable amount to the lender as, on account of, in lieu of payment of or in satisfaction of, a fee for the use of the security, the amount, if any, by which

(i) interest on the money computed at the prescribed rates in effect during the term of the arrangement

exceeds

(ii) the amount, if any, by which any amount that the lender pays or credits to the borrower under the arrangement exceeds the amount of the money

shall be deemed to be an amount paid under the arrangement by the borrower to the lender as a fee for the use of the security, at the time that an identical security is or can reasonably be expected to be transferred or returned to the lender,

and, for the purposes of Part XIII and any agreement or convention between the Government of Canada and the government of another country that has the force of law in Canada, any amount deemed by this subsection (other than subparagraph (*a*)(i) or (ii)) to be a payment of interest shall be deemed not to be payable on or in respect of the security.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Subsections 260(7) and (8) of the Act are replaced by the following:

(7) Dividend refund. For the purpose of section 129, if a corporation pays an amount for which no deduction in computing the corporation's income may be claimed under subsection (6.1) and subsection (5.1) deems the amount to have been received by another person as a taxable dividend,

(*a*) the corporation is deemed to have paid the amount as a taxable dividend, where the corporation is not a registered securities dealer; and

(*b*) the corporation is deemed to have paid 1/3 of the amount as a taxable dividend, where the corporation is a registered securities dealer.

(8) Non-resident withholding tax. For the purpose of Part XIII, any amount paid or credited under a securities lending arrangement by or on behalf of the borrower to the lender

(*a*) as an SLA compensation payment is, subject to paragraph (*b*) or (*c*), deemed to be a payment of interest made by the borrower to the lender;

(*b*) as an SLA compensation payment in respect of a security that is a qualified trust unit, is deemed, to the extent of the amount of the underlying payment to which the SLA compensation payment relates, to be an amount paid by the trust and having the same character and composition as the underlying payment;

(*c*) as an SLA compensation payment, if the security is not a qualified trust unit and throughout the term of the securities lending arrangement, the borrower has provided the lender under the arrangement with money in an amount of, or securities described in paragraph (*c*) of the definition "qualified security" in subsection (1) that have a fair market value of, not less than 95% of the fair market value of the security and the borrower is entitled to enjoy, directly or indirectly, the benefits of all or substantially all income derived from, and opportunity for gain with respect of, the money or securities,

(i) is, to the extent of the amount of the interest or dividend paid in respect of the security, deemed to be a payment made by the borrower to the lender of interest or a dividend, as the case may be, payable on the security, and

(ii) is, to the extent of the amount of the interest, if any, paid in respect of the security, deemed

(A) for the purpose of subparagraph 212(1)(*b*)(vii) to have been payable by the issuer of the security, and

(B) to have been payable on a security that is a security described in subparagraph 212(1)(*b*)(ii) where the security is a security described in paragraph (*c*) of the definition "qualified security" in subsection (1); and

(*d*) as, on account of, in lieu of payment of or in satisfaction of, a fee for the use of the security is deemed to be a payment of interest made by the borrower to the lender.

(8.1) Deemed fee for borrowed security. For the purpose of paragraph (8)(*d*), if under a securities lending arrangement the borrower has at any time provided the lender with money, either as collateral or consideration for the security, and the borrower does not, under the arrangement, pay or credit a reasonable amount to the lender as, on account of, in lieu of payment of or in satisfaction of, a fee for the use of the security, the borrower is deemed to have, at the time that an identical security is or can reasonably be expected to be transferred or returned to the lender, paid to the lender under the arrangement an amount as a fee for the use of the security equal to the amount, if any, by which

(*a*) the interest on the money computed at the prescribed rates in effect during the term of the arrangement

exceeds

(*b*) the amount, if any, by which any amount that the lender pays or credits to the borrower under the arrangement exceeds the amount of the money.

(8.2) Effect for tax treaties. In applying subsection (8), any amount, paid or credited under a securities lending arrangement by or on behalf of the borrower to the lender, that is deemed by paragraph (8)(*a*), (*b*) or (*d*) to be a payment of interest, is deemed for the purposes of any tax treaty not to be payable on or in respect of the security.

Applicable: To arrangements made after 2001.

Explanatory Note:

Subsection 260(7) — Dividend Refund

Subsection 260(7) of the Act provides that, where a corporation makes a payment which is deemed by the former subsection 260(5) to be a taxable dividend, the corporation will also be entitled to treat the amount as the payment of a dividend for the purposes of section 129 of the Act.

Subsection 260(7) is amended to replace the reference "subsection 260(5)" with "subsection 260(5.1)" and is reorganized for clarity and simplicity and specifically not to effect any substantive changes to the rule.

This amendment applies to securities lending arrangements made after 2001.

Subsections 260(8), (8.1) and (8.2) — Non-resident Withholding Tax

Subsection 260(8) of the Act applies special rules, for the purposes of Part XIII of the Act, to payments made under securities lending arrangements. The subsection has two main aspects: rules that ensure the appropriate treatment for Part XIII purposes of compensation payments; and a rule that in certain circumstances will treat a borrower as having paid to a lender a "borrow fee".

In addition to incorporating the newly added definitions, SLA compensation payments and underlying payments (which do not effect any substantive changes), the subsection is rearranged into three separate subsections. Amended subsection 260(8) retains the previous rules for compensation payments relating to interest and dividends, confining them to amounts paid on a security that is not a qualified trust unit. Subsection 260(8) also provides for compensation payments made in respect of a borrowed qualified trust unit: these are treated as payments from a trust and as having the same character and composition as the trust payments for which they compensate.

New subsection 260(8.1) provides for a deemed borrow fee, on the same basis as the existing paragraph 260(8)(*b*). New subsection 260(8.2) similarly preserves the effect of the existing postamble to subsection 260(8) in relation to tax treaties.

These subsections apply to securities lending arrangements made after 2001.

Coordinating Amendment

S.C. 2007 c. 35 (Bill C-28) — Coordinating Amendments With Former Bill C-10 — Income Tax Amendments Act, 2006 — December 14, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The following applies if former Bill C-10, introduced in the 2nd session of the 39th Parliament and entitled the *Income Tax Amendments Act, 2006* (referred to as the "other Act"), receives royal assent: Subparagraph 260(8)(*c*)(ii) of the *Income Tax Act*, as enacted by subsection 194(8) of the other Act, is replaced by the following:

(ii) is, to the extent of the amount of the interest, if any, paid in respect of the security, deemed, if the security is described in paragraph (*c*) of the definition "qualified security" in subsection (1), to have been payable on a security described in paragraph (*a*) of the definition "fully exempt interest" in subsection 212(3); and

Applicable: Royal Assent.

History: S. 260(8)(*a*)(ii) was replaced, and subparagraph (iii) was repealed, by S.C. 2007, c. 35, s. 66(2), applicable after 2007. S. 260(8)(*a*)(ii) formerly read:

"(ii) the amount paid or credited shall, to the extent of the amount of the interest, if any, paid in respect of the security, be deemed for the purpose of subparagraph 212(1)(*b*)(vii) to have been payable by the issuer of the security, and

(iii) the security shall be deemed to be a security described in subparagraph 212(1)(*b*)(ii) if it is a security described in paragraph (*c*) of the definition 'qualified security' in subsection (1), and"

S. 260(8)(*a*)(iii) was added by S.C. 1994, c. 21, s. 116(1), applicable to securities lending arrangements entered into after May 28, 1993.

S. 260(8) was amended by S.C. 1994, c. 7, Sched. II, s. 199(2), applicable to transfers, loans and payments made after April 26, 1989, except that, in applying paragraph 260(8)(*a*) to transfers, loans and payments made before May 27, 1989, it shall be read as follows:

"(*a*) any payment made by or on behalf of the borrower to the lender as compensation for any interest or dividend paid in respect of the security shall be deemed to be a payment by the borrower to the lender of interest or a dividend, as the case may be, on the security; and"

S. 260(8) formerly read:

"(8) For the purposes of Part XIII,

(*a*) any payment made under a securities lending arrangement by or on behalf of the borrower to the lender as compensation for any interest or dividend paid in respect of the security shall be deemed to be a payment made by the borrower to the lender of interest, except that where, throughout the term of the securities lending arrangement the borrower has provided to the lender under the arrangement cash in an amount of, or securities described in paragraph (*c*) of the definition 'qualified security' in subsection (1) that have a fair market value of, not less than 95% of the fair market value of the security and the borrower is entitled to enjoy, directly or indirectly, the benefits of substantially all income derived from and opportunity for gain with respect to the cash or securities, the payment shall be deemed to be a payment by the borrower to the lender of interest or a dividend, as the case may be, payable on the security; and

(*b*) any payment made under a securities lending arrangement by or on behalf of a borrower of a security to the lender for the use of the security shall be deemed to be a payment made by the borrower to the lender of interest and, for the purposes of this paragraph, any profit earned by the lender that may reasonably be considered to have resulted from the securities lending arrangement, other than any payment made by or on behalf of the borrower to the lender as compensation for any interest or dividend paid on the security, shall be deemed to be a payment made under the securities lending arrangement by the borrower of the security to the lender for the use of the security."

► 260(9) ◄

(9) Restricted financial institution. For the purposes of subsection 187.3(1), where at any time a dividend is received by a restricted financial institution on a share that was last acquired before that time pursuant to an obligation of a borrower to return or transfer a share under a securities lending arrangement, an acquisition of the share under the arrangement shall be deemed at and after that time not to be an acquisition of the share.

► 260(10) ◄

(10) Non-arm's length compensation payment. For the purpose of Part XIII, where the lender under a securities lending arrangement is not dealing at arm's length with either the borrower under the arrangement or the issuer of the security that is transferred or lent under the arrangement, or both, and subsection (8) deems an amount to be a payment of interest by a person to the lender in respect of that security, the lender is deemed, in respect of that payment, not to be dealing at arm's length with that person.

Coordinating Amendment

S.C. 2007 c. 35 (Bill C-28) — Coordinating Amendments With Former Bill C-10 — Income Tax Amendments Act, 2006 — December 14, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The following applies if former Bill C-10, introduced in the 2nd session of the 39th Parliament and entitled the *Income Tax Amendments Act, 2006* (referred to as the "other Act"), receives royal assent: On the first day on which both subsection 260(10) of the *Income Tax Act*, as enacted by subsection 194(9) of the other Act, and subsection 260(10) of the *Income Tax Act*, as enacted by subsection 66(3) of S.C. 2007, c. 35, are in force, subsection 260(10) of the *Income Tax Act*, as enacted by subsection 66(3) of S.C. 2007, c. 35, is renumbered as subsection 260(9.1) and is repositioned accordingly if required.

Applicable: Royal Assent.

History: S. 260(10) was added by S.C. 2007, c. 35, s. 66(3), applicable after 2007.

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

Section 260 of the Act is amended by adding the following after subsection (9):

(10) Partnerships. For the purpose of this section,

(*a*) a person includes a partnership; and

(*b*) a partnership is deemed to be a registered securities dealer if each member of the partnership is a registered securities dealer.

(11) Corporate members of partnerships. A corporation that is, in a taxation year, a member of a partnership is deemed

(*a*) for the purpose of applying subsection (5) in respect of the taxation year,

(i) to receive its specified proportion, for each fiscal period of the partnership that ends in the taxation year, of each amount received by the partnership in that fiscal period, and

(ii) in respect of the receipt of its specified proportion of that amount, to be the same person as the partnership;

(*b*) for the purpose of applying paragraph (6.1)(*a*) in respect of the taxation year, to become obligated to pay its specified proportion, for each fiscal period of the partnership that ends in the taxation year, of the amount the partnership becomes, in that fiscal period, obligated to pay to another person under the arrangement described in that paragraph; and

(*c*) for the purpose of applying section 129 in respect of the taxation year, to have paid

(i) if the partnership is not a registered securities dealer, the corporation's specified proportion, for each fiscal period of the partnership that ends in the taxation year, of each amount paid by the partnership (other than an amount for which a deduction in computing income may be claimed under subsection (6.1) by the corporation), and

(ii) if the partnership is a registered securities dealer, 1/3 of the corporation's specified proportion, for each fiscal period of the partnership that ends in the taxation year, of each amount paid by the partnership (other than an amount for which a deduction in computing income may be claimed under subsection (6.1) by the corporation).

(12) Individual members of partnerships. An individual that is, in a taxation year, a member of a partnership is deemed

(*a*) for the purpose of applying subsection (5) in respect of the taxation year,

(i) to receive the individual's specified proportion, for each fiscal period of the partnership that ends in the taxation year, of each amount received by the partnership in that fiscal period, and

(ii) in respect of the receipt of the individual's specified proportion of that amount, to be the same person as the partnership; and

(*b*) for the purpose of subsection 82(1), to have paid the individual's specified proportion, for each fiscal period of the partnership that ends in the year, of each amount paid by the partnership in that fiscal period that is deemed by subsection (5.1) to have been received by another person as a taxable dividend. **[Editorial Note:** For payments received after 2005, see the reading for paragraph 260(12)(*b*) set out in the application below.]

Applicable: To

(*a*) arrangements made after December 20, 2002; and

(*b*) an arrangement made after November 2, 1998 and before December 21, 2002 if the parties to the arrangement have made the election referred to in paragraph 187(25)(*b*) of this Act [see the application for the pending amendment to the definition "dividend rental arrangement" in s. 248(1)], except that, in its application to an arrangement made before 2002, the reference to "subsection (5.1)" in paragraph 260(12)(*b*) is to be read as a reference to "subsection (5)".

Paragraph 260(12)(*b*) of the *Income Tax Act* is replaced by the following, applicable to SLA compensation payments or dealer compensation payments received in respect of eligible dividends paid after 2005:

"(*b*) for the purpose of subsection 82(1), to have paid the individual's specified proportion, for each fiscal period of the partnership that ends in the year, of each amount paid by the partnership in that fiscal period that is deemed by subsection (5.1) to have been received by another person as a taxable dividend or an eligible dividend."

Explanatory Note:

Partnerships

A "securities lending arrangement" (SLA) is defined in subsection 260(1) of the Act as a particular transaction between two persons: the "lender" and the "borrower" of a security. A partnership — which for most purposes of the Act is not a person — can be a party to a transaction that would be an SLA if the partnership were a person. In such a case, it is appropriate in policy terms for the arrangement to be treated as an SLA. New subsections (10), (11) and (12) are added to section 260 to bring partnerships within the SLA rules.

New subsection 260(10) provides that, for the purposes of section 260, a person includes a partnership. This allows a partnership to be either the borrower or the lender in respect of an SLA. The subsection also treats a partnership as a registered securities dealer, if all of its members are themselves registered securities dealers.

A transaction's status as an SLA is relevant to, among other things, the tax treatment of amounts paid and received in compensation for dividends or interest on the security that is transferred or lent. New subsections 260(11) and (12) are added to ensure the appropriate treatment of these amounts in a case where a corporation or an individual is a member of a partnership that has entered into an SLA.

- Under new paragraph 260(11)(*a*), a corporation that is a member of a partnership is treated for the purpose of subsection 260(5) as having received its "specified proportion" (now defined in subsection 248(1) of the Act) of each compensation payment or amount in respect of proceeds of disposition that is described in subsection 260(5) and was received by the partnership. It is also treated as being the same person as the partnership, thus ensuring that the partnership's reasons for entering into the arrangement (which are relevant to the applicability of the subsection) are attributed to the corporation.
- New paragraph 260(11)(*b*) treats the corporation as being obligated to pay its specified proportion of each dividend compensation payment described in paragraph 260(6.1)(*a*).
- New paragraph 260(11)(*c*) treats the corporation, for the purpose of applying the dividend refund rules in section 129 of the Act, as having paid its specified proportion of each non-deductible dividend compensation payment made by the partnership.
- New paragraph 260(12)(*a*) performs for individuals who are members of a partnership the same functions as new paragraph 260(11)(*a*) does for corporations that are partners.
- New paragraph 260(12)(*b*) treats an individual partner as having paid, for the purpose of clause 82(1)(*a*)(ii)(B) of the Act, the individual's specified proportion of each dividend compensation payment paid by the partnership that is deemed by new subsection 260(5.1) to have been received by another person as a taxable dividend.

These amendments apply to SLAs made after December 20, 2002 and, if the parties jointly elect within 90 days after this Act has been assented to, they also apply to SLAs made after November 2, 1998 and on or before December 20, 2002, except that before 2002, the reference to "subsection 260(5.1)" should be read as "subsection 260(5)".

SECTION 261: [Functional Currency Reporting].

► 261(1) ◄

(1) Definitions. The following definitions apply in this section.

History: S. 261(1), the portion before the definitions was replaced by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007. S. 261(1), the portion before the definitions formerly read:

"S. 261. (1) *Definitions.* The definitions in this subsection apply in this section."

Editorial Note: The original version of the functional currency reporting rules in section 261 was enacted by Bill C-28; S.C. 2007, c. 35. However, the entire provision was re-drafted to address certain concerns in the original enactment, including, *inter alia*, an asymmetry in foreign exchange calculations used in the reporting of debt obligations and assets for corporations converting to the functional currency regime, and also to provide more comprehensive rules in respect of windings-up and amalgamations and more comprehensive anti-avoidance rules. The re-written section 261 was passed into law by Bill C-10; S.C. 2009, c. 2, and is generally effective for taxation years ending after December 13, 2007, such that it entirely replaces the original version of the provision on a retroactive basis.

Owing to the re-writing of the provision, there are a couple of transitional rules. First, where a taxpayer has, on or before June 27, 2008, made an election under paragraph 261(3)(*b*) to enter into the functional currency reporting regime, if the taxpayer makes a further election in writing on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes March 12, 2009 (the day the rewritten provision received Royal Assent as part of Bill C-10), the relevant spot rate for a particular day is deemed, for the purposes of subsections 261(7) to (10), to be the average of the rates that would, in the absence of this transitional rule, be the relevant spot rates for each day in the 12-month period that ends on the particular day; furthermore, subsections 261(20) and (21) apply to the taxpayer in respect of taxation years that begin after June 27, 2008. Second, in applying paragraph 261(3)(*b*) (the paragraph providing the election into the functional currency regime), if the day that is six months before the end of the particular taxation year referred to in that paragraph is before December 15, 2008, the reference in that paragraph to "the day that is six months before the end of the particular taxation year" is, in respect of that particular taxation year, to be read as a reference to "December 15, 2008". This second transitional rule effectively extends the deadline for the functional currency regime election to December 15, 2008 if the deadline would otherwise occur before that date under current paragraph 261(3)(*b*).

"Canadian currency year" — "Canadian currency year" of a taxpayer means a taxation year that precedes the first functional currency year of the taxpayer.

History: S. 261(1), the definition "Canadian currency year" was replaced by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007. S. 261(1), the definition "Canadian currency year" formerly read:

" *'Canadian currency year'* — 'Canadian currency year' of a taxpayer means a taxation year of the taxpayer in respect of which subsection (4) did not apply to the taxpayer."

S. 261(1), the definition "Canadian currency year" was added by S.C. 2007, c. 35, s. 67(1), applicable in respect of taxation years that begin on or after December 14, 2007.

"Canadian tax results" — "Canadian tax results" of a taxpayer for a taxation year means

(*a*) the amount of the income, taxable income or taxable income earned in Canada of the taxpayer for the taxation year;

(*b*) the amount (other than an amount payable on behalf of another person under subsection 153(1) or section 215) of tax or other amount payable under this Act by the taxpayer in respect of the taxation year;

(*c*) the amount (other than an amount refundable on behalf of another person in respect of amounts payable on behalf of that person under subsection 153(1) or section 215) of tax or other amount refundable under this Act to the taxpayer in respect of the taxation year; and

(*d*) any amount that is relevant in determining the amounts described in respect of the taxpayer under paragraphs (*a*) to (*c*).

History: S. 261(1), the definition "Canadian tax results" was replaced by S.C. 2009, c. 2, s. 80(1), applicable for all taxation years. S. 261(1), the definition "Canadian tax results" formerly read:

" *'Canadian tax results'* — 'Canadian tax results' of a taxpayer for a particular taxation year of the taxpayer means

(*a*) the amount of the income of the taxpayer for the particular taxation year;

(*b*) the amount of the taxable income of the taxpayer for the particular taxation year;

(*c*) the amount (other than an amount payable on behalf of another person under subsection 153(1) or section 215) of tax or other amount payable under this Act by the taxpayer in respect of the particular taxation year;

(*d*) the amount (other than an amount refundable on behalf of another person in respect of amounts payable on behalf of that person under subsection 153(1) or section 215) of tax or other amount refundable under this Act to the taxpayer in respect of the particular taxation year; and

(*e*) any amount that is relevant in determining the amounts described in respect of the taxpayer under paragraphs (*a*) to (*d*)."

S. 261(1), the definition "Canadian tax results" was added by S.C. 2007, c. 35, s. 67(1), applicable for all taxation years.

"consolidated financial statements" — [Repealed by S.C. 2009, c. 2, s. 80(1).]

History: S. 261(1), the definition "consolidated financial statements" was repealed by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007. S. 261(1), the definition "consolidated financial statements" formerly read:

" *'consolidated financial statements'* — 'consolidated financial statements' of a taxpayer for a taxation year means the financial statements of the taxpayer that are prepared in accordance with generally accepted accounting principles that are applicable to that taxation year."

S. 261(1), the definition "consolidated financial statements" was added by S.C. 2007, c. 35, s. 67(1), applicable in respect of taxation years that begin on or after December 14, 2007.

"currency exchange rate" — [Repealed by S.C. 2009, c. 2, s. 80(1).]

History: S. 261(1), the definition "currency exchange rate" was repealed by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007. S. 261(1), the definition "currency exchange rate" formerly read:

" *'currency exchange rate'* — 'currency exchange rate' on a particular day means, in respect of a conversion of an amount determined in a particular currency into an amount determined in another currency, the average, for the 12 month period ending on the particular day,

(*a*) where the particular currency is Canadian currency, of the rate of exchange (calculated by reference to the rate of exchange quoted by the Bank of Canada at noon on each business day in the period) for the exchange of the Canadian dollar for a unit of the other currency or such rate or rates of exchange acceptable to the Minister;

(*b*) where the other currency is Canadian currency, of the rate of exchange (calculated by reference to the rate of exchange quoted by the Bank of Canada at noon on each business day in the period) for the exchange of a unit of the particular currency for the Canadian dollar or such rate or rates of exchange acceptable to the Minister; or

(*c*) where neither the particular currency nor the other currency is Canadian currency, of the rate of exchange (calculated by reference to the rates of exchange quoted by the Bank of Canada at noon on each business day in the period for the exchange of the Canadian dollar for a unit of each of those currencies) for the exchange of a unit of the particular currency for a unit of the other currency or such rate or rates of exchange acceptable to the Minister."

S. 261(1), the definition "currency exchange rate" was added by S.C. 2007, c. 35, s. 67(1), applicable in respect of taxation years that begin on or after December 14, 2007.

"elected functional currency" — "elected functional currency" of a taxpayer means the currency of a country other than Canada that was the functional currency of the taxpayer for its first taxation year in respect of which it made an election under paragraph (3)(*b*).

History: S. 261(1), the definition "elected functional currency" was added by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007.

"functional currency" — "functional currency" of a taxpayer for a taxation year means the currency of a country other than Canada if that currency is, throughout the taxation year,

(*a*) a qualifying currency; and

(*b*) the primary currency in which the taxpayer maintains its records and books of account for financial reporting purposes.

History: S. 261(1), the definition "functional currency" was replaced by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007. S. 261(1), the definition "functional currency" formerly read:

" *'functional currency'* — 'functional currency' of a taxpayer for a particular taxation year of the taxpayer means the currency of a country other than Canada if that currency is

(*a*) a qualifying currency;

(*b*) the currency that is, more often than any other currency, used in the conduct of the taxpayer's principal business activities in the particular taxation year; and

(*c*) the currency in which the financial results of the taxpayer for the particular taxation year are computed in the taxpayer's consolidated financial statements and legal-entity financial statements for the particular taxation year."

S. 261(1), the definition "functional currency" was added by S.C. 2007, c. 35, s. 67(1), applicable in respect of taxation years that begin on or after December 14, 2007.

"functional currency year" — "functional currency year" of a taxpayer means a taxation year in respect of which subsection (5) applies to the taxpayer.

History: S. 261(1), the definition "functional currency year" was replaced by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007. S. 261(1), the definition "functional currency year" formerly read:

" *'functional currency year'* — 'functional currency year' of a taxpayer means a taxation year of the taxpayer in respect of which subsection (4) applies to the taxpayer."

S. 261(1), the definition "functional currency year" was added by S.C. 2007, c. 35, s. 67(1), applicable in respect of taxation years that begin on or after December 14, 2007.

"generally accepted accounting principles" — [Repealed by S.C. 2009, c. 2, s. 80(1).]

History: S. 261(1), the definition "generally accepted accounting principles" was repealed by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007. S. 261(1), the definition "generally accepted accounting principles" formerly read:

" *'generally accepted accounting principles'* — 'generally accepted accounting principles' means the accounting principles established or recommended by the Accounting Standards Board of Canada or such other accounting principles as are determined to be acceptable by the Minister."

S. 261(1), the definition "generally accepted accounting principles" was added by S.C. 2007, c. 35, s. 67(1), applicable in respect of taxation years that begin on or after December 14, 2007.

"initial functional currency year" — [Repealed by S.C. 2009, c. 2, s. 80(1).]

History: S. 261(1), the definition "initial functional currency year" was repealed by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007. S. 261(1), the definition "initial functional currency year" formerly read:

" *'initial functional currency year'* — 'initial functional currency year' of a taxpayer means a functional currency year of the taxpayer if the particular taxation year of the taxpayer ending immediately before the beginning of that functional currency year of the taxpayer was a Canadian currency year of the taxpayer."

S. 261(1), the definition "initial functional currency year" was added by S.C. 2007, c. 35, s. 67(1), applicable in respect of taxation years that begin on or after December 14, 2007.

"initial reversionary year" — [Repealed by S.C. 2009, c. 2, s. 80(1).]

History: S. 261(1), the definition "initial reversionary year" was repealed by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007. S. 261(1), the definition "initial reversionary year" formerly read:

" *'initial reversionary year'* — 'initial reversionary year' of a taxpayer means the first taxation year of the taxpayer that begins immediately after the last functional currency year of the taxpayer."

S. 261(1), the definition "initial reversionary year" was added by S.C. 2007, c. 35, s. 67(1), applicable in respect of taxation years that begin on or after December 14, 2007.

"last Canadian currency year" — [Repealed by S.C. 2009, c. 2, s. 80(1).]

History: S. 261(1), the definition "last Canadian currency year" was repealed by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007. S. 261(1), the definition "last Canadian currency year" formerly read:

" *'last Canadian currency year'* — 'last Canadian currency year' of a taxpayer means the last taxation year of the taxpayer that ends before the beginning of the initial functional currency year of the taxpayer."

S. 261(1), the definition "last Canadian currency year" was added by S.C. 2007, c. 35, s. 67(1), applicable in respect of taxation years that begin on or after December 14, 2007.

"last functional currency year" — [Repealed by S.C. 2009, c. 2, s. 80(1).]

History: S. 261(1), the definition "last functional currency year" was repealed by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007. S. 261(1), the definition "last functional currency year" formerly read:

" *'last functional currency year'* — 'last functional currency year' of a taxpayer means a functional currency year of the taxpayer if the particular taxation year of the taxpayer beginning immediately after the end of that functional currency year is a Canadian currency year of the taxpayer."

S. 261(1), the definition "last functional currency year" was added by S.C. 2007, c. 35, s. 67(1), applicable in respect of taxation years that begin on or after December 14, 2007.

"legal-entity financial statements" — [Repealed by S.C. 2009, c. 2, s. 80(1).]

History: S. 261(1), the definition "legal-entity financial statements" was repealed by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007. S. 261(1), the definition "legal-entity financial statements" formerly read:

" *'legal-entity financial statements'* — 'legal-entity financial statements' of a taxpayer for a taxation year means the financial statements of the taxpayer that would be prepared for that taxation year in accordance with generally accepted accounting principles that are applicable to that taxation year if those generally accepted accounting principles did not require consolidation."

S. 261(1), the definition "legal-entity financial statements" was added by S.C. 2007, c. 35, s. 67(1), applicable in respect of taxation years that begin on or after December 14, 2007.

"pre-reversion debt" — "pre-reversion debt" of a taxpayer means a debt obligation of the taxpayer that was issued by the taxpayer before the beginning of the taxpayer's first reversionary year.

History: S. 261(1), the definition "pre-reversion debt" was added by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007.

"pre-transition debt" — "pre-transition debt" of a taxpayer means a debt obligation of the taxpayer that was issued by the taxpayer before the beginning of the taxpayer's first functional currency year.

History: S. 261(1), the definition "pre-transition debt" was added by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007.

"qualifying currency" — "qualifying currency" at any time means each of

(*a*) the currency of the United States of America;

(*b*) the currency of the European Monetary Union;

(*c*) the currency of the United Kingdom;

(*d*) the currency of Australia; and

(*e*) a prescribed currency.

History: S. 261(1), the definition "qualifying currency" was replaced by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007. S. 261(1), the definition "qualifying currency" formerly read:

" *'qualifying currency'* — 'qualifying currency' of a taxpayer for a taxation year means each of

(*a*) the currency of the United States of America;

(*b*) the currency of the European Monetary Union;

(*c*) the currency of the United Kingdom; and

(*d*) a prescribed currency."

S. 261(1), the definition "qualifying currency" was added by S.C. 2007, c. 35, s. 67(1), applicable in respect of taxation years that begin on or after December 14, 2007.

"relevant spot rate" — "relevant spot rate" for a particular day means, in respect of a conversion of an amount from a particular currency to another currency,

(*a*) if the particular currency or the other currency is Canadian currency, the rate quoted by the Bank of Canada for noon on the particular day (or, if there is no such rate quoted for the particular day, the closest preceding day for which such a rate is quoted) for the exchange of the particular currency for the other currency, or, in applying paragraphs (2)(*b*) and (5)(*c*), another rate of exchange that is acceptable to the Minister; and

(*b*) if neither the particular currency nor the other currency is Canadian currency, the rate — calculated by reference to the rates quoted by the Bank of Canada for noon on the particular day (or, if either of such rates is not quoted for the particular day, the closest preceding day for which both such rates are quoted) for the exchange of Canadian currency for each of those currencies — for the exchange of the particular currency for the other currency, or, in applying paragraphs (2)(*b*) and (5)(*c*), another rate of exchange that is acceptable to the Minister.

History: S. 261(1), the definition "relevant spot rate" was added by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007.

"reversionary exchange rate" — [Repealed by S.C. 2009, c. 2, s. 80(1).]

History: S. 261(1), the definition "reversionary exchange rate" was repealed by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007. S. 261(1), the definition "reversionary exchange rate" formerly read:

" *'reversionary exchange rate'* — 'reversionary exchange rate' of a taxpayer for a functional currency year of the taxpayer means the average, for the 12-month period ending on the last day of the functional currency year of the taxpayer, of the rate of exchange (quoted by the Bank of Canada at noon on each business day in the period) for the exchange of a unit of the functional currency of the taxpayer for the functional currency year for the Canadian dollar."

S. 261(1), the definition "reversionary exchange rate" was added by S.C. 2007, c. 35, s. 67(1), applicable in respect of taxation years that begin on or after December 14, 2007.

"reversionary year" — "reversionary year" of a taxpayer means a taxation year that begins after the last functional currency year of the taxpayer.

History: S. 261(1), the definition "reversionary year" was added by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007.

"tax credit" — [Repealed by S.C. 2009, c. 2, s. 80(1).]

History: S. 261(1), the definition "tax credit" was repealed by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007. S. 261(1), the definition "tax credit" formerly read:

" *'tax credit'* — 'tax credit' means an amount deductible in computing a taxpayer's tax payable, or deemed to have been paid on account of a taxpayer's tax payable, under any Part of this Act for a taxation year."

S. 261(1), the definition "tax credit" was added by S.C. 2007, c. 35, s. 67(1), applicable in respect of taxation years that begin on or after December 14, 2007.

"tax reporting currency" — "tax reporting currency" of a taxpayer for a taxation year, and at any time in the taxation year, means the currency in which the taxpayer's Canadian tax results for the taxation year are to be determined.

History: S. 261(1), the definition "tax reporting currency" was added by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007.

"transitional exchange rate" — [Repealed by S.C. 2009, c. 2, s. 80(1).]

History: S. 261(1), the definition "transitional exchange rate" was repealed by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007. S. 261(1), the definition "transitional exchange rate" formerly read:

" *'transitional exchange rate'* — 'transitional exchange rate' of a taxpayer means the average, for the 12-month period ending on the last day of the last Canadian currency year of the taxpayer, of the rate of exchange (calculated by reference to the rate of exchange quoted by the Bank of Canada at noon on each business day in the period) for the exchange of the Canadian dollar for a unit of the functional currency of the taxpayer for the initial functional currency year of the taxpayer."

S. 261(1), the definition "transitional exchange rate" was added by S.C. 2007, c. 35, s. 67(1), applicable in respect of taxation years that begin on or after December 14, 2007.

► 261(2) ◄

(2) Canadian currency requirement. In determining the Canadian tax results of a taxpayer for a particular taxation year,

(*a*) subject to this section, other than this subsection, Canadian currency is to be used; and

(*b*) subject to this section, other than this subsection, subsection 79(7) and paragraphs 80(2)(*k*) and 142.7(8)(*b*), if a particular amount that is relevant in computing those Canadian tax results is expressed in a currency other than Canadian currency, the particular amount is to be converted to an amount expressed in Canadian currency using the relevant spot rate for the day on which the particular amount arose.

History: S. 261(2) was replaced by S.C. 2009, c. 2, s. 80(1), applicable for all taxation years. S. 261(2) formerly read:

"(2) *Canadian currency requirement.* Subject to subsections (3) to (10),

(*a*) the Canadian tax results of a taxpayer for a particular taxation year are to be determined using Canadian currency; and

(*b*) subject to subsection 79(7), paragraphs 80(2)(*k*) and 142.7(8)(*b*), if a particular amount that is relevant in computing the taxpayer's Canadian tax results for the particular taxation year is an amount expressed in a currency other than Canadian currency, that amount is to be converted to an amount expressed in Canadian currency using the rate of exchange quoted by the Bank of Canada at noon on the day on which that amount first arose for the exchange of a unit of that other currency for a unit of Canadian currency or such other rate of exchange as is acceptable to the Minister."

S. 261(2) was added by S.C. 2007, c. 35, s. 67(1), applicable for all taxation years.

► 261(3) ◄

(3) Application of subsection (5). Subsection (5) applies to a taxpayer in respect of a particular taxation year if

(*a*) the taxpayer is, throughout the particular taxation year, a corporation (other than an investment corporation, a mortgage investment corporation or a mutual fund corporation) resident in Canada;

(*b*) the taxpayer has elected that subsection (5) apply to the taxpayer and has filed that election with the Minister in prescribed form and manner on or before the day that is six months before the end of the particular taxation year;

(*c*) there is a functional currency of the taxpayer for the first taxation year of the taxpayer in respect of which subsection (5) would, if this subsection were read without reference to this paragraph, apply;

(*d*) the taxpayer has not filed another election under paragraph (*b*); and

(*e*) a revocation by the taxpayer under subsection (4) does not apply to the particular taxation year.

History: S. 261(3) was replaced by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007, except that in applying paragraph 261(3)(*b*), if the day that is six months before the end of the particular taxation year referred to in that paragraph is before December 15, 2008, the reference in that paragraph to "the day that is six months before the end of the particular taxation year" is, in respect of that particular taxation year, to be read as a reference to "December 15, 2008". S. 261(3) formerly read:

"(3) *Application of subsection (4).* Subsection (4) applies to a taxpayer in respect of a particular taxation year of the taxpayer if

(*a*) the taxpayer is, throughout the particular taxation year, a corporation (other than an investment corporation, a mortgage investment corporation or a mutual fund corporation) resident in Canada;

(*b*) the taxpayer has elected that subsection (4) apply to the taxpayer in respect of the particular taxation year, or a preceding taxation year, and each subsequent taxation year of the taxpayer and has filed that election with the Minister in prescribed form and manner on or before the taxpayer's filing due date

(i) for the taxation year immediately preceding the first taxation year in respect of which the election was made, or

(ii) where there was not a taxation year immediately preceding the first taxation year in respect of which the election was made, for the first taxation year in respect of which the election was made;

(*c*) there is a functional currency of the taxpayer for the particular taxation year;

(*d*) where the taxpayer's taxation year immediately preceding the particular taxation year was a functional currency year of the taxpayer, the functional currency of the taxpayer for that preceding taxation year is the same as the functional currency of the taxpayer for the particular taxation year; and

(*e*) where the taxpayer's taxation year immediately preceding the particular taxation year was a Canadian currency year of the taxpayer, no preceding taxation year of the taxpayer was a functional currency year of the taxpayer."

S. 261(3) was added by S.C. 2007, c. 35, s. 67(1), applicable in respect of taxation years that begin on or after December 14, 2007.

Tax Topics: No. 1919-20, 2008 Canadian Tax Foundation Annual Conference — Department of Finance Presentation and CRA Round Table; No. 1918, New and Improved Functional Currency Proposals.

► 261(4) ◄

(4) Revocation of election. A taxpayer may revoke its election under paragraph (3)(*b*) by filing, on a day that is in a functional currency year of the taxpayer (other than its first functional currency year), a notice of revocation in prescribed form and manner. The revocation applies to each taxation year of the taxpayer that begins on or after the day that is six months after that day.

History: S. 261(4) was replaced by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007. S. 261(4) formerly read:

"(4) *Functional currency reporting.* If, because of subsection (3), this subsection applies to a taxpayer for a particular taxation year of the taxpayer,

(*a*) the taxpayer's Canadian tax results for the particular taxation year are to be determined using the taxpayer's functional currency for the particular taxation year;

(*b*) each reference in the Act or the regulations to a particular amount expressed in Canadian dollars is to be read as a reference to a particular amount expressed in the taxpayer's functional currency for the particular taxation year determined by applying the currency exchange rate in respect of the conversion of Canadian currency into that functional currency as of the first day of the particular taxation year;

(*c*) subject to subsection 79(7), paragraphs 80(2)(*k*) and 142.7(8)(*b*), if a particular amount that is relevant in computing the taxpayer's Canadian tax results for the particular taxation year is an amount expressed in a currency other than the taxpayer's functional currency for the particular taxation year, that amount is to be converted to an amount expressed in the taxpayer's functional currency for the particular taxation year by using the rates of exchange quoted by the Bank of Canada at noon on the day that the particular amount first arose for the exchange of the Canadian dollar for a unit of each of those currencies or such other rate of exchange as is acceptable to the Minister;

(*d*) each reference in subsection 79(7), paragraph 80(2)(*k*) and subsections 80.01(11) and 80.1(8) to 'Canadian currency' is to be read as a reference to 'the taxpayer's functional currency';

(*e*) the reference in subsection 39(2) to 'the value of the currency or currencies of one or more countries other than Canada relative to Canadian currency, a taxpayer has made a gain or sustained a loss in a taxation year' is to be read as reference to 'the value of the currency or currencies of one or more countries (other than the taxpayer's functional currency for the taxation year) relative to a taxpayer's functional currency for a taxation year, the taxpayer has made a gain or sustained a loss in the taxation year' and the references in that subsection to 'currency of a country other than Canada' shall be read as references to 'currency other than the taxpayer's functional currency for the taxation year';

(*f*) the definition 'foreign currency' in subsection 248(1) is, in respect of the taxpayer, to be, at any time in the particular taxation year, read as:

' "foreign currency" in respect of a taxpayer, at any time in a particular taxation year, means a currency other than the taxpayer's functional currency for the particular taxation year;'

(*g*) where a taxation year of a foreign affiliate of the taxpayer ends in the particular taxation year of the taxpayer, the references in section 95 and in regulations made for the purposes of that section (other than subsection 5907(6) of the Regulations) to 'Canadian currency' shall be read, in respect of the foreign affiliate, as a reference to "the taxpayer's functional currency for the particular taxation year"."

S. 261(4) was added by S.C. 2007, c. 35, s. 67(1), applicable in respect of taxation years that begin on or after December 14, 2007.

Tax Topics: No. 1863, Functional Currency: Proposed Election.

► 261(5) ◄

(5) Functional currency tax reporting. If this subsection applies to a taxpayer in respect of a particular taxation year,

(*a*) the taxpayer's Canadian tax results for the particular taxation year are to be determined using the taxpayer's elected functional currency;

(*b*) unless the context otherwise requires, each reference in this Act or the regulations to an amount (other than in respect of a penalty or fine) that is described as a particular number of Canadian dollars is to be read, in respect of the taxpayer and the particular taxation year, as a reference to that amount expressed in the taxpayer's elected functional currency using the relevant spot rate for the first day of the particular taxation year;

(*c*) subject to paragraph (9)(*b*), subsection (15), subsection 79(7) and paragraphs 80(2)(*k*) and 142.7(8)(*b*), if a particular amount that is relevant in computing the taxpayer's Canadian tax results for the particular taxation year is expressed in a currency other than the taxpayer's elected functional currency, the particular amount is to be converted to an amount expressed in the taxpayer's elected functional currency using the relevant spot rate for the day on which the particular amount arose;

(*d*) the definition "exchange rate" in subsection 111(8) is, in respect of the taxpayer and the particular taxation year, and with such modifications as the context requires, to be read as follows:

"'exchange rate' at any time in respect of a particular currency other than the taxpayer's elected functional currency means the relevant spot rate, for the day that includes that time, in respect of the conversion of an amount from the particular currency to the taxpayer's elected functional currency, or a rate of exchange acceptable to the Minister;"

(*e*) except in applying paragraph 95(2)(*f.15*) in respect of a taxation year, of a foreign affiliate of the taxpayer, that is a functional currency year of the foreign affiliate within the meaning of subsection (6.1), each reference in subsection 39(2)

(i) to "the value of the currency or currencies of one or more countries other than Canada relative to Canadian currency, a taxpayer" is to be read, in respect of the taxpayer and the particular taxation year, and with such modifications as the context requires, as a reference to "the value of the currency or currencies of one or more countries (other than the taxpayer's elected functional currency) relative to a taxpayer's elected functional currency, the taxpayer", and

(ii) to "currency of a country other than Canada" is to be read, in respect of the taxpayer and the particular taxation year, and with such modifications as the context requires, as a reference to

"currency other than the taxpayer's elected functional currency";

(*f*) each reference in

(i) section 76.1, subsection 79(7), paragraph 80(2)(*k*), subsections 80.01(11), 80.1(8), 142.4(1) and 142.7(8) and the definition "amortized cost" in subsection 248(1), and subparagraph 231(6)(*a*)(iv) of the Regulations, to "Canadian currency" is, in respect of the taxpayer and the particular taxation year, and with such modifications as the context requires, to be read as a reference to "the taxpayer's elected functional currency", and

(ii) subparagraph 94.1(1)(*b*)(vii), the definition "foreign currency debt" in subsection 111(8), subsection 142.4(1), and the definition "amortized cost" in subsection 248(1) to "currency of a country other than Canada" is, in respect of the taxpayer and the particular taxation year, and with such modifications as the context requires, to be read as a reference to "currency other than the taxpayer's elected functional currency";

(*g*) the definition "foreign currency" in subsection 248(1) is, in respect of the taxpayer and the taxation year, and with such modifications as the context requires, to be read as follows:

"'foreign currency' in respect of a taxpayer, at any time in a taxation year, means a currency other than the taxpayer's elected functional currency;"

(*h*) where a taxation year, of a foreign affiliate of the taxpayer, is a functional currency year of the foreign affiliate within the meaning of subsection (6.1),

(i) the references in section 95 (other than paragraph 95(2)(*f.15*)) and the references in regulations made for the purposes of section 95 or 113 (other than subsection 5907(6) of the Regulations) to

(A) "Canadian currency" are to be read, in respect of the foreign affiliate and the taxation year, and with such modifications as the context requires, as references to "the taxpayer's elected functional currency", and

(B) "currency of a country other than Canada" are to be read, in respect of the foreign affiliate and the taxation year, and with such modifications as the context requires, as references to "currency other than the taxpayer's elected functional currency", and

(ii) the reference in paragraph 95(2)(*f.13*) to "the rate of exchange quoted by the Bank of Canada at noon on" is to be read, in respect of the foreign affiliate and the taxation year, and with such modifications as the context requires, as a reference to "the relevant spot rate for".

History: S. 261(5) was replaced by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007. S. 261(5) formerly read:

"(5) *Converting Canadian currency amounts.* In applying this Act to a taxpayer for a particular functional currency year of the taxpayer

(*a*) subject to subparagraph (10)(*b*)(iii), in determining the amount (expressed in the taxpayer's functional currency for the particular functional currency year) that may be deducted, or relevant in determining the amount that may be deducted, under subsection 37(1) or 66(4), section 110.1 or 111 or subsection 126(2), 127(5), 129(1), 181.1(4) or 190.1(3) in the particular functional currency year, each amount (determined in Canadian currency) that is relevant to the determination and that was determined for a taxation year of the taxpayer that preceded the initial functional currency year of the taxpayer, is to be converted to the taxpayer's functional currency for the particular functional currency year using the transitional exchange rate of the taxpayer;

(*b*) in determining, at any time in the particular functional currency year, the cost (expressed in the taxpayer's functional currency for the particular functional currency year) to the taxpayer of a property that was acquired by the taxpayer before the beginning of the taxpayer's initial functional currency year, the cost (determined in Canadian currency) to the taxpayer of the property at the end of the last Canadian currency year of the taxpayer is to be converted to the taxpayer's functional currency for the particular functional currency year using the transitional exchange rate of the taxpayer;

(*c*) in determining, at any time in the particular functional currency year, the adjusted cost base (expressed in the taxpayer's functional currency for the particular functional currency year) to the taxpayer of a capital property that was acquired by the taxpayer before the beginning of the taxpayer's initial functional currency year, each amount (determined in Canadian currency) that was required by section 53 to be added or deducted in computing, at any time before the beginning of the initial functional currency year of the taxpayer, the adjusted cost base of the property to the taxpayer is to be converted to the taxpayer's functional currency for the particular functional currency year using the transitional exchange rate of the taxpayer;

(*d*) in determining, at any time in the particular functional currency year, the amount (expressed in the taxpayer's functional currency for the particular functional currency year) of the taxpayer's undepreciated capital cost of depreciable property of a prescribed class, cumulative eligible capital in respect of a business, cumulative Canadian exploration expense (within the meaning assigned by subsection 66.1(6)), cumulative Canadian development expense (within the meaning assigned by subsection 66.2(5)), cumulative foreign resource expense in respect of a country other than Canada (within the meaning assigned by subsection 66.21(1)) and cumulative Canadian oil and gas property expense (within the meaning assigned by subsection 66.4(5)), (each of which is referred to in this paragraph as a 'pool amount') each amount (determined in Canadian currency) that was added to or deducted from a particular pool amount of the taxpayer in respect of a taxation year of the taxpayer preceding the initial functional currency year of the taxpayer is to be converted to the taxpayer's functional currency for the particular functional currency year using the transitional exchange rate of the taxpayer;

(*e*) in determining any amount (expressed in the taxpayer's functional currency for the particular functional currency year) that has been deducted or claimed as a reserve in computing the income of the taxpayer for its last Canadian currency year, that amount (determined in Canadian currency) deducted or claimed as a reserve is to be converted to the taxpayer's functional currency for the particular functional currency year using the transitional exchange rate of the taxpayer;

(*f*) in determining the amount (expressed in the taxpayer's functional currency for the particular functional currency year) of any outlay or expense referred to in subsection 18(9) that was made or incurred by the taxpayer and the amount that was deducted in respect of that outlay or expense in respect of a taxation year preceding the initial functional currency year of the taxpayer, such amounts of outlay or expense or deductions (determined in Canadian currency for those years) are to be converted to the taxpayer's functional currency for the particular functional currency year using the transitional exchange rate of the taxpayer;

(*g*) in determining, at any time in the particular functional currency year, the amount (expressed in the taxpayer's functional currency for the particular functional currency year) of the taxpayer's paid-up capital in respect of any class of shares of its capital stock, any amount (determined in Canadian currency) added or deducted in computing the taxpayer's paid-up capital in respect of the class in a taxation year preceding the initial functional currency year of the taxpayer is to be converted to the taxpayer's functional currency for the particular functional currency year using the transitional exchange rate of the taxpayer;

(*h*) where the taxpayer issued a debt obligation in a taxation year of the taxpayer preceding the initial functional currency year of the taxpayer, in determining the amount (expressed in the taxpayer's functional currency for the particular functional currency year) for which the obligation was issued, the principal amount (expressed in the taxpayer's functional currency for the particular functional currency year) of the obligation, any amount (expressed in the taxpayer's functional currency for the particular functional currency year) paid in satisfaction of the principal amount of the obligation in a taxation year of the taxpayer preceding the initial functional currency year of the taxpayer, and the amount (determined in the taxpayer's functional currency for the particular functional currency year) of any gain or loss attributable to the fluctuation in the values of currencies,

(i) where the obligation was issued in the taxpayer's functional currency for the particular functional currency year, the amount (determined in the taxpayer's functional currency for the particular functional currency year) for which the obligation was issued, the principal amount

(determined in the taxpayer's functional currency for the particular functional currency year) of the obligation and the amounts (determined in the taxpayer's functional currency for the particular functional currency year) paid in satisfaction of the principal amount of the obligation, in a taxation year of the taxpayer preceding the initial functional currency year of the taxpayer are those amounts determined in those years in the taxpayer's functional currency for the particular functional currency year,

(ii) where the obligation was issued in Canadian currency, the amount for which the obligation was issued (determined in Canadian currency), the principal amount (determined in Canadian currency) of the obligation and the amounts (determined in Canadian currency) paid in satisfaction of the principal amount of the obligation, in a taxation year preceding the initial functional currency year are to be converted to the taxpayer's functional currency for the particular functional currency year using the transitional exchange rate of the taxpayer, and

(iii) where the obligation was issued in a currency (referred to in this subparagraph as the 'third currency') other than Canadian currency or the taxpayer's functional currency for the particular functional currency year, the amount (determined in the third currency) for which the obligation was issued, the principal amount (determined in the third currency) of the obligation and the amounts (determined in the third currency) paid in satisfaction of the principal amount of the obligation in a taxation year of the taxpayer preceding the initial functional currency year of the taxpayer, are to be converted to the taxpayer's functional currency for the particular functional currency year using the currency exchange rate in respect of a conversion of an amount determined in the third currency into an amount determined in the taxpayer's functional currency for the particular functional currency year on the last day of the last Canadian currency year of the taxpayer;

(*i*) in determining the amount (expressed in the taxpayer's functional currency for the particular functional currency year) of tax payable under Part I for a Canadian currency year for the purpose of determining the taxpayer's first instalment base or second instalment base for the taxpayer's initial functional currency year, the amount (determined in Canadian currency) of tax payable is to be converted to the taxpayer's functional currency for the particular functional currency year using the transitional exchange rate of the taxpayer; and

(*j*) any amount (expressed in Canadian currency), other than an amount referred to in paragraphs (*a*) to (*i*), determined under the provisions of this Act in or in respect of a taxation year preceding the initial functional currency year of the taxpayer that is relevant in determining the Canadian tax results (expressed in the taxpayer's functional currency for the particular functional currency year) of the taxpayer for the particular functional currency year is to be converted to the taxpayer's functional currency for the particular functional currency year using the transitional exchange rate of the taxpayer."

S. 261(5) was added by S.C. 2007, c. 35, s. 67(1), applicable in respect of taxation years that begin on or after December 14, 2007.

Tax Topics: No. 1918, New and Improved Functional Currency Proposals.

► 261(6) ◄

(6) Partnerships. For the purposes of computing the Canadian tax results of a particular taxpayer for each taxation year that is a functional currency year or a reversionary year of the particular taxpayer, this section is to be applied as if each partnership of which the particular taxpayer is a member at any time in the taxation year were a taxpayer that

(*a*) had as its first functional currency year its first fiscal period, if any, that

(i) is a fiscal period at any time during which the particular taxpayer is a member of the partnership,

(ii) begins after December 13, 2007, and

(iii) ends at least six months after the day that is six months before the end of the particular taxpayer's first functional currency year;

(*b*) had as its last Canadian currency year its last fiscal period, if any, that ends before its first functional currency year;

(*c*) had as its first reversionary year its first fiscal period, if any, that begins after the particular taxpayer's last functional currency year;

(*d*) is subject to subsection (5) for each of its fiscal periods that is, or begins after, its first functional currency year and that ends before its first reversionary year;

(*e*) had as its elected functional currency in respect of each fiscal period described in paragraph (*d*) the elected functional currency of the particular taxpayer; and

(*f*) had as its last functional currency year its last fiscal period, if any, that ends before its first reversionary year.

History: S. 261(6) was replaced by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007. S. 261(6) formerly read:

"(6) *Deferred amounts relating to debt.* In applying this Act to a taxpayer for a particular functional currency year of the taxpayer

(*a*) where, at any time in the particular functional currency year, the taxpayer has made a particular payment (expressed in the taxpayer's functional currency for the particular functional currency year) on account of the principal amount (expressed in the taxpayer's functional currency for the particular functional currency year) of a debt obligation that was issued by the taxpayer in a Canadian currency year of the taxpayer that ended before the beginning of the initial functional currency year of the taxpayer

(i) the taxpayer is deemed to have a capital gain under paragraph 39(2)(*a*) or income, as the case may be, attributable to the fluctuation in the values of currencies in respect of the particular payment for the particular functional currency year equal to the amount determined by the formula

$$A \times B/C$$

where

A is the amount determined by the formula

$$D \times E$$

where

D is the amount (expressed in Canadian currency), if any, that would have been determined to be the taxpayer's capital gain under paragraph 39(2)(*a*) or income, as the case may be, if the principal amount of the debt obligation outstanding (determined in Canadian currency), immediately before the end of the last Canadian currency year of the taxpayer, had been settled by a payment by the taxpayer to the holder of the obligation of an amount equal to that outstanding principal amount at that time, and

E is the transitional exchange rate of the taxpayer,

B is the amount of the particular payment (expressed in the taxpayer's functional currency for the particular functional currency year), and

C is the principal amount of the debt obligation outstanding (determined in the taxpayer's functional currency for the particular functional currency year) at the beginning of the initial functional currency year of the taxpayer,

(ii) the taxpayer is deemed to have a capital loss under paragraph 39(2)(*b*) or a loss, as the case may be, attributable to the fluctuation in the values of currencies in respect of the particular payment for the particular functional currency year equal to the amount determined by the formula

$$F \times G/H$$

where

F is the amount determined by the formula

$$I \times J$$

where

I is the amount (expressed in Canadian currency), if any, that would have been determined to be the taxpayer's capital loss under paragraph 39(2)(*b*) or loss, as the case may be, if the principal amount of the debt obligation outstanding (determined in Canadian currency), immediately before the end of the last Canadian currency year of the taxpayer, had been settled by a payment by the taxpayer to the holder of the obligation of an amount equal to that outstanding principal amount at that time, and

J is the transitional exchange rate of the taxpayer,

G is the amount of the particular payment (expressed in the taxpayer's functional currency for the particular functional currency year), and

H is the principal amount of the debt obligation outstanding (determined in the taxpayer's functional currency for the particular functional currency year) at the beginning of the initial functional currency year of the taxpayer, and

(iii) where a debt obligation is denominated in a currency other than the taxpayer's functional currency for the particular functional currency year, any amount determined under element B in the formula in subparagraph (i) or element G in the formula in subparagraph (ii) is to be determined with reference to the relative value of that currency and the taxpayer's functional currency for the particular functional currency year at the beginning of the initial functional currency year of the taxpayer, and

(*b*) notwithstanding paragraph 80(2)(*k*), where an obligation of the taxpayer was issued in a taxation year of the taxpayer preceding the initial functional currency year of the taxpayer in a currency other than the taxpayer's functional currency for the particular functional currency year, a forgiven amount arising at any time in the particular functional currency year in respect of the obligation is to be determined by reference to the currency exchange rate on the last day of the taxpayer's last Canadian currency year in respect of a conversion of an amount determined in the other currency into an amount determined in the taxpayer's functional currency for the particular functional currency year."

S. 261(6) was added by S.C. 2007, c. 35, s. 67(1), applicable in respect of taxation years that begin on or after December 14, 2007.

► 261(6.1) ◄

(6.1) Foreign affiliates. For the purposes of computing the foreign accrual property income of a foreign affiliate of a particular taxpayer, in respect of the particular taxpayer, for each taxation year that is a functional currency year or a reversionary year of the particular taxpayer, this section is to be applied as if

(*a*) the foreign affiliate were a taxpayer that

(i) had, as its first functional currency year, its first taxation year that

(A) is a taxation year at any time during which the foreign affiliate is a foreign affiliate of the particular taxpayer,

(B) begins after December 13, 2007, and

(C) ends at least six months after the day that is six months before the end of the particular taxpayer's first functional currency year,

(ii) had as its last Canadian currency year its last taxation year, if any, that ends before its first functional currency year,

(iii) had as its first reversionary year its first taxation year, if any, that begins after the particular taxpayer's last functional currency year,

(iv) is subject to subsection (5) for each of its taxation years that is, or begins after, its first functional currency year and that ends before its first reversionary year,

(v) had as its elected functional currency in respect of each taxation year described in subparagraph (iv) the elected functional currency of the particular taxpayer, and

(vi) had as its last functional currency year its last taxation year, if any, that ends before its first reversionary year; and

(*b*) the Canadian tax results of the foreign affiliate for each taxation year that is a functional currency year or a reversionary year of the foreign affiliate, within the meaning of paragraph (*a*), were its foreign accrual property income, in respect of the particular taxpayer, for that taxation year and any amount that is relevant in determining such foreign accrual property income.

History: S. 261(6.1) was added by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007.

► 261(7) ◄

(7) Converting Canadian currency amounts. In applying this Act to a taxpayer for a particular functional currency year of the taxpayer, the following amounts are to be converted from Canadian currency to the taxpayer's elected functional currency using the relevant spot rate for the last day of the taxpayer's last Canadian currency year:

(*a*) each particular amount that

(i) is, or is relevant to the determination of, an amount that may be deducted under subsection 37(1) or 66(4), element F in the definition "foreign accrual property income" in subsection 95(1), section 110.1 or 111 or subsection 126(2), 127(5), 129(1), 181.1(4) or 190.1(3), in the particular functional currency year, and

(ii) was determined for a Canadian currency year of the taxpayer;

(*b*) the cost to the taxpayer of a property that was acquired by the taxpayer in a Canadian currency year of the taxpayer;

(*c*) an amount that was required by section 53 to be added or deducted in computing, at any time in a Canadian currency year of the taxpayer, the adjusted cost base to the taxpayer of a capital property that was acquired by the taxpayer in such a year;

(*d*) an amount that

(i) is in respect of the taxpayer's undepreciated capital cost of depreciable property of a prescribed class, cumulative eligible capital in respect of a business, cumulative Canadian exploration expense (within the meaning assigned by subsection 66.1(6)), cumulative Canadian development expense (within the meaning assigned by subsection 66.2(5)), cumulative foreign resource expense in respect of a country other than Canada (within the meaning assigned by subsection 66.21(1)) or cumulative Canadian oil and gas property expense (within the meaning assigned by subsection 66.4(5)) (each of which is referred to in this paragraph as a "pool amount"), and

(ii) was added to or deducted from a pool amount of the taxpayer in respect of a Canadian currency year of the taxpayer;

(*e*) an amount that has been deducted or claimed as a reserve in computing the income of the taxpayer for its last Canadian currency year;

(*f*) an outlay or expense referred to in subsection 18(9) that was made or incurred by the taxpayer in respect of a Canadian currency year of the taxpayer, and any amount that was deducted in respect of the outlay or expense in computing the income of the taxpayer for such a year;

(*g*) an amount that was added or deducted in computing the taxpayer's paid-up capital in respect of a class of shares of its capital stock in a Canadian currency year of the taxpayer; and

(*h*) any amount (other than an amount referred to in any of paragraphs (*a*) to (*g*) or any of subsections (6), (6.1) and (8)) determined under the provisions of this Act in or in respect of a Canadian currency year of the taxpayer that is relevant in determining the Canadian tax results of the taxpayer for the particular functional currency year.

History: S. 261(7) was replaced by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007, except that where a taxpayer has, on or before June 27, 2008, made an election under paragraph 261(3)(*b*), if the taxpayer makes a further election in writing, and files it with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act is assented to [R.A. March 12, 2009], the relevant spot rate for a particular day is deemed, for the purposes of subsections 261(7) to (10), to be the average of the rates that would, in the absence of this election, be the

relevant spot rates for each day in the 12-month period that ends on the particular day. S. 261(7) formerly read:

"(7) *Amounts payable or refundable in respect of a functional currency year.* Notwithstanding subsection (4),

(*a*) if, at any particular time, an amount (determined in the taxpayer's functional currency for the particular functional currency year) first becomes payable under this Act by a taxpayer to the Receiver General in respect of a particular functional currency year of the taxpayer,

(i) that amount (determined in the taxpayer's functional currency for the particular functional currency year) is to be converted to Canadian currency using the currency exchange rate on the earlier of the day the amount is so paid and the day that includes the particular time in respect of a conversion of an amount determined in the taxpayer's functional currency for the particular functional currency year into an amount determined in Canadian currency, and

(ii) the amount so determined in Canadian currency under subparagraph (i) is to be paid to the Receiver General in Canadian currency; and

(*b*) if, at any particular time, an amount (determined in a taxpayer's functional currency for the particular functional currency year) first becomes payable under this Act to the taxpayer by the Minister, for a particular functional currency year of the taxpayer, or is deemed to be paid on account of an amount payable by the taxpayer under the Act for that particular functional currency year,

(i) that amount (determined in the taxpayer's functional currency for the particular functional currency year) is to be converted to Canadian currency using the currency exchange rate on the day that includes the particular time in respect of the conversion of an amount determined in the taxpayer's functional currency for the particular functional currency year into an amount determined in Canadian currency, and

(ii) the amount so determined in Canadian currency under subparagraph (i) is to be paid to the taxpayer by the Minister or is deemed to have been paid to the taxpayer by the Minister, as the case may be, in Canadian currency."

S. 261(7) was added by S.C. 2007, c. 35, s. 67(1), applicable in respect of taxation years that begin on or after December 14, 2007.

Tax Topics: No. 1918, New and Improved Functional Currency Proposals.

► 261(8) ◄

(8) Converting pre-transition debts. In determining, at any time in a particular functional currency year of a taxpayer, the amount for which a pre-transition debt of the taxpayer (other than a pre-transition debt denominated in the taxpayer's elected functional currency) was issued and its principal amount at the beginning of the taxpayer's first functional currency year,

(*a*) where the pre-transition debt is denominated in Canadian currency, those amounts are to be converted to the taxpayer's elected functional currency using the relevant spot rate for the last day of the taxpayer's last Canadian currency year; and

(*b*) where the pre-transition debt is denominated in a currency (referred to in this paragraph as the "debt currency") that is neither Canadian currency nor the taxpayer's elected functional currency, those amounts are to be converted from the debt currency to the taxpayer's elected functional currency using the relevant spot rate for the last day of the taxpayer's last Canadian currency year.

History: S. 261(8) was replaced by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007, except that where a taxpayer has, on or before June 27, 2008, made an election under paragraph 261(3)(*b*), if the taxpayer makes a further election in writing, and files it with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act is assented to [R.A. March 12, 2009], the relevant spot rate for a particular day is deemed, for the purposes of subsections 261(7) to (10), to be the average of the rates that would, in the absence of this election, be the relevant spot rates for each day in the 12-month period that ends on the particular day. S. 261(8) formerly read:

"(8) *Application of subsection (9).* Subsection (9) applies to a taxpayer for a particular Canadian currency year that begins after the last functional currency year of the taxpayer."

S. 261(8) was added by S.C. 2007, c. 35, s. 67(1), applicable in respect of taxation years that begin on or after December 14, 2007.

► 261(9) ◄

(9) Pre-transition debts. A pre-transition debt of a taxpayer that is denominated in a currency other than the taxpayer's elected functional currency is deemed to have been issued immediately before the taxpayer's first functional currency year for the purposes of

(*a*) determining the amount of the taxpayer's income, gain or loss, for a functional currency year of the taxpayer (other than an amount that subsection (10) deems to arise), that is attributable to a fluctuation in the value of a currency; and

(*b*) applying paragraph 80(2)(*k*) in respect of a functional currency year of the taxpayer.

History: S. 261(9) was replaced by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007, except that where a taxpayer has, on or before June 27, 2008, made an election under paragraph 261(3)(*b*), if the taxpayer makes a further election in writing, and files it with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act is assented to [R.A. March 12, 2009], the relevant spot rate for a particular day is deemed, for the purposes of subsections 261(7) to (10), to be the average of the rates that would, in the absence of this election, be the relevant spot rates for each day in the 12-month period that ends on the particular day. S. 261(9) formerly read:

"(9) *Converting functional currency amounts.* Where, because of subsection (8), this subsection applies to a taxpayer for a particular Canadian currency year of the taxpayer, in applying this Act to the taxpayer for that particular Canadian currency year, the following rules apply:

(*a*) subject to subparagraph (10)(*a*)(iii), in determining the amount (expressed in Canadian currency) that may be deducted, or relevant in determining the amount that may be deducted, under subsection 37(1) or 66(4), section 110.1 or 111 or subsection 126(2), 127(5), 129(1), 181.1(4) or 190.1(3) in the particular Canadian currency year,

(i) each amount (determined in the taxpayer's functional currency for the functional currency year of the taxpayer) that is relevant to the determination and that was first required to be determined in a functional currency year of the taxpayer that preceded the particular Canadian currency year, is to be converted to Canadian currency using the reversionary exchange rate of the taxpayer for that functional currency year, and

(ii) each amount (determined in Canadian currency) that is relevant to the determination and that was first required to be determined in a Canadian currency year of the taxpayer preceding the particular Canadian currency year is the amount that was so determined in Canadian currency in that Canadian currency year;

(*b*) in determining, at any time in the particular Canadian currency year, the cost (expressed in Canadian currency) to the taxpayer of a property,

(i) where the property was acquired by the taxpayer in a functional currency year of the taxpayer preceding the particular Canadian currency year, the cost (determined in the taxpayer's functional currency for the functional currency year) to the taxpayer of the property is to be converted to Canadian currency using the reversionary exchange rate of the taxpayer for that functional currency year, and

(ii) where the property was acquired by the taxpayer in a Canadian currency year of the taxpayer preceding the particular Canadian currency year, the cost (determined in Canadian currency) to the taxpayer of the property is the cost so determined in Canadian currency in that Canadian currency year;

(*c*) in determining, at any time in the particular Canadian currency year, the adjusted cost base (expressed in Canadian currency) to the taxpayer of a capital property,

(i) each amount (determined in the taxpayer's functional currency for the functional currency year) that is required by section 53 to be added or deducted in computing the adjusted cost base of the property to the taxpayer and was first required by that section to be added or deducted at any time in a functional currency year of the taxpayer preceding the particular Canadian currency year is to be converted to Canadian currency using the reversionary exchange rate of the taxpayer for that functional currency year, and

(ii) each amount (determined in Canadian currency) that is required by section 53 to be added or deducted in computing the adjusted cost base of the property to the taxpayer and was first required by that section to be added or deducted at any time in a Canadian currency year of the taxpayer preceding the particular Canadian currency year is the amount that was so determined in Canadian currency in that Canadian currency year;

(*d*) in determining, at any time in the particular Canadian currency year, the amount (expressed in Canadian currency) of the taxpayer's undepreciated capital cost of depreciable property of a prescribed class, cumulative eligible capital in respect of a business, cumulative Canadian exploration expense (within the meaning assigned by subsection 66.1(6)), cumulative Canadian development expense (within the meaning assigned by subsection 66.2(5)), cumulative foreign resource expense in respect of a country other than Canada (within the meaning assigned by subsection 66.21(1)) and cumulative Canadian oil and gas property expense (within the meaning assigned by subsection 66.4(5)), (each of which is referred to in this paragraph as a "pool amount"),

(i) each amount (determined in the taxpayer's functional currency for the functional currency year) that is required to be added to or deducted from a particular pool amount of the taxpayer and was first required to be added or deducted in respect of a functional currency year of the taxpayer preceding the particular Canadian currency year is to be converted to Canadian currency using the reversionary exchange rate of the taxpayer for that functional currency year, and

(ii) each amount (determined in Canadian currency) that is required to be added to or deducted from a particular pool amount of the taxpayer and was first required to be added or deducted in respect of a Canadian currency year of the taxpayer preceding the particular Canadian currency year is the amount that was so determined in Canadian currency in that Canadian currency year;

(*e*) in determining any amount (expressed in Canadian currency) that has been deducted or claimed as a reserve in computing the income of the taxpayer for its last functional currency year preceding the particular Canadian currency year, that amount (determined in the taxpayer's functional currency for the last functional currency year) deducted or claimed as a reserve for that last functional currency year is to be converted to Canadian currency using the reversionary exchange rate of the taxpayer for that last functional currency year;

(*f*) in determining the amount (expressed in Canadian currency) of any outlay or expense referred to in subsection 18(9) that was made or incurred by the taxpayer and the amount that was deducted by the taxpayer in respect of that outlay or expense in respect of a taxation year of the taxpayer preceding the particular Canadian currency year,

(i) such of those amounts (determined in the taxpayer's functional currency for the functional currency year) that were first made or incurred or deducted by the taxpayer in or in respect of a functional currency year of the taxpayer preceding the particular Canadian currency year are to be converted to Canadian currency using the reversionary exchange rate of the taxpayer for that functional currency year, and

(ii) such of those amounts (determined in Canadian currency) that were first made or incurred or deducted by the taxpayer in or in respect of a Canadian currency year of the taxpayer preceding the particular Canadian currency year are the amounts that were so determined in Canadian currency in that Canadian currency year;

(*g*) in determining, at any time in the particular Canadian currency year, the amount (expressed in Canadian currency) of the taxpayer's paid-up capital in respect of any class of shares of its capital stock,

(i) any amount (determined in the taxpayer's functional currency for the functional currency year) that was first added or deducted in computing the taxpayer's paid-up capital in respect of the class in a functional currency year of the taxpayer preceding the particular Canadian currency year is to be converted to Canadian currency using the reversionary exchange rate of the taxpayer for that functional currency year, and

(ii) any amount (determined in Canadian currency) that was first added or deducted in computing the taxpayer's paid-up capital in respect of the class in a Canadian currency year of the taxpayer preceding the particular Canadian currency year is the amount that was so determined in Canadian currency in that Canadian currency year;

(*h*) where an obligation was issued in a taxation year of the taxpayer preceding the initial reversionary year of the taxpayer, in determining, at any time in the particular Canadian currency year, the amount (expressed in Canadian currency) for which an obligation was issued, the principal amount (expressed in Canadian currency) of the obligation, the amounts (expressed in Canadian currency) paid in satisfaction of the principal amount of the obligation, and the amount (determined in Canadian currency), if any, of any gain or loss attributable to the fluctuation in the value of the Canadian currency relative to the value of the currency in which the obligation was issued,

(i) subject to paragraph (*i*), where the obligation was issued in a currency other than Canadian currency,

(A) the amount (determined in the currency in which the obligation was issued) for which the obligation was issued and the principal amount (determined in the currency in which the obligation was issued) of the obligation are

(I) where the taxation year of the taxpayer in which the obligation was issued was a Canadian currency year of the taxpayer, the amounts (determined in Canadian currency) that were so determined in Canadian currency in that Canadian currency year, or

(II) where the taxation year of the taxpayer in which the obligation was issued was a functional currency year of the taxpayer, the amounts determined by converting those amounts (determined in the taxpayer's functional currency for the functional currency year) to Canadian currency by using the reversionary exchange rate of the taxpayer for that functional currency year, and

(B) the amounts (determined in the currency in which the obligation was issued) paid at any time in a taxation year of the taxpayer preceding the initial reversionary year of the taxpayer in satisfaction of the principal amount of the obligation are

(I) where the taxation year of the taxpayer in which an amount was paid was a Canadian currency year of the taxpayer, the amount (determined in Canadian currency) that was so determined in Canadian currency in that Canadian currency year, or

(II) where the taxation year of the taxpayer in which an amount was paid was a functional currency year of the taxpayer, the amount determined by converting that amount (determined in the taxpayer's functional currency for the functional currency year) to Canadian currency by using the reversionary exchange rate of the taxpayer for that functional currency year, and

(ii) where the obligation was issued in Canadian currency, the amount (determined in Canadian currency) for which the obligation was issued, the principal amount (determined in Canadian currency) of the obligation and the amounts (determined in Canadian currency) paid, in a taxation year of the taxpayer preceding the initial reversionary year of the taxpayer, in satisfaction of the principal amount of the obligation, are the amounts so determined in Canadian currency in those preceding years;

(*i*) where an obligation was issued in a currency other than Canadian currency in a taxation year of the taxpayer preceding the initial reversionary year of the taxpayer, in determining, in respect of subsection 79(7) or paragraph 80(2)(*k*) or 142.7(8)(*b*), the amount (expressed in Canadian currency) for which the obligation was issued, the principal amount (determined in Canadian currency) of the obligation, and the amounts (determined in Canadian currency) paid in satisfaction of the principal amount of the obligation, at any time in the particular Canadian currency year, those amounts are to be determined as if subsections (1) to (7) had not applied to the taxpayer for any preceding taxation year;

(*j*) where the particular Canadian currency year is the initial reversionary year of the taxpayer, for the purpose of determining the taxpayer's first instalment base or second instalment base in the particular Canadian currency year, the amount (determined in the taxpayer's functional currency for the functional currency year) of tax payable by the taxpayer under Part I for the last functional currency year of the taxpayer is to be converted to Canadian currency using the reversionary exchange rate of the taxpayer for that last functional currency year; and

(*k*) in determining any amount (determined in Canadian currency and referred to in this paragraph as the 'specified amount'), at any time in the particular Canadian currency year, other than an amount referred to in paragraphs (*a*) to (*j*), that is relevant in determining the Canadian tax results of the taxpayer for the particular Canadian currency year

(i) any amount (determined in the taxpayer's functional currency for the functional currency year) that is relevant in determining the specified amount and was first determined in or in respect of a functional currency year of the taxpayer preceding the particular Canadian currency year, is to be converted to Canadian currency using the reversionary exchange rate of the taxpayer for that functional currency year, and

(ii) any amount (determined in Canadian currency) that is relevant in determining the specified amount and was first determined in or in respect of a Canadian currency year of the taxpayer preceding the particular Canadian currency year is the amount that was so determined in Canadian currency in that Canadian currency year."

S. 261(9) was added by S.C. 2007, c. 35, s. 67(1), applicable in respect of taxation years that begin on or after December 14, 2007.

Tax Topics: No. 1918, New and Improved Functional Currency Proposals.

► 261(10) ◄

(10) Deferred amounts relating to pre-transition debts. If a taxpayer has, at any time in a taxation year that is a functional currency year or a reversionary year of the taxpayer, made a particular payment on account of the principal amount of a pre-transition debt of the taxpayer:

(*a*) where the taxpayer would have made a gain — or, if the pre-transition debt was not on account of capital, would have had income — (referred to in this paragraph as the "hypothetical gain or income") attributable to a fluctuation in the value of a currency if the pre-transition debt had been settled by the taxpayer's having paid, immediately before the end of its last Canadian currency year, an amount equal to the principal amount (expressed in

the currency in which the pre-transition debt is denominated, which currency is referred to in this subsection as the "debt currency") at that time, the taxpayer is deemed to make a gain or to have income, as the case may be, for the taxation year equal to the amount determined by the formula

$$A \times B/C$$

where

A is

(i) if the taxation year is a functional currency year of the taxpayer, the amount of the hypothetical gain or income converted to the taxpayer's elected functional currency using the relevant spot rate for the last day of the taxpayer's last Canadian currency year, and

(ii) if the taxation year is a reversionary year of the taxpayer, the amount determined under subparagraph (i) converted to Canadian currency using the relevant spot rate for the last day of the taxpayer's last functional currency year,

B is the amount of the particular payment (expressed in the debt currency), and

C is the principal amount of the pre-transition debt at the beginning of the taxpayer's first functional currency year (expressed in the debt currency); and

(*b*) where the taxpayer would have sustained a loss — or, if the pre-transition debt was not on account of capital, would have had a loss — (referred to in this paragraph as the "hypothetical loss") attributable to a fluctuation in the value of a currency if the pre-transition debt had been settled by the taxpayer's having paid, immediately before the end of its last Canadian currency year, an amount equal to the principal amount (expressed in the debt currency) at that time, the taxpayer is deemed to sustain or to have a loss in respect of the particular payment for the taxation year equal to the amount that would be determined by the formula in paragraph (*a*) if the reference in the description of A in that paragraph to "hypothetical gain or income" were read as a reference to "hypothetical loss".

History: S. 261(10) was replaced by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007, except that where a taxpayer has, on or before June 27, 2008, made an election under paragraph 261(3)(*b*), if the taxpayer makes a further election in writing, and files it with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act is assented to [R.A. March 12, 2009], the relevant spot rate for a particular day is deemed, for the purposes of subsections 261(7) to (10), to be the average of the rates that would, in the absence of this election, be the relevant spot rates for each day in the 12-month period that ends on the particular day. S. 261(10) formerly read:

"(10) *Functional currency and Canadian currency amounts carried back.* In determining an amount that a taxpayer may claim under section 111 or subsection 126(2), 127(5), 181.1(4) or 190.1(3), for a particular taxation year of the taxpayer, the following rules apply:

(*a*) if the particular taxation year is a Canadian currency year of the taxpayer, the amount that may be claimed (determined in Canadian currency) is to be determined,

(i) by converting each amount (determined in the taxpayer's functional currency for the particular functional currency year) of a loss incurred, tax credit arising and expenditure made in or in respect of a particular functional currency year of the taxpayer that ends after the particular taxation year to Canadian currency using the currency exchange rate in respect of the conversion of an amount determined in the taxpayer's functional currency for the particular functional currency year into an amount determined in Canadian currency on the last day of that particular functional currency year,

(ii) as if each amount (determined in Canadian currency) of a loss incurred, tax credit arising, expenditure made and deduction claimed in or in respect of a Canadian currency year of the taxpayer were the amount of that loss incurred, tax credit arising, expenditure made and deduction claimed in Canadian currency in or in respect of that Canadian currency year of the taxpayer, and

(iii) by converting each amount (determined in the taxpayer's functional currency for the particular functional currency year) claimed in or in respect of a particular functional currency year of the taxpayer preceding the initial reversionary year of the taxpayer (in respect of an amount of loss incurred, tax credit arising or expenditure made by a taxpayer in or in respect of a Canadian currency year) to Canadian currency using the currency exchange rate on the last day of the Canadian currency year of the taxpayer in or in respect of which the amount claimed arose in respect of the conversion of an amount determined in the taxpayer's functional currency for the particular functional currency year to an amount determined in Canadian currency; and

(*b*) if the particular taxation year is a functional currency year of the taxpayer, the amount that may be claimed (determined in the taxpayer's functional currency for the particular taxation year) is to be determined,

(i) by converting each amount (determined in Canadian currency) of a loss incurred, tax credit arising and expenditure made in or in respect of a particular Canadian currency year of the taxpayer that ends after the particular taxation year to the taxpayer's functional currency for the particular taxation year using the currency exchange rate in respect of the conversion of an amount determined in Canadian currency into an amount determined in the taxpayer's functional currency for the particular taxation year on the last day of that particular Canadian currency year,

(ii) as if each amount (determined in the taxpayer's functional currency for the particular taxation year) of a loss incurred, tax credit arising, expenditure made and deduction claimed in or in respect of a functional currency year of the taxpayer were the amount of that loss incurred, tax credit arising, expenditure made and deduction claimed in the taxpayer's functional currency for the particular taxation year, and

(iii) by converting each amount (determined in Canadian currency) claimed in or in respect of a particular Canadian currency year of the taxpayer preceding the initial functional currency year of the taxpayer (in respect of an amount of loss incurred, tax credit arising or expenditure made by a taxpayer in or in respect of a functional currency year of the taxpayer) to the taxpayer's functional currency for the particular taxation year using the currency exchange rate on the last day of the functional currency year of the taxpayer in or in respect of which the amount claimed arose in respect of the conversion of an amount determined in Canadian currency to an amount determined in the taxpayer's functional currency for the particular taxation year."

S. 261(10) was added by S.C. 2007, c. 35, s. 67(1), applicable on and after December 14, 2007.

Tax Topics: No. 1918, New and Improved Functional Currency Proposals.

► 261(11) ◄

(11) Determination of amounts payable. Notwithstanding subsections (5) and (7), for the purposes of applying this Act in respect of a functional currency year (referred to in this subsection as the "particular taxation year") of a taxpayer,

(*a*) for the purposes of determining the taxpayer's payment obligations under paragraph 157(1)(*a*) or (1.1)(*a*),

(i) the estimated amounts, each of which is described in subparagraph 157(1)(*a*)(i) or (1.1)(*a*)(i), that are payable by the taxpayer for the particular taxation year are to be determined by converting those amounts, as determined in the taxpayer's elected functional currency, to Canadian currency using the relevant spot rate for the day on which those amounts are due,

(ii) the taxpayer's first instalment base (within the meaning assigned by subsection 157(4)) for the particular taxation year is to be determined

(A) if the particular taxation year is the taxpayer's first functional currency year, without reference to this section, and

(B) in any other case, as if the taxes payable by the taxpayer for the taxpayer's functional currency year (referred to in this paragraph as the "first base year") immediately preceding the particular taxation year were the total of

(I) the total of the taxpayer's payment obligations under paragraph 157(1)(*a*) or (1.1)(*a*), as determined with reference to this subparagraph or subparagraph (i) or (iii), as the case may be, in respect of the first base year, and

(II) the amount, if any, of the remainder of the taxes payable by the taxpayer under paragraph 157(1)(*b*) or (1.1)(*b*), as determined under paragraph (*b*), in respect of the first base year, and

(iii) the taxpayer's second instalment base (within the meaning assigned by subsection 157(4)) for the particular taxation year is to be determined

(A) if the particular taxation year is the taxpayer's first functional currency year or its taxation year that immediately follows its first functional currency year, without reference to this section, and

(B) in any other case, as if the taxes payable by the taxpayer for the taxpayer's functional currency year (referred to in this subparagraph as the "second base year") immediately preceding the first base year were the total of

(I) the total of the taxpayer's payment obligations under paragraph 157(1)(*a*) or (1.1)(*a*), as determined with reference to this subparagraph or subparagraph (i) or (ii), as the case may be, in respect of the second base year, and

(II) the amount, if any, of the remainder of the taxes payable by the taxpayer under paragraph 157(1)(*b*) or (1.1)(*b*), as determined under paragraph (*b*), in respect of the second base year;

(*b*) the remainder of the taxes payable by the taxpayer under paragraph 157(1)(*b*) or (1.1)(*b*) for the particular taxation year is the amount, if any, determined by

(i) computing the amount, if any, by which

(A) the total of the taxes payable by the taxpayer under this Part and Parts VI, VI.1 and XIII.1 for the particular taxation year, as determined in the taxpayer's elected functional currency

exceeds

(B) the total of all amounts each of which is the amount determined by converting the amount of a payment obligation — determined by paragraph 157(1)(*a*) or (1.1)(*a*), as the case may be, with reference to subparagraph (*a*)(i), (ii) or (iii), as the case may be — of the taxpayer in respect of the particular taxation year to the taxpayer's elected functional currency using the relevant spot rate for the day on which the payment obligation was due, and

(ii) converting the amount, if any, determined by subparagraph (i) to Canadian currency using the relevant spot rate for the taxpayer's balance-due day for the particular taxation year;

(*c*) for the purposes of determining any amount (other than tax) that is payable by the taxpayer under this Part or Part VI, VI.1 or XIII.1 for the particular taxation year, the taxpayer's tax payable under the Part for the particular taxation year is deemed to be equal to the total of

(i) the total of the taxpayer's payment obligations under paragraph 157(1)(*a*) or (1.1)(*a*), in respect of the Part, as determined with reference to subparagraph (*a*)(i), (ii) or (iii), as the case may be, in respect of the particular taxation year, and

(ii) the amount, if any, of the remainder of the taxes payable by the taxpayer under paragraph 157(1)(*b*) or (1.1)(*b*), in respect of the Part, as determined under paragraph (*b*), in respect of the particular taxation year;

(*d*) amounts of tax that are payable under this Act (except under this Part and Parts VI, VI.1 and XIII.1) by the taxpayer for the particular taxation year are to be determined by converting those amounts, as determined in the taxpayer's elected functional currency, to Canadian currency using the relevant spot rate for the day on which those amounts are due;

(*e*) if a particular amount that is determined in the taxpayer's elected functional currency is deemed to be paid at any time on account of an amount payable by the taxpayer under this Act for the particular taxation year, the particular amount is to be converted to Canadian currency using the relevant spot rate for the day that includes that time;

(*f*) the following amounts are to be determined in the taxpayer's elected functional currency and converted to Canadian currency using the relevant spot rate for the taxpayer's balance-due day for the particular taxation year:

(i) amounts described in paragraph 163(1)(*a*) in respect of the particular taxation year, and

(ii) the amount of the taxpayer's taxable capital employed in Canada, for the purpose of applying section 235; and

(*g*) for greater certainty, all amounts payable by the taxpayer under this Act in respect of the particular taxation year are to be paid in Canadian currency.

History: S. 261(11) was replaced by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007. S. 261(11) formerly read:

"(11) *Subsection 88(1) wind-ups — effect on subsidiary.* Subsection (12) applies to a corporation (referred to in this subsection and subsection (12) as the 'subsidiary') that has been wound up into another corporation (referred to in this subsection as the 'parent') if

(*a*) subsection 88(1) applied to the subsidiary and the parent in respect of the winding-up of the subsidiary;

(*b*) the taxation year of the subsidiary (referred to in this subsection and subsection (12) as the 'distribution year of the subsidiary') in which any portion of a property (such portion of the property referred to in this subsection as the 'distributed property') of the subsidiary was distributed to the parent, or any portion of an obligation (such portion of the obligation referred to in this subsection as the 'assumed obligation') of the subsidiary was assumed by the parent, on the winding-up of the subsidiary would, were this section read without reference to this subsection, be a functional currency year of the subsidiary; and

(*c*) either

(i) where the taxation year of the parent (referred to in this paragraph as the 'acquisition year of the parent') in which the subsidiary distributed the distributed property to the parent, or the assumed obligation of the subsidiary was assumed by the parent, on the winding-up of the subsidiary was a functional currency year of the parent, the functional

currency for the acquisition year of the parent was not the functional currency of the subsidiary for the distribution year of the subsidiary, or

(ii) the acquisition year of the parent was not a functional currency year of the parent."

S. 261(11) was added by S.C. 2007, c. 35, s. 67(1), applicable in respect of taxation years that begin on or after December 14, 2007.

► 261(12) ◄

(12) Application of subsections (7) and (8) to reversionary years. In applying this Act to a reversionary year of a taxpayer, subsections (7) and (8) are to be read as if the references in those subsections to

(*a*) "Canadian currency" were references to "the taxpayer's elected functional currency";

(*b*) "Canadian currency year" were references to "functional currency year";

(*c*) "functional currency year" were references to "reversionary year";

(*d*) "first functional currency year" were references to "first reversionary year";

(*e*) "last Canadian currency year" were references to "last functional currency year";

(*f*) "pre-transition debt" were references to "pre-reversion debt"; and

(*g*) "the taxpayer's elected functional currency" were references to "Canadian currency".

History: S. 261(12) was replaced by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007. S. 261(12) formerly read:

"(12) *Taxation year of subsidiary.* Where, because of subsection (11), this subsection applies to the subsidiary, for the purposes of this section

(*a*) the last taxation year of the subsidiary that ends before the beginning of the distribution year of the subsidiary is deemed to be the last functional currency year of the subsidiary; and

(*b*) subsection (4) is deemed not to apply to the subsidiary for each taxation year of the subsidiary commencing after the end of the last functional currency year of the subsidiary described in paragraph (*a*)."

S. 261(12) was added by S.C. 2007, c. 35, s. 67(1), applicable in respect of taxation years that begin on or after December 14, 2007.

► 261(13) ◄

(13) Pre-reversion debts. A pre-reversion debt of a taxpayer that is denominated in a currency other than Canadian currency is deemed to have been issued immediately before the taxpayer's first reversionary year for the purposes of

(*a*) determining the amount of the taxpayer's income, gain or loss, for a reversionary year of the taxpayer (other than an amount that subsection (14) deems to arise), that is attributable to a fluctuation in the value of a currency; and

(*b*) applying paragraph 80(2)(*k*) in respect of a reversionary year of the taxpayer.

History: S. 261(13) was replaced by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007. S. 261(13) formerly read:

"(13) *Amalgamations — effect on predecessor corporations.* Subsection (14) applies to a corporation (referred to in this subsection and subsection (14) as the 'specified predecessor') that has merged with one or more other corporations to form one corporate entity (referred to in this subsection as the 'new corporation') if

(*a*) the merger was an amalgamation (within the meaning assigned by subsection 87(1));

(*b*) the taxation year of the specified predecessor (referred to in this subsection and subsection (14) as the "last taxation year of the specified predecessor") that ended immediately before the amalgamation would, were this section read without reference to subsection (14), be a functional currency year of the specified predecessor; and

(*c*) either

(i) where the taxation year of the new corporation (referred to in this paragraph as the 'first taxation year of the new corporation') that began at the time of the amalgamation was a functional currency year of the new corporation, the functional currency of the new corporation for the first taxation year of the new corporation was not the functional currency of the specified predecessor for the last taxation year of the specified predecessor, or

(ii) the first taxation year of the new corporation was not a functional currency year of the new corporation."

S. 261(13) was added by S.C. 2007, c. 35, s. 67(1), applicable in respect of taxation years that begin on or after December 14, 2007.

► 261(14) ◄

(14) Deferred amounts relating to pre-reversion debts. If a taxpayer has, at any time in a reversionary year of the taxpayer, made a particular payment on account of the principal amount of a pre-reversion debt of the taxpayer:

(*a*) where the taxpayer would have made a gain — or, if the pre-reversion debt was not on account of capital, would have had income — (referred to in this paragraph as the "hypothetical gain or income") attributable to a fluctuation in the value of a currency if the pre-reversion debt had been settled by the taxpayer's having paid, immediately before the end of its last functional currency year, an amount equal to the principal amount (expressed in the currency in which the pre-reversion debt is denominated, which currency is referred to in this subsection as the "debt currency") at that time, the taxpayer is deemed to make a gain or to have income, as the case may be, for the reversionary year equal to the amount determined by the formula

$$A \times B/C$$

where

A is the amount of the hypothetical gain or income converted to Canadian currency using the relevant spot rate for the last day of the taxpayer's last functional currency year,

B is the amount of the particular payment (expressed in the debt currency), and

C is the principal amount of the pre-reversion debt at the beginning of the taxpayer's first reversionary year (expressed in the debt currency); and

(*b*) where the taxpayer would have sustained a loss — or, if the pre-reversion debt was not on account of capital, would have had a loss — (referred to in this paragraph as the "hypothetical loss") attributable to a fluctuation in the value of a currency if the pre-reversion debt had been settled by the taxpayer's having paid, immediately before the end of its last functional currency year, an amount equal to the principal amount (expressed in the debt currency) at that time, the taxpayer is deemed to sustain or to have a loss in respect of the particular payment for the reversionary year equal to the amount that would be determined by the formula in paragraph (*a*) if the reference in the description of A in that paragraph to "hypothetical gain or income" were read as a reference to "hypothetical loss".

History: S. 261(14) was replaced by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007. S. 261(14) formerly read:

"(14) *Taxation year of specified predecessor.* Where, because of subsection (13), this subsection applies to the specified predecessor, for the purposes of this section

(*a*) the taxation year of the specified predecessor that ends immediately before the beginning of the last taxation year of the specified predecessor is deemed to be the last functional currency year of the specified predecessor; and

(*b*) subsection (4) is deemed not to apply to the specified predecessor corporation for each taxation year of the specified predecessor commencing after the end of the last functional currency year of the specified predecessor described in paragraph (*a*)."

S. 261(14) was added by S.C. 2007, c. 35, s. 67(1), applicable in respect of taxation years that begin on or after December 14, 2007.

► 261(15) ◄

(15) Amounts carried back. For the purposes of determining the amount that may be deducted, in respect of a particular amount that arises in a taxation year (referred to in this subsection as the "later year") of a taxpayer, under section 111 or subsection 126(2), 127(5), 181.1(4) or 190.1(3) in computing the taxpayer's Canadian tax results for a taxation year (referred to in this subsection as the "current year") that ended before the later year,

(*a*) if the later year is a functional currency year of the taxpayer and the current year is a Canadian currency year of the taxpayer, the following amounts (expressed in the taxpayer's elected functional currency) are to be converted to Canadian currency using the relevant spot rate for the last day of the taxpayer's last Canadian currency year:

(i) the particular amount, and

(ii) any amount so deducted in computing the taxpayer's Canadian tax results for another functional currency year of the taxpayer;

(*b*) if the later year is a reversionary year of the taxpayer and the current year is a functional currency year of the taxpayer,

(i) the following amounts (expressed in Canadian currency) are to be converted to the taxpayer's elected functional currency using the relevant spot rate for the last day of the taxpayer's last functional currency year:

(A) the particular amount, and

(B) any amount so deducted in computing the taxpayer's Canadian tax results for another reversionary year of the taxpayer, and

(ii) any amount (expressed in Canadian currency) so deducted in computing the taxpayer's Canadian tax results for a Canadian currency year of the taxpayer is to be converted to the taxpayer's elected functional currency using the relevant spot rate for the last day of the taxpayer's last Canadian currency year;

(*c*) if the later year is a reversionary year of the taxpayer and the current year is a Canadian currency year of the taxpayer, the following amounts (expressed in the taxpayer's elected functional currency) are to be converted to Canadian currency using the relevant spot rate for the last day of the taxpayer's last Canadian currency year:

(i) the amount that would be determined under clause (*b*)(i)(A) in respect of the particular amount if the current year were a functional currency year of the taxpayer, and

(ii) any amount so deducted in computing the taxpayer's Canadian tax results for a functional currency year of the taxpayer; and

(*d*) in any other case, this subsection does not apply.

History: S. 261(15) was replaced by S.C. 2009, c. 2, s. 80(1), applicable after December 13, 2007. S. 261(15) formerly read:

"(15) *Deemed continuation on winding-up or amalgamation.* For the purpose of this section,

(*a*) subject to subsection (16), where there has been a winding-up of a taxpayer (referred to in this subsection and subsection (16) as the 'subsidiary') into another taxpayer (referred to in this subsection and subsection (16) as the 'parent') to which subsection 88(1) has applied, the parent is deemed to be the same corporation as and a continuation of the subsidiary; and

(*b*) subject to subsection (17), where there has been an amalgamation (within the meaning assigned by subsection 87(1)) of two or more corporations (each such taxpayer referred to in this subsection and subsection (17) as a 'predecessor') to form one corporate entity (referred to in this subsection and subsection (17) as the 'new corporation') the new corporation is deemed to be the same corporation as and a continuation of each such predecessor corporation."

S. 261(15) was added by S.C. 2007, c. 35, s. 67(1), applicable in respect of taxation years that begin on or after December 14, 2007.

► 261(16) ◄

(16) Windings-up. If a winding-up described in subsection 88(1) commences at any time (referred to in this subsection as the "commencement time") and the parent and the subsidiary referred to in that subsection would, in the absence of this subsection, have different tax reporting currencies at the commencement time, the following rules apply for the purposes of determining the subsidiary's Canadian tax results for its taxation years that end after the commencement time:

(*a*) where the subsidiary's tax reporting currency is Canadian currency,

(i) notwithstanding subsection (3), subsection (5) is deemed to apply to the subsidiary in respect of its taxation year that includes the commencement time and each of its subsequent taxation years, if any,

(ii) the subsidiary is deemed to have as its elected functional currency the parent's tax reporting currency, and

(iii) if the subsidiary's taxation year that includes the commencement time would, in the absence of this subsection, be a reversionary year of the subsidiary, this section is to be read with any modifications that the circumstances require; and

(*b*) where the subsidiary's tax reporting currency is not Canadian currency,

(i) the subsidiary is deemed to have filed, at the time that is six months and one day before the beginning of its taxation year that includes the commencement time, in prescribed form and manner, a notice of revocation described in subsection (4), and

(ii) if the parent's tax reporting currency is not Canadian currency,

(A) the subsidiary's first reversionary year is deemed to have ended at the particular time that is immediately after the time at which it began,

(B) a new taxation year of the subsidiary is deemed to have begun immediately after the particular time,

(C) notwithstanding subsection (3), subsection (5) is deemed to apply to the subsidiary in respect of its taxation year that includes the commencement time and each of its subsequent taxation years, if any, and

(D) the subsidiary is deemed to have as its elected functional currency the parent's tax reporting currency.

History: S. 261(16) was replaced by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007. S. 261(16) formerly read:

"(16) *Exception to deemed continuation — winding-up.* Where the parent would not, in a taxation year of the parent ending after the time the subsidiary was wound up, satisfy the requirements of paragraph (3)(*e*) because the last functional currency year of the subsidiary referred to in subsection (12) in respect of the winding-up is, because of paragraph (15)(*a*), the last functional currency year of the parent, paragraph (15)(*a*) shall not apply, for the purposes of paragraph (3)(*e*), to the parent in respect of the subsidiary if the total of all amounts each of which is the cost amount, at the end of the taxation year of the parent in which the property of the subsidiary was distributed to the parent in the course of winding-up, to the parent of a property that was distributed to the parent on the winding-up (or property substituted for such property) is less than 50% of the total of all amounts each of which is the cost amount, at the end of that taxation year, to the parent of a property of the parent."

S. 261(16) was added by S.C. 2007, c. 35, s. 67(1), applicable in respect of taxation years that begin on or after December 14, 2007.

Tax Topics: No. 1918, New and Improved Functional Currency Proposals.

► 261(17) ◄

(17) Amalgamations. If a predecessor corporation and the new corporation, in respect of an amalgamation within the meaning of subsection 87(1), have different tax reporting currencies for their last and first taxation years, respectively, paragraphs (16)(*a*) and (*b*) apply, for the purposes of determining the predecessor corporation's Canadian tax results for its last taxation year, as if the tax reporting currencies referred to in those paragraphs were the tax reporting currencies referred to in this subsection and as if the references in those paragraphs to

(*a*) "subsidiary" were references to "predecessor corporation";

(*b*) "parent" were references to "new corporation"; and

(*c*) "taxation year that includes the commencement time" were references to "last taxation year".

History: S. 261(17) was replaced by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007. S. 261(17) formerly read:

"(17) *Exception to deemed continuation — amalgamation.* Where the new corporation would not, in a taxation year of the new corporation commencing on or after the time of the amalgamation, satisfy the requirements of paragraph (3)(*e*) because the last functional currency year of the predecessor referred to in subsection (14) in respect of the amalgamation is, because of paragraph (15)(*b*) the last functional currency year of the new corporation, paragraph (15)(*b*) shall not apply, for the purposes of paragraph (3)(*e*), to the new corporation in respect of the predecessor if the total of all amounts each of which is the cost amount, at the end of the taxation year of the new corporation that began at the time of the amalgamation, to the new corporation of a property that, immediately before the amalgamation, was a property of the predecessor (or property substituted for such property) is less than 50% of the total of all amounts each of which is the cost amount, at the end of that taxation year of the new corporation, to the new corporation of a property of the new corporation."

S. 261(17) was added by S.C. 2007, c. 35, s. 67(1), applicable in respect of taxation years that begin on or after December 14, 2007.

Tax Topics: No. 1918, New and Improved Functional Currency Proposals.

► 261(18) ◄

(18) Anti-avoidance. The Canadian tax results of a corporation for any one or more taxation years shall be determined using a particular currency if

(*a*) at any time (referred to in this subsection as the "transfer time") one or more properties are directly or indirectly transferred

(i) by the corporation to another corporation (referred to in this subsection as the "transferor" and the "transferee", respectively), or

(ii) by another corporation to the corporation (referred to in this subsection as the "transferor" and the "transferee", respectively);

(*b*) the transferor and the transferee are related at the transfer time or become related in the course of a series of transactions or events that includes the transfer;

(*c*) the transfer time

(i) is, or would in the absence of subsections (16) and (17) be, in a functional currency year of the transferor and the transferor and the transferee have, or would in the absence of those subsections have, different tax reporting currencies at the transfer time, or

(ii) is, or would in the absence of those subsections be, in a reversionary year of the transferor and is not in a reversionary year of the transferee;

(*d*) it can reasonably be considered that one of the main purposes of the transfer or of any portion of a series of transactions or events that includes the transfer is to change, or to enable the changing of, the currency in which the Canadian tax results in respect of the property, or property substituted for it, for a taxation year would otherwise be determined; and

(*e*) the Minister directs that those Canadian tax results be determined in the particular currency.

History: S. 261(18) was replaced by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007. S. 261(18) formerly read:

"(18) *Anti-avoidance.* Where, at any time, all or substantially all of the property (referred to in this subsection as the 'transferred property') of a business (referred to in this subsection as the 'transferred business') of a taxpayer has been disposed of by the taxpayer (referred to in this subsection as the 'transferor') and acquired, either directly or indirectly by a corporation resident in Canada (referred to in this subsection as the 'transferee') that, immediately after the acquisition, was related to the taxpayer, and a taxation year of the transferor beginning before that time was a functional currency year of the transferor, for the purposes of this section, the transferee is deemed to be the same corporation as and a continuation of the transferor if the total of all amounts each of which is the cost amount, at the end of the taxation year of the transferee in which the transferred business was transferred, to the transferee of a property that was a transferred property (or property substituted for such property) is greater than 50% of the total of all amounts each of which is the cost amount, at the end of that taxation year of the transferee, to the transferee of a property of the transferee."

S. 261(18) was added by S.C. 2007, c. 35, s. 67(1), applicable in respect of taxation years that begin on or after December 14, 2007.

Tax Topics: No. 1918, New and Improved Functional Currency Proposals.

► 261(19) ◄

(19) Mergers. For the purposes of subsection (18), if one corporate entity (referred to in this subsection as the "new corporation") is formed at a particular time by the amalgamation or other merger of two or more corporations (each of which is referred to in this subsection as a "predecessor corporation"),

(*a*) the predecessor corporation is deemed to have transferred to the new corporation at the time (referred to in this subsection as the "merger transfer time") that is immediately before the particular time each property that was held at the merger transfer time by the predecessor corporation and at the particular time by the new corporation;

(*b*) the new corporation is deemed to exist, and to be related to the predecessor corporation, at the merger transfer time; and

(*c*) the new corporation is deemed to have as its tax reporting currency at the merger transfer time its tax reporting currency at the particular time.

History: S. 261(19) was added by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007.

► 261(20) ◄

(20) Application of subsection (21). Subsection (21) applies in determining a taxpayer's income, gain or loss for a taxation year in respect of a transaction (referred to in this subsection and subsection (21) as a "specified transaction") if

(*a*) the specified transaction was entered into, directly or indirectly, at any time by the taxpayer and a corporation (referred to in this subsection as the "related corporation") to which the taxpayer is at that time related;

(*b*) the taxpayer and the related corporation had different tax reporting currencies at any time during the period (referred to in this subsection as the "accrual period") in which the income, gain or loss accrued; and

(*c*) it would, in the absence of this subsection and subsection (21), be reasonable to consider that a fluctuation at any time in the accrual period in the value of the taxpayer's tax reporting currency relative to the value of the related corporation's tax reporting currency

(i) increased the taxpayer's loss in respect of the specified transaction,

(ii) reduced the taxpayer's income or gain in respect of the specified transaction, or

(iii) caused the taxpayer to have a loss, instead of income or a gain, in respect of the specified transaction.

History: S. 261(20) was added by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007, except that where a taxpayer has, on or before June 27, 2008, made an election under paragraph 261(3)(*b*), subsection 261(20) applies in respect of taxation years that begin after June 27, 2008.

► 261(21) ◄

(21) Income, gain or loss determinations. If this subsection applies, each fluctuation in value referred to in paragraph (20)(*c*) is, for the purposes of determining the taxpayer's income, gain or loss in respect of the specified transaction and notwithstanding any other provision of this Act, deemed not to have occurred.

History: S. 261(21) was added by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007, except that where a taxpayer has, on or before June 27, 2008, made an election under paragraph 261(3)(*b*), subsection 261(21) applies in respect of taxation years that begin after June 27, 2008.

► 261(22) ◄

(22) Partnership transactions. For the purposes of this subsection and subsections (18) to (21),

(*a*) if a property is directly or indirectly transferred to or by a partnership, the property is deemed to have been transferred to or by (as the case may be) each member of the partnership; and

(*b*) if a partnership is a party to a transaction, each member of the partnership is deemed to be that party to that transaction.

History: S. 261(22) was added by S.C. 2009, c. 2, s. 80(1), applicable in respect of taxation years that begin after December 13, 2007.

SECTION 262:

► 262(1) ◄

(1) Authority to designate stock exchange. The Minister of Finance may designate a stock exchange, or a part of a stock exchange, for the purposes of this Act.

History: S. 262(1) was added by S.C. 2007, c. 35, s. 67(1), applicable on and after December 14, 2007.

► 262(2) ◄

(2) Revocation of designation. The Minister of Finance may revoke the designation of a stock exchange, or a part of a stock exchange, designated under subsection (1).

History: S. 262(2) was added by S.C. 2007, c. 35, s. 67(1), applicable on and after December 14, 2007.

► 262(3) ◄

(3) Timing. A designation under subsection (1) or a revocation under subsection (2) shall specify the time at and after which it is in effect, which time may, for greater certainty, precede the time at which the designation or revocation is made.

History: S. 262(3) was added by S.C. 2007, c. 35, s. 67(1), applicable on and after December 14, 2007.

► 262(4) ◄

(4) Publication. The Minister of Finance shall cause to be published, by posting on the Internet website of the Department of Finance or by any other means that the Minister of Finance considers appropriate, the names of those stock exchanges, or parts of stock exchanges, as the case may be, that are or at any time were designated under subsection (1).

History: S. 262(4) was added by S.C. 2007, c. 35, s. 67(1), applicable on and after December 14, 2007.

► 262(5) ◄

(5) Transition. The Minister of Finance is deemed to have designated under subsection (1) each stock exchange and each part of a stock exchange that was, immediately before the day on which this section came into force, a prescribed stock exchange, with effect on and after that day.

History: S. 262(5) was added by S.C. 2007, c. 35, s. 67(1), applicable on and after December 14, 2007.

Department of Finance Press Release
New Rules for Designated Stock Exchanges

[Reproduced below are Department of Finance News Release No. 2008-049, dated July 2, 2008, and accompanying backgrounder, which set out guidelines with respect to designated stock exchanges.]

The Honourable Jim Flaherty, Minister of Finance, today released new guidelines for stock exchanges that seek to become Designated Stock Exchanges for income tax purposes. The guidelines will provide greater transparency and increased opportunities for investors, and will improve the ability of Canadian capital markets to respond to global market developments.

* * *

In Budget 2007, the Government updated and streamlined the identification of stock exchanges for purposes of the *Income Tax Act*. The new three-tiered system includes Designated Stock Exchanges, Recognized Stock Exchanges and Stock Exchanges. Designation status is particularly important for Registered Retirement Savings Plan (RRSP) investors, as securities listed on designated exchanges are eligible RRSP investments. They are also eligible investments for Deferred Profit Sharing Plans,

and will be eligible for the recently announced Tax-Free Savings Account.

The attached backgrounder follows through on the Budget 2007 commitment to formalize the process exchanges will be required to follow in applying for designation status and the principles-based criteria the Government will use in evaluating requests.

Also released today is a complete list of current Designated Stock Exchanges, which include all former prescribed exchanges under the previous *Income Tax Act* provisions. Under the income tax rules, any future additions to the list will be approved by the Minister of Finance. Approvals will follow the process and criteria set out today.

Backgrounder

Process for Designating Stock Exchanges

Introduction

With the integration of global financial markets, the rapid growth in Canadian Registered Retirement Savings Plan (RRSP) and Deferred Profit Sharing Plan (DPSP) assets, the removal of the foreign content limit on tax-deferred retirement assets enacted in 2005, and technological advances in securities trading systems, Canadian investors are increasingly looking to foreign securities listed on foreign stock exchanges for return enhancement and portfolio diversification. New domestic exchanges are also being created, expanding the range of publicly-listed Canadian securities available to Canadian investors. This has contributed to a rise in the number of requests from domestic and foreign stock exchanges to be qualified under the *Income Tax Act* for RRSP and DPSP purposes.

Budget 2007 updated the concept of "prescribed stock exchange", used for a variety of purposes under the *Income Tax Act*, in order to make the prescription process more transparent and flexible to meet evolving market needs. In place of the two former lists of prescribed stock exchanges (domestic and foreign), there are now three categories of stock exchange: Designated Stock Exchange, Recognized Stock Exchange and Stock Exchange. A description of each category of exchange and their *Income Tax Act* implications are presented in Annex 5 of Budget 2007.

Under the new system, securities listed on a Designated Stock Exchange are eligible to be held in an RRSP and a DPSP. Designated Stock Exchanges include all prescribed exchanges as of December 13, 2007, and additional exchanges designated by the Minister of Finance by way of public notice since this date (see Annex).

This document presents some of the considerations against which additional exchanges will be evaluated for designation status as well as the process under which exchanges can seek to be designated by the Minister of Finance.

The Minister of Finance's role is to ensure that investments, given their tax-deferred status for policy purposes, trade on well-governed, regulated and transparent markets. Designated Stock Exchanges must therefore be explicitly designated, by public notice, by the Minister of Finance. Designated Stock Exchanges are also considered to be Recognized Stock Exchanges and Stock Exchanges for the purposes of the *Income Tax Act*. Recognized Stock Exchanges are determined by definition under that Act. "Stock Exchange" is not defined in the tax law; it is intended that the general legal and commercial meaning of the term will apply.

The new designation process and the kinds of considerations described herein will expedite the review of applications from exchanges and provide more transparency around the factors used to evaluate such applications.

Designation status is not an endorsement or recommendation of individual securities listed and traded on the exchange.

Considerations to Qualify as a Designated Exchange

The Minister will consider all relevant information without limitation when evaluating an exchange's application for designation status. This will include the following considerations.

For domestic and foreign-based exchanges:

1. The exchange carries out the normal business of an exchange in listing securities, facilitating the trading, clearing, and settlement of these securities, monitoring and enforcing trades executed on its system, and offering transparent pricing information to the public.

2. The exchange has acceptable standards for new company listings, including standards that address the number of shareholders, the dispersion of ownership, and for the maintenance of a listing.

3. The exchange operates within a regulatory framework that meets acceptable standards in relation to investor protection, disclosure requirements, corporate governance, and market integrity, as may be espoused by the International Organization of Securities Commissions (IOSCO).

4. The exchange has an experienced management and governance team, a successful track record of operations, and sufficient financial resources to ensure long-term viability.

5. The exchange has a range of listings and adequate liquidity for investors to buy and sell securities at reasonable bid-ask spreads.

For foreign-based exchanges:

6. The host country of the exchange has commercial, legal and tax relations with Canada, for example, as demonstrated by having entered into a comprehensive tax information exchange agreement or a comprehensive tax treaty.

7. The host country is a member in good standing in the international financial community through membership in such organizations as the World Trade Organization, the International Monetary Fund, IOSCO, the Financial Action Task Force, or similar bodies.

8. The securities regulatory and juridical framework of the host country of the exchange provides rights and remedies to Canadian investors, including brokers acting on investors' behalf, which are comparable to those available to investors in Canada.

9. The exchange is recognized by the host government and other foreign governments, where applicable, for tax purposes comparable to those for designated exchanges under the Canadian *Income Tax Act*.

10. The host country of the exchange has a low risk of imposing capital restrictions or other impediments on the liquidation of investments and the repatriation of funds by foreign investors.

Designation Process

Request for Designation

Exchanges seeking designation should submit a written request from a senior representative of the exchange to the Minister of Finance at the address below. Submissions should include sufficient information about the exchange's governance, ownership, financial resources, trading systems and infrastructure, listings, listing standards, liquidity measures, regulatory framework, and other pertinent factors so as to enable the Department of Finance to assess the exchange's application against the guiding principles contained herein. If an exchange operates more than one tier, submissions are to indicate for which tier(s) the exchange is seeking designation status. Additional information may be requested as needed.

Notification

All requests for designation will be acknowledged in writing. Following the assessment process, exchanges designated by the Minister of Finance will be notified and the official name of the exchange, or tier(s) of the exchange, published on the Department of Finance's website.

Where the Minister of Finance declines an application for designation status, the exchange will be notified in writing. Exchanges may resubmit a request for designation if their circumstances change sufficiently to address any deficiencies, errors, or omissions identified in their initial application.

The Minister reserves the right to re-evaluate the circumstances of a previously designated exchange and, where justified, revoke its designation status.

Address:

Minister of Finance
Department of Finance Canada
140 O'Connor Street
Ottawa, ON K1A 0G5

c.c.: Senior Assistant Deputy Minister, Tax Policy Branch
Assistant Deputy Minister, Financial Sector Policy Branch

Annex: Designated Exchanges

Country	Exchange
Canada	Montreal Exchange
Canada	TSX Venture Exchange (Tiers 1 and 2)
Canada	Toronto Stock Exchange
Australia	Australian Securities Exchange
Austria	Vienna Stock Exchange
Belgium	Euronext Brussels
Denmark	Copenhagen Stock Exchange
Finland	Helsinki Stock Exchange
France	Euronext Paris
Germany	Frankfurt Stock Exchange
Hong Kong	The Hong Kong Stock Exchange
Ireland	Irish Stock Exchange
Israel	Tel Aviv Stock Exchange
Italy	Milan Stock Exchange
Japan	Tokyo Stock Exchange
Luxembourg	Luxembourg Stock Exchange
Mexico	Mexico City Stock Exchange
Netherlands	Euronext Amsterdam
New Zealand	New Zealand Stock Exchange
Norway	Oslo Stock Exchange
Poland	The main and parallel markets of the Warsaw Stock Exchange
Singapore	Singapore Stock Exchange
South Africa	Johannesburg Stock Exchange
Spain	Madrid Stock Exchange
Sweden	Stockholm Stock Exchange
Switzerland	SWX Swiss Exchange
United Kingdom	London Stock Exchange
United States	American Stock Exchange
United States	Boston Stock Exchange
United States	Chicago Board of Options
United States	Chicago Board of Trade
United States	Chicago Stock Exchange
United States	National Association of Securities Dealers Automated Quotation System
United States	National Stock Exchange
United States	New York Stock Exchange
United States	NYSE Arca
United States	Philadelphia Stock Exchange

Pending Amendment

Former Bill C-10 — Income Tax Amendments Act, 2006 — Part 2 — Technical Amendments — October 29, 2007

[Former Bill C-10 ceased to exist when Parliament was dissolved on September 7, 2008 and has not yet been reintroduced.]

The Act is amended by adding, after section 260, the schedule set out in the schedule to this Act.

Editorial Note: Presumably, the placement for this Schedule is at the end of the Act, now after section 262.

Schedule
(Subsection 181(1)) — Listed Corporations

2419726 Canada Inc.

AmeriCredit Financial Services of Canada Ltd.

AVCO Financial Services Quebec Limited

Bombardier Capital Ltd.

Canaccord Capital Credit Corporation/Corporation de crédit Canaccord capital

Canadian Cooperative Agricultural Financial Services

Canadian Home Income Plan Corporation

Citibank Canada Investment Funds Limited

Citicapital Commercial Corporation/Citicapital Corporation Commerciale

Citi Cards Canada Inc./Cartes Citi Canada Inc.

Citi Commerce Solutions of Canada Ltd.

CitiFinancial Canada East Corporation/CitiFinancière, corporation du Canada Est

CitiFinancial Canada, Inc./CitiFinancière Canada, Inc.

CitiFinancial Mortgage Corporation/CitiFinancière, corporation de prêts hypothécaires

CitiFinancial Mortgage East Corporation/CitiFinancière, corporation de prêts hypothécaires de l'Est

Citigroup Finance Canada Inc.

Crédit Industriel Desjardins

CU Credit Inc.

Ford Credit Canada Limited

GE Card Services Canada Inc./GE Services de Cartes du Canada Inc.

General Motors Acceptance Corporation of Canada Limited

GMAC Residential Funding of Canada, Limited

Household Commercial Canada Inc.

Household Finance Corporation of Canada

Household Finance Corporation Limited

Household Realty Corporation Limited

Hudson's Bay Company Acceptance Limited

John Deere Credit Inc./Crédit John Deere Inc.

Merchant Retail Services Limited

PACCAR Financial Ltd./Compagnie Financière Paccar Ltée

Paradigm Fund Inc./Le Fonds Paradigm Inc.

Prêts étudiants Atlantique Inc./Atlantic Student Loans Inc.

Principal Fund Incorporated

RT Mortgage-Backed Securities Limited

RT Mortgage-Backed Securities II Limited

State Farm Finance Corporation of Canada/Corporation de Crédit State Farm du Canada

Trans Canada Credit Corporation

Trans Canada Retail Services Company/Société de services de détails trans Canada

Wells Fargo Financial Canada Corporation

Applicable: Deemed to have come into on force December 20, 2002, so as to list the corporations in the Schedule as of the dates set out below:

(*a*) 2419726 Canada Inc., January 1, 1998, except that, in its application

(i) after May 1999 and before April 2002, the reference in the schedule to that corporation is to be read as a reference to "CitiFinancial Canada, Inc./CitiFinancière Canada, Inc.", and

(ii) after 1997 and before June 1999, the reference in the schedule to that corporation is to be read as a reference to "Commercial Credit Corporation CCC Limited/Corporation De Credit Commerciale CCC Limitee";

(*b*) AmeriCredit Financial Services of Canada Ltd., June 30, 2001;

(*c*) Canaccord Capital Credit Corporation/Corporation de crédit Canaccord capital, September 25, 2000;

(*d*) Citibank Canada Investment Funds Limited, December 31, 2001;

(*e*) Citicapital Commercial Corporation/Citicapital Corporation Commerciale, January 1, 2000, except that, in its application after 1999 and before July 2001, the reference in the schedule to that corporation is to be read as a reference to "Associates Commercial Corporation of Canada Ltd./Les Associés, Corporation Commerciale du Canada Ltee";

(*f*) Citi Cards Canada Inc./Cartes Citi Canada Inc., September 25, 2003;

(*g*) Citi Commerce Solutions of Canada Ltd., January 1, 2003;

(*h*) CitiFinancial Canada East Company/CitiFinancière, corporation du Canada Est, December 23, 1997, except that, in its application

(i) after April 2001 and before April 2002, the reference in the schedule to that corporation is to be read as a reference to "CitiFinancial Services of Canada East Company/CitiFinancière, compagnie de services du Canada Est",

(ii) after September 26, 1999 and before May 2001, the reference in the schedule to that corporation is to be read as a reference to "Associates Financial Services of Canada East Company/Les Associés, Compagnie de Services Financiers du Canada Est",

(iii) after February 12, 1998 and before September 27, 1999, the reference in the schedule to that corporation is to be read as a reference to "Avco Financial Services Canada East Company/Compagnie Services Financiers Avco Canada Est",

(iv) after December 29, 1997 and before February 13, 1998, the reference in the schedule to that corporation is to be read as a reference to "Avco Financial Services Canada East Company/Services Financiers Avco Canada Est Compagnie", and

(v) after December 22, 1997 and before December 30, 1997, the reference in the schedule to that corporation is to be read as a reference to "Avco Financial Services Canada East Company";

(*i*) CitiFinancial Canada, Inc./CitiFinancière Canada, Inc., March 2, 1998, except that, in its application

(i) after April 2001 and before April 2002, the reference in the schedule to that corporation is to be read as a reference to "CitiFinancial Services of Canada, Ltd./CitiFinancière, services du Canada, Ltée", and

(ii) after March 1, 1998 and before May 2001, the reference in the schedule to that corporation is to be read as a reference to "Associates Financial Services of Canada Ltd./Les Associés, Services Financières du Canada Ltée";

(*j*) CitiFinancial Mortgage Corporation/CitiFinancière, corporation de prêts hypothécaires, March 2, 1998, except that, in its application after March 1, 1998 and before May 2001, the reference in the schedule to that corporation is to be read as a reference to "Associates Mortgage Corporation/Les Associés, Corporation de Prêts Hypothécaires";

(*k*) CitiFinancial Mortgage East Corporation/CitiFinancière, corporation de prêts hypothécaires de l'Est, December 23, 1997, except that, in its application

(i) after November 2, 1999 and before May 2001, the reference in the schedule to that corporation is to be read as a reference to "Associates Mortgage East Corporation/Les Associés, Corporation de Prêts Hypothécaires de l'Est",

(ii) after September 27, 1999 and before November 3, 1999, the reference in the schedule to that corporation is to be read as a reference to "Associates Mortgage East Corporation/Les Associés, Corporation de Financiers du Prêts Hypothécaires de l'Est",

(iii) after February 12, 1998 and before September 28, 1999, the reference in the schedule to that corporation is to be read as a reference to "Avco Financial Services Realty East Company/Compagnie Services Financiers Immobiliers Avco Est",

(iv) after December 29, 1997 and before February 13, 1998, the reference in the schedule to that corporation is to be read as a reference to "Avco Financial Services Realty East Company/Services Financiers Immobiliers Avco Est Compagnie", and

(v) after December 22, 1997 and before December 30, 1997, the reference in the schedule to that corporation is to be read as a reference to "Avco Financial Services Realty East Company";

(*l*) Citigroup Finance Canada Inc., January 1, 1998, except that, in its application after 1997 and before June 11, 2003, the reference in the schedule to that corporation is to be read as a reference to "Associates Capital Corporation of Canada/Corporation de capital associés du Canada";

(*m*) Ford Credit Canada Limited, December 23, 1997;

(*n*) GE Card Services Canada Inc./GE Services de Cartes du Canada Inc., August 2, 2000;

(*o*) GMAC Residential Funding of Canada, Limited, January 1, 2003;

(*p*) John Deere Credit Inc./Crédit John Deere Inc., January 1, 1999;

(*q*) PACCAR Financial Ltd./Compagnie Financière Paccar Ltée, January 1, 2003;

(*r*) Paradigm Fund Inc./Le Fonds Paradigm Inc., January 1, 2002;

(*s*) Prêts étudiants Atlantique Inc./Atlantic Student Loans Inc., January 1, 1998, except that, in its application after 1997 and before June 13, 2002, the reference in the schedule to that corporation is to be read as a reference to "Prêts étudiants Acadie Inc./Acadia Student Loans Inc.";

(*t*) State Farm Finance Corporation of Canada/ Corporation de Crédit State Farm du Canada, January 1, 2002, except that, in its application after 2001 and before May 2002, the reference in the schedule to that corporation is to be read as a reference to "VNB Financial Services Inc./Services financiers VNB, Inc.";

(*u*) Trans Canada Retail Services Company/Société de services de détails trans Canada, January 1, 1999, except that, in its application after 1998 and before January 15, 2002, the reference in the schedule to that corporation is to be read as a reference to "National Retail Credit Services Company/Société de services de crédit aux détaillants national"; and

(*v*) Wells Fargo Financial Canada Corporation, January 1, 1999, except that, in its application after 1998 and before September 7, 2001, the reference in the schedule to that corporation is to be read as a reference to "Norwest Financial Canada Company".

Ford Credit Canada Limited is deemed to have been, from July 1, 1989 to December 22, 1997, prescribed by a regulation made under paragraph 181(1)(*g*).

The schedule is amended by removing from the list, as of the dates set out below, the following corporations:

(*a*) GE Card Services Canada Inc./ GE Services Cartes du Canada Inc., January 1, 2003;

(*b*) 2419726 Canada Inc., March 31, 2002;

(*c*) CitiFinancial Mortgage Corporation/CitiFinancière, corporation de prêts hypothécaires, March 31, 2002; and

(*d*) CitiFinancial Mortgage East Corporation/CitiFinancière, corporation de prêts hypothécaires de l'Est, April 1, 2002.

Explanatory Note: For information about this new schedule, see the commentary to subsection 181(1) of the Act.

Income Tax Application Rules

[The Income Tax Application Rules enacted as R.S.C. 1985, c. 2, (5th Supp.) deal with the coming into force of the revised Income Tax Act. The Income Tax Act Application Rules set forth special transitional rules, as well as special rules that apply in the case of certain taxpayers having taxation years not coinciding with calendar years.]

Short Title

7. Short title.

This Act may be cited as the *Income Tax Application Rules*.

Part I
Income Tax Application Rules, 1971

Interpretation

8. Definitions.

In this Act,

"*amended Act*" — "amended Act" means, according to the context in which that expression appears,

(*a*) the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as amended by section 1 of chapter 63 of the Statutes of Canada, 1970-71-72, and by any subsequent Act, and

(*b*) the *Income Tax Act*, as amended from time to time;

"*former Act*" — "former Act" means the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it was before being amended by section 1 of chapter 63 of the Statutes of Canada, 1970-71-72.

Application of 1970-71-72, c. 63, s. 1

9. Application of 1970-71-72, c. 63, s. 1.

Subject to the amended Act and this Act, section 1 of chapter 63 of the Statutes of Canada, 1970-71-72, applies to the 1972 and subsequent taxation years.

9.1. Application of Part VIII of amended Act. [Repealed by 1977-78, c. 1, s. 102(1).]

Application of Part XIII of Amended Act

10. Application of Part XIII of Amended Act.

(1) [Repealed by 1985, c. 45, s. 127.]

► 10(2) ◄

(2) Idem. [Repealed by 1985, c. 45, s. 127.]

► 10(3) ◄

(3) Idem. [Repealed by 1985, c. 45, s. 127.]

► 10(4) ◄

(4) Application of Part XIII of Amended Act. Where an amount is paid or credited by a person resident in Canada to a non-resident person

(*a*) who is resident in a prescribed country, and

(*b*) with whom the person resident in Canada was dealing at arms length,

as, on account of, in lieu of payment of or in satisfaction of, interest payable on any bond, debenture, mortgage, note or similar obligation issued before 1976 by the person resident in Canada to the non-resident person, for the purposes of computing the tax under Part XIII of the amended Act payable by the non-resident person on the amount, the reference in subsection 212(1) of that Act to "25%" shall be read as a reference to "15%".

Regulations: Part XVI.
Information Circulars: IC 77-16R4 Non-resident income tax.

► 10(5) ◄

(5) Certificates of exemption. [Repealed by S.C. 2007, c. 35, s. 69(1).]

History: S. 10(5) was repealed by S.C. 2007, c. 35, s. 69(1), applicable after 2007. S. 10(5) formerly read:

"(5) *Certificates of exemption.* Any certificate of exemption issued by the Minister under subsection 106(9) of the former Act that was in force on December 31, 1971 shall, for the purposes of subparagraph 212(1)(*b*)(iv) of the amended Act,

(*a*) be deemed to have been issued under subsection 212(14) of the amended Act; and

(*b*) be deemed

(i) in respect of interest payable on any bond, debenture or similar obligation acquired on or before December 31, 1971 by the person to whom the certificate was issued, to have been in force on January 1, 1972 and thereafter without interruption,

except that if the person to whom the certificate was issued ceased at any time after 1971 to be exempt, under the laws of the country of which the person is a resident, from the payment of income tax to the government of that country, the certificate ceases to be in force

(iii) in respect of interest described in subparagraph (i), on the day on which the person first so ceased to be exempt."

► 10(6) ◄

(6) Limitation on non-resident's tax rate. Notwithstanding any provision of the amended Act, where an agreement or convention between the Government of Canada and the government of any other country that has the force of law in Canada provides that where an amount is paid or credited, or deemed to be paid or credited, to a resident of that other country the rate of tax imposed thereon shall not exceed a specified rate,

(*a*) any reference in Part XIII of the amended Act to a rate in excess of the specified rate shall, in respect of such an amount, be read as a reference to the specified rate; and

(*b*) except where the amount can reasonably be attributed to a business carried on by that person in Canada, that person shall, for the purpose of the agreement or convention in respect of the amount, be deemed not to have a permanent establishment in Canada.

11. Application of Part XIV of amended Act.

(1) [Repealed by 1985, c. 45, s. 128(1).]

► 11(2) ◄

(2) Idem. [Repealed by 1985, c. 45, s. 128(1).]

► 11(3) ◄

(3) Idem. [Repealed by 1985, c. 45, s. 128(1).]

► 11(4) ◄

(4) Idem. [Repealed by 1985, c. 45, s. 128(2).]

References and Continuation of Provisions

12. Definitions.

In this section and sections 13 to 18,

"enactment" — "enactment" has the meaning assigned by section 2 of the *Interpretation Act*;

"old law" — "old law" means the *Income War Tax Act*, *The 1948 Income Tax Act*, and the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as amended from time to time otherwise than by section 1 of chapter 63 of the Statutes of Canada, 1970-71-72, or any subsequent Act;

"The 1948 Income Tax Act" — "The 1948 Income Tax Act" means *The Income Tax Act*, chapter 52 of the Statutes of Canada, 1948, together with all Acts passed in amendment thereof.

13. References relating to same subject-matter.

(1) Subject to this Act and unless the context otherwise requires, a reference in any enactment to a particular Part or provision of the amended Act shall be construed, as regards any transaction, matter or thing to which the old law applied, to include a reference to the Part or provision, if any, of the old law relating to, or that may reasonably be regarded as relating to, the same subject-matter.

Interpretation Bulletins: IT-474R Amalgamations of Canadian corporations [Archived by the CRA]; IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].
Related Sections: ITAR 11(4).

14. Part IV of former Act.

Part IV of the former Act is continued in force but does not apply in respect of gifts made after 1971.

15. Part VIII of former Act.

Part VIII of the former Act is continued in force but as though the references in that Part that, according to the context in which they appear, are references to or to provisions of the *Income Tax Act* were read as references to or to provisions of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as amended from time to time otherwise than by section 1 of chapter 63 of the Statutes of Canada, 1970-71-72, or any subsequent Act.

16. Construction of certain references.

In any enactment, a reference by number to any provision of the *Income Tax Act* that, according to the context in which the reference appears, is a reference to

(*a*) a provision of Part IV of the former Act,

(*b*) a provision of Part VIII of the former Act, or

(*c*) a provision of the amended Act having the same number as a provision described in paragraph (*a*) or (*b*),

shall, for greater certainty, be read as reference to the provision described in paragraph (*a*), (*b*) or (*c*), as the case may be, and not to any other provision of the *Income Tax Act*, or the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, having the same number.

17. Income War Tax Act, s. 8.

(1) A taxpayer may deduct from the tax otherwise payable under Part I of the amended Act for a taxation year such amount as would, if the *Income War Tax Act* applied to the taxation year, be deductible from tax because of subsections 8(6), (7) and (7A) of the *Income War Tax Act*.

► 17(2) ◄

(2) S.C. 1947, c. 63, s. 16. There may be deducted in computing income for a taxation year under Part I of the amended Act an amount that would be deductible under section 16 of chapter 63 of the Statutes of Canada, 1947, from income as defined by the *Income War Tax Act* if that Act applied to the taxation year.

► 17(3) ◄

(3) Idem. There may be deducted from the tax for a taxation year otherwise payable under Part I of the amended Act an amount that would be deductible under section 16 of chapter 63 of the Statutes of Canada, 1947, from the total of taxes payable under the *Income War Tax Act* and *The Excess Profits Tax Act, 1940*, if those Acts applied to the taxation year.

► 17(4) ◄

(4) Retrospection. Where there is a reference in the amended Act to any act, matter or thing done or existing before a taxation year, it shall be deemed to include a reference to the act, matter or thing, even though it was done or existing before the commencement of that Act.

► 17(5) ◄

(5) Amount not previously included as income. Where, on the application of a method adopted by a taxpayer for computing income from a business, other than a business that is a profession, or farm or property for a taxation year to which the amended Act applies, an amount received in the year would not be included in computing the taxpayers income for the year because on the application of that method it would have been included in computing the taxpayers income for the purposes of the *Income Tax Act* or the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, for a preceding taxation year in respect of which it was receivable, if the amount was not included in computing the income for the preceding year, it shall be included in computing the income for the year in which it was received.

► 17(6) ◄

(6) S.C. 1949 (2nd S.), c. 25, s. 53. There may be deducted in computing income for a taxation year under Part I of the amended Act an amount that would be deductible under section 53 of chapter 25 of the Statutes of Canada, 1949 (Second Session), in computing income under *The 1948 Income Tax Act* if that Act applied to the taxation year.

► 17(7) ◄

(7) Idem. There may be deducted from the tax for a taxation year otherwise payable under Part I of the amended Act an amount that would be deductible under section 53 of chapter 25 of the Statutes of Canada, 1949 (Second Session), from the tax payable under Part I of *The 1948 Income Tax Act* if that Act applied to the taxation year.

► 17(8) ◄

(8) Registered pension plan. A reference in the amended Act to a registered pension plan shall, in respect of a period while the plan was an approved superannuation or pension fund or plan, be construed as a reference to that approved superannuation or pension fund or plan.

18. General depreciation provisions.

(1) Where the capital cost to a taxpayer of any depreciable property that was acquired by the taxpayer before 1972 was required by any provision of the old law to be determined for the purpose of computing the amount of any deduction under any such provision in respect of that property, or would have been required by any provision of the old law to be determined for that purpose if any deduction under any such provision had been claimed by the taxpayer in respect of that property, the amount of the capital cost so required to be determined or that would have been so required to be determined, as the case may be, shall be deemed, for all purposes of the amended Act, to be the capital cost to the taxpayer of that property.

► 18(2) ◄

(2) Idem. Where a taxpayer acquired depreciable property before the beginning of the 1949 taxation year, for the purposes of section 13 of the amended Act and any regulations made under paragraph 20(1)(*a*) of that Act an amount equal to the total of

(*a*) all deductions allowed in computing the taxpayers income for the purpose of the *Income War Tax Act* as "special depreciation", "extra depreciation" or allowances in lieu of depreciation for property the taxpayer had at the beginning of the 1949 taxation year (except deductions allowed under subparagraph 6(1)(*n*)(ii) of that Act), and

(*b*) ½ of all amounts allowed to the taxpayer under subparagraph 6(1)(*n*)(ii) of that Act for property that the taxpayer had at the beginning of the 1949 taxation year,

shall be deemed to have been allowed to the taxpayer under regulations made under paragraph 20(1)(*a*) of the amended Act in computing income for a taxation year before the 1949 taxation year.

► 18(3) ◄

(3) Provisoes not applicable. The second and third provisoes to paragraph 6(1)(*n*) of the *Income War Tax Act* do not apply with respect to sales made after the beginning of the 1949 taxation year.

► 18(4) ◄

(4) Reference to depreciation. Reference in this section to depreciation shall be deemed to include a reference to allowances in respect of depreciable property of a taxpayer made under paragraph 5(1)(*a*) of the *Income War Tax Act*.

► 18(5) ◄

(5) Deduction deemed depreciation. An amount deducted under paragraph 5(1)(*u*) of the *Income War Tax Act* in respect of amounts of a capital nature shall, for the purpose of this section, be deemed to be depreciation taken into account in ascertaining the taxpayers income for the purpose of that Act or in ascertaining the taxpayers loss for the taxation year for which it was deducted.

Special Transitional Rules

19. Income maintenance payments.

(1) Notwithstanding section 9, paragraph 6(1)(*f*) of the amended Act does not apply in respect of amounts received by a taxpayer in a taxation year that were payable to the taxpayer in respect of the loss, in consequence of an event occurring before 1974, of all or any part of the taxpayers income from an office or employment, under a plan, described in that paragraph, that was established before June 19, 1971.

Interpretation Bulletins: *Primary*— IT-54 Wage loss replacement plans — Changes in plans established before June 19, 1971 [Archived by the CRA]. *Secondary*— IT-85R2 Health and welfare trusts for employees; IT-428 Wage loss replacement plans.

► 19(2) ◄

(2) Effect of certain changes made in plan established before June 19, 1971. For the purposes of this section, a plan described in paragraph 6(1)(*f*) of the amended Act that was in existence before June 19, 1971 does not cease to be a plan established before that date solely because of changes made therein on or after that date for the purpose of ensuring that the plan qualifies as one entitling the employer of persons covered under the plan to a reduction, as provided for by subsection 50(2) of the *Unemployment Insurance Act*, in the amount of the employer's premium payable under that Act in respect of insured persons covered under the plan.

20. Depreciable property.

(1) Where the capital cost to a taxpayer of any depreciable property acquired by the taxpayer before 1972 and owned by the taxpayer without interruption from December 31, 1971 until such time after 1971 as the taxpayer disposed of it is less than the fair market value of the property on valuation day and less than the proceeds of disposition thereof otherwise determined,

(*a*) for the purposes of section 13 of the amended Act, subdivision c of Division B of Part I of that Act and any regulations made under paragraph 20(1)(*a*) of that Act, the taxpayers proceeds of disposition of the property shall be deemed to be an amount equal to the total of its capital cost to the taxpayer and the amount, if any, by which the proceeds of disposition thereof otherwise determined exceed the fair market value of the property on valuation day,

(*b*) where the property has, by one or more transactions or events (other than the death of a taxpayer to which subsection 70(5) of the amended Act applies) between persons not dealing at arms length, become vested in another taxpayer

(i) for the purposes of the amended Act (other than, where paragraph 13(7)(*e*) of that Act applies in determining the capital cost to that other taxpayer of the property, for the purposes of paragraphs 8(1)(*j*) and (*p*) and sections 13 and 20 of that Act), that other taxpayer shall be deemed to have acquired the property at a capital cost equal to the proceeds deemed to have been received for the property by the person from whom that other taxpayer acquired the property, and

(ii) for the purposes of this subsection, that other taxpayer shall be deemed to have acquired the

property before 1972 at a capital cost equal to the capital cost of the property to the taxpayer who actually owned the property at the end of 1971, and to have owned it without interruption from December 31, 1971 until such time after 1971 as that other taxpayer disposed of it, and

(*c*) where the disposition occurred because of an election under subsection 110.6(19) of the amended Act,

(i) for the purposes of that Act (other than paragraphs 8(1)(*j*) and (*p*) and sections 13 and 20 of that Act), the taxpayer is deemed to have reacquired the property at a capital cost equal to

(A) where the amount designated in respect of the property in the election did not exceed 110% of the fair market value of the property at the end of February 22, 1994, the taxpayer's proceeds of disposition determined under paragraph (*a*) in respect of the disposition of the property that immediately preceded the reacquisition minus the amount, if any, by which the amount designated in respect of the property in the election exceeded that fair market value, and

(B) in any other case, the amount otherwise determined under subsection 110.6(19) of that Act to be the cost to the taxpayer of the property immediately after the reacquisition referred to in that subsection minus the amount by which the fair market value of the property on valuation day exceeded the capital cost of the property at the time it was last acquired before 1972, and

(ii) for the purposes of this subsection, the taxpayer's capital cost of the property after the reacquisition shall be deemed to be equal to the taxpayer's capital cost of the property before the reacquisition and the taxpayer shall be considered to have owned the property without interruption from December 31, 1971 until such time after February 22, 1994 as the taxpayer disposes of it.

History: S. 20(1)(*c*), the portion before subparagraph (ii), was amended by S.C. 1998, c. 19, s. 248(1), applicable to the 1994 and subsequent taxation years. S. 20(1)(*c*), the portion before subparagraph (ii), formerly read:

"(*c*) where the taxpayer is deemed by subsection 110.6(19) of the amended Act to have reacquired the property,

(i) for the purposes of that Act (other than, where paragraph 13(7)(*e*) of that Act applies in determining the capital cost to the taxpayer of the property, for the purposes of paragraphs 8(1)(*j*) and (*p*) and sections 13 and 20 of that Act), the taxpayer shall be deemed to have reacquired the property at a capital cost equal to the taxpayer's proceeds of disposition of the property determined under paragraph (*a*) in respect of the disposition that immediately preceded the reacquisition, and"

S. 20(1)(*b*)(i) was amended by S.C. 1995, c. 3, s. 56(1), applicable to acquisitions of property that occur after May 22, 1985. S. 20(1)(*b*)(i) formerly read:

"(i) for the purposes of section 13 of the amended Act, subdivision c of Division B of Part I of that Act and any regulations made under paragraph 20(1)(*a*) of that Act, that other taxpayer shall be deemed to have acquired the property at a capital cost equal to the proceeds deemed to have been received for the property by the person from whom that other taxpayer acquired the property, and"

S. 20(1)(*c*) was added by S.C. 1995, c. 3, s. 56(2), applicable to the 1994 and subsequent taxation years.

Interpretation Bulletins: *Primary* — IT-217R Capital property owned on December 31, 1971 — Depreciable property [Archived by the CRA]. *Secondary* — IT-209R Inter-vivos gifts of capital property to individuals directly or through trusts; IT-220R2 Capital cost allowance — Proceeds of disposition of depreciable property; IT-268R4 Inter vivos transfer of farm property to child; IT-349R3 Intergenerational transfers of farm property on death; IT-432R2 Benefits conferred on shareholders; IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].

► 20(1.1) ◄

(1.1) Where depreciable property disposed of to spouse, trust or child. Subsection (1) does not apply in any case where

(*a*) subsection 70(6) or 73(1) of the amended Act applies in respect of the disposition by a taxpayer of any depreciable property of a prescribed class to the spouse, common-law partner, trust or transferee, as the case may be, referred to therein, and

(*b*) subsection 70(9) of the amended Act applies in respect of the disposition by a taxpayer of any depreciable property of a prescribed class to a child referred to therein,

except that where the spouse, common-law partner, trust, transferee or child, as the case may be, subsequently disposes of the property at any time, subsection (1) applies as if the spouse, common-law partner, trust, transferee or child, as the case may be, had acquired the property before 1972 and owned it without interruption from December 31, 1971 until that time.

History: S. 20(1.1) was amended by S.C. 2000, c. 12, s. 147(1), applicable to the 2001 and subsequent taxation years, coming into force on a day or days to be fixed by Order of the Governor in Council. S. 20(1.1) formerly read:

"(1.1) *Where depreciable property disposed of to spouse, trust or child.* Subsection (1) does not apply in any case where

(*a*) subsection 70(6) or 73(1) of the amended Act applies in respect of the disposition by a taxpayer of any depreciable property of a prescribed class to the spouse, trust or transferee, as the case may be, referred to therein, and

(*b*) subsection 70(9) of the amended Act applies in respect of the disposition by a taxpayer of any depreciable property of a prescribed class to a child referred to therein,

except that where the spouse, trust, transferee or child, as the case may be, subsequently disposes of the property at any time, subsection (1) applies as if the spouse, trust, transferee or child, as the case may be, had acquired the property before 1972 and owned it without interruption from December 31, 1971 until that time."

Sec. 147(3), Chap. 12, S.C. 2000

(3) Where a taxpayer and a person have jointly elected pursuant to section 144 of this Act in respect of the 1998, 1999 or 2000 taxation years, subsection (1) applies to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Interpretation Bulletins: *Secondary* — IT-209R Inter-vivos gifts of capital property to individuals directly or through trusts; IT-349R3 Intergenerational transfers of farm property on death.

► 20(1.11) ◄

(1.11) Extended meaning of "child". For the purposes of subsection (1.1), "child" of a taxpayer includes

(*a*) a child of the taxpayer's child;

(*b*) a child of the taxpayer's child's child; and

(*c*) a person who, at any time before attaining the age of 21 years, was wholly dependent on the taxpayer for support and of whom the taxpayer had, at that time, in law or in fact, the custody and control.

Interpretation Bulletins: *Secondary* — IT-217R Capital property owned on December 31, 1971 — Depreciable property [Archived by the CRA].

► 20(1.2) ◄

(1.2) Other transfers of depreciable property. Where, because of a transaction or an event in respect of which any of subsections 70(5), 85(1), (2) and (3), 87(2), section 88, subsections 97(2), 98(3) and (5) and 107(2) of the amended Act applies, a taxpayer has at any particular time after 1971 acquired any depreciable property of a prescribed class from a person who acquired the property before 1972 and owned it without interruption from December 31, 1971 until the particular time, for the purposes of subsection (1) the taxpayer shall be deemed to have acquired the property before 1972 and to have owned

it without interruption from December 31, 1971 until such time after 1971 as the taxpayer disposed of it.

Interpretation Bulletins: *Secondary*—IT-209R Inter-vivos gifts of capital property to individuals directly or through trusts; IT-217R Capital property owned on December 31, 1971 — Depreciable property [Archived by the CRA]; IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].

► 20(1.3) ◄

(1.3) Transfers before 1972 not at arm's length. Without restricting the generality of section 18, where any depreciable property has been transferred before 1972 in circumstances such that subsection 20(4) of the former Act would, if that provision applied to transfers of property made in the 1972 taxation year, apply, paragraph 69(1)(*b*) of the amended Act does not apply to the transfer and subsection 20(4) of the former Act applies thereto.

► 20(1.4) ◄

(1.4) Depreciable property received as dividend in kind. The capital cost to a taxpayer, as of any particular time after 1971, of any depreciable property (other than depreciable property referred to in subsection (1.3) or deemed by subparagraph (1)(*b*)(ii) to have been acquired by the taxpayer before 1972) acquired by the taxpayer before 1972 as, on account of, in lieu of payment of or in satisfaction of, a dividend payable in kind (other than a stock dividend) in respect of a share owned by the taxpayer of the capital stock of a corporation, shall be deemed to be the fair market value of that property at the time the property was so received.

► 20(2) ◄

(2) Recapture of capital cost allowances. In determining a taxpayer's income for a taxation year from farming or fishing, subsection 13(1) of the amended Act does not apply in respect of the disposition by the taxpayer of property acquired by the taxpayer before 1972 unless the taxpayer has elected to make a deduction for that or a preceding taxation year, in respect of the capital cost of property acquired by the taxpayer before 1972, under regulations made under paragraph 20(1)(*a*) of that Act other than a regulation providing solely for an allowance for computing income from farming or fishing.

► 20(3) ◄

(3) Depreciable property of partnership of prescribed class. For the purposes of the amended Act, where a partnership had, on December 31, 1971, partnership property that was depreciable property of a prescribed class,

(*a*) the capital cost to the partnership of each property of that class shall be deemed to be an amount determined as follows:

(i) determine, for each person who, because of having been a member of the partnership on the later of June 18, 1971 and the day the partnership was created, and thereafter without interruption until December 31, 1971, can reasonably be regarded as having had an interest in the property of that class on December 31, 1971, the persons acquisition cost in respect of property of that class,

(ii) determine, for each such person, the amount that is that proportion of the person's acquisition cost in respect of property of that class that 100% is of the person's percentage in respect of property of that class,

(iii) select the amount determined under subparagraph (ii) for a person described therein that is not greater than any amount so determined for any other such person, and

(iv) determine that proportion of the amount selected under subparagraph (iii) (in this subsection referred to as the "capital cost of that class") that the fair market value on December 31, 1971 of that property is of the fair market value on that day of all property of that class,

and the amount determined under subparagraph (iv) is the capital cost to the partnership of that property;

(*b*) for the purposes of sections 13 and 20 of the amended Act and any regulations made under paragraph 20(1)(*a*) of that Act, the undepreciated capital cost to the partnership of property of that class as of any time after 1971 shall be computed as though the amount, if any, by which the capital cost of that class to the partnership exceeds the undepreciated cost to the partnership of that class had been allowed to the partnership in respect of property of that class under regulations made under paragraph 20(1)(*a*) of the amended Act in computing income for taxation years before that time;

(*c*) in computing the income for the 1972 and subsequent taxation years of each person who was a member of the partnership on June 18, 1971 and thereafter without interruption until December 31, 1971, there may be deducted such amount as the person claims for the year, not exceeding the amount, if any, by which the total of

(i) the lesser of

(A) the amount, if any, by which the amount that was the capital cost to the person of all property of that class exceeds the percentage, equal to the person's percentage in respect of property of that class, of the capital cost of that class to the partnership, and

(B) the amount that was the undepreciated capital cost to the person of property of that class as of December 31, 1971, and

(ii) the amount, if any, by which

(A) the undepreciated capital cost to the person of property of that class as of December 31, 1971, less the amount, if any, determined under subparagraph (i) in respect of property of that class,

exceeds

(B) the percentage, equal to the person's percentage in respect of property of that class, of the undepreciated cost to the partnership of that class,

exceeds the total of all amounts deducted under this paragraph in computing the persons income for preceding taxation years, and, for the purposes of section 3 of the amended Act, the amount so claimed shall be deemed to be a deduction permitted by subdivision e of Division B of Part I of that Act; and

(*d*) notwithstanding paragraph (*c*), a person who became a member of the partnership after June 18, 1971 and who was a member of the partnership thereafter without interruption until December 31, 1971 shall be deemed to be a person described in paragraph (*c*) and the amount that may be claimed thereunder as a deduction in computing the person's income for any taxation year shall not exceed 10% of the total of the amounts determined under subparagraphs (*c*)(i) and (ii).

Regulations: Part LII.

► 20(4) ◄

(4) Definitions. In subsection (3),

"*acquisition cost*" — "acquisition cost" of a person who was a member of a partnership on December 31, 1971 in respect of depreciable property of a prescribed class that was partnership property of the partnership on December 31, 1971 means the total of the undepreciated capital cost to the person of property of that class as of December 31, 1971 and the total depreciation allowed to the person before 1972 in respect of property of that class;

"*percentage*" — "percentage" of a member of a partnership in respect of any depreciable property of a prescribed class that was partnership property of the partnership on December 31, 1971 means the interest of the member of the partnership in property of that class, expressed as a percentage of the total of the interests of all members of the partnership in property of that class on that day;

"*undepreciated cost to the partnership*" — "undepreciated cost to the partnership" of any class of depreciable property means an amount determined as follows:

(*a*) determine, for each person who, because of having been a member of the partnership on the later of June 18, 1971 and the day the partnership was created, and thereafter without interruption until December 31, 1971, can reasonably be regarded as having had an interest in property of that class on December 31, 1971, the amount, if any, by which the undepreciated capital cost to the person of property of that class as of December 31, 1971 exceeds the amount, if any, determined under subparagraph (3)(*c*)(i) for the person in respect of property of that class,

(*b*) determine, for each such person, the amount that is that proportion of the amount determined under paragraph (*a*) that 100% is of the person's percentage in respect of property of that class, and

(*c*) select the amount determined under paragraph (*b*) for a person described therein that is not greater than any amount so determined for any other such person,

and the amount selected under paragraph (*c*) is the undepreciated cost to the partnership of that class.

► 20(5) ◄

(5) Other depreciable property of partnership. For the purposes of the amended Act, where a partnership had, on December 31, 1971, any particular partnership property that was depreciable property other than depreciable property of a prescribed class,

(*a*) the cost to the partnership of the particular property shall be deemed to be the amount that would be determined under paragraph (3)(*a*) to be the capital cost thereof if

(i) the particular property constituted a prescribed class of property, and

(ii) the acquisition cost of each person described therein in respect of the particular property were its actual cost to the person or the amount at which the person was deemed by subsection 20(6) of the former Act to have acquired it, as the case may be;

(*b*) for the purposes of sections 13 and 20 of the amended Act and any regulations made under paragraph 20(1)(*a*) of that Act, the undepreciated capital cost of property of any class as of any particular time after 1971 shall be computed as if the amount, if any, by which

(i) the amount determined under paragraph (*a*) to have been the cost to the partnership of the particular property,

exceeds

(ii) the amount that would be determined under the definition "undepreciated cost to the partnership" in subsection (4) to be the undepreciated cost to the partnership of any class of depreciable property comprising the particular property if

(A) paragraph (*a*) of that definition were read without reference to the words "the later of June 18, 1971 and the day the partnership was created, and thereafter without interruption until",

(B) the amount determined under subparagraph (3)(*c*)(i) for any person in respect of that class were nil, and

(C) the undepreciated capital cost to each person described in the definition "acquisition cost" in subsection (4) of the particular property as of December 31, 1971 were the amount, if any, by which the amount assumed by subparagraph (*a*)(ii) to have been the acquisition cost of the person in respect of the property exceeds the total of all allowed to the person in respect of the property under regulations made under paragraph 11(1)(*a*) of the former Act in computing income for taxation years ending before 1972,

had been allowed to the partnership in respect of the particular property under regulations made under paragraph 20(1)(*a*) of the amended Act in computing income for taxation years ending before the particular time; and

(*c*) in computing the income for the 1972 and subsequent taxation years of each person who was, on December 31, 1971, a member of the partnership, there may be deducted such amount as the person claims for the year, not exceeding the amount, if any, by which

(i) the amount by which

(A) the amount assumed by clause (*b*)(ii)(C) to have been the undepreciated capital cost to the person of the particular property as of December 31, 1971

exceeds

(B) a percentage of the amount determined under subparagraph (*b*)(ii) in respect of the particular property, equal to the percentage that would be the person's percentage (within the meaning assigned by subsection (4)) in respect of the particular property if that property constituted a prescribed class,

exceeds

(ii) the total of all amounts deducted under this paragraph in computing the person's income for preceding taxation years,

and for the purposes of section 3 of the amended Act the amount so claimed shall be deemed to be a deduction permitted by subdivision e of Division B of Part I of that Act.

Regulations: Part XVII; Part LII.

21. Goodwill and other nothings.

(1) Where as a result of a disposition occurring after 1971 a taxpayer has or may become entitled to receive an amount (in this section referred to as the "actual amount") in respect of a business carried on by the taxpayer throughout the period beginning January 1, 1972 and ending immediately after the disposition occurred, for the purposes of section 14 of the amended Act the amount that the taxpayer has or may become entitled to receive shall be deemed to be the total of

(*a*) an amount equal to a percentage, equal to 40% plus the percentage (not exceeding 60%) obtained when 5% is multiplied by the number of full calendar years ending in the period and before the transaction occurred, of the amount, if any, by which the actual amount exceeds the portion thereof referred to in subparagraph (*b*)(i), and

(*b*) an amount equal to the lesser of

(i) the percentage, described in paragraph (*a*), of such portion, if any, of the actual amount as may reasonably be considered as being the consideration received by the taxpayer for the disposition of, or for allowing the expiration of, a government right, and

(ii) the amount, if any, by which the portion described in subparagraph (i) exceeds the greater of

(A) the total of all amounts each of which is an outlay or expenditure made or incurred by the taxpayer as a result of a transaction that occurred before 1972 for the purpose of acquiring the government right, or the taxpayer's original right in respect of the government right, to the extent that the outlay or expenditure was not otherwise deducted in computing the income of the taxpayer for any taxation year and would, if made or incurred by the taxpayer as a result of a transaction that occurred after 1971, be an eligible capital expenditure of the taxpayer, and

(B) the fair market value to the taxpayer as at December 31, 1971 of the taxpayers specified right in respect of the government right, if no outlay or expenditure was made or incurred by the taxpayer for the purpose of acquiring the right or, if an outlay or expenditure was made or incurred, if that outlay or expenditure would have been an eligible capital expenditure of the taxpayer if it had been made or incurred as a result of a transaction that occurred after 1971.

Interpretation Bulletins: *Secondary* — IT-123R6 Disposition of and transactions involving eligible capital property; IT-268R4 Inter vivos transfer of farm property to child; IT-313R2 Eligible capital property — Rules where a taxpayer has ceased carrying on a business or has died; IT-474R Amalgamations of Canadian corporations [Archived by the CRA]; IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].

► 21(2) ◄

(2) Idem. Where the taxpayer and the person by whom the actual amount has become payable to the taxpayer were not dealing with each other at arm's length, for the purposes of computing the income of that person the portion of the actual amount in excess of the amount deemed by subsection (1) to be the amount that has become payable to the taxpayer shall be deemed not to have been an outlay, expense or cost, as the case may be, of that person.

Interpretation Bulletins: *Secondary* — IT-268R4 Inter vivos transfer of farm property to child.

► 21(2.1) ◄

(2.1) Idem. Where after 1971 a taxpayer has acquired a particular government right referred to in subsection (1)

(*a*) from a person with whom the taxpayer was not dealing at arm's length, or

(*b*) under an agreement with a person with whom the taxpayer was not dealing at arm's length, if under the terms of the agreement that person allowed the right to expire so that the taxpayer could acquire a substantially similar right from the authority that had issued the right to that person,

and an actual amount subsequently becomes payable to the taxpayer as consideration for the disposition by the taxpayer of, or for the taxpayer allowing the expiration of, the particular government right or any other government right acquired by the taxpayer for the purpose of effecting the continuation, without interruption, of rights that are substantially similar to the rights that the taxpayer had under the particular government right, for the purpose of section 14 of the amended Act, the amount that has so become payable to the taxpayer shall be deemed to be the amount that would, if that person and the taxpayer had at all times been the same person, be determined under subsection (1) to be the amount that would have become so payable to the taxpayer.

► 21(2.2) ◄

(2.2) Amalgamations. For the purposes of this section, an amalgamation (within the meaning of section 87 of the amended Act) of two or more Canadian corporations shall be deemed to be a transaction between persons not dealing at arm's length.

► 21(3) ◄

(3) Definitions. In this section,

"government right" — "government right" of a taxpayer means a right or licence

(*a*) that enables the taxpayer to carry on a business activity in accordance with a law of Canada or of a province or Canadian municipality, to an extent to which the taxpayer would otherwise be unable to carry it on in accordance therewith,

(*b*) that was granted or issued by Her Majesty in right of Canada or a province or a Canadian municipality, or by a department, board, agency or any other body authorized by or under a law of Canada, a province or a Canadian municipality to grant or issue such a right or licence, and

(*c*) that was acquired by the taxpayer

(i) as a result of a transaction that occurred before 1972, or

(ii) at a particular time for the purpose of affecting the continuation, without interruption, of rights that are substantially similar to the rights that the taxpayer had under a government right held by the taxpayer before the particular time;

"original right" — "original right" of a taxpayer in respect of a government right means a right or licence

(*a*) described in the definition "government right" in this subsection, and

(*b*) acquired by the taxpayer as a result of a transaction that occurred before 1972 for a purpose other than the purpose described in subparagraph (*c*)(ii) of that definition,

if the government right was acquired by the taxpayer for the purpose of effecting the continuation, without interruption, of rights that are substantially similar to the rights that the taxpayer had under the right or licence;

"specified right" — "specified right" of a taxpayer in respect of a government right means a right owned by a taxpayer on December 31, 1971 that was

(*a*) an original right, or

(*b*) a government right that was acquired by the taxpayer in substitution for the original right or that was one of a series of government rights acquired by the taxpayer for the purpose of effecting the continuation, without interruption, of rights that are substantially similar to the rights that the taxpayer had under the original right.

22. Deduction of interest by certain corporations.

(1) [Repealed by 1985, c. 45, s. 129.]

► 22(2) ◄

(2) Idem. [Repealed by 1985, c. 45, s. 129.]

23. Rules applicable.

► 23(1) ◄

(1) Income from professional business. [Repealed by 1985, c. 45, s. 130.]

► 23(2) ◄

(2) Valuation of work in progress. [Repealed by 1985, c. 45, s. 130.]

► 23(3) ◄

(3) Rules applicable. For the purposes of computing the income of a taxpayer for a taxation year ending after 1971 from a business that is a profession,

(*a*) there may be deducted such amount as the taxpayer claims, not exceeding the lesser of

(i) the amount deducted under this paragraph in computing the taxpayer's income from the business for the preceding taxation year, and

(ii) the taxpayer's investment interest in the business at the end of the year;

(*b*) where the taxation year is the taxpayer's 1972 taxation year, the amount deducted under paragraph (*a*) in computing the taxpayer's income for the preceding taxation year from the business shall be deemed to be an amount equal to the taxpayer's 1971 receivables in respect of the business;

(*c*) there shall be included the amount deducted under paragraph (*a*) in computing the taxpayer's income for the preceding taxation year from the business; and

(*d*) there shall be included amounts received by the taxpayer in the year on account of debts in respect of the business that were established by the taxpayer to have become bad debts before the end of the 1971 fiscal period of the business.

Regulations: Part II.

Interpretation Bulletins: *Secondary* — IT-212R3 Income of deceased persons — Rights or things; IT-242R Retired partners; IT-278R2 Death of a partner or of a retired partner.

► 23(4) ◄

(4) Application of para. (3)(*a*). Paragraph (3)(*a*) does not apply to allow a deduction in computing the income of a taxpayer from a business that is a profession

(*a*) for the taxation year in which the taxpayer died; or

(*b*) for any taxation year, if,

(i) in the case of a taxpayer who at no time in the year was resident in Canada, the taxpayer ceased to carry on the business, or

(ii) in the case of any other taxpayer, the taxpayer ceased to be resident in Canada and ceased to carry on the business

at any time in the year or the following year.

Interpretation Bulletins: *Secondary* — IT-242R Retired partners; IT-278R2 Death of a partner or of a retired partner.

► 23(4.1) ◄

(4.1) Certain persons deemed to be carrying on business by means of partnership. For the purposes of paragraph (*a*) of the definition investment interest in subsection (5),

(*a*) where subsection 98(1) of the amended Act applies, the persons who are deemed not to have ceased to be members of a partnership because of that subsection shall be deemed to be carrying on business in Canada by means of that partnership; and

(*b*) a taxpayer who has a residual interest in a partnership (within the meaning assigned by section 98.1 of the amended Act) shall be deemed to be carrying on business in Canada by means of that partnership.

► 23(5) ◄

(5) Definitions. In this section,

"investment interest" — "investment interest" in a business at the end of a taxation year of a taxpayer means

(*a*) in the case of a taxpayer other than a corporation, the total of all amounts each of which is an amount in respect of a proprietorship or partnership by means of which the taxpayer carried on that business in Canada in the year, equal to,

(i) in respect of each such proprietorship, the amount, if any, by which

(A) the total of such of the amounts that were included in computing the taxpayer's income

for that or a preceding taxation year as were receivable by the taxpayer at the end of the fiscal period of the proprietorship ending in the taxation year,

exceeds

(B) the amount claimed under paragraph 20(1)(*l*) of the amended Act as a reserve for doubtful debts in computing the taxpayer's income from the business for the fiscal period of the proprietorship ending in the year, and

(ii) in respect of each such partnership, the adjusted cost base to the taxpayer of the taxpayer's interest in the partnership immediately after the end of the fiscal period of the partnership ending in the year,

(*b*) in the case of a taxpayer that is a corporation, the lesser of

(i) the amount thereof that would be determined under paragraph (*a*) in respect of the corporation if that paragraph applied to a taxpayer that is a corporation, and

(ii) that proportion of its 1971 receivables in respect of the business that

(A) the amount, if any, by which 10 exceeds the number of its taxation years ending after 1971 and either before or coincidentally with the taxation year,

is of

(B) 10;

"*1971 receivables*" — "1971 receivables" in respect of a business of a taxpayer means the total of

(*a*) all amounts that became receivable by the taxpayer in respect of property sold or services rendered in the course of the business (within the meaning given that expression in section 34 of the amended Act) in taxation years ending before 1972 and that were not included in computing the taxpayer's income for any such taxation year, other than debts that were established by the taxpayer to have become bad debts before the end of the 1971 fiscal period of the business, and

(*b*) the total of all amounts each of which is an amount, in respect of each partnership by means of which the taxpayer carried on that business before 1972, equal to such portion of the total that would be determined under paragraph (*a*) in respect of the partnership, if the references in that paragraph to "the taxpayer" were read as references to "the partnership", as is designated by the taxpayer in the taxpayer's return of income under Part I of the amended Act for the year to be attributable to the taxpayer, except that where the total of the portions so designated by all members of the partnership is less than the total that would be so determined under paragraph (*a*) in respect of the partnership, the Minister may designate the portion of that total that is attributable to the taxpayer, in which case the portion so designated by the Minister in respect of the taxpayer shall be deemed to be the portion so designated by the taxpayer.

24. Definition of "valuation day" for capital gains and losses.

In this Act, "valuation day" means

(*a*) December 22, 1971, in relation to any property prescribed to be a publicly-traded share or security; and

(*b*) December 31, 1971, in relation to any other property.

Regulations: Part XLIV.

26. Capital gains subject to tax.

(1) The provisions of subdivision c of Division B of Part I of the amended Act apply to dispositions of property made after 1971 and to transactions or events occurring after 1971 because of which any disposition of property was made or deemed to have been made in accordance with the provisions of that subdivision.

Interpretation Bulletins: *Secondary* — IT-330R Dispositions of capital property subject to warranty, covenant, or other conditional or contingent obligations [Archived by the CRA]; IT-474R Amalgamations of Canadian corporations [Archived by the CRA]; IT-450R Share for Share Exchange.

► 26(1.1) ◄

(1.1) Principal amount of certain obligations. For the purposes of subsection 39(3) and section 80 of the amended Act, the principal amount of any debt or other obligation of a taxpayer to pay an amount that was outstanding on January 1, 1972 (in this subsection referred to as an "obligation") shall be deemed to be the lesser of

(*a*) the principal amount, otherwise determined for the purposes of the amended Act, of the obligation, and

(*b*) the fair market value, on valuation day, of the obligation,

and in applying paragraph 39(3)(*a*) of the amended Act to an obligation, the reference in that paragraph to "the amount for which the obligation was issued" shall be read as a reference to "the lesser of the principal amount of the obligation and the amount for which the obligation was issued".

Interpretation Bulletins: *Secondary* — IT-293R Debtor's gain on settlement of debt.

► 26(2) ◄

(2) Listed personal property. [Repealed by 1985, c. 45, s. 131(1).]

► 26(3) ◄

(3) Cost of acquisition of capital property owned on Dec. 31, 1971. For the purpose of computing the adjusted cost base to a taxpayer of any capital property (other than depreciable property or an interest in a partnership) that was owned by the taxpayer on December 31, 1971 and thereafter without interruption until such time as the taxpayer disposed of it, its cost to the taxpayer shall be deemed to be the amount that is neither the greatest nor the least of the following three amounts, namely,

(*a*) its actual cost to the taxpayer or, if the property was an obligation, its amortized cost to the taxpayer on January 1, 1972,

(*b*) its fair market value on valuation day, and

(*c*) the amount, if any, by which the total of

(i) the taxpayer's proceeds of disposition of the property, determined without reference to subsection 13(21.1) of the amended Act,

(ii) all amounts required by subsection 53(2) of the amended Act to be deducted in computing its adjusted cost base to the taxpayer immediately before the disposition, and

(iii) all amounts described in clause (5)(*c*)(ii)(B) that are relevant in computing its adjusted cost base to the taxpayer immediately before the disposition,

exceeds the total of

(iv) all amounts required by subsection 53(1) of the amended Act (other than paragraphs 53(1)(*f*.1) to (*f*.2)) to be added in computing its adjusted cost base to the taxpayer immediately before the disposition, and

(v) all amounts described in clause (5)(*c*)(i)(B) that are relevant in computing its adjusted cost base to the taxpayer immediately before the disposition,

except that where two or more of the amounts determined under paragraphs (*a*) to (*c*) in respect of any property are the same amount, that amount shall be deemed to be its costs to the taxpayer.

History: S. 26(3)(*c*)(iv) was amended by S.C. 1995, c. 21, s. 79(1), applicable to taxation years that end after February 21, 1994. S. 26(3)(*c*)(iv) formerly read:

"(iv) all amounts required by subsection 53(1) of the amended Act (other than paragraphs 53(1)(*f*.1) and (*f*.2) to be added in computing its adjusted cost base to the taxpayer immediately before the disposition, and"

Interpretation Bulletins: *Primary* — IT-65 Stock splits and consolidations; IT-84 Capital property owned on December 31, 1971 — Median rule (tax-free zone) [Archived by the CRA]; IT-93 Capital property owned on December 31, 1971 — Meaning of actual cost and amortized cost [Archived by the CRA]; IT-107 Costs of disposition of capital property affected by the median rule [Archived by the CRA]; IT-130 Capital property owned on December 31, 1971 — Actual cost of property owned by a testamentary trust. *Secondary* — IT-78 Capital property owned on December 31, 1971 — Identical properties [Archived by the CRA]; IT-96R6 Options granted by corporations to acquire shares, bonds or debentures; IT-132R2 Capital property owned on December 31, 1971 — Non-arm's length transactions [Archived by the CRA]; IT-199 Identical properties acquired in non-arm's length transactions [Archived by the CRA]; IT-209R Inter-vivos gifts of capital property to individuals directly or through trusts; IT-268R4 Inter vivos transfer of farm property to child; IT-319 Cost of obligations owned on December 31, 1971 [Archived by the CRA]; IT-349R3 Intergenerational transfers of farm property on death .

► 26(4) ◄

(4) Determination of cost where property not disposed of. For the purpose of computing the adjusted cost base to a taxpayer of any capital property (other than depreciable property or an interest in a partnership) at any particular time before the taxpayer disposed of it, where the property was owned by the taxpayer on December 31, 1971 and thereafter without interruption until the particular time, its costs to the taxpayer shall be deemed to be the amount that would be determined under subsection (3) to be its cost to the taxpayer if the taxpayer had disposed of it at the particular time and the taxpayer's proceeds of disposition had been its fair market value at that time.

Interpretation Bulletins: *Secondary* — IT-84 Capital property owned on December 31, 1971 — Median rule (tax-free zone) [Archived by the CRA]; IT-209R Inter-vivos gifts of capital property to individuals directly or through trusts.

► 26(5) ◄

(5) Where property disposed of in transaction not at arm's length. Where any capital property (other than depreciable property or an interest in a partnership) that was owned by a taxpayer (in this subsection referred to as the "original owner") on June 18, 1971 has, by one or more transactions or events between persons not dealing at arm's length, become vested in another taxpayer (in this subsection referred to as the "subsequent owner") and the original owner has not elected under subsection (7) in respect of the property, notwithstanding the provisions of the amended Act, for the purposes of computing, at any particular time after 1971, the adjusted cost base of the property to the subsequent owner,

(*a*) the subsequent owner shall be deemed to have owned the property on June 18, 1971 and thereafter without interruption until the particular time;

(*b*) for the purposes of this section, the actual cost of the property to the subsequent owner or, if the property was an obligation, its amortized cost to the subsequent owner on January 1, 1972 shall be deemed to be the amount that was its actual cost or amortized cost, on January 1, 1972, as the case may be, to the original owner; and

(*c*) where the property became vested in the subsequent owner after 1971, there shall be added to the cost to the subsequent owner of the property (as determined under subsection (3)) the amount, if any, by which

(i) the total of all amounts each of which is

(A) a capital gain (other than any amount deemed by subsection 40(3) of the amended Act to be a capital gain) from the disposition after 1971 of the property by a person who owned the property before it so became vested in the subsequent owner,

(B) an amount required by subsection 53(1) of the amended Act to be added in computing the adjusted cost base of the property to a person (other than the subsequent owner) described in clause (A),

(C) an amount determined under paragraph 88(1)(*d*) of the amended Act in computing the cost of the property to the subsequent owner or a person who owned the property before it became vested in the subsequent owner, or

(D) an amount by which a gain otherwise determined of a person who owned the property before it became so vested in the subsequent owner was reduced because of paragraph 40(2)(*b*) or (*c*) of the amended Act,

exceeds

(ii) the total of all amounts each of which is

(A) a capital loss or an amount that would, but for paragraph 40(2)(*e*) and subsection 85(4) of the amended Act (as that Act read in its application to property disposed of on or before April 26, 1995) and paragraphs 40(2)(*e*.1) and (*e*.2) and subsection 40(3.3) of the amended Act, be a capital loss from the disposition to a corporation after 1971 of the property by a person who owned the property before it became vested in the subsequent owner, or

(B) an amount required by subsection 53(2) of the amended Act to be deducted in computing the adjusted cost base of the property to a

person (other than the subsequent owner) described in clause (A),

and there shall be deducted from the cost to the subsequent owner of the property the amount, if any, by which the total determined under subparagraph (ii) exceeds the total determined under subparagraph (i).

History: S. 26(5)(*c*)(ii)(A) was amended by S.C. 1998, c. 19, s. 249(1), applicable to dispositions that occur after April 26, 1995. S. 26(5)(*c*)(ii)(A) formerly read:

"(A) a capital loss or an amount that would, but for paragraph 40(2)(*e*), (*e*.1) or (*e*.2) or subsection 85(4) of the amended Act, be a capital loss from the disposition to a corporation after 1971 of the property by a person who owned the property before it so vested in the subsequent owner, or"

S. 26(5)(*c*)(ii)(A) was amended by S.C. 1995, c. 21, s. 79(2), applicable to taxation years that end after February 21, 1994. S. 26(5)(*c*)(ii)(A) formerly read:

"(A) a capital loss or an amount that would, but for paragraph 40(2)(*e*) or subsection 85(4) of the amended Act, be a capital loss from the disposition to a corporation after 1971 of the property by a person who owned the property before it so became vested in the subsequent owner, or"

Interpretation Bulletins: *Primary* — IT-132R2 Capital property owned on December 31, 1971 — Non-arm's length transactions [Archived by the CRA]; IT-199 Identical properties acquired in non-arm's length transactions [Archived by the CRA]; IT-370 Trusts — Capital property owned on December 31, 1971 [Archived by the CRA]. *Secondary* — IT-209R Inter-vivos gifts of capital property to individuals directly or through trusts; IT-268R4 Inter vivos transfer of farm property to child; IT-349R3 Intergenerational transfers of farm property on death; IT-432R2 Benefits conferred on shareholders; IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].

► 26(5.1) ◄

(5.1) Idem. For the purposes of subsection (5), an amalgamation (within the meaning assigned by section 87 of the amended Act) of two or more Canadian corporations shall be deemed to be a transaction between persons not dealing at arm's length.

Interpretation Bulletins: *Secondary* — IT-132R2 Capital property owned on December 31, 1971 — Non-arm's length transactions [Archived by the CRA].

► 26(5.2) ◄

(5.2) Transfer of capital property to a corporation. For the purposes of subsection (5), where a taxpayer has disposed of capital property after May 6, 1974 to a corporation in respect of which an election under section 85 of the amended Act was made, the disposition shall be deemed to be a transaction between persons not dealing at arm's length.

► 26(6) ◄

(6) Reacquired property. Where a taxpayer has, at any time after June 18, 1971 and before 1972, disposed of any property owned by the taxpayer on that day and has, within 30 days after that time, reacquired the same property or acquired a substantially identical property, for the purposes of this section

(*a*) the taxpayer shall be deemed to have owned the property so reacquired or the substantially identical property so acquired, as the case may be, on June 18, 1971 and thereafter without interruption until the time the taxpayer so reacquired or acquired it as the case may be;

(*b*) where the property was property so reacquired, its actual cost or its amortized cost on January 1, 1972, as the case may be, to the taxpayer shall be determined as if the taxpayer had not so disposed of and so reacquired it; and

(*c*) where the property was substantially identical property so acquired, its actual cost or its amortized cost on January 1, 1972, as the case may be, to the taxpayer shall be deemed to be the amount that was the actual cost or the amortized cost on January 1, 1972, as the case may be, to the taxpayer of the property so disposed of by the taxpayer.

► 26(7) ◄

(7) Election re cost. Where, but for this subsection, the cost to an individual of any property actually owned by the individual on December 31, 1971 would be determined under subsection (3) or (4) otherwise than because of subsection (5) and the individual has so elected, in prescribed manner and not later than the day on or before which the individual is required by Part I of the amended Act to file a return of income for the first taxation year in which the individual disposes of all or any part of the property, other than

(*a*) personal-use property of the individual that was not listed personal property or real property,

(*b*) listed personal property, if the individual's gain or loss, as the case may be, from the disposition thereof was, because of subsection 46(1) or (2) of the amended Act, nil,

(*c*) the individual's principal residence, if the individual's gain from the disposition thereof was, because of paragraph 40(2)(*b*) of the amended Act, nil,

(*d*) personal-use property of the individual that was real property (other than the individual's principal residence), if the individual's gain from the disposition thereof was, because of subsection 46(1) or (2) of the amended Act, nil, or

(*e*) any other property, the proceeds of disposition of which are equal to its fair market value on valuation day,

the cost to the individual of each capital property (other than depreciable property, an interest in a partnership or any property described in any of paragraphs (*a*) to (*e*) that was disposed of by the individual before that taxation year) actually owned by the individual on December 31, 1971 shall be deemed to be its fair market value on valuation day.

Regulations: Part XLVII.
Interpretation Bulletins: *Primary* — IT-139R Capital property owned on December 31, 1971 — Fair market value [Archived by the CRA]. *Secondary* — IT-78 Capital property owned on December 31, 1971 — Identical properties [Archived by the CRA]; IT-84 Capital property owned on December 31, 1971 — Median rule (tax-free zone) [Archived by the CRA]; IT-132R2 Capital property owned on December 31, 1971 — Non-arm's length transactions [Archived by the CRA]; IT-199 Identical properties acquired in non-arm's length transactions [Archived by the CRA].
Forms: T2076.

► 26(8) ◄

(8) Identical properties. For the purposes of computing, at any particular time after 1971, the adjusted cost base to a taxpayer of any capital property (other than depreciable property or an interest in a partnership) that was owned by the taxpayer on December 31, 1971 and thereafter without interruption until the particular time, if the property was one of a group of identical properties owned by the taxpayer on December 31, 1971,

(*a*) section 47 of the amended Act does not apply;

(*b*) where the property was an obligation,

(i) for the purpose of paragraph (3)(*a*), its amortized cost to the taxpayer on January 1, 1972 shall be deemed to be that proportion of the total of the amortized costs to the taxpayer on January 1, 1972 of all obligations of that group that the principal amount of the obligation is of the total of the principal amounts of all obligations of that group, and

(ii) for the purpose of paragraph (3)(*b*), its fair market value on valuation day shall be deemed to be that proportion of the fair market value on that day of all obligations of that group that the principal amount of the obligation is of the total of the principal amounts of all obligations of that group;

(*c*) where the property was not an obligation,

(i) for the purpose of paragraph (3)(*a*), its actual cost to the taxpayer shall be deemed to be the quotient obtained when the total of the actual costs to the taxpayer of all properties of that group is divided by the number of properties of that group, and

(ii) for the purpose of paragraph (3)(*b*), its fair market value on valuation day shall be deemed to be the quotient obtained when the fair market value on that day of all properties of that group is divided by the number of properties of that group;

(*d*) for the purpose of distinguishing any such property from an otherwise identical property acquired and disposed of by the taxpayer before 1972, properties acquired by the taxpayer at any time shall be deemed to have been disposed of by the taxpayer before properties acquired by the taxpayer after that time; and

(*e*) for the purposes of distinguishing any such property from an otherwise identical property acquired by the taxpayer after 1971, properties owned by the taxpayer on December 31, 1971 shall be deemed to have been disposed of by the taxpayer before properties acquired by the taxpayer at a later time.

Interpretation Bulletins: *Primary*— IT-78 Capital property owned on December 31, 1971 — Identical properties [Archived by the CRA]. *Secondary* — IT-88R2 Stock dividends; IT-115R2 Fractional interests in shares; IT-199 Identical properties acquired in non-arm's length transactions [Archived by the CRA]; IT-387R2 (Consolid.) Meaning of "identical properties"; IT-489R Non-arm's length sale of shares to a corporation.

► 26(8.1) ◄

(8.1) Idem. For the purposes of subsection (8), any property of a life insurance corporation that would, but for this subsection, be identical to any other property of the corporation shall be deemed not to be identical to that other property unless both properties are

(*a*) included in the same segregated fund of the corporation;

(*b*) non-segregated property used in the year in, or held in the course of, carrying on a life insurance business in Canada; or

(*c*) non-segregated property used in the year in, or held in the course of, carrying on an insurance business in Canada, other than a life insurance business.

Interpretation Bulletins: *Secondary*— IT-387R2 (Consolid.) Meaning of "identical properties".

► 26(8.2) ◄

(8.2) Idem. For the purposes of subsection (8), any bond, debenture, bill, note or other similar obligation issued by a debtor is identical to any other such obligation issued by that debtor if both are identical in respect of all rights (in equity or otherwise, either immediately or in the future and either absolutely or contingently) attaching thereto, except as regards the principal amount thereof.

Interpretation Bulletins: *Secondary*— IT-387R2 (Consolid.) Meaning of "identical properties".

► 26(8.3) ◄

(8.3) Idem. Where a corporation resident in Canada has, after 1971, received a stock dividend in respect of a share owned on June 18, 1971 and December 31, 1971 by it or by a corporation with which it did not deal at arm's length of the capital stock of a foreign affiliate of that corporation and the share or shares received as the stock dividend are identical to the share in respect of which the stock dividend was received, the share or shares received as the stock dividend may, at the option of the corporation, be deemed for the purposes of subsection (5) to be capital property owned by it on June 18, 1971 and for the purposes of this subsection, paragraph (3)(*c*) and subsection (8) to be capital property owned by it on June 18, 1971 and December 31, 1971 and not to be property acquired by the corporation after 1971 for the purposes of paragraph (8)(*e*).

Interpretation Bulletins: *Secondary*— IT-88R2 Stock dividends.

► 26(8.4) ◄

(8.4) Idem. Where a corporation resident in Canada has, after 1971, received a stock dividend in respect of a share acquired by it after June 18, 1971 from a person with whom it was dealing at arm's length and owned by it on December 31, 1971 of the capital stock of a foreign affiliate of that corporation and the share or shares received as the stock dividend are identical to the share in respect of which the stock dividend was received, the share or shares received as the stock dividend may, at the option of the corporation, be deemed for the purposes of this subsection, paragraph (3)(*c*) and subsection (8) to be capital property owned by it on December 31, 1971 and not to be property acquired by the corporation after 1971 for the purposes of paragraph (8)(*e*).

Interpretation Bulletins: *Secondary*— IT-88R2 Stock dividends.

► 26(8.5) ◄

(8.5) Amalgamation. For the purposes of subsections (8.3) and (8.4), where there has been an amalgamation (within the meaning of section 87 of the amended Act), the new corporation shall be deemed to be the same corporation as, and a continuation of, each predecessor corporation.

► 26(9) ◄

(9) Cost of interest in partnership. For the purpose of computing, at any particular time after 1971, the adjusted cost base to a taxpayer of an interest in a partnership of which the taxpayer was a member on December 31, 1971 and thereafter without interruption until the particular time, the cost to the taxpayer of the interest shall be deemed to be the amount that is neither the greatest nor the least of the following three amounts, namely,

(*a*) its actual cost to the taxpayer as of the particular time,

(*b*) the amount determined under subsection (9.1) in respect of the interest as of the particular time, and

(*c*) the amount, if any, by which the total of the fair market value of the interest at the particular time and all amounts required by subsection 53(2) of the amended Act to be deducted in computing its adjusted cost base to the taxpayer immediately before the particular time exceeds the total of all amounts required by subsection 53(1) of the amended Act to be added in computing its adjusted cost base to the taxpayer immediately before the particular time,

except that where two or more of the amounts determined under paragraphs (*a*) to (*c*) in respect of the interest are the same amount, that amount shall be deemed to be its cost to the taxpayer.

Regulations: Part II.

► 26(9.1) ◄

(9.1) Determination of amounts for purpose of s. (9). For the purposes of subsection (9), the amount determined under this subsection in respect of a taxpayer's interest in a partnership as of a particular time is the amount, if any, by which the total of

(*a*) the taxpayer's share, determined at the beginning of the first fiscal period of the partnership ending after 1971, of the tax equity of the partnership at the particular time,

(*b*) such part of any contribution of capital made by the taxpayer to the partnership (otherwise than by way of loan) before 1972 and after the beginning of the partnership's first fiscal period ending after 1971, as cannot reasonably be regarded as a gift made to, or for the benefit of, any other member of the partnership who was related to the taxpayer, and

(*c*) the amount of any consideration that became payable by the taxpayer after 1971 to any other person to acquire, after 1971, any right in respect of the partnership, the sole purpose of the acquisition of which was to increase the taxpayer's interest in the partnership,

exceeds the total of

(*d*) all amounts received by the taxpayer before 1972 and after the beginning of the partnership's first fiscal period ending after 1971 as, on account of, in lieu of payment of or in satisfaction of, a distribution of the taxpayer's share of the partnership profits or partnership capital, and

(*e*) all amounts each of which is an amount in respect of the disposition by the taxpayer after 1971 and before the particular time of a part of the taxpayer's interest in the partnership, equal to such portion of the adjusted cost base to the taxpayer of the interest immediately before the disposition as may reasonably be regarded as attributable to the part so dispose of.

► 26(9.2) ◄

(9.2) Where interest acquired before 1972 and after beginning of 1st fiscal period ending after 1971. Where a taxpayer has, before 1972 and after the beginning of the first fiscal period of a partnership ending after 1971, acquired an interest in the partnership from another person, subsection (9.1) applies as if, for the purposes of paragraphs (*a*), (*b*) and (*d*) thereof, the taxpayer had had in respect of the interest, throughout the period beginning at the beginning of that fiscal period and ending at the time the taxpayer acquired the interest, the same position in relation to the partnership as the taxpayer would have had in relation thereto if, throughout that period, the taxpayer had been the owner of the interest.

► 26(9.3) ◄

(9.3) Amounts deemed to be required to be deducted in respect of interest in partnership. For the purpose of computing, at any particular time after 1971, the adjusted cost base to a taxpayer of an interest in a partnership of which the taxpayer was a member on December 31, 1971 and thereafter without interruption until the particular time, the lesser of

(*a*) the amount, if any, by which

(i) the total of all amounts in respect of the interest determined under paragraph (9.1)(*d*)

exceeds

(ii) the total of

(A) the taxpayer's share, determined at the beginning of the first fiscal period of the partnership ending after 1971, of the tax equity of the partnership at the particular time, and

(B) the amount in respect of the interest determined under paragraph (9.1)(*b*), and

(*b*) the amount, if any, by which

(i) the total of all amounts in respect of the interest determined as of the particular time under paragraphs (14)(*e*) to (*g*)

exceeds

(ii) the total of all amounts in respect of the interest determined as of the particular time under paragraphs (14)(*a*) to (*d*),

shall be deemed to be required by subsection 53(2) of the amended Act to be deducted.

► 26(9.4) ◄

(9.4) Application of s. 53 of amended Act in respect of interest in partnership. For the purpose of computing, at any particular time after 1971, the adjusted cost base to a taxpayer of an interest in a partnership of which the taxpayer was a member on December 31, 1971 and thereafter without interruption until the particular time,

(*a*) the reference in clause 53(1)(*e*)(i)(B) of the amended Act to "relating to" shall be read as a reference to "relating to section 14 or to"; and

(*b*) clause 53(2)(*c*)(i)(B) of the amended Act shall be read as follows:

"(B) paragraphs 12(1)(*o*) and (*z*.5), 18(1)(*m*) and 20(1)(*v*.1), section 31, subsection 40(2), section 55 and subsections 69(6) and (7) of this Act, paragraphs 20(1)(*gg*) and 81(1)(*r*) and (*s*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, and the provisions of the *Income Tax Application Rules* relating to section 14, and"

History: S. 26(9.4)(*b*) was amended by S.C. 1997, c. 25, s. 72(1), applicable for the purpose of computing the adjusted cost base of property after 1996. S. 26(9.4)(*b*) formerly read:

"(*b*) clause 53(2)(*c*)(i)(B) of the amended Act shall be read as follows:

'(B) paragraphs 12(1)(*o*), 18(1)(*m*) and 20(1)(*v.1*), section 31, subsection 40(2), section 55 and subsections 69(6) and (7) of this Act, paragraphs 20(1)(*gg*) and 81(1)(*l*) and (*s*) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, and the provisions of the *Income Tax Application Rules* relating to section 14, and'"

► 26(10) ◄

(10) Where paragraph 128.1(1)(*b*) of amended Act applies. Where subsection 48(3) of the amended Act, as it read in its application before 1993, or paragraph 128.1(1)(*b*) of the amended Act applies for the purpose of determining the cost to a taxpayer of any property, this section does not apply for that purpose.

History: S. 26(10) was amended by S.C. 1994, c. 21, s. 118(1), applicable after 1992 except that, where a corporation elects in accordance with paragraph 111(4)(*a*), subsection (1) applies to the corporation from the corporation's time of continuation (within the meaning assigned by that paragraph). S. 26(10) formerly read:

"(10) *Where s. 48(3) of amended Act applies.* Where subsection 48(3) of the amended Act applies for the purpose of determining the cost to a taxpayer of any property, this section does not apply for that purpose."

► 26(11) ◄

(11) Fair market value of publicly-traded securities. For the purposes of this section, the fair market value on valuation day of any property prescribed to be a publicly-traded share or security shall be deemed to be the greater of the amount, if any, prescribed in respect of that property and the fair market value of that property, otherwise determined, on valuation day.

Regulations: Part XLIV.
Interpretation Bulletins: *Secondary* — IT-84 Capital property owned on December 31, 1971 — Median rule (tax-free zone) [Archived by the CRA].

► 26(11.1) ◄

(11.1) Fair market value of share of foreign affiliate. For the purposes of computing the fair market value

(*a*) on December 31, 1971, or

(*b*) at any subsequent time for the purposes of subsection (4),

of any shares owned by a taxpayer resident in Canada of the capital stock of a foreign affiliate of the taxpayer, the fair market value at that time of any asset owned by the foreign affiliate at that time

(*c*) that was subsequently acquired by the taxpayer from the foreign affiliate

(i) as a dividend payable in kind,

(ii) as a benefit the amount of which was deemed by paragraph 80.1(4)(*b*) of the amended Act to have been received by the taxpayer as a dividend from the foreign affiliate, or

(iii) as consideration for the settlement or extinguishment of an obligation described in subsection 80.1(5) of the amended Act, and

(*d*) in respect of which subsection 80.1(4) or (5), as the case may be, of the amended Act applies because of an election described in that subsection made by the taxpayer,

shall be deemed to be the principal amount of that asset.

► 26(11.2) ◄

(11.2) Idem. For the purposes of computing the fair market value on December 31, 1971 of any shares owned by a taxpayer resident in Canada of the capital stock of a foreign affiliate of the taxpayer, the fair market value on that day of any asset owned by the foreign affiliate on that day

(*a*) that was subsequently acquired by the taxpayer from the foreign affiliate as described in paragraph 80.1(6)(*a*) or (*b*) of the amended Act, and

(*b*) in respect of which subsection 80.1(1) of the amended Act applies because of an election described in subsection 80.1(6) of that Act made by the taxpayer,

shall be deemed to be the principal amount of that asset.

► 26(12) ◄

(12) Definitions. In this section,

Interpretation Bulletins: *Secondary* — IT-78 Capital property owned on December 31, 1971 — Identical properties [Archived by the CRA]; IT-93 Capital property owned on December 31, 1971 — Meaning of actual cost and amortized cost [Archived by the CRA].

"*amortized cost*" — "amortized cost" to a taxpayer of any obligation on January 1, 1972 means

(*a*) the principal amount of the obligation, if its actual cost to the taxpayer was less than 100% but not less than 95% of that principal amount and the obligation was issued before November 8, 1969,

(*b*) the actual cost to the taxpayer of the obligation, if the actual cost to the taxpayer thereof was less than 105% but not less than 100% of the principal amount thereof, and

(*c*) in any other case, the actual cost to the taxpayer of the obligation, plus that proportion of the discount or minus that proportion of the premium, as the case may be, in respect thereof that

(i) the number of full months in the period commencing with the day the taxpayer last acquired the obligation and ending with valuation day,

is of

(ii) the number of full months in the period commencing with the day the taxpayer last acquired the obligation and ending with the date of its maturity;

Interpretation Bulletins: *Primary* — IT-319 Cost of obligations owned on December 31, 1971 [Archived by the CRA].

"*capital property*" — "capital property" of a taxpayer means any depreciable property of the taxpayer, and any property (other than depreciable property) any gain or loss from the disposition of which would, if the property were disposed of after 1971, be a capital gain or a capital loss, as the case may be, of the taxpayer;

"*discount*" — "discount" in respect of any obligation owned by a taxpayer means the amount, if any, by which the principal amount thereof exceeds its actual cost to the taxpayer, determined without reference to subsection (3);

"*eligible capital property*" — "eligible capital property" of a taxpayer means any property, ½ of any amount payable to the taxpayer as consideration for the disposition of which would, if the property were disposed of after 1971, be eligible capital amount in respect of business within the meaning assigned by subsection 14(1) of the amended Act;

"*obligation*" — "obligation" means a bond, debenture, bill, note, mortgage, hypothecary claim or agreement of sale;

History: S. 26(12), the definition "obligation" was amended by S.C. 2001, c. 17, s. 232(1), applicable on Royal Assent, June 14, 2001. S. 26(12), the definition "obligation" formerly read:

"'obligation' — 'obligation' means a bond, debenture, bill, note, mortgage or agreement of sale;"

"premium" — "premium" in respect of any obligation owned by a taxpayer means the amount, if any, by which its actual cost to the taxpayer determined without reference to subsection (3) exceeds the principal amount thereof;

"tax equity" — "tax equity" of a partnership at any particular time means the amount, if any, by which the total of all amounts each of which is

(*a*) the amount of any money of the partnership on hand at the beginning of its first fiscal period ending after 1971,

(*b*) the cost amount to the partnership, at the beginning of that fiscal period, of any partnership property other than capital property or eligible capital property,

(*c*) an amount in respect of any property (other than depreciable property) that was, at the beginning of that fiscal period, capital property of the partnership, equal to,

(i) where the property was disposed of before 1972, the proceeds of disposition thereof,

(ii) where the property was disposed of after 1971 and before the particular time, the amount determined under this section to be its cost to the partnership for the purposes of computing its adjusted cost base to the partnership immediately before it was disposed of, and

(iii) in any other case, the amount determined under this section to be its cost to the partnership for the purposes of computing its adjusted cost base to the partnership immediately before the particular time,

(*d*) an amount in respect of any prescribed class of depreciable property of the partnership, equal to the amount, if any, by which the total of the undepreciated capital cost to the partnership of property of that class as of January 1, 1972 exceeds the capital cost to the partnership of property of that class acquired by it after the beginning of that fiscal period and before 1972,

(*e*) an amount in respect of any other depreciable property of the partnership at the beginning of that fiscal period, equal to the amount by which

(i) the actual cost of the property to the partnership, or the amount at which the partnership was deemed to have acquired the property under subsection 20(6) of the former Act as it read in its application to the 1971 taxation year, as the case may be,

exceeds

(ii) the total of all amounts in respect of the cost of the property that were allowed under paragraph 11(1)(*a*) of the former Act as it read in computing the income from the partnership of the members thereof for taxation years ending before 1972,

(*f*) an amount in respect of any property that was, at the beginning of that fiscal period, partnership property that was depreciable property, equal to

(i) where the property was disposed of before 1972, the proceeds of disposition thereof minus the amount, if any, by which the lesser of

(A) the proceeds of disposition thereof, and

(B) the capital cost of the property,

exceeds

(C) in respect of depreciable property of a prescribed class, the undepreciable capital cost of all of the property of that class at the time of the disposition, or

(D) in respect of any other depreciable property, the amount that would be determined under paragraph (*e*) if the words "at the beginning of that fiscal period" were read as "at the time of the disposition",

(ii) where the property was dispose of after 1971 and before the particular time, the amount, if any, by which the lesser of

(A) the proceeds of disposition thereof, and

(B) the fair market value of the property on valuation day,

exceeds the capital cost to the partnership of the property, and

(iii) in any other case, the amount, if any, by which

(A) the lesser of the fair market value of the property on valuation day and its fair market value at the particular time

exceeds

(B) the capital cost to the partnership of the property, or

(*g*) an amount in respect of any business carried on by the partnership in its 1971 fiscal period and thereafter without interruption until the particular time, equal to the amount, if any, by which

(i) 2 times the eligible capital amounts (within the meaning assigned by section 14 of the amended Act) in respect of the business (computed without reference to section 21 of this Act) that would have become payable to the partnership

would exceed

(ii) the amount that would be deemed by subsection 21(1) to be the amount that had become payable to the partnership

if the partnership had disposed of the business at the particular time for an amount equal to its fair market value at that time,

exceeds the total of all amounts each of which is the amount of any debt owing by the partnership, or of any other obligation of the partnership to pay an amount, that was outstanding at the beginning of the partnership's first fiscal period ending after 1971, minus such part, if any, thereof as would, if the amount had been paid by the partnership in that fiscal period, have been deductible in computing its income for that fiscal period.

► 26(13) ◄

(13) Meaning of "actual cost". For the purposes of this section, the "actual cost" to a person of any property means, except as expressly otherwise provided in this section, the amount, if any, by which

(*a*) its cost to the person computed without regard to the provisions of this section

exceeds

(*b*) such part of that cost as was deductible in computing the person's income for any taxation year ending before 1972.

Interpretation Bulletins: *Secondary* — IT-93 Capital property owned on December 31, 1971 — Meaning of actual cost and amortized cost [Archived by the CRA].

► 26(14) ◄

(14) Idem. For the purposes of this section, the "actual cost" to a taxpayer, as of any particular time after 1971, of an interest in a partnership of which the taxpayer was a member on December 31, 1971 and thereafter without interruption until the particular time means the amount, if any, by which the total of

(*a*) the cost to the taxpayer of the interest, computed as of the particular time without regard to the provisions of this section,

(*b*) the total of all amounts each of which is an amount in respect of a fiscal period of the partnership that ended before 1972, equal to the total of

(i) the amount that the taxpayer's income from the partnership for the taxation year of the taxpayer in which the period ended would have been, if the former Act had been read without reference to subsection 83(5) of that Act, and

(ii) the taxpayer's share, determined at the end of the period, of all profits made from dispositions in the period of capital assets that were partnership property of the partnership, to the extent that those profits were not included in computing the income or loss, as the case may be, from the partnership, of any member thereof,

(*c*) where the taxpayer had, before 1972, made a contribution of capital to the partnership otherwise than by way of loan, such part of the contribution as cannot reasonably be regarded as a gift made to, or for the benefit of, any other member of the partnership who was related to the taxpayer, and

(*d*) where, by means of the partnership, the taxpayer carried on before 1972 a business that was a profession, the amount that the taxpayer's 1971 receivables (within the meaning assigned by subsection 23(5)) in respect of the business would have been if, before 1972, the taxpayer had carried on no businesses except by means of the partnership,

exceeds the total of

(*e*) all amounts each of which is an amount in respect of the disposition by the taxpayer before the particular time of a part of the taxpayer's interest in the partnership, equal to such portion of,

(i) where the disposition was made before 1972, the actual cost to the taxpayer of the interest, and

(ii) in any other case, the adjusted cost base to the taxpayer of the interest immediately before the disposition,

as can reasonably be regarded as attributable to the part so disposed of,

(*f*) all amounts each of which is an amount in respect of a fiscal period of the partnership that ended before 1972, equal to the total of

(i) the amount that would have been the taxpayer's loss from the partnership for the taxation year of the taxpayer in which the period ended if the former Act had been read without reference to subsection 83(5) of that Act,

(ii) the taxpayer's share, determined the end of the period, of all losses sustained from dispositions in the period of capital assets that were partnership property of the partnership, to the extent that those losses were not included in computing the loss or income, as the case may be, from the partnership, of any member thereof, and

(iii) the taxpayer's share, determined at the end of the period, of such of the drilling and exploration expenses, including all general geological and geophysical expenses, incurred by the partnership while the taxpayer was a member thereof, on or in respect of exploring or drilling for petroleum or natural gas in Canada as were incurred in the period and after 1948, to the extent that those expenses were not deducted in computing the taxpayer's income from the partnership for the taxpayer's 1971 or any preceding taxation year, and

(*g*) all amounts received by the taxpayer before 1972 as, on account of, in lieu of payment of or in satisfaction of, a distribution of the taxpayer's share of the partnership profits or partnership capital.

► 26(15) ◄

(15) Idem. For the purposes of this section and subsection 88(2.1) of the amended Act, the "actual cost" to a taxpayer, as of any particular time after 1971, of any shares (in this subsection referred to as "new shares") of any class of the capital stock of a new corporation formed as a result of an amalgamation of two or more corporations (within the meaning of section 85I of the former Act as it read in its application to the 1971 taxation year) that were

(*a*) owned by the taxpayer on December 31, 1971, and thereafter without interruption until the particular time, and

(*b*) acquired by the taxpayer by the conversion, because of the amalgamation, of shares of the capital stock of a predecessor corporation into shares of the capital stock of the new corporation,

means that proportion of the actual cost to the taxpayer of any shares owned by the taxpayer that were so converted because of the amalgamation that the fair market value, immediately after the amalgamation, of the new shares of that class so acquired by the taxpayer is of the fair market value, immediately after the amalgamation, of all of the shares of the capital stock of the new corporation so acquired by the taxpayer.

► 26(16) ◄

(16) Idem. For the purposes of this section, the "actual cost" to an individual, as of any particular time after 1971, of any share of the capital stock of a corporation that was

(*a*) owned by the individual on December 31, 1971 and thereafter without interruption until the particular time, and

(*b*) acquired by the individual in a taxation year before 1972 under an agreement referred to in sub-

section 85A(1) of the former Act as it read in its application to that taxation year,

means an amount equal to the greater of

(*c*) the actual cost to the individual of the share computed without regard to this subsection, and

(*d*) the fair market value of the share at the time the individual so acquired it.

► 26(17) ◄

(17) Idem. For the purposes of this section and subsection 88(2.1) of the amended Act, the "actual cost" to a taxpayer, as of any particular time after 1971, of any capital property received by the taxpayer before 1972 and owned by the taxpayer thereafter without interruption until the particular time means,

(*a*) where the property was so received as, on account of, in lieu of payment of or in satisfaction of, a dividend payable in kind (other than a stock dividend) in respect of a share owned by the taxpayer of the capital stock of a corporation, the fair market value of that property at the time the property was so received;

(*b*) where the property so received was a share of the capital stock of a corporation received by the taxpayer as a stock dividend, the amount that, because of the receipt of the share, was deemed by subsection 81(3) of the former Act to have been received by the taxpayer as a dividend; and

(*c*) where the property was so received from a pension fund or plan, an employees profit sharing plan, a retirement savings plan, a deferred profit sharing plan or a supplementary unemployment benefit plan, the fair market value of that property at the time the property was so received.

Interpretation Bulletins: *Secondary* — IT-88R2 Stock dividends.

► 26(17.1) ◄

(17.1) Application. Where a taxpayer is deemed to have acquired a property because of subsection 138(11.3) of the amended Act, this section does not apply in respect of any subsequent disposition or deemed disposition of the property.

► 26(18) ◄

(18) Transfer of farm land by a farmer to his child at death. Where

(*a*) a taxpayer owned, on December 31, 1971 and thereafter without interruption until the taxpayer's death, any land referred to in subsection 70(9) of the amended Act,

(*b*) the land has, on or after the death of the taxpayer and as a consequence thereof, been transferred or distributed to a child of the taxpayer who was resident in Canada immediately before the death of the taxpayer, and

(*c*) it can be shown, within the period ending 36 months after the death of the taxpayer or, where written application therefor has been made to the Minister by the legal representative of the taxpayer within that period, within such longer period as the Minister considers reasonable in the circumstances, that the land has become vested indefeasibly in the child,

the following rules apply:

(*d*) paragraph 70(9)(*b*) of the amended Act does not apply for the purpose of determining the cost to the child of the land or part thereof, as the case may be, and

(*e*) subsection (5) applies in respect of the transfer or distribution of the land to the child as if the references in that subsection to "June 18, 1971" were references to "December 31, 1971".

Interpretation Bulletins: *Secondary* — IT-349R3 Intergenerational transfers of farm property on death; IT-449R Meaning of "vested indefeasibly" [Archived by the CRA].

► 26(19) ◄

(19) Inter vivos transfer of farm land by farmer to child. Where a taxpayer owned, on December 31, 1971, and thereafter without interruption until a transfer thereof by the taxpayer to the taxpayer's child, in circumstances to which subsection 73(3) of the amended Act applies, land referred to in that subsection,

(*a*) paragraph 73(3)(*d*) of the amended Act does not apply for the purpose of determining the cost to the child of the land; and

(*b*) subsection (5) shall apply in respect of the transfer of the land to the child as if the references in that subsection to "June 18, 1971" were references to "December 31, 1971".

Interpretation Bulletins: *Secondary* — IT-268R4 Inter vivos transfer of farm property to child.

► 26(20) ◄

(20) Extended meaning of "child". For the purposes of subsections (18) and (19), "child" of a taxpayer includes

(*a*) a child of the taxpayer's child;

(*b*) a child of the taxpayer's child's child; and

(*c*) a person who, at any time before attaining the age of 21 years, was wholly dependent on the taxpayer for support and of whom the taxpayer had, at that time, in law or in fact, the custody and control.

► 26(21) ◄

(21) Shares received on amalgamation. Where, after May 6, 1974, there has been an amalgamation (within the meaning assigned by section 87 of the amended Act) of two or more corporations (each of which is in this subsection referred to as a "predecessor corporation") to form one corporate entity (in this subsection referred to as the "new corporation"), and

(*a*) any shareholder (except any predecessor corporation) owned shares of the capital stock of a predecessor corporation on December 31, 1971 and thereafter without interruption until immediately before the amalgamation,

(*b*) any shares referred to in paragraph (*a*) were shares of one class of the capital stock of a predecessor corporation (in this subsection referred to as the "old shares"),

(*c*) no consideration was received by the shareholder for the disposition of the old shares on the amalgamation other than shares of one class of the capital stock of the new corporation (in this subsection referred to as the "new shares"), and

(*c.1*) the cost of the new shares received by the shareholder because of the amalgamation was deter-

mined otherwise than because of paragraph 87(4)(*e*) of the amended Act,

notwithstanding any other provision of this Act or of the amended Act, for the purposes of subsection 88(2.1) of the amended Act and of determining the cost to the taxpayer and the adjusted cost base to the taxpayer of the new shares,

(*d*) the property that was the old shares shall be deemed not to have been disposed of by the shareholder because of the amalgamation but to have been altered, in form only, because of the amalgamation and to have continued in existence in the form of the new shares, and

(*e*) the property that is the new shares shall be deemed not to have been acquired by the shareholder because of the amalgamation but to have been in existence prior thereto in the form of the old shares that were altered, in form only, because of the amalgamation.

Interpretation Bulletins: *Secondary* — IT-474R Amalgamations of Canadian corporations [Archived by the CRA].

► 26(22) ◄

(22) Options received on amalgamations. Where, after May 6, 1974, there has been an amalgamation (within the meaning assigned by section 87 of the amended Act) of two or more corporations (each of which is in this subsection referred to as a "predecessor corporation") to form one corporate entity (in this subsection referred to as the "new corporation") and a taxpayer has acquired an option to acquire capital property that was shares of the capital stock of the new corporation (in this subsection referred to as the "new option") as sole consideration for the disposition on the amalgamation of an option to acquire shares of the capital stock of a predecessor corporation (in this subsection referred to as the "old option") owned by the taxpayer on December 31, 1971 and thereafter without interruption until immediately before the amalgamation, notwithstanding any other provision of this Act or of the amended Act, for the purposes of subsection 88(2.1) of the amended Act and of determining the cost to the taxpayer and the adjusted cost base to the taxpayer of the new option,

(*a*) the property that was the old option shall be deemed not to have been disposed of by the taxpayer because of the amalgamation but to have been altered, in form only, because of the amalgamation and to have continued in existence in the form of the new option; and

(*b*) the property that is the new option shall be deemed not to have been acquired by the taxpayer because of the amalgamation but to have been in existence prior thereto in the form of the old option that was altered, in form only, because of the amalgamation.

► 26(23) ◄

(23) Obligations received on amalgamations. Where, after May 6, 1974, there has been an amalgamation (within the meaning assigned by section 87 of the amended Act) of two or more corporations (each of which is in this subsection referred to as a "predecessor corporation") to form one corporate entity (in this subsection referred to as the "new corporation") and a taxpayer has acquired a capital property that was a bond, debenture, note, mortgage, hypothecary claim or other similar obligation of the new corporation (in this subsection referred to as the "new obligation") as sole consideration for the disposition on the amalgamation of a bond, debenture, note, mortgage, hypothecary claim or other similar obligation respectively of a predecessor corporation (in this subsection referred to as the "old obligation") owned by the taxpayer on December 31, 1971 and thereafter without interruption until immediately before the amalgamation, notwithstanding any other provision of this Act or of the amended Act, for the purposes of subsection 88(2.1) of the amended Act and of determining the cost to the taxpayer and the adjusted cost base to the taxpayer of the new obligation,

(*a*) the property that was the old obligation shall be deemed not to have been disposed of by the taxpayer because of the amalgamation but to have been altered, in form only, because of the amalgamation and to have continued in existence in the form of the new obligation; and

(*b*) the property that is the new obligation shall be deemed not to have been acquired by the taxpayer because of the amalgamation but to have been in existence prior thereto in the form of the old obligation that was altered, in form only, because of the amalgamation.

History: S. 26(23), the portion before paragraph (*a*) was amended by S.C. 2001, c. 17, s. 232(2), applicable on Royal Assent, June 14, 2001. 26(23), the portion before paragraph (*a*) formerly read:

"(23) *Obligations received on amalgamations.* Where, after May 6, 1974, there has been an amalgamation (within the meaning assigned by section 87 of the amended Act) of two or more corporations (each of which is in this subsection referred to as a 'predecessor corporation') to form one corporate entity (in this subsection referred to as the 'new corporation') and a taxpayer has acquired a capital property that was a bond, debenture, note, mortgage or other similar obligation of the new corporation (in this subsection referred to as the 'new obligation') as sole consideration for the disposition on the amalgamation of a bond, debenture, note, mortgage or other similar obligation respectively of a predecessor corporation (in this subsection referred to as the 'old obligation') owned by the taxpayer on December 31, 1971 and thereafter without interruption until immediately before the amalgamation, notwithstanding any other provision of this Act or of the amended Act, for the purposes of subsection 88(2.1) of the amended Act and of determining the cost to the taxpayer and the adjusted cost base to the taxpayer of the new obligation,"

► 26(24) ◄

(24) Convertible properties. Where there has been an exchange to which subsection 51(1) of the amended Act applies on which a taxpayer has acquired shares of one class of the capital stock of a corporation (in this subsection referred to as the "new shares") in exchange for a share, bond, debenture or note of the corporation (in this subsection referred to as the "old property") owned by the taxpayer on December 31, 1971 and thereafter without interruption until immediately before the time of the exchange, notwithstanding any other provision of this Act or of the amended Act, for the purposes of subsection 88(2.1) of the amended Act and, where the exchange occurred after May 6, 1974, for the purposes of determining the cost to the taxpayer and the adjusted cost base to the taxpayer of the new shares,

(*a*) the property that was the old property shall be deemed not to have been disposed of by the taxpayer because of the exchange but to have been altered, in form only, because of the exchange and to have continued in existence in the form of the new shares; and

(*b*) the property that is the new shares shall be deemed not to have been acquired by the taxpayer because of the exchange but to have been in existence prior thereto in the form of the old property that was altered, in form only, because of the exchange.

Interpretation Bulletins: *Secondary* — IT-146R4 Shares entitling shareholders to choose taxable or capital dividends.

► 26(25) ◄

(25) Bond conversion. Where, after May 6, 1974, there has been an exchange to which section 51.1 of the amended Act applies on which a taxpayer has acquired a bond of a debtor (in this subsection referred to as the "new bond") in exchange for another bond of the same debtor (in this subsection referred to as the "old bond") owned by the taxpayer on December 31, 1971 and thereafter without interruption until immediately before the exchange, notwithstanding any other provision of this Act or of the amended Act, for the purposes of subsection 88(2.1) of the amended Act and of determining the cost to the taxpayer and the adjusted cost base to the taxpayer of the new bond,

(*a*) the property that was the old bond shall be deemed not to have been disposed of by the taxpayer because of the exchange but to have been altered, in form only, because of the exchange and to have continued in existence in the form of the new bond; and

(*b*) the property that is the new bond shall be deemed not to have been acquired by the taxpayer because of the exchange but to have been in existence prior thereto in the form of the old bond that was altered, in form only, because of the exchange.

History: S. 26(25), the portion before paragraph (*a*), was amended by S.C. 1998, c. 19, s. 249(2), applicable to exchanges that occur after October 1994. S. 26(25), the portion before paragraph (*a*), formerly read:

"(25) *Bond conversion.* Where, after May 6, 1974, there has been an exchange to which section 77 of the amended Act applies on which a taxpayer has acquired a bond of a debtor (in this subsection referred to as the 'new bond') in exchange for another bond of the same debtor (in this subsection referred to as the 'old bond') owned by the taxpayer on December 31, 1971 and thereafter without interruption until immediately before the exchange, notwithstanding any other provision of this Act or of the amended Act, for the purposes of subsection 88(2.1) of the amended Act and of determining the cost to the taxpayer and the adjusted cost base to the taxpayer of the new bond,"

► 26(26) ◄

(26) Share for share exchange. Where, after May 6, 1974, there has been an exchange to which subsection 85.1(1) of the amended Act applies on which a taxpayer has acquired shares of any particular class of the capital stock of a corporation (in this subsection referred to as the "new shares") in exchange for shares of any particular class of the capital stock of another corporation (in this subsection referred to as the "old shares") owned by the taxpayer on December 31, 1971 and thereafter without interruption until immediately before the exchange, notwithstanding any other provision of this Act or of the amended Act, for the purposes of subsection 88(2.1) of the amended Act and of determining the cost to the taxpayer and the adjusted cost base to the taxpayer of the new shares,

(*a*) the property that was the old shares shall be deemed not to have been disposed of by the taxpayer because of the exchange but to have been altered, in form only, because of the exchange and to have continued in existence in the form of the new shares; and

(*b*) the property that is the new shares shall be deemed not to have been acquired by the taxpayer because of the exchange but to have been in existence prior thereto in the form of the old shares that were altered, in form only, because of the exchange.

► 26(27) ◄

(27) Reorganization of capital. Where, after May 6, 1974, there has been a reorganization of the capital of a corporation to which section 86 of the amended Act applies on which a taxpayer has acquired shares of a particular class of the capital stock of the corporation (in this subsection referred to as the "new shares") as the sole consideration for the disposition on the reorganization of shares of another class of the capital stock of the corporation (in this subsection referred to as the "old shares") owned by the taxpayer on December 31, 1971 and thereafter without interruption unill immediately before the reorganization and the cost to the taxpayer of the new shares was determined otherwise than because of subsection 86(2) of the amended Act, notwithstanding any other provision of this Act or of the amended Act, for the purposes of subsection 88(2.1) of the amended Act and of determining the cost to the taxpayer and the adjusted cost base to the taxpayer of the new shares,

(*a*) the property that was the old shares shall be deemed not to have been disposed of by the taxpayer because of the reorganization but to have been altered, in form only, because of the reorganization and to have continued in existence in the form of the new shares; and

(*b*) the property that is the new shares shall be deemed not to have been acquired by the taxpayer because of the reorganization but to have been in existence prior thereto in the form of the old shares that were altered, in form only, because of the reorganization.

► 26(28) ◄

(28) Idem. Where a taxpayer acquired a property (in this subsection referred to as the "first property") in circumstances to which any of subsections (5) and (21) to (27) applied and subsequently acquires, in exchange for or in consideration for the disposition of the first property, another property in circumstances to which any of subsections (21) to (27) would apply if the taxpayer had owned the first property on December 31, 1971 and thereafter without interruption until the time of the subsequent acquisition, for the purposes of applying subsections (21) to (27) in respect of that subsequent acquisition, the taxpayer shall be deemed to have owned the first property on December 31, 1971 and thereafter without interruption until the time of the subsequent acquisition.

History: S. 26(28) was added by S.C. 1994, c. 7, Sched. II, s. 200(1), applicable to acquisitions of property occurring after July 13, 1990, except that, where the taxpayer so elected or elects by notifying the Minister of National Revenue in writing either before 1993 or in the taxpayer's return of income under Part I of the *Income Tax Act* for the taxation year in which the taxpayer disposed of the property, subsection 26(28) applies to acquisitions occurring after May 6, 1974 and before July 14, 1990 to property that was owned by the taxpayer on July 13, 1990.

► 26(29) ◄

(29) Effect of election under subsection 110.6(19). Where subsection 110.6(19) of the amended Act applies to a particular property, for the purposes of determining the cost and the adjusted cost base to a taxpayer of any prop-

erty at any time after February 22, 1994, the particular property shall be deemed not to have been owned by any taxpayer on December 31, 1971.

History: S. 26(29) was added by S.C. 1995, c. 3, s. 57, effective on Royal Assent, March 26, 1995.

► 26(30) ◄

(30) Additions to taxable Canadian property. Subsections (1.1) to (29) do not apply to a disposition by a non-resident person of a property

(*a*) that the person last acquired before April 27, 1995;

(*b*) that would not be a taxable Canadian property immediately before the disposition if section 115 of the amended Act were read as it applied to dispositions that occurred on April 26, 1995; and

(*c*) that would be a taxable Canadian property immediately before the disposition if section 115 of the amended Act were read as it applied to dispositions that occurred on January 1, 1996.

History: S. 26(30) was amended by S.C. 2001, c. 17, s. 249(1), applicable to dispositions that occur after October 1, 1996. S. 26(30) formerly read:

"(30) *Additions to taxable Canadian property.* Subsections (1.1) to (29) do not apply to a disposition by a non-resident person of a taxable Canadian property that would not be a taxable Canadian property immediately before the disposition if section 115 of the amended Act were read as it applied to dispositions that occurred on April 26, 1995."

S. 26(30) was added by S.C. 1998, c. 19, s. 249(3), applicable to dispositions that occur after April 26, 1995.

26.1. Change of use of property before 1972.

(1) For the purposes of paragraph 40(2)(*b*) and the definition "principal residence" in section 54 of the amended Act, where a taxpayer owned, on December 31, 1971, a property that is a housing unit, a leasehold interest in a housing unit or a share of the capital stock of a cooperative housing corporation, if the housing unit was, or if the share was acquired for the sole purpose of acquiring the right to inhabit, a housing unit owned by the corporation that was ordinarily inhabited by the taxpayer, the taxpayer began at any time thereafter but before 1972 to use the property for the purpose of gaining or producing income therefrom, or for the purpose of gaining or producing income from a business, and the taxpayer elected in the taxpayer's return of income for the 1974 or 1975 taxation year as if the taxpayer had begun to use the property for the purpose of gaining or producing income therefrom or for the purpose of gaining or producing income from a business on January 1, 1972, the taxpayer shall be deemed to have made an election under subsection 45(2) of the amended Act in the taxpayer's return of income for the 1972 taxation year and to have so begun to use the property.

Interpretation Bulletins: *Secondary*—IT-120R6 Principal Residence.

► 26.1(2) ◄

(2) No capital cost allowance while election in force. Where the taxpayer has made the election described in subsection (1), no amount may be deducted under paragraph 20(1)(*a*) of the amended Act for the 1974 and subsequent taxation years in respect of property referred to in that subsection while the election remains in force.

27. Moving expenses. [Repealed by 1985, c. 45, s. 132.]

28. Income derived from operation of mine.

(1) [Repealed by 1985, c. 45, s. 132.]

► 28(1.1) ◄

(1.1) "Income derived from the operation of a mine" defined. [Repealed by 1985, c. 45, s. 132.]

► 28(2) ◄

(2) Definitions. [Repealed by 1985, c. 45, s. 132.]

29. Deduction from income of petroleum or natural gas corporation.

(1) A corporation whose principal business is production, refining or marketing of petroleum, petroleum products or natural gas or exploring or drilling for petroleum or natural gas may deduct, in computing its income for a taxation year, the lesser of

(*a*) the total of such of the drilling and exploration expenses, including all general geological and geophysical expenses, incurred by it on or in respect of exploring or drilling for petroleum or natural gas in Canada as were incurred during the calendar years 1949 to 1952, to the extent that they were not deductible in computing income for a preceding taxation year, and

(*b*) of that total, an amount equal to its income for the taxation year if no deduction were allowed under this section or section 65, 66 or 66.1 of the amended Act minus the deductions allowed for the year under subsections (9), (10) and (25) of this section and sections 112 and 113 of the amended Act.

History: S. 29(1)(*b*) was amended by 1994, c. 7, Sched. II, s. 201(1), applicable to taxation years ending after February 17, 1987. S. 29(1)(*b*) formerly read:

"(*b*) of that total, an amount that would be equal to its income for the taxation year if no deduction were allowed under this section or section 65, 66 or 66.1 of the amended Act, minus the deductions allowed for the year under subsections (9), (10) and (25) of this section, sections 112 and 113 of the amended Act and subsections 66(6) and (7) and 66.1(4) and (5) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952."

Regulations: Part XI; Part XII.

► 29(2) ◄

(2) Deduction from income of mining corporation. A corporation whose principal business is mining or exploring for minerals may deduct, in computing its income for a taxation year, the lesser of

(*a*) the total of such of the prospecting, exploration and development expenses incurred by it in searching for minerals in Canada as were incurred during 1952, to the extent that they were not deductible in computing income for a preceding taxation year, and

(*b*) of that total, an amount equal to its income for the taxation year if no deduction were allowed under this section or section 65, 66 or 66.1 of the amended Act minus the deductions allowed for the year under subsections (9), (10) and (25) of this section and sections 112 and 113 of the amended Act,

if the corporation has filed certified statements of those expenses and has satisfied the Minister that it has been actively engaged in prospecting and exploring for minerals in Canada by means of qualified persons and has incurred the expenses for those purposes.

History: S. 29(2)(*b*) was amended by 1994, c. 7, Sched. II, s. 201(2), applicable to taxation years ending after February 17, 1987. S. 29(2)(*b*) formerly read:

"(*b*) of that total, an amount that would be equal to its income for the taxation year if no deduction were allowed under this section or section 65, 66 or 66.1 of the amended Act, minus the deductions allowed for the year under subsections (9), (10) and (25) of this section, sections 112 and 113 of the amended Act and subsections 66(6) and (7) and 66.1(4) and (5) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952,"

Regulations: Part XII.

► 29(3) ◄

(3) Deduction from income of petroleum or natural gas corporation or mining corporation. A corporation whose principal business is

(*a*) production, refining or marketing of petroleum, petroleum products or natural gas, or exploring or drilling for petroleum or natural gas, or

(*b*) mining or exploring for minerals,

may deduct, in computing its income for a taxation year, the lesser of

(*c*) the total of such of

(i) the drilling and exploration expenses, including all general geological and geophysical expenses, incurred by it on or in respect of exploring or drilling for petroleum or natural gas in Canada, and

(ii) the prospecting, exploration and development expenses incurred by it in searching for minerals in Canada,

as were incurred after 1952 and before April 11, 1962, to the extent that they were not deductible in computing income for a preceding taxation year, and

(*d*) of that total, an amount equal to its income for the taxation year if no deduction were allowed under this section or section 65, 66 or 66.1 of the amended Act minus the deductions allowed for the year under subsections (1), (2), (9), (10) and (25) of this section and sections 112 and 113 of the amended Act.

History: S. 29(3)(*d*) was amended by 1994, c. 7, Sched. II, s. 201(3), applicable to taxation years ending after February 17, 1987. S. 29(3)(*d*) formerly read:

"(*d*) of that total, an amount that would be equal to its income for the taxation year if no deduction were allowed under this section or section 65, 66 or 66.1 of the amended Act, minus the deductions allowed for the year under subsections (1), (2), (9), (10) and (25) of this section, sections 112 and 113 of the amended Act and subsections 66(6) and (7) and 66.1(4) and (5) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952."

Regulations: Part XII.

► 29(4) ◄

(4) Deduction from income of petroleum corporation, etc. A corporation whose principal business is

(*a*) production, refining or marketing of petroleum, petroleum products or natural gas, or exploring or drilling for petroleum or natural gas,

(*b*) mining or exploring for minerals,

(*c*) processing mineral ores for the purpose of recovering metals therefrom,

(*d*) a combination of

(i) processing mineral ores for the purpose of recovering metals therefrom, and

(ii) processing metals recovered from the ores so processed,

(*e*) fabricating metals, or

(*f*) operating a pipeline for the transmission of oil or natural gas,

may deduct, in computing its income for a taxation year, the lesser of

(*g*) the total of such of

(i) the drilling and exploration expenses, including all general geological and geophysical expenses, incurred by it on or in respect of exploring or drilling for petroleum or natural gas in Canada, and

(ii) the prospecting, exploration and development expenses incurred by it in searching for minerals in Canada,

as were incurred after April 10, 1962 and before 1972, to the extent that they were not deductible in computing income for a preceding taxation year, and

(*h*) of that total, an amount equal to its income for the taxation year if no deduction were allowed under this subsection or section 65, 66 or 66.1 of the amended Act minus the deductions allowed for the year under subsection 66(2) and sections 112 and 113 of the amended Act.

History: S. 29(4)(*h*) was amended by 1994, c. 7, Sched. II, s. 201(4), applicable to taxation years ending after February 17, 1987. S. 29(4)(*h*) formerly read:

"(*h*) of that total, an amount that would be equal to its income for the taxation year if no deduction were allowed under this subsection or section 65, 66 or 66.1 of the amended Act, minus the deductions allowed for the year under subsection 66(2) and sections 112 and 113 of the amended Act and subsections 66(6) and (7) and 66.1(4) and (5) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952."

Regulations: Part XII.

► 29(5) ◄

(5) Application of para. (4)(*g*). In applying paragraph (4)(g) to a corporation described in paragraph (4)(*f*), the reference in paragraph (4)(g) to "April 10, 1962" shall be read as a reference to "June 13, 1963".

► 29(6) ◄

(6) Joint exploration corporation may renounce expenses. [Repealed by 1997, c. 25, s. 73(1).]

History: S. 29(6) was repealed by S.C. 1997, c. 25, s. 73(1), applicable to renunciations made

(*a*) after 2006, in respect of a payment or loan received by a joint exploration corporation before March 6, 1996;

(*b*) after 2006, in respect of a payment or loan received by a joint exploration corporation after March 5, 1996 under an agreement in writing made

(i) by the corporation before March 6, 1996, or

(ii) by another corporation before March 6, 1996, where

(A) the other corporation controlled the corporation at the time the agreement was made, or

(B) the other corporation undertook, at the time the agreement was made, to form the corporation; and

(*c*) after March 5, 1996, in any other case.

S. 29(6) formerly read:

"(6) *Joint exploration corporation may renounce expenses.* A joint exploration corporation may, in any particular taxation year or within 6 months after the end of that year, elect in prescribed form to renounce in favour of another corporation described in subsection (4) an agreed portion of the total of such of

(*a*) the drilling and exploration expenses, including all general geological and geophysical expenses, incurred by the joint exploration corporation

on or in respect of exploring or drilling for petroleum or natural gas in Canada, and

(*b*) the prospecting, exploration and development expenses incurred by the joint exploration corporation in searching for minerals in Canada,

as were incurred by the joint exploration corporation during a period after 1956 and before April 11, 1962 throughout which the other corporation was a shareholder corporation, to the extent that the total of those expenses exceeds any amount deductible under subsection (3) in respect thereof by the joint exploration corporation in computing its income for any taxation year preceding the particular year, and on the election the agreed portion

(*c*) shall be deemed, for the purposes of subsection (4) of this section and sections 66, 66.1 and 66.2 of the amended Act, to be expenses described in paragraphs (*a*) and (*b*) of this subsection incurred by the other corporation during its taxation year in which the particular taxation year ends, and

(*d*) shall be subtracted from the total described in paragraph (3)(*c*) in determining the amount deductible by the joint exploration corporation under subsection (3) in computing its income."

Forms: T2035.

► 29(7) ◄

(7) Idem. [Repealed by 1997, c. 25, s. 73(1).]

History: S. 29(7) was repealed by S.C. 1997, c. 25, s. 73(1), applicable to renunciations made

(*a*) after 2006, in respect of a payment or loan received by a joint exploration corporation before March 6, 1996;

(*b*) after 2006, in respect of a payment or loan received by a joint exploration corporation after March 5, 1996 under an agreement in writing made

(i) by the corporation before March 6, 1996, or

(ii) by another corporation before March 6, 1996, where

(A) the other corporation controlled the corporation at the time the agreement was made, or

(B) the other corporation undertook, at the time the agreement was made, to form the corporation; and

(*c*) after March 5, 1996, in any other case.

S. 29(7) formerly read:

"(7) *Idem.* A joint exploration corporation may, in any particular taxation year or within 6 months after the end of that year, elect in prescribed form to renounce in favour of another corporation described in subsection (4) an agreed portion of the total of such of

(*a*) the drilling and exploration expenses, including all general geological and geophysical expenses, incurred by the joint exploration corporation on or in respect of exploring or drilling for petroleum or natural gas in Canada, and

(*b*) the prospecting, exploration and development expenses incurred by the joint exploration corporation in searching for minerals in Canada,

as were incurred by the joint exploration corporation during a period after April 10, 1962 and before 1972 throughout which the other corporation was a shareholder corporation, to the extent that the total of those expenses exceeds any amount deductible under subsection (4) in respect thereof by the joint exploration corporation in computing its income for any taxation year preceding the particular year, and on the election the agreed portion

(*c*) shall be deemed, for the purposes of subsection (4) of this section and sections 66, 66.1 and 66.2 of the amended Act, to be expenses described in paragraphs (*a*) and (*b*) of this subsection incurred by the other corporation during its taxation year in which the particular taxation year ends, and

(*d*) shall be subtracted from the total described in paragraph (4)(*g*) in determining the amount deductible by the joint exploration corporation under subsection (4) in computing its income."

Forms: T2035.

► 29(8) ◄

(8) Definitions. [Repealed by 1997, c. 25, s. 73(1).]

History: S. 29(8) was repealed by S.C. 1997, c. 25, s. 73(1), applicable to renunciations made

(*a*) after 2006, in respect of a payment or loan received by a joint exploration corporation before March 6, 1996;

(*b*) after 2006, in respect of a payment or loan received by a joint exploration corporation after March 5, 1996 under an agreement in writing made

(i) by the corporation before March 6, 1996, or

(ii) by another corporation before March 6, 1996, where

(A) the other corporation controlled the corporation at the time the agreement was made, or

(B) the other corporation undertook, at the time the agreement was made, to form the corporation; and

(*c*) after March 5, 1996, in any other case.

S. 29(8) formerly read:

"(8) *Definitions.* For the purposes of subsections (6) and (7),

'agreed portion' — 'agreed portion' in respect of a corporation that was a shareholder corporation of a joint exploration corporation means such amount as is agreed on between the joint exploration corporation and the other corporation not exceeding.

(*a*) the payments referred to in paragraph (*c*) of the definition 'shareholder corporation' in this subsection made by the other corporation to the joint exploration corporation during the period it was a shareholder corporation in respect of the expenses incurred by the joint exploration corporation referred to in paragraphs (6)(*a*) and (*b*) or (7)(*a*) and (*b*), as the case maybe,

minus

(*b*) the total of the amounts, if any, previously renounced by the joint exploration corporation under subsection (6) or (7), as the case may be, in favour of the other corporation;

'joint exploration corporation' — 'joint exploration corporation' means a corporation

(*a*) whose principal business is of a class described in paragraph (3)(*a*) or (*b*), and

(*b*) that has not at any time since its incorporation had more than 10 shareholders (not including any individual holding a share for the sole purpose of qualifying as a director);

'shareholder corporation' — a 'shareholder corporation' of a joint exploration corporation means a corporation that for the period in respect of which the expression is being applied

(*a*) was a shareholder of the joint exploration corporation,

(*b*) was a corporation whose principal business was of a class described in subsection (4), and

(*c*) made payments to the joint exploration corporation in respect of the expenses incurred by the joint exploration corporation referred to in paragraphs (6)(*a*) and (*b*) or (7)(*a*) and (*b*), as the case may be."

► 29(9) ◄

(9) Deduction from income from businesses of associations, etc. There may be deducted in computing the income of a taxpayer for a taxation year from the businesses of all associations, partnerships or syndicates formed for the purpose of exploring or drilling for petroleum or natural gas and of which the taxpayer was a member or partner, the lesser of

(*a*) the total of the taxpayer's share of such of the drilling and exploration expenses, including all general geological and geophysical expenses, incurred by all those associations, partnerships or syndicates while the taxpayer was a member or partner thereof, on or in respect of exploring or drilling for petroleum or natural gas in Canada as were incurred after 1948 and before April 11, 1962, to the extent that they were not deductible in computing the taxpayer's income for a preceding taxation year, and

(*b*) of that total, an amount equal to the taxpayer's income from the businesses of all those associations, partnerships or syndicates for the taxation year, computed before making any deduction under this section or section 65, 66 or 66.1 of the amended Act.

► 29(10) ◄

(10) Idem. There may be deducted in computing the income of a taxpayer for a taxation year from the businesses of all associations, partnerships or syndicates formed for the purpose of exploring or drilling for petroleum or natural gas and of which the taxpayer was a member or partner, the lesser of

(*a*) the total of the taxpayer's share of such of the drilling and exploration expenses, including all general geological and geophysical expenses incurred by all those associations, partnerships or syndicates while the taxpayer was a member or partner thereof, on or in respect of exploring or drilling for petroleum or natural gas in Canada as were incurred after April 10, 1962 and before 1972, to the extent that they were not deductible in computing the taxpayer's income for a preceding taxation year, and

(*b*) of that total, an amount equal to the taxpayer's income from the businesses of all those associations, partnerships or syndicates for the taxation year computed before making any deduction under this section or section 65, 66 or 66.1 of the amended Act, minus the deduction allowed for the year under subsection (9) of this section.

► 29(11) ◄

(11) Deduction from income of corporation. A corporation, other than a corporation described in subsection (4), may deduct, in computing its income for a taxation year, the lesser of

(*a*) the total of such of

(i) the drilling and exploration expenses, including all general geological and geophysical expenses, incurred by it on or in respect of exploring or drilling for petroleum or natural gas in Canada, and

(ii) the prospecting, exploration and development expenses incurred by it in searching for minerals in Canada,

as were incurred after April 10, 1962 and before 1972, to the extent that they were not deductible in computing income for a preceding taxation year, and

(*b*) of that total, an amount that would be equal to the total of

(i) its income for the taxation year from operating an oil or gas well in Canada in which the corporation has an interest,

(ii) its income for the taxation year from royalties in respect of an oil or gas well in Canada,

(iii) any amount included in computing its income for the taxation year because of subsection (17), and

(iv) the amount, if any, included under paragraph 59(3.2)(*b*) or (*c*) of the amended Act in computing its income for the year,

if no deduction were allowed under this section or section 65, 66 or 66.1 of the amended Act minus the deductions allowed for the year under subsections (9) and (10) of this section and subsection 66(2) of the amended Act.

History: S. 29(11)(*b*)(iv) was amended by 1994, c. 7, Sched. II, s. 201(5), applicable to the 1985 and subsequent taxation years. S. 29(11)(*b*)(iv) formerly read:

"(iv) the total described in clause 66(3)(*b*)(ii)(C) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read in its application to the 1984 and preceding taxation years in respect of the corporation for the year,"

S. 29(11)(*b*), the portion after subparagraph (iv), was amended by 1994, c. 7, Sched. II, s. 201(6), applicable to taxation years ending after February 17, 1987. The portion formerly read:

"if no deduction were allowed under this section, section 65, 66 or 66.1 of the amended Act, minus the deductions allowed for the year under subsections (9) and (10) of this section, subsection 66(2) of the amended Act and subsections 66(6) and (7) and 66.1(4) and (5) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952."

► 29(12) ◄

(12) Deduction by individual of exploration expenses. There may be deducted, in computing an individual's income for a taxation year, the lesser of

(*a*) the total of such of

(i) the drilling and exploration expenses, including all general geological and geophysical expenses, incurred by the individual on or in respect of exploring or drilling for petroleum or natural gas in Canada, and

(ii) the individual's share of the drilling and exploration expenses, including all general geological and geophysical expenses, incurred by all associations, partnerships or syndicates described in subsection (9), while the individual was a member or partner thereof, on or in respect of exploring or drilling for petroleum or natural gas in Canada,

as were incurred after April 10, 1962 and before 1972, to the extent that they were not deductible in computing the individual's income for a preceding taxation year, and

(*b*) of that total, an amount that would be equal to the total of

(i) the individual's income for the taxation year from a business that consisted of the operation of an oil or gas well in Canada in which the individual had an interest,

(ii) the individual's income for the taxation year from royalties in respect of an oil or gas well in Canada,

(iii) any amount included in computing the individual's income for the taxalion year because of subsection (17), and

(iv) the amount, if any, included under paragraph 59(3.2)(*b*) or (*c*) of the amended Act in computing the individual's income for the year,

if no deduction were allowed under this section or section 65, 66 or 66.1 of the amended Act, minus the deductions allowed for the year under subsections (9) and (10) of this section.

History: S. 29(12)(*b*)(iv) was amended by 1994, c. 7, Sched. II, s. 201(7), applicable to the 1985 and subsequent taxation years. S. 29(12)(*b*)(iv) formerly read:

"(iv) the total described in clause 66(3)(*b*)(ii)(C) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read in its application to the 1984 and preceding taxation years in respect of an individual for the year,"

► 29(13) ◄

(13) Limitation re payments for exploration and drilling rights. In computing a deduction under subsection (1), (3) or (9), no amount shall be included in respect of a payment for or in respect of a right, licence or privilege to explore for, drill for or take petroleum or natural gas, acquired before April 11, 1962, other than an annual payment not exceeding $1 per acre.

► 29(14) ◄

(14) Exploration and drilling rights; payments deductible. Where an association, partnership or syndicate described in subsection (9) or a corporation or individual has, after April 10, 1962 and before 1972, acquired under an agreement or other contract or arrangement a right, licence or privilege to explore for, drill for or take in Canada petroleum, natural gas or other related hydrocarbons (except coal) under which agreement, contract or arrangement there was not acquired any other right to, over or in respect of the land in respect of which such right, licence or privilege was so acquired except the right

(*a*) to explore for, drill for or take materials and substances (whether liquid or solid and whether hydrocarbons or not) produced in association with the

petroleum, natural gas or other related hydrocarbons (except coal) or found in any water contained in an oil or gas reservoir, or

(*b*) to enter on, use and occupy as much of the land as is necessary for the purpose of exploiting the right, licence or privilege,

an amount paid in respect of the acquisition thereof that was paid

(*c*) before 1972, shall, for the purposes of subsections (4), (7), (10), (11) and (12), be deemed to be a drilling or exploration expense on or in respect of exploring or drilling for petroleum or natural gas in Canada incurred at the time of its payment,

(*d*) after 1971 and before May 7, 1974, shall, for the purposes of the amended Act, be deemed to be Canadian exploration and development expenses (within the meaning assigned by subsection 66(15) of the amended Act) incurred at the time of its payment, and

(*e*) after May 6, 1974, shall, for the purposes of the amended Act, be deemed to be a Canadian development expense (within the meaning assigned by subsection 66.2(5) of the amended Act) incurred at the time of its payment.

► 29(15) ◄

(15) Idem. In applying subsection (14) for the purposes of subsection (7), the expression "after April 10, 1962 and before 1972" in subsection (14) shall be read as "after April 10, 1962 and before April 27, 1965".

► 29(16) ◄

(16) Receipts for exploration or drilling rights included in income. Where a right, licence or privilege to explore for, drill for or take in Canada petroleum, natural gas or other related hydrocarbons (except coal) was disposed of after April 10, 1962 and before October 23, 1968

(*a*) by a corporation described in subsection (4),

(*b*) by a corporation, other than a corporation described in subsection (4), that was at the time of acquisition of the right, licence or privilege a corporation described in subsection (4), or

(*c*) by an association, partnership or syndicate described in subsection (9),

any amount received by the corporation, association, partnership or syndicate as consideration for the disposition thereof shall be included in computing its income for its fiscal period in which the amount was received, unless the corporation, association, partnership or syndicate

(*d*) acquired the right, licence or privilege by inheritance or bequest, or

(*e*) acquired the right, licence or privilege before April 11, 1962 and disposed of it before November 9, 1962.

► 29(17) ◄

(17) Idem. Where a right, licence or privilege to explore for, drill for or take in Canada petroleum, natural gas or other related hydrocarbons (except coal) that was acquired after April 10, 1962 and before 1972 by an individual or a corporation other than a corporation described in subsection (4), was subsequently disposed of before October 23, 1968, any amount received by the taxpayer as consideration for the disposition thereof shall be included in computing the taxpayer's income for the taxation year in which the amount was received, unless the right, licence or privilege was acquired by the taxpayer by inheritance or bequest.

► 29(18) ◄

(18) Idem. Subsections (16) and (17) do not apply to any disposition by an association, partnership or syndicate described in subsection (9) or a corporation or an individual of any right, licence or privilege described in subsection (14) or (16) unless the right, licence or privilege was acquired by the association, partnership, syndicate or corporation or individual, as the case may be, under an agreement, contract or arrangement described in subsection (14).

► 29(19) ◄

(19) Idem. For the purposes of subsections (16) and (17),

(*a*) where an association, partnership or syndicate described in subsection (9) or a corporation or an individual has disposed of any interest in land that includes a right, licence or privilege described in subsection (14) that was acquired under an agreement, contract or arrangement described in that subsection, the proceeds of disposition of the interest shall be deemed to be proceeds of disposition of the right, licence or privilege; and

(*b*) where an association, partnership or syndicate described in subsection (9) or a corporation or an individual has acquired a right, licence or privilege described in subsection (14) under an agreement, contract or arrangement described in that subsection and subsequently disposes of any interest

(i) in the right, licence or privilege, or

(ii) in the production of wells situated on the land to which the right, licence or privilege relates,

the proceeds of disposition of the interest shall be deemed to be proceeds of disposition of the right, licence or privilege.

► 29(20) ◄

(20) Idem. Subsections (11), (12) and (17) do not apply in computing the income for a taxation year of a taxpayer whose business includes trading or dealing in rights, licences or privileges to explore for, drill for or take in Canada petroleum, natural gas or other related hydrocarbons (except coal).

► 29(21) ◄

(21) Bonus payments. Notwithstanding subsection (13), where a corporation whose principal business is of the class described in paragraph (3)(*a*) or (*b*) or an association, partnership or syndicate formed for the purpose of exploring or drilling for petroleum or natural gas has after 1952 paid an amount (other than a rental or royalty) to the government of Canada or a province for

(*a*) the right to explore for petroleum or natural gas on a specified parcel of land in Canada (which right is, for greater certainty, declared to include a right of the type commonly referred to as a "licence", "permit" or "reservation"), or

(*b*) a legal lease of the right to take or remove petroleum or natural gas from a specified parcel of land in Canada,

and before April 11, 1962 acquired the rights in respect of which the amount was so paid and, before any well came into production on the land in reasonable commercial quantities, the corporation, association, partnership or syndicate surrendered all the rights so acquired (including, in respect of a right of the kind described in paragraph (*a*), all rights thereunder to any lease and all rights under any lease made thereunder) without receiving any consideration therefor or repayment of any part of the amount so paid, the amount so paid shall, for the purposes of subsections (3), (4), (7), (9) and (10) of this section, and for the purposes of subsections 66(1), (10) and (10.1) and the definitions "Canadian exploration and development expenses" in subsection 66(15) and "Canadian exploration expense" in subsection 66.1(6) of the amended Act, be deemed to have been a drilling or exploration expense on or in respect of exploring or drilling for petroleum or natural gas in Canada or a Canadian exploration expense described in paragraph (*a*) of the definition "Canadian exploration expense" in subsection 66.1(6) of the amended Act, as the case may be, incurred by the corporation, association, partnership or syndicate during the taxation year in which the rights were so surrendered.

► 29(22) ◄

(22) Idem. In applying the provisions of subsection (25) to determine the amount that may be deducted by a successor corporation in computing its income for a taxation year, where the predecessor corporation has paid an amount (other than a rental or royalty) to the government of Canada or a province for

(*a*) the right to explore for petroleum or natural gas on a specified parcel of land in Canada (which is, for greater certainty, declared to include a right of the type commonly referred to as a "licence", "permit" or "reservation"), or

(*b*) a legal lease of the right to take or remove petroleum or natural gas from a specified parcel of land in Canada,

if, before the predecessor corporation was entitled, because of subsection (21), to any deduction in computing its income for a taxation year in respect of the amount so paid, the property of the predecessor corporation was acquired by the successor corporation before April 11, 1962 in the manner set out in subsection (25), and the successor corporation did, before any well came into production in reasonable commercial quantities on the land referred to in paragraph (*a*) or (*b*), surrender all the rights so acquired by the predecessor corporation (including in respect of a right of the kind described in paragraph (*a*), all rights thereunder to any lease and all rights under any lease made thereunder) without receiving any consideration therefor or payment of any part of the amount so paid by the predecessor corporation, the amount so paid by the predecessor corporation shall be added to the amount determined under paragraph (25)(*c*).

► 29(23) ◄

(23) Expenses incurred for specified considerations not deductible. For the purposes of this section and section 53 of chapter 25 of the Statutes of Canada, 1949 (Second Session), it is declared that expenses incurred before 1972 by a corporation, association, partnership or syndicate on or in respect of exploring or drilling for petroleum or natural gas in Canada or in searching for minerals in Canada do not and never did include expenses so incurred by that corporation, association, partnership or syndicate under an agreement under which it undertook to incur those expenses in consideration for

(*a*) shares of the capital stock of a corporation that owned or controlled the mineral rights;

(*b*) an option to purchase shares of the capital stock of a corporation that owned or controlled the mineral rights; or

(*c*) a right to purchase shares of the capital stock of a corporation that was to be formed for the purpose of acquiring or controlling the mineral rights.

► 29(24) ◄

(24) Exception. Notwithstanding subsection (23), a corporation whose principal business is

(*a*) production, refining or marketing of petroleum, petroleum products or natural gas or exploring or drilling for petroleum or natural gas, or

(*b*) mining or exploring for minerals,

may deduct, in computing its income for a taxation year, the lesser of

(*c*) the total of such of

(i) the drilling and exploration expenses, including all general geological and geophysical expenses, incurred by it on or in respect of exploring or drilling for petroleum or natural gas in Canada, and

(ii) the prospecting, exploration and development expenses incurred by it in searching for minerals in Canada,

as were incurred after 1953 and before 1972,

(iii) under an agreement under which it undertook to incur those expenses for a consideration mentioned in paragraph (23)(*a*), (*b*) or (*c*), and

(iv) to the extent that they were not deductible in computing income for a preceding taxation year, and

(*d*) of that total, an amount equal to its income for the taxation year if no deduction were allowed under this subsection or subsection (4) or under section 65, 66 or 66.1 of the amended Act minus the deductions allowed for the year under subsection 66(2) and sections 112 and 113 of the amended Act,

but where a corporation has incurred expenses in respect of which this subsection authorizes deduction from income for a taxation year, no deduction in respect of those expenses may be made in computing the income of any other corporation or from the business of an association, partnership or syndicate for any taxation year.

History: S. 29(24)(*d*) was amended by 1994, c. 7, Sched. II, s. 201(8), applicable to taxation years ending after February 17, 1987. S. 29(24)(*d*) formerly read:

"(*d*) of that total, an amount that would be equal to its income for the taxation year if no deduction were allowed under this subsection or subsection (4) or section 65, 66 or 66.1 of the amended Act, minus the deductions allowed for the year under subsection 66(2) and sections 112 and 113 of the amended Act and subsections 66(6) and (7) and 66.1(4) and (5) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952,"

► 29(25) ◄

(25) Successor rule. Notwithstanding subsection (24) and subject to subsections 66.7(6) and (7) of the

amended Act, where a corporation (in this subsection referred to as the "successor") whose principal business is

(*a*) production, refining or marketing of petroleum, petroleum products or natural gas, or exploring or drilling for petroleum or natural gas, or exploring or drilling for petroleum or natural gas, or

(*b*) mining or exploring for minerals,

has, at any time after 1954, acquired a particular Canadian resource property (whether by way of a purchase, amalgamation, merger, winding-up or otherwise) from another person whose principal business was a business described in paragraph (*a*) or (*b*), there may be deducted by the successor in computing its income for a taxation year an amount not exceeding the total of all amounts each of which is an amount determined in respect of an original owner of the particular property that is the lesser of

(*c*) the total of

(i) the drilling and exploration expenses, including all general geological and geophysical expenses, incurred before 1972 by the original owner on or in respect of exploring or drilling for petroleum or natural gas in Canada, and

(ii) the prospecting, exploration and development expenses incurred before 1972 by the original owner in searching for minerals in Canada,

to the extent that those expenses

(iii) were not otherwise deducted in computing the income of the successor for the year, were not deducted in computing the income of the successor for any preceding taxation year and were not deductible by the original owner or deducted by any predecessor owner of the particular property in computing income for any taxation year, and

(iv) would, but for the provisions of any of this subsection and paragraphs (1)(*b*), (2)(*b*), (3)(*a*), (4)(*h*) and (24)(*d*), have been deductible in computing the income of the original owner or any predecessor owner of the particular property for the taxation year preceding the taxation year in which the particular property was acquired by the successor, and

(*d*) the amount, if any, by which

(i) the part of its income for the year that can reasonably be regarded as being attributable to

(A) the amount included in computing its income for the year under paragraph 59(3.2)(*c*) of the amended Act that can reasonably be regarded as being attributable to the disposition by it in the year or a preceding taxation year of any Canadian resource properties owned by the original owner and each predecessor owner of the particular property before the acquisition of the particular property by the successor to the extent that the proceeds of the disposition have not been included in determining an amount under this clause or clause 66.7(1)(*b*)(i)(A) or (3)(*b*)(i)(A) or paragraph 66.7(10)(*g*) of the amended Act for a preceding taxation year, or

(B) production from the particular property,

computed as if no deduction were allowed under this section or subdivision e of Division B of Part I of the amended Act,

exceeds

(ii) the total of all other amounts deducted under this subsection and subdivision e of Division B of Part I of the amended Act for the year that can reasonably be regarded as attributable to the part of its income for the year described in subparagraph (i) in respect of the particular property.

History: S. 29(25)(*c*)(iii) was amended by 1994, c. 7, Sched. II, s. 201(9), applicable to taxation years ending after February 17, 1987. S. 29(25)(*c*)(iii) formerly read:

"(iii) were not deducted by the successor in computing its income for a preceding taxation year, and were not deductible by the original owner or deducted by any predecessor owner of the particular property in computing income for any taxation year, and"

► 29(25.1) ◄

(25.1) Definitions. For the purposes of subsection (25), the terms "Canadian resource property", "original owner", "predecessor owner" and "production" have the meanings assigned by subsection 66(15) of the amended Act.

► 29(26) ◄

(26) Processing or fabricating corporation. A reference in subsection (3), (21), (24) or (25) to a corporation whose principal business is mining or exploring for minerals shall, for the purposes of this section, be deemed to include a reference to a corporation whose principal business is

(*a*) processing mineral ores for the purpose of recovering metals therefrom,

(*b*) a combination of

(i) processing mineral ores for the purpose of recovering metals therefrom, and

(ii) processing metals recovered from the ores so processed, or

(*c*) fabricating metals,

but in applying the provisions of this section to any such corporation the references, respectively, in subsections (3), (21), (24) and (25) to the years 1952, 1953 and 1954 shall be read as a reference in each case to the year 1956.

► 29(27) ◄

(27) Meaning of "drilling and exploration expenses". For the purposes of this section, "drilling and exploration expenses" incurred on or in respect of exploring or drilling for petroleum or natural gas in Canada include expenses incurred on or in respect of

(*a*) drilling or converting a well for the disposal of waste liquids from a petroleum or natural gas well in Canada;

(*b*) drilling for water or gas for injection into a petroleum or natural gas formation in Canada; and

(*c*) drilling or converting a well for the injection of water or gas to assist in the recovery of petroleum or natural gas from another well in Canada.

► 29(28) ◄

(28) Deduction from expenses. For the purposes of this section, there shall be deducted in computing

(*a*) drilling and exploration expenses incurred by a taxpayer on or in respect of exploring or drilling for petroleum or natural gas in Canada, and

(*b*) prospecting, exploration and development expenses incurred by a taxpayer in searching for minerals in Canada,

any amount paid to the taxpayer before 1972 under the *Northern Mineral Exploration Assistance Regulations* made under an appropriation Act that provides for payments in respect of the Northern Mineral Grants Program, and there shall be included in computing those expenses any amount, except an amount in respect of interest, paid by the taxpayer before 1972 under those Regulations to Her Majesty in right of Canada.

► 29(29) ◄

(29) Property acquired by second successor corporation. [Repealed by 1987, c. 46, s. 73(2).]

► 29(30) ◄

(30) Inclusion in "drilling and exploration expenses". For the purposes of this section, "drilling and exploration expenses" incurred on or in respect of exploring or drilling for petroleum or natural gas in Canada include an annual payment made for the preservation of a right, licence or privilege described in subsection (14).

► 29(31) ◄

(31) General limitation. Where a corporation, association, partnership or syndicate has incurred expenses the deduction of which from income is authorized under more than one provision of this section, it is not entitled to make the deduction under more than one provision but is entitled to select the provision under which to make the deduction.

► 29(32) ◄

(32) Deduction for provincial tax. Where a corporation whose principal business is production, refining or marketing of petroleum, petroleum products or natural gas or exploring or drilling for petroleum or natural gas could have deducted an amount in respect of expenditures of the corporation in connection with exploration or drilling for petroleum or natural gas incurred in a preceding taxation year from the tax payable under a provincial statute for the 1952 or a subsequent taxation year if the provincial statute were applicable to that year, the corporation may deduct from the tax otherwise payable by it under Part I of the amended Act for the year an amount not exceeding the amount that would have been so deductible.

► 29(33) ◄

(33) Definition of "provincial statute". For the purposes of subsection (32), "provincial statute" means a statute imposing a tax on the incomes of corporations enacted by the legislature of a province in 1949 and, for the purpose of that subsection, an amount deductible thereunder for one year shall, for the purpose of computing the deduction for a subsequent year, be deemed to have been deductible under the provincial statute.

► 29(34) ◄

(34) Expenses deductible under certain enactments deemed not otherwise deductible. Where expenses are or have been, under this section, section 8 of the *Income War Tax Act*, section 16 of chapter 63 of the Statutes of Canada, 1947, section 16 of chapter 53 of the Statutes of Canada, 1948, section 53 of chapter 25 of the Statutes of Canada, 1949 (Second Session) or section 83A of the former Act, deductible from or in computing a taxpayer's income, or where any amount is or has been deductible in respect of expenses under any of those provisions from taxes otherwise payable, it is declared that no amount in respect of the same expenses is or has been deductible under any other authority in computing the income or from the income of that taxpayer or any other taxpayer for any taxation year.

30. Reference to this Act in amended Act.

► 30(1) ◄

(1) References in amended Act to Income Tax Application Rules, 1971. [Repealed by 1987, c. 46, s. 74(1).]

► 30(2) ◄

(2) Idem. [Repealed by 1977-78, c. 1, s. 107(1).]

► 30(3) ◄

(3) [Reference to this Act in amended Act]. In subsection 66(14) of the amended Act, "any amount deductible under the *Income Tax Application Rules*" in respect of that subsection means any amount deductible under section 29 of this Act.

31. Application of s. 67 of amended Act.

In respect of any outlay or expense made or incurred by a taxpayer before 1972, section 67 of the amended Act shall be read without reference to the words "in respect of which any amount is".

32. Application of para. 69(1)(*a*) of amended Act.

(1) Paragraph 69(1)(*a*) of the amended Act does not apply to deem a taxpayer by whom anything was acquired at any time before 1972 to have acquired it at its fair market value at that time, unless, if subsection 17(1) of the former Act had continued to apply, that fair market value would have been deemed to have been paid or to be payable therefor for the purpose of computing the taxpayer's income from a business.

► 32(2) ◄

(2) Application of para. 69(1)(*b*) of amended Act. Paragraph 69(1)(*b*) of the amended Act does not apply to deem a taxpayer by whom anything was disposed of at any time before the 1972 taxation year to have received proceeds of disposition therefor equal to its fair market value at that time.

► 32(3) ◄

(3) Application of para. 69(1)(*c*) of amended Act. For greater certainty, paragraph 69(1)(*c*) of the amended Act applies to property acquired by a taxpayer before, at or after the end of 1971.

32.1. Capital dividend account.

► 32.1(1) ◄

(1) Election respecting surplus. [Repealed by 1977-78, c. 1, s. 108(1).]

► 32.1(2) ◄

(2) Idem. [Repealed by 1977-78, c. 1, s. 108(1).]

► 32.1(3) ◄

(3) Late filed elections. [Repealed by 1985, c. 45, s. 134(1).]

► 32.1(3.1) ◄

(3.1) Request for election. [Repealed by 1985, c. 45, s. 134(1).]

► 32.1(3.2) ◄

(3.2) Penalty. [Repealed by 1985, c. 45, s. 134(1).]

► 32.1(4) ◄

(4) [Capital dividend account]. Where a dividend became payable, or was paid if that time was earlier, by a corporation in a taxation year at a particular time that was before May 7, 1974, for the purpose of computing the corporation's capital dividend account immediately before the particular time, all amounts each of which is an amount in respect of a capital loss from the disposition of property in the taxation year and before the particular time shall be deemed to be nil.

► 32.1(5) ◄

(5) Late-filed section 85 elections. [Repealed by 1985, c. 45, s. 134(2).]

► 32.1(6) ◄

(6) Late-filed subsection 97(2) and 98(3) elections. [Repealed by 1985, c. 45, s. 134(2).]

33. Deemed dividends. [Repealed by 1985, c. 45, s. 135.]

34. Amalgamations.

(1) Notwithstanding section 9, subsections 85I(1) and (2) of the former Act continue to apply with such modifications as, in the circumstances, are necessary because of this Act, in respect of any amalgamation of two or more corporations before 1972.

► 34(2) ◄

(2) Idem. [Repealed by 1985, c. 45, s. 136(1).]

► 34(3) ◄

(3) Idem. [Repealed by 1985, c. 45, s. 136(1).]

► 34(4) ◄

(4) Idem [Amalgamations]. In applying the provisions of subsection 29(25) to determine the amount that may be deducted by the successor or second successor corporation, as the case may be, in computing its income under Part I of the amended Act for a taxation year, where a predecessor corporation has paid an amount (other than a rental or royalty) to the government of Canada or a province for

(*a*) the right to explore for petroleum or natural gas on a specified parcel of land in Canada (which right is, for greater certainty, declared to include a right of the type commonly referred to as a "licence", "permit" or "reservation"), or

(*b*) a legal lease of the right to take or remove petroleum or natural gas from a specified parcel of land in Canada

and before April 11, 1962 acquired the rights in respect of which the amount was so paid, if, before the predecessor corporation was entitled because of subsection 29(21) to any deduction in computing its income for a taxation year in respect of the amount so paid, the property of the predecessor corporation was acquired by the successor or second successor corporation, as the case may be, and at any time, before any well came into production in reasonable commercial quantities on the land referred to in paragraph (*a*) or (*b*), the successor or second successor corporation, as the case may be, surrendered all rights so acquired by the predecessor corporation (including, in respect of a right of the kind described in paragraph (*a*), all rights thereunder to any lease and all rights under any lease made thereunder) without receiving any consideration therefor or payment of any part of the amount so paid by the predecessor corporation, the amount so paid by the predecessor corporation shall be added at that time to the amount determined under subparagraph 29(25)(*c*)(i).

► 34(5) ◄

(5) Tax payable. [Repealed by 1985, c. 45, s. 136(2).]

► 34(6) ◄

(6) Paid-up capital deemed liability. [Repealed by 1985, c. 45, s. 136(2).]

► 34(7) ◄

(7) Definition of "amalgamation". In this section, "amalgamation" has the meaning assigned by section 85I of the former Act.

► 34(8) ◄

(8) Provisions applicable to ss. (5). [Repealed by 1985, c. 45, s. 136(3).]

35. Foreign affiliates.

(1) Section 26 does not apply in determining for the purposes of section 91 of the amended Act the amount of any taxable capital gain or allowable capital loss of a foreign affiliate of a taxpayer.

► 35(2) ◄

(2) Idem. Any corporation that was a foreign affiliate of a taxpayer on January 1, 1972 shall be deemed, for the purposes of subdivision i of Division B of Part I of the amended Act, to have become a foreign affiliate of the taxpayer on that day.

► 35(3) ◄

(3) Idem. [Repealed by 1985, c. 45, s. 137.]

► 35(4) ◄

(4) Idem. Any corporation that was deemed to be a foreign affiliate of a taxpayer at any time prior to May 7, 1974 because of an election made by the taxpayer in accordance with subparagraph 95(1)(*b*)(iv) of the amended Act, as it read before being amended by chapter 26 of the Statutes of Canada, 1974-75-76, shall be deemed to have been a foreign affiliate of the taxpayer at that time.

35.1. Trusts not resident in Canada. [Repealed by 1985, c. 45, s. 138.]

36. Application of paras. 107(2)(*b*) and (*d*) of amended Act.

In computing the income of a taxpayer for the taxpayer's 1972 or any subsequent taxation year, paragraphs 107(2)(*b*) to (*d*) of the amended Act do not apply in respect of any property of a trust distributed by the trust to the taxpayer at any time before the commencement of the taxpayer's 1972 taxation year.

37. Loss carry-overs.

(1) [Repealed by 1985, c. 45, s. 139.]

► 37(2) ◄

(2) Idem. [Repealed by 1985, c. 45, s. 139.]

► 37(3) ◄

(3) Idem. [Repealed by 1985, c. 45, s. 139.]

► 37(4) ◄

(4) Reference to preceding taxation year. [Repealed by 1985, c. 45, s. 139.]

► 37(5) ◄

(5) Non-capital losses. [Repealed by 1985, c. 45, s. 139.]

► 37(6) ◄

(6) Restricted farm loss. [Repealed by 1985, c. 45, s. 139.]

► 37(7) ◄

(7) Non-capital loss and restricted farm loss. [Repealed by 1985, c. 45, s. 139.]

38. Averaging provisions.

(1) [Repealed by 1985, c. 45, s. 139.]

► 38(2) ◄

(2) Idem. [Repealed by 1985, c. 45, s. 139.]

39. Specific averaging provisions: part payments.

(1) [Repealed by 1985, c. 45, s. 139.]

► 39(2) ◄

(2) Idem. [Repealed by 1985, c. 45, s. 139.]

► 39(3) ◄

(3) Idem. [Repealed by 1985, c. 45, s. 139.]

40. Payments out of pension funds, etc.

(1) In the case of

(*a*) a single payment

(i) out of or under a superannuation or pension fund or plan

(A) on the death, withdrawal or retirement from employment of an employee or former employee,

(B) on the winding-up of the fund or plan in full satisfaction of all rights of the payee in or under the fund or plan, or

(C) to which the payee is entitled because of an amendment to the plan although the payee continues to be an employee to whom the plan applies,

(ii) on retirement of an employee in recognition of long service and not made out of or under a superannuation fund or plan,

(iii) under an employees profit sharing plan in full satisfaction of all rights of the payee in or under the plan, to the extent that the amount thereof would otherwise be included in computing the payee's income for the year in which the payment was received, or

(iv) under a deferred profit sharing plan on the death, withdrawal or retirement from employment of an employee or former employee, to the extent that the amount thereof would otherwise be included in computing the payee's income for the year in which the payment was received,

(*b*) a payment or payments made by an employer to an employee or former employee on or after retirement in respect of loss of office or employment, if made in the year of retirement or within one year after that year, or

(*c*) a payment or payments made as a death benefit, if made in the year of death or within one year after that year,

the payment or payments made in a taxation year ending after 1971 and before 1974 may, at the option of the taxpayer by whom it is or they are received, be deemed not to be income of the taxpayer for the purpose of Part I of the amended Act, in which case the taxpayer shall pay, in addition to any other tax payable for the year, a tax on the payment or total of the payments equal to the proportion thereof that

(*d*) the total of the taxes otherwise payable by the employee under that Part for the 3 years immediately preceding the taxation year (before making any deduction under section 120, 121 or 126 or subsection 127(3) of the amended Act),

is of

(*e*) the total of the employee's incomes for those 3 years.

Interpretation Bulletins: *Primary* — IT-281R2 Elections on single payments from a deferred profit-sharing plan [Archived by the CRA].
Information Circulars: IC 74-21R Payments out of pension and deferred profit sharing plans — ITAR 40.

► 40(2) ◄

(2) Employee not resident in Canada. Where a taxpayer has elected that a payment or payments of one of the classes described in paragraphs (1)(*a*) to (*c*) in respect of an employee or former employee who was not resident in Canada throughout the whole of the 3 years referred to in paragraph (1)(*e*) shall be deemed not to be income of the taxpayer for the purpose of Part I of the amended Act, the tax payable under this section is that proportion of the amount on which the tax is payable that

(*a*) the total of the taxes that would have been payable by the employee under that Part for the 3 years referred to in paragraph (1)(*e*) (before making any deduction under section 120, 121 or 126 or subsection 127(3) of the amended Act) if the employee had been resident in Canada throughout those years and the employee's incomes for those years had been from sources in Canada,

is of

(*b*) the total of the employee's incomes for those 3 years,

and, in such a case, the election is not valid unless the taxpayer has filed with the election, a return of the employee's incomes for each of the 3 years in the same form and containing the same information as the return that the employee, or the employee's legal representative, would have been required to file under that Part if the employee had been resident in Canada in those years.

► 40(3) ◄

(3) Determination of amount of payment. In determining the amount of any payment or payments made in a taxation year out of or under a superannuation or pension fund or plan, under a deferred profit sharing plan or as a retiring allowance that is deemed, for the purposes of this section, not to be income of the taxpayer by whom it is or they are received, there shall be subtracted from the amount of the payment or payments so made

(*a*) the total of all amounts deductible under paragraph 60(*j*) of the amended Act in computing the taxpayer's income for that year; and

(*b*) any amount deductible under paragraph 60(*m*) of the amended Act because of that payment or those payments in computing the taxpayer's income for that year.

► 40(4) ◄

(4) Idem. In determining the amount of any payment or payments made in a taxation year as a death benefit that is deemed, for the purpose of this section, not to be income of the taxpayer by whom it is or they are received, there shall be subtracted from the amount of the payment or payments so made any amount deductible under paragraph 60(*m*) of the amended Act because of that payment or those payments in computing the taxpayer's income for that year.

► 40(5) ◄

(5) Maximum amount for election. For the purpose of determining the amount of any payment or payments of one or more of the classes described in subsection (1) made in a taxation year that may be deemed, for the purposes of this section, not to be income of the taxpayer by whom it is or they are received, the maximum amount in respect of which an election may be made by the taxpayer under subsection (1) for the taxation year in respect of the payment or payments is,

(*a*) in the case of a payment or payments of a class described in subsection (1) made to the taxpayer on the death of an employee or former employee in respect of whom the payment or payments are made, the amount of the payment or the total amount of the payments, as the case may be, minus any amount subtracted therefrom under subsection (3) or (4);

(*b*) in the case of one or more single payments of a class described in subparagraph (1)(*a*)(i), (iii) or (iv), other than a payment described in paragraph (*a*) of this subsection, the lesser of

(i) the amount of the payment or the total amount of the payments, as the case may be, minus any amount subtracted therefrom under subsection (3), and

(ii) the amount by which

(A) the product obtained by multiplying $1,500 by the number of consecutive 12 month periods included in the period throughout which the taxpayer was a member of any plan or plans described in subparagraph (1)(*a*)(i), (iii) or (iv) (in this subsection referred to as a "retirement plan"),

(I) out of or under which a payment was made to the taxpayer in the taxation year or a preceding taxation year ending after April 26, 1965, and

(II) to which an employer of the taxpayer has made a contribution on behalf of the taxpayer,

exceeds

(B) the total of all amounts each of which is an amount that, because of a payment to the taxpayer after April 26, 1965,

(I) out of or under a retirement plan to which the employer referred to in subclause (A)(II) made a contribution on behalf of the taxpayer, or

(II) by the employer referred to in subclause (A)(II),

was deemed not to be income of the taxpayer for the purpose of Part I of the amended Act for a preceding taxation year because of an election made by the taxpayer under subsection (1); and

(*c*) in the case of a payment or payments of the class described in subparagraph (1)(*a*)(ii) or paragraph (1)(*b*), other than a payment described in paragraph (*a*) or (*b*) of this subsection, the lesser of

(i) the amount of the payment or the total amount of the payments, as the case may be, minus any amount subtracted therefrom pursuant to subsection (3), and

(ii) the amount by which

(A) the product obtained by multiplying $ 1,000 by the number of years during which the taxpayer was an employee of the employer who made the payment

exceeds

(B) the total of

(I) the total of all amounts each of which is an amount that, because of a payment to the taxpayer after April 26, 1965 by an employer referred to in clause (A) or a payment to the taxpayer after that date out of or under a retirement plan to which such an employer made a contribution on behalf of the taxpayer, was deemed not to be income of the taxpayer for the purpose of Part I of the amended Act for a preceding taxation year by reason of an election made by the taxpayer under subsection (1), and

(II) the total of all amounts each of which is an amount that, because of a payment to the taxpayer after April 26, 1965 out of or under a retirement plan to which an employer referred to in clause (A) made a contribution on behalf of the taxpayer, may be deemed, by subsection (1), not to be income of the taxpayer for the purpose of that Part for the taxation year.

► 40(6) ◄

(6) Idem. For the purpose of subsection (5),

(*a*) where all or substantially all of the property used in carrying on the business of a person who was an employer of an employee (in this subsection referred to as the "former employer")

(i) has been purchased by a person who, because of the purchase, or

(ii) has been acquired by bequest or inheritance, or because of an amalgamation (within the meaning assigned by section 85I of the former Act), by a person who, because of the acquisition,

became an employer of the employee, and who subsequently made a payment of a class described in

paragraph (5)(*c*) in respect of the employee or former employee, the employee or former employee shall be deemed to have been an employee of that employer throughout the period he or she was an employee of the former employer; and

(*b*) a taxpayer may, in computing the number of years during which the taxpayer was a member of a superannuation or pension fund or plan (in this subsection referred to as the "subsequent plan"), include the number of years during which the taxpayer was a member of another plan (in this subsection referred to as the "former plan") if the taxpayer had received an amount out of or under the former plan all or part of which amount was deductible under paragraph 60(*j*) of the amended Act in computing the taxpayer's income for the taxation year in which the amount was received, because of the fact that all or part of the amount, as the case may be, was paid by the taxpayer to or under the subsequent plan as described in clause 60(*j*)(i)(A) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, as it read in its application to the 1978 and preceding taxation years.

► 40(7) ◄

(7) Limitation. This section applies in respect of any payment or payments described in subparagraph (1)(*a*)(i) or (iv) made in a taxation year ending after 1973, except that the amount of the payment or the total amount of the payments, as the case may be, shall be deemed to be the lesser of the amount thereof otherwise determined and the total of the amounts that the taxpayer would have received out of or under the plan described in subparagraph (1)(*a*)(i) or (iv), as the case may be, if

(*a*) the taxpayer had withdrawn from the plan on January 1, 1972;

(*b*) there had been no change in the terms and conditions of the plan after June 18, 1971 and before January 2, 1972; and

(*c*) any term or condition of the plan that would, in the event that the taxpayer had withdrawn from the plan on January 1, 1972, have reduced the amount of any payment or payments that would, if the taxpayer remained a member of the plan for a specified period of time after December 31, 1971, have been made to the taxpayer in respect of years ending before 1972 were not a term or condition of the plan.

► 40(8) ◄

(8) Application rule. For the purposes of paragraphs (1)(*d*) and (2)(*a*), there may be deducted from the total referred to in those paragraphs 9% of the portion of that total that is attributable to the 1974, 1975 or 1976 taxation year.

41. Fiscal periods ending in same year.

(1) [Repealed by 1985, c. 45, s. 140.]

► 41(2) ◄

(2) "Earnings period" defined. [Repealed by 1985, c. 45, s. 140.]

► 41(3) ◄

(3) Earnings periods ending in same year. [Repealed by 1985, c. 45, s. 140.]

► 41(4) ◄

(4) Election. [Repealed by 1985, c. 45, s. 140.]

► 41(5) ◄

(5) Idem. [Repealed by 1985, c. 45, s. 140.]

42. Election.

(1) [Repealed by 1985, c. 45, s. 140.]

► 42(2) ◄

(2) Idem. [Repealed by 1985, c. 45, s. 140.]

► 42(3) ◄

(3) Non-residents. [Repealed by 1985, c. 45, s. 140.]

43. Authors. [Repealed by 1985, c. 45, s. 140.]

44. Benefits to employees.

(1) [Repealed by 1985, c. 45, s. 140.]

► 44(2) ◄

(2) Idem. [Repealed by 1985, c. 45, s. 140.]

45. Sale of inventory. [Repealed by 1985, c. 45, s. 140.]

45.1. Included reference. [Repealed by 1974-75-76, c. 26, s. 138.]

46. Accounts receivable. [Repealed by 1985, c. 45, s. 140.]

47. Death of a taxpayer; amount receivable. [Repealed by 1985, c. 45, s. 140.]

48. Incorrect valuation of inventory; election. [Repealed by 1985, c. 45, s. 140.]

49. Tax deemed payable under amended Act.

(1) Where, because of section 40, any tax is payable in addition to or in lieu of any amount of tax payable under Part I of the amended Act for a taxation year, that tax shall be deemed to be payable under Part I of the amended Act for that taxation year.

► 49(2) ◄

(2) Application of s. 13. In applying section 13 to section 40, subsection 13(1) shall be read without reference to the words "subject to this Act and unless the context otherwise requires".

► 49(3) ◄

(3) Computation of tax deemed payable under amended Act. In computing, under section 40 of this Act or any of section 39 and sections 41 to 48 of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, any tax that is payable in addition to or in lieu of any amount of tax payable under Part I of the amended Act by an individual for a taxation year,

(*a*) a reference to section 120 of the amended Act does not include a reference to paragraph 33(1)(*a*) of the former Act; and

(*b*) for the purposes of paragraph 33(1)(*a*) of the former Act and subsection 120(1) of the amended Act, all of the income of the individual for that or any preceding taxation year shall be deemed to have been income earned in the year in a province.

50. Status of certain corporations.

(1) For the purposes of the amended Act, a corporation that was, throughout that portion of its 1972 taxation year that is in 1972, a private corporation, a Canadian-

controlled private corporation or a public corporation shall be deemed to have been throughout that taxation year a private corporation, a Canadian-controlled private corporation or a public corporation, as the case may be.

► 50(2) ◄

(2) Election to be public corporation. For the purposes of the definition "public corporation" in subsection 89(1) of the amended Act, where at any particular time before 1973 a corporation elected in the manner referred to in subparagraph (*b*)(i) of that definition to be a public corporation and at any time after 1971 and before the time of the election the corporation complied with the conditions referred to in that subparagraph, the corporation shall,

(*a*) at such time after 1971 and before the particular time as is specified in the election to be the effective date thereof, or

(*b*) where no time described in paragraph (*a*) is specified in the election to be the effective date thereof, at the particular time,

be deemed to have elected in the manner referred to in that subparagraph to be a public corporation and to have complied with the conditions referred to therein.

► 50(3) ◄

(3) Designation by Minister. For the purposes of the definition "public corporation" in subsection 89(1) of the amended Act, where at any particular time before March 22, 1972 the Minister, by notice in writing to a corporation, designated the corporation to be a public corporation or not to be a public corporation, as the case may be, and at the time of the designation the corporation complied with the conditions referred to in subparagraph (*b*)(i) or (*c*)(i) of that definition, as the case may be, the corporation shall, at such time as is specified by the Minister in the notice, be deemed

(*a*) to have been designated by the Minister, by notice in writing to the corporation, to be a public corporation or not to be a public corporation, as the case may be; and

(*b*) to have complied with the conditions referred to in subparagraph (*b*)(i) or (*c*)(i) of that definition, as the case may be.

51. Tax payable by corporation with fiscal period other than calendar year 1972.

(1) [Repealed by 1985, c. 45, s. 141.]

► 51(2) ◄

(2) Determination of amount taxable. [Repealed by 1985, c. 45, s. 141.]

► 51(3) ◄

(3) Definitions. [Repealed by 1985, c. 45, s. 141.]

52. Tax payable by corporations for particular years. [Repealed by 1985, c. 45, s. 141.]

53. Deduction from corporate tax for 1977 taxation year. [Repealed by 1974-75-76, c. 26, s. 139.]

54. Small business deduction for particular years. [Repealed by 1985, c. 45, s. 141.]

55. Foreign-tax carryover.

(1) [Repealed by 1985, c. 45, s. 141.]

► 55(2) ◄

(2) Idem. [Repealed by 1985, c. 45, s. 141.]

56. Refundable dividend tax on hand. [Repealed by 1985, c. 45, s. 141.]

56.01. Capital gains dividend of a mutual fund corporation.

(1) [Repealed by 1985, c. 45, s. 141.]

► 56.01(2) ◄

(2) Idem. [Repealed by 1985, c. 45, s. 141.]

56.1. Mutual fund trusts. [Repealed by 1985, c. 45, s. 141.]

57. Capital dividend account.

► 57(1) ◄

(1) Specified personal corporations. [Repealed by 1985, c. 45, s. 142(1).]

► 57(2) ◄

(2) Dividends received. [Repealed by 1985, c. 45, s. 142(1).]

► 57(3) ◄

(3) Amount included in income of shareholder. [Repealed by 1985, c. 45, s. 142(1).]

► 57(4) ◄

(4) Valuation of transferred property. [Repealed by 1985, c. 45, s. 142(1).]

► 57(5) ◄

(5) Transfers. [Repealed by 1985, c. 45, s. 142(1).]

► 57(6) ◄

(6) Taxable dividends. [Repealed by 1985, c. 45, s. 142(1).]

► 57(7) ◄

(7) Foreign taxes. [Repealed by 1985, c. 45, s. 142(1).]

► 57(8) ◄

(8) Tax-paid undistributed income. [Repealed by 1977-78, c. 1, s. 111(1).]

► 57(9) ◄

(9) [Capital dividend account]. In computing a specified personal corporation's capital dividend account at any time after the end of its 1972 taxation year, there shall be added to the total of the amounts described in paragraphs (*a*) and (*b*) of the definition "capital dividend account" in subsection 89(1) of the amended Act the total of its net capital gains (within the meaning assigned by subsection 51(3) of the *Income Tax Application Rules, 1971*, Part III of chapter 63 of the Statutes of Canada, 1970-71-72, as it read before October 29, 1985) for its 1972 taxation year and that proportion of the total of its incomes for that year, other than

(*a*) any taxable capital gains of the corporation for the year from dispositions of property, and

(*b*) any amounts that were, because of subsection 57(3) of the *Income Tax Application Rules, 1971*, Part III of chapter 63 of the Statutes of Canada, 1970-71-72, as it read before October 29, 1985 or under the provisions of subsection 67(1) of the former Act that applied because of subsection 57(12) of those Rules as it read before that date, required to be included in computing the income of the specified personal corporation for its 1972 taxation year,

that the number of days in that portion of the 1972 taxation year that is in 1972 is of the number of days in the whole year.

► 57(10) ◄

(10) Statement to be filed. [Repealed by 1985, c. 45, s. 142(2).]

► 57(11) ◄

(11) Meaning of "specified personal corporation". For the purposes of this section, a corporation is a specified personal corporation if

(*a*) part of its 1972 taxation year was before and part thereof after the beginning of 1972; and

(*b*) during the whole of the period beginning on the earlier of June 18, 1971 and the beginning of its 1972 taxation year and ending at the end of its 1972 taxation year, it was a personal corporation within the meaning assigned by section 68 of the former Act.

► 57(12) ◄

(12) Rule where corporation's 1971 taxation year ends in shareholder's 1972 taxation year. [Repealed by 1985, c. 45, s. 142(3).]

57.1. Cooperative corporations.

(1) [Repealed by 1985, c. 45, s. 143.]

► 57.1(2) ◄

(2) Ss. 51(1) not applicable. [Repealed by 1985, c. 45, s. 143.]

► 57.1(3) ◄

(3) "Amount taxable" defined. [Repealed by 1985, c. 45, s. 143.]

58. Credit unions.

(1) For the purpose of computing the income of a credit union for the 1972 and subsequent taxation years,

(*a*) property of the credit union that is a bond, debenture, mortgage or agreement of sale owned by it at the beginning of its 1972 taxation year shall be valued at its actual cost to the credit union,

(i) plus a reasonable amount in respect of the amortization of the amount by which the principal amount of the property at the time it was acquired by the credit union exceeds its actual cost to the credit union, or

(ii) minus a reasonable amount in respect of the amortization of the amount by which its actual cost to the credit union exceeds the principal amount of the property, at the time it was acquired by the credit union;

(*b*) property of the credit union that is a debt owing to the credit union (other than property described in paragraph (*a*) or a debt that became a bad debt before its 1972 taxation year) acquired by it before the beginning of its 1972 taxation year shall be valued at any time at the amount thereof outstanding at that time;

(*c*) any depreciable property acquired by the credit union in a taxation year ending before 1972 shall be deemed to have been acquired by it on the last day of its 1971 taxation year at a capital cost equal to

(i) in the case of any building or automotive equipment owned by it on the last day of its 1971 taxation year, the amount, if any, by which the depreciable cost to the credit union of the building or equipment, as the case may be, exceeds the product obtained when the number of full taxation years in the period beginning on the first day of the taxation year following the taxation year in which the building or equipment, as the case may be, was acquired by it and ending with the last day of its 1971 taxation year is multiplied by, in the case of a building, 2 1/2%, and in the case of equipment, 15%, of its depreciable cost (and for the purposes of this subparagraph, a capital improvement or capital addition to a building owned by a credit union shall be deemed not to be part of the building but to be a separate and distinct building acquired by it, if the cost to the credit union of the improvement or addition, as the case may be, exceeded $10,000),

(ii) in the case of any leasehold interest, the proportion of the capital cost thereof to the credit union (determined without regard to this subparagraph) that

(A) the number of months in the period beginning with the first day of the credit union's 1972 taxation year and ending with the day on which the leasehold interest expires

is of

(B) the number of months in the period beginning with the day on which the credit union acquired the leasehold interest and ending with the day on which the leasehold interest expires, and

(iii) in the case of any property (other than a building, automotive equipment or leasehold interest) acquired by the credit union after 1961, the amount, if any, by which the depreciable cost to the credit union of the property exceeds the product obtained when the number of full taxation years beginning with the first day of the taxation year following the taxation year in which the property was acquired by it and ending with the last day of its 1971 taxation year is multiplied by 1/2 the relevant percentage of the depreciable cost to the credit union of the property; and

(*d*) the undepreciated capital cost to the credit union as of the first day of its 1972 taxation year of depreciable property of a prescribed class acquired by it before that taxation year is the total of the amounts determined under paragraph (*c*) to be the capital costs to it as of that day of all property of that class.

Regulations: Part VI.

► 58(1.1) ◄

(1.1) Exception. For the purpose of computing a capital gain from the disposition of depreciable property acquired by a credit union in a taxation year ending before 1972, the capital cost of the property shall be its capital cost determined without reference to paragraph (1)(*c*).

Interpretation Bulletins: *Secondary* — IT-483 Credit unions [Archived by the CRA].

► 58(2) ◄

(2) Deemed deductions. [Repealed by 1985, c. 45, s. 144(1).]

► 58(3) ◄

(3) Special rule applicable to 1972 taxation year. [Repealed by 1985, c. 45, s. 144(1).]

► 58(3.1) ◄

(3.1) Additional deductions for 1973 to 1976 taxation years. [Repealed by 1985, c. 45, s. 144(1).]

► 58(3.2) ◄

(3.2) Determination of maximum cumulative reserve at end of taxation year. Notwithstanding the definition "maximum cumulative reserve" in subsection 137(6) of the amended Act, for the purposes of section 137 of the amended Act a credit union's maximum cumulative reserve at the end of any particular taxation year is the amount, if any, by which its maximum cumulative reserve at that time, determined under that definition without regard to this subsection, exceeds the lesser of

(*a*) its maximum cumulative reserve, determined under that definition without regard to this subsection, at the end of its 1971 taxation year, and

(*b*) the amount, if any, by which its 1971 reserve exceeds the total of the amounts deemed by subsection 58(2) of the *Income Tax Application Rules, 1971*, Part III of chapter 63 of the Statutes of Canada, 1970-71-72, to have been deducted by it in computing its income for its 1971 taxation year.

► 58(3.3) ◄

(3.3) Idem. Notwithstanding subsection (3.2), where at any time after May 6, 1974 there has been an amalgamation (within the meaning assigned by section 87 of the amended Act) of two or more credit unions to form a new credit union, the maximum cumulative reserve of the new credit union shall be deemed to be the amount by which its maximum cumulative reserve, determined under the definition of that term in subsection 137(6) of the amended Act, exceeds the total of all amounts, if any, each of which is the lesser of the amounts referred to in paragraphs (3.2)(*a*) and (*b*) in respect of each of the predecessor corporations.

► 58(3.4) ◄

(3.4) Idem. Notwithstanding subsection (3.2), where a credit union (in this subsection referred to as the acquirer) has, at any time after May 6, 1974, acquired otherwise than by way of amalgamation all or substantially all of the assets of another credit union, the maximum cumulative reserve of the acquirer shall be the amount by which the acquirer's maximum cumulative reserve, determined under the definition of that term in subsection 137(6) of the amended Act, exceeds the total of

(*a*) the lesser of the amounts determined under paragraphs (3.2)(*a*) and (*b*) in respect of the acquirer, and

(*b*) the lesser of the amounts determined under paragraphs (3.2)(*a*) and (*b*) in respect of the other credit union.

► 58(4) ◄

(4) Amounts not to be deducted. [Repealed by 1985, c. 45, s. 144(2).]

► 58(4.1) ◄

(4.1) Amount of non-capital loss. [Repealed by 1985, c. 45, s. 144(2).]

► 58(5) ◄

(5) Definitions. In this section,

"depreciable cost" — "depreciable cost" to a credit union of any property means the actual cost to it of the property or the amount at which it is deemed by subsection 13(7) of the amended Act to have acquired the property, as the case may be;

"relevant percentage" — "relevant percentage" in relation to a prescribed class of property is the percentage prescribed in respect of that class by any regulations made under paragraph 11(1)(*a*) of the former Act;

"1971 reserve" — "1971 reserve" of a credit union means the amount, if any, by which the total of all amounts each of which is

(*a*) the amount of any money of the credit union on hand at the beginning of its 1972 taxation year,

(*b*) an amount in respect of any property described in paragraph (1)(*a*) or (*b*), equal to the amount at which it is required by those paragraphs to be valued at the beginning of its 1972 taxation year,

(*c*) an amount in respect of depreciable property of a prescribed class owned by the credit union on the first day of its 1972 taxation year, equal to the amount determined under paragraph (1)(*d*) to be the undepreciated capital cost thereof to the credit union as of that day, or

(*d*) an amount in respect of any capital property (other than depreciable property) owned by the credit union at the beginning of its 1972 taxation year, equal to its cost to the credit union computed without reference to the provisions of section 26,

exceeds the total of all amounts each of which is

(*e*) the amount of any debt owing by the credit union or of any other obligation of the credit union to pay an amount, that was outstanding at the beginning of its 1972 taxation year, excluding, for greater certainty, any share in the credit union of any member thereof, or

(*f*) the amount, as of the beginning of the credit union's 1972 taxation year, of any share in the credit union of any member thereof.

59. Non-resident-owned investment corporation.

(1) [Repealed by 1985, c. 45, s. 145.]

► 59(2) ◄

(2) [Non-resident-owned investment corporation]. In its application to the 1972 and subsequent taxation years of a corporation, section 133 of the amended Act shall be read as if, in respect of such portion of any period described in the definition "non-resident-owned investment corporation" in subsection 133(8) of that Act as ended before the beginning of the corporation's 1976 taxation year, paragraph (*a*) of that definition were read as follows:

"(*a*) at least 95% of the total value of its issued shares, and all of its bonds, debentures and other funded indebtedness, were

(i) beneficially owned by non-resident persons (other than any foreign affiliate of a taxpayer resident in Canada),

(ii) owned by trustees for the benefit of non-resident persons or their unborn issue, or

(iii) owned by a corporation, whether incorporated in Canada or elsewhere, at least 95% of the total value of the issued shares of which and all of the

bonds, debentures and other funded indebtedness of which were beneficially owned by non-resident persons or owned by trustees for the benefit of non-resident persons or their unborn issue, or by two or more such corporations,"

60. Taxes payable by insurer under Part IA of former Act.

For the purposes of the description of F in the definition "surplus funds derived from operations" in subsection 138(12) of the amended Act, the reference in that description to "this Part" shall be deemed to be a reference to "this Part and Part IA of the former Act".

History: Former s. 60.1, which was added by 1973-74, c. 14, s. 86, was renumbered as s. 60 in the revised Act.

61. Registered retirement savings plans.

(1) For the purposes of the definition "non-qualified investment" in subsection 146(1) of the amended Act, property acquired after June 18, 1971 and before 1972 by a trust governed by a registered retirement savings plan shall, if owned or held by the trust on January 1, 1972, be deemed to have been acquired by the trust on January 1, 1972.

62. Assessments.

(1) Subsections 152(4) and (5) of the amended Act apply in respect of any assessment made after December 23, 1971, except that subsection 152(5) of that Act does not apply in respect of any such assessment made in consequence of a waiver filed with the Minister before December 23, 1971 in the form and within the time referred to in subsection 152(4) of that Act.

► 62(2) ◄

(2) Interest. Subsections 161(1) and (2), 164(3) and (4), 202(5) and 227(8) and (9) of the amended Act, subsection 183(2) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, and subsection 195(1) of that Act as it read in its application in respect of dividends paid or received before April 1, 1977, in so far as those subsections relate to the rate of interest payable thereunder, apply in respect of interest payable in respect of any period after December 23, 1971.

► 62(3) ◄

(3) Penalties. [Repealed by 1988, c. 55, s. 198.]

► 62(4) ◄

(4) Objections to assessment. Subsection 165(3) of the amended Act applies in respect of any notice of objection served on the Minister after December 23, 1971.

► 62(5) ◄

(5) Appeals. Division J of Part I of the amended Act applies in respect of any appeal or application instituted or made, as the case may be, after December 23, 1971.

► 62(6) ◄

(6) Appeals to Federal Court. Any appeal to the Federal Court instituted, within 2 years after December 23, 1971 and in accordance with Division J of Part I of the former Act and any rules made thereunder (as those rules read immediately before December 23, 1971), shall be deemed to have been instituted in the manner provided by the amended Act, and any document served on the Minister or a taxpayer in connection with an appeal so instituted in the manner provided in that Division and those rules shall be deemed to have been served in the manner provided by the amended Act.

63. Part II of amended Act. [Repealed by 1977-78, c. 1, s. 112(1).]

64. Preferred-rate amount. [Repealed by 1984, c. 45, s. 98(1).]

64.1. Life insurance corporation's control period earnings. [Repealed by 1977-78, c. 1, s. 113(1).]

64.2. Parts VII and VIII of amended Act. [Repealed by 1977-78, c. 1, s. 113(1).]

64.3. Retroactive Part IX election. [Repealed by 1974-75-76, c. 26, s. 141(1).]

65. Part XI of amended Act.

(1) [Repealed by S.C. 2005, c. 30, s. 21(1).]

History: S. 65(1) was repealed by S.C. 2005, c. 30, s. 21(1), applicable to months that end after 2004. S. 65(1) formerly read:

"S. 65. *Part XI of amended Act.*

(1) Where, at any particular time after June 18, 1971 and before July 1, 1972, a taxpayer described in section 205 of the amended Act has acquired a foreign property that was

(*a*) a share of the capital stock of a corporation that would be a mutual fund corporation if paragraph 131(8)(*a*) of the amended Act were read without reference to the words 'that was a public corporation',

(*b*) a unit of a trust that would be a mutual fund trust if subsection 132(6) of the amended Act were read without reference to paragraph 132(6)(*c*), or

(*c*) an interest, as a beneficiary under a trust, in property held subject to the trust by a trust company incorporated under the laws of Canada or a province, if

(i) throughout the 1971 taxation year of the trust,

(A) all the property of the trust was held in trust for the benefit of not less than 20 beneficiaries, and

(I) not less than 20 of the beneficiaries were taxpayers described in paragraph 205(*a*) or (*c*) of the amended Act, or

(II) not less than 100 of the beneficiaries were taxpayers described in paragraph 205(*b*) of the amended Act,

(B) not less than 80% of all the property of the trust consisted of shares, bonds, mortgages, marketable securities or cash, and

(C) not more than 10% of all the property of the trust consisted of shares, bonds, mortgages or other securities of any one corporation or debtor other than Her Majesty in right of Canada or of a province or a Canadian municipality,

(ii) not less than 95% of the income of the trust for its 1971 taxation year was derived from investments described in clause (i)(B),

(iii) the total value of all such interests owned by all beneficiaries mentioned in clause (i)(A) to which any one employer has made or may make contributions did not exceed, at any time in the 1971 taxation year of the trust, 25% of the value of all the property of the trust at that time, and

(iv) the total value of all such interests owned by all beneficiaries mentioned in subclause (i)(A)(II) to which any one taxpayer has paid or may pay premiums did not exceed, at any time in the 1971 taxation year of the trust, 25% of the value of all the property of the trust at that time,

the property shall, to the extent that the cost to the taxpayer thereof did not exceed the amount, if any, by which the taxpayer's foreign investment limit exceeded the total of the costs to it of all foreign properties described in paragraphs (*a*) to (*c*) acquired by the taxpayer after June 18, 1971 and before the particular time, be deemed

(*d*) for the purposes of Part XI of the amended Act, to have been acquired before June 19, 1971 and not to have been acquired after June 18, 1971, and

(*e*) where the taxpayer was a trust governed by a registered retirement savings plan, notwithstanding the definition 'qualified investment' in subsection 146(1) of the amended Act, to have been a qualified investment for the purposes of section 146 of that Act."

Forms: T3F.

► 65(1.1) ◄

(1.1) Idem. [Repealed by S.C. 2005, c. 30, s. 21(1).]

History: S. 65(1.1) was repealed by S.C. 2005, c. 30, s. 21(1), applicable to months that end after 2004. S. 65(1.1) formerly read:

"(1.1) *Idem.* Where, at any particular time after October 13, 1971 and before July 1, 1972, a taxpayer to whom Part XI of the amended Act applies has acquired a foreign property that was a share of the capital stock of a corporation that would be an investment corporation if subparagraph 130(3)(*a*)(i) of the amended Act were read without reference to the words 'that was a public corporation', for the purposes of subsection (1) the share so acquired shall be deemed to be a share described in paragraph (1)(*a*)."

► 65(2) ◄

(2) Definition of "foreign investment limit". [Repealed by S.C. 2005, c. 30, s. 21(1).]

History: S. 65(2) was repealed by S.C. 2005, c. 30, s. 21(1), applicable to months that end after 2004. S. 65(2) formerly read:

"(2) *Definition of 'foreign investment limit'.* In subsection (1), 'foreign investment limit' of a taxpayer means the total of

(*a*) the taxpayer's income from property for its 1971 taxation year,

(*b*) where the taxpayer was, throughout its 1971 taxation year, a taxpayer described in paragraph 205(*a*) of the amended Act, all amounts each of which is such portion of any amount paid or contributed by any person to or under the plan in 1971 as was deductible in computing that person's income for the 1971 taxation year under paragraph 11(1)(*g*) or (*h*) of the former Act, or as would have been deductible in computing that income under paragraph 11(1)(i) of the former Act if that paragraph were read (except for the purposes of subparagraph 11(1)(i)(iii) of that Act) without reference to subparagraph 11(1)(i)(ii) of that Act,

(*c*) where the taxpayer was, throughout its 1971 taxation year, a trust governed by a registered retirement savings plan, all amounts each of which is such portion of any premium paid in 1971 by the annuitant under the plan as was deductible under subsection 79B(5) of the former Act in computing the annuitant's income for the 1971 taxation year, and

(*d*) where the taxpayer was, throughout its 1971 taxation year, a trust governed by a deferred profit sharing plan, all amounts each of which is such portion of any amount paid by an employer to a trustee under the plan as was deductible under subsection 79C(7) of the former Act in computing the employer's income for the 1971 taxation year."

► 65(3) ◄

(3) Foreign property acquired by registered retirement savings plan. [Repealed by S.C. 2005, c. 30, s. 21(1).]

History: S. 65(3) was repealed by S.C. 2005, c. 30, s. 21(1), applicable to months that end after 2004. S. 65(3) formerly read:

"(3) *Foreign property acquired by registered retirement savings plan.* Where, at any particular time after 1971 and before July 1, 1974, a trust governed by a registered retirement savings plan acquired a foreign property described in paragraph (1)(*a*) or (*b*) or a foreign property that would be described in paragraph (1)(*c*) if the references in that paragraph to the '1971 taxation year' of the trust were read as references to the '1972 and 1973 taxation years' of the trust, the property shall, to the extent that the cost to the trust thereof did not exceed the amount, if any, by which the trust's foreign reinvestment limit exceeded the total of the cost to it of all such foreign properties so acquired by it after 1971 and before the particular time, be deemed

(*a*) for the purposes of Part XI of the amended Act, to have been acquired before June 19, 1971 and not to have been acquired after June 18, 1971; and

(*b*) notwithstanding the definition 'qualified investment' in subsection 146(1) of the amended Act, to have been a qualified investment for the purposes of section 146 of that Act."

► 65(4) ◄

(4) Definition of "foreign reinvestment limit". [Repealed by S.C. 2005, c. 30, s. 21(1).]

History: S. 65(4) was repealed by S.C. 2005, c. 30, s. 21(1), applicable to months that end after 2004. S. 65(4) formerly read:

"(4) *Definition of 'foreign reinvestment limit'.* In subsection (3), 'foreign reinvestment limit' of a trust governed by a registered retirement savings plan means such portion of the total of

(*a*) the trust's income from property for its 1972 and 1973 taxation years,

(*b*) all amounts each of which is such portion of any premium paid by the annuitant under the plan as was deductible under subsection 146(5) of the amended Act in computing the annuitant's income for the 1972 or 1973 taxation year,

(*c*) all amounts each of which is a capital gains dividend (within the meaning assigned by subsection 131(1) of the amended Act) received by the trust in its 1972 or 1973 taxation year, and

(*d*) 2 times the total of all amounts each of which is, because of subsection 104(21) of the amended Act, deemed to be a taxable capital gain of the trust for its 1972 or 1973 taxation year,

as was, under the terms and conditions of the plan as fixed on or before June 18, 1971, required to be invested by the trust in foreign property described in paragraph (1)(*a*) or (*b*) or foreign property that would be described in paragraph (1)(*c*) if the references in that paragraph to the '1971 taxation year' of the trust were read as references to the '1971 and 1972 taxation years' of the trust."

► 65(5) ◄

(5) Shares of a mutual fund corporation received on amalgamation. [Repealed by S.C. 2005, c. 30, s. 21(1).]

History: S. 65(5) was repealed by S.C. 2005, c. 30, s. 21(1), applicable to months that end after 2004. S. 65(5) formerly read:

"(5) *Shares of a mutual fund corporation received on amalgamation.* Where, after May 25, 1976, there has been an amalgamation (within the meaning assigned by section 87 of the amended Act) of two or more mutual fund corporations (each of which corporations is in this subsection referred to as a 'predecessor corporation') to form one corporate entity (in this subsection referred to as the 'new corporation'), and

(*a*) any shareholder that is a taxpayer described in any of paragraphs 205(*a*), (*b*) and (*c*) of the amended Act owned shares of the capital stock of a predecessor corporation (in this subsection referred to as the 'old shares') on June 18, 1971 and thereafter without interruption until immediately before the amalgamation,

(*b*) any shares referred to in paragraph (*a*) were foreign property (within the meaning assigned by subsection 206(1) of the amended Act) immediately before the amalgamation, and

(*c*) no consideration was received by the shareholder for the disposition of the old shares on the amalgamation, other than shares of the capital stock of the new corporation (in this subsection referred to as the 'new shares'),

notwithstanding any other provision of this Act or of the amended Act, for the purpose of subsection 206(2) of the amended Act, the taxpayer shall be deemed not to have acquired the new shares after June 18, 1971."

S. 65(5), the portion after paragraph (*a*), was amended by 1994, c. 7, Sched. II, s. 202(1), applicable to periods occurring after October 31, 1985. The portion formerly read:

"(*b*) any shares referred to in paragraph (*a*) were foreign property (within the meaning assigned by subsection 206(2) of the amended Act) immediately before the amalgamation, and

(*c*) no consideration was received by the shareholder for the disposition of the old shares on the amalgamation other than shares of the capital stock of the new corporation (in this subsection referred to as the 'new shares'),

notwithstanding any other provision of this Act or the amended Act, for the purposes of subsection 206(1) of the amended Act, the taxpayer is deemed to have acquired the new shares prior to June 18, 1971."

Interpretation Bulletins: *Secondary*— IT-412R2 Foreign property of registered plans.

65.1. Part XV of amended Act.

For greater certainty,

(*a*) section 9 does not apply in respect of the repeal, by section 1 of chapter 63 of the Statutes of Canada, 1970-71-72, of Part V of the former Act and the substitution therefor, by that section, of Part XV of the amended Act, and

(*b*) in its application in respect of any offence described in subsection 239(1) of the amended Act that was committed before December 23, 1971, paragraph 239(1)(*f*) of the amended Act shall be read as follows:

"(*f*) a fine of not less than $25 and not more than $ 10,000 plus, in an appropriate case, an amount not exceeding double the amount of the tax that should have been shown to be payable or that was sought to be evaded, or"

66. Part of former Act.

(1) For greater certainty, Part II of the former Act applies only in respect of elections made thereunder before 1972.

► 66(2) ◄

(2) Idem. [Repealed by 1977-78, c. 1, s. 114(1).]

67. Prescription of unpaid amounts.

(5) Her Majesty in right of Canada is not liable, and no action shall be taken, for or in respect of any unrefunded instalment of tax paid under Part IID of the former Act or any interest thereon where

(*a*) a repayment date with respect to the instalment was prescribed by regulation and reasonable efforts were made thereafter to locate the corporation or trust entitled to the refund;

(*b*) at least 5 years have elapsed since publication in the *Canada Gazette* of the regulation referred to in paragraph (*a*); and

(*c*) no claim whatever has been received by or on behalf of Her Majesty from the corporation or trust entitled to the refund.

Part II
Transitional Concerning The 1985 Statute Revision

Definitions

69. Definitions.

In this Act and the *Income Tax Act*, unless the context otherwise requires,

"*Income Tax Act, chapter 148 of the Revised Statutes of Canada, 1952,*" — "Income Tax Act, chapter 148 of the Revised Statutes of Canada, 1952," means that Act as amended by section 1 of chapter 63 of the Statutes of Canada, 1970-71-72, and by any subsequent Act that received royal assent before December, 1991;

"*Income Tax Application Rules, 1971, Part III of chapter 63 of the Statutes of Canada, 1970-71-72,*" — "Income Tax Application Rules, 1971, Part III of chapter 63 of the Statutes of Canada, 1970-71-72," means that Act as amended by any subsequent Act that received royal assent before December, 1991.

Application of the 1971 Acts and the Revised Acts

70. Application of *Income Tax Application Rules, 1971*, 1970-71-72, c. 63.

Subject to this Act and the *Income Tax Act* and unless the context otherwise requires,

(*a*) sections 7 to 9 and 12 to 68 of the *Income Tax Application Rules, 1971*, Part III of chapter 63 of the Statutes of Canada, 1970-71-72, apply with respect to taxation years that ended before December, 1991; and

(*b*) section 10 of the *Income Tax Application Rules, 1971*, Part III of chapter 63 of the Statutes of Canada, 1970-71-72, applies with respect to amounts paid or credited before December, 1991.

71. Application of this Act.

Subject to this Act and the *Income Tax Act* and unless the context otherwise requires,

(*a*) sections 7 to 9 and 12 to 78 of this Act apply with respect to taxation years that end after November, 1991; and

(*b*) section 10 of this Act applies with respect to amounts paid or credited after November, 1991.

72. Application of Income Tax Act, R.S.C., 1952, c. 148.

Subject to this Act and the *Income Tax Act* and unless the context otherwise requires, the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, applies as follows:

(*a*) Parts I, I.1, I.2, I.3, II.1, IV, IV.1, V, VI, VI.1, VII, VIII, IX, XI.3, XII, XII.1, XII.2, XII.3 and XIV of that Act apply with respect to taxation years that ended before December 1991;

(*b*) Part III of that Act applies with respect to dividends that became payable before December, 1991;

(*c*) Parts X, X.1, X.2, XI, XI.1 and XI.2 of that Act apply with respect to calendar years that ended before December, 1991;

(*d*) Part XIII of that Act applies with respect to amounts paid or credited before December, 1991; and

(*e*) Parts XV, XVI and XVII of that Act apply before December, 1991.

History: S. 72(a) was amended by S.C. 1994, c. 21, s. 119(1), effective on March 1, 1994. S. 72(a) formerly read:

"(*a*) Parts I, I.1, I.2, I.3, II.1, IV, IV.1, V, VI, VI.1, VII, VIII, IX, XI.3, XII, XII.2, XII.3 and XIV of that Act apply with respect to taxation years that ended before December, 1991;"

73. Application of Income Tax Act.

Subject to this Act and the *Income Tax Act* and unless the context otherwise requires, the *Income Tax Act* applies as follows:

(*a*) Parts I, I.1, I.2, I.3, II.1, IV, IV.1, V, VI, VI.1, VII, VIII, IX, XI.3, XII, XII.1, XII.2, XII.3 and XIV of that Act apply with respect to taxation years that end after November 1991;

(*b*) Part III of that Act applies with respect to dividends that become payable after November, 1991;

(*c*) Parts X, X.1, X.2, XI, XI.1 and XI.2 of that Act apply with respect to calendar years that end after November, 1991;

(*d*) Part XIII of that Act applies with respect to amounts paid or credited after November, 1991; and

(*e*) Parts XV, XVI and XVII of that Act apply after November, 1991.

History: S. 73(a) was amended by S.C. 1994, c. 21, s. 120(1), effective on March 1, 1994. S. 73(a) formerly read:

"(*a*) Parts I, I.1, I.2, I.3, II.1, IV, IV.1, V, VI, VI.1, VII, VIII, IX, XI.3, XII, XII.2, XII.3 and XIV of that Act apply with respect to taxation years that end after November, 1991;"

Application of Certain Provisions

74. Definition of "provision".

In sections 75 to 78, "provision" means the whole or part of a provision.

75. Continued effect of amending and application provisions.

For greater certainty, where an enactment passed after 1971 in amendment of the *Income Tax Application Rules, 1971*, Part III of chapter 63 of the Statutes of Canada, 1970-71-72, or of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, contains an amending, repeal, application or other provision that, immediately before the coming into force of the fifth supplement to the Revised Statutes of Canada, 1985, has any effect on, or in connection with, the application of either or both of those Acts, that provision has, on the coming into force of that supplement, the same effect on, or in connection with, the application of either this Act or the *Income Tax Act* or both.

76. Application of s. 75.

Section 75 is applicable whether or not this Act or the *Income Tax Act*, as the case may be, contains, or contains the tenor of or any reference to,

(*a*) the amending, repeal, application or other provision referred to in that section; or

(*b*) any provision of the *Income Tax Application Rules, 1971*, Part III of chapter 63 of the Statutes of Canada, 1970-71-72, or the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, expressed or intended to be the subject of or otherwise affected by that amending, repeal, application or other provision.

77. Continued effect of repealed provisions.

For greater certainty, where a provision of the *Income Tax Application Rules, 1971*, Part III of chapter 63 of the Statutes of Canada, 1970-71-72, or the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, was repealed at any time after 1971 but, immediately before the coming into force of the fifth supplement to the Revised Statutes of Canada, 1985, continues to be applied to any extent or otherwise to have any effect on, or in connection with, the application of either or both of those Acts, the repealed provision, on the coming into force of that supplement, continues to be so applied or to have that effect on, or in connection with, the application of either this Act or the *Income Tax Act* or both.

78. Application of s. 77.

Section 77 is applicable whether or not this Act or the *Income Tax Act*, as the case may be, contains any reference to the repealed provision referred to in that section or to the subject-matter of that provision.

79. Effect of amendments on former ITA.

(1) Where a provision of an enactment amends the *Income Tax Act* or affects the application of the *Income Tax Act* and the provision applies to or with respect to a period, transaction or event to which the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, applies, the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952, shall be read as if it had been amended or its application had been affected by the provision, with such modifications as the circumstances require, to the extent of the provision's application to or with respect to that period, transaction or event.

History: S. 79(1) was added by S.C. 1994, c. 21, s. 121(1), effective on March 2, 1994.

► 79(2) ◄

(2) Effect of amendments on former ITAR. Where a provision of an enactment amends this Act or affects the application of this Act and the provision applies to or with respect to a period, transaction or event to which the *Income Tax Application Rules, 1971*, Part III of chapter 63 of the Statutes of Canada, 1970-71-72, apply, the *Income Tax Application Rules, 1971*, Part III of chapter 63 of the Statutes of Canada, 1970-71-72, shall be read as if they had been amended or their application had been affected by the provision, with such modifications as the circumstances require, to the extent of the provision's application to or with respect to that period, transaction or event.

History: S. 79(2) was added by S.C. 1994, c. 21, s. 121(1), effective on March 2, 1994.

Income Tax Regulations

The Income Tax Regulations (Consolidated Regulations of Canada, 1978, c. 945) were issued by P.C. 1979–1933, proclaimed in force August 15, 1979, superseding the former consolidation, as amended. Since the Regulations were consolidated only to December 31, 1977, a Special Issue of the *Canada Gazette*, dated December 31, 1978 but issued shortly after the appearance of the C.R.C. in August, 1979, was published to allow the updating of the Consolidation to reflect those 1978 Regulations that amend or revoke Regulations found in the Consolidation. These revisions and all subsequent revisions have been incorporated in place in the Regulations with appropriate historical notes.

TABLE OF CONTENTS

Part		Page
I	Tax Deductions (Secs. 100–110)	2127
II	Information Returns (Secs. 200–238)	2148
III	Annuities and Life Insurance Policies (Secs. 300–310)	2167
IV	Taxable Income Earned in a Province by a Corporation (Secs. 400–415)	2181
V	Non-Resident-Owned Investment Corporations (Secs. 500–502)	2190
VI	Elections (Sec. 600)	2191
VII	Logging Taxes on Income (Sec. 700)	2192
VIII	Non-Resident Taxes (Secs. 800–810)	2193
IX	Delegation of the Powers and Duties of the Minister (Repealed)	2204
X	Elections in Respect of Deceased Taxpayers (Secs. 1000–1001)	2205
XI	Capital Cost Allowances (Secs. 1100–1107)	2206
XII	Resource and Processing Allowances (Secs. 1200–1219)	2263
XIII	Elections in Respect of Taxpayers Ceasing to be Resident in Canada (Secs. 1300–1302)	2300
XIV	Insurance Business Policy Reserves (Secs. 1400–1408)	2301
XV	Profit Sharing Plans (Secs. 1500–1503)	2317
XVI	Prescribed Countries (Sec. 1600)	2318
XVII	Capital Cost Allowances, Farming and Fishing (Secs. 1700–1704)	2318
XVIII	Inventories (Secs. 1800–1802)	2321
XIX	Investment Income Tax (Sec. 1900)	2321
XX	Political Contributions (Secs. 2000–2002)	2327
XXI	Elections in Respect of Surpluses (Secs. 2100–2102, 2104–2107)	2328
XXII	Security Interests (Sec. 2200–2201)	2331
XXIII	Principal Residences (Secs. 2300–2301)	2331
XXIV	Insurers (Secs. 2400–2412)	2332
XXV	Special T1 Tax Table for Individuals (Secs. 2500–2501)	2367
XXVI	Income Earned in a Province by an Individual (Secs. 2600–2608)	2369
XXVII	Group Term Life Insurance Benefits (Sec. 2700–2705)	2372
XXVIII	Election in Respect of Accumulating Incomes of Trusts (Sec. 2800)	2376
XXIX	Scientific Research and Experimental Development (Secs. 2900–2903)	2377
XXX	Communication of Information (Sec. 3003–3004)	2382
XXXI	Degree of Canadian Ownership (Repealed)	2383
XXXII	Prescribed Stock Exchanges and Contingency Funds (Secs. 3200–3202)	2383
XXXIII	Tax Transfer Payments (Sec. 3300)	2384
XXXIV	International Development Assistance Programs (Sec. 3400)	2385
XXXV	Receipts for Donations and Gifts (Secs. 3500–3504)	2385
XXXVI	Reserve for Surveys (Sec. 3600)	2388
XXXVII	Charitable Foundations (Secs. 3700–3702)	2389
XXXVIII	Social Insurance Number Applications (Sec. 3800)	2390
XXXIX	Mining Taxes on Income (Sec. 3900)	2390
XL	Interest on Insurance Policy Loans (Sec. 4001)	2391
XLI	Representation Expenses (Sec. 4100)	2391
XLII	Valuation of Annuities and Other Interests (Sec. 4200)	2391
XLIII	Interest Rates (Secs. 4300–4302)	2392
XLIV	Publicly-Traded Shares or Securities (Sec. 4400)	2393
XLV	Elections in Respect of Expropriation Assets (Sec. 4500)	2393
XLVI	Investment Tax Credit (Secs. 4600–4610)	2393
XLVII	Election in respect of Certain Property Owned on December 31, 1971 (Sec. 4700)	2399
XLVIII	Status of Corporations and Trusts (Secs. 4800–4803)	2399
XLIX	Deferred Income Plans, Qualified Investments (Secs. 4900–4901)	2403
L	Deferred Income Plans, Foreign Property (Repealed)	2414

Part		Page
LI	Deferred Income Plans, Investments in Small Business (Secs. 5100–5104)	2419
LII	Canadian Manufacturing and Processing Profits (Secs. 5200–5204)	2426
LIII	Instalment Base (Secs. 5300–5301)	2433
LIV	Debtor's Gains on Settlement of Debts (Secs. 5400–5401)	2437
LV	Prescribed Programs and Benefits (Secs. 5500–5502)	2438
LVI	Prescribed Distributions (Sec. 5600)	2438
LVII	Medical Devices and Equipment (Sec. 5700)	2439
LVIII	Retention of Books and Records (Sec. 5800)	2440
LIX	Foreign Affiliates (Secs. 5900–5909)	2441
LX	Prescribed Activities (Sec. 6000)	2553
LXI	Related Segregated Fund Trusts (Sec. 6100)	2554
LXII	Prescribed Securities, Shares and Debt Obligations (Secs. 6200–6210)	2554
LXIII	Child Tax Benefits (Secs. 6300–6302)	2574
LXIV	Prescribed Dates (Secs. 6400–6401)	2575
LXV	Prescribed Laws (Secs. 6500–6503)	2575
LXVI	Prescribed Order (Sec. 6600)	2576
LXVII	Prescribed Venture Capital Corporations, Labour-Sponsored Venture Capital Corporations, Investment Contract Corporations, Qualifying Corporations and Prescribed Stock Savings Plans (Secs. 6700–6707)	2576
LXVIII	Prescribed Plans, Arrangements and Contributions (Secs. 6800–6804)	2581
LXIX	Prescribed Offshore Investment Fund Properties (Secs. 6900)	2585
LXX	Accrued Interest on Debt Obligations (Sec. 7000–7001)	2585
LXXI	Prescribed Federal Crown Corporations (Sec. 7100)	2588
LXXII	Cumulative Deduction Account (Repealed)	2589
LXXIII	Prescribed Amounts and Areas (Secs. 7300–7308)	2590
LXXIV	Prescribed Forest Management Plans for Woodlots (Sec. 7400)	2602
LXXV	Prescribed Missions (Sec. 7500)	2603
LXXVI	Carved-Out Property Exclusion (Sec. 7600)	2604
LXXVII	Prescribed Prizes (Sec. 7700)	2604
LXXVIII	Prescribed Provincial Pension Plans (Sec. 7800)	2604
LXXIX	Prescribed Financial Institutions (Sec. 7900)	2604
LXXX	Prescribed Reserve Amount and Recovery Rate (Secs. 8000–8006)	2605
LXXXI	Transition for Financial Institutions (Secs. 8100–8105)	2607
LXXXII	Prescribed Properties and Permanent Establishments (Secs. 8200–8201)	2614
LXXXIII	Pension Adjustments, Past Service Pension Adjustments, Pension Adjustment Reversals and Prescribed Amounts (Secs. 8300–8311)	2616
LXXXIV	Retirement and Profit-Sharing Plans — Reporting and Provision of Information (Secs. 8400–8410)	2652
LXXXV	Registered Pension Plans (Secs. 8500–8520)	2657
LXXXVI	Taxable Capital Employed in Canada (Secs. 8600–8605)	2712
LXXXVII	National Arts Service Organizations (Sec. 8700)	2716
LXXXVIII	Disability-Related Modifications and Apparatus (Secs. 8800–8801)	2717
LXXXIX	Entities Prescribed with respect to Certain Rules (Secs. 8900–8901)	2717
XC	Financial Institutions — Prescribed Entities (Sec. 9004)	2718
XCI	Financial Institutions — Income from Specified Debt Obligations (Proposed)	2720
XCII	Financial Institutions — Disposition of Specified Debt Obligations (Proposed)	2727
XCIII	Film or Video Production Services Tax Credit (Sec. 9300)	2733
XCIV	Prescribed Programs of Physical Activity (Sec. 9400)	2733
Schedule I	Ranges of Remuneration and of Total Remuneration	2735
Schedule II	Capital Cost Allowances	2737
Schedule III	Capital Cost Allowances, Class 13	2767
Schedule IV	Capital Cost Allowances, Class 15	2768
Schedule V	Capital Cost Allowances, Industrial Mineral Mines	2768
Schedule VI	Capital Cost Allowances, Timber Limits and Cutting Rights	2769
Schedule VII	Publicly-Traded Shares or Securities	2770
Schedule VIII	Universities Outside Canada	2788
Schedule IX	Prescribed Areas — 1987 to 1992 (Repealed)	2797
Schedule X	Prescribed Areas (Repealed)	2798

SECTIONAL LIST OF THE INCOME TAX REGULATIONS

[Consolidated Regulations of Canada, c. 945, as amended.]

New provisions added by any of the pending amendments reproduced throughout the text of the Act are included in the list preceded by the prefix "Prop.".

Section	Subject
	PART I
	TAX DEDUCTIONS
100	Interpretation
	Definitions
	"employee"
	"employer"
	"estimated deductions"
	"exemptions" [Revoked]
	"pay period"
	"personal credits"
	"remuneration"
	"total remuneration"
101	Deductions and remittances
102	Periodic payments
103	Non-periodic payments
104	Deductions not required
104.1	Lifelong learning plan
105	Non-residents
105.1	Fishermen's election
106	Variations in deductions
107	Employees' returns
108	Remittances to Receiver General
109	Elections to increase deductions
110	Prescribed persons
	PART II
	INFORMATION RETURNS
200	Remuneration and benefits
201	Investment income
202	Payments to non-residents
202(1.1)	Payments to non-residents
203	Certain income in respect of non-residents [Repealed.]
204	Estates and trusts
204.1(1)	Definitions
	"public investment trust"
	"public trust"
204.1(2)	Required information disclosure
204.1(3)	Required disclosure time
205	Date returns to be filed
205.1	Electronic filing
206	Legal representatives and others
207	Ownership certificates
208	Dispositions of income-averaging annuity contracts
209	Distribution of taxpayers' portions of returns
210	Tax deduction information
211	Accrued bond interest
212	Employees' profit sharing plans
213	Electric, gas or steam corporations
214	Registered retirement savings plans
	Definitions
	"annuitant"
	"issuer"
214.1	RRSP information returns
214.1(4)	Definitions
	"contribution year"
	"issuer"
215	Registered retirement income funds
216	Registered Canadian amateur athletic associations
217	Disposition of interest in annuities and life insurance policies
	Definitions
	"disposition"
	"insurer"
	"life insurance policy"
218	Patronage payments
219	Family allowances and similar payments [Repealed.]
220	Cash bonus payments on Canada Savings Bonds
221	Qualified investments
222	Foreign property [Revoked]
223	TFSAs
223(5)	Definitions [Repealed.]
	"beneficiary" [Repealed.]
	"depositary" [Repealed.]
	"registered home ownership savings plan" [Repealed.]
224	Canadian home insulation program and Canada oil substitution program
225	Certified films and video tapes
226	Scientific research tax credits
	Definitions
	"administrator"
	"designated security"
	"first purchaser"
	"security"
	"trader or dealer in securities"
227	Share purchase tax credits
	Definitions
	"administrator"
	"designated share"
	"first purchaser"
	"trader or dealer in securities"
228	Resource flow-through shares
229	Partnership return
229.1(1)	Definitions
	"public investment partnership"
	"public partnership"
229.1(2)	Required information disclosure
229.1(3)	Required disclosure time
229.1(4)	Obligation fulfilled by one partner deemed fulfilled by all
230	Security transactions
	Definitions
	"publicly traded"
	"sale"
	"security"
	"trader or dealer in securities"
231	Information respecting tax shelters
	Definitions
	"promoter"
	"tax shelter"
232	Workers' compensation
233	Social assistance
234	Farm support payments
235, 236	Identifier information
237	Contract for goods and services
238	Reporting of construction services payments

Section	Subject

PART III
ANNUITIES AND LIFE INSURANCE POLICIES

Section	Subject
300	Capital element of annuity payments
301	Life annuity contracts
302	[Revoked]
303	Termination or cancellation of annuity contracts
304	Prescribed annuity contracts
304(4)	Definitions "annuitant" "spouse"
305	Unallocated income accrued before 1982
306	Exempt policies
307	Accumulating funds
308	Net cost of pure insurance and mortality gains and losses
309	Prescribed premiums and prescribed increases
310	Interpretation "amount payable" "benefit on death" "cash surrender value" "life insurance policy" "life insurance policy in Canada" "policy anniversary" "policy loan" "proceeds of the disposition" "tax anniversary date"

PART IV
TAXABLE INCOME EARNED IN A PROVINCE BY A CORPORATION

Section	Subject
400	Interpretation Definitions "permanent establishment" "taxable income earned in the year in a province"
401	Computation of taxable income
402	General rules
402.1	Central Paymaster
402.2	Transitional — Taxable income earned in the 1980 taxation year in the Yukon Territory [Repealed.]
403	Insurance corporations
404	Chartered banks
405	Trust and loan corporations
406	Railway corporations
407	Airline corporations
408	Grain elevator operators
409	Bus and truck operators
410	Ship operators
411	Pipeline operators
412	Divided businesses
413	Non-resident corporations
413.1	International banking centre exception
414	Provincial SIFT tax rate
415	Nova Scotia offshore area [Repealed.]

PART V
NON-RESIDENT-OWNED INVESTMENT CORPORATIONS

Section	Subject
500	Elections
501	Elections revoked
502	Certificates of changes of ownership
503	[Revoked]

PART VI
ELECTIONS

Section	Subject
600	Prescribed provisions

PART VII
LOGGING TAXES ON INCOME

Section	Subject
700	Logging

PART VIII
NON-RESIDENT TAXES

Section	Subject
800	Registered non-resident insurers
801	Filing of returns by non-resident insurers
802	Amounts taxable
803	Payment of tax by non-resident insurers
804	Interpretation Definition "registered non-resident insurer"
805	Other non-resident persons
806	International organizations and agencies
806.1	Prescribed international agencies
806.2	Prescribed obligation
807	Identification of obligations
808	Allowances in respect of investment in property in Canada
809	Reduction of certain amounts to be deducted or withheld Definitions "qualifying payment" "required statement"
810	Excluded property of non-resident persons
Prop. 810	Excluded property of non-resident persons [Repealed.]

PART IX
DELEGATION OF THE POWERS AND DUTIES OF THE MINISTER [Repealed.]

Section	Subject
900	Powers and duties of the Minister [Repealed.]

PART X
ELECTIONS IN RESPECT OF DECEASED TAXPAYERS

Section	Subject
1000	Property dispositions
1000.1	Realization of options
1001	Annual instalments

PART XI
CAPITAL COST ALLOWANCES

DIVISION I — DEDUCTIONS ALLOWED

Section	Subject
1100	Deductions
1100(1)(a)	Rates
1100(1)(a.1)	Class 1
1100(1)(a.2)	Class 1
1100(1)(b)	Class 13 — [Leasehold interest]
1100(1)(c)	Class 14 — [Patent, franchise, concession or licence]
1100(1)(d)	In lieu of double depreciation
1100(1)(e)	Timber limits and cutting rights
1100(1)(f)	Class 15 — [Woods assets]
1100(1)(g)	Industrial mineral mines
1100(1)(h)	[Revoked]
1100(1)(i)	Additional allowances — Fishing vessels
1100(1)(j), (k)	[Revoked]
1100(1)(l)	Additional allowances — Certified productions
1100(1)(m)	Additional allowance — Canadian film or video production
1100(1)(n), (o)	Class 19 — [Accelerated allowances]
1100(1)(p)	Class 20 — [Accelerated allowances]
1100(1)(q)	Class 21 — [Accelerated allowances]
1100(1)(r), (s), (sa)	[Revoked]
1100(1)(sb)	[Additional allowances — Grain storage facilities and grain elevators]
1100(1)(t)	Classes 24, 27, 29 and 34
1100(1)(ta)	[Classes 24, 27, 29 and 34 — Taxation years commencing after November 12, 1981]
1100(1)(u)	[Revoked]
1100(1)(v)	Canadian vessels
1100(1)(va)	Additional allowances — Offshore drilling vessels
1100(1)(w)	Additional allowances — Class 28
1100(1)(x)	Mines
1100(1)(y)	Additional allowances — Class 41
1100(1)(ya)	Additional allowances — Class 41
1100(1)(z), (z.1a), (z.1b), (z.1c)	Additional allowances — Railway cars
1100(1)(za), (za.1), (za.2), (zb)	Additional allowances — Railway track and related property
1100(1)(zc)	Additional allowances — Railway expansion and modernization property
1100(1)(zd)	Class 38
1100(1)(ze)	Class 39
1100(1)(zf)	Class 40
1100(1)(zg)	Additional allowance — Year 2000 computer hardware and systems software
1100(1)(zh)	Additional allowance — Year 2000 computer software
Prop. 1100(1)(zi)	Additional allowance — Class 43
1100(1.1)–(1.3)	Specified leasing property
1100(2)	Property acquired in the year
1100(2.1)–(2.5)	[Exceptions]
1100(3)	Taxation years less than 12 months
1100(4)	[Reserved]
1100(5), (6)	[Revoked]
1100(7)	[Reserved]
1100(8)	Railway sidings
1100(9), (9.1)	Patents
1100(10)	[Reserved]
1100(11)–(14.2)	Rental properties
1100(15)–(20)	Leasing properties
1100(20.1), (20.2)	Computer tax shelter property
1100(21)–(23)	Certified films and video tapes
1100(21.1)	Films and video tape
1100(24)–(29)	Specified energy property
1100A	Exempt mining income

DIVISION II — SEPARATE CLASSES

Section	Subject
1101(1)	Business and properties
1101(2)	Fishing vessels
1101(2a)	Canadian vessels
1101(2b)	Offshore drilling vessels
1101(2c)	Vessels and a Structured Financing Facility
1101(3)	Timber limits and cutting rights
1101(4)	Industrial mineral mines
1101(4a)–(4d)	New or expanded mines properties
1101(5)	Lease option agreements
1101(5a)	Telecommunication spacecraft
1101(5b)	Multiple-unit residential buildings
1101(5b.1)	Eligible non-residential building
1101(5c)	Leasing properties
1101(5d)	Railway cars
1101(5d.1)	Railway property
1101(5e)–(f)	Railway track and related property
1101(5g)	Deemed depreciable property
1101(5h)	Leasehold interest in real properties
1101(5i)	Pipelines
1101(5j)	Effective date of elections
1101(5k)	Certified productions
1101(5k.1)	Canadian film or video production
1101(5l)	Class 38 — Property and outdoor advertising signs
1101(5m)	Specified energy property
1101(5n), (o)	Specified leasing property
1101(5p), (q)	Rapidly depreciating electronic equipment
1101(5r)	Computer software tax shelter property
Prop. 1101(5r)	Computer tax shelter property
1101(5s)	Manufacturing or Processing Property
Prop. 1101(5s.1)	Election — Manufacturing and Processing Equipment
Prop. 1101(5s.2)	Election — Manufacturing and Processing Equipment
Prop. 1101(5s.3)	Election — Manufacturing and Processing Equipment
Prop. 1101(5s.4)	Election — Manufacturing and Processing Equipment
Prop. 1101(5s.5)	Election — Manufacturing and Processing Equipment
1101(5t)	Combustion Turbines [Repealed.]
1101(5u)	Equipment Related to Transmission Pipelines
1101(5v)	Transmission Pipelines
1101(6)	Reference

DIVISION III — PROPERTY RULES

Section	Subject
1102(1)	Property not included
1102(1a)	Partnership property
1102(2)	Land
1102(3)	Non-residents
1102(4)	Improvements or alterations to leased properties
1102(5), (5.1)	Buildings on leased properties
1102(6)	Leasehold interests acquired before 1949
1102(7)	River improvements
1102(8)–(9.2)	Electrical plant used for mining
1102(10)	Railway companies
1102(11)	Passenger automobiles Definitions "cost to the taxpayer" "initial transportation charges" "passenger automobile" "retail sales tax"
1102(12), (13)	Pre-1966 automobile
1102(14), (14.1)	Property acquired by transfer, amalgamation or winding-up
1102(14.2)	Townsite costs
1102(14.3)	Surface construction and bridges
1102(15), (16)	Manufacturing and processing enterprises
1102(16.1)	Election for certain Manufacturing and Processing equipments
1102(17)	Recreational property
1102(18)	[Revoked]
1102(19)	Additions and alterations
1102(19.1)	Railway Locomotives
1102(19.2)	Railway Locomotives
1102(20)	Non-arm's length exception
1102(21)	Class 43.1 property
1102(22)	Class 43.1 property
1102(23)	Rules for additions to and alterations of certain buildings
1102(24)	Rules for additions to and alterations of certain buildings
1102(25)	Acquisition costs of certain buildings

DIVISION IV — INCLUSIONS IN AND TRANSFERS BETWEEN CLASSES

Section	Subject
1103(1)	Elections to include properties in Class 1
1103(2)	Elections to include properties in Class 2, 4 or 17

Section	Subject
1103(2a)	Elections to include properties in Class 8
1103(2b)	Elections to include properties in Class 37
1103(2c), (2d)	Elections to make certain transfers
1103(2e)	Transfers from Class 40 to Class 10
1103(2f)	Elections to include properties in Class 1, 3 or 6
1103(2g)	Transfers to Class 8, Class 10 or Class 43
Prop. 1103(2g.1)	Inclusions and transfers between classes
Prop. 1103(2g.2)	Inclusions and transfers between classes
1103(2h)	Election not to include properties in Class 44
1103(2i)	Election to include properties in Class 35
1103(3)–(5)	Election rules

DIVISION V — INTERPRETATION

1104(1)	Definitions
	"end of the taxation year"
	"taxation year"
1104(2)	Definitions
	"certified feature film"
	"certified production"
	"computer software"
	"data network infrastructure equipment"
	"designated overburden removal cost"
	"designated underground storage cost"
	"eligible non-residential building"
	"gas or oil well equipment"
	"general-purpose electronic data processing equipment"
	"ore"
	"railway system"
	"specified temporary access road"
	"systems software"
	"tar sands ore"
	"telegraph system"
	"telephone system"
	"television commercial message"
	"tramway or trolley bus system"
1104(3)	Definitions
	"industrial mineral mine"
	"mineral"
	"mining"
1104(4)	[Revoked]
1104(5)–(8)	Mining
	Definitions
	"income from a mine"
	"gross revenue from a mine"
	"mine"
	"stone quarry"
1104(8.1)	Mining
1104(9)	Manufacturing or processing
1104(10)	Certified films and video tapes
1104(11)	Certified Class 34 properties
1104(12)	Amusement parks
1104(13)	Classes 43.1 and 43.2 — Energy Conservation Property
	Definitions
	"basic oxygen furnace gas"
	"bio-gas"
	"bio-oil"
	"blast furnace gas"
	"digester gas"
	"distribution equipment"
	"district energy equipment"
	"district energy system"
	"eligible landfill site"
	"eligible sewage treatment facility"
	"eligible waste fuel"
	"eligible waste management facility"
	"enhanced combined cycle system"
Prop.	"food and animal waste"
	"food waste"
	"fossil fuel"
	"landfill gas"
	"municipal waste"
	"plant residue"
	"pulp and paper waste"
	"solution gas"
	"spent pulping liquor"
	"thermal waste"
	"transmission equipment"
	"wood waste"
1104(14)	Class 43.1 — Energy conservation property
1104(15)	Class 43.1 — Energy conservation property
1104(16)	Class 43.1 — Energy conservation property

DIVISION VI — CLASSES PRESCRIBED

1105	Classes prescribed

DIVISION VII — CERTIFICATES ISSUED BY MINISTER OF CANADIAN HERITAGE

1106	Interpretation
1106(1)	Definitions
	"application for a certificate of completion"
	"Canadian"
	"Canadian government film agency"
	"certificate of completion"
	"excluded production"
	"producer"
	"remuneration"
	"twinning arrangement"
1106(2)	Prescribed taxable Canadian corporation
1106(3)	Treaty co-production
1106(4)–(7)	Canadian film or video production
1106(8)	Lead performer/screenwriter
1106(9)	Documentary production
1106(10)	Prescribed person
1106(11)	Prescribed amount

DIVISION VIII — DETERMINATION OF VISCOSITY AND DENSITY

1107	Bituminous sands — viscosity or density of hydrocarbons

PART XII
RESOURCE AND PROCESSING ALLOWANCES

1200	Deduction allowed
1201	Earned depletion allowances
1202	Rules
1203	Mining exploration depletion
1204	Resource profits [Repealed.]
1205	Earned depletion base [Repealed.]
1206	Interpretation
	Definitions
	"bituminous sands equipment"
	"Canadian exploration and development overhead expense"
	"Canadian oil and gas exploration expense"
	"coal mine operator"
	"conventional lands"
	"disposition of property"
	"enhanced recovery equipment"
	"exempt partnership"
Prop.	"exempt partnership" [Repealed.]
	"exporting resource"
	"mine"
	"non-conventional lands"
	"ore"
	"original owner"
	"predecessor owner"
	"primary recovery"
	"proceeds of disposition"
	"processing property"
	"production royalty"
Prop.	"production royalty" [Repealed.]
	"qualified resource"
	"qualified tertiary oil recovery project"
	"resource"
	"resource activity"
	"secondary recovery method"
	"specified development well" [Revoked]
	"specified percentage"
	"specified property"
	"specified royalty"
Prop.	"specified royalty" [Repealed.]
	"stated percentage"
	"tar sands ore"

Section	Subject
	"tertiary recovery equipment"
1207	Frontier exploration allowances
1208	Additional allowances in respect of certain oil or gas wells
1209	Additional allowances in respect of certain mines
1210	Resource allowance [Repealed.]
1210.1	Resource loss [Repealed.]
1211	Prescribed amounts [Repealed.]
1212	Supplementary depletion allowances
1213	Prescribed deductions
1214	Amalgamations and windings-up
1215	[Revoked]
1216	Prescribed persons
1217	Prescribed Canadian exploration expense
1218	Prescribed Canadian development expense
1219	

PART XIII
ELECTIONS IN RESPECT OF TAXPAYERS CEASING TO BE RESIDENT IN CANADA

1300	Elections to defer capital gains
1301	Elections to defer payment of taxes
1302	Elections to realize capital gains

PART XIV
INSURANCE BUSINESS POLICY RESERVES

DIVISION I — POLICY RESERVES

1400	Non-life insurance business

DIVISION II — AMOUNTS DETERMINED

1401	Life insurance business

DIVISION III — SPECIAL RULES

1402–1403	Non-life and life insurance businesses

DIVISION IV — LIFE INSURANCE POLICY RESERVES

1404–1407	Life insurance policy reserves

DIVISION V — INTERPRETATION

1408	Insurance businesses Definitions "acquisition costs" [Repealed.] "amount payable" "benefit" "capital tax" "cash surrender value" "claim liability" "extended motor vehicle warranty" "general amending provision" "interest" "lapse-supported policy" "life insurance policy" "life insurance policy in Canada" "modified net premium" "net premium for the policy" [Repealed.] "non-cancellable or guaranteed renewable accident and sickness policy"	Prop.	"participating life insurance policy" "policy liability" "policy loan" "post-1995 life insurance policy" "post-1995 non-cancellable or guaranteed renewable accident and sickness policy" "pre-1996 life insurance policy" "pre-1996 non-cancellable or guaranteed renewable accident and sickness policy" "qualified annuity" "reinsurance commission" "relevant authority" "reported reserve" "segregated fund" "segregated fund policy"

PART XV
PROFIT SHARING PLANS

DIVISION I — EMPLOYEES PROFIT SHARING PLANS

1500	Employees' profit sharing plans

DIVISION II — DEFERRED PROFIT SHARING PLANS

1501	Registration of plans	1502	[Revoked]

DIVISION III — ELECTIONS IN RESPECT OF CERTAIN SINGLE PAYMENTS

1503	Deferred profit sharing plans — Elections

PART XVI
PRESCRIBED COUNTRIES

1600	Prescribed countries — ITAR 10(4)

Section	Subject	Section	Subject

PART XVII
CAPITAL COST ALLOWANCES, FARMING AND FISHING

DIVISION I — DEDUCTIONS ALLOWED

1700(1)	Rates	1700(3)	Property disposed of during year
1700(2)	Taxation years less than 12 months	1700(4)	Leasehold interests

DIVISION II — MAXIMUM DEDUCTIONS

1701	Maximum deductions

DIVISION III — PROPERTY NOT INCLUDED

1702	Property not included

DIVISION IV — INTERPRETATION

1703(1)	Taxation years for individuals in business	1703(6)	Transactions not at arm's length
1703(2), (3)	Depreciable cost	1703(7)	Property acquired from a parent
1703(4)	Personal use of property	1703(8)	Property acquired by gift
1703(5)	Grants, subsidiaries or other government assistance		

DIVISION V — APPLICATION OF THIS PART

1704	Application

PART XVIII
INVENTORIES

1800	Manner of keeping inventories		"district"
1801	Valuation		"registered animal"
1802	Valuation of animals		
	Definitions		
	"class of animal"		

PART XIX
INVESTMENT INCOME TAX

1900(1), (2)	Interpretation		"non-participating life insurance policy"
	Definitions		"policy loan"
	"benefit"		"pre-funded group life insurance policy"
	"excluded arrangement"		"premium"
	"existing guaranteed life insurance policy"		"registered life insurance policy"
	"group term life insurance policy"		"reinsurance arrangement"
	"guaranteed interest"		"segregated fund"
	"life insurance policy"		"specified transaction or event"
	"life insurance policy in Canada"		"taxable life insurance policy"
	"maximum tax actuarial reserve"	1900(3)	Prescribed provisions
	"mortality experience"	1900(4)	Prescribed arrangements
	"mortality loss adjustment account"	1900(5)–(8)	Prescribed rules for determining amounts
	"net cost of insurance"	1900(9)	Prescribed portion
	"net level premium"	1900(10)	Prescribed arrangements
	"net level premium reserve"		

PART XX
POLITICAL CONTRIBUTIONS

2000	Contents of receipts		"official receipt"
2001	Information returns		"official receipt form"
2002	Interpretation		
	Definitions		
	"contribution"		

PART XXI
ELECTIONS IN RESPECT OF SURPLUSES

2100	Reduction of tax-paid undistributed surplus on hand or 1971 capital surplus on hand	2104.1	Capital gains dividends payable by a mortgage investment corporation
2101	Capital dividends and life insurance capital dividends payable by private corporations	2105	Capital gains dividends payable by non-resident-owned investment corporations
2102	Tax on 1971 undistributed income on hand	2106	Alternative to additional tax on excessive elections
2103	[Revoked]	2107	Tax-deferred preferred series
2104	Capital gains dividends payable by mutual fund corporations, investment corporations and mortgage investment corporations		

PART XXII
SECURITY INTERESTS

2200	Security interest	2201	Security interest

Section	Subject

PART XXIII
PRINCIPAL RESIDENCES

2300	Election
2301	Designation

PART XXIV
INSURERS

2400(1)	Definitions
	"attributed surplus"
Prop.	"base year"
	"Canadian business property"
	"Canadian equity property"
	"Canadian investment fund"
	"Canadian investment property"
	"Canadian outstanding premiums"
	"Canadian reserve liabilities"
	"deposit balance"
	"equity limit"
	"equity property"
	"financial institution"
	"foreign policy loan"
	"gross Canadian life investment income"
	"investment property"
	"mean Canadian outstanding premiums"
	"mean Canadian reserve liabilities"
	"mean maximum tax actuarial reserve"
	"mean policy loans"
	"outstanding premiums"
	"property and casualty surplus"
	"reinsurance recoverable"
Prop.	"transition year"
	"value"
	"weighted Canadian liabilities"
	"weighted total liabilities"
2400(2)	Carrying value
2400(3)	Amount or item reported
2400(4)	Application of certain definitions
2400(5)	Deeming rules for certain assets
2400(6)	Deeming rules for certain assets
2400(7)	No double counting
2400(8)	Transition year
2401(1)	Designated insurance property
2401(2)	Designation rules
2401(3)	Order of designation of properties
2401(4)	Equity limit for the year
2401(5)	Exchanged property
2401(6)	Non-investment property
2401(7)	Policy loan excluded from designated property
2402	Income from participating life insurance businesses
2403	Branch tax election
2404	Currency conversions
2405	Interpretation
	Definitions
	"attributed surplus for the year"
Prop.	"Canadian business property"
	"Canadian equity property"
	"Canadian investment fund"
	"Canadian investment fund for the year"
	"Canadian investment property"
	"Canadian reserve liabilities"
	"designated corporation"
	"equity limit for the year"
	"equity property"
	"foreign policy loan"
	"gross Canadian life investment income"
	"insurance policy in Canada"
	"investment property"
	"life equity limit"
	"life surplus factor"
	"mean amount on deposit"
	"mean Canadian reserve liabilities"
	"mean maximum tax actuarial reserve"
	"mean policy loans"
	"mean policy loans and foreign policy loans"
	"mean total reserve liabilities"
	"property and casualty surplus"
	"property of the insurer in the course of development" [Revoked]
	"relevant authority"
	"total reserve liabilities"
	"valuation"
	"value for the year"
2406	Policy loan payable to insurer
2407	1977 excess policy dividend deduction
2408	1977 carryforward deduction
2409	Transitional
2410–12	Prescribed amount

PART XXV
SPECIAL T1 TAX TABLE FOR INDIVIDUALS

2500	Rules
2501	Meaning of "amount taxable"

PART XXVI
INCOME EARNED IN A PROVINCE BY AN INDIVIDUAL

2600	Definitions
	"income earned in the year in a province"
	"permanent establishment"
2601	Residents of Canada
2602	Non-residents
2603	Income from business
2604	Bus and truck operators
2605	More than one business
2606	Limitations of business income
2607	Dual residence
2608	SIFT trusts

PART XXVII
GROUP TERM LIFE INSURANCE BENEFITS

2700	Interpretation
	Definitions
	"lump-sum premium"
	"paid-up premium"
	"premium category"
	"term insurance"
2700(2)	Accidental death insurance
2701(1)	Prescribed benefit
2701(2)	Bankrupt individual
2702	Term insurance benefit
2702(1)	Amount of benefit
2702(2)	Average daily cost of insurance
2702(3)	Survivor income benefits
2702(4)	Determination of present value
2703	Prepaid insurance benefit
2703(1)	Amount of benefit
2703(2)	Taxpayer portion of premiums
2704	Employee-paid insurance
2705	Prescribed premium and insurance

PART XXVIII
ELECTIONS IN RESPECT OF ACCUMULATING INCOMES OF TRUST

2800	Preferred beneficiary election

Section	Subject	Section	Subject

PART XXIX
SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT

2900	Interpretation	2903	Special-purpose buildings
2901, 2902	Prescribed expenditures		

PART XXX
COMMUNICATION OF INFORMATION

3000–3002	[Revoked]	3004	Prescribed laws of a province
3003	Prescribed laws of the province of Quebec		

PART XXXI
DEGREE OF CANADIAN OWNERSHIP

3100	[Revoked]		

PART XXXII
PRESCRIBED STOCK EXCHANGES AND CONTINGENCY FUNDS

3200	Stock exchanges in Canada	3202	Contingency funds
3201	Stock exchanges outside Canada		

PART XXXIII
TAX TRANSFER PAYMENTS

3300	Prescribed rate		

PART XXXIV
INTERNATIONAL DEVELOPMENT ASSISTANCE PROGRAMS

3400	Prescribed programs		

PART XXXV
RECEIPTS FOR DONATIONS AND GIFTS

3500	Interpretation		"registered organization"
	Definitions	3501	Contents of receipts
	"employees' charity trust"	3502	Employees' charity trusts
	"official receipt"	3503	Universities outside Canada
	"official receipt form"	3504	Prescribed donees
	"other recipient of a gift"	3505	Conditions

PART XXXVI
RESERVES FOR SURVEYS

3600(1)	Prescribed amount		"inspector"
3600(2)	Definitions		"quadrennial survey"
	"classification society"		"survey"
	"estimate of the expenses of survey"		"surveyor"

PART XXXVII
CHARITABLE FOUNDATIONS

3700	Interpretation		"prescribed stock exchange"
	Definitions		"taxation year"
	"charitable foundation"	3701	Disbursement quota
	"limited-dividend housing company"	3702	Determination of value
	"non-qualified investment"		

PART XXXVIII
SOCIAL INSURANCE NUMBER APPLICATIONS

3800	Application for social insurance number		

PART XXXIX
MINING TAXES

3900	Mining taxes		"mining operations"
3900(1)	Definitions		"non-Crown royalty"
	"income"		"processing"
	"mine"	3900(2)	Mining taxes
	"mineral ore"	3900(3)	Mining taxes

Regulations

Section	Subject	Section	Subject

PART XL
INTEREST ON INSURANCE POLICY LOANS

4000	[Revoked]	4001	Interest to be verified

PART XLI
REPRESENTATION EXPENSES

4100	Filing of election

PART XLII
VALUATION OF ANNUITIES AND OTHER INTERESTS

4200	Determination of value

PART XLIII
INTEREST RATES

4300	Definitions "quarter"	4301, 4302	Prescribed rate of interest

PART XLIV
PUBLICLY-TRADED SHARES OR SECURITIES

4400	V-Day value of shares

PART XLV
ELECTIONS IN RESPECT OF EXPROPRIATION ASSETS

4500	Filing of elections

PART XLVI
INVESTMENT TAX CREDIT

4600	Qualified property		Definitions
4601	Qualified transportation equipment		"joint exploration corporation"
4602	Certified property		"principal-business corporation"
4603	Qualified construction equipment		"shareholder corporation"
4604	Approved project property		"well"
4605	Prescribed activities	4609	Prescribed offshore region
4606	Prescribed amount	4610	Prescribed area
4607	Prescribed designated regions		
4608	Prescribed expenditure for qualified Canadian exploration expenditure		

PART XLVII
ELECTION IN RESPECT OF CERTAIN PROPERTY OWNED ON DECEMBER 31, 1971

4700	Filing of election

PART XLVIII
STATUS OF CORPORATIONS AND TRUSTS

4800	Prescribed conditions	4802	Prescribed persons
4800.1	Prescribed trusts	4803	Definitions
4801	Prescribed conditions		"block of shares"
Prop. 4801.001	Prescribed conditions		"block of units"
4801.01	Prescribed trust		"equity share"
4801.02	Prescribed corporation		"insider of a corporation"

PART XLIX
DEFERRED INCOME PLANS, QUALIFIED INVESTMENTS

4900	Qualified investments		"plan trust"
4901(1)	Interpretation		"qualifying share"
4901(2)	Definitions		"revoked plan"
	"allocation in proportion to patronage"		"small business investment limited partnership"
	"connected person"		"small business investment trust"
	"connected shareholder"		"small business security"
	"consumer goods or services"		"specified cooperative corporation"
	"designated shareholder"		"specified small business corporation"
	"governing plan"		

Section	Subject	Section	Subject

PART L
TAX-FREE SAVINGS ACCOUNTS — PROHIBITED INVESTMENTS

5000	Investment not prohibited	5001	Prohibited investment

PART LI
DEFERRED INCOME PLANS, INVESTMENTS IN SMALL BUSINESS

5100	Definitions "designated rate" "eligible corporation" "qualifying active business" "qualifying obligation" "specified holding corporation" "specified property"	5101	Small business investment corporation
		5102	Small business investment limited partnership
		5103	Small business investment trust
		5104	Rules

PART LII
CANADIAN MANUFACTURING AND PROCESSING PROFITS

5200	Basic formula		"salaries and wages" "specified percentage"
5201	Small manufacturers' rule	5203	Resource income Definitions "adjusted business income" "cost of capital" "cost of labour"
5202	Interpretation Definitions "adjusted business income" "Canadian resource profits" "cost of capital" "cost of labour" "cost of manufacturing and processing capital" "cost of manufacturing and processing labour" "gross cost" "qualified activities" "rental cost" "resource profits"	5204	Partnerships Definitions "cost of capital" "cost of labour" "cost of manufacturing and processing capital" "cost of manufacturing and processing labour" "gross cost"

PART LIII
INSTALMENT BASE

5300	Individuals	5302–5305	[Revoked]
5301	Corporations under Part I of the Act		

PART LIV
DEBTOR'S GAINS ON SETTLEMENT OF DEBTS

5400	Application of excess	5401	Limitation on applying excess

PART LV
PRESCRIBED PROGRAMS

5500	Canadian Home Insulation Program	5502	Benefits under government assistance programs
5501	Canada Oil Substitution Program		

PART LVI
PRESCRIBED DISTRIBUTIONS

5600	Filing of election under ITARs		

PART LVII
MEDICAL EXPENSE TAX CREDIT

5700, 5701	Prescribed devices and equipment		

PART LVIII
RETENTION OF BOOKS AND RECORDS

5800	Retention periods		

PART LIX
FOREIGN AFFILIATES

5900	Dividends out of exempt, taxable and pre-acquisition surplus	Prop. 5905(5.1)	Amalgamations
		Prop. 5905(5.2)	Windings-up
5901	Order of surplus distributions	5906	Carrying on business in a country
5902	Election in respect of capital gains	5907	Interpretation Definitions "active business" "controlled foreign affiliate"
5903	Deductible loss		
5904	Participating percentage		
5905	Special rules		

Section	Subject
	"earnings"
	"exempt deficit"
	"exempt earnings"
	"exempt loss"
	"exempt surplus"
	"loss"
	"net earnings"
	"net loss"
	"net surplus"
	"taxable deficit"
	"taxable earnings"
	"taxable loss"
	"taxable surplus"
	"underlying foreign tax"
	"underlying foreign tax applicable"
	"whole dividend"
5908	[Revoked]
5909	Prescribed circumstances
Prop. 5910	Foreign oil and gas business
Prop. 5911	
Prop. 5912	
Prop. 5913	
Prop. 5914	
Prop. 5915	
Prop. 5916	
Prop. 5917	
Prop. 5918	
Prop. 5919	

PART LX
PRESCRIBED ACTIVITIES

6000	Prescribed activities for overseas employment tax credit

PART LXI
RELATED SEGREGATED FUND TRUSTS

6100	Filing of election

PART LXII
PRESCRIBED SECURITIES, SHARES AND DEBT OBLIGATIONS

6200	Prescribed securities
6201, 6202	Prescribed shares
6202.1	Interpretation
	Definitions
	"excluded obligation"
	"new share"
	"specified person"
6203–6207	Prescribed shares
6208	Prescribed securities
6209	Lending assets
6210	Lending assets

PART LXIII
CHILD TAX BENEFITS

6300	Interpretation
6301	Non-application of presumption
6302	Factors

PART LXIV
PRESCRIBED DATES

6400	Child tax credits
6401	Quebec tax abatement

PART LXV
PRESCRIBED LAWS

6500	Interpretation [Repealed.]
6501	Definitions
	"prescribed provision of the law of a province"
6502	Prescribed class of persons
6503	Prescribed Acts

PART LXVI
PRESCRIBED ORDER

6600	Prescribed order

PART LXVII
PRESCRIBED VENTURE CAPITAL CORPORATIONS, LABOUR-SPONSORED VENTURE CAPITAL CORPORATIONS, INVESTMENT CONTRACT CORPORATIONS, QUALIFYING CORPORATIONS AND PRESCRIBED STOCK SAVINGS PLANS

6700–6700.2	Prescribed venture capital corporation
6701	Prescribed labour-sponsored venture capital corporation
6702	Prescribed assistance
6703	Prescribed investment contract corporation
6704	Prescribed qualifying corporation
6705	Prescribed stock savings plan
6706	Prescribed condition
6707	Prescribed provision of a law of a province

PART LXVIII
PRESCRIBED PLANS, ARRANGEMENTS AND CONTRIBUTIONS

6800	Prescribed arrangement
6801–6803	Prescribed plan or arrangement
6804	Contributions to foreign plans
6804(1)	Definitions

Section	Subject
	"foreign non-profit organization"
	"foreign plan"
	"qualifying entity"
6804(2)	Electing employer
6804(3)	Election by union
6804(4)	Contributions made before 1992
6804(5)	Contributions made in 1992, 1993 or 1994
6804(6)	Contributions made after 1994
6804(7)	Replacement plan

PART LXIX
PRESCRIBED OFFSHORE INVESTMENT FUND PROPERTIES

6900	Prescribed offshore investment fund property

PART LXX
ACCRUED INTEREST ON DEBT OBLIGATIONS

7000	Prescribed debt obligations
7001	Indexed debt obligations
	Definitions
	"excluded payment"
	"indexed payment"
	"inflation adjustment period"
	"regular adjustment period"

PART LXXI
PRESCRIBED FEDERAL CROWN CORPORATIONS

7100	Prescribed federal Crown corporations

PART LXXII
CUMULATIVE DEDUCTION ACCOUNT

7200	[Revoked]

PART LXXIII
PRESCRIBED AMOUNTS AND AREAS

7300	Prescribed amount
7301	[Revoked]
7302, 7303	[Revoked]
7303.1(1)	Prescribed northern zone
7303.1(2)	Prescribed intermediate zone
7304	Travel cost
	Definitions
	"designated city"
	"member of the taxpayer's household"
7305	Prescribed drought regions
7305.01	Prescribed drought regions
7305.1	Automobile operating expense benefit — Prescribed amount
7306	Automobile expenses — Prescribed amounts
7307	Cost of automobile — Prescribed amounts
7308	Retirement income fund — Prescribed amount
Prop. 7309	Prescribed amounts
7310	Prescribed trade

PART LXXIV
PRESCRIBED FOREST MANAGEMENT PLANS FOR WOODLOTS

7400	Prescribed Forest Management Plans for Woodlots
Prop. 7400	Prescribed missions

PART LXXIV
PRESCRIBED TAX TREATY PROVISIONS AND ELECTION

7400(1)	[Revoked]
7400(2)	[Revoked]

PART LXXV
PRESCRIBED MISSIONS

7500	Prescribed Missions

PART LXXVI
CARVED-OUT PROPERTY EXCLUSION

7600	Prescribed property

PART LXXVII
PRESCRIBED PRIZES

7700	Prescribed prize

PART LXXVIII
PRESCRIBED PROVINCIAL PENSION PLANS

7800(1)	Prescribed provincial pension plan
7800(2)	Prescribed amount

Section	Subject

PART LXXIX
PRESCRIBED FINANCIAL INSTITUTIONS

7900	Prescribed financial institution

PART LXXX
PRESCRIBED RESERVE AMOUNT AND RECOVERY RATE

8000	Prescribed reserve amount
8001	[Revoked]
8002	Interpretation
8003	Election
8004	[Revoked]
8005	Rules
8006	Definitions
	"designated country"
	"exposure to a designated country"
	"general provisions"
	"provisionable assets"
	"relevant authority"
	"specific provisions"
	"specified loan"
8007	[Revoked]

PART LXXXI
TRANSITION FOR FINANCIAL INSTITUTIONS

8100	Transition deduction in respect of unpaid claims reserve
8101	Inclusion of transition amount in respect of unpaid claims reserve
8102	[Revoked]
Prop. 8102	Mark-to-market — Transition deduction
8103	[Revoked]
Prop. 8103	Mark-to-market — Transition inclusion
8104	[Revoked]
Prop. 8104	Mark-to-market — Transition capital loss
8105	[Revoked]
Prop. 8105	Mark-to-market — Transition capital gains

PART LXXXII
PRESCRIBED PROPERTIES AND PERMANENT ESTABLISHMENTS

8200	Prescribed properties
8200.1	Prescribed energy conservation property
8201	Permanent establishments
8201.1	Permanent establishments
Prop. 8202	

PART LXXXIII
PENSION ADJUSTMENTS, PAST SERVICE PENSION ADJUSTMENTS, PENSION ADJUSTMENT REVERSALS AND PRESCRIBED AMOUNTS

8300	Interpretation
	Definitions
	"certifiable past service event"
	"complete period of reduced services"
	"excluded contribution"
	"flat benefit provision"
	"member"
	"PA offset"
	"past service event"
	"period of reduced services"
	"refund benefit"
	"resident compensation"
8301	Pension adjustments
8301(1)	Pension adjustment with respect to employer
8301(2)	Pension credit — Deferred profit sharing plan
8301(2.1)	Conditions re — Description of B in subsection (2)
8301(3)	Non-vested termination from DPSP
8301(4)	Pension credit — Money purchase provision
8301(4.1)	Money purchase pension credits based on amounts allocated
8301(5)	Pension credit — Defined benefit provision of a specified multi-employer plan
8301(6)	Pension credit — Defined benefit provision
8301(7)	Pension credit — Defined benefit provision of a multi-employer plan
8301(8)	Non-vested termination from RPP
8301(9)	Multi-employer plans
8301(10)	Transition rule — Money purchase offsets
8301(11)	Timing of contributions
8301(12)	Indirect contributions
8301(13)	Apportionment of payments
8301(14)	Non-compliance by contributing entity
8301(15)	Transferred amounts
8301(16)	Subsequent events
8302	Benefit entitlement
8302(1)	Benefit entitlement
8302(2)	Benefit accrual for year
8302(3)	Normalized pensions
8302(4)	Optional forms
8302(5)	Termination of entitlement to benefits
8302(6)	Defined benefit offset
8302(7)	Offset of specified multi-employer plan benefits
8302(8)	Transition rule — Career average benefits
8302(9)	Transition rule — Benefit rate greater than 2 per cent
8302(10)	Period of reduced remuneration
8302(11)	Anti-avoidance
8303	Past service pension adjustment
8303(1)	PSPA with respect to employer
8303(2)	Accumulated PSPA for year
8303(2.1)	1991 past service events and certificates
8303(3)	Provisional PSPA
8303(4)	Redetermined benefit entitlement
8303(5)	Normalized pension
8303(6)	Qualifying transfers
8303(6.1)	Exclusion for pre-1990 benefits
8303(7)	Deemed payment
8303(7.1)	Excess money purchase transfer
8303(8)	Specified multi-employer plan
8303(9)	Conditional contributions
8303(10)	Benefits in respect of foreign service
8304	Past service benefits — Additional rules
8304(1)	Replacement of defined benefits
8304(2)	Replacement of money purchase benefits
8304(3)	Past service benefits in year of past service event
8304(4)	Exceptions
8304(5)	Modified PSPA calculation
8304(5.1)	Definitions for subsection (5)
8304(6)	Restatement of pre-1997 benefits
8304(7)	Two or more employers
8304(8)	[Revoked]
8304(9)	Specified multi-employer plans
8304.1	Pension adjustment reversal
8304.1(1)	Total pension adjustment reversal
8304.1(2)	Termination in 1997
8304.1(3)	PAR — Deferred profit sharing plan
8304.1(4)	PAR — Money purchase provision
8304.1(5)	PAR — Defined benefit provision
8304.1(6)	Defined benefit pension credits
8304.1(7)	Grossed-up PSPA amount
8304.1(8)	Specified distribution
8304.1(9)	Property made available
8304.1(10)	PA Transfer amount
8304.1(11)	Special 1997 PA transfer amount
8304.1(12)	Subsequent membership
8304.1(13)	Termination conditions — Deferred profit sharing plan

Section	Subject
8304.1(14)	Termination conditions — Registered pension plan
8304.1(15)	Breakdown of marriage or common-law partnership
8305	Association of benefits with employer
8306	Exemption from certification
8307	Certification in respect of past service events
8307(1)	Application for certification
8307(2)	Prescribed condition
8307(3)	Qualifying withdrawals
8307(4)	Eligibility of withdrawn amount for designation
8307(5)	PSPA withdrawals
8307(6)	Prescribed withdrawal
8307(7)	Prescribed premium
8308	Special rules
8308(1)	Benefits provided before registration
8308(2)	Prescribed amount for connected persons
8308(3)	Remuneration for prior years
8308(4)	Period of reduced services — Retroactive benefits
8308(5)	Period of reduced services — Retroactive contributions
8308(6)	Commitment to make retroactive contributions
8308(7)	Loaned employees
8308(8)	Successor plans
8308(9)	Special downsizing benefits
8308.1	Foreign plans
8308.1(1)	Definitions
	"foreign plan"
8308.1(2)	Pension credit
8308.1(2.1)	Pension credit — Tax treaty
8308.1(3)	Pension credit — Alternative determination
8308.1(4)	Pension credits for 1992, 1993 and 1994
8308.1(4.1)	Pension credits — 1996–2003
8308.1(5)	Foreign plan PSPA
8308.1(6)	Foreign plan PSPA — Alternative determination
8308.2	Prescribed amount for member of foreign plan
8308.3	Specified retirement arrangements
8308.3(1)	Definition
	"specified retirement arrangement"
8308.3(2)	Pension credit
8308.3(3)	Pension credit — Alternative determination
8308.3(3.1)	Pension credits — 1996–2003
8308.3(4)	Specified retirement arrangement PSPA
8308.3(5)	Specified retirement arrangement PSPA — Alternative determination
8308.4	Government-sponsored retirement arrangements
8308.4(1)	Definitions
	"Administrator"
	"government-sponsored retirement arrangement"
8308.4(2)	Prescribed amount
8309	Prescribed amount for lieutenant governors and judges
8310	Minister's powers
8311	Rounding of amounts

PART LXXXIV
RETIREMENT AND PROFIT SHARING PLANS — REPORTING AND PROVISION OF INFORMATION

8400	Definitions
8401	Pension adjustment
8402	Past service pension adjustment
8402.01	Pension adjustment reversal
8402.01(1)	Deferred profit sharing plan
8402.01(2)	Deferred profit sharing — Employer reporting
8402.01(3)	Benefit provision of a registered pension plan
8402.01(4)	Extended deadline — PA transfer amount
8402.01(5)	Calendar year quarter
8402.1	Government-sponsored retirement arrangements
8403	Connected persons
8404	Reporting to individuals
8405	Discontinuance of business
8406	Provision of information
8407	Qualifying withdrawals
8408	Requirement to provide information to Minister
8409	Annual information returns
8410	Actuarial reports

PART LXXXV
REGISTERED PENSION PLANS

8500(1)	Interpretation
	Definitions
	"active member"
	"average Consumer Price Index"
	"beneficiary"
	"benefit provision"
	"bridging benefits"
	"Consumer Price Index"
	"defined benefit limit"
	"dependant"
	"designated plan"
	"disabled"
	"eligible period of reduced pay"
	"eligible period of temporary absence"
	"eligible survivor benefit period"
	"existing plan"
	"forfeited amount"
	"grandfathered plan"
	"lifetime retirement benefits"
	"multi-employer plan"
	"pensionable service"
	"period of disability"
	"predecessor employer"
	"public pension benefits"
	"public safety occupation"
	"retirement benefits"
	"surplus"
	"totally and permanently disabled"
8500(1.1)	Interpretation
	"Year's Maximum Pensionable Earnings"
8501	Prescribed conditions for registration and other conditions applicable to registered pension plans
8501(1)	Conditions for registration
8501(2)	Conditions applicable to registered pension plans
8501(3)	Permissive rules
8501(4)	Supplemental plans
8501(5)	Benefits payable after the breakdown of the marriage or common-law partnership
8501(6)	Indirect contributions
8501(6.1)	Member contributions for unfunded liability
8501(6.2)	Prescribed eligible contributions
8501(7)	Benefits provided with surplus on plan wind-up
8502	Conditions applicable to all plans
8503	Defined benefit provisions
8503(1)	Net contribution
8503(2)	Permissible benefits
8503(2.1)	Rule for commutation of benefits
8503(3)	Conditions applicable to benefits
8503(4)	Additional conditions
8503(5)	Waiver of member contribution condition
8503(6)	Pre-retirement death benefits
8503(7)	Commutation of lifetime retirement benefits
8503(7.1)	Bridging benefits election
8503(8)	Suspension or cessation of pension
8503(9)	Re-employed member
8503(10)	Re-employed member — Special rules not applicable
8503(11)	Re-employed member — Anti-avoidance
8503(11.1)	Special rules for member aged 70 or 71 in 2007
8503(12)	Limits dependent on Consumer Price Index
8503(13)	Statutory plans — Special rules
8503(14)	Artificially reduced pension adjustments
8503(15)	Past service employer contribution
8503(16)	Definitions
	"qualifying period"
	"specified eligiblity day"
8503(17)	Bridging benefits payable on a stand-alone basis
8503(18)	Rules of application
8503(19)	Benefit accruals after pension commencement
8503(20)	Redetermination of benefits
8503(21)	Rules of application
8503(22)	Anti-avoidance
8503(23)	Cross-plan rules
8503(24)	Associated defined benefit provisions
8503(25)	Subsection (24) not applicable

Section	Subject
8504	Maximum benefits
8504(1)	Lifetime retirement benefits
8504(2)	Highest average compensation
8504(3)	Alternative compensation rules
8504(4)	Part-time employee
8504(5)	Retirement benefits before age 65
8504(6)	Pre-1990 benefits
8504(7)	Limit not applicable
8504(8)	Cross-plan restrictions
8504(9)	Associated defined benefit provisions
8504(10)–(12)	Excluded benefits
8504(13)–(15)	Alternative CPI indexing
8505	Additional benefits on downsizing
8505(1)	Downsizing program
8505(2)	Applicability of downsizing rules
8505(2.1)	Qualifying individual — Exclusion
8505(3)	Additional lifetime retirement benefits
8505(3.1)	Re-employed members
8505(4)	Early retirement reduction
8505(5)	Exception for future benefits
8505(6)	Alternative CPI indexing
8505(7)	Exclusion from maximum pension rules
8505(8)	Exemption from past service contribution rule
8506	Money purchase provisions
8506(1)	Permissible benefits
8506(2)	Additional conditions
8506(2.1)	Alternative method for allocating employer contributions
8506(3)	Reallocation of forfeitures
8506(4)	Non-payment of minimum amount — Plan revocable
8506(5)	Minimum amount
8506(6)	Determination of account balance
8506(7)	Special rules for minimum amount
8506(8)	Specified beneficiary
8506(9)	Recontribution — Adjusted minimum amount for 2008
8506(10)	Conditions referred to in subsection (9)
8507	Periods of reduced pay
8507(1)	Prescribed compensation
8507(2)	Additional compensation in respect of qualifying period
8507(3)	Qualifying periods and periods of parenting
8507(4)	Cumulative additional compensation fraction
8507(5)	Additional compensation fraction
8507(6)	Exclusion of subperiods
8507(7)	Complete period of reduced pay
8508	Salary deferral leave plan
8509	Transition rules
8509(1)	Prescribed conditions applicable before 1992 to grandfathered plan
8509(2)	Conditions applicable after 1991 to benefits under grandfathered plan
8509(3)	Additional prescribed condition for grandfathered plan after 1991
8509(4)	Defined benefits under grandfathered plan exempt from conditions
8509(4.1)	Benefits under grandfathered plan — Pre-1992 disability
8509(5)	Conditions not applicable to grandfathered plan
8509(6)	PA limits for grandfathered plan for 1991
8509(7)	Limit on pre-age 65 benefits
8509(8)	Benefit accrual rate greater than 2 per cent
8509(9)	Benefits under plan other than grandfathered plan
8509(10)	Money purchase benefits exempt from conditions
8509(10.1)	Stipulation not required for pre-1992 plans
8509(11)	Benefits acceptable to Minister
8509(12)	PA limits — 1996 to 2003
8509(13)	Maximum benefits indexed before 2005
8510	Multi-employer plans and other special plans
8510(1)	Definition of "multi-employer plan"
8510(2)	Definition of "specified multi-employer plan"
8510(3)	Qualification as a specified multi-employer plan
8510(4)	Minister's notice
8510(5)	Special rules — Multi-employer plan
8510(6)	Special rules — Specified multi-employer plan
8510(7)	Additional prescribed conditions
8510(8)	Purchase of additional benefits
8510(9)	Special rules — member-funded pension plans
8511	Conditions applicable to amendments
8512	Registration and amendment
8513	Designated laws
8514	Prohibited investments
8515	Special rules for designated plans
8515(1)	Designated plans
8515(2)	Designated plan in previous year
8515(3)	Exceptions
8515(4)	Specified individual
8515(5)	Eligible contributions
8515(6)	Funding restriction
8515(7)	Maximum funding valuation
8515(8)	Restricted funding members
8515(9)	Member contributions
8516	Eligible contributions
8516(1)	Prescribed contribution
8516(2)	Funding on termination basis
8516(3)	Contributions required by pension benefits legislation
8516(4)	Shared funding arrangemnet
8516(5)	Contributions pursuant to statute or by-law [Repealed.]
8516(6)	Employer not entitled to reduce contributions [Repealed.]
8516(7)	Funding on termination basis
8516(8)	Contributions required by pension benefits legislation
8516(9)	Actuarial reports signed before March 6, 1996
8517	Transfer — Defined benefit to money purchase
8517(1)	Prescribed amount
8517(2)	Minimum prescribed amount
8517(3)	Plan wind-up or replacement
8517(3.1)	Benefits provided with surplus on plan wind-up
8517(4)	Amount of lifetime retirement benefits commuted
8517(5)	Normalized pensions
8517(6)	Optional forms
8517(7)	Replacement benefits
8518	Pension adjustment limits
8519	Association of benefits with time periods
8520	Minister's actions

PART LXXXVI
TAXABLE CAPITAL EMPLOYED IN CANADA

8600	Definitions "attributed surplus" "Canadian assets" "Canadian premiums" "Canadian reserve liabilities" "permanent establishment" "total assets" "total premiums" "total reserve liabilities"
8601	Prescribed proportion of taxable capital
8602	Prescribed proportion of corporate surtax
8603	Definitions "Canadian assets" "total assets"
8604	Prescribed corporation
Prop. 8604	Prescribed corporation [Repealed.]
8605	Prescribed amount Definitions "foreign insurance subsidiary" "subsidiary"

PART LXXXVII
NATIONAL ARTS SERVICE ORGANIZATIONS

8700	Prescribed conditions

PART LXXXVIII
DISABILITY-RELATED MODIFICATIONS AND APPARATUS

8800	Prescribed renovations and alterations
8801	Prescribed devices and equipment

Section	Subject	Section	Subject

PART LXXXIX
PRESCRIBED ORGANIZATIONS

8900	Prescribed organizations	8901	Partnership
8900(1)	International organizations		
8900(2)	International Non-Governmental Organizations		

PART XC
FINANCIAL INSTITUTIONS — PRESCRIBED ENTITIES AND PROPERTIES

9000	Prescribed trust not a financial institution	Prop.	"specified support entity"
9001	Prescribed property not mark-to-market property	Prop.	"stock exchange in Canada"
Prop. 9001(1)	Qualified small business corporation	Prop. 9002.1(2)	Prescribed securities exchange investments
Prop. 9001(2)–9003	Prescribed property	9002.2	Prescribed securities exchange investment not mark-to-market property [Repealed.]
9002	Prescribed property not mark-to-market property	Prop. 9002.2(1)	Definitions
9002.1	Prescribed payment card corporation share not mark-to-market property	Prop.	"payment card corporation"
Prop. 9002.1(1)	Definitions	Prop.	"qualifying payment card corporation share"
Prop.	"qualifying first-tier subsidiary"	Prop.	"qualifying payment card business activities"
Prop.	"qualifying second-tier subsidiary"	Prop. 9002.2(2)	Prescribed payment card corporation shares
Prop.	"qualifying securities exchange investment"	9003	Significant interest in a corporation
Prop.	"qualifying stock exchange operation activities"	9004	Financing arrangement not a specified debt obligation
Prop.	"quotation and trade reporting system in Canada"		

PART XCI (PROPOSED)
FINANCIAL INSTITUTIONS — INCOME FROM SPECIFIED DEBT OBLIGATIONS

Prop. 9100	Interpretation	Prop. 9102(5)	Accrual adjustment
	Definitions	Prop. 9102(6)	Special cases and transition
	"fixed payment obligation"	Prop. 9103	Accrual rules — Special cases and transition
	"primary currency"	Prop. 9103(1)	Convertible obligation
	"tax basis"	Prop. 9103(2)	Default by debtor
	"total return"	Prop. 9103(3)	Amendment of obligation
Prop. 9101	Prescribed inclusions and deductions	Prop. 9103(4)	Obligations acquired before financial institution rules apply
Prop. 9101(1)	Inclusion	Prop. 9103(5)	Prepaid interest — transition rule
Prop. 9101(2)	Deduction	Prop. 9104	Foreign exchange adjustment
Prop. 9102	General accrual rules	Prop. 9104(1)	Obligations held at end of taxation year
Prop. 9102(1)	Fixed payment obligation not in default	Prop. 9104(2)	Disposition of obligation
Prop. 9102(2)	Level-yield method	Prop. 9104(3)	Disposition of obligation before 1996
Prop. 9102(3)	Other specified debt obligations		
Prop. 9102(4)	Accrual adjustment nil		

PART XCII (PROPOSED)
FINANCIAL OBLIGATIONS — DISPOSITION OF SPECIFIED DEBT OBLIGATIONS

Prop. 9200	Interpretation	Prop. 9203	Residual portion of gain or loss
Prop. 9200(1)	Definitions	Prop. 9203(1)	Allocation of residual portion
	"gain"	Prop. 9203(2)	Proration method
	"loss"	Prop. 9203(3)	Single proration period
	"residual portion"	Prop. 9203(4)	Weighted average amortization date
Prop. 9200(2)	Amortization date	Prop. 9204	Special rules for residual portion of gain or loss
Prop. 9201	Transition amount	Prop. 9204(1)	Application
Prop. 9202	Prescribed debt obligations	Prop. 9204(2)	Winding-up
Prop. 9202(1)	Application of related election	Prop. 9204(3)	Transfer of an insurance business
Prop. 9202(2)	Prescribed specified debt obligation	Prop. 9204(4)	Transfer to new partnership
Prop. 9202(3)	Prescribed specified debt obligation — exception	Prop. 9204(5)	Ceasing to carry on business
Prop. 9202(4)	Prescribed specified debt obligation	Prop. 9204(6)	Ceasing to be a financial institution
Prop. 9202(5)	Prescribed specified debt obligation		

PART XCIII
FILM OR VIDEO PRODUCTION SERVICES TAX CREDIT

9300	Accredited production

PART XCIV
PRESCRIBED PROGRAMS OF PHYSICAL ACTIVITY

9400(1)	Interpretation — Definitions	9400(3)	Mixed-use facility
	"physical activity"	9400(4)	Membership
	"qualifying child"	9400(5)	Horseback riding
9400(2)	Prescribed program of physical activity		

SCHEDULE I
(SS. 100, 102 AND 106)
RANGES OF REMUNERATION AND OF TOTAL REMUNERATION

SCHEDULE II
CAPITAL COST ALLOWANCES

SCHEDULE III
CAPITAL COST ALLOWANCES, CLASS 13

SCHEDULE IV
CAPITAL COST ALLOWANCES, CLASS 15

SCHEDULE V
CAPITAL COST ALLOWANCES, INDUSTRIAL MINERAL MINES

SCHEDULE VI
CAPITAL COST ALLOWANCES,
TIMBER LIMITS AND CUTTING RIGHTS

SCHEDULE VII
PUBLICLY-TRADED SHARES OR SECURITIES

SCHEDULE VIII
UNIVERSITIES OUTSIDE CANADA

SCHEDULE IX
[Revoked]

SCHEDULE X
[Revoked]

Income Tax Regulations

(Consolidated Regulations of Canada, c. 945, as amended to July 10, 2009.)

Consolidated to December 31, 1977 by P.C. 1979-1933, dated July 19, 1979 and proclaimed in force August 15, 1979 by P.C. 1979-1934, SI/79-131, dated and gazetted August 8, 1979; originally issued as P.C. 6471, SOR/49-573, dated December 22, 1949, published December 28, 1949, and applicable to the 1949 and subsequent taxation years; first consolidated by Order in Council P.C. 1954-1917, SOR/54-682, dated December 8, 1954, published January 12, 1955.

SHORT TITLE

1. These Regulations may be cited as the *Income Tax Regulations*.

INTERPRETATION

2. In these Regulations, "Act" means the *Income Tax Act*.

PART I
Tax Deductions

INTERPRETATION

100. (1) In this Part and in Schedule I,

"*employee*" means any person receiving remuneration;

"*employer*" means any person paying remuneration;

"*estimated deductions*" means, in respect of a taxation year, the total of the amounts estimated to be deductible by an employee for the year under any of paragraphs 8(1)(*f*), (*h*), (*h*.1), (*i*) and (*j*) of the Act and determined by the employee for the purpose of completing the form referred to in subsection 107(2);

"*exemptions*" [Revoked.]

"*pay period*" includes

(*a*) a day,

(*b*) a week,

(*c*) a two week period,

(*d*) a semi-monthly period,

(*e*) a month,

(*f*) a four week period,

(*g*) one tenth of a calendar year, or

(*h*) one twenty-second of a calendar year;

"*personal credits*" means, in respect of a particular taxation year, the greater of

(*a*) the amount referred to in paragraph 118(1)(*c*) of the Act, and

(*b*) the aggregate of the credits which the employee would be entitled to claim for the year under

(i) subsections 118(1), (2) and (3) of the Act if the description of A in those subsections were read as "is equal to one",

(ii) subsections 118.3(1) and (2) of the Act if the description of A in subsection 118.3(1) of the Act were read as "is equal to one" and if subsection 118.3(1) of the Act were read without reference to paragraph (*c*) thereof,

(iii) subsections 118.5(1) and 118.6(2) of the Act if subsection 118.5(1) of the Act were read without reference to "the product obtained when the appropriate percentage for the year is multiplied by" and the description of A in subsection 118.6(2) of the Act were read as "is equal to one", and after deducting from the aggregate of the amounts determined under those subsections the excess over $3,000 of the aggregate of amounts that the employee claims to expect to receive in the year on account of a scholarship, fellowship or bursary,

(iv) section 118.8 of the Act if the formula A + B – C in that section were read as

$$(A + B) / C$$

where

A is the value of A in that section,

B is the value of B in that section, and

C is the appropriate percentage for the year.

(v) section 118.9 of the Act if the formula A – B in section 118.81 of the Act were read as

$$A/B$$

where

A is the value of A set out in that section, and

B is the appropriate percentage for the year.

"*remuneration*" includes any payment that is

(*a*) in respect of

(i) salary or wages, or

(ii) commissions or other similar amounts fixed by reference to the volume of the sales made or the contracts negotiated (referred to as "commissions" in this Part),

paid to an officer or employee or former officer or employee,

(*a*.1) in respect of an employee's gratuities required under provincial legislation to be declared to the employee's employer,

(*b*) a superannuation or pension benefit (including an annuity payment made pursuant to or under a superannuation or pension fund or plan),

(*b*.1) an amount of a distribution out of or under a retirement compensation arrangement,

(*c*) a retiring allowance,

(*d*) a death benefit,

(*e*) a benefit under a supplementary unemployment benefit plan,

(*f*) a payment under a deferred profit sharing plan or a plan referred to in section 147 of the Act as a "revoked plan", reduced, if applicable, by amounts determined under subsections 147(10.1), (11) and (12) of the Act,

(*g*) a benefit under the *Employment Insurance Act*,

(*h*) an amount that is required by paragraph 56(1)(*r*) of the Act to be included in computing a taxpayer's income, except the portion of the amount that relates to child care expenses and tuition costs,

(*i*) a payment made during the lifetime of an annuitant referred to in the definition "annuitant" in subsection 146(1) of the Act out of or under a registered retirement savings plan of that annuitant, other than

(i) a periodic annuity payment, or

(ii) a payment made by a person who has reasonable grounds to believe that the payment may be deducted under subsection 146(8.2) of the Act in computing the income of any taxpayer,

(*j*) a payment out of or under a plan referred to in subsection 146(12) of the Act as an "amended plan" other than

(i) a periodic annuity payment, or

(ii) where paragraph 146(12)(*a*) of the Act applied to the plan after May 25, 1976, a payment made in a year subsequent to the year in which that paragraph applied to the plan,

(*j*.1) a payment made during the lifetime of an annuitant referred to in the definition "annuitant" in subsection 146.3(1) of the Act under a registered retirement income fund of that annuitant, other than a particular payment to the extent that

(i) the particular payment is in respect of the minimum amount (in this paragraph having the meaning assigned by subsection 146.3(1) of the Act) under the fund for a year, or

(ii) where the fund governs a trust, the particular payment would be in respect of the minimum amount under the fund for a year if each amount that, at the beginning of the year, is scheduled to be paid after the time of the particular payment and in the year to the trust under an annuity contract that is held by the trust both at the beginning of the year and at the time of the particular payment, is paid to the trust in the year,

(*k*) a benefit described in section 5502,

(*l*) an amount as, on account or in lieu of payment of, or in satisfaction of, proceeds of the surrender, cancellation or redemption of an income-averaging annuity contract,

(*m*) in respect of an amount that can reasonably be regarded as having been received, in whole or in part, as consideration or partial consideration for entering into a contract of service, where the service is to be performed in Canada, or for an undertaking not to enter into such a contract with another party, or

(*n*) a payment out of a registered education savings plan other than

(i) a refund of payments,

(ii) an educational assistance payment, or

(iii) an amount, up to $50,000, of an accumulated income payment that is made to a subscriber, as defined in subsection 204.94(1) of the Act, or if there is no subscriber at that time, that is made to a person that has been a spouse or common-law partner of an individual who was a subscriber, if

(A) that amount is transferred to an RRSP in which the annuitant is either the recipient of the payment or the recipient's spouse or common-law partner, and

(B) it is reasonable for the person making the payment to believe that that amount is deductible for the year by the recipient of the payment within the limits provided for in subsection 146(5) or (5.1) of the Act;

"*total remuneration*" means, in respect of a taxation year, the total of all amounts each of which is an amount referred to in paragraph (*a*) or (*a*.1) of the definition "remuneration".

History: S. 100(1), the definition "personal credits" was amended by P.C. 2001-1115, SOR/2001-221, dated June 14, 2001, applicable to the 2001 and subsequent taxation years. S. 100(1), the definition "personal credits" formerly read:

"'personal credits' means, in respect of a particular taxation year, the aggregate of

(*a*) the greater of

(i) the amount referred to in paragraph 118(1)(*c*) of the Act, and

(ii) the aggregate of the credits which the employee would be entitled to claim for the year under

(A) subsections 118(1), (2) and (3) of the Act if the description of A in those subsections were read as 'is equal to one',

(B) subsections 118.3(1) and (2) of the Act if the description of A in subsection 118.3(1) of the Act were read as 'is equal to one' and if subsection 118.3(1) of the Act were read without reference to paragraph (*c*) thereof,

(C) subsections 118.5(1) and 118.6(2) of the Act if subsection 118.5(1) of the Act were read without reference to 'the product obtained when the appropriate percentage for the year is multiplied by' and the description of A in subsection 118.6(2) of the Act were read as 'is equal to one', and after deducting from the aggregate of the amounts determined under those subsections the excess over $500 of the aggregate of amounts that the employee claims to expect to receive in the year on account of a scholarship, fellowship or bursary,

(D) section 118.8 of the Act if the formula A + B – C in that section were read as

$$\frac{A + B}{D}$$

where

D is the appropriate percentage for the year, and

(E) subsection 118.9(1) of the Act if the formula A – B in that subsection were read as

$$\frac{A}{C}$$

where

C is the appropriate percentage for the year, and

(*b*) where the remuneration paid by the employer is pension income or qualified pension income of the employee in respect of which subsection 118(3) of the Act would apply if that subsection were read without reference to subparagraphs (*b*)(ii) and (iii) thereof, a credit equal to the lesser of

(i) $1,000, and

(ii) the employee's pension income or qualified pension income for the year."

S. 100(1), the portion of paragraph (*i*) of the definition "remuneration" before subparagraph (i) was amended by P.C. 2001-1115, SOR/2001-221, dated June 14, 2001, applicable to the 2001 and subsequent taxation years.

S. 100(1), the portion of paragraph (*i*) of the definition "remuneration" before subparagraph (i) formerly read:

"(*i*) a payment made during the lifetime of an annuitant referred to in subparagraph 146(1)(*a*)(i) of the Act out of or under a registered retirement savings plan of that annuitant, other than"

S. 100(1), subparagraph (*n*)(iii) of the definition "remuneration" was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, by replacing the word "spouse" with the words "spouse or common-law partner", applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 100(1), paragraph (*j.1*) of the definition "remuneration" was amended by P.C. 2000-184, SOR/2000-63, dated February 17, 2000, applicable to the 1998 and subsequent taxation years. S. 100(1), paragraph (*j.1*) of the definition "remuneration" formerly read:

"(*j.1*) a payment made during the lifetime of an annuitant referred to in paragraph 146.3(1)(*a*) of the Act under a registered retirement income fund of that annuitant, other than a payment to the extent that it is in respect of the minimum amount (within the meaning assigned by paragraph 146.3(1)(*b.1*) of the Act) under the fund for a year,"

S. 100(1), paragraphs (*g*) and (*h*) of the definition "remuneration" were amended by P.C. 1998-2270, SOR/99-17, dated December 16, 1998, applicable to the 1998 and subsequent taxation years. S. 100(1), paragraphs (*g*) and (*h*) of the definition "remuneration" formerly read:

"(*g*) a benefit under the *Unemployment Insurance Act, 1971*,

(*h*) a training allowance paid under the *National Training Act*, except to the extent that it was paid to the recipient thereof as or an account of an allowance for his personal or living expenses while he was away from home,"

S. 100(1), paragraph (*n*) of the definition "remuneration" was added by P.C. 1998-2275, SOR/99-22, dated December 16, 1998, applicable to the 1998 and subsequent taxation years.

S. 100(1), paragraph (*a.1*) of the definition "remuneration" was added by P.C. 1998-654, SOR/98-659, dated April 23, 1998, applicable beginning on January 1, 1998.

S. 100(1), the definition "total remuneration" was amended by P.C. 1998-654, SOR/98-259, dated April 23, 1998, applicable beginning on January 1, 1998. S. 100(1), the definition "total remuneration" formerly read:

" 'total remuneration' means, in respect of a taxation year, the aggregate of all amounts each of which is an amount of remuneration referred to in paragraph (*a*) of the definition 'remuneration' in this subsection."

Paragraph (*k*) of the definition "remuneration", was amended by P.C. 1995-1023, SOR/95-298, dated June 23, 1995, applicable to benefits paid after October 1991. That paragraph formerly read:

"(*k*) a benefit under the *Labour Adjustment Benefits Act*,"

The definition "estimated deductions" was amended by P.C. 1994-372, SOR/94-238, dated March 10, 1994 and effective commencing January 1, 1993. That definition formerly read:

" 'estimated deductions' means, in respect of a taxation year, the aggregate of amounts each of which is an amount estimated to be deductible by an employee for the year under any of paragraphs 8(1)(*f*), (*h*), (*i*) and (*j*) of the Act and determined by the employee for the purpose of completing the form prescribed by subsection 107(2);"

Subparagraph (a)(ii) of the definition "personal credits" was amended by P.C. 1994-372, SOR/94-238, dated March 10, 1994 and effective commencing January 1, 1993. That part formerly read:

"(ii) the amount by which the aggregate of the credits which the employee would be entitled to claim for the year under

(A) subsections 118(1), (2) and (3) of the Act if the description of A in those subsections were read as 'is one',

(B) subsection 118.3(1) of the Act if the description of A in that subsection were read as 'is one' and if that subsection were read without reference to paragraph (*c*) thereof, and

(C) subsections 118.5(1) and 118.6(2) of the Act if subsection 118.5(1) of the Act were read without reference to 'the product obtained when the appropriate percentage for the year is multiplied by' and the description of A in subsection 118.6(2) of the Act were read as 'is one', and after deducting from the aggregate of the amounts so determined under those subsections the excess over $500 of the aggregate of amounts that the employee claims to expect to receive in the year on account of a scholarship, fellowship or bursary

exceeds the aggregate of amounts the employee expects to include in income for the year by virtue of subsection 56(5) of the Act, or expects to include in taxable income earned in Canada for the year by virtue of subparagraph 115(2)(*e*)(iii) of the Act, as shown on the return most recently filed by the employee with the employer pursuant to subsection 227(2) of the Act, and"

Paragraph (*i*) of the definition "remuneration" was amended by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable in respect of payments made after 1990. Paragraph (*i*) formerly read:

"(*i*) a payment made during the lifetime of an annuitant referred to in subparagraph 146(1)(a)(i) of the Act out of or under the registered retirement savings plan of that annuitant other than

(i) a periodic annuity payment, or

(ii) a payment received by a taxpayer in a year in respect of an excess amount previously paid under the registered retirement savings plan to the extent that the excess amount may be deducted in computing the taxpayer's income for the year pursuant to subsection 146(8.2) of the Act,"

The definition "estimated deductions" was amended by P.C. 1989-2105, SOR/89-508, dated October 19, 1989, to delete a reference to s. 8(1)(a), effective July 1, 1988.

The definition "exemptions" was revoked by P.C. 1989-2105, SOR/89-508 dated October 19, 1989 and effective July 1, 1988. That definition formerly read:

" 'exemptions' means, in respect of a particular taxation year, the aggregate of

(*a*) the greater of

(i) the amount of the deduction for that year under paragraph 109(1)(*c*) of the Act, and

(ii) the amount by which the aggregate of the deductions to which the employee may claim to be entitled for the year under

(A) section 109 of the Act,

(B) paragraphs 110(1)(e), (e.1) and (g) of the Act,

(C) section 110.3 of the Act if that section were read without reference to paragraph 110(1)(g) and to sections 110.1 and 110.2 of the Act,

(D) paragraphs 60(e), (f) and (g) of the Act after deducting therefrom the excess over $500 of the aggregate of amounts that he claims to expect to receive in the year on account of a scholarship, fellowship or bursary, and

(E) paragraph 110.7(1)(e) of the Act

exceeds the aggregate of amounts the employee expects to include in income for the year by virtue of subsections 56(5) and (8) of the Act or expects to include in taxable income earned in Canada for the year by virtue of subparagraph 115(2)(e)(iii) of the Act, and

as shown on the return most recently filed by the employee with the employer pursuant to subsection 227(2) of the Act, and

(*b*) $1,000, where the remuneration paid by the employer is pension income or qualified pension income of the employee pursuant to section 110.2 of the Act or would be such income if that section were read without reference to paragraphs (2)(b) and (c) thereof;"

The definition "personal credits" was added by P.C. 1989-2105, SOR/89-508 dated October 19, 1989 and effective July 1, 1988.

The definition "remuneration", paragraph (b.1) thereof, was added by P.C. 1989-379, SOR/89-147 dated March 9, 1989 and applicable in respect of amounts paid after March 27, 1987.

The definition "exemptions", clause (a)(ii)(E) was added by P.C. 1988-1105, SOR/88-312, dated June 6, 1988 and applicable to the 1987 and subsequent taxation years.

The definition "remuneration", subparagraphs (i)(i) and (j)(i) were amended to add "periodic", and paragraph (j.1) was added by P.C. 1987-2250, SOR/87-638 dated November 6, 1987 and effective November 25, 1987.

The definition "exemptions", clause (a)(ii)(B), was amended by P.C. 1987-1478, SOR/87-471, dated July 30, 1987, to substitute "110(1)(e.1)" for "110(1)(e.2)", effective January 1, 1986.

The definition "remuneration", paragraph (m) was added by P.C. 1986-1345, SOR/86-629, dated June 5, 1986, applicable with respect to payments made after June 30, 1986.

The definition "exemptions", paragraph (b), was amended by P.C. 1983-2717, SOR/83-692, dated September 1, 1983, to add the words following "section 110.2 of the Act", effective January 1, 1983.

The definition "estimated deductions" was amended by P.C. 1983-1137, SOR/83-349, dated April 15, 1983, effective January 1, 1982. The definition formerly read:

" 'estimated deductions' means, in respect of a taxation year, the aggregate of amounts each of which is an amount estimated to be deductible by an employee for the year under any of paragraphs 8(1)(a), (f), (h) and (j) of the Act and determined by the employee for the purpose of completing the form prescribed by subsection 107(2);"

Under the definition "remuneration", paragraph (a) was amended to add "or former officer or employee", by P.C. 1983-1137, SOR/83-349, dated April 15, 1983, effective March 30, 1983.

Under the definition "remuneration", paragraph (h) was amended to substitute "*National Training Act*" for "*Adult Occupational Training Act*", by P.C. 1983-1137, SOR/83-349, dated April 15, 1983, effective August 2, 1982.

Under the definition "remuneration", paragraph (k) was amended to substitute "a benefit under the *Labour Adjustment Benefits Act*" for "a termination payment", applicable with respect to benefits paid after 1981, except that in its application to payments made after November 12, 1981 in respect of a termination of an office or employment that occurred on or before that date paragraph (k) shall be read as follows:

"(*k*) a termination payment, or"

The definition "pay period" was added by P.C. 1981-1557, SOR/81-471, dated June 12, 1981 and effective January 1, 1981.

Under the definition "remuneration" paragraph (a) was amended by P.C. 1980-3375, SOR/80-941, dated December 11, 1980 and effective January 1, 1981. Paragraph (a) formerly read:

"(*a*) in respect of salary or wages to an officer or employee,"

The definitions of "estimated deductions" and "total remuneration" were added by P.C. 1980-3375, SOR/80-941, dated December 11, 1980 and effective January 1, 1981.

Under the definition "remuneration" paragraphs (i) and (j) were amended by P.C. 1980-3209, SOR/80-901, dated November 27, 1980. Paragraphs (i) and (j) formerly read:

"(*i*) a payment (other than an annuity payment) made during the lifetime of an annuitant referred to in subparagraph 146(1)(a)(i) of the Act out of or under the registered retirement savings plan of that annuitant,

(*j*) a payment (other than an annuity payment) out of or under a plan referred to in subsection 146(12) of the Act as an 'amended plan' except, where a plan became an amended plan after May 25, 1976, a payment made in a year subsequent to the year in which the plan became an amended plan,"

Under the definition "remuneration" paragraph (i) was amended, new paragraph (j) was added and former paragraph (j) designated as paragraph (l), by P.C. 1980-1735, SOR/80-502, dated June 26, 1980 and by P.C. 1980-2226, SOR/80-683, August 27, 1980, both effective June 30, 1978. Paragraph (i) formerly read:

"(i) a payment (other than an annuity payment) out of or under a registered retirement savings plan or a plan referred to in subsection 146(12) of the Act as an 'amended plan' except, where a plan became an amended plan after May 25, 1976, a payment made in a year subsequent to the year in which the plan became an amended plan,"

S. 100(1)(k) under the definition "remuneration" was added by P.C. 1980-1366, SOR/80-382, dated May 23, 1980.

S. 100(1)(i) under the definition "remuneration" was amended by adding "(other than an annuity payment)" by P.C. 1978-1038, SOR/78-331, dated April 6, 1978 (Special Issue, *Canada Gazette*, December 31,1978).

Ss. 100(1)(a)(ii)(B) and (C) under the definition "exemptions", and paragraph (f) under the definition "remuneration" were amended, and paragraphs (h), (i) and (j) were added to the definition "remuneration" by P.C. 1977-3520, SOR/78-2, (Special Issue, *Canada Gazette*, December 31, 1978), effective January 1, 1978 except paragraph (h) which takes effect on and after March 1, 1978.

Interpretation Bulletins: *Secondary*—IT-75R4 Scholarships, fellowships, bursaries, prizes, research grants and financial assistance.
Information Circulars: IC 98-1R3 Collections Policies.

(2) Where the amount of any credit referred to in paragraph (*a*) or (*b*) of the definition "personal credits" in subsection (1) is subject to an annual adjustment under section 117.1 of the Act, such amount shall, in a particular taxation year, be subject to that annual adjustment.

History: S. 100(2) was amended by P.C. 2001-1115, SOR/2001-221, dated June 14, 2001, applicable to the 2001 and subsequent taxation years. S. 100(2) formerly read:

"(2) Where the amount of any credit referred to in subparagraph (*a*)(i) or (ii) of the definition 'personal credits' in subsection (1) is subject to an annual adjustment under section 117.1 of the Act, such amount shall, in a particular taxation year, be subject to that annual adjustment."

S. 100(2) was amended by P.C. 1989-2105, SOR/89-508 dated October 19, 1989 and effective July 1, 1988. S. 100(2) formerly read:

"(2) Where the amount of any deduction referred to in subparagraph (a)(i) or (ii) of the definition 'exemptions' in subsection (1) is subject to an annual adjustment under section 117.1 of the Act, such amount shall, in a particular taxation year, be subject to that annual adjustment in this Part."

S. 100(2) was amended by P.C. 1983-2717, SOR/83-692, dated September 1, 1983, to substitute "section 117.1 of the Act" for "subsection 117.1(1) of the Act", effective January 1, 1983.

S. 100(2) was amended by P.C. 1981-1557, SOR/81-471, dated June 12, 1981 and effective January 1, 1981. S. 100(2) formerly read:

"(2) In Schedule I, 'pay' means 'remuneration' as defined in subsection (1)."

(3) For the purposes of this Part, where an employer deducts or withholds from a payment of remuneration to an employee one or more amounts each of which is

(*a*) a contribution to or under a registered pension plan,

(*b*) dues described in subparagraph 8(1)(*i*)(iv), (v) or (vi) of the Act paid on account of the employee,

(*b*.1) a contribution by the employee under subparagraph 8(1)(*m*.2) of the Act,

(*c*) a premium under a registered retirement savings plan, to the extent that the employer believes on reasonable grounds that the premium is deductible under paragraph 60(*j*.1) or subsection 146(5) or (5.1) of the Act in computing the employee's income for the taxation year in which the payment of remuneration is made, or

(*d*) an amount that is deductible under paragraph 60(*b*) of the Act,

the balance remaining after deducting or withholding this amount, as the case may be, shall be deemed to be the amount of that payment of remuneration.

History: S. 100(3)(*c*) and (*d*) were amended by P.C. 2001-1053, SOR/2001-209, dated June 7, 2001, effective June 20, 2001. S. 100(3)(*c*) and (*d*) formerly read:

"(*c*) a premium under a registered retirement savings plan, or

(*d*) a payment to which paragraph 60(*b*) of the Act applies, where the payment was made as a result of a garnishee or similar order of a court or competent tribunal received by the employer and dated before May 1997,"

S. 100(3)(b.1) was added by P.C. 1997-1471, SOR/97-470, dated October 9, 1997, effective upon publication in the *Canada Gazette*, October 29, 1997.

S. 100(3)(d) was amended by P.C. 1997-1471, SOR/97-470, dated October 9, 1997, applicable beginning on May 1, 1997. S. 100(3)(d) formerly read:

"(*d*) a payment to which any of paragraphs 60(*b*) to (*c*.1) of the Act applies,"

Ss. 100(3)(c) and (d) were added by P.C. 1994-372, SOR/94-238, dated March 10, 1994 and effective commencing January 1, 1993.

S. 100(3)(a) was amended by PC. 1991-2540, SOR/92-51, dated December 23, 1991, to substitute "registered pension plan" for "registered pension fund or plan", applicable after 1985.

S. 100(3) was amended by P.C. 1989-2105, SOR/89-508, dated October 19, 1989 and effective July 1, 1988. S. 100(3) formerly read:

"(3) For the purposes of this Part, where an employer deducts or withholds from a payment of remuneration to an employee one or more amounts each of which is

(*a*) a contribution under the *Canada Pension Plan* or under a provincial pension plan as defined in section 3 of the *Canada Pension Plan*,

(*b*) a contribution to or under a registered pension fund or plan, or

(*c*) a premium under the *Unemployment Insurance Act, 1971*,

the balance remaining after deducting such amount or amounts, as the case may be, shall be deemed to be the amount of that payment of remuneration."

(3.1) For the purposes of this Part, where an employee has claimed a deduction for a taxation year under paragraph 110.7(1)(*b*) of the Act as shown on the return most recently filed by the employee with the employee's employer pursuant to subsection 227(2) of the Act, the amount of remuneration otherwise determined, including the amount deemed by subsection (3) to be the amount of that payment of remuneration, paid to the employee for a pay period shall be reduced by an amount equal to the amount of the deduction divided by the maximum number of pay periods in the year in respect of the appropriate pay period.

History: S. 100(3.1) was amended by P.C. 1994-372, SOR/94-238, dated March 10, 1994 and effective commencing January 1, 1993. S. 100(3.1) formerly read:

"(3.1) For the purposes of this Part, where an employee has claimed a deduction for a taxation year under paragraph 110.7(1)(*e*) of the Act as shown on the return most recently filed by the employee with the employee's employer pursuant to subsection 227(2) of the Act, the amount of remuneration otherwise determined, including the amount deemed by subsection (3) to be the amount of that payment of remuneration, paid to the employee for a pay period shall be reduced by an amount equal to the amount of the deduction divided by the maximum number of pay periods in the year in respect of the appropriate pay period."

S. 100(3.1) was added by P.C. 1989-2105, SOR/89-508, dated October 19, 1989 and effective July 1, 1988.

(3.2) [Repealed.]

History: S. 100(3.2) was repealed by P.C. 2001-1053, SOR/2001-209, dated June 7, 2001, effective June 20, 2001. S. 100(3.2) formerly read:

"(3.2) Subsection (3) does not apply to a payment of remuneration that is

(*a*) a retiring allowance, to the extent that it exceeds the total determined under subparagraph 60(j.1)(ii) of the Act in respect of the retiring allowance; or

(*b*) a lump sum payment (other than a retiring allowance), within the meaning assigned by subsection 103(6), or a bonus or retroactive payment, if the amount of the payment of remuneration exceeds $10,000."

S. 100(3.2) was added by P.C. 1997-1471, SOR-97/470, dated October 9, 1997, applicable upon publication in the *Canada Gazette*, October 29, 1997.

(4) For the purposes of this Part, where an employee is not required to report for work at any establishment of the employer, he shall be deemed to report for work

(*a*) in respect of remuneration that is salary, wages or commissions, at the establishment of the employer from which the remuneration is paid;

or

(*b*) in respect of remuneration other than salary, wages or commissions, at the establishment of the employer in the province where the employee resides at the time the remuneration is paid but, if the employer does not have an establishment in that province at that time, he shall, for the purposes of this paragraph, be deemed to have an establishment in that province.

History: Ss. 100(4)(a) and (b) were amended by P.C. 1980-3375, SOR/80-941, dated December 11, 1980 and effective January 1, 1981, in each case to add "or commissions".

(5) For the purposes of this Part, where an employer deducts or withholds from a payment of remuneration to an employee an amount in respect of the acquisition by the employee of an approved share, as defined in subsection 127.4(1) of the Act, there shall be deducted from the amount determined under paragraph 102(1)(*e*) or (2)(*e*), as the case may be, in respect of that payment the lesser of

(*a*) $750, and

(*b*) 15% of the amount deducted or withheld in respect of the acquisition of an approved share.

History: S. 100(5), the portion before paragraph (*a*), was replaced by P.C. 2005-1133, SOR/2005-185, dated June 7, 2005, applicable to the 2001 and subsequent taxation years. S. 100(5), the portion before paragraph (*a*) formerly read:

"(5) For the purposes of this Part, where an employer deducts or withholds from a payment of remuneration to an employee an amount in respect of the acquisition by the employee of an approved share, as defined in subsection 127.4(1) of the Act, there shall be deducted from the amount determined under paragraph 102(1)(*e*) or (2)(*f*), as the case may be, in respect of that payment the lesser of"

S. 100(5)(a) and (b) were amended by P.C. 1998-2270, SOR/99-17, dated December 16, 1998, applicable to the 1998 and subsequent taxation years. S. 100(5)(a) and (b) formerly read:

"(*a*) $1,000, and

(*b*) 20 per cent of the cost of the approved share to the employee."

S. 100(5) was added by P.C. 1994-372, SOR/94-238, dated March 10, 1994 and effective commencing January 1, 1993.

Deductions and Remittances

101. Every person who makes a payment described in subsection 153(1) of the Act in a taxation year shall deduct or withhold therefrom, and remit to the Receiver General, such amount, if any, as is determined in accordance with rules prescribed in this Part.

History: S. 101 was amended by P.C. 1981-1557, SOR/81-471, dated June 12, 1981 and effective January 1, 1981, to add "in a taxation year" and "determined in accordance with rules".

Periodic Payments

102. (1) Except as otherwise provided in this Part, the amount to be deducted or withheld by an employer

(*a*) from any payment of remuneration (in this subsection referred to as the "payment") made to an employee in his taxation year where he reports for work at an establishment of the employer in a province, in Canada beyond the limits of any province or outside Canada, and

(*b*) for any pay period in which the payment is made by the employer

shall be determined for each payment in accordance with the following rules:

(*c*) an amount that is a notional remuneration for the year in respect of

(i) a payment to the employee, and

(ii) the amount, if any, of gratuities referred to in paragraph (*a*.1) of the definition "remuneration" in subsection 100(1)

is deemed to be the amount determined by the formula

$$A \times B$$

where

A is the amount that is deemed for the purpose of this paragraph to be the mid-point of the applicable range of remuneration for the pay period, as provided in Schedule I, in which falls the total of

(A) the payment referred to in subparagraph (i) made in the pay period, and

(B) the amount of gratuities referred to in subparagraph (ii) declared by the employee for the pay period, and

B is the maximum number of such pay periods in that year;

(*d*) if the employee is not resident in Canada at the time of the payment, no personal credits will be allowed for the purposes of this subsection and, if the employee is resident in Canada at the time of the payment, the employee's personal credits for the year are deemed to be the mid-point of the range of amounts of personal credits for a taxation year as provided for in section 2 of Schedule I;

(*e*) an amount (in this subsection referred to as the "notional tax for the year") shall be computed in respect of that employee by

(i) calculating the amount of tax payable for the year, as if that amount were calculated under subsection 117(2) of the Act and adjusted annually pursuant to section 117.1 of the Act, on the amount determined in accordance with paragraph (*c*) as if that amount represented the employee's amount taxable for that year,

and deducting the aggregate of

(ii) the amount determined in accordance with paragraph (*d*) multiplied by the appropriate percentage for the year,

(iii) an amount equal to

(A) the amount determined in accordance with paragraph (c) multiplied by the employee's premium rate for the year under the *Employment Insurance Act*, not exceeding the maximum amount of the premiums payable by the employee for the year under that Act,

multiplied by

(B) the appropriate percentage for the year, and

(iv) an amount equal to

(A) the product obtained when the difference between the amount determined in accordance with paragraph (c) and the amount determined under section 20 of the *Canada Pension Plan* for the year is multiplied by the employee's contribution rate for the year under the *Canada Pension Plan* or under a provincial pension plan as defined in subsection 3(1) of that Act, not exceeding the maximum amount of such contributions payable by the employee for the year under the plan,

multiplied by

(B) the appropriate percentage for the year;

(*f*) the amount determined in accordance with paragraph (*e*) shall be increased by, where applicable, the tax as determined under subsection 120(1) of the Act;

(*g*) where the amount of notional remuneration for the year is income earned in the Province of Quebec, the amount determined in accordance with paragraph (*e*) shall be reduced by an amount that is the aggregate of

(i) the amount that is deemed to be paid under subsection 120(2) of the Act as if there were no other source of income or loss for the year, and

(ii) the amount by which the amount referred to in subparagraph (i) is increased by virtue of section 27 of the *Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act*; and

(*h*) [Revoked.]

(*i*) the amount to be deducted or withheld shall be computed by

(i) dividing the amount of the notional tax for the year by the maximum number of pay periods for the year in respect of the appropriate pay period, and

(ii) rounding the amount determined under subparagraph (i) to the nearest multiple of five cents or, if such amount is equidistant from two such multiples, to the higher multiple.

History: S. 102(1)(*f*) was amended by P.C. 2001-1115, SOR/2001-221, dated June 14, 2001, applicable to the 2001 and subsequent taxation years. S. 102(1)(*f*) formerly read:

"(*f*) the amount determined in accordance with paragraph (*e*) shall be increased by

(i) where applicable, an additional tax of 52 per cent of that amount as provided for in subsection 120(1) of the Act, and

(ii) an amount equal to the amount that would be determined under subsection 180.1(1) of the Act for the year in respect of the employee if the amount determined in accordance with paragraph (*e*) were that employee's tax payable under Part I of the Act for that year;"

S. 102(1)(*d*) was amended by P.C. 2001-1115, SOR/2001-221, dated June 14, 2001, applicable to the 2001 and subsequent taxation years. S. 102(1)(*d*) formerly read:

"(*d*) if the employee is not resident in Canada at the time of the payment, no personal credits will be allowed for the purposes of this subsection and if the employee is resident in Canada at the time of the payment, the employee's personal credits for the year shall be established as, where they fall within a range of amounts recorded on the return for the year referred to in subsection 107(1) that is in respect of

(i) one of claim codes 2 to 10 on that return, the midpoint of the applicable range, or

(ii) claim code 1 on that return, the amount determined for the year under paragraph (*a*) of the definition 'personal credits' in subsection 100(1);"

S. 102(1)(*e*)(iii)(A) was amended by P.C. 1998-2270, SOR/99-17, dated December 16, 1998, applicable to the 1998 and subsequent taxation years. S. 102(1)(*e*)(iii)(A) formerly read:

"(A) the amount determined in accordance with paragraph (*c*) multiplied by the employee's premium rate for the year under the *Unemployment Insurance Act*, not exceeding the maximum amount of the premiums payable by the employee for the year under that Act,"

S. 102(1)(*c*) was amended by P.C. 1998-654, SOR/98-259, dated April 23, 1998, applicable beginning on January 1, 1998. S. 102(1)(*c*) formerly read:

"(*c*) an amount that is a notional remuneration for the year in respect of a payment to that employee shall be established by multiplying the amount of the payment that is deemed for the purposes of this paragraph to be the mid-point of the applicable range of remuneration for the pay period, as provided for in Schedule I, in which that payment falls, made in the pay period by the maximum number of such pay periods in that year;"

S. 102(1)(d) was amended by P.C. 1994-372, SOR/94-238, dated March 10, 1994 and effective commencing January 1, 1993. S. 102(1)(d) formerly read:

"(*d*) if the employee is not resident in Canada at the time of the payment, no personal credits will be allowed for the purposes of this subsection and if the employee is resident in Canada at the time of the payment, the personal credits shall be established as

(i) where the employee's personal credits for the year fall within a range of amounts recorded on the return for the year referred to in subsection 107(1) that is in respect of one of net claim codes 2 to 10 on that return, the mid-point of the applicable range, or

(ii) where the employee's personal credits for the year fall within a range of amounts recorded on that return that is in respect of net claim code 1 on the return, the amount determined for the year under paragraph (*a*) of the definition 'personal credits' in subsection 100(1);"

S. 102(1)(e)(iv)(A) was amended by P.C. 1994-372, SOR/94-238, dated March 10, 1994 and effective commencing January 1, 1993. S. 102(1)(e)(iv)(A) formerly read:

"(A) the difference between the amount determined in accordance with paragraph (*c*) and $3,200, multiplied by the employee's contribution rate for the year under the *Canada Pension Plan* or under a provincial pension plan as defined in section 3 of that Act, not exceeding the maximum amount of such contributions payable by the employee for the year under the plan,"

S. 102(1)(e)(iii)(A) was amended by P.C. 1992-2347, SOR/92-667, dated November 19, 1992, effective commencing January 1, 1992. S. 102(1)(e)(iii)(A) formerly read:

"(A) the amount determined in accordance with paragraph (c) multiplied by the employee's premium rate referred to in paragraph 48.1(c) of the *Unemployment Insurance Act*, not exceeding twice the maximum amount of the premiums payable by the employee in that period under that Act,"

S. 102(1)(e)(iv)(A) was amended by P.C. 1992-2347, SOR/92-667, dated November 19, 1992, effective commencing January 1, 1992. S. 102(1)(e)(iv)(A) formerly read:

"(A) the amount determined in accordance with paragraph (c) less $3,000 and the remainder multiplied by the employee's contribution rate for the year under the *Canada Pension Plan* or under a provincial pension plan as defined in section 3 of the *Canada Pension Plan*, not exceeding the maximum amount of such contributions payable by the employee for the year under the plan,"

S. 102(1)(h) was revoked by P.C. 1992-2347, SOR/92-667, dated November 19, 1992, effective commencing January 1, 1992. S. 102(1)(h) formerly read:

"(*h*) reducing, with the approval of the Minister, the notional tax for the year otherwise determined in respect of the employee by an amount equal to the proportion of the notional tax for the year otherwise determined in respect of the employee that the lesser of the amounts determined under paragraphs 122.3(1)(c) and (d) of the Act in respect of the employee for the year is of the amount determined under paragraph 122.3(1)(e) of the Act in respect of the employee for the year; and"

S. 102(1)(e)(iii)(A) was amended by P.C. 1992-291, SOR/92-138, dated February 20, 1992 and effective beginning on July 1, 1991. S. 102(1)(e)(iii)(A) formerly read:

"(A) the amount determined in accordance with paragraph (c) multiplied by the employee's premium rate for the year under the *Unemployment Insurance Act*, not exceeding the maximum amount of the premiums payable by the employee for the year under that Act,"

S. 102(1)(e)(iv)(A) was amended by P.C. 1991-1643, SOR/91-536, dated September 5, 1991, to substitute "$3,000" for "$2,800", and to substitute "as defined in section 3" for "defined in section 3", effective commencing January 1, 1991.

S. 102(1)(e)(iv)(A) was amended by P.C. 1991-732, SOR/91-279, dated April 18, 1991, to substitute "$2,800" for "$2,700", effective commencing January 1, 1990.

S. 102(1)(c) was amended by P.C. 1991-230, SOR/91-150, dated February 14, 1991, to delete "gross" following "notional", effective commencing July 1, 1989.

S. 102(1)(f)(i) was amended by P.C. 1991-230, SOR/91-150, dated February 14, 1991, to substitute "52" for "47", effective commencing July 1, 1989.

S. 102(1)(g), the part preceding subparagraph (i), was amended by P.C. 1991-230, SOR/91-150, dated February 14, 1991, to delete "net" following "notional", to delete "reducing" preceding "the amount", and to add "shall be reduced" following the reference to paragraph (e), effective commencing July 1, 1989.

S. 102(1)(e)(iv)(A) was amended by P.C. 1990-432, SOR/90-161, dated March 8, 1990 to substitute "$2,700" for "$2,600", effective commencing January 1, 1989.

Tax Topics: No. 1818, Withholding Tax Obligations on Remuneration Paid to Non-Residents of Canada.

Tax Profile: January 2009 — Enhancing Canada's International Tax Advantage; August 2007 — Professionals and Other Service Providers Beware — A Canadian Trap; August 2005 — Canada Revenue Agency's Recent Attack on U.S. Companies.

(2) Where an employee has elected pursuant to subsection 107(2) and has not revoked such election, the amount to be deducted or withheld by the employer from any payment of remuneration (in this subsection referred to as the "payment") that is

(*a*) a payment in respect of commissions or is a combined payment of commissions and salary or wages, or

(*b*) a payment in respect of salary or wages where that employee receives a combined payment of commissions and salary or wages,

made to that employee in his taxation year where he reports for work at an establishment of the employer in a province, in Canada beyond the limits of any province or outside Canada, shall be determined for each payment in accordance with the following rules:

(*c*) an employee's "estimated annual taxable income" shall be determined by using the formula

$$A - B$$

where

A is the amount of that employee's total remuneration in respect of the year as recorded by the employee on the form referred to in subsection 107(2), and

B is the amount of that employee's expenses in respect of the year as recorded by that employee on that form;

(*d*) if the employee is not resident in Canada at the time of the payment, no personal credits will be allowed for the purposes of this subsection and if the employee is resident in Canada at the time of the payment, the employee's personal credits for the year shall be the total claim amount as recorded by that employee on the return for the year referred to in subsection 107(1);

(*e*) an amount (in this subsection referred to as the "notional tax for the year") shall be calculated in respect of that employee by using the formula

$$C - [(D + E + F) \times G] + H - I$$

where

C is the amount of tax payable for the year, calculated as if that amount of tax were computed under subsection 117(2) of the Act and adjusted annually pursuant to section 117.1 of the Act, on the amount determined under paragraph (*c*) as if that amount represented the employee's amount taxable for that year,

D is the amount determined in accordance with paragraph (*d*),

E is the amount determined in the description of A in paragraph (*c*) multiplied by the employee's premium rate for the year under the *Employment Insurance Act*, not exceeding the maximum amount of the premiums payable by the employee for the year under that Act,

F is the amount determined in the description of A in paragraph (*c*) less the amount for the year determined under section 20 of the *Canada Pension Plan* multiplied by the employee's contribution rate for the year under that Act or under a provincial pension plan as defined in section 3 of that Act, not exceeding the maximum amount of such contributions payable by the employee for the year under the plan,

G is the appropriate percentage for the year,

H is, where applicable, the tax as determined under subsection 120(1) of the Act,

I is, where the amount of total remuneration for the year is income earned in the Province of Quebec, an amount equal to the aggregate of

(i) the amount that would be deemed to have been paid under subsection 120(2) of the Act with respect to the employee if the notional tax for the year for the employee were determined without reference to the elements H, I and J [*sic.*] in this formula and if that tax were that employee's tax payable under Part I of the Act for that year, as if there were no other source of income or loss for the year, and

(ii) the amount by which the amount referred to in subparagraph (i) is increased by virtue of section 27 of the *Federal–Provincial Fiscal Arrangements Act*;

(*f*) the employee's notional rate of tax for a year is calculated by dividing the amount determined under paragraph (*e*) by the amount referred to in the description of A in paragraph (*c*) in respect of that employee and expressed as a decimal fraction rounded to the nearest hundredth, or where the third digit is equidistant from two consecutive one-thousandths, to the higher thereof;

(*g*) the amount to be deducted or withheld in respect of any payment made to that employee shall be determined by multiplying the payment by the appropriate decimal fraction determined pursuant to paragraph (*f*).

History: S. 102(2)(*c*) to (*g*) were amended, and paragraph (*h*) was repealed by P.C. 2001-1115, SOR/2001-221, dated June 14, 2001, applicable to the 2001 and subsequent taxation years. S. 102(2)(*c*) to (*h*) formerly read:

"(*c*) the amount of that employee's total remuneration in respect of the year as recorded by him on the form referred to in subsection 107(2) (in this subsection referred to as 'the form') shall be determined;

(*d*) the amount of that employee's personal credits and expenses in respect of the year as recorded by that employee on the form shall be determined as the aggregate of

(i) the amount that is either

(A) the employee's estimated deductions for that year, or

(B) the employee's total actual deductions under any of paragraphs 8(1)(*f*), (*h*), (*h.1*), (*i*) and (*j*) of the Act for the immediately preceding year, and

(ii) the amount determined by the formula

$$(A - B) \times \frac{C}{D}$$

where

A is the amount determined under paragraph (*a*) of the definition 'personal credits' in subsection 100(1),
B is the amount referred to in paragraph 118(1)(*c*) of the Act,
C is the appropriate percentage for the year, and
D is
(A) 17 per cent, where the amount of the employee's total remuneration for the year, less the employee's expenses for the year as determined under subparagraph (i), does not exceed the amount taxable referred to in paragraph 117(2)(*a*) of the Act, as adjusted annually pursuant to section 117.1 of the Act,
(B) 26 per cent, where the amount of the employee's total remuneration for the year, less the employee's expenses for the year as determined under subparagraph (i), exceeds the amount referred to in clause (A) but does not exceed the amount taxable referred to in paragraph 117(2)(*c*) of the Act, as adjusted annually pursuant to section 117.1 of the Act, and
(C) 29 per cent, where the amount of the employee's total remuneration for the year, less the employee's expenses for the year as determined under subparagraph (i), exceeds the amount taxable referred to in paragraph 117(2)(*c*) of the Act, as adjusted annually pursuant to section 117.1 of the Act,

and the resulting amount shall be rounded to two places after the decimal, such that if the third digit is five or greater, the second digit will be increased by one, and if the third digit is less than five, the third digit will be dropped;

(*e*) where the amount determined under paragraph (*c*) in respect of that employee for the year falls within a range of remuneration provided for in section 2 of Schedule I, an amount (in this subsection referred to as the 'notional net remuneration for the year') shall be calculated in respect of that employee by deducting from the mid-point of that range the greater of
(i) where the amount of that employee's personal credits and expenses for the year determined under paragraph (*d*) falls within a range of personal credits and expenses provided for in section 3 of Schedule I, the mid-point of that range, and
(ii) where the amount of that employee's personal credits and expenses for the year determined under paragraph (*d*) is less than $1,500, $1,500;

(*f*) an amount (in this subsection referred to as the 'notional tax for the year') shall be calculated in respect of that employee by using the formula

$$A - [(B + C + D) \times E] + (F + G) - H$$

where
A is the amount of tax payable for the year, calculated as if that amount of tax were computed under subsection 117(2) of the Act and adjusted annually pursuant to section 117.1 of the Act, on the amount that would be determined in accordance with paragraph (*e*) if paragraph (*d*) were read without reference to subparagraph (ii) thereof, as if that amount represented the employee's amount taxable for that year,
B is the amount referred to in paragraph 118(1)(*c*) of the Act,
C is the mid-point of the range of remuneration referred to in paragraph (*e*) multiplied by the employee's premium rate for the year under the *Employment Insurance Act*, not exceeding the maximum amount of the premiums payable by the employee for the year under that Act,
D is the mid-point of the range of remuneration referred to in paragraph (*e*) less the amount for the year determined under section 20 of the *Canada Pension Plan* multiplied by the employee's contribution rate for the year under that Act or under a provincial plan as defined in section 3 of that Act, not exceeding the maximum amount of such contributions payable by the employee for the year under the plan,
E is the appropriate percentage for the year,
F is, where applicable, an additional tax of 52 per cent of that amount as provided for in subsection 120(1) of the Act,
G is an amount equal to the amount that would be determined under subsection 180.1(1) of the Act with respect to the employee if the amount that would be the notional tax for the year for the employee were determined without reference to the elements F, G and H in this formula and that tax were that employee's tax payable under Part I of the Act for that year, and
H is, where the amount of notional net remuneration for the year is income earned in the Province of Quebec, an amount equal to the aggregate of
(i) the amount that would be deemed to have been paid under subsection 120(2) of the Act with respect to the employee if the notional tax for the year for the employee were determined without reference to the elements F, G and H in this formula and if that tax were that employee's tax payable under Part I of the Act for that year, as if there were no other source of income or loss for the year, and
(ii) the amount by which the amount referred to in subparagraph (i) is increased by virtue of section 27 of the *Federal-Provincial Fiscal Arrangements and Federal Post Secondary Education and Health Contributions Act*;

(*g*) that employee's notional rate of tax for a year shall be expressed as a decimal fraction and calculated by dividing the amount of the notional tax for the year by the mid-point of the range of remuneration referred to in paragraph (*e*) in respect of that employee and where the quotient results in more than two digits after the decimal in the decimal fraction
(i) the second digit shall be rounded to the nearest multiple of one hundredth, and
(ii) where the third digit is equidistant from two such multiples, the second digit shall be rounded to the higher thereof; and

(*h*) the amount to be deducted or withheld in respect of any payment made to that employee shall be determined by multiplying the payment by the appropriate decimal fraction determined pursuant to paragraph (*g*)."

S. 102(2)(f), the description of C, was amended by P.C. 1998-2270, SOR/99-17, dated December 16, 1998, applicable to the 1998 and subsequent taxation years. S. 102(2)(f), the description of C formerly read:

"C is the mid-point of the range of remuneration referred to in paragraph (*e*) multiplied by the employee's premium rate for the year under the *Unemployment Insurance Act*, not exceeding the maximum amount of the premiums payable by the employee for the year under that Act,"

S. 102(2)(d)(ii), the description of B was amended by P.C. 1994-1370, SOR/94-569, dated August 16, 1994, effective upon publication in the *Canada Gazette*, July 13, 1994. The description of B formerly read:

"B is the amount determined under subparagraph (*a*)(i) of the definition 'personal credits' in subsection 100(1),"

S. 102(2)(f), the description of B was amended by P.C. 1994-1370, SOR/94-569, dated August 16, 1994, effective upon publication in the *Canada Gazette*, July 13, 1994. The description of B formerly read:

"B is the amount determined under subparagraph (*a*)(i) of the definition 'personal credits' in subsection 100(1),"

S. 102(2)(d)(i)(B) was amended by P.C. 1994-372, SOR/94-238, dated March 10, 1994 and effective commencing January 1, 1993. S. 102(2)(d)(i)(B) formerly read:

"(B) the employee's total actual deductions under paragraph 8(1)(*f*), (*h*), (*i*) or (*j*) of the Act for the immediately preceding year, and"

S. 102(2)(d)(ii) was amended by P.C. 1992-2347, SOR/92-667, dated November 19, 1992, effective commencing January 1, 1992. S. 102(2)(d)(ii) formerly read:

"(ii) the amount determined by the formula

$$[A + B + C - \$6,280] \times \frac{D}{E}$$

where
A is the amount determined under paragraph (a) of the definition 'personal credits' in subsection 100(1),
B is the amount determined in accordance with paragraph (c) multiplied by the rate referred to in subsection 62(1.1) of the *Unemployment Insurance Act*, not exceeding the maximum amount of the premiums payable by the employee for the year under that Act,
C is the amount determined in accordance with paragraph (c) less $3,000 and the remainder multiplied by the employee's contribution rate for the year under the *Canada Pension Plan*, or under a provincial pension plan as defined in section 3 of the *Canada Pension Plan*, not exceeding the maximum amount of such contributions payable by the employee for the year,
D is the appropriate percentage for the year, and
E is, where the employee's total remuneration in respect of the year less the employee's expenses for the year as determined under subparagraph (i)
(I) does not exceed $28,784, 17 per cent,
(II) exceeds $28,784 but does not exceed $57,568, 26 per cent, and
(III) exceeds $57,568, 29 per cent, and
the resulting amount shall be rounded to two places after the decimal, if the third digit is five or greater, the second digit will be increased by one and if the third digit is less than five, the third digit will be dropped;"

S. 102(2)(e) was amended by P.C. 1992-2347, SOR/92-667, dated November 19, 1992, effective commencing January 1, 1992. S. 102(2)(e) formerly read:

"(*e*) an amount (in this subsection referred to as the 'notional net remuneration for the year') shall be established by deducting the amount determined by that employee under paragraph (d) from
(i) where applicable, the mid-point of the applicable range of total remuneration provided for in Schedule I in which his actual total remuneration for the immediately preceding year falls, or
(ii) where applicable, the mid-point of the applicable range of remuneration provided for in Schedule I in which his estimated total remuneration for the year falls;"

S. 102(2)(f) was amended by P.C. 1992-2347, SOR/92-667, dated November 19, 1992, effective commencing January 1, 1992. S. 102(2)(f) formerly read:

"(*f*) an amount (in this subsection referred to as the 'notional tax for the year') shall be calculated in respect of that employee by
(i) calculating the amount of tax payable for the year, as if that amount of tax were computed under subsection 117(2) of the Act and adjusted annually pursuant to section 117.1 of the Act, on the amount that would be determined in accordance with paragraph (e) if paragraph (d) were read without reference to subparagraph (ii) thereof, as if that

amount represented the employee's amount taxable for that year, and by subtracting from that amount of tax the amount that would be determined in accordance with subparagraph (d)(ii) if the formula referred to therein were read without reference to the symbol E,

(ii) increasing the amount determined under subparagraph (i) by

(A) where applicable, an additional tax of 52 per cent of that amount as provided for in subsection 120(1) of the Act, and

(B) an amount equal to the amount that would be determined under subsection 180.1(1) of the Act with respect to the employee if the amount determined in accordance with paragraph (e) were that employee's tax payable under Part I of the Act for that year,

(iii) where the amount of notional net remuneration for the year is income earned in the Province of Quebec, reducing the amount determined in accordance with subparagraph (i) by an amount that is the aggregate of

(A) the amount that is deemed to have been paid under subsection 120(2) of the Act as if there were no other source of income or loss for the year, and

(B) the amount by which the amount referred to in clause (A) is increased by virtue of section 27 of the *Federal-Provincial Fiscal Arrangements and Federal Post Secondary Education and Health Contributions Act*,

(iv) reducing, with the approval of the Minister, the notional tax for the year otherwise determined in respect of the employee by an amount equal to the proportion of the notional tax for the year otherwise determined in respect of the employee that the lesser of the amounts determined under paragraphs 122.3(1)(c) and (d) of the Act in respect of the employee for the year is of the amount determined under paragraph 122.3(1)(e) of the Act in respect of that employee for the year;"

S. 102(2)(g), the part preceding subparagraph (i), was amended by P.C. 1992-2347, SOR/92-667, dated November 19, 1992, effective commencing January 1, 1992. That part formerly read:

"(*g*) that employee's notional rate of tax for a year shall be expressed as a decimal fraction by dividing the amount of the notional tax for the year by that employee's notional net remuneration for the year and where the quotient results in more than two digits after the decimal point in the decimal fraction"

S. 102(2)(d)(ii), the description of "B", was amended by P.C. 1992-291, SOR/92-138, dated February 20, 1992 and effective beginning on July 1, 1991. The description of "B" formerly read:

"B is the amount determined in paragraph (c) multiplied by the employee's premium rate for the year under the *Unemployment Insurance Act*, not exceeding the maximum amount of such premiums payable by the employee for the year under that Act,"

S. 102(2)(d)(ii), the part preceding the description of A, was amended by P.C. 1991-1643, SOR/91-536, dated September 5, 1991, to substitute "$6,280" for "$6,169", effective commencing January 1, 1991.

S. 102(2)(d)(ii), the description of C, was amended by P.C. 1991-1643, SOR/91-536, dated September 5, 1991, to substitute "in accordance with paragraph (*c*) less $3,000" for "paragraph (*c*) less $2,800" and to substitute ", or under a provincial pension plan as" for "or under a provincial pension plan", effective commencing January 1, 1991.

S. 102(2)(d)(ii), the description of E, was amended by P.C. 1991-1643, SOR/91-536, dated September 5, 1991, to substitute "$28,784" for "$28,275" and "$57,568" for "$56,550", wherever they appear, effective commencing January 1, 1991.

S. 102(2)(d)(ii), the part preceding the description of A, was amended by P.C. 1991-732, SOR/91-279, dated April 18, 1991, to substitute "$6,169" for "$6,066", effective commencing January 1, 1990.

S. 102(2)(d)(ii), the description of C, was amended by P.C. 1991-732, SOR/91-279, dated April 18, 1991, to substitute "$2,800" for "$2,700" and to delete the comma after "*Canada Pension Plan*" where it first appears, effective commencing January 1, 1990.

S. 102(2)(d)(ii), the description of E, was amended by P.C. 1991-732, SOR/91-279, dated April 18, 1991, to substitute "$28,275" for "$27,803" and "$56,550" for "$55,605", wherever they appear, effective commencing January 1, 1990.

S. 102(2)(f)(ii)(A) was amended by P.C. 1991-230, SOR/91-150, dated February 14, 1991, to substitute "52" for "47", effective commencing July 1, 1989.

S. 102(2)(d)(ii), that portion preceding the description of A, was amended by P.C. 1990-432, SOR/90-161, dated March 8, 1990, to substitute "$6,066" for "$6,000", effective commencing January 1, 1989.

S. 102(2)(d)(ii), the description of C, was amended by P.C. 1990-432, SOR/90-161, dated March 8, 1990, to substitute "$2,700" for "$2,600", effective commencing January 1, 1989.

S. 102(2)(d)(ii), the description of E, was amended by P.C. 1990-432, SOR/90-161, dated March 8, 1990, to substitute "$27,803" for "$27,500" wherever it occurs, and to substitute "$55,605" for "$55,000" wherever it occurs, and to substitute "per cent" for "%", wherever it occurs, effective commencing January 1, 1989.

(3) [Revoked.]

History: S. 102(3) was revoked by P.C. 1989-2105, SOR/89-508, dated October 19, 1989 and effective July 1, 1988.

(4) [Revoked.]

(5) Notwithstanding subsections (1) and (2), no amount shall be deducted or withheld in the year by an employer from a payment of remuneration to an employee in respect of commissions earned by the employee in the immediately preceding year where those commissions were previously reported by the employer as remuneration of the employee in respect of that year on an information return.

History: S. 102(5) was amended by P.C. 1989-2105, SOR/89-508, dated October 19, 1989 and effective July 1, 1988. S. 102(5) formerly read:

"(5) Notwithstanding subsections (1) to (3), no amount shall be deducted or withheld in the year by an employer from a payment of remuneration to an employee in respect of commissions earned by him in the immediately preceding year where those commissions were previously reported by the employer as remuneration of the employee for that year on an information return."

Canadian Forces and Police — Exception

(6) Despite subsection (1), no amount shall be deducted or withheld in the year by an employer from an amount determined in accordance with subparagraph 110(1)(*f*)(v) of the Act.

History: S. 102(6) was added by P.C. 2005-1133, SOR/2005-185, dated June 7, 2005, applicable to the 2004 and subsequent taxation years.

Former s. 102(6) was revoked by P.C. 1983-1137, SOR/83-349, dated April 15, 1983, effective January 1, 1982. S. 102(6) formerly read:

"(6) For purposes of subsection (5), an employee includes a former employee."

Non-Periodic Payments

103. (1) Where a payment in respect of a bonus or retroactive increase in remuneration is made by an employer to an employee whose total remuneration from the employer (including the bonus or retroactive increase) may reasonably be expected not to exceed $5,000 in the taxation year of the employee in which the payment is made, the employer shall deduct or withhold, in the case of an employee who reports for work at an establishment of the employer

(*a*) in any province, 10 percent, or

(*b*) in Canada beyond the limits of any province or outside Canada, 15 percent,

of such payment in lieu of the amount determined under section 102.

History: S. 103(1)(*a*) and (*b*) were amended, and paragraphs (*c*) to (*n*) were repealed by P.C. 2001-1115, SOR/2001-221, dated June 14, 2001, applicable to the 2001 and subsequent taxation years. S. 103(1)(*a*) to (*n*) formerly read:

"(*a*) in Newfoundland, 100/162 of 15 per cent,
(*b*) in Prince Edward Island, 200/313 of 15 per cent,
(*c*) in Nova Scotia, 200/315 of 15 per cent,
(*d*) in New Brunswick, 100/157 of 15 per cent,
(*e*) in Quebec, 10 per cent,
(*f*) in Ontario, 200/273 of 15 per cent,
(*g*) in Manitoba, 100/160 of 15 per cent,
(*h*) in Saskatchewan, 100/157 of 15 per cent,
(*i*) in Alberta, 100/146 of 15 per cent for the payments made during the period beginning on July 1, 1998 and ending on December 31, 1998, and, after that period, 200/295 of 15 per cent,
(*j*) in British Columbia, 100/150 of 15 per cent for the payments made during the period beginning on July 1, 1998 and ending on December 31, 1998, and, after that period, 200/299 of 15 per cent,
(*k*) in the Yukon Territory, 100/148 of 15 per cent,
(*l*) in the Northwest Territories, 100/145 of 15 per cent,
(*m*) in Nunavut, 100/145 of 15 per cent, or
(*n*) in Canada beyond the limits of any province or outside Canada, 15 per cent,"

S. 103(1)(*k*) was amended by P.C. 2000-1334, SOR/2000-329, dated August 23, 2000, deemed to have come into force on July 1, 2000. S. 103(1)(*k*) formerly read:

"(*k*) in the Yukon Territory, 100/150 of 15 per cent,"

S. 103(1)(*h*) was amended by P.C. 2000-1334, SOR/2000-329, dated August 23, 2000, deemed to have come into force on July 1, 2000. S. 103(1)(*h*) formerly read:

"(*h*) in Saskatchewan, 100/167 of 15 per cent,"

S. 103(1)(*f*) was amended by P.C. 2000-1334, SOR/2000-329, dated August 23, 2000, deemed to have come into force on July 1, 2000. S. 103(1)(*f*) formerly read:

"(*f*) in Ontario, 200/277 of 15 per cent,"

S. 103(1)(*d*) was amended by P.C. 2000-1334, SOR/2000-329, dated August 23, 2000, deemed to have come into force on July 1, 2000. S. 103(1)(*d*) formerly read:

"(*d*) in New Brunswick, 100/160 of 15 per cent,"

S. 103(1)(*b*) was amended by P.C. 2000-1334, SOR/2000-329, dated August 23, 2000, deemed to have come into force on July 1, 2000. S. 103(1)(*b*) formerly read:

"(*b*) in Prince Edward Island, 200/315 of 15 per cent for the payments made during the period beginning on July 1, 1999 and ending on December 31, 1999, and, after that period, 200/317 of 15 per cent,"

S. 103(1)(*a*) was amended by P.C. 2000-1334, SOR/2000-329, dated August 23, 2000, deemed to have come into force on January 1, 2000. S. 103(1)(*a*) formerly read:

"(*a*) in Newfoundland, 100/169 of 15 per cent,"

S. 103(1)(*m*) was amended, and paragraph (*n*) was added, by P.C. 1999-2205, SOR/2000-10, dated December 16, 1999, deemed to have come into force on April 1, 1999. S. 103(1)(*m*) formerly read:

"(*m*) in Canada beyond the limits of any province or outside Canada, 15 per cent,"

S. 103(1)(*f*) and (*g*) were amended by P.C. 1999-2205, SOR/2000-10, dated December 16, 1999, deemed to have come into force on July 1, 1999. S. 103(1)(*f*) and (*g*) formerly read:

"(*f*) in Ontario, 200/281 of 15 per cent,

(*g*) in Manitoba, 100/163 of 15 per cent,"

S. 103(1)(*d*) was amended by P.C. 1999-2205, SOR/2000-10, dated December 16, 1999, deemed to have come into force on January 1, 1999. S. 103(1)(*d*) formerly read:

"(*d*) in New Brunswick, 100/161 of 15 per cent,"

S. 103(1)(*b*) was amended by P.C. 1999-2205, SOR/2000-10, dated December 16, 1999, deemed to have come into force on July 1, 1999. S. 103(1)(*b*) formerly read:

"(*b*) in Prince Edward Island, 200/319 of 15 per cent,"

Ss. 103(1)(*a*) to (*d*) were amended by P.C. 1998-2271, SOR/99-18, dated December 16, 1998, deemed to have come into force on July 1, 1998. Ss. 103(1)(*a*) to (*d*) formerly read:

"(*a*) in Newfoundland, 103/172 of 15 per cent,

(*b*) in Prince Edward Island, 206/325 of 15 per cent,

(*c*) in Nova Scotia, 206/321 of 15 per cent for the payments made on or after July 1, 1997,

(*d*) in New Brunswick, 103/165 of 15 per cent for the payments made during the period beginning on July 1, 1997 and ending on December 31, 1997, and, after that period, 103/164 of 15 per cent,"

S. 103(1)(*j*) was amended by P.C. 1998-2271, SOR/99-18, dated December 16, 1998, deemed to have come into force on January 1, 1998. S. 103(1)(*j*) formerly read:

"(*j*) in British Columbia, 103/154 of 15 per cent,"

Ss. 103(1)(f) to (l) were amended by P.C. 1998-2271, SOR/99-18, dated December 16, 1998, deemed to have come into force on July 1, 1998. Ss. 103(1)(f) to (l) formerly read:

"(*f*) in Ontario, 103/150 of 15 per cent for the payments made during the period beginning on July 1, 1997 and ending on December 31, 1997, and, after that period, 103/148 of 15 per cent,

(*g*) in Manitoba, 103/168 of 15 per cent,

(*h*) in Saskatchewan, 103/172 of 15 per cent,

(*i*) in Alberta, 103/152 of 15 per cent,

(*j*) in British Columbia, 206/307 of 15 per cent for the payments made during the period beginning on January 1, 1998 and ending on June 30, 1998,

(*k*) in the Yukon Territory, 103/154 of 15 per cent for the payments made during the period beginning on July 1, 1993 and ending on December 31, 1993, and, after that period, 103/153 of 15 per cent,

(*l*) in the Northwest Territories, 103/148 of 15 per cent, or"

S. 103(1)(*c*) was amended by P.C. 1997-1744, SOR/97-531, dated November 27, 1997, applicable upon publication in the *Canada Gazette*, December 10, 1997. S. 103(1)(*c*) formerly read:

"(*c*) in Nova Scotia, 206/325 of 15 per cent,"

S. 103(1)(*d*) was amended by P.C. 1997-1744, SOR/97-531, dated November 27, 1997, applicable upon publication in the *Canada Gazette*, December 10, 1997. S. 103(1)(*d*) formerly read:

"(*d*) in New Brunswick, 103/167 of 15 per cent,"

S. 103(1)(*f*) was amended by P.C. 1997-1744, SOR/97-531, dated November 27, 1997, applicable upon publication in the *Canada Gazette*, December 10, 1997. S. 103(1)(*f*) formerly read:

"(*f*) in Ontario, 103/152 of 15 per cent,"

S. 103(1)(f) was amended by P.C. 1997-290, SOR/97-137, dated March 4, 1997, effective beginning on January 1, 1997. S. 103(1)(f) formerly read:

"(*f*) in Ontario, 103/157 of 15 per cent,"

S. 103(1)(j) was amended by P.C. 1997-290, SOR/97-137, dated March 4, 1997, effective beginning on January 1, 1997. S. 103(1)(j) formerly read:

"(*j*) in British Columbia, 206/309 of 15 per cent,"

S. 103(1)(f) was amended by P.C. 1996-1557, SOR/96-464, dated October 8, 1996, effective July 1, 1996. S. 103(1)(f) formerly read:

"(*f*) in Ontario, 103/164 of 15 per cent for the payments made during the period beginning on July 1, 1993 and ending on December 31, 1993, and, after that period, 103/161 of 15 per cent,"

S. 103(1)(j) was amended by P.C. 1996-1557, SOR/96-464, dated October 8, 1996, effective July 1, 1996. S. 103(1)(j) formerly read:

"(*j*) in British Columbia, 206/311 of 15 per cent,"

S. 103(1)(h) was amended by P.C. 1996-500, SOR/96-205, dated April 16, 1996, to substitute "103/172" for "103/173", effective commencing July 1, 1995.

S. 103(1)(d) was amended by P.C. 1994-1370, SOR/94-569, dated August 16, 1994, to substitute "103/167" for "103/163", effective commencing July 1, 1993.

S. 103(1)(f) was amended by P.C. 1994-1370, SOR/94-569, dated August 16, 1994, effective commencing July 1, 1993. S. 103(1)(f) formerly read:

"(*f*) in Ontario, 103/158 of 15 per cent,"

S. 103(1)(k) was amended by P.C. 1994-1370, SOR/94-569, dated August 16, 1994, effective commencing July 1, 1993. S. 103(1)(k) formerly read:

"(*k*) in the Yukon Territory, 103/148 of 15 per cent,"

Ss. 103(1)(a) to (d) were amended by P.C. 1994-372, SOR/94-238, dated March 10, 1994 and effective commencing January 1, 1993. Ss. 103(1)(a) to (d) formerly read:

"(*a*) in Newfoundland, 104/171 of 15 per cent,

(*b*) in Prince Edward Island, 208/327 of 15 per cent,

(*c*) in Nova Scotia, 208/327 of 15 per cent,

(*d*) in New Brunswick, 104/164 of 15 per cent,"

Ss. 103(1)(f) to (l) were amended by P.C. 1994-372, SOR/94-238, dated March 10, 1994 and effective commencing January 1, 1993. Ss. 103(1)(f) to (l) formerly read:

"(*f*) in Ontario, 104/160 of 15 per cent,

(*g*) in Manitoba, 104/169 of 15 per cent,

(*h*) in Saskatchewan, 104/174 of 15 per cent,

(*i*) in Alberta, 208/299 of 15 per cent,

(*j*) in British Columbia, 208/313 of 15 per cent,

(*k*) in the Yukon Territory, 104/149 of 15 per cent,

(*l*) in the Northwest Territories, 104/148 of 15 per cent, or"

S. 103(1) was amended by P.C. 1993-1552, SOR/93-399, dated July 21, 1993, to substitute "104/171" for "105/167" in paragraph (a), "208/327" for "210/329" in paragraph (b), "208/327" for "210/329" in paragraph (c), "104/164" for "105/165" in paragraph (d), "104/160" for "105/158" in paragraph (f), "104/169" for "105/168" in paragraph (g), "104/174" for "105/170" in paragraph (h), "208/299" for "105/156" in paragraph (i), "208/313" for "210/313" in paragraph (j), "104/149" for "105/150" in paragraph (k), and "104/148" for "105/149" in paragraph (l), effective commencing July 1, 1992.

S. 103(1)(b) was amended by P.C. 1992-2347, SOR/92-667, dated November 19, 1992, to substitute "210/329" for "105/164", effective commencing January 1, 1992.

S. 103(1)(b) was amended by P.C. 1992-291, SOR/92-138, dated February 20, 1992 to substitute "105/164" for "105/162", effective beginning July 1, 1991.

Ss. 103(1)(c) and (l) were amended by P.C. 1991-1643, SOR/91-536, dated September 5, 1991, to substitute "210/329" for "210/335" in paragraph (c) and "105/149" for "105/150" in paragraph (l), effective commencing January 1, 1991.

Ss. 103(1)(a), (f) and (g) were amended by P.C. 1991-732, SOR/91-279, dated April 18, 1991, to substitute "105/167" for "105/165" in paragraph (a), "105/158" for "105/157" in paragraph (f), and "105/150" for "105/148" in paragraph (g), effective commencing January 1, 1990.

Ss. 103(1)(c), and (l) were amended by P.C. 1991-732, SOR/91-279, dated April 18, 1991, to substitute "210/335" for "210/323" in paragraph (c) and "105/150" for "105/148" in paragraph (l), effective commencing July 1, 1990.

S. 103(1)(a) was amended by P.C. 1991-230, SOR/91-150, dated February 14, 1991, to substitute "105/165" for "103/163", effective commencing July 1, 1989.

S. 103(1)(b) was amended by P.C. 1991-230, SOR/91-150, dated February 14, 1991, to substitute "103/162" for "103/160", effective commencing July 1, 1989.

S. 103(1)(c) was amended by P.C. 1991-230, SOR/91-150, dated February 14, 1991, to substitute "210/323" for "206/319", effective commencing July 1, 1989.

S. 103(1)(d) was amended by P.C. 1991-230, SOR/91-150, dated February 14, 1991, to substitute "105/165" for "103/163", effective commencing July 1, 1989.

S. 103(1)(f) was amended by P.C. 1991-230, SOR/91-150, dated February 14, 1991, to substitute "107/157" for "103/155", effective commencing July 1, 1989.

S. 103(1)(g) was amended by P.C. 1991-230, SOR/91-150, dated February 14, 1991, to substitute "105/172" for "103/170", effective commencing July 1, 1989.

S. 103(1)(h) was amended by P.C. 1991-230, SOR/91-150, dated February 14, 1991, to substitute "105/170" for "103/168", effective commencing July 1, 1989.

S. 103(1)(i) was amended by P.C. 1991-230, SOR/91-150, dated February 14, 1991, to substitute "105/156" for "103/154", effective commencing July 1, 1989.

S. 103(1)(j) was amended by P.C. 1991-230, SOR/91-150, dated February 14, 1991, to substitute "210/313" for "206/309", effective commencing July 1, 1989.

S. 103(1)(k) was amended by P.C. 1991-230, SOR/91-150, dated February 14, 1991, to substitute "105/150" for "103/148", effective commencing July 1, 1989.

S. 103(1)(l) was amended by P.C. 1991-230, SOR/91-150, dated February 14, 1991, to substitute "105/148" for "103/146", effective commencing July 1, 1989.

S. 103(1)(b) was amended by P.C. 1990-432, SOR/90-161, dated March 8, 1990, to substitute "103/160" for "103/159", effective commencing January 1, 1989.

S. 103(1)(f) was amended by P.C. 1990-432, SOR/90-161, dated March 8, 1990, to substitute "103/155" for "103/154", effective commencing January 1, 1989.

S. 103(1)(i) was amended by P.C. 1990-432, SOR/90-161, dated March 8, 1990, to substitute "103/154" for "206/299", effective commencing January 1, 1989.

(2) Where a payment in respect of a bonus is made by an employer to an employee whose total remuneration from the employer (including the bonus) may reasonably be expected to exceed $5,000 in the taxation year of the employee in which the payment is made, the amount to be deducted or withheld therefrom by the employer is

(*a*) the amount determined under section 102 in respect of an assumed remuneration equal to the aggregate of

(i) the amount of regular remuneration paid by the employer to the employee in the pay period in which the remuneration is paid, and

(ii) an amount equal to the bonus payment divided by the number of pay periods in the taxation year of the employee in which the payment is made

minus

(*b*) the amount determined under section 102 in respect of the amount of regular remuneration paid by the employer to the employee in the pay period

multiplied by

(*c*) the number of pay periods in the taxation year of the employee in which the payment is made.

(3) Where a payment in respect of a retroactive increase in remuneration is made by an employer to an employee whose total remuneration from the employer (including the retroactive increase) may reasonably be expected to exceed $5,000 in the taxation year of the employee in which the payment is made, the amount to be deducted or withheld therefrom by the employer is

(*a*) the amount determined under section 102 in respect of the new rate of remuneration

minus

(*b*) the amount determined under section 102 in respect of the previous rate of remuneration

multiplied by

(*c*) the number of pay periods in respect of which the increase in remuneration is retroactive.

(4) Subject to subsection (5), where a lump sum payment is made by an employer to an employee who is a resident of Canada,

(*a*) if the payment does not exceed $5,000, the employer shall deduct or withhold therefrom, in the case of an employee who reports for work at an establishment of the employer

(i) in Quebec, 5 percent,

(ii) in any other province, 7 percent, or

(iii) in Canada beyond the limits of any province or outside Canada, 10 percent,

of such payment in lieu of the amount determined under section 102;

(*b*) if the payment exceeds $5,000 but does not exceed $15,000, the employer shall deduct or withhold therefrom, in the case of an employee who reports for work at an establishment of the employer

(i) in Quebec, 10 percent,

(ii) in any other province, 13 percent, or

(iii) in Canada beyond the limits of any province or outside Canada, 20 percent,

of such payment in lieu of the amount determined under section 102; and

(*c*) if the payment exceeds $15,000, the employer shall deduct or withhold therefrom, in the case of an employee who reports for work at an establishment of the employer

(i) in Quebec, 15 percent,

(ii) in any other province, 20 percent, or

(iii) in Canada beyond the limits of any province or outside Canada, 30 percent,

of such payment in lieu of the amount determined under section 102.

History: S. 103(4)(*a*)(i) to (iii) were amended, and subparagraphs (iv) to (xiv) were repealed by P.C. 2001-1115, SOR/2001-221, dated June 14, 2001, applicable to the 2001 and subsequent taxation years. S. 103(4)(*a*)(i) to (xiv) formerly read:

"(i) in Newfoundland, 100/162 of 10 per cent,
(ii) in Prince Edward Island, 200/313 of 10 per cent,
(iii) in Nova Scotia, 200/315 of 10 per cent,
(iv) in New Brunswick, 100/157 of 10 per cent,
(v) in Quebec, 5 per cent,
(vi) in Ontario, 200/273 of 10 per cent,
(vii) in Manitoba, 100/160 of 10 per cent,
(viii) in Saskatchewan, 100/157 of 10 per cent,
(ix) in Alberta, 100/146 of 10 per cent for the payments made during the period beginning on July 1, 1998 and ending on December 31, 1998, and, after that period, 200/295 of 10 per cent,
(x) in British Columbia, 100/150 of 10 per cent for the payments made during the period beginning on July 1, 1998 and ending on December 31, 1998, and, after that period, 200/299 of 10 per cent,
(xi) in the Yukon Territory, 100/148 of 10 per cent,
(xii) in the Northwest Territories, 100/145 of 10 per cent,
(xiii) in Nunavut, 100/145 of 10 per cent, or
(xiv) in Canada beyond the limits of any province or outside Canada, 10 per cent,"

S. 103(4)(*b*)(i) to (iii) were amended, and subparagraphs (iv) to (xiv) were repealed by P.C. 2001-1115, SOR/2001-221, dated June 14, 2001, applicable to the 2001 and subsequent taxation years. S. 103(4)(*b*)(i) to (xiv) formerly read:

"(i) in Newfoundland, 100/162 of 20 per cent,
(ii) in Prince Edward Island, 200/313 of 20 per cent,
(iii) in Nova Scotia, 200/315 of 20 per cent,
(iv) in New Brunswick, 100/157 of 20 per cent,
(v) in Quebec, 10 per cent,
(vi) in Ontario, 200/273 of 20 per cent,
(vii) in Manitoba, 100/160 of 20 per cent,
(viii) in Saskatchewan, 100/157 of 20 per cent,
(ix) in Alberta, 100/146 of 20 per cent for the payments made during the period beginning on July 1, 1998 and ending on December 31, 1998, and, after that period, 200/295 of 20 per cent,
(x) in British Columbia, 100/150 of 20 per cent for the payments made during the period beginning on July 1, 1998 and ending on December 31, 1998, and, after that period, 200/299 of 20 per cent,
(xi) in the Yukon Territory, 100/148 of 20 per cent,
(xii) in the Northwest Territories, 100/145 of 20 per cent,
(xiii) in Nunavut, 100/145 of 20 per cent, or
(xiv) in Canada beyond the limits of any province or outside Canada, 20 per cent,"

S. 103(4)(*c*)(i) to (iii) were amended, and subparagraphs (iv) to (xiv) were repealed by P.C. 2001-1115, SOR/2001-221, dated June 14, 2001, appli-

cable to the 2001 and subsequent taxation years. S. 103(4)(*c*)(i) to (xiv) formerly read:

"(i) in Newfoundland, 100/162 of 30 per cent,
(ii) in Prince Edward Island, 200/313 of 30 per cent,
(iii) in Nova Scotia, 200/315 of 30 per cent,
(iv) in New Brunswick, 100/157 of 30 per cent,
(v) in Quebec, 15 per cent,
(vi) in Ontario, 200/273 of 30 per cent,
(vii) in Manitoba, 100/160 of 30 per cent,
(viii) in Saskatchewan, 100/157 of 30 per cent,
(ix) in Alberta, 100/146 of 30 per cent for the payments made during the period beginning on July 1, 1998 and ending on December 31, 1998, and, after that period, 200/295 of 30 per cent,
(x) in British Columbia, 100/150 of 30 per cent for the payments made during the period beginning on July 1, 1998 and ending on December 31, 1998, and, after that period, 200/299 of 30 per cent,
(xi) in the Yukon Territory, 100/148 of 30 per cent,
(xii) in the Northwest Territories, 100/145 of 30 per cent,
(xiii) in Nunavut, 100/145 of 30 per cent, or
(xiv) in Canada beyond the limits of any province or outside Canada, 30 per cent,"

S. 103(4)(*c*)(xi) was amended by P.C. 2000-1334, SOR/2000-329, dated August 23, 2000, deemed to have come into force on July 1, 2000. S. 103(4)(*c*)(xi) formerly read:

"(xi) in the Yukon Territory, 100/150 of 30 per cent,"

S. 103(4)(*c*)(viii) was amended by P.C. 2000-1334, SOR/2000-329, dated August 23, 2000, deemed to have come into force on July 1, 2000. S. 103(4)(*c*)(viii) formerly read:

"(viii) in Saskatchewan, 100/167 of 30 per cent,"

S. 103(4)(*c*)(vi) was amended by P.C. 2000-1334, SOR/2000-329, dated August 23, 2000, deemed to have come into force on July 1, 2000. S. 103(4)(*c*)(vi) formerly read:

"(vi) in Ontario, 200/277 of 30 per cent,"

S. 103(4)(*c*)(iv) was amended by P.C. 2000-1334, SOR/2000-329, dated August 23, 2000, deemed to have come into force on July 1, 2000. S. 103(4)(*c*)(iv) formerly read:

"(iv) in New Brunswick, 100/160 of 30 per cent,"

S. 103(4)(*c*)(ii) was amended by P.C. 2000-1334, SOR/2000-329, dated August 23, 2000, deemed to have come into force on July 1, 2000. S. 103(4)(*c*)(ii) formerly read:

"(ii) in Prince Edward Island, 200/315 of 30 per cent for the payments made during the period beginning on July 1, 1999 and ending on December 31, 1999, and, after that period, 200/317 of 30 per cent,"

S. 103(4)(*c*)(i) was amended by P.C. 2000-1334, SOR/2000-329, dated August 23, 2000, deemed to have come into force on January 1, 2000. S. 103(4)(*c*)(i) formerly read:

"(i) in Newfoundland, 100/169 of 30 per cent,"

S. 103(4)(*b*)(xi) was amended by P.C. 2000-1334, SOR/2000-329, dated August 23, 2000, deemed to have come into force on July 1, 2000. S. 103(4)(*b*)(xi) formerly read:

"(xi) in the Yukon Territory, 100/150 of 20 per cent,"

S. 103(4)(*b*)(viii) was amended by P.C. 2000-1334, SOR/2000-329, dated August 23, 2000, deemed to have come into force on August 23, 2000. S. 103(4)(*b*)(viii) formerly read:

"(viii) in Saskatchewan, 100/167 of 20 per cent,"

S. 103(4)(*b*)(vi) was amended by P.C. 2000-1334, SOR/2000-329, dated August 23, 2000, deemed to have come into force on July 1, 2000. S. 103(4)(*b*)(vi) formerly read:

"(vi) in Ontario, 200/277 of 20 per cent,"

S. 103(4)(*b*)(iv) was amended by P.C. 2000-1334, SOR/2000-329, dated August 23, 2000, deemed to have come into force on July 1, 2000. S. 103(4)(*b*)(iv) formerly read:

"(iv) in New Brunswick, 100/160 of 20 per cent,"

S. 103(4)(*b*)(ii) was amended by P.C. 2000-1334, SOR/2000-329, dated August 23, 2000, deemed to have come into force on July 1, 2000. S. 103(4)(*b*)(ii) formerly read:

"(ii) in Prince Edward Island, 200/315 of 20 per cent for the payments made during the period beginning on July 1, 1999 and ending on December 31, 1999, and, after that period, 200/317 of 20 per cent,"

S. 103(4)(*b*)(i) was amended by P.C. 2000-1334, SOR/2000-329, dated August 23, 2000, deemed to have come into force on January 1, 2000. S. 103(4)(*b*)(i) formerly read:

"(i) in Newfoundland, 100/169 of 20 per cent,"

S. 103(4)(*a*)(xi) was amended by P.C. 2000-1334, SOR/2000-329, dated August 23, 2000, deemed to have come into force on July 1, 2000. S. 103(4)(*a*)(xi) formerly read:

"(xi) in the Yukon Territory, 100/150 of 10 per cent,"

S. 103(4)(*a*)(viii) was amended by P.C. 2000-1334, SOR/2000-329, dated August 23, 2000, deemed to have come into force on July 1, 2000. S. 103(4)(*a*)(viii) formerly read:

"(viii) in Saskatchewan, 100/167 of 10 per cent,"

S. 103(4)(*a*)(vi) was amended by P.C. 2000-1334, SOR/2000-329, dated August 23, 2000, deemed to have come into force on July 1, 2000. S. 103(4)(*a*)(vi) formerly read:

"(vi) in Ontario, 200/277 of 10 per cent,"

S. 103(4)(*a*)(iv) was amended by P.C. 2000-1334, SOR/2000-329, dated August 23, 2000, deemed to have come into force on July 1, 2000. S. 103(4)(*a*)(iv) formerly read:

"(iv) in New Brunswick, 100/160 of 10 per cent,"

S. 103(4)(*a*)(ii) was amended by P.C. 2000-1334, SOR/2000-329, dated August 23, 2000, deemed to have come into force on July 1, 2000. S. 103(4)(*a*)(ii) formerly read:

"(ii) in Prince Edward Island, 200/315 of 10 per cent for the payments made during the period beginning on July 1, 1999 and ending on December 31, 1999, and, after that period, 200/317 of 10 per cent,"

S. 103(4)(*a*)(i) was amended by P.C. 2000-1334, SOR/2000-329, dated August 23, 2000, deemed to have come into force on January 1, 2000. S. 103(4)(*a*)(i) formerly read:

"(i) in Newfoundland, 100/169 of 10 per cent,"

S. 103(4)(*c*)(xiii) was amended, and subparagraph (xiv) was added, by P.C. 1999-2205, SOR/2000-10, dated December 16, 1999, deemed to have come into force on April 1, 1999. S. 103(4)(*c*)(xiii) formerly read:

"(xiii) in Canada beyond the limits of any province or outside Canada, 30 per cent,"

S. 103(4)(*c*)(vi) and (vii) were amended by P.C. 1999-2205, SOR/2000-10, dated December 16, 1999, deemed to have come into force on July 1, 1999. S. 103(4)(*c*)(vi) and (vii) formerly read:

"(vi) in Ontario, 200/281 of 30 per cent,
(vii) in Manitoba, 100/163 of 30 per cent,"

S. 103(4)(*c*)(iv) was amended by P.C. 1999-2205, SOR/2000-10, dated December 16, 1999, deemed to have come into force on January 1, 1999. S. 103(4)(*c*)(iv) formerly read:

"(iv) in New Brunswick, 100/161 of 30 per cent,"

S. 103(4)(*c*)(ii) was amended by P.C. 1999-2205, SOR/2000-10, dated December 16, 1999, deemed to have come into force on July 1, 1999. S. 103(4)(*c*)(ii) formerly read:

"(ii) in Prince Edward Island, 200/319 of 30 per cent,"

S. 103(5)(*b*)(xiii) was amended, and subparagraph (xiv) was added, by P.C. 1999-2205, SOR/2000-10, dated December 16, 1999, deemed to have come into force on April 1, 1999. S. 103(5)(*b*)(xiii) formerly read:

"(xiii) in Canada beyond the limits of any province or outside Canada, 20 per cent,"

S. 103(4)(*b*)(vi) and (vii) were amended by P.C. 1999-2205, SOR/2000-10, dated December 16, 1999, deemed to have come into force on July 1, 1999. S. 103(4)(*b*)(vi) and (vii) formerly read:

"(vi) in Ontario, 200/281 of 20 per cent,
(vii) in Manitoba, 100/163 of 20 per cent,"

S. 103(4)(*b*)(iv) was amended by P.C. 1999-2205, SOR/2000-10, dated December 16, 1999, deemed to have come into force on January 1, 1999. S. 103(4)(*b*)(iv) formerly read:

"(iv) in New Brunswick, 100/161 of 20 per cent,"

S. 103(4)(*b*)(ii) was amended by P.C. 1999-2205, SOR/2000-10, dated December 16, 1999, deemed to have come into force on July 1, 1999. S. 103(4)(*b*)(ii) formerly read:

"(ii) in Prince Edward Island, 200/319 of 20 per cent,"

S. 103(4)(*a*)(xiii) was amended, and subparagraph (xiv) was added, by P.C. 1999-2205, SOR/2000-10, dated December 16, 1999, deemed to have come into force on April 1, 1999. S. 103(4)(*a*)(xiii) formerly read:

"(xiii) in Canada beyond the limits of any province or outside Canada, 10 per cent,"

S. 103(4)(*a*)(vi) and (vii) were amended by P.C. 1999-2205, SOR/2000-10, dated December 16, 1999, deemed to have come into force on January 1, 1999. S. 103(4)(*a*)(vi) and (vii) formerly read:

"(vi) in Ontario, 200/281 of 10 per cent,
(vii) in Manitoba, 100/163 of 10 per cent,"

S. 103(4)(*a*)(iv) was amended by P.C. 1999-2205, SOR/2000-10, dated December 16, 1999, deemed to have come into force on January 1, 1999. S. 103(4)(*a*)(iv) formerly read:

"(iv) in New Brunswick, 100/161 of 10 per cent,"

S. 103(4)(*a*)(ii) was amended by P.C. 1999-2205, SOR/2000-10, dated December 16, 1999, deemed to have come into force on July 1, 1999. S. 103(4)(*a*)(ii) formerly read:

"(ii) in Prince Edward Island, 200/319 of 10 per cent,"

S. 103(4)(*a*)(i) to (iv) were amended by P.C. 1998-2271, SOR/99-18, dated December 16, 1998, deemed to have come into force on July 1, 1998. S. 103(4)(*a*)(i) to (iv) formerly read:

"(i) in Newfoundland, 103/172 of 10 per cent,
(ii) in Prince Edward Island, 206/325 of 10 per cent,
(iii) in Nova Scotia, 206/321 of 10 per cent for the payments made on or after July 1, 1997,
(iv) in New Brunswick, 103/165 of 10 per cent for the payments made during the period beginning on July 1, 1997 and ending on December 31, 1997, and, after that period, 103/164 of 10 per cent,"

S. 103(4)(*a*)(x) was amended by P.C. 1998-2271, SOR/99-18, dated December 16, 1998, deemed to have come into force on January 1, 1998. S. 103(4)(*a*)(x) formerly read:

"(x) in British Columbia, 103/154 of 10 per cent,"

S. 103(4)(*a*)(vi) to (xii) was amended by P.C. 1998-2271, SOR/99-18, dated December 16, 1998, deemed to have come into force on July 1, 1998. S. 103(4)(*a*)(vi) to (xii) formerly read:

"(vi) in Ontario, 103/150 of 10 per cent for the payments made during the period beginning on July 1, 1997 and ending on December 31, 1997, and, after that period, 103/148 of 10 per cent,
(vii) in Manitoba, 103/168 of 10 per cent,
(viii) in Saskatchewan, 103/172 of 10 per cent,
(ix) in Alberta, 103/152 of 10 per cent,
(x) in British Columbia, 206/307 of 10 per cent for the payments made during the period beginning on January 1, 1998 and ending on June 30, 1998,
(xi) in the Yukon Territory, 103/154 of 10 per cent for payments made during the period beginning on July 1, 1993 and ending on December 31, 1993, and, after that period, 103/153 of 10 per cent,
(xii) in the Northwest Territories, 103/148 of 10 per cent, or"

S. 103(4)(b)(i) to (iv) were amended by P.C. 1998-2271, SOR/99-18, dated December 16, 1998, deemed to have come into force on July 1, 1998. S. 103(4)(b)(i) to (iv) formerly read:

"(i) in Newfoundland, 103/172 of 20 per cent,
(ii) in Prince Edward Island, 206/325 of 20 per cent,
(iii) in Nova Scotia, 206/321 of 20 per cent for the payments made on or after July 1, 1997,
(iv) in New Brunswick, 103/165 of 20 per cent for the payments made during the period beginning on July 1, 1997 and ending on December 31, 1997, and, after that period, 103/164 of 20 per cent,"

S. 103(4)(b)(x) was amended by P.C. 1998-2271, SOR/99-18, dated December 16, 1998, deemed to have come into force on January 1, 1998. S. 103(4)(b)(x) formerly read:

"(x) in British Columbia, 103/154 of 20 per cent,"

S. 103(4)(b)(vi) to (xii) were amended by P.C. 1998-2271, SOR/99-18, dated December 16, 1998, deemed to have come into force on July 1, 1998.

"(vi) in Ontario, 103/150 of 20 per cent for the payments made during the period beginning on July 1, 1997 and ending on December 31, 1997, and, after that period, 103/148 of 20 per cent,
(vii) in Manitoba, 103/168 of 20 per cent,
(viii) in Saskatchewan, 103/172 of 20 per cent,
(ix) in Alberta, 103/152 of 20 per cent,
(x) in British Columbia, 206/307 of 20 per cent for the payments made during the period beginning on January 1, 1998 and ending on June 30, 1998,
(xi) in the Yukon Territory, 103/154 of 20 per cent for payments made during the period beginning on July 1, 1993 and ending on December 31, 1993, and, after that period, 103/153 of 20 per cent,
(xii) in the Northwest Territories, 103/148 of 20 per cent, or"

S. 103(4)(c)(i) to (iv) were amended by P.C. 1998-2271, SOR/99-18, dated December 16, 1998, deemed to have come into force on July 1, 1998. S. 103(4)(c)(i) to (iv) formerly read:

"(i) in Newfoundland, 103/172 of 30 per cent,
(ii) in Prince Edward Island, 206/325 of 30 per cent,
(iii) in Nova Scotia, 206/321 of 30 per cent for the payments made on or after July 1, 1997,
(iv) in New Brunswick, 103/165 of 30 per cent for the payments made during the period beginning on July 1, 1997 and ending on December 31, 1997, and, after that period, 103/164 of 30 per cent,"

S. 103(4)(c)(x) was amended by P.C. 1998-2271, SOR/99-18, dated December 16, 1998, deemed to have come into force on January 1, 1998. S. 103(4)(c)(x) formerly read:

"(x) in British Columbia, 103/154 of 30 per cent,"

S. 103(4)(c)(vi) to (xii) were amended by P.C. 1998-2271, SOR/99-18, dated December 16, 1998, deemed to have come into force on July 1, 1998. S. 103(4)(c)(vi) to (xii) formerly read:

"(vi) in Ontario, 107/150 of 30 per cent for the payments made during the period beginning on July 1, 1997 and ending on December 31, 1997, and, after that period, 103/148 of 30 per cent,
(vii) in Manitoba, 103/168 of 30 per cent,
(viii) in Saskatchewan, 103/172 of 30 per cent,
(ix) in Alberta, 103/152 of 30 per cent,
(x) in British Columbia, 206/307 of 30 per cent for the payments made during the period beginning on January 1, 1998 and ending on June 30, 1998,
(xi) in the Yukon Territory, 103/154 of 30 per cent for payments made during the period beginning on July 1, 1993 and ending on December 31, 1993, and, after that period, 103/153 of 30 per cent,
(xii) in the Northwest Territories, 103/148 of 30 per cent, or"

S. 103(4)(a)(iii) and (iv) were amended by P.C. 1997-1744, SOR/97-531, dated November 27, 1997, applicable upon publication in the *Canada Gazette*, December 10, 1997. S. 103(4)(a)(iii) and (iv) formerly read:

"(iii) in Nova Scotia, 206/325 of 10 per cent,
(iv) in New Brunswick, 103/167 of 10 per cent,"

S. 103(4)(a)(vi) was amended by P.C. 1997-1744, SOR/97-531, dated November 27, 1997, applicable upon publication in the *Canada Gazette*, December 10, 1997. S. 103(4)(a)(vi) formerly read:

"(vi) in Ontario, 103/152 of 10 per cent,"

S. 103(4)(a)(vi) was amended by P.C. 1997-290, SOR/97-137, dated March 4, 1997, effective beginning on January 1, 1997. S. 103(4)(a)(vi) formerly read:

"(vi) in Ontario, 103/157 of 10 per cent,"

S. 103(4)(a)(x) was amended by P.C. 1997-290, SOR/97-137, dated March 4, 1997, effective beginning on January 1, 1997. S. 103(4)(a)(x) formerly read:

"(x) in British Columbia, 206/309 of 10 per cent,"

S. 103(4)(b)(iii) and (iv) were amended by P.C. 1997-1744, SOR/97-531, dated November 27, 1997, applicable upon publication in the *Canada Gazette*, December 10, 1997. S. 103(4)(b)(iii) and (iv) formerly read:

"(iii) in Nova Scotia, 206/325 of 20 per cent,
(iv) in New Brunswick, 103/167 of 20 per cent,"

S. 103(4)(b)(vi) was amended by P.C. 1997-1744, SOR/97-531, dated November 27, 1997, applicable upon publication in the *Canada Gazette*, December 10, 1997. S. 103(4)(b)(vi) formerly read:

"(vi) in Ontario, 103/152 of 20 per cent,"

S. 103(4)(b)(vi) was amended by P.C. 1997-290, SOR/97-137, dated March 4, 1997, effective beginning on January 1, 1997. S. 103(4)(b)(vi) formerly read:

"(vi) in Ontario, 103/157 of 20 per cent,"

S. 103(4)(b)(x) was amended by P.C. 1997-290, SOR/97-137, dated March 4, 1997, effective beginning on January 1, 1997. S. 103(4)(b)(x) formerly read:

"(x) in British Columbia, 206/309 of 20 per cent,"

S. 103(4)(c)(iii) and (iv) were amended by P.C. 1997-1744, SOR/97-531, dated November 27, 1997, applicable upon publication in the *Canada Gazette*, December 10, 1997. S. 103(4)(c)(iii) and (iv) formerly read:

"(iii) in Nova Scotia, 206/325 of 30 per cent,
(iv) in New Brunswick, 103/167 of 30 per cent,"

S. 103(4)(c)(vi) was amended by P.C. 1997-1744, SOR/97-531, dated November 27, 1997, applicable upon publication in the *Canada Gazette*, December 10, 1997. S. 103(4)(c)(vi) formerly read:

"(vi) in Ontario, 103/152 of 30 per cent,"

S. 103(4)(c)(vi) was amended by P.C. 1997-290, SOR/97-137, dated March 4, 1997, effective beginning on January 1, 1997. S. 103(4)(c)(vi) formerly read:

"(vi) in Ontario, 103/157 of 30 per cent,"

S. 103(4)(c)(x) was amended by P.C. 1997-290, SOR/97-137, dated March 4, 1997, effective beginning on January 1, 1997. S. 103(4)(c)(x) formerly read:

"(x) in British Columbia, 206/309 of 30 per cent,"

S. 103(4)(a)(vi) was amended by P.C. 1996-1557, SOR/96-464, dated October 8, 1996, effective July 1, 1996. S. 103(4)(a)(vi) formerly read:

"(vi) in Ontario, 103/164 of 10 per cent for payments made during the period beginning on July 1, 1993 and ending on December 31, 1993, and, after that period, 103/161 of 10 per cent,"

S. 103(4)(a)(x) was amended by P.C. 1996-1557, SOR/96-464, dated October 8, 1996, effective July 1, 1996. S. 103(4)(a)(x) formerly read:

"(x) in British Columbia, 206/311 of 10 per cent,"

S. 103(4)(b)(vi) was amended by P.C. 1996-1557, SOR/96-464, dated October 8, 1996, effective July 1, 1996. S. 103(4)(b)(vi) formerly read:

"(vi) in Ontario, 103/164 of 20 per cent for payments made during the period beginning on July 1, 1993 and ending on December 31, 1993, and, after that period, 103/161 of 20 per cent,"

S. 103(4)(b)(x) was amended by P.C. 1996-1557, SOR/96-464, dated October 8, 1996, effective July 1, 1996. S. 103(4)(b)(x) formerly read:

"(x) in British Columbia, 206/311 of 20 per cent,"

S. 103(4)(c)(vi) was amended by P.C. 1996-1557, SOR/96-464, dated October 8, 1996, effective July 1, 1996. S. 103(4)(c)(vi) formerly read:

"(vi) in Ontario, 103/164 of 30 per cent for payments made during the period beginning on July 1, 1993 and ending on December 31, 1993, and, after that period, 103/161 of 30 per cent,"

S. 103(4)(c)(x) was amended by P.C. 1996-1557, SOR/96-464, dated October 8, 1996, effective July 1, 1996. S. 103(4)(c)(x) formerly read:

"(x) in British Columbia, 206/311 of 30 per cent,"

S. 103(4)(a)(viii) was amended by P.C. 1996-500, SOR/96-205, dated April 16, 1996, to substitute "103/172" for "103/173", effective commencing July 1, 1995.

S. 103(4)(b)(viii) was amended by P.C. 1996-500, SOR/96-205, dated April 16, 1996, to substitute "103/172" for "103/173", effective commencing July 1, 1995.

S. 103(4)(c)(viii) was amended by P.C. 1996-500, SOR/96-205, dated April 16, 1996, to substitute "103/172" for "103/173", effective commencing July 1, 1995.

S. 103(4)(a)(iv) was amended by P.C. 1994-1370, SOR/94-569, dated August 16, 1994, to substitute "103/167" for "103/163", effective commencing July 1, 1993.

S. 103(4)(a)(vi) was amended by P.C. 1994-1370, SOR/94-569, dated August 16, 1994, effective commencing July 1, 1993. S. 103(4)(a)(vi) formerly read:

"(vi) in Ontario, 103/158 of 10 per cent,"

S. 103(4)(a)(xi) was amended by P.C. 1994-1370, SOR/94-569, dated August 16, 1994, effective commencing July 1, 1993. S. 103(4)(a)(xi) formerly read:

"(xi) in the Yukon Territory, 103/148 of 10 per cent,"

S. 103(4)(b)(iv) was amended by P.C. 1994-1370, SOR/94-569, dated August 16, 1994, to substitute "103/167" for "103/163", effective commencing July 1, 1993.

S. 103(4)(b)(vi) was amended by P.C. 1994-1370, SOR/94-569, dated August 16, 1994, effective commencing July 1, 1993. S. 103(4)(b)(vi) formerly read:

"(vi) in Ontario, 103/158 of 20 per cent,"

S. 103(4)(b)(xi) was amended by P.C. 1994-1370, SOR/94-569, dated August 16, 1994, effective commencing July 1, 1993. S. 103(4)(b)(xi) formerly read:

"(xi) in the Yukon Territory, 103/148 of 20 per cent,"

S. 103(4)(c)(iv) was amended by P.C. 1994-1370, SOR/94-569, dated August 16, 1994, to substitute "103/167" for "103/163", effective commencing July 1, 1993.

S. 103(4)(c)(vi) was amended by P.C. 1994-1370, SOR/94-569, dated August 16, 1994, effective commencing July 1, 1993. S. 103(4)(c)(vi) formerly read:

"(vi) in Ontario, 103/158 of 30 per cent,"

S. 103(4)(c)(xi) was amended by P.C. 1994-1370, SOR/94-569, dated August 16, 1994, effective commencing July 1, 1993. S. 103(4)(c)(xi) formerly read:

"(xi) in the Yukon Territory, 103/148 of 30 per cent,"

Ss. 103(4)(a)(i) to (iv) were amended by P.C. 1994-372, SOR/94-238, dated March 10, 1994 and effective commencing January 1, 1993. Ss. 103(4)(a)(i) to (iv) formerly read:

"(i) in Newfoundland, 104/171 of 10 per cent,
(ii) in Prince Edward Island, 208/327 of 10 per cent,
(iii) in Nova Scotia, 208/327 of 10 per cent,
(iv) in New Brunswick, 104/164 of 10 per cent,"

Ss. 103(4)(a)(vi) to (xii) were amended by P.C. 1994-372, SOR/94-238, dated March 10, 1994 and effective commencing January 1, 1993. Ss. 103(4)(a)(vi) to (xii) formerly read:

"(vi) in Ontario, 104/160 of 10 per cent,
(vii) in Manitoba, 104/169 of 10 per cent,
(viii) in Saskatchewan, 104/174 of 10 per cent,
(ix) in Alberta, 208/299 of 10 per cent,
(x) in British Columbia, 208/313 of 10 per cent,
(xi) in the Yukon Territory, 104/149 of 10 per cent,
(xii) in the Northwest Territories, 104/148 of 10 per cent, or"

Ss. 103(4)(b)(i) to (iv) were amended by P.C. 1994-372, SOR/94-238, dated March 10, 1994 and effective commencing January 1, 1993. Ss. 103(4)(b)(i) to (iv) formerly read:

"(i) in Newfoundland, 104/171 of 20 per cent,
(ii) in Prince Edward Island, 208/327 of 20 per cent,
(iii) in Nova Scotia, 208/327 of 20 per cent,
(iv) in New Brunswick, 104/164 of 20 per cent,"

Ss. 103(4)(b)(vi) to (xii) were amended by P.C. 1994-372, SOR/94-238, dated March 10, 1994 and effective commencing January 1, 1993. Ss. 103(4)(b)(vi) to (xii) formerly read:

"(vi) in Ontario, 104/160 of 20 per cent,
(vii) in Manitoba, 104/169 of 20 per cent,
(viii) in Saskatchewan, 104/174 of 20 per cent,
(ix) in Alberta, 208/299 of 20 per cent,
(x) in British Columbia, 208/313 of 20 per cent,
(xi) in the Yukon Territory, 104/149 of 20 per cent,
(xii) in the Northwest Territories, 104/148 of 20 per cent, or"

Ss. 103(4)(c)(i) to (iv) were amended by P.C. 1994-372, SOR/94-238, dated March 10, 1994 and effective commencing January 1, 1993. Ss. 103(4)(c)(i) to (iv) formerly read:

"(i) in Newfoundland, 104/171 of 30 per cent,
(ii) in Prince Edward Island, 208/327 of 30 per cent,
(iii) in Nova Scotia, 208/327 of 30 per cent,
(iv) in New Brunswick, 104/164 of 30 per cent,"

Ss. 103(4)(c)(vi) to (xii) were amended by P.C. 1994-372, SOR/94-238, dated March 10, 1994 and effective commencing January 1, 1993. Ss. 103(4)(c)(vi) to (xii) formerly read:

"(vi) in Ontario, 104/160 of 30 per cent,
(vii) in Manitoba, 104/169 of 30 per cent,
(viii) in Saskatchewan, 104/174 of 30 per cent,
(ix) in Alberta, 208/299 of 30 per cent,
(x) in British Columbia, 208/313 of 30 per cent,
(xi) in the Yukon Territory, 104/149 of 30 per cent,
(xii) in the Northwest Territories, 104/148 of 30 per cent, or"

Ss. 103(4)(a), (b) and (c) were amended by P.C. 1993-1552, SOR/93-399, dated July 21, 1993, to substitute "104/171" for "105/167" in each subparagraph (i), "208/327" for "210/329" in each subparagraph (ii), "208/327" for "210/329" in each subparagraph (iii), "104/164" for "105/165" in each subparagraph (iv), "104/160" for "105/158" in each subparagraph (vi), "104/169" for "105/168" in each subparagraph (vii), "104/174" for "105/170" in each subparagraph (viii), "208/299" for "105/156" in each subparagraph (ix), "208/313" for "210/313" in each subparagraph (x), "104/149" for "105/150" in each subparagraph (xi), and "104/148" for "105/149" in each subparagraph (xii), effective commencing July 1, 1992.

Ss. 103(4)(a)(ii), (b)(ii), and (c)(ii) were amended by P.C. 1992-2347, SOR/92-667, dated November 19, 1992, to substitute "210/329" for "105/164" in each subparagraph (ii), effective commencing January 1, 1992.

Ss. 103(4)(a)(ii), (b)(ii), and (c)(ii) were amended by P.C. 1992-291, SOR/92-138, dated February 20, 1992, to substitute "105/164" for "105/162" in each subparagraph (ii), effective beginning July 1, 1991.

Ss. 103(4)(a), (b) and (c) were amended by P.C. 1991-1643, SOR/91-536, dated September 5, 1991, to substitute "210/329" for "210/335" in each subparagraph (iii) and "105/149" for "103/150" in each subparagraph (xii), effective commencing January 1, 1991.

Ss. 103(4)(a), (b) and (c) were amended by P.C. 1991-732, SOR/91-279, dated April 18, 1991, to substitute "105/167" for "105/165" in each subparagraph (i), "105/158" for "105/157" in each subparagraph (vi), and "105/168" for "105/172" in each subparagraph (vii), effective commencing January 1, 1990.

Ss. 103(4)(a), (b) and (c) were amended by P.C. 1991-732, SOR/91-279, dated April 18, 1991, to substitute "210/335" for "210/323" in each subparagraph (iii) and "105/150" for "105/148" in each subparagraph (xii), effective commencing July 1, 1990.

Ss. 103(4)(a)(i) to (iv) and (vi) to (xii), (b)(i) to (iv) and (vi) to (xii) and (c)(i) to (iv) and (vi) to (xii) were amended by P.C. 1991-230, SOR/91-150, dated February 14, 1991, to substitute "105/165" for "103/163" in each subparagraph (i), "105/162" for "103/160" in each subparagraph (ii), "210/323" for "206/319" in each subparagraph (iii), "105/165" for "103/163" in each subparagraph (iv), "105/157" for "103/155" in each subparagraph (vi), "105/172" for "103/170" in each subparagraph (vii), "105/170" for "103/168" in each subparagraph (viii), "105/156" for "103/154" in each subparagraph (ix), "210/313" for "206/309" in each subparagraph (x), "105/150" for "103/148"in each subparagraph (xi), and "105/148" for "103/146" in each subparagraph (xii), effective commencing July 1, 1989.

Ss. 103(4)(a)(ii), (vi) and (ix) and 103(4)(b)(ii), (vi) and (ix), 103(4)(c)(ii), (vi) and (ix) were amended by P.C. 1990-432, SOR/90-161, dated March 8, 1990, to substitute "103/160" for "103/159" in each subparagraph (ii), to substitute "103/155" for "103/154" in each subparagraph (vi), and to substitute "103/154" for "206/299" in each subparagraph (ix), effective January 1, 1989.

Tax Topics: No. 1706, Retiring Allowances and E.I. Reimbursements: How Many Times Do You Have To Withhold?.

(5) Where the payment referred to in subsection (4) would be pension income or qualified pension income of the employee in respect of which subsection 118(3) of the Act would apply if the definition "pension income" in subsection 118(7) of the Act were read without reference to subparagraphs (*a*)(ii) and (iii) thereof, the payment shall be deemed to be the amount of the payment minus

(*a*) where the payment does not exceed the amount taxable referred to in paragraph 117(2)(*a*) of the Act, as adjusted annually pursuant to section 117.1 of the Act, the lesser of $1,000 and the amount of the payment;

(*b*) where the payment exceeds the amount referred to in paragraph (*a*) but does not exceed $61,509, $727;

(*c*) where the payment exceeds $61,509 but does not exceed $100,000, $615; and

(*d*) where the payment exceeds $100,000, $552.

History: S. 103(5)(*b*) and (*c*) were amended, and paragraph (*d*) was added, by P.C. 2001-1115, SOR/2001-221, dated June 14, 2001, applicable to the 2001 and subsequent taxation years. S. 103(5)(*b*) and (*c*) formerly read:

"(*b*) where the payment exceeds the amount referred to in paragraph (*a*) but does not exceed the amount taxable referred to in paragraph 117(2)(*c*) of the Act, as adjusted annually pursuant to section 117.1 of the Act, $654; and

(*c*) where the payment exceeds the amount taxable referred to in paragraph 117(2)(*c*) of the Act, as adjusted annually pursuant to section 117.1 of the Act, $586."

Ss. 103(5)(a) to (c) were amended by P.C. 1992-2347, SOR/92-667, dated November 19, 1992, effective commencing January 1, 1992. Ss. 103(5)(a) to (c) formerly read:

"(*a*) where the payment is equal to or less than $28,784, the lesser of $1,000 and the amount of the payment;

(*b*) where the payment exceeds $28,784 but does not exceed $57,568, $654; and

(*c*) where the payment exceeds $57,568, $586."

Ss. 103(5)(a) to (c) were amended by P.C. 1991-1643, SOR/91-536, dated September 5, 1991, to substitute "$28,784" for "$28,275" and "$57,568" for "56,550", wherever they appear, effective commencing January 1, 1991.

Ss. 103(5)(a) to (c) were amended by P.C. 1991-732, SOR/91-279, dated April 18, 1991, to substitute "$28,275" for "$27,803" and "$56,550" for "55,605", wherever they appear, effective commencing January 1, 1990.

Ss. 103(5)(a) to (c) were amended by P.C. 1990-432, SOR/90-161, dated March 8, 1990, to substitute "$27,803" for "$27,500" wherever it occurs, and to substitute "$55,605" for "$55,000" wherever it occurs, effective commencing January 1, 1989.

S. 103(5) was amended by P.C. 1989-2105, SOR/89-508 dated October 19, 1989 and effective July 1, 1988. S. 103(5) formerly read:

"(5) Where the payment referred to in subsection (4) would be pension income or qualified pension income of the employee determined under section 110.2 of the Act if that section were read without reference to paragraphs (2)(b) and (c) and clauses (3)(a)(i)(B) and (C) thereof, the payment shall be deemed to be the amount of the payment minus the lesser of

(*a*) $1,000; and

(*b*) the amount of the payment."

S. 103(5), the part preceding paragraph (a), was amended by P.C. 1987-2250, SOR/87-638, dated November 6, 1987. That part formerly read:

"(5) Where the payment referred to in subsection (4) is pension income or qualified pension income of the employee pursuant to section 110.2 of the Act or would be such income if that section were read without reference to paragraphs (2)(*b*) and (*c*) thereof, the payment shall be deemed to be the amount of the payment minus the lesser of"

S. 103(5), the portion preceding paragraph (a) thereof, was amended by P.C. 1983-2717, SOR/83-692, dated September 1, 1983, to add "or would be such income if that section were read without reference to paragraphs (2)(b) and (c) thereof," effective January 1, 1983.

(6) For the purposes of subsection (4), a "lump sum payment" means a payment that is

(*a*) a payment described in subparagraph 40(1)(*a*)(i) or (iii) or paragraph 40(1)(*c*) of the *Income Tax Application Rules*,

(*b*) a payment under a deferred profit sharing plan or a plan referred to in section 147 of the Act as a "revoked plan", except a payment referred to in subparagraph 147(2)(*k*)(v) of the Act,

(*c*) a payment made during the lifetime of an annuitant referred to in the definition "annuitant" in subsection 146(1) of the Act out of or under a registered retirement savings plan of that annuitant, other than

(i) a periodic annuity payment, or

(ii) a payment made by a person who has reasonable grounds to believe that the payment may be deducted under subsection 146(8.2) of the Act in computing the income of any taxpayer,

(*d*) a payment out of or under a plan referred to in subsection 146(12) of the Act as an "amended plan" other than

(i) a periodic annuity payment, or

(ii) where paragraph 146(12)(*a*) of the Act applied to the plan after May 25, 1976, a payment made in a year subsequent to the year in which that paragraph applied to the plan,

(*d*.1) a payment made during the lifetime of an annuitant referred to in the definition "annuitant" in subsection 146.3(1) of the Act under a registered retirement income fund of that annuitant, other than a payment to the extent that it is in respect of the minimum amount (within the meaning assigned by subsection 146.3(1) of the Act) under the fund for a year,

(*e*) a retiring allowance,

(*f*) a payment of an amount as, on account or in lieu of payment of, or in satisfaction of, proceeds of the surrender, cancellation or redemption of an income-averaging annuity contract, or

(*g*) a payment described in paragraph (*n*) of the definition "remuneration" in subsection 100(1).

History: S. 103(6)(*c*), the portion before subparagraph (i) was amended by P.C. 2001-1115, SOR/2001-221, dated June 14, 2001, applicable to the 2001 and subsequent taxation years. S. 103(6)(*c*), the portion before subparagraph (i) formerly read:

"(*c*) a payment made during the lifetime of an annuitant referred to in subparagraph 146(1)(*a*)(i) of the Act out of or under a registered retirement savings plan of that annuitant, other than"

S. 103(6)(*d*.1) was amended by P.C. 2001-1115, SOR/2001-221, dated June 14, 2001, applicable to the 2001 and subsequent taxation years. S. 103(6)(*d*.1) formerly read:

"(*d*.1) a payment made during the lifetime of an annuitant referred to in paragraph 146.3(1)(*a*) of the Act under a registered retirement income fund of that annuitant, other than a payment to the extent that it is in respect of the minimum amount (within the meaning assigned by paragraph 146.3(1)(*b*.1) of the Act) under the fund for a year,"

S. 103(6)(g) was added by P.C. 1998-2275, SOR/99-22, dated December 16, 1998, applicable to the 1998 and subsequent taxation years.

S. 103(6)(*a*) was amended by P.C. 1994-1817, SOR/94-686, dated November 7, 1994,by replacing the words "Income Tax Application Rules, 1971" with "Income Tax Application Rules", applicable November 7, 1994.

S. 103(6)(c) was amended by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable in respect of payments made after 1990. S. 103(6)(c) formerly read:

"(*c*) a payment made during the lifetime of an annuitant referred to in subparagraph 146(1)(a)(i) of the Act out of or under the registered retirement savings plan of that annuitant other than

(i) a periodic annuity payment, or

(ii) a payment received by a taxpayer in a year in respect of an excess amount previously paid under the registered retirement savings plan to the extent that the excess amount may be deducted in computing the taxpayer's income for the year pursuant to subsection 146(8.2) of the Act,"

(7) For the purposes of subsection 153(1) of the Act, the amount to be deducted or withheld by a person shall be 50 per cent

(*a*) of the contribution made by the person under a retirement compensation arrangement, other than

(i) a contribution made by the person as an employee,

(ii) a contribution made to a plan or arrangement that is a prescribed plan or arrangement for the purposes of subsection 207.6(6) of the Act, or

(iii) a contribution made by way of a transfer from another retirement compensation arrangement under circumstances in which subsection 207.6(7) of the Act applies; or

(*b*) of the payment by the person to a resident of Canada of an amount on account of the purchase price of an interest in a retirement compensation arrangement.

History: S. 103(7)(*a*) was amended by P.C. 1999-2211, SOR/2000-12, dated December 16, 1999, applicable after 1991 except that

(*a*) in its application to contributions made before 1996, paragraph 103(7)(*a*) of the Regulations shall be read without reference to subparagraph 103(7)(*a*)(iii);

S. 103(7)(*a*) formerly read:

"(*a*) of the contribution made by the person under a retirement compensation arrangement, other than a contribution made by the person as an employee or a contribution that is received under a transfer pursuant to subsection 207.6(7) of the Act; or"

S. 103(7)(*a*) was amended by P.C. 1998-2270, SOR/99-17, dated December 16, 1998, applicable to amounts transferred after 1995. S. 103(7)(*a*) formerly read:

"(*a*) of the contribution made by the person under a retirement compensation arrangement, other than a contribution made by the person as an employee; or"

S. 103(7) was added by P.C. 1989-379, SOR/89-147, dated March 9, 1989, applicable in respect of amounts paid after March 27, 1987.

(8) Every employer making a payment described in paragraph (*n*) of the definition "remuneration" in subsection 100(1) shall withhold — in addition to any other amount required to be withheld under Part I of these Regulations — on account of the tax payable under Part X.5 of the Act, an amount equal to

(*a*) where the amount is paid in the province of Quebec, 12 per cent of the payment, and

(*b*) in any other case, 20 per cent of the payment.

History: S. 103(8) was amended by P.C. 1999-2205, SOR/2000-10, dated December 16, 1999, deemed to have come into force on June 17, 1999. S. 103(8) formerly read:

"(8) Every person making a payment described in paragraph (*n*) of the definition 'remuneration' in subsection 100(1) shall withhold an amount equal to 20% of that payment on account of the tax payable under Part X.5 of the Act, in addition to any other amount required to be withheld under Part I of these Regulations."

S. 103(8) was added by P.C. 1998-2275, SOR/99-22, dated December 16, 1998, applicable to the 1998 and subsequent taxation years.

Deductions Not Required

104. (1) [Repealed.]

History: S. 104(1) was repealed by P.C. 2001-1115, SOR/2001-221, dated June 14, 2001, applicable to the 2001 and subsequent taxation years. S. 104(1) formerly read:

"(1) No amount shall be deducted or withheld from a payment in accordance with section 102 or 103 with respect to an employee who has filed with the employee's employer a return referred to in subsection 107(1) for a year claiming that the employee's income from employment for the year will be less than the claim amount for the year as reported on that return for the year."

S. 104(1) was amended by P.C. 1994-372, SOR/94-238, dated March 10, 1994 and effective commencing January 1, 1993. S. 104(1) formerly read:

"(1) No amount shall be deducted or withheld from a payment in accordance with section 102 or 103 with respect to an employee who has filed with the employee's employer a return in the prescribed form claiming that the employee's income from employment for the year will be less than the net claim amount for the year as reported on the return for the year referred to in subsection 107(1)."

S. 104(1) was amended by P.C. 1992-2347, SOR/92-667, dated November 19, 1992, effective commencing January 1, 1992. S. 104(1) formerly read:

"(1) No amount shall be deducted or withheld from a payment in accordance with section 102 or 103 with respect to an employee who has filed with the employee's employer a return in the prescribed form claiming that the employee's income (other than an amount required to be included in the employee's income by reason of subsection 56(5) of the Act) from all sources for the year will be less than the net claim amount for the year as reported on the return for the year referred to in subsection 107(1)."

S. 104(1) was amended by P.C. 1989-2105, SOR/89-508, dated October 19, 1989 and effective July 1, 1988. S. 104(1) formerly read:

"(1) No amount shall be deducted or withheld from a payment in accordance with section 102 or 103 in respect of an employee who has filed with his employer a return in prescribed form claiming that his income from all sources for the year will be less than his exemptions for the year."

(2) No amount shall be deducted or withheld from a payment in accordance with section 102 or 103 in respect of an employee who was neither employed nor resident in Canada at the time of payment except in respect of

(*a*) remuneration described in subparagraph 115(2)(*e*)(i) of the Act that is paid to a non-resident person who has in the year, or had in any previous year, ceased to be resident in Canada; or

(*b*) remuneration reasonably attributable to the duties of any office or employment performed or to be performed in Canada by the non-resident person.

History: S. 104(2)(b) was amended by P.C. 1997-1471, SOR/97-470, dated October 9, 1997, effective upon publication in the *Canada Gazette*, October 29, 1997. S. 104(2)(b) formerly read:

"(*b*) remuneration reasonably attributable to the duties of any office or employment performed in Canada by a non-resident person."

S. 104(2) was amended by P.C. 1978-1585, SOR/78-449, May 12, 1978, (Special Issue, *Canada Gazette*, December 31, 1978). S. 104(2) formerly read:

"(2) No amount shall be deducted or withheld from a payment in accordance with section 102 or 103 in respect of an employee who was neither employed nor resident in Canada at any time in the taxation year of the employee in which the payment is made except in respect of

(*a*) remuneration described in subparagraph 115(2)(e)(i) of the Act that is paid to a non-resident person described in paragraph 115(2)(c) of the Act; and

(*b*) remuneration reasonably attributable to the duties of any office or employment performed in Canada in a previous year by a non-resident person."

(3) No amount shall be deducted or withheld from a payment made by a person during the lifetime of an annuitant referred to in paragraph (*a*) of the definition "annuitant" in subsection 146(1) of the Act out of or under a registered retirement savings plan of the annuitant where, at the time of the payment, the annuitant has certified in prescribed form to the person that

(*a*) a written agreement has been entered into to acquire a home by either

(i) the annuitant, or

(ii) a disabled person who is related to the annuitant and who is entitled to the credit for mental or physical impairment under subsection 118.3(1) of the Act;

(*b*) the annuitant intends that the home be used as a principal place of residence in Canada for the annuitant or the disabled person, as the case may be, within one year after its acquisition;

(*c*) the home has not been previously owned by the annuitant, the annuitant's spouse or common-law partner, the disabled person or the spouse or common-law partner of that person;

(*d*) the annuitant was resident in Canada;

(*e*) the total amount of the payment and all other such payments received by the annuitant in respect of the home at or before the time of payment does not exceed $20,000;

(*f*) except where the annuitant certifies that he or she is a disabled person entitled to the credit for mental or physical impairment under subsection 118.3(1) of the Act or certifies that the payment is being withdrawn for the benefit of such a disabled person, the annuitant is a qualifying homebuyer at the time of the certification; and

(*g*) where the annuitant has withdrawn an eligible amount, within the meaning assigned by subsection 146.01(1) of the Act, before the calendar year of the certification, the total of all eligible amounts received by the annuitant before that calendar year does not exceed the total of all amounts previously designated under subsection 146.01(3) of the Act or included in computing the annuitant's income under subsection 146.01(4) or (5) of the Act.

History: S. 104(3)(*c*) was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, by replacing the word "spouse" with the words "spouse or common-law partner", applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 104(3) was amended by P.C. 1998-2272, SOR/99-19, dated December 16, 1998, applicable to payments made after 1998. S. 104(3) formerly read:

"(3) The amount to be deducted or withheld from a payment made by a person during the lifetime of an annuitant referred to in paragraph (*a*) of the definition 'annuitant' in subsection 146(1) of the Act out of or under a registered retirement savings plan of the annuitant is nil where, at the time of the payment, the annuitant has certified in prescribed form to the person that the annuitant has entered into a written agreement to acquire a home and that

(*a*) the annuitant intends to use the home as a principal place of residence in Canada within one year after its acquisition;

(*b*) the home has not previously been owned by the annuitant or the annuitant's spouse;

(*b.1*) the annuitant had no owner-occupied home in the period

(i) commencing at the beginning of the fourth preceding calendar year

ending before the time of the payment, and

(ii) ending on the 31st day before the time of the payment;

(*b.2*) the annuitant's spouse, in the period referred to in paragraph (*b.1*), had no owner-occupied home that was inhabited by the annuitant at any time during the marriage of the spouse and the annuitant;

(*c*) the annuitant was resident in Canada at the time of the payment; and

(*d*) the total amount of the payment and all other such payments in respect of the home to the annuitant at or before that time does not exceed $20,000."

S. 104(3), the part preceding paragraph (a), was amended by P.C. 1994-438, SOR/94-246, dated March 17, 1994 and applicable to payments made after March 1, 1994. That part formerly read:

"(3) The amount to be deducted or withheld from a payment made after February 25, 1992 and before March 2, 1994 by a person during the lifetime of an annuitant referred to in subparagraph 146(1)(*a*)(i) of the Act out of or under a registered retirement savings plan of the annuitant is nil where at the time of the payment the annuitant has certified in prescribed form to the person that the annuitant has entered into a written agreement to acquire a home and that"

Ss. 104(3)(b.1) and (b.2) were added by P.C. 1994-438, SOR/94-246, dated March 17, 1994 and applicable to payments made after March 1, 1994.

S. 104(3), the part preceding paragraph (a), was amended by P.C. 1993-271, SOR/93-81, dated February 11, 1993. That part formerly read:

"(3) The amount to be deducted or withheld from a payment made by a person during the lifetime of an annuitant referred to in subparagraph 146(1)(a)(i) of the Act out of or under a registered retirement savings plan of the annuitant is nil where at the time of the payment the annuitant has certified in prescribed form to the person that the annuitant has entered into a written agreement to acquire a home and that"

S. 104(3) was added by P.C. 1992-480, SOR/92-176, dated March 19, 1992, applicable in respect of payments made after February 25, 1992 and before March 2, 1993.

(3.01) For the purpose of subsection (3), the annuitant is a qualifying homebuyer at a particular time unless

(*a*) the annuitant had an owner-occupied home in the period beginning on January 1 of the fourth calendar year preceding the particular time, and ending on the thirty-first day before the particular time; or

(*b*) the annuitant's spouse or common-law partner, in the period referred to in paragraph (*a*), had an owner-occupied home that was inhabited by the annuitant at any time during the annuitant's marriage to the spouse or the annuitant's common-law partnership with the common-law partner.

History: S. 104(3.01)(*b*) was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, the amendment to s. 104(3.01)(*b*) of these Regulations applies to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years. S. 104(3.01)(*b*) formerly read:

"(*b*) the annuitant's spouse, in the period referred to in paragraph (*a*), had an owner-occupied home that was inhabited by the annuitant at any time during the marriage of the spouse and the annuitant."

S. 104(3.01) was added by P.C. 1998-2272, SOR/99-19, dated December 16, 1998, applicable to payments made after 1998.

(3.1) For the purpose of subsection (3.01), an individual shall be considered to have had an owner-occupied home at any time where the home was owned, whether jointly with another person or otherwise, by the individual at that time and inhabited by the individual as the individual's principal place of residence at that time.

History: S. 104(3.1) was amended by P.C. 1998-2272, SOR/99-19, dated December 16, 1998, applicable to payments made after 1998. S. 104(3.1) formerly read:

"(3.1) For the purposes of subsection (3), an individual shall be considered to have had an owner-occupied home at any time where the home was owned, whether jointly with another person or otherwise, by the individual at that time and inhabited by the individual as the individual's principal place of residence at that time."

S. 104(3.1) was added by P.C. 1994-438, SOR/94-246, dated March 17, 1994 and applicable to payments made after March 1, 1994.

(4) For the purposes of subsections (3), (3.01) and (3.1), "home" means

(*a*) a housing unit;

(*b*) a share of the capital stock of a cooperative housing corporation, where the holder of the share is entitled to possession of a housing unit; and

(*c*) where the context so requires, the housing unit to which a share described in paragraph (*b*) relates.

History: S. 104(4), the part preceding paragraph (a) was amended by P.C. 1998-2272, SOR/99-19, dated December 16, 1998, applicable to payments made after 1998. S. 104(4), the part preceding paragraph (a) formerly read:

"(4) For the purposes of subsections (3) and (3.1), 'home' means"

S. 104(4), the part preceding paragraph (a), was amended by P.C. 1994-438, SOR/94-246, dated March 17, 1994 and applicable to payments made after March 1, 1994. That part formerly read:

"(4) For the purposes of subsection (3), 'home' means"

S. 104(4) was added by P.C. 1992-480, SOR/92-176, dated March 19, 1992, applicable in respect of payments made after February 25, 1992 and before March 2, 1993.

Interpretation Bulletins: *Secondary* — IT-161R3 Non-residents — Exemption from tax deductions at source on employment income [Archived by the CRA].
Forms: TD1.

Lifelong Learning Plan

104.1. (1) No amount shall be deducted or withheld from a payment made by a person during the lifetime of an annuitant referred to in paragraph (*a*) of the definition "annuitant" in subsection 146(1) of the Act out of or under a registered retirement savings plan of the annuitant where, at the time of the payment, the annuitant has certified in prescribed form to the person that

(*a*) at the time of certification, the annuitant or the annuitant's spouse or common-law partner

(i) is a full-time student in a qualifying educational program,

(ii) is a part-time student in a qualifying educational program and is entitled to the credit for mental or physical impairment under subsection 118.3(1) of the Act, or

(iii) has received notification in writing of his or her entitlement, either absolutely or conditionally, to enrol before March of the year that follows the year of certification as

(A) a full-time student in a qualifying educational program, or

(B) a part-time student in a qualifying educational program where the annuitant or the annuitant's spouse or common-law partner is entitled to the credit for mental or physical impairment under subsection 118.3(1) of the Act;

(*b*) the annuitant is resident in Canada;

(*c*) the total amount of the payment and all other such payments received by the annuitant for a year at or before that time does not exceed $10,000; and

(*d*) the total payments received by the annuitant do not exceed $20,000 throughout the period in which the annuitant participates in the Lifelong Learning Plan.

History: S. 104.1(1)(*a*) was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, by replacing the word "spouse" with the words "spouse or common-law partner", applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 104.1(1) was added by P.C. 1998-2272, SOR/99-19, dated December 16, 1998, applicable to payments made after 1998.

(2) For the purpose of subsection (1), a "qualifying educational program" means a qualifying educational program at a designated educational institution (as those expressions are defined in subsection 118.6(1) of the Act), except that a reference to a "qualifying educational program" shall be read

(*a*) without reference to paragraphs (*a*) and (*b*) of that definition; and

(*b*) as if the reference to "3 consecutive weeks" in that definition were a reference to "3 consecutive months".

History: S. 104.1(2) was added by P.C. 1998-2272, SOR/99-19, dated December 16, 1998, applicable to payments made after 1998.

Non-Residents

105. (1) Every person paying to a non-resident person a fee, commission or other amount in respect of services rendered in Canada, of any nature whatever, shall deduct or withhold 15 per cent of such payment.

(2) Subsection (1) does not apply to a payment described in the definition "remuneration" in subsection 100(1).

Pending Amendment

Foreign Bank Branches — February 15, 2003 (Pre-published in the *Canada Gazette*, Part I, dated February 15, 2003)

Subsection 105(2) of the *Income Tax Regulations* is replaced by the following:

(2) Subsection (1) does not apply to a payment

(*a*) described in the definition "remuneration" in subsection 100(1); or

(*b*) made to a registered non-resident insurer (within the meaning assigned by section 804) or to an authorized foreign bank.

Applicable: After June 27, 1999.

Explanatory Note:

Regulatory Impact Analysis Statement from February 15, 2003

Subsection 105(2) of the Regulations excludes certain payments from the withholding requirement under Part I of the Act. This subsection is amended to exclude payments made to an authorized foreign bank and a registered non-resident insurer.

Explanatory Notes from December 20, 2002

Part I of the *Income Tax Regulations* provides the rules concerning the amounts to be withheld on account of tax by a person who pays any of certain amounts. Subsection 105(1) of the Regulations requires that 15% be withheld from payments made to a non-resident in respect of services rendered in Canada. Subsection 105(2) excludes "remuneration" (defined in subsection 100(1) of the Regulations) from this withholding.

Subsection 105(2) is to be amended to exclude from the subsection 105(1) withholding requirement payments made to an authorized foreign bank or to a registered non-resident insurer (within the meaning assigned by section 804 of the Regulations).

This amendment is to apply to payments made after June 27, 1999.

Information Circulars: IC 75-6R2 Required withholding from amounts paid to non-residents providing services in Canada.
Forms: R105; T1261; T4A-NR Supp; NR4; NR4 Sum; NR4 Seg.
Tax Topics: No. 1902, Regulation 105 Withholding for Services Rendered By a Canadian Subcontractor; No. 1819, The Implications of Withholding Requirements on Non-Residents Providing Services in Canada; No. 1818, Withholding Tax Obligations on Remuneration Paid to Non-Residents of Canada; No. 1719, Withholding Taxes — Purchase of Software from a Non-Resident; No. 1575, CCRA's Comments on Administration of Regulation 105.
Tax Profile: January 2009 — Enhancing Canada's International Tax Advantage; November 2008 — 2008 Cross-Border Developments in Canada; August 2007 — Professionals and Other Service Providers Beware — A Canadian Trap; July 2007 — Canadian Tax Traps; August 2005 — Canada Revenue Agency's Recent Attack on U.S. Companies; September 2002 — Canadian Withholding Taxes Update.
Cases: A U.S. resident produced a figure skating show which took place in facilities owned by the taxpayers. After each show, the taxpayers paid the net revenues to the producer. Because the payments were in respect of services provided in Canada, the taxpayers were liable for tax which they should have withheld under paragraph 153(1)(*g*). *Ogden Palladium Services (Canada) Inc. et al. v. The Queen*, 2002 DTC 7378 (F.C.A.), affirming 2001 DTC 345 (T.C.C.).

Fishermen's Election

105.1. (1) Notwithstanding section 100, in this section,

"*amount of remuneration*" paid to a fisherman means

(*a*) where a boat crewed by one or more fishermen engaged in making a catch is owned, together with the gear, by a person, other than a member of the crew, to whom the catch is to be delivered for subsequent sale or other disposition, such portion of the proceeds from the disposition of the catch that is payable to the fisherman in accordance with an arrangement under which the proceeds of disposition of the catch are to be distributed (in this section referred to as a "share arrangement");

(*b*) where the boat or gear used in making a catch is owned or leased by a fisherman who alone or with another individual engaged under a contract of service makes the catch, such portion of the proceeds from the disposition of the catch that remains after deducting therefrom

(i) the amount in respect of any portion of the catch not caught by the fisherman or the other individual,

(ii) the amount payable to the other individual under the contract of service, and

(iii) the amount of such proportionate share of the catch as is attributable to the expenses of the operation of the boat or its gear pursuant to their share arrangement;

(*c*) where a crew includes the owner of the boat or gear (in this paragraph referred to as the "owner") and any other fisherman engaged in making a catch, such portion of the proceeds from the disposition of the catch that remains after deducting therefrom

(i) in the case of an owner,

(A) the amount in respect of that portion of the catch not caught by the crew or an owner,

(B) the aggregate of all amounts each of which is an amount payable to a crew member (other than the owner) pursuant to their share arrangement or to an individual engaged under a contract of service, and

(C) the amount of such proportionate share of the catch as is attributable to the expenses of the owner's operation of the boat or its gear pursuant to their share arrangement, or

(ii) in the case of any other crew member, such proceeds from the disposition of the catch as is payable to him in accordance with their share arrangement; or

(*d*) in any other case, the proceeds of disposition of the catch payable to the fisherman;

"*catch*" means a catch of shell fish, crustaceans, aquatic animals or marine plants caught or taken from any body of water;

"*crew*" means one or more fishermen engaged in making a catch;

"*fisherman*" means an individual engaged in making a catch other than under a contract of service.

(2) Every person paying at any time in a taxation year an amount of remuneration to a fisherman who, pursuant to paragraph 153(1)(*n*) of the Act, has elected for the year in prescribed form in respect of all such amounts shall deduct or withhold 20% of each such amount paid to the fisherman while the election is in force.

History: S. 105.1 was added by P.C. 1983-2717, SOR/83-692, dated September 1, 1983, effective March 30, 1983.

VARIATIONS IN DEDUCTIONS

106. **(1)** Where an employer makes a payment of remuneration to an employee in his taxation year

(*a*) for a period for which no provision is made in Schedule I, or

(*b*) for a pay period referred to in Schedule I in an amount that is greater than any amount provided for therein,

the amount to be deducted or withheld by the employer from any such payment is that proportion of the payment that the tax that may reasonably be expected to be payable under the Act by the employee with respect to the aggregate of all remuneration that may reasonably be expected to be paid by the employer to the employee in respect of that taxation year is of such aggregate.

History: S. 106(1)(*c*) and (*d*) were repealed by P.C. 2001-1115, SOR/2001-221, dated June 14, 2001, applicable to the 2001 and subsequent taxation years. S. 106(1)(*c*) and (*d*) formerly read:

"(*c*) whose total remuneration in respect of the year is greater than any amount of total remuneration provided for in Schedule I, or

(*d*) whose personal credits and estimated deductions in respect of the year are greater than $58,999.99,"

S. 106(1)(d) was amended by P.C. 1989-2105, SOR/89-508, dated October 19, 1989 to substitute "personal credits" for "exemptions" and to substitute "$58,999.99" for "$42,199.99", effective July 1, 1988.

S. 106(1)(d) was amended by P.C. 1985-1645, SOR/85-453 dated May 16, 1985 to substitute "$42,199.99" for "$41,899.99", effective January 1, 1985.

S. 106(1)(d) was amended by P.C. 1984-3684, SOR/84-913, dated November 15, 1984 to substitute "$41,899.99" for "$41,699.99", effective January 1, 1984.

S. 106(1)(d) was amended by P.C. 1983-2717, SOR/83-692, dated September 1, 1983, to substitute "$41,699.99" for "$41,499.99", effective January 1, 1983.

S. 106(1)(d) was amended to substitute "$41,499.99" for "$40,999.99" by P.C. 1983-1137, SOR/83-349, dated April 15, 1983, effective January 1, 1982.

S. 106(1), that portion to the end of paragraph (d), was amended by P.C. 1981-1557, SOR/81-471, dated June 12, 1981 and effective January 1, 1981. That part formerly read:

"(1) Where, in a taxation year, an employer makes a payment of a remuneration to an employee

(*a*) for a pay period for which no provision is made in Schedule I,

(*b*) for a pay period in an amount that is greater than any provided for in Schedule I for that pay period, or

(*c*) whose total remuneration in respect of the year is greater than any amount of total remuneration provided for in Schedule I,"

S. 106(1)(c) was added by P.C. 1980-3375, SOR/80-941, dated December 11, 1980 and effective January 1, 1981.

(2) [Revoked.]

History: S. 106(2) was revoked by P.C. 1984-3684, SOR/84-913, dated November 15, 1984, effective January 1, 1984. S. 106(2) formerly read:

"(2) In lieu of deducting or withholding an amount from a payment of remuneration,

(*a*) under 8 subsection 102(1), (2) or (3), including any such payment in respect of income from employment to which subsection 8(10) of the Act applies, or

(*b*) where that payment is in respect of income from employment to which subsection 8(10) of the Act applies, under subsection 103(1), (2) or (3), as the case may be, an employer may, with the approval of the Minister, deduct or withhold from such payment the amount that would be required to be deducted or withheld therefrom as if subsection (1) were applicable thereto."

S. 106(2) was amended by P.C. 1981-1557, SOR/81-471, dated June 12, 1981 and effective January 1, 1981, to substitute paragraphs (a) and (b) for "under subsection 102(1) or (2)".

(3) [Revoked.]

History: S. 106(3) was revoked by P.C. 1984-3684, SOR/84-913, dated November 15, 1984, effective January 1, 1984. S. 106(3) formerly read:

"(3) Where subsection 8(10) of the Act applies to an employee's income from employment and where paragraph (1)(a), (b), (c) or (d), as the case may be, applies to a payment of remuneration in respect of that employment, an employer may, with the approval of the Minister, deduct or withhold from such payment the amount that would be required to be deducted or withheld therefrom as if subsection (1) were applicable thereto."

S. 106(3) was added by P.C. 1981-1557, SOR/81-471, dated June 12, 1981 and effective January 1, 1981.

EMPLOYEE'S RETURNS

107. **(1)** The return required to be filed by an employee under subsection 227(2) of the Act shall be filed by the employee with the employer when the employee commences employment with that employer and a new return shall be filed thereunder within 7 days after the date on which a change occurs that may reasonably be expected to result in a change in the employee's personal credits for the year.

History: S. 107(1) was amended by P.C. 1989-2105, SOR/89-508 dated October 19, 1989 to substitute "the employee" for "him" following "to be filed", to delete "his" from between "commences" and "employment", and to substitute "personal credits" for "exemptions", effective July 1, 1988.

Information Circulars: IC 98-1R3 Collections Policies.
Forms: TD1.

(2) Notwithstanding subsection (1), where, in a year, an employee receives payments in respect of commissions or in respect of commissions and salary or wages, and the employee elects to file a prescribed form for the year in addition to the return referred to in that subsection, that form shall be filed with the employee's continuing employer on or before January 31 of that year and, where applicable, within one month after the employee commences employment with a new employer or within one month after the date on which a change occurs that may reasonably be expected to result in a substantial change in the employee's estimated total remuneration for the year or estimated deductions for the year.

History: S. 107(2) was amended by P.C. 2001-1115, SOR/2001-221, dated June 14, 2001, applicable to the 2001 and subsequent taxation years. S. 107(2) formerly read:

"(2) Notwithstanding subsection (1), where, in a year, an employee receives payments in respect of commissions or in respect of commissions and salary or wages, and he elects to file a prescribed form for a year in addition to the return referred to in that subsection, that form shall be filed with his continuing employer on or before January 31 of the year and, where applicable, within one month after he commences his employment with a new employer or within one month of the date on which a change occurs that may reasonably be expected to result in

(*a*) a change in the employee's personal credits for the year, or

(*b*) a substantial change in his estimated total remuneration for the year or estimated deductions for the year."

S. 107(2)(a) was amended by P.C. 1989-2105, SOR/89-508, dated October 19, 1989 to substitute "personal credits" for "exemptions" effective July 1, 1988.

S. 107(2)(a) was added by P.C. 1981-1557, SOR/81-471, dated June 12, 1981 and effective January 1, 1981.

S. 107(2) was added by P.C. 1980-3375, SOR/80-941 dated December 11, 1980 and effective January 1, 1981.

Forms: TD1X.

(3) Where, in a taxation year, an employee has elected to file the prescribed form referred to in subsection (2) and has filed such form with his employer, the employee may at

any time thereafter in the year revoke that election and such revocation is effective from the date that he notifies his employer in writing of his intention.

History: S. 107(3) was added by P.C. 1980-3375, SOR/80-941 dated December 11, 1980 and effective January 1, 1981.

Remittances to Receiver General

108. (1) Subject to subsections (1.1), (1.11) and (1.12), amounts deducted or withheld in a month under subsection 153(1) of the Act shall be remitted to the Receiver General on or before the 15th day of the following month.

History: S. 108(1) was amended by P.C. 1997-1473, SOR/97-472, dated October 9, 1997, applicable to amounts and contributions required to be remitted to the Receiver General after October 1997. S. 108(1) formerly read:

"S. 108. (1) Subject to subsections (1.1) and (1.11), amounts deducted or withheld under subsection 153(1) of the Act shall be remitted to the Receiver General on or before the 15th day of the month following the month in which the amounts were deducted or withheld."

S. 108(1) was amended by P.C. 1993-321, SOR/93-93, dated February 23, 1993 and applicable in respect of amounts deducted or withheld from payments made after March 10, 1993. S. 108(1) formerly read:

"(1) Amounts deducted or withheld under subsection 153(1) of the Act shall be remitted to the Receiver General on or before the 15th day of the month next following the month in which the amounts were deducted or withheld."

(1.1) Subject to subsection (1.11), where the average monthly withholding amount of an employer for the second calendar year preceding a particular calendar year is

(*a*) equal to or greater than $15,000 and less than $50,000, all amounts deducted or withheld from payments described in the definition "remuneration" in subsection 100(1) that are made in a month in the particular calendar year by the employer shall be remitted to the Receiver General

(i) in respect of payments made before the 16th day of the month, on or before the 25th day of the month, and

(ii) in respect of payments made after the 15th day of the month, on or before the 10th day of the following month; or

(*b*) equal to or greater than $50,000, all amounts deducted or withheld from payments described in the definition "remuneration" in subsection 100(1) that are made in a month in the particular calendar year by the employer shall be remitted to the Receiver General on or before the third day, not including a Saturday or holiday, after the end of the following periods in which the payments were made,

(i) the period beginning on the first day and ending on the 7th day of the month,

(ii) the period beginning on the 8th day and ending on the 14th day of the month,

(iii) the period beginning on the 15th day and ending on the 21st day of the month, and

(iv) the period beginning on the 22nd day and ending on the last day of the month.

History: S. 108(1.1) was amended by P.C. 1993-321, SOR/93-93, dated February 23, 1993 and applicable in respect of amounts deducted or withheld from payments made after March 10, 1993. S. 108(1.1) formerly read:

"(1.1) Notwithstanding subsection (1),

(*a*) where the average monthly withholding amount of an employer for the second calendar year preceding a particular calendar year is equal to or greater than $15,000 and less than $50,000, all amounts deducted or withheld from payments described in the definition 'remuneration' in subsection 100(1) made in a month in the particular year by the employer shall be remitted to the Receiver General

(i) in respect of payments made before the 16th day of the month, on or before the 25th day of the month, and

(ii) in respect of payments made after the 15th day of the month, on or before the 10th day of the following month; and

(*b*) where the average monthly withholding amount of an employer for the second calendar year preceding a particular calendar year is equal to or greater than $50,000, all amounts deducted or withheld from payments described in the definition 'remuneration' in subsection 100(1) made in a month in the particular year by the employer shall be remitted to the Receiver General on or before the 3rd day, not including a Saturday or a holiday, after the end of the following periods in which the payments were made:

(i) the first 7 days of the month,

(ii) the period after the 7th day of the month and before the 15th day of the month,

(iii) the period after the 14th day of the month and before the 22nd day of the month, and

(iv) the part of the month that is after the 21st day of the month."

S. 108(1.1) was amended by P.C. 1989-2390, SOR/89-579, dated December 7, 1989 and applicable in respect of amounts deducted or withheld from payments made after 1989. S. 108(1.1) formerly read:

"(1.1) Notwithstanding subsection (1), where the average monthly withholding amount of an employer for the second calendar year preceding a particular calendar year is not less than $15,000, amounts deducted or withheld from payments described in the definition 'remuneration' in subsection 100(1) made in the particular year by the employer shall be remitted to the Receiver General

(*a*) for payments made before the 16th day of a month, on or before the 25th day of the month; and

(*b*) for payments made after the 15th day of a month, on or before the 10th day of the following month."

S. 108(1.1) was added by P.C. 1987-2476, SOR/87-718, dated December 10, 1987 and applicable in respect of amounts deducted or withheld from payments made after 1987.

(1.11) Where an employer referred to in paragraph (1.1)(*a*) or (*b*) would otherwise be required to remit in accordance with that paragraph the amounts withheld or deducted under subsection 153(1) of the Act in respect of a particular calendar year, the employer may elect to remit those amounts

(*a*) in accordance with subsection (1), if the average monthly withholding amount of the employer for the calendar year preceding the particular calendar year is less than $15,000 and the employer has advised the Minister that the employer has so elected; or

(*b*) if the average monthly withholding amount of the employer for the calendar year preceding the particular calendar year is equal to or greater than $15,000 and less than $50,000 and the employer has advised the Minister that the employer has so elected,

(i) in respect of payments made before the 16th day of a month in the particular calendar year, on or before the 25th day of the month, and

(ii) in respect of payments made after the 15th day of a month in particular calendar year, on or before the 10th day of the following month.

History: S. 108(1.11) was added by P.C. 1993-321, SOR/93-93, dated February 23, 1993 and applicable in respect of amounts deducted or withheld from payments made after March 10, 1993.

(1.12) If at any time

(*a*) the average monthly withholding amount in respect of an employer for either the first or the second calendar year before the particular calendar year that includes that time is less than $3,000,

(*b*) throughout the 12-month period before that time, the employer has remitted, on or before the day on or before which the amounts were required to be remitted, all amounts each of which was required to be remitted under subsection 153(1) of the Act, under subsection 21(1) of the *Canada Pension Plan*,

under subsection 82(1) of the *Employment Insurance Act* or under Part IX of the *Excise Tax Act*, and

(c) throughout the 12-month period before that time, the employer has filed all returns each of which was required to be filed under this Act or Part IX of the *Excise Tax Act* on or before the day on or before which those returns were required to be filed under those Acts,

all amounts deducted or withheld from payments described in the definition "remuneration" in subsection 100(1) that are made by the employer in a month that ends after that time and that is in the particular calendar year may be remitted to the Receiver General

(d) in respect of such payments made in January, February and March of the particular calendar year, on or before the 15th day of April of the particular year,

(e) in respect of such payments made in April, May and June of the particular calendar year, on or before the 15th day of July of the particular year,

(f) in respect of such payments made in July, August and September of the particular calendar year, on or before the 15th day of October of the particular year, and

(g) in respect of such payments made in October, November and December of the particular calendar year, on or before the 15th day of January of the year following the particular year.

History: S. 108(1.12)(*a*) and (*b*) were replaced by S.C. 2007, c. 35, s. 71(1), applicable in respect of amounts required to be deducted or withheld after 2007. S. 108(1.12)(*a*) and (*b*) formerly read:

"(*a*) the average monthly withholding amount in respect of an employer for either the first or the second calendar year before the particular calendar year that includes that time is less than $1,000,

(*b*) throughout the 12-month period before that time, the employer has remitted, on or before the day on or before which the amounts were required to be remitted, all amounts each of which was required to be

(i) deducted or withheld under subsection 153(1) of the Act, or

(ii) remitted under Part IX of the *Excise Tax Act*, and"

S. 108(1.12) was added by P.C. 1997-1473, SOR/97-472, dated October 9, 1997, applicable to amounts and contributions required to be remitted to the Receiver General after October 1997.

(1.2) For the purposes of this section, average monthly withholding amount, in respect of an employer for a particular calendar year, is the quotient obtained when

(a) the aggregate of all amounts each of which is an amount required to be remitted with respect to the particular year under

(i) subsection 153(1) of the Act and a similar provision of a law of a province which imposes a tax upon the income of individuals, where the province has entered into an agreement with the Minister of Finance for the collection of taxes payable to the province, in respect of payments described in the definition "remuneration" in subsection 100(1),

(ii) subsection 21(1) of the *Canada Pension Plan*, or

(iii) subsection 82(1) of the *Employment Insurance Act* or subsection 53(1) of the *Unemployment Insurance Act*,

by the employer or, where the employer is a corporation, by each corporation associated with the corporation in a taxation year of the employer ending in the second calendar year following the particular year

is divided by

(b) the number of months in the particular year, not exceeding twelve, for which such amounts were required to be remitted by the employer and, where the employer is a corporation, by each corporation associated with it in a taxation year of the employer ending in the second calendar year following the particular year.

History: S. 108(1.2)(a)(iii) was amended by P.C. 1998-2270, SOR/99-17, dated December 16, 1998, applicable to the 1998 and subsequent taxation years. S. 108(1.2)(a)(iii) formerly read:

"(iii) subsection 53(1) of the *Unemployment Insurance Act*"

Ss. 108(1.2)(a)(ii) and (iii) were amended by P.C. 1991-1643, SOR/91-536, dated September 5, 1991, effective commencing December 13, 1988. Ss. 108(1.2)(a)(ii) and (iii) formerly read:

"(ii) subsection 22(1) of the *Canada Pension Plan*, or

(iii) subsection 68(1) of the *Unemployment Insurance Act, 1971*"

S. 108(1.2) was added by P.C. 1987-2476, SOR/87-718, dated December 10, 1987 and applicable in respect of amounts deducted or withheld from payments made after 1987.

(1.3) For the purposes of subsection (1.2), where a particular employer that is a corporation has acquired in a taxation year of the corporation ending in a particular calendar year all or substantially all of the property of another employer used by the other employer in a business

(a) in a transaction in respect of which an election was made under subsection 85(1) or (2) of the Act,

(b) by virtue of an amalgamation within the meaning assigned to that term by section 87 of the Act, or

(c) as the result of a winding-up in respect of which subsection 88(1) of the Act is applicable,

the other employer shall be deemed to be a corporation associated with the particular employer in the taxation year and each taxation year ending at any time in the next two following calendar years.

History: S. 108(1.3) was added by P.C. 1987-2476, SOR/87-718, dated December 10, 1987, applicable in respect of amounts deducted or withheld from payments made after 1987.

(2) Where an employer has ceased to carry on business, any amount deducted or withheld under subsection 153(1) of the Act that has not been remitted to the Receiver General shall be paid within 7 days of the day when the employer ceased to carry on business.

(3) Remittances made to the Receiver General under subsection 153(1) of the Act shall be accompanied by a return in prescribed form.

Forms: PD24.

(4) Amounts deducted or withheld under subsection 153(4) of the Act shall be remitted to the Receiver General within 60 days after the end of the taxation year subsequent to the 12-month period referred to in that subsection.

Information Circulars: IC 71-9R Unclaimed dividends.

Elections to Increase Deductions

109. (1) Any election under subsection 153(1.2) of the Act shall be made by filing with the person making the payment or class of payments referred to therein (in this section referred to as the "payer") the form prescribed by the Minister for that purpose.

(2) A taxpayer who has made an election in the manner prescribed by subsection (1) may require that the amount deducted or withheld pursuant to that election be varied by filing with the payer the form prescribed by the Minister for that purpose.

(3) An election made in the manner prescribed by subsection (1) or a variation made pursuant to subsection

(2) need not be taken into account by the payer in respect of the first payment to be made to the taxpayer after the election or variation, as the case may be, unless the election or variation, as the case may be, is made within such time, in advance of the payment, as may reasonably be required by the payer.

Forms: TD1.

PRESCRIBED PERSONS

110. (1) The following are prescribed persons for the purposes of subsection 153(1) of the Act:

(*a*) an employer who is required, under subsection 153(1) of the Act and in accordance with paragraph 108(1.1)(*b*), to remit amounts deducted or withheld; and

(*b*) a person or partnership who, acting on behalf of one or more employers, remits the following amounts in a particular calendar year and whose average monthly remittance, in respect of those amounts, for the second calendar year preceding the particular calendar year, is equal to or greater than $50,000,

(i) amounts required to be remitted under subsection 153(1) of the Act and a similar provision of a law of a province that imposes a tax on the income of individuals, where the province has entered into an agreement with the Minister of Finance for the collection of taxes payable to the province, in respect of payments described in the definition "remuneration" in subsection 100(1),

(ii) amounts required to be remitted under subsection 21(1) of the *Canada Pension Plan*, and

(iii) amounts required to be remitted under subsection 82(1) of the *Employment Insurance Act* or subsection 53(1) of the *Unemployment Insurance Act*.

History: S. 110(1)(b)(iii) was amended by P.C. 1998-2270, SOR/99-17, dated December 16, 1998, applicable to the 1998 and subsequent taxation years. S. 110(1)(b)(iii) formerly read:

"(iii) amounts required to be remitted under subsection 53(1) of the *Unemployment Insurance Act*."

S. 110(1) was added by P.C. 1993-1947, SOR/93-535, dated December 2, 1993, and effective December 15, 1993.

(2) For the purposes of paragraph (1)(*b*), the average monthly remittance made by a person or partnership on behalf of all the employers for whom that person or partnership is acting, for the second calendar year preceding the particular calendar year, is the quotient obtained when the aggregate, for that preceding year, of all amounts referred to in subparagraphs (1)(*b*)(i) to (iii) remitted by the person or partnership on behalf of those employers is divided by the number of months, in that preceding year, for which the person or partnership remitted those amounts.

History: S. 110(2) was added by P.C. 1993-1947, SOR/93-535, dated December 2, 1993, and effective December 15, 1993.

PART II
Information Returns

REMUNERATION AND BENEFITS

200. (1) Every person who makes a payment described in subsection 153(1) of the Act (other than an annuity payment in respect of an interest in an annuity contract to which subsection 201(5) applies) shall make an information return in prescribed form in respect of the payment unless an information return in respect of the payment has been made under sections 202, 214, 237 or 238.

History: S. 200(1) was amended by P.C. 2002-2169, SOR/2003-5, dated December 12, 2002, applicable on publication in the *Canada Gazette* on January 1, 2003. S. 200(1) formerly read:

"(1) Every person who makes a payment described in subsection 153(1) of the Act (other than an annuity payment in respect of an interest in an annuity contract to which subsection 201(5) applies) shall make an information return in prescribed form in respect of such payment unless an information return in respect of such payment has been made under section 202 or 214."

Interpretation Bulletins: *Secondary*— IT-75R4 Scholarships, fellowships, bursaries, prizes, research grants and financial assistance.
Information Circulars: IC 74-6R2 Power saw expenses [Archived by the CRA]; IC 82-2R2 Social insurance number legislation that relates to the preparation of information slips; IC 97-2R8 Customized forms.

(2) Every person who makes a payment as or on account of, or who confers a benefit or allocates an amount that is,

(*a*) a scholarship, fellowship or bursary, or a prize for achievement in a field of endeavour ordinarily carried on by the recipient thereof (other than a prize prescribed by section 7700),

(*b*) a grant to enable the recipient thereof to carry on research or any similar work,

(*c*) an amount that is required by paragraph 56(1)(*r*) of the Act to be included in computing a taxpayer's income,

(*d*) a benefit under regulations made under an *Appropriation Act* providing for a scheme of transitional assistance benefits to persons employed in the production of products to which the *Canada–United States Agreement on Automotive Products*, signed on January 16, 1965, applies,

(*e*) a benefit described in section 5502,

(*f*) an amount payable to a taxpayer on a periodic basis in respect of the loss of all or any part of his income from an office or employment, pursuant to

(i) a sickness or accident insurance plan,

(ii) a disability insurance plan, or

(iii) an income maintenance insurance plan,

to or under which his employer has made a contribution,

(*g*) an amount or benefit the value of which is required by paragraph 6(1)(*a*), (*e*) or (*h*) or subsection 6(9) of the Act to be included in computing a taxpayer's income from an office or employment, other than a payment referred to in subsection (1),

(*h*) a benefit the amount of which is required by virtue of subsection 15(5) of the Act to be included in computing a shareholder's income,

(*i*) a benefit deemed by subsection 15(9) of the Act to be a benefit conferred on a shareholder by a corporation, or

(*j*) a payment out of a registered education savings plan, other than a refund of payments,

shall make an information return in prescribed form in respect of such payment or benefit except where subsection (3) or (4) applies with respect to the payment or benefit.

History: S. 200(2)(*j*) was added by P.C. 1998-2275, SOR/99-22, dated December 16, 1998, applicable to the 1998 and subsequent taxation years.

S. 200(2)(*c*) was amended by P.C. 1998-2270, SOR/99-17, dated December 16, 1998, applicable to the 1998 and subsequent taxation years. S. 200(2)(*c*) formerly read:

"(*c*) a training allowance paid under the *National Training Act*, except to the extent that it was paid to the recipient thereof as or on account of an allowance for his personal or living expenses while he was away from home,"

Paragraph 200(2)(*e*) was amended by P.C. 1995-1023, SOR/95-298, dated June 23, 1995, applicable to benefits paid after October 1991. That paragraph formerly read:

"(*e*) a benefit under the *Labour Adjustment Benefits Act*,"

S. 200(2)(*a*) was amended to add "(other than a prize prescribed by section 7700)" by P.C. 1989-1923, SOR/89-473, dated September 28, 1989, applicable in respect of the 1983 and subsequent taxation years.

S. 200(1) was amended by P.C. 1983-3586, SOR/83-867, dated November 18, 1983. S. 200(1) formerly read:

"(1) Every person who makes a payment described in subsection 153(1) of the Act shall make an information return in prescribed form in respect of such payment other than a payment in respect of which an information return has been made under section 202 or 214."

Ss. 200(2)(*c*), (*e*), (*g*) and (*h*) were amended by P.C. 1983-3585, SOR/83-866, dated November 18, 1983. Those provisions formerly read:

"(*c*) an adult training allowance paid under the *Adult Occupational Training Act*, except to the extent that it was paid to the recipient thereof as or on account of an allowance for his personal or living expenses while he was living away from home,"

"(*e*) a benefit under any law of Canada providing for a scheme of adjustment assistance benefits to persons employed in the production of textile and clothing goods,"

"(*g*) an amount or benefit the value of which is required by paragraph 6(1)(a) or (h) or subsection 6(9) of the Act to be included in computing a taxpayer's income from an office or employment, other than a payment referred to in subsection (1),"

"(*h*) a benefit under any law of Canada providing for a scheme of adjustment assistance benefits to persons employed in the leather tanning industry or in the production of leather footwear, or"

S. 200(2), the part following paragraph (*i*), was amended by P.C. 1983-3585, SOR/83-866, dated November 18, 1983. That part formerly read:

"shall make an information return in prescribed form in respect of such payment or benefit."

S. 200(2), that part preceding paragraph (*a*), was amended to add "or allocates an amount" and paragraph (*g*) was amended to add the references to an amount and to paragraph 6(1)(*h*) by P.C. 1981-3209, SOR/81-936, dated November 13, 1981 and effective with respect to amounts allocated in respect of the 1980 and subsequent taxation years.

S. 200(2), that part preceding paragraph (*a*) was amended to make reference to a benefit and paragraph (*i*) was added by P.C. 1979-3327, SOR/79-939, dated December 6, 1979 and effective for the 1979 and subsequent taxation years.

S. 200(2)(*g*) was amended by P.C. 1978-3629, SOR/78-909, December 1, 1978, (Special Issue, *Canada Gazette*, December 31, 1978), applicable to the 1979 and subsequent taxation years, by adding the reference to subsection 6(9) and the words "a taxpayer's".

Information Circulars: IC 74-21R Payments out of pension and deferred profit sharing plans–ITAR 40; IC 75-6R2 Required withholding from amounts paid to non-residents providing services in Canada; IC 77-1R5 Deferred profit sharing plan; IC 82-2R2 Social insurance number legislation that relates to the preparation of information slips; IC 97-2R8 Customized forms.
Forms: T4 Sum.; T4A Sum.; T4A Seg.; T4; T4A; T4 Seg.; T4F Sum.; T4F.
Tax Topics: No. 1369, Contract payment reporting.

(3) Where a benefit is included in computing a taxpayer's income from an office or employment pursuant to paragraph 6(1)(*a*) or (*e*) of the Act in respect of an automobile made available to the taxpayer or to a person related to the taxpayer by a person related to the taxpayer's employer, the employer shall make an information return in prescribed form in respect of the benefit.

History: S. 200(3) was added by P.C. 1983-3585, SOR/83-866, dated November 18, 1983.

(4) Where a benefit is included in computing the income of a shareholder of a corporation by virtue of subsection 15(5) of the Act in respect of an automobile made available to the shareholder or to a person related to the shareholder by a person related to the corporation, the corporation shall make an information return in prescribed form in respect of the benefit.

History: S. 200(4) was added by P.C. 1983-3585, SOR/83-866, dated November 18, 1983.

(5) Where a particular qualifying person (within the meaning assigned by subsection 7(7) of the Act) has agreed to sell or issue a security (within the meaning assigned by that subsection) of the particular qualifying person (or of a qualifying person with which it does not deal at arm's length) to a taxpayer who is an employee of the particular qualifying person (or of a qualifying person with which it does not deal at arm's length) and the taxpayer has acquired the security under the agreement in circumstances to which subsection 7(8) of the Act applied, each of the particular qualifying person, the qualifying person of which the security is acquired and the qualifying person which is the taxpayer's employer shall, for the particular taxation year in which the security is acquired, make an information return in the prescribed form in respect of the benefit from employment that the taxpayer would be deemed to have received in the particular taxation year in respect of the acquisition of the security if the Act were read without reference to subsection 7(8) and, for this purpose, an information return made by one of the qualifying persons in respect of the taxpayer's acquisition of the security is deemed to have been made by each of the qualifying persons.

History: S. 200(5) was added by P.C. 2003-1497, SOR/2003-328, dated October 2, 2003, applicable to the 2000 and subsequent taxation years.

Investment Income

201. (1) Every person who makes a payment to a resident of Canada as or on account of

(*a*) a dividend or an amount deemed by the Act to be a dividend (other than a dividend deemed to have been paid to a person under any of subsections 84(1) to (4) of the Act where, pursuant to subsection 84(8) of the Act, those subsections do not apply to deem the dividend to have been received by the person),

(*b*) interest (other than the portion of the interest to which any of subsections (4) to (4.2) applies)

(i) on a fully registered bond or debenture,

(ii) in respect of

(A) money on loan to,

(B) money on deposit with, or

(C) property of any kind deposited or placed with,

, a corporation, association, organization or institution,

(iii) in respect of an account with an investment dealer or broker,

(iv) paid by an insurer in connection with an insurance policy or an annuity contract, or

(v) on an amount owing in respect of compensation for property expropriated,

(*c*) a royalty payment in respect of the use of a work or invention or a right to take natural resources,

(*d*) a payment referred to in subsection 16(1) of the Act that can reasonably be regarded as being in part a payment of interest or other payment of an income nature and in part a payment of a capital nature, where the payment is made by a corporation, association, organization or institution,

(*e*) an amount paid from a person's NISA Fund No. 2, or

(*f*) an amount that is required by subsection 148.1(3) of the Act to be added in computing a person's income for a taxation year

shall make an information return in prescribed form in respect of the portion of such payment for which an information return has not previously been made under this section.

History: S. 201(1)(*b*), that portion before subparagraph (i) was amended by P.C. 1996-1419, SOR/96-435, dated September 11, 1996, applicable in respect of debt obligations issued after October 16, 1991. That portion formerly read:

"(*b*) interest (other than the portion of such interest to which subsection (4) applies)"

S. 201(1)(*f*) was added by P.C. 1996-765, SOR/96-283, dated May 28, 1996, applicable to payments made after 1995.

S. 201(1)(*a*) was amended by P.C. 1983-3585, SOR/83-866 dated November 18, 1983 to add the portion in brackets. It formerly read:

"(*a*) a dividend or an amount deemed by the Act to be a dividend."

S. 201(1)(*b*) was amended by P.C. 1983-3586, SOR/83-867, dated November 18, 1983, to add the portion in brackets.

S. 201(1), the portion following paragraph (*d*), was amended by P.C. 1983-3586, SOR/83-867, dated November 18, 1983. That portion formerly read:

"shall make an information return in prescribed form in respect of such payment."

S. 201(1)(*b*)(v) was added by P.C. 1979-3327, SOR/79-939, dated December 6, 1979 and effective for the 1980 and subsequent taxation years.

S. 201(1)(*e*) was added by P.C. 1993-1939, SOR/93-527, dated December 2, 1993 and applicable after 1993 in respect of amounts paid after 1992.

Information Circulars: IC 71-9R Unclaimed dividends; IC 82-2R2 Social insurance number legislation that relates to the preparation of information slips; IC 97-2R8 Customized forms.
Forms: T5 Sum.; T5; T619.

(2) Every person who receives as nominee or agent for a person resident in Canada a payment to which subsection (1) applies shall make an information return in prescribed form in respect of such payment.

History: S. 201(2) was amended by P.C. 1983-3586, SOR/83-867, dated November 18, 1983. S. 201(2) formerly read:

"(2) Every person who receives a payment referred to in subsection (1) as nominee or agent for another person resident in Canada shall make an information return in prescribed form in respect of the payment so received."

(3) Where a person negotiates a bearer coupon, warrant or cheque representing interest or dividends referred to in subsection 234(1) of the Act for another person resident in Canada and the name of the beneficial owner of the interest or dividends is not disclosed on an ownership certificate completed pursuant to that subsection, the person negotiating the coupon, warrant or cheque, as the case may be, shall make an information return in prescribed form in respect of the payment received.

(4) A person or partnership that is indebted in a calendar year under a debt obligation in respect of which subsection 12(4) of the Act and paragraph (1)(*b*) apply with respect to a taxpayer shall make an information return in prescribed form in respect of the amount that would, if the year were a taxation year of the taxpayer, be included as interest in respect of the debt obligation in computing the taxpayer's income for the year.

History: S. 201(4) was amended by P.C. 1996-1419, SOR/96-435, dated September 11, 1996, applicable in respect of debt obligations issued after October 16, 1991. S. 201(4) formerly read:

"(4) Every person or partnership that is indebted under, or that holds as nominee or agent for a person resident in Canada, an interest in an investment contract described in any of subparagraphs (1)(*b*)(i) to (v) in respect of which subsection 12(4) of the Act requires an amount to be included in computing a taxpayer's income for a taxation year ending in a calendar year shall, for each such taxpayer and calendar year, make an information return in prescribed form in respect of the amount of interest that would be required by that subsection to be included in computing the income of that taxpayer for the year in respect of the investment contract if that taxation year were the calendar year."

S. 201(4) was amended by P.C. 1991-172, SOR/91-123, dated January 31, 1991, applicable with respect to investment contracts acquired or materially altered after 1989. S. 201(4) formerly read:

"(4) Every person who is indebted under, or holds as nominee or agent for a person resident in Canada, an interest in an investment contract (other than a Canada Savings Bond or a debt obligation in bearer form) described in any of subparagraphs (1)(*b*)(i) to (v) in respect of which subsection 12(4) of the Act applies, or would apply but for an election made in respect thereof under subsection 12(8) of the Act, for a taxation year ending in a calendar year shall make an information return in prescribed form in respect of the amount of interest that would, but for subsection 12(8) of the Act, be included in computing the income for the year of a taxpayer in respect of the investment contract if the taxpayer's taxation year were the calendar year."

S. 201(4) was amended by P.C. 1986-842, SOR/86-426, dated April 11, 1986, applicable to the 1985 and subsequent taxation years. S. 201(4) formerly read:

"(4) Every person who is indebted under, or holds as nominee or agent for a person resident in Canada, a debt obligation (other than a debt obligation in bearer form or a Canada Savings Bond) described in any of subparagraphs (1)(*b*)(i) to (v) in respect of which subsection 12(3), (4) or (8) of the Act applies for a taxation year ending in a calendar year shall make an information return in prescribed form in respect of the amount of interest that would be included in computing the income for the year of a taxpayer in respect of the debt obligation by virtue of subsection 12(3), (4) or (8) of the Act if the taxpayer's taxation year were the calendar year."

S. 201(4) was added by P.C. 1983-3586, SOR/83-367, dated November 18, 1983.

(4.1) A person or partnership that is indebted in a calendar year under an indexed debt obligation in respect of which paragraph (1)(*b*) applies shall, for each taxpayer who holds an interest in the debt obligation at any time in the year, make an information return in prescribed form in respect of the amount that would, if the year were a taxation year of the taxpayer, be included as interest in respect of the debt obligation in computing the taxpayer's income for the year.

History: S. 201(4.1) was added by P.C. 1996-1419, SOR/96-435, dated September 11, 1996, applicable in respect of debt obligations issued after October 16, 1991.

(4.2) Where, at any time in a calendar year, a person or partnership holds, as nominee or agent for a taxpayer resident in Canada, an interest in a debt obligation referred to in paragraph (1)(*b*) that is

(*a*) an obligation in respect of which subsection 12(4) of the Act applies with respect to the taxpayer, or

(*b*) an indexed debt obligation,

that person or partnership shall make an information return in prescribed form in respect of the amount that would, if the year were a taxation year of the taxpayer, be included as interest in respect of the debt obligation in computing the taxpayer's income for the year.

History: S. 201(4.2) was added by P.C. 1996-1419, SOR/96-435, dated September 11, 1996, applicable in respect of debt obligations issued after October 16, 1991.

(5) Every insurer (within the meaning assigned by paragraph 148(10)(*a*) of the Act) who is a party to a life insurance policy (within the meaning assigned by paragraph 138(12)(*f*) [subsection 138(12) "life insurance policy"] of the Act) in respect of which an amount is to be included in computing a taxpayer's income pursuant to subsection 12.2(1), (3) or (5) or paragraph 56(1)(*d*.1) of the Act shall make an information return in prescribed form in respect of that amount.

History: S. 201(5) was amended by P.C. 1991-172, SOR/91-123, dated January 31, 1991, to delete the reference to s. 12.2(4) and to substitute "that amount" for "such amount", applicable with respect to life insurance policies acquired or materially altered after 1989.

S. 201(5) was added by P.C. 1983-3586, SOR/83-867, dated November 18, 1983.

(6) Every person who makes a payment to, or acts as a nominee or agent for, an individual resident in Canada in respect of the disposition or redemption of a debt obligation in bearer form shall make an information return in prescribed form in respect of the transaction indicating the proceeds of disposition or the redemption amount and such other information as may be required by the prescribed form.

History: S. 201(6) was added by P.C. 1988-2452, SOR/88-554, dated October 31, 1988 and effective after 1988.

(7) For the purposes of subsection (6), "debt obligation in bearer form" means any debt obligation in bearer form other than

(*a*) a debt obligation that is redeemed for the amount for which the debt obligation was issued;

(*b*) a debt obligation described in paragraph 7000(1)(*b*); and

(*c*) a coupon, warrant or cheque referred to in subsection 207(1).

History: S. 201(7) was added by P.C. 1988-2452, SOR/88-554, dated October 31, 1988, effective after 1988.

Payments to Non-Residents

202. (1) Every person resident in Canada who pays or credits, or is deemed by Part I or Part XIII of the Act to pay or credit, to a non-resident person an amount as, on account or in lieu of payment of, or in satisfaction of,

(*a*) a management or administration fee or charge,

(*b*) interest,

(*c*) income of or from an estate or trust,

(*d*) rent, royalty or a similar payment referred to in paragraph 212(1)(*d*) of the Act, including any payment described in any of subparagraphs 212(1)(*d*)(i) to (viii) of the Act,

(*e*) a timber royalty as described in paragraph 212(1)(*e*) of the Act,

(*f*) [Repealed.]

(*g*) a dividend, including a patronage dividend as described in paragraph 212(1)(*g*) of the Act, or

(*h*) a payment for a right in or to the use of

(i) a motion picture film, or

(ii) a film or video tape for use in connection with television,

shall, in addition to any other return required by the Act or these Regulations, make an information return in prescribed form in respect of such amount.

History: S. 202(1)(*f*) was repealed by P.C. 2002-2169, SOR/2003-5, dated December 12, 2002, applicable on publication in the *Canada Gazette* on January 1, 2003. S. 202(1)(*f*) formerly read:

"(*f*) alimony or other payment referred to in paragraph 212(1)(*f*) of the Act,"

S. 202(1)(*i*) was revoked by P.C. 1988-390, SOR/88-165, dated March 3, 1988, applicable with respect to dividends paid after May 23, 1985, other than dividends declared on or before that date. S. 202(1)(*i*) formerly read:

"(i) a stock dividend described in paragraph 212(2)(*c*) of the Act that is not a dividend by virtue of subparagraph (*b*)(ii) of the definition 'dividend' in subsection 248(1) of the Act,"

S. 202(1)(*i*) was added by P.C. 1980-1366, SOR/80-382, dated May 23, 1980 and effective November 17, 1978.

Editorial Note: The Explanatory Note for subsection 218.3(10) in Part XIII.2 of the *Income Tax Act* (contained in the legislative release dated December 6, 2004 for Bill C-33 amendments (S.C. 2005, c. 19)) states that it "is expected that sections 202 and 210 of the Regulations will be amended to make reference to Part XIII.2".

Information Circulars: IC 77-16R4 Non-resident income tax (paras. 55 to 57); IC 97-2R8 Customized Forms.
Forms: NR4 Sum.; NR4.

(1.1) Every person who pays or credits an amount, or provides a benefit to or on behalf of a person who is either a non-resident individual who is an actor or that is a corporation related to such an individual, for the provision in Canada of acting services of the actor in a film or video production, shall, in addition to any other return required by the Act or these Regulations, make an information return in prescribed form in respect of such payment, credit or benefit.

History: S. 202(1.1) was added by P.C. 2005-694, SOR/2005-123, dated May 3, 2005, applicable upon publication in the *Canada Gazette*, May 18, 2005.

(2) Every person resident in Canada who pays or credits, or is deemed by Part I or Part XIII of the Act to pay or credit, to a non-resident person an amount as, on account or in lieu of payment of, or in satisfaction of,

(*a*) a payment of a superannuation or pension benefit,

(*b*) a payment of any allowance or benefit described in any of subparagraphs 56(1)(*a*)(ii) to (vi) of the Act,

(*c*) a payment by a trustee under a registered supplementary unemployment benefit plan,

(*d*) a payment out of or under a registered retirement savings plan or a plan referred to in subsection 146(12) of the Act as an amended plan,

(*e*) a payment under a deferred profit sharing plan or a plan referred to in subsection 147(15) of the Act as a revoked plan,

(*f*) a payment under an income-averaging annuity contract, any proceeds of the surrender, cancellation, redemption, sale or other disposition of an income-averaging annuity contract, or any amount deemed by subsection 61.1(1) of the Act to have been received by the non-resident person as proceeds of the disposition of an income-averaging annuity contract,

(*g*) an annuity payment not described in any other paragraph of this subsection or subsection (1),

(*h*) a payment to which paragraph 212(1)(*p*) of the Act applies,

(*i*) a payment out of or under a registered retirement income fund,

(*j*) a payment that is or that would be, if paragraph 212(1)(*r*) of the Act were read without reference to subparagraph 212(1)(*r*)(ii), a payment described in that paragraph in respect of a registered education savings plan,

(*k*) a grant under a program prescribed for the purposes of paragraph 212(1)(*s*) of the Act,

(*l*) a payment described in paragraph 212(1)(*j*) of the Act in respect of a retirement compensation arrangement, or

(*m*) a payment described in paragraph 212(1)(*v*) of the Act,

shall, in addition to any other return required by the Act or these Regulations, make an information return in prescribed form in respect of such amount.

History: S. 202(2)(*h*) was replaced by S.C. 2009, c. 2, s. 83(1), applicable to the 2009 and subsequent taxation years. S. 202(2)(*h*) formerly read:

"(*h*) a payment of a portion thereof, to which paragraph 212(1)(*p*) of the Act applies, out of or under a fund, plan, or trust that was on December 31, 1985 a registered home ownership savings plan (within the meaning assigned by paragraph 146.2(1)(*h*) of the Act as it read in its application to the 1985 taxation year),"

S. 202(2)(*m*) was added by P.C. 1999-2212, SOR/2000-13, dated December 16, 1999, applicable to payments made or credited after 1999.

S. 202(2)(*j*) was amended by P.C. 1998-2275, SOR/99-22, dated December 16, 1998, applicable to the 1998 and subsequent taxation years. S. 202(2)(j) formerly read:

"(*j*) a payment described in paragraph 212(1)(*l*) of the Act in respect of a registered education savings plan,"

S. 202(2)(*l*) was added by P.C. 1988-1476, SOR/88-395, dated July 21, 1988 and applicable with respect to amounts paid or credited after March 27, 1987.

S. 202(2)(*h*) was amended by P.C. 1986-1103, SOR/86-522, dated May 8, 1986, applicable to amounts paid after 1985. S. 202(2)(h) formerly read:

"(*h*) a payment out of or under a registered home ownership savings plan,"

S. 202(2)(*b*) was amended by P.C. 1983-3585, SOR/83-866 dated November 18, 1983 to substitute "paragraphs 56(1)(*a*)(ii) to (vi)" for "paragraphs 56(1)(*a*)(ii) to (viii)".

S. 202(2)(*h*) was amended by P.C. 1983-3585, SOR/83-866, dated November 18, 1983 to substitute "out of or under" for "from a trust governed by".

S. 202(2)(*k*) was added by P.C. 1981-3209, SOR/81-936, dated November 13, 1981 and effective in respect of grants paid or credited after 1980.

S. 202(2)(*b*) was amended by changing to "(viii)" a reference to "(vii)" and s. 202(2)(*j*) was added, both changes effected by P.C. 1980-1366, SOR/80-382, dated May 23, 1980 and effective March 1, 1979.

S. 202(2)(*i*) was added by P.C. 1979-1725, SOR/79-487, dated June 22, 1979, effective June 30, 1978.

Forms: NR4 Sum.; NR4.

(2.1) Every person resident in Canada who pays an amount to a non-resident person from a NISA Fund No. 2 shall, in addition to any other return required by the Act or these Regulations, make an information return in prescribed form in respect of the amount.

History: S. 202(2.1) was added by P.C. 1993-1939, SOR/93-527, dated December 2, 1993 and applicable after 1993 in respect of amounts paid after 1992.

(3) Every person who is paid or credited with an amount referred to in subsection (1), (2) or (2.1) for or on behalf of a non-resident person shall make an information return in prescribed form in respect of the amount.

History: S. 202(3) was amended by P.C. 1993-1939, SOR/93-527, dated December 2, 1993 and applicable after 1993 in respect of amounts paid after 1992. S. 202(3) formerly read:

"(3) Every person who is paid or credited with an amount referred to in subsection (1) or (2) for or on behalf of a non-resident person shall make an information return in prescribed form in respect of such amount."

(4) A non-resident person who is deemed, under subsection 212(13) of the Act, to be a person resident in Canada for the purposes of section 212 of the Act shall be deemed, in the same circumstances, to be a person resident in Canada for the purposes of subsections (1) and (2).

(5) A partnership that is deemed, under paragraph 212(13.1)(*a*) of the Act, to be a person resident in Canada for the purposes of Part XIII of the Act shall be deemed, in the same circumstances, to be a person resident in Canada for the purposes of subsections (1) and (2).

(6) A non-resident person who is deemed, under subsection 212(13.2) of the Act, to be a person resident in Canada for the purposes of Part XIII of the Act shall be deemed, in the same circumstances, to be a person resident in Canada for the purposes of subsections (1) and (2).

(7) Subject to subsection (8), an information return required under this section shall be filed on or before March 31 and shall be in respect of the preceding calendar year.

(8) Where an amount referred to in subsection (1) or (2) is income of or from an estate or trust, the information return required under this section in respect thereof shall be filed within 90 days from the end of the taxation year of the estate or trust in which the amount was paid or credited and shall be in respect of that taxation year.

203. (1) [Repealed.]

History: The heading for S. 203 and S. 203(1) were repealed by P.C. 2002-2169, SOR/2003-5, dated December 12, 2002, applicable on publication in the *Canada Gazette* on January 1, 2003. S. 203(1) formerly read:

"CERTAIN INCOME IN RESPECT OF NON-RESIDENTS

S. 203. (1) Every person in Canada who, as a nominee, agent, or custodian receives income derived from a source within the United States on behalf of a person whose address is outside Canada shall make an information return in prescribed form in respect of such income."

(2) [Repealed.]

History: S. 203(2) was repealed by P.C. 2002-2169, SOR/2003-5, dated December 12, 2002, applicable on publication in the *Canada Gazette* on January 1, 2003. S. 203(2) formerly read:

"(2) The return required under this section shall be filed on or before March 15 and shall be in respect of the preceding calendar year."

ESTATES AND TRUSTS

204. (1) Every person having the control of, or receiving income, gains or profits in a fiduciary capacity, or in a capacity analogous to a fiduciary capacity, shall make a return in prescribed form in respect thereof.

Information Circulars: IC 73-13 Investment clubs; IC 77-1R5 Deferred profit sharing plan; IC 78-5R3 Communal organizations; IC 78-14R4 Guidelines for trust companies and other persons responsible for filing T3GR, T3D, T3P, T3S, T3RI, and T3F returns;IC 82-2R2 Social insurance number legislation that relates to the preparation of information slips; IC 97-2R8 Customized Forms.

Forms: T3; T3S; T3D; T3P; T3GR; T3S.

(2) The return required under this section shall be filed within 90 days from the end of the taxation year and shall be in respect of the taxation year.

(3) Subsection (1) does not require a trust to make a return for a taxation year at the end of which it is

(*a*) governed by a deferred profit sharing plan or by a plan referred to in subsection 147(15) of the Act as a revoked plan;

(*b*) governed by an employees profit sharing plan;

(*c*) a registered charity;

(*d*) governed by an eligible funeral arrangement,

(*d*.1) a cemetery care trust;

(*e*) governed by a registered education savings plan; or

(*f*) governed by a TFSA or by an arrangement that is deemed by paragraph 146.2(9)(*a*) of the Act to be a TFSA.

History: S. 204(3)(*f*) was added by S.C. 2009, c. 2, s. 84(1), applicable to the 2009 and subsequent taxation years.

S. 204(3)(*d*.1) was added by P.C. 1999-2212, SOR/2000-13, dated December 16, 1999, applicable to the 1998 and subsequent taxation years.

S. 204(3)(*e*) was added by P.C. 1998-2275, SOR/99-22, dated December 16, 1998, applicable to the 1998 and subsequent taxation years.

S. 204(3), that portion before paragraph (*a*), was amended by P.C. 1996-765, SOR/96-283, dated May 28, 1996, applicable to the 1993 and subsequent taxation years. That portion formerly read:

"(3) This section does not apply in respect of a trust that is"

S. 204(3)(*d*) was added by P.C. 1996-765, SOR/96-283, dated May 28, 1996, applicable to the 1993 and subsequent taxation years.

Interpretation

204.1. (1) The following definitions apply in this section.

"*public investment trust*", at any time, means a public trust all or substantially all of the fair market value of the property of which is, at that time, attributable to the fair market value of property of the trust that is

(*a*) units of public trusts;

(*b*) partnership interests in public partnerships (as defined in subsection 229.1(1));

(*c*) shares of the capital stock of public corporations; or

(*d*) any combination of properties referred to in paragraphs (*a*) to (*c*).

History: S. 204.1(1), the definition "public investment trust" was added by S.C. 2007, c. 35, s. 72(1), applicable to information in respect of taxation years that end on or after July 4, 2007.

"*public trust*", at any time, means a mutual fund trust the units of which are, at that time, listed on a designated stock exchange in Canada.

History: S. 204.1(1), the definition "public trust" was added by S.C. 2007, c. 35, s. 72(1), applicable to information in respect of taxation years that end on or after July 4, 2007.

Required Information Disclosure

(2) A trust that is, at any time in a taxation year of the trust, a public trust shall, within the time required by subsection (3),

(*a*) make public, in prescribed form, information in respect of the trust for the taxation year by posting that prescribed form, in a manner that is accessible to the general public, on the Internet website of CDS Innovations Inc.; and

(*b*) notify the Minister in writing as to when the posting of the prescribed form, as required by paragraph (*a*), has been made.

History: S. 204.1(2) was added by S.C. 2007, c. 35, s. 72(1), applicable to information in respect of taxation years that end on or after July 4, 2007.

Required Disclosure Time

(3) The time required for a public trust to satisfy the requirements of subsection (2) in respect of the public trust for a taxation year of the public trust is

(*a*) subject to paragraph (*b*), on or before the day that is 60 days after the end of the taxation year; and

(*b*) where the public trust is, at any time in the taxation year, a public investment trust, on or before the day that is 67 days after the end of the calendar year in which the taxation year ends.

History: S. 204.1(3) was added by S.C. 2007, c. 35, s. 72(1), applicable to information in respect of taxation years that end on or after July 4, 2007.

DATE RETURNS TO BE FILED

205. **(1)** All returns required under this Part shall be filed with the Minister without notice or demand and, unless otherwise specifically provided, on or before the last day of February in each year and shall be in respect of the preceding calendar year.

(2) Where a person who is required to make a return under this Part discontinues his business or activity, the return shall be filed within 30 days of the day of the discontinuance of the business or activity and shall be in respect of any calendar year or a portion thereof prior to the discontinuance of the business or activity for which a return has not previously been filed.

ELECTRONIC FILING

205.1. A person who is required to make an information return under this Part, or who files an information return on behalf of a person who is required to make an information return under this Part, shall file the information return with the Minister in an electronic format if more than 500 such returns are to be filed for the calendar year.

Pending Amendment

Electronic Filing — May 7, 2005 (Pre-published in the *Canada Gazette*, Part I, dated May 7, 2005)

Section 205.1 of the *Income Tax Regulations* is replaced by the following:

205.1. (1) A person who is required to make an information return under this Part, or who files an information return on behalf of a person who is required to make an information return under this Part, shall transmit the information return to the Minister in the prescribed electronic form if more than 500 information returns are to be filed by that person for the calendar year.

(2) Every transmission referred to in subsection (1) shall include, in the prescribed electronic form, a summary of the information returns contained in the transmission.

(3) For the purposes of subsections 162(7) to (8) of the Act, failure to make a transmission as required by subsections (1) and (2) is deemed to be failure to file an information return as and when required by the Act or these Regulations.

Applicable: To the 2001 and subsequent taxation years.

Explanatory Note:

Regulatory Impact Analysis Statement from May 7, 2005

Description

Section 205.1 was added to the *Income Tax Regulations* (the Regulations) in 1999. Until 2001, as a transitional measure, the Canada Revenue Agency (CRA) did not issue penalties for the failure to comply with this new requirement. In 2001, taxpayers were notified that the penalties provided for in subsection 162(7) of the *Income Tax Act* (the Act) would be applied for the failure to file these large returns electronically.

At that time, and for the first time, CRA officials realized that a strict interpretation of the provisions of section 205.1 of the Regulations, taken with the penalty provisions of subsection 162(7) of the Act, would result in the imposition of minimum penalties of $5,000 per day, to a maximum of $1.25 million, for the failure by a taxpayer to file returns electronically.

Owing to the obvious excess of this penalty, the CRA limited the penalty to $100 per day, to a maximum of $2,500, by characterizing the transmission itself as one information return and applying the provisions of subsection 162(7) against that return. This penalty reduction was made using the authority of the Minister to waive all or part of a penalty, as set out in subsection 220(3.1) of the Act.

This amendment to section 205.1 of the Regulations will make it clear in law that the "failure" that will attract a penalty is the failure to file the "package" of returns electronically; it is not the failure to file each of the individual information returns included in the package.

Alternatives

No alternative was considered to these amendments.

This is the only manner in which the Regulations can be amended to address the unintended consequence of the failure to comply with section 205.1 of the Regulations.

Benefits and costs

There are no costs of these amendments to taxpayers, tax practitioners or the CCRA. Taxpayers will benefit, as this amendment clarifies the original intent of the CRA with respect to a failure to comply with section 205.1 of the Regulations. Taxpayers will also benefit since the "reduced penalty" will no longer be subject to the discretionary application of a Ministerial waiver.

Consultation

Officials of the Department of Finance were consulted on this amendment.

Compliance and enforcement

The CCRA administers the provisions of the Income Tax Act and the Regulations. The Act contains penalty provisions if these provisions are not complied with. Compliance with these amendments will be ensured through the mechanisms currently in place.

Contact
Mr. Grant Wilkinson, Legislative Policy Directorate, Place de Ville, Tower A, 22nd floor, 320 Queen Street, Ottawa, Ontario K1A 0L5, (613) 957-2079 (telephone), grant. wilkinson@ccra-adrc.gc.ca (electronic mail).

History: S. 205.1 was added by P.C. 1998-2273, SOR/99-20, dated December 16, 1998, applicable in respect of returns required to be filed for the 1999 and subsequent calendar years.

Legal Representatives and Others

206. (1) Where a person, who is required to make a return under this Part, has died, such return shall be filed by his legal representative within 90 days of the date of death and shall be in respect of any calendar year or a portion thereof prior to the date of death for which a return has not previously been filed.

(2) Every trustee in bankruptcy, assignee, liquidator, curator, receiver, trustee or committee and every agent or other person administering, managing, winding-up, controlling or otherwise dealing with the property, business, estate or income of a person who has not filed a return as required by this Part shall file such return.

Ownership Certificates

207. (1) An ownership certificate completed pursuant to section 234 of the Act shall be delivered to the debtor or encashing agent at the time the coupon, warrant or cheque referred to in that section is negotiated.

Information Circulars: IC 82-2R2 Social insurance number legislation that relates to the preparation of information slips.
Forms: T600; T600B.

(2) The debtor or encashing agent to whom an ownership certificate has been delivered pursuant to subsection (1) shall forward it to the Minister on or before the 15th day of the month following the month the coupon, warrant or cheque, as the case may be, was negotiated.

(3) The operation of section 234 of the Act is extended to a bearer coupon or warrant negotiated by or on behalf of a non-resident person who is subject to tax under Part XIII of the Act in respect of such a coupon or warrant.

Information Circulars: IC 77-16R4 Non-resident income tax; IC 97-2R8 Customized Forms.
Forms: NR601; NR602.

Dispositions of Income-Averaging Annuity Contracts

208. Every person who carries on a business referred to in paragraph 61(4)(*b*) [subsection 61(4) "life insurance policy"] of the Act shall make an information return in prescribed form in respect of

(*a*) any amount paid by that person to a resident of Canada as, on account or in lieu of payment of, or in satisfaction of, proceeds of the surrender, cancellation, redemption, sale or other disposition of an income-averaging annuity contract; or

(*b*) any amount deemed by subsection 61.1(1) of the Act to have been received by an individual resident in Canada as proceeds of the disposition of an income-averaging annuity contract that was made with that person.

History: S. 208, that part preceding paragraph (*a*), was amended by P.C. 1983-3585, SOR/83-866, dated November 18, 1983 and effective November 13, 1981, to substitute "paragraph 61(4)(*b*)" for "subparagraph 61(4)(*b*)(i)".

Information Circulars: IC 82-2R2 Social insurance number legislation that relates to the preparation of information slips; IC 97-2R8 Customized Forms.
Forms: T5 Sum.; T5.

Distribution of Taxpayers' Portions of Returns

209. (1) A person who is required by section 200, 201, 202, 204, 208, 212, 214, 215, 217 or 218, subsection 223(2) or section 228, 229, 230, 232, 233 or 234 to make an information return shall forward to each taxpayer to whom the return relates two copies of the portion of the return that relates to that taxpayer.

History: S. 209(1) was replaced by S.C. 2009, c. 2, s. 85(1), applicable to the 2009 and subsequent taxation years. S. 209(1) formerly read:

"(1) Every person who is required by section 200, 201, 202, 204, 208, 212, 214, 215, 217, 218, 223, 226, 227, 228, 229, 230, 232, 233 or 234 to make an information return shall forward to each taxpayer to whom the return relates two copies of the portion of the return that relates to that taxpayer."

S. 209(1) was amended by P.C. 1993-1939, SOR/93-527, dated December 2, 1993 and applicable after 1993 in respect of amounts paid after 1992. S. 209(1) formerly read:

"(1) Every person who is required by section 200, 201, 202, 204, 208, 212, 214, 215, 217, 218, 223, 226, 227, 228, 229, 230, 232 or 233 to make an information return shall forward to each taxpayer to whom the return relates two copies of the portion of the return that relates to that taxpayer."

S. 209(1) was amended by P.C. 1992-1567, SOR/92-455, dated July 20, 1992 to add "who is" after "Every person", to add the references to ss. 232 and 233 and to replace "relating to" with "that relates to", applicable to the 1991 and subsequent years.

S. 209(1) was amended by P.C. 1989-2156, SOR/89-519, dated October 26, 1989 to add the references to ss. 229 and 230, to replace "in respect of whose income" with "to whom", and to delete a comma following "relates", applicable November 8, 1989.

S. 209(1) was amended by P.C. 1987-1681, dated August 14, 1987 to add the reference to s. 228, to delete a comma following the phrase "to each taxpayer", and to substitute "the return relating to that taxpayer" for "the return relating to the taxpayer", effective after December 18, 1986.

S. 209(1) was amended by P.C. 1985-374, SOR/85-160, dated February 8, 1985, to add the references to ss. 215, 226 and 227 and to substitute "to make an information return" for "to file a return", effective February 20, 1985.

(2) The copies referred to in subsection (1) shall be sent to the taxpayer at his last known address or delivered to him in person, on or before the date the return is required to be filed with the Minister.

(3) A person may send a document, as required under subsection (1), in an electronic format if the person has received the express consent of the taxpayer, and in that case, the person shall send a single copy to the taxpayer, on or before the date on which the return referred to in subsection (1) is to be filed with the Minister.

History: S. 209(3) was added by P.C. 2002-2169, SOR/2003-5, dated December 12, 2002, applicable on publication in the *Canada Gazette* on January 1, 2003.

(4) In subsection (3), "express consent" means consent given in writing or in an electronic format.

History: Ss. 209(4) was added by P.C. 2002-2169, SOR/2003-5, dated December 12, 2002, applicable on publication in the *Canada Gazette* on January 1, 2003.

Tax Deduction Information

210. Every person who makes or has at any time made a payment described in section 153 of the Act and every person who pays or credits or has at any time paid or credited, or is deemed by Part I or Part XIII of the Act to pay or credit or to have at any time paid or credited, an amount described in Part XIII of the Act shall, on demand by registered letter from the Minister make an information return in prescribed form containing the information required therein and shall file the return with the Minister within such reasonable time as may be stipulated in the registered letter.

Editorial Note: The Explanatory Note for subsection 218.3(10) in Part XIII.2 of the *Income Tax Act* (contained in the legislative release dated December 6, 2004 for Bill C-33 amendments (S.C. 2005, c. 19)) states that it

"is expected that sections 202 and 210 of the Regulations will be amended to make reference to Part XIII.2".

Accrued Bond Interest

211. (1) Every financial company making a payment in respect of accrued interest by virtue of redemption, assignment or other transfer of a bond, debenture or similar security (other than an income bond, an income debenture or an investment contract in respect of which subsection 201(4) applies) shall make an information return in prescribed form.

History: S. 211(1) was amended by P.C. 1991-172, SOR/91-123, dated January 31, 1991, to substitute ", an income debenture or an investment contract in respect of which subsection 201(4) applies)" for "or an income debenture),", applicable with respect to investment contracts acquired or materially altered after 1989.

Information Circulars: IC 82-2R2 Social insurance number legislation that relates to the preparation of information slips.
Forms: T600; T600B.

(2) The return referred to in subsection (1) shall be forwarded to the Minister on or before the 15th day of the month following the month in which the payment referred to in subsection (1) is made.

(3) For the purposes of this section, a financial company includes a bank, an investment dealer, a stockbroker, a trust company and an insurance company.

(4) The provisions of subsection (1) do not apply to a payment made by one financial company to another financial company.

Employees Profit Sharing Plans

212. (1) Every trustee of an employees profit sharing plan shall make an information return in prescribed form.

Interpretation Bulletins: *Secondary* — IT-280R Employees profit sharing plans — Payments computed by reference to profits.
Information Circulars: IC 82-2R2 Social insurance number legislation that relates to the preparation of information slips; IC 97-2R8 Customized Forms.
Forms: T4PS Sum.; T4PS.

(2) Notwithstanding subsection (1), the return required under this section may be filed by the employer instead of by the trustee.

Electric, Gas or Steam Corporations

213. (1) Every corporation engaged in the distribution or generation of electrical energy, gas or steam shall make an information return in prescribed form in respect of each taxation year of the corporation.

(2) The return required under this section shall be filed within six months from the end of the taxation year in respect of which the return is made.

Registered Retirement Savings Plans

214. (1) Every person who pays any of the following amounts shall make an information return in prescribed form:

(*a*) an amount that is required by subsection 146(8) of the Act to be included in computing the income of a taxpayer for a taxation year;

(*b*) an amount that is an eligible amount, within the meaning of subsection 146.01(1) of the Act; or

(*c*) an amount that is an eligible amount, within the meaning of subsection 146.02(1) of the Act.

History: S. 214(1) was amended by P.C. 2002-2169, SOR/2003-5, dated December 12, 2002, effective on the day on which subsection 146.01(8) of the Act is repealed. Paragraph 214(1)(*b*) applies to payments made in 2002 and subsequent years and paragraph 214(1)(*c*) applies to payments made in 1999 and subsequent years. S. 214(1) formerly read:

"(1) Every person who pays an amount that is required by subsection 146(8) of the Act to be included in computing the income of a taxpayer for a taxation year shall make an information return in prescribed form."

Information Circulars: IC 82-2R2 Social insurance number legislation that relates to the preparation of information slips; IC 97-2R8 Customized Forms.
Forms: T4RSP Sum.; T4RSP Supp.

(2) Where, in a taxation year, subsection 146(6), (7), (9), or (10) of the Act is applicable in respect of a trust governed by a registered retirement savings plan, the trustee of such a plan shall make an information return in prescribed form.

Forms: T3GR.

(3) Where, in respect of an amended plan referred to in subsection 146(12) of the Act, an amount is required to be included in computing the income of a taxpayer for a taxation year, the issuer of the plan shall make an information return in prescribed form.

History: S. 214(3) was amended by P.C. 1983-3585, SOR/83-866, dated November 18, 1983, to substitute "issuer" for "trustee".

(4) Where subsection 146(8.8) of the Act deems an amount to be received by an annuitant as a benefit out of or under a registered retirement savings plan and such amount is required by subsection 146(8) of the Act to be included in computing the income of that annuitant for a taxation year, the issuer of the plan shall make an information return in prescribed form.

History: S. 214(4) was amended by P.C. 1983-3585, SOR/83-866, dated November 18, 1983, to substitute "issuer" for "trustee".

S. 214(4) was added by P.C. 1980-1735, SOR/80-502, dated June 26,1980 and effective June 30, 1978.

Forms: T4RSP Sum.; T4RSP Supp.

(5) If a payment or transfer of property to which paragraph 146(16)(*b*) of the Act applies is made from a plan, the issuer of the plan shall make an information return in prescribed form in respect of the payment or transfer.

History: S. 214(5) was replaced by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable after 2002. S. 214(5) formerly read:

"(5) If a payment or transfer of property to which subsection 146(16) of the Act applies is made, the issuer of the plan from which the payment or transfer was made shall make an information return in prescribed form in respect of the payment or transfer."

S. 214(5) was amended by P.C. 2002-2169, SOR/2003-5, dated December 12, 2002, applicable on publication in the *Canada Gazette* on January 1, 2003. S. 214(5) formerly read:

"(5) If a payment or transfer of funds to which subsection 146(16) of the Act applies is made, from a registered retirement savings plan under which the taxpayer is the annuitant to another registered retirement savings plan under which the annuitant is the taxpayer's spouse or common-law partner or former spouse or common-law partner or an individual who is party to a void or voidable marriage, the issuer of each such plan and each annuitant shall jointly make an information return in prescribed form."

S. 214(5) was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, the amendment to s. 214(5) of these Regulations applies to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years. S. 214(5) formerly read:

"(5) Where in a taxation year a transfer or payment of funds is made from a registered retirement savings plan under which the taxpayer is the annuitant to another registered retirement savings plan under which the taxpayer's spouse or former spouse or an individual who is party to a void or voidable marriage is the annuitant and subsection 146(16) of the Act applies in respect of the payment or transfer, the issuer of each such plan and each annuitant shall jointly make an information return in prescribed form."

S. 214(5) was amended by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable in respect of transfers and payments made after 1987. S. 214(5) formerly read:

"(5) Where in a taxation year a transfer or payment of funds is made from a registered retirement savings plan under which the taxpayer is the annuitant (within the meaning assigned by paragraph 146(1)(a) of the Act) to another registered retirement savings plan under which the taxpayer's spouse or former spouse is the annuitant and subsection 146(16) of the Act applies to the payment or transfer by virtue of subparagraph (a)(ii) thereof, the

issuer of each such plan and each annuitant shall jointly make an information return in prescribed form."

S. 214(5) was added by P.C. 1983-3585, SOR/83-866, dated November 18, 1983 and applicable with respect to transfers and payments made on and after November 24, 1983.

(6) Where an amount may be deducted under subsection 146(8.92) of the Act in computing the income of a deceased annuitant under a registered retirement savings plan, the issuer of the plan shall make an information return in prescribed form in respect of the amount.

History: S. 214(6) was added by S.C. 2009, c. 2, s. 86(1), applicable after 2008.

S. 214(6) was repealed by P.C. 2002-2169, SOR/2003-5, dated December 12, 2002, applicable on publication in the *Canada Gazette* on January 1, 2003. S. 214(6) formerly read:

"(6) The return referred to in subsection (5) in respect of a particular payment or transfer described therein shall, within 30 days of the payment or transfer, be filed by the issuer of the registered retirement savings plan from which the payment or transfer was made."

S. 214(6) was added by P.C. 1983-3585, SOR/83-866, dated November 18, 1983.

(7) In this section, "annuitant" and "issuer" have the meanings assigned by subsection 146(1) of the Act.

History: S. 214(7) was amended by P.C. 2002-2169, SOR/2003-5, dated December 12, 2002, applicable on publication in the *Canada Gazette* on January 1, 2003. S. 214(7) formerly read:

"(7) In this section,
'annuitant' has the meaning assigned by paragraph 146(1)(*a*) of the Act;
'issuer' has the meaning assigned by paragraph 146(1)(*c.1*) of the Act;
'spouse' [Repealed.]"

S. 214(7), the definition "spouse" was repealed by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, the repeal of the definition of "spouse" in s. 214(7) of these Regulations applies to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years. S. 214(7), the definition "spouse" formerly read:

"'spouse' has the meaning assigned by subsection 146(1.1) of the Act."

S. 214(7) was amended by P.C. 1991-2540, SOR/92 51, dated December 23, 1991, applicable in respect of transfers and payments made after 1987. S. 214(7) formerly read:

"(7) In this section, 'issuer' has the meaning assigned by paragraph 146(1)(*c.1*) of the Act."

S. 214(7) was added by P.C. 1983-3585, SOR/83-866, dated November 18, 1983.

214.1. (1) The issuer of a registered retirement savings plan shall make an information return in prescribed form in respect of the amounts that have been paid by the annuitant, or by the spouse or common-law partner of the annuitant, under the plan in a contribution year

(*a*) as consideration for any contract referred to in paragraph (*a*) of the definition "retirement savings plan" in subsection 146(1) of the Act to pay a retirement income; or

(*b*) as a contribution or deposit referred to in paragraph (*b*) of that definition for the purpose stated in that paragraph.

History: S. 214.1(1) was added by P.C. 2005-694, SOR/2005-123, dated May 3, 2005, applicable to payments or transfers received after March 1, 2004, by the issuers of registered retirement saving plans.

(2) For greater certainty and for the purposes of subsection (1), amounts that have been paid do not include amounts that have been paid or transferred under the plan in accordance with subsection 146(16) of the Act, or those that have been transferred under the plan in accordance with any of subsections 146(21), 146.3(14), 147(19) or 147.3(1), (4) or (5) to (7) of the Act.

History: S. 214.1(2) was added by P.C. 2005-694, SOR/2005-123, dated May 3, 2005, applicable to payments or transfers received after March 1, 2004, by the issuers of registered retirement saving plans.

(3) The return shall be filed with the Minister on or before the 1st day of May of the year in which the contribution year ends and shall be in respect of the contribution year.

History: S. 214.1(3) was added by P.C. 2005-694, SOR/2005-123, dated May 3, 2005, applicable to payments or transfers received after March 1, 2004, by the issuers of registered retirement saving plans.

(4) The following definitions apply in this section.

"*contribution year*" means the period beginning on the 61st day of one year and ending on the 60th day of the following year.

History: S. 214.1(4), the definition "contribution year" was added by P.C. 2005-694, SOR/2005-123, dated May 3, 2005, applicable to payments or transfers received after March 1, 2004, by the issuers of registered retirement saving plans.

"*issuer*" has the same meaning as in subsection 146(1) of the Act, with any modifications that the circumstances require.

History: S. 214.1(4), the definition "issuer" was added by P.C. 2005-694, SOR/2005-123, dated May 3, 2005, applicable to payments or transfers received after March 1, 2004, by the issuers of registered retirement saving plans.

Registered Retirement Income Funds

215. (1) In this section, "annuitant" and "carrier" have the meanings assigned by subsection 146.3(1) of the Act.

History: S. 215(1) was amended by P.C. 2002-2169, SOR/2003-5, dated December 12, 2002, applicable on publication in the *Canada Gazette* on January 1, 2003. S. 215(1) formerly read:

"(1) In this section,
'annuitant' has the meaning assigned by paragraph 146.3(1)(*a*) of the Act;
'carrier' has the meaning assigned by paragraph 146.3(1)(*b*) of the Act."

(2) Every carrier of a registered retirement income fund who pays out of or under it an amount any portion of which is required under subsection 146.3(5) of the Act to be included in computing the income of a taxpayer shall make an information return in prescribed form in respect of the amount.

(3) Where subsection 146.3(4), (7), (8) or (10) of the Act applies in respect of any transaction or event with respect to property of a registered retirement income fund, the carrier of the fund shall make an information return in prescribed form in respect of the transaction or event.

(4) Where an amount is deemed under subsection 146.3(6) or (12) of the Act to be received by an annuitant out of or under a registered retirement income fund, the carrier of the fund shall make an information return in prescribed form in respect of the amount.

(5) If a transfer of an amount to which subsection 146.3(14) of the Act applies is made from a fund, the carrier of the fund shall make an information return in prescribed form in respect of the transfer.

History: S. 215(5) was replaced by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable after 2003. S. 215(5) formerly read:

"(5) If a transfer of an amount to which paragraph 146.3(14)(*b*) of the Act applies is made, the carrier of the fund from which the transfer is made shall make an information return in prescribed form in respect of the transfer."

S. 215(5) was added by P.C. 2002-2169, SOR/2003-5, dated December 12, 2002, applicable to transfers made in 2002 and subsequent years.

S. 215 was added by P.C. 1984-3917, SOR/84-967, dated December 7, 1984.

Former S. 215 was revoked by P.C. 1984-3789, SOR/84-948, dated November 29, 1984. S. 215 formerly read:

"Degree of Canadian Ownership

S. 215. (1) Every corporation that in a taxation year claims a degree of Canadian ownership and pays or credits a dividend in respect of which section 212(3) of the Act is applicable shall make an information return in respect of that year in the form prescribed pursuant to subsection 3100(2) or 3101(2) and shall file the return with the Minister at the same time as the first statement is submitted for that year pursuant to section 215 of the Act in respect of a dividend paid or credited in that year.

(2) Every corporation that in a taxation year claims a degree of Canadian ownership and claims a deduction for that year under paragraph 1100(1)(n) in respect of property of Class 19 in schedule II shall, where it has not already filed a return under subsection (1), make an information return in respect of that year in the form prescribed pursuant to subsection 3100(2) or 3101(2) and shall file the return with the Minister at the same time as the return of income is required to be filed by the corporation for that year pursuant to section 150 of the Act."

Information Circulars: IC 78-18R6 Registered Retirement Income Funds; IC 82-2R2 Social insurance number legislation that relates to the preparation of information slips; IC 97-2R8 Customized Forms.
Forms: T4RIF; T4RIF Sum.

(6) Where an amount may be deducted under subsection 146.3(6.3) of the Act in computing the income of a deceased annuitant under a registered retirement income fund, the carrier of the fund shall make an information return in prescribed form in respect of the amount.

History: S. 215(6) was added by S.C. 2009, c. 2, s. 87(1), applicable after 2008.

Registered Canadian Amateur Athletic Associations

216. (1) Every registered Canadian amateur athletic association shall make an information return in prescribed form for each fiscal period of the association within six months after the end of the fiscal period.

History: S. 216(1) was amended by P.C. 1986-2590, SOR/86-1092, dated November 20, 1986, to substitute "within six months after the end of the fiscal period" for "within three months from the end of the fiscal period", applicable to the 1984 and subsequent taxation years.

Forms: T2052.

(2) For the purposes of this section, "fiscal period" means the period for which the accounts of the registered Canadian amateur athletic association have been ordinarily made up and, in the absence of an established practice, the fiscal period is that adopted by the association but no such fiscal period shall exceed 12 months.

Disposition of Interest in Annuities and Life Insurance Policies

217. (1) In this section,

"*disposition*" has the meaning assigned by subsection 148(9) of the Act and includes anything deemed to be a disposition of a life insurance policy under subsection 148(2) of the Act;

"*insurer*" has the meaning assigned by paragraph 148(10)(*a*) of the Act;

"*life insurance policy*" has the meaning assigned by subsection 138(12) of the Act.

History: The definition of "disposition" in S. 217(1) was amended by P.C. 2002-2169, SOR/2003-5, dated December 12, 2002, applicable on publication in the *Canada Gazette* on January 1, 2003. The definition of "disposition" in S. 217(1) formerly read:

" 'disposition' has the meaning assigned by paragraph 148(9)(*c*) of the Act and includes anything deemed to be a disposition of a life insurance policy under subsection 148(2) of the Act;"

The definition of "life insurance policy" in S. 217(1) was amended by P.C. 2002-2169, SOR/2003-5, dated December 12, 2002, applicable on publication in the *Canada Gazette* on January 1, 2003. The definition of "life insurance policy" in S. 217(1) formerly read:

" 'life insurance policy' has the meaning assigned by paragraph 138(12)(*f*) of the Act."

(2) Where by reason of a disposition of an interest in a life insurance policy an amount is required, pursuant to paragraph 56(1)(*j*) of the Act, to be included in computing the income of a taxpayer and the insurer that is the issuer of the policy is a party to, or is notified in writing of, the disposition, the insurer shall make an information return in prescribed form in respect of the amount.

History: S. 217 and the heading were revoked and replaced by P.C. 1984-3917, SOR/84-967, dated December 7, 1984. S. 217 formerly read:

"Life Insurers

S. 217. Every life insurer shall make an information return in prescribed form in respect of amounts, each of which is an amount that is required by paragraph 56(1)(*j*) of the Act to be included in computing the income of a policyholder and that the policyholder became entitled to receive from the insurer in the year."

Former s. 217 was amended by P.C. 1978-1585, SOR/78-449, (Special Issue, *Canada Gazette*, December 31, 1978), May 12, 1978, effective on and after January 1, 1978. S. 217 formerly read:

"S. 217. Every life insurer shall make an information return in prescribed form in respect of

(*a*) amounts, each of which is an amount

(i) any part of which is required by paragraph 56(1)(*j*) of the Act to be included in computing the income of a policyholder, and

(ii) that the policyholder became entitled to receive from the insurer in the year in respect of a life insurance policy, other than an annuity contract;

(*b*) amounts allocated by the insurer in the year to a policyholder and required by paragraph 56(1)(*k*) of the Act to be included in computing his income; and

(*c*) amounts, each of which is an amount allocated by the insurer in the year to a policyholder under a policy described in paragraph 148(1)(*b*) of the Act and deemed to be a taxable capital gain of the policyholder for the year under subsection 142(2) of the Act."

Information Circulars: IC 82-2R2 Social insurance number legislation that relates to the preparation of information slips; IC 97-2R8 Customized Forms.
Forms: T5 Sum.; T5; T619.

Patronage Payments

218. (1) Every person who, within the meaning of section 135 of the Act, makes payments to residents of Canada pursuant to an allocation in proportion to patronage shall make an information return in prescribed form in respect of payments so made.

(2) Every person who receives a payment referred to in subsection (1) as nominee or agent for another person resident in Canada shall make an information return in prescribed form in respect of the payment so received.

219. [Repealed.]

History: S. 219 and the heading before it were repealed by P.C. 2002-2169, SOR/2003-5, dated December 12, 2002, applicable on publication in the *Canada Gazette* on January 1, 2003. S. 219 formerly read:

"Family Allowances and Similar Payments

S. 219. Where an allowance referred to in paragraphs 56(5)(*a*) or (*b*) of the Act has been paid to a person and, in respect of that allowance, an amount is required to be included in computing the income of any taxpayer for a taxation year, the payer of the allowance shall

(*a*) make an information return in prescribed form in respect of such payment; and

(*b*) forward to the person at his latest known address, on or before the date the return is required to be filed with the Minister, three copies of the portion of the return relating to that person."

Cash Bonus Payments on Canada Savings Bonds

220. (1) Every person authorized to redeem Canada Savings Bonds (in this section referred to as the "redemption agent") who pays an amount in respect of a Canada Savings Bond as a cash bonus that the Government of Canada has undertaken to pay (other than an amount of interest, bonus or principal agreed to be paid at the time of the issue of the bond under the terms of the bond) shall make an information return in prescribed form in respect of such payment.

Information Circulars: IC 82-2R2 Social insurance number legislation that relates to the preparation of information slips; IC 97-2R8 Customized Forms.

(2) Every redemption agent required by subsection (1) to make an information return shall

(*a*) issue to the payee, at the time the cash bonus is paid, two copies of the portion of the return relating to him; and

(*b*) file the return with the Minister on or before the 15th day of the month following the month in which the cash bonus was paid.

QUALIFIED INVESTMENTS

221. **(1)** In this section, "reporting person" means

(*a*) a mutual fund corporation;

(*b*) an investment corporation;

(*c*) a mutual fund trust;

(*d*) [Repealed.]

(*e*) [Repealed.]

(*f*) a trust that would be a mutual fund trust if Part XLVIII were read without reference to paragraph 4801(*b*);

(*g*) [Repealed.]

(*h*) a small business investment trust (within the meaning assigned by subsection 5103(1)); or

(*i*) [Repealed.]

History: The heading before section 221 was replaced by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, deemed to have come into force on June 29, 2005. The heading before section 221 formerly read:

"QUALIFIED INVESTMENTS AND FOREIGN PROPERTY"

S. 221(1)(*d*) and (*e*) were repealed by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, deemed to have come into force on June 29, 2005. S. 221(1)(*d*) and (*e*) formerly read:

"(*d*) a pooled fund trust (within the meaning assigned by subsection 5000(7));

(*e*) a resource property trust (within the meaning assigned by subsection 5000(7));"

S. 221(1)(*g*) was repealed by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, deemed to have come into force on June 29, 2005. S. 221(1)(*g*) formerly read:

"(*g*) a trust described in paragraph 65(1)(*c*) of the *Income Tax Application Rules*;"

S. 221(1)(*i*) was repealed by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, deemed to have come into force on June 29, 2005. S. 221(1)(*i*) formerly read:

"(*i*) a trust described in paragraph 149(1)(*o.4*) of the Act."

(2) Where in any taxation year a reporting person (other than a registered investment) claims that a share of its capital stock issued by it, or an interest as a beneficiary under it, is a qualified investment under section 146, 146.1, 146.3, 204, 205 or 207.01 of the Act, the reporting person shall, in respect of the year and within 90 days after the end of the year, make an information return in prescribed form.

History: S. 221(2) was replaced by S.C. 2009, c. 2, s. 88(1), applicable to the 2009 and subsequent taxation years. S. 221(2) formerly read:

"(2) Where in any taxation year a reporting person (other than a registered investment) claims that a share of its capital stock issued by it, or an interest as a beneficiary under it, is a qualified investment under section 146, 146.1, 146.3, 204 or 205 of the Act, the reporting person shall, in respect of the year and within 90 days after the end of the year, make an information return in prescribed form."

S. 221(2) was replaced by S.C. 2007, c. 35, s. 125, applicable to the 2008 and subsequent taxation years. S. 221(2) formerly read:

"(2) Where in any taxation year a reporting person (other than a registered investment) claims that a share of its capital stock issued by it, or an interest as a beneficiary under it, is a qualified investment under section 146, 146.1, 146.3 or 204 of the Act, the reporting person shall, in respect of the year and within 90 days after the end of the year, make an information return in prescribed form."

S. 221(2) was amended by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable to the 1999 and subsequent taxation years. S. 221(2) formerly read:

"(2) Where in any taxation year a reporting person (other than a registered investment) claims that a share of its capital stock issued by it, or an interest of a beneficiary under it, is a qualified investment under section 146, 146.3 or 204 of the Act, the reporting person shall, in respect of the year and within 90 days after the end of the year, make an information return in prescribed form."

Information Circulars: IC 78-14R4 Guidelines for trust companies and other persons responsible for filing T3GR, T3D, T3P, T3S, T3RI, and T3F returns.

Forms: T3F.

(3) [Repealed.]

History: S. 221(3) was repealed by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, deemed to have come into force on June 29, 2005. S. 221(3) formerly read:

"(3) Where in any taxation year a reporting person (other than a registered investment) claims that a share of its capital stock issued by it, or that an interest of a beneficiary under it, is not foreign property for the purpose of section 206 of the Act, the reporting person shall, in respect of the year and within 90 days after the end of the year, make an information return in prescribed form."

The heading before s. 221, and s. 221 were amended by P.C. 2000-183, SOR/2000-62, dated February 17, 2000, applicable to taxation years that begin after 1995, The heading before s. 221, and s. 221 formerly read:

"QUALIFIED INVESTMENTS

S. 221. Where in any taxation year a taxpayer is

(*a*) a corporation that claims that a share of its capital stock is a qualified investment for the purposes of section 146, 146.2, 146.3 or 204 of the Act; or

(*b*) a trust that claims that an interest of a beneficiary thereunder is a qualified investment for the purposes of section 146, 146.2, 146.3 or 204 of the Act,

the taxpayer shall, in respect of that taxation year and within 90 days thereafter, make an information return in prescribed form."

Ss. 221(*a*) and (*b*) were amended by P.C. 1985-374, SOR/85-160, dated February 8, 1985, applicable to taxation years commencing after 1983, to add the reference to section 146.3 in the case of paragraph (*a*). S. 221(*b*) formerly read:

"(*b*) a trustee of a trust who claims that an interest as a beneficiary under the trust is a qualified investment for the purposes of section 146, 146.2 or 204 of the Act,"

FOREIGN PROPERTY

222. [Repealed.]

History: S. 222 was repealed by P.C. 2000-183, SOR/2000-62, dated February 17, 2000, applicable to taxation years that begin after 1995. S. 222 formerly read:

"S. 222. Where in any taxation year a taxpayer is

(*a*) a corporation that claims that a share of its capital stock is not foreign property for the purposes of section 206 of the Act, or

(*b*) a trustee of a trust who claims that an interest as a beneficiary under the trust is not foreign property for the purposes of section 206 of the Act,

the taxpayer shall, in respect of that taxation year and within 90 days thereafter, make an information return in prescribed form."

Forms: T3F.

TFSAs

223. **(1)** An issuer of a TFSA shall make an information return for each calendar year in prescribed form in respect of the TFSA.

History: S. 223(1) and the heading before it were replaced by S.C. 2009, c. 2, s. 89(1), applicable to the 2009 and subsequent taxation years. S. 223(1) and the heading before it formerly read:

"REGISTERED HOME OWNERSHIP SAVINGS PLANS

S. 223. (1) Every person who, before May 23, 1985, pays an amount out of or under a registered home ownership savings plan to a resident of Canada as a beneficiary under the plan shall make an information return in prescribed form."

S. 223(1) was amended by P.C. 1986-1103, SOR/86-522, dated May 8, 1986, to add "before May 23, 1985,".

S. 223(1) was amended by P.C. 1983-3585, SOR/83-866, dated November 18, 1983. S. 223(1) formerly read:

"(1) Every person who pays an amount to a resident of Canada from a trust governed by a registered home ownership savings plan shall make an information return in prescribed form."

(2) An issuer of a TFSA who makes a payment of an amount that is required because of paragraph 146.2(9)(*b*) of the Act to be included in computing the income of a taxpayer for a taxation year shall make an information return in prescribed form.

History: S. 223(2) was replaced by S.C. 2009, c. 2, s. 89(1), applicable to the 2009 and subsequent taxation years. S. 223(2) formerly read:

"(2) Every trustee or depositary that is party to a registered home ownership savings plan the registration of which is revoked during a taxation year pursuant to subsection 146.2(7) or (7.1) of the Act shall make an information return in prescribed form with respect to any amount that is deemed by subsection 146.2(8) of the Act to have been received by the beneficiary of that plan."

S. 223(2) was amended by P.C. 1983-3585, SOR/83-866, dated November 18, 1983. S. 223(2) formerly read:

"(2) Every trustee of a trust governed by a registered home ownership savings plan the registration of which is revoked during a taxation year under subsection 146.2(7) of the Act shall make an information return in prescribed form with respect to any amount that is deemed by subsection 146.2(8) of the Act to have been received by the beneficiary of that plan."

(3) An issuer of a TFSA that governs a trust shall notify the holder of the TFSA in prescribed form and manner before March of a calendar year if, at any time during the preceding calendar year,

(*a*) the trust acquires or disposes of property that is a non-qualified investment for the trust; or

(*b*) property held by the trust becomes or ceases to be a non-qualified investment for the trust.

History: S. 223(3) was replaced by S.C. 2009, c. 2, s. 89(1), applicable to the 2009 and subsequent taxation years. S. 223(3) formerly read:

"(3) Every trustee or depositary that is party to a registered home ownership savings plan, the beneficiary of which is a resident of Canada and has been deemed by subsection 146.2(9) of the Act to have received an amount during a taxation year and before May 23, 1985, shall make an information return in prescribed form."

S. 223(3) was amended by P.C. 1986-1103, SOR/86-522, dated May 8, 1986. S. 223(3) formerly read:

"(3) Every trustee or depositary that is party to a registered home ownership savings plan in respect of which the beneficiary of that plan has been deemed by subsection 146.2(9) of the Act to have received an amount during a taxation year shall make an information return in prescribed form."

S. 223(3) was amended by P.C. 1983-3585, SOR/83-866, dated November 18, 1983. S. 223(3) formerly read:

"(3) Every trustee of a trust governed by a registered home ownership savings plan from which the beneficiary of that plan has been deemed by subsection 146.2(9) of the Act to have received an amount during a taxation year shall make an information return in prescribed form."

(3.1) [Repealed.]

History: S. 223(3.1) was repealed by S.C. 2009, c. 2, s. 89(1), applicable to the 2009 and subsequent taxation years. S. 223(3.1) formerly read:

"(3.1) Every trustee or depositary that, after May 22, 1985 and before 1986, was a party to a registered home ownership savings plan, any of the income of which is required by subsection 146.2(22) of the Act to be included in computing the income of a taxpayer for the 1985 taxation year, shall make an information return in prescribed form."

S. 223(3.1) was added by P.C. 1986-1103, SOR/86-522, dated May 8, 1986.

(4) [Repealed.]

History: S. 223(4) was repealed by S.C. 2009, c. 2, s. 89(1), applicable to the 2009 and subsequent taxation years. S. 223(4) formerly read:

"(4) Every trustee of a trust governed by a registered home ownership savings plan shall make an information return in prescribed form, where in a taxation year a taxpayer who is a beneficiary under the plan

(*a*) is required pursuant to subsection 146.2(12) or (15) of the Act to include an amount in computing his income; or

(*b*) is allowed pursuant to subsection 146.2(13) or (16) of the Act to deduct an amount in computing his income."

(5) [Repealed.]

History: S. 223(5) was repealed by S.C. 2009, c. 2, s. 89(1), applicable to the 2009 and subsequent taxation years. S. 223(5) formerly read:

"(5) In this section,

'beneficiary' has the meaning assigned by paragraph 146.2(1)(*a*) of the Act as it read in its application to the 1985 taxation year;

'depositary' has the meaning assigned by subparagraph 146.2(1)(*d*)(ii) of the Act as it read in its application to the 1985 taxation year;

'registered home ownership savings plan' has the meaning assigned by paragraph 146.2(1)(*h*) of the Act as it read in its application to the 1985 taxation year."

S. 223(5) was amended by P.C. 1986-1103, SOR/86-522, dated May 8, 1986. S. 223(5) formerly read:

"(5) In this section

'beneficiary' has the meaning assigned by paragraph 146.2(1)(*a*) of the Act;

'depositary' has the meaning assigned by subparagraph 146.2(*d*)(ii) of the Act."

S. 223(5) was added by P.C. 1983-3585, SOR/83-866, dated November 18, 1983.

Canadian Home Insulation Program and Canada Oil Substitution Program

224. Where an amount has been paid to a person pursuant to a program prescribed for the purposes of paragraphs 12(1)(*u*), 56(1)(*s*) and 212(1)(*s*) of the Act, the payor shall

(*a*) make an information return in prescribed form in respect of such payment; and

(*b*) forward to the person at his latest known address on or before the date the return is required to be filed with the Minister two copies of the portion of the return relating to that person.

History: S. 224, that part preceding paragraph (*a*), was amended by P.C. 1981-3209, SOR/81-936, dated November 13, 1981 to add the references to paragraphs 12(1)(*u*) and 212(1)(*s*). The same amending instrument also changed the heading preceding the section from "Canadian Home Insulation Program" to "Canadian Home Insulation Program and Canada Oil Substitution Program". The amendments were effective in respect of the 1981 and subsequent taxation years except that with respect to the reference to paragraph 212(1)(*s*) of the Act, they were effective in respect of grants paid or credited after 1980.

S. 224 and heading were added by Order in Council P.C. 1978-1139, SOR/78-348, (Special Issue, *Canada Gazette*, December 31, 1978), dated April 17, 1978, applicable to the 1977 and subsequent taxation years, except that any information return that is required to be filed pursuant to this section before the coming into force of this Order, may be filed at any time before or within one month after the coming into force of this order.

Certified Films and Video Tapes

225. (1) Where principal photography or taping of a film or tape (within the meanings assigned by subsection 1100(21)) has occurred during a year or has been completed within 60 days after the end of the year, the producer of the film or tape or production company that produced the film or tape, or an agent of the producer or production company, shall

(*a*) make an information return in prescribed form in respect of any person who owns an interest in the film or tape at the end of the year; and

(*b*) forward to the person referred to in paragraph (*a*) at his latest known address on or before the date the return is required to be filed with the Minister two copies of the portion of the return relating to that person.

(2) The return required under this section shall be filed on or before March 31 and shall be in respect of the preceding calendar year.

History: S. 225 and heading were added by P.C. 1982-279, SOR/82-182, dated January 29, 1982, and effective in respect of 1981 and subsequent years.

Scientific Research Tax Credits

226. (1) In this section,

"*administrator*" has the meaning assigned by paragraph 47.1(1)(*a*) [repealed by S.C. 1986, c. 6, s. 20(1)] of the Act;

"*designated security*" means a security issued or granted by a corporation in respect of which the corporation has designated an amount pursuant to subsection 194(4) of the Act;

"*first purchaser*", in relation to a designated security, means the first person (other than a trader or dealer in

securities) to be the registered holder of the designated security;

"*security*" means

(*a*) a share of the capital stock of a corporation,

(*b*) a debt obligation issued by a corporation, or

(*c*) a right granted by a corporation under a scientific research financing contract;

"*trader or dealer in securities*" has the meaning assigned by paragraph 47.1(1)(*l*) [repealed by S.C. 1986, c. 6, s. 20(1)] of the Act.

(2) Each corporation that has designated an amount under subsection 194(4) of the Act in respect of a security issued or granted by it shall make an information return in prescribed form in respect of each such security.

(3) Each trader or dealer in securities who has acquired and disposed of a designated security during the course of the primary distribution thereof pursuant to a public offering shall make an information return in prescribed form in respect of each such designated security.

(4) Each bank, credit union and trust company that, as agent, acquired a designated security for the first purchaser thereof shall make an information return in prescribed form in respect of each such designated security.

(5) Each trader or dealer in securities who, as administrator of an indexed security investment plan, acquired a designated security for the first purchaser thereof shall make an information return in prescribed form in respect of each such designated security.

(6) Notwithstanding subsection 205(1), any return required to be made

(*a*) under subsection (2), in respect of a security issued by a corporation before March 1, 1984,

(*b*) under subsection (3), in respect of a designated security disposed of as described in subsection (3) before March 1, 1984, or

(*c*) under subsection (4) or (5), in respect of a designated security acquired as described in subsection (4) or (5), as the case may be, before March 1, 1984,

shall be filed on or before March 31, 1984.

History: S. 226 and heading were added by P.C. 1985-374, SOR/85-160 dated February 8, 1985, applicable to shares and debts issued, rights granted and acquisitions and dispositions occurring after 1982.

Share Purchase Tax Credits

227. (1) In this section,

"*administrator*" has the meaning assigned by paragraph 47.1(1)(*a*) [repealed by S.C. 1986, c. 6, s. 20(1)] of the Act;

"*designated share*" means a share of the capital stock of a corporation in respect of which the corporation has designated an amount pursuant to subsection 192(4) of the Act;

"*first purchaser*", in relation to a designated share, means the first person (other than a trader or dealer in securities) to be the registered holder of the share;

"*trader or dealer in securities*" has the meaning assigned by paragraph 47.1(1)(*l*) [repealed by S.C. 1986, c. 6, s. 20(1)] of the Act.

(2) Each corporation that has designated an amount under subsection 192(4) of the Act in respect of a share issued by it shall make an information return in prescribed form in respect of each such share.

(3) Each trader or dealer in securities who has acquired and disposed of a designated share during the course of the primary distribution thereof pursuant to a public offering shall make an information return in prescribed form in respect of each such designated share.

(4) Each bank, credit union and trust company that, as agent, acquired a designated share for the first purchaser thereof shall make an information return in prescribed form in respect of each such designated share.

(5) Each trader or dealer in securities who, as administrator of an indexed security investment plan, acquired a designated share for the first purchaser thereof shall make an information return in prescribed form in respect of each such designated share.

History: S. 227 and heading were added by P.C. 1985-374, SOR/85-160 dated February 8, 1985, applicable to shares and debts issued, rights granted and acquisitions and dispositions occurring after 1982.

Resource Flow-Through Shares

228. (1) Each corporation that has renounced an amount under subsection 66(12.6), (12.601), (12.62) or (12.64) of the Act to a person shall make an information return in prescribed form in respect of the amount renounced.

History: S. 228(1) was amended by P.C. 1996-494, SOR/96-199, dated April 16, 1996, applicable after December 2, 1992. S. 228(1) formerly read: "(1) Each corporation that has renounced an amount under subsection 66(12.6), (12.62) or (12.64) of the Act to a person shall make an information return in prescribed form in respect of the amount renounced." S. 228(1) was added by P.C. 1987-1681, SOR/87-512, dated August 14, 1987, applicable after December 18, 1986.

(2) The return required under subsection (1) shall be filed with the Minister together with the prescribed form required to be filed under subsection 66(12.7) of the Act in respect of the amount renounced.

History: S. 228(2) was added by P.C. 1987-1681, SOR/87-512, dated August 14, 1987, applicable after December 18, 1986.

Partnership Return

229. (1) Every member of a partnership that carries on a business in Canada, or that is a Canadian partnership or a SIFT partnership, at any time in a fiscal period of the partnership shall make for that period an information return in prescribed form containing the following information:

(*a*) the income or loss of the partnership for the fiscal period;

(*b*) the name, address and, in the case of an individual, the social insurance number of each member of the partnership who is entitled to a share referred to in paragraph (*c*) or (*d*) for the fiscal period;

(*c*) the share of each member of the income or loss of the partnership for the fiscal period;

(*d*) the share of each member for the fiscal period of each deduction, credit or other amount in respect of the partnership that is relevant in determining the member's income, taxable income, tax payable or other amount under the Act;

(*e*) the prescribed information contained in the form prescribed for the purposes of subsection 37(1) of the Act, where the partnership has made an expenditure in respect of scientific research and experimental development in the fiscal period; and

(*f*) such other information as may be required by the prescribed form.

History: S. 229(1), the portion before paragraph (*a*) was replaced by S.C. 2007, c. 29, s. 30(1), deemed to have come into force on October 31, 2006. S. 229(1), the portion before paragraph (*a*) formerly read:

"S. 229. (1) Every member of a partnership that carries on a business in Canada, or that is a Canadian partnership, at any time in a fiscal period of the partnership shall make for that period an information return in prescribed form containing the following information:"

S. 229(1) was added by P.C. 1989-2156, SOR/89-519, dated October 26, 1989 and applicable:

(*a*) in the case of a fiscal period of a partnership all the members of which are corporations throughout the fiscal period, in respect of fiscal periods ending after August 31, 1989, and

(*b*) in any other case, in respect of fiscal periods ending after December 31, 1988.

Information Circulars: IC 73-13 Investment clubs; IC 82-2R2 Social insurance number legislation that relates to the preparation of information slips; IC 89-5R Partnership information return; IC 97-2R8 Customized Forms.
Income Tax Technical News: Issue No. 38, Filing Requirements for T5013, Partnership Information Return.
Forms: T5011; T5013 Sum.; T5013 Supp.; T5014; T5015; T5017.
Tax Topics: No. 1831, Should You File a Partnership Information Return?.

(2) For the purposes of subsection (1), an information return made by any member of a partnership shall be deemed to have been made by each member of the partnership.

History: S. 229(2) was added by P.C. 1989-2156, SOR/89-519, dated October 26, 1989 and applicable:

(*a*) in the case of a fiscal period of a partnership all the members of which are corporations throughout the fiscal period, in respect of fiscal periods ending after August 31, 1989, and

(*b*) in any other case, in respect of fiscal periods ending after December 31, 1988.

(3) Every person who holds an interest in a partnership as nominee or agent for another person shall make an information return in prescribed form in respect of that interest.

History: S. 229(3) was added by P.C. 1989-2156, SOR/89-519, dated October 26, 1989 and applicable:

(*a*) in the case of a fiscal period of a partnership all the members of which are corporations throughout the fiscal period, in respect of fiscal periods ending after August 31, 1989, and

(*b*) in any other case, in respect of fiscal periods ending after December 31, 1988.

(4) [Revoked.]

History: S. 229(4) was revoked by P.C. 1993-1691, SOR/93-443, dated August 26, 1993 and applicable on publication in the *Canada Gazette*, September 8, 1993. S. 229(4) formerly read:

"(4) The Minister may exempt the members of any partnership or class of partnerships from the application of all or part of this section."

S. 229(4) was added by P.C. 1989-2156, SOR/89-519, dated October 26, 1989 and applicable:

(*a*) in the case of a fiscal period of a partnership all the members of which are corporations throughout the fiscal period, in respect of fiscal periods ending after August 31, 1989, and

(*b*) in any other case, in respect of fiscal periods ending after December 31, 1988.

(5) Subject to subsection (6), a return required by this section shall be filed with the Minister without notice or demand

(*a*) in the case of a fiscal period of a partnership all the members of which are corporations throughout the fiscal period, within five months after the end of the fiscal period;

(*b*) in the case of a fiscal period of a partnership all the members of which are individuals throughout the fiscal period, on or before the last day of March in the calendar year immediately following the calendar year in which the fiscal period ended or with which the fiscal period ended coincidentally; and

(*c*) in the case of any other fiscal period of a partnership, on or before the earlier of

(i) the day that is five months after the end of the fiscal period, and

(ii) the last day of March in the calendar year immediately following the calendar year in which the fiscal period ended or with which the fiscal period ended coincidentally.

History: S. 229(5) was added by P.C. 1989-2156, SOR/89-519, dated October 26, 1989 and applicable:

(*a*) in the case of a fiscal period of a partnership all the members of which are corporations throughout the fiscal period, in respect of fiscal periods ending after August 31, 1989, and

(*b*) in any other case, in respect of fiscal periods ending after December 31, 1988,

except that a return that is required by subsection 229(5) to be filed at any time before March 31, 1990 may be filed on or before that date.

(6) Where a partnership discontinues its business or activity, the return required under this section shall be filed, in respect of any fiscal period or portion thereof prior to the discontinuance of the business or activity for which a return has not previously been filed under this section, on or before the earlier of

(*a*) the day that is 90 days after the discontinuance of the business or activity, and

(*b*) the day the return is required to be filed under subsection (5).

History: S. 229(6) was added by P.C. 1989-2156, SOR/89-519, dated October 26, 1989 and applicable in respect of the discontinuance of the business or activity of a partnership occurring after December 31, 1989.

Definitions

229.1. (1) The definitions in this subsection apply in this section.

"*public investment partnership*", at any time, means a public partnership all or substantially all of the fair market value of the property of which is, at that time, attributable to the fair market value of property of the partnership that is

(*a*) units of public trusts (as defined in subsection 204.1(1));

(*b*) partnership interests in public partnerships;

(*c*) shares of the capital stock of public corporations; or

(*d*) any combination of properties referred to in paragraphs (*a*) to (*c*).

History: S. 229.1(1), the definition "public investment partnership" was added by S.C. 2007, c. 35, s. 73(1), applicable to information in respect of fiscal periods that end on or after July 4, 2007.

"*public partnership*", at any time, means a partnership the partnership interests in which are, at that time, listed on a designated stock exchange in Canada if, at that time, the partnership carries on a business in Canada or is a Canadian partnership.

History: S. 229.1(1), the definition "public partnership" was added by S.C. 2007, c. 35, s. 73(1), applicable to information in respect of fiscal periods that end on or after July 4, 2007.

Required Information Disclosure

(2) Every member of a partnership that is, at any time in a fiscal period of the partnership, a public partnership shall, within the time required by subsection (3),

(*a*) make public, in prescribed form, information in respect of the public partnership for the fiscal period by posting the prescribed form, in a manner that is accessible to the general public, on the Internet website of CDS Innovations Inc.; and

(*b*) notify the Minister in writing as to when the posting of the prescribed form, as required by paragraph (*a*), has been made.

History: S. 229.1(2) was added by S.C. 2007, c. 35, s. 73(1), applicable to information in respect of fiscal periods that end on or after July 4, 2007.

Required Disclosure Time

(3) The time required for the members of a public partnership to satisfy the requirements of subsection (2) in respect of the public partnership for a fiscal period of the public partnership is

(*a*) subject to paragraph (*b*), on or before the day that is the earlier of

(i) 60 days after the end of the calendar year in which the fiscal period ends, and

(ii) four months after the end of the fiscal period; and

(*b*) where the public partnership is, at any time in the fiscal period, a public investment partnership, on or before the day that is 67 days after the end of the calendar year in which the fiscal period ends.

History: S. 229.1(3) was added by S.C. 2007, c. 35, s. 73(1), applicable to information in respect of fiscal periods that end on or after July 4, 2007.

Obligation Fulfilled By One Partner Deemed Fulfilled By All

(4) Every member of a partnership that is required to satisfy the requirements of subsection (2) in respect of the partnership for a fiscal period of the partnership will be deemed to have satisfied those requirements if a particular member of the partnership, who has authority to act for the partnership, has satisfied those requirements in respect of the partnership for the fiscal period.

History: S. 229.1(4) was added by S.C. 2007, c. 35, s. 73(1), applicable to information in respect of fiscal periods that end on or after July 4, 2007.

SECURITY TRANSACTIONS

230. (1) In this section,

"*publicly traded*" means, with respect to any security,

(*a*) a security that is listed or posted for trading on a stock exchange, commodity exchange, futures exchange or any other exchange, or

(*b*) a security in respect of the sale and distribution of which a prospectus, registration statement or similar document has been filed with a public authority;

"*sale*" includes the granting of an option and a short sale;

"*security*" means

(*a*) a publicly traded share of the capital stock of a corporation,

(*b*) a publicly traded debt obligation;

(*c*) a debt obligation of or guaranteed by

(i) the Government of Canada,

(ii) the government of a province or an agent thereof,

(iii) a municipality in Canada,

(iv) a municipal or public body performing a function of government in Canada, or

(v) the government of a foreign country or of a political subdivision of a foreign country or a local authority of such a government;

(*d*) a publicly traded interest in a trust,

(*e*) a publicly traded interest in a partnership,

(*f*) an option or contract in respect of any property described in any of paragraphs (*a*) to (*e*), or

(*g*) a publicly traded option or contract in respect of any property including any commodity, financial futures, foreign currency or precious metal or in respect of any index relating to any property;

"*trader or dealer in securities*" means

(*a*) a person who is registered or licensed under the laws of a province to trade in securities, or

(*b*) a person who in the ordinary course of business makes sales of securities as agent on behalf of others.

History: S. 230(1) was added by P.C. 1989-2156, SOR/89-519, dated October 26, 1989 and applicable in respect of purchases, sales, redemptions, acquisitions or cancellations of securities occurring after December 31, 1990.

(2) Every trader or dealer in securities who, in a calendar year, purchases a security as principal or sells a security as agent for any vendor shall make an information return for the year in prescribed form in respect of the purchase or sale.

History: S. 230(2) was added by P.C. 1989-2156, SOR/89-519, dated October 26, 1989, applicable in respect of purchases, sales, redemptions, acquisitions or cancellations of securities occurring after December 31, 1990.

Information Circulars: IC 82-2R2 Social insurance number legislation that relates to the preparation of information slips.
Forms: T5008; T5008Sum.

(3) Every person (other than an individual who is not a trust) who in a calendar year redeems, acquires or cancels in any manner whatever any securities issued by that person shall make an information return for the year in prescribed form in respect of each such transaction, other than a transaction to which section 51, 51.1, 86 (if there is no consideration receivable other than new shares) or 87 or subsection 98(3) or (6) of the Act applies.

History: S. 230(3) was amended by P.C. 2002-2169, SOR/2003-5, dated December 12, 2002, applicable on publication in the *Canada Gazette* on January 1, 2003. S. 230(3) formerly read:

"(3) Every person (other than an individual who is not a trust) who in a calendar year redeems, acquires or cancels in any manner whatever any securities issued by that person shall make an information return for the year in prescribed form in respect of each such transaction, other than a transaction to which section 51, 86 (where there is no consideration receivable other than new shares) or 87 or subsection 98(3) or (6) of the Act applies."

S. 230(3) was added by P.C. 1989-2156, SOR/89-519, dated October 26, 1989 and applicable in respect of purchases, sales, redemptions, acquisitions or cancellations of securities occurring after December 31, 1990.

Information Circulars: IC 82-2R2 Social insurance number legislation that relates to the preparation of information slips.

(4) Subsection (3) applies to

(*a*) Her Majesty in right of Canada or a province;

(*b*) a municipal or public body performing a function of government in Canada; and

(*c*) an agent of a person referred to in paragraph (*a*) or (*b*).

History: S. 230(4) was added by P.C. 1989-2156, SOR/89-519, dated October 26, 1989 and applicable in respect of purchases, sales, redemptions, acquisitions or cancellations of securities occurring after December 31, 1990.

(5) Every person who, in the ordinary course of a business of buying and selling precious metals in the form of certificates, bullion or coins, makes a payment in a calendar year to another person in respect of a sale by that other person of any such property shall make an information return for that year in prescribed form in respect of each such sale.

History: S. 230(5) was added by P.C. 1989-2156, SOR/89-519, dated October 26, 1989 and applicable in respect of purchases, sales, redemptions, acquisitions or cancellations of securities occurring after December 31, 1990.

Information Circulars: IC 82-2R2 Social insurance number legislation that relates to the preparation of information slips.

(6) Every person who, while acting as nominee or agent for another person in respect of a sale or other transaction to which subsection (2), (3) or (5) applies, receives the proceeds of the sale or other transaction shall, where the transaction is carried out in the name of the nominee or agent, make an information return in prescribed form in respect of the sale or other transaction.

History: S. 230(6) was added by P.C. 1989-2156, SOR/89-519, dated October 26, 1989, applicable in respect of purchases, sales, redemptions, acquisitions or cancellations of securities occurring after December 31, 1990.

Information Circulars: IC 82-2R2 Social insurance number legislation that relates to the preparation of information slips.

(7) This section does not apply in respect of

(*a*) a purchase of a security by a trader or dealer in securities from another trader or dealer in securities other than a non-resident trader or dealer in securities;

(*b*) a sale of currencies or precious metals in the form of jewellery, works of art or numismatic coins;

(*c*) a sale of precious metals by a person who, in the ordinary course of business, produces or sells precious metals in bulk or in commercial quantities;

(*d*) a sale of securities by a trader or dealer in securities on behalf of a person who is exempt from tax under Part I of the Act; or

(*e*) a redemption by the issuer or an agent of the issuer of a debt obligation where

(i) the debt obligation was issued for its principal amount,

(ii) the redemption satisfies all of the issuer's obligations in respect of the debt obligation,

(iii) each person with an interest in the debt obligation is entitled in respect thereof to a proportion of all payments of principal equal to the proportion to which the person is entitled of all payments other than principal, and

(iv) an information return is required under another section of this Part to be made as a result of the redemption in respect of each person with an interest in the debt obligation.

History: S. 230(7) was added by P.C. 1989-2156, SOR/89-519, dated October 26, 1989 and applicable in respect of purchases, sales, redemptions, acquisitions or cancellations of securities occurring after December 31, 1990.

Information Respecting Tax Shelters

231. (1) In this section, "promoter" in respect of a tax shelter and "tax shelter" have the meanings assigned by subsection 237.1(1) of the Act.

History: S. 231(1) was added by P.C. 1989-2156, SOR/89-519, dated October 26, 1989 and applicable in respect of interests acquired after August 31, 1989.

(2) [Repealed.]

History: S. 231(2) was repealed by P.C. 2002-2169, SOR/2003-5, dated December 12, 2002, applicable on publication in the *Canada Gazette* on January 1, 2003. S. 231(2) formerly read:

"(2) An information return made under subsection 237.1(7) of the Act in respect of the acquisition of an interest in a tax shelter in a calendar year shall be filed with the Minister on or before the last day of February of the immediately following calendar year."

S. 231(2) was added by P.C. 1989-2156, SOR/89-519, dated October 26, 1989, applicable in respect of interests acquired after August 31, 1989.

(3) [Repealed.]

History: S. 231(3) was repealed by P.C. 2002-2169, SOR/2003-5, dated December 12, 2002, applicable on publication in the *Canada Gazette* on January 1, 2003. S. 231(3) formerly read:

"(3) Where a person who is required to make an information return under subsection 237.1(7) of the Act discontinues the business or activity by reason of which the person is required to make the return, the return shall be filed within 30 days after the day of the discontinuance of the business or activity in respect of any calendar year or portion thereof prior to the discontinuance for which such a return has not previously been filed."

S. 231(3) was added by P.C. 1989-2156, SOR/89-519, dated October 26, 1989 and applicable in respect of interests acquired after August 31, 1989.

(4) [Repealed.]

History: S. 231(4) was repealed by P.C. 2000-1000, SOR/2000-248, dated June 21, 2000, applicable after 1995. S. 231(4) formerly read:

"(4) Every person required to make a return under subsection 237.1(7) of the Act shall, on or before the day on or before which the return is required to be filed with the Minister, forward to each person to whom the return relates two copies of the portion of the return relating to that person."

S. 231(4) was added by P.C. 1989-2156, SOR/89-519, dated October 26, 1989, applicable in respect of interests acquired after August 31, 1989.

(5) [Repealed.]

History: S. 231(5) was repealed by P.C. 2000-1000, SOR/2000-248, dated June 21, 2000, applicable after 1995. S. 231(5) formerly read:

"(5) Every promoter with respect to a tax shelter shall

(*a*) on every written statement made by the promoter that refers either directly or indirectly and either expressly or impliedly to the issuance by the Department of National Revenue of an identification number for the tax shelter, as well as on the copies of the portion of the information return to be forwarded pursuant to subsection (4), include the following statement:

'The identification number issued for this tax shelter shall be included in any income tax return filed by the investor. Issuance of the identification number is for administrative purposes only and does not in any way confirm the entitlement of an investor to claim any tax benefits associated with the tax shelter'; and

(*b*) prominently display on the upper right-hand corner of any statement of earnings prepared by the promoter in respect of the tax shelter the identification number issued for the tax shelter."

S. 231(5) was added by P.C. 1989-2156, SOR/89-519, dated October 26, 1989, applicable in respect of interests acquired after August 31, 1989.

(6) For the purposes of paragraph (*b*) of the definition "tax shelter" in subsection 237.1(1) of the Act, "prescribed benefit" in respect of an interest in a property means any amount that may reasonably be expected, having regard to statements or representations made in respect of the interest, to be received or enjoyed by a person (in this subsection referred to as "the purchaser") who acquires the interest, or a person with whom the purchaser does not deal at arm's length, which receipt or enjoyment would have the effect of reducing the impact of any loss that the purchaser may sustain in respect of the interest, and includes such an amount

(*a*) that is, either immediately or in the future, owed to any other person by the purchaser or a person with whom the purchaser does not deal at arm's length, to the extent that

(i) liability to pay that amount is contingent,

(ii) payment of that amount is or will be guaranteed by, security is or will be provided by, or an agreement to indemnify the other person to whom the amount is owed is or will be entered into by

(A) a promoter in respect of the interest,

(B) a person with whom the promoter does not deal at arm's length, or

(C) a person who is to receive a payment (other than a payment made by the purchaser) in respect of the guarantee, security or agreement to indemnify,

(iii) the rights of that other person against the purchaser, or against a person with whom the purchaser does not deal at arm's length, in respect of the collection of all or part of the purchase price are limited to a maximum amount, are enforce-

able only against certain property, or are otherwise limited by agreement, or

(iv) payment of that amount is to be made in a foreign currency or is to be determined by reference to its value in a foreign currency and it may reasonably be considered, having regard to the history of the exchange rate between the foreign currency and Canadian currency, that the aggregate of all such payments, when converted to Canadian currency at the exchange rate expected to prevail at the date on which each such payment would be required to be made, will be substantially less than that aggregate would be if each such payment was converted to Canadian currency at the time that each such payment became owing,

(*b*) that the purchaser or a person with whom the purchaser does not deal at arm's length is entitled at any time to, directly or indirectly, receive or have available

(i) as a form of assistance from a government, municipality or other public authority, whether as a grant, subsidy, forgiveable loan, deduction from tax or investment allowance, or as any other form of assistance, or

(ii) by reason of a revenue guarantee or other agreement in respect of which revenue may be earned by the purchaser or a person with whom the purchaser does not deal at arm's length, to the extent that the revenue guarantee or other agreement may reasonably be considered to ensure that the purchaser or person will receive a return of all or a portion of the purchaser's outlays in respect of the interest,

(*c*) that is the proceeds of disposition to which the purchaser may be entitled by way of an agreement or other arrangement under which the purchaser has a right, either absolutely or contingently, to dispose of the interest (otherwise than as a consequence of the purchaser's death), including the fair market value of any property that the agreement or arrangement provides for the acquisition of in exchange for all or any part of the interest, and

(*d*) that is owed to a promoter, or a person with whom the promoter does not deal at arm's length, by the purchaser or a person with whom the purchaser does not deal at arm's length in respect of the interest,

but, except as otherwise provided in subparagraph (*b*)(ii), does not include profits earned in respect of the interest.

Federal Budget Extract

Definition of "Prescribed Benefit" for Purposes of Tax Shelters

[Reproduced below is an excerpt from the February 18, 2003 federal Budget that sets out a proposed change to the definition of "prescribed benefit" in paragraph 231(6)(*b*) of the Income Tax Regulations.]

While the existing definition of "tax shelter" in the *Income Tax Act* applies to arrangements promoted as providing deductions in computing income or taxable income, it may not currently apply to those that are promoted as providing only the deduction of tax credits. The budget proposes to eliminate this technical distinction so that promoters will be required to register a property as a tax shelter if representations are made that a potential purchaser will be able to claim, within four years, any combination of deductions in computing income or taxable income and federal tax credits which in total equal or exceed the purchaser's net cost of the property. The definition of tax shelter will also be amended to clarify its application to property acquired under an arrangement in respect of which it is represented that a donation or contribution of the property would generate tax credits or deductions (such as charitable donations tax credits or deductions) equal to or exceeding the net cost to the donor of the property. [Editorial note: See the definition of "tax shelter" in subsection 237.1(1) of the Act, which was amended by S.C. 2003, c. 15.]

In order to avoid a double counting of tax credits in the formula used to determine if a property or an arrangement is a tax shelter, it is proposed that the definition of "prescribed benefits" in paragraph 231(6)(*b*) of the Income Tax Regulations be amended to exclude any federal tax credit already taken into account in determining whether tax credits and deductions exceed net cost. Provincial tax credits would continue to be considered prescribed benefits.

History: S. 231(6)(*b*), the portion before subparagraph (i) was amended by P.C. 2001-1378, SOR/2001-295, dated August 1, 2001, applicable August 1, 2001. S. 231(6)(*b*) formerly read:

"(*b*) that the purchaser or a person with whom the purchaser does not deal at arm's length is entitled at any time to receive, directly or indirectly, or to have available"

S. 231(6)(*b*), the portion after subparagraph (i), was amended by P.C. 2000-1000, SOR/2000-248, dated June 21, 2000, applicable to taxation years ending after the date of the initial publication of these Regulations in the *Canada Gazette*. S. 231(6)(*b*), the portion after subparagraph (i), formerly read:

"(ii) by reason of a revenue guarantee or other agreement in respect of which revenue may be earned by the purchaser or a person with whom the purchaser does not deal at arm's length, to the extent that the revenue guarantee or other agreement may reasonably be considered to ensure that the purchaser or person will receive a return of all or a portion of the purchaser's outlays in respect of the tax shelter,

(*c*) that is the proceeds of disposition to which the purchaser may be entitled by way of an agreement or other arrangement under which the purchaser has a right, either absolutely or contingently, to dispose of the interest in the tax shelter (otherwise than as a consequence of the purchaser's death), including the fair market value of any property that the agreement or arrangement provides for the acquisition of in exchange for all or any part of the interest in the tax shelter, and

(*d*) that is owed to a promoter, or a person with whom the promoter does not deal at arm's length, by the purchaser or a person with whom the purchaser does not deal at arm's length in respect of the acquisition of an interest in the tax shelter

but, except as otherwise provided in subparagraph (*b*)(ii), does not include profits earned in respect of the tax shelter."

S. 231(6), the portion before clause (*a*)(ii)(B), was amended by P.C. 2000-1000, SOR/2000-248, dated June 21, 2000, applicable to taxation years ending after the date of the initial publication of these Regulations in the *Canada Gazette*. S. 231(6), the portion before clause (*a*)(ii)(B), formerly read:

"(6) For the purposes of paragraph (*b*) of the definition 'tax shelter' in subsection 237.1(1) of the Act, 'prescribed benefit' in relation to a tax shelter means any amount that may reasonably be expected, having regard to statements or representations made in respect of the tax shelter, to be received by or made available to a person (in this subsection referred to as 'the purchaser') who acquires an interest in the tax shelter, or a person with whom the purchaser does not deal at arm's length, which receipt or availability would have the effect of reducing the impact of any loss that the purchaser may sustain by virtue of acquiring, holding or disposing of the interest in the tax shelter, and includes such an amount

(*a*) that is, either immediately or in the future, owed to any other person by the purchaser or a person with whom the purchaser does not deal at arm's length, to the extent that

(i) liability to pay that amount is contingent,

(ii) payment of that amount is or will be guaranteed by, security is or will be provided by, or an agreement to indemnify the other person to whom the amount is owed is or will be entered into by

(A) a promoter in respect of the tax shelter,"

S. 231(6) was added by P.C. 1989-2156, SOR/89-519, dated October 26, 1989, applicable in respect of interests acquired after August 31, 1989.

(6.1) For the purpose of paragraph (*b*) of the definition "tax shelter" in subsection 237.1(1) of the Act, "prescribed benefit" in respect of an interest in a property includes an amount that is a limited-recourse amount because of subsection 143.2(1), (7) or (13) of the Act, but

does not include an amount of indebtedness that is a limited-recourse amount

(*a*) solely because it is not required to be repaid within 10 years from the time the indebtedness arose where the debtor would, if the interest were acquired by the debtor immediately after that time, be

(i) a partnership

(A) at least 90% of the fair market value of the property of which is attributable to the partnership's tangible capital property located in Canada, and

(B) at least 90% of the value of all interests in which are held by limited partners (within the meaning assigned by subsection 96(2.4) of the Act) of the partnership,

except where it is reasonable to conclude that one of the main reasons for the acquisition of one or more properties by the partnership, or for the acquisition of one or more interests in the partnership by limited partners, is to avoid the application of this subsection, or

(ii) a member of a partnership having fewer than six members, except where

(A) the partnership is a member of another partnership,

(B) there is a limited partner (within the meaning assigned by subsection 96(2.4) of the Act) of the partnership,

(C) less than 90% of the fair market value of the partnership's property is attributable to the partnership's tangible capital property located in Canada, or

(D) it is reasonable to conclude that one of the main reasons for the existence of one of two or more partnerships, one of which is the partnership, or the acquisition of one or more properties by the partnership, is to avoid the application of this section to the member's indebtedness,

(*b*) of a partnership

(i) where

(A) the indebtedness is secured by and used to acquire the partnership's tangible capital property located in Canada (other than rental property, within the meaning assigned by subsection 1100(14), leasing property, within the meaning assigned by subsection 1100(17), or specified energy property, within the meaning assigned by subsection 1100(25)), and

(B) the person to whom the indebtedness is repayable is a member of the Canadian Payments Association, and

(ii) throughout the period during which any amount is outstanding in respect of the indebtedness,

(A) at least 90% of the fair market value of the property of which is attributable to tangible capital property located in Canada of the partnership,

(B) at least 90% of the value of all interests in which are held by limited partners (within the meaning assigned by subsection 96(2.4) of the Act) that are corporations, and

(C) the principal business of each such limited partner is related to the principal business of the partnership,

except where it is reasonable to conclude that one of the main reasons for the acquisition of one or more properties by the partnership, or for the acquisition of one or more interests in the partnership by limited partners, is to avoid the application of this subsection, or

(*c*) of a corporation where the amount is a *bona fide* business loan made to the corporation for the purpose of financing a business that the corporation operates and the loan is made pursuant to a loan program of the Government of Canada or of a province the purpose of which is to extend financing to small- and medium-sized Canadian businesses.

History: S. 231(6.1) was added by P.C. 2000-1000, SOR/2000-248, dated June 21, 2000, applicable after November 1994.

(7) For the purposes of the definition "tax shelter" in subsection 237.1(1) of the Act, "prescribed property" in relation to a tax shelter means property that is a registered pension plan, a registered retirement savings plan, a deferred profit sharing plan, a registered retirement income fund, a registered education savings plan or a property in respect of which paragraph 40(2)(*i*) of the Act is applicable.

History: S. 231(7) was amended by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, to substitute "registered pension plan" for "registered pension fund or plan", applicable after 1985.

S. 231(7) was added by P.C. 1989-2156, SOR/89-519, dated October 26, 1989 and applicable in respect of interests acquired after August 31, 1989.

Worker's Compensation

232. (1) Every person who pays an amount in respect of compensation described in subparagraph 110(1)(*f*)(ii) of the Act shall make an information return in prescribed form in respect of that payment.

(2) Where a worker's compensation board, or a similar body, adjudicates a claim for compensation described in subparagraph 110(1)(*f*)(ii) of the Act and stipulates the amount of the award, that board or body shall make an information return in prescribed form in respect of the amount of the award.

(3) A return required under this section must be filed on or before the last day of February of each year and shall be in respect of

(*a*) the preceding calender year, if the return is required under subsection (1); and

(*b*) the amount of the award that pertains to the preceding calendar year, if the return is required under subsection (2).

(4) Subsections (1) and (2) are not applicable in respect of a payment or an award in respect of

(*a*) medical expenses incurred by or on behalf of the employee;

(*b*) funeral expenses in respect of the employee;

(*c*) legal expenses in respect of the employee;

(*d*) job training or counselling of the employee; or

(*e*) the death of the employee, other than periodic payments made after the death of the employee.

History: S. 232 was added by P.C. 1992-1567, SOR/92-455, dated July 20, 1992 and applicable to the 1991 and subsequent years.

SOCIAL ASSISTANCE

233. **(1)** Every person who makes a payment described in paragraph 56(1)(*u*) of the Act shall make an information return in prescribed form in respect of the payment.

(2) Subsection (1) is not applicable in respect of a payment that

(*a*) is in respect of medical expenses incurred by or on behalf of the payee;

(*b*) is in respect of child care expenses, within the meaning assigned by paragraph 63(3)(*a*) [subsection 63(3) "child care expense"] of the Act, incurred by or on behalf of the payee or a person related to the payee;

(*c*) is in respect of funeral expenses in respect of a person related to the payee;

(*d*) is in respect of legal expenses incurred by or on behalf of the payee of a person related to the payee;

(*e*) is in respect of job training or counselling of the payee or a person related to the payee;

(*f*) is paid in a particular year as a part of a series of payments, the total of which in the particular year does not exceed $500; or

(*g*) is not a part of a series of payments.

History: S. 233 was added by P.C. 1992-1567, SOR/92-455, dated July 20, 1992 and applicable to the 1991 and subsequent years.

FARM SUPPORT PAYMENTS

234. **(1)** Every government, municipality or municipal or other public body (in sections 235 and 236 referred to as the "government payer") or producer organization or association that makes a payment of an amount that is a farm support payment (other than an amount paid out of a net income stabilization account) to a person or partnership shall make an information return in prescribed form in respect of the amount.

(2) For the purposes of subsection (1) "farm support payment" includes

(*a*) a payment that is computed with respect to an area of farm land;

(*b*) a payment that is made in respect of a unit of farm commodity grown or disposed of or a farm animal raised or disposed of; and

(*c*) a rebate of, or compensation for, all or a portion of

(i) a cost or capital cost incurred in respect of farming, or

(ii) unsowed or unplanted land or crops, or destroyed crops, farm animals or other farm output.

History: S. 234 was added by P.C. 1993-1939, SOR/93-527, dated December 2, 1993 and applicable after 1993 in respect of amounts paid after 1992.

IDENTIFIER INFORMATION

235. Every corporation or trust for which an information return is required to be made under these Regulations by a government payer or by a producer organization or association shall provide its legal name, address and income tax identification number to the government payer or the producer organization or association, as the case may be.

History: S. 235 was added by P.C. 1993-1939, SOR/93-527, dated December 2, 1993 and applicable after 1993 in respect of amounts paid after 1992.

236. Every person who is a member of a partnership for which an information return is required to be made under these Regulations by a government payer or by a producer organization or association shall provide the government payer or the producer organization or association, as the case may be, with the following information:

(*a*) the person's legal name, address and Social Insurance Number, or, where the person is a trust or is not an individual, the person's income tax identification number; and

(*b*) the partnership's name and business address.

History: S. 236 was added by P.C. 1993-1939, SOR/93-527, dated December 2, 1993 and applicable after 1993 in respect of amounts paid after 1992.

Information Circulars: IC 82-2R2 Social insurance number legislation that relates to the preparation of information slips.

CONTRACT FOR GOODS AND SERVICES

237. **(1)** The definitions in this subsection apply in this section.

"*federal body*" means a department or a Crown corporation, within the meaning of section 2 of the *Financial Administration Act*.

History: S. 237(1), the definition "federal body" was amended by P.C. 1998-2274, SOR/99-21, dated December 16, 1998, applicable to amounts paid or credited after 1998. S. 237(1), the definition "federal body" formerly read:

" 'federal body' means a department, within the meaning of section 2 of the *Financial Administration Act*."

S. 237(1), the definition "federal body" was added by P.C. 1998-2274, SOR/99-21, dated December 16, 1998, applicable to amounts paid or credited after 1997.

"*payee*" means a person or partnership to whom an amount is paid or credited in respect of goods for sale or lease, or services rendered, by or on behalf of the person or the partnership.

History: S. 237(1), the definition "payee" was added by P.C. 1998-2274, SOR/99-21, dated December 16, 1998, applicable to amounts paid or credited after 1997.

(2) A federal body that pays or credits an amount to a payee shall file an information return in prescribed form in respect of the amount on or before March 31 in each year in respect of the preceding calendar year.

History: S. 237(2), was added by P.C. 1998-2274, SOR/99-21, dated December 16, 1998, applicable to amounts paid or credited after 1997.

Forms: T1204; T1204 Sum.

(3) Subsection (2) does not apply in respect of an amount

(*a*) all or substantially all of which is paid or credited in the year in respect of goods for sale or lease by the payee;

(*b*) to which section 212 of the Act applies;

(*c*) that is not required to be included in computing the income of the payee, if the payee is an employee of the federal body;

(*d*) that is paid or credited in respect of services rendered outside Canada by a payee who was not resident in Canada during the period in which the services were rendered; or

(*e*) that is paid or credited in respect of a program administered under the *Witness Protection Program Act* or any other similar program.

History: S. 237(3)(*b*) was amended by P.C. 2002-2169, SOR/2003-5, dated December 12, 2002, applicable on publication in the *Canada Gazette* on January 1, 2003. S. 237(3)(*b*) formerly read:

"(*b*) to which section 153 or 212 of the Act applies;"

S. 237(3) was added by P.C. 1998-2274, SOR/99-21, dated December 16, 1998, applicable to amounts paid or credited after 1997.

REPORTING OF PAYMENTS IN RESPECT OF CONSTRUCTION ACTIVITIES

238. (1) In this section, "construction activities" includes the erection, excavation, installation, alteration, modification, repair, improvement, demolition, destruction, dismantling or removal of all or any part of a building, structure, surface or sub-surface construction, or any similar property.

History: S. 238(1) was added by P.C. 1999-2204, SOR/2000-9, dated December 16, 1999, applicable to reporting periods that begin after 1998, except that the information return to be filed for the first reporting period is not required to be filed until June 30, 2000.

(2) Every person or partnership that pays or credits, in a reporting period, an amount in respect of goods or services rendered on their behalf in the course of construction activities shall make an information return in the prescribed form in respect of that amount, if the person's or partnership's business income for that reporting period is derived primarily from those activities.

History: S. 238(2) was added by P.C. 1999-2204, SOR/2000-9, dated December 16, 1999, applicable to reporting periods that begin after 1998, except that the information return to be filed for the first reporting period is not required to be filed until June 30, 2000.

Forms: T5018.

(3) The reporting period may be either on a calendar year basis or a fiscal period basis. Once a period is chosen, it cannot be changed for subsequent years, unless the Minister authorizes it.

History: S. 238(3) was added by P.C. 1999-2204, SOR/2000-9, dated December 16, 1999, applicable to reporting periods that begin after 1998, except that the information return to be filed for the first reporting period is not required to be filed until June 30, 2000.

(4) The return shall be filed within six months after the end of the reporting period to which it pertains.

History: S. 238(4) was added by P.C. 1999-2204, SOR/2000-9, dated December 16, 1999, applicable to reporting periods that begin after 1998, except that the information return to be filed for the first reporting period is not required to be filed until June 30, 2000.

(5) Subsection (2) does not apply in respect of an amount

(*a*) all of which is paid or credited in the reporting period in respect of goods for sale or lease by the person or partnership;

(*b*) to which section 212 of the Act applies; or

(*c*) that is paid or credited in respect of services rendered outside Canada by a person or partnership who was not resident in Canada during the period in which the services were rendered.

History: S. 238(5)(*b*) was amended by P.C. 2002-2169, SOR/2003-5, dated December 12, 2002, applicable on publication in the *Canada Gazette* on January 1, 2003. S. 238(5)(*b*) formerly read:

"(*b*) to which section 153 or 212 of the Act applies; or"

S. 238(5) was added by P.C. 1999-2204, SOR/2000-9, dated December 16, 1999, applicable to reporting periods that begin after 1998, except that the information return to be filed for the first reporting period is not required to be filed until June 30, 2000.

Regulations

PART III

Annuities and Life Insurance Policies

CAPITAL ELEMENT OF ANNUITY PAYMENTS

300. (1) For the purposes of paragraphs 32.1(3)(*b*) and 60(*a*) of the Act, where an annuity is paid under a contract (other than an income-averaging annuity contract or an annuity contract purchased pursuant to a deferred profit sharing plan or pursuant to a plan referred to in subsection 147(15) of the Act as a "revoked plan") at a particular time, that part of the annuity payment determined in prescribed manner to be a return of capital is that proportion of a taxpayer's interest in the annuity payment that the adjusted purchase price of the taxpayer's interest in the contract at that particular time is of his interest, immediately before the commencement under the contract of payments to which paragraph 56(1)(*d*) of the Act applies, in the total of the payments

(*a*) to be made under the contract, in the case of a contract for a term of years certain; or

(*b*) expected to be made under the contract, in the case of a contract under which the continuation of the payments depends in whole or in part on the survival of an individual.

History: The headings preceding s. 300 and the portion of s. 300(1) preceding paragraph (*a*) were amended by P.C. 1983-3530, SOR/83-865, dated November 18, 1983, applicable to taxation years commencing after 1982.

Interpretation Bulletins: *Secondary*— IT-500R Registered retirement savings plans — Death of annuitant.

(1.1) For the purposes of subsections (1) and (2), "annuity payment" does not include any portion of a payment under a contract the amount of which cannot be reasonably determined immediately before the commencement of payments under the contract except where the payment of such portion cannot be so determined because the continuation of the annuity payments under the contract depends in whole or in part on the survival of an individual.

History: S. 300(1.1) was added by P.C. 1982-1421, SOR/82-499, dated May 13, 1982, and effective with respect to annuity contracts under which annuity payments commence after 1981.

(2) For the purposes of this section and section 305,

(*a*) where the continuance of the annuity payments under any contract depends in whole or in part on the survival of an individual, the total of the payments expected to be made under the contract

(i) shall, in the case of a contract that provides for equal payments and does not provide for a guaranteed period of payment, be equal to the product obtained by multiplying the aggregate of the annuity payments expected to be received throughout a year under the contract by the complete expectations of life using the table of mortality known as the *1971 Individual Annuity Mortality Table* as published in Volume XXIII of the *Transactions of the Society of Actuaries*, or

(ii) shall, in any other case, be calculated in accordance with subparagraph (i) with such modifications as the circumstances may require;

(*b*) except as provided in subsections (3) and (4), "adjusted purchase price" of a taxpayer's interest in an annuity contract at a particular time means the amount that would be determined at that time in respect of that interest under paragraph 148(9)(*a*) [subsection 148(9) "adjusted cost basis"] of the Act if that paragraph were read without reference to subparagraph (viii) [subsection 148(9) "adjusted cost basis", item K] thereof;

(*c*) where the continuance of the annual payments under any contract depends on the survival of a person, the age of that person on any date as of which a calculation is being made shall be determined by subtracting the calendar year of his birth from the calendar year in which such date occurs; and

(*d*) where the continuance of the annual payments under any contract depends on the survival of a person, and where, in the event of the death of that person before the annual payments aggregate a stated sum, the contract provides that the unpaid balance of the stated sum shall be paid, either in a lump sum or instalments, then, for the purpose of determining the expected term of the contract, the contract shall be deemed to provide for the continuance of the payments thereunder for a minimum term certain equal to the nearest integral number of years required to complete the payment of the stated sum.

(*e*) [Revoked.]

History: The portion preceding s. 300(2)(*a*) was amended by P.C. 1983-3530, SOR/83-865, dated November 18, 1983, to add "and section 305", applicable to taxation years commencing after 1982.

S. 300(2)(*b*) was amended by P.C. 1983-3530, SOR/83-865, dated November 18, 1983, effective November 12, 1981.

Interpretation Bulletins: *Secondary* — IT-500R Registered retirement savings plans — Death of annuitant.

(3) Where

(*a*) an annuity contract is a life annuity contract entered into before November 17, 1978 under which the annuity payments commence on the death of an individual,

(*a*.1) [Revoked.]

(*b*) an annuity contract (other than an annuity contract described in paragraph (*a*)) is

(i) a life annuity contract entered into before October 23, 1968, or

(ii) any other annuity contract entered into before January 4, 1968,

under which the annuity payments commence

(iii) on the expiration of a term of years, and

(iv) before the later of January 1, 1970 and the tax anniversary date of the annuity contract,

the adjusted purchase price of a taxpayer's interest in the annuity contract shall be

(*c*) the lump sum, if any, that the person entitled to the annuity payments might have accepted in lieu thereof, at the date the annuity payments commence;

(*d*) if no lump sum described in paragraph (*c*) is provided for in the contract, the sum ascertainable from the contract as the present value of the annuity at the date the annuity payments commence; and

(*e*) if no lump sum described in paragraph (*c*) is provided for in the contract and no sum is ascertainable under paragraph (*d*),

(i) in the case of a contract issued under the *Government Annuities Act*, the premiums paid, accumulated with interest at the rate of four per cent per annum to the date the annuity payments commence, and

(ii) in the case of any other contract, the present value of the annuity payments at the date on which payments under the contract commence, computed by applying

(A) a rate of interest of four per cent per annum where the payments commence before 1972 and 5½ per cent per annum where the payments commence after 1971, and

(B) the provisions of subsection (2) where the payments depend on the survival of a person.

History: S. 300(3)(*a*.1) was revoked and s. 300(3)(*b*), the part preceding subparagraph (i), was amended by P.C. 1983-3530, SOR/83-865, dated November 18, 1983, to delete the reference to paragraph (*a*.1) in the case of s. 300(3)(*b*), both applicable to taxation years commencing after 1982.

Interpretation Bulletins: *Secondary* — IT-500R Registered retirement savings plans — Death of annuitant.

(4) Where an annuity contract would be described in paragraph (3)(*b*) if the reference in subparagraph (iv) thereof to "before the later of" were read as a reference to "on or after the later of", the adjusted purchase price of a taxpayer's interest in the annuity contract at a particular time shall be the greater of

(*a*) the aggregate of

(i) the amount that would be determined in respect of that interest under paragraph (3)(*c*), (*d*) or (*e*), as the case may be, if the date referred to therein was the tax anniversary date of the contract and not the date the annuity payments commence, and

(ii) the adjusted purchase price that would be determined in respect of that interest if the words "and after the tax anniversary date" were inserted in each of subparagraphs 148(9)(*a*)(i) to (iii.1) and (vi) [subsection 148(9) "adjusted cost basis", items A to D and H] of the Act immediately following the words "before that time" in each of those subparagraphs; and

(*b*) the amount determined under paragraph (2)(*b*) in respect of that interest.

History: S. 300(4)(*a*)(ii) was amended by P.C. 1983-3530, SOR/83-865, dated November 18, 1983, applicable to taxation years commencing after 1982. S. 300(4)(*a*)(ii) formerly read:

"(ii) the amount that would be determined under paragraph (2)(*b*) in respect of that interest if the words 'and after the tax anniversary date' were inserted in subparagraphs (2)(*b*)(i), (i.1), (iii) to (vii) and (ix) immediately after the words 'before that time' in those subparagraphs; and"

S. 300(4) was amended by P.C. 1982-1421, SOR/82-499, dated May 13, 1982, and effective with respect to annuity contracts under which annuity payments commence after 1981. S. 300(4) formerly read:

"(4) where an annuity contract would be described in paragraph (3)(*b*) if the reference in subparagraph (iv) thereof to 'before the later of' were read as a reference to 'on or after the later of', the consideration for, or purchase price of, the annuity contract shall be the greater of

(*a*) the aggregate of

(i) the amount that would be determined in respect of the contract under paragraph (3)(*c*), (*d*) or (*e*), as the case may be, on the assumption that the date referred to therein was the tax anniversary date of the contract and not the date the annuity payments commence, and

(ii) the amount by which

(A) the aggregate of all premiums paid under the contract after the tax anniversary date

exceeds

(B) the aggregate of all amounts each of which is an amount that became payable after December 31, 1975 and before the annuity payments commence under the contract as, on account or in lieu of payment of, or in satisfaction of, a dividend under the contract; and

(*b*) the amount by which

(i) the aggregate of all premiums paid under the contract

exceeds

(ii) the aggregate of all amounts each of which is an amount that became payable after December 31, 1975 and before the annuity

payments commence under the contract as, on account or in lieu of payment of, or in satisfaction of, a dividend under the contract."

Interpretation Bulletins: *Secondary* — IT-500R Registered retirement savings plans — Death of annuitant.

Life Annuity Contracts

301. (1) For the purposes of this Part and section 148 of the Act, "life annuity contract" means any contract under which a person authorized under the laws of Canada or a province to carry on in Canada an annuities business agrees to make annuity payments to an individual (in this section referred to as "the annuitant") or jointly to two or more individuals (each of whom is referred to as "the annuitant" in this section), which payments are, by the terms of the contract,

(*a*) to be paid annually or at more frequent periodic intervals;

(*b*) to commence on a specified day; and

(*c*) to continue throughout the lifetime of the annuitant or one or more of the annuitants.

Department of Finance Comfort Letter [Third-Party Life Annuity Contracts]

September 12, 2002

Dear XXXX

This is in reply to your letter dated June 12, 2002 concerning third-party life annuity contracts and the definition of adjusted cost basis (ACB) found in subsection 148(9) of the *Income Tax Act* (the Act).

In your letter you have recommended that the definition "adjusted cost basis" in subsection 148(9) of the Act be amended to replace the term "life annuity contract" currently found therein with the term "annuity contract". You have indicated that the term "life annuity contract", as defined in subsection 301(1) of the Income Tax Regulations (the Regulations), is overly restrictive because it excludes certain third-party life annuity contracts under which annuity payments are dependent on the life of an individual but the annuitants are either not individuals or are not the individual on whose life the annuity payments are dependent. You have pointed out that subsection 12.2(1) of the Act may inappropriately require an income inclusion in respect of interests in such third-party life annuity contracts because mortality gains and losses affect the determination of the accumulating fund in respect of the interest but not the ACB of the interest.

You have also requested that the amendments be effective for the 1981 and subsequent taxation years (the effective date for subsection 12.2(1)), in order to reflect the historical industry practice which, in your view, provides the appropriate tax result.

We agree with your conclusion that the definition "life annuity contract" in subsection 301(1) of the Regulations is overly restrictive and can result in inappropriate income inclusions under subsection 12.2(1) of the Act. We do, however, envision a different solution to this issue than that which you have suggested. In particular, we propose to recommend to the Minister of Finance that the definition "life annuity contract" in subsection 301(1) of the Regulations be amended to include life annuity contracts under which the annuitant is a partnership or a person as well as life annuity contracts under which the annuity payments are based on the life of an individual who is not the annuitant. We also propose to recommend to the Minister of Finance that the proposed amendments to the definition "life annuity contract" in subsection 301(1) of the Regulations be made applicable to taxation years that end after 1996. However, in calculating the adjusted cost basis to a policyholder of the policyholder's interest in a life insurance policy for taxation years that end after 1996, the proposed amendments will be made applicable, for the purposes of applying the definition "adjusted cost basis" in subsection 148(9) of the Act, to taxation years that end after 1980.

If the recommendation is accepted we will begin the process of submitting the amendments to the Income Tax Regulations for approval and promulgation.

Thank you for bringing this matter to our attention.

Yours sincerely,

Len Farber
General Director
Tax Legislation Division
Tax Policy Branch

History: S. 301(1), the part preceding paragraph (*a*), was amended by P.C. 1983-3530, SOR/83-865, dated November 18, 1983, effective November 12, 1981.

(2) For the purposes of subsection (1), a contract shall not fail to be a life annuity contract by reason that

(*a*) the contract provides that the annuity payments may be assigned by the annuitant or owner;

(*b*) the contract provides for annuity payments to be made for a period ending upon the death of the annuitant or for a specified period of not less than 10 years, whichever is the lesser;

(*c*) the contract provides for annuity payments to be made for a specified period or throughout the lifetime of the annuitant, whichever is longer, to the annuitant and thereafter, if the specified period is the longer, to a specified person;

(*d*) the contract provides, in addition to the annuity payments to be made throughout the lifetime of the annuitant, for a payment to be made upon the annuitant's death;

(*e*) the contract provides that the date

(i) on which the annuity payments commence, or

(ii) on which the contract holder becomes entitled to proceeds of the disposition,

may be changed with respect to the whole contract or any portion thereof at the option of the annuitant or owner; or

(*f*) the contract provides that all or a portion of the proceeds payable at any particular time under the contract may be received in the form of an annuity contract other than a life annuity contract.

History: Ss. 301(2)(*a*) and (*e*) were amended, and s. 301(2)(*f*) was added by P.C. 1982-1421, SOR/82-499, dated May 13, 1982, and effective January 1, 1982. Ss. 301(2)(*a*) and (*e*) formerly read:

"(*a*) the contract provides for a reduction in the amount of each annual or other periodic annuity payment to the annuitant, if a pension becomes payable to the annuitant under the *Old Age Security Act*, by an annual or other periodic amount not exceeding the amount payable to the annuitant in that period under the *Old Age Security Act*;"

"(*e*) in a case where annuity payments are required to be made jointly to two or more individuals, the contract provides for a reduction in the amount of each annuity payment to be made to the surviving annuitant or annuitants upon the death of any of the annuitants."

302. [Revoked.]

History: S. 302, along with its heading, was revoked by P.C. 1983-3530, SOR/83-865, dated November 18, 1983, applicable to taxation years commencing after 1982 and, in its application to the period before November 24, 1983 and commencing November 12, 1981, all that portion of s. 302(1) preceding paragraph (*a*) thereof shall be read as follows:

"S. 302.

(1) For the purposes of subsection 12(4) of the Act, 'an amount determined in prescribed manner' for a taxation year in respect of an interest in an annuity contract, except to the extent that the contract is a segregated fund policy (within the meaning assigned by subsection 138.1(1) of the Act), held by a taxpayer or partnership (in this section and sections 303 and 304 referred to as the 'holder') means the aggregate of"

303. (1) Where in a taxation year the rights of a holder under an annuity contract cease upon termination or cancellation of the contract and

(*a*) the aggregate of all amounts, each of which is an amount in respect of the contract that was included in computing the income of the holder for the year

or any previous taxation year by virtue of subsection 12(3) of the Act

exceeds the aggregate of

(*b*) such proportion of the amount determined under paragraph (*a*) that the annuity payments made under the contract before the rights of the holder have ceased is of the total of the payments expected to be made under the contract, and

(*c*) the aggregate of all amounts, each of which is an amount in respect of the contract that was deductible in computing the income of the holder for the year or any previous year by virtue of subsection (2),

the amount of such excess may be deducted by the holder under subsection 20(19) of the Act in computing his income for the year.

History: S. 303(1)(*b*) was amended by P.C. 1983-3530, SOR/83-865, dated November 18, 1983, effective November 12, 1981. S. 303(1)(*b*) formerly read:

"(*b*) such proportion of the aggregate of all amounts, each of which is an amount in respect of the contract that was added to the adjusted purchase price by virtue of subparagraph 300(2)(*b*)(v) that the annuity payments made under the contract before the rights of the holder have ceased is of the total of the payments expected to be made under the contract, and"

S. 303(1) was added by P.C. 1982-1421, SOR/82-499, dated May 13, 1982, with subsection (1) applicable to taxation years commencing after October 28, 1980 and subsection (2) effective December 20, 1980.

(2) For the purposes of subsection 20(19) of the Act, where an annuity contract was acquired after December 19, 1980 and annuity payments under the contract commenced before 1982, the amount that may be deducted by a holder under that subsection in respect of an annuity contract for a taxation year is that proportion of

(*a*) the aggregate of all amounts, each of which is an amount that was included in computing the income of the holder for any previous taxation year by virtue of subsection 12(3) of the Act in respect of the contract

that

(*b*) the aggregate of all annuity payments received by the holder in the year in respect of the contract

is of

(*c*) the total of the payments determined under paragraph 300(1)(*a*) or (*b*) in respect of the holder's interest in the contract.

History: S. 303(2) was added by P.C. 1982-1421, SOR/82-499, dated May 13, 1982, with subsection (1) applicable to taxation years commencing after October 28, 1980 and subsection (2) effective December 20, 1980.

Prescribed Annuity Contracts

304. (1) For the purposes of this Part and subsections 12.2(1), (3) and (4) and paragraph 148(2)(*b*) of the Act, prescribed annuity contract for a taxation year means

(*a*) an annuity contract that is, or is issued pursuant to, an arrangement described in any of paragraphs 148(1)(*a*) to (*b.2*) and (*d*) of the Act;

(*b*) an annuity contract described in paragraph 148(1)(*c*) or (*e*) of the Act; and

(*c*) an annuity contract

(i) under which annuity payments have commenced in the taxation year or a preceding taxation year,

(ii) issued by a corporation described in any of paragraphs 39(5)(*b*) to (*d*) or clause 146(1)(*j*)(ii)(B) of the Act, a life insurance corporation, a registered charity or a corporation (other than a mutual fund corporation or a mortgage investment corporation) the principal business of which is the making of loans (which corporation or charity is in this section referred to as an "issuer"),

Pending Amendment

Securities Held by Financial Institutions — April 11, 2009 (Pre-published in the *Canada Gazette*, Part I, dated April 11, 2009)

Subparagraph 304(1)(*c*)(ii) of the *Income Tax Regulations* is replaced by the following:

(ii) issued by any one of the following (referred to in this section as the "issuer"):

(A) a life insurance corporation,

(B) a registered charity,

(C) a corporation referred to in any of paragraphs (*a*) to (*c*) of the definition "specified financial institution" in subsection 248(1) of the Act,

(D) a corporation referred to in subparagraph (*b*)(ii) of the definition "retirement savings plan" in subsection 146(1) of the Act, and

(E) a corporation (other than a mutual fund corporation or a mortgage investment corporation) the principal business of which is the making of loans,

Applicable: After February 22, 1994.

Explanatory Note:

Regulatory Impact Analysis Statement Released on April 11, 2009

Issues and objectives

Prior to 1994, there was uncertainty as to whether profits and losses on securities held by financial institutions were on income account, and thus fully recognized in computing income, or on capital account, and instead subject to capital gains treatment. Securities of financial institutions acquired in the ordinary course of business should be treated as being on income account because investments in securities are an integral part of the financial intermediation business. In addition to this issue concerning the "character" of income or losses, additional concerns existed regarding the timing of when profits and losses on securities held by financial institutions were to be recognized.

Description and rationale

To address these concerns, Budget 1994 proposed new rules that required the profits and losses in respect of certain securities held by financial institutions to be recognized in income. Further, these proposals required that these securities be marked-to-market, meaning that the appreciation or depreciation in their value each taxation year would be recognized in the year. This mark-to-market treatment was to apply to securities, such as equity securities and debt securities, acquired in the ordinary course of business of a financial institution. Transitional rules were also proposed that would permit any net increase in income resulting from the change to a mark-to-market approach to be spread over five years. These measures were to apply for taxation years ending after February 22, 1994. The amendments to the *Income Tax Act* (the "Act") necessary to implement these budget proposals were enacted in 1995 (the "1995 Amendments").

These proposed amendments to the Income Tax Regulations (the "ITR") are intended to give full effect to the 1995 Amendments. They were previously released in draft form for public consultation in June 1995. Because these proposed Regulations are complementary to the 1995 Amendments, the Canada Revenue Agency has been administering those amendments taking into account the draft regulations released in June 1995.

This current package contains some amendments to the proposed Regulations from their previous release, which are outlined below.

The proposed Regulations contain a number of main aspects generally identified under the following headings:

Transitional rules

The 1995 Amendments provided transitional relief for financial institutions in respect of property that, once the rules came into effect (for taxation years ending after October 30, 1994), was determined to be "mark-to-market property" (generally, shares or certain debt obligations that the financial institution marks-to-market in its financial statements). This relief was intended, generally, to allow financial institutions to bring in the income and capital gains realized on the initial deemed disposition of such property (as a result of it being marked-to-market) over a five-year period. Proposed additions to Part LXXXI of the ITR provide the rules that determine prescribed amounts for this purpose. Although the transition years are now past, these additions are necessary to validate the filings of taxpayers in respect of those years.

Debt obligations held by financial institutions

The 1995 Amendments set out that each year a financial institution must include or deduct an amount in computing income in respect of certain debt obligations ("specified debt obligations") held by the financial institution. A "specified debt obligation" is, generally, a taxpayer's interest in a loan, bond, debenture, mortgage, note, agreement of sale or any other similar indebtedness, or in any debt obligation purchased by the taxpayer. Proposed Part XCI of the ITR sets out the rules that determine the amounts that will be either included or deducted in computing income.

These rules are designed to take into account both interest and the difference between the acquisition price and the face amount of the obligation — that is, the total economic return to the taxpayer. The amount to be included in income each year will usually correspond to the amount determined under generally accepted accounting principles. Additional amounts may be included or deducted in computing income in respect of foreign currency denominated obligations and obligations with payments that are subject to contingencies.

Disposition of debt obligations held by financial institutions

The 1995 Amendments set out a number of special rules that apply when a financial institution disposes of a specified debt obligation. Proposed Part XCII of the ITR provides supporting rules for these provisions. These supporting rules have three main aspects.

The first is to provide rules that calculate a transition amount in respect of obligations held by a financial institution before the 1995 Amendments began to apply.

The second main aspect concerns rules supporting the 1995 Amendments' requirement to include, in computing income each year, part of a "residual portion" of any gain or loss from a disposition of a specified debt obligation (i.e. the portion of the gain or loss that is not related to the credit-worthiness of the debtor), starting in the year of disposition. Part XCII provides for the residual portion of a gain to be amortized over the remaining term to maturity of the obligation.

Finally, the 1995 Amendments provide that certain specified debt obligations, including certain prescribed obligations, are not subject to this amortization requirement, instead requiring that the entire gain or loss from the disposition be included in computing the financial institution's income for the year. Excluding such obligations from the requirement to spread gains and losses facilitates compliance with the 1995 Amendments. Part XCII includes as "prescribed obligations" any obligation that has less than two years to maturity from the end of the taxation year in which it is disposed of, any obligation whose disposition results in its extinguishment and any obligation if the taxpayer's net gain or loss from the disposition of the obligation and from other obligations disposed of in the same transaction does not exceed $5,000 (or such lower amount as the taxpayer elects).

Other amendments

Because insurance corporations are included as "financial institutions" under the 1995 Amendments, they are subject to the requirements imposed by these rules. As a result, amendments are proposed to Part XXIV of the ITR affecting life insurance corporations to take into account their transition into and ongoing subjection to the mark-to-market regime.

In addition, the enactment of the 1995 Amendments requires the proposed amendment to Part III of the ITR dealing with prescribed annuity contracts. This change is required because subsection 39(5) of the Act was amended to replace several of its paragraphs by a reference to "financial institutions" (as defined in subsection 142.2(1) of the Act). Consequently, subparagraph 304(1)(*c*)(ii) is proposed to be amended to refer to corporations referred to in any of paragraphs (*a*) to (*c*) of the definition of "specified financial institution" in subsection 248(1) of the Act, which are the same corporations as were referred to in paragraphs 39(5)(*b*) to (*d*) of the Act.

Finally, an amendment is also proposed to Part LXII to provide that a security is prescribed (and thus not a "lending asset") if it is a mark-to-market property or is included in a taxpayer's inventory. As a consequence of this amendment, a specified debt obligation held by a bank in its trading account will be treated as a lending asset if it is not a mark-to-market property. This observation applies, in particular, to the debt obligations of a country that has been designated by the Office of the Superintendent of Financial Institutions and to the United Mexican States Collateralized Par or Discount Bonds Due 2019.

Changes to the 1995 Draft Regulations

The following changes have been made to the draft amendments that were released in June of 1995:

- The application provision for amendments to section 2405 of the ITR has been amended to reflect that section 2405 does not apply to the 1999 and subsequent taxation years.
- The amendment in Part XXIV of the ITR to subsection 2411(1), dealing with amounts required to be included in income by multinational insurers, and the amendment adding element G.1 in the formula in subsection 2411(3), which sets out the minimum amount that an insurer must report as its net investment revenue in a taxation year, are not in this package as they were enacted in 2000.
- The amendment in Part XXIV of the ITR to the description of element A.1 of the formula in subsection 2411(3) was enacted in 2000, but remains in the package to clarify that the dispositions of Canadian investment property referred to in the description (other than dispositions of Canadian equity property) may be in the year or any preceding taxation year.
- The amendment in Part XXIV of the ITR to element A in subsection 2411(4), which sets out an insurer's net investment revenue from different classes of property, is not in this package as it was enacted in 2000 and element B in subsection 2411(4) is also amended for the 1999 and subsequent taxation years as a consequence of the changes made in 2000 to Part XXIV of the ITR.
- The addition in Part XXIV of the ITR of subsection 2411(4.1), which contains rules that apply with respect to the disposition of certain specified debt obligations by an insurer, is not in this package as it was enacted in 2000.
- The amendment in Part LI of the ITR to paragraph (*c*) of the definition "eligible corporation" in subsection 5100(1) is not in this package as it was enacted in 1999.
- The amendments in Part LXII of the ITR to subsections 6201(5) and (5.1) are not in this package as they were enacted in 2007.
- The amendments in Part XC of the ITR are not in this package as they will be enacted separately.
- Subsection 9102(4) in Part XCI of the ITR, which provides that no accrual adjustment is necessary in the first year a taxpayer owns a property as a specified debt obligation, has been amended in order to clarify its operation.
- As previously announced in 1997, subsection 9103(2) in Part XCI of the ITR is proposed to be repealed. The repeal of subsection 9103(2) would apply to taxation years that end after September 1997, and also to taxation years that end after 1995 and before October 1997 where the taxpayer has elected to have the amendments made to paragraph 20(1)(*l*) (which permits a taxpayer who is an insurer or whose ordinary business includes the lending of money to claim a reserve in respect of doubtful loans and lending assets) of the Act in 1998 apply to those years.
- Subsection 9103(3) in Part XCI of the ITR, which would provide that amendments to the terms of a specified debt obligation are to be taken into account in determining accrued returns and adjustments, has been amended in order to clarify its operation. The amended version is proposed to be effective for taxation years beginning on or

after the date subsection 9103(3) is prepublished in Part I of the *Canada Gazette*.

- The June 1995 draft amendments contained a number of definitions that specifically adopted the meaning of defined terms in the Act. A number of these definitions are not included in the current package because their meanings in the Act apply automatically in the relevant regulations by virtue of the Interpretation Act.
- Certain headings have been removed and marginal notes have been added to reflect current drafting practices and make the amendments easier to read.
- A number of style changes have been made to reflect current practice; however, these changes do not change the meaning of the provisions.

The 1994 Budget proposals (including the effects of the 1995 Amendments to the Act and the proposed regulations) were projected to raise $60 million in each of the first three years of application of the measures. As these regulations are complementary to the changes made to the Act in 1995, the Canada Revenue Agency has been administering the provisions taking into account the draft regulations as first released. As such, the revenue implications from the actual promulgation of these regulations should be minimal.

Consultation

The Canada Revenue Agency was consulted in the drafting of these proposed regulations. In addition, these regulations were released in draft form to the public in 1995 and any comments received have been duly considered.

Implementation, enforcement and service standards

The Act provides the necessary implementation and enforcement mechanisms. These mechanisms allow the Minister of National Revenue to issue forms on which taxpayers must calculate their income tax, assess and reassess tax payable, conduct audits and seize relevant records and documents.

Contact

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Explanatory Notes Released on June 1, 1995

Prescribed Annuity Contracts

Section 304 of the *Income Tax Regulations* prescribes certain annuity contracts for exclusion from the rules in the *Income Tax Act* that require income from insurance policies to be reported on an accrual basis. Paragraph 304(1)(*c*) provides an exclusion for an annuity under which payments have commenced if a number of other conditions are also satisfied. Subparagraph 304(1)(*c*)(ii) requires that the annuity have been issued by a person specified in that provision. Acceptable issuers include corporations described in any of paragraphs 39(5)(*b*) to (*d*) of the Act — banks, trust companies and credit unions.

Subsection 39(5) of the Act is being amended to replace several of its paragraphs by a reference to "financial institutions" (as defined in subsection 142.2(1) of the Act). Consequently, subparagraph 304(1)(*c*)(ii) is amended to refer to corporations referred to in any of paragraphs (*a*) to (*c*) of the definition of "specified financial institution" in subsection 248(1) of the Act, which are the same corporations as were referred to in paragraphs 39(5)(*b*) to (*d*).

(iii) each holder of which

(A) is an individual, other than a trust that is neither a trust described in paragraph 104(4)(*a*) of the Act (in this paragraph referred to as a "specified trust") nor a testamentary trust,

(B) is an annuitant under the contract, and

(C) throughout the taxation year, dealt at arm's length with the issuer,

(iv) the terms and conditions of which require that, from the time the contract meets the requirements of this paragraph,

(A) all payments made out of the contract be equal annuity payments made at regular intervals but not less frequently than annually, subject to the holder's right to vary the frequency and quantum of payments to be made out of the contract in any taxation year without altering the present value at the beginning of the year of the total payments to be made in that year out of the contract,

(B) the annuity payments thereunder continue for a fixed term or

(I) if the holder is an individual (other than a trust), for the life of the first holder or until the day of the later of the death of the first holder and the death of any of the spouse, common-law partner, former spouse, former common-law partner, brothers and sisters (in this subparagraph referred to as "the survivor") of the first holder, or

(II) if the holder is a specified trust, for the life of the spouse or common-law partner who is entitled to receive the income of the trust,

(C) where the annuity payments are to be made over a term that is guaranteed or fixed, the guaranteed or fixed term not extend beyond the time at which

(I) in the case of a joint and last survivor annuity, the younger of the first holder and the survivor,

(II) if the holder is a specified trust, the spouse or common-law partner who is entitled to receive the income of the trust,

(III) if the holder is a testamentary trust other than a specified trust, the youngest beneficiary under the trust,

(IV) where the contract is held jointly, the younger of the first holders, or

(V) in any other case, the first holder,

would, if he survived, attain the age of 91 years,

(D) no loans exist under the contract and the holder's rights under the contract not be disposed of otherwise than on the holder's death or, if the holder is a specified trust, on the death of the spouse or common-law partner who is entitled to receive the income of the trust, and

(E) no payments be made out of the contract other than as permitted by this section,

(v) none of the terms and conditions of which provide for any recourse against the issuer for failure to make any payment under the contract, and

(vi) where annuity payments under the contract have commenced

(A) before 1987, in respect of which a holder thereof has notified the issuer in writing, before the end of the taxation year, that the contract is to be treated as a prescribed annuity contract,

(B) after 1986, in respect of which a holder thereof has not notified the issuer in writing, before the end of the taxation year in which the annuity payments under the contract commenced, that the contract is not to be treated as a prescribed annuity contract, or

(C) after 1986, in respect of which a holder thereof has notified the issuer in writing, before

the end of the taxation year in which the annuity payments under the contract commenced, that the contract is not to be treated as a prescribed annuity contract and a holder thereof has rescinded the notification by so notifying the issuer in writing before the end of the taxation year.

Explanatory Note Extract
Proposed Amendment to Regulation 304

[Reproduced below is an excerpt from the Explanatory Notes for subsection 94.2(11) of the Act released with the November 9, 2006 draft amendments regarding foreign investment entities (Part 1 of former Bill C-10). This excerpt describes a proposal to amend section 304 of the Income Tax Regulations.]

... the interest in the policy was, on the anniversary day (as defined in subsection 12.2(11)) of the policy that occurs in the taxation year, an exempt policy (as defined in subsection 12.2(11)) or a prescribed annuity contract (as defined in section 304 of the Income Tax Regulations — in this regard, it is intended that amendments be proposed to section 304 of the Regulations to reflect this change) ...

Department of Finance Comfort Letter
[Last Survivor Annuity Contracts to be Prescribed in Regulation 304]

June 27, 2003

Dear XXXX:

Thank you for your letter dated October 22, 2002, concerning section 304 of the *Income Tax Regulations* (the "Regulations") and its application to last survivor annuity contracts held by joint spousal or common-law partner trusts.

Section 304 defines a "prescribed annuity contract" for a taxation year for the purposes of subsection 12.2(1) and paragraph 148(2)(*b*) of the *Income Tax Act* (the "Act"). *Alter ego* trusts and joint spousal or common-law partner trusts are trusts described in paragraph 104(4)(*a*) of the Act and, as you mentioned in your letter and as confirmed by the Department in a comfort letter sent to your attention dated July 29, 2002, these trusts qualify as a specified trust under clause 304(1)(*c*)(iii)(A) of the Regulations.

However, a last survivor annuity contract, the annuity payments of which are determined by reference to the later of the death of an individual and the death of the individual's spouse or common-law partner who is entitled to receive the income of the trust, is not included in the definition of "prescribed annuity contract" in section 304 of the Regulations when held by a specified trust.

From a policy perspective, it appears appropriate for a last survivor annuity contract held by a specified trust to be prescribed as a prescribed annuity contract if all the other conditions of section 304 of the Regulations are met and the last survivor is the person that established the trust or the survivor as defined in that section. This treatment would be in accordance with the treatment under section 304 of the Regulation of last survivor annuity contracts held by individuals.

Consequently, we are prepared to recommend to the Minister of Finance that amendments be made to section 304 of the Regulations to ensure that last survivor annuity contracts held by specified trusts as defined in section 304 of the Regulations be prescribed annuity contracts if all the other conditions of that section are met and the last survivor is the person that established the trust or the survivor as defined in that section.

You also mentioned in your letter that clause 304(1)(*c*)(iv)(B) of the Regulations does not provide for the situation where testamentary trusts (which are not specified trusts) hold annuity contracts that do not continue for a fixed term. From a policy perspective and in order to be consistent with clause 304(1)(*c*)(iv)(C) of the Regulations, we are prepared to recommend an amendment to the Regulations to prescribe this type of annuity contract under clause 304(1)(*c*)(iv)(B) where the payments continue for the life of any beneficiary entitled to receive the income from the trust.

Further, we intend to recommend that these proposed amendments apply to the 2000 and following taxation years.

Of course, I can offer no assurance that the Minister of Finance will agree with the recommendation that I have described. Nonetheless, I hope that this statement of our position is helpful.

Thank you for bringing this matter to our attention.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

Department of Finance Comfort Letter
[Alter Ego Trusts Acquiring Annuity Contracts]

July 29, 2002

Dear XXXX

Thank you for your letter dated May 6, 2002, concerning section 304 of the *Income Tax Regulations* (the "Regulations") and its application to *alter ego* trusts.

Section 304 defines a "prescribed annuity contract" for a taxation year for the purposes of subsection 12.2(1) and paragraph 148(2)(*b*) of the *Income Tax Act* (the "Act"). *Alter ego* trusts and joint spousal and common-law partner trusts are trusts described in paragraph 104(4)(*a*) of the Act and as you mentioned in your letter, these trusts would appear to qualify as a specified trust eligible to hold prescribed annuities under clause 304(1)(*c*)(iii)(A) of the Regulations.

However, it would appear that an *alter ego* trust would not be able to acquire an annuity contract that is a prescribed annuity contract because subclauses 304(1)(*c*)(iv)(B)(II) and 304(1)(*c*)(iv)(C)(II) require, in the case of a specified trust, that the terms of the contract determine annuity payments by reference to the "spouse or common-law partner who is entitled to receive the income of the trust". *Alter ego* trusts do not comply with those subclauses because, in the case of *alter ego* trusts, the annuity payments would be determined by reference to the individual who is entitled to receive the income of the trust and not by reference to the spouse or common-law partner. As a result, you have requested that those subclauses be amended to allow *alter ego* trusts to hold prescribed annuity contracts.

From a policy perspective, it appears appropriate to permit an *alter ego* trust to be eligible to hold a prescribed annuity contract if all the other conditions of section 304 of the Regulations are met. This treatment would be in accordance with the treatment of the other trusts described in paragraph 104(4)(*a*) of the Act. Consequently, we are prepared to recommend to the Minister of Finance that amendments be made to subclauses 304(1)(*c*)(iv)(B)(II) and 304(1)(*c*)(iv)(C)(II) of the Regulations to permit an *alter ego* trust to hold a prescribed annuity contract. Further, we intend to recommend that the amendments apply to the taxation years that begin after 2001.

Of course, I can offer no assurance that the Minister of Finance will agree with the recommendation that I have described. Nonetheless, I hope that this statement of our position is helpful.

Thank you for bringing this matter to our attention.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

Department of Finance Press Release
Proposals Affecting Segregated Fund Policies and Other Annuity Contracts

[A portion of the text of Department of Finance Release No. 96-100, dated December 19, 1996, and part (b) of the accompanying appendix relating to the accrual rules for an annuity contract issued as an RRIF are reproduced below. Most of the release and appendix concerned the issue of segregated funds with respect to the foreign property rules under former Part XI of the Act.]

Finance Minister Paul Martin today announced a number of proposed measures affecting the tax treatment of annuity contracts, including segregated fund policies, offered by insurers.

* * *

The proposed changes are described in more detail in the attached appendix.

* * *

For further information:

Andrew Nicholls
Tax Legislation Division
(613) 995-3586

Appendix — Proposed changes for segregated funds and other annuities

Background

There are a number of different types of RRSPs and RRIFs currently available to Canadians. One type is the RRSP or RRIF trust, which is a trust established to hold "qualified investments" for the benefit of the RRSP or RRIF annuitant. Another type is the RRSP or RRIF deposit, which is a contract under which a financial institution agrees to repay a principal amount deposited plus stipulated interest.

* * *

[A]nnuities that are issued as RRIFs may technically not be exempt from the accrual rules under section 12.2 of the Act. These rules require income accruing under annuity contracts to be reported annually. The application of these rules to RRIFs is particularly anomalous because annuities issued as RRSPs are exempt from these rules.

Proposed Amendments

* * *

(b) *Accrual Rules*

- An annuity contract issued as a RRIF will not be subject to the accrual rules under section 12.2 of the Act.
- This amendment will be implemented by way of an amendment to subsection 304(1) of the Regulations. It is contemplated that it will apply to taxation years that begin after 1986, given that the original amendments to the Act that gave rise to the need for this amendment applied after 1986.

History: S. 304(1)(*a*) was replaced by S.C. 2009, c. 2, s. 90(1), applicable to annuity contracts issued after 2008. S. 304(1)(*a*) formerly read:

"(*a*) an annuity contract purchased pursuant to a registered pension plan, a registered retirement savings plan, a deferred profit sharing plan or a plan referred to in subsection 147(15) of the Act as a revoked plan;"

S. 304(1)(*c*)(iii)(A) was replaced by P.C. 2007-849, SOR/2007-116, dated May 31, 2007, effective upon publication in the *Canada Gazette*, June 13, 2007. S. 304(1)(*c*)(iii)(A) formerly read:

"(A) is an individual, other than a trust that is neither a testamentary trust nor a trust described in paragraph 104(4)(*a*) of the Act (in this paragraph referred to as a 'specified trust'),"

S. 304(1)(*c*)(iv)(B)(I) was replaced by P.C. 2007-849, SOR/2007-116, dated May 31, 2007, effective upon publication in the *Canada Gazette*, June 13, 2007. S. 304(1)(*c*)(iv)(B)(I) formerly read:

"(I) if the holder is an individual (other than a trust), for the life of the first holder or until the later of the death of the first holder and the death of any one of the spouse, common-law partner, former spouse, former common-law partner, brothers and sisters (in this subparagraph referred to as 'the survivor') of the first holder, or"

S. 304(1)(*c*)(iii)(A) was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, the amendments to s. 304(1)(*c*)(iii)(A) and to s. 304(1)(*c*)(iv)(B), (C) and (D) of these Regulations, described below, apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years. S. 304(1)(*c*)(iii)(A) formerly read:

"(A) is an individual, other than a trust that is neither a testamentary trust nor a trust described in paragraph 104(4)(*a*) of the Act (in this paragraph referred to as a 'spouse trust'),"

Ss. 304(1)(*c*)(iv)(B)(I) and (II) were amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, applicable to the 2001 and subsequent taxation years. See history for s. 304(1)(*c*)(iii)(A) above for transitional rule. Ss. 304(1)(*c*)(iv)(B)(I) and (II) formerly read:

"(I) where the holder is an individual (other than a trust), for the life of the first holder or until the later of the death of the first holder and the death of any one of the spouse, brothers and sisters (in this subparagraph referred to as 'the survivor') of the first holder, or

(II) where the holder is a spouse trust, for the life of the spouse who is entitled to receive the income of the trust,"

Ss. 304(1)(*c*)(iv)(C)(II) and (III) were amended by P.C. 2001-957, SOR/2001-188, applicable to the 2001 and subsequent taxation years. See history for s. 304(1)(*c*)(iii)(A) above for transitional rule. Ss. 304(1)(*c*)(iv)(C)(II) and (III) formerly read:

"(II) where the holder is a spouse trust, the spouse who is entitled to receive the income of the trust,

(III) where the holder is a testamentary trust other than a spouse trust, the youngest beneficiary under the trust,"

S. 304(1)(*c*)(iv)(D) was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, applicable to the 2001 and subsequent taxation years. See history for s. 304(1)(*c*)(iii)(A) above for transitional rule. S. 304(1)(*c*)(iv)(D) formerly read:

"(D) no loans exist under the contract and the holder's rights under the contract not be disposed of otherwise than on the holder's death or, where the holder is a spouse trust, on the death of the spouse who is entitled to receive the income of the trust, and"

S. 304(1), the part preceding paragraph (*a*) was amended by P.C. 1994-940, SOR/94-415, dated June 2, 1994 and applicable after 1989. S. 304(1) formerly read:

"(1) For the purposes of this Part and subsections 12.2(3) and (4) and paragraph 148(2)(*b*) of the Act, prescribed annuity contract for a taxation year means"

(2) Notwithstanding subsection (1), an annuity contract shall not fail to be a prescribed annuity contract by reason that

(*a*) where the contract provides for a joint and last survivor annuity or is held jointly, the terms and conditions thereof provide that there will be a decrease in the amount of the annuity payments to be made under the contract from the time of death of one of the annuitants thereunder;

(*b*) the terms and conditions thereof provide that where the holder thereof dies at or before the time he attains the age of 91 years, the contract will terminate and an amount will be paid out of the contract not exceeding the amount, if any, by which the total premiums paid under the contract exceeds the total annuity payments made under the contract;

(*c*) where the annuity payments are to be made over a term that is guaranteed or fixed, the terms and conditions thereof provide that as a consequence of the death of the holder thereof during the guaranteed or fixed term any payments that, but for the death of the holder, would be made during the term may be commuted into a single payment; or

(*d*) the terms and conditions thereof, as they read on December 1, 1982 and at all subsequent times, provide that the holder participates in the investment earnings of the issuer and that the amount of such participation is to be paid within 60 days after the end of the year in respect of which it is determined.

History: Ss. 304(2)(*a*) and (*c*) were amended by P.C. 1988-1115, SOR/88-319, dated June 9, 1988, applicable to taxation years commencing after 1986. Ss. 304(2)(*a*) and (*c*) formerly read:

"(*a*) where the contract provides for a joint and last survivor annuity, an annuitant thereunder holds the contract jointly with his spouse or the terms and conditions thereof provide that there will be a decrease in the amount of the annuity payments to be made under the contract from the time of death of one of the annuitants thereunder;"

* * *

"(*c*) the terms and conditions thereof provide that as a consequence of the death of the holder thereof during the guaranteed term of the contract any unpaid payments guaranteed to be made independent of death may be commuted into a single payment; or"

S. 304(2) was amended by P.C. 1983-3530, SOR/83-865, dated November 18, 1983, applicable to taxation years commencing after 1982. S. 304(2) formerly read:

"(2) For the purposes of subsection (1), any reference in subsections 138(12) and 148(9) of the Act to 'policy loan' shall be read as a reference to 'contract loan'."

S. 304(2) was added by P.C. 1982-1421, SOR/82-499, dated May 13, 1982, and effective with respect to annuity contracts under which annuity payments commence after 1981.

(3) For the purposes of this section, the annuitant under an annuity contract is deemed to be the holder of the contract where

(*a*) the contract is held by another person in trust for the annuitant; or

(*b*) the contract was acquired by the annuitant under a group term life insurance policy under which life insurance was effected on the life of another person in respect of, in the course of, or by virtue of the office or employment or former office or employment of that other person.

History: S. 304(3) was added by P.C. 1988-1115, SOR/88-319, dated June 9, 1988, applicable to taxation years commencing after 1986.

Former s. 304(3) was revoked by P.C. 1983-3530, SOR/83-865, dated November 18, 1983, applicable to taxation years commencing after 1982. S. 304(3) formerly read:

"(3) For the purposes of section 300 and this section,

(*a*) where at a particular time a contract holder became entitled to receive under an annuity contract an amount as, on account or in lieu of payment of, or in satisfaction of, a dividend under the contract, the contract holder shall be deemed to have disposed of an interest in the contract at that time and the amount shall be deemed to be proceeds of the disposition that he became entitled to receive at that time; and

(*b*) where an interest of a contract holder in an annuity contract (other than an annuity contract that is not a life annuity contract) is disposed of by way of gift (whether during his lifetime or by his will), by distribution from a corporation or by operation of law only to any person, or in any manner whatever to any person with whom the contract holder was not dealing at arm's length, the contract holder shall be deemed thereupon to become entitled to receive proceeds of the disposition equal to the value of the interest at the time of the disposition, and the person who acquires the interest by virtue of the disposition shall be deemed to acquire it at a cost equal to such value."

S. 304(3) was added by P.C. 1982-1421, SOR/82-499, dated May 13, 1982, and effective with respect to annuity contracts under which annuity payments commence after 1981.

(4) In this section, "annuitant" under an annuity contract, at any time, means a person who, at that time, is entitled to receive annuity payments under the contract.

History: S. 304(4) was replaced by P.C. 2007-849, SOR/2007-116, dated May 31, 2007, effective upon publication in the *Canada Gazette*, June 13, 2007. S. 304(4) formerly read:

"(4) In this section,

'annuitant' under an annuity contract, at any time, means a person who, at that time, is entitled to receive annuity payments under the contract;

'spouse' of a particular individual includes another individual of the opposite sex who is a party to a void or voidable marriage with the particular individual."

S. 304(4), the definition "spouse" was amended by P.C. 2001-957, SOR/2001-188, applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, the amendment to the definition of "spouse" in s. 304(4) of these Regulations applies to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years. S. 304(4), the definition "spouse" formerly read:

" 'spouse' of a particular person means

(*a*) a person of the opposite sex who is married to the particular person or who is a party to a void or voidable marriage with the particular person, or

(*b*) a person of the opposite sex who is cohabiting with the particular person in a conjugal relationship and has so cohabited for a period of at least one year."

Ss. 304(4) was added by P.C. 1988-1115, SOR/88-319, dated June 9, 1988, applicable to taxation years commencing after 1986.

Former s. 304(4) was revoked by P.C. 1983-3530, SOR/83-865, dated November 18, 1983, applicable to taxation years commencing after 1982. S. 304(4) formerly read:

"(4) For the purposes of subsections 300(1), (2) and (4) and this section, 'value' at a particular time of an interest in an annuity contract means,

(*a*) where the interest includes an interest in the cash surrender value of the contract, the amount in respect thereof that the holder of the interest would be entitled to receive if the contract were surrendered at that time; and

(*b*) in any other case, nil."

S. 304(4) was added by P.C. 1982-1421, SOR/82-499, dated May 13, 1982, and effective with respect to annuity contracts under which annuity payments commence after 1981.

(5) For the purpose of this section, "spouse" and "former spouse" of a particular individual include another individual who is a party to a void or voidable marriage with the particular individual.

History: S. 304(5) was added by P.C. 2007-849, SOR/2007-116, dated May 31, 2007, effective upon publication in the *Canada Gazette*, June 13, 2007.

S. 304(5) was revoked by P.C. 1983-3530, SOR/83-865, dated November 18, 1983, applicable to taxation years commencing after 1982.

Unallocated Income Accrued Before 1982

305. (1) For the purposes of section 12.2 and paragraph 56(1)(*d*.1) of the Act, the amount at any time of "unallocated income accrued in respect of the interest before 1982, as determined in prescribed manner", in respect of a taxpayer's interest in an annuity contract (other than an interest last acquired after December 1, 1982) or in a life insurance policy referred to in subsection (3), means the amount, if any, by which

(*a*) the accumulating fund at December 31, 1981 in respect of the interest exceeds the aggregate of

(*b*) his adjusted cost basis (within the meaning assigned by paragraph 148(9)(*a*) [subsection 148(9) "adjusted cost basis"] of the Act) at December 31, 1981 in respect of the interest; and

(*c*) that proportion of the amount, if any, by which the amount determined under paragraph (*a*) exceeds the amount determined under paragraph (*b*) that

(i) the aggregate of all amounts each of which is the amount of an annuity payment received before that time in respect of the interest

is of

(ii) the taxpayer's interest, immediately before the commencement of payments under the contract, in the total of the annuity payments

(A) to be made under the contract, in the case of a contract for a term of years certain, or

(B) expected to be made under the contract, in the case of a contract under which the continuation of the payments depends in whole or in part on the survival of an individual.

History: S. 305(1) was added by P.C. 1983-3530, SOR/83-865, dated November 18, 1983, applicable to taxation years commencing after 1982.

(2) For the purposes of paragraph (1)(*c*), "annuity payment" does not include any portion of a payment under a contract the amount of which cannot be reasonably determined immediately before the commencement of payments under the contract except where such portion cannot be so determined because the continuation of the annuity payments under the contract depends in whole or in part on the survival of an individual.

History: S. 305(2) was added by P.C. 1983-3530, SOR/83-865, dated November 18, 1983, applicable to taxation years commencing after 1982.

(3) For the purposes of this section, an interest in an annuity contract to which subsection 12.2(9) of the Act applies shall be deemed to be a continuation of the interest in the life insurance policy in respect of which it was issued.

History: S. 305(3) was added by P.C. 1983-3530, SOR/83-865, dated November 18, 1983, applicable to taxation years commencing after 1982.

EXEMPT POLICIES

306. (1) For the purposes of this Part and subsection 12.2(11) of the Act, "exempt policy" at any time means a life insurance policy (other than an annuity contract or a deposit administration fund policy) in respect of which the following conditions are met at that time:

(*a*) if that time is a policy anniversary of the policy, the accumulating fund of the policy at that time (determined without regard to any policy loan) does not exceed the total of the accumulating funds at that time of the exemption test policies issued at or before that time in respect of the policy;

(*b*) assuming that the terms and conditions of the policy do not change from those in effect on the last policy anniversary of the policy at or before that time and, where necessary, making reasonable assumptions about all other factors (including, in the case of a participating life insurance policy within the meaning assigned by subsection 138(12) of the Act, the assumption that the amounts of dividends paid will be as shown in the dividend scale), it is reasonable to expect that the condition in paragraph (*a*) will be met on each policy anniversary of the policy on which the policy could remain in force after that time and before the date determined under subparagraph (3)(*d*)(ii) with respect to the exemption test policies issued in respect of the policy;

(*c*) the condition in paragraph (*a*) was met on all policy anniversaries of the policy before that time; and

(*d*) the condition in paragraph (*b*) was met at all times on and after the first policy anniversary of the policy and before that time.

History: S. 306(1) was amended by P.C. 1994-940, SOR/94-415, dated June 2, 1994, applicable:

(a) with respect to a life insurance policy issued after March 26, 1992, other than a policy for which written application was made on or before March 26, 1992; and

(b) with respect to a life insurance policy amended at any time after March 26, 1992 to increase the amount of the benefit on death.

S. 306(1) formerly read:

"(1) For the purposes of this Part and paragraph 12.2(11)(*a*) of the Act, 'exempt policy' at any time means a life insurance policy (other than an annuity contract or a deposit administration fund policy)

(*a*) in respect of which

(i) on the policy anniversary thereof, if any, occurring at that time, and

(ii) assuming that the terms and conditions of the policy do not change from those in effect on the last policy anniversary at or before that time and, where necessary, making reasonable assumptions about all other factors (including, in the case of a participating life insurance policy within the meaning assigned by paragraph 138(12)(*k*) of the Act, the assumption that the amounts of dividends paid will be as shown in the dividend scale), on each policy anniversary after that time on which the policy could remain in force and before the date determined under subparagraph (3)(*d*)(ii) with respect to any exemption test policy issued in respect of the policy,

the accumulating fund (determined without regard to any policy loan) does not exceed (or, in the case of subparagraph (ii), would not exceed) the aggregate of the accumulating funds of the exemption test policies in respect of the life insurance policy at that time; and

(*b*) that has met the requirements of paragraph (*a*) on and after the date of its first policy anniversary."

S. 306(1) was added by P.C. 1983-3530, SOR/83-865, dated November 18, 1983, applicable to taxation years commencing after 1982.

Interpretation Bulletins: *Secondary* — IT-87R2 Policyholders' income from life insurance policies.

(2) For the purposes of subsection (1), a life insurance policy that is an exempt policy on its first policy anniversary shall be deemed to have been an exempt policy from the time of its issue until that anniversary.

History: S. 306(2) was amended by P.C. 1994-940, SOR/94-415, dated June 2, 1994, applicable:

(a) with respect to a life insurance policy issued after March 26, 1992, other than a policy for which written application was made on or before March 26, 1992; and

(b) with respect to a life insurance policy amended at any time after March 26, 1992 to increase the amount of the benefit on death.

S. 306(2) formerly read:

"(2) For the purposes of subsection (1), any life insurance policy that meets the requirements of paragraph (1)(*a*) on its first policy anniversary shall be deemed to have been an exempt policy from the time of its issue until that anniversary."

S. 306(2) was added by P.C. 1983-3530, SOR/83-865, dated November 18, 1983, applicable to taxation years commencing after 1982.

(3) For the purposes of this section and section 307, a separate exemption test policy shall be deemed to have been issued to a policyholder in respect of a life insurance policy

(*a*) on the date of issue of the life insurance policy, and

(*b*) on each policy anniversary of the life insurance policy where the amount of the benefit on death thereunder exceeds 108 per cent of the amount of the benefit on death thereunder on the later of the date of its issue and the date of its preceding anniversary, if any,

and, for the purpose of determining whether the accumulating fund of the life insurance policy on any particular policy anniversary meets the condition in paragraph (1)(*a*), each such exemption test policy shall be deemed

(*c*) to have a benefit on death that is uniform throughout the term of the exemption test policy and equal to

(i) where the exemption test policy is the first such policy issued in respect of the life insurance policy, the amount on that policy anniversary of the benefit on death of the life insurance policy less the total of all amounts each of which is the amount on that policy anniversary of the benefit on death of another exemption test policy issued on or before that policy anniversary in respect of the life insurance policy, and

(ii) in any other case, the amount by which the benefit on death of the life insurance policy on the date the exemption test policy was issued exceeds 108 per cent of the amount of the benefit on death of the life insurance policy on the later of the date of issue of the life insurance policy and the date of its preceding policy anniversary, if any;

(*d*) to pay the amount of its benefit on death on the earlier of

(i) the date of death of the person whose life is insured under the life insurance policy, and

(ii) the later of

(A) ten years after the date of issue of the life insurance policy, and

(B) the date that the person whose life is insured would, if he survived, attain the age of 85 years; and

(*e*) to be a life insurance policy in Canada issued by a life insurer that carried on its life insurance business in Canada.

History: S. 306(3), the part following paragraph (*b*) and before (*c*)(ii), was amended by P.C. 1994-940, SOR/94-415, dated June 2, 1994 and applicable

(a) with respect to a life insurance policy issued after March 26, 1992, other than a policy for which written application was made on or before March 26, 1992; and

(b) with respect to a life insurance policy amended at any time after March 26, 1992 to increase the amount of the benefit on death.

That part formerly read:

"and each such exemption test policy shall be deemed

(c) to have at any time a benefit on death equal to,

(i) where the exemption test policy is the first such policy issued in respect of the life insurance policy, the amount at that time of the benefit on death of the life insurance policy in respect of which it was issued less the aggregate of all amounts each of which is an amount determined under subparagraph (ii) at or before that time, or"

S. 306(3) was added by P.C. 1983-3530, SOR/83-865, dated November 18, 1983, applicable to taxation years commencing after 1982.

(4) Notwithstanding subsections (1) to (3),

(*a*) where at any particular time the amount of the benefit on death of a life insurance policy is reduced, an amount equal to such reduction (such amount is in this paragraph referred to as "the reduction") shall be applied at that time to reduce the amount of the benefit on death of exemption test policies issued before that time in respect of the life insurance policy (other than the exemption test policy issued in respect thereof pursuant to paragraph (3)(*a*)), in the order in which the dates of their issuance are proximate to the particular time, by an amount equal to the lesser of

(i) the portion, if any, of the reduction not applied to reduce the benefit on death of one or more other such exemption test policies, and

(ii) the amount, immediately before that time, of the benefit on death of the relevant exemption test policy;

(*b*) where on the tenth or on any subsequent policy anniversary of a life insurance policy, the accumulating fund thereof (computed without regard to any policy loan then outstanding in respect of the policy) exceeds 250 per cent of the accumulating fund thereof on its third preceding policy anniversary (computed without regard to any policy loan then outstanding in respect of the policy), each exemption test policy deemed by subsection (3) to have been issued before that time in respect of the life insurance policy shall be deemed to have been issued on the later of the date of that third preceding policy anniversary and the date on which it was deemed by subsection (3) to have been issued; and

(*c*) where at one or more times after December 1, 1982

(i) a prescribed premium has been paid by a taxpayer in respect of an interest in a life insurance policy (other than an annuity contract or a deposit administration fund policy) last acquired on or before that date, or

(ii) an interest in a life insurance policy (other than an annuity contract or a deposit administration fund policy) issued on or before that date has been acquired by a taxpayer from the person who held the interest continuously since that date,

the policy shall be deemed to have been an exempt policy from the date of its issue until the earliest of those times that occurred after December 1, 1982; and

(*d*) a life insurance policy that ceases to be an exempt policy (other than by reason of its conversion into an annuity contract) on a policy anniversary shall be deemed to be an exempt policy on that anniversary

(i) if, had that anniversary occurred 60 days after the date on which it did in fact occur, the policy would have been an exempt policy on that later date, or

(ii) if the person whose life is insured under the policy dies on that anniversary or within 60 days thereafter.

History: S. 306(4) was added by P.C. 1983-3530, SOR/83-865, dated November 18, 1983, applicable to taxation years commencing after 1982.

ACCUMULATING FUNDS

307. (1) For the purposes of this Part and section 12.2, paragraph 56(1)(*d*.1) and section 148 of the Act, "accumulating fund" at any particular time means,

(*a*) in respect of a taxpayer's interest in an annuity contract (other than a contract issued by a life insurer), the amount that is the greater of

(i) the amount, if any, by which the cash surrender value of his interest at that time exceeds the amount payable, if any, in respect of a loan outstanding at that time made under the contract in respect of the interest, and

(ii) the amount, if any, by which

(A) the present value at that time of future payments to be made out of the contract in respect of his interest

exceeds the aggregate of

(B) the present value at that time of future premiums to be paid under the contract in respect of his interest, and

(C) the amount payable, if any, in respect of a loan outstanding at that time, made under the contract in respect of his interest;

(*b*) in respect of a taxpayer's interest in a life insurance policy (other than an exemption test policy or an annuity contract to which paragraph (1)(*a*) applies), the product obtained when,

(i) where the policy is not a deposit administration fund policy and the particular time is immediately after the death of any person on whose life the life insurance policy is issued or effected, the aggregate of the maximum amounts that could be determined by the life insurer immediately before the death in respect of the policy under paragraph 1401(1)(*c*) and subparagraph 1401(1)(*d*)(i) if the mortality rates used were adjusted to reflect the assumption that the death would occur at the time and in the manner that it did occur, and

(ii) in any other case, the maximum amount that could be determined at that particular time by the life insurer under paragraph 1401(1)(*a*), computed as though there were only one deposit administration fund policy, or under paragraph 1401(1)(*c*), as the case may be, in respect of the policy

is multiplied by

(iii) the taxpayer's proportionate interest in the policy,

assuming for the purposes of this paragraph that the life insurer carried on its life insurance business in Canada, its taxation year ended at the particular

time and the policy was a life insurance policy in Canada; and

(*c*) in respect of an exemption test policy,

(i) where the policy was issued at least 20 years before the particular time, the amount that would be determined at that particular time by the life insurer under clause 1401(1)(*c*)(ii)(A) in respect of the policy if the insurer's taxation year ended at that particular time, and

(ii) in any other case, the product obtained when the amount that would be determined under subparagraph (i) in respect of the policy on its twentieth policy anniversary is multiplied by the quotient obtained when the number of years since the policy was issued is divided by 20.

History: S. 307(1) was added by P.C. 1983-3530, SOR/83-865, dated November 18, 1983, applicable to taxation years commencing after 1982.

(2) For the purposes of subsection (1), when computing the accumulating fund of an interest described in

(*a*) paragraph (1)(*a*), the amounts determined under clauses (1)(*a*)(ii)(A) and (B) shall be computed using,

(i) where an interest rate for a period used by the issuer when the contract was issued in determining the terms of the contract was less than any rate so used for a subsequent period, the single rate that would, if it applied for each period, have produced the same terms, and

(ii) in any other case, the rates used by the issuer when the contract was issued in determining the terms of the contract;

(*b*) paragraph (1)(*b*), where an interest rate used for a period by a life insurer in computing the relevant amounts in paragraph 1403(1)(*a*) or (*b*) is determined under paragraph 1403(1)(*c*), (*d*) or (*e*), as the case may be, and that rate is less than an interest rate so determined for a subsequent period, the single rate that could, if it applied for each period, have been used in determining the premiums for the policy shall be used; and

(*c*) paragraph (1)(*c*),

(i) the rates of interest and mortality used and the age of the person whose life is insured shall be the same as those used in computing the amounts described in paragraph 1403(1)(*a*) or (*b*) in respect of the life insurance policy in respect of which the exemption test policy was issued except that

(A) where the life insurance policy is one to which paragraph 1403(1)(*e*) applies and the amount determined under subparagraph 1401(1)(*c*)(i) in respect of that policy is greater than the amount determined under subparagraph 1401(1)(*c*)(ii) in respect thereof, the rates of interest and mortality used may be those used in computing the cash surrender values of that policy, and

(B) where an interest rate for a period otherwise determined under this subparagraph in respect of that interest is less than an interest rate so determined for a subsequent period, the single rate that could, if it applied for each period, have been used in determining the premiums for the life insurance policy shall be used, and

(ii) notwithstanding subparagraph (i),

(A) where the rates referred to in subparagraph (i) do not exist, the minimum guaranteed rates of interest used under the life insurance policy to determine cash surrender values and the rates of mortality under the *Commissioners 1958 Standard Ordinary Mortality Table*, as published in Volume X of the *Transactions of the Society of Actuaries*, relevant to the person whose life is insured under the life insurance policy shall be used, or

(B) where, in respect of the life insurance policy in respect of which the exemption test policy was issued, the period over which the amount determined under clause 1401(1)(*c*)(ii)(A) does not extend to the date determined under subparagraph 306(3)(*d*)(ii), the weighted arithmetic mean of the interest rates used to determine such amount shall be used for the period that is after that period and before that date.

History: S. 307(2)(*c*)(ii)(B) was amended by P.C. 1991-769, SOR/91-290, dated April 25, 1991, to add commas after "where" and "issued" and to substitute "306(3)(*d*)(ii)" for "306(2)(*d*)(ii)", applicable to taxation years commencing after 1982.

S. 307(2) was added by P.C. 1983-3530, SOR/83-865, dated November 18, 1983, applicable to taxation years commencing after 1982.

(3) Notwithstanding paragraph (2)(*c*),

(*a*) in the case of a life insurance policy issued after April 30, 1985, no rate of interest used for the purpose of determining the accumulating fund in respect of an exemption test policy issued in respect thereof shall be less than 4 per cent per annum; and

(*b*) in the case of a life insurance policy issued before May 1, 1985, no rate of interest used for the purpose of determining the accumulating fund in respect of an exemption test policy issued in respect thereof shall be less than 3 per cent per annum.

History: S. 307(3) was added by P.C. 1983-3530, SOR/83-865, dated November 18, 1983, applicable to taxation years commencing after 1982.

(4) For the purposes of paragraph (1)(*c*),

(*a*) where on the date of issue of an exemption test policy the person whose life is insured has attained the age of 75 years, the references in paragraph (1)(*c*) to "20" and "twentieth" shall be read as references to "10" and "tenth" respectively; and

(*b*) where on the date of issue of an exemption test policy the person whose life is insured has attained the age of 66 years but not the age of 75 years, the references in paragraph (1)(*c*) to "20" and "twentieth" shall be read as references to

(i) the number obtained when the number of years by which the age of the person whose life is insured exceeds 65 years is subtracted from 20, and

(ii) the adjectival form of the number obtained by performing the computation described in subparagraph (i),

respectively.

History: S. 307(4) was added by P.C. 1983-3530, SOR/83-865, dated November 18, 1983, applicable to taxation years commencing after 1982.

(5) In this section, any amount determined by reference to section 1401 shall be determined

(*a*) without regard to section 1402;

(*b*) as if each reference therein to the term "policy loan" were read as if that term had the meaning assigned by paragraph 148(9)(*e*) [subsection 148(9) "policy loan"] of the Act; and

(*c*) as if clauses 1401(1)(*c*)(i)(B) and 1401(1)(*c*)(ii)(C) were read without reference to the expression "or the interest thereon that has accrued to the insurer at the end of the year".

History: S. 307(5)(*c*) was added by P.C. 1984-3789, SOR/84-948, dated November 29, 1984 and applicable to taxation years commencing after 1982.

S. 307(5) was added by P.C. 1983-3530, SOR/83-865, dated November 18, 1983, applicable to taxation years commencing after 1982.

Net Cost of Pure Insurance and Mortality Gains and Losses

308. (1) For the purposes of subparagraph 20(1)(*e.2*)(ii) and paragraph (*a*) of the description of L in the definition "adjusted cost basis" in subsection 148(9) of the Act, the net cost of pure insurance for a year in respect of a taxpayer's interest in a life insurance policy is the product obtained when the probability, computed on the basis of the rates of mortality under the 1969-75 mortality tables of the Canadian Institute of Actuaries published in Volume XVI of the proceedings of the Canadian Institute of Actuaries or on the basis described in subsection (1.1), that a person who has the same relevant characteristics as the person whose life is insured will die in the year is multiplied by the amount by which

(*a*) the benefit on death in respect of the taxpayer's interest at the end of the year

exceeds

(*b*) the accumulating fund (determined without regard to any policy loan outstanding) in respect of the taxpayer's interest in the policy at the end of the year or the cash surrender value of such interest at the end of the year, depending on the method regularly followed by the life insurer in computing net cost of pure insurance.

History: S. 308(1), the part preceding paragraph (*a*), was amended by P.C. 1994-940, SOR/94-415, dated June 2, 1994 and applicable to years ending after 1989, except that for taxation years that ended before December 1991, the reference in subsection 308(1) to "subparagraph 20(1)(*e.2*)(ii) and paragraph (*a*) of the description of L in the definition 'adjusted cost basis' in subsection 148(9)" shall be read as "subparagraphs 20(1)(*e.2*)(ii) and 148(9)(*a*)(ix)". That part formerly read:

"(1) For the purposes of subparagraph 148(9)(*a*)(ix) of the Act, the net cost of pure insurance for a year in respect of a taxpayer's interest in a life insurance policy is the product obtained when the probability, computed on the basis of the rates of mortality under the 1969-75 mortality tables of the Canadian Institute of Actuaries published in Volume XVI of the Proceedings of the Canadian Institute of Actuaries or on the basis described in subsection (1.1), that a person who has the same relevant characteristics as the person whose life is insured will die in the year is multiplied by the amount by which"

S. 308(1), the part preceding paragraph (*a*), was amended by P.C. 1991-769, SOR/91-290, dated April 25, 1991, applicable to the 1986 and subsequent taxation years. That part formerly read:

"(1) For the purposes of subparagraph 148(9)(*a*)(ix) of the Act, the net cost of pure insurance for a year in respect of a taxpayer's interest in a life insurance policy is the product obtained when the probability, computed on the basis of the mortality table referred to in clause 307(2)(*c*)(ii)(A), that a person who is the same age as the person whose life is insured will die in the year is multiplied by the amount by which"

S. 82(4) of S.C. 1983-84, c. 1 reads as follows: "It is hereby declared that section 308 of the *Income Tax Regulations* made by Order in Council P.C. 1983-3530 of November 17, 1983 is deemed to have been validly made on that date, with effect as provided in section 8 of the schedule to that Order, as if paragraph 148(9)(*a*) of the said Act, as amended by subsections (1) to (3), had been in force on that date".

S. 308(1) was added by P.C. 1983-3530, SOR/83-865, dated November 18, 1983, applicable to taxation years commencing after May 31, 1985.

Interpretation Bulletins: *Secondary* — IT-309R2 Premiums on life insurance used as collateral.

(1.1) Where premiums for a particular class of life insurance policy offered by a life insurer do not depend directly on smoking or sex classification, the probability referred to in subsection (1) may be determined using rates of mortality otherwise determined provided that for each age for such class of life insurance policy, the expected value of the aggregate net cost of pure insurance, calculated using such rates of mortality, is equal to the expected value of the aggregate net cost of pure insurance, calculated using the rates of mortality under the 1969-75 mortality tables of the Canadian Institute of Actuaries published in Volume XVI of the Proceedings of the Canadian Institute of Actuaries.

History: S. 308(1.1) was added by P.C. 1991-769, SOR/91-290, dated April 25, 1991, applicable to the 1986 and subsequent taxation years.

(2) Subject to subsection (4), for the purposes of this section and subparagraph 148(9)(*a*)(v.1) [subsection 148(9) "adjusted cost basis", item G] of the Act, a "mortality gain" immediately before the end of any calendar year after 1982 in respect of a taxpayer's interest in a life annuity contract means such reasonable amount in respect of his interest therein at that time that the life insurer determines to be the increase to the accumulating fund in respect of the interest that occurred during that year as a consequence of the survival to the end of the year of one or more of the annuitants thereunder.

History: S. 308(2) was added by P.C. 1983-3530, SOR/83-865, dated November 18, 1983, applicable to taxation years commencing after 1982.

(3) Subject to subsection (4), for the purposes of this section and subparagraph 148(9)(*a*)(xi) [subsection 148(9) "adjusted cost basis", item L(*c*)] of the Act, a "mortality loss" immediately before a particular time after 1982 in respect of an interest in a life annuity contract disposed of immediately after that particular time as a consequence of the death of an annuitant thereunder means such reasonable amount that the life insurer determines to be the decrease, as a consequence of the death, in the accumulating fund in respect of the interest assuming that, in determining such decrease, the accumulating fund immediately after the death is determined in the manner described in subparagraph 307(1)(*b*)(i).

History: S. 308(3) was added by P.C. 1983-3530, SOR/83-865, dated November 18, 1983, applicable to taxation years commencing after 1982.

(4) In determining an amount for a year in respect of an interest in a life annuity contract under subsection (2) or (3), the expected value of the mortality gains in respect of the interest for the year shall be equal to the expected value of the mortality losses in respect of the interest for the year and the mortality rates for the year used in computing those expected values shall be those that would be relevant to the interest and that are specified under such of paragraphs 1403(1)(*c*), (*d*) and (*e*) as are applicable.

History: S. 308(4) was added by P.C. 1983-3530, SOR/83-865, dated November 18, 1983, applicable to taxation years commencing after 1982.

Prescribed Premiums and Prescribed Increases

309. (1) For the purposes of subsections 12.2(9) and 89(2) of the Act, section 306 and this section, a premium at any time under a life insurance policy is a "prescribed premium" if the total amount of one or more premiums paid at that time under the policy exceeds the amount of premium that, under the policy, was scheduled to be paid at that time and that was fixed and determined on or before

December 1, 1982, adjusted for such of the following transactions and events that have occurred after that date in respect of the policy:

(*a*) a change in underwriting class;

(*b*) a change in premium due to a change in frequency of premium payments within a year that does not alter the present value, at the beginning of the year, of the total premiums to be paid under the policy in the year;

(*c*) an addition or deletion of accidental death or guaranteed purchase option benefits or disability benefits that provide for annuity payments or waiver of premiums;

(*d*) a premium adjustment as a result of interest, mortality or expense considerations, or of a change in the benefit on death under the policy relating to an increase in the Consumer Price Index (as published by Statistics Canada under the authority of the *Statistics Act*) where such adjustment

(i) is made by the life insurer on a class basis pursuant to the policy's terms as they read on December 1, 1982, and

(ii) is not made as a result of the exercise of a conversion privilege under the policy;

(*e*) a change arising from the provision of an additional benefit on death under a participating life insurance policy (within the meaning assigned by paragraph 138(12)(*k*) [subsection 138(12) "participating life insurance policy"] of the Act) as, on account or in lieu of payment of, or in satisfaction of

(i) policy dividends or other distributions of the life insurer's income from its participating life insurance business as determined under section 2402, or

(ii) interest earned on policy dividends that are held on deposit by the life insurer;

(*f*) redating lapsed policies within the reinstatement period referred to in subparagraph 148(9)(*c*)(vi) [subsection 148(9) "disposition", paragraph (*g*] of the Act or redating for policy loan indebtedness;

(*g*) a change in premium due to a correction of erroneous information contained in the application for the policy;

(*h*) payment of a premium after its due date, or payment of a premium no more than 30 days before its due date, as established on or before December 1, 1982; and

(*i*) the payment of an amount described in subparagraph 148(9)(*e*.1)(i) [subsection 148(9) "premium", paragraph (*a*)] of the Act.

History: S. 309(1) was added by P.C. 1983-3530, SOR/83-865, dated November 18, 1983, applicable to taxation years commencing after 1982.

Interpretation Bulletins: *Secondary* — IT-87R2 Policyholders' income from life insurance policies.

(2) For the purposes of subsections 12.2(9) and 89(2) of the Act, a "prescribed increase" in a benefit on death under a life insurance policy has occurred at any time where the amount of the benefit on death under the policy at that time exceeds the amount of the benefit on death at that time under the policy that was fixed and determined on or before December 1, 1982, adjusted for such of the following transactions and events that have occurred after that date in respect of the policy:

(*a*) an increase resulting from a change described in paragraph (1)(*e*);

(*b*) a change as a result of interest, mortality or expense considerations, or an increase in the Consumer Price Index (as published by Statistics Canada under the authority of the *Statistics Act*) where such change is made by the life insurer on a class basis pursuant to the policy's terms as they read on December 1, 1982;

(*c*) an increase in consequence of the prepayment of premiums (other than prescribed premiums) under the policy where such increase does not exceed the aggregate of the premiums that would otherwise have been paid;

(*d*) an increase in respect of a policy for which

(i) the benefit on death was, at December 1, 1982, a specific mathematical function of the policy's cash surrender value or factors including the policy's cash surrender value, and

(ii) that function has not changed since that date,

unless any part of such increase is attributable to a prescribed premium paid in respect of a policy or to income earned on such a premium; and

(*e*) an increase that is granted by the life insurer on a class basis without consideration and not pursuant to any term of the contract.

History: S. 309(2) was added by P.C. 1983-3530, SOR/83-865, dated November 18, 1983, applicable to taxation years commencing after 1982.

(3) For the purposes of subsections (1) and (2), a life insurance policy that is issued as a result of the exercise of a renewal privilege provided under the terms of another policy as they read on December 1, 1982 shall be deemed to be a continuation of that other policy.

History: S. 309(3) was added by P.C. 1983-3530, SOR/83-865, dated November 18, 1983, applicable to taxation years commencing after 1982.

(4) For the purposes of subsection (2), a life insurance policy that is issued as a result of the exercise of a conversion privilege provided under the terms of another policy as they read on December 1, 1982 shall be deemed to be a continuation of that other policy except that any portion of the policy relating to the portion of the benefit on death, immediately before the conversion, that arose as a consequence of an event occurring after December 1, 1982 and described in paragraph (1)(*e*) shall be deemed to be a separate life insurance policy issued at the time of the conversion.

History: S. 309(4) was added by P.C. 1983-3530, SOR/83-865, dated November 18, 1983, applicable to taxation years commencing after 1982.

Interpretation Bulletins: *Secondary* — IT-66R6 Capital dividends; IT-87R2 Policyholders' income from life insurance policies.

INTERPRETATION

310. For the purposes of sections 300, 301 and 304 to 309 and this section,

"*amount payable*" has the meaning assigned by paragraph 138(12)(*b*.1) [subsection 138(12) "amount payable"] of the Act;

"*benefit on death*" does not include policy dividends or any interest thereon held on deposit by an insurer or any additional amount payable as a result of accidental death;

"*cash surrender value*" has the meaning assigned by paragraph 148(9)(*b*) [148(9) "cash surrender value"] of the Act;

"*life insurance policy*" has the meaning assigned by paragraph 138(12)(*f*) [subsection 138(12) "life insurance policy"] of the Act;

"*life insurance policy in Canada*" has the meaning assigned by paragraph 138(12)(*g*) [subsection 138(12) "life insurance policy in Canada"] of the Act;

"*policy anniversary*" includes, where a life insurance policy was in existence throughout a calendar year and there would not otherwise be a policy anniversary in the year in respect of the policy, the end of the calendar year;

"*policy loan*" has the meaning assigned by paragraph 148(9)(*e*) [subsection 148(9) "policy loan"] of the Act;

"*proceeds of the disposition*" has the meaning assigned by paragraph 148(9)(*e.2*) [subsection 148(9) "proceeds of disposition"] of the Act;

"*tax anniversary date*" in relation to an annuity contract means the second anniversary date of the contract to occur after October 22, 1968.

History: S. 310 was added by P.C. 1983-3530, SOR/83-865, dated November 18, 1983, applicable to taxation years commencing after 1982.

PART IV

Taxable Income Earned in a Province by a Corporation

INTERPRETATION

400. (1) In applying the definition "taxable income earned in the year in a province" in subsection 124(4) of the Act for a corporation's taxation year

(*a*) the prescribed rules referred to in that definition are the rules in this Part; and

(*b*) the amount determined under those prescribed rules means the total of all amounts each of which is the taxable income of the corporation earned in the taxation year in a particular province as determined under this Part.

History: S. 400(1) was replaced by S.C. 2009, c. 2, s. 91(1), applicable to the 2009 and subsequent taxation years. S. 400(1) formerly read:

"(1) For the purposes of paragraph 124(4)(*a*) [subsection 124(4), 'taxable income earned in the year in a province'] of the Act, a corporation's 'taxable income earned in the year in a province' means the aggregate of the taxable incomes of the corporation earned in the year in each of the provinces."

S. 400(1) was amended by P.C. 1981-808, SOR/81-267, dated March 27, 1981, to delete "except the Yukon Territory", applicable to the 1980 and subsequent taxation years.

S. 400(1) was amended by P.C. 1978-3101, SOR/78-722, dated October 13, 1978, (Special Issue, *Canada Gazette*, December 31, 1978), applicable to the 1978 and subsequent taxation years. S. 400(1) formerly read:

"(1) For the purposes of paragraph 124(4)(a) of the Act, a corporation's 'taxable income earned in the year in a province' means the aggregate of the taxable incomes of the corporation earned in the year in each of the provinces, except the Northwest Territories and the Yukon Territory."

Interpretation Bulletins: *Secondary* — IT-177R2 (Consolid.) Permanent establishment of a corporation in a province and of a foreign enterprise in Canada.

(1.1) In this Part, a corporation's taxable income for a taxation year is equal to the total of

(*a*) the corporation's taxable income for the taxation year (determined without reference to this subsection) or the corporation's taxable income earned in Canada for the taxation year, as the case may be, and

(*b*) the positive or negative amount determined by the formula

$$A - B$$

where

A is the total of all amounts that are, because of the application of section 33.1 of the Act, not required to be added in computing the corporation's income for the taxation year, and

B is the total of all amounts that are, because of the application of section 33.1 of the Act, not allowed to be deducted in computing the corporation's income for the taxation year.

History: S. 400(1.1) was added by S.C. 2009, c. 2, s. 91(1), applicable to the 2009 and subsequent taxation years.

(2) For the purposes of this Part, "permanent establishment" in respect of a corporation means a fixed place of business of the corporation, including an office, a branch, a mine, an oil well, a farm, a timberland, a factory, a workshop or a warehouse, and

(*a*) where the corporation does not have any fixed place of business it means the principal place in which the corporation's business is conducted;

(*b*) where a corporation carries on business through an employee or agent, established in a particular place, who has general authority to contract for his employer or principal or who has a stock of merchandise owned by his employer or principal from which he regularly fills orders which he receives, the corporation shall be deemed to have a permanent establishment in that place;

(*c*) an insurance corporation is deemed to have a permanent establishment in each province and country in which the corporation is registered or licensed to do business;

(*d*) where a corporation, otherwise having a permanent establishment in Canada, owns land in a province, such land shall be deemed to be a permanent establishment;

(*e*) where a corporation uses substantial machinery or equipment in a particular place at any time in a taxation year it shall be deemed to have a permanent establishment in that place;

(*e.1*) if, but for this paragraph, a corporation would not have a permanent establishment, the corporation is deemed to have a permanent establishment at the place designated in its incorporating documents or bylaws as its head office or registered office;

(*f*) the fact that a corporation has business dealings through a commission agent, broker or other independent agent or maintains an office solely for the purchase of merchandise shall not of itself be held to mean that the corporation has a permanent establishment; and

(*g*) the fact that a corporation has a subsidiary controlled corporation in a place or a subsidiary controlled corporation engaged in trade or business in a place shall not of itself be held to mean that the corporation is operating a permanent establishment in that place.

History: S. 400(2)(*e.1*) was added by S.C. 2009, c. 2, s. 91(2), applicable to the 2009 and subsequent taxation years.

S. 400(2), the part preceding paragraph (a), was amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989. That part formerly read:

"(2) For the purposes of this Part and subsection 112(2) of the Act, 'permanent establishment' means a fixed place of business of the corporation, including an office, a branch, a mine, an oil well, a farm, a timberland, a factory, a workshop or a warehouse, and".

S. 400(2), the part preceding paragraph (a), was amended by P.C. 1986-772, SOR/86-390, dated March 26, 1986, to add "and subsection 112(2) of the Act", effective after October 31, 1985.

Interpretation Bulletins: *Secondary* — IT-177R2 (Consolid.) Permanent establishment of a corporation in a province.
Income Tax Technical News: Issue No. 34, Permanent Establishments.
Tax Topics: No. 1737, Why Tax Lawyers Should Care that the Toronto Blue Jays Struck Out.

Computation of Taxable Income

401. This Part applies to determine the amount of taxable income of a corporation earned in a taxation year in a particular province.

History: S. 401 was replaced by S.C. 2009, c. 2, s. 92(1), applicable to the 2009 and subsequent taxation years. S. 401 formerly read:

"S. 401. The amount of taxable income of a corporation earned in a year in a particular province shall be determined in accordance with the provisions of this Part."

General Rules

402. (1) Where, in a taxation year, a corporation had a permanent establishment in a particular province and had no permanent establishment outside that province, the whole of its taxable income for the year shall be deemed to have been earned therein.

Interpretation Bulletins: *Secondary* — IT-177R2 (Consolid.) Permanent establishment of a corporation in a province and of a foreign enterprise in Canada.

(2) Where, in a taxation year, a corporation had no permanent establishment in a particular province, no part of its taxable income for the year shall be deemed to have been earned therein.

Interpretation Bulletins: *Secondary* — IT-177R2 (Consolid.) Permanent establishment of a corporation in a province and of a foreign enterprise in Canada.

(3) Except as otherwise provided, where, in a taxation year, a corporation had a permanent establishment in a province and a permanent establishment outside that province, the amount of its taxable income that shall be deemed to have been earned in the year in the province is

(*a*) in any case other than a case specified in paragraph (*b*) or (*c*), ½ the aggregate of

(i) that proportion of its taxable income for the year that the gross revenue for the year reasonably attributable to the permanent establishment in the province is of its total gross revenue for the year, and

(ii) that proportion of its taxable income for the year that the aggregate of the salaries and wages paid in the year by the corporation to employees of the permanent establishment in the province is of the aggregate of all salaries and wages paid in the year by the corporation;

(*b*) in any case where the gross revenue for the year of the corporation is nil, that proportion of its taxable income for the year that the aggregate of the salaries and wages paid in the year by the corporation to employees of the permanent establishment in the province is of the aggregate of all salaries and wages paid in the year by the corporation; and

(*c*) in any case where the aggregate of the salaries and wages paid in the year by the corporation is nil, that proportion of its taxable income for the year that the gross revenue for the year reasonably attributable to the permanent establishment in the province is of its total gross revenue for the year.

History: S. 402(3) was amended by P.C. 1980-3346, SOR/80-949, dated December 11, 1980 and effective in respect of taxation years of corporations commencing after 1980. S. 402(3) formerly read:

"(3) Except as otherwise provided, where, in a taxation year, a corporation had a permanent establishment in a particular province and a permanent establishment outside that province, the amount of its taxable income that shall be deemed to have been earned in the year in the province is ½ the aggregate of

(*a*) that proportion of its taxable income for the year that the gross revenue for the year reasonably attributable to the permanent establishment in the province is of its total gross revenue for the year; and

(*b*) that proportion of its taxable income for the year that the aggregate of the salaries and wages paid in the year by the corporation to employees of the permanent establishment in the province is of the aggregate of all salaries and wages paid in the year by the corporation."

Interpretation Bulletins: *Secondary* — IT-177R2 (Consolid.) Permanent establishment of a corporation in a province and of a foreign enterprise in Canada.

(4) For the purpose of determining the gross revenue for the year reasonably attributable to a permanent establishment in a province or country other than Canada, within the meaning of subsection (3), the following rules shall apply:

(*a*) where the destination of a shipment of merchandise to a customer to whom the merchandise is sold is in the particular province or country, the gross revenue derived therefrom shall be attributable to the permanent establishment in the province or country;

(*b*) except as provided in paragraph (*c*), where the destination of a shipment of merchandise to a customer to whom the merchandise is sold is in a province or country other than Canada in which the taxpayer has no permanent establishment, if the person negotiating the sale may reasonably be regarded as being attached to the permanent establishment in the particular province or country, the gross revenue derived therefrom shall be attributable to that permanent establishment;

(*c*) where the destination of a shipment of merchandise to a customer to whom the merchandise is sold is in a country other than Canada in which the taxpayer has no permanent establishment,

(i) if the merchandise was produced or manufactured or produced and manufactured, entirely in the particular province by the taxpayer, the gross revenue derived therefrom shall be attributable to the permanent establishment in the province, or

(ii) if the merchandise was produced or manufactured, or produced and manufactured, partly in the particular province and partly in another place by the taxpayer, the gross revenue derived therefrom attributable to the permanent establishment in the province shall be that proportion thereof that the salaries and wages paid in the year to employees of the permanent establishment in the province where the merchandise was partly produced or manufactured (or partly produced and manufactured) is of the aggregate of the salaries and wages paid in the year to employees of the permanent establishments where the merchandise was produced or manufactured (or produced and manufactured);

(*d*) where a customer to whom merchandise is sold instructs that shipment be made to some other person and the customer's office with which the sale was negotiated is located in the particular province or country, the gross revenue derived therefrom shall be attributable to the permanent establishment in the province or country;

(*e*) except as provided in paragraph (*f*), where a customer to whom merchandise is sold instructs that shipment be made to some other person and the customer's office with which the sale was negotiated is located in a province or country other than Canada in which the taxpayer has no permanent establishment, if the person negotiating the sale may reasonably be regarded as being attached to the permanent establishment in the particular province or country, the gross revenue derived therefrom shall be attributable to that permanent establishment;

(*f*) where a customer to whom merchandise is sold instructs that shipment be made to some other person and the customer's office with which the sale was negotiated is located in a country other than Canada in which the taxpayer has no permanent establishment,

(i) if the merchandise was produced or manufactured, or produced and manufactured, entirely in the particular province by the taxpayer, the gross revenue derived therefrom shall be attributable to the permanent establishment in the province, or

(ii) if the merchandise was produced or manufactured, or produced and manufactured, partly in the particular province and partly in another place by the taxpayer, the gross revenue derived therefrom attributable to the permanent establishment in the province shall be that proportion thereof that the salaries and wages paid in the year to employees of the permanent establishment in the province where the merchandise was partly produced or manufactured (or partly produced and manufactured) is of the aggregate of the salaries and wages paid in the year to employees of the permanent establishments where the merchandise was produced or manufactured (or produced and manufactured);

(*g*) where gross revenue is derived from services rendered in the particular province or country, the gross revenue shall be attributable to the permanent establishment in the province or country;

(*h*) where gross revenue is derived from services rendered in a province or country other than Canada in which the taxpayer has no permanent establishment, if the person negotiating the contract may reasonably be regarded as being attached to the permanent establishment of the taxpayer in the particular province or country, the gross revenue shall be attributable to that permanent establishment;

(*i*) where standing timber or the right to cut standing timber is sold and the timber limit on which the timber is standing is in the particular province or country, the gross revenue from such sale shall be attributable to the permanent establishment of the taxpayer in the province or country; and

(*j*) gross revenue which arises from leasing land owned by the taxpayer in a province and which is included in computing its income under Part I of the Act shall be attributable to the permanent establishment, if any, of the taxpayer in the province where the land is situated.

History: S. 402(4), the part preceding paragraph (a), was amended by P.C. 1980-3346, SOR/80-949, dated December 11, 1980 and effective in respect of taxation years of corporations commencing after 1980, by replacing "attributable to the permanent establishment in a particular province or country other than Canada, within the meaning of paragraph (3)(a)," with "attributable to a permanent establishment in a province or country other than Canada, within the meaning of subsection (3),".

Interpretation Bulletins: *Secondary* — IT-177R2 (Consolid.) Permanent establishment of a corporation in a province and of a foreign enterprise in Canada.

(4.1) For the purposes of subsections (3) and (4), where, in a taxation year,

(*a*) the destination of a shipment of merchandise to a customer to whom the merchandise is sold by a corporation is in a country other than Canada or the customer to whom merchandise is sold by a corporation instructs that the shipment of merchandise be made by the corporation to another person and the customer's office with which the sale is negotiated is located in a country other than Canada,

(*b*) the corporation has a permanent establishment in the other country, and

(*c*) the corporation is not subject to taxation on its income under the laws of the other country, or its gross revenue derived from the sale is not included in computing the income or profit or other base for income or profits taxation by the other country, because of

(i) the provisions of any taxing statute of the other country, or

(ii) the operation of any tax treaty or convention between Canada and the other country,

the following rules apply:

(*d*) with respect to the gross revenue derived from the sale,

(i) paragraphs (4)(*a*) and (*d*) do not apply,

(ii) that portion of paragraph (4)(*c*) preceding subparagraph (i) thereof shall be read as follows:

"(*c*) where the destination of a shipment of merchandise to a customer to whom the merchandise is sold is in a country other than Canada, and"

(iii) that portion of paragraph (4)(*f*) preceding subparagraph (i) thereof shall be read as follows;

"(*f*) where a customer to whom the merchandise is sold instructs that shipment be made to some other person and the customer's office with which the sale was negotiated is located in a country other than Canada, ; and"

(*e*) for the purposes of subparagraph (3)(*a*)(ii), paragraph (3)(*b*) and subparagraphs (4)(*c*)(ii) and (*f*)(ii), salaries and wages paid in the year to employees of any permanent establishment of the corporation located in that other country shall be deemed to be nil.

History: S. 402(4.1) was added by P.C. 1994-662, SOR/94-327, dated April 28, 1994 and applicable to taxation years commencing after 1992, and where the corporation so elects by notifying the Minister of National Revenue in writing before the end of the sixth month after the month in which the amendments are published in the *Canada Gazette*, May 18, 1994, to taxation years ending after 1991.

(5) For the purposes of subsection (3), "gross revenue" does not include interest on bonds, debentures or mortgages, dividends on shares of capital stock, or rentals or royalties from property that is not used in connection with the principal business operations of the corporation.

Interpretation Bulletins: *Secondary*— IT-177R2 (Consolid.) Permanent establishment of a corporation in a province and of a foreign enterprise in Canada.

(6) For the purposes of subsection (3), where part of the corporation's operations were conducted in partnership with one or more other persons

(*a*) the corporation's gross revenue for the year, and

(*b*) the salaries and wages paid in the year by the corporation,

shall include, in respect of those operations, only that proportion of

(*c*) the total gross revenue of the partnership for its fiscal period ending in or coinciding with the year, and

(*d*) the total salaries and wages paid by the partnership in its fiscal period ending in or coinciding with the year,

respectively, that

(*e*) the corporation's share of the income or loss of the partnership for the fiscal period ending in or coinciding with the year,

is of

(*f*) the total income or loss of the partnership for the fiscal period ending in or coinciding with the year.

History: S. 402(6), that part preceding paragraph (a), was amended to delete "jointly or" preceding "in partnership", by P.C. 1980-3346, SOR/80-949, dated December 11, 1980, effective in respect of taxation years of corporations commencing after 1980.

Ss. 402(6)(c) to (f) were amended by P.C. 1980-3346, SOR/80-949, dated December 11, 1980 and effective in respect of taxation years of corporations commencing after 1980. Ss. 402(6)(c) to (f) formerly read:

"(*c*) the total gross revenue of the joint operations or partnership for the fiscal period ending in the year, and

(*d*) the total salaries and wages paid jointly by the operators or partners in the fiscal period ending in the year,

respectively, that

(*e*) the corporation's share of the profit or loss for the year from the joint operations or partnership,

is of

(*f*) the total profit or loss for the year from the joint operations or partnership."

Interpretation Bulletins: *Secondary*— IT-177R2 (Consolid.) Permanent establishment of a corporation in a province and of a foreign enterprise in Canada.

(7) Where a corporation pays a fee to another person under an agreement pursuant to which that other person or employees of that other person perform services for the corporation that would normally be performed by employees of the corporation, the fee so paid shall be deemed to be salary paid in the year by the corporation and that part of the fee that may reasonably be regarded as payment in respect of services rendered at a particular permanent establishment of the corporation shall be deemed to be salary paid to an employee of that permanent establishment.

Interpretation Bulletins: *Secondary*— IT-177R2 (Consolid.) Permanent establishment of a corporation in a province and of a foreign enterprise in Canada.

(8) For the purposes of subsection (7), a fee does not include a commission paid to a person who is not an employee of the corporation.

Interpretation Bulletins: *Secondary*— IT-177R2 (Consolid.) Permanent establishment of a corporation in a province and of a foreign enterprise in Canada.

Central Paymaster

402.1. (1) In this Part, if an individual (referred to in this section as the "employee") is employed by a person (referred to in this section as the "employer") and performs a service in a particular province for the benefit of or on behalf of a corporation that is not the employer, an amount that may reasonably be regarded as equal to the amount of salary or wages earned by the employee for the service (referred to in this section as the "particular salary") is deemed to be salary paid by the corporation to an employee of the corporation in the corporation's taxation year in which the particular salary is paid if

(*a*) at the time the service is performed,

(i) the corporation and the employer do not deal at arm's length, and

(ii) the corporation has a permanent establishment in the particular province;

(*b*) the service

(i) is performed by the employee in the normal course of the employee's employment by the employer,

(ii) is performed for the benefit of or on behalf of the corporation in the ordinary course of a business carried on by the corporation, and

(iii) is of a type that could reasonably be expected to be performed by employees of the corporation in the ordinary course of the business referred to in subparagraph (ii); and

(*c*) the amount is not otherwise included in the aggregate, determined for the purposes of this Part, of the salaries and wages paid by the corporation.

(2) In this Part, an amount deemed under subsection (1) to be salary paid by a corporation to an employee of the corporation for a service performed in a particular province is deemed to have been paid,

(*a*) if the service was performed at one or more permanent establishments of the corporation in the particular province, to an employee of the permanent establishment or establishments; or

(*b*) if paragraph (*a*) does not apply, to an employee of any other permanent establishment (as is reasonably determined in the circumstances) of the corporation in the particular province.

(3) In determining under this Part the amount of salaries and wages paid in a year by an employer, there shall be deducted the total of all amounts each of which is a particular salary paid by the employer in the year.

(4) Despite subparagraph (1)(*a*)(i), this section applies to a corporation and an employer that deal at arm's length if the Minister determines that the corporation and the employer have entered into an arrangement the purpose of which is to reduce, through the provision of services as described in subsection (1), the total amount of income tax payable by the corporation under a law of the particular province referred to in subsection (1).

(5) For the purposes of this section, a partnership is deemed to be a corporation and the corporation's taxation year is deemed to be the partnership's fiscal period.

History: S. 402.1 and the heading before it were replaced by S.C. 2009, c. 2, s. 93(1), applicable to the 2009 and subsequent taxation years. S. 402.1 and the heading before it formerly read:

"TRANSITIONAL —
TAXABLE INCOME EARNED IN THE 1978 TAXATION YEAR IN THE NORTHWEST TERRITORIES

S. 402.1. Where in its 1978 taxation year a corporation had a permanent establishment in the Northwest Territories, its taxable income earned in the year in the Northwest Territories is that proportion of the amount thereof otherwise determined in accordance with this Part that the number of days in that portion of the 1978 taxation year of the corporation that is in 1978 is of the number of days in the whole of that taxation year."

S. 402.1 was added by P.C. 1978-3101, SOR/78-772, dated October 13, 1978, (Special Issue *Canada Gazette*, December 31, 1978).

402.2. [Repealed.]

History: S. 402.2 was repealed by S.C. 2009, c. 2, s. 93(1), applicable to the 2009 and subsequent taxation years. S. 402.2 formerly read:

"TRANSITIONAL —
TAXABLE INCOME EARNED IN THE 1980 TAXATION YEAR IN THE YUKON TERRITORY

S. 402.2. Where in its 1980 taxation year a corporation had a permanent establishment in the Yukon Territory, its taxable income earned in the year in the Yukon Territory is that proportion of the amount thereof otherwise determined in accordance with this Part that the number of days in that portion of the 1980 taxation year of the corporation that is in 1980 is of the number of days in the whole of that taxation year."

S. 402.2 was added by P.C. 1981-808, SOR/81-267, dated March 27, 1981.

INSURANCE CORPORATIONS

403. (1) Notwithstanding subsections 402(3) and (4), the amount of taxable income that shall be deemed to have been earned in a taxation year in a particular province by an insurance corporation is that proportion of its taxable income for the year that the aggregate of

(*a*) its net premiums for the year in respect of insurance on property situated in the province, and

(*b*) its net premiums for the year in respect of insurance, other than on property, from contracts with persons resident in the province,

is of the total of such of its net premiums for the year as are included in computing its income for the purposes of Part I of the Act.

(2) In this section, "net premiums" of a corporation for a taxation year means the aggregate of the gross premiums received by the corporation in the year (other than consideration received for annuities), minus the aggregate for the year of

(*a*) premiums paid for reinsurance,

(*b*) dividends or rebates paid or credited to policyholders, and

(*c*) rebates or returned premiums paid in respect of the cancellation of policies,

by the corporation.

(3) For the purposes of subsection (1), where an insurance corporation had no permanent establishment in a taxation year in a particular province,

(*a*) each net premium for that year in respect of insurance on property situated in the particular province shall be deemed to be a net premium in respect of insurance on property situated in the province in which the permanent establishment of the corporation to which the net premium is reasonably attributable is situated; and

(*b*) each net premium for that year in respect of insurance, other than on property, from contracts with persons resident in the particular province shall be deemed to be a net premium in respect of insurance, other than on property, from contracts with persons resident in the province in which the permanent establishment of the corporation to which the net premium is reasonably attributable is situated.

(4) For the purposes of subsection (1), if in a taxation year an insurance corporation has no permanent establishment in a particular country other than Canada, but provides insurance on property in the particular country or has a contract for insurance, other than on property, with a person resident in the particular country, each net premium for the taxation year in respect of the insurance is deemed to be a net premium in respect of insurance on property situated in, or from contracts with persons resident in, as the case may be, the province in Canada or country other than Canada in which is situated the permanent establishment of the corporation to which the net premium is reasonably attributable in the circumstances.

History: S. 403(4) was added by S.C. 2009, c. 2, s. 94(1), applicable to the 2009 and subsequent taxation years.

CHARTERED BANKS

Pending Amendment

Foreign Bank Branches — February 15, 2003 (Pre-published in the *Canada Gazette*, Part I, dated February 15, 2003)

The heading before section 404 of the Regulations is replaced by the following:

BANKS

Applicable: Comes into force on the day on which these Regulations are registered.

404. (1) Notwithstanding subsections 402(3) and (4), the amount of taxable income that shall be deemed to have been earned by a chartered bank in a taxation year in a province in which it had a permanent establishment is 1/3 of the aggregate of

Pending Amendment

Foreign Bank Branches — February 15, 2003 (Pre-published in the *Canada Gazette*, Part I, dated February 15, 2003)

The portion of subsection 404(1) of the Regulations before paragraph (*a*) is replaced by the following :

404. (1) Notwithstanding subsections 402(3) and (4), the amount of taxable income that is deemed to have been earned by a bank in a taxation year in a province in which it had a permanent establishment is 1/3 of the total of

Applicable: After June 27, 1999.

Explanatory Note:

Regulatory Impact Analysis Statement from February 15, 2003

A corporation that has taxable income earned in a province is eligible for a 10 percent federal tax abatement under section 124 of the Act, and Part IV of the Regulations prescribes the meaning of "taxable income earned in a province."

Former subsection 404(1) of the Regulations prescribes the taxable income earned in a province for chartered banks. This amendment changes the reference from "chartered bank" to

"bank" to reflect the fact that for the purpose of the Act a "bank" now includes an authorized foreign bank or a bank within the meaning assigned by the *Bank Act*.

(*a*) that proportion of its taxable income for the year that the aggregate of the salaries and wages paid in the year by the bank to employees of its permanent establishment in the province is of the aggregate of all salaries and wages paid in the year by the bank; and

(*b*) twice that proportion of its taxable income for the year that the aggregate amount of loans and deposits of its permanent establishment in the province for the year is of the aggregate amount of all loans and deposits of the bank for the year.

History: S. 404(1) was amended by P.C. 1980-3346, SOR/80-949, dated December 11, 1980 and effective in respect of taxation years of corporations commencing after 1980, in the following manner: (1) in that part of s. 404(1) preceding paragraph (a), by replacing "earned in a taxation year in a particular province by a chartered bank" with "earned by a chartered bank in a taxation year in a province in which it had a permanent establishment"; (2) in s. 402(1)(a), by replacing "the personnel" with "employees"; and (3) in s. 402(1)(b), by adding "amount" after the second appearance of "aggregate".

(2) For the purposes of subsection (1), the amount of loans for a taxation year is 1/12 of the aggregate of the amounts outstanding, on the loans made by the bank, at the close of business on the last day of each month in the year.

(3) For the purposes of subsection (1), the amount of deposits for a taxation year is 1/12 of the aggregate of the amounts on deposit with the bank at the close of business on the last day of each month in the year.

(4) For the purposes of subsections (2) and (3), loans and deposits do not include bonds, stocks, debentures, items in transit and deposits in favour of Her Majesty in right of Canada.

Trust and Loan Corporations

405. (1) Notwithstanding subsections 402(3) and (4), the amount of taxable income that shall be deemed to have been earned in a taxation year by a trust and loan corporation, trust corporation or loan corporation in a province in which it had a permanent establishment is that proportion of its taxable income for the year that the gross revenue for the year of its permanent establishment in the province is of the total gross revenue for the year of the corporation.

History: S. 405(1) was amended by P.C. 1980-3346, SOR/80-949, dated December 11, 1980 and effective in respect of taxation years of corporations commencing after 1980. S. 405(1) formerly read:

"(1) Notwithstanding subsections 402(3) and (4), the amount of taxable income that shall be deemed to have been earned in a taxation year in a particular province by a trust and loan corporation, trust corporation or loan corporation is that proportion of its taxable income for the year that the gross revenue of its permanent establishment in the province for the year is of the total gross revenue for the year of the corporation."

(2) In subsection (1), "gross revenue for the year of its permanent establishment in the province" means the aggregate of the gross revenue of the corporation for the year arising from

(*a*) loans secured by lands situated in the province;

(*b*) loans, not secured by land, to persons residing in the province;

(*c*) loans

(i) to persons residing in a province or country other than Canada in which the corporation has no permanent establishment, and

(ii) administered by a permanent establishment in the province,

except loans secured by land situated in a province or country other than Canada in which the corporation has a permanent establishment; and

(*d*) business conducted at the permanent establishment in the province, other than revenue in respect of loans.

History: S. 405(2) was amended by P.C. 1980-3346, SOR/80-949, dated December 11, 1980 and effective in respect of taxation years commencing after 1980, in the following manner: (1) in that part of s. 405(2) preceding paragraph (a), by replacing "gross revenue of its permanent establishment in the province for a taxation year" with "gross revenue for the year of its permanent establishment in the province", (2) in s. 405(2)(c)(ii), by replacing "the permanent establishment" with "a permanent establishment"; and (3) in s. 405(2)(d), by adding "in the province" after "permanent establishment".

Railway Corporations

406. (1) Notwithstanding subsections 402(3) and (4), the amount of taxable income that shall be deemed to have been earned by a railway corporation in a taxation year in a province in which it had a permanent establishment is, unless subsection (2) applies, 1/2 the aggregate of

(*a*) that proportion of the taxable income of the corporation for the year that the equated track miles of the corporation in the province is of the equated track miles of the corporation in Canada; and

(*b*) that proportion of the taxable income of the corporation for the year that the gross ton miles of the corporation for the year in the province is of the gross ton miles of the corporation for the year in Canada.

History: S. 406(1), that part preceding paragraph (a), was amended by P.C. 1980-3346, SOR/80-949, dated December 11, 1980 and effective in respect of taxation years of corporations commencing after 1980, to replace "earned in a taxation year in a particular province by a railway corporation" with "earned by a railway corporation in a taxation year in a province in which it had a permanent establishment".

(2) Where a corporation to which subsection (1) would apply, if this subsection did not apply thereto, operates an airline service, ships or hotels or receives substantial revenues that are petroleum or natural gas royalties, or does a combination of two or more of those things, the amount of its taxable income that shall be deemed to have been earned in a taxation year in a province in which it had a permanent establishment is the aggregate of the amounts computed

(*a*) by applying the provisions of section 407 to that part of its taxable income for the year that may reasonably be considered to have arisen from the operation of the airline service;

(*b*) by applying the provisions of section 410 to that part of its taxable income for the year that may reasonably be considered to have arisen from the operation of the ships;

(*c*) by applying the provisions of section 402 to that part of its taxable income for the year that may reasonably be considered to have arisen from the operation of the hotels;

(*d*) by applying the provisions of section 402 to that part of its taxable income for the year that may reasonably be considered to have arisen from the ownership by the taxpayer of petroleum or natural gas rights or any interest therein; and

(*e*) by applying the provisions of subsection (1) to the remaining portion of its taxable income for the year.

History: S. 406(2) was amended by P.C. 1980-3346, SOR/80-949, dated December 11, 1980 and effective in respect of taxation years of corporations commencing after 1980, in the following manner: (1) in that part of s. 406(2) preceding paragraph (a), by replacing "particular province" with "province in which it had a permanent establishment"; and (2) in paragraphs (a) to (d), by in each case replacing "might" with "may".

(3) In this section, "equated track miles" in a specified place means the aggregate of

(*a*) the number of miles of first main track,

(*b*) 80 per cent of the number of miles of other main tracks, and

(*c*) 50 per cent of the number of miles of yard tracks and sidings,

in that place.

(4) For the purpose of making an allocation under paragraph (2)(*b*), a reference in section 410 to "salaries and wages paid in the year by the corporation to employees" shall be read as a reference to salaries and wages paid by the corporation to employees employed in the operation of permanent establishments (other than ships) maintained for the shipping business.

(5) For the purpose of making an allocation under paragraph (2)(*c*),

(*a*) a reference in section 402 to "gross revenue for the year reasonably attributable to the permanent establishment in the province" shall be read as a reference to the gross revenue of the taxpayer from operating hotels therein;

(*b*) a reference in section 402 to "total gross revenue for the year" shall be read as a reference to the total gross revenue of the taxpayer for the year from operating hotels; and

(*c*) a reference in section 402 to "salaries and wages paid in the year by the corporation to employees" shall be read as a reference to salaries and wages paid to employees engaged in the operations of its hotels.

(6) Notwithstanding subsection 402(5), for the purpose of making an allocation under paragraph (2)(*d*),

(*a*) a reference in section 402 to "gross revenue for the year reasonably attributable to the permanent establishment in the province" shall be read as a reference to the gross revenue of the taxpayer from the ownership by the taxpayer of petroleum and natural gas rights in lands in the province and any interest therein;

(*b*) a reference in section 402 to "total gross revenue for the year" shall be read as a reference to the total gross revenue of the taxpayer from ownership by the taxpayer of petroleum and natural gas rights and any interest therein; and

(*c*) a reference in section 402 to "salaries and wages paid in the year by the corporation to employees" shall be read as a reference to salaries and wages paid to employees employed in connection with the corporation's petroleum and natural gas rights and interests therein.

AIRLINE CORPORATIONS

407. (1) Notwithstanding subsections 402(3) and (4), the amount of taxable income that shall be deemed to have been earned in a taxation year by an airline corporation in a province in which it had a permanent establishment is the amount that is equal to ¼ of the aggregate of

(*a*) that proportion of its taxable income for the year that the capital cost of all the corporation's fixed assets, except aircraft, in the province at the end of the year is of the capital cost of all its fixed assets, except aircraft, in Canada at the end of the year; and

(*b*) that proportion of its taxable income for the year that three times the number of revenue plane miles flown by its aircraft in the province during the year is of the total number of revenue plane miles flown by its aircraft in Canada during the year other than miles flown in a province in which the corporation had no permanent establishment.

History: S. 407(1)(b) was amended by P.C. 1994-662, SOR/94-327, dated April 28, 1994 and applicable to taxation years commencing after 1992. S. 407(1)(b) formerly read:

"(*b*) that proportion of its taxable income for the year that three times the number of revenue plane miles flown by its aircraft in the province during the year is of the total number of revenue plane miles flown by its aircraft in Canada during the year."

S. 407(1) was amended by P.C. 1980-3346, SOR/80-949, dated December 11, 1980 and effective in respect of taxation years of corporations commencing after 1980, in the following manner: (1) in that part of s. 407(1) preceding paragraph (a), by replacing "in a particular province by an airline corporation is an amount" with "by an airline corporation in a province in which it had a permanent establishment is the amount"; and (2) in s. 407(1)(b), by adding "for the year" after "taxable income".

(2) For the purposes of this section, "revenue plane miles flown" shall be weighted according to take-off weight of the aircraft operated.

History: S. 407(2) was amended by Order in Council P.C. 1978-1004, SOR/78-326, dated April 11, 1978, (Special Issue, *Canada Gazette*, December 31, 1978), to change "payload capacity" to "take-off weight", effective on and after January 1, 1978.

(3) For the purposes of this section, "take-off weight" of an aircraft means

(*a*) for an aircraft in respect of which an application form for a Certificate of Airworthiness has been submitted to and accepted by the Department of Transport, the maximum permissible take-off weight, in pounds, shown on the form; and

(*b*) for any other aircraft, the weight, in pounds, that may reasonably be considered to be the equivalent of the weight referred to in paragraph (*a*).

History: S. 407(3) was revoked and replaced by Order in Council P.C. 1978-1004, SOR/78-326, dated April 11, 1978, (Special Issue, *Canada Gazette*, December 31, 1978), effective on and after January 1, 1978. S. 407(3) formerly read:

"(3) In this section, 'payload capacity' of an aircraft means

(*a*) for a type of aircraft shown in Schedule G as it reads in Order in Council P.C. 1954-1917 (SOR/54-682) of December 8, 1954 if that Order in Council were applicable to the taxation year, the number of pounds shown therein for that aircraft, and

(*b*) for a type of aircraft not shown in the said Schedule G, the average maximum commercial load expressed in pounds of the aircraft with fuel and oil tanks half full as determined by the Minister on the advice of the Minister of Transport."

GRAIN ELEVATOR OPERATORS

408. Notwithstanding subsections 402(3) and (4), the amount of taxable income of a corporation whose chief business is the operation of grain elevators that shall be deemed to have been earned by that corporation in a taxation year in a province in which it had a permanent establishment is ½ of the aggregate of

(*a*) that proportion of its taxable income for the year that the number of bushels of grain received in the year in the elevators operated by the corporation in the province is of the total number of bushels of

grain received in the year in all the elevators operated by the corporation; and

(*b*) that proportion of its taxable income for the year that the aggregate of salaries and wages paid in the year by the corporation to employees of its permanent establishment in the province is of the aggregate of all salaries and wages paid in the year by the corporation.

History: S. 408 was amended by P.C. 1980-3346, SOR/80-949, dated December 11, 1980 and effective in respect of taxation years of corporations commencing after 1980, in the following manner: (1) in that part of s. 408 preceding paragraph (a), by replacing "income that shall be deemed to have been earned in a taxation year in a particular province by a corporation whose chief business is the operation of grain elevators" with "income of a corporation whose chief business is the operation of grain elevators that shall be deemed to have been earned by that corporation in a taxation year in a province in which it had a permanent establishment"; and (2) in s. 408(b), by replacing "personnel of the permanent establishment" with "employees of its permanent establishment".

Bus and Truck Operators

409. Notwithstanding subsections 402(3) and (4), the amount of taxable income of a corporation whose chief business is the transportation of goods or passengers (other than by the operation of a railway, ship or airline service) that shall be deemed to have been earned by that corporation in a taxation year in a province in which it had a permanent establishment is 1/2 of the aggregate of

(*a*) that proportion of its taxable income for the year that the number of kilometres driven by the corporation's vehicles, whether owned or leased, on roads in the province in the year is of the total number of kilometres driven by those vehicles in the year on roads other than roads in provinces or countries in which the corporation had no permanent establishment; and

(*b*) that proportion of its taxable income for the year that the aggregate of salaries and wages paid in the year by the corporation to employees of its permanent establishment in the province is of the aggregate of all salaries and wages paid in the year by the corporation.

History: S. 409(a) was amended by P.C. 1986-1251, SOR/86-585, dated May 29, 1986 and applicable to the 1985 and subsequent taxation years. S. 409(a) formerly read:

"(*a*) that proportion of its taxable income for the year that the number of miles driven by the corporation's vehicles, whether owned or leased (hereinafter referred to as 'its vehicles'), on roads in the province in the year is of the total number of miles driven by its vehicles in the year on roads other than in provinces in which the corporation had no permanent establishment; and"

S. 409 was amended by P.C. 1980-3346, SOR/80-949, dated December 11, 1980 and effective in respect of taxation years of corporations commencing after 1980. S. 409 formerly read:

"Notwithstanding subsections 402(3) and (4), the amount of taxable income that shall be deemed to have been earned in a taxation year in a particular province by a corporation whose chief business is the transportation of goods and passengers (other than by the operation of a railway, ships or an airline service) is 1/2 of the aggregate of

(*a*) that proportion of its taxable income for the year that the number of miles travelled by its vehicles in the province in the year is of the total number of miles travelled by its vehicles in the year; and

(*b*) that proportion of its taxable income for the year that the aggregate of salaries and wages paid in the year by the corporation to personnel of the permanent establishment in the province is of the aggregate of all salaries and wages paid in the year by the corporation."

Ship Operators

410. **(1)** Notwithstanding subsections 402(3) and (4), the amount of taxable income of a corporation whose chief business is the operation of ships that shall be deemed to have been earned by the corporation in a taxation year in a province in which it had a permanent establishment is the aggregate of,

(*a*) that proportion of its allocable income for the year that its port-call-tonnage in the province is of its total port-call-tonnage in all the provinces in which it had a permanent establishment; and

(*b*) if its taxable income for the year exceeds its allocable income for the year, that proportion of the excess that the aggregate of the salaries and wages paid in the year by the corporation to employees of the permanent establishment (other than a ship) in the province is of the aggregate of salaries and wages paid in the year by the corporation to employees of its permanent establishments (other than ships) in Canada.

History: S. 410(1) was amended by P.C. 1980-3346, SOR/80-949, dated December 11, 1980 and effective in respect of taxation years of corporations commencing after 1980. S. 410(1) formerly read:

"(1) Notwithstanding subsections 402(3) and (4), the amount of taxable income that shall be deemed to have been earned in a taxation year in a particular province by a corporation whose chief business is the operation of ships is the aggregate of

(*a*) that portion of its allocable income for the year that the port-call-tonnage in the province is of the port-call-tonnage in Canada; and

(*b*) if its taxable income for the year exceeds its allocable income for the year, that portion of the excess that the aggregate of the salaries and wages paid in the year by the corporation to employees of any permanent establishment (other than a ship) in the province is of the aggregate of salaries and wages paid in the year by the corporation to employees of permanent establishments (other than ships) in Canada."

(2) In this section,

(*a*) "allocable income for the year" means that proportion of the taxable income of the corporation for the year that its total port-call-tonnage in Canada is of its total port-call-tonnage in all countries; and

(*b*) "port-call-tonnage" in a province or country means the aggregate of the products obtained by multiplying, for each ship operated by the corporation, the number of calls made in the year by that ship at ports in that province or country by the number of tons of the registered net tonnage of that ship.

History: S. 410(2) was amended by P.C. 1980-3346, SOR/80-949, dated December 11, 1980 and effective in respect of taxation years of corporations commencing after 1980. S. 410(2) formerly read:

"(2) In this section,

'allocation income for the year' means that portion of the taxable income of the corporation for the year that the port-call-tonnage in Canada is of the total port-call-tonnage;

'port-call-tonnage in Canada' means the aggregate of the products obtained by multiplying, for each ship operated by the corporation, the number of calls made in the year by that ship at ports in Canada by the number of tons of the registered net tonnage of that ship;

'port-call-tonnage in the province' means the aggregate of the products obtained by multiplying, for each ship operated by the corporation, the number of calls made in the year by that ship at ports in the province by the number of tons of the registered net tonnage of that ship

'total port-call-tonnage' means the aggregate of the products obtained by multiplying, for each ship operated by the corporation, the number of calls made in the year by that ship at ports anywhere by the number of tons of the registered net tonnage of that ship."

Pipeline Operators

411. Notwithstanding subsections 402(3) and (4), the amount of taxable income of a corporation whose chief business is the operation of a pipeline that shall be deemed to have been earned by that corporation in a taxation year in a province in which it had a permanent establishment is 1/2 of the aggregate of

(*a*) that proportion of its taxable income for the year that the number of miles of pipeline of the corpora-

tion in the province is of the number of miles of pipeline of the corporation in all the provinces in which it had a permanent establishment; and

(*b*) that proportion of its taxable income for the year that the aggregate of the salaries and wages paid in the year by the corporation to employees of its permanent establishment in the province is of the aggregate of salaries and wages paid in the year by the corporation to employees of its permanent establishments in Canada.

History: S. 411 was amended by P.C. 1980-3346, SOR/80-949, dated December 11, 1980 and effective in respect of taxation years of corporations commencing after 1980. S. 411 formerly read:

"Notwithstanding subsections 402(3) and (4), the amount of taxable income that shall be deemed to have been earned in a taxation year in a particular province by a corporation whose chief business is the operation of a pipeline is 1/2 of the aggregate of

(*a*) that proportion of its taxable income for the year that the number of miles of pipeline of the corporation in the province is of the number of miles of pipeline of the corporation in Canada; and

(*b*) that proportion of its taxable income for the year that the aggregate of the salaries and wages paid in the year by the corporation to personnel of the permanent establishment in the province is of the aggregate of salaries and wages paid in the year by the corporation to employees of permanent establishments in Canada."

Divided Businesses

412. Where part of the business of a corporation for a taxation year, other than a corporation described in section 403, 404, 405, 406, 407, 408, 409, 410 or 411, consisted of operations normally conducted by a corporation described in one of those sections, the corporation and the Minister may agree to determine the amount of taxable income deemed to have been earned in the year in a particular province to be the aggregate of the amounts computed

(*a*) by applying the provisions of such of those sections as would have been applicable if it had been a corporation described therein to the portion of its taxable income for the year that might reasonably be considered to have arisen from that part of the business; and

(*b*) by applying the provisions of section 402 to the remaining portion of its taxable income for the year.

Non-Resident Corporations

413. **(1)** In this Part, if a corporation is not resident in Canada, "salaries and wages paid in the year" by the corporation does not include salaries and wages paid to employees of a permanent establishment outside Canada.

History: S. 413(1) was replaced by S.C. 2009, c. 2, s. 95(1), applicable to the 2009 and subsequent taxation years. S. 413(1) formerly read:

"(1) For the purposes of this Part, where a corporation is not resident in Canada, 'salaries and wages paid in the year' by the corporation does not include salaries and wages paid to employees of a permanent establishment outside Canada and 'taxable income' shall be deemed to refer to taxable income earned in Canada as determined under section 115 of the Act."

(2) For the purposes of paragraph 402(3)(*a*), where a corporation is not resident in Canada, "total gross revenue for the year" of the corporation does not include gross revenue reasonably attributable to a permanent establishment outside Canada.

Pending Amendment

Foreign Bank Branches — February 15, 2003
(Pre-published in the *Canada Gazette*, Part I, dated February 15, 2003)

Section 413 of the Regulations is amended by adding the following after subsection (2):

(3) For the purpose of paragraph 404(1)(*b*), in the case of an authorized foreign bank, "all loans and deposits of the bank for the year" shall be read as a reference to "all loans and deposits of the bank for the year in respect of its Canadian banking business".

Applicable: After June 27, 1999.

Explanatory Note:

Regulatory Impact Analysis Statement from February 15, 2003

Section 413 of the Regulations defines certain terms, such as "salaries and wages paid in the year" and "total gross revenue for the year", for the purposes of Part IV of the Regulations. New subsection 413(3) of the Regulations prescribes the meaning of all loans and deposits of an authorized foreign bank for the purpose of paragraph 404(1)(*b*) of the Regulations, which determines the taxable income earned in a province by a corporation.

International Banking Centre Exception

413.1. Despite any other provision in this Part, a corporation's taxable income earned in a taxation year in a particular province is equal to the total of

(*a*) the corporation's taxable income earned in the taxation year in the particular province (determined without reference to this section), and

(*b*) the positive or negative amount determined by the formula

A – B

where

A is the total of all amounts that are, because of the application of section 33.1 of the Act to a business carried on in a branch or office situated in the particular province, not allowed to be deducted in computing the corporation's income for the taxation year, and

B is the total of all amounts that are, because of the application of section 33.1 of the Act to a business carried on in a branch or office situated in the particular province, not required to be added in computing the corporation's income for the taxation year.

History: S. 413.1 and the heading before it were added by S.C. 2009, c. 2, s. 96(1), applicable to the 2009 and subsequent taxation years.

Provincial SIFT Tax Rate

414. **(1)** The following definitions apply in this section.

"*general corporate income tax rate*", in a province for a taxation year, means

(*a*) for Quebec, 0%;

(*b*) for the Newfoundland offshore area, the highest percentage rate of tax imposed under the laws of Newfoundland and Labrador on the taxable income of a public corporation earned in the taxation year in Newfoundland and Labrador;

(*c*) for the Nova Scotia offshore area, the highest percentage rate of tax imposed under the laws of Nova Scotia on the taxable income of a public corporation earned in the taxation year in Nova Scotia; and

(*d*) for each other province, the highest percentage rate of tax imposed under the laws of the province on the taxable income of a public corporation earned in the taxation year in the province.

"*province*" includes the Newfoundland offshore area and the Nova Scotia offshore area.

"*taxable SIFT distributions*", for a taxation year, means

(*a*) in the case of a SIFT trust, its non-deductible distributions amount for the taxation year; and

(*b*) in the case of a SIFT partnership, its taxable non-portfolio earnings for the taxation year.

(2) In determining the amount of a SIFT trust's or SIFT partnership's taxable SIFT distributions for a taxation year earned in a province

(*a*) except as provided in paragraph (*b*), this Part applies in respect of the SIFT trust or SIFT partnership as though

(i) each reference to "corporation" (other than in the expression "subsidiary controlled corporation") were read as a reference to "SIFT trust" or "SIFT partnership", as the case may be,

(ii) each reference to "taxable income" were read as a reference to "taxable SIFT distributions",

(iii) each reference to "its incorporating documents or bylaws" were read as a reference to "the agreement governing the SIFT trust" or "the agreement governing the SIFT partnership", as the case may be, and

(iv) "subsidiary controlled corporation" in respect of a SIFT trust or a SIFT partnership meant a corporation more than 50% of the issued share capital of which (having full voting rights under all circumstances) belongs to the SIFT trust or SIFT partnership, as the case may be; and

(*b*) subsection 400(1), section 401, subsections 402(1) and (2) and sections 403 to 413 do not apply.

(3) Subject to subsection (4), in applying the definition "provincial SIFT tax rate" in subsection 248(1) of the Act in respect of a SIFT trust or SIFT partnership for a taxation year, the prescribed amount determined in respect of the SIFT trust or SIFT partnership for the taxation year is

(*a*) if the SIFT trust or SIFT partnership has no permanent establishment in a province in the taxation year, 0.10;

(*b*) if the SIFT trust or SIFT partnership has a permanent establishment in a province in the taxation year and has no permanent establishment outside that province in the taxation year, the decimal fraction equivalent of the general corporate income tax rate in the province for the taxation year; and

(*c*) if the SIFT trust or SIFT partnership has a permanent establishment in the taxation year in a province, and has a permanent establishment outside that province in the taxation year, the amount, expressed as a decimal fraction, determined by the formula

$$A + B$$

where

A is the total of all amounts, if any, each of which is in respect of a province in which the SIFT trust or SIFT partnership has a permanent establishment in the taxation year and is determined by the formula

$$C/D \times E$$

where

C is its taxable SIFT distributions for the taxation year earned in the province,

D is its total taxable SIFT distributions for the taxation year, and

E is the decimal fraction equivalent of the general corporate income tax rate in the province for the taxation year, and

B is the amount determined by the formula

$$(1 - F/D) \times 0.1$$

where

F is the total of all amounts each of which is an amount determined under the description of C in the description of A in respect of a province in which the SIFT trust or SIFT partnership has a permanent establishment in the taxation year.

(4) If a SIFT trust or a SIFT partnership has a permanent establishment in Quebec in a taxation year, paragraph (*a*) of the definition "general corporate income tax rate" in subsection (1) does not apply in determining the prescribed amount under subsection (3) in respect of the SIFT trust or the SIFT partnership for the taxation year for the purposes of applying the definition "provincial SIFT tax rate" in determining:

(*a*) in the case of the SIFT partnership, the amount of a dividend deemed by paragraph 96(1.11)(*b*) of the Act to have been received by it in the taxation year; and

(*b*) in the case of the SIFT trust, the amount of its taxable SIFT trust distributions for the taxation year.

History: S. 414 and the heading before it were replaced by S.C. 2009, c. 2, s. 97(1), applicable to the 2007 and subsequent taxation years, except that paragraph 414(4)(*b*) shall not apply for the taxation years of a SIFT trust that end on or before February 3, 2009. S. 414 and the heading before it formerly read:

"NOVA SCOTIA OFFSHORE AREA

S. 414. For the purpose of subsection 123(2) of the Act, the 'amount taxable earned by the corporation in the year in the Nova Scotia offshore area', in respect of a corporation for a taxation year, means the amount of taxable income of the corporation earned in the year that would be allocated under this Part to the Nova Scotia offshore area if the reference to the word 'province' in this Part were read as 'Nova Scotia offshore area'."

S. 414 was added by P.C. 1985-2433, SOR/85-741, dated August 8, 1985, applicable to taxation years commencing after June 22, 1984.

415. [Repealed.]

History: S. 415 was repealed by S.C. 2009, c. 2, s. 97(1), applicable to the 2007 and subsequent taxation years. S. 415 formerly read:

"S. 415. For the purposes of this Part and subsection 123(2) of the Act, 'Nova Scotia offshore area' has the meaning assigned to the expression 'offshore area' by subsection 63(1) of the *Canada-Nova Scotia Oil and Gas Agreement Act*."

S. 415 was added by P.C. 1985-2433, SOR/85-741, dated August 8, 1985, applicable to taxation years commencing after June 22, 1984.

PART V

Non-Resident-Owned Investment Corporations

ELECTIONS

500. Any election by a corporation to be taxed under section 133 of the Act shall be made by forwarding by registered mail to the Director–Taxation at the District Office of the Department of National Revenue, Taxation that serves the area in which the head office of the corporation is located the following documents:

(*a*) a letter stating that the corporation elects to be taxed under the said section 133;

(*b*) a certified copy of the resolution of the directors of the corporation authorizing the election to be made; and

(*c*) a certified list showing

(i) the names and addresses of the registered shareholders and the number of shares of each class held by each,

(ii) the names and addresses of the holders of the corporation's bonds, debentures, or other funded indebtedness, if any, and

(iii) the names and addresses of the beneficial owners of shares, bonds, debentures, or other funded indebtedness in cases where the registered shareholders or holders, as the case may be, are not the beneficial owners.

History: S. 500, the part preceding paragraph (*a*), was amended by P.C. 1983-867, SOR/83-268, dated March 25, 1983. That part formerly read:

"S. 500. Any election by a corporation to be taxed under section 133 of the Act shall be made by forwarding by registered mail to the Deputy Minister of National Revenue for Taxation at Ottawa the following documents in duplicate:"

ELECTIONS REVOKED

501. Any election to be taxed under section 133 of the Act shall be revoked by a corporation by forwarding by registered mail to the Deputy Minister of National Revenue for Taxation at Ottawa the following documents in duplicate:

(*a*) a letter stating that the corporation revokes its election; and

(*b*) a certified copy of the resolution of the directors of the corporation authorizing the election to be revoked.

CERTIFICATES OF CHANGES OF OWNERSHIP

502. A corporation which is taxable under section 133 of the Act shall attach to its return of income required to be filed under subsection 150(1) of the Act, a certified statement showing any changes during the taxation year in the information referred to in paragraph 500(*c*).

503. [Revoked.]

History: S. 503 and heading were revoked by P.C. 1980-502, SOR/80-140, February 11, 1980, effective January 1, 1979.

Regulations

PART VI
Elections

600. For the purposes of paragraphs 220(3.2)(*a*) and (*b*) of the Act, the following are prescribed provisions:

(*a*) section 21 of the Act;

(*b*) subsections 7(10), 12.2(4), 13(4), (7.4) and (29), 14(6), 20(24), 44(1) and (6), 45(2) and (3), 50(1), 53(2.1), 70(6.2), (9), (9.1), (9.2) and (9.3), 72(2), 73(1), 80.1(1), 82(3), 83(2), 104(5.3) and (14), 107(2.001), 143(2), 146.01(7), 164(6) and (6.1), 184(3) and 256(9) of the Act;

(*c*) paragraphs 12(2.2)(*b*), 66.7(7)(*c*), (*d*) and (*e*) and (8)(*c*), (*d*) and (*e*), 80.01(4)(*c*), 86.1(2)(*f*) and 128.1(4)(*d*), (6)(*a*) and (*c*), (7)(*d*) and (*g*) and (8)(*c*) of the Act;

(*d*) subsections 1103(1), (2) and (2d) and 5907(2.1) of these Regulations.

History: S. 600(*b*) and (*c*) were replaced by P.C. 2006-815, SOR/2006-200, dated August 29, 2006, deemed to have taken effect on June 1, 2005.

S. 600(*b*) and (*c*) formerly read:

"(*b*) subsections 7(10), 13(4), (7.4) and (29), 14(6), 44(1) and (6), 45(2) and (3), 50(1), 53(2.1), 70(6.2), (9), (9.1), (9.2) and (9.3), 72(2), 73(1), 80.1(1), 82(3), 83(2), 104 (5.3) and (14), 143(2), 146.01(7), 164(6) and (6.1), 184(3) and 256(9) of the Act;

(*c*) paragraphs 12(2.2)(*b*), 66.7(7)(*c*), (*d*) and (*e*) and (8)(*c*), (*d*) and (*e*), 80.01(4)(*c*), 86.1(2)(*f*) and 128.1(4)(*d*) of the Act;"

S. 600(*b*) was amended by P.C. 2006-815, SOR/2006-200, dated August 29, 2006, by adding, in numerical order, the reference "20(24),", deemed to have taken effect on January 1, 2001.

S. 600(*b*) and (*c*) were replaced by P.C. 2005-1133, SOR/2005-185, dated June 7, 2005, applicable June 29, 2005, date of publication in the *Canada Gazette*. S. 600(*b*) and (*c*) formerly read:

"(*b*) subsections 12.2(4), 13(4), (7.4) and (29), 14(6), 44(1) and (6), 45(2) and (3), 50(1), 53(2.1), 70(6.2), (9), (9.1), (9.2) and (9.3), 72(2), 73(1), 80.1(1), 82(3), 83(2), 104(5.3) and (14), 143(2), 146.01(7), 164(6) and (6.1), 184(3) and 256(9) of the Act;

(*c*) paragraphs 66.7(7)(*c*), (*d*) and (*e*) and (8)(*c*), (*d*) and (*e*), 80.01(4)(*c*), 86.1(2)(*f*) and 128.1(4)(*d*) of the Act; and"

For changes of residence occurring after October 1, 1996, paragraph (*c*) formerly read:

"(*c*) paragraphs 66.7(7)(*c*), (*d*) and (*e*) and (8)(*c*), (*d*) and (*e*), 80.01(4)(*c*), 86.1(2)(*f*) and 128.1(4)(*d*), (6)(*a*) and (*c*), (7)(*d*) and (*g*) and (8)(*c*) of the Act; and"

S. 600 was replaced by P.C. 2005-694, SOR/2005-123, dated May 3, 2005, coming into effect upon publication in the *Canada Gazette*, May 18, 2005; and paragraph (*c*) was replaced by P.C. 2005-694, SOR/2005-123, dated May 3, 2005, coming into effect upon publication in the *Canada Gazette*, May 18, 2005 and applicable to changes of residence occurring after October 1, 1996. S. 600 formerly read:

"S. 600. For the purposes of paragraphs 220(3.2)(*a*) and (*b*) of the Act, the following are prescribed provisions:

(*a*) section 21 of the Act;

(*b*) subsections 13(4) and (7.4), 14(6), 44(1) and (6), 45(2) and (3), 50(1), 53(2.1), 70(6.2), (9), (9.1), (9.2) and (9.3), 72(2), 73(1), 80.1(4), 82(3), 83(2), 104(5.3) and (14), 110.4(2), 143(2), 146.01(7), 164(6) and 184(3) of the Act;

(*b*.1) [Revoked.]

(*c*) paragraphs 48(1)(*a*) and (*c*), 66.7(7)(*c*), (*d*) and (*e*) and (8)(*c*), (*d*) and (*e*), 80.01(4)(*c*), 86.1(2)(*f*) and 128.1(4)(*d*) of the Act;

(*c*.1) subparagraph 128.1(4)(*b*)(iv) of the Act; and

(*d*) subsections 1103(1), (2) and (2*d*) and 5907(2.1) of these Regulations."

S. 600(*c*) was amended by P.C. 2002-531, SOR/2002-144, dated April 11, 2002, coming into force on that date. S. 600(*c*) formerly read:

"(*c*) paragraphs 48(1)(*a*) and (*c*), 66.7(7)(*c*), (*d*) and (*e*) and (8)(*c*), (*d*) and (*e*), 80.01(4)(*c*) and 128.1(4)(*d*) of the Act;"

S. 600(*b*) was amended by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable to an election in respect of the 1998 and subsequent taxation years that is made under subsection 143(2) of the *Income Tax Act*, as that subsection applies to the 1998 and subsequent taxation years. S. 600(*b*) formerly read:

"(*b*) subsections 13(4) and (7.4), 14(6), 44(1) and (6), 45(2) and (3), 50(1), 53(2.1), 70(6.2), (9), (9.1), (9.2) and (9.3), 72(2), 73(1), 80(3), 80.1(4), 82(3), 83(2), 104(5.3) and (14), 110.4(2), 146.01(7), 164(6) and 184(3) of the Act;"

S. 600(*b*.1) was revoked by P.C. 1998-2270, SOR/99-17, dated December 16, 1998, deemed to have come into force on February 1, 1998. S. 600(*b*.1) formerly read:

"(*b*.1) subsection 249.1(4) of the Act, if the election referred to in that subsection is filed with the Minister before the end of the third month after the month in which this paragraph is published in the Canada Gazette, Part II;"

Ss. 600(*b*) and (*c*) were amended and (*b*.1) was added by P.C. 1997-1472, SOR/97-471, dated October 9, 1997, effective upon publication in the *Canada Gazette*, October 27, 1997. Ss. 600(*b*) and (*c*) formerly read:

"(*b*) subsections 13(4) and (7.4), 14(6), 44(1) and (6), 45(2) and (3), 53(2.1), 70(6.2), (9), (9.1), (9.2) and (9.3), 72(2), 73(1), 80(3), 80.1(4), 82(3), 83(2), 104(5.3) and (14), 110.4(2), 146.01(7), 164(6) and 184(3) of the Act;

(*c*) paragraphs 48(1)(*a*) and (*c*), 50(1)(*b*), 66.7(7)(*c*), (*d*) and (*e*) and (8)(*c*), (*d*) and (*e*), 80.01(4)(*c*) and 128.1(4)(*d*) of the Act;"

S. 600(*b*) and (*c*) were amended by P.C. 1996-214, SOR/96-128, dated February 20, 1996, effective upon publication in *Canada Gazette*, March 6, 1996. S. 600(*b*) and (*c*) formerly read:

"(*b*) subsections 13(4) and (7.4), 14(6), 44(1) and (6), 45(2) and (3), 53(2.1), 70(6.2), (9), (9.1), (9.2) and (9.3), 72(2), 73(1), 80(3), 82(3), 83(2), 104(14), 110.4(2), 146.01(7), 164(6) and 184(3) of the Act;

(*c*) paragraphs 48(1)(*a*) and (*c*), 50(1)(*b*), 66.7(7)(*c*), (*d*) and (*e*) and (8)(*c*), (*d*) and (*e*) and 128.1(4)(*d*) of the Act;"

S. 600(*b*) was amended by P.C. 1995-1210, SOR/95-367, dated July 26, 1995, to add the references to subsections 53(2.1) and 146.01(7), effective upon publication in the *Canada Gazette*, August 9, 1995.

S. 600(*c*) was amended by P.C. 1995-1210, SOR/95-367, dated July 26, 1995, to add the references to paragraphs 50(1)(*b*) and 128.1(4)(*d*), effective upon publication in the *Canada Gazette*, August 9, 1995.

S. 600(*c*.1) was added by P.C. 1995-1210, SOR/95-367, dated July 26, 1995, effective upon publication in the *Canada Gazette*, August 9, 1995.

S. 600(*d*) was amended by P.C. 1995-1210, SOR/95-367, dated July 26, 1995, to add the reference to subsection 5907(2.1), effective upon publication in the *Canada Gazette*, August 9, 1995.

S. 600(*b*) was amended by P.C. 1993-1942, SOR/93-530, dated December 2, 1993 and effective December 15, 1993. S. 600(b) formerly read:

"(*b*) subsections 13(4), 14(6), 44(1) and (6), 70(6.2), (9), (9.1), (9.2) and (9.3), 72(2), 73(1) and 104(14) of the Act;"

S. 600(c) was amended by P.C. 1993-1942, SOR/93-530, dated December 2, 1993 and effective December 15, 1993. S. 600(c) formerly read:

"(*c*) paragraphs 66.7(7)(*c*), (*d*) and (*e*) and (8)(*c*), (*d*) and (*e*) of the Act; and"

Part VI was added by P.C. 1992-914, SOR/92-265, dated May 7, 1992, effective commencing December 17, 1991.

Former Part VI was revoked by P.C. 1990-2779, SOR/91-78, dated December 24, 1990 and applicable to taxation years commencing after June 17, 1987 that end after 1987.

Information Circulars: IC 07-1 Taxpayer Relief Provisions.

PART VII
Logging Taxes on Income

LOGGING

700. (1) Except as provided in subsection (2), for the purposes of paragraph 127(2)(*a*) [subsection 127(2) "income for the year from logging operations in the province"] of the Act "income for the year from logging operations in the province" means the aggregate of

(*a*) where standing timber is cut in the province by the taxpayer or logs cut from standing timber in the province are acquired by the taxpayer and the logs so obtained are sold by the taxpayer in the province before or on delivery to a sawmill, pulp or paper plant or other place for processing logs, the taxpayer's income for the year from the sale, other than any portion thereof that was included in computing the taxpayer's income from logging operations in the province for a previous year;

(*b*) where standing timber in the province or the right to cut standing timber in the province is sold by the taxpayer, the taxpayer's income for the year from the sale, other than any portion thereof that was included in computing the taxpayer's income from logging operations in the province for a previous year;

(*c*) where standing timber is cut in the province by the taxpayer or logs cut from standing timber in the province are acquired by the taxpayer, if the logs so obtained are

(i) exported from the province and are sold by him prior to or on delivery to a sawmill, pulp or paper plant or other place for processing logs, or

(ii) exported from Canada,

the amount computed by deducting from the value, as determined by the province, of the logs so exported in the year, the aggregate of the costs of acquiring, cutting, transporting and selling the logs; and

(*d*) where standing timber is cut in the province by the taxpayer or logs cut from standing timber in the province are acquired by the taxpayer, if the logs are processed by the taxpayer or by a person on his behalf in a sawmill, pulp or paper plant or other place for processing logs in Canada, the income of the taxpayer for the year from all sources minus the aggregate of

(i) his income from sources other than logging operations carried on in Canada and other than the processing in Canada by him or on his behalf and sale by him of logs, timber and products produced therefrom,

(ii) each amount included in the aggregate determined under this subsection by virtue of paragraph (*a*), (*b*) or (*c*), and

(iii) an amount equal to eight per cent of the original cost to him of properties described in Schedule II used by him in the year in the processing of logs or products derived therefrom or, if the amount so determined is greater than 65 per cent of the income remaining after making the deductions under subparagraphs (i) and (ii), 65 per cent of the income so remaining or, if the amount so determined is less than 35 per cent of the income so remaining, 35 per cent of the income so remaining.

History: Ss. 700(1)(a) and (b) were amended by P.C. 1992-1862, SOR/92-516, dated August 27, 1992, applicable to taxation years beginning after 1990. The paragraphs formerly read:

"(*a*) where standing timber is cut in the province by the taxpayer or logs cut from standing timber in the province are acquired by the taxpayer, if the logs so obtained are sold by him in the province prior to or on delivery to a sawmill, pulp or paper plant or other place for processing logs, his net profit for the year from the sale of the logs;

(*b*) where standing timber in the province or the right to cut standing timber in the province is sold by the taxpayer, his net profit for the year from such sale to the extent that such profit is required to be included in computing his income;"

S. 700(1)(d), the part preceding subparagraph (ii), was amended by P.C. 1987-2355, SOR/87-668, dated November 26, 1987, applicable to taxation years ending after December 9, 1987. That part formerly read:

"(*d*) where standing timber is cut in the province by the taxpayer or logs cut from standing timber in the province are acquired by the taxpayer, if the taxpayer operates a sawmill, pulp or paper plant or other place for processing logs in Canada, the income of the taxpayer for the year from all sources minus the aggregate of

(i) his income from sources other than logging operations and other than the processing and sale by him of logs, timber and products produced therefrom,"

The heading preceding s. 700 was revoked and substituted by Order in Council P.C. 1978-1315, SOR/78-377, dated April 24, 1978, (Special Issue, *Canada Gazette*, December 31, 1978).

(2) Where the taxpayer cuts standing timber or acquires logs cut from standing timber in more than one province, for the purposes of paragraph 127(2)(*a*) [subsection 127(2) "income for the year from logging operations in the province"] of the Act "income for the year from logging operations in the province" means the aggregate of

(*a*) the amounts determined in respect of that province in accordance with paragraphs (1)(*a*), (*b*) and (*c*); and

(*b*) where the logs are processed by the taxpayer or by a person on his behalf in a sawmill, pulp or paper

plant or other place for processing logs in Canada, an amount equal to the proportion of the income of the taxpayer for the year from all sources minus the aggregate of

(i) his income from sources other than logging operations carried on in Canada and other than the processing in Canada by him or on his behalf and sale by him of logs, timber and products produced therefrom,

(ii) the aggregate of amounts determined in respect of each province in accordance with paragraphs (1)(*a*), (*b*) and (*c*), and

(iii) an amount equal to eight per cent of the original cost to him of properties described in Schedule II used by him in the year in the processing of logs or products derived therefrom or, if the amount so determined is greater than 65 per cent of the income remaining after making the deductions under subparagraphs (i) and (ii), 65 per cent of the income so remaining or, if the amount so determined is less than 35 per cent of the income so remaining, 35 per cent of the income so remaining,

that

(iv) the quantity of standing timber cut in the province in the year by the taxpayer and logs cut from standing timber in the province acquired by the taxpayer in the year,

is of

(v) the total quantity of standing timber cut and logs acquired in the year by the taxpayer.

History: S. 700(2)(b), the part preceding subparagraph (ii), was amended by P.C. 1987-2355, SOR/87-668, dated November 26, 1987, applicable to taxation years ending after December 9, 1987. That part formerly read:

"(*b*) where the taxpayer operates a sawmill, pulp or paper plant or other place for processing logs in Canada, an amount equal to the proportion of the income of the taxpayer for the year from all sources minus the aggregate of

(i) his income from sources other than logging operations and the processing and sale by him of logs, timber and products produced therefrom,"

(3) For the purposes of paragraph 127(2)(*b*) [subsection 127(2) "logging tax"] of the Act, the tax imposed by the legislature of

(*a*) the Province of British Columbia under the *Logging Tax Act* of that province, and

(*b*) [Revoked.]

(*c*) the Province of Quebec under Part VII of the *Taxation Act* of that province,

are each declared to be a tax of general application on income from logging operations.

History: Ss. 700(3)(a), (b) and (c) were amended by P.C. 1982-3879, SOR/83-20, dated December 20, 1982, to revoke paragraph (b), effective in respect of taxation years ending after March 30, 1972, and, in paragraph (c), to substitute "Part VII of the *Taxation Act*" for "the *Logging Tax Act*", effective for 1972, and subsequent taxation years.

Ss. 701(1), (2) and (3) were revoked and replaced as s. 3900 in substantially the same form, the only change being the substitution of "and" for "or" following s. 701(1)(a)(ii), and the substitution of "that" for "which" in s. 701(3); s. 701(2) was retained as s. 3900(2) in substantially the same form, with changes in the numbering sequence of the clauses and sub-clauses. All these amendments were effected by P.C. 1978-1315, SOR/78-377, dated April 24, 1978 (Special Issue, *Canada Gazette*, December 31, 1978).

Regulations

PART VIII
Non-Resident Taxes

Registered Non-Resident Insurers

800. For the purposes of subsection 215(4) of the Act, subsections 215(1), (2) and (3) of the Act do not apply to amounts paid or credited to a registered non-resident insurer.

Pending Amendment

Foreign Bank Branches — February 15, 2003
(Pre-published in the *Canada Gazette*, Part I, dated February 15, 2003)

The heading before section 800 and [section 800] of the Regulations are replaced by the following:

Authorized Foreign Banks and Non-Resident Insurers

800. Subsections 215(1), (2) and (3) of the Act do not apply to amounts paid or credited to an authorized foreign bank or to a registered non-resident insurer.

Applicable: To taxation years that end after June 27, 1999.

Explanatory Note:

Regulatory Impact Analysis Statement from February 15, 2003

Sections 800 to 803 of the Regulations currently exempt a resident payer from the withholding responsibility imposed under Part XIII of the Act on payments made to a registered non-resident insurer. Also, these sections outline the compliance rules applicable to a registered non-resident insurer. These sections are amended to apply to an authorized foreign bank as well.

Explanatory Notes from December 20, 2002

Section 800 of the Regulations provides that amounts paid or credited to a registered non-resident insurer are not subject to the withholding obligations set out in subsections 215(1), (2) and (3) of the Act. The section is to be amended to apply as well to amounts paid or credited to an authorized foreign bank, and to update its structure.

This amendment is to apply to payments made in taxation years that end after June 27, 1999.

Section 801 of the Regulations requires a non-resident insurer to file a return in respect of tax payable by it under Part XIII of the Act. The section is to be amended to apply the same requirement to an authorized foreign bank.

This amendment is to apply to taxation years that end after June 27, 1999, except that the return required to be filed by an authorized foreign bank is deemed to have been filed with the Minister of National Revenue in a timely manner if it is filed on or before the later of

- the day on or before which it would otherwise be required to be filed (that is, the bank's filing-due date for the taxation year in question); and
- the day that is 6 months after the day on which this Regulation is registered.

Section 802 of the Regulations ensures that Parts I and XIII of the Act do not overlap in respect of a registered non-resident insurers income from carrying on business in Canada. In general terms, the section provides that, to the extent such income is dealt with by Part I, it is not subject to taxation under Part XIII. In its current form, section 802 is not clearly confined to registered non-resident insurers. As a result, its relationship to section 805, which deals with the same subject in respect of other taxpayers, is also unclear.

Section 802 is to be amended to clarify its application, and to provide that it applies as well to authorized foreign banks. This amendment is to apply to taxation years that end after June 27, 1999.

Section 803 of the Regulations provides that a registered non-resident insurer must pay its Part XIII tax owing in respect of a taxation year on or before the day on which its return under

Regulation 801 in respect of the year is due. The section is to be amended to clarify its scope and meaning, and to provide that it is to apply as well to authorized foreign banks. This amendment is to apply to taxation years that end after June 27, 1999.

History: S. 800 was amended by P.C. 1979-1485, SOR/79-424, dated May 22, 1979, effective in respect of the 1978 and subsequent taxation years.

Filing of Returns by Non-Resident Insurers

801. For the purposes of subsection 215(4) of the Act, where a taxpayer is a registered non-resident insurer in a taxation year, the taxpayer shall file a return in respect thereof in prescribed form with the Minister within the six month period immediately following the end of the year.

Pending Amendment

Foreign Bank Branches — February 15, 2003 (Pre-published in the *Canada Gazette*, Part I, dated February 15, 2003)

[Section 801 is] replaced by the following:

801. A taxpayer that is an authorized foreign bank or a registered non-resident insurer at any time in a taxation year shall file a return in respect of the year in prescribed form with the Minister on or before its filing-due date for the year.

Applicable: To taxation years that end after June 27, 1999, except that the return required to be filed under section 801 of the *Income Tax Regulations*, as amended, by an authorized foreign bank is deemed to have been filed with the Minister of National Revenue in a timely manner if it is so filed on or before the later of

(*a*) the day on or before which it would, but for this subsection, be required to be filed, and

(*b*) the day that is six months after the day on which these Regulations are registered.

Explanatory Note: [Please see the Regulatory Impact Analysis Statement and Explanatory Note following the amendment to section 800.]

History: S. 801 was amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990, to delete "(in the Part referred to as a 'relevant taxation year')" following "taxation year", and to substitute "within the six month period immediately following the end of the year" for "on or before April 30 in the year immediately following the calendar year in which the relevant taxation year ended", applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987.

S. 801 was amended by P.C. 1979-1485, SOR/79-424, May 22, 1979, effective in respect of the 1978 and subsequent taxation years.

Forms: T2016.

Amounts Taxable

802. For the purposes of paragraph 214(13)(*c*) of the Act, the amounts taxable under Part XIII of the Act in a relevant taxation year of a taxpayer are amounts paid or credited to the taxpayer in the relevant taxation year other than amounts included pursuant to Part I of the Act in computing the taxpayer's income from a business carried on by it in Canada.

Pending Amendment

Foreign Bank Branches — February 15, 2003 (Pre-published in the *Canada Gazette*, Part I, dated February 15, 2003)

[Section 802 is] replaced by the following:

802. The amounts that are taxable under Part XIII of the Act in a taxation year of a taxpayer that is an authorized foreign bank or a registered non-resident insurer are amounts paid or credited to the taxpayer in the year other than amounts included under Part I of the Act in computing the taxpayer's income from a business carried on by it in Canada.

Applicable: To taxation years that end after June 27, 1999.

Explanatory Note: [Please see the Regulatory Impact Analysis Statement and Explanatory Note following the amendment to section 800.]

History: S. 802 was amended by P.C. 1979-1485, SOR/79-424, dated May 22, 1979, effective in respect of the 1978 and subsequent taxation years.

Payment of Tax by Non-Resident Insurers

803. For the purposes of subsection 215(4) of the Act, a taxpayer shall pay to the Receiver General, on or before the last day on which the return in respect of a relevant taxation year is required to be filed pursuant to section 801, the tax payable by the taxpayer under Part XIII of the Act on amounts referred to in section 802 in respect of the relevant taxation year.

Pending Amendment

Foreign Bank Branches — February 15, 2003 (Pre-published in the *Canada Gazette*, Part I, dated February 15, 2003)

[Section 803 is] replaced by the following:

803. Authorized foreign banks and registered non-resident insurers shall pay to the Receiver General, on or before their filing-due dates for a taxation year, the tax payable by them under Part XIII of the Act.

Applicable: To taxation years that end after June 27, 1999.

Explanatory Note: [Please see the Regulatory Impact Analysis Statement and Explanatory Note following the amendment to section 800.]

History: S. 803 was amended by P.C. 1979-1485, SOR/79-424, dated May 22, 1979, effective in respect of the 1978 and subsequent taxation years.

Interpretation

804. In this Part, "registered non-resident insurer" means a non-resident corporation approved to carry on business in Canada under the *Insurance Companies Act*.

History: S. 804 was amended by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable after May 1992. S. 804 formerly read:

"S. 804. In this Part, 'registered non resident insurer' means a non-resident corporation registered to carry on business in Canada under Part VIII of the *Canadian and British Insurance Companies Act* or under the *Foreign Insurance Companies Act*."

S. 804 was amended by P.C. 1979-1485, SOR/79-424, dated May 22, 1979, effective in respect of the 1978 and subsequent taxation years.

Other Non-Resident Persons

805. (1) Every non-resident person who carries on business in Canada shall be taxable under Part XIII of the Act on all amounts otherwise taxable under that Part except those amounts that

(*a*) may reasonably be attributed to the business carried on by him through a permanent establishment (within the meaning assigned by subsection 400(2) or that would be assigned by that subsection if he were a corporation) in Canada; or

(*b*) are required by subparagraph 115(1)(*a*)(iii.3) of the Act to be included in computing his taxable income earned in the year in Canada.

(2) Where the Minister is satisfied that under subsection (1) an amount is not taxable under Part XIII of the Act, he may permit payment to be made to the non-resident person without any deduction being made under section 215 of the Act.

(3) Subsections (1) and (2) do not apply in respect of amounts upon which tax under Part XIII of the Act is payable in a relevant taxation year by a taxpayer required by section 801 to file the return described in that section in respect of that year.

Pending Amendment

Foreign Bank Branches — February 15, 2003 (Pre-published in the *Canada Gazette*, Part I, dated February 15, 2003)

Section 805 of the Regulations is replaced by the following:

805. Subject to section 802, every non-resident person who carries on business in Canada is taxable under Part XIII of the Act on all amounts otherwise taxable under that Part except those amounts that

(*a*) may reasonably be attributed to the business carried on by the person through a permanent establishment (within the meaning assigned by subsection 400(2) or that would be assigned by that subsection if the person were a corporation) in Canada; or

(*b*) are required by subparagraph 115(1)(*a*)(iii.3) of the Act to be included in computing the person's taxable income earned in Canada for the year.

Applicable: To taxation years that end after June 27, 1999.

Explanatory Note:

Explanatory Notes from December 20, 2002

Section 805 of the Regulations provides rules for determining whether an amount is taxable under Part XIII of the Act, in a case where the non-resident recipient of the amount carries on a business in Canada. In general terms, the section provides that an amount paid to a non-resident is taxable under Part XIII of the Act if that amount cannot reasonably be attributed to a business carried on by the non-resident through a permanent establishment in Canada.

Section 805 is to be amended to update its structure and language, and to clarify its relationship to section 802 of the Regulations — in effect, that section 805 is not applicable to authorized foreign banks and registered non-resident insurers.

This amendment is to apply to taxation years that end after June 27, 1999.

History: S. 805(1)(a) was amended by P.C. 1988-390, SOR/88-165, dated March 3, 1988 and effective March 16, 1988. S. 805(1)(a) formerly read:

"(*a*) may reasonably be attributed to the business carried on by him in Canada; or"

S. 805(1)(b) was amended by P.C. 1984-3789, SOR/84-948, dated November 29, 1984, to delete "and are not exempted from such inclusion by virtue of paragraph 81(1)(a) of the Act".

S. 805(1) was amended by P.C. 1981-2208, SOR/81-656, dated August 20, 1981 and applicable to taxation years ending after December 11, 1979. S. 805(1) formerly read:

"(1) Where a non-resident person carries on business in Canada he shall be taxable under Part XIII of the Act on all amounts otherwise taxable under that Part except those amounts that may reasonably be attributed to the business carried on by him in Canada."

Interpretation Bulletins: *Secondary* — IT-432R2 Benefits conferred on shareholders.

Information Circulars: IC 77-16R4 Non-resident income tax (para. 53).

International Organizations and Agencies

806. For the purposes of clause 212(1)(*b*)(ii)(B) of the Act, the following international organizations and agencies are hereby prescribed:

(*a*) Bank for International Settlements;

(*b*) European Fund;

(*c*) International Bank for Reconstruction and Development;

(*d*) International Development Association;

(*e*) International Finance Corporation; and

(*f*) International Monetary Fund.

Information Circulars: IC 77-16R4 Non-resident income tax (para. 53).

806.1. For the purposes of subparagraph 212(1)(*b*)(x) of the Act, the Bank for International Settlements and the European Bank for Reconstruction and Development are prescribed international agencies.

History: S. 806.1 was amended by P.C. 1994-270, SOR/94-188, dated February 16, 1994 and applicable after 1990.

S. 806.1 was added by P.C. 1988-390, SOR/88-165, dated March 3, 1988 and effective May 24, 1985.

Information Circulars: IC 77-16R4 Non-resident income tax (para. 53).

Prescribed Obligation

806.2. For the purpose of paragraph 212(1)(*b*) of the Act, an obligation is a prescribed obligation if it is an indexed debt obligation and no amount payable in respect of it is

(*a*) contingent or dependent upon the use of, or production from, property in Canada; or

(*b*) computed by reference to

(i) revenue, profit, cash flow, commodity price or any other similar criterion, other than a change in the purchasing power of money, or

(ii) dividends paid or payable to shareholders of any class of shares.

History: S. 806.2 was amended by P.C. 1996-1419, SOR/96-435, dated September 11, 1996, applicable in respect of debt obligations issued after October 16, 1991. S. 806.2 formerly read:

"S. 806.2. For the purposes of paragraph 212(1)(*b*) of the Act, an obligation is a prescribed obligation if it is an indexed debt obligation and no amount payable in respect thereof, other than an amount determined by reference to a change in the purchasing power of money, is

(*a*) contingent or dependent upon the use of, or production from, property in Canada; or

(*b*) computed by reference to

(i) revenue, profit, cash flow, commodity price or any other similar criterion, or

(ii) dividends paid or payable to shareholders of any class of shares of the capital stock of a corporation."

S. 806.2 was added by P.C. 1993-1331, SOR/93-345, dated June 16, 1993 and applicable in respect of debt obligations issued after October 16, 1991.

Identification of Obligations

807. For the purposes of subsection 240(2) of the Act, the letters "AX" or the letter "F", as the case may be, shall be clearly and indelibly printed in gothic or similar style capital letters of seven point or larger size either as a prefix to the coupon number or on the lower right hand corner of each coupon or other writing issued in evidence of a right to interest on an obligation referred to in that subsection.

Allowances in Respect of Investment in Property in Canada

808. **(1)** For the purposes of paragraph 219(1)(*h*) [paragraph 219(1)(*j*)] of the Act, a corporation's allowance for a taxation year in respect of its investment in property in Canada is hereby prescribed to be the amount, if any, by which

Pending Amendment

Foreign Bank Branches — February 15, 2003 (Pre-published in the *Canada Gazette*, Part I, dated February 15, 2003)

The portion of subsection 808(1) of the Regulations before paragraph (*a*) is replaced by the following:

808. (1) For the purposes of paragraph 219(1)(*j*) of the Act, the allowance of a corporation (other than an authorized foreign bank) for a taxation year in respect of its investment in property in Canada is prescribed to be the amount, if any, by which

Applicable: To taxation years that begin after 1995, except that in applying subsection 808(1) of the *Income Tax Regulations* to taxation years ending before June 28, 1999, it is to be read without reference to "(other than an authorized foreign bank)".

Explanatory Note:

Regulatory Impact Analysis Statement from February 15, 2003

Branch Tax

Part XIV of the Act imposes a tax on non-resident corporations carrying on a business in Canada through a branch. The purpose of this tax is to put those non-resident corporations in a similar position for Canadian tax purposes as non-residents who carry on business in Canada through a Canadian subsidiary.

Branch tax is levied at a flat rate of 25 percent on a non-resident corporation's taxable income from Canadian sources, with certain adjustments, including an allowance for its investment in property in Canada. A corporation's allowance for investment in property in Canada is computed under section 808 of the Regulations.

Paragraphs 808(2)(*h*) and (*p*), subparagraphs 808(2)(*l*)(i), (*n*)(ii) and (iii), and (*o*)(ii) and (iii) of the Regulations are amended to reflect earlier amendments to Part XIV of the Act.

Subsection 808(1) of the Regulations computes the allowance for investment in property for all non-resident corporations. This subsection is amended to specifically exclude authorized foreign bank from these computational rules, and new subsection 808(8) of the Regulations is added to compute the allowance for investment in property in Canada for an authorized foreign bank.

A non-resident corporation's allowance for investment in property in Canada is computed on the basis of its "qualified investment in property in Canada." "Qualified investment in property in Canada" includes a corporation's "allowable liquid assets" and its share of the "allowable liquid assets" of a partnership of which the corporation is a member. The amendment to paragraph 808(6)(*a*) of the Regulations clarifies that the allowable liquid assets of a partnership do not include amounts that were not either generated by or intended for the use of its business carried on in Canada.

Paragraphs 808(2)(*d*) to (*d.2*), subparagraphs 808(2)(*l*)(ii) and 808(5)(*j*)(ii) of the Regulations generally refer to rules applicable to resource property in the computation of the "qualified investment in property in Canada." These paragraphs are revised as the miscellaneous program amendments of the Department of Finance.

(*a*) the corporation's qualified investment in property in Canada at the end of the year,

exceeds

(*b*) the aggregate of

(i) all allowances computed under this section as it read in its application to each of the taxation years of the corporation that ended before 1972 to the extent that for those taxation years such allowances reduced the amount on which the corporation was taxable under subsection 110B(1) of the Act as it read in its application to those taxation years, and

(ii) the capital investment of the corporation in property in Canada at the end of the corporation's 1960 taxation year, determined under this section as it read in its application to the 1961 taxation year.

Interpretation Bulletins: *Secondary*— IT-137R3 Additional tax on certain corporations carrying on business in Canada.

Pending Amendment

Branch Tax — Corporate Immigration — October 27, 1998

Section 808 of the *Income Tax Regulations* is amended by adding the following after subsection (1):

(1.1) Notwithstanding subsection (1), if a corporation becomes resident in Canada at a particular time, the corporation's allowance in respect of its investment in property in Canada for its last taxation year that ended before the particular time is prescribed to be nil.

Applicable: To corporations that become resident in Canada after February 23, 1998.

Explanatory Note: Subsection 808(1) of the Regulations specifies the amount of a corporation's allowance in respect of investment in property in Canada for the purposes of the "branch tax" imposed under Part XIV of the Act.

New subsection 808(1.1) provides that where a corporation becomes resident in Canada, the corporation's investment allowance for the taxation year that is deemed to end immediately before immigration is nil. Since the corporation will be unable to claim an investment allowance, it will be liable to pay branch tax on any unremitted profits of a Canadian branch arising in the year or deferred in respect of previous years. Effectively, for an immigrating corporation, unremitted profits of a Canadian branch are treated similarly to the undistributed surplus of a Canadian corporation in which the immigrating corporation holds shares, which is deemed to be distributed as a dividend by paragraph 128.1(1)(*c.1*) of the Act.

New subsection 808(1.1) applies to corporations that become resident in Canada after February 23, 1998.

(2) For the purposes of subsection (1), where, at the end of a taxation year, a corporation is not a member of a partnership that was carrying on business in Canada at any time in the year, the corporation's "qualified investment in property in Canada at the end of the year" is the amount, if any, by which the aggregate of

(*a*) the cost amount to the corporation, at the end of the year, of land in Canada owned by it at that time for the purpose of gaining or producing income from a business carried on by it in Canada, other than land that is

(i) described in the corporation's inventory,

(ii) depreciable property,

(iii) a Canadian resource property, or

(iv) land the cost of which is or was deductible in computing the corporation's income,

(*b*) an amount equal to the aggregate of the cost amount to the corporation, immediately after the end of the year, of each depreciable property in Canada owned by it for the purpose of gaining or producing income from a business carried on by it in Canada,

(*c*) an amount equal to 4/3 of the cumulative eligible capital of the corporation immediately after the end of the year in respect of each business carried on by it in Canada,

(*d*) where the corporation is not a principal-business corporation, within the meaning assigned by paragraph 66(15)(*h*) [subsection 66(15) "principal-busi-

ness corporation"] of the Act, an amount equal to the aggregate of the corporation's

(i) Canadian exploration and development expenses, within the meaning assigned by paragraph 66(15)(*b*) [subsection 66(15) "Canadian exploration and development expenses"] of the Act, incurred by the corporation before the end of the year except to the extent that such expenses were deducted by the corporation in computing its income for the year or for a previous taxation year, and

(ii) cumulative Canadian exploration expense, within the meaning assigned by paragraph 66.1(6)(*b*) [subsection 66.1(6) "cumulative Canadian exploration expense"] of the Act, at the end of the year minus any deduction under subsection 66.1(3) of the Act in computing the corporation's income for the year,

(*d*.1) an amount equal to the corporation's cumulative Canadian development expense, within the meaning assigned by paragraph 66.2(5)(*b*) [subsection 66.2(5) "cumulative Canadian development expense"] of the Act, at the end of the year minus any deduction under subsection 66.2(2) of the Act in computing the corporation's income for the year,

(*d*.2) an amount equal to the corporation's cumulative Canadian oil and gas property expense, within the meaning assigned by paragraph 66.4(5)(*b*) [subsection 66.4(5) "cumulative Canadian oil and gas property expense"] of the Act, at the end of the year minus any deduction under subsection 66.4(2) of the Act in computing the corporation's income for the year,

Pending Amendment

Foreign Bank Branches — February 15, 2003 (Pre-published in the *Canada Gazette*, Part I, dated February 15, 2003)

Paragraphs 808(2)(*d*) to (*d*.2) of the Regulations are replaced by the following:

(*d*) where the corporation is not a principal-business corporation, within the meaning assigned by subsection 66(15) of the Act, an amount equal to the total of the corporation's

(i) Canadian exploration and development expenses incurred by the corporation before the end of the year, except to the extent that those expenses were deducted in computing the corporation's income for the year or for a previous taxation year, and

(ii) cumulative Canadian exploration expense, within the meaning assigned by subsection 66.1(6) of the Act, at the end of the year minus any deduction under subsection 66.1(3) of the Act in computing the corporation's income for the year,

(*d*.1) an amount equal to the corporation's cumulative Canadian development expense, within the meaning assigned by subsection 66.2(5) of the Act, at the end of the year minus any deduction under subsection 66.2(2) of the Act in computing the corporation's income for the year,

(*d*.2) an amount equal to the corporation's cumulative Canadian oil and gas property expense, within the meaning assigned by subsection 66.4(5) of the Act, at the end of the year minus any deduction under subsection 66.4(2) of the Act in computing the corporation's income for the year,

Applicable: Comes into force on the day on which these Regulations are registered.

Explanatory Note: [Please see the Regulatory Impact Analysis Statement following the amendment to Regulation 808(1).]

(*e*) an amount equal to the aggregate of the cost amount to the corporation at the end of the year of each debt owing to it, or any other right of the corporation to receive an amount, that was outstanding as a result of the disposition by it of property in respect of which an amount would be included, by virtue of paragraph (*a*), (*b*), (*c*) or (*h*), in its qualified investment in property in Canada at the end of the year if the property had not been disposed of by it before the end of that year,

(*f*) an amount equal to the aggregate of the cost amount to the corporation at the end of the year of each property, other than a Canadian resource property, that was described in the corporation's inventory in respect of a business carried on by it in Canada,

(*g*) an amount equal to the aggregate of the cost amount to the corporation at the end of the year of each debt (other than a debt referred to in paragraph (*e*) or a debt the amount of which was deducted under paragraph 20(1)(*p*) of the Act in computing the corporation's income for the year) owing to it

(i) in respect of any transaction by virtue of which an amount has been included in computing its income for the year or for a previous year from a business carried on by it in Canada, or

(ii) where any part of its ordinary business carried on in Canada was the lending of money, in respect of a loan made by the corporation in the ordinary course of that part of its business,

(*h*) where the corporation was resident in Canada at any time in the year, an amount equal to the aggregate of the cost amount to the corporation at the end of the year of any property in Canada owned by it

(i) the cost amount of which is not included in its qualified investment in property in Canada at the end of the year by virtue of paragraph (*a*) or (*b*) or subparagraph (*g*)(i), but would be so included if those provisions were read without the phrase "from a business carried on by it in Canada",

(ii) that is a share of the capital stock of a corporation that was not described in the corporation's inventory in respect of a business carried on by it in Canada, or

(iii) that is a bond, debenture, bill, note, mortgage or similar obligation that was not described in the corporation's inventory in respect of a business carried on by it in Canada (other than an obligation referred to in subparagraph (3)(*a*)(iii), a debt referred to in paragraph (*e*) or (*g*) or a debt the amount of which was deducted under paragraph 20(1)(*p*) of the Act in computing the corporation's income for the year), and

Pending Amendment

Foreign Bank Branches — February 15, 2003 (Pre-published in the *Canada Gazette*, Part I, dated February 15, 2003)

Subsection 808(2) of the Regulations is amended by adding the word "and" at the end of paragraph (g) and by repealing paragraph (h).

(*h*) [Repealed.]

Applicable: To taxation years that begin after 1995.

Explanatory Note: [Please see the Regulatory Impact Analysis Statement following the amendment to Regulation 808(1).]

(*i*) an amount equal to the allowable liquid assets of the corporation at the end of the year,

exceeds the aggregate of

(*j*) an amount equal to the aggregate of each amount deducted by the corporation under paragraph 20(1)(*l*), (*l*.1) or (*n*) or subsection 64(1), (1.1) or (1.2) of the Act, in computing its income for the year from a business carried on by it in Canada,

(*k*) an amount equal to the aggregate of all amounts each of which is an amount deducted by the corporation in the year under subparagraph 40(1)(*a*)(iii) or 44(1)(*e*)(iii) of the Act in respect of a debt referred to in paragraph (*e*);

(*l*) an amount equal to the aggregate of each amount owing by the corporation at the end of the year on account of

(i) the purchase price of property that is referred to in paragraph (*a*), (*b*), (*f*) or (*h*) or that would be so referred to but for the fact that it has been disposed of before the end of the year,

Pending Amendment

Foreign Bank Branches — February 15, 2003 (Pre-published in the *Canada Gazette*, Part I, dated February 15, 2003)

Subparagraph 808(2)(*l*)(i) of the Regulations is replaced by the following:

(i) the purchase price of property that is referred to in paragraph (*a*), (*b*) or (*f*) or that would be so referred to but for the fact that it has been disposed of before the end of the year,

Applicable: To taxation years that begin after 1995.

Explanatory Note: [Please see the Regulatory Impact Analysis Statement following the amendment to Regulation 808(1).]

(ii) Canadian exploration and development expenses, Canadian exploration expense, Canadian development expense or Canadian oil and gas property expense, within the meanings assigned by paragraphs 66(15)(*b*) [subsection 66(15) "Canadian exploration and development expenses"], 66.1(6)(*a*) [subsection 66.1(6) "Canadian exploration expense"], 66.2(5)(*a*) [subsection 66.2(5) "Canadian development expense"] and 66.4(5)(*a*) [subsection 66.4(5) "Canadian oil and gas property expense"] of the Act, respectively,

Pending Amendment

Foreign Bank Branches — February 15, 2003 (Pre-published in the *Canada Gazette*, Part I, dated February 15, 2003)

Subparagraph 808(2)(*l*)(ii) of the Regulations is replaced by the following:

(ii) Canadian exploration and development expenses, Canadian exploration expense, Canadian development expense or Canadian oil and gas property expense,

Applicable: Comes into force on the day on which these Regulations are registered.

Explanatory Note: [Please see the Regulatory Impact Analysis Statement following the amendment to Regulation 808(1).]

(iii) an eligible capital expenditure made or incurred by the corporation before the end of the year in respect of a business carried on by it in Canada, or

(iv) any other outlay or expense made or incurred by the corporation to the extent that it was deducted in computing its income for the year or for a previous taxation year from a business carried on by it in Canada;

(*m*) an amount equal to the aggregate of all amounts each of which is an amount equal to that proportion of the amount owing (other than an amount owing on account of an outlay or expense referred to in paragraph (*l*)) by the corporation at the end of the year on account of an obligation outstanding at any time in the year in respect of which interest is stipulated to be payable by it that

(i) the interest paid or payable on the obligation by the corporation in respect of the year that is deductible, or would be deductible but for subsection 18(2), (3.1) or (4) or section 21 of the Act, in computing its income for the year from a business carried on by it in Canada,

is of

(ii) the interest paid or payable on the obligation by the corporation in respect of the year;

(*n*) the amount, if any, by which

(i) the amount (referred to in this paragraph as "Part I liability"), if any, by which the tax payable for the year by the corporation under Part I of the Act exceeds the amount, if any, paid by the corporation before the end of the year on account thereof,

exceeds

(ii) where the corporation was, throughout the year, not resident in Canada, that proportion of the Part I liability that the amount, if any, determined under paragraph 219(1)(*d*) of the Act in respect of the corporation for the year is of the corporation's amount taxable (within the meaning given to that expression in section 123 of the Act) for the year, or

(iii) in any other case, nil;

Pending Amendment

Foreign Bank Branches — February 15, 2003 (Pre-published in the *Canada Gazette*, Part I, dated February 15, 2003)

Subparagraphs 808(2)(*n*)(ii) and (iii) of the Regulations are replaced by the following:

(ii) that proportion of the Part I liability that the amount, if any, in respect of the corporation for the year that is the lesser of

(A) the amount, if any, by which the total of all amounts each of which is a taxable capital gain of the corporation for the year from a disposition of a taxable Canadian property that was not used or held by it in the year in the course of carrying on business in Canada exceeds the total of all amounts each of which is an allowable capital loss of the corporation for the year from a disposition of such a property, and

(B) the amount that would be determined under clause (A) for the year if it were read without reference to the expression "that was not used or held by it in the year in the course of carrying on business in Canada",

is of the corporation's taxable income earned in Canada for the year; and

(iii) [Repealed.]

Applicable: To taxation years that begin after 1995.

Explanatory Note: [Please see the Regulatory Impact Analysis Statement following the amendment to Regulation 808(1).]

(*o*) the amount, if any, by which

(i) the amount (referred to in this paragraph as "provincial tax liability"), if any, by which any income taxes payable for the year by the corporation to the government of a province (to the extent that such taxes were not deductible under Part I of the Act in computing the corporation's income for the year from a business carried on by it in Canada) exceeds the amount, if any, paid by the corporation before the end of the year on account thereof,

exceeds

(ii) where the corporation was, throughout the year, not resident in Canada, that proportion of the provincial tax liability that the amount, if any, determined under paragraph 219(1)(*d*) of the Act in respect of the corporation for the year is of the corporation's amount taxable (within the meaning given to that expression in section 123 of the Act) for the year, or

(iii) in any other case, nil; and

Pending Amendment

Foreign Bank Branches — February 15, 2003 (Pre-published in the *Canada Gazette*, Part I, dated February 15, 2003)

Subparagraphs 808(2)(*o*)(ii) and (iii) of the Regulations are replaced by the following:

(ii) that proportion of the provincial tax liability that the amount, if any, in respect of the corporation for the year that is the lesser of

(A) the amount, if any, by which the total of all amounts each of which is a taxable capital gain of the corporation for the year from a disposition of a taxable Canadian property that was not used or held by it in the year in the course of carrying on business in Canada exceeds the total of all amounts each of which is an allowable capital loss of the corporation for the year from a disposition of such a property, and

(B) the amount that would be determined under clause (A) for the year if it were read without reference to the expression "that was not used or held by it in the year in the course of carrying on business in Canada"

is of the corporation's taxable income earned in Canada for the year.

(iii) [Repealed.]

Applicable: To taxation years that begin after 1995.

Explanatory Note: [Please see the Regulatory Impact Analysis Statement following the amendment to Regulation 808(1).]

(*p*) where the corporation was resident in Canada at any time in the year, an amount equal to the aggregate of

(i) an amount equal to the aggregate of each amount deducted by the corporation in the year under paragraph 20(1)(*l*) or (*l*.1) or subsection 64(1), (1.1) or (1.2) of the Act in computing its income for the year from a source other than

(A) a business carried on by it in Canada, or

(B) a property situated outside Canada,

(ii) an amount equal to the aggregate of each amount owing by the corporation at the end of the year on account of any outlay or expense made or incurred by the corporation to the extent that it was deducted in computing its income for the year or for a previous taxation year from a source other than

(A) a business carried on by it in Canada, or

(B) a property situated outside Canada, and

(iii) an amount equal to the aggregate of all amounts each of which is an amount equal to that proportion of the amount owing (other than an amount owing on account of an outlay or expense referred to in subparagraph (ii) or paragraph (*l*)) by the corporation at the end of the year on account of an obligation outstanding at any time in the year in respect of which interest is stipulated to be payable by it that

(A) the interest paid or payable on the obligation by the corporation in respect of the year that is deductible, or would be deductible but for subsection 18(2), (3.1) or (4) or section 21 of the Act, in computing its income for the year from a source other than

(I) a business carried on by it in Canada, or

(II) a property situated outside Canada,

is of

(B) the interest paid or payable on the obligation by the corporation in respect of the year.

Pending Amendment

Foreign Bank Branches — February 15, 2003 (Pre-published in the *Canada Gazette*, Part I, dated February 15, 2003)

Paragraph 808(2)(*p*) of the Regulations is repealed.

(*p*) [Repealed.]

Applicable: To taxation years that begin after 1995.

Explanatory Note: [Please see the Regulatory Impact Analysis Statement following the amendment to Regulation 808(1).]

History: S. 808(2)(h)(iii) was amended by P.C. 1994-1817, SOR/94-686, dated November 7, 1994, by deleting the reference to the word "hypothec".

S. 808(2)(j) was amended by P.C. 1990-2779, SOR/91-78, dated December 24, 1990, to substitute "(l.1) or (n)" for "or (n), section 33", applicable to taxation years commencing after June 17, 1987 that end after 1987.

S. 808(2)(p)(i) preceding clause (A) was amended by P.C. 1990-2779, SOR/91-78, dated December 24, 1990, to add a reference to s. 20(1)(l.1), applicable to taxation years commencing after June 17, 1987 that end after 1987.

S. 808(2)(c) was amended by P.C. 1990-754, SOR/90-258, dated April 26, 1990, to substitute "4/3 of" for "two times", applicable in respect of taxation years commencing after June 1988.

S. 808(2)(k) was amended by P.C. 1984-3789, SOR/84-948, dated November 29, 1984. S. 808(2)(k) formerly read:

"(*k*) an amount equal to the aggregate of each amount deducted by the corporation in the year under subparagraph 40(1)(a)(iii) of the Act in respect of a debt referred to in paragraph (e);"

Ss. 808(2)(m)(i) and 808(2)(p)(iii)(A) were amended by P.C. 1984-3789, SOR/84-948, dated November 29, 1984 and effective January 1, 1982, to add a reference to s. 18(3.1).

S. 808(2)(d.2) was added, ss. 808(2)(j) and (p)(i) were amended to add the reference to "subsection 64(1.2)", and s. 808(2)(l) was amended to add the references to "Canadian oil and gas property expense" and to "paragraph 66.4(5)(a)", in each case by P.C. 1981-2208, SOR/81-656, dated August 20, 1981 and applicable to taxation years ending after December 11, 1979.

(3) For the purposes of paragraph (2)(*i*), the "allowable liquid assets of the corporation at the end of the year" is an amount equal to the lesser of

(*a*) the aggregate of

(i) the amount of Canadian currency owned by the corporation at the end of that year,

(ii) the balance standing to the credit of the corporation at the end of that year as or on account of amounts deposited with a branch or other office in Canada of

(A) a bank,

(B) a corporation licenced or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering to the public its services as trustee, or

(C) a credit union, and

(iii) an amount equal to the aggregate of the cost amount to the corporation at the end of that year of each bond, debenture, bill, note, mortgage or similar obligation that was not described in the corporation's inventory in respect of a business carried on by it in Canada (other than a debt referred to in paragraph (2)(*e*) or (*g*) or a debt the amount of which was deducted under paragraph 20(1)(*p*) of the Act in computing the corporation's income for the year), that was issued by a person resident in Canada with whom the corporation was dealing at arm's length and that matures within one year after the date on which it was acquired by the corporation,

to the extent that such amounts are attributable to the profits of the corporation from carrying on a business in Canada, or are used or held by the corporation in the year in the course of carrying on a business in Canada; and

(*b*) an amount equal to 4/3 of the quotient obtained by dividing

(i) the aggregate of all amounts that would otherwise be determined under subparagraphs (*a*)(i), (ii) and (iii) if the references therein to "at the end of that year" were read as references to "at the end of each month in that year",

by

(ii) the number of months in that year.

History: S. 808(3)(*a*)(ii)(A) was amended by P.C. 1994-1817, SOR/94-686, dated November 7, 1994, by replacing the expression "bank to which the Bank Act or the Quebec Savings Bank Act applies" with the word "bank", applicable November 7, 1994.

S. 808(3)(*a*) following subparagraph (ii) was amended by P.C. 1993-1548, SOR/93-395, dated July 21, 1993, applicable to taxation years ending after August 11, 1993. That part formerly read:

"(iii) an amount equal to the aggregate of the cost amount to the corporation at the end of that year of each bond, debenture, bill, note, mortgage, hypothec or similar obligation that was not described in the corporation's inventory in respect of a business carried on by it in Canada (other than a debt referred to in paragraph (2)(*e*) or (*g*) or a debt the amount of which was deducted under paragraph 20(1)(*p*) of the Act in computing the corporation's income for the year), that was issued by a person resident in Canada with whom the corporation was dealing at arm's length and that matures within one year after the date on which it was acquired by the corporation; and"

(4) For the purposes of subsection (1), where, at the end of a taxation year, a corporation is a member of a partnership that was carrying on business in Canada at any time in that year, the corporation's qualified investment in property in Canada at the end of the year is an amount equal to the aggregate of

(*a*) the amount, if any, that would be determined under subsection (2) if the corporation were not, at the end of the year, a member of a partnership that was carrying on business in Canada at any time in the year; and

(*b*) an amount equal to the portion of the amount of the partnership's qualified investment in property in Canada at the end of the last fiscal period of the partnership ending in the taxation year of the corporation that may reasonably be attributed to the corporation, having regard to all the circumstances including the rights the corporation would have, if the partnership ceased to exist, to share in the distribution of the property owned by the partnership for the purpose of gaining or producing income from a business carried on by it in Canada.

(5) For the purposes of subsection (4), a partnership's "qualified investment in property in Canada" at the end of a fiscal period is the amount, if any, by which the aggregate of

(*a*) the cost amount to the partnership, at the end of the fiscal period, of land in Canada owned by it at that time for the purpose of gaining or producing income from a business carried on by it in Canada, other than land that is

(i) described in the inventory of the partnership,

(ii) depreciable property,

(iii) a Canadian resource property, or

(iv) land the cost of which is or was deductible in computing the income of the partnership or the income of a member of the partnership,

(*b*) an amount equal to the aggregate of the cost amount to the partnership, immediately after the end of the fiscal period, of each depreciable property in Canada owned by it for the purpose of gaining or producing income from a business carried on by it in Canada,

(*c*) an amount equal to 4/3 of the cumulative eligible capital of the partnership immediately after the end of the fiscal period in respect of each business carried on by it in Canada,

(*d*) an amount equal to the aggregate of the cost amount to the partnership at the end of the fiscal period of each debt owing to it, or any other right of the partnership to receive an amount, that was outstanding as a result of the disposition by it of property in respect of which an amount would be included, by virtue of paragraph (*a*), (*b*) or (*c*), in its qualified investment in property in Canada at the end of the fiscal period if the property had not been disposed of by it before the end of that fiscal period,

(*e*) an amount equal to the aggregate of the cost amount to the partnership at the end of the fiscal period of each property, other than a Canadian resource property, that was described in the partnership's inventory in respect of a business carried on by it in Canada,

(*f*) an amount equal to the aggregate of the cost amount to the partnership at the end of the fiscal period of each debt (other than a debt referred to in paragraph (*d*) or a debt the amount of which was deducted under paragraph 20(1)(*p*) of the Act in computing the partnership's income for the fiscal period) owing to it

(i) in respect of any transaction by virtue of which an amount has been included in computing its income for the fiscal period or for a previous fiscal period or in computing the income of a member of the partnership for a previous taxation year from a business carried on in Canada by the partnership, or

(ii) where any part of its ordinary business carried on in Canada was the lending of money, in respect of a loan made by the partnership in the ordinary course of that part of its business, and

(*g*) an amount equal to the allowable liquid assets of the partnership at the end of the fiscal period,

exceeds the aggregate of

(*h*) an amount equal to the aggregate of each amount deducted by the partnership under paragraph 20(1)(*l*), (*l*.1) or (*n*) or subsection 64(1), (1.1) or (1.2) of the Act in computing its income for the fiscal period from a business carried on by it in Canada,

(*i*) an amount equal to the aggregate of all amounts each of which is an amount deducted by the partnership in the fiscal period under subparagraph 40(1)(*a*)(iii) or 44(1)(*e*)(iii) of the Act in respect of a debt referred to in paragraph (*d*);

(*j*) an amount equal to the aggregate of each amount owing by the partnership at the end of the fiscal period on account of

(i) the purchase price of property that is referred to in paragraph (*a*), (*b*) or (*e*) or that would be so referred to but for the fact that it has been disposed of before the end of the fiscal period,

(ii) Canadian exploration and development expenses, Canadian exploration expense, Canadian development expense or Canadian oil and gas property expense, within the meanings assigned by paragraphs 66(15)(*b*) [subsection 66(15) "Canadian exploration and development expenses"], 66.1(6)(*a*) [subsection 66.1(6) "Canadian exploration expense"], 66.2(5)(*a*) [subsection 66.2(5) "Canadian development expense"] and 66.4(5)(*a*) [subsection 66.4(5) "Canadian oil and gas property expense"] of the Act, respectively,

Pending Amendment

Foreign Bank Branches — February 15, 2003 (Pre-published in the *Canada Gazette*, Part I, dated February 15, 2003)

Subparagraph 808(5)(*j*)(ii) of the Regulations is replaced by the following:

(ii) Canadian exploration and development expenses, Canadian exploration expense, Canadian development expense or Canadian oil and gas property expense,

Applicable: Comes into force on the day on which these Regulations are registered.

Explanatory Note: [Please see the Regulatory Impact Analysis Statement following the amendment to Regulation 808(1).]

(iii) an eligible capital expenditure made or incurred by the partnership before the end of the fiscal period in respect of a business carried on by it in Canada, or

(iv) any other outlay or expense made or incurred by the partnership to the extent that it was deducted in computing its income for the fiscal period or for a previous fiscal period, or in computing the income of a member of the partnership for a previous taxation year, from a business carried on in Canada by the partnership; and

(*k*) an amount equal to the aggregate of all amounts each of which is an amount equal to that proportion of the amount owing (other than an amount owing on account of an outlay or expense referred to in paragraph (j)) by the partnership at the end of the fiscal period on account of an obligation outstanding at any time in the period in respect of which interest is stipulated to be payable by it that

(i) the interest paid or payable on the obligation by the partnership in respect of the fiscal period that is deductible, or would be deductible but for subsection 18(2) or (3.1) or section 21 of the Act, in computing its income for the fiscal period from a business carried on by it in Canada,

is of

(ii) the interest paid or payable on the obligation by the partnership in respect of the fiscal period.

History: S. 808(5)(h) was amended by P.C. 1990-2779, SOR/91-78, dated December 24, 1990, applicable to taxation years commencing after June 17, 1987 that end after 1987. S. 808(5)(h) formerly read:

"(*h*) an amount equal to the aggregate of each amount deducted by the partnership under paragraph 20(1)(l) or (n), section 33 or subsection 64(1), (1.1) or (1.2) of the Act, in computing its income for the fiscal period from a business carried on by it in Canada;"

S. 808(5)(c) was amended by P.C. 1990-754, SOR/90-258, dated April 26, 1990, to substitute "4/3 of" for "two times", applicable in respect of fiscal periods commencing after 1987.

S. 808(5)(i) was amended by P.C. 1984-3789, SOR/84-948, dated November 29, 1984. That section formerly read:

"(i) an amount equal to the aggregate of each amount deducted by the partnership in the fiscal period under subparagraph 40(1)(a)(iii) of the Act in respect of a debt referred to in paragraph (d);"

S. 808(5)(k)(i) was amended by P.C. 1984-3789, SOR/84-948, dated November 29, 1984 and effective January 1, 1982.

S. 808(5)(h) was amended to add the reference to "subsection 64(1.2)", and s. 808(5)(j)(ii) was amended to add the reference to "Canadian oil and gas property expense" and to "paragraph 66.4(5)(a)", in both cases by P.C. 1981-2208, SOR/81-656, dated August 20, 1981 and applicable to taxation years ending after December 11, 1979.

(6) For the purposes of paragraph (5)(*g*), the "allowable liquid assets of the partnership at the end of the fiscal period" is an amount equal to the lesser of

(*a*) the aggregate of

(i) the amount of Canadian currency owned by the partnership at the end of that fiscal period,

(ii) the balance standing to the credit of the partnership at the end of that fiscal period as or on account of amounts deposited with a branch or other office in Canada of

(A) a bank,

(B) a corporation licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering to the public its services as trustee, or

(C) a credit union, and

(iii) an amount equal to the aggregate of the cost amount to the partnership at the end of that fiscal period of each bond, debenture, bill, note, mortgage, hypothec or similar obligation that was not described in the partnership's inventory in respect of a business carried on by it in Canada (other than a debt referred to in paragraph (5)(*d*) or (*f*) or a debt the amount of which was deducted under paragraph 20(1)(*p*) of the Act in computing the partnership's income for the fiscal period), that was issued by a person resident in Canada with whom all the members of the partnership were dealing at arm's length and that matures within one year after the date on which it was acquired by the partnership; and

Pending Amendment

Foreign Bank Branches — February 15, 2003 (Pre-published in the *Canada Gazette*, Part I, dated February 15, 2003)

Paragraph 808(6)(*a*) of the Regulations is amended by striking out the word "and" at the end of subparagraph (iii) and by adding the following after that subparagraph:

to the extent that those amounts are attributable to the profits of the partnership from carrying on a business in Canada, or are used or held by the partnership in the year in the course of carrying on a business in Canada; and

Applicable: Deemed to have come into force on August 8, 2000.

Explanatory Note: [Please see the Regulatory Impact Analysis Statement following the amendment to Regulation 808(1).]

(*b*) an amount equal to 4/3 of the quotient obtained by dividing

(i) the aggregate of all amounts that would otherwise be determined under subparagraphs (*a*)(i), (ii) and (iii) if the references therein to "at the end of that fiscal period" were read as references to "at the end of each month in that fiscal period",

by

(ii) the number of months in that fiscal period.

History: S. 808(6)(*a*)(ii)(A) was amended by P.C. 1994-1817, SOR/94-686, dated November 7, 1994, by replacing the expression "bank to which the Bank Act or the Quebec Savings Bank Act applies" with the word "bank", applicable November 7, 1994.

(7) Subsections (4) to (6) shall be read and construed as if each of the assumptions in paragraphs 96(1)(*a*) to (*g*) of the Act were made.

Pending Amendment

Foreign Bank Branches — February 15, 2003 (Pre-published in the *Canada Gazette*, Part I, dated February 15, 2003)

Section 808 of the Regulations is amended by adding the following after subsection (7):

(8) For the purpose of paragraph 219(1)(*j*) of the Act, the allowance of an authorized foreign bank for a taxation year in respect of its investment in property in Canada is prescribed to be the amount, if any, by which

(*a*) the average of all amounts, each of which is the amount for a calculation period (within the meaning assigned by subsection 20.2(1) of the Act) of the bank for the year that is the greater of

(i) the amount determined by the formula

$$0.05 \times A$$

where

A is the amount of the element A in the formulae in subsection 20.2(3) of the Act for the period, and

(ii) the amount by which

(A) the total of the cost amount to the bank, at the end of the period (or, in the case of depreciable property or eligible capital property, immediately after the end of the year), of each asset in respect of the bank's Canadian banking business that is an asset recorded in the books of account of the business in a manner consistent with the manner in which it is required to be treated for the purpose of the branch financial statements (within the meaning assigned by subsection 20.2(1) of the Act) for the year

exceeds

(B) the amount equal to the total of

(I) the amount determined by the formula

$$L + BA$$

where

L is the amount of the element L in the formulae in subsection 20.2(3) of the Act for the period, and

BA is the amount of the element BA in the formulae in subsection 20.2(3) of the Act for the period, and

(II) the amount claimed by the bank under clause 20.2(3)(*b*)(ii)(A) of the Act

exceeds

(*b*) the total of all amounts each of which is an amount that would be determined under paragraph (2)(*j*), (*k*), (*n*) or (*o*) if that provision applied to the bank for the year, except to the extent that the amount reflects a liability of the bank that has been included in the element L in the formulae in subsection 20.2(3) of the Act for the bank's last calculation period for the year.

Applicable: After June 27, 1999.

Explanatory Note: [Please see the Regulatory Impact Analysis Statement following the amendment to Regulation 808(1).]

Reduction of Certain Amounts to be Deducted or Withheld

809. (1) Subject to subsection (2), where a non-resident person (in this section referred to as the "payee") has

filed with the Minister the payee's required statement for the year, the amount otherwise required by subsections 215(1) to (3) of the Act to be deducted or withheld from any qualifying payment paid or credited by a person resident in Canada (in this section referred to as the "payer") to the payee in the year and after the required statement for the year was so filed is hereby reduced by the amount determined in accordance with the following rules:

(*a*) determine the amount by which

(i) the amount that would, if the payee does not make an election in respect of the year under section 217 of the Act, be the tax payable by the payee under Part XIII of the Act on the aggregate of the amounts estimated by him in his required statement for the year pursuant to paragraph (*a*) of the definition "required statement" in subsection (4),

exceeds

(ii) the amount that would, if the payee makes the election referred to in subparagraph (i), be the tax payable (on the assumption that no portion of the payee's income for the year was income earned in the year in a province) by the payee under Part I of the Act on his estimated taxable income calculated by him in his required statement for the year pursuant to paragraph (*b*) of the definition "required statement" in subsection (4),

(*b*) determine the percentage that the amount determined under paragraph (*a*) is of the aggregate of the amounts estimated by him in his required statement for the year pursuant to paragraph (*a*) of the definition "required statement" in subsection (4),

(*c*) where the determination of a percentage under paragraph (*b*) results in a fraction, disregard the fraction for the purposes of paragraph (*d*),

(*d*) multiply the percentage determined under paragraph (*b*) by the amount of the qualifying payment,

and the product obtained under paragraph (*d*) is the amount by which the amount required to be deducted or withheld is reduced.

(2) Subsection (1) does not apply to reduce the amount to be deducted or withheld from a qualifying payment if, after the qualifying payment has been paid or credited by the payer, the aggregate of all qualifying payments that the payer has paid or credited to the payee in the year would exceed the amount estimated, in respect of that payer, by the payee in his required statement for the year pursuant to paragraph (*a*) of the definition "required statement" in subsection (4).

(3) Where a payee has filed with the Minister a written notice indicating that certain information or estimates in the payee's required statement for the year are incorrect and setting out the correct information or estimates that should be substituted therefor or where the Minister is satisfied that certain information or estimates in a payee's required statement for the year are incorrect and that the Minister has the correct information or estimates that should be substituted therefor, for the purposes of making the calculations in subsection (1) with respect to any qualifying payment paid or credited to the payee after the time when he has filed that notice or after the time when the Minister is so satisfied, as the case may be, the incorrect information or estimates shall be disregarded and the required statement for the year shall be deemed to contain only the correct information or estimates.

(4) In this section,

"*qualifying payment*" in relation to a non-resident person means any amount

(*a*) paid or credited, or to be paid or credited, to him as, on account or in lieu of payment of, or in satisfaction of, any amount described in paragraph 212(1)(*f*) or (*h*) or in any of paragraphs 212(1)(*j*), (*k*), (*l*), (*m*) or (*q*) of the Act, and

(*b*) on which tax under Part XIII of the Act is, or would be, but for an election by him under section 217 of the Act, payable by him;

"*required statement*" of a payee for a taxation year means a written statement signed by him that contains, in respect of the payee,

(*a*) the name and address of each payer of a qualifying payment in the year and, in respect of each such payer, an estimate by the payee of the aggregate of such qualifying payments, and

(*b*) a calculation by him of his estimated taxable income earned in Canada for the year, on the assumption that he makes the election in respect of the year under section 217 of the Act, and such information as may be necessary for the purpose of estimating such income.

History: S. 809(4), paragraph (a) of the definition "qualifying payment", was amended to substitute "paragraphs 212(1)(j), (k), (l), (m) or (q)" for "paragraphs 212(1)(j) to (m)" by P.C. 1981-2208, SOR/81-656, dated August 20, 1981 and applicable with respect to payments made after 1979.

Information Circulars: IC 77-16R4 Non-resident income tax (para. 53).
Forms: NR5.

EXCLUDED PROPERTY OF NON-RESIDENT PERSONS

810. (1) For the purposes of paragraph 116(6)(*e*) of the Act, any property that is

(*a*) property of a non-resident insurer that is a qualified insurance corporation,

(*b*) an option in respect of property referred to in any of paragraphs 116(6)(*a*) to (*d*) of the Act and paragraph (*a*) whether or not such property is in existence, or

(*c*) an interest in property referred to in paragraph 116(6)(*a*), (*c*) or (*d*) of the Act or paragraph (*a*) or (*b*),

is prescribed to be excluded property.

Information Circulars: IC 72-17R5 Procedures concerning the disposition of taxable Canadian property by non-residents of Canada — Section 116.

(2) For the purposes of this section, a non-resident insurer is a "qualified insurance corporation" throughout the period during which it

(*a*) was licenced or otherwise authorized under the laws of Canada or a province to carry on an insurance business in Canada; and

(*b*) carried on an insurance business, within the meaning of subsection 138(1) of the Act, in Canada.

Pending Amendment

Foreign Bank Branches — February 15, 2003
(Pre-published in the *Canada Gazette*, Part I, dated February 15, 2003)

Section 810 of the Regulations and the heading before it are repealed.

810. [Repealed.]

Applicable: After June 27, 1999.

Explanatory Note:

Regulatory Impact Analysis Statement from February 15, 2003

Section 810 of the Regulations prescribes the meaning of excluded property of certain non-resident insurers for the purposes of paragraph 116(6)(*e*) of the Act. This section is repealed, as the substance of this section has been included in paragraph 116(6)(*e*) of the Act.

Explanatory Note from December 20, 2002

Section 810 of the *Income Tax Regulations* prescribes as excluded property for the purposes of paragraph 116(6)(*e*) of the Act the properties (including options and interests in respect of property) of certain non-resident insurers. As a result of an earlier amendment to paragraph 116(6)(*e*), that paragraph (together with paragraphs 116(6)(*g*) and (*h*)) now contains the substance of section 810, and section 810 can be repealed. This repeal is proposed to take effect after June 27, 1999.

PART IX

Delegation of the Powers and Duties of the Minister [Repealed.]

900. [Repealed.]

History: Part IX [Section 900] was repealed by P.C. 2002-2169, SOR/2003-5, dated December 12, 2002, effective January 1, 2003. [**Editorial Note:** Regulation 900 was replaced by the Ministerial delegation of powers, duties and functions under subsection 220(2.01) of the *Income Tax Act*.] S. 900(1) formerly read:

"(1) An official holding a position of Assistant Deputy Minister of National Revenue for Taxation may exercise all the powers and perform all the duties of the Minister under the Act.

(2) An official holding a position of Director–Taxation in a District Office of the Department of National Revenue, Taxation, may exercise the powers and perform the duties of the Minister under

(*a*) sections 48, 221.2, 224, 224.1, 224.3 and 233 of the Act;

(*b*) subsections 10(2.1), (3) and (7), 13(6), 15.1(5), the definition 'small business bond' in subsection 15.2(3), subsections 15.2(5), 18(2.4), 28(3), 45(3), 58(5), 65(3), 66(12.72), (12.73), (12.74) and (14.4), 70(6), (6.1), (9), (9.2) and (9.4), 74(5), 83(3.1), 85(7.1), 91(2), 93(5.1), 96(5.1), 104(2), 116(2), (4) and (5.2), 118.3(3) and (4), 125(4), 126(5.1), 127(10), (10.4) and (10.5) and 127.53(3), 131(1.2), 146.01(3), 149.1(15), 150(2), 153(1.1), 159(2), (4), (5) and (6.1), 162(5) and (6), 164(1.2), (1.3), (2) and (3.2), 181.5(3), 190.15(3), 191.1(5), 204.1(4), 204.81(1), (2), (6) and (7), 220(2.1) and (3) to (5), 223(2), (9) and (11), 224(1.2), 225.2(2), (5) and (7), 226(1), 227(10.5), 230(1), (1.1), (3), (7) and (8), 230.1(3) (with respect to the application of subsections 230(3), (7) and (8) of the Act), 231.1(3), 231.2(1) and (3), 231.3(1) and (6), 231.6(2) and (8), 241(3.1), 244(21) and (22), 247(2) and 248(9) of the Act;

(*c*) the definition 'fiscal period' in subsection 248(1) of the Act;

(*d*) paragraphs 15.2(8)(*b*), 34(*b*), 70(5.2)(*d*) and (*f*) and (9.5)(*f*), 73(5)(*c*), 85(1)(*e.1*) and (5.1)(*f*), 89(1)(*g*) [subsection 89(1) 'public corporation'] and (3)(*b*), 104(23)(*a*), 118(4)(*e*), 118.1(6)(*b*), 118.4(1)(*b*), 133(7.2)(*b*), 149(1)(*l*), 150(1)(*e*) and 184(3.1)(*e*) and (3.2)(*c*) of the Act;

(*d.1*) the definition 'small business development bond' in subsection 15.1(3), subparagraph 15.1(10)(*b*)(i) as it read on June 9, 1993 and subparagraphs 39(1)(*a*)(i.1), 110.6(15)(*b*)(ii) and 184(3.1)(*c*)(iii) and (*d*)(ii) and (3.2)(*a*)(ii) of the Act;

(*e*) subsection 39(3a) of the Act as it read in its application to the 1971 and previous taxation years;

(*f*) paragraphs 23(5)(*c*) and 26(18)(*c*) of the *Income Tax Application Rules, 1971*;

(*g*) sections 106, 210, 412 and 2200 of these Regulations;

(*h*) subsections 805(2), 809(3), 1403(2), (5) and (6) and 1802(2) of these Regulations;

(*i*) paragraphs 1802(3)(*b*) and 2400(1)(*f*) of these Regulations;

(*i.1*) paragraph 2400(1)(*e*) of these Regulations as it applies to taxation years other than taxation years beginning after June 17, 1987 and ending after December 31, 1987; and

(*j*) subparagraphs 102(1)(*f*)(v), (2)(*f*)(v) and (3)(*f*)(v) and 1401(1)(*d*)(viii) of these Regulations.

(3) The Director, Appeals and Referrals Division, or the Director, Policy and Programs Division, of the Department of National Revenue, Taxation, may exercise the powers and perform the duties of the Minister under

(*a*) sections 174 and 179.1 of the Act; and

(*b*) subsections 164(4.1), 165(3), (3.1), (3.2) and (6), 166.1(5), 220(3.1) and (3.2) and 239(4) of the Act.

(4) An official holding a position of Chief of Appeals in a District Office or in a Taxation Centre of the Department of National Revenue, Taxation, may exercise the powers and perform the duties of the Minister under

(*a*) subsections 165(3), (3.1) and (3.2) of the Act; and

(*b*) subsections 165(6), 166.1(5), 220(3.1) and (3.2) and 239(4) of the Act.

(5) The Director, Audit Technical Support Division, of the Department of National Revenue, Taxation, may exercise the powers and perform the duties of the Minister under

(*a*) subsections 150(2), 152(1.11), 220(3.1) and (3.2), 230(1) and (3), 231.1(3), 231.2(1) and (3), 231.3(1) and (6), 237.1(3) and 241(3.1) of the Act;

(*b*) subsections 1403(2), (5) and (6) of these Regulations;

(*c*) paragraph 2400(1)(*e*) of these Regulations as it applies to taxation years other than taxation years commencing after June 17, 1987 and ending after 1987; and

(*d*) subparagraph 1401(1)(*d*)(viii) of these Regulations.

(6) The Director General, Revenue Collection Programs Directorate, of the Department of National Revenue, Taxation, may exercise the powers and perform the duties of the Minister under

(*a*) sections 221.2, 223 and 224.2 of the Act;

(*b*) subsections 164(2), 220(2.1), (3.1), (3.2), (4), (4.1), and (4.2), 225(1), 226(1) and (2), 227(10.5), 227.1(6), 231.2(1), 241(3.1) and 244(22) of the Act;

(*c*) section 2200 of these Regulations; and

(*d*) subsection 809(3) of these Regulations.

(7) The Director General, Audit Directorate, of the Department of National Revenue may exercise the powers and perform the duties of the Minister under

(*a*) section 115.1 of the Act;

(*b*) subsections 150(2), 152(1.11), 220(3.1) and (3.2), 230(1) and (3), 231.1(3), 231.2(1) and (3), 231.3(1) and (6), 237.1(3) and 241(3.1) of the Act;

(*c*) subsections 1403(2), (5) and (6) of these Regulations;

(*d*) paragraph 2400(1)(*e*) of these Regulations as it applies to taxation years other than taxation years beginning after June 17, 1987 and ending after December 31, 1987; and

(*e*) paragraph 1401(1)(*d*) of these Regulations.

(8) The Director, Charities Division of the Department of National Revenue, Taxation, may exercise the powers and perform the duties of the Minister under

(*a*) subsections 149.1(1.2), (2), (3), (4), (4.1), (5), (6.3), (6.4), (7), (8), (13) and (15), 168(1) and (2) and 230(2) and (3), paragraph 230.1(1)(*b*) and subsection 231.2(1) of the Act;

(*b*) the definition of 'fiscal period' (with respect to registered charities only) in subsection 248(1) of the Act;

(*c*) paragraphs 110(8)(*b*) and (*c*) and 149(1)(*l*) of the Act; and

(*d*) Part XXXVII of these Regulations.

(9) The Director, Registered Plans Division, of the Department of National Revenue, Taxation, may exercise the powers and perform the duties of the Minister under

(*a*) sections 145, 146, 146.1, 146.3, 147, 147.1, 147.2, 147.3, 204.4, and 204.5 of the Act;

(*b*) the definition 'registered pension plan' in subsection 248(1) of the Act;

(*c*) paragraph 20(1)(*s*) of the Act; and

(*d*) Parts LXXXIII, LXXXIV, and LXXXV of these Regulations.

(10) An official holding the position of Director in a Taxation Centre of the Department of National Revenue, Taxation, may exercise the powers and perform the duties of the Minister under

(*a*) sections 221.2, 224 and 233 of the Act;

(*b*) subsections 18(2.4), 58(5), 66(12.68), (12.74) and (14.4), 118.3(3), 125(4), 126(5.1), 127(10.4) and (10.5), 127.53(3), 146.01(3), 150(2), 159(2) and (6.1), 162(5) and (6), 164(2) and (3.2), 181.5(3), 190.15(3), 191.1(5), 192(8), 194(7), 204.1(4), 204.81(1) and (2), 220(2.1), (3), (3.1), (3.2) and (5), 230(1.1), 231.2(1), 237.1(3), 241(3.1) and 244(21) and (22) of the Act;

(*c*) paragraphs 118.4(1)(*b*), 147.1(10)(*a*) and 150(1)(*e*) of the Act;

(*d*) section 210 of these Regulations; and

(*e*) subparagraphs 102(1)(*f*)(v), (2)(*f*)(v) and (3)(*f*)(v) of these Regulations.

(11) The Director General, International Tax Programs Directorate of the Department of National Revenue, Taxation, may exercise the powers and perform the duties of the Minister under

(*a*) sections 115.1 and 233 of the Act;

(*b*) subsections 152(1.11), 153(1.1), 220(3.1), (3.2) and (5), 231.2(1) and (3), 231.6(2) and (8) and 241(3.1) of the Act; and

(*c*) section 210 of these Regulations.

(*d*) [Revoked.]

(12) The Director General, Assessment of Returns Directorate, of the Department of National Revenue, Taxation, may exercise the powers and perform the duties of the Minister under

(*a*) subsections 118.3(4), 150(2), 150.1(2), 164(2) and (3.2), 204.1(4), 220(2.1), (3.1) and (3.2), 231.2(1), 241(3.1) and 244(22) of the Act;

(*a.1*) paragraph 118.4(1)(*b*) of the Act; and

(*b*) section 412 of these Regulations.

(13) The Director, Accounts Receivable Division, of the Department of National Revenue, Taxation, may exercise the powers and perform the duties of the Minister under

(*a*) sections 221.2 and 224.2 of the Act;

(*b*) subsections 164(2), 220(2.1), (3.1), (3.2), (4), (4.1) and (4.2), 223(2), 225(1), 226(1) and (2), 227(10.5), 227.1(6) and 241(3.1) of the Act; and

(*c*) section 2200 of these Regulations.

(14) The Director, Source Deductions Division, of the Department of National Revenue, may exercise the powers and perform the duties of the Minister under subsections 153(1.1), 220(3) and (3.1) and 241(3.1) of the Act and subsection 809(3) of these Regulations.

(15) The Director, International Taxation Office, of the Department of National Revenue, may exercise the powers and perform the duties of the Minister under

(*a*) sections 48, 115.1, 221.2, 224, 224.1 and 233 of the Act;

(*b*) subsections 10(2.1), (3) and (7), 13(6) and 15.2(5), 18(2.4), 28(3), 45(3), 58(5), 65(3), 66(12.68), (12.72), (12.73), (12.74) and (14.4), 70(6), (9) and (9.2), 83(3.1), 85(7.1), 91(2), 96(5.1), 104(2), 116(2), (4) and (5.2), 118.3(3) and (4), 126(5.1), 127(10), 127.53(3), 146.01(3), 149.1(15), 150(2), 153(1.1), 159(2), (4), (5) and (6.1), 164(1.2), (1.3), (2) and (3.2), 181.5(3), 190.15(3), 204.1(4), 220(2.1) and (3) to (5), 223(2), (9) and (11), 226(1), 230(1), (3), (7) and (8), 230.1(3) (with respect to the application of subsections 230(3), (7) and (8) of the Act), 231.2(1), 231.6(2) and (8), 237.1(3), 241(3.1) and 244(21) and (22) of the Act;

(*c*) the definition

(i) 'small business bond' in subsection 15.2(3) of the Act,

(ii) 'fiscal period' in subsection 248(1) of the Act,

(iii) 'release or surrender' in subsection 248(9) of the Act;

(*d*) paragraphs 15.2(8)(*b*), 34(1)(b), 70(5.2)(*d*) and (*f*), 73(5)(*c*), 85(1)(*e.1*) and (5.1)(*f*), 104(23)(*a*), 118(4)(*e*), 118.1(6)(*b*), 118.4(1)(*b*), 147.1(10)(*a*), 149(1)(*l*), 150(1)(*e*) and 164(3.1)(*c*) of the Act;

(*e*) subparagraph 15.1(10)(*b*)(i) as it read on June 9, 1993 and subparagraphs 39(1)(*a*)(i.1), 110.6(15)(*b*)(ii) and 184(3.1)(*c*)(iii) of the Act;

(*f*) paragraphs 23(5)(*c*) and 26(18)(*c*) of the *Income Tax Application Rules, 1971*;

(*g*) sections 210 and 412 of these Regulations;

(*h*) subsections 805(2), 809(3) and 1802(2) of these Regulations;

(*i*) paragraphs 1802(3)(*b*) and 2400(1)(*f*) of these Regulations; and

(*j*) paragraph 2400(1)(*e*) of these Regulations as it applies to taxation years other than taxation years beginning after June 17, 1987 and ending after December 31 1987.

(16) The Director General, Client Assistance Directorate, of the Department of National Revenue, may exercise the powers and perform the duties of the Minister under

(*a*) section 221.2 of the Act;

(*b*) subsections 150(2), 204.1(4), 220(2.1), (3), (3.1) and (3.2), 231.2(1) and 241(3.1) of the Act; and

(*c*) paragraph 118.4(1)(*b*) of the Act.

(17) The powers and the duties of the Minister under subsections 204.1(4), 220(3), (3.1) and (3.2) of the Act may be exercised and performed by an official of the Department of National Revenue in a District Taxation Office who holds the position of

(*a*) Assistant Director, Revenue Collections;

(*b*) Assistant Director, Client Assistance; or

(*c*) Assistant Director, Audit.

(18) The powers and the duties of the Minister under subsections 204.1(4), 220(3), (3.1) and (3.2) of the Act may be exercised and performed by an official of the Department of National Revenue in a Taxation Centre who holds the position of

(*a*) Assistant Director, Finance and Administration;

(*b*) Assistant Director, Individual and Estates;

(*c*) Assistant Director, Enquiries and Adjustments;

(*d*) Assistant Director, Corporation Services; or

(*e*) Assistant Director, Employer Services."

PART X

Elections in Respect of Deceased Taxpayers

Property Dispositions

1000. **(1)** Any election under subsection 164(6) of the Act shall be made by the legal representative of a deceased taxpayer by filing with the Minister the following documents:

(*a*) a letter from the legal representative specifying

(i) the part of the one or more capital losses from the disposition of properties, if any, under paragraph 164(6)(*c*) of the Act, and

(ii) the part of the amount, if any, under paragraph 164(6)(*d*) of the Act

in respect of which the election is made;

(*b*) where an amount is specified under subparagraph (*a*)(i), a schedule of the capital losses and capital gains referred to in paragraph 164(6)(*a*) of the Act;

(*c*) where an amount is specified under subparagraph (*a*)(ii),

(i) a schedule of the amounts of undepreciated capital cost described in paragraph 164(6)(*b*) of the Act,

(ii) a statement of the amount that, but for subsection 164(6) of the Act, would be the non-capital loss of the estate for its first taxation year, and

(iii) a statement of the amount that, but for subsection 164(6) of the Act, would be the farm loss of the estate for its first taxation year.

History: S. 1000(1) was amended by P.C. 1988-390, SOR/88-165, dated March 3, 1988, to substitute "Subsection 164(6)" for "paragraph 164(6)(d)" in the part preceding paragraph (a), to amend ss. (a)(i) and (ii), and to revoke ss.1000(1)(d) and (e). These changes are applicable with respect to deaths occurring after December 31, 1984, except that the documents referred to in s. 1000(1) may be filed on or before the day that is 180 days after the publication of these Regulations in the *Canada Gazette*, March 16, 1988. Ss. 1000(1)(a)(i) and (ii) and ss. (d) and (e) formerly read:

"(i) the part of the excess, if any, under subparagraph (i) of that paragraph, and

(ii) the part of the amount, if any, under subparagraph (ii) of that paragraph,"

"(*d*) a computation of the amount that would have been the tax under Part I of the Act payable by the deceased taxpayer under conditions described in paragraph 164(6)(d) of the Act; and

(*e*) a computation of the amount that is deemed by subsection 164(6) of the Act to have been paid, by the legal representative pursuant to the election, on account of tax under Part I of the Act payable by the estate for its first taxation year."

S. 1000(1)(c)(iii) was added by P.C. 1985-2277, SOR/85-696, dated July 25, 1985, applicable to the 1983 and subsequent taxation years, except that, for the purposes of subsection 1000(2), the statement referred to in subparagraph 1000(1)(c)(iii) may be filed at any time on or before the day that is 90 days after the day these Regulations are published in the *Canada Gazette*, which was August 7, 1985.

(2) The documents referred to in subsection (1) shall be filed not later than the day that is the later of

(*a*) the last day provided by the Act for the filing of a return that the legal representative of a deceased taxpayer is required or has elected to file under the Act in respect of the income of that deceased taxpayer for the taxation year in which he died; and

(*b*) the day the return of the income for the first taxation year of the deceased taxpayer's estate is required to be filed under paragraph 150(1)(*c*) of the Act.

Realization of Options

1000.1. **(1)** An election under subsection 164(6.1) of the Act shall be made by the legal representative of a deceased taxpayer by filing with the Minister a letter from the legal representative setting out the following:

(*a*) the amount of the benefit referred to in subparagraph 164(6.1)(*a*)(i) of the Act;

(*b*) the value of the right, and the amount paid for the right, referred to in subparagraph 164(6.1)(*a*)(ii) of the Act;

(*c*) the deducted amount, referred to in subparagraph 164(6.1)(*a*)(iii) of the Act; and

(*d*) the amount of the loss referred to in paragraph 164(6.1)(*b*) of the Act.

History: S. 1000.1(1) was added by P.C. 2005-694, SOR/2005-123, dated May 3, 2005, applicable to deaths occurring after July 13, 1990, except that the letter referred to in subsection 1000.1(2) may be filed on or before the day that is 180 days after May 18, 2005, the day on which these Regulations were published in the *Canada Gazette*.

(2) The letter shall be filed not later than the day that is the later of

(*a*) the last day provided by the Act for the filing of a return that the legal representative of a deceased taxpayer is required or has elected to file under the Act in respect of the income of that deceased taxpayer for the taxation year in which he or she died, and

(*b*) the day the return of the income for the first taxation year of the deceased taxpayer's estate is required to be filed under paragraph 150(1)(*c*) of the Act.

History: S. 1000.1(2) was added by P.C. 2005-694, SOR/2005-123, dated May 3, 2005, applicable to deaths occurring after July 13, 1990, except that the letter referred to in subsection 1000.1(2) may be filed on or before the day (November 14, 2005) that is 180 days after May 18, 2005, the day on which these Regulations were published in the *Canada Gazette*.

ANNUAL INSTALMENTS

1001. Any election by a deceased taxpayer's legal representative under subsection 159(5) of the Act shall be made by filing with the Minister the prescribed form on or before the day on or before which payment of the first of the "equal consecutive annual instalments" referred to in that subsection is required to be made.

Forms: T2075.

PART XI
Capital Cost Allowances

Regulations

DIVISION I
DEDUCTIONS ALLOWED

1100. (1) For the purposes of paragraphs 8(1)(*j*) and (*p*) and 20(1)(*a*) of the Act, the following deductions are allowed in computing a taxpayer's income for each taxation year:

Interpretation Bulletins: *Secondary* — IT-285R2 Capital cost allowance — General comments; IT-472 Capital cost allowance — Class 8 property; IT-474R2 Amalgamations of Canadian corporations.

Rates

(*a*) subject to subsection (2), such amount as the taxpayer may claim in respect of property of each of the following classes in Schedule II not exceeding in respect of property

(i) of Class 1, 4 per cent,
(ii) of Class 2, 6 per cent,
(iii) of Class 3, 5 per cent,
(iv) of Class 4, 6 per cent,
(v) of Class 5, 10 per cent,
(vi) of Class 6, 10 per cent,
(vii) of Class 7, 15 per cent,
(viii) of Class 8, 20 per cent,
(ix) of Class 9, 25 per cent,
(x) of Class 10, 30 per cent,
(x.1) of Class 10.1, 30 per cent,
(xi) of Class 11, 35 per cent,
(xii) of Class 12, 100 per cent,
(xiii) of Class 16, 40 per cent,
(xiv) of Class 17, 8 per cent,
(xv) of Class 18, 60 per cent,
(xvi) of Class 22, 50 per cent,
(xvii) of Class 23, 100 per cent,
(xviii) of Class 25, 100 per cent,
(xix) of Class 26, 5 per cent,
(xx) of Class 28, 30 per cent,
(xxi) of Class 30, 40 per cent,
(xxii) of Class 31, 5 per cent,
(xxiii) of Class 32, 10 per cent,
(xxiv) of Class 33, 15 per cent,
(xxv) of Class 35, 7 per cent,
(xxvi) of Class 37, 15 per cent,
(xxvii) of Class 41, 25 per cent,
(xxviii) of Class 42, 12 per cent,
(xxix) of Class 43, 30 per cent,
(xxix.1) of Class 43.1, 30 per cent,
(xxix.2) of Class 43.2, 50 per cent,
(xxx) of Class 44, 25 per cent,
(xxxi) of Class 45, 45 per cent,
(xxxii) of Class 46, 30 per cent,
(xxxiii) of Class 47, 8 per cent,
(xxxiv) of Class 48, 15 per cent,
(xxxv) of Class 49, 8 per cent,
(xxxvi) of Class 50, 55 per cent,
(xxxvii) of Class 51, 6 per cent, and
(xxxviii) of Class 52, 100 per cent,

of the undepreciated capital cost to the taxpayer as of the end of the taxation year (before making any deduction under this subsection for the taxation year) of property of the class;

History: S. 1100(1)(*a*)(xxxviii) was added by P.C. 2009-660, SOR/2009-126, dated April 30, 2009, applicable in respect of property acquired after January 27, 2009.

S. 1100(1)(*a*), the portion before subparagraph (i) was replaced by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, deemed to have come into force on March 19, 2007. S. 1100(1)(*a*), the portion before subparagraph (i) formerly read:

"(*a*) subject to subsection (2), such amount as he may claim in respect of property of each of the following classes in Schedule II not exceeding in respect of property"

S. 1100(1)(*a*)(xxxvi) and (xxxvii) were added by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, deemed to have come into force on March 19, 2007.

S. 1100(1)(*a*), the portion following subparagraph (xxxvii) was replaced by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, deemed to have come into force on March 19, 2007. S. 1100(1)(*a*), the portion following subparagraph (xxxvii), formerly read:

"of the undepreciated capital cost to him as of the end of the taxation year (before making any deduction under this subsection for the taxation year) of property of the class;"

1100(1)(*a*)(xxix.2) was added by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, deemed to have come into force on February 23, 2005.

1100(1)(*a*)(xxxiii), (xxxiv), and (xxxv) were added by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, deemed to have come into force on February 23, 2005.

S. 1100(1)(*a*)(xxxi) and (xxxii) were added by P.C. 2005-2286, SOR/2005-414, dated December 6, 2005, deemed to have come into force on March 23, 2004.

S. 1100(1)(*a*)(xxix.1) was added by P.C. 1997-1033, SOR/97-377, dated July 28, 1997, applicable after February 21, 1994.

S. 1100(1)(*a*)(xxx) was added by P.C. 1994-231, SOR/94-170, dated February 10, 1994, applicable to property acquired after April 26, 1993.

S. 1100(1)(*a*)(xxix) was added by P.C. 1994-230, SOR/94-169, dated February 10, 1994, applicable with respect to property acquired after February 25, 1992.

S. 1100(1)(*a*)(xxviii) was added by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to property acquired by a taxpayer after December 23, 1991, other than property acquired pursuant to an agreement in writing entered into by the taxpayer before December 24, 1991, except that

(*a*) where the taxpayer so elects in a letter that is filed with the Minister of National Revenue on or before the day that is 180 days after these amendments are published in the *Canada Gazette* Part II (February 9, 1994) or in a letter that is attached to the taxpayer's return of income filed in accordance with section 150 of the Act for the taxpayer's first taxation year ending after December 23, 1991, subparagraph (xxviii) applies to property acquired by the taxpayer after the beginning of that year;

(*b*) with respect to property acquired before December 24, 1991 in respect of which an election referred to in paragraph (*a*) applies, Schedule II to the said Regulations shall be read without reference to Class 42.

S. 1100(1)(*a*), the part preceding paragraph (*a*), was amended by P.C. 1991-2272, SOR/91-673, dated November 21, 1991, applicable to the 1988 and subsequent taxation years. That part formerly read:

"(1) For the purposes of paragraph 20(1)(*a*) of the Act, there is hereby allowed to a taxpayer, in computing his income from a business or property, as the case may be, deductions for each taxation year equal to"

S. 1100(1)(*a*)(x.1) was added by P.C. 1991-2272, SOR/91-673, dated November 21, 1991, applicable to taxation years and fiscal periods commencing after June 17, 1987 that end after 1987.

S. 1100(1)(*a*)(xxvii) was added by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, applicable in respect of the 1988 and subsequent taxation years.

S. 1100(1)(*a*), that part preceding subparagraph (i) thereof, was amended by P.C. 1983-1083, SOR/83-340, dated April 15, 1983, applicable in respect of property (other than property described in Class 31 of Schedule II to the said Regulations or paragraph (*n*) of Class 12 of that Schedule) acquired or disposed of after November 12, 1981, property described in the said Class 31 acquired or disposed of after 1981 and property described in paragraph (*n*) of the said Class 12 acquired or disposed of after 1982. The amended part formerly read:

"(*a*) such amounts as he may claim in respect of property of each of the following Classes in Schedule II not exceeding in respect of property"

S. 1100(1)(*a*)(xxvi) was added by P.C. 1982-599, SOR/82-265, dated February 26, 1982.

S. 1100(1)(*a*)(xix) was amended by P.C. 1979-1488, SOR/79-427, May 22, 1979 by changing the rate to 5 per cent from 1 per cent.

S. 1100(1)(*a*) was amended by P.C. 1978-1315, SOR/78-377, dated April 24, 1978 (Special issue, *Canada Gazette*, December 31, 1978), to replace all that part following subparagraph (xxv). That part formerly read:

"of the amount remaining, if any, after deducting the amounts, determined under sections 1107 and 1110 in respect of the class, from the undepreciated capital cost to him as of the end of the taxation year (before making any deduction under this subsection for the taxation year) of property of the class;"

Interpretation Bulletins: *Secondary* — IT-481 (Consolid.) Timber resource property and timber limits; IT-521R Motor vehicle expenses claimed by self-employed individuals; IT-522R Vehicle, travel and sales expenses of employees.

Class 1

(*a*.1) where a separate class is prescribed by subsection 1101(5b.1) for a property of a taxpayer that is a building and at least 90 per cent of the floor space of the building is used at the end of the taxation year for the manufacturing or processing in Canada of goods for sale or lease, such amount as the taxpayer may claim not exceeding six per cent of the undepreciated capital cost to the taxpayer of the property of that class as of the end of the taxation year (before making any deduction under this subsection for the taxation year);

History: S. 1100(1)(*a.1*) was added by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, applicable to property acquired on or after March 19, 2007.

(*a*.2) where a separate class is prescribed by subsection 1101(5b.1) for a property of a taxpayer that is a building, at least 90 per cent of the floor space of the building is used at the end of the taxation year for a non-residential use in Canada and an additional allowance is not allowed for the year under paragraph (a.1) in respect of the property, such amount as the taxpayer may claim not exceeding two per cent of the undepreciated capital cost to the taxpayer of the property of that class as of the end of the taxation year (before making any deduction under this subsection for the taxation year);

History: S. 1100(1)(*a.2*) was added by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, applicable to property acquired on or after March 19, 2007.

Class 13 — [Leasehold interest]

(*b*) such amount as the taxpayer may claim in respect of the capital cost to the taxpayer of property of Class 13 in Schedule II, not exceeding

(i) where the capital cost of the property, other than property described in subparagraph (2)(*a*)(v), (vi) or (vii), was incurred in the taxation year and after November 12, 1981, 50 per cent of the amount for the year calculated in accordance with Schedule III, and

(ii) in any other case, the amount for the year calculated in accordance with Schedule III,

and, for the purposes of this paragraph and Schedule III, the capital cost to a taxpayer of a property shall be deemed to have been incurred at the time at which the property became available for use by the taxpayer;

History: S. 1100(1)(*b*) was amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable with respect to property acquired after 1989. S. 1100(1)(*b*) formerly read:

"(*b*) such amount as he may claim in respect of the capital cost to him of property of Class 13 in Schedule II, not exceeding

(i) where the capital cost of the property (other than property described in subparagraph (2)(*a*)(v) or (vi)) was incurred in the taxation year and after November 12, 1981, 50 per cent of the amount for the year calculated in accordance with Schedule III, or

(ii) in any other case, the amount for the year calculated in accordance with Schedule III;"

S. 1100(1)(*b*)(i) was amended by P.C. 1991-465, SOR/91-196, dated March 14, 1991, to add "(other than property described in subparagraph (2)(*a*)(v) or (vi))", applicable in respect of taxation years ending after April 26, 1989.

S. 1100(1)(*b*) was amended by P.C. 1983-1083, SOR/83-340, dated April 15, 1983, applicable in respect of property (other than property described in Class 31 of Schedule II to the said Regulations or paragraph (*n*) of Class 12, of that Schedule) acquired or disposed of after November 12, 1981, property described in the said Class 31 acquired or disposed of after 1981 and property described in paragraph (*n*) of the said Class 12 acquired or disposed of after 1982. S. 1100(1)(*b*) formerly read:

"(*b*) such amount, not exceeding the amount for the year calculated in accordance with Schedule III, as he may claim in respect of the capital cost to him of property of Class 13 in Schedule II;"

Interpretation Bulletins: *Secondary* — IT-324 Capital cost allowance — Emphyteutic lease [Archived by the CRA]; IT-464R Capital cost allowance — Leasehold interests.

Class 14 — [Patent, franchise, concession or licence]

(*c*) such amount as he may claim in respect of property of Class 14 in Schedule II not exceeding the lesser of

(i) the aggregate of the amounts for the year obtained by apportioning the capital cost to him of each property over the life of the property remaining at the time the cost was incurred, and

(ii) the undepreciated capital cost to him as of the end of the taxation year (before making any deduction under this subsection for the taxation year) of property of the class;

Interpretation Bulletins: *Secondary* — IT-143R3 Meaning of eligible capital expenditure; IT-477 (Consolid.) Capital cost allowance — Patents, franchises, concessions and licences.
Tax Topics: No. 1528, Tax Planning Opportunities for Intellectual Property Rights.
Tax Profile: November 1997 — Canadian Taxation of Technology: Part II.

In lieu of double depreciation

(*d*) such additional amount as he may claim not exceeding in the case of property described in each of the classes in Schedule II, the lesser of

(i) one-half the amount that would have been allowed to him in respect of property of that class under subparagraph 6(*n*)(ii) of the *Income War Tax Act* if that Act were applicable to the taxation year, and

(ii) the undepreciated capital cost to him as of the end of the taxation year (before making any deduction under this paragraph for the taxation year) of property of the class;

Timber limits and cutting rights

(*e*) such amount as he may claim not exceeding the amount calculated in accordance with Schedule VI in respect of the capital cost to him of a property, other than a timber resource property, that is a timber limit or a right to cut timber from a limit;

Interpretation Bulletins: *Secondary* — IT-481 (Consolid.) Timber resource property and timber limits.

Class 15 — [Woods assets]

(*f*) such amount as he may claim not exceeding the amount calculated in accordance with Schedule IV in respect of the capital cost to him of property of Class 15 in Schedule II;

Industrial mineral mines

(*g*) such amount as he may claim not exceeding the amount calculated in accordance with Schedule V in respect of the capital cost to him of a property that is an industrial mineral mine or a right to remove industrial minerals from an industrial mineral mine;

Interpretation Bulletins: *Secondary* — IT-423 Sale of sand, gravel or topsoil [Archived by the CRA]; IT-492 Capital cost allowance — Industrial mineral mines.

(*h*) [Revoked.]

History: S. 1100(1)(*h*) and the heading were revoked by P.C. 1978-1315, SOR/78-377, dated April 24, 1978 (Special Issue, *Canada Gazette*, December 31, 1978). S. 1100(1)(*h*) formerly read:

"Coal Production Assistance Act

(*h*) such amount as he may claim in respect of property of a class established by the *Coal Production Assistance Act* not exceeding 30% of the undepreciated capital cost to him as of the end of the taxation year (before making any deduction either under this subsection or under section 5 of the said Act for the taxation year) of property of the class;"

Additional allowances — Fishing vessels

(*i*) such additional amount as he may claim in the case of property of a separate class prescribed by subsection 1101(2) not exceeding the lesser of

(i) the amount by which the depreciation that could have been taken on the property, if the Orders in Council referred to in that subsection were applicable to the taxation year, exceeds the amount allowed under paragraph (*a*) in respect of the property, and

(ii) the undepreciated capital cost to him as of the end of the taxation year (before making any deduction under this paragraph for the taxation year) of property of the class.

(*j*) [Revoked.]

History: S. 1100(1)(*j*) and the heading were revoked by P.C. 1995-775, SOR/95-244, dated May 16, 1995, applicable to property acquired on or after the day on which these amendments are published in the *Canada Gazette*, May 31, 1995. S. 1100(1)(*j*) formerly read:

"Additional Allowances — Classes 1, 2, 3 and 6

(*j*) such additional amount as he may claim in the case of property included in Class 1, 2 (by reason of paragraph (*a*) or (*c*) thereof), 3 or 6 in Schedule II in respect of which a certificate has been obtained as provided by section 1106, not exceeding the least of

(i) 30 per cent of the amount certified,

(ii) the difference between 70 per cent of the amount certified, and the amounts allowed in respect of the property in previous taxation years under this paragraph, and

(iii) the undepreciated capital cost to him as of the end of the taxation year (before making any deduction under this paragraph for the taxation year) of property of the class;"

(*k*) [Revoked.]

History: S. 1100(1)(*k*) and the heading were revoked by P.C. 1995-775, SOR/95-244, dated May 16, 1995, applicable to property acquired on or after the day on which these amendments are published in the *Canada Gazette*, May 31, 1995. S. 1100(1)(*k*) formerly read:

"Additional Allowances — Class 8

(*k*) such additional amount as he may claim in the case of property included in Class 8 in Schedule II in respect of which a certificate has been obtained as provided by section 1106, not exceeding the least of

(i) 20 per cent of the amount certified,

(ii) the difference between 50 per cent of the amount certified, and the amounts allowed in respect of the property in previous taxation years under this paragraph, and

(iii) the undepreciated capital cost to him as of the end of the taxation year (before making any deduction under this paragraph for the taxation year) of property of the class;"

Interpretation Bulletins: *Secondary* — IT-472 Capital cost allowance — Class 8 property.

Additional allowances — Certified productions

(*l*) such additional amount as he may claim in respect of property for which a separate class is prescribed by subsection 1101(5k) not exceeding the lesser of

(i) the aggregate of his income for the year from that property and from property described in paragraph (*n*) of Class 12 in Schedule II, determined before making any deduction under this paragraph, and

(ii) the undepreciated capital cost to him of property of that separate class as of the end of the year before making any deduction under this paragraph for the year;

History: S. 1100(1)(*l*) was added by P.C. 1988-2795, SOR/89-27, dated December 27, 1988, applicable with respect to property acquired after 1987.
Former s. 1100(1)(*l*) and the heading were revoked by P.C. 1978-1315, SOR/78-377, dated April 24, 1978 (Special Issue, *Canada Gazette*, December 31, 1978). S. 1100(1)(*l*) formerly read:

"Additional Allowances Under Section 1108

(*l*) such additional amount as he may claim in the case of property included in a class in Schedule II, not exceeding the lesser of

(i) the amount in respect of property of that class determined in accordance with section 1108, and

(ii) the undepreciated capital cost to him as of the end of the taxation year (before making any deduction under this paragraph for the taxation year) of property of the class;"

Additional allowance — Canadian film or video production

(*m*) such additional amount as the taxpayer claims in respect of property for which a separate class is prescribed by subsection 1101(5k.1) not exceeding the lesser of

(i) the taxpayer's income for the year from the property, determined before making any deduction under this paragraph, and

(ii) the undepreciated capital cost to the taxpayer of the property of that separate class at the end of the year (before making any deduction under this paragraph for the year and computed without reference to subsection (2));

History: S. 1100(1)(*m*) was added by P.C. 2005-698, SOR/2005-126, dated May 3, 2005, applicable to the 1995 and subsequent taxation years. S. 1100(1)(*m*) and the heading were revoked by P.C. 1978-1315, SOR/78-377 dated April 24, 1978 (Special Issue, *Canada Gazette*, December 31, 1978). S. 1100(1)(*m*) formerly read:

"Additional Allowances Under Section 1109

(*m*) such additional amount as he may claim in the case of property of an eligible class not exceeding the lesser of

(i) the amount in respect of property of that class determined in accordance with section 1109, or

(ii) the undepreciated capital cost to him as of the end of the taxation year (before making any deductions under this paragraph and paragraph (*l*) for the taxation year) of property of the class."

Class 19 — [Accelerated allowances]

(*n*) where the taxpayer is a corporation that had a degree of Canadian ownership in the taxation year, or is an individual who was resident in Canada in the taxation year for not less than 183 days, such amount as he may claim in respect of property of Class 19 in Schedule II that was acquired in a particular taxation year not exceeding the lesser of

(i) 50 per cent of the capital cost thereof to him, and

(ii) the amount by which the capital cost thereof to him exceeds the aggregate of the amounts deducted in respect thereof in computing his income for previous taxation years,

but the aggregate of amounts deductible for a taxation year in respect of property acquired in each of the particular taxation years, under this paragraph, shall not exceed the undepreciated capital cost to him as of the end of the taxation year (before making any deduction under this subsection for the taxation year) of property of the class;

(*o*) where the taxpayer is not entitled to make a deduction under paragraph (*n*) in computing his income for a taxation year, such amount as he may claim in respect of property of Class 19 in Schedule II not exceeding 20 per cent of the undepreciated capital cost to him as of the end of the taxation year (before making any deduction under this subsection for the taxation year) of property of the class;

Class 20 — [Accelerated allowances]

(*p*) such amount as he may claim in respect of property of Class 20 in Schedule II that was acquired in a particular taxation year not exceeding the lesser of

(i) 20 per cent of the capital cost thereof to him, and

(ii) the amount by which the capital cost thereof to him exceeds the aggregate of the amounts deducted in respect thereof in computing his income for previous taxation years,

but the aggregate of amounts deductible for a taxation year in respect of property acquired in each of the particular taxation years, under this paragraph, shall not exceed the undepreciated capital cost to him as of the end of the taxation year (before making any deduction under this subsection for the taxation year) of property of the class;

Class 21 — [Accelerated allowances]

(*q*) such amount as he may claim in respect of property of Class 21 in Schedule II that was acquired in a particular taxation year not exceeding the lesser of

(i) 50 per cent of the capital cost thereof to him, and

(ii) the amount by which the capital cost thereof to him exceeds the aggregate of the amounts deducted in respect thereof in computing his income for previous taxation years,

but the aggregate of amounts deductible for a taxation year in respect of property acquired in each of the particular taxation years, under this paragraph, shall not exceed the undepreciated capital cost to him as of the end of the taxation year (before making any deduction under this subsection for the taxation year) of property of the class;

History: S. 1100(1)(*r*), (*s*) and (*sa*) were revoked by P.C. 1978-1315, SOR/78-377, dated April 24, 1978 (Special Issue, *Canada Gazette*, December 31, 1978).

[Additional allowances — Grain storage facilities and grain elevators]

(*sb*) such additional amount as he may claim in respect of property included in Class 3, 6 or 8 in Schedule II

(i) that is

(A) a grain elevator situated in that part of Canada that is defined in section 2 of the *Canada Grain Act* as the "Eastern Division" the principal use of which

(I) is the receiving of grain directly from producers for storage or forwarding or both,

(II) is the receiving and storing of grain for direct manufacture or processing into other products, or

(III) has been certified by the Minister of Agriculture to be the receiving of grain that has not been officially inspected or weighed,

(B) an addition to a grain elevator described in clause (A),

(C) fixed machinery installed in a grain elevator in respect of which, or in respect of an addition to which, an additional amount has been or may be claimed under this paragraph,

(D) fixed machinery, designed for the purpose of drying grain, installed in a grain elevator described in clause (A),

(E) machinery designed for the purpose of drying grain on a farm, or

(F) a building or other structure designed for the purpose of storing grain on a farm,

(ii) that was acquired by the taxpayer in the taxation year or in one of the three immediately preceding taxation years, at a time that was after April 1, 1972 but before August 1, 1974, and

(iii) that was not used for any purpose whatever before it was acquired by the taxpayer,

not exceeding the lesser of

(iv) where the property is included in Class 3, 22 per cent of the capital cost thereof, where the property is included in Class 6, 20 per cent of the capital cost thereof or where the property is included in Class 8,

(A) 14 per cent of the capital cost thereof in the case of property referred to in clause (i)(C), (D) or (F), and

(B) 14 per cent of the lesser of $15,000 and the capital cost thereof in the case of property described in clause (i)(E), and

(v) the undepreciated capital cost to him as of the end of the taxation year (before making any deduction under this paragraph for the taxation year) of property of the class;

Classes 24, 27, 29 and 34

(*t*) for the taxation year that includes November 12, 1981, such amount as he may claim in respect of property of each of Classes 24, 27, 29 and 34 in Schedule II not exceeding the aggregate of

(i) 50 per cent of the lesser of

(A) the capital cost to him of all designated property of the class acquired by him in the year, and

(B) the undepreciated capital cost to him of property of the class as of the end of the year (computed as if no amount were included in respect of property, other than designated property of the class, acquired after November 12, 1981 and before making any deduction under this paragraph for the year),

(ii) the amount, if any, by which the amount determined under clause (i)(B) in respect of the class exceeds the amount determined under clause (i)(A) in respect of the class, and

(iii) the lesser of

(A) 25 per cent of the capital cost to him of all property, other than designated property, of the class acquired by him in the year and

(B) the undepreciated capital cost to him of property of the class as of the end of the year (before making any deduction under this paragraph for the year);

History: S. 1100(1)(*t*), and the heading preceding this paragraph, were amended by P.C 1983-1083, SOR/83-340, dated April 15, 1983, applicable in respect of taxation years ending after November 12, 1981. S. 1100(1(*t*) and its heading formerly read:

"Classes 24 and 27 — [Allowance in respect of pollution control]

(*t*) such amount as he may claim in respect of property of Class 24 or Class 27 in Schedule II that was acquired in a particular taxation year not exceeding the lesser of

(i) 50 per cent of the capital cost thereof to him, and

(ii) the amount by which the capital cost thereof to him exceeds the aggregate of the amounts deducted in respect thereof in computing his income for previous taxation years,

but the aggregate of amounts deductible under this paragraph for a taxation year in respect of property of Class 24 or Class 27, as the case may be, shall not exceed the undepreciated capital cost to him as of the end of the taxation year (before making any deduction under this subsection for the taxation year) of property of the class:"

Interpretation Bulletins: *Secondary* — IT-147R3 Capital cost allowance — Accelerated write-off of manufacturing and processing machinery and equipment; IT-336R Capital cost allowance — Pollution control property [Archived by the CRA].

[Classes 24, 27, 29 and 34 — Taxation years commencing after November 12, 1981]

(*ta*) for taxation years commencing after November 12, 1981, such amount as he may claim in respect of property of each of Classes 24, 27, 29 and 34 in Schedule II not exceeding the aggregate of

(i) the aggregate of

(A) the lesser of

(I) 50 per cent of the capital cost to him of all designated property of the class acquired by him in the year, and

(II) the undepreciated capital cost to him of property of the class as of the end of the year (before making any deduction under this paragraph for the year and, where any of the property referred to in subclause (I) was acquired by virtue of a specified transaction, computed as if no amount were included in respect of property, other than designated property of the class acquired by him in the year), and

(B) 25 per cent of the lesser of

(I) the undepreciated capital cost to him of property of the class as of the end of the year (computed as if no amount were included in respect of designated property of the class acquired by him in the year and before making any deduction under this paragraph for the year), and

(II) the capital cost to him of all property, other than designated property, of the class acquired by him in the year, and

(ii) the lesser of

(A) the amount, if any, by which

(I) the undepreciated capital cost to him of property of the class as of the end of the year (before making any deduction under this paragraph for the year)

exceeds

(II) the capital cost to him of all property of the class acquired by him in the year, and

(B) an amount equal to the aggregate of

(I) 50 per cent of the capital cost to him of all property of the class acquired by him in the immediately preceding taxation year, other than designated property of the class acquired in a specified transaction, and

(II) the amount, if any, by which the amount determined under clause (A) for the year with respect to the class exceeds the aggregate of 75 per cent of the capital cost to him of all property, other than designated property, of the class acquired by him in the immediately preceding taxation year and 50 per cent of the capital cost to him of designated property of the class acquired by him in the immediately preceding taxation year, other than designated property of the class acquired in a specified transaction,

and for the purposes of this paragraph and paragraph (*t*), "designated property" of a class means

(iii) property of the class acquired by him before November 13, 1981,

(iv) property deemed to be designated property of the class by virtue of paragraph (2.1)(*g*) or (2.2)(*j*), and

(v) property described in subparagraph (2)(*a*)(v), (vi) or (vii),

and, for the purposes of this paragraph,

(vi) "specified transaction" means a transaction to which subsection 85(5), 87(1), 88(1), 97(4) or 98(3) or (5) of the Act applies, and

(vii) subject to paragraph (2.2)(*j*), a property shall be deemed to have been acquired by a taxpayer at the time at which the property became available for use by the taxpayer;

History: S. 1100(1)(*ta*), the portion following subparagraph (iv), was amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable with respect to property acquired after 1989. The portion formerly read:

"(v) property described in subparagraph (2)(*a*)(v) or (vi),

and for the purposes of this paragraph, 'specified transaction' means a transaction in respect of which subsection 85(5), 87(1), 88(1), 97(4) or 98(3) or (5) of the Act is applicable;"

S. 1100(1)(*ta*)(v) was added by P.C. 1991-465, SOR/91-196, dated March 14, 1991, applicable in respect of taxation years ending after April 26, 1989.

S. 1100(1)(*ta*) was added by P.C. 1983-1083, SOR/83-340, dated April 15, 1983, applicable in respect of taxation years ending after November 12, 1981.

S. 1100(1)(*u*) and the heading were revoked by Order in Council P.C. 1978-1315, SOR/78-377, dated April 24, 1978 (Special Issue, *Canada Gazette*, December 31, 1978). S. 1100(1)(*u*) formerly read:

"Additional allowances — Expo'67

(*u*) such additional amount as he may claim in respect of his taxation year that included October 27, 1967, in respect of property included in Class 8 in Schedule II that was acquired for use

(i) on the site of the exhibition conducted by the Canadian Corporation for the 1967 World Exhibition, and

(ii) in the operation of a concession to operate on that site a business of retailing merchandise or rendering services,

not exceeding the lesser of

(iii) the aggregate of

(A) 75% of the capital cost of such property acquired in that year, and

(B) 67% of the capital cost of such property acquired in the immediately preceding taxation year, and

(iv) the undepreciated capital cost to him as of the end of the taxation year (before making any deduction under this paragraph for the year) of property of the Class;"

Interpretation Bulletins: *Secondary* — IT-147R3 Capital cost allowance — Accelerated write-off of manufacturing and processing machinery and equipment; IT-336R Capital cost allowance — Pollution control property [Archived by the CRA].

Canadian vessels

(*v*) such amount as the taxpayer may claim in respect of property that is

(i) a vessel described in subsection 1101(2a),

(ii) included in a separate prescribed class because of subsection 13(14) of the Act, or

(iii) a property that has been constituted a prescribed class by subsection 24(2) of Chapter 91 of the Statutes of Canada, 1966-67,

not exceeding the lesser of

(iv) where the property, other than property described in subparagraph (2)(*a*)(v), (vi) or (vii), was acquired in the taxation year and after November 12, 1981, 16$^2/_3$ per cent of the capital cost thereof to the taxpayer and, in any other case, 33$^1/_3$ per cent of the capital cost thereof to the taxpayer, and

(v) the undepreciated capital cost to the taxpayer as of the end of the taxation year (before making any deduction under this paragraph for the taxation year) of property of the class,

and, for the purposes of subparagraph (iv), a property shall be deemed to have been acquired by a taxpayer at the time at which the property became available for use by the taxpayer for the purposes of the Act;

History: The heading preceding s. 1100(1)(*v*) was amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to property acquired after July 13, 1990. It formerly read:

"CERTIFIED VESSEL"

S. 1100(1)(*v*) was amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable with respect to property acquired after 1989 except that, in its application to property acquired before July 14, 1990, subparagraph 1100(1)(*v*)(i) of the said Regulations shall be read as follows:

(i) a vessel in respect of which the Minister of Industry, Trade and Commerce has certified as provided in subsection 1101(2a),

S. 1100(1)(*v*) formerly read:

"(*v*) such amount as he may claim in respect of a property that is

(i) a vessel in respect of which the Minister of Industry, Trade and Commerce has certified as provided in subsection 1101(2a),

(ii) a conversion cost, or

(iii) a property that has been constituted a prescribed class by subsection 24(2) of Chapter 91 of the Statutes of Canada, 1966-67,

not exceeding the lesser of

(iv) where the property (other than property described in subparagraph (2)(*a*)(v) or (vi)) was acquired in the taxation year and after November 12, 1981, 16$^2/_3$ per cent of the capital cost thereof to the taxpayer and, in any other case, 33$^1/_3$ per cent of the capital cost thereof to the taxpayer, and

(v) the undepreciated capital cost to him as of the end of the taxation year (before making any deduction under this paragraph for the taxation year) of property of the class;"

S. 1100(1)(*v*)(iv) was amended by P.C. 1991-465, SOR/91-196, dated March 14, 1991, applicable in respect of taxation years ending after April 26, 1989. S. 1100(1)(*v*)(iv) formerly read:

"(iv) where the property was acquired in the taxation year and after November 12, 1981, 16$^2/_3$ per cent of the capital cost thereof to him and, in any other case, 33$^1/_3$ per cent of the capital cost thereof to him, and"

S. 1100(1)(*v*), that part preceding subparagraph (v), was amended by P.C. 1983-1083, SOR/83-340, dated April 15, 1983, applicable in respect of property (other than property described in Class 31 of Schedule II or paragraph (*n*) of Class 12 of that Schedule) acquired or disposed of after November 12, 1981, property described in Class 31 acquired or disposed of after 1981 and property described in paragraph (*n*) of Class 12 acquired or disposed of after 1982. The amended part formerly read:

"(*v*) such amount as he may claim in respect of

(i) a vessel in respect of which the Minister of Industry, Trade and Commerce has certified as provided in subsection 1101(2a),

(ii) a conversion cost, or

(iii) a property that has been constituted a prescribed class by subsection 24(2) of Chapter 91 of the Statutes of Canada, 1966-67,

not exceeding the lesser of

(iv) 33$^1/_3$ per cent of the capital cost thereof to him, and"

Interpretation Bulletins: *Secondary* — IT-267R2 Capital cost allowance — Vessels.

Additional allowances — Offshore drilling vessels

(*va*) such additional amount as he may claim in respect of property for which a separate class is prescribed by subsection 1101(2b) not exceeding 15 per cent of the undepreciated capital cost to him of property of that class as of the end of the taxation year (before making any deduction under this subsection for the taxation year);

Interpretation Bulletins: *Secondary* — IT-267R2 Capital cost allowance — Vessels.

Additional allowances — Class 28

(*w*) subject to section 1100A, such additional amount as he may claim in respect of property described in Class 28 acquired for the purpose of gaining or producing income from a mine or in respect of property acquired for the purpose of gaining or producing income from a mine and for which a separate class is prescribed by subsection 1101(4a), not exceeding the lesser of

(i) the taxpayer's income for the year from the mine, before making any deduction under this paragraph, paragraph (*x*), (*y*) or (*ya*), section 65, 66, 66.1, 66.2 or 66.7 of the Act or section 29 of the *Income Tax Application Rules*, and

(ii) the undepreciated capital cost to him of property of that class as of the end of the taxation year (before making any deduction under this paragraph for the taxation year);

History: S. 1100(1)(*w*)(i) was replaced by P.C. 2007-114, SOR/2007-19, dated February 1, 2007, applicable to taxation years that begin after 2006. S. 1100(1)(*w*)(i) formerly read:

"(i) the taxpayer's income for the year from the mine, determined without reference to paragraph 12(1)(z5) of the Act and before making any deduction under this paragraph, paragraph (*x*), (*y*) or (*ya*), paragraph 20(1)(*v*.1) of the Act, section 65, 66, 66.1, 66.2 or 66.7 of the Act or section 29 of the *Income Tax Application Rules*, and"

S. 1100(1)(*w*)(i) was amended by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable to taxation years that begin after 1996. S. 1100(1)(*w*)(i) formerly read:

"(i) the taxpayer's income for the year from the mine determined before making any deduction under this paragraph, paragraph (*x*), (*y*) or (*ya*), paragraph 20(1)(*v*.1) of the Act, section 65, 66, 66.1, 66.2 or 66.7 of the Act or section 29 of the *Income Tax Application Rules, 1971*, and"

S. 1100(1)(*w*)(i) was amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, applicable in respect of the 1988 and subsequent taxation years. S. 1100(1)(*w*)(i) formerly read:

"(i) his income for the year from the mine determined before making any deduction under this paragraph, paragraph (*x*), paragraph 20(1)(*v*.1) of the Act, section 65, 66, 66.1 or 66.2 of the Act or section 29 of the *Income Tax Application Rules, 1971*, and"

S. 1100(1)(*w*), that part preceding subparagraph (i), was amended by P.C. 1985-465, SOR/85-174, dated February 14, 1985. That part formerly read:

"(*w*) subject to section 1100A, such additional amount as he may claim in respect of property acquired for the purpose of gaining or producing income from a mine and for which a separate class is prescribed by subsection 1101(4a), not exceeding the lesser of"

[Additional allowances — Class 28 — More than one mine]

(*x*) subject to section 1100A, such additional amount as he may claim in respect of property acquired for the purpose of gaining or producing income from more than one mine and for which a separate class is prescribed by subsection 1101(4b), not exceeding the lesser of

(i) the taxpayer's income for the year from the mines, before making any deduction under this paragraph, paragraph (*ya*), section 65, 66, 66.1, 66.2 or 66.7 of the Act or section 29 of the *Income Tax Application Rules*, and

(ii) the undepreciated capital cost to him of property of that class as of the end of the taxation year (before making any deduction under this paragraph for the taxation year);

History: S. 1100(1)(*x*)(i) was replaced by P.C. 2007-114, SOR/2007-19, dated February 1, 2007, applicable to taxation years that begin after 2006. S. 1100(1)(*x*)(i) formerly read:

"(i) the taxpayer's income for the year from the mines, determined without reference to paragraph 12(1)(z5) of the Act and before making any deduction under this paragraph, paragraph (*ya*), paragraph 20(1)(*v*.1) of the Act, section 65, 66, 66.1, 66.2 or 66.7 of the Act or section 29 of the *Income Tax Application Rules*, and"

S. 1100(1)(*x*)(i) was amended by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable to taxation years that begin after 1996. S. 1100(1)(*x*)(i) formerly read:

"(i) the taxpayer's income for the year from the mines determined before making any deduction under this paragraph, paragraph (*ya*), paragraph 20(1)(*v*.1) of the Act, section 65, 66, 66.1, 66.2 or 66.7 of the Act or section 29 of the *Income Tax Application Rules, 1971*, and"

S. 1100(1)(*x*)(i) was amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, applicable in respect of the 1988 and subsequent taxation years. S. 1100(1)(*x*)(i) formerly read:

"(i) his income for the year from the mines determined before making any deduction under this paragraph, paragraph 20(1)(*v*.1) of the Act, section 65, 66, 66.1 or 66.2 of the Act or section 29 of the *Income Tax Application Rules, 1971*, and"

Additional allowances — Class 41

(*y*) such additional amount as the taxpayer may claim in respect of property acquired for the purpose of gaining or producing income from a mine and for which a separate class is prescribed by subsection 1101(4c), not exceeding the lesser of

(i) the taxpayer's income for the year from the mine, before making any deduction under this paragraph, paragraph (*x*) or (*ya*), section 65, 66, 66.1, 66.2 or 66.7 of the Act or section 29 of the *Income Tax Application Rules*, and

(ii) the undepreciated capital cost to the taxpayer of property of that class as of the end of the taxation year (computed without reference to subsection (2) and before making any deduction under this paragraph for the taxation year);

Federal Budget Extract

Accelerated Capital Cost Allowance for Oil Sands

[The March 19, 2007 Federal Budget proposed a phasing out of the accelerated CCA for assets used in oil sands projects. The extract below from the 2007 Budget papers outlines these proposed changes.]

Currently, most machinery, equipment and structures used to produce income from a mine or an oil sands project, including buildings and community infrastructure related to worker accommodations, are eligible for a capital cost allowance (CCA) rate of 25 per cent under Class 41 of Schedule II to the Income Tax Regulations. This rate also applies to assets owned by a mineral resource owner that are used in the initial processing of ore from the mineral resource or in upgrading of bitumen (the oil sands product) from that mineral resource into synthetic crude oil.

In addition to the regular CCA deduction, an accelerated CCA has been provided since 1972 for assets acquired for use in new mines, including oil sands mines, as well as assets acquired for major mine expansions (i.e. those that increase the capacity of a mine by at least 25 per cent). In 1996, this accelerated CCA was extended to in-situ oil sands projects (which use oil wells rather than mining techniques to extract bitumen) by deeming them to be mines. This change ensured that both types of oil sands projects are accorded the same CCA treatment. The 1996 changes also extended the accelerated CCA to expenditures on eligible assets acquired in a taxation year for use in a mine or oil sands project, to the extent that the cost of those assets exceeds 5 per cent of the gross revenue for the year from the mine or project.

The accelerated CCA takes the form of an additional allowance that supplements the regular CCA claim. Once an asset is available for use, the taxpayer is entitled to deduct CCA at the regular rate. The additional allowance allows the taxpayer to deduct in computing income for a taxation year up to 100 per cent of the remaining cost of the eligible assets, not exceeding the taxpayer's income for the year from the project (calculated after deducting the regular CCA). This accelerated CCA provides a financial benefit by effectively deferring taxation until the cost of capital assets has been recovered out of project earnings.

* * *

Budget 2007 proposes to phase out the accelerated CCA for oil sands projects — both mining and in-situ. The regular 25-per-cent CCA rate will remain in place.

To the extent that the accelerated CCA for oil sands projects induces incremental oil sands development that could contribute to environmental impacts, such as greenhouse gas emissions, air and water contaminants, water usage, and disturbance of natural habitats and wildlife, these changes could help reduce such incremental impacts.

To provide stability, and in recognition of the long time lines involved in some oil sands projects, the following transitional relief will be provided:

- the accelerated CCA will continue to be available in full for:
  - assets acquired before March 19, 2007, and
  - assets acquired before 2012 that are part of a project phase on which major construction began before March 19, 2007; and
- for other assets, the additional accelerated allowance will be gradually phased down over the period from 2011 to 2015 (when it will be eliminated), according to the schedule set out below.

* * *

Phase-Out Schedule

For assets that do not qualify for the full retention of the accelerated CCA as outlined above, the availability of the additional allowance will be gradually phased out in respect of claims made over the period from 2011 to 2015. In each year, a taxpayer will be permitted to claim a percentage of the amount of the additional allowance otherwise calculated under the existing rules. The percentage allowed will decline each calendar year, as follows (prorated for off-calendar taxation years):

Year	Allowable Percentage of Additional Allowance
2010	100
2011	90
2012	80
2013	60
2014	30
2015	0

History: S. 1100(1)(*y*)(i) was replaced by P.C. 2007-114, SOR/2007-19, dated February 1, 2007, applicable to taxation years that begin after 2006. S. 1100(1)(*y*)(i) formerly read:

"(i) the taxpayer's income for the year from the mine, determined without reference to paragraph 12(1)(z5) of the Act and before making any deduction under this paragraph, paragraph (*x*) or (*ya*), paragraph 20(1)(*v.1*) of the Act, section 65, 66, 66.1, 66.2 or 66.7 of the Act or section 29 of the *Income Tax Application Rules*, and"

S. 1100(1)(*y*)(i) was amended by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable to taxation years that begin after 1996. S. 1100(1)(*y*)(i) formerly read:

"(i) the taxpayer's income for the year from the mine determined before making any deduction under this paragraph, paragraph (*x*) or (*ya*), paragraph 20(1)(*v.1*) of the Act, section 65, 66, 66.1, 66.2 or 66.7 of the Act or section 29 of the *Income Tax Application Rules, 1971*, and"

S. 1100(1)(*y*)(ii) was amended by P.C. 1992-2335, SOR/92-681, dated November 23, 1992, applicable in respect of the 1988 and subsequent taxation years. S. 1100(1)(*y*)(ii) formerly read:

"(ii) the undepreciated capital cost to the taxpayer of property of that class as of the end of a taxation year (computed without reference to subsection (2) and before making any deduction under this paragraph for the taxation year);"

S. 1100(1)(*y*) was added by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, applicable in respect of the 1988 and subsequent taxation years.

S. 1100(1)(*y*) and its heading were revoked by P.C. 1983-1083, SOR/83-340, dated April 15, 1983, applicable in respect of taxation years commencing after November 12, 1981. S. 1100(1)(*y*) and its heading formerly read:

"Classes 29 and 34

(*y*) such amount as he may claim in respect of property of Class 29 or 34 in schedule II not exceeding the aggregate of

(i) 50 per cent of the lesser of

(A) the aggregate of the capital cost of all property of Class 29 or 34, as the case may be, acquired in the taxation year, and

(B) the undepreciated capital cost to him of property of Class 29 or 34, as the case may be, as of the end of the taxation year (before making any deduction under this paragraph for the taxation year), and

(ii) the amount, if any, by which the amount determined under clause (i)(B) in respect of Class 29 or 34, as the case may be, exceeds the amount determined under clause (i)(A) in respect of that class:"

Interpretation Bulletins: *Secondary* — IT-147R3 Capital cost allowance — Accelerated write-off of manufacturing and processing machinery and equipment; IT-476R Capital Cost Allowance — Equipment Used in Petroleum and Natural Gas Activities.

Canadian Petroleum Tax Journal: Canada Customs and Revenue Agency 1999 Roundtable Questions and Answers, Question 21, Vol. 13 No. 1 2000.

[Additional allowances — Class 41 — More than one mine]

(*ya*) such additional amount as the taxpayer may claim in respect of property acquired for the purpose of gaining or producing income from more than one mine and for which a separate class is prescribed by subsection 1101(4d), not exceeding the lesser of

(i) the taxpayer's income for the year from the mines, before making any deduction under this paragraph, section 65, 66, 66.1, 66.2 or 66.7 of the Act or section 29 of the *Income Tax Application Rules*, and

(ii) the undepreciated capital cost to the taxpayer of property of that class as of the end of the taxation year (computed without reference to subsection (2) and before making any deduction under this paragraph for the taxation year);

History: S. 1100(1)(*ya*)(i) was replaced by P.C. 2007-114, SOR/2007-19, dated February 1, 2007, applicable to taxation years that begin after 2006. S. 1100(1)(*ya*)(i) formerly read:

"(i) the taxpayer's income for the year from the mines, determined without reference to paragraph 12(1)(z5) of the Act and before making any deduction under this paragraph, paragraph 20(1)(*v.1*) of the Act, section 65, 66, 66.1, 66.2 or 66.7 of the Act or section 29 of the *Income Tax Application Rules*, and"

S. 1100(1)(*ya*)(i) was amended by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable to taxation years that begin after 1996. S. 1100(1)(*ya*)(i) formerly read:

"(i) the taxpayer's income for the year from the mines determined before making any deduction under this paragraph, paragraph 20(1)(*v.1*) of the Act, section 65, 66, 66.1, 66.2 or 66.7 of the Act or section 29 of the *Income Tax Application Rules, 1971*, and"

S. 1100(1)(*ya*) was added by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, applicable in respect of the 1988 and subsequent taxation years.

Interpretation Bulletins: *Secondary* — IT-476R Capital cost allowance — Equipment used in petroleum and natural gas activities.

Canadian Petroleum Tax Journal: Canada Customs and Revenue Agency 1999 Roundtable Questions and Answers, Question 21, Vol. 13 No. 1 2000.

Additional allowances — Railway cars

(*z*) such additional amount as the taxpayer may claim in respect of property for which a separate class is prescribed by paragraph 1101(5d)(*c*) not exceeding eight per cent of the undepreciated capital cost to the taxpayer of property of that class as of the end of the taxation year (before making any deduction under this subsection for the taxation year);

History: S. 1100(1)(*z*) was amended by P.C. 1991-465, SOR/91-196, dated March 14, 1991, applicable after April 26, 1989. S. 1100(1)(*z*) formerly read:

"(*z*) such additional amount as he may claim in respect of property for which a separate class is prescribed by subsection 1101(5d) not exceeding eight per cent of the undepreciated capital cost to him of property of that class as of the end of the taxation year (before making any deduction under this subsection for the taxation year);"

(z.1a) such additional amount as the taxpayer may claim in respect of property for which a separate class is prescribed by paragraph 1101(5d)(*d*), (*e*) or (*f*), not exceeding six per cent of the undepreciated capital cost to the taxpayer of property of that class as of the end of the taxation year (before making any deduction under this subsection for the taxation year);

History: S. 1100(1)(z1a) was added by P.C. 1991-465, SOR/91-196, dated March 14, 1991, applicable

(*a*) in respect of property acquired by a taxpayer after April 26, 1989 for rent or lease to another person;

(*b*) to the 1990 and subsequent taxation years in respect of property acquired by a taxpayer before April 27, 1989 for rent or lease to another person, except that the reference to "six" in paragraph 1100(1)(z1a)

shall be read as "7²/₃" in respect of the 1990 taxation year, as "7¹/₃" in respect of the 1991 taxation year, as "7" in respect of the 1992 taxation year, as "6²/₃" in respect of the 1993 taxation year, and as "6¹/₃" in respect of the 1994 taxation year; and

(c) in respect of property acquired by a taxpayer after February 2, 1990, other than

(i) property acquired for rent or lease to another person,

(ii) property acquired pursuant to an agreement in writing entered into before February 3, 1990, or

(iii) property under construction by or on behalf of the taxpayer before February 3, 1990.

(z.1b) where throughout the taxation year the taxpayer was a common carrier that owned and operated a railway, such additional amount as the taxpayer may claim in respect of property for which a separate class is prescribed by subsection 1101(5d.1), not exceeding three per cent of the undepreciated capital cost to the taxpayer of property of that class as of the end of the year (before making any deduction under this subsection for the year);

History: S. 1100(1)(z1b) was added by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to property acquired after December 6, 1991.

(z.1c) where throughout the taxation year the taxpayer was a common carrier that owned and operated a railway, such additional amount as the taxpayer may claim in respect of property for which a separate class is prescribed by subsection 1101(5d.2), not exceeding six percent of the undepreciated capital cost to the taxpayer of property of that class as of the end of the year (before making any deduction under this subsection for the year);

History: S. 1100(1)(z1c) was added by P.C. 2005-2186, SOR/2005-371, dated November 22, 2005, applicable to property acquired after February 27, 2000.

Additional allowances — Railway track and related property

(za) such additional amount as he may claim in respect of property for which a separate class is prescribed by subsection 1101(5e) not exceeding 4% of the undepreciated capital cost to him of property of that class as of the end of the taxation year (before making any deduction under this subsection for the taxation year);

(za.1) where throughout the taxation year the taxpayer was a common carrier that owned and operated a railway, such additional amount as the taxpayer may claim in respect of property for which a separate class is prescribed by subsection 1101(5e.1), not exceeding six per cent of the undepreciated capital cost to the taxpayer of property of that class as of the end of the year (before making any deduction under this subsection for the year);

History: S. 1100(1)(za.1) was added by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to property acquired after December 6, 1991.

(za.2) where throughout the taxation year the taxpayer was a common carrier that owned and operated a railway, such additional amount as the taxpayer may claim in respect of property for which a separate class is prescribed by subsection 1101(5e.2), not exceeding five per cent of the undepreciated capital cost to the taxpayer of property of that class as of the end of the year (before making any deduction under this subsection for the year);

History: S. 1100(1)(za.2) was added by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to property acquired after December 6, 1991.

(zb) such additional amount as he may claim in respect of property for which a separate class is prescribed by subsection 1101(5f) not exceeding 3% of the undepreciated capital cost to him of property of that class as of the end of the taxation year (before making any deduction under this subsection for the taxation year);

Additional allowances — Railway expansion and modernization property

(zc) where the taxpayer owns and operates a railway as a common carrier, such additional amount as he may claim in respect of property of a class in Schedule II (in this paragraph referred to as "designated property" of the class)

(i) that is

(A) included in Class 1 in Schedule II by virtue of paragraph (*h*) or (*i*) of that Class,

(B) a bridge, culvert, subway or tunnel included in Class 1 in Schedule II that is ancillary to railway track and grading,

(C) a trestle included in Class 3 in Schedule II that is ancillary to railway track and grading,

(D) included in Class 6 in Schedule II by virtue of paragraph (*j*) of that Class,

(E) machinery or equipment included in Class 8 in Schedule II that is ancillary to

(I) railway track and grading, or

(II) railway traffic control or signalling equipment, including switching, block signalling, interlocking, crossing protection, detection, speed control or retarding equipment, but not including property that is principally electronic equipment or systems software therefor,

(F) machinery or equipment included in Class 8 in Schedule II that

(I) was acquired principally for the purpose of maintaining or servicing, or

(II) is ancillary to and used as part of,

a railway locomotive or railway car,

(G) included in Class 10 in Schedule II by virtue of subparagraph (*m*)(i), (ii) or (iii) of that Class,

(H) included in Class 28 in Schedule II by virtue of subparagraph (*d*)(ii) of that Class (other than property referred to in subparagraph (*m*)(iv) of Class 10), or

(I) included in Class 35 in Schedule II,

(ii) that was acquired by him principally for use in or is situated in Canada,

(iii) that was acquired by him in respect of the railway in the taxation year or in one of the four immediately preceding taxation years, at a time that was after April 10, 1978 but before 1988, and

(iv) that was not used for any purpose whatever before it was acquired by him,

not exceeding the lesser of

(v) 6 per cent of the aggregate of the capital cost to him of the designated property of the class, and

(vi) the undepreciated capital cost to him as of the end of the taxation year (after making all deductions claimed by him under other provisions of this subsection for the taxation year but before

making any deduction under this paragraph for the taxation year) of property of the class.

History: S. 1100(1)(*zc*)(iii) was amended by P.C. 1984-2044, SOR/84-454, dated June 14, 1984, to substitute "1988" for "1983".

S. 1100(1)(*zc*) and heading were added by P.C. 1979-1488, SOR/79-427, dated May 22, 1979 and effective April 11, 1978.

Ss. 1100(1)(*za*) and (*zb*) with heading were added by P.C. 1978-344, dated February 9, 1978 (Special Issue, *Canada Gazette*, December 31, 1978), effective after March 31, 1977.

Class 38

(*zd*) such amount as the taxpayer may claim in respect of property of Class 38 in Schedule II not exceeding that percentage which is the aggregate of

(i) that proportion of 40 per cent that the number of days in the taxation year that are in 1988 is of the number of days in the taxation year that are after 1987,

(ii) that proportion of 35 per cent that the number of days in the taxation year that are in 1989 is of the number of days in the taxation year, and

(iii) that proportion of 30 per cent that the number of days in the taxation year that are after 1989 is of the number of days in the taxation year

of the undepreciated capital cost to the taxpayer of property of that class as of the end of the taxation year (before making any deduction under this paragraph for the taxation year);

History: S. 1100(1)(*zd*) was added by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, applicable in respect of the 1988 and subsequent taxation years.

Class 39

(*ze*) such amount as the taxpayer may claim in respect of property of Class 39 in Schedule II not exceeding that percentage which is the aggregate of

(i) that proportion of 40 per cent that the number of days in the taxation year that are in 1988 is of the number of days in the taxation year that are after 1987,

(ii) that proportion of 35 per cent that the number of days in the taxation year that are in 1989 is of the number of days in the taxation year,

(iii) that proportion of 30 per cent that the number of days in the taxation year that are in 1990 is of the number of days in the taxation year, and

(iv) that proportion of 25 per cent that the number of days in the taxation year that are after 1990 is of the number of days in the taxation year

of the undepreciated capital cost to the taxpayer of property of that class as of the end of the taxation year (before making any deduction under this paragraph for the taxation year);

History: S. 1100(1)(*ze*) was added by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, applicable in respect of the 1988 and subsequent taxation years.

Class 40

(*zf*) such amount as the taxpayer may claim in respect of property of Class 40 in Schedule II not exceeding that percentage which is the aggregate of

(i) that proportion of 40 per cent that the number of days in the taxation year that are in 1988 is of the number of days in the taxation year that are after 1987,

(ii) that proportion of 35 per cent that the number of days in the taxation year that are in 1989 is of the number of days in the taxation year, and

(iii) that proportion of 30 per cent that the number of days in the taxation year that are in 1990 is of the number of days in the taxation year

of the undepreciated capital cost to the taxpayer of property of that class as of the end of the taxation year (before making any deduction under this paragraph for the taxation year).

History: S. 1100(1)(*zf*) was added by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, applicable in respect of the 1988 and subsequent taxation years.

Additional allowance — Year 2000 computer hardware and systems software

(*zg*) where the taxpayer

(i) has elected for the year in prescribed manner,

(ii) was not in the year a large corporation, as defined in subsection 225.1(8) of the Act, or a partnership any member of which was such a corporation in a taxation year that included any time that is in the partnership's year, and

(iii) acquired property included in paragraph (*f*) of Class 10 in Schedule II

(A) in the year,

(B) after 1997 and before November 1999, and

(C) for the purpose of replacing property that was acquired before 1998 that has a material risk of malfunctioning because of the change of the calendar year to 2000 and that is described in paragraph (*f*) of Class 10, or paragraph (*o*) of Class 12, in Schedule II,

such additional amount as the taxpayer claims in respect of all property described in subparagraph (iii) not exceeding the least of

(iv) the amount, if any, by which $50,000 exceeds the total of

(A) the total of all amounts each of which is an amount claimed by the taxpayer under this paragraph for a preceding taxation year,

(B) the total of all amounts each of which is an amount claimed by the taxpayer for the year or a preceding taxation year under paragraph (*zh*), and

(C) the total of all amounts each of which is an amount claimed under this paragraph or paragraph (*zh*) by a corporation for a taxation year in which it was associated with the taxpayer,

(v) 85% of the capital cost to the taxpayer of all property described in subparagraph (iii), and

(vi) the undepreciated capital cost to the taxpayer as of the end of the year (computed without reference to subsection (2) and after making all deductions claimed under other provisions of this subsection for the year but before making any deduction under this paragraph for the year) of property included in Class 10 in Schedule II; and

History: S. 1100(1)(*zg*) was added by P.C. 2000-1000, SOR/2000-248, dated June 21, 2000, applicable to the 1998 and subsequent taxation years.

Additional allowance — Year 2000 computer software

(*zh*) where the taxpayer

(i) has elected for the year in prescribed manner,

(ii) was not in the year a large corporation, as defined in subsection 225.1(8) of the Act, or a partnership any member of which was such a corporation in a taxation year that included any time that is in the partnership's year, and

(iii) acquired property included in paragraph (*o*) of Class 12 in Schedule II

(A) in the year,

(B) after 1997 and before November 1999, and

(C) for the purpose of replacing property that was acquired before 1998 that has a material risk of malfunctioning because of the change of the calendar year to 2000 and that is described in paragraph (*f*) of Class 10, or paragraph (*o*) of Class 12, in Schedule II,

such additional amount as the taxpayer claims in respect of all property described in subparagraph (iii) not exceeding the least of

(iv) the amount, if any, by which $50,000 exceeds the total of

(A) the total of all amounts each of which is an amount claimed by the taxpayer under this paragraph for a preceding taxation year,

(B) the total of all amounts each of which is an amount claimed by the taxpayer for the year or a preceding taxation year under paragraph (*zg*), and

(C) the total of all amounts each of which is an amount claimed under this paragraph or paragraph (*zg*) by a corporation for a taxation year in which it was associated with the taxpayer,

(v) 50% of the capital cost to the taxpayer of all property described in subparagraph (iii), and

(vi) the undepreciated capital cost to the taxpayer as of the end of the year (computed without reference to subsection (2) and after making all deductions claimed under other provisions of this subsection for the year but before making any deduction under this paragraph for the year) of property included in Class 12 in Schedule II.

History: S. 1100(1)(*zh*) was added by P.C. 2000-1000, SOR/2000-248, dated June 21, 2000, applicable to the 1998 and subsequent taxation years.

(1.1) Notwithstanding subsections (1) and (3), the amount deductible by a taxpayer for a taxation year in respect of a property that is a specified leasing property at the end of the year is the lesser of

(*a*) the amount, if any, by which the aggregate of

(i) all amounts that would be considered to be repayments in the year or a preceding year on account of the principal amount of a loan made by the taxpayer if

(A) the taxpayer had made the loan at the time that the property last became a specified leasing property and in a principal amount equal to the fair market value of the property at that time,

(B) interest had been charged on the principal amount of the loan outstanding from time to time at the rate, determined in accordance with section 4302, in effect at the earlier of

(I) the time, if any, before the time referred to in subclause (II), at which the taxpayer last entered into an agreement to lease the property, and

(II) the time that the property last became a specified leasing property

(or, where a particular lease provides that the amount paid or payable by the lessee of the property for the use of, or the right to use, the property varies according to prevailing interest rates in effect from time to time, and the taxpayer so elects, in respect of all of the property that is the subject of the particular lease, in the taxpayer's return of income under Part I of the Act for the taxation year of the taxpayer in which the particular lease was entered into, the rate determined in accordance with section 4302 that is in effect at the beginning of the period for which the interest is being calculated), compounded semi-annually not in advance, and

(C) the amounts that were received or receivable by the taxpayer before the end of the year for the use of, or the right to use, the property before the end of the year and after the time it last became a specified leasing property were blended payments of principal and interest, calculated in accordance with clause (B), on the loan applied firstly on account of interest on principal, secondly on account of interest on unpaid interest, and thirdly on account of principal, and

(ii) the amount that would have been deductible under this section for the taxation year (in this subparagraph referred to as the "particular year") that includes the time (in this subparagraph referred to as the "particular time") at which the property last became a specified leasing property of the taxpayer, if

(A) the property had been transferred to a separate prescribed class at the later of

(I) the beginning of the particular year, and

(II) the time at which the property was acquired by the taxpayer,

(B) the particular year had ended immediately before the particular time, and

(C) where the property was not a specified leasing property immediately before the particular time, subsection (3) had applied,

exceeds

(iii) the aggregate of all amounts deducted by the taxpayer in respect of the property by reason of this subsection before the commencement of the year and after the time at which it last became a specified leasing property, and

(*b*) the amount, if any, by which,

(i) the aggregate of all amounts that would have been deducted by the taxpayer under this Part in respect of the property under paragraph 20(1)(*a*)

of the Act in computing the income of the taxpayer for the year and all preceding taxation years had this subsection and subsections (11) and (15) not applied, and had the taxpayer, in each such year, deducted under paragraph 20(1)(*a*) of the Act the maximum amount allowed under this Part, read without reference to this subsection and subsections (11) and (15), in respect of the property,

exceeds

(ii) the total depreciation allowed to the taxpayer before the commencement of the year in respect of the property.

History: S. 1100(1.1) was added by P.C. 1991-465, SOR/91-196, dated March 14, 1991, applicable in respect of leases entered into after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989, other than leases entered into pursuant to an agreement in writing entered into before that time under which the lessee thereunder has the right to require the lease of the property (and for these purposes a lease in respect of which a material change has been agreed to by the parties thereto effective at any particular time that is after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989 shall be deemed to have been entered into at that particular time), except that:

(*a*) in its application to leases entered into before February 3, 1990 or after February 2, 1990 pursuant to an agreement in writing entered into before February 3, 1990 under which the lessee thereunder has the right to require the lease of the property, clause 1100(1.1)(*a*)(i)(B), shall be read without reference to subclause (I) and to the words "the earlier of"; and

(*b*) any election made under clause 1100(1.1)(*a*)(i)(B) that is made on or before the day that is 180 days after publication in the *Canada Gazette*, March 27,1991, shall be deemed to be a valid election under that clause.

(1.11) In this section and subsection 1101(5n), "specified leasing property" of a taxpayer at any time means depreciable property (other than exempt property) that is

(*a*) used at that time by the taxpayer or a person with whom the taxpayer does not deal at arm's length principally for the purpose of gaining or producing gross revenue that is rent or leasing revenue,

(*b*) the subject of a lease at that time to a person with whom the taxpayer deals at arm's length and that, at the time the lease was entered into, was a lease for a term of more than one year, and

(*c*) the subject of a lease of property where the tangible property, other than exempt property, that was the subject of the lease had, at the time the lease was entered into, an aggregate fair market value in excess of $25,000,

but, for greater certainty, does not include intangible property (including systems software and property referred to in paragraph (*w*) of Class 10 or paragraph (*n*) or (*o*) of Class 12 in Schedule II).

History: S. 1100(1.11) was added by P.C. 1991-465, SOR/91-196, dated March 14, 1991, applicable in respect of leases entered into after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989, other than leases entered into pursuant to an agreement in writing entered into before that time under which the lessee thereunder has the right to require the lease of the property (and for these purposes a lease in respect of which a material change has been agreed to by the parties thereto effective at any particular time that is after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989 shall be deemed to have been entered into at that particular time).

(1.12) Notwithstanding subsections (1) and (1.1), where, in a taxation year, a taxpayer has acquired a property that was not used by the taxpayer for any purpose in that year and the first use of the property by the taxpayer is a lease of the property in respect of which subsection (1.1) applies, the amount allowed to the taxpayer under subsection (1) in respect of the property for the year shall be deemed to be nil.

History: S. 1100(1.12) was added by P.C. 1991-465, SOR/91-196, dated March 14, 1991, applicable in respect of property acquired after April 26, 1989;

(1.13) For the purposes of this section,

(*a*) "exempt property" means

(i) general purpose office furniture or office equipment included in Class 8 in Schedule II (including for greater certainty, mobile office equipment such as cellular telephones and pagers) or general purpose electronic data processing equipment and ancillary data processing equipment, included in paragraph (*f*) of Class 10 in Schedule II, other than any individual piece thereof having a capital cost to the taxpayer in excess of $1,000,000,

(i.1) general-purpose electronic data processing equipment and ancillary data processing equipment, included in Class 45, 50 or 52 in Schedule II, other than any individual item of that type of equipment having a capital cost to the taxpayer in excess of $1,000,000,

(ii) furniture, appliances, television receivers, radio receivers, telephones, furnaces, hot-water heaters and other similar properties, designed for residential use,

(iii) a property that is a motor vehicle that is designed or adapted primarily to carry individuals on highways and streets and that has a seating capacity for not more than the driver and eight passengers, or a motor vehicle of a type commonly called a van or pick-up truck, or a similar vehicle,

(iv) a truck or tractor that is designed for hauling freight on highways,

(v) a trailer that is designed for hauling freight and to be hauled under normal operating conditions by a truck or tractor described in subparagraph (iv),

(vi) a building or part thereof included in Class 1, 3, 6, 20, 31 or 32 in Schedule II (including component parts such as electric wiring, plumbing, sprinkler systems, air-conditioning equipment, heating equipment, lighting fixtures, elevators and escalators) other than a building or part thereof leased primarily to a lessee that is

(A) a person who is exempt from tax by reason of section 149 of the Act,

(B) a person who uses the building in the course of carrying on a business the income from which is exempt from tax under Part I of the Act by reason of any provision of the Act, or

(C) a Canadian government, municipality or other Canadian public authority,

who owned the building or part thereof at any time before the commencement of the lease (other than at any time during a period ending not later than one year after the later of the date the construction of the building or part thereof was completed and the date the building or part thereof was acquired by the lessee),

(vii) vessel mooring space, and

(viii) property that is included in Class 35 in Schedule II,

and for the purposes of subparagraph (i), where a property is owned by two or more persons or partnerships, or any combination thereof, the capital cost of the property to each such person or partnership shall be deemed to be the total of all amounts each of which is the capital cost of the property to such a person or partnership;

(*b*) property shall be deemed to be the subject of a lease for a term of more than one year at any time where, at that time

(i) the property had been leased by the lessee thereunder, a person with whom the lessee does not deal at arm's length, or any combination thereof, for a period of more than one year ending at that time, or

(ii) it is reasonable, having regard to all the circumstances, to conclude that the lessor thereunder knew or ought to have known that the lessee thereunder, a person with whom the lessee does not deal at arm's length, or any combination thereof, would lease the property for more than one year; and

(*c*) for the purposes of paragraph (1.11)(*c*), where it is reasonable, having regard to all the circumstances, to conclude that one of the main reasons for the existence of two or more leases was to avoid the application of subsection (1.1) by reason of each such lease being a lease of property where the tangible property, other than exempt property, that was the subject of the lease had an aggregate fair market value, at the time the lease was entered into, not in excess of $25,000, each such lease shall be deemed to be a lease of tangible property that had, at the time the lease was entered into, an aggregate fair market value in excess of $25,000.

History: S. 1100(1.13)(*a*)(i.1) was replaced by P.C. 2009-660, SOR/2009-126, dated April 30, 2009, applicable in respect of property acquired after January 27, 2009. S. 1100(1.13)(*a*)(i.1) formerly read:

"(i.1) general-purpose electronic data processing equipment and ancillary data processing equipment, included in Class 45 or 50 in Schedule II, other than any individual item of that type of equipment having a capital cost to the taxpayer in excess of $1,000,000,"

S. 1100(1.13)(*a*)(i.1) was replaced by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, applicable to property acquired on or after March 19, 2007. S. 1100(1.13)(*a*)(i.1) formerly read:

"(i.1) general-purpose electronic data processing equipment and ancillary data processing equipment, included in Class 45 in Schedule II, other than any individual item of that type of equipment having a capital cost to the taxpayer in excess of $1,000,000,"

S. 1100(1.13)(*a*)(i.1) was added by P.C. 2005-2286, SOR/2005-414, dated December 6, 2005, deemed to have come into force on March 23, 2004.

S. 1100(1.13)(*a*)(iii) was amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, deemed to apply in respect of leases entered into after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989, other than leases entered into pursuant to an agreement in writing entered into before that time under which the lessee thereunder has the right to require the lease of the property, and for these purposes a lease in respect of which a material change has been agreed to by the parties to it effective at any particular time that is after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989, is deemed to have been entered into at that particular time. [P.C. 2001-1378, SOR/2001-295.] S. 1100(1.13)(*a*)(iii) formerly read:

"(iii) a property that would be an automobile within the definition thereof in subsection 248(1) of the Act if that definition were read without reference to subparagraph (*b*)(ii) and paragraphs (*c*), (*d*) and (*e*)) thereof, or a motor vehicle of a type commonly called a van or pick-up truck or a similar vehicle,"

S. 1100(1.13)(*a*)(viii) was amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to property acquired after December 23, 1991, other than property acquired by a taxpayer before 1993

(*a*) pursuant to an agreement in writing entered into by the taxpayer before December 24, 1991; or

(*b*) that was under construction by or on behalf of the taxpayer on December 23, 1991.

S. 1100(1.13)(*a*)(viii) formerly read:

"(viii) a railway car,"

S. 1100(1.13) was added by P.C. 1991-465, SOR/91-196, dated March 14, 1991, applicable in respect of leases entered into after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989, other than leases entered into pursuant to an agreement in writing entered into before that time under which the lessee thereunder has the right to require the lease of the property (and for these purposes a lease in respect of which a material change has been agreed to by the parties thereto effective at any particular time that is after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989 shall be deemed to have been entered into at that particular time), except that:

(*a*) in its application to leases entered into before February 3, 1990 or after February 2, 1990 pursuant to an agreement in writing entered into before February 3, 1990 under which the lessee thereunder has the right to require the lease of the property, s. 1100(1.13)(*a*)(vi) shall be read as follows:

"(vi) a building or part thereof (including component parts such as electric wiring, plumbing, sprinkler systems, air-conditioning equipment, heating equipment, lighting fixtures, elevators and escalators),, and"

(*b*) in their application to leases entered into on or before the day on which these Regulations are registered by the Clerk of the Privy Council under section 6 of the *Statutory Instruments Act* or after that day pursuant to an agreement in writing entered into on or before that day under which the lessee thereunder has the right to require the lease of the property, ss. 1100(1.13)(*a*)(iv) and (v), shall be read as follows:

"(iv) a truck or tractor that is designed for use on highways,

(v) a trailer that is designed to be hauled under normal operating conditions by a truck or tractor described in subparagraph (iv),"

(1.14) For the purposes of subsection (1.11) and notwithstanding subsection (1.13), where a taxpayer referred to in subsection (16) so elects in the taxpayer's return of income under Part I of the Act for a taxation year in respect of the year and all subsequent taxation years, all of the property of the taxpayer that is the subject of leases entered into in those years shall be deemed not to be exempt property for those years and the aggregate fair market value of all of the tangible property that is the subject of each such lease shall be deemed to have been, at the time the lease was entered into, in excess of $25,000.

History: S. 1100(1.14) was added by P.C. 1991-465, SOR/91-196, dated March 14, 1991, applicable in respect of leases entered into after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989, other than leases entered into pursuant to an agreement in writing entered into before that time under which the lessee thereunder has the right to require the lease of the property (and for these purposes a lease in respect of which a material change has been agreed to by the parties thereto effective at any particular time that is after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989 shall be deemed to have been entered into at that particular time), except that any election made under s. 1100(1.14), that is made on or before the day that is 180 days after the day on which these Regulations are published in the *Canada Gazette*, March 27, 1991, shall be deemed to be a valid election under s. 1100(1.14).

(1.15) Subject to subsection (1.16) and for the purposes of subsection (1.11), where at any time a taxpayer acquires property that is the subject of a lease with a remaining term at that time of more than one year from a person with whom the taxpayer was dealing at arm's length, the taxpayer shall be deemed to have entered into a lease of the property at that time for a term of more than one year.

History: S. 1100(1.15) was added by P.C. 1991-465, SOR/91-196, dated March 14, 1991, applicable in respect of leases entered into after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989, other than leases entered into pursuant to an agreement in writing entered into before that time under which the lessee thereunder has the right to require the lease of the property (and for these purposes a lease in respect of which a material change has been agreed to by the parties thereto effective at any particular time that is after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989 shall be deemed to have been entered into at that particular time).

(1.16) Where, at any time, a taxpayer acquires from a person with whom the taxpayer is not dealing at arm's length, or by virtue of an amalgamation (within the meaning assigned by subsection 87(1) of the Act), property that was specified leasing property of the person from whom the taxpayer acquired it, the taxpayer shall, for the purposes of paragraph (1.1)(*a*) and for the purpose of computing the income of the taxpayer in respect of the lease for any period after the particular time, be deemed to be the same person as, and a continuation of, that person.

History: S. 1100(1.16) was added by P.C. 1991-465, SOR/91-196, dated March 14, 1991, applicable in respect of leases entered into after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989, other than leases entered into pursuant to an agreement in writing entered into before that time under which the lessee thereunder has the right to require the lease of the property (and for these purposes a lease in respect of which a material change has been agreed to by the parties thereto effective at any particular time that is after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989 shall be deemed to have been entered into at that particular time).

(1.17) For the purposes of subsections (1.1) and, (1.11), where at any particular time a property (in this subsection referred to as a "replacement property") is provided by a taxpayer to a lessee for the remaining term of a lease as a replacement for a similar property of the taxpayer (in this subsection referred to as the "original property") that was leased by the taxpayer to the lessee, and the amount payable by the lessee for the use of, or the right to use, the replacement property is the same as the amount that was so payable in respect of the original property, the following rules apply:

(*a*) the replacement property shall be deemed to have been leased by the taxpayer to the lessee at the same time and for the same term as the original property;

(*b*) the amount of the loan referred to in clause (1.1)(*a*)(i)(A) shall be deemed to be equal to the amount of that loan determined in respect of the original property;

(*c*) the amount determined under subparagraph (1.1)(*a*)(ii) in respect of the replacement property shall be deemed to be equal to the amount so determined in respect of the original property;

(*d*) all amounts received or receivable by the taxpayer for the use of, or the right to use, the original property before the particular time shall be deemed to have been received or receivable, as the case may be, by the taxpayer for the use of, or the right to use, the replacement property; and

(*e*) the original property shall be deemed to have ceased to be subject to the lease at the particular time.

History: S. 1100(1.17)(*b*) was amended by P.C. 1992-2335, SOR/92-681, dated November 23, 1992, applicable in respect of leases entered into after 10:00 p.m. Eastern Daylight Saving Time on April 26, 1989, other than leases entered into pursuant to an agreement in writing entered into before that time and under which the lessee has the right to require the lease of the property (and for those purposes a lease in respect of which a material change has been agreed to by the parties thereto, effective at any particular time that is after 10:00 p.m. Eastern Daylight Saving Time on April 26, 1989, shall be deemed to have been entered into at that particular time). S. 1100(1.17)(*b*) formerly read:

"(*b*) the amount of the loan referred to in clause (1.1)(*a*)(i)(A) shall be deemed to be equal to the amount of that loan so determined in respect of the original property;"

S. 1100(1.17) was added by P.C. 1991-465, SOR/91-196, dated March 14, 1991, applicable in respect of leases entered into after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989, other than leases entered into pursuant to an agreement in writing entered into before that time under which the lessee thereunder has the right to require the lease of the property (and for these purposes a lease in respect of which a material change has been agreed to by the parties thereto effective at any particular time that is after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989 shall be deemed to have been entered into at that particular time).

(1.18) For the purposes of subsection (1.1), where for any period of time any amount that would have been received or receivable by a taxpayer during that period in respect of the use of, or the right to use, a property of the taxpayer during that period is not received or receivable by the taxpayer as a consequence of a breakdown of the property during that period and before the lease of that property is terminated, that amount shall be deemed to have been received or receivable, as the case may be, by the taxpayer.

History: S. 1100(1.18) was added by P.C. 1991-465, SOR/91-196, dated March 14, 1991, applicable in respect of leases entered into after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989, other than leases entered into pursuant to an agreement in writing entered into before that time under which the lessee thereunder has the right to require the lease of the property (and for these purposes a lease in respect of which a material change has been agreed to by the parties thereto effective at any particular time that is after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989 shall be deemed to have been entered into at that particular time).

(1.19) For the purposes of subsections (1.1) and (1.11), where at any particular time

(*a*) an addition or alteration (in this subsection referred to as "additional property") is made by a taxpayer to a property (in this subsection referred to as the "original property") of the taxpayer that is a specified leasing property at the particular time, and

(*b*) as a consequence of the addition or alteration, the aggregate amount receivable by the taxpayer after the particular time for the use of, or the right to use, the original property and the additional property exceeds the amount so receivable in respect of the original property,

the following rules apply:

(*c*) the taxpayer shall be deemed to have leased the additional property to the lessee at the particular time,

(*d*) the term of the lease of the additional property shall be deemed to be greater than one year,

(*e*) the prescribed rate in effect at the particular time in respect of the additional property shall be deemed to be equal to the prescribed rate in effect in respect of the lease of the original property at the particular time,

(*f*) subsection (1.11) shall be read without reference to paragraph (*c*) thereof in respect of the additional property, and

(*g*) the excess described in paragraph (*b*) shall be deemed to be an amount receivable by the taxpayer for the use of, or the right to use, the additional property.

History: S. 1100(1.19) was added by P.C. 1991-465, SOR/91-196, dated March 14, 1991, applicable in respect of leases entered into after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989, other than leases entered into pursuant to an agreement in writing entered into before that time under which the lessee thereunder has the right to require the lease of the property (and for these purposes a lease in respect of which a material change has been agreed to by the parties thereto effective at any particular time that is after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989 shall be deemed to have been entered into at that particular time).

(1.2) For the purposes of subsections (1.1) and (1.11), where at any time

(*a*) a lease (in this subsection referred to as the "original lease") of property is renegotiated in the course of a *bona fide* renegotiation, and

(*b*) as a result of the renegotiation, the amount paid or payable by the lessee of the property for the use of, or the right to use, the property is altered in respect of a period after that time (otherwise than by reason of an addition or alteration to which subsection (1.19) applies),

the following rules apply:

(*c*) the original lease shall be deemed to have expired and the renegotiated lease shall be deemed to be a new lease of the property entered into at that time, and

(*d*) paragraph (1.13)(*b*) shall not apply in respect of any period before that time during which the property was leased by the lessee or a person with whom the lessee did not deal at arm's length.

History: S. 1100(1.2) was added by P.C. 1991-465, SOR/91-196, dated March 14, 1991, applicable in respect of leases entered into after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989, other than leases entered into pursuant to an agreement in writing entered into before that time under which the lessee thereunder has the right to require the lease of the property (and for these purposes a lease in respect of which a material change has been agreed to by the parties thereto effective at any particular time that is after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989 shall be deemed to have been entered into at that particular time).

(1.3) For the purposes of subsections (1.1) and (1.11), where a taxpayer leases to another person a building or part thereof that is not exempt property, the references to "one year" in paragraphs (1.11)(*b*) and (1.13)(*b*), subsection (1.15) and paragraph (1.19)(*d*) shall in respect of that building or part thereof be read as references to "three years".

History: S. 1100(1.3) was added by P.C. 1991-465, SOR/91-196, dated March 14, 1991, applicable in respect of leases entered into after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989, other than leases entered into pursuant to an agreement in writing entered into before that time under which the lessee thereunder has the right to require the lease of the property (and for these purposes a lease in respect of which a material change has been agreed to by the parties thereto effective at any particular time that is after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989 shall be deemed to have been entered into at that particular time), except that, in its application to leases entered into before February 3, 1990 or after February 2, 1990 pursuant to an agreement in writing entered into before February 3, 1990 under which the lessee thereunder has the right to require the lease of the property, subsection 1100(1.3) shall not apply.

Property Acquired in the Year

(2) The amount that a taxpayer may deduct for a taxation year under subsection (1) in respect of property of a class in Schedule II is to be determined as if the undepreciated capital cost to the taxpayer at the end of the taxation year (before making any deduction under subsection (1) for the taxation year) of property of the class were reduced by an amount equal to 50 per cent of the amount, if any, by which

(*a*) the total of all amounts, each of which is an amount added

(i) because of element A in the definition "undepreciated capital cost" in subsection 13(21) of the Act in respect of property that was acquired in the year or that became available for use by the taxpayer in the year, or

(ii) because of element C or D in the definition "undepreciated capital cost" in subsection 13(21) of the Act in respect of an amount that was repaid in the year,

to the undepreciated capital cost to the taxpayer of property of a class in Schedule II, other than

(iii) property included in paragraph (1)(*v*), in paragraph (*w*) of Class 10 or in any of paragraphs (*a*) to (*c*), (*e*) to (*i*), (*k*), (*l*) and (*p*) to (*s*) of Class 12,

(iv) property included in any of Classes 13, 14, 15, 23, 24, 27, 29, 34 and 52,

(v) where the taxpayer was a corporation described in subsection (16) throughout the year, property that was specified leasing property of the taxpayer at that time,

(vi) property that was deemed to have been acquired by the taxpayer in a preceding taxation year by reason of the application of paragraph 16.1(1)(*b*) of the Act in respect of a lease to which the property was subject immediately before the time at which the taxpayer last acquired the property, and

(vii) property considered to have become available for use by the taxpayer in the year by reason of paragraph 13(27)(*b*) or (28)(*c*) of the Act

exceeds

(*b*) the total of all amounts, each of which is an amount deducted from the undepreciated capital cost to the taxpayer of property of the class

(i) because of element F or G in the definition "undepreciated capital cost" in subsection 13(21) of the Act in respect of property disposed of in the year, or

(ii) because of element J in the definition "undepreciated capital cost" in subsection 13(21) of the Act in respect of an amount the taxpayer received or was entitled to receive in the year.

History: S. 1100(2)(*a*), the portion before subparagraph (v) was replaced by P.C. 2009-660, SOR/2009-126, dated April 30, 2009, applicable in respect of property acquired after January 27, 2009. S. 1100(2)(*a*), the portion before subparagraph (v) formerly read:

"(2) Where at the end of a taxation year of a taxpayer

(*a*) the aggregate of all amounts, each of which is an amount added

(i) by reason of subparagraph 13(21)(*f*)(i) [subsection 13(21) 'undepreciated capital cost', item A] of the Act in respect of a property acquired in the year or that became available for use by the taxpayer in the year, or

(ii) by reason of subparagraph 13(21)(*f*)(ii.1) or (ii.2) [subsection 13(21) 'undepreciated capital cost', items C and D] of the Act in respect of an amount repaid in the year

to the undepreciated capital cost to the taxpayer of property of a class in Schedule II, other than

(iii) property included in paragraph (1)(*v*), paragraph (*w*) of Class 10 or any of paragraphs (*a*) to (*c*), (*e*) to (*i*), (*k*), (*l*) and (*p*) to (*s*) of Class 12,

(iv) property included in any of Classes 13, 14, 15, 23, 24, 27, 29 and 34,"

S. 1100(2), the portion following paragraph (*a*) was replaced by P.C. 2009-660, SOR/2009-126, dated April 30, 2009, applicable in respect of property acquired after January 27, 2009. S. 1100(2), the portion following paragraph (*a*) formerly read:

"exceeds

(*b*) the aggregate of all amounts, each of which is an amount deducted

(i) by virtue of subparagraph 13(21)(*f*)(iv) or (v) [subsection 13(21) 'undepreciated capital cost', items F and G] of the Act in respect of property disposed of in the year, or

(ii) by virtue of subparagraph 13(21)(*f*)(viii) [subsection 13(21) 'undepreciated capital cost', item J] of the Act in respect of an amount the taxpayer received or was entitled to receive in the year

from the undepreciated capital cost to him of property of the class,

the amount that the taxpayer may deduct for the year under subsection (1) in respect of property of the class shall be determined as if the undepreciated capital cost to him as of the end of the year (before making any deduction under subsection (1) for the year) of property of the class were reduced by an amount equal to 50 per cent of the amount by which the aggregate deter-

mined under paragraph (*a*) exceeds the aggregate determined under paragraph (*b*)."

S. 1100(2)(*a*)(iii) was replaced by P.C. 2005-698, SOR/2005-126, dated May 3, 2005, applicable to property acquired after December 12, 1995. S. 1100(2)(*a*)(iii) formerly read:

"(iii) property included in paragraph (1)(*v*), paragraph (*w*) of Class 10 or any of paragraphs (*a*) to (*c*), (*e*) to (*i*), (*k*), (*l*), (*p*), (*q*) and (*s*) of Class 12,"

S. 1100(2)(*a*)(i) was amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to property acquired after 1989. S. 1100(2)(*a*)(i) formerly read:

"(i) by reason of subparagraph 13(21)(*f*)(i) of the Act in respect of a property acquired in the year, or"

S. 1100(2)(*a*)(vii) was added by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to property acquired after 1989.

S. 1100(2)(*a*) was amended by P.C. 1991-465, SOR/91-196, dated March 14, 1991, applicable in respect of taxation years ending after April 26, 1989, except that s. 1100(2)(*a*)(ii) is applicable to the 1985 and subsequent taxation years. S. 1100(2)(*a*) formerly read:

"(*a*) the aggregate of all amounts, each of which is an amount added

(i) by virtue of subparagraph 13(21)(*f*)(i) of the Act in respect of a property acquired in the year, or

(ii) by virtue of subparagraph 13(21)(*f*)(ii.1) of the Act in respect of an amount repaid in the year

to the undepreciated capital cost to the taxpayer of property (other than in respect of property described in paragraph (1)(*v*), in paragraph (*w*) of Class 10 in Schedule II or in any of paragraphs (*a*) to (*c*), (*e*) to (*i*), (*k*), (*l*), (*p*), (*q*) and (*s*) of Class 12 in Schedule II) of a class in Schedule II (other than any of Classes 13, 14, 15, 23, 24, 27, 29 and 34 therein)"

S. 1100(2)(*a*), the part following subparagraph (ii), was amended by P.C. 1990-2067, SOR/90-670, dated September 27, 1990 and applicable in respect of property acquired after August 8, 1989. That part formerly read:

"to the undepreciated capital cost to the taxpayer of property (other than in respect of property described in paragraph (1)(*v*), in paragraph (*w*) of Class 10 in Schedule II or in any of paragraphs (*a*) to (*c*), (*e*) to (*i*), (*k*), (*l*), (*p*) and (*q*) of Class 12 in Schedule II) of a class in Schedule II (other than any of Classes 13, 14, 15, 23, 24, 27, 29 and 34 therein)"

Advance Tax Rulings: ATR-11 "50% rule" on non-arm's length transfer of assets.

Interpretation Bulletins: *Secondary* — IT-283R2 Capital cost allowance — Video tapes, videotape cassettes, films, computer software and master recording media [Archived by the CRA]; IT-469R Capital cost allowance — Earth-moving equipment; IT-522R Vehicle, travel and sales expenses of employees.

(2.1) Where a taxpayer has, after November 12, 1981 and before 1983, acquired or incurred a capital cost in respect of a property of a class in Schedule II and

(*a*) he was obligated to acquire the property under the terms of an agreement in writing entered into before November 13, 1981 (or, where the property is a property described in Class 31 in Schedule II, before 1982),

(*b*) he or a person with whom he was not dealing at arm's length commenced the construction, manufacture or production of the property before November 13, 1981 (or, where the property is a property described in Class 31 in Schedule II, before 1982),

(*c*) he or a person with whom he was not dealing at arm's length had made arrangements, evidenced in writing for the construction, manufacture or production of the property that were substantially advanced before November 13, 1981 and the construction, manufacture or production commenced before June 1, 1982, or

(*d*) he was obligated to acquire the property under the terms of an agreement in writing entered into before June 1, 1982 where arrangements, evidenced in writing, for the acquisition or leasing of the property were substantially advanced before November 13, 1981,

the following rules apply:

(*e*) no amount shall be included under paragraph (2)(*a*) in respect of the property;

(*f*) where the property is a property to which paragraph (1)(*b*) applies, that paragraph shall be read, in respect of the property, as "such amount, not exceeding the amount for the year calculated in accordance with Schedule III, as he may claim in respect of the capital cost to him of property of Class 13 in Schedule II";

(*g*) where the property is a property of a class to which paragraph (1)(*t*) or (*ta*) applies, the property shall be deemed to be designated property of the class; and

(*h*) where the property is a property described in paragraph (1)(*v*), subparagraph (iv) thereof shall be read, in respect of the property, as "33$\frac{1}{3}$ per cent of the capital cost thereof to him, and".

History: S. 1100(2.1) was added by P.C. 1983-1083, SOR/83-340, dated April 15, 1983, applicable in respect of property (other than property described in Class 31 of Schedule II or paragraph (*n*) of Class 12 of that Schedule) acquired or disposed of after November 12, 1981, property described in Class 31 acquired or disposed of after 1981 and property described in paragraph (*n*) of Class 12 acquired or disposed of after 1982.

Interpretation Bulletins: *Secondary* — IT-147R3 Capital cost allowance — Accelerated write-off of manufacturing and processing machinery and equipment; IT-464R Capital cost allowance — Leasehold interests.

(2.2) Where a property of a class in Schedule II is acquired by a taxpayer

(*a*) in the course of a reorganization in respect of which, if a dividend were received by a corporation in the course of the reorganization, subsection 55(2) of the Act would not be applicable to the dividend by reason of the application of paragraph 55(3)(*b*) of the Act, or

(*b*) [Revoked.]

(*c*) [Revoked.]

(*d*) [Revoked.]

(*e*) from a person with whom the taxpayer was not dealing at arm's length (otherwise than by virtue of a right referred to in paragraph 251(5)(*b*) of the Act) at the time the property was acquired,

and where

(*f*) the property was depreciable property of the person from whom it was acquired and was owned continuously by that person for the period from

(i) a day that was at least 364 days before the end of the taxation year of the taxpayer during which he acquired the property, or

(ii) November 12, 1981

to the day it was acquired by the taxpayer, or

(*g*) the rules provided in subsection (2.1) or this subsection applied in respect of the property for the purpose of determining the allowance under subsection (1) to which the person from whom the taxpayer acquired the property was entitled,

the following rules apply:

(*h*) no amount shall be included under paragraph (2)(*a*) in respect of the property;

(*i*) where the property is a property to which paragraph (1)(*b*) applies, that paragraph shall be read, in respect of the property, as "such amount, not exceeding the amount for the year calculated in accordance with Schedule III, as he may claim in respect of the capital cost to him of property of Class 13 in Schedule II";

(*j*) where the property is a property of a class to which paragraph (1)(*ta*) applies,

(i) the property shall be deemed to be designated property of the class,

(ii) for the purposes of computing the amount determined under paragraph (1)(*ta*) for any taxation year of the taxpayer ending after the time the property was actually acquired by the taxpayer, the property shall be deemed, other than for the purposes of paragraph (*f*), to have been acquired by the taxpayer immediately after the commencement of the taxpayer's first taxation year that commenced after the time that is the earlier of

(A) the time the property was last acquired by the transferor of the property, and

(B) where the property was transferred in a series of transfers to which this subsection applies, the time the property was last acquired by the first transferor in that series,

unless

(C) where clause (A) applies, the property was acquired by the taxpayer before the end of the taxation year of the transferor of the property that includes the time at which that transferor acquired the property, or

(D) where clause (B) applies, the property was acquired by the taxpayer before the end of the taxation year of the first transferor that includes the time at which that transferor acquired the property,

(iii) where the taxpayer is a corporation that was incorporated or otherwise formed after the end of the transferor's, or where applicable, the first transferor's, taxation year in which the transferor last acquired the property, the taxpayer shall be deemed, for the purposes of subparagraph (ii),

(A) to have been in existence throughout the period commencing immediately before the end of that year and ending immediately after the taxpayer was incorporated or otherwise formed, and

(B) to have had, throughout the period referred to in clause (A), fiscal periods ending on the day of the year on which the taxpayer's first fiscal period ended; and

(iv) the property shall be deemed to have become available for use by the taxpayer at the earlier of

(A) the time it became available for use by the taxpayer, and

(B) if applicable,

(I) the time it became available for use by the person from whom the taxpayer acquired the property, determined without reference to paragraphs 13(27)(*c*) and (28)(*d*) of the Act, or

(II) the time it became available for use by the first transferor in a series of transfers of the same property to which this subsection applies, determined without reference to paragraphs 13(27)(*c*) and (28)(*d*) of the Act; and

(*k*) where the property is a property described in paragraph (1)(*v*), subparagraph (iv) thereof shall be read, in respect of the property, as "33$^1/_3$ per cent of the capital cost thereof to him, and".

History: S. 1100(2.2)(*j*)(iv) was added by P.C. 1995-775, SOR/95-244, dated May 16, 1995, applicable to property acquired after 1989.

S. 1100(2.2)(*j*) was amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to property acquired after 1987. S. 1100(2.2)(*j*) formerly read:

"(*j*) where the property is a property of a class to which paragraph (1)(*t*) or (*ta*) applies, the property shall be deemed to be designated property of the class; and"

S. 1100(2.2)(*a*) to (*d*) were amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, applicable in respect of property acquired by a taxpayer after June 17, 1987 other than property acquired after that date and before 1990 pursuant to an agreement in writing entered into by the taxpayer before June 18, 1987. Ss. 1100(2.2)(*a*) to (*d*) formerly read:

"(*a*) in a transaction in respect of which an election was made under subsection 85(1) or (2), 97(2) or 98(3) or section 115.1 of the Act,

(*b*) in a transaction in respect of which subsection 85(5.1) or 98(5) of the Act is applicable,

(*c*) by virtue of an amalgamation (within the meaning assigned by subsection 87(1) or the Act),

(*d*) as the result of the winding-up of a Canadian corporation in respect of which subsection 88(1) of the Act is applicable, or"

S. 1100(2.2)(*a*) was amended by P.C. 1988-1473, SOR/88-392 dated July 21, 1988 to add the reference to section 115.1, applicable to taxation years commencing after 1984.

S. 1100(2.2) was added by P.C. 1983-1083, SOR/83-340, dated April 15, 1983, applicable in respect of property (other than property described in Class 31 of Schedule II or paragraph (*n*) of Class 12 of that Schedule) acquired or disposed of after November 12, 1981, property described in Class 31 acquired or disposed of after 1981 and property described in paragraph (*n*) of Class 12 acquired or disposed of after 1982.

Advance Tax Rulings: ATR-11 "50% rule" on non-arm's length transfer of assets.

Interpretation Bulletins: *Secondary* — IT-147R3 Capital cost allowance — Accelerated write-off of manufacturing and processing machinery and equipment.

(2.21) Where a taxpayer is deemed by a provision of the Act to have disposed of and acquired or reacquired a property,

(*a*) for the purposes of paragraph (2.2)(*e*) and subsections (19), 1101(1ad) and 1102(14) and (14.1), the acquisition or reacquisition shall be deemed to have been from a person with whom the taxpayer was not dealing at arm's length at the time of the acquisition or reacquisition; and

(*b*) for the purposes of paragraphs (2.2)(*f*) and (*g*), the taxpayer shall be deemed to be the person from whom the taxpayer acquired or reacquired the property.

History: S. 1100(2.21) was added by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, applicable in respect of property acquired after November 12, 1981.

Interpretation Bulletins: *Secondary* — IT-476R Capital cost allowance — Equipment used in petroleum and natural gas activities.

(2.3) Where a taxpayer has disposed of a property and, by virtue of paragraph (2.2)(*h*), no amount is required to be included under paragraph (2)(*a*) in respect of the property by the person that acquired the property, no amount shall be included by the taxpayer under paragraph (2)(*b*) in respect of the disposition of the property.

History: S. 1100(2.3) was amended by P.C. 1983-1413, SOR/83-432, dated May 13, 1983, to substitute "paragraph (2.2)(*h*)" for "paragraph (2.1)(*g*)", applicable in respect of property disposed of after November 12, 1981.

S. 1100(2.3) was added by P.C. 1983-1083, SOR/83-340, dated April 15, 1983, applicable in respect of property (other than property described in Class 31 of Schedule II paragraph (*n*) of Class 12 of that Schedule) acquired or disposed of after November 12, 1981, property described in Class 31 acquired or disposed of after 1981 and property described in paragraph (*n*) of Class 12 acquired or disposed of after 1982.

Advance Tax Rulings: ATR-11 "50% rule" on non-arm's length transfer of assets.

(2.4) For the purposes of subsection (2), where a taxpayer has disposed of property described in Class 10 of Schedule II that would qualify as property described in paragraph (*e*) of Class 16 of Schedule II if the property had been acquired by the taxpayer after November 12, 1981, the proceeds of disposition of the property shall be deemed to be proceeds of disposition of property described in Class 16 of Schedule II and not of property described in Class 10 of Schedule II.

History: S. 1100(2.4) was added by P.C. 1983-1083, SOR/83-340, dated April 15, 1983, applicable in respect of property (other than property described in Class 31 of Schedule II or paragraph (*n*) of Class 12 of that Schedule) acquired or disposed of after November 12, 1981, property described in Class 31 acquired or disposed of after 1981 and property described in paragraph (*n*) of Class 12 acquired or disposed of after 1982.

Interpretation Bulletins: *Secondary* — IT-522R Vehicle, travel and sales expenses of employees.

(2.5) Where in a particular taxation year a taxpayer disposes of a property included in Class 10.1 in Schedule II that was owned by the taxpayer at the end of the immediately preceding taxation year,

(*a*) the deduction allowed under subsection (1) in respect of the property in computing the taxpayer's income for the year shall be determined as if the property had not been disposed of in the particular year and the number of days in the particular year were one-half of the number of days in the particular year otherwise determined; and

(*b*) no amount shall be deducted under subsection (1) in respect of the property in computing the taxpayer's income for any subsequent taxation year.

History: S. 1100(2.5) was added by P.C. 1994-103, SOR/94-128, dated January 20, 1994, applicable to taxation years and fiscal periods commencing after June 17, 1987 and ending after 1987.

Taxation Years Less Than 12 Months

(3) Where a taxation year is less than 12 months, the amount allowed as a deduction under this section, other than under any of paragraphs (1)(*c*), (*e*), (*f*), (*g*), (*1*), (*m*), (*w*), (*x*), (*y*), (*ya*), (*zg*) and (*zh*), shall not exceed that proportion of the maximum amount otherwise allowable that the number of days in the taxation year is of 365.

History: S. 1100(3) was replaced by P.C. 2005-698, SOR/2005-126, dated May 3, 2005, applicable to the 1995 and subsequent taxation years. S. 1100(3) formerly read:

"(3) Where a taxation year is less than 12 months, the amount allowed as a deduction under this section, other than under paragraph (1)(*c*), (*e*), (*f*), (*g*), (*1*), (*w*), (*x*), (*y*), (*ya*), (*zg*) or (*zh*), shall not exceed that proportion of the maximum amount otherwise allowable that the number of days in the taxation year is of 365."

S. 1100(3) was amended by P.C. 2000-1000, SOR/2000-248, dated June 21, 2000, applicable to the 1995 and subsequent taxation years except that, in its application to the 1995, 1996 and 1997 taxation years, it shall be read without reference to paragraphs 1100(1)(*zg*) and (*zh*). S. 1100(3) formerly read:

"(3) Where a taxation year is less than 12 months, the amount allowed as a deduction under this section, other than under paragraphs (1)(*c*), (*e*), (*f*), (*g*), (*l*), (*w*), (*x*), (*y*) and (*ya*), shall not exceed that proportion of the maximum amount otherwise allowable that the number of days in the taxation year is of 365."

S. 1100(3) was amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to the 1986 and subsequent taxation years. S. 1100(3) formerly read:

"(3) Where a taxation year is less than 12 months, the amount allowed as a deduction under this section, other than under paragraphs (1)(*c*), (*e*), (*f*) and (*g*), shall not exceed that proportion of the maximum amount otherwise allowable that the number of days in the taxation year is of 365."

S. 1100(3) was amended by P.C. 1983-1083, SOR/83-340, dated April 15, 1983, applicable in respect of taxation years commencing after 1981. S. 1100(3) formerly read:

"(3) Where a taxation year is less than 12 months, the amount allowed as a deduction under paragraph (1)(*a*) shall not exceed that proportion of the maximum amount otherwise allowable that the number of days in the taxation year is of 365."

S. 1100(3) was amended by P.C. 1978-1315, SOR/78-377, dated April 24, 1978 (Special Issue, *Canada Gazette*, December 31, 1978). S. 1100(3) formerly read:

"(3) Where a taxation year is less than 12 months in duration, the amount allowed as a deduction under paragraph (1)(*a*), (*d*) or (*h*) shall not exceed that proportion of the the maximum amount allowable that the number of days in the taxation years is 365."

Interpretation Bulletins: *Secondary* — IT-147R3 Capital cost allowance — Accelerated write-off of manufacturing and processing machinery and equipment; IT-434R Rental of real property by individual; IT-441 Capital cost allowance — Certified feature productions and certified short productions [Archived by the CRA].

Advance Tax Rulings: ATR-11 "50% rule" on non-arm's length transfer of assets.

(4) Reserved.

(5) [Revoked.]

History: S. 1100(5) and its heading were revoked by P.C. 1978-1315, SOR/78-377, dated April 24, 1978 (Special Issue, *Canada Gazette*, December 31, 1978). S. 1100(5) and its heading formerly read:

"*Cessation of Tramcar Operations*

(5) For the purposes of paragraph 20(1)(*a*) of the Act, there is hereby allowed to a taxpayer, in computing his income from a business for the year in which he ceases operating tramcars, a deduction not exceeding 100 per cent of the undepreciated capital cost to him of tramway track."

(6) [Revoked.]

History: S. 1100(6) was revoked by P.C. 1991-2272, SOR/91-673, dated November 21, 1991, applicable to the 1988 and subsequent taxation years. S. 1100(6) formerly read:

"*Employee's Automobile or Aircraft*

(6) For the purposes of paragraphs 8(1)(*j*) and 20(1)(*a*) of the Act, in computing a taxpayer's income from an office or employment for a taxation year, there is hereby allowed to the taxpayer in computing his income for the year such amount as he may claim in respect of an automobile or an aircraft not exceeding the amount that would be allowed under subsection (1) if the automobile or aircraft, as the case may be, had been acquired by him for the purpose of gaining or producing income from a business."

S. 1100(6), including the heading, was amended by P.C. 1982-599, SOR/82-265, dated February 26, 1982, to add the reference to "or aircraft", applicable to the 1980 and subsequent taxation years.

(7) Reserved.

Railway Sidings

(8) Where a taxpayer, other than an operator of a railway system, has made a capital expenditure pursuant to a contract or arrangement with an operator of a railway system under which a railway siding that does not become the taxpayer's property is constructed to provide service to the taxpayer's place of business or to a property acquired by the taxpayer for the purpose of gaining or producing income, there is hereby allowed to the taxpayer, in computing income for the taxation year from the business or property, as the case may be, a deduction equal to such amount as he may claim not exceeding four per cent of the amount remaining, if any, after deducting from the capital expenditure the aggregate of all amounts previously allowed as deductions in respect of the expenditure.

Patents

(9) Where a part or all of the cost of a patent is determined by reference to the use of the patent, in lieu of the deduction allowed under paragraph (1)(*c*), a taxpayer, in computing his income for a taxation year from a business or property, as the case may be, may deduct such amount as he may claim in respect of property of Class 14 in Schedule II not exceeding the lesser of

(*a*) the aggregate of

(i) that part of the capital cost determined by reference to the use of the patent in the year, and

(ii) the amount that would be computed under subparagraph (1)(*c*)(i) if the capital cost of the patent

did not include the amounts determined by reference to the use of the patent in that year and previous years; and

(*b*) the undepreciated capital cost to him as of the end of the taxation year (before making any deduction under this subsection for the taxation year) of property of the class.

Interpretation Bulletins: *Secondary* — IT-477 (Consolid.) Capital cost allowance — Patents, franchises, concessions and licences.
Tax Topics: No. 1528, Tax Planning Opportunities for Intellectual Property Rights.

(9.1) Where a part or all of the capital cost to a taxpayer of property that is a patent, or a right to use patented information, is determined by reference to the use of the property and that property is included in Class 44 in Schedule II, in lieu of the deduction allowed under paragraph (1)(*a*), there may be deducted in computing the taxpayer's income for a taxation year from a business or property such amount as the taxpayer may claim in respect of property of the class not exceeding the lesser of

(*a*) the total of

(i) that part of the capital cost that is determined by reference to the use of the property in the year, and

(ii) the amount that would be deductible for the year by reason of paragraph (1)(*a*) in respect of property of the class if the capital cost of property of the class did not include the amounts determined under subparagraph (i) for the year and preceding taxation years; and

(*b*) the undepreciated capital cost to the taxpayer as of the end of the taxation year (before making any deduction under this subsection for the taxation year) of property of the class.

History: S. 1100(9.1) was added by P.C. 1994-231, SOR/94-170, dated February 10, 1994, applicable to property acquired after April 26, 1993.
Tax Profile: November 1997 — Canadian Taxation of Technology: Part II.

(10) Reserved.

Rental Properties

(11) Notwithstanding subsection (1), in no case shall the aggregate of deductions, each of which is a deduction in respect of property of a prescribed class owned by a taxpayer that includes rental property owned by him, otherwise allowed to the taxpayer by virtue of subsection (1) in computing his income for a taxation year, exceed the amount, if any, by which

(*a*) the aggregate of amounts each of which is

(i) his income for the year from renting or leasing a rental property owned by him, computed without regard to paragraph 20(1)(*a*) of the Act, or

(ii) the income of a partnership for the year from renting or leasing a rental property of the partnership, to the extent of the taxpayer's share of such income,

exceeds

(*b*) the aggregate of amounts each of which is

(i) his loss for the year from renting or leasing a rental property owned by him, computed without regard to paragraph 20(1)(*a*) of the Act, or

(ii) the loss of a partnership for the year from renting or leasing a rental property of the partnership, to the extent of the taxpayer's share of such loss.

Interpretation Bulletins: *Primary* — IT-195R4 Rental property — Capital cost allowance restrictions. *Secondary* — IT-274R Rental properties — Capital cost of $50,000 or more; IT-304R2 Condominiums.
Guides: T4036 Rental Income.

(12) Subject to subsection (13), subsection (11) does not apply in respect of a taxation year of a taxpayer that was, throughout the year,

(*a*) a life insurance corporation, or a corporation whose principal business was the leasing, rental, development or sale, or any combination thereof, of real property owned by it; or

(*b*) a partnership each member of which was a corporation described in paragraph (*a*).

History: S. 1100(12), that portion preceding paragraph (*a*), was amended by P.C. 1982-599, SOR/82-265, dated February 26, 1982, to add "Subject to subsection (13)," before "subsection (11)".

Interpretation Bulletins: *Primary* — IT-371 Rental property — Meaning of "principal business"; IT-195R4 Rental property — Capital cost allowance restrictions.
Tax Topics: No. 1328, Principal business corporations: When common sense makes tax cents.

(13) For the purposes of subsection (11), where a taxpayer or partnership has a leasehold interest in a property that is property of Class 1, 3 or 6 in Schedule II by virtue of subsection 1102(5) and the property is leased by the taxpayer or the partnership to a person who owns the land, an interest therein or an option in respect thereof, on which the property is situated, this section shall be read without reference to subsection (12) with respect to that property.

History: S. 1100(13) was amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, applicable in respect of the 1988 and subsequent taxation years. S. 1100(13) formerly read:

"(13) For the purposes of subsection (11), where a taxpayer or a partnership has a leasehold interest in a property that is property of Class 3 or 6 in Schedule II by virtue of subsection 1102(5) and the property is leased by the taxpayer or the partnership to a person who owns the land, an interest therein or an option in respect thereof, on which the property is situated, this section shall be read without reference to subsection (12) with respect to that property."

S. 1100(13) was added by P.C. 1982-599, SOR/82-265, dated February 26, 1982, applicable in respect of lease-lease back agreements entered into after March 10, 1982.

Interpretation Bulletins: *Primary* — IT-195R4 Rental property — Capital cost allowance restrictions.

(14) In this section and section 1101, "rental property" of a taxpayer or a partnership means

(*a*) a building owned by the taxpayer or the partnership, whether owned jointly with another person or otherwise, or

(*b*) a leasehold interest in real property, if the leasehold interest is property of Class 1, 3, 6 or 13 in Schedule II and is owned by the taxpayer or the partnership,

if, in the taxation year in respect of which the expression is being applied, the property was used by the taxpayer or the partnership principally for the purpose of gaining or producing gross revenue that is rent, but, for greater certainty, does not include a property leased by the taxpayer or the partnership to a lessee, in the ordinary course of the taxpayer's or partnership's business of selling goods or rendering services, under an agreement by which the lessee undertakes to use the property to carry on the business of selling, or promoting the sale of, the taxpayer's or partnership's goods or services.

History: S. 1100(14)(*a*) was amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, applicable in respect of the 1994 and subsequent taxation years. S. 1100(14)(*a*) formerly read:

"(*a*) a building, other than property of Class 31 or 32 in Schedule II, owned by the taxpayer or partnership, whether jointly with another person or otherwise, or"

S. 1100(14)(*b*) was amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, to add the reference to Class 1 and substitute "the partnership" for "partnership", applicable in respect of the 1988 and subsequent taxation years.

Interpretation Bulletins: *Primary* — IT-195R4 Rental property — Capital cost allowance restrictions; IT-367R3 Capital cost allowance — Multiple-unit residential buildings. *Secondary* — IT-274R Rental properties — Capital cost of $50,000 or more; IT-304R2 Condominiums.
Tax Profile: March 2004 — Loss Utilization By Individuals.

(14.1) For the purposes of subsection (14), gross revenue derived in a taxation year from

(*a*) the right of a person or partnership, other than the owner of a property, to use or occupy the property or a part thereof, and

(*b*) services offered to a person or partnership that are ancillary to the use or occupation by the person or partnership of the property or the part thereof

shall be considered to be rent derived in that year from the property.

History: S. 1100(14.1) was added by P.C. 1986-2770, SOR/86-1136, dated December 11, 1986, applicable to the 1986 and subsequent taxation years in respect of property acquired by a taxpayer or a partnership other than property acquired by the taxpayer or partnership that is

(*a*) property acquired by the taxpayer or partnership before May 23, 1985,

(*b*) new and unused property, other than a building, acquired by the taxpayer or partnership before 1986;

(*c*) property, other than a building, acquired by the taxpayer or partnership before 1986 pursuant to an agreement in writing to acquire the property entered into before May 23, 1985 by or on behalf of the taxpayer or partnership or as part of a lawful distribution to the public in accordance with a prospectus, preliminary prospectus or registration statement filed before May 24, 1985 with a public authority in Canada pursuant to and in accordance with the applicable securities legislation of Canada or of any province and, where required by law, accepted for filing by that public authority;

(*d*) a building in existence on May 22, 1985, or an interest in that building, acquired by the taxpayer or partnership before 1987 pursuant to an agreement in writing to acquire the property entered into before May 23, 1985 by or on behalf of the taxpayer or partnership or as part of a lawful distribution to the public in accordance with a prospectus, preliminary prospectus or registration statement filed before May 24, 1985 with a public authority in Canada pursuant to and in accordance with the applicable securities legislation of Canada or of any province and, where required by law, accepted for filing by that public authority;

(*e*) a building, the construction, renovation or alteration of which was not completed, within the meaning of subsection 18(3.3) of the Act, on May 22, 1985, or an interest in that building, acquired by the taxpayer or partnership, pursuant to an agreement in writing to acquire the property entered into before May 23, 1985 by or on behalf of the taxpayer or partnership or as part of a lawful distribution to the public in accordance with a prospectus, preliminary prospectus or registration statement filed before May 24, 1985 with a public authority in Canada pursuant to and in accordance with the applicable securities legislation of Canada or of any province and, where required by law, accepted for filing by that public authority, if the construction, renovation or alteration of the building, as the case may be, proceeds without undue delay after May 22, 1985;

(*f*) acquired by the taxpayer or partnership before 1986 and that is a building in existence in Canada on May 23, 1985, or an interest in that building, where arrangements in writing for a sale or syndication of the building were substantially advanced on May 22, 1985;

(*g*) a building in Canada the construction, renovation or alteration of which was not completed, within the meaning of subsection 18(3.3) of the Act, on May 22, 1985, or an interest in that building, where arrangements made by or on behalf of the taxpayer or partnership for the construction, renovation or alteration thereof were substantially advanced on May 22, 1985, and where the construction, renovation or alteration thereof commenced before 1986 and proceeds thereafter without undue delay; or

(*h*) property that is ancillary to the use of a property described in any of paragraphs (*a*) to (*g*).

Interpretation Bulletins: *Primary* — IT-195R4 Rental property — Capital cost allowance restrictions.

(14.2) Subsection (14.1) does not apply in any particular taxation year to property owned by

(*a*) a corporation, where the property is used in a business carried on in the year by the corporation;

(*b*) an individual, where the property is used in a business carried on in the year by the individual in which he is personally active on a continuous basis throughout that portion of the year during which the business is ordinarily carried on; or

(*c*) a partnership, where the property is used in a business carried on in the year by the partnership if at least 2/3 of the income or loss, as the case may be, of the partnership for the year is included in the determination of the income of

(i) members of the partnership who are individuals that are personally active in the business of the partnership on a continuous basis throughout that portion of the year during which the business is ordinarily carried on, and

(ii) members of the partnership that are corporations.

History: S. 1100(14.2) was added by P.C. 1986-2770, SOR/86-1136, dated December 11, 1986. For application see the history note at s. 1100(14.1) above.

Interpretation Bulletins: *Primary* — IT-195R4 Rental property — Capital cost allowance restrictions.

Leasing Properties

(15) Notwithstanding subsection (1), in no case shall the aggregate of deductions, each of which is a deduction in respect of property of a prescribed class that is leasing property owned by a taxpayer, otherwise allowed to the taxpayer under subsection (1) in computing his income for a taxation year, exceed the amount, if any, by which

(*a*) the aggregate of amounts each of which is

(i) his income for the year from renting, leasing or earning royalties from, a leasing property or a property that would be a leasing property but for subsection (18), (19) or (20) where such property is owned by him, computed without regard to paragraph 20(1)(*a*) of the Act, or

(ii) the income of a partnership for the year from renting, leasing or earning royalties from, a leasing property or a property that would be a leasing property but for subsection (18), (19) or (20) where such property is owned by the partnership, to the extent of the taxpayer's share of such income,

exceeds

(*b*) the aggregate of amounts each of which is

(i) his loss for the year from renting, leasing or earning royalties from, a property referred to in subparagraph (*a*)(i), computed without regard to paragraph 20(1)(*a*) of the Act, or

(ii) the loss of a partnership for the year from renting, leasing or earning royalties from, a property referred to in subparagraph (*a*)(ii), to the extent of the taxpayer's share of such loss.

Interpretation Bulletins: *Primary* — IT-443 Leasing property — Capital cost allowance restrictions. *Secondary* — IT-147R3 Capital cost allowance — Accelerated write-off of manufacturing and processing machinery and equipment; IT-195R4 Rental property — Capital cost allowance restrictions; IT-283R2 Capital cost allowance — Video tapes, videotape cassettes, films, computer software and master recording media [Archived by the CRA].
Tax Profile: March 2004 — Loss Utilization By Individuals.

(16) Subsection (15) does not apply in respect of a taxation year of a taxpayer that was, throughout the year,

(*a*) a corporation whose principal business was

(i) renting or leasing of leasing property or property that would be leasing property but for subsection (18), (19) or (20), or

(ii) renting or leasing of property referred to in subparagraph (i) combined with selling and servicing of property of the same general type and description,

if the gross revenue of the corporation for the year from such principal business was not less than 90 per cent of the gross revenue of the corporation for the year from all sources; or

(*b*) a partnership each member of which was a corporation described in paragraph (*a*).

Interpretation Bulletins: *Secondary* — IT-267R2 Capital cost allowance — Vessels; IT-443 Leasing property — Capital cost allowance restrictions.

(17) Subject to subsection (18), in this section and section 1101, "leasing property" of a taxpayer or a partnership means depreciable property other than

(*a*) rental property,

(*b*) computer tax shelter property, or

(*c*) property referred to in paragraph (*w*) of Class 10 or in paragraph (*n*) of Class 12 in Schedule II,

where such property is owned by the taxpayer or the partnership, whether jointly with another person or otherwise, if, in the taxation year in respect of which the expression is being applied, the property was used by the taxpayer or the partnership principally for the purpose of gaining or producing gross revenue that is rent, royalty or leasing revenue, but for greater certainty, does not include a property leased by the taxpayer or the partnership to a lessee, in the ordinary course of the taxpayer's or partnership's business of selling goods or rendering services, under an agreement by which the lessee undertakes to use the property to carry on the business of selling, or promoting the sale of, the taxpayer's or partnership's goods or services.

History: S. 1100(17)(*b*) was replaced by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, applicable to property acquired on or after March 19, 2007. S. 1100(17)(*b*) formerly read:

"(*b*) computer software tax shelter property, or"

S. 1100(17)(*b*) was added by P.C. 2000-1000, SOR/2000-248, dated June 21, 2000, applicable to taxation years and fiscal periods that end after August 5, 1997, except that it does not apply in respect of computer software for taxation years and fiscal periods of a taxpayer or partnership that end in 1997 or 1998 where

(*a*) the taxpayer's or partnership's interest in the computer software

(i) is acquired before August 6, 1997,

(ii) is acquired before 1998 pursuant to an agreement in writing made by the taxpayer or partnership before August 6, 1997, or

(iii) is, or is associated with, a tax shelter investment (as defined by subsection 143.2(1) of the *Income Tax Act*) that is acquired by a taxpayer or partnership before 1998 pursuant to

(A) the terms of a document that is a prospectus, preliminary prospectus or registration statement where

(I) the document was filed before August 6, 1997 with a public authority in Canada pursuant to and in accordance with the securities legislation of Canada or of any province and, where required by law, accepted for filing by the public authority before August 6, 1997,

(II) the particular computer software is

1. identified in the document, or
2. acquired before November 29, 1997 from a person that is resident in Canada and that developed the software, and

(III) all the funds raised pursuant to the document are raised before 1998 and all or substantially all of the tax shelter investments that can reasonably be considered to be associated with the computer software are acquired before 1998 by a person who is not

1. a promoter, or an agent of a promoter, of the securities,
2. a vendor of the property,
3. a broker or dealer in securities, or
4. a person who does not deal at arm's length with a person referred to in sub-subclause 1 or 2, or

(B) the terms of an offering memorandum distributed as part of an offering of securities where

(I) the memorandum contained a complete or substantially complete description of the securities contemplated in the offering as well as the terms and conditions of the offering,

(II) the memorandum was distributed before August 6, 1997,

(III) solicitations in respect of the sale of the securities contemplated by the memorandum were made before August 6, 1997,

(IV) the sale of the securities was substantially in accordance with the memorandum,

(V) the particular computer software is

1. identified in the memorandum, or
2. acquired before November 29, 1997 from a person that is resident in Canada and that developed the software, and

(VI) all the funds raised pursuant to the memorandum were raised before 1998 and all or substantially all of the tax shelter investments that can reasonably be considered to be associated with the computer software are acquired before 1998 by a person who is not

1. a promoter, or an agent of a promoter, of the securities,
2. a vendor of the property,
3. a broker or dealer in securities, or
4. a person who does not deal at arm's length with any person referred to in sub-subclause 1 or 2;

(*b*) there is no agreement or other arrangement under which any of the following obligations can be changed, reduced or waived if there is a change to the *Income Tax Act* or if there is an adverse assessment under the Act:

(i) the obligation of the taxpayer or the partnership, with respect to the computer software, or

(ii) the obligation of another taxpayer or partnership that acquires a tax shelter investment (as defined by subsection 143.2(1) of the Act) that is associated with computer software, with respect to the tax shelter investment;

(*c*) the computer software is, or is associated with, one or more tax shelters sold or offered for sale at a time in circumstances in which section 237.1 of the *Income Tax Act* requires an identification number to have been obtained and the identification number was obtained before that time; and

(*d*) the computer software (including computer software to which subparagraph (*a*)(i) or (ii) applies) is, or is associated with, a tax shelter investment (as defined by subsection 143.2(1) of the *Income Tax Act*) sold or offered for sale pursuant to a document or offering memorandum described in subparagraph (*a*)(iii) and either

(i) the total amount of securities sold in 1997 pursuant to the document or offering memorandum does not exceed $100,000,000, or

(ii) at least 10% of the securities authorized to be sold in 1997 pursuant to the document or offering memorandum were in 1997 and before August 6, 1997 sold to, or subscribed for by, a person who is not

(A) a promoter, or an agent of a promoter, of the securities,

(B) a vendor of the computer software,

(C) a broker or dealer in securities, or

(D) a person who does not deal at arm's length with any person referred to in clause (A) or (B).

For the purpose of [the amendment above], computer software is deemed to be acquired by a taxpayer or partnership no earlier than the time and only to the extent that its cost is considered to be an expenditure made or incurred by the taxpayer or partnership for the purposes of the *Income Tax Act*, determined without reference to subsection 1100(20.1) of the Regulations as enacted by subsection 2(4).

S. 1100(17)(*b*) was revoked by P.C. 1989-2464, SOR/90-22, applicable in respect of the 1994 and subsequent taxation years. S. 1100(17)(*b*) formerly read:

"(*b*) property of Class 31 or 32 in Schedule II and furniture, fixtures or equipment, if any, located within and ancillary thereto, or"

S. 1100(17)(*c*) was amended by P.C. 1988-2795, SOR/89-27, dated December 27, 1988 to add the reference to paragraph (*w*) of Class 10, applicable in respect of property acquired after 1987.

Interpretation Bulletins: *Secondary* — IT-195R4 Rental property — Capital cost allowance restrictions; IT-283R2 Capital cost allowance — Video tapes, videotape cassettes, films, computer software and master recording media [Archived by the CRA]; IT-443 Leasing property — Capital cost allowance restrictions.

(17.1) For the purposes of subsection (17), where, in a taxation year, a taxpayer or a partnership has acquired a property

(*a*) that was not used for any purpose in that year, and

(*b*) the first use of the property by the taxpayer or the partnership was principally for the purpose of gaining or producing gross revenue that is rent, royalty or leasing revenue,

the property shall be deemed to have been used in the taxation year in which it was acquired principally for the purpose of gaining or producing gross revenue that is rent, royalty or leasing revenue.

History: S. 1100(17.1) was added by P.C. 1982-599, SOR/82-265, dated February 26, 1982.

Interpretation Bulletins: *Secondary* — IT-443 Leasing property — Capital cost allowance restrictions.

(17.2) For the purposes of subsections (1.11) and (17), gross revenue derived in a taxation year from

(*a*) the right of a person or partnership, other than the owner of a property, to use or occupy the property or a part thereof, and

(*b*) services offered to a person or partnership that are ancillary to the use or occupation by the person or partnership of the property or the part thereof

shall be considered to be rent derived in the year from the property.

History: S. 1100(17.2) was amended by P.C. 1991-465, SOR/91-196, dated March 14, 1991, to add the reference to s. 1100(1.11), applicable in respect of leases entered into after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989, other than leases entered into pursuant to an agreement in writing entered into before that time under which the lessee thereunder has the right to require the lease of the property (and for these purposes a lease in respect of which a material change has been agreed to by the parties thereto effective at any particular time that is after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989 shall be deemed to have been entered into at that particular time).

S. 1100(17.2) was added by P.C. 1986-2770, SOR/86-1136, dated December 11, 1986. For application, see the history note at s. 1100(14.1) above.

Interpretation Bulletins: *Secondary* — IT-443 Leasing property — Capital cost allowance restrictions.

(17.3) Subsection (17.2) does not apply in any particular taxation year to property owned by

(*a*) a corporation, where the property is used in a business carried on in the year by the corporation;

(*b*) an individual, where the property is used in a business carried on in the year by the individual in which he is personally active on a continuous basis throughout that portion of the year during which the business is ordinarily carried on; or

(*c*) a partnership, where the property is used in a business carried on in the year by the partnership if at least 2/3 of the income or loss, as the case may be, of the partnership for the year is included in the determination of the income of

(i) members of the partnership who are individuals that are personally active in the business of the partnership on a continuous basis throughout that portion of the year during which the business is ordinarily carried on, and

(ii) members of the partnership that are corporations.

History: S. 1100(17.3) was added by P.C. 1986-2770, SOR/86-1136, dated December 11, 1986. For application, see the history note at S. 1100(14.1) above.

Interpretation Bulletins: *Secondary* — IT-443 Leasing property — Capital cost allowance restrictions.

(18) Leasing property of a taxpayer or a partnership referred to in subsection (17) does not include

(*a*) property that the taxpayer or the partnership acquired before May 26, 1976 or was obligated to acquire under the terms of an agreement in writing entered into before May 26, 1976;

(*b*) property the construction, manufacture or production of which was commenced by the taxpayer or the partnership before May 26, 1976 or was commenced under an agreement in writing entered into by the taxpayer or the partnership before May 26, 1976; or

(*c*) property that the taxpayer or the partnership acquired on or before December 31, 1976 or was obligated to acquire under the terms of an agreement in writing entered into on or before December 31, 1976, if

(i) arrangements, evidenced by writing, respecting the acquisition, construction, manufacture or production of the property had been substantially advanced before May 26, 1976, and

(ii) the taxpayer or the partnership had before May 26, 1976 demonstrated a *bona fide* intention to acquire the property for the purpose of gaining or producing gross revenue that is rent, royalty or leasing revenue.

Interpretation Bulletins: *Secondary* — IT-443 Leasing property — Capital cost allowance restrictions.

(19) Notwithstanding subsection (17), a property acquired by a taxpayer

(*a*) in the course of a reorganization in respect of which, if a dividend were received by a corporation in the course of the reorganization, subsection 55(2) of the Act would not be applicable to the dividend by reason of the application of paragraph 55(3)(*b*) of the Act, or

(*b*) from a person with whom the taxpayer was not dealing at arm's length (otherwise than by virtue of a right referred to in paragraph 251(5)(*b*) of the Act) at the time the property was acquired,

that would otherwise be leasing property of the taxpayer, shall be deemed not to be leasing property of the taxpayer if immediately before it was so acquired by the taxpayer, it was, by virtue of subsection (18) or (20) or this subsection, not a leasing property of the person from whom the property was so acquired.

History: Ss. 1100(19)(*a*) to (*c*) were amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989 and applicable in respect of property acquired by a taxpayer after June 17, 1987 other than property acquired after that date and before 1990 pursuant to an agreement in writing entered into by the taxpayer before June 18, 1987. Ss. 1100(19)(*a*) to (*c*) formerly read:

"(*a*) in a transaction in respect of which an election was made under subsection 85(1) or (2), 97(2) or 98(3) or section 115.1 of the Act,

(*a.1*) in a transaction in respect of which subsection 85(5.1) or 98(5) of the Act is applicable,

(*b*) by virtue of an amalgamation (within the meaning assigned by section 87 of the Act), or

(*c*) as the result of the winding-up of a Canadian corporation in respect of which subsection 88(1) of the Act is applicable,"

S. 1100(19)(*a*) was amended by P.C. 1988-1473, SOR/88-392 dated July 21, 1988 to add the reference to section 115.1, applicable to taxation years commencing after 1984.

S. 1100(19)(a.1) was added by P.C. 1984-3789, SOR/84-948, dated November 29, 1984 and applicable with respect to property acquired after November 12, 1981.

S. 1100(19), the portion following paragraph (*c*), was amended by P.C. 1982-599, SOR/82-265, dated February 26, 1982, to add "or this subsection" after "subsection (18) or (20)".

Interpretation Bulletins: *Secondary* — IT-443 Leasing property — Capital cost allowance restrictions.

(20) Notwithstanding subsection (17), a property acquired by a taxpayer or partnership that is a replacement property (within the meaning assigned by subsection 13(4) of the Act), that would otherwise be a leasing property of the taxpayer or partnership, shall be deemed not to be a leasing property of the taxpayer or partnership if the property replaced, referred to in paragraph 13(4)(*a*) or (*b*) of the Act, was, by reason of subsection (18) or (19) or this subsection, not a leasing property of the taxpayer or partnership

immediately before it was disposed of by the taxpayer or partnership.

History: S. 1100(20) was amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to the 1986 and subsequent taxation years. S. 1100(20) formerly read:

"(20) Notwithstanding subsection (17), a property acquired by a taxpayer or partnership that is a replacement property (within the meaning assigned by subsection 13(4) of the Act), that would otherwise be a leasing property of the taxpayer or partnership, shall be deemed not to be a leasing property of the taxpayer or partnership if the property replaced, referred to in paragraph 13(4)(*a*) or (*b*) of the Act, was, by virtue of subsection (18) or (19), not a leasing property of the taxpayer or partnership immediately before it was disposed of by the taxpayer or partnership."

S. 1100(20) was amended by P.C. 1981-1556, SOR/81-470, dated June 12, 1981 and applicable in respect of a property acquired to replace a property disposed of after March 31, 1977, to substitute "subsection 13(4)" for "paragraph 13(4)(c)".

Interpretation Bulletins: *Secondary* — IT-443 Leasing property — Capital cost allowance restrictions.

Computer Tax Shelter Property

(20.1) The total of all amounts each of which is a deduction in respect of computer tax shelter property allowed to the taxpayer under subsection (1) in computing a taxpayer's income for a taxation year shall not exceed the amount, if any, by which

(*a*) the total of all amounts each of which is

(i) the taxpayer's income for the year from a business in which computer tax shelter property owned by the taxpayer is used, computed without reference to any deduction under subsection (1) in respect of such property, or

(ii) the income of a partnership from a business in which computer tax shelter property of the partnership is used, to the extent of the share of such income that is included in computing the taxpayer's income for the year,

exceeds

(*b*) the total of all amounts each of which is

(i) a loss of the taxpayer from a business in which computer tax shelter property owned by the taxpayer is used, computed without reference to any deduction under subsection (1) in respect of such property, or

(ii) a loss of a partnership from a business in which computer tax shelter property is used, to the extent of the taxpayer's share of such loss that is included in computing the taxpayer's income for the year.

History: S. 1100(20.1) and the heading before it were replaced by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, applicable to property acquired on or after March 19, 2007. S. 1100(20.1) and the heading before it formerly read:

"*Computer Software Tax Shelter Property*

(20.1) The total of all amounts each of which is a deduction in respect of computer software tax shelter property allowed to the taxpayer under subsection (1) in computing a taxpayer's income for a taxation year shall not exceed the amount, if any, by which

(*a*) the total of all amounts each of which is

(i) the taxpayer's income for the year from a business in which computer software tax shelter property owned by the taxpayer is used, computed without reference to any deduction under subsection (1) in respect of such property, or

(ii) the income of a partnership from a business in which computer software tax shelter property owned by the partnership is used, to the extent of the taxpayer's share of such income that is included in computing the taxpayer's income for the year,

exceeds

(*b*) the total of all amounts each of which is

(i) a loss of the taxpayer from a business in which computer software tax shelter property is used, computed without reference to any deduction under subsection (1) in respect of such property, or

(ii) a loss of a partnership from a business in which computer software tax shelter property is used, to the extent of the taxpayer's share of such loss that is included in computing the taxpayer's income for the year."

S. 1100(20.1) was added by P.C. 2000-1000, SOR/2000-248, dated June 21, 2000, applicable to taxation years and fiscal periods that end after August 5, 1997, except that it does not apply in respect of computer software for taxation years and fiscal periods of a taxpayer or partnership that end in 1997 or 1998 where

(*a*) the taxpayer's or partnership's interest in the computer software

(i) is acquired before August 6, 1997,

(ii) is acquired before 1998 pursuant to an agreement in writing made by the taxpayer or partnership before August 6, 1997, or

(iii) is, or is associated with, a tax shelter investment (as defined by subsection 143.2(1) of the *Income Tax Act*) that is acquired by a taxpayer or partnership before 1998 pursuant to

(A) the terms of a document that is a prospectus, preliminary prospectus or registration statement where

(I) the document was filed before August 6, 1997 with a public authority in Canada pursuant to and in accordance with the securities legislation of Canada or of any province and, where required by law, accepted for filing by the public authority before August 6, 1997,

(II) the particular computer software is

1. identified in the document, or
2. acquired before November 29, 1997 from a person that is resident in Canada and that developed the software, and

(III) all the funds raised pursuant to the document are raised before 1998 and all or substantially all of the tax shelter investments that can reasonably be considered to be associated with the computer software are acquired before 1998 by a person who is not

1. a promoter, or an agent of a promoter, of the securities,
2. a vendor of the property,
3. a broker or dealer in securities, or
4. a person who does not deal at arm's length with a person referred to in sub-subclause 1 or 2, or

(B) the terms of an offering memorandum distributed as part of an offering of securities where

(I) the memorandum contained a complete or substantially complete description of the securities contemplated in the offering as well as the terms and conditions of the offering,

(II) the memorandum was distributed before August 6, 1997,

(III) solicitations in respect of the sale of the securities contemplated by the memorandum were made before August 6, 1997,

(IV) the sale of the securities was substantially in accordance with the memorandum,

(V) the particular computer software is

1. identified in the memorandum, or
2. acquired before November 29, 1997 from a person that is resident in Canada and that developed the software, and

(VI) all the funds raised pursuant to the memorandum were raised before 1998 and all or substantially all of the tax shelter investments that can reasonably be considered to be associated with the computer software are acquired before 1998 by a person who is not

1. a promoter, or an agent of a promoter, of the securities,
2. a vendor of the property,
3. a broker or dealer in securities, or
4. a person who does not deal at arm's length with any person referred to in sub-subclause 1 or 2;

(*b*) there is no agreement or other arrangement under which any of the following obligations can be changed, reduced or waived if there is a change to the *Income Tax Act* or if there is an adverse assessment under the Act:

(i) the obligation of the taxpayer or the partnership, with respect to the computer software, or

(ii) the obligation of another taxpayer or partnership that acquires a tax shelter investment (as defined by subsection 143.2(1) of the Act) that is associated with computer software, with respect to the tax shelter investment;

(*c*) the computer software is, or is associated with, one or more tax shelters sold or offered for sale at a time in circumstances in which section 237.1 of the *Income Tax Act* requires an identification number to have been obtained and the identification number was obtained before that time; and

(*d*) the computer software (including computer software to which subparagraph (*a*)(i) or (ii) applies) is, or is associated with, a tax shelter investment (as defined by subsection 143.2(1) of the *Income Tax Act*) sold or offered for sale pursuant to a document or offering memorandum described in subparagraph (*a*)(iii) and either

(i) the total amount of securities sold in 1997 pursuant to the document or offering memorandum does not exceed $100,000,000, or

(ii) at least 10% of the securities authorized to be sold in 1997 pursuant to the document or offering memorandum were in 1997 and before August 6, 1997 sold to, or subscribed for by, a person who is not
(A) a promoter, or an agent of a promoter, of the securities,
(B) a vendor of the computer software,
(C) a broker or dealer in securities, or
(D) a person who does not deal at arm's length with any person referred to in clause (A) or (B).

For the purpose of [the amendment above], computer software is deemed to be acquired by a taxpayer or partnership no earlier than the time and only to the extent that its cost is considered to be an expenditure made or incurred by the taxpayer or partnership for the purposes of the *Income Tax Act*, determined without reference to subsection 1100(20.1) of the Regulations as enacted by subsection 2(4).

(20.2) For the purpose of this Part, computer tax shelter property of a person or partnership is depreciable property of a prescribed class in Schedule II that is computer software or property described in Class 50 or 52 where

(*a*) the person's or partnership's interest in the property is a tax shelter investment (as defined by subsection 143.2(1) of the Act) determined without reference to subsection (20.1); or

(*b*) an interest in the person or partnership is a tax shelter investment (as defined by subsection 143.2(1) of the Act) determined without reference to subsection (20.1).

History: S. 1100(20.2), the portion before paragraph (*a*) was replaced by P.C. 2009-660, SOR/2009-126, dated April 30, 2009, applicable in respect of property acquired after January 27, 2009. S. 1100(20.2), the portion before paragraph (*a*) formerly read:

"(20.2) For the purpose of this Part, computer tax shelter property is computer software, and property described in Class 50 in Schedule II, that is depreciable property of a prescribed class of a person or partnership where"

S. 1100(20.2), the portion before paragraph (*a*) was replaced by P.C. 2009-581 SOR/2009-115, dated April 23, 2009, applicable to property acquired on or after March 19, 2007. S. 1100(20.2), the portion before paragraph (*a*), formerly read:

"(20.2) For the purpose of this Part, computer software tax shelter property is computer software that is depreciable property of a prescribed class of a person or partnership where"

S. 1100(20.2) was added by P.C. 2000-1000, SOR/2000-248, dated June 21, 2000, applicable to taxation years and fiscal periods that end after August 5, 1997, except that it does not apply in respect of computer software for taxation years and fiscal periods of a taxpayer or partnership that end in 1997 or 1998 where

(*a*) the taxpayer's or partnership's interest in the computer software
(i) is acquired before August 6, 1997,
(ii) is acquired before 1998 pursuant to an agreement in writing made by the taxpayer or partnership before August 6, 1997, or
(iii) is, or is associated with, a tax shelter investment (as defined by subsection 143.2(1) of the *Income Tax Act*) that is acquired by a taxpayer or partnership before 1998 pursuant to
(A) the terms of a document that is a prospectus, preliminary prospectus or registration statement where
(I) the document was filed before August 6, 1997 with a public authority in Canada pursuant to and in accordance with the securities legislation of Canada or of any province and, where required by law, accepted for filing by the public authority before August 6, 1997,
(II) the particular computer software is
1. identified in the document, or
2. acquired before November 29, 1997 from a person that is resident in Canada and that developed the software, and
(III) all the funds raised pursuant to the document are raised before 1998 and all or substantially all of the tax shelter investments that can reasonably be considered to be associated with the computer software are acquired before 1998 by a person who is not
1. a promoter, or an agent of a promoter, of the securities,
2. a vendor of the property,
3. a broker or dealer in securities, or
4. a person who does not deal at arm's length with a person referred to in sub-subclause 1 or 2, or
(B) the terms of an offering memorandum distributed as part of an offering of securities where
(I) the memorandum contained a complete or substantially complete description of the securities contemplated in the offering as well as the terms and conditions of the offering,
(II) the memorandum was distributed before August 6, 1997,
(III) solicitations in respect of the sale of the securities contemplated by the memorandum were made before August 6, 1997,
(IV) the sale of the securities was substantially in accordance with the memorandum,
(V) the particular computer software is
1. identified in the memorandum, or
2. acquired before November 29, 1997 from a person that is resident in Canada and that developed the software, and
(VI) all the funds raised pursuant to the memorandum were raised before 1998 and all or substantially all of the tax shelter investments that can reasonably be considered to be associated with the computer software are acquired before 1998 by a person who is not
1. a promoter, or an agent of a promoter, of the securities,
2. a vendor of the property,
3. a broker or dealer in securities, or
4. a person who does not deal at arm's length with any person referred to in sub-subclause 1 or 2;

(*b*) there is no agreement or other arrangement under which any of the following obligations can be changed, reduced or waived if there is a change to the *Income Tax Act* or if there is an adverse assessment under the Act:
(i) the obligation of the taxpayer or the partnership, with respect to the computer software, or
(ii) the obligation of another taxpayer or partnership that acquires a tax shelter investment (as defined by subsection 143.2(1) of the Act) that is associated with computer software, with respect to the tax shelter investment;

(*c*) the computer software is, or is associated with, one or more tax shelters sold or offered for sale at a time in circumstances in which section 237.1 of the *Income Tax Act* requires an identification number to have been obtained and the identification number was obtained before that time; and

(*d*) the computer software (including computer software to which subparagraph (*a*)(i) or (ii) applies) is, or is associated with, a tax shelter investment (as defined by subsection 143.2(1) of the *Income Tax Act*) sold or offered for sale pursuant to a document or offering memorandum described in subparagraph (*a*)(iii) and either
(i) the total amount of securities sold in 1997 pursuant to the document or offering memorandum does not exceed $100,000,000, or
(ii) at least 10% of the securities authorized to be sold in 1997 pursuant to the document or offering memorandum were in 1997 and before August 6, 1997 sold to, or subscribed for by, a person who is not
(A) a promoter, or an agent of a promoter, of the securities,
(B) a vendor of the computer software,
(C) a broker or dealer in securities, or
(D) a person who does not deal at arm's length with any person referred to in clause (A) or (B).

For the purpose of [the amendment above], computer software is deemed to be acquired by a taxpayer or partnership no earlier than the time and only to the extent that its cost is considered to be an expenditure made or incurred by the taxpayer or partnership for the purposes of the *Income Tax Act*, determined without reference to subsection 1100(20.1) of the Regulations as enacted by subsection 2(4).

Certified Films and Video Tapes

(21) Notwithstanding subsection (1), where a taxpayer (in this subsection and subsection (22) referred to as the "investor") has acquired property of Class 10 or 12 in Schedule II that is a certified feature film or certified production (in this subsection and subsection (22) referred to as the "film or tape"), in no case shall the deduction in respect of property of that class otherwise allowed to the investor by virtue of subsection (1) in computing the investor's income for a particular taxation year exceed the amount that it would be if the capital cost to the investor of the film or tape were reduced by the aggregate of amounts, each of which is

(*a*) where the principal photography or taping of the film or tape is not completed before the end of the particular taxation year, the amount, if any, by which
(i) the capital cost to the investor of the film or tape as of the end of the year exceeds the aggregate of
(ii) where the principal photography or taping of the film or tape is completed within 60 days after

the end of the year, the amount that may reasonably be considered to be the investor's proportionate share of the production costs incurred in respect of the film or tape before the end of the year,

(iii) where the principal photography or taping of the film or tape is not completed within 60 days after the end of the year, the amount that may reasonably be considered to be the investor's proportionate share of the lesser of

(A) the production costs incurred in respect of the film or tape before the end of the year, and

(B) the proportion of the production costs incurred to the date the principal photography or taping is completed that the percentage of the principal photography or taping completed as of the end of the year, as certified by the Minister of Communications, is of 100 per cent, and

(iv) the total of amounts determined under paragraphs (*b*) to (*e*) in respect of the film or tape as of the end of the year;

(*b*) where, at any time before the later of

(i) the date the principal photography or taping of the film or tape is completed, and

(ii) the date the investor acquired the film or tape,

a revenue guarantee (other than a revenue guarantee that is certified by the Minister of Communications to be a guarantee under which the person who agrees to provide the revenue is a licensed broadcaster or *bona fide* film or tape distributor) is entered into in respect of the film or tape whereby it may reasonably be considered certain, having regard to all the circumstances, that the investor will receive revenue under the terms of the revenue guarantee, the amount, if any, that may reasonably be considered to be the portion of the revenue that has not been included in the investor's income in the particular taxation year or a previous taxation year;

(*c*) where, at any time, a revenue guarantee, other than

(i) a revenue guarantee in respect of which paragraph (*b*) applies, or

(ii) a revenue guarantee under which the person (in this subsection referred to as the "guarantor") who agrees to provide the revenue under the terms of the guarantee is a person who does not deal at arm's length with either the investor or the person from whom the investor acquired the film or tape (in this subsection referred to as the "vendor") and in respect of which the Minister of Communications certifies that

(A) the guarantor is a licensed broadcaster or *bona fide* film or tape distributor, and

(B) the cost of the film or tape does not include any amount for or in respect of the guarantee,

is entered into in respect of the film or tape, the amount, if any, that may reasonably be considered to be the portion of the revenue that is to be received by the investor under the terms of the revenue guarantee that has not been included in the investor's income in the particular taxation year or a preceding taxation year, if

(iii) the guarantor and the investor are not dealing at arm's length,

(iv) the vendor and the guarantor are not dealing at arm's length, or

(v) the vendor or a person not dealing at arm's length with the vendor undertakes in any way, directly or indirectly, to fulfill all or any part of the guarantor's obligations under the terms of the revenue guarantee;

(*d*) where, at any time, a revenue guarantee, other than a revenue guarantee in respect of which paragraph (*b*) or (*c*) applies, is entered into in respect of the film or tape, the amount, if any, that may reasonably be considered to be the portion of the revenue that is to be received by the investor under the terms of the revenue guarantee that

(i) is not due to the investor until a time that is more than four years after the first day on which the guarantor has the right to the use of the film or tape, and

(ii) has not been included in the investor's income in the particular taxation year or a previous taxation year; and

(*e*) the portion of any debt obligation of the investor outstanding at the end of the particular year that is convertible into an interest in the film or tape or in the investor.

History: S. 1100(21)(*a*)(iv) was replaced, and paragraph (*e*) was added, by P.C. 2005-698, SOR/2005-126, dated May 3, 2005. The amendment to subparagraph 1100(2)(*a*)(iv), the addition of paragraph 1100(21)(*e*), and the addition of subsection 1100(21.1) are applicable to property acquired by a taxpayer or partnership after February 21, 1994, other than property so acquired before 1995

(*a*) [(3)(a)] by a taxpayer or a partnership pursuant to the terms of a written agreement entered into by the taxpayer or partnership before February 22, 1994;

(*b*) [(3)(b)] by a partnership pursuant to the terms of a prospectus, preliminary prospectus or registration statement filed before February 22, 1994 with a public authority in Canada pursuant to and in accordance with the securities legislation of Canada or of a province, and, where required by law, accepted for filing by the public authority; or

(*c*) [(3)(c)] by a partnership pursuant to the terms of an offering memorandum distributed as part of an offering of securities where

(i) the memorandum contained a complete or substantially complete description of the securities contemplated in the offering as well as the terms and conditions of the offering,

(ii) the memorandum was distributed before February 22, 1994,

(iii) solicitations in respect of the sale of the securities contemplated by the memorandum were made before February 22, 1994,

(iv) the sale of securities was substantially in accordance with the memorandum, and

(v) the funds raised pursuant to the terms of the memorandum were so raised before 1995.

(4) Notwithstanding the application above,

(*a*) [the amendment to subparagraph 1100(21)(*a*)(iv), the addition of paragraph 1100(21)(*e*), and the addition of subsection 1100(21.1)] apply after 1994 to property acquired at any time by a partnership where subsection 40(3.1) of the *Income Tax Act* does not apply to a member of the partnership before the end of the partnership's fifth fiscal period ending after 1994 solely because of the application of subsection 12(6) of *An Act to Amend the Income Tax Act and the Income Tax Application Rules*, S.C. 1995, c. 3; and

(*b*) [the amendment to subparagraph 1100(21)(*a*)(iv), the addition of paragraph 1100(21)(*e*), and the addition of subsection 1100(21.1)] apply after 1994 to property acquired after February 21, 1994 and before 1995 by a partnership pursuant to an agreement in writing entered into by the partnership after February 21, 1994 and before 1995, where

(i) paragraphs (3)(*b*) and (*c*) [the application above] do not otherwise apply,

(ii) the primary portion of the partnership interests is acquired before 1995,

(iii) all or substantially all of the property (other than money) of the partnership is a film production or an interest in one or more partner-

ships all or substantially all of the property of which is film productions,

(iv) the principal photography of the production (or, in the case of a production that is a television series, an episode of the series) commenced before 1995,

(v) the funds used to produce the film production are raised before 1995 and the principal photography of the production is completed, and the funds are expended, before 1995 (or, in the case of a certified production (as defined in subsection 1104(2) of the *Income Tax Regulations*), the principal photography of the production is completed, and the funds are expended, before March 2, 1995), and

(vi) either

(A) the producer of the production has

(I) before February 22, 1994, entered into a written agreement for the pre-production, distribution, broadcasting, financing or acquisition of the production or the acquisition of the screenplay for the production (or has entered into a written contract before February 22, 1994 with a screenwriter to write the screenplay for the production), or

(II) received before 1995 a commitment for funding or other government assistance (or an advance ruling or active status letter in respect of eligibility for such funding or other government assistance) for the production from a federal or provincial government agency whose mandate is related to the provision of assistance to film productions in Canada, or

(B) the production is a continuation of a television series in respect of an episode of which the producer has, before February 22, 1994, entered into an agreement or contract described in subclause (A)(I).

1100(21)(*a*)(iv) formerly read:

"(iv) the aggregate of amounts determined under paragraphs (*b*), (*c*) and (*d*) in respect of the film or tape as of the end of the year;"

S. 1100(21), that portion preceding paragraph (*a*), was amended by P.C. 1988-2795, SOR/89-27, dated December 27, 1988 and applicable with respect to property acquired after 1987. The amendments added the reference to Class 10 of Schedule II replaced "his" with "the investor's" and replaced "otherwise determined" with "that it would be" immediately preceding "if the capital cost to the investor".

S. 1100(21)(*c*) was amended by P.C. 1988-2795, SOR/89-27, dated December 27, 1988 and applicable in respect of property acquired after 1987. S. 1100(27)(*c*) formerly read:

"(*c*) where, at any time, a revenue guarantee, other than a revenue guarantee in respect of which paragraph (*b*) applies, is entered into in respect of the film or tape, the amount, if any, that may reasonably be considered to be the portion of the revenue that is to be received by the investor under the terms of the revenue guarantee that has not been included in the investor's income in the particular taxation year or a previous taxation year, if

(i) the person who agrees to provide the revenue under the terms of the revenue guarantee (in this subsection referred to as the 'guarantor') and the investor are not dealing at arm's length,

(ii) the person from whom the investor acquired the film or tape (in this subsection referred to as the 'vendor') and the guarantor are not dealing at arm's length, or

(iii) the vendor or a person not dealing at arm's length with the vendor undertakes in any way, directly or indirectly, to fulfill all or any part of the guarantor's obligations under the terms of the revenue guarantee; and"

S. 1100(21), the part preceding paragraph (*a*), was amended by P.C. 1986-477, SOR/86-254, dated February 27, 1986, to substitute "certified feature film or certified production" for "certified feature film, certified feature production or certified short production", applicable in respect of a motion picture film or video tape, the principal photography or taping of which commenced after 1985.

S. 1100(21)(*b*), the part following subparagraph (ii), was amended by P.C. 1986-477, SOR/86-254, dated February 27, 1986, to add the part within parentheses, applicable in respect of a motion picture film or video tape, the principal photography or taping of which commenced after 1984.

S. 1100(21)(*a*)(iii)(B) was amended by P.C. 1980-3374, SOR/80-942, dated December 11, 1980, to substitute "the Minister of Communications" for "the Secretary of State".

S. 1100(21) was added by P.C. 1978-3731, SOR/78-948 December 14, 1978 (Special Issue, *Canada Gazette*, December 31, 1978), applicable in respect of property acquired after 1978.

Interpretation Bulletins: *Secondary* — IT-441 Capital cost allowance — Certified feature productions and certified short productions [Archived by the CRA].

(21.1) Notwithstanding subsection (1), where a taxpayer has acquired property described in paragraph (*s*) of Class 10 in Schedule II, or in paragraph (*m*) of Class 12 of Schedule II, the deduction in respect of the property otherwise allowed to the taxpayer under subsection (1) in computing the taxpayer's income for a taxation year shall not exceed the amount that it would be if the capital cost to the taxpayer of the property were reduced by the portion of any debt obligation of the taxpayer outstanding at the end of the year that is convertible into an interest in the property or in the taxpayer.

History: S. 1100(21.1) was added by P.C. 2005-698, SOR/2005-126, dated May 3, 2005. For the application, see the history note for the amendment to 1100(21)(*a*)(iv) and the addition of 1100(21)(*e*) above.

(22) Notwithstanding subsection (1), where an investor has acquired a film or tape after his 1977 taxation year and before 1979 and the principal photography or taping in respect of the film or tape is completed after a particular taxation year and not later than March 1, 1979, in no case shall the deduction in respect of property of Class 12 in Schedule II otherwise allowed to the investor by virtue of subsection (1) in computing his income for the particular taxation year exceed the amount, otherwise determined, if the capital cost to the investor of the film or tape were reduced by the amount, if any, by which

(*a*) the capital cost to the investor of the film or tape as of the end of the year

exceeds

(*b*) the amount that may reasonably be considered to be the investor's proportionate share of the production costs incurred in respect of the film or tape to March 1, 1979.

History: S. 1100(22) was added by P.C. 1978-3731, SOR/78-948, dated December 14, 1978 (Special Issue, *Canada Gazette*, December 31, 1978).

Interpretation Bulletins: *Secondary* — IT-441 Capital cost allowance — Certified feature productions and certified short productions [Archived by the CRA].

(23) For the purposes of paragraph (21)(*a*),

(*a*) in respect of a film or tape acquired in 1987, other than a film or tape in respect of which paragraph (*b*) applies, the references in paragraph (21)(*a*) to "within 60 days after the end of the year" shall be read as references to "before July, 1988"; and

(*b*) in respect of a film or tape acquired in 1987 or 1988 that is included in paragraph (*n*) of Class 12 in Schedule II and that is part of a series of films or tapes that includes another property included in that paragraph, the references in paragraph (21)(*a*) to "within 60 days after the end of the year" shall be read as references to "before 1989".

History: S. 1100(23) was added by P.C. 1988-2795, SOR/89-27, dated December 27, 1988, applicable after 1986.

Specified Energy Property

(24) Notwithstanding subsection (1), in no case shall the total of deductions, each of which is a deduction in respect of property of Class 34, 43.1, 43.2, 47 or 48 in Schedule II that is specified energy property owned by a taxpayer, otherwise allowed to the taxpayer under subsection (1) in computing the taxpayer's income for a taxation year, exceed the amount, if any, by which

(*a*) the total of all amounts each of which is

(i) the total of

(A) the amount that would be the income of the taxpayer for the year from property described in Class 34, 43.1, 43.2, 47 or 48 in Schedule II (other than specified energy property), or from the business of selling the product of that property, if that income were calculated after deducting the maximum amount allowable in

respect of the property for the year under paragraph 20(1)(*a*) of the Act, and

(B) the taxpayer's income for the year from specified energy property or from the business of selling the product of that property, computed without regard to paragraph 20(1)(*a*) of the Act, or

(ii) the total of

(A) the taxpayer's share of the amount that would be the income of a partnership for the year from property described in Class 34, 43.1, 43.2, 47 or 48 in Schedule II (other than specified energy property), or from the business of selling the product of that property, if that income were calculated after deducting the maximum amount allowable in respect of the property for the year under paragraph 20(1)(*a*) of the Act, and

(B) the income of a partnership for the year from specified energy property or from the business of selling the product of that property of the partnership, to the extent of the taxpayer's share of that income,

exceeds

(*b*) the total of all amounts each of which is

(i) the taxpayer's loss for the year from specified energy property or from the business of selling the product of that property, computed without regard to paragraph 20(1)(*a*) of the Act, or

(ii) the loss of a partnership for the year from specified energy property or from the business of selling the product of that property of the partnership, to the extent of the taxpayer's share of that loss.

History: S. 1100(24), the portion before paragraph (*a*), was replaced by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, deemed to have come into force on February 23, 2005.

S. 1100(24), the portion before paragraph (*a*) formerly read:

"(24) Notwithstanding subsection (1), in no case shall the total of deductions, each of which is a deduction in respect of property of Class 34 or 43.1 in Schedule II that is specified energy property owned by a taxpayer, otherwise allowed to the taxpayer under subsection (1) in computing the taxpayer's income for a taxation year, exceed the amount, if any, by which"

S. 1100(24)(*a*)(i)(A) was replaced by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, deemed to have come into force on February 23, 2005.

S. 1100(24)(*a*)(i)(A) formerly read:

"(A) the amount that would be the income of the taxpayer for the year from property described in Class 34 or 43.1 in Schedule II (other than specified energy property), or from the business of selling the product of the property, if that income were calculated after deducting the maximum amount allowable in respect of the property for the year under paragraph 20(1)(*a*) of the Act, and"

S. 1100(24)(*a*)(ii)(A) was replaced by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, deemed to have come into force on February 23, 2005.

S. 1100(24)(*a*)(ii)(A) formerly read:

"(A) the taxpayer's share of the amount that would be the income of a partnership for the year from property described in Class 34 or 43.1 in Schedule II (other than specified energy property), or from the business of selling the product of that property, if that income were calculated after deducting the maximum amount allowable in respect of the property for the year under paragraph 20(1)(*a*) of the Act, and"

S. 1100(24) was amended by P.C. 1997-1033, SOR/97-377, dated July 28, 1997, applicable after February 21, 1994. S. 1100(24) formerly read:

"(24) Notwithstanding subsection (1), in no case shall the aggregate of deductions, each of which is a deduction in respect of property of Class 34 in Schedule II that is specified energy property owned by a taxpayer, otherwise allowed to the taxpayer by reason of subsection (1) in computing the taxpayer's income for a taxation year, exceed the amount, if any, by which

(*a*) the aggregate of amounts each of which is

(i) the aggregate of

(A) the taxpayer's designated Class 34 income for the year, and

(B) the taxpayer's income for the year from specified energy property or from the business of selling the product of such property, computed without regard to paragraph 20(1)(*a*) of the Act, or

(ii) the aggregate of

(A) the designated Class 34 income of a partnership for the year, to the extent of the taxpayer's share of such income, and

(B) the income of a partnership for the year from specified energy property or from the business of selling the product of such property of the partnership, to the extent of the taxpayer's share of such income,

exceeds

(*b*) the aggregate of amounts each of which is

(i) the taxpayer's loss for the year from specified energy property or from the business of selling the product of such property, computed without regard to paragraph 20(1)(*a*) of the Act, or

(ii) the loss of a partnership for the year from specified energy property or from the business of selling the product of such property of the partnership, to the extent of the taxpayer's share of such loss

and, for the purpose of this subsection, 'designated Class 34 income' means the amount that would be the income of the taxpayer or partnership, as the case may be, from property described in Class 34 (other than specified energy property) or from the business of selling the product of such property, if that income were calculated after deducting the maximum amount allowable in respect thereof for the year under paragraph 20(1)(*a*) of the Act."

S. 1100(24) was added by P.C. 1990-753, SOR/90-257, dated April 26, 1990, applicable in respect of taxation years ending after February 9, 1988.

Canadian Petroleum Tax Journal: Renewable Energy — Tax Developments and Opportunities, Leanne Sereda, Vol. 13 No. 1 2000.

(25) Subject to subsections (27) to (29), in this section and section 1101, "specified energy property" of a taxpayer or partnership (in this subsection referred to as "the owner") for a taxation year means property of Class 34 in Schedule II acquired by the owner after February 9, 1988 and property of Class 43.1, 43.2, 47 or 48 in Schedule II, other than a particular property

(*a*) acquired to be used by the owner primarily for the purpose of gaining or producing income from a business carried on in Canada (other than the business of selling the product of the particular property) or from another property situated in Canada, or

(*b*) leased in the year, in the ordinary course of carrying on a business of the owner in Canada, to

(i) a person who can reasonably be expected to use the property primarily for the purpose of gaining or producing income from a business carried on in Canada (other than the business of selling the product of the particular property) or from another property situated in Canada, or

(ii) a corporation or partnership described in subsection (26),

where the owner was

(iii) a corporation whose principal business was, throughout the year,

(A) the renting or leasing of leasing property or property that would be leasing property but for subsection (18), (19) or (20),

(B) the renting or leasing of property referred to in clause (A) combined with the selling and servicing of property of the same general type and description, or

(C) the manufacturing of property described in Class 34, 43.1, 43.2, 47 or 48 in Schedule II that it sells or leases,

and the gross revenue of the corporation for the year from that principal business was not less than 90 per cent of the gross revenue of the corporation for the year from all sources, or

(iv) a partnership each member of which was a corporation described in subparagraph (iii) or paragraph (26)(*a*).

History: S. 1100(25), the portion before paragraph (*a*), was replaced by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, deemed to have come into force on February 23, 2005.

S. 1100(25), the portion before paragraph (*a*), formerly read:

"(25) Subject to subsections (27) to (29), in this section and section 1101, 'specified energy property' of a taxpayer or partnership (in this subsection referred to as 'the owner') for a taxation year means property of Class 34 or 43.1 in Schedule II that was acquired by the owner after February 9, 1988 other than a particular property"

S. 1100(25)(*b*)(iii)(C) was replaced by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, deemed to have come into force on February 23, 2005.

S. 1100(25)(*b*)(iii)(C) formerly read:

"(C) the manufacturing of property described in Class 34 or 43.1 in Schedule II that it sells or leases,"

S. 1100(25), the portion before paragraph (*a*), was amended by P.C. 1997-1033, SOR/97-377, dated July 28, 1997, applicable after February 21, 1994. That portion formerly read:

"(25) Subject to subsections (27) to (29), in this section and section 1101, 'specified energy property' of a taxpayer or partnership (in this subsection referred to as 'the owner') for a taxation year means property of Class 34 in Schedule II that was acquired by the owner after February 9, 1988 other than a particular property."

S. 1100(25)(*b*)(iii)(C) was amended by P.C. 1997-1033, SOR/97-377, dated July 28, 1997, applicable after February 21, 1994. S. 1100(25)(*b*)(iii)(C) formerly read:

"(C) the manufacturing of property described in Class 34 in Schedule II that it sells or leases,"

S. 1100(25) was added by P.C. 1990-753, SOR/90-257, dated April 26, 1990, applicable in respect of taxation years ending after February 9, 1988.

(26) Subsection (24) does not apply to a taxation year of a taxpayer that was, throughout the year,

(*a*) a corporation whose principal business throughout the year was

(i) manufacturing or processing,

(ii) mining operations, or

(iii) the sale, distribution or production of electricity, natural gas, oil, steam, heat or any other form of energy or potential energy; or

(*b*) a partnership each member of which was a corporation described in paragraph (*a*).

History: S. 1100(26)(*a*) was amended by P.C. 1997-1033, SOR/97-377, dated July 28, 1997, applicable to taxation years ending after March 6, 1996.

S. 1100(26)(*a*) formerly read:

"(*a*) a corporation whose principal business was the sale, distribution or production of electricity, natural gas, oil, steam, heat or any other form of energy or potential energy; or"

S. 1100(26) was added by P.C. 1990-753, SOR/90-257, dated April 26, 1990, applicable in respect of taxation years ending after February 9, 1988.

(27) Specified energy property of a person or partnership does not include property acquired by the person or partnership after February 9, 1988 and before 1990

(*a*) pursuant to an obligation in writing entered into by the person or partnership before February 10, 1988;

(*b*) pursuant to the terms of a prospectus, preliminary prospectus, registration statement or offering memorandum filed before February 10, 1988 with a public authority in Canada pursuant to and in accordance with the securities legislation of any province;

(*c*) pursuant to the terms of an offering memorandum distributed as part of an offering of securities where

(i) the offering memorandum contained a complete or substantially complete description of the securities contemplated in the offering as well as the terms and conditions of the offering of the securities,

(ii) the offering memorandum was distributed before February 10, 1988,

(iii) solicitations in respect of the sale of the securities contemplated by the offering memorandum were made before February 10, 1988, and

(iv) the sale of the securities was substantially in accordance with the offering memorandum; or

(*d*) as part of a project where, before February 10, 1988,

(i) some of the machinery or equipment to be used in the project had been acquired, or agreements in writing for the acquisition of that machinery or equipment had been entered into, by or on behalf of the person or partnership, and

(ii) an approval had been received by or on behalf of the person or partnership from a government environmental authority in respect of the location of the project.

History: S. 1100(27) was added by P.C. 1990-753, SOR/90-257, dated April 26, 1990, applicable in respect of taxation years ending after February 9, 1988.

(28) A property acquired by a taxpayer

(*a*) in the course of a reorganization in respect of which, if a dividend were received by a corporation in the course of the reorganization, subsection 55(2) of the Act would not be applicable to the dividend by reason of the application of paragraph 55(3)(*b*) of the Act, or

(*b*) from a person with whom the taxpayer was not dealing at arm's length (otherwise than by virtue of a right referred to in paragraph 251(5)(*b*) of the Act) at the time the property was acquired

that would otherwise be specified energy property of the taxpayer shall be deemed not to be specified energy property of the taxpayer if, immediately before it was so acquired by the taxpayer, it was not, by virtue of subsection (27), this subsection or subsection (29), specified energy property of the person from whom the property was so acquired.

History: S. 1100(28) was added by P.C. 1990-753, SOR/90-257, dated April 26, 1990, applicable in respect of taxation years ending after February 9, 1988.

(29) A property acquired by a taxpayer or partnership that is a replacement property (within the meaning assigned by subsection 13(4) of the Act), that would otherwise be specified energy property of the taxpayer or partnership, shall be deemed not to be specified energy property of the taxpayer or partnership if the property replaced, referred to in paragraph 13(4)(*a*) or (*b*) of the Act, was, by virtue of subsection (27), (28) or this subsection, not specified energy property of the taxpayer or partnership immediately before it was disposed of by the taxpayer or partnership.

History: S. 1100(29) was added by P.C. 1990-753, SOR/90-257, dated April 26, 1990, applicable in respect of taxation years ending after February 9, 1988.

Exempt Mining Income

1100A. (1) [Revoked.]

(2) Any election under subparagraph 13(21)(*f*)(vi) of the Act in respect of property of a prescribed class acquired by a corporation for the purpose of gaining or producing income from a mine shall be made by filing with the Min-

ister, not later than the day on or before which the corporation is required to file a return of income pursuant to section 150 of the Act for its taxation year in which the exempt period in respect of the mine ended, one of the following documents in duplicate:

(*a*) where the directors of the corporation are legally entitled to administer the affairs of the corporation, a certified copy of their resolution authorizing the election to be made in respect of that class; and

(*b*) where the directors of the corporation are not legally entitled to administer the affairs of the corporation, a certified copy of the authorization of the making of the election in respect of that class by the person or persons legally entitled to administer the affairs of the corporation.

History: S. 1100A(1) was revoked by P.C. 1988-390, SOR/88-165, dated March 3, 1988 and effective October 29, 1985. S. 1100A(1) formerly read:

"(1) Where, by virtue of an election made by a corporation under subsection 28(1) of the *Income Tax Application Rules, 1971*, income derived from the operation of a mine that is gained or produced during a certain period (in this subsection and subsection (2) referred to as the 'exempt period' in respect of that mine) is not included in computing the income of the corporation, paragraphs 1100(1)(*w*) and (*x*) do not apply in respect of property of a prescribed class acquired before the end of the exempt period by the corporation for the purpose of gaining or producing income from the mine unless the corporation has, in the manner specified in subsection (2), made an election under subparagraph 13(21)(*f*)(vi) of the Act in respect of property of that class and in respect of its taxation year in which the exempt period with respect to the mine ended and all subsequent taxation years."

S. 1100A(1) was amended by P.C. 1979-1487, SOR/79-426, May 22, 1979, by adding "before the end of the exempt period".

Ss. 1100A(1) and (2) were amended by P.C. 1978-1315, SOR/78-377, dated April 24, 1978 (Special Issue, *Canada Gazette*, December 31, 1978), to change the reference to clause 13(21)(*f*)(iv) to read as clause 13(21)(*f*)(vi), effective on and after May 26, 1976.

DIVISION II
SEPARATE CLASSES

BUSINESSES AND PROPERTIES

1101. **(1)** Where more than one property of a taxpayer is described in the same class in Schedule II and where

(*a*) one of the properties was acquired for the purpose of gaining or producing income from a business, and

(*b*) one of the properties was acquired for the purpose of gaining or producing income from another business or from the property,

a separate class is hereby prescribed for the properties that

(*c*) were acquired for the purpose of gaining or producing income from each business; and

(*d*) would otherwise be included in the class.

History: S. 1101(1), that portion following paragraph (*b*) thereof, was amended by P.C. 1980-2081, SOR/80-618, dated July 31, 1980, to substitute paragraphs (*c*) and (*d*) for subparagraphs (i) and (ii), effective August 15, 1979.

Interpretation Bulletins: *Secondary* — IT-206R Separate businesses; IT-218R Profit, capital gains and losses from the sale of real estate, including farmland and inherited land and conversion of real estate from capital property to inventory and vice versa; IT-474R Amalgamations of Canadian corporations.

(1a) For the purposes of subsection (1),

(*a*) a life insurance business, and

(*b*) an insurance business other than a life insurance business,

shall each be regarded as a separate business.

(1ab) Where, at the end of 1971, more than one property of a taxpayer who was a member of a partnership at that time is described in the same class in Schedule II and where

(*a*) one of the properties can reasonably be regarded to be the interest of the taxpayer in a depreciable property that is partnership property of the partnership, and

(*b*) one of the properties is property other than property referred to in paragraph (*a*),

a separate class is hereby prescribed for all properties each of which

(*c*) is a property referred to in paragraph (*a*); and

(*d*) would otherwise be included in the class.

(1ac) Subject to subsection (5h), where more than one property of a taxpayer is described in the same class in Schedule II, and one or more of the properties is a rental property of the taxpayer the capital cost of which to the taxpayer was not less than $50,000, a separate class is hereby prescribed for each such rental property of the taxpayer that would otherwise be included in the same class, other than a rental property that was acquired by the taxpayer before 1972 or that is

(*a*) a building or an interest therein, or

(*b*) a leasehold interest acquired by the taxpayer by reason of the fact that the taxpayer erected a building on leased land,

erection of which building was commenced by the taxpayer before 1972 or pursuant to an agreement in writing entered into by the taxpayer before 1972.

History: S. 1101(1ac), that portion preceding paragraph (*a*), was amended by P.C. 1982-599, SOR/82-265, dated February 26, 1982, to add "Subject to subsection (5h)" in the beginning of the subsection.

Interpretation Bulletins: *Primary* — IT-274R Rental properties — Capital cost of $50,000 or more. *Secondary* — IT-304R2 Condominiums.

(1ad) Notwithstanding subsection (1ac), a rental property acquired by a taxpayer

(*a*) in the course of a reorganization in respect of which, if a dividend were received by a corporation in the course of the reorganization, subsection 55(2) of the Act would not be applicable to the dividend by reason of the application of paragraph 55(3)(*b*) of the Act, or

(*b*) from a person with whom the taxpayer was not dealing at arm's length (otherwise than by virtue of a right referred to in paragraph 251(5)(*b*) of the Act) at the time the property was acquired,

that would otherwise be rental property of the taxpayer of a separate class prescribed under subsection (1ac), shall be deemed not to be property of a separate class prescribed under that subsection if, immediately before it was so acquired by the taxpayer, it was a rental property of the person from whom the property was so acquired of a prescribed class other than a separate class prescribed under that subsection.

History: Ss. 1101(1ad)(*a*) to (*c*) were amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, applicable in respect of property acquired by a taxpayer after June 17, 1987 other than property acquired after that date and before 1990 pursuant to an agreement in writing entered into by the taxpayer before June 18, 1987. Ss. 1101(1ad)(*a*) to (*c*) formerly read;

"(*a*) in a transaction in respect of which an election was made under subsection 85(1) or (2), 97(2) or 98(3) or section 115.1 of the Act,

(*a.1*) in a transaction in respect of which subsection 85(5.1) or 98(5) of the Act is applicable,

(*b*) by virtue of an amalgamation (within the meaning assigned by section 87 of the Act), or

(*c*) as the result of the winding-up of a Canadian corporation in respect of which subsection 88(1) of the Act is applicable."

S. 1101(1ad)(*a*) was amended by P.C. 1988-1473, SOR/88-392 dated July 21, 1988 to add the reference to section 115.1, applicable to taxation years commencing after 1984.

S. 1101(1ad)(a.1) was added by P.C. 1984-3789, SOR/84-948, dated November 29, 1984 and applicable with respect to property acquired after November 12, 1981.

Interpretation Bulletins: *Secondary* — IT-274R Rental properties — Capital cost of $50,000 or more.

(1ae) Except in the case of a corporation or partnership described in subsection 1100(12), where more than one property of a taxpayer is described in the same class in Schedule II and where

(*a*) one of the properties is a rental property other than a property of a separate class prescribed under subsection (1ac), and

(*b*) one of the properties is a property other than rental property,

a separate class is hereby prescribed for properties that

(*c*) are described in paragraph (*a*); and

(*d*) would otherwise be included in the class.

Interpretation Bulletins: *Secondary* — IT-195R4 Rental property — Capital cost allowance restrictions; IT-304R2 Condominiums.

(1af) A separate class is hereby prescribed for each property included in Class 10.1 in Schedule II.

History: S. 1101(1af) was added by P.C. 1991-2272, SOR/91-673, dated November 21, 1991, applicable to taxation years and fiscal periods commencing after June 17, 1987 that end after 1987.

Interpretation Bulletins: *Secondary* — IT-521R Motor vehicle expenses claimed by self-employed individuals; IT-522R Vehicle, Travel and Sales Expenses of Employees.

Pending Amendment

Technical Amendments — November 9, 2006

[The explanatory notes for the amendments for subsections 13(4.2) and (4.3) of the Act contained in the Technical Amendments re-released on November 9, 2006 (Part 2 of former Bill C-10)] proposed that section 1101 of the Regulations be amended, applicable after December 20, 2002, by adding the following after subsection (1af):

(1ag) If more than one property of a taxpayer is described in the same class in Schedule II, and one or more of the properties is a property in respect of which the taxpayer is a transferee that has elected under subsection 13(4.2) of the Act, a separate class is prescribed for each such property of the taxpayer that would otherwise be included in the same class.

Applicable: After December 20, 2002.

Explanatory Note: There may be circumstances where, but for an election under subsection 13(4.2), a portion of the consideration given by a transferee upon the sale of a limited period franchise, license or concession might reasonably be considered to be an eligible capital amount to the transferor and an eligible capital expenditure to the transferee. For instance, a portion of the consideration may reasonably relate to the preferred status that the transferee may receive in obtaining a new property at the end of the term. Where an election under subsection 13(4.2) is made, subsection 13(4.3) provides that such an amount will be neither an eligible capital amount to the transferor, nor an eligible capital expenditure to the transferee, but will instead be included in the cost to the transferee and proceeds of disposition of the transferor of the former property.

In this regard, it is also proposed that section 1101 of the Regulations be amended, applicable after December 20, 2002, by adding the following after subsection (1af):

(1ag) If more than one property of a taxpayer is described in the same class in Schedule II, and one or more of the properties is a property in respect of which the taxpayer is a transferee that has elected under subsection 13(4.2) of the Act, a separate class is prescribed for each such property of the taxpayer that would otherwise be included in the same class.

If, subsequent to the acquisition of the former property by the transferee, the life of the former property expires and a similar property in respect of the same fixed place is not acquired by the transferee, the transferee may, under subsection 20(16) of the Act, be entitled to a terminal loss in respect of the former property. Refer to the commentary to new paragraph 20(16.1)(*b*) of the Act regarding limitations in respect of the deduction of such a terminal loss.

(1b) [Revoked.]

(1c) [Revoked.]

History: Ss. 1101(1b) and (1c) were revoked by P.C. 1979-2483, SOR/79-670 (September 13, 1979), effective in respect of the 1978 and subsequent taxation years. Ss. 1101(1b) and (1c) formerly read:

"(1b) where more than one property of a life insurer is described in the same class in Schedule II and where

(*a*) one of the properties is property included in a particular segregated fund, and

(*b*) one of the properties is not property included in that segregated fund,

a separate class is hereby prescribed for the properties that

(*c*) are properties included in that segregated fund; and

(*d*) would otherwise be included in the class.

(1c) Where more than one building of a life insurer is described in the same class in Schedule II and where

(*a*) one of the buildings is a building at least 80 per cent of which is used regularly in the taxation year by the insurer for the purpose of earning its gross Canadian life investment income, and

(*b*) one of the buildings is not a building described in paragraph (*a*),

a separate class is hereby prescribed for the buildings that

(*c*) are buildings described in paragraph (*a*); and

(*d*) would otherwise be included in the class."

Fishing Vessels

(2) Where a property of a taxpayer that would otherwise be included in Class 7 in Schedule II is a property in respect of which a depreciation allowance could have been taken under Order in Council

(*a*) P.C. 2798 of April 10, 1942,

(*b*) P.C. 7580 of August 26, 1942, as amended by P.C. 3297 of April 22, 1943, or

(*c*) P.C. 3979 of June 1, 1944,

if those Orders in Council were applicable to the taxation year, a separate class is hereby prescribed for each property, including the furniture, fittings and equipment attached thereto.

Canadian Vessels

(2a) A separate class is hereby prescribed for each vessel of a taxpayer, including the furniture, fittings, radiocommunication equipment and other equipment attached thereto, that

(*a*) was constructed in Canada;

(*b*) is registered in Canada; and

(*c*) had not been used for any purpose whatever before it was acquired by the taxpayer.

History: S. 1101(2a), the portion preceding paragraph (*a*), and its heading were amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to property acquired after July 13, 1990. S. 1101(2a) and its heading formerly read:

"*Certified Vessels*

(2a) A separate class is hereby prescribed for each vessel of a taxpayer, including the furniture, fittings, radiocommunication equipment and other equipment attached thereto, in respect of which the Minister of Industry, Trade and Commerce certifies that the vessel"

Interpretation Bulletins: *Secondary* — IT-267R2 Capital cost allowance — Vessels; IT-317R Capital cost allowance — Radio and television equipment [Archived by the CRA].

Offshore Drilling Vessels

(2b) A separate class is hereby prescribed for all vessels described in Class 7 in Schedule II, including the furniture, fittings, radiocommunication equipment and other equipment attached thereto, acquired by a taxpayer

(*a*) after May 25, 1976 and designed principally for the purpose of

(i) determining the existence, location, extent or quality of accumulations of petroleum or natural gas (other than mineral resources), or

(ii) drilling oil or gas wells; or

(*b*) after May 22, 1979 and designed principally for the purpose of determining the existence, location, extent or quality of mineral resources.

History: S. 1101(2b) was amended by P.C. 1979-1487, SOR/79-426, May 22, 1979, to redesignate the former paragraph (*b*) as subparagraph (*a*)(ii) and to add new paragraph (*b*).

Interpretation Bulletins: *Secondary* — IT-267R2 Capital cost allowance — Vessels; IT-317R Capital cost allowance — Radio and television equipment [Archived by the CRA].

Vessels and a Structured Financing Facility

(2c) Subsections (2a) and (2b) do not apply to a vessel, nor to the furniture, fittings, radio communications equipment and other equipment attached to the vessel, if a structured financing facility relating to any such property has been agreed to by the Minister of Industry under the *Department of Industry Act*.

History: S. 1101(2c) was added by P.C. 2005-2186, SOR/2005-371, dated November 22, 2005, deemed to have come into force on November 7, 2001.

Timber Limits and Cutting Rights

(3) For the purposes of this Part and Schedules IV and VI, each property of a taxpayer that is

(*a*) a timber limit other than a timber resource property, or

(*b*) a right to cut timber from a limit other than a right that is a timber resource property,

is hereby prescribed to be a separate class of property.

Interpretation Bulletins: *Secondary* — IT-469R Capital cost allowance — Earth-moving equipment; IT-481 (Consolid.) Timber resource property and timber limits.

Industrial Mineral Mines

(4) For the purposes of this Part and Schedule V, where a taxpayer has

(*a*) more than one industrial mineral mine in respect of which he may claim an allowance under paragraph 1100(1)(*g*),

(*b*) more than one right to remove industrial minerals from an industrial mineral mine in respect of which he may claim an allowance under that paragraph, or

(*c*) both such a mine and a right,

each such industrial mineral mine and each such right to remove industrial minerals from an industrial mineral mine is hereby prescribed to be a separate class of property.

Interpretation Bulletins: *Secondary* — IT-492 Capital cost allowance — Industrial mineral mines.

New or Expanded Mines Properties

(4a) Where more than one property of a taxpayer is described in Class 28 in Schedule II and

(*a*) one of the properties was acquired for the purpose of gaining or producing income from only one mine, and

(*b*) one of the properties was acquired for the purpose of gaining or producing income from another mine,

a separate class is hereby prescribed for the properties that

(*c*) were acquired for the purpose of gaining or producing income from each mine;

(*d*) would otherwise be included in the class; and

(*e*) are not included in a separate class by virtue of subsection (4b).

(4b) Where more than one property of a taxpayer is described in Class 28 in Schedule II and

(*a*) one of the properties was acquired for the purpose of gaining or producing income from particular mines, and

(*b*) one of the properties was acquired for the purpose of gaining or producing income from only one mine or more than one mine other than any of the particular mines,

a separate class is hereby prescribed for the properties that

(*c*) were acquired for the purpose of gaining or producing income from the particular mines; and

(*d*) would otherwise be included in the class.

(4c) Where one or more properties of a taxpayer are described in paragraph (*a*), (*a*.1) or (*a*.2) of Class 41 in Schedule II and

(*a*) where all of the properties were acquired for the purpose of gaining or producing income from only one mine, or

(*b*) where

(i) one or more of the properties were acquired for the purpose of gaining or producing income from a particular mine, and

(ii) one or more of the properties were acquired for the purpose of gaining or producing income from another mine,

a separate class is hereby prescribed for the properties that

(*c*) were acquired for the purpose of gaining or producing income from each mine,

(*d*) would otherwise be included in the class, and

(*e*) are not included in a separate class by reason of subsection (4d).

History: S. 1101(4c), the portion before paragraph (*a*) was amended by P.C. 1998-49, SOR/98-97, dated January 26, 1998, applicable after March 6, 1996. S. 1101(4)(c) formerly read:

"(4c) Where one or more properties of a taxpayer are described in paragraph (*a*) of Class 41 in Schedule II and"

S. 1101(4c) was added by P.C. 1989-2464, SOR/90-22, dated December 14, 1989 and applicable in respect of property acquired after 1987.

Interpretation Bulletins: *Secondary* — IT-476R Capital cost allowance — Equipment used in petroleum and natural gas activities.

(4d) Where more than one property of a taxpayer is described in paragraph (*a*), (*a*.1) or (*a*.2) of Class 41 in Schedule II and

(*a*) one of the properties was acquired for the purpose of gaining or producing income from particular mines, and

(*b*) one of the properties was acquired for the purpose of gaining or producing income from only one mine or more than one mine other than any of the particular mines,

a separate class is hereby prescribed for the properties that

(*c*) were acquired for the purpose of gaining or producing income from the particular mines, and

(*d*) would otherwise be included in the class.

History: S. 1101(4d), the portion before paragraph (*a*) was amended by P.C. 1998-49, SOR/98-97, dated January 26, 1998, applicable after March 6, 1996. S. 1101(4d), the portion before paragraph (*a*) formerly read:

"(4d) Where more than one property of a taxpayer is described in paragraph (*a*) of Class 41 in Schedule II and"

S. 1101(4d) was added by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, applicable in respect of property acquired after 1987.

Interpretation Bulletins: *Secondary* — IT-476R Capital cost allowance — Equipment used in petroleum and natural gas activities.

Lease Option Agreements

(5) Where, by virtue of an agreement, contract or arrangement entered into on or after May 31, 1954, a taxpayer is deemed by section 18 of the *Income Tax Act*, as enacted by the Statutes of Canada, 1958, Chapter 32, subsection 8(1), to have acquired a property, a separate class is hereby prescribed for each such property and if the taxpayer subsequently actually acquires the property it shall be included in the same class.

Telecommunication Spacecraft

(5a) For the purposes of this Part, each property of a taxpayer that is an unmanned telecommunication spacecraft described in paragraph (*f.2*) of Class 10 or in Class 30 in Schedule II is hereby prescribed to be a separate class of property.

History: S. 1101(5a) was amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989 to add "an unmanned" and to substitute "in paragraph (*f.2*) of Class 10 or in Class 30" for "in Class 30", applicable in respect of property acquired after 1987.

Multiple-Unit Residential Buildings

(5b) For the purposes of this Part, when any property of a taxpayer is a property of Class 31 or 32 in Schedule II and the capital cost of that property to the taxpayer was not less than $50,000, a separate class is hereby prescribed for each such property of the taxpayer that would otherwise be included in the same class.

Interpretation Bulletins: *Secondary* — IT-274R Rental properties — Capital cost of $50,000 or more.

Eligible Non-Residential Building

(5b.1) For the purposes of this Part, a separate class is prescribed for each eligible non-residential building of a taxpayer in respect of which the taxpayer has (by letter attached to the return of income of the taxpayer filed with the Minister in accordance with section 150 of the Act for the taxation year in which the building is acquired) elected that this subsection apply.

History: S. 1101(5b.1) was added by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, applicable to property acquired on or after March 19, 2007.

If a taxpayer files in writing an election referred to in subsection 1101(5b.1), the election is deemed to have been filed in the manner and by the time required if the election is received by the Minister of National Revenue no later than 90 days after May 13, 2009 (the day on which these Regulations were published in the *Canada Gazette*, Part II).

Leasing Properties

(5c) For the purposes of this Part, except in the case of a corporation or partnership described in subsection 1100(16), where more than one property of a taxpayer is described in the same class in Schedule II and where

(*a*) one of the properties is a leasing property, and

(*b*) one of the properties is a property other than a leasing property,

a separate class is hereby prescribed for properties that

(*c*) are described in paragraph (*a*); and

(*d*) would otherwise be included in the class.

Interpretation Bulletins: *Secondary* — IT-443 Leasing property — Capital cost allowance restrictions.

Railway Cars

(5d) Where more than one property of a taxpayer is a railway car included in Class 35 in Schedule II that was rented, leased or used by the taxpayer in Canada in the taxation year, other than a railway car owned by a corporation, or a partnership any member of which is a corporation, that

(*a*) was at any time in that taxation year a common carrier that owned or operated a railway, or

(*b*) rented or leased the railway cars at any time in that taxation year, by one or more transactions between persons not dealing at arm's length, to an associated corporation that was, at that time, a common carrier that owned or operated a railway,

a separate class is prescribed

(*c*) for all such properties acquired by the taxpayer before February 3, 1990 (other than such properties acquired for rent or lease to another person),

(*d*) for all such properties acquired by the taxpayer after February 2, 1990 (other than such properties acquired for rent or lease to another person),

(*e*) for all such properties acquired by the taxpayer before April 27, 1989 for rent or lease to another person, and

(*f*) for all such properties acquired by the taxpayer after April 26, 1989 for rent or lease to another person.

History: S. 1101(5d) was amended by P.C. 1991-465, SOR/91-196, dated March 14, 1991, applicable after April 26, 1989 except that s. 1101(5d), shall, in respect of property of a taxpayer

(*a*) acquired by the taxpayer after April 26, 1989 and before February 3, 1990,

(*b*) acquired by the taxpayer after February 2, 1990 pursuant to an agreement in writing entered into by the taxpayer before February 3, 1990, or

(*c*) under construction by or on behalf of the taxpayer before February 3, 1990,

be read without reference to paragraph (*d*) thereof and to the words "before February 3, 1990" in paragraph (*c*) thereof.

S. 1101(5d) formerly read:

"(5d) A separate class is hereby prescribed for all railway cars included in Class 35 in Schedule II that are owned by a taxpayer and rented, leased or used by him in Canada in the taxation year, other than railway cars owned by a corporation, or a partnership any member of which is a corporation, that

(*a*) was at any time in that taxation year a common carrier that owned or operated a railway; or

(*b*) rented or leased the railway cars at any time in that taxation year, by one or more transactions between persons not dealing at arm's length, to an associated corporation that was, at that time, a common carrier that owned or operated a railway."

(5d.1) A separate class is hereby prescribed for all property included in Class 35 in Schedule II acquired at a time after December 6, 1991 and before February 28, 2000 by a taxpayer that was at that time a common carrier that owned and operated a railway.

History: S. 1101(5d.1) was replaced by P.C. 2005-2186, SOR/2005-371, dated November 22, 2005, applicable to property acquired after February 27, 2000.

S. 1101(5d.1) formerly read:

"(5d.1) A separate class is hereby prescribed for all property included in Class 35 in Schedule II acquired at a time after December 6, 1991 by a taxpayer that was at that time a common carrier that owned and operated a railway."

S. 1101(5d.1) was added by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to property acquired after December 6, 1991.

(5d.2) A separate class is hereby prescribed for all property included in Class 35 in Schedule II acquired at a

time after February 27, 2000 by a taxpayer that was at that time a common carrier that owned and operated a railway.

History: S. 1101(5d.2) was added by P.C. 2005-2186, SOR/2005-371, dated November 22, 2005, applicable to property acquired after February 27, 2000.

Railway Track and Related Property

(5e) A separate class is hereby prescribed for all property included in Class 1 in Schedule II acquired by a taxpayer after March 31, 1977 and before 1988 that is

(*a*) railway track and grading, including components such as rails, ballast, ties and other track material;

(*b*) railway traffic control or signalling equipment, including switching, block signalling, interlocking, crossing protection, detection, speed control or retarding equipment, but not including property that is principally electronic equipment or systems software therefor; or

(*c*) a bridge, culvert, subway or tunnel that is ancillary to railway track and grading.

History: S. 1101(5e) was amended by P.C. 1984-2044, SOR/84-454, dated June 14, 1984, to substitute "1988" for "1983".

S. 1101(5e) was amended by P.C. 1981-733, SOR/81-244, March 19, 1981, to substitute "1983" for "April 1, 1980", effective April 1, 1980.

S. 1101(5e) and its heading were added by P.C. 1978-344, SOR/78-137, February 10, 1978 (Special Issue, *Canada Gazette*, December 31, 1978), effective after March 31, 1977.

(5e.1) A separate class is hereby prescribed for all property included in Class 1 in Schedule II acquired at a time after December 6, 1991 by a taxpayer that was at that time a common carrier that owned and operated a railway, where the property is

(*a*) railway track and grading, including components such as rails, ballast, ties and other track material;

(*b*) railway traffic control or signalling equipment, including switching, block signalling, interlocking, crossing protection, detection, speed control or retarding equipment, but not including property that is principally electronic equipment or systems software therefor; or

(*c*) a bridge, culvert, subway or tunnel that is ancillary to railway track and grading.

History: S. 1101(5e.1) was added by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to property acquired after December 6, 1991.

(5e.2) A separate class is hereby prescribed for all trestles included in Class 3 in Schedule II acquired at a time after December 6, 1991 by a taxpayer that was at that time a common carrier that owned and operated a railway, where the trestles are ancillary to railway track and grading.

History: S. 1101(5e.2) was added by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to property acquired after December 6, 1991.

(5f) A separate class is hereby prescribed for all trestles included in Class 3 in Schedule II acquired by a taxpayer after March 31, 1977 and before 1988 that are ancillary to railway track and grading.

History: S. 1101(5f) was amended by P.C. 1984-2044, SOR/84-454, dated June 14, 1984, to substitute "1988" for "1983".

Ss. 1101(5f) was amended by P.C. 1981-733, SOR/81-244, March 19, 1981, to substitute "1983" for "April 1, 1980", effective April 1, 1980.

S. 1101(5f) and its heading were added by P.C. 1978-344, SOR/78-137, February 10, 1978 (Special Issue, *Canada Gazette*, December 31, 1978), effective after March 31, 1977.

Deemed Depreciable Property

(5g) A separate class is hereby prescribed for each property of a taxpayer described in Class 36 in Schedule II.

History: S. 1101(5g) was added by P.C. 1982-599, SOR/82-265, dated February 26, 1982, applicable in respect of property acquired after December 11, 1979.

Leasehold Interest in Real Properties

(5h) For the purposes of this Part, where more than one property of a taxpayer is described in the same class in Schedule II and where

(*a*) one of the properties is a leasehold interest in real property described in subsection 1100(13), and

(*b*) one of the properties is a property other than a leasehold interest in real property described in subsection 1100(13),

a separate class is hereby prescribed for properties that

(*c*) are described in paragraph (*a*); and

(*d*) would otherwise be included in the class.

History: S. 1101(5h) was added by P.C. 1982-599, SOR/82-265, dated February 26, 1982.

Pipelines

(5i) A separate class is hereby prescribed for each property of a taxpayer described in Class 2 in Schedule II that is

(*a*) a pipeline the construction of which was commenced after 1984 and completed after September 1, 1985 and the capital cost of which to the taxpayer is not less than $10,000,000,

(*b*) a pipeline that has been extended or converted where the extension or conversion was completed after September 1, 1985 and the capital cost to the taxpayer of the extension or the cost to him of the conversion, as the case may be, is not less than $10,000,000, or

(*c*) a pipeline that has been extended and converted as part of a single program of extension and conversion of the pipeline where the program was completed after September 1, 1985 and the aggregate of the capital cost to the taxpayer of the extension and the cost to him of the conversion is not less than $10,000,000,

and in respect of which the taxpayer has, by letter attached to the return of his income filed with the Minister in accordance with section 150 of the Act for the taxation year in which the construction, extension, conversion or program, as the case may be, was completed, elected that this subsection apply.

History: S. 1101(5i) was added by P.C. 1986-193, SOR/86-156, dated January 23, 1986, effective February 5, 1986.

(5j) An election under subsection (5i), (5l) or (5o) shall be effective from the first day of the taxation year in respect of which the election is made and shall continue to be effective for all subsequent taxation years.

History: S. 1101(5j) was amended by P.C. 1991-465, SOR/91-196, dated March 14, 1991, to add the reference to s. 1101(5o), applicable in respect of taxation years ending after April 26, 1989.

S. 1101(5j) was amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989 to add the reference to s. 1101(5l), applicable in respect of property acquired after 1987.

S. 1101(5j) was added by P.C. 1986-193, SOR/86-156, dated January 23, 1986, effective February 5, 1986.

Certified Productions

(5k) A separate class is hereby prescribed for all property of a taxpayer included in Class 10 in Schedule II by reason of paragraph (*w*) thereof.

History: S. 1101(5k) was added by P.C. 1988-2795, SOR/89-27, dated December 27, 1988, applicable in respect of property acquired after 1987.

Interpretation Bulletins: *Secondary* — IT-283R2 Capital cost allowance — Video tapes, videotape cassettes, films, computer software and master recording media [Archived by the CRA].

Canadian Film or Video Production

(5k.1) A separate class is hereby prescribed for all property of a corporation included in Class 10 in Schedule II because of paragraph (*x*) of that Class that is property

(*a*) in respect of which the corporation is deemed under subsection 125.4(3) of the Act to have paid an amount on account of its tax payable under Part I of the Act for a taxation year; or

(*b*) acquired by the corporation from another corporation where

(i) the other corporation is deemed under subsection 125.4(3) of the Act to have paid an amount on account of its tax payable under Part I of the Act for a taxation year in respect of the property, and

(ii) the corporations were related to each other throughout the period that began when the other corporation first incurred a qualified labour expenditure (as defined in subsection 125.4(1) of the Act) in respect of the property and ended when the other corporation disposed of the property to the corporation.

History: S. 1101(5k.1) was added by P.C. 2005-698, SOR/2005-126, dated May 3, 2005, applicable to the 1995 and subsequent taxation years.

Class 38 — Property and Outdoor Advertising Signs

(5l) A separate class is hereby prescribed for each property of a taxpayer described in Class 38 in Schedule II or in paragraph (*l*) of Class 8 in Schedule II in respect of which the taxpayer has, by letter attached to the return of income of the taxpayer filed with the Minister in accordance with section 150 of the Act for the taxation year in which the property was acquired, elected that this subsection apply.

History: S. 1101(5l) was added by P.C. 1989-2464, SOR/90-22, dated December 14, 1989 and applicable in respect of property acquired after 1987, except that any election under this subsection made on or before the day that is 180 days after the day on which these Regulations are published in the *Canada Gazette*, January 3, 1990, shall be deemed to be a valid election made under this subsection.

Interpretation Bulletins: *Secondary* — IT-469R Capital cost allowance — Earth-moving equipment.

Specified Energy Property

(5m) Where, for any taxation year, a property of a taxpayer or partnership is a specified energy property, a separate class is prescribed in respect of that property for that and subsequent taxation years.

History: S. 1101(5m) was added by P.C. 1990-753, SOR/90-257, dated April 26, 1990, applicable in respect of taxation years ending after February 9, 1988.

(5n) Notwithstanding subsection (5c), where at the end of any taxation year a property of a taxpayer is specified leasing property, a separate class is prescribed in respect of that property (including any additions or alterations to that property included in the same class in Schedule II) for that year and all subsequent taxation years.

History: S. 1101(5n) was added by P.C. 1991-465, SOR/91-196, dated March 14, 1991, applicable in respect of taxation years ending after April 26, 1989.

(5o) A separate class is prescribed for one or more properties of a class in Schedule II that are exempt properties, as defined in paragraph 1100(1.13)(*a*), of a taxpayer referred to in subsection 1100(16) in respect of which the taxpayer has, by letter attached to the return of income of the taxpayer filed with the Minister in accordance with section 150 of the Act for the taxation year in which the property or properties were acquired, elected that this subsection apply.

History: S. 1101(5o) was added by P.C. 1991-465, SOR/91-196, dated March 14, 1991, applicable in respect of taxation years ending after April 26, 1989 and any election made under that subsection that is made on or before September 24, 1991 shall be deemed to be a valid election under that subsection.

Rapidly Depreciating Electronic Equipment

(5p) Subject to subsection (5q), a separate class is prescribed for one or more properties of a taxpayer acquired in a taxation year and included in the year in Class 8 in Schedule II, where each of the properties has a capital cost to the taxpayer of at least $1,000 and is

(*a*) computer software;

(*b*) a photocopier; or

(*c*) office equipment that is electronic communications equipment, such as a facsimile transmission device or telephone equipment.

History: S. 1101(5p) was replaced by P.C. 2005-2286, SOR/2005-414, dated December 6, 2005, applicable to property acquired after 2004.

S. 1101(5p) formerly read:

"(5p) Subject to subsection (5q), a separate class is prescribed for one or more properties of a taxpayer acquired in a taxation year and included in the year in Class 8 in Schedule II, or for one or more properties of a taxpayer acquired in a taxation year and included in the year in Class 10 in Schedule II, where each of the properties has a capital cost to the taxpayer of at least $1,000 and is

(*a*) general-purpose electronic data processing equipment and systems software therefor, including ancillary data processing equipment, included in paragraph (*f*) of Class 10 in Schedule II;

(*b*) computer software;

(*c*) a photocopier; or

(*d*) office equipment that is electronic communications equipment, such as a facsimile transmission device or telephone equipment."

S. 1101(5p) and its heading were added by P.C. 1994-231, SOR/94-170, dated February 10, 1994, applicable to property acquired after April 26, 1993.

(5q) Each of subsections (5p) and (5s) apply to a property or properties of a taxpayer only if the taxpayer has (by letter attached to the taxpayer's return of income filed with the Minister in accordance with section 150 of the Act for the taxation year in which the property or properties were acquired) elected that the subsection apply to the property or properties, as the case may be.

History: S. 1101(5q) was replaced by P.C. 2005-2186, SOR/2005-371, dated November 22, 2005, applicable to property acquired after February 27, 2000.

For the purpose of subsection 1103(2g) of the *Income Tax Regulations*, an election that is in respect of property described in subsection 1101(5s) [see the history note for subsection 1101(5s) for the form and timing of the election] is deemed to have been made in accordance with subsection 1101(5q) of the *Income Tax Regulations*.

S. 1101(5q) formerly read:

"(5q) Subsection (5p) applies only in respect of a property or properties of a taxpayer in respect of which the taxpayer has (by letter attached to the return of income of the taxpayer filed with the Minister in accordance with section 150 of the Act for the taxation year in which the property or properties were acquired) elected that the subsection apply."

S. 1101(5q) was added by P.C. 1994-231, SOR/94-170, dated February 10, 1994, applicable to property acquired after April 26, 1993, except that an election referred to in subsection 1101(5q) shall be deemed to have been made in accordance with that subsection if it is made by notifying the Minister of National Revenue in writing before the end of the sixth month after the month in which these amendments are published in the *Canada Gazette*, March 23, 1994.

Computer Tax Shelter Property

(5r) For the purpose of this Part, where

(*a*) more than one property of a taxpayer is described in the same class in Schedule II,

(*b*) one of the properties is a computer tax shelter property, and

(*c*) one of the properties is not a computer tax shelter property,

for properties that are described in paragraph (*b*) and that would otherwise be included in the class, a separate class is prescribed.

History: The heading before s. 1101(5r) was replaced by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, applicable to property acquired on or after March 19, 2007. The heading before s. 1101(5r) formerly read:

"*Computer Software Tax Shelter Property*"

S. 1101(5r)(*b*) and (*c*) were replaced by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, applicable to property acquired on or after March 19, 2007. S. 1101(5r)(*b*) and (*c*) formerly read:

"(*b*) one of the properties is computer software tax shelter property, and

(*c*) one of the properties is a property other than computer software tax shelter property,"

S. 1101(5r) was added by P.C. 2000-1000, SOR/2000-248, dated June 21, 2000, applicable to taxation years and fiscal periods that end after August 5, 1997, except that it does not apply in respect of computer software for taxation years and fiscal periods of a taxpayer or partnership that end in 1997 or 1998 where

(*a*) the taxpayer's or partnership's interest in the computer software

(i) is acquired before August 6, 1997,

(ii) is acquired before 1998 pursuant to an agreement in writing made by the taxpayer or partnership before August 6, 1997, or

(iii) is, or is associated with, a tax shelter investment (as defined by subsection 143.2(1) of the *Income Tax Act*) that is acquired by a taxpayer or partnership before 1998 pursuant to

(A) the terms of a document that is a prospectus, preliminary prospectus or registration statement where

(I) the document was filed before August 6, 1997 with a public authority in Canada pursuant to and in accordance with the securities legislation of Canada or of any province and, where required by law, accepted for filing by the public authority before August 6, 1997,

(II) the particular computer software is

1. identified in the document, or
2. acquired before November 29, 1997 from a person that is resident in Canada and that developed the software, and

(III) all the funds raised pursuant to the document are raised before 1998 and all or substantially all of the tax shelter investments that can reasonably be considered to be associated with the computer software are acquired before 1998 by a person who is not

1. a promoter, or an agent of a promoter, of the securities,
2. a vendor of the property,
3. a broker or dealer in securities, or
4. a person who does not deal at arm's length with a person referred to in sub-subclause 1 or 2, or

(B) the terms of an offering memorandum distributed as part of an offering of securities where

(I) the memorandum contained a complete or substantially complete description of the securities contemplated in the offering as well as the terms and conditions of the offering,

(II) the memorandum was distributed before August 6, 1997,

(III) solicitations in respect of the sale of the securities contemplated by the memorandum were made before August 6, 1997,

(IV) the sale of the securities was substantially in accordance with the memorandum,

(V) the particular computer software is

1. identified in the memorandum, or
2. acquired before November 29, 1997 from a person that is resident in Canada and that developed the software, and

(VI) all the funds raised pursuant to the memorandum were raised before 1998 and all or substantially all of the tax shelter investments that can reasonably be considered to be associated with the computer software are acquired before 1998 by a person who is not

1. a promoter, or an agent of a promoter, of the securities,
2. a vendor of the property,
3. a broker or dealer in securities, or
4. a person who does not deal at arm's length with any person referred to in sub-subclause 1 or 2;

(*b*) there is no agreement or other arrangement under which any of the following obligations can be changed, reduced or waived if there is a change to the *Income Tax Act* or if there is an adverse assessment under the Act:

(i) the obligation of the taxpayer or the partnership, with respect to the computer software, or

(ii) the obligation of another taxpayer or partnership that acquires a tax shelter investment (as defined by subsection 143.2(1) of the Act) that is associated with computer software, with respect to the tax shelter investment;

(*c*) the computer software is, or is associated with, one or more tax shelters sold or offered for sale at a time in circumstances in which section 237.1 of the *Income Tax Act* requires an identification number to have been obtained and the identification number was obtained before that time; and

(*d*) the computer software (including computer software to which subparagraph (*a*)(i) or (ii) applies) is, or is associated with, a tax shelter investment (as defined by subsection 143.2(1) of the *Income Tax Act*) sold or offered for sale pursuant to a document or offering memorandum described in subparagraph (*a*)(iii) and either

(i) the total amount of securities sold in 1997 pursuant to the document or offering memorandum does not exceed $100,000,000, or

(ii) at least 10% of the securities authorized to be sold in 1997 pursuant to the document or offering memorandum were in 1997 and before August 6, 1997 sold to, or subscribed for by, a person who is not

(A) a promoter, or an agent of a promoter, of the securities,

(B) a vendor of the computer software,

(C) a broker or dealer in securities, or

(D) a person who does not deal at arm's length with any person referred to in clause (A) or (B).

For the purpose of [the amendment above], computer software is deemed to be acquired by a taxpayer or partnership no earlier than the time and only to the extent that its cost is considered to be an expenditure made or incurred by the taxpayer or partnership for the purposes of the *Income Tax Act*, determined without reference to subsection 1100(20.1) of the Regulations as enacted by subsection 2(4).

Manufacturing or Processing Property

(5s) Subject to subsection (5q), a separate class is prescribed for one or more properties of a taxpayer

(*a*) that were acquired in a taxation year and included in the year in Class 43 in Schedule II because of paragraph (*a*) of that Class; and

(*b*) that had a capital cost to the taxpayer of at least $1,000.

History: S. 1101(5s) was added by P.C. 2005-2186, SOR/2005-371, dated November 22, 2005, applicable to property acquired after February 27, 2000, except that subsection 1101(5s) applies in respect of property

(*a*) acquired by a taxpayer after February 27, 2000 and in a taxation year ending on or before December 14, 2005 (the day of the publication of this subsection in Part II of the *Canada Gazette*); and

(*b*) in respect of which the taxpayer has elected, in a letter filed with the Minister of National Revenue, before the end of the sixth calendar month beginning after December 2005 (the month in which this subsection is published in Part II of the *Canada Gazette*).

For the purpose of subsection 1103(2g) of the *Income Tax Regulations*, an election that is in respect of property described in subsection 1101(5s) is deemed to have been made in accordance with subsection 1101(5q) of the *Income Tax Regulations*.

(5t) [Repealed.]

History: S. 1101(5t) and the heading before it were repealed by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, applicable to property acquired after 2005.

S. 1101(5t) and the heading before it formerly read:

"*Combustion Turbines*

(5t) A separate class is prescribed for one or more properties of a taxpayer that are a combustion turbine (including associated burners and compressors) included in Class 17 in Schedule II because of subparagraph (*a.1*)(i) of that Class if the taxpayer has (by letter attached to the taxpayer's return of income filed with the Minister in accordance with section 150 of the Act for the taxation year in which the property or properties were acquired) elected that this subsection apply to the property or properties."

S. 1101(5t) was added by P.C. 2005-2186, SOR/2005-371, dated November 22, 2005, applicable to property acquired after February 27, 2000, except that subsection 1101(5t) applies in respect of property

(*a*) acquired by a taxpayer after February 27, 2000 and in a taxation year ending on or before December 14, 2005 (the day of the publication of this subsection in Part II of the *Canada Gazette*); and

(*b*) in respect of which the taxpayer has elected, in a letter filed with the Minister of National Revenue, before the end of the sixth calendar month

beginning after December 2005 (the month in which this subsection is published in Part II of the *Canada Gazette*).

Equipment Related to Transmission Pipelines

(5u) A separate class is prescribed for one or more properties of a taxpayer that is property included in Class 7 in Schedule II because of paragraph (*j*) or (*k*) of that Class if the taxpayer has (by letter attached to the taxpayer's return of income filed with the Minister in accordance with section 150 of the Act for the taxation year in which the property or properties were acquired) elected that this subsection apply to the property or properties.

History: S. 1101(5u) was replaced by P.C. 2009-660, SOR/2009-126, dated April 30, 2009, applicable in respect of property acquired after February 25, 2008. S. 1101(5u) formerly read:

"(5u) A separate class is prescribed for one or more properties of a taxpayer that is property included in Class 7 in Schedule II because of paragraph (*j*) of that Class if the taxpayer has (by letter attached to the taxpayer's return of income filed with the Minister in accordance with section 150 of the Act for the taxation year in which the property or properties were acquired) elected that this subsection apply to the property or properties."

S. 1101(5u) was added by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, deemed to have come into force on February 23, 2005.

Interpretation Bulletins: *Secondary* — IT-476R Capital cost allowance — Equipment used in petroleum and natural gas activities.

Transmission Pipelines

(5v) A separate class is prescribed for one or more properties of a taxpayer that is property included in Class 49 in Schedule II if the taxpayer has (by letter attached to the taxpayer's return of income filed with the Minister in accordance with section 150 of the Act for the taxation year in which the property or properties were acquired) elected that this subsection apply to the property or properties.

History: S. 1101(5v) was added by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, deemed to have come into force on February 23, 2005.

Interpretation Bulletins: *Secondary* — IT-476R Capital cost allowance — Equipment used in petroleum and natural gas activities.

Reference

(6) A reference in this Part to a class in Schedule II includes a reference to the corresponding separate classes prescribed by this section.

DIVISION III
PROPERTY RULES

PROPERTY NOT INCLUDED

1102. (1) The classes of property described in this Part and in Schedule II shall be deemed not to include property

(*a*) the cost of which would be deductible in computing the taxpayer's income if the Act were read without reference to sections 66 to 66.4 of the Act;

(*a.1*) the cost of which is included in the taxpayer's Canadian renewable and conservation expense (within the meaning assigned by section 1219);

(*b*) that is described in the taxpayer's inventory;

(*c*) that was not acquired by the taxpayer for the purpose of gaining or producing income;

(*d*) that was acquired by an expenditure in respect of which the taxpayer is allowed a deduction in computing income under section 37 of the Act;

(*e*) that was acquired by the taxpayer after November 12, 1981, other than property acquired from a person with whom the taxpayer was not dealing at arm's length (otherwise than by virtue of a right referred to in paragraph 251(5)(*b*) of the Act) at the time the property was acquired if the property was acquired in circumstances where subsection (14) applies, and is

(i) a print, etching, drawing, painting, sculpture, or other similar work of art, the cost of which to the taxpayer was not less than $200,

(ii) a hand-woven tapestry or carpet or a handmade appliqué, the cost of which to the taxpayer was not less than $215 per square metre,

(iii) an engraving, etching, lithograph, woodcut, map or chart, made before 1900, or

(iv) antique furniture, or any other antique object, produced more than 100 years before the date it was acquired, the cost of which to the taxpayer was not less than $1,000,

other than any property described in subparagraph (i) or (ii) where the individual who created the property was a Canadian (within the meaning assigned by paragraph 1104(10)(*a*)) at the time the property was created;

(*f*) that is property referred to in paragraph 18(1)(*l*) of the Act acquired after December 31, 1974, an outlay or expense for the use or maintenance of which is not deductible by virtue of that paragraph;

(*g*) in respect of which an allowance is claimed and permitted under Part XVII;

(*h*) that is a passenger automobile acquired after June 13, 1963 and before January 1, 1966, the cost to the taxpayer of which, minus the initial transportation charges and retail sales tax in respect thereof, exceeded $5,000, unless the automobile was acquired by a person before June 14, 1963 and has by one or more transactions between persons not dealing at arm's length become vested in the taxpayer;

(*i*) that was deemed by section 18 of the *Income Tax Act*, as enacted by the Statutes of Canada, 1958, Chapter 32, subsection 8(1), to have been acquired by the taxpayer and that did not vest in the taxpayer before the 1963 taxation year;

(*j*) of a life insurer, that is property used by it in, or held by it in the course of, carrying on an insurance business outside Canada; or

(*k*) that is linefill in a pipeline.

History: S. 1102(1)(*a.1*) was added by P.C. 2000-1331, SOR/2000-327, dated August 23, 2000, applicable to expenses incurred after December 5, 1996.

S. 1102(1)(*a*) was amended by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable to taxation years that end after December 5, 1996. S. 1102(1)(*a*) formerly read:

"(*a*) the cost of which is deductible in computing the taxpayer's income;"

S. 1102(1)(*k*) was added by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to property acquired after December 23, 1991, other than property acquired by a taxpayer before 1993

(*a*) pursuant to an agreement in writing entered into by the taxpayer before December 24, 1991; or

(*b*) that was under construction by or on behalf of the taxpayer on December 23, 1991.

S. 1102(1)(*e*) was added by P.C. 1983-1083, SOR/83-340, dated April 15, 1983, applicable in respect of property (other than property described in Class 31 of Schedule II or paragraph (*n*) of Class 12 of that Schedule) acquired or disposed of after November 12, 1981, property described in Class 31 acquired or disposed of after 1981 and property described in paragraph (*n*) of Class 12 acquired or disposed of after 1982.

S. 1102(1)(*j*) was amended by P.C. 1979-2483, SOR/79-670 (September 13, 1979), effective in respect of the 1978 and subsequent taxation years. S. 1102(1)(*j*) formerly read:

"(*j*) of a life insurer, other than property

(i) included in a segregated fund, where the income from the fund is included in computing the life insurer's income from carrying on a life insurance business in Canada,

(ii) used in the year in, or held in the year in the course of, carrying on an insurance business in Canada, where the life insurer has made an election under subsection 138(9) of the Act in respect of the year, or

(iii) situated in Canada, where the life insurer has not so elected in respect of the year."

S. 1102(1)(*e*) was revoked by P.C. 1978-1315, SOR/78-377, dated April 24, 1978 (Special Issue, *Canada Gazette*, December 31, 1978). S. 1102(1)(*e*) formerly read:

"(*e*) that is included in a class established by the *Coal Production Assistance Act*,"

Interpretation Bulletins: *Secondary* — IT-128R Capital cost allowance — Depreciable property; IT-148R3 Recreational properties and club dues; IT-151R5 Scientific research and experimental development expenditures; IT-151R4 Scientific research and experimental development expenditures [Archived by the CRA]; IT-205 Capital cost allowance — Capital cost of property in a foreign country; IT-218R Profit, capital gains and losses from the sale of real estate, including farmland and inherited land and conversion of real estate from capital property to inventory and vice versa; IT-220R2 Capital cost allowance — Proceeds of disposition of depreciable property; IT-350R Investigation of site; IT-476R Capital cost allowance — Equipment used in petroleum and natural gas activities; IT-474R2 Amalgamations of Canadian corporations.

Tax Topics: No. 1846, Demolition of Buildings; No. 1324, Hickman Motors, rollovers and the characterization of property.

Tax Profile: December 2001 — Meaning of "Income" After Ludco.

Partnership Property

(1a) Where the taxpayer is a member of a partnership, the classes of property described in this Part and in Schedule II shall be deemed not to include any property that is an interest of the taxpayer in depreciable property that is partnership property of the partnership.

Land

(2) The classes of property described in Schedule II shall be deemed not to include the land upon which a property described therein was constructed or is situated.

Non-Residents

(3) Where the taxpayer is a non-resident person, the classes of property described in this Part and Schedule II shall, except for the purpose of determining the foreign accrual property income of the taxpayer for the purposes of subdivision i of Division B of Part I of the Act, be deemed not to include property that is situated outside Canada.

Improvements or Alterations to Leased Properties

(4) Subject to subsection (5), "capital cost" for the purposes of paragraph 1100(1)(*b*) includes any amount expended by a taxpayer for or in respect of an improvement or alteration to a leased property.

Interpretation Bulletins: *Secondary* — IT-324 Capital cost allowance — Emphyteutic lease [Archived by the CRA] IT-464R Capital cost allowance — Leasehold interests.

Buildings on Leased Properties

(5) Where the taxpayer has a leasehold interest in a property, a reference in Schedule II to a property that is a building or other structure shall include a reference to that leasehold interest to the extent that that interest

(*a*) was acquired by reason of the fact that the taxpayer

(i) erected a building or structure on leased land,

(ii) made an addition to a leased building or structure, or

(iii) made alterations to a leased building or structure that substantially changed the nature of the property; or

(*b*) was acquired after 1975 or, in the case of any property of Class 31 or 32, after November 18, 1974, from a former lessee who had acquired it by reason of the fact that he or a lessee before him

(i) erected a building or structure on leased land,

(ii) made an addition to a leased building or structure, or

(iii) made alterations to a leased building or structure that substantially changed the nature of the property.

Interpretation Bulletins: *Secondary* — IT-324 Capital cost allowance — Emphyteutic Lease [Archived by the CRA]; IT-464R Capital cost allowance — Leasehold interests.

(5.1) Where a taxpayer has acquired a property that would, if the property had been acquired by a person with whom the taxpayer was not dealing at arm's length at the time the property was acquired by the taxpayer, be described in paragraph (5)(*a*) or (*b*) in respect of that person, a reference in Schedule II to a property that is a building or other structure shall, in respect of the taxpayer, include a reference to that property.

History: S. 1102(5.1) was added by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to property acquired after December 23, 1991, other than property acquired by a taxpayer before 1993

(*a*) pursuant to an agreement in writing entered into by the taxpayer before December 24, 1991; or

(*b*) that was under construction by or on behalf of the taxpayer on December 23, 1991.

Leasehold Interests Acquired Before 1949

(6) For the purposes of paragraphs 2(*a*) and (*b*) of Schedule III, where an item of capital cost has been incurred before the commencement of the taxpayer's 1949 taxation year, there shall be added to the capital cost of each item the amount that has been allowed in respect thereof as depreciation under the *Income War Tax Act* and has been deducted from the original cost to arrive at the capital cost of the item.

River Improvements

(7) For the purposes of paragraph 1100(1)(*f*), capital cost includes an amount expended on river improvements by the taxpayer for the purpose of facilitating the removal of timber from a timber limit.

Electrical Plant Used for Mining

(8) Where the generating or distributing equipment and plant (including structures) of a producer or distributor of electrical energy were acquired for the purpose of providing power to a consumer for use by the consumer in the operation in Canada of a mine, ore mill, smelter, metal refinery or any combination thereof and at least 80 per cent of the producer's or distributor's output of electrical energy

(*a*) for his 1948 and 1949 taxation years, or

(*b*) for his first two taxation years in which he sold power,

whichever period is later, was sold to the consumer for that purpose, the property shall be included in

(*c*) Class 10 in Schedule II if it is property acquired

(i) before 1988, or

(ii) before 1990

(A) pursuant to an obligation in writing entered into by the taxpayer before June 18, 1987,

(B) that was under construction by or on behalf of the taxpayer on June 18, 1987, or

(C) that is machinery or equipment that is a fixed and integral part of a building, structure, plant facility or other property that was under construction by or on behalf of the taxpayer on June 18, 1987, or

(*d*) Class 41 in Schedule II in any other case, except where the property would otherwise be included in Class 43.1 or Class 43.2 in Schedule II and the taxpayer has, by a letter filed with the return of income of the taxpayer filed with the Minister in accordance with section 150 of the Act for the taxation year in which the property was acquired, elected to include the property in Class 43.1 or Class 43.2, as the case may be.

History: S. 1102(8)(*d*) was replaced by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, deemed to have come into force on February 23, 2005, except that if a taxpayer acquires the property after that day and before June 14, 2006, the taxpayer may file the election referred to in paragraph 1102(8)(*d*) or (9)(*d*) of the Regulations to have the property included in Class 43.2 in Schedule II to the Regulations by notifying the Minister of National Revenue in writing as required in those paragraphs or before the end of the sixth calendar month beginning after June 2006.

S. 1102(8)(*d*) formerly read:

"(*d*) Class 41 in Schedule II in any other case, except where the property would otherwise be included in Class 43.1 in Schedule II and the taxpayer has, by a letter filed with the return of income of the taxpayer filed with the Minister in accordance with section 150 of the Act for the taxation year in which the property was acquired, elected to include the property in Class 43.1."

S. 1102(8), the part following paragraph (*b*) was amended by P.C. 1997-1033, SOR/97-377, dated July 28, 1997, applicable to property acquired after February 21, 1994 except that, where a taxpayer acquires the property after that day and before the day after the day on which these regulations are published in the *Canada Gazette* (August 20, 1997), the taxpayer may file the election referred to in paragraph 1102(8)(*d*) or (9)(*d*) of the Regulations, as enacted by section 2, by notifying the Minister of National Revenue in writing as required in those paragraphs or before the end of the sixth month after the month in which these Regulations are published in the *Canada Gazette* (August 20, 1997). That part formerly read:

"whichever period is the later, was sold to the customer [*sic*] for that purpose, the property shall be included in"

S. 1102(8)(*d*) was amended by P.C. 1997-1033, SOR/97-377, dated July 28, 1997, applicable to property acquired after February 21, 1994 except that, where a taxpayer acquires the property after that day and before the day after the day on which these regulations are published in the *Canada Gazette* (August 20, 1997), the taxpayer may file the election referred to in paragraph 1102(8)(*d*) or (9)(*d*) of the Regulations, as enacted by section 2, by notifying the Minister of National Revenue in writing as required in those paragraphs or before the end of the sixth month after the month in which these Regulations are published in the *Canada Gazette* (August 20, 1997). That part formerly read:

"(*d*) Class 41 in Schedule II in any other case."

S. 1102(8), the part following paragraph (*b*), was amended and paragraphs (*c*) and (*d*) were added by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, applicable in respect of property acquired after 1987. That part following paragraph (*b*) formerly read:

"whichever period is the later, was sold to the consumer for the aforesaid purpose, the property shall be included in Class 10 in Schedule II."

(9) Where a taxpayer has acquired generating or distributing equipment and plant (including structures) for the purpose of providing power for his own consumption in operating a mine, ore mill, smelter, metal refinery or any combination thereof and at least 80 per cent of the output of electrical energy was so used

(*a*) in his 1948 and 1949 taxation years, or

(*b*) in the first two taxation years in which he so produced power,

whichever period is the later, the property shall be included in

(*c*) Class 10 in Schedule II if it is property acquired

(i) before 1988, or

(ii) before 1990

(A) pursuant to an obligation in writing entered into by the taxpayer before June 18, 1987,

(B) that was under construction by or on behalf of the taxpayer on June 18, 1987, or

(C) that is machinery or equipment that is a fixed and integral part of a building, structure, plant facility or other property that was under construction by or on behalf of the taxpayer on June 18, 1987, or

(*d*) Class 41 in Schedule II in any other case, except where the property would otherwise be included in Class 43.1 or Class 43.2 in Schedule II and the taxpayer has, by a letter filed with the return of income of the taxpayer filed with the Minister in accordance with section 150 of the Act for the taxation year in which the property was acquired, elected to include the property in Class 43.1 or Class 43.2, as the case may be.

History: S. 1102(9)(*d*) was replaced by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, deemed to have come into force on February 23, 2005, except that if a taxpayer acquires the property after that day and before June 14, 2006, the taxpayer may file the election referred to in paragraph 1102(8)(*d*) or (9)(*d*) of the Regulations to have the property included in Class 43.2 in Schedule II to the Regulations by notifying the Minister of National Revenue in writing as required in those paragraphs or before the end of the sixth calendar month beginning after June 2006.

S. 1102(9)(*d*) formerly read:

"(*d*) Class 41 in Schedule II in any other case, except where the property would otherwise be included in Class 43.1 in Schedule II and the taxpayer has, by a letter filed with the return of income of the taxpayer filed with the Minister in accordance with section 150 of the Act for the taxation year in which the property was acquired, elected to include the property in Class 43.1."

S. 1109(9)(*d*) was amended by P.C. 1997-1033, SOR/97-377, dated July 28, 1997, applicable to property acquired after February 21, 1994 except that, where a taxpayer acquires the property after that day and before the day after the day on which these regulations are published in the *Canada Gazette* (August 20, 1997), the taxpayer may file the election referred to in paragraph 1102(8)(*d*) or (9)(*d*) of the Regulations, as enacted by section 2, by notifying the Minister of National Revenue in writing as required in those paragraphs or before the end of the sixth month after the month in which these Regulations are published in the *Canada Gazette* (August 20, 1997). S. 1109(9)(*d*) formerly read:

"(*d*) Class 41 in Schedule II in any other case."

S. 1102(9), the part following paragraph (*b*), was amended and paragraphs (*c*) and (*d*) were added by P.C. 1989-2464, SOR/90-22, dated December 14, 1989 and applicable in respect of property acquired after 1987. That part following paragraph (*b*) formerly read:

"whichever period is the later, the property shall be included in Class 10 in Schedule II."

(9.1) In their application to generating or distributing equipment and plant (including structures) that were acquired by the taxpayer before November 8, 1969, subsections (8) and (9) shall be read without reference to a "metal refinery".

(9.2) Where a taxpayer acquires property after November 7, 1969 from a person with whom he was not dealing at arm's length that is property referred to in subsection (8) or (9), notwithstanding those subsections, that property shall not be included in Class 10 in Schedule II by the taxpayer unless the property had been included in that class by the person from whom it was acquired, by virtue of subsection (8) or (9) as it read in its application before November 8, 1969.

Railway Companies

(10) For the purposes of section 36 of the Act, where a taxpayer is deemed to have acquired depreciable property of a prescribed class at the time a repair, replacement,

alteration or renovation expenditure described therein was incurred,

(*a*) if the expenditure was incurred by the taxpayer before May 26, 1976, the class hereby prescribed is Class 4 in Schedule II; and

(*b*) if the expenditure was incurred by the taxpayer after May 25, 1976, the class hereby prescribed is the class in Schedule II in which the depreciable property that was repaired, replaced, altered or renovated would be included if such property had been acquired at the time the expenditure was incurred.

Passenger Automobiles

(11) In paragraph (1)(*h*),

"*cost to the taxpayer*" of an automobile means, except as provided in subsections (12) and (13),

(*a*) except in any case coming under paragraph (*b*) or (*c*), the capital cost to the taxpayer of the automobile,

(*b*) except in any case coming under paragraph (*c*), where the automobile was acquired by a person (in this section referred to as the "original owner") after June 13, 1963, and has, by one or more transactions between persons not dealing at arm's length, become vested in the taxpayer, the greater of

(i) the actual cost to the taxpayer, and

(ii) the actual cost to the original owner, and

(*c*) where the automobile was acquired by the taxpayer outside Canada for use in connection with a permanent establishment, as defined for the purposes of Part IV or Part XXVI, outside Canada, the lesser of

(i) the actual cost to the taxpayer, and

(ii) the amount that such an automobile would ordinarily cost the taxpayer if he purchased it from a dealer in automobiles in Canada for use in Canada;

"*initial transportation charges*" in respect of an automobile means the costs incurred by a dealer in automobiles for transporting the automobile (before it had been used for any purpose whatever) from,

(*a*) in the case of an automobile manufactured in Canada, the manufacturer's plant, and

(*b*) in any other case, the place in Canada, if any, at which the automobile was received or stored by a wholesale distributor,

to the dealer's place of business;

"*passenger automobile*" means a vehicle, other than an ambulance or hearse, that was designed to carry not more than nine persons, and that is

(*a*) an automobile designed primarily for carrying persons on highways and streets, except an automobile that

(i) is designed to accommodate and is equipped with auxiliary folding seats installed between the front and the rear seats,

(ii) was acquired by a person carrying on the business of operating a taxi or automobile rental service, or arranging and managing funerals, for use in such business, and

(iii) is not a vehicle described in paragraph (*b*), or

(*b*) a station wagon or substantially similar vehicle;

"*retail sales tax*" in respect of an automobile means the aggregate of municipal and provincial retail sales taxes payable in respect of the purchase of the automobile by the taxpayer.

(12) For the purposes of paragraph (1)(*h*), where an automobile is owned by two or more persons or by partners, a reference to "cost to the taxpayer" shall be deemed to be a reference to the aggregate of the cost, as defined in subsection (11), to each such person or partner.

(13) In determining the cost to the taxpayer for the purposes of paragraph (1)(*h*), subsection 13(7) of the Act shall not apply unless the automobile was acquired by gift.

Property Acquired by Transfer, Amalgamation or Winding-Up

(14) For the purposes of this Part and Schedule II, where a property is acquired by a taxpayer

(*a*) in the course of a reorganization in respect of which, if a dividend were received by a corporation in the course of the reorganization, subsection 55(2) of the Act would not be applicable to the dividend by reason of the application of paragraph 55(3)(*b*) of the Act, or

(*a*.1) [Revoked.]

(*b*) [Revoked.]

(*c*) [Revoked.]

(*d*) from a person with whom the taxpayer was not dealing at arm's length (otherwise than by virtue of a right referred to in paragraph 251(5)(*b*) of the Act) at the time the property was acquired, and

(*e*) [Revoked.]

the property, immediately before it was so acquired by the taxpayer, was property of a prescribed class or a separate prescribed class of the person from whom it was so acquired, the property shall be deemed to be property of that same prescribed class or separate prescribed class, as the case may be, of the taxpayer.

History: Ss. 1102(14)(*a*) to (*c*) were amended by P.C. 1989-2464, SOR/90-22 dated December 14, 1989, applicable in respect of property acquired by a taxpayer after June 17, 1987 other than property acquired after that date and before 1990 pursuant to an agreement in writing entered into by the taxpayer before June 18, 1987. Ss. 1102(14)(*a*) to (*c*) formerly read:

"(*a*) in a transaction in respect of which an election was made under subsection 85(1) or (2), 97(2) or 98(3), or section 115.1 of the Act,

(*a*.1) in a transaction in respect of which subsection 85(5.1) or 98(5) of the Act is applicable,

(*b*) by virtue of an amalgamation (within the meaning assigned by subsection 87(1) of the Act),

(*c*) as the result of the winding-up of a Canadian corporation in respect of which subsection 88(1) of the Act is applicable,"

S. 1102(14)(*d*) was amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989 to add "(otherwise than by virtue of a right referred to in paragraph 251(5)(*b*) of the Act)", applicable in respect of property acquired by a taxpayer after December 15, 1987 other than property acquired after that date and before 1990 pursuant to an obligation in writing entered into by the taxpayer before December 16, 1987.

S. 1102(14)(*e*) was revoked by P.C. 1989-2464, SOR/90-22 dated December 14, 1989, applicable in respect of property acquired by a taxpayer after August 31, 1987 other than property acquired after that date and before 1990 pursuant to an obligation in writing entered into by the taxpayer before September 1, 1987. S. 1102(14)(*e*) formerly read:

"(*e*) for rent or lease to the person from whom the property was acquired or to another person who, at the time the property was acquired, was not dealing at arm's length with the person from whom the property was acquired, and"

S. 1102(14)(*a*) was amended by P.C. 1988-1473, SOR/88-392 dated July 21, 1988 to add the reference to section 115.1 applicable to taxation years commencing after 1984.

S. 1102(14)(a.1) was added by P.C. 1984-3789, SOR/84-948, dated November 29, 1984 and applicable with respect to property acquired after November 12, 1981.

Interpretation Bulletins: *Secondary* — IT-147R3 Capital cost allowance — Accelerated write-off of manufacturing and processing machinery and equipment; IT-267R2 Capital cost allowance — Vessels; IT-476R Capital cost allowance — Equipment used in petroleum and natural gas activities; IT-481 (Consolid.) Timber resource property and timber limits; IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].

(14.1) For the purposes of this Part and Schedule II, where a taxpayer has acquired, after May 25, 1976, property of a class in Schedule II (in this subsection referred to as the "present class") that had been previously owned before May 26, 1976 by the taxpayer or by a person with whom the taxpayer was not dealing at arm's length (otherwise than by virtue of a right referred to in paragraph 251(5)(*b*) of the Act) at the time the property was acquired, and at the time the property was previously so owned it was a property of a different class in Schedule II (in this subsection referred to as the "former class"), the property shall be deemed to be property of the former class and not property of the present class.

History: S. 1102(14.1) was amended by P.C. 1989-2464, SOR/90-22 dated December 14, 1989, to change "him" and "he" to "the taxpayer", and to add "(otherwise than by virtue of a right referred to in paragraph 251(5)(*b*) of the Act)" applicable in respect of property acquired by a taxpayer after December 15, 1987 other than property acquired after that date and before 1990 pursuant to an obligation in writing entered into by the taxpayer before December 16, 1987.

Interpretation Bulletins: *Secondary* — IT-147R3 Capital cost allowance — Accelerated write-off of manufacturing and processing machinery and equipment; IT-267R2 Capital cost allowance — Vessels.

Townsite Costs

(14.2) For the purpose of paragraph 13(7.5)(*a*) of the Act, a property is prescribed in respect of a taxpayer where the property would, if it had been acquired by the taxpayer, be property included in Class 10 in Schedule II because of paragraph (1) of that Class.

History: S. 1102(14.2) was added by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable after March 6, 1996.

Interpretation Bulletins: *Secondary* — IT-476R Capital cost allowance — Equipment used in petroleum and natural gas activities.

Surface Construction and Bridges

(14.3) For the purpose of paragraph 13(7.5)(*b*) of the Act, prescribed property is any of

(*a*) a road (other than a specified temporary access road), sidewalk, airplane runway, parking area, storage area or similar surface construction;

(*b*) a bridge; and

(*c*) a property that is ancillary to any property described in paragraph (*a*) or (*b*).

History: S. 1102(14.3) was added by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable after March 6, 1996.

Manufacturing and Processing Enterprises

(15) For the purposes of subsection 13(10) of the Act,

(*a*) property is hereby prescribed that is

(i) a building included in Class 3 or 6 in Schedule II, or

(ii) machinery or equipment included in Class 8 in Schedule II,

except

(iii) property that may reasonably be regarded as having been acquired for the purpose of producing coal from a coal mine or oil, gas, metals or industrial minerals from a resource referred to in section 1201 as it read immediately before it was repealed by section 2 of Order in Council P.C. 1975-1323 of June 12, 1975, or

(iv) property acquired for use outside Canada; and

(*b*) a business carried on by the taxpayer is hereby prescribed as a manufacturing or processing business if,

(i) for the fiscal period in which the property was acquired, or

(ii) for the fiscal period in which a reasonable volume of business was first carried on,

whichever was later, the revenue received by the taxpayer, in the course of carrying on the business from

(iii) the sale of goods processed or manufactured by the taxpayer in Canada,

(iv) the leasing or renting of goods that were processed or manufactured by the taxpayer in Canada,

(v) advertisements in a newspaper or magazine that was produced by the taxpayer in Canada, and

(vi) construction carried on by the taxpayer in Canada,

was not less than 2/3 of the revenue of the business for the period.

(16) For the purposes of paragraph (15)(*b*), "revenue" means gross revenue minus the aggregate of

(*a*) amounts that were paid or credited in the period, to customers of the business, in relation to such revenue as a bonus, rebate or discount or for returned or damaged goods; and

(*b*) amounts included therein by virtue of section 13 or subsection 23(1) of the Act.

Election for Certain Manufacturing or Processing Equipments

(16.1) A taxpayer who acquires a property after March 18, 2007 and before 2012 that is manufacturing or processing machinery or equipment may (by letter attached to the return of income of the taxpayer filed with the Minister in accordance with section 150 of the Act for the taxation year in which the property is acquired) elect to include the property in Class 29 in Schedule II if

(*a*) Class 43.1 or 43.2 in Schedule II would otherwise apply to the property; and

(*b*) Class 29 in Schedule II would apply to the property if that schedule were read without reference to Classes 43.1 and 43.2.

History: S. 1102(16.1), the portion before paragraph (*a*) was replaced by P.C. 2009-660, SOR/2009-126, dated April 30, 2009, applicable in respect of property acquired after February 25, 2008. S. 1102(16.1), the portion before paragraph (*a*) formerly read:

"(16.1) A taxpayer that acquires a property after March 18, 2007 and before 2009 that is manufacturing or processing machinery or equipment may (by letter attached to the return of income for the taxation year in which the property is acquired) elect to include the property in Class 29 in Schedule II if"

S. 1102(16.1) was added by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, deemed to have come into force on March 19, 2007.

If a taxpayer files in writing an election referred to in subsection 1102(16.1), the election is deemed to have been filed in the manner and by the time required if the election is received by the Minister of National Revenue no later than 90 days after May 13, 2009 (the day on which these Regulations were published in the *Canada Gazette*, Part II).

Recreational Property

(17) Property referred to in paragraph (1)(*f*) does not include

(*a*) any property that the taxpayer was obligated to acquire under the terms of an agreement in writing entered into before November 13, 1974; or

(*b*) any property the construction of which was

(i) commenced by the taxpayer before November 13, 1974 or commenced under an agreement in writing entered into by the taxpayer before November 13, 1974, and

(ii) completed substantially according to plans and specifications agreed to by the taxpayer before November 13, 1974.

Interpretation Bulletins: *Secondary*—IT-148R3 Recreational properties and club dues.

(18) [Repealed.]

History: S. 1102(18) and the heading before it were repealed by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable to payments required to be made under the terms of contracts made after March 6, 1996. S. 1102(18) and the heading before it formerly read:

"*Townsite Costs*

(18) For the purposes of this Part and Schedule II, where under the terms of a contract a taxpayer is required to make a payment to Her Majesty in right of Canada, to a province or to a Canadian municipality in respect of costs incurred or to be incurred by the recipient to acquire property that would qualify as property described in paragraph (*l*) of Class 10 in Schedule II if it had been acquired by the taxpayer, the taxpayer shall be deemed to have acquired property described in that paragraph

(*a*) at a capital cost equal to the portion of the payment that can reasonably be regarded as being in respect of such costs; and

(*b*) at the time the payment is made or the time at which the costs are incurred, whichever is the later."

S. 1102(18) was added by P.C. 1978-1849, SOR/78-502, dated June 9, 1978 (Special Issue, *Canada Gazette*, December 31, 1978), applicable in respect of amounts paid after 1976 to Her Majesty in right of Canada to a province or to a Canadian municipality.

Additions and Alterations

(19) For the purposes of this Part and Schedule II, where

(*a*) a taxpayer acquired a property that is included in a class in Schedule II (in this subsection referred to as the "actual class"),

(*b*) the taxpayer acquires property that is an addition or alteration to the property referred to in paragraph (*a*),

(*c*) the property that is the addition or alteration referred to in paragraph (*b*) would have been property of the actual class if it had been acquired by the taxpayer at the time he acquired the property referred to in paragraph (*a*), and

(*d*) the property referred to in paragraph (*a*) would have been property of a class in Schedule II (in this subsection referred to as the "present class") that is different from the actual class if it had been acquired by the taxpayer at the time he acquired the addition or alteration referred to in paragraph (*b*),

the addition or alteration referred to in paragraph (*b*) shall, except as otherwise provided in this Part or in Schedule II, be deemed to be an acquisition by the taxpayer of property of the present class.

History: S. 1102(19) was added by P.C. 1978-3768, SOR/78-949, December 14, 1978 (Special Issue, *Canada Gazette*, December 31, 1978).

(19.1) For the purposes of this Part and Schedule II, if subsection (19.2) applies to the refurbishment or reconditioning of a railway locomotive of a taxpayer, any property acquired by the taxpayer after February 25, 2008 that is incorporated into the locomotive in the course of the refurbishment or reconditioning is, except as otherwise provided in this Part or in Schedule II, deemed to be included in paragraph (*y*) of Class 10 in Schedule II.

History: S. 1102(19.1) was added by P.C. 2009-660, SOR/2009-126, dated April 30, 2009, applicable in respect of property acquired after February 25, 2008.

(19.2) This subsection applies to the refurbishment or reconditioning of a railway locomotive, of a taxpayer, that

(*a*) is included in a class in Schedule II other than Class 10; and

(*b*) would be included in Class 10 in Schedule II if it had not been used or acquired for use for any purpose by any taxpayer before February 26, 2008.

History: S. 1102(19.2) was added by P.C. 2009-660, SOR/2009-126, dated April 30, 2009, applicable in respect of property acquired after February 25, 2008.

Non-arm's Length Exception

(20) For the purposes of subsections 1100(2.2) and (19), 1101(1ad) and 1102(14) (in this subsection referred to as the "relevant subsections"), where, but for this subsection, a taxpayer would be considered to be dealing not at arm's length with another person as a result of a transaction or series of transactions the principal purpose of which may reasonably be considered to have been to cause one or more of the relevant subsections to apply in respect of the acquisition of a property, the taxpayer shall be considered to be dealing at arm's length with the other person in respect of the acquisition of that property.

History: S. 1102(20) was added by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, applicable in respect of property acquired by a taxpayer after December 15, 1987 other than property acquired after that date and before 1990 pursuant to an obligation in writing entered into by the taxpayer before December 16, 1987.

Interpretation Bulletins: *Secondary*—IT-267R2 Capital cost allowance—Vessels; IT-488R2 Winding-up of 90%-owned taxable Canadian corporations [Archived by the CRA].

(21) Where a taxpayer has acquired a property described in Class 43.1 of Schedule II in circumstances in which clauses (*b*)(iii)(A) and (B) or (*e*)(iii)(A) and (B) of that class apply,

(*a*) the portion of the property, determined by reference to capital cost, that is equal to or less than the capital cost of the property to the person from whom the property was acquired, is included in that class; and

(*b*) the portion of the property, if any, determined by reference to capital cost, that is in excess of the capital cost of the property to the person from whom it was acquired, shall not be included in that class.

History: S. 1102(21) was added by P.C. 2000-1331, SOR/2000-327, dated August 23, 2000, applicable to property acquired after June 26, 1996.

(22) Where a taxpayer has acquired a property that is described in Class 43.2 in Schedule II in circumstances in which clauses (*b*)(iii)(A) and (B) or (*e*)(iii)(A) and (B) of Class 43.1 in Schedule II apply and the property was included in Class 43.2 in Schedule II of the person from whom the taxpayer acquired the property,

(*a*) the portion of the property, determined by reference to capital cost, that is equal to or less than the capital cost of the property to the person from whom the property was acquired is included in Class 43.2 in Schedule II; and

(*b*) the portion of the property, if any, determined by reference to capital cost, that is in excess of the

capital cost of the property to the person from whom it was acquired shall not be included in Class 43.1 or 43.2 in Schedule II.

History: S. 1102(22) was added by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, effective from June 14, 2006 [publication in the *Canada Gazette*].

Rules for Additions to and Alterations of Certain Buildings

(23) For the purposes of applying paragraphs 1100(1)(*a.1*) and (*a.2*) and subsection 1101(5b.1), the capital cost of an addition to or an alteration of a taxpayer's building is deemed to be the capital cost to the taxpayer of a separate building if the building to which the addition or alteration was made is not included in a separate class under subsection 1101(5b.1).

History: S. 1102(23) was added by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, applicable to additions and alterations made after March 18, 2007.

(24) If an addition or an alteration is deemed to be a separate building under subsection (23), the references in paragraphs 1100(1)(*a.1*) and (*a.2*) to "the floor space of the building" shall be read as references to "the total floor space of the separate building and the building to which the addition or alteration was made".

History: S. 1102(24) was added by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, applicable to additions and alterations made after March 18, 2007.

Acquisition Costs of Certain Buildings

(25) For the purposes of this Part and Schedule II, if an eligible non-residential building of a taxpayer was under construction on March 19, 2007, the portion, if any, of the capital cost of the building that was incurred by the taxpayer before March 19, 2007 is deemed to have been incurred by the taxpayer on March 19, 2007 unless the taxpayer elects (by letter attached to the taxpayer's return of income filed with the Minister in accordance with section 150 of the Act for the taxation year in which the building was acquired) that this subsection not apply to that cost.

History: S. 1102(25) was added by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, applicable to additions and alterations made after March 18, 2007.

DIVISION IV
INCLUSIONS IN AND TRANSFERS BETWEEN CLASSES

ELECTIONS TO INCLUDE PROPERTIES IN CLASS 1

1103. **(1)** In respect of properties otherwise included in any of Classes 2 to 10, 11 and 12 in Schedule II, a taxpayer may elect to include in Class 1 in Schedule II all such properties acquired for the purpose of gaining or producing income from the same business.

History: S. 1103(1) was amended by P.C. 1991-2272, SOR/91-673, dated November 21, 1991, to substitute "any of Classes 2 to 10, 11 and 12" for "Classes 2 to 12", applicable to taxation years and fiscal periods commencing after June 17, 1987 that end after 1987.

Interpretation Bulletins: *Primary* — IT-327 Capital cost allowance — Elections under regulation 1103 [Archived by the CRA]; *Secondary* — IT-190R2 Capital cost allowance — Transferred and misclassified property; IT-274R Rental properties — Capital cost of $50,000 or more; IT-478R2 Capital Cost Allowance.

Information Circulars: IC 07-1 Taxpayer Relief Provisions.

Elections to Include Properties in Class 2, 4 or 17

(2) Where the chief depreciable properties of a taxpayer are included in Class 2, 4 or 17 in Schedule II, the taxpayer may elect to include in Class 2, 4 or 17 in Schedule II, as the case may be, a property that would otherwise be included in another class in Schedule II and that was acquired by him before May 26, 1976 for the purpose of gaining or producing income from the same business as that for which those properties otherwise included in the said Class 2, 4 or 17 were acquired.

Information Circulars: IC 07-1 Taxpayer Relief Provisions.

Elections to Include Properties in Class 8

(2a) In respect of properties otherwise included in Class 19 or 21 in Schedule II, a taxpayer may, by letter attached to the return of his income for a taxation year filed with the Minister in accordance with section 150 of the Act, elect to include in Class 8 in Schedule II all properties of the said Class 19 or all properties of the said Class 21, as the case may be, owned by him at the commencement of the year.

Elections to Include Properties in Class 37

(2b) In respect of properties that would have been included in Class 37 in Schedule II had they been acquired after the date on which Class 37 became effective, a taxpayer may, by letter attached to the return of his income for a taxation year filed with the Minister in accordance with section 150 of the Act, elect to include in Class 37 all such properties acquired by the taxpayer before that date.

History: S. 1103(2b) and the heading were added by P.C. 1982-599, SOR/82-265, dated February 26, 1982.

S. 1103(2b) was revoked by P.C. 1978-1315, SOR/78-377, April 24, 1978, (Special Issue, *Canada Gazette*, December 31, 1978). S. 1103(2b) formerly read:

"(2b) In the case of property otherwise included in Class 21 in Schedule II, notwithstanding subsection (2a), an election under that subsection in respect of any taxation year the return of income for which is required, in accordance with section 150 of the Act, to be filed before January 1, 1972, may be made by registered letter sent at any time before that date to the Deputy Minister of National Revenue for Taxation at Ottawa, in which case subsection (3) does not apply."

Elections to Make Certain Transfers

(2c) Where a taxpayer has acquired, after May 25, 1976, all or any part of a property of a class in Schedule II (in this subsection referred to as the "present class") and the property or part thereof, if it had been acquired before May 26, 1976, would have been property of a different class in Schedule II (in this subsection referred to as the "former class") and

(*a*) he was obligated to acquire the property under the terms of an agreement in writing entered into before May 26, 1976,

(*b*) he commenced the construction, manufacture or production of the property before May 26, 1976 or the construction, manufacture or production of the property was commenced under an agreement in writing entered into by him before May 26, 1976, or

(*c*) he acquired the property on or before December 31, 1976 or he was obligated to acquire the property under the terms of an agreement in writing entered into on or before December 31, 1976, if

(i) arrangements, evidenced by writing, respecting the acquisition, construction, manufacture or production of the property had been substantially advanced before May 26, 1976, and

(ii) he had, before May 26, 1976, demonstrated a *bona fide* intention to acquire the property,

the taxpayer may, by letter attached to the return of his income filed with the Minister in accordance with section 150 of the Act, for the taxation year in which the property was acquired or for the immediately following taxation year, elect to transfer in the year of acquisition

(*d*) the property or the part thereof, acquired after May 25, 1976, from the present class to the former class; or

(*e*) the part of the property acquired before May 26, 1976, from the former class to the present class.

(2d) Where a taxpayer has

(*a*) disposed of a property (in this subsection referred to as the "former property") of a class in Schedule II (in this subsection referred to as the "former class"), and

(*b*) before the end of the taxation year in which the former property was disposed of, acquired property (in this subsection referred to as the "new property") of a class in Schedule II (in this subsection referred to as the "present class") and the present class is neither

(i) the former class, nor

(ii) a separate class described in section 1101, other than subsection 1101(5d),

such that

(*c*) if the former property had been acquired at the time that the new property was acquired and from the person from whom the new property was acquired, the former property would have been included in the present class, and

(*d*) if the new property had been acquired at the time that the former property was acquired and from the person from whom the former property was acquired, the new property would have been included in the former class,

the taxpayer may, by letter attached to the return of income of the taxpayer filed with the Minister in accordance with section 150 of the Act in respect of the taxation year in which the former property was disposed of, elect to transfer the former property from the former class to the present class in the year of its disposition and, for greater certainty, the transfer shall be considered to have been made before the disposition of the property.

History: Ss. 1103(2d)(*b*)(ii) was amended by P.C. 1991-465, SOR/91-196, dated March 14, 1991, to add "other than subsection 1101(5d),", applicable after April 26, 1989.

S. 1103(2d) was amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, applicable in respect of dispositions of property occurring after 1987, except that any election under subsection 1103(2d) made on or before the day that is 180 days after the day on which these amendments are published in the *Canada Gazette*, January 3, 1990, shall be deemed to be a valid election made under subsection 1103(2d). S. 1103(2d) formerly read:

"(2d) Where a taxpayer has

(*a*) disposed of a property of a class in Schedule II (in this subsection referred to as the 'former class'), the proceeds of disposition of which exceed the undepreciated capital cost to him of property of the class immediately before the disposition, and

(*b*) acquired a property of a class in Schedule II (in this subsection referred to as the 'present class') after a particular date referred to in the present class and that class is a class other than

(i) the former class, or

(ii) a separate prescribed class described in section 1101, and

where the property referred to

(*c*) in paragraph (*a*) was a property that would have been included in the present class if it had been acquired by the taxpayer after the particular date referred to in the present class, and

(*d*) in paragraph (*b*) is a property that would have been a property in the former class if it had been acquired by the taxpayer on or before the particular date referred to in the present class,

the taxpayer may, by letter attached to the return of his income filed with the Minister in accordance with section 150 of the Act, for the taxation year in which the property referred to in paragraph (*a*) was disposed of, elect to transfer the property disposed of from the former class to the present class in the year of its disposition and for greater certainty the transfer shall be considered to have been made before the disposition of the property."

Ss. 1103(2d)(*b*) was amended by P.C. 1983-1083, SOR/83-340, dated April 15, 1983, applicable in respect of property (other than property described in Class 31 of Schedule II or paragraph (*n*) of Class 12 of that Schedule) acquired or disposed of after November 12, 1981, property described in Class 31 acquired or disposed of after 1981 and property described in paragraph (*n*) of Class 12 acquired or disposed of after 1982. S. 1103(2d)(*b*) formerly read:

"(*b*) acquired, after May 25, 1976, a property of a class in Schedule II (in this subsection referred to as the 'present class') that is a class other than the class referred to in paragraph (*a*) or other than a separate prescribed class described in section 1101, and"

Ss. 1103(2d)(*c*) and (*d*) were amended by P.C. 1983-1083, SOR/83-340, dated April 15, 1983, applicable in respect of property (other than property described in Class 31 of Schedule II or paragraph (*n*) of Class 12 of that Schedule) acquired or disposed of after November 12, 1981, property described in Class 31 acquired or disposed of after 1981 and property described in paragraph (*n*) Class 12 acquired or disposed of after 1982. Ss. 1103(2d)(*c*) and (*d*) formerly read:

"(*c*) in paragraph (*a*) was a property that would have been a property included in the present class if it had been acquired by the taxpayer after May 25, 1976, and

(*d*) in paragraph (*b*) is a property that would have been a property included in the former class if it had been acquired by the taxpayer before May 26, 1976,"

Interpretation Bulletins: *Secondary* — IT-469R Capital cost allowance — Earth-moving equipment; IT-476R Capital cost allowance — Equipment used in petroleum and natural gas activities.
Information Circulars: IC 07-1 Taxpayer Relief Provisions.

Transfers from Class 40 to Class 10

(2e) For the purposes of this Part and Schedule II, where property of a taxpayer would otherwise be included in Class 40 in Schedule II, all such properties owned by the taxpayer shall be transferred from Class 40 to Class 10 immediately after the commencement of the first taxation year of the taxpayer commencing after 1989.

History: S. 1103(2e) was added by P.C. 1989-2464, SOR/90-22, dated December 14, 1989 and applicable to the 1990 and subsequent taxation years.

Interpretation Bulletins: *Secondary* — IT-283R2 Capital cost allowance — Video tapes, videotape cassettes, films, computer software and master recording media [Archived by the CRA].

Elections to Include Properties in Class 1, 3 or 6

(2f) In respect of properties otherwise included in Class 20 in Schedule II, a taxpayer may, by letter attached to the return of income of the taxpayer for a taxation year filed with the Minister in accordance with section 150 of the Act, elect to include in Class 1, 3 or 6 in Schedule II, as specified in the letter, all properties of Class 20 in Schedule II owned by the taxpayer at the commencement of the year.

History: S. 1103(2f) was added by P.C. 1989-2464, SOR/90-22, dated December 14, 1989 and applicable in respect of the 1988 and subsequent taxation years.

Transfers to Class 8, Class 10 or Class 43

(2g) For the purposes of this Part and Schedule II, where one or more properties of a taxpayer are included in a separate class pursuant to an election filed by the taxpayer in accordance with subsection 1101(5q), all the properties in that class immediately after the beginning of the taxpayer's fifth taxation year beginning after the end of the first taxation year in which a property of the class became available for use by the taxpayer for the purposes of subsection 13(26) of the Act shall be transferred immediately after the beginning of that fifth taxation year from the

separate class to the class in which the property would, but for the election, have been included.

History: The heading before subsection 1103(2g) was replaced by P.C. 2005-2186, SOR/2005-371, dated November 22, 2005, applicable to property acquired after February 27, 2000.

For the purpose of subsection 1103(2g) of the Income Tax Regulations, an election that is in respect of property described in subsection 1101(5s) [see the history note for subsection 1101(5s) for the application of that provision] is deemed to have been made in accordance with subsection 1101(5q) of the Income Tax Regulations.

The heading before subsection 1103(2g) formerly read:

"*Transfers to Class 8 or Class 10*"

S. 1103(2g) and its heading were added by P.C. 1994-231, SOR/94-170, dated February 10, 1994, applicable to property acquired after April 26, 1993.

Elections Not to Include Properties in Class 44

(2h) A taxpayer may, by letter attached to the taxpayer's return of income filed with the Minister in accordance with section 150 of the Act for the taxation year in which a property was acquired, elect not to include the property in Class 44 in Schedule II.

History: S. 1103(2h) and its heading were added by P.C. 1994-231, SOR/94-170, dated February 10, 1994, applicable to property acquired after April 26, 1993, except that an election referred to in subsection 1103(2h) shall be deemed to have been made in accordance with that subsection if it is made by notifying the Minister of National Revenue in writing before the end of the sixth month after the month in which these amendments are published in the *Canada Gazette* Part II.

Tax Profile: November 1997 — Canadian Taxation of Technology: Part II.

Election to Include Properties in Class 35

(2i) In respect of any property otherwise included in Class 7 in Schedule II because of paragraph (*h*) of that Class and to which paragraph 1100(1)(z.1a) and subsection 1101(5d), or paragraph 1100(1)(z.1c) and subsection 1101(5d.2), would apply if Class 35 of that Schedule applied to the property, the taxpayer may (by letter attached to the taxpayer's return of income filed with the Minister in accordance with section 150 of the Act for the taxation year in which the property was acquired) elect to include the property in Class 35 rather than in Class 7.

History: S. 1103(2i) was added by P.C. 2005-2186, SOR/2005-371, dated November 22, 2005, applicable to property acquired after February 27, 2000.

Election Rules

(3) To be effective in respect of a taxation year, an election under this section must be made not later than the last day on which the taxpayer may file a return of his income for the taxation year in accordance with section 150 of the Act.

(4) An election under paragraph 1102(8)(*d*) or (9)(*d*) or this section shall be effective from the first day of the taxation year in respect of which the election is made and shall continue to be effective for all subsequent taxation years,

History: S. 1103(4) was amended by P.C. 1997-1033, SOR/97-377, dated July 28, 1997, applicable after February 21, 1994. S. 1103(4) formerly read:

"(4) An election under this section shall be effective from the first day of the taxation year in respect of which the election is made and shall continue to be effective for all subsequent taxation years."

Interpretation Bulletins: *Primary* — IT-327 Capital cost allowance — Elections under regulation 1103 [Archived by the CRA].

(5) An election under subsection (1) or (2) shall be made by sending a letter to that effect by registered mail to the Tax Centre at which the taxpayer customarily files the returns required by section 150 of the Act.

History: S. 1103(5) was replaced by P.C. 2007-849, SOR/2007-116, dated May 31, 2007, effective on publication in the *Canada Gazette*, June 13, 2007. S. 1103(5) formerly read:

"(5) An election under subsection (1) or (2) shall be made by registered letter addressed to the District Office at which the taxpayer customarily files the returns required by section 150 of the Act."

DIVISION V
INTERPRETATION

DEFINITIONS

1104. (1) Where the taxpayer is an individual and his income for the taxation year includes income from a business the fiscal period of which does not coincide with the calendar year, in respect of the depreciable properties acquired for the purpose of gaining or producing income from the business, a reference in this Part to

"*end of the taxation year*" shall be deemed to be a reference to the end of the fiscal period of the business; and

"*taxation year*" shall be deemed to be a reference to the fiscal period of the business.

Interpretation Bulletins: *Secondary* — IT-492 Capital cost allowance — Industrial mineral mines.

(2) In this Part and in Schedule II,

"*certified feature film*" means a motion picture film certified by the Minister of Communications to be a film of not less than 75 minutes running time in respect of which all photography or art work specifically required for the production thereof and all film editing therefor were commenced after November 18, 1974, and either the film was completed before May 26, 1976, or the photography or art work was commenced before May 26, 1976, and certified by him to be

(*a*) a film the production of which is contemplated in a coproduction agreement entered into between Canada and another country, or

(*b*) a film in respect of which

(i) the person who performed the duties of producer was a Canadian,

(ii) no fewer than 2/3 in number of all the persons each of whom

(A) was a person who performed the duties of director, screenwriter, music composer, art director, picture editor or director of photography, or

(B) was the individual in respect of whose services as an actor or actress in respect of the film the highest remuneration or the second highest remuneration was paid or payable,

were Canadians,

(iii) not less than 75 per cent of the aggregate of the remuneration paid or payable to persons for services provided in respect of the film (other than remuneration paid or payable to or in respect of the persons referred to in subparagraphs (i) and (ii) or remuneration paid or payable for processing and final preparation of the film) was paid or payable to Canadians,

(iv) not less than 75 per cent of the aggregate of costs incurred for processing and final preparation of the film including laboratory work, sound recording, sound editing and picture editing (other than remuneration paid or payable to or in respect of persons referred to in subparagraphs (i), (ii) and (iii)), was incurred in respect of services rendered in Canada, and

(v) the copyright protecting its use in Canada is beneficially owned

(A) by a person who is either a Canadian or a corporation incorporated under the laws of Canada or a province, or

(B) jointly or otherwise by two or more persons described in clause (A),

other than a film

(*c*) acquired after the day that is the earlier of

(i) the day of its first commercial use, and

(ii) 12 months after the day the principal photography thereof is completed, or

(*d*) in respect of which certification under this definition has been revoked by the Minister of Communications as provided in paragraph (10)(*b*);

"*certified production*", in respect of a particular taxation year, means a motion picture film or video tape certified by the Minister of Communications to be a film or tape in respect of which all photography, taping or art work required specifically for the production thereof and all film or tape editing therefor were commenced after May 25, 1976, certified by him to be a film or tape in respect of which the principal photography or taping thereof was commenced before the end of the particular taxation year or was completed no later than 60 days after the end of that year and certified by him to be

(*a*) a film or tape the production of which is contemplated in a coproduction agreement entered into between Canada and another country, or

(*b*) a film or tape in respect of which

(i) the individual who performed the duties of producer was a Canadian,

(ii) the Minister of Communications has allotted not less than an aggregate of six units of production, not less than two of which were allotted by virtue of clause (A) or (B) and not less than one of which was allotted by virtue of clause (C) or (D), for individuals who provided services in respect of the film or tape, in the following manner:

(A) for the director, two units of production,

(B) for the screenwriter, two units of production,

(C) for the actor or actress in respect of whose services for the film or tape the highest remuneration was paid or payable (unless in the opinion of the Minister of Communications the individual did not perform a major role in the film or tape), one unit of production,

(D) for the actor or actress in respect of whose services for the film or tape the second highest remuneration was paid or payable (unless in the opinion of the Minister of Communications the individual did not perform a major role in the film or tape), one unit of production,

(E) for the art director, one unit of production,

(F) for the director of photography, one unit of production,

(G) for the music composer, one unit of production, and

(H) for the picture editor, one unit of production,

shall be allotted, provided the individual in respect of such allotment was a Canadian,

(iii) not less than 75 per cent of the aggregate of all costs (other than costs determined by reference to the amount of income from the film or tape) paid or payable to persons for services provided in respect of producing the film or tape (other than remuneration paid or payable to, or in respect of, individuals referred to in subparagraph (i) or (ii), costs referred to in subparagraph (iv) incurred for processing and final preparation of the film or tape, and amounts paid or payable in respect of insurance, financing, brokerage, legal and accounting fees and similar amounts) was paid or payable to, or in respect of services provided by, Canadians, and

(iv) not less than 75 per cent of the aggregate of all costs (other than costs determined by reference to the amount of income from the film or tape) incurred for processing and final preparation of the film or tape, including laboratory work, sound re-recording, sound editing and picture editing (other than remuneration paid or payable to, or in respect of, individuals referred to in subparagraph (i) or (ii)) was incurred in respect of services provided in Canada,

other than a film or tape

(*c*) acquired after the day that is the earlier of

(i) the day of its first commercial use, and

(ii) 12 months after the day the principal photography or taping thereof is completed,

(*d*) acquired by a taxpayer who has not paid in cash, as of the end of the particular taxation year, to the person from whom he acquired the film or tape, at least 5 per cent of the capital cost to the taxpayer of the film or tape as of the end of the year,

(*e*) acquired by a taxpayer who has issued in payment or part payment thereof, a bond, debenture, bill, note, mortgage or similar obligation in respect of which an amount is not due until a time that is more than four years after the end of the taxation year in which the taxpayer acquired the film or tape,

(*f*) acquired from a non-resident, or

(*g*) in respect of which certification under this definition has been revoked by the Minister of Communications as provided in paragraph (10)(*b*),

and, for the purposes of the application of this definition,

(*h*) in respect of a film or tape acquired in 1987, other than a film or tape in respect of which paragraph (*i*) applies, the reference in this definition to "commenced before the end of the particular taxation year or was completed no later than 60 days after the end of that year" shall be read as a reference to "commenced before the end of 1987 or was completed before July, 1988", and

(*i*) in respect of a film or tape acquired in 1987 or 1988 that is included in paragraph (*n*) of Class 12 in Schedule II and that is part of a series of films or tapes that includes another property included in that paragraph, the reference in this definition to "commenced before the end of the particular taxation year or was completed no later then 60 days after the end of that year" shall be read as a reference to "completed before 1989";

"*computer software*" includes systems software and a right or licence to use computer software;

"*data network infrastructure equipment*" means network infrastructure equipment that controls, transfers, modulates or directs data, and that operates in support of telecommunications applications such as e-mail, instant messaging, audio- and video-over-Internet Protocol or Web browsing, Web searching and Web hosting, including data switches, multiplexers, routers, remote access servers, hubs, domain name servers, and modems, but does not include

(*a*) network equipment (other than radio network equipment) that operates in support of telecommunications applications, if the bandwidth made available by that equipment to a single end-user of the network is 64 kilobits per second or less in either direction,

(*b*) radio network equipment that operates in support of wireless telecommunications applications unless the equipment supports digital transmission on a radio channel,

(*c*) network equipment that operates in support of broadcast telecommunications applications and that is unidirectional,

(*d*) network equipment that is end-user equipment, including telephone sets, personal digital assistants and facsimile transmission devices,

(*e*) equipment that is described in paragraph (*f.2*) or (*v*) of Class 10, or in any of Classes 45, 50 and 52, in Schedule II,

(*f*) wires or cables, or similar property, and

(*g*) structures;

"*designated overburden removal cost*" of a taxpayer means any cost incurred by him in respect of clearing or removing overburden from a mine in Canada owned or operated by him where the cost

(*a*) was incurred after November 16, 1978 and before 1988,

(*b*) was incurred after the mine came into production in reasonable commercial quantities,

(*c*) as of the end of the taxation year in which the cost was incurred, has not been deducted by the taxpayer in computing his income, and

(*d*) is not deductible, in whole or in part, by the taxpayer in computing his income for a taxation year subsequent to the taxation year in which the cost was incurred, other than by virtue of paragraph 20(1)(*a*) of the Act;

"*designated underground storage cost*" of a taxpayer means any cost incurred by him after December 11, 1979 in respect of developing a well, mine or other similar underground property for the storage in Canada of petroleum, natural gas or other related hydrocarbons;

Interpretation Bulletins: *Secondary* — IT-476R Capital cost allowance — Equipment used in petroleum and natural gas activities.

"*eligible non-residential building*" means a taxpayer's building (other than a building that was used, or acquired for use, by any person or partnership before March 19, 2007) that is located in Canada, that is included in Class 1 in Schedule II and that is acquired by the taxpayer on or after March 19, 2007 to be used by the taxpayer, or a lessee of the taxpayer, for a non-residential use;

"*gas or oil well equipment*" includes

(*a*) equipment, structures and pipelines, other than a well casing, acquired to be used in a gas or oil field in the production therefrom of natural gas or crude oil, and

(*b*) a pipeline acquired to be used solely for transmitting gas to a natural gas processing plant,

but does not include

(*c*) equipment or structures acquired for the refining of oil or the processing of natural gas including the separation therefrom of liquid hydrocarbons, sulphur or other joint products or by-products, or

(*d*) a pipeline for removal or for collection for immediate removal of natural gas or crude oil from a gas or oil field except a pipeline referred to in paragraph (*b*);

Interpretation Bulletins: *Secondary* — IT-476R Capital cost allowance — Equipment used in petroleum and natural gas activities.

"*general-purpose electronic data processing equipment*" means electronic equipment that, in its operation, requires an internally stored computer program that

(*a*) is executed by the equipment,

(*b*) can be altered by the user of the equipment,

(*c*) instructs the equipment to read and select, alter or store data from an external medium such as a card, disk or tape, and

(*d*) depends upon the characteristics of the data being processed to determine the sequence of its execution;

"*ore*" includes ore from a mineral resource that has been processed to any stage that is prior to the prime metal stage or its equivalent;

"*railway system*" includes a railway owned or operated by a common carrier, together with all buildings, rolling stock, equipment and other properties pertaining thereto, but does not include a tramway;

"*specified temporary access road*" means

(*a*) a temporary access road to an oil or gas well in Canada, and

(*b*) a temporary access road the cost of which would, if the definition "Canadian exploration expense" in subsection 66.1(6) of the Act were read without reference to paragraph (*l*) of that definition, be a Canadian exploration expense because of paragraph (*f*) or (*g*) of that definition;

Interpretation Bulletins: *Secondary* — IT-476R Capital cost allowance — Equipment used in petroleum and natural gas activities.

"*systems software*" means a combination of computer programs and associated procedures, related technical documentation and data that

(*a*) performs compilation, assembly, mapping, management or processing of other programs,

(*b*) facilitates the functioning of a computer system by other programs,

(*c*) provides service or utility functions such as media conversion, sorting, merging, system accounting, performance measurement, system diagnostics or programming aids,

(*d*) provides general support functions such as data management, report generation or security control, or

(*e*) provides general capability to meet widespread categories of problem solving or processing requirements where the specific attributes of the work to be performed are introduced mainly in the form of parameters, constants or descriptors rather than in program logic,

and includes a right or licence to use such a combination of computer programs and associated procedures, related technical documentation and data;

"*tar sands ore*" means ore extracted from a deposit of bituminous sands or oil shales;

"*telegraph system*" includes the buildings, structures, general plant and communication and other equipment pertaining thereto;

"*telephone system*" includes the buildings, structures, general plant and communication and other equipment pertaining thereto;

"*television commercial message*" means a commercial message as defined in the *Television Broadcasting Regulations, 1987* made under the *Broadcasting Act*;

"*tramway or trolley bus system*" includes the buildings, structures, rolling stock, general plant and equipment pertaining thereto and where buses other than trolley buses are operated in connection therewith includes the properties pertaining to those bus operations.

History: S. 1104(2), paragraph (*e*) of the definition "data network infrastructure equipment" was replaced by P.C. 2009-660, SOR/2009-126, dated April 30, 2009, applicable in respect of property acquired after January 27, 2009. S. 1104(2), paragraph (*e*) of the definition "data network infrastructure equipment" formerly read:

"(*e*) equipment that is described in paragraph (*f*.2) or (*v*) of Class 10 or in Class 45 or 50, in Schedule II,"

S. 1104(2), paragraph (*e*) of the definition "data network infrastructure equipment" was replaced by P.C. 2009-581 SOR/2009-115, dated April 23, 2009, deemed to have come into force on March 19, 2007. S. 1104(2), paragraph (*e*) of the definition "data network infrastructure equipment" formerly read:

"(*e*) equipment that is described in paragraph (*f*.2) or (*v*) of Class 10 or in Class 45,"

S. 1104(2), the definition "eligible non-residential building" was added by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, deemed to have come into force on March 19, 2007.

S. 1104(2), the definition "data network infrastructure equipment" was added by P.C. 2005-2286, SOR/2005-414, dated December 6, 2005, deemed to have come into force on March 23, 2004.

S. 1104(2), the definition "specified temporary access road" was added by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable after March 6, 1996.

The definition "tar sands ore" was amended by P.C. 1998-49, SOR/98 97, dated January 26, 1998, applicable after March 6, 1996. The definition "tar sands ore" formerly read:

"'tar sands ore' means ore extracted, other than through a well, from a mineral resource that is a deposit of bituminous sand, oil sand or oil shale;"

The definition "television commercial message" was amended by P.C. 1995-775, SOR/95-244, dated May 16, 1995, applicable after January 8, 1987. That definition formerly read:

"'television commercial message' means a billboard or commercial message as defined in the *Television Broadcasting Regulations* made under section 16 of the *Broadcasting Act*;"

S. 1104(2), paragraph (*e*) of the definition "certified production" was amended by P.C. 1994-1817, SOR/94-686, dated November 7, 1994, by deleting the word "hypothec".

The definition "designated overburden removal cost", paragraph (*a*) thereof, was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990, to add "and before 1988", applicable to the 1988 and subsequent taxation years.

Paragraphs (*h*) and (*i*) of the definition "certified production" were added by P.C. 1988-2795, SOR/89-27, dated December 27, 1988 and applicable after 1986.

The definition "certified short production" was revoked by P.C. 1986-477, SOR/86-254, dated February 27, 1986, applicable in respect of a motion picture film or video tape, the principal photography or taping of which commenced after 1985. The definition formerly read:

"'certified short production', in respect of a particular taxation year, means a motion picture film or video tape certified by the Minister of Communications to be a film or tape of less than 75 minutes running time in respect of which all photography, taping or art work specifically required for the production thereof and all film or tape editing therefor were commenced after May 25, 1976, certified by him to be a film or tape in respect of which the principal photography or taping thereof was commenced before the end of the particular taxation year or was completed no later than 60 days after the end of the particular taxation year and certified by him to be

(*a*) a film or tape that would be certifiable under the definition 'certified feature production' if that definition were read without reference to the words 'of not less than 75 minutes running time', or

(*b*) a film or tape in respect of which

(i) the individual who performed the duties of producer was a Canadian, and

(ii) not less than 75 per cent of the aggregate of all costs incurred in respect of producing the film or tape, including remuneration and processing, was paid or payable to, or in respect of services provided by, Canadians,

other than a film or tape

(*c*) acquired after the day that is the earlier of

(i) the day of its first commercial use, and

(ii) 12 months after the day the principal photography or taping thereof is completed,

(*d*) acquired by a taxpayer who has not paid in cash, as of the end of the particular taxation year, to the person from whom he acquired the film or tape, at least 5 per cent of the capital cost to the taxpayer of the film or tape as of the end of the year,

(*e*) acquired by a taxpayer who has issued in payment or part payment thereof, a bond, debenture, bill, note, mortgage, hypothec or similar obligation in respect of which an amount is not due until a time that is more than four years after the end of the taxation year in which the taxpayer acquired the film or tape,

(*f*) acquired from a non-resident, or

(*g*) in respect of which certification under this definition has been revoked by the Minister of Communications as provided in paragraph (10)(*b*);"

The definition "certified feature production" was renamed "certified production" and the part preceding paragraph (*a*) was amended by P.C. 1986-477, SOR/86-254, dated February 27, 1986, applicable in respect of a motion picture film or video tape, the principal photography or taping of which commenced after 1985. That part formerly read:

"'certified feature production', in respect of a particular taxation year, means a motion picture film or video tape certified by the Minister of Communications to be a film or tape of not less than 75 minutes running time in respect of which all photography, taping or art work specifically required for the production thereof and all film or tape editing therefor were commenced after May 25, 1976, certified by him to be a film or tape in respect of which the principal photography or taping thereof was commenced before the end of the particular taxation year or was completed no later than 60 days after the end of the particular taxation year and certified by him to be"

The definition "certified production" was amended by P.C. 1986-477, SOR/86-254, dated February 27, 1986, to add the words within parentheses in clauses (*b*)(ii)(C) and (D), applicable in respect of a motion picture film or video tape, the principal photography or taping of which commenced after 1985.

The definition "certified production" was amended by P.C. 1986-477, SOR/86-254, dated February 27, 1986 to amend subparagraphs (*b*)(iii) and (iv), applicable in respect of a motion picture film or video tape, the principal photography or taping of which commenced after 1985. Ss. (*b*)(iii) and (iv) formerly read:

"(iii) not less than 75 per cent of the aggregate of the remuneration paid or payable to persons for services provided in respect of the film or tape (other than remuneration paid or payable to, or in respect of, the individuals referred to in subparagraphs (i) and (ii) or remuneration paid or payable for processing and final preparation of the film or tape) was paid or payable to, or in respect of services provided by, Canadians, and

(iv) not less than 75 per cent of the aggregate of all costs incurred for processing and final preparation of the film or a tape, including laboratory work, sound re-recording, sound editing and picture editing (other than remuneration paid or payable to, or in respect of, the individuals referred to in subparagraphs (i), (ii) and (iii) was incurred in respect of services provided in Canada,"

The definition "tar sands ore" was added by P.C. 1985-465, SOR/85-174, dated February 14, 1985, applicable to taxation years commencing after November 12, 1981, except that for the purpose of that part of paragraph 1100(1)(*w*) preceding subparagraph (i) thereof and that part of paragraph 1100(1)(*x*) preceding subparagraph (1) thereof and for the purposes of determining the prescribed class in which depreciable property is to be included, this definition is not applicable with respect to depreciable property acquired in taxation years commencing before November 13, 1981.

The definitions "certified feature production" and "certified short production" were amended by P.C. 1984-1062, SOR/84-265, March 30, 1984 to substitute "5 per cent" for "20 per cent", applicable in respect of property acquired after 1982.

The definition "computer software" was added by P.C. 1983-3411, SOR/83-855, dated November 4, 1983 and effective May 26, 1976.

The definition "systems software" was amended by P.C. 1983-3411, SOR/83-855, dated November 4, 1983 and effective May 26, 1976 to replace the semicolon at the end of paragraph (*e*) with a comma and to add the portion following paragraph (*e*).

The definition "certified feature production", that part of subparagraph (*b*)(ii) preceding clause (A) was amended by P.C. 1981-3478, SOR/81-1026, dated December 10, 1981 and effective in respect of a motion picture film or video tape the principal photography or taping of which commenced after 1981, to add the punctuation and words between "units of production" and "for individuals".

The definitions "certified feature film", "certified feature production" and "certified short production" were amended by P.C. 1980-3374, SOR/80-942, dated December 11, 1980, to substitute "the Minister of Communications" for all references to "the Secretary of State".

The definition "designated underground storage cost" was added by P.C. 1980-3279, SOR/80-926, dated December 4, 1980.

The definition "designated overburden removal cost" was added by P.C. 1979-1487, SOR/79-426, May 17, 1979 and effective November 17, 1978.

The definition "certified feature film", that part following clause (*b*)(v)(B) was amended by P.C. 1978-3731, SOR/78-948, December 14, 1978 (Special Issue, *Canada Gazette*, December 31, 1978), applicable in respect of property acquired after 1978. That part formerly read:

"other than a film in respect of which certification referred to in this definition has been revoked by the Secretary of State as provided in paragraph (10)(*b*)."

The definition "certified feature production", the part preceding subparagraph (i) was amended by P.C. 1978-3731, SOR/78-948 (December 14, 1978), effective in respect of the 1978 and subsequent taxation years. That part formerly read:

"'certified feature production' means a motion picture film or video tape certified by the Secretary of State to be a film or tape of not less than 75 minutes running time in respect of which all photography, taping or art work specifically required for the production thereof and all film or tape editing therefor were commenced after May 25, 1976, and certified by him to be"

The definition "certified feature production", the part following subparagraph (*b*)(iv), was amended by P.C. 1978-3731, SOR/78-948, December 14, 1978 (Special Issue, *Canada Gazette*, December 31, 1978), applicable in respect of property acquired after 1978. That part formerly read:

"other than a film or tape in respect of which certification referred to in this definition has been revoked by the Secretary of State as provided in paragraph 10(*b*)"

The definition "certified short production", the part preceding paragraph (*a*) was amended by 1978-3731, SOR/78-948, December 14, 1978 (Special Issue, *Canada Gazette*, December 31, 1978), effective in respect of property acquired after 1978. That part formerly read:

"'certified short production' means a motion picture film or video tape certified by the Secretary of State to be a film or tape of less than 75 minutes running time in respect of which all photography, taping or art work specifically required for the production thereof and all film or tape editing therefor were commenced after May 25, 1976, and certified by him to be"

The definition "certified short production", that part following subparagraph (*b*)(ii), was amended by P.C. 1978-3731, SOR/78-948, December 14, 1978 (Special Issue, *Canada Gazette*, December 31, 1978), applicable in respect of property acquired after 1978. That part formerly read:

"other than a film or tape in respect of which certification referred to in this definition has been revoked by the Secretary of State as provided in paragraph (10)(*b*)"

Interpretation Bulletins: *Primary* — IT-441 Capital cost allowance — Certified feature productions and certified short productions [Archived by the CRA]. *Secondary* — IT-283R2 Capital cost allowance — Video tapes, videotape cassettes, films, computer software and master recording media [Archived by the CRA]; IT-476 Capital cost allowance — Gas and oil exploration and production equipment.

Canadian Petroleum Tax Journal: Pot Pourri of Income Tax Issues, John Chan, Vol. 14 No. 1 2001; Canada Customs and Revenue Agency 1999 Roundtable Questions and Answers, Question 20, Vol. 13 No. 1 2000.

(3) Except as otherwise provided in subsection (6), in this Part and in Schedules II and V,

"*industrial mineral mine*" includes a peat bog or deposit of peat but does not include a mineral resource;

"*mineral*" includes peat;

"*mining*" includes the harvesting of peat.

(4) [Revoked.]

History: S. 1104(4) was revoked by P.C. 1979-2483, SOR/79-670 (September 13, 1979), effective in respect of the 1978 and subsequent taxation years. S. 1104(4) formerly read:

"(4) In this Part,

'gross Canadian life investment income' has the meaning assigned by subsection 209(1) of the Act;

'property used in the year in, or held in the year in the course of' carrying on an insurance business in Canada has the meaning assigned by paragraph 138(12)(1) of the Act;

'segregated fund' has the meaning assigned by paragraph 148(1)(*b*) of the Act."

Mining

(5) For the purposes of paragraphs 1100(1)(*w*) to (*ya*), subsections 1101 (4a) to (4d) and Classes 10, 28 and 41 in Schedule II, a taxpayer's "income from a mine", or any expression referring to a taxpayer's income from a mine, includes income reasonably attributable to

(*a*) the processing by the taxpayer of

(i) ore (other than iron ore or tar sands ore) all or substantially all of which is from a mineral resource owned by the taxpayer to any stage that is not beyond the prime metal stage or its equivalent,

(ii) iron ore all or substantially all of which is from a mineral resource owned by the taxpayer to any stage that is not beyond the pellet stage or its equivalent,

(iii) tar sands ore all or substantially all of which is from a mineral resource owned by the taxpayer to any stage that is not beyond the crude oil stage or its equivalent, or

(iv) material extracted by a well, all or substantially all of which is from a deposit of bituminous sands or oil shales owned by the taxpayer, to any stage that is not beyond the crude oil stage or its equivalent;

(*b*) the production by the taxpayer of material from a deposit of bituminous sands or oil shales; and

(*c*) the transportation by the taxpayer of

(i) output, other than iron ore or tar sands ore, from a mineral resource owned by the taxpayer that has been processed by him to any stage that is not beyond the prime metal stage or its equivalent,

(ii) iron ore from a mineral resource owned by the taxpayer that has been processed by him to any stage that is not beyond the pellet stage or its equivalent, or

(iii) tar sands ore from a mineral resource owned by the taxpayer that has been processed by him to any stage that is not beyond the crude oil stage or its equivalent,

to the extent that such transportation is effected through the use of property of the taxpayer that is included in Class 10 in Schedule II because of paragraph (*m*) thereof or that would be so included if that paragraph were read without reference to subparagraph (v) thereof and if Class 41 in Schedule II were read without the reference therein to that paragraph.

History: S. 1104(5), the portion before subparagraph (*c*)(i) was amended by P.C. 1998-49, SOR/98-97, dated January 26, 1998, applicable after March 6, 1996. S. 1104(5), the portion before subparagraph (*c*)(i) formerly read:

"(5) For the purposes of paragraphs 1100(1)(*w*) to (*ya*), subsections 1101(4a) to (4d) and Classes 10 and 28 in Schedule II, 'income from a mine', or any expression referring to income from a mine, includes income reasonably attributable to

(*a*) the processing of

(i) ore, other than iron ore or tar sands ore, from a mineral resource owned by the taxpayer to any stage that is not beyond the prime metal stage or its equivalent,

(ii) iron ore from a mineral resource owned by the taxpayer to any stage that is not beyond the pellet stage or its equivalent, or

(iii) tar sands ore from a mineral resource owned by the taxpayer to any stage that is not beyond the crude oil stage or its equivalent;

(*b*) the production (other than production from a well) of crude oil from bituminous sand, oil sand or oil shale; or

(*c*) the transportation of"

S. 1104(5), the part preceding paragraph (*a*), was amended by P.C. 1994-230, SOR/94-169, dated February 10, 1994, to drop the reference to Class 41, applicable with respect to property acquired after February 25, 1992.

S. 1104(5)(*c*), the part following subparagraph (iii), was amended by P.C. 1994-230, SOR/94-169, dated February 10, 1994, applicable to the 1988 and subsequent taxation years. The part formerly read:

"to the extent that such transportation is effected through the use of property of the taxpayer that is included in Class 10 in Schedule II by virtue of paragraph (*m*) thereof or that would be so included if that paragraph were read without reference to subparagraph (v) thereof."

S. 1104(5), the part preceding paragraph (*a*), was amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, applicable in respect of the 1988 and subsequent taxation years. The part formerly read:

"(5) For the purposes of paragraphs 1100(1)(*w*) and (*x*), subsections 1101(4a) and (4b) and Classes 10 and 28 in Schedule II, 'income from a mine', or any expression referring to income from a mine, includes income reasonably attributable to"

Ss. 1104(5)(*a*) and (*c*) were amended by P.C. 1985-465, SOR/85-174, dated February 14, 1985, applicable to taxation years commencing after November 12, 1981, except that for the purpose of that part of paragraph 1100(1)(*w*) preceding subparagraph (i) thereof and that part of paragraph 1100(1)(*x*) preceding subparagraph (i) thereof and for the purposes of determining the prescribed class in which depreciable property is to be included, these paragraphs are not applicable with respect to depreciable property acquired in taxation years commencing before November 13, 1981. Ss. 1104(5)(*a*) and (*c*) formerly read:

"(*a*) the processing of mineral ores from a mineral resource owned by the taxpayer to any stage that is not beyond the prime metal stage or its equivalent;"

"(*c*) the transportation of output from a mineral resource owned by the taxpayer that has been processed by him to any stage that is not beyond the prime metal stage or its equivalent, to the extent that such transportation is by use of property of the taxpayer that is included in Class 10 in Schedule II by virtue of paragraph (*m*) thereof or that would be so included if it were not for the description of Class 28 in Schedule II."

S. 1104(5)(*b*) was amended by P.C. 1980-1483, SOR/80-418, dated June 6, 1980 and effective April 11, 1978 to add the phrase "(other than production from a well)".

S. 1104(5)(*c*) was added by P.C. 1978-344, SOR/78-137, dated February 10, 1978 (Special Issue, *Canada Gazette*, December 31, 1978), effective after March 31, 1977.

Interpretation Bulletins: *Secondary* — IT-469R Capital cost allowance — Earth-moving equipment; IT-476R Capital cost allowance — Equipment used in petroleum and natural gas activities.

(5.1) For the purpose of Class 41 in Schedule II, a taxpayer's "gross revenue from a mine" includes

(*a*) revenue reasonably attributable to the processing by the taxpayer of

(i) ore (other than iron ore or tar sands ore) from a mineral resource owned by the taxpayer to any stage that is not beyond the prime metal stage or its equivalent,

(ii) iron ore from a mineral resource owned by the taxpayer to any stage that is not beyond the pellet stage or its equivalent,

(iii) tar sands ore from a mineral resource owned by the taxpayer to any stage that is not beyond the crude oil stage or its equivalent, and

(iv) material extracted by a well from a mineral resource owned by the taxpayer that is a deposit of bituminous sands or oil shales to any stage that is not beyond the crude oil stage or its equivalent;

(*b*) the amount, if any, by which any revenue reasonably attributable to the processing by the taxpayer of

(i) ore (other than iron ore or tar sands ore) from a mineral resource not owned by the taxpayer, to any stage that is not beyond the prime metal stage or its equivalent,

(ii) iron ore from a mineral resource not owned by the taxpayer to any stage that is not beyond the pellet stage or its equivalent,

(iii) tar sands ore from a mineral resource not owned by the taxpayer to any stage that is not beyond the crude oil stage or its equivalent, and

(iv) material extracted by a well from a mineral resource not owned by the taxpayer that is a deposit of bituminous sands or oil shales to any stage that is not beyond the crude oil stage or its equivalent

exceeds the cost to the taxpayer of the ore or material processed; and

(*c*) revenue reasonably attributable to the production by the taxpayer of material from a deposit of bituminous sands or oil shales.

History: S. 1104(5.1) was added by P.C. 1998-49, SOR/98-97, dated January 26, 1998, applicable after March 6, 1996.

Interpretation Bulletins: *Secondary* — IT-476R Capital cost allowance — Equipment used in petroleum and natural gas activities.

(5.2) For the purpose of subsection (5.1), "gross revenue from a mine" does not include revenue reasonably attributable to the addition of diluent, for the purpose of transportation, to material extracted from a deposit of bituminous sands or oil shales.

History: S. 1104(5.2) was added by P.C. 1998-49, SOR/98-97, dated January 26, 1998, applicable after March 6, 1996.

Interpretation Bulletins: *Secondary* — IT-476R Capital cost allowance — Equipment used in petroleum and natural gas activities.

(6) For the purposes of Class 10 in Schedule II,

(*a*) "income from a mine" includes income reasonably attributable to the processing of

(i) ore, other than iron ore or tar sands ore, from a mineral resource not owned by the taxpayer to any stage that is not beyond the prime metal stage or its equivalent,

(ii) iron ore from a mineral resource not owned by the taxpayer to any stage that is not beyond the pellet stage or its equivalent,

(iii) tar sands ore from a mineral resource not owned by the taxpayer to any stage that is not beyond the crude oil stage or its equivalent; and

(iv) material extracted by a well from a mineral resource not owned by the taxpayer that is a deposit of bituminous sands or oil shales to any stage that is not beyond the crude oil stage or its equivalent; and

(*b*) "mine" includes a well for the extraction of material from a deposit of bituminous sands or oil shales or from a deposit of calcium chloride, halite or sylvite.

History: S. 1104(6)(*a*)(iv) was added by P.C. 1998-49, SOR/98-97, dated January 26, 1998, applicable after March 6, 1996.

S. 1104(6)(*b*) was amended by P.C. 1998-49, SOR/98-97, dated January 26, 1998, applicable after March 6, 1996. S. 1104(6)(*b*) formerly read:

"(*b*) 'mine' includes a well for the extraction of material from a deposit of calcium chloride, halite or sylvite."

S. 1104(6)(*b*) was amended by P.C. 1996-495, SOR/96-200, dated April 16, 1996, to add a reference to "calcium chloride", applicable to property acquired in taxation years that begin after 1984.

S. 1104(6), the portion preceding paragraph (*a*), was amended by P.C. 1994-230, SOR/94-169, dated February 10, 1994, to delete the words "and paragraph (*b*) of Class 41" after the words "Class 10", applicable with respect to property acquired after February 25, 1992.

S. 1104(6), the portion preceding paragraph (*a*), was amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, to add "and paragraph

(*b*) of Class 41", applicable in respect of the 1988 and subsequent taxation years.

S. 1104(6)(*a*) was amended by P.C. 1985-465, SOR/85-174 dated February 14, 1985, applicable to taxation years commencing after November 12, 1981, except that for the purpose of that part of paragraph 1100(1)(*w*) preceding subparagraph (i) thereof and that part of paragraph 1100(1)(*x*) preceding subparagraph (i) thereof and for the purposes of determining the prescribed class in which depreciable property is to be included, this paragraph is not applicable with respect to depreciable property acquired in taxation years commencing before November 13, 1981. S. 1104(6)(*a*) formerly read:

"(*a*) 'income from a mine' includes income reasonably attributable to the processing of mineral ores from a mineral resource not owned by the taxpayer to any stage that is not beyond the prime metal stage or its equivalent; and"

S. 1104(6)(*b*) was amended by P.C. 1980-1483, SOR/80-418, dated June 6, 1980 and effective April 11, 1978 to delete "bituminous sand, oil sand or oil shale".

Interpretation Bulletins: *Secondary* — IT-469R Capital cost allowance — Earth-moving equipment; IT-476R Capital cost allowance — Equipment used in petroleum and natural gas activities.

(6.1) [Repealed.]

History: S. 1104(6.1) was repealed by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable to taxation years that begin after March 6, 1996. S. 1104(6.1) formerly read:

"(6.1) Notwithstanding subsections (5) and (6),

(*a*) for the purposes of paragraphs 1100(1)(*w*) to (*ya*), subsections 1101(4a) to (4d) and Class 28 in Schedule II, 'income from a mine', or any expression referring to a taxpayer's income from a mine, does not include income that can reasonably be attributed to a service rendered by the taxpayer; and

(*b*) for the purpose of Class 10 in Schedule II, 'income from a mine' does not include income that can reasonably be attributed to a service rendered by the taxpayer other than the processing of ore."

S. 1104(6.1) was added by P.C. 1996-1488, SOR/96-451, dated September 24, 1996, applicable to taxation years that begin after March 6, 1996.

Interpretation Bulletins: *Secondary* — IT-476R Capital cost allowance — Equipment used in petroleum and natural gas activities.

(7) For the purposes of paragraphs 1100(1)(*w*) to (*ya*), subsections 1101(4a) to (4d) and 1102(8) and (9), section 1107 and Classes 12, 28 and 41 in Schedule II,

(*a*) "mine" includes

(i) a well for the extraction of material from a deposit of bituminous sands or oil shales or from a deposit of calcium chloride, halite or sylvite, and

(ii) a pit for the extraction of kaolin or tar sands ore,

but does not include

(iii) an oil or gas well, or

(iv) a sand pit, gravel pit, clay pit, shale pit, peat bog, deposit of peat or a stone quarry (other than a kaolin pit or a deposit of bituminous sands or oil shales);

(*b*) all wells of a taxpayer for the extraction of material from one or more deposits of calcium chloride, halite or sylvite, the material produced from which is sent to the same plant for processing, are deemed to be one mine of the taxpayer; and

(*c*) all wells of a taxpayer for the extraction of material from a deposit of bituminous sands or oil shales that the Minister, in consultation with the Minister of Natural Resources, determines constitutes one project, are deemed to be one mine of the taxpayer.

History: S. 1104(7) was amended by P.C. 1998-49, SOR/98-97, dated January 26, 1998, applicable after March 6, 1996. S. 1104(7) formerly read:

"(7) For the purposes of paragraphs 1100(1)(*w*) to (*ya*), subsections 1101(4a) to (4d) and 1102(8) and (9) and Classes 12 and 28 in Schedule II,

(*a*) 'mine' includes a well for the extraction of material from a deposit of calcium chloride, halite or sylvite, but does not include any oil well or gas well, sand pit, gravel pit, clay pit, shale pit, peat bog, deposit of peat or stone quarry (other than a deposit of bituminous sand, oil sand or oil shale or a kaolin pit); and

(*b*) all wells of a taxpayer for the extraction of material from one or more deposits of calcium chloride, halite or sylvite, the material produced from which is sent to the same plant for processing, shall be deemed to be one mine of the taxpayer."

Ss. 1104(7)(*a*) and (*b*) were amended by P.C. 1996-495, SOR/96-200, dated April 16, 1996, to add references to "calcium chloride", applicable to property acquired in taxation years that begin after 1984 except that paragraph 1104(7)(*a*) shall be read without reference to the expression "or a kaolin pit" in respect of taxation years that end before 1988.

S. 1104(7), the part preceding paragraph (*a*), was amended by P.C. 1994-230, SOR/94-169, dated February 10, 1994, to drop the reference to Class 41, applicable to the 1988 and subsequent taxation years.

S. 1104(7)(*a*) was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990, to add the reference to a kaolin pit, applicable to the 1988 and subsequent taxation years.

S. 1104(7), the part preceding paragraph (*a*), was amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, applicable in respect of the 1988 and subsequent taxation years. That part formerly read:

"(7) For the purposes of paragraphs 1100(1)(*w*) and (*x*), subsections 1101(4a) and (4b) and 1102(8) and (9) and Classes 12 and 28 in Schedule II,"

Ss. 1104(7)(*a*) and (*b*) were amended by P.C. 1980-1483, SOR/80-418, dated June 6, 1980 and effective April 11, 1978 to delete in both paragraphs "bituminous sand, oil sand or oil shale".

Interpretation Bulletins: *Secondary* — IT-476R Capital cost allowance — Equipment used in petroleum and natural gas activities.

(8) For the purposes of subsection (7), "stone quarry" includes a mine producing dimension stone or crushed rock for use as aggregates or for other construction purposes.

(8.1) For greater certainty, for the purposes of paragraphs (*c*) and (*e*) of Class 28 and paragraph (*a*) of Class 41 in Schedule II, production means production in reasonable commercial quantities.

History: S. 1104(8.1) was added by P.C. 2007-114, SOR/2007-19, dated February 1, 2007, applicable to property acquired after 1987.

Manufacturing or Processing

(9) For the purposes of paragraph 1100(1)(*a.1*), subsection 1100(26) and Class 29 in Schedule II, "manufacturing or processing" does not include

(*a*) farming or fishing;

(*b*) logging;

(*c*) construction;

(*d*) operating an oil or gas well or extracting petroleum or natural gas from a natural accumulation thereof;

(*e*) extracting minerals from a mineral resource;

(*f*) processing of

(i) ore, other than iron ore or tar sands ore, from a mineral resource to any stage that is not beyond the prime metal stage or its equivalent,

(ii) iron ore from a mineral resource to any stage that is not beyond the pellet stage or its equivalent, or

(iii) tar sands ore from a mineral resource to any stage that is not beyond the crude oil stage or its equivalent;

(*g*) producing industrial minerals;

(*h*) producing or processing electrical energy or steam, for sale;

(*i*) processing natural gas as part of the business of selling or distributing gas in the course of operating a public utility;

(*j*) processing heavy crude oil recovered from a natural reservoir in Canada to a stage that is not beyond the crude oil stage or its equivalent; or

(*k*) Canadian field processing.

History: S. 1104(9), the portion before paragraph (*a*) was replaced by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, deemed to have come into

force on March 19, 2007. S. 1104(9), the portion before paragraph (*a*) formerly read:

"(9) For the purposes of subsection 1100(26) and Class 29 in Schedule II, 'manufacturing or processing' does not include"

S. 1104(9)(*i*) and (*j*) were amended, and paragraph (*k*) was added by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable to taxation years that begin after 1996. S. 1104(9)(*i*) and (*j*) formerly read:

"(*i*) processing gas, if such gas is processed as part of the business of selling or distributing gas in the course of operating a public utility; or

(*j*) processing in Canada of heavy crude oil recovered from a natural reservoir in Canada to a stage that is not beyond the crude oil stage or its equivalent."

S. 1104(9)(*g*) was amended by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable to taxation years that begin after 1996. S. 1104(9)(*g*) formerly read:

"(*g*) producing industrial minerals other than sulphur produced by processing natural gas;"

S. 1104(9), the part preceding paragraph (*a*), was amended by P.C. 1997-1033, SOR/97-377, dated July 28, 1997, applicable to taxation years ending after March 6, 1996. That part formerly read:

"(9) For the purposes of Class 29 in Schedule II, 'manufacturing or processing' does not include"

S. 1104(9), the part preceding paragraph (*a*), was amended by P.C. 1994-230, SOR/94-169, dated February 10, 1994, to drop the reference to Class 39, applicable with respect to property acquired after February 25, 1992.

S. 1104(9)(*d*) was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990, applicable to taxation years ending after March, 1985. S. 1104(9)(*d*) formerly read:

"(*d*) operating a gas or oil well;"

S. 1104(9), the portion preceding paragraph (*a*), was amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, to add the reference to Class 39, applicable in respect of the 1988 and subsequent taxation years.

S. 1104(9)(*f*) was amended by P.C. 1985-465, SOR/85-174 dated February 14, 1985, applicable to taxation years commencing after November 12, 1981, except that for the purpose of that part of paragraph 1100(1)(*w*) preceding subparagraph (i) thereof and that part of paragraph 1100(1)(*x*) preceding subparagraph (i) thereof and for the purposes of determining the prescribed class in which depreciable property is to be included, this paragraph is not applicable with respect to depreciable property acquired in taxation years commencing before November 13, 1981. S. 1104(9)(*f*) formerly read:

"(*f*) processing of ore from a mineral resource to the prime metal stage or its equivalent;"

S. 1104(9)(*j*) was added by P.C. 1981-3329, SOR/81-974, dated November 27, 1981 and effective in respect of the 1981 and subsequent taxation years.

S. 1104(9)(*g*) was amended by P.C. 1978-1849, SOR/78-502, dated June 9, 1978 (special Issue, *Canada Gazette*, December 31, 1978), to add the phrase "other than sulphur produced by processing natural gas", applicable after March 31, 1977 with respect to property acquired or completed by a taxpayer after that date.

Interpretation Bulletins: *Secondary* — IT-147R3 Capital cost allowance — Accelerated write-off of manufacturing and processing machinery and equipment.

Certified Films and Video Tapes

(10) For the purposes of subsection 1100(21) and the definitions "certified feature film" and "certified production" in subsection (2),

(*a*) "Canadian" means an individual who was, at all relevant times,

(i) a Canadian citizen as defined in the *Citizenship Act*, or

(ii) a permanent resident within the meaning of the *Immigration Act, 1976*;

(*b*) a motion picture film or video tape that has been certified by

(i) the Secretary of State, or

(ii) the Minister of Communications

as a certified feature film or certified production, as the case may be, may have its certification revoked by the Minister of Communications where an incorrect statement was made in the furnishing of information for the purpose of obtaining that certification and a certification that has been so revoked is void from the time of its issue;

(*c*) "remuneration" does not include an amount determined by reference to the amount of income from a motion picture film or video tape;

(*c*.1) "revenue guarantee" means a contract or other arrangement under the terms of which a taxpayer has a right to receive a minimum rental revenue or other fixed revenue in respect of a right to the use, in any manner whatever, of a certified feature film or certified production;

(*c*.2) a screenwriter shall be deemed to be an individual who is a Canadian where

(i) each individual involved in the preparation of the screenplay is a Canadian, or

(ii) the principal screenwriter is an individual who is a Canadian and

(A) the screenplay for the motion picture film or video tape is based upon a work authored by a Canadian,

(B) copyright in the work subsists in Canada, and

(C) the work is published in Canada;

(*d*) "unit of production" means a measure used by the Minister of Communications in determining the weight to be given for each individual Canadian referred to in subparagraph (*b*)(ii) of the definition "certified production" in subsection (2) who provides services in respect of a motion picture film or video tape; and

(*e*) where each individual who performed a service in respect of a motion picture film or video tape as the

(i) director,

(ii) screenwriter,

(iii) actor or actress in respect of whose services for the film or tape the highest remuneration was paid or payable,

(iv) actor or actress in respect of whose services for the film or tape the second highest remuneration was paid or payable,

(v) art director,

(vi) director of photography,

(vii) music composer, or

(viii) picture editor

was a Canadian, the Minister of Communications shall be deemed to have allotted six units of production in respect of the film or tape for the purposes of the definition "certified production" in subsection (2).

History: S. 1104(10) was amended by P.C. 1986-477, SOR/86-254, dated February 27, 1986, to delete the references to "certified short production" and to substitute "certified production" for "certified feature production", applicable in respect of a motion picture film or video tape, the principal photography or taping of which commenced after 1985.

S. 1104(10)(*a*)(ii) was amended by P.C. 1986-477, SOR/86-254, dated February 22, 1986, effective with respect to the 1982 and subsequent taxation years. S. 1104(10)(*a*)(ii) formerly read:

"(ii) a permanent resident within the meaning of the *Immigration Act, 1976*, other than a permanent resident who has been ordinarily resident in Canada for more than one year after the time at which he first became eligible to apply for Canadian citizenship;"

S. 1104(10)(*a*) was amended by P.C. 1981-3478, SOR/81-1026, dated December 10, 1981 and effective in respect of a motion picture film or video tape the principal photography or taping of which commenced after 1981. S. 1104(10)(*a*) formerly read:

"(*a*) 'Canadian' means an individual who was, at all relevant times, a Canadian citizen as defined in the *Citizenship Act* or an immigrant whose landing has been authorized under the *Immigration Act, 1976*;"

Ss. 1104(10)(c.2) and (*e*) were added by P.C. 1981-3478, SOR/81-1026, dated December 10, 1981 and effective in respect of a motion picture film or

video tape the principal photography or taping of which commenced after 1981.

S. 1104(10)(*b*) was amended to add the reference to "the Minister of Communications", and s. 1104(10)(*d*) was amended to substitute "the Minister of Communications" for "the Secretary of State", by P.C. 1980-3374, SOR/80-942, dated December 11, 1980.

S. 1104(10) was amended by the addition of the reference to subsection 1100(21) and paragraph (c.1) was added by P.C. 1978-3731, SOR/78-948, December 14, 1978, (Special Issue, *Canada Gazette*, December 31, 1978), applicable in respect of property acquired after 1978.

Certified Class 34 Properties

(11) For the purposes of paragraph (*h*) of Class 34 in Schedule II, a certificate issued under

(*a*) subparagraph (*d*)(i) of that class may be revoked by the Minister of Industry, Trade and Commerce, or

(*b*) subparagraph (*d*)(ii) or paragraph (*g*) of that class, as the case may be, may be revoked by the Minister of Energy, Mines and Resources

where

(*c*) an incorrect statement was made in the furnishing of information for the purpose of obtaining the certificate, or

(*d*) the taxpayer does not conform to the plan described in subparagraph (*d*)(i) or (*d*)(ii) of that class, as the case may be,

and a certificate that has been so revoked shall be void from the time of its issue.

History: S. 1104(11) was amended by P.C. 1980-3323, SOR/80-935, dated December 4, 1980 and effective December 11, 1979. S. 1104(11) formerly read:

"(11) For the purposes of paragraph (*e*) of Class 34 in Schedule II, a certificate issued under paragraph (*d*) of that class may be revoked by the Minister of Industry, Trade and Commerce where

(*a*) an incorrect statement was made in the furnishing of information for the purpose of paragraph (*d*) of that class, or

(*b*) the taxpayer does not conform to the plan described in paragraph (*d*) of that class,

and a certificate that has been so revoked shall be null and void from the time of its issue."

Amusement Parks

(12) For the purposes of Class 37 in Schedule II, "amusement park" means a park open to the public where amusements, rides and audio-visual attractions are permanently situated.

History: S. 1104(12) and the heading were added by P.C. 1982-599, SOR/82-265, dated February 26, 1982.

Classes 43.1 and 43.2 — Energy Conservation Property

(13) The definitions in this subsection apply for the purposes of this subsection, subsections (14) to (16) and Classes 43.1 and 43.2 in Schedule II.

"*basic oxygen furnace gas*" means the gas that is produced intermittently in a basic oxygen furnace of a steel mill by the chemical reaction of carbon in molten steel and pure oxygen.

"*biogas*" means the gas produced by the anaerobic digestion of organic waste that is manure, food waste, plant residue or wood waste.

Pending Amendment

Capital Cost Allowance (2008 Budget Measures) — February 26, 2008

The definition "biogas" in subsection 1104(13) of the Regulations is replaced by the following:

"*biogas*" means the gas produced by the anaerobic digestion of organic waste that is sludge from an eligible sewage treatment facility, food and animal waste, manure, plant residue, or wood waste.

Applicable: To property acquired after February 25, 2008.

Explanatory Note: See the Explanatory Note following the proposed repeal of the definition of "food waste" in subsection 1104(13).

"*bio-oil*" means liquid fuel that is created from wood waste or plant residues using a thermo-chemical conversion process that takes place in the absence of oxygen.

"*blast furnace gas*" means the gas produced in a blast furnace of a steel mill, by the chemical reaction of carbon (in the form of coke, coal or natural gas), the oxygen in air and iron ore.

"*digester gas*" means a mixture of gases that are produced from the decomposition of organic waste in a digester and that are execrated from an eligible sewage treatment facility for that organic waste.

"*distribution equipment*" means equipment (other than transmission equipment) used to distribute electrical energy generated by electrical generating equipment.

"*district energy equipment*" means property that is part of a district energy system and that consists of pipes or pumps used to collect and distribute an energy transfer medium, meters, control equipment, chillers and heat exchangers that are attached to the main distribution line of a district energy system, but does not include

(*a*) property used to distribute water that is for consumption, disposal or treatment; or

(*b*) property that is part of the internal heating or cooling system of a building.

"*district energy system*" means a system that is used primarily to provide heating or cooling by continuously circulating, from a central generation unit to one or more buildings through a system of interconnected pipes, an energy transfer medium that is heated or cooled using thermal energy that is primarily produced by electrical cogeneration equipment that meets the requirements of paragraphs (*a*) to (*c*) of Class 43.1, or paragraph (*a*) of Class 43.2, in Schedule II.

"*eligible landfill site*" means a landfill site that is situated in Canada, or a former landfill site that is situated in Canada, and, if a permit or licence in respect of the site is or was required under any law of Canada or of a province, for which the permit or licence has been issued.

"*eligible sewage treatment facility*" means a sewage treatment facility that is situated in Canada and for which a permit or licence is issued under any law of Canada or of a province.

"*eligible waste fuel*" means bio-oil, digester gas, landfill gas, municipal waste, pulp and paper waste, and wood waste.

Pending Amendment

Capital Cost Allowance (2008 Budget Measures) — February 26, 2008

The definition "eligible waste fuel" in subsection 1104(13) of the Regulations is replaced by the following:

"*eligible waste fuel*" means biogas, bio-oil, digester gas, landfill gas, municipal waste, pulp and paper waste and wood waste.

Applicable: To property acquired after February 25, 2008.

Explanatory Note: See the Explanatory Note following the proposed repeal of the definition of "food waste" in subsection 1104(13).

"*eligible waste management facility*" means a waste management facility that is situated in Canada and for which a permit or licence is issued under any law of Canada or of a province.

"*enhanced combined cycle system*" means an electrical generating system in which thermal waste from one or more natural gas compressor systems is recovered and used to contribute at least 20 per cent of the energy input of a combined cycle process in order to enhance the generation of electricity), but does not include the natural gas compressor systems.

Pending Amendment

Capital Cost Allowance (2008 Budget Measures) — February 26, 2008

Subsection 1104(13) of the Regulations is amended by adding the following in alphabetical order:

"*food and animal waste*" means organic waste that is disposed of in accordance with the applicable laws of Canada or a province and that is

(*a*) generated during the preparation or processing of food for human or animal consumption;

(*b*) food that is no longer fit for human or animal consumption; or

(*c*) animal remains.

Applicable: To property acquired after February 25, 2008.

Explanatory Note: See the Explanatory Note following the proposed repeal of the definition of "food waste" in subsection 1104(13).

"*food waste*" means organic waste that is

(*a*) generated during the preparation or processing of food for human or animal consumption; or

(*b*) food that is no longer fit for human or animal consumption.

Pending Amendment

Capital Cost Allowance (2008 Budget Measures) — February 26, 2008

The definition "food waste" in subsection 1104(13) of the Regulations is repealed.

"*food waste*" [Repealed.]

Applicable: To property acquired after February 25, 2008.

Explanatory Note:

Subsection 1104(13) of the Regulations sets out various definitions that apply for the purpose of determining whether property is depreciable property to which Class 43.1 or 43.2 applies.

Consequential to the extension of Classes 43.1 and 43.2 to certain property as announced in the 2008 Budget, subsection 1104(13) is amended in four respects.

First, the definition "food waste" is repealed. Second, the definition "food and animal waste" is added. Third, the definition "biogas" is amended to replace the reference to "food waste" with "food and animal waste" and to add a reference to "sludge from an eligible sewage treatment facility".

Fourth, the definition "eligible waste fuel" is amended to add a reference to "biogas".

These amendments apply to property acquired after February 25, 2008.

"*fossil fuel*" means a fuel that is petroleum, natural gas or related hydrocarbons, basic oxygen furnace gas, blast furnace gas, coal, coal gas, coke, coke oven gas, lignite or peat.

"*landfill gas*" means a mixture of gases that are produced from the decomposition of organic waste and that are extracted from an eligible landfill site.

"*municipal waste*" means the combustible portion of waste material (other than waste material that is considered to be toxic or hazardous waste pursuant to any law of Canada or of a province) that is generated in Canada and that is accepted at an eligible landfill site or an eligible waste management facility and that, when burned to generate energy, emits only those fluids or other emissions that are in compliance with the law of Canada or of a province.

"*plant residue*" means the residue of plants that would, but for its use in a system that converts biomass into bio-oil or biogas, be waste material, but does not include wood waste or waste that no longer has the chemical properties of the plants of which it is a residue.

"*pulp and paper waste*" means

(*a*) tall oil soaps, crude tall oil and turpentine that are produced as by-products of the processing of wood into pulp or paper; and

(*b*) the by-product of a pulp or paper plant's effluent treatment, or its de-inking processes, if that by-product has a solid content of at least 40 per cent before combustion.

"*solution gas*" means a fossil fuel that is gas that would otherwise be flared and has been extracted from a solution of gas and produced oil.

"*spent pulping liquor*" means the by-product of a chemical process of transforming wood into pulp, consisting of wood residue and pulping agents.

"*thermal waste*" means heat energy extracted from a distinct point of rejection in an industrial process.

"*transmission equipment*" means equipment used to transmit more than 75 per cent of the annual electrical energy generated by electrical generating equipment, but does not include a building.

"*wood waste*" includes scrap wood, sawdust, wood chips, bark, limbs, saw-ends and hog fuel, but does not include spent pulping liquor and any waste that no longer has the physical or chemical properties of wood.

History: S. 1104(13), the definition "biogas" was added by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, applicable to property acquired on or after March 19, 2007.

S. 1104(13), the definition "eligible waste fuel" was added by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, applicable to property acquired on or after March 19, 2007.

S. 1104(13), the definition "food waste" was added by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, applicable to property acquired on or after March 19, 2007.

S. 1104(13), the definition "plant residue" was replaced by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, applicable to property acquired on or after March 19, 2007. S. 1104(13), the definition "plant residue", formerly read:

" 'plant residue' means the residue of plants that would, but for its use in a system to convert biomass into bio-oil, be waste material, but does not

include wood waste or waste that no longer has the chemical properties of the plants of which it is a residue."

S. 1104(13), the definition "pulp and paper waste" was added by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, applicable to property acquired on or after March 19, 2007.

S. 1104(13), the definition "spent pulping liquor" was added by P.C. 2006-1103, SOR/2006-249, dated November 1, 2006, deemed to have come into force on November 14, 2005.

S. 1104(13), the definition "wood waste" was replaced by P.C. 2006-1103, SOR/2006-249, dated November 1, 2006, deemed to have come into force on November 14, 2005. S. 1104(13), the definition "wood waste" formerly read:

" 'wood waste' includes scrap wood, sawdust, wood chips, bark, limbs, sawends and hog fuel, but does not include residuals (known as 'black liquor') from wood pulp operations and any waste that no longer has the physical or chemical properties of wood."

The heading before subsection 1104(13) and the portion of subsection 1104(13) before the definitions were replaced by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, deemed to have come into force on February 23, 2005. The heading before subsection 1104(13) and the portion of subsection 1104(13) before the definitions formerly read:

"*Class 43.1 — Energy Conservation Property*

(13) The definitions in this subsection apply for the purposes of this subsection and subsection (14) and Class 43.1 in Schedule II."

S. 1104(13), the definition "district energy equipment" was added by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, deemed to have come into force on February 23, 2005.

S. 1104(13), the definition "district energy system" was added by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, deemed to have come into force on February 23, 2005.

S. 1104(13), the definition "basic oxygen furnace gas" was added by P.C. 2005-2287, SOR/2005-415, dated December 6, 2005, applicable in respect of property that is acquired after 2000.

S. 1104(13), the definition "blast furnace gas" was added by P.C. 2005-2287, SOR/2005-415, dated December 6, 2005, applicable in respect of property that is acquired after 2000.

S. 1104(13), the definition "bio-oil" was added by P.C. 2005-2287, SOR/2005-415, dated December 6, 2005, applicable in respect of property that is acquired after February 18, 2003.

S. 1104(13), the definition "fossil fuel" was replaced by P.C. 2005-2287, SOR/2005-415, dated December 6, 2005, applicable in respect of property that is acquired after 2000. S. 1104(13), the definition "fossil fuel" formerly read:

" 'fossil fuel' means a fuel that is petroleum, natural gas or related hydrocarbons, coal, coal gas, coke, lignite or peat."

S. 1104(13), the definition "plant residue" was added by P.C. 2005-2287, SOR/2005-415, dated December 6, 2005, applicable in respect of property that is acquired after February 18, 2003.

S. 1104(13), the definition "solution gas" was added by P.C. 2000-1331, SOR/2000-327, dated August 23, 2000, applicable after February 16, 1999.

S. 1104(13) was added by P.C. 1997-1033, SOR/97-377, dated July 28, 1997, applicable after February 21, 1994.

(14) Where property of a taxpayer is not operating in the manner required by paragraph (*c*) of Class 43.1, or paragraph (*a*) of Class 43.2, in Schedule II solely because of a deficiency, failing or shutdown that is beyond the control of the taxpayer of the system of which it is a part and that previously operated in the manner required by that paragraph, as the case may be, that property is deemed, for the purpose of that paragraph, to be operating in the manner required under that paragraph during the period of the deficiency, failing or shutdown, if the taxpayer makes all reasonable efforts to rectify the circumstances within a reasonable time.

History: S. 1104(14) was replaced by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, deemed to have come into force on February 23, 2005. S. 1104(14) formerly read:

"(14) Where property of a taxpayer is not operating in the manner required by paragraph (*c*) of Class 43.1 in Schedule II solely because of a deficiency, failing or shutdown — that is beyond the control of the taxpayer — of the system of which it is part and that previously operated in the manner required by that paragraph, that property is deemed, for the purpose of that paragraph, to be operating in the manner required under that paragraph during the period of the deficiency, failing or shutdown, if the taxpayer makes all reasonable efforts to rectify the circumstances within a reasonable time."

S. 1104(14) was added by P.C. 1997-1033, SOR/97-377, dated July 28, 1997, applicable after February 21, 1994.

Regulations: 1104(13).

(15) For the purpose of subsection (14), a taxpayer's system referred to in that subsection that has at any particular time operated in the manner required by paragraph (*c*) of Class 43.1, or paragraph (*a*) of Class 43.2, in Schedule II includes at any time after the particular time a property of another person or partnership if

(*a*) the property would reasonably be considered to be part of the taxpayer's system were the property owned by the taxpayer;

(*b*) the property utilizes steam obtained from the taxpayer's system primarily in an industrial process (other than the generation of electrical energy);

(*c*) the operation of the property is necessary for the taxpayer's system to operate in the manner required by paragraph (*c*) of Class 43.1, or paragraph (*a*) of Class 43.2, in Schedule II, as the case may be; and

(*d*) at the time that the taxpayer's system first became operational, the deficiency, failing or shutdown in the operation of the property could not reasonably have been anticipated by the taxpayer to occur within five years after that time.

History: S. 1104(15), the portion before paragraph (*a*) was replaced by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, deemed to have come into force on February 23, 2005. S. 1104(15), the portion before paragraph (*a*) formerly read:

"(15) For the purpose of subsection (14), a taxpayer's system referred to in that subsection that has at any particular time operated in the manner required by paragraph (*c*) of Class 43.1 in Schedule II includes at any time after the particular time a property of another person or partnership if"

S. 1104(15)(*c*) was replaced by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, deemed to have come into force on February 23, 2005. S. 1104(15)(*c*) formerly read:

"(*c*) the operation of the property is necessary for the taxpayer's system to operate in the manner required by paragraph (*c*) of Class 43.1; and"

S. 1104(15) was added by P.C. 2005-2186, SOR/2005-371, dated November 22, 2005, applicable to property acquired after February 21, 1994.

(16) For the purpose of subsection (14), a district energy system is deemed to satisfy the requirements of paragraph (*c*) of Class 43.1, or paragraph (*a*) of Class 43.2, in Schedule II, as the case may be, if the electrical cogeneration equipment that produces the thermal energy used by the system is deemed by subsection (14) to meet the requirements of paragraph (*c*) of Class 43.1, or paragraph (*a*) of Class 43.2, in Schedule II, as the case may be.

History: S. 1104(16) was added by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, deemed to have come into force on February 23, 2005.

DIVISION VI
CLASSES PRESCRIBED

1105. The classes of property provided in this Part and in Schedule II are hereby prescribed for the purposes of the Act.

History: S. 1105 was amended by P.C. 1996-571, SOR/96-228, dated April 23, 1996, applicable to taxation years that end after February 21, 1994. S. 1105 formerly read:

"S. 1105. The classes of property provided in this Part and in Schedule II are hereby prescribed for the purposes of section 13, paragraph 20(1)(*a*) and subsection 59(3.3) of the Act."

S. 1105 was amended by P.C. 1982-599, SOR/82-265, dated February 26, 1982, to add the reference to "subsection 59(3.3)", applicable to taxation years ending after December 11, 1979.

DIVISION VII
CERTIFICATES ISSUED BY THE MINISTER OF CANADIAN HERITAGE

INTERPRETATION

1106. (1) The following definitions apply in this Division and in paragraph (*x*) of Class 10 in Schedule II.

"*application for a certificate of completion*", in respect of a film or video production, means an application by a prescribed taxable Canadian corporation in respect of the production, filed with the minister of Canadian Heritage before the day (in this Division referred to as "the production's application deadline") that is the later of

(*a*) the day that is 24 months after the end of the corporation's taxation year in which the production's principal photography began, or

(*b*) the day that is 18 months after the day referred to in paragraph (*a*), if the corporation has filed, with the Canada Customs and Revenue Agency, and provided to the minister of Canadian Heritage a copy of, a waiver described in subparagraph 152(4)(*a*)(ii) of the Act, within the normal reassessment period for the corporation in respect of the first and second taxation years ending after the production's principal photography began.

History: S. 1106(1), the definition "application for a certificate of completion" was added by P.C. 2005-698, SOR/2005-126, dated May 3, 2005, applicable to the 1995 and subsequent taxation years except that in the case of a film or video production of a corporation for which the first taxation year, which ended after principal photography of the production began, ended before 2000, subsection 1106(1) is to be read without reference to the definition "application for a certificate of completion" and in the case of a film or video production of a corporation for which the first taxation year, which ended after principal photography of the production began, ended after 1999 and before 2004, subsection 1106(1) is to be read without reference to the definition "application for a certificate of completion".

"*Canadian*" means a person that is

(*a*) an individual who is

(i) a citizen, as defined in subsection 2(1) of the *Citizenship Act*, of Canada, or

(ii) a permanent resident, as defined in subsection 2(1) of the *Immigration and Refugee Protection Act*, or

(*b*) a corporation that is a Canadian-controlled entity, as determined under sections 26 to 28 of the *Investment Canada Act*.

History: S. 1106(1), the definition "Canadian" was added by P.C. 2005-698, SOR/2005-126, dated May 3, 2005, applicable to the 1995 and subsequent taxation years except that, in the case of a film or video production for which a Canadian film or video production certificate (within the meaning assigned by subsection 125.4(1) of the *Income Tax Act*) is obtained before November 2001, subparagraph (*a*)(ii) of the definition "Canadian" in subsection 1106(1) of the Regulations is to be read as follows:

"(ii) a permanent resident within the meaning assigned by the *Immigration Act*, or"

"*Canadian government film agency*" means a federal or provincial government agency whose mandate is related to the provision of assistance to film productions in Canada.

History: S. 1106(1), the definition "Canadian government film agency" was added by P.C. 2005-698, SOR/2005-126, dated May 3, 2005, applicable to the 1995 and subsequent taxation years.

"*certificate of completion*", in respect of a film or video production of a corporation, means a certificate certifying that the production has been completed, issued by the Minister of Canadian Heritage before the day (in this Division referred to as "the production's certification deadline") that is six months after the production's application deadline.

History: S. 1106(1), the definition "certificate of completion" was added by P.C. 2005-698, SOR/2005-126, dated May 3, 2005, applicable to the 1995 and subsequent taxation years except that in the case of a film or video production of a corporation for which the first taxation year, which ended after principal photography of the production began, ended before 2000, the definition "certificate of completion" in subsection 1106(1) of the Regulations is to be read as follows:

" 'certificate of completion', in respect of a film or video production of a corporation, means a certificate issued by the Minister of Canadian Heritage before the day that is 30 months after the end of the corporation's taxation year in which the production's principal photography began, certifying that the production has been completed within two years after the end of that taxation year."

and in the case of a film or video production of a corporation for which the first taxation year, which ended after principal photography of the production began, ended after 1999 and before 2004, the definition "certificate of completion" in subsection 1106(1) of the Regulations is to be read as follows:

" 'certificate of completion', in respect of a film or video production of a corporation, means a certificate certifying that the production has been completed, issued by the Minister of Canadian Heritage before the day (in this Division referred to as 'the production's certification deadline') that is the later of

(*a*) the day that is 30 months after the end of the corporation's taxation year in which the production's principal photography began, or

(*b*) the day that is 18 months after the day referred to in paragraph (*a*), if the corporation has filed, with the Canada Customs and Revenue Agency, a waiver described in subparagraph 152(4)(*a*)(ii) of the Act, within the normal reassessment period for the corporation in respect of the first and second taxation years ending after the production's principal photography began."

"*excluded production*" means a film or video production, of a particular corporation that is a prescribed taxable Canadian corporation,

(*a*) in respect of which

(i) the particular corporation has not filed an application for a certificate of completion before the production's application deadline,

(ii) a certificate of completion has not been issued before the production's certification deadline,

(iii) where the production is not a treaty co-production, neither the particular corporation nor another prescribed taxable Canadian corporation related to the particular corporation

(A) is, except to the extent of an interest in the production held by a prescribed taxable Canadian corporation as a co-producer of the production or by a prescribed person, the exclusive worldwide copyright owner in the production for all commercial exploitation purposes for the 25-year period that begins at the earliest time after the production was completed that it is commercially exploitable, and

(B) controls the initial licensing of commercial exploitation,

(iv) there is not an agreement in writing, for consideration at fair market value, to have the production shown in Canada within the 2-year period that begins at the earliest time after the production was completed that it is commercially exploitable,

(A) with a corporation that is a Canadian and is a distributor of film or video productions, or

(B) with a corporation that holds a broadcasting license issued by the Canadian Radio-television and Telecommunications Commission for television markets, or

(v) distribution is made in Canada within the 2-year period that begins at the earliest time after the production was completed that it is commercially exploitable by a person that is not a Canadian, or

(*b*) that is

(i) news, current events or public affairs programming, or a programme that includes weather or market reports,

(ii) a talk show,

(iii) a production in respect of a game, questionnaire or contest (other than a production directed primarily at minors),

(iv) a sports event or activity,

(v) a gala presentation or an awards show,

(vi) a production that solicits funds,

(vii) reality television,

(viii) pornography,

(ix) advertising,

(x) a production produced primarily for industrial, corporate or institutional purposes, or

(xi) a production, other than a documentary, all or substantially all of which consists of stock footage.

History: S. 1106(1), the definition "excluded production" was added by P.C. 2005-698, SOR/2005-126, dated May 3, 2005, applicable to the 1995 and subsequent taxation years except that in the case of a film or video production for which a Canadian film or video production certificate (within the meaning assigned by subsection 125.4(1) of the *Income Tax Act*) is obtained before 1997, clause (*a*)(iii)(A) of the definition "excluded production" in subsection 1106(1) of the Regulations is to be read as follows:

"(A) is, except to the extent of an interest in the production held by a prescribed taxable Canadian corporation as a co-producer of the production or by a prescribed person, the exclusive worldwide copyright owner in the production for all commercial exploitation purposes for the 5-year period that begins at the earliest time after the production was completed that it is commercially exploitable, and"

In the case of a film or video production of a corporation for which the first taxation year, which ended after principal photography of the production began, ended before 2000, the definition "excluded production" in subsection 1106(1) of the Regulations is to be read without reference to subparagraph (*a*)(i), and in the case of a film or video production of a corporation for which the first taxation year, which ended after principal photography of the production began, ended after 1999 and before 2004, the definition "excluded production" in subsection 1106(1) of the Regulations is to be read without reference to subparagraph (*a*)(i).

"*producer*" means a producer of a film or video production, except that it does not include a person unless the person is the individual who

(*a*) controls and is the central decision maker in respect of the production;

(*b*) is directly responsible for the acquisition of the production story or screenplay and the development, creative and financial control and exploitation of the production; and

(*c*) is identified in the production as being the producer of the production.

History: S. 1106(1), the definition "producer" was added by P.C. 2005-698, SOR/2005-126, dated May 3, 2005, applicable to the 1995 and subsequent taxation years.

"*remuneration*" means remuneration other than an amount determined by reference to profits or revenues.

History: S. 1106(1), the definition "remuneration" was added by P.C. 2005-698, SOR/2005-126, dated May 3, 2005, applicable to the 1995 and subsequent taxation years.

"*twinning arrangement*" means the pairing of two distinct film or video productions, one of which is a Canadian film or video production and the other of which is a foreign film or video production.

History: S. 1106(1), the definition "twinning arrangement" was added by P.C. 2005-698, SOR/2005-126, dated May 3, 2005, applicable to the 1995 and subsequent taxation years.

Division VII and its heading were revoked by P.C. 1995-775, SOR/95-244, dated May 16, 1995, applicable after January 8, 1987. Division VII formerly read:

DIVISION VII

CERTIFICATES ISSUED BY MINISTER OF SUPPLY AND SERVICES

"S. 1106. (1) Subject to subsection (2), for the purposes of paragraph 1100(1)(*j*) or (*k*), 'the amount certified' means the amount, not exceeding the capital cost to the taxpayer, stated in a certificate issued for those purposes by the Minister of Supply and Services to the taxpayer in respect of property.

(2) Where the taxpayer has received, is entitled to receive, or may become entitled to receive, a payment in respect of the capital cost of a property, 'the amount certified' means the amount that it would otherwise be, minus the amount of the payment received or that the taxpayer becomes entitled to receive.

(3) Where the Minister of Supply and Services certifies an amount for the purposes of subsection (1), his certificate shall state the first taxation year in which the additional allowance may be claimed and no amount may be claimed under paragraph 1100(1)(*j*) or (*k*), as the case may be, for any year subsequent to the third taxation year following that year."

Prescribed Taxable Canadian Corporation

(2) For the purposes of section 125.4 of the Act and this Division, "prescribed taxable Canadian corporation" means a taxable Canadian corporation that is a Canadian, other than a corporation that is

(*a*) controlled directly or indirectly in any manner whatever by one or more persons all or part of whose taxable income is exempt from tax under Part I of the Act; or

(*b*) a prescribed labour-sponsored venture capital corporation, as defined in section 6701.

History: S. 1106(2) was added by P.C. 2005-698, SOR/2005-126, dated May 3, 2005, applicable to the 1995 and subsequent taxation years.

Treaty Co-Production

(3) For the purpose of this Division, "treaty co-production" means a film or video production whose production is contemplated under any of the following instruments, and to which the instrument applies:

(*a*) a co-production treaty entered into between Canada and another State;

(*b*) the Memorandum of Understanding between the Government of Canada and the Government of the Hong Kong Special Administrative Region of the People's Republic of China on Film and Television Co-Production;

(*c*) the Common Statement of Policy on Film, Television and Video Co-Productions between Japan and Canada;

(*d*) the Memorandum of Understanding between the Government of Canada and the Government of the Republic of Korea on Television Co-Production; and

(*e*) the Memorandum of Understanding between the Government of Canada and the Government of the Republic of Malta on Audio-Visual Relations.

History: S. 1106(3) was added by P.C. 2005-698, SOR/2005-126, dated May 3, 2005, applicable to the 1995 and subsequent taxation years.

Canadian Film or Video Production

(4) Subject to subsections (6) to (9), for the purposes of section 125.4 of the Act, this Part and Schedule II, "Canadian film or video production" means a film or video production, other than an excluded production, of a prescribed taxable Canadian corporation in respect of which

the Minister of Canadian Heritage has issued a certificate (other than a certificate that has been revoked under subsection 125.4(6) of the Act) and that is

(*a*) a treaty co-production; or

(*b*) a film or video production

(i) whose producer is a Canadian at all times during its production,

(ii) in respect of which the Minister of Canadian Heritage has allotted not less than six points in accordance with subsection (5),

(iii) in respect of which not less than 75% of the total of all costs for services provided in respect of producing the production (other than excluded costs) was payable in respect of services provided to or by individuals who are Canadians, and for the purpose of this subparagraph, excluded costs are

(A) costs determined by reference to the amount of income from the production,

(B) remuneration payable to, or in respect of, the producer or individuals described in any of subparagraphs (5)(*a*)(i) to (viii) and (*b*)(i) to (vi) and paragraph (5)(*c*) (including any individuals that would be described in paragraph (5)(*c*) if they were Canadians),

(C) amounts payable in respect of insurance, financing, brokerage, legal and accounting fees, and similar amounts, and

(D) costs described in subparagraph (iv), and

(iv) in respect of which not less than 75% of the total of all costs incurred for the post-production of the production, including laboratory work, sound re-recording, sound editing and picture editing, (other than costs that are determined by reference to the amount of income from the production and remuneration that is payable to, or in respect of, the producer or individuals described in any of subparagraphs (5)(*a*)(i) to (viii) and (*b*)(i) to (vi) and paragraph (5)(*c*), including any individuals that would be described in paragraph (5)(*c*) if they were Canadians) was incurred in respect of services provided in Canada.

History: S. 1106(4) was added by P.C. 2005-698, SOR/2005-126, dated May 3, 2005, applicable to the 1995 and subsequent taxation years.

(5) For the purposes of this Division, the Minister of Canadian Heritage shall allot, in respect of a film or video production

(*a*) that is not an animation production, in respect of each of the following persons if that person is an individual who is a Canadian,

(i) for the director, two points,

(ii) for the screenwriter, two points,

(iii) for the lead performer for whose services the highest remuneration was payable, one point,

(iv) for the lead performer for whose services the second highest remuneration was payable, one point,

(v) for the art director, one point,

(vi) for the director of photography, one point,

(vii) for the music composer, one point, and

(viii) for the picture editor, one point;

(*b*) that is an animation production, in respect of each of the following persons if that person is an individual who is a Canadian,

(i) for the director, one point,

(ii) for the lead voice for which the highest or second highest remuneration was payable, one point,

(iii) for the design supervisor, one point,

(iv) for the camera operator where the camera operation is done in Canada, one point,

(v) for the music composer, one point, and

(vi) for the picture editor, one point;

(*c*) that is an animation production, one point if both the principal screenwriter and the storyboard supervisor are individuals who are Canadians; and

(*d*) that is an animation production, in respect of each of the following places if that place is in Canada,

(i) for the place where the layout and background work is done, one point,

(ii) for the place where the key animation is done, one point, and

(iii) for the place where the assistant animation and in-betweening is done, one point.

History: S. 1106(5) was added by P.C. 2005-698, SOR/2005-126, dated May 3, 2005, applicable to the 1995 and subsequent taxation years.

(6) A production (other than a production that is an animation production or a treaty co-production) is a Canadian film or video production only if there is allotted in respect of the production two points under subparagraph (5)(*a*)(i) or (ii) and one point under subparagraph (5)(*a*)(iii) or (iv).

History: S. 1106(6) was added by P.C. 2005-698, SOR/2005-126, dated May 3, 2005, applicable to the 1995 and subsequent taxation years.

(7) An animation production (other than a production that is a treaty co-production) is a Canadian film or video production only if there is allotted, in respect of the production,

(*a*) one point under subparagraph (5)(*b*)(i) or paragraph (5)(*c*);

(*b*) one point under subparagraph (5)(*b*)(ii); and

(*c*) one point under subparagraph (5)(*d*)(ii).

History: S. 1106(7) was added by P.C. 2005-698, SOR/2005-126, dated May 3, 2005, applicable to the 1995 and subsequent taxation years.

Lead Performer/Screenwriter

(8) For the purposes of this Division,

(*a*) a lead performer in respect of a production is an actor or actress who has a leading role in the production having regard to the performer's remuneration, billing and time on screen;

(*b*) a lead voice in respect of an animation production is the voice of the individual who has a leading role in the production having regard to the length of time that the individual's voice is heard in the production and the individual's remuneration; and

(*c*) where a person who is not a Canadian participates in the writing and preparation of the screenplay for a production, the screenwriter is not a Canadian unless the principal screenwriter is an individual who is otherwise a Canadian, the screenplay for the production is based upon a work authored by a Canadian, and the work is published in Canada.

History: S. 1106(8) was added by P.C. 2005-698, SOR/2005-126, dated May 3, 2005, applicable to the 1995 and subsequent taxation years.

Documentary Production

(9) A documentary production that is not an excluded production, and that is allotted less than six points because one or more of the positions referred to in paragraph (5)(*a*) is unoccupied, is a Canadian film or video production if all of the positions described in that paragraph that are occupied in respect of the production are occupied by individuals who are Canadians.

History: S. 1106(9) was added by P.C. 2005-698, SOR/2005-126, dated May 3, 2005, applicable to the 1995 and subsequent taxation years.

Prescribed Person

(10) For the purpose of section 125.4 of the Act and this Division, "prescribed person" means any of the following:

(*a*) a corporation that holds a television, specialty or pay-television broadcasting licence issued by the Canadian Radio-television and Telecommunications Commission;

(*b*) a corporation that holds a broadcast undertaking licence and that provides production funding as a result of a "significant benefits" commitment given to the Canadian Radio-television and Telecommunications Commission;

(*c*) a person to which paragraph 149(1)(*l*) of the Act applies and that has a fund that is used to finance Canadian film or video productions;

(*d*) a Canadian government film agency;

(*e*) in respect of a film or video production, a non-resident person that does not carry on a business in Canada through a permanent establishment in Canada where the person's interest in the production is acquired to comply with the certification requirements of a treaty co-production twinning arrangement; and

(*f*) a person

(i) to which paragraph 149(1)(*f*) of the Act applies,

(ii) that has a fund that is used to finance Canadian film or video productions, all or substantially all of which financing is provided by way of a direct ownership interest in those productions, and

(iii) that, after 1996, has received donations only from persons described in paragraphs (*a*) to (*e*).

History: S. 1106(10) was added by P.C. 2005-698, SOR/2005-126, dated May 3, 2005, applicable to the 1995 and subsequent taxation years.

Prescribed Amount

(11) For the purpose of the definition "assistance" in subsection 125.4(1) of the Act, "prescribed amount" means an amount paid or payable to a taxpayer under the License Fee Program of the Canada Television and Cable Production Fund or the Canada Television Fund/Fonds canadien de télévision.

History: S. 1106(11) was added by P.C. 2005-698, SOR/2005-126, dated May 3, 2005, applicable to the 1995 and subsequent taxation years.

DIVISION VIII

Determination of Viscosity and Density

1107. For the purpose of the definition "bituminous sands" in subsection 248(1) of the Act, viscosity or density of hydrocarbons shall be determined using a number of individual samples (constituting a representative sampling of that deposit or those deposits, as the case may be, from which the taxpayer is committed to produce by means of one mine) tested

(*a*) at atmospheric pressure;

(*b*) at a temperature of 15.6 degrees Celsius; and

(*c*) free of solution gas.

History: S. 1107 was added by P.C. 1998-49, SOR/98-97, dated January 26, 1998, applicable after March 6, 1996.

PART XII

Resource and Processing Allowances

1200. For the purposes of section 65 of the Act, there may be deducted in computing the income of a taxpayer for a taxation year such of the amounts determined in accordance with sections 1201 to 1209 and 1212 as are applicable.

History: S. 1200 was amended by P.C. 1979-649, SOR/79-245, dated March 13, 1979, effective for taxation years ending after April 10, 1978, by adding the reference to s. 1212.

Earned Depletion Allowances

1201. In computing a taxpayer's income for a taxation year there may be deducted such amount as he may claim not exceeding the lesser of

(*a*) the aggregate of

(i) 25 per cent of the amount, if any, by which the taxpayer's resource profits for the year exceed four times the total of amounts, if any, deducted under subsection 1202(2) in computing the taxpayer's income for the year, and

(ii) the amount, if any, by which the aggregate of amounts included in computing the taxpayer's income for the year under paragraphs 59(3.3)(*a*) and (*b*) of the Act exceeds the aggregate of amounts, if any, that may reasonably be considered to have been deducted under subsection 1202(2) by reason of subparagraph (*b*)(ii) thereof in computing the taxpayer's income for the year; and

(*b*) the aggregate of

(i) the taxpayer's earned depletion base as of the end of the year, and

(ii) the amount, if any, by which

(A) the aggregate determined under paragraph 1202(4)(*a*) in respect of the taxpayer for the year

exceeds

(B) the amount, if any, by which

(I) the aggregate of all amounts that would be determined under paragraphs 1205(1)(*e*) to (*k*)

exceeds

(II) 33 1/3 per cent of the aggregate of all amounts that would be determined under paragraphs 1205(1)(*a*) to (*d.2*)

in computing the taxpayer's earned depletion base as of the end of the year.

History: S. 1201(*a*)(i) was amended by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable to 1999 and subsequent taxation years. S. 1201(*a*)(i) formerly read:

"(i) 25 per cent of the amount, if any, by which the taxpayer's resource profits for the year exceed four times the aggregate of amounts, if any, deducted under subsection 1202(2) (other than that portion of such amounts that may reasonably be considered to have been deducted by reason of subparagraph (*b*)(ii) thereof) in computing the taxpayer's income for the year, and"

Ss. 1201(a) and (b) were amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990, applicable to taxation years ending after February 17, 1987. Ss. 1201(a) and (b) formerly read:

"(*a*) the aggregate of

(i) 25 per cent of the amount, if any, by which his resource profits for the year exceed four times the aggregate of amounts, if any, deducted under subsections 1202(2) and (3) in computing his income for the year, and

(ii) the aggregate of amounts, if any, included in computing his income for the year under paragraphs 59(3.3)(a) and (b) of the Act; and

(*b*) his earned depletion base as of the end of the year (before making any deduction under this section for the year)."

S. 1201(a) was revoked and replaced by P.C. 1981-3329, SOR/81-974, dated November 27, 1981, applicable in respect of taxation years ending after December 11, 1979. S. 1201(a) formerly read:

"(*a*) 25% of the amount, if any, by which his resource profits for the year exceed four times the aggregate of amounts, if any, deducted under subsections 1202(2) and (3) in computing his income for the year, and"

S. 1201, the part preceding paragraph (b), was amended by P.C. 1978-1849, SOR/78-502, dated June 9, 1978 (Special Issue, *Canada Gazette*, December 31, 1978), applicable to taxation years ending after May 6, 1974, by substituting the expressions "such amount as he may claim not exceeding the lesser of" and "deducted" for the former expressions "an amount equal to the lesser of" and "deductible", respectively.

1202. (1) For the purposes of computing the earned depletion base of a corporation, control of which has been acquired under circumstances described in subsection 66(11) of the Act, the amount by which the earned depletion base of the corporation at the time referred to in that subsection exceeds the aggregate of amounts otherwise deducted under section 1201 in computing its income for taxation years ending after that time and before control was so acquired shall be deemed to have been deducted under section 1201 by the corporation in computing its income for taxation years ending before such acquisition of control.

History: S. 1202(1) was amended by P.C. 1985-465, SOR/85-174, dated February 14, 1985, applicable to taxation years ending after November 12, 1981. S. 1202(1) formerly read:

"(1) For the purposes of computing the earned depletion base of a corporation, where after March 31, 1977 and after the corporation last ceased to carry on active business, control of the corporation is considered, for the purposes of subsection 66(11) of the Act, to have been acquired by a person or persons who did not control the corporation at the time when it so ceased to carry on active business, the amount by which the earned depletion base of the corporation at the time it last ceased to carry on active business exceeds the aggregate of amounts otherwise deducted under section 1201 in computing its income for taxation years ending after that time and before control was so acquired, shall be deemed to have been deducted under section 1201 by the corporation in computing its income for taxation years ending before control was so acquired."

S. 1202(1) was amended by Order in Council P.C. 1978-1849, SOR/78-502, dated June 2, 1978 (Special Issue, *Canada Gazette*, December 31, 1978), applicable on and after April 1, 1977. S. 1202(1) formerly read:

"(1) Where control of a corporation has, after 1971 and between a time when the corporation ceased to carry on active business and a time when it commenced to carry on active business again, been acquired by

(*a*) a person, or

(*b*) a person and other persons with whom that person does not deal at arm's length, who did not control the corporation at the time when it so ceased to carry on active business, the earned depletion base of the corporation shall be reduced by an amount equal to its earned depletion base as of the time control was so acquired."

(2) Subject to subsections (5) and (6), where after November 7, 1969 a corporation (in this subsection referred to as the "successor") acquired a particular property (whether by way of a purchase, amalgamation, merger, winding-up or otherwise), there may be deducted by the successor in computing its income for a taxation year an amount not exceeding the aggregate of all amounts each of which is an amount determined in respect of an original owner of the particular property that is the lesser of

(*a*) the earned depletion base of the original owner immediately after the original owner disposed of the particular property (determined as if, in the case of a disposition after April 28, 1978 as a result of an amalgamation described in section 87 of the Act, the original owner existed after the time of disposition and no property was acquired or disposed of in the course of the amalgamation) to the extent of the amount thereof that was not

(i) deducted by the original owner or any predecessor owner of the particular property in computing income for any taxation year,

(ii) deducted by the successor in computing income for a preceding taxation year, or

(iii) otherwise deducted by the successor in computing income for the taxation year, and

(*b*) 25 per cent of the amount, if any, by which

(i) the part of the successor's income for the year that can reasonably be regarded as attributable to

(A) the part of any amount included under paragraph 59(3.2)(*c*) of the Act in computing its income for the year that can reasonably be regarded as attributable to the disposition by it in the year or a preceding taxation year of any interest in or right to the particular property, to the extent that the proceeds of the disposition have not been included in determining an amount under this clause, paragraph (7)(*g*), clause 29(25)(*d*)(i)(A) of the *Income Tax Application Rules* or clause 66.7(1)(*b*)(i)(A) or (3)(*b*)(i)(A) or paragraph 66.7(10)(*g*) of the Act for a preceding taxation year,

(B) its reserve amount for the year in respect of the original owner and each predecessor owner, if any, of the particular property,

(C) production from the particular property, or

(D) processing described in subparagraph 1204(1)(*b*)(iii), (iv) or (v) with the particular property

computed as if no deduction were allowed under section 29 of the *Income Tax Application Rules* or under any of sections 65 to 66.7 of the Act and as if that income did not include any amount designated under clause 66.7(2)(*b*)(ii)(A) of the Act,

exceeds

(ii) the total of

(A) four times the total of all other amounts deducted under this subsection for the year that can reasonably be regarded as attributable to the part of the successor's income for the year described in subparagraph (i), and

(B) the total of all amounts each of which is an amount deducted under subsection 66.7(1), (3), (4) or (5) of the Act or subsection 29(25) of the *Income Tax Application Rules* for the year that can reasonably be regarded as attributable to the part of the successor's income for the year described in subparagraph (i).

History: S. 1202(2)(*b*) was amended by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable to 1999 and subsequent taxation years. S. 1202(2)(*b*) formerly read:

"(*b*) the amount, if any, by which the aggregate of

(i) 25 per cent of the part of the successor's income for the year that may reasonably be regarded as attributable to

(A) the amount included in computing its income for the year under paragraph 59(3.2)(*c*) of the Act that may reasonably be regarded as attributable to the disposition by it in the year or a preceding taxation year of any interest in or right to the particular property, to the extent that the proceeds of the disposition have not been included in determining an amount under this clause, paragraph (7)(*g*), clause 29(25)(*d*)(i)(A) of the *Income Tax Application Rules, 1971*, clause 66.7(1)(*b*)(i)(A) or (3)(*b*)(i)(A) of the Act or paragraph 66.7(10)(*g*) of the Act for a preceding taxation year,

(B) its reserve amount for the year in respect of the original owner and each predecessor owner, if any, of the particular property,

(C) production from the particular property, or

(D) such processing as is described in subparagraph 1204(1)(*b*)(iii), (iv) or (v) with the particular property

computed as if no deduction were allowed under section 29 of the *Income Tax Application Rules, 1971* or under sections 65 to 66.7 of the Act and as if that income did not include any portion thereof designated under clause 66.7(2)(*b*)(ii)(A) of the Act,

(ii) the aggregate of all amounts each of which is a particular amount included in its income for the year under paragraph 59(3.3)(*a*) or (*b*) of the Act in respect of an amount added in computing the earned depletion base of the original owner, and

(iii) where the successor, the original owner or a predecessor owner of the particular property received in the year or in the year became entitled to receive, or in a subsequent year becomes entitled to receive an amount of assistance or benefit

(A) in respect of Canadian exploration expenses or Canadian development expenses, or

(B) that may reasonably be related to Canadian exploration activities or Canadian development activities,

by way of a grant, subsidy, rebate, forgivable loan, deduction from royalty or tax, rebate of royalty or tax, investment allowance or any other form of assistance or benefit, 33 1/3 per cent of the aggregate of all amounts each of which is in respect of such a particular amount of assistance or benefit and equal to

(C) the stated percentage (determined, in respect of an amount of Canadian exploration expense or Canadian development expense added in computing the earned depletion base of the original owner by reason of subparagraph 1205(1)(*a*)(ii) or clause 1205(1)(*a*)(vi)(B) or (B.1), for the calendar year in which the original owner incurred the expense) of the particular amount of the assistance or benefit (other than an amount in respect of which an amount was added in computing an amount under this subparagraph for a preceding taxation year), where the particular amount of the assistance or benefit was in respect of the amount of that expense, or

(D) the specified percentage (determined, in respect of an amount of Canadian oil and gas exploration expense added in computing the earned depletion base of the original owner by reason of subparagraph 1205(1)(*a*)(v) or clause 1205(1)(*a*)(vi)(A), for the calendar year in which the original owner incurred the expense) of the particular amount of the assistance or benefit (other than an amount in respect of which an amount was added in computing an amount under this subparagraph for a preceding taxation year), where the particular amount of the assistance or benefit was in respect of the amount of that expense

exceeds the aggregate of all other amounts deducted under this subsection, subsections 66.7(1), (3), (4) or (5) of the Act or subsection 29(25) of the *Income Tax Application Rules, 1971* for the year that may reasonably be regarded as attributable to those parts of the successor's income for the year described in subparagraph (i) or (ii) or to the amount determined in respect of the successor for the year under subparagraph (iii)."

S. 1202(2)(b)(i), the part following clause (D) thereof, was amended by P.C. 1993-415, SOR/93-120, dated March 9, 1993, applicable to taxation years ending after February 17, 1987. That part formerly read:

"computed as if no deduction were allowed under section 29 of the *Income Tax Application Rules, 1971*, or any of sections 65 to 66.7 of the Act,"

S. 1202(2) was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990, applicable (other than the amendment to s. 1202(2)(b)(i)(C)) to taxation years ending after February 17, 1987. The amendment to s. 1202(2)(b)(i)(C) is applicable to taxation years ending after February 17, 1987 except that, with respect to property acquired before January 15, 1987, or acquired before 1988 where the person acquiring the property is considered for the purposes of section 66.7 of the *Income Tax Act* to have been obliged on that date to acquire the property pursuant to the terms of an agreement in writing entered into on or before that date, s. 1202(2)(b)(i)(C) is to be read as follows:

"(C) where the particular property was an interest in or a right to take or remove petroleum or natural gas or a right to take or remove minerals from a property, the production from that property,"

S. 1202(2) formerly read:

"(2) Where a corporation (in this subsection, subsection (2.1) and section 1205 referred to as the 'successor corporation') has, at any time after April 19, 1983 and in a taxation year (in this subsection referred to as the 'transaction year'), acquired, by purchase, amalgamation, merger, winding-up or otherwise (other than pursuant to an amalgamation that is described in subsection 87(1.2) of the Act or a winding-up to which the rules in subsection 88(1) of the Act apply), from another person (in this subsection, subsection (2.1) and section 1205 referred to as the 'predecessor'), all or substantially all of the Canadian resource properties of the predecessor or the specified property of the predecessor and, except in the case of an amalgamation or a winding-up, the predecessor and the successor corporation have elected pursuant to subsection 66(6), 66.1(4), 66.2(3) or 66.4(3) of the Act, the following rules apply:

(*a*) there may be deducted, in computing the income of the successor corporation for a particular taxation year, such amount as it may claim not exceeding the lesser of

(i) 25 per cent of the amount by which the aggregate of

(A) the aggregate of amounts, each of which is the amount that is equal to such part of the income of the successor corporation for the year as is described in subparagraph 66.1(4)(b)(i) or paragraph 66.2(3)(b) of the Act with respect to the predecessor,

(B) the aggregate of amounts, each of which is the amount that is equal to such part of the income of the successor corporation for the year as is described in subparagraph 1204(1)(b)(iii) or (iv) that is derived from the processing of ores with property acquired from the predecessor,

(C) the aggregate of amounts, each of which is the amount that is equal to such part of the income of the successor corporation for the year as is described in subparagraph 1204(1)(b)(v) that is derived from the processing of heavy crude oil with property acquired from the predecessor, and

(D) 133 1/3 per cent of the aggregate of all amounts, each of which is an amount in respect of an amount of assistance or benefit in respect of Canadian exploration expenses or Canadian development expenses or that may reasonably be related to Canadian exploration activities or Canadian development activities, whether such amount is by way of a grant, subsidy, rebate, forgivable loan, deduction from royalty or tax, rebate of royalty or tax, investment allowance or any other form of assistance or benefit, that the successor corporation or the predecessor received in the year or in the year became entitled to receive, or in a subsequent taxation year becomes entitled to receive, except for an amount in respect of which an amount w as added in computing the aggregate of amounts under this clause for a preceding taxation year, equal to

(I) where the assistance or benefit was in respect of an amount added in computing the earned depletion base of the predecessor by virtue of subparagraph 1205(1)(a)(ii) or clause 1205(1)(a)(vi)(B) or (B.1), the amount of the assistance or benefit, and

(II) where the assistance or benefit was in respect of an amount of Canadian oil and gas exploration expense added in computing the earned depletion base of the predecessor by virtue of subparagraph 1205(1)(a)(v) or clause 1205(1)(a)(vi)(A), the amount equal to the product obtained when the amount of the assistance or benefit is multiplied by the specified percentage in respect of the expense for the calendar year in which the predecessor incurred the expense

exceeds

(E) the aggregate of the amounts deducted or deductible, as the case may be, under subsections 66(6), 66.1(4), 66.2(3) and 66.4(3) of the Act and subsection 29(25) of the *Income Tax Application Rules, 1971* with respect to the predecessor in computing the income of the successor corporation for the year, and

(ii) the amount determined under paragraph (b) minus the aggregate of the amounts deducted under this paragraph by virtue of the acquisition in computing the income of the successor corporation for taxation years before the particular taxation year; and

(*b*) for the purpose of computing the earned depletion base of the predecessor as of any time after the transaction year of the predecessor, there shall be deducted the amount, if any, by which

(i) the earned depletion base of the predecessor immediately after the time of acquisition (assuming for this purpose that, in the case of an acquisition as a result of an amalgamation described in section 87 of the Act, the predecessor existed after the time of acquisition and no property was acquired or disposed of in the course of the amalgamation)

exceeds

(ii) the amount, if any, deducted under section 1201 in computing the income of the predecessor for the transaction year of the predecessor."

S. 1202(2), the part preceding paragraph (a), was amended by P.C. 1990-2256, SOR/90-733, dated October 18, 1990, to substitute "subsection (2.1) and section 1205 referred to as the 'successor corporation') has, at any time" for "and section 1205 referred to as the 'successor corporation') has, at any time (in this subsection referred to as the 'time of acquisition')" and to substitute "subsection (2.1) and section 1205 referred to as the 'predecessor'), all or substantially all of the Canadian resource properties of the predecessor or the specified property of the predecessor" for "and section 1205 referred to as the 'predecessor'), all or substantially all of the Canadian resource properties of the predecessor", applicable in respect of taxation years commencing after 1984.

S. 1202(2), the part preceding paragraph (a), was amended by P.C. 1990-162, SOR/90-113, dated February 1, 1990, applicable with respect to acquisitions occurring after 1982 except that with respect to acquisitions occurring after 1982 and in taxation years commencing before 1985 the reference to "Canadian resource properties of the predecessor" shall be read as "property of the predecessor used by the predecessor in carrying on in Canada any of the businesses described in any of the subparagraphs 66(15)(h)(i) to (vii) of the Act as were carried on by the predecessor". That part formerly read:

"(2) Where a corporation (in this subsection and section 1205 referred to as the 'successor corporation') has, at any time (in this subsection referred to as the 'time of acquisition') after April 19, 1983 and in a taxation year (in this subsection referred to as the 'transaction year'), acquired, by purchase or otherwise, including an acquisition as a result of an amalgamation described in section 87 of the Act, from another person (in this subsection and section 1205 referred to as the 'predecessor') all or substantially all of the property of the predecessor used by him in carrying on in Canada such of the businesses described in any of subparagraphs 66(15)(h)(i) to (vii) of the Act as were carried on by him and, except in the case of an amalgamation or a winding-up, the predecessor and the successor corporation have elected pursuant to subsection 66(6), 66.1(4), 66.2(3) or 66.4(3) of the Act, the following rules apply:"

(2.1) [Revoked.]

History: S. 1202(2.1) was revoked by P.C. 1990-2780, SOR/91-79, dated December 24, 1990 and applicable to taxation years ending after February 17, 1987. S. 1202(2.1) formerly read:

"(2.1) For the purposes of subsection (2), where

(*a*) the successor corporation has acquired the specified property of the predecessor at any time,

(*b*) the successor corporation has not acquired all or substantially all of the Canadian resource properties of the predecessor at that time, and

(*c*) the predecessor and the successor corporation agree to have subsection (2) apply to them and notify the Minister in writing of the agreement in their returns of income under Part I of the Act for their respective taxation years that include that time,

the predecessor and the successor corporation shall be deemed to have elected pursuant to subsection 66(6), 66.1(4), 66.2(3) or 66.4(3) of the Act in respect of the acquisition."

S. 1202(2.1) was added by P.C. 1990-2256, SOR/90-733, dated October 18, 1990, applicable in respect of taxation years commencing after 1984 except that the Minister of National Revenue shall be deemed to have been notified in circumstances satisfying the condition set out in paragraph (c), if the Minister is notified in writing of the agreement referred to therein within 180 days after the date of publication of these amendments in the *Canada Gazette*, November 7, 1990.

(3) Where in a taxation year ending after February 17, 1987 an original owner of a property disposes of the property in circumstances in which subsection (2) applies,

(*a*) the amount of the earned depletion base of the original owner determined immediately after the time of that disposition shall be deducted in determining the earned depletion base of the original owner at any time after the time that is immediately after the disposition;

(*b*) for the purposes of paragraph (2)(*a*), the earned depletion base of the original owner determined immediately after the original owner disposed of the property that was deducted in computing the original owner's income for the year shall be deemed to be equal to the lesser of

(i) the amount deducted in respect of the disposition under paragraph (*a*), and

(ii) the amount, if any, by which

(A) the specified amount determined under subsection (4) in respect of the original owner for the year

exceeds

(B) the aggregate of all amounts each of which is an amount determined under this paragraph in respect of any disposition made by the original owner before the disposition and in the year; and

(*c*) for greater certainty, any amount (other than the amount determined under paragraph (*b*)) that was deducted under section 1201 by the original owner for the year or a subsequent taxation year shall, for the purposes of paragraph (2)(*a*), be deemed not to be in respect of the earned depletion base of the original owner determined immediately after the original owner disposed of the particular property.

History: S. 1202(3) was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990, applicable to taxation years ending after February 17, 1987. S. 1202(3) formerly read:

"(3) Where a corporation (in this subsection, subsection (3.1) and section 1205 referred to as the 'second successor corporation') has, at any time after November 7, 1969, acquired, by purchase, amalgamation, merger, winding-up or otherwise (other than pursuant to an amalgamation that is described in subsection 87(1.2) of the Act or a winding-up to which the rules in subsection 88(1) of the Act apply), from another corporation (in this subsection and subsection (3.1) referred to as the 'first successor corporation') that was a successor corporation within the meaning of subsection (2), all or substantially all of the Canadian resource properties of the first successor corporation or the specified property of the first successor corporation and, except in the case of an amalgamation or a winding-up, the first successor corporation and the second successor corporation have elected pursuant to subsection 66.1(5), 66.2(4) or 66.4(4) of the Act, there may be deducted, in computing the income of the second successor corporation for a particular taxation year, such amount as it may claim not exceeding the lesser of

(*a*) 25 per cent of the amount by which the aggregate of

(i) the aggregate of amounts each of which is the amount that is equal to such part of the income of the second successor corporation for the year as is described in subparagraph 66.1(5)(b)(i) or paragraph 66.2(4)(b) of the Act with respect to the first successor corporation,

(ii) the aggregate of amounts, each of which is the amount that is equal to such part of the income of the second successor corporation for the year as is described in subparagraph 1204(1)(b)(iii) or (iv) that is derived from the processing of ores with property that was owned by the predecessor, within the meaning of subsection (2), of the first successor corporation immediately before the acquisition by the first successor corporation of the property so acquired by the second successor corporation,

(iii) the aggregate of amounts, each of which is the amount that is equal to such part of the income of the second successor corporation for the year as is described in subparagraph 1204(1)(b)(v) that is derived from the processing of heavy crude oil with property that was owned by the predecessor, within the meaning of subsection (2), of the first successor corporation immediately before the acquisition by the first successor corporation of the property so acquired by the second successor corporation, and

(iv) 133 1/3 per cent of the aggregate of all amounts, each of which is an amount in respect of an amount of assistance or benefit in respect of Canadian exploration expenses or Canadian development expenses or that may reasonably be related to Canadian exploration activities or Canadian development activities, whether such amount is by way of a grant, subsidy, rebate, forgivable loan, deduction from royalty or tax, rebate of royalty or tax, investment allowance or any other form of assistance or benefit, that the second successor corporation, the first successor corporation or the predecessor received in the year or in the year became entitled to receive, or in a subsequent taxation year becomes entitled to receive, except for an amount in respect of which an amount was added in computing the aggregate of amounts under this subparagraph for a preceding taxation year, equal to

(A) where the assistance or benefit was in respect of an amount added in computing the earned depletion base of the predecessor by virtue of subparagraph 1205(1)(a)(ii) or clause 1205(1)(a)(vi)(B) or (B.1), the amount of the assistance or benefit, and

(B) where the assistance or benefit was in respect of an amount of Canadian oil and gas exploration expense added in computing the

earned depletion base of the predecessor by virtue of subparagraph 1205(1)(a)(v) or clause 1205(1)(a)(vi)(A), the amount equal to the product obtained when the amount of the assistance or benefit is multiplied by the specified percentage in respect of the expense for the calendar year in which the predecessor incurred the expense

exceeds

(v) the aggregate of the amounts deducted or deductible, as the case may be, under subsections 66(7), 66.1(5), 66.2(4) and 66.4(4) of the Act and subsection 29(29) of the *Income Tax Application Rules, 1971* with respect to the first successor corporation in computing the income of the second successor corporation for the year; and

(*b*) the amount determined under paragraph (2)(b) with respect to the predecessor from which the first successor corporation acquired the property minus the aggregate of

(i) the amounts deducted under subsection (2) by the first successor corporation by virtue of that acquisition, and

(ii) the amounts deducted

(A) under this subsection, and

(B) by virtue of the acquisition of the property by the second successor corporation

in computing its income for taxation years before the particular taxation year."

S. 1202(3), the part preceding paragraph (a), was amended by P.C. 1990-2256, SOR/90-733, dated October 18, 1990 to add the two references to s. 1202(3.1) and to substitute "first successor corporation or the specified property of the first successor corporation" for "first successor corporation", applicable in respect of taxation years commencing after 1984.

S. 1202(3), the part preceding paragraph (a), was amended by P.C. 1990-162, SOR/90-113, dated February 1, 1990, applicable with respect to acquisitions occurring after 1982 except that with respect to acquisitions occurring after 1982 and in taxation years commencing before 1985 the reference to "Canadian resouree properties of the first successor corporation" shall be read as "property of the first successor corporation used by it in carrying on in Canada such of the businesses described in any of subparagraphs 66(15)(h)(i) to (vii) of the Act as were carried on by it". That part formerly read:

"(3) Where a corporation (in this subsection and section 1205 referred to as the 'second successor corporation') has, at any time after November 7, 1969, acquired, by purchase or otherwise (including an acquisition as a result of an amalgamation described in section 87 of the Act), from another corporation (in this subsection referred to as the 'first successor corporation') that was a successor corporation within the meaning of subsection (2) all or substantially all of the property of the first successor corporation used by it in carrying on in Canada such of the businesses described in any of subparagraphs 66(15)(h)(i) to (vii) of the Act as were carried on by it, and (except in the case of an amalgamation or a winding-up) the first successor corporation and the second successor corporation have elected pursuant to subsection 66.1(5), 66.2(4) or 66.4(4) of the Act, there may be deducted, in computing the income of the second successor corporation for a particular taxation year, such amount as it may claim not exceeding the lesser of"

(3.1) [Revoked.]

History: S. 1202(3.1) was revoked by P.C. 1990-2780, SOR/91-79, dated December 24, 1990, applicable to taxation years ending after February 17, 1987. S. 1202(3.1) formerly read:

"(3.1) For the purposes of subsection (3), where

(*a*) the second successor corporation has acquired the specified property of the first successor corporation at any time,

(*b*) the second successor corporation has not acquired all or substantially all of the Canadian resource properties of the first successor corporation at that time, and

(*c*) the first successor corporation and the second successor corporation agree to have subsection (3) apply to them and notify the Minister in writing of the agreement in their returns of income under Part I of the Act for their respective taxation years that include that time,

the first successor corporation and the second successor corporation shall be deemed to have elected pursuant to subsection 66.1(5), 66.2(4) or 66.4(4) of the Act in respect of the acquisition."

S. 1202(3.1) was added by P.C. 1990-2256, SOR/90-733, dated October 18, 1990, applicable in respect of taxation years commencing after 1984 except that the Minister of National Revenue shall be deemed to have been notified in circumstances satisfying the condition set out in paragraph (c), if the Minister is notified in writing of the agreement referred to therein within 180 days after the date of publication of these amendments in the *Canada Gazette*, November 7, 1990.

(3.2) [Revoked.]

History: S. 1202(3.2) was revoked by P.C. 1990-2780, SOR/90-79, dated December 24, 1990, applicable to taxation years ending after February 17, 1987. S. 1202(3.2) formerly read:

"(3.2) Where a particular corporation has at any time after July 19, 1985, acquired by purchase, amalgamation, merger, winding-up or otherwise, from a person exempt from tax under Part I of the Act (other than a corporation that is referred to in paragraph 149(1)(d) of the Act and that is a principal-business corporation within the meaning of paragraph 66(15)(h) of the Act) all or substantially all of the person's Canadian resource properties or the specified property of the person, subsections (2) and (3) do not apply to the particular corporation in respect of the acquisition of the properties except to the extent that the properties were acquired by it before 1987 pursuant to an agreement in writing made by it before July 20, 1985."

S. 1202(3.2) was added by P.C. 1990-2256, SOR/90-773, dated October 18, 1990, applicable to taxation years ending after July 19, 1985.

(4) Where in a taxation year ending after February 17, 1987 an original owner of a property disposes of the property in circumstances in which subsection (2) applies, the lesser of

(*a*) the total of all amounts each of which is the amount, if any, by which

(i) an amount deducted under paragraph (3)(*a*) in respect of such a disposition in the year by the original owner

exceeds

(ii) the amount, if any, designated by the original owner in a prescribed form filed with the Minister within six months after the end of the year in respect of the amount determined under subparagraph (i), and

(*b*) the amount, if any, deducted under section 1201 in computing the income of the original owner for the taxation year

is the specified amount in respect of the original owner for the year for the purposes of paragraphs (3)(*b*) and 1205(1)(*d.2*).

History: S. 1202(4)(a) was amended by P.C. 1993-415, SOR/93-120, dated March 7, 1993, applicable to dispositions occurring in taxation years commencing on or after March 24, 1993, and also applicable to a disposition of a property made by a taxpayer in a taxation year commencing before March 24, 1993 and ending after February 17, 1987 where

(*a*) the taxpayer, and

(*b*) each corporation that, before the end of the taxpayer's taxation years that includes the date of publication, acquired the property or any other property that was disposed of by the taxpayer in a taxation year ending after February 17, 1987 as part of a transaction or an event as a consequence of which that corporation was or, but for that subsection, would be entitled to deduct an amount under subsection 1202(2) of the said Regulations in respect of an expenditure of the taxpayer,

so elect by notice in writing filed with the Minister of National Revenue on or before the day that is 180 days after the end of the taxpayer's taxation year that included the date of publication, and file waivers in the form and within the time referred to in subparagraph 152(4)(a)(ii) of the Income Tax Act in respect of taxation years commencing before the said date of publication with respect to the consequences of the election. Where a taxpayer has elected as provided above in respect of a disposition, a form containing a designation under subparagraph 1202(4)(a)(ii) of the said Regulations, shall be deemed to have been filed within the time required in that subparagraph if it is filed with the Minister of National Revenue on or before the day that is 180 days after the end of the taxpayer's taxation year that includes March 24, 1993.

S. 1202(4)(a) formerly read:

"(*a*) the aggregate of all amounts each of which is an amount deducted under paragraph (3)(a) in respect of such a disposition in the year by the original owner, and"

S. 1202(4) was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990 and applicable to taxation years ending after February 17, 1987. S. 1202(4) formerly read:

"(4) Where at any time (in this subsection referred to as the 'time of acquisition') after November 12, 1981

(*a*) control of a corporation is considered for the purposes of subsection 66(11.1) of the Act to have been acquired by a person or persons, or

(*b*) a corporation ceases to be exempt from tax under Part I of the Act on its taxable income,

for the purposes of section 1201, this section and section 1205,

(*c*) the corporation shall after the time of acquisition be deemed to be a successor corporation that jointly elected with a predecessor pursuant to subsection 66(6), 66.1(4), 66.2(3) or 66.4(3) of the Act,

(*d*) the corporation shall be deemed to have acquired at the time of acquisition all or substantially all of the Canadian resource properties of the predecessor owned by the corporation immediately before that time,

(*e*) the earned depletion base of the corporation immediately after the time of acquisition shall be deemed not to be the earned depletion base of the corporation immediately after the time of acquisition but to be the

earned depletion base of the predecessor of the corporation immediately after that time, and

(e.1) where another corporation (in this paragraph referred to as the 'subsidiary') was at the time of acquisition a subsidiary wholly-owned corporation, within the meaning assigned by subsection 87(1.4) of the Act, of the corporation (in this paragraph referred to as the 'parent'), if both corporations agree to have this paragraph apply to them in respect of a taxation year of the subsidiary ending after the time of acquisition and notify the Minister in writing of the agreement in the return of income under Part I of the Act of the subsidiary for that year, the subsidiary may designate in favour of the parent, in respect of that year, an amount equal to such portion of the amount that would be the subsidiary's income for the year if no deductions were allowed under sections 65, 66, 66.1, 66.2 and 66.4 of the Act and section 29 of the *Income Tax Application Rules, 1971*, as may reasonably be regarded as being attributable to

(i) the production of petroleum or natural gas from natural accumulations thereof or from oil or gas wells, or the production of minerals from mines, situated on property in respect of which the subsidiary had, immediately before the time of acquisition, an interest or right to take or remove petroleum or natural gas or a right to take or remove minerals,

(ii) the disposition of any Canadian resource property owned by the subsidiary immediately before the time of acquisition, and

(iii) the processing in Canada of ores or heavy oil described in subparagraph 1204(1)(b)(iii), (iv) or (v) with property owned by the subsidiary immediately before the time of acquisition,

to the extent that such portion of the amount is not designated under this paragraph in favour of any other taxpayer or under paragraph 66(11.1)(g) of the Act in favour of any taxpayer, and the amount so designated shall be deemed, for the purposes of determining the amount under subsections (2) and (3),

(iv) to be the income from the sources described in subparagraph (i), (ii) or (iii), as the case may be, of the parent for its taxation year in which that taxation year of the subsidiary ends, and

(v) not to be the income from the sources described in subparagraph (i), (ii) or (iii), as the case may be, of the subsidiary for that year,

and except where paragraph (b) applies, for the purposes of section 1201, this section and section 1205,

(*f*) the amount described in clause (2)(a)(i)(A) shall be deemed to include the amount that would be included therein if the production referred to in subparagraph 66.2(3)(b)(i) of the Act included the production of petroleum or natural gas from natural accumulations thereof or from oil or gas wells, or the production of minerals from mines, situated on property in Canada in respect of which the corporation had, in the taxation year and before control was so acquired, an interest or right to take or remove petroleum or natural gas or a right to take or remove minerals; and

(*g*) clauses (2)(a)(i)(B) and (C) shall be read as if the references to 'acquired from the predecessor' were read as 'owned by the predecessor in the taxation year before the time control was so acquired'."

S. 1202(4)(e.1) was added by P.C. 1990-2256, SOR/90-733, dated October 18, 1990, applicable to the 1985 and subsequent taxation years except that where the Minister of National Revenue is notified in writing of the agreement referred to in paragraph (e.1) within 180 days after November 7, 1990, the requirement in that paragraph with regard to notifying the Minister shall be deemed to have been satisfied.

S. 1202(4)(d) was amended by P.C. 1990-162, SOR/90-113, dated February 1, 1990, applicable with respect to transactions occurring in taxation years commencing after 1984. S. 1202(4)(d) formerly read:

"(*d*) the corporation shall be deemed to have acquired at the time of acquisition all or substantially all of the property of a predecessor that was used by him in carrying on in Canada such of the businesses described in any of subparagraphs 66(15)(h)(i) to (vii) of the Act as were carried on by the corporation immediately before that time, and"

S. 1202(4)(f) was amended by P.C. 1990-162, SOR/90-113, dated February 1, 1990, to add "natural accumulations thereof or from oil or gas", applicable with respect to transactions occurring in taxation years commencing after 1985.

S. 1202(4) was amended by P.C. 1985-2277, SOR/85-696, dated July 25, 1985, to substitute "predecessor" for "predecessor corporation" wherever they appeared, applicable to taxation years ending after April 19, 1983.

S. 1202(4)(d) was amended by P.C. 1985-2277, SOR/85-696, dated July 25, 1985, to substitute "predecessor that was used by him" for "predecessor corporation that was used by it", applicable with respect to acquisitions of property occurring after April 19, 1983.

S. 1202(4) was added by P.C. 1985-465, SOR/85-174, dated February 14, 1985, applicable to taxation years ending after November 12, 1981.

Advance Tax Rulings: ATR-19 Earned depletion base and cumulative Canadian Development expense.

(5) Subsections (2), 1203(3), 1207(7) and 1212(4) do not apply

(*a*) in respect of a property acquired by way of an amalgamation or winding-up to which section 1214 applies;

(*b*) to permit, in respect of the acquisition by a corporation before February 18, 1987 of a property, a deduction by the corporation of an amount that the corporation would not have been entitled to deduct under this Part, if this Part, as it read in its application to taxation years ending before February 18, 1987, applied to taxation years ending after February 17, 1987; or

(*c*) in respect of a property acquired by purchase, amalgamation, merger, winding-up or otherwise, from a person who is exempt from tax under Part I of the Act on that person's taxable income.

History: S. 1202(5)(*c*) was amended by P.C. 2001-954, SOR/2001-187, dated May 31, 2001, applicable to acquisitions that take place after April 26, 1995, other than an acquisition that takes place before 1996 and that was required by an agreement in writing entered into before April 26, 1995. S. 1202(5)(*c*) formerly read:

"(*c*) in respect of a property acquired at any time after July 19, 1985, by purchase, amalgamation, merger, winding-up or otherwise, from a person who is exempt from tax under Part I of the Act on that person's taxable income (other than a corporation that is referred to in paragraph 149(1)(*d*) of the Act and that is a principal-business corporation), except where the property was acquired before 1987 pursuant to an agreement in writing made before July 20, 1985."

S. 1202(5) was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990, applicable to taxation years ending after February 17, 1987. S. 1202(5) formerly read:

"(5) Where a corporation (in this subsection referred to as the 'acquiring corporation') has, at any time after November 12, 1981, acquired, by purchase, amalgamation, merger, winding-up or otherwise (other than pursuant to an amalgamation that is described in subsection 87(1.2) of the Act or a winding-up to which the rules in subsection 88(1) of the Act apply), from another person (in this subsection referred to as the 'predecessor'), all or substantially all of the Canadian resource properties of the predecessor and, except in the case of an amalgamation or a winding-up, the predecessor and the acquiring corporation have jointly elected pursuant to subsection 66(11.2) of the Act, and the provisions in subsection (4) apply in respect of the predecessor, the following rules apply:

(*a*) for the purposes of subsections (2) and (3), the acquiring corporation shall be deemed after that time to be a successor corporation of the predecessor; and

(*b*) the provisions of subsection (4) that apply in respect of the predecessor shall apply after that time in respect of the acquiring corporation as if the acquiring corporation were the same corporation as, and a continuation of, the predecessor."

S. 1202(5), the part preceding paragraph (a), was amended by P.C. 1990-162, SOR/90-113, dated February 1, 1990, applicable with respect to acquisitions occurring after 1982 except that with respect to acquisitions occurring after 1982 and in taxation years commencing before 1985, the reference to "Canadian resource properties of the predecessor" shall be read as "property of the predecessor used by the predecessor in carrying on in Canada any of the businesses described in any of subparagraphs 66(15)(h)(i) to (vii) of the Act as were carried on by the predecessor". That part formerly read:

"(5) Where a corporation (in this subsection referred to as the 'acquiring corporation') has, at any time after November 12, 1981, acquired, by purchase or otherwise (including an acquisition as a result of an amalgamation described in section 87 of the Act), from another person (in this subsection referred to as the 'predecessor') all or substantially all of the property of the predecessor used by him in carrying on in Canada such of the businesses described in any of subparagraphs 66(15)(h)(i) to (vii) of the Act as were carried on by him and, except in the case of an amalgamation or a winding-up, the predecessor and the acquiring corporation have jointly elected pursuant to subsection 66(11.2) of the Act, and the provisions in subsection (4) apply in respect of the predecessor, the following rules apply:"

S. 1202(5) was amended by P.C. 1985-2277, SOR/85-696, dated July 25, 1985, to substitute "predecessor" for "predecessor corporation", wherever they appeared, applicable to taxation years ending after April 19, 1983.

S. 1202(5) the part preceding paragraph (a), was amended by P.C. 1985-2277, SOR/85-696, dated April 25, 1985, applicable with respect to acquisitions of property occurring after April 19, 1983. That part formerly read:

"(5) Where a corporation (in this subsection referred to as the 'acquiring corporation') has, at any time after November 12, 1981, acquired, by purchase or otherwise (including an acquisition as a result of an amalgamation described in section 87 of the Act), from another corporation (in this subsection referred to as the 'predecessor corporation') all or substantially all of the property of the predecessor corporation used by it in carrying on in Canada such of the businesses described in any of subparagraphs 66(15)(h)(i) to (vii) of the Act as were carried on by it and (except in the case of an amalgamation or a winding-up) the predecessor corporation and the

acquiring corporation have jointly elected pursuant to subsection 66(11.2) of the Act, and the provisions in subsection (4) apply in respect of the predecessor corporation, the following rules apply:"

S. 1202(5) was added by P.C. 1985-465, SOR/85-174, dated February 14, 1985, applicable to taxation years ending after November 12, 1981.

(6) Subsections (2), 1203(3), 1207(7) and 1212(4) apply only to a corporation that has acquired a particular property

(*a*) where it acquired the particular property in a taxation year commencing before 1985 and, at the time it acquired the particular property, the corporation acquired the specified property of the person from whom it acquired the particular property;

(*b*) where it acquired the particular property from a person in a taxation year commencing after 1984 and, at the time it acquired the particular property, the corporation acquired

(i) all or substantially all of the Canadian resource properties of that person, or

(ii) where subparagraph (i) does not apply, the specified property of the person;

(*c*) where it acquired (other than in circumstances in which subparagraph (*b*)(ii) applies) the particular property after November 16, 1978 and in a taxation year ending before February 18, 1987 by any means other than by way of an amalgamation or winding-up and it and the person from whom it acquired the particular property have filed with the Minister a joint election under and in accordance with any of subsections 66(6), 66.1(4), 66.1(5), 66.2(3), 66.2(4), 66.4(3), and 66.4(4) of the Act as those subsections read in their application to that year;

(*d*) where it acquired the particular property after June 5, 1987 by way of an amalgamation or winding-up (other than in circumstances in which subparagraph (*b*)(ii) applies) and it has filed an election in the form prescribed for the purposes of paragraph 66.7(7)(*c*) of the Act with the Minister on or before the day on or before which the corporation is required to file a return of income pursuant to section 150 of the Act for its taxation year in which it acquired the particular property;

(*e*) where it acquired the particular property (other than by means of an amalgamation or winding-up or in circumstances in which subparagraph (*b*)(ii) applies) in a taxation year ending after February 17, 1987 and it and the person from whom it acquired the particular property have filed a joint election in the form prescribed for the purposes of paragraph 66.7(7)(*e*) of the Act with the Minister on or before the earlier of the days on or before which either of them is required to file a return of income pursuant to section 150 of the Act in respect of their respective taxation years that include the time of acquisition of the particular property; and

(*f*) where it acquired (other than by way of an amalgamation or winding-up) the particular property in circumstances in which subparagraph (*b*)(ii) applies and it and the person from whom it acquired the particular property agree to have subsection (2), 1203(3), 1207(7) or 1212(4), as the case may be, apply to them and notify the Minister in writing of the agreement in their returns of income under Part I of the Act for their respective taxation years that include the time of acquisition of the particular property.

History: S. 1202(6) was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990 and applicable to taxation years ending after February 17, 1987. S. 1202(6) formerly read:

"(6) For the purposes of subsections (1), (4) and (5), where a corporation acquired control of another corporation after November 12, 1981 and before 1983 by reason of the acquisition of shares of the other corporation pursuant to an agreement in writing concluded on or before November 12, 1981 it shall be deemed to have acquired such control on or before November 12, 1981."

S. 1202(6) was added by P.C. 1985-465, SOR/85-174, dated February 14, 1985, applicable to taxation years ending after November 12, 1981.

(7) Where at any time after November 12, 1981

(*a*) control of a corporation is considered for the purposes of subsection 66.7(10) of the Act to have been acquired by a person or group of persons, or

(*b*) a corporation ceases to be exempt from tax under Part I of the Act on its taxable income,

for the purposes of section 1201, this section and section 1205,

(*c*) the corporation shall be deemed after that time to be a successor (within the meaning assigned by subsection (2)) that had, at that time, acquired all the properties owned by the corporation immediately before that time from an original owner thereof;

(*d*) a joint election shall be deemed to have been filed in accordance with subsection (6) in respect of the acquisition;

(*e*) the earned depletion base of the corporation immediately before that time shall be deemed not to be the earned depletion base of the corporation immediately after that time but to be the earned depletion base of the original owner immediately after that time;

(*f*) [Revoked.]

(*g*) where the corporation (in this paragraph referred to as the "transferee") was, immediately before and at that time,

(i) a parent corporation (within the meaning assigned by subsection 87(1.4) of the Act), or

(ii) a subsidiary wholly-owned corporation (within the meaning assigned by subsection 87(1.4) of the Act)

of a particular corporation (in this paragraph referred to as the "transferor"), if both corporations agree to have this paragraph apply to them in respect of a taxation year of the transferor ending after that time and notify the Minister in writing of the agreement in the return of income under Part I of the Act of the transferor for that year, the transferor may, if throughout that year the transferee was such a parent corporation or subsidiary wholly-owned corporation of the transferor, designate in favour of the transferee, in respect of that year, for the purpose of making a deduction under subsection (2) in respect of expenditures incurred by the transferee before that time and when it was such a parent corporation or subsidiary wholly-owned corporation of the transferor, an amount not exceeding such portion of the amount that would be its income for the year, if no deductions were allowed under any of section 29 of the *Income Tax Income Application Rules, 1971* and sections 65 to 66.7 of the

Act, that may reasonably be regarded as being attributable to

(iii) the production from Canadian resource properties owned by the transferor immediately before that time,

(iv) the disposition in the year of any Canadian resource properties owned by the transferor immediately before that time, and

(v) such processing as is described in subparagraph 1204(1)(*b*)(iii), (iv), or (v) with property owned by the transferor immediately before that time

to the extent that such portion of the amount so designated is not designated under this paragraph in favour of any other taxpayer or under paragraph 66.7(10)(*g*) of the Act in favour of any taxpayer, and the amount so designated shall be deemed, for the purposes of determining the amount under subsection (2),

(vi) to be income from the sources described in subparagraph (iii), (iv) or (v), as the case may be, of the transferee for its taxation year in which that taxation year of the transferor ends, and

(vii) not to be income from the sources described in subparagraph (iii), (iv) or (v), as the case may be, of the transferor for that year;

(*h*) where, immediately before and at that time, the corporation (in this paragraph referred to as the "transferee") and another corporation (in this paragraph referred to as the "transferor") were both subsidiary wholly-owned corporations (within the meaning assigned by subsection 87(1.4) of the Act) of a particular parent corporation (within the meaning assigned by subsection 87(1.4) of the Act), if the transferee and the transferor agree to have this paragraph apply to them in respect of a taxation year of the transferor ending after that time and notify the Minister in writing of the agreement in the return of income under Part I of the Act of the transferor for that year, paragraph (*g*) shall apply for that year to the transferee and transferor as though one were the parent corporation (within the meaning assigned by subsection 87(1.4) of the Act) of the other; and

(*i*) where that time is after January 15, 1987 and at that time the corporation was a member of a partnership that owned a property at that time

(i) for the purposes of paragraph (*c*), the corporation shall be deemed to have owned immediately before that time that portion of the property owned by the partnership at that time that is equal to its percentage share of the aggregate of amounts that would be paid to all members of the partnership if it were wound up at that time, and

(ii) for the purposes of clauses (2)(*b*)(i)(C) and (D) for a taxation year ending after that time, the lesser of

(A) its share of the part of the income of the partnership for the fiscal period of the partnership ending in the year that may reasonably be regarded as being attributable to the production from the property or to such processing as is described in subparagraph 1204(1)(*b*)(iii), (iv) or (v) with the property, and

(B) an amount that would be determined under clause (A) for the year if its share of the income of the partnership for the fiscal year of the partnership were determined on the basis of the percentage share referred to in subparagraph (i)

shall be deemed to be income of the corporation for the year that may reasonably be attributable to production from the property or to such processing as is described in subparagraph 1204(1)(*b*)(iii), (iv) or (v) with the property.

History: S. 1202(7)(f) was revoked by P.C. 1993-415, SOR/93-120, dated March 9, 1993. S. 1202(7)(f) formerly read:

"(*f*) the amount designated by the corporation under paragraph 66.7(10)(f) of the Act in respect of a taxation year ending after that time shall be deemed not to be an amount attributable to production from a Canadian resource property in the year;"

S. 1202(7) was added by P.C. 1990-2780, SOR/91-79, dated December 24, 1990, applicable to taxation years ending after February 17, 1987, except that the Minister of National Revenue shall be deemed to have been notified in circumstances satisfying the condition in paragraph 1202(7)(g) or (h) if the Minister is notified in writing of the agreement referred to therein within 180 days after the date of publication in Part II of the *Canada Gazette*, January 16, 1991.

(8) For the purposes of subsections (1) and (7), where a corporation acquired control of another corporation after November 12, 1981 and before 1983 by reason of the acquisition of shares of the other corporation pursuant to an agreement in writing concluded on or before November 12, 1981, the corporation shall be deemed to have acquired such control on or before November 12, 1981.

History: S. 1202(8) was added by P.C. 1990-2780, SOR/91-79, dated December 24, 1990, applicable to taxation years ending after February 17, 1987.

(9) Where, at any time,

(*a*) control of a taxpayer that is a corporation has been acquired by a person or group of persons,

(*b*) a taxpayer has disposed of all or substantially all of the taxpayer's Canadian resource properties, or

(*c*) a taxpayer has disposed of the specified property of the taxpayer,

and, before that time, the taxpayer or a partnership of which the taxpayer was a member acquired a property and it may reasonably be considered that one of the main purposes of the acquisition was to avoid any limitation provided in subsection (2) on the deduction in respect of the earned depletion base of the taxpayer or of a corporation referred to as a transferee in paragraph (7)(*g*) or (*h*), the taxpayer or the partnership, as the case may be, shall be deemed, for the purposes of applying subsection (2) to or in respect of the taxpayer, not to have acquired the property.

History: S. 1202(9) was added by P.C. 1990-2780, SOR/91-79, dated December 24, 1990, applicable to taxation years ending after February 17, 1987 except that it does not apply with respect to property acquired before January 15, 1987, or acquired before 1988, where the person acquiring the property is considered for the purposes of section 66.7 of the *Income Tax Act* to have been obliged on that date to acquire the property pursuant to the terms of an agreement in writing entered into on or before that date.

(10) Where in a particular taxation year a predecessor owner of a property disposes of it to a corporation in circumstances in which subsection (2) applies, for the purposes of applying subsection (2) to the predecessor owner for a taxation year ending after February 17, 1987 in respect of its acquisition of the property, the predecessor owner shall be deemed, after the disposition, never to have acquired the property except for the purposes of making a deduction under subsection (2) for the particular year.

History: S. 1202(10) was added by P.C. 1990-2780, SOR/91-79, dated December 24, 1990 and applicable to taxation years ending after February 17, 1987.

(11) Where at any time a property is acquired by a person in circumstances in which subsection (2) does not apply, every person who was an original owner or predecessor owner of the property by reason of having disposed of the property before that time shall, for the purposes of applying this Part to or in respect of the person or any other person who after that time acquires the property, be deemed after that time not to be an original owner or predecessor owner of the property by reason of having disposed of the property before that time.

History: S. 1202(11) was added by P.C. 1990-2780, SOR/91-79, dated December 24, 1990, applicable to taxation years ending after February 17, 1987.

Mining Exploration Depletion

1203. (1) In computing a taxpayer's income for a taxation year there may be deducted such amount as he may claim not exceeding the lesser of

(*a*) the amount, if any, by which

(i) the aggregate of

(A) 25 per cent of his income for the year, computed in accordance with Part I of the Act without reference to paragraph 59(3.3)(*f*) thereof and on the assumption that no deduction were allowed under section 65 thereof, and

(B) the amount, if any, included in computing his income for the year by virtue of paragraph 59(3.3)(*f*) of the Act

exceeds

(ii) the aggregate of amounts deducted under sections 1201, 1202, 1207 and 1212 in computing his income for the year; and

(*b*) his mining exploration depletion base as of the end of the year (before making any deduction under this subsection for the year).

History: S. 1203(1)(a)(i) was amended by P.C. 1985-2277, SOR/85-696, dated July 25, 1985, applicable to taxation years ending after April 19, 1983. S. 1203(1)(a)(i) formerly read:

"(i) 25 per cent of his income for the year, computed in accordance with Part I of the Act on the assumption that no deduction were allowed under section 65 thereof,"

(2) For the purposes of this section, "mining exploration depletion base" of a taxpayer as of a particular time means the amount by which the aggregate of

(*a*) 33⅓ per cent of the amount by which

(i) the aggregate of all amounts each of which was the stated percentage of an expenditure that is, or but for paragraph 66(12.61)(*b*) of the Act would be, incurred by the taxpayer after April 19, 1983 and before the particular time and each of which was a Canadian exploration expense

(A) described in subparagraph 66.1(6)(*a*)(iii) [subsection 66.1(6) "Canadian exploration expense"] of the Act, or

(B) that would have been described in subparagraph 66.1(6)(*a*)(iv) or (v) [subsection 66.1(6) "Canadian exploration expense"] of the Act if the references in those subparagraphs to "any of subparagraphs (i) to (iii.1) [subsection 66.1(6) 'Canadian exploration expense']" were read as "subparagraph (iii) [subsection 66.1(6) 'Canadian exploration expense']",

other than an expense described in clause (A) or (B) that was

(C) an expense renounced by the taxpayer under subsection 66(10.1) or (12.6) of the Act,

(D) an amount that was a Canadian exploration and development overhead expense of the taxpayer,

(E) an amount that was in respect of financing, including any cost incurred prior to the commencement of carrying on a business, or

(F) an eligible expense within the meaning of the *Canadian Exploration Incentive Program Act* in respect of which the taxpayer, a partnership of which the taxpayer was a member or a principal-business corporation of which the taxpayer was a shareholder, has received, is deemed to have received, is entitled to receive or may reasonably be expected to receive at any time an incentive under that Act,

exceeds

(ii) the aggregate of all amounts each of which is the stated percentage of an amount of assistance (within the meaning assigned by paragraph 66(15)(*a*.1) [subsection 66(15) "assistance"] of the Act) that any person has received, is entitled to receive or, at any time, becomes entitled to receive in respect of an expense that would be described in subparagraph (i) if that subparagraph were read without reference to clause (C) thereof, other than such an amount in respect of an expense renounced under subsection 66(10.1) or (12.6) of the Act

(A) by a corporation in favour of the taxpayer, where the amount of that assistance is excluded from the aggregate in respect of which the expense is so renounced, or

(B) by the taxpayer, where the amount of that assistance is not excluded from the aggregate in respect of which the expense is so renounced, and

(*b*) where the taxpayer is a successor corporation, any amount required by paragraph (3)(*a*) to be added before the particular time in computing the taxpayer's mining exploration depletion base

exceeds the aggregate of

(*c*) all amounts each of which is an amount deducted by the taxpayer under subsection (1) in computing his income for a taxation year ending before the particular time; and

(*d*) where the taxpayer is a predecessor, all amounts required by paragraph (3)(*b*) to be deducted before the particular time in computing the taxpayer's mining exploration depletion base.

History: S. 1203(2)(a)(i), the part preceding clause (A), was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990, applicable to the 1988 and subsequent taxation years. That part formerly read:

"(i) the aggregate of all expenditures each of which was incurred by the taxpayer after April 19, 1983 and before the particular time and each of which was a Canadian exploration expense, or would have been such an expense if subsection 66(12.61) of the Act were read without reference to paragraph (b) thereof,"

S. 1203(2)(a)(i)(F) was added by P.C. 1990-2780, SOR/91-79, dated December 24, 1990, applicable to the 1988 and subsequent taxation years.

S. 1203(2)(a)(ii) was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990, applicable to the 1988 and subsequent taxation years. S. 1203(2)(a)(ii) formerly read:

"(ii) the aggregate of all amounts each of which is an amount of assistance (within the meaning assigned by paragraph 66(15)(a.1) of the Act) that any person has received, is entitled to receive or, at any time, becomes entitled to receive in respect of an expense that would be described in subparagraph (i) if that subparagraph were read without reference to clause (C) thereof, other than such an amount in respect of an expense renounced under subsection 66(10.1) or (12.6) of the Act

(A) by a corporation in favour of the taxpayer, where the amount of that assistance is excluded from the aggregate in respect of which the expense is so renounced, or

(B) by the taxpayer, where the amount of that assistance is not excluded from the aggregate in respect of which the expense is so renounced, and"

S. 1203(2)(a)(i) was amended by P.C. 1990-2256, SOR/90-733, dated October 18, 1990, to substitute "the taxpayer" for "him" and to add ", or would have been such an expense if subsection 66(12.61) of the Act were read without reference to paragraph (*b*) thereof,", applicable in respect of expenditures or expenses incurred after February, 1986.

S. 1203(2)(a)(i)(C) was amended by P.C. 1990-2256, SOR/90-733, dated October 18, 1990, to add the reference to subsection 60(12.6), applicable in respect of expenditures or expenses incurred after February, 1986.

S.1203(2)(a)(ii) was amended by P.C. 1990-2256, SOR/90-733, dated October 18, 1990, applicable in respect of expenditures or expenses incurred after February, 1986. S. 1203(2)(a)(ii) formerly read:

"(ii) the aggregate of all amounts each of which is an amount of assistance or benefit that any person has received, is entitled to receive or, at any time, becomes entitled to receive in respect of an expense described in subparagraph (i), whether such amount is by way of a grant, subsidy, rebate, forgivable loan, deduction from royalty or tax, rebate of royalty or tax, investment allowance or any other form of assistance or benefit, and"

S. 1203(2)(d) was amended by P.C. 1985-2277, SOR/85-696 dated July 25, 1985, to substitute "predecessor" for "predecessor corporation", applicable to taxation years ending after April 19, 1983.

(3) Subject to subsections 1202(5) and (6), where a corporation (in this section referred to as the "successor corporation") has at any time (in this subsection referred to as the "time of acquisition") after April 19, 1983 and in a taxation year (in this subsection referred to as the "transaction year") acquired a property from another person (in this subsection referred to as the "predecessor"), the following rules apply:

(*a*) for the purpose of computing the mining exploration depletion base of the successor corporation as of any time after the time of acquisition, there shall be added an amount equal to the amount required by paragraph (*b*) to be deducted in computing the mining exploration depletion base of the predecessor, and

(*b*) for the purpose of computing the mining exploration depletion base of the predecessor as of any time after the transaction year of the predecessor, there shall be deducted the amount, if any, by which

(i) the mining exploration depletion base of the predecessor immediately after the time of acquisition (assuming for this purpose that, in the case of an acquisition as a result of an amalgamation described in section 87 of the Act, the predecessor existed after the time of acquisition and no property was acquired or disposed of in the course of the amalgamation)

exceeds

(ii) the amount, if any, deducted under subsection (1) in computing the income of the predecessor for the transaction year of the predecessor.

History: S. 1203(3), the part preceding paragraph (a), was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990, applicable to taxation years ending after February 17, 1987. That part formerly read:

"(3) Where a corporation (in this section referred to as the 'successor corporation') has, at any time after April 19, 1983 and in a taxation year (in this subsection referred to as the 'transaction year'), acquired, by purchase, amalgamation, merger, winding-up or otherwise (other than pursuant to an amalgamation that is described in subsection 87(1.2) of the Act or a winding-up to which the rules in subsection 88(1) of the Act apply), from another person (in this section referred to as the 'predecessor'), all or substantially all of the Canadian resource properties of the predecessor or the specified property of the predecessor and, except in the case of an amalgamation or a winding-up, the predecessor and the successor corporation have elected pursuant to subsection 66.1(4) or (5) of the Act, the following rules apply:"

S. 1203(3), the part preceding paragraph (a), was amended by P.C. 1990-2256, SOR/90-733, dated October 18, 1990, to substitute "April 19, 1983" for "(in this subsection referred to as the 'time of acquisition') after April 19, 1983", applicable in respect of taxation years commencing after 1984.

S. 1203(3), the part preceding paragraph (a), was amended by P.C. 1990-162, SOR/90-113, dated February 1, 1990, applicable with respect to acquisitions occurring after 1982 except that with respect to acquisitions occurring after 1982 and in taxation years commencing before 1985, the reference to "Canadian resource properties of the predecessor" shall be read as "property of the predecessor used by the predecessor in carrying on in Canada such of the businesses described in any of subparagraphs 66(15)(h)(i) to (vii) of the Act as were carried on by the predecessor". That part formerly read:

"(3) Where a corporation (in this section referred to as the 'successor corporation') has, at any time (in this section referred to as the 'time of acquisition') after April 19, 1983 and in a taxation year (in this subsection referred to as the 'transaction year'), acquired, by purchase or otherwise (including an acquisition as a result of an amalgamation described in section 87 of the Act), from another person (in this section referred to as the 'predecessor') all or substantially all of the property of the predecessor used by him in carrying on in Canada such of the businesses described in any of subparagraphs 66(15)(h)(i) to (vii) of the Act as were carried on by him and, except in the case of an amalgamation or a winding-up, the predecessor and the successor corporation have elected pursuant to subsection 66.1(4) or (5) of the Act, the following rules apply:"

S. 1203(3) was amended by P.C. 1985-2277, SOR/85-696, dated July 25, 1985, to substitute "predecessor" for "predecessor corporation", wherever they appeared, applicable to taxation years ending after April 19, 1983.

S. 1203(3), the part preceding paragraph (a), was amended by P.C. 1985-2277, SOR/85-696, dated July 25, 1985, applicable with respect to acquisitions of property occurring after April 19, 1983. That part formerly read:

"(3) Where a corporation (in this section referred to as the 'successor corporation') has, at any time (in this section referred to as the 'time of acquisition') after April 19, 1983 and in a taxation year (in this section referred to as the 'transaction year'), acquired, by purchase or otherwise (including an acquisition as a result of an amalgamation described in section 87 of the Act), from another corporation (in this section referred to as the 'predecessor corporation') all or substantially all of the property of the predecessor corporation used by it in carrying on in Canada such of the businesses described in any of subparagraphs 66(15)(h)(i) to (vii) of the Act as were carried on by it and (except in the case of an amalgamation or a winding-up) the predecessor corporation and the successor corporation have elected pursuant to subsection 66.1(4) or (5) of the Act, the following rules apply:"

(3.1) [Revoked.]

History: S. 1203(3.1) was revoked by P.C. 1990-2780, SOR/91-79, dated December 24, 1990 and applicable to taxation years ending after February 17, 1987. S. 1203(3.1) formerly read:

"(3.1) For the purposes of subsection (3), where

(*a*) the successor corporation has acquired the specified property of the predecessor at any time,

(*b*) the successor corporation has not acquired all or substantially all of the Canadian resource properties of the predecessor at that time, and

(*c*) the predecessor and the successor corporation agree to have subsection (3) apply to them and notify the Minister in writing of the agreement in their returns of income under Part I of the Act for their respective taxation years that include that time,

the predecessor and the successor corporation shall be deemed to have elected pursuant to subsection 66.1(4) or (5) of the Act in respect of the acquisition."

S. 1203(3.1) was added by P.C. 1990-2256, SOR/90-733, dated October 18, 1990, applicable in respect of taxation years commencing after 1984 except that the Minister of National Revenue shall be deemed to have been notified in circumstances satisfying the condition set out in paragraph (c), if the Minister is notified in writing of the agreement referred to therein within 180 days after the date of publication of these amendments in the *Canada Gazette*, November 7, 1990.

(4) For greater certainty, where an expense incurred before a particular time is included in the aggregate calculated under subparagraph (2)(*a*)(i) in respect of a taxpayer and subsequent to the particular time any person becomes entitled to receive an amount of assistance (within the meaning assigned by paragraph 66(15)(*a*.1) [subsection

66(15) "assistance"] of the Act) that is included in the aggregate calculated under subparagraph (2)(*a*)(ii), the stated percentage of the amount of assistance shall be included in the amounts referred to in subparagraph (2)(*a*)(ii) in respect of the taxpayer at the time the expense was incurred.

History: S. 1203(4) was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990 and applicable to the 1988 and subsequent taxation years. S. 1203(4) formerly read:

"(4) For greater certainty, where an expense incurred before a particular time is included in the aggregate calculated under subparagraph (2)(a)(i) in respect of a taxpayer and subsequent to the particular time any person becomes entitled to receive an amount of assistance (within the meaning assigned by paragraph 66(15)(a.1) of the Act) that is included in the aggregate calculated under subparagraph (2)(a)(ii), the amount of assistance shall be included in the amounts referred to in subparagraph (2)(a)(ii) in respect of the taxpayer at the time the expense was incurred."

S. 1203(4) was amended by P.C. 1990-2256, SOR/90-733, dated October 18, 1990, applicable in respect of expenditures or expenses incurred after February, 1986. S. 1203(4) formerly read:

"(4) For greater certainty, where an expense incurred before a particular time is included in the aggregate calculated under subparagraph (2)(a)(i) in respect of a taxpayer and subsequent to the particular time any person becomes entitled to receive an amount of assistance or benefit in respect of the expense, the amount of the assistance or benefit shall be included in the amounts referred to in subparagraph (2)(a)(ii) in respect of the taxpayer at the time the expense was incurred."

S. 1203 was added by P.C. 1985-465, SOR/85-174, dated February 14, 1985, applicable with respect to expenses incurred after April 19, 1983.

The former S. 1203 was revoked by P.C. 1981-3329, SOR/81-974, dated November 27, 1981 and effective in respect of taxation years ending after December 11, 1979. S. 1203 formerly read:

"S. 1203. Notwithstanding section 1201 and subsections 1202(2) and (3), the aggregate of the amounts that may be deducted by a taxpayer under those provisions in computing his income for a taxation year shall not exceed 25 per cent of his resource profits for the year."

Resource Profits

1204. (1) For the purposes of this Part, "gross resource profits" of a taxpayer for a taxation year means the amount, if any, by which the aggregate of

(*a*) the amount, if any, by which the aggregate of

(i) the aggregate of amounts, if any, that would be included in computing the taxpayer's income for the year by virtue of subsection 59(2) and paragraphs 59(3.2)(*b*) and 59.1(*b*) of the Act if subsection 59(2) were read without reference to subsection 64(1) therein, and

(i.1) the amount, if any, by which the amount included in computing his income for the year by virtue of paragraph 59(3.2)(*c*) of the Act exceeds the proceeds of disposition of property described in clause 66(15)(*c*)(ii)(A) [subsection 66(15) "Canadian resource property"] of the Act that became receivable in the year or a preceding taxation year and after December 31, 1982 to the extent that such proceeds have not been deducted in determining the amount under this subparagraph for a preceding taxation year

exceeds

(ii) the aggregate of amounts, if any, deducted in computing his income for the year by virtue of paragraph 59.1(*a*) and subsections 64(1.1) and (1.2) of the Act,

(*b*) the amount, if any, of the aggregate of his incomes for the year from

(i) the production of petroleum, natural gas, related hydrocarbons or sulphur from

(A) oil or gas wells in Canada operated by the taxpayer, or

(B) natural accumulations (other than mineral resources) of petroleum or natural gas in Canada operated by the taxpayer,

(ii) the production and processing in Canada of

(A) ore, other than iron ore or tar sands ore, from mineral resources in Canada operated by him to any stage that is not beyond the prime metal stage or its equivalent,

(B) iron ore from mineral resources in Canada operated by him to any stage that is not beyond the pellet stage or its equivalent, and

(C) tar sands ore from mineral resources in Canada operated by him to any stage that is not beyond the crude oil stage or its equivalent,

(iii) the processing in Canada of

(A) ore, other than iron ore or tar sands ore, from mineral resources in Canada not operated by him to any stage that is not beyond the prime metal stage or its equivalent,

(B) iron ore from mineral resources in Canada not operated by him to any stage that is not beyond the pellet stage or its equivalent, and

(C) tar sands ore from mineral resources in Canada not operated by him to any stage that is not beyond the crude oil stage or its equivalent,

(iv) the processing in Canada of

(A) ore, other than iron ore or tar sands ore, from mineral resources outside Canada to any stage that is not beyond the prime metal stage or its equivalent,

(B) iron ore from mineral resources outside Canada to any stage that is not beyond the pellet stage or its equivalent, and

(C) tar sands ore from mineral resources outside Canada to any stage that is not beyond the crude oil stage or its equivalent,

(v) the processing in Canada of heavy crude oil recovered from an oil or gas well in Canada to any stage that is not beyond the crude oil stage or its equivalent, and

(vi) Canadian field processing,

(*b*.1) the total of all amounts (other than an amount included because of paragraph (*b*) in computing the taxpayer's gross resource profits for the year) each of which is an amount included in computing the taxpayer's income for the year as a rental or royalty computed by reference to the amount or value of production from a natural accumulation of petroleum or natural gas in Canada, an oil or gas well in Canada or a mineral resource in Canada, and

(*c*) if the taxpayer owns all the issued and outstanding shares of the capital stock of a railway company throughout the year, the amount that may reasonably be considered to be the railway company's income for its taxation year ending in the year from the transportation of such of the taxpayer's ore as is described in clause (*b*)(ii)(A), (B) or (C),

exceeds the aggregate of the taxpayer's losses for the year from the sources described in paragraph (*b*), where the taxpayer's incomes and losses are computed in accordance with the Act on the assumption that the taxpayer had

during the year no incomes or losses except from those sources and was allowed no deductions in computing the taxpayer's income for the year other than

(*d*) amounts deductible under section 66 of the Act (other than amounts in respect of foreign exploration and development expenses) or subsection 17(2) or (6) or section 29 of the *Income Tax Application Rules, 1971* for the year;

(*e*) the amounts deductible or deducted, as the case may be, under section 66.1, 66.2 (other than an amount that is in respect of a property described in clause 66(15)(*c*)(ii)(A) [subsection 66(15) "Canadian resource property"] of the Act), 66.4, 66.5 or 66.7 (other than subsection (2) thereof) of the Act for the year; and

(*f*) any other deductions for the year that can reasonably be regarded as applicable to the sources of income described in paragraph (*b*) or (*b*.1), other than a deduction under paragraph 20(1)(*ss*) or (*tt*) of the Act or section 1201 or subsection 1202(2), 1203(1), 1207(1) or 1212(1).

History: S. 1204(1)(*b*)(vi) was added by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable to taxation years that begin after 1996.

S. 1204(1)(*b*)(i), the portion before clause (A), was amended by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable to taxation years that begin after 1996. S. 1204(1)(*b*)(i), the portion before clause (A) formerly read:

"(i) the production of petroleum, natural gas or related hydrocarbons from"

S. 1204(1), that portion preceding paragraph (*a*), was amended by P.C. 1996-1488, SOR/96-451, dated September 24, 1996, by replacing the term "resource profits" with the term "gross resource profits", applicable to taxation years that begin after December 20, 1991.

S. 1204(1)(*b*)(i)(B) was amended by P.C. 1996-1488, SOR/96-451, dated September 24, 1996, applicable to taxation years that end after March 1985. S. 1204(1)(*b*)(i)(B) formerly read:

"(B) petroleum or natural gas extracted by the taxpayer from a natural accumulation thereof in Canada,"

S. 1204(1)(*b*.1) was amended by P.C. 1996-1488, SOR/96-451, dated September 24, 1996, applicable to taxation years that begin after 1990. S. 1204(1)(*b*.1) formerly read:

"(*b*.1) subject to subsection (6), the aggregate of amounts, each of which was included in computing the taxpayer's income for the year and was in respect of a rental or royalty that was computed by reference to the amount or value of production from a property that is a natural accumulation of petroleum or natural gas in Canada, an oil or gas well in Canada or a mineral resource in Canada and from which a person, other than a person who was exempt from tax payable under Part I of the Act at any time in the 24 months before the amount was paid or payable, had a right to take or remove petroleum, natural gas or related hydrocarbons or a right to take or remove metal or minerals, and"

S. 1204(1)(*f*) was amended by P.C. 1996-1488, SOR/96-451, dated September 24, 1996, applicable to taxation years that end after February 22, 1994. S. 1204(1)(*f*) formerly read:

"(*f*) such other deductions for the year as may reasonably be regarded as applicable to the sources of income described in paragraph (*b*) or (*b*.1), other than a deduction under section 1201 or subsection 1202(2), 1203(1), 1207(1) or 1212(1)."

S. 1204(1)(b)(i) was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990, applicable to taxation years ending after March, 1985. S. 1204(1)(b)(i) formerly read:

"(i) the production of petroleum, natural gas or related hydrocarbons from natural accumulations of petroleum or natural gas in Canada (other than a resource) or oil or gas wells in Canada operated by the taxpayer,"

S. 1204(1) the part following paragraph (b.1) and preceding paragraph (d), was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990 and applicable to taxation years commencing after 1987. That part formerly read:

"exceeds the aggregate of

(*c*) the aggregate of his losses for the year from the sources described in paragraph (b), and

(*c*.1) where the taxpayer is a trust, any amount determined by the taxpayer under subsection 104(16) of the Act for the year to the extent that the amount may reasonably be regarded as applicable to the sources described in paragraph (b), computed in accordance with the Act, on the assumption that he had during the year no incomes or losses except from those sources and was allowed no deductions in computing his income for the year other than"

Ss. 1204(1)(e) and (f) were amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990, applicable to taxation years ending after February 17, 1987. Ss. 1204(1)(e) and (f) formerly read:

"(*e*) the amounts deductible or deducted, as the case may be, under section 66.1, 66.2 (other than an amount that is in respect of a property described in clause 66(15)(c)(ii)(A) of the Act), 66.4 or 66.5 of the Act for the year; and

(*f*) such other deductions for the year as may reasonably be regarded as applicable to the sources of income described in paragraph (b) or (b.1), other than a deduction under section 1201 or subsection 1202(2) or (3), 1203(1), 1207(1) or 1212(1)."

S. 1204(1)(a)(i) was amended by P.C. 1990-162, SOR/90-113, dated February 1, 1990, applicable to taxation years commencing after 1984. S. 1204(1)(a)(i) formerly read:

"(i) the aggregate of amounts, if any, included in computing his income for the year by virtue of subsection 59(2.1) and paragraphs 59(3.2)(b) and 59.1(b) of the Act, and"

Ss. 1204(1)(b)(i) and (b.1) were amended by P.C. 1990-162, SOR/90-113, dated February 1, 1990, applicable to taxation years ending after March 1985. Ss. 1204(1)(b)(i) and (b.1) formerly read:

"(i) the production of petroleum, natural gas or related hydrocarbons from oil or gas wells in Canada operated by him,"

"(*b*.1) subject to subsection (6), the aggregate of amounts, each of which was included in computing his income for the year and was in respect of a rental of royalty that was computed by reference to the amount or value of production from a property that is an oil or gas well in Canada or a mineral resource in Canada and from which a person (other than a person who was exempt from tax under Part I of the Act at any time in the 24 months before the amount was paid or payable) had a right to take or remove petroleum, natural gas or related hydrocarbons or a right to take or remove metals or minerals,"

S. 1204(1)(e) was amended by P.C. 1990-162, SOR/90-113, dated February 1, 1990, to add the reference to s. 66.5, applicable to the 1985 and subsequent taxation years.

(1.1) For the purposes of this Part, "resource profits" of a taxpayer for a taxation year means the amount, if any, by which the taxpayer's gross resource profits for the year exceeds the total of

(*a*) all amounts deducted in computing the taxpayer's income for the year other than

(i) an amount deducted in computing the taxpayer's gross resource profits for the year,

(ii) an amount deducted under any of section 8, paragraphs 20(1)(*ss*) and (*tt*), sections 60 to 64 and subsections 66(4), 66.7(2) and 104(6) and (12) of the Act and section 1201 and subsections 1202(2), 1203(1), 1207(1) and 1212(1) in computing the taxpayer's income for the year,

(iii) an amount deducted under section 66.2 of the Act in computing the taxpayer's income for the year, to the extent that it is attributable to any right, licence or privilege to store underground petroleum, natural gas or related hydrocarbons in Canada,

(iv) an amount deducted in computing the taxpayer's income for the year from a business, or other source, that does not include any resource activity of the taxpayer, and

(v) an amount deducted in computing the taxpayer's income for the year, to the extent that the amount

(A) relates to an activity

(I) that is not a resource activity of the taxpayer, and

(II) that is

1. the production, processing, manufacturing, distribution, marketing, transportation or sale of any property,

2. carried out for the purpose of earning income from property, or
3. the rendering of a service by the taxpayer to another person for the purpose of earning income of the taxpayer, and

(B) does not relate to a resource activity of the taxpayer,

(*b*) all amounts each of which is the amount, if any, by which

(i) the amount that would have been charged to the taxpayer by a person or partnership with whom the taxpayer was not dealing at arm's length if the taxpayer and that person or partnership had been dealing at arm's length

(A) for the use after March 6, 1996 and in the year of a property (other than money) owned by that person or partnership, or

(B) for the provision after March 6, 1996 and in the year by that person or partnership of a service to the taxpayer

exceeds the total of

(ii) the amount charged to the taxpayer for the use of that property or the provision of that service in that period, and

(iii) the portion of the amount described subparagraph (i) that, if it had been charged, would not have been deductible in computing the taxpayer's resource profits, and

(*c*) where the year ends after February 21, 1994, all amounts added under subsection 80(13) of the Act in computing the taxpayer's gross resource profits for the year.

History: S. 1204(1.1) was added by P.C. 1996-1488, SOR/96-451, dated September 24, 1996, applicable to taxation years that begin after December 20, 1991 except that, for each taxation year that began before July 24, 1992, the amount determined under paragraph 1204(1.1)(*a*) is deemed to be equal to the amount determined by the formula

"A × B/C

where
A is the total that would otherwise be determined under that paragraph;
B is the number of days in the year that are after July 23, 1992; and
C is the number of days in the year."

(1.2) For the purposes of paragraph (1.1)(*b*) and this subsection,

(*a*) a taxpayer is considered not to deal at arm's length with a partnership where the taxpayer does not deal at arm's length with any member of the partnership;

(*b*) a partnership is considered not to deal at arm's length with another partnership where any member of the first partnership does not deal at arm's length with any member of the second partnership;

(*c*) where a taxpayer is a member, or is deemed by this paragraph to be a member, of a partnership that is a member of another partnership, the taxpayer is deemed to be a member of the other partnership; and

(*d*) the provision of a service to a taxpayer does not include the provision of a service by an individual in the individual's capacity as an employee of the taxpayer.

History: S. 1204(1.2) was added by P.C. 1996-1488, SOR/96-451, dated September 24, 1996, to taxation years that end after March 6, 1996.

(2) For greater certainty, for the purposes of this section, in computing the income or loss of a trust for a taxation year from the sources described in paragraphs (1)(*b*) and (*b*.1), no deduction shall be made in respect of amounts deductible by the trust pursuant to subsection 104(6) or (12) of the Act.

History: S. 1204(2) was amended by P.C. 1985-465, SOR/85-174, dated February 14, 1985, effective March 6, 1985. S. 1204(2) formerly read:

"(2) For the purposes of this section, a person who has an interest in the proceeds of production from

(*a*) an oil or gas well in Canada, or

(*b*) a mineral resource in Canada,

under an agreement providing that he is to share in the profits remaining after deducting the operating costs of the oil or gas well or mineral resource, as the case may be, shall be deemed to be a person who operates the oil or gas well or mineral resource, as the case may be."

(3) A taxpayer's income or loss from a source described in paragraph (1)(*b*) does not include

(*a*) any income or loss derived from transporting, transmitting or processing (other than processing described in clause (1)(*b*)(ii)(C), (iii)(C) or (iv)(C) or subparagraph (1)(*b*)(v) or (vi)) petroleum, natural gas or related hydrocarbons or sulphur from a natural accumulation of petroleum or natural gas;

(*b*) any income or loss arising because of the application of paragraph 12(1)(z.1) or (z.2) or section 107.3 of the Act; and

(*c*) any income or loss that can reasonably be attributable to a service rendered by the taxpayer (other than processing described in subparagraph (1)(*b*)(iii), (iv), (v) or (vi) or activities carried out by the taxpayer as a coal mine operator).

History: S. 1204(3)(*b*) was replaced by P.C. 2007-114, SOR/2007-19, dated February 1, 2007, applicable to taxation years that begin after 2006. S. 1204(3)(*b*) formerly read:

"(*b*) any income or loss arising because of the application of paragraph 12(1)(z1), (z2) or (z5) or section 107.3 of the Act; and"

S. 1204(3)(*c*) was amended by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable to taxation years that begin after March 6, 1996. S. 1204(3)(*c*) formerly read:

"(*c*) any income or loss that can reasonably be attributed to a service rendered by the taxpayer other than processing described in subparagraph (1)(*b*)(iii), (iv) or (v)."

S. 1204(3)(*a*) and (*b*) were amended by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable to taxation years that begin after 1996. S. 1204(3)(*a*) and (*b*) formerly read:

"(*a*) any income or loss derived from transporting, transmitting or processing (other than processing described in clause (1)(*b*)(ii)(C), (iii)(C) or (iv)(C) or subparagraph (1)(*b*)(v)) petroleum, natural gas or related hydrocarbons;

(*b*) any income or loss arising because of the application of paragraph 12(1)(z1) or (z2) or section 107.3 of the Act; and"

S. 1204(3) was amended by P.C. 1996-1488, SOR/96-451, dated September 24, 1996, applicable to taxation years that end after February 22, 1994, except that paragraph 1204(3)(*c*) does not apply to taxation years that began before March 7, 1996. S. 1204(3) formerly read:

"(3) Income or loss from a source described in paragraph (1)(*b*) does not include income or loss derived from transporting, transmitting or processing (other than processing described in clause (1)(*b*)(ii)(C), (iii)(C) or (iv)(C) or subparagraph (1)(*b*)(v)) petroleum, natural gas or related hydrocarbons."

S. 1204(3) was amended by P.C. 1985-465, SOR/85-174, dated February 14, 1985, to substitute "clause (1)(b)(ii)(C), (iii)(C) or (iv)(C) or subparagraph (1)(b)(v)" for "subparagraph (1)(b)(v)", applicable to taxation years commencing after November 12, 1981.

S. 1204(3) was amended to add the words in brackets by P.C. 1981-3329, SOR/81-974, dated November 27, 1981 and effective in respect of the 1981 and subsequent taxation years.

(4) [Repealed.]

History: S. 1204(4) was repealed by P.C. 2007-114, SOR/2007-19, dated February 1, 2007, applicable to taxation years that begin after 2003. S. 1204(4) formerly read:

"(4) Notwithstanding any other provision in this Part, for the purposes of this Part, the income or loss of a taxpayer for a taxation year shall be computed on the assumption that paragraphs 12(1)(*o*) and 18(1)(*m*) and subsections 69(6) to (10) of the Act were not applicable to

(*a*) amounts receivable and the fair market value of any property receivable by the Crown as a royalty, tax, rental or levy with respect to the Syncrude Project, or as an amount however described, that may reasonably be regarded as being in lieu of any of the preceding amounts,

(*b*) dispositions of leased substances to the Crown by the participant, and

(*c*) acquisitions of leased substances from the Crown by the participant, where the taxpayer has been granted a remission of tax for the year pursuant to subsection 3(1) of the *Syncrude Remission Order*."

Subsection 1204(4) was added by P.C. 1980-425, SOR/80-132, dated February 11, 1980, effective for the 1979 and subsequent taxation years.

(5) [Repealed.]

History: S. 1204(5) was repealed by P.C. 2007-114, SOR/2007-19, dated February 1, 2007, applicable to taxation years that begin after 2003. S. 1204(5) formerly read:

"(5) For the purposes of subsection (4), 'Crown', 'leased substances', 'participant' and 'Syncrude Project' have the meanings assigned by section 2 of the *Syncrude Remission Order*."

S. 1204(5) was added by P.C. 1980-425, SOR/80-132, dated February 11, 1980, effective for the 1979 and subsequent taxation years.

(6) [Repealed.]

History: S. 1204(6) was repealed by P.C. 1996-1488, SOR/96-451, dated September 24, 1996, applicable to taxation years that begin after 1990. S. 1204(6) formerly read:

"(6) For the purpose of determining the resource profits of a taxpayer from rentals or royalties computed by reference to the amount or value of production from a property that is a natural accumulation of petroleum or natural gas in Canada, an oil or a gas well in Canada or a mineral resource in Canada, where

(*a*) before December 12, 1979, a person, other than the taxpayer or a person related to the taxpayer, has disposed of the property to a person who was exempt from tax under Part I of the Act, and

(*b*) the taxpayer had an interest in the property immediately before the time of disposition and has held that interest continually since that time,

paragraph (1)(*b*.1) shall be read without reference to 'other than a person who was exempt from tax under Part I of the Act at any time in the 24 months before the amount was paid'."

S. 1204(6) was amended by P.C. 1990-162, SOR/90-113, dated February 1, 1990, to add "a natural accumulation of petroleum or natural gas in Canada," applicable to taxation years ending after March 1985.

S. 1204(6) was added by P.C. 1981-411, SOR/81-158, dated February 20, 1981 and effective December 12, 1979.

Earned Depletion Base

1205. (1) For the purposes of this Part "earned depletion base" of a taxpayer as of a particular time means the amount by which 33 1/3 per cent of the aggregate of

(*a*) all amounts, in respect of expenditures (other than expenditures to acquire property under circumstances that entitled the taxpayer to a deduction under section 1202 or would so entitle the taxpayer if the amounts referred to in paragraphs 1202(2)(*a*) and (*b*) were sufficient for the purpose) incurred by the taxpayer after November 7, 1969 and before the particular time, each of which was

(i) a Canadian exploration and development expense or would have been such an expense if it had been incurred after 1971 and was actually incurred before May 7, 1974, other than

(A) a cost of borrowing capital, including any cost incurred prior to the commencement of carrying on a business, that was a Canadian exploration expense or an exploration, prospecting and development expense, as the case may be, of the taxpayer,

(B) the cost to the taxpayer of any Canadian resource property acquired by the taxpayer,

(C) a Canadian exploration and development expense that was incurred after a mine had come into production in reasonable commercial quantities and may reasonably be considered to be related to the mine or to a potential or actual extension thereof,

(D) an expense that would have been described in clause (C) if it had been incurred after 1971,

(E) an expense renounced by the taxpayer under subsection 66(10) of the Act or subsection 29(7) of the *Income Tax Application Rules*,

(F) an amount that, by virtue of subparagraph 66(15)(*b*)(iv) [subsection 66(15) "Canadian exploration and development expenses"] of the Act, was a Canadian exploration and development expense or would have been such an expense if it had been incurred after 1971, if such amount was a cost or expense referred to in clause (A), (B), (C), (D) or (E) that was incurred by an association, partnership or syndicate referred to in that subparagraph, or

(G) an amount that, by virtue of subparagraph 66(15)(*b*)(v) [subsection 66(15) "Canadian exploration and development expenses"] of the Act, was a Canadian exploration and development expense or would have been such an expense if it had been incurred after 1971, if such amount was a cost or expense referred to in clause (A), (B), (C), (D) or (E) that the taxpayer incurred pursuant to an agreement referred to in that subparagraph,

(ii) the stated percentage of a Canadian exploration expense other than

(A) a cost of borrowing capital, including any cost incurred prior to the commencement of carrying on a business, that was a Canadian exploration expense of the taxpayer,

(B) an expense renounced by the taxpayer under subsection 66(10.1) of the Act,

(C) an amount that, by virtue of subparagraph 66.1(6)(*a*)(iv) [subsection 66.1(6) "Canadian exploration expense"] of the Act, was a Canadian exploration expense, if such amount was an expense referred to in clause (A), (B), (E), (F), (G) or (H) that was incurred by a partnership referred to in that subparagraph,

(D) an amount that, by virtue of subparagraph 66.1(6)(*a*)(v) [subsection 66.1(6) "Canadian exploration expense"] of the Act, was a Canadian exploration expense, if such amount was an expense referred to in clause (A), (B), (E), (F), (G), or (H) that the taxpayer incurred pursuant to an agreement referred to in that subparagraph,

(E) an amount described in clause 66.1(6)(*a*)(ii)(B) or (ii.1)(B) [subsection 66.1(6) "Canadian exploration expense"] of the Act,

(F) an amount that was a Canadian exploration and development overhead expense of the taxpayer,

(G) an amount that was a Canadian oil and gas exploration expense of the taxpayer, or

(H) an expense described in subparagraph 66.1(6)(*a*)(iii) [subsection 66.1(6) "Canadian exploration expense"] of the Act incurred after April 19, 1983,

(iii) a Canadian development expense incurred before 1981 other than

(A) a cost of borrowing capital, including any cost incurred prior to the commencement of carrying on a business, that was a Canadian development expense of the taxpayer,

(B) an expense renounced by the taxpayer under subsection 66(10.2) of the Act,

(C) an amount referred to in subparagraph 66.2(5)(*a*)(iii) [subsection 66.2(5) "Canadian development expense"] of the Act,

(D) an amount that, by virtue of subparagraph 66.2(5)(*a*)(iv) [subsection 66.2(5) "Canadian development expense"] of the Act, was a Canadian development expense, if such amount was an expense referred to in clause (A), (B) or (C) that was incurred by a partnership referred to in that subparagraph, or

(E) an amount that, by virtue of subparagraph 66.2(5)(*a*)(v) [subsection 66.2(5) "Canadian development expense"] of the Act, was a Canadian development expense, if such amount was an expense referred to in clause (A), (B) or (C) that the taxpayer incurred pursuant to an agreement referred to in that subparagraph,

(iv) the stated percentage of the capital cost to the taxpayer of any processing property acquired by the taxpayer principally for the purpose of

(A) processing in Canada

(I) ore, other than iron ore or tar sands ore, from a qualified resource to any stage that is not beyond the prime metal stage or its equivalent,

(II) iron ore from a qualified resource to any stage that is not beyond the pellet stage or its equivalent, or

(III) tar sands ore from a qualified resource to any stage that is not beyond the crude oil stage or its equivalent, or

(B) processing in Canada

(I) ore, other than iron ore or tar sands ore, from an exporting resource beyond the furthest stage to which such ore or similar ore from that resource was ordinarily processed in Canada before such acquisition but not beyond the prime metal stage or its equivalent,

(II) iron ore from an exporting resource beyond the furthest stage to which such ore or similar ore from that resource was ordinarily processed in Canada before such acquisition but not beyond the pellet stage or its equivalent, or

(III) tar sands ore from an exporting resource beyond the furthest stage to which such ore or similar ore from that resource was ordinarily processed in Canada before such acquisition but not beyond the crude oil stage or its equivalent,

(v) where the taxpayer is a corporation that incurred a Canadian oil and gas exploration expense in respect of conventional lands in a calendar year after 1980 and before 1984, the specified percentage for that year of such expense to the extent that it is not an amount or expense referred to in clause (ii)(A), (B) or (F) or an expense that would be referred to in clause (ii)(C) or (D) if the references in those clauses to "clause (A), (B), (E), (F), (G) or (H)" were read as "clause (A), (B) or (F)", or

(vi) where the taxpayer is a corporation,

(A) the specified percentage in respect of a Canadian oil and gas exploration expense in respect of non-conventional lands incurred in a calendar year after 1980 and before 1985 to the extent that it is not an amount or expense referred to in clause (ii)(A), (B) or (F) or an expense that would be referred to in clause (ii)(C) or (D) if the references in those clauses to "clause (A), (B), (E), (F), (G) or (H)" were read as "clause (A), (B) or (F)",

(B) the stated percentage of a Canadian development expense incurred after 1980 in respect of a qualified tertiary oil recovery project of the taxpayer to the extent that such expense is not

(I) an amount or expense described in any of clauses (iii)(A) to (E),

(II) an amount that was a Canadian exploration and development overhead expense of the taxpayer, or

(III) an eligible expense within the meaning of the *Canadian Exploration and Development Incentive Program Act* in respect of which the taxpayer, a partnership of which the taxpayer was a member, a principal-business corporation of which the taxpayer was a shareholder or a joint exploration corporation of which the taxpayer was a shareholder corporation has received, is entitled to receive or may reasonably be expected to receive at any time an incentive under that Act,

(B.1) the stated percentage of a Canadian exploration expense incurred after 1981 in respect of a qualified tertiary oil recovery project of the taxpayer that

(I) would be referred to in subparagraph 66.1(6)(*a*)(ii) or (ii.1) [subsection 66.1(6) "Canadian exploration expense"] of the Act if subparagraph 66.1(6)(*a*)(ii) were read without reference to clause (B) [subsection 66.1(6) "Canadian exploration expense"] thereof, or

(II) would be referred to in subparagraph 66.1(6)(*a*)(iv) or (v) [subsection 66.1(6) "Canadian exploration expense"] of the Act if the Act were read without reference to clause 66.1(6)(*a*)(ii)(B) [subsection 66.1(6) "Canadian exploration expense"] and subparagraphs 66.1(6)(*a*)(i) [subsection 66.1(6) "Canadian exploration expense"], (i.1) [subsection 66.1(6) "Canadian exploration expense"], (ii.2) [subsection 66.1(6) "Canadian exploration expense"], (iii) [subsection 66.1(6) "Canadian exploration expense"] and (iii.1) [subsection 66.1(6) "Canadian exploration expense"],

other than the portion of such expense referred to in subclause (I) or (II) that is

(III) described in any of clauses (ii)(A) to (D) and (F),

(IV) included in the amount determined under subparagraph (v) or clause (vi)(A),

(V) described in subclause (B)(III), or

(VI) an eligible expense within the meaning of the *Canadian Exploration Incentive Program Act* in respect of which the taxpayer, a partnership of which the taxpayer was a member or a principal-business corporation of which the taxpayer was a shareholder corporation, has received, is entitled to receive or may reasonably be expected to receive at any time an incentive under that Act,

(C) the stated percentage of the capital cost to it of property that is tertiary recovery equipment, and

(D) the stated percentage of the capital cost to it of property that is, or but for Class 41 of Schedule II would be, included in Class 10 in Schedule II by virtue of paragraph (*u*) of the description of that Class, other than the capital cost to it of property that had, before the property was acquired by it, been used for any purpose whatever by any person with whom it was not dealing at arm's length,

(*b*) all amounts, in respect of expenditures (other than expenditures referred to in paragraph (*a*) or expenditures to acquire property under circumstances that entitled the taxpayer to a deduction under section 1202 or would so entitle the taxpayer if the amounts referred to in paragraphs 1202(2)(*a*) and (*b*) were sufficient for the purpose) incurred by the taxpayer after May 8, 1972 and before the particular time, each of which was the stated percentage of the capital cost to the taxpayer of property that is or, but for Class 41, would be included in Class 10 in Schedule II because of paragraph (*k*) of the description of that Class and that was acquired for the purpose of processing in Canada

(i) ore (other than iron ore or tar sands ore), after its extraction from a mineral resource, to any stage that is not beyond the prime metal stage or its equivalent,

(ii) iron ore, after its extraction from a mineral resource, to any stage that is not beyond the pellet stage or its equivalent, or

(iii) tar sands ore, after its extraction from a mineral resource, to any stage that is not beyond the crude oil stage or its equivalent,

other than the capital cost to him of property that had, before the property was acquired by the taxpayer, been used for any purpose whatever by any person with whom the taxpayer was not dealing at arm's length,

(*c*) all amounts, in respect of expenditures (other than expenditures referred to in paragraph (*a*) or (*b*) or expenditures to acquire property under circumstances that entitled the taxpayer to a deduction under section 1202 or would so entitle the taxpayer if the amounts referred to in paragraphs 1202(2)(*a*) and (*b*) were sufficient for the purpose) incurred by the taxpayer before the particular time, each of which was the stated percentage of the capital cost to the taxpayer of property (other than property that had, before it was acquired by the taxpayer, been used for any purpose whatever by any person with whom the taxpayer was not dealing at arm's length) that is included in Class 28 or paragraph (*a*) of Class 41, in Schedule II, other than property so included

(i) by virtue of the first reference in Class 28 to paragraph (*l*) of Class 10 in Schedule II, where the property was acquired by the taxpayer before November 17, 1978,

(ii) by virtue of the reference in Class 28 to paragraph (*m*) of Class 10 in Schedule II,

(iii) that is bituminous sands equipment acquired by an individual, or

(iv) that is bituminous sands equipment acquired by a corporation before 1981,

(*d*) all expenditures (other than expenditures referred to in paragraph (*a*), (*b*) or (*c*)) each of which was incurred by him before November 8, 1969 relating to a mine that came into production in reasonable commercial quantities before that date and that were incurred for the purpose of

(i) exploration in respect of, or

(ii) development of the mine for the purpose of gaining or producing income from the extraction of material from,

a bituminous sands deposit, an oil sands deposit or an oil shale deposit,

(*d*.1) three times the total of all amounts each of which is an amount equal to the lesser of

(i) the amount that would be determined under subsection 1210(1) in computing the taxpayer's income for a taxation year that ends before the particular time, if the amount determined for C under that subsection were nil, and

(ii) the amount determined for C under subsection 1210(1) in respect of the taxpayer for that year, and

(*d*.2) three times the aggregate of all amounts each of which is the specified amount determined under subsection 1202(4) in respect of the taxpayer for a taxation year ending after February 17, 1987 and before the particular time,

exceeds the aggregate of

(*e*) all amounts deducted by the taxpayer under section 1201 in computing his income for all taxation years ending after May 6, 1974 and before the particular time;

(*f*) 33⅓ per cent of the aggregate of all amounts, each of which is the stated percentage of a cost of borrowing capital, including any cost incurred prior to the commencement of carrying on a business, that was

(i) included in the capital cost to him of depreciable property described in subparagraph (*a*)(iv), clause (*a*)(vi)(C) or (D) or paragraph (*b*) or (*c*), or

(ii) an expenditure described in paragraph (*d*);

(*g*) 33⅓ per cent of the aggregate of all amounts, each of which is an amount

(i) that became receivable by the taxpayer after April 28, 1978 and before the earlier of December 12, 1979 and the particular time, and

(ii) in respect of which the consideration given by the taxpayer therefor was a property (other than a share, or a property that would have been a Canadian resource property if it had been acquired by the taxpayer at the time the consideration was given) or services, the cost of which may reasonably be regarded as having been primarily an expenditure that was added in computing

(A) the taxpayer's earned depletion base by reason of subparagraph (*a*)(i), (ii) or (iii) or paragraph (*d*), or

(B) the earned depletion base of an original owner of a property by reason of subparagraph (*a*)(i), (ii) or (iii) or paragraph (*d*) as it applied to the original owner, where the taxpayer acquired the property in circumstances in which subsection 1202(2) applies,

(*h*) 33⅓ per cent of the aggregate of all amounts, each of which is

(i) an amount in respect of a disposition of property (other than a disposition of property that had been used by the taxpayer to any person with whom the taxpayer was not dealing at arm's length) of the taxpayer after April 28, 1978 and before the earlier of December 12, 1979 and the particular time, the capital cost of which was added in computing

(A) the taxpayer's earned depletion base by reason of subparagraph (*a*)(iv) or paragraph (*b*) or (*c*), or

(B) the earned depletion base of an original owner of a property by reason of subparagraph (*a*)(iv) or paragraph (*b*) or (*c*) as it applied to the original owner, where the taxpayer acquired the property in circumstances in which subsection 1202(2) applies, and

(ii) equal to the lesser of

(A) the proceeds of disposition of the property, and

(B) the capital cost of the property to the taxpayer, where clause (i)(A) applies, or the original owner, where clause (i)(B) applies, computed as if no amount had been included therein that is a cost of borrowing capital, including any cost incurred prior to the commencement of carrying on a business,

(*i*) any amount required by paragraph 1202(2)(*b*) (as it read in its application to taxation years ending before February 18, 1987) or paragraph 1202(3)(*a*) to be deducted at or before the particular time in computing the taxpayer's earned depletion base,

(*j*) 33⅓ per cent of the aggregate of all amounts, each of which is in respect of an amount of assistance or benefit in respect of Canadian exploration expenses or Canadian development expenses or that may reasonably be related to Canadian exploration activities or Canadian development activities, whether such amount is by way of a grant, subsidy, rebate, forgivable loan, deduction from royalty or tax, rebate of royalty or tax, investment allowance or any other form of assistance or benefit that

(i) the taxpayer before the particular time has received or was entitled to receive, or that the taxpayer at or after the particular time becomes entitled to receive, or

(ii) an original owner or predecessor owner of a property before the particular time has received or was entitled to receive, or at or after the particular time becomes entitled to receive, where the original owner or the predecessor owner received, became entitled to receive or becomes entitled to receive that amount

(A) at or after the time at which the property was acquired by the taxpayer in circumstances in which subsection 1202(2) applies, and

(B) before the time at which the taxpayer becomes a predecessor owner of the property,

and that is equal to

(iii) where the assistance or benefit was in respect of an amount added by reason of subparagraph (*a*)(ii) or clause (*a*)(vi)(B) or (B.1) in computing

(A) the earned depletion base of the taxpayer (other than such portion thereof included in determining an amount described in paragraph 1202(2)(*a*) before the particular time), or

(B) the portion of the earned depletion base of the original owner included in determining an amount described in paragraph 1202(2)(*a*) before the particular time,

the stated percentage of the amount of the assistance or benefit, and

(iv) where the assistance or benefit was in respect of an amount of Canadian oil and gas exploration expense added by reason of subparagraph (*a*)(v) or clause (*a*)(vi)(A) in computing

(A) the earned depletion base of the taxpayer (other than such portion thereof included in determining an amount described in paragraph 1202(2)(*a*) before the particular time), or

(B) the portion of the earned depletion base of the original owner included in determining an amount described in paragraph 1202(2)(*a*) before the particular time,

the amount equal to the product obtained when the amount of the assistance or benefit is multiplied by the specified percentage in respect of the expense for the calendar year in which the taxpayer or the original owner, as the case may be, incurred the expense, and

(*k*) the amount, if any, by which

(i) the aggregate of all amounts that would be determined under paragraphs 1212(3)(*d*) to (*i*)

exceeds

(ii) the aggregate of all amounts that would be determined under paragraphs 1212(3)(*a*) to (*c*)

in computing his supplementary depletion base at the particular time.

History: S. 1205(1)(*b*), that portion preceding subparagraph (i), was amended by P.C. 1996-1488, SOR/96-451, dated September 24, 1996, applicable to the 1988 and subsequent taxation years. That portion formerly read:

"(*b*) all amounts, in respect of expenditures (other than expenditures referred to in paragraph (*a*) or expenditures to acquire property under circumstances that entitled the taxpayer to a deduction under section 1202 or would so entitle the taxpayer if the amounts referred to in paragraphs 1202(2)(*a*) and (*b*) were sufficient for the purpose) incurred by the taxpayer after May 8, 1972 and before the particular time, each of which was the stated percentage of the capital cost to the taxpayer of property that is included in Class 10 in Schedule II by virtue of paragraph (*k*) of the description of that Class and that was acquired for the purpose of processing in Canada"

S. 1205(1)(*d*.1) was amended by P.C. 1996-1488, SOR/96-451, dated September 24, 1996, applicable to taxation years that begin after December 20, 1991. S. 1205(1)(*d*.1) formerly read:

"(*d*.1) three times the aggregate of all amounts each of which is an amount equal to the lesser of

(i) an amount determined under paragraph 1210(1)(*a*), and

(ii) an amount determined under paragraph 1210(1)(*b*)

in computing his income for a taxation year ending before the particular time, and"

S. 1205(1)(*a*)(i)(E) was amended by P.C. 1994-1817, SOR/94-686, dated November 7, 1994,by replacing the words "Income Tax Application Rules, 1971" with "Income Tax Application Rules", applicable November 7, 1994.

S. 1205(1)(a), the part preceding subparagraph (i), was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990 and applicable to taxation years ending after February 17, 1987. That part formerly read:

"(*a*) all expenditures (other than expenditures to acquire property under circumstances that entitled him to a deduction under section 1202 or would so entitle him if the amounts referred to in subparagraphs 1202(2)(a)(i) and (ii) or paragraphs 1202(3)(a) and (b), as the case may be, were sufficient for the purpose) each of which was incurred by him after November 7, 1969 and before the particular time and each of which was"

S. 1205(1)(a)(ii), the part preceding clause (A), was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990 and applicable to taxation years ending after February 17, 1987, to add "the stated percentage of".

S. 1205(1)(a)(iv) was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990, applicable to taxation years ending after February 17, 1987. S. 1205(1)(a)(iv) formerly read:

"(iv) the capital cost to him of any processing property acquired by him principally for the purpose of"

S. 1205(1)(a)(vi)(B), that portion preceding subclause (I), was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990, to add "the stated percentage of", applicable to taxation years ending after February 17, 1987.

S. 1205(1)(a)(vi)(B)(III) was added by P.C. 1990-2780, SOR/91-79, dated December 24, 1990, applicable in respect of expenditures incurred after March 31, 1987.

S. 1205(1)(a)(vi)(B.1), the part preceding clause (I), was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990, to add "the stated percentage of", applicable to taxation years ending after February 17, 1987.

S. 1205(1)(a)(vi)(B.1), the part following subclause (II), was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990 and applicable in respect of expenditures incurred after September 30, 1988. That part formerly read:

"to the extent that such expense referred to in subclause (I) or (II)

(III) is not an amount or expense described in any of clauses (ii)(A) to (D) and (F), and

(IV) exceeds the portion, if any, of such expense that is included in the amount determined under subparagraph (v) or clause (vi)(A),"

Ss. 1205(1)(a)(vi)(C) and (D) were amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990 and applicable to the 1988 and subsequent taxation years. Ss. 1205(1)(a)(vi)(C) and (D) formerly read:

"(C) the capital cost to it of property that is tertiary recovery equipment, and

(D) the capital cost to it of property that is included in Class 10 in Schedule II by virtue of paragraph (u) of the description of that Class, other than the capital cost to it of property that had, before the property was acquired by it, been used for any purpose whatever by any person with whom it was not dealing at arm's length,"

S. 1205(1)(b), the part preceding subparagraph (i), was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990, and applicable to taxation years ending after February 17, 1987. That part formerly read:

"(*b*) all expenditures (other than expenditures referred to in paragraph (a) or expenditures to acquire property under circumstances that entitled him to a deduction under section 1202 or would so entitle him if the amounts referred to in subparagraphs 1202(2)(a)(i) and (ii) or paragraphs 1202(3)(a) and (b), as the case may be, were sufficient for the purpose) each of which was incurred by him after May 8, 1972 and before the particular time and each of which was the capital cost to him of property that is included in Class 10 in Schedule II by virtue of paragraph (k) of the description of that Class and that was acquired for the purpose of processing in Canada"

S. 1205(1)(c) was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990 and applicable to taxation years ending after February 17, 1987 except that, in its application to a taxation year ending before 1988, s. 1205(1)(c) is to be read without reference to the phrase "or paragraph (a) of Class 41". S. 1205(1)(c) formerly read:

"(*c*) all expenditures (other than expenditures referred to in paragraph (a) or (b) or expenditures to acquire property under circumstances that entitled him to a deduction under section 1202 or would so entitle him if the amounts referred to in subparagraphs 1202(2)(a)(i) and (ii) or paragraphs 1202(3)(a) and (b), as the case may be, were sufficient for the purpose) each of which was incurred by him before the particular time and each of which was the capital cost to him of property (other than the capital cost to him of property that had, before the property was acquired by him, been used for any purpose whatever by any person with whom he was not dealing at arm's length) that is included in Class 28 in Schedule II, other than property included in that Class

(i) by virtue of the reference to paragraph (l) in subparagraph (d)(i) thereof where the property was acquired by the taxpayer before November 17, 1978,

(ii) by virtue of subparagraph (d)(ii) thereof,

(iii) that is bituminous sands equipment acquired by an individual, or

(iv) that is bituminous sands equipment acquired by a corporation before 1981,"

S. 1205(1)(d.2) was added by P.C. 1990-2780, SOR/91-79, dated December 24, 1990 and applicable to taxation years commencing after February 17, 1987.

S. 1205(1)(f), the part preceding subparagraph (i), was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990 and applicable to taxation years ending after February 17, 1987. That part formerly read:

"(*f*) 33 1/3 per cent of the aggregate of all amounts, each of which is a cost of borrowing capital, including any cost incurred prior to the commencement of carrying on a business, that was"

Ss. 1205(1)(g) to (j) were amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990 and applicable to taxation years ending after February 17, 1987. Ss. 1205(1)(g) to (j) formerly read:

"(*g*) 33 1/3 per cent of the aggregate of all amounts, each of which is an amount that became receivable by the taxpayer after April 28, 1978 and before the earlier of December 12, 1979 and the particular time, and in respect of which the consideration given by the taxpayer therefor was a property (other than a share, or a property that would have been a Canadian resource property if it had been acquired by the taxpayer at the time the consideration was given) or services the cost of which may reasonably be regarded as having been primarily an expenditure that was added in computing the taxpayer's earned depletion base by virtue of subparagraph (a)(i), (ii) or (iii) or paragraph (d) or in computing the earned depletion base of a predecessor by virtue of subparagraph (a)(i), (ii) or (iii) or paragraph (d) as it applied to the predecessor where the taxpayer is a successor corporation or a second successor corporation to the predecessor, as the case may be;

(*h*) 33 1/3 per cent of the aggregate of all amounts, each of which is an amount in respect of a disposition of property (other than a disposition of property, that had been used by the taxpayer, to any person with whom the taxpayer was not dealing at arm's length) of the taxpayer after April 28, 1978 and before the earlier of December 12, 1979 and the particular time, the capital cost of which was added in computing the taxpayer's earned depletion base by virtue of subparagraph (a)(iv) or paragraph (b) or (c) or in computing the earned depletion base of a predecessor by virtue of subparagraph (a)(iv) or paragraph (b) or (c) as it applied to the predecessor where the taxpayer is a successor corporation or a second successor corporation to the predecessor, as the case may be, and each of which is the amount that is equal to the lesser of

(i) the proceeds of disposition of the property, and

(ii) the capital cost of the property to the taxpayer or the predecessor, as the case may be, computed as if no amount had been included therein that is a cost of borrowing capital, including any cost incurred prior to the commencement of carrying on a business;

(*i*) where the taxpayer is a predecessor, any amount required by paragraph 1202(2)(b) to be deducted before the particular time in computing the taxpayer's earned depletion base; and

(*j*) 33 1/3 per cent of the aggregate of all amounts, each of which is an amount in respect of an amount of assistance or benefit in respect of Canadian exploration expenses or Canadian development expenses or that may reasonably be related to Canadian exploration activities or Canadian development activities, whether such amount is by way of a grant, subsidy, rebate, forgivable loan, deduction from royalty or tax, rebate of royalty or tax, investment allowance or any other form of assistance or benefit, that

(i) the taxpayer before the particular time has received or was entitled to receive, or that the taxpayer at or after the particular time becomes entitled to receive, or

(ii) a predecessor before the particular time has received or was entitled to receive, or that a predecessor at or after the particular time becomes entitled to receive, where the taxpayer is a successor corporation or second successor corporation, as the case may be, to the predecessor at the time the predecessor received, became entitled to receive or becomes entitled to receive that amount,

equal to,

(iii) where the assistance or benefit was in respect of an amount added in computing the earned depletion base of the taxpayer by virtue of subparagraph (a)(ii) or clause (a)(vi)(B) or (B.1) (other than the earned

depletion base described in subparagraph 1202(2)(b)(i) where the taxpayer is a predecessor) or in computing the earned depletion base of a predecessor by virtue of subparagraph (a)(ii) or clause (a)(vi)(B) or (B.1) as it applied to the predecessor where the taxpayer is a successor corporation or a second successor corporation to the predecessor, as the case may be, the amount of the assistance or benefit, and

(iv) where the assistance or benefit was in respect of an amount of Canadian oil and gas exploration expense added in computing the earned depletion base of the taxpayer by virtue of subparagraph (a)(v) or clause (a)(vi)(A) (other than the earned depletion base described in subparagraph 1202(2)(b)(i) where the taxpayer is a predecessor) or in computing the earned depletion base of a predecessor by virtue of subparagraph (a)(v) or clause (a)(vi)(A) as it applied to the predecessor where the taxpayer is a successor corporation or a second successor corporation to the predecessor, as the case may be, the amount equal to the product obtained when the amount of the assistance or benefit is multiplied by the specified percentage in respect of the expense for the calendar year in which the taxpayer or the predecessor, as the case may be, incurred the expense; and"

Ss. 1205(1)(a)(vi)(B.1)(I) and (II) were amended by P.C. 1990-2256, SOR/90-733, dated October 18, 1990, applicable in respect of expenses incurred after March, 1987. Ss. 1205(1)(a)(vi)(B.1)(I) and (II) formerly read:

"(I) would be referred to in subparagraph 66.1(6)(a)(ii) or (ii.1) of the Act if each of those subparagraphs were read without reference to clause (B) thereof, or

(II) would be referred to in subparagraph 66.1(6)(a)(iv) or (v) of the Act if the references in those subparagraphs to 'referred to in any of subparagraphs (i) to (iii.1)' were read as 'that would be referred to in subparagraph (ii) or (ii.1) if each of those subparagraphs were read without reference to clause (B) thereof"

S. 1205(1)(a)(i)(B) was amended by P.C. 1990-162, SOR/90-113, dated February 1, 1990, applicable to taxation years commencing after 1984. S. 1205(1)(a)(i)(B) formerly read:

"(B) the cost to him of any Canadian resource property acquired by him or any property acquired by him that would have been a Canadian resource property if it had been acquired after 1971,"

(2) Where an expense is incurred before the particular time referred to in subsection (1) and a person at or after the particular time becomes entitled to receive an amount of assistance or benefit in respect of the expense, the amount of such assistance or benefit shall be included in "the amount of the assistance or benefit" referred to in subparagraphs (1)(*j*)(iii) and (iv) as of the particular time.

History: S. 1205(2) was added by P.C. 1985-465, SOR/85-174, dated February 14, 1985, applicable with respect to amounts that become receivable after March 6, 1985.

INTERPRETATION

1206. (1) In this Part,

"*bituminous sands equipment*" means property of a taxpayer that

(*a*) is included in Class 28 or in paragraph (*a*) of Class 41 in Schedule II, other than property so included

(i) by virtue of the first reference in Class 28 to paragraph (*l*) of Class 10 in Schedule II, where the property was acquired by the taxpayer before November 17, 1978, or

(ii) by virtue of the reference in Class 28 to paragraph (*m*) of Class 10 in Schedule II, and

(*b*) was acquired by the taxpayer after April 10, 1978 principally for the purpose of gaining or producing income from one or more mines, each of which is a location in a bituminous sands deposit, oil sands deposit or oil shale deposit from which material is extracted;

"*Canadian exploration and development overhead expense*" of a taxpayer means a Canadian exploration expense or a Canadian development expense of the taxpayer made or incurred after 1980 that is not a Canadian renewable and conservation expense (in this definition having the meaning assigned by subsection 66.1(6) of the Act) nor a taxpayer's share of a Canadian renewable and conservation expense incurred by a partnership and

(*a*) that was in respect of the administration, management or financing of the taxpayer,

(*b*) that was in respect of the salary, wages or other remuneration or related benefits paid in respect of a person employed by the taxpayer whose duties were not all or substantially all directed towards exploration or development activities,

(*c*) that was in respect of the upkeep or maintenance of, taxes or insurance in respect of, or rental or leasing of, property other than property all or substantially all of the use of which by the taxpayer was for the purposes of exploration or development activities, or

(*d*) that may reasonably be regarded as having been in respect of

(i) the use of or the right to use any property in which any person who was connected with the taxpayer had an interest,

(ii) compensation for the performance of a service for the benefit of the taxpayer by any person who was connected with the taxpayer, or

(iii) the acquisition of any materials, parts or supplies from any person who was connected with the taxpayer

to the extent that the expense exceeds the least of amounts, each of which was the aggregate of the costs incurred by a person who was connected with the taxpayer

(iv) in respect of the property,

(v) in respect of the performance of the service, or

(vi) in respect of the materials, parts or supplies;

"*Canadian oil and gas exploration expense*" of a taxpayer means an outlay or expense made or incurred after 1980 that would be a Canadian exploration expense of the taxpayer within the meaning assigned by paragraph 66.1(6)(*a*) of the Act if that paragraph were read without reference to subparagraphs (iii) and (iii.1) thereof and if the reference in subparagraphs (iv) and (v) thereof to "any of subparagraphs (i) to (iii.1)" were read as a reference to "any of subparagraphs (i) to (ii.2)", other than an outlay or expense that was a Canadian exploration expense by virtue of clause 66.1(6)(*a*)(ii)(B) or (ii.1)(B) of the Act that was in respect of a qualified tertiary oil recovery project;

"*coal mine operator*" means a person who undertakes all or substantially all of the activities involved in the production of coal from a resource;

"*conventional lands*" means lands situated in Canada other than non-conventional lands;

"*disposition of property*" has the meaning assigned by paragraph 13(21)(*c*) [subsection 248(1) "disposition"] of the Act;

"*enhanced recovery equipment*" means property of a taxpayer that

(*a*) is included in Class 10 in Schedule II by virtue of paragraph (*j*) of the description of that Class, and

(*b*) was acquired by the taxpayer after April 10, 1978 and before 1981 for use in the production of oil, from a reservoir or a deposit of bituminous sand, oil sand or oil shale in Canada operated by the tax-

payer, that is incremental to oil that would be recovered using primary recovery techniques alone,

other than property

(*c*) used by the taxpayer as part of a primary recovery process prior to the use described in paragraph (*b*),

(*d*) that had, before it was acquired by the taxpayer, been used for any purpose whatever by any person with whom the taxpayer was not dealing at arm's length, or

(*e*) that has been used by any person before April 11, 1978 in the production of oil, from a reservoir in Canada, that is incremental to oil that would be recovered using primary recovery techniques alone;

"*exempt partnership*" [Repealed.]

"*exporting resource*" means, in relation to a particular processing property of a taxpayer, a resource the ore or any portion thereof produced from which during the year immediately preceding the day on which the property was acquired by the taxpayer was ordinarily processed outside Canada to any stage that is not beyond the prime metal stage or its equivalent;

"*mine*" means any location where material is extracted from a resource but does not include a well for the extraction of material from a deposit of bituminous sand, oil sand or oil shale;

"*non-conventional lands*" means lands that belong to Her Majesty in right of Canada, or in respect of which Her Majesty in right of Canada has the right to dispose of or exploit the natural resources, situated in

(*a*) the Yukon Territory, the Northwest Territories, or Sable Island or

(*b*) those submarine areas, not within a province, adjacent to the coast of Canada and extending throughout the natural prolongation of the land territory of Canada to the outer edge of the continental margin or to a distance of two hundred nautical miles from the baselines from which the breadth of the territorial sea of Canada is measured, whichever is the greater;

"*ore*" includes ore from a mineral resource that has been processed to any stage that is prior to the prime metal stage or its equivalent;

"*original owner*" of a property means a person

(*a*) who owned the property and disposed of it to a corporation that acquired it in circumstances in which subsection 1202(2) applies, or would apply if the corporation had continued to own the property, to the corporation in respect of the property, and

(*b*) who would, but for paragraph 1202(2)(*b*) (as it read in its application to taxation years ending before February 18, 1987) or paragraph 1202(3)(*a*), as the case may be, be entitled in computing the person's income for a taxation year ending after the person disposed of the property to a deduction under section 1201 in respect of expenditures that were incurred by the person before the person disposed of the property;

"*predecessor owner*" of a property means a corporation

(*a*) that acquired the property in circumstances in which subsection 1202(2) applies, or would apply if the corporation had continued to own the property, to the corporation in respect of the property,

(*b*) that disposed of the property to another corporation that acquired it in circumstances in which subsection 1202(2) applies, or would apply if the other corporation had continued to own the property, to the other corporation in respect of the property, and

(*c*) that would, but for subsection 1202(10), be entitled in computing its income for a taxation year after it disposed of the property to a deduction under subsection 1202(2) in respect of expenditures incurred by an original owner of the property;

"*primary recovery*" means the recovery of oil from a reservoir as a result of utilizing the natural energy of the reservoir to move the oil toward a producing well;

"*proceeds of disposition*" of property has the meaning assigned by paragraph 13(21)(*d*) [subsection 13(21) "proceeds of disposition"] of the Act;

"*processing property*" means property

(*a*) that is included in Class 10 in Schedule II because of paragraph (*g*) of the description of that Class or would be so included if that paragraph were read without reference to subparagraph (ii) of that paragraph and Schedule II were read without reference to Class 41, or

(*b*) that is included in Class 10 in Schedule II because of paragraph (*k*) of the description of that Class or would be so included if that paragraph were read without reference to the words following subparagraph (ii) of that paragraph and Schedule II were read without reference to Class 41,

other than property that had, before it was acquired by a taxpayer, been used for any purpose whatever by any person with whom the taxpayer was not dealing at arm's length;

"*production royalty*" [Repealed.]

"*qualified resource*" means, in relation to a particular processing property of a taxpayer, a resource that, within a reasonable time after the property was acquired by him,

(*a*) came into production in reasonable commercial quantities, or

(*b*) was the subject of a major expansion whereby the greatest designed capacity, measured in weight of input of ore, of the mill that processed ore from the resource was not less than 25% greater in the year immediately following the expansion than it was in the year immediately preceding the expansion;

"*qualified tertiary oil recovery project*" in respect of an expense incurred in a taxation year means a project that uses a method (including a method that uses carbon dioxide miscible, hydrocarbon miscible, thermal or chemical processes but not including a secondary recovery method) that is designed to recover oil from an oil well in Canada that is incremental to oil that would be recovered therefrom by primary recovery and a secondary recovery method, if

(*a*) a specified royalty provision applies in the year or in the immediately following taxation year in respect of the production, if any, or any portion thereof from the project or in respect of the ownership of property to which such production relates,

(*b*) the project is on a reserve within the meaning of the *Indian Act*, or

(*c*) the project is located in the Province of Ontario;

"*resource*" means any mineral resource in Canada;

"*resource activity*" of a taxpayer means

(*a*) the production by the taxpayer of petroleum, natural gas or related hydrocarbons or sulphur from

(i) an oil or gas well in Canada, or

(ii) a natural accumulation (other than a mineral resource) of petroleum or natural gas in Canada,

(*b*) the production and processing in Canada by the taxpayer or the processing in Canada by the taxpayer of

(i) ore (other than iron ore or tar sands ore) from a mineral resource in Canada to any stage that is not beyond the prime metal stage or its equivalent, and

(ii) iron ore from a mineral resource in Canada to any stage that is not beyond the pellet stage or its equivalent, and

(iii) tar sands ore from a mineral resource in Canada to any stage that is not beyond the crude oil stage or its equivalent,

(*c*) the processing in Canada by the taxpayer of heavy crude oil recovered from an oil or gas well in Canada to any stage that is not beyond the crude oil stage or its equivalent,

(*c.1*) Canadian field processing carried on by the taxpayer,

(*d*) the processing in Canada by the taxpayer of

(i) ore (other than iron ore or tar sands ore) from a mineral resource outside Canada to any stage that is not beyond the prime metal stage or its equivalent,

(ii) iron ore from a mineral resource outside Canada to any stage that is not beyond the pellet stage or its equivalent, and

(iii) tar sands ore from a mineral resource outside Canada to any stage that is not beyond the crude oil stage or its equivalent, or

(*e*) the ownership by the taxpayer of a right to a rental or royalty computed by reference to the amount or value of production from a natural accumulation of petroleum or natural gas in Canada, an oil or gas well in Canada or a mineral resource in Canada,

and, for the purposes of this definition,

(*f*) the production of a substance by a taxpayer includes exploration and development activities of the taxpayer with respect to the substance, whether or not extraction of the substance has begun or will ever begin,

(*g*) the production or the processing, or the production and processing, of a substance by a taxpayer includes activities performed by the taxpayer that are ancillary to, or in support of, the production or the processing, or the production and processing, of that substance by the taxpayer,

(*h*) the production or processing of a substance by a taxpayer includes an activity (including the ownership of property) that is undertaken before the extraction of the substance and that is undertaken for the purpose of extracting or processing the substance,

(*i*) the production or the processing, or the production and processing, of a substance by a taxpayer includes activities that the taxpayer undertakes as a consequence of the production or the processing or the production and processing, of that substance, whether or not the production, the processing or the production and processing of the substance has ceased, and

(*j*) notwithstanding paragraphs (*a*) to (*i*), the production, the processing or the production and processing of a substance does not include any activity of a taxpayer that is part of a source described in paragraph 1204(1)(*b*), where

(i) the activity

(A) is the transporting, transmitting or processing (other than processing described in subparagraph (*b*)(iii), paragraph (*c*) or (*c.1*) or subparagraph (*d*)(iii)) of petroleum, natural gas or related hydrocarbons or of sulphur, or

(B) can reasonably be attributed to a service rendered by the taxpayer, and

(ii) revenues derived from the activity are not taken into account in computing the taxpayer's gross resource profits;

"*secondary recovery method*" means a method to recover from a reservoir oil that is incremental to oil that would be recovered therefrom by primary recovery, by supplying energy to supplement or replace the natural energy of the reservoir through the use of technically proven methods, including waterflooding;

"*specified development well*" [Revoked.]

"*specified percentage*" for a calendar year

(*a*) in respect of a Canadian oil and gas exploration expense of a taxpayer for that year incurred in respect of conventional lands means,

(i) for the 1981 calendar year, 100 per cent,

(ii) for the 1982 calendar year, 60 per cent, and

(iii) for the 1983 calendar year, 30 per cent, and

(*b*) in respect of a Canadian oil and gas exploration expense of a taxpayer for that year incurred in respect of non-conventional lands means,

(i) for the 1981 and 1982 calendar years, 100 per cent,

(ii) for the 1983 calendar year, 60 per cent, and

(iii) for the 1984 calendar year, 30 per cent;

"*specified property*" of a person means all or substantially all of the property used by the person in carrying on in Canada such of the businesses described in subparagraphs 66(15)(*h*)(i) to (vii) [subsection 66(15) "principal-business corporation"] of the Act as were carried on by the person;

"*specified royalty*" [Repealed.]

"*stated percentage*" means

(*a*) where the taxpayer is an individual other than a trust, in respect of subparagraph 1203(2)(*a*)(i),

(i) 100 per cent in respect of an expenditure incurred before 1989,

(ii) 50 per cent in respect of an expenditure incurred after 1988 and before 1990, and

(iii) 0 per cent in respect of an expenditure incurred after 1989,

(*b*) in respect of subparagraph 1203(2)(a)(i) (where paragraph (*a*) is not applicable) and paragraphs 1205(1)(*a*), (*b*), (*c*) and (*f*)

(i) 100 per cent in respect of an expenditure incurred or a cost incurred in borrowing capital before July 1, 1988,

(ii) 50 per cent in respect of an expenditure incurred or a cost incurred in borrowing capital after June 30, 1988 and before 1990, and

(iii) 0 per cent in respect of an expenditure incurred or a cost incurred in borrowing capital after 1989,

(*c*) where the taxpayer is an individual other than a trust, in respect of subparagraph 1203(2)(*a*)(ii) and subsection 1203(4),

(i) 100 per cent in respect of any assistance that relates to expenditures incurred before 1989,

(ii) 50 per cent in respect of any assistance that relates to expenditures incurred after 1988 and before 1990, and

(iii) 0 per cent in respect of any assistance that relates to expenditures incurred after 1989, and

(*d*) in respect of subparagraph 1203(2)(*a*)(ii) (if paragraph (*c*) is not applicable), subsection 1203(4) (if paragraph (*c*) is not applicable) and subparagraph 1205(1)(*j*)(iii),

(i) 100 per cent in respect of any assistance or benefit that relates to expenditures incurred before July 1, 1988,

(ii) 50 per cent in respect of any assistance or benefit that relates to expenditures incurred after June 30, 1988 and before 1990, and

(iii) 0 per cent in respect of any assistance or benefit that relates to expenditures incurred after 1989;

"*tar sands ore*" means ore extracted, other than through a well, from a mineral resource that is a deposit of bituminous sand, oil sand or oil shale;

"*tertiary recovery equipment*" means property of a taxpayer that

(*a*) is, or but for Class 41 in Schedule II would be, included in Class 10 in Schedule II by virtue of paragraph (*j*) of the description of that Class,

(*b*) was acquired by the taxpayer after 1980 for use in a qualified tertiary oil recovery project,

other than property

(*c*) used by the taxpayer for another use prior to the use described in paragraph (*b*), or

(*d*) that had, before it was acquired by the taxpayer, been used for any purpose whatever by any person with whom the taxpayer was not dealing at arm's length.

History: S. 1206(1), the definition "exempt partnership" was repealed by P.C. 2007-114, SOR/2007-19, dated February 1, 2007, applicable to taxation years that begin after 2006. S. 1206(1), the definition "exempt partnership" formerly read:

" 'exempt partnership' in respect of a taxpayer at a particular time means a partnership of which the taxpayer was a member throughout the period beginning on December 20, 1991 and ending at the particular time, where all or substantially all of the fair market value of the property of the partnership at the particular time is attributable to property held in connection with one or more working interests that were held by the partnership on December 20, 1991 for the production of minerals, petroleum, natural gas or related hydrocarbons, unless

(*a*) any of the depreciable property acquired after December 20, 1991 and before the particular time by the partnership in connection with one of the working interests had, before the time of the acquisition, been owned by the taxpayer (or any other person with whom the taxpayer did not deal at arm's length) and been used by the taxpayer (or that other person) in connection with that working interest, or

(*b*) it is reasonable to consider that, before the particular time, amounts were charged to the partnership that would not have been so charged if section 1210 were read without reference to subsection (4) of that section;"

S. 1206(1), the definition "production royalty" was repealed by P.C. 2007-114, SOR/2007-19, dated February 1, 2007, applicable to taxation years that begin after 2006. S. 1206(1), the definition "production royalty" formerly read:

" 'production royalty' means an amount in respect of a particular Canadian resource property included in computing the income of a taxpayer as a rental or royalty computed by reference to the amount or value of petroleum, natural gas or related hydrocarbons produced after 1981 from a natural accumulation of petroleum or natural gas in Canada (other than a resource) or from an oil or gas well in Canada or produced after June, 1988 from a resource that is a bituminous sands deposit, oil sands deposit or oil shale deposit, if

(*a*) the taxpayer has a Crown royalty in respect of

(i) such production, or

(ii) the ownership of property to which such production relates where the Crown royalty is computed by reference to an amount of production from the accumulation, oil or gas well or resource,

and it is reasonable to consider that the taxpayer would have had the Crown royalty if the taxpayer's only source of income had been the rental or royalty in respect of the particular property, or

(*b*) the taxpayer would, but for an exemption or allowance (other than a rate of nil) that is provided, pursuant to a statute, by a person referred to in subparagraph 18(1)(*m*)(i) of the Act, have a Crown royalty in respect of which paragraph (*a*) is applicable;"

S. 1206(1), paragraph (*b*) of the definition "production royalty" was replaced by P.C. 2007-114, SOR/2007-19, dated February 1, 2007, applicable to royalties paid after December 20, 2002 in taxation years that begin before 2007. S. 1206(1), paragraph (*b*) of the definition "production royalty" formerly read:

"(*b*) the taxpayer would, but for an exemption or allowance (other than a rate of nil) that is provided, pursuant to a statute, by a person referred to in subparagraph 18(1)(*m*)(i), (ii) or (iii) of the Act, have a Crown royalty in respect of which paragraph (*a*) is applicable;"

S. 1206(1), the definition "specified royalty" was repealed by P.C. 2007-114, SOR/2007-19, dated February 1, 2007, applicable to taxation years that begin after 2006. S. 1206(1), the definition "specified royalty" formerly read:

" 'specified royalty' means a royalty created after December 5, 1996 (otherwise than pursuant to an agreement in writing made on or before that date) where

(*a*) the cost of the royalty was a Canadian development expense, and

(*b*) the royalty was created as part of a transaction or event or series of transactions or events as a consequence of which depreciable property was acquired at a capital cost that was less than its fair market value (determined without regard to the royalty);"

S. 1206(1), paragraph (*b*) of the definition "qualified resource" was amended by P.C. 2000-1331, SOR/2000-327, dated August 23, 2000, applicable to expansions commencing after September 13, 2000. S. 1206(1), paragraph (*b*) of the definition "qualified resource" formerly read:

"(*b*) was the subject of a major expansion whereby the greatest designed capacity, measured in tons of input of ore, of the mill that processed ore from the resource was not less than 25 per cent greater in the year immediately following the expansion than it was in the year immediately preceding the expansion;"

S. 1206(1), the portion of the definition "Canadian exploration and development overhead expense" before paragraph (*a*) was amended by P.C. 2000-1331, SOR/2000-327, dated August 23, 2000, applicable to expenses incurred after December 5, 1996. S. 1206(1), the portion of the definition "Canadian exploration and development overhead expense" before paragraph (*a*) formerly read:

" 'Canadian exploration and development overhead expense' of a taxpayer means a Canadian exploration expense or a Canadian development expense of the taxpayer made or incurred after 1980"

S. 1206(1), the definition "coal mine operator" was added by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable after March 6, 1996 except that, with respect to a royalty created after March 6, 1996 and before December 6, 1996 (or after March 6, 1996 and before 1998 pursuant to an agreement in writing made on or before December 5, 1996), if any of the parties to the royalty so elect in writing filed with the Minister of National Revenue before July 1, 1999, the definition "specified royalty" in subsection 1206(1) of the Regulations shall be read as follows in respect of the royalty:

" 'specified royalty' means a royalty (other than a production royalty) created after March 6, 1996 (otherwise than pursuant to an agreement in writing made before March 7, 1996) where

(*a*) any amount paid or payable to the holder of the royalty because of the holder's interest in the royalty is calculated with reference to any expense, or

(*b*) an arrangement involving the reimbursement of, contribution to or allowance for any expense has been made after March 6, 1996 and it is reasonable to consider that one of the reasons for the arrangement is to avoid the application of paragraph (*a*) in respect of the royalty;"

S. 1206(1), the definition "specified royalty" was added by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable after March 6, 1996 except that, with respect to a royalty created after March 6, 1996 and before December 6, 1996 (or after March 6, 1996 and before 1998 pursuant to an agreement in writing made on or before December 5, 1996), if any of the parties to the royalty so elect in writing filed with the Minister of National Revenue before July 1, 1999, the definition "specified royalty" in subsection 1206(1) of the Regulations shall be read as follows in respect of the royalty:

" 'specified royalty' means a royalty (other than a production royalty) created after March 6, 1996 (otherwise than pursuant to an agreement in writing made before March 7, 1996) where

(*a*) any amount paid or payable to the holder of the royalty because of the holder's interest in the royalty is calculated with reference to any expense, or

(*b*) an arrangement involving the reimbursement of, contribution to or allowance for any expense has been made after March 6, 1996 and it is reasonable to consider that one of the reasons for the arrangement is to avoid the application of paragraph (*a*) in respect of the royalty;"

S. 1206(1), the portion of paragraph (*d*) before subparagraph (i) of the definition "stated percentage" was amended by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable to 1999 and subsequent taxation years. That portion formerly read:

"(*d*) in respect of subparagraph 1202(2)(*b*)(iii), subparagraph 1203(2)(*a*)(ii) (where paragraph (*c*) is not applicable), subsection 1203(4) (where paragraph (*c*) is not applicable) and subparagraph 1205(1)(*j*)(iii),"

S. 1206(1), clause (*j*)(i)(A) of the definition "resource activity" was amended by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable to taxation years that begin after 1996. S. 1206(1), clause (*j*)(i)(A) of the definition "resource activity" formerly read:

"(A) is the transporting, transmitting or processing (other than processing described in subparagraph (*b*)(iii), paragraph (*c*) or subparagraph (*d*)(iii)) of petroleum, natural gas or related hydrocarbons, or"

S. 1206(1), paragraph (*c*.1) of the definition "resource activity" was added by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable to taxation years that begin after 1996.

S. 1206(1), the portion of paragraph (*a*) of the definition "resource activity" before subparagraph (i), was amended by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable to taxation years that begin after 1996. S. 1206(1), the portion of paragraph (*a*) of the definition "resource activity" before subparagraph (i) formerly read:

"(*a*) the production by the taxpayer of petroleum, natural gas or related hydrocarbons from"

S. 1206(1), paragraphs (*a*) and (*b*) of the definition "processing property" were amended by P.C. 1996-1488, SOR/96-451, dated September 24, 1996, applicable to the 1988 and subsequent taxation years. These paragraphs formerly read:

"(*a*) that is included in Class 10 in Schedule II by virtue of paragraph (*g*) of the description of that Class or that would be so included if that paragraph were read without reference to subparagraph (ii) thereof, or

(*b*) that is included in Class 10 in Schedule II by virtue of paragraph (*k*) of the description of that Class or that would be so included if that paragraph were read without reference to the words following subparagraph (ii) thereof,"

S. 1206(1), subparagraph (*a*)(ii) of the definition "production royalty" was amended by P.C. 1996-1488, SOR/96-451, dated September 24, 1996, applicable in respect of rentals and royalties computed by reference to the amount or value of petroleum, natural gas or related hydrocarbons produced after June 30, 1988. Subparagraph (*a*)(ii) formerly read:

"(ii) the ownership of property to which such production relates where the Crown royalty is computed by reference to an amount of production from the accumulation,"

S. 1206(1), the definition "exempt partnership" was added by P.C. 1996-1488, SOR/96-451, dated September 24, 1996, applicable to fiscal periods of partnerships that begin after December 20, 1991.

S. 1206(1), the definition "resource activity" was added by P.C. 1996-1488, SOR/96-451, dated September 24, 1996, applicable to taxation years that begin after December 20, 1991.

S. 1206(1), paragraph (b) of the definition "production royalty" was amended by P.C. 1992-2335, SOR/92-681, dated November 23, 1992, applicable December 16, 1992. Paragraph (*b*) formerly read:

"(*b*) the taxpayer would, but for an exemption or allowance (other than a rate of nil) that is provided by statute by a person referred to in subparagraph 18(1)(*m*)(i), (ii) or (iii) of the Act, have a Crown royalty in respect of which paragraph (*a*) is applicable;"

S. 1206(1), paragraph (a) of the definition "bituminous sands equipment", was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990 and applicable to the 1988 and subsequent taxation years. Paragraph (a) formerly read:

"(*a*) is included in Class 28 in Schedule II, other than property included in that Class

(i) by virtue of the reference to paragraph (l) in subparagraph (d)(i) thereof where the property was acquired by the taxpayer before November 17, 1978, or

(ii) by virtue of subparagraph (d)(ii) thereof, and"

S. 1206(1), the definition "enhanced recovery equipment" was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990 and deemed to have come into force on April 11, 1978. That definition formerly read:

" 'enhanced recovery equipment' means property of a taxpayer that

(*a*) is included in Class 10 in Schedule II by virtue of paragraph (j) of the description of that Class,

(*b*) was acquired by the taxpayer after April 10, 1978 and before 1981, and

(*c*) is used in the production of oil, from a reservoir or a deposit of bituminous sand, oil sand or oil shale in Canada operated by the taxpayer, that is incremental to oil that would be recovered using primary recovery techniques alone,

other than property that

(*d*) has been used by the taxpayer as part of a primary recovery process prior to the use described in paragraph (c),

(*e*) had, before it was acquired by the taxpayer, been used for any purpose whatever by any person with whom the taxpayer was not dealing at arm's length, or

(*f*) has been used by any person before April 11, 1978 in the production of oil, from a reservoir in Canada, that is incremental to oil that would be recovered using primary recovery techniques alone;"

S. 1206(1), the definitions "original owner" and "predecessor owner", were added by P.C. 1990-2780, SOR/91-79, dated December 24, 1990 and applicable to taxation years ending after February 17, 1987.

S. 1206(1), the definition "production royalty", was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990 and applicable in respect of rentals and royalties computed by reference to the amount or value of petroleum, natural gas or related hydrocarbons produced after June 30, 1988, except that in its application to rentals and royalties computed by reference to the amount or value of petroleum, natural gas or related hydrocarbons produced before November 16, 1989 the definition "production royalty" shall be read as follows:

" 'production royalty' means an amount included in computing the income of a taxpayer as a rental or royalty computed by reference to the amount or value of petroleum, natural gas or related hydrocarbons produced after 1981 from a natural accumulation of petroleum or natural gas in Canada (other than a resource) or from an oil or gas well in Canada, or produced after June, 1988 from a resource that is a bituminous sands deposit, oil sands deposit or oil shale deposit, if

(*a*) the taxpayer has a Crown royalty in respect of

(i) such production, or

(ii) the ownership of property to which such production relates where the Crown royalty is computed by reference to an amount of production from the property, or

(*b*) the taxpayer would, but for an exemption or allowance (other than a rate of nil) that is provided by statute by a person referred to in subparagraph 18(1)(m)(i), (ii) or (iii) of the Act, have a Crown royalty determined pursuant to paragraph (a);"

The definition "production royalty" formerly read:

" 'production royalty' means an amount included in computing the income of a taxpayer as a rental or royalty computed by reference to the amount or value of petroleum, natural gas or related hydrocarbons produced after 1981 from a natural accumulation of petroleum or natural gas in Canada (other than a resource), or from an oil or gas well in Canada, if

(*a*) the taxpayer has a Crown royalty in respect of

(i) such production, or

(ii) the ownership of property to which such production relates where the Crown royalty is computed by reference to an amount of production from the property, or

(*b*) the taxpayer would, but for an exemption or allowance (other than a rate of nil) that is provided by statute by a person referred to in subparagraph 18(1)(m)(i), (ii) or (iii) of the Act, have a Crown royalty determined pursuant to paragraph (a);"

S. 1206(1), the definition "stated percentage" was added by P.C. 1990-2780, SOR/91-79, dated December 24, 1990 and applicable to taxation years ending after February 17, 1987.

S. 1206(1), the definition "tertiary recovery equipment" was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990 and deemed to have come into force on January 1, 1981, except that paragraph (a) shall before 1988, be read without reference to the words "or but for Class 41 in Schedule II would be". That definition formerly read:

" 'tertiary recovery equipment' means property of a taxpayer that

(*a*) is included in Class 10 in Schedule II by virtue of paragraph (j) of the description of that Class,

(*b*) was acquired by the taxpayer after 1980, and

(*c*) is used in a qualified tertiary oil recovery project,

other than property that

(*d*) has been used by the taxpayer for another use prior to the use described in paragraph (c), or

(*e*) had, before it was acquired by the taxpayer, been used for any purpose whatever by any person with whom the taxpayer was not dealing at arm's length."

S. 1206(1) was amended by P.C. 1990-2256, SOR/90-733, dated October 18, 1990, to add the definition "specified property", applicable after 1984.

S. 1206(1), the part preceding paragraph (a) of the definition "production royalty", was amended by P.C. 1990-162, SOR/90-113, dated February 1, 1990 and applicable to taxation years ending after March 1985. That part formerly read:

"'production royalty' means an amount included in computing the income of a taxpayer as a rental or royalty computed by reference to the amount or value of petroleum, natural gas or related hydrocarbons produced after 1981 from an oil or gas well in Canada, if"

(2) In this Part, "joint exploration corporation", "principal-business corporation", "production from a Canadian resource property", "reserve amount" and "shareholder corporation" have the meanings assigned by subsection 66(15) of the Act.

History: S. 1206(2) was amended by P.C. 1990-2780, SOR/91-79, dated December 24 , 1990 and applicable to taxation years ending after February 17, 1987. S. 1206(2) formerly read:

"(2) In this Part, 'Canadian development expense', 'Canadian exploration and development expenses', 'Canadian exploration expense', 'Canadian oil and gas property expense', 'foreign exploration and development expenses', 'joint exploration corporation', 'oil or gas well' and 'shareholder corporation' have the same meanings as in sections 66, 66.1, 66.2 and 66.4 of the Act."

S. 1206(2) was amended by P.C. 1986-2590, SOR/86-1092, dated November 20, 1986, to add the references to "Canadian oil and gas property expense" and "section 66.4", applicable after April 19, 1983.

S. 1206(2) was amended by P.C. 1985-465, SOR/85-174, dated February 14, 1985, effective January 1, 1981. S. 1206(2) formerly read:

"(2) In this Part, 'Canadian exploration and development expenses', 'Canadian exploration expense', 'Canadian development expense', 'foreign exploration and development expenses' and 'joint exploration corporation' have the same meanings as in sections 66, 66.1 and 66.2 of the Act."

(3) For the purposes of sections 1201 to 1209 and 1212, where at the end of a fiscal period of a partnership, a taxpayer was a member thereof

(*a*) the resource profits of the partnership for the fiscal period, to the extent of the taxpayer's share thereof, shall be included in computing his resource profits for his taxation year in which the fiscal period ended;

(*b*) any property acquired or disposed of by the partnership shall be deemed to have been acquired or disposed of by the taxpayer to the extent of his share thereof;

(*c*) any property deemed by paragraph (*b*) to have been acquired or disposed of by the taxpayer shall be deemed to have been acquired or disposed of by him on the day the property was acquired or disposed of by the partnership;

(*d*) any amount that has become receivable by the partnership and in respect of which the consideration given by the partnership therefor was property (other than property referred to in paragraph 59(2)(*a*), (*c*) or (*d*) of the Act or a share or interest therein or right thereto) or services, all or part of the original cost of which to the partnership may reasonably be regarded primarily as an exploration or development expense of the taxpayer, shall be deemed to be an amount receivable by the taxpayer to the extent of his share thereof, and the consideration so given by the partnership shall, to the extent of the taxpayer's share thereof, be deemed to have been given by the taxpayer for the amount deemed to be receivable by him;

(*e*) any expenditure incurred or deemed to have been incurred by the partnership shall be deemed to have been incurred by the taxpayer to the extent of the taxpayer's share thereof; and

(*f*) any amount or expenditure deemed by paragraph (*d*) or (*e*) to have been receivable or incurred, as the case may be, by the taxpayer shall be deemed to have become receivable or been incurred, as the case may be, by the taxpayer on the day the amount became receivable or the expenditure was incurred or deemed to have been incurred by the partnership.

History: Ss. 1206(3)(e) and (f) were amended by P.C. 1990-2256, SOR/90-733, dated October 18, 1990, applicable in respect of expenditures or expenses incurred after February, 1986. Ss. 1206(3)(e) and (f) formerly read:

"(*e*) any expenditure incurred by the partnership shall be deemed to have been incurred by the taxpayer to the extent of his share thereof; and

(*f*) any amount or expenditure deemed by paragraph (d) or (e) to have been receivable or incurred, as the case may be, by the taxpayer shall be deemed to have become receivable or been incurred, as the case may be, by him on the day the amount became receivable or the expenditure was incurred by the partnership."

S. 1206(3)(b) was amended by P.C. 1985-465, SOR/85-174, dated February 14, 1985 by substituting "his share thereof" for "his share of the income of the partnership at the end of the fiscal period", applicable with respect to fiscal periods ending after March 6, 1985.

S. 1206(3) was amended by P.C. 1985-465, SOR/85-174, dated February 14, 1985, to amend paragraphs (d) and (e) and to add paragraph (f), applicable with respect to fiscal periods ending after March 6, 1985. Ss. 1206(3)(d) and (e) formerly read:

"(*d*) any expenditure incurred or services disposed of by the partnership shall be deemed to have been incurred or disposed of, as the case may be, by the taxpayer to the extent of his share of the income of the partnership at the end of the fiscal period; and

(*e*) any expenditure or services deemed by paragraph (d) to have been incurred or disposed of, as the case may be, by the taxpayer shall be deemed to have been incurred or disposed of, as the case may be, by him on the day the expenditure was incurred or the services were disposed of by the partnership."

S. 1206(3) was amended by P.C. 1980-1483, SOR/80-418, dated June 6, 1980 by adding "or disposed of" wherever it occurs in paragraphs (b) and (c) and by adding paragraphs (d) and (e).

S. 1206(3), that portion preceding paragraph (a) was amended by substituting "1201 to 1209 and 1213" for "1200 to 1209" and paragraph (c) was added by Order in Council, P.C. 1979-649, SOR/79-245, dated March 13, 1979, effective April 11, 1978.

(3.1) For the purposes of sections 1201 to 1203, 1205, 1217 and 1218, where a taxpayer was a member of a partnership at the end of a fiscal period of the partnership, the taxpayer shall be deemed to receive or to become entitled to receive any amount of assistance or benefit, whether such amount is by way of a grant, subsidy, rebate, forgivable loan, deduction from royalty or tax, rebate of royalty or tax, investment allowance or any other form of assistance or benefit, that the partnership at any time receives or becomes entitled to receive in respect of expenses incurred in that fiscal period of the partnership, to the extent of,

(*a*) where the partnership in the fiscal period receives or becomes entitled to receive the amount, the taxpayer's share thereof, or

(*b*) where the partnership after the fiscal period becomes entitled to receive the amount, what would have been the taxpayer's share thereof if the partnership had in the fiscal period received or become entitled to receive the amount,

and the time at which the taxpayer is deemed to receive or become entitled to receive such share of the amount shall be the time that the partnership receives or becomes entitled to receive the amount.

History: S. 1206(3.1), that portion preceding paragraph (a), was amended by P.C. 1988-1608, SOR/88-423, dated August 11, 1988 to add the references to ss. 1217 and 1218, applicable to the 1985 and subsequent taxation years.

S. 1206(3.1) was added by P.C. 1985-465, SOR/85-174, dated February 14, 1985, applicable with respect to fiscal periods ending after March 6, 1985.

(4) Where an expense incurred after November 7, 1969 that was a Canadian exploration and development expense or that would have been such an expense if it had been incurred after 1971 (other than an amount included therein that is in respect of financing or the cost of any Canadian resource property acquired by a joint exploration corporation or any property acquired by a joint exploration corporation that would have been a Canadian resource property if it had been acquired after 1971), a Canadian exploration expense (other than an amount included therein that is in respect of financing) or a Canadian development expense (other than an amount included therein that is in respect of financing or an amount referred to in subparagraph 66.2(5)(*a*)(iii) [subsection 66.2(5) "Canadian development expense"] of the Act) has been renounced in favour of a taxpayer and was deemed to be an expense of the taxpayer for the purposes of subsection 66(10), (10.1) or (10.2) of the Act or subsection 29(7) of the *Income Tax Application Rules*, the expense shall

(*a*) for the purposes of sections 1203 and 1205, be deemed to have been such an expense incurred by the taxpayer at the time the expense was incurred by the joint exploration corporation; and

(*b*) for the purposes of sections 1204 and 1210 and paragraphs 1217(2)(*e*) and 1218(2)(*e*), be deemed to have been such an expense incurred by the taxpayer at the time it was deemed to have been incurred by the taxpayer for the purposes of subsection 66(10), (10.1) or (10.2) of the Act or subsection 29(7) of the *Income Tax Application Rules*, as the case may be.

History: S. 1206(4) was amended by P.C. 1994-1817, SOR/94-686, dated November 7, 1994,by replacing the words "Income Tax Application Rules, 1971" with "Income Tax Application Rules", applicable November 7, 1994.

S. 1206(4)(b) was amended by P.C. 1988-1608, SOR/88-423, dated August 11, 1988 to add "and paragraphs 1217(2)(e) and 1218(2)(e)," applicable to the 1985 and subsequent taxation years.

S. 1206(4) was amended by P.C. 1985-465, SOR/85-174, dated February 14, 1985, applicable with respect to expenses renounced after 1981. S. 1206(4) formerly read:

"(4) For the purposes of this Part, where an expense incurred after November 7, 1969 that was a Canadian exploration and development expense or that would have been such an expense if it had been incurred after 1971 (other than an amount referred to in paragraph 21(2)(b) of the Act or the cost of any Canadian resource property acquired by a joint exploration corporation or any property acquired by the joint exploration corporation that would have been a Canadian resource property if it had been acquired after 1971), a Canadian exploration expense (other than an amount referred to in paragraph 21(2)(b) or subsection 21(4) of the Act) or a Canadian development expense (other than an amount referred to in paragraph 21(2)(b) or subsection 21(4) of the Act or an amount referred to in subparagraph 66.2(5)(a)(iii) of the Act) has been renounced in favour of the taxpayer and was deemed to be an expense of a taxpayer for the purposes of subsection 66(10), (10.1) or (10.2) of the Act or subsection 29(7) of the *Income Tax Application Rules, 1971*, that expense shall, for the purposes of this Part, be deemed to have been a Canadian exploration and development expense, a Canadian exploration expense or a Canadian development expense, as the case may be, incurred by the taxpayer."

(4.1) An expense that is a Canadian exploration and development overhead expense of the joint exploration corporation referred to in subsection (4), or would be such an expense if the references to "connected with the taxpayer" in paragraph (*d*) of the definition "Canadian exploration and development overhead expense" in subsection (1) were read as "connected with the shareholder corporation in favour of whom the expense was renounced for the purposes of subsection 66(10.1) or (10.2) of the Act", that may reasonably be considered to be included in a Canadian exploration expense or Canadian development expense that is deemed by subsection (4) to be a Canadian exploration expense or Canadian development expense of the shareholder corporation, shall be deemed to be a Canadian exploration and development overhead expense of the shareholder corporation incurred by it at the time the expense was deemed by subsection (4) to have been incurred by it and shall be deemed at and after that time not to be a Canadian exploration and development overhead expense incurred by the joint exploration corporation.

History: S. 1206(4.1) was added by P.C. 1985-465, SOR/85-174, dated February 14, 1985, applicable with respect to expenses renounced after March 6, 1985.

(4.2) For the purposes of paragraphs 66(12.6)(*b*), (12.601)(*d*) and (12.62)(*b*) of the Act, a prescribed Canadian exploration and development overhead expense of a corporation is

(*a*) a Canadian exploration and development overhead expense of the corporation;

(*b*) an expense that would be a Canadian exploration and development overhead expense of the corporation if the references to "connected with the taxpayer" in paragraph (*d*) of the definition "Canadian exploration and development overhead expense" in subsection (1) were read as "connected with the person to whom the expense is renounced under subsection 66(12.6), (12.601) or (12.62) of the Act"; and

(*c*) an expense that would be a Canadian exploration and development overhead expense of the corporation if the references to "person who was connected with the taxpayer" in paragraph (*d*) of the definition "Canadian exploration and development overhead expense" in subsection (1) were read as "person to whom the expense is renounced under subsection 66(12.6), (12.601) or (12.62) of the Act".

History: S. 1206(4.2) was amended by P.C. 1996-494, SOR/96-199, dated April 16, 1996, applicable in respect of expenses incurred after December 2, 1992. S. 1206(4.2) formerly read:

"(4.2) For the purposes of paragraphs 66(12.6)(*b*) and (12.62)(*b*) of the Act, a prescribed Canadian exploration and development overhead expense of a corporation is

(*a*) a Canadian exploration and development overhead expense of the corporation;

(*b*) an expense that would be a Canadian exploration and development overhead expense of the corporation if the reference to 'connected with the taxpayer' in paragraph (*d*) of the definition 'Canadian exploration and development overhead expense' in subsection (1) were read as a reference to 'connected with the person to whom the expense is renounced under subsection 66(12.6) or (12.62) of the Act'; and

(*c*) an expense that would be a Canadian exploration and development overhead expense of the corporation if the reference to 'person who was connected with the taxpayer' in paragraph (*d*) of the definition 'Canadian exploration and development overhead expense' in subsection (1) were read as 'person to whom the expense is renounced under subsection 66(12.6) or (12.62) of the Act'."

S.1206(4.2) was added by P.C. 1990-2256, SOR/90-733, dated October 18, 1990, applicable in respect of expenditures or expenses incurred after February, 1986.

(4.3) For the purposes of subsections (4.2) and (5), a partnership shall be deemed to be a person and its taxation year shall be deemed to be its fiscal period.

History: S. 1206(4.3) was added by P.C. 1990-2256, SOR/90-733, dated October 18, 1990, applicable in respect of expenditures or expenses incurred after February, 1986.

(5) For the purposes of subsection (6) and the definition "Canadian exploration and development overhead expense" in subsection (1),

(*a*) a person and a particular corporation are connected with each other if

(i) the person and the particular corporation are not dealing at arm's length,

(ii) the person has an equity percentage in the particular corporation that is not less than 10 per cent, or

(iii) the person is a corporation in which another person has an equity percentage that is not less than 10 per cent and the other person has an equity percentage in the particular corporation that is not less than 10 per cent;

(*a*.1) a person and another person that is not a corporation are connected with each other if they are not dealing at arm's length; and

(*b*) "costs incurred by a person" shall not include

(i) an outlay or expense described in any of paragraphs (*a*) to (*c*) of that definition made or incurred by the person if the references in those paragraphs to "taxpayer" were read as references to "person",

(ii) an outlay or expense made or incurred by the person to the extent that it is not reasonably attributable to the use of a property by, the performance of a service for, or any materials, parts, or supplies acquired by, the taxpayer referred to in that definition, and

(iii) an amount in respect of the capital cost to the person of a property, other than, where the property is a depreciable property of the person, that proportion of the capital allowance of the person for his taxation year in respect of the property that may reasonably be considered attributable to the use of the property by, or in the performance of a service for, the taxpayer referred to in that definition.

History: S. 1206(5)(a.1) was added by P.C. 1990-2256, SOR/90-733, dated October 18, 1990, applicable in respect of expenditures or expenses incurred after February, 1986.

S. 1206(5) was amended by P.C. 1985-465, SOR/85-174, dated February 14, 1985, to add ", or in the performance of a service for," to subparagraph (b)(iii), effective January 1, 1981.

S. 1206(5) was added by P.C. 1981-3329, SOR/81-974, dated November 27, 1981, effective January 1, 1981.

(6) For the purpose of subparagraph (5)(*b*)(iii), the "capital allowance" of a person (in this subsection referred to as the "owner") for his taxation year in respect of a property owned by him means that proportion of an amount not exceeding 20 per cent of the amount that is

(*a*) in the case of a property owned by the owner on December 31, 1980, the lesser of

(i) the capital cost of the property to the owner computed as if no amount had been included therein that is a cost of borrowing capital, including any cost incurred prior to the commencement of carrying on a business, and

(ii) the fair market value of the property on December 31, 1980,

(*b*) in the case of a property acquired by the owner after December 31, 1980 that was previously owned by a person connected with the owner, the lesser of

(i) the capital cost of the property, computed as if no amount had been included therein that is a cost of borrowing capital, including any cost incurred prior to the commencement of carrying on a business, to the person, who was connected with the owner, who was the first person to acquire the property from a person with whom the owner was not connected, and

(ii) the fair market value of the property at the time it was acquired by the owner, and

(*c*) in any other case, the capital cost of the property to the owner computed as if no amount had been included therein that is a cost of borrowing capital, including any cost incurred prior to the commencement of carrying on a business,

that the number of days in the taxation year during which the property was owned by the owner is of 365.

History: S. 1206(6) was added by P.C. 1981-3329, SOR/81-974, dated November 27, 1981, effective January 1, 1981.

(7) For the purposes of paragraph (5)(*a*), "equity percentage" has the meaning assigned by paragraph 95(4)(*b*) [subsection 95(4) "equity percentage"] of the Act.

History: S. 1206(7) was added by P.C. 1981-3329, SOR/81-974, dated November 27, 1981, effective January 1, 1981.

(8) For the purposes of the definition "qualified tertiary oil recovery project" in subsection (1), a "specified royalty provision" means:

(*a*) the *Experimental Project Petroleum Royalty Regulation* of Alberta (Alta. Reg. 36/79);

(*b*) *The Experimental Oil Sands Royalty Regulations* of Alberta (Alta. Reg. 287/77);

(*c*) section 4.2 of the *Petroleum Royalty Regulations* of Alberta (Alta. Reg. 93/74);

(*d*) section 58A of the *Petroleum and Natural Gas Regulations, 1969* of Saskatchewan (Saskatchewan Regulation 8/69);

(*e*) section 204 of *The Freehold Oil And Gas Production Tax Regulations, 1983* of Saskatchewan (Saskatchewan Regulation 11/83);

(*f*) item 9 of section 2 of the *Petroleum and Natural Gas Royalty Regulations* of British Columbia (B.C. Reg. 549/78);

(*g*) the *Freehold Mineral Taxation Act* of Alberta;

(*h*) the *Freehold Mineral Rights Tax Act* of Alberta;

(*i*) Order in Council 427/84 pursuant to section 9(*a*) of the *Mines and Minerals Act* of Alberta;

(*j*) Order in Council 966/84 pursuant to section 9 of the *Mines and Minerals Act* of Alberta; or

(*k*) Order in Council 870/84 pursuant to section 9 of the *Mines and Minerals Act* of Alberta.

History: S. 1206(8)(k) was added by P.C. 1990-162, SOR/90-113, dated February 1, 1990, applicable to the 1982 and subsequent taxation years.

S. 1206(8) was added by P.C. 1985-465, SOR/85-174, dated February 14, 1985, effective January 1, 1981.

(8.1) For the purpose of paragraph (*a*) of the definition "qualified tertiary oil recovery project" in subsection (1), a specified royalty provision is deemed to apply as of a particular time if, at the particular time, unconditional approval for the specified royalty provision to apply at a time after the particular time is given by

(*a*) Her Majesty in right of Canada or of a province;

(*b*) an agent of Her Majesty in right of Canada or of a province; or

(*c*) a corporation, a commission or an association that is controlled by Her Majesty in right of Canada or of a province or by an agent of Her Majesty in right of Canada or of a province.

History: S. 1206(8.1) was replaced by P.C. 2007-114, SOR/2007-19, dated February 1, 2007, deemed to have come into force on December 21, 2002. S. 1206(8.1) formerly read:

"(8.1) For the purposes of paragraph (*a*) of the definition 'qualified tertiary oil recovery project' in subsection (1), where at a particular time unconditional approval is given by a person referred to in subparagraph 18(1)(*m*)(i), (ii) or (iii) of the Act for a specified royalty provision to apply at a time after the particular time, the specified royalty provision shall be deemed to apply as of the particular time."

S. 1206(8.1) was added by P.C. 1990-2780, SOR/91-79, dated December 24, 1990, applicable after 1980.

(9) [Repealed.]

History: S. 1206(9) was repealed by P.C. 2007-114, SOR/2007-19, dated February 1, 2007, applicable to taxation years that begin after 2006. S. 1206(9) formerly read:

"(9) For the purposes of the definition 'production royalty' in subsection (1), a 'Crown royalty' of a taxpayer in respect of the production of petroleum, natural gas or related hydrocarbons from a natural accumulation of petroleum or natural gas in Canada, an oil or gas well in Canada, a resource that is a bituminous sands deposit, oil sands deposit or oil shale deposit or in respect of the ownership of a natural reservoir of gas or petroleum in Canada means an amount

(*a*) that would be included in computing his income for a taxation year by virtue of paragraph 12(1)(*o*) of the Act in respect of such production or ownership if that paragraph were read without reference to the words 'or a prescribed amount',

(*b*) that would not be deductible in computing his income for a taxation year by virtue of paragraph 18(1)(*m*) of the Act in respect of such production or ownership if that paragraph were read without reference to the words 'other than a prescribed amount',

(*c*) by which his proceeds of disposition of such production are increased by virtue of subsection 69(6) of the Act, or

(*d*) by which his cost of acquisition of such production is reduced by virtue of subsection 69(7) of the Act,

less, in respect of an amount described in paragraph (*a*) or (*b*), the amount of any reimbursement, contribution or allowance referred to in section 80.2 of the Act received or receivable by the taxpayer in respect of that amount."

S. 1206(9), that portion after paragraph (*d*), was amended by P.C. 1996-1488, SOR/96-451, dated September 24, 1996, applicable after January 1990. That portion formerly read:

"less, in respect of an amount described in paragraph (*a*) or (*b*), the amount of any reimbursement referred to in section 80.2 of the Act received or receivable by him in respect thereof."

S. 1206(9), the part preceding paragraph (a), was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990, applicable after June 30, 1988. That part formerly read:

"(9) For the purposes of the definition 'production royalty' in subsection (1), a 'Crown royalty' of a taxpayer in respect of the production of petroleum, natural gas or related hydrocarbons from a natural accumulation of petroleum or natural gas in Canada (other than a resource) or an oil or gas well in Canada or in respect of the ownership of a natural reservoir of gas or petroleum in Canada means an amount"

S. 1206(9), the part preceding paragraph (a), was amended by P.C. 1990-162, SOR/90-113, dated February 1, 1990, to add "a natural accumulation of petroleum or natural gas in Canada (other than a resource) or", applicable to taxation years ending after March 1985.

S. 1206(9) was added by P.C. 1985-465, SOR/85-174, dated February 14, 1985, effective January 1, 1982.

Frontier Exploration Allowances

1207. (1) A taxpayer may deduct in computing his income for a taxation year such amount as he may claim not exceeding the lesser of

(*a*) his income for the year, computed in accordance with Part I of the Act, if no deduction were allowed under this subsection; and

(*b*) his frontier exploration base as of the end of the year (before making any deduction under this subsection for the year).

(2) For the purposes of this section, "frontier exploration base" of a taxpayer as of a particular time means the amount by which the aggregate of

(*a*) the aggregate of all amounts, each of which is an amount in respect of a particular oil or gas well in Canada equal to 66⅔ per cent of the amount by which

(i) expenses incurred after March, 1977 and before April, 1980 and before the particular time in respect of the well (other than expenses that may reasonably be regarded as having been incurred as consideration for services rendered to the taxpayer after March, 1980) if those expenses would be included in the Canadian exploration expense of the taxpayer within the meaning of paragraph 66.1(6)(*a*) [subsection 66.1(6) "Canadian exploration expense"] of the Act (if that paragraph were read without reference to subparagraphs (iii) and (iii.1) [subsection 66.1(6) "Canadian exploration expense"] thereof and without reference to the words "within six months after the end of the year, the drilling of the well is completed and" in subparagraph (ii) [subsection 66.1(6) "Canadian exploration expense"] thereof, and if the reference in subparagraphs (iv) and (v) [subsection 66.1(6) "Canadian exploration expense"] thereof to "any of subparagraphs (i) to (iii.1) [subsection 66.1(6) 'Canadian exploration expense']" were read as a reference to "subparagraph (i) or (ii) [subsection 66.1(6) 'Canadian exploration expense']") other than

(A) a cost of borrowing capital, including any cost incurred prior to the commencement of carrying on a business, that was a Canadian exploration expense of the taxpayer,

(B) an expense renounced by the taxpayer under subsection 66(10.1) of the Act,

(C) an amount that, by virtue of subparagraph 66.1(6)(*a*)(iv) [subsection 66.1(6) "Canadian exploration expense"] of the Act, was a Canadian exploration expense, if such amount was an expense referred to in clause (A) or (B) that was incurred by a partnership referred to in that subparagraph, or

(D) an amount that, by virtue of subparagraph 66.1(6)(*a*)(v) [subsection 66.1(6) "Canadian exploration expense"] of the Act, was a Canadian exploration expense, if such amount was an expense referred to in clause (A) or (B) that the taxpayer incurred pursuant to an agreement referred to in that subparagraph,

exceeds

(ii) the taxpayer's threshold amount in respect of the well, minus the amount that would be determined under subparagraph (i) in respect of the taxpayer for the well if the reference therein to "after March, 1977 and before April, 1980" were read as "after June, 1976 and before April, 1977", and

(*a*.1) where the taxpayer is a successor corporation, any amount required by paragraph (7)(*a*) to be added before the particular time in computing the taxpayer's frontier exploration base,

exceeds the aggregate of

(*b*) all amounts deducted by the taxpayer under subsection (1) in computing his income for taxation years ending before the particular time;

(*c*) 66⅔ per cent of the aggregate of all amounts, each of which is an amount that became receivable by the taxpayer after March 28, 1979 and before the earlier of December 12, 1979 and the particular time, and in respect of which the consideration given by the taxpayer therefor was a property (other than a share, or a property that would have been a Canadian resource property if it had been acquired by the taxpayer at the time the consideration was given) or services the cost of which may reasonably be regarded as having been primarily an expenditure in respect of an oil or gas well for which an amount was added in computing the taxpayer's frontier exploration base by virtue of paragraph (*a*) or in computing the frontier exploration base of a predecessor by virtue of paragraph (*a*) as it applied to the predecessor where the taxpayer is a successor corporation to the predecessor, as the case may be; and

(*d*) where the taxpayer is a predecessor, any amount required by paragraph (7)(*b*) to be deducted before the particular time in computing the taxpayer's frontier exploration base.

History: Ss. 1207(2)(c) and (d) were amended by P.C. 1985-2277, SOR/85-696, dated July 25, 1985, to substitute "predecessor" for "predecessor corporation", applicable to taxation years ending after April 19, 1983.

S. 1207(2)(a)(i)(A) was amended by P.C. 1981-3329, SOR/81-974, dated November 27, 1981. The clause formerly read:

"(A) an amount deemed by section 21 of the Act to be a Canadian exploration expense of the taxpayer,"

S. 1207(2)(c) was amended by P.C. 1981-3329, SOR/81-974, dated November 27, 1981, to insert "the earlier of December 12, 1979 and" between "before" and "the particular time", effective December 12, 1979.

S. 1207(2)(a)(i) was amended to add "(other than expenses that may reasonably be regarded as having been incurred as consideration for services rendered to the taxpayer after March, 1980)" by P.C. 1980-3311, SOR/80-936, dated December 4, 1980).

S. 1207(2)(a)(i) was amended to add the references to "(iii.1)" and s. 1207(2)(a)(i)(C) was amended to delete references to an association and a syndicate, both amendments made by P.C. 1980-1483, SOR/80-418 (June 6, 1980), effective December 6. 1979.

S. 1207(2), the part preceding paragraph (a), was amended by substituting "by which the aggregate of" for "that is equal to" and that part following paragraph (a) was amended by P.C. 1979-649, SOR/79-245, dated March 13, 1979. The part following paragraph (a) formerly read:

"minus

(*b*) all amounts deducted by the taxpayer under subsection (1) in computing his income for taxation years ending before the particular time."

(3) For the purposes of subparagraph (2)(*a*)(ii), a taxpayer's "threshold amount" in respect of an oil or gas well means

(*a*) where the taxpayer and one or more other persons have filed an agreement with the Minister in prescribed form in respect of the well and

(i) the amount allocated to each such person in the agreement does not exceed the amount that would be determined, at the time the agreement is filed, under subparagraph (2)(*a*)(i) in respect of that person for the well, if the reference in that subparagraph to "March, 1977" were read as "June, 1976", and

(ii) the aggregate of the amounts allocated by the agreement is $5 million,

the amount allocated to the taxpayer in the agreement, but if no amount is allocated to the taxpayer in the agreement, nil;

(*b*) where such an agreement has been filed in respect of the well by one or more persons other than the taxpayer, nil; or

(*c*) where no such agreement has been filed in respect of the well, $5 million.

(4) Where as a result of mechanical or geological difficulties the drilling of a particular oil or gas well does not achieve its stated geological objectives under the drilling authority issued by the relevant government body and a further well, including a relief well, is drilled on the same geological formation and may reasonably be regarded as a continuation of or a substitution for the particular oil or gas well, the expenses in respect of the drilling of the further well shall, for the purposes of this section, be deemed to be expenses in respect of the drilling of the particular oil or gas well.

(5) For the purposes of this section,

(*a*) when a shareholder corporation is deemed to have incurred a Canadian exploration expense by virtue of an election made by a joint exploration corporation pursuant to subsection 66(10.1) of the Act, that expense shall be deemed to have been incurred by the shareholder corporation at the time when it was incurred by the joint exploration corporation; and

(*b*) when a member of a partnership is deemed to have incurred a Canadian exploration expense by virtue of subparagraph 66.1(6)(*a*)(iv) [subsection 66.1(6) "Canadian exploration expense"] of the Act, that expense shall be deemed to have been incurred by the member at the time when it was incurred by the partnership.

History: S. 1207(5)(b) was amended by P.C. 1980-1483, SOR/80-418 (June 6, 1980), effective December 6, 1979, by deleting all references to an association and a syndicate.

(6) For the purposes of this section, "oil or gas well" means any well drilled for the purpose of producing petroleum or natural gas or of determining the existence, location, extent or quality of an accumulation of petroleum or natural gas, other than a mineral resource.

History: S. 1207(6) was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990, applicable to taxation years ending after March, 1985. S. 1207(6) formerly read:

"(6) Notwithstanding subsection 1206(2), for the purposes of this section, the term 'oil or gas well' shall include any probe drilled for the purpose of determining the existence, location, extent or quality of an accumulation of petroleum or natural gas, other than a mineral resource."

S. 1207(6) was amended by P.C. 1985-465, SOR/85-174, dated February 14, 1985, effective January 1, 1981. S. 1207(6) formerly read:

"(6) For greater certainty, for the purposes of this section, the term 'oil and gas well' shall include any probe drilled for the purpose of determining the existence, location, extent or quality of an accumulation of petroleum or natural gas, other than a mineral resource."

(7) Subject to subsections 1202(5) and (6), where a corporation (in this section referred to as the "successor corporation") has at any time (in this subsection referred to as the "time of acquisition") after April 19, 1983 and in a taxation year (in this subsection referred to as the "transaction year") acquired a property from another person (in this subsection referred to as the "predecessor"), the following rules apply:

(*a*) for the purpose of computing the frontier exploration base of the successor corporation as of any time after the time of acquisition, there shall be added an amount equal to the amount required by paragraph (*b*) to be deducted in computing the frontier exploration base of the predecessor; and

(*b*) for the purpose of computing the frontier exploration base of the predecessor as of any time after the

transaction year of the predecessor, there shall be deducted the amount, if any, by which

(i) the frontier exploration base of the predecessor immediately after the time of acquisition (assuming for this purpose that, in the case of an acquisition as a result of an amalgamation described in section 87 of the Act, the predecessor existed after the time of acquisition and no property was acquired or disposed of in the course of the amalgamation)

exceeds

(ii) the amount, if any, deducted under subsection (1) in computing the income of the predecessor for the transaction year of the predecessor.

History: S. 1207(7), the part preceding paragraph (a), was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990, applicable to taxation years ending after February 17, 1987. That part formerly read:

"(7) Where a corporation (in this section referred to as the 'successor corporation') has, at any time after April 19, 1983 and in a taxation year (in this subsection referred to as the 'transaction year'), acquired, by purchase, amalgamation, merger, winding-up or otherwise (other than pursuant to an amalgamation that is described in subsection 87(1.2) of the Act or a winding-up to which the rules in subsection 88(1) of the Act apply), from another person (in this section referred to as the 'predecessor'), all or substantially all of the Canadian resource properties of the predecessor or the specified property of the predecessor and, except in the case of an amalgamation or a winding-up, the predecessor and the successor corporation have elected pursuant to subsection 66(6) or (7), 66.1(4) or (5) or 66.2(3) or (4) of the Act, the following rules apply:"

S. 1207(7), the part preceding paragraph (a), was amended by P.C. 1990-2256, SOR/90-733, dated October 18, 1990, to substitute "after April 19, 1983" for "(in this subsection referred to as the 'time of acquisition') after April 19, 1983" and to add "or the specified property of the predecessor", applicable in respect of taxation years commencing after 1984.

S. 1207(7), the part preceding paragraph (a) was amended by P.C. 1990-162, SOR/90-113, dated February 1, 1990, applicable with respect to acquisitions occurring after 1982 except that with respect to acquisitions occurring after 1982 and in taxation years commencing before 1985, the reference to "Canadian resource properties of the predecessor" shall be read as "property of the predecessor used by the predecessor in carrying on in Canada such of the businesses described in any of subparagraphs 66(15)(h)(i) to (vii) of the Act as were carried on by the predecessor". That part formerly read:

"(7) Where a corporation (in this section referred to as the 'successor corporation') has, at any time (in this subsection referred to as the 'time of acquisition') after April 19, 1983 and in a taxation year (in this subsection referred to as the 'transaction year'), acquired, by purchase or otherwise, including an acquisition as a result of an amalgamation described in section 87 of the Act, from another person (in this section referred to as the 'predecessor') all or substantially all of the property of the predecessor used by him in carrying on in Canada such of the businesses described in any of subparagraphs 66(15)(h)(i) to (vii) of the Act as were carried on by him and, except in the case of an amalgamation or a winding-up, the predecessor and the successor corporation have elected pursuant to subsection 66(6) or (7), 66.1(4) or (5) or 66.2(3) or (4) of the Act, the following rules apply:"

(8) [Revoked.]

History: S. 1207(8) was revoked by P.C. 1990-2780, SOR/91-79, dated December 24, 1990 and applicable to taxation years ending after February 17, 1987. S. 1207(8) formerly read:

"(8) For the purposes of subsection (7), where

(a) the successor corporation has acquired the specified property of the predecessor at any time,

(b) the successor corporation has not acquired all or substantially all of the Canadian resource properties of the predecessor at that time, and

(c) the predecessor and the successor corporation agree to have subsection (7) apply to them and notify the Minister in writing of the agreement in their returns of income under Part I of the Act for their respective taxation years that include that time,

the predecessor and the successor corporation shall be deemed to have elected pursuant to subsection 66(6) or (7), 66.1(4) or (5) or 66.2(3) or (4) of the Act in respect of the acquisition."

S. 1207(8) was added by P.C. 1990-2256, SOR/90-733, dated October 18, 1990, applicable in respect of taxation years commencing after 1984 except that the Minister of National Revenue shall be deemed to have been notified in circumstances satisfying the condition set out in paragraph (c) if the Minister is notified in writing of the agreement referred to therein within 180 days after the date of publication of these amendments in the *Canada Gazette*, November 7, 1990.

Additional Allowances in Respect of Certain Oil or Gas Wells

1208. **(1)** Subject to subsections (3) and (4) where a taxpayer has income for a taxation year from an oil or gas well that is outside Canada, or where an individual has income for a taxation year from an oil or gas well in Canada, in computing his income for the year he may deduct the lesser of

(a) the aggregate of drilling costs incurred by him in that year and previous taxation years in respect of the well (not including the cost of land, leases or other rights and not including indirect expenses such as general exploration, geological and geophysical expenses) minus the aggregate of all amounts deductible in respect thereof in computing his income for previous years; and

(b) that part of his income for the year that may reasonably be regarded as income from the well.

(2) Where a taxpayer has more than one oil or gas well to which subsection (1) applies, the allowance in respect of the drilling costs of each well shall be computed separately.

(3) Where an individual has income for a taxation year from an oil or gas well in Canada, no deduction may be made under this section in computing such income in respect of drilling costs of that well incurred after April 10, 1962.

(4) Where a taxpayer has income for a taxation year from an oil or gas well that is outside Canada, no deduction may be made under this section in computing such income in respect of drilling costs of that well incurred after 1971.

Additional Allowances in Respect of Certain Mines

1209. **(1)** Subject to subsection (3), where a taxpayer operates in Canada a mine for the production of materials from a resource he may deduct, in computing his income for a taxation year, such amount as he may claim not exceeding 25 per cent of the amount computed under subsection (2).

(2) The amount referred to in subsection (1) is the aggregate of all expenditures made or incurred by the taxpayer before 1972 that are reasonably attributable to the prospecting and exploration for and the development of the mine prior to the coming into production of the mine in reasonable commercial quantities, except to the extent that the expenditures were

(a) expenditures in respect of which a deduction from, or in computing, a taxpayer's income tax or excess profits tax was provided by section 8 of the *Income War Tax Act*;

(b) expenditures in respect of which an amount was deducted in computing a taxpayer's income under section 16 of chapter 63, S.C., 1947 or section 16 of chapter 53, S.C., 1947-48 or, if the expenditure was incurred prior to 1953, under section 53 of chapter 25, S.C., 1949 (Second Session);

(c) expenditures incurred after 1952 in respect of which a deduction was or is provided by section 53 of chapter 25, S.C., 1949 (Second Session), section 83A of the Act as it read in its application to the

1971 taxation year or section 29 of the *Income Tax Application Rules, 1971*;

(*d*) expenditures deducted in computing the income of the taxpayer in the year they were incurred;

(*e*) the cost to the taxpayer of property in respect of which an allowance is provided under paragraph 20(1)(*a*) of the Act; or

(*f*) the cost to the taxpayer of a leasehold interest.

(3) The amount deductible under subsection (1) shall not exceed the amount computed under subsection (2) minus the aggregate of

(*a*) amounts deducted under subsection (1) in computing the income of the taxpayer for previous taxation years; and

(*b*) similar amounts deducted in computing the income of the taxpayer for the purposes of the *Income War Tax Act* and *The 1948 Income Tax Act* (as defined in paragraph 12(*d*) of the *Income Tax Application Rules, 1971*).

Resource Allowance

1210. (1) [Repealed.]

History: S. 1210(1) was repealed by P.C. 2007-114, SOR/2007-19, dated February 1, 2007, applicable to taxation years that begin after 2006. S. 1210(1) formerly read:

"S. 1210. (1) For the purpose of paragraph 20(1)(*v.1*) of the Act, the amount allowed to a taxpayer for a taxation year is the amount determined by the formula

.25(A – B) – C

where

A is the taxpayer's adjusted resource profits for the year;

B is the total of all amounts each of which is a Canadian exploration and development overhead expense made or incurred by the taxpayer in the year, other than an amount included therein because of subsection 21(2) or (4) of the Act; and

C is the amount, if any, by which

(*a*) the total of all amounts determined under paragraphs 1205(1)(*e*) to (*k*) in computing the taxpayer's earned depletion base at the end of the year, other than any portion of that total determined under paragraph 1205(1)(*i*) as a consequence of a disposition in the year of property in circumstances to which subsection 1202(2) applies

exceeds

(*b*) 33 1/3 per cent of the total of all amounts determined under paragraphs 1205(1)(*a*) to (*d.2*) in computing the taxpayer's earned depletion base at the end of the year."

S. 1210(1), the portion before the formula was replaced by P.C. 2007-114, SOR/2007-19, dated February 1, 2007, applicable to taxation years that end after 2002 and begin before 2007. S. 1210(1), the portion before the formula formerly read:

"S. 1210. (1) For the purpose of paragraph 20(1)(*v.1*) of the Act, there may be deducted in computing the income of a taxpayer for a taxation year the amount determined by the formula"

The heading preceding s. 1210 was amended by P.C. 1996-1488, SOR/96-451, dated September 24, 1996, by replacing "Additional Resource Allowances" with "Resource Allowance", applicable to taxation years that begin after December 20, 1991.

S. 1210(1) was amended by P.C. 1996-1488, SOR/96-451, dated September 24, 1996, applicable to taxation years that begin after December 20, 1991, except that, where the year ended before March 19, 1993, the description of B in that subsection shall be read as follows:

"B is the total of all amounts each of which is a Canadian exploration and development overhead expense made or incurred by the taxpayer in the year, other than each amount included therein in respect of financing, deducted in computing the taxpayer's income for the year,"

S. 1210(1) formerly read:

"(1) For the purposes of paragraph 20(1)(*v.1*) of the Act, there may be deducted in computing the income of a taxpayer for a taxation year the amount, if any, by which

(*a*) 25 per cent of the amount, if any, by which

(i) the taxpayer's resource profits for the year (within the meaning that would be assigned by subsection 1204(1) if that subsection were read without reference to paragraph (*a*) and subparagraph (*b*)(iv) thereof), computed as if no amounts were deducted in computing those resource profits

(A) in respect of a rental or royalty paid or payable by the taxpayer (other than an amount prescribed in section 1211 or an amount that is a production royalty) computed by reference to the amount or value of petroleum, natural gas or related hydrocarbons

(I) produced after 1981 from a natural accumulation of petroleum or natural gas in Canada (other than a resource) or an oil or gas well in Canada, or

(II) produced after June, 1988 from a resource that is a bituminous sands deposit, oil sands deposit or oil shale deposit,

(B) in respect of financing, or

(C) under paragraph 20(1)(*v.1*) of the Act or paragraph 1204(1)(*d*) or (*e*)

exceeds the aggregate of

(ii) the aggregate of all amounts each of which is a Canadian exploration and development overhead expense made or incurred by the taxpayer in the year, other than an amount included therein

(A) that is in respect of financing, or

(B) in respect of which a person has received, is entitled to receive or, at any time, becomes entitled to receive

(I) an incentive under the *Petroleum Incentives Program Act*, or

(II) a payment from the Alberta Petroleum Incentives Program Fund under the *Petroleum Incentives Program Act* of the Province of Alberta, and

(iii) the aggregate of all amounts each of which is an amount included in the taxpayer's resource profits for the year that was a rental or royalty (other than a production royalty) computed by reference to the amount or value of petroleum, natural gas or related hydrocarbons

(A) produced after 1981 from a natural accumulation of petroleum or natural gas in Canada (other than a resource) or an oil or gas well in Canada, or

(B) produced after June, 1988 from a resource that is a bituminous sands deposit, oil sands deposit or oil shale deposit

exceeds

(*b*) the amount, if any, by which

(i) the aggregate of all amounts that would be determined under paragraphs 1205(1)(*e*) to (*k*), other than any portion of that aggregate determined under paragraph 1205(1)(*i*) as a consequence of a disposition in the year of property in circumstances in which subsection 1202(2) applies,

exceeds

(ii) 33 1/3 per cent of the aggregate of all amounts that would be determined under paragraphs 1205(1)(*a*) to (*d.2*)

in computing the taxpayer's earned depletion base at the end of the year."

S. 1210(1)(a)(i), the part preceding clause (A), was amended by P.C. 1993-415, SOR/93-120, dated March 9, 1993, applicable to taxation years commencing after 1987. That part formerly read:

"(i) the taxpayer's resource profits for the year (within the meaning assigned by subsection 1204(1) if that subsection were read without reference to paragraph (*a*) or (*c*) or subparagraph (*b*)(iv) thereof) computed as if no amounts were deducted in computing those resource profits"

S. 1210(1)(a)(i), the part preceding clause (A), was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990, applicable to taxation years commencing after 1987. That part formerly read:

"(i) his resource profits for the year (within the meaning assigned by subsection 1204(1) if that subsection were read without reference to paragraph (a) or subparagraph (b)(iv) thereof) computed as if no amounts were deducted in computing those resource profits"

S. 1210(1)(a)(i)(A) was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990 and applicable in respect of rentals and royalties computed by reference to the amount or value of petroleum, natural gas or related hydrocarbons produced after June 30, 1988. S. 1210(1)(a)(i)(A) formerly read:

"(A) in respect of a rental or royalty paid or payable by the taxpayer (other than an incremental resource royalty, within the meaning assigned by the *Petroleum and Gas Revenue Tax Act*, an amount prescribed in section 1211 or an amount that is a production royalty) computed by reference to the amount or value of petroleum, natural gas or related hydrocarbons produced after December 31, 1981 from a property that is a natural accumulation of petroleum or natural gas in Canada (other than a resource) or an oil or gas well in Canada."

S. 1210(1)(a)(iii) was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990, applicable in respect of rentals and royalties computed by reference to the amount or value of petroleum, natural gas or related hydrocarbons produced after June 30, 1988. S. 1210(1)(a)(iii) formerly read:

"(iii) the aggregate of all amounts, each of which is an amount included in the taxpayer's resource profits for the year that was a rental or royalty (other than a production royalty) computed by reference to the amount or value of petroleum, natural gas or related hydrocarbons produced after December 31, 1981 from a natural accumulation of petroleum or natural gas in Canada (other than a resource) or an oil or gas well in Canada"

S. 1210(1)(b) was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990, applicable to taxation years ending after February 17, 1987. S. 1210(1)(b) formerly read:

"(*b*) amount, if any, by which

(i) the aggregate of all amounts that would be determined under paragraph 1205(1)(e) to (k)

exceeds

(ii) 33⅓ per cent of the aggregate of all amounts that would be determined under paragraphs 1205(1)(a) to (d.1)

in computing his earned depletion base at the end of the year."

Ss. 1210(1)(a)(i)(A) and (iii) were amended by P.C. 1990-162, SOR/90-113, dated February 1, 1990, to add "a natural accumulation of petroleum or natural gas in Canada (other than a resource) or" and to substitute "the taxpayer's" for "his" in the case of s. 1210(1)(a)(iii), applicable to taxation years ending after March 1985.

Canadian Petroleum Tax Journal: Pot Pourri of Income Tax Issues, John Chan, Vol. 14 No. 1 2001.

(2) [Repealed.]

History: S. 1210(2) was repealed by P.C. 2007-114, SOR/2007-19, dated February 1, 2007, applicable to taxation years that begin after 2006. S. 1210(2) formerly read:

"(2) For the purposes of this section, 'adjusted resource profits' of a taxpayer for a taxation year is the amount, which may be positive or negative, determined by the formula

$$A + B - C$$

where

A is the amount that would be the taxpayer's resource profits for the year if the following assumptions were made:

(*a*) the amount determined under paragraph 1204(1)(*a*) were nil,

(*b*) subsection 1204(1) were read without reference to subparagraph 1204(1)(*b*)(iv) and the definition 'resource activity' in subsection 1206(1) were read without reference to paragraph (*d*) of that definition,

(*c*) the following amounts were not deducted in computing the taxpayer's gross resource profits for the year and were not deducted in computing the taxpayer's resource profits for the year:

(i) each amount deducted in computing the taxpayer's income for the year in respect of a rental or royalty paid or payable by the taxpayer (other than an amount prescribed by section 1211, an amount that is a production royalty or an amount paid or payable in respect of a specified royalty) computed by reference to the amount or value of petroleum, natural gas or related hydrocarbons

(A) produced from a natural accumulation (other than a resource) of petroleum or natural gas in Canada or an oil or gas well in Canada, or

(B) produced from a resource that is a bituminous sands deposit, oil sands deposit or oil shale deposit,

(ii) each amount deducted in computing the taxpayer's income for the year

(A) under any of paragraphs 20(1)(*e*), (*e*.1), (*e*.2) and (*f*) of the Act, or

(B) as, on account of or in lieu of, interest in respect of a debt owed by the taxpayer, and

(iii) each amount deducted under any of paragraph 20(1)(*v*.1) and sections 65 to 66.7 of the Act and subsections 17(2) and (6) and section 29 of the *Income Tax Application Rules*,

(*d*) each amount that is the taxpayer's share of the income or loss of a partnership from any source were not taken into account, and

(*e*) subsections 1204(1) and (1.1) provided for the computation of negative amounts where the amounts subtracted in computing gross resource profits and resource profits exceed the amounts added in computing those amounts;

B is the total of all amounts each of which is the taxpayer's share of the adjusted resource profits of a partnership for the year, as determined under subsection (3) or (4); and

C is the amount, if any, by which the total of

(*a*) the total of all amounts each of which is an amount included in the taxpayer's gross resource profits for the year as a rental or royalty (other than a production royalty or a specified royalty) computed by reference to the amount or value of petroleum, natural gas or related hydrocarbons produced from

(i) a natural accumulation (other than a resource) of petroleum or natural gas in Canada or an oil or gas well in Canada, or

(ii) a resource that is a bituminous sands deposit or oil shale deposit, and

(*b*) 50 per cent of all amounts included in computing the taxpayer's gross resource profits for the year in respect of specified royalties

exceeds

(*c*) if the year ends after March 6, 1996, the total of all outlays and expenses that were made or incurred in respect of the total described in paragraph (*a*) to the extent that the outlays and expenses were deducted in computing the taxpayer's gross resource profits for the year."

S. 1210(2), the description of C was amended by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable to taxation years that end after March 6, 1996. S. 1210(2), the description of C formerly read:

"C is the amount, if any, by which

(*a*) the total of all amounts each of which is an amount included in the taxpayer's gross resource profits for the year as a rental or royalty (other than a production royalty) computed by reference to the amount or value of petroleum, natural gas or related hydrocarbons produced from

(i) a natural accumulation (other than a resource) of petroleum or natural gas in Canada or an oil or gas well in Canada, or

(ii) a resource that is a bituminous sands deposit, oil sands deposit or oil shale deposit

exceeds

(*b*) where the year ends after March 6, 1996, the total of all outlays and expenses that were made or incurred in respect of the total described in paragraph (*a*) to the extent that the outlays and expenses were deducted in computing the taxpayer's gross resource profits for the year."

S. 1210(2), the portion of subparagraph (*c*)(i) before clause A in the description of A was amended by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable to taxation years that end after March 6, 1996. That portion formerly read:

"(i) each amount deducted in computing the taxpayer's income for the year in respect of a rental or royalty paid or payable by the taxpayer (other than an amount prescribed in section 1211 or an amount that is a production royalty) computed by reference to the amount or value of petroleum, natural gas or related hydrocarbons"

S. 1210(2) was amended by P.C. 1996-1488, SOR/96-451, dated September 24, 1996, applicable to taxation years that begin after December 20, 1991 except that, where the year began before March 19, 1993, subparagraph (*c*)(ii) of the description of A in that subsection shall be read as:

"(ii) each amount in respect of financing deducted in computing the taxpayer's income for the year,"

S. 1210(2) formerly read:

"(2) Where, in computing the income for a taxation year of a taxpayer who is a member of a partnership, a deduction is allowed in computing the income of the partnership under paragraph 20(1)(*v*.1) of the Act, no further deduction may be made by any other person including a member of the partnership in respect of any amount in respect of which that deduction was allowed."

(3) [Repealed.]

History: S. 1210(3) was repealed by P.C. 2007-114, SOR/2007-19, dated February 1, 2007, applicable to taxation years that begin after 2006. S. 1210(3) formerly read:

"(3) Where a taxpayer is a member of a partnership in a fiscal period of the partnership that ends in a taxation year of the taxpayer, the taxpayer's share of the partnership's adjusted resource profits for the year is

(*a*) nil, where the fiscal period began before December 21, 1991; and

(*b*) in any other case, the amount, which may be positive or negative, that could, if this subsection did not apply, reasonably be considered to represent the taxpayer's share of the partnership's adjusted resource profits for the fiscal period, determined on the assumption that each partnership is a taxpayer the fiscal period of which is a taxation year."

S. 1210(3) was added by P.C. 1996-1488, SOR/96-451, dated September 24, 1996, applicable to taxation years that begin after December 20, 1991.

(4) [Repealed.]

History: S. 1210(4) was repealed by P.C. 2007-114, SOR/2007-19, dated February 1, 2007, applicable to taxation years that begin after 2006. S. 1210(4) formerly read:

"(4) Notwithstanding subsection (3), where a taxpayer is a member of an exempt partnership in a fiscal period of the partnership that begins before 2000 and ends in a taxation year of the taxpayer and the taxpayer's share of the partnership's adjusted resource profits for the year would, if this subsection did not apply, be a negative amount, the taxpayer's share of the partnership's adjusted resource profits for the year is the amount, which may be positive or negative, determined by the formula

$$A \times B$$

where

A is the amount that would, if this subsection did not apply, be the taxpayer's share of the partnership's adjusted resource profits for the year; and

B is

(*a*) nil, where

(i) the partnership is an exempt partnership in respect of the taxpayer at the end of the fiscal period, and

(ii) at the end of the fiscal period, all or substantially all of the assets of the partnership were held in connection with one or more working interests

(A) the production from which began in reasonable commercial quantities before December 21, 1991, or

(B) the production from which was to begin in reasonable commercial quantities after December 20, 1991 in accordance with an agreement in writing made before December 21, 1991, and

(*b*) in any other case, the lesser of one and the amount determined by the formula

$$C/D$$

where

C is the amount that would be the partnership's adjusted resource profits for the fiscal period if the partnership did not have any working interest described in subparagraph (*a*)(ii), and

D is the partnership's adjusted resource profits for the fiscal period."

S. 1210(4) was added by P.C. 1996-1488, SOR/96-451, dated September 24, 1996, applicable to taxation years that begin after December 20, 1991.

1210.1. [Repealed.]

History: S. 1210.1 was repealed by P.C. 2007-114, SOR/2007-19, dated February 1, 2007, applicable to taxation years that begin after 2006. S. 1210.1 formerly read:

"S. 1210.1. For the purpose of paragraph 12(1)(z5) of the Act, a taxpayer's prescribed resource loss for a taxation year is the amount determined by the formula

A – B

where

A is the total of all amounts each of which is a Canadian exploration and development overhead expense made or incurred by the taxpayer in the year, other than an amount included therein because of subsection 21(2) or (4) of the Act, and

B is the taxpayer's adjusted resource profits for the year (as defined by subsection 1210(2))."

S. 1210.1 was added by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable to taxation years that begin after 1996.

Prescribed Amounts

1211. [Repealed.]

History: S. 1211 was repealed by P.C. 2007-114, SOR/2007-19, dated February 1, 2007, applicable to taxation years that begin after 2006. S. 1211 formerly read:

"S. 1211. The following amounts are hereby prescribed for the purposes of paragraphs 12(1)(*o*) and 18(1)(*m*) of the Act:

(*a*) an amount paid to, an amount that became payable to, or an amount that became receivable by

(i) Her Majesty in right of Canada for the use and benefit of a band or bands as defined in the *Indian Act*, or

(ii) Petro-Canada;

(*b*) an amount paid to, an amount that became payable to, or an amount that became receivable by any of the persons referred to in any of subparagraphs 18(1)(*m*)(i) to (iii) of the Act

(i) that is an amount that may reasonably be regarded as being in respect of a rental for any property described in clause 66(15)(*c*)(ii)(B) [subsection 66(15) 'Canadian resource property'] or subparagraph 66(15)(*c*)(vi) [subsection 66(15) 'Canadian resource property'] of the Act,

(ii) that was paid, became payable, or became receivable prior to the commencement of production of minerals from the property referred to in subparagraph (i) in reasonable commercial quantities, and

(iii) that was paid, became payable, or became receivable, after December 11, 1979, in respect of a period commencing after that date;

(*c*) an amount paid to, an amount that became payable to, or an amount that became receivable by any of the persons referred to in any of subparagraphs 18(1)(*m*)(i) to (iii) of the Act

(i) that may reasonably be regarded as being in respect of a rental for a right, licence or privilege to store underground petroleum, natural gas or other related hydrocarbons in Canada, and

(ii) that was paid, became payable, or became receivable, after December 11, 1979, in respect of a period commencing after that date;

(*d*) an amount equal to the lesser of

(i) an amount that

(A) became payable to or receivable by any of the persons referred to in any of subparagraphs 18(1)(*m*)(i) to (iii) of the Act as a rental for property described in subparagraph 66(15)(*c*)(i) [subsection 66(15) 'Canadian resource property'] of the Act or for a portion of such property, and

(B) became payable or receivable

(I) in a taxation year in which there was no taking of petroleum, natural gas or related hydrocarbons in relation to the property or portion thereof, as the case may be, to which the rental relates, if the amount became payable or receivable after 1984, or

(II) prior to the taking of petroleum, natural gas or related hydrocarbons in relation to the property or portion thereof, as the case may be, to which the rental relates, if the amount became payable or receivable after October 31, 1982 and before 1985, and

(ii) an amount equal to $2.50 per year per hectare times the number of hectares to which the amount referred to in subparagraph (i) relates; and

(*e*) an amount paid under section 49 of the *Canada Oil and Gas Act*."

Ss. 1211(d) and (e) were added by P.C. 1985-465, SOR/85-174, dated February 14, 1985. S. 1211(d) is applicable with respect to amounts that after October 31, 1982 become payable or receivable and s. 1211(e) is applicable to amounts paid after October 31, 1982.

S. 1211(b)(i) was amended by P.C. 1981-3329, SOR/81-974, dated November 27, 1981, to substitute "clause 66(15)(c)(ii)(B) or subparagraph 66(15)(c)(vi)" for "subparagraph 66(15)(c)(ii) or (v)", applicable in respect of taxation years ending after December 11, 1979.

Ss. 1211(b) and (c) were added by P.C. 1980-3279, SOR/80-926, dated December 4, 1980.

S. 1211 was added by P.C. 1978-1849, SOR/78-502, dated June 9, 1978 (Special Issue, *Canada Gazette*, December 31, 1978), applicable to taxation years ending after May 6, 1974.

Interpretation Bulletins: *Secondary* — IT-438R2 Crown charges — Resource properties in Canada.

Supplementary Depletion Allowances

1212. (1) In computing a taxpayer's income for a taxation year there may be deducted

(*a*) where the taxpayer is a corporation, such amount as it may claim not exceeding the lesser of

(i) the aggregate of

(A) 50 per cent of its income for the year, computed in accordance with Part I of the Act without reference to paragraphs 59(3.3)(*c*) and (*d*) thereof, if no deduction were allowed under this subsection or subsection 1207(1), and

(B) the amount, if any, included in its income for the year by virtue of paragraphs 59(3.3)(*c*) and (*d*) of the Act, and

(ii) its supplementary depletion base as of the end of the year (before making any deduction under this subsection for the year); and

(*b*) where the taxpayer is not a corporation, such amount as he may claim not exceeding the lesser of

(i) the aggregate of

(A) 25 per cent of the amount, if any, by which his resource profits for the year exceed four times the amount, if any, deducted by virtue of subparagraph 1201(*a*)(i) in computing his income for the year, and

(B) the amount, if any, included in his income for the year by virtue of paragraphs 59(3.3)(*c*) and (*d*) of the Act, and

(ii) his supplementary depletion base as of the end of the year (before making any deduction under this subsection for the year).

History: Ss. 1212(l)(a)(i) and (b)(i) were amended by P.C. 1981-3329, SOR/81-974, dated November 27, 1981, applicable in respect of taxation years ending after December 11, 1979. Ss. 1212(l)(a)(i) and (b)(i) formerly read:

"(i) 50 per cent of its income for the year, computed in accordance with Part I of the Act, if no deduction were allowed under this subsection or subsection 1207(1), and"

"(i) 25 per cent of the amount, if any, by which his resource profits for the year exceed four times the amount, if any, deducted under section 1201 in computing his income for the year, and"

(2) For the purpose of computing the supplementary depletion base of a corporation, where, after the corporation last ceased to carry on active business, control of the corporation is considered, for the purposes of subsection 66(11) of the Act, to have been acquired by a person or persons who did not control the corporation at the time when it so ceased to carry on active business, the amount by which the supplementary depletion base of the corporation at the time it last ceased to carry on active business exceeds the aggregate of amounts otherwise deducted under subsection (1) in computing its income for taxation years ending after that time and before control was so

acquired, shall be deemed to have been deducted under subsection (1) by the corporation in computing its income for taxation years ending before control was so acquired.

(3) For the purposes of this section, "supplementary depletion base" of a taxpayer as of a particular time means the amount by which the aggregate of

(*a*) 50 per cent of the aggregate of all expenditures each of which was incurred by him before the particular time and each of which was the capital cost to him of property that is enhanced recovery equipment,

(*b*) 33⅓ per cent of the aggregate of all expenditures each of which was incurred by him before the particular time and each of which was the capital cost to him of property (other than property that had, before it was acquired by him, been used for any purpose whatever by any person with whom he was not dealing at arm's length) that is bituminous sands equipment acquired by him before 1981, and

(*c*) where the taxpayer is a successor corporation, any amount required by paragraph (4)(*a*) to be added before the particular time in computing the taxpayer's supplementary depletion base,

exceeds the aggregate of

(*d*) all amounts deducted by the taxpayer under subsection (1) in computing his income for taxation years ending before the particular time;

(*e*) 50 per cent of the aggregate of all amounts, each of which is a cost of borrowing capital, including any cost incurred prior to the commencement of carrying on a business, included in the capital cost to him of depreciable property described in paragraph (*a*);

(*f*) 33⅓ per cent of the aggregate of all amounts, each of which is a cost of borrowing capital, including any cost incurred prior to the commencement of carrying on a business, included in the capital cost to him of depreciable property described in paragraph (*b*);

(*g*) 50 per cent of the aggregate of all amounts, each of which is an amount in respect of a disposition of property (other than a disposition of property, that had been used by the taxpayer, to any person with whom the taxpayer was not dealing at arm's length) of the taxpayer before the earlier of December 12, 1979 and the particular time, the capital cost of which was added in computing the taxpayer's supplementary depletion base by virtue of paragraph (*a*) or in computing the supplementary depletion base of a predecessor by virtue of paragraph (*a*) as it applied to the predecessor where the taxpayer is a successor corporation to the predecessor, as the case may be, and each of which is the amount that is equal to the lesser of

(i) the proceeds of disposition of the property, and

(ii) the capital cost of the property to the taxpayer or the predecessor, as the case may be, computed as if no amount had been included therein that is a cost of borrowing capital, including a cost incurred prior to the commencement of carrying on a business;

(*h*) 33⅓ per cent of the aggregate of all amounts, each of which is an amount in respect of a disposition of property (other than a disposition of property, that had been used by the taxpayer, to any person with whom the taxpayer was not dealing at arm's length) of the taxpayer before the earlier of December 12, 1979 and the particular time, the capital cost of which was added in computing the taxpayer's supplementary depletion base by virtue of paragraph (*b*) or in computing the supplementary depletion base of a predecessor by virtue of paragraph (*b*) as it applied to the predecessor where the taxpayer is a successor corporation to the predecessor, as the case may be, and each of which is the amount that is equal to the lesser of

(i) the proceeds of disposition of the property, and

(ii) the capital cost of the property to the taxpayer or the predecessor, as the case may be, computed as if no amount had been included therein that is a cost of borrowing capital, including any cost incurred prior to the commencement of carrying on a business; and

(*i*) where the taxpayer is a predecessor, any amount required by paragraph (4)(*b*) to be deducted before the particular time in computing the taxpayer's supplementary depletion base.

History: Ss. 1212(3)(g), (h) and (i) were amended by P.C. 1985-2277, SOR/85-696, dated July 25, 1985, to substitute "predecessor" for "predecessor corporation", wherever they appeared, applicable to taxation years ending after April 19, 1983.

S. 1212(3)(b) was amended by P.C. 1985-465, SOR/85-174, dated February 14, 1985, to add "(other than property that had, before it was acquired by him, been used for any purpose whatever by any person with whom he was not dealing at arm's length)", applicable to the 1984 and subsequent taxation years.

S. 1212(3)(b) was amended by P.C. 1981-3329, SOR/81-974, dated November 27, 1981, to add "acquired by him before 1981" after "equipment", effective January 1, 1981.

Ss. 1212(3)(e) and (f) were amended by P.C. 1981-3329, SOR/81-974, dated November 27, 1981. Ss. 1212(3)(e) and (f) formerly read:

"(*e*) 50 per cent of the aggregate of all amounts added by paragraph 21(1)(b) or subsection 21(3) of the Act to the capital cost to him of depreciable property described in paragraph (a);

(*f*) 33⅓ per cent of the aggregate of all amounts added by paragraph 21(1)(b) or subsection 21(3) of the Act to the capital cost to him of depreciable property described in paragraph (b);"

S. 1212(3)(g), the part preceding subparagraph (i), and subparagraph (ii), were amended by P.C. 1981-3329, SOR/81-974, dated November 27, 1981, to insert "the earlier of December 12, 1979 and" between "before" and "the particular time", effective December 12, 1979, in the case of the part preceding subparagraph (i). S. 1212(3)(g)(ii) formerly read:

"(ii) the capital cost of the property to the taxpayer or the predecessor corporation, as the case may be, computed as if no amount had been added thereto by virtue of paragraph 21(1)(b) or subsection 21(3) of the Act;"

S. 1212(3)(h), the part preceding subparagraph (i), and subparagraph (ii), was amended by P.C. 1981-3329, SOR/81-974, dated November 27, 1981, to insert "the earlier of December 12, 1979 and" between "before" and "the particular time", effective December 12, 1979, in the case of the portion preceding subparagraph (i). S. 1212(3)(h)(ii) formerly read:

"(ii) the capital cost of the property to the taxpayer or the predecessor corporation, as the case may be, computed as if no amount had been added thereto by virtue of paragraph 21(1)(b) or subsection 21(3) of the Act; and"

S. 1212(3)(a), (b), (g) and (h) were amended by P.C. 1980-1483, SOR/80-418, dated June 6, 1980 to add "capital" before "cost" in each case.

(4) Subject to subsections 1202(5) and (6), where a corporation (in this section referred to as the "successor corporation") has at any time (in this subsection referred to as the "time of acquisition") after April 19, 1983 and in a taxation year (in this subsection referred to as the "transaction year") acquired a property from another person (in this subsection referred to as the "predecessor"), the following rules apply:

(*a*) for the purpose of computing the supplementary depletion base of the successor corporation as of any time after the time of acquisition, there shall be added an amount equal to the amount required by paragraph (*b*) to be deducted in computing the supplementary depletion base of the predecessor; and

(*b*) for the purpose of computing the supplementary depletion base of the predecessor as of any time after the transaction year of the predecessor, there shall be deducted the amount, if any, by which

(i) the supplementary depletion base of the predecessor immediately after the time of acquisition (assuming for this purpose that, in the case of an acquisition as a result of an amalgamation described in section 87 of the Act, the predecessor existed after the time of acquisition and no property was acquired or disposed of in the course of the amalgamation)

exceeds

(ii) the amount, if any, deducted under subsection (1) in computing the income of the predecessor for the transaction year of the predecessor.

History: S. 1212(4), the part preceding paragraph (a), was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990, applicable to taxation years ending after February 17, 1987. That part formerly read:

"(4) Where a corporation (in this section referred to as the 'successor corporation') has, at any time after April 19, 1983 and in a taxation year (in this subsection referred to as the 'transaction year'), acquired, by purchase, amalgamation, merger, winding-up or otherwise (other than pursuant to an amalgamation that is described in subsection 87(1.2) of the Act or a winding-up to which the rules in subsection 88(1) of the Act apply), from another person (in this section referred to as the 'predecessor'), all or substantially all of the Canadian resource properties of the predecessor or the specified property of the predecessor and, except in the case of an amalgamation or a winding-up, the predecessor and the successor corporation have elected pursuant to subsection 66(6) or (7), 66.1(4) or (5) or 66.2(3) or (4) of the Act, the following rules apply:"

S. 1212(4), the part preceding paragraph (a), was amended by P.C. 1990-2256, SOR/90-733, dated October 18, 1990, to substitute "after April 19, 1983" for "(in this subsection referred to as the 'time of acquisition') after April 19, 1983" and to add "or the specified property of the predecessor", applicable in respect of taxation years commencing after 1984.

S. 1212(4), the part preceding paragraph (a) was amended by P.C. 1990-162, SOR/90-113, dated February 1, 1990, applicable with respect to acquisitions occurring after 1982 except that with respect to acquisitions occurring after 1982 and in taxation years commencing before 1985, the reference to "Canadian resource properties of the predecessor" shall be read as a reference to "property of the predecessor used by the predecessor in carrying on in Canada such of the businesses described in any of subparagraphs 66(15)(h)(i) to (vii) of the Act as were carried on by the predecessor". That part formerly read:

"(4) Where a corporation (in this section referred to as the 'successor corporation') has, at any time (in this subsection referred to as the 'time of acquisition') after April 19, 1983 and in a taxation year (in this subsection referred to as the 'transaction year'), acquired, by purchase or otherwise, including an acquisition as a result of an amalgamation described in section 87 of the Act, from another person (in this section referred to as the 'predecessor') all or substantially all of the property of the predecessor used by him in carrying on in Canada such of the businesses described in any of subparagraphs 66(15)(*h*)(i) to (vii) of the Act as were carried on by him and, except in the case of an amalgamation or a winding-up, the predecessor and the successor corporation have elected pursuant to subsection 66(6) or (7), 66.1(4) or (5) or 66.2(3) or (4) of the Act, the following rules apply:"

S. 1212(4) was amended by P.C. 1985-2277, SOR/85-696, dated July 25, 1985, to substitute "predecessor" for "predecessor corporation" wherever it appeared, applicable to taxation years ending after April 19, 1983.

S. 1212(4), the part preceding paragraph (a), was amended by P.C. 1985-2277, SOR/85-696, dated July 25, 1985, applicable with respect to acquisitions of property occurring after April 19, 1983. That part formerly read:

"(4) Where a corporation (in this section referred to as the 'successor corporation') has, at any time (in this section referred to as the 'time of acquisition') in a taxation year (in this section referred to as the 'transaction year'), acquired, by purchase or otherwise (including an acquisition as a result of an amalgamation described in section 87 of the Act), from another corporation (in this section referred to as the 'predecessor corporation') all or substantially all of the property of the predecessor corporation used by it in carrying on in Canada such of the businesses described in any of subparagraphs 66(15)(h)(i) to (vii) of the Act as were carried on by it, and (except in the case of an amalgamation or a winding-up) the predecessor corporation and the successor corporation have elected pursuant to subsection 66.1(4) or (5) or 66.2(3) or (4) of the Act, the following rules apply:"

S. 1212(4), the part preceding paragraph (a), was amended by P.C. 1980-1483, SOR/80-418 (June 6, 1980), effective November 17, 1978 by adding "and (except in the case of an amalgamation or a winding-up) the predecessor corporation and the successor corporation have elected pursuant to subsection 66.1(4) or (5) or 66.2(3) or (4) of the Act,".

S. 1212 and heading were added by P.C. 1979-649, SOR/79-245, dated March 13, 1979, effective in respect of taxation years ending after April 10, 1978.

(5) [Revoked.]

History: S. 1212(5) was revoked by P.C. 1990-2780, SOR/91-79, dated December 24, 1990, applicable to taxation years ending after February 17, 1987. S. 1212(5) formerly read:

"(5) For the purposes of subsection (4), where

(*a*) the successor corporation has acquired the specified property of the predecessor at any time,

(*b*) the successor corporation has not acquired all or substantially all of the Canadian resource properties of the predecessor at that time, and

(*c*) the predecessor and the successor corporation agree to have subsection (4) apply to them and notify the Minister in writing of the agreement in their returns of income under Part I of the Act for their respective taxation years that include that time,

the predecessor and the successor corporation shall be deemed to have elected pursuant to subsection 66(6) or (7), 66.1(4) or (5) or 66.2(3) or (4) of the Act in respect of the acquisition."

S. 1212(5) was added by P.C. 1990-2256, SOR/90-733, dated October 18, 1990, applicable in respect of taxation years commencing after 1984 except that the Minister of National Revenue shall be deemed to have been notified in circumstances satisfying the condition set out in paragraph (c) if the Minister is notified in writing of the agreement referred to therein within 180 days after November 7, 1990.

Prescribed Deductions

1213. For the purposes of subparagraph 66.1(2)(*a*)(ii) of the Act, "prescribed deduction" in respect of a corporation for a taxation year means an amount deducted under subsection 1202(2) by the corporation in computing its income for the year.

History: S. 1213 was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990, applicable to taxation years ending after February 17, 1987. S. 1213 formerly read:

"S. 1213. For the purposes of subparagraph 66.1(2)(*a*)(ii) of the Act, 'prescribed deduction' in respect of a particular taxation year means

(*a*) the amount, if any, deducted under subsection 1202(2) by a successor corporation (within the meaning assigned by that subsection) in computing its income for that year; and

(*b*) the amount, if any, deducted under subsection 1202(3) by a second successor corporation (within the meaning assigned by that subsection) in computing its income for that year."

S. 1213 and heading were added by P.C. 1981-3329, SOR/81-974, dated November 27, 1981, applicable in respect of taxation years ending after December 11, 1979.

Amalgamations and Windings-up

1214. (1) Where a particular corporation amalgamates with another corporation to form a new corporation, or the assets of a subsidiary are transferred to its parent corporation on the winding-up of the subsidiary, and subsection 87(1.2) or 88(1.5) of the Act is applicable to the new corporation or the parent corporation, as the case may be, the new corporation or the parent corporation, as the case may be, shall be deemed to be the same corporation as, and a continuation of, the particular corporation or the subsidiary, as the case may be, for the purposes of

(*a*) computing the mining exploration depletion base (within the meaning assigned by subsection 1203(2)), the earned depletion base, the frontier exploration base (within the meaning assigned by subsection 1207(2)) and the supplementary depletion base (within the meaning assigned by subsection 1212(3)) of the new corporation or the parent corporation, as the case may be; and

(*b*) determining the amounts, if any, that may be deducted under subsection 1202(2) in computing the income of the new corporation or the parent corporation, as the case may be, for a particular taxation year.

History: The heading preceding s. 1214 was amended and s. 1214 was renumbered as s. 1214(1) and amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990. The amendment to the heading is applicable in respect of amalgamations or windings-up commencing after 1982. The renumbering of and amendment to s. 1214 is applicable in respect of amalgamations and windings-up occurring after January 15, 1987 except that, in respect of amalgamations and windings-up in taxation years ending before February 18, 1987, paragraph 1214(1)(b) shall be read as if the reference to "subsection 1202(2)" were a reference to "subsections 1202(2) and (3)". S. 1214 and the heading that precedes it formerly read:

"AMALGAMATIONS

S. 1214. Where a particular corporation amalgamates with another corporation to form a new corporation, or the assets of a subsidiary are transferred to its parent corporation on the winding-up of the subsidiary, and subsection 87(1.2) or 88(1.5) of the Act is applicable to the new corporation or the parent corporation, as the case may be, the new corporation or the parent corporation, as the case may be, shall be deemed to be the same corporation as, and a continuation of, the particular corporation or the subsidiary, as the case may be, for the purposes of

(*a*) computing the mining exploration depletion base (within the meaning assigned by subsection 1203(2)), the earned depletion base, the frontier exploration base (within the meaning assigned by subsection 1207(2)) and the supplementary depletion base (within the meaning assigned by subsection 1212(3)) of the new corporation or the parent corporation, as the case may be; and

(*b*) determining the amounts, if any, that may be deducted under subsections 1202(2) and (3) in computing the income of the new corporation or the parent corporation, as the case may be, for a particular taxation year."

S. 1214 was amended by P.C. 1990-162, SOR/90-113, dated February 1, 1990, applicable with respect to amalgamations occurring or windings-up commencing after 1982. S. 1214 formerly read:

"S. 1214. Where there has been an amalgamation (within the meaning assigned by subsection 87(1) of the Act) of a corporation (in this section referred to as the 'parent corporation') and one or more other corporations, each of which was a subsidiary wholly-owned corporation (within the meaning assigned by subsection 87(1.4) of the Act) of the parent corporation, and the new corporation (within the meaning assigned by subsection 87(1) of the Act) has made an election under subsection 87(1.2) of the Act, the following rules apply:

(*a*) the new corporation shall be deemed to be the same corporation as, and a continuation of, the parent corporation for the purposes of

(i) computing the earned depletion base, frontier exploration base (within the meaning assigned by subsection 1207(2)) and supplementary depletion base (within the meaning assigned by subsection 1212(3)) of the new corporation at any time after the election, and

(ii) determining the amounts, if any, that may be deducted under subsections 1202(2) and (3) in computing the income of the new corporation for a particular taxation year; and

(*b*) for the purposes of subsections 1202(2) and (3), 1207(7) and 1212(4), the new corporation shall be deemed not to be a successor corporation of the parent corporation at any time after the election."

S. 1214 preceding paragraph (b) was amended by P.C. 1985-465, SOR/85-174, dated February 14, 1985, to substitute "subsection 87(1.4)" for "subsection 87(1.3)" in the part preceding paragraph (a) applicable with respect to amalgamations occurring after December 14, 1975. S. 1214(a) formerly read as follows:

"(*a*) in computing the earned depletion base, frontier exploration base (within the meaning assigned by subsection 1207(2)), and supplementary depletion base (within the meaning assigned by subsection 1212(3)) of the new corporation at any time after the election, the new corporation shall be deemed to be the same corporation as, and a continuation of, the parent corporation; and"

S. 1214 and heading were added by P.C. 1981-3329, SOR/81-974, dated November 27, 1981, effective December 15, 1975.

(2) Where there has been an amalgamation (within the meaning assigned by subsection 87(1) of the Act) of two or more particular corporations to form one corporate entity, that entity shall be deemed to be the same corporation as, and a continuation of, each of the particular corporations for the purposes of subsection 1202(9).

History: S. 1214(2) was added by P.C. 1990-2780, SOR/91-79, dated December 24, 1990 and applicable in respect of amalgamations and windings-up occurring after January 15, 1987.

(3) Where a taxable Canadian corporation (in this subsection referred to as the "subsidiary") has been wound up in circumstances in which subsection 88(1) of the Act applies in respect of the subsidiary and another taxable Canadian corporation (in this subsection referred to as the "parent"), the parent shall be deemed to be the same corporation as, and a continuation of, the subsidiary for the purposes of subsection 1202(9).

History: S. 1214(3) was added by P.C. 1990-2780, SOR/91-79, dated December 24, 1990, applicable in respect of amalgamations and windings-up occurring after January 15, 1987.

1215. [Revoked.]

History: S. 1215 and the heading preceding it were revoked by P.C. 1990-2256, SOR/90-733, dated October 18, 1990. S. 1215 and the heading formerly read:

"PRESCRIBED AREAS

S. 1215. For the purposes of clauses 66.1(6)(a)(ii.2)(A) and (B) of the Act, 'prescribed frontier exploration area' means non-conventional lands."

S. 1215 was added by P.C. 1985-465, SOR/85-174, dated February 14, 1985, applicable to the 1984 and subsequent taxation years.

PRESCRIBED PERSONS

1216. For the purpose of subsection 208(1) of the Act, a person described in any of paragraphs 149(1)(*d*) to (*d*.6) of the Act is a prescribed person.

History: S. 1216 was amended by P.C. 2001-1378, SOR/2001-295, dated August 1, 2001, applicable on August 1, 2001. S. 1216 formerly read:

"S. 1216. For the purposes of subsection 208(1) of the Act, 'prescribed person' means a person described in any of paragraphs 149(1)(*d*) to (*d*.6) of the Act."

S. 1216 was amended by P.C. 2001-954, SOR/2001-187, dated May 31, 2001, applicable after 1998. S. 1216 formerly read:

"S. 1216. For the purposes of subsection 208(1) of the Act, 'prescribed person' means a person described in paragraph 149(1)(*d*) of the Act."

S. 1216 was added by P.C. 1985-465, SOR/85-174, dated February 14, 1985, applicable to the 1979 and subsequent taxation years.

PRESCRIBED CANADIAN EXPLORATION EXPENSE

1217. (1) For the purposes of subsection 66(14.1) of the Act, the prescribed Canadian exploration expense of a corporation for a taxation year is the amount, if any, by which its total specified exploration expenses for the year exceed its total exploration assistance for the year.

History: S. 1217(1) was added by P.C. 1988-1608, SOR/88-423, dated August 11, 1988, applicable to the 1985 and subsequent taxation years.

(2) For the purposes of subsection (1), the total specified exploration expenses of a particular corporation for a particular taxation year are the aggregate of

(*a*) all expenses (other than expenses referred to in paragraph (*b*) or (*c*)) that are described in any of subparagraphs 66.1(6)(*a*)(i) to (ii) [subsection 66.1(6) "Canadian exploration expense"] of the Act and that were incurred by the particular corporation in the particular year and after March 1985 and before October 1986,

(*b*) where the particular corporation is a shareholder corporation of a joint exploration corporation, all expenses described in any of subparagraphs 66.1(6)(*a*)(i) to (ii) [subsection 66.1(6) "Canadian exploration expense"] of the Act that were incurred by the joint exploration corporation after March 1985 and before October 1986 and in the taxation year of the joint exploration corporation ending in the particular year and that were deemed under paragraph 66(10.1)(*c*) of the Act to be Canadian exploration expenses incurred by the particular corporation in the particular year, and

(*c*) all expenses that would be described in subparagraph 66.1(6)(*a*)(iv) or (v) [subsection 66.1(6) "Canadian exploration expense"] of the Act if the references in those subparagraphs to "any of subparagraphs (i) to (iii.1) [subsection 66.1(6) 'Canadian exploration expense'] incurred" were read as "any of subparagraphs (i) to (ii) [subsection 66.1(6) 'Canadian exploration expense'] incurred after March 1985 and before October 1986" and that were incurred by the particular corporation in the particular year or by a partnership in a fiscal period of the partnership that ended in the particular year if, at the end of that fiscal period, the particular corporation was a member of the partnership,

other than

(*d*) expenses renounced by the corporation at any time under subsection 66(10.1) or (12.6) of the Act,

(*e*) Canadian exploration and development overhead expenses of the corporation or of a partnership of which the corporation was a member, or

(*f*) expenses incurred or deemed to have been incurred by the corporation in a period during which it was exempt from tax on its taxable income under Part I of the Act.

History: S. 1217(2) was added by P.C. 1988-1608, SOR/88-423, dated August 11, 1988, applicable to the 1985 and subsequent taxation years.

(3) For the purposes of subsection (1), the total exploration assistance of a corporation for a taxation year is the aggregate of all amounts each of which is an amount of assistance or benefit that the corporation has received or is entitled to receive in the year from a government, municipality or other public authority in respect of an expense that is included in its total specified exploration expenses for the year by virtue of paragraph (2)(*a*) or (*c*), whether such amount is by way of a grant, subsidy, rebate, forgivable loan, deduction from royalty or tax, rebate of royalty or tax, investment allowance or any other form of assistance or benefit.

History: S. 1217(3) was added by P.C. 1988-1608, SOR/88-423, dated August 11, 1988 and applicable to the 1985 and subsequent taxation years.

Prescribed Canadian Development Expense

1218. (1) For the purposes of subsection 66(14.2) of the Act, prescribed Canadian development expense of a corporation for a taxation year is the amount, if any, by which its total specified development expenses for the year exceed its total development assistance for the year.

History: S. 1218(1) was added by P.C. 1988-1608, SOR/88-423, dated August 11, 1988 and applicable to the 1985 and subsequent years.

(2) For the purposes of subsection (1), the total specified development expenses of a particular corporation for a particular taxation year is the aggregate of

(*a*) all expenses (other than expenses referred to in paragraph (*b*) or (*c*)) that are described in subparagraph 66.2(5)(*a*)(i) or (i.1) [subsection 66.2(5) "Canadian development expense"] of the Act and that were incurred by the corporation in the particular year and after March 1985 and before October 1986,

(*b*) where the particular corporation is a shareholder corporation of a joint exploration corporation, all expenses that are described in subparagraph 66.2(5)(*a*)(i) or (i.1) [subsection 66.2(5) "Canadian development expense"] of the Act, that were incurred by the joint exploration corporation after March 1985 and before October 1986 and in the taxation year of the joint exploration corporation ending in the particular year and that were deemed under paragraph 66(10.2)(*c*) of the Act to be Canadian development expenses incurred by the particular corporation in the particular year, and

(*c*) all expenses that would be described in subparagraph 66.2(5)(*a*)(iv) or (v) [subsection 66.2(5) "Canadian development expense"] of the Act if the references in those subparagraphs to "any of subparagraphs (i) to (iii) [subsection 66.2(5) 'Canadian development expense'] incurred" were read as "subparagraph (i) or (i.1) [subsection 66.2(5) 'Canadian development expense'] incurred after March 1985 and before October 1986" and that were incurred by the particular corporation in the particular year or by a partnership in a fiscal period of the partnership that ended in the particular year if, at the end of that fiscal period, the particular corporation was a member of the partnership,

other than

(*d*) expenses renounced by the corporation at any time under subsection 66(10.2), (12.601) or (12.62) of the Act,

(*e*) Canadian exploration and development overhead expenses of the corporation or of a partnership of which the corporation was a member, or

(*f*) expenses incurred or deemed to have been incurred by the corporation in a period during which it was exempt from tax on its taxable income under Part I of the Act.

History: S. 1218(2)(*d*) was amended by P.C. 1996-494, SOR/96-199, dated April 16, 1996, by adding a reference to subsection 66(12.601), applicable after December 2, 1992.

S. 1218(2) was added by P.C. 1988-1608, SOR/88-423, dated August 11, 1988, applicable to the 1985 and subsequent taxation years.

(3) For the purposes of subsection (1), the total development assistance of a corporation for a taxation year is the aggregate of all amounts each of which is an amount of assistance or benefit that the corporation has received or is entitled to receive in the year from a government, municipality or other public authority in respect of an expense that is included in its total specified development expenses for the year by virtue of paragraph (2)(*a*) or (*c*), whether such amount is by way of a grant, subsidy, rebate, forgivable loan, deduction from royalty or tax, rebate of royalty or tax, investment allowance or any other form of assistance or benefit.

History: S. 1218(3) was added by P.C. 1988-1608, SOR/88-423, dated August 11, 1988, applicable to the 1985 and subsequent taxation years.

Canadian Renewable and Conservation Expense

1219. (1) Subject to subsections (2) to (4), for the purpose of subsection 66.1(6) of the Act, "Canadian renewable and conservation expense" means an expense incurred by a taxpayer, and payable to a person or partnership with whom the taxpayer is dealing at arm's length, in respect of the development of a project for which it is reasonable to expect that at least 50% of the capital cost of the depreciable property to be used in the project would be the capital cost of any property that is included in Class 43.1 or 43.2 in Schedule II, or that would be so included if this Part were read without reference to this section, and includes such an expense incurred by the taxpayer

(*a*) for the purpose of making a service connection to the project for the transmission of electricity to a

purchaser of the electricity, to the extent that the expense so incurred was not incurred to acquire property of the taxpayer;

(*b*) for the construction of a temporary access road to the project site;

(*c*) for a right of access to the project site before the earliest time at which a property described in Class 43.1 or 43.2 in Schedule II is used in the project for the purpose of earning income;

(*d*) for clearing land to the extent necessary to complete the project;

(*e*) for process engineering for the project, including

(i) collection and analysis of site data,

(ii) calculation of energy, mass, water, or air balances,

(iii) simulation and analysis of the performance and cost of process design options, and

(iv) selection of the optimum process design;

(*f*) for the drilling or completion of a well for the project; or

(*g*) for a test wind turbine that is part of a wind farm project of the taxpayer.

History: S. 1219(1), the portion before paragraph (*a*) was replaced by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, deemed to have come into force on February 23, 2005.

S. 1219(1), the portion before paragraph (*a*) formerly read:

"S. 1219. (1) Subject to subsections (2) to (4), for the purpose of subsection 66.1(6) of the Act, 'Canadian renewable and conservation expense' means an expense incurred by a taxpayer, and payable to a person or partnership with whom the taxpayer is dealing at arm's length, in respect of the development of a project for which it is reasonable to expect that at least 50% of the capital cost of the depreciable property to be used in the project would be the capital cost of any property that is described in Class 43.1 of Schedule II or that would be such property but for this subsection, and includes such an expense incurred by the taxpayer"

S. 1219(1)(*c*) was replaced by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, deemed to have come into force on February 23, 2005.

S. 1219(1)(*c*) formerly read:

"(*c*) for a right of access to the project site before the earliest time at which a property described in Class 43.1 of Schedule II is used in the project for the purpose of earning income;"

S. 1219(1), the portion before paragraph (*a*) was replaced by P.C. 2005-1510, SOR/2005-266, dated August 31, 2005, applicable to expenses incurred after April 8, 2005. S. 1219(1), the portion before paragraph (*a*) formerly read:

"S. 1219. (1) Subject to subsection (2), for the purpose of subsection 66.1(6) of the Act, 'Canadian renewable and conservation expense' means an expense incurred by a taxpayer, and payable to a person or partnership with whom the taxpayer is dealing at arm's length, in respect of the development of a project for which it is reasonable to expect that at least 50% of the capital cost of the depreciable property to be used in the project would be the capital cost of any property that is described in Class 43.1 of Schedule II or that would be such property but for this subsection, and includes such an expense incurred by the taxpayer"

S. 1219(1)(*g*) was replaced by P.C. 2005-1510, SOR/2005-266, dated August 31, 2005, applicable to expenditures incurred after July 25, 2002. If a taxpayer so elects in writing filed with the Minister of National Revenue within 90 days after September 21, 2005 [the amendments to paragraph 1219(1)(*g*) and subsection 1219(3) also apply to expenditures incurred by the taxpayer after December 5, 1996 and before July 26, 2002. See the amendment to Regulation 1219(3) for an alternative reading of paragraph 1219(3)(*a*) in those circumstances.]

S. 1219(1)(*g*) formerly read:

"(*g*) for the taxpayer's test wind turbine for the project."

S. 1219(1) was added by P.C. 2000-1331, SOR/2000-327, dated August 23, 2000, applicable to expenses incurred after December 5, 1996.

Regulations: 1219(3).

(2) A Canadian renewable and conservation expense does not include any expense that

(*a*) is described in paragraphs 20(1)(*c*), (*d*), (*e*) or (*e.1*) of the Act; or

(*b*) is incurred by a taxpayer directly or indirectly and is

(i) for the acquisition of, or the use of or the right to use, land, except as provided by paragraph (1)(*b*), (*c*) or (*d*),

(ii) for grading or levelling land or for landscaping, except as provided by paragraph (1)(*b*),

(iii) payable to a non-resident person or a partnership other than a Canadian partnership (other than an expense described in paragraph (1)(*g*)),

(iv) included in the capital cost of property that, but for this section, would be depreciable property, except as provided by paragraph (1)(*b*), (*d*), (*e*), (*f*) or (*g*),

(v) an expenditure that, but for this section, would be an eligible capital expenditure, except as provided by any of paragraphs (1)(*a*) to (*e*),

(vi) included in the cost of inventory of the taxpayer,

(vii) an expenditure on or in respect of scientific research and experimental development,

(viii) a Canadian development expense or a Canadian oil and gas property expense,

(ix) incurred, for a project, in respect of any time at or after the earliest time at which a property described in Class 43.1 or 43.2 in Schedule II was used in the project for the purpose of earning income,

(x) incurred in respect of the administration or management of a business of the taxpayer, or

(xi) a cost attributable to the period of the construction, renovation or alteration of depreciable property, other than property described in Class 43.1 or 43.2 in Schedule II, that relates to

(A) the construction, renovation or alteration of the property, except as provided by paragraph (1)(*b*), (*f*), or (*g*), or

(B) the ownership of land during the period, except as provided by paragraph (1)(*b*), (*c*) or (*d*).

History: S. 1219(2)(*b*)(ix) was replaced by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, deemed to have come into force on February 23, 2005.

S. 1219(2)(*b*)(ix) formerly read:

"(ix) incurred, for a project, in respect of any time at or after the earliest time at which a property described in Class 43.1 of Schedule II was used in the project for the purpose of earning income,"

S. 1219(2)(*b*)(xi), the portion before clause (A) was replaced by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, deemed to have come into force on February 23, 2005.

S. 1219(2)(*b*)(xi), the portion before clause (A) formerly read:

"(xi) a cost attributable to the period of the construction, renovation or alteration of depreciable property, other than property described in Class 43.1 of Schedule II, that relates to"

S. 1219(2) was added by P.C. 2000-1331, SOR/2000-327, dated August 23, 2000, applicable to expenses incurred after December 5, 1996.

(3) For the purpose of paragraph (1)(*g*), "test wind turbine" means a fixed location device that is a wind energy conversion system that would, if this Part were read without reference to this section, be property included in Class 43.1 in Schedule II because of subparagraph (*d*)(v) of that Class, or in Class 43.2 in Schedule II because of paragraph (*b*) of that Class, in respect of which the Minister, in consultation with the Minister of Natural Resources, determines that

(*a*) the device is installed as part of a wind farm project of the taxpayer at which the electrical energy produced from wind by the device, and by all other test wind turbines that are part of the project, does not exceed

(i) one third of the project's planned nameplate capacity if

(A) the Minister of Natural Resources determines that the project's planned nameplate capacity is limited from an engineering or scientific perspective, and

(B) the project's planned nameplate capacity does not exceed six megawatts, or

(ii) 20% of the project's planned nameplate capacity, in any other case;

(*b*) the project does not share with any other project a point of interconnection to an electrical energy transmission or distribution system;

(*c*) if the project does not have a point of interconnection to an electrical energy transmission or distribution system, the project has a point of interconnection to an electrical system

(i) of the taxpayer

(A) which system is more than 10 kilometres from any transmission system and from any distribution system, and

(B) from which system at least 90% of the electrical energy produced by the project is used in a business carried on by the taxpayer, or

(ii) of another person or partnership that deals at arm's length with the taxpayer

(A) which system is more than 10 kilometres from any transmission system and from any distribution system, and

(B) from which system at least 90% of the electrical energy produced by the project is used in a business carried on by the other person or partnership;

(*d*) the primary purpose for installing the device is to test the level of electrical energy produced by the device from wind at the place of installation;

(*e*) no other test wind turbine is installed within 1500 metres of the device; and

(*f*) no other wind energy conversion system is installed within 1500 metres of the device until the level of electrical energy produced from wind by the device has been tested for at least 120 calendar days.

History: S. 1219(3)(*a*)(i)(A) was replaced by P.C. 2007-849, SOR/2007-116, dated May 31, 2007, effective on publication in the *Canada Gazette*, June 13, 2007. S. 1219(3)(*a*)(i)(A) formerly read:

"(A) in the opinion of the Minister of Natural Resources, the project's planned nameplate capacity is limited from an engineering or scientific perspective, and"

S. 1219(3), the portion before paragraph (*a*) was replaced by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, deemed to have come into force on February 23, 2005. S. 1219(3), the portion before paragraph (*a*) formerly read:

"(3) For the purpose of paragraph (l)(*g*), 'test wind turbine' means a fixed location device that is a wind energy conversion system that would, but for this section, be property included in Class 43.1 of Schedule II because of subparagraph (*d*)(v) thereof, and in respect of which the Minister, in consultation with the Minister of Natural Resources, determines that"

S. 1219(3)(*a*) and (*b*) were replaced, and paragraphs (*c*) to (*f*) were added, by P.C. 2005-1510, SOR/2005-266, dated August 31, 2005, applicable to expenditures incurred after July 25, 2002. If a taxpayer so elects in writing filed with the minister of National Revenue within 90 days after September 21, 2005, the amendments to paragraph 1219(1)(*g*) and subsection 1219(3) also apply to expenditures incurred by the taxpayer after December 5, 1996 and before July 26, 2002. For the purpose of applying the amendments to paragraph 1219(1)(*g*) and subsection 1219(3) to those expenditures, paragraph 1219(3)(*a*) is deemed to read as follows:

"(*a*) the device is installed as part of a wind farm project of the taxpayer at which the electrical energy produced from wind by the device, and by all other test wind turbines that are part of the project, does not exceed 35% of the project's planned nameplate capacity;"

S. 1219(3)(*a*) and (*b*) formerly read:

"(*a*) the device will be the first such device installed at the taxpayer's site for a proposed wind energy conversion system; and

(*b*) the primary purpose of the device is to test the level of electrical energy production at the site."

S. 1219(3) was added by P.C. 2000-1331, SOR/2000-327, dated August 23, 2000, applicable to expenses incurred after December 5, 1996.

(4) For greater certainty, a Canadian Renewable and Conservation Expense includes an expense incurred by a taxpayer to acquire a fixed location device that is a wind energy conversion system only if the device is described in paragraph (1)(*g*).

History: S. 1219(4) was added by P.C. 2005-1510, SOR/2005-266, dated August 31, 2005, applicable to expenses incurred after April 8, 2005.

PART XIII

Elections in Respect of Taxpayers Ceasing to be Resident in Canada

Elections to Defer Capital Gains

1300. (1) Any election by an individual under paragraph 48(1)(*c*) of the Act shall be made by filing with the Minister the prescribed form on or before the day on or before which the return of income for the year in which the taxpayer ceased to be resident in Canada is required to be filed under section 150 of the Act.

Interpretation Bulletins: *Secondary* — IT-120R6 Principal residence.

(2) Any election by a Canadian corporation under paragraph 48(1)(*c*) of the Act shall be made by filing with the Minister, on or before the day on or before which the return of income for the year in which the corporation ceased to be resident in Canada is required to be filed under section 150 of the Act, the following documents in duplicate:

(*a*) the form prescribed by the Minister;

(*b*) where the directors of the corporation are legally entitled to administer the affairs of the corporation, a certified copy of their resolution authorizing the election to be made; and

(*c*) where the directors of the corporation are not legally entitled to administer the affairs of the corporation, a certified copy of the authorization of the making of the election by the person or persons legally entitled to administer the affairs of the corporation.

Interpretation Bulletins: *Secondary* — IT-434R Rental of real property by individual; IT-451R Deemed disposition and acquisition on ceasing to be or becoming resident in Canada.
Forms: T2061.

Elections to Defer Payment of Taxes

1301. (1) Any election by an individual under subsection 159(4) of the Act shall be made by filing with the Minister the prescribed form on or before the day on or before which the return of income for the year in which the taxpayer ceased to be resident in Canada is required to be filed under section 150 of the Act.

(2) Any election by a Canadian corporation under subsection 159(4) of the Act shall be made by filing with the Minister, on or before the day on or before which the

return of income for the year in which the corporation ceased to be resident in Canada is required to be filed under section 150 of the Act, the following documents in duplicate:

(*a*) the form prescribed by the Minister;

(*b*) where the directors of the corporation are legally entitled to administer the affairs of the corporation, a certified copy of their resolution authorizing the election to be made; and

(*c*) where the directors of the corporation are not legally entitled to administer the affairs of the corporation, a certified copy of the authorization of the making of the election by the person or persons legally entitled to administer the affairs of the corporation.

ELECTIONS TO REALIZE CAPITAL GAINS

1302. Any election by an individual under paragraph 48(1)(*a*) of the Act shall be made by filing with the Minister the prescribed form on or before the day on or before which the return of income for the year in which the taxpayer ceased to be resident in Canada is required to be filed under section 150 of the Act.

History: S. 1302 was added by P.C. 1988-390, SOR/88-165, dated March 3, 1988, applicable to the 1985 and subsequent taxation years, except that for the 1985, 1986 and 1987 taxation years, the prescribed form referred to in the section may be filed on or before the day that is 180 days after March 16, 1988.

PART XIV
Insurance Business Policy Reserves

DIVISION 1
POLICY RESERVES

NON-LIFE INSURANCE BUSINESS

1400. (1) For the purpose of paragraph 20(7)(*c*) of the Act, the amount prescribed in respect of an insurer for a taxation year is

(*a*) the amount determined under subsection (3) in respect of the insurer for the year, where that amount is greater than nil, and

(*b*) nil, in any other case.

(2) For the purpose of paragraph 12(1)(*e.1*) of the Act, the amount prescribed in respect of an insurer for a taxation year is

(*a*) the absolute value of the amount determined under subsection (3) in respect of the insurer for the year, where that amount is less than nil, and

(*b*) nil, in any other case.

(3) For the purposes of paragraphs (1)(*a*) and (2)(*a*), the amount determined under this subsection in respect of an insurer for a taxation year is the amount, which may be positive or negative, determined by the formula

A + B + C + D + E + F + G + H + I + J + K + L

where

A is the total of all amounts each of which is the unearned portion at the end of the year of the premium paid by the policyholder for a policy (other than a policy that insures a risk in respect of

(*a*) a financial loss of a lender on a loan made on the security of real property,

(*b*) a home warranty,

(*c*) a lease guarantee, or

(*d*) an extended motor vehicle warranty),

which is determined by apportioning the premium paid by the policyholder equally over the period to which that premium relates;

B is the total of all amounts each of which is an amount determined in respect of a policy referred to in paragraph (*a*), (*b*), (*c*) or (*d*) of the description of A equal to the lesser of

(*a*) the amount of the reported reserve of the insurer at the end of the year in respect of the unearned portion at the end of the year of the premium paid by the policyholder for the policy, and

(*b*) a reasonable amount as a reserve determined as at the end of the year in respect of the unearned portion at the end of the year of the premium paid by the policyholder for the policy;

C is the total of all amounts each of which is the amount in respect of a policy, where all or a portion of a risk under the policy was reinsured, equal to the unearned portion at the end of the year of a reinsurance commission in respect of the policy determined by apportioning the reinsurance commission equally over the period to which it relates;

D is the amount, in respect of policies (other than policies in respect of which an amount can be determined under the description of E) under which

(*a*) a claim that was incurred before the end of the year has been reported to the insurer before the end of the year and in respect of which the insurer is, or may be, required to make a payment or incur an expense after the year, or

(*b*) there may be a claim incurred before the end of the year that has not been reported to the insurer before the end of the year,

equal to 95% of the lesser of

(*c*) the total of the reported reserves of the insurer at the end of the year in respect of such claims or possible claims, and

(*d*) the total of the claim liabilities of the insurer at the end of the year in respect of such claims or possible claims;

E is the amount in respect of policies under which

(*a*) a claim that was incurred before the end of the year has been reported to the insurer before the end of the year,

(*b*) the claim is in respect of damages for personal injury or death, and

(*c*) the insurer has agreed to a structured settlement of the claim,

equal to the lesser of

(*d*) the total of the reported reserves of the insurer at the end of the year in respect of such claims, and

(*e*) the total of the claim liabilities of the insurer at the end of the year in respect of such claims;

F is an additional amount, in respect of policies that insure a fidelity risk, a surety risk, a nuclear risk or a

risk related to a financial loss of a lender on a loan made on the security of real property, equal to the lesser of

(*a*) the total of the reported reserves of the insurer at the end of the year in respect of such risks (other than an amount included in determining the value of A, B, C, D, E, G, H, I, J, K or L), and

(*b*) a reasonable amount as a reserve determined as at the end of the year in respect of such risks (other than an amount included in determining the value of A, B, C, D, E, G, H, I, J, K or L);

G is the amount of a guarantee fund at the end of the year provided for under an agreement in writing between the insurer and Her Majesty in right of Canada under which Her Majesty has agreed to guarantee the obligations of the insurer under a policy that insures a risk related to a financial loss of a lender on a loan made on the security of real property;

H is the amount in respect of risks under pre-1996 non-cancellable or guaranteed renewable accident and sickness policies equal to

(*a*) where the amounts determined under each of subparagraphs (i) and (ii) are greater than nil, the lesser of

(i) the total of the reported reserves of the insurer at the end of the year in respect of such risks (other than an amount included in determining the value of A, B, C, D, E, F, G, I, J, K or L), and

(ii) a reasonable amount as a reserve determined as at the end of the year in respect of such risks (other than an amount included in determining the value of A, B, C, D, E, F, G, I, J, K or L), and

(*b*) nil, in any other case;

I is the amount in respect of risks under post-1995 non-cancellable or guaranteed renewable accident and sickness policies equal to the lesser of

(*a*) the total of the reported reserves of the insurer at the end of the year in respect of such risks (other than an amount included in determining the value of A, B, C, D, E, F, G, H, J, K or L), and

(*b*) the total of the policy liabilities of the insurer at the end of the year in respect of such risks (other than an amount included in determining the value of A, B, C, D, E, F, G, H, J, K or L);

J is the total of all amounts (other than an amount deductible under subsection 140(1) of the Act) each of which is the amount, which is the least of P, Q and R. in respect of a dividend, refund of premiums or refund of premium deposits provided for under the terms of a group accident and sickness insurance policy that will be

(*a*) used by the insurer to reduce or eliminate a future adverse claims experience under the policy,

(*b*) paid or unconditionally credited to the policyholder by the insurer, or

(*c*) applied in discharge, in whole or in part, of a liability of the policyholder to pay premiums to the insurer under the policy,

where

P is a reasonable amount as a reserve determined as at the end of the year in respect of the dividend, refund of premiums or refund of premium deposits,

Q is 25% of the amount of the premium payable under the terms of the policy for the 12-month period ending

(i) if the policy is terminated in the year, on the day the policy is terminated, and

(ii) in any other case, at the end of the year, and

R is the reported reserve of the insurer at the end of the year in respect of the dividend, refund of premiums or refund of premium deposits; and

K is the total of all amounts each of which is the amount, in respect of a policy under which a portion of the particular amount paid or payable by the policyholder for the policy before the end of the year is deducted under paragraph 1408(4)(*b*), equal to the portion of that particular amount that the insurer has determined will, after the end of the year, be returned to or credited to the account of the policyholder on the termination of the policy; and

L is an amount in respect of policies that insure earthquake risks in Canada equal to the lesser of

(*a*) the portion of the reported reserve of the insurer at the end of the year in respect of those risks that is attributable to accumulations from premiums in respect of those risks (other than an amount included in determining the value of A, B, C, D, E, F, G, H, I, J or K), and

(*b*) a reasonable amount as a reserve determined as at the end of the year in respect of those risks (other than an amount included in determining the value of A, B, C, D, E, F, G, H, I, J or K).

(4) Where the relevant authority does not require an insurer (other than an insurer that is required by law to report to the Superintendent of Financial Institutions) to determine its liabilities in respect of claims referred to in the description of D or E in subsection (3) in accordance with actuarial principles,

(*a*) the value of D is deemed to be 95% of the amount determined under paragraph (*c*) of the description of D; and

(*b*) the value of E is deemed to be the amount determined under paragraph (*d*) of the description of E.

(5) [Repealed.]

History: S. 1400(5) was repealed by P.C. 2002-346, SOR/2002-123, dated March 14, 2002, applicable to taxation years that end after 2000. S. 1400(5) formerly read:

"(5) Notwithstanding subsection (3), the amount determined under that subsection in respect of an insurer (other than a life insurer) for a taxation year that ends before 2001 is deemed to be the amount determined by the formula

$$A + (B \times (C - D))$$

where

A is the amount that would, but for this subsection, be the amount determined under subsection (3) in respect of the insurer for the year;

B is, where the year ends in

(*a*) 1996, 100%,

(*b*) 1997, 80%,

(*c*) 1998, 60%,

(*d*) 1999, 40%, and

(*e*) 2000, 20%;

C is the total of all amounts each of which is the absolute value of any amount that is less than nil and that is used in computing the amount that is the lesser of the totals determined for the year under the description of I in subsection (3), in respect of a risk under a post-1995 non-cancellable or guaranteed renewable accident and sickness policy; and

D is the lesser of

(*a*) 5% of the total of all amounts each of which is a premium received by the insurer in the year or any preceding taxation year ending after 1995 in respect of a non-cancellable or guaranteed renewable accident and sickness policy, and

(*b*) the value of C."

S. 1400(3), the description of A, and paragraphs (*a*) and (*b*) of the description of B were amended by replacing the expression "net premium" with "premium paid by the policyholder", by P.C. 2002-346, SOR/2002-123, dated March 14, 2002, applicable to taxation years that begin after 1999, except that, with respect to any taxpayer that makes an election pursuant to subsection 9(11) of the *Income Tax Amendments Act, 2000*, S.C. 2001, c. 17 [see the election noted in the History for subsection 18(9.02) of the *Income Tax Act*], these amendments apply to taxation years that end after 1997.

S. 1400(3), the description of L was amended by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1998 and subsequent taxation years. S. 1400(3), the description of L formerly read:

"L is nil."

S. 1400 and the heading before it were amended by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years. S. 1400 and the heading before it formerly read:

"NON-LIFE INSURANCE BUSINESSES

S. 1400. For the purposes of paragraph 20(7)(*c*) of the Act, an insurance corporation in computing its income for a taxation year may deduct, in accordance with the following rules, in respect of

(*a*) a policy, other than a policy that insures a risk in respect of

(i) a financial loss of a lender on a loan made on the security of real property,

(ii) a home warranty, or

(iii) a lease guarantee,

such amount as the corporation may claim not exceeding the unearned portion of the net premium for the policy at the end of the year determined by apportioning the net premium equally over the period to which that premium pertains;

(*b*) a policy referred to in subparagraph (*a*)(i), (ii) or (iii), such amount as the corporation may claim not exceeding the lesser of

(i) the amount of the unearned portion, if any, of the net premium for the policy at the end of the year, calculated in the manner required for the purposes of the corporation's annual report for the year to the relevant authority or, where the corporation was subject to the supervision of the relevant authority throughout the year but was not required to file an annual report with the relevant authority for the year, the amount thereof reported in its financial statements for the year, and

(ii) the unearned portion, if any, calculated in the manner required for the purposes of the corporation's annual report for the 1977 fiscal period to the relevant authority, of the net premium for the policy;

(*c*) a policy where all or a portion of a risk thereunder was reinsured, such amount as the corporation may claim not exceeding the unearned portion at the end of the year of the aggregate of amounts, each of which is a reinsurance commission in respect of the policy, determined by apportioning that aggregate equally over the period to which the reinsurance commission pertains;

(*d*) a policy where all or a portion of a risk thereunder was assumed by the corporation pursuant to a reinsurance contract and all or a portion of the risk assumed was subsequently reinsured, such amount as the corporation may claim not exceeding the unearned portion at the end of the year of the aggregate of amounts, each of which is a reinsurance commission in respect of the policy, determined by apportioning that aggregate equally over the period to which the reinsurance commission pertains;

(*e*) policies (other than a policy in respect of which an amount can be determined under paragraph (*e.1*)) under which

(i) a claim that was incurred before the end of the year has been reported to the corporation before the end of the year and in respect of which the corporation is, or may be, required to make a payment or incur an expense after the year, or

(ii) there may be a claim incurred before the end of the year that has not been reported to the corporation before the end of the year,

such amount as the corporation may claim not exceeding 95% of the lesser of

(iii) the total of all amounts each of which is the corporation's actuarial liability at the end of the year in respect of such claims or possible claims, and

(iv) the total of all amounts each of which is the corporation's reported reserve at the end of the year in respect of such claims or possible claims;

(*e.1*) policies under which

(i) a claim that was incurred before the end of the year has been reported to the corporation before the end of the year,

(ii) the claim is in respect of damages for personal injury or death, and

(iii) the corporation has agreed to a structured settlement of the claim,

such amount as the corporation may claim not exceeding the lesser of

(iv) the total of all amounts each of which is the corporation's actuarial liability at the end of the year in respect of such claims, and

(v) the total of all amounts each of which is the corporation's reported reserve at the end of the year in respect of such claims;

(*f*) a policy that insures

(i) a fidelity risk,

(ii) a surety risk,

(iii) a nuclear risk, or

(iv) a risk related to a financial loss of a lender on a loan made on the security of real property,

such amount as the corporation may claim, other than an amount claimed under any other paragraph of this section, in respect of a supplementary reserve, not exceeding the lesser of

(v) the amount of that reserve calculated in the manner required for the purposes of the corporation's annual report for the year to the relevant authority or, where the corporation was subject to the supervision of the relevant authority throughout the year but was not required to file an annual report with the relevant authority for the year, the amount of that reserve reported in its financial statements for the year, and

(vi) the amount in respect of a provision for such a reserve calculated in the manner required for the purposes of the annual report for the 1977 fiscal period to the Superintendent of Insurance for Canada;

(*f.1*) a guarantee fund provided for under an agreement in writing between the corporation and Her Majesty in right of Canada under which Her Majesty has agreed to guarantee the obligations of the corporation under a policy that insures a risk related to a financial loss of a lender on a loan made on the security of real property, any amount that the corporation claims not exceeding the amount of the guarantee fund at the end of the year;

(*g*) a non-cancellable or guaranteed renewable accident and sickness policy, such amount as the corporation may claim, in addition to any amount claimed under any other paragraph of this section, not exceeding the lesser of

(i) a reasonable amount in respect of a risk under the policy as at the end of the year, and

(ii) the reserve in respect of that risk reported by the corporation in its annual report for the year to the relevant authority or, where the corporation was subject to the supervision of the relevant authority throughout the year but was not required to file an annual report with the relevant authority for the year, the reserve in respect of that risk reported in its financial statements for the year;

(*g.1*) a group accident and sickness insurance policy, such amount as the corporation may claim as an amount (other than an amount in respect of which a deduction may be claimed by the corporation pursuant to subsection 140(1) of the Act in computing its income for the year) in respect of a dividend, refund of premiums or refund of premium deposits provided for under the terms of the policy that will be used by the insurer to reduce or eliminate a future adverse claims experience under the policy or that will be paid or unconditionally credited to the policyholder by the corporation or applied in discharge, in whole or in part, of a liability of the policyholder to pay premiums to the corporation, not exceeding the least of

(i) a reasonable amount in respect of such a dividend, refund of premiums or refund of premium deposits,

(ii) 25 per cent of the amount of the premium payable under the terms of the policy for the 12-month period ending

(A) if the policy is terminated in the year, on the day the policy is terminated, and

(B) in any other case, at the end of the year, and

(iii) the amount of the reserve or liability in respect of such a dividend, refund of premiums or refund of premium deposits reported by the corporation in its annual report for the year to the relevant authority or, where the corporation was throughout the year subject to the supervision of the relevant authority for the year but was not required to file an annual report with the relevant authority for the year, in its financial statements for the year;

(*h*) group accident and sickness policies, such amount as the corporation may claim, in addition to any amount claimed under any other paragraph of this section, not exceeding the product obtained when

(i) the amount deducted by the corporation pursuant to paragraph 20(7)(*c*) of the Act in computing its income for the 1977 taxation year (other than an amount deducted in respect of a reserve for unpaid claims or unearned premiums) in respect of those policies

is multiplied by

(ii) the proportion that

(A) the number of months in the period commencing on the first day of the corporation's taxation year and ending on the last day of its 1986 taxation year

is of

(B) 120; and

(*i*) a policy in which a portion of the amount paid or payable by the policyholder for the policy represents an amount described in paragraph 1404(5)(*b*), the amount, if any, by which the amount deducted under that paragraph exceeds any portion of the amount deducted under that paragraph that the insurer has determined will not be returned to the policyholder, or credited to the account of the policyholder, on the cancellation or expiration of the policy."

S. 1400(*e*) and (*e*.1) were amended by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to taxation years that end after February 22, 1994. S. 1400(*e*) and (*e*.1) formerly read:

"(*e*) a policy under which a claim that was incurred before the end of the year has been reported to the corporation and in respect of which the corporation is, or may be, required to make a payment or incur an expense after the year, such amount as the corporation may claim not exceeding 100 per cent, where the claim is in respect of damages for personal injury or death and the corporation has agreed to a structured settlement of the claim, and 95 per cent, in any other case, of the lesser of

(i) the corporation's actuarial liability at the end of the year in respect of the claim, and

(ii) the corporation's reported reserve at the end of the year in respect of the claim;

(*e*.1) a policy under which there may be a claim incurred before the end of the year that has not been reported to the corporation, such amount as the corporation may claim not exceeding 95 per cent of the lesser of

(i) the corporation's actuarial liability at the end of the year in respect of the possibility that there are claims under the policy incurred before the end of the year that have not been reported to the corporation, and

(ii) the corporation's reported reserve at the end of the year in respect of the possibility that there are claims under the policy incurred before the end of year that have not been reported to the corporation;"

S. 1400(*e*) was amended by P.C. 1996-1452, SOR/96-443, dated September 17, 1996, applicable to taxation years that end after February 22, 1994. S. 1400(*e*) formerly read:

"(*e*) a policy where an event has occurred before the end of the year that has given or is likely to give rise to a claim under the policy (in this paragraph referred to as 'the liability') and

(i) where the amount of the reserve in respect of the liability (other than a liability referred to in subparagraph (iii)) reported by the corporation in its annual report for the year to the relevant authority or, where the corporation was throughout the year subject to the supervision of the relevant authority but was not required to file an annual report with the relevant authority for the year, in its financial statements for the year was computed as the present value as at the end of the year of the amount of the liability, such amount as it may claim, not exceeding the lesser of

(A) a reasonable amount in respect of the present value of the liability as at the end of the year, and

(B) 95 per cent of the amount of the reserve in respect of the liability reported by the corporation in its annual report or financial statements, as the case may be,

(ii) where the amount of the reserve in respect of the liability (other than a liability referred to in subparagraph (iii)) reported by the corporation in its annual report for the year to the relevant authority or, where the corporation was throughout the year subject to the supervision of the relevant authority but was not required to file an annual report with the relevant authority for the year, in its financial statements for the year was not computed as the present value as at the end of the year of the liability, such amount as it may claim not exceeding the amount determined in respect of the liability at the end of the year by the formula

$$A - 1/3 (A - B)$$

where

A is the lesser of a reasonable amount in respect of the liability (other than the present value thereof) as at the end of the year and the amount of the reserve in respect of the liability reported by the corporation in the annual report or financial statements for the year, as the case may be, and

B is the present value of the reasonable amount in respect of the liability as at the end of the year, computed using an interest rate that was reasonable in the circumstances, and

(iii) where the liability is in respect of a structured settlement in respect of damages for personal injury or death, such amount as the corporation may claim not exceeding the present value of the amount of the reserve in respect of the liability reported by the corporation in its annual report for the year to the relevant authority or, where the corporation was throughout the year subject to the supervision of the relevant authority but was not required to file an annual report with the relevant authority for the year, in its financial statements for the year;"

S. 1400(*e*.1) was added by P.C. 1996-1452, SOR/96-443, dated September 17, 1996, applicable to taxation years that end after February 22, 1994.

S. 1400(*g*.1)(ii) was amended by P.C. 1994-940, SOR/94-415, dated June 2, 1994, applicable to taxation years ending after the day on which these amendments are published in the *Canada Gazette*, June 15, 1994. S. 1400(*g*.1)(ii) formerly read:

"(ii) 25 per cent of the amount of the premium for the year payable under the terms of the policy, unless the policy is terminated in the year, in which case 25 per cent of the greater of

(A) the amount of the premium for the year payable under the terms of the policy, and

(B) the amount of the premium for the immediately preceding year payable under the terms of the policy, and"

S. 1400(*f*.1) was added by P.C. 1994-555, SOR/94-297, dated April 14, 1994, applicable to taxation years ending after 1990.

S. 1400, the part preceding paragraph (a), was amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990, to add "in accordance with the following rules", applicable October 10, 1990.

S. 1400(*b*)(i) was amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990, and applicable in respect of the 1987 and subsequent taxation years. S. 1400(*b*)(i) formerly read:

"(i) the unearned portion if any, calculated in the manner required for the purposes of the corporation's annual report for the year to the relevant authority of the net premium for the policy at the end of the year, and"

S. 1400(*e*) was amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990 and applicable in respect of the 1987 and subsequent taxation years except that, for taxation years ending before the first taxation year that begins after June 17, 1987 and that ends after 1987, s. 1400(e) is to be read as follows:

"(*e*) a policy where an event has occurred before the end of the year that has given or is likely to give rise to a claim under the policy (in this paragraph referred to as 'the liability'), such amount as the corporation may claim, not exceeding the lesser of

(i) a reasonable amount in respect of the liability as at the end of the year, and

(ii) the amount of the reserve in respect of the liability reported by the corporation to the relevant authority in its annual report for the year or, where the corporation was throughout the year subject to the supervision of the relevant authority but was not required to file an annual report with the relevant authority for the year, in its financial statements for the year;"

S. 1400(*e*) formerly read:

"(*e*) a policy where an event has occurred before the end of the year that has given or is likely to give rise to a claim under the policy (in this paragraph referred to as 'the liability'), such amount as the corporation may claim not exceeding the lesser of

(i) a reasonable amount in respect of the liability as at the end of the year, and

(ii) the reserve, in respect of the liability, reported by the corporation in its annual report for the year to the relevant authority;"

S. 1400(*f*)(v) was amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990, applicable in respect of the 1987 and subsequent taxation years. S. 1400(f)(v) formerly read:

"(v) the amount of that reserve calculated in the manner required for the purposes of the corporation's annual report for the year to the relevant authority, and"

S. 1400(*g*)(ii) was amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990, applicable in respect of the 1987 and subsequent taxation years. S. 1400(g)(ii) formerly read:

"(ii) the reserve, in respect of that risk, reported by the corporation in its annual report for the year to the relevant authority;"

S. 1400(*g*.1) was added by P.C. 1990-2002, SOR/90-661, dated September 20, 1990, applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987.

S. 1400(*i*) was added by P.C. 1988-390, SOR/88-165, dated March 3, 1988, and effective January 1, 1978.

S. 1400(*b*)(ii) was amended by P.C. 1980-1484, SOR/80-419, dated June 6, 1980, effective for the 1978 and subsequent taxation years, by adding "net".

Part XIV was revoked and replaced by P.C. 1979-1486, SOR/79-425, May 22, 1979, effective in respect of the 1978 and subsequent taxation years.

DIVISION 2
AMOUNTS DETERMINED

LIFE INSURANCE BUSINESS

History: The heading before s. 1401 was replaced by S.C. 2009, c. 2, s. 98(1), applicable to taxation years that begin after September 2006. That heading formerly read:

"POLICY RESERVES FOR PRE-1996 POLICIES"

The heading before s. 1401 was amended by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years. That heading formerly read:

"LIFE INSURANCE BUSINESSES"

1401. (1) For the purposes of section 307 of the Regulations and subsection 211.1(3) of the Act, the amounts determined under this subsection are,

(*a*) in respect of deposit administration fund policies, the aggregate of the insurer's liabilities under those policies calculated in the manner required for the

purposes of the insurer's annual report to the relevant authority for the year or, where the insurer was throughout the year subject to the supervision of the relevant authority but was not required to file an annual report with the relevant authority for the year, in its financial statements for the year;

(*b*) in respect of a group term life insurance policy that provides coverage for a period not exceeding 12 months, the unearned portion of the premium paid by the policyholder for the policy at the end of the year determined by apportioning the premium paid by the policyholder equally over the period to which that premium pertains;

(*c*) in respect of a life insurance policy, other than a policy referred to in paragraph (*a*) or (*b*), the greater of

(i) the amount, if any, by which

(A) the cash surrender value of the policy at the end of the year

exceeds

(B) the aggregate of all amounts each of which is an amount payable in respect of a policy loan outstanding at the end of the year in respect of the policy or the interest thereon that has accrued to the insurer at the end of the year, and

(ii) the amount, if any, by which

(A) the present value at the end of the year of the future benefits provided by the policy

exceeds the aggregate of

(B) the present value at the end of the year of any future modified net premiums in respect of the policy, and

(C) the aggregate of all amounts each of which is an amount payable in respect of a policy loan outstanding at the end of the year in respect of the policy or the interest thereon that has accrued to the insurer at the end of the year;

(*c*.1) in respect of a group life insurance policy, the amount (other than an amount in respect of which a deduction may be claimed by the insurer pursuant to subsection 140(1) of the Act because of subparagraph 138(3)(*a*)(v) of the Act in computing its income for the year) in respect of a dividend, refund of premiums or refund of premium deposits provided for under the terms of the policy that will be used by the insurer to reduce or eliminate a future adverse claims experience under the policy or that will be paid or unconditionally credited to the policyholder by the insurer or applied in discharge, in whole or in part, of a liability of the policyholder to pay premiums to the insurer, which is the least of

(i) a reasonable amount in respect of such a dividend, refund of premiums or refund of premium deposits,

(ii) 25 per cent of the amount of the premium payable under the terms of the policy for the 12-month period ending

(A) if the policy is terminated in the year, on the day the policy is terminated, and

(B) in any other case, at the end of the year, and

(iii) the amount of the reserve or liability in respect of such a dividend, refund of premiums or refund of premium deposits reported by the insurer in its annual report for the year to the relevant authority or, where the insurer was throughout the year subject to the supervision of the relevant authority for the year but was not required to file an annual report with the relevant authority for the year, in its financial statements for the year; and

(*d*) in respect of a policy, other than a policy referred to in paragraph (*a*), in respect of a benefit, risk or guarantee that is

(i) an accidental death benefit,

(ii) a disability benefit,

(iii) an additional risk as a result of insuring a substandard life,

(iv) an additional risk in respect of the conversion of a term policy or the conversion of the benefits under a group policy into another policy after the end of the year,

(v) an additional risk under a settlement option,

(vi) an additional risk under a guaranteed insurability benefit,

(vii) a guarantee in respect of a segregated fund policy, or

(viii) any other benefit that is ancillary to the policy, subject to the prior approval of the Minister on the advice of the Superintendent of Insurance for Canada,

but is not

(ix) a benefit, risk or guarantee in respect of which an amount has been claimed under any other paragraph of this subsection, other than paragraphs (*d*.1) and (*d*.2), by the insurer as a deduction in computing its income for the year,

equal to the lesser of

(x) a reasonable amount in respect of the benefit, risk or guarantee, and

(xi) the reserve in respect of the benefit, risk or guarantee, reported by the insurer in its annual report to the relevant authority for the year or, where the insurer was throughout the year subject to the supervision of the relevant authority but was not required to file an annual report with the relevant authority for the year, in its financial statements for the year.

(*d*.1) [Repealed.]

(*d*.2) [Repealed.]

(*e*) [Repealed.]

History: S. 1401(1), the portion before subparagraph (*c*)(i) was replaced by S.C. 2009, c. 2, s. 99(1), applicable to taxation years that begin after September 2006. That portion formerly read:

"(1) For the purpose of subparagraph 138(3)(*a*)(i) of the Act, in computing a life insurer's income for a taxation year from carrying on its life insurance business in Canada, there may be deducted in respect of

(*a*) deposit administration fund policies, such amount as the insurer may claim that is a reasonable amount in respect of the aggregate of the insurer's liabilities under the policies as at the end of the year and does not exceed the aggregate of the insurer's liabilities under those policies calculated in the manner required for the purposes of the insurer's annual report to the relevant authority for the year or, where the insurer was throughout the year subject to the supervision of the relevant

authority but was not required to file an annual report with the relevant authority for the year, in its financial statements for the year;

(*b*) a group term life insurance policy that provides coverage for a period not exceeding 12 months, such amount as the insurer may claim not exceeding the unearned portion of the premium paid by the policyholder for the policy at the end of the year determined by apportioning the premium paid by the policyholder equally over the period to which that premium pertains;

(*c*) a life insurance policy, other than a policy referred to in paragraph (*a*) or (*b*), such amount as the insurer may claim not exceeding the greater of"

S. 1401(1)(*c*.1), the portion before subparagraph (i) was replaced by S.C. 2009, c. 2, s. 99(2), applicable to taxation years that begin after September 2006. That portion formerly read:

"(*c*.1) a group life insurance policy, such amount as the insurer may claim as an amount (other than an amount in respect of which a deduction may be claimed by the insurer pursuant to subsection 140(1) of the Act by reason of subparagraph 138(3)(*a*)(v) of the Act in computing its income for the year) in respect of a dividend, refund of premiums or refund of premium deposits provided for under the terms of the policy that will be used by the insurer to reduce or eliminate a future adverse claims experience under the policy or that will be paid or unconditionally credited to the policyholder by the insurer or applied in discharge, in whole or in part, of a liability of the policyholder to pay premiums to the insurer, not exceeding the least of"

S. 1401(1)(*d*), the portion before subparagraph (i) was replaced by S.C. 2009, c. 2, s. 99(3), applicable to taxation years that begin after September 2006. That portion formerly read:

"(*d*) a policy, other than a policy referred to in paragraph (*a*), such amount as the insurer may claim in respect of a benefit, risk or guarantee that is"

S. 1401(1)(*d*), the portion after subparagraph (ix) and before subparagraph (x) was replaced by S.C. 2009, c. 2, s. 99(4), applicable to taxation years that begin after September 2006. That portion formerly read:

"not exceeding the lesser of"

S. 1401(1)(*d*.1) to (*e*) were repealed by S.C. 2009, c. 2, s. 99(5), applicable to taxation years that begin after September 2006. S. 1401(1)(*d*.1) to (*e*) formerly read:

"(*d*.1) a policy referred to in paragraph (*b*) where, after the end of the year, a claim under the policy is made in respect of a death that occurred before the end of the year, such amount as the insurer may claim, not exceeding the lesser of

(i) the present value, at the end of the year, of the payments to be made in respect of the claim made under the policy or such estimate of such payments to be made in respect of the claim as is reasonable in the circumstances, and

(ii) 95 per cent of the amount of the reserve in respect of the claim reported by the insurer in its annual report to the relevant authority for the year or, where the insurer was throughout the year subject to the supervision of the relevant authority for the year but was not required to file an annual report with the relevant authority for the year, in its financial statements for the year;

(*d*.2) a policy referred to in paragraph (*c*) where, after the end of the year, a claim under the policy is made in respect of a death that occurred before the end of the year, such amount as the insurer may claim, not exceeding the lesser of

(i) the amount, if any, by which

(A) the present value, at the end of the year, of the payments to be made in respect of the claim made under the policy or such estimate of such payments to be made in respect of the claim as is reasonable in the circumstances

exceeds

(B) the maximum amounts that may be claimed by the insurer for the year in respect of the policy under paragraph (*c*) or (*d*), and

(ii) 95 per cent of the amount of the reserve in respect of the claim reported by the insurer in its annual report to the relevant authority for the year or, where the insurer was throughout the year subject to the supervision of the relevant authority but was not required to file an annual report with the relevant authority for the year, in its financial statements for the year; and

(*e*) a qualified annuity, such amount as the insurer may claim not exceeding the amount, if any, by which

(i) the amount that would have been determined pursuant to paragraph (*c*) for the year if the rate of interest used (or deemed by section 1403 to have been used) by the insurer in determining the premium for the annuity were reduced by one-half of one percentage point,

exceeds

(ii) the maximum amount that may be claimed by the insurer in respect of the annuity under paragraph (*c*)."

S. 1401(1)(*b*) was amended by P.C. 2002-346, SOR/2002-123, dated March 14, 2002, applicable to taxation years that begin after 1999, except that, with respect to any taxpayer that makes an election pursuant to subsection 9(11) of the *Income Tax Amendments Act, 2000*, S.C. 2001, c. 17 [see the election noted in the History for subsection 18(9.02) of the *Income Tax Act*], this amendment applies to taxation years that end after 1997. S. 1401(1)(*b*) formerly read:

"(*b*) a group term life insurance policy that provides coverage for a period not exceeding 12 months, such amount as the insurer may claim not exceeding the unearned portion of the net premium for the policy at the end of the year determined by apportioning the net premium equally over the period to which that premium pertains;"

S. 1401(1)(*c*)(ii)(B) was amended by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years. S. 1401(1)(*c*)(ii)(B) formerly read:

"(B) the present value at the end of the year of any future modified net premiums for the policy, and"

S. 1401(1), the portion before paragraph (*a*), was amended by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years. That portion formerly read:

"S. 1401. (1) For the purposes of subparagraph 138(3)(*a*)(i) of the Act, a life insurer in computing its income for a taxation year may, in respect of its life insurance policies in Canada, deduct in respect of"

S. 1401(1)(*c*.1)(ii) was amended by P.C. 1994-940, SOR/94-415, dated June 2, 1994, applicable to taxation years ending after the day on which these amendments are published in the *Canada Gazette*, June 15, 1994. S. 1401(1)(*c*.1)(ii) formerly read:

"(ii) 25 per cent of the amount of the premium for the year payable under the terms of the policy, unless the policy is terminated in the year, in which case 25 per cent of the greater of

(A) the amount of the premium for the year payable under the terms of the policy, and

(B) the amount of the premium for the immediately preceding year payable under the terms of the policy, and"

S. 1401(1)(*a*) was amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990 and applicable in respect of the 1987 and subsequent taxation years. S. 1401(1)(*a*) formerly read:

"(*a*) deposit administration fund policies, such amount as the insurer may claim that is a reasonable amount in respect of the aggregate of the insurer's liabilities under the policies as at the end of the year and does not exceed the aggregate of the insurer's liabilities under those policies calculated in the manner required for the purposes of the insurer's annual report for the year to the relevant authority;"

S. 1401(1)(*c*.1) was added by P.C. 1990-2002, SOR/90-661, dated September 20, 1990, applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987.

S. 1401(1)(*d*)(xi) was amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990, applicable in respect of the 1987 and subsequent taxation years. S. 1401(1)(*d*)(xi) formerly read:

"(xi) the reserve in respect of the benefit, risk or guarantee reported by the insurer in its annual report for the year to the relevant authority;"

Ss. 1401(1)(*d*.1) and (*d*.2) were amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990, applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987. Ss. 1401(1)(*d*.1) and (*d*.2) formerly read:

"(*d*.1) a policy referred to in paragraph (*b*) where, after the end of the year and within 120 days thereafter, a claim under the policy is made in respect of a death that occurred before the end of the year, such amount as the insurer may claim not exceeding 120 per cent of the present value of the payments to be made in respect of the claim made under the policy;

(*d*.2) a policy referred to in paragraph (*c*) where, after the end of the year and within 120 days thereafter, a claim under the policy is made in respect of a death that occurred before the end of the year, such amount as the insurer may claim not exceeding 120 per cent of the amount, if any, by which

(i) the maximum amounts that would have been determined pursuant to paragraphs (*c*) and (*d*) for the year in respect of the policy if the mortality rates used by the insurer were adjusted to reflect the assumption that the death that gave rise to the claim would occur at the time and in the manner that it did occur

exceeds

(ii) the maximum amounts that may be claimed by the insurer for the year in respect of the policy under paragraphs (*c*) and (*d*); and"

S. 1401(1)(*d*)(ix) was amended by P.C. 1986-2770, SOR/86-1136, dated December 11, 1986, to add "other than paragraphs (*d*.1) and (*d*.2)", applicable to the 1985 and subsequent taxation years.

S. 1401(1)(*d*.1) and (*d*.2) were added by P.C. 1986-2770, SOR/86-1136, dated December 11, 1986, applicable to the 1985 and subsequent taxation years.

S. 1401(1)(*c*)(i)(B) was amended by 1984-3789, SOR/84-948, dated November 29, 1984 and applicable to taxation years commencing after November 12, 1981. S. 1401(1)(*c*)(i)(B) formerly read:

"(B) the amount payable, if any, in respect of a policy loan outstanding at the end of the year in respect of the policy, and"

S. 1401(1)(*c*)(ii)(C) was amended by P.C. 1984-3789, SOR/84-948, dated November 29, 1984, applicable to taxation years commencing after November 12, 1981. S. 1401(1)(*c*)(ii)(C) formerly read:

"(C) the amount payable, if any, in respect of a policy loan outstanding at the end of the year in respect of the policy;"

S. 1401(1)(*a*) was amended by P.C. 1980-2081, SOR/80-618, dated July 31, 1980, to change "corporation's annual report" to "insurer's annual report", effective in respect of the 1978 and subsequent taxation years.

(1.1) [Repealed.]

History: S. 1401(1.1) was repealed by S.C. 2009, c. 2, s. 99(6), applicable to taxation years that begin after September 2006. S. 1401(1.1) formerly read:

"(1.1) An amount may be deducted under subsection (1) only in respect of a life insurance policy in Canada that is a pre-1996 life insurance policy."

S. 1401(1.1) was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

(2) For the purposes of subsection (1), (except in respect of subparagraph (*d*)(vii) thereof), any amount claimed by an insurer for the year shall not include an amount in respect of a liability of a segregated fund (within the meaning assigned "segregated fund" by section 138.1 of the Act).

(3) [Repealed.]

History: S. 1401(3) was repealed by S.C. 2009, c. 2, s. 99(7), applicable to taxation years that begin after September 2006. S. 1401(3) formerly read:

"(3) In computing the amount that a life insurer may deduct under subparagraph 138(3)(*a*)(i) of the Act in computing its taxable income for a taxation year, there shall be deducted from the aggregate of the amounts determined under subsection (1), the aggregate of all amounts each of which is the lesser of the following amounts determined in respect of a life insurance policy referred to in paragraph (1)(*c*):

(*a*) the amount, if any, by which

(i) the amount that would be determined under clause (1)(*c*)(i)(B) in respect of the policy

exceeds

(ii) the amount that would be determined under clause (1)(*c*)(i)(A) in respect of the policy, and

(*b*) the amount, if any, by which

(i) the aggregate of the amounts that would be determined under clauses (1)(*c*)(ii)(B) and (C) in respect of the policy

exceeds

(ii) the amount that would be determined under clause (1)(*c*)(ii)(A) in respect of the policy."

S. 1401(3) was added by P.C. 1990-2002, SOR/90-661, dated September 20, 1990 and applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987.

(4) [Repealed.]

History: S. 1401(4) was repealed by S.C. 2009, c. 2, s. 99(7), applicable to taxation years that begin after September 2006. S. 1401(4) formerly read:

"(4) For the purpose of subparagraph 138(3)(*a*)(ii) of the Act, there may be deducted, in computing a life insurer's income for a taxation year, the amount it claims as a reserve in respect of unpaid claims received by it before the end of the year under life insurance policies in Canada that are pre-1996 life insurance policies, not exceeding the present value at the end of the year, computed using a rate of interest that is reasonable in the circumstances, of a reasonable amount in respect of those unpaid claims."

S. 1401(4) was amended by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years. S. 1401(4) formerly read:

"(4) For the purposes of subparagraph 138(3)(*a*)(ii) of the Act, a life insurer may, in computing its income for a taxation year, deduct an amount as a reserve in respect of unpaid claims under life insurance policies in Canada at the end of the year received by the insurer before the end of the year equal to the present value at the end of the year, computed using a rate of interest that is reasonable in the circumstances, of a reasonable amount in respect of such claims."

S. 1401(4) was added by P.C. 1990-2002, SOR/90-661, dated September 20, 1990, applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987.

DIVISION 3
SPECIAL RULES

NON-LIFE AND LIFE INSURANCE BUSINESSES

1402. Any amount determined under section 1400 or 1401 shall be determined on a net of reinsurance ceded basis.

History: S. 1402 and the heading before it were amended by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years. S. 1402 and the heading before it formerly read:

"SPECIAL RULES

S. 1402. (1) For the purposes of sections 1400 and 1401, any amounts determined under those sections shall be determined on a net of reinsurance ceded basis.

(2) For the purposes of sections 1400 and 1401, where an insurer is a foreign affiliate of a taxpayer resident in Canada and the amounts to be determined under those sections are in respect of a business that is

(*a*) an investment business of the affiliate, as defined in subsection 95(1) of the Act, or

(*b*) a separate business, other than an active business, of the affiliate that the affiliate is deemed, under paragraph 95(2)(*a.2*) or (*b*) of the Act, to carry on,

the amounts determined under those sections in respect of the business shall not exceed an amount that is reasonable having regard to all the circumstances and shall be determined as if the business were carried on in Canada and the affiliate were subject to the supervision of the Superintendent of Financial Institutions."

S. 1402 was amended by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994, except that

(*a*) those provisions apply to taxation years of a foreign affiliate of a taxpayer that end after 1994 where there has been a change in the taxation year of the foreign affiliate in 1994 and after February 22, 1994, unless

(i) the foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation, or

(ii) the first taxation year of the foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if there had not been that change in the taxation year of the foreign affiliate; and

(*b*) in applying subsection 5907(1) of the Regulations, for taxation years of a foreign affiliate of a taxpayer that begin before 1996 and in respect of which subsection 8(13) does not apply, the references to "designated treaty country" shall be read as "country listed in subsection (11)". S. 1402 formerly read:

"S. 1402. For the purposes of sections 1400 and 1401, any amount determined under those sections shall be determined on a net of reinsurance ceded basis."

1402.1. For greater certainty, any amount referred to or determined under section 1400 may be equal to, or less than, nil.

History: S. 1402.1 was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

1403. (1) For the purposes of paragraph 1401(1)(*c*) and subject to subsections (2) and (3), a modified net premium and an amount claimed by an insurer for a taxation year shall be computed

(*a*) in the case of a lapse-supported policy effected after 1990, based on rates of interest, mortality and policy lapse only, and

(*b*) in any other case, based on rates of interest and mortality only,

using

(*c*) in respect of the modified net premiums and benefits (other than a benefit described in paragraph (*d*)) of a participating life insurance policy (other than an annuity contract) under the terms of which the policyholder is entitled to receive a specified amount in respect of the policy's cash surrender value, the rates used by the insurer when the policy was issued in computing the cash surrender values of the policy;

(*d*) in respect of any benefit provided

(i) in lieu of a cash settlement on the termination or maturity of a policy, or

(ii) in satisfaction of a dividend on a policy,

the rates used by the insurer in determining the amount of such benefit; and

(*e*) in respect of all or part of any other policy, the rates used by the insurer in determining the premiums for the policy.

History: S. 1403(1), the part preceding paragraph (*c*), was amended by P.C. 1994-940, SOR/94-415, dated June 2, 1994, applicable

(*a*) to taxation years beginning after 1990; and

(*b*) where an insurer so elected by notifying the Minister of National Revenue in writing before July, 1991, to the insurer's taxation years beginning after 1987, 1988 or 1989 (as specified in the election) and before 1991, in which case,

(i) if the insurer so indicated in the election, paragraph 1403(1)(*a*) of the Regulations, as enacted by section 6, shall be read without reference to the words "effected after 1990", and

(ii) in any other case, the reference in paragraph 1403(1)(*a*) of the Regulations, as enacted by section 6, to "1990" shall be read as a reference to the calendar year immediately preceding the first taxation year to which the election relates.

S. 1403(1), the part preceding paragraph (*c*) formerly read:

"(1) For the purposes of paragraph 1401(1)(*c*) and subject to subsections (2) and (3),

(*a*) a modified net premium, and

(*b*) an amount claimed by an insurer for a taxation year

shall be computed, based on rates of interest and mortality only, using"

S. 1403(1)(*b*) was amended by P.C. 1980-2081, SOR/80-618, dated July 31, 1980, to correct an error in indentation, effective in respect of the 1978 and subsequent taxation years.

Ss. 1403(1)(*c*) and (*d*) were amended and paragraph (*e*) added by P.C. 1980-1484, SOR/80-419, dated June 6, 1980, effective for the 1978 and subsequent taxation years. Ss. 1403(1)(*c*) and (*d*) formerly read:

"(*c*) in respect of a participating life insurance policy (other than an annuity contract) under the terms of which the policyholder is entitled to receive a specified amount in respect of the policy's cash surrender value, the rates used by the insurer in computing the cash surrender values of the policy; and

(*d*) in respect of any other policy, the rates used by the insurer in determining

(i) the premiums in respect of the policy, and

(ii) the amount of any benefit provided in lieu of a cash settlement on

(A) the termination or maturity of the policy, or

(B) the payment of a dividend on the policy."

(2) For the purposes of subsection (1), where a rate of mortality or other probability used by an insurer in determining the premium for a policy is not reasonable in the circumstances, the Minister on the advice of the Superintendent of Insurance for Canada may make such revision to the rate as is reasonable in the circumstances and the revised rate shall be deemed to have been used by the insurer in determining the premium.

(3) For the purposes of subsection (1), where the present value of the premiums for a policy as at the date of issue of the policy is less than the aggregate of

(*a*) the present value, at that date, of the benefits provided for by the policy, and

(*b*) the present value, at that date, of all outlays and expenses made or incurred by the insurer or outlays and expenses that the insurer reasonably estimates it will make or incur in respect of the policy (except outlays and expenses to maintain the policy after all premiums under the policy have been paid and for which explicit provision has not been made in calculating the premiums) and such part of any other outlays and expenses made or incurred by the insurer that may reasonably be regarded as applicable thereto,

an increased rate of interest shall be determined by multiplying the rate of interest used in determining the premiums by a constant factor so that when the increased rate of interest is used,

(*c*) the present value of the premiums at the date of issue of the policy

shall equal

(*d*) the aggregate of the present values of the benefits, outlays and expenses referred to in paragraphs (*a*) and (*b*),

and the increased rate of interest shall be deemed to have been used by the insurer in determining the premiums for the policy.

(4) For the purposes of subsection (3), a "present value" referred to in that subsection shall be computed by using the rates of mortality and other probabilities used by the insurer in determining its premiums, after making any revision required by subsection (2).

(5) For the purposes of subsection (1), where a record of the rate of interest or mortality used by an insurer in determining the premiums for a policy is not available,

(*a*) the insurer may, if the policy was issued before 1978, make a reasonable estimate of the rate; and

(*b*) the Minister, on the advice of the Superintendent of Insurance for Canada, may

(i) if the policy was issued before 1978 and the insurer has not made the estimate referred to in paragraph (*a*), or

(ii) if the policy was issued after 1977,

make a reasonable estimate of the rate."

(6) Notwithstanding paragraph 1401(1)(*c*), a life insurer in computing its income for a taxation year may, in respect of any class of life insurance policies issued before its 1988 taxation year, other than policies referred to in paragraph 1401(1)(*a*) or (*b*), use a method of approximation to convert the reserve in respect of such policies reported by the insurer in its annual report to the relevant authority for the year to an amount that is a reasonable estimate of the amount that would otherwise be determined for such policies under paragraph 1401(1)(*c*), provided that that method of approximation is acceptable to the Minister on the advice of the relevant authority.

History: S. 1403(6) was amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990, applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987. S. 1403 (6) formerly read:

"(6) Notwithstanding paragraph 1401(1)(*c*), a life insurer in computing its income for a taxation year may, in respect of any class of life insurance policies issued before its 1978 taxation year other than policies referred to in paragraph 1401(1)(*a*) or (*b*), use a method of approximation to convert the reserve in respect of such policies reported by the insurer in its annual report for the year to the relevant authority to an amount that is a reasonable estimate of the amount that would otherwise be determined for such policies under paragraph 1401(1)(*c*), provided that such method of approximation is acceptable to the Minister on the advice of the Superintendent of Insurance for Canada."

(7) For the purposes of subsection (1) and notwithstanding any other provision of this section, where

(*a*) an individual annuity contract was issued prior to 1969 by a life insurer, or

(*b*) a benefit was purchased prior to 1969 under a group annuity contract issued by a life insurer, and

the contract

(*c*) is a policy in respect of which the provisions of paragraph 1401(1)(*c*) as it read in its application to the insurer's 1977 taxation year applied,

the rates of interest and mortality used by the insurer in computing its reserve for the policy under that paragraph for its 1977 taxation year shall be used by the insurer in respect of that policy.

History: Ss. 1403(7)(*a*) and (*b*) were amended by P.C. 1980-1484, SOR/80-419, dated June 6, 1980, effective for the 1978 and subsequent taxation years. Ss. 1403(7)(*a*) and (*b*) formerly read:

"(*a*) an annuity contract was issued by a life insurer prior to 1969, or

(*b*) a benefit was purchased under a group annuity contract issued by a life insurer prior to 1969, and"

(8) For the purposes of subsection (1), where

(*a*) in a taxation year of an insurer, there has been a disposition to the insurer by another person with whom the insurer was dealing at arm's length in respect of which subsection 138(11.92) of the Act applied,

(*b*) as a result of the disposition, the insurer assumed obligations under life insurance policies (in this subsection referred to as the "transferred policies") in respect of which an amount may be claimed by the insurer as a reserve under paragraph 1401(1)(*c*) for the taxation year,

(*c*) the amount, if any, by which

(i) the aggregate of all amounts received or receivable by the insurer from the other person in respect of the transferred policies referred to in paragraph (*b*)

exceeds

(ii) the aggregate of all amounts paid or payable by the insurer to the other person in respect of commissions in respect of the amounts referred to in subparagraph (i)

exceeds the total of the maximum amounts that may be claimed by the insurer as a reserve under paragraph 1401(1)(*c*) (determined without reference to this subsection) in respect of the transferred policies for the taxation year, and

(*d*) the amount determined under paragraph (*c*) (in this subsection referred to as "reserve deficiency") can reasonably be attributed to the fact that the rates of interest or mortality used by the issuer of the transferred policies in determining the cash surrender values or premiums under such policies are no longer reasonable in the circumstances,

the Minister, on the request of the insurer and with the advice of the relevant authority, may make such revision to the rates of interest or mortality to eliminate all or any part of that reserve deficiency, and those revised rates shall be deemed to have been used by the issuer of the transferred policies in determining the cash surrender value or premiums under the policies.

Department of Finance Comfort Letter [Determination of Tax Reserves for Life Insurance Policies]

December 1, 1999

Dear XXXX

This is in reply to your letter of November 8, 1999 requesting that amendments be made to the draft income tax legislation released on December 23, 1998 regarding trusts and to the *Income Tax Regulations* regarding the determination of tax reserves for life insurance policies.

* * *

Regulations on Reserves

You are of the view that subsection 1403(8) of the Income Tax Regulations should be amended to allow an insurer that has acquired an insurance business, or a line of an insurance business, from another insurer to revise the lapse rates used by the other insurer for reserve purposes if those rates are no longer reasonable to eliminate all or part of what is referred to in subsection 1403(8) as a reserve deficiency (the "Reserve Deficiency"). From a policy perspective, we agree. Consequently, we are prepared to recommend to the Minister of Finance that subsection 1403(8) be amended to allow for revisions to lapse rates to eliminate all or part of a Reserve Deficiency if the deficiency is attributable to the fact that the lapse rates used by the issuer of the transferred policies are no longer reasonable in the circumstances.

Your second concern in regard to subsection 1403(8) of the Income Tax Regulations is that it provides the Minister of National Revenue with too much discretion in determining whether, and to what extent, rates can be changed to eliminate all or part of a Reserve Deficiency. We agree that subsection 1403(8) may be too broad in this regard. Consequently, we are prepared to recommend to the Minister of Finance that subsection 1403(8) be amended to better ensure that the Ministerial discretion be limited to the approval of adjusted rates provided the adjustments are reasonable.

We would also recommend that the amendments to subsection 1403(8) of the Income Tax Regulations be effective for dispositions occurring after November 1999. If the recommendation is acted upon, it is anticipated that the amendments would be included in a future technical bill.

I appreciate you taking the time to bring your concerns to my attention.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 1403(8) was added by P.C. 1990-2002, SOR/90-661, dated September 20, 1990 and applicable in respect of dispositions of an insurance business or a line of business of an insurance business occurring after December 15, 1987.

DIVISION 4
Life Insurance Policy Reserves

1404. (1) For the purpose of subparagraph 138(3)(*a*)(i) of the Act, there may be deducted, in computing a life insurer's income from carrying on its life insurance business in Canada for a taxation year in respect of its life insurance policies in Canada, the amount the insurer claims, not exceeding

(*a*) the amount determined under subsection (3) in respect of the insurer for the year, where that amount is greater than nil; and

(*b*) nil, in any other case.

(2) For the purpose of paragraph 138(4)(*b*) of the Act, the amount prescribed in respect of an insurer for a taxation year, in respect of its life insurance policies in Canada, is

(*a*) the absolute value of the amount determined under subsection (3) in respect of the insurer for the year, where that amount is less than nil; and

(*b*) nil, in any other case.

(3) For the purposes of paragraphs (1)(*a*) and (2)(*a*), the amount determined under this subsection in respect of an insurer for a taxation year, in respect of its life insurance policies in Canada, is the amount, which may be positive or negative, determined by the formula

$$A + B + C + D - M$$

where

A is the amount (except to the extent the amount is determined in respect of a claim, premium, dividend or refund in respect of which an amount is included in determining the value of B, C or D), in respect of the insurer's life insurance policies in Canada, equal to the lesser of

(*a*) the total of the reported reserves of the insurer at the end of the year in respect of those policies, and

(*b*) the total of the policy liabilities of the insurer at the end of the year in respect of those policies;

B is the amount, in respect of the insurer's life insurance policies in Canada under which there may be claims incurred before the end of the year that have not been reported to the insurer before the end of the year, equal to 95% of the lesser of

(*a*) the total of the reported reserves of the insurer at the end of the year in respect of the possibility that there are such claims, and

(*b*) the total of the policy liabilities of the insurer at the end of the year in respect of the possibility that there are such claims;

C is the total of all amounts each of which is the unearned portion at the end of the year of the premium paid by the policyholder for the policy, determined by apportioning the premium paid by the policyholder equally over the period to which that premium relates, where the policy is a group term life insurance policy that

(*a*) provides coverage for a period that does not exceed 12 months, and

(*b*) is a life insurance policy in Canada;

D is the total of all amounts (other than an amount deductible under subparagraph 138(3)(*a*)(v) of the Act) each of which is the amount, which is the least of P, Q and R, in respect of a dividend, refund of premiums or refund of premium deposits provided for under the terms of a group life insurance policy that is a life insurance policy in Canada that will be

(*a*) used by the insurer to reduce or eliminate a future adverse claims experience under the policy,

(*b*) paid or unconditionally credited to the policyholder by the insurer, or

(*c*) applied in discharge, in whole or in part, of a liability of the policyholder to pay premiums to the insurer under the policy,

where

P is a reasonable amount as a reserve determined as at the end of the year in respect of the dividend, refund of premiums or refund of premium deposits provided for under the terms of the policy,

Q is 25% of the amount of the premium under the terms of the policy for the 12-month period ending

(*a*) on the day the policy is terminated, if the policy is terminated in the year, and

(*b*) at the end of the year, in any other case, and

R is the amount of the reported reserve of the insurer at the end of the year in respect of the dividend, refund of premiums or refund of premium deposits provided for under the terms of the policy; and

M is the total of all amounts determined in respect of a life insurance policy in Canada each of which is

(*a*) an amount payable in respect of a policy loan under the policy, or

(*b*) interest that has accrued to the insurer to the end of the year in respect of a policy loan under the policy.

(4) [Repealed.]

(5) [Repealed.]

(6) [Repealed.]

History: S. 1404 and the headings before it were replaced by S.C. 2009, c. 2, s. 100(1), applicable to taxation years that begin after September 2006. S. 1404 and the headings before it formerly read:

DIVISION 4
POLICY RESERVES FOR POST-1995 POLICIES

"LIFE INSURANCE BUSINESS

S. 1404. (1) For the purpose of subparagraph 138(3)(*a*)(i) of the Act, there may be deducted, in computing a life insurer's income from carrying on its life insurance business in Canada for a taxation year in respect of its life insurance policies in Canada that are post-1995 life insurance policies, the amount the insurer claims, not exceeding

(*a*) the amount determined under subsection (3) in respect of the insurer for the year, where that amount is greater than nil, and

(*b*) nil, in any other case.

(2) For the purpose of paragraph 138(4)(*b*) of the Act, the amount prescribed in respect of an insurer for a taxation year, in respect of its life insurance policies in Canada that are post-1995 life insurance policies, is

(*a*) the absolute value of the amount determined under subsection (3) in respect of the insurer for the year, where that amount is less than nil, and

(*b*) nil, in any other case.

(3) For the purposes of paragraphs (1)(*a*) and (2)(*a*), the amount determined under this subsection in respect of an insurer for a taxation year, in respect of its life insurance policies in Canada that are post-1995 life insurance policies, is the amount, which may be positive or negative, determined by the formula

A + B + C + D – M

where

A is the amount (except to the extent the amount is determined in respect of a claim, premium, dividend or refund in respect of which an amount is included in determining the value of B, C or D), in respect of the insurer's life insurance policies in Canada that are post-1995 life insurance policies, equal to the lesser of

(*a*) the total of the reported reserves of the insurer at the end of the year in respect of those policies, and

(*b*) the total of the policy liabilities of the insurer at the end of the year in respect of those policies;

B is the amount, in respect of the insurer's life insurance policies in Canada that are post-1995 life insurance policies under which there may be claims incurred before the end of the year that have not been reported to the insurer before the end of the year, equal to 95% of the lesser of

(*a*) the total of the reported reserves of the insurer at the end of the year in respect of the possibility that there are such claims, and

(*b*) the total of the policy liabilities of the insurer at the end of the year in respect of the possibility that there are such claims;

C is the total of all amounts each of which is the unearned portion at the end of the year of the premium paid by the policyholder for the policy where the policy is a group term life insurance policy that

(*a*) provides coverage for a period that does not exceed 12 months,

(*b*) is a life insurance policy in Canada, and

(*c*) is a post-1995 life insurance policy,

determined by apportioning the premium paid by the policyholder equally over the period to which that premium relates;

D is the total of all amounts (other than an amount deductible under subparagraph 138(3)(*a*)(v) of the Act) each of which is the amount, which is the least of P, Q and R, in respect of a dividend, refund of premiums or refund of premium deposits provided for under the terms of a group life insurance policy that is a life insurance policy in Canada that is a post-1995 life insurance policy that will be

(*a*) used by the insurer to reduce or eliminate a future adverse claims experience under the policy,

(*b*) paid or unconditionally credited to the policyholder by the insurer, or

(*c*) applied in discharge, in whole or in part, of a liability of the policyholder to pay premiums to the insurer under the policy,

where

P is a reasonable amount as a reserve determined as at the end of the year in respect of the dividend, refund of premiums or refund of premium deposits provided for under the terms of the policy,

Q is 25% of the amount of the premium under the terms of the policy for the 12-month period ending

(i) on the day the policy is terminated, if the policy is terminated in the year, and

(ii) at the end of the year, in any other case, and

R is the amount of the reported reserve of the insurer at the end of the year in respect of the dividend, refund of premiums or refund of premium deposits provided for under the terms of the policy; and

M is the total of all amounts determined in respect of a life insurance policy in Canada that is a post-1995 life insurance policy each of which is

(*a*) an amount payable in respect of a policy loan under the policy, or

(*b*) interest that has accrued to the insurer to the end of the year in respect of a policy loan under the policy."

S. 1404(3), the description of C was amended by P.C. 2002-346, SOR/2002-123, dated March 14, 2002, by replacing the expression "net premium" with the expression "premium paid by the policyholder", applicable to taxation years that begin after 1999, except that, with respect to any taxpayer that makes an election pursuant to subsection 9(11) of the *Income Tax Amendments Act, 2000*, S.C. 2001, c. 17, this section applies to taxation years that end after 1997.

S. 1404(4) was repealed by P.C. 2002-346, SOR/2002-123, dated March 14, 2002, applicable to taxation years that end after 2000. S. 1404(4) formerly read:

"(4) Notwithstanding subsection (3), the amount determined under that subsection in respect of an insurer for a taxation year that ends before 2001 is deemed to be the amount determined by the formula

$$A + (B \times (C - D))$$

where

A is the amount that would, but for this subsection, be the amount determined under subsection (3) in respect of the insurer for the year;

B is, where the year ends in

(*a*) 1996, 100%,

(*b*) 1997, 80%,

(*c*) 1998, 60%,

(*d*) 1999, 40%, and

(*e*) 2000, 20%;

C is the total of all amounts each of which is the absolute value of any amount that is less than nil and that is used in computing

(*a*) the amount that is the lesser of the totals determined for the year under the description of I in subsection 1400(3), in respect of a risk under a post-1995 non-cancellable or guaranteed renewable accident and sickness policy, or

(*b*) the amount that is the lesser of the totals determined for the year under the description of A in subsection (3), in respect of a liability or risk under a life insurance policy in Canada of the insurer that is a post-1995 life insurance policy; and

D is the lesser of

(*a*) 5% of the total of all amounts each of which is a premium received by the insurer in the year or any preceding taxation year ending after 1995 in respect of

(i) a non-cancellable or guaranteed renewable accident and sickness policy, or

(ii) a life insurance policy in Canada, and

(*b*) the value of C."

S. 1404 and the heading before it were amended by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years. S. 1404 and the heading before it formerly read:

"INTERPRETATION

S. 1404. (1) In this Part 'amount payable', 'life insurance policy in Canada', 'participating life insurance policy' and 'policy loan' have the meanings assigned by subsection 138(12) of the Act.

(2) In this Part,

'acquisition costs' of a policy for a taxation year means, where the policy

(*a*) is a policy other than

(i) a group policy,

(ii) a policy that insures a risk described in subparagraph 1400(*a*)(i),

(iii) a policy issued under an arrangement with a person (other than an insurer or an insurance agent or broker) with whom the insurer does not deal at arm's length whereby a customer of that person is referred to the insurer,

(iii.1) a policy issued to a member of a credit union as a consequence of an arrangement with a credit union, where

(A) the insurer was established primarily to provide insurance to members of credit unions,

(B) the policyholder was referred to the insurer, and

(C) the principal business of the insurer is the provision of insurance to members of credit unions, or

(iv) a policy issued to a policyholder that is a corporation with which the insurer does not deal at arm's length,

an amount equal to 20 per cent of the premium paid by the policyholder for the policy, except that in applying this paragraph with respect to a premium paid in a taxation year ending

(v) before 1978, the reference in this paragraph to 20 per cent shall be read as a reference to nil, or

(vi) after 1977 and before 1987, the reference in this paragraph to 20 per cent shall be read as a reference to 2 per cent for the 1978 taxation year, 4 per cent for the 1979 taxation year, 6 per cent for the 1980 taxation year, 8 per cent for the 1981 taxation year, 10 per cent for the 1982 taxation year, 12 per cent for the 1983 taxation year, 14 per cent for the 1984 taxation year, 16 per cent for the 1985 taxation year and 18 per cent for the 1986 taxation year, or

(*b*) is a policy other than a policy referred to in paragraph (*a*), an amount equal to the lesser of

(i) the amount that would have been determined under paragraph (*a*) if that paragraph had applied in respect of the policy, and

(ii) an amount equal to 5 per cent of the premium paid by the policyholder for the policy;

'actuarial liability' of an insurer at a particular time means

(*a*) in respect of a claim incurred before that time under an insurance policy, a reasonable estimate, determined in accordance with actuarial principles, of

(i) the present value at that time of the insurer's future payments and claim adjustment expenses in respect of the claim

minus

(ii) the present value at that time of amounts that the insurer will recover after that time in respect of the claim because of salvage, subrogation or any other reason, and

(*b*) in respect of the possibility that there are claims under an insurance policy incurred before that time that have not been reported to the insurer, a reasonable estimate, determined in accordance with actuarial principles, of

(i) the present value at that time of the insurer's payments and claim adjustment expenses in respect of those claims

minus

(ii) the present value at that time of amounts that the insurer will recover after that time in respect of those claims because of salvage, subrogation or any other reason;

'benefit' includes

(*a*) a policy dividend in respect of a policy to the extent that the dividend was specifically treated as a benefit by the insurer in determining a premium for the policy, and

(*b*) an expense of maintaining a policy after all premiums in respect thereof have been paid to the extent that the expense was specifically provided for by the insurer in determining a premium for the policy,

but does not include

(*c*) a policy dividend in respect of a policy described in paragraph 1403(1)(*c*),

(*d*) a policy loan,

(*e*) interest on funds left on deposit with the insurer under the terms of a policy, or

(*f*) any other benefit under a policy in respect of which a specific provision was not made by the insurer in determining a premium for the policy;

'cash surrender value' has the meaning assigned by paragraph 148(9)(*b*) of the Act;

'lapse-supported policy' means a life insurance policy that would require materially higher premiums if premiums were determined using policy lapse rates that are zero after the fifth policy year;

'life insurance policy' includes

(*a*) an annuity contract, and

(*b*) a benefit under

(i) a group life insurance policy, or

(ii) a group annuity contract;

'modified net premium', means in respect of a particular premium under a policy (other than a prepaid premium under a policy that cannot be refunded except on termination or cancellation of the policy), means

(*a*) where benefits (other than policy dividends) and premiums (other than the frequency of payment thereof) in respect of the policy are determined at the date of issue of the policy, the amount determined by the formula

$$A \times \frac{(B + C)}{(D + E)}$$

where

A is the amount of the premium,

B is the present value, at the date of the issue of the policy, of the amount of the benefits to be provided under the terms of the policy after a time that is one year after the date of the issue of the policy,

C is the present value, at the date of the issue of the policy, of the amount of the benefits to be provided under the terms of the policy after a time that is two years after the date of the issue of the policy,

D is the present value, at the date of the issue of the policy, of the amount of the premiums payable under the terms of the policy on or after a time that is one year after the date of the issue of the policy, and

E is the present value, at the date of the issue of the policy, of the amount of the premiums payable under the terms of the policy on or after a time that is two years after the date of the issue of the policy,

except that the amount determined by the formula in respect of the premium for the second year of a policy shall be deemed to be the amount that is 1/2 of the aggregate of

(i) the amount that would be determined under the formula, and

(ii) the amount of a one-year term insurance premium (determined without regard to the frequency of payment thereof) that would be payable under the policy, and

(*b*) where the amount of the benefits or premiums in respect of the policy are not determined at the date of issue of the policy, the amount that

would be determined under paragraph (*a*) if it were adjusted in a manner that is reasonable in the circumstances;

'net premium for the policy' for a taxation year means the amount by which the premium paid by the policyholder for a policy exceeds the acquisition costs of the policy;

'qualified annuity' means an annuity contract issued before 1982, other than a policy referred to in paragraph 1401(1)(*a*) or subsection 1403(7),

(*a*) in respect of which regular periodic annuity payments have commenced,

(*b*) in respect of which a contract or certificate has been issued that provides for regular periodic annuity payments to commence within one year from the date of issue of the contract or certificate,

(*c*) that is not issued as, under or pursuant to a registered retirement savings plan, registered pension plan or deferred profit sharing plan and that

(i) does not provide for a guaranteed cash surrender value at any time, and

(ii) provides for regular periodic annuity payments to commence not later than the attainment of age 71 by the annuitant, or

(*d*) that is issued as, under or pursuant to a registered retirement savings plan, registered pension plan or deferred profit sharing plan, provided that the interest rate is guaranteed for at least 10 years and the plan does not provide for any participation in profits, directly or indirectly;

'reinsurance commission' in respect of a policy means

(*a*) where the risk under the policy is fully reinsured, the amount, if any, by which

(i) the net premium for the policy

exceeds

(ii) the consideration payable by the insurer in respect of the reinsurance of the risk, and

(*b*) where the risk under the policy is not fully reinsured, the amount, if any, by which

(i) the portion of the net premium for the policy that may reasonably be considered to be in respect of the portion of the risk that is reinsured with a particular reinsurer

exceeds

(ii) the consideration payable by the insurer to the particular reinsurer in respect of the risk assumed by that reinsurer,

and for the purposes of this definition, 'net premium' means the amount determined under the rules applicable to the 1987 and subsequent taxation years;

'relevant authority' means

(*a*) the Superintendent of Financial Institutions, if the insurer is required by law to report to the Superintendent of Financial Institutions,

(*a*.1) in the case of Canada Mortgage and Housing Corporation, the Superintendent of Financial Institutions, who shall be deemed to supervise that corporation, or

(*b*) in any other case, the Superintendent of Insurance or other similar officer or authority of the province under whose laws the insurer is incorporated.

'reported reserve' of an insurer at the end of a taxation year means the amount equal to

(*a*) where the insurer was required to file an annual report with the relevant authority for a period ending coincidentally with the year, the amount of the reserve reported in that annual report,

(*b*) where the insurer was, throughout the year, subject to the supervision of the relevant authority and paragraph (*a*) does not apply, the amount of the reserve reported in its financial statements for the year, and

(*c*) in any other case (including, for greater certainty, where there is no relevant authority in respect of the insurer), nil.

(3) In construing the meaning of the expression 'group term life insurance policy' in this Part, subsection 248(1) of the Act does not apply.

(4) For the purposes of calculating the proportion referred to in the definition 'modified net premium' in subsection (2), an insurer may assume that premiums are payable annually in advance.

(5) For the purposes of this Part,

(*a*) a reference to a 'premium paid by the policyholder' at any particular time shall, depending on the method regularly followed by the insurer in computing its income, be read as a reference to a 'premium paid or payable by the policyholder' at that time; and

(*b*) in determining the premium paid by a policyholder for a policy, there may be deducted by the insurer the amount, if any, of the premium that

(i) may reasonably be considered, at the time the policy is issued, to be a deposit that, pursuant to the terms of the policy or the by-laws of the insurer, will be returned to the policyholder, or credited to the account of the policyholder, by the insurer on the cancellation or expiration of the policy, and

(ii) was not otherwise deducted under section 140 of the Act.

(6) For the purposes of this Part, any rider that is attached to a life insurance policy and that provides for additional life insurance or for an annuity is a separate life insurance policy."

S. 1404(2), the definition "actuarial liability" was added by P.C. 1996-1452, SOR/96-443, dated September 17, 1996, applicable to taxation years that end after February 22, 1994.

S. 1404(2), the definition "reported reserve" was added by P.C. 1996-1452, SOR/96-443, dated September 17, 1996, applicable to taxation years that end after February 22, 1994.

S. 1404(2), the definition "lapse-supported policy", was added by P.C. 1994-940, SOR/94-415, dated June 2, 1994, applicable

(*a*) to taxation years beginning after 1990; and

(*b*) where an insurer so elected by notifying the Minister of National Revenue in writing before July, 1991, to the insurer's taxation years beginning after 1987, 1988 or 1989 (as specified in the election) and before 1991, in which case,

(i) if the insurer so indicated in the election, paragraph 1403(1)(*a*) of the Regulations, as enacted by section 6, shall be read without reference to the words "effected after 1990", and

(ii) in any other case, the reference in paragraph 1403(1)(a) of the Regulations, as enacted by section 6, to "1990" shall be read as a reference to the calendar year immediately preceding the first taxation year to which the election relates.

Ss. 1404(2)(*a*)(iii.1) of the definition "acquisition costs" and 1404(2)(*a*.1) of the definition "relevant authority" were added by P.C. 1993-2025, SOR/93-564, dated December 9, 1993, applicable with respect to the 1991 and subsequent taxation years.

Ss. 1404(2)(*c*) and (*d*) of the definition "qualified annuity", were amended by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, to substitute "registered pension plan" for "registered pension fund or plan", applicable after 1985.

S. 1404(2), the definition "modified net premium", was amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990, applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987. That definition formerly read:

"'modified net premium' in respect of a particular premium (other than a prepaid premium under a policy that cannot be refunded except on termination or cancellation of the policy) means

(*a*) where the benefits (other than policy dividends) and premiums (other than the frequency of payments thereof) in respect of a policy are determined at the date of issue of the policy, that proportion of the premium that

(i) the present value, at a time that is one year after the date of issue of the policy, of the benefits to be provided under the terms of the policy after that time,

is of

(ii) the present value, at a time that is one year after the date of issue of the policy, of the premiums payable on or after that time under the terms of the policy, and

(*b*) where the benefits (other than policy dividends) or premiums (other than the frequency of payments thereof) in respect of a policy, are not determined at the date of issue of the policy, the amount that would have been determined if paragraph (*a*) had applied, where appropriate, in a manner that is reasonable in the circumstances, in respect of the policy;"

S. 1404(2), paragraph (*a*) of the definition "relevant authority", was amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990, applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987. Paragraph (*a*) of that definition formerly read:

"(*a*) the Superintendent of Insurance for Canada, if the insurer is required by law to report to him, or"

S. 1404(2) was amended by P.C. 1984-3789, SOR/84-948, dated November 29, 1984, to add "issued before 1982," to the definition of "qualified annuity".

S. 1404(2) was amended by P.C. 1983-3530, SOR/83-865, dated November 18, 1983, to add the words in the brackets to the definition of "modified net premium", applicable to taxation years commencing after 1982.

S. 1404(2) was amended by P.C. 1980-1484, SOR/80-419, dated June 6, 1980, effective for the 1978 and subsequent taxation years to amend the following definitions:

(*a*) "acquisition costs", the part following subparagraph (a)(iii), which formerly read:

"an amount equal to 20 per cent of the premium paid by the policyholder in the year for the policy, except that in applying this paragraph for a taxation year ending after 1977 and before 1987 the reference in this paragraph to 20 per cent shall be read as a reference to 2 per cent for the 1978 taxation year, 4 per cent for the 1979 taxation year, 6 per cent for the 1980 taxation year, 8 per cent for the 1981 taxation year, 10 per cent for the 1982 taxation year, 12 per cent for the 1983 taxation year, 14 per cent for the 1984 taxation year, 16 per cent for the 1985 taxation year and 18 per cent for the 1986 taxation year, and"

(*b*) "acquisition costs" and "net premium for the policy" by deleting "in the year" immediately following "policyholder" in both cases.

(*c*) "qualified annuity", paragraph (c) thereof, which formerly read:

"(*c*) that does not provide for a guaranteed cash surrender value at any time and that provides for regular periodic annuity payments to commence not later than the attainment of age 71 by the annuitant, or."

S. 1404(5) was amended by P.C. 1988-390, SOR/88-165, dated March 3, 1988 and effective January 1, 1978. S. 1404(5) formerly read:

"(5) For the purposes of this Part, a reference to a 'premium paid by the policyholder' at any particular time shall, depending on the method regularly followed by the insurer in computing its income, be read as a reference to a 'premium paid or payable by the policyholder' at that time."

S. 1404(5) was amended by P.C. 1980-1484, SOR/80-419, dated June 6, 1980, effective for the 1978 and subsequent taxation years by substituting references to "any particular time" for those to "in the year".

S. 1404(6) was added by P.C. 1980-1484, SOR/80-419, dated June 6, 1980, effective for the 1978 and subsequent taxation years.

1405. For the purpose of subparagraph 138(3)(*a*)(ii) of the Act, there may be deducted, in computing a life insurer's income for a taxation year, the amount it claims as a reserve in respect of an unpaid claim received by the insurer before the end of the year under a life insurance policy in Canada, not exceeding the lesser of

(*a*) the reported reserve of the insurer at the end of the year in respect of the claim, and

(*b*) the policy liability of the insurer at the end of the year in respect of the claim.

History: S. 1405 was replaced by S.C. 2009, c. 2, s. 100(1), applicable to taxation years that begin after September 2006. S. 1405 formerly read:

"S. 1405. For the purpose of subparagraph 138(3)(*a*)(ii) of the Act, there may be deducted in computing a life insurer's income for a taxation year the amount it claims as a reserve in respect of an unpaid claim received by the insurer before the end of the year under a life insurance policy in Canada that is a post-1995 life insurance policy, not exceeding the lesser of

(*a*) the reported reserve of the insurer at the end of the year in respect of the claim, and

(*b*) the policy liability of the insurer at the end of the year in respect of the claim."

S. 1405 was amended by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years. S. 1405 formerly read:

"S. 1405. Notwithstanding paragraph 1400(*b*) as it applied to a corporation's 1977 taxation year, for the purposes of paragraph 20(7)(*c*) of the Act for the 1977 taxation year, the prescribed amount (other than an amount in respect of unpaid claims or unearned premiums) in respect of group sickness and accident policies is the amount (other than an amount in respect of unpaid claims or unearned premiums), if any, as was, in the corporation's return of income required by subsection 150(1) of the Act to be filed for the 1976 taxation year, deducted in respect of such policies pursuant to paragraph 20(7)(*c*) of the Act."

1406. Any amount determined under section 1404 or 1405 shall be determined

(*a*) on a net of reinsurance ceded basis; and

(*b*) without reference to any liability in respect of a segregated fund (other than a liability in respect of a guarantee in respect of a segregated fund policy).

History: S. 1406 was amended by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years. S. 1406 formerly read:

"S. 1406. For the purposes of subparagraph 138(3)(*a*)(ii) of the Act, the amount allowed by regulation to an insurer for its 1977 taxation year shall not exceed the amount, if any, as was, in the insurer's return of income required by subsection 150(1) of the Act to be filed for the 1976 taxation year, deducted in computing its income pursuant to section 1403 as it applied to that year."

Ss. 1405 and 1406 were enacted by P.C. 1979-1486, SOR/79-425, May 22, 1979.

1407. For greater certainty, any amount referred to in or determined under section 1404 or 1405 may be equal to, or less than, nil.

History: S. 1407 was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

DIVISION 5
INTERPRETATION

INSURANCE BUSINESSES

1408. (1) The definitions in this subsection apply in this Part.

"*acquisition costs*" [Repealed.]

History: S. 1408(1), the definition "acquisition costs" was repealed by P.C. 2002-346, SOR/2002-123, dated March 14, 2002, applicable to taxation years that begin after 1999, except that, with respect to any taxpayer that makes an election pursuant to subsection 9(11) of the *Income Tax Amendments Act, 2000*, S.C. 2001, c. 17 [see the election noted in the History for subsection 18(9.02) of the *Income Tax Act*], the repeal of this definition applies to taxation years that end after 1997. S. 1408(1), the definition "acquisition costs" formerly read:

" 'acquisition costs', in respect of a policy of an insurer, consistency means

(*a*) 5% of the premium paid by a policyholder for the policy where the policy is

(i) a group policy,

(ii) a policy that insures a risk in respect of a financial loss of a lender on a loan made on the security of real property,

(iii) a policy issued under an arrangement with a person (other than an insurer or an insurance agent or broker) with whom the insurer does not deal at arm's length whereby a customer of the person is referred to the insurer,

(iv) a policy issued to a member of a credit union as a consequence of an arrangement with a credit union, where

(A) the insurer was established primarily to provide insurance to members of credit unions,

(B) the policyholder was referred to the insurer, and

(C) the principal business of the insurer is the provision of insurance to members of credit unions, or

(v) a policy issued to a policyholder that is a corporation with which the insurer does not deal at arm's length; and

(*b*) in any other case, 20% of the premium paid by the policyholder for the policy."

S. 1408(1), the definition "acquisition costs" was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

"*amount payable*", in respect of a policy loan at a particular time, means the amount of the policy loan and the interest that is outstanding on the policy loan at that time.

History: S. 1408(1), the definition "amount payable" was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

"*benefit*", in respect of a policy, includes

(*a*) a policy dividend (other than a policy dividend in respect of a policy described in paragraph 1403(1)(*c*)) in respect of the policy to the extent that the dividend was specifically treated as a benefit by the insurer in determining a premium for the policy, and

(*b*) an expense of maintaining the policy after all premiums in respect of the policy have been paid to the extent that the expense was specifically provided for by the insurer in determining a premium for the policy,

but does not include

(*c*) a policy loan,

(*d*) interest on funds left on deposit with the insurer under the terms of the policy, and

(*e*) any other amount under the policy that was not specifically provided for by the insurer in determining a premium for the policy.

History: S. 1408(1), the definition "benefit" was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

"*capital tax*" means a tax imposed under Part I.3 or VI of the Act or a similar tax imposed under an Act of the legislature of a province.

History: S. 1408(1), the definition "capital tax" was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

"*cash surrender value*" has the meaning assigned by subsection 148(9) of the Act.

History: S. 1408(1), the definition "cash surrender value" was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

"*claim liability*" of an insurer at the end of a taxation year means

(*a*) in respect of a claim reported to the insurer before that time under an insurance policy, the amount, if any, by which

(i) the present value at that time, computed using a rate of interest that is reasonable in the circumstances, of a reasonable estimate, determined in accordance with accepted actuarial practice, of the insurers future payments and claim adjustment expenses in respect of the claim

exceeds

(ii) the present value at that time, computed using a rate of interest that is reasonable in the circumstances, of a reasonable estimate, determined in accordance with accepted actuarial practice, of the amounts that the insurer will recover after that time in respect of the claim because of salvage, subrogation or any other reason; and

(*b*) in respect of the possibility that there are claims under an insurance policy incurred before that time that have not been reported to the insurer before that time, the amount, if any, by which

(i) the present value at that time, computed using a rate of interest that is reasonable in the circumstances, of a reasonable estimate, determined in accordance with accepted actuarial practice, of the insurer's future payments and claim adjustment expenses in respect of those claims

exceeds

(ii) the present value at that time, computed using a rate of interest that is reasonable in the circumstances, of a reasonable estimate, determined in accordance with accepted actuarial practice, of the amounts that the insurer will recover in respect of those claims because of salvage, subrogation or any other reason.

History: S. 1408(1), the definition "claim liability" was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

"*extended motor vehicle warranty*" means an agreement under which a person agrees to provide goods or render services in respect of the repair or maintenance of a motor vehicle manufactured by the person or a corporation related to the person where

(*a*) the agreement is in addition to a basic or limited warranty in respect of the vehicle;

(*b*) the basic or limited warranty has a term of 3 or more years, although it may expire before the end of such term on the vehicle's odometer registering a specified number of kilometres or miles;

(*c*) more than 50% of the expenses to be incurred under the agreement are reasonably expected to be incurred after the expiry of the basic or limited warranty; and

(*d*) the person's risk under the agreement is insured by an insurer that is subject to the supervision of a relevant authority.

History: S. 1408(1), the definition "extended motor vehicle warranty" was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

"*general amending provision*", of an insurance policy, means a provision of the policy that allows it to be amended with the consent of the policyholder.

History: S. 1408(1), the definition "general amending provision" was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

"*interest*", in relation to a policy loan, has the meaning assigned by subsection 138(12) of the Act.

History: S. 1408(1), the definition "interest" was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

"*lapse-supported policy*" means a life insurance policy that would require materially higher premiums if premiums were determined using policy lapse rates that are zero after the fifth policy year.

History: S. 1408(1), the definition "lapse-supported policy" was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

"*life insurance policy*" has the same meaning as defined in subsection 138(12) of the Act.

History: S. 1408(1), the definition "life insurance policy" was added by S.C. 2009, c. 2, s. 101(2), applicable to taxation years that begin after November 7, 2007.

"*life insurance policy in Canada*" has the same meaning as defined in subsection 138(12) of the Act.

History: S. 1408(1), the definition "life insurance policy in Canada" was replaced by S.C. 2009, c. 2, s. 101(1), applicable to taxation years that begin after November 7, 2007. That definition formerly read:

" 'life insurance policy in Canada' means a life insurance policy issued or effected by an insurer on the life of a person resident in Canada at the time the policy was issued or effected."

S. 1408(1), the definition "life insurance policy in Canada" was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

"*modified net premium*", in respect of a premium under a policy (other than a prepaid premium under a policy that cannot be refunded except on termination of the policy), means

(*a*) where all benefits (other than policy dividends) and premiums (other than the frequency of payment of premiums) in respect of the policy are determined at the date of issue of the policy, the amount determined by the formula

$$A \times [(B + C)/(D + E)]$$

where

A is the amount of the premium,

B is the present value, at the date of the issue of the policy, of the benefits to be provided under the terms of the policy after the day that is one year after the date of the issue of the policy,

C is the present value, at the date of the issue of the policy, of the benefits to be provided under the terms of the policy after the day that is two years after the date of the issue of the policy,

D is the present value, at the date of the issue of the policy, of the premiums payable under the terms of the policy on or after the day that is one year after the date of the issue of the policy, and

E is the present value, at the date of the issue of the policy, of the premiums payable under the terms of the policy on or after the day that is two years after the date of the issue of the policy,

except that the amount determined by the formula in respect of the premium for the second year of a policy is deemed to be the amount that is 50% of the total of

(i) the amount that would otherwise be determined under the formula, and

(ii) the amount of a one-year term insurance premium (determined without regard to the frequency of payment of the premium) that would be payable under the policy; and

(*b*) in any other case, the amount that would be determined under paragraph (*a*) if that paragraph applied and the amount were adjusted in a manner that is reasonable in the circumstances.

History: S. 1408(1), the definition "modified net premium" was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

"*net premium for the policy*" [Repealed.]

History: S. 1408(1), the definition "net premium for the policy" was repealed by P.C. 2002-346, SOR/2002-123, dated March 14, 2002, applicable to taxation years that begin after 1999, except that, with respect to any taxpayer that makes an election pursuant to subsection 9(11) of the *Income Tax Amendments Act, 2000*, S.C. 2001, c. 17 [see the election noted in the History for subsection 18(9.02) of the *Income Tax Act*], the repeal of this definition applies to taxation years that end after 1997. S. 1408(1), the definition "net premium for the policy" formerly read:

" 'net premium for the policy' means the amount by which the premium paid by a policyholder for the policy exceeds the acquisition costs of the policy."

S. 1408(1), the definition "net premium for the policy" was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

"*non-cancellable or guaranteed renewable accident and sickness policy*", includes a non-cancellable or guaranteed renewable accident and sickness benefit under a group policy.

History: S. 1408(1), the definition "non-cancellable or guaranteed renewable accident and sickness policy" was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

"*participating life insurance policy*" has the meaning assigned by subsection 138(12) of the Act.

History: S. 1408(1), the definition "participating life insurance policy" was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

"*policy liability*" of an insurer at the end of the taxation year in respect of an insurance policy or a claim, possible claim or risk under an insurance policy means the positive or negative amount of the insurers reserve in respect of its potential liability in respect of the policy, claim, possible claim or risk at the end of the year determined in accordance with accepted actuarial practice, but without reference to projected income and capital taxes (other than the tax payable under Part XII.3 of the Act).

History: S. 1408(1), the definition "policy liability" was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

"*policy loan*" has the meaning assigned by subsection 138(12) of the Act.

History: S. 1408(1), the definition "policy loan" was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

"*post-1995 life insurance policy*" means a life insurance policy that is not a pre-1996 life insurance policy.

History: S. 1408(1), the definition "post-1995 life insurance policy" was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

"*post-1995 non-cancellable or guaranteed renewable accident and sickness policy*" means a non-cancellable or guaranteed renewable accident and sickness policy that is not a pre-1996 non-cancellable or guaranteed renewable accident and sickness policy.

History: S. 1408(1), the definition "post-1995 non-cancellable or guaranteed renewable accident accident sickness policy" was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

"*pre-1996 life insurance policy*", at any time, means a life insurance policy where

(*a*) the policy was issued before 1996; and

(*b*) before that time and after 1995 there has been no change, except in accordance with the provisions (other than a general amending provision) of the policy as they existed on December 31, 1995, to

(i) the amount of any benefit under the policy,

(ii) the amount of any premium or other amount payable under the policy, or

(iii) the number of premium or other payments under the policy.

History: S. 1408(1), the definition "pre-1996 life insurance policy" was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

"*pre-1996 non-cancellable or guaranteed renewable accident and sickness policy*", at any time, means a non-cancellable or guaranteed renewable accident and sickness policy where

(*a*) the policy was issued before 1996; and

(*b*) before that time and after 1995 there has been no change, except in accordance with the provisions (other than a general amending provision) of the policy as they existed on December 31, 1995, to

(i) the amount of any benefit under the policy,

(ii) the amount of any premium or other amount payable under the policy, or

(iii) the number of premium or other payments under the policy.

History: S. 1408(1), the definition "pre-1996 non-cancellable or guaranteed renewable accident and sickness policy" was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

"*qualified annuity*" means an annuity contract issued before 1982, other than a deposit administration fund policy or a policy referred to in paragraph 1403(7)(*c*),

(*a*) in respect of which regular periodic annuity payments have commenced;

(*b*) in respect of which a contract or certificate has been issued that provides for regular periodic annuity payments to commence within one year after the date of issue of the contract or certificate;

(*c*) that is not issued as or under a registered retirement savings plan, registered pension plan or deferred profit sharing plan and that

(i) does not provide for a guaranteed cash surrender value at any time, and

(ii) provides for regular periodic annuity payments to commence not later than the attainment of age 71 by the annuitant; or

(*d*) that is issued as or under a registered retirement savings plan, registered pension plan or deferred profit sharing plan, if the interest rate is guaranteed for at least 10 years and the plan does not provide for any participation in profits, directly or indirectly.

History: S. 1408(1), the definition "qualified annuity" was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

"*reinsurance commission*", in respect of a policy, means

(*a*) where the risk under the policy is fully reinsured, the amount, if any, by which

(i) the premium paid by the policyholder for the policy

exceeds

(ii) the consideration payable by the insurer in respect of the reinsurance of the risk; and

(*b*) where the risk under the policy is not fully reinsured, the amount, if any, by which

(i) the portion of the premium paid by the policyholder for the policy that may reasonably be considered to be in respect of the portion of the risk that is reinsured with a particular reinsurer

exceeds

(ii) the consideration payable by the insurer to the particular reinsurer in respect of the risk assumed by the reinsurer.

History: S. 1408(1), the definition "reinsurance commission" was amended by P.C. 2002-346, SOR/2002-123, dated March 14, 2002, by replacing the expression "net premium" with "premium paid by the policyholder", applicable to taxation years that begin after 1999, except that, with respect to any taxpayer that makes an election pursuant to subsection 9(11) of the *Income Tax Amendments Act, 2000*, S.C. 2001, c. 17 [see the election noted in the History for subsection 18(9.02) of the *Income Tax Act*], this amendment applies to taxation years that end after 1997.

S. 1408(1), the definition "reinsurance commission" was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

"*relevant authority*" of an insurer means

(*a*) the Superintendent of Financial Institutions, if the insurer is required by law to report to the Superintendent of Financial Institutions; and

(*b*) in any other case, the Superintendent of Insurance or other similar officer or authority of the province under whose laws the insurer is incorporated.

History: S. 1408(1), the definition "relevant authority" was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

"*reported reserve*" of an insurer at the end of a taxation year in respect of an insurance policy or a claim, possible claim, risk, dividend, premium, refund of premiums or refund of premium deposits under an insurance policy means the amount equal to

(*a*) where the insurer is required to file an annual report with its relevant authority for a period ending coincidentally with the year, the positive or negative amount of the reserve that would be reported in that report in respect of the insurer's potential liability under the policy if the reserve were determined without reference to projected income and capital taxes (other than the tax payable under Part XII.3 of the Act);

(*b*) where the insurer is, throughout the year, subject to the supervision of its relevant authority and paragraph (*a*) does not apply, the positive or negative amount of the reserve that would be reported in its financial statements for the year in respect of the insurer's potential liability under the policy if

(i) those statements were prepared in accordance with generally accepted accounting principles, and

(ii) the reserve were determined without reference to projected income and capital taxes (other than the tax payable under Part XII.3 of the Act);

(*c*) where the insurer is the Canada Mortgage and Housing Corporation or a foreign affiliate of a taxpayer resident in Canada, the positive or negative amount of the reserve that would be reported in its financial statements for the year in respect of the insurer's potential liability under the policy if

(i) those statements were prepared in accordance with generally accepted accounting principles, and

(ii) the reserve were determined without reference to projected income and capital taxes (other than the tax payable under Part XII.3 of the Act); and

(*d*) in any other case, nil.

History: S. 1408(1), the definition "reported reserve" was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

Editorial Note: According to the Explanatory Note for the definition of "income allocation" in subsection 94.3(1) concerning foreign investment entities, re-released on November 9, 2006 (Part I of former Bill C-10): "In the context of the reserve for life insurers under subsection 138(3), it is intended that paragraph (*c*) of the definition "reported reserve" in subsection 1408(1) of the Regulations be amended so that the non-resident entity can have a "reported reserve"".

"*segregated fund*" has the meaning assigned by subsection 138.1(1) of the Act.

History: S. 1408(1), the definition "segregated fund" was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

"*segregated fund policy*" has the meaning assigned by subsection 138.1(1) of the Act.

History: S. 1408(1), the definition "segregated fund policy" was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

(2) The definition "group term life insurance policy" in subsection 248(1) of the Act does not apply to this Part.

History: S. 1408(2) was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

(3) For the purpose of the formula referred to in the definition "modified net premium" in subsection (1), it may be assumed that premiums are payable annually in advance.

History: S. 1408(3) was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

(4) For the purposes of this Part,

(*a*) a reference to a "premium paid by the policyholder" shall, depending on the method regularly followed by the insurer in computing its income, be read as a reference to a "premium paid or payable by the policyholder"; and

(*b*) in determining the premium paid by a policyholder for a policy, there may be deducted by the insurer the portion, if any, of the premium that

(i) can reasonably be considered, at the time the policy is issued, to be a deposit that, pursuant to the terms of the policy or the by-laws of the insurer, will be returned to the policyholder, or credited to the account of the policyholder, by the insurer on the termination of the policy, and

(ii) was not otherwise deducted under section 140 of the Act.

History: S. 1408(4) was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

(5) For the purposes of this Part, any rider that is attached to a life insurance policy and that provides for additional life insurance or for an annuity is a separate life insurance policy.

History: S. 1408(5) was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

(6) For the purposes of this Part, any rider that is attached to a policy and that provides for additional non-cancellable or guaranteed renewable accident and sickness insurance, as the case may be, is a separate non-cancellable or guaranteed renewable accident and sickness policy.

History: S. 1408(6) was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

(7) For the purposes of the definitions "pre-1996 life insurance policy" and "pre-1996 non-cancellable or guaranteed renewable accident and sickness policy" in subsection (1), a change in the amount of any benefit or in the amount or number of any premiums or other amounts payable under a policy is deemed not to have occurred where the change results from

(*a*) a change in an underwriting class;

(*b*) a change in frequency of premium payments within a year that does not alter the present value, at the beginning of the year, of the total premiums to be paid under the policy in the year;

(*c*) the deletion of a rider;

(*d*) the correction of erroneous information;

(*e*) the reinstatement of the policy after its lapse, if the reinstatement occurs not later than 60 days after the end of the calendar year in which the lapse occurred;

(*f*) the redating of the policy for policy loan indebtedness; or

(*g*) a change in the amount of a benefit under the policy that is granted by the insurer on a class basis, where

(i) no consideration was payable by the policyholder or any other person for the change, and

(ii) the change was not made because of the terms or conditions of the policy or any other policy or contract to which the insurer is a party.

History: S. 1408(7) was added by P.C. 1999-1154, SOR/99-269, dated June 23, 1999, applicable to the 1996 and subsequent taxation years.

PART XV
Profit Sharing Plans

DIVISION I
Employees Profit Sharing Plans

1500. (1) An election under subsection 144(4.1) of the Act by the trustee of a trust governed by an employees profit sharing plan shall be made by filing with the Minister the prescribed form in duplicate.

Interpretation Bulletins: *Secondary* — IT-280R Employees profit sharing plans — Payments computed by reference to profits.
Forms: T3009.

(2) An election under subsection 144(4.2) of the Act by the trustee of a trust governed by an employees profit sharing plan shall be made by filing with the Minister the prescribed form in duplicate on or before the last day of a taxation year of the trust in respect of any capital property deemed to have been disposed of in that taxation year by virtue of the election.

Forms: T3009.

(3) An election under subsection 144(10) of the Act shall be made by sending the following documents by registered mail to the Commissioner of Revenue at Ottawa:

(*a*) a letter from the employer stating that he elects to have the arrangement qualify as an employees profit sharing plan;

(*b*) if the employer is a corporation,

(i) where the directors of the corporation are legally entitled to administer the affairs of the corporation, a certified copy of their resolution authorizing the election to be made, and

(ii) where the directors of the corporation are not legally entitled to administer the affairs of the corporation, a certified copy of the authorization of the making of the election by the person or persons legally entitled to administer the affairs of the corporation; and

(*c*) a copy of the agreement and any supplementary agreement setting out the plan.

History: S. 1500(3), the portion before paragraph (*a*) was replaced by P.C. 2007-849, SOR/2007-116, dated May 31, 2007, effective on publication in the *Canada Gazette*, June 13, 2007. S. 1500(3), the portion before paragraph (*a*) formerly read:

"(3) An election under subsection 144(10) of the Act shall be made by forwarding by registered mail to the Deputy Minister of National Revenue for Taxation at Ottawa the following documents:"

DIVISION II
Deferred Profit Sharing Plans

Registration of Plans

1501. For the purpose of the definition "deferred profit sharing plan" in subsection 147(1) of the Act, an application for registration of a plan shall be made by sending the following documents by registered mail to the Commissioner of Revenue at Ottawa:

(*a*) a letter from the trustee and the employer whereby the trustee and the employer apply for the registration of the plan as a deferred profit sharing plan;

(*b*) if the employer is a corporation, a certified copy of the resolution of the directors authorizing the application to be made; and

(*c*) a copy of the agreement and any supplementary agreement setting out the plan.

History: S. 1501, the portion before paragraph (*a*) was replaced by P.C. 2007-849, SOR/2007-116, dated May 31, 2007, effective on publication in the *Canada Gazette*, June 13, 2007. S. 1501, the portion before paragraph (*a*) formerly read:

"S. 1501. For the purposes of the definition 'deferred profit sharing plan' in subsection 147(1) of the Act, an application for registration of a plan shall be made by forwarding by registered mail to the Deputy Minister of National Revenue for Taxation at Ottawa the following documents:"

S. 1501 was amended by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1990. That portion formerly read:

"S. 1501. For the purposes of paragraph 147(1)(a) of the Act, an application for registration of a plan shall be made by forwarding by registered mail to the Deputy Minister of National Revenue for Taxation at Ottawa the following documents:"

Information Circulars: IC 77-1R5 Deferred profit sharing plan.

1502. [Revoked.]

History: S. 1502 and its heading were revoked by P.C. 1981-2518, SOR/81-725, September 21, 1981, effective January 1, 1981.

DIVISION III
ELECTIONS IN RESPECT OF CERTAIN SINGLE PAYMENTS

1503. Any election by a beneficiary under subsection 147(10.1) of the Act shall be made by filing the prescribed form in duplicate as follows:

(*a*) one form shall be filed by the beneficiary with the trustee of the deferred profit sharing plan not later than 60 days after the end of the taxation year in which the beneficiary received the payment referred to in subsection 147(10.1) of the Act; and

(*b*) the other form shall be filed by the beneficiary with the Minister on or before the day on which the beneficiary is required to file a return of income pursuant to section 150 of the Act for the taxation year in which the beneficiary received the payment referred to in subsection 147(10.1) of the Act.

Interpretation Bulletins: *Secondary* — IT-281R2 Elections on single payments from a deferred profit-sharing plan [Archived by the CRA].

Forms: T2078.

PART XVI
Prescribed Countries

1600. For the purposes of subsection 10(4) of the *Income Tax Application Rules, 1971*, the following countries are hereby prescribed:

(*a*) Commonwealth of Australia;
(*b*) Kingdom of Denmark;
(*c*) Republic of Finland;
(*d*) French Republic;
(*e*) Federal Republic of Germany;
(*f*) Ireland;
(*g*) Jamaica;
(*h*) Japan;
(*i*) Kingdom of the Netherlands;
(*j*) New Zealand;
(*k*) Kingdom of Norway;
(*l*) Republic of South Africa;
(*m*) Kingdom of Sweden;
(*n*) Trinidad and Tobago;
(*o*) United Kingdom of Great Britain and Northern Ireland; and
(*p*) United States of America.

PART XVII
Capital Cost Allowances, Farming and Fishing

DIVISION I
DEDUCTIONS ALLOWED

RATES

1700. (1) For the purposes of paragraph 20(1)(*a*) of the Act, there is hereby allowed to a taxpayer, in computing his income from farming or fishing, as the case may be, a deduction for each taxation year in respect of each property that was used for the purpose of gaining or producing income from farming or fishing equal to such amount as he may claim, not exceeding in the case of

(*a*) a building or other structure, not described elsewhere in this subsection, including component parts such as electric wiring, plumbing, sprinkler systems, air-conditioning equipment, heating equipment, lighting fixtures, elevators and escalators, 2½ per cent,

(*b*) a building or other structure of

(i) frame,
(ii) log,
(iii) stucco on frame,
(iv) galvanized iron, or
(v) corrugated iron,

construction including component parts such as electric wiring, plumbing, sprinkler systems, air-conditioning equipment, heating equipment, lighting fixtures, elevators and escalators, 5 per cent,

(*c*) a fence, 5 per cent,

(*d*) a scow or a vessel, including furniture, fittings or equipment attached thereto, but not including radiocommunication equipment, 7½ per cent,

(*e*) nonautomotive equipment and machinery, 10 per cent,

(*f*) automotive equipment, a sleigh or a wagon, 15 per cent,

(*g*) radiocommunication equipment, 15 per cent,

(*h*) tile drainage acquired before the 1965 taxation year, 10 per cent,

(*i*) a water storage tank, 5 per cent,

(*j*) a gas well that is part of the equipment of a farm and from which the gas produced is not sold, 10 per cent, and

(*k*) a tool costing less than $100, 100 per cent,

of the depreciable cost to the taxpayer of the property.

Interpretation Bulletins: *Secondary* — IT-268R4 Inter vivos transfer of farm property to child; IT-349R3 Intergenerational transfers of farm property on death.
Forms: T1175.
Guides: RC4408 Farming Income and the CAIS Program Harmonized Guide.

Taxation Years Less Than 12 Months

(2) Where a taxation year is less than 12 months, the amount allowed as a deduction under subsection (1) shall not exceed that proportion of the maximum amount otherwise allowable that the number of days in the taxation year is of 365.

Property Disposed of During Year

(3) Where a taxpayer has disposed of a property before the end of a taxation year, the amount allowed as a deduction under subsection (1) in respect of that property for the year shall not exceed that proportion of the maximum amount otherwise allowable that the number of

months in the taxation year during which the property was owned by the taxpayer is of 12.

Leasehold Interests

(4) Where a taxpayer has property that was used for the purpose of gaining or producing income from farming or fishing and that would be included in Class 13 in Schedule II if he had claimed an allowance under Part XI, he may deduct, in computing his income from farming or fishing for a taxation year, an amount not exceeding the amount he could have deducted in respect of that property for the year under paragraph 1100(1)(*b*).

History: Ss. 1700(3), (4), (5) and the headings were revoked and replaced by new ss. 1700(3), (4) and new headings by Order in Council P.C. 1978-1315, SOR/78-377 dated April 24, 1978 (Special Issue, *Canada Gazette*, December 31, 1978). Ss. 1700(3), (4), (5) formerly read:

"*Property Acquired During Year*

(3) where the taxpayer acquired a property after the commencement of a taxation year, the amount allowed as a deduction under subsection (1) in respect of that property for the year shall not exceed that proportion of the maximum amount otherwise allowable that the number of months in the taxation year during which the property was owned by the taxpayer is of 12.

Property Disposed of During Year

(4) Where the taxpayer has disposed of a property before the end of a taxation year, the amount allowed as a deduction under subsection (1) in respect of that property for the year shall not exceed that proportion of the maximum amount otherwise allowable that the number of months in the taxation year during which the property was owned by the taxpayer is of 12.

Leasehold Interest

(5) Where a taxpayer has property that was used for the purpose of gaining or producing income from farming or fishing and that would be included in Class 13 in Schedule II if he had claimed an allowance under Part XI, he may deduct, in computing his income from farming or fishing, for a taxation year, an amount not exceeding the amount he could have deducted in respect of that property for the year under paragraph 1100(1)(b)."

DIVISION II
MAXIMUM DEDUCTIONS

1701. (1) The amount allowed as a deduction under section 1700 in respect of a property shall not exceed the amount by which the capital cost of the property to the taxpayer exceeds the aggregate of the deductions from income allowed under this Part in respect of the property for previous taxation years.

(2) In respect of the 1972 and subsequent taxation years, where subsection 20(5) of the *Income Tax Application Rules* applies to a particular property, notwithstanding subsection (1), the amount allowed as a deduction under section 1700 in respect of the property shall not exceed the amount by which

(*a*) the amount determined to be the undepreciated capital cost of the property, under paragraph 20(5)(*b*) of the *Income Tax Application Rules, 1971*,

exceeds

(*b*) the aggregate of the deductions from income allowed under this Part in respect of the property for previous taxation years ending after 1971.

History: S. 1701(2) was amended by P.C. 1994-1817, SOR/94-686, dated November 7, 1994,by replacing the words "Income Tax Application Rules, 1971" with "Income Tax Application Rules", applicable November 7, 1994.

Interpretation Bulletins: *Secondary* — IT-349R3 Intergenerational transfers of farm property on death.

DIVISION III
PROPERTY NOT INCLUDED

1702. (1) Nothing in this Part shall be construed as allowing a deduction in respect of a property

(*a*) the cost of which is deductible in computing the taxpayer's income;

(*b*) that is described in the taxpayer's inventory;

(*c*) that was acquired by an expenditure in respect of which the taxpayer is allowed a deduction from income under section 37 of the Act;

(*d*) that has been constituted a prescribed class by subsection 24(2) of chapter 91, S.C. 1966-67;

(*e*) that is included in a separate prescribed class established under subsection 13(14) of the Act;

(*f*) that was not used in the business during the year;

(*g*) that is

(i) an animal, or

(ii) a tree, shrub, herb or similar growing thing;

(*h*) that was not acquired by the taxpayer for the purpose of gaining or producing income from farming or fishing;

(*i*) that has been included at any time by the taxpayer in a class prescribed under Part XI;

(*j*) that is a passenger automobile acquired after June 13, 1963, and before January 1, 1966, the cost to the taxpayer of which, minus the initial transportation charges and retail sales tax in respect thereof, exceeded $5,000, unless the automobile was acquired by a person before June 14, 1963 and has, by one or more transactions between persons not dealing at arm's length, become vested in the taxpayer; or

(*k*) that was acquired by the taxpayer after 1971.

(2) Where a taxpayer is a member of a partnership, the properties referred to in this Part shall be deemed not to include any property that is an interest of the taxpayer in depreciable property that is partnership property of the partnership.

(3) The properties referred to in section 1700 shall be deemed not to include the land upon which a property described therein was constructed or is situated.

(4) Where the taxpayer is a non-resident person, the properties referred to in section 1700 shall be deemed not to include property that is situated outside Canada.

(5) The provisions of subsections 1102(11), (12) and (13) are applicable *mutatis mutandis* to paragraph (1)(*j*).

Interpretation Bulletins: *Secondary* — IT-349R3 Intergenerational transfers of farm property on death.

Regulations

DIVISION IV
INTERPRETATION

TAXATION YEARS FOR INDIVIDUALS IN BUSINESS

1703. (1) Where a taxpayer is an individual and his income for the taxation year includes income from a business the fiscal period of which does not coincide with the calendar year, in respect of depreciable properties acquired for the purpose of gaining or producing income from the business, a reference in this Part to

(*a*) "the taxation year" shall be deemed to be a reference to the fiscal period of the business; and

(*b*) "the end of the taxation year" shall be deemed to be a reference to the end of the fiscal period of the business.

Depreciable Cost

(2) In this Part, "depreciable cost" to a taxpayer of property means, except as otherwise provided, the actual cost of the property to the taxpayer or the amount at which he is deemed under subsection 13(7) of the Act to have acquired the property, as the case may be.

(3) Notwithstanding the other provisions of this section, in the case of property the cost of which to a partnership has been determined under paragraph 20(5)(*a*) of the *Income Tax Application Rules, 1971*, the depreciable cost to the taxpayer of the property for the purposes of this Part shall be deemed to be an amount equal to the cost to the partnership of the particular property as determined under that paragraph.

Personal Use of Property

(4) Where a taxpayer has, in a taxation year, regularly used a property in part for the purpose of gaining or producing income from farming or fishing and in part for a purpose other than gaining or producing income, the depreciable cost to the taxpayer of the property for the purposes of this Part is the proportion of the amount that would otherwise be the depreciable cost that the use regularly made of the property for the purpose of gaining or producing income from farming or fishing is of the whole use regularly made of the property.

Grants, Subsidies or Other Government Assistance

(5) Where a taxpayer has received or is entitled to receive a grant, subsidy or other assistance from a government, municipality or other public authority in respect of or for the acquisition of property, the depreciable cost to the taxpayer of the property for the purposes of this Part is the amount that would otherwise be the depreciable cost minus the amount of the grant, subsidy or other assistance.

Transactions Not at Arm's Length

(6) Where property did belong to a person (in this subsection referred to as the "original owner") and has, by one or more transactions between persons not dealing at arm's length, become vested in a taxpayer, the depreciable cost to the taxpayer of the property for the purposes of this Part is the lesser of

(*a*) the actual capital cost of the property to the taxpayer; and

(*b*) the amount by which the actual capital cost of the property to the original owner exceeds the aggregate of

(i) the total amount of depreciation for the property that, since the commencement of 1917, has been or should have been taken into account in accordance with the practice of the Department of National Revenue in ascertaining the income of the original owner and all intervening owners for the purposes of the *Income War Tax Act* or in ascertaining a loss for a year when there was no income under that Act,

(ii) any accumulated depreciation reserves that the original owner or an intervening owner had for the property at the commencement of 1917 and that were recognized by the Minister for the purposes of the *Income War Tax Act*, and

(iii) the aggregate of the deductions, if any, allowed under this Part in respect of the property to the original owner and all intervening owners.

Property Acquired From a Parent

(7) Notwithstanding subsection (6), where depreciable property has been acquired by a taxpayer under such circumstances that the provisions of section 85H of the Act as it read in its application to the 1971 and prior taxation years are applicable for the determination of the capital cost of the property, the depreciable cost to the taxpayer of the property for the purposes of this Part is the capital cost as determined under that section.

Property Acquired by Gift

(8) Subsection (6) does not apply in respect of property which a taxpayer has acquired by gift.

Interpretation Bulletins: *Secondary* — IT-349R3 Intergenerational transfers of farm property on death.

DIVISION V
APPLICATION OF THIS PART

1704. This Part shall apply only to a taxpayer who, in computing his income, has never claimed an allowance under Part XI in respect of a property at a time when an allowance could have been claimed under this Part in respect of that property, other than an allowance claimed by the taxpayer under Part XI that may be claimed in respect of a property described in

(*a*) paragraph 1100(1)(*r*) as enacted by Order in Council P.C. 1965-1118 of June 18, 1965 and as amended by Order in Council P.C. 1965-2320 of December 29, 1965;

(*b*) paragraph 1100(1)(*sa*) as enacted by Order in Council P.C. 1968-2261 of December 10, 1968;

(*c*) paragraph 1100(1)(*v*); or

(*d*) Class 20 in Schedule II.

History: S. 1704 was revoked and replaced by P.C. 1978-1315, SOR/78-377, dated April 24, 1978 (Special Issue, *Canada Gazette*, December 31, 1978). S. 1704 formerly read:

"S. 1704. This Part shall apply only to a taxpayer who, in computing his income, has never claimed an allowance under Part XI (other than an allowance that a taxpayer may claim under Part XI in respect of a property of Class 20 in Schedule II or a property described in paragraph 1100(1)(r), (sa) or (v)) in respect of a property at a time when an allowance could have been claimed under this Part in respect of that property."

Interpretation Bulletins: *Secondary* — IT-349R3 Intergenerational transfers of farm property on death.

PART XVIII
Inventories

Manner of Keeping Inventories

1800. For the purposes of section 230 of the Act, an inventory shall show quantities and nature of the properties that should be included therein in such a manner and in sufficient detail that the property may be valued in accordance with this Part or section 10 of the Act.

Interpretation Bulletins: *Secondary* — IT-504R2 (Consolid.) Visual artists and writers.

Valuation

1801. Except as provided in section 1802, for the purpose of computing the income of a taxpayer from a business, all the property described in all the inventories of the business may be valued at its fair market value.

History: S. 1801 was amended by P.C. 1989-1589, SOR/89-419, dated August 24, 1989, applicable for the purposes of valuing the property described in an inventory of a business of a taxpayer any time after January 15, 1987. S. 1801 formerly read:

"S. 1801. Except as provided in section 1802, for the purpose of computing the income of a taxpayer from a business

(*a*) all the property described in all the inventories of the business may be valued at the cost to him; or

(*b*) all the property described in all the inventories of the business may be valued at the fair market value."

Interpretation Bulletins: *Secondary* — IT-98R2 Investment corporations [Archived by the CRA]; IT-473 Inventory valuation.

Valuation of Animals

1802. **(1)** Except as provided in subsection (2), a taxpayer who is carrying on a business that includes the breeding and raising of animals may elect in prescribed form for a taxation year and subsequent taxation years to value each animal of a particular species (except a registered animal, an animal purchased for feedlot or similar operations, or an animal purchased by a drover or like person for resale) included in his inventory in respect of the business at a unit price determined in accordance with this section.

Forms: T2034.

(2) An election made in accordance with subsection (1) may be revoked in writing by the taxpayer, but where a taxpayer has made a revocation in accordance with this subsection a further election may not be made under subsection (1) except with the concurrence of the Minister.

(3) The unit price with respect to an animal of a particular class of animal shall be determined in accordance with the following rules:

(*a*) where animals of a particular class of animal were included in the inventory of a taxpayer at the end of the taxation year immediately preceding the first year in respect of which the taxpayer elected under subsection (1), the unit price of an animal of that class shall be computed by dividing the total value of all animals of the class in the inventory of the preceding year by the number of animals of the class described in that inventory; and

(*b*) in any other case, the unit price of an animal of a class shall be determined by the Minister, having regard, among other things, to the unit prices of animals of a comparable class of animal used in valuing the inventories of other taxpayers in the district.

(4) Notwithstanding subsection (1), where the aggregate value of the animals of a particular class determined in accordance with that subsection exceeds the market value of those animals, the animals of that class may be valued at fair market value.

(5) In this section,

"*class of animal*" means a group of animals of a particular species segregated on the basis of age, breed or other recognized division, as determined by the taxpayer at the time of election under this section;

"*district*" means the territory served by a Tax Centre of the Canada Revenue Agency;

"*registered animal*" means an animal for which a certificate of registration has been issued by the registrar of the breed to which the animal belongs or by the registrar of the Canadian National Livestock Records;

a reference to "taxation year" shall be deemed to include a reference to the fiscal period of a business.

History: S. 1802(5), the definition "district" was replaced by P.C. 2007-849, SOR/2007-116, dated May 31, 2007, effective on publication in the *Canada Gazette*, June 13, 2007. S. 1802(5), the definition "district" formerly read:

"'district' means the territory served by a District Office of the Taxation Division of the Department of National Revenue;"

PART XIX
Investment Income Tax

Editorial Note: The provisions in Part XIX are applicable to taxation years commencing after June 17, 1987 and before 1990 that end after 1987.

Interpretation

1900. **(1)** In this Part,

"*benefit*" under a policy includes a policy dividend, an experience rating refund, a refund of premiums and any amount deemed by paragraph 138.1(1)(*g*) of the Act for the purposes of Part I of the Act to be a payment under the terms and conditions of the policy, but does not include a policy loan or interest on funds left on deposit with the insurer under the terms of the policy;

"*excluded arrangement*" of an insurer at any time means

(*a*) a life insurance policy in Canada issued by the insurer (or in respect of which the insurer has assumed the obligations of the issuer of the policy to the policyholder), which is at that time a registered life insurance policy, an annuity contract (including a settlement annuity), a group term life insurance policy or an existing guaranteed life insurance policy,

(*b*) a registered pension fund or plan in respect of which the insurer is at that time a plan sponsor, or a retirement compensation arrangement in respect of which the insurer is the custodian,

(*c*) a life insurance policy (other than a life insurance policy in Canada) issued by the insurer before that time (or in respect of which the insurer has before that time assumed the obligations of the issuer of the policy to the policyholder), and

(*d*) a reinsurance arrangement under which the insurer has before that time assumed, directly or indirectly, risks under life insurance policies (other than policies issued by the insurer or in respect of which the insurer has assumed the obligations of the issuer of the policy to the policyholder), to the extent that the arrangement relates to those risks;

"*existing guaranteed life insurance policy*" at any time means a non-participating life insurance policy in Canada in respect of which the amount of every premium that became payable before that time and after March 2, 1988 was fixed and determined on or before March 2, 1988, adjusted for any specified transaction or event that occurs after March 2, 1986 in respect of the policy;

"*group term life insurance policy*" is a group life insurance policy under which

(*a*) no amount (other than a policy dividend, an experience rating refund or a refund of premiums) may become payable to any person, except in the event of the death or disability of a person whose life was insured under the policy, and

(*b*) no amount may become payable to a person (other than the group policyholder) in respect of a policy dividend, an experience rating refund or a refund of premiums that has been funded by contributions made to or under the policy by another person;

"*guaranteed interest*" in respect of a life insurance policy for a taxation year means

(*a*) in respect of a life insurance policy (other than a pre-funded group life insurance policy), the total of all amounts each of which is the amount in respect of a guaranteed benefit in respect of which an amount is determined under paragraph 1401(1)(*a*), (*c*) or (*d*) for the year, where that benefit is provided under the terms and conditions of the policy as they existed on March 2, 1988, determined by multiplying the greater of

(i) the rate of interest used by the issuer of the policy in respect of the year in determining the amount of the benefit, and

(ii) 4%

by 1/2 of the total of

(iii) the maximum amount that would be deductible under subparagraph 138(3)(*a*)(i) of the Act pursuant to paragraph 1401(1)(*a*), (*c*) or (*d*), as the case may be, in respect of the benefit in computing the insurer's income for the year, if that amount were determined without reference to any policy loan or reinsurance arrangement, and

(iv) the maximum amount that would have been deductible under subparagraph 138(3)(*a*)(i) of the Act pursuant to paragraph 1401(1)(*a*), (*c*) or (*d*), as the case may be, in respect of the benefit in computing the insurer's income for the immediately preceding taxation year, if that amount were determined without reference to any policy loan or reinsurance arrangement, and

(*b*) in respect of a pre-funded group life insurance policy, 80 per cent of the amount that would be determined under paragraph (*a*) in respect of the policy for the year, if that paragraph were read without reference to the words "(other than a pre-funded group life insurance policy)";

"*life insurance policy*" does not include

(*a*) that part of a policy in respect of which the policyholder is deemed by paragraph 138.1(1)(*e*) of the Act to have an interest in a segregated fund trust, or

(*b*) a reinsurance arrangement;

"*life insurance policy in Canada*" does not include

(*a*) that part of a policy in respect of which the policyholder is deemed by paragraph 138.1(1)(*e*) of the Act to have an interest in a segregated fund trust, or

(*b*) a reinsurance arrangement;

"*maximum tax actuarial reserve*" has the meaning assigned by subsection 138(12) of the Act;

"*mortality experience*" of an insurer for a taxation year means the positive or negative amount, as the case may be, determined by the formula

$$1.2\ (A - B - C)$$

where

A is the total of all amounts each of which is the amount that became payable in the year by the insurer under a taxable life insurance policy of the insurer as a consequence of the receipt of a claim in respect of the death of a person whose life was insured under the policy, determined without reference to any policy loan,

B is the total of all amounts each of which is the amount of a reserve that would be determined in accordance with paragraph 1401(1)(*a*), (*c*) or (*d*), if that amount were determined without reference to any policy loan or reinsurance arrangement, in respect of a taxable life insurance policy of the insurer that would have been released in the year as a consequence of the receipt of a claim in respect of the death of a person whose life was insured under the policy, and

C is 90 per cent of the total of all amounts, each of which is the net cost of pure insurance determined in accordance with section 308 for the year in respect of an interest in a taxable life insurance policy of the insurer;

"*mortality loss adjustment account*" of an insurer at the end of a taxation year is the positive amount, if any, determined by the formula

$$A + B - C$$

where

A is the mortality loss adjustment account of the insurer for the immediately preceding taxation year,

B is

(*a*) where the mortality experience of the insurer for the year is a negative amount, the amount of the mortality experience of the insurer for the year, and

(*b*) in any other case, the amount, if any, by which the amount claimed by the insurer under the description of F in computing the amount

determined under subsection (6) for the year exceeds the amount of the mortality loss adjustment account of the insurer for the immediately preceding taxation year, and

C is 1.2 times the amount, if any, by which

(*a*) the net cost of insurance of the insurer for the year

exceeds

(*b*) the total of all amounts each of which is the net cost of pure insurance determined in accordance with section 308 for the year in respect of an interest in a taxable life insurance policy of the insurer;

"*net cost of insurance*" of an insurer for a taxation year means the amount, if any, by which

(*a*) the amount determined in the description of A in the definition "mortality experience" in respect of the insurer for the year

exceeds

(*b*) the amount determined in the description of B in the definition "mortality experience" in respect of the insurer for the year;

"*net level premium*" in respect of a particular premium under a policy (other than a prepaid premium that cannot be refunded except on termination or cancellation of the policy) means

(*a*) where benefits (other than policy dividends) and premiums (other than the frequency of payment thereof) in respect of the policy have been determined at the date of issue of the policy, the amount determined by the formula

$$A \times \frac{B}{C}$$

where

A is the amount of the particular premium,

B is the present value, at the date of issue of the policy, of the amount of the benefits (other than policy dividends) to be provided under the terms of the policy after the issue of the policy, and

C is the present value, at the date of issue of the policy, of the amount of the premiums payable under the terms of the policy on or after the issue of the policy, and

(*b*) where the amounts of the benefits or premiums in respect of the policy are not determined at the date of issue of the policy, the amount that would be determined under paragraph (*a*) in respect of the particular premium if the amount were adjusted in a manner that is reasonable in the circumstances and consistent with the manner of the adjustment referred to in the definition "modified net premium" in subsection 1404(2) in respect of the particular premium;

"*net level premium reserve*" in respect of a life insurance policy for a taxation year means the maximum amount that would be deductible under subparagraph 138(3)(*a*)(i) of the Act pursuant to paragraph 1401(1)(*c*) in respect of the policy in computing the insurer's income for the year, if any reference to "modified net premium" in sections 1401, 1403 and 1404 were a reference to "net level premium";

"*non-participating life insurance policy*" means a life insurance policy other than a participating life insurance policy within the meaning assigned by subsection 138(12) of the Act;

"*policy loan*" has the meaning assigned by subsection 138(12) of the Act;

"*pre-funded group life insurance policy*" means a group term life insurance policy, other than a policy under which each premium payable is in respect of coverage for a period, including the day on which the premium becomes payable, that does not exceed twelve months;

"*premium*" includes

(*a*) consideration received for settlement annuities,

(*b*) amounts received by an insurer in respect of employee contributions under registered pension funds or plans in respect of which the insurer is a plan sponsor or a retirement compensation arrangement in respect of which the insurer is the custodian, and

(*c*) any amount deemed by paragraph 138.1(1)(*b*) of the Act for the purposes of Part I of the Act to be a premium received by an insurer,

but does not include amounts received in respect of the repayment of a policy loan or in respect of interest on a policy loan and, for greater certainty, the amount of a premium is not reduced by the amount of a refund of premiums;

"*registered life insurance policy*" has the meaning assigned by section 211 of the Act;

"*reinsurance arrangement*" does not include an arrangement under which an insurer has assumed the obligations of the issuer of a life insurance policy to the policyholder;

"*segregated fund*" has the meaning assigned by subsection 138(12) of the Act;

"*specified transaction or event*" in respect of a life insurance policy means

(*a*) a change in underwriting class,

(*b*) a change in premium due to a change in frequency of premium payments within a year that does not alter the present value, at the beginning of the year, of the total premiums to be paid under the policy in the year,

(*c*) an addition under the terms of the policy as they existed on March 2, 1988, of accidental death, dismemberment, disability or guaranteed purchase option benefits,

(*d*) a deletion of a rider,

(*e*) redating lapsed policies within 60 days after the end of the calendar year in which the lapse occurred, or redating for policy loan indebtedness,

(*f*) a change in premium due to a correction of erroneous information,

(*g*) the payment of a premium after its due date, or no more than 30 days before its due date, as established on or before March 2, 1988, or

(*h*) the payment of an amount of interest described in subparagraph 148(9)(*e*.1) (i) [subsection 148(9), paragraph (*a*) of the definition of "premium"] of the Act;

"*taxable life insurance policy*" of an insurer at any time means a life insurance policy in Canada issued by the

insurer (or in respect of which the insurer has assumed the obligations of the issuer of the policy to the policyholder), other than a policy that is at that time an excluded arrangement.

History: S. 1900(1) was added by P.C. 1994-619, SOR/94-316, dated April 21, 1994, applicable to taxation years commencing after June 17, 1987 and before 1990 that end after 1987.

(2) For the purposes of this Part,

(*a*) any rider added, at any time after March 2, 1988, to a life insurance policy shall be deemed to be a separate life insurance policy issued at that time; and

(*b*) in respect of an insurer's first taxation year that commences after June 17, 1987 and ends after 1987, the maximum amount that would have been deductible under subparagraph 138(3)(*a*)(i), (ii) or (iv) of the Act, as the case may be, in computing the insurer's income for the immediately preceding year shall be determined as though the provisions that apply in determining that maximum amount for that first taxation year were applicable in respect of that immediately preceding year.

History: S. 1900(2) was added by P.C. 1994-619, SOR/94-316, dated April 21, 1994, applicable to taxation years commencing after June 17, 1987 and before 1990 that end after 1987.

Prescribed Provisions

(3) For the purposes of paragraph (*b*) of the description of C in subsection 211.1(3) of the Act, as it read in its application to taxation years beginning before 1990, the provisions of the Act that are prescribed are paragraphs 12(1)(*i*), (*i*.1), (*n*), (*n*.1), (*n*.2), (*n*.3), (*o*), (*t*) and (*v*) and subsections 13(1), 59(3.2) and (3.3), 138(4.4) and 140(2).

History: S. 1900(3) was added by P.C. 1994-619, SOR/94-316, dated April 21, 1994, applicable to taxation years commencing after June 17, 1987 and before 1990 that end after 1987.

Prescribed Arrangements

(4) For the purposes of the description of D in subsection 211.1(3) of the Act, as it read in its application to taxation years beginning before 1990, prescribed arrangements in respect of an insurer are

(*a*) life insurance policies in Canada issued by the insurer (or in respect of which the insurer has assumed the obligations of the issuer of the policy to the policyholder) that are group term life insurance policies or existing guaranteed life insurance policies;

(*b*) life insurance policies (other than life insurance policies in Canada) issued by the insurer (or in respect of which the insurer has assumed the obligations of the issuer of the policy to the policyholder);

(*c*) retirement compensation arrangements in respect of which the insurer is the custodian; and

(*d*) reinsurance arrangements under which the insurer has assumed or ceded risks insured under life insurance policies (other than policies issued by the insurer or in respect of which the insurer has assumed the obligations of the issuer of the policy to the policyholder).

History: S. 1900(4) was added by P.C. 1994-619, SOR/94-316, dated April 21, 1994, applicable to taxation years commencing after June 17, 1987 and before 1990 that end after 1987.

Prescribed Rules for Determining Amounts

(5) The amount in the description of D in subsection 211.1(3) of the Act, as it read in its application to taxation years beginning before 1990, in respect of a life insurer for a taxation year is determined by the formula

$$A - B + C - D - E - F$$

where

A is the total of all amounts each of which is the maximum amount that would be deductible under subparagraph 138(3)(*a*)(i), (ii) or (iv) of the Act in respect of an excluded arrangement of the insurer in computing the insurer's income for the year, if that amount were determined without reference to any policy loan;

B is the total of all amounts each of which is the maximum amount that would have been deductible under subparagraph 138(3)(*a*)(i), (ii) or (iv) of the Act in respect of an excluded arrangement of the insurer in computing the insurer's income for the immediately preceding year, if that amount were determined without reference to any policy loan;

C is the total of all amounts each of which is the amount of a benefit, determined on a net of reinsurance ceded basis, that has become payable by the insurer in the year in respect of an excluded arrangement of the insurer, to the extent that the benefit is deducted in computing the insurer's income for the year under Part I of the Act from carrying on a life insurance business in Canada;

D is the total of all amounts each of which is the amount of a premium, determined on a net of reinsurance ceded basis, that has become receivable by the insurer in the year in respect of an excluded arrangement of the insurer, to the extent that the premium is included in computing the insurer's income for the year under Part I of the Act from carrying on a life insurance business in Canada;

E is the positive or negative amount, as the case may be, in respect of the insurer for the year determined by the formula

$$(G - H) - (I - J) + (K - L) - (M - N)$$

where

G is the total of all amounts each of which is the maximum amount that would be deductible under subparagraph 138(3)(*a*)(i), (ii) or (iv) of the Act in respect of a taxable life insurance policy of the insurer in computing the insurer's income for the year, if that amount were determined without reference to any policy loan or reinsurance arrangement,

H is the total of all amounts each of which is the maximum amount that would be deductible under subparagraph 138(3)(*a*)(i), (ii) or (iv) of the Act in respect of a taxable life insurance policy of the insurer in computing the insurer's income for the year, if that amount were determined without reference to any policy loan,

I is the total of all amounts each of which is the maximum amount that would have been deductible under subparagraph 138(3)(*a*)(i), (ii) or (iv) of the Act in respect of a taxable life insurance policy of the insurer in computing the insurer's income for the immediately preceding taxation year, if that amount were determined without reference to any policy loan or reinsurance arrangement,

J is the total of all amounts each of which is the maximum amount that would have been deduct-

ible under subparagraph 138(3)(*a*)(i), (ii) or (iv) of the Act in respect of a taxable life insurance policy of the insurer in computing the insurer's income for the immediately preceding taxation year, if that amount were determined without reference to any policy loan,

K is the total of all amounts each of which is the amount of a benefit that has become payable in the year by the insurer under a taxable life insurance policy of the insurer,

L is the total of all amounts each of which is the amount of a benefit, determined on a net of reinsurance ceded basis, that has become payable by the insurer under a taxable life insurance policy of the insurer, to the extent that it is deducted in computing the insurer's income from carrying on a life insurance business in Canada for the year,

M is the total of all amounts each of which is the amount of a premium that has become receivable by the insurer in the year under a taxable life insurance policy of the insurer, and

N is the total of all amounts each of which is the amount of a premium, determined on net of reinsurance ceded basis, that has become receivable by the insurer in the year under a taxable life insurance policy of the insurer, to the extent that the premium is included in computing the insurer's income from carrying on a life insurance business in Canada for the year; and

F is the positive or negative amount, as the case may be, determined by the formula

$$O + P - Q - R$$

where

O is the total of all amounts each of which is an amount in respect of a group term life insurance policy equal to the lesser of

(*a*) the amount of interest credited by the insurer in the year on account of the policy (other than interest payable in respect of the period ending on its first anniversary date after March 2, 1988), and

(*b*) the amount, if any, by which the maximum amount that would be deductible under subparagraph 138(3)(*a*)(i) of the Act pursuant to paragraph 1401(1)(*c*.1) in respect of the policy in computing the insurer's income for the year, if that amount were determined without reference to any reinsurance arrangement, exceeds the maximum amount that would have been so deductible in computing the insurer's income for the immediately preceding year,

P is 80 per cent of the total of all amounts each of which is the amount in respect of a liability of the insurer, a benefit, a risk or a guarantee, in respect of which an amount is determined under paragraph 1401(1)(*a*), (*c*) or (*d*) for the year, in respect of a pre-funded group life insurance policy of the insurer, determined by multiplying

(*a*) the rate of interest used in determining the amount under paragraph 1401(1)(*a*), (*c*) or (*d*), as the case may be, for the year in respect of the liability, benefit, risk or guarantee, as the case may be,

by 1/2 of the total of

(*b*) the maximum amount that would be deductible under subparagraph 138(3)(*a*)(i) of the Act pursuant to paragraph 1401(1)(*a*), (*c*) or (*d*), as the case may be, in respect of the liability, benefit, risk or guarantee, as the case may be, in computing the insurer's income for the year if that amount were determined without reference to any policy loan or reinsurance arrangement, and

(*c*) the maximum amount that would have been deductible under subparagraph 38(3)(*a*)(i) of the Act pursuant to paragraph 1401(1)(*a*), (*c*) or (*d*), as the case may be, in respect of the liability, benefit, risk or guarantee, as the case may be, in computing the insurer's income for the immediately preceding taxation year if that amount were determined without reference to any policy loan or reinsurance arrangement,

Q is the total of all amounts each of which is the amount determined for the year in respect of a taxable life insurance policy of the insurer by multiplying

(*a*) the rate of interest used in determining the maximum amount deductible under subparagraph 138(3)(*a*)(i) of the Act pursuant to paragraph 1401(1)(*c*) in respect of the policy in computing the insurer's income for the year,

by 1/2 of the total of

(*b*) the maximum amount that would be deductible under subparagraph 138(3)(*a*)(ii) of the Act in respect of the policy in computing the insurer's income for the year, if that amount were determined without reference to any reinsurance arrangement, and

(*c*) the maximum that would have been deductible under subparagraph 138(3)(*a*(ii) of the Act in respect of the policy in computing the insurer's income for the immediately preceding taxation year, if that amount were determined without reference to any reinsurance arrangement, and

R is the total of all amounts each of which is an amount in respect of a group term life insurance policy equal to the amount, if any, by which

(*a*) the total of all amounts determined in respect of the insurer under the description of O in respect of the policy for taxation years ending before the year

exceeds the total of

(*b*) the total of all amounts determined in respect of the insurer under the description of R in respect of the policy for taxation years ending before the year, and

(*c*) the maximum amount that would be deductible under subparagraph 138(3)(*a*)(i) of the Act pursuant to paragraph 1401(1)(*c*.1) in respect of the policy in computing the insurer's income for the year, if that amount were determined without reference to any reinsurance arrangement.

History: S. 1900(5) was added by P.C. 1994-619, SOR/94-316, dated April 21, 1994, applicable to taxation years commencing after June 17, 1987 and before 1990 that end after 1987.

(6) The amount of the term insurance component in the description of E in subsection 211.1(3) of the Act, as it read in its application to taxation years beginning before 1990, in respect of a life insurer for a taxation year is determined by the formula

$$A + B + C - D + E - F + G + H$$

where

A is the amount determined by multiplying 0.0035 by the total of all amounts each of which is the amount of new insurance effected in the year (other than amounts rescinded in the year) under a taxable life insurance policy of the insurer;

B is the amount determined by multiplying 0.0002 by 1/2 of the total of

(*a*) all amounts of insurance in force at the end of the year under taxable life insurance policies of the insurer (other than paid-up policies), and

(*b*) all amounts of insurance in force at the end of the immediately preceding taxation year under taxable life insurance policies of the insurer (other than paid-up policies);

C is the amount determined by multiplying 0.20 by the net cost of insurance in respect of the insurer for the year;

D is the greater of

(*a*) the lesser of $2,500,000 and the amount, if any, by which

(i) the total of the amounts determined under the descriptions of A, B, C and E in respect of the insurer for the year

exceeds

(ii) 50 per cent of the amount that would be determined under the description of N in subsection (5) in respect of the insurer for the year, if that amount were determined without reference to any reinsurance arrangement, and

(*b*) the amount, if any, by which

(i) the total of the amounts determined under the descriptions of A, B, C and E in respect of the insurer for the year

exceeds

(ii) 75 per cent of the amount that would be determined under the description of N in subsection (5) in respect of the insurer for the year, if that amount were determined without reference to any reinsurance arrangement;

E is the amount determined under the description of D in respect of the insurer for the immediately preceding taxation year;

F is such amount as the insurer may claim, not exceeding the positive amount, if any, determined by adding

(*a*) the mortality experience of the insurer for the year, and

(*b*) the amount determined under the description of C in respect of the insurer for the year;

G is the mortality loss adjustment account of the insurer for the immediately preceding year; and

H is 1 per cent of the total of all amounts each of which is the amount of a premium that has become receivable by the insurer in the year under a taxable life insurance policy of the insurer in respect of which a positive amount of guaranteed interest is determined for the year under subsection (8).

History: S. 1900(6) was added by P.C. 1994-619, SOR/94-316, dated April 21, 1994, applicable to taxation years commencing after June 17, 1987 and before 1990 that end after 1987.

(7) The amount of the amortization adjustment amount in the description of E in subsection 211.1(3) of the Act, as it read in its application to taxation years beginning before 1990, in respect of life insurer for a taxation year is determined by the formula

$$(A - B) - (C + D)$$

where

A is the total of all amounts each of which is the amount that would be the net level premium reserve for the year in respect of a taxable life insurance policy of the insurer (other than a policy in respect of which a positive amount of guaranteed interest is determined for the year under subsection (8)), if that amount were determined without reference to any policy loan or reinsurance agreement;

B is the total of all amounts each of which is the amount that would be the net level premium reserve for the immediately preceding taxation year in respect of a taxable life insurance policy of the insurer (other than a policy in respect of which a positive amount of guaranteed interest is determined for the year under subsection (8)), if that amount were determined without reference to any policy loan or reinsurance arrangement;

C is the total of all amounts each of which is the maximum amount that would be deductible under subparagraph 138(3)(*a*)(i) of the Act pursuant to paragraph 1401(1)(*c*) in computing the insurer's income for the year, in respect of a taxable life insurance policy of the insurer (other than a policy in respect of which a positive amount of guaranteed interest is determined for the year under subsection (8)), if that amount were determined without reference to any policy loan or reinsurance arrangement; and

D is the total of all amounts each of which is the maximum amount that would have been deductible under subparagraph 138(3)(*a*)(i) of the Act pursuant to paragraph 1401(1)(*c*) in computing the insurer's income for the immediately preceding taxation year, in respect of a taxable life insurance policy of the insurer (other than a policy in respect of which a positive amount of guaranteed interest is determined for the year under subsection (8)), if that amount were determined without reference to any policy loan or reinsurance arrangement.

History: S. 1900(7) was added by P.C. 1994-619, SOR/94-316, dated April 21, 1994, applicable to taxation years commencing after June 17, 1987 and before 1990 that end after 1987.

(8) The amount of guaranteed interest in the description of F in subsection 211.1(3) of the Act, as it read in its application to taxation years beginning before 1990, in respect of a life insurer for a taxation year is the total of all amounts each of which is guaranteed interest for the year in respect of

(*a*) a life insurance policy in Canada (other than a policy that was at any time an excluded arrangement), or

(*b*) a pre-funded group life insurance policy,

where the policy was issued by the insurer (or in respect of which the insurer has assumed the obligations of the issuer of the policy to the policyholder) and the terms and conditions of the policy relating to premiums and benefits were determined on or before March 2, 1988, except that where, at any time after March 2, 1988, the terms and conditions of the policy relating to premiums and benefits have been changed (other than to give effect to terms and conditions which were determined prior to March 3, 1988 or pursuant to a specified transaction or event), the amount of guaranteed interest in respect of the policy for the year in which the change is made and any subsequent taxation year is deemed to be nil.

History: S. 1900(8) was added by P.C. 1994-619, SOR/94-316, dated April 21, 1994, applicable to taxation years commencing after June 17, 1987 and before 1990 that end after 1987.

Prescribed Portion

(9) The prescribed portion of an amount referred to in the description of C in subsection 211.1(3) of the Act, as it read in its application to taxation years beginning before 1990, for a taxation year is

(*a*) where the amount is in respect of a life insurance policy (other than a policy in respect of which a positive amount of guaranteed interest is determined for the year under subsection (8)), 100 per cent of the amount; and

(*b*) in any other case, nil.

History: S. 1900(9) was added by P.C. 1994-619, SOR/94-316, dated April 21, 1994, applicable to taxation years commencing after June 17, 1987 and before 1990 that end after 1987.

Prescribed Arrangements

(10) For the purposes of the description of C in subsection 211.1(3) of the Act, as it read in its application to taxation years beginning before 1990, prescribed arrangements of an insurer are life insurance policies in Canada issued by the insurer (or in respect of which the insurer has assumed the obligations of the issuer of the policy to the policyholder) that are group term life insurance policies or policies that, at any time, were existing guaranteed life insurance policies.

History: S. 1900(10) was added by P.C. 1994-619, SOR/94-316, dated April 21, 1994, applicable to taxation years commencing after June 17, 1987 and before 1990 that end after 1987.

Regulations

PART XX
Political Contributions

CONTENTS OF RECEIPTS

2000. (1) Every official receipt issued by a registered agent of a registered party shall contain a statement that it is an official receipt for income tax purposes and shall, in a manner that cannot readily be altered, show clearly

(*a*) the full name of the registered party;

(*b*) the serial number of the receipt;

(*c*) the name of the registered agent as recorded in the registry maintained by the Chief Electoral Officer pursuant to subsection 13.1(1) of the *Canada Elections Act*;

(*d*) the day on which the receipt was issued;

(*e*) where the person making the contribution is

(i) a person other than an individual, the day on which the contribution was received where that day differs from the day referred to in paragraph (*d*), or

(ii) an individual, the calendar year during which the contribution was received;

(*f*) the place or locality where the receipt was issued;

(*g*) the name and address of the person making the contribution including, in the case of an individual, his first name or initial;

(*h*) the amount of the contribution; and

(*i*) the signature of the registered agent.

Explanatory Note Extract

Proposed Amendment to Information Provided on Receipt

[Reproduced below is an excerpt from the Explanatory Notes for subsection 127(3) of the Act released with the November 9, 2006 draft technical amendments (Part 2 of former Bill C-10). This excerpt describes a proposal to amend subsections 2000(1) and (6) of the Income Tax Regulations.]

Contributions to Registered Parties and Candidates

Subsection 127(3) of the Act provides a tax credit to a taxpayer in respect of amounts contributed to a registered party or to a candidate. Subsection 127(3) is amended consequential to the addition of new subsections 248(31) and (32) of the Act, to provide that the amount of a contribution that is eligible for the political contributions tax credit is to be reduced by the amount of any advantage or benefit, as defined by subsection 248(32), to which the taxpayer is entitled in respect of the contribution. This amendment is generally applicable to monetary contributions made after December 20, 2002.

It is proposed that subsections 2000(1) and (6) of the Regulations be amended to provide that every official receipt issued by a registered party in respect of a contribution contain, in addition to the information already prescribed, the eligible amount and the amount of the advantage, if any, in respect of the contribution.

For additional details, see the commentary to new subsections 248(31) and (32) regarding the amount of the advantage in respect of a contribution.

Information Circulars: IC 75-2R7 Contributions to a Registered Political Party or to a Candidate at a Federal Election.

(2) Subject to subsection (3), every official receipt issued by an official agent of an officially nominated candidate shall contain a statement that it is an official receipt for income tax purposes and shall, in a manner that cannot readily be altered, show clearly

(*a*) the name of the officially nominated candidate;

(*b*) the serial number of the receipt;

(*c*) the name of the official agent as recorded with the Minister;

(*d*) the day on which the receipt was issued;

(*e*) the day on which the contribution was received where that day differs from the day referred to in paragraph (*d*);

(*f*) the polling day;

(*g*) the name and address of the person making the contribution including, in the case of an individual, his first name or initial;

(*h*) the amount of the contribution; and

(*i*) the signature of the official agent.

(3) The information required by paragraph (2)(*f*) may be shown by use of a code on an official receipt form issued by the Chief Electoral Officer, provided that the Minister is advised of the meaning of the code used.

(4) For the purposes of subsections (1) and (2), an official receipt issued to replace an official receipt previously issued shall show clearly that it replaces the original receipt and, in addition to its own serial number, shall show the serial number of the receipt originally issued.

(5) A spoiled official receipt form shall be marked "cancelled" and such form, together with the duplicate thereof, shall be filed by the registered agent or the official agent, as the case may be, together with the duplicates of receipts required to be filed with the Minister pursuant to subsection 230.1(2) of the Act.

(6) Every official receipt form on which

(*a*) the day on which the contribution was received,

(*b*) the year during which the contribution was received, or

(*c*) the amount of the contribution,

was incorrectly or illegibly entered shall be regarded as spoiled.

Editorial Note: See the Explanatory Note Extract reproduced following subsection 2000(1) concerning a proposed amendment to subsection 2000(6).

INFORMATION RETURNS

2001. The return of information referred to in subsection 230.1(2) of the Act shall be filed by a registered agent on or before the last day of March in each year and shall be in respect of the preceding calendar year.

Information Circulars: IC 75-2R7 Contributions to a Registered Political Party or to a Candidate at a Federal Election.

INTERPRETATION

2002. (1) In this Part,

"*contribution*" means an amount contributed within the meaning assigned by subsection 127(4.1) of the Act;

"*official receipt*" means a receipt for the purposes of subsection 127(3) of the Act containing information as provided in subsection 2000(1) or (2), as the case may be;

"*official receipt form*" means any printed form that a registered agent or an official agent, as the case may be, has that is capable of being completed, or that originally was intended to be completed, as an official receipt of the registered agent or official agent, as the case may be.

Information Circulars: IC 75-2R7 Contributions to a Registered Political Party or to a Candidate at a Federal Election.

(2) In this Part, "official agent", "polling day", "registered agent" and "registered party" have the meanings assigned to them by section 2 of the *Canada Elections Act* and "officially nominated candidate" means a person in respect of whom a nomination paper and deposit have been filed as referred to in the definition "official nomination" in that section of that Act.

PART XXI

Elections in Respect of Surpluses

REDUCTION OF TAX-PAID UNDISTRIBUTED SURPLUS ON HAND OR 1971 CAPITAL SURPLUS ON HAND

2100. Any election under subsection 83(1) of the Act in respect of a dividend payable before 1979 by a Canadian corporation shall be made by filing with the Minister the following documents:

(*a*) the form prescribed by the Minister;

(*b*) where the directors of the corporation are legally entitled to administer the affairs of the corporation, a certified copy of their resolution authorizing the election to be made;

(*c*) where the directors of the corporation are not legally entitled to administer the affairs of the corporation, a certified copy of the authorization of the making of the election by the person or persons legally entitled to administer the affairs of the corporation;

(*d*) where paragraph (*e*) is not applicable, schedules showing the computation of the amount, immediately before the election, of the corporation's

(i) tax-paid undistributed surplus on hand, if any,

(ii) 1971 capital surplus on hand, if any, and

(iii) 1971 undistributed income on hand, if any; and

(*e*) where subsection 83(3) of the Act is applicable, schedules showing the computation of the amount, immediately before the dividend became payable, of the corporation's

(i) tax-paid undistributed surplus on hand, if any,

(ii) 1971 capital surplus on hand, if any, and

(iii) 1971 undistributed income on hand, if any.

History: S. 2100(e), the part preceding subparagraph (i), was amended by P.C. 1988-390, SOR/88-165, dated March 3, 1988 and effective October 29, 1985, to delete "or 32.1(3) of the *Income Tax Application Rules, 1971*".

S. 2100 preceding paragraph (a) was amended by P.C. 1983-867, SOR/83-268 dated March 25, 1983, to remove "in duplicate" immediately before the colon.

S. 2100 was amended by adding "before 1979" by P.C. 1980-502, SOR/80-140, February 11, 1980, effective January 1, 1979.

CAPITAL DIVIDENDS AND LIFE INSURANCE CAPITAL DIVIDENDS PAYABLE BY PRIVATE CORPORATIONS

2101. Any election under subsection 83(2) of the Act in respect of a dividend payable by a private corporation shall be made by filing with the Minister the following documents:

(*a*) the form prescribed by the Minister;

(*b*) where the directors of the corporation are legally entitled to administer the affairs of the corporation, a certified copy of their resolution authorizing the election to be made;

(*c*) where the directors of the corporation are not legally entitled to administer the affairs of the corporation, a certified copy of the authorization of the making of the election by the person or persons legally entitled to administer the affairs of the corporation;

(*d*) where the election has been made under subsection 83(2) of the Act and paragraph (*e*) is not applicable, schedules showing the computation of the amount, immediately before the election, of the corporation's

(i) capital dividend account, and

(ii) 1971 undistributed income on hand, if any, if the dividend was payable on or prior to March 31, 1977; and

(*e*) where the election has been made under subsection 83(2) of the Act and subsection 83(3) of the Act is applicable, schedules showing the computation of the amount, immediately before the dividend became payable, of the corporation's

(i) capital dividend account, and

(ii) 1971 undistributed income on hand, if any, if the dividend was payable on or prior to March 31, 1977.

History: S. 2101, the part preceding paragraph (a), was amended by P.C. 1988-390, SOR/88-165, dated March 3, 1988 by deleting a reference to s. 83(2.1), applicable with respect to dividends paid after May 23, 1985.

S. 2101(e), the part preceding subparagraph (i), was amended by P.C. 1988-390, SOR/88-165, dated March 3, 1988, to delete "or 32.1(3) of the *Income Tax Application Rules, 1971*" after "subsection 83(3) of the Act", effective October 29, 1985.

Interpretation Bulletins: *Secondary*— IT-66R6 Capital dividends.
Forms: T2054.

Tax on 1971 Undistributed Income on Hand

2102. (1) [Revoked.]

(2) Any retroactive election by a corporation under subsection 196(1.1) of the Act, in respect of a dividend payable before 1979 in respect of which an election was made under section 83 of the Act, shall be made by filing with the Minister the following documents:

(*a*) the form prescribed by the Minister;

(*b*) where the directors of the corporation are legally entitled to administer the affairs of the corporation, a certified copy of their resolution authorizing the election to be made;

(*c*) where the directors of the corporation are not legally entitled to administer the affairs of the corporation, a certified copy of the authorization of the making of the election by the person or persons legally entitled to administer the affairs of the corporation; and

(*d*) a schedule showing the computation of the amount, immediately before the time immediately before the specified election referred to in subsection 196(1.1) of the Act was made, of the corporation's 1971 undistributed income on hand.

History: S. 2102(2) preceding paragraph (a) was amended by P.C. 1983-867, SOR/83-268, dated March 25, 1983, to remove "in duplicate" immediately before the colon.

S. 2102(2), the part preceding paragraph (a), was amended by P.C. 1980-502, SOR/80-140, February 11, 1980. That part formerly read:

"(2) Any election by a corporation under subsection 196(1.1) of the Act shall be made by filing with the Minister the following documents in duplicate:"

S. 2102(1) was revoked by P.C. 1980-502, SOR/80-140, February 11, 1980. S. 2102(1) formerly read:

"(1) Any election by a corporation to pay tax under subsection 196(1) of the Act shall be made by filing with the Minister the following documents in duplicate:

(*a*) the form prescribed by the Minister;

(*b*) where the directors of the corporation are legally entitled to administer the affairs of the corporation, a certified copy of their resolution (stating the paragraph of the said subsection under which the corporation is electing) authorizing the election to be made;

(*c*) where the directors of the corporation are not legally entitled to administer the affairs of the corporation, a certified copy of the authorization (stating the paragraph of the said subsection under which the corporation is electing) of the making of the election by the person or persons legally entitled to administer the affairs of the corporation; and

(*d*) a schedule showing the computation of the amount, immediately before the election, of the corporation's 1971 undistributed income on hand."

S. 2103 and the heading were revoked by P.C. 1978-2394, SOR/78-604, dated July 26, 1978 (Special Issue, *Canada Gazette*, December 31, 1978), effective for the period commencing January 1, 1978. S. 2103 formerly read:

"Reduction of Tax on Premium Paid on Redemption or Acquisition by Corporation of Capital Stock Thereof

S. 2103. Any election under section 63 of the *Income Tax Application Rules, 1971*, by a corporation to deduct an amount from the amount on which it is liable to pay tax under section 182 of the Act shall be made by filing with the Minister the following documents in duplicate:

(*a*) the form prescribed by the Minister;

(*b*) where the directors of the corporation are legally entitled to administer the affairs of the corporation, a certified copy of their resolution authorizing the election to be made;

(*c*) where the directors of the corporation are not legally entitled to administer the affairs of the corporation, a certified copy of the authorization of the making of the election by the person or persons legally entitled to administer the affairs of the corporation; and

(*d*) a schedule showing the computation of the amount, immediately before the election, of the corporation's tax paid undistributed surplus on hand."

Capital Gains Dividends Payable by Mutual Fund Corporations, Investment Corporations and Mortgage Investment Corporations

2104. Any election under subsection 131(1) of the Act in respect of a dividend payable by a mutual fund corporation or an investment corporation shall be made by filing with the Minister the following documents:

(*a*) the form prescribed by the Minister;

(*b*) where the directors of the corporation are legally entitled to administer the affairs of the corporation, a certified copy of their resolution authorizing the election to be made;

(*c*) where the directors of the corporation are not legally entitled to administer the affairs of the corporation, a certified copy of the authorization of the making of the election by the person or persons legally entitled to administer the affairs of the corporation;

(*d*) where paragraph (*f*) is not applicable, a schedule showing the computation of the amount, immediately before the election, of the corporation's capital gains dividend account; and

(*e*) [Revoked.]

(*f*) where subsection 131(1.1) of the Act is applicable, a schedule showing the computation of the amount, immediately before the earlier of

(i) the date the dividend became payable, and

(ii) the first day on which any part of the dividend was paid,

of the corporation's capital gains dividend account.

History: The heading to s. 2104 was amended to add "and Mortgage Investment Corporations" and the part preceding paragraph (a) was revoked and replaced without amending it by P.C. 1988-390, SOR/88-165, dated March 3, 1988, applicable to the 1985 and subsequent taxation years.

S. 2104(d) was amended to delete a reference to paragraph (e) and paragraph (e) was revoked by P.C. 1988-390, SOR/88-165, dated March 3, 1988 and effective October 29, 1985. S. 2104(e) formerly read:

"(*e*) where a corporation would not be able to meet the requirements of subsection 131(1) of the Act but for the enactment of section 32.1 of the *Income Tax Application Rules, 1971*, schedules showing the computation of the amount, immediately before the earlier of

(i) the date the dividend became payable, and

(ii) the first day on which any part of the dividend was paid,

of the corporation's capital gains dividend account; and"

S. 2104 preceding paragraph (a) was amended by P.C. 1983-867, SOR/83-268 dated March 25, 1983, to remove "in duplicate" immediately before the colon.

S. 2104(d) was amended by adding the reference to paragraph (f), and s. 2104(f) was added, by P.C. 1981-2409, SOR/81-704, dated September 4, 1981, applicable to elections made in respect of dividends that became payable after 1974.

Forms: T2055.

2104.1 Any election under subsection 130.1(4) of the Act in respect of a dividend payable by a mortgage investment corporation shall be made by filing with the Minister the following documents:

(*a*) the documents referred to in paragraphs 2104(*a*) to (*c*); and

(*b*) a schedule showing the computation of the capital gains dividend in accordance with paragraph 130.1(4)(*a*) of the Act.

History: S. 2104.1 was added by P.C. 1988-390, SOR/88-165, dated March 3, 1988, applicable to the 1985 and subsequent taxation years.

Capital Gains Dividends Payable by Non-Resident-Owned Investment Corporations

2105. Any election under subsection 133(7.1) of the Act in respect of a dividend payable by a non-resident-owned investment corporation shall be made by filing with the Minister the following documents:

(*a*) the form prescribed by the Minister;

(*b*) where the directors of the corporation are legally entitled to administer the affairs of the corporation, a certified copy of their resolution authorizing the election to be made;

(*c*) where the directors of the corporation are not legally entitled to administer the affairs of the corporation, a certified copy of the authorization of the making of the election by the person or persons legally entitled to administer the affairs of the corporation;

(*d*) where paragraph (*e*) is not applicable, a schedule showing the computation of the amount, immediately before the election, of the corporation's capital gains dividend account; and

(*e*) where subsection 133(7.3) of the Act is applicable, a schedule showing the computation of the amount, immediately before the earlier of

(i) the date the dividend became payable, and

(ii) the first day on which any part of the dividend was paid,

of the corporation's capital gains dividend account.

History: S. 2105 preceding paragraph (a) was amended by P.C. 1983-867, SOR/83-268 dated March 25, 1983, to remove "in duplicate" immediately before the colon.

S. 2105(d) was amended, and s. 2105(e) was added, by P.C. 1981-2409, SOR/81-704, dated September 4, 1981, applicable to elections made in respect of dividends that became payable after 1974, except that in its application to dividends that became payable after 1974 and before 1979 ss. 2105(d) and (e) shall be read as follows:

"(*d*) where paragraph (e) is not applicable, schedules showing the computation of the amount, immediately before the election, of the corporation's

(i) capital gains dividend account, and

(ii) 1971 undistributed income on hand; and

(*e*) where subsection 133(7.3) of the Act is applicable, schedules showing the computation of the amount, immediately before the earlier of

(i) the date the dividend became payable, and

(ii) the first day on which any part of the dividend was paid, of the corporation's

(iii) capital gains dividend account, and

(iv) 1971 undistributed income on hand."

S. 2105(d) formerly read:

"(*d*) schedules showing the computation of the amount, immediately before the election, of the corporation's

(i) capital gains dividend account, and

(ii) 1971 undistributed income on hand."

Forms: T2063.

Alternative to Additional Tax on Excessive Elections

2106. Any election under subsection 184(3) of the Act in respect of a dividend that was paid or payable by a corporation shall be made by

(*a*) filing with the Minister the following documents:

(i) a letter stating that the corporation elects under subsection 184(3) of the Act in respect of the said dividend,

(ii) where the directors of the corporation are legally entitled to administer the affairs of the corporation, a certified copy of

(A) their resolution authorizing the election to be made, and

(B) their declaration that the election is made with the concurrence of all shareholders who received or were entitled to receive all or any portion of the said dividend and whose addresses were known to the corporation,

(iii) where the directors of the corporation are not legally entitled to administer the affairs of the corporation, a certified copy of

(A) the authorization of the making of the election, and

(B) the declaration that the election is made with the concurrence of all shareholders who received or were entitled to receive all or any portion of the said dividend and whose addresses were known to the corporation

by the person or persons legally entitled to administer the affairs of the corporation,

(iv) a schedule showing the following information:

(A) the date of the notice of assessment of the tax that would, but for the election, have been payable under Part III of the Act,

(B) the full amount of the said dividend,

(C) the date the said dividend became payable, or the first day on which any part of the said dividend was paid if that day is earlier,

(D) the portion, if any, of the said dividend described in paragraph 184(3)(*a*) of the Act,

(E) the portion, if any, of the said dividend that the corporation is claiming for the purposes of an election in respect thereof under subsection 83(1) or (2), 130.1(4) or 131(1) of the Act pursuant to paragraph 184(3)(*b*) of the Act, and

(F) the portion, if any, of the said dividend that is deemed by paragraph 184(3)(*c*) of the Act to be a separate dividend that is a taxable dividend; and

(*b*) making an election in prescribed manner and prescribed form in respect of any amount claimed under paragraph 184(3)(*b*) of the Act.

History: S. 2106(a) was amended by P.C. 1983-867, SOR/83-268 dated March 25, 1983, to remove "in duplicate" immediately before the colon.

S. 2106 and heading were added by Order in Council P.C. 1978-1138, SOR/78-347, dated April 17, 1978 (Special Issue, *Canada Gazette*, December 31, 1978), effective on and after January 1, 1972.

Interpretation Bulletins: *Secondary* — IT-66R6 Capital dividends.

TAX-DEFERRED PREFERRED SERIES

2107. The following series of classes of capital stock are hereby prescribed for the purposes of subsection 83(6) of the Act to be tax-deferred preferred series:

(*a*) The Algoma Steel Corporation, Limited, 8% Tax Deferred Preference Shares Series A;

(*b*) Aluminum Company of Canada, Limited, $2.00 Tax Deferred Retractable Preferred Shares;

(*c*) Brascan Limited, 8½% Tax Deferred Preferred Shares Series A;

(*d*) Canada Permanent Mortgage Corporation, 6¾% Tax Deferred Convertible Preference Shares Series A; and

(*e*) Cominco Ltd., $2.00 Tax Deferred Exchangeable Preferred Shares Series A.

History: S. 2107 and heading were added by order in Council P.C. 1978-2394, SOR/78-604, dated July 26, 1978 (Special Issue, *Canada Gazette*, December 31, 1978), effective for the period commencing January 1, 1979.

PART XXII
Security Interests

2200. Where, under subsection 220(4) of the Act, the Minister has accepted, as security for payment of taxes, a mortgage or other security or guarantee, he may, by a document in writing, discharge such mortgage or other security or guarantee.

History: The heading before s. 2200 was amended by P.C. 1999-1341, SOR/99-322, dated July 28, 1999, deemed to have come into force on June 15, 1994. That heading formerly read:

"DISCHARGE OF SECURITY FOR TAXES"

S. 2200 was amended by P.C. 1994-1817, SOR/94-686, dated November 1, 1999, by deleting the word "hypothec".

2201. (1) For the purpose of subsection 227(4.2) of the Act, "prescribed security interest", in relation to an amount deemed by subsection 227(4) of the Act to be held in trust by a person, means that part of a mortgage securing the performance of an obligation of the person, that encumbers land or a building, where the mortgage is registered pursuant to the appropriate land registration system before the time the amount is deemed to be held in trust by the person.

History: S. 2201(1) was added by P.C. 1999-1341, SOR/99-322, dated July 28, 1999, deemed to have come into force on June 15, 1994.

(2) For the purpose of subsection (1), where, at any time after 1999, the person referred to in subsection (1) fails to pay an amount deemed by subsection 227(4) of the Act to be held in trust by the person, as required under the Act, the amount of the prescribed security interest referred to in subsection (1) is deemed not to exceed the amount by which the amount, at that time, of the obligation outstanding secured by the mortgage exceeds the total of

(*a*) all amounts each of which is the value determined at the time of the failure, having regard to all the circumstances including the existence of any deemed trust for the benefit of Her Majesty pursuant to subsection 227(4) of the Act, of all the rights of the secured creditor securing the obligation, whether granted by the person or not, including guarantees or rights of set-off but not including the mortgage referred to in subsection (1), and

(*b*) all amounts applied after the time of the failure on account of the obligation,

so long as any amount deemed under any enactment administered by the Minister, other than the *Excise Tax Act*, to be held in trust by the person, remains unpaid.

History: S. 2201(2) was added by P.C. 1999-1341, SOR/99-322, dated July 28, 1999, deemed to have come into force on June 15, 1994.

(3) For greater certainty, a prescribed security interest includes the amount of insurance or expropriation proceeds relating to land or a building that is the subject of a registered mortgage interest, adjusted after 1999 in accordance with subsection (2), but does not include a lien, a priority or any other security interest created by statute, an assignment or hypothec of rents or leases, or a mortgage interest in any equipment or fixtures that a mortgagee or any other person has the right absolutely or conditionally to remove or dispose of separately from the land or building.

History: S. 2201(3) was added by P.C. 1999-1341, SOR/99-322, dated July 28, 1999, deemed to have come into force on June 15, 1994.

PART XXIII
Principal Residences

2300. Any election by a taxpayer under subparagraph 40(2)(*c*)(ii) of the Act shall be made by attaching to the return of income required by section 150 of the Act to be filed by him for his taxation year in which the disposition of the land, including the property that was his principal residence, occurred, a letter signed by the taxpayer

(*a*) stating that he is electing under that subparagraph;

(*b*) stating the number of taxation years ending after the acquisition date (within the meaning assigned by paragraph 40(2)(*b*) of the Act) for which the property was his principal residence and during which he was resident in Canada; and

(*c*) giving a description of the property sufficient to identify it with the property designated as his principal residence.

2301. Any designation by a taxpayer under subparagraph 54(*g*)(iii) [section 54, "principal residence"] of the Act shall be made in the return of income required by section 150 of the Act to be filed by him for any taxation year of the taxpayer in which

(*a*) he has disposed of a property that is to be designated as his principal residence; or

(*b*) he has granted an option to acquire such property.

History: S. 2300(b) was amended by P.C. 1980-2224, SOR/80-681, dated August 27, 1980, applicable in respect of dispositions after March 31, 1977. S. 2300(b) formerly read:

"(*b*) stating the number of taxation years after 1971 for which the property was the taxpayer's principal residence and during which he was a resident of Canada; and"

Forms: T2091.

PART XXIV
Insurers

DEFINITIONS

2400. (1) The definitions in this subsection apply in this Part.

"*attributed surplus*" of a non-resident insurer for a taxation year is the total of

(*a*) the insurer's property and casualty surplus for the year, and

(*b*) either,

(i) if the insurer elects for the year in prescribed form and manner, 50% of the total of

(A) the amount that would have been determined at the end of the year in respect of the insurer under subparagraph (*a*)(ii) of the definition "Canadian investment fund", and

(B) the amount that would have been determined at the end of the preceding taxation year in respect of the insurer under subparagraph (*a*)(ii) of the definition "Canadian investment fund",

each amount being calculated as if throughout the year and the preceding taxation year the insurer had been a life insurer resident in Canada and had not carried on any insurance business other than a life insurance business or an accident and sickness insurance business, or

(ii) if the insurer does not elect under subparagraph (i) for the year, 120% of the total of all amounts each of which is 50% of the amount determined in accordance with regulations or guidelines made under Part XIII of the *Insurance Companies Act* to be the margin of assets in Canada over liabilities in Canada required to be maintained by the insurer as at the end of the year or as at the end of the preceding taxation year in respect of an insurance business carried on in Canada (other than a property and casualty insurance business).

"*Canadian business property*" of an insurer for a taxation year in respect of an insurance business means

(*a*) if the insurer was resident in Canada throughout the year and did not carry on an insurance business outside Canada in the year, property used or held by it in the year in the course of carrying on the business in Canada; and

(*b*) in any other case, designated insurance property of the insurer for the year in respect of the business.

"*Canadian equity property*" of a person or partnership (in this definition referred to as the "taxpayer") at any time means property of the taxpayer that is

(*a*) a share of the capital stock of, or an income bond, income debenture, small business development bond or small business bond issued by, a person (other than a corporation affiliated with the taxpayer) resident in Canada or a Canadian partnership; or

(*b*) that proportion of property that is shares of the capital stock of an entity that is a corporation affiliated with the taxpayer or an interest in an entity that is a partnership or trust that

(i) the total value for the taxation year or fiscal period of the entity that includes that time of Canadian equity property of the entity

is of

(ii) the total value for the year or period of all property of the entity.

"*Canadian investment fund*" of an insurer at the end of a taxation year means

(*a*) in the case of a life insurer resident in Canada, the total of

(i) the amount determined by the formula

$$A - B$$

where

A is the amount of the insurer's Canadian reserve liabilities as at the end of the year (to the extent that the amount exceeds the amount of surplus appropriations included in that amount), and

B is the amount of the insurer's Canadian outstanding premiums and policy loans as at the end of the year (to the extent that the amount of the premiums and loans are in respect of policies referred to in paragraphs (*a*) to (*c*) of the definition "Canadian reserve liabilities" and were not otherwise deducted in computing the amount of the insurer's Canadian reserve liabilities as at the end of the year), and

(ii) the greater of

(A) the amount determined by the formula

$$C + ((D - E + F) \times (G/H))$$

where

C is 8% of the amount determined under subparagraph (i),

D is the total of all amounts each of which is the amount of a deferred realized net gain or an amount expressed as a negative number of a deferred realized net loss of the insurer as at the end of the year,

E is the total of all amounts each of which is the amount of an item reported as an asset that is owned by the insurer at the end of the year and is a share of the capital stock of, or a debt owing to the insurer by, a financial institution affiliated with the insurer,

F is the total of all amounts each of which is the amount as at the end of the year of a debt assumed or incurred by the insurer in respect of the acquisition of an asset described in E (or another property for which an asset described in E is a substituted property),

G is the amount of the insurer's weighted Canadian liabilities as at the end of the year, and

H is the amount of the insurer's weighted total liabilities as at the end of the year, and

(B) the amount determined by the formula

$(I - J + K + L) \times (M/N)$

where

I is the total of all amounts each of which is the amount of an item reported as an asset of the insurer as at the end of the year (other than an item that at no time in the year was used or held by the insurer in the course of carrying on an insurance business),

J is the total of all amounts each of which is the amount of an item reported as a liability of the insurer (other than a liability that was at any time in the year connected with an asset that was not used or held by the insurer in the course of carrying on an insurance business at any time in the year) as at the end of the year in respect of an insurance business carried on by the insurer in the year,

K is the total of all amounts each of which is an amount of an item reported by the insurer as at the end of the year as a general provision or allowance for impairment in respect of investment property of the insurer for the year,

L is the total of all amounts each of which is an amount of a deferred realized net gain or an amount expressed as a negative number of a deferred realized net loss of the insurer as at the end of the year,

M is the amount of the insurer's weighted Canadian liabilities as at the end of the year, and

N is the amount of the insurer's weighted total liabilities as at the end of the year; and

(*b*) in the case of a non-resident insurer, the total of

(i) the amount, if any, by which the amount of the insurer's Canadian reserve liabilities as at the end of the year exceeds the total of

(A) the amount of the insurer's Canadian outstanding premiums, policy loans and reinsurance recoverables as at the end of the year (to the extent that the amount of the premiums, loans or recoverables are in respect of policies referred to in paragraphs (*a*) to (*e*) of the definition "Canadian reserve liabilities" and were not otherwise deducted in computing the amount of the insurer's Canadian reserve liabilities as at the end of the year), and

(B) the amount of the insurer's deferred acquisition expenses as at the end of the year in respect of its property and casualty insurance business carried on in Canada, and

(ii) the greatest of

(A) the total of

(I) 8% of the amount determined under subparagraph (i), and

(II) the total of all amounts each of which is an amount of a deferred realized net gain or an amount expressed as a negative number of a deferred realized net loss of the insurer as at the end of the year in respect of an insurance business carried on by the insurer in Canada,

(B) the amount, if any, by which the total of

(I) the amount of the insurer's surplus funds derived from operations as at the end of its preceding taxation year,

(II) the total determined under subclause (A)(II) to the extent not included in subclause (I), and

(III) the total of all amounts in respect of which the insurer made an election under subsection 219(4) or (5.2) of the Act, each of which is an amount included in the total determined in respect of the insurer under subparagraph 219(4)(*a*)(i.1) of the Act as at the end of its preceding taxation year,

exceeds

(IV) the total of amounts determined in respect of the insurer under subparagraphs 219(4)(*a*)(ii), (iii), (iv) and (v) of the Act, as at the end of the year, and

(C) the total of

(I) the amount of the insurer's attributed surplus for the year, and

(II) if the amount under subclause (I) was determined without the taxpayer electing under subparagraph (*b*)(i) of the definition "attributed surplus", the amount determined under subclause (A)(II).

"*Canadian investment property*" of an insurer for a taxation year means an investment property of the insurer for the year (other than, if the insurer is non-resident, property established by the insurer as not being effectively connected with its insurance businesses carried on in Canada in the year) that is, at any time in the year,

(*a*) real property situated in Canada;

(*b*) depreciable property situated in Canada or leased to a person resident in Canada for use inside and outside of Canada;

(*c*) a mortgage, a hypothec, an agreement of sale or any other form of indebtedness in respect of property described in paragraph (*a*) or (*b*);

(*d*) a Canadian equity property;

(*e*) a Canadian resource property;

(*f*) a deposit balance of the insurer that is in Canadian currency;

(*g*) a bond, debenture or other form of indebtedness, in Canadian currency, issued by

(i) a person resident in Canada or a Canadian partnership, or

(ii) the government of Canada, a province or any of their political subdivisions;

(*h*) a property that is

(i) a share of the capital stock of a corporation resident in Canada that is affiliated with the insurer, if at least 75% of the total value for the year of all

property of the corporation is attributable to property that would be Canadian investment property if it were owned by an insurer, or

(ii) an interest in a Canadian partnership, or a trust resident in Canada, if at least 75% of the total value for the year of all property of the partnership or trust, as the case may be, is attributable to property that would be Canadian investment property if it were owned by an insurer; or

(*i*) an amount due or an amount accrued to the insurer on account of income that

(i) is from designated insurance property for the year that is Canadian investment property of the insurer for the year because of any of paragraphs (*a*) to (*h*), and

(ii) was assumed in computing the insurer's Canadian reserve liabilities for the year.

"*Canadian outstanding premiums*" of an insurer at any time means the total of all amounts each of which is the amount of an outstanding premium of the insurer with respect to an insurance policy at that time, to the extent that the amount of the premium has been assumed to have been paid in computing the insurer's Canadian reserve liabilities as at that time.

"*Canadian reserve liabilities*" of an insurer as at the end of a taxation year means the total amount of the insurer's liabilities and reserves (other than liabilities and reserves in respect of a segregated fund) in respect of

(*a*) life insurance policies in Canada;

(*b*) fire insurance policies issued or effected in respect of property situated in Canada; or

(*c*) insurance policies of any other class covering risks ordinarily within Canada at the time the policy was issued or effected.

"*deposit balance*" of an insurer means an amount standing to the insurer's credit as or on account of amounts deposited with a corporation authorized to accept deposits or to carry on the business of offering to the public its services as a trustee.

"*equity limit*" of an insurer for a taxation year means

(*a*) in respect of a life insurer resident in Canada, that proportion of the total of all amounts each of which is the value for the year of an equity property of the insurer that

(i) the insurer's weighted Canadian liabilities as at the end of the year

is of

(ii) the insurer's weighted total liabilities as at the end of the year;

(*b*) in respect of a non-resident insurer (other than a life insurer), 25% of the total of

(i) the amount, if any, by which the insurer's mean Canadian reserve liabilities for the year exceeds the total of

(A) 50% of the total of its premiums receivable and deferred acquisition expenses as at the end of the year and its premiums receivable and deferred acquisition expenses as at the end of its preceding taxation year to the extent that those amounts were included in the insurer's Canadian reserve liabilities for the year or the preceding taxation year, as the case may be, in respect of the insurer's business in Canada, and

(B) 50% of the total of its reinsurance recoverables as at the end of the year and its reinsurance recoverables as at the end of the preceding taxation year that are in respect of policies referred to in paragraphs (*b*) and (*c*) of the definition "Canadian reserve liabilities", and

(ii) the insurer's property and casualty surplus for the year; and

(*c*) in respect of a non-resident life insurer, the total of

(i) either,

(A) if the insurer makes an election referred to in subparagraph (*b*)(i) of the definition "attributed surplus" for the year, the greater of

(I) that proportion of the total of all amounts each of which is the value for the year of an equity property of the insurer that

1. the insurer's weighted Canadian liabilities as at the end of the year

is of

2. the insurer's weighted total liabilities as at the end of year, and

(II) 8% of the insurer's mean Canadian investment fund for the year, or

(B) if the insurer does not make this election for the year, 8% of the insurer's mean Canadian investment fund for the year,

(ii) 25% of the amount, if any, by which

(A) the insurer's mean Canadian reserve liabilities for the year (determined on the assumption that the insurer's property and casualty insurance business carried on in Canada during the year was its only insurance business carried on in Canada that year)

exceeds

(B) 50% of the total of its premiums receivable and deferred acquisition expenses as at the end of the year and its premiums receivable and deferred acquisition expenses as at the end of its preceding taxation year, to the extent that those amounts were included in the insurer's Canadian reserve liabilities as at the end of the year or the preceding taxation year, as the case may be, (determined on the assumption that the insurer's property and casualty insurance business carried on in Canada during the year was its only insurance business carried on in Canada that year), and

(iii) 25% of the insurer's property and casualty surplus for the year.

"*equity property*" of a person or partnership (in this definition referred to as the "taxpayer") at any time means property of the taxpayer that is

(*a*) a share of the capital stock of, or an income bond, income debenture, small business development bond or small business bond issued by, another person (other than a corporation affiliated with the taxpayer) or partnership; or

(*b*) that proportion of property that is shares of the capital stock of a corporation affiliated with the taxpayer or an interest in a partnership or trust that

(i) the total value for the taxation year or fiscal period of the corporation, partnership or trust that includes that time of equity property of the corporation, partnership or trust, as the case may be,

is of

(ii) the total value for the year or period of all property of the corporation, partnership or trust, as the case may be.

"*financial institution*" means a corporation that is

(*a*) a corporation described in any of paragraphs (*a*) to (*e*) of the definition "restricted financial institution" in subsection 248(1) of the Act; or

(*b*) a particular corporation all or substantially all of the value of the assets of which is attributable to shares or indebtedness of one or more corporations described in paragraph (*a*) to which the particular corporation is affiliated.

"*foreign policy loan*" means an amount advanced by an insurer to a policyholder in accordance with the terms and conditions of a life insurance policy, other than a life insurance policy in Canada.

"*gross Canadian life investment income*" of a life insurer for a taxation year means the amount, if any, by which

(*a*) the total of all amounts each of which is

(i) the insurer's gross investment revenue for the year, to the extent that the revenue is from Canadian business property of the insurer for the year in respect of the insurer's life insurance business,

(ii) the amount included in computing the insurer's income for the year under paragraph 138(9)(*b*) of the Act,

(iii) the portion of the amount deducted under paragraph 20(1)(*l*) of the Act in computing the insurer's income for its preceding taxation year that was in respect of Canadian business property of the insurer for that year in respect of the insurer's life insurance business,

(iv) the amount included under section 142.4 of the Act in computing the insurer's income for the year in respect of property disposed of by the insurer that was, in the taxation year of disposition, Canadian business property of the insurer for that year in respect of the insurer's life insurance business,

(v) the insurer's gain for the year from the disposition of a Canadian business property of the insurer for the year in respect of the insurer's life insurance business, other than a capital property or a property in respect of the disposition of which section 142.4 of the Act applies, or

(vi) the insurer's taxable capital gain for the year from the disposition of a Canadian business property of the insurer for the year in respect of the insurer's life insurance business

exceeds

(*b*) the total of all amounts each of which is

(i) the portion of the amount deducted under paragraph 20(1)(*l*) of the Act in computing the insurer's income for the year that is in respect of Canadian business property of the insurer for the year in respect of the insurer's life insurance business,

(ii) the amount deductible under section 142.4 of the Act in computing the insurer's income for the year in respect of a property disposed of by the insurer that was, in the taxation year of disposition, a Canadian business property of the insurer for that year in respect of the insurer's life insurance business,

(iii) the insurer's loss for the year from the disposition of a Canadian business property of the insurer for the year in respect of the insurer's life insurance business, other than a capital property or a property in respect of the disposition of which section 142.4 of the Act applies, or

(iv) the insurer's allowable capital loss for the year from the disposition of a Canadian business property of the insurer for the year in respect of the insurer's life insurance business.

"*investment property*" of an insurer for a taxation year means non-segregated property owned by the insurer, other than a policy loan payable to the insurer, at any time in the year that is

(*a*) property acquired by the insurer for the purpose of earning gross investment revenue in the year, other than property that is

(i) property, a proportion of which is investment property of the insurer for the year because of paragraph (*b*),

(ii) a share of the capital stock of, or a debt owing to the insurer by, a corporation affiliated with the insurer, or

(iii) an interest in a partnership or trust;

(*b*) that proportion, if any, of property of the insurer that is land, depreciable property or property that would have been depreciable property if it had been situated in Canada and used or held by the insurer in the year in the course of carrying on an insurance business in Canada that

(i) the use made of the property by the insurer in the year for the purpose of earning gross investment revenue in the year

is of

(ii) the whole use made of the property by the insurer in the year;

(*c*) if the insurer is a life insurer, property described in any of paragraphs 138(4.4)(*a*) to (*d*) of the Act;

(*d*) either

(i) a share of the capital stock of, or a debt owing to the insurer by, a corporation (other than a corporation that is a financial institution) affiliated with the insurer, if the total value for the year of all investment property of the corporation for the year is not less than 75% of the total value for the year of all its property, or

(ii) an interest in a partnership or trust, if the total value for the year of all investment property of the partnership or trust, as the case may be, for the year is not less than 75% of the total value for the year of all its property,

and for the purpose of this paragraph (other than for the purpose of determining whether a corporation is a financial institution) every corporation, partnership and trust is deemed to be an insurer; or

(*e*) an amount due or an amount accrued to the insurer on account of income that

(i) is from designated insurance property for the year that is investment property of the insurer for the year because of any of paragraphs (*a*) to (*d*), and

(ii) was assumed in computing the insurer's Canadian reserve liabilities for the year.

"*mean Canadian outstanding premiums*" of an insurer for a taxation year means 50% of the total of

(*a*) its Canadian outstanding premiums as at the end of the year, and

(*b*) its Canadian outstanding premiums as at the end of its preceding taxation year.

"*mean Canadian reserve liabilities*" of an insurer for a taxation year means 50% of the total of

(*a*) its Canadian reserve liabilities as at the end of the year, and

(*b*) its Canadian reserve liabilities as at the end of its preceding taxation year.

"*mean maximum tax actuarial reserve*" in respect of a particular class of life insurance policies of an insurer for a taxation year means 50% of the total of

(*a*) its maximum tax actuarial reserve for that class of policies for the year, and

(*b*) its maximum tax actuarial reserve for that class of policies for its preceding taxation year.

"*mean policy loans*" of an insurer for a taxation year means 50% of the total of

(*a*) its policy loans as at the end of the year, and

(*b*) its policy loans as at the end of its preceding taxation year.

"*outstanding premiums*" of an insurer with respect to an insurance policy at any time means premiums due to the insurer under the policy at that time but unpaid.

"*property and casualty surplus*" of an insurer for a taxation year means the total of

(*a*) 7.5% of the total of

(i) its unearned premium reserve as at the end of the year (net of reinsurance recoverables in respect of the reserve) in respect of its property and casualty insurance business,

(ii) its unearned premium reserve as at the end of its preceding taxation year (net of reinsurance recoverables in respect of the reserve) in respect of its property and casualty insurance business,

(iii) its provision for unpaid claims and adjustment expenses as at the end of the year (net of reinsurance recoverables in respect of the provision) in respect of its property and casualty insurance business, and

(iv) its provision for unpaid claims and adjustment expenses as at the end of its preceding taxation year (net of reinsurance recoverables in respect of the provision) in respect of its property and casualty insurance business, and

(*b*) 50% of the total of

(i) its investment valuation reserve as at the end of the year in respect of its property and casualty insurance business, and

(ii) its investment valuation reserve as at the end of its preceding taxation year in respect of its property and casualty insurance business.

"*reinsurance recoverable*" means

(*a*) in respect of an insurance business (other than a life insurance business) of a non-resident insurer, the total of all amounts each of which is an item reported as an asset of the insurer as at the end of a taxation year in respect of an amount recoverable from a reinsurer for unearned premiums or unpaid claims and adjustment expenses in respect of the reinsurance of a policy that was issued in the course of carrying on the insurance business to the extent that the amount is included in the insurer's Canadian reserve liabilities at that time and the amount is not an outstanding premium, policy loan or investment property; and

(*b*) in any other case, nil.

"*value*" for a taxation year of a property of a person or partnership (in this definition referred to as the "owner") means

(*a*) in the case of a property that is a mortgage, hypothec, an agreement of sale or an investment property that is a deposit balance, the amount, if any, by which

(i) the amount obtained when the gross investment revenue of the owner for the year from the property is divided by the average rate of interest earned by the owner (expressed as an annual rate) on the amortized cost of the property during the year

exceeds

(ii) the amount obtained when the interest payable by the owner, for the period in the year during which the property was held by the owner, on debt assumed or incurred by the owner in respect of the acquisition of the property (or another property for which the property is a substituted property) is divided by the average rate of interest payable by the owner (expressed as an annual rate) on the debt for the year;

(*b*) in the case of a property that is an amount due or an amount accrued to the owner, the total of the amounts due or accrued at the end of each day in the year divided by the number of days in the year;

(*c*) in the case of a property (other than a property referred to in paragraph (*a*) or (*b*)) that was not owned by the owner throughout the year, the amount, if any, by which

(i) that proportion of

(A) the carrying value of the property as at the end of the preceding taxation year, if the property was owned by the owner at that time,

(B) the carrying value of the property as at the end of the year, if the property was owned by the owner at that time and not at the end of the preceding taxation year, and

(C) in any other case, the cost of the property to the owner when it was acquired,

that the number of days that are in the year and at the end of which the owner owned the property is of the number of days in the year,

exceeds

(ii) the amount obtained when the interest payable by the owner, for the period in the year during which the property was held by the owner, on debt assumed or incurred by the owner in respect of the acquisition of the property (or another property for which the property is a substituted property) is divided by the average rate of interest payable by the owner (expressed as an annual rate) on the debt for the year; and

(*d*) in the case of any other property, the amount, if any, by which

(i) 50% of the total of

(A) the carrying value of the property as at the end of the year, and

(B) the carrying value of the property as at the end of the preceding taxation year

exceeds

(ii) the amount obtained when the interest payable by the owner, for the period in the year during which the property was held by the owner, on debt assumed or incurred by the owner in respect of the acquisition of the property (or another property for which the property is a substituted property) is divided by the average rate of interest payable by the owner (expressed as an annual rate) on the debt for the year.

"*weighted Canadian liabilities*" of an insurer as at the end of a taxation year means the total of

(*a*) 300% of the amount, if any, by which

(i) the total of all amounts each of which is an amount that is in respect of an insurance business carried on by the insurer in Canada and that is reported as a liability (other than a liability in respect of an amount payable out of a segregated fund) of the insurer in respect of a life insurance policy in Canada (other than an annuity) or an accident and sickness insurance policy as at the end of the year

exceeds

(ii) the total of the insurer's policy loans (other than policy loans in respect of annuities) as at the end of the year, and

(*b*) the amount, if any, by which

(i) the total of all amounts each of which is an amount in respect of an insurance business carried on by the insurer in Canada that is reported as a liability of the insurer as at the end of the year, except to the extent that the amount is

(A) in respect of an insurance policy (other than an annuity) described in subparagraph (*a*)(i),

(B) a liability in respect of an amount payable out of a segregated fund, or

(C) a debt incurred or assumed by the insurer to acquire a property of the insurer,

exceeds

(ii) the total of the insurer's policy loans in respect of annuities as at the end of the year.

"*weighted total liabilities*" of an insurer as at the end of a taxation year means the total of

(*a*) 300% of the amount, if any, by which

(i) the total of all amounts each of which is an amount that is in respect of an insurance business carried on by the insurer and that is reported as a liability (other than a liability in respect of an amount payable out of a segregated fund) of the insurer in respect of a life insurance policy (other than an annuity) or an accident and sickness insurance policy

exceeds

(ii) the total of the insurer's policy loans and foreign policy loans (other than policy loans and foreign policy loans in respect of annuities) as at the end of the year, and

(*b*) the amount, if any, by which

(i) the total of all amounts each of which is an amount that is in respect of an insurance business carried on by the insurer and that is reported as a liability of the insurer as at the end of the year, except to the extent that the amount is

(A) in respect of an insurance policy (other than an annuity) described in subparagraph (*a*)(i),

(B) a liability in respect of an amount payable out of a segregated fund, or

(C) a debt incurred or assumed by the insurer to acquire a property of the insurer,

exceeds

(ii) the total of the insurer's policy loans and foreign policy loans in respect of annuities as at the end of the year.

History: The heading before s. 2400, and s. 2400(1) were amended by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years. The heading before s. 2400, and s. 2400(1) formerly read:

"PROPERTY USED IN INSURANCE BUSINESSES IN CANADA

S. 2400. (1) For the purposes of paragraph 138(12)(*l*) of the Act, 'property used by it in the year in, or held by it in the year in the course of' carrying on an insurance business in Canada (in this Part referred to as the 'particular insurance business') means the property (in this Part referred to as 'insurance property') of an insurer that is designated or required to be designated by the insurer in respect of a taxation year, and for that purpose the following rules apply:

(*a*) such investment property owned by the insurer at the beginning of the year that was insurance property in respect of another insurance business in Canada in the immediately preceding taxation year and that was used by the insurer in the year in, or held by it in the year in the course of (determined without reference to this subsection), carrying on the particular insurance business shall be designated by the insurer in respect of the particular insurance business for the year;

(*b*) where the amount of the insurer's mean Canadian reserve liabilities for the year in respect of the particular insurance business exceeds the total of

(i) the aggregate value for the year of all investment property of the insurer required to be designated by the insurer under paragraph (*a*) in respect of the particular insurance business for the year,

(ii) where the particular insurance business is a life insurance business in Canada, the aggregate of the mean policy loans of the insurer for the year and 1/2 of the aggregate of outstanding premiums of the insurer in respect of that insurance business in Canada as determined for the purposes of the relevant authority at the end of the year and the immediately preceding taxation year,

(iii) where the particular insurance business is an accident and sickness insurance business in Canada, 1/2 of the aggregate of outstanding premiums of the insurer in respect of that insurance business in Canada as determined for the purposes of the relevant authority at the end of the year and the immediately preceding taxation year, and

(iv) where the particular insurance business is an insurance business in Canada, other than a life insurance business in Canada or an accident and sickness insurance business in Canada, 1/2 of the total of

(A) the aggregate of all amounts each of which is an amount of a deferred acquisition expense or a premium receivable (to the extent included in the insurer's Canadian reserve liabilities) of the insurer in respect of that insurance business in Canada as determined for the purposes of the relevant authority at the end of the immediately preceding taxation year, and

(B) the aggregate of all amounts each of which is an amount of a deferred acquisition expense or a premium receivable (to the extent included in the insurer's Canadian reserve liabilities) of the insurer in respect of that insurance business in Canada as determined for the purposes of the relevant authority at the end of the year,

such investment property (other than investment property required to be designated by the insurer pursuant to paragraph (*a*) in respect of another insurance business in Canada of the insurer for the year, when that paragraph is applied in respect of that other business) owned by the insurer at the beginning of the year that was insurance property in respect of the particular insurance business in the immediately preceding taxation year, the value for the year of which is not less than the amount of that excess, shall be designated by the insurer in respect of the particular insurance business for the year;

(*c*) where

(i) the amount of the excess determined under paragraph (*b*) in respect of the particular insurance business for the year

exceeds

(ii) the aggregate value for the year of insurance property in the immediately preceding taxation year in respect of the particular insurance business required to be designated by the insurer pursuant to paragraph (*b*) in respect of the particular insurance business for the year,

such investment property (other than investment property designated or required to be designated by the insurer under paragraph (*a*) or (*b*) for the year) owned by the insurer at any time in the year, the value for the year of which is not less than the amount of that excess, shall be designated by the insurer in respect of the particular insurance business for the year;

(*d*) where

(i) the amount of the insurer's Canadian investment fund for the year

exceeds

(ii) the aggregate value for the year of all investment property designated or required to be designated by the insurer under paragraphs (*a*), (*b*) and (*c*) in respect of all insurance businesses in Canada for the year,

such investment property (other than investment property designated or required to be designated by the insurer under paragraph (*a*), (*b*) or (*c*) for the year) owned by the insurer at any time in the year, the value for the year of which is not less than the amount of that excess, shall be designated by the insurer in respect of a particular insurance business for the year;

(*e*) such non-segregated property or portion thereof (other than investment property) owned by the insurer at any time in the year and used by it in the year in, or held by it in the year in the course of (determined without reference to this subsection), carrying on an insurance business in Canada shall be deemed to have been designated by the insurer for the year; and

(*f*) where the insurer has failed to designate property required to be designated for the year under any of paragraphs (*a*) to (*d*), such property owned by the insurer at any time in the year may, notwithstanding subsection (5), be designated by the Minister on behalf of the insurer for the purposes of those paragraphs, and the property designated by the Minister shall be deemed to have been designated by the insurer for the year, except that the aggregate value for the year of the designated property shall not exceed that required to be designated by the insurer under those paragraphs."

S. 2400(1) was amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990, applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987. S. 2400(1) formerly read:

"(1) For the purposes of paragraph 138(12)(l) of the Act, 'property used by it in the year in, or held by it in the year in the course of' carrying on an insurance business in Canada (in this Part referred to as a 'particular insurance business') means the following property (in this Part referred to as 'insurance property') of an insurer in respect of a taxation year:

(*a*) property that is

(i) investment property owned by the insurer at any time in the year that is

(A) land or depreciable property, situated in Canada, or

(B) a mortgage, hypothec or an agreement of sale, in respect of a property situated in Canada,

(ii) investment property owned by the insurer at any time in the year that is

(A) a share of a designated corporation,

(B) an interest in a partnership, or

(C) an interest in a trust,

where not less than 75 per cent of the aggregate value for the year of all property of the corporation, partnership or trust, as the case may be, is in respect of property each of which is a property described in clause (i)(A) or (B), or

(iii) a debt (other than a property described in clause (i)(B)) owing at any time in the year to the insurer by a designated corporation, partnership or trust described in subparagraph (ii),

other than a property that is established by the insurer to be

(iv) a property, in respect of another insurance business in Canada of the insurer, that would be insurance property of the insurer if that other insurance business were the particular insurance business, or

(v) a property used by it in the year in, or held by it in the year in the course of, carrying on an insurance business outside Canada;

(*b*) investment property (other than insurance property described in paragraph (a) owned by the insurer at the beginning of the year that

(i) was used by it in the year in, or held by it in the year in the course of, (determined without reference to this subsection) carrying on the particular insurance business referred to in this subsection, and

(ii) was insurance property in respect of another insurance business in Canada of the insurer in the immediately preceding taxation year;

(*c*) investment property (other than insurance property described in paragraph (a) or (b) or property in respect of another insurance business in Canada of the insurer that would be insurance property described in paragraph (a) or (b) if that other insurance business were the particular insurance business) owned by the insurer at the beginning of the year that was insurance property in respect of the particular insurance business in the immediately preceding taxation year (in this Part referred to as 'investment property of the prior year'), except that where

(i) the aggregate value for the year of all investment property of the prior year in respect of the particular insurance business

exceeds

(ii) the amount, if any, by which the aggregate of

(A) the insurer's Canadian investment fund for the year, and

(B) where the particular insurance business is a life insurance business, the aggregate value for the year of such portion, if any, of the investment property of the prior year that is specified by the insurer pursuant to this paragraph when this paragraph is applied to determine the insurance property of the insurer's other than life insurance business in respect of the taxation year,

exceeds the aggregate of

(C) the aggregate value for the year of all insurance property of the insurer described in paragraphs (a) and (b), in respect of the particular insurance business, and

(D) the aggregate value for the year of all property of the insurer, in respect of another insurance business in Canada, that would be

(I) insurance property described in paragraph (a) or (b), or

(II) investment property of the prior year (before any investment property of the prior year is specified by the insurer pursuant to this paragraph),

if that other insurance business were the particular insurance business,

such portion, if any, of the investment property of the prior year in respect of the particular insurance business that is specified by the insurer, in its return of income required by subsection 150(1) of the Act to be filed for the taxation year, shall be deemed not to be investment property of the prior year, but the aggregate value for the year of the property so specified shall not exceed the amount by which

(iii) the aggregate referred to in subparagraph (i)

exceeds

(iv) the amount determined under subparagraph (ii);

(*d*) where the insurer's Canadian investment fund for the year exceeds the aggregate of

(i) the aggregate value for the year of all insurance property of the insurer described in paragraphs (a), (b) and (c), in respect of the particular insurance business, and

(ii) the aggregate value for the year of all property of the insurer, in respect of another insurance business in Canada, that would be insurance property described in paragraph (a), (b) or (c) if that other insurance business were the particular insurance business,

such investment property owned by the insurer at any time in the year (other than property described in subparagraph (i) or (ii)) as is designated by the insurer, in its return of income required by subsection 150(1) of the Act to be filed for the taxation year;

(*e*) where the insurer's

(i) mean Canadian reserve liabilities for the year in respect of the particular insurance business exceeds the aggregate of

(A) the aggregate value for the year of all insurance property of the insurer described in paragraphs (a), (b), (c) and (d), in respect of the particular insurance business, and

(B) where the particular insurance business is a life insurance business, ½ of the aggregate of

(I) the aggregate of amounts each of which is an amount payable to the insurer at the end of the immediately preceding taxation year in respect of a policy loan, and

(II) the aggregate of amounts each of which is an amount payable to the insurer at the end of the taxation year in respect of a policy loan, or

(ii) Canadian investment fund for the year exceeds the aggregate value for the year of all property of the insurer, each of which is a property that is
(A) referred to in subparagraph (d)(i) or (ii), or
(B) designated by the insurer pursuant to paragraph (d), in respect of any of the insurer's insurance businesses in Canada,
such investment property owned by the insurer at any time in the year (other than property referred to in clause (ii)(A) or (B)) as may be designated by the Minister, but the aggregate value for the year of the property so designated shall not exceed
(iii) where the insurer carried on in Canada in the year a life insurance business and an other than life insurance business, the greater of
(A) the excess, if any, determined under subparagraph (i), and
(B) the excess, if any, determined under subparagraph (ii), and
(iv) in any other case, the excess, if any, determined under subparagraph (ii); and

(*f*) non-segregated property (other than investment property) owned by the insurer at any time in the year and used by it in the year in, or held by it in the year in the course of, (determined without reference to this subsection) carrying on the particular insurance business referred to in this subsection."

Carrying Value

(2) For the purposes of this Part, the carrying value of a taxpayer's property for a taxation year, except as otherwise provided in this Part, means

(*a*) if the taxpayer is an insurer, the amounts reflected in the taxpayer's non-consolidated balance sheet as at the end of the taxation year accepted (or, if that non-consolidated balance sheet was not prepared, the taxpayer's non-consolidated balance sheet as at the end of the year that would have been accepted) by the Superintendent of Financial Institutions, in the case of an insurer that is required under the *Insurance Companies Act* to report to that Superintendent, or by the superintendent of insurance or other similar officer or authority of the province under the laws of which the insurer is incorporated or otherwise formed, in the case of an insurer that is required by law to report to that officer or authority, and

(*b*) in any other case, the amounts that would be reflected in the taxpayer's non-consolidated balance sheet as at the end of the taxation year if that balance sheet were prepared in accordance with generally accepted accounting principles.

History: S. 2400(2) was amended by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years. S. 2400(2) formerly read:

"(2) For the purposes of this section, where in a taxation year an insurer carries on a life insurance business in Canada and an insurance business in Canada other than a life insurance business (in this Part referred to as the 'other than life insurance business'), the following rules apply:

(*a*) paragraphs (1)(*a*), (*b*) and (*c*) shall be applied in designating the insurance property of the insurer in respect of its other than life insurance business before they are applied in designating the insurance property of the insurer in respect of its life insurance business;

(*b*) property that is designated under subsection (1) in respect of an insurance business of the insurer for a taxation year shall not be designated in respect of another insurance business of the insurer for the year; and

(*c*) investment property that is designated in respect of an insurance business of the insurer for a taxation year pursuant to paragraph (1)(*d*) or (*f*) shall,
(i) where paragraph (1)(*d*) is applicable, be designated in respect of the insurance business in Canada of the insurer as specified by the insurer for the year, and
(ii) where paragraph (1)(*f*) is applicable, be designated in respect of the insurance business in Canada of the insurer as specified by the Minister for the year."

S. 2400(2) was amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990, applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987. S. 2400(2) formerly read:

"(2) For the purposes of this section, where in a taxation year an insurer carries on a life insurance business in Canada, and an insurance business in Canada other than the life insurance business (in this Part referred to as the 'other than life insurance business'), the following rules apply:

(*a*) subsection (1) shall be applied in determining the insurance property of the insurer's other than life insurance business before it is applied in determining the insurance property of the insurer's life insurance business; and

(*b*) property that is included in insurance property of an insurance business of the insurer in respect of the year shall not be included in insurance property of another insurance business of the insurer in respect of the year."

Amount or Item Reported

(3) A reference in this Part to an amount or item reported as an asset or a liability of a taxpayer as at the end of a taxation year means an amount or item that is reported as an asset or a liability in the taxpayer's non-consolidated balance sheet as at the end of the year accepted (or, if that non-consolidated balance sheet was not prepared, the taxpayer's non-consolidated balance sheet as at the end of the year that would have been accepted) by the Superintendent of Financial Institutions, in the case of an insurer that is required under the *Insurance Companies Act* to report to that Superintendent, or by the superintendent of insurance or other similar officer or authority of the province under the laws of which the insurer is incorporated or otherwise formed, in the case of an insurer that is required by law to report to that officer or authority.

History: S. 2400(3) was amended by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years. S. 2400(3) formerly read:

"(3) For the purposes of subsection (1), property acquired by an insurer in a taxation year by reason of

(*a*) a transaction to which any of sections 51, 51.1, 85.1 or 86 of the Act applies,

(*b*) a transaction in respect of which an election was made under subsection 85(1) or (2) of the Act,

(*c*) an amalgamation of two or more corporations (within the meaning assigned by subsection 87(1) of the Act), or

(*d*) a winding-up of a corporation (in respect of which subsection 88(1) of the Act applied),

as consideration for or in exchange for property of the insurer that was, in respect of the year, insurance property in respect of a particular insurance business in the immediately preceding taxation year shall be deemed to be insurance property in respect of that particular insurance business in that immediately preceding taxation year."

S. 2400(3)(*a*) was amended by P.C. 2000-1714, SOR/200-413, dated November 30, 2000, applicable to transactions occurring after October 1994. S. 2400(3)(*a*) formerly read:

"(*a*) a transaction described in section 51, 77, 85.1 or 86 of the Act,"

S. 2400(3) was amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990, applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987. S. 2400(3) formerly read:

"(3) For the purposes of paragraph (1)(*c*), investment property acquired by an insurer in a taxation year by virtue of

(*a*) a transaction described in section 51, 77 or 86 of the Act,

(*b*) a transaction in respect of which an election was made under subsection 85(1) or (2) or section 115.1 of the Act, or

(*c*) an amalgamation (within the meaning assigned by subsection 87(1) of the Act),

in exchange for property of the insurer that was, in respect of the year, investment property of the prior year shall be deemed to be investment property of the prior year."

S. 2400(3)(b) was amended by P.C. 1988-1473, SOR/88-392, dated July 21, 1988, to add the reference to s. 115.1, applicable to taxation years commencing after 1984.

Application of Certain Definitions

(4) For the purposes

(*a*) of subsection 138(14) of the Act, the expressions "Canadian investment fund for a taxation year", "specified Canadian assets" and "value for the taxation year" have the meanings prescribed for them by subsection 2404(1) as it read in its application to the 1977 taxation year; and

(*b*) of subsection 219(7) of the Act, the expressions "attributed surplus" and "Canadian investment

fund" have the meaning prescribed for them by subsection (1).

History: S. 2400(4) was amended by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years. S. 2400(4) formerly read:

"(4) Notwithstanding subsection (1) or (6), the aggregate value for the year of Canadian equity property that may be designated in respect of all the insurer's insurance businesses in Canada for a taxation year shall not exceed the insurer's equity limit for the year."

S. 2400(4) was amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990 and applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987. S. 2400(4) formerly read:

"(4) Notwithstanding paragraph (1)*(d)*, the aggregate value for the year of Canadian equity property that an insurer may designate pursuant to that paragraph in respect of all its insurance businesses in Canada shall not exceed its equity limit for the year."

Deeming Rules for Certain Assets

(5) For the purposes of this Part, other than subsection 2401(6), an asset of an insurer is deemed not to have been used or held by the insurer in a taxation year in the course of carrying on an insurance business if the asset

(*a*) is owned by the insurer at the end of the year; and

(*b*) is a share of the capital stock of, or a debt owing to the insurer by, a financial institution affiliated with the insurer during each of the days in the year during which the insurer owned the asset.

History: S. 2400(5) was amended by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years. S. 2400(5) formerly read:

"(5) Where investment property owned by the insurer at any time in the year was not insurance property in respect of an insurance business in Canada of the insurer at the end of the immediately preceding taxation year, and was used by the insurer in, or held by the insurer in the course of carrying on an insurance business outside Canada in the year, the property may not be designated by the insurer under subsection (1) for any period in the year, in respect of an insurance business in Canada of the insurer."

S. 2400(5) was amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990 and applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987 except that, in applying s. 2400(5) as amended to a taxpayer's first taxation year that begins after June 17, 1987 and that ends after 1987, it shall, where the taxpayer elects in the taxpayer's return of income under Part I of the Act for that year, be read as follows:

"(5) Where a property was owned by the insurer throughout any period in a taxation year and throughout that period the property was used by the insurer in, or held by the insurer in the course of, carrying on an insurance business outside Canada, the property may not be designated by the insurer under subsection (1) for the period in respect of an insurance business in Canada of the insurer."

S. 2400(5) formerly read:

"(5) For the purposes of paragraph (1)(d), a reference to property designated by an insurer in respect of a taxation year shall not include a reference to property, owned by the insurer throughout the year or a part thereof (in this subsection referred to as the 'ownership period'), that has been used by the insurer throughout the ownership period in, or held by the insurer throughout the ownership period in the course of, carrying on an insurance business outside Canada."

(6) For the purposes of clause (*a*)(ii)(B) of the definition "Canadian investment fund" in subsection (1), an asset of an insurer is deemed not to have been used or held by the insurer in a taxation year in the course of carrying on an insurance business if the asset

(*a*) is owned by the insurer at the end of the year; and

(*b*) is

(i) goodwill which arose as a result of an amalgamation, a winding-up of an affiliated financial institution, or the assumption by the insurer of any obligation of another insurer with which the insurer deals at arm's length if a reserve in respect of the obligation

(A) may be claimed by the insurer under paragraph 20(7)(*c*) or subparagraph 138(3)(*a*)(i) or (ii) of the Act, or

(B) could be claimed by the insurer under paragraph 20(7)(*c*) or subparagraph 138(3)(*a*)(i) or (ii) of the Act if the obligations were insurance policies in Canada, or

(ii) real property (or the portion of real property) owned by the insurer and occupied by the insurer for the purposes of carrying on an insurance business.

Department of Finance Comfort Letter

[Proposed Amendments to Regulation 2400(6) Re Goodwill Arising from Acquisition or Disposition of Affiliated Financial Institution]

June 30, 2006

Dear XXXX

I am writing in response to your letters concerning your request for a modification to subsection 2400(6) of the Income Tax Regulations ("Regulations")

Under existing subsection 2400(6), certain assets of an insurer are, for the purpose of clause (*a*)(ii)(B) of the definition "Canadian investment fund" in subsection 2400(1), deemed not to have been used or held by the insurer in the taxation year in the course of carrying on an insurance business. Such assets include goodwill that arose as a result of an amalgamation or a winding-up of an affiliated financial institution or on the assumption by the insurer of certain obligations of another insurer with which the insurer deals at arm's length.

You have recommended that subsection 2400(6) be amended to include a reference to goodwill that arose as a result of an acquisition or disposition of an affiliated financial institution. You are requesting the modification to subsection 2400(6) because the structure of the XXXX is being reorganized and, as part of that reorganization, XXXX has transferred certain foreign insurance and non-insurance subsidiaries to a newly-incorporated Canadian subsidiary of XXXX. As a result of this reorganization, a portion of the goodwill that arose on the arm's length acquisition of a foreign financial institution and that was not, before the reorganization, required by generally accepted accounting principle to be reported on the non-consolidated balance sheet of XXXX is, after the reorganization, required by generally accepted accounting principles to be reported on its balance sheet. In your view, such purchased goodwill arising under the reorganization should, under subsection 2400(6), receive the same treatment as the goodwill arising in the other circumstances set out in that subsection.

We have reviewed your submission and have concluded that the purchased goodwill arising under the reorganization should, under subsection 2400(6), receive the same treatment as the goodwill arising in the other circumstances set out in that subsection. Consequently, we are prepared to recommend to the Minister of Finance a modification to subsection 2400(6) that would achieve that result, effective for the 2005 and subsequent taxation years. We cannot, however, offer any assurances that either the Minister of Finance or Parliament will agree with our recommendation that we intend to make in this regard. Nonetheless, we trust that this statement of our position is helpful.

Yours sincerely

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 2400(6) was amended by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years. S. 2400(6) formerly read:

"(6) For the purposes of subsection (1), investment property of the insurer shall be designated by the insurer in respect of a taxation year in respect of its insurance businesses in Canada in the following order to the extent thereof and to the extent required:

(*a*) investment property owned by the insurer at any time in the year that was insurance property in respect of an insurance business in Canada of the insurer at the end of the immediately preceding taxation year;

(*b*) subject to subsection (5), investment property (other than an investment property referred to in paragraph (*a*)) owned by the insurer at any time in the year that was Canadian investment property except that such investment property shall be designated in the following order:

(i) land and depreciable property situated in Canada,

(ii) mortgages, agreements of sale and other forms of indebtedness in respect of property referred to in subparagraph (i), and

(iii) other property; and

(*c*) subject to subsection (5), other investment property owned by the insurer at any time in the year."

S. 2400(6)(*b*)(ii) was amended by P.C. 1994-1817, SOR/94-686, dated November 7, 1994, by deleting the word "hypothec".

S. 2400(6) was added by P.C. 1990-2002, SOR /90-661, dated September 20, 1990, applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987 except that, in applying s. 2400(6) as amended to a taxpayer's first taxation year that begins after June 17, 1987 and ends after 1987, it shall, where the taxpayer elects in the taxpayer's return of income under Part I of the Act for the year, be read as follows:

"(6) For the purposes of subsection (1), investment property of the insurer shall, subject to subsection (5), be designated by the insurer in respect of a taxation year in respect of its insurance businesses in Canada in the following order, to the extent thereof and to the extent required:

(*a*) investment property owned by the insurer at any time in the year that was designated in respect of an insurance business in Canada of the insurer in the immediately preceding taxation year;

(*b*) investment property (other than an investment property referred to in paragraph (a)) owned by the insurer at any time in the year that was Canadian investment property, except that that investment property shall be designated in the following order, namely,

(i) land and depreciable property situated in Canada,

(ii) mortgages, hypothecs, agreements of sale and other forms of indebtedness in respect of property referred to in subparagraph (i), and

(iii) other property; and

(*c*) other investment property owned by the insurer at any time in the year."

No Double Counting

(7) For greater certainty, a particular property or a particular proportion of a property shall not, directly or indirectly, be used or included more than once in determining, for a particular taxation year, the Canadian equity property or the equity property of a person or partnership.

History: S. 2400(7) was amended by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years. S. 2400(7) formerly read:

"(7) The insurer or the Minister may designate for a taxation year a portion of a particular investment property pursuant to paragraph (1)(*b*), (*c*), (*d*) or (*f*) where the designation of the entire investment property would result in a designation of investment property with an aggregate value for the year exceeding that required to be designated by the insurer pursuant to subsection (1)."

S. 2400(7) was added by P.C. 1990-2002, SOR/90-661, dated September 20, 1990, applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987.

Transition Year

(8) A computation that is required to be made under this Part in respect of an insurer's taxation year that included September 30, 2006 and that is relevant to a computation (in this subsection referred to as the "transition year computation") that is required to be made under this Part in respect of the insurer's first taxation year that begins after that date shall, for the purposes only of the transition year computation, be made using the same definitions, rules and methodologies that are used in the transition year computation.

History: S. 2400(8) was added by S.C. 2009, c. 2, s. 102(1), applicable to taxation years that begin after September 2006.

Designated Insurance Property

2401. (1) For the purposes of the definition "designated insurance property" in subsection 138(12) of the Act, "designated insurance property" of an insurer for a taxation year means property that is designated in accordance with subsections (2) to (7) for the year

(*a*) by the insurer in its return of income under Part I of the Act for the year; or

(*b*) if the Minister determines that the insurer has not made a designation that is in accordance with the prescribed rules found in this section, by the Minister.

History: The heading before S. 2401, and s. 2401(1) were amended by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years. The heading before S. 2401, and s. 2401(1) formerly read:

"NON-RESIDENT LIFE INSURERS

S. 2401. (1) An election referred to in paragraph (*a*) of the definition 'life surplus factor' in subsection 2405(3) shall be made by a non-resident life insurer in respect of a taxation year by filing, with its return of income required by subsection 150(1) of the Act to be filed for the year, the following documents in duplicate:

(*a*) a letter stating that the insurer elects under paragraph (*a*) of the definition 'life surplus factor' in subsection 2405(3); and

(*b*) a schedule providing the following information:

(i) the amount determined under subparagraph (*a*)(i) of the definition 'life surplus factor' in subsection 2405(3) in respect of the year,

(ii) the amount that is the aggregate value for the year of all the insurer's equity property,

(iii) information adequate to enable the Minister to verify the amounts referred to in subparagraphs (i) and (ii), and

(iv) where subsection (3) applies, the position and jurisdiction of the insurance officer or authority referred to therein."

Designation Rules

(2) For the purposes of subsection (1), an insurer, or the Minister if paragraph (1)(*b*) applies,

(*a*) shall designate for a taxation year investment property of the insurer for the year with a total value for the year equal to the amount, if any, by which the insurer's mean Canadian reserve liabilities for the year in respect of its life insurance business in Canada exceeds the total of the insurer's mean Canadian outstanding premiums and mean policy loans for the year in respect of that business (to the extent that the amount of the mean policy loans was not otherwise deducted in computing the insurer's mean Canadian reserve liabilities for the year);

(*b*) shall designate for a taxation year investment property of the insurer for the year with a total value for the year equal to the amount, if any, by which the insurer's mean Canadian reserve liabilities for the year in respect of its accident and sickness insurance business in Canada exceeds the total of

(i) the insurer's mean Canadian outstanding premiums for the year in respect of that business, and

(ii) 50% of the total of all amounts, each of which is its total reinsurance recoverables, as at the end of the year or as at the end of the preceding taxation year, that are in respect of that business;

(*c*) shall designate for a taxation year in respect of the insurer's insurance business in Canada (other than a life insurance business or an accident and sickness insurance business) investment property of the insurer for the year with a total value for the year equal to the amount, if any, by which the insurer's mean Canadian reserve liabilities for the year in respect of that business exceeds the total of

(i) 50% of the total of all amounts each of which is the amount, as at the end of the year or as at the end of its preceding taxation year, of a premium receivable or a deferred acquisition expense (to the extent that it is included in the insurer's Canadian reserve liabilities as at the end of the year or preceding taxation year, as the case may be) of the insurer in respect of that business, and

(ii) 50% of the total of all amounts, each of which is its total reinsurance recoverables, as at the end of the year or as at the end of the preceding taxation year, that are in respect of that business;

(*d*) if

(i) the insurer's mean Canadian investment fund for a taxation year

exceeds

(ii) the total value for the year of all property required to be designated under paragraph (*a*), (*b*) or (*c*) for the year,

shall designate for the year, in respect of a particular insurance business that the insurer carries on in Canada, investment property of the insurer for the year with a total value for the year equal to that excess;

(*e*) for greater certainty, under each of paragraphs (*a*), (*b*), (*c*) and (*d*), shall designate for the taxation year investment property with a total value for the year equal to the amount, if any, determined under each of those paragraphs, and no investment property, or portion of investment property, designated for the year under any of paragraphs (*a*) to (*d*) may be designated for the year under any other paragraph; and

(*f*) may designate for a taxation year a portion of a particular investment property if the designation of the entire property would result in a designation of property with a total value for the year exceeding that required to be designated under paragraphs (*a*) to (*d*) for the year.

History: S. 2401(2) was amended by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years. S. 2401(2) formerly read:

"(2) Where an insurer has made an election referred to in subsection (1) and the information that is required to be provided pursuant to subparagraph (1)(*b*)(iii) is not adequate, in the opinion of the Minister on the advice of the Superintendent of Insurance for Canada, to enable the Minister to verify an amount referred to in that subparagraph, the insurer's life surplus factor shall be determined pursuant to paragraph (*c*) of the definition 'life surplus factor' in subsection 2405(3)."

Order of Designation of Properties

(3) For the purpose of subsection (2), investment property of an insurer for a taxation year shall be designated for the year in respect of the insurer's insurance businesses carried on by it in Canada in the following order:

(*a*) Canadian investment property of the insurer for the year owned by the insurer at the beginning of the year that was designated insurance property of the insurer for its preceding taxation year, except that such property shall be designated in the following order:

(i) real and depreciable property,

(ii) mortgages, hypothecs, agreements of sale and other forms of indebtedness in respect of real property situated in Canada or depreciable property situated in Canada or depreciable property leased to a person resident in Canada for use inside and outside of Canada, and

(iii) other property;

(*b*) investment property (other than Canadian investment property of the insurer for the year) owned by the insurer at the beginning of the year that was designated insurance property of the insurer for its preceding taxation year;

(*c*) Canadian investment property of the insurer for the year (other than property included in paragraph (*a*)) in the order set out in subparagraphs (*a*)(i) to (iii); and

(*d*) other investment property.

History: S. 2401(3) was amended by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years. S. 2401(3) formerly read:

"(3) Notwithstanding the definition 'relevant authority' in subsection 2405(3), where an insurer has made an election referred to in subsection (1), it may, if it so provides in its election, determine the amount referred to in subparagraph (1)(*b*)(i) as if 'relevant authority' were read as 'insurance officer or authority of the country or the political subdivision thereof to whom the insurer is required to report its reserves in respect of its insurance businesses carried on in all countries and territories'."

Equity Limit for the Year

(4) Notwithstanding subsections (2) and (3),

(*a*) the total value for the year of Canadian equity property of an insurer that may be designated in respect of the insurer's insurance businesses for a taxation year shall not exceed the insurer's equity limit for the year; and

(*b*) for a taxation year a portion of a particular Canadian equity property of an insurer may be designated if the designation of the entire property would result in a designation of Canadian equity property of the insurer for the year with a total value for the year exceeding the insurer's equity limit for the year.

History: S. 2401(4) was added by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years.

Exchanged Property

(5) For the purposes of subsection (3), property acquired by an insurer in a particular taxation year is deemed to be designated insurance property of the insurer in respect of a particular business of the insurer for its preceding taxation year and to have been owned by the insurer at the beginning of the particular taxation year if the property was acquired

(*a*) by reason of

(i) a transaction to which any of sections 51, 51.1, 85.1 and 86 of the Act applies,

(ii) a transaction in respect of which an election is made under subsection 85(1) or (2) of the Act,

(iii) an amalgamation (within the meaning assigned by subsection 87(1) of the Act), or

(iv) a winding-up of a corporation to which subsection 88(1) of the Act applies, and

(*b*) as consideration for or in exchange for property of the insurer that was designated insurance property of the insurer in respect of the particular insurance business for its preceding taxation year.

History: S. 2401(5) was added by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years.

Non-investment Property

(6) Non-segregated property owned by an insurer at any time in a taxation year (other than investment property of the insurer for the year) that is used or held by the insurer in the year in the course of carrying on an insurance business in Canada is deemed to be designated insurance property of the insurer for the year in respect of the business.

History: S. 2401(6) was added by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years.

Policy Loan Excluded from Designated Property

(7) Notwithstanding any other provision in this Part, a policy loan payable to an insurer is not designated insurance property of the insurer.

History: S. 2401(7) was added by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years.

INCOME FROM PARTICIPATING LIFE INSURANCE BUSINESSES

2402. For the purposes of clause 138(3)(*a*)(iii)(B) of the Act and subparagraph 309(1)(*e*)(i), in computing a life insurer's income for a taxation year from its participating life insurance business carried on in Canada,

(*a*) there shall be included that proportion of the insurer's gross Canadian life investment income for the year that

(i) the aggregate of the insurer's mean maximum tax actuarial reserve for the year in respect of participating life insurance policies in Canada and the mean amount on deposit with the insurer for the year in respect of those policies

is of

(ii) the aggregate of amounts, each of which is

(A) the insurer's mean maximum tax actuarial reserve for the year in respect of a class of life insurance policies in Canada, or

(B) the mean amount on deposit with the insurer for the year in respect of a class of policies described in clause (A);

Pending Amendment

Securities Held by Financial Institutions — April 11, 2009 (Pre-published in the *Canada Gazette*, Part I, dated April 11, 2009)

Section 2402 of the Regulations is amended by adding the following after paragraph (*a*):

(*a*.1) there shall be included the amount determined by the formula

$$(A + B) \times C/D$$

where

A is the amount required by subsection 142.5(5) of the Act to be included in computing the insurer's income for the year,

B is the amount deemed by subsection 142.5(7) of the Act to be a taxable capital gain of the insurer for the year from the disposition of property,

C is the amount determined under subparagraph (*a*)(i) for the taxation year of the insurer that includes October 31, 1994, and

D is the amount determined under subparagraph (*a*)(ii) for the taxation year of the insurer that includes October 31, 1994;

Applicable: To taxation years that end after October 30, 1994.

Explanatory Note:

See the Regulatory Impact Analysis Statement, published in the *Canada Gazette*, Part I on April 11, 2009, reproduced with the Explanatory Note for Regulation 304(1)(*c*).

Explanatory Notes Released on June 1, 1995

Income from Participating Life Insurance Businesses

Section 2402 of the Regulations contains rules for determining a life insurer's income for a year from carrying on its participating life insurance business in Canada. This income is relevant for subparagraph 138(3)(a)(iii) of the Act, which permits an insurer to deduct policy dividends to the extent that the total amount of dividends paid after its 1968 taxation year does not exceed the total amount of its participating business income after that year. Section 2402 is amended to reflect the new rules in the Act for the tax treatment of securities held by financial institutions, and to delete provisions which are no longer applicable.

Paragraph 2402(a.1)

New paragraph 2402(a.1) includes in an insurer's income from its participating business for a taxation year an amount in respect of the transition adjustments for the mark-to-market requirement for shares. The amount included is equal to a proportion of the transition amount for non-capital gains included in the insurer's income for the year by subsection 142.5(5) of the Act, plus the same proportion of the insurer's deemed taxable capital gain for the year under subsection 142.5(7). The ratio used for this purpose is equal to the ratio used under paragraph 2402(a) in determining the proportion of the insurer's gross Canadian life investment income for its taxation year that includes October 31, 1994 that is included in its income from its participating business. Paragraph 2402(a.1) applies to taxation years ending after October 30, 1994.

(*b*) there shall be included

(i) the amount deducted by the insurer under subparagraph 138(3)(*a*)(iv) of the Act in computing its income for the immediately preceding taxation year,

(ii) the insurer's maximum tax actuarial reserve for the immediately preceding taxation year in respect of participating life insurance policies in Canada,

(iii) the maximum amount deductible by the insurer under subparagraph 138(3)(*a*)(ii) of the Act in computing its income for the immediately preceding taxation year in respect of participating life insurance policies in Canada, and

(iv) that proportion of the amount included in income by the insurer for the year under section 12.3 that

(A) the amount determined under clause (*f*)(iii)(A) for its first taxation year that begins after June 17, 1987 and ends after 1987

is of

(B) the amount determined under clause (*f*)(iii)(B) for its first taxation year that begins after June 17, 1987 and ends after 1987;

Pending Amendment

Securities Held by Financial Institutions — April 11, 2009 (Pre-published in the *Canada Gazette*, Part I, dated April 11, 2009)

Paragraph 2402(*b*) of the Regulations is amended by adding "and" at the end of subparagraph (ii), by striking out "and" at the end of subparagraph (iii) and by repealing subparagraph (iv).

~~(iv) [Repealed.]~~

Applicable: To taxation years that begin after 1992.

Explanatory Note:

See the Regulatory Impact Analysis Statement, published in the *Canada Gazette*, Part I on April 11, 2009, reproduced with the Explanatory Note for Regulation 304(1)(*c*).

Explanatory Notes Released on June 1, 1995

Subparagraph 2402(b)(iv) relates to a transitional provision introduced in conjunction with the 1987 tax reform measures. The transitional provision, and subparagraph 2402(b)(iv), last

applied to taxation years that began in 1992. The subparagraph is repealed since it is no longer applicable.

(*c*) there shall not be included any amount in respect of the insurer's participating life insurance policies in Canada that was deducted under subparagraph 138(3)(*a*)(i) or (ii) of the Act in computing its income for the immediately preceding taxation year;

(*d*) except as otherwise provided in paragraph (*a*), there shall not be included any amount as a reserve that was deducted under paragraph 20(1)(*l*) of the Act in computing the insurer's income for the immediately preceding taxation year;

(*e*) except as otherwise provided in paragraph (*a*), there shall not be included

(i) any amount that was included in income for the year by the insurer pursuant to paragraph 138(4)(*b*) or (*c*) of the Act, or

(ii) any amount that was included in computing the insurer's gains or taxable capital gains for the year from the disposition of property;

Pending Amendment

Securities Held by Financial Institutions — April 11, 2009 (Pre-published in the *Canada Gazette*, Part I, dated April 11, 2009)

Paragraph 2402(*e*) of the Regulations is replaced by the following:

(*e*) except as provided in paragraph (*a*), there shall not be included any amount that was included in determining the insurer's gross Canadian life investment income for the year;

Applicable: To taxation years that end after February 22, 1994.

Explanatory Note:

See the Regulatory Impact Analysis Statement, published in the *Canada Gazette*, Part I on April 11, 2009, reproduced with the Explanatory Note for Regulation 304(1)(*c*).

Explanatory Notes Released on June 1, 1995

Paragraph 2402(e) provides that certain amounts are not included in computing an insurer's income from its participating life insurance business, except as provided by paragraph 2402(a). Paragraph 2402(e) is amended so that it applies with respect to all amounts included in determining an insurer's gross Canadian life investment income. This amendment is made for purposes of clarification, and because of the introduction of the new rules for the taxation of securities held by financial institutions. In this latter regard, subparagraph 2402(e)(i) refers to paragraphs 138(4)(b) and (c) of the Act, which are being repealed.

The amendment to paragraph 2402(e) applies to taxation years that end after February 22, 1994.

Pending Amendment

Securities Held by Financial Institutions — April 11, 2009 (Pre-published in the *Canada Gazette*, Part I, dated April 11, 2009)

Section 2402 of the Regulations is amended by adding the following after paragraph (*e*):

(*e*.1) except as provided in paragraph (*a.1*), there shall not be included the amounts referred to in the descriptions of A and B in that paragraph;

(*e*.2) if the year includes October 31, 1994, there shall be deducted the amount determined by the formula

$$(A + B) \times C/D$$

where

A is the amount deducted under subsection 142.5(4) of the Act in computing the insurer's income for the year,

B is the amount deemed by subsection 142.5(6) of the Act to be an allowable capital loss of the insurer for the year from the disposition of property,

C is the amount determined under subparagraph (*a*)(i) for the year, and

D is the amount determined under subparagraph (*a*)(ii) for the year;

Applicable: To taxation years that end after October 30, 1994.

Explanatory Note:

See the Regulatory Impact Analysis Statement, published in the *Canada Gazette*, Part I on April 11, 2009, reproduced with the Explanatory Note for Regulation 304(1)(*c*).

Explanatory Notes Released on June 1, 1995

New paragraph 2402(e.1) provides that the transition amounts associated with the introduction of the mark-to-market requirement for shares are not to be included in an insurer's income from its participating life insurance business, except as provided by new paragraph 2402(a.1).

New paragraph 2402(e.2) provides for a deduction in computing an insurer's income from its participating business in respect of the transition deductions associated with the introduction of the mark-to-market requirement for shares. This deduction applies for the insurer's taxation year that includes October 31, 1994. The deducted amount is equal to a proportion of the transition deduction for non-capital gains claimed by the insurer under subsection 142.5(4) of the Act, plus the same proportion of the allowable capital loss claimed by the insurer under subsection 142.5(6). The ratio used for this purpose is equal to the ratio used under paragraph 2402(a) in determining the proportion of the insurer's gross Canadian life investment income for its taxation year that includes October 31, 1994 that is included in its income from its participating business.

(*f*) there shall be deducted

(i) the insurer's maximum tax actuarial reserve for the year in respect of participating life insurance policies in Canada,

(ii) the maximum amount deductible by the insurer under subparagraph 138(3)(*a*)(ii) of the Act in computing its income for the year in respect of participating life insurance policies in Canada, and

(iii) that proportion of the amount deducted from income by the insurer for the year under subsection 20(26) that

(A) the amount determined in respect of the insurer for the year under subparagraph (*a*)(i)

is of

(B) the amount determined in respect of the insurer for the year under subparagraph (*a*)(ii);

Pending Amendment

Securities Held by Financial Institutions — April 11, 2009 (Pre-published in the *Canada Gazette*, Part I, dated April 11, 2009)

Paragraph 2402(*f*) of the Regulations is amended by adding "and" at the end of subparagraph (i), by striking out "and" at the end of subparagraph (ii) and by repealing subparagraph (iii).

(iii) [Repealed.]

Applicable: To taxation years that begin after 1992.

Explanatory Note:

See the Regulatory Impact Analysis Statement, published in the *Canada Gazette*, Part I on April 11, 2009, reproduced with the Explanatory Note for Regulation 304(1)(*c*).

Explanatory Notes Released on June 1, 1995

Subparagraph 2402(f)(iii) relates to a transitional deduction provided in conjunction with the 1987 tax reform measures. The transitional deduction, and subparagraph 2402(f)(iii), applied to an insurer's first taxation year that began after June 17, 1987 and ended after 1987. The subparagraph is repealed since it is no longer applicable.

(*g*) no deduction shall be made in respect of any amount deductible under subparagraph 138(3)(*a*)(iii) or (iv) of the Act in computing the insurer's income for the year;

(*h*) except as otherwise provided in paragraph (*a*), no deduction shall be made in respect of

(i) any amount deductible under paragraph 138(3)(*b*) or (*d*) of the Act in computing the insurer's income for the year,

(ii) any amount deductible as a reserve under paragraph 20(1)(*l*) of the Act in computing the insurer's income for the year, or

(iii) any amount included in computing the insurer's losses or allowable capital losses for the year from the disposition of property;

Pending Amendment

Securities Held by Financial Institutions — April 11, 2009 (Pre-published in the *Canada Gazette*, Part I, dated April 11, 2009)

Paragraph 2402(*h*) of the Regulations is replaced by the following:

(*h*) except as provided in paragraph (*a*), no deduction shall be made in respect of

(i) any amount taken into account in determining the insurer's gross Canadian life investment income for the year, or

(ii) any amount deductible under paragraph 20(1)(*l*) of the Act in computing the insurer's income for the year;

Applicable: To taxation years that end after February 22, 1994.

Explanatory Note:

See the Regulatory Impact Analysis Statement, published in the *Canada Gazette*, Part I on April 11, 2009, reproduced with the Explanatory Note for Regulation 304(1)(*c*).

Explanatory Notes Released on June 1, 1995

Paragraph 2402(h) provides that certain amounts are not deducted in computing an insurer's income from its participating life insurance business, except as provided by paragraph 2402(a). Paragraph 2402(h) is amended so that it applies with respect to all amounts that are included in determining an insurer's gross Canadian life investment income. This amendment is made for purposes of clarification and because of the introduction of the new rules for the taxation of securities held by financial institutions. In this latter regard, subparagraph 2402(h)(i) refers to paragraphs 138(3)(b) and (d) of the Act, which are being repealed.

The amendment to paragraph 2402(h) applies to taxation years that end after February 22, 1994.

Pending Amendment

Securities Held by Financial Institutions — April 11, 2009 (Pre-published in the *Canada Gazette*, Part I, dated April 11, 2009)

Section 2402 of the Regulations is amended by adding the following after paragraph (*h*):

(*h*.1) except as provided in paragraph (*e*.2), no deduction shall be made in respect of the amounts referred to in the descriptions of A and B in that paragraph;

Applicable: To taxation years that end after October 30, 1994.

Explanatory Note:

See the Regulatory Impact Analysis Statement, published in the *Canada Gazette*, Part I on April 11, 2009, reproduced with the Explanatory Note for Regulation 304(1)(*c*).

Explanatory Notes Released on June 1, 1995

New paragraph 2402(h.1) provides that the transition amounts deducted by an insurer in connection with the introduction of the mark-to-market requirement for shares are not to be deducted in computing the insurer's income from its participating life insurance business, except as provided by new paragraph 2402(e.2).

(*i*) except as otherwise provided in paragraph (*f*), no deduction shall be made in respect of a reserve deductible under subparagraph 138(3)(*a*)(i) or (ii) of the Act in computing the insurer's income for the year; and

(*j*) except as otherwise provided in this section, the provisions of the Act relating to the computation of income from a source shall apply.

History: Ss. 2402(b)(iii) and (iv) were added by P.C. 1990-2002, SOR/90-661, dated September 20, 1990, applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987 except that in its application in respect of its first taxation year that begins after June 17, 1987 and ends after 1987, s. 2402(b)(iii) is to be read as follows:

"(iii) the maximum amount of a reserve deductible by the insurer in computing its income for the immediately preceding taxation year in respect of unpaid claims under participating life insurance policies in Canada received by the insurer before the end of that year, and;"

Ss. 2402(c) to (f) were amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990 and applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987 except that, in its application in respect of its first taxation year that begins after June 17, 1987 and ends after 1987, s. 2402(c) is to be read as follows:

"(*c*) there shall not be included any amount in respect of the insurer's participating life insurance policies in Canada that was deducted in computing its income for the immediately preceding taxation year under subparagraph 138(3)(a)(i) of the Act or as a reserve in respect of unpaid claims received before the end of that year;"

and s. 2402(d) shall be read as it read for its last taxation year ending before 1988. Ss. 2402(c) to (f) formerly read:

"(*c*) there shall not be included any amount in respect of the insurer's participating life insurance policies in Canada that was deducted under subparagraph 138(3)(a)(i) of the Act in computing its income for the immediately preceding taxation year;

(*d*) except as otherwise provided in paragraph (a), there shall not be included any amount in respect of a reserve that was deducted under paragraph 138(3)(c) of the Act in computing the insurer's income for the immediately preceding taxation year;

(*e*) except as otherwise provided in paragraph (a), there shall not be included any amount that was included in income for the year by the insurer pursuant to paragraph 138(4)(b) or (c) of the Act;

(*f*) there shall be deducted the insurer's maximum tax actuarial reserve for the year for participating life insurance policies in Canada;"

Ss. 2402(h) and (i) were amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990, applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987. Ss. 2402(h) and (i) formerly read:

"(*h*) except as otherwise provided in paragraph (a), no deduction shall be made in respect of any amount deductible under paragraph 138(3)(b), (c) or (d) of the Act in computing the insurer's income for the year;

(*i*) except as otherwise provided in paragraph (f), no deduction shall be made in respect of a reserve deductible under subparagraph 138(3)(a)(i) of the Act in computing the insurer's income for the year; and"

S. 2402, the portion preceding paragraph (a) thereof, was amended by P.C. 1983-3530, SOR/83-865, dated November 18, 1983, to add the reference to s. 309(1)(e)(i), applicable to taxation years commencing after 1982.

Branch Tax Elections

2403. (1) An election referred to in subsection 219(4) of the Act shall be made by a non-resident insurer in respect of a taxation year by filing, with its return of income required by subsection 150(1) of the Act to be filed for the year, a letter in duplicate stating

(*a*) the insurer elects under subsection 219(4) of the Act; and

(*b*) the amount the insurer elects to deduct under subsection 219(4) of the Act.

(2) Where a joint election referred to in subsection 219(5.2) of the Act is made by a non-resident insurer and a qualified related corporation (within the meaning assigned by subsection 219(8) of the Act) of the non-resident insurer in respect of a taxation year of the non-resident insurer, it shall be made by filing, with the non-resident insurer's return of income required by subsection 150(1) of the Act to be filed for the year in which the event to which the election relates occurred, a letter in duplicate signed by an authorized officer of the non-resident insurer and an authorized officer of the qualified related corporation stating

(*a*) whether paragraphs 219(5.2)(*a*) and (*b*) of the Act apply; and

(*b*) the amount elected under subsection 219(5.2) of the Act.

History: S. 2403(2)(*a*) was amended by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years. S. 2403(2)(*a*) formerly read:

"(*a*) whether paragraph 219(5.2)(*a*) or (*b*) of the Act is applicable; and"

S. 2403(2) was added by P.C. 1981-2121, SOR/81-632, dated July 30, 1981, effective December 12, 1979.

Currency Conversions

2404. For the purposes of this Part, where any amount is determined in a currency other than Canadian currency, that amount shall be converted to Canadian currency using the current rate of exchange, as required for the purposes of the relevant authority, on the date in respect of which the amount is determined.

Regulations: 2406.

Interpretation

2405. (1) In this Part,

(*a*) "total depreciation" has the meaning assigned by paragraph 13(21)(*e*) [subsection 13(21) "total depreciation"] of the Act;

(*b*) "accumulated 1968 deficit", "amount payable", "gross investment revenue", "life insurance policy", "life insurance policy in Canada", "maximum tax actuarial reserve", "non-segregated property", "participating life insurance policy", "policy loan" and "surplus funds derived from operations" have the meanings assigned by subsection 138(12) of the Act; and

(*c*) "segregated fund" and "segregated fund policies" have the meanings assigned by subsection 138.1(1) of the Act.

Regulations: 2406.

(2) For the purposes of subsection 138(14) of the Act, the expressions "Canadian investment fund for a taxation year", "specified Canadian assets" and "value for the taxation year" have the meanings prescribed therefor by subsection 2404(1) as it read in its application to the 1977 taxation year.

Regulations: 2406.

(3) In this Part and for the purposes of paragraph 219(7)(*a*) [subsection 219(7) "attributed surplus"] of the Act,

"*attributed surplus for the year*", for a taxation year in respect of a non-resident insurer, means the aggregate of

(*a*) its property and casualty surplus for the year, and

(*b*) an amount equal to the percentage (that is the life surplus factor for the year) of the amount for the year determined under clause (*a*)(i)(B) of the definition "life surplus factor" in this subsection;

Pending Amendment

Securities Held by Financial Institutions — April 11, 2009 (Pre-published in the *Canada Gazette*, Part I, dated April 11, 2009)

Subsection 2405(3) of the Regulations is amended by adding the following in alphabetical order:

"*Canadian business property*" of an insurer for a taxation year in respect of an insurance business means

(*a*) if the insurer was resident in Canada throughout the year and either did not carry on a life insurance business in the year or did not carry on an insurance business outside Canada in the year, the property used or held by it in the year in the course of carrying on the business in Canada, and

(*b*) in any other case, the property designated under subsection 2400(1) for the year in respect of the business;

Applicable: To taxation years that end after February 22, 1994 and before 1999.

Explanatory Note:

See the Regulatory Impact Analysis Statement, published in the *Canada Gazette*, Part I on April 11, 2009, reproduced with the Explanatory Note for Regulation 304(1)(*c*).

Explanatory Notes Released on June 1, 1995

Canadian business property

A definition of "Canadian business property" is added to subsection 2405(3). This expression is used in the definition of "gross Canadian life investment income", which is also in subsection 2405(3).

In the case of an insurer that is required to designate property under subsection 2400(1) of the Regulations, the "Canadian business property" of the insurer for a taxation year in respect of an insurance business is the property designated for the year in respect of the business. (The designation rules apply to non-resident insurers, and to multinational resident life insurers.)

The "Canadian business property" of any other insurer for a taxation year in respect of an insurance business is the property that is factually determined to have been used by the insurer in the year in, or held by it in the year in the course of, carrying on the business in Canada.

"*Canadian equity property*" means

(*a*) a share of the capital stock of, or an income bond, income debenture, small business development bond or small business bond issued by, a person (other than a designated corporation) or partnership, as the case may be, resident in Canada, or

(*b*) that proportion of shares of the capital stock of a designated corporation or an interest in a partnership or trust that

(i) the aggregate value for the year of Canadian equity property owned by the designated corporation or the partnership or trust, as the case may be,

is of

(ii) the aggregate value for the year of all property owned by the designated corporation, or partnership or trust, as the case may be;

"*Canadian investment fund*", as at the end of a taxation year, in respect of

(*a*) a life insurer resident in Canada, means the positive amount determined by the formula

$$[\frac{A}{B}(C - D)] - E$$

where

A is the mount of the insurer's Canadian reserve liabilities as at the end of the year,

B is the amount of the insurer's total reserve liabilities as at the end of the year,

C is the total of

(i) the aggregate amount of policy loans and foreign policy loans of the insurer as at the end of the year, and

(ii) the valuation of all property of the insurer as at the end of the year each of which is

(A) an investment property,

(B) money, or

(C) a balance (other than a property included under clause (A) or (B)) standing to the insurer's credit as or on account of amounts deposited with a corporation authorized to accept deposits or to carry on the business of offering to the public its services as a trustee,

D is the total of

(i) the aggregate of all amounts each of which is an amount outstanding as at the end of the year in respect of a debt (other than a debt referred to in paragraph (*h*) of the definition "valuation" in this subsection or an amount referred to in subparagraph (ii)) owing by the insurer in respect of money borrowed by the insurer (other than money used by the insurer for the purpose of earning income from a source that is not an insurance business), and

(ii) the aggregate of all amounts each of which is the amount of a cheque outstanding at the end of the year drawn on an account of the insurer maintained with a corporation authorized to accept deposits or to carry on the business of offering to the public its services as a trustee, and

E is the aggregate amount of the policy loans of the insurer as at the end of the year, and

(*b*) a non-resident insurer, means the amount, if any, by which the aggregate of amounts each of which is

(i) a maximum tax actuarial reserve of the insurer for the year,

(i.1) the maximum amount that the insurer is entitled to claim under subparagraph 138(3)(*a*)(ii) of the Act for the year,

(ii) the maximum amount that the insurer is entitled to deduct under paragraph 20(7)(*c*) of the Act in computing its income for the year determined on the assumption that it carried on no other than life insurance business other than an accident and sickness insurance business,

(iii) the amount of policy dividends, to the extent that such dividends were not included under subparagraph (i) or (ii), that will, according to the annual report of the insurer filed with the relevant authority for the year or, where the insurer was throughout the year subject to the supervision of the relevant authority but was not required to file an annual report with the relevant authority for the year, according to its financial statements for the year, as at the end of the year, become payable by the insurer in the immediately following year under its participating life insurance policies,

(iv) a liability (other than debt referred to in paragraph (*h*) of the definition "valuation" in this subsection) or a reserve (other than the insurer's investment valuation reserve) as reported by the insurer in its annual report for the year to the relevant authority or, where the insurer was throughout the year subject to the supervision of the relevant authority but was not required to file an annual report with the relevant authority for the year, in its financial statements for the year, that was incurred or provided for in the course of carrying on the insurer's property and casualty insurance business in Canada except to the extent that those amounts are already included under subparagraph (ii),

(v) a debt (other than a debt referred to in paragraph (*h*) of the definition "valuation" in this subsection) owing by the insurer at that time that was incurred in the course of carrying on an insurance business (other than a property and casualty insurance business) in Canada, except to the extent that those amounts are already included under subparagraph (i), (i.1) or (iii), or

(vi) the amount that is the greater of

(A) the amount, if any, by which the aggregate of

(I) the insurer's surplus funds derived from operations computed as at the end of the immediately preceding taxation year, and

(II) the aggregate of amounts in respect of which the insurer has made an election under subsection 219(4) or (5.2) of the Act, each of which is an amount included in the aggregate determined in respect of the insurer under subparagraph 219(4)(*a*)(i.1) of the Act at the end of the immediately preceding taxation year

exceeds

(III) the aggregate of amounts determined in respect of the insurer under subparagraphs 219(4)(*a*)(ii), (iii), (iv) and (v) of the Act, as at the end of the taxation year, and

(B) the insurer's attributed surplus for the year,

exceeds the aggregate of

(vii) the aggregate valuation of all non-segregated property referred to in paragraph 2400(1)(*e*) at the end of the year in respect of all the insurer's insurance businesses carried on in Canada other than property that is

(A) money, or

(B) a balance standing to the insurer's credit as or on account of amounts deposited with a corporation authorized to accept deposits or to carry on the business of offering to the public its services as a trustee, and

(viii) the aggregate amount of the insurer's deferred acquisition expenses in respect of its property and casualty insurance business in Canada reported by the insurer in its annual report for the year to the relevant authority or, where the insurer was throughout the year subject to the supervision of the relevant authority but was not required to file an annual report with the relevant authority for the year, in its financial statements for the year;

"*Canadian investment fund for the year*", for a taxation year in respect of a life insurer resident in Canada and a non-resident insurer, means the amount determined under section 2412;

"*Canadian investment property*" of an insurer for a taxation year means an investment property (unless the insurer is a non-resident insurer and it is established by the insurer that the investment property is not effectively connected with its Canadian insurance businesses) that is

(*a*) land or depreciable property situated in Canada and, for that purpose, depreciable property of an insurer leased by a person resident in Canada for use inside and outside of Canada shall be deemed to be depreciable property situated in Canada,

(*b*) a Canadian equity property,

(*c*) a Canadian resource property,

(*d*) a mortgage, an agreement of sale or any other form of indebtedness in respect of property referred to in paragraph (*a*),

(*e*) an amount in Canadian currency standing to the insurer's credit as or on account of amounts deposited with a corporation resident in Canada authorized to accept deposits or to carry on the business of offering to the public its services as a trustee,

(*f*) a bond, debenture or other form of indebtedness (other than a property described in paragraph (*d*) or (*e*)) in Canadian currency issued by

(i) a person resident in Canada, a Canadian partnership or a partnership an interest in which is an investment property described in paragraph (*g*),

(ii) the Government of Canada,

(iii) the government of a province of Canada, or

(iv) any other political subdivision of Canada or of any province of Canada, or

(*g*) a property (to the extent it is not a property described in paragraph (*b*)) that is

(i) a share of a designated corporation resident in Canada,

(ii) an interest in a partnership, or

(iii) an interest in a trust resident in Canada,

where not less than 75 per cent for the aggregate value for the year of all property of the corporation, partnership or trust, as the case may be, is in respect of property each of which is property described in paragraphs (*a*) to (*f*);

"*Canadian reserve liabilities*" of an insurer, as at the end of a taxation year, means the aggregate amount of the insurer's liabilities and reserves (other than liabilities and reserves in respect of amounts payable out of segregated funds) in respect of its insurance policies in Canada, as determined for the purposes of the relevant authority at the end of the year or as would be determined at that time if the relevant authority required such a determination;

"*designated corporation*", in respect of an insurer, at any time in a taxation year, means a corporation in respect of which the insurer or the insurer and persons or partnerships that do not deal at arm's length with the insurer held, at any time in the year, shares that represented 30 per cent or more of the common shares of the corporation outstanding at that time;

"*equity limit for the year*", for a taxation year, means

(*a*) in respect of a life insurer resident in Canada, the greater of

(i) that proportion of the aggregate value for the year of all the insurer's equity property that

(A) the amount, if any, by which the insurer's mean Canadian reserve liabilities exceed the aggregate of the insurer's mean policy loans for the year and ½ of the aggregate of outstanding premiums of the insurer in respect of its insurance businesses in Canada as determined for the purposes of the relevant authority at the end of the year and the immediately preceding taxation year,

is of

(B) the amount, if any, by which the insurer's mean total reserve liabilities exceed the aggregate of the insurer's mean policy loans and foreign policy loans for the year and ½ of the aggregate of outstanding premiums of the insurer in respect of its insurance businesses as determined for the purposes of the relevant authority at the end of the year and the immediately preceding taxation year, and

(ii) 8 per cent of the insurer's Canadian investment fund for the year,

(*b*) in respect of a non-resident insurer (other than a life insurer), ¼ of the aggregate of

(i) the amount, if any, by which the insurer's mean Canadian reserve liabilities exceed ½ of the aggregate of the amounts of the insurer's deferred acquisition expenses and premiums receivable at the end of the year and the immediately preceding year to the extent that those amounts were included in the insurer's Canadian reserve liabili-

ties for those years in respect of the insurer's business in Canada as determined for the purposes of the relevant authority, and

(ii) the insurer's property and casualty surplus for the year, and

(*c*) in respect of a non-resident life insurer, the aggregate of

(i) the insurer's life equity limit for the year, and

(ii) 1/4 of the aggregate of

(A) the amount, if any, by which the insurer's mean Canadian reserve liabilities for the year exceed 1/2 of the aggregate of the amounts of the insurer's deferred acquisition expenses and premiums receivable at the end of the year and the immediately preceding year in respect of the insurer's business in Canada as determined for the purposes of the relevant authority to the extent that those amounts were included in the insurer's Canadian reserve liabilities for those years (determined on the assumption that the only insurance business carried on in Canada by the insurer was a property and casualty insurance business), and

(B) the insurer's property and casualty surplus for the year;

"*equity property*" means

(*a*) a share of the capital stock of, or an income bond, income debenture, small business development bond or small business bond issued by, a person (other than a designated corporation) or partnership, as the case may be, or

(*b*) that proportion of shares of the capital stock of a designated corporation or an interest in a partnership or trust that

(i) the aggregate value for the year of equity property owned by the designated corporation or the partnership or trust, as the case may be,

is of

(ii) the aggregate value for the year of all property owned by the designated corporation or the partnership or trust, as the case may be;

"*foreign policy loan*" means an amount advanced at a particular time by an insurer to a policyholder in accordance with the terms and conditions of a life insurance policy, other than a life insurance policy in Canada;

"*gross Canadian life investment income*" of a life insurer for a taxation year means the amount, if any, by which the aggregate of

(*a*) the insurer's gross investment revenue for the year to the extent that that revenue is from non-segregated property of the insurer used by it in the year in, or held by it in the year in the course of, carrying on its life insurance business in Canada,

Pending Amendment

Securities Held by Financial Institutions — April 11, 2009 (Pre-published in the *Canada Gazette*, Part I, dated April 11, 2009)

Paragraph (*a*) of the definition "gross Canadian life investment income" in subsection 2405(3) of the Regulations is replaced by the following:

(*a*) the insurer's gross investment revenue for the year, to the extent that the revenue is from Canadian business property of the insurer for the year in respect of the insurer's life insurance business,

Applicable: To taxation years that end after June 1, 1995 and before 1999.

Explanatory Note: [See the Explanatory Note following paragraph (*k*) of the definition "gross Canadian life investment income".]

(*b*) the amount included in computing the insurer's income for the year under paragraph 138(9)(*b*) of the Act,

(*c*) the amounts included in computing the insurer's income for the year under paragraphs 138(4)(*b*) and (*c*) of the Act,

(*d*) that portion of the amount included in computing the insurer's income for the year under paragraph 12(1)(*d*) of the Act in respect of amounts deducted in computing the insurer's income under paragraph 20(1)(*l*) of the Act in the immediately preceding taxation year in respect of a Canada security (within the meaning assigned by paragraph 138(12)(*c*) [subsection 138(12) "Canada security"] of the Act) owned by the insurer,

Pending Amendment

Securities Held by Financial Institutions — April 11, 2009 (Pre-published in the *Canada Gazette*, Part I, dated April 11, 2009)

Paragraphs (*c*) and (*d*) of the definition "gross Canadian life investment income" in subsection 2405(3) of the Regulations are replaced by the following:

(*c*) [Repealed.]

(*d*) the portion of the amount deducted under paragraph 20(1)(*l*) of the Act in computing the insurer's income for the preceding taxation year that was in respect of Canadian business property of the insurer for that year in respect of the insurer's life insurance business,

Applicable: To taxation years that begin after February 22, 1994 and end before 1999.

Explanatory Note: [See the Explanatory Note following paragraph (*k*) of the definition "gross Canadian life investment income".]

(*e*) the amount included in computing the insurer's gains for the year from the disposition of property (other than a Canada security or capital property),

Pending Amendment

Securities Held by Financial Institutions — April 11, 2009 (Pre-published in the *Canada Gazette*, Part I, dated April 11, 2009)

Paragraph (*e*) of the definition "gross Canadian life investment income" in subsection 2405(3) of the Regulations is replaced by the following:

(*d*.1) the total of all amounts each of which is an amount included under section 142.4 of the Act in the insurer's income for the year in respect of a property disposed of

by the insurer that was, in the taxation year of disposition, a Canadian business property of the insurer for that year in respect of the insurer's life insurance business,

(*e*) the total of all amounts each of which is the insurer's gain for the year from the disposition of a Canadian business property of the insurer for the year in respect of the insurer's life insurance business, other than a capital property or a property in respect of which section 142.4 of the Act applies, and

Applicable: To dispositions of property that occur after February 22, 1994 in taxation years that end before 1999 except that, in its application to property disposed of in a taxation year that ends before June 2, 1995, paragraph (*e*) of the definition "gross Canadian life investment income" in subsection 2405(3) is to be read as follows:

"(*e*) the amount included in computing the insurer's gains for the year from the disposition of property (other than capital property or property in respect of which section 142.4 of the Act applies), and"

Explanatory Note: [See the Explanatory Note following paragraph (*k*) of the definition "gross Canadian life investment income".]

(*f*) the amount included in computing the insurer's taxable capital gains for the year from the disposition of property, and

Pending Amendment

Securities Held by Financial Institutions — April 11, 2009 (Pre-published in the *Canada Gazette*, Part I, dated April 11, 2009)

Paragraph (*f*) of the definition "gross Canadian life investment income" in subsection 2405(3) of the Regulations is replaced by the following:

(*f*) the total of all amounts each of which is the insurer's taxable capital gain for the year from the disposition of a Canadian business property of the insurer for the year in respect of the insurer's life insurance business,

Applicable: To taxation years that end after October 30, 1994 and before 1999, except that in its application to property disposed of in a taxation year that ends before June 2, 1995, paragraph (*f*) of the definition "gross Canadian life investment income" in subsection 2405(3) is to be read as follows:

"(*f*) the amount included in computing the insurer's taxable capital gains for the year from the disposition of property (other than an amount included because of subsection 142.5(7) of the Act),"

Explanatory Note: [See the Explanatory Note following paragraph (*k*) of the definition "gross Canadian life investment income".]

(*g*) the amount deducted in computing the insurer's income for the immediately preceding taxation year under paragraph 138(3)(*c*) of the Act (as it read in its application to taxation years commencing before June 17, 1987 or ending before 1988),

Pending Amendment

Securities Held by Financial Institutions — April 11, 2009 (Pre-published in the *Canada Gazette*, Part I, dated April 11, 2009)

Paragraph (g) of the definition "gross Canadian life investment income" in subsection 2405(3) of the Regulations is repealed.

(*g*) [Repealed.]

Applicable: To taxation years that begin after February 22, 1994 and end before 1999.

Explanatory Note: [See the Explanatory Note following paragraph (*k*) of the definition "gross Canadian life investment income".]

exceeds the aggregate of

(*h*) the amounts deducted in computing the insurer's income for the year under paragraphs 138(3)(*b*) and (*d*) of the Act,

Pending Amendment

Securities Held by Financial Institutions — April 11, 2009 (Pre-published in the *Canada Gazette*, Part I, dated April 11, 2009)

Paragraph (*h*) of the definition "gross Canadian life investment income" in subsection 2405(3) of the Regulations is repealed.

(*h*) [Repealed.]

Applicable: To taxation years that begin after February 22, 1994 and end before 1999.

Explanatory Note: [See the Explanatory Note following paragraph (*k*) of the definition "gross Canadian life investment income".]

(*i*) the amount deducted in computing the insurer's income for the year under paragraph 20(1)(*l*) of the Act in respect of a Canada security (within the meaning assigned by paragraph 138(12)(*c*) [subsection 138(12) "Canada security"] of the Act) owned by the insurer,

Pending Amendment

Securities Held by Financial Institutions — April 11, 2009 (Pre-published in the *Canada Gazette*, Part I, dated April 11, 2009)

Paragraph (*i*) of the definition "gross Canadian life investment income" in subsection 2405(3) of the Regulations is replaced by the following:

(*i*) the portion of the amount deducted under paragraph 20(1)(*l*) of the Act in computing the insurer's income for the year that is in respect of debt obligations that are Canadian business property of the insurer for the year in respect of the insurer's life insurance business,

Applicable: To taxation years that end after February 22, 1994 and before 1999.

Explanatory Note: [See the Explanatory Note following paragraph (*k*) of the definition "gross Canadian life investment income".]

(*j*) the amount included in computing the insurer's losses for the year from the disposition of property (other than a Canada security or capital property), and

Pending Amendment

Securities Held by Financial Institutions — April 11, 2009 (Pre-published in the *Canada Gazette*, Part I, dated April 11, 2009)

Paragraph (*j*) of the definition "gross Canadian life investment income" in subsection 2405(3) of the Regulations is replaced by the following:

(*i.1*) the total of all amounts each of which is an amount deductible under section 142.4 of the Act in computing the insurer's income for the year in respect of a property disposed of by the insurer that was, in the taxation year of disposition, a Canadian business property of the insurer for that year in respect of the insurer's life insurance business,

(*j*) the total of all amounts each of which is the insurer's loss for the year from the disposition of a Canadian business property of the insurer for the year in respect of the insurer's life insurance business, other than a capital property or a property in respect of which section 142.4 of the Act applies, and

Applicable: To dispositions of property that occur after February 22, 1994 in taxation years that end before 1999 except that, in its application to property disposed of in a taxation year that ends before June 2, 1995, paragraph (*j*) of the definition "gross Canadian life investment income" in subsection 2405(3) is to be read as follows:

"(*j*) the amount included in computing the insurer's losses for the year from the disposition of property (other than capital property or property in respect of which section 142.4 of the Act applies), and"

Explanatory Note: [See the Explanatory Note following paragraph (*k*) of the definition "gross Canadian life investment income".]

(*k*) the amount included in computing the insurer's allowable capital losses for the year from the disposition of property;

Pending Amendment

Securities Held by Financial Institutions — April 11, 2009 (Pre-published in the *Canada Gazette*, Part I, dated April 11, 2009)

Paragraph (*k*) of the definition "gross Canadian life investment income" in subsection 2405(3) of the Regulations is replaced by the following:

(*k*) the total of all amounts each of which is the insurer's allowable capital loss for the year from the disposition of a Canadian business property of the insurer for the year in respect of the insurer's life insurance business;

Applicable: To taxation years that end after October 30, 1994 and before 1999, except that in its application to property disposed of in a taxation year that ends before June 2, 1995, paragraph (*k*) of the definition "gross Canadian life investment income" in subsection 2405(3) is to be read as follows:

"(*k*) the amount included in computing the insurer's allowable capital losses for the year from the disposition of property (other than an amount included because of subsection 142.5(6) of the Act);"

Explanatory Note:

See the Regulatory Impact Analysis Statement, published in the *Canada Gazette*, Part I on April 11, 2009, reproduced with the Explanatory Note for Regulation 304(1)(c).

Explanatory Notes Released on June 1, 1995

Interpretation

gross Canadian life investment income

The expression "gross Canadian life investment income" is defined for the purpose of section 2402 of the Regulations, which contains rules for determining an insurer's income for a year from carrying on its participating life insurance business in Canada. Several amendments are made to this definition:

- Paragraph (a) is amended to use the newly-defined term "Canadian business property", which is defined in subsection 2405(3). Gross investment revenue from such property held in respect of an insurer's life insurance business is included by paragraph (a) in determining the insurer's gross Canadian life investment income. This amendment applies to taxation years that end after June 1, 1995.
- Paragraph (c) is repealed. This paragraph includes, in determining an insurer's gross Canadian life investment income, the amounts included in the insurer's income by paragraphs 138(4)(b) and (c) of the Act (profit on disposition of a Canada security, and amortization of discount on such a security). This amendment is consequential on the repeal of paragraphs 138(4)(b) and (c).
- Paragraphs (d) and (i), which deal with doubtful debt reserves, are amended as a consequence of the repeal of the definition of "Canada security" in subsection 138(12) of the Act. The amended paragraphs refer to debt obligations that are "Canadian business property" of the insurer in respect of the insurer's life insurance business.
- New paragraph (d.1) includes in an insurer's gross Canadian life investment income the amounts that are included in the insurer's income by section 142.4 of the Act in respect of property disposed of by the insurer that was "Canadian business property" of the insurer in respect of its life insurance business. New paragraph (i.1) is a corresponding rule for deductions. New section 142.4 of the Act contains rules for the measurement and the timing of recognition of gains and losses from the disposition of specified debt obligations.
- Paragraph (e), which includes certain non-capital gains in an insurer's gross Canadian life investment income, is amended to exclude from its scope property in respect of which section 142.4 of the Act applies. Gains from the disposition of this property are taken into account by new paragraph (d.1). Paragraph (e) is also amended, for dispositions of property in taxation years ending after June 1, 1995, to clarify that it applies only to the property of an insurer's Canadian life insurance business. Similar changes are made to the rule in paragraph (j) for certain non-capital losses.
- Paragraph (f), which includes an insurer's taxable capital gains in its gross Canadian life investment income, is amended so that it does not include amounts deemed by subsection 142.5(7) of the Act to be taxable capital gains of the insurer. That subsection contains a transition rule relating to the introduction of the mark-to-market requirement. Paragraph (f) is also amended, for dispositions of property in taxation years ending after June 1, 1995, to clarify that it applies only to the property of an insurer's Canadian life insurance business. Similar changes are made to the rule in paragraph (k) for allowable capital losses.
- Paragraph (g) is repealed since the provision to which it refers — paragraph 138(3)(c) of the Act (investment reserve) — was repealed in the tax reform of 1987.
- Paragraph (h) is repealed. This paragraph deducts in determining an insurer's gross Canadian life investment income the amounts deducted under paragraphs 138(3)(b) and (d) of the Act (loss on disposition of a Canada security, and amortization of premium on such a security) in computing an insurer's income. This amendment is consequential on the repeal of paragraphs 138(3)(b) and (d).

"*insurance policy in Canada*", in respect of an insurer, means, in the case of

(*a*) a life insurance policy, a life insurance policy in Canada,

(*b*) a fire insurance policy, a policy issued or effected upon property situated in Canada, and

(*c*) any other class of insurance policy, a policy where the risks covered by the policy were ordinarily within Canada at the time the policy was issued or effected;

"*investment property*" of an insurer for a taxation year means non-segregated property that is

(*a*) property acquired by the insurer for the purpose of earning gross investment revenue, other than property that is

(i) property, a portion of which is investment property pursuant to paragraph (*b*) or (*c*),

(ii) a share of a designated corporation,

(iii) a debt owing to the insurer by a designated corporation,

(iv) an interest in a partnership, or

(v) an interest in a trust,

(*b*) the portion, if any, of property of the insurer (other than property a portion of which is investment property pursuant to paragraph (*c*)) that is

(i) land,

(ii) depreciable property, or

(iii) property that would have been depreciable property if it had been situated in Canada and used in the year in, or held in the year in the course of, carrying on an insurance business in Canada,

that

(iv) the use made of the property in the year for the purpose of earning gross investment revenue therefrom

is of

(v) the whole use made of the property in the year,

(*c*) the portion, if any, of property of the insurer that is not used in the year for the purpose of earning gross investment revenue that is

(i) land,

(ii) depreciable property, or

(iii) property that would be depreciable property if it had been situated in Canada and used in the year in, or held in the year in the course of, carrying on an insurance business in Canada,

to the extent that the property is held for resale or development or is expected to be used in a subsequent taxation year for the purpose of earning gross investment revenue, or

(*d*) property of the insurer that is

(i) a share of, or a debt owing to the insurer by a designated corporation other than a corporation that carries on a business of insurance, banking or offering its services to the public as a trustee or whose principal business is the making of loans,

(ii) an interest in a partnership, or

(iii) an interest in a trust,

if

(iv) the aggregate value for the year of all investment property of the corporation, partnership or trust, as the case may be, is not less than 75 per cent of the aggregate value for the year of all its property, and

(v) the gross investment revenue for the year from the investment property referred to in subparagraph (iv) (other than gross investment revenue from persons with whom the corporation, partnership or trust, as the case may be, did not deal at arm's length) is not less than 90 per cent of the gross revenue for the year of the corporation, partnership or trust, as the case may be,

assuming for the purposes of subparagraphs (iv) and (v) that the definition "gross investment revenue" in paragraph 138(12)(*e*) [subsection 138(12) "gross investment revenue"] of the Act and this definition apply to a corporation, partnership or trust, referred to in those subparagraphs, as though the corporation, partnership or trust, as the case may be, were an insurer;

"*life equity limit*" of a non-resident life insurer for a taxation year means

(*a*) where the insurer makes an election in respect of its life surplus factor for the year in the manner described in subsection 2401(1), the amount that would have been the insurer's equity limit for the year if the insurer had been a life insurer resident in Canada registered under the *Canadian and British Insurance Companies Act* to carry on an insurance business in Canada and it had carried on no other than life insurance business other than an accident and sickness insurance business,

(*b*) where the insurer does not make an election referred to in paragraph (*a*) in respect of the year, but

(i) has made such an election in respect of one of the four immediately preceding taxation years, and

(ii) the insurer's life surplus factor for the year is not determined pursuant to paragraph (*c*) of the definition "life surplus factor" in this subsection,

the amount that would have been the insurer's equity limit for the year if the insurer had been a life insurer resident in Canada registered under the *Canadian and British Insurance Companies Act* to carry on an insurance business in Canada and it had carried on no other than life insurance business other than an accident and sickness insurance business, using the amount, in respect of the most recent taxation year for which such an election was made, determined under subparagraph (*a*)(i) of the definition, in this subsection, "equity limit for the year", and

(*c*) in any other case, 8 per cent of the amount of the insurer's Canadian investment fund for the year;

"*life surplus factor*" of a non-resident life insurer for a taxation year means

(*a*) subject to subsection 2401(2), where the insurer elects in respect of the year in the manner described in subsection 2401(1), the proportion (expressed as a percentage) that

(i) the amount, if any, by which

(A) the amount that would have been the insurer's Canadian investment fund for the year if the insurer had been a life insurer resident in Canada registered under the *Canadian and British Insurance Companies Act* to carry on an insurance business in Canada and it had carried on no other than life insurance business other than an accident and sickness insurance business

exceeds

(B) the amount, if any, by which 1/2 of the aggregate of

(I) the aggregate of the amounts described in subparagraphs (*b*)(i), (i.1), (ii), (iii) and (v) of the definition "Canadian investment fund" in this subsection in respect of a non-resident insurer, as at the end of the year, and

(II) the aggregate of those amounts as at the end of the immediately preceding taxation year,

exceeds the aggregate value for the year of all the insurer's non-segregated property referred to in paragraph 2400(1)(*e*) in respect of all the insurer's insurance businesses (other than its property and casualty insurance business) carried on in Canada, other than property that is

(III) money, or

(IV) a balance standing to the insurer's credit as or on account of amounts deposited with a corporation authorized to accept deposits or to carry on the business of offering to the public its services as a trustee

is of

(ii) the amount determined under clause (i)(B),

(*b*) where the insurer does not make an election referred to in paragraph (*a*) in respect of the year, but

(i) has made such an election in respect of one of the four immediately preceding taxation years, and

(ii) has not, since making the most recent election referred to in subparagraph (i), selected pursuant to this paragraph the percentage referred to in paragraph (*c*) as its life surplus factor for a year prior to the taxation year,

the percentage, as shall be selected by the insurer, that is the percentage

(iii) determined under paragraph (*a*) in respect of the most recent taxation year for which the insurer made an election, or

(iv) referred to in paragraph (*c*), and

(*c*) in any other case, 10 per cent;

"*mean amount on deposit*" with an insurer for a taxation year in respect of life insurance policies means 1/2 of the aggregate of

(*a*) all amounts on deposit with the insurer as at the end of the year in respect of those policies, and

(*b*) all amounts on deposit with the insurer as at the end of the immediately preceding taxation year in respect of those policies;

"*mean Canadian reserve liabilities*" of an insurer for a taxation year means 1/2 of the aggregate of

(*a*) the insurer's Canadian reserve liabilities as at the end of the year, and

(*b*) the insurer's Canadian reserve liabilities as at the end of the immediately preceding taxation year;

"*mean maximum tax actuarial reserve*", in respect of a particular class of life insurance policies of an insurer for a taxation year, means 1/2 of the aggregate of

(*a*) the insurer's maximum tax actuarial reserve for that class of policies for the year, and

(*b*) the insurer's maximum tax actuarial reserve for that class of policies for the immediately preceding taxation year;

"*mean policy loans*", of an insurer for a taxation year, means 1/2 of the aggregate of

(*a*) the insurer's policy loans as at the end of the year, and

(*b*) the insurer's policy loans as at the end of the immediately preceding taxation year;

"*mean policy loans and foreign policy loans*", of an insurer for a taxation year, means 1/2 of the aggregate of

(*a*) the insurer's policy loans and foreign policy loans as at the end of the year, and

(*b*) the insurer's policy loans and foreign policy loans as at the end of the immediately preceding taxation year;

"*mean total reserve liabilities*" of an insurer for a taxation year means 1/2 of the aggregate of

(*a*) the insurer's total reserve liabilities as at the end of the year, and

(*b*) the insurer's total reserve liabilities as at the end of the immediately preceding taxation year;

"*property and casualty surplus*" of an insurer for a taxation year means the aggregate of

(*a*) 15 per cent of 1/2 of the aggregate of

(i) the insurer's unearned premium reserve as at the end of the year, and

(ii) the insurer's unearned premium reserve as at the end of the immediately preceding taxation year,

as reported to the relevant authority in respect of its property and casualty insurance business,

(*b*) 15 per cent of 1/2 of the aggregate of

(i) the insurer's provision for unpaid claims and adjustment expenses as at the end of the year, and

(ii) the insurer's provision for unpaid claims and adjustment expenses as at the end of the immediately preceding taxation year,

as reported to the relevant authority in respect of its property and casualty insurance business, and

(*c*) 1/2 of the aggregate of

(i) the insurer's investment valuation reserve as at the end of the year, and

(ii) the insurer's investment valuation reserve as at the end of the immediately preceding taxation year,

as reported to the relevant authority in respect of its property and casualty insurance business;

"*property of the insurer in the course of development*" [Revoked.]

"*relevant authority*" means

(*a*) the Superintendent of Financial Institutions, if the insurer is required by law to report to the Superintendent of Financial Institutions, or

(*b*) in any other case, the Superintendent of Insurance or other similar officer or authority of the province under whose laws the insurer is incorporated;

"*total reserve liabilities*" of an insurer, as at the end of a taxation year, means the aggregate amount of the insurer's liabilities and reserves (other than liabilities and reserves in respect of amounts payable out of segregated funds) in respect of all its insurance policies, as determined for the purposes of the relevant authority at the end of the year;

"*valuation*", in respect of a property of an insurer, designated corporation, partnership or trust (in this definition referred to as an "owner") at a particular time, means, in the case of

(*a*) land, the cost thereof to the owner,

(*b*) depreciable property of a prescribed class (other than a property referred to in paragraph (*f*)), the proportion of the owner's undepreciated capital cost at that time of property of the class that

(i) the owner's capital cost of the property

is of

(ii) the owner's capital cost of all property of the class,

(*c*) property that would have been depreciable property of a prescribed class if it had been situated in Canada and used in the year in, or held in the year in the course of, carrying on an insurance business in Canada, the amount, if any, by which

(i) the owner's capital cost of the property

exceeds

(ii) the amount that would have been the total depreciation allowed to the owner before the particular time in respect of the property if it had been the owner's only depreciable property of the class and the owner had claimed the maximum amount allowable under paragraph 20(1)(*a*) of the Act in respect of property of that class for each year in which the owner owned the property,

(*d*) a share of a corporation (other than a designated corporation), the cost thereof to the owner,

(*e*) a bond, debenture, mortgage, hypothec or agreement of sale (other than a property referred to in paragraph (*f*)), the book value thereof in the accounts of the owner as determined for the purposes of the relevant authority or that would have been so determined if the owner had been a life insurer resident in Canada and registered under the *Canadian and British Insurance Companies Act* to carry on an insurance business in Canada,

(*e*.1) a balance standing to the owner's credit as or on account of amounts deposited with a corporation authorized to accept deposits or to carry on the business of offering to the public its services as a trustee, the amount thereof,

(*f*) a property acquired and disposed of in a taxation year, the cost thereof to the owner, and

(*g*) a property (other than a property referred to in any of paragraphs (*a*) to (*f*)), the maximum value of the property as determined for the purposes of the relevant authority or that would have been so determined if the owner had been a life insurer resident in Canada and registered under the *Canadian and British Insurance Companies Act* to carry on an insurance business in Canada,

minus

(*h*) in respect of a particular property referred to in any of paragraphs (*a*) to (*g*), the amount of any debt that was incurred or assumed by the owner to acquire that particular property and that was owing by the owner at that time;

"*value for the year*", in respect of a property of an insurer, designated corporation, partnership or trust (in this definition referred to as an "owner") for a taxation year, means, in the case of

(*a*) a property that is a mortgage, a hypothec, an agreement of sale or an investment property that is a balance standing to the insurer's credit as or on account of amounts deposited with a corporation authorized to accept deposits or to carry on the business of offering to the public its services as a trustee, the amount, if any, by which

(i) the amount obtained when the gross investment revenue for the year from the property is divided by the average rate of interest earned by the owner (expressed as an annual rate) on the amortized cost of the property during the year if that rate of interest were expressed as a fraction

exceeds

(ii) the amount obtained when the interest paid or payable for the year on a debt incurred for the purposes of acquiring the property is divided by the average rate of interest paid or payable by the owner (expressed as an annual rate) on the debt for the year if that rate of interest were expressed as a fraction,

(*b*) a property (other than a property referred to in paragraph (*a*)) that was not owned by the owner throughout the year, the proportion of

(i) the valuation of the property as at the end of the immediately preceding taxation year, where the property was owned by the owner at that time, and

(ii) the valuation of the property, where it was acquired by the owner during the year,

that

(iii) the number of days that the property may reasonably be considered to have been owned by the owner during the taxation year

is of

(iv) the number of days in the taxation year, and

(*c*) a property (other than a property referred to in paragraph (*a*) or (*b*)), 1/2 of the aggregate of

(i) the valuation of the property as at the end of the year, and

(ii) the valuation of the property as at the end of the immediately preceding taxation year.

History: S. 2405(3), paragraph (*d*) of the definition "Canadian investment property" was amended by P.C. 1994-1817, SOR/94-686, dated November 7, 1994, by deleting the word "hypothec".

S. 2405(3), paragraph (g) of the definition "gross Canadian life investment income" was amended by P.C. 1992-2335, SOR/92-681, dated November 23, 1992, applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987. That paragraph formerly read:

"(*g*) the amount deducted in computing the insurer's income for the immediately preceding taxation year under paragraph 138(3)(*c*) of the Act,"

S. 2405(3), the definition "Canadian equity property", was amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990 and applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987. That definition formerly read:

" 'Canadian equity property' means

(*a*) a share, or

(*b*) an income bond or income debenture,

of, or issued by, a corporation (other than a designated corporation) resident in Canada;"

S. 2405(3), paragraph (a) of the definition "Canadian investment fund", was amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990 and applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987. Paragraph (a) formerly read:

"(*a*) a life insurer resident in Canada, means the amount that is equal to the proportion of

(i) the amount by which

(A) the aggregate valuation of all property of the insurer at that time, each of which is

(I) an investment property,

(II) money, or

(III) a balance (other than a property included in subclause (I) or (II)) standing to the insurer's credit as or on account of amounts deposited with a corporation authorized to accept deposits or to carry on the business of offering to the public its services as a trustee,

exceeds

(B) the aggregate of amounts, each of which is an amount outstanding at that time in respect of a debt (other than a debt referred to in paragraph (*h*) of the definition 'valuation' in this subsection) owing by the insurer in respect of money borrowed by the insurer (other than money used by the insurer for the purpose of earning income from a source that is not an insurance business),

that

(ii) the amount of the insurer's Canadian reserve liabilities at that time

is of

(iii) the amount of the insurer's total reserve liabilities at that time; and"

S. 2405(3), subparagraph (b)(i.1) of the definition "Canadian investment fund", was added by P.C. 1990-2002, SOR/90-661, dated September 20, 1990 and applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987.

S. 2405(3), subparagraphs (b)(iii) and (iv) of the definition "Canadian investment fund", were amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990, applicable in respect of the 1987 and subsequent taxation years. Those subparagraphs formerly read:

"(iii) the amount described in clause 138(3)(a)(iv)(A) of the Act in respect of the insurer as at the end of the year,

(iv) a liability (other than a debt referred to in paragraph (h) of the definition 'valuation' in this subsection) or a reserve (other than the insurer's investment valuation reserve), as determined for the purposes of the relevant authority at the end of the year, that was incurred or provided for in the course of carrying on the insurer's property and casualty insurance business in Canada,"

S. 2405(3), subparagraph (b)(v) of the definition "Canadian investment fund", was amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990 and applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987. That subparagraph formerly read:

"(v) a debt (other than a debt referred to in paragraph (*h*) of the definition 'valuation' in this subsection) owing by the insurer at that time that was incurred in the course of carrying on an insurance business (other than a property and casualty insurance business) in Canada, or"

S. 2405(3), subparagraph (b)(vii) of the definition "Canadian investment fund", was amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990 and applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987. That subparagraph formerly read:

"(vii) the aggregate valuation of all non-segregated property, referred to in paragraph 2400(1)(*f*), of the insurer at the end of the year in respect of all the insurer's insurance businesses carried on in Canada, other than property that is

(A) money, or

(B) a balance standing to the insurer's credit as or on account of amounts deposited with a corporation authorized to accept deposits or to carry on the business of offering to the public its services as a trustee, and"

S. 2405(3), subparagraph (b)(viii) of the definition "Canadian investment fund", was amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990, applicable in respect of the 1987 and subsequent taxation years. That subparagraph formerly read:

"(viii) the aggregate amount of the insurer's deferred acquisition expenses in respect of its property and casualty insurance business in Canada, as determined for the purposes of the relevant authority at the end of the year;"

S. 2405(3), the definition "Canadian investment fund for the year", was amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990 and applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987. That definition formerly read:

"'Canadian investment fund for the year', for a taxation year in respect of a life insurer resident in Canada, means 1/2 of the aggregate of

(*a*) its Canadian investment fund as at the end of the year, and

(*b*) its Canadian investment fund as at the end of the immediately preceding taxation year;"

S. 2405(3), the definition "Canadian investment property", was added by P.C. 1990-2002, SOR/90-661, dated September 20, 1990 and applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987.

S. 2405(3), the definition "Canadian reserve liabilities", was amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990 and applicable in respect of the 1987 and subsequent taxation years. That definition formerly read:

"'Canadian reserve liabilities' of an insurer, as at the end of a taxation year, means the aggregate amount of the insurer's liabilities and reserves (other than liabilities and reserves in respect of amounts payable out of segregated funds) in respect of its insurance policies in Canada, as determined for the purposes of the relevant authority at the end of the year;"

S. 2405(3), the definition "designated corporations", was amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990, applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987. That definition formerly read:

"'designated corporation', in respect of an insurer, means a corporation in respect of which the insurer held, at any time in a taxation year, shares that represented 30 per cent or more of the common shares of the corporation outstanding at that time;"

S. 2405(3), the definition "equity limit for the year", was amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990 and applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987. That definition formerly read:

"'equity limit for the year', for a taxation year in respect of

(*a*) a life insurer resident in Canada, means the amount, if any, by which

(i) the amount equal to the proportion of the aggregate value for the year of all the insurer's equity property, that

(A) the amount of the insurer's mean Canadian reserve liabilities for the year

is of

(B) the amount of the insurer's mean total reserve liabilities for the year

exceeds

(ii) the aggregate value for the year of all the insurer's property included in paragraphs 2400(1)(b) and (c) that is Canadian equity property,

(*b*) a non-resident insurer (other than a life insurer), means the amount, if any, by which

(i) 1/4 of the aggregate of

(A) the insurer's mean Canadian reserve liabilities for the year, and

(B) the insurer's property and casualty surplus for the year,

exceeds

(ii) the aggregate value for the year of all the insurer's property included in paragraphs 2400(1)(b) and (c) that is Canadian equity property, and

(*c*) a non-resident life insurer, means the aggregate of

(i) the insurer's life equity limit for the year, and

(ii) the amount, if any, by which

(A) 1/4 of the aggregate of

(I) the insurer's mean Canadian reserve liabilities for the year (determined on the assumption that its only insurance business carried on in Canada was a property and casualty insurance business), and

(II) the insurer's property and casualty surplus for the year,

exceeds

(B) the aggregate value for the year of all the insurer's property included in paragraphs 2400(1)(b) and (c), in respect of the insurer's property and casualty insurance business, that is Canadian equity property;"

S. 2405(3), the definition of "equity property", was amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990 and applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987. That definition formerly read:

"'equity property' means

(*a*) a share, or

(*b*) an income bond or income debenture,

of, or issued by, a corporation (other than a designated corporation);"

S. 2405(3), the definition "foreign policy loan", was added by P.C. 1990-2002, SOR/90-661, dated September 20, 1990, applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987.

S. 2405(3), the definition "gross Canadian life investment income", was amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990 and applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987. That definition formerly read:

"'gross Canadian life investment income' of a life insurer for a taxation year means the amount, if any, by which the aggregate of

(*a*) the insurer's gross investment revenue for the year to the extent that that revenue is from non-segregated property of the insurer used by the insurer in the year in, or held by the insurer in the year in the course of, carrying on its life insurance business in Canada, and

(*b*) the aggregate of amounts required by paragraphs 138(4)(a), (b) and (c) of the Act to be included in computing the insurer's income for the year, other than amounts deducted under paragraph 138(3)(a) of the Act in computing the insurer's income for the immediately preceding taxation year,

exceeds

(*c*) the aggregate of amounts deducted under paragraphs 138(3)(b), (c) and (d) of the Act in computing the insurer's income for the year;"

S. 2405(3), paragraph (c) of the definition "investment property", was amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990, applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987. That paragraph formerly read:

"(*c*) the portion, if any, of property of the insurer in the course of development that is

(i) land,

(ii) depreciable property, or

(iii) property that would have been depreciable property if it had been situated in Canada and used in the year in, or held in the year in the course of, carrying on an insurance business in Canada,

that

(iv) the use made of the property in the year, or that may reasonably be expected to be made of the property in the year of its completion, for the purpose of earning gross investment revenue therefrom

is of

(v) the whole use that may reasonably be expected to be made of the property in the year of its completion, or"

S. 2405(3), paragraph (c) of the definition "life equity limit", was amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990 and applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987. That paragraph formerly read:

"(c) in any other case, the amount, if any, by which

(i) eight per cent of the insurer's Canadian investment fund for the year exceeds

(ii) the aggregate value for the year of all the insurer's property included in paragraphs 2400(1)(b) and (c) that is Canadian equity property;"

S. 2405(3), that portion of clause (a)(i)(B) of the definition "life surplus factor" preceding subclause (III), was amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990, applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987. That portion of clause (a)(i)(B) formerly read:

"(B) the amount, if any, by which 1/2 of the aggregate of

(I) the aggregate of amounts described in paragraphs (a), (b), (c) and (e) of the definition, in this subsection, 'Canadian investment fund' in respect of a non-resident insurer, as at the end of the year, and

(II) the aggregate of those amounts as at the end of the immediately preceding taxation year,

exceeds the aggregate value for the year of all the insurer's non-segregated property referred to in paragraph 2400(1)(f) in respect of all the insurer's insurance businesses (other than its property and casualty insurance business) carried on in Canada, other than property that is"

S. 2405(3), the definition "mean policy loans", was added by P.C. 1990-2002, SOR/90-661, dated September 20, 1990, applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987.

S. 2405(3), the definition "mean policy loans and foreign policy loans", was added by P.C. 1990-2002, SOR/90-661, dated September 20, 1990, applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987.

S. 2405(3), the definition "property of the insurer in the course of development", was revoked by P.C. 1990-2002, SOR/90-661, dated September 20, 1990 and applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987. That definition formerly read:

" 'property of the insurer in the course of development' means property of the insurer that was acquired in the taxation year or in one of the two immediately preceding taxation years for the purpose of earning gross investment revenue therefrom and in respect of which the insurer has been actively pursuing development plans;"

S. 2405(3), paragraph (a) of the definition "relevant authority", was amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990 and applicable in respect of taxation years beginnings after June 17, 1987 and ending after 1987. Paragraph (a) formerly read:

"(a) the Superintendent of Insurance for Canada, if the insurer is required by law to report to him, or"

S. 2405(3), paragraph (e.1) of the definition "valuation", was added by P.C. 1990-2002, SOR/90-661, dated September 20, 1990 and applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987.

S. 2405(3), paragraph (a) of the definition "value for the year", was amended by P.C. 1990-2002, SOR/90-661, dated September 20, 1990, applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987. That paragraph formerly read:

"(a) a property that is a mortgage, hypothec, agreement of sole or an investment property that is a balance standing to the insurer's credit as or on account of amounts deposited with a corporation authorized to accept deposits or to carry on the business of offering to the public its services as a trustee, the amount that is equal to the quotient obtained when the owner's gross investment revenue for the year from the property is divided by the average rate of interest (expressed as an annual rate) earned by the owner from the property during the year if that average annual rate of interest were expressed as a fraction,"

S. 2405(3), the definition of "Canadian investment fund", was amended by P.C. 1981-2121, SOR/81-632, dated July 30, 1981 and effective December 12, 1979. The definition formerly read:

" 'Canadian investment fund', in respect of a life insurer resident in Canada, as at the end of a taxation year, means the amount that is equal to the proportion of

(a) the amount by which

(i) the aggregate valuation of all property of the insurer at that time, each of which is

(A) an investment property,

(B) money, or

(C) a balance (other than a property included in clause (A) or (B)) standing to the insurer's credit as or on account of amounts deposited with a corporation authorized to accept deposits or to carry on the business of offering to the public its services as a trustee,

exceeds

(ii) the aggregate of amounts, each of which is an amount outstanding at that time in respect of a debt (other than a debt referred to in paragraph (h) of the definition 'valuation' in this subsection) owing by the insurer in respect of money borrowed by the insurer (other than money used by the insurer for the purpose of earning income from a source that is not an insurance business),

that

(b) the amount of the insurer's Canadian reserve liabilities at that time

is of

(c) the amount of the insurer's total reserve liabilities at that time;

'Canadian investment fund', in respect of a non-resident insurer, as at the end of a taxation year, means the amount, if any, by which the aggregate of amounts each of which is

(a) a maximum tax actuarial reserve of the insurer for the year,

(b) the maximum amount that the insurer is entitled to deduct under paragraph 20(7)(c) of the Act in computing its income for the year determined on the assumption that it carried on no other than life insurance business other than an accident and sickness insurance business,

(c) the amount described in clause 138(3)(a)(iv)(A) of the Act in respect of the insurer as at the end of the year,

(d) a liability (other than a debt referred to in paragraph (h) of the definition 'valuation' in this subsection) or a reserve (other than the insurer's investment valuation reserve), as determined for the purposes of the relevant authority at the end of the year, that was incurred or provided for in the course of carrying on the insurer's property and casualty insurance business in Canada,

(e) a debt (other than a debt referred to in paragraph (h) of the definition 'valuation' in this subsection) owing by the insurer at that time that was incurred in the course of carrying on an insurance business (other than a property and casualty insurance business) in Canada, or

(f) the amount that is the greater of

(i) the amount, if any, by which

(A) the insurer's surplus funds derived from operations computed as at the end of the immediately preceding taxation year,

exceeds

(B) the aggregate of amounts determined in respect of the insurer under subparagraphs 219(4)(a)(ii), (iii) and (iv) of the Act, as at the end of the taxation year, and

(ii) the insurer's attributed surplus for the year,

exceeds the aggregate of

(g) the aggregate valuation of all non-segregated property, referred to in paragraph 2400(1)(f), of the insurer at the end of the year in respect of all the insurer's insurance businesses carried on in Canada, other than property that is

(i) money, or

(ii) a balance standing to the insurer's credit as or on account of amounts deposited with a corporation authorized to accept deposits or to carry on the business of offering to the public its services as a trustee, and

(h) the aggregate amount of the insurer's deferred acquisition expenses in respect of its property and casualty insurance business in Canada, as determined for the purposes of the relevant authority at the end of the year."

S. 2405(3), that portion of the definition "life equity limit" following subparagraph (b)(ii) and preceding paragraph (c) thereof, was amended by P.C. 1980-2081, SOR/80-618, dated July 31, 1980, to change the cross-reference to paragraph (a) to subparagraph (a)(i), effective in respect of the 1978 and subsequent taxation years.

S. 2405(3) was amended by P.C. 1980-1484, SOR/80-419 (June 6, 1980), effective for the 1978 and subsequent taxation years by amending and consolidating three "equity limit for the year" definitions and adding the definition "mean total reserve liabilities". The definitions "equity limit for the year" formerly read:

" 'equity limit for the year', for a taxation year in respect of a life insurer resident in Canada, means the amount, if any, by which

(a) the amount equal to the proportion of the insurer's Canadian investment fund for the year, that

(i) the aggregate value for the year of all the insurer's equity property is of

(ii) the aggregate value for the year of all the insurer's investment property,

exceeds

(b) the aggregate value for the year of all the insurer's property included in paragraphs 2400(1)(b) and (c) that is Canadian equity property;

'equity limit for the year', for a taxation year in respect of a non-resident insurer (other than a life insurer), means the amount, if any, by which

(a) 1/4 of the aggregate of

(i) the insurer's mean Canadian reserve liabilities for the year, and

(ii) the insurer's property and casualty surplus for the year,

exceeds

(b) the aggregate value for the year of all the insurer's property included in paragraphs 2400(1)(b) and (c) that is Canadian equity property;

'equity limit for the year', for a taxation year in respect of a non-resident life insurer, means the aggregate of

(a) the insurer's life equity limit for the year, and

(*b*) the amount, if any, by which

(i) 1/4 of the aggregate of

(A) the insurer's mean Canadian reserve liabilities for the year (determined on the assumption that its only insurance business carried on in Canada was a property and casualty insurance business), and

(B) the insurer's property and casualty surplus for the year,

exceeds

(ii) the aggregate value for the year of all the insurer's property included in paragraphs 2400(1)(b) and (c), in respect of the insurer's property and casualty insurance business, that is Canadian equity property;"

Regulations: 2406.

(4) For the purposes of the definition in subsection (3), "Canadian investment fund" in respect of a life insurer resident in Canada, notwithstanding the definitions "Canadian reserve liabilities" and "total reserve liabilities" in that subsection, the insurer shall determine its liabilities and reserves in respect of its insurance policies outside Canada in a manner consistent with that used in determining its liabilities and reserves in respect of its insurance policies in Canada.

Regulations: 2406.

Pending Amendment

Securities Held by Financial Institutions — April 11, 2009 (Pre-published in the *Canada Gazette*, Part I, dated April 11, 2009)

Section 2405 of the Regulations is amended by adding the following after subsection (4):

(5) For the purposes of subsection (3), the cost of a property shall be determined without regard to subsection 142.5(2) of the Act.

Applicable: To taxation years that end after October 30, 1994 and before 1999.

Explanatory Note:

See the Regulatory Impact Analysis Statement, published in the *Canada Gazette*, Part I on April 11, 2009, reproduced with the Explanatory Note for Regulation 304(1)(*c*).

Explanatory Notes Released on June 1, 1995

New subsection 2405(5) of the Regulations contains a rule for the purposes of the definitions in subsection 2405(3). It provides that the cost of property is to be determined without regard to the mark-to-market requirement in subsection 142.5(2) of the Act. Thus, the cost of mark-to-market property will not change each year for the purpose of the definitions in subsection 2405(3). This rule is relevant for determining the "valuation" of shares, and hence the "value for the year" of shares. As a consequence of this rule, the original cost of shares to an insurer will generally be used in measuring the Canadian investment fund, designating property, and determining any additional investment revenue prescribed by section 2411.

Subsection 2405(5) applies to taxation years ending after October 30, 1994.

2406. Sections 2404 and 2405 do not apply to the 1999 and subsequent taxation years.

History: S. 2406 was amended by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years. S. 2406 formerly read:

"S. 2406. Notwithstanding any other provision in this Part, an insurance property or an investment property, in respect of an insurer, does not include a policy loan payable to the insurer."

1977 Excess Policy Dividend Deduction

2407. For the purposes of paragraph 138(3.1)(*b*) of the Act, a life insurer's 1977 excess policy dividend deduction is hereby prescribed to be the amount that is the lesser of

(*a*) the amount, if any, by which

(i) the amount determined under clause 138(3)(*a*)(iii)(A) of the Act for the insurer's 1977 taxation year (determined without reference to paragraph 138(3.1)(*b*) of the Act),

exceeds

(ii) the amount determined under clause 138(3)(*a*)(iii)(B) of the Act for the insurer's 1977 taxation year; and

(*b*) the amount, if any, by which

(i) the insurer's maximum tax actuarial reserve for its participating life insurance policies in Canada for its 1977 taxation year,

exceeds the aggregate of

(ii) the amount that would have been the insurer's maximum tax actuarial reserve for its participating life insurance policies in Canada for its 1977 taxation year if that reserve had been determined on the basis of the rules applicable to its 1978 taxation year,

(iii) the aggregate of all amounts payable to the insurer in respect of policy loans outstanding at the end of its 1977 taxation year in respect of participating life insurance policies in Canada, and

(iv) the amount, if any, by which

(A) the insurer's maximum tax actuarial reserve for its participating life insurance policies in Canada for its 1968 taxation year,

exceeds the aggregate of

(B) the amount that would have been the insurer's maximum tax actuarial reserve for its participating life insurance policies in Canada for its 1968 taxation year if that reserve had been determined on the basis of the rules applicable to its 1978 taxation year, and

(C) the aggregate of all amounts payable to the insurer in respect of policy loans outstanding at the end of its 1968 taxation year in respect of participating life insurance policies in Canada.

1977 Carryforward Deduction

2408. For the purposes of subparagraph 138(4.2)(*a*)(iv) of the Act, a life insurer's 1977 carryforward deduction is hereby prescribed to be the amount, if any, by which

(*a*) the aggregate of

(i) the aggregate of amounts, each of which is an amount determined under paragraph 13(23)(*b*) of the Act in respect of property of a prescribed class of the insurer,

(ii) the aggregate of amounts each of which is a non-capital loss of the insurer for a taxation year ending after 1972 and before 1978 that would have been deductible by the insurer in computing its taxable income for a taxation year ending after 1977 if the Act were read without reference to subsection 111(7.2) thereof,

(iii) the amount prescribed by section 2407 to be the insurer's 1977 excess policy dividend deduction,

(iv) the amount determined under subparagraph 138(4.2)(*b*)(ii) of the Act in respect of the insurer,

(v) the amount determined under subparagraph 138(4.2)(*c*)(ii) of the Act in respect of the insurer,

(vi) the amount, if any, by which

(A) the aggregate of the insurer's maximum tax actuarial reserves for its 1977 taxation year,

exceeds

(B) the aggregate of the amounts deducted by the insurer for its 1977 taxation year under subparagraph 138(3)(*a*)(i) of the Act, and

(vii) the amount, if any, by which

(A) the maximum amount deductible by the insurer for its 1977 taxation year under subparagraph 138(3)(*a*)(ii) of the Act,

exceeds

(B) the amount deducted by the insurer for its 1977 taxation year under subparagraph 138(3)(*a*)(ii) of the Act,

exceeds

(*b*) the amount, if any, by which the aggregate of

(i) the lesser of

(A) the insurer's accumulated 1968 deficit, and

(B) the amount, if any, determined under subparagraph (vi),

(ii) the aggregate of the insurer's maximum tax actuarial reserves for its 1977 taxation year, other than reserves or any portions thereof in respect of segregated fund policies, and

(iii) the maximum amount deductible by the insurer for its 1977 taxation year under subparagraph 138(3)(*a*)(ii) of the Act,

exceeds the aggregate of

(iv) the aggregate of the amounts that would have been the insurer's maximum tax actuarial reserves for its 1977 taxation year if those reserves had been determined on the basis of the rules applicable to its 1978 taxation year,

(v) the aggregate of all amounts payable to the insurer in respect of policy loans outstanding at the end of its 1977 taxation year, and

(vi) the amount, if any, by which

(A) the aggregate of the insurer's maximum tax actuarial reserves for its 1968 taxation year, other than reserves or any portions thereof in respect of segregated fund policies,

exceeds the aggregate of

(B) the aggregate of the amounts that would have been the insurer's maximum tax actuarial reserves for its 1968 taxation year if those reserves had been determined on the basis of the rules applicable to its 1978 taxation year, and

(C) the aggregate of all amounts payable to the insurer in respect of policy loans outstanding at the end of its 1968 taxation year.

History: S. 2408, that part preceding paragraph (a) was amended to substitute "(iv)" for "(iii)" by P.C. 1980-540, SOR/80-163, dated February 21, 1980 and effective for the 1978 and subsequent taxation years.

TRANSITIONAL

2409. (1) For the purposes of this Part, except as expressly otherwise provided therein, where the expression "immediately preceding taxation year" refers to an insurer's 1977 taxation year, this Part shall be read as though the definitions therein applied to the insurer's 1977 taxation year.

(2) For the purposes of applying the provisions of paragraph 2400(1)(*c*) in respect of the 1978 taxation year of an insurer that was subject to the provisions of subsection 138(9) of the Act in respect of its 1977 taxation year, the following rules apply:

(*a*) this Part shall be read as though the definitions therein applied to the insurer's 1977 taxation year;

(*b*) such portion of the insurer's Canadian equity property owned by it at the end of its 1977 taxation year as is designated by the insurer in respect of a particular insurance business, in its return of income required by subsection 150(1) of the Act to be filed for the 1978 taxation year, shall be deemed to be investment property of the prior year in respect of the particular insurance business, but the aggregate valuation as at the end of the insurer's 1977 taxation year of the Canadian equity property so designated in respect of all its insurance businesses carried on in Canada shall not exceed

(i) in the case of a life insurer resident in Canada, or a non-resident life insurer that has made the election referred to in subsection 2401(1) in respect of its 1978 taxation year, that proportion of

(A) the insurer's Canadian investment fund as at the end of its 1977 taxation year (determined on the basis of the rules applicable to its 1978 taxation year),

that

(B) the aggregate valuation of the insurer's equity property as at the end of the insurer's 1977 taxation year

is of

(C) the aggregate valuation of the insurer's investment property as at the end of the insurer's 1977 taxation year,

(ii) in the case of a non-resident life insurer, other than an insurer referred to in subparagraph (i), eight per cent of its Canadian investment fund as at the end of its 1977 taxation year (determined on the basis of the rules applicable to its 1978 taxation year), and

(iii) in any other case, 25 per cent of the insurer's Canadian investment fund as at the end of its 1977 taxation year (determined on the basis of the rules applicable to its 1978 taxation year);

(*c*) where the insurer made an election under subsection 138(9) of the Act in respect of its 1977 taxation year, investment property (other than a Canadian equity property) owned by the insurer at the end of its 1977 taxation year that was designated in respect of a particular insurance business by the insurer in its return of income for the 1977 taxation year pursuant to paragraph 138(12)(*l*) [subsection 138(12) "property used by it in the year in, or held by it in the year in the course of"] of the Act as it read in its application to that year shall be deemed to be insurance property of the particular insurance business in the 1977 taxation year;

(*d*) where the insurer did not make the election referred to in paragraph (*c*) and carried on only one insurance business in Canada in its 1977 taxation year, investment property (other than a Canadian equity property) owned by the insurer at the end of its 1977 taxation year that is a specified Canadian asset of the insurer within the meaning of subsection 2405(1) as it read in its application to the 1977 taxation year shall be deemed to be insurance property of that insurance business in the 1977 taxation year; and

(*e*) where the insurer did not make the election referred to in paragraph (*c*) and carried on an other than life insurance business in Canada and a life insurance business in Canada in its 1977 taxation year, investment property (other than a Canadian equity property) owned by the insurer at the end of its 1977 taxation year each of which is a specified Canadian asset of the insurer, within the meaning of subsection 2405(1) as it read in its application to the 1977 taxation year, in respect of which the aggregate value for the year in respect of the insurer's 1978 taxation year is equal to the amount, if any, by which

(i) the insurer's mean Canadian reserve liabilities for its 1978 taxation year in respect of its other than life insurance business

exceeds

(ii) the aggregate value for the year in respect of the insurer's 1978 taxation year of its insurance property of its other than life insurance business as determined for the purposes of clause 2400(1)(*c*)(ii)(C),

shall be deemed to be insurance property of the other than life insurance business in the 1977 taxation year and any other such investment property that is a specified Canadian asset of the insurer shall be deemed to be insurance property of the life insurance business in the 1977 taxation year.

History: S. 2409(2)(c) was revoked and new paragraphs (c), (d) and (e) added by P.C. 1980-1484, SOR/80-419 (June 6, 1980), effective for the 1978 taxation year. S. 2409(2)(c) formerly read:

"(*c*) investment property (other than a Canadian equity property) owned by the insurer at the end of its 1977 taxation year that was

(i) in the case of an insurer that made an election under subsection 138(9) of the Act in respect of its 1977 taxation year, property designated by the insurer in its return of income for the 1977 taxation year pursuant to paragraph 138(12)(l) of the Act as it read in its application to that year, and

(ii) in any other case, a specified Canadian asset within the meaning of paragraph 2404(1)(b.1) as it read in its application to the 1977 taxation year,

shall be deemed to be investment property of the prior year."

(3) For the purposes of applying the provisions of section 2402 in respect of the 1978 taxation year of a life insurer, the following rules apply:

(*a*) for the purposes of subparagraphs 2402(*a*)(i) and (*b*)(ii), the insurer's maximum tax actuarial reserve for its 1977 taxation year in respect of participating life insurance policies in Canada shall be deemed to be the amount referred to in subparagraph 2407(*b*)(ii);

(*b*) for the purposes of clause 2402(*a*)(ii)(A), the insurer's maximum tax actuarial reserve for its 1977 taxation year in respect of a class of life insurance policies in Canada shall be deemed to have been determined on the basis of the rules applicable to its 1978 taxation year; and

(*c*) for the purposes of subparagraph 2402(*b*)(i), the amount deducted by the insurer under subparagraph 138(3)(*a*)(iv) of the Act in computing its income for the 1977 taxation year shall be deemed to be the amount that is the aggregate determined under paragraph 138(4.2)(*b*) of the Act in respect of the insurer.

(4) Except as expressly otherwise provided in this Part, where the expression "immediately preceding taxation year" occurs in a provision of this Part (other than section 2402) and refers to the insurer's 1987 taxation year, the provision shall be read as though the definitions in this Part applied in respect of the insurer's 1987 taxation year.

History: S. 2409(4) was added by P.C. 1990-2002, SOR/90-661, dated September 20, 1990, applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987.

PRESCRIBED AMOUNT

2410. For the purpose of subsection 138(4.4) of the Act, the amount prescribed in respect of an insurer's cost or capital cost, as the case may be, of a property for a period in a taxation year is the amount determined by the formula

$$[(A \times (B)) \times C/365] - D$$

where

A is the average annual rate of interest determined by reference to rates of interest prescribed in section 4301 for the months or portion thereof in the period;

B is the amount, if any, by which, the average cost or average capital cost, as the case may be, of the property for the period exceeds the average amount of debt relating to the acquisition of the property outstanding during the period that bears a fair market interest rate and, for that purpose,

(*a*) the average cost or average capital cost, as the case may be, of a property is the total of

(i) the aggregate of all amounts each of which is the cost or capital cost, as the case may be, if any, immediately before the beginning of the period in respect of the property, and

(ii) the aggregate of all amounts each of which is the proportion of any expenditure incurred on any day in the period in respect of the cost or capital cost, as the case may be, of the property that

(A) the number of days from that day to the end of the period

is of

(B) the number of days in the period, and

(*b*) the average amount of debt relating to the acquisition of a property is the amount, if any, by which the total of

(i) the aggregate of all amounts each of which is an indebtedness relating to the acquisition that was outstanding at the beginning of the period, and

(ii) the aggregate of all amounts each of which is the proportion of an indebtedness relating to the acquisition that was incurred on any day in the period that

(A) the number of days from that day to the end of the period

is of

(B) the number of days in the period,

exceeds

(iii) the aggregate of all amounts each of which is the proportion of an amount that was paid in respect of any indebtedness referred to in subparagraph (i) or (ii) on any day in the period (other than a payment of interest in respect thereof) that

(A) the number of days from that day to the end of the period

is of

(B) the number of days in the period;

C is the number of days in the period; and

D is the income derived from the property in the period by the person or partnership that owned the property.

History: S. 2410(1) was renumbered as s. 2410 by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years.

S. 2410(1), the portion after the description of B was amended by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years. S. 2410(1), the portion after the description of B formerly read:

"C is the amount, if any, by which the Canadian reserve liabilities of the life insurer at the end of a taxation year that includes the period exceed the aggregate of the policy loans and the outstanding premiums under insurance policies in Canada of the insurer at the end of the year, as determined for the purposes of the relevant authority;

D is

(*a*) where the insurer is a life insurer that does not carry on an insurance business outside Canada, the amount, if any, by which

(i) the valuation of all property that is owned by the insurer at the end of the taxation year that includes the period and that is

(A) an investment property,

(B) money, or

(C) a balance (other than a property included under clause (A) or (B)) standing to the insurer's credit as or on account of amounts deposited with a corporation authorized to accept deposits or to carry on the business of offering to the public its services as a trustee,

exceeds the total of

(ii) the aggregate of all amounts each of which is an amount outstanding at the end of the year in respect of a debt (other than a debt referred to in paragraph (*h*) of the definition 'valuation' in subsection 2405(3) or an amount referred to in subparagraph (iii)) owing by the insurer in respect of money borrowed by the insurer (other than money used by the insurer for the purpose of earning income from a source that is not an insurance business), and

(iii) the aggregate of all amounts each of which is the amount of a cheque outstanding at the end of the year drawn on an account of the insurer maintained with a corporation authorized to accept deposits or to carry on the business of offering to the public its services as a trustee, or

(*b*) where the insurer is a life insurer not referred to in paragraph (*a*), the amount of the insurer's Canadian investment fund as at the end of the taxation year that includes the period;

E is the aggregate of the number of days in the period; and

F is the amount, if any, of the income of the person or partnership that owned the property in the period that was derived from the property for the taxation year that includes the period."

S. 2410(1), the portion before A was amended by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years. S. 2410(1), the portion before A formerly read:

"S. 2410. (1) The amount prescribed for the purposes of subsection 138(4.4) of the Act shall be computed for a taxation year as the aggregate of all amounts each of which is the specified percentage for the year of the amount determined, in respect of a property for a period in the year referred to in that subsection by the formula

$$[(A \times B) \times \frac{C}{D} \times \frac{E}{365}] - F$$

where"

S. 2410(1) was added by P.C. 1990-2002, SOR/90-661, dated September 20, 1990, applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987.

(2) [Repealed.]

History: S. 2410(2) was repealed by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years. S. 2410(2) formerly read:

"(2) The specified percentage for a taxation year in respect of an amount determined in respect of property under subsection (1) for a taxation year is the aggregate of

(*a*) that proportion of 20 per cent that the number of days in the taxation year that are after 1987 and before 1989 is of the number of days in the taxation year;

(*b*) that proportion of 40 per cent that the number of days in the taxation year that are after 1988 and before 1990 is of the number of days in the taxation year;

(*c*) that proportion of 60 per cent that the number of days in the taxation year that are after 1989 and before 1991 is of the number of days in the taxation year;

(*d*) that proportion of 80 per cent that the number of days in the taxation year that are after 1990 and before 1992 is of the number of days in the taxation year; and

(*e*) that proportion of 100 per cent that the number of days in the taxation year that are after 1991 is of the number of days in the taxation year."

S. 2410(2) was added by P.C. 1990-2002, SOR/90-661, dated September 20, 1990 and applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987.

2411. (1) Subject to subsection (2), the amount prescribed in respect of an insurer for a taxation year for the purposes of paragraph 138(9)(*b*) of the Act shall be the amount determined by the formula

$$A - (B + B.1 + C)$$

where

A is the positive or negative amount, as the case may be, determined in respect of the insurer for the year under subsection (3);

B is the positive or negative amount, as the case may be, determined in respect of the insurer for the year under subsection (4) in respect of the insurer's investment property for the year that is designated insurance property of the insurer for the year;

B.1 is the positive or negative amount, as the case may be, determined in respect of the insurer for the year under subsection (4.1) in respect of property disposed of by the insurer in a taxation year for which it was designated insurance property of the insurer; and

C is the amount claimed by the insurer for the year in respect of any balance of its cumulative excess account at the end of the year.

History: S. 2411(1), the description of B.1 was amended by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years. S. 2411(1), the description of B.1 formerly read:

"B.1 is the positive or negative amount, as the case may be, determined in respect of the insurer for the year under subsection (4.1) in respect of property disposed of by the insurer that was, in the taxation year of disposition, investment property designated by the insurer under subsection 2400(1) as property used by it in the year in, or held by it in the year in the course of, carrying on an insurance business in Canada; and"

S. 2411(1), the description of B.1 was added by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years.

S. 2411(1), the description of B was amended by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years. S. 2411(1), the description of B formerly read:

"B is the positive or negative amount, as the case may be, determined in respect of the insurer for the year under subsection (4) in respect of investment property designated by the insurer for the year pursuant to subsection 2400(1) as investment property used by it in the year in, or held by it in the year in the course of, carrying on an insurance business in Canada; and"

The formula in s. 2411(1) was amended by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1995 and subsequent taxation years. The formula in s. 2411(1) formerly read:

"A - (B + C)"

S. 2411(1) was added by P.C. 1990-2002, SOR/90-661, dated September 20, 1990 and applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987.

(2) Where an amount computed under subsection (1) in respect of an insurer is a negative amount, that amount shall be deemed to be nil.

History: S. 2411(2) was added by P.C. 1990-2002, SOR/90-661, dated September 20, 1990, applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987.

(3) The positive or negative amount, as the case may be, determined under this subsection in respect of an insurer for a taxation year shall be

(*a*) if the value for the year of the insurer's foreign investment property that is designated insurance property for the year is not greater than 5% of the amount of the insurer's mean Canadian investment fund for the year and the insurer so elects in its return of income under Part I of the Act for the year, the amount determined by the formula

$$[[(A + A.1)/B) \times (C + J)] + [(D \times F)/E]]$$

or

(*b*) in any other case, the amount determined by the formula

$$[[(A + A.1)/B) \times C] + [(D \times F)/E] + [((G + G.1)/H) \times J]]$$

where

A is the positive or negative amount, as the case may be, determined in respect of the insurer for the year under subsection (4) in respect of Canadian investment property (other than Canadian equity property) owned by the insurer at any time in the year;

A.1 is the positive or negative amount, as the case may be, determined in respect of the insurer for the year under subsection (4.1) in respect of Canadian investment property (other than Canadian equity property) disposed of by the insurer in the year or preceding year;

Pending Amendment

Securities Held by Financial Institutions — April 11, 2009 (Pre-published in the *Canada Gazette*, Part I, dated April 11, 2009)

The description of A.1 in subsection 2411(3) of the English version of the Regulations is replaced by the following:

A.1 is the positive or negative amount, as the case may be, determined in respect of the insurer for the year under subsection (4.1) in respect of Canadian investment property (other than Canadian equity property) disposed of by the insurer in the year or a preceding taxation year;

Applicable: To the 1995 and subsequent taxation years.

Explanatory Note:

See the Regulatory Impact Analysis Statement, published in the *Canada Gazette*, Part 1 on April 11, 2009, reproduced with the Explanatory Note for Regulation 304(1)(*c*). **[Editorial Note:** The proposed amendment to the description of A.1 in s. 2411(3) changes the words "in the year or a preceding year" to "in the year or a preceding taxation year"].

B is the total value for the year of Canadian investment property (other than Canadian equity property and any property described in paragraph (*i*) of the definition "Canadian investment property" in subsection 2400(1)) owned by the insurer at any time in the year;

C is the total value for the year of the insurer's Canadian investment property for the year (other than Canadian equity property and any property described in paragraph (*i*) of the definition "Canadian investment property" in subsection 2400(1)) that is designated insurance property of the insurer for the year;

D is the positive or negative amount, as the case may be, determined in respect of the insurer for the year under subsection (4) in respect of Canadian investment property that is Canadian equity property owned by the insurer at any time in the year;

E is the total value for the year of Canadian investment property that is Canadian equity property (other than any property described in paragraph (*i*) of the definition "Canadian investment property" in subsection 2400(1)) owned by the insurer at any time in the year;

F is the total value for the year of the insurer's Canadian investment property (other than any property described in paragraph (*i*) of the definition "Canadian investment property" in subsection 2400(1)) for the year that is Canadian equity property that is designated insurance property of the insurer for the year;

G is the positive or negative amount, as the case may be, determined in respect of the insurer for the year under subsection (4) in respect of foreign investment property owned by the insurer at any time in the year;

G.1 is the positive or negative amount, as the case may be, determined in respect of the insurer for the year under subsection (4.1) in respect of foreign investment property disposed of by the insurer in the year or a preceding taxation year;

H is the total value for the year of foreign investment property (other than any property described in paragraph (*e*) of the definition "investment property" in subsection 2400(1)) owned by the insurer at any time in the year; and

J is the total value for the year of the insurer's foreign investment property (other than any property described in paragraph (*e*) of the definition "investment property" in subsection 2400(1)) that is designated insurance property of the insurer for the year.

History: S. 2411(3), the description of B was replaced by P.C. 2005-2215, SOR/2005-393, dated November 28, 2005, applicable to taxation years that end after February 27, 2004. S. 2411(3), the description of B formerly read: "B is the total value for the year of Canadian investment property (other than Canadian equity property) owned by the insurer at any time in the year;"

S. 2411(3), the description of E was replaced by P.C. 2005-2215, SOR/2005-393, dated November 28, 2005, applicable to taxation years that end after February 27, 2004. S. 2411(3), the description of E formerly read: "E is the total value for the year of Canadian investment property that is Canadian equity property owned by the insurer at any time in the year;"

S. 2411(3), the description of H was replaced by P.C. 2005-2215, SOR/2005-393, dated November 28, 2005, applicable to taxation years that end after February 27, 2004. S. 2411(3), the description of H formerly read: "H is the total value for the year of foreign investment property owned by the insurer at any time in the year; and"

S. 2411(3), the description of J was amended by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years. S. 2411(3), the description of J formerly read: "J is the total value for the year of foreign investment property designated by the insurer for the year pursuant to subsection 2400(1) as investment property used by it in the year in, or held by it in the year in the course of, carrying on an insurance business in Canada."

S. 2411(3), the description of G.1 was added by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1995 and subsequent taxation years.

S. 2411(3), the description of F was amended by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years. S. 2411(3), the description of F formerly read:

"F is the total value for the year of Canadian investment property that is Canadian equity property designated by the insurer for the year pursuant to subsection 2400(1) as investment property used by it in the year in, or held by it in the year in the course of, carrying on an insurance business in Canada;"

S. 2411(3), the description of C was amended by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years. S. 2411(3), the description of C formerly read:

"C is the total value for the year of Canadian investment property (other than Canadian equity property) designated by the insurer for the year pursuant to subsection 2400(1) as investment property used by it in the year in, or held by it in the year in the course of, carrying on an insurance business in Canada;"

S. 2411(3), the description of A.1 was added by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1995 and subsequent taxation years.

S. 2411(3)(*a*), the portion before the formula was amended by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years. S. 2411(3)(*a*), the portion before the formula formerly read:

"(*a*) if the value for the year of the insurer's foreign investment property designated by the insurer for the year pursuant to subsection 2400(1) as investment property used by it in the year in, or held by it in the year in the course of, carrying on an insurance business in Canada is not greater than 5% of the amount of the insurer's mean Canadian investment fund for the year and the insurer so elects, the amount determined by the formula"

S. 2411(3), the portion before the description of A was amended by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1995 and subsequent taxation years. S. 2411(3), the portion before the description of A formerly read:

"(3) The positive or negative amount, as the case may be, determined under this subsection in respect of an insurer for a taxation year shall be the amount determined by the formula

$$\frac{(A \times C)}{B} + \frac{(D \times F)}{E} + \frac{(G \times J)}{H}$$

or, where the value for the year of foreign investment property designated by the insurer for the year pursuant to subsection 2400(1) as investment property used by it in the year in, or held by it in the year in the course of, carrying on an insurance business in Canada is not greater than 5 per cent of the amount of the Canadian investment fund for the year of the insurer and the insurer so elects, the amount determined by the formula

$$\frac{[(A \times (C + J)]}{B} + \frac{(D \times F)}{E}$$

"

S. 2411(3) was added by P.C. 1990-2002, SOR/90-661, dated September 20, 1990, applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987.

(4) The positive or negative amount, as the case may be, determined under this subsection in respect of an insurer for a taxation year in respect of property shall be the amount determined by the formula

$$A - B$$

where

A is the total of the following amounts determined in respect of the property for the year, or that would be determined in respect of the property for the year if the property were designated insurance property of the insurer in respect of an insurance business in Canada for each taxation year in which the property was held by the insurer:

(*a*) the insurer's gross investment revenue for the year (other than taxable dividends that were or would be deductible in computing the insurer's taxable income for the year under section 112 or subsection 138(6) of the Act) derived from the property,

(*b*) all amounts that were or would be included in computing the insurer's income for the year under paragraphs 138(4)(*b*) and (*c*) of the Act in respect of the property,

Pending Amendment

Securities Held by Financial Institutions — April 11, 2009 (Pre-published in the *Canada Gazette*, Part I, dated April 11, 2009)

Paragraph (*b*) of the description of A in subsection 2411(4) of the Regulations is repealed.

(*b*) [Repealed.]

Applicable: To taxation years that begin after February 22, 1994.

Explanatory Note:

See the Regulatory Impact Analysis Statement, published in the *Canada Gazette*, Part I on April 11, 2009, reproduced with the Explanatory Note for Regulation 304(1)(*c*).

Explanatory Notes Released on June 1, 1995

Investment revenue from class of property

Subsection 2411(4) provides that an insurer's net investment revenue from property of a particular class is determined by the formula "A – B", where A is the total of the gross investment revenue from the property, gains from the disposition of the property and other income inclusions in respect of the property, and B is losses from the property and other deductions in respect of the property. The amounts included in A and B in respect of property that has not been designated as property of an insurance business carried on by the insurer in Canada are determined as if the property had been so designated. Several changes are made to the determination of amounts A and B.

The descriptions of both A and B are amended to clarify that, in determining the amounts to be taken into account in respect of property that has not been designated, the property is to be treated as if it had been designated for each year from the time it was acquired.

The other changes to A are as follows:

- Paragraph (b) is repealed. This paragraph includes in A the amounts included in the insurer's income under paragraphs 138(4)(b) and (c) of the Act (profit on disposition of a Canada security, and amortization of discount on such a security). This amendment is consequential on the repeal of paragraphs 138(4)(b) and (c).
- New paragraph (c.1) includes in A the amounts that are included in the insurer's income by subsection 142.4(5) of the Act. That subsection includes in income the gain from the disposition of specified debt obligations after February 22, 1994 where the gain is not required to be amortized.
- Paragraph (d), which includes certain non-capital gains in A, is amended to replace the exclusion for gains from Canada securities by an exclusion for gains from specified debt obligations. Those gains are dealt with, in some cases, by new paragraph (c.1) and in other cases by new subsection 2411(4.1).
- Paragraph (i), which includes in A all amounts that are included in the insurer's income in respect of the property, but that are not specifically referred to in the preceding paragraphs, is amended so that it does not apply to amounts that are included in income by subsection 142.4(4) of the Act. New subsection 2411(4.1), in conjunction with amendments to subsections 2411(1) and (3), provides for subsection 142.4(4) amounts to be taken into account.

The changes to B, in addition to the change described above, are as follows:

- New paragraph (a.1) includes in B the amounts that are deductible under subsection 142.4(5) of the Act in computing the insurer's income. That subsection provides a deduction for the loss from the disposition of specified debt obligations after February 22, 1994 where the loss is not required to be amortized.
- Paragraph (b), which includes certain non-capital losses in B, is amended to replace the exclusion for losses from Canada securities by an exclusion for losses from specified debt obligations. Those losses are dealt with, in some cases, by new paragraph (a.1) and in other cases by new subsection 2411(4.1).
- Paragraph (c) is repealed. This paragraph includes in B the amounts that are deductible under paragraphs 138(3)(b)

and (d) of the Act (loss on disposition of a Canada security, and amortization of premium on such a security). This amendment is consequential on the repeal of paragraphs 138(3)(b) and (d).

(*c*) all amounts that were or would be included in computing the insurer's taxable capital gains for the year from the disposition of the property,

(*d*) all amounts that were or would be included in computing the insurer's gains for the year from the disposition of the property (other than a Canada security or capital property),

Pending Amendment

Securities Held by Financial Institutions — April 11, 2009 (Pre-published in the *Canada Gazette*, Part I, dated April 11, 2009)

Paragraph (*d*) of the description of A in subsection 2411(4) of the Regulations is replaced by the following:

(*c*.1) all amounts that were or would be included under paragraph 142.4(5)(*e*) of the Act in respect of the property in computing the insurer's income for the year,

(*d*) all amounts that were or would be included in computing the insurer's income for the year as gains from the disposition of such of the property as is not capital property or a specified debt obligation (as defined in subsection 142.2(1) of the Act),

Applicable: To dispositions of property that occur after February 22, 1994.

Explanatory Note: [See the Explanatory Note following paragraph (*b*) of the description of A in subsection 2411(4).]

(*e*) all amounts that were or would be included in computing the insurer's income for the year under subsection 13(1) of the Act in respect of the property,

(*f*) all amounts that were or would be included in computing the insurer's income for the year under paragraph 12(1)(*d*), (*d*.1) or (*i*) of the Act in respect of the property,

(*g*) all amounts that were or would be included in computing the insurer's income for the year under subsection 59(3.2) or (3.3) of the Act in respect of the property,

(*h*) all amounts that were or would be included in computing the insurer's income for the year under subsection 14(1) of the Act in respect of the property, and

(*i*) all other amounts that were or would be included in computing the insurer's income for the year in respect of the property, and

Pending Amendment

Securities Held by Financial Institutions — April 11, 2009 (Pre-published in the *Canada Gazette*, Part I, dated April 11, 2009)

Paragraph (*i*) of the description of A in subsection 2411(4) of the Regulations is replaced by the following:

(*i*) all other amounts that were or would be included in computing the insurer's income for the year in respect of the property otherwise than because of subsection 142.4(4) of the Act; and

Applicable: To taxation years that end after February 22, 1994.

Explanatory Note: [See the Explanatory Note following paragraph (*b*) of the description of A in subsection 2411(4).]

B is the aggregate of the following amounts determined in respect of the property for the year or that would be determined in respect of the property for the year if it were insurance property of the insurer for the year in respect of an insurance business in Canada:

Pending Amendment

Securities Held by Financial Institutions — April 11, 2009 (Pre-published in the *Canada Gazette*, Part I, dated April 11, 2009)

The portion of the description of B in subsection 2411(4) of the Regulations before paragraph (*a*) is replaced by the following:

B is the total of the following amounts determined in respect of the property for the year, or that would be determined in respect of the property for the year if it were insurance property of the insurer for the year in respect of an insurance business in Canada and if it had been insurance property of the insurer in respect of an insurance business in Canada for each preceding taxation year in which it was held by the insurer:

Applicable: To taxation years that end after June 1, 1995.

Explanatory Note: [See the Explanatory Note following paragraph (*b*) of the description of A in subsection 2411(4).]

Pending Amendment

Securities Held by Financial Institutions — April 11, 2009 (Pre-published in the *Canada Gazette*, Part I, dated April 11, 2009)

The portion of the description of B in subsection 2411(4) of the Regulations before paragraph (*a*) is replaced by the following:

B is the total o f the following amounts determined in respect of the property for the year, or that would be determined in respect of the property for the year if the property were designated insurance property of the insurer in respect of an insurance business in Canada for each taxation year in which the property was held by the insurer:

Applicable: To the 1999 and subsequent taxation years.

Explanatory Note: [See the Explanatory Note following paragraph (*b*) of the description of A in subsection 2411(4).]

(*a*) all amounts that were or would be included in computing the insurer's allowable capital losses for the year from the disposition of the property,

(*b*) all amounts that were or would be included in computing the insurer's losses for the year from the disposition of the property (other than a Canada security or capital property),

Pending Amendment

Securities Held by Financial Institutions — April 11, 2009 (Pre-published in the *Canada Gazette*, Part I, dated April 11, 2009)

Paragraph (*b*) of the description of B in subsection 2411(4) of the Regulations is replaced by the following:

(*a*.1) all amounts that were or would be deductible under paragraph 142.4(5)(*f*) of the Act in respect of the property in computing the insurer's income for the year,

(*b*) all amounts that were or would be deductible in computing the insurer's income for the year as losses from the disposition of such of the property as is not capital property or a specified debt obligation (as defined in subsection 142.2(1) of the Act),

Applicable: To dispositions of property that occur after February 22, 1994.

Explanatory Note: [See the Explanatory Note following paragraph (*b*) of the description of A in subsection 2411(4).]

(*c*) all amounts that were or would be deductible in computing the insurer's income for the year under paragraphs 138(3)(*b*) and (*d*) of the Act in respect of the property,

Pending Amendment

Securities Held by Financial Institutions — April 11, 2009 (Pre-published in the *Canada Gazette*, Part I, dated April 11, 2009)

Paragraph (*c*) of the description of B in subsection 2411(4) of the Regulations is repealed.

(*c*) [Repealed.]

Applicable: To taxation years that begin after February 22, 1994.

Explanatory Note: [See the Explanatory Note following paragraph (*b*) of the description of A in subsection 2411(4).]

(*d*) all amounts that were or would be deductible in computing the insurer's income for the year under paragraph 20(1)(*a*) of the Act in respect of the capital cost of the property or under paragraphs 20(1)(*c*) and (*d*) of the Act in respect of interest paid or payable on borrowed money used to acquire the property,

(*e*) where any such property is rental property or leasing property (within the meaning assigned by subsections 1100(14) and (17), respectively), all amounts that were or would be deductible in computing the insurer's income for the year in respect of expenses directly related to the earning of rental income derived from the property,

(*f*) all amounts that were or would be deductible by the insurer in computing the insurer's income for the year under paragraph 20(1)(*l*), (*l*.1) or (*p*) of the Act as a reserve or bad debt in respect of the property,

(*g*) all amounts that were deducted or would be deductible in computing the insurer's income for the year under section 66, 66.1, 66.2 or 66.4 of the Act in respect of the property,

(*h*) all amounts that were or would be deductible in computing the insurer's income for the year under paragraph 20(1)(*b*) of the Act in respect of the property, and

(*i*) all amounts that were or would be deductible in computing the insurer's income for the year in respect of other expenses directly related to the earning of gross investment revenue derived from the property.

History: S. 2411(4), paragraph (*a*) of the description of A was replaced by P.C. 2005-2215, SOR/2005-393, dated November 28, 2005, applicable to taxation years that end after 2001. S. 2411(4), paragraph (*a*) of the description of A formerly read:

"(*a*) the insurer's gross investment revenue for the year (other than taxable dividends that were or would be deductible in computing the insurer's taxable income for the year under subsection 138(6) of the Act) derived from the property,"

S. 2411(4), the portion of the description of A before paragraph (*a*) was amended by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years. S. 2411(4), the portion of the description of A before paragraph (*a*) formerly read:

"A is the total of the following amounts determined in respect of the property for the year, or that would be determined in respect of the property for the year if it were insurance property of the insurer for the year in respect of an insurance business in Canada and if it had been insurance property of the insurer in respect of an insurance business in Canada for each preceding taxation year in which it was held by the insurer:"

S. 2411(4), the portion of the description of A before paragraph (*a*) was amended by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to taxation years ending after June 1, 1995. S. 2411(4), the portion of the description of A before paragraph (*a*) formerly read:

"A is the aggregate of the following amounts determined in respect of the property for the year or that would be determined in respect of the property for the year if it were insurance property of the insurer for the year in respect of an insurance business in Canada:"

S. 2411(4) was added by P.C. 1990-2002, SOR/90-661, dated September 20, 1990, applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987.

(4.1) The positive or negative amount, as the case may be, determined under this subsection in respect of an insurer for a taxation year in respect of property disposed of by the insurer in the year or a preceding taxation year is the amount determined by the formula

$$A - B$$

where

A is the total of the amounts included under paragraphs 142.4(4)(*a*) and (*c*) of the Act in the insurer's income for the year in respect of the property, or that would be so included if the property were designated insurance property of the insurer in respect of an insurance business in Canada for each taxation year in which it was held by the insurer; and

B is the total of the amounts deductible under paragraphs 142.4(4)(*b*) and (*d*) of the Act in respect of the property in computing the insurer's income for the year, or that would be so deductible if the property were designated insurance property of the insurer in respect of an insurance business in Canada for each taxation year in which it was held by the insurer.

History: S. 2411(4.1), the descriptions of A and B were amended by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years. S. 2411(4.1), the descriptions of A and B formerly read:

"A is the total of the amounts included under paragraphs 142.4(4)(*a*) and (*c*) of the Act in the insurer's income for the year in respect of the property, or that would be so included if the property had been insurance property of the insurer in respect of an insurance business in Canada for each taxation year in which it was held by the insurer; and

B is the total of the amounts deductible under paragraphs 142.4(4)(*b*) and (*d*) of the Act in respect of the property in computing the insurer's income for the year, or that would be so deductible if the property had been insurance property of the insurer in respect of an insurance business in Canada for each taxation year in which it was held by the insurer."

S. 2411(4.1) was added by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1995 and subsequent taxation years.

(5) For the purposes of subsection (4), a property that has not been designated by the insurer for the year pursuant to subsection 2400(1) as investment property used by it in the year in, or held by it in the year in the course of, carrying on an insurance business in Canada shall be deemed to be a property used by it in the year in, or held by it in the year in the course of, carrying on that insurance business in respect of which the property has been reported by the insurer in its annual report for the year to the relevant authority or, where the insurer was throughout the year subject to the supervision of the relevant authority but was not required to file an annual report with the relevant authority for the year, that insurance business in respect of which the property would have been reported by the insurer in an annual report for the year if it had been so required by the relevant authority.

Pending Amendment

Securities Held by Financial Institutions — April 11, 2009 (Pre-published in the *Canada Gazette*, Part I, dated April 11, 2009)

Subsection 2411(5) of the Regulations is repealed.

(5) [Repealed.]

Applicable: To taxation years that begin after February 22, 1994.

Explanatory Note:

See the Regulatory Impact Analysis Statement, published in the *Canada Gazette*, Part I on April 11, 2009, reproduced with the Explanatory Note for Regulation 304(1)(*c*).

Explanatory Notes Released on June 1, 1995

Non-designated property

Where property has not been designated as property used or held in a Canadian insurance business, subsection 2411(4) applies on the assumption that the property had been so designated. Subsection 2411(5) contains an additional rule for this purpose. It provides that the property is to be considered property of the business in respect of which it is reported in the insurer's annual report. This rule was required because of the special rules for the tax treatment of debt obligations (referred to as Canada securities) that are property of a life insurance business. Subsection 2411(5) is repealed, for taxation years beginning after February 22, 1994, as a consequence of the repeal of the special rules for Canada securities.

History: S. 2411(5) was added by P.C. 1990-2002, SOR/90-661, dated September 20, 1990, applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987.

(6) For the purposes of subsection (1), the balance of an insurer's cumulative excess account at the end of a taxation year shall be determined as the amount, if any, by which

(*a*) the aggregate of all amounts each of which is a positive amount, if any, determined in respect of each of such of its seven immediately preceding taxation years that began after June 17, 1987 and ended after 1987 by the formula

$$B - A$$

where A and B are the amounts determined under subsection (1) in respect of the insurer for such immediately preceding taxation year,

exceeds

(*b*) the aggregate of all amounts each of which is an amount claimed by the insurer under subsection (1) in respect of its cumulative excess account for a preceding taxation year that can be attributed to a positive amount determined under paragraph (*a*) for that year and, for the purpose of this paragraph, a positive amount determined in respect of a taxation year shall be deemed to have been claimed before a positive amount determined in respect of any subsequent taxation year.

History: S. 2411(6) was added by P.C. 1990-2002, SOR/90-661, dated September 20, 1990 and applicable with respect to taxation years beginning after June 17, 1987 and ending after 1987.

(7) [Repealed.]

History: S. 2411(7) was repealed by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years. S. 2411(7) formerly read:

"(7) For the purposes of subsection (3),

(*a*) where the aggregate value for the year of property designated by the insurer for the year pursuant to paragraphs 2400(1)(*a*) to (*d*) exceeds the minimum value for the year of property required to be designated by the insurer for the year pursuant to those paragraphs, the aggregate value for the year of the property determined for the year under each of C, F and J of the formula set out in subsection (3) shall not exceed that minimum value for the year of such property that is required to be designated by the insurer for the year pursuant to paragraphs 2400(1)(*a*) to (*d*); and

(*b*) for the purposes of paragraph (*a*), the value for the year of property required to be designated by the insurer for the year under F in the formula set out in subsection (3) shall be deemed to be the value for the year of such property designated by the insurer for the year."

S. 2411(7) was added by P.C. 1990-2002, SOR/90-661, dated September 20, 1990 and applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987.

(8) For the purposes of this section, "foreign investment property" of an insurer means investment property of the insurer (unless the insurer is a non-resident insurer and it is established by the insurer that the investment property is not effectively connected with its Canadian insurance businesses) that is not Canadian investment property of the insurer.

History: S. 2411(8) was added by P.C. 1990-2002, SOR/90-661, dated September 20, 1990 and applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987.

Mean Canadian Investment Fund

2412. (1) For the purposes of this Part, the mean Canadian investment fund of an insurer for a particular taxation year is the total of

(*a*) 50% of the total of

(i) its Canadian investment fund at the end of the particular year, and

(ii) either,

(A) if the insurer is resident in Canada, its Canadian investment fund at the end of its preceding taxation year, or

(B) if the insurer is non-resident, its Canadian investment fund at the end of its preceding taxation year determined as if its attributed surplus for that preceding taxation year were its attributed surplus for the particular year, and

(*b*) the insurer's cash-flow adjustment for the particular year.

History: S. 2412(1) was amended by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years. S. 2412(1) formerly read:

"S. 2412. (1) The amount of the Canadian investment fund for the year for a taxation year in respect of an insurer shall be determined by the formula

$$A + B$$

where

A is the mean Canadian investment fund for the year for the taxation year in respect of the insurer; and

B is the amount determined under subsection (2) in respect of the insurer for the taxation year."

S. 2412(1) was added by P.C. 1990-2002, SOR/90-661, dated September 20, 1990 and applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987.

Cash-flow Adjustment

(2) An insurer's cash-flow adjustment for a taxation year is the amount equal to

(*a*) if the year ended two months or more after it began, the positive or negative amount determined by the formula

$$50\% \times (A - B/C)$$

where

A is the total of all amounts each of which is the amount determined under subsection (3) in respect of a full month in the year (or in respect of the part of the month that ends after the last full month in the year, if that part is greater than 15 days),

B is the total of all amounts each of which is the amount determined in respect of a full month in the year (or in respect of the part of the month that ends after the last full month in the year, if that part is greater than 15 days) by the formula

$$D \times (1 + 2E)$$

where

D is the amount determined under subsection (3) in respect of the month or part of the month, and

E is the number of months in the year that ended before the beginning of the month or part of the month, and

C is the number of full months in the year (plus 1, if the year ends more than 15 days after the end of the last full month in the year); and

(*b*) if the year ended less than two months after it began, nil.

History: S. 2412(2) was amended by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years. S. 2412(2) formerly read:

"(2) Subject to subsection (3), the amount determined under this subsection in respect of an insurer for the taxation year shall be determined by the formula

$$1/2\ [A - \frac{(B + 3C + 5D + 7E)]}{F}$$

where

A is the aggregate of B, C, D and E;

B is the positive or negative amount, as the case may be, determined under subsection (4) in respect of the insurer for the first three-month period in the taxation year of the insurer;

C is the positive or negative amount, as the case may be, determined under subsection (4) in respect of the insurer for the second three-month period in the taxation year of the insurer;

D is the positive or negative amount, as the case may be, determined under subsection (4) in respect of the insurer for the third three-month period in the taxation year of the insurer;

E is the positive or negative amount, as the case may be, determined under subsection (4) in respect of the insurer for the fourth three-month period in the taxation year of the insurer; and

F is the result obtained when the number of calendar months in the taxation year is divided by 3 and, where that result is not a whole number, it shall be rounded down to the next lower whole number."

S. 2412(2) was added by P.C. 1990-2002, SOR/90-661, dated September 20, 1990 and applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987.

Amounts Paid and Received

(3) The amount determined in respect of an insurer for a particular month or part of a month (in this subsection referred to as a "month") in a taxation year is the positive or negative amount determined by the formula

$$G - H$$

where

G is the total of all amounts each of which is

(*a*) the amount of a premium or consideration received by the insurer in the month in respect of a contract of insurance (including a settlement annuity) entered into in the course of carrying on its insurance businesses in Canada,

(*b*) an amount received by the insurer in the month in respect of interest on or a repayment in respect of a policy loan made under a life insurance policy in Canada, or

(*c*) an amount received by the insurer in the month in respect of reinsurance (other than reinsurance undertaken to effect a transfer of a business in respect of which subsection 138(11.5), (11.92) or (11.94) of the Act applies) arising in the course of carrying on its insurance businesses in Canada; and

H is the total of all amounts each of which is

(*a*) the amount of a claim or benefit (including a payment under an annuity or settlement annuity, a payment of a policy dividend and an amount paid on a lapsed or terminated policy), a refund of premiums, a premium or a commission paid by the insurer in the month under a contract of insurance in the course of carrying on its insurance businesses in Canada,

(*b*) the amount of a policy loan made by the insurer in the month under a life insurance policy in Canada, or

(*c*) an amount paid by the insurer in the month in respect of reinsurance (other than reinsurance undertaken to effect a transfer of a business in respect of which subsection 138(11.5), (11.92) or (11.94) of the Act applies) in the course of carrying on its insurance businesses in Canada.

History: S. 2412(3) was amended by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years. S. 2412(3) formerly read:

"(3) Where the taxation year of an insurer does not contain any three-month period, the amount determined under subsection (2) in respect of the insurer shall be deemed to be nil."

S. 2412(3) was added by P.C. 1990-2002, SOR/90-661, dated September 20, 1990 and applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987.

(4) A reference to a "month" in this section means

(*a*) if an insurer's taxation year does not begin on the first day of a calendar month and the insurer elects to have this paragraph apply for the year, the period beginning on the day in a calendar month that has the same calendar number as the particular day on which the taxation year began and ending

(i) on the day immediately before the day in the next calendar month that has the same calendar number as the particular day, or

(ii) if the next calendar month does not have a day that has the same calendar number as the particular day, the last day of that next calendar month; and

(*b*) in any other case, a calendar month.

History: S. 2412(4) was amended by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years. S. 2412(4) formerly read:

"(4) The positive or negative amount, as the case may be, determined in respect of an insurer for a particular three-month period in a taxation year of the insurer shall be determined by the formula

$$A - B$$

where

A is the aggregate of all amounts each of which is

(*a*) an amount of a premium or consideration received by the insurer in the period in respect of a contract of insurance or an annuity (including a settlement annuity) entered into in the course of carrying on its insurance businesses in Canada,

(*b*) an amount received by the insurer in the period in respect of interest on or a repayment in respect of a policy loan made under a life insurance policy in Canada, or

(*c*) an amount received by the insurer in the period in respect of reinsurance (other than reinsurance undertaken to effect a transfer of a business in respect of which subsection 138(11.5), (11.92) or (11.94) of the Act applies) arising in the course of carrying on its insurance businesses in Canada and not otherwise included in paragraph (*a*) or (*b*); and

B is the aggregate of all amounts each of which is

(*a*) an amount of a claim or benefit (including a payment under an annuity or settlement annuity, a payment of a policy dividend and an amount paid on a lapsed or terminated policy) or a refund of premiums paid by the insurer in the period under a contract of insurance or an annuity in the course of carrying on its insurance businesses in Canada,

(*b*) an amount of a policy loan made by the insurer in the period under a life insurance policy in Canada,

(*c*) a premium or commission paid by the insurer in the period in respect of a contract of insurance or an annuity in the course of carrying on its insurance businesses in Canada, or

(*d*) an amount paid by the insurer in the period in respect of reinsurance (other than reinsurance undertaken to effect a transfer of a business in respect of which subsection 138(11.5), (11.92) or (11.94) of the Act applies) in the course of carrying on its insurance businesses in Canada and not otherwise included in paragraph (*a*), (*b*) or (*c*)."

S. 2412(4) was added by P.C. 1990-2002, SOR/90-661, dated September 20, 1990 and applicable in respect of taxation years beginning after June 17, 1987 and ending after 1987.

(5) [Repealed.]

History: S. 2412(5) was repealed by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years. S. 2412(5) formerly read:

"(5) For the purposes of this section, 'mean Canadian investment fund for the year', means

(*a*) for a taxation year in respect of a life insurer resident in Canada, 1/2 of the aggregate of

(i) its Canadian investment fund as at the end of the year, and

(ii) its Canadian investment fund as at the end of the immediately preceding taxation year; and

(*b*) for a taxation year in respect of a non-resident insurer, 1/2 of the aggregate of

(i) its Canadian investment fund as at the end of the year, and

(ii) the amount that would be its Canadian investment fund as at the end of the immediately preceding taxation year if the insurer's attributed surplus for the year for that preceding year were its attributed surplus for the year for that taxation year."

S. 2412(5) was added by P.C. 1990-2002, SOR/90-661, dated September 20, 1990 and applicable in respect of taxation years beginning after June 27, 1987 and ending after 1987.

Regulations

PART XXV
Special T1 Tax Table for Individuals

2500. **(1)** For the purposes of subsection 117(6) of the Act,

(*a*) $55,605, adjusted for each taxation year after 1989 in the manner set out in subsection 117.1(1) of the Act, is the prescribed amount; and

(*b*) an "individual of a prescribed class" for a taxation year is

(i) an estate or trust,

(ii) an individual who was a non-resident person throughout the year, other than an individual

(A) whose amount taxable for the year was from

(I) the duties of an office or employment performed in one province,

(II) the carrying on of a business in one province, or

(III) any combination of sources described in subclauses (I) and (II) if all of those sources are located in one province, and

(B) who was not subject to any other provision of this subsection,

(iii) an individual who, on the last day of the year, resided in a province and had income for the year from a business with a permanent establishment, as defined in subsection 2600(2), outside the province,

(iv) an individual whose tax otherwise payable for the year under Part I of the Act is reduced by virtue of any of the following provisions of the Act:

(A) subsection 117(7),

(B) section 121,

(C) section 122.3, or

(D) section 126,

(v) an individual who makes an election in respect of the year under subsection 119(1) of the Act,

(vi) an individual eligible to pay tax at a reduced rate pursuant to subsection 40(7) of the *Income Tax Application Rules* on a payment made to him in the year, or

(vii) an individual who makes an election in respect of the year under subsection 110.4(2) of the Act.

History: S. 2500(1) was amended by P.C. 1994-1817, SOR/94-686, dated November 7, 1994, by replacing the words "Income Tax Application Rules, 1971" with "Income Tax Application Rules", applicable November 7, 1994.

S. 2500(1)(*a*) was amended by P.C. 1990-760, SOR/90-262, dated April 26, 1990, applicable in respect of the 1989 and subsequent taxation years. S. 2500(1)(*a*) formerly read:

"(*a*) $27,500 is the prescribed amount; and"

S. 2500(1)(*a*) was amended by P.C. 1989-1926, SOR/89-475, dated September 28, 1989, to substitute "$27,500" for "$40,000", applicable in respect of the 1988 and subsequent taxation years.

S. 2500(1)(*b*)(vii) was amended by P.C. 1989-1926, SOR/89-475, dated September 28, 1989, to delete a reference to s. 110.4(1), applicable in respect of the 1988 and subsequent taxation years.

S. 2500(1)(*a*) was amended by P.C. 1987-1817, SOR/87-535, dated August 27, 1987, to substitute "$40,000" for "$30,000", applicable to the 1986 and subsequent taxation years.

S. 2500(1)(*b*)(vii) was added by P.C. 1986-207, SOR/86-159, dated January 23, 1986, applicable to the 1985 and subsequent taxation years.

S. 2500(1) was amended by P.C. 1985-908, SOR/85-277, dated March 21, 1985, applicable to the 1984 and subsequent taxation years. S. 2500(1) formerly read:

"(1) For the purposes of subsection 117(6) of the Act, an 'individual of a prescribed class' for a taxation year is

(*a*) an individual whose amount taxable for the year exceeds $30,000:

(*b*) an estate or trust:

(*c*) an individual who was a non-resident of Canada throughout the year, other than an individual

(i) whose amount taxable for the year was from

(A) the duties of an office or employment performed in one province of Canada,

(B) the carrying on of a business in one province of Canada, or

(C) any combination of sources described in clauses (A) and (B) if all of those sources are located in one province of Canada, and

(ii) who was not subject to any other provision of this subsection:

(*d*) an individual who, on the last day of the year, resided in a province and had income for the year from a business with a permanent establishment, as defined in subsection 2600(2), outside the province:

(*e*) an individual whose tax otherwise payable for the year under Part I of the Act is reduced by virtue of any of the following provisions of the Act:

(i) subsection 117(7),

(ii) section 121, or

(iii) section 126;

(*f*) an individual who makes an election in respect of the year under subsection 119(1) of the Act; or

(*g*) an individual eligible to pay tax at a reduced rate pursuant to subsection 40(7) of the *Income Tax Application Rules, 1971* on a payment made to him in the year."

Former section 2500(1), the part preceding paragraph (*a*), was amended by P.C. 1983-3016, SOR/83-757, dated September 29, 1983, to substitute "individual of a prescribed class" for "an individual of a prescribed class for a taxation year", applicable to the 1982 and subsequent taxation years.

(2) For the purposes of subsection 117(6) of the Act, a table of the tax payable for a taxation year shall be prepared in accordance with the following rules:

(*a*) the table shall be divided into ranges of amounts taxable not exceeding $10 each and shall specify the tax payable in respect of each range;

(*b*) the tax payable on an amount taxable within any range referred to in paragraph (*a*) shall be equal to the tax payable thereon for the year computed under subsection 117(2) of the Act and, where applicable, adjusted annually pursuant to section 117.1 of the Act; and

(*c*) the tax payable referred to in paragraph (*b*) shall be calculated as if the amount taxable is equal to the average of the highest and lowest amounts taxable in the range and, where the resulting tax payable is not a multiple of one dollar, it shall be rounded to the nearest multiple of one dollar or, if it is equidistant from two such multiples, to the higher thereof.

History: S. 2500(2) was amended by P.C. 1989-1926, SOR/89-475, dated September 28, 1989, applicable in respect of the 1988 and subsequent taxation years. S. 2500(2) formerly read:

"(2) For the purposes of subsection 117(6) of the Act, a table for a taxation year shall be prepared in accordance with the following rules:

(*a*) the table shall be divided into ranges of amounts taxable not exceeding $10 each and shall specify the amount that is

(i) the tax payable, and

(ii) where applicable, the amount referred to in this subsection as 'the refundable Quebec abatement',

on every amount taxable within each such range;

(*b*) the tax payable for a taxation year on amounts taxable within any range referred to in paragraph (*a*) shall be the amount that is the aggregate of

(i) a tax thereon for the year as computed under subsection 117(5.2) of the Act and, where applicable, adjusted annually pursuant to section 117.1 of the Act, and

(ii) where applicable, an additional tax of 47 per cent for the year as computed under subsection 120(1) of the Act,

(*c*) the refundable Quebec abatement for a taxation year on amounts taxable within any range referred to in paragraph (*a*) shall be the amount that is the aggregate of

(i) the amount deemed paid under subsection 120(2) of the Act, and

(ii) the amount by which the amount referred to in subparagraph (i) is increased by virtue of section 30 of the *Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contribution Act, 1977*; and

(*d*) the amount computed under paragraph (*b*) or (*c*) shall be calculated as if the amount taxable is equal to the average of the highest and lowest amounts taxable in the range and, where the resulting tax payable is not a multiple of one dollar, it shall be rounded to the nearest multiple of one dollar or, if it is equidistant from two such multiples, to the higher thereof."

S. 2500(2)(*b*), the part following subparagraph (ii) thereof, was revoked by P.C. 1987-1817, SOR/87-535, dated August 27, 1987, applicable to the 1986 and subsequent taxation years. That part formerly read:

"minus the deduction provided pursuant to subsection 120(3.1) of the Act, computed as if the individual were not married during the year;"

S. 2500(2)(*b*), the part following subparagraph (ii), was amended by P.C. 1985-908, SOR/85-277, dated March 21, 1985, applicable to the 1984 and subsequent taxation years. That part formerly read:

"minus $200."

S. 2500(2)(*c*)(ii) was amended by P.C. 1985-908, SOR/85-277, dated March 21, 1985 to substitute "*Federal Post-Secondary Education and Health Contribution Act, 1977*" for "*Established Programs Financing Act, 1977*", applicable after March 31, 1983.

S. 2500(2)(*b*) was amended by P.C. 1983-3016, SOR/83-757, dated September 29, 1983 to substitute "117(5.2)" for "117(5.1)" and "117.1" for "117.1 (1)" in subparagraph (i), to substitute "47 per cent" for "43%" in subparagraph (ii), to substitute "minus $200;" for "minus" and to revoke subparagraph (iii), applicable to the 1982 and subsequent taxation years. S. 2500(2)(*b*)(iii) formerly read:

"(iii) a deduction from the tax under subparagraph (i), or that tax plus the additional tax under subparagraph (ii), as the case may be, as computed under subsection 120(3.1) of the Act;"

(3) For the purposes of subsection 117(6) of the Act, a table of the additional tax for income not earned in a province, the individual surtax and the refundable Quebec abatement for a taxation year shall be prepared in accordance with the following rules:

(*a*) the table shall be divided into ranges of tax payable not exceeding $2 each and shall specify, in respect of each range,

(i) the individual surtax payable,

(ii) where applicable, the additional tax for income not earned in a province, and

(iii) where applicable, the refundable Quebec abatement,

on every amount of tax payable within that range;

(*b*) the tax payable referred to in paragraph (*a*) is the tax payable determined by the table prepared pursuant to subsection (2) less the allowable non-refundable credits under sections 118 to 118.9 of the Act;

(*c*) the individual surtax in respect of an mount of tax payable within any range referred to in paragraph (*a*) shall be the amount that is equal to the surtax thereon computed under subsection 180.1(1) of the Act;

(*d*) the additional tax for income not earned in a province in respect of an amount of tax payable within any range referred to in paragraph (*a*) shall be the amount that is equal to the tax determined thereon under subsection 120(1) of the Act;

(*e*) the refundable Quebec abatement in respect of an amount of tax payable within any range referred to in paragraph (*a*) shall be the amount that is equal to the abatement determined under subsection 120(2) of the Act and in accordance with section 27 of the *Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act*;

(*f*) the amount referred to in paragraph (*c*) or (*d*) shall be calculated as if the tax payable is equal to the average of the highest and lowest amounts in the range and, where the resulting amount is not a multiple of one dollar, it shall be rounded to the nearest multiple of one dollar or, if it is equidistant from two such multiples, to the higher thereof; and

(*g*) the amount referred to in paragraph (*e*) shall be calculated as if the tax payable is equal to the average of the highest and lowest amounts in the range and, where the resulting amount is not a multiple of one tenth of one dollar, it shall be rounded to the nearest multiple of one tenth of one dollar or, if it is equidistant from two such multiples, to the higher thereof.

History: Part XXV was added by P.C. 1981-1501, SOR/81-449, dated June 8, 1981 and applicable to the 1979 and subsequent taxation years, except that, in its application to the 1979 taxation year, all that portion of subsection 2500(2) following subparagraph (*b*)(ii) thereof does not apply and shall be read as follows:

"minus the aggregate of

(iii) where applicable, an amount that is the aggregate of

(A) the deduction calculated under subsection 120(2) of the Act, and

(B) the amount by which the amount referred to in clause (A) is increased by virtue of section 30 of the *Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977*, and

(iv) a deduction from the tax under subparagraph (i), or that tax plus the additional tax under subparagraph (ii), as the case may be, as computed under subsection 120(3.1) of the Act,

calculated as if the amount taxable is equal to the average of the highest and lowest amounts taxable in the range and, where the resulting tax payable is not a multiple of one dollar, it shall be rounded to the nearest multiple of one dollar or, if it is equidistant from two such multiples, to the higher thereof."

2501. In this Part, "amount taxable" has the meaning assigned by subsection 117(2) of the Act.

History: S. 2501 was amended by P.C. 1989-1926, SOR/89-475, dated September 28, 1989, to substitute "assigned by subsection 117(2)" for "assigned to that expression by subsection 117(5.2)", applicable in respect of the 1988 and subsequent taxation years.

S. 2501 was amended by P.C. 1983-3016, SOR/83-757, dated September 29, 1983, to substitute "117(5.2)" for "117(5.1)", applicable to the 1982 and subsequent taxation years.

Part XXV was added by P.C. 1981-1501, SOR/81-449, dated June 8, 1981 and applicable to the 1979 and subsequent taxation years.

PART XXVI

Income Earned in a Province by an Individual

Interpretation

2600. (1) In applying the definition "income earned in the year in a province" in subsection 120(4) of the Act for an individual's taxation year

(*a*) the prescribed rules referred to in that definition are the rules in this Part; and

(*b*) the amount determined under those prescribed rules means the total of all amounts each of which is the individual's income earned in the taxation year in a particular province as determined under this Part.

History: S. 2600(1) was replaced by S.C. 2009, c. 2, s. 103(1), applicable to the 2009 and subsequent taxation years. S. 2600(1) formerly read:

"(1) For the purposes of paragraph 120(4)(*a*) of the Act, 'income earned in the year in a province' by an individual means the aggregate of his incomes earned in the taxation year in each province as determined in accordance with this Part."

S. 2600(1) was amended by P.C. 1981-808, SOR/81-267, dated March 27, 1981, to delete "except the Yukon Territory" before "as determined in accordance with this Part", applicable to the 1980 and subsequent taxation years.

S. 2600(1) was amended by P.C. 1978-3101, SOR/78-722, dated October 13, 1978 (Special Issue, *Canada Gazette*, December 31, 1978), applicable to the 1978 and subsequent taxation years. S. 2600(1) formerly read:

"(1) For the purpose of paragraph 120(4)(a) of the Act, 'income earned in the taxation year in a province' by an individual means the aggregate of his incomes earned in the taxation year in each province, except the Northwest Territories or Yukon Territory, as determined in accordance with this Part."

(2) In this Part, "permanent establishment" means a fixed place of business of the individual, including an office, a branch, a mine, an oil well, a farm, a timberland, a factory, a workshop or a warehouse, and

(*a*) where an individual carries on business through an employee or agent, established in a particular place, who has general authority to contract for his employer or principal or who has a stock of merchandise owned by his employer or principal from which he regularly fills orders which he receives, the individual shall be deemed to have a permanent establishment in that place;

(*b*) where an individual uses substantial machinery or equipment in a particular place at any time in a taxation year he shall be deemed to have a permanent establishment in that place; and

(*c*) the fact that an individual has business dealings through a commission agent, broker or other independent agent or maintains an office solely for the purchase of merchandise, shall not of itself be held to mean that the individual has a permanent establishment.

(3) [Revoked.]

History: S. 2600(3) was revoked by P.C. 1981-808, SOR/81-267, dated March 27, 1981 and applicable to the 1980 and subsequent taxation years. S. 2600(3) formerly read:

"(3) In this Part, 'province' includes the Yukon Territory."

S. 2600(3) was amended by P.C. 1978-3101, SOR/78-722, dated October 13, 1978 (Special Issue, *Canada Gazette*, December 31, 1978), applicable to the 1978 and subsequent taxation years. S. 2600(3) formerly read:

"(3) In this Part 'province' includes the Northwest Territories and the Yukon Territory."

Interpretation Bulletins: *Secondary* — IT-242R Retired partners; IT-434R Rental of real property by individual.
Forms: T2203; T2203A.

Residents of Canada

2601. (1) Where an individual resided in a particular province on the last day of a taxation year and had no income for the year from a business with a permanent establishment outside the province, his income earned in the taxation year in the province is his income for the year.

(2) Where an individual resided in a particular province on the last day of a taxation year and had income for the year from a business with a permanent establishment outside the province, his income earned in the taxation year in the province is the amount, if any, by which

(*a*) his income for the year

exceeds

(*b*) the aggregate of his income for the year from carrying on business earned in each other province and each country other than Canada determined as hereinafter set forth in this Part.

(3) Where an individual, who resided in Canada on the last day of a taxation year and who carried on business in a particular province at any time in the year, did not reside in the province on the last day of the year, his income earned in the taxation year in the province is his income for the year from carrying on business earned in the province, determined as hereinafter set forth in this Part.

(4) Where an individual resided in Canada on the last day of a taxation year and carried on business in another country at any time in the year, his income earned in the taxation year in that other country is his income for the year from carrying on business earned in the other country, determined as hereinafter set forth in this Part.

(5) In this section, a reference to the "last day of a taxation year" is deemed to be a reference to

(*a*) the "last day in the year on which the individual resided in Canada", in the case of an individual who resided in Canada at any time in the year but ceased to reside in Canada before the end of the year; and

(*b*) the "day in the year on which the individual would have ceased to reside in Canada, if the Act were read without reference to paragraphs 250(1)(*d.1*) and (*f*) of the Act,", in the case of a particular individual described in paragraph 250(1)(*d.1*) of the Act, or of

another individual who is a spouse, common-law partner or child of the particular individual, who

(i) was resident in Canada at any time in the year,

(ii) would have ceased to be resident in Canada before the end of the year, if the Act were read without reference to paragraphs 250(1)(*d*.1) and (*f*) of the Act, and

(iii) is, pursuant to paragraph 250(1)(*d*.1) or (*f*) of the Act, deemed to have been resident in Canada throughout the year.

History: S. 2601(5)(*b*) was replaced by P.C. 2007-849, SOR/2007-116, dated May 31, 2007, effective on publication in the *Canada Gazette*, June 13, 2007. S. 2601(5)(*b*) formerly read:

"(*b*) the 'day in the year on which the individual would have ceased to reside in Canada, if the Act were read without reference to paragraphs 250(1)(*d*.1) to (*f*) of the Act,', in the case of a particular individual described in paragraph 250(1)(*d*.1) of the Act, or of another individual who is a spouse, common-law partner or child of the particular individual, who

(i) resided in Canada at any time in the year,

(ii) would have ceased to reside in Canada before the end of the year, if the Act were read without reference to paragraphs 250(1)(*d*.1) to (*f*) of the Act, and

(iii) is, pursuant to any of paragraphs 250(1)(*d*.1) to (*f*) of the Act, deemed to have been a resident of Canada throughout the year."

S. 2601(5) was amended by P.C. 2001-957, SOR/2001-188, applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years. S. 2601(5) formerly read:

"(5) In this section, a reference to the 'last day of a taxation year' shall

(*a*) in the case of an individual who resided in Canada at any time in the year but ceased to reside in Canada before the end of the year, be deemed to be a reference to the 'last day in the year on which he resided in Canada'; and

(*b*) in the case of an individual described in paragraph 250(1)(*d*.1) of the Act or his spouse or child who

(i) resided in Canada at any time in the year,

(ii) would, but for paragraph 250(1)(*d*.1), (*e*) or (*f*) of the Act, have ceased to reside in Canada before the end of the year, and

(iii) is, by virtue of paragraph 250(1)(*d*.1), (*e*) or (*f*) of the Act, deemed to have been resident in Canada throughout the year,

be deemed to be a reference to the 'day in the year on which he would have so ceased to reside in Canada'."

S. 2601(5) was amended by P.C. 1981-2730, SOR/81-799, dated October 9, 1981, applicable to the 1980 and subsequent taxation years, to revoke and replace subsection (5) thereof. S. 2601(5) formerly read:

"(5) In this section, a reference to the 'last day of a taxation year' shall, in the case of an individual who resided in Canada at any time in the year but ceased to reside in Canada before the end of the year, be deemed to be a reference to the last day in the year on which he resided in Canada."

Non-Residents

2602. (1) Except as provided in subsection (2), where an individual did not reside in Canada at any time in a taxation year, his income earned in the taxation year in a particular province is the aggregate of

(*a*) that part of the amount of his income from an office or employment, that is included in computing his taxable income earned in Canada for the year by virtue of subparagraph 115(1)(*a*)(i) of the Act, that is reasonably attributable to the duties performed by him in the province; and

(*b*) his income for the year from carrying on business earned in the province, determined as hereinafter set forth in this Part.

Interpretation Bulletins: *Secondary* — IT-434R Rental of real property by individual.

(2) Where the aggregate of the amounts of an individual's income as determined under subsection (1) for all provinces for a taxation year exceeds the aggregate of the amounts of his income described in subparagraphs 115(1)(*a*)(i) and (ii) of the Act, the amount of his income earned in the taxation year in a particular province shall be that proportion of his income so described that the amount of his income earned in the taxation year in the province as determined under subsection (1) is of the aggregate of all such amounts.

Income from Business

2603. (1) Where, in a taxation year, an individual had a permanent establishment in a particular province or a country other than Canada and had no permanent establishment outside that province or country, the whole of his income from carrying on business for the year shall be deemed to have been earned therein.

(2) Where, in a taxation year, an individual had no permanent establishment in a particular province or country other than Canada, no part of his income for the year from carrying on business shall be deemed to have been earned therein.

(3) Except as otherwise provided, where, in a taxation year, an individual had a permanent establishment in a particular province or country other than Canada and a permanent establishment outside that province or country, the amount of his income for the year from carrying on business that shall be deemed to have been earned in the province or country is ½ the aggregate of

(*a*) that proportion of his income for the year from carrying on business that the gross revenue for the fiscal period ending in the year reasonably attributable to the permanent establishment in the province or country is of his total gross revenue for that period from the business; and

(*b*) that proportion of his income for the year from carrying on business that the aggregate of the salaries and wages paid in the fiscal period ending in the year to employees of the permanent establishment in the province or country is of the aggregate of all salaries and wages paid in that period to employees of the business.

(4) For the purpose of determining the gross revenue for the year reasonably attributable to the permanent establishment in a particular province or country other than Canada within the meaning of paragraph (3)(*a*), the following rules shall apply:

(*a*) where the destination of a shipment of merchandise to a customer to whom the merchandise is sold is in the particular province or country, the gross revenue derived therefrom shall be attributable to the permanent establishment in the province or country;

(*b*) except as provided in paragraph (*c*), where the destination of a shipment of merchandise to a customer to whom the merchandise is sold is in a province or country other than Canada in which the taxpayer has no permanent establishment, if the person negotiating the sale may reasonably be regarded as being attached to the permanent establishment in the particular province or country, the gross revenue derived therefrom shall be attributable to that permanent establishment;

(*c*) where the destination of a shipment of merchandise to a customer to whom the merchandise is sold

is in a country other than Canada in which the taxpayer has no permanent establishment,

(i) if the merchandise was produced or manufactured, or produced and manufactured, entirely in the particular province by the taxpayer, the gross revenue derived therefrom shall be attributable to the permanent establishment in the province, or

(ii) if the merchandise was produced or manufactured, or produced and manufactured, partly in the particular province and partly in another place by the taxpayer, the gross revenue derived therefrom attributable to the permanent establishment in the province shall be that proportion thereof that the salaries and wages paid in the year to employees of the permanent establishment in the province where the merchandise was partly produced or manufactured (or partly produced and manufactured) is of the aggregate of the salaries and wages paid in the year to employees of the permanent establishments where the merchandise was produced or manufactured (or produced and manufactured);

(*d*) where a customer to whom merchandise is sold instructs that shipment be made to some other person and the customer's office with which the sale was negotiated is located in the particular province or country, the gross revenue derived therefrom shall be attributable to the permanent establishment in the province or country;

(*e*) except as provided in paragraph (*f*), where a customer to whom merchandise is sold instructs that shipment be made to some other person and the customer's office with which the sale was negotiated is located in a province or country other than Canada in which the taxpayer has no permanent establishment, if the person negotiating the sale may reasonably be regarded as being attached to the permanent establishment in the particular province or country, the gross revenue derived therefrom shall be attributable to that permanent establishment;

(*f*) where a customer to whom merchandise is sold instructs that shipment be made to some other person and the customer's office with which the sale was negotiated is located in a country other than Canada in which the taxpayer has no permanent establishment,

(i) if the merchandise was produced or manufactured, or produced and manufactured, entirely in the particular province by the taxpayer, the gross revenue derived therefrom shall be attributable to the permanent establishment in the province, or

(ii) if the merchandise was produced or manufactured, or produced and manufactured, partly in the particular province and partly in another place by the taxpayer, the gross revenue derived therefrom attributable to the permanent establishment in the province shall be that proportion thereof that the salaries and wages paid in the year to employees of the permanent establishment in the province where the merchandise was partly produced or manufactured (or partly produced and manufactured) is of the aggregate of the salaries and wages paid in the year to employees of the permanent establishments where the merchandise was produced or manufactured (or produced and manufactured);

(*g*) where gross revenue is derived from services rendered in the particular province or country, the gross revenue shall be attributable to the permanent establishment in the province or country;

(*h*) where gross revenue is derived from services rendered in a province or country other than Canada in which the taxpayer has no permanent establishment, if the person negotiating the contract may reasonably be regarded as being attached to the permanent establishment of the taxpayer in the particular province or country, the gross revenue shall be attributable to that permanent establishment;

(*i*) where standing timber or the right to cut standing timber is sold and the timber limit on which the timber is standing is in the particular province or country, the gross revenue from such sale shall be attributable to the permanent establishment of the taxpayer in the province or country; and

(*j*) where land is a permanent establishment of the taxpayer in the particular province, the gross revenue which arises from leasing the land shall be attributable to that permanent establishment.

(5) Where an individual pays a fee to another person under an agreement pursuant to which that other person or employees of that other person perform services for the individual that would normally be performed by employees of the individual, the fee so paid shall be deemed to be salary paid by the individual and that part of the fee that may reasonably be regarded as payment in respect of services rendered at a particular permanent establishment of the individual shall be deemed to be salary paid to an employee of that permanent establishment.

(6) For the purposes of subsection (5), a fee does not include a commission paid to a person who is not an employee of the individual.

Bus and Truck Operators

2604. Notwithstanding subsections 2603(3) and (4), the amount of income that shall be deemed to have been earned in a particular province or country other than Canada by an individual from carrying on the business of transportation of goods or passengers (other than by the operation of a railway, ships or an airline service) is 1/2 of the aggregate of

(*a*) that proportion of his income therefrom for the year that the number of miles travelled by his vehicles in the province or country in the fiscal period ending in the year is of the total number of miles travelled by his vehicles in that period; and

(*b*) that proportion of his income therefrom for the year that the aggregate of salaries and wages paid in the fiscal period ending in the year to employees of the permanent establishment in the province or country is of the aggregate of all salaries and wages paid in that period to employees of the business.

More Than One Business

2605. Where an individual operates more than one business, the provisions of sections 2603 and 2604 shall be applied in respect of each business and the amount of income for the year from carrying on business earned in a

particular province or country in the year is the aggregate of the amounts so determined.

Interpretation Bulletins: *Secondary* — IT-206R Separate businesses.

Limitations of Business Income

2606. **(1)** Where, in the case of an individual to whom section 2601 applies, the aggregate of the amounts otherwise determined as his income for the taxation year from carrying on business earned in all provinces and countries other than Canada is greater than his income for the year, his income for the year from carrying on business earned in a particular province or country shall be deemed to be that proportion of his income for the year that

(*a*) his income for the year from carrying on business in the province or country as otherwise determined,

is of

(*b*) that aggregate.

(2) Where section 114 of the Act is applicable for the purpose of determining the taxable income of an individual for the taxation year, a reference in subsection (1) to "his income for the taxation year" shall be construed as a reference to the amount of his income as determined for the purposes of section 114 of the Act and, for the purposes of this Part, his income for the taxation year from carrying on a business in any place shall be computed by reference only to a business the income from which is included in computing his taxable income for the purposes of section 114 of the Act.

Pending Amendment

Taxpayer Migration — March 16, 2001

The portion of section 2606 of the Regulations before subsection (3) is replaced by the following:

Limitations of business income

2606. **(1)** If, in the case of an individual to whom section 2601, applies, the total of the amounts otherwise determined as the individual's income for a taxation year from carrying on business earned in all provinces and countries other than Canada is greater that the individual's income for the year, the individual's income for the year from carrying on business earned in a particular province or country is deemed to be that proportion of the individual's income for the year that

(*a*) the individual's income for the year from carrying on business in the province or country as otherwise determined,

is of

(*b*) that total.

(2) If section 114 of the Act applies in respect of an individual for a taxation year, the reference in subsection (1) to "the individual's income for a taxation year" shall be read as a reference to the amount of the individual's taxable income for the year and, for the purpose of this Part, the individual's income for the year from carrying on a business in any place shall be computed by reference only to a business the income from which is included in computing the individual's taxable income for the year.

Applicable: To the 1998 and subsequent taxation years.

Explanatory Note: Part XXVI of the Regulations sets out rules for computing an individual's income earned in a taxation year in a particular province.

Subsection 2606(1) of the Regulations provides for an adjustment to an individual's income earned in a particular province where the sum of the individual's incomes earned in each province and in countries other than Canada exceeds the individual's income for the year. Subsection 2606(2) of the Regulations provides a further adjustment for the purposes of subsection (1) where the individual is non-resident for part of a taxation year only.

Subsection 2606(2) of the Regulations is amended, with application to the 1998 and subsequent taxation years, to reflect amendments to section 114 of the Act (see the commentary on section 114 for further details). In addition, subsections 2606(1) and (2) are amended to update their language.

(3) For the purposes of sections 2603 to 2605, where an individual's taxable income for the taxation year is computed in accordance with section 115 of the Act,

(*a*) a reference to a "business" shall be deemed to refer only to a business that was wholly or partly carried on in Canada;

(*b*) a reference to "income for the year from carrying on business" shall be deemed to refer only to income for the year from carrying on a business in Canada, as determined for the purposes of section 115 of the Act;

(*c*) a reference to "salaries and wages paid in the year" shall be deemed to be a reference to salaries and wages paid to employees of his permanent establishments in Canada; and

(*d*) a reference to "total gross revenue for the year" from the business shall be deemed to be a reference to total gross revenue reasonably attributable to his permanent establishments in Canada.

Dual Residence

2607. Where an individual was resident in more than one province on the last day of the taxation year, for the purposes of this Part, he shall be deemed to have resided on that day only in that province which may reasonably be regarded as his principal place of residence.

Tax Topics: No. 1848, Individual Residence for Provincial Income Tax Purposes.

SIFT Trusts

2608. For the purposes of this Part, if the individual is a SIFT trust, a reference to income earned in a taxation year shall be read as a reference to the amount that would, if this Part were read without reference to this section, be the amount, if any, by which its income for the taxation year exceeds its taxable SIFT trust distributions for the taxation year.

History: S. 2608 was added by S.C. 2007, c. 29, s. 31(1), deemed to have come into force on October 31, 2006.

PART XXVII

Group Term Life Insurance Benefits

Definitions & Interpretation

Definitions

2700. **(1)** The definitions in this subsection apply in this Part.

"*lump-sum premium*" in relation to a group term life insurance policy means a premium for insurance under the policy on the life of an individual where all or part of the premium is for insurance that is (or would be if the

individual survived) in respect of a period that ends more than 13 months after the earlier of the day on which the premium becomes payable and the day on which it is paid.

"*paid-up premium*" in relation to a group term life insurance policy means a premium for insurance under the policy on the life of an individual where the insurance is for the remainder of the lifetime of the individual and no further premiums will be payable for the insurance.

"*premium category*" in relation to term insurance provided under a group term life insurance policy means,

(*a*) where the premium rate applicable in respect of term insurance on the life of an individual depends on the group to which the individual belongs, any of the groups for which a premium rate is established, and

(*b*) in any other case, all individuals on whose lives term insurance is in effect under the policy,

and, for the purpose of this definition, a single premium rate is deemed to apply for all term insurance under a policy in respect of periods in 1994, and where individuals are divided into separate groups solely on the basis of their age, sex, or both, the groups are deemed to be a single group for which a premium rate is established.

"*term insurance*" in relation to an individual and a group term life insurance policy means insurance under the policy on the life of the individual, other than insurance in respect of which a lump-sum premium has become payable or been paid.

History: S. 2700(1) was added by P.C. 1997-1623, SOR/97-494, dated November 6, 1997, applicable to the 1994 and subsequent taxation years.

Accidental Death Insurance

(2) For greater certainty, a premium for insurance on the life of an individual does not include an amount for accidental death insurance.

History: S. 2700(2) was added by P.C. 1997-1623, SOR/97-494, dated November 6, 1997, applicable to the 1994 and subsequent taxation years.

PRESCRIBED BENEFIT

2701. (1) Subject to subsection (2), for the purpose of subsection 6(4) of the Act, the amount prescribed for taxation year in respect of insurance under a group term life insurance policy on the life of a taxpayer is the total of

(*a*) the taxpayer's term insurance benefit under the policy for the calendar year in which the taxation year ends,

(*b*) the taxpayer's prepaid insurance benefit under the policy for that calendar year, and

(*c*) the total of all sales and excise taxes payable in respect of premiums paid under the policy in that calendar year for insurance on the life of the taxpayer, other than

(i) taxes paid, directly or by way of reimbursement, by the taxpayer, and

(ii) taxes in respect of premiums for term insurance that, if the taxpayer were to die, would be paid otherwise than

(A) to the taxpayer,

(B) for the benefit of the taxpayer,

(C) as a benefit that the taxpayer desired to have conferred on any person.

History: S. 2701(1) was added by P.C. 1997-1623, SOR/97-494, dated November 6, 1997, applicable with respect to insurance provided in respect of periods that are after June 1994 except that, in their application with respect to insurance provided in respect of periods that are in 1994 and after June 1994,

(*a*) the portion of paragraph 2701(1)(*c*) of the Regulations before subparagraph (i), shall be read as follows:

"(*c*) the total of all sales and excise taxes payable in respect of premiums paid under the policy in 1994 and after June 1994 for insurance on the life of the taxpayer, other than"

(*b*) the portion of subparagraph 2702(1)(*b*)(i) of the Regulations before the formula in that subparagraph, shall be read as follows:

"(i) the total of all amounts each of which is, for a day in the year 1994 that is after June 1994 on which term insurance is in effect under the policy on the taxpayer's life, the amount determined by the formula"

and

(*c*) subparagraph 2702(1)(*b*)(ii) of the Regulations, shall be read as follows:

"(ii) the total amount paid by the taxpayer in respect of term insurance under the policy on the taxpayer's life in respect of the period in the year 1994 that is after June 1994."

Bankrupt Individual

(2) Where a taxpayer who has become a bankrupt has two taxation years ending in a calendar year, for the purpose of subsection 6(4) of the Act, the amount prescribed for the first taxation year in respect of insurance under a group term life insurance policy on the life of the taxpayer is nil.

History: S. 2701(2) was added by P.C. 1997-1623, SOR/97-494, dated November 6, 1997, applicable with respect to insurance provided in respect of periods that are after June 1994 except that, in their application with respect to insurance provided in respect of periods that are in 1994 and after June 1994,

(*a*) the portion of paragraph 2701(1)(*c*) of the Regulations before subparagraph (i), shall be read as follows:

"(*c*) the total of all sales and excise taxes payable in respect of premiums paid under the policy in 1994 and after June 1994 for insurance on the life of the taxpayer, other than"

(*b*) the portion of subparagraph 2702(1)(*b*)(i) of the Regulations before the formula in that subparagraph, shall be read as follows:

"(i) the total of all amounts each of which is, for a day in the year 1994 that is after June 1994 on which term insurance is in effect under the policy on the taxpayer's life, the amount determined by the formula"

and

(*c*) subparagraph 2702(1)(*b*)(ii) of the Regulations, shall be read as follows:

"(ii) the total amount paid by the taxpayer in respect of term insurance under the policy on the taxpayer's life in respect of the period in the year 1994 that is after June 1994."

TERM INSURANCE BENEFIT

Amount of Benefit

2702. (1) Subject to section 2704, for the purpose of paragraph 2701(1)(*a*), a taxpayer's term insurance benefit under a group term life insurance policy for a calendar year is

(*a*) where

(i) the policyholder elects to determine, under this paragraph, the term insurance benefit for the year of each individual whose life is insured under the policy,

(ii) no premium rate that applies for term insurance provided under the policy on the life of an individual in respect of the year depends on the age or sex of the individual,

(iii) no amounts are payable under the policy for term insurance on the lives of individuals in respect of the year other than premiums payable on a regular basis that are based on the amount of term insurance in force in the year for each individual, and

(iv) the year is after 1995,

the amount determined by the formula

$$A - B$$

where

A is the total of the premiums payable for term insurance provided under the policy on the taxpayer's life in respect of periods in the year, to the extent that each such premium is in respect of term insurance that, if the taxpayer died in the year, would be paid to or for the benefit of the taxpayer or as a benefit that the taxpayer desired to have conferred on any person, and

B is the total amount paid by the taxpayer in respect of term insurance under the policy on the taxpayer's life in respect of the year; and

(*b*) in any other case, the amount, if any, by which

(i) the total of all amounts each of which is, for a day in the year on which term insurance is in effect under the policy on the taxpayer's life, the amount determined by the formula

$$A \times B$$

where

A is the amount of tax insurance in effect on that day under the policy on the taxpayer's life, except the portion, if any, of the amount that, if the taxpayer were to die on that day, would be paid otherwise than

(A) to the taxpayer,

(B) to benefit of the taxpayer, or

(C) as a benefit that the taxpayer desired to have conferred on any person, and

B is the average daily cost of insurance for the year for the premium category in which the taxpayer is included on that day

exceeds

(ii) the total amount paid by the taxpayer in respect of term insurance under the policy on the taxpayer's life in respect of the year.

History: S. 2702(1) was added by P.C. 1997-1623, SOR/97-494, dated November 6, 1997, applicable with respect to insurance provided in respect of periods that are after June 1994 except that, in their application with respect to insurance provided in respect of periods that are in 1994 and after June 1994,

(*a*) the portion of paragraph 2701(1)(*c*) of the Regulations before subparagraph (i), shall be read as follows:

"(*c*) the total of all sales and excise taxes payable in respect of premiums paid under the policy in 1994 and after June 1994 for insurance on the life of the taxpayer, other than"

(*b*) the portion of subparagraph 2702(1)(*b*)(i) of the Regulations before the formula in that subparagraph, shall be read as follows:

"(i) the total of all amounts each of which is, for a day in the year 1994 that is after June 1994 on which term insurance is in effect under the policy on the taxpayer's life, the amount determined by the formula"

and

(*c*) subparagraph 2702(1)(*b*)(ii) of the Regulations, shall be read as follows:

"(ii) the total amount paid by the taxpayer in respect of term insurance under the policy on the taxpayer's life in respect of the period in the year 1994 that is after June 1994."

Average Daily Cost of Insurance

(2) The average daily cost of insurance under a group term life insurance policy for a calendar year for a premium category is

(*a*) subject to paragraph (*b*), the amount determined by the formula

$$(A + B - C) / D$$

where

A is the total of the premiums payable for term insurance provided under the policy on the lives of individuals in respect of periods in the year while they are in the premium category,

B is the total of the amounts paid in the year under the policy for term insurance in respect of periods in preceding years (other than amounts that have otherwise been taken into account for the purpose of subsection 6(4) of the Act), to the extent that the total can reasonably be considered to relate to term insurance provided on the lives of individuals in the premium category,

C is the total amount of policy dividends and experience rating refunds paid in the year under the policy and not distributed to individuals whose lives are insured under the policy, to the extent that the total can reasonably be considered to relate to term insurance provided on the lives of individuals in the premium category, and

D is the total of all amounts each of which is the amount of term insurance in force on a day in the year on the lives of individuals in the premium category on that day; or

(*b*) the amount that the policyholder determines using a reasonable method that is substantially similar to the method set out in paragraph (*a*).

History: S. 2702(2) was added by P.C. 1997-1623, SOR/97-494, dated November 6, 1997, applicable with respect to insurance provided in respect of periods that are after June 1994 except that, in their application with respect to insurance provided in respect of periods that are in 1994 and after June 1994,

(*a*) the portion of paragraph 2701(1)(*c*) of the Regulations before subparagraph (i), shall be read as follows:

"(*c*) the total of all sales and excise taxes payable in respect of premiums paid under the policy in 1994 and after June 1994 for insurance on the life of the taxpayer, other than"

(*b*) the portion of subparagraph 2702(1)(*b*)(i) of the Regulations before the formula in that subparagraph, shall be read as follows:

"(i) the total of all amounts each of which is, for a day in the year 1994 that is after June 1994 on which term insurance is in effect under the policy on the taxpayer's life, the amount determined by the formula"

and

(*c*) subparagraph 2702(1)(*b*)(ii) of the Regulations, shall be read as follows:

"(ii) the total amount paid by the taxpayer in respect of term insurance under the policy on the taxpayer's life in respect of the period in the year 1994 that is after June 1994."

Survivor Income Benefits

(3) For the purposes of this section, where the proceeds of term insurance on the life of an individual are payable in the form of periodic payments, and the periodic payments are not an optional form of settlement of a lump-sum amount, the amount of term insurance in effect on the individual's life on any day is the present value, on that day, of the periodic payments that would be made if the individual were to die on that day.

History: S. 2702(3) was added by P.C. 1997-1623, SOR/97-494, dated November 6, 1997, applicable with respect to insurance provided in respect of periods that are after June 1994 except that, in their application with respect to insurance provided in respect of periods that are in 1994 and after June 1994,

(*a*) the portion of paragraph 2701(1)(*c*) of the Regulations before subparagraph (i), shall be read as follows:

"(*c*) the total of all sales and excise taxes payable in respect of premiums paid under the policy in 1994 and after June 1994 for insurance on the life of the taxpayer, other than"

(*b*) the portion of subparagraph 2702(1)(*b*)(i) of the Regulations before the formula in that subparagraph, shall be read as follows:

"(i) the total of all amounts each of which is, for a day in the year 1994 that is after June 1994 on which term insurance is in effect under the policy on the taxpayer's life, the amount determined by the formula"

and

(*c*) subparagraph 2702(1)(*b*)(ii) of the Regulations, shall be read as follows:

"(ii) the total amount paid by the taxpayer in respect of term insurance under the policy on the taxpayer's life in respect of the period in the year 1994 that is after June 1994."

Determination of Present Value

(4) For the purpose of subsection (3), the present value on a day in a calendar year

(*a*) shall be determined using assumptions that are reasonable at some time in the year; and

(*b*) may be determined assuming that an individual on whose life the present value depends is the same age on that day as on another day in the year.

History: S. 2702(4) was added by P.C. 1997-1623, SOR/97-494, dated November 6, 1997, applicable with respect to insurance provided in respect of periods that are after June 1994 except that, in their application with respect to insurance provided in respect of periods that are in 1994 and after June 1994,

(*a*) the portion of paragraph 2701(1)(*c*) of the Regulations before subparagraph (i), shall be read as follows:

"(*c*) the total of all sales and excise taxes payable in respect of premiums paid under the policy in 1994 and after June 1994 for insurance on the life of the taxpayer, other than"

(*b*) the portion of subparagraph 2702(1)(*b*)(i) of the Regulations before the formula in that subparagraph, shall be read as follows:

"(i) the total of all amounts each of which is, for a day in the year 1994 that is after June 1994 on which term insurance is in effect under the policy on the taxpayer's life, the amount determined by the formula"

and

(*c*) subparagraph 2702(1)(*b*)(ii) of the Regulations, shall be read as follows:

"(ii) the total amount paid by the taxpayer in respect of term insurance under the policy on the taxpayer's life in respect of the period in the year 1994 that is after June 1994."

PREPAID INSURANCE BENEFIT

Amount of Benefit

2703. (1) Subject to section 2704, for the purpose of paragraph 2701(1)(*b*), taxpayer's prepaid insurance benefit under a group term life insurance policy for a calendar year is

(*a*) where the taxpayer is alive at the end of the year, the total of all amounts each of which is

(i) a lump-sum premium (other than the taxpayer portion) paid in the year and after February 1994 in respect of insurance under the policy on the life of the taxpayer, other than a paid-up premium paid before 1997, or

(ii) 1/3 of a paid-up premium (other than the taxpayer portion) in respect of insurance under the policy on the life of the taxpayer that was paid

(A) after February 1994 and before 1997, and

(B) in the year or one of the two preceding years; and

(*b*) where the taxpayer died after June 1994 and in the year, the amount, if any, by which

(i) the total of all amounts each of which is a lump-sum premium (other than the taxpayer portion) paid under the policy after February 1994 in respect of insurance on the life of the taxpayer

exceeds

(ii) the portion of that total that was included in computing the taxpayer's prepaid insurance benefit under the policy for preceding years.

History: S. 2703(1) was added by P.C. 1997-1623, SOR/97-494, dated November 6, 1997, applicable with respect to insurance provided in respect of periods that are after June 1994 except that, in their application with respect to insurance provided in respect of periods that are in 1994 and after June 1994,

(*a*) the portion of paragraph 2701(1)(*c*) of the Regulations before subparagraph (i), shall be read as follows:

"(*c*) the total of all sales and excise taxes payable in respect of premiums paid under the policy in 1994 and after June 1994 for insurance on the life of the taxpayer, other than"

(*b*) the portion of subparagraph 2702(1)(*b*)(i) of the Regulations before the formula in that subparagraph, shall be read as follows:

"(i) the total of all amounts each of which is, for a day in the year 1994 that is after June 1994 on which term insurance is in effect under the policy on the taxpayer's life, the amount determined by the formula"

and

(*c*) subparagraph 2702(1)(*b*)(ii) of the Regulations, shall be read as follows:

"(ii) the total amount paid by the taxpayer in respect of term insurance under the policy on the taxpayer's life in respect of the period in the year 1994 that is after June 1994."

Taxpayer Portion of Premiums

(2) For the purpose of subsection (1), the taxpayer portion of a premium is the portion, if any, of the premium that the taxpayer paid, either directly or by way of reimbursement.

History: S. 2703(2) was added by P.C. 1997-1623, SOR/97-494, dated November 6, 1997, applicable with respect to insurance provided in respect of periods that are after June 1994 except that, in their application with respect to insurance provided in respect of periods that are in 1994 and after June 1994,

(*a*) the portion of paragraph 2701(1)(*c*) of the Regulations before subparagraph (i), shall be read as follows:

"(*c*) the total of all sales and excise taxes payable in respect of premiums paid under the policy in 1994 and after June 1994 for insurance on the life of the taxpayer, other than"

(*b*) the portion of subparagraph 2702(1)(*b*)(i) of the Regulations before the formula in that subparagraph, shall be read as follows:

"(i) the total of all amounts each of which is, for a day in the year 1994 that is after June 1994 on which term insurance is in effect under the policy on the taxpayer's life, the amount determined by the formula"

and

(*c*) subparagraph 2702(1)(*b*)(ii) of the Regulations, shall be read as follows:

"(ii) the total amount paid by the taxpayer in respect of term insurance under the policy on the taxpayer's life in respect of the period in the year 1994 that is after June 1994."

EMPLOYEE-PAID INSURANCE

2704. (1) For the purpose of subsection 2701(1), where the full cost of insurance under a group term life insurance policy in a calendar year is borne by the individuals whose lives are insured under the policy, each individual's term insurance benefit and prepaid insurance benefit under the policy for the year is deemed to be nil.

History: S. 2704(1) was added by P.C. 1997-1623, SOR/97-494, dated November 6, 1997, applicable with respect to insurance provided in respect of periods that are after June 1994 except that, in their application with respect to insurance provided in respect of periods that are in 1994 and after June 1994,

(*a*) the portion of paragraph 2701(1)(*c*) of the Regulations before subparagraph (i), shall be read as follows:

"(*c*) the total of all sales and excise taxes payable in respect of premiums paid under the policy in 1994 and after June 1994 for insurance on the life of the taxpayer, other than"

(*b*) the portion of subparagraph 2702(1)(*b*)(i) of the Regulations before the formula in that subparagraph, shall be read as follows:

"(i) the total of all amounts each of which is, for a day in the year 1994 that is after June 1994 on which term insurance is in effect under the policy on the taxpayer's life, the amount determined by the formula"

and

(*c*) subparagraph 2702(1)(*b*)(ii) of the Regulations, shall be read as follows:

"(ii) the total amount paid by the taxpayer in respect of term insurance under the policy on the taxpayer's life in respect of the period in the year 1994 that is after June 1994."

(2) Where the premiums for part of the life insurance (in this subsection referred to as the "additional insurance") under a group term life insurance policy are determined separately from the premiums for the rest of the life insurance under the policy, and it is reasonable to consider that the individuals on whose lives the additional insurance is provided bear the full cost of the additional insurance, the additional insurance, the premium, policy dividends and experience rating refunds in respect of that insurance, and the amounts paid in respect of that insurance by the individual whose lives are insured, shall not be taken into account for the purposes of this Part.

History: S. 2704(1) was added by P.C. 1997-1623, SOR/97-494, dated November 6, 1997, applicable with respect to insurance provided in respect of periods that are after June 1994 except that, in their application with respect to insurance provided in respect of periods that are in 1994 and after June 1994,

(*a*) the portion of paragraph 2701(1)(*c*) of the Regulations before subparagraph (i), shall be read as follows:

"(*c*) the total of all sales and excise taxes payable in respect of premiums paid under the policy in 1994 and after June 1994 for insurance on the life of the taxpayer, other than"

(*b*) the portion of subparagraph 2702(1)(*b*)(i) of the Regulations before the formula in that subparagraph, shall be read as follows:

"(i) the total of all amounts each of which is, for a day in the year 1994 that is after June 1994 on which term insurance is in effect under the policy on the taxpayer's life, the amount determined by the formula"

and

(*c*) subparagraph 2702(1)(*b*)(ii) of the Regulations, shall be read as follows:

"(ii) the total amount paid by the taxpayer in respect of term insurance under the policy on the taxpayer's life in respect of the period in the year 1994 that is after June 1994."

Prescribed Premium and Insurance

2705. For the purpose of subsection 6(4) of the Act, as it applies to insurance provided in respect of periods that are in 1994 and before July 1994,

(*a*) a lump-sum premium paid under a group term life insurance policy after February 1994 in respect of an individual who is alive at the end of June 1994 is a prescribed premium; and

(*b*) insurance in respect of which a premium referred to in paragraph (*a*) is paid is prescribed insurance.

History: S. 2705 was added by P.C. 1997-1623, SOR/97-494, dated November 6, 1997, applicable with respect to insurance that is provided in respect of periods that are in 1994 and before July 1994.

Part XXVII was revoked by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable to taxation years commencing after 1990. Part XXVII formerly read:

"PART XXVII

Employers Contributions to Registered Pension Plans

S. 2700. (1) For the purposes of subparagraph 20(1)(*q*)(ii) of the Act, the amount determined in prescribed manner (in this Part referred to as the 'prescribed amount') shall be determined as follows:

(*a*) determine, in respect of each individual employee on whose behalf the employer's contribution was paid, the amount that is the lesser of

(i) the amount paid in the year by the taxpayer as salary or wages to that employee, and

(ii) that proportion of the total payroll that $3,500 is of the employer's contribution,

(*b*) determine, in respect of each individual employee on whose behalf the employer's contribution was paid, the amount that is that proportion of the amount determined under paragraph (*a*) in respect of that employee that the employer's contribution is of the total payroll, and

(*c*) determine the amount that is the aggregate of each of the amounts determined under paragraph (*b*),

and the amount determined under paragraph (*c*) is the prescribed amount.

(2) In lieu of determining the prescribed amount in accordance with subsection (1), the taxpayer may elect to determine that amount as follows:

(*a*) determine, in respect of each individual employee on whose behalf the employer's contribution was paid, the amount that is the lesser of

(i) the amount that can be established to be the actual cost to the taxpayer of benefits under the registered pension plan in respect of services rendered by that employee in the year, and

(ii) $3,500, and

(*b*) determine the amount that is the aggregate of each of the amounts determined under paragraph (a),

and the amount determined under paragraph (b) is the prescribed amount.

(3) In this section,

'employer's contribution' means the amount paid by the taxpayer in the year or within 120 days from the end of the year to or under a registered pension plan in respect of services rendered by employees of the taxpayer in the year;

'total payroll' means the aggregate of all amounts paid in the year by the taxpayer as salary or wages to employees of the taxpayer who are included in the fund or plan."

The title to Part XXVII, S. 2700(2)(*a*)(i) and S. 2700(3), the definition of "employer's contribution", were amended by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, to substitute "registered pension plan" for "registered pension fund or plan", applicable after 1985.

PART XXVIII

Elections in Respect of Accumulating Incomes of Trusts

2800. (1) Any election under subsection 104(14) of the Act in respect of a taxation year shall be made by filing with the Minister a written statement

(*a*) in which the election in respect of the year is made;

(*b*) in which is designated the part of the accumulating income in respect of which the election is being made; and

(*c*) that is signed by the preferred beneficiary and a trustee having the authority to make the election.

History: S. 2800(1) was replaced by P.C. 2007-849, SOR/2007-116, dated May 31, 2007, effective on publication in the *Canada Gazette*, June 13, 2007. S. 2800(1) formerly read:

"S. 2800. (1) Any election under subsection 104(14) of the Act in respect of a taxation year shall be made by filing with the Minister the following documents:

(*a*) a statement

(i) making the election in respect of the year,

(ii) designating the part of the accumulating income in respect of which the election is being made, and

(iii) signed by the preferred beneficiary and a trustee having the authority to make the election; and

(*b*) a statement signed by the trustee showing the computation of the amount of the preferred beneficiary's share in the accumulating income of the trust for the year in accordance with paragraph 104(15)(*a*), (*b*) or (*c*) of the Act, as the case may be, together with such information concerning the provisions of the trust and its administration as is necessary for this purpose."

Interpretation Bulletins: *Secondary* — IT-394R2 Preferred beneficiary election.

(2) The statement shall be filed within 90 days after the end of the trust's taxation year in respect of which the election referred to in subsection (1) is made.

History: S. 2800(2) was replaced by P.C. 2007-849, SOR/2007-116, dated May 31, 2007, effective on publication in the *Canada Gazette*, June 13, 2007. S. 2800(2) formerly read:

"(2) The documents referred to in subsection (1) shall be filed within 90 days from the end of the trust's taxation year in respect of which the election referred to in subsection (1) is made."

(2.1) [Repealed.]

History: S. 2800(2.1) was repealed by P.C. 2007-849, SOR/2007-116, dated May 31, 2007, effective on publication in the *Canada Gazette*, June 13, 2007. S. 2800(2.1) formerly read:

"(2.1) Notwithstanding subsection (2), if a trust elects under subsection 110.6(19) of the Act in respect of the taxation year of the trust that includes February 22, 1994, the documents referred to in subsection (1) in respect of that year shall be filed on or before the day on or before which the election under subsection 110.6(19) of the Act is required to be filed with the Minister."

S. 2800(2.1) was added by P.C. 2001-806, SOR/2001-164, dated May 2, 2001, applicable to trust taxation years that include February 22, 1994.

(3) [Repealed.]

History: S. 2800(3) was repealed by P.C. 2007-849, SOR/2007-116, dated May 31, 2007, effective on publication in the *Canada Gazette*, June 13, 2007. S. 2800(3) formerly read:

"(3) For the purposes of paragraph 104(15)(*c*) of the Act, the discretionary share of a particular preferred beneficiary under a trust of the trust's accumulating income for a taxation year shall be an amount determined as follows:

(*a*) where the settlor of the trust is an individual and his spouse, both of whom are alive at the end of the year and both of whom may be entitled to share in the accumulating income of the trust, the discretionary share

(i) of the individual is that proportion of the accumulating income of the trust for the year that the fair market value of the property contributed by the individual is of the aggregate of the fair market value of the property contributed by the individual and the fair market value of the property contributed by his spouse (such fair market values being determined in respect of each contribution at the time of the making of that contribution),

(ii) of the spouse is that proportion of the accumulating income of the trust for the year that the fair market value of the property contributed by the spouse is of the aggregate of the fair market value of the property contributed by the individual and the fair market value of the property contributed by his spouse (such fair market values being determined in respect of each contribution at the time of the making of that contribution), and

(iii) of any other beneficiary who is a preferred beneficiary under the trust is nil;

(*b*) where the settlor of the trust is an individual and his spouse, both of whom are alive at the end of the year but only one of whom may be entitled to share in the accumulating income of the trust, the discretionary share

(i) of the individual or his spouse, as the case may be, who may be entitled to share in the accumulating income of the trust is the accumulating income of the trust for the year, and

(ii) of any other beneficiary who is a preferred beneficiary under the trust is nil;

(*c*) where the settlor of the trust is an individual and his spouse, only one of whom is alive at the end of the year, and the one who is alive may be entitled to share in the accumulating income of the trust, the discretionary share

(i) of the individual or his spouse, as the case may be, who is alive at the end of the year is the accumulating income of the trust for the year, and

(ii) of any other beneficiary who is a preferred beneficiary under the trust is nil;

(*d*) where, in any case not described in paragraph (*a*), (*b*) or (*c*), the settlor of the trust may be entitled to share in the accumulating income of the trust and is alive at the end of the year, the discretionary share

(i) of the settlor is the accumulating income of the trust for the year, and

(ii) of any other beneficiary who is a preferred beneficiary under the trust is nil;

(*e*) where, in any case not described in paragraph (*a*), (*b*) or (*c*), the spouse of the settlor of the trust may be entitled to share in the accumulating income of the trust, but the settlor may not, and the spouse is alive at the end of the year, the discretionary share

(i) of the spouse is the accumulating income of the trust for the year, and

(ii) of any other beneficiary who is a preferred beneficiary under the trust is nil; and

(*f*) in any other case, the discretionary share of a preferred beneficiary alive at the end of the year is the amount obtained by dividing the accumulating income of the trust for the year by the number of preferred beneficiaries under the trust alive at the end of the year who may be entitled to share in the accumulating income of the trust."

Advance Tax Rulings: ATR-30 Preferred beneficiary election on accumulating income of estate; ATR-34 Preferred beneficiary's election.

(4) [Repealed.]

History: S. 2800(4) was repealed by P.C. 2007-849, SOR/2007-116, dated May 31, 2007, effective on publication in the *Canada Gazette*, June 13, 2007. S. 2800(4) formerly read:

"(4) In paragraphs (3)(*a*) to (*e*), the phrase 'entitled to share in the accumulating income of the trust' does not include any entitlement that arises by reason of the death of any individual who would otherwise be entitled to share in the accumulating income of the trust."

Regulations

PART XXIX

Scientific Research and Experimental Development

INTERPRETATION

2900. (1) [Repealed.]

History: S. 2900(1) was repealed by P.C. 2000-1095, SOR/2000-296, dated July 27, 2000, applicable to work performed after February 27, 1995, except that, for the purposes of paragraphs 149(1)(*j*) and (8)(*b*) of the *Income Tax Act*, it does not apply to work performed pursuant to an agreement in writing made before February 28, 1995. S. 2900(1) formerly read:

"(1) For the purposes of this Part and section 37 of the Act, 'scientific research and experimental development' means systematic investigation or search carried out in a field of science or technology by means of experiment or analysis, that is to say,

(*a*) basic research, namely, work undertaken for the advancement of scientific knowledge without a specific practical application in view,

(*b*) applied research, namely, work undertaken for the advancement of scientific knowledge with a specific practical application in view,

(*c*) experimental development, namely, work undertaken for the purposes of achieving technological advancement for the purposes of creating new, or improving existing, materials, devices, products or processes, including incremental improvements thereto, or

(*d*) work with respect to engineering, design, operations research, mathematical analysis, computer programming, data collection, testing and psychological research where that work is commensurate with the needs, and directly in support, of the work described in paragraph (*a*), (*b*) or (*c*),

but does not include work with respect to

(*e*) market research or sales promotion,

(*f*) quality control or routine testing of materials, devices, products or processes,

(*g*) research in the social sciences or the humanities,

(*h*) prospecting, exploring or drilling for, or producing, minerals, petroleum or natural gas,

(*i*) the commercial production of a new or improved material, device or product or the commercial use of a new or improved process,

(*j*) style changes, or

(*k*) routine data collection."

S. 2900(1), the portion before paragraph (*a*), was amended by P.C. 2000-1095, SOR/2000-296, dated July 27, 2000, applicable to the 1995 and subsequent taxation years. S. 2900(1), the portion before paragraph (*a*) formerly read:

"(1) For the purposes of this Part and sections 37 and 37.1 of the Act, 'scientific research and experimental development' means systematic investigation or search carried out in a field of science or technology by means of experiment or analysis, that is to say,

"

S. 2900(1) was amended by P.C. 1995-16, SOR/95-63, dated January 11, 1995, applicable to taxation years ending after December 2, 1992. S. 2900(1) formerly read:

"(1) For the purposes of this Part and paragraphs 37(7)(*b*) and 37.1(5)(*e*) of the Act, 'scientific research and experimental developement' means systematic investigation or search carried out in a field of science or technology by means of experiment or analysis, that is to say,

(*a*) basic research, namely, work undertaken for the advancement of scientific knowledge without a specific practical application in view,

(*b*) applied research, namely, work undertaken for the advancement of scientific knowledge with a specific practical application in view, or

(*c*) development, namely, use of the results of basic or applied research for the purpose of creating new, or improving existing, materials, devices, products or processes,

and, where such activities are undertaken directly in support of activities described in paragraph (*a*), (*b*) or (*c*), includes activities with respect to engineering or design, operations research, mathematical analysis or computer programming and psychological research, but does not include activities with respect to

(*d*) market research or sales promotion;

(*e*) quality control or routine testing of materials, devices or products;

(*f*) research in the social sciences or the humanities;

(*g*) prospecting, exploring or drilling for or producing minerals, petroleum or natural gas;

(*h*) the commercial production of a new or improved material, device or product or the commercial use of a new or improved process;

(*i*) style changes; or

(*j*) routine data collection."

S. 2900, including the heading, was amended by P.C. 1986-2770, SOR/86-1136, dated December 11, 1986, by substituting "scientific research and experimental development" for "scientific research" wherever it occurs and by renumbering the section as s. 2900(1), applicable with respect to expenditures made in taxation years ending after May 23, 1985.

S. 2900 was amended by P.C. 1978-2917, SOR/78-749, dated September 28, 1978 (Special Issue, *Canada Gazette*, December 31, 1978), effective for the period commencing with a taxation year ending after 1977, by adding the reference to paragraph 37.1(5)(*e*).

Interpretation Bulletins: *Secondary* — IT-151R5 (Consolid.) Scientific research and experimental development expenditures; IT-151R4 Scientific research and experimental development expenditures [Archived by the CRA].

Information Circulars: IC 86-4R3 Scientific research and experimental development.

SR&ED Application Policies: Application Policy 96-09, Eligibility of clinical trials to meet Regulatory Requirements; Application Policy 96-08, Eligibility of the Preparation of New Drug Submissions; Application Policy 96-06, Directly Undertaking, Supervising or Supporting Directly Engaged SR&ED Salary and Wages; Application Policy 96-02, Tests and Studies Required to Meet Requirements in Regulated Industries; Application Policy 95-03, Claims for ISO 9000 Registration; Application Policy 95-02, Science Eligibility Guidelines for the Oil & Gas and Mining Industries; Application Policy 95-01, Linked Activities — Regulations 2900(1)(d); Application Policy 94-03, Testing activities on new substances required by the Canadian Environmental Protection Act (CEPA).

(2) For the purposes of clause 37(8)(*a*)(i)(B) and subclause 37(8)(*a*)(ii)(A)(II) of the Act, the following expenditures are directly attributable to the prosecution of scientific research and experimental development:

(*a*) the cost of materials consumed or transformed in such prosecution;

(*b*) where an employee directly undertakes, supervises or supports such prosecution, the portion of the amount incurred for salary or wages of the employee that can reasonably be considered to be in respect of such prosecution; and

(*c*) other expenditures, or those portions of other expenditures, that are directly related to such prosecution and that would not have been incurred if such prosecution had not occurred.

History: S. 2900(2)(*a*) was amended by P.C. 2000-1095, SOR/2000-296, dated July 27, 2000, applicable to costs incurred after February 23, 1998. S. 2900(2)(*a*) formerly read:

"(*a*) the cost of materials consumed in such prosecution;"

S. 2900(2)(b) and (c) were amended by P.C. 1995-16, SOR/95-63, dated January 11, 1995, applicable to the 1990 and subsequent taxation years. S. 2900 (b) and (c) formerly read:

"(*b*) where an employee directly undertakes, supervises or supports such prosecution, the portion of the salaries or wages and related benefits paid to or for that employee that can reasonably be considered to relate thereto; and

(*c*) other expenditures that are directly related to such prosecution and that would not have been incurred if such prosecution had not occurred."

S. 2900(2), the portion before paragraph (a) was amended by P.C. 1995-16, SOR/95-63, dated January 11, 1995, by substituting "clause 37(8)(*a*)(i)(B) and subclause 37(8)(*a*)(ii)(A)(II)" for "clauses 37(7)(*c*)(i)(B) and (ii)(B)", applicable to taxation years ending after December 2, 1992.

S. 2900(2) was added by P.C. 1986-2770, SOR/86-1136, dated December 11, 1986, applicable with respect to expenditures made in taxation years ending after May 23, 1985.

Information Circulars: IC 86-4R3 Scientific Research and Experimental Development.

SR&ED Application Policies: Application Policy 2004-03, Prototypes, Pilot Plants/Commercial Plants, Custom Products and Commercial Assets; Application Policy 2004-01, Retiring Allowance; Application Policy 2002-02R2, Experimental Production and Commercial Production with Experimental Development Work — Allowable SR&ED Expenditures; Application Policy 2002-01, Expenditures Incurred for Administrative Salaries or Wages — "Directly Related" Test; Application Policy 2000-01, Cost of Materials for SR&ED; Application Policy 96-06, Directly Undertaking, Supervising or Supporting Directly Engaged SR&ED Salary and Wages.

(3) For the purposes of subclause 37(8)(*a*)(ii)(A)(II) of the Act, the following expenditures are directly attributable to the provision of premises, facilities or equipment for the prosecution of scientific research and experimental development:

(*a*) the cost of the maintenance and upkeep of such premises, facilities or equipment; and

(*b*) other expenditures, or those portions of other expenditures, that are directly related to that provision and that would not have been incurred if those premises or facilities or that equipment had not existed.

History: S. 2900(3), the portion before paragraph (a) was amended by P.C. 1995-16, SOR/95-63, dated January 11, 1995, by substituting "subclause 37(8)(*a*)(ii)(A)(II)" for "clause 37(7)(*c*)(ii)(B)", applicable to taxation years ending after December 2, 1992.

S. 2900(3)(*b*) was amended by P.C. 1995-16, SOR/95-63, dated January 11, 1995, applicable to the 1990 and subsequent taxation years. S. 2900(3)(*b*) formerly read:

"(*b*) other expenditures that are directly related to such provision and that would not have been incurred if such premises, facilities or equipment had not existed."

S. 2900(3) was added by P.C. 1986-2770, SOR/86-1136, dated December 11, 1986, applicable with respect to expenditures made in taxation years ending after May 23, 1985.

(4) For the purposes of the definition "qualified expenditure" in subsection 127(9) of the Act, the prescribed proxy amount of a taxpayer for a taxation year, in respect of a business, in respect of which the taxpayer elects under clause 37(8)(*a*)(ii)(B) of the Act is 65% of the total of all amounts each of which is that portion of the amount incurred in the year by the taxpayer in respect of salary or wages of an employee of the taxpayer who is directly engaged in scientific research and experimental development carried on in Canada that can reasonably be considered to relate to the scientific research and experimental development having regard to the time spent by the employee on the scientific research and experimental development.

History: S. 2900(4) was amended by P.C. 1995-16, SOR/95-63, dated January 11, 1995, applicable to taxation years ending after December 2, 1992. S. 2900(4) formerly read:

"(4) For the purposes of subsections (2) and (3), an expenditure does not include remuneration based on profits or a bonus paid to a person that does not deal at arm's length with the payor or that is a specified shareholder of the payor."

S. 2900(4) was added by P.C. 1986-2770, SOR/86-1136, dated December 11, 1986, applicable with respect to expenditures made in taxation years ending after May 23, 1985.

SR&ED Application Policies: Application Policy 96-06, Directly Undertaking, Supervising or Supporting Directly Engaged SR&ED Salary and Wages.

(5) Subject to subsections (6) to (8), where in subsection (4) the portion of an expenditure is all or substantially all of the expenditure, that portion shall be replaced by the amount of the expenditure.

History: S. 2900(5) was added by P.C. 1995-16, SOR/95-63, dated January 11, 1995, applicable to taxation years ending after December 2, 1992.

SR&ED Application Policies: Application Policy 96-06, Directly Undertaking, Supervising or Supporting Directly Engaged SR&ED Salary and Wages.

(6) The amount determined under subsection (4) as the prescribed proxy amount of a taxpayer for a taxation year in respect of a business shall not exceed the amount, if any, by which

(*a*) the total of all amounts deducted in computing the taxpayer's income for the year from the business,

exceeds the total of all amounts each of which is

(*b*) an amount deducted in computing the income of the taxpayer for the year from the business under any of sections 20, 24, 26, 30, 32, 37, 66 to 66.8 and 104 of the Act, or

(*c*) an amount incurred by the taxpayer in the year in respect of any outlay or expense made or incurred for the use of, or the right to use, a building other than a special-purpose building.

History: S. 2900(6) was added by P.C. 1995-16, SOR/95-63, dated January 11, 1995, applicable to taxation years ending after December 2, 1992.

(7) In determining the prescribed proxy amount of a taxpayer for a taxation year, the portion of the amount incurred in the year by the taxpayer in respect of salary or wages of a specified employee of the taxpayer that is

included in computing the total described in subsection (4) shall not exceed the lesser of

(*a*) 75% of the amount incurred by the taxpayer in the year in respect of salary or wages of the employee, and

(*b*) the amount determined by the formula

$$2.5 \times A \times B/365$$

where

A is the Year's Maximum Pensionable Earnings (as determined under section 18 of the *Canada Pension Plan*) for the calendar year in which the taxation year ends, and

B is the number of days in the taxation year in which the employee is an employee of the taxpayer.

History: S. 2900(7) was added by P.C. 1995-16, SOR/95-63, dated January 11, 1995, applicable to taxation years ending after December 2, 1992.

(8) Where

(*a*) a taxpayer is a corporation,

(*b*) the taxpayer employs in a taxation year ending in a calendar year an individual who is a specified employee of the taxpayer,

(*c*) the taxpayer is associated with another corporation (referred to as the "associated corporation") in a taxation year of the associated corporation ending in the calendar year, and

(*d*) the individual is an employee of the associated corporation in the taxation year of the associated corporation ending in the calendar year,

the total of all amounts that may be included in computing the total described in subsection (4) in respect of salaries or wages of the individual by the taxpayer in its taxation year ending in the calendar year and by all associated corporations in their taxation years ending in the calendar year shall not exceed the amount that is 2.5 times the Year's Maximum Pensionable Earnings (as determined under section 18 of the *Canada Pension Plan*) for the calendar year.

History: S. 2900(8) was added by P.C. 1995-16, SOR/95-63, dated January 11, 1995, applicable to taxation years ending after December 2, 1992.

(9) For the purposes of subsections (4) and (7), an amount incurred in respect of salary or wages of an employee in a taxation year does not include

(*a*) an amount described in section 6 or 7 of the Act;

(*b*) an amount deemed under subsection 78(4) of the Act to have been incurred;

(*c*) bonuses; or

(*d*) remuneration based on profits.

History: S. 2900(9) was added by P.C. 1995-16, SOR/95-63, dated January 11, 1995, applicable to taxation years ending after December 2, 1992.

(10) For the purpose of subsection (8),

(*a*) an individual related to a particular corporation, and

(*b*) a partnership any member of which is an individual related to a particular corporation or is a corporation associated with a particular corporation,

shall be deemed to be a corporation associated with the particular corporation.

History: S. 2900(10) was added by P.C. 1995-16, SOR/95-63, dated January 11, 1995, applicable to taxation years ending after December 2, 1992.

(11) The depreciable property of a taxpayer that is prescribed for the purposes of the definition "first term shared-use-equipment" in subsection 127(9) of the Act is

(*a*) a building of the taxpayer;

(*b*) a leasehold interest of the taxpayer in a building;

(*c*) a property of the taxpayer if, at the time it was acquired by the taxpayer, the taxpayer or a person related to the taxpayer intended that it would be used in the prosecution of scientific research and experimental development during the assembly, construction or commissioning of a facility, plant or line for commercial manufacturing, commercial processing or other commercial purposes (other than scientific research and experimental development) and intended

(i) that it would be used during its operating time in its expected useful life primarily for purposes other than scientific research and experimental development, or

(ii) that its value would be consumed primarily in activities other than scientific research and experimental development; and

(*d*) part of a property of the taxpayer if, at the time the part was acquired by the taxpayer, the taxpayer or a person related to the taxpayer intended that the part would be used in the prosecution of scientific research and experimental development during the assembly, construction or commissioning of a facility, plant or line for commercial manufacturing, commercial processing or other commercial purposes (other than scientific research and experimental development), and intended

(i) that it would be used during its operating time in its expected useful life primarily for purposes other than scientific research and experimental development, or

(ii) that its value would be consumed primarily in activities other than scientific research and experimental development.

History: S. 2900(11) was added by P.C. 1995-16, SOR/95-63, dated January 11, 1995, applicable to property acquired after December 2, 1992.

Information Circulars: IC 86-4R3 Scientific Research and Experimental Development; IC 97-1 Scientific Research and Experimental Development Administrative Guidelines for Software Development.
SR&ED Application Policies: Application Policy 2004-03, Prototypes, Pilot Plants/Commercial Plants, Custom Products and Commercial Assets.

Prescribed Expenditures

2901. For the purposes of paragraph 37.1(5)(*c*) [Repealed by S.C. 1998, c. 19, s. 87(1).] of the Act, a prescribed expenditure is

(*a*) an expenditure of a current nature incurred by a corporation in respect of

(i) the general administration or management of a business, including

(A) administrative salary or wages and related benefits in respect of a person whose duties are not all or substantially all directed to the prosecution of scientific research and experimental development, except to the extent that such expenditure is described in subsection 2900(2) or (3),

(B) a legal or accounting fee,

(C) an amount described in any of paragraphs 20(1)(*c*) to (*g*) of the Act,

(D) an entertainment expense,

(E) an advertising or selling expense,

(F) a convention expense,

(G) a due or fee in respect of membership in a scientific or technical society or organization, and

(H) a fine or penalty, or

(ii) the maintenance and upkeep of premises, facilities or equipment to the extent that such expenditure is not attributable to the prosecution of scientific research and experimental development,

except any such expenditure incurred by a corporation that derives all or substantially all of its revenue from the prosecution of scientific research or the sale of rights in or arising out of scientific research carried on by it;

(*b*) an expenditure of a capital nature incurred by a corporation in respect of

(i) the acquisition of property, except any such expenditure that was incurred for and was all or substantially all attributable to the prosecution, or to the provision of premises, facilities or equipment for the prosecution, of scientific research and experimental development, or

(ii) the acquisition of property that is qualified property within the meaning assigned by subsection 127(9) of the Act;

(*c*) an expenditure made to acquire rights in, or arising out of, scientific research and experimental development; or

(*d*) an expenditure on scientific research and experimental development in respect of which an amount is deductible under section 110 of the Act.

History: S. 2901 was amended by P.C. 1986-2770, SOR/86-1136, dated December 11, 1986, by substituting "scientific research and experimental development" for "scientific research" wherever it occurs, applicable with respect to expenditures made in taxation years ending after May 23, 1985.

S. 2901(a)(i)(A) was amended by P.C. 1986-2770, SOR/86-1136, dated December 11, 1986, applicable with respect to expenditures made in taxation years ending after May 23, 1985. S. 2901(a)(i)(A) formerly read:

"(A) an administrative salary or wages and related benefits in respect of a person whose duties are not wholly directed to the prosecution of scientific research,"

Ss. 2901(b)(i) and (ii) were amended by P.C. 1986-2770, SOR/86-1136, dated December 11, 1986, applicable with respect to expenditures made in taxation years ending after May 23, 1985. Ss. 2901(b)(i) and (ii) formerly read:

"(i) the acquisition of property, except any such expenditure incurred for and wholly attributable to the prosecution or the provision of facilities for the prosecution of scientific research, or

(ii) the acquisition of property that is qualified property within the meaning assigned by subsection 127(10) of the Act;"

S. 2901(a)(i)(C) was amended by P.C. 1986-1048, SOR/488, dated May 1, 1986, applicable with respect to bills drawn after June 1984, to change "(i)" to "(g)".

S. 2901 was added by P.C. 1978-2917, SOR/78-749, dated September 28, 1978 (Special Issue, *Canada Gazette*, December 31, 1978), effective for the period commencing with a taxation year ending after 1977.

Interpretation Bulletins: *Secondary*—IT-151R5 (Consolid.) Scientific research and experimental development expenditures; IT-151R4 Scientific research and experimental development expenditures [Archived by the CRA].

2902. For the purposes of the definition "qualified expenditure" in subsection 127(9) of the Act, a prescribed expenditure is

(*a*) an expenditure of a current nature incurred by a taxpayer in respect of

(i) the general administration or management of a business, including

(A) an administrative salary or wages and related benefits in respect of a person whose duties are not all or substantially all directed to the prosecution of scientific research and experimental development, except to the extent that such expenditure is described in subsection 2900(2) or (3),

(B) a legal or accounting fee,

(C) an amount described in any of paragraphs 20(1)(*c*) to (*g*) of the Act,

(D) an entertainment expense,

(E) an advertising or selling expense,

(F) a conference or convention expense,

(G) a due or fee in respect of membership in a scientific or technical society or organization, and

(H) a fine or penalty, or

(ii) the maintenance and upkeep of premises, facilities or equipment to the extent that such expenditure is not attributable to the prosecution of scientific research, and experimental development,

(*b*) an expenditure of a capital nature incurred by a taxpayer in respect of

(i) the acquisition of property, except any such expenditure that at the time it was incurred

(A) was for first term shared-use-equipment or second term shared-use-equipment, or

(B) was for the provision of premises, facilities or equipment if, at the time of the acquisition of the premises, facilities or equipment, it was intended

(I) that the premises, facilities or equipment would be used during all or substantially all of the operating time of the premises, facilities or equipment in the expected useful life of the premises, facilities or equipment for the prosecution of scientific research and experimental development in Canada, or

(II) that all or substantially all of the value of the premises, facilities or equipment would be consumed in the prosecution of scientific research and experimental development in Canada,

(ii) the acquisition of property that is qualified property within the meaning assigned by subsection 127(9) of the Act, or

(iii) the acquisition of property that has been used or acquired for use or lease, for any purpose whatever before it was acquired by the taxpayer;

(*c*) an expenditure made to acquire rights in, or arising out of, scientific research and experimental development;

(*d*) an expenditure on scientific research and experimental development in respect of which an amount is deductible under section 110.1 or section 118.1 of the Act; or

(*e*) an expenditure of a current or capital nature, to the extent that the taxpayer has received or is enti-

tled to receive a reimbursement in respect thereof from

Pending Amendment

Scientific Research and Experimental Development — October 27, 1998

The portion of paragraph 2902(e) before subparagraph (i) is replaced by the following:

(e) for the purpose of sections 194 and 195 of the Act, an expenditure of a current or capital nature, to the extent that the taxpayer has received or is entitled to receive a reimbursement in respect of the expenditure from

Applicable: To amounts that become receivable after December 20, 1991.

Explanatory Note: Section 2902 defines a prescribed expenditure for the purposes of subsection 127(9) of the *Income Tax Act*. Prescribed expenditures are not eligible for investment tax credits.

Paragraph 2902(e) of the Income Tax Regulations is amended consequential on the amendments to the definition "contract payment" in subsection 127(9) of the Act. Those amendments provided that a contract payment included certain payments for scientific research and experimental development that is performed for or on behalf of a person entitled to a deduction in respect of the amount because of subparagraph 37(1)(*a*)(i) or (i.1) of the Act. Contract payments received reduce the base upon which a taxpayer's ITC in respect of SR&ED is calculated. Those amendments were effective for amounts that became payable after December 20, 1991. In view of the amended definition of "contract payment" applicable to ITCs in respect of SR&ED, the provisions of paragraph 2902(e) became redundant for ITC purposes. However, paragraph 2902(e) of the Regulations is still relevant in respect of claims for refunds of Part VIII Refundable Tax on Corporations in Respect of the Scientific Research and Experimental Development Tax Credit. Regulation 2902(e) is, therefore, amended to apply only for the purposes of the Part VIII Refundable Tax. This amendment applies to amounts that become receivable after December 20, 1991.

(i) a person resident in Canada, other than

(A) Her Majesty in right of Canada or a province,

(B) an agent of Her Majesty in right of Canada or a province,

(C) a corporation, commission or association that is controlled, directly or indirectly in any manner whatever, by Her Majesty in right of Canada or a province or by an agent of her Majesty in right of Canada or a province, or

(D) a municipality in Canada or a municipal or public body performing a function of government in Canada, or

(ii) a person not resident in Canada to the extent that the said reimbursement is deductible by the person in computing his taxable income earned in Canada for any taxation year.

History: S. 2902(*a*)(i)(F) was amended by P.C. 1995-16, SOR/95-63, dated January 11, 1995, to substitute "a conference or convention expense" for "a convention expense", applicable to expenses incurred after the day on which these amendments are published in the Canada Gazette, January 25, 1995.

S. 2902, the portion of paragraph (*a*) after subparagraph (ii) was revoked by P.C. 1995-16, SOR/95-63, dated January 11, 1995, applicable to taxation years beginning after February 22, 1994. S. 2902, the portion of paragraph (*a*) after subparagraph (ii) formerly read:

"except any such expenditure incurred by a taxpayer who derives all or substantially all of his revenue from the prosecution of scientific research and experimental development or the sale of rights in or arising out of scientific research and experimental development carried on by him;"

S. 2902(*b*)(i) was amended by P.C. 1995-16, SOR/95-63, dated January 11, 1995, applicable to property acquired after December 2, 1992. S. 2902(*b*)(i) formerly read:

"(i) the acquisition of property, except any such expenditure that was incurred for and was all or substantially all attributable to the prosecution, or to the provision of premises, facilities or equipment for the prosecution, of scientific research and experimental development,"

S. 2902(d) was amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to the 1988 and subsequent taxation years. The paragraph formerly read:

"(*d*) an expenditure on scientific research and experimental development in respect of which an amount is deductible under section 110 of the Act; or"

S. 2902(*b*)(iii) was amended to add "or acquired for use or lease," by P.C. 1988-390, SOR/88-165, dated March 3, 1988 applicable in respect of property acquired after March 16, 1988, other than property acquired after that date pursuant to the terms of an agreement in writing to acquire the property entered into by the taxpayer on or before that date.

S. 2902 was amended by P.C. 1986-2770, SOR/86-1136, dated December 11, 1986, by substituting the expression "scientific research and experimental development" for the expression "scientific research" wherever the latter expression occurs, applicable with respect to expenditures made in taxation years ending after May 23, 1985.

S. 2902, the part preceding clause (*a*)(i)(B) thereof, was amended by P.C. 1986-2770, SOR/86-1136, dated December 11, 1986, applicable with respect to expenditures made in taxation years ending after May 23, 1985. That part formerly read:

"S. 2902. For the purposes of paragraph 127(10.1)(c) of the Act, a prescribed expenditure is

(*a*) and expenditure of a current nature incurred by a taxpayer in respect of

(i) the general administration or management of a business, including

(A) an administrative salary or wages and related benefits in respect of a person whose duties are not wholly directed to the prosecution of scientific research,"

Ss. 2902(b)(i) and (ii) were amended by P.C. 1986-2770, SOR/86-1136, dated December 11, 1986, applicable with respect to expenditures made in taxation years ending after May 23, 1985. Ss. 2902(b)(i) and (ii) formerly read:

"(i) the acquisition of property, except any such expenditure incurred for and wholly attributable to the prosecution or the provision of facilities for the prosecution of scientific research,

(ii) the acquisition of property that is qualified property within the meaning assigned by subsection 127(10) of the Act or"

S. 2902(a)(i)(C) was amended by P.C. 1986-1048, SOR/86-488, dated May 1, 1986, applicable with respect to bills drawn after June 1984, to change "(i)" to "(g)".

S. 2902 was added by P.C. 1978-2917, SOR/78-749, dated September 28, 1978 (Special Issue, *Canada Gazette*, December 31, 1978), effective for the period commencing with the 1977 taxation year.

Interpretation Bulletins: *Secondary* — IT-104R3 Deductibility of fines or penalties; IT-151R5 (Consolid.) Scientific research and experimental development expenditures; IT-151R4 Scientific research and experimental development expenditures [Archived by the CRA].

SR&ED Application Policies: Application Policy 2003-01, Capital Property Intended to be Used All or Substantially All for SR&ED; Application Policy 94-02, Expenditures of Sole-Purpose SR&ED Performers Paragraphs 37(8)(a) of the Act and 2902(a) of the Regulations.

SPECIAL-PURPOSE BUILDINGS

2903. For the purposes of this Part and paragraph 37(8)(*d*) of the Act, a special-purpose building is a building the working areas of which are designed and constructed to have a displacement in any direction of not more than .02 micrometre and to have, per .028 cubic metre of interior airspace,

(*a*) not more than 350 airborne particles of a size less than or equal to .1 micrometre in diameter and no airborne particles of a size greater than .1 micrometre in diameter,

(*b*) not more than 75 airborne particles of a size less than or equal to .2 micrometre in diameter and no airborne particles of a size greater than .2 micrometre in diameter,

(*c*) not more than 30 airborne particles of a size less than or equal to .3 micrometre in diameter and no airborne particles of a size greater than .3 micrometre in diameter, or

(*d*) not more than 10 airborne particles of a size less than or equal to .5 micrometre in diameter and no

airborne particles of a size greater than .5 micrometre in diameter.

History: S. 2903, the portion before paragraph (*a*) was amended by P.C. 1995-16, SOR/95-63, dated January 11, 1995, applicable to taxation years ending after December 2, 1992. S. 2903, the portion before paragraph (*a*) formerly read:

"S. 2903. For the purposes of paragraph 37(7)(*f*) of the Act, a special-purpose building is a building the working areas of which are designed and constructed to have a displacement in any direction of no more than .02 micrometre and to have, per .028 cubic metre of interior airspace,"

S. 2903 was added by P.C. 1991-2028, SOR/91-602, dated October 24, 1991, applicable in respect of buildings that were acquired or in respect of which rental expenses were incurred after 1987.

Interpretation Bulletins: *Secondary*—IT-151R5 (Consolid.) Scientific research and experimental development expenditures; IT-151R4 Scientific research and experimental development expenditures [Archived by the CRA].

PART XXX
Communication of Information

3000. [Revoked.]

History: S. 3000 was revoked by P.C. 1993-1943, SOR/93-531, dated December 2, 1993 and effective December 15, 1993. S. 3000 formerly read:

"S. 3000. For the purposes of subsection 241(4) of the Act, an official or authorized person referred to in that subsection may communicate information or allow inspection of or access to a written statement to the government of a province on condition that

(*a*) the information furnished or obtained will not be communicated to any person except an officer or servant of that government; and

(*b*) the information will not be used for any purpose other than the administration or enforcement of a provincial law that provides for the imposition of a tax payable to the province or the evaluation or formulation of the province's tax policy."

S. 3000(b) was amended by P.C. 1991-1740, SOR/91-551, dated September 19, 1991 by adding "or the evaluation or formulation of the province's tax policy", applicable October 9, 1991.

The heading to s. 3000 was amended by P.C. 1985-465, SOR/85-174, dated February 14, 1985, effective March 30, 1983. The heading formerly read:

"PART XXX
Communication of Information to Provinces"

Prescribed Programs

3001. [Revoked.]

History: S. 3001 was revoked by P.C. 1993-1943, SOR/93-531, dated December 2, 1993 and effective December 15, 1993. S. 3001 formerly read:

"S. 3001. The following programs are hereby prescribed for the purposes of subparagraph 241(4)(*f*)(iii) of the Act:

(*a*) the program of incentives provided for under the *Petroleum Incentives Act*, the *Canadian Exploration and Development Incentive Program Act* or the *Canadian Exploration Incentive Program Act*; and

(*b*) the program of payments from the Alberta Petroleum Incentives Program Fund provided for under the *Petroleum Incentives Program Act* of the Province of Alberta."

S. 3001(a) was amended by P.C. 1990-2780, SOR/91-79, dated December 24, 1990, to delete a reference to the "*Petroleum Incentives Program Act*" and to add references to the "*Petroleum Incentives Act*", the "*Canadian Exploration and Development Incentive Program Act*" and the "*Canadian Exploration Incentive Program Act*", applicable after March 31, 1987.

S. 3001 was added by P.C. 1985-465, SOR/85-174 dated February 14, 1985, effective March 30, 1983.

3002. [Revoked.]

History: S. 3002 was revoked by P.C. 1993-1943, SOR/93-531, dated December 2, 1993 and effective December 15, 1993. S. 3002 formerly read:

"S. 3002. The following employment programs falling under the Canadian Jobs Strategy are hereby prescribed for the purposes of paragraph 241(4)(*h*) of the Act:

(*a*) the Community Futures Program;
(*b*) the Job Development Program;
(*c*) the Job Entry Program;
(*d*) the National Labour Market Innovations Program;
(*e*) the Skill Investment Program; and
(*f*) the Skill Shortages Program."

S. 3002 was added by P.C. 1989-1780, SOR/89-451, dated September 21, 1989, applicable October 11, 1989.

Prescribed Laws of the Province of Quebec

3003. For the purposes of paragraph 122.64(2)(*a*) of the Act, the following are prescribed laws of the Province of Quebec:

(*a*) *An Act respecting Family Benefits*, R.S.Q., c. P-19.1;

(*b*) *An Act respecting the Québec Pension Plan*, R.S.Q., c. R-9; and

(*c*) *An Act respecting Income Support, Employment Assistance and Social Solidarity*, R.S.Q., c. S-32.001, as it relates to the additional amounts for dependent children.

History: S. 3003 and the heading before it were amended by P.C. 2002-2169, SOR/2003-5, dated December 12, 2002, applicable on publication in the *Canada Gazette* on January 1, 2003. S. 3003 and the heading before it formerly read:

"Prescribed Laws of a Province

S. 3003. For the purposes of paragraph 122.64(2)(*a*) of the Act, the following are prescribed laws of a province:

(*a*) in respect of the Province of Quebec,
(i) *An Act Respecting Family Benefits*, S.Q. 1997, c. 57,
(ii) *An Act Respecting the Québec Pension Plan*, R.S.Q. 1977, c. R-9; and
(iii) *An Act Respecting Income Security*, R.S.Q. 1977, c. S-3.1.1, as it relates to the additional amounts for dependent children;

(*b*) in respect of the Province of Manitoba,
(i) the *Social Services Administration Act*, C.C.S.M., c. S165, as it relates to the Child Related Income Support Program,
(ii) the *Social Allowances Act*, C.C.S.M., c. S160, as it relates to
(A) the Social Allowances Program, and
(B) the Municipal Assistance Program, and
(iii) *The Community Child Day Care Standards Act*, C.C.S.M., c. C158, as it relates to the Child Day Care Program;

(*c*) in respect of the Province of Saskatchewan,
(i) *The Child Care Act*, S.S. 1989-90, c. C-7.3,
(ii) *The Saskatchewan Assistance Act*, R.S.S. 1978, c. S-8, as it relates to
(A) the Family Income Plan, and
(B) the Saskatchewan Assistance Plan, and
(iii) *The Saskatchewan Income Plan Act*, S.S. 1986, c. S-25.1;

(*d*) in respect of the Province of British Columbia, the *Guaranteed Available Income for Need Act*, R.S.B.C. 1979, c. 158; and

(*e*) in respect of the Province of Alberta, the *Social Development Act*, R.S.A. 1980, c. S-16."

S. 3003(*a*)(i) was amended by P.C. 1997-1688, SOR/97-517, dated November 20, 1997, applicable to information provided after June 19, 1997. S. 3003(*a*)(i) formerly read:

"(i) *An Act Respecting Family Assistance Allowances*, R.S.Q. 1977, c. A-17, and"

S. 3003(*a*)(iii) was added by P.C. 1997-1688, SOR/97-517, dated November 20, 1997, applicable to information provided after June 19, 1997.

Ss. 3003(*d*) and (*e*) were added by P.C. 1994-1658, SOR/94-632, dated October 6, 1994, effective on publication in the *Canada Gazette*, October 19, 1994.

S. 3003(*b*) was amended by P.C. 1994-560, SOR/94-302, dated April 14, 1994, effective on publication in the *Canada Gazette*, May 4, 1994. S. 3003(*b*) formerly read:

"(*b*) in respect of the Province of Manitoba, the *Social Services Administration Act*, C.C.S.M., c. S165, as it relates to the Child Related Income Support Program; and"

S. 3003(a) was amended by P.C. 1993-538, SOR/93-148, dated March 23, 1993. S. 3003(a) formerly read:

"(*a*) in respect of the Province of Quebec, *An Act Respecting Family Assistance Allowances*, R.S.Q. 1977, c. A-17;"

S. 3003 was added by P.C. 1992-2653, SOR/93-1, dated December 21, 1992, effective December 21, 1992.

3004. For the purposes of subparagraph 241(4)(*j*.1)(ii) of the Act, *An Act Respecting Family Benefits*, S.Q. 1997, c. 57, is, in respect of the Province of Quebec, a prescribed law of a province.

History: S. 3004 was added by P.C. 1998-1121, SOR/98-347, dated June 18, 1998, and coming into force on the later of the coming into force of subparagraph 241(4)(*j*.1)(ii) of the *Income Tax Act* and July 1st, 1998.

PART XXXI
Degree of Canadian Ownership

[Revoked.]

History: The former Part XXXI was revoked by P.C. 1984-3789, SOR/84-948, dated November 29, 1984.

PART XXXII
Prescribed Stock Exchanges and Contingency Funds

Stock Exchanges in Canada

3200. [Repealed.]

Editorial Note: Regulations 3200 and 3201 were repealed effective December 14, 2007, as a consequence of the addition of section 262 of the *Income Tax Act*, which gives the Minister of Finance authority to designate stock exchanges for purposes of the Act.

History: S. 3200 was repealed by S.C. 2007, c. 35, s. 74(2), in force on December 14, 2007. S. 3200 formerly read:

"S. 3200. For the purposes of the Act, the following are prescribed stock exchanges in Canada:

(*a*) Tiers 1 and 2 of the TSX Venture Exchange (also known as Tiers 1 and 2 of the Canadian Venture Exchange);

(*a*.1) [Repealed.]

(*b*) Montreal Stock Exchange;

(*c*) Toronto Stock Exchange;

(*d*) [Repealed.]

(*e*) [Repealed.]"

S. 3200(*a*) was replaced, and paragraph (*a*.1) was repealed, by P.C. 2003-1919, SOR/2003-395, dated December 3, 2003, applicable as of 5:00 p.m. Eastern Daylight Time on September 29, 2000. S. 3200(*a*) and (*a*.1) formerly read:

"(*a*) Alberta Stock Exchange;

(*a*.1) the Canadian Venture Exchange;"

S. 3200(*a*.1) was added by P.C. 2003-1919, SOR/2003-395, dated December 3, 2003, applicable on and after November 26, 1999.

S. 3200(*d*) and (*e*) were repealed by P.C. 2003-1919, SOR/2003-395, dated December 3, 2003, applicable on and after December 17, 2003. Paragraphs (*d*) and (*e*) of section 3200 formerly read:

"(*d*) Vancouver Stock Exchange; and

(*e*) Winnipeg Stock Exchange."

S. 3200, the portion before paragraph (*a*) was amended by P.C. 2001-954, SOR/2001-187, dated May 31, 2001, applicable after 1991. S. 3200, the portion before paragraph (*a*) formerly read:

"S. 3200. The following stock exchanges in Canada are hereby prescribed for the purposes of paragraph 13(27)(*f*), clause 19(5)(*b*)(v)(C), paragraph 47.1(28)(*c*), subparagraph 48.1(1)(*a*)(ii), sections 87 and 89, subsection 112(2.2), sections 146, 146.3, 149.1, 187.3 and 204, subsection 206(1) and sections 206.1 and 207.5 of the Act, and of the definitions 'grandfathered share' and 'term preferred share' in subsection 248(1) of the Act and the definition 'qualified security' in subsection 260(1) of the Act and paragraphs 4900(1)(*b*) and (*e*):"

S. 3200, the part preceding paragraph (a), was amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable after 1985, except that

(*a*) before 1990, section 3200 shall be read without reference to paragraph 13(27)(*f*) of the *Income Tax Act*;

(*b*) before 1989, section 3200 shall be read without reference to clause 19(5)(*b*)(v)(C) of the *Income Tax Act*;

(*c*) before the 1991 taxation year, section 3200 shall be read without reference to subparagraph 48.1(1)(*a*)(ii) of the *Income Tax Act*;

(*d*) before the 1986 taxation year, section 3200 shall be read as if the reference to sections 87 and 89 were a reference to sections 70, 87 and 89 of the *Income Tax Act*;

(*e*) before October 9, 1986, section 3200 shall be read without reference to section 207.5 of the *Income Tax Act*; and

(*f*) before April 27, 1989, section 3200 shall be read without reference to the definition "qualified security" in subsection 260(1) of the *Income Tax Act*.

The part formerly read:

"S. 3200. The following stock exchanges in Canada are prescribed for the purposes of section 70, subsection 87(4.3), section 89, subsection 112(2.2), sections 146, 146.3, 149.1, 187.3 and 204, subsection 206(1) and section 206.1 of the Act and the definitions 'grandfathered share' and 'term preferred share' in subsection 248(1) of the Act:"

S. 3200, the part preceding paragraph (a), was amended by P.C. 1989-1565, SOR/89-409, dated August 14, 1989, applicable after June 18, 1987. That part formerly read:

"The following stock exchanges in Canada are hereby prescribed for the purposes of sections 70 and 89, subsection 112(2.2), sections 146, 146.3, 149.1 and 204, subsection 206(1) and section 206.1 of the Act and the definition 'term preferred share' in subsection 248(1) of the Act:"

S. 3200, the part preceding paragraph (a), was amended by P.C. 1988-390, SOR/88-165, dated March 3, 1988, effective January 1, 1986, except that the reference to s. 206(1) and s. 206.1, are applicable to periods occurring after October 31, 1985. That part formerly read:

"The following stock exchanges in Canada are hereby prescribed for the purposes of sections 47.1, 70 and 89, subsection 112(2.2), sections 146, 146.2, 146.3, 149.1 and 204 and subsections 206(1.1) and (2) of the Act and the definition 'term preferred share' in subsection 248(1) of the Act:"

The heading to s. 3200 was amended by P.C. 1985-2277, SOR/85-696, dated July 25, 1985, to add the reference to "contingency funds", effective commencing November 13, 1981.

S. 3200, the part preceding paragraph (a), was amended by P.C. 1985-2277, SOR/85-696, dated July 25, 1985, to add the references to ss. 47.1, 70 and 206(2), effective commencing November 13, 1981.

S. 3200 preceding paragraph (a) was amended by P.C. 1984-3789, SOR/84-948, dated November 29, 1984, to delete "and section 257".

S. 3200, the part preceding paragraph (a), was amended by P.C. 1981-2518, SOR/81-725, September 21, 1981, effective January 1, 1981. That part formerly read:

"The following stock exchanges in Canada are hereby prescribed for the purposes of sections 89, 146, 146.2, 149.1, 204 and 257 of the Act and the definition 'term preferred share' in subsection 248(1) of the Act:"

S. 3200 was amended by P.C. 1980-2225, SOR/80-682, dated August 27, 1980 to add a reference to s. 149.1 of the Act, effective for the 1977 and subsequent taxation years.

S. 3200 was previously amended by P.C. 1980-422, SOR/80-129, February 11, 1980 by adding the reference to "term preferred share", effective December 6, 1979.

Interpretation Bulletins: *Secondary* — IT-458R2 Canadian-controlled private corporation.

Stock Exchanges Outside Canada

3201. [Repealed.]

Editorial Note: Regulations 3200 and 3201 were repealed effective December 14, 2007, as a consequence of the addition of section 262 of the *Income Tax Act*, which gives the Minister of Finance authority to designate stock exchanges for purposes of the Act.

History: S. 3201 was repealed by S.C. 2007, c. 35, s. 74(2), in force on December 14, 2007. S. 3201 formerly read:

"S. 3201. For the purposes of the Act, the following are prescribed stock exchanges outside Canada:

(*a*) in Australia, the Australian Securities Exchange;

(*b*) in Belgium, Euronext Brussels;

(*c*) in France, Euronext Paris;

(*d*) in Germany, the Frankfurt Stock Exchange;

(*e*) in Hong Kong, the Hong Kong Stock Exchange;

(*f*) in Italy, the Milan Stock Exchange;

(*g*) in Japan, the Tokyo Stock Exchange;

(*h*) in Mexico, the Mexico City Stock Exchange;

(*i*) in the Netherlands, Euronext Amsterdam;

(*j*) in New Zealand, the New Zealand Stock Exchange;

(*k*) in Singapore, the Singapore Stock Exchange;

(*l*) in Spain, the Madrid Stock Exchange;

(*m*) in Switzerland, the SWX Swiss Exchange;

(*n*) in the United Kingdom, the London Stock Exchange;

(*o*) in the United States,

(i) the American Stock Exchange,

(ii) the Boston Stock Exchange,

(iii) the Chicago Board of Options,

(iv) the Chicago Board of Trade,

(v) the National Stock Exchange,

(vi) [Repealed.]

(vii) the Chicago Stock Exchange,

(viii) the National Association of Securities Dealers Automated Quotation System,

(ix) the New York Stock Exchange,

(x) NYSE Arca,

(xi) the Philadelphia Stock Exchange;

(xii) [Repealed.]

(*p*) in Ireland, the Irish Stock Exchange;

(*q*) in Israel, the Tel Aviv Stock Exchange;
(*r*) in Austria, the Vienna Stock Exchange;
(*s*) in Denmark, the Copenhagen Stock Exchange;
(*t*) in Finland, the Helsinki Stock Exchange;
(*u*) in Norway, the Oslo Stock Exchange;
(*v*) in South Africa, the Johannesburg Stock Exchange;
(*w*) in Sweden, the Stockholm Stock Exchange.
(*x*) in Luxembourg, the Luxembourg Stock Exchange; and
(*y*) in Poland, the main and parallel markets of the Warsaw Stock Exchange."

S. 3201, paragraph (*a*) was amended by S.C. 2007, c. 35, s. 74(1), by replacing "the Australian Stock Exchange" with "the Australian Securities Exchange", deemed to have come into force on December 13, 2007.

S. 3201, paragraph (*b*) was amended by S.C. 2007, c. 35, s. 74(1), by replacing "the Brussels Stock Exchange" with "Euronext Brussels", deemed to have come into force on December 13, 2007.

S. 3201, paragraph (*c*) was amended by S.C. 2007, c. 35, s. 74(1), by replacing "the Paris Stock Exchange" with "Euronext Paris", deemed to have come into force on December 13, 2007.

S. 3201, paragraph (*i*) was amended by S.C. 2007, c. 35, s. 74(1), by replacing "the Amsterdam Stock Exchange" with "Euronext Amsterdam", deemed to have come into force on December 13, 2007.

S. 3201, paragraph (*m*) was amended by S.C. 2007, c. 35, s. 74(1), by replacing "the Zurich Stock Exchange" with "the SWX Swiss Exchange", deemed to have come into force on January 1, 2007.

S. 3201, subparagraph (*o*)(v) was amended by S.C. 2007, c. 35, s. 74(1), by replacing "the Cincinnati Stock Exchange" in subparagraph (*o*)(v) with "the National Stock Exchange", deemed to have come into force on December 13, 2007.

S. 3201, subparagraph (*o*)(vi) was repealed by S.C. 2007, c. 35, s. 74(1), deemed to have come into force on December 13, 2007. S. 3201, subparagraph (*o*)(vi) formerly read:

"(vi) the Intermountain Stock Exchange,"

S. 3201, subparagraph (*o*)(vii) was amended by S.C. 2007, c. 35, s. 74(1), by replacing "the Midwest Stock Exchange" with "the Chicago Stock Exchange", deemed to have come into force on December 13, 2007.

S. 3201, subparagraph (*o*)(x) was amended by S.C. 2007, c. 35, s. 74(1), by replacing "the Pacific Stock Exchange" with "NYSE Arca", deemed to have come into force on April 1, 2006.

S. 3201, subparagraph (*o*)(xi) was replaced, and subparagraph (xii) was repealed, by S.C. 2007, c. 35, s. 74(1), deemed to have come into force on December 13, 2007. S. 3201, subparagraphs (*o*)(xi) and (xii) formerly read:

"(xi) the Philadelphia Stock Exchange, and

(xii) the Spokane Stock Exchange;"

S. 3201, paragraphs (*x*) and (*y*) were added by P.C. 2005-7, SOR/2005-15, dated January 12, 2005, applicable on and after June 24, 2003.

S. 3201, paragraphs (*q*) to (*w*) were added by P.C. 2001-954, SOR/2001-187, dated May 31, 2001, applicable after July 22, 1998 except that, for the purposes of section 116 of the *Income Tax Act*, it applies to a sale of shares completed after April 1998 and before July 23, 1998, the gains from which are exempt from income tax otherwise payable in Canada under a tax treaty, unless the vendor of the shares otherwise elects in writing filed with the Minister of National Revenue on or before the balance-due day for the taxation year of the vendor in which the sale of shares was completed.

S. 3201, the portion before paragraph (*a*) was amended by P.C. 2001-954, SOR/2001-187, dated May 31, 2001, applicable after 1991. S. 3201, the portion before paragraph (*a*) formerly read:

"S. 3201. The following stock exchanges in countries other than Canada are hereby prescribed for the purposes of paragraph 13(27)(*f*) and sections 149.1, 204, 206.1 and 207.5 of the Act, and of the definition 'grandfathered share' in subsection 248(1) of the Act and the definition 'qualified security' in subsection 260(1) of the Act:"

S. 3201(p) was added by P.C. 1997-1145, SOR/97-408, dated August 28, 1997, applicable to the 1995 and subsequent taxation years.

S. 3201, the part preceding paragraph (a), was amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable after October 8, 1986, except that

(*a*) before 1990, section 3201 shall be read without reference to paragraph 13(27)(*f*) of the *Income Tax Act*; and,
(*b*) before April 27, 1989, section 3201 shall be read without reference to the definition "qualified security" in subsection 260(1) of the *Income Tax Act*.

The part formerly read:

"S. 3201. The following stock exchanges in countries other than Canada are prescribed for the purposes of sections 146, 146.3, 149.1, 204 and 206.1 of the Act and the definition 'grandfathered share' in subsection 248(1) of the Act:"

Ss. 3201(a) to (c) were amended, and paragraphs (d) to (o) were added, by P.C. 1994-101, SOR/94-126, dated January 20, 1994, applicable to the 1991 and subsequent taxation years. Ss. 3201(a) to (c) formerly read:

"(*a*) in France, Stock Exchange (Paris);
(*a*.1) in Mexico, Stock Exchange (Mexico City);
(*b*) in the United Kingdom, The Stock Exchange (London); and
(*c*) in the United States,
(i) American Stock Exchange,
(ii) Boston Stock Exchange,
(iii) Chicago Board of Trade,
(iv) Cincinnati Stock Exchange,
(v) Detroit Stock Exchange,
(vi) Midwest Stock Exchange,
(vi.1) National Association of Securities Dealers Automated Quotation System,
(vii) National Stock Exchange,
(viii) New York Stock Exchange,
(ix) Pacific Coast Stock Exchange,
(x) Philadelphia-Baltimore-Washington Stock Exchange,
(xi) Pittsburgh Stock Exchange,
(xii) Salt Lake Stock Exchange, and
(xiii) Spokane Stock Exchange."

S. 3201(a.1) was added by P.C. 1992-2334, SOR/92-660, dated November 19, 1992, applicable to the 1991 and subsequent taxation years.

S. 3201, the part preceding paragraph (a), was amended by P.C. 1989-1565, SOR/89-409, dated August 14, 1989 and applicable after June 18, 1987. That part formerly read:

"The following stock exchanges in countries other than Canada are hereby prescribed for the purposes of sections 146, 146.3, 149.1, 204 and 206.1 of the Act:"

S. 3201(c)(vi.1) was added by P.C. 1989-150, SOR/89-102, dated February 9, 1989 and applicable after 1988.

S. 3201, the part preceding paragraph (a), was amended by P.C. 1988-390, SOR/88-165, dated March 3, 1988 and effective January 1, 1986, except that the reference to ss. 206(1) and 206.1 are applicable to periods occurring after October 31, 1985. The amendment substituted "sections 146, 146.3, 149.1, 204 and 206.1" for "sections 146, 146.2, 146.3, 149.1 and 204 and subsection 206(1.1)."

S. 3201, the part preceding paragraph (a), was amended by P.C. 1986-1048, SOR/86-488, dated May 1, 1986, to add the reference to s. 149.1, applicable with respect to taxation years commencing after 1983.

S. 3201, the part preceding paragraph (a), was amended by P.C. 1981-2518, SOR/81-725, September 21, 1981, to add references to ss. 146.3 and 206(1.1), effective January 1, 1981.

Interpretation Bulletins: *Secondary* — IT-458R2 Canadian-Controlled Private Corporation.

Contingency Funds

3202. For the purposes of subparagraph 47.1(1)(*l*)(i) of the Act, the National Contingency Fund is a prescribed contingency fund.

History: S. 3202 was added by P.C. 1985-2277, SOR/85-696, dated July 25, 1985, effective commencing November 13, 1981.

PART XXXIII
Tax Transfer Payments

3300. For the purposes of subsection 154(2) of the Act, a rate of 45% is prescribed.

History: S. 3300 was replaced by P.C. 2005-2315, SOR/2006-1, dated December 20, 2005, applicable to the 2005 and subsequent taxation years.

S. 3300 formerly read:

"S. 3300. For the purpose of subsection 154(2) of the Act, a rate of 40% is prescribed."

S. 3300 was amended by P.C. 1998-2270, SOR/99-17, dated December 16, 1998, coming into force on January 1, 1999. S. 3300 formerly read:

"S. 3300. For the purposes of subsection 154(2) of the Act, a rate of 45 per cent is hereby prescribed."

PART XXXIV

International Development Assistance Programs

3400. For the purposes of paragraphs 122.3(1)(*a*) and 250(1)(*d*) of the Act, each international development assistance program of the Canadian International Development Agency that is financed with funds (other than loan assistance funds) provided under External Affairs Vote 30a, *Appropriation Act No. 3, 1977-78*, or another vote providing for such financing, is hereby prescribed as an international development assistance program of the Government of Canada.

History: Part XXXIV was amended by P.C. 1985-2277, SOR/85-696, dated July 25, 1985, to add the reference to s. 122.3(1)(a) and to substitute "or another vote providing for such financing" for "as amended", applicable to the 1984 and subsequent taxation years.

Part XXXIV was amended by P.C. 1978-1140, SOR/78-349, dated April 17, 1978 (Special Issue, *Canada Gazette*, December 31, 1978), effective on and after April 1, 1977.

Part XXXIV was amended by P.C. 1978-298, SOR/78-127, dated February 6, 1978 (Special Issue, *Canada Gazette*, December 31, 1978), effective on and after April 1, 1977.

Interpretation Bulletins: *Secondary* — IT-497R4 Overseas employment tax credit.

PART XXXV

Receipts for Donations and Gifts

INTERPRETATION

3500. In this Part,

"*employees' charity trust*" means a registered charity that is organized for the purpose of remitting, to other registered charities, donations that are collected from employees by an employer;

"*official receipt*" means a receipt for the purposes of subsection 110.1(2) or (3) or 118.1(2), (6) or (7) of the Act, containing information as required by section 3501 or 3502;

"*official receipt form*" means any printed form that a registered organization or other recipient of a gift has that is capable of being completed, or that originally was intended to be completed, as an official receipt by it;

"*other recipient of a gift*" means a person, to whom a gift is made by a taxpayer, referred to in any of subparagraphs 110.1(1)(*a*)(iii) to (vii), paragraphs 110.1(1)(*b*) and (*c*), subparagraph 110.1(3)(*a*)(ii), paragraphs (*c*) to (*g*) of the definition "total charitable gifts" in subsection 118.1(1), the definition "total Crown gifts" in subsection 118.1(1), paragraph (*b*) of the definition "total cultural gifts" in subsection 118.1(1) and paragraph 118.1(6)(*b*) of the Act;

"*registered organization*" means a registered charity, a registered Canadian amateur athletic association or a registered national arts service organization.

History: S. 3500, the definitions "employees' charity trust", "official receipt", "other recipient of a gift" and "registered organization" was amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to the 1988 and subsequent taxation years except that

(*a*) the definition "employees' charity trust" applies to the 1986 and subsequent taxation years;

(*b*) the definition "registered organization" shall, in its application before July 14, 1990, be read as follows:

" 'registered organization' means a registered charity or a registered Canadian amateur athletic association."; and

(*c*) in the application of the definition "other recipient of a gift" before December 12, 1988, the reference in that definition to "paragraph (*b*) of the definition 'total cultural gifts'" shall be read as "paragraph (*c*) of the definition 'total cultural gifts'".

The definitions formerly read:

" 'employees' charity trust' means a registered charity that is organized for the purpose of remitting, to other registered charities, donations that are collected from employees by an employer by means of payroll deductions;

'official receipt' means a receipt for the purpose of paragraph 110(1)(*a*), (*b*) or (*b*.1) or subsection 110(2.2) or (2.3) of the Act, containing information as required by section 3501 or 3502;

'other recipient of a gift' means a person referred to in any of subparagraphs 110(1)(*a*)(iii) to (vii), paragraph 110(1)(*b*) or (*b*.1) or subparagraph 110(2.2)(*a*)(ii) of the Act to whom a gift is made by a taxpayer;

'registered organization' means a registered charity or a registered Canadian amateur athletic association, as the case may be."

S. 3500, the definition "official receipt" was amended by P.C. 1988-390, SOR/88-165, dated March 3, 1988, to substitute "paragraph 110(1)(*a*), (*b*) or (*b*.1) or subsection 110(2.2) or (2.3)" for "paragraph 110(1)(*a*), (*b*), (*b*.1) or subsection 110(2.2)", applicable with respect to gifts made after 1984.

S. 3500, the definition of "official receipt", was amended by P.C. 1986-1048, SOR/86-488, dated May 1, 1986, to substitute "purpose of paragraph 110(1)(*a*), (*b*), (*b*.1) or subsection 110(2.2)" for "purposes of paragraph 110(1)(*a*), (*b*), (*b*.1) or 110(2.2)(*d*)", applicable with respect to gifts made after February 15, 1984.

S. 3500, the definition of "other recipient of a gift", was amended by P.C. 1986-1048, SOR/86-488, dated May 1, 1986, applicable with respect to gifts made after February 15, 1984. That definition formerly read:

" 'other recipient of a gift' means a person referred to in subparagraphs 110(1)(*a*)(iii) to (vii) and paragraphs 110(1)(*b*) and (*b*.1) of the Act to whom a gift is made by a taxpayer;"

The heading "Receipts for Donations and Gifts" was substituted for the heading "Charities and Amateur Athletic Associations" by P.C. 1981-841, SOR/81-269, dated March 27, 1981 and applicable with respect to gifts made after 1980.

S. 3500, the definition of "official receipt", was amended by P.C. 1981-841, SOR/81-269, dated March 27, 1981, to add the references to ss. 110(1)(*b*), (*b*.1) and 110(2.2)(*d*), applicable with respect to gifts made after 1980.

S. 3500, the definition of "official receipt form", was amended by P.C. 1981-841, SOR/81-269, dated March 27, 1981, to substitute "that a registered organization or other recipient of a gift" for "which a registered organization", applicable with respect to gifts made after 1980.

S. 3500, the definition of "other recipient of a gift", was added by P.C. 1981-841, SOR/81-269, dated March 27, 1981, applicable with respect to gifts made after 1980.

Interpretation Bulletins: *Secondary* — IT-110R3 Deductible gifts and official donation receipts; IT-226R Gift to a charity of a residual interest in real property or an equitable interest in a trust; IT-504R2 (Consolid.) Visual artists and writers.

CONTENTS OF RECEIPTS

3501. (1) Every official receipt issued by a registered organization shall contain a statement that it is an official receipt for income tax purposes and shall show clearly in such a manner that it cannot readily be altered,

(*a*) the name and address in Canada of the organization as recorded with the Minister;

(*b*) the registration number assigned by the Minister to the organization;

(*c*) the serial number of the receipt;

(*d*) the place or locality where the receipt was issued;

(*e*) where the donation is a cash donation, the day on which or the year during which the donation was received;

(*e*.1) where the donation is a gift of property other than cash

(i) the day on which the donation was received,

(ii) a brief description of the property, and

(iii) the name and address of the appraiser of the property if an appraisal is done;

(*f*) the day on which the receipt was issued where that day differs from the day referred to in paragraph (*e*) or (*e.1*);

(*g*) the name and address of the donor including, in the case of an individual, his first name and initial;

(*h*) the amount that is

(i) the amount of a cash donation, or

(ii) where the donation is a gift of property other than cash, the amount that is the fair market value of the property at the time that the gift was made;

(*i*) the signature, as provided in subsection (2) or (3), of a responsible individual who has been authorized by the organization to acknowledge donations; and

(*j*) the name and Internet website of the Canada Revenue Agency.

Explanatory Note Extract
Proposed Amendment to Information Provided on Receipt for Donation

[Reproduced below is an excerpt from the explanatory note for the amendment to subsection 110.1(2) of the Act, released with the November 9, 2006 draft technical amendments (Part 2 of former Bill C-10). This excerpt describes a proposal to amend subsections 3501(1), (1.1) and (6) of the Income Tax Regulations. The same proposal was noted in the explanatory notes for the proposed amendment to subsection 118.1(2).]

Proof of Gift

Subsection 110.1(2) of the Act provides that a corporation may not deduct an amount in respect of a gift unless the gift is evidenced by a receipt containing prescribed information. The subsection is amended, concurrently with subsection 110.1(1) of the Act, to refer to the "eligible amount" of a gift.

It is proposed that subsections 3501(1), (1.1) and (6) of the Regulations be amended to provide that every official receipt issued by a registered organization in respect of a gift contain, in addition to the information already prescribed, a description and the amount of the advantage, if any, and the eligible amount of the gift.

For additional details, see the commentary to new subsections 248(31) and (32) of the Act regarding the eligible amount and the amount of the advantage in respect of a gift.

These amendments to subsection 110.1(2) [and 118.1(2)] of the Act and subsections 3501(1), (1.1) and (6) of the Regulations are to be effective in respect of gifts made after December 20, 2002.

History: S. 3501(1)(*j*) was added by P.C. 2007-553, SOR/2007-74, dated April 19, 2007, applicable in respect of receipts issued after 2005.

S. 3501(1)(e) was amended, and s. 3501(1)(e.1) was added, by P.C. 1981-841, SOR/81-269, dated March 27, 1981 and applicable with respect to gifts made after 1980. S. 3501(1)(e) formerly read:

"(*e*) the day on which, or the year during which, the donation was received;"

S. 3501(1)(f) was amended by P.C. 1981-841, SOR/81-269, dated March 27, 1981, to add the reference to s. 3501(1)(e.1), applicable with respect to gifts made after 1980.

S. 3501(1)(h) was amended by P.C. 1981-841, SOR/81-269, dated March 27, 1981 and applicable with respect to gifts made after 1980. S. 3501(1)(h) formerly read:

"(*h*) the amount of the donation, and"

Interpretation Bulletins: *Secondary*— IT-110R3 Deductible gifts and official donation receipts; IT-226R Gift to a charity of a residual interest in real property or an equitable interest in a trust; IT-288R2 Gifts of capital properties to a charity and others.

Income Tax Technical News: Issue No. 26, Proposed Guidelines on Split Receipting.

Registered Charities Newsletters: No. 27, Receipts — Who is the donor?; No. 23, New requirements for official donation receipts; No. 17, Questions and answers on split-receipting; No. 17, Questions and Answers on Split Receipting; No. 11, Audit of Tax Preparer Lands Registered Charities and Executive Director in Hot Water; No. 7, Canadian charities and their U.S. donors; No. 6, Can registered charities issue donation tax receipts for tuition fees?; No. 6, The "art" of issuing official donation receipts; No. 4, Issuing receipts for gifts of art; No. 3, Gifts of property other than cash; No. 2, Issuing official donation receipts where there are prizes; No. 1, Donation of services.

(1.1) Every official receipt issued by another recipient of a gift shall contain a statement that it is an official receipt for income tax purposes and shall show clearly in such a manner that it cannot readily be altered,

(*a*) the name and address of the other recipient of the gift;

(*b*) the serial number of the receipt;

(*c*) the place or locality where the receipt was issued;

(*d*) where the donation is a cash donation, the day on which or the year during which the donation was received;

(*e*) where the donation is a gift of property other than cash,

(i) the day on which the donation was received,

(ii) a brief description of the property, and

(iii) the name and address of the appraiser of the property if an appraisal is done;

(*f*) the day on which the receipt was issued where that day differs from the day referred to in paragraph (*d*) or (*e*);

(*g*) the name and address of the donor including, in the case of an individual, his first name and initial;

(*h*) the amount that is

(i) the amount of a cash donation, or

(ii) where the donation is a gift of property other than cash, the amount that is the fair market value of the property at the time that the gift was made;

(*i*) the signature, as provided in subsection (2) or (3.1), of a responsible individual who has been authorized by the other recipient of the gift to acknowledge donations; and

(*j*) the name and Internet website of the Canada Revenue Agency.

Editorial Note: See the Explanatory Note Extract reproduced following subsection 3501(1) concerning a proposed amendment to subsections 3501(1), (1.1) and (6).

History: S. 3501(1.1)(*j*) was added by P.C. 2007-553, SOR/2007-74, dated April 19, 2007, applicable in respect of receipts issued after 2005.

S. 3501(1.1) was added by P.C. 1981-841, SOR/81-269, dated March 27, 1981 and applicable with respect to gifts made after 1980.

Information Circulars: IC 84-3R5 Gifts to Certain Charitable Organizations Outside Canada.

(2) Except as provided in subsection (3) or (3.1), every official receipt shall be signed personally by an individual referred to in paragraph (1)(*i*) or (1.1)(*i*).

History: S. 3501(2) was amended by P.C. 1981-841, SOR/81-269, dated March 27, 1981, to add the references to subsection (3.1) and paragraph (1.1)(i), applicable with respect to gifts made after 1980.

(3) Where all official receipt forms of a registered organization are

(*a*) distinctively imprinted with the name, address in Canada and registration number of the organization,

(*b*) serially numbered by a printing press or numbering machine, and

(*c*) kept at the place referred to in subsection 230(2) of the Act until completed as an official receipt,

the official receipts may bear a facsimile signature.

Registered Charities Newsletters: No. 23, New requirements for official donation receipts.

(3.1) Where all official receipt forms of another recipient of the gift are

(*a*) distinctively imprinted with the name and address of the other recipient of the gift,

(*b*) serially numbered by a printing press or numbering machine, and

(*c*) if applicable, kept at a place referred to in subsection 230(1) of the Act until completed as an official receipt,

the official receipts may bear a facsimile signature.

History: S. 3501(3.1) was added by P.C. 1981-841, SOR/81-269, dated March 27, 1981 and applicable with respect to gifts made after 1980.

(4) An official receipt issued to replace an official receipt previously issued shall show clearly that it replaces the original receipt and, in addition to its own serial number, shall show the serial number of the receipt originally issued.

(5) A spoiled official receipt form shall be marked "cancelled" and such form, together with the duplicate thereof, shall be retained by the registered organization or the other recipient of a gift as part of its records.

History: S. 3501(5) was amended by P.C. 1981-841, SOR/81-269, dated March 27, 1981, to add "or the other recipient of a gift" before "as part of its records", applicable with respect to gifts made after 1980.

(6) Every official receipt form on which

(*a*) the day on which the donation was received,

(*b*) the year during which the donation was received, or

(*c*) the amount of the donation,

was incorrectly or illegibly entered shall be regarded as spoiled.

Editorial Note: See the Explanatory Note Extract reproduced following subsection 3501(1) concerning a proposed amendment to subsections 3501(1), (1.1) and (6).

Interpretation Bulletins: *Secondary* — IT-226R Gift to a charity of a residual interest in real property or an equitable interest in a trust.

Employees' Charity Trusts

3502. Where

(*a*) a registered organization

(i) is an employees' charity trust, or

(ii) has appointed an employer as agent for the purpose of remitting, to that registered organization, donations that are collected by the employer from the employer's employees, and

(*b*) each copy of the return required by section 200 to be filed for a year by an employer of employees who donated to the registered organization in that year shows

(i) the amount of each employee's donations to the registered organization for the year collected by the employer, and

(ii) the registration number assigned by the Minister to the registered organization,

section 3501 shall not apply and the copy of the portion of the return, relating to each employee who made a donation to the registered organization in that year, that is required by section 209 to be distributed to the employee for filing with the employee's income tax return shall be an official receipt.

History: S. 3502 was amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to the 1986 and subsequent taxation years. S. 3502 formerly read:

"S. 3502. Where a registered organization is an employees' charity trust and each copy of the return required by section 200 to be filed for a year by an employer of employees who donated to the trust in that year shows

(*a*) the amount of each employee's donations to the organization for the year, and

(*b*) the registration number assigned by the Minister to the organization,

section 3501 shall not apply and the copy of the portion of the return relating to each employee who made a donation to such organization that is required by section 209 to be distributed to him for filing with his income tax return shall be an official receipt."

Interpretation Bulletins: *Secondary* — IT-226R Gift to a charity of a residual interest in real property or an equitable interest in a trust.

Universities Outside Canada

3503. For the purposes of subparagraph 110.1(1)(*a*)(vi) and paragraph (*f*) of the definition "total charitable gifts" in subsection 118.1(1) of the Act, the universities outside Canada named in Schedule VIII are hereby prescribed to be universities the student body of which ordinarily includes students from Canada.

History: S. 3503 was amended by P.C. 1990-1332, SOR/90-411, dated June 28, 1990 and applicable to the 1988 and subsequent taxation years.

Interpretation Bulletins: *Secondary* — IT-226R Gift to a charity of a residual interest in real property or an equitable interest in a trust.

Prescribed Donees

3504. For the purposes of subparagraph 110.1(3)(*a*)(ii) and paragraph 118.1(6)(*b*) of the Act, the following are prescribed donees:

(*a*) Friends of the Nature Conservancy of Canada, Inc., a charity established in the United States; and

(*b*) The Nature Conservancy, a charity established in the United States.

History: S. 3504 was replaced by P.C. 2007-553, SOR/2007-74, dated April 19, 2007, applicable upon publication in the *Canada Gazette*, May 2, 2007.

S. 3504 formerly read:

"S. 3504. For the purposes of subparagraph 110.1(3)(*a*)(ii) and paragraph 118.1(6)(*b*) of the Act, The Nature Conservancy, a charity established in the United states, is a prescribed donee."

S. 3504 was amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to the 1988 and subsequent taxation years. S. 3504 formerly read:

"S. 3504. For the purposes of subparagraph 110(2.2)(*a*)(ii) of the Act, The Nature Conservancy, a charity established in the United States, is a prescribed donee."

S. 3504 was added by P.C. 1986-1048, SOR/86-488, dated May 1, 1986, applicable with respect to gifts made after February 15, 1984.

Interpretation Bulletins: *Secondary* — IT-171R2 Non-resident individuals — Taxable income earned in Canada [Archived by the CRA]; IT-226R Gift to a charity of a residual interest in real property or an equitable interest in a trust; IT-288R2 Gifts of capital properties to a charity and others.

Conditions

3505. (1) The following conditions are prescribed in respect of a donee for the purposes of paragraph 110.1(8)(*e*) of the Act:

(*a*) the donee has applied to the Minister for International Cooperation (or, if there is no such Minister, the Minister responsible for the Canadian International Development Agency) for a determination that the conditions described in this section have been met;

(*b*) medicines received by the donee for use in charitable activities outside Canada are

(i) delivered outside Canada by the donee for use in its charitable activities, or

(ii) transferred to another registered charity that would meet the conditions contained in this section if that registered charity were a donee described in subsection 110.1(8) of the Act;

(*c*) in the course of delivering medicines outside Canada for use in its charitable activities, the donee acts in a manner consistent with the principles and objectives of the inter-agency *Guidelines for Drug Donations* issued by the World Health Organization, as amended from time to time, (referred to in this section as "the WHO Guidelines");

(*d*) the donee has sufficient expertise in delivering medicines for use in charitable activities carried on outside Canada;

(*e*) the donee carries on a program that includes delivering medicines for use in charitable activities carried on outside Canada and that is

(i) an international development assistance program, or

(ii) an international humanitarian assistance program, responding to situations of international humanitarian crisis (resulting from either natural disaster or complex emergency); and

(*f*) the donee has sufficient expertise to design, implement and monitor each program described in subparagraph (*e*)(i) or (ii) that it carries on, unless the donee has declared that it will not deliver medicines in that program.

(2) Without limiting the application of the WHO Guidelines, for the purposes of paragraph (1)(*c*), a donee does not act in a manner consistent with the principles and objectives of those guidelines if the donee's directors, trustees, officers or like officials have not

(*a*) approved a policy and procedural framework, under which the donee is required to act in a manner consistent with the WHO Guidelines; and

(*b*) declared that the donee acts in compliance with that policy and procedural framework.

(3) A donee is considered not to have sufficient expertise for the purpose of a program to which paragraph (1)(*d*) or (*e*) applies if

(*a*) the program does not address the specific and differentiated needs, interests and vulnerabilities of affected women and men, girls and boys;

(*b*) the program does not incorporate, in the design of projects under the program, consideration for environmental effects of those projects; or

(*c*) the donee does not have policies and practices for the design, implementation and monitoring of the program.

(4) The Minister referred to in subsection (1) may

(*a*) rely on any information or evidence in making a determination under subsection (1); and

(*b*) require the donee to provide any other information or evidence that that Minister considers relevant and sufficient for the purpose of this section.

History: S. 3505 was added by S.C. 2009, c. 2, s. 104(1), applicable in respect of applications made at any time by donees for determinations in respect of gifts made after June 2008.

PART XXXVI
Reserves for Surveys

3600. (1) For the purposes of paragraph 20(1)(*o*) of the Act, the amount hereby prescribed is

(*a*) for the third taxation year preceding the taxation year during which a survey is scheduled to occur, the amount that is 1/4 of the estimate of the expenses of the survey;

(*b*) for the second taxation year preceding the taxation year during which a survey is scheduled to occur, the amount that is 1/2 of the estimate of the expenses of the survey;

(*c*) for the first taxation year preceding the taxation year during which a survey is scheduled to occur, the amount that is 3/4 of the estimate of the expenses of the survey; and

(*d*) for the taxation year during which a survey is scheduled to occur, if the quadrennial or other special surveys have not, at the end of the year, been completed to the extent that the vessel is permitted to proceed on a voyage, the amount remaining after deducting from the estimate of the expenses of the survey the amount of expenses actually incurred in the year in carrying out the survey.

(2) In this section,

"*classification society*" means a society or association for the classification and registry of shipping approved by the Minister of Transport under the *Canada Shipping Act*;

"*estimate of the expenses of survey*" means a fair and reasonable estimate, made by a taxpayer at the time of filing his return of income for the third taxation year preceding the taxation year in which a quadrennial survey is scheduled to occur, of the costs, charges and expenses which might be expected to be necessarily incurred by him by reason of that survey and in respect of which he does not have or possess nor is he likely to have or possess any right of reimbursement, recoupment, recovery or indemnification from any other person or source;

"*inspector*" means a steamship inspector appointed under Part VIII of the *Canada Shipping Act*;

"*quadrennial survey*" means a periodical survey, not being an annual survey nor a survey coinciding as to time with the construction of a vessel, in accordance with the rules of a classification society or, an extended inspection, not being an annual inspection nor an inspection coinciding as to time with the construction of a vessel, pursuant to the provisions of the *Canada Shipping Act*, and the regulations thereunder;

"*survey*" means the drydocking of a vessel, the examination and inspection of its hull, boilers, machinery, engines and equipment by an inspector or a surveyor and everything done to such vessel, its hull, boilers, machinery, engines and equipment pursuant to an order, requirement or recommendation given or made by the inspector or surveyor as the result of the examination and inspection so that a safety and inspection certificate might be issued in respect of the vessel pursuant to the provisions of the *Canada Shipping Act*, and the regulations thereunder or, as the case may be, so that the vessel might be entitled to retain the character

assigned to it in the registry book of a classification society;

"*surveyor*" means a surveyor to a classification society.

PART XXXVII
Charitable Foundations

INTERPRETATION

3700. In this Part,

"*charitable foundation*" has the meaning assigned by paragraph 149.1(1)(*a*) [subsection 149.1(1) "charitable foundation"] of the Act;

"*limited-dividend housing company*" means a limited-dividend housing company described in paragraph 149(1)(*n*) of the Act;

"*non-qualified investment*" has the meaning assigned by paragraph 149.1(1)(*e.1*) [subsection 149.1(1) "non-qualified investment"] of the Act;

"*prescribed stock exchange*" [Repealed.]

History: S. 3700, the definition "prescribed stock exchange" was repealed by S.C. 2007, c. 35, s. 75(1), in force December 14, 2007. S. 3700, the definition "prescribed stock exchange" formerly read:

" 'prescribed stock exchange' means a stock exchange referred to in Part XXXII;"

"*taxation year*" has the meaning assigned by paragraph 149.1(1)(*l*) [subsection 149.1(1) "taxation year"] of the Act.

History: S. 3700 was added by P.C. 1987-2236, SOR/87-632, dated October 29,1987 and deemed effective with respect to taxation years commencing after 1983.

DISBURSEMENT QUOTA

3701. (1) For the purposes of clause 149.1(1)(*e*)(iv)(A) [subsection 149.1(1) "disbursement quota"] of the Act, the prescribed amount referred to therein for a taxation year of a charitable foundation shall be determined in accordance with the following rules:

(*a*) choose a number, not less than two and not more than eight, of equal and consecutive periods that total twenty-four months and that end immediately before the beginning of the year;

(*b*) aggregate for each period chosen under paragraph (*a*) all amounts, each of which is the value, determined in accordance with section 3702, of property or a portion thereof owned by the foundation, and not used directly in charitable activities or administration, on the last day of the period;

(*c*) aggregate all amounts, each of which is the aggregate of values determined for each period under paragraph (*b*); and

(*d*) divide the aggregate amount determined under paragraph (*c*) by the number of periods chosen under paragraph (*a*).

(2) For the purposes of subsection (1) and subject to subsection (3),

(*a*) the number of periods chosen by a charitable foundation under paragraph (1)(*a*) shall, unless otherwise authorized by the Minister, be used for the taxation year and for all subsequent taxation years; and

(*b*) a charitable foundation shall be deemed to have existed on the last day of each of the periods chosen by it.

(3) The number of periods chosen under paragraph (1)(*a*) may be changed by the foundation for its first taxation year commencing after 1986 and the new number shall, unless otherwise authorized by the Minister, be used for that taxation year and all subsequent taxation years.

History: S. 3701 was added by P.C. 1987-2236, SOR/87-632 dated October 29, 1987 and deemed effective with respect to taxation years commencing after 1983.

DETERMINATION OF VALUE

3702. (1) For the purposes of subsection 3701(1), the value of property or a portion thereof owned by a charitable foundation, and not used directly in charitable activities or administration, on the last day of a period shall be determined as of that day and shall be

(*a*) in the case of a non-qualified investment, the greater of its fair market value on that day and its cost amount to the foundation;

(*b*) subject to paragraph (*c*), in the case of property other than a non-qualified investment that is

(i) a share of a corporation that is listed on a designated stock exchange, the closing price or the average of the bid and asked prices of that share on that day or, if there is no closing price or bid and asked prices on that day, on the last preceding day for which there was a closing price or bid and asked prices,

(ii) a share of a corporation that is not listed on a designated stock exchange, the fair market value of that share on that day,

(iii) an interest in real property, the fair market value on that day of the interest less the amount of any debt of the foundation incurred in respect of the acquisition of the interest and secured by the real property or the interest therein, where the debt bears a reasonable rate of interest,

(iv) a contribution that is the subject of a pledge, nil,

(v) an interest in property where the foundation does not have the present use or enjoyment of the interest, nil,

(vi) a life insurance policy, other than an annuity contract, that has not matured, nil, and

(vii) a property not described in any of subparagraphs (i) to (vi), the fair market value of the property on that day; and

(*c*) in the case of any property described in paragraph (*b*)

(i) that is owned in connection with the charitable activities of the foundation and is a share of a limited-dividend housing company or a loan,

(ii) that has ceased to be used for charitable purposes and is being held pending disposition or for use in charitable activities, or

(iii) that has been acquired for use in charitable activities,

the lesser of the fair market value of the property on that day and an amount determined by the formula

$$\frac{A}{.045} \times \frac{12}{B}$$

where

"A" is the income earned on the property in the period, and

"B" is the number of months in the period.

History: S. 3702(1)(*b*)(i) and (ii) were amended by S.C. 2007, c. 35, s. 76(1), by replacing "prescribed stock exchange" with "designated stock exchange", in force on December 14, 2007.

(2) For the purposes of subsection (1), a method that the Minister may accept for the determination of the fair market value of property or a portion thereof on the last day of a period is an independent appraisal made

(*a*) in the case of property described in subparagraph (1)(*b*)(ii) or (iii), not more than three years before that day; and

(*b*) in the case of property described in paragraph (1)(*a*), subparagraph (1)(*b*)(vii) or paragraph (1)(*c*), not more than one year before that day.

History: S. 3702 was added by P.C. 1987-2236, SOR/87-632, dated October 29, 1987 and deemed effective with respect to taxation years commencing after 1983.

PART XXXVIII

Social Insurance Number Applications

3800. Every individual who is required by subsection 237(1) of the Act to apply to the Minister of National Health and Welfare for assignment to him of a Social Insurance Number shall do so by delivering or mailing to the local office of the Canada Employment and Immigration Commission nearest to the individual's residence, a completed application in the form prescribed by the Minister for that purpose.

Information Circulars: IC 82-2R2 Social insurance number legislation that relates to the preparation of information slips.

PART XXXIX

Mining Taxes

3900. (1) The following definitions apply in this section.

"*income*" of a taxpayer for a taxation year from mining operations in a province means the income, for the taxation year, that is derived from mining operations in the province as computed under the laws of the province that impose an eligible tax described in subsection (3).

"*mine*" includes any work or undertaking in which a mineral ore is extracted or produced and includes a quarry.

"*mineral ore*" includes an unprocessed mineral or mineral-bearing substance.

"*mining operations*" means

(*a*) the extraction or production of mineral ore from or in a mine;

(*b*) the transportation of mineral ore to the point of egress from the mine; and

(*c*) the processing of

(i) mineral ore (other than iron ore) to the prime metal stage or its equivalent, and

(ii) iron ore to a stage that is not beyond the pellet stage or its equivalent.

"*non-Crown royalty*" means a royalty contingent on production of a mine or computed by reference to the amount or value of production from mining operations in a province but does not include a royalty that is payable to the Crown in right of Canada or a province.

"*processing*" includes all forms of beneficiation, smelting and refining.

(2) For the purpose of paragraph 20(1)(*v*) of the Act, the amount allowed in respect of taxes on income from mining operations of a taxpayer for a taxation year is the total of all amounts each of which is an eligible tax paid or payable by the taxpayer

(*a*) on the income of the taxpayer for the taxation year from mining operations; or

(*b*) on a non-Crown royalty included in computing the income of the taxpayer for the taxation year.

(3) An eligible tax referred to in subsection (2) is

(*a*) a tax, on the income of a taxpayer for a taxation year from mining operations in a province, that is

(i) levied under a law of the province,

(ii) imposed only on persons engaged in mining operations in the province, and

(iii) paid or payable to

(A) the province,

(B) an agent of Her Majesty in right of the province, or

(C) a municipality in the province, in lieu of taxes on property or on any interest, or for civil law any right, in property (other than in lieu of taxes on residential property or on any interest, or for civil law any right, in residential property); and

(*b*) a tax, on an amount received or receivable by a person as a non-Crown royalty, that is

(i) levied under a law of a province,

(ii) imposed specifically on persons who hold a non-crown royalty on mining operations in the province, and

(iii) paid or payable to the province or to an agent of Her Majesty in right of the province.

History: S. 3900(3)(*b*)(ii) was replaced by P.C. 2007-1443, SOR/2007-212, dated September 27, 2007, applicable to taxes paid or payable in taxation years that end after 2002. S. 3900(3)(*b*)(ii) formerly read:

"(ii) imposed only on persons who hold a non-Crown royalty on mining operations in the province, and"

S. 3900 and the heading before it were replaced by P.C. 2006-999, SOR/2006-207, dated September 21, 2006, applicable to taxation years that end after 2002, except that, for taxation years that begin before 2007, the amount allowed for the purpose of paragraph 20(1)(*v*) of the Act under subsection 3900(1) [(*sic*) 3900(2) — CCH], in respect of an eligible tax paid or payable in respect of which no amount would be deductible but for section 3900, may not exceed the amount that provides the taxpayer with a deduction, in computing the taxpayer's income under the Act for the taxation year, that is equal to the total of

(*a*) 10% of the amount of the eligible tax paid or payable by the taxpayer on the taxpayer's income, for the taxation year, from mining operations multiplied by the proportion that the number of days in the taxation year that are in 2003 is of the number of days in the taxation year;

(*b*) 25% of the amount of the eligible tax paid or payable by the taxpayer on the taxpayer's income, for the taxation year, from mining operations

multiplied by the proportion that the number of days in the taxation year that are in 2004 is of the number of days in the taxation year;

(*c*) 35% of the amount of the eligible tax paid or payable by the taxpayer on the taxpayer's income, for the taxation year, from mining operations multiplied by the proportion that the number of days in the taxation year that are in 2005 is of the number of days in the taxation year;

(*d*) 65% of the amount of the eligible tax paid or payable by the taxpayer on the taxpayer's income, for the taxation year, from mining operations multiplied by the proportion that the number of days in the taxation year that are in 2006 is of the number of days in the taxation year; and

(*e*) 100% of the amount of the eligible tax paid or payable by the taxpayer on the taxpayer's income, for the taxation year, from mining operations multiplied by the proportion that the number of days in the taxation year that are in 2007 is of the number of days in the taxation year.

S. 3900 and the heading before it formerly read:

"PART XXXIX
Mining Taxes on Income

S. 3900. (1) In computing his income for a taxation year, a taxpayer may deduct, under paragraph 20(1)(*v*) of the Act, an amount equal to the lesser of

(*a*) the aggregate of the taxes paid, in respect of his income derived from mining operations in a province for the year,

(i) to the province, and

(ii) to a municipality in the province in lieu of taxes on property or any interest in property (other than his residential property or any interest therein); and

(*b*) that proportion of such taxes that his income derived from mining operations in the province for the year is of his income in respect of which the taxes were so paid.

(2) In this section,

'income derived from mining operations' in a province for a taxation year by a taxpayer means,

(*a*) where the taxpayer has no source of income other than mining operations, the amount that would otherwise be his income for the year if no amount had been deducted in computing his income under paragraph 20(1)(*v*) of the Act or paragraph 1100(1)(*g*) of these Regulations, and

(*b*) in any other case, the amount that would otherwise be his income for the year if no amount had been deducted in computing his income under paragraph 20(1)(*v*) of the Act or paragraph 1100(1)(*g*) of these Regulations, minus the aggregate of

(i) his income for the year from all sources other than mining, processing and sale of mineral ores, minerals and products produced therefrom, and

(ii) an amount equal to eight per cent of the original cost to him of properties described in Schedule II used by him in the year in the processing of mineral ores, minerals or products derived therefrom or, if the amount so determined is greater than 65 per cent of the income remaining after deducting the amount determined under subparagraph (i), 65 per cent of the income so remaining or, if the amount so determined is less than 15 per cent of the income so remaining, 15 per cent of the income so remaining;

'mine' includes any work or undertaking in which mineral ore is extracted or produced, including a quarry;

'mineral ores' includes all unprocessed minerals or mineral bearing substances;

'minerals' means minerals other than minerals obtained from a mineral resource but does not include petroleum, natural gas or related hydrocarbons;

'mining operations' means the extraction or production of mineral ore from or in any mine or its transportation to or over any part of the distance to the point of egress from the mine, including processing thereof prior to or in the course of such transportation but not including any processing thereof after removal from the mine;

'processing' as applied to mineral ores includes all forms of beneficiation, smelting and refining, transportation and distributing but does not include any of these operations that are performed with respect to mineral ore before it is removed from the mine.

(3) Nothing in this section shall be construed as allowing a taxpayer to deduct an amount in respect of taxes imposed under a statute or by-law that is not restricted to the taxation of persons engaged in mining operations."

Part XXXIX was revoked and replaced by Order in Council P.C. 1978-1315, SOR/78-377, dated April 24, 1978 (Special Issue, *Canada Gazette*, December 31, 1978).

PART XL
Borrowed Money Costs

4000. [Revoked.]

History: S. 4000 and its heading were revoked by P.C. 1981-744, SOR/81-251, dated March 20, 1981, and effective in respect of taxation years ending after December 11, 1979. S. 4000 formerly read:

"BORROWED MONEY COSTS

S. 4000. For the purposes of section 21 of the Act, an election shall be made by filing with the Minister the following documents in duplicate:

(*a*) a letter from the taxpayer stating under which subsection of the said section he is electing and specifying each amount in respect of which the election is being made; and

(*b*) where the taxpayer is a corporation, a certified copy of the resolution of the directors authorizing the election to be made."

INTEREST ON INSURANCE POLICY LOANS

4001. For the purposes of subsection 20(2.1) of the Act, the amount of interest to be verified by the insurer in respect of a taxpayer shall be verified in prescribed form no later than the last day on which the taxpayer is required to file his return of income under section 150 of the Act for the taxation year in respect of which the interest was paid.

History: S. 4001 was amended by P.C. 1984-776, SOR/84-224, dated March 9, 1984 and applicable to taxation years ending after 1983. S. 4001 formerly read:

"S. 4001. For the purposes of subsection 20(2.1) of the Act, the amount of interest to be verified by the insurer shall be verified in prescribed form no later than 31 days after the day on or before which the taxpayer referred to in that subsection is required to file his return of income under section 150 of the Act for the year in respect of which the interest is paid."

S. 4001 was amended by P.C. 1979-1726, SOR/79-488, dated June 22, 1979, effective in respect of the 1978 and subsequent taxation years. S. 4001 formerly read:

"S. 4001. For the purposes of subsection 20(2.1) of the Act, the prescribed form referred to in that subsection shall be filed no later than 31 days after the day on or before which the taxpayer referred to in that subsection is required to file his return of income under section 150 of the Act for the year in respect of which the interest is paid."

S. 4001 and heading were added by P.C. 1979-236, SOR/79-142, dated February 6, 1979, effective in respect of the 1978 and subsequent taxation years.

PART XLI
Representation Expenses

4100. For the purposes of subsection 20(9) of the Act, an election shall be made by filing with the Minister the following documents in duplicate:

(*a*) a letter from the taxpayer specifying the amount in respect of which the election is being made; and

(*b*) where the taxpayer is a corporation, a certified copy of the resolution of the directors authorizing the election to be made.

PART XLII
Valuation of Annuities and Other Interests

4200. For the purposes of subparagraph 115E(*f*)(i) of the former Act (within the meaning assigned by paragraph 8(*b*) of the *Income Tax Application Rules*), the value of any income right, annuity, term of years, life or other similar estate or interest in expectancy shall be determined in accordance with the rules and standards, including standards as to mortality and interest, as are prescribed by the

Estate Tax Regulations pursuant to the provisions of subparagraph 58(1)(s)(i) of the *Estate Tax Act*.

History: S. 4200 was amended by P.C. 1994-1817, SOR/94-686, dated November 7, 1994, by replacing the words "Income Tax Application Rules, 1971" with "Income Tax Application Rules", applicable November 7, 1994.

PART XLIII
Interest Rates

4300. *For the purposes of this Part,

"*quarter*" means any of the following periods in a calendar year:

(*a*) the period beginning on January 1 and ending on March 31;

(*b*) the period beginning on April 1 and ending on June 30;

(*c*) the period beginning on July 1 and ending on September 30; and

(*d*) the period beginning on October 1 and ending on December 31.

History: S. 4300 was amended by P.C. 1987-2251, SOR/87-639, dated November 6, 1987 and applicable with respect to any interest to be calculated in respect of a period after 1983.

Prescribed Rate of Interest

4301. *Subject to section 4302, for the purposes of

(*a*) every provision of the Act that requires interest at a prescribed rate to be paid to the Receiver General, the prescribed rate in effect during any particular quarter is the total of

(i) the rate that is the simple arithmetic mean, expressed as a percentage per year and rounded to the next higher whole percentage where the mean is not a whole percentage, of all amounts each of which is the average equivalent yield, expressed as a percentage per year, of Government of Canada Treasury Bills that mature approximately three months after their date of issue and that are sold at auctions of Government of Canada Treasury Bills during the first month of the quarter preceding the particular quarter, and

(ii) 4 per cent;

(*b*) every provision of the Act that requires interest at a prescribed rate to be paid or applied on an amount payable by the Minister to a taxpayer, the prescribed rate in effect during any particular quarter is the total of

(i) the rate determined under subparagraph (*a*)(i) in respect of the particular quarter, and

(ii) 2 per cent; and

(*c*) every other provision of the Act in which reference is made to a prescribed rate of interest or to interest at a prescribed rate, the prescribed rate in effect during any particular quarter is the rate determined under subparagraph (*a*)(i) in respect of the particular quarter.

History: S. 4301(a)(i) was amended by P.C. 1997-1819, SOR/97-557, dated December 9, 1997, in force on December 31, 1997. S. 4301(a)(i) formerly read:

"(i) the rate that is the simple arithmetic mean, expressed as a percentage per year and rounded to the next higher whole percentage where the mean is not a whole percentage, of all amounts each of which is the weekly average equivalent yield, expressed as a percentage per year, of Government of Canada Treasury Bills that mature approximately three months after their date of issue and that are sold at a weekly auction of Government of Canada Treasury Bills during the first month of the quarter preceding the particular quarter, and"

S. 4301 was amended by P.C. 1995-926, SOR/95-285, dated June 13, 1995, applicable to interest that is calculated in respect of periods after June 1995. S. 4301 formerly read:

"S. 4301. For the purposes of every provision of the Act that requires interest at a prescribed rate to be paid to the Receiver General or to be paid or applied on an amount payable by the Minister to a taxpayer, the prescribed rate in effect during any particular quarter is the aggregate of

(*a*) the rate that is the simple arithmetic mean, expressed as a percentage per year and rounded to the next highest whole percentage where the mean is not a whole percentage, of all amounts each of which is the weekly average equivalent yield, expressed as a percentage per year, of Government of Canada Treasury Bills that mature approximately three months after their date of issue and that are sold at a weekly auction of Government of Canada Treasury Bills during the first month of the quarter immediately preceding the particular quarter, and

(*b*) 2 per cent,

and for the purposes of every other provision of the Act in which reference is made to a prescribed rate of interest or to interest at a prescribed rate, the prescribed rate in effect during any quarter is the rate determined under paragraph (*a*) in respect of that quarter."

S. 4301 was amended by P.C. 1989-1792, SOR/89-462, dated September 21, 1989 and applicable in respect of interest that is calculated in respect of periods after September, 1989. S. 4301 formerly read:

"S. 4301. For the purposes of every provision of the Act in which reference is made to a prescribed rate of interest or to interest at a prescribed rate, the prescribed rate in effect during any quarter is the rate that is the simple arithmetic mean, expressed as a percentage per year and rounded to the next highest whole percentage where the mean is not a whole percentage, of all amounts each of which is the weekly average equivalent yield (expressed as a percentage per year) of Government of Canada Treasury Bills that mature approximately three months after their date of issue and that were sold at a weekly auction of Treasury Bills during the first month of the immediately preceding quarter."

S. 4301 was amended by P.C. 1987-2251, SOR/87-639, dated November 6, 1987 and applicable with respect to any interest to be calculated in respect of a period after 1983. S. 4301 formerly read:

"S. 4301. In this Part,

'quarterly period' of a calendar year means one of the following periods in the calendar year:

(*a*) January 1 to March 31,

(*b*) April 1 to June 30,

(*c*) July 1 to September 30, and

(*d*) October 1 to December 31;

'specified rate per annum' for a particular quarterly period of a calendar year means the simple arithmetic mean (expressed as a percentage per annum and rounded to the next highest whole percentage where the mean is not a whole percentage) of all amounts each of which is the average equivalent yield (expressed as a percentage per annum) of Government of Canada Treasury Bills that mature approximately three months after their date of issue and for which tenders were accepted by the Minister of Finance during the first month of the immediately preceding quarterly period."

S. 4301 was added by P.C. 1984-1551, SOR/84-372, dated May 11, 1984, effective January 1, 1984.

Interpretation Bulletins: *Secondary* — IT-153R3 Land developers — Subdivision and development costs and carrying charges on land.
Tax Topics: No. 1315, The "prescribed rate" window.

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* Specified rates by quarter. Please note that, for the 1990 and subsequent taxation years, the rate is two percentage points lower for deemed interest on employee and shareholder loans. Effective July 1, 1995, the rate is two percentage points higher for late or deficient income tax payments and unremitted withholdings: 2009 — (1) 4%, (2) 3%, (3) 3%; 2008 — (1) 6%, (2) 6%, (3) 5%, (4) 5%; 2007 — (1) 7%, (2) 7%, (3) 7%, (4) 7%; 2006 — (1) 5%, (2) 6%, (3) 6%, (4) 7%; 2005 — (1) 5%, (2) 5%, (3) 5%, (4) 5%; 2004 — (1) 5%, (2) 5%, (3) 4%, (4) 5%; 2003 — (1) 5%, (2) 5%, (3) 6%, (4) 5%; 2002 — (1) 5%, (2) 4%, (3) 5%, (4) 5%; 2001 — (1) 8%, (2) 8%, (3) 7%, (4) 7%; 2000 — (1) 7%, (2) 8%, (3) 8%; (4) 8%; 1999 — (1) 7%, (2) 7% (3) 7%; (4) 7%; 1998 — (1) 6%, (2) 7%, (3) 7%, (4) 7%; 1997 — (1) 6%, (2) 5%, (3) 6%, (4) 6%; 1996 — (1) 9%, (2) 8%, (3) 7%, (4) 7%; 1995 — (1) 8%, (2) 10%, (3) 11%, (4) 9%; 1994 — (1) 7%, (2) 6%, (3) 8%, (4) 9%; 1993 — (1) 10%, (2) 9%, (3) 8%, (4) 7%; 1992 — (1) 11%, (2) 10%, (3) 9%, (4) 8%; 1991 — (1) 15%, (2) 13%, (3) 12%, (4) 11%; 1990 — (1) 15%, (2) 15%, (3) 16%; (4) 16%; 1989 — (1) 11%, (2) 12%, (3) 13%, (4) 15%; 1988 — (1) 9%, (2) 9%, (3) 9%, (4) 10%; 1987 — (1) 9%, (2) 8%, (3) 8%, (4) 9%; 1986 — (1) 9%, (2) 11%, (3) 10%, (4) 9%; 1985 — (1) 12%, (2) 10%, (3) 10%, (4) 10%; 1984 — (1) 10%, (2) 10%, (3) 11%, (4) 13%.

4302. Notwithstanding section 4301, for the purposes of paragraph 16.1(1)(*d*) of the Act and subsection 1100(1.1), the interest rate in effect during any month is the rate that is one percentage point greater than the rate that was, during the month before the immediately preceding month, the average yield, expressed as a percentage per year rounded to two decimal points, prevailing on all outstanding domestic Canadian-dollar Government of Canada bonds on the last Wednesday of that month with a remaining term to maturity of over 10 years, as first published by the Bank of Canada.

History: S. 4302 was added by P.C. 1991-465, SOR/91-196, dated March 14, 1991, applicable in respect of leases entered into after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989, other than leases entered into pursuant to an agreement in writing entered into before that time under which the lessee thereunder has the right to require the lease of the property (and for these purposes a lease in respect of which a material change has been agreed to by the parties thereto effective at any particular time that is after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989 shall be deemed to have been entered into at that particular time).

PART XLIV
Publicly-traded Shares or Securities

4400. (1) For the purposes of section 24 and subsection 26(11) of the *Income Tax Application Rules*,

(*a*) a share or security named in Schedule VII is hereby prescribed to be a publicly-traded share or security; and

(*b*) for each such share or security, the amount set out in Column II of Schedule VII opposite that share or security is hereby prescribed as the amount, if any, prescribed in respect of that property.

History: S. 4400(1) was amended by P.C. 1994-1817, SOR/94-686, dated November 7, 1994, by replacing the words "Income Tax Application Rules, 1971" with "Income Tax Application Rules", applicable November 7, 1994.

(2) In Schedule VII, the abbreviation

(*a*) "Cl" means "Class";

(*b*) "Com" means "Common";

(*c*) "Cv" means "Convertible";

(*d*) "Cu" means "Cumulative";

(*e*) "Pc" means "Per Cent";

(*f*) "Pr" means "Preferred" or "Preference" as the case may be;

(*g*) "Pt" means "Participating";

(*h*) "Rt" means "Right"; and

(*i*) "Wt" means "Warrant".

PART XLV
Elections in Respect of Expropriation Assets

4500. Any election by a taxpayer under subsection 80.1(1), (2), (4), (5), (6) or (9) of the Act shall be made on or before the day on or before which the return of income is required to be filed pursuant to section 150 of the Act for the taxation year in which the assets referred to in the particular election were acquired by him.

Forms: T2079.

PART XLVI
Investment Tax Credit

QUALIFIED PROPERTY

4600. (1) Property is a prescribed building for the purposes of the definition "qualified property" in subsection 127(9) of the Act if it is depreciable property of the taxpayer that is a building or grain elevator and it is erected on land owned or leased by the taxpayer,

(*a*) that is included in Class 1, 3, 6, 20, 24 or 27 or paragraph (*c*), (*d*) or (*e*) of Class 8 in Schedule II; or

(*b*) that is included or would, but for Class 28 or 41 in Schedule II, be included in paragraph (*g*) of Class 10 in Schedule II.

(2) Property is prescribed machinery and equipment for the purposes of the definition "qualified property" in subsection 127(9) of the Act if it is depreciable property of the taxpayer (other than property referred to in subsection (1)) that is

(*a*) a property included in paragraph (*k*) of Class 1 or paragraph (*a*) of Class 2 in Schedule II;

(*b*) an oil or water storage tank;

(*c*) a property included in Class 8 in Schedule II (other than railway rolling stock);

(*d*) a vessel, including the furniture, fittings and equipment attached thereto;

(*e*) a property included in paragraph (*a*) of Class 10 or Class 22 or 38 in Schedule II (other than a car or truck designed for use on highways or streets);

(*f*) notwithstanding paragraph (*e*), a logging truck acquired after March 31, 1977 to be used in the activity of logging and having a weight, including the weight of property the capital cost of which is included in the capital cost of the truck at the time of its acquisition (but for greater certainty not including the weight of fuel), in excess of 16,000 pounds;

(*g*) a property included in any of paragraphs (*b*) to (*f*), (*h*), (*j*), (*k*), (*o*), (*r*), (*t*) or (*u*) of Class 10 in Schedule II, or property included in paragraph (*b*) of Class 41 in Schedule II and that would otherwise be included in paragraph (*j*), (*k*), (*r*), (*t*) or (*u*) of Class 10 in Schedule II;

(*h*) a property included in paragraph (*n*) of Class 10, or Class 15, in Schedule II (other than a roadway);

(*i*) a property included in any of paragraphs (*a*) to (*f*) of Class 9 in Schedule II;

(*j*) a property included in Class 28 or paragraph (*a*), (*a*.1), (*a*.2) or (*a*.3) of Class 41 in Schedule II that would, but for Class 28 or 41, as the case may be, be included in paragraph (*k*) or (*r*) of Class 10 of Schedule II;

(*k*) a property included in Class 21, 24, 27, 29, 34, 39, 40, 43, 45 or 46 in Schedule II;

(*l*) a property included in paragraph (*c*) or (*d*) of Class 41 in Schedule II;

(*m*) property included in class 43.1 in Schedule II because of paragraph (*c*) of that Class, or

(*n*) a property included in Class 43.2 in Schedule II because of paragraph (*a*) of that Class.

History: S. 4600(2)(*n*) was added by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, deemed to have come into force on February 23, 2005.

S. 4600(2)(*k*) was replaced by P.C. 2005-2286, SOR/2005-414, dated December 6, 2005, deemed to have come into force on March 23, 2004. S. 4600(2)(*k*) formerly read:

"(*k*) a property included in any of Classes 21, 24, 27, 29, 34, 39, 40 and 43 in Schedule II;"

S. 4600(2)(*m*) was added by P.C. 2005-2186, SOR/2005-371, dated November 22, 2005, applicable to property acquired after February 21, 1994.

S. 4600(2)(*l*) was added by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable to taxation years that begin after 1996.

S. 4600(2)(*j*) was amended by P.C. 1998-49, SOR/98-97, dated January 26, 1998, applicable in respect of property acquired after March 6, 1996, except that paragraphs (a) and (a.3) of the description of Class 41 in Schedule II of the Regulations, as enacted by section 5, apply in respect of property acquired after 1987. S. 4600(2)(*j*) formerly read:

"(*j*) a property included in Class 28 or paragraph (*a*) of Class 41 in Schedule II that would, but for that class or classes, as the case may be, be included in paragraph (*k*) or (*r*) of Class 10 in Schedule II; or"

S. 4600(2)(*k*) was amended by P.C. 1994-230, SOR/94-169, dated February 10, 1994, to add the reference to Class 43, applicable with respect to property acquired after February 25, 1992.

Ss. 4600(1)(a) and (b) were amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, to add the reference to Class 1 in paragraph (a) and the reference to Class 41 in paragraph (b), applicable in respect of property acquired after 1987.

S. 4600(2)(a) was amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, to add the reference to paragraph (k) of Class 1, applicable in respect of property acquired after 1987.

S. 4600(2)(e) was amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, to add the reference to Class 38, applicable in respect of property acquired after 1987.

S. 4600(2)(g) was amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, to add "or property included in paragraph (b) of Class 41 in Schedule II and that would otherwise be included in paragraph (j), (k), (r), (t) or (u) of Class 10 in Schedule II", applicable in respect of property acquired after 1987.

Ss. 4600(j) and (k) were amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, to add to paragraph (j) the reference to paragraph (a) of Class 41 and the phrase "or classes, as the case may be", and to add to paragraph (k) the references to Classes 39 and 40, applicable in respect of property acquired after 1987.

Ss. 4600(1) and (2), in both cases the parts preceding paragraph (a), were amended by P.C. 1988-390, SOR/88-165, dated March 3, 1988 and applicable to the 1985 and subsequent taxation years. Those parts formerly read:

"(1) Property is a prescribed building for the purposes of paragraph 127(10)(a) of the Act if it is depreciable property of the taxpayer that is a building or grain elevator, erected on land owned or leased by the taxpayer,"

"(2) Property is prescribed machinery and equipment for the purposes of paragraph 127(10)(b) of the Act if it is depreciable property of the taxpayer (other than property referred to in subsection (1)) that is"

S. 4600(2)(g) was amended by P.C. 1981-3329, SOR/81-974, dated November 27, 1981, to add the reference to "paragraph (u)", effective January 1, 1981.

The heading preceding section 4600 was amended and paragraph 4600(2)(f) was amended by adding "to be used in the activity of logging and" by P.C. 1980-424, SOR/80-131, February 11, 1980, effective November 17, 1978.

S. 4600(1)(b) was amended by P.C. 1980-2081, SOR/80-618, dated July 31, 1980, to substitute "paragraph (g) of Class 10" for "paragraph (g) or Class 10", effective August 15, 1979.

S. 4600(2)(g) was amended by P.C. 1980-168, SOR/80-69, dated January 11, 1980 and effective June 13, 1979 by adding the reference to paragraph (t) of Class 10 in Schedule II.

S. 4600(2)(f) was added by P.C. 1978-344, SOR/78-137, dated February 10, 1978 (Special Issue, *Canada Gazette*, December 31, 1978), effective after March 31, 1977.

Information Circulars: IC 78-4R3 Investment tax credit rates.
Forms: T2 SCH 31; T2038 Ind.

Qualified Transportation Equipment

4601. For the purposes of the definition "qualified transportation equipment" in subsection 127(9) of the Act, the following depreciable property of a taxpayer (other than qualified property as defined by subsection 127(9) of the Act) is prescribed equipment:

(*a*) property that is

(i) included in Class 1 in Schedule II by virtue of paragraph (*h*) or (*i*) of that Class,

(ii) a bridge, culvert, subway or tunnel included in Class 1 in Schedule II that is ancillary to railway track and grading,

(iii) a trestle included in Class 3 in Schedule II that is ancillary to railway track and grading,

(iv) machinery or equipment included in Class 8 in Schedule II that is ancillary to

(A) railway track and grading, or

(B) railway traffic control or signalling equipment, including switching, block signalling, interlocking, crossing protection, detection, speed control or retarding equipment, but not including property that is principally electronic equipment or systems software therefor,

(v) included in Class 10 in Schedule II by virtue of subparagraph (*m*)(i), (ii) or (iii) of that Class, or

(vi) property described in paragraph (*m*) of Class 10 in Schedule II (other than property described in subparagraph (iv) thereof) that is included in Class 28 or 41 in Schedule II;

(*b*) property that is

(i) included in Class 6 in Schedule II by virtue of paragraph (*j*) of that Class,

(ii) machinery or equipment included in Class 8 in Schedule II that

(A) was acquired principally for the purpose of maintaining or servicing, or

(B) is ancillary to and used as part of,

a railway locomotive or railway car, or

(iii) included in Class 35 in Schedule II;

(*c*) property that is

(i) a truck, tractor or trailer that

(A) is included in Class 10 in Schedule II because of paragraph (*e*) of that Class or in Class 16 in Schedule II because of paragraph (*g*) of that Class,

(B) is designed for the purpose of carrying freight, or hauling a trailer that carries freight, on highways, and

(C) [Revoked.]

(D) in the case of a truck or tractor, has a "gross vehicle weight rating" (within the meaning assigned that expression by the *Motor Vehicle Safety Regulations*) of 26,001 pounds or more, and in the case of a trailer, is of a type designed to be hauled under normal operating conditions by a truck or tractor described in this subparagraph,

but for greater certainty,

(E) was not acquired principally for the purpose of carrying or hauling freight locally or making local pickups or deliveries, or

(ii) machinery or equipment included in Class 8 or 10 in Schedule II that is ancillary to and used as part of any property described in subparagraph (i)

that is qualified transportation equipment within the meaning of subsection 127(9) of the Act;

(*d*) property included in Class 10 in Schedule II by virtue of paragraph (*a*) of that Class that is a bus designed for the purpose of seating 20 or more passengers and carrying their luggage, but not including

(i) a bus acquired principally for the purpose of transportation within any metropolitan area, city, town, village, municipality or other similar community or area, or

(ii) a school bus;

(*e*) property that is

(i) a vessel included in Class 7 in Schedule II (other than a vessel under construction),

(ii) machinery or equipment included in Class 7 or 8 in Schedule II that is ancillary to and used as part of any property described in subparagraph (i) that is qualified transportation equipment within the meaning of subsection 127(9) of the Act, or

(iii) a vessel included in a separate class prescribed by subsection 1101(2a);

(*f*) property that is

(i) included in Class 9 in Schedule II by virtue of paragraph (*g*) of that Class, or

(ii) machinery or equipment included in Class 9 in Schedule II by virtue of paragraph (*h*) or (*i*) of that Class that is ancillary to and used as part of any property described in subparagraph (i) that is qualified transportation equipment within the meaning of subsection 127(9) of the Act; and

(*g*) property included in Class 8 in Schedule II that is a reusable cargo container designed with external fittings for the purpose of handling, securing or stacking and having a carrying capacity of 500 cubic feet or more.

History: S. 4601(*c*)(i)(A) was amended by P.C. 1995-775, SOR/95-244, dated May 16, 1995, applicable to property acquired after December 2, 1992. S. 4601(*c*)(i)(A) formerly read:

"(A) is included in Class 10 in Schedule II by virtue of paragraph (*a*) or (*e*) of that Class,"

S. 4601(a)(vi) was amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, and applicable in respect of property acquired after 1987. S. 4601(a)(vi) formerly read:

"(vi) included in Class 28 in Schedule II by virtue of subparagraph (d)(ii) of that class (other than property referred to in subparagraph (*m*)(iv) of Class 10 in Schedule II);"

S. 4601, the part preceding paragraph (a), as well as subparagraphs (c)(ii), (e)(ii) and (f)(ii) were amended by P.C. 1988-390, SOR/88-165, dated March 3, 1988 and applicable to the 1985 and subsequent taxation years. The amendments substituted "subsection 127(9)" for "paragraph 127(10.1)(d)" in the case of subparagraphs (c)(ii), (e)(ii) and (f)(ii). That part preceding paragraph (a) formerly read:

"For the purposes of paragraph 127(10.1)(d) of the Act, the following depreciable property of a taxpayer (other than qualified property as defined by subsection 127(10) of the Act) is prescribed equipment:"

S. 4601, the part preceding paragraph (a), was amended by P.C. 1985-2277, SOR/85-696 dated July 25, 1985, to substitute "qualified property as defined by subsection 127(10) of the Act" for "property prescribed pursuant to section 4600", effective August 7, 1985.

S. 4601(c)(i)(C) was revoked by P.C. 1985-2277, SOR/85-696, dated July 25, 1985, effective August 7, 1985. S. 4601(c)(i)(C) formerly read:

"(C) was acquired principally for the purpose of carrying or hauling freight on highways outside of any metropolitan area, city, town, village, municipality or other similar community or area, and"

S. 4601 and heading were added by P.C. 1980-424, SOR/80-131, February 11, 1980, effective November 17, 1978.

CERTIFIED PROPERTY

4602. (1) For the purposes of the definition "certified property" in subsection 127(9) of the Act, each of the following areas is a prescribed area:

(*a*) that portion of the Province of Newfoundland comprising the census divisions 2 to 4 and 7 to 10;

(*b*) that portion of the Province of Prince Edward Island comprising the Kings census division;

(*c*) that portion of the Province of Nova Scotia comprising the census divisions of

(i) Cape Breton,

(ii) Guysborough,

(iii) Inverness,

(iv) Richmond, and

(v) Victoria;

(*d*) that portion of the Province of New Brunswick comprising the census divisions of

(i) Gloucester,

(ii) Kent,

(iii) Madawaska,

(iv) Northumberland, and

(v) Restigouche;

(*e*) that portion of the Province of Quebec comprising

(i) all of the area north of the 50th parallel of latitude, other than the area within the limits of the city of Sept-Iles,

(ii) the Magdalen Islands, and

(iii) the census divisions of

(A) Bonaventure,

(B) Gaspé-Est,

(C) Gaspé-Ouest,

(D) Matane,

(E) Matapédia,

(F) Rimouski, other than the area within the limits of the city of Rimouski,

(G) Rivière-du-Loup, and

(H) Témiscouata;

(*f*) that portion of the Province of Ontario that is north of the 50th parallel of latitude;

(*g*) that portion of the Province of Manitoba comprising the census divisions 19 and 21 to 23, other than the area within the limits of the city of Thompson;

(*h*) that portion of the Province of Saskatchewan comprising the census division of Northern Saskatchewan;

(*i*) that portion of the Province of Alberta comprising the census division of Peace River, other than the area within the limits of the city of Grande Prairie;

(*j*) that portion of the Province of British Columbia comprising the Peace River-Liard census division; and

(*k*) all of the Yukon Territory and the Northwest Territories.

(2) For the purposes of subsection (1), the expression "census divisions" has the same meaning as in the *Dic-*

tionary of 1971 Census Terms, Statistics Canada Catalogue Number 12-540; and the *Census Divisions and Subdivisions*, Statistics Canada Catalogues Numbered 92-704, 92-705, 92-706 and 92-707.

History: S. 4602(1), the part preceding paragraph (a), was amended by P.C. 1988-390, SOR/88-165, dated March 3, 1988 by substituting "the definition 'certified property' in subsection 127(9)" for "subparagraph 127(10.1)(e)(ii)", applicable to the 1985 and subsequent taxation years.

S. 4602 and the heading preceding it were added by P.C. 1981-3029, SOR/81-880, dated October 30, 1981 and effective in respect of certified property acquired after October 28, 1980.

Information Circulars: IC 78-4R3 Investment tax credit rates.

Qualified Construction Equipment

4603. For the purposes of the definition "qualified construction equipment" in subsection 127(9) of the Act, "prescribed equipment" means depreciable property of a taxpayer, other than qualified property as defined by subsection 127(9) of the Act or qualified transportation equipment as defined by subsection 127(9) of the Act, that is

(*a*) a property included in Class 22 or 38 in Schedule II;

(*b*) a crane;

(*c*) a pile driver; or

(*d*) a dredge.

History: S. 4603(a) was amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, to add the reference to Class 38, applicable in respect of property acquired after 1987.

S. 4603, the part preceding paragraph (a), was amended by P.C. 1988-390, SOR/88-165, dated March 3, 1988, applicable to the 1985 and subsequent taxation years. That part formerly read:

"S. 4603. For the purposes of paragraph 127(10.1)(f) of the Act, 'prescribed equipment' means depreciable property of a taxpayer, other than qualified property as defined by subsection 127(10) of the Act or qualified transportation equipment as defined by paragraph 127(10.1)(d) of the Act, that is"

S. 4603 was added by P.C. 1985-2277, SOR/85-696 dated July 25, 1985, applicable with respect to acquisitions of property occurring after April 19, 1983.

Approved Project Property

4604. (1) For the purposes of paragraphs (*a*) and (*c*) of the definition "approved project property" in subsection 127(9) of the Act, property is a prescribed building if it is depreciable property of the taxpayer that is a building or grain elevator, erected on land owned or leased by the taxpayer,

(*a*) that is included in Class 1, 3, 6, 24, 27 or 37 or paragraph (*c*), (*d*) or (*e*) of Class 8 in Schedule II; or

(*b*) that is included or would, but for Class 28 or Class 41 in Schedule II, be included in paragraph (*g*) of Class 10 in Schedule II.

History: S. 4604(1)(a) and (b) were amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, to add the reference to Class 1 in paragraph (a) and to add the reference to Class 41 in paragraph (b), applicable in respect of property acquired after 1987.

S. 4604(1) was added by P.C. 1989-2770, SOR/86-1136, dated December 11, 1986 and effective May 24, 1985.

(2) For the purposes of paragraphs (*b*) and (*d*) of the definition "approved project property" in subsection 127(9) of the Act, property is prescribed machinery and equipment if it is depreciable property of the taxpayer (other than property referred to in subsection (1)) that is

(*a*) a property included in paragraph (*k*) of Class 1 or paragraph (a) of Class 2 in Schedule II;

(*b*) an oil or water storage tank;

(*c*) a property included in Class 8 in Schedule II (other than railway rolling stock);

(*d*) subject to paragraph (*e*), a property included in paragraph (*a*) of Class 10 or Class 22 or 38 in Schedule II (other than a car or truck designed for use on highways or streets);

(*e*) a logging truck acquired to be used in the activity of logging and having a weight, including the weight of property the capital cost of which is included in the capital cost of the truck at the time of its acquisition (but for greater certainty not including the weight of fuel), in excess of 16,000 pounds;

(*f*) a property included in any of paragraphs (*b*) to (*f*), (*h*) to (*k*), (*o*), (*q*), (*r*), (*t*) or (*u*) of Class 10 in Schedule II;

(*g*) a property included in paragraph (*n*) of Class 10, or Class 15, in Schedule II (other than a roadway);

(*h*) a property included in any of paragraphs (*a*) to (*f*) of Class 9 in Schedule II;

(*i*) a property included in Class 28 or 41 in Schedule II that would, but for those classes, be included in paragraph (*k*) or (*r*) of Class 10 in Schedule II;

(*j*) a property included in any of Classes 21, 24, 27, 29, 34, 39, 40 and 43 in Schedule II;

(*k*) a property included in Class 37 in Schedule II; or

(*l*) a vessel (other than a supply boat, workboat, drilling rig, workover rig or shuttle tanker), including the furniture, fittings and equipment attached thereto, that is used primarily for

(i) heavy-lifting or pipe-laying in the construction of, or

(ii) the provision of lodging services in the servicing of,

an installation, structure, apparatus or artificial island that is used for offshore hydrocarbon exploration or exploitation.

History: S. 4604(2)(*j*) was amended by P.C. 1994-230, SOR/94-169, dated February 10, 1994, to add the reference to Class 43, applicable with respect to property acquired after February 25, 1992.

S. 4604(2) was amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, to add "paragraph (k) of Class 1 or" to paragraph (a), to add the reference to Class 38 to paragraph (d), to add the reference to Class 41 and to substitute "those classes" for "that class" in paragraph (i), and to add the references to Classes 39 and 40 to paragraph (j), applicable in respect of property acquired after 1987.

S. 4604(2) was added by P.C. 1986-2770, SOR/86-1136, dated December 11, 1986, effective May 24, 1985.

Prescribed Activities

4605. For the purposes of the definition "for an approved purpose" in paragraph (*e*) of the definition "approved project property" in subsection 127(9) of the Act, a prescribed activity of a taxpayer is

(*a*) operating a hotel, motel, camping ground, travel trailer park or any similar lodging facility;

(*b*) providing facilities that are ancillary to a lodging facility referred to in paragraph (*a*) that is owned by the taxpayer and that are intended for the use and enjoyment of the occupants of the lodging facility;

(*c*) providing facilities that are primarily for the receiving, storage and distribution of goods owned by persons with whom the taxpayer deals at arm's length;

(*d*) providing to a business owned by a person with whom the taxpayer deals at arm's length

(i) engineering or architectural services,

(ii) computer services, or

(iii) other technical or scientific services,

but not including financial, legal, accounting, medical or dental services;

(*e*) providing to a business owned by a person with whom the taxpayer deals at arm's length

(i) the services of an employment agency, or

(ii) advertising services, other than advertising services in a medium owned by the taxpayer; or

(*f*) operating a vessel described in paragraph 4604(2)(*l*).

History: S. 4605 was added by P.C. 1986-2770, SOR/86-1136 dated December 11, 1986, effective May 24, 1985.

PRESCRIBED AMOUNT

4606. For the purposes of paragraph (*b*) of the definition "contract payment" in subsection 127(9) of the Act, a prescribed amount is an amount received from the Canadian Commercial Corporation in respect of an amount received by that Corporation from a government, municipality or other public authority other than the government of Canada or of a province, a Canadian municipality or other Canadian public authority.

History: S. 4606 was added by P.C. 1986-2770, SOR/86-1136, dated December 11, 1986, effective November 22, 1985.

Interpretation Bulletins: *Secondary* — IT-151R5 (Consolid.) Scientific research and experimental development expenditures; IT-151R4 Scientific research and experimental development expenditures [Archived by the CRA].

PRESCRIBED DESIGNATED REGIONS

4607. For the purposes of the definition "specified percentage" in subsection 127(9) of the Act, "prescribed designated region" means a region of Canada, other than the Gaspé peninsula and the provinces of Nova Scotia, New Brunswick, Prince Edward Island, and Newfoundland, including Labrador, that was a designated region on December 31, 1984, under the *Regional Development Incentives Designated Region Order, 1974*.

History: S. 4607 was added by P.C. 1988-390, SOR/88-165, dated March 3, 1988, applicable to the 1985 and subsequent taxation years.

PRESCRIBED EXPENDITURE FOR QUALIFIED CANADIAN EXPLORATION EXPENDITURE

4608. **(1)** In this section,

"*joint exploration corporation*" has the meaning assigned by paragraph 66(15)(*g*) [subsection 66(15) "joint exploration corporation"] of the Act;

"*principal-business corporation*" has the meaning assigned by paragraph 66(15)(*h*) [subsection 66(15) "principal-business corporation"] of the Act;

"*shareholder corporation*" has the meaning assigned by paragraph 66(15)(*i*) [subsection 66(15) "shareholder corporation"] of the Act;

"*well*" means an exploratory probe or an oil or gas well.

(2) For the purposes of the definition "qualified Canadian exploration expenditure" in subsection 127(9) of the Act, the prescribed expenditure of a taxpayer for a taxation year is the aggregate of all amounts each of which is the amount, if any, by which

(*a*) the specified expenses of the taxpayer for the year in respect of the well

exceed

(*b*) the base amount of the taxpayer at the end of the year in respect of the well.

(3) For the purposes of this section, the specified expenses of a taxpayer for a taxation year in respect of a well that is an exploratory probe is the aggregate of all expenses that

(*a*) would be Canadian exploration expenses of the taxpayer by reason of any of subparagraphs 66.1(6)(*a*)(i), (iv) and (v) [subsection 66.1(6) "Canadian exploration expense"] of the Act if the references in subparagraphs 66.1(6)(*a*)(iv) and (v) [subsection 66.1(6) "Canadian exploration expense"] of the Act (as those subparagraphs read on November 30, 1985) to "any of subparagraphs (i) to (iii.1) [subsection 66.1(6) 'Canadian exploration expense']" were read as references to "subparagraph (i) [subsection 66.1(6) 'Canadian exploration expense']";

(*b*) were incurred

(i) in the year, and

(ii) after November 1985 and before 1991;

(*c*) were incurred in the drilling or completing of the exploratory probe or in building a temporary access road to, or preparing the site in respect of, the probe; and

(*d*) are not non-qualifying expenses of the taxpayer.

(4) For the purposes of this section, the specified expenses of taxpayer for a taxation year in respect of a well that is an oil or gas well is the aggregate of all expenses that

(*a*) would be Canadian exploration expenses of the taxpayer by virtue of any of subparagraphs 66.1(6)(*a*)(ii) to (ii.2), (iv) and (v) [subsection 66.1(6) "Canadian exploration expense"] of the Act if the references in subparagraphs 66.1(6)(*a*)(iv) and (v) [subsection 66.1(6) "Canadian exploration expense"] of the Act (as those subparagraphs read on November 30, 1985) to "subparagraphs (i) to (iii.1) [subsection 66.1(6) 'Canadian exploration expense']" were read as references to "subparagraphs (ii) to (ii.2) [subsection 66.1(6) 'Canadian exploration expense']";

(*b*) were incurred in respect of the well

(i) in the year, and

(ii) after November 1985 and before 1991; and

(*c*) are not non-qualifying expenses of the taxpayer.

(5) For the purposes of subsections (3) and (4), a non-qualifying expense of a taxpayer is an expense that

(*a*) may reasonably be regarded as having been incurred as consideration for services to be rendered after 1990 or for property that cannot reasonably be considered to be for use by the taxpayer before 1991;

(*b*) was or is to be renounced by the taxpayer at any time under subsection 66(10.1) or (12.6) of the Act;

(*c*) is or was a Canadian exploration and development overhead expense, within the meaning of section 1206, of the taxpayer, of a partnership of which the taxpayer was a member or of a joint exploration corporation of which the taxpayer was a shareholder corporation;

(*d*) is an eligible cost or expense within the meaning of the *Petroleum Incentives Program Act* or the *Petroleum Incentives Program Act*, Chapter P-4.1 of the Statutes of Alberta, 1981, in respect of which, or in respect of part of which, the taxpayer, a partnership

of which the taxpayer was a member, a joint exploration corporation of which the taxpayer was a shareholder corporation or a principal-business corporation of which the taxpayer was a shareholder, has received, is deemed to have received, is entitled to receive or may reasonably be expected to receive an incentive under either of those Acts; or

(*e*) was included in determining the specified expenses of any other taxpayer for a taxation year.

(6) For the purposes of this section, the base amount of a taxpayer at the end of a particular taxation year in respect of a well is the amount, if any, by which the taxpayer's threshold amount in respect of the well exceeds the aggregate of

(*a*) all amounts that would have been the taxpayer's specified expenses for any taxation year in respect of the well if

(i) the references in subparagraphs (3)(*b*)(ii) and (4)(*b*)(ii) to "after November 1985 and before 1991" were read as "after March 1985 and before December 1985", and

(ii) subsection (5) were read without reference to paragraph (*d*) thereof;

(*b*) all amounts referred to in paragraph (5)(*d*) for the particular taxation year or a preceding taxation year in respect of the well that would have been included in determining the taxpayer's specified expenses for the particular taxation year or the preceding taxation year but for that paragraph; and

(*c*) all amounts that are the taxpayer's specified expenses for any preceding taxation year in respect of the well.

(7) For the purposes of this section, the threshold amount of a taxpayer in respect of a well is

(*a*) where no agreement has been filed with the Minister under subsection (8) in respect of the well, $5,000,000; and

(*b*) where an agreement has been filed with the Minister under subsection (8) in respect of the well, the amount, if any, allocated to the taxpayer under the agreement.

(8) For the purposes of this section, where the aggregate of all expenses in respect of a well, each of which

(*a*) would be included in determining the specified expenses of a taxpayer for a taxation year in respect of the well if subsection (5) were read without reference to paragraph (*d*) thereof, or

(*b*) would be included in determining the specified expenses of a taxpayer for a taxation year in respect of the well if

(i) the references in subparagraphs (3)(*b*)(ii) and (4)(*b*)(ii) to "after November 1985 and before 1991" were read as "after March 1985 and before December 1985", and

(ii) subsection (5) were read without reference to paragraph (*d*) thereof

exceeds $5,000,000, all taxpayers who have incurred those expenses or in whose favour or to whom any of those expenses have been renounced under subsection 66(10.1) or (12.6) of the Act may file with the Minister an agreement in writing in the prescribed form in respect of the well allocating amounts to some or all of those taxpayers if

(*c*) the amount allocated to each taxpayer does not exceed the total of such expenses that were incurred by the taxpayer in respect of the well, and that are not to be renounced by the taxpayer under subsection 66(10.1) or (12.6) of the Act in favour of or to any other person, and

(*d*) the aggregate of all amounts so allocated is not less than $5,000,000.

(9) For the purposes of this section, where

(*a*) the drilling of a well (in this subsection referred to as the "abandoned well") is abandoned not because of the results obtained but because of geological or mechanical difficulties and the drilling of a new well (in this subsection referred to as the "new well") is commenced, and

(*b*) having regard to all the circumstances, including the lapse of time between the abandonment of the abandoned well and the commencement of the new well and the proximity of the sites of the wells, it is reasonable to regard the new well as a replacement for the abandoned well,

the abandoned well and the new well shall be deemed to be one well.

(10) For the purpose of this section, where an expense of a joint exploration corporation is deemed by subsection 66(10.1) or (10.2) of the Act to be an expense of a shareholder corporation of the joint exploration corporation, the shareholder corporation shall be deemed to have incurred the expense at the time it was incurred by the joint exploration corporation.

(11) For the purpose of this section, where an expense of a principal-business corporation is deemed by subsection 66(12.61) or (12.63) of the Act to be an expense of a shareholder of the corporation, the shareholder shall be deemed to have incurred the expense at the time it was incurred by the principal-business corporation.

(12) For the purposes of this section, where an expense incurred by a partnership is, under subparagraph 66.1(6)(*a*)(iv) [subsection 66.1(6) "Canadian exploration expense", paragraph (*h*)] of the Act, a Canadian exploration expense of a taxpayer who was a member of the partnership, the taxpayer shall be deemed to have incurred the Canadian exploration expense at the time the expense was incurred by the partnership.

(13) For the purposes of this section, where an expense is a Canadian development expense of a taxpayer that is, under subsection 66.1(9) of the Act, deemed to be a Canadian exploration expense of the taxpayer, the taxpayer shall be deemed to have incurred the Canadian exploration expense at the time the Canadian development expense was incurred.

History: S. 4608(3)(a) was amended by P.C. 1992-2335, SOR/92-681, dated November 23, 1992, applicable after November 30, 1985. S. 4608(3)(a) formerly read:

"(*a*) would be Canadian exploration expenses of the taxpayer by reason of any of subparagraphs 66.1(6)(*a*)(i), (iv) and (v) of the Act if the references in subparagraphs 66.1(6)(*a*)(iv) and (v) of the Act to 'any of subparagraphs (i) to (iii.1)' were read as references to 'subparagraph (i)';"

S. 4608(4)(a) was amended by P.C. 1992-2335, SOR/92-681, dated November 23, 1992, applicable after November 30, 1985. S. 4608(4)(a) formerly read:

"(*a*) would be Canadian exploration expenses of the taxpayer by virtue of any of subparagraphs 66.1(6)(*a*)(ii) to (ii.2), (iv) and (v) of the Act if the references in subparagraphs 66.1(6)(*a*)(iv) and (v) of the Act to 'subparagraphs (i) to (iii.1)' were read as references to 'subparagraphs (ii) to (ii.2)';"

S. 4608 was added by P.C. 1989-1793, SOR/89-463, dated September 21, 1989 and effective after November 30, 1985.

PRESCRIBED OFFSHORE REGION

4609. For the purposes of the definition "specified percentage" in subsection 127(9) of the Act, the following region is a prescribed offshore region:

(*a*) that submarine area, not within a province, adjacent to the coast of Canada and extending throughout the natural prolongation of that portion of the land territory of Canada comprising the Gaspé Peninsula and the provinces of Newfoundland, Prince Edward Island, Nova Scotia and New Brunswick to the outer edge of the continental margin or to a distance of two hundred nautical miles from the baselines from which the territorial sea of Canada is measured, whichever is the greater; and

(*b*) the waters above the submarine area referred to in paragraph (*a*).

History: S. 4609 was added by P.C. 1989-1793, SOR/89-463, dated September 21, 1989 and applicable after November 16, 1978.

PRESCRIBED AREA

4610. For the purpose of paragraph (*c*.1) of the definition "qualified property" in subsection 127(9) of the Act, the area prescribed is the area comprising the Provinces of Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland and the Gaspé Peninsula.

History: S. 4610 was added by P.C. 1995-775, SOR/95-244, dated May 16, 1995, applicable to property acquired after 1991.

PART XLVII

Election in Respect of Certain Property Owned on December 31, 1971

4700. Any election by an individual under subsection 26(7) of the *Income Tax Application Rules* shall be made by filing with the Minister the form prescribed.

History: S. 4700 was amended by P.C. 1994-1817, SOR/94-686, dated November 7, 1994,by replacing the words "Income Tax Application Rules, 1971" with "Income Tax Application Rules", applicable November 7, 1994.

Interpretation Bulletins: *Secondary* — IT-139R Capital property owned on December 31, 1971 — Fair market value [Archived by the CRA].
Forms: T2076.

PART XLVIII

Status of Corporations and Trusts

4800. (1) For the purposes of subparagraph (*b*)(i) of the definition "public corporation" in subsection 89(1) of the Act, the following conditions are prescribed in respect of a corporation other than a cooperative corporation (within the meaning assigned by section 136 of the Act) or a credit union:

(*a*) a class of shares of the capital stock of the corporation designated by the corporation in its election or by the Minister in his notice to the corporation, as the case may be, shall be qualified for distribution to the public;

(*b*) there shall be no fewer than

(i) where the shares of that class are equity shares, 150, and

(ii) in any other case, 300

persons, other than insiders of the corporation, each of whom holds

(iii) not less than one block of shares of that class, and

(iv) shares of that class having an aggregate fair market value of not less than $500; and

(*c*) insiders of the corporation shall not hold more than 80 per cent of the issued and outstanding shares of that class.

History: S. 4800(1), the portion before paragraph (*a*) was amended by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable after March 2001. S. 4800(1), the portion before paragraph (*a*) formerly read:

"S. 4800. (1) For the purposes of subparagraph 89(1)(*g*)(ii) of the Act, the following conditions are hereby prescribed in respect of a corporation other than a cooperative corporation (within the meaning assigned by section 136 of the Act) or a credit union:".

(2) For the purposes of subparagraph (*c*)(i) of the definition "public corporation" in subsection 89(1) of the Act, the following conditions are prescribed in respect of a corporation:

(*a*) insiders of the corporation shall hold more than 90 per cent of the issued and outstanding shares of each class of shares of the capital stock of the corporation that

(i) was, at any time after the corporation last became a public corporation, listed on a designated stock exchange in Canada, or

(ii) was a class, designated as described in paragraph (1)(*a*), by virtue of which the corporation last became a public corporation;

(*b*) in respect of each class of shares described in subparagraph (*a*)(i) or (ii), there shall be fewer than

(i) where the shares of that class are equity shares, 50, and

(ii) in any other case, 100

persons, other than insiders of the corporation, each of whom holds

(iii) not less than one block of shares of that class, and

(iv) shares of that class having an aggregate fair market value of not less than $500; and

(*c*) there shall be no class of shares of the capital stock of the corporation that is qualified for distribution to the public and complies with the conditions described in paragraphs (1)(*b*) and (*c*).

History: S. 4800(2)(*a*)(i) was amended by S.C. 2007, c. 35, s. 77(1), by replacing "stock exchange in Canada prescribed for the purposes of section 89 of the Act" with "designated stock exchange in Canada", in force on December 14, 2007.

S. 4800(2), the portion before paragraph (*a*) was amended by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable after March 2001. S. 4800(2), the portion before paragraph (*a*) formerly read:

"(2) For the purposes of subparagraph 89(1)(*g*)(iii) of the Act, the following conditions are hereby prescribed in respect of a corporation:"

(3) Where, by virtue of an amalgamation (within the meaning assigned by section 87 of the Act) of predecessor corporations any one or more of which was, immediately before the amalgamation, a public corporation, shares of

any class of the capital stock of any such public corporation that was

(*a*) at any time after the corporation last became a public corporation, listed on a designated stock exchange in Canada, or

(*b*) the class, designated as described in paragraph (1)(*a*), by virtue of which the corporation last became a public corporation,

are converted into shares of any class (in this subsection referred to as the "new class") of the capital stock of the new corporation, the new class shall, for the purposes of subsection (2), be deemed to be a class, designated as described in paragraph (1)(*a*), by virtue of which the new corporation last became a public corporation.

History: S. 4800(3)(*a*) was amended by S.C. 2007, c. 35, s. 77(1), by replacing "stock exchange in Canada prescribed for the purposes of section 89 of the Act" with "designated stock exchange in Canada", in force on December 14, 2007.

(4) Any election under subparagraphs (*b*)(i) or (*c*)(i) of the definition "public corporation" in subsection 89(1) of the Act shall be made by filing with the Minister the following documents:

(*a*) the form prescribed by the Minister;

(*b*) where the directors of the corporation are legally entitled to administer the affairs of the corporation, a certified copy of their resolution authorizing the election to be made;

(*c*) where the directors of the corporation are not legally entitled to administer the affairs of the corporation, a certified copy of the authorization of the making of the election by the person or persons legally entitled to administer the affairs of the corporation; and

(*d*) a statutory declaration made by a director of the corporation stating that, after reasonable inquiry for the purpose of informing himself in that regard, to the best of his knowledge the corporation complies with all the prescribed conditions that must be complied with at the time the election is made.

History: S. 4800(4), the portion before paragraph (*a*) was amended by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable after March 2001. S. 4800(4), the portion before paragraph (*a*) formerly read:

"(4) Any election under clause 89(1)(*g*)(ii)(A) or (iii)(A) of the Act shall be made by a corporation by filing with the Minister the following documents:"

S. 4800(4) preceding paragraph (a) was amended by P.C. 1983-867, SOR/83-268 dated March 25, 1983, to delete "in duplicate" immediately before the colon.

Interpretation Bulletins: *Secondary* — IT-320R3 Registered retirement savings plans — Qualified investments.
Forms: T2067; T2073.

4800.1. For the purposes of paragraph 107(1)(*a*), subsections 107(2) and (4.1) and paragraph 108(1)(*c*) [subsection 108(1) "capital interest"] of the Act, the following are prescribed trusts:

Pending Amendment

Status of Corporations and Trusts — July 18, 2005

The portion of section 4800.1 of the Regulations before paragraph (*a*) is replaced by the following:

4800.1. For the purposes of paragraph 107(1)(*a*) and subsections 107(1.1), (2) and (4.1) of the Act, the following are prescribed trusts:

Applicable: After 1999.

Explanatory Note: Section 4800.1 of the Regulations provides a list of trusts that are prescribed for a number of identified provisions in the Act. Section 4800.1 is amended to update the list of provisions in the Act for which it applies. As a result, a reference to subsection 107(1.1) of the Act is added and a reference to paragraph 108(1)(*c*) of the Act is removed. The amendments to the Act that give rise to the need for these changed references have generally had effect since the start of 2000.

(*a*) a trust maintained primarily for the benefit of employees of a corporation or two or more corporations which do not deal at arm's length with each other, where one of the main purposes of the trust is to hold interests in shares of the capital stock of the corporation or corporations, as the case may be, or any corporation not dealing at arm's length therewith;

(*b*) a trust established exclusively for the benefit of one or more persons each of whom was, at the time the trust was created, either a person from whom the trust received property or a creditor of that person, where one of the main purposes of the trust is to secure the payments required to be made by or on behalf of that person to such creditor; and

(*c*) a trust all or substantially all of the properties of which consist of shares of the capital stock of a corporation, where the trust was established pursuant to an agreement between two or more shareholders of the corporation and one of the main purposes of the trust is to provide for the exercise of voting rights in respect of those shares pursuant to that agreement.

History: S. 4800.1, the part preceding paragraph (*a*), was amended by P.C. 1992-2338, SOR/92-661, dated November 19, 1992, applicable after 1987. That part formerly read:

"S. 4800.1. For the purposes of subsections 107(2) and (4.1) and paragraph 108(1)(*c*) of the Act, the following are prescribed trusts:"

S. 4800.1 was added by P.C. 1990-853, SOR/90-284, dated May 10, 1990 and applicable after 1987.

4801. For the purposes of paragraph 132(6)(*c*) of the Act, the following conditions are hereby prescribed in respect of a trust:

(*a*) either

(i) a class of the units of the trust shall be qualified for distribution to the public, or

(ii) there has been a lawful distribution in a province to the public of units of the trust and a prospectus, registration statement or similar document was not required under the laws of the province to be filed in respect of the distribution; and

(*b*) in respect of any one class of units described in paragraph (*a*), there shall be no fewer than 150 beneficiaries of the trust, each of whom holds

Pending Amendment

Status of Corporations and Trusts — July 18, 2005

The portion of section 4801 of the Regulations before subparagraph (*b*)(i) is replaced by the following:

4801. In applying at any time paragraph 132(6)(*c*) of the Act, the following are prescribed conditions in respect of a trust:

(*a*) either

(i) both

(A) there has been at or before that time a lawful distribution in a province to the public of units of the trust and a prospectus, registration statement or similar document was not, under the laws of the province, required to be filed in respect of the distribution, and

(B) the trust

(I) was created after 1999 and on or before that time, or

(II) is a trust that satisfies, at that time, the conditions prescribed in section 4801.001, or

(ii) a class of the units of the trust is, at that time, qualified for distribution to the public; and

(*b*) in respect of a class of the trust's units that meets at that time the conditions described in paragraph (*a*), there are at that time no fewer than 150 beneficiaries of the trust, each of whom holds

Applicable: To the 2000 and subsequent taxation years.

Explanatory Note: Section 4801 of the Regulations contains a number of prescribed conditions that apply for the purposes of paragraph 132(6)(*c*) of the Act. These conditions must be met in order for a trust to qualify for income tax purposes as a mutual fund trust. The expression "mutual fund trust" is defined in subsection 132(6) of the Act.

Part XLVIII of the Regulations is amended — by adding subclause 4801(*a*)(i)(B)(II) and section 4800.001 — so that a trust created before 2000 that is a widely-held unit trust may qualify as a mutual fund trust where it makes a lawful distribution in a province to the public of its units and a number of other conditions are met. This amendment — which extends to trusts created before 2000 a similar existing rule that applies only to trusts created after 1999 — applies only for the 2004 and subsequent taxation years and only to trusts that elect for section 4801.001 to apply.

Section 4801 is also amended to update the language of the provision — these changes do not represent a change in tax policy. These amendments apply to the 2000 and subsequent taxation years.

(i) not less than one block of units of the class, and

(ii) units of the class having an aggregate fair market value of not less than $500.

History: S. 4801(*a*) was amended by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable to trusts established after 1999. S. 4801(*a*) formerly read:

"(*a*) a class of the units of the trust shall be qualified for distribution to the public; and"

Pending Amendment

Status of Corporations and Trusts — July 18, 2005

The Regulations are amended by adding the following after section 4801:

4801.001. For the purpose of applying at any particular time subclause 4801(*a*)(i)(B)(II), the following are the prescribed conditions:

(*a*) the trust was created before 2000;

(*b*) the trust was on July 18, 2005 a unit trust;

(*c*) the particular time is after 2003; and

(*d*) the trust elects by notifying the Minister, in writing, no later than on the trust's filing-due date for its 2005 taxation year, that this section applies to it.

Applicable: To the 2004 and subsequent taxation years and a trust's election referred to in paragraph 4801.001(*d*) is deemed to have been filed by the trust on its filing-due date for its 2005 taxation year if the election is filed by the trust in writing with the Minister of National Revenue within 60 days after the day on which these Regulations are published in Part II of the *Canada Gazette*.

Explanatory Note: [See the Explanatory Note following the amendment to the portion of section 4801 of the Regulations before subparagraph (*b*)(i).]

4801.01. For the purpose of subsection 132.11(1) of the Act, a trust that is a money market fund as defined in National Instrument 81-102 Mutual Funds, as amended from time to time, of the Canadian Securities Administrators is a prescribed trust.

History: S. 4801.01 was added by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable in respect of any filing, after March 10, 1999, for an election under subsection 132.11(1) of the *Income Tax Act*.

4801.02. For the purposes of the definition "eligible business entity" in subsection 204.8(1), clause 204.82(2.2)(*d*)(i)(B) and paragraph 204.82(6)(*a*) of the Act, a corporation registered under Part III.1 of the *Community Small Business Investment Funds Act*, chapter 18 of the Statutes of Ontario, 1992, is a prescribed corporation.

History: S. 4801.02 was added by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable to the 1999 and subsequent taxation years.

4801.1. For the purpose of paragraph (*c*) of the definition "exempt trust" in subsection 233.2(1) of the Act, the following conditions are hereby prescribed in respect of a trust:

(*a*) at least 150 beneficiaries of the trust are beneficiaries in respect of the same class of units of the trust; and

(*b*) at least 150 of the beneficiaries in respect of that class each hold

(i) at least one block of units of that class, and

(ii) units of that class having a total fair market value of at least $500.

History: S. 4801.1 was added by P.C. 1998-1573, SOR/98-453, dated September 15, 1998, applicable to returns in respect of taxation years that begin after 1995.

4802. (1) For the purposes of clause 149(1)(*o.2*)(iv)(D) of the Act the following are prescribed persons:

(*a*) a trust all the beneficiaries of which are trusts described in clause 149(1)(*o.2*)(iv)(B) of the Act;

(*b*) a corporation incorporated before November 17, 1978 solely in connection with, or for the administration of, a registered pension plan;

(*c*) a trust or corporation established by or arising by virtue of an act of a province the principal activities of which are to administer, manage or invest the monies of a pension plan that is established pursuant to an act of the province or an order or regulation made thereunder;

(*c.1*) the Canada Pension Plan Investment Board;

(*d*) a trust or corporation established by or arising by virtue of an act of a province in connection with a scheme or program for the compensation of workers injured in an accident arising out of or in the course of their employment;

(*e*) Her Majesty in right of a province;

(*f*) a trust all of the beneficiaries of which are any combination of

(i) registered pension plans,

(ii) trusts described in clause 149(1)(*o.2*)(iv)(B) or (C) of the Act, and

(iii) persons described in this subsection; and

(*g*) a corporation all of the shares of the capital stock of which are owned by one or more of the following:

(i) registered pension plans,

(ii) trusts described in clause 149(1)(*o.2*)(iv)(B) or (C) of the Act, and

(iii) persons described in this subsection.

Department of Finance Comfort Letter
[Permissible Shareholders for Corporations Used in Connection With Registered Pension Plans]

October 16, 2003

Dear XXXX:

This is in reply to your letter of September 9, 2003 in which you request a change to the income tax rules that would permit the XXXX and its wholly-owned subsidiaries to invest in corporations that are exempt from tax under paragraph 149(1)(*o.2*) of the *Income Tax Act* (the "Act"). I also wish to acknowledge discussions between Tax Legislation officials and your external tax counsel.

Based on our understanding that the XXXX activities are limited to the investment of the assets held in connection with the registered pension plans established under the *Canadian Forces Superannuation Act*, the *Public Service Superannuation Act*, and the *Royal Canadian Mounted Police Superannuation Act*, we have no tax policy concerns with the XXXX investing in such corporations. Accordingly, we will recommend to the Minister of Finance that the income tax rules be amended to clarify that the XXXX and its wholly-owned subsidiaries are permissible shareholders for corporations described in paragraph 149(1)(*o.2*) of the Act, effective after September 2003.

I trust this is satisfactory.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 4802(1)(*c.1*) was added by P.C. 2003-1497, SOR/2003-328, dated October 2, 2003, applicable after October 2002.

S. 4802(1)(*f*)(iii) was amended by P.C. 1996-569, SOR/96-226, dated April 23, 1996, applicable to the 1994 and subsequent taxation years. S. 4802(1)(*f*)(iii) formerly read:

"(iii) persons described in any of paragraphs (*a*) to (*e*)."

S. 4802(1)(*g*) was added by P.C. 1996-569, SOR/96-226, dated April 23, 1996, applicable to the 1994 and subsequent taxation years.

S. 4802 was renumbered as S. 4802(1) by P.C. 1994-785, SOR/94-353, dated May 12, 1994, applicable to the 1989 and subsequent taxation years.

S. 4802(*e*) was amended by P.C. 1992-2338, SOR/92-661, dated November 19, 1992, applicable to taxation years commencing after 1991. S. 4802(*e*) formerly read:

"(*e*) Her Majesty in right of a province acting in connection with or in the administration of a pension plan established pursuant to an act of the province."

S. 4802(*f*) was added by P.C. 1992-2338, SOR/92-661, dated November 19, 1992, applicable to taxation years commencing after 1991.

S. 4802(*b*) was amended by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, to substitute "pension plan" for "pension fund or plan", applicable after 1985.

S. 4802(*c*) was amended by P.C. 1987-1881, SOR/87-559 dated September 10, 1987, applicable to taxation years commencing after 1978. S. 4802(*c*) formerly read:

"(*c*) a trust established by or arising by virtue of an act of a province in connection with or for the administration of a registered pension fund or plan established pursuant to an act of the province; and"

S. 4802(*e*) was added by P.C. 1987-1881, SOR/87-559 dated September 10, 1987, applicable to taxation years commencing after 1978.

S. 4802 was added by P.C. 1985-2277, SOR/85-696 dated July 25, 1985, applicable to taxation years commencing after 1978.

(1.1) For the purposes of paragraph 149(1)(*o.4*) of the Act, a trust is a master trust at any time if, at all times after it was created and before that time,

(*a*) it was resident in Canada;

(*b*) its only undertaking was the investing of its funds;

(*c*) it never borrowed money except where the borrowing was for a term not exceeding 90 days and it is established that the borrowing was not part of a series of loans or other transactions and repayments;

(*d*) it never accepted deposits; and

(*e*) each of the beneficiaries of the trust was a trust governed by a registered pension plan or a deferred profit sharing plan.

History: S. 4802(1.1) was added by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, deemed to have come into force on June 29, 2005.

(2) For the purposes of paragraph 149(1)(*t*) of the Act, the following are prescribed insurers:

(*a*) Union Québécoise, compagnie d'assurances générales inc.;

(*b*) Les Clairvoyants Compagnie d'Assurance Générale Inc.; and

(*c*) Laurentian Farm Insurance Company Inc.

History: S. 4802(2) was added by P.C. 1994-785, SOR/94-353, dated May 12, 1994, applicable to the 1989 and subsequent taxation years.

4803. (1) In this Part,

"*block of shares*" means, with respect to any class of the capital stock of a corporation,

(*a*) 100 shares, if the fair market value of one share of the class is less than $25,

(*b*) 25 shares, if the fair market value of one share of the class is $25 or more but less than $100, and

(*c*) 10 shares, if the fair market value of one share of the class is $100 or more;

"*block of units*" means, with respect to any class of units of a trust,

(*a*) 100 units, if the fair market value of one unit of the class is less than $25,

(*b*) 25 units, if the fair market value of one unit of the class is $25 or more but less than $100, and

(*c*) 10 units, if the fair market value of one unit of the class is $100 or more;

"*equity share*" has the meaning assigned by section 204 of the Act;

"*insider of a corporation*" has the meaning that would be assigned by section 100 of the *Canada Corporations Act* if the references therein to "public company" and to "equity shares" were read as references to "corporation" and "shares" respectively, except that a person who is an employee of the corporation, or of a person who does not deal at arm's length with the corporation, and whose right to sell or transfer any share of the capital stock of the corporation, or to exercise the voting rights, if any, attaching to the share, is restricted by

(*a*) the terms and conditions attaching to the share, or

(*b*) any obligation of the person, under a contract, in equity or otherwise, to the corporation or to any person with whom the corporation does not deal at arm's length,

shall be deemed to hold the share as an insider of the corporation.

(2) For the purposes of this Part, a class of shares of the capital stock of a corporation or a class of units of a trust is qualified for distribution to the public only if

(*a*) a prospectus, registration statement or similar document has been filed with, and, where required by law, accepted for filing by, a public authority in Canada pursuant to and in accordance with the law of Canada or of any province and there has been a lawful distribution to the public of shares or units of that class in accordance with that document;

(*b*) the class is a class of shares, any of which were issued by the corporation at any time after 1971 while it was a public corporation in exchange for shares of any other class of the capital stock of the corporation that was, immediately before the exchange, qualified for distribution to the public;

(*c*) in the case of any class of shares, any of which were issued and outstanding on January 1, 1972, the class complied on that date with the conditions described in paragraphs 4800(1)(*b*) and (*c*); or

(*d*) in the case of any class of units, any of which were issued and outstanding on January 1, 1972, the class complied on that date with the condition described in paragraph 4801(*b*).

(3) For the purposes of paragraphs 4800(1)(*b*), 4800(2)(*b*) and 4801(*b*), where a group of persons holds

(*a*) not less than one block of shares of any class of shares of the capital stock of a corporation or one block of units of any class of a trust, as the case may be, and

(*b*) shares or units, as the case may be, of that class having an aggregate fair market value of not less than $500,

that group shall, subject to subsection (4), be deemed to be one person for the purposes of determining the number of persons who hold shares or units, as the case may be, of that class.

(4) In determining under subsection (3) the persons who belong to a group for the purposes of determining the number of persons who hold shares or units, as the case may be, of a particular class, the following rules apply:

(*a*) no person shall be included in more than one group;

(*b*) no person shall be included in a group if he holds

(i) not less than one block of shares or one block of units, as the case may be, of that class, and

(ii) shares or units, as the case may be, of that class having an aggregate fair market value of not less than $500; and

(*c*) the membership of each group shall be determined in the manner that results in the greatest possible number of groups.

History: S. 4803 is the former s. 4802 renumbered by P.C. 1985-2277, SOR/85-696 dated July 25, 1985, applicable to taxation years commencing after 1978.

S. 4802(1) was amended by P.C. 1984-339, SOR/84-146, dated February 3, 1984 and effective November 13, 1981, to change the reference to "subsection 257(2)" to "section 204".

S. 4802(4)(b)(i) and (ii) were amended by P.C. 1981-1556, SOR/81-470, dated June 12, 1981 and effective in respect of the 1972 and subsequent taxation years, to add "or one block of units, as the case may be," and "or units, as the case may be," respectively.

PART XLIX
Deferred Income Plans, Qualified Investments

4900. (1) For the purposes of paragraph (*d*) of the definition "qualified investment" in subsection 146(1) of the Act, paragraph (*e*) of the definition "qualified investment" in subsection 146.1(1) of the Act, paragraph (*c*) of the definition "qualified investment" in subsection 146.3(1) of the Act, paragraph (*h*) of the definition "qualified investment" in section 204 of the Act, paragraph (*d*) of the definition "qualified investment" in subsection 205(1) of the Act and paragraph (*c*) of the definition "qualified investment" in subsection 207.01(1) of the Act, each of the following investments is prescribed as a qualified investment for a plan trust at a particular time if at that time it is

(*a*) an interest in a trust or a share of the capital stock of a corporation that was a registered investment for the plan trust during the calendar year in which the particular time occurs or the immediately preceding year;

(*b*) a share of the capital stock of a public corporation other than a mortgage investment corporation;

(*c*) a share of the capital stock of a mortgage investment corporation that does not hold as part of its property at any time during the calendar year in which the particular time occurs any indebtedness, whether by way of mortgage or otherwise, of a person who is a connected person under the governing plan of the plan trust;

(*c*.1) a bond, debenture, note or similar obligation of a public corporation other than a mortgage investment corporation;

(*d*) a unit of a mutual fund trust;

(*d*.1) [Repealed.]

(*d*.2) a unit of a trust if

(i) the trust would be a mutual fund trust if Part XLVIII were read without reference to paragraph 4801(*a*), and

(ii) there has been a lawful distribution in a province to the public of units of the trust and a prospectus, registration statement or similar document was not required under the laws of the province to be filed in respect of the distribution;

(*e*) an option, a warrant or a similar right (each of which is, in this paragraph, referred to as the "security") issued by a person or partnership (in this paragraph referred to as the "issuer") that gives the holder the right to acquire, either immediately or in the future, property all of which is a qualified investment for the plan trust or to receive a cash settlement in lieu of delivery of that property, where

(i) the property is

(A) a share of the capital stock of, a unit of, or a debt issued by, the issuer or another person or

partnership that does not, when the security is issued, deal at arm's length with the issuer, or

(B) a warrant issued by the issuer or another person or partnership that does not, when the security is issued, deal at arm's length with the issuer, that gives the holder the right to acquire a share or unit described in clause (A), and

(ii) the issuer is not a connected person under the governing plan of the plan trust;

(*e*.01) [Repealed.]

(*e*.1) a share of, or deposit with, a société d'entraide économique;

(*f*) a share of, or similar interest in a credit union;

(*g*) a bond, debenture, note or similar obligation (in this paragraph referred to as the "obligation") issued by, or a deposit with, a credit union that, except where the plan trust is governed by a registered education savings plan, has not at any time during the calendar year in which the particular time occurs granted any benefit or privilege to a person who is a connected person under the governing plan of the plan trust, as a result of the ownership by

(i) the plan trust of a share or obligation of, or a deposit with, the credit union, or

(ii) a registered investment of a share or obligation of, or a deposit with, the credit union if the plan trust has invested in that registered investment,

and a credit union shall be deemed to have granted a benefit or privilege to a person in a year if at any time in that year that person continues to enjoy a benefit or privilege that was granted in a prior year;

(*h*) a bond, debenture, note or similar obligation (in this paragraph referred to as the "obligation") issued by a cooperative corporation (within the meaning assigned by subsection 136(2) of the Act)

(i) that throughout the taxation year of the cooperative corporation immediately preceding the year in which the obligation was acquired by the plan trust had not less than 100 shareholders or, if all its shareholders were corporations, not less than 50 shareholders,

(ii) whose obligations were, at the end of each month of

(A) the last taxation year, if any, of the cooperative corporation prior to the date of acquisition of the obligation by the plan trust, or

(B) the period commencing three months after the date an obligation was first acquired by any plan trust and ending on the last day of the taxation year of the cooperative corporation in which that period commenced,

whichever of the periods referred to in clause (A) or (B) commences later, held by plan trusts the average number of which is not less than 100 computed on the basis that no two plan trusts shall have the same individual as an annuitant or a beneficiary, as the case may be, and

(iii) that, except where the plan trust is governed by a registered education savings plan, has not at any time during the calendar year in which the particular time occurs granted any benefit or privilege to a person who is a connected person under the governing plan of the plan trust, as a result of the ownership by

(A) the plan trust of a share or obligation of the cooperative corporation, or

(B) a registered investment of a share or obligation of the cooperative corporation if the plan trust has invested in that registered investment,

and a cooperative corporation shall be deemed to have granted a benefit or privilege to a person in a year if at any time in that year that person continues to enjoy a benefit or privilege that was granted in a prior year;

(*i*) a bond, debenture, note or similar obligation (in this paragraph referred to as the "obligation") of a Canadian corporation

(i) if payment of the principal amount of the obligation and the interest on the principal amount is guaranteed by a corporation or a mutual fund trust whose shares or units, as the case may be, are listed on a designated stock exchange in Canada,

(ii) if the corporation is controlled directly or indirectly by

(A) one or more corporations,

(B) one or more mutual fund trusts, or

(C) one or more corporations and mutual fund trusts

whose shares or units, as the case may be, are listed on a designated stock exchange in Canada, or

(iii) if, at the time the obligation is acquired by the plan trust, the corporation that issued the obligation is

(A) a corporation that, in respect of its capital stock, has issued and outstanding share capital carried on its books at not less than $25 million, or

(B) a corporation that is controlled by a corporation described in clause (A)

and has issued and outstanding bonds, debentures, notes or similar obligations having in the aggregate a principal amount of at least $10 million that are held by at least 300 different persons and were issued by the corporation by means of one or more offerings, provided that in respect of each such offering a prospectus, registration statement or similar document was filed with and, where required by law, accepted for filing by a public authority in Canada pursuant to and in accordance with the laws of Canada or a province and there was a lawful distribution to the public of those bonds, debentures, notes or similar obligations in accordance with that document;

(*i*.1) a security of a Canadian corporation

(i) that was issued pursuant to *The Community Bonds Act*, chapter C-16.1 of the Statutes of Saskatchewan, 1990, *The Rural Development Bonds Act*, chapter 47 of the Statutes of Manitoba, 1991-92, the *Community Economic Development Act, 1993*, chapter 26 of the Statutes of Ontario, 1993, or the New Brunswick Community Development Bond Program through which financial

assistance is provided under the *Economic Development Act*, chapter E-1.11 of the Acts of New Brunswick, 1975, and

(ii) the payment of the principal amount of which is guaranteed by Her Majesty in right of a province;

(*i*.11) a share of the capital stock of a Canadian corporation that is registered under section 11 of the *Equity Tax Credit Act*, chapter 3 of the Statutes of Nova Scotia, 1993, the registration of which has not been revoked under that Act;

(*i*.12) a share of the capital stock of a Canadian corporation that is registered under section 39 of the *Risk Capital Investment Tax Credits Act*, chapter 22 of the Statutes of the Northwest Territories, 1998, the registration of which has not been revoked under that Act;

(*i*.2) indebtedness of a Canadian corporation (other than a corporation that is a connected person under the governing plan of the plan trust) represented by a bankers' acceptance;

(*i*.3) [Repealed.]

(*j*) a debt obligation of a debtor, or an interest, or for civil law a right, in that debt obligation, where

(i) the debt obligation is fully secured by a mortgage, charge, hypothec or similar instrument in respect of real or immovable property situated in Canada, or would be fully secured were it not for a decline in the fair market value of the property after the debt obligation was issued, and

(ii) the debtor (and any partnership that does not deal at arm's length with the debtor) is not a connected person under the governing plan of the plan trust;

(*j*.1) a debt obligation secured by a mortgage, charge, hypothec or similar instrument in respect of real or immovable property situated in Canada, or an interest, or for civil law a right, in that debt obligation, where the debt obligation is

(i) administered by an approved lender under the *National Housing Act*, and

(ii) insured

(A) under the *National Housing Act*, or

(B) by a corporation that offers its services to the public in Canada as an insurer of mortgages or hypothecary claims and that is approved as a private insurer of mortgages or hypothecary claims by the Superintendent of Financial Institutions under subsection 6(1) of the *Office of the Superintendent of Financial Institutions Act*;

(*j*.2) a certificate evidencing an undivided interest, or for civil law an undivided right, in one or more properties, where

(i) all or substantially all of the fair market value of the certificate is attributable to property that is, or is incidental to, a debt obligation secured by

(A) a mortgage, charge, hypothec or similar instrument in respect of real or immovable property situated in Canada, or

(B) property described in paragraph (*a*) or (*b*) of the definition "qualified investment" in section 204 of the Act that was substituted for the security referred to in clause (A) under the terms of the debt obligation,

(ii) the certificate has, at the time of acquisition by the plan trust, an investment grade rating with a credit rating agency referred to in subsection (2), and

(iii) the certificate is issued as part of an issue of certificates by the issuer for a total amount of at least $25 million;

(*k*) [Repealed.]

(*l*) [Repealed.]

(*m*) [Repealed.]

(*n*) [Repealed.]

(*n*.01) [Repealed.]

(*n*.1) [Repealed.]

(*o*) [Repealed.]

(*p*) [Repealed.]

(*p*.1) [Repealed.]

(*q*) a debt issued by a Canadian corporation (other than a corporation with share capital or a corporation that is a connected person under the governing plan of the plan trust) where

(i) the taxable income of the corporation is exempt from tax under Part I of the Act because of paragraph 149(1)(*l*) of the Act, and

(ii) either

(A) before the particular time and after 1995, the corporation

(I) acquired, for a total consideration of not less than $25 million, property from Her Majesty in right of Canada or a province, and

(II) put that property to a use that is the same as or similar to the use to which the property was put before the acquisition described in subclause (I), or

(B) at the time of the acquisition of the debt by the plan trust, it was reasonable to expect that clause (A) would apply in respect of the debt no later than one year after the time of the acquisition;

(*r*) a debt issued by a Canadian corporation (other than a corporation with share capital or a corporation that is a connected person under the governing plan of the plan trust) if

(i) the taxable income of the corporation is exempt from tax under Part I of the Act because of paragraph 149(1)(*l*) of the Act, and

(ii) either

(A) the debt is issued by the corporation as part of an issue of debt by the corporation for an amount of at least $25 million, or

(B) at the time of the acquisition of the debt by the plan trust, the corporation had issued debt as part of a single issue for an amount of at least $25 million;

(*s*) [Repealed.]

(*t*) a gold or silver legal tender bullion coin

(i) that is of a minimum fineness of 995 parts per 1000 in the case of gold and 999 parts per 1000 in the case of silver,

(ii) that was produced by the Royal Canadian Mint,

(iii) that has a fair market value at the particular time not exceeding 110 per cent of the fair market value of the coin's gold or silver content, and

(iv) that is acquired by the plan trust directly from the Royal Canadian Mint or from a corporation (in paragraphs (*u*) and (*v*) referred to as a "specified corporation")

(A) that is a bank, a trust company, a credit union, an insurance corporation or a registered securities dealer,

(B) that is resident in Canada, and

(C) that is a corporation whose business activities are subject by law to the supervision of a regulating authority that is the Superintendent of Financial Institutions or a similar authority of a province;

(*u*) a gold or silver bullion bar, ingot or wafer

(i) that is of a minimum fineness of 995 parts per 1000 in the case of gold and 999 parts per 1000 in the case of silver,

(ii) that was produced by a metal refiner included in the London Bullion Market Association's good delivery list of acceptable refiners for gold or silver, as the case may be,

(iii) that bears the hallmark of the metal refiner that produced it and a stamp indicating its fineness and its weight, and

(iv) that is acquired by the plan trust either directly from the metal refiner that produced it or from a specified corporation;

(*v*) a certificate issued by a specified corporation or the Royal Canadian Mint representing a claim of the holder of the certificate to property held by the issuer of the certificate, where

(i) the property would be property described in paragraph (*t*) or (*u*) if those paragraphs were read without reference to subparagraphs (*t*)(iv) and (*u*)(iv), respectively, and

(ii) the certificate is acquired by the plan trust directly from the issuer of the certificate or from a specified corporation; or

(*w*) an American Depositary Receipt where the property represented by the receipt is listed on a designated stock exchange.

History: S. 4900(1), the portion before paragraph (*a*) was replaced by S.C. 2009, c. 2, s. 105(1), applicable to the 2009 and subsequent taxation years. S. 4900(1), the portion before paragraph (*a*) formerly read:

"(1) For the purposes of paragraph (*d*) of the definition 'qualified investment' in subsection 146(1) of the Act, paragraph (*e*) of the definition 'qualified investment' in subsection 146.1(1) of the Act, paragraph (*c*) of the definition 'qualified investment' in subsection 146.3(1) of the Act, paragraph (*h*) of the definition 'qualified investment' in section 204 of the Act and paragraph (*d*) of the definition 'qualified investment' in subsection 205(1) of the Act, each of the following investments is prescribed as a qualified investment for a plan trust at a particular time if at that time it is"

S. 4900(1)(*i.3*) was repealed by S.C. 2009, c. 2, s. 105(2), applicable to property acquired after March 12, 2009. S. 4900(1)(*i.3*) formerly read:

"(*i.3*) a debt obligation issued by a Canadian corporation or a trust resident in Canada, where

(i) the principal purpose of the corporation or trust is to derive income from, or from the disposition of, property that is

(A) a debt obligation, or a lease, that arose in the ordinary course of business between parties dealing with each other at arm's length,

(B) a property described by this paragraph, or

(C) an interest, or for civil law a right, in property described in clause (A) or (B),

(ii) the debt obligation has, at the time of its acquisition by the plan trust, an investment grade rating with a bond rating agency that rates debt in the ordinary course of its business, and

(iii) either

(A) the debt obligation is issued as part of a single issue of debt by the corporation or trust for a total amount of at least $25 million, or

(B) at the time the debt obligation is issued, the corporation or trust has issued and outstanding debt of at least $25 million;"

S. 4900(1)(*j.2*)(ii) was replaced by S.C. 2009, c. 2, s. 105(3), applicable to property acquired after March 12, 2009. S. 4900(1)(*j.2*)(ii) formerly read:

"(ii) the certificate has, at the time of its acquisition by the plan trust, an investment grade rating with a bond rating agency that rates debt in the ordinary course of its business, and"

S. 4900(1)(*k*) and (*l*) were repealed by S.C. 2009, c. 2, s. 105(4), applicable to property acquired after March 12, 2009. S. 4900(1)(*k*) and (*l*) formerly read:

"(*k*) an investment, other than a qualified investment described in paragraphs (*a*) to (*j*), that

(i) was, at the end of 1980, a qualified investment for a trust pursuant to subparagraph 204(*e*)(v) [Repealed by S.C. 1980-81-82-83, c. 48, s. 93(2).] of the Act or section 1502, this Part or section 5800, as the case may be, as those provisions read at that time,

(ii) was held on December 31, 1980 and continuously thereafter by the trust until the particular time,

(iii) would have continued to be a qualified investment of the trust from December 31, 1980 until the particular time had the provisions referred to in subparagraph (i) been in force throughout that period of time, and

(iv) was not, at any time before the particular time, an interest in a registered investment;

(*l*) a bond, debenture, note or similar obligation issued or guaranteed by

(i) the International Bank for Reconstruction and Development,

(i.1) The International Finance Corporation,

(ii) the Inter-American Development Bank,

(iii) the Asian Development Bank,

(iv) the Caribbean Development Bank,

(v) the European Bank for Reconstruction and Development, or

(vi) the African Development Bank;"

S. 4900(1)(*o*) was repealed by S.C. 2009, c. 2, s. 105(5), applicable to property acquired after March 12, 2009. S. 4900(1)(*o*) formerly read:

"(*o*) a bond, debenture, note or similar obligation issued by the government of a country other than Canada and that had, at the time of purchase, an investment grade rating with a bond rating agency that in the ordinary course of its business rates the debt obligations issued by that government;"

S. 4900(1)(*s*) was repealed by S.C. 2009, c. 2, s. 105(6), applicable to property acquired after March 12, 2009. S. 4900(1)(*s*) formerly read:

"(*s*) where the particular time is before 2002, a security of a corporation (other than a corporation that does not deal at arm's length with a person who is an annuitant, a beneficiary, an employer or a subscriber under the governing plan of the plan trust)

(i) that

(A) was last acquired by the plan trust before September 2000, and

(B) either

(I) at the time of that acquisition was quoted on the OTC Bulletin Board quotation service operated by Nasdaq Stock Market, Inc. or on the OTC quotation service operated by Pink Sheets LLC, or

(II) at the time of that acquisition was a qualified investment for the plan trust and at any time in the period that began at the time of that acquisition and ended before September 2000 was quoted on the OTC Bulletin Board quotation service operated by Nasdaq Stock Market, Inc. or on the OTC quotation service operated by Pink Sheets LLC, or

(ii) that

(A) was acquired by the plan trust after August 2000 from another plan trust under which the annuitant or beneficiary is also the annuitant or beneficiary under the plan trust,

(B) immediately before its acquisition by the plan trust was a qualified investment for the other plan trust, and

(C) would be a qualified investment for the plan trust because of this paragraph if this paragraph were read without reference to this subparagraph and the plan trust had acquired the security before September 2000;"

S. 4900(1)(*w*) was added by S.C. 2009, c. 2, s. 105(7), applicable in determining whether a property is, at any time after 2005, a qualified investment, except that in applying paragraph 4900(1)(*w*) before December 14, 2007, it is to be read as follows:

"(*w*) an American Depositary Receipt where the property represented by the receipt is listed on a stock exchange referred to in section 3200 or 3201."

S. 4900(1), the portion before paragraph (*a*) was replaced by S.C. 2007, c. 35, s. 126(1), applicable to the 2008 and subsequent taxation years. S. 4900(1), the portion before paragraph (*a*) formerly read:

"S. 4900. (1) For the purposes of paragraph (*d*) of the definition 'qualified investment' in subsection 146(1) of the Act, paragraph (*e*) of the definition 'qualified investment' in subsection 146.1(1) of the Act, paragraph (*c*) of the definition 'qualified investment' in subsection 146.3(1) of the Act and paragraph (*h*) of the definition 'qualified investment' in section 204 of the Act, each of the following investments is prescribed as a qualified investment for a plan trust at a particular time if at that time it is"

S. 4900(1)(*c*) was replaced by S.C. 2007, c. 35, s. 126(2), applicable to the 2008 and subsequent taxation years. S. 4900(1)(*c*) formerly read:

"(*c*) a share of the capital stock of a mortgage investment corporation that does not hold as part of its property at any time during the calendar year in which the particular time occurs any indebtedness, whether by way of mortgage or otherwise, of a person who is an annuitant, a beneficiary, an employer or a subscriber under the governing plan of the plan trust or of any other person who does not deal at arm's length with that person;"

S. 4900(1)(*e*)(ii) was replaced by S.C. 2007, c. 35, s. 126(3), applicable to the 2008 and subsequent taxation years. S. 4900(1)(*e*)(ii) formerly read:

"(ii) the issuer deals at arm's length with each person who is an annuitant, a beneficiary, an employer or a subscriber under the governing plan of the plan trust;"

S. 4900(1)(*g*), the portion before subparagraph (i) was replaced by S.C. 2007, c. 35, s. 126(4), applicable to the 2008 and subsequent taxation years. S. 4900(1)(*g*), the portion before subparagraph (i) formerly read:

"(*g*) a bond, debenture, note or similar obligation (in this paragraph referred to as the 'obligation') issued by, or a deposit with, a credit union that, except where the plan trust is governed by a registered education savings plan, has not at any time during the calendar year in which the particular time occurs granted any benefit or privilege to a person who is an annuitant, a beneficiary or an employer under the governing plan of the plan trust, or to any other person who does not deal at arm's length with that person, as a result of the ownership by"

S. 4900(1)(*h*)(iii), the portion before clause (A) was replaced by S.C. 2007, c. 35, s. 126(5), applicable to the 2008 and subsequent taxation years. S. 4900(1)(*h*)(iii), the portion before clause (A) formerly read:

"(iii) that, except where the plan trust is governed by a registered education savings plan, has not at any time during the calendar year in which the particular time occurs granted any benefit or privilege to a person who is an annuitant, a beneficiary or an employer under the governing plan of the plan trust, or to any other person who does not deal at arm's length with that person, as a result of the ownership by"

S. 4900(1)(*i*)(i) was amended by S.C. 2007, c. 35, s. 89(1), by replacing "stock exchange referred to in section 3200" with "designated stock exchange in Canada", in force on December 14, 2007.

S. 4900(1)(*i*)(ii), the portion after clause (C) was amended by S.C. 2007, c. 35, s. 89(1), by replacing "stock exchange referred to in section 3200" with "designated stock exchange in Canada", in force on December 14, 2007.

S. 4900(1)(*i.2*) was replaced by S.C. 2007, c. 35, s. 126(6), applicable to the 2008 and subsequent taxation years. S. 4900(1)(*i.2*) formerly read:

"(*i.2*) indebtedness of a Canadian corporation (other than a corporation that does not deal at arm's length with a person who is an annuitant, a beneficiary, an employer or a subscriber under the governing plan of the plan trust) represented by a bankers' acceptance;"

S. 4900(1)(*j*)(ii) was replaced by S.C. 2007, c. 35, s. 126(7), applicable to the 2008 and subsequent taxation years. S. 4900(1)(*j*)(ii) formerly read:

"(ii) the debtor (and any person or partnership who does not deal at arm's length with the debtor) is not an annuitant, a beneficiary, an employer or a subscriber under the governing plan of the plan trust;"

S. 4900(1)(*q*), the portion before subparagraph (i) was replaced by S.C. 2007, c. 35, s. 126(8), applicable to the 2008 and subsequent taxation years. S. 4900(1)(*q*), the portion before subparagraph (i) formerly read:

"(*q*) a debt issued by a Canadian corporation (other than a corporation with share capital or a corporation that does not deal at arm's length with a person who is an annuitant, a beneficiary, an employer or a subscriber under the governing plan of the plan trust) where"

S. 4900(1)(*r*), the portion before subparagraph (i) was replaced by S.C. 2007, c. 35, s. 126(9), applicable to the 2008 and subsequent taxation years. S. 4900(1)(*r*), the portion before subparagraph (i) formerly read:

"(*r*) a debt issued by a Canadian corporation (other than a corporation with share capital or a corporation that does not deal at arm's length with a person who is an annuitant, a beneficiary or an employer under the governing plan of the plan trust) if"

S. 4900(1)(*j.2*)(i) was replaced by P.C. 2007-1443, SOR/2007-212, dated September 27, 2007, applicable after 2005. S. 4900(1)(*j.2*)(i) formerly read:

"(i) all or substantially all of the fair market value of the certificate is attributable to property that is, or is incidental to, a debt obligation secured by a mortgage, charge, hypothec or similar instrument in respect of real or immovable property situated in Canada,"

S. 4900(1), the portion before paragraph (*a*) was replaced by S.C. 2007, c. 29, s. 32(1), applicable in determining whether a property is, at any time after March 18, 2007, a qualified investment. S. 4900(1), the portion before paragraph (*a*) formerly read:

"S. 4900. (1) Subject to subsection (2), for the purposes of paragraph (*d*) of the definition 'qualified investment' in subsection 146(1) of the Act, paragraph (*e*) of the definition 'qualified investment' in subsection 146.1(1) of the Act, paragraph (*c*) of the definition 'qualified investment' in subsection 146.3(1) of the Act and paragraph (*i*) of the definition 'qualified investment' in section 204 of the Act, each of the following investments is prescribed as a qualified investment for a plan trust at a particular time if at that time it is"

S. 4900(1)(*d.1*) was repealed by S.C. 2007, c. 29, s. 32(2), applicable in determining whether a property is, at any time after March 18, 2007, a qualified investment. S. 4900(1)(*d.1*) formerly read:

"(*d.1*) a bond, debenture, note or similar obligation issued by a mutual fund trust the units of which are listed on a stock exchange referred to in section 3200;"

S. 4900(1)(*e.01*) was repealed by S.C. 2007, c. 29, s. 32(3), applicable in determining whether a property is, at any time after March 18, 2007, a qualified investment. S. 4900(1)(*e.01*) formerly read:

"(*e.01*) an option, a warrant or a similar right that is listed on a stock exchange referred to in section 3200 or 3201 and that is in respect of property all of which is a qualified investment for the plan trust;"

S. 4900(1)(*m*) to (*n.1*) were repealed by S.C. 2007, c. 29, s. 32(4), applicable in determining whether a property is, at any time after March 18, 2007, a qualified investment. S. 4900(1)(*m*) to (*n.1*) formerly read:

"(*m*) a royalty unit that is listed on a stock exchange referred to in section 3200 and the value of which is derived solely from Canadian resource properties;

(*n*) a limited partnership unit listed on a stock exchange referred to in section 3200;

(*n.01*) a debt issued by a limited partnership whose units are listed on a stock exchange referred to in section 3200;

(*n.1*) a unit of a particular trust if

(i) at the particular time, the unit is listed on a stock exchange referred to in section 3201,

(ii) the primary purpose of the particular trust is

(A) to hold the securities included in a stock exchange index (including a stock exchange index reflecting securities issued by corporations or other entities carrying on a particular type of business activity) in substantially the same portion as those securities are reflected in that index, or

(B) to invest in a manner that causes the investment performance of the particular trust to replicate the investment performance of that index, and

(iii) at the particular time or the time of the last acquisition of the unit before the particular time by the plan trust, the total of all amounts each of which is the cost amount to the particular trust of a share of the capital stock of a corporation listed on a single stock exchange referred to in section 3200 or 3201 is not less than 80% of the total of all amounts each of which is the cost amount to the particular trust of a property of the particular trust;"

S. 4900(1)(*p*) and (*p.1*) were repealed by S.C. 2007, c. 29, s. 32(5), applicable in determining whether a property is, at any time after March 18, 2007, a qualified investment. S. 4900(1)(*p*) and (*p.1*) formerly read:

"(*p*) a bond, debenture, note or similar obligation of a corporation the shares of which are listed on a stock exchange referred to in section 3201;

(*p.1*) a right to a share of the capital stock of a corporation where the right is evidenced by a depository receipt that is listed on a stock exchange referred to in section 3200 or 3201;"

S. 4900(1)(*e*) was replaced by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable to property acquired after February 27, 2004. S. 4900(1)(*e*) formerly read:

"(*e*) a warrant or right giving the owner thereof the right to acquire either immediately or in the future property all of which is a qualified investment for the plan trust;"

S. 4900(1)(*e.01*) was added by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable after February 27, 2004.

S. 4900(1)(*i.3*) was added by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable after February 27, 2004.

S. 4900(1)(*j*) was replaced by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable

(*a*) in respect of property acquired after February 27, 2004, after February 27, 2004; and

(*b*) in respect of property acquired before February 28, 2004, after 2006.

S. 4900(1)(*j*) formerly read:

"(*j*) a mortgage

(i) that is in respect of real property situated in Canada (or an interest in that mortgage), and

(ii) that is, if any mortgagor of that mortgage is a person who is an annuitant, a beneficiary, an employer or a subscriber under the governing plan of the plan trust or is any other person who does not deal at arm's length with that person,

(A) administered by an approved lender under the *National Housing Act*, and

(B) insured

(I) under the *National Housing Act*, or

(II) by a corporation that offers its services to the public in Canada as an insurer of mortgages and that is approved as a private insurer of mortgages by the Superintendent of Financial Institu-

tions pursuant to the powers assigned to the Superintendent under subsection 6(1) of the *Office of the Superintendent of Financial Institutions Act*;"

S. 4900(1)(*j*.1) and (*j*.2) were added by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005. Paragraph 4900(1)(*j*.1) applies after February 27, 2004. Paragraph 4900(1)(*j*.2) applies after 2000.

S. 4900(1)(*n*.01) was added by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable after February 27, 2004.

S. 4900(1)(*t*), (*u*) and (*v*) were added by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable after February 22, 2005.

S. 4900(1), the portion before paragraph (*a*) was amended by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable to property acquired after October 27, 1998. S. 4900(1), the portion before paragraph (*a*) formerly read:

"S. 4900. (1) For the purposes of subparagraphs 146(1)(*g*)(iv), 146.2(1)(*g*)(iv), 146.3(1)(*d*)(iii) and 204(*e*)(x) of the Act, subject to subsection (2), each of the following investments is hereby prescribed to be a qualified investment for a plan trust at a particular time if at that time it is"

S. 4900(1)(*c*) was amended by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable to property acquired after October 27, 1998. S. 4900(1)(*c*) formerly read:

"(*c*) a share of the capital stock of a mortgage investment corporation that does not hold as part of its property at any time during the calendar year in which the particular time occurs any indebtedness, whether by way of mortgage or otherwise, of a person who is an annuitant, a beneficiary or an employer, as the case may be, under the governing plan of the plan trust or of any other person who does not deal at arm's length with that person;"

S. 4900(1)(*d*.2) was added by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable to property acquired after 1993.

S. 4900(1)(*g*), the portion before subparagraph (i) was amended by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable to property acquired after October 27, 1998. S. 4900(1)(*g*), the portion before subparagraph (i) formerly read:

"(*g*) a bond, debenture, note or similar obligation (in this paragraph referred to as the 'obligation') issued by, or a deposit with, a credit union that has not at any time during the calendar year in which the particular time occurs granted any benefit or privilege to a person who is an annuitant, a beneficiary or an employer, as the case may be, under the governing plan of the plan trust, or to any other person who does not deal at arm's length with that person, as a result of the ownership by"

S. 4900(1)(*h*)(iii), the portion before clause (A) was amended by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable to property acquired after October 27, 1998. S. 4900(1)(*h*)(iii), the portion before clause (A) formerly read:

"(iii) that has not at any time during the calendar year in which the particular time occurs granted any benefit or privilege to a person who is an annuitant, a beneficiary or an employer, as the case may be, under the governing plan of the plan trust, or to any other person who does not deal at arm's length with that person, as a result of the ownership by"

S. 4900(1)(*i*)(i) was amended by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable after March 2001. S. 4900(1)(*i*)(i) formerly read:

"(i) if payment of the principal amount of the obligation and the interest thereon is guaranteed by a corporation or a mutual fund trust whose shares or units, as the case may be, are listed on a prescribed stock exchange in Canada,"

S. 4900(1)(*i*)(ii), the portion after clause (C) was amended by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable after March 2001. S. 4900(1)(*i*)(ii), the portion after clause (C) formerly read:

"whose shares or units, as the case may be, are listed on a prescribed stock exchange in Canada, or"

S. 4900(1)(*i*.2) was amended by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable to property acquired after October 27, 1998. S. 4900(1)(*i*.2) formerly read:

"(*i*.2) indebtedness of a Canadian corporation (other than a corporation that does not deal at arm's length with a person who is an annuitant, a beneficiary or an employer under the governing plan of the plan trust) represented by a bankers' acceptance;"

S. 4900(1)(*j*) was amended by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable to property acquired after October 27, 1998, except that paragraph 4900(1)(*j*) shall not apply to property acquired before March 31, 2001 by a trust governed by a deferred profit sharing plan. S. 4900(1)(*j*) formerly read:

"(*j*) a mortgage in respect of real property situated in Canada insured
(i) under the *National Housing Act*, or
(ii) by a corporation offering its services to the public in Canada as an insurer of mortgages
and administered by an approved lender under the *National Housing Act*;"

S. 4900(1)(*m*) was amended by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable after March 2001. S. 4900(1)(*m*) formerly read:

"(*m*) a royalty unit that is listed on a prescribed stock exchange in Canada and the value of which is derived solely from Canadian resource properties;"

S. 4900(1)(*n*.1) was added by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable to property acquired after 1993.

S. 4900(1)(*q*), the portion before subparagraph (i) was amended by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable to property acquired after October 27, 1998. S. 4900(1)(*q*), the portion before subparagraph (i) formerly read:

"(*q*) a debt issued by a Canadian corporation (other than a corporation with share capital or a corporation that does not deal at arm's length with a person who is an annuitant, a beneficiary or an employer under the governing plan of the plan trust) where"

S. 4900(1)(*s*) was added by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable to property acquired before September 2000.

S. 4900(1)(*l*)(vi) was added by P.C. 1999-133, SOR/99-81, dated February 4, 1999, applicable after 1996.

S. 4900(1)(*r*) was added by P.C. 1999-133, SOR/99-81, dated February 4, 1999, applicable after February 1998.

S. 4900(1)(*i*.12) was added by P.C. 1999-249, SOR/99-102, dated February 18, 1999, applicable to property acquired after August 1998.

S. 4900(1)(*d*.1) was added by P.C. 1998-629, SOR/98-250, dated April 23, 1998, applicable to property acquired after 1996.

S. 4900(1)(*p*.1) was added by P.C. 1998-629, SOR/98-250, dated April 23, 1998, applicable to the 1997 and subsequent taxation years.

S. 4900(1)(*q*) was added by P.C. 1996-1487, SOR/96-450, dated September 24, 1996, applicable to property acquired after 1995.

S. 4900(1)(*i*.11) was added by P.C. 1996-1487, SOR/96-450, dated September 24, 1996, applicable to property acquired after 1995.

S. 4900(1)(*i*.2) was added by P.C. 1994-1074, SOR/94-471, dated June 23, 1994, applicable after 1992.

S. 4900(1)(*l*)(i.1) was added by P.C. 1994-1074, SOR/94-471, dated June 23, 1994, applicable after July 13, 1990.

S. 4900(1)(*l*)(v) was added by P.C. 1994-1075, SOR/94-472, dated June 23, 1994, applicable to months beginning after March 1991.

S. 4900(1)(*b*) was amended by P.C. 1994-1074, SOR/94-471, dated June 23, 1994, applicable after 1992. S. 4900(1)(*b*) formerly read:

"(*b*) a share of the capital stock of a public corporation, other than a share of a mortgage investment corporation that is not listed on a prescribed stock exchange in Canada;"

S. 4900(1)(*c*.1) was added by P.C. 1994-1074, SOR/94-471, dated June 23, 1994, applicable after 1992.

S. 4900(1)(*e*) was amended by P.C. 1994-1074, SOR/94-471, dated June 23, 1994, applicable after 1992. S. 4900(1)(*e*) formerly read:

"(*e*) a warrant or right listed on the Toronto Futures Exchange or a prescribed stock exchange in Canada, giving the owner thereof the right to acquire either immediately or in the future any property that, if the warrant or right were exercised at the particular time, would be a qualified investment for the plan trust;"

S. 4900(1)(*i*.1), the part preceding subparagraph (ii), was amended by P.C. 1994-1075, SOR/94-472, dated June 23, 1994, applicable to property acquired after August 1993. That part formerly read:

"(*i*.1) a bond, debenture, note or similar obligation of a Canadian corporation
(i) that was issued pursuant to *The Community Bonds Act*, chapter C-16.1 of the Statutes of Saskatchewan, 1990, or *The Rural Development Bonds Act*, chapter 47 of the Statutes of Manitoba, 1991-92, and"

S. 4900(1)(*n*) was added by P.C. 1994-1074, SOR/94-471, dated June 23, 1994, applicable after 1992.

Ss. 4900(1)(*o*) and (*p*) were added by P.C. 1994-1075, SOR/94-472, dated June 23, 1994, applicable to property acquired after June 21, 1993.

S. 4900(1)(*i*.1) was added by P.C. 1992-2334, SOR/92-660, dated November 19, 1992, applicable to property acquired after June 30, 1991.

S. 4900(1)(*m*) was added by P.C. 1992-2334, SOR/92-660, dated November 19, 1992, applicable to property acquired after July 16, 1992.

S. 4900(1)(*l*) was added by P.C. 1986-772, SOR/86-390, dated March 26, 1986, effective after October 31, 1985.

S. 4900(1)(*e*) was amended by P.C. 1985-587, SOR/85-202, dated February 28, 1985, to add "the Toronto Futures Exchange or", effective February 25, 1985.

S. 4900(1)(*e*.1) was added by P.C. 1983-3319, SOR/83-819, dated October 21, 1983 and applicable to the 1982 and subsequent taxation years.

Interpretation Bulletins: *Secondary* — IT-320R3 RRSPs — Qualified investments.
Information Circulars: IC 77-1R5 Deferred profit sharing plan; IC 78-14R4 Guidelines for trust companies and other persons responsible for filing T3GR, T3D, T3P, T3S, T3RI, and T3F returns.
Tax Topics: No. 1399, Qualified RRSP investments and IRAs.
Tax Profile: August 2004 — Canadian Tax Treatment of Index Participation Units and Exchange-Traded Index Derivatives.

(2) For the purposes of paragraph (*c*.1) of the definition "qualified investment" in section 204 of the Act, each of the following is a prescribed credit rating agency:

(*a*) A.M. Best Company, Inc.;

(*b*) Dominion Bond Rating Service Limited;

(*c*) Fitch, Inc.;

(*d*) Moody's Investors Service, Inc.; and

(*e*) the Standard and Poor's Division of the McGraw-Hill Companies, Inc.

History: S. 4900(2) was replaced by S.C. 2007, c. 29, s. 32(6), applicable in determining whether a property is, at any time after March 18, 2007, a qualified investment. S. 4900(2) formerly read:

"(2) Notes, bonds, debentures, bankers' acceptances or similar obligations of

(*a*) an employer by whom payments are made in trust to a trustee under a deferred profit sharing plan or a revoked plan for the benefit of beneficiaries under the plan, or

(*b*) a corporation with whom that employer does not deal at arm's length are not qualified investments for the trust."

S. 4900(2) was amended by P.C. 1994-1074, SOR/94-471, dated June 23, 1994, applicable after 1992. S. 4900(2) formerly read:

"(2) Notes, bonds, debentures or similar obligations described in paragraph 147(2)(*c*) of the Act are not qualified investments for a trust governed by a deferred profit sharing plan or a revoked plan."

(3) For the purpose of paragraph (*h*) of the definition "qualified investment" in section 204 of the Act, a contract with a licensed annuities provider for an annuity payable to an employee who is a beneficiary under a deferred profit sharing plan beginning not later than the end of the year in which the employee attains 71 years of age, the guaranteed term of which, if any, does not exceed 15 years, is prescribed as a qualified investment for a trust governed by such a plan or revoked plan.

History: S. 4900(3) was replaced by S.C. 2007, c. 29, s. 32(7), applicable after 2006 except that, for the period before March 19, 2007, the reference in subsection 4900(3) to "paragraph (*h*)" shall be read as a reference to "paragraph (*i*)". S. 4900(3) formerly read:

"(3) For the purpose of paragraph (i) of the definition 'qualified investment' in section 204 of the Act, a contract with a licensed annuities provider for an annuity payable to an employee who is a beneficiary under a deferred profit sharing plan beginning not later than the end of the year in which the employee attains 69 years of age, the guaranteed term of which, if any, does not exceed 15 years, is prescribed as a qualified investment for a trust governed by such a plan or revoked plan."

S. 4900(3) was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable to annuity contracts acquired after 1996, except that

(*a*) it does not apply to a contract where the annuitant attained 70 years of age before 1997; and

(*b*) in applying subsection 4900(3) of the Regulations to a contract where the annuitant attained 69 years of age in 1996, the reference in that subsection to "69 years of age" shall be read as a reference to "70 years of age". S. 4900(3) formerly read:

"(3) For the purposes of subparagraph 204(*e*)(x) of the Act, a contract with a person licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada an annuities business for an annuity payable to an employee or other beneficiary under a deferred profit sharing plan commencing not later than a day 71 years after the day of his birth, the guaranteed term of which, if any, does not exceed 15 years is a qualified investment for a trust governed by such a plan or revoked plan."

(4) [Repealed.]

History: S. 4900(4) was repealed by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable to property acquired after October 27, 1998. S. 4900(4) formerly read:

"(4) For the purposes of subparagraphs 146(1)(*g*)(iv) and 146.3(1)(*d*)(iii) of the Act, a mortgage secured by real property situated in Canada, or an interest therein, is a qualified investment for a registered retirement savings plan or a registered retirement income fund unless the mortgagor is the annuitant under the plan or fund, as the case may be, or is a person with whom the annuitant does not deal at arm's length."

(5) For the purposes of paragraph (*e*) of the definition "qualified investment" in subsection 146.1(1) of the Act, paragraph (*d*) of the definition "qualified investment" in subsection 205(1) of the Act and paragraph (*c*) of the definition "qualified investment" in subsection 207.01(1) of the Act, a property is prescribed as a qualified investment for a trust governed by a registered disability savings plan, a registered education savings plan or a TFSA at any time if at that time the property is an interest in a trust or a share of the capital stock of a corporation that was a registered investment for a trust governed by a registered retirement savings plan during the calendar year in which that time occurs or during the preceding year.

History: S. 4900(5) was replaced by S.C. 2009, c. 2, s. 105(8), applicable to the 2009 and subsequent taxation years. S. 4900(5) formerly read:

"(5) For the purposes of paragraph (*e*) of the definition 'qualified investment' in subsection 146.1(1) of the Act and paragraph (*d*) of the definition 'qualified investment' in subsection 205(1) of the Act, a property is prescribed as a qualified investment for a trust governed by a registered education savings plan or a trust governed by a registered disability savings plan at any time if at that time the property is an interest in a trust or a share of the capital stock of a corporation that was a registered investment for a trust governed by a registered retirement savings plan during the calendar year in which that time occurs or during the preceding year."

S. 4900(5) was replaced by S.C. 2007, c. 35, s. 126(10), applicable to the 2008 and subsequent taxation years. S. 4900(5) formerly read:

"(5) For the purposes of paragraph (*e*) of the definition 'qualified investment' in subsection 146.1(1) of the Act, a property is prescribed as a qualified investment for a trust governed by a registered education savings plan at any time if at that time the property is an interest in a trust or a share of the capital stock of a corporation that was a registered investment for a trust governed by a registered retirement savings plan during the calendar year in which that time occurs or during the preceding year."

S. 4900(5) was amended by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable to property acquired after October 27, 1998. S. 4900(5) formerly read:

"(5) For the purposes of subparagraph 146.2(1)(*g*)(iv) of the Act, a contract between a trust governed by a registered home ownership savings plan and a person licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada an annuities business is a qualified investment for that trust if the trust is entitled to receive from the person, on demand, an amount in settlement of the contract that is not less than the amount by which the aggregate of

(*a*) all the amounts paid as consideration by the trust under the contract, and

(*b*) interest on the amounts described in paragraph (*a*) at a rate that is not less than that guaranteed under the contract

exceeds

(*c*) such amount as may be specified in the contract."

(6) Subject to subsections (8) and (9), for the purposes of paragraph (*d*) of the definition "qualified investment" in subsection 146(1) of the Act, paragraph (*e*) of the definition "qualified investment" in subsection 146.1(1) of the Act and paragraph (*c*) of the definition "qualified investment" in subsection 146.3(1) of the Act, a property is prescribed as a qualified investment for a trust governed by a registered retirement savings plan, a registered education savings plan and a registered retirement income fund at any time if at that time the property is

(*a*) a share of the capital stock of an eligible corporation (within the meaning assigned by subsection 5100(1)), unless a person who is an annuitant, a beneficiary or a subscriber under the plan or fund is a designated shareholder of the corporation;

(*b*) an interest of a limited partner in a small business investment limited partnership; or

(*c*) an interest in a small business investment trust.

History: S. 4900(6), the portion before paragraph (*b*) was amended by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable to property acquired after October 27, 1998. S. 4900(6), the portion before paragraph (*b*) formerly read:

"(6) For the purposes of subparagraphs 146(1)(*g*)(iv) and 146.3(1)(*d*)(iii) of the Act, except as provided in subsections (8) and (9), a property is a qualified investment for a trust governed by a registered retirement savings plan or a registered retirement income fund at any time if at that time the property is

(*a*) a share of the capital stock of an eligible corporation (within the meaning assigned by subsection 5100(1), unless the annuitant under the plan or fund is a designated shareholder of the corporation;"

S. 4900(6) was added by P.C. 1986-772, SOR/86-390, dated March 26, 1986, effective after October 31, 1985.

(7) Subject to subsection (11), for the purposes of paragraph (*h*) of the definition "qualified investment" in section 204 of the Act, a property is prescribed as a qualified investment for a trust governed by a deferred profit sharing

plan or revoked plan at any time if at that time the property is an interest

(*a*) of a limited partner in a small business investment limited partnership; or

(*b*) in a small business investment trust.

History: S. 4900(7), the portion before paragraph (*a*) was replaced by S.C. 2007, c. 29, s. 32(8), applicable in determining whether a property is, at any time after March 18, 2007, a qualified investment. S. 4900(7), the portion before paragraph (*a*) formerly read:

"(7) Subject to subsection (11), for the purposes of paragraph (*i*) of the definition 'qualified investment' in section 204 of the Act, a property is prescribed as a qualified investment for a trust governed by a deferred profit sharing plan or revoked plan at any time if at that time the property is an interest"

S. 4900(7), the portion before paragraph (*a*) was amended by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable after March 2001. S. 4900(7), the portion before paragraph (*a*) formerly read:

"(7) For the purposes of subparagraph 204(*e*)(x) of the Act, except as provided in subsection (11), a property is a qualified investment for a trust governed by a deferred profit sharing plan or revoked plan at any time if at that time the property is an interest"

S. 4900(7) was added by P.C. 1986-772, SOR/86-390, dated March 26, 1986, effective after October 31, 1985.

(8) For the purposes of subsection (6), where

(*a*) a trust governed by a registered retirement savings plan, a registered education savings plan or a registered retirement income fund holds

(i) a share of the capital stock of an eligible corporation (within the meaning assigned by subsection 5100(1)),

(ii) an interest in a small business investment limited partnership that holds a small business security, or

(iii) an interest in a small business investment trust that holds a small business security, and

(*b*) a person who is an annuitant, a beneficiary or a subscriber under the plan or fund provides services to or for the issuer of the share or small business security, or to or for a person related to that issuer, and it can reasonably be considered, having regard to all the circumstances (including the terms and conditions of the share or small business security or of any related agreement, and the rate of interest or the dividend provided on the share or small business security), that any amount received in respect of the share or small business security is on account, in lieu or in satisfaction of payment for the services,

the property referred to in subparagraph (*a*)(i), (ii) or (iii) held by the plan or fund shall, immediately before that amount is received, cease to be and shall not thereafter be a qualified investment for the trust governed by the plan or fund.

History: S. 4900(8)(*b*) was amended by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable to property acquired after October 27, 1998. S. 4900(8)(*b*) formerly read:

"(*b*) the annuitant under the plan or fund provides services to or for the issuer of the share or small business security, as the case may be, or a person related to that issuer and it may reasonably be considered, having regard to all the circumstances, including the terms and conditions of the share or small business security, as the case may be, or any agreement relating thereto and the rate of interest or the dividend provided on the share or small business security, as the case may be, that any amount received in respect of the share or small business security, as the case may be, is on account, in lieu or in satisfaction of payment for the services,"

S. 4900(8)(*a*), the portion before subparagraph (i) was amended by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable to property acquired after October 27, 1998. S. 4900(8)(*a*), the portion before subparagraph (i) formerly read:

"(*a*) a trust governed by a registered retirement savings plan or a registered retirement income fund holds"

S. 4900(8) was added by P.C. 1986-772, SOR/86-390, dated March 26, 1986, effective after October 31, 1985.

(9) For the purposes of subsection (6), where

(*a*) a trust governed by a registered retirement savings plan, a registered education savings plan or a registered retirement income fund holds

(i) an interest in a small business investment limited partnership, or

(ii) an interest in a small business investment trust that holds a small business security (referred to in this subsection as the "designated security") of a corporation, and

(*b*) a person who is an annuitant, a beneficiary or a subscriber under the plan or fund is a designated shareholder of the corporation,

the interest shall not be a qualified investment for the trust governed by the plan or fund unless

(*c*) the designated security is a share of the capital stock of an eligible corporation,

(*d*) the partnership or trust, as the case may be, has no right to set off, assign or otherwise apply, directly or indirectly, the designated security against the interest,

(*e*) no person is obligated in any way, either absolutely or contingently, under any undertaking the intent or effect of which is

(i) to limit any loss that the plan or fund may sustain by virtue of the ownership, holding or disposition of the interest, or

(ii) to ensure that the plan or fund will derive earnings by virtue of the ownership, holding or disposition of the interest,

(*f*) in the case of the partnership, there are more than 10 limited partners and no limited partner or group of limited partners who do not deal with each other at arm's length holds more than 10 per cent of the units of the partnership, and

(*g*) in the case of the trust, there are more than 10 beneficiaries and no beneficiary or group of beneficiaries who do not deal with each other at arm's length holds more than 10 per cent of the units of the trust.

History: S. 4900(9)(*b*) was amended by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable to property acquired after October 27, 1998. S. 4900(9)(*b*) formerly read:

"(*b*) the annuitant under the plan or fund is a designated shareholder of the corporation,"

S. 4900(9)(*a*), the portion before subparagraph (i) was amended by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable

"(*a*) a trust governed by a registered retirement savings plan or a registered retirement income fund holds"

S. 4900(9) was added by P.C. 1986-772, SOR/86-390, dated March 26, 1986, effective after October 31, 1985.

(10) For the purposes of paragraphs (9)(*f*) and (*g*), a trust governed by a plan or fund shall be deemed not to deal at arm's length with a trust governed by another plan or fund if a person who is an annuitant, a beneficiary or a subscriber under the plan or fund is the same person as, or does not deal at arm's length with, the annuitant, beneficiary or subscriber under the other plan or fund.

History: S. 4900(10) was amended by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable to property acquired after October 27, 1998. S. 4900(10) formerly read:

"(10) For the purposes of paragraphs (9)(*f*) and (*g*), a trust governed by a plan or fund shall be deemed not to deal at arm's length with a trust gov-

erned by another plan or fund if the annuitant of the plan or fund is the same person as, or does not deal at arm's length with, the annuitant of the other plan or fund."

S. 4900(10) was added by P.C. 1986-772, SOR/86-390, dated March 26, 1986, effective after October 31, 1985.

(11) For the purposes of subsection (7), where

(*a*) a trust governed by a deferred profit sharing plan or revoked plan holds

(i) an interest in a small business investment limited partnership, or

(ii) an interest in a small business investment trust

that holds a small business security of a corporation,

(*b*) payments have been made in trust to a trustee under the deferred profit sharing plan or revoked plan for the benefit of beneficiaries thereunder by the corporation or a corporation related thereto, and

(*c*) the small business security is not an equity share described in paragraph (*e*) of the definition "qualified investment" in section 204 of the Act,

the interests referred to in subparagraphs (*a*)(i) and (ii) shall not be a qualified investment for the trust referred to in paragraph (*a*).

History: S. 4900(11)(*c*) was amended by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable after March 2001. S. 4900(11)(*c*) formerly read:

"(*c*) the small business security is not an equity share described in paragraph 204(*e*)(vi) of the Act,"

S. 4900(11) was added by P.C. 1986-772, SOR/86-390, dated March 26, 1986, effective after October 31, 1985.

(12) For the purposes of paragraph (*d*) of the definition "qualified investment" in subsection 146(1) of the Act, paragraph (*e*) of the definition "qualified investment" in subsection 146.1(1) of the Act and paragraph (*c*) of the definition "qualified investment" in subsection 146.3(1) of the Act, a property is prescribed as a qualified investment for a trust governed by a registered retirement savings plan, a registered education savings plan or a registered retirement income fund at any time if, at the time the property was acquired by the trust,

(*a*) the property was a share of the capital stock of a specified small business corporation,

(*b*) the property was a share of the capital stock of a venture capital corporation described in any of sections 6700, 6700.1 or 6700.2, or

(*c*) the property was a qualifying share in respect of a specified cooperative corporation and the plan or fund

and, immediately after the time the property was acquired by the trust, each person who is an annuitant, a beneficiary or a subscriber under the plan or fund at that time was not a connected shareholder of the corporation.

History: S. 4900(12)(*a*) was replaced by S.C. 2009, c. 2, s. 105(9), applicable to the 2009 and subsequent taxation years. S. 4900(12)(*a*) formerly read:

"(*a*) the property was a share of the capital stock of a corporation (other than a cooperative corporation) that would, at that time or at the end of the last taxation year of the corporation ending before that time, be a small business corporation if the expression 'Canadian-controlled private corporation' in the definition 'small business corporation' in subsection 248(1) of the Act were read as 'Canadian corporation (other than a corporation controlled at that time, directly or indirectly in any manner whatever, by one or more non-resident persons)',"

S. 4900(12)(*b*) was amended by P.C. 2001-1370, SOR/2001-289, dated August 1, 2001, applicable after June 9, 2001. S. 4900(12)(*b*) formerly read:

"(*b*) the property was a share of the capital stock of a prescribed venture capital corporation described in any of sections 6700, 6700.1 or 6700.2, or"

S. 4900(12), the portion after paragraph (*c*) was amended by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable to property acquired after October 27, 1998. S. 4900(12), the portion after paragraph (*c*) formerly read:

"and, immediately after the time the property was acquired by the trust, the annuitant under the plan or fund at that time was not a connected shareholder of the corporation."

S. 4900(12), the portion before paragraph (*a*) was amended by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable to property acquired after October 27, 1998. S. 4900(12), the portion before paragraph (*a*) formerly read:

"(12) For the purposes of paragraph (*d*) of the definition 'qualified investment' in subsection 146(1) of the Act and paragraph (*c*) of the definition 'qualified investment' in subsection 146.3(1) of the Act, a property is a qualified investment for a trust governed by a registered retirement savings plan or a registered retirement income fund at any time if, at the time the property was acquired by the trust,"

S. 4900(12)(*b*) was amended by P.C. 1999-249, SOR/99-102, dated February 18, 1999, applicable to property acquired after August 1998. S. 4900(12)(*b*) formerly read:

"(*b*) the property was a share of the capital stock of a prescribed venture capital corporation described in section 6700, or"

S. 4900(12)(*c*) was amended by P.C. 1995-1820, SOR/95-513, dated October 31, 1995, applicable after December 2, 1992. S. 4900(12)(*c*) formerly read:

"(*c*) the property was a share of the capital of a specified cooperative corporation, established pursuant to the laws of Canada or a province, that is not required to be purchased as a condition of membership in that corporation,"

S. 4900(12) was added by P.C. 1994-1074, SOR/94-471, dated June 23, 1994, applicable after December 2, 1992.

(13) Notwithstanding subsection (12), where

(*a*) a share that is otherwise a qualified investment for the purposes of paragraph (*d*) of the definition "qualified investment" in subsection 146(1) of the Act, paragraph (*e*) of the definition "qualified investment" in subsection 146.1(1) of the Act and paragraph (*c*) of the definition "qualified investment" in subsection 146.3(1) of the Act solely because of subsection (12) is held by a trust governed by a registered retirement savings plan, registered education savings plan or registered retirement income fund,

(*b*) an individual

(i) provides services to or for,

(ii) acquires goods from, or

(iii) is provided services by

the issuer of the share or a person related to that issuer,

(*c*) an amount is received in respect of the share by the trust, and

(*d*) the amount can reasonably be considered, having regard to all the circumstances, including the terms and conditions of the share, or any agreement relating thereto and any dividend provided on the share to be

(i) on account of, or in lieu or in satisfaction of, payment for the services to or for the issuer or the person related to the issuer, or

(ii) in respect of the acquisition of the goods from, or the services provided by, the issuer or the person related to the issuer,

the share shall, immediately before the amount is received, cease to be and shall not thereafter be a qualified investment for the trust.

History: S. 4900(13)(*a*) was amended by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable to property acquired after October 27, 1998. S. 4900(13)(*a*) formerly read:

"(*a*) a share that is otherwise a qualified investment for the purposes of paragraph (*d*) of the definition 'qualified investment' in subsection 146(1) of the Act or paragraph (*c*) of the definition 'qualified investment'

in subsection 146.3(1) of the Act solely because of subsection (12) is held by a trust governed by a registered retirement savings plan or registered retirement income fund,"

S. 4900(13) was added by P.C. 1994-1074, SOR/94-471, dated June 23, 1994, applicable after December 2, 1992.

(14) For the purposes of paragraph (*c*) of the definition "qualified investment" in subsection 207.01(1) of the Act, a property is prescribed as a qualified investment for a trust governed by a TFSA at any time if, at the time the property was acquired by the trust, the property

(*a*) was

(i) a share of the capital stock of a specified small business corporation,

(ii) a share of the capital stock of a venture capital corporation described in any of sections 6700 to 6700.2, or

(iii) a qualifying share in respect of a specified cooperative corporation and the TFSA; and

(*b*) was not a prohibited investment for the trust.

History: S. 4900(14) was added by S.C. 2009, c. 2, s. 105(10), applicable to the 2009 and subsequent taxation years.

INTERPRETATION

4901. (1) For the purposes of paragraphs 204.4(2)(*b*), (*d*) and (*f*) and of subsection 204.6(1) of the Act, a property is a prescribed investment for a corporation or trust, as the case may be, if it is a qualified investment for a plan or fund described in paragraphs 204.4(1)(*a*) to (*d*) of the Act in respect of which the corporation or trust is seeking registration or has been registered, as the case may be.

History: S. 4901(1) was amended by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable after March 2001. S. 4901(1) formerly read:

"S. 4901. (1) For the purposes of paragraphs 204.4(2)(*b*), (*d*) and (*f*) and subsection 204.6(1) of the Act, a 'prescribed investment' for a corporation or trust, as the case may be, means a property that is a qualified investment for the plan or fund described in paragraphs 204.4(1)(*a*) to (*d*) of the Act in respect of which the corporation or trust is seeking registration or has been registered, as the case may be."

(1.1) [Revoked.]

History: S. 4901(1.1) was revoked by P.C. 1994-1074, SOR/94-471, dated June 23, 1994, applicable after October 31, 1985. S. 4901(1.1) formerly read:

"(1.1) For the purposes of subsection 207.1(5) of the Act, a prescribed property for a trust governed by a registered retirement savings plan or registered retirement income fund is a property described in paragraph 4900(6)(*a*), (*b*) or (*c*) other than

(*a*) a share of the capital stock of a public corporation; and

(*b*) a property that is not a qualified investment for the trust governed by the plan or fund."

S. 4901(1.1) was added by P.C. 1986-772, SOR/86-390, dated March 26, 1986, effective after October 31, 1985.

(2) In this Part,

"*allocation in proportion to patronage*" has the meaning assigned by subsection 135(4) of the Act;

History: The definition "allocation in proportion to patronage" was added by P.C. 1995-1820, SOR/95-513, dated October 31, 1995, applicable after December 2, 1992.

"*connected person*" under a governing plan of a plan trust means a person who is an annuitant, a beneficiary, an employer or a subscriber under, or a holder of, the governing plan and any person who does not deal at arm's length with that person;

History: S. 4901(2), the definition "connected person" was replaced by S.C. 2009, c. 2, s. 106(2), applicable to the 2009 and subsequent taxation years. S. 4901(2), the definition "connected person" formerly read:

"'connected person', in relation to a governing plan of a plan trust, means a person who is an annuitant, a beneficiary, an employer or a subscriber under, or a holder of, the governing plan and any person who does not deal at arm's length with that person;"

S. 4901(2), the definition "connected person" was added by S.C. 2007, c. 35, s. 127(2), applicable to the 2008 and subsequent taxation years.

"*connected shareholder*" of a corporation at any time is a person (other than an exempt person in respect of the corporation) who owns, directly or indirectly, at that time, not less than 10% of the issued shares of any class of the capital stock of the corporation or of any other corporation that is related to the corporation and, for the purposes of this definition,

(*a*) paragraphs (*a*) to (*e*) of the definition "specified shareholder" in subsection 248(1) of the Act apply, and

(*b*) an exempt person in respect of a corporation is a person who deals at arm's length with the corporation where the total of all amounts, each of which is the cost amount of any share of the capital stock of the corporation, or of any other corporation that is related to it, that the person owns or is deemed to own for the purposes of the definition "specified shareholder" in subsection 248(1) of the Act, is less than $25,000;

History: The definition "connected shareholder" was amended by P.C. 1995-1820, SOR/95-513, dated October 31, 1995, applicable after December 2, 1992, except that, where a property was acquired by a trust governed by a registered retirement savings plan or registered retirement income fund before November 30, 1994 and the annuitant under the fund or plan would, if that definition applied, be a connected shareholder of the corporation immediately after that time, that definition does not apply in respect of that acquisition. That definition formerly read:

"'connected shareholder' of a corporation is a person who is a specified shareholder of the corporation or a person who would be a specified shareholder of the corporation if

(*a*) a share in the capital of a specified cooperative corporation and all other shares in the capital of that corporation that have attributes identical to the attributes of that share were shares of a class of the capital stock of the corporation, and

(*b*) each person or partnership that has a right under a contract, in equity or otherwise, either immediately or in the future and either absolutely or contingently, to acquire a share of a class of the capital stock of the corporation owned the share;"

The definition "connected shareholder" was added by P.C. 1994-1074, SOR/94-471, dated June 23, 1994, applicable after December 2, 1992.

"*consumer goods or services*" has the meaning assigned by subsection 135(4) of the Act;

History: The definition "consumer goods or services" was added by P.C. 1995-1820, SOR/95-513, dated October 31, 1995, applicable after December 2, 1992.

"*designated shareholder*" of a corporation at any time means a taxpayer who at that time

(*a*) is, or is related to, a person (other than an exempt person) who owns, directly or indirectly, not less than 10% of the issued shares of any class of the capital stock of the corporation or of any other corporation that is related to the corporation and, for the purposes of this definition,

(i) paragraphs (*a*) to (*e*) of the definition "specified shareholder" in subsection 248(1) of the Act apply, and

(ii) an exempt person in respect of a corporation is a person who deals at arm's length with the corporation where the total of all amounts, each of which is the cost amount of any share of the capital stock of the corporation, or of any other corporation that is related to it, that the person owns or is deemed to own for the purposes of the definition "specified shareholder" in subsection 248(1) of the Act, is less than $25,000,

(*b*) is or is related to a member of a partnership that controls the corporation,

(*c*) is or is related to a beneficiary under a trust that controls the corporation,

(*d*) is or is related to an employee of the corporation or a corporation related thereto, where any group of employees of the corporation or of the corporation related thereto, as the case may be, controls the corporation, except where the group of employees includes a person or a related group that controls the corporation, or

(*e*) does not deal at arm's length with the corporation;

History: Paragraph (*a*) of the definition "designated shareholder" was amended by P.C. 1995-1820, SOR/95-513, dated October 31, 1995, applicable to property acquired after November 29, 1994. That paragraph formerly read:

"(*a*) is or is related to

(i) a specified shareholder of the corporation, or

(ii) a person who would be a specified shareholder of the corporation if, in applying the definition 'specified shareholder' in subsection 248(1) of the Act, a person who has a right under a contract, in equity or otherwise, either immediately or in the future and either absolutely or contingently, to or to acquire shares of the capital stock of a corporation were deemed to own those shares, and one of the main reasons for the existence of the right may reasonably be considered to be that the person not be regarded as a specified shareholder of the corporation,

unless the aggregate of amounts, each of which is the cost amount of any share of the capital stock of the corporation or any other corporation that is related thereto that the taxpayer owns or is deemed to own for the purposes of the definition 'specified shareholder' is less than $25,000,"

Paragraphs (*b*) to (*d*) of the definition "designated shareholder", were amended by P.C. 1990-1837, SOR/90-606, dated August 28, 1990 and applicable after 1988. Those paragraphs formerly read:

"(*b*) is or is related to a member of a partnership that controls the corporation directly or indirectly in any manner whatever,

(*c*) is or is related to a beneficiary under a trust that controls the corporation directly or indirectly in any manner whatever,

(*d*) is or is related to an employee of the corporation or a corporation related thereto, where any group of employees of the corporation or of the corporation related thereto, as the case may be, controls the corporation directly or indirectly in any manner whatever, except where the group of employees includes a person or a related group that controls the corporation directly or indirectly in any manner whatever, or"

This definition was added by P.C. 1986-772, SOR/86-390, dated March 26, 1986, effective after October 31, 1985.

"*governing plan*" means a deferred profit sharing plan or a revoked plan, a registered disability savings plan, a registered education savings plan, a registered retirement income fund, a registered retirement savings plan or a TFSA;

History: S. 4901(2), the definition "governing plan" was replaced by S.C. 2009, c. 2, s. 106(1), applicable to the 2009 and subsequent taxation years. S. 4901(2), the definition "governing plan" formerly read:

" 'governing plan' means a registered retirement savings plan, a registered education savings plan, a registered retirement income fund, a registered disability savings plan, a deferred profit sharing plan or a revoked plan;"

S. 4901(2), the definition "governing plan" was replaced by S.C. 2007, c. 35, s. 127(1), applicable to the 2008 and subsequent taxation years. S. 4901(2), the definition "governing plan" formerly read:

" 'governing plan' means a registered retirement savings plan, a registered education savings plan, a registered retirement income fund, a deferred profit sharing plan or a revoked plan;"

S. 4901(2), the definition "governing plan" was amended by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable to property acquired after October 27, 1998. S. 4901(2), the definition "governing plan" formerly read:

" 'governing plan' means a registered retirement savings plan, a registered home ownership savings plan, a registered retirement income fund, a deferred profit sharing plan or a revoked plan;"

"*plan trust*" means a trust governed by a governing plan;

"*qualifying share*", in respect of a specified cooperative corporation and a governing plan, means a share of the capital or capital stock of the corporation where

(*a*) ownership of the share or a share identical to the share is not a condition of membership in the corporation, or

(*b*) a connected person under the governing plan

(i) has not received a payment from the corporation pursuant to an allocation in proportion to patronage in respect of consumer goods or services, and

(ii) can reasonably be expected not to receive a payment, after the acquisition of the share by the plan trust, from the corporation pursuant to an allocation in proportion to patronage in respect of consumer goods or services;

History: S. 4901(2), the definition "qualifying share" was replaced by S.C. 2009, c. 2, s. 106(1), applicable to the 2009 and subsequent taxation years. S. 4901(2), the definition "qualifying share" formerly read:

" 'qualifying share', in respect of a specified cooperative corporation and a registered retirement savings plan, registered education savings plan or registered retirement income fund, means a share of the capital or capital stock of the corporation where

(*a*) ownership of the share or a share identical to the share is not a condition of membership in the corporation, or

(*b*) a person who is an annuitant, a beneficiary or a subscriber under the plan or fund (or any other person related to that person)

(i) has not received a payment from the corporation after November 29, 1994 pursuant to an allocation in proportion to patronage in respect of consumer goods or services, and

(ii) can reasonably be expected not to receive a payment, after the acquisition of the share by the trust governed by the plan or fund, from the corporation pursuant to an allocation in proportion to patronage in respect of consumer goods or services;"

S. 4901(2), the portion of the definition "qualifying share" before subparagraph (*b*)(i) was amended by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable to property acquired after October 27, 1998. S. 4901(2), the portion of the definition "qualifying share" before subparagraph (*b*)(i) formerly read:

" 'qualifying share' in respect of a specified cooperative corporation and a registered retirement savings plan or registered retirement income fund, means a share of the capital or capital stock of the corporation where

(*a*) ownership of the share or a share identical to the share is not a condition of membership in the corporation, or

(*b*) the annuitant under the plan or fund (or any person related to the annuitant)"

The definition "qualifying share" was added by P.C. 1995-1820, SOR/95-513, dated October 31, 1995, applicable after December 2, 1992, except that, with respect to property acquired before November 30, 1994, paragraph (*a*) of the definition shall be read as:

"(*a*) the share is not required to be purchased as a condition of membership in the corporation, or"

"*revoked plan*" has the meaning assigned by section 204 of the Act;

History: S. 4901(2), the definition "revoked plan" was amended by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable after March 2001. S. 4901(2), the definition "revoked plan" formerly read:

" 'revoked plan' has the meaning assigned by paragraph 204(*f*) of the Act;"

"*small business investment limited partnership*" has the meaning assigned by subsection 5102(1);

History: This definition was added by P.C. 1986-772, SOR/86-390, dated March 26, 1986, effective after October 31, 1985.

"*small business investment trust*" has the meaning assigned by subsection 5103(1);

History: This definition was added by P.C. 1986-772, SOR/86-390, dated March 26, 1986, effective after October 31, 1985.

"*small business security*" has the meaning assigned by subsection 5100(2).

History: This definition was added by P.C. 1986-772, SOR/86-390, dated March 26, 1986, effective after October 31, 1985.

"*specified cooperative corporation*" means

(*a*) a cooperative corporation within the meaning assigned by subsection 136(2) of the Act, or

(*b*) a corporation that would be a cooperative corporation within the meaning assigned by subsection 136(2) of the Act if the purpose described in that subsection were the purpose of providing employment to the corporation's members or customers.

History: The definition "specified cooperative corporation" was added by P.C. 1994-1074, SOR/94-471, dated June 23, 1994, applicable after December 2, 1992.

"*specified small business corporation*", at any time, means a corporation (other than a cooperative corporation) that would, at that time or at the end of the last taxation year of the corporation that ended before that time, be a small business corporation if the expression "Canadian-controlled private corporation" in the definition "small business corporation" in subsection 248(1) of the Act were read as "Canadian corporation (other than a corporation controlled at that time, directly or indirectly in any manner whatever, by one or more non-resident persons)".

History: S. 4901(2), the definition "specified small business corporation" was added by S.C. 2009, c. 2, s. 106(3), applicable to the 2009 and subsequent taxation years.

(2.1) For the purposes of the definition "connected shareholder" in subsection (2) and of subsection (2.2), each share of the capital of a specified cooperative corporation and all other shares of the capital of the corporation that have attributes identical to the attributes of that share shall be deemed to be shares of a class of the capital stock of the corporation.

History: S. 4901(2.1) was added by P.C. 1995-1820, SOR/95-513, dated October 31, 1995, applicable after December 2, 1992, except that, where a property was acquired by a trust governed by a registered retirement savings plan or registered retirement income fund before November 30, 1994 and the annuitant under the fund or plan would, if subsection (2.1) applied, be a connected shareholder of the corporation immediately after that time, that subsection does not apply in respect of that acquisition.

(2.2) For the purpose of this Part, a person is deemed to be a connected shareholder of a corporation at any time where the person would be a connected shareholder of the corporation at that time if, at that time,

(*a*) the person had each right that the person would be deemed to own at that time for the purposes of the definition "specified shareholder" in subsection 248(1) of the Act if that right were a share of the capital stock of a corporation;

(*b*) the person owned each share of a class of the capital stock of a corporation that the person had a right at that time under a contract, in equity or otherwise, either immediately or in the future and either absolutely or contingently, to acquire; and

(*c*) the cost amount to the person of a share referred to in paragraph (*b*) were the cost amount to the person of the right to which the share relates.

History: S. 4901(2.2) was added by P.C. 1995-1820, SOR/95-513, dated October 31, 1995, applicable after December 2, 1992, except that, where a property was acquired by a trust governed by a registered retirement savings plan or registered retirement income fund before November 30, 1994 and the annuitant under the fund or plan would, if subsection (2.2) applied, be a connected shareholder of the corporation immediately after that time, that subsection does not apply in respect of that acquisition.

(2.3) For the purpose of this Part, a person is deemed to be a designated shareholder of a corporation at any time if the person would be a designated shareholder of the corporation at that time if, at that time, paragraphs (2.2)(*a*) to (*c*) applied in respect of that person.

History: S. 4901(2.3) was added by P.C. 1995-1820, SOR/95-513, dated October 31, 1995, applicable to property acquired after November 29, 1994.

(3) [Repealed.]

History: S. 4901(3) was repealed by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, and comes into force on September 21, 2005. S. 4901(3) formerly read:

"(3) For greater certainty, a reference in this Part to

(*a*) a mortgage includes a reference to a charge, hypothec or similar instrument pertaining to real property, or to an interest therein; and

(*b*) a mortgagor includes a reference to a hypothecator or a debtor under any instrument referred to in paragraph (*a*)."

Interpretation Bulletins: *Secondary*—IT-320R3 Registered retirement savings plans — Qualified investments.

PART L

Tax-Free Savings Accounts — Prohibited Investments

INVESTMENT NOT PROHIBITED

5000. For the purpose of the portion of the definition "prohibited investment" in subsection 207.01(1) of the Act before paragraph (*a*), property described in paragraph 4900(1)(*j.1*) is prescribed property.

History: Part L was added by S.C. 2009, c. 2, s. 107(1), applicable to the 2009 and subsequent taxation years.

Part L was repealed by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, deemed to have come into force on June 29, 2005. The heading for Part L formerly read:

"PART L
Deferred Income Plans, Foreign Property"

S. 5000 was repealed by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, deemed to have come into force on June 29, 2005. S. 5000 formerly read:

"S. 5000. (1) Where a taxpayer holds a share of the capital stock of a mutual fund corporation (other than an investment corporation) or an interest in, or a right to acquire an interest in,

(*a*) a mutual fund trust,

(*b*) a pooled fund trust,

(*c*) a trust that would be a mutual fund trust if Part XLVIII were read without reference to paragraph 4801(*b*) thereof,

(*c.1*) a resource property trust, or

(*c.2*) a trust if

(i) the trust would be a mutual fund trust if Part XLVIII were read without reference to section 4801, and

(ii) there has been a lawful distribution in a province to the public of units of the trust and a prospectus, registration statement or similar document was not required under the laws of the province to be filed in respect of the distribution,

that share, interest or right, as the case may be, shall not be foreign property for the purpose of computing the tax payable by the taxpayer under Part XI of the Act in respect of any particular month, if

(*d*) the corporation or trust, as the case may be, has not acquired any foreign property after June 30, 1971; or

(*e*) at no time during the relevant period for the particular month did the cost amount to the corporation or to the trust, as the case may be, of all foreign property held by it exceed 30% of the cost amount to it of all property held by it.

(1.1) For the purposes of paragraph (*i*) of the definition 'foreign property' in subsection 206(1) of the Act, the following interests are hereby prescribed not to be foreign property:

(*a*) an interest of a limited partner in a small business investment limited partnership (within the meaning assigned by subsection 5102(1));

(*b*) an interest in a small business investment trust (within the meaning assigned by subsection 5103(1));

(*c*) [Repealed.]

(*d*) an interest in a specified international finance trust; and

(*e*) an interest of a limited partner in a designated limited partnership.

(1.2) For the purposes of paragraph (*i*) of the definition 'foreign property' in subsection 206(1) of the Act, a property of a beneficiary that is an interest under a trust described in paragraph 149(1)(*o.4*) of the Act is prescribed not to be foreign property of the beneficiary at a time where

(*a*) no other property of the beneficiary is foreign property at that time; or

(*b*) the trust does not own any foreign property at that time.

(1.3) For the purpose of paragraph (*i*) of the definition 'foreign property' in subsection 206(1) of the Act, the specified portion of a limited unit in a qualified limited partnership that is held at any time by a specified partner of the partnership is, at that time, not foreign property of the specified partner.

(1.4) For the purpose of subsection (1.3), the specified portion of a limited unit in a qualified limited partnership held at any time by a specified partner is

(*a*) the whole of the limited unit if, at that time,

(i) the cost amount to the partnership of all foreign property held by it does not exceed 30 per cent of the cost amount to it of all property held by it,

(ii) the number of limited units in the partnership, each of which is held by the specified partner or by any other specified partner with whom the specified partner does not deal at arm's length, does not exceed 30 per cent of the number of limited units in the partnership held by specified partners, and

(iii) the specified partner is not a qualified limited partnership; and

(*b*) in any other case, that proportion of the limited unit that the cost amount to the partnership of all property (other than foreign property) held by the partnership at that time is of the cost amount to the partnership of all property held by the partnership at that time.

(1.5) For the purposes of subsections (1.3) and (1.4), a specified partner of a qualified limited partnership at any time means a person or partnership that holds at that time a limited unit in the partnership and that is at that time neither

(*a*) the general partner of the partnership; nor

(*b*) a qualified trust or qualified corporation (as those expressions are defined in subsection 259(5) of the Act) to which subsection 259(1) of the Act applies.

(1.6) For the purposes of subsections (1.4) and (1.5), if a person or partnership (other than a taxpayer described in section 205 of the Act) holds at any time a unit or share in a 'qualified trust' or 'qualified corporation' (as those expressions are defined in subsection 259(5) of the Act), the person or partnership is deemed to hold at that time any property of the trust or corporation that it would be deemed, by paragraph 259(1)(*b*) of the Act, to hold at that time if that person or partnership were a taxpayer described in section 205 of the Act.

(2) Where

(*a*) a share of the capital stock of a corporation referred to in subsection (1) or an interest in, or a right to acquire an interest in, a trust referred to in that subsection would, but for this subsection, be foreign property for the purpose of computing the tax payable by a taxpayer under Part XI of the Act in respect of a particular month,

(*b*) the relevant period for the particular month in relation to property held by the trust or corporation is its taxation year that includes the end of the particular month, and

(*c*) at the end of the relevant period for the particular month, the cost amount to the corporation or to the trust, as the case may be, of all foreign property held by it did not exceed 30% of the cost amount to it of all property held by it,

that share, interest or right shall not be foreign property for the purpose of computing the tax payable by the taxpayer under Part XI of the Act in respect of the particular month.

(3) Where a taxpayer holds a share of the capital stock of an investment corporation, subsections (1), (2) and (7) apply in respect of that share as if

(*a*) the reference in subsection (1) to 'mutual fund corporation (other than an investment corporation)' were read as a reference to an 'investment corporation'; and

(*b*) the references in subsection (1) to 'June 30, 1971' were read as a reference to 'October 13, 1971'.

(4) Where a taxpayer holds a share of the capital stock of an investment corporation, that share shall not be foreign property for the purpose of computing the tax payable by the taxpayer under Part XI of the Act in respect of a particular month if the share would otherwise be foreign property solely by reason of the acquisition by the corporation of foreign property before October 16, 1971.

(5) Where a mutual fund corporation or a mutual fund trust holds a share of the capital stock of a mutual fund corporation (other than an investment corporation) or an interest in, or a right to acquire an interest in, a mutual fund trust, the share or the interest, as the case may be, shall not be foreign property for the purpose of computing the tax payable by a taxpayer under Part XI of the Act in respect of a particular month if the last-mentioned corporation or trust, as the case may be, complies with

(*a*) paragraph (1)(*d*);

(*b*) paragraph (1)(*e*) in respect of the particular month; or

(*c*) paragraphs (2)(*b*) and (*c*) in respect of the particular month.

(6) Where a mutual fund corporation or a mutual fund trust holds a share of the capital stock of an investment corporation, the share shall not be foreign property for the purpose of computing the tax payable by a taxpayer under Part XI of the Act in respect of a particular month if the investment corporation

(*a*) would comply with paragraph (1)(*d*) if the reference therein to 'June 30, 1971' were read as a reference to 'October 16, 1971';

(*b*) complies with paragraph (1)(*e*) in respect of the particular month; or

(*c*) complies with paragraphs (2)(*b*) and (*c*) in respect of the particular month.

(7) In this Part,

'designated limited partnership' means a limited partnership that complies with the following conditions:

(*a*) the interests of the limited partners are described by reference to a single class of units of the partnership listed on a stock exchange prescribed under section 3200,

(*b*) that class was listed before 1999 on a stock exchange prescribed under section 3200,

(*c*) at least 80% of the full-time employees employed by the partnership are employed in Canada,

(*d*) the total of all amounts each of which is the cost amount to the partnership of a property used in its activities carried on in Canada is not less than 80% of the total of all amounts each of which is the cost amount to the partnership of a property of the partnership,

(*e*) the principal activity of the partnership is

(i) the production of goods in Canada,

(ii) the sale of goods in Canada,

(iii) the provision of services in Canada, or

(iv) any combination of the activities described in subparagraphs (i) to (iii), and

(*f*) the revenue from that principal activity is regulated by a public authority governed by the laws of Canada or a province;

'foreign property' has the meaning assigned by section 206 of the Act;

'limited unit' in a qualified limited partnership means a unit described in paragraph (*d*) of the definition 'qualified limited partnership';

'pooled fund trust' means, with respect to a particular taxpayer who owns an interest in the trust, a trust the trustee of which is a trust company incorporated under the laws of Canada or a province and that complies with the following conditions:

(*a*) throughout the taxation year of the trust (in this subsection referred to as the 'first relevant year') in which the taxpayer acquired the interest or the first taxation year of the trust (in this subsection referred to as the 'second relevant year') commencing more than one year after the taxpayer acquired the interest, the total, at any time, of

(i) the cost amount to the trust of

(A) shares,

(B) any property that, under its terms or conditions or any agreement relating to it, is convertible into, is exchangeable for or confers a right to acquire, shares,

(C) bonds, debentures, mortgages, notes and other similar obligations,

(D) marketable securities,

(E) cash,

(F) life insurance policies in Canada (other than annuity contracts), and

(G) annuity contracts issued by persons licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada an annuities business, and

(ii) the amount by which the cost amount to the trust of real property that can reasonably be regarded as being held for the purpose of producing income from property exceeds the total of amounts each of which was owing by the trust at that time on account of its acquisition of the real property and was included at that time in the cost amount to the trust of the real property,

was not less than 80 per cent of the amount by which the cost amount to the trust of all property at that time exceeds the total of amounts each of which was owing by it at that time on account of its acquisition of real property and was included at that time in the cost amount to it of real property,

(*b*) throughout the first relevant year or the second relevant year, the cost amount to the trust at any time of shares, bonds, mortgages and other securities of any one corporation or debtor, other than bonds, mortgages and other securities of or guaranteed by Her Majesty in right of Canada, a province or a Canadian municipality, was not more than 10 per cent of the amount by which the cost amount to the trust of all property at that time exceeds the total of all amounts each of which was owing by the trust at that time on account of the trust's acquisition of real property and was included at that time in the cost amount to the trust of real property,

(*c*) throughout the first relevant year or the second relevant year, the amount by which

(i) the cost amount to the trust of any one real property at any time exceeds

(ii) the total of amounts each of which was owing by the trust at that time on account of its acquisition of the real property and was included at that time in the cost amount to it of the real property

was not more than 10 per cent of the amount by which the cost amount to the trust of all property at that time exceeds the total of amounts each of which was owing by the trust at that time on account of its acquisition of real property and was included at that time in the cost amount to the trust of real property, and

(*d*) not less than 95 per cent of the income of the trust (determined without reference to subsections 49(2.1) and 104(6) of the Act) for the first relevant year or the second relevant year was derived from, or from the dispositions of, investments described in paragraph (*a*);

'qualified limited partnership', at a particular time after 1985, means a limited partnership that at all times after it was formed and before the particular time complied with the following conditions:

(*a*) it had only one general partner,

(*b*) the share of the general partner as general partner, and of the limited partners as limited partners, in any income or loss of the partnership from any source or from sources in any particular place, for any period,

was determined in accordance with the written agreement governing the partnership,

(*c*) neither subsection 103(1) nor (1.1) of the Act has applied, and it is reasonable to consider that neither of those subsections will apply, to redetermine the share of any partner of the partnership in any income or loss of the partnership from any source or from sources in any particular place, for any period, or in any other amount in respect of any activity of the partnership that is relevant to the computation of the income or taxable income of any partner of the partnership,

(*d*) the interests of the limited partners were described by reference to units (in this definition referred to as 'limited units') in the partnership,

(*e*) the amount of capital that limited partners were required to contribute to the partnership was determined by reference to the partners' limited units in the partnership, and for no such unit did the amount that was required to be contributed differ from the amount that was required to be contributed in respect of any other limited unit in the partnership, except that a limited partner may have been required to contribute an amount in excess of amounts that other limited partners were required to contribute

(i) if that excess was invested on behalf of the limited partner in specified properties, or

(ii) if that excess was contributed, either in respect of a limited unit that was acquired by the limited partner after the initial issuance of limited units by the partnership or in respect of a capital contribution made by the limited partner after a deadline for the making of the capital contribution, and it can reasonably be considered that the principal reason for the requirement to contribute the excess was to adjust for the fact that the capital contribution to which the excess relates was not previously available to the partnership including, without limiting the generality of the foregoing, adjustments for

(A) a reasonable rate of return to the partnership for the period during which the capital contribution to which the excess relates was not available to the partnership,

(B) costs incurred by the partnership before the excess was contributed,

(C) income earned by the partnership before the excess was contributed, and

(D) changes in the value of the property acquired by the partnership before the excess was contributed,

(*e.1*) the share of limited partners, as limited partners, in any income or loss of the partnership from any source or from sources in any particular place, for any period, was determined by reference to the partners' limited units in the partnership, and for no such income or loss did the share allocated in respect of any one limited unit in the partnership differ from the share allocated in respect of any other limited unit in the partnership, except that this requirement does not apply to the determination of a share of a limited partner in any particular income or loss from a specified property to the extent that the determination is reasonable in the circumstances,

(*f*) its only undertaking was the investing of its funds and its investments consisted solely of

(i) shares of the capital stock of corporations (other than shares that were issued to the partnership and that are shares described in section 66.3 of the Act or shares in respect of which amounts have been designated under subsection 192(4) of the Act),

(ii) rights, or warrants that grant the owner thereof rights, to acquire shares of the capital stock of corporations,

(iii) put or call options in respect of shares of the capital stock of corporations,

(iv) debt obligations of corporations,

(iv.1) limited units that the partnership acquired after 2002 in a qualified limited partnership (referred to in this subparagraph as an 'investment partnership') and, if the investment partnership ceased, after that acquisition, to be a qualified limited partnership, those units are deemed to be limited units in a qualified limited partnership until the end of the third month following the month in which the cessation occurred,

(iv.2) units of a particular mutual fund trust that were

(A) acquired by the partnership after 2002 as consideration for the disposition of property (other than specified property or units of a mutual fund trust) by the partnership to the particular mutual fund trust or to an entity controlled by the particular mutual fund trust, and

(B) held by the partnership for a period not exceeding one year following the day on which the units were so acquired,

(v) specified properties, or

(vi) any combination of the properties described in subparagraphs (i) to (v),

(*g*) no election has been made under subsection 97(2) of the Act on the acquisition of any property by it, and

(*h*) it has not borrowed money except for the purpose of earning income from its investments and the amount of any such borrowings at any time did not exceed 20 per cent of the partnership capital at that time,

(*i*) [Repealed.]

of the cost amount to it of all property held by it;

'relevant period for the particular month' means, in relation to property held by a particular corporation or particular trust,

(*a*) its most recent taxation year ending before the end of the particular month, and

(*b*) its taxation year that includes the end of the particular month, where paragraph (*a*) does not apply;

'resource property trust' means a trust the trustee of which is a trust company that is incorporated under the laws of Canada or a province and that complies with the following conditions:

(*a*) the trust, at all times after the later of November 12, 1981 and the time at which it was created,

(i) has limited its activities to

(A) acquiring Canadian resource properties by purchase or by incurring Canadian exploration expense or Canadian development expense, or

(B) holding, exploring, developing, maintaining, improving, managing, operating or disposing of its Canadian resource properties,

(ii) has made no investments other than

(A) in Canadian resource properties,

(B) in property to be used in connection with Canadian resource properties described in clause (i)(A),

(C) in loans secured by Canadian resource properties for the purpose of carrying out any activity described in subparagraph (i) with respect to Canadian resource properties,

(D) in corporations described in subparagraph 149(1)(*o.2*)(ii.1) of the Act, or

(E) investments that a pension plan is permitted to make under the *Pension Benefits Standards Act* or a similar law of a province, and

(iii) has not borrowed money except for the purpose of earning income from Canadian resource properties, and

(*b*) the beneficiaries of the trust, at all times after the later of November 12, 1981 and the time at which it was created, were

(i) registered pension plans, or

(ii) trusts all the beneficiaries of which were registered pension plans.

'specified international finance trust' at a particular time means a trust that complies with the following conditions:

(*a*) the trust was created principally for the purpose of investing in property described in subparagraph (*c*)(i),

(*b*) throughout the period that began at the time the trust was created and ends at the particular time, the trust was resident in Canada, and

(*c*) throughout the period that began 30 days after the time the trust was created and ends at the particular time, the total of all amounts each of which is the cost amount to the trust of the following property was not less than 90% of the total of all amounts each of which is the cost amount to the trust of a property of the trust:

(i) debt issued to

(A) the African Development Bank,

(B) the Asian Development Bank,

(C) the Caribbean Development Bank,

(D) the European Bank for Reconstruction and Development,

(E) the Export Development Canada,

(F) the Inter-American Development Bank,

(G) the International Bank for Reconstruction and Development, or

(H) the International Finance Corporation, and

(ii) shares and debt that are not foreign property of the trust;

'specified property' means property described in any of paragraphs (*a*), (*b*), (*c*), (*f*) and (*g*) of the definition 'qualified investment' in section 204 of the Act.

(8) For the purposes of the definition 'designated limited partnership' in subsection (7) and for the purposes of this subsection, if a particular partnership is a member of another partnership at the end of a fiscal period of the other partnership (in this subsection referred to as the 'relevant time'), throughout the period that begins at the relevant time and ends at the earlier of the time that is immediately before the end of the following fiscal period of the other partnership and the time that the other partnership ceases to exist

(*a*) the particular partnership is deemed to employ an additional number of full-time employees, or full-time employees employed in Canada, as the case may be, equal to the product of

(i) the specified fraction of the particular partnership at the relevant time in respect of the other partnership, and

(ii) the number of full-time employees employed, or employed in Canada, as the case may be, at the relevant time by the other partnership,

(*b*) each property used, or used in activities carried on in Canada, as the case may be, at the relevant time by the other partnership is deemed to be used, or to be used in activities carried on in Canada, as the case may be, by the particular partnership and is deemed to have a cost amount to the particular partnership equal to the product of

(i) the specified fraction of the particular partnership at the relevant time in respect of the other partnership, and

(ii) the cost amount of the property at the relevant time to the other partnership, and

(*c*) the particular partnership is, to the degree that can reasonably be considered to reflect the specified fraction of the particular partnership at the relevant time in respect of the other partnership, deemed to carry on each of the activities carried on by the other partnership.

(9) For the purposes of subsection (8), the specified fraction of the particular partnership in respect of the other partnership at the end of a fiscal period of the other partnership is the quotient obtained by dividing the particular partnership's share of the income or loss of the other partnership for the fiscal period by the income or loss of the other partnership for the fiscal period.

(10) For the purposes of subsection (9), if the income and loss of the other partnership for the fiscal period are nil, the quotient referred to in that subsection shall be calculated as if the other partnership had income for the fiscal period in the amount of $1,000,000.

(11) The definition 'designated limited partnership' in subsection (7) and subsections (8) to (10) shall be read and construed as if each of the assumptions set out in paragraphs 96(1)(*a*) to (*g*) of the Act were made."

S. 5000(1.4)(*a*) was replaced by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable after 2002. S. 5000(1.4)(*a*) formerly read:

"(*a*) if the number of limited units in the partnership, each of which is held at that time by the specified partner or by any other specified partner with whom the specified partner does not deal at arm's length, is less than or equal to 30 per cent of the number of limited units in the partnership held at that time by specified partners, the limited unit; and"

S. 5000(7), paragraphs (*b*) to (*d*) of the definition "qualified limited partnership" were replaced, and paragraphs (*e*) and (*e.1*) were added, by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable for the purpose of determining if a partnership is, at any time after 2002, a qualified limited partnership. S. 5000(7), paragraphs (*b*) to (*d*) of the definition "qualified limited partnership" formerly read:

"(*b*) the share of the general partner, as general partner, in any income of the partnership from any source in any place, for any period, was the same as his share, as general partner, in

(i) the income of the partnership from that source in any other place,

(ii) the income of the partnership from any other source,

(iii) the loss of the partnership from any source,

(iv) any capital gain of the partnership, and

(v) any capital loss of the partnership

for that period, except that the share of the general partner, as general partner, in the income or loss of the partnership from specified properties (within the meaning assigned by subsection 5100(1)) may differ from his share, as general partner, in the income or loss of the partnership from other sources,

(*c*) the share of the general partner, as general partner, in any income or loss of the partnership for any period was not less than his share, as general partner, in the income or loss of the partnership for any preceding period,

(*d*) the interests of the limited partners were described by reference to units of the partnership that were identical in all respects,"

S. 5000(7), subparagraph (*f*)(v) of the definition "qualified limited partnership" was replaced, and subparagraph (iv.1) and (iv.2) were added, by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable for the purpose of determining if a partnership is, at any time after 2002, a qualified limited partnership. S. 5000(7), subparagraph (*f*)(v) of the definition "qualified limited partnership" formerly read:

"(v) specified properties (within the meaning assigned by subsection 5100(1)), or"

S. 5000(7), paragraph (*i*) of the definition "qualified limited partnership" was repealed by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable for the purpose of determining if a partnership is, at any time after 2002, a qualified limited partnership. S. 5000(7), paragraph (*i*) of the definition "qualified limited partnership" formerly read:

"(*i*) the cost amount to it of all foreign property held by it

(i) before 1990 and the particular time did not exceed 10 per cent,

(ii) before 1991 and the particular time did not exceed 12 per cent,

(iii) before 1992 and the particular time did not exceed 14 per cent,

(iv) before 1993 and the particular time did not exceed 16 per cent,

(v) before 1994 and the particular time did not exceed 18 per cent,

(vi) before 2000 and the particular time did not exceed 20 per cent,

(vii) before 2001 and the particular time did not exceed 25 per cent, and

(viii) before the particular time did not exceed 30 per cent."

S. 5000(7), the definition "specified property" was added by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable after 2002.

S. 5000(1.1)(*c*) was repealed by P.C. 2003-1497, SOR/2003-328, dated October 2, 2003, applicable after 2001. S. 5000(1.1)(*c*) formerly read:

"(*c*) an interest of a limited partner in a qualified limited partnership;"

S. 5000(1.3) was added by P.C. 2003-1497, SOR/2003-328, dated October 2, 2003, applicable after 2001.

S. 5000(1.4) was added by P.C. 2003-1497, SOR/2003-328, dated October 2, 2003, applicable after 2001.

S. 5000(1.5) was added by P.C. 2003-1497, SOR/2003-328, dated October 2, 2003, applicable after 2001.

S. 5000(1.6) was added by P.C. 2003-1497, SOR/2003-328, dated October 2, 2003, applicable after 2001.

S. 5000(7), the definition "limited unit" was added by P.C. 2003-1497, SOR/2003-328, dated October 2, 2003, applicable after 2001.

S. 5000(7), paragraph (*e*) of the definition "qualified limited partnership" was repealed by P.C. 2003-1497, SOR/2003-328, dated October 2, 2003, applicable for the purpose of determining if a partnership is, at any time after 2001, a "qualified limited partnership".

S. 5000(7), paragraph (*e*) of the definition "qualified limited partnership" formerly read:

"(*e*) no limited partner or group of limited partners who did not deal with each other at arm's length held more than 30 per cent of the units of the partnership and, for the purposes of this paragraph,

(i) the general partner shall be deemed not to hold any unit of the partnership as a limited partner, and

(ii) where a limited partner of a partnership is either a qualified trust or a qualified corporation (as those expressions are defined in subsection 259(5) of the Act) for any period in respect of which subsection 259(1) of the Act applies, the qualified trust or qualified corporation, as the case may be, is deemed not to hold any unit of the partnership for that period,"

S. 5000(7), the portion of subparagraph (*c*)(i) before clause (A) of the definition "specified international finance trust" was replaced by P.C. 2003-1497, SOR/2003-328, dated October 2, 2003, applicable to months that end after 1998. S. 5000(7), the portion of subparagraph (*c*)(i) before clause (A) of the definition "specified international finance trust" formerly read:

"(i) debt issued to and acquired from"

S. 5000(1)(*c.2*) was added by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable to months that end after 1993.

S. 5000(1)(*e*) was amended by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable to relevant periods, for particular months, that end after 1999, except that in applying paragraph 5000(1)(*e*), where the relevant period ends in 2000, the reference in those paragraphs to "30%" shall be read as "25%". S. 5000(1)(*e*) formerly read:

"(*e*) at no time during the relevant period for the particular month did the cost amount to the corporation or to the trust, as the case may be, of all foreign property held by it exceed 20 per cent of the cost amount to it of all property held by it."

S. 5000(2)(*c*) was amended by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable to relevant periods, for particular months, that end after 1999, except that in applying paragraph 5000(2)(*c*), where the relevant period ends in 2000, the reference in those paragraphs to "30%" shall be read as "25%". S. 5000(2)(*c*) formerly read:

"(*c*) at the end of the relevant period for the particular month, the cost amount to the corporation or to the trust, as the case may be, of all foreign property held by it did not exceed 20 per cent of the cost amount to it of all property held by it,"

S. 5000(7), subparagraph (*i*)(vi) of the definition "qualified limited partnership" was amended, and subparagraphs (vii) and (viii) were added by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable after 1999. S. 5000(7), subparagraph (*i*)(vi) of the definition "qualified limited partnership" formerly read:

"(vi) before the particular time did not exceed 20 per cent"

S. 5000(7), subparagraph (*e*)(ii) of the definition "qualified limited partnership" was amended by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable to periods that occur after 1985. S. 5000(7), subparagraph (*e*)(ii) of the definition "qualified limited partnership" formerly read:

"(ii) where a limited partner of a partnership is a qualified trust (within the meaning assigned by subsection 259(3) of the Act) for any period in respect of which subsection 259(1) of the Act is applicable, the qualified trust shall be deemed not to hold any unit of the partnership for that period,"

S. 5000(7), clause (*c*)(i)(E) of the definition "specified international finance trust" was amended by S.C. 2001, c. 33, s. 30(a), to change the reference from Export Development Corporation to Export Development Canada, coming into force on December 21, 2001.

S. 5000(1.1)(*d*) was added by P.C. 2000-725, SOR/2000-190, dated May 18, 2000, applicable to months that end after 1998.

S. 5000(1.1)(*e*) was added by P.C. 2000-725, SOR/2000-190, dated May 18, 2000, applicable to months that end after 1997.

S. 5000(7), the definition "designated limited partnership" was added by P.C. 2000-725 SOR/2000-190, dated May 18, 2000, applicable to months that end after 1998.

S. 5000(7), the portion before the definitions, was amended by P.C. 2000-183, SOR/2000-62, dated February 17, 2000, applicable after 1992. That portion formerly read:

"(7) In this section,"

Clauses (*a*)(i)(E) to (H) of the definition "pooled fund trust" were renumbered as clauses (D) to (G) by P.C. 2000-183, SOR/2000-62, dated February 17, 2000, applicable after 1995. S. 5000(7)(a)(i)(E) to (H) formerly read:

"(E) marketable securities,

(F) cash,

(G) life insurance policies in Canada (other than annuity contracts), and

(H) annuity contracts issued by persons licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada an annuities business, and"

Clauses (*a*)(i)(C) and (D) of the definition "pooled fund trust" were amended by P.C. 2000-183, SOR/2000-62, dated February 17, 2000, applicable after 1995. S. 5000(7), clauses (*a*)(i)(C) and (D) formerly read:

"(C) bonds,

(D) mortgages,"

The definition "specified international finance trust" was added to s. 5000(7) by P.C. 2000-725, SOR/2000-190, dated May 18, 2000, applicable to months that end after 1998.

S. 5000(8) to (11) were added by P.C. 2000-725, SOR/2000-190, dated May 18, 2000, applicable to months that end after 1997.

Subparagraph (*a*)(i) of the definition "pooled fund trust" was amended by P.C. 1997-100, SOR/97-105, dated January 28, 1997 and applicable after 1995. That subparagraph formerly read:

"(i) the cost amount to the trust of shares, bonds, mortgages, marketable securities, cash, life insurance policies in Canada (other than annuity contracts) and annuity contracts issued by persons licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada an annuities business, and"

The definition "pooled fund trust" was amended by P.C. 1994-1074, SOR/94-471, dated June 23, 1994, applicable after 1989. The definition formerly read:

"'pooled fund trust' means, with respect to a particular taxpayer who owns an interest in the trust, a trust the trustee of which is a trust company incorporated under the laws of Canada or a province and that complies with the following conditions:

(*a*) throughout the taxation year of the trust (in this subsection referred to as the 'relevant year') in which the taxpayer acquired the interest

(i) the aggregate, at any time, of

(A) the cost amount to the trust of shares, bonds, mortgages, marketable securities, cash, life insurance policies in Canada (other than annuity contracts) and annuity contracts issued by persons licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada an annuities business, and

(B) the amount by which the cost amount to it of real property that may reasonably be regarded as being held for the purpose of producing income from property exceeds the aggregate of amounts each of which was owing by it at that time on account of its acquisition of the real property and was included at that time in the cost amount to it of the real property,

was not less than 80 per cent of the amount by which the cost amount to it of all property at that time exceeds the aggregate of amounts each of which was owing by it at that time on account of its acquisition of real property and was included at that time in the cost amount to it of real property,

(ii) the cost amount to the trust at any time of shares, bonds, mortgages and other securities of any one corporation or debtor, other than bonds, mortgages and other securities of or guaranteed by Her Majesty in right of Canada, a province or a Canadian municipality, was not more than 10 per cent of the amount by which the cost amount to it of all property at that time exceeds the aggregate of all amounts each of which was owing by it at that time on account of its acquisition of real property and was included at that time in the cost amount to it of real property, and

(iii) the amount by which

(A) the cost amount to the trust of any one real property at any time exceeds

(B) the aggregate of amounts each of which was owing by it at that time on account of its acquisition of the real property and was included at that time in the cost amount to it of the real property

was not more than 10 per cent of the amount by which the cost amount to it of all property at that time exceeds the aggregate of amounts each of which was owing by it at that time on account of its acquisition of real property and was included at that time in the cost amount to it of real property; and

(*b*) not less than 95 per cent of the income of the trust for the relevant year was derived from investments described in subparagraph (*a*)(i);"

S. 5000(2) was amended by P.C. 1992-258, SOR/92-123, dated February 13, 1992, applicable to months ending after 1989, except that for months in 1990, 1991, 1992 and 1993, the reference in paragraph (c) to "20 per cent" shall be read as "12 per cent", "14 per cent", "16 per cent" and "18 per cent", respectively. S. 5000(2) formerly read:

"(2) Notwithstanding paragraph (1)(e), a corporation or trust shall be deemed to meet the requirements of subsection (1) at the end of a particular month if,

(*a*) at one time after June 30, 1971, the cost amount to it of all foreign property held by it exceeded 10 per cent of the cost amount to it of all property held by it; and

(*b*) at a later time during the relevant period for the particular month, the cost amount to it of all foreign property held by it did not, for the first time since June 30, 1971, exceed 10 per cent of the cost amount to it of all property held by it."

S. 5000(1)(*e*) was amended by P.C. 1992-258, SOR/92-123, dated February 13, 1992, to substitute "or to the trust" and "20 per cent" for "or trust" and "10 per cent", respectively, applicable to months ending after 1989, except that for months in 1990, 1991, 1992 and 1993, the reference to "20 per cent" shall be read as "12 per cent", "14 per cent", "16 per cent" and "18 per cent", respectively.

S. 5000(3) was amended by P.C. 1992-258, SOR/92-123, dated February 13, 1992, applicable to months ending after 1989. S. 5000(3) formerly read:

"(3) Where a taxpayer holds a share of the capital stock of an investment corporation, subsections (1), (2) and (7) apply with respect to that share as if

(*a*) the reference in subsection (1) to a 'mutual fund corporation (other than an investment corporation)' were read as a reference to an 'investment corporation'; and

(*b*) the references in those subsections to 'June 30, 1971' were read as references to 'October 13, 1971'."

S. 5000(4) was amended by P.C. 1992-258, SOR/92-123, dated February 13, 1992, to substitute "a particular month" for "any particular month," applicable to months ending after 1989.

S. 5000(5) was amended by P.C. 1992-258, SOR/92-123, dated February 13, 1992, applicable to months ending after 1989. S. 5000(5) formerly read:

"(5) Where a mutual fund corporation or a mutual fund trust holds a share of the capital stock of a mutual fund corporation (other than an investment corporation) or an interest in, or a right to acquire an interest in a mutual fund trust, the share or interest, as the case may be, shall not be foreign property if the last-mentioned corporation or trust, as the case may be, complies with the requirements set out in paragraphs (1)(d) or (e) or subsection (2)."

S. 5000(6) was amended by P.C. 1992-258, SOR/92-123, dated February 13, 1992, applicable to months ending after 1989. S. 5000(6) formerly read:

"(6) Where a mutual fund corporation or a mutual fund trust holds a share of the capital stock of an investment corporation, the share shall not be foreign property if the investment corporation would comply with the requirements set out in paragraph (1)(d) or (e) or subsection (2) if the references in paragraph (1)(d) and subsection (2) to 'June 30, 1971' were read as references to 'October 16, 1971'."

The part of the definition "qualified limited partnership" preceding paragraph (*a*), was amended by P.C. 1992-258, SOR/92-123, dated February 13, 1992, applicable after 1989. That part formerly read:

"'qualified limited partnership' at any time after 1985 means a limited partnership that at all times after it was formed and before that time complied with the following conditions:"

Paragraph (*i*) of the definition "qualified limited partnership", was amended by P.C. 1992-258, SOR/92-123, dated February 13, 1992, applicable after 1989. The paragraph formerly read:

"(*i*) the cost amount to it of all foreign property held by it did not exceed 10 per cent of the cost amount to it of all property held by it."

The definition "resource property trust", was amended by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, to substitute "pension plan" for "pension fund or plan", applicable after 1985.

S. 5000(1)(*e*) was amended by P.C. 1990-1837, SOR/90-606, dated August 28, 1990, to substitute "cost amount" for "cost" wherever it occurs, applicable September 12, 1990.

S. 5000(1.2) was added by P.C. 1990-1837, SOR/90-606, dated August 28, 1990 and applicable to the 1987 and subsequent taxation years.

Ss. 5000(2)(*a*) and (*b*) were amended by P.C. 1990-1837, SOR/90-606, dated August 28, 1990, to substitute "cost amount" for "cost" wherever it occurs, applicable September 12, 1990.

S. 5000(1.1) was added by P.C. 1986-772, SOR/86-390, dated March 26, 1986, effective after October 31, 1985.

Clause (*a*)(i)(A) of the definition "pooled fund trust", was amended by P.C. 1990-1837, SOR/90-606, dated August 28, 1990 and applicable after October 31, 1985. That clause formerly read:

"(A) the cost amount to the trust of shares, bonds, mortgages, marketable securities and cash, and"

Paragraph (*e*) of the definition "qualified limited partnership", was amended by P.C. 1990-1837, SOR/90-606, dated August 28, 1990 and applicable after October 31, 1985. That paragraph formerly read:

"(*e*) no limited partner or group of limited partners who did not deal with each other at arm's length held more than 30 per cent of the units of the partnership,"

The definition "qualified limited partnership" was added to s. 5000(7) by P.C. 1986-772, SOR/86-390 dated March 26, 1986, effective after October 31, 1985.

S. 5000(1)(c.1) was added by P.C. 1985-2351, SOR/85-712, dated July 25, 1985, applicable with respect to trust created after November 12, 1981.

The definition "resource property trust" in s. 5000(7) was added by P.C. 1985-2351, SOR/85-712 dated July 25, 1985, applicable with respect to trusts created after November 12, 1981.

Clause (*a*)(i)(A) of the definition "pooled fund trust" in s. 5000(7) was amended by P.C. 1981-2518, SOR/81-725, September 21, 1981 to replace "marketable securities or cash" with "marketable securities and cash", effective January 1, 1981.

Subparagraph (*a*)(ii) of the definition "pooled fund trust" in s. 5000(7) was revoked and replaced by P.C. 1981-2518, SOR/81-725, September 21, 1981, effective January 1, 1981. Subparagraph (a)(ii) formerly read:

"(ii) the cost amount to the trust at any time of shares, bonds, mortgages or other securities of any one corporation or debtor other than Her

Majesty in right of Canada or of a province or a Canadian municipality was not more than 10 per cent of the amount by which the cost amount to it of all property at that time exceeds the aggregate of amounts each of which was owing by it at that time on account of its acquisition of real property and was included at that time in the cost amount to it of real property, and"

Interpretation Bulletins: *Secondary* — IT-412R2 Foreign property of registered plans.

PROHIBITED INVESTMENT

5001. For the purpose of paragraph (*d*) of the definition "prohibited investment" in subsection 207.01(1) of the Act, property that is a qualified investment for a trust governed by a TFSA solely because of subsection 4900(14) is prescribed property for the trust at any time if, at that time, it is not described in any of subparagraphs 4900(14)(*a*)(i) to (iii).

History: S. 5001 was added by S.C. 2009, c. 2, s. 107(1), applicable to the 2009 and subsequent taxation years.

S. 5001 was repealed by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, deemed to have come into force on June 29, 2005. S. 5001 formerly read:

"S. 5001. For the purposes of paragraph 149(1)(*o.4*) of the Act, a trust is a master trust at any time if, at all times after it was created and before that time,

(*a*) it was resident in Canada;

(*b*) its only undertaking was the investing of its funds;

(*c*) it never borrowed money except where the borrowing was for a term not exceeding 90 days and it is established that the borrowing was not part of a series of loans or other transactions and repayments;

(*d*) it never accepted deposits; and

(*e*) each of the beneficiaries of the trust was a trust governed by a registered pension plan or a deferred profit sharing plan."

S. 5001 was added by P.C. 1990-1837, SOR/90-606, dated August 28, 1990, applicable to the 1987 and subsequent taxation years.

Related Sections: S. 253.1.

Information Circulars: IC 78-14R4 Guidelines for trust companies and other persons responsible for filing T3GR, T3D, T3P, T3S, T3RI, and T3F returns.

5002. [Repealed.]

History: S. 5002 was repealed by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, deemed to have come into force on June 29, 2005. S. 5002 formerly read:

"S. 5002. For the purpose of subparagraph 206(2.01)(*b*)(ii) of the Act,

(*a*) a prescribed trust is,

(i) a pooled fund trust,

(ii) a trust that would be a mutual fund trust if Part XLVIII were read without reference to paragraph 4801(*b*),

(iii) a resource property trust,

(iv) a master trust, as described in section 5001, or

(v) a trust if

(A) the trust would be a mutual fund trust if Part XLVIII were read without reference to section 4801, and

(B) there has been a lawful distribution in a province to the public of units of the trust and a prospectus, registration statement or similar document was not required under the laws of the province to be filed in respect of the distribution; and

(*b*) a prescribed partnership is a qualified limited partnership."

S. 5002(*a*)(iv) was amended, and subparagraph (v) was added by P.C. 2001-1106, SOR/2001-216, dated June 14, 2001, applicable to months that end after 1993. S. 5002(*a*)(iv) formerly read:

"(iv) a master trust, as described in section 5001; and"

S. 5002 was added by P.C. 2000-183, SOR/2000-62, dated February 17, 2000, applicable to months that end after 1992.

PART LI

Deferred Income Plans, Investments in Small Business

5100. (1) In this Part,

History: S. 5100(1) was added by P.C. 1986-772, SOR/86-390, dated March 26, 1986, effective after October 31, 1985.

"*designated rate*", at any time, means 150 per cent of the highest of the prime rates generally quoted at that time by the banks to which Schedule A to the *Bank Act* applies;

"*eligible corporation*", at any time, means

(*a*) a particular corporation that is a taxable Canadian corporation all or substantially all of the property of which is at that time

(i) used in a qualifying active business carried on by the particular corporation or by a corporation controlled by it,

(ii) shares of the capital stock of one or more eligible corporations that are related to the particular corporation, or debt obligations issued by those eligible corporations, or

(iii) any combination of the properties described in subparagraph (i) and (ii),

(*a.1*) a specified holding corporation, or

(*b*) a venture capital corporation described in section 6700,

but does not include

(*c*) a corporation (other than a mutual fund corporation) that is

(i) a trader or dealer in securities,

(ii) a bank,

(iii) a corporation licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering to the public its services as a trustee,

(iv) a credit union,

(v) an insurance corporation, or

(vi) a corporation the principal business of which is the lending of money or the purchasing of debt obligations or a combination of them,

(*d*) a corporation controlled by one or more non-resident persons,

(*e*) a venture capital corporation, other than a venture capital corporation described in section 6700, or

(*f*) a corporation that has made an election in respect of a particular taxation year under subparagraph (iv) of the description of B in paragraph 204.82(2.2)(*c.1*) of the Act, if that time is in the 12-month period that begins on the day that is six months after the day on which the particular taxation year ends;

History: Paragraph (*b*) of the definition "eligible corporation" was amended by P.C. 2001-1370, SOR/2001-289, dated August 1, 2001, applicable after June 9, 2001. Paragraph (*b*) of the definition "eligible corporation" formerly read:

"(*b*) a prescribed venture capital corporation described in section 6700,"

Paragraph (*e*) of the definition "eligible corporation" was amended by P.C. 2001-1370, SOR/2001-289, dated August 1, 2001, applicable after June 9, 2001. Paragraph (*e*) of the definition "eligible corporation" formerly read:

"(*e*) a venture capital corporation, other than a prescribed venture capital corporation described in section 6700, or"

Paragraph (*f*) of the definition "eligible corporation" was added by P.C. 2001-1370, SOR/2001-289, dated August 1, 2001, applicable to taxation years that begin after 1997.

Paragraph (*c*) of the definition "eligible corporation" was amended by P.C. 1999-249, SOR/99-102, dated February 18, 1999, applicable to taxation years that end after February 22, 1994. Paragraph (*c*) of the definition "eligible corporation" formerly read:

"(*c*) a corporation (other than a mutual fund corporation) that is a taxpayer described in subsection 39(5) of the Act,"

Paragraph (*c*) of the definition "eligible corporation" was amended by P.C. 1999-249, SOR/99-102, dated February 18, 1999, applicable to the 1991 and subsequent taxation years. S. 5100(1)(*c*) formerly read:

"(c) a corporation that is a taxpayer described in subsection 39(5) of the Act,"

Subparagraph (a)(ii) of the definition "eligible corporation", was amended by P.C. 1990-1837, SOR/90-606, dated August 28, 1990 to add "debt obligations issued by those eligible organizations, or", applicable after October 31, 1985.

Paragraph (a.1) of the definition "eligible corporation", was added by P.C. 1990-1837, SOR/90-606, dated August 28, 1990, and applicable after October 31, 1985.

Paragraph (d) of the definition "eligible corporation", was amended by P.C. 1990-1837, SOR/90-606, dated August 28, 1990 to delete "directly or indirectly in any manner whatever" following "controlled", applicable after 1988.

"*qualifying active business*", at any time, means any business carried on primarily in Canada by a corporation, but does not include

(a) a business (other than a business of leasing property other than real property) the principal purpose of which is to derive income from property (including interest, dividends, rent and royalties), or

(b) a business of deriving gains from the disposition of property (other than property in the inventory of the business),

and, for the purposes of this definition, a business carried on primarily in Canada by a corporation, at any time, includes a business carried on by the corporation if, at that time,

(c) at least 50 per cent of the full time employees of the corporation and all corporations related thereto employed in respect of the business are employed in Canada, or

(d) at least 50 per cent of the salaries and wages paid to employees of the corporation and all corporations related thereto employed in respect of the business are reasonably attributable to services rendered in Canada;

"*qualifying obligation*", at any time, means a bond, debenture, mortgage, note or other similar obligation of a corporation described in paragraph 149(1)(o.2) or (o.3) of the Act, if

(a) the obligation was issued by the corporation after October 31, 1985,

(b) the corporation used all or substantially all of the proceeds of the issue of the obligation within 90 days after the receipt thereof to acquire

(i) small business securities,

(ii) interests of a limited partner in small business investment limited partnerships,

(iii) interests in small business investment trusts, or

(iv) any combination of the properties described in subparagraphs (i) to (iii)

and, except as provided in subsection 5104(1), the corporation was the first person (other than a broker or dealer in securities) to have acquired the properties and the corporation has owned the properties continuously since they were so acquired,

(c) the corporation does not hold, and no group of persons who do not deal with each other at arm's length and of which it is a member holds, more than 30 per cent of the outstanding shares of any class of voting stock of another corporation, except where all or any part of those shares were acquired in specified circumstances, within the meaning of subsection 5104(2),

(d) the recourse of the holder of the obligation against the corporation with respect to the obligation is limited to the properties acquired with the proceeds of the issue of the obligation and any property substituted therefor, and

(e) the properties acquired with the proceeds of the issue of the obligation have not been disposed of, unless the disposition occurred within the 90 day period immediately preceding that time;

History: S. 5100(1), the portion of the definition "qualifying obligation" before paragraph (a) was amended by P.C. 1994-1817, SOR/94-686, dated November 7, 1994, by deleting the word "hypothec".

"*specified holding corporation*", at any time, means a taxable Canadian corporation where

(a) all or substantially all of the collective property of the corporation and of all other corporations controlled by it (each of which other corporations is referred to in this definition as a "controlled corporation"), other than shares in the capital stock of the corporation or of a corporation related to it and debt obligations issued by it or by a corporation related to it, is at that time used in a qualifying active business carried on by the corporation, and

(b) all or substantially all of the property of the corporation is at that time

(i) property used in a qualifying active business carried on by the corporation or a controlled corporation,

(ii) shares of the capital stock of one or more controlled corporations or eligible corporations related to the corporation,

(iii) debt obligations issued by one or more controlled corporations or eligible corporations related to the corporation, or

(iv) any combination of the properties described in subparagraphs (i), (ii) and (iii),

and in a determination of whether property is used in a qualifying active business for the purposes of paragraph (a),

(c) where a business is carried on by a controlled corporation,

(i) the business shall be deemed to be a business carried on only by the corporation, and

(ii) the controlled corporation shall be deemed to be the corporation in the application of paragraphs (c) and (d) of the definition "qualifying active business", and

(d) if a business of the corporation is substantially similar to one or more other businesses of the corporation, all those businesses shall be deemed collectively to be one business of the corporation.

History: S. 5100(1), the definition "specified holding corporation", was added by P.C. 1990-1837, SOR/90-606, dated August 28, 1990, and applicable after October 31, 1985.

"*specified property*" means property described in any of paragraphs (a), (b), (c), (f) and (g) of the definition "qualified investment" in section 204 of the Act.

History: S. 5100(1), the definition "specified property" was replaced by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, deemed to have come into force on June 29, 2005. S. 5100(1), the definition "specified property" formerly read:

" 'specified property' means property described in any of subparagraphs 204(e)(i), (ii), (iii), (vii) and (viii) of the Act."

(2) For the purposes of this Part and clause (b)(iii)(A) of the definition "eligible investment" in subsection

204.8(1) of the Act, a small business security of a person, at any time, is property of that person that is, at that time,

(*a*) a share of the capital stock of an eligible corporation,

(*b*) debt obligation of an eligible corporation (other than a venture capital corporation described in section 6700) that does not by its terms or any agreement related to the obligation restrict the corporation from incurring other debts and that is

(i) secured solely by a floating charge on the assets of the corporation and that by its terms or any agreement related thereto is subordinate to all other debt obligations of the corporation (other than a small business security issued by the corporation, or a debt obligation that is owing by the corporation to a shareholder of the corporation or a person related to a shareholder of the corporation and that is not secured in any manner whatever), or

(ii) not secured in any manner whatever,

other than a debt obligation that

(iii) where the debt obligation specifies an invariant rate of interest, has an effective annual rate of return that exceeds the designated rate for the day on which the obligation was issued, and

(iv) in any other case, may have an effective annual rate of return at a particular time that exceeds the designated rate at the particular time,

(*c*) an option or right granted by an eligible corporation in conjunction with the issue of a share or debt obligation that qualifies as a small business security to acquire a share of the capital stock of the corporation, or

(*d*) an option or right granted for no consideration by an eligible corporation to a holder of a share that qualifies as a small business security to acquire a share of the capital stock of the corporation

if, immediately after the time of acquisition thereof,

(*e*) the aggregate of the cost amounts to the person of all shares, options, rights and debt obligations of the eligible corporation and all corporations associated therewith held by the person does not exceed $10,000,000,

(*f*) the total assets (determined in accordance with generally accepted accounting principles, on a consolidated or combined basis, where applicable) of the eligible corporation and all corporations associated with it do not exceed $50,000,000

and includes

(*g*) property of the person that is, at that time,

(i) a qualifying obligation, or

(ii) [Repealed.]

(iii) a security (in this subparagraph referred to as the "new security") described in any of paragraphs (*a*) to (*d*), where the new security was issued at a particular time

(A) in exchange for, on the conversion of, or in respect of rights pertaining to a security (in this paragraph referred to as the "former security") that would, if this subsection were read without reference to this subparagraph and paragraph (*h*), be a small business security of the person immediately before the particular time, and

(B) pursuant to an agreement entered into before the particular time and at or before the time that the former security was last acquired by the person, or

(*h*) where the person is a small business investment corporation, small business investment limited partnership or small business investment trust, property of the person that is, at that time, a security (in this paragraph referred to as the "new security") described in any of paragraph (*a*) to (*d*), where the new security was issued at a particular time not more than 5 years before that time in exchange for, on the conversion of, or in respect of rights pertaining to a security that would, if this subsection were read without reference to this paragraph, be a small business security of the person immediately before the particular time.

History: S. 5100(2), the portion before paragraph (*a*) was replaced by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable to taxation years that begin after 2004. S. 5100(2), the portion before paragraph (*a*) formerly read:

"(2) For the purposes of this Part and paragraph (*a*) of the definition 'small business property' in subsection 206(1) of the Act, 'small business security' of a person, at any time, is the property of that person that is, at that time,"

S. 5100(2)(*g*)(ii) was repealed by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, deemed to have come into force on June 29, 2005. S. 5100(2)(*g*)(ii) formerly read:

"(ii) the proportion of the interest of the person as a limited partner in a qualified limited partnership (within the meaning assigned by subsection 5000(7)) at that time that

(A) the aggregate of the cost amounts to the partnership of all properties held by the partnership at that time that would be small business properties (within the meaning assigned by subsection 206(1) of the Act) if the partnership were a person,

is of

(B) the aggregate of the cost amounts to the partnership of all properties held by the partnership at that time, or"

S. 5100(2)(*b*), the portion before subparagraph (i), was amended by P.C. 2001-1370, SOR/2001-289, dated August 1, 2001, applicable after June 9, 2001. S. 5100(2)(*b*), the portion before subparagraph (i), formerly read:

"(*b*) debt obligation of an eligible corporation (other than a prescribed venture capital corporation described in section 6700) that does not by its terms or any agreement related to the obligation restrict the corporation from incurring other debts and that is"

S. 5100(2)(*b*), the portion before subparagraph (i) was amended by P.C. 1998-782, SOR/98-281, dated May 7, 1998, applicable to debt obligations issued after December 5, 1996, other than debt obligations that were required to be issued pursuant to agreements in writing made on or before that date. S. 5100(2)(*b*), the portion before subparagraph (i) formerly read:

"(*b*) a debt obligation of an eligible corporation that does not by its terms or any agreement related thereto restrict the corporation from incurring other debts and that is"

S. 5100(2)(*f*) was amended by P.C. 1994-1074, SOR/94-471, dated June 23, 1994, applicable after 1991. S. 5100(2)(*f*) formerly read:

"(*f*) the total assets of the eligible corporation and all corporations associated therewith (determined in accordance with generally accepted accounting principles on a consolidated or combined basis, where applicable) do not exceed $35,000,000"

All that part of s. 5100(2) following paragraph (*f*) was amended by P.C. 1992-258, SOR/92-123, dated February 13, 1992, applicable to property acquired after 1989. That part formerly read:

"and includes property of the person that is, at that time,

(*g*) a qualifying obligation, or

(*h*) the proportion of the interest of the person as a limited partner in a qualified limited partnership (within the meaning assigned by subsection 5000(7)) at that time that

(i) the aggregate of the cost amounts to the partnership of all properties held by the partnership at that time that would be small business properties (within the meaning assigned by subsection 206(1) of the Act) if the partnership were a person,

is of

(ii) the aggregate of the cost amounts to the partnership of all properties held by the partnership at that time."

S. 5100(2)(*b*), the part preceding subparagraph (ii), was amended by P.C. 1990-1837, SOR/90-606, dated August 28, 1990 and applicable in respect of debt obligations issued after September 12, 1990, other than debt obligations that were required to be issued pursuant to agreements in writing entered into on or before that date. That part formerly read:

"(*b*) a debt obligation of an eligible corporation that is

(i) secured solely by a floating charge on the assets of the corporation and that does not by its terms or any agreement related thereto restrict the corporation from incurring other debts, but that is by its terms or any agreement related thereto subordinate to all other debt obligations of the corporation (other than a small business security issued by the corporation, or a debt obligation owing by the corporation to a shareholder of the corporation or a person related thereto that is not secured in any manner whatever), or"

S. 5100(2), the part following paragraph (f), was amended, and paragraphs (*g*) and (*h*) were added by P.C. 1987-371, SOR/87-134, dated March 5, 1987 and effective after October 31, 1985.

S. 5100(2) was added by P.C. 1986-772, SOR/86-390, dated March 26, 1986, effective after October 31, 1985.

(2.1) Where all or part of the property of a person consists of the shares of the capital stock of a venture capital corporation described in section 6700, options or rights granted by the corporation, or debt obligations of the corporation,

(*a*) the aggregate of the cost amounts to the person of all such property shall be deemed for the purposes of paragraph (2)(*e*) not to exceed $10,000,000; and

(*b*) the total assets (determined in accordance with generally accepted accounting principles, on a consolidated or combined basis, where applicable) of the corporation and all corporations associated with it shall be deemed for the purposes of paragraph (2)(*f*) not to exceed $50,000,000.

History: S. 5100(2.1) was amended by P.C. 2001-1370, SOR/2001-289, dated August 1, 2001, applicable after June 9, 2001. S. 5100(2.1) formerly read:

"(2.1) Where all or part of the property of a person consists of the shares of the capital stock of a prescribed venture capital corporation within the meaning assigned by section 6700, options or rights granted by the corporation, or debt obligations of the corporation,

(*a*) the aggregate of the cost amounts to the person of all such property shall be deemed for the purposes of paragraph (2)(*e*) not to exceed $10,000,000; and

(*b*) the total assets (determined in accordance with generally accepted accounting principles, on a consolidated or combined basis, where applicable) of the corporation and all corporations associated with it shall be deemed for the purposes of paragraph (2)(*f*) not to exceed $50,000,000."

S. 5100(2.1)(*b*) was amended by P.C. 1994-1074, SOR/94-471, dated June 23, 1994, applicable after 1991. S. 5100(2.1)(*b*) formerly read:

"(*b*) the total assets (determined in accordance with generally accepted accounting principles, on a consolidated or combined basis, where applicable) of the corporation and all corporations associated with it shall be deemed for the purposes of paragraph (2)(*f*) not to exceed $35,000,000."

S. 5100(2.1) was added by P.C. 1990-1837, SOR/90-606, dated August 28, 1990 and applicable after October 31, 1985.

(3) For the purposes of subsection (2),

(*a*) in determining the effective annual rate of return in respect of a debt obligation of an eligible corporation, the value of any right to convert the debt obligation or any part thereof into, or to exchange the debt obligation or any part thereof for, shares of the capital stock of the corporation or an option or right to acquire such shares shall not be considered; and

(*b*) a corporation shall be deemed not to be associated with another at any time where the corporation would not be associated with the other if

(i) the references to "controlled, directly or indirectly, in any manner whatever" in section 256 of the Act (other than subsection (5.1) thereof) were read as references to "controlled", and

(ii) such rights described in subsection 256(1.4) of the Act and shares, as were held at that time by a small business investment corporation, small business investment limited partnership or small business investment trust, were disregarded.

History: S. 5100(3) was amended by P.C. 1990-1837, SOR/90-606, dated August 28, 1990 and applicable after 1988. S. 5100(3) formerly read:

"(3) For the purposes of subsection (2), in determining the effective annual rate of return in respect of a debt obligation of an eligible corporation, the value of any right to convert the debt obligation or any part thereof into or to exchange the debt obligation or any part thereof for shares of the capital stock of the corporation or an option or right to acquire such shares shall not be considered."

S. 5100(3) was added by P.C. 1986-772, SOR/86-390, dated March 26, 1986, effective after October 31, 1985.

(4) [Repealed.]

History: S. 5100(4) was repealed by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, deemed to have come into force on June 29, 2005. S. 5100(4) formerly read:

"(4) For the purposes of paragraph (*e*) of the definition 'small business property' in subsection 206(1) of the Act, a taxpayer is a prescribed person in respect of a property at any time where

(*a*) the following conditions are met:

(i) the taxpayer is a beneficiary of a trust that has elected pursuant to subsection 259(1) of the Act for a period that includes that time,

(ii) the property is deemed to be held by the taxpayer at that time by virtue of subsection 259(1) of the Act, and

(iii) the trust referred to in subparagraph (i) is the first person (other than a broker or dealer in securities) to have acquired the property and has owned the property continuously since it was so acquired, except where the property is a small business security acquired in cases described in subsection 5104(1);

(*b*) the taxpayer is a limited partner in a qualified limited partnership (within the meaning assigned by subsection 5000(7)) and the property is that proportion of the taxpayer's interest in the partnership that, pursuant to subparagraph (2)(*g*)(ii), is a small business security of the taxpayer at that time;

(*c*) the taxpayer is a holder of property that at that time is a small business security acquired in cases described in subsection 5104(1);

(*d*) the taxpayer is a limited partner in a small business investment limited partnership the units of which are listed on a stock exchange prescribed under section 3200 and the property consists of the taxpayer's units in that partnership; or

(*e*) the taxpayer is a beneficiary under a small business investment trust the units of which are listed on a stock exchange prescribed under section 3200 and the property consists of the taxpayer's units in that trust."

S. 5100(4)(*b*) was amended by P.C. 1992-258, SOR/92-123, dated February 13, 1992, to substitute "the taxpayer's interest" and "subparagraph (2)(*h*)(ii)" for "his interest" and "paragraph (2)(*h*)", respectively, applicable to property acquired after 1989.

Ss. 5100(4)(*d*) and (*e*) were added by P.C. 1990-1837, SOR/90-606, dated August 28, 1990 and applicable after 1989.

S. 5100(4) was added by P.C. 1987-371, SOR/87-134, dated March 5, 1987 and effective after October 31, 1985.

5101. (1) Subject to subsection (4), for the purposes of this Part and paragraph 149(1)(*o*.3) and paragraph (*b*) of the definition "small business property" in subsection 206(1) of the Act, a corporation is a small business investment corporation at any time if it is a Canadian corporation incorporated after May 22, 1985 and at all times after it was incorporated and before that time

(*a*) all of the shares, and rights to acquire shares, of the capital stock of the corporation were owned by

(i) one or more registered pension plans,

(ii) one or more trusts all the beneficiaries of which were registered pension plans,

(iii) one or more related segregated fund trusts (within the meaning assigned by paragraph 138.1(1)(*a*) of the Act) all the beneficiaries of which were registered pension plans, or

(iv) one or more persons prescribed by section 4802 for the purposes of clause 149(1)(*o*.2)(iv)(D) of the Act;

(*b*) its only undertaking was the investing of its funds and its investments consisted solely of

(i) small business securities,

(ii) interests of a limited partner in small business investment limited partnerships,

(iii) interests in small business investment trusts,

(iv) property (other than a small business security) that is

(A) a share of the capital stock of a corporation (other than a share that is issued to the corporation and that is either a share described in section 66.3 of the Act or a share in respect of which an amount has been designated under subsection 192(4) of the Act), or

(B) a put, call, warrant or other right to acquire or sell a share described by clause (A),

(v) specified properties, or

(vi) any combination of properties described in any of subparagraphs (i) to (v)

and, except as provided in subsection 5104(1), with respect to properties referred to in any of subparagraphs (i) to (iii), the corporation was the first person (other than a broker or dealer in securities) to have acquired the properties and the corporation has owned the properties continuously since they were so acquired;

(*c*) it has complied with subsection (2);

(*d*) it did not hold, and no group of persons who did not deal with each other at arm's length and of which it was a member held, more than 30 per cent of the outstanding shares of any class of voting stock of a corporation, except where

(i) all or any part of those shares were acquired in specified circumstances within the meaning of subsection 5104(2), or

(ii) those shares were of any class of voting stock of a venture capital corporation described in section 6700;

(*e*) it has not borrowed money except from its shareholders; and

(*f*) it has not accepted deposits.

History: S. 5101(1)(*b*)(iv) was replaced by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, deemed to have come into force on June 29, 2005. S. 5101(1)(*b*)(iv) formerly read:

"(iv) property (other than small business securities) described in any of subparagraphs (*f*)(i) to (iv) of the definition 'qualified limited partnership' in subsection 5000(7),"

S. 5101(1)(*d*)(ii) was amended by P.C. 2001-1370, SOR/2001-289, dated August 1, 2001, applicable after June 9, 2001. S. 5101(1)(*d*)(ii) formerly read:

"(ii) those shares were of any class of voting stock of a prescribed venture capital corporation within the meaning assigned by section 6700;"

Ss. 5101(1)(*b*)(iv) and (v) were amended and (vi) was added by P.C. 1994-1074, SOR/94-471, dated June 23, 1994, applicable after 1990. Ss. 5101(1)(*b*)(iv) and (v) formerly read:

"(iv) specified properties, or

(v) any combination of the properties described in subparagraphs (i) to (iv)"

S. 5101(1)(*a*) was amended by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, to substitute "registered pension plan" for "registered pension fund or plan", applicable after 1985.

S. 5101(1)(*d*) was amended by P.C. 1990-1837, SOR/90-606, dated August 28, 1990 and applicable after October 31, 1985. S. 5101(1)(*d*) formerly read:

"(*d*) it did not hold, and no group of persons who did not deal with each other at arm's length and of which it was a member held, more than 30 per cent of the outstanding shares of any class of voting stock of a corporation, except where all or any part of such shares were acquired in specified circumstances within the meaning of subsection 5104(2);"

S. 5101(1) was added by P.C. 1986-772, SOR/86-390, dated March 26, 1986, effective after October 31, 1985.

(2) Every small business investment corporation shall at all times hold properties referred to in subparagraphs (1)(*b*)(i) to (iii), the aggregate of the cost amounts of which is not less than 75 per cent of the amount, if any, by which

(*a*) the aggregate of all amounts each of which is the amount of consideration for the issue of shares of its capital stock or debt to its shareholders or the amount of a contribution of capital by its shareholders received by it more than 90 days before that time

exceeds

(*b*) the aggregate of

(i) all amounts paid by it before that time to its shareholders as a return of capital or a repayment of debt, and

(ii) the amount, if any, by which the aggregate of its losses from the disposition of properties disposed of before that time exceeds the aggregate of its gains from the disposition of properties disposed of before that time.

History: S. 5101(2) was added by P.C. 1986-772, SOR/86-390, dated March 26, 1986, effective after October 31, 1985.

(3) For the purposes of subsection (2), where a small business investment corporation disposes of a property referred to in subparagraphs (1)(*b*)(i) to (iii), it shall be deemed to continue to hold the investment for a period of 90 days following the date of the disposition.

History: S. 5101(3) was added by P.C. 1986-772, SOR/86-390, dated March 26, 1986, effective after October 31, 1985.

(4) For the purposes of paragraph 149(1)(*o*.3) of the Act, where a small business investment corporation holds an interest in a partnership or trust that qualified as a small business investment limited partnership or small business investment trust, as the case may be, when the interest was acquired and that, but for this subsection, would cease at a subsequent time to so qualify, the interest in the partnership or trust shall be deemed to be an interest in a small business investment limited partnership or small business investment trust, as the case may be, for the 24 months immediately following the subsequent time.

History: S. 5101(4) was added by P.C. 1986-772, SOR/86-390, dated March 26, 1986, effective after October 31, 1985.

5102. (1) For the purpose of this Part, a partnership is a small business investment limited partnership at any particular time if at all times after it was formed and before the particular time

(*a*) it had only one general partner,

(*b*) the share of the general partner, as general partner, in any income of the partnership from any source in any place, for any period, was the same as his share, as general partner, in

(i) the income of the partnership from that source in any other place,

(ii) the income of the partnership from any other source,

(iii) the loss of the partnership from any source,

(iv) any capital gain of the partnership, and

(v) any capital loss of the partnership

for that period, except that the share of the general partner, as general partner, in the income or loss of the partnership from specified properties may differ

from his share, as general partner, in the income or loss of the partnership from other sources,

(*c*) the share of the general partner, as general partner, in any income or loss of the partnership for any period was not less than his share, as general partner, in the income or loss of the partnership for any preceding period;

(*d*) the interests of the limited partners were described by reference to units of the partnership that were identical in all respects,

(*e*) no limited partner or group of limited partners who did not deal with each other at arm's length held more than 30 per cent of the units of the partnership and, for the purposes of this paragraph,

(i) a small business investment corporation that has not borrowed money and in which no shareholder or group of shareholders who did not deal with each other at arm's length held more than 30 per cent of the outstanding shares of any class of voting stock shall be deemed not to be a limited partner, and

(ii) the general partner shall be deemed not to hold any unit of the partnership as a limited partner, and

(*f*) its only undertaking was the investing of its funds and its investments consisted solely of

(i) small business securities where, except as provided in subsection 5104(1), the partnership was the first person (other than a broker or dealer in securities) to have acquired the securities and it has owned the securities continuously since they were so acquired,

(ii) property (other than a small business security) that is

(A) a share of the capital stock of a corporation (other than a share that is issued to the partnership and that is either a share described in section 66.3 of the Act or a share in respect of which an amount has been designated under subsection 192(4) of the Act), or

(B) a put, call, warrant or other right to acquire or sell a share described by clause (A),

(iii) specified properties, or

(iv) any combination of properties described in any of subparagraphs (i) to (iii),

(*g*) it has complied with subsection (2),

(*h*) it has not borrowed money except for the purpose of earning income from its investments and the amount of any such borrowings at any time did not exceed 20 per cent of the partnership capital at that time, and

(*i*) it has not accepted deposits.

History: S. 5102(1), the portion before paragraph (*a*) was replaced by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, deemed to have come into force on June 29, 2005. S. 5102(1), the portion before paragraph (*a*) formerly read:

"S. 5102. (1) For the purposes of this Part and paragraph (*c*) of the definition 'small business property' in subsection 206(1) of the Act, a partnership is a small business investment limited partnership at any time if at all times after it was formed and before that time"

S. 5102(1)(*f*)(ii) was replaced by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, deemed to have come into force on June 29, 2005. S. 5102(1)(*f*)(ii) formerly read:

"(ii) property (other than small business securities) described in any of subparagraphs (*f*)(i) to (iv) of the definition 'qualified limited partnership' in subsection 5000(7),"

Ss. 5102(1)(*f*)(ii) and (iii) were amended and (iv) was added by P.C. 1994-1074, SOR/94-471, dated June 23, 1994, applicable after 1990. Ss. 5102(1)(*f*)(ii) and (iii) formerly read:

"(ii) specified properties, or

(iii) any combination of the properties described in subparagraphs (i) and (ii),"

S. 5102(1)(*e*) was amended by P.C. 1990-1837, SOR/90-606, dated August 28, 1990 and applicable after October 31, 1985. S. 5102(1)(*e*) formerly read:

"(*e*) no limited partner or group of limited partners who did not deal with each other at arm's length held more than 30 per cent of the units of the partnership and, for the purposes of this paragraph, a small business investment corporation that has not borrowed money and in which no shareholder or group of shareholders who did not deal with each other at arm's length held more than 30 per cent of the outstanding shares of any class of voting stock shall be deemed not to be a limited partner, and"

S. 5102(1) was added by P.C. 1986-772, SOR/86-390, dated March 26, 1986, effective after October 31, 1985.

(2) The aggregate of the cost amounts to a small business investment limited partnership of small business securities held by it at any time shall not be less than the amount, if any, by which the aggregate of

(*a*) 25 per cent of the amount, if any, by which

(i) the aggregate of all amounts received by it more than 12 months before that time and not more than 24 months before that time as consideration for the issue of its units or in respect of its units

exceeds

(ii) the aggregate of all amounts paid by it before that time to its members and designated by the partnership as a return of the consideration referred to in subparagraph (i),

(*b*) 50 per cent of the amount, if any, by which

(i) the aggregate of all amounts received by it more than 24 months before that time and not more than 36 months before that time as consideration for the issue of its units or in respect of its units

exceeds

(ii) the aggregate of all amounts paid by it before that time to its members and designated by the partnership as a return of the consideration referred to in subparagraph (i), and

(*c*) 75 per cent of the amount, if any, by which

(i) the aggregate of all amounts received by it more than 36 months before that time as consideration for the issue of its units or in respect of its units

exceeds

(ii) the aggregate of all amounts paid by it before that time to its members and designated by the partnership as a return of the consideration referred to in subparagraph (i),

exceeds 75 per cent of the amount, if any, by which the aggregate of its losses from the disposition of properties disposed of before that time exceeds the aggregate of its gains from the disposition of properties disposed of before that time.

History: S. 5102(2) was added by P.C. 1986-772, SOR/86-390, dated March 26, 1986, effective after October 31, 1985.

(3) For the purposes of subsection (2), where a small business investment limited partnership disposes of a small business security it shall be deemed to continue to hold the investment for a period of 90 days following the date of the disposition.

History: S. 5102(3) was added by P.C. 1986-772, SOR/86-390, dated March 26, 1986, effective after October 31, 1985.

5103. (1) For the purposes of this Part and subsection 259(5) of the Act, a trust is a small business investment trust at any particular time if at all times after it was created and before the particular time

(*a*) it was resident in Canada;

(*b*) the interests of the beneficiaries under the trust were described by reference to units of the trust that were identical in all respects; and

(*c*) no beneficiary or group of beneficiaries who did not deal with each other at arm's length held more than 30% of the units of the trust and, for the purposes of this paragraph, a small business investment corporation that has not borrowed money and in which no shareholder or group of shareholders who did not deal with each other at arm's length held more than 30 per cent of the outstanding shares of any class of voting stock shall be deemed not to be a beneficiary;

(*d*) its only undertaking was the investing of its funds and its investments consisted solely of

(i) small business securities where, except as provided in subsection 5104(1), the trust was the first person (other than a broker or dealer in securities) to have acquired the securities and it has owned the securities continuously since they were so acquired,

(ii) property (other than a small business security) that is

(A) a share of the capital stock of a corporation (other than a share that is issued to the trust and that is either a share described in section 66.3 of the Act or a share in respect of which an amount has been designated under subsection 192(4) of the Act), or

(B) a put, call, warrant or other right to acquire or sell a share described by clause (A),

(iii) specified properties, or

(iv) any combination of properties described in any of subparagraphs (i) to (iii);

(*e*) it has complied with subsection (2);

(*f*) it has not borrowed money except for the purpose of earning income from its investments and the amount of any such borrowings at any time did not exceed 20 per cent of the trust capital at that time; and

(*g*) it has not accepted deposits.

History: S. 5103(1), the portion before paragraph (*a*) was replaced by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, deemed to have come into force on June 29, 2005. S. 5103(1), the portion before paragraph (*a*) formerly read:

"S. 5103. (1) For the purposes of this Part, paragraph (*d*) of the definition 'small business property' in subsection 206(1) of the Act and subsection 259(3) of the Act, a trust is a small business investment trust at any time if at all times after it was created and before that time"

S. 5103(1)(*d*)(ii) was replaced by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, deemed to have come into force on June 29, 2005. S. 5103(1)(*d*)(ii) formerly read:

"(ii) property (other than small business securities) described in any of subparagraphs (*f*)(i) to (iv) of the definition 'qualified limited partnership' in subsection 5000(7),"

Ss. 5103(1)(*d*)(ii) and (iii) were amended and (iv) was added by P.C. 1994-1074, SOR/94-471, dated June 23, 1994, applicable after 1990. Ss. 5103(1)(*d*)(ii) and (iii) formerly read:

"(ii) specified properties, or

(iii) any combination of the properties described in subparagraphs (i) and (ii);"

S. 5103(1) was added by P.C. 1986-772, SOR/86-390, dated March 26, 1986, effective after October 31, 1985.

(2) The aggregate of the cost amounts to a small business investment trust of small business securities held by it at any time shall not be less than the amount, if any, by which the aggregate of

(*a*) 25 per cent of the amount, if any, by which

(i) the aggregate of all amounts received by it more than 12 months before that time and not more than 24 months before that time as consideration for the issue of its units or in respect of its units

exceeds

(ii) the aggregate of all amounts paid by it before that time to its beneficiaries and designated by the trust as a return of the consideration referred to in subparagraph (i),

(*b*) 50 per cent of the amount, if any, by which

(i) the aggregate of all amounts received by it more than 24 months before that time and not more than 36 months before that time as consideration for the issue of its units or in respect of its units

exceeds

(ii) the aggregate of all amounts paid by it before that time to its beneficiaries and designated by the trust as a return of the consideration referred to in subparagraph (i), and

(*c*) 75 per cent of the amount, if any, by which

(i) the aggregate of all amounts received by it more than 36 months before that time as consideration for the issue of its units or in respect of its units

exceeds

(ii) the aggregate of all amounts paid by it before that time to its beneficiaries and designated by the trust as a return of the consideration referred to in subparagraph (i)

exceeds 75 per cent of the amount, if any, by which the aggregate of its losses from the disposition of properties disposed of before that time exceeds the aggregate of its gains from the disposition of properties disposed of before that time.

History: S. 5103(2) was added by P.C. 1986-772, SOR/86-390, dated March 26, 1986, effective after October 31, 1985.

(3) For the purposes of subsection (2), where a small business investment trust disposes of a small business security it shall be deemed to continue to hold the investment for a period of 90 days following the date of disposition.

History: S. 5103(3) was added by P.C. 1986-772, SOR/86-390, dated March 26, 1986, effective after October 31, 1985.

5104. (1) Notwithstanding paragraph (*b*) of the definition "qualifying obligation" in subsection 5100(1) and paragraphs 5101(1)(*b*), 5102(1)(*f*) and 5103(1)(*d*), the corporation, partnership or trust, as the case may be, may acquire a small business security that another person (other than a broker or dealer in securities) had previously acquired if

(*a*) the small business security is a share of the capital stock of an eligible corporation having full voting rights under all circumstances; and

(*b*) except where the share was acquired in specified circumstances within the meaning of subsection (2), the share was acquired from an officer or employee of the eligible corporation or a person related to the officer or employee.

History: S. 5104(1) was added by P.C. 1986-772, SOR/86-390, dated March 26, 1986, effective after October 31, 1985.

(2) For the purposes of this Part,

(*a*) where a person acquires a share of a corporation

(i) as part of a proposal to, or an arrangement with, the corporation's creditors that has been approved by a court under the *Bankruptcy and Insolvency Act* or the *Companies' Creditors Arrangement Act*,

(ii) at a time when all or substantially all of the corporation's assets were under the control of a receiver, receiver-manager, sequestrator or trustee in bankruptcy, or

(iii) at a time when, by reason of financial difficulty, the corporation was in default, or could reasonably be expected to default, on a debt obligation held by a person with whom the corporation was dealing at arm's length,

the person shall be deemed, at any time within 36 months after he acquired the share, to have acquired it in specified circumstances;

(*b*) where a person acquires a share of a corporation for the purposes of facilitating the disposition of the entire investment of the person in the corporation, the person shall be deemed, at any time within 12 months after he acquired the share, to have acquired it in specified circumstances; and

(*c*) a qualified trust (within the meaning assigned by subsection 259(3) of the Act) is deemed not to hold any property for any period in respect of which subsection 259(1) of the Act is applicable.

History: S. 5104(2)(a)(i) was amended by 1992, c. 27, s. 117(1), to change "*Bankruptcy Act*" to "*Bankruptcy and Insolvency Act*", effective June 23, 1992. S. 5104(1)(c) was added by P.C. 1990-1837, SOR/90-606, dated August 28, 1990 and applicable after October 31, 1985.

Ss. 5104(2)(a) and (b) were amended by P.C. 1986-2590, SOR/86-1092, dated November 20, 1986, to substitute "the person shall be deemed," for "he shall be deemed," applicable after October 31, 1985.

S. 5104(2) was added by P.C. 1986-772, SOR/86-390, dated March 26, 1986, effective after October 31, 1985.

(3) Where the purchaser of a property that, but for this subsection, would at the time of its acquisition be a small business security (or, where the purchaser is a partnership, a member thereof) knew at the time of acquisition that the issuer of the security would, within the immediately following 12 months, cease to qualify as an eligible corporation, the property shall be deemed never to have been a small business security of the purchaser.

History: S. 5104(3) was added by P.C. 1986-772, SOR/86-390, dated March 26, 1986, effective after October 31, 1985.

(4) Where a person who holds a share of or an interest in a corporation, partnership or trust that, but for this subsection, would be a small business investment corporation, small business investment limited partnership or small business investment trust knew at the time of issue of the share or interest, as the case may be, or at the time of making any contribution in respect of the share or interest, that

(*a*) a substantial portion of

(i) the consideration for the issue of the share or interest, or

(ii) the contribution in respect of the share or interest

would not be invested by the corporation, partnership or trust, as the case may be, directly or indirectly in small business securities, and

(*b*) all or substantially all of

(i) the consideration for the issue of the share or interest, or

(ii) the contribution in respect of the share or interest

would be returned to the purchaser within the immediately following 24 months,

the corporation, partnership or trust shall be deemed to have ceased at that time to be a small business investment corporation, small business investment limited partnership or small business investment trust.

History: S. 5104(4) was added by P.C. 1986-772, SOR/86-390, dated March 26, 1986, effective after October 31, 1985.

(5) Where, but for this subsection, a property that qualified as a small business security when it was acquired would cease at a subsequent time to so qualify, the property shall be deemed to be a small business security for the 24 months immediately following the subsequent time.

History: S. 5104(5) was added by P.C. 1986-772, SOR/86-390, dated March 26, 1986, effective after October 31, 1985.

(6) For the purposes of this Part, a partnership shall be deemed to be a person.

History: S. 5104(6) was added by P.C. 1986-772, SOR/86-390, dated March 26, 1986, effective after October 31, 1985.

PART LII

Canadian Manufacturing and Processing Profits

Basic Formula

5200. Subject to section 5201, for the purposes of paragraph 125.1(3)(*a*) [subsection 125.1(3) "Canadian manufacturing and processing profits"] of the Act, "Canadian manufacturing and processing profits" of a corporation for a taxation year are hereby prescribed to be that proportion of the corporation's adjusted business income for the year that

(*a*) the aggregate of its cost of manufacturing and processing capital for the year and its cost of manufacturing and processing labour for the year,

is of

(*b*) the aggregate of its cost of capital for the year and its cost of labour for the year.

Interpretation Bulletins: *Secondary* — IT-145R (Consolid.) Canadian manufacturing and processing profits — Reduced rate of corporate tax.

Forms: T2 SCH 27.

Small Manufacturers' Rule

5201. For the purposes of paragraph 125.1(3)(*a*) [subsection 125.1(3) "Canadian manufacturing and processing profits"] of the Act, "Canadian manufacturing and processing profits" of a corporation for a taxation year are hereby prescribed to be equal to the corporation's adjusted business income for the year where

(*a*) the activities of the corporation during the year were primarily manufacturing or processing in Canada of goods for sale or lease;

(*b*) the aggregate of

(i) the aggregate of all amounts each of which is the income of the corporation for the year from an active business minus the aggregate of all

amounts each of which is the loss of the corporation for the year from an active business, and

(ii) if the corporation is associated in the year with a Canadian corporation, the aggregate of all amounts each of which is the income of the latter corporation from an active business for its taxation year coinciding with or ending in the year,

did not exceed $200,000;

(*c*) the corporation was not engaged in any of the activities listed in subparagraphs 125.1(3)(*b*)(i) to (ix) [subsection 125.1(3) "manufacturing or processing"] of the Act at any time during the year;

(*c*.1) the corporation was not engaged in the processing of ore (other than iron ore or tar sands) from a mineral resource located outside Canada to any stage that is not beyond the prime metal stage or its equivalent;

(*c*.2) the corporation was not engaged in the processing of iron ore from a mineral resource located outside Canada to any stage that is not beyond the pellet stage or its equivalent;

(*c*.3) the corporation was not engaged in the processing of tar sands located outside Canada to any stage that is not beyond the crude oil stage or its equivalent; and

(*d*) the corporation did not carry on any active business outside Canada at any time during the year.

History: Ss. 5201(c.1), (c.2) and (c.3) were added by P.C. 1994-230, SOR/94-169, dated February 10, 1994, applicable to the 1990 and subsequent taxation years.

S. 5201(*b*) was amended to substitute "$200,000" for "$50,000" by P.C. 1982-3198, SOR/82-950, dated October 22, 1982, and applicable with respect to the 1982 and subsequent taxation years.

Interpretation Bulletins: *Secondary* — IT-145R (Consolid.) Canadian manufacturing and processing profits — Reduced rate of corporate tax.

INTERPRETATION

5202. In this Part, except as otherwise provided in section 5203 or 5204,

"*adjusted business income*" of a corporation for a taxation year means the amount, if any, by which

(*a*) the aggregate of all amounts each of which is the income of the corporation for the year from an active business carried on in Canada

exceeds

(*b*) the aggregate of all amounts each of which is the loss of the corporation for the year from an active business carried on in Canada;

"*Canadian resource profits*" has the meaning that would be assigned to the expression "resource profits" by section 1204 if

(*a*) section 1204 were read without reference to subparagraph 1204(1)(*b*)(iv), and

(*b*) the definition "resource activity" in subsection 1206(1) were read without reference to paragraph (*d*) of that definition;

History: S. 5202, the definition of "Canadian resource profits", was amended by P.C. 1996-1488, SOR/96-451, dated September 24, 1996, applicable to taxation years that begin after December 20, 1991. That definition formerly read:

"'Canadian resource profits' has the meaning that would be assigned to the expression 'resource profits' by subsection 1204(1) if that subsection were read without reference to subparagraph (*b*)(iv) thereof;"

S. 5202, the definition of "Canadian resource profits", was added by P.C. 1994-230, SOR/94-169, dated February 10, 1994, applicable to the 1990 and subsequent taxation years.

"*cost of capital*" of a corporation for a taxation year means an amount equal to the aggregate of

(*a*) 10 per cent of the aggregate of all amounts each of which is the gross cost to the corporation of a property referred to in paragraph 1100(1)(*e*), (*f*), (*g*) or (*h*), paragraph 1102(1)(*d*) or (*g*) or Schedule II that

(i) was owned by the corporation at the end of the year, and

(ii) was used by the corporation at any time during the year, and

(*b*) the aggregate of all amounts each of which is the rental cost incurred by the corporation during the year for the use of any property a portion of the gross cost of which would be included by virtue of paragraph (*a*) if the property were owned by the corporation at the end of the year,

but for the purposes of this definition, the gross cost of a property or rental cost for the use of any property does not include that portion of those costs that reflects the extent to which the property was used by the corporation during the year

(*c*) in an active business carried on outside Canada, or

(*d*) to earn Canadian investment income or foreign investment income as defined in subsection 129(4) of the Act;

"*cost of labour*" of a corporation for a taxation year means an amount equal to the aggregate of

(*a*) the salaries and wages paid or payable during the year to all employees of the corporation for services performed during the year, and

(*b*) all other amounts each of which is an amount paid or payable during the year for the performance during the year, by any person other than an employee of the corporation, of functions relating to

(i) the management or administration of the corporation,

(ii) scientific research and experimental development, or

(iii) a service or function that would normally be performed by an employee of the corporation,

but for the purposes of this definition, the salaries and wages referred to in paragraph (*a*) or other amounts referred to in paragraph (*b*) do not include that portion of those amounts that

(*c*) was included in the gross cost to the corporation of a property (other than a property that was manufactured by the corporation and leased during the year by the corporation to another person) that was included in computing the cost of capital of the corporation for the year, or

(*d*) was related to an active business carried on outside Canada by the corporation;

History: S. 5202, subparagraph (*b*)(ii) of the definition "cost of labour" was amended by P.C. 2000-1095, SOR/2000-296, dated July 27, 2000, applicable to costs incurred after February 27, 1995. S. 5202, subparagraph (*b*)(ii) of the definition "cost of labour" formerly read:

"(ii) scientific research as defined in section 2900, or"

"*cost of manufacturing and processing capital*" of a corporation for a taxation year means 100/85 of that portion of the cost of capital of the corporation for that year that reflects the extent to which each property

included in the calculation thereof was used directly in qualified activities of the corporation during the year, but the amount so calculated shall not exceed the cost of capital of the corporation for the year;

"*cost of manufacturing and processing labour*" of a corporation for a taxation year means 100/75 of that portion of the cost of labour of the corporation for that year that reflects the extent to which

(*a*) the salaries and wages included in the calculation thereof were paid or payable to persons for the portion of their time that they were directly engaged in qualified activities of the corporation during the year, and

(*b*) the other amounts included in the calculation thereof were paid or payable to persons for the performance of functions that would be directly related to qualified activities of the corporation during the year if those persons were employees of the corporation,

but the amount so calculated shall not exceed the cost of labour of the corporation for the year;

"*gross cost*" to a particular person of a property at any time means, in respect of property that has become available for use by the particular person for the purposes of subsection 13(26) of the Act, the capital cost to the particular person of the property computed without reference to subsections 13(7.1), (7.4) and (10), sections 21 and 80 and paragraph 111(4)(*e*) of the Act and, in respect of any other property, nil, and where the particular person acquired the property

(*a*) in the course of a reorganization in respect of which, if a dividend were received by the particular person in the course of the reorganization, subsection 55(2) of the Act would not apply to the dividend by reason of the application of paragraph 55(3)(*b*) of the Act, or

(*b*) from another person with whom the particular person was not dealing at arm's length (otherwise than by reason of a right referred to in paragraph 251(5)(*b*) of the Act) immediately after the property was acquired,

the capital cost to the particular person of the property for the purposes of this definition shall be computed as if the property had been acquired at a capital cost equal to the gross cost of the property to the person from whom the property was acquired by the particular person;

History: S. 5202, the definition of "gross cost", was amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to the 1985 and subsequent taxation years, except that

(*a*) where the taxpayer so elects by notifying the Minister of National Revenue in writing on or before the day on or before which the taxpayer is, or would be if a tax under Part I of the *Income Tax Act* were payable by the taxpayer, required by section 150 of that Act to file a return of income for the taxpayer's first taxation year ending after the day on which these amendments are published in the *Canada Gazette* Part II (February 9, 1994),

(i) for taxation years ending before January 16, 1987, the definition "gross cost" shall be read without reference to the words "and paragraph 111(4)(*e*)", and

(ii) for taxation years ending before the day on which these amendments are published in the *Canada Gazette* Part II (February 9, 1994), all that portion of the definition "gross cost" preceding paragraph (*a*) thereof shall be read as follows:

"'gross cost' to a particular person of a property at any time means the capital cost to the particular person of the property computed without reference to subsections 13(7.1), (7.4) and (10), sections 21 and 80 and paragraph 111(4)(*e*) of the Act and, where the particular person acquired the property"

(*b*) for taxation years ending before January 16, 1987 where the taxpayer has not elected under paragraph (*a*), the definition "gross cost" shall be read as follows:

"'gross cost' of a property means the capital cost of the property computed without reference to subsections 13(7.1), (7.4) and (10) and sections 21 and 80 of the Act;"

(*c*) for taxation years ending after January 15, 1987 and before the day on which these amendments are published in the *Canada Gazette* Part II (February 9, 1994), where the taxpayer has not elected under paragraph (*a*), the definition "gross cost" shall be read as follows:

"'gross cost' of a property means the capital cost of the property computed without reference to subsections 13(7.1), (7.4) and (10), sections 21 and 80 and paragraph 111(4)(*e*) of the Act;"

The definition formerly read:

"'gross cost' of a property means the capital cost of the property computed without reference to subsection 13(7.1) or (10) or section 21 or 80 of the Act;"

"*qualified activities*" means

(*a*) any of the following activities, when they are performed in Canada in connection with manufacturing or processing (not including the activities listed in subparagraphs 125.1(3)(*b*)(i) to (ix) [subsection 125.1(3) "manufacturing or processing"] of the Act) in Canada of goods for sale or lease:

(i) engineering design of products and production facilities,

(ii) receiving and storing of raw materials,

(iii) producing, assembling and handling of goods in process,

(iv) inspecting and packaging of finished goods,

(v) line supervision,

(vi) production support activities including security, cleaning, heating and factory maintenance,

(vii) quality and production control,

(viii) repair of production facilities, and

(ix) pollution control,

(*b*) all other activities that are performed in Canada directly in connection with manufacturing or processing (not including the activities listed in subparagraphs 125.1(3)(*b*)(i) to (ix) [subsection 125.1(3) "manufacturing or processing"] of the Act) in Canada of goods for sale or lease, and

(*c*) scientific research and experimental development, as defined in section 2900, carried on in Canada,

but does not include any of

(*d*) storing, shipping, selling and leasing of finished goods,

(*e*) purchasing of raw materials,

(*f*) administration, including clerical and personnel activities,

(*g*) purchase and resale operations,

(*h*) data processing, and

(*i*) providing facilities for employees, including cafeterias, clinics and recreational facilities;

History: Paragraph (*c*) of the definition "qualified activities" was amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable with respect to scientific research and experimental development done or carried on after December 23, 1991, other than scientific research and experimental development done or carried on by or on behalf of a taxpayer pursuant to an agreement in writing entered into by the taxpayer before December 24, 1991. The paragraph formerly read:

"(*c*) scientific research as defined in section 2900,"

"*rental cost*" of a property means the rents incurred for the use of that property;

"*resource profits*" has the meaning assigned by section 1204;

History: S. 5202, the definition "resource profits", was amended by P.C. 1996-1488, SOR/96-451, dated September 24, 1996, to replace the phrase "subsection 1204(1)" with the phrase "section 1204", applicable to taxation years that begin after December 20, 1991.

S. 5202, the definition "resource profits", was added by P.C. 1994-230, SOR/94-169, dated February 10, 1994, applicable to 1990 and subsequent taxation years.

"*salaries and wages*" means salaries, wages and commissions, but does not include any other type of remuneration, any superannuation or pension benefits, any retiring allowances or any amount referred to in section 6 or 7 of the Act.

"*specified percentage*" for a taxation year means

(*a*) where the year commences after 1998, 100%, and

(*b*) in any other case, the total of

(i) that proportion of 10% that the number of days in the year that are in 1990 is of the number of days in the year,

(ii) that proportion of 20% that the number of days in the year that are in 1991 is of the number of days in the year,

(iii) that proportion of 30% that the number of days in the year that are in 1992 is of the number of days in the year,

(iv) that proportion of 50% that the number of days in the year that are in 1993 is of the number of days in the year,

(v) that proportion of 64.3% that the number of days in the year that are in 1994 is of the number of days in the year,

(vi) that proportion of 71.4% that the number of days in the year that are in 1995 is of the number of days in the year,

(vii) that proportion of 78.6% that the number of days in the year that are in 1996 is of the number of days in the year,

(viii) that proportion of 85.7% that the number of days in the year that are in 1997 is of the number of days in the year,

(ix) that proportion of 92.9% that the number of days in the year that are in 1998 is of the number of days in the year, and

(x) that proportion of 100% that the number of days in the year that are in 1999 is of the number of days in the year.

History: S. 5202, the definition "specified percentage", was added by P.C. 1994-230, SOR/94-169, dated February 10, 1994, applicable to 1990 and subsequent taxation years.

Interpretation Bulletins: *Secondary* — IT-145R (Consolid.) Canadian manufacturing and processing profits — Reduced rate of corporate tax.

RESOURCE INCOME

5203. (1) Where a corporation has resource activities for a taxation year the following rules apply, except as otherwise provided in section 5204:

"*adjusted business income*" of the corporation for the year means the amount, if any, by which

(*a*) the amount otherwise determined under section 5202 to be the adjusted business income of the corporation for the year

exceeds the total of

(*b*) the amount, if any, by which the corporation's net resource income for the year exceeds the corporation's net resource adjustment for the year, and

(*c*) all amounts each of which is an amount in respect of refund interest included in computing the taxpayer's income for the year, to the extent that the amount is included in the amount determined to be the adjusted business income, within the meaning of section 5202, of the corporation for the year;

(*d*) [Repealed.]

History: S. 5203(1), paragraph (*d*) of the definition "adjusted business income" was repealed by P.C. 2007-114, SOR/2007-19, dated February 1, 2007, applicable to taxation years that begin after 2006. S. 5203(1), paragraph (*d*) of the definition "adjusted business income" formerly read:

"(*d*) all amounts each of which is included under paragraph 12(1)(z5) of the Act in computing the taxpayer's income for the year;"

S. 5203(1), paragraph (*d*) of the definition "adjusted business income" was added by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable to taxation years that begin after 1996.

S. 5203(1), paragraph (*b*) of the definition "adjusted business income" was amended by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable to taxation years that begin after December 20, 1991. S. 5203(1), paragraph (*b*) of the definition "adjusted business income" formerly read:

"(*b*) the net resource income of the corporation for the year, and"

S. 5203(1), that portion of the definition "adjusted business income" after paragraph (*a*), was amended by P.C. 1996-1488, SOR/96-451, dated September 24, 1996, applicable to taxation years that end after March 6, 1996. That portion formerly read:

exceeds

"(*b*) the net resource income of the corporation for the year;"

"*cost of capital*" of the corporation for the year means the amount, if any, by which

(*a*) the amount otherwise determined under section 5202 to be the cost of capital of the corporation for the year

exceeds

(*b*) that portion of the gross cost of property or rental cost for the use of property included in computing the cost of capital of the corporation for the year that reflects the extent to which the property was used by the corporation during the year,

(i) in activities engaged in for the purpose of earning Canadian resource profits of the corporation, or

(ii) in activities referred to in subparagraph 66(15)(*b*)(i), (ii) or (v) [subsection 66(15) "Canadian exploration and development expenses"], subparagraph 66(15)(*e*)(i) or (ii) [subsection 66(15) "Canadian exploration and development expenses"], subparagraph 66.1(6)(*a*)(i), (ii), (iii) or (v) [subsection 66(15) "Canadian exploration and development expenses"] or subparagraph 66.2(5)(*a*)(i), (ii) or (v) [subsection 66(15) "Canadian exploration and development expenses"] of the Act;

History: Subparagraph (*b*)(i) of the definition "cost of capital" was amended by P.C. 1994-230, SOR/94-169, dated February 10, 1994, applicable to 1990 and subsequent taxation years. The subparagraph formerly read:

"(i) in activities engaged in for the purpose of earning resource profits (within the meaning assigned by section 1204) of the corporation, or"

Subparagraph (*b*)(ii) of the definition "cost of capital" was amended by Order in Council P.C. 1978-1315, SOR/78-377, April 24, 1978 (Special Issue, *Canada Gazette*, December 31, 1978), to change "subparagraph 66.2(5)(*a*)(i)(ii) or (vi)" to "subparagraph 66.2(5)(*a*)(i), (ii) or (v)" effective on and after May 7, 1974.

"*cost of labour*" of the corporation for the year means the amount, if any, by which

(*a*) the amount otherwise determined under section 5202 to be the cost of labour of the corporation for the year

exceeds

(*b*) that portion of the salaries and wages and other amounts included in computing the cost of labour of the corporation for the year that,

(i) was related to the activities engaged in for the purpose of earning Canadian resource profits of the corporation, or

(ii) was included in the Canadian exploration and development expenses, foreign exploration and development expenses, Canadian exploration expense or Canadian development expense, within the meanings assigned by paragraphs 66(15)(*b*) and (*e*) [subsection 66(15) "Canadian exploration and development expenses", and "foreign exploration and development expenses"], 66.1(6)(*a*) [subsection 66(15) "Canadian exploration expense"] and 66.2(5)(*a*) [subsection 66(15) "Canadian development expense"] of the Act respectively, of the corporation.

History: Subparagraph (*b*)(i) of the definition "cost of labour" was amended by P.C. 1994-230, SOR/94-169, dated February 10, 1994, applicable to the 1990 and subsequent taxation years. The subparagraph formerly read:

"(i) was related to the activities engaged in for the purpose of earning resource profits (within the meaning assigned by section 1204) of the corporation, or"

(2) For the purposes of subsection (1), a corporation has "resource activities" for a taxation year if

(*a*) in computing its income for the year, an amount is deductible pursuant to any of sections 65 to 66.2 of the Act;

(*b*) the corporation was at any time during the year engaged in activities for the purpose of earning resource profits of the corporation; or

(*c*) in computing the corporation's income for the year, an amount was included pursuant to section 59 of the Act.

History: S. 5203(2)(*a*) was replaced by P.C. 2007-114, SOR/2007-19, dated February 1, 2007, applicable to taxation years that begin after 2006. S. 5203(2)(*a*) formerly read:

"(*a*) in computing its income for the year, an amount is deductible pursuant to paragraph 20(1)(*v.1*) or section 65, 66, 66.1 or 66.2 of the Act;"

S. 5203(2)(*b*) was amended by P.C. 1994-230, SOR/94-169, dated February 10, 1994, to delete the words "(within the meaning assigned by section 1204)" after the words "resource profits", applicable to 1990 and subsequent taxation years.

(3) In subsection (1), "net resource income" of a corporation for a taxation year means the amount, if any, by which the total of

(*a*) the resource profits of the corporation for the year, and

(*b*) the amount, if any, by which

(i) the total of amounts included in computing the income of the corporation for the year, from an active business carried on in Canada, pursuant to section 59 of the Act (other than amounts that may reasonably be regarded as having been included in computing the resource profits of the corporation for the year),

exceeds

(ii) the total of amounts deducted in computing the income of the corporation for the year under section 64 of the Act, as that section applies with respect to dispositions occurring before November 13, 1981 and to dispositions occurring after November 12, 1981 pursuant to the terms in existence on that date of an offer or agreement in writing made or entered into on or before that date, except those amounts that may reasonably be regarded as having been deducted in computing the resource profits of the corporation for the year,

exceeds the total of

(*c*) the total of amounts deducted in computing the income of the corporation for the year under section 65 of the Act (other than amounts that may reasonably be regarded as having been deducted in computing the resource profits of the corporation for the year), and

(*d*) the specified percentage for the year of the amount, if any, by which

(i) the corporation's resource profits for the year

exceeds the total of

(ii) the corporation's Canadian resource profits for the year, and

(iii) the earned depletion base (within the meaning assigned by subsection 1205(1)) of the corporation at the beginning of its immediately following taxation year.

History: S. 5203(3) was amended by P.C. 1994-230, SOR/94-169, dated February 10, 1994, applicable to 1990 and subsequent taxation years. The subsection formerly read:

"(3) In subsection (1), 'net resource income' of a corporation for a taxation year means the amount, if any, by which the aggregate of

(*a*) the resource profits (within the meaning assigned by section 1204) of the corporation for the year, and

(*b*) the amount, if any, by which

(i) the aggregate of amounts included in computing the income of the corporation for the year, from an active business carried on in Canada, pursuant to section 59 of the Act (other than amounts that may reasonably be regarded as having been included in computing the resource profits referred to in paragraph (*a*)),

exceeds

(ii) the aggregate of amounts deducted in computing the income of the corporation for the year pursuant to section 64 of the Act (other than amounts that may reasonably be regarded as having been deducted in computing the resource profits referred to in paragraph (*a*)),

exceeds

(*c*) the aggregate of amounts deducted in computing the income of the corporation for the year pursuant to section 65 of the Act (other than amounts that may reasonably be regarded as having been deducted in computing the resource profits referred to in paragraph (*a*)).""

Interpretation Bulletins: *Secondary* — IT-145R (Consolid.) Canadian manufacturing and processing profits — Reduced rate of corporate tax.

(3.1) In subsection (1), the net resource adjustment of a corporation for a taxation year is the amount determined by the formula

$$A - B$$

where

A is the amount of Canadian resource profits of the corporation for the year, and

B is the amount that would be the Canadian resource profits of the corporation for the year if

(*a*) subsections 1204(1) and (1.1) provided for the computation of negative amounts where the amounts subtracted in computing gross resource profits (as defined by subsection 1204(1)) and resource profits exceed the amounts added in computing those amounts, and

(*b*) paragraph 1206(3)(*a*) applied so that a negative amount of resource profits of a partnership for a

fiscal period that ended in the year were, to the extent of the corporation's share thereof, deducted in computing the corporation's resource profits for the year.

History: S. 5203(3.1) was added by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable to taxation years that begin after December 20, 1991.

(4) For the purpose of subsection (1), "refund interest" means an amount that is received, or that becomes receivable, after March 6, 1996 from an authority (including a government or municipality) situated in Canada as a consequence of the overpayment of a tax that was not deductible under the Act in computing any taxpayer's income and that was imposed by an Act of Canada or a province or a bylaw of a municipality.

History: S. 5203(4) was replaced by P.C. 2007-114, SOR/2007-19, dated February 1, 2007, applicable to taxation years that begin after 2006. S. 5203(4) formerly read:

"(4) For the purpose of subsection (1), 'refund interest' means an amount that is received, or that becomes receivable, after March 6, 1996

(*a*) from an authority (including a government or municipality) situated in Canada as a consequence of the overpayment of a tax that was not deductible under the Act in computing any taxpayer's income and that was imposed by an Act of Canada or a province or a bylaw of a municipality;

(*b*) from a person described in subparagraph 18(1)(*m*)(i), (ii) or (iii) of the Act as a consequence of the overpayment of an amount that, because of paragraph 18(1)(*m*) of the Act, was not deductible under the Act in computing any taxpayer's income; or

(*c*) from a person described in subparagraph 18(1)(*m*)(i), (ii) or (iii) of the Act as a consequence of the receipt of an amount that was in excess of the amount to which the person was entitled and in respect of an amount that was required to be included in computing any taxpayer's income because of paragraph 12(1)(*o*) of the Act."

S. 5203(4) was added by P.C. 1996-1488, SOR/96-451, dated September 24, 1996, applicable to taxation years that end after March 6, 1996.

Partnerships

5204. Where a corporation is a member of a partnership at any time in a taxation year of the corporation, the following rules apply:

"*cost of capital*" of the corporation for the year means an amount equal to the aggregate of

(*a*) 10 per cent of the aggregate of all amounts each of which is the gross cost to the corporation of a property referred to in paragraph 1100(1)(*e*), (*f*), (*g*) or (*h*), paragraph 1102(1)(*d*) or (*g*) or Schedule II that

(i) was owned by the corporation at the end of the year, and

(ii) was used by the corporation at any time during the year,

(*b*) the aggregate of all amounts each of which is the rental cost incurred by the corporation during the year for the use of any property a portion of the gross cost of which would be included by virtue of paragraph (*a*) if the property were owned by the corporation at the end of the year, and

(*c*) that proportion of the aggregate of the amounts that would be determined under paragraphs (*a*) and (*b*) in respect of the partnership for its fiscal period coinciding with or ending in the taxation year of the corporation if the references in those paragraphs to "the corporation" were read as references to "the partnership" and the references in those paragraphs to "the year" were read as references to "the fiscal period of the partnership coinciding with or ending in the year", that

(i) the corporation's share of the income or loss of the partnership for that fiscal period

is of

(ii) the income or loss of the partnership for that fiscal period, as the case may be,

but for the purposes of this definition, the gross cost of a property or rental cost for the use of any property does not include that portion of those costs that reflects the extent to which the property was used by the corporation during the year or by the partnership during its fiscal period coinciding with or ending in the year

(*d*) in an active business carried on outside Canada,

(*e*) to earn Canadian investment income or foreign investment income as defined in subsection 129(4) of the Act on the assumption that subsection 129(4) of the Act applied to a partnership as well as to a corporation,

(*f*) in activities engaged in for the purpose of earning Canadian resource profits of the corporation or the partnership, as the case may be, or

(*g*) in activities referred to in subparagraph 66(15)(*b*)(i), (ii) or (v) [subsection 66(15) "foreign exploration and development expenses"], subparagraph 66(15)(*e*)(i) or (ii) [subsection 66(15) "foreign exploration and development expenses"], subparagraph 66.1(6)(*a*)(i), (ii), (iii) or (v) [subsection 66.1(6) "Canadian exploration expense"] or subparagraph 66.2(5)(*a*)(i), (ii) or (v) [subsection 66.2(5) "Canadian development expense"] of the Act;

History: Paragraph (*f*) of the definition "cost of capital" was amended by P.C. 1994-230, SOR/94-169, dated February 10, 1994, applicable to 1990 and subsequent taxation years. The paragraph formerly read:

"(*f*) in activities engaged in for the purpose of earning resource profits (within the meaning assigned by section 1204) of the corporation or the partnership, as the case may be, or"

Paragraph (*g*) of the definition "cost of capital" was amended by P.C. 1978-1315, SOR/78-377, April 24, 1978 (Special Issue, *Canada Gazette*, December 31, 1978), to change "subparagraph 66.2(5)(*a*)(i), (ii) or (vi)" to "subparagraph 66.2(5)(*a*)(i), (ii) or (v)", effective on and after May 7, 1974.

"*cost of labour*" of the corporation for the year means an amount equal to the aggregate of

(*a*) the salaries and wages paid or payable during the year to all employees of the corporation for services performed during the year,

(*b*) all other amounts each of which is an amount paid or payable during the year for the performance during the year, by any person other than an employee of the corporation, of functions relating to

(i) the management or administration of the corporation,

(ii) scientific research as defined in section 2900, or

(iii) a service or function that would normally be performed by an employee of the corporation, and

(*c*) that proportion of the aggregate of the amounts that would be determined under paragraphs (*a*) and (*b*) in respect of the partnership for its fiscal period coinciding with or ending in the taxation year of the corporation if the references in those paragraphs to "the corporation" were read as references to "the partnership" and the references in those paragraphs to "the year" were read as references to "the fiscal period of the partnership coinciding with or ending in the year", that

(i) the corporation's share of the income or loss of the partnership for that fiscal period

is of

(ii) the income or loss of the partnership for that fiscal period, as the case may be,

but for the purposes of this definition, the salaries and wages referred to in paragraph (*a*) or other amounts referred to in paragraph (*b*), of the corporation or the partnership, as the case may be, do not include that portion of those amounts that

(*d*) was included in the gross cost to the corporation or partnership of a property (other than a property that was manufactured by the corporation or partnership and leased during the year by the corporation or the partnership to another person) that was included in computing the cost of capital of the corporation for the year,

(*e*) was related to an active business carried on outside Canada by the corporation or the partnership,

(*f*) was related to the activities engaged in for the purpose of earning Canadian resource profits of the corporation or the partnership, as the case may be, or

(*g*) was included in the Canadian exploration and development expenses, foreign exploration and development expenses, Canadian exploration expense or Canadian development expense, within the meanings assigned by paragraphs 66(15)(*b*) [subsection 66(15) "Canadian exploration and development expenses"] and (*e*) [subsection 66(15) "foreign exploration and development expenses"], 66.1(6)(*a*) [subsection 66.1(6) "Canadian exploration expense"] and 66.2(5)(*a*) [subsection 66.2(5) "Canadian development expense"] of the Act respectively, of the corporation;

History: Paragraph (*f*) of the definition "cost of labour" was amended by P.C. 1994-230, SOR/94-169, dated February 10, 1994, applicable to the 1990 and subsequent taxation years. The paragraph formerly read:

"(*f*) was related to the activities engaged in for the purpose of earning resource profits (within the meaning assigned by section 1204) of the corporation or the partnership, as the case may be, or"

"*cost of manufacturing and processing capital*" of the corporation for the year means 100/85 of that portion of the cost of capital of the corporation for that year that reflects the extent to which each property included in the calculation thereof was used directly in qualified activities

(*a*) of the corporation during the year, or

(*b*) of the partnership during its fiscal period coinciding with or ending in the year, as the case may be,

but the amount so calculated shall not exceed the cost of capital of the corporation for the year;

"*cost of manufacturing and processing labour*" of the corporation for the year means 100/75 of that portion of the cost of labour of the corporation for that year that reflects the extent to which

(*a*) the salaries and wages included in the calculation thereof were paid or payable to persons for the portion of their time that they were directly engaged in qualified activities

(i) of the corporation during the year, or

(ii) of the partnership during its fiscal period coinciding with or ending in the year, and

(*b*) the other amounts included in the calculation thereof were paid or payable to persons for the performance of functions that would be directly related to qualified activities

(i) of the corporation during the year, or

(ii) of the partnership during its fiscal period coinciding with or ending in the year,

if those persons were employees of the corporation or the partnership, as the case may be,

but the amount so calculated shall not exceed the cost of labour of the corporation for the year;

"*gross cost*" of a property at any time means

(*a*) in respect of a property that has become available for use by the partnership for the purposes of subsection 13(26) of the Act, the capital cost to the partnership of the property computed without reference to subsections 13(7.1), (7.4) and (10) and sections 21 and 80 of the Act, and

(*b*) in respect of any other property of the partnership, nil,

and, for the purposes of paragraph (*a*), where the partnership acquired the property from a person who was a majority interest partner of the partnership (within the meaning assigned by subsection 97(3.1) of the Act) immediately after the property was acquired, the capital cost to the partnership of the property shall be computed as if the property had been acquired at a capital cost equal to the gross cost to the person of the property, except that where the property was partnership property on December 31, 1971, its gross cost shall be its capital cost to the partnership as determined under subsection 20(3) or (5) of the *Income Tax Application Rules*.

History: S. 5204, the definition "gross cost", was amended by P.C. 1994-1817, SOR/94-686, dated November 7, 1994,by replacing the words "Income Tax Application Rules, 1971" with "Income Tax Application Rules", applicable November 7, 1994.

S. 5204, the definition "gross cost", was amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to the 1985 and subsequent taxation years, except that

(*a*) where the taxpayer so elects by notifying the Minister of National Revenue in writing on or before the day on or before which the taxpayer is, or would be if a tax under Part I of the *Income Tax Act* were payable by the taxpayer, required by section 150 of that Act to file a return of income for the taxpayer's first taxation year ending after the day on which these amendments are published in the *Canada Gazette* Part II (February 9, 1994), for taxation years ending before the day on which these amendments are published in the *Canada Gazette* Part II (February 9, 1994), the definition "gross cost" shall be read as follows:

"'gross cost' of a property at any time means in respect of a property of the partnership, the capital cost to the partnership of the property computed without reference to subsections 13(7.1), (7.4) and (10) and sections 21 and 80 of the Act, and, where the partnership acquired the property from a person who was a majority interest partner of the partnership (within the meaning assigned by subsection 97(3.1) of the Act) immediately after the property was acquired, the capital cost to the partnership of the property shall be computed as if the property had been acquired at a capital cost equal to the gross cost to the person of the property, except that where the property was partnership property on December 31, 1971, its gross cost shall be its capital cost to the partnership as determined under subsection 20(3) or (5) of the *Income Tax Application Rules, 1971*."

(*b*) for taxation years ending before January 16, 1987 where the taxpayer has not elected under paragraph (*a*), (ii) the definition "gross cost" shall be read as follows:

"'gross cost' of a property means the capital cost of the property computed without reference to subsections 13(7.1), (7.4) and (10) and sections 21 and 80 of the Act, except that where a property was partnership property on December 31, 1971, its gross cost shall be its capital cost to the partnership as determined under subsection 20(3) or (5) of the *Income Tax Application Rules, 1971*."

(*c*) for taxation years ending after January 15, 1987 and before the day on which these amendments are published in the *Canada Gazette* Part II

(February 9, 1994), where the taxpayer has not elected under paragraph (*a*), the definition "gross cost" shall be read as follows:

" 'gross cost' of a property means the capital cost of the property computed without reference to subsections 13(7.1), (7.4) and (10), sections 21 and 80 and paragraph 111(4)(*e*) of the Act, except that where a property was partnership property on December 31, 1971, its gross cost shall be its capital cost to the partnership, as determined under subsection 20(3) or (5) of the *Income Tax Application Rules, 1971*."

The definition formerly read:

" 'gross cost' of a property means the capital cost of the property computed without reference to subsection 13(7.1) or (10) or section 21 or 80 of the Act except that where a property was partnership property on December 31, 1971, its gross cost shall be its capital cost to the partnership as determined under subsection 20(3) or (5) of the *Income Tax Application Rules, 1971*, whichever is applicable."

Interpretation Bulletins: *Secondary* — IT-145R (Consolid.) Canadian manufacturing and processing profits — Reduced rate of corporate tax.

PART LIII
Instalment Base

INDIVIDUALS

5300. For the purposes of subsections 155(2), 156(3) and 161(9) of the Act, the instalment base of an individual for a taxation year is the amount by which

(*a*) the individual's tax payable under Part I of the Act for the year, determined before taking into consideration the specified future tax consequences for the year,

exceeds

(*b*) the amount deemed by subsection 120(2) of the Act to have been paid on account of the individual's tax under Part I of the Act for the year, determined before taking into consideration the specified future tax consequences for the year.

History: S. 5300 was amended by P.C. 1999-196, SOR/99-92, dated February 11, 1999, applicable for the purpose of computing instalments of tax payable for the 1997 and subsequent taxation years. S. 5300 formerly read:

"S. 5300. (1) For the purposes of subsections 155(2) and 156(3) of the Act, the instalment base of an individual for the 1977 and subsequent taxation years shall be the amount by which the aggregate of

(*a*) the tax payable by him for the taxation year under Part I of the Act, computed without reference to sections 127.2 and 127.3 thereof and before taking into consideration any amount referred to in any of subparagraphs 161(7)(*a*)(i) to (vii) thereof that was excluded or deducted, as the case may be, for the year, and

(*b*) the amount deducted by him for the taxation year under subsection 127(13) of the Act

exceeds the aggregate of

(*c*) the amount estimated by him to be his deduction under subsection 127(13) of the Act for the immediately following taxation year, and

(*d*) the amount deemed by subsection 120(2) of the Act to be an amount paid on account of his tax under Part I of the Act for the taxation year.

(2) For the purposes of subsection 161(9) of the Act, the instalment base of an individual for the 1977 and subsequent taxation years shall have the meaning prescribed by subsection (1) if paragraph (*c*) thereof were read as 'the amount deducted by him under subsection 127(13) of the Act for the immediately following taxation year'."

S. 5300(2) was amended by P.C. 1986-2590, SOR/86-1092, dated November 20, 1986, to delete "as it relates to paragraph 161(4)(*d*)" following "subsection 161(9)".

S. 5300(1)(*a*) was amended by P.C. 1985-2277, SOR/85-696, dated July 25, 1985, to add the portion following "Part I of the Act", applicable with respect to:

(*a*) amounts deducted under sections 127.2 and 127.3 of the Act in respect of shares, debt obligations and rights acquired after February 15, 1984, other than shares, debt obligations or rights acquired before March 1, 1984 where arrangements, evidenced in writing, for the issue of shares or debt obligations or granting of the rights were substantially advanced before February 16, 1984; and

(*b*) amounts referred to in subparagraphs 161(7)(*a*)(i) to (vii) for subsequent taxation years ending after August 7, 1985.

S. 5300(1), the part following paragraph (*b*), was revoked and replaced by P.C. 1981-2931, SOR/81-855, dated October 26, 1981 and applicable to the 1980 and subsequent taxation years to add "the aggregate of" after "exceeds" in the line following paragraph (*b*), and to add paragraph (*d*).

S. 5300(1) was revoked and replaced by P.C. 1978-1003, SOR/78-325, dated April 11, 1978, applicable to the 1977 and subsequent taxation years. S. 5300(1) formerly read:

"(1) Subject to subsection (2), for the purposes of subsections 155(2) and 156(3) of the Act, the instalment base of an individual for a taxation year shall be the amount of the tax payable by him for the year under Part I of the Act."

S. 5300(2) was revoked and replaced by P.C. 1978-1003, SOR/78-325, dated April 11, 1978, applicable to the 1977 and subsequent taxation years. S. 5300(2) formerly read:

"(2) In determining the instalment base of an individual for the 1971 taxation year, a reference in subsection (1) to the expression 'Part I of the Act' shall be read and construed as a reference to the expression 'Parts I, IA and IB of the Act as they read in their application to the 1971 taxation year and subsection 24(3) of the *Old Age Security Act* as it read before being amended by Chapter 63, S.C. 1970-71-72'."

CORPORATIONS UNDER PART I OF THE ACT

5301. (1) Subject to subsections (6) and (8), for the purposes of subsections 157(4) and 161(9) of the Act, the first instalment base of a corporation for a particular taxation year means the product obtained when the aggregate of

(*a*) the tax payable under Part I of the Act by the corporation for its taxation year preceding the particular year, and

(*b*) the total of the taxes payable by the corporation under Parts I.3, VI and VI.1 of the Act for its taxation year preceding the particular year

Pending Amendment

Foreign Bank Branches — February 15, 2003 (Pre-published in the *Canada Gazette*, Part I, dated February 15, 2003)

Paragraph 5301(1)(*b*) of the Regulations is replaced by the following:

(*b*) the total of the taxes payable by the corporation under Parts I.3, VI, VI.1 and XIII.1 of the Act for its taxation year preceding the particular year

Applicable: To the 2001 and subsequent taxation years.

Explanatory Note:

Regulatory Impact Analysis Statement from February 15, 2003

Section 157 of the Act requires taxpayers to make regular instalment payment of taxes. The amount of the instalment is determined by reference to an "instalment base," which in broad terms reflects the amount of the taxpayer's expected tax liability. Section 5301 of the Regulations computes the instalment base of a corporation, and paragraph 5301(1)(*b*), clause 5301(4)(*a*)(i)(B) and subsection 5301(10) of the Regulations describe the taxes payable to be included in such computation.

An authorized foreign bank is subject to the new Branch Interest Tax imposed under Part XIII.1 of the Act. Paragraph 5301(1)(*b*), clause 5301(4)(*a*)(i)(B) and subsection 5301(10) of the Regulations are amended to include the Part XIII.1 tax in the computation of an instalment base.

Subsection 5301(8) of the Regulations describes the additional rules applicable in the computation of an instalment base when a property is disposed of in a transaction governed by subsection 85(1) or (2) of the Act. Subsection 142.7(3) of the Act allows a Canadian affiliate of an authorized foreign bank to dispose of its property in the manner similar to an election under subsection 85(1) of the Act. Subsection 5301(8) of the Regulations is amended to include the property disposed of by virtue of an election under subsection 142.7(3) of the Act.

is multiplied by the ratio that 365 is of the number of days in that preceding year.

History: S. 5301(1)(*a*) was amended by P.C. 1999-196, SOR/99-92, dated February 11, 1999, applicable to the 1996 and subsequent taxation years. S. 5301(1)(*a*) formerly read:

"(*a*) the tax payable under Part I of the Act (as defined in subsection (10)) by the corporation for its taxation year preceding the particular year, and"

Ss. 5301(1)(*a*) and (*b*) were amended by P.C. 1994-556, SOR/94-298, dated April 14, 1994, applicable in computing the first instalment base and second instalment base, within the meanings assigned by Part LIII for taxation years ending after June 30, 1989, except that in its application to any of those taxation years ending before 1992, the reference to "Parts I.3, VI and VI.1" in paragraph 5301(1)(*b*) shall be read as "Part VI.1". Ss. 5301(1)(*a*) and (*b*) formerly read:

"(*a*) the tax payable by the corporation under Part I of the Act for its taxation year immediately preceding the particular year computed without reference to sections 123.1, 127.2 and 127.3 of the Act and before taking into consideration any amount referred to in any of subparagraphs 161(7)(*a*)(ii) to (vi) of the Act that was excluded or deducted, as the case may be, and

(*b*) the tax payable by the corporation under Part VI.1 of the Act for its taxation year immediately preceding the particular year"

S. 5301(1) was amended by P.C. 1989-1565, SOR/89-409, dated August 14, 1989, and applicable in respect of the 1988 and subsequent taxation years. S. 5301(1) formerly read:

"(1) Subject to subsections (6) and (8), for the purposes of subsections 157(4) and 161(9) of the Act, the 'first instalment base' of a corporation for a particular taxation year means the product obtained when the tax payable by the corporation under Part I of the Act, computed without reference to sections 123.1, 123.4, 123.5, 127.2 and 127.3 thereof and before taking into consideration any amount referred to in any of subparagraphs 161(7)(*a*)(i) to (vii) thereof that was excluded or deducted, as the case may be, for its taxation year immediately preceding the particular year, is multiplied by the ratio that 365 is of the number of days in that preceding year."

S. 5301(1) was amended by P.C. 1988-390, SOR/88-165, dated March 3, 1988, by substituting "sections 123.1, 123.4, 123.5" for "sections 123.3 to 123.5", applicable to the 1985 and subsequent taxation years.

S. 5301(1) was amended by P.C. 1985-2277, SOR/85-696, dated July 25, 1985, applicable with respect to:

(a) amounts deducted under sections 127.2 and 127.3 of the Act in respect of shares, debt obligations and rights acquired after February 15, 1984, other than shares, debt obligations or rights acquired before March 1, 1984 where arrangements, evidenced in writing, for the issue of the shares or debt obligations or granting of the rights were substantially advanced before February 16, 1984; and

(b) amounts referred to in subparagraphs 161(7)(*a*)(i) to (vii) of the Act for subsequent taxation years ending after August 7, 1985.

That part formerly read:

"(1) Subject to subsections (6) and (8), for the purposes of subsections 157(4) and 161 (9) of the Act, 'first instalment base' of a corporation for a particular taxation year means the amount equal to the product obtained when the tax payable by the corporation under Part I of the Act, computed without reference to sections 123.3 to 123.5 thereof, for its taxation year immediately preceding the particular year, is multiplied by the ratio that 365 is of the number of days in that preceding year."

S. 5301(1) was amended by P.C. 1984-3789, SOR/84-948, dated November 29, 1984, to substitute "sections 123.3 to 123.5" for "section 123.3", applicable to the 1982 and subsequent taxation years.

S. 5301(1) was revoked and replaced by P.C. 1981-2931, SOR/81-855, dated October 26, 1981, effective in respect of instalments of tax required to be paid for taxation years commencing after October 28, 1980. S. 5301(1) formerly read:

"(1) For the purposes of subsection 157(4) of the Act, the instalment base of a corporation for a particular taxation year ending after 1975 shall be the amount by which the aggregate of

(*a*) the tax payable by it for the particular taxation year under Part I of the Act, or where the particular taxation year is the 1976 taxation year, the tax payable by it for that year under Part I of the Act computed without reference to section 123.2 of the Act, and

(*b*) the amount deducted by it for the particular taxation year under subsection 127(13) of the Act

exceeds

(*c*) where the particular taxation year is the immediately preceding taxation year referred to in subparagraph 157(1)(*a*)(ii) or (iii) of the Act, the amount estimated by the corporation to be its deduction under subsection 127(13) of the Act for the taxation year immediately following the particular taxation year, or

(*d*) where the particular taxation year is the second taxation year preceding the year referred to in subparagraph 157(1)(*a*)(iii) of the Act, the amount estimated by the corporation to be its deduction under subsection 127(13) of the Act for the second taxation year following the particular taxation year."

Former s. 5301(1) was revoked and replaced by P.C. 1978-1003, SOR/78-325, dated April 11, 1978, applicable to the 1976 and subsequent taxation years. S. 5301(1) formerly read:

"(1) Subject to subsections (2) and (3) and sections 5302 and 5303, for the purpose of subsection 157(4) of the Act

(*a*) the instalment base of a corporation for the 1974, 1975 and 1976 taxation years shall be the amount of the tax payable by it for the year under Part I of the Act, computed without reference to section 123.2 of the Act, and

(*b*) the instalment base of a corporation for the 1977 and subsequent taxation years shall be the amount of the tax payable by it for the year under Part I of the Act."

(2) Subject to subsections (6) and (8), for the purposes of subsections 157(4) and 161(9) of the Act, the "second instalment base" of a corporation for a particular taxation year means the amount of the first instalment base of the corporation for the taxation year immediately preceding the particular year.

History: S. 5301(2) was revoked and replaced by P.C. 1981-2931, SOR/81-855, effective in respect of instalments of tax required to be paid for taxation years commencing after October 28, 1980. S. 5301(2) formerly read:

"(2) For the purposes of subsection 161(9) as it relates to subsection 161(4.1) of the Act, the instalment base of a corporation for a particular taxation year ending after 1975 shall have the meaning prescribed by subsection (1) as if paragraphs (*c*) and (*d*) thereof were read:

'(*c*) where the particular taxation year is the immediately preceding taxation year referred to in subparagraph 157(1)(*a*)(ii) or (iii) of the Act, the amount deducted by the corporation under subsection 127(13) of the Act for the taxation year immediately following the particular taxation year, or

(*d*) where the particular taxation year is the second taxation year preceding the year referred to in subparagraph 157(1)(*a*)(iii) of the Act, the amount deducted by the corporation under subsection 127(13) of the Act for the second taxation year following the particular taxation year'"

Former s. 5301(2) was revoked and replaced by P.C. 1978-1003, SOR/78-325, dated April 11, 1978, applicable to the 1976 and subsequent taxation years. S. 5301(2) formerly read:

"(2) In determining a corporation's instalment base for a taxation year that ended in 1970 or 1971, as the case may be, a reference in subsection (1) to the expression 'Part I of the Act' shall be read and construed as a reference to the expression 'Parts I and IA of the Act as they read in their application to the 1970 and 1971 taxation years, respectively, and subsection 24(5) of the *Old Age Security Act* as it read before being amended by Chapter 63, S.C. 1970-71-72'."

(3) For the purposes of subsection (1), where the number of days in the taxation year of a corporation immediately preceding the particular taxation year referred to therein is less than 183, the amount determined for the corporation under that subsection shall be the greater of

(*a*) the amount otherwise determined for it under subsection (1); and

(*b*) the amount that would be determined for it under subsection (1) if the reference in that subsection to "its taxation year preceding the particular year" were read as a reference to "its last taxation year, preceding the particular year, in which the number of days exceeds 182".

History: S. 5301(3)(*b*) was amended by P.C. 1999-196, SOR/99-92, dated February 11, 1999, applicable to taxation years ending after June 30, 1989. S. 5301(3)(*b*) formerly read:

"(*b*) the amount that would be determined for it under subsection (1) if the reference therein to 'its taxation year immediately preceding the particular year' were read as a reference to 'its last taxation year, preceding the particular year, in which the number of days exceeds 182'."

S. 5301(3) was added by P.C. 1981-2931, SOR/81-855, dated October 26, 1981, effective in respect of instalments of tax required to be paid for taxation years commencing after October 28, 1980.

Former s. 5301(3) was revoked and replaced by P.C. 1978-1003, SOR/78-325, dated April 11, 1978, applicable to the 1976 and subsequent taxation years. S. 5301(3) formerly read:

"(3) In determining a corporation's instalment base for a taxation year ending in 1972, part of which is before July 1, 1971, a reference in subsection (1) to the expression 'Part I of the Act' shall be read and construed as a reference to the expression 'Part I of the Act and section 74 of Chapter 63, S.C. 1970-71-72, as amended by Chapter 14, S.C. 1973'."

(4) Notwithstanding subsections (1) and (2), for the purposes of subsections 157(4) and 161(9) of the Act,

(*a*) where a particular taxation year of a new corporation that was formed as a result of an amalgamation (within the meaning assigned by section 87 of the Act) is its first taxation year,

(i) its "first instalment base" for the particular year means the total of all amounts each of which is equal to the product obtained when the total of

(A) the tax payable under Part I of the Act, and

(B) the total of the taxes payable under Parts I.3, VI and VI.1 of the Act

Pending Amendment

Foreign Bank Branches — February 15, 2003
(Pre-published in the *Canada Gazette*, Part I, dated February 15, 2003)

Clause 5301(4)(*a*)(i)(B) of the Regulations is replaced by the following:

(B) the total of the taxes payable under Parts I.3, VI, VI.1 and XIII.1 of the Act

Applicable: To the 2001 and subsequent taxation years.

Explanatory Note: [Please see the Regulatory Impact Analysis Statement following the amendment to paragraph 5301(1)(*b*).]

by a predecessor corporation (as defined in section 87 of the Act) for its last taxation year is multiplied by the ratio that 365 is to the number of days in that year, and

(ii) its "second instalment base" for the particular year means the aggregate of all amounts each of which is an amount equal to the amount of the first instalment base of a predecessor corporation for its last taxation year; and

(*b*) where a particular taxation year of a new corporation referred to in paragraph (*a*) is its second taxation year,

(i) its "first instalment base" for the particular year means

(A) where the number of days in its first taxation year is greater than 182, the amount that would, but for this subsection, be determined under subsection (1) for the year, and

(B) in any other case, the greater of the amount that would, but for this subsection, be determined under subsection (1) for the year and its first instalment base for its first taxation year, and

(ii) its "second instalment base" for the particular year means the amount of the first instalment base of the new corporation for its first taxation year.

History: S. 5301(4)(*a*)(i)(A) was amended by P.C. 1999-196, SOR/99-92, dated February 11, 1999, applicable to the 1996 and subsequent taxation years. S. 5301(4)(*a*)(i)(A) formerly read:

"(A) the tax payable under Part I of the Act (as defined in subsection (10)), and"

S. 5301(4)(*a*)(i) was amended by P.C. 1994-556, SOR/94-298, dated April 14, 1994, applicable in computing the first instalment base and second instalment base, within the meanings assigned by Part LIII for taxation years ending after June 30, 1989, except that in its application to any of those taxation years ending before 1992, the reference to "Parts I.3, VI and VI.1" in clause 5301(4)(*a*)(i)(B) shall be read as "Part VI.1". S. 5301(4)(*a*)(i) formerly read:

"(i) its first instalment base for the particular year means the aggregate of all amounts each of which is equal to the product obtained when the aggregate of

(A) the tax payable under Part I of the Act, computed without reference to sections 123.1, 127.2 and 127.3 of the Act and before taking into consideration any amount referred to in any of subparagraphs 161(7)(*a*)(ii) to (vi) of the Act that was excluded or deducted, as the case may be, and

(B) the tax payable under Part VI.1 of the Act

by a predecessor corporation (within the meaning assigned by section 87 of the Act) for its last taxation year is multiplied by the ratio that 365 is of the number of days in that year, and"

S. 5301(4)(*a*)(i) was amended by P.C. 1989-1565, SOR/89-409, dated August 14, 1989 and applicable in respect of the 1988 and subsequent taxation years. S. 5301(4)(*a*)(i) formerly read:

"(i) its 'first instalment base' for the particular year means the aggregate of all amounts, each of which is equal to the product obtained when the tax payable under Part I of the Act, computed without reference to sections 123.1, 123.4, 123.5, 127.2 and 127.3 thereof and before taking into consideration any amount referred to in any of subparagraphs 161(7)(*a*)(i) to (vii) thereof that was excluded or deducted, as the case may be, for the year by a predecessor corporation (within the meaning assigned by section 87 of the Act) for its last taxation year is multiplied by the ratio that 365 is of the number of days in that year, and"

S. 5301(4)(*a*)(i) was amended by P.C. 1988-390, SOR/88-165, dated March 3, 1988, by substituting "sections 123.1, 123.4, 123.5" for "sections 123.3 to 123.5", applicable to the 1985 and subsequent taxation years.

S. 5301(4)(*a*)(i) was amended by P.C. 1985-2277, SOR/85-696, dated July 25, 1985, applicable with respect to

(a) amounts deducted under sections 127.2 and 127.3 of the Act in respect of shares, debt obligations and rights acquired after February 15, 1984, other than shares, debt obligations or rights acquired before March 1, 1984 where arrangements, evidenced in writing, for the issue of the shares or debt obligations or granting of the rights were substantially advanced before February 16, 1984; and

(b) amounts referred to in subparagraphs 161(7)(*a*)(i) to (vii) of the Act for subsequent taxation years ending after August 7, 1985.

That part formerly read:

"(i) its 'first instalment base' for the particular year means the aggregate of all amounts, each of which is an amount equal to the product obtained when the tax payable under Part I of the Act, computed without reference to sections 123.3 to 123.5 thereof, by a predecessor corporation (within the meaning assigned by section 87 of the Act) for its last taxation year is multiplied by the ratio that 365 is of the number of days in that year, and"

S. 5301(4)(*a*)(i) was amended by P.C. 1984-3789, SOR/84-948, dated November 29, 1984, to substitute "sections 123.3 to 123.5" for "section 123.3", applicable to the 1982 and subsequent taxation years.

S. 5301(4) was added by P.C. 1981-2931, SOR/81-855, dated October 26, 1981, effective in respect of instalments of tax required to be paid for taxation years commencing after October 28, 1980.

(5) For the purposes of subsection (4), where the number of days in the last taxation year of a predecessor corporation is less than 183, the amount determined under subparagraph (4)(*a*)(i) in respect of the predecessor corporation shall be the greater of

(*a*) the amount otherwise determined under subparagraph (4)(*a*)(i) in respect of the predecessor corporation; and

(*b*) the amount of the first instalment base of the predecessor corporation for its last taxation year.

History: S. 5301(5) was added by P.C. 1981-2931, SOR/81-855, dated October 26, 1981, effective in respect of instalments of tax required to be paid for taxation years commencing after October 28, 1980.

(6) Subject to subsection (7), where a subsidiary within the meaning of subsection 88(1) of the Act is winding up, and, at a particular time in the course of the winding up, all or substantially all of the property of the subsidiary has been distributed to a parent within the meaning of subsection 88(1) of the Act, the following rules apply:

(*a*) there shall be added to the amount of the parent's first instalment base for its taxation year that includes the particular time the amount of the subsidiary's first instalment base for its taxation year that includes the particular time;

(*b*) there shall be added to the amount of the parent's second instalment base for its taxation year that includes the particular time the amount of the sub-

sidiary's second instalment base for its taxation year that includes the particular time;

(*c*) there shall be added to the amount of the parent's first instalment base for its taxation year immediately following its taxation year referred to in paragraph (*a*) the amount that is the proportion of the subsidiary's first instalment base for its taxation year referred to in paragraph (*a*) that

(i) the number of complete months that ended at or before the particular time in the taxation year of the parent that includes the particular time

is of

(ii) 12; and

(*d*) there shall be added to the amount of the parent's second instalment base for its taxation year immediately following its taxation year referred to in paragraph (*a*) the amount of the subsidiary's first instalment base for its taxation year that includes the particular time.

History: S. 5301(6) was added by P.C. 1981-2931, SOR/81-855, dated October 26, 1981, effective in respect of taxation years commencing after February 26, 1981 in respect of instalments of tax required to be paid after the particular time referred to in those subsections where such particular time was after November 11, 1981.

(7) The amount of an instalment of tax for the taxation year referred to in paragraphs (6)(*a*) and (*b*) that a parent is deemed under subsection 161(4.1) of the Act to have been liable to pay before the particular time referred to in subsection (6) shall be determined as if subsection (6) were not applicable in respect of a distribution of property described in that subsection occurring after the day on or before which the instalment was required to be paid.

History: S. 5301(7) was added by P.C. 1981-2931, SOR/81-855, dated October 26, 1981, effective in respect of taxation years commencing after February 26, 1981 in respect of instalments of tax required to be paid after the particular time referred to in those subsections where such particular time was after November 11, 1981.

(8) Subject to subsection (9), where at a particular time a corporation (in this subsection referred to as the "transferor") has disposed of all or substantially all of its property to another corporation with which it was not dealing at arm's length (in this subsection and subsection (9) referred to as the "transferee") and subsection 85(1) or (2) of the Act applied in respect of the disposition of any of the property, the following rules apply:

Pending Amendment

Foreign Bank Branches — February 15, 2003 (Pre-published in the *Canada Gazette*, Part I, dated February 15, 2003)

The portion of subsection 5301(8) of the Regulations before paragraph (*a*) is replaced by the following:

(8) Subject to subsection (9), if at a particular time a corporation (in this subsection referred as the "transferor") has disposed of all or substantially all of its property to another corporation with which it was not dealing at arm's length (in this subsection and subsection (9) referred to as the "transferee") and subsection 85(1) or (2) or 142.7(3) of the Act applied in respect of the disposition of any of the property, the following rules apply:

Applicable: After June 27, 1999.

Explanatory Note: [Please see the Regulatory Impact Analysis Statement following the amendment to paragraph 5301(1)(*b*).]

(*a*) there shall be added to the amount of the transferee's first instalment base for its taxation year that includes the particular time the amount of the transferor's first instalment base for its taxation year that includes the particular time;

(*b*) there shall be added to the amount of the transferee's second instalment base for its taxation year that includes the particular time the amount of the transferor's second instalment base for its taxation year that includes the particular time;

(*c*) there shall be added to the amount of the transferee's first instalment base for its taxation year immediately following its taxation year referred to in paragraph (*a*) the amount that is the proportion of the transferor's first instalment base for its taxation year referred to in paragraph (*a*) that

(i) the number of complete months that ended at or before the particular time in the taxation year of the transferee that includes the particular time

is of

(ii) 12; and

(*d*) there shall be added to the amount of the transferee's second instalment base for its taxation year immediately following its taxation year referred to in paragraph (*a*) the amount of the transferor's first instalment base for its taxation year that includes the particular time.

History: S. 5301(8) was added by P.C. 1981-2931, SOR/81-855, dated October 26, 1981, effective in respect of taxation years commencing after February 26, 1981 in respect of instalments of tax required to be paid after the particular time referred to in those subsections where such particular time was after November 11, 1981.

(9) The amount of an instalment of tax for the taxation year referred to in paragraphs (8)(*a*) and (*b*) that a transferee is deemed under subsection 161(4.1) of the Act to have been liable to pay before the particular time referred to in subsection (8) shall be determined as if subsection (8) were not applicable in respect of a disposition of property described in that subsection occurring after the day on or before which the instalment was required to be paid.

History: S. 5301(9) was added by P.C. 1981-2931, SOR/81-855, dated October 26, 1981, effective in respect of taxation years commencing after February 26, 1981 in respect of instalments of tax required to be paid after the particular time referred to in those subsections where such particular time was after November 11, 1981.

(10) For the purpose of this section, tax payable under Part I, I.3 or VI of the Act by a corporation for a taxation year means the corporation's tax payable for the year under the relevant Part, determined before taking into consideration the specified future tax consequences for the year.

Pending Amendment

Foreign Bank Branches — February 15, 2003 (Pre-published in the *Canada Gazette*, Part I, dated February 15, 2003)

Subsection 5301(10) of the Regulations is replaced by the following:

(10) For the purpose of this section, tax payable under Part I, I.3, VI or XIII.1 of the Act by a corporation for a taxation year means the corporation's tax payable for the year under the

relevant Part, determined before taking into consideration the specified future tax consequences for the year.

Applicable: To the 2001 and subsequent taxation years.

Explanatory Note: [Please see the Regulatory Impact Analysis Statement following the amendment to paragraph 5301(1)(*b*).]

History: S. 5301(10) was amended by P.C. 1999-196, SOR/99-92, dated February 11, 1999, applicable to the 1996 and subsequent taxation years. S. 5301(10) formerly read:

"(10) For the purposes of this section, 'tax payable under Part I of the Act' by a corporation for a taxation year means the tax payable under Part I of the Act by the corporation for the year before taking into consideration any amount referred to in any of subparagraphs 161(7)(*a*)(ii) to (x) of the Act that is excluded or deducted, as the case may be, for the year."

S. 5301(10) was added by P.C. 1994-556, SOR/94-298, dated April 14, 1994, applicable in computing the first instalment base and second instalment base, within the meanings assigned by Part LIII for taxation years ending after June 30, 1989, except that

(*a*) in making those computations in respect of any of those taxation years commencing before March 1, 1992, subsection 5301(10) shall be read as follows:

"(10) For the purposes of this section, 'tax payable under Part I of the Act' by a corporation for a taxation year means the amount, if any, by which the tax payable under Part I of the Act by the corporation for the year, computed without reference to sections 123.1, 127.2 and 127.3 of the Act (and, where the year commenced before July 1, 1989, without reference to section 125.3 of the Act) and before taking into consideration any amount referred to in any of subparagraphs 161(7)(*a*)(ii) to (vii) of the Act that is excluded or deducted, as the case may be, for the year, exceeds

(*a*) where the year commenced before July 1, 1989, the lesser of

(i) where the year ended

(A) before July 1, 1989, the amount that would be the corporation's tax Payable under Part I.3 of the Act for the year if that Part (as it read in its application to the corporation's first taxation year commencing after June 30, 1989) applied in respect of the year and its capital deduction under that Part for the year were its capital deduction under that Part for its first taxation year ending after June 30, 1989, or

(B) after June 30, 1989, the product obtained when the corporation's tax payable under Part I.3 of the Act for the year is multiplied by the ratio that the number of days in the year after June 30, 1989, and

(ii) the amount that would be the corporation's Canadian surtax payable for the year, as defined in subsection 125.3(4) of the Act if that subsection and any regulations made under that subsection (as they read in their application to the corporation's first taxation year commencing after June 30, 1989) were applicable to the year;

(*b*) where the year commenced before February 21, 1990 and the corporation is a corporation described in paragraph (*d*) or (*e*) of the definition 'financial institution' in subsection 190(1) of the Act (or that would be so described if those paragraphs applied with respect to the year),

(i) where the year ended before February 21, 1990, the amount that would be the corporation's tax payable under Part VI of the Act for the year if that Part (as it read in its application to the corporation's first taxation year commencing after February 20, 1990) applied in respect of the year and its capital deduction under that Part for the year were its capital deduction under that Part for its first taxation year ending after February 20, 1990, and

(ii) where the year ended after February 20, 1990, the amount, if any, by which

(A) the product obtained when the corporation's tax payable under Part VI of the Act for the year is multiplied by the ratio that the number of days in the year is to the number of days in the year after February 20, 1990

exceeds

(B) the amount deducted under subsection 125.2(1) of the Act in computing the corporation's tax payable under Part I of the Act for the year in respect of its tax payable under Part VI of the Act for the year; and

(*c*) in any other case, nil.";

(*b*) in making those computations in respect of any of those taxation years ending before 1991, the reference in subsection 5301(10) to "subparagraphs 161(7)(*a*)(ii) to (x)" shall be read as "subparagraphs 161(7)(*a*)(ii) to (vii)"; and

(*c*) in making those computations in respect of any of those taxation years ending in 1991, the reference in subsection 5301(10) to "subparagraphs 161(7)(*a*)(ii) to (x)" shall be read as "subparagraphs 161(7)(*a*)(ii) to (vii) and (x)".

5302. [Revoked.]

5303. [Revoked.]

5304. [Revoked.]

5305. [Revoked.]

History: S. 5302–5305 were revoked P.C. 1978-1003, SOR/78-325, dated April 11, 1978, applicable to the 1976 and subsequent taxation years.

PART LIV

Debtor's Gains on Settlement of Debts

5400. (1) Subject to section 5401, the excess referred to in paragraph 80(1)(*b*) of the Act, after deducting the portion thereof required to be applied as provided in paragraph 80(1)(*a*) of the Act, shall be applied at the time the debt or obligation is settled or extinguished, in the following order to reduce to the maximum extent possible

(*a*) the capital cost of depreciable property of a prescribed class or prescribed classes, as the case may be;

(*b*) the capital cost of depreciable property other than depreciable property of a prescribed class;

(*c*) the adjusted cost base at that time of capital property, other than depreciable property and personal-use property;

(*d*) the adjusted cost base at that time of capital property that is listed personal property; and

(*e*) the adjusted cost base at that time of capital property that is personal-use property, other than listed personal property.

(2) Where an amount is to be applied pursuant to subsection (1), the taxpayer may choose any particular property to make the reduction in the order specified therein.

History: S. 5400(1), the part preceding paragraph (a), was amended by P.C. 1984-3789, SOR/84-948, dated November 29, 1984, to substitute "80(1)(a)" and "80(1)(b)" for "80(a)" and "80(b)" respectively, effective November 13, 1981.

Editorial Note: Part LIV applies to section 80 as it read prior to the amendment in S.C. 1995, c. 21.

5401. (1) For the purposes of paragraph 5400(1)(*a*), the amount to be applied to reduce the capital cost of a property shall not exceed the lesser of

(*a*) the amount by which

(i) the capital cost of the property

exceeds

(ii) all amounts that would have been allowed to the taxpayer in respect of the property, if it had been the only property that was included in a prescribed class, at the rate that was allowed to him in respect of property of the class in which it was included under regulations made under paragraph 20(1)(*a*) of the Act for the taxation years prior to the year in which the debt or obligation was settled or extinguished; and

(*b*) the amount by which

(i) the undepreciated capital cost of the class at the time the debt or obligation was settled or extinguished

exceeds

(ii) the amount or the aggregate of amounts, if any, that has already been determined under this subsection in respect of another property of the class at the time referred to in subparagraph (i).

(2) For the purposes of paragraph 5400(1)(*b*), the amount to be applied to reduce the capital cost of a property shall not exceed

(*a*) the amount by which the capital cost of the property

exceeds

(*b*) the amount that was allowed to the taxpayer by virtue of Part XVII in respect of the property before the debt or obligation was settled or extinguished.

(3) For the purposes of paragraphs 5400(1)(*c*), (*d*) and (*e*), the amount to be applied to reduce the adjusted cost base of a property shall not exceed the amount by which

(*a*) the aggregate of the cost to the taxpayer of the property and all amounts required by subsection 53(1) of the Act to be included in computing the adjusted cost base to him of that property

exceeds

(*b*) the aggregate of all amounts required by subsection 53(2) of the Act (except paragraph (*c*) thereof) to be deducted in computing the adjusted cost base to him of that property,

at the time the debt or obligation was settled or extinguished.

PART LV

Prescribed Programs and Benefits

CANADIAN HOME INSULATION PROGRAM

5500. For the purposes of paragraphs 12(1)(*u*), 56(1)(*s*) and 212(1)(*s*) of the Act, the Canadian Home Insulation Program, as authorized and described in Vote 11a of *Appropriation Act No. 3, 1977-78*, as amended, Energy, Mines and Resources Vote 35, Main Estimates, 1981-82 as authorized by *Appropriation Act No. 1, 1981-82*, as amended, or the *Canadian Home Insulation Program Act*, is hereby prescribed to be a program of the Government of Canada relating to home insulation.

CANADA OIL SUBSTITUTION PROGRAM

5501. For the purposes of paragraphs 12(1)(*u*), 56(1)(*s*) and 212(1)(*s*) of the Act, the Canada Oil Substitution Program, as authorized and described in paragraph (*a*) or (*b*) of Energy, Mines and Resources Vote 45, Main Estimates, 1981-82 as authorized by *Appropriation Act No. 1, 1981-82*, as amended, or the *Oil Substitution and Conservation Act* is hereby prescribed to be a program of the Government of Canada relating to energy conversion.

History: Part LV was revoked and replaced by P.C. 1981-3209, SOR/81-936, dated November 13, 1981 and effective in respect of the 1981 and subsequent taxation years except that with respect to the references to paragraph 212(1)(s) of the Act, the amendment is effective in respect of grants paid or credited after 1980. Part LV formerly read:

"CANADIAN HOME INSULATION PROGRAM

S. 5500. For the purposes of paragraph 56(1)(s) of the Act, the Canadian Home Insulation Program, as authorized and described in Vote 11a of *Appropriation Act No. 3, 1977-78*, as amended, is hereby prescribed to be a program of the Government of Canada relating to home insulation."

Part LV was added by P.C. 1978-1139, SOR/78-348, dated April 17, 1978 (Special Issue, *Canada Gazette*, December 31, 1978), applicable to the 1977 and subsequent years.

BENEFITS UNDER GOVERNMENT ASSISTANCE PROGRAMS

5502. For the purposes of subparagraph 56(1)(*a*)(vi) and paragraph 153(1)(*m*) of the Act, the following benefits are prescribed:

(*a*) benefits under the *Labour Adjustment Benefits Act*;

(*b*) benefits under programs to provide income assistance payments, established pursuant to agreements under section 5 of the *Department of Labour Act*; and

(*c*) benefits under programs to provide income assistance payments, administered pursuant to agreements under section 5 of the *Department of Fisheries and Oceans Act*.

History: S. 5502 was added by P.C. 1995-1023, SOR/95-298, dated June 23, 1995, applicable

(*a*) for the purposes of subparagraph 56(1)(*a*)(vi) of the Act, to benefits received after October 1991; and

(*b*) for the purposes of paragraph 153(1)(m) of the Act, to benefits paid after October 1991.

PART LVI

Prescribed Distributions

5600. For the purpose of section 86.1 of the Act, the following distributions of shares are prescribed:

(*a*) the distribution by Active Biotech AB, on May 10, 1999, of shares of Wilhelm Sonesson AB; and

(*b*) the distribution by Orckit Communications Ltd., on June 30, 2000, of shares of Tioga Technologies Ltd.

Department of Finance Comfort Letter
[Prescribed Foreign Spin-Off Distribution]

September 11, 2007

Dear XXXX

I am writing to you concerning your submission of December 18, 2006 to the Canada Revenue Agency (the CRA) with regard to the Canadian income tax treatment of a spin-off distribution effected on June 12, 2006 and in which XXXX distributed to its shareholders shares of XXXX. You have requested that the spin-off distribution be prescribed for the purpose of the Canadian foreign spin-off tax deferral rules.

Shareholders of a non-U.S. foreign spin-off distribution qualify for a tax deferral in respect of the distribution if the spin-off distribution satisfies various technical requirements in section 86.1 of the *Income Tax Act* and the distribution is prescribed on the recommendation of the Minister of Finance. The CRA has confirmed to Departmental officials that the XXXX distribution satisfies the technical requirements of the Canadian foreign spin-off tax deferral rules.

Based on our review of the general scheme of the income tax law of Sweden applicable to tax deferred spin-off distributions, we are prepared to recommend to the Minister an amendment to the Income Tax Regulations to prescribe the June 12, 2006 XXXX spin-off of XXXX shares for the purpose of the foreign spin-off distribution tax deferral under section 86.1 of the *Income Tax Act*. If passed, the necessary regulation identifying the distribution of XXXX shares as a prescribed distribution would be published in the *Canada Gazette*. While I cannot offer any assurance that either the Minister or Treasury Board will agree with our recommendations, I hope that this statement of our intention is helpful.

Yours sincerely,

Brian Ernewein
General Director–Legislation
Tax Policy Branch

History: The heading for Part LVI was replaced by P.C. 2004-425, SOR/2004-82, dated April 22, 2004, deemed to have come into force on January 1, 1998.

The heading of Part LVI formerly read:

"REGISTERED RETIREMENT SAVINGS PLANS, PREMIUM REFUNDS"

S. 5600 was replaced by P.C. 2004-425, SOR/2004-82, dated April 22, 2004, deemed to have come into force on January 1, 1998. S. 5600 formerly read:

"S. 5600. Any election under subsection 61(2) of the *Income Tax Application Rules, 1971* in respect of a refund of premiums referred to in that subsection shall be made by the taxpayer on or before the day on or before which he is required to file a return of income pursuant to section 150 of the Act for the taxation year in which the refund was received."

PART LVII
Medical Expense Tax Credit

5700. For the purposes of paragraph 118.2(2)(*m*) of the Act, a device or equipment is prescribed if it is a

(*a*) wig made to order for an individual who has suffered abnormal hair loss owing to disease, medical treatment or accident;

(*b*) needle or syringe designed to be used for the purpose of giving an injection;

(*c*) device or equipment, including a replacement part, designed exclusively for use by an individual suffering from a severe chronic respiratory ailment or a severe chronic immune system disregulation, but not including an air conditioner, humidifier, dehumidifier, heat pump or heat or air exchanger;

(*c*.1) air or water filter or purifier for use by an individual who is suffering from a severe chronic respiratory ailment or a severe chronic immune system disregulation to cope with or overcome that ailment or disregulation;

(*c*.2) electric or sealed combustion furnace acquired to replace a furnace that is neither an electric furnace nor a sealed combustion furnace, where the replacement is necessary solely because of a severe chronic respiratory ailment or a severe chronic immune system disregulation;

(*c*.3) air conditioner acquired for use by an individual to cope with the individual's severe chronic ailment, disease or disorder, to the extent of the lesser of $1,000 and 50% of the amount paid for the air conditioner;

(*d*) device or equipment designed to pace or monitor the heart of an individual who suffers from heart disease;

(*e*) orthopaedic shoe or boot or an insert for a shoe or boot made to order for an individual in accordance with a prescription to overcome a physical disability of the individual;

(*f*) power-operated guided chair installation, for an individual, that is designed to be used solely in a stairway;

(*g*) mechanical device or equipment designed to be used to assist an individual to enter or leave a bathtub or shower or to get on or off a toilet;

(*h*) hospital bed including such attachments thereto as may have been included in a prescription therefor;

(*i*) device that is exclusively designed to assist an individual in walking where the individual has a mobility impairment;

(*j*) external breast prosthesis that is required because of a mastectomy;

(*k*) teletypewriter or similar device, including a telephone ringing indicator, that enables a deaf or mute individual to make and receive telephone calls;

(*l*) optical scanner or similar device designed to be used by a blind individual to enable him to read print;

(*l*.1) device or software designed to be used by a blind individual, or an individual with a severe learning disability, to enable the individual to read print;

(*m*) power-operated lift or transportation equipment designed exclusively for use by, or for, a disabled individual to allow the individual access to different areas of a building or to assist the individual to gain access to a vehicle or to place the individual's wheelchair in or on a vehicle;

(*n*) device designed exclusively to enable an individual with a mobility impairment to operate a vehicle;

(*o*) device or equipment, including a synthetic speech system, braille printer and large print-on-screen device, designed exclusively to be used by a blind individual in the operation of a computer;

(*p*) electronic speech synthesizer that enables a mute individual to communicate by use of a portable keyboard;

(*q*) device to decode special television signals to permit the script of a program to be visually displayed;

(*q*.1) a visual or vibratory signalling device, including a visual fire alarm indicator, for an individual with a hearing impairment;

(*r*) device designed to be attached to infants diagnosed as being prone to sudden infant death syndrome in order to sound an alarm if the infant ceases to breathe;

(*s*) infusion pump, including disposable peripherals, used in the treatment of diabetes or a device designed to enable a diabetic to measure the diabetic's blood sugar level;

(*t*) electronic or computerized environmental control system designed exclusively for the use of an individual with a severe and prolonged mobility restriction;

(*u*) extremity pump or elastic support hose designed exclusively to relieve swelling caused by chronic lymphedema;

(*v*) inductive coupling osteogenesis stimulator for treating non-union of fractures or aiding in bone fusion;

(*w*) talking textbook for use by an individual with a perceptual disability in connection with the individual's enrolment at an educational institution in Canada, or a designated educational institution;

(*x*) Bliss symbol board, or similar device, designed to be used to help an individual who has a speech impairment communicate by selecting the symbols or spelling out words;

(*y*) Braille note-taker designed to be used by a blind individual to allow them to take notes (that can be read back to them or printed or displayed in Braille) with the help of a keyboard;

(*z*) page turner, designed to be used by an individual who has a severe and prolonged impairment that markedly restricts their ability to use their arms or hands to turn the pages of a book or other bound document;

(*z*.1) altered auditory feedback device designed to be used by an individual who has a speech impairment;

(*z*.2) electrotherapy device designed to be used by an individual with a medical condition or by an individual who has a severe mobility impairment;

(*z*.3) standing device designed to be used by an individual who has a severe mobility impairment to undertake standing therapy; and

(*z*.4) pressure pulse therapy device designed to be used by an individual who has a balance disorder.

History: The heading before s. 5700 was replaced by S.C. 2009, c. 2, s. 108(1), deemed to have come into force on February 27, 2008. The heading before s. 5700 formerly read:

"PART LVII
Medical Devices and Equipment"

S. 5700(*z*1) to (*z*4) were added by S.C. 2009, c. 2, s. 109(1), applicable to the 2008 and subsequent taxation years.

S. 5700(*i*) was replaced by P.C. 2007-1443, SOR/2007-212, dated September 27, 2007, applicable to expenses incurred for property acquired after February 22, 2005. S. 5700(*i*) formerly read:

"(*i*) device that is designed to assist an individual in walking where the individual has a mobility impairment;"

S. 5700(*l*.1) was added by P.C. 2007-1443, SOR/2007-212, dated September 27, 2007, applicable to the 2005 and subsequent taxation years.

S. 5700(*w*) was replaced by P.C. 2007-1443, SOR/2007-212, dated September 27, 2007, applicable to the 2004 and subsequent taxation years. S. 5700(*w*) formerly read:

"(*w*) talking textbook prescribed by a medical practitioner for use by an individual with a perceptual disability, in connection with the individual's enrolment at an educational institution in Canada."

S. 5700(*x*), (*y*) and (*z*) were added by P.C. 2007-1443, SOR/2007-212, dated September 27, 2007, applicable to the 2005 and subsequent taxation years.

S. 5700(*w*) was added by P.C. 2000-1770, SOR/2001-4, dated December 13, 2000, applicable to the 1999 and subsequent taxation years.

S. 5700(*c*.3) was added by P.C. 1999-1767, SOR/99-387, dated October 6, 1999, applicable to the 1997 and subsequent taxation years.

Ss. 5700(*c*.1) and (*c*.2) were added by P.C. 1994-271, SOR/94-189, dated February 16, 1994, applicable after December 16, 1991.

S. 5700(*a*.1) was added by P.C. 1994-271, SOR/94-189, dated February 16, 1994, applicable to the 1992 and subsequent taxation years.

S. 5700, the part preceding paragraph (*a*), was amended by P.C. 1990-2491, SOR/90-809, dated November 22, 1990, to substitute "paragraph 118.2(2)(*m*)" for "subparagraph 110(1)(*d*)(xii)" and "prescribed" for "hereby prescribed", applicable to the 1988 and subsequent taxation years.

Ss. 5700(*c*), (*i*) and (*m*) were amended by P.C. 1990-2491, SOR/90-809, dated November 22, 1990, applicable to the 1988 and subsequent taxation years. Ss. 5700(*c*), (*i*) and (*m*) formerly read:

"(*c*) device or equipment, including a replacement part, designed exclusively for use by an individual who is suffering from a chronic respiratory ailment to assist him in breathing, but not including an air conditioner, humidifier, dehumidifier or air cleaner;"

"(*i*) device not described in subparagraph 110(1)(*d*)(ix) of the Act that is designed to assist a crippled individual in walking;"

"(*m*) power-operated lift designed exclusively for use by a disabled individual to allow him access to different levels of a building or to assist him to gain access to a vehicle, or to place his wheelchair in or on a vehicle;"

S. 5700(*q*) was amended by P.C. 1990-2491, SOR/90-809, dated November 22, 1990, to substitute "script of a program" for "vocal portion of the signal", applicable to the 1987 and subsequent taxation years.

S. 5700(*s*) was amended and (*t*), (*u*) and (*v*) were added by P.C. 1990-2491, SOR/90-809, dated November 22, 1990, applicable to the 1988 and subsequent taxation years. S. 5700(s) formerly read:

"(*s*) device designed to enable a diabetic to measure his blood sugar level."

Ss. 5700(*n*) to (*s*) were added by P.C. 1987-2474, SOR/87-716, dated December 10, 1987, applicable to the 1987 and subsequent taxation years.

S. 5700(*m*) was amended by P.C. 1985-2277, SOR/85-696 dated July 25, 1985, to add "or to assist him to gain access to a vehicle, or to place his wheelchair in or on a vehicle", applicable to the 1984 and subsequent taxation years.

Ss. 5700(*l*) and (*m*) were added by P.C. 1980-3345, SOR/80-948, dated December 11, 1980 and effective January 1, 1980.

Interpretation Bulletins: *Secondary* — IT-519R2 (Consolid.) Medical expense and disability tax credits and attendant care expense deduction.

5701. For the purpose of subparagraph 118.2(2)(*n*)(ii) of the Act, a drug, medicament or other preparation or substance is prescribed if it

(*a*) is manufactured, sold or represented for use in the diagnosis, treatment or prevention of a disease, disorder or abnormal physical state, or its symptoms, or in restoring, correcting or modifying an organic function;

(*b*) is prescribed for a patient by a medical practitioner; and

(*c*) may, in the jurisdiction in which it is acquired, be lawfully acquired for use by the patient only with the intervention of a medical practitioner.

History: S. 5701 was added by S.C. 2009, c. 2, s. 110(1), deemed to have come into force on February 27, 2008.

PART LVIII
Retention of Books and Records

5800. (1) For the purposes of paragraph 230(4)(*a*) of the Act, the required retention periods for records and books of account of a person are prescribed as follows:

(*a*) in respect of

(i) any record of the minutes of meetings of the directors of a corporation,

(ii) any record of the minutes of meetings of the shareholders of a corporation,

(iii) any record of a corporation containing details with respect to the ownership of the shares of the capital stock of the corporation and any transfers thereof,

(iv) the general ledger or other book of final entry containing the summaries of the year-to-year transactions of a corporation, and

(v) any special contracts or agreements necessary to an understanding of the entries in the general ledger or other book of final entry referred to in subparagraph (iv),

the period ending on the day that is two years after the day that the corporation is dissolved;

(*b*) in respect of all records and books of account that are not described in paragraph (*a*) of a corporation that is dissolved and in respect of the vouchers and

accounts necessary to verify the information in such records and books of account, the period ending on the day that is two years after the day that the corporation is dissolved;

(*c*) in respect of

(i) the general ledger or other book of final entry containing the summaries of the year-to-year transactions of a business of a person (other than a corporation), and

(ii) any special contracts or agreements necessary to an understanding of the entries in the general ledger or other book of final entry referred to in subparagraph (i),

the period ending on the day that is six years after the last day of the taxation year of the person in which the business ceased;

(*d*) in respect of

(i) any record of the minutes of meetings of the executive of a registered charity or registered Canadian amateur athletic association,

(ii) any record of the minutes of meetings of the members of a registered charity or registered Canadian amateur athletic association,

(iii) all documents and by-laws governing a registered charity or registered Canadian amateur athletic association, and

(iv) all records of any donations received by a registered charity that were subject to a direction by the donor that the property given be held by the charity for a period of not less than 10 years,

the period ending on the day that is two years after the date on which the registration of the registered charity or the registered Canadian amateur athletic association under the Act is revoked;

(*e*) in respect of all records and books of account that are not described in paragraph (*d*) and that relate to a registered charity or registered Canadian amateur athletic association whose registration under the Act is revoked, and in respect of the vouchers and accounts necessary to verify the information in such records and books of account, the period ending on the day that is two years after the date on which the registration of the registered charity or the registered Canadian amateur athletic association under the Act is revoked;

(*f*) in respect of duplicates of receipts for donations (other than donations referred to in subparagraph (*d*)(iv)) that are received by a registered charity or registered Canadian amateur athletic association and are required to be kept by that charity or association pursuant to subsection 230(2) of the Act, the period ending on the day that is two years from the end of the last calendar year to which the receipts relate; and

(*g*) notwithstanding paragraphs (*c*) to (*f*), in respect of all records, books of account, vouchers and accounts of a deceased taxpayer or a trust in respect of which a clearance certificate is issued pursuant to subsection 159(2) of the Act with respect to the distribution of all the property of such deceased taxpayer or trust, the period ending on the day that the clearance certificate is issued.

(2) For the purposes of subsection 230.1(3) of the Act, with respect to the application of paragraph 230(4)(*a*) of the Act, the required retention period for records and books of account that are required to be kept pursuant to section 230.1 of the Act is prescribed to be the period ending on the day that is two years after the end of the last calendar year to which the records or books of account relate.

History: Part LVIII was added by P.C. 1982-2895, SOR/82-879, dated September 23, 1982, effective September 20, 1982.

Information Circulars: IC 05-1 Electronic Record Keeping; IC 78-10R4 Books and Records Retention/Destruction.

PART LIX
Foreign Affiliates

DIVIDENDS OUT OF EXEMPT, TAXABLE AND PRE-ACQUISITION SURPLUS

5900. (1) Where at any time a corporation resident in Canada or a foreign affiliate of the corporation receives a dividend on a share of any class of the capital stock of a foreign affiliate of the corporation,

(*a*) for the purposes of this Part and paragraph 113(1)(*a*) of the Act, the portion of the dividend paid out of the exempt surplus of the affiliate is prescribed to be that proportion of the dividend received that

(i) such portion of the whole dividend paid by the affiliate on the shares of that class at that time as was deemed by section 5901 to have been paid out of the affiliate's exempt surplus in respect of the corporation

is of

(ii) the whole dividend paid by the affiliate on the shares of that class at that time;

(*b*) for the purposes of this Part and subsection 91(5) and paragraphs 113(1)(*b*) and (*c*) of the Act, the portion of the dividend paid out of the taxable surplus of the affiliate is prescribed to be that proportion of the dividend received that

(i) such portion of the whole dividend paid by the affiliate on the shares of that class at that time as was deemed by section 5901 to have been paid out of the affiliate's taxable surplus in respect of the corporation

is of

(ii) the whole dividend paid by the affiliate on the shares of that class at that time;

(*c*) for the purposes of this Part and paragraph 113(1)(*d*) of the Act, the portion of the dividend paid out of the pre-acquisition surplus of the affiliate is prescribed to be that proportion of the dividend received that

(i) such portion of the whole dividend paid by the affiliate on the shares of that class at that time as was deemed by section 5901 to have been paid out of the affiliate's pre-acquisition surplus in respect of the corporation

is of

(ii) the whole dividend paid by the affiliate on the shares of that class at that time; and

(*d*) for the purposes of this Part and paragraph 113(1)(*b*) of the Act, the foreign tax applicable to the portion of the dividend prescribed to have been paid out of the taxable surplus of the affiliate is prescribed to be that proportion of the underlying foreign tax applicable, in respect of the corporation, to the whole dividend paid by the affiliate on the shares of that class at that time that

(i) the amount of the dividend received by the corporation or the affiliate, as the case may be, on that share at that time

is of

(ii) the whole dividend paid by the affiliate on the shares of that class at that time.

Interpretation Bulletins: *Secondary*— IT-392 Meaning of the term "share" [Archived by the CRA].

(2) Notwithstanding paragraphs (1)(*a*) and (*b*), where at any time a foreign affiliate of a corporation resident in Canada pays a dividend on a share of a class of its capital stock (other than a share in respect of which an election is made under subsection 93(1) of the Act) to the corporation, the corporation may, in its return of income under Part I of the Act for its taxation year in which the dividend was received by it, designate an amount not exceeding the portion of the dividend received that would, but for this subsection, be prescribed to have been paid out of the affiliate's exempt surplus in respect of the corporation and that amount

Pending Amendment

Foreign Affiliates — Partnerships — March 16, 2001

The portion of subsection 5900(2) of the Income Tax Regulations before paragraph (*a*) is replaced by the following:

(2) Notwithstanding paragraphs (1)(*a*) and (*b*), where at any time a foreign affiliate of a corporation resident in Canada pays a dividend on a share of a class of its capital stock (other than a dividend referred to in subsection 93(1) or (1.2) of the Act) to the corporation, the corporation may, in its return of income under Part I of the Act for its taxation year in which the dividend was received by it, designate an amount not exceeding the portion of the dividend received that would, but for this subsection, be prescribed to have been paid out of the affiliate's exempt surplus in respect of the corporation and that amount

Applicable: To dividends received after November 1999.

Explanatory Note: Subsection 5900(2) of the *Income Tax Regulations* allows a corporation resident in Canada to elect to have a dividend paid by a foreign affiliate of the corporation to be treated as having been paid out of the taxable surplus rather than out of the exempt surplus of the affiliate. This election is not available where the corporation has elected under subsection 93(1) of the Act to treat proceeds of disposition of a share of a foreign affiliate as a dividend. The amendment ensures that the election in subsection 5900(2) will not apply where the corporation has elected under new subsection 93(1.2) of the Act to treat all or a portion of its gain from a partnership arising on the disposition of a share of a foreign affiliate by the partnership as a dividend.

This amendment applies to dividends received after November 1999.

(*a*) is prescribed to have been paid out of the affiliate's taxable surplus in respect of the corporation and not to have been paid out of that exempt surplus; and

(*b*) for the purposes of paragraph (1)(*d*) and the definitions "underlying foreign tax" and "underlying foreign tax applicable" in subsection 5907(1) is deemed to have been paid by the affiliate to the corporation as a separate whole dividend on the shares of that class of the capital stock immediately after that time, and that whole dividend is deemed to have been paid out of the affiliate's taxable surplus in respect of the corporation.

History: S. 5900(2)(*a*) and (*b*) were amended by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994, except that

(*a*) those provisions apply to taxation years of a foreign affiliate of a taxpayer that end after 1994 where there has been a change in the taxation year of the foreign affiliate in 1994 and after February 22, 1994, unless

(i) the foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation, or

(ii) the first taxation year of the foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if there had not been that change in the taxation year of the foreign affiliate; and

(*b*) in applying subsection 5907(1) of the Regulations, for taxation years of a foreign affiliate of a taxpayer that begin before 1996 and in respect of which subsection 8(13) does not apply, the references to "designated treaty country" shall be read as "country listed in subsection (11)". S. 5900(2)(*a*) and (*b*) formerly read:

"(*a*) shall be prescribed to have been paid out of the affiliate's taxable surplus in respect of the corporation and not to have been paid out of that exempt surplus; and

(*b*) for the purposes of paragraph (1)(*d*) and paragraphs 5907(1)(*l*) and (*m*) shall be deemed to have been paid by the affiliate to the corporation as a separate whole dividend on the shares of that class of the capital stock immediately after that time and such whole dividend shall be deemed to have been paid out of the affiliate's taxable surplus in respect of the corporation."

(3) For the purposes of subsection 91(5) of the Act, where at any time an individual resident in Canada receives a dividend on a share of any class of the capital stock of a foreign affiliate of that individual, the affiliate shall be deemed to have an amount of taxable surplus in respect of the individual and the portion of the dividend paid out of the taxable surplus of the affiliate in respect of the individual is prescribed to be an amount equal to the dividend received.

Pending Amendment

Foreign Affiliates — Partnerships — March 16, 2001

Subsection 5900(3) of the Regulations is replaced by the following:

(3) For the purpose of subsection 91(5) of the Act, where at any time a person (other than a corporation) resident in Canada receives a dividend on a share of any class of the capital stock of a foreign affiliate of that person, the affiliate is deemed to have an amount of taxable surplus in respect of the person and the portion of the dividend paid out of the taxable surplus of the affiliate in respect of the person is prescribed to be an amount equal to the dividend received.

Applicable: To dividends received after November 1999.

Explanatory Note: Subsection 5900(3) of the Regulations applies where an individual resident in Canada receives a dividend from a foreign affiliate. For the purpose of subsection 91(5) of the Act, subsection 5900(3) deems the individual to have received all dividends out of the taxable surplus of the affiliate. Subsection 91(5) of the Act permits deductions in respect of dividends paid out of the taxable surplus of an affil-

iate to the extent that that surplus is represented by foreign accrual property income of the affiliate that has been taxed in the hands of the dividend recipient.

The amendment to subsection 5900(3) replaces the word "individual" with the phrase "person (other than a corporation)". This amendment clarifies that, for the purpose of subsection 91(5), where a partnership is deemed to be a person under section 96 of the Act the partnership is deemed to have received all dividends out of taxable surplus.

This amendment applies to dividends received after November 1999.

Interpretation Bulletins: *Secondary* — IT-392 Meaning of the term "share" [Archived by the CRA].

Order of Surplus Distributions

5901. **(1)** Where at any time in its taxation year a foreign affiliate of a corporation resident in Canada has paid a whole dividend on the shares of any class of its capital stock, for the purposes of this Part

(*a*) the portion of the whole dividend deemed to have been paid out of the affiliate's exempt surplus in respect of the corporation at that time is an amount equal to the lesser of

(i) the amount of the whole dividend, and

(ii) the amount by which that exempt surplus exceeds the affiliate's taxable deficit in respect of the corporation at that time;

(*b*) the portion of the whole dividend deemed to have been paid out of the affiliate's taxable surplus in respect of the corporation at that time is an amount equal to the lesser of

(i) the amount, if any, by which the amount of the whole dividend exceeds the portion determined under paragraph (*a*), and

(ii) the amount by which that taxable surplus exceeds the affiliate's exempt deficit in respect of the corporation at that time; and

(*c*) the portion of the whole dividend deemed to have been paid out of the affiliate's pre-acquisition surplus in respect of the corporation at that time is the amount by which the whole dividend exceeds the aggregate of the portions determined under paragraphs (*a*) and (*b*).

(2) Notwithstanding subsection (1), where a foreign affiliate of a corporation resident in Canada pays a whole dividend (other than a whole dividend referred to in subsection 5902(1)) at any particular time in its taxation year that is more than 90 days after the commencement of that year or at any particular time in its 1972 taxation year that is before January 1, 1972, the portion of the whole dividend that would, but for this subsection, be deemed to have been paid out of the affiliate's pre-acquisition surplus in respect of the corporation is deemed to have been paid out of the exempt surplus and taxable surplus of the affiliate in respect of the corporation to the extent that it would have been deemed to have been so paid if, immediately after the end of that year, that portion were paid as a separate whole dividend before any whole dividend paid after the particular time and after any whole dividend paid before the particular time by the affiliate, and for the purposes of determining the exempt deficit, exempt surplus, taxable deficit, taxable surplus and underlying foreign tax of the affiliate in respect of the corporation at any time, that portion is deemed to have been paid as a separate whole dividend immediately following the end of the year and not to have been paid at the particular time.

(3) Notwithstanding subsections (1) and (2), for the purposes of the definitions "exempt deficit", "exempt surplus", "taxable deficit" and "taxable surplus" in subsection 5907(1), any amount designated pursuant to subsection 5900(2) in respect of a dividend paid by a foreign affiliate of a corporation resident in Canada increases the portion of the whole dividend deemed to have been paid out of the affiliate's taxable surplus in respect of the corporation and decreases the portion of the whole dividend deemed to have been paid out of the affiliate's exempt surplus in respect of the corporation.

History: S. 5901(2) and (3) were amended by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994, except that

(*a*) those provisions apply to taxation years of a foreign affiliate of a taxpayer that end after 1994 where there has been a change in the taxation year of the foreign affiliate in 1994 and after February 22, 1994, unless

(i) the foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation, or

(ii) the first taxation year of the foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if there had not been that change in the taxation year of the foreign affiliate; and

(*b*) in applying subsection 5907(1) of the Regulations, for taxation years of a foreign affiliate of a taxpayer that begin before 1996 and in respect of which subsection 8(13) does not apply, the references to "designated treaty country" shall be read as "country listed in subsection (11)". S. 5901(2) and (3) formerly read:

"(2) Notwithstanding subsection (1), where a foreign affiliate of a corporation resident in Canada pays a whole dividend (other than a whole dividend referred to in subsection 5902 (1)) at any particular time in its taxation year that is more than 90 days after the commencement of that year or at any particular time in its 1972 taxation year that is prior to January 1, 1972, the portion thereof that would, but for this subsection, be deemed to have been paid out of the affiliate's pre-acquisition surplus in respect of the corporation shall be deemed to have been paid out of the exempt surplus and taxable surplus of the affiliate in respect of the corporation to the extent that it would have been deemed to have been so paid if, immediately following the end of that year, that portion were paid as a separate whole dividend before any whole dividend paid after the particular time and after any whole dividend paid before the particular time by the affiliate and for the purposes of determining the amounts under paragraphs 5907(1)(*d*), (*k*) and (*l*) at any time that portion shall be deemed to have been paid as a separate whole dividend immediately following the end of the year and not to have been paid at the particular time.

(3) Notwithstanding subsections (1) and (2), for the purposes of paragraphs 5907(1)(*d*) and (*k*), any amount designated pursuant to subsection 5900(2) in respect of a dividend paid by a foreign affiliate of a corporation resident in Canada shall increase the portion of the whole dividend deemed to have been paid out of the affiliate's taxable surplus in respect of the corporation and decrease the portion of the whole dividend deemed to have been paid out of the affiliate's exempt surplus in respect of the corporation."

Tax Profile: July 2008 — International Tax Planning for the Owner-Manager.

Election in Respect of Capital Gains

5902. **(1)** Where at any time a dividend is, by virtue of an election made under subsection 93(1) of the Act in respect of a disposition, deemed to have been received on one or more shares of a class of the capital stock of a particular foreign affiliate of a corporation resident in Canada, the following rules apply:

Pending Amendment

Foreign Affiliates — Partnerships — March 16, 2001

The portion of subsection 5902(1) of the Regulations before paragraph (*a*) is replaced by the following:

Election in respect of capital gains

(1) Where at any time a dividend is, because of an election made under subsection 93(1) or (1.2) of the Act in respect of a

disposition, deemed to have been received on one or more shares of a class of the capital stock of a particular foreign affiliate of a corporation resident in Canada, the following rules apply:

Applicable: To dispositions that occur after November 1999.

Explanatory Note: Section 5902 of the Regulations applies where a corporation elects to treat proceeds of disposition of a share of a foreign affiliate as a dividend under subsection 93(1) of the Act. Subsection 5902(1) computes a foreign affiliate's surplus accounts and the amount of a whole dividend used in applying subsection 5901(1) for the purposes of subsection 5900(1) of the Regulations. The amendment to subsection 5902(1) ensures that the subsection will also apply where the corporation resident in Canada has elected under new subsection 93(1.2) of the Act to treat a gain from a partnership arising on the disposition of a share of a foreign affiliate of the corporation by the partnership as a dividend.

This amendment applies to dispositions that occur after November 1999.

(*a*) determine the amounts that would be the particular affiliate's exempt surplus or exempt deficit, taxable surplus or taxable deficit, underlying foreign tax and net surplus in respect of the corporation at that time if

(i) each other foreign affiliate of the corporation in which the affiliate had an equity percentage had immediately before that time paid a dividend equal to its net surplus in respect of the corporation immediately before the dividend was paid, and

(ii) any dividend referred to in subparagraph (i) that any other foreign affiliate would have received had been received by it immediately before any such dividend that it would have paid;

(*b*) determine the amount that would have been received on the shares (of that class) in respect of which an election is made, if the particular affiliate had at that time paid dividends the aggregate of which on all shares of its capital stock was equal to the amount of its net surplus referred to in paragraph (*a*); and

(*c*) for the purposes only of subsection 5900(1), in applying the provisions of subsection 5901(1)

(i) the particular affiliate's exempt surplus or exempt deficit, taxable surplus or taxable deficit and underlying foreign tax in respect of the corporation shall be deemed to be the respective amounts thereof referred to in paragraph (*a*), and

(ii) the particular affiliate shall be deemed to have paid a whole dividend at that time on the shares of that class of its capital stock in an amount equal to the product obtained when the aggregate of amounts so deemed by subsection 93(1) of the Act to have been received as dividends on shares of that class is multiplied by the greater of

Pending Amendment

Foreign Affiliates — Partnerships — March 16, 2001

The portion of subparagraph 5902(1)(*c*)(ii) of the Regulations before clause (A) is replaced by the following:

(ii) the particular affiliate is deemed to have paid a whole dividend at that time on the shares of that class of its capital stock in an amount equal to the product obtained when the total of amounts so deemed by subsection 93(1) or (1.2) of the Act to have been received as dividends on shares of that class is multiplied by the greater of

Applicable: To dispositions that occur after November 1999.

Explanatory Note: Section 5902 of the Regulations applies where a corporation elects to treat proceeds of disposition of a share of a foreign affiliate as a dividend under subsection 93(1) of the Act. Subsection 5902(1) computes a foreign affiliate's surplus accounts and the amount of a whole dividend used in applying subsection 5901(1) for the purposes of subsection 5900(1) of the Regulations. The amendment to subsection 5902(1) ensures that the subsection will also apply where the corporation resident in Canada has elected under new subsection 93(1.2) of the Act to treat a gain from a partnership arising on the disposition of a share of a foreign affiliate of the corporation by the partnership as a dividend.

This amendment applies to dispositions that occur after November 1999.

(A) one, and

(B) the proportion that the amount of the particular affiliate's net surplus determined under paragraph (*a*) is of the amount determined under paragraph (*b*), except that where the amount determined under paragraph (*b*) is less than one, the amount determined under paragraph (*b*) is deemed for the purpose of this clause to be one.

Pending Amendment

Foreign Affiliates — February 27, 2004

Subsection 5902(1) of the Income Tax Regulations is replaced by the following:

(1) If, at a particular time, one or more shares (each of which is referred to in this subsection as a "disposed share") of a class (referred to in this subsection as the specified class) of the capital stock of a particular foreign affiliate of a corporation resident in Canada are disposed of by a particular shareholder of the particular foreign affiliate and, because of an election made under subsection 93(1) or (1.2), as the case may be, of the Act in respect of that disposition, a dividend is deemed under subsection 93(1) or (1.2) of the Act to have been received on a disposed share at the time (referred to in this subsection and section 5905 as the "dividend time") that is immediately before the particular time, the following rules apply:

(*a*) the amount of the particular foreign affiliate's exempt surplus, in respect of the corporation resident in Canada, (in this subsection referred to as the "consolidated exempt surplus" in respect of the corporation resident in Canada) at the time (in this section and in section 5905 referred to as the "calculation time") that is immediately before the dividend time, is deemed to be the amount that would be its exempt surplus, in respect of the corporation resident in Canada, at the calculation time if

(i) the particular foreign affiliate and each other foreign affiliate of the corporation resident in Canada in which the particular foreign affiliate had, at the calculation time, an equity percentage (each of which other foreign affiliates is referred to in this section as a "subsidiary affiliate") had (except for the purpose of determining consolidated net surplus in respect of the corporation resident in Canada in subparagraph (iii)), at the calculation time, no amount of exempt deficit, taxable surplus or taxable deficit, in respect of the corporation resident in Canada,

(ii) the amount of the exempt surplus, in respect of the corporation resident in Canada, of the particular foreign affiliate were, immediately before the calculation time, increased by the total of all amounts each of which is an amount equal to the particular foreign affiliate's proportionate share of the amount that

would be the exempt surplus, in respect of the corporation resident in Canada, of a subsidiary affiliate in which it has, immediately before the calculation time, a direct equity percentage if that exempt surplus were, immediately before the calculation time, determined in the following manner:

(A) the exempt surplus, in respect of the corporation resident in Canada, of the subsidiary affiliate, were increased by the subsidiary affiliate's proportionate share of the exempt surplus of a foreign affiliate of the corporation resident in Canada in which the subsidiary affiliate has, immediately before the time that is immediately before the calculation time, a direct equity percentage, and

(B) the exempt surplus, in respect of the corporation resident in Canada, of a subsidiary affiliate in which another subsidiary affiliate has a direct equity percentage, were increased because of this subparagraph before the increase in that other subsidiary affiliate's exempt surplus in respect of the corporation resident in Canada,

(iii) for the purpose of subparagraph (ii), the proportionate share, at any time, of a foreign affiliate (referred to in this subparagraph as the "calculating foreign affiliate") of the corporation resident in Canada, of the exempt surplus, in respect of the corporation resident in Canada, of another foreign affiliate (referred to in this subparagraph as the "providing foreign affiliate") of the corporation resident in Canada in which the calculating foreign affiliate has a direct equity percentage were equal to the proportion determined by the following formula:

A/B

where

A is the amount of dividends that would be received, at that time, by the calculating foreign affiliate from the providing foreign affiliate if, at that time, the providing foreign affiliate had paid dividends on all of its shares and the total of those dividends were equal to its consolidated net surplus (determined using the provisions of this subsection on the assumption that the providing foreign affiliate were the particular foreign affiliate), in respect of the corporation resident in Canada, or, where it does not have such a consolidated net surplus, in respect of the corporation resident in Canada, its consolidated exempt surplus (determined in accordance with this paragraph on the assumption that the providing foreign affiliate were the particular foreign affiliate), in respect of the corporation resident in Canada, at that time, and

B is the amount of the providing foreign affiliate's consolidated net surplus (determined using the provisions of this subsection on the assumption that the providing foreign affiliate were the particular foreign affiliate), in respect of the corporation resident in Canada, or, where it does not have such consolidated net surplus, its consolidated exempt surplus (determined in accordance with this paragraph on the assumption that the providing foreign affiliate were the particular foreign affiliate), in respect of the corporation resident in Canada, at that time, and

(iv) in determining, under this paragraph, the particular foreign affiliate's consolidated exempt surplus, in respect of the corporation resident in Canada,

(A) no amount were included, directly or indirectly, in respect of the exempt surplus, in respect of the corporation resident in Canada, of the particular shareholder, of the particular foreign affiliate, that disposed of the disposed share, and

(B) no amount were included, directly or indirectly, in respect of the exempt surplus, in respect of the corporation resident in Canada, of the particular foreign affiliate or any subsidiary affiliate more than once;

(*b*) the amount of the particular foreign affiliate's exempt deficit, in respect of the corporation resident in Canada, (in this subsection referred to as the "consolidated exempt deficit" in respect of the corporation resident in Canada) at the calculation time, is deemed to be the amount that would be its exempt deficit, in respect of the corporation resident in Canada, at that time if

(i) the particular foreign affiliate and each subsidiary affiliate had (except for the purpose of determining consolidated net surplus, in respect of the corporation resident in Canada, in subparagraph (iii)), at the calculation time, no amount of exempt surplus, taxable surplus or taxable deficit, in respect of the corporation resident in Canada,

(ii) the amount of the exempt deficit, in respect of the corporation resident in Canada, of the particular foreign affiliate, were, immediately before the calculation time, increased by the total of all amounts each of which is an amount equal to the particular foreign affiliate's proportionate share of the exempt deficit, in respect of the corporation resident in Canada, of a subsidiary affiliate in which the particular foreign affiliate has, immediately before the calculation time, a direct equity percentage if that exempt deficit were, immediately before the calculation time, determined in the following manner:

(A) the exempt deficit, in respect of the corporation resident in Canada, of the subsidiary affiliate, were increased by the subsidiary affiliate's proportionate share of the exempt deficit of a foreign affiliate of the corporation resident in Canada in which the subsidiary affiliate has, immediately before the time that is immediately before the calculation time, a direct equity percentage, and

(B) the exempt deficit, in respect of the corporation resident in Canada, of a subsidiary affiliate in which another subsidiary affiliate has a direct equity percentage, were increased because of this subparagraph before the increase in that other subsidiary affiliate's exempt deficit in respect of the corporation resident in Canada,

(iii) for the purpose of subparagraph (ii), the proportionate share, at any time, of a foreign affiliate (referred to in this subparagraph as the "calculating foreign affiliate") of the corporation resident in Canada, of the exempt deficit, in respect of the corporation resident in Canada, of another foreign affiliate (referred to in this subparagraph as the "providing foreign affiliate") of the corporation resident in Canada in which the calculating foreign affiliate has a direct equity percentage were equal to the proportion determined by the following formula:

A/B

where

A is the amount of dividends that would be received by the calculating foreign affiliate from the providing foreign affiliate if, at that time, the providing foreign affiliate had paid dividends on all of its shares and the total of those dividends were equal to its consolidated net surplus (determined using the provisions of this subsection on the assumption that the providing foreign affiliate were the particular foreign affiliate), in respect of the corporation resident in Canada, or, where it does not have such consolidated net surplus, its exempt deficit (determined in accordance with this paragraph on the assumption that the providing foreign affiliate were the particular foreign affiliate), in respect of the corporation resident in Canada, at that time, and

B is the amount of the providing foreign affiliate's consolidated net surplus (determined using the provisions of this subsection on the assumption that the providing foreign affiliate were the particular foreign affiliate), in respect of the corporation resident in Canada, or, where it does not have such consolidated net surplus, its consoli-

dated exempt deficit (determined in accordance with this paragraph on the assumption that the providing foreign affiliate were the particular foreign affiliate), in respect of the corporation resident in Canada, at that time, and

(iv) in determining, under this paragraph, the particular foreign affiliate's consolidated exempt deficit, in respect of the corporation resident in Canada,

(A) no amount were included, directly or indirectly, in respect of the exempt deficit, in respect of the corporation resident in Canada, of the particular shareholder, of the particular foreign affiliate, that disposed of the disposed share, and

(B) no amount were included, directly or indirectly, in respect of the exempt deficit, in respect of the corporation resident in Canada, of the particular foreign affiliate or any subsidiary affiliate more than once;

(*c*) the amount of the particular foreign affiliate's taxable surplus and underlying foreign tax, in respect of the corporation resident in Canada, (referred to, respectively, in this subsection as the "consolidated taxable surplus", and "consolidated underlying foreign tax", in respect of the corporation resident in Canada) at the calculation time, is deemed to be the amount that would be its taxable surplus, and underlying foreign tax, in respect of the corporation resident in Canada, at that time, if

(i) the particular foreign affiliate and each subsidiary affiliate had (except for the purpose of determining consolidated net surplus, in respect of the corporation resident in Canada, in subparagraph (iii)), at the calculation time, no amount of exempt surplus, exempt deficit or taxable deficit, in respect of the corporation resident in Canada,

(ii) the amount of the taxable surplus, and underlying foreign tax, in respect of the corporation resident in Canada, of the particular foreign affiliate, were, immediately before the calculation time, increased by an amount equal to the total of all amounts each of which is the particular foreign affiliate's proportionate share of the taxable surplus, or underlying foreign tax, as the case may be, in respect of the corporation resident in Canada, of a subsidiary affiliate in which the particular foreign affiliate has, immediately before the calculation time, a direct equity percentage if that taxable surplus and underlying foreign tax were, immediately before the calculation time, determined in the following manner:

(A) the taxable surplus, and underlying foreign tax, in respect of the corporation resident in Canada, of the subsidiary affiliate, were increased by the subsidiary affiliate's proportionate share of the taxable surplus, or underlying foreign tax, respectively, of a foreign affiliate of the corporation resident in Canada in which the subsidiary affiliate had, immediately before the time that is immediately before the calculation time, a direct equity percentage, and

(B) the taxable surplus, and underlying foreign tax, in respect of the corporation resident in Canada, of a subsidiary affiliate in which another subsidiary affiliate has a direct equity percentage, were increased because of this subparagraph before the increase in that other subsidiary affiliate's taxable surplus, and underlying foreign tax, respectively, in respect of the corporation resident in Canada,

(iii) for the purpose of subparagraph (ii), the proportionate share, at any time, of a foreign affiliate (referred to in this subparagraph as the "calculating foreign affiliate") of the corporation resident in Canada, of the taxable surplus, or underlying foreign tax, as the case may be, in respect of the corporation resident in Canada, of another foreign affiliate (referred to in this subparagraph as the "providing foreign affiliate") of the corporation resident in Canada in which the particular foreign affiliate has a direct equity percentage were equal to the proportion determined by the following formula:

A/B

where

A is the amount of dividends that would be received, at that time, by the calculating foreign affiliate from the providing foreign affiliate if, at that time, the providing foreign affiliate had paid dividends on all of its shares and the total of those dividends were equal to its consolidated net surplus (determined using the provisions of this subsection on the assumption that the providing foreign affiliate were the particular foreign affiliate), in respect of the corporation resident in Canada, or, where it does not have such consolidated net surplus, its consolidated taxable surplus (determined in accordance with this paragraph on the assumption that the providing foreign affiliate were the particular foreign affiliate), in respect of the corporation resident in Canada, at that time, and

B is the amount of the providing foreign affiliate's consolidated net surplus (determined using the provisions of this subsection on the assumption that the providing foreign affiliate were the particular foreign affiliate), in respect of the corporation resident in Canada, or, where it does not have such consolidated net surplus, its consolidated taxable surplus (determined in accordance with this paragraph on the assumption that the providing foreign affiliate were the particular foreign affiliate), in respect of the corporation resident in Canada, at that time, and

(iv) in determining, under this paragraph, the particular foreign affiliate's consolidated taxable surplus, and consolidated underlying foreign tax, in respect of the corporation resident in Canada,

(A) no amount were included, directly or indirectly, in respect of the taxable surplus, and underlying foreign tax, in respect of the corporation resident in Canada, of the particular shareholder, of the particular foreign affiliate, that disposed of the disposed share, and

(B) no amount were included, directly or indirectly, in respect of the taxable surplus, and underlying foreign tax, in respect of the corporation resident in Canada, of the particular foreign affiliate or any subsidiary affiliate more than once;

(*d*) the amount of the particular foreign affiliate's taxable deficit, in respect of the corporation resident in Canada, (in this subsection referred to as the "consolidated taxable deficit" in respect of the corporation resident in Canada) at the calculation time is deemed to be the amount that would be its taxable deficit, in respect of the corporation resident in Canada, at that time if

(i) the particular foreign affiliate and each subsidiary affiliate had (except for the purpose of determining consolidated net surplus, in respect of the corporation resident in Canada, in subparagraph (iii)), at the calculation time, no amount of exempt surplus, exempt deficit or taxable surplus, in respect of the corporation resident in Canada,

(ii) the amount of the taxable deficit, in respect of the corporation resident in Canada, of the particular foreign affiliate, were, immediately before the calculation time, increased by the total of all amounts each of which is an amount equal to the particular foreign affiliate's proportionate share of the taxable deficit, in respect of the corporation resident in Canada, of a subsidiary affiliate in which the particular foreign affiliate has, immediately before the calculation time, a direct equity percentage if that taxable deficit were, immediately before the calculation time, determined in the following manner:

(A) the taxable deficit, in respect of the corporation resident in Canada, of the subsidiary affiliate, were increased by the subsidiary affiliate's proportionate share of the taxable deficit of a foreign affiliate of the corporation resident in Canada in which the subsidiary affiliate had, immediately before the time that is immediately before the calculation time, a direct equity percentage, and

(B) the taxable deficit, in respect of the corporation resident in Canada, of a subsidiary affiliate in which another subsidiary affiliate has a direct equity percentage, were increased because of this subparagraph before the increase in that other subsidiary affiliate's taxable deficit in respect of the corporation resident in Canada,

(iii) for the purpose of subparagraph (ii), the proportionate share, at any time, of a foreign affiliate (referred to in this subparagraph as the "calculating foreign affiliate") of the corporation resident in Canada, of the taxable deficit, in respect of the corporation resident in Canada, of another foreign affiliate (referred to in this subparagraph as the "providing foreign affiliate") of the corporation resident in Canada in which the calculating foreign affiliate has a direct equity percentage were equal to the proportion determined by the following formula:

A/B

where

A is the amount of dividends that would be received, at that time, by the calculating foreign affiliate from the providing foreign affiliate if, at that time, the providing foreign affiliate had paid dividends on all of its shares and the total of those dividends were equal to its consolidated net surplus (determined using the provisions of this subsection on the assumption that the providing foreign affiliate were the particular foreign affiliate), in respect of the corporation resident in Canada, or, where it does not have such consolidated net surplus, its consolidated taxable deficit (determined in accordance with this paragraph on the assumption that the providing foreign affiliate were the particular foreign affiliate), in respect of the corporation resident in Canada, at that time, and

B is the amount of the providing foreign affiliate's consolidated net surplus (determined using the provisions of this subsection on the assumption that the providing foreign affiliate were the particular foreign affiliate), in respect of the corporation resident in Canada, or, where it does not have such consolidated net surplus, its consolidated taxable deficit (determined in accordance with this paragraph on the assumption that the providing foreign affiliate were the particular foreign affiliate), in respect of the corporation resident in Canada, at that time, and

(iv) in determining, under this paragraph, the particular foreign affiliate's consolidated taxable deficit, in respect of the corporation resident in Canada,

(A) no amount were included, directly or indirectly, in respect of taxable deficit, in respect of the corporation resident in Canada, of the particular shareholder, of the particular foreign affiliate, that disposed of the disposed share, and

(B) no amount were included, directly or indirectly, in respect of the taxable deficit, in respect of the corporation resident in Canada, of the particular foreign affiliate or any subsidiary affiliate more than once;

(*e*) for the purpose of applying subsection 5901(1) to subsection 5900(1), and for the purpose of paragraph (*f*),

(i) the particular foreign affiliate's exempt surplus, in respect of the corporation resident in Canada, immediately before the dividend time, is deemed to be equal to the amount, if any, by which the particular foreign affiliate's consolidated exempt surplus, in respect of the corporation resident in Canada, exceeds the amount of the particular foreign affiliate's consolidated exempt deficit, in respect of the corporation resident in Canada, at that time (or, if there is no such excess, nil),

(ii) the particular foreign affiliate's exempt deficit in respect of the corporation resident in Canada, immediately before the dividend time, is deemed to be equal to the amount, if any, by which the particular foreign affiliate's consolidated exempt deficit, in respect of the corporation resident in Canada, exceeds the amount of the particular foreign affiliate's consolidated exempt surplus, in respect of the corporation resident in Canada, at that time (or, if there is no such excess, nil),

(iii) the particular foreign affiliate's taxable surplus, in respect of the corporation resident in Canada, immediately before the dividend time, is deemed to be equal to the amount, if any, by which the particular foreign affiliate's consolidated taxable surplus, in respect of the corporation resident in Canada, exceeds the amount of the particular foreign affiliate's consolidated taxable deficit, in respect of the corporation resident in Canada, at that time (or, if there is no such excess, nil),

(iv) the particular foreign affiliate's taxable deficit, in respect of the corporation resident in Canada, immediately before the dividend time, is deemed to be equal to the amount, if any, by which the particular foreign affiliate's consolidated taxable deficit, in respect of the corporation resident in Canada, exceeds the amount of the particular foreign affiliate's consolidated taxable surplus, in respect of the corporation resident in Canada, at that time (or, if there is no such excess, nil),

(v) the particular foreign affiliate's underlying foreign tax, in respect of the corporation resident in Canada, immediately before the dividend time, is deemed to be equal to the amount of the particular foreign affiliate's consolidated underlying foreign tax, in respect of the corporation resident in Canada, at that time, and

(vi) the particular foreign affiliate's consolidated net surplus, in respect of the corporation resident in Canada, immediately before the dividend time, is deemed to be equal to the amount, if any, by which

(A) the total of the particular foreign affiliate's consolidated exempt surplus, in respect of the corporation resident in Canada, at that time, and the particular foreign affiliate's consolidated taxable surplus, in respect of the corporation resident in Canada, at that time,

exceeds

(B) the total of the particular foreign affiliate's consolidated exempt deficit, in respect of the corporation resident in Canada, at that time, and the particular foreign affiliate's consolidated taxable deficit, in respect of the corporation resident in Canada, at that time;

(*f*) the attributed net surplus in respect of a disposed share of the specified class in respect of the particular foreign affiliate's consolidated net surplus, in respect of the corporation resident in Canada, immediately before the dividend time, is deemed to be equal to the amount that would be received by the holder of the disposed share, in respect of the disposed share, at the dividend time, if the particular foreign affiliate paid a dividend, at that time, on all of its shares, the total of which was equal to the amount of its consolidated net surplus, in respect of the corporation resident in Canada, immediately before the dividend time;

(*g*) for the purpose of applying subsection 5901(1) to subsection 5900(1), the amount of the whole dividend paid by the particular foreign affiliate, at the dividend time, on the shares of the specified class is deemed to be equal to the amount obtained when the total of all amounts each of which is an amount deemed by subsection 93(1) or (1.2) of the Act to have been received as a dividend on a disposed share of the specified class is multiplied by the greater of

(i) one, and

(ii) the amount determined by the formula

A/B

where

A is the amount determined, under subparagraph (*e*)(vi), to be the amount of the particular foreign affiliate's consolidated net surplus in respect of the corporation, immediately before the dividend time, and

B is the greater of

(A) one, and

(B) the total of all amounts each of which is the amount determined, under paragraph (*f*), to be the amount of the attributed net surplus, in respect of a disposed share of the specified class, in respect of the particular foreign affiliate's consolidated net surplus, in respect of the corporation resident in Canada, immediately before the dividend time;

(*h*) the amount prescribed, for the purpose of subsection 93(1) or (1.2) of the Act, as the case may be, in respect of a disposition of a disposed share of the specified class is not to exceed the amount determined, under paragraph (*f*), to be the amount of the attributed net surplus in respect of the disposed share in respect of the particular foreign affiliate's consolidated net surplus, in respect of the corporation resident in Canada, immediately before the dividend time; and

(*i*) for the purposes of paragraphs (*a*) to (*d*), the consolidated net surplus, at any time, in respect of a corporation resident in Canada, of a particular foreign affiliate of the corporation resident in Canada, is the amount that would be determined in subparagraph (*e*) in respect of the particular foreign affiliate if the reference in that paragraph to the expression "immediately before the dividend time" were read as a reference to the expression "at any time".

Applicable: In respect of elections made under subsection 93(1) or (1.2) of the *Income Tax Act* in respect of dispositions that occur after December 20, 2002 other than elections made pursuant to dispositions required to be made under an agreement in writing made by a vendor on or before December 20, 2002, except that

(*a*) if an election has been made by a taxpayer under subsection 93(1) or (1.2) of the *Income Tax Act* in respect of a disposition that occurs after December 20, 2002 and on or before February 27, 2004 (other than a disposition required to be made under an agreement in writing made by a vendor on or before December 20, 2002) and the taxpayer has made a valid election [in respect of new paragraphs 95(2)(*c*.1) to (*c*.6) of the Act as proposed in the February 27, 2004 draft legislation.]

(i) [the amendments to subsections 5902(1), (3) and (6), the repeal of subsection 5902(2) and the addition of subsection 5902(7) of the Regulations do] not apply in respect of the taxpayer in respect of the disposition, and

(ii) the Regulations are, in respect of the taxpayer in respect of that election, to be read as though section 5902 of the Regulations contained a subsection (6.1) that reads as follows:

"(6.1) If an election under subsection 93(1) or (1.2) of the Act is made at any time by a particular corporation resident in Canada in respect of a share of the capital stock of a foreign affiliate (in this subsection referred to as the 'particular affiliate') of the particular corporation that is disposed of to the particular corporation, to another corporation resident in Canada with which the particular corporation does not deal at arm's length or to another foreign affiliate of the particular corporation, the amount of the particular affiliate's exempt surplus or exempt deficit, taxable surplus or taxable deficit, underlying foreign tax and net surplus in respect of the particular corporation at that time is to be determined under paragraph (1)(*a*) as if the amount of any dividend referred to in subparagraph (1)(*a*)(i) or (ii) were nil;"

(*b*) [the amendments to subsections 5902(1), (3) and (6), the repeal of subsection 5902(2) and the addition of subsection 5902(7) of the Regulations do] not apply in respect of a taxpayer in respect of an election made by the taxpayer under subsection 93(1) or (1.2) of the *Income Tax Act* in respect of a disposition (other than a disposition required to be made under an agreement in writing made by a vendor on or before December 20, 2002) that occurs after December 20, 2002 and on or before February 27, 2004, if

(i) the taxpayer has not made a valid election [in respect of new paragraphs 95(2)(*c*.1) to (*c*.6) of the Act as proposed in the February 27, 2004 draft legislation], and

(ii) none of paragraphs 88(3)(*a*), as enacted by subsection 130(2) of those Legislative Proposals, and 95(2)(*c*.2) and 95(2)(*d*) to (*e*.5) as enacted by the February 27, 2004 draft legislation applies to the disposition; and

(*c*) [the amendments to subsections 5902(1), (3) and (6), the repeal of subsection 5902(2) and the addition of subsection 5902(7) of the Regulations do] not apply in respect of a taxpayer in respect of an election made by the taxpayer under subsection 93(1) or (1.2) of the *Income Tax Act* in respect of a disposition that occurs after February 27, 2004, if

(i) the disposition is made under an agreement in writing made by a vendor on or before February 27, 2004, and

(ii) none of paragraphs 88(3)(*a*), and 95(2)(*c*.2) and 95(2)(*d*) to (*e*.5), of the *Income Tax Act* as enacted by the February 27, 2004 draft legislation applies to the disposition.

Explanatory Note: Section 5902 of the Income Tax Regulations applies where a corporation elects to treat proceeds of disposition of a share of a foreign affiliate as a dividend under subsection 93(1) of the *Income Tax Act*. Subsection 5902(1) of the Regulations computes a foreign affiliate's surplus accounts and the amount of a whole dividend used in applying subsection 5901(1) for the purposes of subsection 5900(1) of the Regulations.

Subsection 5902(1) is replaced with a new subsection that changes how the exempt surplus or exempt deficit, taxable surplus or taxable deficit, underlying foreign tax and net surplus is determined for the foreign affiliate of a corporation resident in Canada whose shares are disposed of and in respect of which disposition an election under subsection 93(1) or (1.2) of the Act is made by the corporation resident in Canada.

Under proposed subsection 5902(1), the surplus balances of the foreign affiliate of the corporation resident in Canada (the "disposed foreign affiliate") are to be computed using a new consolidation approach, which will take into account the surpluses and deficits of foreign affiliates, for the disposed foreign affiliate and any other foreign affiliate of the corporation resident in Canada in which the disposed foreign affiliate has an equity percentage.

As well, under proposed subsection 5902(1), the amount of an election in respect of a disposed share will be capped at the amount of the attributed net surplus in respect of the share determined under the rules in that new subsection.

New subsection 5902(1) provides that, in respect of a corporation resident in Canada, the following rules apply if, at a particular time, one or more shares (a "disposed share") of a class (the "specified class") of a particular foreign affiliate of the corporation resident in Canada is disposed of by a particular shareholder of the particular foreign affiliate and, because of an election made under subsection 93(1) or (1.2) of the Act in respect of that disposition, a dividend is deemed under subsection 93(1) or (1.2) of the Act to have been received on a disposed share at the time (the "dividend time") that is immediately before the particular time.

- New paragraph (*a*) deems the amount of the particular foreign affiliate's exempt surplus (the "consolidated exempt surplus"), at the time (in this subsection and also in section 5905, the "calculation time") that is immediately before the dividend time, to be the amount that would be its exempt surplus, at the calculation time, if:
  - the particular foreign affiliate and each other foreign affiliate of the corporation resident in Canada in which the particular foreign affiliate had, at the calculation time, an equity percentage (a "subsidiary affiliate"), had (except in determining under subparagraph 5902(1)(*a*)(iii) the consolidated net surplus in respect of the corporation resident in Canada), at the calculation time, no amount of exempt deficit, taxable surplus or taxable deficit,
  - the amount of the exempt surplus of the particular foreign affiliate were, immediately before the calculation time, increased by the particular foreign affiliate's proportionate share (determined below) of the exempt surplus of each subsidiary affiliate in which it has, immediately before the time that is immediately before the calculation time, a direct equity percentage if that exempt surplus in respect of the corporation resident in Canada were computed in the following manner:
    - the exempt surplus in respect of the corporation resident in Canada of the subsidiary affiliate were

increased by the subsidiary affiliate's proportionate share of the exempt surplus of a foreign affiliate of the corporation resident in Canada in which the subsidiary affiliate has, immediately before the time that is immediately before the calculation time, a direct equity percentage; and

- the exempt surplus in respect of the corporation resident in Canada of a subsidiary affiliate in which another subsidiary affiliate has a direct equity percentage, were increased before the increase in that other subsidiary affiliate's exempt surplus in respect of the corporation resident in Canada;

— the proportionate share, at any time, of a foreign affiliate (the "calculating foreign affiliate") of the corporation resident in Canada, of the exempt surplus of another foreign affiliate (the "providing foreign affiliate") of the corporation resident in Canada in which the calculating foreign affiliate has a direct equity percentage were equal to the proportion determined by the formula:

A/B

where

A is the amount of dividends that would be received, at that time, by the calculating foreign affiliate from the providing foreign affiliate if, at that time, the providing foreign affiliate had paid dividends on all of its shares and the total of those dividends were equal to its consolidated net surplus (determined assuming that the providing foreign affiliate were the particular foreign affiliate), or, where it does not have such a consolidated net surplus, its consolidated exempt surplus (determined assuming that the providing foreign affiliate were the particular foreign affiliate), at that time; and

B is the amount of the providing foreign affiliate's consolidated net surplus (determined assuming that the providing foreign affiliate were the particular foreign affiliate), or, where it does not have such a consolidated net surplus, its consolidated exempt surplus (determined assuming that the providing foreign affiliate were the particular foreign affiliate), at that time; and

— in determining the particular foreign affiliate's consolidated exempt surplus in respect of the corporation resident in Canada,

- no amount were included, directly or indirectly, in respect of exempt surplus in respect of the corporation resident in Canada of the particular shareholder of the particular foreign affiliate that disposed of the disposed share, and
- no amount were included, directly or indirectly, in respect of exempt surplus in respect of the corporation resident in Canada of the particular foreign affiliate or any subsidiary affiliate more than once.

- New paragraph (*b*) deems the amount of the particular foreign affiliate's exempt deficit (the "consolidated exempt deficit") in respect of the corporation resident in Canada, at the calculation time, to be the amount that would be its exempt deficit in respect of the corporation resident in Canada, at that time, if:

— the particular foreign affiliate and each subsidiary affiliate had (except for the purpose of determining consolidated net surplus), at the calculation time, no amount of exempt surplus, taxable surplus or taxable deficit, in respect of the corporation resident in Canada,

— the amount of the exempt deficit in respect of the corporation resident in Canada of the particular foreign affiliate, were, immediately before the calculation time, increased by the particular foreign affiliate's proportionate share (determined below) of the exempt deficit in respect of the corporation resident in Canada of each subsidiary affiliate in which it has, immediately before the calculation time, a direct equity percentage, if that exempt deficit in respect of the corporation resident in Canada were, immediately before the calculation time, determined in the following manner:

- the exempt deficit, in respect of the corporation resident in Canada, of the subsidiary affiliate, were increased by the subsidiary affiliate's proportionate share (determined below) of the exempt deficit in respect of the corporation resident in Canada of a foreign affiliate of the corporation resident in Canada in which the subsidiary affiliate has, immediately before the time that is immediately before the calculation time, a direct equity percentage; and
- the exempt deficit in respect of the corporation resident in Canada, of a subsidiary affiliate in which another subsidiary affiliate has a direct equity percentage, were increased before the increase in that other subsidiary affiliate's deficit in respect of the corporation resident in Canada;

— the proportionate share (referred to above), at any time, of a calculating foreign affiliate of the exempt deficit in respect of the corporation resident in Canada of a providing foreign affiliate is equal to the proportion determined by the following formula:

A/B

where

A is the amount of dividends that would be received by the calculating foreign affiliate from the providing foreign affiliate if, at that time, the providing foreign affiliate had paid dividends on all of its shares and the total amount of those dividends were equal to its consolidated net surplus (determined assuming that the providing foreign affiliate were the particular foreign affiliate) in respect of the corporation resident in Canada, or, where it does not have such a consolidated net surplus, its exempt deficit (determined assuming that the providing foreign affiliate were the particular foreign affiliate) in respect of the corporation resident in Canada, at that time; and

B is the amount of the providing foreign affiliate's consolidated net surplus (determined assuming that the providing foreign affiliate were the particular foreign affiliate) in respect of the corporation resident in Canada, or, where it does not have such a consolidated net surplus, its consolidated exempt deficit (determined assuming that the providing foreign affiliate were the particular foreign affiliate), in respect of the corporation resident in Canada, at that time; and

— in determining the particular foreign affiliate's consolidated exempt deficit in respect of the corporation resident in Canada,

- no amount were included, directly or indirectly, in respect of the exempt deficit in respect of the corporation resident in Canada of the particular shareholder of the particular foreign affiliate that disposed of the disposed share, and
- no amount were included, directly or indirectly, in respect of the exempt deficit in respect of the corporation resident in Canada of the particular foreign affiliate or any subsidiary affiliate more than once.

- New paragraph (*c*) deems the amount of the particular foreign affiliate's taxable surplus and underlying foreign tax, in respect of the corporation resident in Canada (the "consolidated taxable surplus", and "consolidated underlying foreign tax", respectively), at the calculation time, to be the amount that would be its taxable surplus, and underlying foreign tax, in respect of the corporation resident in Canada, at that time, if:

— the particular foreign affiliate and each subsidiary affiliate had, at the calculation time, no amount of exempt surplus, exempt deficit or taxable deficit, in respect of the corporation resident in Canada,

— the amount of the taxable surplus and underlying foreign tax in respect of the corporation resident in

Canada of the particular foreign affiliate, were, immediately before the calculation time, increased by the particular foreign affiliate's proportionate share (described below) of the taxable surplus or underlying foreign tax in respect of the corporation resident in Canada of each subsidiary affiliate in which the particular foreign affiliate has, immediately before the calculation time, a direct equity percentage if that taxable surplus, and underlying foreign tax, in respect of the corporation resident in Canada were, immediately before the calculation time, determined in the following manner:

- the taxable surplus and underlying foreign tax, in respect of the corporation resident in Canada, of the subsidiary affiliate were increased by the subsidiary affiliate's proportionate share of the taxable surplus or underlying foreign tax, in respect of the corporation resident in Canada, of a foreign affiliate of the corporation resident in Canada in which the subsidiary affiliate had, immediately before the time that is immediately before the calculation time, a direct equity percentage; and
- the taxable surplus, and underlying foreign tax in respect of the corporation resident in Canada, of a subsidiary affiliate in which another subsidiary affiliate has a direct equity percentage, were increased before the increase in that other subsidiary affiliate's taxable surplus and underlying foreign tax, in respect of the corporation resident in Canada;

— the proportionate share, at any time, of a calculating foreign affiliate of the taxable surplus or underlying foreign tax of a providing foreign affiliate were equal to the proportion determined by the following formula:

A/B

where

A is the amount of dividends that would be received, at that time, by the calculating foreign affiliate from the providing foreign affiliate if, at that time, the providing foreign affiliate had paid dividends on all of its shares and the total of those dividends were equal to its consolidated net surplus (determined assuming that the providing foreign affiliate were the particular foreign affiliate), in respect of the corporation resident in Canada, or, where it does not have such a consolidated net surplus, its consolidated taxable surplus (determined assuming that the providing foreign affiliate were the particular foreign affiliate), in respect of the corporation resident in Canada, at that time, and

B is the amount of the providing foreign affiliate's consolidated net surplus (determined assuming that the providing foreign affiliate were the particular foreign affiliate), in respect of the corporation resident in Canada, or, where it does not have such a consolidated net surplus, its consolidated taxable surplus (determined assuming that the providing foreign affiliate were the particular foreign affiliate), in respect of the corporation resident in Canada, at that time, and

— in determining the particular foreign affiliate's consolidated taxable surplus, and consolidated underlying foreign tax

- no amount were included, directly or indirectly, in respect of the taxable surplus and underlying foreign tax in respect of the corporation resident in Canada, of the particular shareholder of the particular foreign affiliate that disposed of the disposed share, and
- no amount were included, directly or indirectly, in respect of the taxable surplus and underlying foreign tax in respect of the corporation resident in Canada of the particular foreign affiliate or any subsidiary affiliate more than once.

- New paragraph (*d*) deems the amount of the particular foreign affiliate's taxable deficit (the "consolidated taxable deficit"), in respect of the corporation resident in Canada, at the calculation time, to be the amount that would be its taxable deficit, at that time if

— the particular foreign affiliate and each subsidiary affiliate had (except in determining consolidated net surplus), at the calculation time, no amount of exempt surplus, exempt deficit or taxable surplus, in respect of the corporation resident in Canada,

— the amount of the taxable deficit in respect of the corporation resident in Canada of the particular foreign affiliate were, immediately before the time that is immediately before the calculation time, increased by an amount equal to the particular foreign affiliate's proportionate share (described below) of the taxable deficit in respect of the corporation resident in Canada of each subsidiary affiliate in which it has, immediately before the calculation time, a direct equity percentage, if that taxable deficit in respect of the corporation resident in Canada were, at the particular time, determined in the following manner

- the taxable deficit of the subsidiary affiliate were increased by the subsidiary affiliate's proportionate share of the taxable deficit of a foreign affiliate of the corporation resident in Canada in which the subsidiary affiliate had, immediately before the particular time, a direct equity percentage, and
- the taxable deficit of a subsidiary affiliate in which another subsidiary affiliate has a direct equity percentage were increased before the increase in that other subsidiary affiliate's taxable deficit,

— the proportionate share, at any time, of a calculating foreign affiliate of the corporation resident in Canada, of the taxable deficit of a providing foreign affiliate were equal to the proportion determined by the following formula:

A/B

where

A is the amount of dividends that would be received, at that time, by the calculating foreign affiliate from the providing foreign affiliate if, at that time, the providing foreign affiliate had paid dividends on all of its shares and the total amount of those dividends were equal to its consolidated net surplus (determined assuming that the providing foreign affiliate were the particular foreign affiliate) in respect of the corporation resident in Canada, or, where it does not have such a consolidated net surplus, its consolidated taxable deficit (determined assuming that the providing foreign affiliate were the particular foreign affiliate), at that time, and

B is the amount of the providing foreign affiliate's consolidated net surplus (determined assuming that the providing foreign affiliate were the particular foreign affiliate) in respect of the corporation resident in Canada, or, where it does not have such a consolidated net surplus, its consolidated taxable deficit (determined assuming that the providing foreign affiliate were the particular foreign affiliate) in respect of the corporation resident in Canada, at that time, and

— in determining the particular foreign affiliate's consolidated taxable deficit in respect of the corporation resident in Canada,

- no amount were included, directly or indirectly, in respect of taxable deficit, in respect of the corporation resident in Canada, of the particular shareholder of the particular foreign affiliate that disposed of the disposed share, and
- no amount were included, directly or indirectly, in respect of the taxable deficit, in respect of the corporation resident in Canada, of the particular foreign affiliate or any subsidiary affiliate more than once.

- New paragraph (*e*) provides, in applying subsection 5901(1) to subsection 5900(1), and for the purpose of paragraph (*f*), that,
  - the particular foreign affiliate's exempt surplus in respect of the corporation resident in Canada, immediately before the dividend time, is deemed to be the amount, if any, by which the particular foreign affiliate's consolidated exempt surplus exceeds the amount of the particular foreign affiliate's consolidated exempt deficit, in respect of the corporation resident in Canada, at that time (or, if there is no such excess, nil),
  - the particular foreign affiliate's exempt deficit in respect of the corporation resident in Canada, immediately before the dividend time, is deemed to be the amount, if any, by which the particular foreign affiliate's consolidated exempt deficit exceeds the amount of the particular foreign affiliate's consolidated exempt surplus, in respect of the corporation resident in Canada, at that time (or, if there is no such excess, nil),
  - the particular foreign affiliate's taxable surplus in respect of the corporation resident in Canada, immediately before the dividend time, is deemed to be the amount, if any, by which the particular foreign affiliate's consolidated taxable surplus exceeds the amount of the particular foreign affiliate's consolidated taxable deficit, in respect of the corporation resident in Canada, at that time (or, if there is no such excess, nil),
  - the particular foreign affiliate's taxable deficit in respect of the corporation resident in Canada, immediately before the dividend time, is deemed to be the amount, if any, by which the particular foreign affiliate's consolidated taxable deficit exceeds the amount of the particular foreign affiliate's consolidated taxable surplus, in respect of the corporation resident in Canada, at that time (or, if there is no such excess, nil),
  - the particular foreign affiliate's underlying foreign tax in respect of the corporation resident in Canada, immediately before the dividend time, is deemed to be the amount of the particular foreign affiliate's consolidated underlying foreign tax in respect of the corporation resident in Canada, at that time, and
  - the particular foreign affiliate's consolidated net surplus in respect of the corporation resident in Canada, immediately before the dividend time, is deemed to be the amount, if any, by which
    - the total of the particular foreign affiliate's consolidated exempt surplus in respect of the corporation resident in Canada, at that time, and the particular foreign affiliate's consolidated taxable surplus in respect of the corporation resident in Canada, at that time,

      exceeds
    - the total of the particular foreign affiliate's consolidated exempt deficit in respect of the corporation resident in Canada, at that time, and the particular foreign affiliate's consolidated taxable deficit in respect of the corporation resident in Canada, at that time.
- New paragraph (*f*) provides that the amount of the attributed net surplus in respect of a disposed share of the specified class in respect of the particular foreign affiliate's consolidated net surplus in respect of the corporation resident in Canada, immediately before the dividend time, is deemed to be the amount that would be received by the holder of the disposed share, in respect of the disposed share, at the dividend time, if the particular foreign affiliate paid a dividend, at that time, on all of its shares, the total of which was equal to the amount of its consolidated net surplus in respect of the corporation resident in Canada, immediately before the dividend time.
- New paragraph (*g*) provides, for the purposes of applying subsection 5901(1) to subsection 5900(1), that the amount of the whole dividend paid by the particular foreign affiliate, at the dividend time, on the shares of the specified class is deemed to be the amount obtained when the total of all amounts deemed by subsection 93(1) or 93(1.2) of the Act to have been received as a dividend on a disposed share of the specified class is multiplied by the greater of
  - one, and
  - the amount determined by the formula

    A/B

    where

    A is the amount determined, under subparagraph (*e*)(vi), to be the particular foreign affiliate's consolidated net surplus in respect of the corporation resident in Canada, immediately before the dividend time, and

    B is the greater of
    - one, and
    - the aggregate of all amounts each of which is the amount determined, under paragraph (*f*), to be the amount of the attributed net surplus, in respect of a disposed share of the specified class, in respect of the particular foreign affiliate's consolidated net surplus, in respect of the corporation resident in Canada, immediately before the dividend time.
- New paragraph (*h*) provides that the amount prescribed, for the purposes of subsection 93(1) or (1.2) of the Act, in respect of a disposition of a disposed share of the specified class may not exceed the amount of the attributed net surplus in respect of the disposed share in respect of the particular foreign affiliate's consolidated net surplus (determined under paragraph (*f*)), in respect of the corporation resident in Canada, immediately before the dividend time.
- New paragraph (*i*) provides, for the purposes of paragraphs (*a*) to (*d*), that the consolidated net surplus in respect of a corporation resident in Canada, at any time, of a particular foreign affiliate of the corporation resident in Canada, is the amount that would be determined in paragraph (*e*) in respect of the particular foreign affiliate if the reference in that paragraph to "immediately before the dividend time" were read as a reference to "at any time".

Effective Dates

The amendments to section 5902 apply in respect of elections made under subsection 93(1) or (1.2) of the *Income Tax Act* in respect of dispositions that occur after December 20, 2002 other than dispositions made under agreements in writing made by the vendor on or before December 20, 2002.

If the taxpayer makes an election under subsection 93(1) or (1.2) of the *Income Tax Act* in respect of a disposition that occurs after December 20, 2002 and before February 27, 2004 and the taxpayer makes a valid election under subsection 133(40) of the legislative proposals relating to the *Income Tax Act* released contemporaneously with these draft Regulations, the amendments to section 5902 do not apply and section 5902 is to be read as if it contained a subsection (6.1) that read as set out in subparagraph 5(*a*)(ii) of the enacting legislation for these proposed amendments to section 5902.

The amendments to section 5902 of the Regulations do not apply to an election by the taxpayer under subsection 93(1) or (1.2) of the *Income Tax Act* in respect of a disposition that occurs after December 20, 2002 (other than a disposition made under an agreement in writing made by the vendor on or before December 20, 2002) and before February 27, 2004 if the taxpayer does not elect under subsection 133(40) of the legislative proposals relating to the *Income Tax Act* and none of paragraphs 88(3)(*a*), 95(2)(*c.2*), and (*d*) to (*e.5*) of the *Income Tax Act* applies to the disposition.

The amendments to section 5902 of the Regulations do not apply to an election by the taxpayer under subsection 93(1) or (1.2) of the *Income Tax Act* in respect of a disposition that occurs after February 27, 2004 if the disposition is made under an agreement in writing made by the vendor on or before February 27, 2004 and none of paragraphs 88(3)(*a*) and 95(2)(*c.2*), and (*d*) to (*e.5*) of the Act applies to the disposition.

History: S. 5902(1)(*c*)(ii)(B) was amended by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to the 1996 and subsequent taxation years. S. 5902(1)(*c*)(ii)(B) formerly read:

"(B) the proportion that the amount of the particular affiliate's net surplus determined under paragraph (*a*) is of the amount determined under paragraph (*b*)."

(2) For the purposes of paragraphs (1)(*a*) and (*b*),

(*a*) in determining the exempt surplus or exempt deficit, the taxable surplus or taxable deficit, the underlying foreign tax and the net surplus of a particular foreign affiliate of a taxpayer resident in Canada in which any other foreign affiliate of the taxpayer has an equity percentage, no amount shall be included in respect of any distribution that would be received by the particular affiliate from such other affiliate; and

(*b*) if any foreign affiliate of a corporation resident in Canada has issued shares of more than one class of its capital stock, the amount that would be paid as a dividend on the shares of any class is such portion of its exempt surplus or exempt deficit and its taxable surplus (including underlying foreign tax applicable) or taxable deficit (and thus net surplus) as, in the circumstances, it might reasonably be expected to have paid on all the shares of that class.

Pending Amendment

Foreign Affiliates — February 27, 2004

Subsection 5902(2) of the Regulations is repealed.

(2) [Repealed.]

Applicable: [For the coming-into-force of this amendment, see the application of the proposed amendment to subsection 5902(1) of the Regulations.].

(3) Where an election under subsection 93(1) of the Act is made by a corporation resident in Canada in respect of the disposition of a share of the capital stock of a foreign affiliate of the corporation, no adjustment shall be made to the affiliate's exempt surplus, exempt deficit, taxable surplus, taxable deficit or underlying foreign tax in respect of the corporation as a consequence of the election except as provided in subsections 5905(2), (5) and (8).

Pending Amendment

Foreign Affiliates — February 27, 2004

Subsection 5902(3) of the Regulations is replaced by the following:

(3) If a corporation resident in Canada elects, under subsection 93(1) or (1.2) of the Act, in respect of the disposition of a share of the capital stock of a foreign affiliate of the corporation, no adjustment, other than an adjustment referred to in subsection 5905(2), (4), (5) or (8), may be made to the foreign affiliate's

(*a*) exempt surplus in respect of the corporation;

(*b*) exempt deficit in respect of the corporation;

(*c*) taxable surplus in respect of the corporation;

(*d*) taxable deficit in respect of the corporation; or

(*e*) underlying foreign tax in respect of the corporation.

Applicable: [For the coming-into-force of this amendment, see the application of the proposed amendment to subsection 5902(1) of the Regulations.].

Explanatory Note: Subsection 5902(3) provides that, where an election is made under subsection 93(1) of the Act, no adjustment is to made to the foreign affiliate's exempt surplus, exempt deficit, taxable surplus, taxable deficit or underlying foreign tax in respect of the corporation as a consequence of the election except as provided in subsections 5905(2), (5) and (8). The amendment to subsection 5902(3) extends the application of the provision to elections made under new subsection 93(1.2) of the Act, and also includes subsection 5905(4) in the list of provisions that may affect these amounts.

Pending Amendment

Foreign Affiliates — Partnerships — March 16, 2001

Subsection 5902(3) of the Regulations is replaced by the following:

(3) Where an election under subsection 93(1) or (1.2) of the Act is made by a corporation resident in Canada in respect of the disposition of a share of the capital stock of a foreign affiliate of the corporation, no adjustment shall be made to the affiliate's exempt surplus, exempt deficit, taxable surplus, taxable deficit or underlying foreign tax in respect of the corporation as a consequence of the election except as provided in subsections 5905(2), (5) and (8).

Applicable: To dispositions that occur after November 1999.

Explanatory Note: Subsection 5902(3) of the Regulations indicates that where an election is made under subsection 93(1) of the Act, no adjustment shall be made to the affiliate's exempt surplus, exempt deficit, taxable surplus, taxable deficit or underlying foreign tax in respect of the corporation as a consequence of the election except as provided in subsections 5905(2), (5) and (8). The amendment to subsection 5902(3) extends the application of the provision to elections made under new subsection 93(1.2) of the Act.

This amendment applies to dispositions that occur after November 1999.

History: S. 5902(3) was amended by P.C. 1985-467, SOR/85-176 dated February 14, 1985, to add "as a consequence of the election" and to substitute "subsections 5905(2), (5) and (8)" for "subsection (4) and subsection 5905(2)", applicable in respect of dispositions of shares made after November 12, 1981.

(4) [Revoked.]

History: S. 5902(4) was revoked by P.C. 1985-467, SOR/85-176 dated February 14, 1985, applicable in respect of dispositions of shares made after November 12, 1981. S. 5902(4) formerly read:

"(4) Where at any time a dividend is, by virtue of an election made by a corporation under subsection 93(1) of the Act in respect of a disposition, other than a redemption or cancellation, at any time of one or more shares of a class of the capital stock of a particular foreign affiliate of the corporation, to the corporation, another foreign affiliate of the corporation, or a person with whom the corporation or the particular affiliate was not dealing at arm's length, deemed to have been received on those shares,

(*a*) there shall be added to subparagraph 5907(1)(d)(xii) in computing the particular affiliate's exempt surplus or exempt deficit, as the case may be, in respect of the corporation at that time an amount equal to the aggregate of all amounts each of which is the portion of a dividend, deemed to have been received at that time on a share of that class in respect of which an election under subsection 93(1) of the Act is made, as is prescribed by paragraph 5900(1)(a) to have been paid out of the exempt surplus of that affiliate;

(*b*) there shall be added to subparagraph 5907(1)(k)(xi) in computing the particular affiliate's taxable surplus or taxable deficit, as the case may be, in respect of the corporation at that time an amount equal to the aggregate of all amounts each of which is the portion of a dividend, deemed to have been received at that time on a share of that class in respect of which an election under subsection 93(1) of the Act is made as is prescribed by paragraph 5900(1)(b) to have been paid out of the taxable surplus of that affiliate; and

(*c*) there shall be deducted in computing the particular affiliate's underlying foreign tax in respect of the corporation at that time an amount equal to the aggregate of all amounts each of which is the amount prescribed by paragraph 5900(1)(d) to be the foreign tax applicable to such portion of a dividend, deemed to have been received at that time on a share of that class in respect of which an election under subsection 93(1) of the Act is made, as is prescribed by paragraph 5900(1)(b) to have been paid out of the taxable surplus of that affiliate."

(5) Any election under subsection 93(1) of the Act by a corporation resident in Canada in respect of any share of the capital stock of a foreign affiliate of the corporation disposed of by it or by another foreign affiliate of the

corporation shall be made by filing the prescribed form with the Minister on or before the day that is the later of

(*a*) December 31, 1989; and

(*b*) where the election is made

(i) in respect of a share disposed of by the corporation, the day on or before which the corporation's return of income for its taxation year in which the disposition was made is required to be filed pursuant to subsection 150(1) of the Act, or

(ii) in respect of a share disposed of by another foreign affiliate of the corporation, the day on or before which the corporation's return of income for its taxation year, in which the taxation year of the foreign affiliate in which the disposition was made ends, is required to be filed pursuant to subsection 150(1) of the Act,

as the case may be.

Pending Amendment

Foreign Affiliates — Partnerships — March 16, 2001

Subsection 5902(5) of the Regulations is replaced by the following:

(5) Any election under subsection 93(1) or (1.2) of the Act by a corporation resident in Canada in respect of any share of the capital stock of a foreign affiliate of the corporation disposed of by it, by a foreign affiliate of the corporation or by a partnership shall be made by filing the prescribed form with the Minister on or before the day that is,

(*a*) where the election is made in respect of a share disposed of by the corporation, the corporation's filing-due date for its taxation year in which the disposition was made;

(*b*) where the election is made in respect of a share disposed of by a foreign affiliate of the corporation, the corporation's filing-due date for its taxation year in which the taxation year of the foreign affiliate in which the disposition was made ends; and

(*c*) where the election is made in respect of a share disposed of by a partnership, and

(i) the disposing corporation referred to in subsection 93(1.2) of the Act is the corporation, the corporation's filing-due date for its taxation year in which the fiscal period of the partnership in which the disposition was made ends, or

(ii) the disposing corporation referred to in subsection 93(1.2) of the Act is a foreign affiliate of the corporation, the corporation's filing-due date for its taxation year in which the taxation year of the foreign affiliate which includes the last day of the fiscal period of the partnership in which the disposition was made ends.

Applicable: To dispositions that occur after November 1999.

Explanatory Note: Subsection 5902(5) of the Regulations provides that any election under subsection 93(1) of the Act must be made by filing the prescribed form by the corporation's filing-due date for the relevant year. Where the disposition is made by the corporation, the relevant year is the taxation year of the corporation in which the disposition was made. Where the disposition is made by a foreign affiliate of the corporation, the relevant year is the taxation year of the corporation in which the taxation year of the foreign affiliate in which the disposition was made ends.

The amendments to subsection 5902(5) extend its application to include elections made under new subsection 93(1.2) of the Act. Where the disposition is made by a partnership, the relevant year depends on whether the "disposing corporation" in subsection 93(1.2) of the Act is the corporation or a foreign affiliate of the corporation. Where the disposing corporation is the corporation, the relevant year is the taxation year of the corporation in which the fiscal period of the partnership in which the disposition was made ends. Where the disposing corporation is a foreign affiliate of the corporation, the relevant year is the taxation year of the corporation in which the taxation year of the affiliate which includes the last day of the fiscal period of the partnership in which the disposition was made ends.

This amendment applies to dispositions that occur after November 1999.

History: S. 5902(5)(a) was amended by P.C. 1989-321; SOR/89-135 dated March 2, 1989 to substitute "December 31, 1989" for "June 30, 1983", applicable with respect to the 1972 and subsequent taxation years.

S. 5902(5)(a) was amended by P.C. 1982-3084, SOR/82-910 dated October 8, 1982, to extend the expiry date from "June 30, 1978" to "June 30, 1983", applicable to the 1972 and subsequent taxation years.

S. 5902(5) was amended by P.C. 1980-503, SOR/80-141, February 11, 1980, effective in respect of the 1972 and subsequent taxation years. S. 5902(5) formerly read:

"(5) Any election under subsection 93(1) of the Act by a corporation resident in Canada in respect of any share of the capital stock of a foreign affiliate of the corporation disposed of by it or by another foreign affiliate of the corporation shall be made by filing with the Minister the following documents in duplicate:

(*a*) the form prescribed by the Minister,

(*b*) where the directors of the corporation are legally entitled to administer the affairs of the corporation, a certified copy of their resolution authorizing the election to be made, and

(*c*) where the directors of the corporation are not legally entitled to administer the affairs of the corporation, a certified copy of the authorization of the making of the election by the person or persons legally entitled to administer the affairs of the corporation,

on or before the day that is the later of

(*d*) June 30, 1977; and

(*e*) the day on which the corporation's return of income for its taxation year in which the disposition was made is required to be filed pursuant to section 150 of the Act."

Forms: T2107.

(6) Where at any time a corporation resident in Canada is deemed by virtue of subsection 93(1.1) of the Act to have made an election under subsection 93(1) of the Act in respect of a share of the capital stock of a particular foreign affiliate of the corporation disposed of by another foreign affiliate of the corporation, the amount deemed to have been designated in the election is hereby prescribed to be the lesser of

(*a*) the capital gain, if any, otherwise determined in respect of the disposition of the share; and

(*b*) the amount that could reasonably be expected to have been received in respect of the share if the particular affiliate had at that time paid dividends the aggregate of which on all shares of its capital stock was equal to the amount determined under paragraph (1)(*a*) to be its net surplus in respect of the corporation for the purposes of the election.

Pending Amendment

Foreign Affiliates — February 27, 2004

Subsection 5902(6) of the Regulations is replaced by the following:

(6) The amount designated in an election deemed by subsection 93(1.1) of the Act to have been made under subsection 93(1) of the Act is prescribed to be the amount that is the lesser of

(*a*) the capital gain, if any, otherwise determined in respect of the disposition of the share, and

(*b*) the amount of attributed net surplus (as determined under paragraph (1)(*f*)) in respect of the share.

(7) The amount designated in an election deemed by subsection 93(1.3) of the Act to have been made under subsection 93(1.2) of the Act is prescribed to be the amount that is the lesser of

(*a*) the taxable capital gain, if any, otherwise determined in respect of the disposition of the share, and

(*b*) the amount that is one-half of the amount referred to in paragraph (6)(*b*).

Applicable: [For the coming-into-force of this amendment, see the application of the proposed amendment to subsection 5902(1) of the Regulations.].

Explanatory Note: Subsection 5902(6) of the Regulations applies where subsection 93(1.1) of the Act deems a corporation to have made an election under subsection 93(1) to treat proceeds of disposition of a share of a foreign affiliate as a dividend. Subsection 5902(6) deems the amount designated in the deemed election to be the lesser of the capital gain otherwise determined in respect of the disposition of the share and the amount that could reasonably be expected to have been received on the share if the affiliate had paid its net surplus in respect of the corporation as a dividend.

As announced in 2001, subsection 5902(6) is amended to ensure that the subsection will apply where subsection 93(1.3) of the Act deems a corporation resident in Canada to have made an election under proposed subsection 93(1.2) of the Act in respect of a taxable capital gain from a deemed disposition of a share of a foreign affiliate of the corporation disposed of by a partnership of which another foreign affiliate of the corporation is a member.

Subsection 5902(6) is further amended to refer, in paragraph (*b*), to the amount of the "attributed net surplus" (defined in new paragraph 5902(1)(*f*)) in respect of the share being disposed of.

5902(7)

New subsection 5902(7) of the Regulations provides that the amount designated in an election deemed by subsection 93(1.3) of the Act to have been made under subsection 93(1.2) of the Act is prescribed to be the lesser of

- the taxable capital gain, if any, otherwise determined in respect of the disposition of the share; and
- the amount that is 1/2 of the amount referred to in paragraph 5902(6)(*b*).

Example – Subsection 5902(1)

A. Facts

1. Canco is a corporation resident in Canada.

2. Canco owns 100% of FA1 and 50% of FA6, and both FA1 and FA6 are foreign affiliates of Canco.

3. FA1 owns 80 shares (80%) of FA2 and FA6 owns 20 shares (20%) of FA2.

4. FA2 owns 70% of FA3, FA3 owns 100% of FA4 and FA4 owns 100% of FA5.

5. FA1 transfers 30 of its shares in FA2 to FA6, and subsection 93(1) of the Act applies to the transfer, regarding which Canco designates $123 as the dividend received by FA1 in respect of the disposed shares.

6. At the time of the transfer, FA2 has an exempt surplus of $200, a taxable surplus of $0, an exempt deficit of $0 and an underlying foreign tax ("UFT") of $0.

7. At the time of the transfer, FA3 has an exempt surplus of $100, a taxable surplus of $75, an exempt deficit of $0 and an UFT of $10.

8. At the time of the transfer, FA4 has an exempt surplus of $0, a taxable surplus of $0, an exempt deficit of $200 and an UFT of $0.

9. At the time of the transfer, FA5 has an exempt surplus of $0, a taxable surplus of $325, an exempt deficit of $0 and an UFT of $200.

10. All the corporations have only issued 100 shares of one class.

B. Application of Subsection 5902(1)

1. Consolidated Exempt Surplus (Paragraph 5902(1)(a))

The consolidated exempt surplus of FA2 is $270.

Step 1. Exempt surplus of FA5 is determined as the exempt surplus of FA5 ($0), otherwise determined.

Step 2. Exempt surplus of FA4 is determined as the exempt surplus of FA4 ($0), otherwise determined, plus proportionate share of exempt surplus of FA5

$$\$0 + A/B \times C = \$0$$

where

A is the amount that would be received by FA4 if FA5 paid its entire consolidated net surplus as a dividend ($325)

B is the amount of consolidated net surplus of FA5 ($325)

C is the exempt surplus of FA5 ($0).

Step 3. Exempt surplus of FA3 is determined as the exempt surplus of FA3 ($100), otherwise determined, plus proportionate share of exempt surplus of FA4

$$\$100 + A/B \times C = \$100$$

where

A is the amount that would be received by FA3 if FA4 paid its entire consolidated net surplus as a dividend ($125)

B is the amount of consolidated net surplus of FA4 ($125)

C is the exempt surplus of FA4 ($0).

Step 4. Exempt surplus of FA2 is determined as the exempt surplus of FA2 ($200), otherwise determined, plus proportionate share of exempt surplus of FA3

$$\$200 + A/B \times C = \$270$$

where

A is the amount that would be received by FA2 if FA3 paid its entire consolidated net surplus as a dividend ($210)

B is the amount of consolidated net surplus of FA3 ($300)

C is the exempt surplus of FA3 ($100).

2. Consolidated Exempt Deficit (Paragraph 5902(1)(b))

The consolidated exempt deficit of FA2 is $140.

Step 1. Exempt deficit of FA5 is determined as the exempt deficit of FA5 ($0), otherwise determined.

Step 2. Exempt deficit of FA4 is determined as the exempt surplus of FA4 ($200), otherwise determined, plus proportionate share of exempt surplus of FA5

$$\$200 + A/B \times C = \$200$$

where

A is the amount that would be received by FA4 if FA5 paid its entire consolidated net surplus as a dividend ($325)

B is the amount of consolidated net surplus of FA5 ($325)

C is the exempt deficit of FA5 ($0).

Step 3. Exempt deficit of FA3 is determined as the exempt surplus of FA3 ($0), otherwise determined, plus proportionate share of exempt surplus of FA4

$$0 + A/B \times C = \$200$$

where

A is the amount that would be received by FA3 if FA4 paid its entire consolidated net surplus as a dividend ($125)

B is the amount of consolidated net surplus of FA4 ($125)

C is the exempt deficit of FA4 ($200).

Step 4. Exempt deficit of FA2 is determined as the exempt surplus of FA2 ($0), otherwise determined, plus proportionate share of exempt surplus of FA3

$$\$0 + A/B \times C = \$140$$

where

A is the amount that would be received by FA2 if FA3 paid its entire consolidated net surplus as a dividend ($210)

B is the amount of consolidated net surplus of FA3 ($300)

C is the exempt deficit of FA3 ($200).

3. Consolidated Taxable Surplus and Underlying Foreign Tax (Paragraph 5902(1)(c))

The consolidated taxable surplus of FA2 is $280 and the UFT of FA2 is $147.

Step 1. The taxable surplus and UFT of FA5 is determined as the taxable surplus ($320) and UFT ($200), otherwise determined.

Step 2. The taxable surplus and UFT of FA4 is determined as the taxable surplus ($0) and UFT ($0), of FA4, otherwise determined, plus the proportionate share of the taxable surplus and UFT of FA5

$$\$0 + A/B \times C = \text{taxable surplus (\$320) and } \$0 + A/B \times C = \text{UFT (\$200)}$$

where

A is the amount that would be received by FA4 if FA5 paid its entire consolidated net surplus as a dividend ($325)

B is the amount of consolidated net surplus of FA5 ($325)

C is the taxable surplus ($325) and UFT ($200) of FA5.

Step 3. The taxable surplus and UFT of FA3 is determined as the taxable surplus ($75) and UFT ($10), of FA3, otherwise determined, plus proportionate share the taxable surplus and UFT of FA4

$75 + A/B × C = taxable surplus ($400) and $10 + A/B × C = UFT ($210)

where

A is the amount that would be received by FA3 if FA4 paid its entire consolidated net surplus as a dividend ($125)

B is the amount of consolidated net surplus of FA4 ($125)

C is the taxable surplus ($325) and underlying foreign tax ($200) of FA4.

Step 4. The taxable surplus and UFT of FA2 is determined as the taxable surplus ($0) and UFT ($0), of FA2, otherwise determined, plus the proportionate share of the taxable surplus and UFT of FA3

$0 + A/B × C = taxable surplus ($280) and $0 + (A/B) × C = UFT ($147)

where

A is the amount that would be received by FA2 if FA3 paid its entire consolidated net surplus as a dividend ($210)

B is the amount of consolidated net surplus of FA3 ($300)

C is the taxable surplus ($400) and underlying foreign tax ($210) of FA3.

4. Consolidated Net Surplus (Paragraph 5902(1)(e))

The consolidated net surplus of FA2 is $410 and is determined as follows:

(A+B) – (C+D) = $410

where

A is the consolidated exempt surplus of FA2 ($270)

B is the consolidated taxable surplus of FA2 ($280)

C is the consolidated exempt deficit of FA2 ($140)

D is the consolidated taxable deficit of FA2 ($0).

5. Attributed Surplus (Paragraph 5902(1)(f))

The attributed net surplus in respect of each of the disposed shares is determined as follows:

A/B = $4.10

where

A is the consolidated net surplus ($410)

B is the total number of shares issued by FA3 (100).

6. The Whole Dividend (Paragraph 5902(1)(g))

Assuming that the corporation resident in Canada elected, with respect to each share disposed of, under subsection 93(1) of the Act an amount equal to the attributed net surplus in respect of the share, the amount of the whole dividend paid by the foreign affiliate on the shares of the class would be determined as

(A × B) × C = $410

where

A is the amount elected with respect to a disposed share ($4.10)

B is the number of shares disposed of (30)

C is $410/123 = 3.33.

Effective Dates

The amendments to section 5902 apply in respect of elections made under subsection 93(1) or (1.2) of the *Income Tax Act* in respect of dispositions that occur after December 20, 2002 other than dispositions made under agreements in writing made by the vendor on or before December 20, 2002.

If the taxpayer makes an election under subsection 93(1) or (1.2) of the *Income Tax Act* in respect of a disposition that occurs after December 20, 2002 and before February 27, 2004 and the taxpayer makes a valid election under subsection 133(40) of the legislative proposals relating to the *Income Tax Act* released contemporaneously with these draft Regulations, the amendments to section 5902 do not apply and section 5902 is to be read as if it contained a subsection (6.1) that read as set out in subparagraph 5(*a*)(ii) of the enacting legislation for these proposed amendments to section 5902.

The amendments to section 5902 of the Regulations do not apply to an election by the taxpayer under subsection 93(1) or (1.2) of the *Income Tax Act* in respect of a disposition that occurs after December 20, 2002 (other than a disposition made under an agreement in writing made by the vendor on or before December 20, 2002) and before February 27, 2004 if the taxpayer does not elect under subsection 133(40) of the legislative proposals relating to the *Income Tax Act* and none of paragraphs 88(3)(*a*), 95(2)(*a.2*), and (*d*) to (*e.5*) of the *Income Tax Act* applies to the disposition.

The amendments to section 5902 of the Regulations do not apply to an election by the taxpayer under subsection 93(1) or (1.2) of the *Income Tax Act* in respect of a disposition that occurs after February 27, 2004 if the disposition is made under an agreement in writing made by the vendor on or before February 27, 2004 and none of paragraphs 88(3)(*a*) and 95(2)(*c.2*), and (*d*) to (*e.5*) of the Act applies to the disposition.

Pending Amendment

Foreign Affiliates — Partnerships — March 16, 2001

Subsection 5902(6) of the Regulations is replaced by the following:

(6) Where at any time a corporation resident in Canada is deemed by of subsection 93(1.1) or (1.3) of the Act to have made an election under subsection 93(1) or (1.2) of the Act in respect of a share of the capital stock of a particular foreign affiliate of the corporation disposed of by a foreign affiliate of the corporation or by a partnership, the amount deemed to have been designated in the election is prescribed to be the lesser of

(*a*) the capital gain (or where subsection 93(1.2) of the Act applies, the taxable capital gain), if any, otherwise determined in respect of the disposition of the share; and

(*b*) the amount (or where subsection 93(1.2) of the Act applies, 3/4 of the amount) that could reasonably be expected to have been received in respect of the share if the particular affiliate had at that time paid dividends the aggregate of which on all shares of its capital stock was equal to the amount determined under paragraph 1(a) to be its net surplus in respect of the corporation for the purposes of the election.

Applicable: To dispositions that occur after November 1999.

Explanatory Note: Subsection 5902(6) of the Regulations applies where subsection 93(1.1) of the Act deems a corporation to have made an election under subsection 93(1) to treat proceeds of disposition of a share of a foreign affiliate as a dividend. Subsection 5902(6) deems the amount designated in the deemed election to be the lesser of the capital gain otherwise determined in respect of the disposition of the share and the amount that could reasonably be expected to have been received on the share if the affiliate had paid its net surplus in respect of the corporation as a dividend.

Subsection 5902(6) is amended to ensure that the subsection will apply where new subsection 93(1.3) of the Act deems a corporation resident in Canada to have made an election under proposed subsection 93(1.2) of the Act in respect of a taxable capital gain from a deemed disposition of a share of a foreign affiliate of the corporation disposed of by a partnership of which another foreign affiliate of the corporation is a member.

This amendment applies to dispositions that occur after November 1999.

History: S. 5902(6) was added by P.C. 1985-467, SOR/85-176 dated February 14, 1985, applicable in respect of dispositions of shares made after November 12, 1981.

DEDUCTIBLE LOSS

5903. (1) For the purpose of the description of F in the definition "foreign accrual property income" in subsection 95(1) of the Act, the amount prescribed to be the deductible loss of a particular foreign affiliate of a taxpayer for a taxation year and the five immediately preceding taxation years (each of which preceding taxation years is referred to in this subsection as a "preceding year") is the amount, if any, by which

(*a*) the total of all amounts each of which is the amount, if any, determined in respect of the particular affiliate in respect of a preceding year during which it was a controlled foreign affiliate of the taxpayer or of a person described in any of subparagraphs 95(2)(*f*)(iv) to (vii) of the Act, by which

(i) the total of the amounts determined for D and E in the definition "foreign accrual property income" in subsection 95(1) of the Act in respect of the particular affiliate for the preceding year

exceeds

(ii) the total of the amounts determined for A, B and C in the definition "foreign accrual property income" in subsection 95(1) of the Act in respect of the particular affiliate for the preceding year

exceeds the total of

(*b*) the total of all amounts each of which is an amount determined in respect of the particular affiliate in respect of a preceding year during which it was a controlled foreign affiliate of the taxpayer or of a person described in any of subparagraphs 95(2)(*f*)(iv) to (vii) of the Act and equal to the lesser of

(i) the amount that would be determined for F in the definition "foreign accrual property income" in subsection 95(1) of the Act in respect of the particular affiliate for the preceding year if that amount did not take into account any amount determined for any of A, B, C, D or E in the definition "foreign accrual property income" in subsection 95(1) of the Act in respect of the particular affiliate for any taxation year that is not a preceding taxation year, and

(ii) the amount that would be the foreign accrual property income of the particular affiliate for the preceding year if the formula in the definition "foreign accrual property income" in subsection 95(1) of the Act were read without reference to the variable F; and

(*c*) where a payment has been received by the particular affiliate and the payment can reasonably be considered to relate to a payment described in subsection 5907(1.3) made by another foreign affiliate of the taxpayer in respect of a loss, or any portion of a loss, of the particular affiliate described in the description of D or E of the definition "foreign accrual property income" in subsection 95(1) of the Act in respect of any preceding year of the particular affiliate, the amount of that loss or portion.

History: S. 5903(1) was amended by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994, except that

(*a*) those provisions apply to taxation years of a foreign affiliate of a taxpayer that end after 1994 where there has been a change in the taxation year of the foreign affiliate in 1994 and after February 22, 1994, unless

(i) the foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation, or

(ii) the first taxation year of the foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if there had not been that change in the taxation year of the foreign affiliate; and

(*b*) in applying subsection 5907(1) of the Regulations, for taxation years of a foreign affiliate of a taxpayer that begin before 1996 and in respect of which subsection 8(13) does not apply, the references to "designated treaty country" shall be read as "country listed in subsection (11)". S. 5903(1) formerly read:

"(1) For the purpose of subparagraph 95(1)(*b*)(v) of the Act, the amount prescribed to be the deductible loss of a foreign affiliate of a taxpayer for a taxation year and the five immediately preceding taxation years is the amount, if any, by which the aggregate of

(*a*) the aggregate of all amounts each of which is the amount, if any, for each of the five immediately preceding taxation years of the affiliate during which it was a foreign affiliate of the taxpayer or of a person described in any of subparagraphs 95(2)(*f*)(iv) to (vii) of the Act, by which

(i) the aggregate of the amounts determined under subparagraphs 95(1)(*b*)(iii) and (iv) of the Act in respect of the affiliate for that preceding year

exceeds

(ii) the aggregate of the amounts determined under subparagraphs 95(1)(*b*)(i) and (ii) of the Act in respect of the affiliate for that preceding year, and

(*b*) the amount, if any, by which the aggregate of

(i) each amount determined under clause 5907(1)(*c*)(ii)(A) and subparagraphs 5907(1)(*c*)(iii) and (iv) in respect of an exempt loss of the affiliate for those years, and

(ii) each amount determined under clause 5907(1)(*j*)(ii)(A) in respect of a taxable loss of the affiliate for those years but not including any amount included in the affiliate's exempt loss for those years

exceeds the aggregate of

(iii) each amount determined under subparagraphs 5907(1)(*b*)(ii), (iii), (iv) and (v) in respect of the exempt earnings of the affiliate for those years less such portion of the income or profits tax payable to the government of a country for any of those years by the affiliate as may reasonably be regarded as payable in respect of an amount referred to in subparagraph 5907(1)(*b*)(iii) or clause 5907(1)(*b*)(iv)(B), and

(iv) each amount determined under clauses 5907(1)(*i*)(ii)(A) and (C) in respect of the taxable earnings of the affiliate for those years but not including any amount included in the affiliate's exempt earnings for those years

exceeds the aggregate of

(*c*) the aggregate of all amounts each of which is an amount deducted by virtue of subparagraph 95(1)(*b*)(v) of the Act by the taxpayer or a person described in any of subparagraphs 95(2)(*f*)(iv) to (vii) of the Act in respect of any of the five immediately preceding taxation years of the affiliate to the extent that such amount relates to a loss for any of those years and assuming that no amount is deductible under that subparagraph for any year until the maximum amount for preceding years has been deducted; and

(*d*) where a payment has been received by the foreign affiliate that may reasonably be considered to relate to a payment described in subsection 5907(1.3) made by another foreign affiliate of the taxpayer in respect of a loss, or any portion thereof, included in computing the amount referred to in paragraph (*a*) or (*b*) in respect of the affiliate, the amount of such loss or portion thereof."

S. 5903(1) was amended by P.C. 1985-467, SOR/85-176 dated February 14, 1985, applicable in computing the foreign accrual property income of a foreign affiliate for taxation years of the affiliate ending after November 12, 1981. S. 5903(1) formerly read:

"(1) For the purposes of subparagraph 95(1)(b)(v) of the Act, the amount prescribed to be the deductible loss of a foreign affiliate of the taxpayer for the year and the five immediately preceding taxation years is the amount, if any, by which

(*a*) the remainder obtained after subtracting from the aggregate of

(i) each amount determined under clause 5907(1)(c)(ii)(A) and subparagraphs 5907(1)(c)(iii) and (iv) in respect of an exempt loss of the affiliate for those years,

(ii) each amount determined under clause 5907(1)(j)(ii)(A) in respect of a taxable loss of the affiliate for those years but not including any amount included in the affiliate's exempt loss for those years, and

(iii) each amount, if any, for each of the five immediately preceding taxation years of the affiliate in which it was a foreign affiliate of the taxpayer, by which

(A) the aggregate of the amounts determined under subparagraphs 95(1)(b)(iii) and (iv) of the Act for that year

exceeds

(B) the aggregate of the amounts determined under subparagraphs 95(1)(b)(i) and (ii) of the Act for that year

the aggregate of

(iv) each amount determined under subparagraphs 5907(1)(b)(ii), (iii), (iv) and (v) in respect of exempt earnings of the affiliate for those years less such portion of the income or profits tax payable to the government of a country for any of those years by the affiliate as may reasonably be regarded as payable in respect of an amount referred to in subparagraph 5907(1)(b)(iii) or clause 5907(1)(b)(iv)(B), and

(v) each amount determined under clauses 5907(1)(i)(ii)(A) and (C) in respect of taxable earnings of the affiliate for those years but not including any amount included in the affiliate's exempt earnings for those years

exceeds

(*b*) an amount equal to the aggregate of the amounts deducted in respect of the five immediately preceding taxation years of the affiliate by virtue

of subparagraph 95(1)(b)(v) of the Act on the assumption that no amount is deductible under that subparagraph in respect of any year until the maximum amount in respect of preceding years has been deducted."

S. 5903(1)(b) was amended by P.C. 1980-503, SOR/80-141, February 11, 1980, effective in respect of the 1976 and subsequent taxation years by adding "respect for" immediately following "amounts deducted in".

(2) For the purpose of subsection (1), each amount referred to in paragraph (1)(*c*) in respect of a controlled foreign affiliate of a taxpayer resident in Canada that is not otherwise determined in Canadian currency shall be converted to Canadian currency at the rate of exchange prevailing on the last day of the affiliate's taxation year in respect of which the amount determined under subsection (1) is being used to determine the foreign affiliate's foreign accrual property income as defined in subsection 95(1) of the Act.

History: S. 5903(2) was amended by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994, except that

(*a*) those provisions apply to taxation years of a foreign affiliate of a taxpayer that end after 1994 where there has been a change in the taxation year of the foreign affiliate in 1994 and after February 22, 1994, unless

(i) the foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation, or

(ii) the first taxation year of the foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if there had not been that change in the taxation year of the foreign affiliate; and

(*b*) in applying subsection 5907(1) of the Regulations, for taxation years of a foreign affiliate of a taxpayer that begin before 1996 and in respect of which subsection 8(13) does not apply, the references to "designated treaty country" shall be read as "country listed in subsection (11)". S. 5903(2) formerly read:

"(2) For the purposes of subsection (1), each amount referred to in paragraph (1)(*b*) or (*d*) in respect of a controlled foreign affiliate of a taxpayer resident in Canada that is not otherwise determined in Canadian currency shall be converted to Canadian currency at the rate of exchange prevailing on the last day of the affiliate's taxation year referred to in paragraph 95(1)(*b*) of the Act."

S. 5903(2) was amended by P.C. 1985-467, SOR/85-176 dated February 14, 1985, applicable in computing the foreign accrual property income of a foreign affiliate for taxation years of the affiliate ending after November 12, 1981. S. 5903(2) formerly read:

"(2) For the purposes of subsection (1), each amount referred to in subparagraphs (1)(a)(i), (ii), (iv) and (v) shall be converted to Canadian currency at the rate of exchange between the currency in which each such amount is determined and Canadian currency on the last day of the affiliate's taxation year referred to in paragraph 95(1)(b) of the Act."

Information Circulars: IC 77-9R Books, records and other requirements for taxpayers having foreign affiliates.

(3) Where

(*a*) there has been a foreign merger (within the meaning assigned by subsection 87(8.1) of the Act) of two or more foreign affiliates of a taxpayer resident in Canada in respect of each of which the taxpayer's surplus entitlement percentage was not less than 90 per cent immediately before the merger (in this subsection referred to as "predecessor affiliates") to form a new foreign affiliate in respect of which the taxpayer's surplus entitlement percentage immediately after the merger was not less than 90 per cent (in this subsection referred to as the "successor affiliate"), or

(*b*) there has been a dissolution of a foreign affiliate (in this subsection referred to as the "predecessor affiliate") of a taxpayer resident in Canada and on the dissolution property of the predecessor affiliate, the fair market value of which was not less than 90 per cent of the fair market value of all property of the predecessor affiliate immediately before the dissolution, was distributed to another foreign affiliate (in this subsection referred to as the "successor affiliate") of the taxpayer,

the successor affiliate shall, in respect of such part of the amount determined under subsection (1) to be the deductible loss of a predecessor affiliate at the time of the foreign merger or dissolution as may reasonably be considered to have arisen while the taxpayer, a person or persons referred to in any of subparagraphs 95(2)(*f*)(iv) to (vii) of the Act, or the taxpayer together with such a person or persons, had a surplus entitlement percentage in respect of such predecessor affiliate that was not less than 90 per cent, be considered to be the same corporation as, and a continuation of, such predecessor affiliate.

History: S. 5903(3), the part following paragraph (b), was amended by P.C. 1989-321, SOR/89-135, dated March 2, 1989 and applicable in respect of mergers and dissolutions occurring after November 12, 1981. That part formerly read:

"the successor affiliate shall, in respect of such part of the amount determined under subsection (1) to be the deductible loss of a predecessor affiliate at the time of the foreign merger or dissolution as may reasonably be considered to have arisen while the taxpayer, together with any person referred to in any of subparagraphs 95(2)(*f*)(iv) to (vii) of the Act, had a surplus entitlement percentage in respect of such predecessor affiliate that was not less than 90 per cent, be considered to be the same corporation as, and a continuation of, such predecessor affiliate."

S. 5903(3) was added by P.C. 1985-467, SOR/85-176, dated February 14, 1985, applicable in respect of mergers and dissolutions occurring after November 12, 1981.

Pending Amendment

Foreign Affiliates — FAPI — March 16, 2001

Section 5903 of the Income Tax Regulations is replaced by the following:

5903. **(1)** For the purpose of the description of F in the definition "foreign accrual property income" in subsection 95(1) of the Act, the deductible loss of a foreign affiliate of a taxpayer for a particular taxation year of the affiliate is the amount claimed by the taxpayer not exceeding the foreign accrual property loss of the affiliate for the seven taxation years of the affiliate preceding and the three taxation years of the affiliate following the particular year.

(2) In determining the deductible loss of a foreign affiliate of a taxpayer for a particular taxation year of the affiliate

(*a*) the amount claimed under subsection (1) in respect of a foreign accrual property loss of the affiliate for a taxation year of the affiliate shall not exceed the amount by which that loss exceeds the total of all amounts each of which was an amount claimed by any taxpayer in respect of that loss in computing the deductible loss of the affiliate for taxation years of the affiliate before the particular year; and

(*b*) no amount may be claimed in respect of a foreign accrual property loss of a foreign affiliate for a taxation year of the affiliate until the foreign accrual property losses of the affiliate for preceding taxation years have been fully claimed.

(3) For the purpose of this section, and subject to subsection (4), "foreign accrual property loss" of a foreign affiliate of a taxpayer for a taxation year means

(*a*) where at the end of the year the foreign affiliate was a controlled foreign affiliate of the taxpayer, the amount, if any, by which

(i) the total of the amounts determined for D and E in the definition "foreign accrual property income" in subsection 95(1) of the Act in respect of the affiliate for the year

exceeds

(ii) the total of the amounts determined for A, B, and C in the definition "foreign accrual property income" in subsection 95(1) of the Act in respect of the affiliate for the year, or

(*b*) where, at the end of the year, the foreign affiliate was not a controlled foreign affiliate of the taxpayer but was a controlled foreign affiliate of a person described in any of subparagraphs 95(2)(f)(iv) to (vii) of the Act, the amount determined under paragraph (a) for the year.

(4) In computing the foreign accrual property loss of a particular foreign affiliate of a taxpayer for a taxation year of the affiliate, where the particular affiliate or another corporation has received a payment described in subsection 5907(1.3) from another foreign affiliate of the taxpayer which payment can reasonably be considered to relate to a loss or portion of a loss of the particular affiliate for the year described in the description of D or E of the definition "foreign accrual property income" in subsection 95(1) of the Act, the amount of the loss or portion of the loss for the year is deemed to be nil.

(5) For the purpose of this section, where there has been a foreign merger (within the meaning assigned by subsection 87(8.1) of the Act) of two or more foreign affiliates of a taxpayer resident in Canada in respect of each of which the taxpayer's surplus entitlement percentage immediately before the merger was not less than 90 percent (each of which is in this subsection referred to as a "predecessor affiliate") to form a new foreign affiliate in respect of which the taxpayer's surplus entitlement percentage immediately after the merger was not less than 90 percent (in this section referred to as the "successor affiliate"), the successor is deemed to be the same corporation as, and a continuation of, each predecessor affiliate.

(6) For the purpose of this section, where there has been a winding-up of one or more foreign affiliates of a taxpayer resident in Canada in respect of which the taxpayer's surplus entitlement percentage immediately before the winding-up was not less than 90 percent (each of which is in this subsection referred to as a "predecessor affiliate") into another foreign affiliate of the taxpayer in respect of which the taxpayer's surplus entitlement percentage immediately before and after the winding-up was not less than 90 percent (in this subsection referred to as the "successor affiliate"), the successor affiliate is deemed to be the same corporation as, and a continuation of, each predecessor affiliate.

Applicable: To taxation years of foreign affiliates that begin after 1998, except that paragraph 5903(2)(*b*) of the Regulations, as enacted by subsection (1), applies to foreign affiliate taxation years that begin after 2000.

Explanatory Note: The description of F in the definition "foreign accrual property income" in subsection 95(1) of the Act allows foreign accrual property income of an affiliate for a year to be reduced by the amount prescribed by section 5903 of the *Income Tax Regulations* to be the deductible loss of the affiliate for the year and the five immediately preceding taxation years. The amendments to section 5903 and the description of F in the definition "foreign accrual property income" in subsection 95(1) of the Act provide that deductible losses may include foreign accrual property losses for the three taxation years following and the seven taxation years preceding the year.

Amended subsection 5903(1) allows a taxpayer to include in the deductible loss of a foreign affiliate an amount not exceeding the foreign accrual property loss of the affiliate for the seven taxation years immediately preceding and the three taxation years immediately following the particular year. Losses for other taxation years will not be included in the deductible loss of the foreign affiliate.

Amended subsection 5903(2) of the Regulations provides that, in determining the deductible loss of a foreign affiliate of a taxpayer for a particular taxation year, the amount claimed under subsection 5903(1) in respect of a foreign accrual property loss of the affiliate for a taxation year of the affiliate cannot exceed the total of amounts previously claimed by any taxpayer in respect of that loss. Also, no amount may be claimed in respect of a foreign accrual property loss until the foreign accrual property loss for preceding taxation years has been fully claimed.

Amended subsection 5903(3) of the Regulations defines foreign accrual property loss of a foreign affiliate of a taxpayer for a taxation year. Where, at the end of a taxation year, a foreign affiliate is a controlled foreign affiliate of the taxpayer or a person related to the taxpayer, the foreign accrual property loss of the affiliate is the amount, if any, by which (D+E) exceeds (A+B+C) in the definition "foreign accrual property income" in subsection 95(1) of the Act.

New subsection 5903(4) of the Regulations provides that, where a foreign affiliate of a taxpayer received a payment described in subsection 5907(1.3) of the Regulations from another affiliate or another corporation, which payment was related to a loss or portion of a loss of the affiliate, the amount of the loss or portion of the loss for the year shall be deemed to be nil.

New subsections 5903(5) and (6) of the Regulations provides that a predecessor affiliate's deductible loss may flow through to a successor affiliate following a foreign merger or a winding-up of one or more affiliates of a taxpayer provided the taxpayer's surplus entitlement percentage exceeds 90 per cent in each predecessor affiliate and in the successor affiliate.

The amendments to section 5903 apply to taxation years of a foreign affiliate that begin after 1998, except that paragraph 5903(2)(b) of the Regulations applies to foreign affiliate taxation years that begin after 2000.

PARTICIPATING PERCENTAGE

5904. (1) For the purpose of subparagraph (*b*)(ii) of the definition "participating percentage" in subsection 95(1) of the Act, the participating percentage of a particular share owned by a taxpayer of the capital stock of a corporation in respect of any foreign affiliate of the taxpayer that was, at the end of its taxation year, a controlled foreign affiliate of the taxpayer is prescribed to be the percentage that would be the taxpayer's equity percentage in the affiliate at that time on the assumption that

(*a*) the taxpayer owned no shares other than the particular share;

(*b*) the direct equity percentage of a person in any foreign affiliate of the taxpayer, for which the total of the distribution entitlements of all the shares of all classes of the capital stock of the affiliate was greater than nil, was determined by the following rules and not by the rules contained in the definition "direct equity percentage" in subsection 95(4) of the Act:

(i) for each class of the capital stock of the affiliate, determine that amount that is the proportion of the distribution entitlement of all the shares of that class that the number of shares of that class owned by that person is of all the issued shares of that class, and

(ii) determine the proportion that

(A) the aggregate of the amounts determined under subparagraph (i) for each class of the capital stock of the affiliate

is of

(B) the aggregate of the distribution entitlements of all the issued shares of all classes of the capital stock of the affiliate

and the proportion determined under subparagraph (ii) when expressed as a percentage is that person's direct equity percentage in the affiliate; and

(*c*) the direct equity percentage of a person in any foreign affiliate of the taxpayer, for which the total of the distribution entitlements of all the shares of all classes of the capital stock of the affiliate was not greater than nil, was determined by the rules contained in the definition "direct equity percentage" in subsection 95(4) of the Act.

History: S. 5904(1), the portion before (*b*)(i) was amended by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994, except that

(*a*) those provisions apply to taxation years of a foreign affiliate of a taxpayer that end after 1994 where there has been a change in the taxation year of the foreign affiliate in 1994 and after February 22, 1994, unless

(i) the foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation, or

(ii) the first taxation year of the foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if there had not been that change in the taxation year of the foreign affiliate; and

(*b*) in applying subsection 5907(1) of the Regulations, for taxation years of a foreign affiliate of a taxpayer that begin before 1996 and in respect of which subsection 8(13) does not apply, the references to "designated treaty country" shall be read as "country listed in subsection (11)". S. 5904(1), the portion before (*b*)(i) formerly read:

"S. 5904. (1) For the purposes of clause 95(1)(*e*)(ii)(B) of the Act, the participating percentage of a particular share owned by a taxpayer of the capital stock of a corporation in respect of any foreign affiliate of the taxpayer that was, at the end of its taxation year, a controlled foreign affiliate of the taxpayer is prescribed to be the percentage that would be the taxpayer's equity percentage in the affiliate at that time on the assumption that

(*a*) he owned no shares other than the particular share (but in no case shall that assumption be made for the purpose of determining whether or not a corporation is a foreign affiliate of the taxpayer);

(*b*) the direct equity percentage of a person in any foreign affiliate of the taxpayer, for which the aggregate of the distribution entitlements of all the shares of all classes of the capital stock of the affiliate was greater than nil, was determined by the following rules and not by the rules contained in paragraph 95(4)(*a*) of the Act:"

S. 5904(1)(*c*) was amended by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994, except that

(*a*) those provisions apply to taxation years of a foreign affiliate of a taxpayer that end after 1994 where there has been a change in the taxation year of the foreign affiliate in 1994 and after February 22, 1994, unless

(i) the foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation, or

(ii) the first taxation year of the foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if there had not been that change in the taxation year of the foreign affiliate; and

(*b*) in applying subsection 5907(1) of the Regulations, for taxation years of a foreign affiliate of a taxpayer that begin before 1996 and in respect of which subsection 8(13) does not apply, the references to "designated treaty country" shall be read as "country listed in subsection (11)". S. 5904(1)(*c*) formerly read:

"(*c*) the direct equity percentage of a person in any foreign affiliate of the taxpayer, for which the aggregate of the distribution entitlements of all the shares of all classes of the capital stock of the affiliate was not greater than nil, was determined by the rules contained in paragraph 95(4)(*a*) of the Act."

Ss. 5904(1)(b) and (c) were both amended to substitute "aggregate of the distribution entitlements of all the shares of all classes of the capital stock of the affiliate" for "distribution entitlement at that time of all the shares of each class of its capital stock" in each case by P.C. 1980-503, SOR/80-141, February 11, 1980, effective for the 1976 and subsequent taxation years.

(2) For the purposes of this section, the distribution entitlement of all the shares of a class of the capital stock of a foreign affiliate of the taxpayer at the end of its taxation year is the aggregate of

(*a*) the distributions made during the year by the affiliate to holders of shares of that class; and

(*b*) the amount that the affiliate might reasonably be expected to distribute to holders of shares of that class immediately after the end of the year if at that time it had distributed to its shareholders an amount equal to the aggregate of

(i) the amount, if any, by which the net surplus of the affiliate in respect of the taxpayer at the end of the year, computed as though any adjustments resulting from the provisions of sections 5902 and 5905 and subsections 5907(2.1) and (2.2) and any references thereto during the year were ignored, exceeds the net surplus of the affiliate in respect of the taxpayer at the end of its immediately preceding taxation year, and

(ii) the amount that the affiliate would receive if at that time each controlled foreign affiliate of the taxpayer in which the affiliate had an equity percentage had distributed to its shareholders an amount equal to the aggregate of

(A) the amount that would be determined under subparagraph (i) for the controlled foreign affiliate if the controlled foreign affiliate were the foreign affiliate referred to in subparagraph (i), for each of the taxation years of the controlled foreign affiliate ending in the taxation year of the affiliate, and

(B) each such amount that the controlled foreign affiliate would receive from any other controlled foreign affiliate of the taxpayer in which it had an equity percentage.

History: S. 5904(2)(b)(i) was amended by P.C. 1978-3599, SOR/78-913, dated December 1, 1978 (Special Issue, *Canada Gazette*, December 31, 1978), to add the references to ss. 5907(2.1) and (2.2), effective for the 1978 and subsequent taxation years.

(3) For the purposes of subsection (2),

(*a*) the net surplus of a foreign affiliate of a taxpayer who is an individual, in respect of that individual, shall be computed as if that individual were a corporation resident in Canada;

(*b*) in computing the net surplus of a particular foreign affiliate of a taxpayer resident in Canada in which any other foreign affiliate of the taxpayer has an equity percentage, no amount shall be included in respect of any distribution that would be received by the particular affiliate from such other affiliate;

(*c*) if any controlled foreign affiliate of a taxpayer resident in Canada has issued shares of more than one class of its capital stock, the amount that would be distributed to the holders of shares of any class is such portion of the amount determined under subparagraph (2)(*b*)(ii) as, in the circumstances, it might reasonably be expected to distribute to the holders of those shares; and

(*d*) in determining the distribution entitlement

(i) of a class of shares of the capital stock of a foreign affiliate that is entitled to cumulative dividends, the amount of any distribution referred to in paragraph (2)(*a*) shall be deemed not to include any distribution in respect of such class that is, or would, if it were made, be referable to profits of a preceding taxation year, and

(ii) of any other class of shares of the capital stock of the affiliate, the net surplus of the affiliate at the end of the year referred to in subparagraph (2)(*b*)(i) shall be deemed not to have been reduced by any distribution described in subparagraph (i) with respect to a class of shares that is entitled to cumulative dividends to the extent that the distribution was referable to profits of a preceding taxation year.

Special Rules

5905. (1) Where at any time, other than in the course of a transaction to which subsection (2) or (5) applies, a corporation resident in Canada or a foreign affil-

iate of such a corporation acquires in any manner whatever shares of the capital stock of another corporation that was a foreign affiliate of the corporation immediately before that time (in this subsection referred to as the "acquired affiliate") and as a result thereof the surplus entitlement percentage of the corporation in respect of the acquired affiliate increases, for the purposes of this Part, the exempt surplus or exempt deficit, the taxable surplus or taxable deficit and the underlying foreign tax, in respect of the corporation, of the acquired affiliate and of each other foreign affiliate of the corporation in which the acquired affiliate has an equity percentage (in this subsection referred to as the "other affiliate"), other than an acquired affiliate or other affiliate in respect of which subsection (8) applies, shall at that time be reduced to the proportion of the amount thereof otherwise determined that

(*a*) the surplus entitlement percentage immediately before that time of the corporation in respect of the acquired affiliate or the other affiliate, as the case may be, determined on the assumption that the taxation year of the acquired affiliate or the other affiliate, as the case may be, that otherwise would have included that time had ended immediately before that time,

is of

(*b*) the surplus entitlement percentage immediately after that time of the corporation in respect of the acquired affiliate or the other affiliate, as the case may be, determined on the assumption that the taxation year of the acquired affiliate or the other affiliate, as the case may be, that otherwise would have included that time had ended immediately after that time,

and, for the purposes of the definitions "exempt deficit", "exempt surplus", "taxable deficit", "taxable surplus" and "underlying foreign tax" in subsection 5907(1), those reduced amounts are referred to as the opening exempt deficit, opening exempt surplus, opening taxable deficit, opening taxable surplus and opening underlying foreign tax, as the case may be, of each of those affiliates in respect of the corporation.

Pending Amendment

Foreign Affiliates — February 27, 2004

[Subsection 5905(1) of the Regulations is replaced by the following:]

(1) If, at any time, other than in the course of a transaction to which subsection (2) or (5) applies, a corporation resident in Canada or a foreign affiliate of such a corporation acquires in any manner whatever shares of the capital stock of another corporation that was, immediately after that time, a foreign affiliate of the corporation (in this subsection referred to as the "acquired affiliate") and as a result of that acquisition the surplus entitlement percentage of the corporation in respect of the acquired affiliate and in respect of any other foreign affiliate of the corporation resident in Canada (the acquired affiliate and each such other foreign affiliate each being referred to in this subsection as the "particular relevant foreign affiliate"), increases, the following rules apply:

(*a*) for the purposes of this Part, the amount of the exempt surplus or exempt deficit, the taxable surplus or taxable deficit, and the underlying foreign tax, in respect of the corporation, of the particular relevant foreign affiliate is (unless subsection (8) applies to the particular relevant foreign affiliate because of the acquisition of the shares) to be, at that time, adjusted to become the proportion of that amount, determined without making this adjustment, that

(i) the surplus entitlement percentage, immediately before that time, of the corporation in respect of the particular relevant foreign affiliate, determined on the assumption that the taxation year of the particular relevant foreign affiliate that otherwise would have included that time had ended immediately before that time,

is of

(ii) the surplus entitlement percentage, immediately after that time, of the corporation in respect of the particular relevant foreign affiliate, determined on the assumption that the taxation year of the particular relevant foreign affiliate that otherwise would have included that time had ended immediately after that time, and

(*b*) for the purposes of applying the definitions "exempt deficit", "exempt surplus", "taxable deficit", "taxable surplus" and "underlying foreign tax" in subsection 5907(1), the adjusted amounts determined under paragraph (*a*) are deemed to be the opening exempt deficit, opening exempt surplus, opening taxable deficit, opening taxable surplus and opening underlying foreign tax, as the case may be, of the particular relevant foreign affiliate, in respect of the corporation.

Applicable: In respect of acquisitions that occur after February 27, 2004.

Explanatory Note: Section 5905 of the Regulations provides special rules, for the purposes of determining surpluses and deficits and underlying foreign tax balances of a foreign affiliate in respect of a corporation resident in Canada.

The rules in section 5905 are being amended to require adjustments to the surplus balances of a foreign affiliate of a corporation resident in Canada in respect of dividends and consolidations of surplus accounts arising because of elections by the corporation resident in Canada under subsection 93(1) or (1.2) of the Act in respect of a disposition of a share of a foreign affiliate of the corporation resident in Canada.

Subsection 5905(1) of the Regulations provides rules for computing the amount of the exempt surplus or exempt deficit, the taxable surplus or taxable deficit and the underlying foreign tax, in respect of the corporation resident in Canada, of a foreign affiliate of the corporation resident in Canada when the surplus entitlement percentage of the corporation resident in Canada in respect of a foreign affiliate of that corporation increases because of the acquisition of shares of a non-resident corporation. Subsection 5905(1) is being repealed and replaced by proposed new subsection 5905(1) that clarifies the operation of the rule.

Proposed new subsection 5905(1) of the Regulations provides that if, at any time, other than in the course of a transaction to which subsection 5905(2) or (5) applies, a corporation resident in Canada or a foreign affiliate of such a corporation acquires shares of the capital stock of another corporation that was, immediately after that time, a foreign affiliate of a corporation resident in Canada (the "acquired affiliate") and as a result of the acquisition the surplus entitlement percentage of the corporation resident in Canada in respect of the acquired affiliate or any other affiliate (the acquired affiliate and each such other affiliate referred to as a "relevant foreign affiliate") increases, the following rules apply:

- The amount of the exempt surplus or exempt deficit, the taxable surplus or taxable deficit and the underlying foreign tax, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate, is to be adjusted to become the proportion of the amount determined without making this adjustment, that

  — the surplus entitlement percentage immediately before that time of the corporation resident in Canada in respect of the particular relevant foreign affiliate determined on the assumption that the taxation year of the particular relevant foreign affiliate that otherwise would have included that time had ended immediately before that time,

  is of

— the surplus entitlement percentage immediately after that time of the corporation resident in Canada in respect of the particular relevant foreign affiliate determined on the assumption that the taxation year of the particular relevant foreign affiliate that otherwise would have included that time had ended immediately after that time.

- For the purposes of applying the definitions "exempt deficit", "exempt surplus", "taxable deficit", "taxable surplus" and "underlying foreign tax", in subsection 5907(1), the adjusted amounts determined above are deemed to be, in respect of the particular relevant foreign affiliate, the opening exempt deficit, opening exempt surplus, opening taxable deficit, opening taxable surplus and opening underlying foreign tax, of the particular relevant foreign affiliate in respect of the corporation.

Proposed new subsection 5905(1) of the Regulations applies to acquisitions after February 27, 2004.

History: S. 5905(1), the portion after paragraph (*b*) was amended by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994, except that

(*a*) those provisions apply to taxation years of a foreign affiliate of a taxpayer that end after 1994 where there has been a change in the taxation year of the foreign affiliate in 1994 and after February 22, 1994, unless

(i) the foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation, or

(ii) the first taxation year of the foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if there had not been that change in the taxation year of the foreign affiliate; and

(*b*) in applying subsection 5907(1) of the Regulation, for taxation years of a foreign affiliate of a taxpayer that begin before 1996 and in respect of which subsection 8(13) does not apply, the references to "designated treaty country" shall be read as "country listed in subsection (11)". S. 5905(1), the portion after paragraph (*b*) formerly read:

"and, for the purposes of paragraphs 5907(1)(*d*), (*k*) and (*l*), such reduced amounts shall be referred to as the opening exempt surplus, opening exempt deficit, opening taxable surplus, opening taxable deficit and opening underlying foreign tax, as the case may be, of each such affiliate in respect of the corporation."

S. 5905(1) was amended by P.C. 1985-467, SOR/85-176 dated February 14, 1985, applicable in respect of acquisitions of shares made after November 12, 1981. S. 5905(1) formerly read:

"(1) Where at any time

(*a*) a corporation resident in Canada acquires additional shares of the capital stock of a foreign affiliate of the corporation (in this subsection referred to as the 'acquired affiliate') other than on an issue of shares by the acquired affiliate or in the course of a transaction referred to in subsection (5),

(*b*) a foreign affiliate of a corporation resident in Canada acquires additional shares of the capital stock of another foreign affiliate of the corporation (in this subsection referred to as the 'acquired affiliate') other than on an issue of shares by the acquired affiliate,

(*c*) a foreign affiliate of a corporation resident in Canada (in this subsection referred to as the 'acquired affiliate') issues shares of a class of its capital stock, or

(*d*) a foreign affiliate of a corporation resident in Canada (in this subsection referred to as the 'acquired affiliate') purchases or otherwise acquires shares issued by it of a class of its capital stock (for the purposes of this Part, where the corporation resident in Canada makes an election under subsection 93(1) of the Act in respect of one or more shares purchased or otherwise acquired by the acquired affiliate at a particular time, the adjustments provided in this subsection shall be deemed to have occurred immediately prior to the particular time for the purposes of determining the appropriate adjustments under subsection 5902(4))

and, as a result of the acquisition or the issue of shares the aggregate of the participating percentages of all shares owned by the corporation resident in Canada in respect of the acquired affiliate increases (the amount determined in paragraph (f) in respect of the acquired affiliate exceeds the amount determined in paragraph (e) in respect of the acquired affiliate), for the purposes of this Part, the exempt surplus or exempt deficit, the taxable surplus or taxable deficit and the underlying foreign tax in respect of that corporation of the acquired affiliate and of each other foreign affiliate of that corporation in which the acquired affiliate has an equity percentage (in this subsection referred to as the 'other affiliate') shall at that time be reduced to the proportion thereof that

(*e*) the aggregate of the participating percentages of all shares owned immediately before that time by that corporation in respect of the acquired affiliate or the other affiliate, as the case may be, assuming for the purposes of this computation only that the taxation year of the acquired affiliate or the other affiliate, as the case may be, that otherwise would have included that time shall be deemed to have ended immediately before that time

is of

(*f*) the aggregate of the participating percentages of all shares owned immediately after that time by that corporation in respect of the acquired affiliate or the other affiliate, as the case may be, assuming for the purposes of this computation only that the taxation year of the acquired affiliate or the other affiliate, as the case may be, that otherwise would have included that time shall be deemed to have ended immediately after that time

and for the purposes of paragraphs 5907(1)(d), (k) and (l) such reduced amounts shall be referred to as the opening exempt surplus, opening exempt deficit, opening taxable surplus, opening taxable deficit and the opening underlying foreign tax, as the case may be, of each such affiliate in respect of the corporation resident in Canada."

S. 5905(1), the part following paragraph (d) was amended by P.C. 1980-503, SOR/80-141, February 11, 1980, effective for the 1976 and subsequent taxation years by adding the references to "the other affiliate".

(2) Where at any time a foreign affiliate of a corporation resident in Canada redeems, acquires or cancels in any manner whatever (otherwise than by way of a winding-up) any of the shares of any class of its capital stock (other than shares redeemed or cancelled that the affiliate had previously purchased or acquired and that were held by it until that time and in respect of which an adjustment has previously been made under this subsection or subsection (1) as it read prior to November 13, 1981), the following rules apply:

(*a*) where, by virtue of an election made by the corporation under subsection 93(1) of the Act, a dividend is deemed to have been received on one or more of the shares of the foreign affiliate that were disposed of by the corporation or another foreign affiliate of the corporation (in this paragraph referred to as the "transferor") by virtue of the redemption, acquisition or cancellation of such share or shares by the foreign affiliate, for the purposes of the adjustment required by paragraph (*b*),

Pending Amendment

Foreign Affiliates — Partnerships — March 16, 2001

The portion of paragraph 5905(2)(*a*) of the Regulations before subparagraph (i) is replaced by the following:

(*a*) where, because of an election made by the corporation under subsection 93(1) or (1.2) of the Act, a dividend is deemed to have been received on one or more of the shares of the foreign affiliate that were disposed of by the corporation or by another foreign affiliate of the corporation (in this paragraph referred to as the "transferor") because of the redemption, acquisition or cancellation of such share or shares by the foreign affiliate, for the purposes of the adjustment required by paragraph (*b*),

Applicable: After November 1999.

Explanatory Note: Subsection 5905(2) of the Regulations applies where shares of a foreign affiliate of a corporation resident in Canada are redeemed or cancelled (otherwise than by way of a winding-up). If the corporation has made an election under subsection 93(1) of the Act or if the corporation's surplus entitlement percentage in the affiliate changes, then the affiliate's surplus balances are adjusted to offset the change in the surplus entitlement percentage. The amendments to subsection 5905(2) ensure that the subsection will also apply where an election is made under subsection 93(1.2) of the Act.

These amendments apply after November 1999.

(i) immediately before that time there is included under subparagraph (v) of the description of B in the definition "exempt surplus" in subsection

5907(1) in computing the affiliate's exempt surplus or exempt deficit, as the case may be, in respect of the corporation an amount equal to the product obtained when the specified adjustment factor in respect of the disposition is multiplied by the total of all amounts each of which is the portion of any such dividend that is prescribed by paragraph 5900(1)(*a*) to have been paid out of the exempt surplus of the affiliate,

(ii) immediately before that time there is included under subparagraph (v) of the description of B in the definition "taxable surplus" in subsection 5907(1) in computing the affiliate's taxable surplus or taxable deficit, as the case may be, in respect of the corporation an amount equal to the product obtained when the specified adjustment factor in respect of the disposition is multiplied by the total of all amounts each of which is the portion of any such dividend that is prescribed by paragraph 5900(1)(*b*) to have been paid out of the taxable surplus of the affiliate, and

(iii) immediately before that time there shall be deducted from the amount, if any, otherwise determined to be the underlying foreign tax of the affiliate in respect of the corporation an amount equal to the product obtained when the specified adjustment factor in respect of the disposition is multiplied by the aggregate of all amounts each of which is the amount prescribed by paragraph 5900(1)(*d*) to be the foreign tax applicable to such portion of any such dividend as is prescribed by paragraph 5900(1)(*b*) to have been paid out of the taxable surplus of the affiliate,

and, for the purposes of subparagraphs (i) to (iii), the specified adjustment factor in respect of the disposition is the amount equal to the quotient obtained when,

(iv) where the transferor is the corporation, 100 per cent, and

(v) where the transferor is another foreign affiliate of the corporation, the surplus entitlement percentage of the corporation in respect of the transferor immediately before the disposition,

is divided by

(vi) the surplus entitlement percentage of the corporation in respect of the foreign affiliate immediately before the disposition;

(*b*) the exempt surplus or exempt deficit, the taxable surplus or taxable deficit and the underlying foreign tax, in respect of the corporation, of the affiliate and of each other foreign affiliate of the corporation in which the affiliate has an equity percentage (in this subsection referred to as the "other affiliate") shall at that time be adjusted to the proportion of the amount thereof otherwise determined that

(i) the surplus entitlement percentage immediately before that time of the corporation in respect of the affiliate or the other affiliate, as the case may be, determined on the assumption that the taxation year of the affiliate or the other affiliate, as the case may be, that otherwise would have included that time had ended immediately before that time,

is of

(ii) the surplus entitlement percentage immediately after that time of the corporation in respect of the affiliate or the other affiliate, as the case may be, determined on the assumption that the taxation year of the affiliate or the other affiliate, as the case may be, that otherwise would have included that time had ended immediately after that time; and

(*c*) for the purposes of the definitions "exempt deficit", "exempt surplus", "taxable deficit", "taxable surplus" and "underlying foreign tax" in subsection 5907(1), the amounts determined under paragraph (*b*) are referred to as the opening exempt deficit, opening exempt surplus, opening taxable deficit, opening taxable surplus and opening underlying foreign tax, as the case may be, of the affiliate and each other affiliate in respect of the corporation resident in Canada.

Pending Amendment

Foreign Affiliates — February 27, 2004

[Subsection 5905(2) of the Regulations is replaced by the following:]

(2) If at any time (referred to in this subsection as the "disposition time") a particular foreign affiliate of a corporation resident in Canada redeems, acquires or cancels (other than a redemption, an acquisition or a cancellation in respect of which an adjustment has previously been made under this subsection or subsection (1) as it read prior to November 13, 1981) in any manner whatever (otherwise than by way of a winding-up) one or more shares (referred to in this subsection and subsections (16) to (23) as "disposed shares") of any class of its capital stock, the following rules apply:

(*a*) if, because of an election made by the corporation under subsection 93(1) or (1.2) of the Act in respect of the disposition of the disposed shares, a dividend (referred to in this subsection and subsections (18) and (21) as the "disposition dividend") is deemed to have been received on the disposed shares, by the corporation or by another foreign affiliate of the corporation, for the purpose of the adjustment required by paragraph (*b*),

(i) in computing the exempt surplus, in respect of the corporation resident in Canada, of the particular foreign affiliate or of another foreign affiliate (the particular foreign affiliate and each such other foreign affiliate being referred to in this subsection and subsections (16) to (23) as the "particular relevant foreign affiliate") of the corporation resident in Canada in which the particular foreign affiliate has an equity percentage at the time (referred to in this subsection and subsections (16) to (22) as the "balance adjustment time") that is immediately before the disposition time, there is to be included, under subparagraph (v) of the description of B in the definition "exempt surplus" in subsection 5907(1), the total of

(A) the amount of the exempt surplus reduction, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate, in respect of the disposed shares,

(B) the amount of the exempt deficit reduction, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate, in respect of the disposed shares, and

(C) the amount of the taxable deficit allocation, in respect of the corporation resident in Canada, of

the particular relevant foreign affiliate, in respect of the disposed shares,

(ii) in computing the particular relevant foreign affiliate's taxable surplus, in respect of the corporation resident in Canada, at the balance adjustment time, there is to be included, under subparagraph (v) of the description of B in the definition "taxable surplus" in subsection 5907(1), the total of

(A) an amount equal to the taxable surplus reduction, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate, in respect of the disposed shares,

(B) an amount equal to the taxable deficit reduction, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate, in respect of the disposed shares, and

(C) an amount equal to the exempt deficit allocation, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate, in respect of the disposed shares,

(iii) in computing the particular relevant foreign affiliate's underlying foreign tax, in respect of the corporation resident in Canada, at the balance adjustment time, there is to be included, under subparagraph (iii) of the description of B in the definition "underlying foreign tax" in subsection 5907(1), the total of

(A) the amount determined by the formula (which is deemed to be nil, if, in respect of the particular relevant foreign affiliate, the value determined for B in the formula is nil)

$$A / B \times C \times D$$

where

A is the portion of the particular relevant foreign affiliate's underlying foreign tax, in respect of the corporation resident in Canada, at the balance adjustment time, that may reasonably be considered to have been included in computing the particular foreign affiliate's consolidated underlying foreign tax (as determined under subparagraph 5902(1)(*c*)), in respect of the corporation resident in Canada, in respect of the disposition,

B is the particular foreign affiliate's consolidated underlying foreign tax (as determined under paragraph 5902(1)(*c*)), in respect of the corporation resident in Canada, in respect of the disposition,

C is the portion, of the particular foreign affiliate's consolidated underlying foreign tax (as determined under paragraph 5902(1)(*c*)), in respect of the corporation resident in Canada, in respect of the disposition), that is prescribed, by paragraph 5900(1)(*d*), to be applicable to the portion of the whole dividend (as determined, under paragraph 5902(1)(*g*), in respect of the disposition dividend in respect of the disposed shares) paid on shares of the specified class that is prescribed, by paragraph 5900(1)(*c*), to have been paid out of the particular foreign affiliate's consolidated taxable surplus, in respect of the corporation resident in Canada, and

D is the specified adjustment factor in respect of the particular relevant foreign affiliate, and

(B) the amount of the underlying foreign tax reduction in respect of the corporation resident in Canada, of the particular relevant foreign affiliate, in respect of the disposition of the disposed shares,

(iv) in computing the particular relevant foreign affiliate's exempt deficit, in respect of the corporation resident in Canada, at the balance adjustment time, there is to be included, under subparagraph (viii) of the description of A in the definition "exempt surplus" in subsection 5907(1), an amount equal to the exempt deficit, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate, immediately before that time, and

(v) in computing the particular relevant foreign affiliate's taxable deficit, in respect of the corporation resident in Canada, at the balance adjustment time, there is to be included, under subparagraph (vi) of the description of A in the definition "taxable surplus" in subsection 5907(1), an amount equal to the taxable deficit, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate, immediately before that time;

(*b*) the amount, at the balance adjustment time, of exempt surplus, exempt deficit, taxable surplus, taxable deficit and underlying foreign tax, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate is to be adjusted to become the proportion of that amount, determined without making this adjustment, that

(i) the surplus entitlement percentage, at the balance adjustment time, of the corporation resident in Canada, in respect of the particular relevant foreign affiliate, determined on the assumption that the taxation year, of the particular relevant foreign affiliate, that otherwise would have included that time, had ended immediately before that time,

is of

(ii) the surplus entitlement percentage, immediately after the time of the disposition, of the corporation resident in Canada, in respect of the particular relevant foreign affiliate, determined on the assumption that the taxation year, of the particular relevant foreign affiliate, that otherwise would have included the balance adjustment time, had ended at the time of the disposition; and

(*c*) for the purposes of applying the definitions "exempt deficit", "exempt surplus", "taxable deficit", "taxable surplus" and "underlying foreign tax", in subsection 5907(1), the amounts determined under paragraph (*b*), in respect of the particular relevant foreign affiliate, in respect of the corporation resident in Canada, are deemed to be the opening exempt deficit, opening exempt surplus, opening taxable deficit, opening taxable surplus and opening underlying foreign tax, as the case may be, of the particular relevant foreign affiliate, in respect of the corporation resident in Canada.

Applicable: In respect of dispositions in respect of which an election was made in respect of which [the amendments to subsections 5902(1), (3) and (6), the repeal of subsection 5902(2) and the addition of subsection 5902(7) apply].

Explanatory Note: Subsection 5905(2) of the Regulations applies where shares of a foreign affiliate of a corporation resident in Canada are redeemed, acquired or cancelled (otherwise than by way of a winding-up). If the corporation has made an election under subsection 93(1) of the Act or if the corporation's surplus entitlement percentage in the affiliate changes, then the affiliate's surplus balances are adjusted to offset the change in the surplus entitlement percentage. Subsection 5905(2) is being repealed and replaced by proposed new subsection 5905(2) which adjusts surplus balances of the foreign affiliate in respect of an election under subsection 93(1) or (1.2) of the Act.

Proposed new subsection 5905(2) applies in respect of dispositions in respect of which an election was made in respect of which proposed new subsection 5902(1) applies.

Proposed new subsection 5905(2) provides that, if, at any time (in this subsection, the "disposition time") a particular foreign affiliate of the corporation resident in Canada redeems, acquires or cancels (other than a redemption, an acquisition or a cancellation in respect of which an adjustment has previously been made under this subsection or subsection (1) as it read prior to November 13, 1981) in any manner whatever (otherwise than by way of a winding-up) one or more shares (referred to in this subsection and subsections 5902(16) to (23) as "disposed shares") of any class of its capital stock, the following rules apply.

- If, because of an election made by the corporation resident in Canada under subsection 93(1) or (1.2) of the Act in respect of the disposition of the disposed shares, a dividend (in this subsection and subsections 5905(18) and

(21), the "disposition dividend") is deemed to have been received on the disposed shares, by the corporation or by another foreign affiliate, for the purposes of the adjustment required by paragraph (*b*) of the subsection,

— in computing the exempt surplus in respect of the corporation resident in Canada of the particular foreign affiliate or of another foreign affiliate (the particular foreign affiliate and each other foreign affiliate being referred to in this subsection and subsections 5905(16) to (23) as the "particular relevant foreign affiliate") in which the particular foreign affiliate has an equity percentage at the time (in this subsection and subsections 5905(16) to (22), the "balance adjustment time") that is immediately before the disposition time, there is included, under subparagraph (v) of the description of B in the definition "exempt surplus" in subsection 5907(1), the total of

- the amount of the exempt surplus reduction of the particular relevant foreign affiliate in respect of the disposed shares,
- the amount of the exempt deficit reduction of the particular relevant foreign affiliate in respect of the disposed shares, and
- the amount of the taxable deficit allocation of the particular relevant foreign affiliate in respect of the disposed shares,

— in computing the particular relevant foreign affiliate's taxable surplus in respect of the corporation resident in Canada at the balance adjustment time there is to be included, under subparagraph (v) of the description of B in the definition "taxable surplus" in subsection 5907(1), the total of

- an amount equal to the taxable surplus reduction of the particular relevant foreign affiliate in respect of the disposed shares,
- an amount equal to the taxable deficit reduction of the particular relevant foreign affiliate in respect of the disposed shares, and
- an amount equal to the exempt deficit allocation of the particular relevant foreign affiliate in respect of the disposed shares,

— in computing the particular relevant foreign affiliate's underlying foreign tax, in respect of the corporation resident in Canada, at the balance adjustment time, there is included, under subparagraph (iii) of the description of B in the definition "underlying foreign tax" in subsection 5907(1), the total of

- the amount determined by the formula

$$A/B \times C \times D$$

where

A is the portion of the particular relevant foreign affiliate's underlying foreign tax in respect of the corporation resident in Canada, at the balance adjustment time, that can reasonably be considered to have been included in computing the particular foreign affiliate's consolidated underlying foreign tax (as determined under paragraph 5902(1)(*c*)), in respect of the disposition,

B is the particular foreign affiliate's consolidated underlying foreign tax in respect of the corporation resident in Canada (as determined under paragraph 5902(1)(*c*)), in respect of the disposition,

C is the portion of the particular foreign affiliate's consolidated underlying foreign tax in respect of the corporation resident in Canada (as determined under paragraph 5902(1)(*c*)), in respect of the disposition), that is prescribed, by paragraph 5900(1)(*d*), to be applicable to the portion of the whole dividend (as determined, under paragraph 5902(1)(*g*), in respect of the disposition dividend in respect of the disposed shares) paid on shares of the specified class that is prescribed, by paragraph 5900(1)(*c*), to have been paid out of the particular foreign affiliate's consolidated taxable surplus, and

D is the specified adjustment factor in respect of the particular relevant foreign affiliate,

— however, if, in respect of the particular relevant foreign affiliate, the value determined for B in the formula is nil, the amount determined by the formula, in respect of the relevant foreign affiliate, is deemed to be nil, and

- an amount equal to the underlying foreign tax reduction in respect of the corporation resident in Canada, of the particular relevant foreign affiliate of the corporation resident in Canada, in respect of the disposition of the disposed shares,

— in computing the particular relevant foreign affiliate's exempt deficit, at the balance adjustment time, there is included, under subparagraph (viii) of the description of A in the definition "exempt surplus" in subsection 5907(1), an amount equal to the exempt deficit, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate, immediately before that time, and

— in computing the particular relevant foreign affiliate's taxable deficit, in respect of the corporation resident in Canada, at the balance adjustment time, there is included, under subparagraph (vi) of the description of A in the definition "taxable surplus" in subsection 5907(1), an amount equal to the taxable deficit, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate, immediately before that time.

- The amount, at the balance adjustment time, of exempt surplus, exempt deficit, taxable surplus, taxable deficit and underlying foreign tax in respect of the corporation resident in Canada of the particular relevant foreign affiliate is adjusted to become the proportion of that amount, determined without making this adjustment, that

  — the surplus entitlement percentage, at the balance adjustment time, of the corporation resident in Canada, in respect of the particular relevant foreign affiliate, determined on the assumption that the taxation year, of the particular relevant foreign affiliate, that otherwise would have included that time, had ended immediately before that time,

  is of

  — the surplus entitlement percentage, immediately after the time of the disposition, of the corporation resident in Canada, in respect of the particular relevant foreign affiliate, determined assuming that the taxation year of the particular relevant foreign affiliate, that otherwise would have included the balance adjustment time, had ended at the time of the disposition.

- For the purposes of applying the definitions "exempt deficit", "exempt surplus", "taxable deficit", "taxable surplus" and "underlying foreign tax", in subsection 5907(1), the amounts determined under paragraph 5905(2)(*b*), in respect of the particular relevant foreign affiliate, are deemed to be the opening exempt deficit, opening exempt surplus, opening taxable deficit, opening taxable surplus and opening underlying foreign tax, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate.

Example – Subsection 5905(2)

Facts

1. Canco, a corporation resident in Canada, owns 100% of FA1, which owns 100 shares (100%) of FA2.

2. FA2 owns 100% of FA3.

4. Each of FA1, FA2 and FA3 are foreign affiliates of Canco.

5. FA2 redeems 10 (10%) of its shares owned by FA1.

6. Canco elects under subsection 93(1) of the Act at a designated amount of $30.

7. At the time of the redemption, FA2 has exempt surplus of $0, exempt deficit of $150, taxable surplus of $0, taxable deficit of $200 and underlying foreign tax ("UFT") of $0.

8. At the time of the redemption, FA3 has exempt surplus of $500, exempt deficit of $0, taxable surplus of $150, taxable deficit of $0 and UFT of $0.

9. All the corporations have only issued 100 shares of one class.

Application of subsection 5905(2) to FA3

Subsection 5905(2) applies to adjust the exempt surplus, exempt deficit, taxable surplus, taxable deficit and UFT of each of FA2 and FA3.

For the calculation of consolidated exempt surplus, consolidated exempt deficit, consolidated taxable surplus, consolidated taxable deficit and consolidated underlying foreign tax, see the example in the commentary to subsection 5902(1) of the Regulations.

FA3

Since FA3 has only exempt surplus and taxable surplus, it is only those amounts that must be adjusted.

A. Exempt surplus — FA3

The exempt surplus (otherwise determined) of FA3 is reduced by each of the exempt surplus reduction, exempt deficit reduction and taxable deficit allocation, in respect of the corporation resident in Canada, of FA3 in respect of the disposed shares (see subsections 5905(16) to (22)).

The adjusted amount of the exempt surplus, in respect of the corporation resident in Canada, of FA3 that is determined under paragraph 5905(2)(*a*) is $500 – ($30 + $150 + $50) = $270. No adjustments are required to be made under paragraph 5905(2)(*b*) because there is no change in the surplus entitlement percentage of the corporation resident in Canada in respect of FA3.

1. Exempt surplus reduction — FA3

The exempt surplus reduction, in respect of the corporation resident in Canada, of FA3 in respect of the disposed shares is determined as follows

$$A / B \times C \times D = \$500 / \$500 \times \$30 \times 1 = \$30$$

where

A is the exempt surplus in respect of the corporation resident in Canada of FA3 that was included in consolidated exempt surplus in respect of the corporation resident in Canada of FA2 determined under subsection 5902(1) ($500)

B is the consolidated exempt surplus, in respect of the corporation resident in Canada, of FA2 determined under subsection 5902(1) ($500)

C is the portion of the dividend received on the disposed shares because of the election under subsection 93(1) that is, pursuant to paragraph 5900(1)(*a*), prescribed to be paid out of the consolidated exempt surplus of FA2 ($300/$300 × $30 = $30)

D is the specified adjustment factor (see subsection 5905(23)), in respect of the corporation resident in Canada, in respect of FA3, of FA1 (1).

2. Exempt deficit reduction — FA3

The exempt deficit reduction in respect of the corporation resident in Canada of FA3 in respect of the disposed shares is determined as follows

$$A/B \times C/D = \$500/\$500 \times \$150/1 = \$150$$

where

A is the exempt surplus, in respect of the corporation resident in Canada, of FA2 that was included in the consolidated exempt surplus, in respect of the corporation resident in Canada, of FA2 determined under subsection 5902(1) ($500)

B is the consolidated exempt surplus, in respect of the corporation resident in Canada, of FA2 determined under subsection 5902(1) ($500)

C is the consolidated exempt deficit, in respect of the corporation resident in Canada, of FA2 determined under subsection 5902(1) ($150)

D is the amount that would be the surplus entitlement percentage of FA2 in FA3 if FA2 were the corporation resident in Canada (1).

3. Taxable deficit allocation — FA3

The taxable deficit allocation is determined as follows

$$1/E \times (A–B) \times C/D$$

$$1/100\% \times (\$200 – \$150) \times (\$500/\$500) = \$50$$

where

A is the amount of the consolidated taxable deficit, in respect of the corporation resident in Canada, of FA2 (determined under subsection 5902(1)) in respect of the disposition of the disposed shares ($200)

B is the amount of the consolidated taxable surplus, in respect of the corporation resident in Canada, of FA2 (determined under subsection 5902(1)) in respect of the disposition of the disposed shares ($150)

C is the exempt surplus, in respect of the corporation resident in Canada, of FA3 that was included in consolidated exempt surplus, in respect of the corporation resident in Canada, of FA2 determined under subsection 5902(1) ($500)

D is the consolidated exempt surplus, in respect of the corporation resident in Canada, of FA2 determined under subsection 5902(1) ($500)

E is the amount that would be the surplus entitlement percentage of FA2 in FA3 if FA2 were the corporation resident in Canada (100%).

B. Taxable surplus — FA3

In this example, taxable surplus is only reduced by the taxable deficit reduction.

The adjusted amount of taxable surplus in respect of the corporation resident in Canada of FA3 that is determined under paragraph 5905(2)(*a*) is $150 – $150 = $0. No adjustments are required to be made under paragraph 5905(2)(*b*) because there is no change in the surplus entitlement percentage of the corporation resident in Canada in respect of FA3.

1. Taxable deficit reduction — FA3

The taxable deficit reduction is determined as $150 since the consolidated taxable deficit of FA2 exceeds the consolidated taxable surplus of FA2 in respect of the disposition of the FA2 shares (see paragraph (*b*) of the definition "taxable deficit reduction" in subsection 5905(20).

Note that with respect to FA2, the amounts that have to be adjusted are its taxable deficit and exempt deficit, which are both reduced to $0. As all accounts of FA2 are $0, no paragraph 5905(2)(*b*) adjustment is necessary.

History: S. 5905(2)(*a*)(i) and (ii) were amended by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994, except that

(*a*) those provisions apply to taxation years of a foreign affiliate of a taxpayer that end after 1994 where there has been a change in the taxation year of the foreign affiliate in 1994 and after February 22, 1994, unless

(i) the foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation, or

(ii) the first taxation year of the foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if there had not been that change in the taxation year of the foreign affiliate; and

(*b*) in applying subsection 5907(1) of the Regulations, for taxation years of a foreign affiliate of a taxpayer that begin before 1996 and in respect of which subsection 8(13) does not apply, the references to "designated treaty country" shall be read as "country listed in subsection (11)". S. 5905(2)(*a*)(i) and (ii) formerly read:

"(i) immediately before that time there shall be included under subparagraph 5907(1)(*d*)(xii) in computing the affiliate's exempt surplus or exempt deficit, as the case may be, in respect of the corporation an amount equal to the product obtained when the specified adjustment factor in respect of the disposition is multiplied by the aggregate of all amounts each of which is such portion of any such dividend as is prescribed by paragraph 5900(1)(*a*) to have been paid out of the exempt surplus of the affiliate,

(ii) immediately before that time there shall be included under subparagraph 5907(1)(*k*)(xi) in computing the affiliate's taxable surplus or taxable deficit, as the case may be, in respect of the corporation an amount equal to the product obtained when the specified adjustment factor in respect of the disposition is multiplied by the aggregate of all amounts each of which is such portion of any such dividend as is prescribed by paragraph 5900(1)(*b*) to have been paid out of the taxable surplus of the affiliate, and"

S. 5905(2)(*c*) was amended by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994, except that

(*a*) those provisions apply to taxation years of a foreign affiliate of a taxpayer that end after 1994 where there has been a change in the taxation year of the foreign affiliate in 1994 and after February 22, 1994, unless

(i) the foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation, or

(ii) the first taxation year of the foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if there had not been that change in the taxation year of the foreign affiliate; and

(*b*) in applying subsection 5907(1) of the Regulations, for taxation years of a foreign affiliate of a taxpayer that begin before 1996 and in respect of which subsection 8(13) does not apply, the references to "designated treaty country" shall be read as "country listed in subsection (11)". S. 5905(2)(*c*) formerly read:

"(*c*) for the purposes of paragraphs 5907(1)(*d*), (*k*) and (*l*), the amounts determined under paragraph (*b*) shall be referred to as the opening exempt surplus, opening exempt deficit, opening taxable surplus, opening taxable deficit and opening underlying foreign tax, as the case may be, of the affiliate and each other affiliate in respect of the corporation resident in Canada."

S. 5905(2) was amended by P.C. 1985-467, SOR/85-176 dated February 14, 1985, applicable in respect of redemptions, acquisitions or cancellations of shares occurring after November 12, 1981. S. 5905(2) formerly read:

"(2) Where at any time a foreign affiliate of a corporation resident in Canada redeems in whole or in part or cancels (otherwise than by way of a winding-up) shares of a class of its capital stock, (for the purposes of this subsection, shares redeemed or cancelled at any time that the affiliate had previously purchased or acquired and that were held by it until that time and in respect of which an adjustment has previously been made under subsection (1) shall not be considered to be shares redeemed or cancelled at that time) for the purposes of this Part, the exempt surplus or exempt deficit, the taxable surplus or the taxable deficit and the underlying foreign tax in respect of the corporation resident in Canada of that affiliate and of each other foreign affiliate of the corporation resident in Canada in which that affiliate has an equity percentage shall at that time be reduced to the proportion thereof that

(*a*) 100 per cent minus the aggregate of the participating percentages of all shares owned immediately before that time by the corporation resident in Canada in respect of the affiliate that were subsequently redeemed or cancelled

is of

(*b*) 100 per cent

assuming for the purposes of this computation only that the corporation resident in Canada owned 100 per cent of the outstanding shares of the capital stock of the affiliate immediately before the redemption or cancellation and that the taxation year of the affiliate that otherwise would have included the time of redemption or cancellation shall be deemed to have ended immediately before that time and, for the purposes of paragraphs 5907(1)(d), (k) and (l) such reduced amounts shall be referred to as the opening exempt surplus, opening exempt deficit, opening taxable surplus, opening taxable deficit and the opening underlying foreign tax, as the case may be, of each such affiliate in respect of the corporation resident in Canada."

S. 5905(2), the part preceding paragraph (a), was amended by P.C. 1980-503, SOR/80-141, February 11, 1980, effective for the 1976 and subsequent years by adding "(otherwise than by way of a winding-up)".

(3) Where at any time a foreign affiliate of a corporation resident in Canada has been formed as a result of a foreign merger (within the meaning assigned by subsection 87(8.1) of the Act) of two or more corporations (each of which in this subsection and subsection (4) is referred to as a "predecessor corporation"), for the purposes of this Part, the following rules apply:

(*a*) in respect of the foreign affiliate,

(i) its opening exempt surplus in respect of the corporation shall be the amount, if any, by which the aggregate of all amounts each of which is the exempt surplus of a predecessor corporation that was a foreign affiliate of the corporation immediately before the merger exceeds the aggregate of all amounts each of which is the exempt deficit of a predecessor corporation that was a foreign affiliate of the corporation immediately before the merger,

(ii) its opening exempt deficit in respect of the corporation shall be the amount, if any, by which the aggregate of all amounts each of which is the exempt deficit of a predecessor corporation that was a foreign affiliate of the corporation immediately before the merger exceeds the aggregate of all amounts each of which is the exempt surplus of a predecessor corporation that was a foreign affiliate of the corporation immediately before the merger,

(iii) its opening taxable surplus in respect of the corporation shall be the amount, if any, by which the aggregate of all amounts each of which is the taxable surplus of a predecessor corporation that was a foreign affiliate of the corporation immediately before the merger exceeds the aggregate of all amounts each of which is the taxable deficit of a predecessor corporation that was a foreign affiliate of the corporation immediately before the merger,

(iv) its opening taxable deficit in respect of the corporation shall be the amount, if any, by which the aggregate of all amounts each of which is the taxable deficit of a predecessor corporation that was a foreign affiliate of the corporation immediately before the merger exceeds the aggregate of all amounts each of which is the taxable surplus of a predecessor corporation that was a foreign affiliate of the corporation immediately before the merger, and

(v) its opening underlying foreign tax in respect of the corporation shall be the aggregate of all amounts each of which is the underlying foreign tax of a predecessor corporation that was a foreign affiliate of the corporation immediately before the merger; and

(*b*) in respect of any other foreign affiliate of the corporation, other than a predecessor corporation, in which a predecessor corporation had an equity percentage immediately before the merger, the exempt surplus or exempt deficit, the taxable surplus or taxable deficit and the underlying foreign tax of the other affiliate in respect of the corporation shall at that time be adjusted to the proportion of the amount thereof otherwise determined that

(i) the surplus entitlement percentage immediately before that time of the corporation in respect of the other affiliate, determined on the assumption that the taxation year of the other affiliate that otherwise would have included that time had ended immediately before that time,

is of

(ii) the surplus entitlement percentage immediately after that time of the corporation in respect of the other affiliate, determined on the assumption that the taxation year of the other affiliate that otherwise would have included that time had ended immediately after that time,

and, for the purposes of the definitions "exempt deficit", "exempt surplus", "taxable deficit", "taxable surplus" and "underlying foreign tax" in subsection 5907(1), the adjusted amounts are referred to as the opening exempt deficit, opening exempt surplus, opening taxable deficit, opening taxable surplus and opening underlying foreign tax, as the case may be, of the other affiliate in respect of the corporation resident in Canada.

History: S. 5905(3)(*b*), the portion after subparagraph (ii), was amended by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994, except that

(*a*) those provisions apply to taxation years of a foreign affiliate of a taxpayer that end after 1994 where there has been a change in the taxation year of the foreign affiliate in 1994 and after February 22, 1994, unless

(i) the foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation, or

(ii) the first taxation year of the foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if there had not been that change in the taxation year of the foreign affiliate; and

(*b*) in applying subsection 5907(1) of the Regulations, for taxation years of a foreign affiliate of a taxpayer that begin before 1996 and in respect of which subsection 8(13) does not apply, the references to "designated treaty country" shall be read as "country listed in subsection (11)". S. 5905(3)(*b*), the portion after subparagraph (ii) formerly read:

"and, for the purposes of paragraphs 5907(1)(*d*), (*k*) and (*l*), such adjusted amounts shall be referred to as the opening exempt surplus, opening exempt deficit, opening taxable surplus, opening taxable deficit and opening underlying foreign tax, as the case may be, of the other affiliate in respect of the corporation resident in Canada."

S. 5905(3) was amended by P.C. 1985-467, SOR/85-176 dated February 14, 1985, applicable in respect of mergers occurring after November 12, 1981. S. 5905(3) formerly read:

"(3) Where at any time a foreign affiliate of a corporation resident in Canada has been formed as a result of the merger of two or more corporations (each of which in this subsection is referred to as a 'predecessor corporation') in the manner described in paragraph 95(2)(d) of the Act, for the purposes of this Part the following rules apply:

(*a*) its opening exempt surplus in respect of the corporation shall be the amount by which the aggregate of all amounts each of which is the exempt surplus of a predecessor corporation that was a foreign affiliate of the corporation immediately before the merger exceeds the aggregate of all amounts each of which is the exempt deficit of a predecessor corporation that was a foreign affiliate of the corporation immediately before the merger;

(*b*) its opening exempt deficit in respect of the corporation shall be the amount by which the aggregate of all amounts each of which is the exempt deficit of a predecessor corporation that was a foreign affiliate of the corporation immediately before the merger exceeds the aggregate of all amounts each of which is the exempt surplus of a predecessor corporation that was a foreign affiliate of the corporation immediately before the merger;

(*c*) its opening taxable surplus in respect of the corporation shall be the amount by which the aggregate of all amounts each of which is the taxable surplus of a predecessor corporation that was a foreign affiliate of the corporation immediately before the merger exceeds the aggregate of all amounts each of which is the taxable deficit of a predecessor corporation that was a foreign affiliate of the corporation immediately before the merger;

(*d*) its opening taxable deficit in respect of the corporation shall be the amount by which the aggregate of all amounts each of which is the taxable deficit of a predecessor corporation that was a foreign affiliate of the corporation immediately before the merger exceeds the aggregate of all amounts each of which is the taxable surplus of a predecessor corporation that was a foreign affiliate of the corporation immediately before the merger; and

(*e*) its opening underlying foreign tax in respect of the corporation shall be the aggregate of all amounts each of which is the underlying foreign tax of a predecessor corporation that was a foreign affiliate of the corporation immediately before the merger."

(4) For the purposes of paragraph (3)(*a*), the exempt surplus, exempt deficit, taxable surplus, taxable deficit and underlying foreign tax of each predecessor corporation immediately before the foreign merger shall be deemed to be the proportion of the amount thereof otherwise determined that

(*a*) the surplus entitlement percentage of the corporation resident in Canada immediately before the merger in respect of the predecessor corporation, determined on the assumption that the taxation year of the predecessor corporation that otherwise would have included the time of the merger had ended immediately before that time,

is of

(*b*) the percentage that would be the surplus entitlement percentage of the corporation resident in Canada immediately after the merger in respect of the foreign affiliate of the corporation formed as a result of the merger if the net surplus of such foreign affiliate were the aggregate of all amounts, each of which is the net surplus of a predecessor corporation immediately before the merger.

Pending Amendment

Foreign Affiliates — February 27, 2004

Subsection 5905(4) of the Regulations is replaced by the following:

(4) For the purpose of subsection (3),

(*a*) if, at any time, a foreign affiliate of a corporation resident in Canada disposes of one or more shares (referred to in this subsection and subsections (16) to (23) as the "disposed shares") of a class of the capital stock of a predecessor corporation and the foreign affiliate is, because of an election made under subsection 93(1) or (1.2) of the Act, deemed to have received a dividend (referred to in this subsection and subsections (18) and (21) as the "disposition dividend") on the disposed shares, for the purposes of the adjustments required by paragraphs (*b*) and (3)(*b*),

(i) in computing the exempt surplus, in respect of the corporation resident in Canada, of each predecessor corporation and of each other foreign affiliate of the corporation resident in Canada in which a predecessor foreign affiliate has an equity percentage (the particular predecessor corporation and each such other foreign affiliate being referred to in this subsection and subsections (16) to (23) as the "particular relevant foreign affiliate") at the time (referred to in this subsection and subsections (16) to (22) as the "balance adjustment time") that is immediately before the foreign merger, there is to be included under subparagraph (v) of the description of B in the definition "exempt surplus" in subsection 5907(1), the total of

(A) an amount equal to the exempt surplus reduction, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate, in respect of the disposed shares,

(B) an amount equal to the exempt deficit reduction, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate, in respect of the disposed shares, and

(C) an amount equal to the taxable deficit allocation, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate, in respect of the disposed shares,

(ii) in computing the particular relevant foreign affiliate's taxable surplus, in respect of the corporation resident in Canada, at the balance adjustment time, there is to be included, under subparagraph (v) of the description of B in the definition "taxable surplus" in subsection 5907(1), the total of

(A) an amount equal to the taxable surplus reduction, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate, in respect of the disposed shares,

(B) an amount equal to the taxable deficit reduction, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate, in respect of the disposed shares, and

(C) an amount equal to the exempt deficit allocation, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate, in respect of the disposed shares,

(iii) in computing the particular relevant foreign affiliate's underlying foreign tax, in respect of the corporation resident in Canada, at the balance adjustment time, there is to be included, under subparagraph (iii) of the description of B in the definition "underlying foreign tax" in subsection 5907(1), the total of

(A) the amount determined by the formula (which is deemed to be nil, if, in respect of the particular

relevant foreign affiliate, the value determined for B in the formula is nil)

$$A/B \times C \times D$$

where

A is the portion of the amount of the particular relevant foreign affiliate's underlying foreign tax, in respect of the corporation resident in Canada, at the balance adjustment time, that may reasonably be considered to have been included in computing the amount of the consolidated underlying foreign tax (as determined under subparagraph 5902(1)(*c*)), in respect of the corporation resident in Canada, of the particular predecessor corporation that issued the disposed shares, in respect of the disposition,

B is the amount of the consolidated underlying foreign tax (as determined under subparagraph 5902(1)(*c*)), in respect of the corporation resident in Canada, of the particular predecessor corporation that issued the disposed shares, in respect of the disposition,

C is the total of all amounts each of which is the amount, determined by paragraph 5900(1)(*d*), to be the amount of foreign tax applicable to the portion of the disposition dividend prescribed to have been paid out of the taxable surplus of the issuing foreign affiliate, that relates to a disposed share, in respect of the disposition, and

D is the specified adjustment factor, in respect of the corporation resident in Canada, in respect of the particular relevant foreign affiliate of the corporation resident in Canada, of the foreign affiliate of the corporation resident in Canada that disposed of the disposed shares, in respect of the disposition of the disposed shares, and

(B) the amount of the underlying foreign tax reduction in respect of the corporation resident in Canada, of the particular relevant foreign affiliate, in respect of the disposition of the disposed shares,

(iv) in computing the exempt deficit, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate, at the balance adjustment time, there is to be included, under subparagraph (viii) of the description of A in the definition "exempt surplus" in subsection 5907(1), an amount equal to the exempt deficit, in respect of the corporation resident in Canada, immediately before that time, of the particular relevant foreign affiliate, and

(v) in computing the particular relevant foreign affiliate's taxable deficit, in respect of the corporation resident in Canada, at the balance adjustment time, there is to be included, under subparagraph (vi) of the description of A in the definition "taxable surplus" in subsection 5907(1), an amount equal to the taxable deficit, in respect of the corporation resident in Canada, immediately before that time, of the particular relevant foreign affiliate; and

(*b*) the amount, at the balance adjustment time, of exempt surplus, exempt deficit, taxable surplus, taxable deficit and underlying foreign tax, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate is to be adjusted to become the proportion of that amount, determined without making that adjustment, that

(i) the surplus entitlement percentage, at the balance adjustment time, of the corporation resident in Canada, in respect of the particular relevant foreign affiliate, determined on the assumption that the taxation year, of the particular relevant foreign affiliate that otherwise would have included that time, had ended immediately before that time,

is of

(ii) the surplus entitlement percentage, immediately after the time of the disposition, of the corporation resident in Canada, in respect of the particular relevant foreign affiliate, determined on the assumption that the taxation year, of the particular relevant foreign affiliate, that otherwise would have included the balance adjustment time, had ended at the time of the disposition.

Applicable: In respect of dispositions in respect of which an election was made in respect of which [the amendments to subsections 5902(1), (3) and (6), the repeal of subsection 5902(2) and the addition of subsection 5902(7) apply].

Explanatory Note: Subsection 5905(4) of the Regulations provides rules for the operation of subsection 5905(3), concerning foreign mergers.

Subsection 5905(4) is replaced by new subsection 5905(4) and adjusts surplus accounts in respect of a corporation resident in Canada of a foreign affiliate of the corporation resident in Canada in respect of elections made by the corporation resident in Canada under subsections 93(1) and (1.2) of the Act in respect of shares of the foreign affiliate that are disposed of.

Proposed new subsection 5905(4) applies in respect of dispositions in respect of which an election was made in respect of which proposed new subsection 5902(1) applies.

Proposed new subsection 5905(4) provides, for the purposes of subsection 5905(3), the following rules:

- if, at any time, a foreign affiliate of a corporation resident in Canada disposes of one or more shares (in this subsection and subsections 5905(16) to (23), the "disposed shares") of a class of the capital stock of a predecessor corporation and the foreign affiliate of the corporation resident in Canada is, because of an election made under subsection 93(1) or (1.2) of the Act, deemed to have received a dividend (in this subsection and subsections (18) and (21), the "disposition dividend") on the disposed shares, for the purposes of the adjustments required by paragraphs (*b*) and 5905(3)(*b*),
  - in computing the exempt surplus in respect of the corporation resident in Canada of each predecessor corporation and each other foreign affiliate of the corporation resident in Canada in which a predecessor foreign affiliate has an equity percentage (the particular predecessor corporation and each such other foreign affiliate being referred to in this subsection and subsections 5905(16) to (23) as the "particular relevant foreign affiliate") at the time (referred to in this subsection and subsections 5905(16) to (22) as the "balance adjustment time") that is immediately before the foreign merger, there is to be included under subparagraph (v) of the description of B in the definition "exempt surplus" in subsection 5907(1), the total of
    - an amount equal to the exempt surplus reduction in respect of the corporation resident in Canada of the particular relevant foreign affiliate in respect of the disposed shares,
    - an amount equal to the exempt deficit reduction in respect of the corporation resident in Canada of the particular relevant foreign affiliate in respect of the disposed shares, and
    - an amount equal to the taxable deficit allocation in respect of the corporation resident in Canada of the particular relevant foreign affiliate in respect of the disposed shares,
  - in computing the particular relevant foreign affiliate's taxable surplus in respect of the corporation resident in Canada, at the balance adjustment time, there is included, under subparagraph (v) of the description of B in the definition "taxable surplus" in subsection 5907(1), the total of
    - the taxable surplus reduction in respect of the corporation resident in Canada of the particular relevant foreign affiliate, in respect of the disposed shares,
    - the taxable deficit reduction in respect of the corporation resident in Canada of the particular relevant foreign affiliate, in respect of the disposed shares, and
    - the exempt deficit allocation in respect of the corporation resident in Canada of the particular relevant foreign affiliate, in respect of the disposed shares,
  - in computing the particular relevant foreign affiliate's underlying foreign tax at the balance adjustment time,

there is included, under subparagraph (iii) of the description of B in the definition "underlying foreign tax" in subsection 5907(1), the total of

- the amount determined by the formula

$$A/B \times C \times D$$

where

A is that portion of the amount of the particular relevant foreign affiliate's underlying foreign tax in respect of the corporation resident in Canada, at the balance adjustment time, that can reasonably be considered to have been included in computing the amount of the consolidated underlying foreign tax (as determined under paragraph 5902(1)(*c*)), of the particular predecessor corporation that issued the disposed shares, in respect of the disposition,

B is the amount of the consolidated underlying foreign tax in respect of the corporation resident in Canada (as determined under paragraph 5902(1)(*c*)), of the particular predecessor corporation that issued the disposed shares, in respect of the disposition,

C is the total of all the amounts determined by paragraph 5900(1)(*d*), to be the amount of foreign tax in respect of the corporation resident in Canada applicable to the portion of the disposition dividend prescribed to have been paid out of the taxable surplus of the issuing foreign affiliate, that relates to a disposed share, in respect of the disposition, and

D is the specified adjustment factor, in respect of the corporation resident in Canada, in respect of the particular relevant foreign affiliate, of the foreign affiliate that disposed of the disposed shares, in respect of the disposition of the disposed shares,

— however, if the amount determined, in respect of the particular relevant foreign affiliate, for B in the formula is nil, the amount determined, in respect of the particular relevant foreign affiliate, by the formula is deemed to be nil,

- an amount equal to the underlying foreign tax reduction in respect of the corporation resident in Canada, of the particular relevant foreign affiliate of the corporation resident in Canada, in respect of the disposition of the disposed shares,

— in computing the exempt deficit in respect of the corporation resident in Canada of the particular relevant foreign affiliate, at the balance adjustment time, there is included, under subparagraph (viii) of the description of A in the definition "exempt surplus" in subsection 5907(1), an amount equal to the exempt deficit, immediately before that time, of the particular relevant foreign affiliate, and

— in computing the particular relevant foreign affiliate's taxable deficit in respect of the corporation resident in Canada, at the balance adjustment time, there is included, under subparagraph (vi) of the description of A in the definition "taxable surplus" in subsection 5907(1), an amount equal to the taxable deficit, immediately before that time, of the particular relevant foreign affiliate.

- The amount, at the balance adjustment time, of exempt surplus, exempt deficit, taxable surplus, taxable deficit and underlying foreign tax, of the particular relevant foreign affiliate is adjusted to become the proportion of that amount, determined without making this adjustment, that

— the surplus entitlement percentage, at the balance adjustment time, of the corporation resident in Canada, in respect of the particular relevant foreign affiliate, determined on the assumption that the taxation year of the particular relevant foreign affiliate, that otherwise would have included that time, had ended immediately before that time,

is of

— the surplus entitlement percentage, immediately after the time of the disposition, of the corporation resident in Canada, in respect of the particular relevant foreign affiliate determined on the assumption that the taxation year, of the particular relevant foreign affiliate, that otherwise would have included the balance adjustment time, had ended at the time of the disposition.

History: S. 5905(4) was amended by P.C. 1985-467, SOR/85-176 dated February 14, 1985, applicable in respect of mergers occurring after November 12, 1981. S. 5905(4) formerly read:

"(4) For the purposes of subsection (3), the exempt surplus, exempt deficit, taxable surplus, taxable deficit and the underlying foreign tax of each predecessor corporation (within the meaning assigned by that subsection) immediately before the merger shall be deemed to be that proportion, not exceeding 100 per cent, of the amount thereof otherwise determined that

(*a*) the aggregate of the participating percentages of all shares owned immediately before the merger by the corporation resident in Canada in respect of the predecessor corporation assuming for the purposes of this computation only that the taxation year of the predecessor corporation that otherwise would have included the time of the merger shall be deemed to have ended immediately before that time

is of

(*b*) the aggregate of the participating percentages of all shares owned immediately after the merger by the corporation resident in Canada in respect of the foreign affiliate of the corporation formed as a result of the merger as determined at the end of the first taxation year of that affiliate assuming for this purpose only that all such shares, and only such shares, were owned at that time and that the equity percentage of the corporation resident in Canada (and the specific direct and indirect shareholdings making it up) was the same at both times."

(5) Where at any time

(*a*) there is a disposition by a corporation resident in Canada (in this subsection referred to as the "predecessor corporation") of any of the shares owned by it of the capital stock of a particular foreign affiliate of it to a taxable Canadian corporation with which the predecessor corporation was not dealing at arm's length (in this subsection referred to as the "acquiring corporation"),

(*b*) there is an amalgamation, to which section 87 of the Act applies, of two or more corporations (each of which in this subsection is referred to as a "predecessor corporation") to form a new corporation (in this subsection referred to as the "acquiring corporation") as a result of which shares of the capital stock of a particular foreign affiliate of a predecessor corporation become the property of the acquiring corporation, or

(*c*) there is a winding-up, to which subsection 88(1) of the Act applies, of a corporation (in this subsection referred to as the "predecessor corporation") into another corporation (in this subsection referred to as the "acquiring corporation") as a result of which shares of the capital stock of a particular foreign affiliate of the predecessor corporation become the property of the acquiring corporation,

the following rules apply for the purposes of this Part in respect of the particular affiliate and each other foreign affiliate of the predecessor corporation in which the particular affiliate has an equity percentage;

Pending Amendment

Foreign Affiliates — February 27, 2004

The portion of subsection 5905(5) of the Regulations between paragraphs (*c*) and (*d*) is replaced by the following:

the following rules apply for the purposes of this Part in respect of the particular affiliate and each other foreign affiliate of the predecessor corporation in which the particular affiliate has an equity percentage (the particular affiliate and each such other

foreign affiliate each being referred to in subsections (16) to (23) as the "particular relevant foreign affiliate"):

Applicable: In respect of dispositions in respect of which an election was made in respect of which [the amendments to subsections 5902(1), (3) and (6), the repeal of subsection 5902(2) and the addition of subsection 5902(7) apply].

Explanatory Note: [See the Explanatory Note following new draft subsection 5905(5.2) of the Regulations.]

(*d*) its opening exempt surplus in respect of the acquiring corporation shall be the amount, if any, by which the aggregate of its exempt surplus in respect of each predecessor corporation and in respect of the acquiring corporation immediately before any of the transactions referred to in paragraph (*a*), (*b*) or (*c*) exceeds the aggregate of its exempt deficit in respect of each predecessor corporation and in respect of the acquiring corporation immediately before any of the transactions referred to in paragraph (*a*), (*b*) or (*c*);

(*e*) its opening exempt deficit in respect of the acquiring corporation shall be the amount, if any, by which the aggregate of its exempt deficit in respect of each predecessor corporation and in respect of the acquiring corporation immediately before any of the transactions referred to in paragraph (*a*), (*b*) or (*c*) exceeds the aggregate of its exempt surplus in respect of each predecessor corporation and in respect of the acquiring corporation immediately before any of the transactions referred to in paragraph (*a*), (*b*) or (*c*);

(*f*) its opening taxable surplus in respect of the acquiring corporation shall be the amount, if any, by which the aggregate of its taxable surplus in respect of each predecessor corporation and in respect of the acquiring corporation immediately before any of the transactions referred to in paragraph (*a*), (*b*) or (*c*) exceeds the aggregate of its taxable deficit in respect of each predecessor corporation and in respect of the acquiring corporation immediately before any of the transactions referred to in paragraph (*a*), (*b*) or (*c*);

(*g*) its opening taxable deficit in respect of the acquiring corporation shall be the amount, if any, by which the aggregate of its taxable deficit in respect of each predecessor corporation and in respect of the acquiring corporation immediately before any of the transactions referred to in paragraph (*a*), (*b*) or (*c*) exceeds the aggregate of its taxable surplus in respect of each predecessor corporation and in respect of the acquiring corporation immediately before any of the transactions referred to in paragraph (*a*), (*b*) or (*c*); and

(*h*) its opening underlying foreign tax in respect of the acquiring corporation shall be the aggregate of its underlying foreign tax in respect of each predecessor corporation and in respect of the acquiring corporation immediately before any of the transactions referred to in paragraph (*a*), (*b*) or (*c*).

History: S. 5905(5) was amended by P.C. 1985-467, SOR/85-176 dated February 14 1985, applicable in respect of dispositions of shares made after November 12, 1981 and amalgamations and windings-up occurring after November 12, 1981, to substitute "subsection 88(1)" for "section 88" in the case of paragraph (c) and to add "if any" in the case of paragraphs (d) to (g). Paragraphs (a) and (b) formerly read:

"(*a*) there is a disposition by a corporation resident in Canada (in this subsection referred to as the 'predecessor corporation') of all the shares owned by it of the capital stock of a particular foreign affiliate of the corporation to another corporation (in this subsection referred to as the 'acquiring corporation') and in respect of those shares,

(i) the predecessor corporation and the acquiring corporation make an election pursuant to section 85 of the Act, and

(ii) the predecessor corporation does not make an election pursuant to section 93 of the Act,

(*b*) there is an amalgamation, to which section 87 of the Act applies, of two or more corporations (each of which corporations is in this subsection referred to as a 'predecessor corporation') to form a new corporation (in this subsection referred to as the 'acquiring corporation') as a result of which shares of the capital stock of a particular foreign affiliate of a predecessor corporation become the property of the acquiring corporation, or"

Pending Amendment

Foreign Affiliates — February 27, 2004

Section 5905 of the Regulations is amended by adding the following after subsection (5):

Amalgamations

(5.1) Where there has been an amalgamation described in paragraph (5)(*b*) to which subsection 87(11) of the Act applies and in respect of that amalgamation an amount has been — under paragraph 88(1)(*d*) of the Act by the corporation (referred to in this subsection as the "parent corporation") described in subsection 87(11) of the Act as the parent — designated in respect of shares of a corporation (referred to in this subsection as the "particular foreign affiliate") that is, immediately before the amalgamation, a foreign affiliate of the corporation (referred to in this subsection as the "subsidiary corporation") resident in Canada that is described in subsection 87(11) of the Act as the subsidiary, or designated in respect of an interest in a partnership that holds such shares, the following rules apply for the purposes of paragraphs (5)(*d*) to (*h*):

(*a*) subject to paragraph (*c*), the amount of the exempt surplus or exempt deficit, taxable surplus or taxable deficit and underlying foreign tax, as the case may be, of the particular foreign affiliate, in respect of the subsidiary corporation and the parent corporation is deemed to be nil, immediately before the amalgamation;

(*b*) subject to paragraph (*c*), the amount of the exempt surplus or exempt deficit, taxable surplus or taxable deficit and underlying foreign tax, as the case may be, in respect of the subsidiary corporation, of each other foreign affiliate (referred to in this subsection as a "lower-tier foreign affiliate") of the subsidiary corporation (other than the particular foreign affiliate) in which the particular foreign affiliate has, immediately before the amalgamation, an equity percentage, is deemed to be nil, immediately before the amalgamation; and

(*c*) the amount of the exempt surplus or exempt deficit, taxable surplus or taxable deficit and underlying foreign tax, as the case may be, of the particular foreign affiliate and of each lower-tier foreign affiliate, in respect of the parent corporation, is deemed to be the amount that would be determined if

(i) in addition to the shares or partnership interests held by the parent corporation, if any, that are relevant in computing the exempt surplus or exempt deficit, taxable surplus or taxable deficit, or underlying foreign tax, of any foreign affiliate of the parent corporation, in respect of the parent corporation, the shares or partnership interests that were held by the subsidiary corporation at any time in the period (in this subsection referred to as the "control period") that begins at the time the parent corporation last acquired control of the subsidiary corporation and ends immediately before the amalgamation, that are relevant in computing the exempt surplus or exempt deficit, taxable surplus or taxable deficit, or underlying foreign tax, of any foreign affiliate of the subsidiary corporation, in respect of the subsidiary corporation, were held by the parent corporation at the same times in the control period that they were held by the subsidiary corporation,

(ii) the parent corporation had acquired, at the time the parent corporation last acquired control of the subsidiary corporation, all the shares and partnership interests held, at that time, by the subsidiary corporation that are relevant in computing the exempt surplus or exempt deficit, taxable surplus or taxable deficit, or underlying foreign tax, of any foreign affiliate of the subsidiary corporation, in respect of the subsidiary corporation and

(iii) where the subsidiary corporation acquired or disposed of, as the case may be, any shares or partnership interests in the control period that are relevant in computing the exempt surplus or exempt deficit, taxable surplus or taxable deficit, or underlying foreign tax, of any foreign affiliate of the subsidiary corporation, in respect of the subsidiary corporation, the parent corporation had acquired or disposed of, as the case may be, the shares or partnership interests at the same time they were acquired or disposed of, as the case may be, by the subsidiary corporation.

Windings-up

(5.2) Where there has been a winding-up described in paragraph (5)(*c*) and in respect of that winding-up an amount has been — under paragraph 88(1)(*d*) of the Act by the corporation (referred to in this subsection as the "parent corporation") described in subsection 88(1) of the Act as the parent — designated in respect of shares of a corporation (referred to in this subsection as the "particular foreign affiliate") that is, immediately before the winding-up, a foreign affiliate of the corporation (referred to in this subsection as the "subsidiary corporation") resident in Canada that is described in subsection 88(1) of the Act as the subsidiary, or designated in respect of an interest in a partnership that holds such shares, the following rules apply for the purposes of paragraphs (5)(*d*) to (*h*):

(*a*) subject to paragraph (*c*), the amount of the exempt surplus or exempt deficit, taxable surplus or taxable deficit and underlying foreign tax, as the case may be, of the particular foreign affiliate, in respect of the subsidiary corporation and the parent corporation is deemed to be nil, immediately before the winding-up;

(*b*) subject to paragraph (*c*), the amount of the exempt surplus or exempt deficit, taxable surplus or taxable deficit and underlying foreign tax, as the case may be, in respect of the subsidiary corporation, of each other foreign affiliate (referred to in this subsection as a "lower-tier foreign affiliate") of the subsidiary corporation (other than the particular foreign affiliate) in which the particular foreign affiliate has, immediately before the winding-up, an equity percentage, is deemed to be nil, immediately before the winding-up; and

(*c*) the amount of the exempt surplus or exempt deficit, taxable surplus or taxable deficit and underlying foreign tax, as the case may be, of the particular foreign affiliate and each lower-tier foreign affiliate, in respect of the parent corporation, is deemed to be the amount that would be determined if

(i) in addition to the shares or partnership interests held by the parent corporation, if any, that are relevant in computing the exempt surplus or exempt deficit, taxable surplus or taxable deficit, or underlying foreign tax, of any foreign affiliate of the parent corporation, in respect of the parent corporation, the shares or partnership interests that were held by the subsidiary corporation at any time in the period (in this subsection referred to as the "control period") that begins at the time the parent corporation last acquired control of the subsidiary corporation and ends immediately before the winding-up, that are relevant in computing the exempt surplus or exempt deficit, taxable surplus or taxable deficit, or underlying foreign tax, of any foreign affiliate of the subsidiary corporation, in respect of the subsidiary corporation, were held by the parent corporation at the same time in the control period that they were held by the subsidiary corporation,

(ii) the parent corporation acquired, at the time the parent corporation last acquired control of the subsidiary corporation, all the shares and partnership interests held, at that time, by the subsidiary corporation that are relevant in computing the exempt surplus or exempt deficit, taxable surplus or taxable deficit, or underlying foreign tax, of any foreign affiliate of the subsidiary corporation, in respect of the subsidiary corporation, and

(iii) where the subsidiary corporation acquired or disposed of, as the case may be, any shares or partnership interests in the control period that are relevant in computing the exempt surplus or exempt deficit, taxable surplus or taxable deficit, or underlying foreign tax, of any foreign affiliate of the subsidiary corporation, in respect of the subsidiary corporation, the parent corporation is deemed to have acquired or disposed of, as the case may be, the shares or partnership interests at the same time they were acquired or disposed of, as the case may be, by the subsidiary corporation.

Applicable: In respect of amalgamations that occur, and windings-up that begin, after December 20, 2002.

Explanatory Note: Subsections 5905(5) and (6) of the Regulations apply where, as a result of specified types of transactions, all or any of the shares, of the capital stock of a particular foreign affiliate of a corporation resident in Canada, owned by a "predecessor corporation" are acquired by, or otherwise become the property of, an "acquiring corporation". These transactions are described in detail in paragraphs 5905(5)(*a*), (*b*) and (*c*) and can be generally described as follows:

- a transfer of shares of the capital stock of the particular affiliate by a corporation (the "predecessor corporation") resident in Canada to a taxable corporation resident in Canada (the "acquiring corporation") with which the predecessor corporation does not deal at arm's length;
- an amalgamation of two or more corporations (each corporation being referred to as a "predecessor corporation") to form a new corporation (the "acquiring corporation") if
  - section 87 of the Act applies to the amalgamation, and
  - as a result of the amalgamation, shares of the capital stock of the particular affiliate become the property of the acquiring corporation; or
- a winding-up of a corporation (the "predecessor corporation") into another corporation (the "acquiring corporation") if
  - subsection 88(1) of the Act applies to the winding-up, and
  - as a result of the winding-up, shares of the capital stock of the particular affiliate become the property of the acquiring corporation.

Subsections 5905(5) and (6) provide rules for computing the "opening exempt surplus", "opening exempt deficit", "opening taxable surplus", "opening taxable deficit" and "opening underlying foreign tax" of the particular affiliate (and of each other foreign affiliate of the predecessor corporation in which the particular affiliate has an equity percentage) in respect of the acquiring corporation. These rules ensure that the appropriate amounts of surplus, deficit and underlying foreign tax balances of the particular affiliate (and of the relevant subsidiaries of the particular affiliate) in respect of the predecessor corporation are assumed by the acquiring corporation as a result of the reorganization.

Subsection 5905(5) (i.e., the portion between paragraph (*c*) and (*d*)) is amended to define the term "particular relevant foreign affiliate" as a particular foreign affiliate and each other foreign affiliate of the predecessor corporation in which the particular affiliate has an equity percentage for the purposes of the subsection and subsections 5905(16) to (23). This amendment applies in respect of dispositions in respect of which an election was made in respect of which proposed new subsection 5902(1) applies.

New subsection 5905(5.1) of the Regulations concerns vertical amalgamations of corporations resident in Canada in respect of which an amount has been designated under paragraph 88(1)(*d*) of the Act in respect of a share of a foreign affiliate of the parent corporation resident in Canada. This new subsection applies in respect of dispositions in respect of which an election was made in respect of which proposed new subsection 5902(1) applies.

Proposed new subsection 5905(5.1) provides that, where there has been an amalgamation described in paragraph 5905(5)(*b*) to which subsection 87(11) of the Act applies and, in respect of that amalgamation, an amount has been — under paragraph 88(1)(*d*) of the Act by the corporation (the "parent corporation") described in subsection 87(11) of the Act as the parent — designated in respect of shares of a corporation (the "particular foreign affiliate") that is, immediately before the amalgamation, a foreign affiliate of the corporation (the "subsidiary corporation") resident in Canada that is described in subsection 87(11) of the Act as the subsidiary, or designated in respect of an interest in a partnership that holds such shares, certain rules apply for the purposes of paragraphs 5905(5)(*d*) to (*h*).

- Subject to paragraph 5905(5.1)(*c*), the amount of the exempt surplus or exempt deficit, taxable surplus or taxable deficit and underlying foreign tax, as the case may be, of the particular foreign affiliate, in respect of the subsidiary corporation and the parent corporation is deemed to be nil, immediately before the amalgamation.
- Subject to paragraph 5905(5.1)(*c*), the amount of the exempt surplus or exempt deficit, taxable surplus or taxable deficit and underlying foreign tax, as the case may be, in respect of the subsidiary corporation, of each other foreign affiliate (a "lower-tier foreign affiliate") of the subsidiary corporation (other than the particular foreign affiliate) in which the particular foreign affiliate has, immediately before the amalgamation, an equity percentage, is deemed to be nil, immediately before the amalgamation.
- Proposed new paragraph 5905(5.1)(*c*) provides that the amount of the exempt surplus or exempt deficit, taxable surplus or taxable deficit and underlying foreign tax, as the case may be, of the particular foreign affiliate and each lower-tier foreign affiliate, in respect of the parent corporation, is deemed to be the amount that would have been determined, if
  - in addition to the shares or partnership interests held by the parent corporation, if any, that are relevant in computing the exempt surplus or exempt deficit, taxable surplus or taxable deficit, and underlying foreign tax, of any foreign affiliate of the parent corporation, in respect of the parent corporation, the shares or partnership interests that were held by the subsidiary corporation at any time in the period (the "control period") that begins at the time the parent corporation last acquired control of the subsidiary corporation and ends immediately before the amalgamation, that are relevant in computing the exempt surplus or exempt deficit, taxable surplus or taxable deficit, and underlying foreign tax, of any foreign affiliate of the subsidiary corporation, in respect of the subsidiary corporation, were held by the parent corporation at the same time in the control period that they were held by the subsidiary corporation,
  - the parent corporation acquired, at the time the parent corporation last acquired control of the subsidiary corporation, all the shares and partnership interests held, at that time, by the subsidiary corporation that are relevant in computing the exempt surplus or exempt deficit, taxable surplus or taxable deficit, and underlying foreign tax, of any foreign affiliate of the subsidiary corporation, in respect of the subsidiary corporation, and
  - where the subsidiary corporation acquired or disposed of any shares or partnership interests in the control period that are relevant in computing the exempt surplus or exempt deficit, taxable surplus or taxable deficit, and underlying foreign tax, of any foreign affiliate of the subsidiary corporation, in respect of the subsidiary corporation, the parent corporation is deemed to have acquired or disposed of, as the case may be, the shares or partnership interests at the same time they were acquired or disposed of, as the case may be, by the subsidiary corporation.

New subsection 5905(5.2) of the Regulations concerns vertical amalgamations of corporations resident in Canada in respect of which an amount has been designated under paragraph 88(1)(*d*) of the Act in respect of a share of a foreign affiliate of the parent corporation resident in Canada. This new subsection applies in respect of dispositions in respect of which an election was made in respect of which proposed new subsection 5902(1) applies.

New subsection 5905(5.2) provides that, where there has been a winding-up described in paragraph 5905(5)(*c*) and, in respect of that winding-up, an amount has been — under paragraph 88(1)(*d*) of the Act by the corporation (the "parent corporation") described in subsection 88(1) of the Act as the parent — designated in respect of shares of a corporation (the "particular foreign affiliate") that is, immediately before the winding-up, a foreign affiliate of the corporation (the "subsidiary corporation") resident in Canada that is described in subsection 88(1) of the Act as the subsidiary or designated in respect of an interest in a partnership that holds such shares, the following rules apply for the purposes of paragraphs 5905(5)(*d*) to (*h*):

- Subject to paragraph 5905(5.2)(*c*), the amount of the exempt surplus or exempt deficit, taxable surplus or taxable deficit and underlying foreign tax of the particular foreign affiliate, in respect of the subsidiary corporation and the parent corporation is deemed to be nil, immediately before the winding-up.
- Subject to paragraph 5905(5.2)(*c*), the amount of the exempt surplus or exempt deficit, taxable surplus or taxable deficit and underlying foreign tax, as the case may be, in respect of the subsidiary corporation, of each other foreign affiliate (a "lower-tier foreign affiliate") of the subsidiary corporation (other than the particular foreign affiliate) in which the particular foreign affiliate has, immediately before the winding-up, an equity percentage, is deemed to be nil, immediately before the winding-up.
- New paragraph 5905(5.2)(*c*) provides that the amount of the exempt surplus or exempt deficit, taxable surplus or taxable deficit and underlying foreign tax of the particular foreign affiliate and each lower-tier foreign affiliate, in respect of the parent corporation, is deemed to be the amount that would have been determined, if
  - in addition to the shares or partnership interests held by the parent corporation, if any, that are relevant in computing the exempt surplus or exempt deficit, taxable surplus or taxable deficit, and underlying foreign tax, of any foreign affiliate of the parent corporation, in respect of the parent corporation, the shares or partnership interests that were held by the subsidiary corporation at any time in the period (the "control period") that begins at the time the parent corporation last acquired control of the subsidiary corporation and ends immediately before the winding-up, that are relevant in computing the exempt surplus or exempt deficit, taxable surplus or taxable deficit, and underlying foreign tax, of any foreign affiliate of the subsidiary corporation, in respect of the subsidiary corporation, were held by the parent corporation at the same time in the control period that they were held by the subsidiary corporation,
  - the parent corporation acquired, at the time the parent corporation last acquired control of the subsidiary corporation, all the shares and partnership interests held, at that time, by the subsidiary corporation that are relevant in computing the exempt surplus or exempt deficit, taxable surplus or taxable deficit, and underlying foreign tax, of any foreign affiliate of the subsidiary corporation, in respect of the subsidiary corporation, and
  - where the subsidiary corporation acquired or disposed of any shares or partnership interests in the control period that are relevant in computing the exempt surplus or exempt deficit, taxable surplus or taxable deficit, and underlying foreign tax, of any foreign affiliate of the subsidiary corporation, in respect of the subsidiary corporation, the parent corporation shall be deemed to have acquired or disposed of the shares or partnership interests at the same time they were acquired or disposed of by the subsidiary corporation.

Subsection 5905(6) of the Regulations applies when there has been a non-arm's length disposition of shares of a foreign affiliate of a corporation resident in Canada to another corporation resident in Canada. Subsection 5905(6) is being replaced with

proposed subsection 5905(6) that requires adjustments of surplus accounts of the foreign affiliate in respect of elections, under subsection 93(1) of the Act, made by the corporation resident in Canada with respect to the disposition of shares of a foreign affiliate of the corporation.

Proposed new subsection 5905(6) provides that, for the purpose of subsection 5905(5), certain rules apply.

- Where paragraph 5905(5)(*a*) applies and the predecessor corporation referred to in that paragraph is, because of an election made under subsection 93(1) or (1.2) of the Act, deemed to have received a dividend (in this subsection and subsections 5905(18) and (21), the "disposition dividend") on one or more of the shares (each of which is referred to in this subsection and in subsections 5905(16) to (23) as a "disposed share") of the particular foreign affiliate (the "issuing foreign affiliate") disposed of, at that time, in the transaction for the purposes of the adjustment required by paragraph 5905(6)(*b*),

— in computing the exempt surplus, in respect of the predecessor corporation, of a particular relevant foreign affiliate at the time (in this subsection and subsections 5905(16) to (22), the "balance adjustment time") that is immediately before the disposition time, the following rules apply:

- if certain conditions set out in clause 5905(6)(*a*)(i)(A) are met, there is included under subparagraph (v) of the description of B in the definition "exempt surplus" in subsection 5907(1), the amount determined by the formula

A/B x C/D

where

A is the portion of the particular relevant foreign affiliate's exempt surplus, in respect of the predecessor corporation, at the balance adjustment time, that can reasonably be considered to have been included in computing the amount of the issuing foreign affiliate's consolidated exempt surplus (as determined under paragraph 5902(1)(*a*)), in respect of the predecessor corporation, in respect of the disposition of the disposed shares,

B is the issuing foreign affiliate's consolidated exempt surplus (as determined under paragraph 5902(1)(*a*)), in respect of the predecessor corporation, in respect of the disposition of the disposed shares,

C is the portion of the disposition dividend that is, because of an election made under subsection 93(1) or (1.2) of the Act in respect of the disposition of the disposed shares, received on the disposed shares by the person that disposed of those shares, that is prescribed by paragraph 5900(1)(*a*) to have been paid out of the issuing foreign affiliate's exempt surplus, in respect of the predecessor corporation, and

D is the surplus entitlement percentage of the predecessor corporation in respect of the particular relevant foreign affiliate at the balance adjustment time, determined on the assumption that the disposed shares were the only shares owned by the predecessor corporation at that time,

- if the amount determined, in respect of the particular relevant foreign affiliate, for either B or D in the formula is nil, the amount determined, in respect of the particular relevant foreign affiliate, by the formula is deemed to be nil,
- there is included under subparagraph (v) of the description of B in the definition "exempt surplus" in subsection 5907(1), the amount of the particular foreign affiliate's exempt surplus in respect of the corporation resident in Canada if the particular foreign affiliate has an amount of exempt surplus in respect of the corporation resident in Canada and the issuing foreign affiliate's (see subsection 5902(1)) consolidated exempt deficit equals or exceeds its consolidated exempt surplus in respect of the corporation resident in Canada, in respect of the disposition of the shares,
- there is included under subparagraph (v) of the description of B in the definition exempt surplus in subsection 5907(1), the relevant foreign affiliate's taxable deficit allocation in respect of the disposed shares,

— in computing the taxable surplus, in respect of a predecessor corporation, of the particular relevant foreign affiliate, at the balance adjustment time, the following rules apply:

- there is included under subparagraph (v) of the description of B in the definition "taxable surplus" in subsection 5907(1), the amount determined by the formula

A/B x C/D

where

A is the portion of the amount of the particular relevant foreign affiliate's taxable surplus, in respect of the predecessor corporation, at the balance adjustment time, that can reasonably be considered to have been included in computing the amount of the issuing foreign affiliate's consolidated taxable surplus (as determined under paragraph 5902(1)(*c*)), in respect of the predecessor corporation, in respect of the disposition of the disposed shares,

B is the amount of the issuing foreign affiliate's consolidated taxable surplus (as determined under paragraph 5902(1)(*c*)), in respect of the predecessor corporation, in respect of the disposition of the disposed shares,

C is the portion, of the disposition dividend that is, because of an election made under subsection 93(1) or (1.2) of the Act in respect of the disposition of the disposed shares, received on the disposed shares by the person that disposed of those shares, that is prescribed by paragraph 5900(1)(*b*) to have been paid out of the issuing foreign affiliate's taxable surplus, in respect of the predecessor corporation, and

D is the surplus entitlement percentage of the predecessor corporation in respect of the relevant foreign affiliate at the balance adjustment time, determined on the assumption that the disposed shares were the only shares owned by the predecessor corporation at that time,

- if the amount determined, in respect of the particular relevant foreign affiliate for either B or D in the formula is nil, the amount determined, in respect of the particular relevant foreign affiliate, by the formula is deemed to be nil,
- there is included under subparagraph (v) of the description of B in the definition "taxable surplus" in subsection 5907(1), the amount of the particular foreign affiliate's taxable surplus in respect of the corporation resident in Canada if the particular foreign affiliate has an amount of taxable surplus in respect of the corporation resident and the issuing corporation's (see subsection 5902(1)) consolidated taxable deficit equals or exceeds its consolidated taxable surplus in respect of the corporation resident in Canada in respect of the disposition of the shares,
- there is included in subparagraph (v) of the description of B in the definition "taxable surplus" in subsection 5907(1), an amount equal to the particular relevant foreign affiliate's exempt deficit allocation in respect of the disposed shares,

— in computing the underlying foreign tax, in respect of the predecessor corporation, of the particular relevant foreign affiliate, at the balance adjustment time, the following rules apply:

- there is included under subparagraph (iii) of the description of B in the definition "underlying foreign tax" in subsection 5907(1), an amount determined by the formula

A/B x C/D

where

A is the portion of the amount of the particular relevant foreign affiliate's underlying foreign tax, in respect of the predecessor corporation, at the balance adjustment time, that can reasonably be considered to have been included in computing the amount of the issuing foreign affiliate's consolidated underlying foreign tax (as determined under paragraph 5902(1)(*c*)), in respect of the predecessor corporation, in respect of the disposition,

B is the amount of the particular relevant foreign affiliate's consolidated underlying foreign tax (as determined under paragraph 5902(1)(*c*)), in respect of the predecessor corporation, in respect of the disposition,

C is the total of all amounts each of which is the amount, determined by paragraph 5900(1)(*d*), to be the amount of foreign tax applicable to the portion of the disposition dividend prescribed to have been paid out of the taxable surplus of the issuing foreign affiliate, that relates to a disposed share, in respect of the disposition, and

D is the surplus entitlement percentage of the predecessor corporation in respect of the relevant foreign affiliate at the balance adjustment time, determined on the assumption that the disposed shares were the only shares owned by the predecessor corporation at that time,

- if the amount determined above, in respect of the particular relevant foreign affiliate, for either B or D in the formula is nil, the amount determined, in respect of the particular relevant foreign affiliate by the formula is deemed to be nil,
- there is to be included under subparagraph (iii) of the description of B in the definition "underlying foreign tax" in subsection 5907(1), an amount determined by the formula

$$A \times (B + C) / D$$

where

A is the underlying foreign tax in respect of the predecessor corporation of the particular relevant foreign affiliate, at the balance adjustment time,

B is the amount determined under clause 5905(6)(*a*)(ii)(C) in respect of the particular relevant foreign affiliate, in respect of the corporation resident in Canada, in respect of the disposition of disposed shares,

C is the exempt deficit allocation, in respect of the predecessor corporation, of the particular relevant foreign affiliate, in respect of the disposition of the disposed shares, and

D is the taxable surplus in respect of the predecessor corporation of the particular relevant foreign affiliate, at the balance adjustment time,

— in computing the exempt deficit, in respect of the predecessor corporation, of the particular relevant foreign affiliate, at the balance adjustment time, there is included under subparagraph (viii) of the description of A in the definition "exempt surplus" in subsection 5907(1), an amount equal to the exempt deficit, in respect of the predecessor corporation, of the particular relevant foreign affiliate, immediately before that time, and

— in computing the taxable deficit, in respect of the predecessor corporation, of the particular relevant foreign affiliate, at the balance adjustment time, there shall be included under subparagraph (vi) of the description of A in the definition "taxable surplus" in subsection 5907(1), an amount equal to the taxable deficit, in respect of the predecessor corporation, of the particular relevant foreign affiliate, immediately before that time.

— New paragraph 5905(6)(*b*) provides that the exempt surplus or the exempt deficit, the taxable surplus or the taxable deficit and the underlying foreign tax in respect of a predecessor corporation (within the meaning assigned by subsection 5905(5)) and in respect of the acquiring corporation (within the meaning assigned by subsection 5905 (5)) of a particular relevant foreign affiliate is, at the balance adjustment time, to be adjusted to the proportion of the amount of the surplus, deficit or underlying foreign tax determined without reference to this paragraph that

— the surplus entitlement percentage at the balance adjustment time of the corporation immediately before the time of the latest of the transactions referred to in paragraphs 5905(5)(*a*), (*b*) and (*c*) of the predecessor corporation or the acquiring corporation, as the case may be, in respect of the relevant foreign affiliate, determined on the assumptions

- that the taxation year of the relevant foreign affiliate that otherwise would have included the balance adjustment time had ended immediately before that time, and
- where the transaction is a disposition referred to in paragraph 5905(5)(*a*), that the shares referred to therein were the only shares owned by the predecessor corporation at the balance adjustment time,

is of

— the surplus entitlement percentage immediately after the time of the latest of the transactions referred to in paragraphs 5905(5)(*a*), (*b*) and (*c*) of the acquiring corporation in respect of the relevant foreign affiliate, determined on the assumption that the taxation year of the affiliate that otherwise would have included that time had ended immediately after that time.

Example – Subsection 5905(6)

Facts

1. Canco, a corporation resident in Canada, owns 100% of Cansub, another corporation resident in Canada.

2. Canco owns 90% of FA1.

3. Cansub owns 10% of FA1.

4. FA1 owns 100% of FA2.

5. Both FA1 and FA2 are foreign affiliates of Canco and Subco.

6. Canco transfers 10% of the shares of FA1 to Cansub under section 85(1) of the Act, electing under section 93(1) of the Act at a designated amount of $10 in respect of the disposed shares.

7. At the time of the transfer, FA1 has exempt surplus of $0, exempt deficit of $400, taxable surplus of $0, taxable deficit of $0 and underlying foreign tax (UFT) of $0.

8. At the time of the transfer, FA2 has exempt surplus of $0, exempt deficit of $0, taxable surplus of $500, taxable deficit of $0 and UFT of $300.

9. All the corporations have only issued 100 shares of one class.

Application of paragraph 5905(6)(a)

Paragraph 5905(6)(*a*) of the Regulations applies to adjust the exempt surplus, exempt deficit, taxable surplus, taxable deficit and UFT of each of FA2 and FA3.

For an illustration of the calculation of consolidated exempt surplus, consolidated exempt deficit, consolidated taxable surplus, consolidated taxable deficit and consolidated UFT, see the example in the commentary to subsection 5902(1) of the Regulations.

This example focuses on FA2.

Application of paragraph 5905(6)(a) to FA2

FA 2 has amounts of taxable surplus and UFT and those amounts must be adjusted.

The taxable surplus, in respect of Canco, of FA2 is $500 – $100 – $400 = $0.

The UFT, in respect of Canco, of FA2 is $300 – ($60 + $240) = $0.

1. Taxable Surplus Reduction — 5905(6)(a)(ii)(A)

The taxable surplus reduction is the amount determined by the formula

$$A/B \times C/D = \$500/\$500 \times \$10/10\% = \$100$$

where

A is the taxable surplus, in respect of Canco, of FA2 that was included in consolidated taxable surplus, in respect of Canco, of FA1 determined under subsection 5902(1) ($500)

B is the consolidated taxable surplus, in respect Canco, of FA1 determined under subsection 5902(1) ($500)

C is the portion of the subsection 93(1) dividend in respect of the disposition of the disposed shares that is prescribed by paragraph 5900(1)(*b*) of the regulations to have been paid out of taxable surplus in respect of Canco ($10)

D is the surplus entitlement percentage of Canco determined on the assumption that the disposed shares were the only shares owned by Canco (10%).

2. Exempt deficit allocation — 5905(6)(a)(ii)(D)

The amount of FA2's exempt deficit allocation is determined by the formula

$$1/E \times (A–B) \times C/D$$

$$1/100\% \times (400 – 0) \times \$500/\$300 = \$400$$

where

A is the consolidated exempt deficit, in respect of Canco, of FA1 determined under subsection 5902(1) ($400)

B is the consolidated exempt surplus, in respect of Canco, of FA1 determined under subsection 5902(1) ($0)

C is the taxable surplus, in respect of Canco, of FA2 that was included in consolidated taxable surplus, in respect of Canco, of FA1 determined under subsection 5902(1) ($500)

D is the consolidated taxable surplus in respect of Canco of FA1 determined under subsection 5902(1) ($500)

E is the surplus entitlement percentage of FA1 in FA2 (100%).

UFT – FA2

UFT Reduction — 5905(6)(a)(iii)(A)

The UFT is to be reduced by the amount determined by the formula

A /B × C/D =$300 / $300 × $6 / 10% = $60 where

where

A is the UFT, in respect of Canco, of FA2 that was included in consolidated UFT, in respect of Canco, of FA1 determined under subsection 5902(1) ($300)

B is the consolidated UFT, in respect of Canco, of FA1 determined under subsection 5902(1) ($300)

C is the amount prescribed by paragraph 5900(1)(*d*) to be the UFT, in respect of Canco, applicable to the subsection 93(1) dividend on the disposed shares paid out of the taxable surplus of FA1 ($6)

D is the surplus entitlement percentage of Canco in FA2 on the assumption that only the disposed shares were owned by Canco (10%).

2. UFT Reduction — 5905(6)(a)(iii)(C) and (D)

The UFT is to be reduced by the amount determined by the formula

$$A \times B + C/D = \$300 \times \$\ 400/\$500 = \$240$$

where

A is the UFT, in respect of Canco, of FA2 that was included in consolidated UFT, in respect of Canco, of FA1 determined under subsection 5902(1) ($300)

B is the amount determined under clause 5905(6)(*a*)(ii)(C) in respect of FA2 in respect of the disposition of the disposed shares ($0)

C is the exempt deficit allocation of FA2 in respect of the disposed shares ($400)

D is the amount of taxable surplus of FA2 that was included in computing the consolidated UFT, in respect of Canco, of FA1 determined under subsection 5902(1) ($500).

(6) For the purposes of subsection (5), the following rules apply:

(*a*) where paragraph (5)(*a*) is applicable and the predecessor corporation is, by virtue of an election made under subsection 93(1) of the Act, deemed to have received a dividend on one or more of the shares of the particular affiliate disposed of in the transaction, for the purposes of the adjustment required by paragraph (*b*),

Pending Amendment

Foreign Affiliates — Partnerships — March 16, 2001

Paragraph 5905(6)(*a*) of the Regulations is replaced by the following:

(*a*) where paragraph (5)(*a*) applies and the predecessor corporation is, because of an election made under subsection 93(1) or (1.2) of the Act, deemed to have received a dividend on one or more of the shares of the particular affiliate disposed of in the transaction, for the purposes of the adjustment required by paragraph (b),

Applicable: After November 1999.

Explanatory Note: Paragraph 5905(6)(*a*) of the Regulations applies for the purpose of paragraph 5905(5)(*a*) to adjust the surplus balances of a particular foreign affiliate of a corporation resident in Canada where the corporation has made an election under subsection 93(1) of the Act. The amendment to paragraph 5905(6)(*a*) ensures that the paragraph will also apply where the corporation has made an election under new subsection 93(1.2) of the Act.

This amendment applies after November 1999.

(i) immediately before the time of the transaction there shall be included under subparagraph (v) of the description of B in the definition "exempt surplus" in subsection 5907(1) in computing the particular affiliate's exempt surplus or exempt deficit, as the case may be, in respect of the predecessor corporation an amount equal to the quotient obtained when

(A) such portion of the dividend as is prescribed by paragraph 5900(1)(*a*) to have been paid out of the exempt surplus of the particular affiliate

is divided by

(B) the surplus entitlement percentage of the predecessor corporation in respect of the particular affiliate immediately before the disposition, determined on the assumption that the shares disposed of by the predecessor corporation were the only shares owned by it immediately before the time of the transaction,

(ii) immediately before the time of the transaction there shall be included under subparagraph (v) of the description of B in the definition "taxable surplus" in subsection 5907(1) in computing the particular affiliate's taxable surplus or taxable deficit, as the case may be, in respect of the predecessor corporation an amount equal to the quotient obtained when

(A) such portion of the dividend as is prescribed by paragraph 5900(1)(*b*) to have been paid out of the taxable surplus of the particular affiliate

is divided by

(B) the surplus entitlement percentage referred to in clause (i)(B), and

(iii) immediately before the time of the transaction there shall be deducted from the amount, if any, otherwise determined to be the underlying foreign tax of the particular affiliate in respect of the predecessor corporation an amount equal to the quotient obtained when

(A) the amount prescribed by paragraph 5900(1)(*d*) to be the foreign tax applicable to

such portion of the dividend as is prescribed by paragraph 5900(1)(*b*) to have been paid out of the taxable surplus of the particular affiliate

is divided by

(B) the surplus entitlement percentage referred to in clause (i)(B); and

(*b*) the exempt surplus, exempt deficit, taxable surplus, taxable deficit and underlying foreign tax of an affiliate in respect of a predecessor corporation (within the meaning assigned by subsection (5)) and the acquiring corporation (within the meaning assigned by subsection (5)) shall be deemed to be the proportion of the amount thereof otherwise determined that

(i) the surplus entitlement percentage immediately before the time of the latest of the transactions referred to in paragraph (5)(*a*), (*b*) or (*c*) of the predecessor corporation or the acquiring corporation, as the case may be, in respect of the affiliate, determined on the assumption

(A) that the taxation year of the affiliate that otherwise would have included that time had ended immediately before that time, and

(B) where the transaction is one referred to in paragraph (5)(*a*), that the shares referred to therein were the only shares owned by the predecessor corporation immediately before that time,

is of

(ii) the surplus entitlement percentage immediately after the time of the latest of the transactions referred to in paragraph (5)(*a*), (*b*) or (*c*) of the acquiring corporation in respect of the affiliate, determined on the assumption that the taxation year of the affiliate that otherwise would have included that time had ended immediately after that time.

Pending Amendment

Foreign Affiliates — February 27, 2004

Subsection 5905(6) of the Regulations is replaced by the following:

(6) For the purpose of subsection (5), the following rules apply:

(*a*) if paragraph (5)(*a*) applies and the predecessor corporation is, because of an election made under subsection 93(1) or (1.2) of the Act, deemed to have received a dividend (referred to in this subsection and subsections (18) and (21) as the "disposition dividend") on one or more of the shares (each of which is referred to in this subsection and subsections (16) to (23) as a "disposed share") of the particular foreign affiliate (referred to in this subsection as the "issuing foreign affiliate") disposed of, at that time, for the purpose of the adjustment required by paragraph (*b*),

(i) in computing the exempt surplus, in respect of the predecessor corporation, of a particular relevant foreign affiliate at the time (referred to in this subsection and subsections (16) to (22) as the "balance adjustment time") that is immediately before the disposition time, the following rules apply:

(A) if the particular relevant foreign affiliate has, at the balance adjustment time, an amount of exempt surplus, in respect of the corporation resident in Canada, and the issuing foreign affiliate has, at that time, an amount of consolidated exempt surplus (as determined under paragraph 5902(1)(*a*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed share that is equal to or greater than the amount of its consolidated exempt deficit (as determined under paragraph 5902(1)(*b*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares, there is to be included under subparagraph (v) of the description of B in the definition "exempt surplus" in subsection 5907(1), the amount determined by the formula

$$A/B \times C/D$$

where

A is the portion of the amount of the particular relevant foreign affiliate's exempt surplus, in respect of the predecessor corporation, at the balance adjustment time, that may reasonably be considered to have been included in computing the amount of the issuing foreign affiliate's consolidated exempt surplus (as determined under subparagraph 5902(1)(*a*)), in respect of the predecessor corporation, in respect of the disposition of the disposed shares,

B is the amount of the issuing foreign affiliate's consolidated exempt surplus (as determined under subparagraph 5902(1)(*a*)), in respect of the predecessor corporation, in respect of the disposition of the disposed shares,

C is the portion, of the disposition dividend that is, because of an election made under subsection 93(1) or (1.2) of the Act in respect of the disposition of the disposed shares, deemed to be received on the disposed shares by the person that disposed of the disposed shares, that is prescribed by paragraph 5900(1)(*a*) to have been paid out of the issuing foreign affiliate's exempt surplus, in respect of the predecessor corporation, and

D is the surplus entitlement percentage of the predecessor corporation in respect of the particular relevant foreign affiliate at the balance adjustment time, determined on the assumption that the disposed shares were the only shares owned by the predecessor corporation at that time,

(B) if the amount determined, in respect of the particular relevant foreign affiliate, for either B or D in the formula in clause (A) is nil, the amount determined, in respect of the particular relevant foreign affiliate, by that formula is deemed to be nil,

(C) there is to be included under subparagraph (v) of the description of B in the definition "exempt surplus" in subsection 5907(1), the amount of the particular relevant foreign affiliate's exempt surplus, in respect of the corporation resident in Canada, at the balance adjustment time if

(I) the particular relevant foreign affiliate has, at the balance adjustment time, an amount of exempt surplus, in respect of the corporation resident in Canada, and

(II) the issuing foreign affiliate has, at that time, an amount of consolidated exempt deficit (as determined under paragraph 5902(1)(*b*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed share that is equal to or greater than the amount of its consolidated exempt surplus (as determined under paragraph 5902(1)(*a*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares, and

(D) there is to be included under subparagraph (v) of the description of B in the definition "exempt surplus" in subsection 5907(1), an amount equal to the particular relevant foreign affiliate's taxable deficit allocation in respect of the disposed shares,

(ii) in computing the taxable surplus, in respect of a predecessor corporation, of the particular relevant for-

eign affiliate, at the balance adjustment time, the following rules apply:

(A) if the particular relevant foreign affiliate has, at the balance adjustment time, an amount of taxable surplus in respect of the corporation resident in Canada, and the issuing foreign affiliate has, at that time, an amount of consolidated taxable surplus (as determined under paragraph 5902(1)(*c*)), in respect of the corporation resident in Canada, in respect of the disposition that is equal to or greater than the amount of the issuing foreign affiliate's consolidated taxable deficit (as determined under paragraph 5902(1)(*d*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares, there is to be included under subparagraph (v) of the description of B in the definition "taxable surplus" in subsection 5907(1), the amount determined by the formula

$$A/B \times C/D$$

where

A is the portion of the amount of the particular relevant foreign affiliate's taxable surplus, in respect of the predecessor corporation, at the balance adjustment time, that may reasonably be considered to have been included in computing the amount of the issuing foreign affiliate's consolidated taxable surplus (as determined under subparagraph 5902(1)(*c*)), in respect of the predecessor corporation, in respect of the disposition of the disposed shares,

B is the amount of the issuing foreign affiliate's consolidated taxable surplus (as determined under subparagraph 5902(1)(*c*)), in respect of the predecessor corporation, in respect of the disposition of the disposed shares,

C is the portion, of the disposition dividend that is, because of an election made under subsection 93(1) or (1.2) of the Act in respect of the disposition of the disposed shares, deemed to be received on the disposed shares by the person that disposed of the disposed shares, that is prescribed by paragraph 5900(1)(*b*) to have been paid out of the issuing foreign affiliate's taxable surplus, in respect of the predecessor corporation, and

D is the surplus entitlement percentage of the predecessor corporation in respect of the particular relevant foreign affiliate at the balance adjustment time, determined on the assumption that the disposed shares were the only shares owned by the predecessor corporation at that time,

(B) if the amount determined, in respect of the particular relevant foreign affiliate for either B or D in the formula in clause (A) is nil, the amount determined, in respect of the particular relevant foreign affiliate, by that formula is deemed to be nil,

(C) there is to be included, under subparagraph (v) of the description of B in the definition "taxable surplus" in subsection 5907(1), the amount of particular relevant foreign affiliate's taxable surplus, in respect of the corporation resident in Canada, at the balance adjustment time, if

(i) the particular relevant foreign affiliate has, at the balance adjustment time, an amount of taxable surplus in respect of the corporation resident in Canada, and

(ii) the issuing foreign affiliate has, at that time, an amount of consolidated taxable deficit (as determined under paragraph 5902(1)(*d*)), in respect of the corporation resident in Canada, in respect of the disposition that is equal to or greater than the amount of the issuing foreign affiliate's consolidated taxable surplus (as determined under paragraph 5902(1)(*c*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares, and

(D) there is to be included in subparagraph (v) of the description of B in the definition "taxable surplus" in subsection 5907(1), an amount equal to the particular relevant foreign affiliate's exempt deficit allocation in respect of the disposed shares,

(iii) in computing the underlying foreign tax, in respect of the predecessor corporation, of the particular relevant foreign affiliate, at the balance adjustment time, there is to be included under subparagraph (iii) of the description of B in the definition "underlying foreign tax" in subsection 5907(1), the total of

(A) an amount determined by the formula (which is deemed to be nil, if, in respect of the particular relevant foreign affiliate, the value determined for either B or D in the formula is nil)

$$A/B \times C/D$$

where

A is the portion of the amount of the particular relevant foreign affiliate's underlying foreign tax, in respect of the predecessor corporation, at the balance adjustment time, that may reasonably be considered to have been included in computing the amount of the issuing foreign affiliate's consolidated underlying foreign tax (as determined under paragraph 5902(1)(*c*)), in respect of the predecessor corporation, in respect of the disposition,

B is the amount of the issuing foreign affiliate's consolidated underlying foreign tax (as determined under paragraph 5902(1)(*c*)), in respect of the predecessor corporation, in respect of the disposition,

C is the total of all amounts each of which is the amount, determined by paragraph 5900(1)(*d*), to be the amount of foreign tax applicable to the portion of the disposition dividend prescribed to have been paid out of the taxable surplus of the issuing foreign affiliate, that relates to a disposed share, in respect of the disposition, and

D is the surplus entitlement percentage of the predecessor corporation in respect of the particular relevant foreign affiliate at the balance adjustment time, determined on the assumption that the disposed shares were the only shares owned by the predecessor corporation at that time, and

(B) an amount determined by the formula

$$A \times (B+C)/D$$

where

A is the underlying foreign tax, in respect of the particular predecessor corporation, at the balance adjustment time, of the particular relevant foreign affiliate in respect of the disposition of the disposed shares.

B is the amount determined under clause (ii)(C) in respect of the particular relevant foreign affiliate, in respect of the predecessor corporation, in respect of the disposition of the disposed shares,

C is the exempt deficit allocation, in respect of the predecessor corporation, of the particular relevant foreign affiliate, in respect of the disposition of the disposed shares, and

D is the taxable surplus in respect of the predecessor corporation, at the balance adjustment time, of the particular relevant foreign affiliate,

(iv) in computing the exempt deficit, in respect of the predecessor corporation, of the particular relevant foreign affiliate, at the balance adjustment time, there is to be included under subparagraph (viii) of the description of A in the definition "exempt surplus" in subsection 5907(1), an amount equal to the exempt deficit, in respect of the predecessor corporation, of the particular relevant foreign affiliate, immediately before that time, and

(v) in computing the taxable deficit, in respect of the predecessor corporation, of the particular relevant foreign affiliate, at the balance adjustment time, there is to be included under subparagraph (vi) of the description of A in the definition "taxable surplus" in subsection 5907(1), an amount equal to the taxable deficit, in respect of the predecessor corporation, of the particular relevant foreign affiliate, immediately before that time; and

(*b*) the exempt surplus or the exempt deficit, the taxable surplus or the taxable deficit and the underlying foreign tax in respect of a predecessor corporation (within the meaning assigned by subsection (5)) and in respect of the acquiring corporation (within the meaning assigned by subsection (5)) of a particular relevant foreign affiliate is, at the balance adjustment time, to be adjusted to become the proportion of the amount of the surplus, deficit or underlying foreign tax determined without reference to this paragraph that

(i) the surplus entitlement percentage, immediately before the time of the latest of the transactions referred to in paragraphs (5)(*a*), (*b*) and (*c*), of the predecessor corporation or the acquiring corporation, as the case may be, in respect of the particular relevant foreign affiliate, determined on the assumptions

(A) that the taxation year of the particular relevant foreign affiliate that otherwise would have included the balance adjustment time had ended immediately before that time, and

(B) if the transaction is a disposition referred to in paragraph (5)(*a*), that the shares referred to in that paragraph were the only shares owned by the predecessor corporation at the balance adjustment time,

is of

(ii) the surplus entitlement percentage, immediately after the time of the latest of the transactions referred to in paragraphs (5)(*a*), (*b*) and (*c*), of the predecessor corporation or the acquiring corporation, as the case may be, in respect of the particular relevant foreign affiliate, determined on the assumption that the taxation year of the particular relevant foreign affiliate that otherwise would have included that time had ended immediately after that time.

Applicable: In respect of dispositions in respect of which an election was made in respect of which [the amendments to subsections 5902(1), (3) and (6), the repeal of subsection 5902(2) and the addition of subsection 5902(7) apply].

Explanatory Note: [See the Explanatory Note following new draft subsection 5905(5.2) of the Regulations.]

History: S. 5905(6)(*a*)(i), the portion before clause (A) was amended by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994, except that

(*a*) those provisions apply to taxation years of a foreign affiliate of a taxpayer that end after 1994 where there has been a change in the taxation year of the foreign affiliate in 1994 and after February 22, 1994, unless

(i) the foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation, or

(ii) the first taxation year of the foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if there had not been that change in the taxation year of the foreign affiliate; and

(*b*) in applying subsection 5907(1) of the Regulations, for taxation years of a foreign affiliate of a taxpayer that begin before 1996 and in respect of which subsection 8(13) does not apply, the references to "designated treaty country" shall be read as "country listed in subsection (11)". S. 5905(6)(*a*)(i), the portion before clause (A) formerly read:

"(i) immediately before the time of the transaction there shall be included under subparagraph 5709(1)(*d*)(xii) in computing the particular affiliate's exempt surplus or exempt deficit, as the case may be, in respect of the predecessor corporation an amount equal to the quotient obtained when".

S. 5905(6)(*a*)(ii), the portion before clause (A) was amended by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994, except that

(*a*) those provisions apply to taxation years of a foreign affiliate of a taxpayer that end after 1994 where there has been a change in the taxation year of the foreign affiliate in 1994 and after February 22, 1994, unless

(i) the foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation, or

(ii) the first taxation year of the foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if there had not been that change in the taxation year of the foreign affiliate; and

(*b*) in applying subsection 5907(1) of the Regulations, for taxation years of a foreign affiliate of a taxpayer that begin before 1996 and in respect of which subsection 8(13) does not apply, the references to "designated treaty country" shall be read as "country listed in subsection (11)". S. 5905(6)(*a*)(ii), the portion before clause (A) formerly read:

"(ii) immediately before the time of the transaction there shall be included under subparagraph 5907(1)(*k*)(xi) in computing the particular affiliate's taxable surplus or taxable deficit, as the case may be, in respect of the predecessor corporation an amount equal to the quotient obtained when"

S. 5905(6) was amended by P.C. 1985-467, SOR/85-176, dated February 14, 1985, applicable in respect of dispositions of shares made after November 12, 1981 and amalgamations and windings-up occurring after November 12, 1981. Subsection 5905(6) formerly read:

"(6) For the purposes of subsection (5), the exempt surplus, exempt deficit, taxable surplus, taxable deficit and the underlying foreign tax of an affiliate in respect of a predecessor corporation (within the meaning assigned by subsection (5)) and the acquiring corporation (within the meaning assigned by subsection (5)) shall be deemed to be that proportion, not exceeding 100 per cent, of the amount thereof otherwise determined that

(*a*) the aggregate of the participating percentages of all shares owned immediately before the time of any of the transactions referred to in paragraph (5)(a), (b) or (c) by the predecessor corporation or the acquiring corporation, as the case may be, in respect of the affiliate assuming for the purposes of this computation only that the taxation year of the affiliate that otherwise would have included that time shall be deemed to have ended immediately before that time

is of

(*b*) the aggregate of the participating percentages of all shares owned immediately after the time of any of the transactions referred to in paragraph (5)(a), (b) or (c) by the acquiring corporation in respect of the affiliate assuming for the purposes of this computation only that the taxation year of the affiliate that otherwise would have included that time shall be deemed to have ended immediately after that time."

(7) Where at any time there has been a dissolution of a foreign affiliate (in this subsection referred to as the "dissolved affiliate") of a corporation resident in Canada and paragraph 95(2)(*e.1*) of the Act is applicable in respect of the dissolution, each other foreign affiliate of the corporation that had a direct equity percentage in the dissolved affiliate immediately before that time shall, for the purposes of computing its exempt surplus or exempt deficit, taxable surplus or taxable deficit and underlying foreign tax in respect of the corporation, be deemed to have received dividends immediately before that time the aggregate of which is equal to the amount it might reasonably have expected to receive if the dissolved affiliate had, immediately before that time, paid dividends the aggregate of which on all shares of its capital stock was equal to the amount of its net surplus in respect of the corporation immediately before that time, determined on the assumption that the taxation year of the dissolved affiliate that otherwise would have included that time had ended immediately before that time.

Pending Amendment

Foreign Affiliates — February 27, 2004

Subsection 5905(7) of the Regulations is replaced by the following:

(7) If paragraph 95(2)(*e*) or (*e.1*) of the Act applies to a liquidation and a dissolution of a foreign affiliate (in this subsection and subsections (7.1) to (7.4) referred to as the "disposing foreign affiliate") of a corporation resident in Canada,

(*a*) where paragraph 95(2)(*e.1*) of the Act so applies, for the purpose of computing the exempt surplus, exempt def-

icit, taxable surplus, taxable deficit and underlying foreign tax, in respect of the corporation, of each other foreign affiliate of the corporation that has a direct equity percentage in the disposing foreign affiliate immediately before the specified time, it is deemed

(i) to have received, immediately before that time, dividends the total of which is equal to the amount that it could reasonably have expected to receive if the disposing foreign affiliate had, immediately before the specified time, paid dividends on all shares of its capital stock the total of which was equal to the sum of its exempt surplus, if any, and its taxable surplus, if any, in respect of the corporation immediately before that time,

(ii) to have received, immediately before that time, dividends prescribed by paragraph 5900(1)(*a*) to have been paid out of the exempt surplus of the disposing foreign affiliate the total of which is equal to that proportion of the total of the dividends deemed, under subparagraph (i), to have been received by it that the amount, immediately before that time, of the exempt surplus in respect of the corporation of the disposing foreign affiliate, referred to in subparagraph (i), is of the total of the amount, immediately before that time, of exempt surplus and the taxable surplus in respect of the corporation of the disposing foreign affiliate, referred to in subparagraph (i), and

(iii) to have received dividends prescribed by paragraph 5900(1)(*b*) to have been paid out of the taxable surplus of the disposing foreign affiliate the total of which is equal to the amount, if any, by which the total of the dividends deemed to be received by it under subparagraph (i) exceeds the total of the dividends deemed by subparagraph (ii) to be dividends that have been prescribed to have been paid out of the exempt surplus, in respect of the corporation, of the disposing foreign affiliate;

(*b*) where paragraph 95(2)(*e*) or (*e*.1) of the Act so applies, the amount, in respect of the corporation, of the exempt deficit of each other foreign affiliate of the corporation that had a direct equity percentage in the disposing foreign affiliate immediately before the specified time is to be, immediately before that time, increased by the total of

(i) its proportionate share of the exempt deficit, if any, of the disposing foreign affiliate in respect of the corporation immediately before that time, and

(ii) the amount, if any, by which

(A) its proportionate share of the exempt deficit, if any, of the disposing foreign affiliate in respect of the corporation immediately before that time,

exceeds

(B) the amount of the decrease, determined under paragraph (*d*), to the amount of its exempt surplus in respect of the corporation immediately before that time;

(*c*) the amount, in respect of the corporation, of the taxable deficit of each other foreign affiliate of the corporation that had a direct equity percentage in the disposing foreign affiliate immediately before the specified time is to be, immediately before that time, increased by the total of

(i) its proportionate share of the taxable deficit, if any, of the disposing foreign affiliate in respect of the corporation immediately before that time, and

(ii) the amount, if any, by which

(A) its proportionate share of the taxable deficit, if any, of the disposing foreign affiliate in respect of the corporation immediately before that time,

exceeds

(B) the amount of the decrease, determined under paragraph (*e*), to the amount of its taxable surplus in respect of the corporation;

(*d*) the amount, in respect of the corporation, of the exempt surplus of each other foreign affiliate of the corporation that had a direct equity percentage in the disposing foreign affiliate immediately before the specified time is to be, immediately before that time, decreased by the lesser of

(i) its proportionate share of the exempt deficit, if any, of the disposing foreign affiliate in respect of the corporation immediately before that time, and

(ii) the amount of its exempt surplus in respect of the corporation as otherwise determined under the definition "exempt surplus" in subsection 5907(1); and

(*e*) the amount, in respect of the corporation, of the taxable surplus of each other foreign affiliate of the corporation that had a direct equity percentage in the disposing foreign affiliate immediately before the specified time is to be, immediately before that time, decreased by the lesser of

(i) its proportionate share of the taxable deficit, if any, of the disposing foreign affiliate in respect of the corporation immediately before that time, and

(ii) the amount of its taxable surplus in respect of the corporation as otherwise determined under the definition "taxable surplus" in subsection 5907(1).

(7.1) The specified time in relation to a liquidation and a dissolution of a foreign affiliate mentioned in subsection (7) is the time that is the earlier of

(*a*) the time of dissolution of the disposing foreign affiliate, and

(*b*) the time of the earliest distribution of property as part of the liquidation and the dissolution of the disposing foreign affiliate.

(7.2) For the purpose of subsection (7), the exempt surplus, exempt deficit, taxable surplus, taxable deficit and underlying foreign tax of the disposing foreign affiliate in respect of the corporation at any time is to be determined on the assumption that the taxation year of the disposing foreign affiliate that otherwise would have included that time had ended immediately before that time.

(7.3) For the purpose of paragraphs (7)(*b*) and (*d*), a foreign affiliate's proportionate share of the exempt deficit, if any, of the disposing affiliate in respect of the corporation at any time is equal to the amount it could reasonably have expected to receive if the disposing foreign affiliate had, immediately before that time, paid a dividend equal to the amount of its exempt deficit, if any, in respect of the corporation.

(7.4) For the purposes of paragraphs (7)(*c*) and (*e*), a foreign affiliate's proportionate share of the taxable deficit, if any, of the disposing foreign affiliate in respect of the corporation at any time is equal to the amount it could reasonably have expected to receive if the disposing foreign affiliate had, immediately before that time, paid a dividend equal to the amount of its taxable deficit, if any, in respect of the corporation.

Applicable: In respect of dissolutions that occur after December 20, 2002.

Explanatory Note: Subsection 5905(7) of the Regulations applies where a foreign affiliate (the "disposing foreign affiliate") of a corporation resident in Canada dissolves in circumstances where paragraph 95(2)(*e*.1) of the Act applies in respect of the dissolution.

Paragraph 95(2)(*e*.1) of the Act provides for the rollover of capital property, of a disposing foreign affiliate, to another foreign affiliate of the corporation resident in Canada on a liquidation and a dissolution of the disposing foreign affiliate where certain conditions have been met. One of the conditions is that, immediately before the liquidation, the corporation resident in Canada's surplus entitlement percentage in respect of the disposing foreign affiliate was not less than 90%. Another is that the liquidation is not taxable in the country where the disposing foreign affiliate resides.

Subsection 5905(7) provides that each other foreign affiliate of the corporation resident in Canada that has a direct equity percentage in the disposing foreign affiliate immediately before the time of the dissolution is, for the purposes of computing its exempt surplus, taxable surplus, exempt deficit, taxable deficit and underlying foreign tax balances in respect of the corporation, deemed to have received, immediately before that time, dividends from the disposing affiliate of the amount that that other affiliate could reasonably be expected to have received if the disposing foreign affiliate had paid dividends equal to the

amount of its net surplus in respect of the corporation immediately before that time.

Subsection 5905(7) is to be amended in the following ways.

First, it is proposed that subsection 5905(7) be amended to include liquidations and dissolutions to which paragraph 95(2)(*e*) of the Act apply, in addition to liquidations and dissolutions subject to paragraph 95(2)(*e.1*). This amendment applies for all portions of the amended subsection, save for the deeming of the dividend, which is not necessary in the case of a foreign affiliate holding shares in a liquidating or dissolving affiliate to which paragraph 95(2)(*e*) does not apply.

Second, the conditions under which subsection 5905(7) applies are proposed to be amended to refer to a "liquidation and a dissolution" to better track the language in paragraph 95(2)(*e.1*) of the Act.

Third, the subsection is to be amended so that, where paragraph 95(2)(*e*) applies to a liquidation and dissolution, the dividend deemed by that subsection to have been received is considered to have been received immediately before the "specified time". The expression "specified time" is defined in new subsection 5905(7.1) to mean the time that is the earlier of

- time at which the disposing foreign affiliate was dissolved, and
- the time of the earliest distribution of property as part of the liquidation and the dissolution of the disposing foreign affiliate.

Fourth, the subsection is to be amended to deal with the case where the disposing foreign affiliate has an exempt deficit or taxable deficit in respect of the corporation immediately before the specified time. These amendments ensure that, where paragraph 95(2)(*e*) or (*e.1*) applies to the liquidation and dissolution, of the disposing foreign affiliate

- the exempt deficit in respect of the corporation of each other foreign affiliate of the corporation that held a direct equity percentage in the disposing foreign affiliate is, immediately before the specified time, increased by the sum of that other affiliate's proportionate share of the disposing foreign affiliate's exempt deficit in respect of the corporation, immediately before that time, and the amount by which its proportionate share of the exempt deficit of the disposing foreign affiliate immediately before that time exceeds the amount of the decrease (determined under paragraph 5905(7)(*d*)) to the amount of its exempt surplus in respect of the corporation,
- the taxable deficit in respect of the corporation of each other foreign affiliate of the corporation that held a direct equity percentage in the disposing foreign affiliate is, immediately before the specified time, increased by the sum of that other affiliate's proportionate share of the disposing foreign affiliate's taxable deficit in respect of the corporation and the amount by which its proportionate share of the taxable deficit of the disposing foreign affiliate immediately before that time, exceeds the amount of the decrease (determined under paragraph 5905(7)(*e*)) to the amount of its taxable surplus in respect of the corporation,
- the exempt surplus in respect of the corporation of each other foreign affiliate of the corporation that held a direct equity percentage in the disposing foreign affiliate is, immediately before the specified time, decreased by the least of that other affiliate's proportionate share of the disposing foreign affiliate's exempt deficit in respect of the corporation and the amount of its exempt surplus in respect of the corporation, as determined under the definition "exempt surplus" in subsection 5907(1), and
- the taxable surplus in respect of the corporation of each other foreign affiliate of the corporation that held a direct equity percentage in the disposing foreign affiliate is, immediately before the specified time, decreased by the least of that other affiliate's proportionate share of the disposing foreign affiliate's taxable deficit in respect of the corporation and the amount of its taxable surplus in respect of the corporation, as determined under the definition "taxable surplus" in subsection 5907(1).

New subsection 5905(7.1) provides, for the purpose of subsection 5905(5), a definition of the expression "specified time". For more detail, see the commentary to subsection 5905(7) above.

New subsections 5905(7.2) to (7.4) provide for the following rules in relation to section 5905(7):

- For the purposes of subsection 5905(7), the exempt surplus, exempt deficit, taxable surplus, taxable deficit and underlying foreign tax of the disposing foreign affiliate in respect of the corporation at any time is to be determined on the assumption that the taxation year of the disposing foreign affiliate that would otherwise have included that time had ended immediately before that time (subsection 5905(7.2));
- For the purposes of paragraphs 5905(7)(*a*) and (*b*), a foreign affiliate's proportionate share of the exempt deficit, if any, of the disposing foreign affiliate in respect of the corporation at any time is equal to the amount it could reasonably have expected to receive if the disposing foreign affiliate had, immediately before that time, paid a dividend equal to the amount of its exempt deficit, if any, in respect of the corporation (subsection 5905(7.3)); and
- For the purposes of paragraphs 5905(7)(*c*) and (*d*), a foreign affiliate's proportionate share of the taxable deficit, if any, of the disposing foreign affiliate in respect of the corporation at any time is equal to the amount it could reasonably have expected to receive if the disposing foreign affiliate had, immediately before that time, paid a dividend equal to the amount of its taxable deficit, if any, in respect of the corporation (subsection 5905(7.4)).

New subsections 5905(7) to (7.4) ensure that the exempt deficit and the taxable deficit of the disposing foreign affiliate of a group of affiliates in respect of a taxpayer are absorbed by the other foreign affiliates in the group.

New subsections 5905(7) to (7.4) are applicable to dissolutions that occur after December 20, 2002.

History: S. 5905(7) was amended by P.C. 1985-467, SOR/85-176, dated February 14, 1985, applicable in respect of dissolutions occurring after November 12, 1981. S. 5905(7) formerly read:

"(7) For the purposes of this section, the 'aggregate of the participating percentages' of all shares owned by a corporation in respect of an affiliate means the aggregate of the percentages each of which is the percentage that would be the participating percentage of each such share in respect of that affiliate if

(*a*) the references in paragraph 95(1)(e) of the Act and subsection 5904(1) to 'controlled foreign affiliate' were read as 'foreign affiliate'; and

(*b*) the foreign accrual property income of the affiliate for its taxation year were in excess of $5,000."

(7.1) [Revoked.]

History: S. 5905(7.1) was revoked by P.C. 1985-467, SOR/85-176 dated February 14, 1985. S. 5905(7.1) formerly read:

"(7.1) Notwithstanding paragraph 5904(1)(b), for the purposes of this section, where

(*a*) the aggregate of the distribution entitlements of all the shares of all classes of the capital stock of a foreign affiliate is greater than nil, and

(*b*) the distribution entitlement of all the shares of any class of the capital stock of the foreign affiliate is not greater than nil

the direct equity percentage of a person in that foreign affiliate shall be determined by the rules contained in paragraph 95(4)(a) of the Act."

S. 5905(7.1) was added by 1980-503, SOR/80-141, February 11, 1980, effective for the 1976 and subsequent taxation years.

(8) Where at any time a dividend is, by virtue of an election made by a corporation under subsection 93(1) of the Act, deemed to have been received on one or more shares of a class of the capital stock of a particular foreign affiliate of the corporation disposed of to the corporation or another foreign affiliate of the corporation, the following rules apply:

Pending Amendment

Foreign Affiliates — Partnerships — March 16, 2001

The portion of subsection 5905(8) of the Regulations before paragraph (*a*) is replaced by the following:

(8) Where at any time a dividend is, because of an election made by a corporation under subsection 93(1) or (1.2) of the

Act, deemed to have been received on one or more shares of a class of the capital stock of a particular foreign affiliate of the corporation disposed of to the corporation or to another corporation that was a foreign affiliate of the corporation immediately after the disposition, the following rules apply:

Applicable: After November 1999.

Explanatory Note: Subsection 5905(8) of the Regulations reduces the surplus accounts of a particular foreign affiliate of a corporation resident in Canada where a dividend is deemed to have been received from the particular affiliate following an election under subsection 93(1) of the Act. The amendment to subsection 5905(8) ensures that the subsection will also apply where a dividend is deemed to have been received from the particular affiliate following an election under new subsection 93(1.2) of the Act.

This amendment applies after November 1999.

(*a*) for the purposes of the adjustment required by paragraph (*b*),

(i) immediately before that time there shall be included under subparagraph (v) of the description of B in the definition "exempt surplus" in subsection 5907(1) in computing the particular affiliate's exempt surplus or exempt deficit, as the case may be, in respect of the corporation an amount equal to the product obtained when the specified adjustment factor in respect of the disposition is multiplied by the total of all amounts each of which is the portion of any such dividend that is prescribed by paragraph 5900(1)(*a*) to have been paid out of the exempt surplus of the particular affiliate,

(ii) immediately before that time there shall be included under subparagraph (v) of the description of B in the definition "taxable surplus" in subsection 5907(1) in computing the particular affiliate's taxable surplus or taxable deficit, as the case may be, in respect of the corporation an amount equal to the product obtained when the specified adjustment factor in respect of the disposition is multiplied by the total of all amounts each of which is the portion of any such dividend that is prescribed by paragraph 5900(1)(*b*) to have been paid out of the taxable surplus of the particular affiliate, and

(iii) immediately before that time there shall be deducted from the amount, if any, otherwise determined to be the underlying foreign tax of the particular affiliate in respect of the corporation an amount equal to the product obtained when the specified adjustment factor in respect of the disposition is multiplied by the aggregate of all amounts each of which is the amount prescribed by paragraph 5900(1)(*d*) to be the foreign tax applicable to such portion of any such dividend as is prescribed by paragraph 5900(1)(*b*) to have been paid out of the taxable surplus of the particular affiliate,

and, for the purposes of subparagraphs (i) to (iii), the specified adjustment factor in respect of the disposition is the amount equal to the quotient obtained when

(iv) where the person disposing of the shares is the corporation, 100 per cent, and

(v) where the person disposing of the shares is another foreign affiliate of the corporation, the surplus entitlement percentage of the corporation in respect of that affiliate immediately before the disposition,

is divided by

(vi) the surplus entitlement percentage of the corporation in respect of the particular foreign affiliate immediately before the disposition;

(*b*) the exempt surplus or exempt deficit, the taxable surplus or taxable deficit and the underlying foreign tax in respect of the corporation of the particular affiliate and of each other foreign affiliate of the corporation in which the particular affiliate has an equity percentage (in this subsection referred to as the "other affiliate") shall at that time be adjusted to the proportion of the amount thereof otherwise determined that

(i) the surplus entitlement percentage immediately before that time of the corporation in respect of the particular affiliate or the other affiliate, as the case may be, determined on the assumption that the taxation year of the particular affiliate or the other affiliate, as the case may be, that otherwise would have included that time had ended immediately before that time,

is of

(ii) the surplus entitlement percentage immediately after that time of the corporation in respect of the particular affiliate or the other affiliate, as the case may be, determined on the assumption that the taxation year of the particular affiliate or the other affiliate, as the case may be, that otherwise would have included that time had ended immediately after that time; and

(*c*) for the purposes of the definitions "exempt deficit", "exempt surplus", "taxable deficit", "taxable surplus" and "underlying foreign tax" in subsection 5907(1), the amounts determined under paragraph (*b*) are referred to as the opening exempt deficit, opening exempt surplus, opening taxable deficit, opening taxable surplus and opening underlying foreign tax, as the case may be, of the particular affiliate and each other affiliate in respect of the corporation resident in Canada.

Pending Amendment

Foreign Affiliates — February 27, 2004

Subsection 5905(8) of the Regulations is replaced by the following:

(8) If, at any time, a dividend (referred to in this subsection and subsections (18) and (21) as the "disposition dividend") is, because of an election made by a corporation resident in Canada under subsection 93(1) or (1.2) of the Act, deemed to have been received on one or more shares (each of which is referred to in this subsection and subsections (16) to (23) as a "disposed share") of a class of the capital stock of a particular foreign affiliate (referred to in this subsection as the "issuing foreign affiliate") of the corporation resident in Canada that were disposed (which disposition is referred in this subsection and subsections (16) to (23) as the "disposition") to the corporation resident in Canada or to another corporation that was, immediately after the disposition, a foreign affiliate of the corporation resident in Canada, the following rules apply:

(*a*) for the purpose of the adjustment required by paragraph (*b*),

(i) in computing the exempt surplus, in respect of the corporation resident in Canada, of the issuing foreign affiliate or another foreign affiliate of the corporation resident in Canada in which the issuing foreign affiliate has an equity percentage (the issuing foreign affiliate and each such other foreign affiliate each being referred to in this subsection and subsections (16) to (23) as the "particular relevant foreign affiliate") at the time (referred to in this subsection and subsections (16) to (22) as the "balance adjustment time") that is immediately before the time of the disposition, there is to be included under subparagraph (v) of the description of B in the definition "exempt surplus" in subsection 5907(1), the total of

(A) an amount equal to the exempt surplus reduction, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate, in respect of the disposed shares,

(B) an amount equal to the exempt deficit reduction, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate, in respect of the disposed shares, and

(C) an amount equal to the taxable deficit allocation, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate, in respect of the disposed shares,

(ii) in computing the taxable surplus, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate, at the balance adjustment time, there is to be included under subparagraph (v) of the description of B in the definition "taxable surplus" in subsection 5907(1), the total of

(A) an amount equal to the taxable surplus reduction, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate, in respect of the disposed shares,

(B) an amount equal to the taxable deficit reduction, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate, in respect of the disposed shares, and

(C) an amount equal to the exempt deficit allocation, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate, in respect of the disposed shares,

(iii) in computing the underlying foreign tax, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate, at the balance adjustment time, there is to be included under subparagraph (iii) of the description of B in the definition "underlying foreign tax" in subsection 5907(1), the total of

(A) the amount determined by the formula (which is deemed to be nil, if, in respect of the particular relevant foreign affiliate, the value determined for B in the formula is nil)

$$A/B \times C \times D$$

where

A is the portion of the amount of the particular relevant foreign affiliate's underlying foreign tax, in respect of the corporation resident in Canada, at the balance adjustment time, that may reasonably be considered to have been included in computing the amount of the issuing foreign affiliate's consolidated underlying foreign tax (as determined under paragraph 5902(1)(*c*)), in respect of the corporation resident in Canada, in respect of the disposition,

B is the amount of the issuing foreign affiliate's consolidated underlying foreign tax (as determined under paragraph 5902(1)(*c*)), in respect of the corporation resident in Canada, in respect of the disposition,

C is the total of all amounts each of which is the amount, determined by paragraph 5900(1)(*d*), to be the amount of foreign tax applicable to the portion of the disposition dividend prescribed to have been paid out of the taxable surplus of the issuing foreign affiliate, that relates to a disposed share, in respect of the disposition, and

D is the specified adjustment factor, in respect of the corporation resident in Canada, in respect of the particular relevant foreign affiliate of the corporation resident in Canada, of the foreign affiliate of the corporation resident in Canada that disposed of the disposed shares, in respect of the disposition of the disposed shares, and

(B) the amount of the underlying foreign tax reduction in respect of the corporation resident in Canada, of the particular relevant foreign affiliate, in respect of the disposition of the disposed shares,

(iv) in computing the exempt deficit, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate, at the balance adjustment time, there is to be included under subparagraph (viii) of the description of A in the definition "exempt surplus" in subsection 5907(1), an amount equal to the exempt deficit, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate, immediately before that time, and

(v) in computing the taxable deficit, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate, at the balance adjustment time, there is to be included under subparagraph (vi) of the description of A in the definition "taxable surplus" in subsection 5907(1), an amount equal to the taxable deficit, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate, immediately before that time;

(*b*) the amount, at the balance adjustment time, of exempt surplus, exempt deficit, taxable surplus, taxable deficit and underlying foreign tax, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate is to be adjusted to become the proportion of that amount, determined without making this adjustment, that

(i) the surplus entitlement percentage, at the balance adjustment time, of the corporation resident in Canada, in respect of the particular relevant foreign affiliate, determined on the assumption that the taxation year, of the particular relevant foreign affiliate that otherwise would have included that time, had ended immediately before that time,

is of

(ii) the surplus entitlement percentage, immediately after the time of the disposition, of the corporation resident in Canada, in respect of the particular relevant foreign affiliate, determined on the assumption that the taxation year, of the particular relevant foreign affiliate, that otherwise would have included the balance adjustment time, had ended at the time of the disposition; and

(*c*) for the purposes of applying the definitions "exempt deficit", "exempt surplus", "taxable deficit", "taxable surplus" and "underlying foreign tax", in subsection 5907(1), the amounts determined under paragraph (*b*) are deemed to be the opening exempt deficit, opening exempt surplus, opening taxable deficit, opening taxable surplus, and opening underlying foreign tax, as the case may be, of the particular relevant foreign affiliate, in respect of the corporation resident in Canada.

Applicable: In respect of dispositions in respect of which an election was made in respect of which [the amendments to subsections 5902(1), (3) and (6), the repeal of subsection 5902(2) and the addition of subsection 5902(7) apply].

Explanatory Note: Subsection 5905(8) of the Regulations provides rules for determining surplus balances that apply when a corporation resident in Canada elects under subsection 93(1) or (1.2) of the Act in respect of a disposition of shares of a foreign affiliate (the issuing affiliate) of the corporation to the corporation or to another corporation that was, immediately after the disposition, a foreign affiliate of the corporation and a dividend is, because of the election, deemed to be received. This subsection is replaced with new subsection 5905(8), to provide

for adjustments to surplus accounts in respect of the dividends arising because of the elections under subsection 93(1) or (1.2) of the Act.

Proposed new subsection 5905(8) applies if, at any time, a dividend (referred to in this subsection and subsections 5905(18) and (21) as the "disposition dividend") is, because of an election made by a corporation resident in Canada under subsection 93(1) or (1.2) of the Act, deemed to have been received on disposed shares of a particular foreign affiliate of the corporation resident in Canada that were disposed of to the corporation resident in Canada or another corporation that was, immediately after the disposition, a foreign affiliate of the corporation resident in Canada. It provides the following rules.

- Paragraph 5905(8)(*a*) sets out a number of adjustments, in respect of the corporation resident in Canada, to different surplus accounts, immediately before the disposition of the shares (the "balance adjustment time"), that must be taken into account in determining the adjustment in paragraph 5905(8)(*b*).

— In computing the exempt surplus, in respect of the corporation resident in Canada, of the issuing foreign affiliate and each other foreign affiliate of the corporation resident in Canada in which the issuing affiliate has an equity percentage (the issuing foreign affiliate and each such other foreign affiliate referred to as the "particular relevant foreign affiliate"), immediately before the disposition (the "balance adjustment time"), there is to be included under subparagraph (*v*) of the description of B in the definition "exempt surplus" in subsection 5907(1), the aggregate of the exempt surplus reduction, the exempt deficit reduction, and the taxable deficit allocation of that particular relevant foreign affiliate, in respect of the disposed shares. "Exempt deficit reduction", "exempt surplus reduction" and "taxable deficit allocation" are terms defined in subsections 5905(17), (18), and (19), respectively, and are further described in the commentary to those respective subsections.

— In computing the taxable surplus in respect of the corporation resident in Canada of each particular relevant foreign affiliate, at the balance adjustment time, there is to be included under subparagraph (v) of the description of B in the definition "taxable surplus" in subsection 5907(1), the aggregate of the taxable surplus reduction, the taxable deficit reduction, and the exempt deficit allocation of that particular relevant foreign affiliate, in respect of the disposed shares. "Exempt deficit allocation", "taxable deficit reduction" and "taxable surplus reduction" are terms defined in subsections 5905(16), (20) and (21), respectively.

— In computing the underlying foreign tax of each particular relevant foreign affiliate there is to be included under subparagraph (iii) of the description of B in the definition underlying foreign tax in subsection 5907(1), the total of

- the amount determined by the formula

$$A / B \times C \times D$$

where

A is the portion of the particular relevant foreign affiliate's underlying foreign tax, in respect of the corporation resident in Canada, that can reasonably be considered to have been included in determining the issuing foreign affiliate's consolidated underlying foreign tax (determined in paragraph 5902(1)(*c*)) as a result of the disposition,

B is the issuing foreign affiliate's consolidated underlying foreign tax (determined in paragraph 5902(1)(*c*)) as a result of the disposition,

C is the amount determined under paragraph 5900(1)(*c*) to be the amount of foreign tax applicable to the portion of the disposition dividend prescribed to have been paid out of the taxable surplus of the issuing foreign affiliate that relates to a disposed share, as a result of the disposition,

D is the specified adjustment factor (defined in subsection 5905(23)), in respect of the particular relevant foreign affiliate of the corporation resident in Canada, of the foreign affiliate of the corporation resident in Canada that disposed of the disposed shares, as a result of the disposition of the disposed shares,

— however, where the amount determined by the B in the formula is nil, the amount determined by the formula is determined to be nil, and

- an amount equal to the underlying foreign tax reduction in respect of the corporation resident in Canada, of the particular relevant foreign affiliate of the corporation resident in Canada, in respect of the disposition of the disposed shares.

— In computing the exempt deficit in respect of the corporation resident in Canada at the balance adjustment time of each particular relevant foreign affiliate, there must be added under subparagraph (viii) of the description of A in the definition "exempt surplus" in subsection 5907(1) the amount of the exempt deficit (in respect of the corporation resident in Canada) of that particular relevant foreign affiliate, immediately before the balance adjustment time.

— In computing the taxable deficit in respect of the corporation resident in Canada at the balance adjustment time of each particular relevant foreign affiliate there must be added under subparagraph (vi) of the description of A in the definition "taxable surplus" in subsection 5907(1) the taxable deficit of that particular relevant foreign affiliate, immediately before the balance adjustment time.

- The amount, at the balance adjustment time, of the exempt surplus, exempt deficit, taxable surplus, taxable deficit and underlying foreign tax in respect of the corporation resident in Canada of each particular relevant foreign affiliate is to be adjusted to the proportion of the amount determined, without making this adjustment, that

— the surplus entitlement percentage, at the balance adjustment time, of the corporation resident in Canada in respect of the particular relevant foreign affiliate, if it were determined on the assumption that the taxation year, of the particular relevant foreign affiliate that otherwise would have included that time, had ended immediately before the balance adjustment time,

is of

— the surplus entitlement percentage of the corporation resident in Canada, immediately after the disposition, in respect of the particular relevant foreign affiliate determined on the assumption that the taxation year of the particular relevant foreign affiliate, that otherwise would have included the balance adjustment time, had ended at the time of disposition.

- For the purposes of applying the definitions "exempt deficit", "exempt surplus", "taxable surplus", "taxable deficit" and "underlying foreign tax" in subsection 5907(1), the amounts determined under paragraph 5905(8)(*b*) are deemed to be the opening exempt deficit, opening exempt surplus, opening taxable surplus, opening taxable deficit and opening underlying foreign tax, respectively of the particular relevant foreign affiliate, in respect of the corporation resident in Canada.

Proposed new subsection 5905(8) is applicable to dispositions that occur after December 20, 2002.

Example — Subsection 5905(8)

Facts

1. Canco is a corporation resident in Canada.

2. Canco owns 100% of FA1 and 50% of FA6, and both FA1 and FA6 are foreign affiliates of Canco.

3. FA1 owns 80 shares (80%) of FA2 and FA6 owns 20 shares (20%) of FA2.

4. FA2 owns 70 shares (70%) of FA3, FA3 owns 100% of FA4 and FA4 owns 100% of FA5.

5. FA1 transfers 30 of its shares in FA2 to FA6, and subsection 93(1) of the Act applies to the transfer, regarding which Canco designates $123 as the dividend received by FA1 in respect of the disposed shares.

6. At the time of the transfer, FA2 has an exempt surplus of $200, a taxable surplus of $0, an exempt deficit of $0 and an underlying foreign tax ("UFT") of $0.

7. At the time of the transfer, FA3 has an exempt surplus of $100, a taxable surplus of $75, an exempt deficit of $0 and an UFT of $10.

8. At the time of the transfer, FA4 has an exempt surplus of $0, a taxable surplus of $0, an exempt deficit of $200 and an UFT of $0.

9. At the time of the transfer, FA5 has an exempt surplus of $0, a taxable surplus of $325, an exempt deficit of $0 and an UFT of $200.

10. All the corporations have only issued 100 shares of one class.

Application of subsection 5905(8) — FA5

I. Paragraph 5905(8)(a) — FA5

Paragraph 5905(8)(*a*) acts to adjust the exempt surplus, exempt deficit, taxable surplus, taxable deficit and UFT in respect of Canco of each of FA2, FA3, FA4 and FA5. This example will focus on FA5.

A. Exempt Surplus – FA5

First, the adjustment to exempt surplus, in respect of Canco, must be determined by subparagraph 5905(8)(*a*)(i). However, in this example, FA5 has no exempt surplus, so no calculation is necessary.

B. Taxable Surplus – FA5

Second, the adjustment to taxable surplus, in respect of Canco, of FA5 must be determined by subparagraph 5905(8)(*a*)(ii). The taxable surplus of FA5 will be reduced by the total of the taxable surplus reduction, taxable deficit reduction and exempt deficit allocation.

The taxable surplus of FA5 is determined as $325 – $108.3 = $216.7.

For the calculation of consolidated exempt surplus, consolidated exempt deficit, consolidated taxable surplus, consolidated taxable deficit and consolidated UFT, see the example in the commentary to subsection 5902(1) of the Regulations.

1. Taxable surplus reduction — FA5

The taxable surplus reduction, in respect of Canco, of FA5 in respect of the disposed shares is the amount determined by the formula:

$$A/B \times C \times D$$

$$\$227.5/\$280 \times \$83.99 \times 1.587 = \$108.3$$

where

A is the portion of FA5's taxable surplus, in respect of Canco, that can reasonably be considered to have been included in the consolidated taxable surplus of FA2 ($325 × .7 = $227.5)

B is the consolidated taxable surplus, in respect of Canco, of FA2 in respect of the disposition of the FA2 shares ($280)

C is the portion of the disposition dividend received by FA1 on the disposed shares, because of the election under section 93(1) of the Act, in respect of the disposition of the disposed shares, that is prescribed by paragraph 5900(1)(*b*) to have been paid out of the consolidated taxable surplus of FA2 ($280/$410 × $123 = $83.99)

D is the specified adjustment factor, in respect of Canco, in respect of FA2, of FA1 (100%/63% = 1.587).

2. Taxable deficit reduction — FA5

There is no consolidated taxable deficit, in respect of Canco, of FA2. Consequently, there is no taxable deficit reduction, in respect of Canco, in respect of FA5.

3. Exempt deficit allocation — FA5

There is no consolidated exempt deficit in excess of consolidated exempt surplus, in respect of Canco, of FA2. Consequently, there is no exempt deficit allocation, in respect of Canco, in respect of FA5.

C . Underlying foreign tax — FA5

The adjustment to the UFT, in respect of Canco, must be determined by subparagraph 5905(8)(*a*)(iii). The UFT of FA5 will be reduced by the total of the UFT of FA5 related to any of the taxable surplus reduction, taxable deficit reduction and exempt deficit allocation in respect of Canco of FA5.

The underlying foreign tax in respect of Canco of FA5 is determined to be $133.35 ($200 – $66.65 = 133.35).

1. Underlying foreign tax applicable to subsection 93(1) dividend

The reduction of the underlying foreign tax of FA5 related to the taxable surplus reduction is determined by the formula:

$$A/B \times C \times D = \$140/\$147 \times \$44.1 \times 1.587 = \$66.65$$

where

A is the portion of the UFT in respect of Canco of FA5 that is included in computing the consolidated UFT in respect of Canco of FA2 ($200 × .7 = $140)

B is the consolidated UFT in respect of Canco of FA2 (($200 + $10) × .7 = $147)

C is the amount, determined pursuant to paragraph 5900(1)(*d*), of the consolidated underlying foreign tax applicable to the disposition dividend that relates to disposed shares that is prescribed to have been paid out of taxable surplus ($147 × $84/$280 = $44.1)

D is the specified adjustment factor in respect of Canco in respect of FA5 of FA1 (100%/63% = 1.587).

D . Exempt deficit reduction

The adjustment to the exempt deficit, in respect of Canco, of FA5 would be determined by subparagraph 5905(8)(*a*)(iv). However, as FA5 has no exempt deficit, no adjustment is necessary.

E . Taxable deficit reduction

The adjustment to the taxable deficit, in respect of Canco, of FA5 would be determined by subparagraph 5905(8)(*a*)(v). However, as FA5 has no taxable deficit, no adjustment is necessary.

II . Paragraph 5905(8)(b) adjustment – FA5

Paragraph 5905(8)(*b*) acts to adjust the exempt surplus, exempt deficit, taxable surplus, taxable deficit and UFT in respect of Canco of each of FA2, FA3, FA4 and FA5. This example will focus on FA5.

As FA5 has only taxable surplus and UFT, it is only those accounts that will be adjusted.

The taxable surplus and UFT of FA5 is adjusted to be the proportion of the amounts determined above that the surplus entitlement percentage of Canco in respect of FA5, at the balance adjustment time, (determined on the assumption that FA5 had a taxation year ending immediately before that time) is of the surplus entitlement percentage of Canco in respect of FA5, immediately after the disposition, (determined on the assumption that FA5 had a taxation year ending immediately at the time of disposition).

Thus, FA5's opening balances after the transaction are as follows:

- taxable surplus in respect of Canco is $260.04
- UFT in respect of Canco is $160.02

A. Taxable surplus

$216.7 × 63/52.5 = $260.04

B. Underlying foreign tax

$133.35 × 63/52.5 = $160.02

History: S. 5905(8)(*a*)(i) and (ii) were amended by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994, except that

(*a*) those provisions apply to taxation years of a foreign affiliate of a taxpayer that end after 1994 where there has been a change in the taxation year of the foreign affiliate in 1994 and after February 22, 1994, unless

(i) the foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation, or

(ii) the first taxation year of the foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if there had not been that change in the taxation year of the foreign affiliate; and

(*b*) in applying subsection 5907(1) of the Regulations, for taxation years of a foreign affiliate of a taxpayer that begin before 1996 and in respect of which subsection 8(13) does not apply, the references to "designated treaty country" shall be read as "country listed in subsection (11)". S. 5905(8)(*a*)(i) and (ii) formerly read:

"(i) immediately before that time there shall be included under subparagraph 5907(1)(*d*)(xii) in computing the particular affiliate's exempt surplus or exempt deficit, as the case may be, in respect of the corporation an amount equal to the product obtained when the specified adjustment factor in respect of the disposition is multiplied by the

aggregate of all amounts each of which is such portion of any such dividend as is prescribed by paragraph 5900(1)(*a*) to have been paid out of the exempt surplus of the particular affiliate,

(ii) immediately before that time there shall be included under subparagraph 5907(1)(*k*)(xi) in computing the particular affiliate's taxable surplus or taxable deficit, as the case may be, in respect of the corporation an amount equal to the product obtained when the specified adjustment factor in respect of the disposition is multiplied by the aggregate of all amounts each of which is such portion of any such dividend as is prescribed by paragraph 5900(1)(*b*) to have been paid out of the taxable surplus of the particular affiliate, and"

S. 5905(8)(*c*) was amended by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994, except that

(*a*) those provisions apply to taxation years of a foreign affiliate of a taxpayer that end after 1994 where there has been a change in the taxation year of the foreign affiliate in 1994 and after February 22, 1994, unless

(i) the foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation, or

(ii) the first taxation year of the foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if there had not been that change in the taxation year of the foreign affiliate; and

(*b*) in applying subsection 5907(1) of the Regulations, for taxation years of a foreign affiliate of a taxpayer that begin before 1996 and in respect of which subsection 8(13) does not apply, the references to "designated treaty country" shall be read as "country listed in subsection (11)". S. 5905(8)(*c*) formerly read:

"(*c*) for the purposes of paragraphs 5907(1)(*d*), (*k*) and (*l*), the amounts determined under paragraph (*b*) shall be referred to as the opening exempt surplus, opening exempt deficit, opening taxable surplus, opening taxable deficit and opening underlying foreign tax, as the case may be, of the particular affiliate and each other affiliate in respect of the corporation resident in Canada."

S. 5905(8) was amended by P.C. 1985-467, SOR/85-176, dated February 14, 1985, applicable in respect of dispositions of shares made after November 12, 1981. S. 5905(8) formerly read:

"(8) Notwithstanding anything in this Part, where for the purposes of determining the aggregate of the participating percentages of all shares owned by a corporation resident in Canada in respect of a foreign affiliate of that corporation at a particular time the taxation year of the affiliate that otherwise would have included that time (in this subsection referred to as the 'normal year') is deemed by a provision of this section to have ended at that time, the amounts determined under each of subparagraphs 5904(2)(b)(i) and (ii) for the taxation year of the affiliate deemed to have ended at that time shall be deemed to be that proportion of such amounts determined for the normal year that the number of days in the taxation year ending with that time is of the number of days in the normal year."

(9) Where at any time a foreign affiliate of a corporation resident in Canada (in this subsection referred to as the "issuing affiliate") issues shares of a class of its capital stock to a person other than the corporation or another foreign affiliate of the corporation and as a result thereof the surplus entitlement percentage of the corporation in respect of the issuing affiliate decreases, for the purposes of this Part, the exempt surplus or exempt deficit, the taxable surplus or taxable deficit and the underlying foreign tax, in respect of the corporation, of the issuing affiliate and of each other foreign affiliate of the corporation in which the issuing affiliate has an equity percentage (in this subsection referred to as the "other affiliate") shall at that time be increased to the proportion of the amount thereof otherwise determined that

(*a*) the surplus entitlement percentage immediately before that time of the corporation in respect of the issuing affiliate or the other affiliate, as the case may be, determined on the assumption that the taxation year of the issuing affiliate or the other affiliate, as the case may be, that otherwise would have included that time had ended immediately before that time,

is of

(*b*) the surplus entitlement percentage immediately after that time of the corporation in respect of the issuing affiliate or other affiliate, as the case may be, determined on the assumption that the taxation year of the issuing affiliate or the other affiliate, as the case may be, that otherwise would have included that time had ended immediately after that time,

and, for the purposes of the definitions "exempt deficit", "exempt surplus", "taxable deficit", "taxable surplus" and "underlying foreign tax" in subsection 5907(1), those increased amounts are referred to as the opening exempt deficit, opening exempt surplus, opening taxable deficit, opening taxable surplus and opening underlying foreign tax, as the case may be, of each of those affiliates in respect of the corporation resident in Canada.

History: S. 5905(9), the portion after paragraph (*b*) was amended by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994, except that

(*a*) those provisions apply to taxation years of a foreign affiliate of a taxpayer that end after 1994 where there has been a change in the taxation year of the foreign affiliate in 1994 and after February 22, 1994, unless

(i) the foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation, or

(ii) the first taxation year of the foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if there had not been that change in the taxation year of the foreign affiliate; and

(*b*) in applying subsection 5907(1) of the Regulations, for taxation years of a foreign affiliate of a taxpayer that begin before 1996 and in respect of which subsection 8(13) does not apply, the references to "designated treaty country" shall be read as "country listed in subsection (11)". S. 5905(9), the portion after paragraph (*b*) formerly read:

"and, for the purposes of paragraphs 5907(1)(*d*), (*k*) and (*l*), such increased amounts shall be referred to as the opening exempt surplus, opening exempt deficit, opening taxable surplus, opening taxable deficit and opening underlying foreign tax, as the case may be, of each such affiliate in respect of the corporation resident in Canada."

S. 5905(9) was added by P.C. 1985-467, SOR/85-176 dated February 14, 1985, applicable in respect of issuances of shares occurring after November 12, 1981.

(10) For the purposes of this section, the surplus entitlement at any time of a share owned by a corporation resident in Canada of the capital stock of a foreign affiliate of the corporation in respect of a particular foreign affiliate of the corporation is the portion of

(*a*) the amount that would have been received on the share if the foreign affiliate had at that time paid dividends the aggregate of which on all shares of its capital stock was equal to the amount that would be its net surplus in respect of the corporation at that time assuming that

(i) each other foreign affiliate of the corporation in which the foreign affiliate had an equity percentage had immediately before that time paid a dividend equal to its net surplus in respect of the corporation immediately before the dividend was paid, and

(ii) any dividend referred to in subparagraph (i) that would be received by another foreign affiliate was received by such other foreign affiliate immediately before any such dividend that it would have paid,

that may reasonably be considered to relate to

(*b*) the amount that would be the net surplus of the particular affiliate in respect of the corporation at that time assuming that

(i) each other foreign affiliate of the corporation in which the particular affiliate had an equity per-

centage had immediately before that time paid a dividend equal to its net surplus in respect of the corporation immediately before the dividend was paid, and

(ii) any dividend referred to in subparagraph (i) that would be received by another foreign affiliate was received by such other foreign affiliate immediately before any such dividend that it would have paid.

History: S. 5905(10) was added by P.C. 1985-467, SOR/85-176 dated February 14, 1985, applicable for the purposes of computations required to be made under any of ss. 5905(1) to (9) in respect of transactions occurring after November 12, 1981.

(11) For the purposes of subsection (10),

(*a*) in determining the net surplus of, or the amount of a dividend received by, a particular foreign affiliate of a taxpayer resident in Canada in which any other foreign affiliate of the taxpayer has an equity percentage, no amount shall be included in respect of any distribution that would be received by the particular affiliate from such other affiliate; and

(*b*) if any foreign affiliate of a corporation resident in Canada has issued shares of more than one class of its capital stock, the amount that would be paid as a dividend on the shares of any class is such portion of its net surplus as, in the circumstances, it might reasonably be expected to have paid on all the shares of that class.

History: S. 5905(11) was added by P.C. 1985-467, SOR/85-176 dated February 14, 1985, applicable for the purposes of computations required to be made under any of ss. 5905(1) to (9) in respect of transactions occurring after November 12, 1981.

(12) Notwithstanding any other provision of this Part, for the purposes of determining under subsection (10) the net surplus of a foreign affiliate of a corporation resident in Canada in respect of the corporation at any time in a taxation year of the affiliate that would otherwise have included that time (in this subsection referred to as the "normal year"), the exempt earnings or loss and the taxable earnings or loss required to be included in computing the net surplus in respect of any taxation year of the affiliate that is assumed for the purposes of a provision of this section to have ended at that time shall be deemed to be that proportion of such amounts determined for the normal year that the number of days in the taxation year assumed to have ended at that time is of the number of days in the normal year.

History: S. 5905(12) was added by P.C. 1985-467, SOR/85-176 dated February 14, 1985, applicable for the purposes of computations required to be made under any of ss. 5905(1) to (9) in respect of transactions occurring after November 12, 1981.

(13) For the purposes of the definition "surplus entitlement percentage" in subsection 95(1) of the Act and of this Part, the surplus entitlement percentage at any time of a corporation resident in Canada in respect of a particular foreign affiliate of the corporation is,

(*a*) where the particular affiliate and each corporation that is relevant to the determination of the corporation's equity percentage in the particular affiliate have only one class of issued shares at that time, the percentage that is the corporation's equity percentage in the particular affiliate at that time, and

(*b*) in any other case, the proportion of 100 that

(i) the aggregate of all amounts, each of which is the surplus entitlement at that time of a share owned by the corporation of the capital stock of a foreign affiliate of the corporation in respect of the particular foreign affiliate of the corporation

is of

(ii) the amount determined under paragraph (10)(*b*) to be the net surplus of the particular affiliate in respect of the corporation at that time,

except that where the amount determined under subparagraph (ii) is nil, the percentage determined under this paragraph shall be the corporation's equity percentage in the particular affiliate at that time,

and, for the purposes of this subsection, "equity percentage" has the meaning that would be assigned by subsection 95(4) of the Act if the reference in paragraph (*b*) of the definition "equity percentage" in that subsection to "any corporation" were read as a reference to "any corporation other than a corporation resident in Canada".

History: S. 5905(13), the portion before paragraph (*a*) was amended by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994, except that

(*a*) those provisions apply to taxation years of a foreign affiliate of a taxpayer that end after 1994 where there has been a change in the taxation year of the foreign affiliate in 1994 and after February 22, 1994, unless

(i) the foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation, or

(ii) the first taxation year of the foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if there had not been that change in the taxation year of the foreign affiliate; and

(*b*) in applying subsection 5907(1) of the Regulations, for taxation years of a foreign affiliate of a taxpayer that begin before 1996 and in respect of which subsection 8(13) does not apply, the references to "designated treaty country" shall be read as "country listed in subsection (11)". S. 5905(13), the portion before paragraph (*a*) formerly read:

"(13) For the purposes of paragraph 95(1)(*f*.1) of the Act and this Part, the surplus entitlement percentage at any time of a corporation resident in Canada in respect of a particular foreign affiliate of the corporation is,"

S. 5905(13), the portion after paragraph (*b*) was amended by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994, except that

(*a*) those provisions apply to taxation years of a foreign affiliate of a taxpayer that end after 1994 where there has been a change in the taxation year of the foreign affiliate in 1994 and after February 22, 1994, unless

(i) the foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation, or

(ii) the first taxation year of the foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if there had not been that change in the taxation year of the foreign affiliate; and

(*b*) in applying subsection 5907(1) of the Regulations, for taxation years of a foreign affiliate of a taxpayer that begin before 1996 and in respect of which subsection 8(13) does not apply, the references to "designated treaty country" shall be read as "country listed in subsection (11)". S. 5905(13), the portion after paragraph (*b*) formerly read:

"and, for the purposes of this subsection, 'equity percentage' shall have the meaning assigned by paragraph 95(4)(*b*) of the Act except that the reference in subparagraph (ii) thereof to 'any corporation' shall be read as a reference to 'any corporation other than a corporation resident in Canada'."

S. 5905(13) was added by P.C. 1985-467, SOR/85-176 dated February 14, 1985, applicable for the purposes of computations required to be made under any of subsections 5905(1) to (9) in respect of transactions occurring after November 12, 1981.

Pending Amendment

Foreign Affiliates — Partnerships — March 16, 2001

Section 5905 of the Regulations is amended by adding the following after subsection (13):

(14) For the purpose of this section, where the number of shares of a class of the capital of the capital stock of a foreign affiliate of a corporation resident in Canada deemed by subsection 93.1(1) of the Act to be owned by a person at a particular time is different from the number so deemed immediately before the particular time

(*a*) if the number of shares of that class deemed to be owned by the person has decreased, the person is deemed to have disposed of, at the particular time, the number of shares of that class equal to the amount of the decrease;

(*b*) if the number of shares of that class deemed to be owned by the person has increased, the person is deemed to have acquired, at the particular time, the number of shares of that class equal to the amount of the increase;

(*c*) a person (in this paragraph referred to as the "seller") that is deemed by paragraph (a) to have disposed of, at a particular time, shares of a class is deemed to have disposed of those shares to the persons (in this paragraph referred to as the "acquirers") deemed in paragraph (b) to have acquired shares of that class at that time and the number of shares of that class deemed to have been acquired at that time by a particular acquirer from the seller shall be determined by the formula

A (B/C)

where

A is the number of shares of that class acquired by the particular acquirer at that time,

B is the number of shares of that class disposed of by the seller at that time, and

C is the number of shares of that class acquired by all acquirers at that time; and

(*d*) persons (in this paragraph referred to as the "acquirers") that are deemed by paragraph (b) to have acquired, at a particular time, shares of a class are deemed to have acquired those shares from a person (in this paragraph referred to as the "seller") deemed in paragraph (a) to have disposed of shares of that class at that time and the number of shares of that class deemed to have been disposed of by the seller to a particular acquirer at that time shall be determined by the formula

A (B/C)

where

A is the number of shares of that class disposed of by the seller,

B is the number of shares of that class acquired by the particular acquirer at that time, and

C is the number of shares of that class time disposed of by all sellers at that time.

(15) In determining,

(*a*) for the purpose of this Part (other than section 5904), the equity percentage at any time of a person in a corporation,

(*b*) for the purpose of this section, the surplus entitlement at any time of a share owned by a corporation resident in Canada of the capital stock of a foreign affiliate of the corporation in respect of a particular foreign affiliate of the corporation, and

(*c*) for the purposes of this Part and of the definition "surplus entitlement percentage" in subsection 95(1) of the Act, the surplus entitlement percentage at any time of a corporation resident in Canada in respect of a particular foreign affiliate of the corporation,

where at any time shares of a class of the capital stock of a corporation are owned by a partnership or are deemed under this subsection to be owned by a partnership, those shares are deemed to be owned at that time by each member of the partnership in a proportion equal to the proportion of all such shares that

(*d*) the fair market value of the member's interests in the partnership at that time

is of

(*e*) the fair market value of all members' interest in the partnership at that time.

Applicable: After November 1999.

Explanatory Note: New subsection 93.1(1) of the Act deems, for certain purposes, a member of a partnership to own its proportionate number of shares of a non-resident corporation held by a partnership. New subsection 5905(14) of the Regulations applies where the number of shares of a foreign affiliate of a corporation resident in Canada deemed to be owned by a person under subsection 93.1(1) increases or decreases.

Where the number of shares deemed to be held by the person has decreased, the person is deemed to have disposed of shares to the extent of the decrease. Where the number of shares deemed to be held by the person has increased, the person is deemed to have acquired shares to the extent of the increase. Persons that are treated as having acquired shares of class are treated as having acquired those shares proportionately from persons that are treated as having disposed of shares of that class and vice versa.

New subsection 5905(14) applies after November 1999.

ITR 5905(15)

New subsection 5905(15) of the Regulations applies to determine the equity percentage (other than for section 5904), surplus entitlement of a share and the surplus entitlement percentage at any time of a corporation resident in Canada in respect of a particular foreign affiliate of the corporation where the shares of the foreign affiliate are property of a partnership. Each member of the partnership is deemed to own that proportion of the number of the shares held by the partnership that the fair market value of the member's interest in the partnership is of the fair market value of all the members? interests in the partnership.

New subsection 5905(15) applies after November 1999.

Pending Amendment

Foreign Affiliates — February 27, 2004

Section 5905 of the Regulations is amended by adding the following after subsection (15):

(16) The exempt deficit allocation, of a particular relevant foreign affiliate in respect of a corporation resident in Canada, in respect of disposed shares of the particular foreign affiliate of the corporation resident in Canada, that issued the disposed shares (in this subsection referred to as the "issuing foreign affiliate") is, if the particular relevant foreign affiliate has, at the balance adjustment time, an amount of taxable surplus in respect of the corporation resident in Canada and the issuing foreign affiliate has, at that time, an amount of consolidated exempt deficit (as determined under paragraph 5902(1)(*b*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares, that exceeds the amount of its consolidated exempt surplus (as determined under paragraph 5902(1)(*a*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares,

(*a*) the amount determined by the formula

$$1/E \times [(A-B) \times C/D]$$

where

A is the amount of the issuing foreign affiliate's consolidated exempt deficit (as determined under paragraph 5902(1)(*b*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares,

B is the amount of the issuing foreign affiliate's consolidated exempt surplus (as determined under paragraph 5902(1)(*a*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares,

C is the portion of the amount of the particular relevant foreign affiliate's taxable surplus, in respect of the corporation resident in Canada, immediately

before the disposition of the disposed shares, that can reasonably be considered to have been included in computing the amount of the issuing foreign affiliate's consolidated taxable surplus (as determined under paragraph 5902(1)(*c*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares,

D is the amount of the issuing foreign affiliate's consolidated taxable surplus (as determined under paragraph 5902(1)(*c*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares, and

E is

(i) subject to subparagraph (ii), the surplus entitlement percentage, of the issuing foreign affiliate, in respect of the particular relevant foreign affiliate, that would be determined under subsections 5905(10) to (13) at the balance adjustment time if the issuing foreign affiliate were the "corporation resident in Canada" referred to in those subsections and the particular relevant foreign affiliate were the "particular foreign affiliate" referred to in those subsections, and

(ii) if the particular relevant foreign affiliate is the issuing foreign affiliate, 1; and

(*b*) if the amount determined, in respect of the particular relevant foreign affiliate, for the description of D or E in the formula in paragraph (*a*) is nil, nil.

(17) The exempt deficit reduction, in respect of a corporation resident in Canada, of a particular relevant foreign affiliate of the corporation resident in Canada, in respect of disposed shares, is

(*a*) if the particular relevant foreign affiliate has, at the balance adjustment time, an amount of exempt surplus, in respect of the corporation resident in Canada, and the particular foreign affiliate, of the corporation resident in Canada, that issued the disposed shares (in this subsection referred to as the "issuing foreign affiliate") has, at the balance adjustment time, consolidated exempt surplus (as determined under subparagraph 5902(1)(*a*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares, that exceeds the amount of its consolidated exempt deficit (as determined under paragraph 5902(1)(*b*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares,

(i) the amount determined by the formula

$$A/B \times C/D$$

where

A is the portion of the amount of the particular relevant foreign affiliate's exempt surplus, in respect of the corporation resident in Canada, at the balance adjustment time, that can reasonably be considered to have been included in computing the amount of the issuing foreign affiliate's consolidated exempt surplus (as determined under paragraph 5902(1)(*a*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares,

B is the amount of the issuing foreign affiliate's consolidated exempt surplus (as determined under paragraph 5902(1)(*a*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares,

C is the amount of the issuing foreign affiliate's consolidated exempt deficit (as determined under paragraph 5902(1)(*b*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares, and

D is

(A) subject to clause (B), the surplus entitlement percentage, of the issuing foreign affiliate, in respect of the particular relevant foreign affiliate, that, under subsections 5905(10) to (13), would be determined, at the balance adjustment time, where the issuing foreign affiliate were the "corporation resident in Canada" referred to in those subsections and the particular relevant foreign affiliate were the "particular foreign affiliate" referred to in those subsections, and

(B) where the particular relevant foreign affiliate is the issuing foreign affiliate, 1, and

(ii) if the value determined, in respect of the particular relevant foreign affiliate, for the description of any of A, B or D in the formula in subparagraph (i) is nil, nil; and

(*b*) the amount of the particular relevant foreign affiliate's exempt surplus, in respect of the corporation resident in Canada, at the balance adjustment time, if

(i) the particular relevant foreign affiliate has, at the balance adjustment time, an amount of exempt surplus, in respect of the corporation resident in Canada, and

(ii) the issuing foreign affiliate has, at that time, an amount of consolidated exempt deficit (as determined under paragraph 5902(1)(*b*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares that is equal to or greater than the amount of its consolidated exempt surplus (as determined under paragraph 5902(1)(*a*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares.

(18) The exempt surplus reduction in respect of a corporation resident in Canada, of a particular relevant foreign affiliate in respect of disposed shares is

(*a*) the amount determined by the formula

$$A/B \times C \times D$$

where

A is the portion of the amount of the particular relevant foreign affiliate's exempt surplus, in respect of the corporation resident in Canada, at the balance adjustment time, that can reasonably be considered to have been included in computing the amount of the consolidated exempt surplus, in respect of the corporation resident in Canada, (as determined under paragraph 5902(1)(*a*)) of the particular foreign affiliate, of the corporation resident in Canada, that issued the disposed shares (referred to in this subsection as the "issuing foreign affiliate"), in respect of the disposition of the disposed shares,

B is the amount of the issuing foreign affiliate's consolidated exempt surplus (as determined under paragraph 5902(1)(*a*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares,

C is the portion of the disposition dividend that is, because of an election made under subsection 93(1) or (1.2) of the Act in respect of the disposition of the disposed shares, received on the disposed shares by the person that disposed of those shares and that is prescribed by paragraph 5900(1)(*a*) to have been paid out of the issuing foreign affiliate's exempt surplus, in respect of the corporation resident in Canada, and

D is the specified adjustment factor, in respect of the corporation resident in Canada, in respect of the particular relevant foreign affiliate, of the person that disposed of the disposed shares;

(*b*) if the amount determined, in respect of the particular relevant foreign affiliate, for either of A or B, in the formula in paragraph (*a*) is nil, nil; and

(*c*) if an amount is determined, in respect of the particular relevant foreign affiliate, under paragraph (17)(*b*), nil.

(19) The taxable deficit allocation, of a particular relevant foreign affiliate of a corporation resident in Canada, in respect of disposed shares of the particular foreign affiliate, of the corporation resident in Canada, that issued the disposed shares (in this subsection referred to as the "issuing foreign affiliate") is, if the particular relevant foreign affiliate has, at the balance adjustment time, an amount of exempt surplus in respect of the corporation resident in Canada and the issuing foreign affiliate has, at that time, an amount of consolidated taxable deficit (as

determined under paragraph 5902(1)(*d*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares, that exceeds the amount of the issuing foreign affiliate's consolidated taxable surplus (as determined under paragraph 5902(1)(*c*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares,

(*a*) the amount determined by the formula

$$1/E \times [(A - B) \times C/D]$$

where

A is the amount of the issuing foreign affiliate's consolidated taxable deficit (as determined under subparagraph 5902(1)(*d*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares,

B is the amount of the issuing foreign affiliate's consolidated taxable surplus (as determined under subparagraph 5902(1)(*c*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares,

C is the portion of the amount of the particular relevant foreign affiliate's exempt surplus, in respect of the corporation resident in Canada, immediately before the disposition of the disposed shares, that may reasonably be considered to have been included in computing the amount of the issuing foreign affiliate's consolidated exempt surplus (as determined under paragraph 5902(1)(*a*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares,

D is the amount of the issuing foreign affiliate's consolidated exempt surplus (as determined under paragraph 5902(1)(*a*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares, and

E is

(i) subject to subparagraph (ii), the surplus entitlement percentage, of the issuing foreign affiliate, in respect of the particular relevant foreign affiliate, that would be determined under subsections 5905(10) to (13) at the balance adjustment time, where the issuing foreign affiliate were the "corporation resident in Canada" referred to in those subsections and the particular relevant foreign affiliate were the "particular foreign affiliate" referred to in those subsections; and

(ii) where the particular relevant foreign affiliate is the issuing foreign affiliate, 1, and

(*b*) where the amount determined, in respect of the particular relevant foreign affiliate, for the description of D or E in the formula in paragraph (*a*) is nil, nil.

(20) The taxable deficit reduction, in respect of a corporation resident in Canada, of a particular relevant foreign affiliate of the corporation resident in Canada, in respect of disposed shares, is

(*a*) if the particular relevant foreign affiliate has, at the balance adjustment time, an amount of taxable surplus, in respect of the corporation resident in Canada, and the particular foreign affiliate, of the corporation resident in Canada, that issued the disposed shares (in this subsection referred to as the "issuing foreign affiliate") has, at the balance adjustment time, consolidated taxable surplus (as determined under paragraph 5902(1)(*c*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares, that exceeds the amount of the issuing foreign affiliate's consolidated taxable deficit (as determined under paragraph 5902(1)(*d*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares,

(i) the amount determined by the formula

$$A/B \times C/D$$

where

A is the portion of the amount of the particular relevant foreign affiliate's taxable surplus, in respect of the corporation, at the balance adjustment time, that can reasonably be considered to have been included in computing the amount of the issuing foreign affiliate's consolidated taxable surplus (as determined under paragraph 5902(1)(*c*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares,

B is the amount of the issuing foreign affiliate's consolidated taxable surplus (as determined under paragraph 5902(1)(*c*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares,

C is the amount of the issuing foreign affiliate's consolidated taxable deficit (as determined under paragraph 5902(1)(*d*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares,

D is

(A) subject to clause (B), the surplus entitlement percentage, of the issuing foreign affiliate, in respect of the particular relevant foreign affiliate, that would be determined under subsections 5905(10) to (13) at the balance adjustment time where the issuing foreign affiliate were the "corporation resident in Canada" referred to in those subsections and the particular relevant foreign affiliate were the "particular foreign affiliate" referred to in those subsections, and

(B) where the particular relevant foreign affiliate is the issuing foreign affiliate, 1, and

(ii) where the amount determined, in respect of the particular relevant foreign affiliate, for the description of A, B or D in the formula in subparagraph (i) is nil, nil; and

(*b*) the amount of the particular relevant foreign affiliate's taxable surplus, in respect of the corporation resident in Canada, at the balance adjustment time, if

(i) the particular relevant foreign affiliate has, at the balance adjustment time, an amount of taxable surplus in respect of the corporation resident in Canada, and

(ii) the issuing foreign affiliate has, at that time, an amount of consolidated taxable deficit (as determined under paragraph 5902(1)(*d*)), in respect of the corporation resident in Canada, in respect of the disposition that is equal to or greater than the amount of the issuing foreign affiliate's consolidated taxable surplus (as determined under paragraph 5902(1)(*c*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares.

(21) The taxable surplus reduction, in respect of a corporation resident in Canada, of a particular relevant foreign affiliate, in respect of disposed shares, is

(*a*) the amount determined by the formula

$$A/B \times C \times D$$

where

A is the portion of the amount of the particular relevant foreign affiliate's taxable surplus, in respect of the corporation resident in Canada, at the balance adjustment time, that can reasonably be considered to have been included in computing the amount of the consolidated taxable surplus (as determined under paragraph 5902(1)(*c*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares, of the particular foreign affiliate, of the corporation resident in Canada, that issued the disposed shares (in this subsection referred to as the "issuing foreign affiliate"),

B is the amount of the issuing foreign affiliate's consolidated taxable surplus (as determined under paragraph 5902(1)(*c*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares,

C is the portion, of the disposition dividend that is, because of an election made under subsection 93(1) or (1.2) of the Act, in respect of the disposition of the disposed shares, received on the disposed shares by the person that disposed of those shares and that

is prescribed by paragraph 5900(1)(*b*) to have been paid out of the issuing foreign affiliate's taxable surplus, in respect of the corporation resident in Canada, and

D is the specified adjustment factor, in respect of the corporation resident in Canada, in respect of the particular relevant foreign affiliate, of the person that disposed of the disposed shares;

(*b*) if the amount determined, in respect of the particular relevant foreign affiliate, for the description of A or B in the formula in paragraph (*a*) is nil, nil; and

(*c*) if an amount is determined, in respect of the particular relevant foreign affiliate, under paragraph (20)(*b*), nil.

(22) The underlying foreign tax reduction in respect of the corporation resident in Canada, of a particular relevant foreign affiliate of the corporation resident in Canada, in respect of the disposition of the disposed shares, is the amount determined by the following formula

$$A \times (B + C)/D$$

where

A is the underlying foreign tax in respect of the corporation resident in Canada, at the balance adjustment time, of the particular relevant foreign affiliate,

B is the taxable deficit reduction, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate of the corporation resident in Canada, in respect of the disposition of the disposed shares,

C is the exempt deficit allocation, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate of the corporation resident in Canada, in respect of the disposition of the disposed shares, and

D is the taxable surplus in respect of the corporation resident in Canada of the particular relevant foreign affiliate, at the balance adjustment time.

(23) The specified adjustment factor, in respect of a corporation resident in Canada, in respect of a particular relevant foreign affiliate of the corporation resident in Canada, of the person that disposed of disposed shares, in respect of the disposition of the disposed shares, is the amount determined by the formula

$$A/B$$

where

A is

(*a*) where the corporation resident in Canada disposed of the disposed shares, 100 per cent, and

(*b*) where another foreign affiliate of the corporation resident in Canada disposed of the disposed shares, the surplus entitlement percentage of the corporation resident in Canada in respect of that other foreign affiliate, immediately before the disposition of the disposed shares, and

B is the surplus entitlement percentage of the corporation resident in Canada in respect of the particular relevant foreign affiliate, immediately before the disposition of the disposed shares.

Applicable: In respect of dispositions in respect of which an election was made in respect of which [the amendments to subsections 5902(1), (3) and (6), the repeal of subsection 5902(2) and the addition of subsection 5902(7) apply].

Explanatory Note: New subsections 5905(16) to (23) of the Regulations define terms used in section 5905. These new subsections apply in respect of dispositions in respect of which an election was made in respect of which proposed new subsection 5902(1) applies.

"exempt deficit allocation"

New subsection 5906(16) of the Regulations defines the expression "exempt deficit allocation", which sets out adjustments to a foreign affiliate's taxable surplus, in respect of the corporation resident in Canada, in respect of consolidated exempt deficit where consolidated exempt deficit exceeds consolidated exempt surplus, in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares. The subsection adopts, from subsection 5905(8) of the Regulations, the terms "particular relevant foreign affiliate", "balance adjustment time", and "disposed shares".

The exempt deficit allocation in respect of the corporation resident in Canada of the particular relevant foreign affiliate in respect of disposed shares of the foreign affiliate of the corporation resident in Canada that issued the disposed shares (the "issuing foreign affiliate") is, if the particular relevant foreign affiliate has, at the balance adjustment time, an amount of taxable surplus in respect of the corporation resident in Canada and the issuing foreign affiliate has, at that time, an amount of consolidated exempt deficit (as this amount is determined under paragraph 5902(1)(*b*)), in respect of the corporation resident in Canada, as a result of the disposition of the disposed shares, that exceeds the amount of its consolidated exempt surplus (as this amount is determined under paragraph 5902(1)(*a*)), in respect of the corporation resident in Canada, as a result of the disposition of the disposed shares,

- the amount determined by the formula:

$$1/E \times [(A–B) \times C/D]$$

where

A is the amount of the issuing foreign affiliate's consolidated exempt deficit (as this amount is determined under paragraph 5902(1)(*b*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares,

B is the amount of the issuing foreign affiliate's consolidated exempt surplus (as this amount is determined under paragraph 5902(1)(*a*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares,

C is the portion of the amount of the particular relevant foreign affiliate's taxable surplus, in respect of the corporation resident in Canada, immediately before the disposition of the disposed shares, that can reasonably be considered to have been included in computing the amount of the issuing foreign affiliate's consolidated taxable surplus (as this amount is determined under paragraph 5902(1)(*c*)), in respect of the corporation resident in Canada, as a result of the disposition of the disposed shares,

D is the amount, if any, by which the issuing foreign affiliate's consolidated taxable surplus (as this amount is determined under paragraph 5902(1)(*a*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares, and

E is, if the particular relevant foreign affiliate is the issuing foreign affiliate, 1, or, if the particular relevant foreign affiliate is not the issuing foreign affiliate, the surplus entitlement percentage of the issuing foreign affiliate, in respect of the particular relevant foreign affiliate, that, under subsections 5905(10) to (13), would be determined, at the balance adjustment time, if the issuing foreign affiliate were the "corporation resident in Canada" referred to in those subsections and the particular relevant foreign affiliate were the "particular foreign affiliate" referred to in those subsections; and

- if the amount determined, in respect of the particular relevant foreign affiliate, for the description of either D or E in the formula above is nil, the amount determined by the formula is deemed to be nil.

"exempt deficit reduction"

New subsection 5905(17) of the Regulations defines the expression "exempt deficit reduction", which determines the reduction of the exempt surplus of a particular relevant foreign affiliate in respect of the consolidated exempt deficit of the issuing foreign affiliate where the issuing foreign affiliate has consolidated exempt surplus in excess of consolidated exempt deficit, in respect of the corporation resident in Canada. The subsection adopts, from subsection 5905(8) of the Regulations, the terms "particular relevant foreign affiliate", "balance adjustment time", and "disposed shares".

The exempt deficit reduction, in respect of the corporation resident in Canada, of a particular relevant foreign affiliate in respect of disposed shares is

- if the particular relevant foreign affiliate has, at the balance adjustment time, an amount of exempt surplus, in

respect of the corporation resident in Canada, and the foreign affiliate of the corporation resident in Canada that issued the disposed shares (the "issuing foreign affiliate") has, at the balance adjustment time, consolidated exempt surplus (as this amount is determined under paragraph 5902(1)(*a*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares, that exceeds the amount of its consolidated exempt deficit (as this amount is determined under paragraph 5902(1)(*b*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares,

— the amount determined by the following formula

$$A/B \times C/D$$

where

A is the portion of the amount of the particular relevant foreign affiliate's exempt surplus, in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares, at the balance adjustment time, that can reasonably be considered to have been included in computing the amount of the issuing foreign affiliate's consolidated exempt surplus (as that amount is determined under paragraph 5902(1)(*a*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares,

B is the amount of the particular foreign affiliate's consolidated exempt surplus (as determined under paragraph 5902(1)(*a*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares,

C is the amount of the issuing foreign affiliate's consolidated exempt deficit (as this amount is determined under paragraph 5902(1)(*b*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares, and

D is, if the particular relevant foreign affiliate is the issuing foreign affiliate, 1, or, in the case where the particular relevant foreign affiliate is not the issuing foreign affiliate, the surplus entitlement percentage of the issuing foreign affiliate, in respect of the particular relevant foreign affiliate, that, under subsections 5905(10) to (13), would be determined, at the balance adjustment time, if the issuing foreign affiliate were the "corporation resident in Canada" referred to in those subsections and the "particular relevant foreign affiliate" were the particular foreign affiliate referred to in those subsections;

- where the amount determined, in respect of a particular relevant foreign affiliate, for the description of any of A, B or D in the formula is nil, the amount determined by the formula is deemed to be nil; and
- if the particular relevant foreign affiliate has, at the balance adjustment time, an amount of exempt surplus in respect of the corporation resident in Canada and the issuing foreign affiliate has an amount of consolidated exempt deficit (as this amount is determined under paragraph 5902(1)(*b*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares that is equal to or greater than the amount of its consolidated exempt surplus (as this amount is determined under paragraph 5902(1)(*a*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares, the amount of that particular relevant foreign affiliate's exempt surplus.

"exempt surplus reduction"

New subsection 5905(18) of the Regulations defines the expression "exempt surplus reduction", which determines the reduction of the exempt surplus, in respect of the corporation resident in Canada, of a particular relevant foreign affiliate in respect of the disposition dividend of the issuing foreign affiliate where the issuing foreign affiliate has consolidated exempt surplus in excess of consolidated exempt deficit in respect of the corporation resident in Canada. The subsection adopts, from subsection 5905(8) of the Regulations, the terms "particular relevant foreign affiliate", "balance adjustment time", "disposed shares" and "disposition dividend".

The exempt surplus reduction in respect of the corporation resident in Canada of a particular relevant foreign affiliate, in respect of the disposition of the disposed shares is

- the amount determined by the formula

$$A/B \times C \times D$$

where

A is the portion of the amount of the particular relevant foreign affiliate's exempt surplus, in respect of the corporation resident in Canada, at the balance adjustment time, that can reasonably be considered to have been included in computing the amount of the consolidated exempt surplus, in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares, (as this amount is determined under paragraph 5902(1)(*a*)) of the particular foreign affiliate of the corporation resident in Canada that issued the disposed shares (the "issuing foreign affiliate"),

B is the amount of the issuing foreign affiliate's consolidated exempt surplus (as this amount is determined under paragraph 5902(1)(*a*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares, as a result of the disposition of the disposed shares,

C is the portion of the disposition dividend that, because of an election made under subsection 93(1) or (1.2) of the Act as a result of the disposition of the disposed shares, was received on the disposed shares by the person disposing of them, that is prescribed by paragraph 5900(1)(*a*) to have been paid out of the issuing foreign affiliate's exempt surplus, in respect of the corporation resident in Canada, and

D is the specified adjustment factor (a term also defined in subsection 5905(23)), in respect of the corporation resident in Canada, in respect of the particular relevant foreign affiliate, of the person that disposed of the disposed shares;

- if either A or B of the formula is determined to be nil in respect of the particular foreign affiliate, the amount determined by the formula is deemed to be nil; and
- if an amount is determined respect of the particular relevant foreign affiliate, under paragraph (*b*) of subsection 5905(17) (which subsection defines the expression "exempt deficit reduction"), the amount determined by the formula is deemed to be nil.

"taxable deficit allocation"

New subsection 5905(19) of the Regulations defines the expression "taxable deficit allocation", which determines adjustments to a foreign affiliate's exempt surplus in respect of the corporation resident in Canada, in respect of consolidated taxable deficit, where consolidated taxable deficit exceeds consolidated taxable surplus, in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares. The subsection adopts, from subsection 5905(8) of the Regulations, the terms "particular relevant foreign affiliate", "balance adjustment time", and "disposed shares".

The taxable deficit allocation of a particular relevant foreign affiliate, in respect of disposed shares of the foreign affiliate of the corporation resident in Canada that issued the disposed shares (the "issuing foreign affiliate") is, if the particular relevant foreign affiliate has, at the balance adjustment time, an amount of exempt surplus in respect of the corporation resident in Canada and the issuing foreign affiliate has, at that time, an amount of consolidated taxable deficit (as determined under paragraph 5902(1)(*d*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares, that is equal to or greater than the amount of the issuing foreign affiliate's consolidated taxable surplus (as this amount is determined under paragraph 5902(1)(*c*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares,

- the amount determined by the formula

$$1/E \times (A–B) \times C/D$$

where

A is the amount of the issuing foreign affiliate's consolidated taxable deficit (as this amount is determined under paragraph 5902(1)(*d*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares,

B is the amount of the issuing foreign affiliate's consolidated taxable surplus (as this amount is determined under paragraph 5902(1)(*c*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares,

C is the portion of the amount of the particular relevant foreign affiliate's exempt surplus, in respect of the corporation resident in Canada, immediately before the disposition of the disposed shares, that can reasonably be considered to have been included in computing the amount of the issuing foreign affiliate's consolidated exempt surplus (as this amount is determined under paragraph 5902(1)(*a*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares,

D is the amount of the issuing foreign affiliate's consolidated exempt surplus (as this amount is determined under paragraph 5902(1)(*a*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares, and

E is, if the particular relevant foreign affiliate is the issuing foreign affiliate, equal to 1, and, if the particular relevant foreign affiliate is not the issuing foreign affiliate, equal to the surplus entitlement percentage of the issuing foreign affiliate, in respect of the particular relevant foreign affiliate, that, under subsections 5905(10) to (13), would be determined, at the balance adjustment time, if the issuing foreign affiliate were the "corporation resident in Canada" referred to in those subsections and the "particular relevant foreign affiliate" were the particular foreign affiliate referred to in those subsections; and

- if the amount determined, in respect of a particular relevant foreign affiliate, for the description of any of D or E in the formula is nil, the amount determined by the formula is deemed to be nil.

"taxable deficit reduction"

New subsection 5905(20) of the Regulations defines the expression "taxable deficit reduction", which determines adjustments to a foreign affiliate's taxable surplus, in respect of the corporation resident in Canada, where consolidated taxable surplus exceeds consolidated taxable deficit, in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares. The subsection adopts, from subsection 5905(8) of the Regulations, the terms "particular relevant foreign affiliate", "balance adjustment time", and "disposed shares".

The taxable deficit reduction, in respect of the corporation resident in Canada, of a particular relevant foreign affiliate of the corporation resident in Canada, in respect of disposed shares, is

- if the particular relevant foreign affiliate has, at the balance adjustment time, an amount of taxable surplus, in respect of the corporation resident in Canada, and the particular foreign affiliate of the corporation resident in Canada that issued the disposed shares (the "issuing foreign affiliate") has, at the balance adjustment time, consolidated taxable surplus (as this amount is determined under paragraph 5902(1)(*c*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares that exceeds the amount of the issuing foreign affiliate's consolidated taxable deficit (as this amount is determined under paragraph 5902(1)(*d*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares, the amount determined by the formula

$$A/B \times C/D$$

where

A is the portion of the amount of the particular relevant foreign affiliate's taxable surplus, in respect of the corporation resident in Canada, at the balance adjustment time, that can reasonably be considered to have been included in computing the amount of the issuing foreign affiliate's consolidated taxable surplus (as this amount is determined under paragraph 5902(1)(*c*)), in respect of the corporation resident in Canada, as a result of the disposition of the disposed shares,

B is calculated as the amount of the particular foreign affiliate's consolidated taxable surplus (as this amount is determined under paragraph 5902(1)(*c*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares,

C is calculated as the amount of the particular foreign affiliate's consolidated taxable deficit (as this amount is determined under paragraph 5902(1)(*d*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares, and

D is, where the particular relevant foreign affiliate is the issuing foreign affiliate, 1, and, where the particular relevant foreign affiliate is not the issuing foreign affiliate, the surplus entitlement percentage of the issuing foreign affiliate, in respect of the particular relevant foreign affiliate, that, under subsections 5905(10) to (13), would be determined, at the balance adjustment time, if the issuing foreign affiliate were the "corporation resident in Canada" referred to in those subsections and the particular relevant foreign affiliate were the "particular foreign affiliate" referred to in those subsections;

- if the amount determined, in respect of the particular relevant foreign affiliate, for the description of any of A, B or D in the formula is nil, the amount determined by the formula is deemed to be nil; and
- if the particular relevant foreign affiliate has, at the balance adjustment time, an amount of taxable surplus in respect of the corporation resident in Canada and the issuing foreign affiliate has, at that time, an amount of consolidated taxable deficit (as this amount is determined under paragraph 5902(1)(*d*)), in respect of the corporation resident in Canada, as a result of the disposition that is equal to or greater than the amount of the issuing foreign affiliate's consolidated taxable surplus (as this amount is determined under paragraph 5902(1)(*d*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares, the amount of that taxable surplus.

"taxable surplus reduction"

New subsection 5905(21) of the Regulations defines the expression "taxable surplus reduction", which determines the reduction of the taxable surplus, in respect of the corporation resident in Canada, of a particular relevant foreign affiliate in respect of the disposition dividend of the issuing foreign affiliate where the issuing foreign affiliate has consolidated taxable surplus in excess of consolidated taxable deficit in respect of the corporation resident in Canada. The subsection adopts, from subsection 5905(8) of the Regulations, the terms "particular relevant foreign affiliate", "balance adjustment time", "disposed shares" and "disposition dividend".

The taxable surplus reduction, in respect of the corporation resident in Canada, of a particular relevant foreign affiliate of the corporation resident in Canada, in respect of disposed shares, is

- the amount determined by the formula

$$A/B \times C \times D$$

where

A is the portion of the amount of the particular relevant foreign affiliate's taxable surplus, in respect of the corporation resident in Canada, at

the balance adjustment time, that can reasonably be considered to have been included in computing the amount of the consolidated taxable surplus (as this amount is determined under paragraph 5902(1)(*c*)), in respect of the corporation resident in Canada, in respect of the disposition of the disposed shares, of the foreign affiliate of the corporation resident in Canada that issued the disposed shares (the "issuing foreign affiliate"),

B the amount of the particular foreign affiliate's consolidated taxable surplus (as this amount is determined under paragraph 5902(1)(*c*)), in respect of the corporation resident in Canada resident, as a result of the disposition of the disposed shares,

C is the portion of the disposition dividend that is, because of an election made under subsection 93(1) or (1.2) of the Act, in respect of the disposition of the disposed shares, received on the disposed shares by the person disposing of those shares, that is prescribed by paragraph 5900(1)(*b*) to have been paid out of the issuing foreign affiliate's taxable surplus, in respect of the corporation resident in Canada, and

D is the specified adjustment factor, in respect of the corporation resident in Canada, in respect of the particular relevant foreign affiliate, of the person disposing of the disposed shares;

- if the amount determined for either A or B of the formula is nil, the amount of determined by the formula is nil; and
- if an amount is determined in respect of the particular relevant foreign affiliate under paragraph (*b*) of subsection 5905(20) (which subsection defines the expression "taxable deficit reduction"), the amount determined by the formula is deemed to be nil.

"underlying foreign tax reduction"

New subsection 5905(22) of the Regulations defines the expression "underlying foreign tax reduction", which determines the reduction of underlying foreign tax, in respect of the corporation resident in Canada, of a particular relevant foreign affiliate that is attributable to total deductions from the taxable surplus of the particular relevant foreign affiliate as a result of a taxable deficit reduction and an exempt deficit allocation. The subsection adopts, from subsection 5905(8) of the Regulations, the terms "particular relevant foreign affiliate", "balance adjustment time", "disposed shares" and "disposition dividend".

Underlying foreign tax reduction in respect of the corporation resident in Canada, of a particular relevant foreign affiliate of the corporation resident in Canada, in respect of the disposition of the disposed shares, is the amount determined by the formula

$$A \times (B + C)/D$$

where

A is the underlying foreign tax in respect of the corporation resident in Canada of the particular relevant foreign affiliate, at the balance adjustment time,

B is the taxable deficit reduction, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate of the corporation resident in Canada, in respect of the disposition of the disposed shares,

C is the exempt deficit allocation, in respect of the corporation resident in Canada, of the particular relevant foreign affiliate of the corporation resident in Canada, in respect of the disposition of the disposed shares, and

D is the taxable surplus in respect of the corporation resident in Canada of the particular relevant foreign affiliate, at the balance adjustment time.

"specified adjustment factor"

New subsection 5905(23) of the Regulations defines the expression "specified adjustment factor", which is used in subsection 5905(8) of the Regulations and the definitions "exempt surplus reduction" and "taxable surplus reduction" in subsections 5905(18) and (21), respectively. The subsection adopts, from subsection 5905(8) of the Regulations, the terms "particular relevant foreign affiliate" and "disposed shares".

Specified adjustment factor in respect of a corporation resident in Canada of a particular relevant foreign affiliate of that corporation resident in Canada in respect of disposed shares is the amount determined by the formula

$$A/B$$

where

A is, where the corporation resident in Canada disposed of the disposed shares, 100 per cent, and, where another foreign affiliate of the corporation resident in Canada disposed of the disposed shares, the surplus entitlement percentage of the corporation resident in Canada in respect of that other foreign affiliate, immediately before the disposition of the disposed shares, and

B is the surplus entitlement percentage of the corporation resident in Canada in respect of the particular relevant foreign affiliate, immediately before the disposition of the disposed shares.

Carrying on Business in a Country

5906. (1) For the purposes of this Part, where a foreign affiliate of a corporation resident in Canada carries on an active business, it shall be deemed to carry on that business

(*a*) in a country other than Canada only to the extent that such business is carried on through a permanent establishment situated therein; and

(*b*) in Canada only to the extent that its income therefrom is subject to tax under Part I of the Act.

(2) For the purposes of subsection (1), the expression "permanent establishment" has:

(*a*) if the expression is given a particular meaning in a tax treaty with a country, the meaning assigned by that tax treaty with respect to a business carried on in that country; and

(*b*) in any other case, the meaning that would be assigned by subsection 400(2) if that subsection were read without reference to its paragraph (*e.1*).

History: S. 5906(2) was replaced by S.C. 2009, c. 2, s. 111(1), applicable to the 2009 and subsequent taxation years. S. 5906(2) formerly read:

"(2) Where the Government of Canada has concluded an agreement or convention with the government of another country for the avoidance of double taxation that has the force of law in Canada and in which the expression 'permanent establishment' is given a particular meaning, for the purposes of subsection (1), that expression has that meaning with respect to a business carried on in that country and, in any other case, has the meaning assigned by subsection 400(2)."

Interpretation

5907.

Department of Finance Press Release

Government of Canada Eases Tax Compliance Burden for Internationally-Engaged Canadian Businesses

[Reproduced below is an excerpt from Department of Finance News Release No. 2008-048, dated June 27, 2008, which announces an extension of the elections for foreign affiliates, enacted by Bill C-28 (S.C. 2007, c. 35). A portion of the accompanying Annex describing this change is also reproduced below.]

The Honourable Jim Flaherty, Minister of Finance, today proposed changes to the *Income Tax Act* for Canadian businesses with foreign affiliates and those that report earnings in a foreign currency.

* * *

Foreign Affiliates

Bill C-28, the second Budget 2007 implementation bill, ... which received Royal Assent on December 14, 2007, implemented a number of amendments to the *Income Tax Act* relating to foreign affiliates.

Included in the bill were provisions which allow taxpayers to elect retroactive application of some of these foreign affiliate amendments. However, in response to concerns that the deadline for filing these elections is too tight — for example, a taxpayer with a December 31, 2007 year-end must file these elections by June 30, 2008 — the Government is proposing to extend the filing deadline for these elections by 18 months. These proposals are set out in more detail in the attached annex.

Annex

Foreign Affiliates

Bill C-28, which received Royal Assent on December 14, 2007, included a number of amendments to the *Income Tax Act* that implement various foreign affiliate proposals announced in Budget 2007 as well as related foreign affiliate proposals announced on February 27, 2004.

In this context, Bill C-28 contains a one-time election (commonly referred to as the "Global Election") which allows taxpayers to elect retroactive application of a block of foreign affiliate amendments. In addition to the Global Election, there are various other foreign affiliate amendments in Bill C-28 that allow for separate one-time elections. In the case of both of the Global Election and the separate elections, the elections apply to all foreign affiliates of the particular taxpayer.

As enacted, Bill C-28 requires that a taxpayer wishing to make the Global Election or a separate election must do so by filing the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which the bill received Royal Assent. Since corporate filing-due dates are generally six months after year-end, this means that a taxpayer with a December 31, 2007 year-end must file these elections by June 30, 2008.

The Government has received comments from stakeholders, in respect of both the Global Election and the separate elections, expressing concern with the current election deadline. To address these concerns, it is proposed that the filing deadline for both the Global Election and the separate elections be extended by 18 months.

Pending Amendment

Foreign Affiliates — February 27, 2004

Application

(68) [Global Section 95 Election (as it pertains to draft regulations released February 27, 2004).] If a taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which this Act is assented to, the following provisions apply to taxation years, of all foreign affiliates of the taxpayer, that begin after 1994:

(B) Amendments to the Regulations:

- paragraph (*b*) of the definition "earnings" in Regulation 5907(1),
- paragraph (*b*) of the definition "exempt deficit" in Regulation 5907(1),
- paragraph (*a*.1) of the definition exempt earnings in Regulation 5907(1),
- subparagraph (*d*)(ii) of the definition "exempt earnings" in Regulation 5907(1),
- the preamble, paragraph (*c*), and the postamble , of the definition "exempt loss" in Regulation 5907(1),
- the definition "loss" in Regulation 5907(1),
- subparagraph (*d*)(i) of the definition "net earnings" in Regulation 5907(1),
- subparagraph (*d*)(i) of the definition "net loss" in Regulation 5907(1),
- paragraph (*b*) of the definition "taxable deficit" in Regulation 5907(1),
- subparagraphs (*b*)(i.1), (iv) and (v) of the definition "taxable loss" in Regulation 5907(1), and
- paragraphs 5907(2.7)(a) and (b) of the Regulations .

Applicable: Royal Assent.

Explanatory Note:

Global Section 95 Election

In this set of proposals, there are a number of amendments to section 95 of the Act, and to section 5907 of the Regulations, that apply to taxation years, of a foreign affiliate of a taxpayer, that begin or end after various specified dates. However, where a taxpayer so elects in writing and files the election (referred to in this commentary as the "Global Section 95 Election") with the Minister of National Revenue before the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which these amendments are assented to, all of those measures apply to taxation years of all foreign affiliates, of the taxpayer, that begin after 1994. This set of proposals provides that, notwithstanding subsections 152(4) to (5) of the Act, the Minister of National Revenue can make any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year that is necessary to take the election into account.

Note that the Fresh Start Section 95 Election [for Regulations 5907(2.9) and (2.91)] and the Global Section 95 Election are separate elections. As well, it should be noted that various important amendments to section 95 of the Act have separate elections that can be made by taxpayers.

If a Global Section 95 Election is made by a taxpayer, the amendments to the definitions "exempt earnings" and "exempt loss" in Regulation 5907(1) that implement the new concept of qualifying member will apply only for foreign affiliate taxation years that end after 1999. For more detail, see the commentary to the definitions "exempt earnings" and "exempt loss" in Regulation 5907(1).

Explanatory Note Extract from Draft Legislation Released October 2, 2007

A draft version of these amendments to the Regulations was provided in the foreign affiliate proposals released on February 27, 2004. A revised draft version of these amendments to the Regulations will subsequently be released and will include changes to accord with new draft paragraph 95(2)(*a*) of the Act in the current set of proposals (including transitional readings of that paragraph).

Note that this set of proposals provides for the possibility of a total revocation of the Global Section 95 Election. If a taxpayer has made what would otherwise be a valid Global Section 95 Election, and the taxpayer has, on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes the day that is the third anniversary of the day on which the amending legislation enacting this set of proposals receives Royal Assent, filed with the Minister of National Revenue a notice in writing to revoke the election, the election is deemed never to have been made. This set of proposals provides that, notwithstanding subsections 152(4) to (5) of the Act, the Minister of National Revenue can make any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year that is necessary to take the revocation into account.

(1) For the purposes of this Part,

"*active business*" has the meaning assigned by subsection 95(1) of the Act;

"*controlled foreign affiliate*" has the meaning assigned by subsection 95(1) of the Act;

"*earnings*" of a foreign affiliate of a taxpayer resident in Canada for a taxation year of the affiliate from an active business means

(*a*) in the case of an active business carried on by it in a country,

(i) the income or profit from the active business for the year computed in accordance with the income tax law of the country in which the affiliate is resident, in any case where the affiliate is required by that law to compute that income or profit,

(ii) the income or profit from the active business for the year computed in accordance with the income tax law of the country in which the business is carried on, in any case not described in subparagraph (i) where the affiliate is required by that law to compute that income or profit, and

(iii) in any other case, the amount that would be the income from the active business for the year under Part I of the Act if the business were carried on in Canada, the affiliate were resident in Canada and the Act were read without reference to subsections 80(3) to (12), (15) and (17) and 80.01(5) to (11) and sections 80.02 to 80.04,

adjusted in each case in accordance with subsections (2), (2.1), (2.2) and (2.9) and, for the purpose of his Part, to the extent that the earnings of an affiliate from an active business carried on by it cannot be attributed to a permanent establishment in any particular country, they shall be attributed to the permanent establishment in the country in which the affiliate is resident and, if the affiliate is resident in more than one country, to the permanent establishment in the country that may reasonably be regarded as the affiliate's principal place of residence, and

(*b*) in any other case, the total of the amounts by which the income for the year from an active business of the affiliate is increased because of paragraph 95(2)(*a*) of the Act;

Pending Amendment

Foreign Affiliates — February 27, 2004

Paragraph (*b*) of the definition "earnings" in subsection 5907(1) of the Regulations is replaced by the following:

(*b*) in any other case, the total of all the amounts required by paragraph 95(2)(*a*) of the Act to be included in computing the affiliate's income for the year from an active business;

Applicable: To taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002. If a taxpayer elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing due-date for the taxpayer's taxation year that includes the day on which the Act containing the amendments to section 95 that were released on February 27, 2004 is assented to (the "Global Section 95 Election" reproduced at the beginning of section 5907 of the Regulations), this amendment to paragraph (*b*) of the definition of "earnings" applies to taxation years of all foreign affiliates of the taxpayer, that begin after 1994.

Explanatory Note: "earnings"

The definition "earnings" of a foreign affiliate of a taxpayer resident in Canada for a taxation year in subsection 5907(1) of the Regulations is relevant for the purposes of computing the surpluses and deficits of the affiliate. paragraph (*b*) of the definition "earnings"in subsection 5907(1) of the Regulations ensures that earnings will reflect the total of all amounts by which the affiliate's income for the year from an active business is increased because of paragraph 95(2)(*a*) of the Act.

Consequential to the amendments made to paragraph 95(2)(*a*) of the Act to provide for amounts by which such income of the affiliate could be decreased, paragraph (*b*) of the definition "earnings" in subsection 5907(1) of the Regulations is proposed to be amended to ensure that "earnings" will reflect the total of all amounts required by paragraph 95(2)(*a*) to be included (either as a plus or as a minus) in computing the affiliate's income for the year from an active business. For more detail, refer to the commentary to paragraph 95(2)(*a*).

The amendment to paragraph (*b*) of the definition "earnings" in subsection 5907(1) applies to taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002. Note that this amendment is included in the Global Section 95 Election package [described at the beginning of Regulation 5907].

Department of Finance Comfort Letter

[Definition of "Earnings" from an Active Business]

August 17, 2005

Dear XXXX,

SUBJECT: Subsection 5907(1) of the *Income Tax Regulations* — Definition of "earnings" from an active business

I am writing in response to your letter dated May 26, 2005 in connection with the definition "earnings", in subsection 5907(1) of the *Income Tax Regulations*, which defines the earnings of a foreign affiliate of a taxpayer resident in Canada for a taxation year of the foreign affiliate from an active business.

In a letter sent to you on May 16, 2005, we informed you of our intention to recommend that Part LIX of the Regulations be amended in a manner that would result in subsection 18(4) of the *Income Tax Act* being ignored in computing, pursuant to subparagraph (*a*)(iii) of the definition "earnings" in subsection 5907(1) of the Regulations, the amount of the income from an active business of a foreign affiliate of a taxpayer resident in Canada. As well, in that letter, we informed you of our intention to recommend that such an amendment apply to taxation years of a foreign affiliate of a taxpayer that begin after December 20, 2002.

In your letter, you have requested a change to the recommended effective date for the recommended amendment. Your preference would be to have the recommended amendment apply to the 1976 and subsequent taxation years of a foreign affiliate of a taxpayer resident in Canada. In your view, the recommended amendment has relevance for all taxation years of a foreign affiliate of a taxpayer resident in Canada in respect of which subparagraph (*a*)(iii) of the definition "earnings" in subsection 5907(1)of the Regulations applied to determine the amount of the income from an active business of the foreign affiliate. In particular, you are concerned that, if the recommended amendment were made effective, as was originally indicated, for taxation years of a foreign affiliate of a taxpayer resident in Canada that begin after December 20, 2002, the foreign affiliate would have foreign accrual property income and taxable surplus in prior years because of the technical deficiencies that the recommended amendment would correct. While you have presented no evidence that the relevant rules in the Act and the Regulations have been administered by the Canada Revenue Agency in this manner in the past, you do present understandable concerns.

After further consideration prompted by your letter, we are not prepared to recommend that the aforementioned amendment apply to the 1976 and subsequent taxation years. As you know, however, a series of amendments to the foreign affiliate rules has been proposed with effect, on election by the taxpayer, to taxation years of the foreign affiliates of the taxpayer that begin after 1994. Consequently, we will continue to recommend that the recommended amendment concerning the earnings definition apply to taxation years of a foreign affiliate of a taxpayer that begin after December 20, 2002 (the "applicable taxation years" of the foreign affiliate), but will also recommend that, where a taxpayer so elects in respect of all its foreign affiliates, it apply to taxation years of each foreign affiliate of the taxpayer that begin after 1994 (referred to as the "applicable taxation years" of the foreign affiliate, if that election is made). As well, it will be recommended that there be available to a corporation resident in Canada, whether or not it has made that election, an additional election such that, where the corporation resident in Canada so elects in respect of all its foreign affiliates, Part LIX of the Regulations would provide that, for the purposes of calculations made at any time in the applicable taxation years of the foreign affiliate, the amount of the exempt and taxable surplus, the exempt and taxable deficit and the underlying foreign tax of the foreign affiliate in respect of the corporation resident in Canada be determined as if the recom-

mended amendment concerning the earnings definition applied for the 1976 and subsequent taxation years of the foreign affiliate.

Thank you for writing.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

Department of Finance Comfort Letter [Definition of "Earnings" from an Active Business]

May 16, 2005

Dear XXXX:

Subsection 5907(1) of the *Income Tax Regulations* — Definition of "earnings" from an active business

I am writing in response to your correspondence dated January 13, 2005 to Mr. Wallace Conway in connection with the definition "earnings", of a foreign affiliate of a taxpayer resident in Canada, in subsection 5907(1) of the *Income Tax Regulations*.

As you note in your correspondence, subparagraph (*a*)(iii) of the earnings definition provides that "earnings" of a foreign affiliate of a taxpayer resident in Canada for a taxation year from an active business means the amount that would be the income from the active business for the year under Part I of the *Income Tax Act* if the business were carried on in Canada, the foreign affiliate were resident in Canada and the Act were read without reference to certain specified provisions of the Act. That subparagraph applies only where the foreign affiliate is not required by the income tax law of the country in which the foreign affiliate is resident or carries on the business to compute the income or profit from the active business.

You also note that, in the draft technical amendments released by the Minister of Finance on February 27, 2004 relating to foreign affiliates, proposed new paragraph 95(2)(*f*.1) of the Act provides in part that, for the purposes of subdivision i of the Act, the income or loss of a foreign affiliate of a taxpayer from property or from a business other than an active business is to be computed as if the business were carried on in Canada, the foreign affiliate were resident in Canada and the Act were read without reference to certain specified provisions of the Act (including subsection 18(4) of the Act).

You express your concern that subsection 18(4) is one of those specified provisions in proposed paragraph 95(2)(*f*.1) but not in subparagraph (*a*)(iii) of the earnings definition in subsection 5907(1) of the Regulations.

It would seem appropriate to amend Part LIX of the Regulations so that, in applying subparagraph (*a*)(iii) of the definition "earnings" in subsection 5907(1) of the Regulations to determine the amount that would be the foreign affiliate's income from an active business, the Act would be read without reference to subsection 18(4). We are prepared to recommend such a change and, consistent with the coming-into-force provision proposed in the February 2004 foreign affiliate proposals for new paragraph 95(2)(*f*.1), that it apply to taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002.

Thank you for writing.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

"*exempt deficit*" of a foreign affiliate of a corporation in respect of the corporation a any time means the amount, if any, by which

(*a*) the total of all amounts each of which is an amount determined at that time under any of subparagraphs (i) to (vi) of the description of B in the definition "exempt surplus" in this subsection

exceeds

(*b*) the total of all amounts each of which is an amount determined at that time under any of subparagraphs (i) to (vii) of the description of A in that definition;

Pending Amendment

Foreign Affiliates — February 27, 2004

Paragraph (*b*) of the definition "exempt deficit" in subsection 5907(1) of the Regulations is replaced by:

(*b*) the total of all amounts each of which is an amount determined at that time under any of subparagraphs (i) to (viii) of the description of A in that definition;

Applicable: To taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002. If a taxpayer elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing due-date for the taxpayer's taxation year that includes the day on which the Act containing the amendments to section 95 that were released on February 27, 2004 is assented to (the "Global Section 95 Election" reproduced at the beginning of section 5907 of the Regulations), this amendment to paragraph (*b*) of the definition of "exempt deficit" applies to taxation years of all foreign affiliates of the taxpayer, that begin after 1994.

Explanatory Note: "exempt deficit"

The definition "exempt deficit" of a foreign affiliate of a taxpayer resident in Canada for a taxation year in subsection 5907(1) of the Regulations is relevant for the purposes of computing the surpluses of the foreign affiliate.

The amendment to the definition "exempt deficit" of a foreign affiliate of a taxpayer resident in Canada for a taxation year in subsection 5907(1) of the Regulations inserts a reference to new subparagraph (viii) of the description of A in the definition exempt surplus in subsection 5907(1) of the Regulations.

The proposed amendment to the definition "exempt deficit" in subsection 5907(1) of the Regulations applies to taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002. Note that this amendment is included in the Global Section 95 Election package [described at the beginning of Regulation 5907].

"*exempt earnings*" of a particular foreign affiliate of a particular corporation for a taxation year of the particular affiliate is the total of all amounts each of which is

(*a*) the amount by which the capital gains of the particular affiliate for the year exceed the total of

(i) the amount of the taxable capital gains for the year referred to in the description of B in the definition "foreign accrual property income" in subsection 95(1) of the Act.

(ii) the amount of the taxable capital gains for the year referred to in subparagraphs (*c*)(i) and (*d*)(iii) of the definition "net earnings" in this subsection, and

(iii) the portion of any income or profits tax paid to the government of a country for the year by the particular affiliate that can reasonably be regarded as tax in respect of the amount by which the capital gains of the particular affiliate for the year exceed the total of the amounts referred to in subparagraphs (i) and (ii),

and for the purpose of this paragraph, where the particular affiliate has disposed of capital property that was shares of the capital stock of another foreign affiliate of the particular corporation to any corporation that was, immediately after the disposition, a foreign affiliate of the particular corporation, the capital gains of the particular affiliate for the year shall not include

the portion of those gains that is the total of all amounts each of which is an amount equal to the excess of the fair market value at the end of the particular affiliate's 1975 taxation year of one of those shares disposed of over the adjusted cost base of that share,

Pending Amendment

Foreign Affiliates — February 27, 2004

The definition "exempt earnings" in subsection 5907(1) of the Regulations is amended by adding the following after paragraph (*a*):

(*a*.1) the total of all amounts each of which is an amount determined by the formula

A – B

where

A is the amount that would be included by paragraph (*c*), (*c*.1) or (*c*.2) of the definition "capital dividend account" in subsection 89(1) of the Act in determining the capital dividend account of the affiliate at the end of the taxation year if

(i) the affiliate were the corporation referred to in that definition, and

(ii) the references in paragraphs (*c*.1) and (*c*.2) of that definition, and in paragraph (*c*) of that definition as that paragraph read in its application to taxation years that ended before February 28, 2000, to the expression "a business" were read as references to the expression "a business that is not an active business within the meaning assigned by subsection 95(1)", and

(iii) section 14 of the Act were modified, in its application to the affiliate, in accordance with paragraphs 95(2)(*f*.91) and (*f*.92) of the Act, and

B is the amount determined for A at the end of the affiliate's taxation year that immediately precedes the taxation year,

Applicable: To taxation years of a foreign affiliate of a taxpayer that begin after December 20, 2002. If a taxpayer elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing due-date for the taxpayer's taxation year that includes the day on which the Act containing the amendments to section 95 that were released on February 27, 2004 is assented to (the "Global Section 95 Election" reproduced at the beginning of section 5907 of the Regulations), this addition of paragraph (*a*.1) of the definition "exempt earnings" applies to taxation years of all foreign affiliates of the taxpayer, that begin after 1994.

Explanatory Note: See the Explanatory Note following the amendments to subparagraph (*d*)(ii) of the definition "exempt earnings" in subsection 5907(1) of the Regulations.

(*b*) where the year is the 1975 or any preceding taxation year of the particular affiliate, the total of all amounts each of which is the particular affiliate's net earnings for the year,

(*c*) where the year is the 1975 or any preceding taxation year of the particular affiliate, the earnings as determined in paragraph (*b*) of the definition "earnings" in this subsection to the extent that those earnings have not been included because of paragraph (*b*) or deducted in determining an amount included in subparagraph (*b*)(i) of the definition "exempt loss" in this subsection,

(*d*) where the year is the 1976 or any subsequent taxation year of the particular affiliate and the particular affiliate is resident in a designated treaty country, each amount that is

(i) the particular affiliate's net earnings for the year from an active business carried on by it in Canada or a designated treaty country, or

(ii) the earnings of the particular affiliate for the year from an active business to the extent that they derive from

(A) amounts by which the income of the particular affiliate from an active business for the year is increase because of subparagraph 95(2)(*a*)(i) of the Act that are derived by the particular affiliate from activities that could reasonably be considered to be directly related to business activities carried on by a non-resident corporation, to which the particular affiliate and the particular corporation are related throughout the year, in the course of an active business carried on by the non-resident corporation the income from which would, if the non-resident corporation were a foreign affiliate of a corporation, be included in computing the non-resident corporation's exempt earnings or exempt loss,

(B) where the particular corporation is a life insurance corporation resident in Canada throughout the year and the particular affiliate is a foreign affiliate in respect of which the particular corporation has a qualifying interest throughout the year, amounts by which the income of the particular affiliate from an active business for the year is increased because of subparagraph 95(2)(*a*)(i) of the Act that are derived by the particular affiliate from activities that could reasonably be considered to be directly related to business activities carried on by the particular corporation in the course of an active business carried on by the particular corporation in a country other than Canada, the income from which would, if the particular corporation were a foreign affiliate of another corporation and were resident in the country other than Canada in which that active business of the particular corporation is carried on, be included in computing the particular corporation's exempt earnings or exempt loss,

(C) amounts by which the income of the particular affiliate from an active business for the year is increased because of clause 95(2)(*a*)(ii)(A) of the Act that are derived from amounts paid or payable, directly or indirectly, to it or a partnership of which it is a member by a non-resident corporation to which the particular affiliate and the particular corporation are related throughout the year, to the extent that, if the non-resident corporation were a foreign affiliate of a corporation, the amounts paid or payable by the non-resident corporation would be deductible in the year or a subsequent taxation year in computing its exempt earnings or exempt loss,

(D) where a non-resident corporation to which the particular affiliate and the particular cor-

poration are related throughout the year is a member of a particular partnership (other than where the non-resident corporation is a specified member of the particular partnership at any time in a fiscal period of the particular partnership ending in the year), amounts by which the income of the particular affiliate from an active business for the year is increased because of clause 95(2)(*a*)(ii)(A) of the Act that are derived from amounts paid or payable, directly or indirectly, to it or another partnership of which it is a member by the particular partnership to the extent that, if the particular partnership were a foreign affiliate of a corporation and were resident in the country in which the non-resident corporation is resident and subject to income taxation, the amounts paid or payable by the particular partnership would be deductible in the year or a subsequent taxation year in computing its exempt earnings or exempt loss,

(E) amounts by which the income of the particular affiliate from an active business for the year is increased because of clause 95(2)(*a*)(ii)(B) of the Act that are derived from amount paid or payable, directly or indirectly, to it or a partnership of which it is a member by another foreign affiliate of the particular corporation in respect of which the particular corporation has a qualifying interest throughout the year, to the extent that the amounts paid or payable by the other foreign affiliate are deductible in the year or a subsequent taxation year in computing its exempt earnings or exempt loss,

(F) where another foreign affiliate of the particular corporation in respect of which the particular corporation has a qualifying interest throughout the year is a member of a particular partnership (other than where the other foreign affiliate is a specified member of the particular partnership at any time in a fiscal period of the particular partnership ending in the year), amounts by which the income of the particular affiliate from an active business for the year is increased because of clause 95(2)(*a*)(ii)(B) of the Act that are derived from amounts paid or payable, directly or indirectly, to it or another partnership of which it is a member by the particular partnership, to the extent that, if the particular partnership were a foreign affiliate of a corporation and were resident in the country in which the other foreign affiliate is resident and subject to income taxation, the amounts paid or payable by the particular partnership would be deductible in the year or a subsequent taxation year in computing its exempt earnings or exempt loss,

(G) where the particular affiliate is a member of a particular partnership (other than where the particular affiliate is a specified member of the particular partnership as any time in a fiscal period of the particular partnership ending in the year), amounts by which the income of the particular affiliate from an active business for the year is increased because of clause 95(2)(*a*)(ii)(C) of the Act that are derived from amounts paid or payable, directly or indirectly, to it or another partnership of which it is a member by the particular partnership, to the extent that, if the particular partnership were a foreign affiliate of a corporation and were resident in the country in which the particular affiliate is resident and subject to income taxation, the amounts paid or payable by the particular partnership would be deductible in the year or a subsequent taxation year in computing its exempt earnings or exempt loss,

(H) amounts by which the income of the particular affiliate from an active business for the year is increased because of clause 95(2)(*a*)(ii)(D) of the Act that are derived from amounts paid or payable, directly or indirectly, to it or a partnership of which it is a member by another foreign affiliate (in this clause referred to as the "second affiliate") of the particular corporation to which the particular affiliate and the particular corporation are related throughout the year, to the extent that the amounts paid or payable

(I) are on account of interest on borrowed money used for the purpose of earning income from property or interest on an amount payable for property, where

1. the property is shares of a foreign affiliate (in this clause referred to as the "third affiliate") of the particular corporation in respect of which the particular corporation has a qualifying interest throughout the year and that are excluded property, and

2. the second affiliate, the third affiliate and each other affiliate relevant for the purpose of determining whether the shares of the third affiliate are excluded property are resident and subject to income taxation in a designated treaty country, and

(II) are relevant in computing the liability for income taxes, in the designated treaty country in which the second and third affiliates are resident, of the members of a group of corporations composed of the second affiliate and one or more other foreign affiliates (the shares of which are excluded property) of the particular corporation that are resident in that country and in respect of which the particular corporation has a qualifying interest throughout the year,

and, for the purpose of this clause, "excluded property" has the meaning assigned by subsection 95(1) of the Act, except that for that purpose,

(III) the definition "excluded property" in subsection 95(1) of the Act shall be read without reference to amounts receivable referred to in paragraph (*c*) of that definition where the interest on the amounts is not, or would not

if interest were payable on the amounts, be deductible in computing the debtor's exempt earnings or exempt loss, and

(IV) the shares of a foreign affiliate (in this subclause referred to as the "non-qualifying affiliate") that is not resident and subject to income taxation in a designated treaty country are not considered relevant for the purpose of determining whether shares of the third affiliate are excluded property unless the shares of the third affiliate would not have been excluded property if the shares of all such non-qualifying affiliates were not excluded property,

(I) where the particular corporation is a life insurance corporation resident in Canada and the particular affiliate is a foreign affiliate in respect of which the particular corporation has a qualifying interest throughout the year, amounts by which the income of the particular affiliate from an active business for the year is increased because of clause 95(2)(*a*)(ii)(E) of the Act that are derived from amounts paid or payable, directly or indirectly, to it or a partnership of which it is a member by the particular corporation in the course of the particular corporation carrying on its life insurance business outside Canada, to the extent that, if the particular corporation were a foreign affiliate of another corporation and were resident in the country in which the particular corporation carried on its life insurance business outside Canada, the amounts paid or payable by the particular corporation would be deductible in the year or in a subsequent taxation year in computing its exempt earnings or exempt loss,

(J) amounts by which the income of the particular affiliate from an active business for the year is increased because of subparagraph 95(2)(*a*)(iii) of the Act that are derived from the factoring of trade accounts receivable acquired by the particular affiliate, or by a partnership of which the particular affiliate was a member, from a non-resident corporation to which the particular affiliate and the particular corporation are related throughout the year, to the extent that the trade accounts receivable arose in the course of an active business carried on by the non-resident corporation any income from which would be included in the exempt earnings of the non-resident corporation if it were a foreign affiliate of a corporation, or

(K) amounts by which the income of the particular affiliate from an active business for the year is increased because of subparagraph 95(2)(*a*)(iv) of the Act that are derived from loans or lending assets acquired by the particular affiliate or a partnership of which the particular affiliate was a member from a non-resident corporation to which the particular affiliate and the particular corporation are related throughout the year, to the extent that the loans or lending assets arose in the course of an active business carried on by the non-resident corporation any income from which would be included in the exempt earnings of the non-resident corporation if it were a foreign affiliate of a corporation, or

Pending Amendment

Foreign Affiliates — February 27, 2004

Subparagraph (*d*)(ii) of the definition "exempt earnings" in subsection 5907(1) of the Regulations is replaced by the following:

(ii) the earnings of the particular affiliate for the year from an active business to the extent that they derive from

(A) amounts required to be included in computing the income of the particular affiliate from an active business for the year because of subparagraph 95(2)(*a*)(i) of the Act that are derived by the particular affiliate from activities that can reasonably be considered to be directly related to business activities carried on by a non-resident corporation, to which the particular affiliate and the particular corporation are related throughout the year, in the course of an active business carried on by the non-resident corporation the income or loss from which would, if the non-resident corporation were a foreign affiliate of a corporation, be included in computing the non-resident corporation's exempt earnings or exempt loss,

(B) if the particular corporation is a life insurance corporation resident in Canada throughout the year and the particular affiliate is a foreign affiliate in respect of which the particular corporation has a qualifying interest throughout the year, amounts required to be included in computing the income of the particular affiliate from an active business for the year because of subparagraph 95(2)(*a*)(i) of the Act that are derived by the particular affiliate from activities that can reasonably be considered to be directly related to business activities carried on by the particular corporation in the course of an active business carried on by the particular corporation in a country other than Canada, the income or loss from which would, if the particular corporation were a foreign affiliate of another corporation and were resident in the country other than Canada in which that active business of the particular corporation is carried on, be included in computing the particular corporation's exempt earnings or exempt loss,

(C) amounts required to be included in computing the income of the particular affiliate from an active business for the year because of clause 95(2)(*a*)(ii)(A) of the Act that are derived from amounts paid or payable, directly or indirectly, to it or to a partnership of which it is a member by a non-resident corporation to which the particular affiliate and the particular corporation are related throughout the year, to the extent that, if the non-resident corporation were a foreign affiliate of a corporation, the amounts paid or payable by the non-resident corporation would be deductible in computing its exempt earnings or exempt loss for the year or for a subsequent taxation year,

(D) if a non-resident corporation to which the particular affiliate and the particular corporation are related throughout the year is a qualifying member of a particular partnership at any time in a fiscal period of the particular partnership that ends in the year, amounts required to be included in computing the income of the particular affiliate from an active business for the year because of clause 95(2)(*a*)(ii)(A) of the Act that are derived from amounts paid or payable, directly or indirectly, to it or to another partnership of which it is a member by

the particular partnership to the extent that, if the particular partnership were a foreign affiliate of a corporation and were resident in the country in which the non-resident corporation is resident and subject to income taxation, the amounts paid or payable by the particular partnership would be deductible in computing its exempt earnings or exempt loss for the year or for a subsequent taxation year,

(E) amounts required to be included in computing the income of the particular affiliate from an active business for the year because of clause 95(2)(*a*)(ii)(B) of the Act that are derived from amounts paid or payable, directly or indirectly, to it or to a partnership of which it is a member by another foreign affiliate of the particular corporation in respect of which the particular corporation has a qualifying interest throughout the year, to the extent that the amounts paid or payable by the other foreign affiliate are deductible in computing its exempt earnings or exempt loss for the year or for a subsequent taxation year,

(F) if another foreign affiliate of the particular corporation in respect of which the particular corporation has a qualifying interest throughout the year is a qualifying member of a particular partnership at any time in a fiscal period of the particular partnership that ends in the year, amounts required to be included in computing the income of the particular affiliate from an active business for the year because of clause 95(2)(*a*)(ii)(B) of the Act that are derived from amounts paid or payable, directly or indirectly, to it or to another partnership of which it is a member by the particular partnership, to the extent that, if the particular partnership were a foreign affiliate of a corporation and were resident in the country in which the other foreign affiliate is resident and subject to income taxation, the amounts paid or payable by the particular partnership would be deductible in computing its exempt earnings or exempt loss for the year or for a subsequent taxation year,

(G) if the particular affiliate is a qualifying member of a particular partnership at any time in a fiscal period of the particular partnership that ends in the year, amounts required to be included in computing the income of the particular affiliate from an active business for the year because of clause 95(2)(*a*)(ii)(C) of the Act that are derived from amounts paid or payable, directly or indirectly, to it or to another partnership of which it is a member by the particular partnership, to the extent that, if the particular partnership were a foreign affiliate of a corporation and were resident in the country in which the particular affiliate is resident and subject to income taxation, the amounts paid or payable by the particular partnership would be deductible in computing its exempt earnings or exempt loss for the year or a subsequent taxation year,

(H) amounts required to be included in computing the income of the particular affiliate from an active business for the year because of clause 95(2)(*a*)(ii)(D) of the Act that are derived from amounts paid or payable, directly or indirectly, to it or to a partnership of which it is a member by another foreign affiliate (in this clause referred to as the "second affiliate") of the particular corporation to which the particular affiliate and the particular corporation are related throughout the year, to the extent that the amounts paid or payable are on account of interest on borrowed money used for the purpose of earning income from property or interest on an amount payable for property, in respect of a particular period in the year, if

(I) the property is, throughout the particular period, excluded property of the second affiliate that is shares of a corporation (in this clause referred to as the "third affiliate") which is, throughout the particular period, a foreign affiliate (other than the particular foreign affiliate) of the particular corporation in respect of which the particular corporation has a qualifying interest or to which the particular corporation is related, and

(II) the second affiliate and the third affiliate are resident in the same designated treaty country for each of their taxation years (each of which is referred to in this subclause as a "relevant taxation year") that end in the year and, in respect of each of the second affiliate and the third affiliate for each relevant taxation year, either

1. the affiliate is subject to income taxation in that country in the relevant taxation year, or
2. the members or shareholders of the affiliate at the end of the relevant taxation year are subject to income taxation in that country on, in aggregate, all or substantially all of the income of the affiliate for the relevant taxation year in their taxation years in which the relevant taxation year ends or would be so subject to income taxation in that country if the affiliate had income for the relevant taxation year and the income of those members or shareholders for their taxation years in which the relevant taxation year ends consisted only of their share of the income of the affiliate for the relevant taxation year,

where, for the purpose of this clause,

(III) "excluded property" has the meaning that would be assigned by subsection 95(1) of the Act if paragraph (*c*) of the definition "excluded property" in that subsection were read as follows:

"(*c*) property all or substantially all of the income from which is, or would be, if there was income from the property,

(i) income from an active business by reason of paragraph (2)(*a*) if that paragraph were read without reference to its subparagraph (v), and

(ii) income derived from amounts payable by payers who are entitled to deduct the amounts in computing their exempt earnings or exempt loss (as those expressions are defined in Regulations made for the purpose of section 113)," and

(IV) the particular corporation has a qualifying interest in respect of another corporation if the particular corporation has, because of paragraph 95(2)(m) or (m.1) of the Act, a qualifying interest in respect of that other corporation for the purpose of subdivision i of Division B of Part I of the Act,

(I) if the particular corporation is a life insurance corporation resident in Canada (in this clause referred to as the "insurer"), a corporation controlled by the insurer or a corporation that controls the insurer and the particular affiliate is a foreign affiliate of the particular corporation in respect of which the particular corporation has a qualifying interest throughout the year, amounts required to be included in computing the particular affiliate's income from an active business for the year because of clause 95(2)(*a*)(ii)(*e*) of the Act that are derived from amounts paid or payable, directly or indirectly, to it or to a partnership of which it is a member by the insurer in the course of carrying on its life insurance business outside Canada, to the extent that, if the insurer were a foreign affiliate of another corporation resident in Canada and were resident in the country in which the insurer carried on its life insurance business outside Canada, the amounts paid or payable by the insurer would be deductible in computing its exempt earnings or exempt loss for the year or for a subsequent taxation year,

(J) amounts required to be included in computing the particular affiliate's income from an active business

for the year because of subparagraph 95(2)(*a*)(iii) of the Act that are derived from the factoring of trade accounts receivable acquired by the particular affiliate, or by a partnership of which the particular affiliate was a member, from a non-resident corporation to which the particular affiliate and the particular corporation are related throughout the year, to the extent that the trade accounts receivable arose in the course of an active business carried on by the non-resident corporation any income from which would be included in computing the exempt earnings of the non-resident corporation if it were a foreign affiliate of a corporation,

(K) amounts required to be included in computing the particular affiliate's income from an active business for the year because of subparagraph 95(2)(*a*)(iv) of the Act that are derived from loans or lending assets acquired by the particular affiliate, or by a partnership of which the particular affiliate was a member, from a non-resident corporation to which the particular affiliate and the particular corporation are related throughout the year, to the extent that the loans or lending assets arose in the course of an active business carried on by the non-resident corporation any income from which would be included in the exempt earnings of the non-resident corporation if it were a foreign affiliate of a corporation,

(L) amounts that would be required, because of subparagraph 95(2)(*a*)(v) of the Act, to be included in computing the particular affiliate's income for the year from an active business if that subparagraph were read as follows:

"(v) the income or loss is derived from the disposition of excluded property that is not capital property if

(A) that property is used or held by the particular foreign affiliate for the purpose of gaining or producing income from property that would, because of this paragraph, be included in computing the particular foreign affiliate's income from an active business if this paragraph were read without reference to this subparagraph, and

(B) that income or loss is derived, directly or indirectly, from amounts paid or payable to the particular foreign affiliate by another foreign affiliate of the taxpayer, or by a non-resident corporation related to the particular foreign affiliate and to the taxpayer, that are in respect of an active business carried on in a designated treaty country (as defined for the purpose of Part LIX of the Regulations)," or,

(M) amounts that would be required, because of subparagraph 95(2)(*a*)(vi) of the Act, to be included in computing the particular affiliate's income for the year from an active business if that subparagraph were read as follows:

"(vi) the income or loss is derived by the particular foreign affiliate under or as a result of an agreement that provides for the purchase, sale or exchange of currency and that can reasonably be considered to have been made by the particular foreign affiliate to reduce its risk, of fluctuations in the value of the denominated currency, with respect to

(A) income or loss, from property, that

(I) would, because of this paragraph, be included in computing the particular foreign affiliate's income or loss from an active business if this paragraph were read without reference to this subparagraph, and

(II) is derived, directly or indirectly, from amounts paid or payable to the particular foreign affiliate by another foreign affiliate of the taxpayer, or by a non-resident corporation related to the particular foreign affiliate and to the taxpayer, that is in respect of an active business carried on in a designated treaty country (as defined for the purpose of Part LIX of the Regulations), or

(B) excluded property the income or loss from which would, if there were income or a loss, be described in clause (A);", or

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Applicable: To taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002. Clause (*d*)(ii)(H) of the definition "exempt earnings" applies to taxation years of a foreign affiliate of a taxpayer, to which subclauses 95(2)(*a*)(ii)(D)(III) to (V) of the *Income Tax Act* as proposed in the draft legislation released on February 27, 2004 apply.

If a taxpayer elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing due-date for the taxpayer's taxation year that includes the day on which the Act containing the amendments to section 95 that were released on February 27, 2004 is assented to (the "Global Section 95 Election" reproduced at the beginning of section 5907 of the Regulations), this amendment to subparagraph (*d*)(ii) of the definition of "exempt earnings" applies to taxation years of all foreign affiliates of the taxpayer, that begin after 1994, except that

(*a*) clause (*d*)(ii)(D) of the definition "exempt earnings" in subsection 5907(1) of the Regulations is, for the taxation years, of all foreign affiliates of the taxpayer, that end before 2000, to be read as follows:

"(D) if a non-resident corporation to which the particular affiliate and the particular corporation are related throughout the year is a member of a particular partnership (other than where the non-resident corporation would be a specified member of the particular partnership at any time in a fiscal period of the particular partnership that ends in the year if the definition "specified member" of a partnership in subsection 248(1) of the Act were read without reference to paragraph (*a*) of that definition), amounts required to be included in computing the income of the particular affiliate from an active business for the year because of clause 95(2)(*a*)(ii)(A) of the Act that are derived from amounts paid or payable, directly or indirectly, to it or to another partnership of which it is a member by the particular partnership to the extent that, if the particular partnership were a foreign affiliate of a corporation and were resident in the country in which the non-resident corporation is resident and subject to income taxation, the amounts paid or payable by the particular partnership would be deductible in computing its exempt earnings or exempt loss for the year or for a subsequent taxation year,";

(*b*) clauses (*d*)(ii)(F) and (G) of the definition "exempt earnings" in subsection 5907(1) of the Regulations are, for the taxation years, of all foreign affiliates of the taxpayer, that end before 2000, to be read as follows:

"(F) if another foreign affiliate of the particular corporation in respect of which the particular corporation has a qualifying interest throughout the year is a member of a particular partnership (other than where the other foreign affiliate would be a specified member of the particular partnership at any time in a fiscal period of the particular partnership that ends in the year if the definition "specified member" of a partnership in subsection 248(1) of the Act were read without reference to paragraph (*a*) of that definition), amounts required to be included in computing the income of the particular affiliate from an active business for the year because of clause 95(2)(*a*)(ii)(B) of the Act that are derived from amounts paid or payable, directly or indirectly, to it or to another partnership of which it is a member by the particular partnership, to the extent that, if the particular partnership were a foreign affiliate of a corporation and were resident in the country in which the other foreign affiliate is resident and subject to income taxation, the amounts paid or payable by the particular partnership would be deductible in computing its exempt earnings or exempt loss for the year or for a subsequent taxation year,

(G) if the particular affiliate is a member of a particular partnership (other than where the particular affiliate would be a specified member of the particular part-

nership at any time in a fiscal period of the particular partnership that ends in the year if the definition 'specified member' in subsection 248(1) of the Act were read without reference to paragraph (*a*) of that definition), amounts required to be included in computing the income of the particular affiliate from an active business for the year because of clause 95(2)(*a*)(ii)(C) of the Act that are derived from amounts paid or payable, directly or indirectly, to it or to another partnership of which it is a member by the particular partnership, to the extent that, if the particular partnership were a foreign affiliate of a corporation and were resident in the country in which the particular affiliate is resident and subject to income taxation, the amounts paid or payable by the particular partnership would be deductible in computing its exempt earnings or exempt loss for the year or for a subsequent taxation year,";

(*c*) Where the taxpayer has not made a valid election to have subclauses 95(2)(*a*)(ii)(D)(III) to (V) of the Act apply to taxation years, of all foreign affiliates of the taxpayer, that begin after 1994,

(i) subclause (*d*)(ii)(H)(I) of the definition "exempt earnings" in subsection 5907(1) of the Regulations is to be read as follows:

"(I) the property is shares of a foreign affiliate (in this clause referred to as the "third affiliate") of the particular corporation in respect of which the particular corporation has a qualifying interest and those shares are excluded property, and",

Explanatory Note: "exempt earnings"

The definition "exempt earnings", of a foreign affiliate of a particular corporation for a taxation year, in subsection 5907(1) of the Regulations is relevant for the purposes of computing the surpluses and deficits of the affiliate.

The definition contains a number of provisions. Subparagraphs (*d*)(i) and (ii) of the definition "exempt earnings" are relevant to the understanding of the commentary below. Those particular provisions provide as follows:

- Subparagraphs (*d*)(i) and (ii) of the definition "exempt earnings" provide that, where a foreign affiliate of a particular corporation is resident in a designated treaty country, the affiliate's earnings for the year from an active business carried on by it in a designated treaty country and the amounts included in its income from an active business for the year under paragraph 95(2)(*a*) of the Act, respectively, are included in computing its "exempt earnings" for the year.
- Clause (*d*)(ii)(D) of the definition "exempt earnings" includes, in the exempt earnings of a foreign affiliate of a particular corporation, income derived from amounts paid or payable to the affiliate by a partnership of which a non-resident corporation to which the affiliate and the particular corporation are related throughout the year was a member (other than a "specified member" at any time in a fiscal period of a partnership that ends in the year) if that income is deemed by clause 95(2)(*a*)(ii)(A) of the Act to be income from an active business of the affiliate. This will be the case to the extent that the amounts paid or payable would be deductible in computing the exempt earnings or the exempt loss of the partnership if it were a foreign affiliate of a corporation.
- Clause (*d*)(ii)(F) of the definition "exempt earnings" includes, in the exempt earnings of a foreign affiliate of a particular corporation, income derived from amounts paid or payable to the affiliate by a partnership of which another foreign affiliate of the particular corporation in respect of which the particular corporation has a qualifying interest throughout the year was a member (other than a "specified member" at any time in a fiscal period of a partnership that ends in the year) if that income is deemed by clause 95(2)(*a*)(ii)(B) of the Act to be income from an active business of the affiliate. This will be the case to the extent that the amounts paid or payable would be deductible in computing the exempt earnings or the exempt loss of the partnership if it were a foreign affiliate of a corporation.
- Clause (*d*)(ii)(G) of the definition "exempt earnings" includes, in the exempt earnings of a foreign affiliate of a corporation, income derived from amounts paid or payable to the affiliate by a partnership of which the affiliate was a member (other than a "specified member" at any time in a fiscal period of a partnership that ends in the year) if that income is deemed by clause 95(2)(*a*)(ii)(C) of the Act to be income from an active business of the affiliate. This will be the case to the extent that the amounts paid or payable would be deductible in computing the exempt earnings or the exempt loss of the partnership if it were a foreign affiliate of a corporation.
- Clause (*d*)(ii)(H) of the definition "exempt earnings" includes, in the exempt earnings of a foreign affiliate of a particular corporation, income derived from amounts paid or payable to it (or to a partnership of which it is a member) by another foreign affiliate (the "second affiliate") of the particular corporation related to it and to the particular corporation throughout the year if that income is deemed by clause 95(2)(*a*)(ii)(D) of the Act to be the income from an active business of the affiliate. The income must be derived from amounts paid or payable in respect of interest on borrowed money used to earn income from property or on an amount payable for property. That property must consist of shares of another foreign affiliate (the "third affiliate") of the particular corporation in respect of which the particular corporation has a qualifying interest throughout the year that are excluded property of the second affiliate. The second affiliate, the third affiliate and "each other affiliate relevant for the purpose of determining whether the shares of the third affiliate are excluded property" must all be resident in, and subject to income taxation in, the same designated treaty country. (The expression "designated treaty country" is defined in subsection 5907(11).) As well, the amounts paid or payable must be relevant in determining the liability for income taxes in the designated treaty country of a group of corporations composed of the second affiliate and one or more other foreign affiliates (the shares of which are excluded property), of the particular corporation, resident in that country and in respect of which the particular corporation has a qualifying interest throughout the year. For the purposes of making these determinations, two assumptions are made. First, the definition "excluded property" in subsection 95(1) of the Act is to be read without reference to amounts receivable referred to in paragraph (*c*) of that definition where, if interest were payable on the amounts, the interest would not be deductible by the debtor in calculating its exempt earnings or loss. Second, shares of a foreign affiliate (a "non-qualifying affiliate") that is non-resident and subject to income taxation in a designated treaty country are to be ignored in determining whether the shares of the third affiliate are excluded property, unless the shares of the third affiliate would not be excluded property if all shares of all non-qualifying affiliates were not excluded property. For convenience of reference, this second assumption is referred to in the remainder of this commentary to the definition "exempt earnings" as the "Shares Assumption".

As noted in the commentary to new clauses 95(2)(*a*)(ii)(A), (B) and (C) of the Act, those clauses are amended so that the condition requiring the partnership to have a relevant person as a member of the partnership (otherwise than as a specified member of the partnership) is replaced by a requirement that the relevant person to be a "qualifying member" of the partnership throughout each period, in the fiscal period of the partnership, that ends in the year. The expression "qualifying member" is newly defined in subsection 248(1) of the Act as being a person that would at the relevant time be determined to be a qualifying member of the partnership under paragraph 95(2)(*o*) of the Act. For more detail, see the commentary to paragraph 95(2)(*o*) and subsection 248(1) of the Act.

The amendments to clauses 95(2)(*a*)(ii)(A), (B) and (C) of the Act, in conjunction with the new definition "qualifying member", ensure that, in applying those clauses, limited partners and limited partnerships are treated in the same manner as general partners and general partnerships. These amendments also ensure that, even if the activities of the relevant person do not meet the business activity requirements in new subparagraph 95(2)(o)(i), a partnership may qualify under clauses 95(2)(*a*)(ii)(A), (B) or (C) if the relevant person has an equity interest in the partnership that meets the criteria set out in new subparagraph 95(2)(*o*)(ii). For more detail, see the commentary to new paragraph 95(2)(*o*) of the Act.

The definition "exempt earnings" is to be amended in the following ways.

First, new paragraph (*a*.1) is added to the definition "exempt earnings" in subsection 5907(1) of the Regulations to include the untaxed portion of the gain from the sale of excluded property that is eligible capital property.

Second, subparagraph (*d*)(ii) of the definition "exempt earnings" in subsection 5907(1) is amended in the following ways:

- Consequential to the amendments made to paragraph 95(2)(*a*) of the Act, subparagraph (*d*)(ii) of the definition "exempt earnings" in subsection 5907(1) of the Regulations is amended to provide that, in computing the affiliate's "exempt earnings" for the year, there will be included the earnings derived from amounts required to be included in computing income from an active business under amended paragraph 95(2)(*a*) of the Act.
- Clauses (*d*)(ii)(D), (F) and (G) of the definition "exempt surplus" in subsection 5907(1) of the Regulations are proposed to be amended consistent with similar amendments made to clauses 95(2)(*a*)(ii)(A), (B) and (C) of the Act. Accordingly, amendments (referred to in this commentary as the "Qualifying Member Amendments") are made to clauses (*d*)(ii)(D), (F) and (G) of the definition exempt surplus in subsection 5907(1) of the Regulations so that the condition requiring the partnership to have a relevant person as a member of the partnership (otherwise than as a specified member of the partnership) is replaced by a requirement that the relevant person be a "qualifying member" of the partnership throughout each period, in the fiscal period of the partnership, that ends in the year. The expression qualifying member is newly defined in subsection 248(1) of the Act as being a person that would at the relevant time be determined to be a qualifying member of the partnership under paragraph 95(2)(o) of the Act. For more detail, see the commentary to paragraphs 95(2)(o) and (q) and subsection 248(1) of the Act.
- Consistent with the amendments to clause 95(2)(*a*)(ii)(D) of the Act, clause (*d*)(ii)(H) of the definition "exempt earnings" in subsection 5907(1) of the Regulations is proposed to be amended to modify the requirement that the second affiliate, the third affiliate and "each other affiliate relevant for the purpose of determining whether the shares of the third affiliate are excluded property" must each be resident in, and subject to income taxation in, the same designated treaty country (sub-subclause (*d*)(ii)(H)(I)2. of the definition). That requirement is replaced with a requirement that
  - — the second affiliate and the third affiliate must be resident in the same designated treaty country for each of their taxation years (each of which taxation years is referred to as a "relevant taxation year" of the second affiliate or of the third affiliate, as the case may be) that end in the year, and
  - — in respect of each of the second affiliate and the third affiliate for each relevant taxation year of that affiliate, either that affiliate must be subject to income taxation in that country in that relevant taxation year, or, alternatively, the members or shareholders of that affiliate at the end of that relevant taxation year must be subject to income taxation in that country on, in aggregate, all or substantially all of the income of that affiliate for that relevant taxation year in their taxation years in which that relevant taxation year ends, or would be so subject to income taxation in that country if that affiliate had income for that relevant taxation year and the income of those members or shareholders for their taxation years in which that relevant taxation year ends consisted only of their share of income of that affiliate for that relevant taxation year.
- Further, clause (*d*)(ii)(H) of the definition "exempt earnings" in subsection 5907(1) of the Regulations is proposed to be amended to delete the Shares Assumption. The Shares Assumption is no longer relevant as that clause no longer contains a reference to "each other affiliate relevant for the purpose of determining whether the shares of the third affiliate are excluded property".

Consequential to the introduction of new subparagraph 95(2)(*a*)(v) of the Act, new clause (*d*)(ii)(L) of the definition "exempt earnings" in subsection 5907(1) of the Regulations is proposed to be added. New clause (*d*)(ii)(L) ensures that income of a foreign affiliate, of a corporation, for a year that, because of new subparagraph 95(2)(*a*)(v) of the Act, is included in computing the affiliate's active business income for the year, is included in computing the "exempt earnings" of the affiliate. In making the determination of this income, new subparagraph 95(2)(*a*)(v) is to be read as if it applies to the income or loss derived from the disposition of excluded property that is not capital property if

- — that property is used or held by the particular foreign affiliate for the purpose of gaining or producing income from property that would, because of this paragraph, be included in computing the particular foreign affiliate's income from an active business if this paragraph were read without reference to this subparagraph, and
- — that income or loss is derived, directly or indirectly , from amounts paid or payable to the particular foreign affiliate by another foreign affiliate of the taxpayer, or by a non-resident corporation related to the particular foreign affiliate and the taxpayer, that is in respect of an active business carried on in a designated treaty country (as defined for the purpose of Part LIX of the Regulations).

- Consequential to the introduction of new subparagraph 95(2)(*a*)(vi) of the Act, new clause (*d*)(ii)(M) of the definition "exempt earnings" in subsection 5907(1) of the Regulations is proposed to be added. New clause (*d*)(ii)(M) ensures that income of a foreign affiliate, of a corporation, for a year that, because of new subparagraph 95(2)(*a*)(vi) of the Act, is included in computing the affiliate's active business income for the year, is included in computing the "exempt earnings" of the affiliate. This is determined by reading new subparagraph 95(2)(*a*)(vi) as the income or loss derived from the disposition of excluded property that is not capital property if derived by the particular foreign affiliate under or as a result of an agreement that provides for the purchase, sale or exchange of currency and that can reasonably be considered to have been made by the particular foreign affiliate to reduce its risk, of fluctuations in the value of the denominated currency, with respect to
  - — income or loss from property that is
    - because of this paragraph included in computing the particular foreign affiliate's income or loss from an active business if this paragraph were read without reference to this subparagraph, and
    - derived, directly or indirectly, from amounts paid or payable to the particular foreign affiliate by another foreign affiliate of the taxpayer, or by a non-resident corporation related to the particular foreign affiliate and the taxpayer, that is in respect of an active business carried on in a designated treaty country (as defined for the purpose of Part LIX of the Regulations), or
  - — excluded property the income or loss from which , if there were income or a loss, described in subparagraph 95(2)(*a*)(i).

For more detail, see the commentary to subsection 95(2) of the Act.

The amendments to paragraph (a.1), and subparagraph (*d*)(ii), of the definition "exempt earnings" in subsection 5907(1) apply to taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002. Note that these amendments are included in the Global Section 95 Election package described in the beginning of [Regulation 5907] and that, in the event of a Global Section 95 Election, the Qualifying Member Amendments apply to taxation years, of a foreign affiliate of a taxpayer, that end after 1999.

(*e*) where the year is the 1976 or any subsequent taxation year of the particular affiliate, each amount that is included in the particular affiliate's exempt earnings for the year because of subsection (10),

minus the portion of any income or profits tax paid to the government of a country for the year by the particular affiliate that can reasonably be regarded as tax in

respect of the earnings referred to in paragraph (*c*) or in subparagraph (*d*) (ii);

Department of Finance Comfort Letter
[Property Income of Foreign Affiliate Life Insurance Corporation]

September 13, 2007

Editorial Note: The issues described in the letter concerning s. 95(2)(*a*)(i)(A)(II) and s. 95(2)(*a*)(ii)(A) have been resolved by amendments to those provisions, enacted by S.C. 2007, c. 35. The issues described relating to the definitions of "exempt earnings" and "exempt loss" in Regulation 5907(1) remain outstanding.

Dear XXXX

Subject: Subparagraphs 95(2)(*a*)(i) and (ii) of the *Income Tax Act*

I am writing in response to your correspondence of August 16, 2007 concerning draft subparagraphs 95(2)(*a*)(i) and (ii) of the *Income Tax Act* (Act) and draft paragraph (*d*) of the definition "exempt earnings" in subsection 5907(1) of the Income Tax Regulations (Regulations) as contained in the draft foreign affiliate proposals released on February 27, 2004.

In the proposals, draft subclause 95(2)(*a*)(i)(A)(II) and clause 95(2)(*a*)(ii)(E) [now (A)]of the Act would each allow the recharacterization, under paragraph 95(2)(*a*), of property income of a foreign affiliate of a taxpayer as active business income where that property income has the requisite connection with the active business activities outside Canada of a life insurance corporation that is the taxpayer, a person who controls the taxpayer or a person controlled by the taxpayer.

You note that, in the circumstances described in your correspondence, property income of a foreign affiliate of a taxpayer cannot be recharacterized under paragraph 95(2)(*a*) as active business income of the foreign affiliate because the relevant life insurance corporation with the active business activities outside Canada is not the taxpayer nor a person who controls or is controlled by the taxpayer as required by draft subclause 95(2)(*a*)(i)(A)(II) and clause 95(2)(*a*)(ii)(E). You suggest that, in those circumstances, the foreign affiliate's property income ought to be recharacterized as active business income where the relevant life insurance corporation with the active business activities outside Canada is a person controlled by a person who controls the taxpayer. You also note that a similar issue arises with draft paragraph (*d*) of the definition "exempt earnings" in subsection 5907(1) of the Regulations.

In our view, draft subclause 95(2)(*a*)(i)(A)(II) and clause 95(2)(*a*)(ii)(E) of the Act are intended to cover control situations and therefore it is appropriate that those draft provisions be modified to also address cases where the relevant life insurance corporation with the active business activities outside Canada is a person controlled by a person who controls the taxpayer. Accordingly, we are prepared to recommend that draft subclause 95(2)(*a*)(i)(A)(II) and clause 95(2)(a)(ii)(E) be revised so that the references in those provisions to "the taxpayer, a person who controls the taxpayer or a person who is controlled by the taxpayer" are replaced by references to "the taxpayer, a person who controls the taxpayer, a person controlled by the taxpayer or a person controlled by a person who controls the taxpayer".

We are also prepared to recommend related revisions to clauses (*d*)(ii)(B) and (I) of the definition "exempt earnings" and, correspondingly, clauses (*c*)(ii)(B) and (I) of the definition "exempt loss" in subsection 5907(1) of the Regulations. The revisions would ensure that, in computing the particular foreign affiliate's exempt earnings or exempt loss in respect of the particular corporation, those clauses would apply to include, in the appropriate circumstances, the amounts included in computing the particular foreign affiliate's active business income or loss under subclause 95(2)(*a*)(i)(A)(II) and clause 95(2)(*a*)(ii)(E) of the Act.

If our recommendations are adopted, the modified version of the proposals would be included in a future tax bill the passage of which would implement many of the other foreign affiliate proposals that were released on February 27, 2004.

Thank you for communicating your concerns.

Yours sincerely,

Gerard Lalonde
Acting Director
Tax Legislation Division
Tax Policy Branch

Department of Finance Comfort Letter
[Foreign Affiliates — Definition of "Exempt Earnings"]

July 17, 2006

Dear XXXX,

SUBJECT: Clause (*d*)(ii)(H) of the definition "exempt earnings" in subsection 5907(1) of the *Income Tax Regulations*

I am writing in response to your letter dated April 25, 2006 concerning proposed clause (*d*)(ii)(H) of the definition "exempt earnings" in subsection 5907(1) of the *Income Tax Regulations* (the "Regulations"), as contained in the foreign affiliate proposals announced on February 27, 2004.

Draft clause (*d*)(ii)(H) of the definition "exempt earnings" in subsection 5907(1) of the Regulations provides that, where income from property of a foreign affiliate of a taxpayer resident in Canada is recharacterized by clause 95(2)(*a*)(ii)(D) of the *Income Tax Act* (the "Act") as active business income, that recharacterized income is included in computing the foreign affiliate's exempt earnings if the requirements set out in draft clause (*d*)(ii)(H) are met .

One requirement is that the shares held by the "second affiliate" in the capital stock of the "third affiliate" would be excluded property of the second affiliate. In making this determination, paragraph (*c*) of the definition "excluded property" in subsection 95(1) of the Act is to be read in the manner modified by draft clause (*d*)(ii)(H). In that modified version of paragraph (*c*) of the definition "excluded property", income from property is tested as to whether it is derived from amounts payable by payers who are entitled to deduct the amounts in computing their exempt earnings or loss. You express concern about the interpretation of that modified version of that paragraph in cases where the payer is a non-resident corporation that is not a foreign affiliate of the corporation resident in Canada and, as such, the payer does not compute exempt earnings or losses.

Other provisions of subparagraph (*d*)(ii) of the definition "exempt earnings" test whether payments made by a non-resident corporation — that is not a foreign affiliate of the corporation resident in Canada — would be deductible in computing its exempt earnings or loss on the explicit assumption that it is a foreign affiliate of the corporation resident in Canada.

We agree that draft clause (*d*)(ii)(H) of the exempt earnings definition should be revised to contemplate payer non-resident corporations — that are not foreign affiliates of the corporation resident in Canada — in appropriate cases. We will recommend appropriate changes to paragraph (*c*) of the excluded property definition, as read for the purposes of clause (*d*)(ii)(H), to test whether amounts payable by such a payer would (on the explicit assumption that it is a foreign affiliate of the corporation resident in Canada) be deductible in computing its exempt earnings or loss. It is anticipated the tests and assumptions used for this purpose would be consistent with those that are used in the other provisions of subparagraph (*d*)(ii).

If our recommendation is acted upon, we would expect that the revision to draft clause (*d*)(ii)(H) of the exempt earnings definition would have the same application date as the application date of that draft clause.

We also note that a similar issue arises in draft clause (*c*)(ii)(H) of the definition "exempt loss" in subsection 5907(1) of the Regulations, which is the counterpart to draft clause (*d*)(ii)(H) of the exempt earnings definition. We would thus recommend a comparable change to that draft clause (*c*)(ii)(H).

Thank you for writing.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

Department of Finance Comfort Letter [Foreign Affiliates — Paragraph 95(2)(a.3) and Definition of "Exempt Earnings"]

July 17, 2006

Dear XXXX

SUBJECT: Foreign accrual property income rules in the *Income Tax Act* and the *Income Tax Regulations*

I am writing in response to your letters with respect to paragraph 95(2)(*a*.3) of the *Income Tax Act* (the "Act") and clause (*d*)(ii)(B)of the definition "exempt earnings" in subsection 5907(1) of the Income Tax Regulations (the "Regulations").

Paragraph 95(2)(a.3) of the Act

In your correspondence, you express a concern with respect to the scope of paragraph 95(2)(*a*.3) in light of clause 95(2)(*a*)(ii)(E) of the Act.

Paragraph 95(2)(*a*.3) provides generally that the income for a taxation year of a foreign affiliate of a taxpayer resident in Canada derived from indebtedness or lease obligations of persons resident in Canada (or in respect of businesses carried on in Canada) is not to be treated as active business income unless more than 90% of the foreign affiliate's gross revenue for the year from indebtedness or lease obligations is derived from indebtedness and lease obligations of non-resident persons with whom the foreign affiliate deals at arm's length.

In the example provided in your correspondence, you point out that, where the requirements for the application of clause 95(2)(*a*)(ii)(E) of the Act are met, that clause would treat, as active business income of the foreign affiliate of a taxpayer resident in Canada, the income of the foreign affiliate derived from the interest paid to the foreign affiliate by the taxpayer on a debt of the taxpayer in respect of the taxpayer's foreign insurance business. You point out that paragraph 95(2)(*a*.3) would, however, result in that same income being included in the foreign accrual property income of the foreign affiliate . You identify the inclusion, because of paragraph 95(2)(*a*.3), of that income of the foreign affiliate in the foreign accrual property income of the foreign affiliate as being inconsistent with the inclusion of that income of the foreign affiliate in the active business income of the foreign affiliate because of clause 95(2)(*a*)(ii)(E).

We agree that it would be inappropriate to include an amount of income of a foreign affiliate in its foreign accrual property income because of paragraph 95(2)(*a*.3) when that same amount of income is included in its active business income under clause 95(2)(*a*)(ii)(E). Therefore, we are prepared to recommend that paragraph 95(2)(*a*.3) be amended to provide for consistent treatment of that income as active business income. The recommended amendment to paragraph 95(2)(*a*.3) would ensure that any particular income of the foreign affiliate derived from indebtedness and lease obligations will not be included, because of paragraph 95(2)(*a*.3), in computing the foreign affiliate's income from a business other than an active business if the taxpayer is the taxpayer referred to in clause 95(2)(*a*)(ii)(E) and the particular income would, because of clause 95(2)(*a*)(ii)(E), be included in computing the income of the foreign affiliate from an active business.

It will be recommended that such an amendment apply to taxation years, of a foreign affiliate of a taxpayer, that end after February 27, 2004.

Clause (d)(ii)(B) of the definition "exempt earnings" in subsection 5907(1)of the Regulations

You have also expressed a concern with respect to draft amended clause (*d*)(ii)(B) of the definition "exempt earnings" in subsection 5907(1) of the Regulations, as contained in the proposals announced on February 27, 2004.

Existing subclause 95(2)(*a*)(i)(A)(II) of the Act provides, if certain conditions are met, for the recharacterization of property income of a foreign affiliate of a taxpayer resident in Canada as active business income where the taxpayer is a life insurance corporation and the property income is derived from active business activities carried on in a country outside Canada by a foreign branch of the taxpayer. The version of subclause 95(2)(*a*)(i)(A)(II) of the Act contained in the February 2004 proposals expands the scope of that subclause to refer not only to a life insurance corporation resident in Canada that is the taxpayer (as at present in the Act) but also to refer, alternatively, to a life insurance corporation resident in Canada that controls, or is controlled by, the taxpayer.

In your correspondence, you note that the draft version of clause (*d*)(ii)(B) of the definition "exempt earnings" in subsection 5907(1) of the Regulations refers to a life insurance corporation resident in Canada that is the particular corporation resident in Canada. You suggest that, consistent with draft subclause 95(2)(*a*)(i)(A)(II) of the Act in the February 2004 proposals, draft clause (*d*)(ii)(B) of the definition "exempt earnings" in subsection 5907(1) of the Regulations should be revised to also refer, alternatively, to a life insurance corporation resident in Canada that controls, or is controlled by, the corporation resident in Canada.

As clause (*d*)(ii)(B) of the definition "exempt earnings" in subsection 5907(1) of the Regulations is a rule to determine what portion (if any) of the foreign affiliate's active business earnings because of subclause 95(2)(*a*)(i)(A)(II) of the Act are to be included in the foreign affiliate's exempt earnings, we agree that the wording of that clause (*d*)(ii)(B) of the definition "exempt earnings" in subsection 5907(1) of the Regulations in the February 2004 proposals should be made consistent with the wording of draft subclause 95(2)(*a*)(i)(A)(II) of the Act in those proposals. Accordingly, we are prepared to recommend that draft clause (*d*)(ii)(B) of the definition "exempt earnings" in subsection 5907(1) of the Regulations be revised so that

- that clause will apply where the particular corporation is a life insurance corporation resident in Canada (the "insurer"), a corporation controlled by the insurer or a corporation that controls the insurer and the particular foreign affiliate is a foreign affiliate in respect of which the particular corporation has a qualifying interest throughout the taxation year, and
- where that clause applies and the conditions described in the preamble of paragraph (*d*) of the exempt earnings definition are met, the amount calculated by that clause for inclusion in the particular affiliate's exempt earnings for the year will be equal to the amounts included in computing the particular affiliate's income from an active business for the year because of subparagraph 95(2)(*a*)(i) of the Act that are derived by the particular affiliate from activities directly related to an active business carried on by the insurer in a country other than Canada, the income or loss from which would, if the insurer were a foreign affiliate of another corporation and were resident in the country other than Canada in which that active business of the insurer is carried on, be included in computing the insurer's exempt earnings or loss.

Draft clause (*c*)(ii)(B) of the definition "exempt loss" in subsection 5907(1) of the Regulations, as contained in the February 2004 proposals, is the exempt loss definition's equivalent of clause (*d*)(ii)(B) of the exempt earnings definition in subsection 5907(1). As we note that similar concerns arise in connection with that draft clause of the exempt loss definition, a recommendation will be made that that draft clause of the exempt loss definition be revised in an analogous fashion.

It will be recommended that those draft clauses of the exempt earnings and exempt loss definitions, including those aforementioned revisions, have the application dates that are provided in the February 2004 proposals for those draft clauses.

Thank you for writing.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

Department of Finance Comfort Letter [Modifications to Definitions of "Exempt Earnings" and "Exempt Loss" in Regulation 5907(1)]

June 9, 2006

Dear XXXX

SUBJECT: Clause (*d*)(ii)(H) of the definition "exempt earnings" in subsection 5907(1) of the *Income Tax Regulations*

I am writing in response to your letter dated March 17, 2006 concerning proposed clause (*d*)(ii)(H) of the definition "exempt earnings" in subsection 5907(1) of the Income Tax Regulations (the "Regulations"), as contained in the foreign affiliate proposals announced on February 27, 2004.

Draft clause (*d*)(ii)(H) of the definition "exempt earnings" in subsection 5907(1) of the Regulations provides that, where income from property of a foreign affiliate of a taxpayer resident in Canada is recharacterized by clause 95(2)(*a*)(ii)(D) of the *Income Tax Act* (the "Act") as active business income, that recharacterized income is included in computing the foreign affiliate's exempt earnings if the requirements set out in draft clause (*d*)(ii)(H) are met.

One requirement is that the shares held by the "second affiliate" in the capital stock of the "third affiliate" would be excluded property of the second affiliate. In making this determination, paragraph (*c*) of the definition "excluded property" in subsection 95(1) of the Act is to be read in the manner modified by draft clause (*d*)(ii)(H). In that modified version of paragraph (*c*) of the definition "excluded property", income from property is tested as to whether it is derived from amounts payable by payers who are entitled to deduct the amounts in computing their exempt earnings or loss. You express concern about the interpretation of that modified version of that paragraph in cases where the payer is a partnership that does not compute exempt earnings or losses.

Other provisions of subparagraph (*d*)(ii) of the definition "exempt earrings" test whether payments made by a partnership would be deductible in computing its exempt earnings or loss on the explicit assumption that the partnership is a foreign affiliate of a corporation and is resident in the country in which the relevant partner is resident and subject to income taxation.

We agree that draft clause (*d*)(ii)(H) of the exempt earnings definition should be revised to contemplate payer partnerships in appropriate cases. We will recommend appropriate changes to paragraph (*c*) of the excluded property definition, as read for the purposes of clause (*d*)(ii)(H), to test whether amounts payable by such a payer partnership would (on explicit assumptions) be deductible in computing its exempt earnings or loss. It is anticipated that the tests and assumptions used for this purpose would be consistent with those that are used in the other provisions of subparagraph (*d*)(ii).

If our recommendation is acted upon, we would expect that the revision to draft clause (*d*)(ii)(H) of the exempt earnings definition would have the same application date as the application date of that draft clause.

We also note that a similar issue arises in draft clause (*c*)(ii)(H) of the definition "exempt loss" in subsection 5907(1) of the Regulations, which is the counterpart to draft clause (*d*)(ii)(H) of the exempt earnings definition. We would thus recommend a comparable change to that draft clause (*c*)(ii)(H).

Thank you for writing.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

Department of Finance Comfort Letter [Modifications to Certain Foreign Affiliate Proposals]

April 19, 2006

Editorial Note: The issues described in the letter concerning paragraphs 95(2)(*a*) and (*o*) have been resolved by the the addition of paragraph 95(2)(*u*) in S.C. 2007, c. 35. Similarly, the issues outlined regarding subsection 95(2.2) have been resolved by the amendments to that subsection in S.C. 2007, c. 35. The issues described in the letter pertaining to 93.1(2) remain outstanding.

Dear XXXX,

SUBJECT: Subsections 93.1(2) and 95(2) and (2.2) of the *Income Tax Act* and Subsection 5907(1) of the *Income Tax Regulations*

I am writing in response to your many recent letters, e-mails and phone calls relating to certain narrow issues arising from the foreign affiliate proposals announced on February 27, 2004 by the Minister of Finance.

Draft paragraphs 95(2)(*a*) and (*o*) of the Act

Proposed paragraph 95(2)(*q*) of the *Income Tax Act* (the "Act") deems partnership interests in a particular partnership that are owned (or deemed by that paragraph to be owned) by another partnership to be owned by the members of that other partnership. Thus, those partnership interests deemed by draft paragraph 95(2)(*q*) to be owned by a member of the other partnership can be taken into account in applying the 1% and 10% ownership tests in draft subparagraph 95(2)(*o*)(ii) in determining, under paragraph 95(2)(*o*), whether that member is a "qualifying member" of the particular partnership.

You note, however, that the preamble of draft paragraph 95(2)(*o*) requires a person to be a member of the particular partnership in order to be considered to be a qualifying member of the particular partnership. Draft subparagraph 95(2)(*k*.7)(i) deems, for certain purposes, a member of any partnership that is a member of another partnership to be a member of that other partnership. However, paragraph 95(2)(*o*) is not identified as one of those purposes. We would thus recommend modifying draft subparagraph 95(2)(*k*.7)(i) so that, for the purposes of applying paragraph 95(2)(*o*), a person that is (or is deemed by paragraph 95(2)(*k*.7) to be) a member of any partnership that is a member of another partnership is deemed to be a member of that other partnership.

Similar issues exist with respect to a number of provisions in draft paragraph 95(2)(*a*) (such as subclause 95(2)(*a*)(ii)(A)(II)) that require a qualifying member of the partnership (referred to in those provisions) to be a member of the partnership. Consequently, it would be appropriate to modify draft subparagraph 95(2)(*k*.7)(i) so that, for the purposes of applying those provisions, a person or partnership that is (or is deemed by paragraph 95(2)(*k*.7) to be) a member of any partnership that is a member of another partnership is deemed to be a member of that other partnership.

It is contemplated that these recommended revisions to draft subparagraph 95(2)(*k*.7)(i) of the Act would have the same application date as the application date of that draft.

Subsection 5907(1) of the Regulations

Proposed subclause 95(2)(*a*)(ii)(D) of the Act uses a test for determining whether a non-resident corporation is considered to be subject to income taxation in a particular country. That test addresses situations where that corporation is a flow-through entity for tax purposes in the country.

You have identified a need for a similar test in proposed clause (*d*)(ii)(D) of the definition "exempt earnings" in subsection 5907(1) of the Income Tax Regulations (the "Regulations"). As well, similar issues exist in a number of other provisions in draft subparagraph (*d*)(ii) of the definition "exempt earnings", and a number of provisions in draft subparagraph (*c*)(ii) of the definition "exempt loss", in subsection 5907(1) of the Regulations.

We are prepared to recommend revisions to section 5907 of the Regulations to provide that, in applying subparagraph (*d*)(ii) of the definition "exempt earnings", and subparagraph (*c*)(ii) of the definition "exempt loss", in subsection 5907(1) of the Regulations, a test similar to the test used in clause 95(2)(*a*)(ii)(D) will be employed to determine whether or not a flow-through entity is subject to income taxation in a particular country.

Should our recommendations be acted upon, it is contemplated that the recommended new rule in section 5907 of the Regulations would have the same application date as that of draft subclauses 95(2)(*a*)(ii)(D)(III) to (V) of the Act.

References to "year"

Another issue raised relates to the reference in draft clause 95(2)(*a*)(ii)(A) of the Act to expenditures referred to in subclauses 95(2)(*a*)(ii)(A)(I) and (II) being deductible in the "year" or "a subsequent taxation year" by the non-resident corporation or the partnership referred to in those subclauses, if the non-resident corporation or the partnership, as the case may be, were a foreign affiliate, in computing the amounts prescribed to

be its earnings or loss from an active business. The "year" is intended to be a taxation year of that non-resident corporation or that partnership, as the case may be. However, in terms of the text itself, the "year" could be read as referring to the taxation year of the "particular foreign affiliate" (i.e., the recipient of the payments) described in the preamble of draft paragraph 95(2)(*a*). The other uses of the expression "the year" in that draft clause 95(2)(*a*)(ii)(A) of the Act would remain as references to "the year" of the particular foreign affiliate. It would be appropriate to clarify those aspects of those provisions. As well, it would be appropriate to make comparable clarifying modifications to deal with similar issues in various other clauses in that draft subparagraph 95(2)(*a*)(ii) of the Act and in various provisions in draft subparagraph (*d*)(ii) of the definition "exempt earnings", and draft subparagraph (*c*)(ii) of the definition "exempt loss", in subsection 5907(1) of the Regulations.

It is contemplated that these revisions would have the same application date as that of draft subclauses 95(2)(*a*)(ii)(D)(III) to (V) of the Act.

Draft subsections 93.1(2) and 95(2.2) of the Act

Subsection 93.1(1) provides that, for the purpose of determining whether (for the limited purposes described in that subsection) a non-resident corporation is a foreign affiliate of a corporation resident in Canada, the shares of a non-resident corporation are deemed to be owned by the members of the partnership in the proportion that the fair market value of their interests in the partnership is of the fair market value of all members' interests in the partnership. That rule applies on an iterative basis, such that, where members of a partnership that owns (or is deemed by that rule to own) the shares of a non-resident corporation are themselves partnerships, those shares are deemed to be owned by the members of those other partnerships using the same proportionality rule.

Subsection 93.1(2) applies where a corporation resident in Canada is a member of a partnership that owns shares of a non-resident corporation that is deemed by subsection 93.1(1) to be a foreign affiliate of the corporation resident in Canada. It provides, for the purposes of sections 93 and 113, that, where the non-resident corporation pays a dividend to the partnership, the corporation resident in Canada is deemed to receive a share of that dividend equal to the proportion that the fair market value of its interest in the partnership is of the fair market value of all interests in the partnership. Thus, the corporation resident in Canada can benefit from the deductions available under section 113 in respect of dividends on shares of a foreign affiliate of the corporation resident in Canada.

However, unlike subsection 93.1(1), subsection 93.1(2) is not an iterative rule that applies through a chain of partnerships; therefore, it does not apply where (as in the example that you provided in your February 28 letter) the corporation resident in Canada is a member of a partnership that is itself a member of the partnership that owns the shares in the non-resident corporation. As a result, in your example, the corporation resident in Canada would not be able to claim a deduction under subsection 113(1) in respect of dividends from the non-resident corporation that are included, because of subsection 96(1), in the income of the corporation resident in Canada.

You have also identified issues with respect to the application of current subsection 95(2.2) of the Act where the shares of the non-resident corporation are acquired by a partnership rather than by a person referred to in paragraph (*a*) of that subsection. For the purpose of subsection 95(2), paragraph 95(2.2)(*a*) deems that corporation to be a foreign affiliate of the taxpayer in respect of which the taxpayer has a qualifying interest throughout a year. That paragraph applies where that corporation either became or ceased to be a foreign affiliate of the taxpayer in the year and that corporation was, at the beginning of the year or the end of the year, a foreign affiliate of the taxpayer in respect of which the taxpayer has a qualifying interest.

You express the view that the reference, in paragraph 95(2.2)(*a*), to a "person" acquiring or disposing of shares of the capital stock of that corporation would not cover the case where the shares are acquired or disposed of by a partnership and the governing partnership law of the partnership is such that the members of the partnership are not considered to acquire or dispose of the shares. You make a similar observation with respect to applying the reference, in subparagraph 95(2.2)(*b*)(i), to "person" in the case where shares of that corporation or any other corporation are acquired or disposed of by a partnership.

A clarification of the intended application of subsections 93.1(2) and 95(2.2) is appropriate. Consequently, we will propose that

- section 93.1 be modified to provide a rule, for the purposes of subsection 93.1(2), that
  - — where a particular partnership owns (or is deemed by that rule to own) at any time a partnership interest in another partnership, each member of the particular partnership is deemed to own, at that time, the partnership interest in the other partnership in the proportion that the fair market value at that time of the member's partnership interest in the particular partnership is of the fair market value at that time of all members' partnership interests in the particular partnership, and
  - — a person or partnership that is a member (or is deemed by that rule to be a member) of a particular partnership that is a member of another partnership is deemed to be a member of the other partnership,
- subsection 93.1(1) be amended so that the rule in that amended subsection
  - — applies for the purposes of subsection 95(2.2), and
  - — continues to apply for the purposes of determining (for the limited purposes as presently referred to in that subsection) whether a non-resident corporation is a foreign affiliate of a corporation resident in Canada, and
- paragraphs 95(2.2)(*a*) and (*b*) be amended so that the expression "person" in subparagraphs 95(2)(*a*)(i) and (*b*)(i) is replaced by the expression "person or partnership".

It is contemplated that

- the new rule (referred to above) in section 93.1 would have effect for dividends received after November 1999, and
- the revisions to paragraphs 95(2.2)(*a*) and (*b*), and the revision to subsection 93.1(1) to extend the ambit of the rule in that subsection so that it applies for the purpose of subsection 95(2.2), would have effect for taxation years of a foreign affiliate of a taxpayer that end after 1999.

Thank you for writing.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

"*exempt loss*" of a foreign affiliate of a corporation for a taxation year of the affiliate is the total of all amounts each of which is

Pending Amendment

Foreign Affiliates — February 27, 2004

The portion of the definition "exempt loss" in subsection 5907(1) of the Regulations before paragraph (*a*) is replaced by the following:

"*exempt loss*" — "*exempt loss*", of a foreign affiliate of a particular corporation for a taxation year of the affiliate, is the total of all amounts each of which is

Applicable: To taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002. If a taxpayer elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing due-date for the taxpayer's taxation year that includes the day on which the Act containing the amendments to section 95 that were released on February 27, 2004 is assented to (the "Global Section 95 Election" reproduced at the beginning of section 5907 of the Regulations), this amendment to the portion of the definition "exempt loss" before paragraph (*a*) applies to taxation years of all foreign affiliates of the taxpayer, that begin after 1994.

Explanatory Note: See the Explanatory Note following the amendments to paragraph (*c*) of the definition "exempt loss" in subsection 5907(1) of the Regulations.

(*a*) the amount by which the capital losses of the affiliate for the year exceed the total of

(i) the amount of the allowable capital losses for the year referred to in the description of E in the definition "foreign accrual property income" in subsection 95(1) of the Act,

(ii) the amount of the allowable capital losses for the year referred to in subparagraphs (*c*)(i) and (*d*)(iii) of the definition "net loss" in this subsection, and

(iii) the portion of any income or profits tax refunded by the government of a country for the year to the affiliate that can reasonably be regarded as tax refunded in respect of the amount by which the capital losses of the affiliate for the year exceed the total of the amounts referred to in subparagraphs (i) and (ii),

(*b*) where the year is the 1975 or any preceding taxation year of the affiliate, the total of all amounts each of which is

(i) the affiliate's net loss for the year from an active business carried on by it in a country, or

(ii) the amount, if any, for the year by which

(A) the amount determined under the description of D in the definition "foreign accrual property income" in subsection 95(1) of the Act for the year

exceeds

(B) the amount determined under the description of A in the definition "foreign accrual property income" in section 95(1) of the Act for the year,

(*c*) where the year is the 1976 or any subsequent taxation year of the affiliate and the affiliate is resident in a designated treaty country, each amount that is the affiliate's net loss for the year from an active business carried on by it in Canada or in a designated treaty country, or

Pending Amendment

Foreign Affiliates — February 27, 2004

Paragraph (*c*) of the definition "exempt loss" in subsection 5907(1) of the Regulations is replaced by the following:

(*c*) where the year is the 1976 or any subsequent taxation year of the affiliate (referred to in this paragraph as the "particular affiliate") and the particular affiliate is resident in a designated treaty country, each amount that is

(i) the particular affiliate's net loss for the year from an active business carried on by it in Canada or in a designated treaty country, or

(ii) the losses of the particular affiliate for the year from an active business to the extent that they derive from

(A) amounts required to be included in computing the loss of the particular affiliate from an active business for the year because of subparagraph 95(2)(*a*)(i) of the Act that are derived by the particular affiliate from activities that can reasonably be considered to be directly related to business activities carried on by a non-resident corporation, to which the particular affiliate and the particular corporation are related throughout the year, in the course of an active business carried on by the non-resident corporation the income or loss from which would, if the non-resident corporation were a foreign affiliate of a corporation, be included in computing the non-resident corporation's exempt earnings or exempt loss,

(B) if the particular corporation is a life insurance corporation resident in Canada throughout the year and the particular affiliate is a foreign affiliate in respect of which the particular corporation has a qualifying interest throughout the year, amounts required to be included in computing the loss of the particular affiliate from an active business for the year because of subparagraph 95(2)(*a*)(i) of the Act that are derived by the particular affiliate from activities that can reasonably be considered to be directly related to business activities carried on by the particular corporation in the course of an active business carried on by the particular corporation in a country other than Canada, the income or loss from which would, if the particular corporation were a foreign affiliate of another corporation and were resident in the country other than Canada in which that active business of the particular corporation is carried on, be included in computing the particular corporation's exempt earnings or exempt loss,

(C) amounts required to be included in computing the loss of the particular affiliate from an active business for the year because of clause 95(2)(*a*)(ii)(A) of the Act that are derived from amounts paid or payable, directly or indirectly, to it or to a partnership of which it is a member by a non-resident corporation to which the particular affiliate and the particular corporation are related throughout the year, to the extent that, if the non-resident corporation were a foreign affiliate of a corporation, the amounts paid or payable by the non-resident corporation would be deductible in computing its exempt earnings or exempt loss for the year or for a subsequent taxation year,

(D) if a non-resident corporation to which the particular affiliate and the particular corporation are related throughout the year is a qualifying member of a particular partnership at any time in a fiscal period of the particular partnership that ends in the year, amounts required to be included in computing the loss of the particular affiliate from an active business for the year because of clause 95(2)(*a*)(ii)(A) of the Act that are derived from amounts paid or payable, directly or indirectly, to it or to another partnership of which it is a member by the particular partnership to the extent that, if the particular partnership were a foreign affiliate of a corporation and were resident in the country in which the non-resident corporation is resident and subject to income taxation, the amounts paid or payable by the particular partnership would be deductible in computing its exempt earnings or exempt loss for the year or for a subsequent taxation year,

(E) amounts required to be included in computing the loss of the particular affiliate from an active business for the year because of clause 95(2)(*a*)(ii)(B) of the Act that are derived from amounts paid or payable, directly or indirectly, to it or to a partnership of which it is a member by another foreign affiliate of the particular corporation in respect of which the particular corporation has a qualifying interest throughout the year, to the extent that the amounts paid or payable by the other foreign affiliate are deductible in computing its exempt earnings or exempt loss for the year or for a subsequent taxation year,

(F) if another foreign affiliate of the particular corporation in respect of which the particular corporation has a qualifying interest throughout the year is a qualifying member of a particular partnership at any time in a fiscal period of the particular partnership that ends in the year, amounts required to be included in computing the loss of the particular affiliate from an active business for the year because of clause 95(2)(*a*)(ii)(B) of the Act that are derived from amounts paid or payable, directly or indirectly,

to it or to another partnership of which it is a member by the particular partnership, to the extent that, if the particular partnership were a foreign affiliate of a corporation and were resident in the country in which the other foreign affiliate is resident and subject to income taxation, the amounts paid or payable by the particular partnership would be deductible in computing its exempt earnings or exempt loss for the year or for a subsequent taxation year,

(G) if the particular affiliate is a qualifying member of a particular partnership at any time in a fiscal period of the particular partnership that ends in the year, amounts required to be included in computing the loss of the particular affiliate from an active business for the year because of clause 95(2)(*a*)(ii)(C) of the Act that are derived from amounts paid or payable, directly or indirectly, to it or to another partnership of which it is a member by the particular partnership, to the extent that, if the particular partnership were a foreign affiliate of a corporation and were resident in the country in which the particular affiliate is resident and subject to income taxation, the amounts paid or payable by the particular partnership would be deductible in computing its exempt earnings or exempt loss for the year or for a subsequent taxation year,

(H) amounts required to be included in computing the loss of the particular affiliate from an active business for the year because of clause 95(2)(*a*)(ii)(D) of the Act that are derived from amounts paid or payable, directly or indirectly, to it or to a partnership of which it is a member by another foreign affiliate (in this clause referred to as the "second affiliate") of the particular corporation to which the particular affiliate and the particular corporation are related throughout the year, to the extent that the amounts paid or payable, in respect of a particular period in the year, are on account of interest on borrowed money used for the purpose of earning income from property or interest on an amount payable for property, if

(I) the property is, throughout the particular period, excluded property of the second affiliate that is shares of a corporation (in this clause referred to as the "third affiliate") and the third affiliate is, throughout the particular period, a foreign affiliate (other than the particular foreign affiliate) of the particular corporation in respect of which the particular corporation has a qualifying interest or to which the taxpayer is related, and

(II) the second affiliate and the third affiliate are resident in the same designated treaty country for each of their taxation years (each of which is referred to in this subclause as a "relevant taxation year") that end in the year and, in respect of each of the second affiliate and the third affiliate for each relevant taxation year of that affiliate, either

1. the affiliate is subject to income taxation in that country in the relevant taxation year, or

2. the members or shareholders of the affiliate at the end of the relevant taxation year are subject to income taxation in that country on, in aggregate, all or substantially all of the income of the affiliate for the relevant taxation year in their taxation years in which that relevant taxation year ends or would be so subject to income taxation in that country if the affiliate had income for the relevant taxation year and the income of those members or shareholders for their taxation years in which the relevant taxation year ends consisted only of their share of income of the affiliate for the relevant taxation year

where, for the purpose of this clause,

(III) "excluded property" has the meaning assigned to that expression for the purpose of clause (*d*)(ii)(H) of the definition "exempt earnings", and

(IV) the particular corporation has a qualifying interest in respect of another corporation if the particular corporation has, because of paragraph 95(2)(*m*) or (*m*.1) of the Act, a qualifying interest in respect of that other corporation for the purpose of subdivision i of Division B of Part I of the Act,

(I) if the particular corporation is a life insurance corporation resident in Canada (in this clause referred to as the "insurer"), a corporation controlled by the insurer or a corporation that controls the insurer and the particular affiliate is a foreign affiliate in respect of which the particular corporation has a qualifying interest throughout the year, amounts required to be included in computing the particular affiliate's loss from an active business for the year because of clause 95(2)(*a*)(ii)(E) of the Act that are derived from amounts paid or payable, directly or indirectly, to it or to a partnership of which it is a member by the insurer in the course of carrying on its life insurance business outside Canada, to the extent that, if the insurer were a foreign affiliate of another corporation resident in Canada and were resident in the country in which the insurer carried on its life insurance business outside Canada, the amounts paid or payable by the insurer would be deductible in computing its exempt earnings or exempt loss for the year or for a subsequent taxation year,

(J) amounts required to be included in computing the particular affiliate's loss from an active business for the year because of subparagraph 95(2)(*a*)(iii) of the Act that are derived from the factoring of trade accounts receivable acquired by the particular affiliate, or by a partnership of which the particular affiliate was a member, from a non-resident corporation to which the particular affiliate and the particular corporation are related throughout the year, to the extent that the trade accounts receivable arose in the course of an active business carried on by the non-resident corporation any income from which would be included in computing the exempt earnings of the non-resident corporation if it were a foreign affiliate of a corporation,

(K) amounts required to be included in computing the particular affiliate's loss from an active business for the year because of subparagraph 95(2)(*a*)(iv) of the Act that are derived from loans or lending assets acquired by the particular affiliate, or by a partnership of which the particular affiliate was a member, from a non-resident corporation to which the particular affiliate and the particular corporation are related throughout the year, to the extent that the loans or lending assets arose in the course of an active business carried on by the non-resident corporation any income from which would be included in the exempt earnings of the non-resident corporation if it were a foreign affiliate of a corporation,

(L) amounts that would be required, because of subparagraph 95(2)(*a*)(v) of the Act, to be included in computing the particular affiliate's loss for the year from an active business if that subparagraph were read as follows:

"(v) the income or loss is derived from the disposition of excluded property that is not capital property if

(A) that property is used or held by the particular foreign affiliate for the purpose of gaining or producing income from property that would, because of this paragraph, be included in computing the particular foreign affiliate's income from an active business if this

paragraph were read without reference to this subparagraph, and

(B) that income or loss is derived, directly or indirectly, from amounts paid or payable to the particular foreign affiliate by another foreign affiliate of the taxpayer, or by a non-resident corporation related to the particular foreign affiliate and to the taxpayer, that is in respect of an active business carried on in a designated treaty country (as defined for the purpose of Part LIX of the Regulations), or",

(M) amounts that would be required, because of subparagraph 95(2)(*a*)(vi) of the Act, to be included in computing the particular affiliate's loss for the year from an active business if that subparagraph were read as follows:

"(vi) the income or loss is derived by the particular foreign affiliate under or as a result of an agreement that provides for the purchase, sale or exchange of currency and that can reasonably be considered to have been made by the particular foreign affiliate to reduce its risk, of fluctuations in the value of the denominated currency, with respect to

(A) income or loss from property that

(I) would, because of this paragraph, be included in computing the particular foreign affiliate's income or loss from an active business if this paragraph were read without reference to this subparagraph, and

(II) is derived, directly or indirectly, from amounts paid or payable to the particular foreign affiliate by another foreign affiliate of the taxpayer, or by a non-resident corporation related to the particular foreign affiliate and to the taxpayer, that is in respect of an active business carried on in a designated treaty country (as defined for the purpose of Part LIX of the Regulations), or

(B) excluded property the income or loss from which would, if there were income or a loss, be described in clause (A);", or

Applicable: To taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002. Clause (*c*)(ii)(H) of the definition "exempt loss" applies to taxation years of a foreign affiliate of a taxpayer, to which subclauses 95(2)(*a*)(ii)(D)(III) to (V) of the *Income Tax Act*, as proposed in the draft legislation released on February 27, 2004 apply.

Where the taxpayer has not made a valid election to have subclauses 95(2)(*a*)(ii)(D)(III) to (V) of the Act apply to taxation years, of all foreign affilliates of the taxpayer, that begin after 1994, subclause (*c*)(ii)(H)(I) of the definition exempt loss in subsection 5907(1) of the Regulations is to be read as follows:

"(I) the property is shares of a foreign affiliate (in this clause referred to as the third affiliate) of the particular corporation in respect of which the particular corporation has a qualifying interest and those shares are excluded property, and;"

If a taxpayer elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing duedate for the taxpayer's taxation year that includes the day on which the Act containing the amendments to section 95 that were released on February 27, 2004 is assented to (the "Global Section 95 Election" reproduced at the beginning of section 5907 of the Regulations), this amendment to paragraph (*c*) of the definition "exempt loss" before applies to taxation years of all foreign affiliates of the taxpayer, that begin after 1994, except that

(*d*) clause (*c*)(ii)(D) of the definition "exempt loss" in subsection 5907(1) of the Regulations is, for the taxation years, of all foreign affiliates of the taxpayer, that end before 2000, to be read as follows:

"(D) if a non-resident corporation to which the particular affiliate and the particular corporation are related throughout the year is a member of a particular partnership (other than where the non-resident corporation would be a specified member of the particular partnership at any time in a fiscal period of the particular partnership that ends in the year if the definition "specified member" of a partnership in subsection 248(1) of the Act were read without reference to paragraph (*a*) of that definition), amounts required to be included in computing the loss of the particular affiliate from an active business for the year because of clause 95(2)(*a*)(ii)(A) of the Act that are derived from amounts paid or payable, directly or indirectly, to it or to another partnership of which it is a member by the particular partnership to the extent that, if the particular partnership were a foreign affiliate of a corporation and were resident in the country in which the non-resident corporation is resident and subject to income taxation, the amounts paid or payable by the particular partnership would be deductible in computing its exempt earnings or exempt loss for the year or for a subsequent taxation year,", and

(*e*) clauses (*c*)(ii)(F) and (G) of the definition "exempt loss" in subsection 5907(1) of the Regulations is, for the taxation years, of all foreign affiliates of the taxpayer, that end before 2000, to be read as follows:

"(F) if another foreign affiliate of the particular corporation in respect of which the particular corporation has a qualifying interest throughout the year is a member of a particular partnership (other than where the other foreign affiliate would be a specified member of the particular partnership at any time in a fiscal period of the particular partnership that ends in the year if the definition "specified member" of a partnership in subsection 248(1) of the Act were read without reference to paragraph (*a*) of that definition), amounts required to be included in computing the loss of the particular affiliate from an active business for the year because of clause 95(2)(*a*)(ii)(B) of the Act that are derived from amounts paid or payable, directly or indirectly, to it or to another partnership of which it is a member by the particular partnership, to the extent that, if the particular partnership were a foreign affiliate of a corporation and were resident in the country in which the other foreign affiliate is resident and subject to income taxation, the amounts paid or payable by the particular partnership would be deductible in computing its exempt earnings or exempt loss for the year or for a subsequent taxation year,

(G) if the particular affiliate is a member of a particular partnership (other than where the particular affiliate would be a specified member of the particular partnership at any time in a fiscal period of the particular partnership that ends in the year if the definition "specified member" of a partnership in subsection 248(1) of the Act were read without reference to paragraph (*a*) of that definition), amounts required to be included in computing the loss of the particular affiliate from an active business for the year because of clause 95(2)(*a*)(ii)(C) of the Act that are derived from amounts paid or payable, directly or indirectly, to it or to another partnership of which it is a member by the particular partnership, to the extent that, if the particular partnership were a foreign affiliate of a corporation and were resident in the country in which the particular affiliate is resident and subject to income taxation, the amounts paid or payable by the particular partnership would be deductible in computing its exempt earnings or exempt loss for the year or for a subsequent taxation year,".

Explanatory Note: "exempt loss"

The definition "exempt loss" of a foreign affiliate of a corporation for a taxation year in subsection 5907(1) of the Regulations is relevant for the purposes of computing the surpluses and deficits of the affiliate.

The definition "exempt loss" in subsection 5907(1) is proposed to be amended in the following ways.

First, consequential to the proposed amendments to paragraph (*c*) of that definition, the "preamble" of that definition is proposed to be amended to refer to the foreign affiliate as the "particular" foreign affiliate.

Second, amendments are proposed to be made to paragraph (*c*) of the definition "exempt loss" in subsection 5907(1). Under existing paragraph (*c*) of the definition, where a particular foreign affiliate of a particular corporation is resident in a designated treaty country, the affiliate's losses for a year from an active business carried on by it in Canada or in a designated treaty country are included in computing its "exempt loss" for the year. Consequential to the amendments made to paragraph 95(2)(*a*) of the Act, paragraph (*c*) of the definition is proposed to

be amended to ensure that losses from sources in a country, other than Canada, that would otherwise be property losses but are re-characterized by paragraph 95(2)(*a*) to be losses from an active business, are included in computing the "exempt loss" of the affiliate. The provisions to deal with these re-characterized losses are set out in new subparagraph (*c*)(ii) of the definition "exempt loss" and are modelled after the analogous provisions in proposed amended subparagraph (*d*)(ii) of the definition "exempt income" in subsection 5907(1) of the Regulations.

Third, a "postamble" to the definition "exempt loss" in subsection 5907(1) is proposed to be added to ensure that the amount that would otherwise be the "exempt loss" of a foreign affiliate of a particular corporation is reduced by the portion of any income or profits tax refunded by the government of a country for the year to the affiliate that can reasonably be regarded as tax refunded in respect of losses referred to in new subparagraph (*c*)(ii) of the definition "exempt loss" in subsection 5907(1).

The amendments to the definition "exempt loss" in subsection 5907(1) apply to taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002. Note that these amendments are included in the Global Section 95 Election package described at the beginning of [Regulation 5907], and that, in the event of a Global Section 95 Election, in its application to taxation years, of a foreign affiliate of a taxpayer, that end before 2000, the Member Criteria Condition will, instead of containing the Qualifying Member Requirement, contain the requirement that the partnership have a relevant person as a member of the partnership (otherwise than as a specified member of the partnership).

The expression "specified member" is defined in existing subsection 248(1) of the Act. For more detail, see the commentary to the definition "exempt earnings" in subsection 5907(1) of the Regulations.

(*d*) where the year is the 1976 or any subsequent taxation year of the affiliate, each amount that is included in the affiliate's exempt loss for the year because of subsection (10);

Pending Amendment

Foreign Affiliates — February 27, 2004

The definition "exempt loss" in subsection 5907(1) of the English version of the Regulations is amended by replacing the semi-colon at the end of paragraph (*d*) with a comma and adding the following after paragraph (*d*):

minus the portion of any income or profits tax refunded by the government of a country for the year to the affiliate that can reasonably be regarded as tax refunded in respect of amounts of losses referred to in subparagraph (*c*)(ii);

Applicable: To taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002. If a taxpayer elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing due-date for the taxpayer's taxation year that includes the day on which the Act containing the amendments to section 95 that were released on February 27, 2004 is assented to (the "Global Section 95 Election" reproduced at the beginning of section 5907 of the Regulations), this amendment to the portion of the definition "exempt loss" after paragraph (*d*) applies to taxation years of all foreign affiliates of the taxpayer, that begin after 1994.

Explanatory Note: See the Explanatory Note following the amendments to paragraph (*c*) of the definition "exempt loss" in subsection 5907(1) of the Regulations.

Editorial Note: See the Department of Finance comfort letters under the definition of "exempt earnings" in subsection 5907(1) concerning recommended revisions to the proposed amendments to the definitions of "exempt earnings" and "exempt loss".

"*exempt surplus*" of a foreign affiliate (in this definition referred to as the "subject affiliate") of a corporation in respect of the corporation is, at any particular time, the amount determined by the formula

A – B

in respect of the period beginning with the time that is the latest of

(*a*) the first day of the taxation year of the subject affiliate in which it last became a foreign affiliate of the corporation,

(*b*) where the corporation is an acquiring corporation referred to in subsection 5905(5) and the subject affiliate is a particular affiliate referred to in that subsection or another foreign affiliate in which such a particular affiliate had an equity percentage at the time referred to in that subsection, the last time at which that subsection was applicable in respect of the subject affiliate, and

(*c*) where the subject affiliate is a foreign affiliate referred to in subsection 5905(1), (2), (8) or (9) or paragraph 5905(3)(*b*), the last time at which any of those subsections or that paragraph was applicable in respect of the subject affiliate

and ending with the particular time, where

A is the total of all amounts, in respect of the period, each of which is

(i) the opening exempt surplus of the subject affiliate as determined under subsection 5905(1), (2), (3), (5), (8) or (9), at the time established in paragraph (*a*), (*b*) or (*c*),

(ii) the exempt earnings of the subject affiliate for any of its taxation years ending in the period,

(iii) the portion of any dividend received in the period and before the particular time by the subject affiliate from another foreign affiliate of the corporation (including, for greater certainty, any dividend deemed by subsection 5905(7) to have been received by the subject affiliate) that was prescribed by paragraph 5900(1)(*a*) to have been paid out of the payer affiliate's exempt surplus in respect of the corporation,

Pending Amendment

Foreign Affiliates — February 27, 2004

Subsection 5907(1) of the Regulations is amended by replacing, with any grammatical changes that the circumstances require, in each of the following subparagraphs the reference to "subsection 5905(7)" with a reference to "subsections 5905(7) to (7.4)": subparagraph (iii) of the description of A in the definition "exempt surplus";

(iii) the portion of any dividend received in the period and before the particular time by the subject affiliate from another foreign affiliate of the corporation (including, for greater certainty, any dividend deemed by subsections 5905(7) to (7.4) to have been received by the subject affiliate) that was prescribed by paragraph 5900(1)(*a*) to have been paid out of the

payer affiliate's exempt surplus in respect of the corporation,

Applicable: To dissolutions that occur after December 20, 2002.

Explanatory Note: The Regulations are proposed to be amended by replacing, with any grammatical changes that the circumstances require, every reference to "subsection 5905(7)" with a reference to "subsections 5905(7) to (7.4)" in the following subparagraphs of the description of A in the following definitions in subsection 5907(1) of the Regulations:

- subparagraph (iii) of the description of A in the definition "exempt surplus";
- subparagraph (iii) of the description of A in the definition "taxable surplus"; and
- subparagraph (iv) of the description of A in the definition "underlying foreign tax".

This amendment to the Regulations is to be effected by way of a global provision in the amending Regulation rather than by having the amending Regulation amend, provision by provision, each specific provision in the Regulations where a reference to subsection 5905(7) appears. This amendment to the Regulations is consequential to the division of subsection 5905(7) of the Regulations into subsections 5905(7) to (7.4). For more detail, refer to the commentary to subsections 5905(7), (7.1) and (7.2) to (7.4).

(iv) the portion of any income or profits tax refunded by or the amount of a tax credit paid by the government of a country to the subject affiliate that can reasonably be regarded an having been refunded or paid in respect of any amount referred to in subparagraph (iii) and that was not deducted in determining any amount referred to in subparagraph (iii) of the description of B,

(v) the portion of any taxable dividend received in the period and before the particular time by the subject affiliate that would, if the dividend were received by the corporation, be deductible by it under section 112 of the Act,

(vi) an amount added to the exempt surplus of the subject affiliate or deducted from its exempt deficit in the period and before the particular time under any provision of subsection (1.1) or (1.2), or

(vii) an amount added, in the period and before the particular time, to the exempt surplus of the subject affiliate under paragraph (7.1)(*d*), and

Pending Amendment

Foreign Affiliates — February 27, 2004

The description of A in the formula in the definition "exempt surplus" in subsection 5907(1) of the Regulations is amended by striking out the word "or" at the end of subparagraph (vi), by replacing the word "and" at the end of subparagraph (vii) with the word "or", and by adding the following after subparagraph (vii):

(viii) an amount that is determined under subparagraph 5905(2)(*a*)(iv), (4)(*a*)(iv), (6)(*a*)(iv) or (8)(*a*)(iv) in the period and before the particular time, and

Applicable: To taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002.

Explanatory Note: The definition "exempt surplus" of a foreign affiliate of a taxpayer resident in Canada for a taxation year in subsection 5907(1) of the Regulations is amended to include each amount determined under subparagraph 5905(2)(*a*)(iv), (4)(*a*)(iv), (6)(*a*)(iv) or (8)(*a*)(iv) in the period and before the particular time in the description of A of the definition.

B is the total of those of the following amounts that apply in respect of the period:

(i) the opening exempt deficit of the subject affiliate as determined under subsection 5905(1), (2), (3), (5), (8) or (9), at the time established in paragraph (*a*), (*b*) or (*c*),

(ii) the exempt loss of the subject affiliate for any of its taxation years ending in the period,

(iii) the portion of any income or profits tax paid to the government of a country by the subject affiliate that can reasonably be regarded as having been paid in respect of any amount referred to in subparagraph (iii), (iv) or (v) of the description of A,

(iv) the portion of any whole dividend paid by the subject affiliate in the period and before the particular time deemed by paragraph 5901(1)(*a*) to have been paid out of the subject affiliate's exempt surplus in respect of the corporation,

(v) each amount that is determined under paragraph 5902(4)(*a*) or subparagraph 5905(2)(*a*)(i), (6)(*a*)(i) or (8)(*a*)(i) in the period and before the particular time, or

Pending Amendment

Foreign Affiliates — February 27, 2004

Subparagraph (v) in the description of B in the definition "exempt surplus" in subsection 5907(1) of the Regulations is replaced by the following:

(v) each amount that is determined under subparagraph 5905(2)(*a*)(i), (4)(*a*)(i), (6)(*a*)(i) or (8)(*a*)(i) in the period and before the particular time, or

Applicable: To taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002.

Explanatory Note: The definition "exempt surplus" of a foreign affiliate of a taxpayer resident in Canada for a taxation year in subsection 5907(1) of the Regulations is amended to include each amount determined under subparagraph 5905(2)(*a*)(i), (4)(*a*)(i), (6)(*a*)(i) or (8)(*a*)(i) in the period and before the particular time, in the description of B of the definition.

(vi) an amount, in the period and before the particular time, deducted from the exempt surplus of the subject affiliate or added to its exempt deficit under any provision of subsection (1.1) or (1.2);

"*loss*" of a foreign affiliate of a taxpayer resident in Canada for a taxation year of the affiliate from an active business carried on by it in a country is the amount of its loss for the year from that active business carried on in that country computed by applying the provisions of paragraph (*a*) of the definition "earnings" in this subsection respecting the computation of earnings from that active business carried on in that country, with any modifications that the circumstances require;

Pending Amendment

Foreign Affiliates — February 27, 2004

The definition "loss" in subsection 5907(1) of the Regulations is replaced by the following:

"*loss*", of a foreign affiliate of a taxpayer resident in Canada for a taxation year of the affiliate from an active business, means

(*a*) in the case of an active business carried on by it in a country, the amount of its loss for the year from the active business carried on in the country computed by applying the provisions of paragraph (*a*) of the definition "earnings" in this subsection respecting the computation of earnings from that active business carried on in that country, with any modifications that the circumstances require, and

(*b*) in any other case, the total of the amounts required by paragraph 95(2)(*a*) of the Act to be included in computing the affiliate's loss from an active business for the year;

Applicable: To taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002. If a taxpayer elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing due-date for the taxpayer's taxation year that includes the day on which the Act containing the amendments to section 95 that were released on February 27, 2004 is assented to (the "Global Section 95 Election" reproduced at the beginning of section 5907 of the Regulations), this amendment to the definition of "loss" applies to taxation years of all foreign affiliates of the taxpayer, that begin after 1994.

Explanatory Note: "loss"

The definition "loss" of a foreign affiliate of a taxpayer resident in Canada for a taxation year in subsection 5907(1) of the Regulations is relevant for the purposes of computing the surpluses and deficits of the foreign affiliate.

Consequential to the amendments to paragraph 95(2)(*a*) of the Act, the definition "loss" in subsection 5907(1) of the Regulations is proposed to be amended to add new paragraph (*b*) to ensure that losses from sources in a country other than Canada, that would otherwise be property losses but are re-characterized by paragraph 95(2)(*a*) of the Act to be losses from an active business, are included in computing the "loss" of the affiliate.

The amendment to the definition "loss" in subsection 5907(1) is proposed to apply to taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002. Note that these amendments are included in the Global Section 95 Election package described at the beginning of [Regulation 5907].

"*net earnings*" of a foreign affiliate of a corporation for a taxation year of the affiliate

(*a*) from an active business carried on by it in a country is the amount of its earnings for the year from that active business carried on in that country minus the portion of any income or profits tax paid to the government of a country for the year by the affiliate that can reasonably be regarded as tax in respect of those earnings,

(*b*) in respect of foreign accrual property income is the amount that would be its foreign accrual property income for the year, if the formula in the definition "foreign accrual property income" in subsection 95(1) of the Act were read without reference to the variable F in that formula, minus the portion of any income or profits tax paid to the government of a country for the year by the affiliate that can reasonably be regarded as tax in respect of that income,

(*c*) from dispositions of property used or held by it principally for the purpose of gaining or producing income from an active business carried on by it in a country that is not a designated treaty country (other than Canada) is the amount, if any, by which

(i) the portion of the affiliate's taxable capital gains for the year from those dispositions that can reasonably be considered to have accrued after November 12, 1981

exceeds

(ii) the portion of any income or profits tax paid to the government of a country for the year by the affiliate that can reasonably be regarded as tax in respect of the amount determined under subparagraph (i), and

(*d*) from dispositions of

(i) shares of the capital stock of another foreign affiliate of the corporation that were excluded property of the affiliate (other than dispositions to which paragraph 95(2)(*c*), (*d*) or (*e*) of the Act was applicable), or

(ii) partnership interests that were excluded property of the affiliate

is the amount, if any, by which

(iii) the portion of the affiliate's taxable capital gains for the year from those dispositions that can reasonably be considered to have accrued after its 1975 taxation year

exceeds

(iv) the portion of any income or profits tax paid to the government of a country for the year by the affiliate that can reasonably be regarded as tax in respect of the amount determined under subparagraph (iii);

Pending Amendment

Foreign Affiliates — February 27, 2004

Paragraph (*d*) of the definition "net earnings" in subsection 5907(1) of the Regulations is replaced by the following:

(*d*) from dispositions of

(i) shares of the capital stock of another foreign affiliate of the corporation that were excluded property of the affiliate (other than dispositions to which any of subsection 88(3) or paragraphs 95(2)(*c*), (*c*.2), (*d*), (*d*.1), (*e*), (*e*.1), (*e*.3) to (*e*.5) and (*f*.4) of the Act applied), or

(ii) partnership interests that were excluded property of the affiliate

is the amount, if any, by which

(iii) the portion of the affiliate's taxable capital gains for the year from those dispositions that can reasonably be considered to have accrued after its 1975 taxation year

exceeds

(iv) the portion of any income or profits tax paid to the government of a country for the year by the affiliate that can reasonably be regarded as tax in respect of the amount determined under subparagraph (iii);

Applicable: To taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002. If a taxpayer elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing due-date for the taxpayer's taxation year that includes the day on which the Act containing the amendments to section 95 that were released on February 27, 2004 is assented to (the "Global Section 95 Election" reproduced at the beginning of section 5907 of the Regulations), this amendment to paragraph (*d*)

of the definition of "net earnings" applies to taxation years of all foreign affiliates of the taxpayer, that begin after 1994.

Explanatory Note: "net earnings"

The definition "net earnings" of a foreign affiliate of a taxpayer resident in Canada for a taxation year in subsection 5907(1) of the Regulations is relevant for the purposes of computing the surpluses and deficits of the foreign affiliate.

It is proposed to amend paragraph (*d*) of the definition "net earnings". The amendment is to subparagraph (*d*)(i) and is consequential to the amendments to the definition "foreign accrual property" income in subsection 95(1) of the Act. Those amendments to the definition "foreign accrual property income" ensure that capital gains and losses from dispositions of "excluded property" to which subsection 88(3) of the Act applies are included in computing foreign accrual property income. This amendment to the definition "net earnings" ensures that, in computing net earnings, those capital gains are not double-counted.

The proposed amendment to the definition "net earnings" in subsection 5907(1) of the Regulations applies to taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002. Note that this amendment is included in the Global Section 95 Election package described at the beginning of [Regulation 5907].

"*net loss*" of a foreign affiliate of a corporation for a taxation year of the affiliate

(*a*) from an active business carried on by it in a country is the amount of its loss for the year from that active business carried on in that country minus the portion of any income or profits tax refunded by the government of a country for the year to the affiliate that can reasonably be regarded as tax refunded in respect of that loss,

(*b*) in respect of foreign accrual property income is the amount, if any, by which

(i) the amount, if any, by which

(A) the total of the amounts determined under the descriptions of D, E and G in the definition "foreign accrual property income" in subsection 95(1) of the Act for the year

exceeds

(B) the total of the amounts determined under the descriptions of A, A.1, A.2, B and C in the definition "foreign accrual property income" in subsection 95(1) of the Act for the year

exceeds

(ii) the portion of any income or profits tax refunded by the government of country for the year to the affiliate that can reasonably be regarded as tax refunded in respect of the amount determined under subparagraph (i),

(*c*) from dispositions of property used or held by it principally for the purpose of gaining or producing income from an active business carried on by it in a country that is not a designated treaty country (other than Canada) is the amount, if any, by which

(i) the portion of the affiliate's allowable capital losses for the year from those dispositions that can reasonably be considered to have accrued after November 12, 1981

exceeds

(ii) the portion of any income or profits tax refunded by the government of a country for the year to the affiliate that can reasonably be regarded as tax refunded in respect of the amount determined under subparagraph (i), and

(*d*) from dispositions of

(i) shares of the capital stock of another foreign affiliate of the corporation that were excluded property of the affiliate (other than dispositions to which paragraph 95(2)(*c*), (*d*) or (*e*) of the Act was applicable), or

(ii) partnership interests that were excluded property of the affiliate

is the amount, if any, by which

(iii) the portion of the affiliate's allowable capital losses for the year from those dispositions that can reasonably be considered to have accrued after its 1975 taxation year

exceeds

(iv) the portion of any income or profits tax refunded by the government of a country for the year to the affiliate that can reasonably be regarded as tax refunded in respect of the amount determined under subparagraph (iii);

Pending Amendment

Foreign Affiliates — February 27, 2004

Paragraph (*d*) of the definition "net loss" in subsection 5907(1) of the Regulations is replaced by the following:

(*d*) from dispositions of

(i) shares of the capital stock of another foreign affiliate of the corporation that were excluded property of the affiliate, or

(ii) partnership interests that were excluded property of the affiliate

is the amount, if any, by which

(iii) the portion of the affiliate's allowable capital losses for the year from those dispositions that can reasonably be considered to have accrued after its 1975 taxation year

exceeds

(iv) the portion of any income or profits tax refunded by the government of a country for the year to the affiliate that can reasonably be regarded as tax refunded in respect of the amount determined under subparagraph (iii);

Applicable: To taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002. If a taxpayer elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing due-date for the taxpayer's taxation year that includes the day on which the Act containing the amendments to section 95 that were released on February 27, 2004 is assented to (the "Global Section 95 Election" reproduced at the beginning of section 5907 of the Regulations), this amendment to paragraph (*d*) of the definition of "net loss" applies to taxation years of all foreign affiliates of the taxpayer, that begin after 1994.

Explanatory Note: "net loss"

The definition "net loss" of a foreign affiliate of a taxpayer resident in Canada for a taxation year in subsection 5907(1) of the Regulations is relevant for the purposes of computing the surpluses and deficits of the foreign affiliate.

It is proposed to amend paragraph (*d*) of the definition "net loss". The amendment is to subparagraph (*d*)(i) of the definition "net loss". The amendment removes the reference to the words in parentheses that were previously contained in that subparagraph. They were not necessary and caused confusion.

The proposed amendment to the definition "net loss" in subsection 5907(1) of the Regulations applies to taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002. Note that this amendment is included in the Global Sec-

tion 95 Election package described at the beginning of [Regulation 5907].

"*net surplus*" of foreign affiliate of a corporation resident in Canada in respect of the corporation is, at any particular time,

(*a*) if the affiliate has no exempt deficit and no taxable deficit, the amount that is the total of its exempt surplus and taxable surplus in respect of the corporation,

(*b*) if the affiliate has no taxable surplus, the amount, if any, by which its exempt surplus exceeds its taxable deficit in respect of the corporation, or

(*c*) if the affiliate has no exempt surplus, the amount, if any, by which its taxable surplus exceeds its exempt deficit in respect of the corporation,

as the case may be, at that time;

"*taxable deficit*" of a foreign affiliate of a corporation in respect of the corporation at any time is the amount, if any, by which

(*a*) the total of all amounts each of which is an amount determined at that time under any of subparagraphs (i) to (vi) of the description of B in the definition "taxable surplus" in this subsection

exceeds

(*b*) the total of all amounts each of which is an amount determined at that time under any of subparagraphs (i) to (v) of the description of A in that definition;

Pending Amendment

Foreign Affiliates — February 27, 2004

Paragraph (*b*) of the definition "taxable deficit" in subsection 5907(1) of the Regulations is replaced by the following:

(*b*) the total of all amounts each of which is an amount determined at that time under any of subparagraphs (i) to (vi) of the description of A in that definition;

Applicable: To taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002. If a taxpayer elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing due-date for the taxpayer's taxation year that includes the day on which the Act containing the amendments to section 95 that were released on February 27, 2004 is assented to (the "Global Section 95 Election" reproduced at the beginning of section 5907 of the Regulations), this amendment to paragraph (*b*) of the definition of "taxable deficit" applies to taxation years of all foreign affiliates of the taxpayer, that begin after 1994.

Explanatory Note: "taxable deficit"

The definition "taxable deficit" of a foreign affiliate of a taxpayer resident in Canada for a taxation year in subsection 5907(1) of the Regulations is relevant for the purposes of computing the surpluses of the foreign affiliate.

The amendment to the definition "taxable deficit" of a foreign affiliate of a taxpayer resident in Canada for a taxation year in subsection 5907(1) of the Regulations is to insert a reference to new subparagraph (vi) of the description of A in the definition "taxable surplus" in subsection 5907(1) of the Regulations.

The proposed amendment to the definition "taxable deficit" in subsection 5907(1) of the Regulations applies to taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002. Note that this amendment is included in the Global Section 95 Election package described at the beginning of [Regulation 5907].

"*taxable earnings*" of a foreign affiliate of a corporation for a taxation year of the affiliate is

(*a*) where the year is the 1975 or any preceding taxation year of the affiliate, nil, and

(*b*) in any other case, the total of all amounts each of which is

(i) the affiliate's net earnings for the year from an active business carried on by it in a country,

(ii) the affiliate's net earnings for the year in respect of its foreign accrual property income,

(iii) to the extent that they have not been included under subparagraph (i) or deducted in determining an amount included under subparagraph (b)(i) of the definition "taxable loss" in this subsection, the earnings for the year as determined under paragraph (b) of the definition "earnings" in this subsection minus the portion of any income or profit tax paid to the government of a country for the year by the affiliate that can reasonably be regarded as tax in respect of those earnings,

(iv) the affiliate's net earnings for the year from dispositions of property used or held by it principally for the purpose of gaining or producing income from an active business carried on by it in a country that is not a designated treaty country (other than Canada), or

(v) the affiliate's net earnings for the year from dispositions of shares of the capital stock of another foreign affiliate of the corporation that were excluded property of the affiliate (other than dispositions to which paragraph 95(2)(*c*), (*d*) or (*e*) of the Act was applicable) or dispositions of partnership interests that were excluded property of the affiliate,

Pending Amendment

Foreign Affiliates — February 27, 2004

Subparagraph (*b*)(v) of the definition "taxable earnings" in subsection 5907(1) of the Regulations is replaced by the following:

(v) the affiliate's net earnings for the year from dispositions of shares of the capital stock of another foreign affiliate of the corporation that were excluded property of the affiliate (other than dispositions to which any of subsection 88(3) or paragraphs 95(2)(*c*), (*c*.2), (*d*), (*d*.1), (*e*), (*e*.1), (*e*.3) to (*e*.5) and (*f*.4) of the Act applied) or dispositions of partnership interests that were excluded property of the affiliate,

Applicable: To taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002. [See also the definition of "net earnings" with respect to the application of the Global Section 95 Election.]

Explanatory Note: "taxable earnings"

The definition "taxable earnings" of a foreign affiliate of a taxpayer resident in Canada for a taxation year in subsection 5907(1) of the Regulations is relevant for the purposes of computing the surpluses of the foreign affiliate.

The proposed amendment of the definition "taxable earnings" in subsection 5907(1) of the Regulations is to subparagraph (*b*)(v) and is consequential to the amendments to the definition "foreign accrual property income" in subsection 95(1) of the Act. The amendments to the definition "foreign accrual property income" ensure that capital gains and losses from dispositions of excluded property to which subsection 88(3) of the Act applies are included in computing foreign

accrual property income. This amendment to the definition taxable earnings ensures that, in computing taxable earnings, those capital gains are not double-counted.

This amendment to the definition "taxable earnings" in subsection 5907(1) of the Regulations applies to taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002. Note that this amendment is included in the Global Section 95 Election package described at the beginning of [Regulation 5907].

but does not include any amount included in the affiliate's exempt earnings for the year;

"*taxable loss*" of foreign affiliate of a corporation for a taxation year of the affiliate is

(*a*) where the year is 1975 or any preceding taxation year of the affiliate, nil, and

(*b*) in any other case, the total of all amounts each of which is

(i) the affiliate's net loss for the year from an active business carried on by it in a country,

Pending Amendment

Foreign Affiliates — February 27, 2004

Paragraph (*b*) of the definition "taxable loss" in subsection 5907(1) of the Regulations is amended by adding the following after subparagraph (i):

(i.1) the affiliate's net loss for the year in respect of losses included in computing income from an active business because of subparagraphs 95(2)(*a*)(v) and (vi) of the Act,

Applicable: To taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002. If a taxpayer elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing due-date for the taxpayer's taxation year that includes the day on which the Act containing the amendments to section 95 that were released on February 27, 2004 is assented to (the "Global Section 95 Election" reproduced at the beginning of section 5907 of the Regulations), this amendment to paragraph (*b*) of the definition of "taxable loss" applies to taxation years of all foreign affiliates of the taxpayer, that begin after 1994.

Explanatory Note: "taxable loss"

The definition "taxable loss" of a foreign affiliate of a taxpayer resident in Canada for a taxation year in subsection 5907(1) of the Regulations is relevant for the purposes of computing the surpluses and deficits of the foreign affiliate.

As noted in the commentary to the proposed amendments to the definition "loss" in subsection 5907(1), a property loss recharacterized by paragraph 95(2)(*a*) of the Act as loss from an active business is described in new paragraph (*b*) of the definition "loss" and is included in computing "loss".

The amendment to the definition "taxable loss" in subsection 5907(1) of the Regulations proposes to add new subparagraph (*b*)(v). That subparagraph ensures that, to the extent that the loss for the year determined under paragraph (*b*) of the definition "loss" has not been included under existing subparagraph (*b*)(i) of the definition "taxable loss" or deducted in computing an amount under existing subparagraph (*b*)(i) of the definition "taxable earnings", that loss (minus the portion of any income or profits tax refunded by the government of a country for the year that can reasonably be regarded as tax refunded in respect of that loss) is to be included in computing "taxable loss" for the year. Note, also, that the existing "postamble" to the definition "taxable loss" ensures that "taxable loss" does not include any amount included in the affiliate's "exempt loss" for the year.

This proposed amendment to the definition "taxable loss" in subsection 5907(1) of the Regulations applies to taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002. Note that this amendment is included in the Global Section 95 Election package described at the beginning of [Regulation 5907].

(ii) the affiliate's net loss for the year in respect of foreign accrual property income,

(iii) the affiliate's net loss for the year from dispositions of property used or held by it principally for the purpose of gaining or producing income from an active business carried on by it in a country that is not a designated treaty county (other than Canada), or

(iv) the affiliate's net loss for the year from dispositions of shares of the capital stock of another foreign affiliate of the corporation that were excluded property of the affiliate (other than dispositions to which paragraph 95(2)(*c*), (*d*) or (*e*) of the Act was applicable) or dispositions of partnership interests that were excluded property of the affiliate,

Pending Amendment

Foreign Affiliates — February 27, 2004

Paragraph (*b*) of the definition "taxable loss" in subsection 5907(1) of the Regulations is amended by striking out the word "or" at the end of subparagraph (iii), and by replacing subparagraph (iv) with the following:

(iv) the affiliate's net loss for the year from the disposition of shares of the capital stock of another foreign affiliate of the corporation that were excluded property of the affiliate or from the disposition of partnership interests that were excluded property of the affiliate, or

(v) to the extent that they have not otherwise been included under subparagraph (i) or deducted in computing an amount under subparagraph (*b*)(i) of the definition "taxable earnings", the loss for the year as determined under paragraph (*b*) of the definition loss minus the portion of any income or profits tax refunded by the government of a country for the year that can reasonably be regarded as tax refunded in respect of that loss,

Applicable: To taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002. If a taxpayer elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing due-date for the taxpayer's taxation year that includes the day on which the Act containing the amendments to section 95 that were released on February 27, 2004 is assented to (the "Global Section 95 Election" reproduced at the beginning of section 5907 of the Regulations), this amendment to paragraph (*b*) of the definition of "taxable loss" applies to taxation years of all foreign affiliates of the taxpayer, that begin after 1994.

Explanatory Note: [See the Explanatory Note following the proposed subparagraph (*b*)(i.1) of the definition of "taxable loss".]

but does not include any amount included in the affiliate's exempt loss for the year;

"*taxable surplus*" of a foreign affiliate (in this definition referred to as the "subject affiliate") of a corporation in respect of the corporation is, at any particular time, the amount determined by the formula

A – B

in respect of the period beginning with the time that is the latest of

(*a*) the first day of the taxation year of the subject affiliate in which it last became a foreign affiliate of the corporation,

(*b*) where the corporation is an acquiring corporation referred to in subsection 5905(5) and the subject affiliate is a particular affiliate referred to in that subsection or another foreign affiliate in which such a particular affiliate had an equity percentage at the time referred to in that subsection, the last time at which that subsection was applicable in respect of the subject affiliate, and

(*c*) where the subject affiliate is a foreign affiliate referred to in subsection 5905(1), (2), (8) or (9) or paragraph 5905(3)(*b*), the last time at which any of those subsections or that paragraph was applicable in respect of the subject affiliate

and ending with the particular time, where

A is the total of all amounts, in respect of the period, each of which is

(i) the opening taxable surplus of the subject affiliate as determined under subsection 5905(1), (2), (3), (5), (8) or (9), at the time established in paragraph (*a*), (*b*) or (*c*),

(ii) the taxable earnings of the subject affiliate for any of its taxation years ending in the period,

(iii) the portion of any dividend received in the period and before the particular time by the subject affiliate from another foreign affiliate of the corporation (including, for greater certainty, any dividend deemed by subsection 5905(7) to have been received by the subject affiliate) that was prescribed by paragraph 5900(1)(*b*) to have been paid out of the payer affiliate's taxable surplus in respect of the corporation,

Pending Amendment

Foreign Affiliates — February 27, 2004

Subsection 5907(1) of the Regulations is amended by replacing, with any grammatical changes that the circumstances require, in each of the following subparagraphs the reference to "subsection 5905(7)" with a reference to "subsections 5905(7) to (7.4)": subparagraph (iii) of the description of A in the definition "taxable surplus";

(iii) the portion of any dividend received in the period and before the particular time by the subject affiliate from another foreign affiliate of the corporation (including, for greater certainty, any dividend deemed by subsections 5905(7) to (7.4) to have been received by the subject affiliate) that was prescribed by paragraph 5900(1)(*b*) to have been paid out of the payer affiliate's taxable surplus in respect of the corporation,

Applicable: To dissolutions that occur after December 20, 2002.

Explanatory Note: The Regulations are proposed to be amended by replacing, with any grammatical changes that the circumstances require, every reference to "subsection 5905(7)" with a reference to "subsections 5905(7) to (7.4)" in the following subparagraphs of the description of A in the following definitions in subsection 5907(1) of the Regulations:

- subparagraph (iii) of the description of A in the definition "exempt surplus";
- subparagraph (iii) of the description of A in the definition "taxable surplus"; and
- subparagraph (iv) of the description of A in the definition "underlying foreign tax".

This amendment to the Regulations is to be effected by way of a global provision in the amending Regulation rather than by having the amending Regulation amend, provision by provision, each specific provision in the Regulations where a reference to subsection 5905(7) appears. This amendment to the Regulations is consequential to the division of subsection 5905(7) of the Regulations into subsections 5905(7) to (7.4). For more detail, refer to the commentary to subsections 5905(7), (7.1) and (7.2) to (7.4).

(iv) an amount added to the taxable surplus of the subject affiliate or deducted from its taxable deficit in the period and before the particular time under any provision of subsection (1.1) or (1.2),

(v) an amount added, in the period and before the particular time, to the subject affiliate's taxable surplus under paragraph (7.1)(*e*), and

Pending Amendment

Foreign Affiliates — February 27, 2004

The description of A in the formula in the definition "taxable surplus" in subsection 5907(1) of the Regulations is amended by replacing the word "and" at the end of subparagraph (v) with the word "or" and by adding the following after subparagraph (v):

(vi) each amount that is determined under subparagraph 5905(2)(*a*)(v), (4)(*a*)(v), (6)(*a*)(v) or (8)(*a*)(v) in the period and before that particular time, and

Applicable: In respect of dispositions in respect of which an election was made in respect of the amendments to subsections 5902(1), (3) and (6), the repeal of subsection 5902(2) and the addition of subsection 5902(7) apply. See the application following the amendment to subsection 5902(1).

Explanatory Note: "taxable surplus"

The definition "taxable surplus" of a foreign affiliate of a taxpayer resident in Canada for a taxation year in subsection 5907(1) of the Regulations is relevant for the purposes of computing the surpluses and deficits of the foreign affiliate.

The definition "taxable surplus" of a foreign affiliate of a taxpayer resident in Canada for a taxation year in subsection 5907(1) of the Regulations is proposed to be amended in three ways.

Firstly, in the description of A in the definition of "taxable surplus" of a foreign affiliate of a taxpayer resident in Canada for a taxation year in subsection 5907(1), there is to be included a new subparagraph (vi) which will include in the description of A of the definition each amount determined under subparagraph 5905(2)(*a*)(v), (4)(*a*)(v), (6)(*a*)(v) or (8)(*a*)(v) in the period and before that particular time.

Secondly, in subparagraph (v) of the description of B in the definition "taxable surplus" of a foreign affiliate of a taxpayer resident in Canada for a taxation year in subsection 5907(1), the reference to paragraph 5902(4)(*b*) or subparagraph 5905(2)(*a*)(ii), (6)(*a*)(ii) or (8)(*a*)(ii) is replaced by a reference to subparagraph 5905(2)(*a*)(ii), (4)(*a*)(ii), (6)(*a*)(ii) or (8)(*a*)(ii).

For details on the third amendment, refer to the commentary to the definition "exempt surplus" in subsection 5907(1).

These proposed amendments to the definition "taxable surplus" in subsection 5907(1) of the Regulations apply in respect of dispositions in respect of an election in respect of which proposed new subsection 5902(1) applies.

B is the total of those of the following amounts that apply in respect of the period;

(i) the opening taxable deficit of the subject affiliate as determined under subsection 5905(1), (2), (3), (5), (8) or (9), at the time established in paragraph (*a*), (*b*) or (*c*),

(ii) the taxable loss of the subject affiliate for any of its taxation years ending in the period,

(iii) the portion of any income or profits tax paid to the government of a country by the subject affiliate that can reasonably be regarded as having been paid in respect of that portion of a dividend

referred to in subparagraph (iii) of the description of A,

(iv) the portion of any whole dividend paid by the subject affiliate in the period and before the particular time deemed by paragraph 5901(1)(*b*) to have been paid out of the subject affiliate's taxable surplus in respect of the corporation,

(v) each amount that is determined under paragraph 5902(4)(*b*) or subparagraph 5905(2)(*a*)(ii), (6)(*a*)(ii) or (8)(*a*)(ii) in the period and before the particular time, or

Pending Amendment

Foreign Affiliates — February 27, 2004

Subparagraph (v) of the description of B in the formula in the definition "taxable surplus" in subsection 5907(1) of the Regulations is replaced by the following:

(v) each amount that is determined under subparagraph 5905(2)(*a*)(ii), (4)(*a*)(ii), (6)(*a*)(ii) or (8)(*a*)(ii) in the period and before the particular time, or

Applicable: In respect of dispositions in respect of which an election was made in respect of the amendments to subsections 5902(1), (3) and (6), the repeal of subsection 5902(2) and the addition of subsection 5902(7) apply. See the application following the amendment to subsection 5902(1).

Explanatory Note: [See the Explanatory Note following subparagraph (vi) of the description of A in the definition "taxable surplus".]

(vi) an amount, in the period and before the particular time, deducted from the taxable surplus of the subject affiliate or added to its taxable deficit under any provision of subsection (1.1) or (1.2);

"*underlying foreign tax*" of a foreign affiliate (in this definition referred to as the "subject affiliate") of a corporation in respect of the corporation is, at any particular time, the amount, determined by the formula

A – B

in respect of the period beginning with the time that is the latest of

(*a*) the first day of the taxation year of the subject affiliate in which it last became a foreign affiliate of the corporation,

(*b*) where the corporation is an acquiring corporation referred to in subsection 5905(5) and the subject affiliate is a particular affiliate referred to in that subsection or another foreign affiliate in which such a particular affiliate had an equity percentage at the time referred to in that subsection, the last time at which that subsection was applicable in respect of the subject affiliate, and

(*c*) where the subject affiliate is a foreign affiliate referred to in subsection 5905(1), (2), (8) or (9) or paragraph 5905(3)(b), the last time at which any of those subsections or that paragraph was applicable in respect of the subject affiliate

and ending with the particular time, where

A is the total of all amounts, in respect of the period, each of which is

(i) the opening underlying foreign tax of the subject affiliate as determined under subsection 5905(1), (2), (3), (5), (8) or (9), at the time established in paragraph (*a*), (*b*) or (*c*),

(ii) the portion of any income or profits tax paid to the government of a country by the subject affiliate that can reasonably be regarded as having been paid in respect of the taxable earnings of the subject affiliate for a taxation year ending in the period,

(iii) the portion of any income or profits tax referred to in subparagraph (iii) of the description of B in the definition "taxable surplus" in this subsection paid by the subject affiliate in respect of a dividend received from any other foreign affiliate of the corporation,

(iv) each amount that was prescribed by paragraph 5900(1)(*d*) to have been the foreign tax applicable to the portion of any dividend received in the period and before the particular time by the subject affiliate from another foreign affiliate of the corporation (including, for greater certainty, any dividend deemed by subsection 5905(7) to have been received by the subject affiliate) that was prescribed by paragraph 5900(1)(*b*) to have been paid out of the payer affiliate's taxable surplus in respect of the corporation, or

Pending Amendment

Foreign Affiliates — February 27, 2004

Subsection 5907(1) of the Regulations is amended by replacing, with any grammatical changes that the circumstances require, in each of the following subparagraphs the reference to "subsection 5905(7)" with a reference to "subsections 5905(7) to (7.4)": subparagraph (iv) of the description of A in the definition "underlying foreign tax".

(iv) each amount that was prescribed by paragraph 5900(1)(*d*) to have been the foreign tax applicable to the portion of any dividend received in the period and before the particular time by the subject affiliate from another foreign affiliate of the corporation (including, for greater certainty, any dividend deemed by subsections 5905(7) to (7.4) to have been received by the subject affiliate) that was prescribed by paragraph 5900(1)(*b*) to have been paid out of the payer affiliate's taxable surplus in respect of the corporation, or

Applicable: To dissolutions that occur after December 20, 2002.

Explanatory Note: The Regulations are proposed to be amended by replacing, with any grammatical changes that the circumstances require, every reference to "subsection 5905(7)" with a reference to "subsections 5905(7) to (7.4)" in the following subparagraphs of the description of A in the following definitions in subsection 5907(1) of the Regulations:

- subparagraph (iii) of the description of A in the definition "exempt surplus";
- subparagraph (iii) of the description of A in the definition "taxable surplus"; and
- subparagraph (iv) of the description of A in the definition "underlying foreign tax".

This amendment to the Regulations is to be effected by way of a global provision in the amending Regulation rather than by having the amending Regulation amend, provision by provision, each specific provision in the Regulations where a reference to subsection 5905(7) appears. This amendment to the Regulations is consequential to the division of subsection 5905(7) of the Regulations into subsections 5905(7) to (7.4). For more detail, refer to the commentary to subsections 5905(7), (7.1) and (7.2) to (7.4).

(v) the amount by which the subject affiliate's underlying foreign tax is required to be increased by any provision of subsection (1.1) or (1.2),

B is the total of those of the following amounts that apply in respect of the period:

(i) the portion of any income or profits tax refunded by the government of a country to the subject affiliate that can reasonably be regarded as having been refunded in respect of the taxable loss of the subject affiliate for a taxation year ending in the period,

(ii) the underlying foreign tax applicable to any whole dividend paid by the subject affiliate in the period and before the particular time deemed by paragraph 5901(1)(*b*) to have been paid out of the subject affiliate's taxable surplus in respect of the corporation before that time,

(iii) each amount that is required by paragraph 5902(4)(*c*) or subparagraph 5905(2)(*a*)(iii), (6)(*a*)(iii) or (8)(*a*)(iii) to be deducted in the period and before the particular time in computing the subject affiliate's underlying foreign tax, or

Pending Amendment

Foreign Affiliates — February 27, 2004

Subparagraph (iii) in the description of B in the definition "underlying foreign tax" in subsection 5907(1) of the Regulations is replaced by the following:

(iii) each amount that is required by subparagraph 5905(2)(*a*)(iii), (4)(*a*)(iii), (6)(*a*)(iii) or (8)(*a*)(iii) to be deducted in the period and before the particular time in computing the subject affiliate's underlying foreign tax, or

Applicable: In respect of dispositions in respect of which an election was made in respect of the amendments to subsections 5902(1), (3) and (6), the repeal of subsection 5902(2) and the addition of subsection 5902(7) apply. See the application following the amendment to subsection 5902(1).

Explanatory Note: "underlying foreign tax"

The definition "underlying foreign tax" of a foreign affiliate of a corporation resident in Canada, in respect of a corporation, in subsection 5907(1) of the Regulations is relevant for the purposes of computing the surpluses and deficits of the foreign affiliate.

Subparagraph (iii) of the description of B of the definition "underlying foreign tax" has been amended to remove the reference to paragraph 5902(4)(*c*), and to add a reference to subparagraph 5905(4)(*a*)(iii).

This proposed amendment to the definition "underlying foreign tax" in subsection 5907(1) of the Regulations applies in respect of dispositions in respect of which an election was made in respect of which proposed new subsection 5902(1) applies.

(iv) the amount by which the subject affiliate's underlying foreign tax is required to be decreased in the period and before the particular time by any provision of subsection (1.1) or (1.2);

"*underlying foreign tax applicable*" in respect of a corporation to a whole dividend paid at any time on the shares of any class of the capital stock of a foreign affiliate of the corporation by the affiliate is the total of

(*a*) the proportion of the underlying foreign tax of the affiliate at that time in respect of the corporation that

(i) the portion of the whole dividend deemed to have been paid out of the affiliate's taxable surplus in respect of the corporation

is of

(ii) the affiliate's taxable surplus at that time in respect of the corporation, and

(*b*) except with respect to any whole dividend referred to in section 5902, in any case where throughout the taxation year of the affiliate in which the whole dividend was paid

(i) there is no more than one class of shares of the capital stock of the affiliate issued and outstanding,

(ii) the surplus entitlement percentage of the corporation in respect of the affiliate is 100 per cent, or

(iii) there is not more than one shareholder who owns shares of the capital stock of the affiliate,

any additional amount in respect of the whole dividend that the corporation claims in its return of income under Part I of the Act in respect of the whole dividend, not exceeding the amount that is the lesser of

(iv) the amount by which the portion of the whole dividend deemed to have been paid out of the affiliate's taxable surplus in respect of the corporation exceeds the amount determined under paragraph (*a*), and

(v) the amount by which the underlying foreign tax of the affiliate in respect of the corporation immediately before the whole dividend was paid exceeds the amount determined under paragraph (*a*);

"*whole dividend*" paid at any time on the shares of a class of the capital stock of a foreign affiliate of a taxpayer resident in Canada is the total of all amounts each of which is the dividend paid at that time on a share of that class except that

(*a*) where a dividend is paid at the same time on shares of more than one class of the capital stock of an affiliate, for the purpose only of section 5900, the whole dividend referred to in section 5901 paid at that time on the shares of a class of the capital stock of the affiliate is deemed to be the total of all amounts each of which is the dividend paid at that time on a share of the capital stock of the affiliate,

(*b*) where a whole dividend is deemed by paragraph 5902(1)(*c*) to have been paid at the same time on shares of more than one class of the capital stock of an affiliate, for the purpose only of that paragraph, the whole dividend deemed to have been paid at that time on the shares of a class of the capital stock of the affiliate is deemed to be the total of all amounts each of which is a whole dividend deemed to have been paid at that time on the shares of a class of the capital stock of the affiliate, and

Pending Amendment

Foreign Affiliates — February 27, 2004

Paragraph (*b*) of the definition "whole dividend" in subsection 5907(1) of the Regulations is replaced by the following:

(*b*) where a whole dividend is deemed by paragraph 5902(1)(*g*) to have been paid at the same time on shares of more than one class of the capital stock of an affiliate, for the purpose only of that paragraph, the whole dividend deemed to have been paid at that time on the shares of a class of the capital stock of the affiliate is deemed to be the total of all amounts each of which is a whole dividend deemed to have been paid at that time on the shares of a class of the capital stock of the affiliate, and

Applicable: In respect of dispositions in respect of which an election was made in respect of the amendments to subsections 5902(1), (3) and (6), the repeal of subsection 5902(2) and the addition of subsection 5902(7) apply. See the application following the amendment to subsection 5902(1).

Explanatory Note: "whole dividend"

The definition "whole dividend" paid at any time on the shares of a class of the capital stock of a foreign affiliate of a taxpayer resident in Canada in subsection 5907(1) of the Regulations is relevant for the purposes of computing the surpluses and deficits of the foreign affiliate.

The proposed amendment to paragraph (*b*) of the definition "whole dividend" in subsection 5907(1) replaces a reference to 5902(1)(*c*) with a reference to 5902(1)(*g*).

This proposed amendment to the definition "underlying foreign tax" in subsection 5907(1) of the Regulations applies in respect of dispositions in respect of which an election was made in respect of which proposed new subsection 5902(1) applies.

(*c*) where more than one whole dividend is deemed by paragraph 5900(2)(*b*) to have been paid at the same time on shares of a class of the capital stock of an affiliate, for the purposes only of paragraph 5900(1)(*d*) and the definitions "underlying foreign tax" and "underlying foreign tax applicable" in this subsection, the whole dividend deemed to have been paid at that time on the shares of a class of the capital stock of the affiliate is deemed to be the total of all amounts each of which is a whole dividend deemed to have been paid at that time on the shares of a class of the capital stock of the affiliate and all of that whole dividend shall be deemed to have been paid out of the affiliate's taxable surplus in respect of the corporation.

History: S. 5907(1) was amended by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994, except that

(*a*) those provisions apply to taxation years of a foreign affiliate of a taxpayer that end after 1994 where there has been a change in the taxation year of the foreign affiliate in 1994 and after February 22, 1994, unless
- (i) the foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation, or
- (ii) the first taxation year of the foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if there had not been that change in the taxation year of the foreign affiliate; and

(*b*) in applying subsection 5907(1) of the Regulations, for taxation years of a foreign affiliate of a taxpayer that begin before 1996 and in respect of which subsection 8(13) does not apply, the references to "designated treaty country" shall be read as "country listed in subsection (11)". S. 5907(1) formerly read:

"(1) For the purposes of this Part and sections 95 and 113 of the Act,

(*a*) 'earnings' of a foreign affiliate of a taxpayer resident in Canada for a taxation year of the affiliate from an active business means
- (i) in the case of an active business carried on by it in a country
  - (A) the income or profit therefrom for the year computed in accordance with the income tax law of the country in which the affiliate is resident in any case where the affiliate is required by such law to compute that income or profit,
  - (B) the income or profit therefrom for the year computed in accordance with the income tax law of the country in which the business is carried on in any case not described in clause (A) where the affiliate is required by such law to compute that income or profit, and
  - (C) in any other case, the amount that would be the income therefrom for the year under Part I of the Act if the business were carried on in Canada, the affiliate were resident in Canada and the Act were read without reference to subsections 80(3) to (12), (15) and (17) and 80.01(5) to (11) and sections 80.02 to 80.04,

  adjusted in each case in accordance with the provisions of subsection (2) and for the purposes of this Part, to the extent that the earnings of an affiliate from an active business carried on by it cannot be attributed to a permanent establishment in any particular country they shall be attributed to the permanent establishment in the country in which the affiliate is resident and if the affiliate is resident in more than one country, to the permanent establishment in the country that may reasonably be regarded as the affiliate's principal place of residence, and
- (ii) in any other case, the aggregate of the amounts by which the income for the year from an active business of an affiliate is increased by virtue of paragraph 95(2)(*a*) of the Act, after deducting the aggregate of the expenses reasonably attributable thereto;

(*b*) 'exempt earnings' of a foreign affiliate of a corporation for a taxation year of the affiliate is the aggregate of all amounts each of which is
- (i) the amount by which the capital gains of the affiliate for the year exceed the aggregate of
  - (A) the amount of the taxable capital gains for the year referred to in subparagraph 95(1)(*b*)(ii) of the Act,
  - (B) the amount of the taxable capital gains for the year referred to in clauses (*f*)(iii)(A) and (*f*)(iv)(C), and
  - (C) such portion of any income or profits tax paid to the government of a country for the year by the affiliate as may reasonably be regarded as tax in respect of the amount by which the capital gains of the affiliate for the year exceed the aggregate of the amounts referred to in clauses (A) and (B),

  and for the purposes of this subparagraph where the affiliate (in this subparagraph referred to as the 'disposing affiliate') has disposed of capital property that was shares of the capital stock of another foreign affiliate of the corporation (in this subparagraph referred to as the 'shares disposed of') to any corporation that was, immediately following the disposition, a foreign affiliate of the corporation, the capital gains of the disposing affiliate for the year shall not include the portion of any such gains that is the aggregate of all amounts each of which is an amount equal to the excess of the fair market value at the end of the disposing affiliate's 1975 taxation year of a share disposed of over the adjusted cost base of that share,
- (ii) for its 1975 or any preceding taxation year, the aggregate of all amounts each of which is the affiliate's net earnings for the year,
- (iii) for its 1975 or any preceding taxation year, the earnings as determined in subparagraph (*a*)(ii) to the extent that such earnings have not been included by virtue of subparagraph (ii) or deducted in determining an amount included in clause (*c*)(ii)(A),
- (iv) for the 1976 or any subsequent taxation year where the affiliate is resident in a country listed in subsection (11), each amount that is
  - (A) the affiliate's net earnings for the year from an active business carried on by it in Canada or in a country listed in subsection (11), or
  - (B) to the extent that they have not been included by virtue of clause (A) or deducted in determining an amount included in subparagraph (*c*)(iii), the earnings for the year from an active business of the affiliate to the extent that they derive from
    - (I) amounts determined under subparagraph 95(2)(*a*)(i) of the Act that pertain to or are incident to an active business carried on in a country listed in subsection (11), or
    - (II) amounts determined under subparagraph 95(2)(*a*)(ii) of the Act that are paid or payable to it by another foreign affiliate of the corporation or any other non-resident corporation with which the corporation does not deal at arm's length, to the extent that they are or would be, if the non-resident corporation were a foreign affiliate of the corporation, deductible in computing its exempt earnings, or
- (v) for the 1976 or any subsequent taxation year, each amount that is included in the exempt earnings of the affiliate by virtue of subsection (10),

minus such portion of any income or profits tax paid to the government of a country for the year by the affiliate as may reasonably be regarded as tax in respect of the earnings referred to in subparagraph (iii) or in clause (iv)(B);

(*c*) 'exempt loss' of a foreign affiliate of a corporation for a taxation year of the affiliate is the aggregate of all amounts each of which is
- (i) the amount by which the capital losses of the affiliate for the year exceed the aggregate of

(A) the amount of the allowable capital losses for the year referred to in subparagraph 95(1)(*b*)(iv) of the Act,

(B) the amount of the allowable capital losses for the year referred to in clauses (*g*)(iii)(A) and (*g*)(iv)(C), and

(C) such portion of any income or profits tax refunded by the government of a country for the year to the affiliate as may reasonably be regarded as tax refunded in respect of the amount by which the capital losses of the affiliate for the year exceed the aggregate of the amounts referred to in clauses (A) and (B),

(ii) for its 1975 or any preceding taxation year, the aggregate of all amounts each of which is

(A) the affiliate's net loss for the year from an active business carried on by it in a country, or

(B) the amount, if any, for the year by which

(I) the amount determined under subparagraph 95(1)(*b*)(iii) of the Act for that year

exceeds

(II) the amount determined under subparagraph 95(1)(*b*)(i) of the Act for that year,

(iii) for the 1976 or any subsequent taxation year where the affiliate is resident in a country listed in subsection (11), each amount that is the affiliate's net loss for the year from an active business carried on by it in Canada or in a country listed in subsection (11), or

(iv) for the 1976 or any subsequent taxation year, each amount that is included in the exempt loss of the affiliate by virtue of subsection (10);

(*d*) 'exempt surplus' of a foreign affiliate of a corporation in respect of the corporation is, at any particular time, the amount, if any, by which the aggregate of all amounts in respect of the period commencing with the time that is the latest of

(i) the first day of the taxation year of the affiliate in which it last became a foreign affiliate of the corporation,

(ii) where the corporation is an acquiring corporation referred to in subsection 5905(5) and the affiliate is a particular affiliate referred to in that subsection or another foreign affiliate in which such particular affiliate had an equity percentage at the time referred to in that subsection, the last time at which that subsection was applicable in respect of the affiliate, and

(iii) where the affiliate is a foreign affiliate referred to in subsection 5905(1), (2), (8) or (9) or paragraph 5905(3)(*b*), the last time at which any such subsection or paragraph was applicable in respect of the affiliate

and ending with the particular time each of which is

(iv) the opening exempt surplus of the affiliate as determined under subsection 5905(1), (2), (3), (5), (8) or (9), at the time established in subparagraph (i), (ii) or (iii),

(v) the exempt earnings of the affiliate for any of its taxation years ending in the period,

(vi) the portion of any dividend received in the period and before the particular time by the affiliate from another foreign affiliate of the corporation (including, for greater certainty, any dividend deemed to have been received by the affiliate by virtue of subsection 5905(7)) that was prescribed by paragraph 5900(1)(*a*) to have been paid out of the payer affiliate's exempt surplus in respect of the corporation,

(vi.1) the portion of any income or profits tax refunded by or the amount of a tax credit paid by the government of a country to the affiliate that may reasonably be regarded as having been refunded or paid in respect of any amount referred to in subparagraph (vi) and that was not deducted in determining any amount referred to in subparagraph (x),

(vii) the portion of any taxable dividend received in the period and before the particular time by the affiliate that would, if the dividend were received by the corporation, be deductible by it under section 112 of the Act,

(vii.1) an amount added to the affiliate's exempt surplus or deducted from the affiliate's exempt deficit in the period and before the particular time by virtue of any provision of subsection (1.1) or (1.2), or

(vii.2) an amount added, in the period and before the particular time, to the affiliate's exempt surplus by virtue of paragraph (7.1)(*d*),

exceeds the aggregate of such of the following amounts in respect of the period as are applicable,

(viii) the opening exempt deficit of the affiliate as determined under subsection 5905(1), (2), (3), (5), (8) or (9), at the time established in subparagraph (i), (ii) or (iii),

(ix) the exempt loss of the affiliate for any of its taxation years ending in the period,

(x) the portion of any income or profits tax paid to the government of a country by the affiliate that may reasonably be regarded as having been paid in respect of any amount referred to in subparagraph (vi), (vi.1) or (vii),

(xi) the portion of any whole dividend paid by the affiliate in the period and before the particular time deemed by paragraph 5901(1)(*a*) to have been paid out of the affiliate's exempt surplus in respect of the corporation,

(xii) each amount that is determined under paragraph 5902(4)(*a*) or subparagraph 5905(2)(*a*)(i), (6)(*a*)(i) or (8)(*a*)(i) in the period and before the particular time, or

(xii.1) an amount, in the period and before the particular time, deducted from the affiliate's exempt surplus or added to the affiliate's exempt deficit by virtue of any provision of subsection (1.1) or (1.2),

and the 'exempt deficit' of the affiliate of the corporation in respect of the corporation at the particular time is the amount, if any, by which

(xiii) the aggregate of all amounts each of which is an amount determined under subparagraph (viii), (ix), (x), (xi), (xii) or (xii.1)

exceeds

(xiv) the aggregate of all amounts each of which is an amount determined under subparagraph (iv), (v), (vi), (vi.1), (vii), (vii.1) or (vii.2);

(*e*) 'loss' of a foreign affiliate of a taxpayer resident in Canada for a taxation year of the affiliate from an active business carried on by it in a country is the amount of its loss for the year from that active business carried on in that country computed by applying the provisions of subparagraph (*a*)(i) respecting the computation of earnings from that active business carried on in that country, *mutatis mutandis*;

(*f*) 'net earnings' of a foreign affiliate of a corporation for a taxation year of the affiliate

(i) from an active business carried on by it in a country is the amount of its earnings for the year from that active business carried on in that country minus such portion of any income or profits tax paid to the government of a country for the year by the affiliate as may reasonably be regarded as tax in respect of such earnings,

(ii) in respect of foreign accrual property income is the amount that would be its foreign accrual property income for the year if paragraph 95(1)(*b*) of the Act were read without reference to subparagraph (v) thereof minus such portion of any income or profits tax paid to the government of a country for the year by the affiliate as may reasonably be regarded as tax in respect of such income,

(iii) from dispositions of property used or held by it principally for the purpose of gaining or producing income from an active business carried on by it in a country not listed in subsection (11) (other than Canada) is the amount, if any, by which

(A) such portion of the affiliate's taxable capital gains for the year from such dispositions as may reasonably be considered to have accrued after November 12, 1981

exceeds

(B) such portion of any income or profits tax paid to the government of a country for the year by the affiliate as may reasonably be regarded as tax in respect of the amount determined under clause (A), and

(iv) from dispositions of

(A) shares of the capital stock of another foreign affiliate of the corporation that were excluded property of the affiliate (other than dispositions to which any of paragraphs 95(2)(*c*), (*d*) or (*e*) of the Act were applicable), or

(B) partnership interests that were excluded property of the affiliate

is the amount, if any, by which

(C) the portion of the affiliate's taxable capital gains for the year from such dispositions as may reasonably be considered to have accrued after its 1975 taxation year

exceeds

(D) such portion of any income or profits tax paid to the government of a country for the year by the affiliate as may reasonably be regarded as tax in respect of the amount determined under clause (C);

(*g*) 'net loss' of a foreign affiliate of a corporation for a taxation year of the affiliate

(i) from an active business carried on by it in a country is the amount of its loss for the year from that active business carried on in that country minus such portion of any income or profits tax refunded by the government of a country for the year to the affiliate as may reasonably be regarded as tax refunded in respect of such loss,

(ii) in respect of foreign accrual property income is the amount, if any, by which

(A) the amount, if any, by which

(I) the aggregate of the amounts determined under subparagraphs 95(1)(*b*)(iii) and (iv) of the Act for the year

exceeds

(II) the aggregate of the amounts determined under subparagraphs 95(1)(*b*)(i) and (ii) of the Act for the year

exceeds

(B) such portion of any income or profits tax refunded by the government of a country for the year to the affiliate as may reasonably be regarded as tax refunded in respect of the amount determined under clause (A),

(iii) from dispositions of property used or held by it principally for the purpose of gaining or producing income from an active business carried on by it in a country not listed in subsection (11) (other than Canada) is the amount, if any, by which

(A) such portion of the affiliate's allowable capital losses for the year from such dispositions as may reasonably be considered to have accrued after November 12, 1981

exceeds

(B) such portion of any income or profits tax refunded by the government of a country for the year to the affiliate as may reasonably be regarded as tax refunded in respect of the amount determined under clause (A), and

(iv) from dispositions of

(A) shares of the capital stock of another foreign affiliate of the corporation that were excluded property of the affiliate (other than dispositions to which any of paragraphs 95(2)(*c*), (*d*) or (*e*) of the Act were applicable), or

(B) partnership interests that were excluded property of the affiliate

is the amount, if any, by which

(C) the portion of the affiliate's allowable capital losses for the year from such dispositions as may reasonably be considered to have accrued after its 1975 taxation year

exceeds

(D) such portion of any income or profits tax refunded by the government of a country for the year to the affiliate as may reasonably be regarded as tax refunded in respect of the amount determined under clause (C);

(*h*) 'net surplus' of a foreign affiliate of a corporation resident in Canada in respect of the corporation is, at any particular time,

(i) if the affiliate has no exempt deficit and no taxable deficit, the amount that is the aggregate of its exempt surplus and taxable surplus in respect of the corporation,

(ii) if the affiliate has no taxable surplus, the amount, if any, by which its exempt surplus exceeds its taxable deficit in respect of the corporation, or

(iii) if the affiliate has no exempt surplus, the amount, if any, by which its taxable surplus exceeds its exempt deficit in respect of the corporation,

as the case may be, at that time;

(*i*) 'taxable earnings' of a foreign affiliate of a corporation for a taxation year of the affiliate is

(i) for the 1975 or any preceding taxation year, nil, and

(ii) in any other case, the aggregate of all amounts each of which is

(A) the affiliate's net earnings for the year from an active business carried on by it in a country,

(B) the affiliate's net earnings for the year in respect of its foreign accrual property income,

(C) to the extent that they have not been included by virtue of clause (A) or deducted in determining an amount included in clause (*j*)(ii)(A), the earnings for the year as determined under subparagraph (*a*)(ii) minus such portion of any income or profits tax paid to the government of a country for the year by the affiliate as may reasonably be regarded as tax in respect of such earnings,

(D) the affiliate's net earnings for the year from dispositions of property used or held by it principally for the purpose of gaining or producing income from an active business carried on by it in a country not listed in subsection (11) (other than Canada), or

(E) the affiliate's net earnings for the year from dispositions of shares of the capital stock of another foreign affiliate of the corporation that were excluded property of the affiliate (other than dispositions to which any of paragraphs 95(2)(*c*), (*d*) or (*e*) of the Act were applicable) or dispositions of partnership interests that were excluded property of the affiliate,

but does not include any amount included in the affiliate's exempt earnings for the year;

(*j*) 'taxable loss' of a foreign affiliate of a corporation for a taxation year of the affiliate is

(i) for the 1975 or any preceding taxation year, nil, and

(ii) in any other case, the aggregate of all amounts each of which is

(A) the affiliate's net loss for the year from an active business carried on by it in a country,

(B) the affiliate's net loss for the year in respect of foreign accrual property income,

(C) the affiliate's net loss for the year from dispositions of property used or held by it principally for the purpose of gaining or producing income from an active business carried on by it in a country not listed in subsection (11) (other than Canada), or

(D) the affiliate's net loss for the year from dispositions of shares of the capital stock of another foreign affiliate of the corporation that were excluded property of the affiliate (other than dispositions to which any of paragraphs 95(2)(*c*), (*d*) or (*e*) of the Act were applicable) or dispositions of partnership interests that were excluded property of the affiliate,

but does not include any amount included in the affiliate's exempt loss for the year;

(*k*) 'taxable surplus' of a foreign affiliate of a corporation in respect of the corporation is, at any particular time, the amount, if any, by which the aggregate of all amounts in respect of the period commencing with the time that is the latest of

(i) the first day of the taxation year of the affiliate in which it last became a foreign affiliate of the corporation,

(ii) where the corporation is an acquiring corporation referred to in subsection 5905(5) and the affiliate is a particular affiliate referred to in that subsection or another foreign affiliate in which such particular affiliate had an equity percentage at the time referred to in that subsection, the last time at which that subsection was applicable in respect of the affiliate, and

(iii) where the affiliate is a foreign affiliate referred to in subsection 5905(1), (2), (8) or (9) or paragraph 5905(3)(*b*), the last time at which any such subsection or paragraph was applicable in respect of the affiliate

and ending with the particular time each of which is

(iv) the opening taxable surplus of the affiliate as determined under subsection 5905(1), (2), (3), (5), (8) or (9), at the time established in subparagraph (i), (ii) or (iii),

(v) the taxable earnings of the affiliate for any of its taxation years ending in the period,

(vi) the portion of any dividend received in the period and before the particular time by the affiliate from another foreign affiliate of the corporation (including, for greater certainty, any dividend deemed to have been received by the affiliate by virtue of subsection 5905(7)) that was prescribed by paragraph 5900(1)(*b*) to have been paid out of the payer affiliate's taxable surplus in respect of the corporation,

(vi.1) an amount added to the affiliate's taxable surplus or deducted from the affiliate's taxable deficit in the period and before the particular time by virtue of any provision of subsection (1.1) or (1.2),

(vi.2) an amount added, in the period and before the particular time, to the affiliate's taxable surplus by virtue of paragraph (7.1)(*e*),

exceeds the aggregate of such of the following amounts in respect of the period as are applicable,

(vii) the opening taxable deficit of the affiliate as determined under subsection 5905(1), (2), (3), (5), (8), or (9), at the time established in subparagraph (i), (ii) or (iii),

(viii) the taxable loss of the affiliate for any of its taxation years ending in the period,

(ix) the portion of any income or profits tax paid to the government of a country by the affiliate that may reasonably be regarded as having been paid in respect of that portion of a dividend referred to in subparagraph (vi),

(x) the portion of any whole dividend paid by the affiliate in the period and before the particular time deemed by paragraph 5901(1)(*b*) to have been paid out of the affiliate's taxable surplus in respect of the corporation,

(xi) each amount that is determined under paragraph 5902(4)(*b*) or subparagraph 5905(2)(*a*)(ii), (6)(*a*)(ii) or (8)(*a*)(ii) in the period and before the particular time, or

(xi.1) an amount, in the period and before the particular time, deducted from the affiliate's taxable surplus or added to the affiliate's taxable deficit by virtue of any provision of subsection (1.1) or (1.2),

and the 'taxable deficit' of the affiliate of the corporation in respect of the corporation at the particular time is the amount, if any, by which

(xii) the aggregate of all amounts each of which is an amount determined under subparagraph (vii), (viii), (ix), (x), (xi) or (xi.1)

exceeds

(xiii) the aggregate of all amounts each of which is an amount determined under subparagraph (iv), (v), (vi), (vi.1) or (vi.2);

(*l*) 'underlying foreign tax' of a foreign affiliate of a corporation in respect of the corporation is, at any particular time, the amount, if any, by which the aggregate of all amounts in respect of the period commencing with the time that is the latest of

(i) the first day of the taxation year of the affiliate in which it last became a foreign affiliate of the corporation,

(ii) where the corporation is an acquiring corporation referred to in subsection 5905(5) and the affiliate is a particular affiliate referred to in that subsection or another foreign affiliate in which such particular affiliate had an equity percentage at the time referred to in that subsection, the last time at which that subsection was applicable in respect of the affiliate, and

(iii) where the affiliate is a foreign affiliate referred to in subsection 5905(1), (2), (8) or (9) or paragraph 5905(3)(*b*), the last time at which any such subsection or paragraph was applicable in respect of the affiliate

and ending with the particular time each of which is

(iv) the opening underlying foreign tax of the affiliate as determined under subsection 5905(1), (2), (3), (5), (8), or (9), at the time established in subparagraph (i), (ii) or (iii),

(v) the portion of any income or profits tax paid to the government of a country by the affiliate that may reasonably be regarded as having been paid in respect of the taxable earnings of the affiliate for a taxation year ending in the period,

(vi) the portion of any income or profits tax referred to in subparagraph (*k*)(ix) paid by the affiliate in respect of a dividend received from any other foreign affiliate of the corporation,

(vii) each amount that was prescribed by paragraph 5900(1)(*d*) to have been the foreign tax applicable to the portion of any dividend received in the period and before the particular time by the affiliate from another foreign affiliate of the corporation (including, for greater certainty, any dividend deemed to have been received by the affiliate by virtue of subsection 5905(7)) that was prescribed by paragraph 5900(1)(*b*) to have been paid out of the payer affiliate's taxable surplus in respect of the corporation, or

(vii.1) the amount by which the affiliate's underlying foreign tax is required to be increased by virtue of any provision of subsection (1.1) or (1.2),

exceeds the aggregate of such of the following amounts in respect of the period as are applicable,

(viii) the portion of any income or profits tax refunded by the government of a country to the affiliate that may reasonably be regarded as having been refunded in respect of the taxable loss of the affiliate for a taxation year ending in the period,

(ix) the underlying foreign tax applicable to any whole dividend paid by the affiliate in the period and before the particular time deemed by paragraph 5901(1)(*b*) to have been paid out of the affiliate's taxable surplus in respect of the corporation before that time,

(x) each amount that is required by paragraph 5902(4)(*c*) or subparagraph 5905(2)(*a*)(iii), (6)(*a*)(iii) or (8)(*a*)(iii) to be deducted in the period and before the particular time in computing the affiliate's underlying foreign tax, or

(xi) the amount by which the affiliate's underlying foreign tax is required to be decreased in the period and before the particular time by virtue of any provision of subsection (1.1) or (1.2);

(*m*) 'underlying foreign tax applicable' in respect of a corporation to a whole dividend paid at any time on the shares of any class of the capital stock of a foreign affiliate of the corporation by the affiliate is the aggregate of

(i) the proportion of the underlying foreign tax of the affiliate at that time in respect of the corporation that

(A) the portion of the whole dividend deemed to have been paid out of the affiliate's taxable surplus in respect of the corporation

is of

(B) the affiliate's taxable surplus at that time in respect of the corporation, and

(ii) except with respect to any whole dividend referred to in section 5902, in any case where throughout the taxation year of the affiliate in which the whole dividend was paid there is no more than one class of shares of the capital stock of the affiliate issued and outstanding, the surplus entitlement percentage of the corporation in respect of the affiliate is 100 per cent or there is not more than one shareholder who owns shares of the capital stock of the affiliate, such additional amount in respect of the whole dividend as the corporation claims in its return of income under Part I of the Act in respect of the whole dividend, not exceeding the amount that is the lesser of

(A) the amount by which the portion of the whole dividend deemed to have been paid out of the affiliate's taxable surplus in respect of the corporation exceeds the amount determined under subparagraph (i), and

(B) the amount by which the underlying foreign tax of the affiliate in respect of the corporation immediately before the whole dividend was paid exceeds the amount determined under subparagraph (i); and

(*n*) 'whole dividend' paid at any time on the shares of a class of the capital stock of a foreign affiliate of a taxpayer resident in Canada is the aggregate of all amounts each of which is the dividend paid at that time on a share of that class except that

(i) where a dividend is paid at the same time on shares of more than one class of the capital stock of an affiliate, for the purposes only of section 5900, the whole dividend referred to in section 5901 paid at that time on the shares of a class of the capital stock of the affiliate shall be deemed to be the aggregate of all amounts each of which is the dividend paid at that time on a share of the capital stock of the affiliate,

(ii) where a whole dividend is deemed by paragraph 5902(1)(*c*) to have been paid at the same time on shares of more than one class of the capital stock of an affiliate, for the purposes only of that paragraph, the whole dividend deemed to have been paid at that time on the shares of a class of the capital stock of the affiliate shall be deemed to be the aggregate of all amounts each of which is a whole dividend deemed to have been paid at that time on the shares of a class of the capital stock of the affiliate, and

(iii) where more than one whole dividend is deemed by paragraph 5900(2)(*b*) to have been paid at the same time on shares of a class of the capital stock of an affiliate, for the purposes only of paragraph 5900(1)(*d*) and paragraphs 5907(1)(*l*) and (*m*), the whole dividend deemed to have been paid at that time on the shares of a class of the capital stock of the affiliate shall be deemed to be the aggregate of all amounts each of which is a whole dividend deemed to have been paid at that time on the shares of a class of the capital stock of the affiliate and all of any such whole dividend shall be deemed to have been paid out of the affiliate's taxable surplus in respect of the corporation."

S. 5907(1)(*a*)(i)(C) was amended by P.C. 1996-571, SOR/96-228, dated April 23, 1996, applicable to taxation years that end after February 21, 1994. S. 5907(1)(*a*)(i)(C) formerly read:

"(C) the income therefrom for the year computed in accordance with Part I of the Act on the assumption that the business was carried on in Canada and the affiliate was resident in Canada, in any other case,"

Tax Profile: July 2008 — International Tax Planning for the Owner-Manager.

(1.01) For the purpose of section 113 of the Act, "exempt surplus" and "taxable surplus" have the meanings assigned by subsection (1).

History: S. 5907(1.01) was added by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994, except that

(*a*) those provisions apply to taxation years of a foreign affiliate of a taxpayer that end after 1994 where there has been a change in the taxation year of the foreign affiliate in 1994 and after February 22, 1994, unless

(i) the foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation, or

(ii) the first taxation year of the foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if there had not been that change in the taxation year of the foreign affiliate; and

(*b*) in applying subsection 5907(1) of the Regulations, for taxation years of a foreign affiliate of a taxpayer that begin before 1996 and in respect of which subsection 8(13) does not apply, the references to "designated treaty country" shall be read as "country listed in subsection (11)".

(1.02) In paragraph (*d*) of the definition "exempt earnings" in subsection (1), the determination of whether a corporation

(*a*) has a "qualifying interest" in respect of a foreign affiliate throughout a taxation year, or

(*b*) is related to another corporation throughout a taxation year

shall be made as it would for the purpose of paragraph 95(2)(*a*) of the Act.

History: S. 5907(1.02) was added by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994, except that

(*a*) those provisions apply to taxation years of a foreign affiliate of a taxpayer that end after 1994 where there has been a change in the taxation year of the foreign affiliate in 1994 and after February 22, 1994, unless

(i) the foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation, or

(ii) the first taxation year of the foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if there had not been that change in the taxation year of the foreign affiliate; and

(*b*) in applying subsection 5907(1) of the Regulations, for taxation years of a foreign affiliate of a taxpayer that begin before 1996 and in respect of which subsection 8(13) does not apply, the references to "designated treaty country" shall be read as "country listed in subsection (11)".

(1.1) For the purposes of this Part, where, pursuant to the income tax law of a country other than Canada, a group of two or more foreign affiliates (in this subsection referred to as the "consolidated group") of a corporation resident in Canada that are resident in that country determine their liabilities for income or profits tax payable to the government of that country for a taxation year on a consolidated or combined basis and one of the affiliates (in this subsection referred to as the "primary affiliate") is responsible for paying, or claiming a refund of, such tax on behalf of itself and the other members of the consolidated group (hereinafter referred to as the "secondary affiliates"), the following rules apply:

(*a*) in respect of the primary affiliate,

(i) any such income or profits tax paid by the primary affiliate for the year shall be deemed not to

have been paid and any refund to the primary affiliate of income or profits tax otherwise payable by it for the year shall be deemed not to have been made,

(ii) any such income or profits tax that would have been payable by the primary affiliate for the year if the primary affiliate had no other taxation year and had not been a member of the consolidated group shall be deemed to have been paid for the year,

(iii) to the extent that

(A) the income or profits tax that would otherwise have been payable by the primary affiliate for the year on behalf of the consolidated group is reduced by virtue of any loss of the primary affiliate for the year or any previous taxation year, or

(B) the primary affiliate receives, in respect of a loss of the primary affiliate for the year or a subsequent taxation year, a refund of income or profits tax otherwise payable for the year by the primary affiliate on behalf of the consolidated group,

the amount of such reduction or refund, as the case may be, shall be deemed to have been received by the primary affiliate as a refund for the year of the loss of income or profits tax in respect of the loss,

(iv) any such income or profits tax that would have been payable by a secondary affiliate for the year if the secondary affiliate had no other taxation year and had not been a member of the consolidated group shall at the end of the year,

(A) to the extent that such income or profits tax would otherwise have reduced the net earnings included in the exempt earnings of the secondary affiliate, be deducted from the exempt surplus or added to the exempt deficit, as the case may be, of the primary affiliate, and

(B) to the extent that such income or profits tax would otherwise have reduced the net earnings included in the taxable earnings of the secondary affiliate,

(I) be deducted from the taxable surplus or added to the taxable deficit, as the case may be, of the primary affiliate, and

(II) be added to the underlying foreign tax of the primary affiliate,

(v) to the extent that

(A) the income or profits tax that would otherwise have been payable by the primary affiliate for the year on behalf of the consolidated group is reduced by virtue of a loss of a secondary affiliate for the year or a previous taxation year, or

(B) the primary affiliate receives, in respect of a loss of a secondary affiliate for the year or a subsequent taxation year, a refund of income or profits tax otherwise payable for the year by the primary affiliate on behalf of the consolidated group,

the amount of such reduction or refund, as the case may be, shall at the end of the year of the loss,

(C) where such loss reduces the exempt surplus or increases the exempt deficit, as the case may be, of the secondary affiliate, be added to the exempt surplus or deducted from the exempt deficit, as the case may be, of the primary affiliate, and

(D) where such loss reduces the taxable surplus or increases the taxable deficit, as the case may be, of the secondary affiliate,

(I) be added to the taxable surplus or deducted from the taxable deficit, as the case may be, of the primary affiliate, and

(II) be deducted from the underlying foreign tax of the primary affiliate; and

(*b*) where by virtue of the primary affiliate being responsible for paying, or claiming a refund of, income or profits tax for the year on behalf of the consolidated group,

(i) an amount is paid to the primary affiliate by a secondary affiliate in respect of the income or profits tax that would have been payable by the secondary affiliate for the year had it not been a member of the group,

(A) in respect of the secondary affiliate, the amount so paid shall be deemed to be a payment of such income or profits tax for the year, and

(B) in respect of the primary affiliate,

(I) such portion of the amount so paid as may reasonably be regarded as relating to an amount included in the exempt surplus or deducted from the exempt deficit, as the case may be, of the secondary affiliate shall at the end of the year be added to the exempt surplus or deducted from the exempt deficit, as the case may be, of the primary affiliate, and

(II) such portion of the amount so paid as may reasonably be regarded as relating to an amount included in the taxable surplus or deducted from the taxable deficit, as the case may be, of the secondary affiliate shall at the end of the year be added to the taxable surplus or deducted from the taxable deficit, as the case may be, of the primary affiliate and be deducted from the underlying foreign tax of the primary affiliate, or

(ii) an amount is paid by the primary affiliate to a secondary affiliate in respect of a reduction or refund by virtue of a loss of the secondary affiliate for a taxation year of the income or profits tax that would otherwise have been payable by the primary affiliate for the year on behalf of the consolidated group,

(A) in respect of the primary affiliate,

(I) such portion of the amount so paid as may reasonably be regarded as relating to an amount deducted from the exempt surplus or included in the exempt deficit, as the case

may be, of the secondary affiliate shall at the end of the year of the loss be deducted from the exempt surplus or added to the exempt deficit, as the case may be, of the primary affiliate, and

(II) such portion of the amount so paid as may reasonably be regarded as relating to an amount deducted from the taxable surplus or included in the taxable deficit, as the case may be, of the secondary affiliate shall at the end of the year of the loss be deducted from the taxable surplus or added to the taxable deficit, as the case may be, of the primary affiliate and be added to the underlying foreign tax of the primary affiliate, and

(B) in respect of the secondary affiliate, the amount shall be deemed to be a refund to the secondary affiliate for the year of the loss of income or profits tax in respect of the loss,

Pending Amendment

Foreign Affiliates — February 27, 2004

Subparagraph 5907(1.1)(*b*)(ii) of the Regulations is replaced by the following:

(ii) an amount is paid by the primary affiliate to a secondary affiliate in respect of a reduction or refund because of a loss or a tax credit of the secondary affiliate for a taxation year of the income or profits tax that would otherwise have been payable by the primary affiliate for the year on behalf of the consolidated group,

(A) in respect of the primary affiliate,

(I) the portion of the amount so paid that can reasonably be regarded as relating to an amount deducted from the exempt surplus or included in the exempt deficit, as the case may be, of the secondary affiliate shall at the end of the year to which the loss or the tax credit relates be deducted from the exempt surplus or added to the exempt deficit, as the case may be, of the primary affiliate, and

(II) the portion of the amount so paid that can reasonably be regarded as relating to an amount deducted from the taxable surplus or included in the taxable deficit, as the case may be, of the secondary affiliate shall at the end of the year to which the loss or the tax credit relates be deducted from the taxable surplus or added to the taxable deficit, as the case may be, of the primary affiliate and be added to the underlying foreign tax of the primary affiliate, and

(B) in respect of the secondary affiliate, the amount is deemed to be a refund to the secondary affiliate for the year to which the loss or the tax credit relates of income or profits tax in respect of the loss or the tax credit,

Applicable: To payments made after December 20, 2002.

Explanatory Note: Subsection 5907(1.1) of the Regulations contains rules for the calculation of the surpluses and deficits of a foreign affiliate of a corporation resident in Canada where the affiliate is a member of a group (the "consolidated group") of foreign affiliates of the corporation that files a consolidated or combined return in a foreign country such as the United States and one of the affiliates (the "primary affiliate") in the group is responsible, on behalf of the group, for paying, or claiming a refund of, the tax payable in that country by the primary affiliate and the other members of the group (those other members being referred to as the "secondary affiliates").

Subparagraph 5907(1.1)(*b*)(ii) applies where a secondary affiliate has a loss and the primary affiliate pays an amount to a secondary affiliate in respect of a reduction or refund, by virtue of the loss of the secondary affiliate, of the tax that would otherwise have been payable in the country by the primary affiliate for the year on behalf of the consolidated group. In general terms, that subparagraph results in a reduction of the primary affiliate's surplus balances, and an increase of the secondary affiliate's surplus balances, by the amount of the payment.

The proposed amendments to subparagraph 5907(1.1)(*b*)(ii) deal with the case where a secondary affiliate has a tax credit and the primary affiliate pays an amount to the secondary affiliate in respect of a reduction or refund, by virtue of the tax credit of the secondary affiliate, of the tax that would otherwise have been payable in the country by the primary affiliate for the year on behalf of the consolidated group. In general terms, the amendments ensure that the primary affiliate's surplus balances are reduced, and the secondary affiliate's surplus balances are increased, by the amount of the payment.

The amendments to subparagraph 5907(1.1)(*b*)(ii) apply to payments made after December 20, 2002.

and, for the purposes of this paragraph, any amount paid by a particular secondary affiliate to another secondary affiliate in respect of any income or profits tax that would have been payable by the particular secondary affiliate for the year had it not been a member of the consolidated group shall be deemed to have been paid in respect of such tax by the particular secondary affiliate to the primary affiliate and to have been paid in respect of such tax by the primary affiliate to the other secondary affiliate.

Department of Finance Comfort Letter

[Subsection 5907(1.1) — Residency Requirement and Determination of Underlying Foreign Tax]

June 9, 2006

Dear XXXX

SUBJECT: Subsection 5907(1.1) of the *Income Tax Regulations*

I am writing in response to your letter concerning subsection 5907(1.1) of the *Income Tax Regulations* (the "Regulations").

Subsection 5907(1.1) of the Regulations contains rules for the calculation of surpluses and deficits and underlying foreign tax ("UFT") of a foreign affiliate of a corporation resident in Canada where the foreign affiliate is a member of a group (the "consolidated group") of foreign affiliates of the corporation resident in Canada that are resident in a foreign country and file a consolidated or combined return in that foreign country and one of the foreign affiliates (the "primary affiliate") is responsible, on behalf of the consolidated group, for paying, or claiming a refund of, the tax payable in that foreign country by the consolidated group. In general terms, the subsection operates to adjust the surplus and deficit accounts and UFT balances of the members of the consolidated group, arriving at a position where all taxes paid, or all tax refunds received, affect the surplus and deficit balances and UFT account of only the primary affiliate, unless tax sharing payments are made. If tax sharing payments are made between the primary and secondary affiliates, the subsection results in those payments being treated as income or profits tax payments that result in adjustments to the surpluses (or deficits) and UFT balances of the primary and secondary affiliates.

In your letter, you expressed two concerns with respect to subsection 5907(1.1).

Your first concern is with the requirement in the preamble of subsection 5907(1.1) that the primary affiliate and the secondary affiliates be resident in the foreign country described by the preamble. Under the example provided in your letter, you note that U.S. Holdco and U.S. Opco have their central management and control in Canada and thus are not resident in the United States for the purposes of the subsection. Therefore, you note that, although U.S. Holdco and U.S. Opco would be taxable in the United States on their worldwide income, the subsection would not apply to Canco I and Canco 2. As regards

Canco I and Canco 2, this would result in U.S. Opco not having UFT for the U.S. tax even though U.S. Opco made the tax sharing payment to U.S. Holdco.

Your second concern is that subsection 5907(1.1) does not apply to a foreign affiliate, in respect of a corporation resident in Canada, unless the primary and secondary affiliates are foreign affiliates of the corporation. Under the example provided in your letter, Canco 1 and Canco 2 are related to each other; U.S. Holdco and U.S. Opco are both foreign affiliates of Canco 1; and U.S. Opco (but not U.S. Holdco) is a foreign affiliate of Canco 2. Therefore, you note that (even if the residency requirement in the preamble of the subsection were removed) the subsection still would not apply to Canco 2 because U.S. Holdco is not a foreign affiliate of Canco 2. As regards Canco 2, this would result in U.S. Opco not having UFT for the U.S. tax even though U.S. Opco made the tax sharing payment to U.S. Holdco.

From a tax policy viewpoint, we agree that the tax results described above are not appropriate. Therefore, we are prepared to recommend that

- the preamble of subsection 5907(1.1) of the Regulations be amended to remove the requirement that the primary and secondary affiliates described in the preamble be resident in the foreign country described in the preamble, and
- the *Income Tax Act* or the Regulations (as appropriate) be amended to provide that, in applying subsection 5907(1.1) of the Regulations, a non-resident corporation is deemed to be, at any time, a foreign affiliate of a particular corporation resident in Canada if, at that time, the non-resident corporation is a foreign affiliate of another corporation resident in Canada and that other corporation resident in Canada is related (otherwise than because of a right referred to in paragraph 251(5)(*b*) of the *Income Tax Act*) to the particular corporation

Should our recommendations be acted upon, it is contemplated that the amendments be made effective for the 2004 and subsequent taxation years of foreign affiliates of taxpayers resident in Canada

I trust that this letter addresses your concerns.

Yours sincerely,

Brian Ernewein
Director
Tax Legislation Division
Tax Policy Branch

History: S. 5907(1.1) was added by P.C. 1985-467, SOR/85-176, dated February 14, 1985, applicable to the 1982 and subsequent taxation years of foreign affiliates.

(1.2) For the purposes of this Part, where, pursuant to the income tax law of a country other than Canada, a corporation resident in that country that is a foreign affiliate of a corporation resident in Canada (in this subsection referred to as the "taxpaying affiliate") deducts, in computing its income or profits tax payable for a taxation year to a government of that country, a loss of another corporation resident in that country that is a foreign affiliate of the corporation resident in Canada (in this subsection referred to as the "loss affiliate"), the following rules apply:

(*a*) any such income or profits tax paid by the taxpaying affiliate for the year shall be deemed not to have been paid;

(*b*) any such income or profits tax that would have been payable by the taxpaying affiliate for the year if the taxpaying affiliate had not been allowed to deduct such loss shall be deemed to have been paid for the year;

(*c*) to the extent that the income or profits tax that would otherwise have been payable by the taxpaying affiliate for the year is reduced by virtue of such loss, the amount of such reduction shall at the end of the year,

(i) where such loss reduces the exempt surplus or increases the exempt deficit, as the case may be, of the loss affiliate, be added to the exempt surplus or deducted from the exempt deficit, as the case may be, of the taxpaying affiliate, and

(ii) where such loss reduces the taxable surplus or increases the taxable deficit, as the case may be, of the loss affiliate,

(A) be added to the taxable surplus or deducted from the taxable deficit, as the case may be, of the taxpaying affiliate, and

(B) be deducted from the underlying foreign tax of the taxpaying affiliate; and

(*d*) where an amount is paid by the taxpaying affiliate to the loss affiliate in respect of the reduction, by virtue of such loss, of the income or profits tax that would otherwise have been payable by the taxpaying affiliate for the year,

(i) in respect of the taxpaying affiliate,

(A) such portion of the amount as may reasonably be regarded as relating to an amount deducted from the exempt surplus or included in the exempt deficit, as the case may be, of the loss affiliate shall at the end of the year be deducted from the exempt surplus or added to the exempt deficit, as the case may be, of the taxpaying affiliate, and

(B) such portion of the amount as may reasonably be regarded as relating to an amount deducted from the taxable surplus or included in the taxable deficit, as the case may be, of the loss affiliate shall at the end of the year be deducted from the taxable surplus or added to the taxable deficit, as the case may be, of the taxpaying affiliate and be added to the underlying foreign tax of the taxpaying affiliate, and

(ii) in respect of the loss affiliate, the amount shall be deemed to be a refund to the loss affiliate of income or profits tax in respect of the loss for the taxation year of the loss.

History: S. 5907(1.2) was added by P.C. 1985-467, SOR/85-176, dated February 14, 1985 and applicable to the 1982 and subsequent taxation years of foreign affiliates.

(1.3) For the purpose of paragraph (*b*) of the definition "foreign accrual tax" in subsection 95(1) of the Act,

Pending Amendment

Foreign Affiliates — FAPI — March 16, 2001

The portion of subsection 5907(1.3) of the Regulations before paragraph (*a*) is replaced by the following:

(1.3) For the purpose of paragraph (*b*) of the definition "foreign accrual tax" in subsection 95(1) of the Act and subject to subsection (1.4),

Applicable: To taxation years that begin after November 1999.

Explanatory Note: Subsection 91(4) of the Act provides for a deduction in the computation of a taxpayer's income in respect of foreign accrual tax that is attributable to an amount of foreign accrual property income included in the computation of the taxpayer's income. Subsection 95(1) of the Act defines foreign accrual tax to include amounts prescribed to be foreign accrual tax.

In circumstances where the loss of another corporation in a particular group of foreign affiliates of a taxpayer is relevant in the computation of the tax liability of the group to a foreign government, paragraphs 5907(1.3)(*a*) and (*b*) of the Regulations

provides that an amount paid by the particular corporation to the other corporation in the group in respect of the use of a loss of any other corporation in the computation of the group's tax liability to the foreign government is foreign accrual tax. These provisions apply where the loss of the other corporation is an active business loss or a capital loss resulting from the disposition of excluded property as well as where the loss is a foreign accrual loss as defined in subsection 5903(3) of the Regulations. Subsection 5907(1.3), which applies to taxation years that begin after November 1999, is amended as a consequence of the introduction of subsection 5907(1.4) of the Regulations.

New subsection 5907(1.4) ensures that in such circumstances the amount paid by the particular affiliate to the other corporation will only be foreign accrual tax to the extent that the amount paid is in respect of a foreign accrual property loss of any other corporation. This is consistent with the fact that, under section 5903 of the Regulations, active business losses and capital losses resulting from the disposition of excluded property of a foreign affiliate of a taxpayer are not included in the computation of a deductible loss which may be used to reduce foreign accrual property income of that affiliate in a particular taxation year.

This amendment applies to taxation years that begin after November 1999.

(*a*) where, pursuant to the income tax law of the country in which a particular foreign affiliate is resident, the particular affiliate and one or more other corporations, each of which is resident in that country, determine their liabilities for income or profits tax payable to the government of that country for a taxation year on a consolidated or combined basis, any amount paid by the particular affiliate to any of the other corporations to the extent that it may reasonably be regarded as being in respect of income or profits tax that would otherwise have been payable by the particular affiliate in respect of a particular amount included in computing the taxpayer's income by virtue of subsection 91(1) of the Act for a taxation year in respect of the particular affiliate, had the tax liability of the particular affiliate and the other corporations not been determined on a consolidated or combined basis, is hereby prescribed to be foreign accrual tax applicable to the particular amount; and

(*b*) where, pursuant to the income tax law of the country in which a particular foreign affiliate of a taxpayer is resident, the particular affiliate, in computing its income or profits subject to tax in that country for a taxation year, deducts an amount in respect of a loss of another corporation resident in that country, any amount paid by the particular affiliate to the other corporation to the extent that it may reasonably be regarded as being in respect of income or profits tax that would otherwise have been payable by the particular affiliate in respect of a particular amount included in computing the taxpayer's income by virtue of subsection 91(1) of the Act for a taxation year in respect of the particular affiliate, had the tax liability of the particular affiliate been determined without deducting the loss of the other corporation, is hereby prescribed to be foreign accrual tax applicable to the particular amount.

History: S. 5907(1.3), the portion before paragraph (*a*) was amended by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994, except that

(*a*) those provisions apply to taxation years of a foreign affiliate of a taxpayer that end after 1994 where there has been a change in the taxation year of the foreign affiliate in 1994 and after February 22, 1994, unless

(i) the foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation, or

(ii) the first taxation year of the foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if there had not been that change in the taxation year of the foreign affiliate; and

(*b*) in applying subsection 5907(1) of the Regulations, for taxation years of a foreign affiliate of a taxpayer that begin before 1996 and in respect of which subsection 8(13) does not apply, the references to "designated treaty country" shall be read as "country listed in subsection (11)". S. 5907(1.3), the portion before paragraph (*a*) formerly read:

"(1.3) For the purposes of subparagraph 95(1)(*c*)(ii) of the Act,"

S. 5907(1.3) was added by P.C. 1985-467, SOR/85-176, dated February 14, 1985 and applicable to the 1982 and subsequent taxation years of foreign affiliates.

Pending Amendment

Foreign Affiliates — FAPI — March 16, 2001

Section 5907 of the Regulations is amended by adding the following after subsection (1.3):

(1.4) Any amount paid by a particular affiliate described in paragraph (1.3)(*a*) or (*b*) does not include any amount paid by the particular affiliate to any other corporation where the amount paid can reasonably be considered to be in respect of a loss of any other corporation and such loss would not be a foreign accrual property loss of the other corporation (as defined in subsection 5903(3)) without taking into account the particular payment.

Applicable: To taxation years that begin after November 1999.

Explanatory Note: Subsection 91(4) of the Act provides for a deduction in the computation of a taxpayer's income in respect of foreign accrual tax that is attributable to an amount of foreign accrual property income included in the computation of the taxpayer's income. Subsection 95(1) of the Act defines foreign accrual tax to include amounts prescribed to be foreign accrual tax.

In circumstances where the loss of another corporation in a particular group of foreign affiliates of a taxpayer is relevant in the computation of the tax liability of the group to a foreign government, paragraphs 5907(1.3)(*a*) and (*b*) of the Regulations provides that an amount paid by the particular corporation to the other corporation in the group in respect of the use of a loss of any other corporation in the computation of the group's tax liability to the foreign government is foreign accrual tax. These provisions apply where the loss of the other corporation is an active business loss or a capital loss resulting from the disposition of excluded property as well as where the loss is a foreign accrual loss as defined in subsection 5903(3) of the Regulations. Subsection 5907(1.3), which applies to taxation years that begin after November 1999, is amended as a consequence of the introduction of subsection 5907(1.4) of the Regulations.

New subsection 5907(1.4) ensures that in such circumstances the amount paid by the particular affiliate to the other corporation will only be foreign accrual tax to the extent that the amount paid is in respect of a foreign accrual property loss of any other corporation. This is consistent with the fact that, under section 5903 of the Regulations, active business losses and capital losses resulting from the disposition of excluded property of a foreign affiliate of a taxpayer are not included in the computation of a deductible loss which may be used to reduce foreign accrual property income of that affiliate in a particular taxation year.

This amendment applies to taxation years that begin after November 1999.

(2) In computing the earnings of a foreign affiliate of a taxpayer resident in Canada for a taxation year of the affiliate from an active business carried on by it in a country, there shall be added to the amount thereof determined under subparagraph (*a*)(i) or (ii) of the definition "earnings" in subsection (1) (in this subsection referred to

as the "earnings amount") such portion of the following amounts as was deducted or was not included, as the case may be, in computing the earnings amount,

(*a*) any income or profits tax paid to the government of a country by the affiliate so deducted,

(*b*) if established by the taxpayer, the amount by which any amount so deducted in respect of an expenditure made by the affiliate exceeds the amount, if any, by which

(i) the amount of the expenditure

exceeds

(ii) the aggregate of all other deductions in respect of that expenditure made by the affiliate in computing the earnings amounts for preceding taxation years,

(*c*) any loss of the affiliate referred to in the description of D in the definition "foreign accrual property income" in subsection 95(1) of the Act so deducted,

(*d*) any capital loss of the affiliate in respect of the disposition of capital property so deducted (for greater certainty, capital property of the affiliate for the purposes of this paragraph includes all the property of the affiliate other than property referred to in subparagraph 39(1)(*b*)(i) or (ii) of the Act on the assumption for this purpose that the affiliate is a corporation resident in Canada),

(*e*) any loss of the affiliate for a preceding or a subsequent taxation year so deducted,

(*f*) any revenue, income or profit (other than an amount referred to in paragraph (*f*.1), (*h*) or (*i*)) of the affiliate derived in the year from such business carried on in that country to the extent that such revenue, income or profit

(i) is not otherwise required to be included in computing the earnings amount of the affiliate for any taxation year by the income tax law that is relevant in computing that amount, and

(ii) does not arise with respect to a disposition (other than a disposition to which subsection (9) applies) by the affiliate of property to another foreign affiliate of the taxpayer or to a person with whom the taxpayer does not deal at arm's length, to which a tax deferral, rollover or similar tax postponement provision of the income tax law that is relevant in computing the earnings amount of the affiliate applied, and

Pending Amendment

Foreign Affiliates — February 27, 2004

Paragraph 5907(2)(*f*) of the Regulations is replaced by the following:

(*f*) any revenue, income or profit (other than an amount referred to in paragraph (*f*.1), (*h*), or (i)) of the affiliate derived in the year from such business carried on in that country to the extent that such revenue, income or profit is not otherwise required to be included in computing the earnings amount of the affiliate for any taxation year by the income tax law that is relevant in computing the earnings amount, and

Applicable: In respect of a disposition made after December 20, 2002, other than dispositions made under a written agreement made by the foreign affiliate before December 20, 2002.

Explanatory Note: Subsection 5907(2) of the Regulations provides special rules for computing earnings of a foreign affiliate from an active business carried on by it in a country. It is proposed to amend paragraph 5907(2)(f) to delete subparagraph (ii) consequential to the introduction of the rules in paragraphs 95(2)(*c*.2) to (*c*.6), and 95(2) (*f*.3) to (*f*.8) of the Act.

The amendment to paragraph 5907(2)(f) applies in respect of dispositions by a foreign affiliate after December 20, 2002, other than a disposition made after December 20, 2002 under a written agreement made by the foreign affiliate before December 20, 2002.

(*f*.1) any assistance from a government, municipality or other public authority (other than any such assistance that reduced the amount of an expenditure for purposes of computing the earnings amount for any taxation year) that the affiliate received or became entitled to receive in the year in connection with such business carried on in that country that is not otherwise required to be included in computing the earnings amount for the year or for any other taxation year,

and there shall be deducted such portion of the following amounts as were included or were not deducted, as the case may be, in computing the earnings amount,

(*g*) any income or profits tax refunded by the government of a country to the affiliate so included;

(*h*) any capital gain of the affiliate in respect of the disposition of capital property so included (for greater certainty, capital property of the affiliate for the purposes of this paragraph includes all the property of the affiliate other than property referred to in any of subparagraphs 39(1)(*a*)(i) to (iv) of the Act on the assumption for this purpose that the affiliate is a corporation resident in Canada);

(*i*) any amount that is included in the foreign accrual property income of the affiliate so included;

(*j*) any loss, outlay or expense made or incurred in the year by the affiliate for the purpose of gaining or producing such earnings amount to the extent that

(i) such loss, outlay or expense is not otherwise permitted to be deducted in computing the earnings amount of the affiliate for any taxation year by the income tax law that is relevant in computing that amount, or

(ii) such outlay or expense can reasonably be regarded as applicable to any revenue added to the earnings amount of the affiliate under paragraph (*f*),

where such loss, outlay or expense

(iii) does not arise with respect to a disposition (other than a disposition to which subsection (9) applies) by the affiliate of property to another foreign affiliate of the taxpayer or to a person with whom the taxpayer does not deal at arm's length, to which a loss deferral or similar loss postponement provision of the income tax law that is relevant in computing the earnings amount of the affiliate applied, and

(iv) is not

(A) a loss referred to in paragraph (*c*) or (*d*),

(B) a capital expenditure other than interest, or

(C) income or profits tax paid to the government of a country,

(*k*) any outlay made in the year in repayment of an amount referred to in paragraph (*f*.1), and

(*l*) where any property of the affiliate acquired from another foreign affiliate of the taxpayer or from any foreign affiliate of a person resident in Canada with whom the taxpayer does not deal at arm's length has been disposed of, such amount in respect of that property as may reasonably be considered as having been included by virtue of paragraph (*f*) in computing the earnings amount of any foreign affiliate of the taxpayer or of a person resident in Canada with whom the taxpayer does not deal at arm's length.

History: S. 5907(2), the portion before paragraph (*a*) was amended by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994, except that

(*a*) those provisions apply to taxation years of a foreign affiliate of a taxpayer that end after 1994 where there has been a change in the taxation year of the foreign affiliate in 1994 and after February 22, 1994, unless

(i) the foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation, or

(ii) the first taxation year of the foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if there had not been that change in the taxation year of the foreign affiliate; and

(*b*) in applying subsection 5907(1) of the Regulations, for taxation years of a foreign affiliate of a taxpayer that begin before 1996 and in respect of which subsection 8(13) does not apply, the references to "designated treaty country" shall be read as "country listed in subsection (11)". S. 5907(2), the portion before paragraph (*a*) formerly read:

"(2) In computing the earnings of a foreign affiliate of a taxpayer resident in Canada for a taxation year of the affiliate from an active business carried on by it in a country, there shall be added to the amount thereof determined under clause (1)(*a*)(i)(A) or (B) (in this subsection referred to as the 'earnings amount') such portion of the following amounts as were deducted or were not included, as the case may be, in computing the earnings amount,"

S. 5907(2)(*c*) was amended by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994, except that

(*a*) those provisions apply to taxation years of a foreign affiliate of a taxpayer that end after 1994 where there has been a change in the taxation year of the foreign affiliate in 1994 and after February 22, 1994, unless

(i) the foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation, or

(ii) the first taxation year of the foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if there had not been that change in the taxation year of the foreign affiliate; and

(*b*) in applying subsection 5907(1) of the Regulations, for taxation years of a foreign affiliate of a taxpayer that begin before 1996 and in respect of which subsection 8(13) does not apply, the references to "designated treaty country" shall be read as "country listed in subsection (11)". S. 5907(2)(*c*) formerly read:

"(*c*) any loss of the affiliate referred to in subparagraph 95(1)(*b*)(iii) of the Act so deducted,"

S. 5907(2)(h) was amended by P.C. 1989-321, SOR/89-135, dated March 2, 1989, applicable in respect of taxation years commencing after 1984. S. 5907(2)(h) formerly read:

"(*h*) any capital gain of the affiliate in respect of the disposition of capital property so included (for greater certainty, capital property of the affiliate for the purposes of this paragraph includes all the property of the affiliate other than property referred to in subparagraph 39(1)(a)(i), (i.1), (ii), (iii) or (iv) of the Act on the assumption for this purpose that the affiliate is a corporation resident in Canada);"

S. 5907(2)(f) was amended by P.C. 1985-467, SOR/85-176, dated February 14, 1985, applicable to the 1976 and subsequent taxation years. S. 5907(2)(f) formerly read:

"(*f*) any revenue, income or profit (other than an amount referred to in paragraph (f.1), (h) or (i)) of the affiliate derived from such business carried on in that country in the year that is not otherwise required to be included in computing the earnings amount for the year or for any other taxation year (for greater certainty, only revenue, income or profit that is not subject to tax pursuant to the income tax law that is relevant in computing the earnings amount shall be added by virtue of this paragraph but no amount shall be added that is exempt from tax pursuant to such law because of a tax-free transfer of an asset that is permitted by such law), and"

S. 5907(2)(j) was amended by P.C. 1985-467, SOR/85-176, dated February 14, 1985 and applicable to the 1976 and subsequent taxation years. S. 5907(2)(j) formerly read:

"(*j*) any loss, outlay or expense made or incurred in the year by the affiliate for the purpose of gaining or producing such earnings amount in respect of which no deduction is permitted in computing that amount for any taxation year by the income tax law that is relevant in computing that amount or any expense that can reasonably be regarded as applicable to any revenue referred to in paragraph (f) that was not deducted, other than

(i) a loss referred to in paragraph (c) or (d),

(ii) a capital expenditure that is not interest, or

(iii) any income or profits tax paid to the government of a country; and"

S. 5907(2)(l) was added by P.C. 1985-467, SOR/85-176, dated February 14, 1985 and applicable to the 1976 and subsequent taxation years.

Ss. 5907(2)(f) and (j) were amended and ss. 5907(2)(f.1) and (k) were added by P.C. 1980-503, SOR/80-141, February 11, 1980, effective for the 1976 and subsequent taxation years. S. 5907(2)(f) was amended by substituting "in respect of which no deduction is permitted in computing that amount for any taxation year by the income tax law that is relevant in computing that amount" for "that was not deducted". S. 5907(2)(f) formerly read:

"(*f*) any revenue, income or profit of the affiliate derived from such business carried on in that country in the year that was not otherwise included in computing the earnings amount for the year or for any other taxation year,"

Pending Amendment

Foreign Affiliates — February 27, 2004

Section 5907 of the Regulations is amended by adding the following after subsection 5907(2):

(2.01) Notwithstanding any other provision of the Regulations, in determining the earnings of a foreign affiliate of a corporation resident in Canada

(*a*) that are derived from a disposition to which any of subsection 88(3) and paragraphs 95(2)(c.2), (*d*), (*d*.1), (*e*), (*e*.1), (*e*.3) to (*e*.5) and (*f*.4) of the Act applies, those earnings are to be determined using the rules in those paragraphs; and

(*b*) from a disposition of property acquired in a transaction to which any of subsection 88(3) and paragraphs 95(2)(c.2), (*d*), (*d*.1), (*e*), (*e*.1), (*e*.3) to (*e*.5) and (*f*.4) of the Act applies, the cost to the foreign affiliate of the property is to be determined using the rules in those paragraphs.

Applicable: In respect of a disposition made after December 20, 2002, other than dispositions made under a written agreement made by the foreign affiliate before December 20, 2002.

Explanatory Note: New subsection 5907(2.01) of the Regulations provides that, notwithstanding any other provision of the Regulations, in determining the earnings of a foreign affiliate of a corporation resident in Canada, the cost of a property that was acquired by a particular person or partnership from another person or partnership (the "vendor") in respect of which any of paragraphs 5907(2)(c.2), (*d*), (*e*), (e.3) to (*e*.5) and (f.4) of the Regulations applied to the vendor in respect of the disposition of the property to the particular person or partnership, is to be determined using the rules in those paragraphs.

New subsection 5907(2.01) of the Regulations applies in respect of dispositions made by a foreign affiliate after December 20, 2002, other than a disposition made after December 20, 2002 under a written agreement made by the foreign affiliate before December 20, 2002.

(2.1) In computing the earnings of a foreign affiliate of a corporation resident in Canada for a taxation year of the affiliate from an active business carried on by it in Canada or in a designated treaty country, where the affiliate is resident in designated treaty country and the corporation, together with all other corporations resident in Canada with which the corporation does not deal at arm's length and in respect of which the affiliate is a foreign affiliate, have so elected in respect of the business for the

taxation year or any preceding taxation year of the affiliate, the following rules apply:

(*a*) there shall be added to the amount determined under subparagraph (*a*)(i) of the definition "earnings" in subsection (1) after adjustment in accordance with the provisions of subsection (2) (in this subsection and in subsection (2.2) referred to as the "adjusted earnings amount") the total of all amounts each of which is the amount, if any, by which

(i) the amount that can reasonably be regarded as having been deducted in respect of the cost of a capital property or foreign resource property of the affiliate in computing the adjusted earnings amount

exceeds

(ii) the amount that may reasonably be regarded as having been deducted in respect of the cost of that capital property or foreign resource property in computing income or profit of the affiliate for the year from that business in its financial statements prepared in accordance with the laws of the country in which the affiliate is resident;

(*b*) there shall be deducted from the adjusted earnings amount the aggregate of all amounts each of which is the amount, if any, by which

(i) the amount determined under subparagraph (*a*)(ii) in respect of that capital property or foreign resource property

exceeds

(ii) the amount determined under subparagraph (*a*)(i) in respect of that capital property or foreign resource property;

(*c*) where any capital property or foreign resource property of the affiliate has been disposed of in the taxation year,

(i) there shall be added to the adjusted earnings amount the aggregate of the amounts deducted pursuant to paragraphs (*b*) and (2.2)(*b*) for preceding taxation years of the affiliate in respect of that capital property or foreign resource property, and

(ii) there shall be deducted from the adjusted earnings amount the aggregate of the amounts added pursuant to paragraphs (*a*) and (2.2)(*a*) for the preceding taxation years of the affiliate in respect of that capital property or foreign resource property; and

(*d*) for the purposes of paragraph (*c*), where the affiliate has merged with one or more corporations to form a new corporation, any capital property or foreign resource property of the affiliate that becomes a property of the new corporation shall be deemed to have been disposed of by the affiliate in its last taxation year before the merger.

History: S. 5907(2.1), the portion before paragraph (*a*) was amended by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a corporation that begin after 1995, except that, where the corporation notifies the Minister of National Revenue in its return of income for its first taxation year that begins after 1994 or for a taxation year in which a dividend was paid by the foreign affiliate of its election to have subsections 5907(11), (11.1) and (11.2) of the Regulations, apply to a taxation year of the foreign affiliate of the corporation that begins before 1996,

(*a*) subsections 8(6) and (13) apply to that taxation year and each subsequent taxation year of the foreign affiliate of the corporation; and

(*b*) any reference in section 5907 of the Regulations to "country listed in subsection (11)" shall be read as "designated treaty country" and any reference in that section to "country not listed in subsection (11)" shall be read as "country that is not a designated treaty country" for that taxation year and those subsequent taxation years of the foreign affiliate of the corporation. S. 5907(2.1), the portion before paragraph (*a*) formerly read:

"(2.1) In computing the earnings of a foreign affiliate of a corporation resident in Canada for a taxation year of the affiliate from an active business carried on by it in Canada or in a country listed in subsection (11), where the affiliate is resident in a country listed in subsection (11) and the corporation, together with all other corporations resident in Canada with which the corporation does not deal at arm's length and in respect of which the affiliate is a foreign affiliate, have so elected in respect of the business for the taxation year or any preceding taxation year of the affiliate, the following rules apply:"

S. 5907(2.1)(*a*), the portion before subparagraph (ii), was amended by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994, except that

(*a*) those provisions apply to taxation years of a foreign affiliate of a taxpayer that end after 1994 where there has been a change in the taxation year of the foreign affiliate in 1994 and after February 22, 1994, unless

(i) the foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation, or

(ii) the first taxation year of the foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if there had not been that change in the taxation year of the foreign affiliate; and

(*b*) in applying subsection 5907(1) of the Regulations, for taxation years of a foreign affiliate of a taxpayer that begin before 1996 and in respect of which subsection 8(13) does not apply, the references to "designated treaty country" shall be read as "country listed in subsection (11)". S. 5907(2.1)(*a*), the portion before subparagraph (ii) formerly read:

"(*a*) there shall be added to the amount determined under clause (1)(*a*)(i)(A) after adjustment in accordance with the provisions of subsection (2) (in this subsection and in subsection (2.2) referred to as the 'adjusted earnings amount') the aggregate of all amounts each of which is the amount, if any, by which

(i) the amount that may reasonably be regarded as having been deducted in respect of the cost of a capital property or foreign resource property (within the meaning assigned by paragraph 66(15)(*f*) of the Act) of the affiliate in computing the adjusted earnings amount

exceeds"

S. 5901(2.1)(*c*) was amended by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994, except that

(*a*) those provisions apply to taxation years of a foreign affiliate of a taxpayer that end after 1994 where there has been a change in the taxation year of the foreign affiliate in 1994 and after February 22, 1994, unless

(i) the foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation, or

(ii) the first taxation year of the foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if there had not been that change in the taxation year of the foreign affiliate; and

(*b*) in applying subsection 5907(1) of the Regulations, for taxation years of a foreign affiliate of a taxpayer that begin before 1996 and in respect of which subsection 8(13) does not apply, the references to "designated treaty country" shall be read as "country listed in subsection (11)". S. 5901(2.1)(*c*) formerly read:

"(*c*) where any capital property or foreign resource property (within the meaning assigned by paragraph 66(15)(*f*) of the Act) of the affiliate has been disposed of in the taxation year,"

S. 5907(2.1)(*d*) was amended by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994, except that

(*a*) those provisions apply to taxation years of a foreign affiliate of a taxpayer that end after 1994 where there has been a change in the taxation year of the foreign affiliate in 1994 and after February 22, 1994, unless

(i) the foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation, or

(ii) the first taxation year of the foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if there had not been that change in the taxation year of the foreign affiliate; and

(*b*) in applying subsection 5907(1) of the Regulations, for taxation years of a taxpayer that begin before 1996 and in respect of which subsection 8(13) does not apply, the references to "designated treaty country" shall be read as "country listed in subsection (11)". S. 5907(2.1)(*d*) formerly read:

"(*d*) for the purposes of paragraph (*c*), where the affiliate has merged with one or more corporations to form a new corporation, any capital property or foreign resource property (within the meaning assigned by paragraph 66(15)(*f*) of the Act) of the affiliate that becomes a property of the new corporation shall be deemed to have been disposed of by the affiliate in its last taxation year before the merger."

S. 5907(2.1)(a), that part commencing with subparagraph (i), was amended by P.C. 1985-467, SOR/85-176, dated February 14, 1985 and applicable in respect of elections made after 1983. That part formerly read:

"(i) the amount that may reasonably be regarded as having been deducted in respect of the cost of a capital property of the affiliate in computing the adjusted earnings amount

exceeds

(ii) the amount that may reasonably be regarded as having been deducted in respect of the cost of that capital property in computing the income or profit of the affiliate for the year from that business in its financial statements prepared in accordance with the laws of the country in which the affiliate is resident;"

S. 5907(2.1)(b), the part commencing with subparagraph (i), was amended by P.C. 1985-467, SOR/85-176, dated February 14, 1985 and applicable in respect of elections made after 1983. That part formerly read:

"(i) the amount determined under subparagraph (a)(ii) in respect of a capital property

exceeds

(ii) the amount determined under subparagraph (a)(i) in respect of that capital property;"

S. 5907(2.1)(c) was amended by P.C. 1985-467, SOR/85-176, dated February 14, 1985 and applicable in respect of elections made after 1983, to add to the portion preceding subparagraph (i) the words "(within the meaning assigned by paragraph 66(15)(f) of the Act)", to add to subparagraph (i) and (ii) the words "or foreign resource property" and to substitute "for the preceding taxation years" for "for preceding taxation years" in subparagraph (ii).

S. 5907(2.1)(d) was amended by P.C. 1985-467, SOR/85-176, dated February 14, 1985 and applicable in respect of elections made after 1983. S. 5907(2.1)(d) formerly read:

"(*d*) the purposes of paragraph (c), where the affiliate has merged with one or more corporations to form a new corporation, any capital property of the affiliate that becomes a property of the new corporation shall be deemed to have been disposed of by the affiliate in its last taxation year before the merger."

S. 5907(2.1) was added by P.C. 1978-3599, SOR/78-913, dated December 1, 1978 and applicable to the 1978 and subsequent taxation years.

Information Circulars: IC 77-9R Books, records and other requirements for taxpayers having foreign affiliates; IC 07-1 Taxpayer Relief Provisions.

(2.2) Where the taxation year of a foreign affiliate of a particular corporation resident in Canada for which the particular corporation has made an election under subsection (2.1) in respect of an active business carried on by the affiliate is not the first taxation year of the affiliate in which it carried on the business and in which it was a foreign affiliate of the particular corporation or of another corporation resident in Canada with which the particular corporation was not dealing at arm's length at any time (hereinafter referred to as the "non-arm's length corporation"), in computing the earnings of the affiliate from the business for the taxation year for which the election is made, the following rules, in addition to those set out in subsection (2.1), apply:

(*a*) there shall be added to the adjusted earnings amount the aggregate of all amounts each of which is an amount that would have been determined under paragraph (2.1)(*a*) or subparagraph (2.1)(*c*)(i)

(i) for any preceding taxation year of the affiliate in which it was a foreign affiliate of the particular corporation if the particular corporation had made an election under subsection (2.1) for the first taxation year of the affiliate in which it was a foreign affiliate of the particular corporation and carried on the business, and

(ii) for any preceding taxation year of the affiliate (other than a taxation year referred to in subparagraph (i)) in which it was a foreign affiliate of the non-arm's length corporation if the non-arm's length corporation had made an election under subsection (2.1) for the first taxation year of the affiliate in which it was a foreign affiliate of the non-arm's length corporation and carried on the business; and

(*b*) there shall be deducted from the adjusted earnings amount the aggregate of all amounts each of which is an amount that would have been determined under paragraph (2.1)(*b*) or subparagraph (2.1)(*c*)(ii)

(i) for any preceding taxation year of the affiliate in which it was a foreign affiliate of the particular corporation if the particular corporation had made an election under subsection (2.1) for the first taxation year of the affiliate in which it was a foreign affiliate of the particular corporation and carried on the business, and

(ii) for any preceding taxation year of the affiliate (other than a taxation year referred to in subparagraph (i)) in which it was a foreign affiliate of the non-arm's length corporation if the non-arm's length corporation had made an election under subsection (2.1) for the first taxation year of the affiliate in which it was a foreign affiliate of the non-arm's length corporation and carried on the business.

History: S. 5907(2.2) was amended by P.C. 1985-467, SOR/85-176, dated February 14, 1985 and applicable in respect of elections made after November 4, 1982. S. 5907(2.2) formerly read:

"(2.2) Where the taxation year of a foreign affiliate of a corporation resident in Canada for which the corporation has made an election under subsection (2.1) in respect of an active business carried on by the affiliate is not the first taxation year of the affiliate in which it was a foreign affiliate of the corporation and carried on the business, in computing the earnings of the affiliate from the business for the taxation year for which the election is made, the following rules, in addition to those set out in subsection (2.1), apply:

(*a*) there shall be added to the adjusted earnings amount the aggregate of all amounts each of which is an amount that would have been determined under paragraph (2.1)(a) or subparagraph (2.1)(c)(i) for any preceding taxation year of the affiliate in which it was a foreign affiliate of the corporation if the corporation had made an election under subsection (2.1) for the first taxation year of the affiliate in which it was a foreign affiliate of the corporation and carried on the business; and

(*b*) there shall be deducted from the adjusted earnings amount the aggregate of all amounts each of which is an amount that would have been determined under paragraph (2.1)(b) or subparagraph (2.1)(c)(ii) for any preceding taxation year of the affiliate in which it was a foreign affiliate of the corporation if the corporation had made an election under subsection (2.1) for the first taxation year of the affiliate in which it was a foreign affiliate of the corporation and carried on the business."

S. 5907(2.2) was added by P.C. 1978-3599, SOR/78-913, dated December 1, 1978 and applicable to the 1978 and subsequent taxation years.

(2.3) For the purposes of this subsection and subsections (2.1) and (2.2), where an election under subsection (2.1) has been made by a corporation resident in Canada (in this subsection and in subsection (2.4) referred to as the "electing corporation") in respect of an active business of a foreign affiliate of the electing corporation and the affiliate subsequently becomes a foreign affiliate of another corporation resident in Canada (in this subsection and in subsection (2.4) referred to as the "subsequent corporation") that does not deal at arm's length with the electing corporation, in computing the earnings of the affiliate from such business in respect of the subsequent corporation for any taxation year of the affiliate ending after the

affiliate so became a foreign affiliate of the subsequent corporation, the subsequent corporation shall be deemed to have made an election under subsection (2.1) in respect of the business of the affiliate for the first such taxation year and for the purposes of paragraph (2.1) (*d*), the earnings of the affiliate for all of the preceding taxation years shall be deemed to have been adjusted in accordance with subsections (2.1) and (2.2) in the same manner as if the subsequent corporation had been the electing corporation.

History: S. 5907(2.3) was amended by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994, except that

(*a*) those provisions apply to taxation years of a foreign affiliate of a taxpayer that end after 1994 where there has been a change in the taxation year of the foreign affiliate in 1994 and after February 22, 1994, unless

(i) the foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation, or

(ii) the first taxation year of the foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if there had not been that change in the taxation year of the foreign affiliate; and

(*b*) in applying subsection 5907(1) of the Regulations, for taxation years of a foreign affiliate of a taxpayer that begin before 1996 and in respect of which subsection 8(13) does not apply, the references to "designated treaty country" shall be read as "country listed in subsection (11)". S. 5907(2.3) formerly read:

"(2.3) For the purposes of this subsection and subsections (2.1) and (2.2), where an election under subsection (2.1) has been made by a corporation resident in Canada (in this subsection and in subsection (2.4) referred to as the 'electing corporation') in respect of an active business of a foreign affiliate of the electing corporation and the affiliate subsequently becomes a foreign affiliate of another corporation resident in Canada (in this subsection and in subsections (2.4) and (2.5) referred to as the 'subsequent corporation') that does not deal at arm's length with the electing corporation, in computing the earnings of the affiliate from such business in respect of the subsequent corporation for any taxation year of the affiliate ending after the affiliate so became a foreign affiliate of the subsequent corporation, the subsequent corporation shall be deemed to have made an election under subsection (2.1) in respect of the business of the affiliate for the first such taxation year and for the purposes of paragraph (2.1)(*c*), the earnings of the affiliate for all of the preceding taxation years shall be deemed to have been adjusted in accordance with subsections (2.1) and (2.2) in the same manner as if the subsequent corporation had been the electing corporation."

S. 5907(2.3) was added by P.C. 1978-3599, SOR/78-913, dated December 1, 1978 and applicable to the 1978 and subsequent taxation years.

(2.4) For the purposes of subsection (2.3)

(*a*) a corporation formed as a result of a merger, to which section 87 of the Act applies, of the electing corporation and one or more other corporations, or

(*b*) a corporation that has acquired shares of the capital stock of a foreign affiliate, in respect of which an election under subsection (2.1) has been made, from the electing corporation in a transaction in respect of which an election under section 85 of the Act was made

shall be deemed to be a subsequent corporation that does not deal at arm's length with the electing corporation.

History: S. 5907(2.4) was added by P.C. 1978-3599, SOR/78-913, dated December 1, 1978 and applicable to the 1978 and subsequent taxation years.

(2.5) [Repealed.]

History: S. 5907(2.5) was repealed by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994, except that

(*a*) those provisions apply to taxation years of a foreign affiliate of a taxpayer that end after 1994 where there has been a change in the taxation year of the foreign affiliate in 1994 and after February 22, 1994, unless

(i) the foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation, or

(ii) the first taxation year of the foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if there had not been that change in the taxation year of the foreign affiliate; and

(*b*) in applying subsection 5907(1) of the Regulations, for taxation years of a foreign affiliate of a taxpayer that begin before 1996 and in respect of which subsection 8(13) does not apply, the references to "designated treaty country" shall be read as "country listed in subsection (11)".

"(2.5) The adjustments set out in subsections (2.1) and (2.2) are only relevant in determining the earnings of a foreign affiliate for a taxation year from an active business carried on by it in a country, relative to a corporation that has elected under subsection (2.1) in respect of the business, or a subsequent corporation, and with regard to any such corporation subparagraph (1)(*a*)(i) shall be read as if the reference therein to 'subsection (2)' were a reference to 'subsections (2), (2.1) and (2.2)'."

S. 5907(2.5) was added by P.C. 1978-3599, SOR/78-913, dated December 1, 1978 and applicable to the 1978 and subsequent taxation years.

(2.6) A corporation resident in Canada, and all other corporations resident in Canada with which the corporation does not deal at arm's length, shall each be considered to have elected under subsection (2.1) in respect of an active business carried on by a non-resident corporation that is a foreign affiliate of each such corporation for a taxation year if there is filed with the Minister on or before the day that is the later of

(*a*) June 30, 1986, and

(*b*) the earliest of the days on or before which any one of the said corporations is required to file a return of income pursuant to section 150 of the Act for its taxation year following the taxation year in which the taxation year of the affiliate in respect of which the election is made ends,

the following information:

(*c*) a description of the active business sufficient to identify the business, and

(*d*) a statement on behalf of each such corporation, signed by an authorized official of the corporation on behalf of which the statement is made, that the corporation is electing under subsection (2.1) in respect of the business.

History: S. 5907(2.6) was amended by P.C. 1989-321, SOR/89-135, dated March 2, 1989 and applicable in respect of elections made under s. 5907(2.1) for the 1982 and subsequent taxation years. S. 5907(2.6) formerly read:

"(2.6) A corporation resident in Canada, and all other corporations resident in Canada with which the corporation does not deal at arm's length, shall each be considered to have elected under subsection (2.1) in respect of an active business carried on by a non-resident corporation that is a foreign affiliate of each such corporation for a taxation year if there is filed with the Minister on or before the day that is the earliest of the days on or before which any one of the said corporations is required to file a return of income pursuant to section 150 of the Act for its taxation year in which the taxation year of the affiliate in respect of which the election is made ends, the following information:

(*a*) a description of the active business sufficient to identify the business; and

(*b*) a statement on behalf of each such corporation, signed by an authorized official of the corporation on behalf of which the statement is made, that the corporation is electing under subsection (2.1) in respect of the business."

S. 5907(2.6) was added by P.C. 1978-3599, SOR/78-913, dated December 1, 1978 (Special Issue, *Canada Gazette*, December 31, 1978), effective for the 1978 and subsequent taxation years.

(2.7) Notwithstanding any other provision of this Part, where

(*a*) an amount is included in computing the income or loss from an active business of a particular foreign affiliate of a taxpayer for a particular taxation year under subparagraph 95(2)(*a*)(i) or ii of the Act, and

(*b*) the amount included is in respect of an amount paid or payable (other than an amount paid or payable that is described in clause 95(2)(*a*)(ii)(D) of the

Act) by another non-resident corporation described in subparagraph 95(2)(*a*)(i) or (ii) of the Act or by a partnership of which such a corporation is a member,

the amount (in respect of which an amount was included in the income or loss from an active business of the particular affiliate for the particular year) paid or payable by the non-resident corporation or the partnership shall, except where it has been deducted under paragraph (2)(*j*) in computing the non-resident corporation's earnings or loss from an active business, be deducted in computing the earnings or loss of the non-resident corporation or the partnership, as the case may be, from the active business for its earliest taxation year in which the amount was paid or payable and shall not be deducted in computing its earnings or loss from the active business for any other taxation year.

Pending Amendment

Foreign Affiliates — February 27, 2004

Subsection 5907(2.7) of the Regulations is replaced by the following:

(2.7) Notwithstanding any other provision of this Part, if an amount is included in computing the income or loss from an active business of a particular foreign affiliate of a taxpayer for a particular taxation year under paragraph 95(2)(*a*) of the Act and is in respect of a particular amount paid or payable (other than an amount paid or payable described in clause 95(2)(*a*)(ii)(D) of the Act) by another non-resident corporation described in paragraph 95(2)(*a*) of the Act or by a partnership of which such a corporation is a member, the particular amount is to, except where it has been deducted under paragraph (2)(j) in computing the other non-resident corporation's earnings or loss from an active business, be deducted in computing the earnings or loss of the other non-resident corporation or the partnership, as the case may be, from the active business for its earliest taxation year in which the particular amount was paid or payable. The particular amount may not be deducted in computing its earnings or loss from the active business for any other taxation year.

Applicable: To taxation years, of a foreign affiliate of a taxpayer, that begin on or after December 20, 2002. If a taxpayer elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing due-date for the taxpayer's taxation year that includes the day on which the Act containing the amendments to section 95 that were released on February 27, 2004 is assented to (the "Global Section 95 Election" reproduced at the beginning of section 5907 of the Regulations), this amendment to subsection 5907(2.7) applies to taxation years of all foreign affiliates of the taxpayer, that begin after 1994.

Explanatory Note: In general terms, subsection 5907(2.7) of the Regulations provides that, where amounts are included by subparagraph 95(2)(*a*)(i) or (ii) of the Act in computing the income or loss from an active business of a particular foreign affiliate of a taxpayer and these amounts are in respect of amounts paid or payable to the particular affiliate by another non-resident corporation or partnership in the group, the amounts paid or payable to the particular affiliate by the other non-resident corporation or partnership are required to be deducted in computing the other non-resident corporation's or partnership's earnings or loss from an active business (unless they have already been deducted under paragraph 5907(2)(*j*) of the Regulations) for the earliest taxation year in which the amounts were paid or payable.

Subsection 5907(2.7) of the Regulations is proposed to be amended so that it applies to amounts included in computing the income or loss from an active business of the particular affiliate under paragraph 95(2)(*a*) of the Act, rather than just under subparagraph 95(2)(*a*)(i) or (ii).

The proposed amendments to subsection 5907(2.7) of the Regulations apply to taxation years, of a foreign affiliate of a taxpayer, that begin on or after December 20, 2002. Note that these amendments are included in the Global Section 95 Election package described at the beginning of [Regulation 5907].

History: S. 5907(2.7) was added by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994, except that

(*a*) those provisions apply to taxation years of a foreign affiliate of a taxpayer that end after 1994 where there has been a change in the taxation year of the foreign affiliate in 1994 and after February 22, 1994, unless

(i) the foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation, or

(ii) the first taxation year of the foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if there had not been that change in the taxation year of the foreign affiliate; and

(*b*) in applying subsection 5907(1) of the Regulations, for taxation years of a foreign affiliate of a taxpayer that begin before 1996 and in respect of which subsection 8(13) does not apply, the references to "designated treaty country" shall be read as "country listed in subsection (11)".

(2.8) Notwithstanding any other provision of this Part, where

(*a*) an amount is included in computing the income from an active business of a particular foreign affiliate of a taxpayer or a person related to the taxpayer for a particular taxation year under clause 95(2)(*a*)(ii)(D) of the Act, and

(*b*) the amount included is in respect of an amount of interest paid or payable by another non-resident corporation (in this subsection referred to as the "second affiliate") to which the particular affiliate and the taxpayer are related

the following rules apply:

(*c*) that amount of interest shall be deducted in computing the second affiliate's income or loss, from an active business carried on by it in a country in which it is resident and subject to income taxation, for its earliest taxation year in which the amount was paid or payable,

(*d*) the second affiliate is deemed to have carried on an active business in a country in which it was resident and subject to income taxation for each taxation year referred to in paragraph (*c*) in which such an active business was not otherwise carried on by it, and

(*e*) in computing the second affiliate's income for a taxation year from any source, no amount shall be deducted in respect of an amount paid or payable by it that is referred to in paragraph (*c*) except as is required under that paragraph.

Pending Amendment

Foreign Affiliates — February 27, 2004

Subsection 5907(2.8) of the Regulations is replaced by the following:

(2.8) Subsection (2.81) applies, in respect of a particular amount of interest, to the specified foreign affiliates of a corporation resident in Canada, if

(*a*) an amount in respect of the particular amount of interest is included, because of clause 95(2)(*a*)(ii)(D) of the Act, in computing the income or loss for a particular taxation year from an active business of a particular foreign affiliate of the corporation resident in Canada or a particular foreign affiliate of a person related to that corporation; and

(*b*) the particular amount of interest is an amount of interest paid or payable to the particular foreign affiliate, by another foreign affiliate (in this subsection and in subsections (2.81) to (2.83) referred to as the "second affiliate") of the corporation resident in Canada to

which the particular foreign affiliate and the corporation resident in Canada are related, under a legal obligation to pay interest on borrowed money used for the purpose of earning income from property, or on an amount payable for property acquired for the purpose of gaining or producing income from property, and

(i) the property is excluded property of the second affiliate that is shares of the third affiliate referred to in subclause 95(2)(*a*)(ii)(D)(III) of the Act (which third affiliate is referred to in this subsection and in subsections (2.81) to (2.83) as the "third affiliate"), and

(ii) the requirements set out in subclauses 95(2)(*a*)(ii)(D)(IV) and (V) of the Act are satisfied in respect of the second and third affiliates for their respective applicable taxation years.

(2.81) If this subsection applies, in respect of the particular amount of interest, to the specified foreign affiliates of the corporation resident in Canada, the following rules apply:

(*a*) where the specified foreign affiliate is the second affiliate, the particular amount is to be deducted in computing the second affiliate's exempt surplus in respect of the corporation resident in Canada at the end of the applicable taxation year of the second affiliate, to the extent of the second affiliate's available exempt surplus amount in respect of the applicable taxation year of the second affiliate;

(*b*) where the specified foreign affiliate is the third affiliate, there is to be deducted in computing the third affiliate's exempt surplus in respect of the corporation resident in Canada at the end of the applicable taxation year of the third affiliate, the lesser of the third affiliate's available exempt surplus amount in respect of its applicable taxation year and the amount determined by the formula

$$(A - B) \times C$$

where

A is the particular amount of interest,

B is the amount deducted because of paragraph (*a*) in computing the second affiliate's exempt surplus in respect of the corporation resident in Canada at the end of the applicable taxation year of the second affiliate, and

C is the specified adjustment factor, in respect of the corporation resident in Canada, in respect of the third affiliate, in respect of the applicable taxation year of the second affiliate;

(*c*) where the specified foreign affiliate is a group foreign affiliate, there is to be deducted, in computing the group foreign affiliate's exempt surplus in respect of the corporation resident in Canada at the end of the applicable taxation year of the group foreign affiliate, the lesser of the group foreign affiliate's available exempt surplus in respect of its applicable taxation year and the amount determined by the formula

$$(A - B - C) \times D$$

where

A is the particular amount of interest,

B is the amount deducted because of paragraph (*a*) in computing the second affiliate's exempt surplus in respect of the corporation resident in Canada at the end of the applicable taxation year of the second affiliate,

C is the amount determined when the amount deducted because of paragraph (*b*) in computing the third affiliate's exempt surplus in respect of the corporation resident in Canada at the end of the applicable taxation year of the third affiliate is divided by the amount determined for C in the formula in paragraph (*b*) in respect of the third affiliate, and

D is the specified adjustment factor, in respect of the corporation resident in Canada, in respect of the specified foreign affiliate of the corporation resident in Canada, in respect of the applicable taxation year of the second affiliate;

(*d*) amounts in respect of the particular amount of interest must be deducted under paragraphs (*a*) to (*c*) in computing the exempt surplus in respect of the corporation resident in Canada of the specified foreign affiliates of the corporation resident in Canada at the end of each of their applicable taxation years to the extent of the total of all amounts each of which is the available exempt surplus amount of a specified foreign affiliate of the corporation resident in Canada in respect of that specified foreign affiliate's applicable taxation year;

(*e*) paragraph (*a*) is to be applied to the second affiliate before paragraph (*b*) is applied to the third affiliate and paragraph (*b*) is to be applied to the third affiliate before paragraph (*c*) is applied to a group foreign affiliate of the corporation resident in Canada; and

(*f*) there is to be added in computing the exempt deficit in respect of the corporation resident in Canada of the second affiliate the amount determined by the formula:

$$K - (L + M + N)$$

where

K is the particular amount of interest,

L is the amount determined under paragraph (*a*) in respect of the particular amount of interest in respect of the second affiliate,

M is the amount determined when the amount determined under paragraph (*b*) in respect of the particular amount of interest in respect of the third affiliate is divided by the amount determined for C in the formula in that paragraph, and

N is the amount determined when the amount determined under paragraph (*c*) in respect of the particular amount of interest in respect of the group foreign affiliate is divided by the amount determined for D in the formula in that paragraph.

(2.82) In computing the second affiliate's income or loss for a taxation year from any source, no amount may be deducted in respect of an amount paid or payable by it that is referred to in paragraph (2.81)(*a*).

(2.83) The following definitions apply in this subsection and subsections (2.8) to (2.82).

"*applicable taxation year*", of a specified foreign affiliate of the corporation resident in Canada, means the last taxation year of the specified foreign affiliate that ends in the particular taxation year of the particular foreign affiliate referred to in paragraph (2.8)(*a*).

"*available exempt surplus amount*", of a specified foreign affiliate of the corporation resident in Canada in respect of the applicable taxation year of the specified foreign affiliate, means the amount determined by the formula

$$(A + B + C) - (D + E + F + G)$$

where

A is the total of all amounts each of which is the portion of the specified foreign affiliate's income, for its applicable taxation year, from an active business that is included in computing the exempt earnings of the specified foreign affiliate in respect of the corporation resident in Canada,

B is the specified foreign affiliate's exempt surplus in respect of the corporation resident in Canada at the end of the specified foreign affiliate's taxation year that immediately precedes its applicable taxation year,

C is the total of all amounts each of which is the portion of any dividend received in the applicable taxation year, by the specified foreign affiliate from another foreign affiliate of the corporation resident in Canada, that is prescribed by paragraph 5900(1)(*a*) to have been paid out of that other affiliate's exempt surplus in respect of the corporation resident in Canada,

D is the total of all amounts each of which is the portion of the specified foreign affiliate's loss, for its applicable taxation year, from an active business that is included in computing the exempt loss of the specified foreign affiliate in respect of the corporation resident in Canada,

E is the specified foreign affiliate's exempt deficit in respect of the corporation resident in Canada at the end of the specified foreign affiliate's taxation year that immediately precedes its applicable taxation year,

F is the specified foreign affiliate's taxable deficit in respect of the corporation resident in Canada at the end of the specified foreign affiliate's taxation year that immediately precedes its applicable taxation year, and

G is the total of all amounts each of which is the portion of any dividend paid in the applicable taxation year by the specified foreign affiliate that is prescribed by paragraph 5900(1)(*a*) to have been paid out of its exempt surplus in respect of the corporation resident in Canada.

"*group foreign affiliate*", at any time of a corporation resident in Canada, means any of its foreign affiliates (other than the second affiliate and the third affiliate) in which the second affiliate has, at that time, an equity percentage.

"*specified adjustment factor*", in respect of the corporation resident in Canada, in respect of a specified foreign affiliate of the corporation resident in Canada, in respect of the applicable taxation year of the second affiliate, means the amount determined by the formula

A/B

where

A is the surplus entitlement percentage of the corporation resident in Canada in respect of the second affiliate, immediately before the end of the applicable taxation year of the second affiliate, and

B is the surplus entitlement percentage of the corporation resident in Canada in respect of the specified foreign affiliate, immediately before the end of the applicable taxation year of the second affiliate.

"*specified foreign affiliate*", of a corporation resident in Canada, means any foreign affiliate of the corporation that, at the end of the particular taxation year referred to in paragraph (2.8)(*a*), is

(*a*) the second affiliate;

(*b*) the third affiliate; or

(*c*) another corporation that is

(i) if there is only one group foreign affiliate of the corporation resident in Canada at the end of that particular taxation year, that group foreign affiliate, or

(ii) if there is more than one group foreign affiliate of the corporation resident in Canada at the end of that particular taxation year, the group foreign affiliate of the corporation resident in Canada with the greatest available exempt surplus amount for the applicable taxation year of that group foreign affiliate.

Applicable: To taxation years, of a foreign affiliate of a taxpayer, to which subclauses 95(2)(*a*)(ii)(D)(III) to (V) of the *Income Tax Act*, as proposed by the *Legislative Proposals and Draft Regulations relating to Income Tax* released on February 27, 2004, apply.

Explanatory Note: Under clause 95(2)(*a*)(ii)(D) of the Act, the income of a foreign affiliate of a corporation resident in Canada (the "first affiliate") that is derived from amounts paid or payable to it by another foreign affiliate of the corporation or a non-resident corporation to which the first affiliate and the corporation resident in Canada are related (referred to in subsections 5907(2.8) to (2.83) of the Regulations as the "second affiliate") is included in the active business income of the first affiliate.

The amounts paid or payable by the second affiliate must be in respect of interest on borrowed money used for the purpose of earning income from property or on an amount payable for property where the property consists of shares of another foreign affiliate of the corporation in respect of which the corporation has a qualifying interest throughout the year (in subsections 5907(2.8) to (2.83), the "third affiliate") that are excluded property of the second affiliate within the meaning assigned by section 95 of the Act in the country in which the second affiliate is resident and subject to income taxation.

It is proposed that existing subsection 5907(2.8) of the Regulations be replaced by proposed new subsections 5907(2.8) to (2.83) because of the proposed amendments to clause 95(2)(*a*)(ii)(D) of the Act. These are essentially rules for reducing exempt surplus of foreign affiliates of a taxpayer resident in Canada in respect of interest referred to in 95(2)(*a*)(ii)(D) of the Act. The proposed new subsections apply to taxation year, of foreign affiliate of a taxpayer, to which proposed new clauses 95(2)(*a*)(ii)(D)(III) to (V) of the Act apply.

Proposed subsection 5907(2.8) of the Regulations sets out, in respect of a particular amount of interest referred to in 95(2)(*a*)(ii)(D) of the Act, the requirements for new subsection 5907(2.81) to apply.

Proposed subsection 5907(2.8) provides that subsection 5907(2.81) applies to the specified foreign affiliates of a corporation resident in Canada, if

- an amount in respect of the particular amount of interest is included, under clause 95(2)(*a*)(ii)(D) of the Act, in computing the income or loss for a particular taxation year from an active business of a particular foreign affiliate of the corporation resident in Canada or a person related to the corporation resident in Canada, and
- the particular amount of interest is an amount of interest paid or payable to the particular foreign affiliate, by the second affiliate, under a legal obligation to pay interest on borrowed money used for the purpose of earning income from property, or on an amount payable for property acquired for the purpose of gaining or producing income from property, if
  - the property is excluded property of the second affiliate that is shares of the third affiliate, and
  - the requirements set out in clauses (*a*)(ii)(D)(IV) and (V) of the Act are satisfied in respect of the second and third affiliates for their respective applicable taxation years.

If subsection 5907(2.81) of the Regulations applies, in respect of the particular amount of interest referred to in subsection 5907(2.8), to the specified foreign affiliates of the corporation resident in Canada, the following rules apply:

- Where the specified foreign affiliate is the second affiliate referred to in subsection 5907(2.8), the particular amount of interest is to be deducted in computing the specified foreign affiliate's exempt surplus at the end of the applicable taxation year of the specified foreign affiliate, to the extent of the specified foreign affiliate's available exempt surplus amount in respect of the applicable taxation year of the specified foreign affiliate.
- Where the specified foreign affiliate is the third affiliate referred to in subsection 5907(2.8), there shall be deducted in computing the specified foreign affiliate's exempt surplus at the end of the applicable taxation year of the specified foreign affiliate, the lesser of the specified foreign affiliate's available exempt surplus amount in respect of the applicable taxation year of the specified foreign affiliate and the amount determined by the formula

  (A–B) × C

  where

  A is the particular amount of interest,

  B is the amount deducted because of paragraph 5907(2.81)(*a*) in computing the second affiliate's exempt surplus at the end of the applicable taxation year of the second affiliate, and

  C is the specified adjustment factor, in respect of the corporation resident in Canada, in respect of the specified foreign affiliate, in respect of the applicable taxation year of the second affiliate.
- Where the specified foreign affiliate is a group foreign affiliate (defined in subsection referred to in subsection 5907(2.84)), there shall be deducted in computing the specified foreign affiliate's exempt surplus in respect of the corporation resident in Canada at the end of the applicable taxation year of the specified foreign affiliate, the lesser of the specified foreign affiliate's available exempt surplus (defined in subsection referred to in subsection 5907(2.83)) in respect of its applicable taxation year and the amount determined by the formula

  (A – B – C) × D

  where

  A is the particular amount of interest,

  B is the amount deducted because of paragraph 5907(2.81)(*a*) in computing the second affiliate's exempt surplus at the end of the applicable taxation year of the second affiliate,

C is the amount determined when the amount deducted because of paragraph 5907(2.81)(*b*) in computing the third affiliate's exempt surplus at the end of the applicable taxation year of the third affiliate is divided by the amount determined for C in the formula in paragraph 5907(2.81)(*b*) in respect of the third affiliate, and

D is the specified adjustment factor, in respect of the corporation resident in Canada, in respect of the specified foreign affiliate, in respect of the applicable taxation year of the second affiliate.

- Amounts in respect of the particular amount of interest must be deducted under paragraph 5907(2.81)(*a*) to (*c*) that subsection in computing the exempt surplus in respect of the corporation resident in Canada of the specified foreign affiliates of the corporation resident in Canada at the end of each of their applicable taxation years to the extent of the total of all amounts each of which is the available exempt surplus amount of a specified foreign affiliate of the corporation resident in Canada in respect of the applicable taxation year of that specified foreign affiliate.
- An exempt surplus reduction is to be applied against the second affiliate before it is applied against the third affiliate and is to be applied against the third affiliate before it is applied against a group foreign affiliate of the corporation resident in Canada.
- There is to be added in computing the exempt deficit in respect of the corporation resident in Canada of the second affiliate the amount determined by the formula:

$$K - (L + M + N)$$

where

K is the particular amount of interest,

L is the amount determined under paragraph 5907(2.81)(*a*) in respect of the particular amount of interest in respect of the second affiliate,

M is the amount determined when the amount determined under paragraph 5907(2.81)(*b*) in respect of the particular amount of interest in respect of the third affiliate is divided by the amount determined for C in the formula in that paragraph, and

N is the amount determined when the amount determined under paragraph 5907(2.81)(*c*) in respect of the particular amount of interest in respect of the group foreign affiliate is divided by the amount determined for D in the formula in that paragraph.

Proposed subsection 5907(2.82) of the Regulations provides that, in computing the second affiliate's income or loss for a taxation year from any source, no amount is to be deducted in respect of an amount paid or payable by it that is referred to in paragraph 5907(2.81)(*a*).

Proposed subsection 5907(2.83) of the Regulations sets out certain definitions used in subsections 5907(2.8) to (2.83).

"applicable taxation year"

"Applicable taxation year" of a specified foreign affiliate of the corporation resident in Canada, in subsection 5907(2.83) of the Regulations, is the last taxation year of the specified foreign affiliate that ends in the particular taxation year of the particular foreign affiliate referred to in paragraph 5907(2.8)(*a*).

"available exempt surplus amount"

"Available exempt surplus amount" of a specified foreign affiliate of the corporation resident in Canada, in subsection 5907(2.83) of the Regulations in respect of the applicable taxation year of the specified foreign affiliate is the amount determined by the formula

$$(A + B + C) - (D + E + F + G)$$

where

A is the total of all amounts of which is this portion the specified foreign affiliate's income, for its applicable taxation year, from an active business that is included in computing the exempt earnings in respect of the corporation resident in Canada of the specified foreign affiliate,

B is the specified foreign affiliate's exempt surplus in respect of the corporation resident in Canada at the end of the specified foreign affiliate's taxation year that immediately precedes its applicable taxation year,

C is the total of all amounts each of which is the portion of any dividend received in the applicable taxation year, by the specified foreign affiliate from another foreign affiliate of the corporation resident in Canada, that is prescribed by paragraph 5900(1)(*a*) to have been paid out of that other affiliate's exempt surplus,

D is the total of all amounts each of which is the portion of the specified foreign affiliate's loss, for its applicable taxation year, from an active business that is included in computing the exempt loss in respect of the corporation resident in Canada of the specified foreign affiliate,

E is the specified foreign affiliate's exempt deficit in respect of the corporation resident in Canada at the end of the specified foreign affiliate's taxation year that immediately precedes its applicable taxation year,

F is the specified foreign affiliate's taxable deficit in respect of the corporation resident in Canada at the end of the specified foreign affiliate's taxation year that immediately precedes its applicable taxation year, and

G is the total of all amounts each of which is the portion of any dividend paid in the applicable taxation year by the specified foreign affiliate that is prescribed by paragraph 5900(1)(*a*) to have been paid out of its exempt surplus.

"group foreign affiliate"

"Group foreign affiliate", at any time, of a corporation resident in Canada, in subsection 5907(2.83) of the Regulations, is any of its foreign affiliates (other than the second affiliate and the third affiliate) in which the second affiliate has, at that time, an equity percentage.

"specified adjustment factor"

"Specified adjustment factor", in respect of the corporation resident in Canada, in subsection 5907(2.83) of the Regulations, in respect of a specified foreign affiliate of the corporation resident in Canada, in respect of the applicable taxation year of the second affiliate, is the amount determined by the formula

$$A/B$$

where

A is the surplus entitlement percentage of the corporation resident in Canada in respect of the second affiliate, immediately before the end of the applicable taxation year of the second affiliate, and

B is the surplus entitlement percentage of the corporation resident in Canada in respect of the specified foreign affiliate, immediately before the end of the applicable taxation year of the second affiliate.

"specified foreign affiliate"

"Specified foreign affiliate" of the corporation resident in Canada, in subsection 5907(2.83), is any foreign affiliate of the corporation resident in Canada that, at the end of the particular taxation year referred to in paragraph 5907(2.8)(*a*) of the Regulations, is

- the second affiliate,
- the third affiliate, or
- another corporation that is
  - if there is only one group foreign affiliate of the corporation resident in Canada at the end of that particular taxation year, that group foreign affiliate, or
  - if there is more than one group foreign affiliate of the corporation resident in Canada at the end of that particular taxation year, the group foreign affiliate of the corporation resident in Canada with the greatest available exempt surplus amount for the applicable taxation year of that group foreign affiliate.

History: S. 5907(2.8) was added by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994, except that

(*a*) those provisions apply to taxation years of a foreign affiliate of a taxpayer that end after 1994 where there has been a change in the taxation year of the foreign affiliate in 1994 and after February 22, 1994, unless

(i) the foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation, or

(ii) the first taxation year of the foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time when that

taxation year would have begun if there had not been that change in the taxation year of the foreign affiliate; and

(*b*) in applying subsection 5907(1) of the Regulations, for taxation years of a foreign affiliate of a taxpayer that begin before 1996 and in respect of which subsection 8(13) does not apply, the references to "designated treaty country" shall be read as "country listed in subsection (11)".

(2.9) In computing the earnings from an active business of a foreign affiliate of a corporation resident in Canada for the affiliate's taxation year immediately before the particular taxation year of the affiliate referred to in paragraph 95(2)(*k*) of the Act,

(*a*) there shall be added to the amount determined under subparagraph (*a*)(i) or (ii) of the definition "earnings" in subsection (1) after adjustment in accordance with subsections (2), (2.1) and (2.2) the total of

(i) the amount, if any, by which the total determined in respect of the affiliate in clause (*b*)(i)(B) for the year exceeds the total determined in respect of the affiliate in clause (*b*)(i)(A) for the year,

(ii) where, at the end of the year, the affiliate was deemed because of paragraphs 95(2)(*k*) and 138(11.91)(*e*) of the Act to have disposed of property owned by it that was used or held by it in the course of carrying on the active business in the year, the amount that is the total of all amounts each of which is the amount, if any, by which

(A) the lesser of the fair market value and the cost to the affiliate at the end of the year of a capital property (referred to in this subparagraph and subparagraph (*b*)(ii) as a "particular depreciable asset") owned by it that

(I) was used or held by it in the course of carrying on the active business in the year,

(II) was deemed because of paragraphs 95(2)(*k*) and 138(11.91)(*e*) of the Act to have been disposed of at the end of the year, and

(III) was property in respect of the cost of which amounts were, at any time, deductible in computing the earnings from the active business under subparagraph (*a*)(i) or (ii) of the definition "earnings" in subsection (1)

exceeds

(B) the amount, if any, by which the cost to the affiliate of the particular depreciable asset exceeds the total of all amounts each of which is an amount that can reasonably be regarded as having been deducted in respect of the cost of the particular depreciable asset in computing the earnings (as would be defined in subsection (1) if that definition were read as if the reference in that definition to this subsection did not exist) of the affiliate from the active business in the year or in any preceding taxation year of the affiliate in which it was a foreign affiliate of the corporation or of another corporation resident in Canada with which the corporation was not dealing at arm's length at any time, and

(iii) where, at the end of the year, the affiliate was deemed because of paragraphs 95(2)(*k*) and 138(11.91)(*e*) of the Act to have disposed of property (other than capital property) owned by it that was used or held by it in the course of carrying on the active business in the year, the amount that is the total of all amounts each of which is an amount, if any, by which the fair market value of such a property exceeds the cost to the affiliate of the property at the time that is immediately before the end of the year; and

(*b*) there shall be deducted from the amount determined under su paragraph (*a*)(i) or (ii) of the definition "earnings" in subsection (1) after adjustment in accordance with subsections (2), (2.1) and (2.2) the total of

(i) the amount, if any, by which

(A) the total of all amounts each of which is a maximum amount deemed because of paragraphs 95(2)(*k*) and 138(11.91)(*d*) of the Act to have been claimed under subparagraphs 138(3)(*a*)(i), (ii) and (iv) and paragraphs 20(1)(*l*) and (*l*.1) and 20(7)(*c*) of the Act (each of which provisions is referred to in this subparagraph as a "reserve provision") in the year

exceeds

(B) the total of all amounts each of which is an amount actually claimed by the affiliate as a reserve in the year that can reasonably be considered to be in respect of amounts in respect of which a reserve could have been claimed under a reserve provision on the assumption that the affiliate could have claimed amounts in respect of the reserve provisions in the year,

(ii) the amount that is the total of all amounts each of which is the amount, if any, by which the amount determined under clause (*a*)(ii)(B) in respect of a particular depreciable asset described in clause (*a*)(ii)(A) exceeds the fair market value of the particular depreciable asset at the end of the year, and

(iii) where, at the end of the year, the affiliate was deemed because of paragraphs 95(2)(*k*) and 138(11.91)(*e*) of the Act to have disposed of property (other than capital property) owned by it that was used or held by it in the course of carrying on the active business in the year, the amount that is the total of all amounts each of which is an amount, if any, by which the cost to the affiliate of such a property at the time that is immediately before the end of the year exceeds the fair market value of the property at the end of the year.

Pending Amendment

Foreign Affiliates — February 27, 2004

[Subsection 5907(2.9) of the Regulations is replaced by the following:]

(2.9) If paragraph 95(2)(*k*.1) of the Act applies in respect of a particular taxation year of a foreign affiliate of a taxpayer or in respect of a particular fiscal period of a partnership at the end of which a foreign affiliate of a taxpayer is a member of the partnership (which foreign affiliate or partnership is referred to in this subsection as the "operator" and which particular taxation year or particular fiscal period is referred to in this subsection as the "specified taxation year"), in computing the affiliate's earnings or loss from the foreign business referred to in that paragraph or from the disposition of property used or held in the course of carrying on the foreign business referred to in

that paragraph (which foreign business is referred to in this subsection as the "foreign business") for the affiliate's taxation year (which taxation year is referred to in paragraphs (*a*) and (*b*) as the "preceding taxation year") that is the affiliate's preceding taxation year referred to in paragraph 95(2)(*k*) of the Act or that is the affiliate's taxation year in which the preceding fiscal period referred to in paragraph 95(2)(*k*) of the Act ended, as the case may be,

(*a*) there shall be added to the amount determined under paragraph (*a*) of the definition "earnings" in subsection (1), after adjustment in accordance with subsections (2) to (2.2),

(i) where the operator is the affiliate, the total of

(A) the amount, if any, by which the total determined under subclause (*b*)(i)(A)(II) in respect of the operator for the preceding taxation year exceeds the total determined under subclause (*b*)(i)(A)(I) in respect of the operator for that year,

(B) if the operator was deemed because of paragraphs 95(2)(*k*.1) and 138(11.91)(*e*) of the Act to have, at the end of the preceding taxation year, disposed of property owned by it that was used or held by it in the course of carrying on the foreign business in that year, the total of all amounts each of which is the amount, if any, by which

(I) the lesser of the fair market value and the cost to the operator immediately before the end of that year of a capital property (referred to in this subclause and in subclause (II) as a "particular depreciable asset") owned by it that

1. was used or held by it in the course of carrying on the foreign business in that year,

2. was deemed because of paragraphs 95(2)(*k*.1) and 138(11.91)(*e*) of the Act to have been disposed of at the end of that year, and

3. was property in respect of the cost of which amounts were, at any time, deductible in computing the operator's income or loss for the purpose of computing the affiliate's earnings or loss from the foreign business under paragraph (*a*) of the definition "earnings", or under paragraph (*a*) of the definition "loss", in subsection (1)

exceeds

(II) the amount, if any, by which the cost to the operator immediately before the end of that year of the particular depreciable asset exceeds the total of all amounts each of which is an amount that can reasonably be regarded as having been deducted in respect of the cost of the particular depreciable asset in computing the operator's income or loss for the purpose of computing the earnings or loss (determined without reference to this subsection) of the affiliate from the foreign business in any taxation year preceding the specified taxation year of the affiliate in which it was a foreign affiliate of the corporation or of another corporation resident in Canada with which the corporation was not dealing at arm's length at any time, and

(C) if the operator was deemed because of paragraphs 95(2)(*k*.1) and 138(11.91)(*e*) of the Act to have, at the end of the preceding taxation year, disposed of property owned by it that was used or held by it in the course of carrying on the foreign business in that year, the total of all amounts each of which is the amount, if any, by which the fair market value, immediately before the end of that year, of each property (other than capital property, eligible capital property or resource property) deemed because of those paragraphs to have been disposed of exceeds the cost to the operator of the property at that time,

(D) if the operator was deemed because of paragraphs 95(2)(*k*.1) and 138(11.91)(*e*) of the Act to have, at the end of the preceding taxation year, disposed of eligible capital property, the amount, if any, required by subsection 14(1) of the Act to be included in computing the operator's income for that year from the foreign business, and

(E) if the operator was deemed because of paragraphs 95(2)(*k*.1) and 138(11.91)(*e*) of the Act to have, at the end of the preceding taxation year, disposed of resource property, the amount, if any, by which

(I) the total of all amounts included by subsection 59(1) or paragraph 59(3.2)(*c*) or (*c*.1) of the Act in computing the operator's income for that year from the foreign business

exceeds

(II) the total of all amounts that were deductible under section 66, 66.1, 66.2, 66.21 or 66.4 of the Act in computing the operator's income for that year from the foreign business, and

(ii) where the operator is the partnership, the proportion of the total determined under subparagraph (i) that the affiliate's share of the partnership's income or loss for the preceding taxation year is of the partnership's income or loss for that year but, for the purpose of this subparagraph, if both the income and loss of the partnership for the preceding taxation year are nil, that proportion is to be determined as if the partnership had income for that year in the amount of $1,000,000; and

(*b*) there shall be added to the amount determined under paragraph (*a*) of the definition "loss" in subsection (1)

(i) where the operator is the affiliate, the total of

(A) the amount, if any, by which

(I) the total of all amounts each of which is an amount deemed because of paragraphs 95(2)(*k*.1) and 138(11.91)(*d*) of the Act to have been claimed under paragraph 20(1)(*l*), 20(1)(*l*.1) or 20(7)(*c*), or subparagraph 138(3)(*a*)(i), (ii) or (iv), of the Act (each of which provisions is referred to in this subparagraph as a "reserve provision") in computing the income from the foreign business for the preceding taxation year

exceeds

(II) the total of all amounts each of which is an amount actually claimed by the operator as a reserve in computing its income from the foreign business for that year that can reasonably be considered to be in respect of amounts in respect of which a reserve could have been claimed under a reserve provision on the assumption that the operator could have claimed amounts in respect of the reserve provisions for that year,

(B) the total of all amounts each of which is the amount, if any, by which the amount determined under subclause (*a*)(i)(B)(II) in respect of a particular depreciable asset described in subclause (*a*)(i)(B)(I) exceeds the fair market value, at the end of the preceding taxation year, of the particular depreciable asset,

(C) if the operator was deemed because of paragraphs 95(2)(*k*.1) and 138(11.91)(*e*) of the Act to have, at the end of the preceding taxation year, disposed of property owned by it that was used or held by it in the course of carrying on the foreign business in that year, the total of all amounts each of which is the amount, if any, by which the cost to the operator, immediately before the end of that year, of each property (other than capital property, eligible capital property or resource property) deemed because of those paragraphs to have been disposed of exceeds the fair market value of the property at the end of that year,

(D) if the operator was, because of paragraphs 95(2)(*k*.1) and 138(11.91)(*e*) of the Act, deemed to have, at the end of the preceding taxation year, disposed of eligible capital property, the amount, if any, that would be permitted by paragraph 24(1)(*a*) of the Act to be deducted in computing the operator's income for that year from the foreign business if the operator had, immediately before the end of

that year, ceased to carry on the foreign business, and

(E) the amount, if any, by which the total determined in respect of the operator in subclause (*a*)(i)(*e*)(II) for the preceding taxation year exceeds the total determined in respect of the operator in subclause (*a*)(i)(*e*)(I) for that year, and

(ii) where the operator is the partnership, the proportion of the total determined under subparagraph (i) that the affiliate's share of the income or loss of the partnership for the preceding taxation year is of the income or loss of the partnership for that year but, for the purpose of this subparagraph, if both the income and loss of the partnership for the preceding taxation year are nil, that proportion is determined as if the partnership had income for that year in the amount of $1,000,000.

(2.91) Any property of a foreign affiliate of a corporation resident in Canada, or of a partnership of which a foreign affiliate of a corporation resident in Canada is a member, that is, for the purposes of subdivision i of Division B of Part I of the Act, deemed because of either paragraph 95(2)(*k*.1) or (*k*.3), and paragraph 138(11.91)(*e*), of the Act to have been disposed of and reacquired by the affiliate or the partnership, as the case may be, is, for the purpose of this section, deemed to have been disposed of and reacquired by the affiliate or the partnership, as the case may be, in the same manner and for the same amounts as if those provisions applied for the purpose of this section.

Applicable: To taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002. However, if a taxpayer referred to in subsection 5907(2.9) so elects in writing and files the election with the Minister of Revenue on or before the taxpayer's filing due date that includes the day on which this Act is assented to ("Fresh Start Section 95 Election") subsections 5907(2.9) and (2.91) apply to taxation years, of all foreign affiliates of the taxpayer, that begin after 1994.

Explanatory Note: Subsection 5907(2.9) of the Regulations applies where the fresh start rules in paragraph 95(2)(*k*) of the Act apply to a foreign affiliate of a corporation resident in Canada in respect of a "foreign business". Subsection 5907(2.9) ensures that appropriate adjustments are made to the surplus accounts of the affiliate.

In general terms, subsection 5907(2.9) provides that there is to be added to the affiliate's "earnings" (as defined in subsection 5907(1) of the Regulations), for the last taxation year of the affiliate before the fresh start year, the total of the following amounts:

- the amount by which the actual reserves claimed exceed the maximum reserve allowed under paragraph 95(2)(*k*) of the Act for that last taxation year;
- where, because of paragraphs 95(2)(*k*) and 138(11.91)(*e*) of the Act, there is a deemed disposition of depreciable property that was used or held by the affiliate in the course of carrying on the foreign business, the amount by which the lesser of the fair market value and the cost to the affiliate of the property exceeds the undepreciated capital cost (or an analogous concept under the relevant foreign tax law) of the property at the end of that last taxation year; and
- where, because of paragraphs 95(2)(*k*) and 138(11.91)(*e*) of the Act, there is a deemed disposition of property (other than capital property) that was used or held by the affiliate in the course of carrying on the foreign business, the amount by which the fair market value of the property exceeds the cost of the property to the affiliate at the end of that last taxation year.

These additions to "earnings" result in corresponding increases in the balance of the affiliate's relevant surplus account.

In general terms, subsection 5907(2.9) provides that there is to be deducted from "earnings" for the last taxation year of the affiliate before the fresh start year the total of the following amounts:

- the maximum reserve allowed under paragraph 95(2)(*k*) of the Act minus the actual reserve claimed at the end of that last taxation year;
- where, because of paragraphs 95(2)(*k*) and 138(11.91)(*e*) of the Act, there is a deemed disposition of depreciable property that was used or held by the affiliate in the course of carrying on the foreign business, the amount by which the undepreciated capital cost of the property exceeds the lesser of fair market value and cost to the affiliate of the property at the end of that last taxation year; and
- where, because of paragraphs 95(2)(*k*) and 138(11.91)(*e*) of the Act, there is a deemed disposition of property (other than capital property) that was used or held by the affiliate in the course of carrying on the foreign business, the amount by which the cost of the property to the affiliate exceeds the fair market value of the property at the end of that last taxation year.

These decreases to "earnings" result in corresponding decreases in the balance of the affiliate's relevant surplus account.

Subsection 5907(2.9) of the Regulations is proposed to be amended to reflect the amendments to the Act which are set out in amended paragraph 95(2)(*k*), new paragraph 95(2)(*k*.1) and amended subsection 138(11.91) of the Act. In particular, subsection 5907(2.9) is proposed to be amended in the following ways.

First, subsection 5907(2.9) of the Regulations is proposed to be amended to reflect the proposed splitting of paragraph 95(2)(*k*) of the Act into paragraphs 95(2)(*k*) and (*k*.1).

Second, consistent with paragraphs 95(2)(*k*) and (*k*.1) of the Act, the proposed amendments to subsection 5907(2.9) of the Regulations ensure that the fresh start rules will apply where the foreign business is carried on by a partnership of which a foreign affiliate of a taxpayer is a member. These amendments to subsection 5907(2.9) ensure, in the case of partnerships, that the fresh start rules will work on the basis of fiscal periods of the partnership and that these rules will therefore be relevant in the computation of the affiliate's foreign accrual property income for the affiliate's taxation year that includes the end of a fiscal period to which the fresh start rules apply. The expression "operator" refers to the affiliate (in the case where the affiliate directly carries on the foreign business) or to the partnership (in the case where the partnership carries on the foreign business). The amounts added by subsection 5907(2.9) to "earnings" or "loss" are used in computing the earnings or loss from the foreign business (when it was an active business) of the affiliate in the preceding taxation year or fiscal period referred to in paragraph 95(2)(*k*), as the case may be, (which preceding taxation year or preceding fiscal period is referred to as the "preceding taxation year") in which the affiliate is deemed to have disposed of property.

Third, the proposed amendments to subsection 5907(2.9) modify the manner in which any necessary decreases are made to the affiliate's relevant surplus account. As noted above, existing subsection 5907(2.9) provides for the decreases to surplus to be made by way of decreases to "earnings". Amended subsection 5907(2.9) provides, instead, for those amounts to be placed in the "loss" (as defined in subsection 5907(1)) of the affiliate, which result in corresponding decreases in the balance of the surplus account.

Fourth, amended subsection 5907(2.9) contains new rules in respect of eligible capital property and resource property to deal more appropriately with these types of property. As mentioned above, existing subsection 5907(2.9) ensures that where, because of paragraphs 95(2)(*k*) and 138(11.91)(*e*) of the Act, there is a deemed disposition of property that was used or held by the affiliate in the course of carrying on the foreign business, the affiliate's "earnings" are increased by the total of all amounts each of which is the amount by which the fair market value of the property (other than capital property) to the affiliate exceeds the cost of the property. (There is a corresponding rule in existing subsection 5907(2.9) that provides for a decrease of "earnings" if the cost of the property to the affiliate exceeds the fair market value of the property.)

As proposed to be amended, subsection 5907(2.9) ensures that where, because of paragraphs 95(2)(*k*) and 138(11.91)(*e*) of the Act, there is a deemed disposition of eligible capital property, the affiliate's "earnings" are increased by the amount, if any, required by subsection 14(1) of the Act to be included in computing the operator's income for that preceding taxation year from the foreign business. Conversely, amended subsection 5907(2.9) also ensures that, if the operator was, because of paragraphs 95(2)(*k*.1) and 138(11.91)(*e*) of the Act, deemed to

have, at the end of that preceding taxation year, disposed of eligible capital property, the affiliate's "loss" is increased by the amount, if any, that would be permitted by paragraph 24(1)(*a*) of the Act to be deducted in computing the operator's income for that year from the foreign business if the operator had, immediately before the end of that year, ceased to carry on the foreign business.

For more detail about the treatment of the untaxed portion of the gain or loss from the sale of excluded property that is eligible capital property, refer to the commentaries on new paragraph (*a*.1) of the definition "exempt earnings", and new paragraph (*a*.1) of the definition "exempt loss", respectively, in subsection 5907(1) of the Regulations.

Amended subsection 5907(2.9) ensures that where, because of paragraphs 95(2)(*k*) and 138(11.91)(*e*) of the Act, there is a deemed disposition of resource property, the affiliate's "earnings" are increased by the amount, if any, by which

- the total of all amounts included by subsection 59(1) or paragraph 59(3.2)(*c*) or (c.1) of the Act in computing the operator's income for that preceding taxation year from the active business

exceeds

- the total of all amounts that were deductible under section 66, 66.1, 66.2, 66.21 or 66.4 of the Act in computing the operator's income for that year from the active business.

Note that there is a corresponding rule in amended subsection 5907(2.9) for an inclusion in "loss" in the converse situation.

Fifth, proposed amendments to subsection 5907(2.9) provide a rule for the determination, where the operator is the partnership, of the amounts required by that subsection to be added to the affiliate's "earnings" or "loss", as the case may be, for the preceding taxation year. The amount of the increase to the affiliate's "earnings" or "loss" is essentially the amount of the increase to the "earnings" or "loss" for the partnership multiplied by the fraction the numerator of which is the affiliate's share of the income or loss of the partnership for that year and the denominator of which is the income or loss of the partnership for that year. For the purpose of this calculation, where both the income and the loss of the partnership for that preceding year are nil, the partnership is assumed to have an income of $1 million for that year.

The amendments to subsection 5907(2.9) of the Regulations are proposed to apply to taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002. Note that these amendments are included in the Fresh Start Section 95 Election package described at the beginning of the commentary to section 95 of the Act.

Subsection 5907(9.1)

Proposed new subsection 5907(2.91) of the Regulations is consequential to the introduction of new paragraphs 95(2)(*k*.1) and (*k*.3) of the Act. New subsection 5907(2.91) provides that, for the purposes of section 5907 of the Regulations, any property of a foreign affiliate of a corporation resident in Canada, or of a partnership of which a foreign affiliate of a corporation resident in Canada is a member, that is, for the purposes of subdivision i of Division B of Part I of the Act, deemed because of either paragraph 95(2)(*k*.1) or (*k*.3), and paragraph 138(11.91)(*e*), of the Act to have been disposed of and reacquired by the affiliate or the partnership, as the case may be, is, for the purpose of section 5907 of the Regulations, deemed to have been disposed of and reacquired by the affiliate or the partnership, as the case may be, in the same manner and for the same amounts as if those provisions applied for the purpose of section 5907 of the Regulations.

Subsection 5907(2.91) ensures that the deemed disposition and reacquisition are taken into account when calculating a foreign affiliate's surplus accounts.

New subsection 5907(2.91) of the Regulations is proposed to apply to taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002. Note that this amendment is included in the Fresh Start Section 95 Election package described below.

Fresh Start Section 95 Election

This set of proposals contains a number of amendments to section 95 of the Act, and to section 5907 of the Regulations, that apply to taxation years, of a foreign affiliate of a taxpayer, that begin after December 20, 2002. However, where a taxpayer so elects in writing and files the election (referred to in this commentary as the "Fresh Start Section 95 Election") with the Minister of National Revenue before the taxpayer's filing-due date for the taxpayer's taxation year that includes the day on which these amendments are assented to, all of those amendments apply to taxation years of all foreign affiliates, of the taxpayer, that begin after 1994. This set of proposals provides that, notwithstanding subsections 152(4) to (5) of the Act, the Minister of National Revenue can make any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year that is necessary to take the election into account.

Note that the Global Section 95 Election and the Fresh Start Section 95 Election are separate elections.

The following amendments to the Act and to the Regulations are covered by the Fresh Start Section 95 Election package:

— the definition "taxable Canadian business" in subsection 95(1),

— paragraphs 95(2)(*j*.1) and (*j*.2) and 95(2)(*k*), (*k*.1) and (*k*.4) to (*k*.7), and

— subsections 5907(2.9) and (2.91) of the Regulations .

See the commentary to paragraph 95(2)(*k*) for additional information with respect to transitional provisions.

Note that this set of proposals provides for the possibility of a total revocation of the Fresh Start Section 95 Election. If a taxpayer has made what would otherwise be a valid Fresh Start Section 95 Election, and the taxpayer has, on or before the taxpayer's filing-due date for the taxpayer's taxation year that includes the day that is the third anniversary of the day on which the amending legislation enacting this set of proposals is assented to, filed with the Minister of National Revenue a notice in writing to revoke the election, the election is deemed never to have been made. This set of proposals provides that, notwithstanding subsections 152(4) to (5) of the Act, the Minister of National Revenue can make any assessment of a taxpayer's tax, interest and penalties payable under the Act for any taxation year that is necessary to take the revocation into account.

History: S. 5907(2.9) was added by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994, except that

(*a*) those provisions apply to taxation years of a foreign affiliate of a taxpayer that end after 1994 where there has been a change in the taxation year of the foreign affiliate in 1994 and after February 22, 1994, unless

(i) the foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation, or

(ii) the first taxation year of the foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if there had not been that change in the taxation year of the foreign affiliate; and

(*b*) in applying subsection 5907(1) of the Regulations, for taxation years of a foreign affiliate of a taxpayer that begin before 1996 and in respect of which subsection 8(13) does not apply, the references to "designated treaty country" shall be read as "country listed in subsection (11)".

(3) For the purposes of this Part, any corporation that was, on January 1,1972, a foreign affiliate of a taxpayer shall be deemed to have become a foreign affiliate of the taxpayer on that day.

(4) For the purposes of this Part, "government of a country" includes the government of a state, province or other political subdivision of that country.

(5) For the purposes of this section, each capital gain and each capital loss of a foreign affiliate of a taxpayer from the disposition of property shall be computed in accordance with the rules set out in subsection 95(2) of the Act and, for the purposes of subsection (6), where any such gain or loss is required to be computed in Canadian currency, the amount of such gain or loss shall be converted from Canadian currency into the currency referred to in subsection (6) at the rate of exchange prevailing on the date of disposition of the property.

History: S. 5907(5) was amended by P.C. 1985-467, SOR/85-176, dated February 14, 1985 and applicable in respect of dispositions made after November 12, 1981. S. 5907(5) formerly read:

"(5) For the purposes of this section other than clause (1)(a)(i)(C) and subsection (2), each capital gain and each capital loss of a foreign affiliate of a taxpayer shall be computed in accordance with subdivision c of Division B of Part I of the Act, read without reference to section 26 of the *Income Tax Application Rules, 1971*, as though the foreign affiliate were resident in Canada, except that in computing any such gain or loss from the disposition of property owned by the affiliate at the time it last became a foreign affiliate of the taxpayer, there shall not be included such portion of the gain or loss, as the case may be, as may reasonably be considered to have accrued before that time."

(5.1) Notwithstanding subsection (5) and except as provided in subsection (9), where, under the income tax law of a country other than Canada that is relevant in computing the earnings of a foreign affiliate of a taxpayer resident in Canada from an active business carried on by it in a country, no gain or loss is recognized in respect of a disposition by the affiliate of a capital property used or held principally for the purpose of gaining or producing income from an active business to a person (in this subsection referred to as the "transferee") that is another foreign affiliate of the taxpayer or that is a foreign affiliate of another person with whom the taxpayer does not deal at arm's length, for the purposes of this section,

(*a*) the affiliate's proceeds of disposition of the property shall be deemed to be an amount equal to the aggregate of the adjusted cost base to the affiliate of the property immediately before the disposition and any outlays and expenses to the extent they were made or incurred by the affiliate for the purpose of making the disposition;

(*b*) the cost to the transferee of the property acquired from the affiliate shall be deemed to be an amount equal to the affiliate's proceeds of disposition, as determined under paragraph (*a*); and

(*c*) the transferee shall be deemed to have acquired the property on the date that it was acquired by the affiliate.

Pending Amendment

Foreign Affiliates — February 27, 2004

Subsection 5907(5.1) of the Regulations is repealed.

(5.1) [Repealed.]

Applicable: To dispositions to which paragraphs 95(2)(*f*.3) to (*f*.9) of the *Income Tax Act*, as proposed by subclause 133(15) of *Legislative Proposals and Draft Regulations relating to Income Tax* released on February 27, 2004, apply.

Explanatory Note: Subsection 5907(5.1) of the Regulations is repealed because of the introduction of the rules in paragraphs 95(2)(*c*.2) to (*c*.6) and paragraphs 95(2)(f.3) to (f.8) of the Act. See the commentary for those proposed new paragraphs.

History: S. 5907(5.1) was amended by P.C. 1985-467, SOR/85-176, dated February 14, 1985 and applicable to the 1976 and subsequent taxation years. S. 5907(5.1) formerly read:

"(5.1) Notwithstanding subsection (5) and except as provided in subsection (9), where the income tax law of a country other than Canada that is relevant in computing the earnings of a foreign affiliate of a taxpayer resident in Canada from an active business carried on by it in a country provides for a tax-free disposition of a capital asset used principally for the purpose of gaining or producing income from an active business then, for the purposes of this section,

(*a*) the affiliate's proceeds of disposition of the property shall be deemed to be an amount equal to the cost of the property to the affiliate immediately before the disposition; and

(*b*) where the transferee is another foreign affiliate of the taxpayer, the cost to the transferee of the property acquired from the affiliate shall be deemed to be an amount equal to the affiliate's proceeds of disposition, as determined in paragraph (a)."

S. 5907(5.1) was added by P.C. 1980-503, SOR/80-141, dated February 11, 1980, effective for the 1976 and subsequent taxation years.

Tax Profile: June 2003 — The December 20, 2002 Technical Amendments to the Income Tax Act.

(6) All amounts referred to in subsections (1) and (2) shall be maintained on a consistent basis from year to year in the currency of the country in which the foreign affiliate of the corporation resident in Canada is itself resident or such currency, other than Canadian currency, as is reasonable in the circumstances.

Information Circulars: IC 77-9R Books, records and other requirements for taxpayers having foreign affiliates.

(7) For the purposes of this Part, the amount of any stock dividend paid by a foreign affiliate of a corporation resident in Canada on a share of a class of its capital stock shall be deemed to be nil.

(7.1) Where, at any time in a taxation year of a corporation resident in Canada, a foreign affiliate of the corporation (in this subsection referred to as the "payor affiliate") pays a dividend on the shares of any class of its capital stock to the corporation (in this subsection referred to as the "particular dividend") and as a result of the payment the corporation is entitled to a tax credit from the government of the country in which the payor affiliate is resident,

(*a*) if the particular dividend was paid on or after the day on which this subsection comes into force, or

(*b*) if the particular dividend was paid before the day on which this subsection comes into force and in a taxation year commencing after 1978 and the corporation elects in respect of the tax credit in its return of income for the 1985, 1986, 1987, 1988 or 1989 taxation year required to be filed pursuant to subsection 150(1) of the Act,

for the purpose of this Part, the following rules apply:

(*c*) the tax credit shall be deemed to be a dividend paid at that time by the payor affiliate on the shares of that class of its capital stock to the corporation,

(*d*) immediately before that time there shall be added to the exempt surplus of the payor affiliate an amount equal to the proportion of the tax credit that

(i) the portion of the particular dividend that would, were the corporation not entitled to the tax credit, be deemed by subsection 5900(1) to have been paid out of the payor affiliate's exempt surplus in respect of the corporation

is of

(ii) the particular dividend,

(*e*) immediately before that time, there shall be added to the taxable surplus of the payor affiliate an amount equal to the proportion of the tax credit that

(i) the portion of the particular dividend that would, were the corporation not entitled to the tax credit, be deemed by subsection 5900(1) to have been paid out of the payor affiliate's taxable surplus in respect of the corporation

is of

(ii) the particular dividend, and

(*f*) the foreign tax applicable to the aggregate of

(i) the portion of the particular dividend determined under subparagraph (*e*)(i), and

(ii) the portion of any amount deemed to be a dividend by virtue of paragraph (*c*) that is deemed by subsection 5900(1) to have been paid out of the payor affiliate's taxable surplus in respect of the corporation

shall, notwithstanding paragraph 5900(1)(*d*), be equal to the amount determined under paragraph 5900(1)(*d*) in respect of the amount referred to in paragraph (i), less the amount determined under paragraph (*e*).

History: S. 5907(7.1) was added by P.C. 1989-321, SOR/89-135, dated March 2, 1989 applicable for the purposes of making computations under Part LIX at any time after March 15, 1989 and, where the taxpayer elects in accordance with paragraph 5907(7.1)(b) with respect to computations under Part LIX at any time commencing after the time immediately prior to the receipt of the tax credit specified in the election.

(8) For the purposes of computing the various amounts referred to in this section, the first taxation year of a foreign affiliate formed as a result of a merger in the manner described in subsection 5905(3) shall be deemed to have commenced at the time of the merger, and a taxation year of a predecessor corporation (within the meaning assigned by subsection 5905(3)) that would otherwise have ended after the merger shall be deemed to have ended immediately before the merger.

(9) Where a foreign affiliate of a taxpayer resident in Canada has been dissolved and paragraph 95(2)(*e.1*) of the Act does not apply, for the purpose of computing the various amounts referred to in this section, the following rules apply:

(*a*) where, at a particular time in the course of the dissolution, all or substantially all of the property owned by the affiliate immediately before that time was distributed to the shareholders of the affiliate, the taxation year of the affiliate that otherwise would have included the particular time shall be deemed to have ended immediately before the particular time;

(*b*) except as provided in paragraph 88(3)(*a*) and subparagraph 95(2)(*e*)(i) of the Act,

(i) each property of the affiliate that was distributed to the shareholders in the course of the dissolution shall be deemed to have been disposed of immediately before the end of the affiliate's taxation year deemed to have ended by paragraph (*a*) for proceeds of disposition equal to the fair market value thereof immediately before the particular time, and

(ii) each property of the affiliate that was otherwise disposed of in the course of the dissolution shall be deemed to have been disposed of by the affiliate for proceeds of disposition equal to the fair market value thereof at the time of disposition; and

(*c*) except as provided in subparagraph 95(2)(*e*)(i) of the Act, each property of the dissolved affiliate that was disposed of or distributed in the course of the dissolution to another foreign affiliate of the taxpayer resident in Canada shall be deemed to have been acquired by that other foreign affiliate at a cost equal to the proceeds of disposition of that property to the dissolved affiliate, as determined in paragraph (*b*).

Pending Amendment

Foreign Affiliates — February 27, 2004

Subsection 5907(9) of the Regulations is replaced by the following:

(9) If a foreign affiliate of the taxpayer resident in Canada has been liquidated and dissolved (otherwise than as a result of a foreign merger within the meaning assigned by subsection 87(8.1) of the Act), subject to subsection 88(3) and to paragraphs 95(2)(*e*) and (*e.1*) of the Act

(*a*) where at a particular time in the course of the liquidation and dissolution, the fair market value of the property that has been disposed of by the affiliate in the course of the liquidation and dissolution equals or is more than 90% of the fair market value of the property that was owned by the affiliate, immediately before the commencement of the liquidation and the dissolution, the taxation year of the affiliate that would have included the particular time is deemed to have ended immediately before that time; and

(*b*) each property of the affiliate that was distributed or disposed of by the affiliate in the course of the liquidation and the dissolution is deemed

(i) to have been disposed of by the affiliate for proceeds of disposition equal to the fair market value of the property, immediately before it was distributed or disposed of, and

(ii) to have been acquired by the person or partnership to whom the affiliate distributed or disposed of the property at a cost equal to the affiliate's proceeds of disposition of the property.

(9.1) Subject to subsection (9) and to subsection 88(3) of the Act and paragraphs 95(2)(*d*) to (*e.6*) of the Act, if a foreign affiliate of a taxpayer resident in Canada has, as a payment of a dividend or as a distribution of a property, transferred a property to a shareholder of the affiliate (or to a person with whom the shareholder was not dealing at arm's length),

(*a*) the property of the affiliate that was so transferred is deemed

(i) to have been disposed of by the affiliate for proceeds of disposition equal to the fair market value of the property, immediately before it was so transferred, and

(ii) to have been acquired by the person or partnership to whom the affiliate transferred the property at a cost equal to the affiliate's proceeds of disposition of the property; and

(*b*) the amount, in respect of the property, of the dividend or distribution made by the affiliate to the person to whom the property was transferred is deemed to be equal to the affiliate's proceeds of disposition of the property.

Applicable: To dissolutions that begin after December 20, 2002 and payments of dividends and distributions of property made after December 20, 2002.

Explanatory Note: Where a foreign affiliate of a taxpayer resident in Canada has been dissolved, subject to the rules in paragraph 95(2)(*e.1*) of the Act, subsection 5907(9) of the Regulations provides that certain rules apply for the purposes of computing the various amounts referred to in section 5907 of the Regulations.

It is proposed that subsection 5907(9) of the Regulations be amended so that the rules will be subject to the rules in proposed new paragraphs 95(2)(*e*) and (*e.1*) and subsection 88(3). See the commentary for the proposed new paragraphs and subsection.

It is also proposed that subsection 5907(9) of the Regulations be amended so that the rules do not apply to dissolutions of a foreign affiliate because of a foreign merger within the meaning assigned by subsection 87(8.1) of the Act.

Proposed new subsection 5907(9.1) of the Regulations provides rules similar to those contained in proposed amended subsection 5907(9) of the Regulations that apply on transfers of property by a foreign affiliate of a taxpayer resident in Canada

as a payment of a dividend or as a distribution of property to a shareholder of the foreign affiliate.

This amendment is proposed to apply to dissolutions, payments of dividends and distributions made after the after December 20, 2002.

History: S. 5907(9) was amended by P.C. 1985-467, SOR/85-176, dated February 14, 1985 and applicable to the 1976 and subsequent taxation years. S. 5907(9) formerly read:

"(9) where a foreign affiliate of a corporation resident in Canada has been dissolved and, at a particular time in the course of the dissolution, all or substantially all of the property owned by the affiliate immediately before that time was distributed to the shareholders of the affiliate, for the purposes of computing the various amounts referred to in this section,

(*a*) the taxation year of the affiliate that otherwise would have included the particular time shall be deemed to have ended immediately before the particular time;

(*b*) except as provided in paragraph 88(3)(a) and subparagraph 95(2)(e)(i) of the Act, each property of the affiliate that was so distributed at the particular time shall be deemed to have been disposed of by the affiliate immediately before the end of the taxation year so deemed to have ended for proceeds of disposition equal to the fair market value thereof immediately before the particular time; and

(*c*) except as provided in subparagraph 95(2)(e)(i) of the Act, each property of the affiliate that was so distributed at the particular time to a shareholder that was, at the particular time, another foreign affiliate of the corporation resident in Canada shall be deemed to have been acquired by that shareholder at a cost equal to the proceeds of disposition of that property to the foreign affiliate that has been dissolved, as determined in paragraph (b)."

S. 5907(9) was amended by deleting from that part preceding paragraph (a) the words "at the time (in this subsection referred to as the 'time of computation') immediately before the particular time", by substituting at the end of paragraph (a) the words "particular time" for "the time of computation", by adding after "proceeds" in paragraph (b) the words "of disposition" and paragraph (c) was added by P.C. 1980-503, SOR/80-141, dated February 11, 1980, effective for the 1976 and subsequent taxation years.

(10) Where

(*a*) the net earnings or net loss for a taxation year of a foreign affiliate of a corporation resident in Canada from an active business carried on in a country other than Canada would otherwise be included in the affiliate's taxable earnings or taxable loss, as the case may be, for the year,

(*b*) the rate of the income or profits tax to which any earnings of that active business of the affiliate are subjected by the government of that country is, by virtue of a special exemption from or reduction of tax (other than an export incentive) that is provided under a law of such country to promote investments or projects in pursuance of a program of economic development, less than the rate of such tax that would, but for such exemption or reduction, be paid by the affiliate, and

(*c*) the affiliate qualified for such exemption from or reduction of tax in respect of an investment made by it in that country before January 1, 1976 or in respect of an investment made by it or a project undertaken by it in that country pursuant to an agreement in writing entered into before January 1, 1976,

for the purposes of this Part, such net earnings or net loss shall be included in the affiliate's exempt earnings or exempt loss, as the case may be, for the year and not in the affiliate's taxable earnings or taxable loss, as the case may be, for the year.

(11) For the purposes of this Part, a sovereign state or other jurisdiction is a "designated treaty country" for a taxation year of a foreign affiliate of a corporation if Canada has entered into a comprehensive agreement or convention for the elimination of double taxation on income, or a comprehensive tax information exchange agreement, in respect of that sovereign state or jurisdiction, that has entered into force and has effect for that taxation year, but any territory, possession, department, dependency or area of that sovereign state or jurisdiction to which that agreement or convention does not apply is not considered to be part of that sovereign state or jurisdiction for the purpose of determining whether it is a designated treaty country.

History: S. 5907(11) was replaced by S.C. 2009, c. 2, s. 112(1), applicable after 2007. S. 5907(11) formerly read:

"(11) For the purpose of this Part, a country is a 'designated treaty country' for a taxation year of a foreign affiliate of a corporation where Canada and that country have entered into a comprehensive agreement or convention for the elimination of double taxation on income that has entered into force and has effect for that taxation year of the affiliate, but any territory, possession, department, dependency or area of that country to which that agreement or convention does not apply is not included in that designated treaty country."

S. 5907(11) was amended by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a corporation that begin after 1995, except that, where the corporation notifies the Minister of National Revenue in its return of income for its first taxation year that begins after 1994 or for a taxation year in which a dividend was paid by the foreign affiliate of its election to have subsections 5907(11), (11.1) and (11.2) of the Regulations, apply to a taxation year of the foreign affiliate of the corporation that begins before 1996,

(*a*) subsections 8(6) and (13) apply to that taxation year and each subsequent taxation year of the foreign affiliate of the corporation; and

(*b*) any reference in section 5907 of the Regulations to "country listed in subsection (11)" shall be read as "designated treaty country" and any reference in that section to "country not listed in subsection (11)" shall be read as "country that is not a designated treaty country" for that taxation year and those subsequent taxation years of the foreign affiliate of the corporation. S. 5907(11) formerly read:

"(11) The following countries are hereby listed for the purposes of paragraphs (1)(*b*) and (*c*):

Antigua
Argentina
Australia
Austria, Republic of
Bangladesh, People's Republic of
Barbados
Belgium
Belize
Brazil, Federative Republic of
Cameroon, United Republic of
China, People's Republic of
Cyprus, Republic of
Denmark, Kingdom of
Dominica
Dominican Republic
Egypt, Arab Republic of
Finland, Republic of
French Republic, European Departments, the Territorial Authority of Saint-Pierre and Miquelon and the following overseas Departments, namely,
  Guadeloupe
  Guyane
  Martinique
  Réunion
  but not including overseas Territories
Germany, Federal Republic of
Guyana, Cooperative Republic of
India
Indonesia
Ireland
Israel, State of
Italy
Ivory Coast, Republic of
Jamaica
Japan
Kenya
Korea, Republic of
Liberia
Malaysia
Malta
Montserrat
Morocco, Kingdom of
Netherlands, Kingdom of the, but for greater certainty, not including the Netherlands Antilles
New Zealand, but for greater certainty, not including the Cook Islands, Niue or Tokelaw

Norway, Kingdom of, but for greater certainty, not including Svalbard (including Bear Island), Jan Mayen and the Norwegian dependencies outside Europe
Pakistan, Islamic Republic of
Philippines, Republic of the
Portugal
Romania, Socialist Republic of
Saint Kitts and Nevis-Anguilla
Saint Lucia
Saint Vincent
Senegal, Republic of
Singapore, Republic of
Spain
Sri Lanka, Democratic Socialist Republic of
Sweden
Switzerland
Thailand, Kingdom of
Trinidad and Tobago
Tunisia, Republic of
Union of Soviet Socialist Republics
United Kingdom of Great Britain and Northern Ireland
United States of America, but for greater certainty, not including its Territories
Zambia, Republic of
"

S. 5907(11) was amended by P.C. 1989-321, SOR/89-135, dated March 2, 1989 and applicable in respect of the 1982 and subsequent taxation years.

(11.1) For the purpose of subsection (11), where a comprehensive agreement or convention between Canada and another country for the elimination of double taxation on income has entered into force, that convention or agreement is deemed to have entered into force and have effect in respect of a taxation year of a foreign affiliate of a corporation any day of which is in the period that begins on the day on which the agreement or convention was signed and that ends on the last day of the last taxation year of the affiliate for which the agreement or convention is effective.

History: S. 5907(11.1) was added by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a corporation that begin after 1995, except that, where the corporation notifies the Minister of National Revenue in its return of income for its first taxation year that begins after 1994 or for a taxation year in which a dividend was paid by the foreign affiliate of its election to have subsections 5907(11), (11.1) and (11.2) of the Regulations, apply to a taxation year of the foreign affiliate of the corporation that begins before 1996,

(*a*) subsections 8(6) and (13) apply to that taxation year and each subsequent taxation year of the foreign affiliate of the corporation; and

(*b*) any reference in section 5907 of the Regulations to "country listed in subsection (11)" shall be read as "designated treaty country" and any reference in that section to "country not listed in subsection (11)" shall be read as "country that is not a designated treaty country" for that taxation year and those subsequent taxation years of the foreign affiliate of the corporation.

(11.11) For the purpose of applying subsection (11) in respect of a foreign affiliate of a corporation, where a comprehensive tax information exchange agreement enters into force on a particular day, the agreement is deemed to enter into force and to come into effect on the first day of the foreign affiliate's taxation year that includes the particular day.

History: S. 5907(11.11) was added by S.C. 2009, c. 2, s. 112(2), applicable after 2007.

(11.2) For the purposes of this Part, a foreign affiliate of a corporation is, at any time, deemed not to be resident in a country with which Canada has entered into a comprehensive agreement or convention for the elimination of double taxation on income unless

(*a*) the affiliate is, at that time, a resident of that country for the purpose of the agreement or convention;

(*b*) the affiliate would, at that time, be a resident of that country for the purpose of the agreement or convention if the affiliate were treated, for the purpose of income taxation in that country, as a body corporate;

(*c*) where the agreement or convention entered into force before 1995, the affiliate would, at that time, be a resident of that country for the purpose of the agreement or convention but for a provision in the agreement or convention that has not been amended after 1994 and that provides that the agreement or convention does not apply to the affiliate; or

(*d*) the affiliate would, at that time, be a resident of that country, as provided by paragraph (*a*), (*b*) or (*c*) if the agreement or convention had entered into force.

History: S. 5907(11.2) was added by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a corporation that begin after 1995, except that, where the corporation notifies the Minister of National Revenue in its return of income for its first taxation year that begins after 1994 or for a taxation year in which a dividend was paid by the foreign affiliate of its election to have subsections 5907(11), (11.1) and (11.2) of the Regulations, apply to a taxation year of the foreign affiliate of the corporation that begins before 1996,

(*a*) subsections 8(6) and (13) apply to that taxation year and each subsequent taxation year of the foreign affiliate of the corporation; and

(*b*) any reference in section 5907 of the Regulations to "country listed in subsection (11)" shall be read as "designated treaty country" and any reference in that section to "country not listed in subsection (11)" shall be read as "country that is not a designated treaty country" for that taxation year and those subsequent taxation years of the foreign affiliate of the corporation.

(12) For the purposes of paragraph 95(2)(*j*) of the Act, the adjusted cost base to a foreign affiliate of a taxpayer of an interest in a partnership at any time is prescribed to be the cost thereof otherwise determined at that time except that

(*a*) there shall be added to that cost such of the following amounts as are applicable, namely,

(i) any amount included in the earnings of the affiliate for a taxation year ending after 1971 and before that time that may reasonably be considered to relate to profits of the partnership,

(ii) the affiliate's incomes as described by the description of "A" in the definition "foreign accrual property income" in subsection 95(1) of the Act for a taxation year ending after 1971 and before that time that can reasonably be considered to relate to profits of the partnership,

(iii) any amount included in computing the exempt earnings or taxable earnings, as the case may be, of the affiliate for a taxation year ending after 1971 and before that time that may reasonably be considered to relate to a capital gain of the partnership,

(iv) where the affiliate has, at any time before that time and in a taxation year ending after 1971, made a contribution of capital to the partnership otherwise than by way of a loan, such part of the amount of the contribution as cannot reasonably be regarded as a gift made to or for the benefit of any other member of the partnership who was related to the affiliate, and

(v) such portion of any income or profits tax refunded before that time by the government of a country to the partnership as may reasonably be regarded as tax refunded in respect of an amount

described in any of subparagraphs (*b*)(i) to (iii), and

(*b*) there shall be deducted from that cost such of the following amounts as are applicable, namely,

(i) any amount included in the loss of the affiliate for a taxation year ending after 1971 that may reasonably be considered to relate to a loss of the partnership,

(ii) the affiliate's losses as described by the description of D in the definition "foreign accrual property income" in subsection 95(1) of the Act for a taxation year ending after 1971 and before that time that can reasonably be considered to relate to the losses of the partnership,

(iii) any amount included in computing the exempt loss or taxable loss, as the case may be, of the affiliate for a taxation year ending after 1971 and before that time that may reasonably be considered to relate to a capital loss of the partnership,

(iv) any amount received by the affiliate before that time and in a taxation year ending after 1971 as, on account or in lieu of payment of, or in satisfaction of, a distribution of his share of the partnership profits or partnership capital, and

(v) such portion of any income or profits tax paid before that time to the government of a country by the partnership as may reasonably be regarded as tax paid in respect of an amount described in any of subparagraphs (*a*)(i) to (iii),

and, for greater certainty, where any interest of a foreign affiliate in a partnership was reacquired by the affiliate after having been previously disposed of, no adjustment that was required to be made under this subsection before such reacquisition shall be made under this subsection to the cost to the affiliate of the interest as reacquired property of the affiliate.

History: S. 5907(12)(*a*)(ii) was amended by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994, except that

(*a*) those provisions apply to taxation years of a foreign affiliate of a taxpayer that end after 1994 where there has been a change in the taxation year of the foreign affiliate in 1994 and after February 22, 1994, unless

(i) the foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation, or

(ii) the first taxation year of the foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if there had not been that change in the taxation year of the foreign affiliate; and

(*b*) in applying subsection 5907(1) of the Regulations, for taxation years of a foreign affiliate of a taxpayer that begin before 1996 and in respect of which subsection 8(13) does not apply, the references to "designated treaty country" shall be read as "country listed in subsection (11)". S. 5907(12)(*a*)(ii) formerly read:

"(ii) the affiliate's incomes as described in subparagraph 95(1)(*b*)(i) of the Act for a taxation year ending after 1971 and before that time that may reasonably be considered to relate to profits of the partnership,"

S. 5907(12)(*b*), the portion before subparagraph (i) was amended by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable after November 12, 1981. S. 5907(12)(*b*) formerly read:

"(*b*) there shall be deducted from that cost such of the following amounts as are, namely,"

S. 5907(12)(*b*)(ii) was amended by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994, except that

(*a*) those provisions apply to taxation years of a foreign affiliate of a taxpayer that end after 1994 where there has been a change in the taxation year of the foreign affiliate in 1994 and after February 22, 1994, unless

(i) the foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation, or

(ii) the first taxation year of the foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if there had not been that change in the taxation year of the foreign affiliate; and

(*b*) in applying subsection 5907(1) of the Regulations, for taxation years of a foreign affiliate of a taxpayer that begin before 1996 and in respect of which subsection 8(13) does not apply, the references to "designated treaty country" shall be read as "country listed in subsection (11)". S. 5907(12)(*b*)(ii) formerly read:

"(ii) the affiliate's losses as described in subparagraph 95(1)(*b*)(iii) of the Act for a taxation year ending after 1971 and before that time that may reasonably be considered to relate to the losses of the partnership,"

S. 5907(12) was added by P.C. 1985-467, SOR/85-176, dated February 14, 1985 and effective November 13, 1981.

(13) For the purpose of subparagraph 128.1(1)(*d*)(ii) of the Act, the amount prescribed to be included in the foreign accrual property income of a foreign affiliate of a taxpayer for a taxation year is the amount, if any, by which

(*a*) the taxable surplus of the affiliate in respect of the taxpayer at the end of the year other than the affiliate's net earnings for the year in respect of the affiliate's foreign accrual property income

Pending Amendment

Foreign Affiliates — February 27, 2004

Paragraph 5907(13)(*a*) of the Regulations is replaced by the following:

(*a*) the taxable surplus of the affiliate in respect of the taxpayer at the end of the year (other than the affiliate's net earnings for the year in respect of the affiliate's foreign accrual property income), minus the amount, if any, that would have been added to the underlying foreign tax of the affiliate in respect of the taxpayer, if each disposition deemed by paragraph 128.1(1)(*b*) of the Act had been an actual disposition, and that is not otherwise included in the underlying foreign tax of the affiliate,

Applicable: After 1992, except that if the corporation elected in accordance with paragraph 111(4)(*a*) of the Statutes of Canada, 1994, chapter 21, [an election to have subsection 250(5.1) of the *Income Tax Act* apply where the corporation was granted articles of continuance before 1993, this amendment] applies to the corporation from the corporation's time of continuation (within the meaning assigned by that paragraph).

Explanatory Note: Subsection 5907(13) of the Regulations adds a prescribed amount to the foreign accrual property income (FAPI) of a foreign affiliate that immigrates to Canada. The starting-point for the determination of this amount is paragraph 5907(13)(*a*), which refers to the affiliate's taxable surplus for the taxation year that is deemed under section 128.1 of the Act to have ended before immigration (excluding net earnings in respect of FAPI).

Under section 128.1 of the Act, one of the tax consequences of immigration to Canada is a deemed disposition of most kinds of property. That deemed disposition will often cause an increase in the taxable surplus of an immigrating foreign affiliate. To ensure the appropriate measurement of such an increase, paragraph 5907(13)(*a*) of the Regulations is amended to exclude, from the taxable surplus amount it describes, any amount that would have been added to the affiliate's underlying foreign tax if the deemed disposition had been an actual disposition. This amendment generally applies after 1992. The sole exception is that if the affiliate continued into Canada before 1993 and elected, under paragraph 111(4)(*a*) of S.C. 1994, c. 21, to have subsection 250(5.1) of the Act apply in respect of the continuation, this amendment will apply to the affiliate from the time of that continuation.

In some instances, the gains that an immigrating affiliate would realize if it had actually disposed of its property would not in fact be subject to any foreign tax. New subsection 5907(14) of the Regulations ensures that in such a case, subsec-

tion 5907(13) does not recognize any addition to the affiliate's underlying foreign tax. This new subsection applies after 1992, except that its application is confined to paragraph 5907(13)(*a*) in respect of dispositions that occur on or before February 27, 2004.

exceeds the total of

(*b*) the amount determined by the formula

$$(A - B) \times (C - 1)$$

where

A is the total of the underlying foreign tax of the affiliate in respect of the taxpayer at the end of the year and the amount, to the extent that it is not otherwise included in that underlying foreign tax, that would have been added to that underlying foreign tax if each disposition deemed by paragraph 128.1(1)(*b*) of the Act had been an actual disposition,

B is the part of the value of A that can reasonably be considered to relate to the affiliate's net earnings for the year in respect of the affiliate's foreign accrual property income, and

C is the relevant tax factor, as defined in subsection 95(1) of the Act, and

(*c*) the amount, if any, by which

(i) the total of all amounts required by paragraph 92(1)(*a*) of the Act to be added at any time in a preceding taxation year in computing the adjusted cost base to the taxpayer of the shares of the affiliate owned by the taxpayer at the end of the year

exceeds

(ii) the total of all amounts required by paragraph 92(1)(*b*) of the Act to be deducted at any time in a preceding taxation year in computing the adjusted cost base to the taxpayer of the shares of the affiliate owned by the taxpayer at the end of the year.

History: S. 5907(13) was amended by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable after 1992, except that where a corporation elects in accordance with paragraph 111(4)(*a*) of Statutes of Canada, 1994, chapter 21, subsection 8(17) applies to the corporation from the corporation's time of continuation (within the meaning assigned by that paragraph). S. 5907(13) formerly read:

"(13) For the purposes of paragraph 48(5)(*c*) of the Act, the amount prescribed to be included in the foreign accrual property income of a foreign affiliate of a taxpayer for a taxation year is the aggregate of

(*a*) the amount that would have been included in the foreign accrual property income of the affiliate for the year if immediately before the end thereof the foreign affiliate had disposed of all its capital property, other than

(i) property that would be property described in paragraph 48(1)(*a*) of the Act if the affiliate had disposed of it immediately before the end of the year, or

(ii) property described in paragraph 48(1)(*c*) of the Act in respect of which the corporation had previously made an election under that paragraph in respect of the last preceding time the affiliate ceased to be resident in Canada,

and had received therefor proceeds of disposition equal to the fair market value thereof at that time;

(*b*) the amount, if any, by which

(i) the amount that would have been included in computing the taxable surplus of the affiliate in respect of the taxpayer immediately before the end of the year if at that time the affiliate had disposed of all its excluded property for proceeds of disposition equal to the fair market value thereof at that time

exceeds

(ii) the product obtained when the amount that would be included in the underlying foreign tax of the affiliate in respect of the taxpayer immediately before the end of the year by virtue of the disposition described in subparagraph (i) is multiplied by the amount by which

(A) the relevant tax factor (as defined by paragraph 95(1)(*f*) of the Act) exceeds

(B) one; and

(*c*) the amount, if any, by which

(i) the taxable surplus of the affiliate in respect of the taxpayer at the end of the year other than an amount included in the taxable earnings of the affiliate for the year under clause (1)(*i*)(ii)(B)

exceeds the aggregate of

(ii) the product obtained when the underlying foreign tax of the affiliate in respect of the taxpayer at that time less such part of such underlying foreign tax as may reasonably be considered to relate to the taxable earnings of the affiliate for the year under clause (1)(*i*)(ii)(B) is multiplied by the amount by which

(A) the relevant tax factor (as defined by paragraph 95(1)(*f*) of the Act) exceeds

(B) one, and

(iii) the amount, if any, by which

(A) the aggregate of all amounts required by paragraph 92(1)(*a*) of the Act to be added at any time in a previous taxation year in computing the adjusted cost base to the taxpayer of the shares of the affiliate owned by him at the end of the year

exceeds

(B) the aggregate of all amounts required by paragraph 92(1)(*b*) of the Act to be deducted at any time in a previous taxation year in computing the adjusted cost base to the taxpayer of the shares of the affiliate owned by him at the end of the year."

S. 5907(13) was added by P.C. 1985/467, SOR/85-176, dated February 14, 1985 and effective November 13, 1981.

Interpretation Bulletins: *Secondary* — IT-451R Deemed disposition and acquisition on ceasing to be or becoming resident in Canada.

Pending Amendment

Foreign Affiliates — February 27, 2004

Section 5907 of the Regulations is amended by adding the following after subsection (13):

(14) For the purpose of subsection (13), the amount that would have been added to the underlying foreign tax of the affiliate in respect of the taxpayer at the end of the year if each disposition deemed by paragraph 128.1(1)(*b*) of the Act had been an actual disposition is deemed to be nil if, had the taxpayer realized a gain from such an actual disposition, that gain would not have been taxable in any country other than Canada.

Applicable: After 1992, except that, in its application in respect of dispositions that occur on or before February 27, 2004, the reference in subsection 5907(14) of the Regulations to the expression "subsection (13)" is to be read as a reference to the expression "paragraph 13(*a*)".

Explanatory Note: [See the Explanatory Note following the amendment to paragraph 5907(13)(*a*).]

5908. [Repealed.]

History: S. 5908 and the heading before it were repealed by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable upon publication in the *Canada Gazette*, December 10, 1997. S. 5908 and the heading before it formerly read:

"TRANSITIONAL

S. 5908. (1) For the purposes of this Part, where a taxpayer resident in Canada elects in his return of income for the 1982, 1983 or 1984 taxation year required to be filed pursuant to subsection 150(1) of the Act, the following rules shall apply in respect of taxation years of his foreign affiliates ending after 1975 and beginning before February 27, 1980:

(*a*) all that portion of paragraph 5904(1)(*b*) preceding subparagraph (i) thereof shall be read as follows:

'(*b*) the direct equity percentage of a person in any foreign affiliate of the taxpayer, for which the distribution entitlement at that time of all the shares of each class of its capital stock was greater than nil, was determined by the following rules and not by the rules contained in paragraph 95(4)(*a*) of the Act;;'

(*b*) paragraph 5904(1)(*c*) shall be read as follows:

'(*c*) the direct equity percentage of a person in any foreign affiliate of the taxpayer, for which the distribution entitlement at that time of all the shares of each class of its capital stock was not greater than nil, was determined by the rules contained in paragraph 95(4)(*a*) of the Act;'

(*c*) all that portion of subsection 5905(1) following paragraph (*d*) thereof shall be read as follows:

'and, as a result of the acquisition or the issue of shares the aggregate of the participating percentages of all shares owned by the corporation resident in Canada in respect of the acquired affiliate increases (the amount determined in paragraph (*f*) exceeds the amount determined in paragraph (*e*)), for the purposes of this Part, the exempt surplus or exempt deficit, the taxable surplus or taxable deficit and the underlying

foreign tax in respect of that corporation of the acquired affiliate and of each other foreign affiliate of that corporation in which the acquired affiliate has an equity percentage shall at that time be reduced to the proportion thereof that

(*e*) the aggregate of the participating percentages of all shares owned immediately before that time by that corporation in respect of the acquired affiliate assuming for the purposes of this computation only that the taxation year of the acquired affiliate that otherwise would have included that time shall be deemed to have ended immediately before that time

is of

(*f*) the aggregate of the participating percentages of all shares owned immediately after that time by that corporation in respect of the acquired affiliate assuming for the purposes of this computation only that the taxation year of the acquired affiliate that otherwise would have included that time shall be deemed to have ended immediately after that time

and for the purposes of paragraphs 5907(1)(*d*), (*k*) and (*l*) such reduced amounts shall be referred to as the opening exempt surplus, opening exempt deficit, opening taxable surplus, opening taxable deficit and the opening underlying foreign tax, as the case may be, of each such affiliate in respect of the corporation resident in Canada:'

(*d*) all that portion of subsection 5905(2) preceding paragraph (*a*) thereof shall be read as follows:

'(2) Where at any time a foreign affiliate of a corporation resident in Canada redeems in whole or in part or cancels shares of a class of its capital stock, (for the purposes of this subsection, shares redeemed or cancelled at any time which the affiliate had previously purchased or acquired and which were held by it until that time and in respect of which an adjustment has previously been made under subsection (1) shall not be considered to be shares redeemed or cancelled at that time) for the purposes of this Part, the exempt surplus or exempt deficit, the taxable surplus or taxable deficit and the underlying foreign tax in respect of the corporation resident in Canada of that affiliate and of each other foreign affiliate of the corporation resident in Canada in which that affiliate has an equity percentage shall at that time be reduced to the proportion thereof that;'

(*e*) this Part shall be read without reference to subsection 5905(7.1);

(*f*) paragraph 5907(2)(*f*) shall be read as follows:

'(*f*) any revenue, income or profit of the affiliate derived from such business carried on in that country in the year that was not otherwise included in computing the earnings amount for the year or for any other taxation year;;'

(*g*) paragraph 5907(2)(*j*) shall be read as follows:

'(*j*) any loss, outlay or expense made or incurred in the year by the affiliate for the purpose of gaining or producing such earnings amount that was not deducted or any expense that can reasonably be regarded as applicable to any revenue referred to in paragraph (*f*) that was not deducted, other than

(i) a loss referred to in paragraph (*c*) or (*d*),

(ii) a capital expenditure that is not interest, or

(iii) any income or profits tax paid to the government of a country;;'

(*h*) this Part shall be read without reference to paragraphs 5907(2)(*f.1*) and (*k*); and

(*i*) the reference in paragraph 5907(5.1)(*a*) to the 'aggregate of the adjusted cost base to the affiliate of the property immediately before the disposition and any outlays or expenses to the extent they were made or incurred by the affiliate for the purpose of making the disposition' shall be read as a reference to the 'fair market value of the property'.

(2) Where, for the purposes of computing the earnings of a foreign affiliate of a corporation resident in Canada for a taxation year of the affiliate from an active business, the corporation together with all other corporations resident in Canada with which the corporation does not deal at arm's length and in respect of which the affiliate is a foreign affiliate have made an election under subsection 5907 (2.1) the corporation together with such other corporations may further elect in its return of income for the 1982, 1983 or 1984 taxation year required to be filed pursuant to subsection 150(1) of the Act that the following rules apply:

(*a*) subsections 5905(5) (read without reference to paragraphs (*b*) and (*c*) thereof) and (6) as applicable in respect of dispositions of shares after November 12, 1981 are also applicable in respect of dispositions of shares made by such other corporations to the corporation prior to November 13, 1981 and in a taxation year subsequent to the 1975 taxation year;

(*b*) subparagraphs 5907(1)(*d*)(ii), (*k*)(ii) and (*l*)(ii) as they apply after November 12, 1981 are also applicable at all times after 1975 and before November 13, 1981; and

(*c*) subsection 5907(2.2) as applicable in respect of elections made after November 4, 1982 is also applicable in respect of elections made prior to that date."

S. 5908(1) and the heading preceding it were added by P.C. 1985-467, SOR/85-176 dated February 14, 1985.

S. 5908(2) was added by P.C. 1985-467, SOR/85-176, dated February 14, 1985.

Prescribed Circumstances

5909. For the purposes of subparagraph 94(1)(*b*)(i) of the Act, property shall be considered to have been acquired in prescribed circumstances where it is acquired by virtue of the repayment of a loan.

History: S. 5909 was added by P.C. 1989-321, SOR/89-135, dated March 2, 1989 and applicable after October 28, 1985.

Pending Amendment

Foreign Oil and Gas Business — December 20, 2002

Part LIX of the *Income Tax Regulations* is amended by adding the following after section 5909:

Foreign Oil and Gas Business

5910. (1) If a foreign affiliate of a corporation carries on a foreign oil and gas business in a taxing country in a taxation year of the affiliate, the affiliate is deemed for the purposes of this Part to have paid for the year as an income or profits tax to the government of the taxing country an amount equal to the lesser of

(*a*) the amount, if any, by which

(i) 40% of the amount that would, if the definition "earnings" in subsection 5907(1) were read without reference to its subparagraphs (*a*)(i) and (ii), be the affiliate's earnings from the business in the taxing country for the year

exceeds

(ii) the total of all amounts that would, but for this subsection, be income or profits taxes paid by the affiliate for the year in respect of the business to the government of the taxing country, and

(*b*) the affiliate's production tax amount for the business in the taxing country for the year.

(2) In subsection 1, "foreign oil and gas business", "production tax amount" and "taxing country" have the meanings assigned by subsection 126(7) of the Act.

Applicable: In respect of production tax amounts that become receivable by the government of a taxing country in taxation years, of a taxpayer's foreign affiliate, that begin after the earlier of December 31, 2002 and the designated date. The designated date is the later of

(*a*) December 31, 1994; and

(*b*) any date that the taxpayer designates in writing for the purpose of this section, if the designation is filed with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's first taxation year that ends after 2002.

Explanatory Note: Announced in the 2000 Budget and enacted in 2001, subsection 126(5) of the *Income Tax Act* deems certain foreign oil and gas levies to be income or profits taxes for purposes of the foreign tax credit rules. Proposed section 5910 of the Income Tax Regulations extends this treatment to the foreign affiliate rules. As a result, the levies can, in certain cases, be included in computing the foreign tax paid by a foreign affiliate.

More specifically, where a foreign affiliate of a corporation carries on a "foreign oil and gas business" in a "taxing country" in the year, subsection 5910(1) of the Regulations will deem the affiliate to have paid for the year as an income or profits tax, the lesser of two amounts. The first amount (paragraph 5910(1)(*a*)) is the amount by which 40% of the affiliate's "earnings" from the business, read without reference to subparagraphs (*a*)(i) and (ii) of that definition, exceeds the amounts that would otherwise have been income or profits taxes that were paid by the affiliate to the country in respect of the business for the year. The second amount (paragraph 5910(1)(*b*)) is the affiliate's "production tax amount" for the business for the year. Subsection 5910(2) provides that for the purpose of section 5910, "foreign oil and gas business", "production tax amount" and "taxing country" have the meanings assigned by subsection 126(7) of the Act.

This amendment applies in respect of production tax amounts that became receivable by the government of a taxing

country in taxation years, of a taxpayer's foreign affiliate, that begin after the earlier of

(a) December 31, 2002; and

(b) where the taxpayer designates a date in writing and the designation is filed with the Minister of National Revenue on or before the taxpayer's filing- due date for the taxpayers first taxation year that ends after 2002, the later of

(i) the designated date, and

(ii) December 31, 1994.

Pending Amendment

Foreign Affiliates — February 27, 2004

The Regulations are amended by adding the following after section 5910:

5911. (1) The amount prescribed for the purpose of paragraph 92(1.3)(*a*) of the Act, in respect of a relevant share referred to in that paragraph, in respect of a specified section 93 election related to the relevant share, is the lesser of

(*a*) the amount, if any, by which the fair market value of the relevant share, at the election time, exceeds the adjusted cost base, at the time of the disposition, of the relevant share to the holder, and

(*b*) the amount determined by the following formula

$$A/C \times (C - B)$$

where

A is the amount that would, if the relevant share was the disposed share and the relevant affiliate was the disposed affiliate in respect of the specified section 93 election, be determined under paragraph 5902(1)(f) to be the attributed net surplus in respect of the relevant share in respect of the specified section 93 election,

B is the amount that would be determined under subparagraph 5907(1)(*e*)(vi) to be the consolidated net surplus in respect of the relevant affiliate, if

(i) the relevant foreign affiliate was the disposed affiliate referred to in subsection 5902(1),

(ii) the relevant share was the disposed share referred to in subsection 5902(1) that was disposed of, immediately following the disposition of the disposed shares to which the specified section 93 election applied, and

(iii) before that determination, in respect of the relevant foreign affiliate and each foreign affiliate of the particular corporation resident in Canada in which the relevant foreign affiliate had an equity percentage, the adjustments that are required by section 5905 to be made, in respect of the whole dividend referred to in paragraph 5902(1)(*g*) in respect of the specified section 93 election were made, and

C is the amount that would be determined under subparagraph 5902(1)(*e*)(vi) to be the consolidated net surplus in respect of the relevant affiliate in respect of the specified section 93 election, if the relevant foreign affiliate was the disposed foreign affiliate referred to in subsection 5902(1) and the relevant share was the disposed share referred to in subsection 5902(1).

(2) The amount prescribed for the purpose of paragraph 92(1.3)(*b*) of the Act, in respect of a relevant share referred to in that paragraph, in respect of a relevant specified section 93 election related to the relevant share, is the lesser of

(*a*) the amount, if any, by which the adjusted cost base, at the time of the disposition, of the relevant share to the holder exceeds the fair market value of the relevant share, at the election time, and

(*b*) the amount determined by the following formula

$$A/C \times (C - B)$$

where

A is the amount that would be determined to be the attributed net surplus in respect of the relevant share under paragraph 5902(1)(f) in respect of the specified section 93 election, if

(i) the relevant share was the disposed share, and the relevant foreign affiliate was the disposed foreign affiliate, in respect of the specified section 93 election, and

(ii) the consolidated net surplus in respect of the relevant foreign affiliate was the amount, if any, determined, in respect of the relevant foreign affiliate, under the description of C,

B is the amount, if any, by which the total that would be determined under clause 5902(1)(*e*)(vi)(B) exceeds the total that would be determined under clause 5902(1)(*e*)(vi)(A), in respect of the relevant foreign affiliate, if

(i) the relevant foreign affiliate was the disposed affiliate referred to in subsection 5902(1),

(ii) the relevant share was the disposed share referred to in subsection 5902(1) that was disposed of immediately following the disposition of the disposed shares to which the specified section 93 election applied, and

(iii) before that determination, in respect of the relevant foreign affiliate and each foreign affiliate of the particular corporation resident in Canada in which the relevant foreign affiliate had an equity percentage, the adjustments that are required by section 5905 to be made, in respect the whole dividend referred to in paragraph 5902(1)(*g*) in respect of the specified section 93 election, were made, and

C is the amount, if any, by which the total that would be determined under clause 5902(1)(*e*)(vi)(B) exceeds the total that would be determined under clause 5902(1)(*e*)(vi)(A), in respect of the relevant affiliate in respect of the specified section 93 election, if the relevant foreign affiliate was the disposed foreign affiliate referred to in subsection 5902(1) and the relevant share was the disposed share referred to in subsection 5902(1).

(3) If the amount determined in each of the formulae in paragraphs (1)(*b*) and (2)(*b*) in respect of the relevant share referred to in paragraph 92(1.3)(*a*) of the Act is nil, the amount determined for B in the formula in paragraph (1)(*b*) in respect of the relevant affiliate is greater than nil and the amount determined for C in the formula in paragraph (2)(*b*) in respect of the relevant affiliate is greater than nil, the amount prescribed for the purpose of paragraph 92(1.3)(*a*) of the Act, in respect of the relevant share referred to in that paragraph, in respect of a specified section 93 election related to the relevant share, is the lesser of

(*a*) the amount, if any, by which the fair market value of the relevant share, at the election time, exceeds the adjusted cost base, at the time of the disposition, of the relevant share to the holder, and

(*b*) the amount that would, if the relevant share was the disposed share and the relevant affiliate was the disposed affiliate in respect of the specified section 93 election, be determined under paragraph 5902(1)(f) to be the attributed net surplus in respect of the relevant share if the consolidated net surplus of the relevant foreign affiliate were the amount determined for B in the formula in paragraph (1)(*b*).

5912. (1) The amount prescribed, for the purpose of paragraph 95(2)(c.3) of the Act, to be the adjusted suspended gain in respect of the specified share, of the relevant foreign affiliate referred to in that paragraph, at the earlier of the first times (referred to in this section as the "recognition time"), after the original disposition time, that is described by that paragraph, is the amount determined by the formula

$$A \times B/C$$

where

A is the amount of the unadjusted suspended gain in respect of a specified share of the relevant foreign affiliate at the original disposition time,

B is the surplus entitlement percentage of the corporation resident in Canada in respect of the relevant foreign affiliate immediately before the original disposition time determined on the assumption that the taxation year of the

relevant foreign affiliate that would otherwise have included that time had ended immediately before that time, and

C is the surplus entitlement percentage of the corporation resident in Canada in respect of the relevant foreign affiliate immediately before the recognition time determined on the assumption that the taxation year of the relevant foreign affiliate that would otherwise have included that time had ended immediately before that time.

(2) The amount prescribed, for the purpose of paragraph 95(2)(*c.3*) of the Act, to be the adjusted allocable tax in respect of the adjusted suspended gain in subsection (1) in respect of the specified share, of the relevant foreign affiliate referred to in that paragraph, at the recognition time, is the amount determined by the formula

$$A \times B/C$$

where

A is any income or profits tax paid to the government of a country by the relevant foreign affiliate that can reasonably be regarded as tax in respect of the unadjusted suspended gain in respect of the specified share,

B is the surplus entitlement percentage of the corporation resident in Canada in respect of the relevant foreign affiliate immediately before the original disposition time determined on the assumption that the taxation year of the relevant foreign affiliate that would otherwise have included that time had ended immediately before that time, and

C is the surplus entitlement percentage of the corporation resident in Canada in respect of the relevant foreign affiliate immediately before the recognition time determined on the assumption that the taxation year of the relevant foreign affiliate that would otherwise have included that time had ended immediately before that time.

5913. (1) The amount prescribed, for the purpose of paragraph 95(2)(*f.5*) of the Act, to be the adjusted suspended income or gain in respect of the specified property, of the relevant foreign affiliate referred to in that paragraph, at the earlier of the first times (referred to in this section as the "recognition time"), after the original disposition time, that is described by that paragraph, is the amount determined by the formula

$$A \times B/C$$

where

A is the amount of the unadjusted suspended income or gain in respect of a specified property of the relevant foreign affiliate at the original disposition time,

B is the surplus entitlement percentage of the corporation resident in Canada in respect of the relevant foreign affiliate immediately before the original disposition time determined on the assumption that the taxation year of the relevant foreign affiliate that would otherwise have included that time had ended immediately before that time, and

C is the surplus entitlement percentage of the corporation resident in Canada in respect of the relevant foreign affiliate immediately before the recognition time determined on the assumption that the taxation year of the relevant foreign affiliate that would otherwise have included that time had ended immediately before that time.

(2) The amount prescribed, for the purpose of paragraph 95(2)(*f.5*) of the Act, to be the adjusted allocable tax in respect of the adjusted suspended income or gain in subsection (1) in respect of the specified property, of the relevant foreign affiliate referred to in that paragraph, at the "recognition time", is the amount determined by the formula

$$A \times B/C$$

where

A is any income or profits tax paid to the government of a country by the relevant foreign affiliate that can reasonably be regarded as tax in respect of the unadjusted suspended income or gain in respect of the specified property,

B is the surplus entitlement percentage of the corporation resident in Canada in respect of the relevant foreign affiliate immediately before the original disposition time determined on the assumption that the taxation year of the relevant foreign affiliate that would otherwise have included that time had ended immediately before that time, and

C is the surplus entitlement percentage of the corporation resident in Canada in respect of the relevant foreign affiliate immediately before the recognition time determined on the assumption that the taxation year of the relevant foreign affiliate that would otherwise have included that time had ended immediately before that time.

5914. (1) The amount prescribed, for the purpose of paragraph 95(2)(*h.2*) of the Act, to be the adjusted suspended loss or capital loss in respect of the specified property, of the relevant foreign affiliate referred to in that paragraph, at the earlier of the first times (referred to in this section as the "recognition time"), after the original disposition time, that is described by that paragraph, is the amount determined by the formula

$$A \times B/C$$

where

A is the amount of the unadjusted suspended loss or capital loss in respect of a specified property of the relevant foreign affiliate at the original disposition time,

B is the surplus entitlement percentage of the corporation resident in Canada in respect of the relevant foreign affiliate immediately before the original disposition time determined on the assumption that the taxation year of the relevant foreign affiliate that would otherwise have included that time had ended immediately before that time, and

C is the surplus entitlement percentage of the corporation resident in Canada in respect of the relevant foreign affiliate immediately before the recognition time determined on the assumption that the taxation year of the relevant foreign affiliate that would otherwise have included that time had ended immediately before that time.

(2) The amount prescribed, for the purpose of paragraph 95(2)(*h.2*) of the Act, to be the adjusted allocable tax refund in respect of the adjusted suspended loss or capital loss in subsection (1) in respect of the specified property, of the relevant foreign affiliate referred to in that paragraph, at the recognition time, is the amount determined by the formula

$$A \times B/C$$

where

A is any income or profits tax refunded by the government of a country to the relevant foreign affiliate that can reasonably be regarded as tax refunded in respect of the unadjusted suspended loss or capital loss in respect of the specified property,

B is the surplus entitlement percentage of the corporation resident in Canada in respect of the relevant foreign affiliate immediately before the original disposition time determined on the assumption that the taxation year of the relevant foreign affiliate that would otherwise have included that time had ended immediately before that time, and

C is the surplus entitlement percentage of the corporation resident in Canada in respect of the relevant foreign affiliate immediately before the recognition time determined on the assumption that the taxation year of the relevant foreign affiliate that would otherwise have included that time had ended immediately before that time.

5915. An election under paragraph 95(2)(*c.2*) of the Act in respect of the disposition of a specified share is to be made by filing the prescribed form with the Minister, on or before

(*a*) if a foreign affiliate of the particular corporation resident in Canada was the vendor that disposed of the specified share, the particular corporation's filing-due date for its taxation year that includes the last day of the foreign affiliate's taxation year in which the disposition was made; and

(*b*) if a foreign affiliate of the particular corporation resident in Canada is a member of a partnership that was the vendor that disposed of the specified share, the particular corporation's filing-due date for its taxation year that includes the last day of the taxation year of the foreign affiliate that includes the last day of the partnership's fiscal period in which the disposition was made.

5916. An election under clause 95(2)(*d*)(iii)(A), (*e*)(v)(B), (*e.3*)(iv)(B), (e.4)(v)(B) or (*e.5*)(v)(B) of the Act in respect of the disposition of one or more shares of the capital stock of a foreign affiliate of a corporation resident in Canada is to be made by filing the prescribed form with the Minister, on or before

(*a*) if a foreign affiliate of the corporation resident in Canada made the disposition, the filing-due date of the corporation resident in Canada for its taxation year that includes the last day of the foreign affiliate's taxation year in which the disposition was made; and

(*b*) if a foreign affiliate of the corporation resident in Canada is a member of a partnership that made the disposition, the filing-due date of the corporation resident in Canada for its taxation year that includes the last day of the taxation year of the foreign affiliate that includes the last day of the partnership's fiscal period in which the disposition was made.

5917. An election under paragraph 95(2)(*f.4*) of the Act is to be made by filing the prescribed form with the Minister, on or before

(*a*) if a foreign affiliate of the particular corporation resident in Canada was the vendor that disposed of the specified property, the particular corporation's filing-due date for its taxation year that includes the last day of the foreign affiliate's taxation year in which the disposition was made; and

(*b*) if a foreign affiliate of the particular corporation resident in Canada is a member of a partnership that was the vendor that disposed of the specified property, the particular corporation's filing-due date for its taxation year that includes the last day of the foreign affiliate's taxation year that includes the last day of the partnership's fiscal period in which the disposition was made.

5918. An election under subparagraph 95(2)(k.3)(iii) of the Act in respect of the dispositions of all properties deemed, by subparagraph 95(2)(*k.3*)(ii) of the Act and paragraph 138(11.91)(*e*) of the Act, to have been disposed of by the operator referred to in subparagraph 95(2)(*k.3*)(iii) of the Act in the operator's specified taxation year referred to in that subparagraph, is to be made by filing the prescribed form with the Minister on or before

(*a*) if a foreign affiliate of the taxpayer was the operator, the taxpayer's filing-due date for its taxation year that includes the last day of the foreign affiliate's taxation year that is the specified taxation year; and

(*b*) if a partnership — of which a foreign affiliate of the taxpayer was, or was deemed by paragraph 95(2)(*k.7*) of the Act to be, a member — was the operator, the taxpayer's filing-due date for its taxation year that includes the last day of the foreign affiliate's taxation year that includes the last day of the partnership's fiscal period that is the specified taxation year.

5919. An election under paragraph 88(3)(*a*) of the Act in respect of the disposition of one or more shares of the capital stock of the foreign affiliate of a corporation resident in Canada by another foreign affiliate of the corporation resident in Canada is to be made by filing the prescribed form with the Minister on or before the filing-due date of the corporation resident in Canada for its taxation year that includes the last day of the other foreign affiliate's taxation year in which the other foreign affiliate made the disposition.

Applicable: After December 20, 2002.

Explanatory Note: Proposed new subsections 5911(1) and (2) of the Regulations set out the rules for determining the additions to and the deductions from the adjusted cost base of a share of a foreign affiliate of a corporation resident in Canada required under paragraphs 92(1.3)(*a*) and (*b*) of the Act when there has been a specified section 93 election in respect of a relevant share. Refer to the commentary for proposed new subsections 92(1.1) to (1.4) of the Act for the definitions "election time", "relevant share", "relevant foreign affiliate" and "specified section 93 election", the adjusted cost base adjustment requirements and the purposes for which the adjustments to the cost base of shares are to be made.

Proposed new subsections 5911(1) and (2) of the Regulations apply after December 20, 2002.

New subsection 5911(1) of the Regulations determines the required addition to the adjusted cost base of a relevant share in respect of a specified section 93 election.

The amount prescribed, for the purpose of paragraph 92(1.3)(*a*) of the Act, in respect of the relevant share referred to in that paragraph, in respect of a specified section 93 election related to the relevant share, is the lesser of

- the amount, if any, by which the fair market value exceeds the adjusted cost base to the holder, at the election time, of the relevant share, and
- the amount determined by the formula

$$A / C \times (C - B)$$

where

A is the amount that would be determined to be the attributed net surplus in respect of the relevant share, in respect of the specified section 93 election, under proposed new paragraph 5902(1)(f) of the Regulations if the relevant share were the disposed share referred to in subsection 5902(1) and the relevant affiliate were the disposed affiliate referred to in subsection 5902(1),

B is the amount that would be determined to be the consolidated net surplus in respect of the relevant affiliate under proposed new subparagraph 5902(1)(*e*)(vi) if the relevant foreign affiliate was the disposed affiliate referred to in subsection 5902(1), the relevant share was the disposed share referred to in subsection 5902(1) that was disposed of immediately after the disposition of the disposed share to which the specified section 93 election applied and, before that determination, the surplus accounts of the relevant foreign affiliate and each foreign affiliate in which the relevant foreign affiliate had an equity percentage were adjusted in accordance with section 5905, and

C is the amount that would be determined to be the consolidated net surplus in respect of the relevant affiliate, in respect of the specified section 93 election, under proposed new subparagraph 5902(1)(*e*)(vi) if the relevant foreign affiliate was the disposed affiliate referred to in subsection 5902(1) and the relevant share was the disposed share referred to in subsection 5902(1).

Proposed subsection 5911(2) of the Regulations determines the required deduction to the adjusted cost base of a relevant share in respect of a specified section 93 election.

The amount prescribed, for the purpose of paragraph 92(1.3)(*b*) of the Act, in respect of the relevant share referred to in that paragraph, in respect of a specified section 93 election related to the relevant share, is the lesser of

- the amount, if any, by which the adjusted cost base to the holder exceeds the fair market value, at the election time, of the relevant share, and
- the amount determined by the formula

$$A / C \times (C - B)$$

where

A is the amount that would be determined to be the attributed net surplus in respect of the relevant share, in respect of the specified section 93 election, under proposed new paragraph 5902(1)(f) of the Regulations if the relevant share was the disposed share referred to in subsection 5902(1), the relevant affiliate was the disposed affiliate referred to in subsection 5902(1) and the consolidated net surplus was the amount determined for C,

B is the amount, if any, by which the amount that would be determined under clause 5902(1)(*e*)(vi)(B) in respect of the relevant affiliate exceeds the amount that would be determined under clause 5902(1)(*e*)(vi)(A) in respect of the relevant affiliate if the relevant foreign affiliate was the disposed affiliate referred to in subsection 5902(1), the relevant share was the disposed share referred to in subsection 5902(1) that was disposed of immediately after the disposition of the disposed share to which the specified section 93 election applied and, before the

determination, the surplus accounts of the relevant foreign affiliate and each foreign affiliate in which the relevant foreign affiliate had an equity percentage were adjusted in accordance with section 5905, and

C is the amount, if any, by which the amount that would be determined under clause 5902(1)(*e*)(vi)(B) in respect of the relevant affiliate in respect of the specified section 93 election exceeds the total that would be determined under clause 5902(1)(*e*)(vi)(A) in respect of the relevant affiliate in respect of the specified section 93 election if the relevant share was the disposed share referred to in subsection 5902(1) and the relevant affiliate was the disposed affiliate referred to in subsection 5902(1).

Proposed new subsection 5911(3) of the Regulations determines the required addition to the adjusted cost base of a relevant share in respect of a specified section 93 election amount determined in the formulas in subsections 5911(1) and (2) in respect of the relevant share referred to in paragraph 92(1.3)(*a*) is nil.

If the amount determined in each of the formulas in paragraphs 5911(1)(*b*) and 5911(2)(*b*) in respect of the relevant share referred to in paragraph 92(1.3)(*a*) of the Act is nil, the amount determined for B in the formula in paragraph 5911(1)(*b*) in respect of the relevant affiliate is greater than nil and the amount determined for C in the formula in paragraph 5911(2)(*b*) in respect of the relevant affiliate is greater than nil, the amount prescribed for the purpose of paragraph 92(1.3)(*a*) of the Act, in respect of the relevant share referred to in that paragraph, in respect of a specified section 93 election related to the relevant share, is the lesser of

- the amount, if any, by which the fair market value of the relevant share, at the election time, exceeds the adjusted cost base, at the time of the disposition, of the relevant share to the holder, and
- the amount that would, if the relevant share was the disposed share and the relevant affiliate was the disposed affiliate in respect of the specified section 93 election, be determined under paragraph 5902(1)(f) to be the attributed net surplus in respect of the relevant share if the consolidated net surplus of the relevant foreign affiliate were the amount determined for B in the formula in paragraph 5911(1)(*b*).

Example

Facts

1. Canco, a corporation resident in Canada, owns 100% of the issued shares of FA1 (which owns 80% of the issued shares of FA2) and 50% of the issued shares of FA6 (which owns 20% of the issued shares of FA2).

2. FA2 owns 70% of the issued shares of FA3, which owns 100% of the issued shares of FA4 (which owns 100% of the issued shares of FA5).

3. FA1 sells 30 issued shares of FA2 to FA6 and Canco elects under subsection 93(1) of the Act ($123 of sale proceeds to be treated as dividends on the 30 disposed shares of FA2).

4. At the time of the sale, FA2 has an exempt surplus of $200, a taxable surplus of $0, an exempt deficit of $0 and an underlying foreign tax of $0.

5. At the time of the sale, FA3 has an exempt surplus of $100, a taxable surplus of $75, an exempt deficit of $0 and an underlying foreign tax of $10.

6. At the time of the sale, FA4 has an exempt surplus of $0, a taxable surplus of $0, an exempt deficit of $200 and an underlying foreign tax of $0.

7. At the time of the sale, FA5 has an exempt surplus of $0, a taxable surplus of $325, an exempt deficit of $0 and an underlying foreign tax of $200.

8. All the corporations have 100 issued shares of one class of shares.

Application of Sections 5902, 5905 and 5911

For the application of subsection 5902(1) – see the example in the commentary for that subsection.

For the application of subsection 5905(8) – see the example in the commentary for that subsection.

For the application of subsections 5911(1) and (3) – see the calculation below.

Application of Section 5911 of the Regulations

Subsection 5911 of the Regulations provides for adjustments to the cost base to the holder of the share of the relevant foreign affiliate in respect of the adjustments to the surplus balances under section 5905 of the Regulations in respect of a specified section 93 election related to the relevant share.

The calculation is being performed only for the shares of FA4 and FA5 in this example.

Subsection 5911(1) — Additions to the ACB of Shares

For the purposes of the calculations below, it is assumed that the fair market value exceeded the adjusted cost base to the holder of shares of the relevant foreign affiliates.

Calculation — FA5

Under subsection 5911(1), the required addition to the adjusted cost base of a share of FA5, for example, is $0.65 determined by the formula

$$A \times (C–B)/C) = (3.25 \times (325–260)/325) = \$0.65$$

where

A is the amount that would be determined to be the attributed surplus in respect of a share of FA5 if the share of FA5 and FA5 were the "disposed share" and the "disposed foreign affiliate" referred to in subsection 5902(1) in respect of the specified section 93 election ($325/100 = $3.25).

B is the amount that would be determined to be the consolidated net surplus (after the application, in respect of the specified section 93 election, of subsection 5905(8) to FA5) under 5902(1) in respect of FA5 if the share of FA5 and FA5 were the disposed share and the disposed foreign affiliate referred to in subsection 5902(1) in respect of a disposition, immediately after the disposition to which the specified section 93 election applies, of the FA5 share in respect of which an election was made by Canco under subsection 93(1) ($260), and

C is the amount that would be determined to be consolidated net surplus of FA5, in respect of the specified section 93 election, under 5902(1) in respect of FA5 if the share of FA5 and FA5 were the disposed share and the disposed foreign affiliate referred to in subsection 5902(1) ($325).

Calculation – FA4

Under subsection 5911(3), the required addition to the adjusted cost base of a share of FA4, for example, is $2.60. This amount is determined as the amount that would, if the share of FA4 was the disposed share and FA4 was the disposed affiliate, be determined under paragraph 5902(1)(*f*) to be the attributed net surplus in respect of the FA4 share ($260/100 shares) if the consolidated net surplus of the FA4 were the amount determined in respect of FA4 for B in the formula in subsection 5911(1) ($260).

The amount determined for B in the formula in subsection 5911(1) is the amount that would be determined to be the consolidated net surplus (after the application, in respect of the specified section 93 election, of subsection 5905(8) to FA4) under subsection 5902(1) in respect of FA4 if the share of FA4 and FA4 were the disposed share and the disposed foreign affiliate referred to in subsection 5902(1) in respect of a disposition, immediately after the disposition to which the specified section 93 election applies, of the FA4 share in respect of which an election was made by Canco under subsection 93(1) ($260).

Section 5912

Proposed new subsection 5912 of the Regulations determines the amount to be included as the adjusted suspended gain and the adjusted allocable tax in respect of the specified share, of the relevant foreign affiliate (referred to in new paragraph 95(2)(*c*.3) of the Act), at the earlier of the first times (which earlier time is referred to as the "recognition time"), after the original disposition time, that is described by new paragraph 95(2)(*c*.3) of the Act.

Proposed new subsection 5912 of the Regulations applies after December 20, 2002.

New subsection 5912(1) provides the rules for the calculation of the adjusted suspended gain in respect of the specified share,

of the relevant foreign affiliate (referred to in new paragraph 95(2)(*c.3*) of the Act), at the recognition time. This amount is determined by the formula

A × B/C

where

A is the amount of the unadjusted suspended gain in respect of a specified share of the relevant foreign affiliate at the original disposition time,

B is the surplus entitlement percentage of the corporation resident in Canada in respect of the relevant foreign affiliate immediately before the original disposition time determined assuming that the taxation year of the relevant foreign affiliate that otherwise would have included that time had ended immediately before that time, and

C is the surplus entitlement percentage of the corporation resident in Canada in respect of the relevant foreign affiliate immediately before the recognition time determined assuming that the taxation year of the relevant foreign affiliate that otherwise would have included that time had ended immediately before that time.

New subsection 5912(2) provides for the calculation of the adjusted allocable tax in respect of the adjusted suspended gain, in respect of the specified share, of the relevant foreign affiliate (referred to in new paragraph 95(2)(*c.3*)) at the recognition time. This amount is determined by the formula

A × B/C

where

A is any income or profits tax paid to the government of a country by the relevant foreign affiliate that can reasonably be regarded as tax in respect of the unadjusted suspended gain in respect of the specified share,

B is the surplus entitlement percentage of the corporation resident in Canada in respect of the relevant foreign affiliate immediately before the original disposition time determined on the assumption that the taxation year of the relevant foreign affiliate that otherwise would have included that time had ended immediately before that time, and

C is the surplus entitlement percentage of the corporation resident in Canada in respect of the relevant foreign affiliate immediately before the recognition time determined on the assumption that the taxation year of the relevant foreign affiliate that otherwise would have included that time had ended immediately before that time.

Section 5913

New section 5913 of the Regulations determines the amount to be included as the adjusted suspended income or gain in respect of the specified property, of the relevant foreign affiliate (referred to in new paragraph 95(2)(f.5) of the Act), at the earlier of the first times (which earlier time is referred to as the "recognition time"), after the original disposition time (referred to in new paragraph 95(2)(f.5) of the Act), that is described by new paragraph 95(2)(f.5) of the Act.

Proposed new subsection 5913 of the Regulations applies after December 20, 2002.

New subsection 5913(1) provides rules for the calculation of the adjusted suspended income or gain in respect of the specified property, of the relevant foreign affiliate (referred to in new paragraph 95(2)(f.5)), at the recognition time. This amount is determined by the formula

A × B/C

where

A is the amount of the unadjusted suspended income or gain in respect of a specified property of the relevant foreign affiliate at the original disposition time,

B is the surplus entitlement percentage of the corporation resident in Canada in respect of the relevant foreign affiliate immediately before the original disposition time determined assuming that the taxation year of the relevant foreign affiliate that otherwise would have included that time had ended immediately before that time, and

C is the surplus entitlement percentage of the corporation resident in Canada in respect of the relevant foreign affiliate immediately before the recognition time determined assuming that the taxation year of the relevant foreign affiliate that otherwise would have included that time had ended immediately before that time.

New subsection 5913(2) provides for the calculation of the adjusted allocable tax in respect of the adjusted suspended income or gain, in respect of the specified property, of the relevant foreign affiliate (referred to in new paragraph 95(2)(f.5)) at the recognition time. This amount is determined by the formula

A × B/C

where

A is any income or profits tax paid to the government of a country by the relevant foreign affiliate that can reasonably be regarded as tax in respect of the unadjusted suspended income or gain in respect of the specified property,

B is the surplus entitlement percentage of the corporation resident in Canada in respect of the relevant foreign affiliate immediately before the original disposition time determined on the assumption that the taxation year of the relevant foreign affiliate that otherwise would have included that time had ended immediately before that time, and

C is the surplus entitlement percentage of the corporation resident in Canada in respect of the relevant foreign affiliate immediately before the recognition time determined on the assumption that the taxation year of the relevant foreign affiliate that otherwise would have included that time had ended immediately before that time.

Section 5914

New section 5914 of the Regulations determines the amount to be included as the adjusted suspended loss or capital loss in respect of the specified property, of the relevant foreign affiliate (referred to in new paragraph 95(2)(*h.3*) of the Act), at the earlier of the first times (which earlier time is referred to as the "recognition time"), after the original disposition time (referred to in new paragraph 95(2)(*h.3*) of the Act), that is described by new paragraph 95(2)(*h.3*) of the Act.

Proposed new subsection 5914 of the Regulations applies after December 20, 2002.

New subsection 5914(1) provides for the calculation of the adjusted suspended loss or capital loss in respect of the specified property, of the relevant foreign affiliate (referred to in new paragraph 95(2)(*h.2*)), at the recognition time. This amount is determined by the formula

A × B/C

where

A is the amount of the unadjusted suspended loss or capital loss in respect of a specified property of the relevant foreign affiliate at the original disposition time,

B is the surplus entitlement percentage of the corporation resident in Canada in respect of the relevant foreign affiliate immediately before the original disposition time determined assuming that the taxation year of the relevant foreign affiliate that otherwise would have included that time had ended immediately before that time, and

C is the surplus entitlement percentage of the corporation resident in Canada in respect of the relevant foreign affiliate immediately before the recognition time determined on the assumption that the taxation year of the relevant foreign affiliate that otherwise would have included that time had ended immediately before that time.

New subsection 5914(2) provides for the calculation of the adjusted allocable tax refund in respect of the adjusted suspended loss or capital loss, in respect of the specified property, of the relevant foreign affiliate (referred to in new paragraph 95(2)(*h.2*)) at the recognition time. This amount is determined by the formula

A × B/C

where

A is any income or profits tax refunded by the government of a country to the relevant foreign affiliate that can reasonably be regarded as tax refunded in respect of the unadjusted suspended loss or capital loss in respect of the specified property,

B is the surplus entitlement percentage of the corporation resident in Canada in respect of the relevant foreign affil-

iate immediately before the original disposition time determined on the assumption that the taxation year of the relevant foreign affiliate that otherwise would have included that time had ended immediately before that time, and

C is the surplus entitlement percentage of the corporation resident in Canada in respect of the relevant foreign affiliate immediately before the recognition time determined on the assumption that the taxation year of the relevant foreign affiliate that otherwise would have included that time had ended immediately before that time.

Section 5915

Proposed section 5915 of the Regulations sets out the requirements for an election by a corporation resident in Canada under proposed paragraph 95(2)(*c*.2) of the Act.

Proposed new subsection 5915 of the Regulations applies after December 20, 2002.

Generally, the new section requires the election to be made by filing the prescribed form with the Minister of National Revenue on or before

- if a foreign affiliate of the corporation resident in Canada was the vendor that disposed of the specified share, the filing-due date of the corporation resident in Canada for its taxation year that includes the last day of the foreign affiliate's taxation year in which the disposition was made; and
- if a foreign affiliate of the corporation resident in Canada is a member of a partnership that was the vendor that disposed of the specified share, the filing-due date of the corporation resident in Canada for its taxation year that includes the last day of the taxation year of the foreign affiliate that includes the last day of the partnership's fiscal period in which the disposition was made by the partnership.

Section 5916

Proposed section 5916 of the Regulations sets out the requirements for an election by a corporation resident in Canada under subsection 88(3) or clause 95(2)(*d*)(iii)(A), (*e*)(v)(B), (*e*.3)(iv)(B), (*e*.4)(v)(B) or (*e*.5)(v)(B) of the Act.

Proposed new subsection 5916 of the Regulations applies after December 20, 2002.

Generally, the section requires the election to be made by filing the prescribed form with the Minister of National Revenue on or before

- if a foreign affiliate of the corporation resident in Canada made the disposition, the filing-due date of the corporation resident in Canada for its taxation year that includes the last day of the foreign affiliate's taxation year in which the disposition was made; and
- if a foreign affiliate of the corporation resident in Canada is a member of a partnership and that partnership made the disposition, the filing-due date of the corporation resident in Canada for its taxation year that includes the last day of the taxation year of the foreign affiliate that includes the last day of the partnership's fiscal period in which the disposition was made by the partnership.

Section 5917

Proposed section 5917 of the Regulations sets out the requirements for an election by a corporation resident in Canada under paragraph 95(2)(*f*.4) of the Act.

Proposed subsection 5917 of the Regulations applies after December 20, 2002.

Generally, the section requires the election to be made by filing the prescribed form with the Minister of National Revenue on or before

- if a foreign affiliate of the corporation resident in Canada was the vendor that disposed of the specified property, the filing-due date of the corporation resident in Canada for its taxation year that includes the last day of the foreign affiliate's taxation year in which the disposition was made; and
- if a foreign affiliate of the corporation resident in Canada is a member of a partnership that was the vendor that disposed of the specified property, the filing-due date of the corporation resident in Canada for its taxation year that includes the last day of the taxation year of the foreign affiliate that includes the last day of the partnership's fiscal period in which the disposition was made by the partnership.

Section 5918

Proposed section 5918 of the Regulations sets out the requirements for an election by a corporation resident in Canada under new subparagraph 95(2)(*k*.3)(iii) of the Act. For further detail, see the commentary to paragraph 95(2)(*k*.3) of the Act.

Proposed new subsection 5918 of the Regulations applies after December 20, 2002.

Generally, the section requires the election to be made by filing the prescribed form with the Minister of National Revenue on or before

- if a foreign affiliate of the taxpayer was the operator, the taxpayer's filing-due date for its taxation year that includes the last day of the foreign affiliate's taxation year that is the specified taxation year; and
- if a partnership – of which a foreign affiliate of the taxpayer was, or was deemed by new paragraph 95(2)(*k*.7) of the Act to be, a member – was the operator, the taxpayer's filing-due date for its taxation year that includes the last day of the taxation year of the foreign affiliate that includes the last day of the partnership's fiscal period that is the specified taxation year.

Section 5919

New section 5919 of the Regulations sets out the requirements for an election, under paragraph 88(3)(*a*) of the Act, by a corporation resident in Canada in respect of the disposition of shares in the capital of one of the foreign affiliates of the corporation resident in Canada by another of the foreign affiliates of the corporation resident in Canada. The proposed section states that an election under paragraph 88(3)(*a*) of the Act shall be made by filing the prescribed form with the Minister of National Revenue, on or before the filing-due date of the taxation year of the corporation resident in Canada that includes the last day of the other foreign affiliate's taxation year in which the other foreign affiliate made the disposition.

Proposed new subsection 5919 of the Regulations applies after December 20, 2002.

PART LX
Prescribed Activities

6000. For the purpose of clause 122.3(1)(*b*)(i)(C) of the Act, a prescribed activity is an activity performed under contract with the United Nations.

History: Part LX was amended by P.C. 1995-1723, SOR/95-498, dated October 17, 1995, applicable to the 1994 and subsequent taxation years. Part LX formerly read:

"PART LX
Employment Tax Credit

S. 6000. (1) For the purposes of subsection 127(16) of the Act, the 'taxpayer employment credits' of a taxpayer for a taxation year shall be determined by aggregating his employment credits in respect of the fiscal periods of all businesses carried on by him that coincided with or ended in the taxation year.

(2) For the purposes of this Part, the employment credit of a taxpayer for a fiscal period of a business carried on by him is his share of the aggregate of the amounts determined under subsection 7(4) of *An Act to amend the Income Tax Act and to establish the Employment Tax Credit Program*, being chapter 4 of the Statutes of Canada, 1977-78, for each eligible worker employed in that business in respect of hours of eligible employment worked in the fiscal period.

(3) A taxpayer's 'share' of the amounts referred to in subsection (2) shall be the amount that is reasonable, having regard to all the circumstances,

including his participation in the income or loss of the business for the fiscal period.

(4) For the purposes of this Part, the terms 'eligible worker' and 'eligible employment' have the meaning given those terms for the purposes of *An Act to amend the Income Tax Act and to establish the Employment Tax Credit Program.*"

Part LX was added by P.C. 1978-1003, SOR/78-325, dated April 11, 1978 (Special Issue, *Canada Gazette*, December 31, 1978).

Interpretation Bulletins: *Secondary*— IT-497R4 Overseas employment tax credit.

PART LXI
Related Segregated Fund Trusts

6100. An election under subsection 138.1(4) of the Act by the trustee of a related segregated fund trust shall be made by filing with the Minister the prescribed form within 90 days from the end of the taxation year of the trust in respect of any capital property deemed to have been disposed of in that taxation year by virtue of the election.

History: Part LXI was added by P.C. 1978-2671, SOR/78-680, dated August 24 1978 (Special Issue, *Canada Gazette*, December 31, 1978).

PART LXII
Prescribed Securities, Shares and Debt Obligations

History: The heading before s. 6200 was amended by P.C. 2001-954, SOR/2001-187, dated May 31, 2001, applicable after February 18, 1997. The heading before s. 6200 formerly read:

"PRESCRIBED SECURITIES AND SHARES"

PRESCRIBED SECURITIES

6200. For the purposes of subsection 39(6) of the Act, a prescribed security is, with respect to the taxpayer referred to in subsection 39(4) of the Act,

(*a*) a share of the capital stock of a corporation, other than a public corporation, the value of which is, at the time it is disposed of by that taxpayer, a value that is or may reasonably be considered to be wholly or primarily attributable to

(i) real property, an interest therein or an option in respect thereof,

(ii) Canadian resource property or a property that would have been a Canadian resource property if it had been acquired after 1971,

(iii) foreign resource property or a property that would have been a foreign resource property if it had been acquired after 1971, or

(iv) any combination of properties described in subparagraphs (i) to (iii)

owned by

(v) the corporation,

(vi) a person other than the corporation, or

(vii) a partnership;

(*b*) a bond, debenture, bill, note, mortgage or similar obligation, issued by a corporation, other than a public corporation, if at any time before that taxpayer disposes of the security he does not deal at arm's length with the corporation;

(*c*) a security that is

(i) a share, or

(ii) a bond, debenture, bill, note, mortgage or similar obligation

that was acquired by the taxpayer from a person with whom the taxpayer does not deal at arm's length (other than from a person subject to subsection 39(4) of the Act for the person's taxation year that includes the time of the acquisition);

(*c*.1) a security described in subparagraph (*c*)(i) or (ii) that was acquired by the taxpayer from a person (other than from a person subject to subsection 39(4) of the Act for the person's taxation year that includes the time of the acquisition) in circumstances to which subsection 85(1) or (2) of the Act applied;

(*d*) a share acquired by that taxpayer under circumstances referred to in section 66.3 of the Act; or

(*e*) a security described in subparagraph (*c*)(i) or (ii) that was acquired by the taxpayer

(i) as proceeds of disposition for a security of the taxpayer to which paragraph (*a*), (*b*), (*c*) or (*d*) applied in respect of the taxpayer, or

(ii) as a result of one or more transactions that can reasonably be considered to have been an exchange or substitution of a security of the taxpayer to which paragraph (*a*), (*b*), (*c*) or (*d*) applied in respect of the taxpayer.

History: S. 6200(*c*) was amended by P.C. 1998-1449, SOR/98-418, dated August 26, 1998, applicable to the 1993 and subsequent taxation years. S. 6200(*c*) formerly read:

"(*c*) a security that is

(i) a share, or

(ii) a bond, debenture, bill, note, mortgage or similar obligation,

that was acquired by that taxpayer in a transaction

(iii) in which that taxpayer was not dealing at arm's length, or

(iv) to which the provisions of subsection 85(1) or (2) of the Act applied;"

S. 6200(*c*.1) was added by P.C. 1998-1449, SOR/98-418, dated August 26, 1998, applicable to the 1993 and subsequent taxation years.

S. 6200(*e*) was amended by P.C. 1998-1449, SOR/98-418, dated August 26, 1998, applicable to the 1993 and subsequent taxation years. S. 6200(*e*) formerly read:

"(*e*) a security that is

(i) a share, or

(ii) a bond, debenture, bill, note, mortgage or similar obligation,

that was acquired by that taxpayer

(iii) as proceeds of disposition for, or

(iv) as a result of one or more transactions that may reasonably be considered to have been an exchange or substitution of the security for,

a security described in any of paragraphs (*a*) to (*d*)."

S. 6200(*b*) was amended by P.C. 1994-1817, SOR/94-686, dated November 7, 1994, by deleting the word "hypothec".

S. 6200(*c*)(ii) was amended by P.C. 1994-1817, SOR/94-686, dated November 7, 1994, by deleting the word "hypothec".

S. 6200(*e*)(ii) was amended by P.C. 1994-1817, SOR/94-686, dated November 7, 1994, by deleting the word "hypothec".

S. 6200 was revoked and replaced, with respect to the portion preceding paragraph (*b*) thereof, by P.C. 1981-2517, SOR/81-724, September 21, 1981. That portion formerly read as follows:

"For the purposes of subsection 39(6) of the Act, a prescribed security is

(*a*) a share of the capital stock of a corporation, other than a public corporation, the value of which is at the time it is disposed of by the taxpayer referred to in subsection 39(4) of the Act, a value that is or may reasonably be considered to be wholly or primarily attributable to real property owned by

(i) the corporation,

(ii) a person other than the corporation, or

(iii) a partnership;"

Part LXII was added by P.C. 1978-3729, SOR/78-946, dated December 14, 1978, applicable in respect of disposition of property in the 1977 and subsequent taxation years.

Interpretation Bulletins: *Primary* — IT-479R Transactions in securities.

PRESCRIBED SHARES

6201. **(1)** For the purposes of paragraph (*f*) of the definition "term preferred share" in subsection 248(1) of the Act, a share last acquired before June 29, 1982 and of a class of the capital stock of a corporation that is listed on a designated stock exchange in Canada is a prescribed share unless more than 10 per cent of the issued and outstanding shares of that class are owned by

(*a*) the owner of that share; or

(*b*) the owner of that share and persons related to him.

History: S. 6201(1), the portion before paragraph (*a*) was amended by S.C. 2007, c. 35, s. 89(1), by replacing "stock exchange referred to in section 3200" with "designated stock exchange in Canada", in force on December 14, 2007.

S. 6201 was revoked and replaced by P.C. 1984-3789, SOR/84-948, dated November 29, 1984, effective June 29, 1982. S. 6201 formerly read:

"S. 6201. For the purposes of paragraph (*f*) of the definition 'term preferred share' in subsection 248(1) of the Act, a share is hereby prescribed that is a share of a class or of a series of a class of the capital stock of a corporation that is listed on a stock exchange referred to in section 3200 unless in the aggregate more than 10 per cent of the issued and outstanding shares of that series or of that class, as the case may be, are owned by

(*a*) the owner thereof, or

(*b*) the owner and persons related to him."

Former s. 6201 was added and the heading preceding s. 6200 was amended by P.C. 1980-423, SOR/80-130, February 11, 1980, effective December 6, 1979.

(2) For the purposes of paragraph (*f*) of the definition "term preferred share" in subsection 248(1) of the Act, a share acquired after June 28, 1982 and of a class of the capital stock of a corporation that is listed on a designated stock exchange in Canada is a prescribed share at any particular time with respect to another corporation that receives a dividend at the particular time in respect of the share unless

(*a*) where the other corporation is a restricted financial institution,

(i) the share is not a taxable preferred share,

(ii) dividends (other than dividends received on shares prescribed under subsection (5)) are received at the particular time by the other corporation or by the other corporation and restricted financial institutions with which the other corporation does not deal at arm's length, in respect of more than 5 per cent of the issued and outstanding shares of that class, and

(iii) a dividend is received at the particular time by the other corporation or a restricted financial institution with which the other corporation does not deal at arm's length, in respect of a share (other than a share prescribed under subsection (5)) of that class acquired after December 15, 1987 and before the particular time;

(*b*) where the other corporation is a restricted financial institution, the share

(i) is not a taxable preferred share,

(ii) was acquired after December 15, 1987 and before the particular time, and

(iii) was, by reason of subparagraph (*h*)(i), (ii), (iii) or (v) of the definition "term preferred share" in subsection 248(1) of the Act, deemed to have been issued after December 15, 1987 and before the particular time; or

(*c*) in any case, dividends (other than dividends received on shares prescribed under subsection (5)) are received at the particular time by the other corporation or by the other corporation and persons with whom the other corporation does not deal at arm's length in respect of more than 10 per cent of the issued and outstanding shares of that class.

History: S. 6201(2), the portion before paragraph (*a*) was amended by S.C. 2007, c. 35, s. 89(1), by replacing "stock exchange referred to in section 3200" with "designated stock exchange in Canada", in force on December 14, 2007.

S. 6201(2) was amended by P.C. 1989-1565, SOR/89-409, dated August 14, 1989 and applicable after June 18, 1987. S. 6201(2) formerly read:

"(2) For the purposes of paragraph (*f*) of the definition 'term preferred share' in subsection 248(1) of the Act, a share acquired after June 28, 1982 and of a class of the capital stock of a corporation (in this subsection referred to as the 'issuer') that is listed on a stock exchange referred to in section 3200 is a prescribed share with respect to another corporation (in this subsection referred to as the 'recipient' that receives a dividend at any time in respect of the share unless dividends are received at that time from the issuer in respect of more than 10 per cent of the issued and outstanding shares of that class by

(*a*) the recipient, or

(*b*) the recipient and persons with whom the recipient does not deal at arm's length

and, for the purpose of this subsection, where a taxpayer is a beneficiary of a trust and an amount in respect of the beneficiary has been designated by the trust in a taxation year pursuant to subsection 104(19) of the Act, the taxpayer shall be deemed to have received the amount so designated at the time it was received by the trust."

S. 6201(2), the portion following paragraph (*b*), was amended by P.C. 1986-2590, SOR/86-1092 dated November 20, 1986, effective June 29, 1982. That part formerly read:

"and, for the purpose of this subsection, where the recipient or a person with whom the recipient does not deal at arm's length in a beneficiary of a trust and an amount in respect of the beneficiary has been designated by the trust in a year pursuant to subsection 104(19) of the Act, the beneficiary shall be deemed to have received the amount so designated at the time it was received by the trust."

S. 6201(2) was added by P.C. 1984-3789, SOR/84-948, dated November 29, 1984, effective June 29, 1982.

(3) For the purposes of paragraph 112(2.2)(g) of the Act and paragraph (*f*) of the definition "term preferred share" in subsection 248(1) of the Act, a share of any of the following series of preferred shares of the capital stock of Massey-Ferguson Limited issued after July 15, 1981 and before March 23, 1982 is a prescribed share:

(*a*) $25 Cumulative Redeemable Retractable Convertible Preferred Shares, Series C;

(*b*) $25 Cumulative Redeemable Retractable Preferred Shares, Series D; or

(*c*) $25 Cumulative Redeemable Retractable Convertible Preferred Shares, Series E.

History: S. 6201(3) was corrected by P.C. 1985-2860, SOR/85-963 dated September 27, 1985 by substituting "March 23, 1982" for "March 13, 1982" in the part preceding paragraph (*a*), effective July 16, 1981.

S. 6201(3) was added by P.C. 1984-3789, SOR/84-948, dated November 29, 1984, effective July 16, 1981.

(4) For the purposes of the definition "taxable RFI share" in subsection 248(1) of the Act, a share of a class of the capital stock of a corporation that is listed on a designated stock exchange in Canada is a prescribed share at any particular time with respect to another corporation that is a restricted financial institution that receives a dividend at the particular time in respect of the share unless dividends (other than dividends received on shares prescribed under subsection (5.1)) are received at that time by the other corporation, or by the other corporation and restricted financial institutions with which the other corporation does not deal at arm's length, in respect of more than

(*a*) 10 per cent of the shares of that class that were issued and outstanding at the last time, before the particular time, at which the other corporation or a restricted financial institution with which the other

corporation does not deal at arm's length acquired a share of that class, where no dividend is received at the particular time by any such corporation in respect of a share (other than a share prescribed under subsection (5.1)) of that class acquired after December 15, 1987 and before the particular time; or

(*b*) 5 per cent of the shares of that class that were issued and outstanding at the last time, before the particular time, at which the other corporation or a restricted financial institution with which the other corporation does not deal at arm's length acquired a share of that class, where a dividend is received at the particular time by any such corporation in respect of a share (other than a share prescribed under subsection (5.1)) of that class acquired after December 15, 1987 and before the particular time.

History: S. 6201(4), the portion before paragraph (*a*) was amended by S.C. 2007, c. 35, s. 89(1), by replacing "stock exchange referred to in section 3200" with "designated stock exchange in Canada", in force on December 14, 2007.

S. 6201(4) was amended by P.C. 1995-1198, SOR/95-357, dated July 26, 1995, applicable to dividends received after December 20, 1991. S. 6201(4) formerly read:

"(4) For the purposes of the definition 'taxable RFI share' in subsection 248(1) of the Act, a share of a class of the capital stock of a corporation that is listed on a stock exchange referred to in section 3200 is a prescribed share at any particular time with respect to another corporation that is a restricted financial institution that receives a dividend at the particular time in respect of the share unless dividends (other than dividends received on shares prescribed under subsection (5)) are received at that time by the other corporation or by the other corporation and restricted financial institutions with which the other corporation does not deal at arm's length in respect of more than

(*a*) 10 per cent of the issued and outstanding shares of that class where no dividend is received at that time by the other corporation or a restricted financial institution with which the other corporation does not deal at arm's length in respect of a share (other than a share prescribed under subsection (5)) of that class acquired after December 15, 1987 and before the particular time; or

(*b*) 5 per cent of the issued and outstanding shares of that class where a dividend is received at the particular time by the other corporation or a restricted financial institution with which the other corporation does not deal at arm's length in respect of a share (other than a share prescribed under subsection (5)) of that class acquired after December 15, 1987 and before the particular time."

S. 6201(4) was amended and ss. 6201 (5) to (11) were added by P.C. 1989-1565, SOR/89-409, dated August 14, 1989 and applicable after June 18, 1987. S. 6201(4) formerly read:

"(4) For the purposes of paragraph (*e*) of the definition 'short-term preferred share' in subsection 248(1) of the Act, a share

(*a*) issued after November 12, 1981 and before 1983,

(*b*) last acquired before July, 1984, and

(*c*) of a class of the capital stock of a corporation that is listed on a stock exchange referred to in section 3200

is a prescribed share unless more than 10 per cent of the issued and outstanding shares of that class are owned by

(*d*) the owner of that share; or

(*e*) the owner of that share and persons related to him."

S. 6201(4) was added by P.C. 1984-3789, SOR/84-948, dated November 29, 1984, effective November 13, 1981.

(5) For the purpose of paragraph (*f*) of the definition "term preferred share" in subsection 248(1) of the Act, a share of a class of the capital stock of a corporation that is listed on a designated stock exchange in Canada is a prescribed share at any particular time with respect to another corporation that is registered or licensed under the laws of a province to trade in securities and that holds the share for the purpose of sale in the course of the business ordinarily carried on by it unless

(*a*) it may reasonably be considered that the share was acquired as part of a series of transactions or events one of the main purposes of which was to avoid or limit the application of subsection 112(2.1) of the Act; or

(*b*) the share was not acquired by the other corporation in the course of an underwriting of shares of that class to be distributed to the public and

(i) dividends are received at the particular time by the other corporation or by the other corporation and corporations controlled by the other corporation in respect of more than 10 per cent of the issued and outstanding shares of that class,

(ii) the other corporation is a restricted financial institution and

(A) the share is not a taxable preferred share,

(B) dividends are received at the particular time by the other corporation or by the other corporation and corporations controlled by the other corporation in respect of more than 5 per cent of the issued and outstanding shares of that class, and

(C) a dividend is received at the particular time by the other corporation or a corporation controlled by the other corporation in respect of a share of that class acquired after December 15, 1987 and before the particular time, or

(iii) the other corporation is a restricted financial institution and the share

(A) is not a taxable preferred share,

(B) was acquired after December 15, 1987 and before the particular time, and

(C) was, by reason of subparagraph (*h*)(i), (ii), (iii) or (v) of the definition "term preferred share" in subsection 248(1) of the Act, deemed to have been issued after December 15, 1987 and before the particular time.

History: S. 6201(5), the portion before paragraph (*a*) was replaced by S.C. 2007, c. 35, s. 78(1), applicable to dividends received in taxation years that begin after October 1994, except that in its application before December 14, 2007, the references to "a designated stock exchange in Canada" in subsections 6201(5) and (5.1) of the Regulations shall be read as a reference to "a stock exchange referred to in section 3200". S. 6201(5), the portion before paragraph (*a*) formerly read:

"(5) For the purposes of paragraph (*f*) of the definition 'term preferred share' in subsection 248(1) of the Act, a share of a class of the capital stock of a corporation that is listed on a stock exchange referred to in section 3200 is a prescribed share at any particular time with respect to another corporation that is registered or licensed under the laws of a province to trade in securities and that holds the share as inventory of the business ordinarily carried on by it unless"

S. 6201(5), that portion before paragraph (*b*), was amended by P.C. 1995-1198, SOR/95-357, dated July 26, 1995, applicable to dividends received after December 20, 1991. That portion formerly read:

"(5) For the purposes of the definition 'taxable RFI share' and paragraph (*f*) of the definition 'term preferred share' in subsection 248(1) of the Act, a share of a class of the capital stock of a corporation that is listed on a stock exchange referred to in section 3200 is a prescribed share at any particular time with respect to another corporation that is registered or licensed under the laws of a province to trade in securities and that holds the share as inventory of the business ordinarily carried on by it unless

(*a*) it may reasonably be considered that the share was acquired as part of a series of transactions or events one of the main purposes of which was to avoid or limit the application of subsection 112(2.1) or section 187.3 of the Act; or"

(5.1) For the purpose of the definition "taxable RFI share" in subsection 248(1) of the Act, a share of a class of the capital stock of a corporation that is listed on a designated stock exchange in Canada is a prescribed share at any particular time with respect to another corporation that is registered or licensed under the laws of a province to trade

in securities and that holds the share for the purpose of sale in the course of the business ordinarily carried on by it unless

(*a*) it may reasonably be considered that the share was acquired as part of a series of transactions or events one of the main purposes of which was to avoid or limit the application of section 187.3 of the Act; or

(*b*) the share was not acquired by the other corporation in the course of an underwriting of shares of that class to be distributed to the public and

(i) dividends are received at the particular time by the other corporation, or by the other corporation and corporations controlled by the other corporation, in respect of more than 10 per cent of the shares of that class issued and outstanding at the last time before the particular time at which any such corporation acquired a share of that class,

(ii) the other corporation is a restricted financial institution and

(A) dividends are received at the particular time by the other corporation, or by the other corporation and corporations controlled by the other corporation, in respect of more than 5 per cent of the shares of that class issued and outstanding at the last time before the particular time at which any such corporation acquired a share of that class, and

(B) a dividend is received at the particular time by the other corporation, or a corporation controlled by the other corporation, in respect of a share of that class acquired after December 15, 1987 and before the particular time, or

(iii) the other corporation is a restricted financial institution and the share

(A) was acquired after December 15, 1987 and before the particular time, and

(B) was, because of subparagraph (*h*)(i), (ii), (iii) or (v) of the definition "term preferred share" in subsection 248(1) of the Act, deemed to have been issued after December 15, 1987 and before the particular time.

History: S. 6201(5.1), the portion before paragraph (*a*) was replaced by S.C. 2007, c. 35, s. 78(2), applicable to dividends received in taxation years that begin after October 1994, except that in its application before December 14, 2007, the references to "a designated stock exchange in Canada" in subsections 6201(5) and (5.1) of the Regulations shall be read as a reference to "a stock exchange referred to in section 3200". S. 6201(5.1), the portion before paragraph (*a*) formerly read:

"(5.1) For the purposes of the definition 'taxable RFI share' in subsection 248(1) of the Act, a share of a class of the capital stock of a corporation that is listed on a stock exchange referred to in section 3200 is a prescribed share at any particular time with respect to another corporation that is registered or licensed under the laws of a province to trade in securities and that holds the share as inventory of the business ordinarily carried on by it unless"

S. 6201(5.1) was added by P.C. 1995-1198, SOR/95-357, dated July 26, 1995, applicable to dividends received after December 20, 1991.

(6) For the purposes of paragraph (*f*) of the definition "term preferred share" in subsection 248(1) of the Act, a share of the capital stock of a corporation that is a member institution of a deposit insurance corporation, within the meaning assigned by section 137.1 of the Act, is a prescribed share with respect to the deposit insurance corporation and any subsidiary wholly-owned corporation of the deposit insurance corporation deemed by subsection 137.1(5.1) of the Act to be a deposit insurance corporation.

(7) For the purposes of the definition "taxable preferred share" in subsection 248(1) of the Act, the following shares are prescribed shares at any particular time:

(*a*) the 8.5 per cent Cumulative Redeemable Convertible Class A Preferred Shares of St. Marys Paper Inc. issued on July 7, 1987, where such shares are not deemed, by reason of paragraph (*e*) of the definition "taxable preferred share" in subsection 248(1) of the Act, to have been issued after that date and before the particular time; and

(*b*) the Cumulative Redeemable Preferred Shares of CanUtilities Holdings Ltd. issued before July 1, 1991, unless the amount of the consideration for which all such shares were issued exceeds $300,000,000 or the particular time is after July 1, 2001.

(8) For the purposes of paragraph 112(2.2)(*d*) of the Act, paragraph (*i*) of the definition "short-term preferred share", the definition "taxable preferred share" and paragraph (*f*) of the definition "term preferred share" in subsection 248(1) of the Act, the Exchangeable Preference Shares of Canada Cement Lafarge Ltd. (in this subsection referred to as the "subject shares"), the Exchangeable Preference Shares of Lafarge Canada Inc. and the shares of any corporation formed as a result of an amalgamation or merger of Lafarge Canada Inc. with one or more other corporations are prescribed shares at any particular time where the terms and conditions of such shares at the particular time are the same as, or substantially the same as, the terms and conditions of the subject shares as of June 18, 1987 and, for the purposes of this subsection, the amalgamation or merger of one or more corporations with another corporation formed as a result of an amalgamation or merger of Lafarge Canada Inc. with one or more other corporations shall be deemed to be an amalgamation of Lafarge Canada Inc. with another corporation.

(9) For the purposes of determining under subsections (2), (4), (5) and (5.1) the time at which a share of a class of the capital stock of a corporation was acquired by a taxpayer, shares of that class acquired by the taxpayer at any particular time before a disposition by the taxpayer of shares of that class shall be deemed to have been disposed of before shares of that class acquired by the taxpayer before that particular time.

History: S. 6201(9) was amended by P.C. 1995-1198, SOR/95-357, dated July 26, 1995, applicable to dividends received after December 20, 1991. S. 6201(9) formerly read:

"(9) For the purposes of determining under subsections (2), (4) and (5) the time at which a share of a class of the capital stock of a corporation was acquired by any taxpayer, shares of that class acquired by the taxpayer at any particular time before a disposition by the taxpayer of shares of that class shall be deemed to have been disposed of before shares of that class acquired by the taxpayer before that particular time."

(10) For the purposes of subsections (2), (4), (5) and (5.1) and this subsection,

(*a*) where a taxpayer is a beneficiary of a trust and an amount in respect of the beneficiary has been designated by the trust in a taxation year pursuant to subsection 104(19) of the Act, the taxpayer shall be deemed to have received the amounts so designated at the time it was received by the trust; and

(*b*) where a taxpayer is a member of a partnership and a dividend has been received by the partnership, the taxpayer's share of the dividend shall be deemed to

have been received by the taxpayer at the time the dividend was received by the partnership.

History: S. 6201(10), that portion before paragraph (*a*), was amended by P.C. 1995-1198, SOR/95-357, dated July 26, 1995, to add the reference to subsection (5.1), applicable to dividends received after December 20, 1991.

(11) For the purposes of subsections (2), (4), (5) and (5.1),

(*a*) a share of the capital stock of a corporation acquired by a person after December 15, 1987 pursuant to an agreement in writing entered into before December 16, 1987 shall be deemed to have been acquired by that person before December 16, 1987;

(*b*) a share of the capital stock of a corporation acquired by a person after December 15, 1987 and before July, 1988 as part of a distribution to the public made in accordance with the terms of a prospectus, preliminary prospectus, registration statement, offering memorandum or notice filed before December 16, 1987 with a public authority pursuant to and in accordance with the securities legislation of the jurisdiction in which the shares were distributed shall be deemed to have been acquired by that person before December 16, 1987;

(*c*) where a share that was owned by a particular restricted financial institution on December 15, 1987 has, by one or more transactions between related restricted financial institutions, been transferred to another restricted financial institution, the share shall be deemed to have been acquired by the other restricted financial institution before that date and after June 28, 1982 unless at any particular time after December 15, 1987 and before the share was transferred to the other restricted financial institution the share was owned by a shareholder who, at that particular time, was a person other than a restricted financial institution related to the other restricted financial institution; and

(*d*) where at any particular time there has been an amalgamation (within the meaning assigned by section 87 of the Act) and

(i) each of the predecessor corporations (within the meaning assigned by section 87 of the Act) was a restricted financial institution throughout the period beginning December 16, 1987 and ending at the particular time and the predecessor corporations were related to each other throughout that period, or

(ii) each of the predecessor corporations and the new corporation (within the meaning assigned by section 87 of the Act) is a corporation described in any of paragraphs (*a*) to (*d*) of the definition "restricted financial institution" in subsection 248(1) of the Act,

a share acquired by the new corporation from a predecessor corporation on the amalgamation shall be deemed to have been acquired by the new corporation at the time it was acquired by the predecessor corporation.

History: S. 6201(11), that portion before paragraph (*a*), was amended by P.C. 1995-1198, SOR/95-357, dated July 26, 1995, to add the reference to subsection (5.1), applicable to dividends received after December 20, 1991.

6202. (1) For the purposes of paragraph 66(15)(*d*.1) and subparagraphs 66.1(6)(*a*)(v) [subsection 66.1(6) "Canadian exploration expense"], 66.2(5)(*a*)(v) [subsection 66.2(5) "Canadian development expense"] and 66.4(5)(*a*)(iii) [subsection 66.4(5) "Canadian oil and gas property expense"] of the Act, a share of a class of the capital stock of a corporation (in this section referred to as the "issuing corporation") is a prescribed share if it was issued after December 31, 1982 and

(*a*) the issuing corporation, any person related to the issuing corporation or of whom the issuing corporation has effective management or control or any partnership or trust of which the issuing corporation or a person related thereto is a member or beneficiary (each of which is referred to in this section as a "member of the related issuing group") is or may be required to redeem, acquire or cancel, in whole or in part, the share or to reduce its paid-up capital at any time within five years from the date of its issue,

(*b*) a member of the related issuing group provides or may be required to provide any form of guarantee, security or similar indemnity with respect to the share (other than a guarantee, security or similar indemnity with respect to any amount of assistance or benefit from a government, municipality or other public authority in Canada or with respect to eligibility for such assistance or benefit) that could take effect within five years from the date of its issue,

(*c*) the share (referred to in this section as the "convertible share") is convertible under its terms or conditions at any time within five years from the date of its issue directly or indirectly into debt, or into a share (referred to in this section as the "acquired share") that is, or if issued would be, a prescribed share,

(*d*) immediately after the share was issued, the person to whom the share was issued or a person related to the person to whom the share was issued (either alone or together with a related person, a related group of persons of which he is a member or a partnership or trust of which he is a member or beneficiary) controls directly or indirectly, or has an absolute or contingent right to control directly or indirectly or to acquire direct or indirect control of, the issuing corporation and the issuing corporation has the right under the terms and conditions in respect of which the share was issued to redeem, purchase or otherwise acquire the share within five years from the date of its issue,

(*e*) at the time the share was issued, the existence of the issuing corporation was, or there was an arrangement (other than an amalgamation within the meaning assigned by subsection 87(1) of the Act) under which the existence of the issuing corporation could be, limited to a period that ends within five years from the date of its issue, or

(*f*) the terms or conditions of the share (referred to in this paragraph as the "first share") or of an agreement in existence at the time of its issue provide that a share (referred to in this section as the "substituted share") that is, or if issued would be, a prescribed share may be substituted or exchanged for the first share within five years from the date of issue of the first share,

but does not include a share of the capital stock of a corporation

(*g*) that was issued after December 31, 1982 pursuant to an agreement or offering in writing made on or before December 31, 1982 or in accordance with a prospectus, registration statement or similar document that was filed with and, where required by law, accepted for filing by, a public authority in Canada pursuant to and in accordance with the laws of Canada or of any province on or before December 31, 1982,

(*h*) that would be a prescribed share solely by virtue of one or more of the terms or conditions of an agreement if such terms or conditions are not effective or exercisable until the death, disability or bankruptcy of the person to whom the share is issued,

(*i*) that is

(i) convertible under its terms into one or more shares of a class of the capital stock of the corporation for no consideration other than the share or shares,

(ii) described in paragraph (*a*) solely because

(A) it is to be cancelled on the conversion within five years from the date of its issue,

(B) its paid-up capital is to be reduced on the conversion within five years from the date of its issue, or

(C) both clauses (A) and (B) apply, and

(iii) not described in paragraph (*c*), or

(*j*) that

(i) may have a share substituted or exchanged for it pursuant to its terms or the terms or conditions of an agreement in existence at the time of its issue and no consideration is to be received or receivable for it in respect of the substitution or exchange other than the share substituted or exchanged for it,

(ii) is described in paragraph (*a*) solely because it is to be redeemed, acquired or cancelled on the substitution or exchange within five years from the date of its issue, and

(iii) is not a share to which paragraph (*f*) applies,

and for the purposes of this section,

(*k*) where a person has an interest in a trust, whether directly or indirectly, through an interest in any other trust or in any other manner whatever, the person shall be deemed to be a beneficiary of the trust;

(*l*) in determining whether an acquired share would be a prescribed share if issued,

(i) the references in paragraphs (*a*), (*b*), (*d*) and (*e*) to "date of its issue" shall be read as "date of the issue of the convertible share",

(ii) the reference in paragraph (*f*) to "issue of the first share" shall be read as "issue of the convertible share", and

(iii) this section shall be read without reference to paragraph (*g*) and to the words "after December 31, 1982";

(*m*) in determining whether a substituted share would be a prescribed share if issued,

(i) the references in paragraphs (*a*) to (*e*) to "date of its issue" shall be read as "date of the issue of the first share", and

(ii) this section shall be read without reference to paragraph (*g*) and to the words "after December 31, 1982";

(*m*.1) an excluded obligation in relation to a share of a class of the capital stock of the issuing corporation and an obligation that would be an excluded obligation in relation to the share if the share had been issued after June 17, 1987, shall be deemed not to be a guarantee, security or similar indemnity with respect to the share for the purposes of paragraph (*b*);

(*n*) a guarantee, security or similar indemnity referred to in paragraph (*b*) shall, for greater certainty, not be considered to take effect within five years from the date of issue of a share if the effect of the guarantee, security or indemnity is to provide that a member of the related issuing group will be able to redeem, acquire or cancel the share at a time that is not within five years from the date of issue of the share; and

(*o*) where an expense is incurred partly in consideration for shares (referred to in this section as "first corporation shares") of the capital stock of one corporation and partly in consideration for an interest in, or right to, shares (referred to in this paragraph as "second corporation shares") of the capital stock of another corporation, in determining whether the second corporation shares are prescribed shares, the references in paragraphs (*a*), (*d*) and (*e*) to "date of its issue" shall be read as "date of the issue of the first corporation shares".

History: S. 6202 was renumbered as s. 6202(1) and a reference to paragraph 66(15)(*d*.1) was added to the part preceding paragraph (*a*), by P.C. 1990-51, SOR/90-86, dated January 18, 1990, applicable in respect of shares issued after February 1986.

S. 6202(1)(*m*.1) was added by P.C. 1990-51, SOR/90-86, dated January 18, 1990, applicable in respect of shares issued after December 31, 1982.

S. 6202 was added by P.C. 1985-465, SOR/85-174 dated February 14, 1985, applicable with respect to shares issued after December 31, 1982.

Interpretation Bulletins: *Secondary*— IT-503 Exploration and development shares [Archived by the CRA].

(2) For the purposes of paragraph 66(15)(*d*.1) [subsection 66(15) "flow-through share"] of the Act, subsection (1) does not apply in respect of a share of the capital stock of an issuing corporation that is a new share.

History: S. 6202(2) was added by P.C. 1990-51, SOR/90-86, dated January 18, 1990, applicable in respect of shares issued after December 31, 1982.

6202.1. (1) For the purposes of the definition "flow-through share" in subsection 66(15) of the Act, a new share of the capital stock of a corporation is a prescribed share if, at the time it is issued,

(*a*) under the terms or conditions of the share or any agreement in respect of the share or its issue,

(i) the amount of the dividends that may be declared or paid on the share (in this section referred to as the "dividend entitlement") may reasonably be considered to be, by way of a formula or otherwise,

(A) fixed

(B) limited to a maximum, or

(C) established to be not less than a minimum (including any amount determined on a cumulative basis), where with respect to the dividends that may be declared or paid on the share there is a preference over any other dividends that may be declared or paid on any other share of the capital stock of the corporation,

(ii) the amount that the holder of the share is entitled to receive in respect of the share on the dissolution, liquidation or winding-up of the corporation, on a reduction of the paid-up capital of the share or on the redemption, acquisition or cancellation of the share by the corporation or by specified persons in relation to the corporation (in this section referred to as the "liquidation entitlement") may reasonably be considered to be, by way of a formula or otherwise, fixed, limited to a maximum or established to be not less than a minimum,

(iii) the share is convertible or exchangeable into another security issued by the corporation unless

(A) it is convertible or exchangeable only into

(I) another share of the corporation that, if issued, would not be a prescribed share,

(II) a right, including a right conferred by a warrant that, if exercised, would allow the person exercising it to acquire only a share of the corporation that, if issued, would not be a prescribed share, or

(III) both a share described in subclause (I) and a right or warrant described in subclause (II), and

(B) all the consideration receivable by the holder on the conversion or exchange of the share is the share described in subclause (A)(I) or the right or warrant described in subclause (A)(II), or both, as the case may be, or

Pending Amendment

Flow-Through Shares — Prescribed Right — December 20, 2002

The portion of subparagraph 6202.1(1)(*a*)(iii) of the *Income Tax Regulations* after subclause (A)(I) is replaced by the following:

(II) a right (including a right conferred by a warrant) that

1. if it were issued, would not be a prescribed right, and

2. if it were exercised, would allow the person exercising it to acquire only a share of the corporation that, if the share were issued, would not be a prescribed share, or

(III) both a share described in subclause (I) and a right described in subclause (II), and

(B) all the consideration receivable by the holder on the conversion or exchange of the share is the share described in subclause (A)(I) or the right described in subclause (A)(II), or both, as the case may be, or

Applicable: To shares and rights issued under an agreement made after December 20, 2002.

Explanatory Note: [For the Explanatory Note for all of the amendments to section 6202.1, please see the Explanatory Note following draft subsection 6202.1(1.1).]

(iv) the corporation has, either absolutely or contingently, an obligation to reduce, or any person or partnership has, either absolutely or contingently, an obligation to cause the corporation to reduce, the paid-up capital in respect of the share (other than pursuant to a conversion or exchange of the share, where the right to so convert or exchange does not cause the share to be a prescribed share under subparagraph (iii));

(*b*) any person or partnership has, either absolutely or contingently, an obligation (other than an excluded obligation in relation to the share)

(i) to provide assistance,

(ii) to make a loan or payment,

(iii) to transfer property, or

(iv) otherwise to confer a benefit by any means whatever, including the payment of a dividend,

either immediately or in the future, that may reasonably be considered to be, directly or indirectly, a repayment or return by the corporation or a specified person in relation to the corporation of all or part of the consideration for which the share was issued or for which a partnership interest was issued in a partnership that acquires the share;

(*c*) any person or partnership has, either absolutely or contingently, an obligation (other than an excluded obligation in relation to the share) to effect any undertaking, either immediately or in the future, with respect to the share or the agreement under which the share is issued (including any guarantee, security, indemnity, covenant or agreement and including the lending of funds to or the placing of amounts on deposit with, or on behalf of, the holder of the share or, where the holder is a partnership, the members thereof or specified persons in relation to the holder or the members of the partnership, as the case may be) that may reasonably be considered to have been given to ensure, directly or indirectly, that

(i) any loss that the holder of the share and, where the holder is a partnership, the members thereof or specified persons in relation to the holder or the members of the partnership, as the case may be, may sustain by reason of the holding, ownership or disposition of the share or any other property is limited in any respect, or

(ii) the holder of the share and, where the holder is a partnership, the members thereof or specified persons in relation to the holder or the members of the partnership, as the case may be, will derive earnings by reason of the holding, ownership or disposition of the share or any other property;

(*d*) the corporation or a specified person in relation to the corporation may reasonably be expected

(i) to acquire or cancel the share in whole or in part otherwise than on a conversion or exchange of the share that meets the conditions set out in clauses (*a*)(iii)(A) and (B),

(ii) to reduce the paid-up capital of the corporation in respect of the share otherwise than on a conversion or exchange of the share that meets the conditions set out in clauses (*a*)(iii)(A) and (B), or

(iii) to make a payment, transfer or other provision, (otherwise than pursuant to an excluded obligation in relation to the share), directly or indirectly, by way of a dividend, loan, purchase of shares, financial assistance to any purchaser of the share or, where the purchaser is a partnership, the members thereof or in any other manner whatever, that may reasonably be considered to be a repayment or return of all or part of the consideration for which the share was issued or for which a partnership interest was issued in a partnership that acquires the share,

within 5 years after the date the share is issued, otherwise than as a consequence of an amalgamation of a subsidiary wholly-owned corporation, a winding-up of a subsidiary wholly-owned corporation to which subsection 88(1) of the Act applies or the payment of a dividend by a subsidiary wholly-owned corporation to its parent;

(*e*) any person or partnership can reasonably be expected to effect, within 5 years after the date the share is issued, any undertaking which, if it were in effect at the time the share was issued, would result in the share being a prescribed share by reason of paragraph (*c*); or

(*f*) it may reasonably be expected that, within 5 years after the date the share is issued,

(i) any of the terms or conditions of the share or any existing agreement relating to the share or its issue will thereafter be modified, or

(ii) any new agreement relating to the share or its issue will be entered into,

in such a manner that the share would be a prescribed share if it had been issued at the time of the modification or at the time when the new agreement is entered into.

History: S. 6202.1(1), the portion before paragraph (*a*), was amended by P.C. 2000-1096, SOR/2000-297, dated July 27, 2000, applicable after July 31, 1998. S. 6202.1(1), the portion before paragraph (*a*), formerly read:

"(1) For the purposes of paragraph 66(15)(*d*.1) of the Act, a new share of the capital stock of a corporation is a prescribed share if, at the time it is issued,"

S. 6202.1(1) was added by P.C. 1990-51, SOR/90-86, dated January 18, 1990, applicable in respect of shares issued after June 17, 1987.

Pending Amendment

Flow-Through Shares — Prescribed Right — December 20, 2002

Section 6202.1 of the Regulations is amended by adding the following after subsection (1):

(1.1) For the purpose of the definition "flow-through share" in subsection 66(15) of the Act, a new right to acquire a share of the capital stock of a corporation is a prescribed right if, at the time the right is issued,

(*a*) the amount that the holder of the right is entitled to receive in respect of the right on the dissolution, liquidation or winding-up of the corporation or on the redemption, acquisition or cancellation of the right by the corporation or by specified persons in relation to the corporation (referred to in this section as the "liquidation entitlement" of the right) can reasonably be considered to be, by way of a formula or otherwise, fixed, limited to a maximum or established to be not less than a minimum;

(*b*) the right is convertible or exchangeable into another security issued by the corporation unless

(i) the right is convertible or exchangeable only into

(A) a share of the corporation that, if issued, would not be a prescribed share,

(B) another right (including a right conferred by a warrant) that

(I) if it were issued, would not be a prescribed right, and

(II) if it were exercised, would allow the person exercising it to acquire only a share of the corporation that, if the share were issued, would not be a prescribed share, or

(C) both a share described in clause (A) and a right described in clause (B), and

(ii) all the consideration receivable by the holder on the conversion or exchange of the right is the share described in clause (A) or the right described in clause (B), or both, as the case may be;

(*c*) any person or partnership has, either absolutely or contingently, an obligation (other than an excluded obligation in relation to the right)

(i) to provide assistance,

(ii) to make a loan or payment,

(iii) to transfer property, or

(iv) to otherwise confer a benefit by any means whatever, including the payment of a dividend,

either immediately or in the future, that can reasonably be considered to be, directly or indirectly, a repayment or return by the corporation or a specified person in relation to the corporation of all or part of the consideration for which the right was issued or for which a partnership interest was issued in a partnership that acquires the right;

(*d*) any person or partnership has, either absolutely or contingently, an obligation (other than an excluded obligation in relation to the right) to effect any undertaking, either immediately or in the future, with respect to the right or the agreement under which the right is issued (including any guarantee, security, indemnity, covenant or agreement and including the lending of funds to or the placing of amounts on deposit with, or on behalf of, the holder of the right or where the holder is a partnership, the members of the partnership or specified persons in relation to the holder or the members of the partnership, as the case may be) that can reasonably be considered to have been given to ensure, directly or indirectly, that

(i) any loss that the holder of the right and, where the holder is a partnership, the members of the partnership or specified persons in relation to the holder or the members of the partnership, as the case may be, may sustain because of the holding, ownership or disposition of the right or any other property is limited in any respect, or

(ii) the holder of the right and, where the holder is a partnership, the members of the partnership or specified persons in relation to the holder or the members of the partnership, as the case may be, will derive earnings, because of the holding, ownership or disposition of the right or any other property;

(*e*) the corporation or a specified person in relation to the corporation can reasonably be expected

(i) to acquire or cancel the right in whole or in part otherwise than on a conversion or exchange of the right that meets the conditions set out in subparagraphs (*b*)(i) and (ii), or

(ii) to make a payment, transfer or other provision (otherwise than pursuant to an excluded obligation in relation to the right), directly or indirectly, by way of a dividend, loan, purchase of shares, financial assistance to any purchaser of the right or, where the purchaser is a partnership, the members of the partnership or in any other manner whatever, that can reasonably be considered to be a repayment or return of all or part of the consideration for which the right was issued or for which a partnership interest was issued in a partnership that acquires the right,

within 5 years after the day the right is issued, otherwise than as a consequence of an amalgamation of a subsidiary wholly-owned corporation, a winding-up of a subsidiary wholly-owned corporation to which subsection 88(1) of the Act applies or the payment of a dividend by a subsidiary wholly-owned corporation to its parent;

(*f*) any person or partnership can reasonably be expected to effect, within 5 years after the day the right is issued, any undertaking which, if it were in effect at the time the right was issued, would result in the right being a prescribed right because of paragraph (*d*);

(*g*) it can reasonably be expected that, within 5 years after the day the right is issued,

(i) any of the terms or conditions of the right or any existing agreement relating to the right or its issue will be modified, or

(ii) any new agreement relating to the right or its issue will be entered into,

in such a manner that the right would be a prescribed right if it had been issued at the time of the modification or at the time the new agreement is entered into; or

(*h*) it can reasonably be expected that the right, if exercised, would allow the person exercising the right to acquire a share in a corporation that, if that share were issued, would become a prescribed share within 5 years after the day the right was issued.

Applicable: To shares and rights issued under an agreement made after December 20, 2002.

Explanatory Note: Section 6202.1 of the *Income Tax Regulations* defines certain shares ("prescribed shares") for the purpose of the definition "flow-through share" in subsection 66(15) of the Act. A prescribed share does not qualify as a flow-through share. The purpose of these rules is to ensure that flow-through shares represent genuine risk capital.

Generally speaking, a share will be a prescribed share if the share has fixed or limited rights to dividends or an obligation exists to reduce the paid-up capital of the share or to confer a benefit or guarantee in respect of the share. The restrictions imposed on shares do not apply to rights to acquire shares.

Section 6202.1 is amended, applicable to shares and rights issued under an agreement made after December 20, 2002, to include a definition of a prescribed right. A "prescribed right" is defined in new subsections 6202.1(1.1) and (2.1). This amendment ensures that restrictions on the type of shares that may qualify as flow-through shares currently found in subsections 6202.1(1) and (2) also apply to rights to acquire shares.

(2) For the purposes of the definition "flow-through share" in subsection 66(15) of the Act, a new share of the capital stock of a corporation is a prescribed share if

(*a*) the consideration for which the share is to be issued is to be determined more than 60 days after entering into the agreement pursuant to which the share is to be issued;

(*b*) the corporation or a specified person in relation to the corporation, directly or indirectly,

(i) provided assistance,

(ii) made or arranged for a loan or payment,

(iii) transferred property, or

(iv) otherwise conferred a benefit by any means whatever, including the payment of a dividend,

for the purpose of assisting any person or partnership in acquiring the share or any person or partnership in acquiring an interest in a partnership acquiring the share (otherwise than by reason of an excluded obligation in relation to the share); or

(*c*) the holder of the share or, where the holder is a partnership, a member thereof, has a right under any agreement or arrangement entered into under circumstances where it is reasonable to consider that the agreement or arrangement was contemplated at or before the time when the agreement to issue the share was entered into,

(i) to dispose of the share, and

(ii) through a transaction or event or a series of transactions or events contemplated by the agreement or arrangement, to acquire a share (referred to in this paragraph as the "acquired share") of the capital stock of another corporation that would be a prescribed share under subsection (1) if the acquired share were issued at the time the share was issued, other than a share that would not be a prescribed share if subsection (1) were read without reference to subparagraphs (*a*)(iv) and (*d*)(i) and (ii) thereof where the acquired share is a share

(A) of a mutual fund corporation, or

(B) of a corporation that becomes a mutual fund corporation within 90 days after the acquisition of the acquired share.

History: S. 6202.1(2), the portion before paragraph (*a*), was amended by P.C. 2000-1096, SOR/2000-297, dated July 27, 2000, applicable after July 31, 1998. S. 6202.1(2), the portion before paragraph (*a*), formerly read:

"(2) For the purposes of paragraph 66(15)(*d*.1) of the Act, a new share of the capital stock of a corporation is a prescribed share if"

S. 6202.1(2) was added by P.C. 1990-51, SOR/90-86, dated January 18, 1990, applicable in respect of shares issued after June 17, 1987, except that paragraphs (*a*) and (*b*) are applicable in respect of shares issued after December 15, 1987, other than a share issued at a particular time.

(*a*) pursuant to an agreement in writing entered into before December 16, 1987;

(*b*) as part of a distribution of shares to the public made in accordance with the terms of a prospectus, preliminary prospectus, registration statement, offering memorandum or notice, required by law to be filed before distribution of the shares begins, filed before December 16, 1987 with a public authority in Canada in accordance with the securities legislation of the province in which the shares were distributed; or

(*c*) to a partnership in which interests were issued as part of a distribution to the public made in accordance with the terms of a prospectus, preliminary prospectus, registration statement, offering memorandum or notice, required by law to be filed before distribution of the interests begins, filed before December 16, 1987 with a public authority in Canada in accordance with the securities legislation of the province in which the interests were distributed, where all interests in the partnership issued at or before the particular time were issued as part of the distribution or prior to the beginning of the distribution.

Pending Amendment

Flow-Through Shares — Prescribed Right — December 20, 2002

Section 6202.1 of the Regulations is amended by adding the following after subsection (2):

(2.1) For the purpose of the definition "flow-through share" in subsection 66(15) of the Act, a new right is a prescribed right if

(*a*) the consideration for which the new right is to be issued is to be determined more than 60 days after entering into the agreement pursuant to which the new right is to be issued;

(*b*) the corporation or a specified person in relation to the corporation, directly or indirectly,

(i) provided assistance,

(ii) made or arranged for a loan or payment,

(iii) transferred property, or

(iv) otherwise conferred a benefit by any means whatever, including the payment of a dividend,

for the purpose of assisting any person or partnership to acquire the new right or any person or partnership to acquire an interest in a partnership acquiring the new right (otherwise than because of an excluded obligation in relation to the new right); or

(*c*) the holder of the new right or, where the holder is a partnership, a member of the partnership, has a right under any agreement or arrangement entered into under circumstances where it is reasonable to consider that the agreement or arrangement was contemplated at or before the time the agreement to issue the new right was entered into,

(i) to dispose of the new right, and

(ii) through a transaction or event or a series of transactions or events contemplated by the agreement or arrangement, to acquire

(A) a share (referred to in this paragraph as the "acquired share") of the capital stock of another corporation that would be a prescribed share under subsection (1) if the acquired share were issued at the time the new right was issued, other than a share that would not be a prescribed share if subsection (1) were read without reference to subparagraphs (1)(*a*)(iv) and (1)(*d*)(i) and (ii) where the acquired share is a share

(I) of a mutual fund corporation, or

(II) of a corporation that becomes a mutual fund corporation within 90 days after the acquisition of the acquired share, or

(B) a right (referred to in this paragraph as the "acquired right") to acquire a share of the capital stock of another corporation that would, if it were issued at the time the new right was issued, be a prescribed right, other than a right that would not be a prescribed right if subsection (1.1) were read without reference to subparagraphs (1.1)(*e*)(i) and (ii) where the acquired right is a right to acquire a share of the capital stock

(I) of a mutual fund corporation, or

(II) of a corporation that becomes a mutual fund corporation within 90 days after the acquisition of the acquired right.

Applicable: To shares and rights issued under an agreement made after December 20, 2002.

Explanatory Note: [For the Explanatory Note for all of the amendments to section 6202.1, please see the Explanatory Note following draft subsection 6202.1(1.1).]

(3) For the purposes of subsection (1),

(*a*) the dividend entitlement of a share of the capital stock of a corporation shall be deemed not to be fixed, limited to a maximum or established to be not less than a minimum where all dividends on the share are determined solely by reference to a multiple or fraction of the dividend entitlement of another share of the capital stock of the corporation, or of another corporation that controls the corporation, where the dividend entitlement of that other share is not described in subparagraph (1)(*a*)(i); and

(*b*) the liquidation entitlement of a share of the capital stock of a corporation shall be deemed not to be fixed, limited to a maximum or established to be not less than a minimum where all the liquidation entitlement is determinable solely by reference to the liquidation entitlement of another share of the capital stock of the corporation, or of another corporation that controls the corporation, where the liquidation entitlement of that other share is not described in subparagraph (1)(*a*)(ii).

Editorial Note: See the Draft Regulation replacing subsections 6202.1(3) and (4) reproduced following subsection 6202.1(4).

History: S. 6202.1(3) was added by P.C. 1990-51, SOR/90-86, dated January 18, 1990, applicable in respect of shares issued after June 17, 1987.

(4) For the purposes of paragraphs (1)(*c*) and (*e*), an agreement entered into between the first holder of a share and another person or partnership for the sale of the share to that other person or partnership for its fair market value at the time the share is acquired by the other person or partnership (determined without regard to the agreement) shall be deemed not to be an undertaking with respect to the share.

Pending Amendment

Flow-Through Shares — Prescribed Right — December 20, 2002

Subsections 6202.1(3) and (4) of the Regulations are replaced by the following:

(3) For the purposes of subsections (1) and (1.1),

(*a*) the dividend entitlement of a share of the capital stock of a corporation is deemed not to be fixed, limited to a maximum or established to be not less than a minimum where all dividends on the share are determined solely by reference to a multiple or fraction of the dividend entitlement of another share of the capital stock of the corporation, or of another corporation that controls the corporation, where the dividend entitlement of that other share is not described in subparagraph (I)(*a*)(i); and

(*b*) the liquidation entitlement of a share of the capital stock of a corporation, or of a right to acquire a share of the capital stock of the corporation, as the case may be, is deemed not to be fixed, limited to a maximum or established to be not less than a minimum where

(i) all the liquidation entitlement is determinable solely by reference to

(A) the liquidation entitlement of another share of the capital stock of the corporation (or a share of the capital stock of another corporation that controls the corporation), or

(B) the liquidation entitlement of a right to acquire the capital stock of the corporation (or another corporation that controls the corporation),

(ii) the liquidation entitlement described in clause (i)(A), if any, is not described in subparagraph (1)(*a*)(ii), and

(iii) the liquidation entitlement described in clause (i)(B), if any, is not described in subparagraph (1.1)(*a*)(i).

(4) For the purposes of paragraphs (1)(*c*) and (*e*) and (1.1)(*d*) and (*f*), an agreement entered into between the first holder of a share or right and another person or partnership for the sale of the share or right to that other person or partnership for its fair market value at the time the share or right is acquired by the other person or partnership (determined without regard to the agreement) is deemed not to be an undertaking with respect to the share or right, as the case may be.

Applicable: To shares and rights issued under an agreement made after December 20, 2002.

Explanatory Note: [For the Explanatory Note for all of the amendments to section 6202.1, please see the Explanatory Note following draft subsection 6202.1(1.1).]

History: S. 6202.1(4) was added by P.C. 1990-51, SOR/90-86, dated January 18, 1990, applicable in respect of shares issued after June 17, 1987.

(5) For the purposes of section 6202 and this section, "*excluded obligation*", in relation to a share issued by a corporation, means

(*a*) an obligation of the corporation

(i) with respect to eligibility for, or the amount of, any assistance under the *Canadian Exploration and Development Incentive Program Act*, the *Canadian Exploration Incentive Program Act*, the *Ontario Mineral Exploration Program Act, 1989*, Statutes of Ontario 1989, c. 40, or the *Mineral*

Exploration Incentive Program Act (Manitoba), Statutes of Manitoba 1990-91, c. 45, or

(ii) with respect to the making of an election respecting such assistance and the flowing out of such assistance to the holder of the share in accordance with any of those Acts,

(*a*.1) an obligation of the corporation, in respect of the share, to distribute an amount that represents a payment out of assistance to which the corporation is entitled

(i) under section 25.1 of the *Income Tax Act*, Revised Statutes of British Columbia, 1996, c. 215, and

(ii) as a consequence of the corporation making expenditures funded by consideration received for shares issued by the corporation in respect of which the corporation purports to renounce an amount under subsection 66(12.6) of the Act, and

(*b*) an obligation of any person or partnership to effect an undertaking to indemnify a holder of the share or, where the holder is a partnership, a member thereof, for an amount not exceeding the amount of any tax payable under the Act or the laws of a province by the holder or the member of the partnership, as the case may be, as a consequence of

(i) the failure of the corporation to renounce an amount to the holder in respect of the share, or

(ii) a reduction, under subsection 66(12.73) of the Act, of an amount purported to be renounced to the holder in respect of the share;

Pending Amendment

Flow-Through Shares — Prescribed Right — December 20, 2002

The definition "excluded obligation" in subsection 6202.1(5) of the Regulations is replaced by the following:

"*excluded obligation*" — "*excluded obligation*", in relation to a share or new right issued by a corporation, means

(*a*) an obligation of the corporation

(i) with respect to eligibility for, or the amount of, any assistance under the *Canadian Exploration and Development Incentive Program Act*, the *Canadian Exploration Incentive Program Act*, the *Ontario Mineral Exploration Program Act, 1989*, Statutes of Ontario 1989, c. 40, or the *Mineral Exploration Incentive Program Act (Manitoba)*, Statutes of Manitoba 1990-91, c. 45, or

(ii) with respect to the making of an election respecting such assistance and the flowing out of such assistance to the holder of the share or the new right in accordance with any of those Acts,

(*b*) an obligation of the corporation, in respect of the share or the new right, to distribute an amount that represents a payment out of assistance to which the corporation is entitled

(i) as a consequence of the corporation making expenditures funded by consideration received for shares or new rights issued by the corporation in respect of which the corporation purports to renounce an amount under subsection 66(12.6) of the Act, and

(ii) under section 25.1 of the *Income Tax Act*, Revised Statutes of British Columbia, 1996, c. 215, or

(*c*) an obligation of any person or partnership to effect an undertaking to indemnify a holder of the share or the new right or, where the holder is a partnership, a member of the partnership, for an amount not exceeding the amount of any tax payable under the Act or the laws of a province by the holder or the member of the partnership, as the case may be, as a consequence of

(i) the failure of the corporation to renounce an amount to the holder in respect of the share or the new right, or

(ii) a reduction, under subsection 66(12.73) of the Act, of an amount purported to be renounced to the holder in respect of the share or the new right;

Applicable: To shares and rights issued under an agreement made after December 20, 2002.

Explanatory Note: [For the Explanatory Note for all of the amendments to section 6202.1, please see the Explanatory Note following draft subsection 6202.1(1.1).]

Pending Amendment

Flow-Through Shares — Prescribed Right — December 20, 2002

Subsection 6202.1(5) of the Regulations is amended by adding the following definition in alphabetical order:

"*new right*" — "*new right*" means a right that is issued after December 20, 2002 to acquire a share of the capital stock of a corporation, other than a right that is issued at a particular time before 2003,

(*a*) pursuant to an agreement in writing made on or before December 20, 2002,

(*b*) as part of a distribution of rights to the public made in accordance with the terms of a prospectus, preliminary prospectus, registration statement, offering memorandum or notice, required by law to be filed before distribution of the rights begins, filed on or before December 20, 2002 with a public authority in Canada in accordance with the securities legislation of the province in which the rights are distributed, or

(*c*) to a partnership interests in which were issued as part of a distribution to the public made in accordance with the terms of a prospectus, preliminary prospectus, registration statement, offering memorandum or notice, required by law to be filed before distribution of the interests begins, filed on or before December 20, 2002 with a public authority in Canada in accordance with the securities legislation of the province in which the interests are distributed, where all interests in the partnership issued at or before the particular time were issued

(i) as part of the distribution, or

(ii) before the beginning of the distribution;

Applicable: To shares and rights issued under an agreement made after December 20, 2002.

Explanatory Note: [For the Explanatory Note for all of the amendments to section 6202.1, please see the Explanatory Note following draft subsection 6202.1(1.1).]

"*new share*" means a share of the capital stock of a corporation issued after June 17, 1987, other than a share issued at a particular time before 1989

(*a*) pursuant to an agreement in writing entered into before June 18, 1987,

(*b*) as part of a distribution of shares to the public made in accordance with the terms of a prospectus, preliminary prospectus, registration statement, offering memorandum or notice, required by law to be filed before distribution of the shares begins, filed before June 18, 1987 with a public authority in Canada in accordance with the securities legislation of the province in which the shares were distributed, or

(*c*) to a partnership in which interests were issued as part of a distribution to the public made in accordance with the terms of a prospectus, preliminary prospectus, registration statement, offering memorandum or notice, required by law to be filed before

distribution of the interests begins, filed before June 18, 1987 with a public authority in Canada in accordance with the securities legislation of the province in which the interests were distributed, where all interests in the partnership issued at or before the particular time were issued as part of the distribution or prior to the beginning of the distribution;

"*specified person*", in relation to any particular person, means another person with whom the particular person does not deal at arm's length or any partnership or trust of which the particular person or the other person is a member or beneficiary, respectively.

History: S. 6202.1(5)(*a*.1) of the definition "excluded obligation" was added by P.C. 2000-1096, SOR/2000-297, dated July 27, 2000, applicable after July 31, 1998.

S. 6202.1(5), subparagraph (*b*)(ii) of the definition "excluded obligation" was amended by P.C. 1999-196, SOR/99-92, dated February 11, 1999, applicable to renunciations purported to be made after 1996. S. 6202.1(5), subparagraph (*b*)(ii) of the definition "excluded obligation" formerly read:

"(ii) a reduction, pursuant to subsection 66(12.73) of the Act, of an amount renounced to the holder in respect of the share;"

S. 6202.1(5), subparagraph (*a*)(i) of the definition "excluded obligation", was amended by P.C. 1994-618, SOR/94-315, dated April 21, 1994, applicable to shares issued after February 1992. S. 6202.1(5)(*a*)(i) formerly read:

"(i) with respect to eligibility for, or the amount of, any assistance under the *Canadian Exploration and Development Incentive Program Act*, the *Canadian Exploration Incentive Program Act* or the *Ontario Mineral Exploration Program Act, 1989*, Statutes of Ontario 1989, c. 40, or"

Ss. 6202.1(5)(*a*)(i) and (ii) of the definition "excluded obligation" were amended by P.C. 1991-2475, SOR/92-30, dated December 12, 1991, to add the reference to the *Ontario Mineral Exploration Program Act, 1989* in subparagraph (i) and to substitute "any" for "either or both" in subparagraph (ii), applicable in respect of shares issued after May 3, 1990.

S. 6202.1(5) was added by P.C. 1990-51, SOR/90-86, dated January 18, 1990, applicable in respect of shares issued after June 17, 1987.

6203. (1) For the purposes of subsection 192(6) of the Act, a prescribed share of the capital stock of a taxable Canadian corporation is a share (other than a share acquired by a taxpayer under circumstances referred to in section 66.3 of the Act, a share acquired as consideration for a disposition of property in respect of which an election was made under subsection 85(1) or (2) of the Act and a share that can be considered to have been issued, directly or indirectly, for consideration that includes other shares of the capital stock of the corporation) where, at the time it is issued,

(*a*) under the terms or conditions of the share or any agreement in respect of the share or its issue,

(i) the amount of the dividends (in this section referred to as the "dividend entitlement") that the corporation may declare or pay on the share is not limited to a maximum amount or fixed at a minimum amount at that time or at any time thereafter by way of a formula or otherwise,

(ii) the amount (in this section referred to as the "liquidation entitlement") that the holder of the share is entitled to receive on the share on the dissolution, liquidation or winding-up of the corporation is not limited to a maximum amount or fixed at a minimum amount by way of a formula or otherwise,

(iii) the share cannot be converted into any other security, other than into another security of the corporation that would if it were issued for consideration that does not include other shares of the capital stock of the corporation, be a prescribed share,

(iv) the holder of the share cannot at that time or at any time thereafter cause the share to be redeemed, acquired or cancelled by the corporation or any specified person in relation to the corporation except where the redemption, acquisition or cancellation is required pursuant to a conversion that is not prohibited by subparagraph (iii),

(v) no person or partnership has, either absolutely or contingently, an obligation to reduce, or to cause the corporation to reduce, at that time or at any time thereafter, the paid-up capital in respect of the share, except where the reduction is required pursuant to a conversion that is not prohibited by subparagraph (iii),

(vi) no person or partnership has, either absolutely or contingently, an obligation at that time or at any time thereafter to

(A) provide assistance to acquire the share,

(B) make a loan or payment,

(C) transfer property, or

(D) otherwise confer a benefit by any means whatever including the payment of a dividend,

that may reasonably be considered to be, directly or indirectly, a repayment or return by the corporation or a specified person in relation to the corporation of all or part of the consideration for which the share was issued,

(vii) neither the corporation nor any specified person in relation to the corporation has, either absolutely or contingently, the right or obligation to redeem, acquire or cancel, at that time or at any time thereafter, the share in whole or in part other than for an amount that approximates the fair market value of the share (determined without reference to any such right or obligation), and

(viii) no person or partnership has, either absolutely or contingently, an obligation to provide, at that time or at any time thereafter, any form of undertaking with respect to the share (including any guarantee, security, indemnity, covenant or agreement and including the lending of funds to or the placing of amounts on deposit with, or on behalf of, the holder of the share or any specified person in relation to the holder) that may reasonably be considered to have been given to ensure that

(A) any loss that the holder of the share may sustain by virtue of the holding, ownership or disposition of the share is limited in any respect, or

(B) the holder of the share will derive earnings by virtue of the holding, ownership or disposition of the share;

(*b*) the corporation or a specified person in relation to the corporation cannot reasonably be expected to, within two years after the time the share is issued,

(i) acquire or cancel the share in whole or in part,

(ii) reduce the paid-up capital of the corporation in respect of the share, or

(iii) make a payment, transfer or other provision, directly or indirectly, by way of a dividend, loan, purchase of shares, financial assistance to any purchaser of the share or in any other manner

whatever, that may reasonably be considered to be a repayment or return of all or part of the consideration for which the share was issued

otherwise than as a consequence of the payment of a dividend paid by a subsidiary wholly-owned corporation to its parent, of an amalgamation of a subsidiary wholly-owned corporation or of a winding-up to which subsection 88(1) of the Act applies;

(*c*) no person or partnership can reasonably be expected to provide, within two years after the time the share is issued, any form of undertaking with respect to the share (including any guarantee, security, indemnity, covenant or agreement and including the lending of funds to, or the placing of amounts on deposit with, or on behalf of, the holder of the share or any specified person in relation to the holder); and

(*d*) it cannot reasonably be expected that any of the terms or conditions of the share or any existing agreement in respect of the share or its issue will thereafter be modified or amended, or that any new agreement in respect of the share or its issue will be entered into, within two years after the time the share is issued, in such a manner that the share would not be a prescribed share if it had been issued at the time of such modification or amendment or at the time the new agreement is entered into.

(2) For the purposes of subsection (1),

(*a*) the dividend entitlement of a share of the capital stock of a corporation shall be deemed not to be limited to a maximum amount or fixed at a minimum amount where it may reasonably be considered that all or substantially all of the dividend entitlement is determinable by reference to the dividend entitlement of another share of the capital stock of the corporation that meets the requirements of subparagraph (1)(*a*)(i);

(*b*) the liquidation entitlement of a share of the capital stock of a corporation shall be deemed not to be limited to a maximum amount or fixed at a minimum amount where it may reasonably be considered that all or substantially all of the liquidation entitlement is determinable by reference to the liquidation entitlement of another share of the capital stock of the corporation that meets the requirements of subparagraph (1)(*a*)(ii);

(*c*) where a corporation has merged or amalgamated with one or more other corporations, the corporation formed as a result of the merger or amalgamation shall be deemed to be the same corporation as, and a continuation of, each of its predecessor corporations and a share issued on the merger or amalgamation as consideration for another share shall be deemed to be the same share as the share for which it was issued but this paragraph does not apply if the share issued on the merger or amalgamation is not a prescribed share at the time of its issue; and

(*d*) an agreement entered into between the first purchaser of a share and another person or partnership, other than a specified person in relation to the corporation issuing the share, for the sale of the share to that other person or partnership shall be deemed not to be an undertaking with respect to the share.

(3) For the purposes of subsections (1) and (2), "specified person", in relation to a corporation or a holder of a share, as the case may be (in this subsection referred to as the "taxpayer"), means any person or partnership with whom the taxpayer does not deal at arm's length or any partnership or trust of which the taxpayer (or a person or partnership with whom the taxpayer does not deal at arm's length) is a member or beneficiary, respectively.

History: S. 6203 was added by P.C. 1986-2770, SOR/86-1136, dated December 11, 1986, effective May 23, 1985.

6204. **(1)** For the purposes of paragraph 110(1)(*d*) of the Act, a share is a prescribed share of the capital stock of a corporation at the time of its sale or issue, as the case may be, where, at that time,

(*a*) under the terms or conditions of the share or any agreement in respect of the share or its issue,

(i) the amount of the dividends (in this section referred to as the "dividend entitlement") that the corporation may declare or pay on the share is not limited to a maximum amount or fixed at a minimum amount at that time or at any time thereafter by way of a formula or otherwise,

(ii) the amount (in this section referred to as the "liquidation entitlement") that the holder of the share is entitled to receive on the share on the dissolution, liquidation or winding-up of the corporation is not limited to a maximum amount or fixed at a minimum amount by way of a formula or otherwise,

(iii) the share cannot be converted into any other security, other than into another security of the corporation or of another corporation with which it does not deal at arm's length that is, or would be at the date of conversion, a prescribed share,

(iv) the holder of the share cannot at that time or at any time thereafter cause the share to be redeemed, acquired or cancelled by the corporation or any specified person in relation to the corporation, except where the redemption, acquisition or cancellation is required pursuant to a conversion that is not prohibited by subparagraph (iii),

(v) no person or partnership has, either absolutely or contingently, an obligation to reduce, or to cause the corporation to reduce, at that time or at any time thereafter, the paid-up capital in respect of the share, except where the reduction is required pursuant to a conversion that is not prohibited by subparagraph (iii), and

(vi) neither the corporation nor any specified person in relation to the corporation has, either absolutely or contingently, the right or obligation to redeem, acquire or cancel, at that time or any later time, the share in whole or in part other than for an amount that approximates the fair market value of the share (determined without reference to any such right or obligation) or a lesser amount;

(*b*) the corporation or a specified person in relation to the corporation cannot reasonably be expected to, within two years after the time the share is sold

or issued, as the case may be, redeem, acquire or cancel the share in whole or in part, or reduce the paid-up capital of the corporation in respect of the share, otherwise than as a consequence of

(i) an amalgamation of a subsidiary wholly-owned corporation,

(ii) a winding-up to which subsection 88(1) of the Act applies, or

(iii) a distribution or appropriation to which subsection 84(2) of the Act applies; and

(*c*) it cannot reasonably be expected that any of the terms or conditions of the share or any existing agreement in respect of the share or its sale or issue will be modified or amended, or that any new agreement in respect of the share, its sale or issue will be entered into, within two years after the time the share is sold or issued, in such a manner that the share would not be a prescribed share if it had been sold or issued at the time of such modification or amendment or at the time the new agreement is entered into.

History: S. 6204(1)(*b*) was replaced by P.C. 2003-1497, SOR/2003-328, dated October 2, 2003, applicable to options exercised after 1998. S. 6204(1)(*b*) formerly read:

"(*b*) the corporation or a specified person in relation to the corporation cannot reasonably be expected to, within two years after the time the share is sold or issued, as the case may be,

(i) redeem, acquire or cancel the share in whole or in part, or

(ii) reduce the paid-up capital of the corporation in respect of the share; otherwise than as a consequence of an amalgamation of a subsidiary wholly-owned corporation or of a winding-up to which subsection 88(1) of the Act applies; and"

S. 6204(1)(*a*)(vi) was amended by P.C. 1997-1146, SOR/97-409, dated August 28, 1997, applicable to shares issued or sold after 1994. S. 6204(1)(*a*)(vi) formerly read:

"(vi) neither the corporation nor any specified person in relation to the corporation has, either absolutely or contingently, the right or obligation to redeem, acquire or cancel, at that time or at any time thereafter, the share in whole or in part other than for an amount that approximates the fair market value of the share (determined without reference to any such right or obligation);"

S. 6204(1)(*b*)(i) was amended by P.C. 1994-618, SOR/94-315, dated April 21, 1994, applicable to the 1985 and subsequent taxation years. S. 6204(1)(*b*)(i) formerly read:

"(i) acquire or cancel the share in whole or in part, or"

S. 6204(1)(*b*), the portion following subparagraph (ii), was added by P.C. 1997-1146, SOR/97-409, dated August 28, 1997, applicable to the 1996 and subsequent taxation years.

S. 6204 was added by P.C. 1986-2770, SOR/86-1136, dated December 11, 1986, effective May 23, 1985.

(2) For the purposes of subsection (1),

(*a*) the dividend entitlement of a share of the capital stock of a corporation shall be deemed not to be limited to a maximum amount or fixed at a minimum amount where it may reasonably be considered that all or substantially all of the dividend entitlement is determinable by reference to the dividend entitlement of another share of the capital stock of the corporation that meets the requirements of subparagraph (1)(*a*)(i),

(*b*) the liquidation entitlement of a share of the capital stock of a corporation shall be deemed not to be limited to a maximum amount or fixed at a minimum amount where it may reasonably be considered that all or substantially all of the liquidation entitlement is determinable by reference to the liquidation entitlement of another share of the capital stock of the corporation that meets the requirements of subparagraph (1)(*a*)(ii), and

(*c*) the determination of whether a share of the capital stock of a particular corporation is a prescribed share shall be made without reference to a right or obligation to redeem, acquire or cancel the share, or to cause the share to be redeemed, acquired or cancelled, where

(i) the person (in this paragraph referred to as the "holder") to whom the share is sold or issued is, at the time the share is sold or issued, dealing at arm's length with the particular corporation and with each corporation with which the particular corporation is not dealing at arm's length,

(ii) the right or obligation is provided for in the terms or conditions of the share or in an agreement in respect of the share or its issue and, having regard to all the circumstances, it can reasonably be considered that

(A) the principal purpose of providing for the right or obligation is to protect the holder against any loss in respect of the share, and the amount payable on the redemption, acquisition or cancellation (in this subparagraph and in subparagraph (iii) referred to as the "acquisition") of the share will not exceed the adjusted cost base of the share to the holder immediately before the acquisition, or

(B) the principal purpose of providing for the right or obligation is to provide the holder with a market for the share, and the amount payable on the acquisition of the share will not exceed the fair market value of the share immediately before the acquisition, and

(iii) having regard to all the circumstances, it can reasonably be considered that no portion of the amount payable on the acquisition of the share is directly determinable by reference to the profits of the particular corporation, or of another corporation with which the particular corporation does not deal at arm's length, for all or any part of the period during which the holder owns the share or has a right to acquire the share, unless the reference to the profits of the particular corporation or the other corporation is only for the purpose of determining the fair market value of the share pursuant to a formula set out in the terms or conditions of the share or the agreement in respect of the share or its issue, as the case may be.

History: S. 6204(2)(*c*) was replaced by P.C. 2007-1443, SOR/2007-212, dated September 27, 2007, applicable to shares that are sold or issued, and to rights to acquire shares that are disposed of, after 2003. S. 6204(2)(*c*) formerly read:

"(*c*) the determination of whether a share of the capital stock of a corporation is a prescribed share shall be made without reference to a right or obligation to redeem, acquire or cancel the share or to cause the share to be redeemed, acquired or cancelled where

(i) the share was issued or sold pursuant to an employee share purchase agreement (in this paragraph referred to as 'the agreement') to an employee (in this paragraph referred to as 'the holder') of the corporation or of another corporation with which the corporation was not dealing at arm's length,

(ii) the holder was dealing at arm's length with each corporation referred to in subparagraph (i) at the time the share was issued or sold, and

(iii) having regard to all the circumstances, including the terms of the agreement, it can reasonably be considered that

(A) the amount payable on the redemption, acquisition or cancellation (in this clause and in clause (B) referred to as the 'acquisition') of the share will not exceed

(I) the adjusted cost base to the holder of the share immediately before the acquisition, where the acquisition was provided for in the agreement and the principal purpose for its provision was to protect the holder against any loss in respect of the share, or

(II) the fair market value of the share immediately before the acquisition, where the acquisition was provided for in the agreement and the principal purpose for its provision was to provide the holder with a market for the share, and

(B) no portion of the amount payable on the acquisition of the share is directly determinable by reference to the profits of the corporation, or of another corporation with which the corporation does not deal at arm's length, for all or any part of the period during which the holder owned the share or had a right to acquire the share, unless the reference to the profits of the corporation or the other corporation is only for the purpose of determining the fair market value of the share pursuant to a formula set out in the agreement."

S. 6204(2)(*c*)(i) was amended by P.C. 1997-1146, SOR/97-409, dated August 28, 1997, applicable to the 1985 and subsequent taxation years. S. 6204(2)(*c*)(i) formerly read:

"(i) the share was issued pursuant to an employee share purchase agreement (in this paragraph referred to as 'the agreement') to an employee (in this paragraph referred to as 'the holder') of the corporation or of another corporation with which the corporation was not dealing at arm's length,"

S. 6204(2)(*c*)(ii) was amended by P.C. 1997-1146, SOR/97-409, dated August 28, 1997, applicable to the 1985 and subsequent taxation years. S. 6204(2)(*c*)(ii) formerly read:

"(ii) the holder was dealing at arm's length with each corporation referred to in subparagraph (i) at the time the share was issued, and"

S. 6204(2)(*c*) was added by P.C. 1994-618, SOR/94-315, dated April 21, 1994, applicable to the 1985 and subsequent taxation years.

(3) For the purposes of subsection (1), "specified person", in relation to a corporation, means

(*a*) any person or partnership with whom the corporation does not deal at arm's length otherwise than because of a right referred to in paragraph 251(5)(*b*) of the Act that arises as a result of an offer by the person or partnership to acquire all or substantially all of the shares of the capital stock of the corporation, or

(*b*) any partnership or trust of which the corporation (or a person or partnership with whom the corporation does not deal at arm's length) is a member or beneficiary, respectively.

(4) For the purposes of subsection (3), the Act shall be read without reference to subsection 256(9) of the Act.

History: S. 6204(3) was amended by P.C. 1997-1146, SOR/97-409, dated August 28, 1997, applicable to the 1996 and subsequent taxation years. S. 6204(3) formerly read:

"(3) For the purposes of subsection (1), 'specified person', in relation to a corporation, means any person or partnership with whom the corporation does not (otherwise than because of a right referred to in paragraph 251(5)(*b*) of the Act that arises as a result of an offer by the person or partnership to acquire all or substantially all of the shares of the capital stock of the corporation) deal at arm's length or any partnership or trust of which the corporation (or a person or partnership with whom the corporation does not deal at arm's length) is a member or beneficiary, respectively."

S. 6204(3) was amended by P.C. 1994-618, SOR/94-315, dated April 21, 1994, applicable to the 1985 and subsequent taxation years. S. 6204(3) formerly read:

"(3) For the purposes of subsection (1), 'specified person', in relation to a corporation or a holder of a share, as the case may be (in this subsection referred to as the 'taxpayer'), means any person or partnership with whom the taxpayer does not deal at arm's length or any partnership or trust of which the taxpayer (or a person or partnership with whom the taxpayer does not deal at arm's length) is a member or beneficiary, respectively."

S. 6204(4) was added by P.C. 1997-1146, SOR/97-409, dated August 28, 1997, applicable to the 1996 and subsequent taxation years.

Interpretation Bulletins: *Secondary* — IT-113R4 Benefits to employees — Stock options; IT-171R2 Non-resident individuals — Computation of taxable income earned in Canada and non-refundable tax credits [Archived by the CRA].

6205. (1) For the purposes of subsections 110.6(8) and (9) of the Act and subject to subsection (3), a prescribed share is a share of the capital stock of a corporation where

(*a*) under the terms or conditions of the share or any agreement in respect of the share or its issue,

(i) at the time the share is issued,

(A) the amount of the dividends (in this section referred to as the "dividend entitlement") that the corporation may declare or pay on the share is not limited to a maximum amount or fixed at a minimum amount at that time or at any time thereafter by way of a formula or otherwise,

(B) the amount (in this section referred to as the "liquidation entitlement") that the holder of the share is entitled to receive on the share on the dissolution, liquidation or winding-up of the corporation is not limited to a maximum amount or fixed at a minimum amount by way of a formula or otherwise,

(C) the share cannot be converted into any other security, other than into another security of the corporation that is, or would be at the date of conversion, a prescribed share,

(D) the holder of the share does not, at that time or at any time thereafter, have the right or obligation to cause the share to be redeemed, acquired or cancelled by the corporation or a specified person in relation to the corporation, except where the redemption, acquisition or cancellation is required pursuant to a conversion that is not prohibited by clause (C),

(E) no person or partnership has, either absolutely or contingently, an obligation to reduce, or to cause the corporation to reduce, at that time or at any time thereafter, the paid-up capital in respect of the share, otherwise than by way of a redemption, acquisition or cancellation of the share that is not prohibited by this section,

(F) no person or partnership has, either absolutely or contingently, an obligation (other than an excluded obligation in relation to the share, as defined in subsection 6202.1(5)) at that time or any time thereafter to

(I) provide assistance to acquire the share,

(II) make a loan or payment,

(III) transfer property, or

(IV) otherwise confer a benefit by any means whatever, including the payment of a dividend,

that may reasonably be considered to be, directly or indirectly, a repayment or return by the corporation or a specified person in relation to the corporation of all or part of the consideration for which the share was issued, and

(G) neither the corporation nor any specified person in relation to the corporation has, either absolutely or contingently, the right or obligation to redeem, acquire or cancel at that time or at any time thereafter, the share in whole or in part, except where the redemption, acquisition or cancellation is required pursuant to a conversion that is not prohibited by clause (C),

(ii) no person or partnership has, either absolutely or contingently, an obligation (other than an excluded obligation in relation to the share, as defined in subsection 6202.1(5)) to provide, at any time, any form of undertaking with respect to the share (including any guarantee, security, indemnity, covenant or agreement and including the lending of funds to or the placing of amounts on deposit with, or on behalf of, the holder of the share or any specified person in relation to that holder) that may reasonably be considered to have been given to ensure that

(A) any loss that the holder of the share may sustain by virtue of the holding, ownership or disposition of the share is limited in any respect, or

(B) the holder of the share will derive earnings by virtue of the holding, ownership or disposition of the share; and

(*b*) at the time the share is issued, it cannot reasonably be expected, having regard to all the circumstances, that any of the terms or conditions of the share or any existing agreement in respect of the share or its issue will thereafter be modified or amended or that any new agreement in respect of the share or its issue will be entered into, in such a manner that the share would not be a prescribed share if it had been issued at the time of such modification or amendment or at the time the new agreement is entered into.

History: S. 6205(1)(*a*)(i)(F) preceding subclause (I) was amended by P.C. 1991-2475, SOR/92-30, dated December 12, 1991, applicable after June 17, 1987. That part formerly read:

"(F) no person or partnership has, either absolutely or contingently, an obligation at that time or at any time thereafter to"

S. 6205(1)(*a*)(ii) preceding clause (A) was amended by P.C. 1991-2475, SOR/92-30, dated December 12, 1991, to add "(other than an excluded obligation in relation to the share, as defined in subsection 6202.1(5))", and to substitute "to that holder" for "to the holder", applicable after June 17, 1987.

(2) For the purposes of subsections 110.6(8) and (9) of the Act and subject to subsection (3), a prescribed share is a share of the capital stock of a particular corporation where

(*a*) it is a particular share that is owned by a person and that was issued by the particular corporation as part of an arrangement to that person, to a spouse, common-law partner or parent of that person or, if the person is a trust described in paragraph 104(4)(*a*) of the Act, to the person who created the trust or by whose will the trust was created or, if the person is a corporation, to another person owning all of the issued and outstanding shares of the capital stock of the corporation or to a spouse, common-law partner or parent of that other person, and

(i) the main purpose of the arrangement was to permit any increase in the value of the property of the particular corporation to accrue to other shares that would, at the time of their issue, be prescribed shares if this section were read without reference to this subsection, and

(ii) at the time of the issue of the particular share or at the end of the arrangement,

(A) the other shares were owned by

(I) the person to whom the particular share was issued (in this paragraph referred to as the "original holder"),

(II) a person who did not deal at arm's length with the original holder,

(III) a trust none of the beneficiaries of which were persons other than the original holder or a person who did not deal at arm's length with the original holder, or

(IV) any combination of persons described in subclause (I), (II) or (III),

(B) the other shares were owned by employees of the particular corporation or of a corporation controlled by the particular corporation, or

(C) the other shares were owned by any combination of persons each of whom is described in clause (A) or (B); or

(*b*) it is a share that was issued by a mutual fund corporation.

(*c*) [Revoked.]

History: S. 6205(2)(*a*), the portion before subparagraph (i) was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years. S. 6205(2)(*a*), the portion before subparagraph (i) formerly read:

"(*a*) it is a particular share that is owned by a person and that was issued by the particular corporation as part of an arrangement to that person, to a spouse or parent of that person or, where the person is a trust described in paragraph 104(4)(*a*) of the Act, to the person who created the trust or by whose will the trust was created or, where the person is a corporation, to another person owning all of the issued and outstanding shares of the capital stock of the corporation or to a spouse or parent of that other person, and"

S. 6205(2), the part preceding subparagraph (*a*)(ii), was amended by P.C. 1994-618, SOR/94-315, dated April 21, 1994, applicable to the 1985 and subsequent taxation years except that for taxation years ending on or before May 4, 1993, the reference in subparagraph 6205(2)(*a*)(i) to "without reference to this subsection" shall be read as "without reference to this paragraph". S. 6205(2) preceding (*a*)(ii) formerly read:

"(2) For the purposes of subsections 110.6(8) and (9) of the Act and subject to subsection (3), a prescribed share is a share of the capital stock of a corporation where

(*a*) it is a particular share that is owned by a person and that was issued to that person, or to a spouse or a parent of that person, by the corporation as part of an arrangement and

(i) the main purpose of the arrangement was to permit any increase in the value of the property of the corporation to accrue to other shares that would, at the time of their issue, be prescribed shares if this subsection were read without reference to this paragraph, and"

S. 6205(2)(*a*)(ii)(B) was amended, and (C) was added, by P.C. 1994-618, SOR/94-315, dated April 21, 1994, applicable to the 1985 and subsequent taxation years. S. 6205(2)(*a*)(ii)(B) formerly read:

"(B) the other shares were owned by employees of the corporation or of a corporation controlled by it; or"

Ss. 6205(2)(*a*) and (*b*) were amended and s. 6205(2)(*c*) was revoked by P.C. 1990-1838, SOR/90-607, dated August 28, 1990 and applicable in respect of the 1985 and subsequent taxation years. Those paragraphs formerly read:

"(*a*) it is a particular share owned by a person that was issued to that person, or to a spouse or parent of that person, by the corporation as part of an arrangement that involved the issue of other shares that, at the time of their issue, would be prescribed shares if this subsection were read without reference to this paragraph and paragraph (*b*), and

(i) the main purpose of the arrangement was to permit any increase in the value of the property of the corporation to accrue to the other shares, and

(ii) the other shares were issued to

(A) the person to whom the particular share was issued (in this paragraph referred to as the 'original holder') and any combination of persons described in clauses (B) or (C),

(B) another shareholder of the corporation who did not deal at arm's length with the original holder,

(C) a trust all the beneficiaries of which were either the original holder and persons who did not deal at arm's length with the original holder or those persons alone, or

(D) any combination of persons described in clauses (B) or (C);

(*b*) it is a particular share owned by a person that was issued to that person, or to a spouse or parent of that person, by the corporation as part of an arrangement that involved the issue of other shares that, at that time of their issue, would be prescribed shares if this subsection were read without reference to this paragraph and paragraph (*a*), and

(i) the main purpose of the arrangement was to permit any increase in the value of the property of the corporation to accrue to the other shares, and

(ii) the other shares were issued to employees of the corporation or a corporation controlled by it; or

(*c*) it is a share issued by a mutual fund corporation."

(3) For the purposes of subsections 110.6(8) and (9) of the Act, a prescribed share does not include a share of the capital stock issued by a mutual fund corporation (other than an investment corporation) the value of which can reasonably be considered to be, directly or indirectly, derived primarily from investments made by the mutual fund corporation in one or more corporations (in this subsection referred to as an "investee corporation") connected with it (within the meaning of subsection 186(4) of the Act on the assumption that the references in that subsection to "payer corporation" and "particular corporation" were read as references to "investee corporation" and "mutual fund corporation", respectively).

(4) For the purposes of this section,

(*a*) the dividend entitlement of a share of the capital stock of a corporation shall be deemed not to be limited to a maximum amount or fixed at a minimum amount where it may reasonably be considered that

(i) all or substantially all of the dividend entitlement is determinable by reference to the dividend entitlement of another share of the capital stock of the corporation that meets the requirements of clause (1)(*a*)(i)(A), or

(ii) the dividend entitlement cannot be such as to impair the ability of the corporation to redeem another share of the capital stock of the corporation that meets the requirements of paragraph(2)(*a*);

(*b*) the liquidation entitlement of a share of the capital stock of a corporation shall be deemed not to be limited to a maximum amount or fixed at a minimum amount where it may reasonably be considered that all or substantially all of the liquidation entitlement is determinable by reference to the liquidation entitlement of another share of the capital stock of the corporation that meets the requirements of clause (1)(*a*)(i)(B);

(*c*) where two or more corporations (each of which is referred to in this paragraph as a "predecessor corporation") have merged or amalgamated, the corporation formed as a result of the merger or amalgamation (in this paragraph referred to as the "new corporation") shall be deemed to be the same corporation as, and a continuation of, each of the predecessor corporations and a share of the capital stock of the new corporation issued on the merger or amalgamation as consideration for a share of the capital stock of a predecessor corporation shall be deemed to be the same share as the share of the predecessor corporation for which it was issued, but this paragraph does not apply if the share issued on the merger or amalgamation is not a prescribed share at the time of its issue and either

(i) the terms and conditions of that share are not identical to those of the share of the predecessor corporation for which it was issued, or

(ii) at the time of its issue the fair market value of that share is not the same as that of the share of the predecessor corporation for which it was issued;

(*d*) a reference in clauses (1)(*a*)(i)(D) and (G) and subparagraph (1)(*a*)(ii) to a right or obligation of the corporation or a person or partnership does not include a right or obligation provided in a written agreement among shareholders of a private corporation owning more than 50% of its issued and outstanding share capital having full voting rights under all circumstances to which the corporation, person or partnership is a party unless it may reasonably be considered, having regard to all the circumstances, including the terms of the agreement and the number and relationship of the shareholders, that one of the main reasons for the existence of the agreement is to avoid or limit the application of subsection 110.6(8) or (9) of the Act;

(*e*) where at any particular time after November 21, 1985, the terms or conditions of a share are changed or any existing agreement in respect thereof is changed or a new agreement in respect of the share is entered into, the share shall, for the purpose of determining whether it is a prescribed share, be deemed to have been issued at that particular time; and

(*f*) the determination of whether a share of the capital stock of a corporation is a prescribed share for the purposes of subsection (1) shall be made without reference to a right or obligation to redeem, acquire or cancel the share or to cause the share to be redeemed, acquired or cancelled where

(i) the share was issued pursuant to an employee share purchase agreement (in this paragraph referred to as "the agreement") to an employee (in this paragraph referred to as "the holder") of the corporation or of a corporation with which it did not deal at arm's length,

(ii) the holder was dealing at arm's length with each corporation referred to in subparagraph (i) at the time the share was issued, and

(iii) having regard to all the circumstances including the terms of the agreement, it may reasonably be considered that

(A) the amount payable on the redemption, acquisition or cancellation (in this clause and in clause (B) referred to as the "acquisition") of the share will not exceed

(I) the adjusted cost base of the share to the holder immediately before the acquisition,

where the acquisition was provided for in the agreement and the principal purpose for its provision was to protect the holder against any loss in respect of the share, or

(II) the fair market value of the share immediately before the acquisition, where the acquisition was provided for in the agreement and the principal purpose for its provision was to provide the holder with a market for the share, and

(B) no portion of the amount payable on the acquisition of the share is directly determinable by reference to the profits of the corporation, or of another corporation with which it does not deal at arm's length, for all or any part of the period during which the holder owned the share or had a right to acquire the share, unless the reference to the profits of the corporation or the other corporation is only for the purpose of determining the fair market value of the share pursuant to a formula set out in the agreement.

History: S. 6205(4)(*c*) was amended by P.C. 1994-618, SOR/94-315, dated April 21, 1994, applicable to mergers and amalgamations occurring after 1984. S. 6205(4)(*c*) formerly read:

"(*c*) where a corporation has merged or amalgamated with one or more other corporations, the corporation formed as a result of the merger or amalgamation shall be deemed to be the same corporation as, and a continuation of, each of its predecessor corporations and a share issued on the merger or amalgamation as consideration for another share shall be deemed to be the same share as the share for which it was issued but this paragraph does not apply if the share issued on the merger or amalgamation is not a prescribed share at the time of its issue;"

S. 6205(4)(*a*)(ii) was amended by P.C. 1990-1838, SOR/90-607, dated August 28, 1990 to delete "or (*b*)" following the reference to paragraph (2)(*a*), applicable in respect of the 1985 and subsequent taxation years.

S. 6205(4)(*f*) was added by P.C. 1990-1838, SOR/90-607, dated August 28, 1990 and applicable after November 27, 1986.

(5) For the purposes of this section, "specified person", in relation to a corporation or a holder of a share, as the case may be (in this subsection referred to as the "taxpayer"), means any person or partnership with whom the taxpayer does not deal at arm's length or any partnership or trust of which the taxpayer (or a person or partnership with whom the taxpayer does not deal at arm's length) is a member or beneficiary, respectively.

History: S. 6205 was added by P.C. 1986-2770, SOR/86-1136, dated December 11, 1986, applicable to the 1985 and subsequent taxation years.

6206. The Class I Special Shares of Reed Stenhouse Companies Limited, issued before January 1, 1986, are prescribed for the purposes of subsection 84(8) of the Act.

History: S. 6206 was added by P.C. 1986-2770, SOR/86-1136, dated December 11, 1986, effective May 23, 1985.

6207. (1) For the purposes of paragraph 183.1(4)(*c*) [Repealed by S.C. 1988, c. 55, s. 149(1)] of the Act (as it read in its application to transactions entered into before September 13, 1988), a share is a prescribed share of the capital stock of an acquiring corporation where, at the time the share is issued

(*a*) under the terms or conditions of the share or any agreement in respect of the share or its issue,

(i) the amount of the dividends (in this section referred to as the "dividend entitlement") that the corporation may declare or pay on the share is not limited to a maximum amount or fixed at a minimum amount at that time or at any time thereafter by way of a formula or otherwise,

(ii) the amount (in this section referred to as the "liquidation entitlement") that the holder of the share is entitled to receive on the share on the dissolution, liquidation or winding-up of the corporation is not limited to a maximum amount or fixed at a minimum amount by way of a formula or otherwise,

(iii) the share cannot be converted into any other security, other than into another security of the corporation or of another corporation with which it does not deal at arm's length that is, or would be at the date of conversion, a prescribed share,

(iv) the holder of the share does not, at that time or at any time thereafter, have the right or obligation to cause the share to be redeemed, acquired or cancelled by the corporation or any specified person in relation to the corporation, except where the redemption, acquisition or cancellation is required pursuant to a conversion that is not prohibited by subparagraph (iii),

(v) no person or partnership has, either absolutely or contingently, an obligation to reduce, or to cause the corporation to reduce, at that time or at any time thereafter, the paid-up capital in respect of the share, otherwise than by way of a redemption, acquisition or cancellation of the share that is not prohibited by this section, and

(vi) neither the corporation nor any specified person in relation to the corporation has, either absolutely or contingently, the right or obligation to redeem, acquire or cancel, at that time or at any time thereafter, the share in whole or in part, except where the redemption, acquisition or cancellation is required pursuant to a conversion that is not prohibited by subparagraph (iii); and

(*b*) it cannot reasonably be expected, having regard to all the circumstances, that any of the terms or conditions of the share or any existing agreement in respect of the share or its issue will be modified or amended, or that any new agreement in respect of the share or its issue will be entered into, in such a manner that the share would not be a prescribed share if it had been issued at the time of such modification or amendment or at the time the new agreement is entered into.

History: S. 6207(1), the part preceding paragraph (*a*), was amended by P.C. 1992-2335, SOR/92-681, dated November 23, 1992, to add "(as it read in its application to transactions entered into before September 13, 1988)", applicable after November 27, 1986.

S. 6207(1) was added by P.C. 1990-1838, SOR/90-607, dated August 28, 1990 and applicable after November 27, 1986, except that it does not apply with respect to transactions entered into on or after September 13, 1988, other than transactions that are part of a series of transactions, determined without reference to subsection 248(10) of the *Income Tax Act*, commencing before September 13, 1988 and completed before 1989.

(2) For the purposes of this section,

(*a*) the dividend entitlement of a share of the capital stock of a corporation shall be deemed not to be limited to a maximum amount or fixed at a minimum amount where it may reasonably be considered that all or substantially all the dividend entitlement is determinable by reference to the dividend entitlement of another share of the capital stock of the corporation that meets the requirements of subparagraph (1)(*a*)(i);

(*b*) the liquidation entitlement of a share of the capital stock of a corporation shall be deemed not to be limited to a maximum amount or fixed at a minimum amount where it may reasonably be considered that all or substantially all of the liquidation entitlement is determinable by reference to the liquidation entitlement of another share of the capital stock of the corporation that meets the requirements of subparagraph (1)(*a*)(ii);

(*c*) where at any particular time after June 3, 1987, the terms or conditions of a share are changed or any existing agreement in respect of the share is changed or a new agreement in respect of the share is entered into, the share shall, for the purpose of determining whether it is a prescribed share, be deemed to have been issued at that particular time;

(*d*) the determination of whether a share of the capital stock of a corporation owned by an employee of the corporation or another corporation with which it does not deal at arm's length is a prescribed share shall be made without reference to a right or obligation with respect to an acquisition of the share, the consideration for which is described in subparagraph 183.1(4)(*c*)(i) or (ii) [Repealed by S.C. 1988, c. 55, s. 149(1)] of the Act (as those subparagraphs read in their application to transactions entered into before September 13, 1988) where no portion of the amount payable on the acquisition of the share is directly determinable by reference to the profits of the corporation or the other corporation for all or any part of the period during which the employee owned the share or had a right to acquire the share, unless the reference to the profits of the corporation or the other corporation is only for the purpose of determining the fair market value of the share pursuant to a formula set out in the employee share purchase agreement under which the employee acquired the share; and

(*e*) a reference in subparagraphs (1)(*a*)(iv) and (vi) to a right or obligation of the corporation or a person or partnership does not include a right or obligation provided in a written agreement among shareholders of a private corporation owning more than 50% of its issued and outstanding share capital having full voting rights under all circumstances to which the corporation, person or partnership is a party unless it may reasonably be considered, having regard to all the circumstances including the terms of the agreement and the number and relationship of the shareholders, that one of the main reasons for the existence of the agreement is to avoid or limit the application of subsection 183.1(1) of the Act.

History: S. 6207(2) was added by P.C. 1990-1868, SOR/90-607, dated August 28, 1990 and applicable after November 27, 1986, except that it does not apply with respect to transactions entered into on or after September 13, 1988, other than transactions that are part of a series of transactions, determined without reference to subsection 248(10) of the *Income Tax Act*, commencing before September 13, 1988 and completed before 1989.

(3) For the purposes of subsection (1), "specified person" in relation to a corporation means any person or partnership with whom the corporation does not deal at arm's length or any partnership or trust of which the corporation (or a person or partnership with whom the corporation does not deal at arm's length) is a member or beneficiary, respectively.

History: S. 6207(3) was added by P.C. 1990-1838, SOR/90-607, dated August 28, 1990 and applicable after November 27, 1986, except that it does not apply with respect to transactions entered into on or after September 13, 1988, other than transactions that are part of a series of transactions, determined without reference to subsection 248(10) of the *Income Tax Act*, commencing before September 13, 1988 and completed before 1989.

6208. (1) For the purposes of clause 212(1)(*b*)(vii)(E) of the Act, a prescribed security with respect to an obligation of a corporation is

(*a*) a share of the capital stock of the corporation unless

(i) under the terms and conditions of the share, any agreement relating to the share or any modification of such terms, conditions or agreement, the corporation or a specified person in relation to the corporation is or may, at any time within 5 years after the date of the issue of the obligation, be required to redeem, acquire or cancel, in whole or in part, the share (unless the share is or may be required to be redeemed, acquired or cancelled by reason only of a right to convert the share into, or exchange the share for, another share of the corporation that, if issued, would be a prescribed security) or to reduce its paid-up capital,

(ii) as a result of the modification or establishment of the terms or conditions of the share or the changing or entering into of any agreement in respect of the share, the corporation or a specified person in relation to the corporation may, within 5 years after the date of the issue of the obligation, reasonably be expected to redeem, acquire or cancel, in whole or in part, the share (unless the share is or may be required to be redeemed, acquired or cancelled by reason only of a right to convert the share into, or exchange the share for, another share of the corporation that, if issued, would be a prescribed security) or to reduce its paid-up capital, or

(iii) as a result of the terms or conditions of the share or any agreement entered into by the corporation or a specified person in relation to the corporation or any modification of such terms, conditions or agreement, any person is required, either absolutely or contingently, within 5 years after the date of the issue of the obligation, to effect any undertaking, including any guarantee, covenant or agreement to purchase or repurchase the share, and including a loan of funds to or the placing of amounts on deposit with, or on behalf of, the shareholder or a specified person in relation to the shareholder given

(A) to ensure that any loss that the shareholder or a specified person in relation to the shareholder may sustain, by reason of the ownership, holding or disposition of the share or any other property, is limited in any respect, and

(B) as part of a transaction or event or series of transactions or events that included the issuance or acquisition of the obligation,

and for the purposes of this subparagraph, where such an undertaking in respect of a share is given at any particular time after the date of the issue of the obligation, the obligation shall be deemed to have been issued at the particular time and the

undertaking shall be deemed to have been given as part of a series of transactions that included the issuance or acquisition of the obligation, and

(*b*) a right or warrant to acquire a share of the capital stock of the corporation that would, if issued, be a prescribed security with respect to the obligation,

where all the consideration receivable upon a conversion or exchange of the obligation or the prescribed security, as the case may be, is a share of the capital stock of the corporation described in paragraph (*a*) or a right or warrant described in paragraph (*b*), or both, as the case may be.

History: S. 6208(1) was added by P.C. 1990-854, SOR/90-285, dated May 10, 1990 and applicable after December 19, 1986.

(2) For the purposes of this section, where a taxpayer may become entitled upon the conversion or exchange of an obligation or a prescribed security to receive consideration in lieu of a fraction of a share, that consideration shall be deemed not to be consideration unless it may reasonably be considered to be receivable as part of a series of transactions or events one of the main purposes of which is to avoid or limit the application of Part XIII of the Act.

History: S. 6208(2) was added by P.C. 1990-854, SOR/90-285, dated May 10, 1990 and applicable after December 19, 1986.

(3) In this section, "specified person", in relation to a corporation or a shareholder, means any person with whom the corporation or the shareholder, as the case may be, does not deal at arm's length or any partnership or trust of which the corporation or the shareholder, as the case may be, or the person is a member or beneficiary, respectively.

History: S. 6208(3) was added by P.C. 1990-854, SOR/90-285, dated May 10, 1990 and applicable after December 19, 1986.

6209. For the purposes of the definition "lending asset" in subsection 248(1) of the Act,

(*a*) a share owned by a bank is a prescribed share for a taxation year where it is a preferred share of the capital stock of a corporation that is dealing at arm's length with the bank that may reasonably be considered to be, and is reported as, a substitute or alternative for a loan to the corporation, or another corporation with whom the corporation does not deal at arm's length, in the bank's annual report for the year to the relevant authority or, where the bank was throughout the year subject to the supervision of the relevant authority but was not required to file an annual report for the year with the relevant authority, in its financial statements for the year; and

(*b*) a property is a prescribed property for a taxation year where

(i) in the case of a security held by a bank, the security is reported as part of the bank's trading account in its annual report for the year to the relevant authority or, where the bank was throughout the year subject to the supervision of the relevant authority but was not required to file an annual report for the year with the relevant authority, in its financial statements for the year,

(ii) in the case of a security held by a taxpayer other than a bank, the security is at any time in the year a property described in an inventory of the taxpayer, or

Pending Amendment

Securities Held by Financial Institutions — April 11, 2009 (Pre-published in the *Canada Gazette*, Part I, dated April 11, 2009)

Subparagraphs 6209(*b*)(i) and (ii) of the Regulations are replaced by the following:

(i) the security is a mark-to-market property (as defined in subsection 142.2(1) of the Act) for the year of a financial institution (as defined in subsection 142.2(1) of the Act), or

(ii) the security is at any time in the year a property described in an inventory of a taxpayer.

Applicable: To taxation years that end after February 22, 1994.

Explanatory Note:

See the Regulatory Impact Analysis Statement, published in the *Canada Gazette*, Part I on April 11, 2009, reproduced with the Explanatory Note for Regulation 304(1)(*c*).

Explanatory Notes Released on June 1, 1995

Lending Assets — Prescribed Securities

Section 6209 of the Regulations prescribes certain shares and other securities for the purpose of the definition of "lending asset" in subsection 248(1) of the Act. Securities prescribed by paragraph 6209(b) are excluded from being lending assets. Paragraph 6209(b) prescribes a security if it is included in the trading account of a bank or in the inventory of a taxpayer other than a bank.

Paragraph 6209(b) is amended to provide that a security is prescribed if it is a mark-to-market property or is included in a taxpayer's inventory. "Mark-to-market property", which is defined in new subsection 142.2(1) of the Act, includes most shares and some debt obligations.

As a consequence of this amendment, a specified debt obligation (as defined in subsection 142.2(1) of the Act) held by a bank in its trading account will be treated as a lending asset if it is not a mark-to-market property. This observation applies, in particular, to the debt obligations of a country that has been designated by the Office of the Superintendent of Financial Institutions and to the United Mexican States Collateralized Par or Discount Bonds Due 2019.

The amendment applies to taxation years ending after February 22, 1994.

Pending Amendment

Securities Held by Financial Institutions — April 11, 2009 (Pre-published in the *Canada Gazette*, Part I, dated April 11, 2009)

The English version of paragraph 6209(*b*) of the Regulations is amended by striking out "or" at the end of subparagraph (i) and by adding "or" at the end of subparagraph (ii).

Applicable:

(*a*) To taxation years that end after September 1997; and

(*b*) to a taxpayer's taxation years that end after 1995 and before October 1997 where the taxpayer has made an election under paragraph 81(11)(*b*) of the *Income Tax Amendments Act, 1997*, S.C. 1998, c. 19 [an election under s. 20(1)(*l*) of the *Income Tax Act* to have been filed before October 1998].

Explanatory Note: See the Explanatory Note following the amendment to subparagraphs 6209(*b*)(i) and (ii).

(iii) the property is a direct financing lease, or is any other financing arrangement, of a taxpayer that is reported as a loan in the taxpayer's financial statement for the year prepared in accordance with generally accepted accounting principles and an amount is deductible under paragraph 20(1)(*a*) of the Act in respect of the property that is the sub-

ject of the lease or arrangement in computing the taxpayer's income for the year.

History: S. 6209(*b*), the portion before subparagraph (i) was amended by P.C. 1999-195, SOR/99-91, dated February 11, 1999, applicable

(*a*) to taxation years that end after September 1997; and

(*b*) to taxation years that end after 1995 and before October 1997 where the taxpayer makes an election under paragraph 81(11)(*b*) of the *Income Tax Amendment Act*, 1997, S.C. 1998, c. 19 [an election under s. 20(1)(*l*) of the *Income Tax Act* to be filed before October 1998]. S. 6209(*b*) formerly read:

"(*b*) a security is a prescribed security for a taxation year where"

S. 6209(*b*)(iii) was added by P.C. 1999-195, SOR/99-91, dated February 11, 1999, applicable

(*a*) to taxation years that end after September 1997; and

(*b*) to taxation years that end after 1995 and before October 1997 where the taxpayer makes an election under paragraph 81(11)(*b*) of the *Income Tax Amendment Act*, 1997, S.C. 1998, c. 19.

S. 6209 was added by P.C. 1990-2779, SOR/91-78, dated December 24, 1990, applicable to taxation years and fiscal periods commencing after June 17, 1987 that end after 1987.

6210. For the purposes of paragraph 38(*a.1*) of the Act, a prescribed debt obligation is a bond, debenture, note, mortgage or similar obligation

(*a*) of or guaranteed by the Government of Canada; or

(*b*) of the government of a province or an agent of that government.

History: S. 6210 was added by P.C. 2001-954, SOR/2001-187, dated May 31, 2001, applicable after February 18, 1997.

PART LXIII
Child Tax Benefits

Interpretation

6300. In this part, "qualified dependant" has the meaning assigned by section 122.6 of the Act.

History: Part LXIII was added by P.C. 1992-2714, SOR/93-13, dated December 30, 1992 and applies after 1992.

Non-Application of Presumption

6301. **(1)** For the purposes of paragraph (*g*) of the definition "eligible individual" in section 122.6 of the Act, the presumption referred to in paragraph (*f*) of that definition does not apply in the circumstances where

(*a*) the female parent of the qualified dependant declares in writing to the Minister that the male parent, with whom she resides, is the parent of the qualified dependant who primarily fulfils the responsibility for the care and upbringing of each of the qualified dependants who reside with both parents;

(*b*) the female parent is a qualified dependant of an eligible individual and each of them files a notice with the Minister under subsection 122.62(1) of the Act in respect of the same qualified dependant;

(*c*) there is more than one female parent of the qualified dependant who resides with the qualified dependant and each female parent files a notice with the Minister under subsection 122.62(1) of the Act in respect of the qualified dependant; or

(*d*) more than one notice is filed with the Minister under subsection 122.62(1) of the Act in respect of the same qualified dependant who resides with each of the persons filing the notices if such persons live at different locations.

History: Ss. 6301(1)(a) to (d) were amended by P.C. 1998-2270, SOR/99-17, dated December 16, 1998, applicable after August 27, 1995. Ss. 6301(1)(a) to (d) formerly read:

"(*a*) the female parent of the qualified dependant declares in writing to the Minister of National Health and Welfare that the male parent, with whom she resides, is the parent of the qualified dependant who primarily fulfils the responsibility for the care and upbringing of each of the qualified dependants who reside with both parents;

(*b*) the female parent is a qualified dependant of an eligible individual and each of them files a notice with the Minister of National Health and Welfare under subsection 122.62(1) of the Act in respect of the same qualified dependant;

(*c*) there is more than one female parent of the qualified dependant who resides with the qualified dependant and each female parent files a notice with the Minister of National Health and Welfare under subsection 122.62(1) of the Act in respect of the qualified dependant; or

(*d*) more than one notice is filed with the Minister of National Health and Welfare under subsection 122.62(1) of the Act in respect of the same qualified dependant who resides with each of the persons filing the notices where such persons live at different locations."

S. 6301(1) was added by P.C. 1992-2714, SOR/93-13, dated December 30, 1992, applicable after 1992.

(2) For greater certainty, a person who files a notice referred to in paragraph (1)(*b*), (*c*) or (*d*) includes a person who is not required under subsection 122.62(3) of the Act to file such a notice.

History: S. 6301(2) was amended by P.C. 1998-2270, SOR/99-17, dated December 16, 1998, applicable after August 27, 1999. S. 6301(2) formerly read:

"(2) For greater certainty, a person who files a notice referred to in paragraph (1)(*b*), (*c*) or (*d*) includes a person who is not required under subsection 122.62(3) of the Act to file such a notice and a person for whom the requirement to file such a notice has been waived by the Minister of National Health and Welfare under subsection 122.62(5) of the Act."

S. 6301(2) was added by P.C. 1992-2714, SOR/93-13, dated December 30, 1992, applicable after 1992.

Factors

6302. For the purposes of paragraph (*h*) of the definition "eligible individual" in section 122.6 of the Act, the following factors are to be considered in determining what constitutes care and upbringing of a qualified dependant:

(*a*) the supervision of the daily activities and needs of the qualified dependant;

(*b*) the maintenance of a secure environment in which the qualified dependant resides;

(*c*) the arrangement of, and transportation to, medical care at regular intervals and as required for the qualified dependant;

(*d*) the arrangement of, participation in, and transportation to, educational, recreational, athletic or similar activities in respect of the qualified dependant;

(*e*) the attendance to the needs of the qualified dependant when the qualified dependant is ill or otherwise in need of the attendance of another person;

(*f*) the attendance to the hygenic needs of the qualified dependant on a regular basis;

(*g*) the provision, generally, of guidance and companionship to the qualified dependant; and

(*h*) the existence of a court order in respect of the qualified dependant that is valid in the jurisdiction in which the qualified dependant resides.

History: S. 6302 was added by P.C. 1992-2714, SOR/93-13, dated December 30, 1992, applicable after 1992.

Former Part LXIII was revoked by P.C. 1988-390, SOR/88-165, dated March 3, 1988, applicable to the 1985 subsequent taxation years. Part LXIII formerly read:

"PART LXIII

Prescribed Provinces in Respect of Sales Tax Reductions

S. 6300. For the purposes of subsection 122.1(1) of the Act, the following provinces are hereby prescribed:

(*a*) Newfoundland;
(*b*) Prince Edward Island;
(*c*) Nova Scotia;
(*d*) New Brunswick;
(*e*) Ontario;
(*f*) Manitoba;
(*g*) Saskatchewan; and
(*h*) British Columbia."

Part LXIII was added by P.C. 1978-3730, SOR/78-947, December 14, 1978 (Special Issue, *Canada Gazette*, December 31, 1978).

PART LXIV

Prescribed Dates

Child Tax Credits

6400. For the purposes of subsection 122.2(1) of the Act, the prescribed date for each of the 1978 and subsequent taxation years is December 31 of that year.

History: The heading "Prescribed Dates" was added to Part LXIV, and s. 6400 was amended, by P.C. 1980-3278, SOR/80-925, dated December 4, 1980. S. 6400 formerly read:

"For the purposes of subsection 122.2(1) of the Act, the prescribed date is
(*a*) for the 1978 taxation year, December 31, 1978; and
(*b*) for the 1979 taxation year, December 31, 1979."

The prescribed date for 1979 was added by P.C. 1980-501, SOR/80-139, February 11, 1980.

Part LXIV was added by P.C. 1979-484, SOR/79-206, February 27, 1979.

Quebec Tax Abatement

6401. For the purposes of subsection 120(2) of the Act, the prescribed date for each of the 1980 and subsequent taxation years is December 31st of that year.

History: The heading "Quebec Tax Abatement" and S. 6401 were added by P.C. 1981-911, SOR/81-289, dated April 3, 1981.

PART LXV

Prescribed Laws

6500. [Repealed.]

History: S. 6500 was repealed by P.C. 2007-849, SOR/2007-116, dated May 31, 2007, effective on publication in the *Canada Gazette*, June 13, 2007. S. 6500 formerly read:

"S. 6500. (1) For the purposes of paragraph 73(1)(*d*) and subparagraph 148(8)(*a*)(iii) of the Act,

'prescribed class of persons' means persons referred to in subparagraph 14(*b*)(i) of *The Family Law Reform Act, 1978*, S.O. 1978, c. 2, of the Province of Ontario; and

'prescribed provisions of the law of a province' means paragraph 19(1)(*c*) and section 52 of *The Family Law Reform Act, 1978*, S.O. 1978, c. 2, of the Province of Ontario.

(2) For the purposes of subsection 73(1.1) of the Act, 'prescribed provisions of the law of a province' means

(*a*) sections 7 and 9 of *The Matrimonial Property Act*, S.A. 1978, c. 22, of the Province of Alberta;
(*b*) sections 43, 51 and 52 of the *Family Relations Act*, R.S.B.C. 1979, c. 121, of the Province of British Columbia;
(*c*) sections 13, 16 and 17 of *The Marital Property Act*, S.M. 1978, C. 24-Cap M45 of the Province of Manitoba;
(*d*) sections 4, 6, 7 and 8 and paragraph 19(1)(*c*) of *The Family Law Reform Act, 1978*, S.O. 1978, c. 2, of the Province of Ontario;
(*e*) sections 5, 7, 8 and 9 of the *Family Law Reform Act*, S.P.E.I. 1978, c. 6, of the Province of Prince Edward Island; and
(*f*) sections 5, 8, 21 and 22, subsection 23(4) and sections 26 and 42 of *The Matrimonial Property Act*, S.S. 1979, c. M-6.1, of the Province of Saskatchewan."

The heading before S. 6500 was amended by P.C. 1994-738, SOR/94-346, dated May 5, 1994, applicable to the 1990 and subsequent taxation years. The heading formerly read "Prescribed Provincial Laws".

S. 6500(1), the part preceding the first definition, was amended by P.C. 1986-1048, SOR/86-488 dated May 1, 1986, to add the references to s. 148(8)(*a*)(iii), applicable with respect to taxation years commencing after 1982.

S. 6500(2)(*f*) was added by P.C. 1982-339, SOR/82-214, dated February 8, 1982 and effective in respect of the 1980 and subsequent taxation years.

S. 6500(2)(*b*) was amended by P.C. 1981-277, SOR/81-118, dated February 6, 1981, to reflect an amendment to the *Family Relations Act* of British Columbia, effective March 31, 1979. S. 6500(2)(*b*) formerly read:

"(*b*) sections 43 and 52 and paragraphs 51(*g*) and (*h*) of the *Family Relations Act*, S.B.C. 1978, c. 20, of the Province of British Columbia;"

Part LXV was added by P.C. 1980-876, SOR/80-245, dated April 3, 1980. S. 6500(1) is effective March 31, 1978, s. 6500(2)(*a*) is effective January 1, 1979, s. 6500(2)(*b*) is effective March 31, 1979, s. 6500(2)(*c*) is effective October 15, 1978, s. 6500(2)(*d*) is effective March 31, 1978 and s. 6500(2)(*e*) is effective December 31, 1978.

6501. For the purposes of paragraph 81(1)(*q*) of the Act, "prescribed provision of the law of a province" means

(*a*) in respect of the Province of Alberta
  (i) subsections 7(1) and 14(1) of *The Criminal Injuries Compensation Act*, R.S.A. 1970, c. 75, and
  (ii) subsections 8(3), 10(2) and 13(8) of *The Motor Vehicle Accident Claims Act*, R.S.A. 1970, c. 243;

(*b*) in respect of the Province of British Columbia
  (i) paragraphs 3(1)(*a*) and (*b*) and section 9 of the *Criminal Injury Compensation Act*, R.S.B.C. 1979, c. 83, and
  (ii) subsection 106(1) of the *Motor-vehicle Act*, R.S.B.C. 1960, c. 253, as amended by S.B.C. 1965, c. 27;

(*c*) in respect of the Province of Manitoba
  (i) subsection 6(1) of *The Criminal Injuries Compensation Act*, S.M. 1970, c. 56, and
  (ii) subsections 7(9) and 12(11) of *The Unsatisfied Judgement Fund Act*, R.S.M. 1970, U70;

(*d*) in respect of the Province of New Brunswick
  (i) subsections 3(1) and (2) of the *Compensation for Victims of Crime Act*, R.S.N.B. 1973, c. C-14, and
  (ii) subsections 319(3), (10) and 321(1) of the *Motor Vehicle Act*, R.S.N.B. 1973, c. M-17;

(*e*) in respect of the Province of Newfoundland
  (i) subsection 27(1) of the *Criminal Injuries Compensation Act*, R.S.N. 1970, c. 68, and
  (ii) subsection 106(2) of *The Highway Traffic Act*, R.S.N. 1970, c. 152;

(*f*) in respect of the Northwest Territories, subsections 3(1) and 5(2) and section 13 of the *Criminal Injuries Compensation Ordinance*, R.O.N.W.T. 1974, c. C-23;

(*g*) in respect of the Province of Nova Scotia, subsections 190(5) and 191(2) of the *Motor Vehicle Act*, R.S.N.S. 1967, c. 191;

(*h*) in respect of the Province of Ontario
  (i) section 5, subsection 7(2) and section 14 of *The Compensation for Victims of Crime Act, 1971*, S.O. 1971, c. 51, and
  (ii) subsections 5(3) and 6(1) and section 18 of *The Motor Vehicle Accident Claims Act*, R.S.O. 1970, c. 281;

(*i*) in respect of the Province of Prince Edward Island, subsection 351(3) of the *Highway Traffic Act*, R.S.P.E.I. 1974, c. H-6;

(*j*) in respect of the Province of Quebec

(i) sections 5, 5b and 14 of the *Crime Victims Compensation Act*, S.Q. 1971, c. 18, and

(ii) sections 13 and 26, subsection 37(1) and sections 44 and 54 of the *Automobile Insurance Act*, S.Q. 1977, c. 68;

(*k*) in respect of the Province of Saskatchewan

(i) subsection 10(1) of *The Criminal Injuries Compensation Act*, R.S.S. 1978, c. C-47, and

(ii) subsections 23(1) to (4) and (7), 24(2) to (7) and (9), 25(1), 26(1), 27(1) and (2), 27(5), 51(8) and (9), 54(3) and 55(1) of *The Automobile Accident Insurance Act*, R.S.S. 1978, c. A-35; and

(*l*) in respect of the Yukon Territory, subsection 3(1) of the *Compensation for the Victims of Crime Ordinance*, O.Y.T. 1975 (1st), c. 2 as amended by O.Y.T. 1976 (1st), c. 5.

History: S. 6501 was added by P.C. 1981-277, SOR/81-118, dated February 6, 1981, effective January 1, 1978.

6502. For the purposes of paragraph 56(1)(*c.1*), section 56.1, paragraph 60(*c.1*) and section 60.1 of the Act, the class of individuals

(*a*) who were parties, whether in a personal capacity or by representation, to proceedings giving rise to an order made in accordance with the laws of the Province of Ontario, and

(*b*) who, at the time the application for the order was made, were persons described in subclause 14(*b*)(i) of the *Family Law Reform Act*, Revised Statutes of Ontario 1980, c. 152,

is prescribed as a class of persons described in the laws of a province.

History: S. 6502 was added by P.C. 1985-177, SOR/85-116, dated January 24, 1985 and effective December 12, 1979.

6503. For the purposes of paragraphs 60(*j.02*) to (*j.04*) of the Act, subsections 39(7) and 42(8) of the *Public Service Superannuation Act* and subsection 24(6) of the *Royal Canadian Mounted Police Superannuation Act* are prescribed.

History: S. 6503 was added by P.C. 1994-738, SOR/94-346, dated May 5, 1994, applicable to the 1990 and subsequent taxation years, except that for the 1990 taxation year, the reference to "paragraphs 60(*j.02*) to (*j.04*)" shall be read as "paragraphs 60(*j.02*) and (*j.04*)".

PART LXVI

Prescribed Order

6600. For the purposes of the definition "overseas Canadian Forces school staff" in subsection 248(1) of the Act, the prescribed order is the "Canadian Forces Overseas Schools Order" made by Order in Council P.C. 1975-3/1054 of 6 May, 1975.

History: Part LXVI was added by P.C. 1981-910, SOR/81-288, dated April 3, 1981, effective in respect of the 1980 and subsequent taxation years.

S. 6600 was amended by P.C. 1981-2410, SOR/81-705, dated September 4, 1981 and effective in respect of the 1980 and subsequent taxation years, to delete the words "of the Minister of National Defence" after the words "the prescribed order".

PART LXVII

Prescribed Venture Capital Corporations, Labour-Sponsored Venture Capital Corporations, Investment Contract Corporations, Qualifying Corporations and Prescribed Stock Savings Plans

6700. For the purposes of paragraph 40(2)(*i*), clause 53(2)(*k*)(i)(C), the definition "private corporation" in subsection 89(1), subsection 125(6.2), the definition "Canadian-controlled private corporation" in subsection 125(7), section 186.2 and the definition "financial intermediary corporation" in subsection 191(1) of the Act, the following are prescribed venture capital corporations:

(*a*) a corporation that is registered under the provisions of

(i) *An Act Respecting Corporations for the Development of Quebec Business Firms*, Statutes of Quebec 1976, c. 33,

(ii) the *Small Business Development Corporations Act, 1979*, Statutes of Ontario 1979, c. 22,

(iii) *Manitoba Regulation 194/84*, being a regulation made under *The Loans Act, 1983(2)*, Statutes of Manitoba 1982-83-84, c. 36,

(iv) *The Venture Capital Tax Credit Act*, Statutes of Saskatchewan 1983-84, c. V-4.1,

(v) the *Small Business Equity Corporations Act*, Statutes of Alberta 1984, c. S-13.5,

(vi) the *Small Business Venture Capital Act*, Statutes of British Columbia 1985, c. 56,

(vii) *An Act respecting Quebec business investment companies*, Statutes of Quebec 1985, c. 9,

(viii) *The Venture Capital Act*, Statutes of Newfoundland 1988, c. 15,

(ix) *The Labour-sponsored Venture Capital Corporations Act*, Statutes of Saskatchewan 1986, c. L-0.2,

(x) Part 2 of the *Employee Investment Act*, Revised Statutes of British Columbia, 1996, c. 112,

(xi) Part III of the *Community Small Business Investment Funds Act*, chapter 18 of the Statutes of Ontario, 1992,

(xii) The *Labour-Sponsored Venture Capital Corporations Act*, Continuing Consolidation of the Statutes of Manitoba c. L12,

(xiii) Part II of the *Risk Capital Investment Tax Credits Act*, chapter 22 of the Statutes of the Northwest Territories, 1998, or

(xiv) section 11 or Part II of the *Equity Tax Credit Act*, Statutes of Nova Scotia, 1993, c. 3;

(*b*) the corporation established by *An Act to Establish the Fonds de solidarité des travailleurs du Québec (F.T.Q.)*, Revised Statutes of Québec, F-3.2.1;

(*c*) a corporation that is registered with the Department of Economic Development and Tourism of the Government of the Northwest Territories pursuant to the Venture Capital Policy and Directive issued by the Government of the Northwest Territories on June 27, 1985;

(*d*) a corporation that is a registered labour-sponsored venture capital corporation;

(*e*) the Corporation established by *The Manitoba Employee Ownership Fund Corporation Act*, Continuing Consolidation of the Statutes of Manitoba, c. E95; or

Pending Amendment

Prescribed Venture Capital Corporations — December 20, 2002

Section 6700 of the *Income Tax Regulations* is amended by adding the following after paragraph (*e*):

(*e.1*) the corporation established by *An Act constituting Capital régional et coopératif Desjardins*, R.S.Q., c. C6.1.

Applicable: To the 2001 and subsequent taxation years.

Explanatory Note: Section 6700 of the Regulations is to be amended to include in the list of corporations that are prescribed venture capital corporations a corporation established by *An Act constituting Capital régional et coopératif Desjardins*, R.S.Q., c. C-6.1.

The amendments to sections 6700 and 6704 of the Regulations are to apply to the 2001 and subsequent taxation years.

(*f*) the corporation established by *An Act to establish Fondaction, le Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi*, Statutes of Québec 1995, c. 48.

(*g*) [Repealed.]

History: S. 6700, the portion before subparagraph (*a*)(i), was replaced by P.C. 2001-1370, SOR/2001-289, dated August 1, 2001, applicable after June 9, 2001. S. 6700, the portion before subparagraph (*a*)(i), formerly read:

"S. 6700. For the purposes of paragraph 40(2)(*i*), clause 53(2)(*k*)(i)(C), paragraph 89(1)(*f*), subsection 125(6.2), paragraph 125(7)(*b*), section 186.2 and subsection 191(1) of the Act, and in this Part, 'prescribed venture capital corporation' means at any particular time

(*a*) a corporation that is at that time registered under the provisions of"

S. 6700(*a*)(x) was replaced by P.C. 2001-1370, SOR/2001-289, dated August 1, 2001, applicable after June 9, 2001. S. 6700(*a*)(x) formerly read:

"(x) Part 2 of the *Employment Investment Act*, chapter 24 of the Statutes of British Columbia, 1989,"

S. 6700(*a*)(xiv) was added by P.C. 2001-1370, SOR/2001-289, dated August 1, 2001, applicable to the 1997 and subsequent taxation years.

S. 6700(*c*) and (*d*) were amended by P.C. 2001-1370, SOR/2001-289, dated August 1, 2001, applicable after June 9, 2001. S. 6700(*c*) and (*d*) formerly read:

"(*c*) a corporation that is at that time registered with the Department of Economic Development and Tourism of the Government of the Northwest Territories pursuant to the Venture Capital Policy and Directive issued by the Government of the Northwest Territories on June 27, 1985;

(*d*) a corporation that is at that time a registered labour-sponsored venture capital corporation;"

S. 6700(*g*) was repealed by P.C. 2001-1370, SOR/2001-289, dated August 1, 2001, applicable to the 1997 and subsequent taxation years. S. 6700(*g*) formerly read:

"(*g*) a corporation that is at that time registered under Part II of the *Equity Tax Credit Act*, Statutes of Nova Scotia 1993, c. 3."

S. 6700(*a*)(xiii) was added by P.C. 1999-249, SOR/99-102, dated February 18, 1999, applicable to the 1998 and subsequent taxation years.

S. 6700(*a*)(xi) was amended by P.C. 1999-249, SOR/99-102, dated February 18, 1999, applicable to the 1997 and subsequent taxation years except that

(*a*) before May 8, 1997, the references to the "Community Small Business Investment Funds Act" in the following provisions of the Regulations shall be read as references to the "Labour Sponsored Venture Capital Corporations Act, 1992":

(i) subparagraph 6700(*a*)(xi) of the Regulations,

(ii) section 6700.2 of the Regulations,

(iii) paragraph 6701(*e*) of the Regulations, and

(iv) paragraph 6702(*a.2*) of the Regulations; and

(*b*) for the 1997 taxation year, the following provisions of the Regulations shall be read without reference to the "Risk Capital Investment Tax Credits Act, chapter 22 of the Statutes of the Northwest Territories, 1998"

(i) section 6700.2 of the Regulations, and

(ii) paragraph 6701(*e*) of the Regulations. It formerly read:

"(xi) Part III of the *Labour Sponsored Venture Capital Corporations Act*, 1992, Statutes of Ontario, 1992, c. 18; or"

S. 6700(*d*) was amended by P.C. 1998-782, SOR/98-281, dated May 7, 1998, applicable after 1995. S. 6700(*d*) formerly read:

"(*d*) a corporation that is at that time a registered labour-sponsored venture capital corporation within the meaning assigned by section 204.8 of the Act;"

S. 6700(*a*)(xii) was added by P.C. 1997-1943, SOR/98-12, dated December 17, 1997, applicable to the 1997 and subsequent taxation years.

S. 6700(*g*) was added by P.C. 1997-1669, SOR/97-504, dated November 20, 1997, applicable to the 1997 and subsequent taxation years.

S. 6700(*f*) was added by P.C. 1996-436, SOR/96-173, dated March 26, 1996, applicable to the 1995 and subsequent taxation years.

S. 6700(*a*)(xi) was added by P.C. 1993-1549, SOR/93-396, dated July 21, 1993, applicable to the 1991 and subsequent taxation years.

S. 6700(*b*) was amended by P.C. 1993-1549, SOR/93-396, dated July 21, 1993, effective June 20, 1986. S. 6700(*b*) formerly read:

"(*b*) the corporation established by the *Act to Establish the Fonds de Solidarité des Travailleurs du Québec (F.T.Q.)*, Statutes of Quebec 1983, c. 58, as amended by Statutes of Quebec 1983, c. 54;"

S. 6700(*e*) was added by P.C. 1993-1549, SOR/93-396, dated July 21, 1993, applicable to the 1992 and subsequent taxation years.

S. 6700, the part preceding paragraph (*a*), was amended by P.C. 1992-1307, SOR/92-398, dated June 18, 1992, to add "paragraph 89(1)(*f*)", applicable to taxation years ending after July 13, 1990.

S. 6700(*d*) was added by P.C. 1992-1307, SOR/92-398, applicable after 1988.

S. 6700(*a*)(x) was added by P.C. 1992-1306, SOR/92-397, dated June 18, 1992, applicable in respect of taxation years ending after September 26, 1989.

The title of S. 6700 was amended by P.C. 1989-2306, SOR/89-551, dated November 23, 1989, to add "Qualifying Corporations and Prescribed Stock Savings Plans", applicable in respect of the 1986 and subsequent taxation years.

S. 6700, the part preceding paragraph (*a*), was amended by P.C. 1989-2306, SOR/89-551, dated November 23, 1989, to substitute "subsection 125(6.2), paragraph 125(7)(*b*) and section 186.2 and subsection 191(1) of the Act," for "paragraph 125(7)(*b*) and section 186.1 of the Act", applicable in respect of taxation years ending after February 18, 1987.

Ss. 6700(*a*)(vii), (viii) and (ix) were added by P.C. 1989-2306, SOR/89-551, dated November 23, 1989, applicable in respect of the 1986 and subsequent taxation years.

S. 6700(*c*) was added by P.C. 1989-2306, SOR/89-551, dated November 23, 1989, applicable in respect of the 1986 and subsequent taxation years.

The title of S. 6700 was amended by P.C. 1986-2770, SOR/86-1136, dated December 11, 1986, to add the words ", Labour-Sponsored Venture Capital Corporations", effective December 24, 1986.

S. 6700, the part preceding paragraph (*a*), was amended by P.C. 1986-1048, SOR/86-488 dated May 1, 1986, to substitute "paragraph 125(7)(*b*)" for "paragraph 125(6)(*a*)", applicable to the 1985 and subsequent taxation years.

S. 6700(*a*)(vi) was added by P.C. 1986-739, SOR/86-379, dated March 26, 1986, applicable to the 1985 and subsequent taxation years.

S. 6700 was amended by P.C. 1985-71, SOR/85-92 dated January 18, 1985, and applicable to the 1983 and subsequent taxation years. S. 6700 formerly read:

"S. 6700. For the purposes of paragraph 40(2)(*i*), clause 53(2)(*k*)(i)(C), paragraph 125(6)(*a*), subparagraph 125(6)(*c*)(ii) and section 186.1 of the Act and in this Part, a 'prescribed venture capital corporation' means at any particular time a corporation that is at that time registered under the provisions of

(*a*) *An Act Respecting Corporations for the Development of Quebec Business Firms*, Statutes of Quebec 1976, c. 33; or

(*b*) the *Small Business Development Corporations Act, 1979*, Statutes of Ontario 1979, c. 22."

S. 6700 and the title were amended by P.C. 1984-3789, SOR/84-948, dated November 29, 1984, applicable to taxation years commencing after November 12, 1981. S. 6700 formerly read:

"S. 6700. *Prescribed Venture Capital Corporations.* For the purposes of paragraph 40(2)(*i*), clause 53(2)(*k*)(i)(C), paragraph 125(6)(*a*), subparagraph 125(6)(*c*)(ii) and subsection 186(1) of the Act and in this Part, a 'prescribed venture capital corporation' means at any particular time a corporation that is at that time registered under the provisions of

(*a*) *An Act Respecting Corporations for the Development of Quebec Business Firms*, S.Q. 1976, c. 33, of the Province of Quebec; or

(*b*) *The Small Business Development Corporations Act, 1979*, S.O. 1979, c. 22, of the Province of Ontario."

Interpretation Bulletins: *Secondary* — IT-73R6 The small business deduction; IT-269R4 Part IV tax on taxable dividends received by a private corporation or a subject corporation; IT-273R2 Government assistance — General comments; IT-458R2 Canadian-controlled private corporation.

6700.1. For the purposes of paragraph 40(2)(*i*) and clause 53(2)(*k*)(i)(C) of the Act, a corporation that has an employee share ownership plan registered under Part 1 of

the *Employee Investment Act*, R.S.B.C. 1996, c. 112, is also a prescribed venture capital corporation.

History: S. 6700.1 was replaced by P.C. 2001-1370, SOR/2001-289, dated August 1, 2001, applicable after June 9, 2001. S. 6700.1 formerly read:

"S. 6700.1. For the purposes of paragraph 40(2)(*i*) and clause 53(2)(*k*)(i)(C) of the Act, a 'prescribed venture capital corporation' at any time includes a corporation that at that time has an employee share ownership plan registered under the provisions of Part 1 of the *Employee Investment Act*, chapter 24 of the Statutes of British Columbia, 1989."

S. 6700.1 was added by P.C. 1992-1306, SOR/92-397, dated June 18, 1992, applicable in respect of taxation years ending after September 26, 1989.

Interpretation Bulletins: *Secondary* — IT-273R2 Government assistance — General comments.

6700.2. For the purposes of paragraph 40(2)(*i*) and clause 53(2)(*k*)(i)(C) of the Act, "prescribed venture capital corporation" at any time includes a corporation that at that time is a corporation registered under the provisions of Part II of the *Community Small Business Investment Funds Act*, chapter 18 of the Statutes of Ontario, 1992, or of Part II of the *Risk Capital Investment Tax Credits Act*, chapter 22 of the Statutes of the Northwest Territories, 1998.

History: S. 6700.2 was amended by P.C. 1999-249, SOR/99-102, dated February 18, 1999, applicable to the 1997 and subsequent taxation years except that

(*a*) before May 8, 1997, the references to the "Community Small Business Investment Funds Act" in the following provisions of the Regulations shall be read as references to the "Labour Sponsored Venture Capital Corporations Act, 1992":
(i) subparagraph 6700(*a*)(xi) of the Regulations,
(ii) section 6700.2 of the Regulations,
(iii) paragraph 6701(*e*) of the Regulations, and
(iv) paragraph 6702(*a*.2) of the Regulations; and

(*b*) for the 1997 taxation year, the following provisions of the Regulations shall be read without reference to the "Risk Capital Investment Tax Credits Act, chapter 22 of the Statutes of the Northwest Territories, 1998"
(i) section 6700.2 of the Regulations, and
(ii) paragraph 6701(*i*) of the Regulations [P.C. 2001-1378, SOR/2001-295].

"S. 6700.2. For the purposes of paragraph 40(2)(*i*) and clause 53(2)(*k*)(i)(C) of the Act, 'prescribed venture capital corporation' at any time includes a corporation that at that time is a corporation registered under the provisions of Part II of the *Labour Sponsored Venture Capital Corporations Act, 1992*, Statutes of Ontario, 1992, c. 18."

S. 6700.2 was added by P.C. 1993-1549, SOR/93-396, dated July 21, 1993, applicable to the 1991 and subsequent taxation years.

Interpretation Bulletins: *Secondary* — IT-273R2 Government assistance — General comments.

6701. For the purposes of paragraph 40(2)(*i*), clause 53(2)(*k*)(i)(C), the definition "public corporation" in subsection 89(1), the definition "specified investment business" in subsection 125(7), the definition "approved share" in subsection 127.4(1), subsections 131(8) and (11), section 186.1, the definition "financial intermediary corporation" in subsection 191(1) and the definition "eligible investment" in subsection 204.8(1), of the Act, "prescribed labour-sponsored venture capital corporation" means, at any particular time,

(*a*) the corporation established by the *Act to establish the Fonds de solidarité des travailleurs du Québec (F.T.Q.)*, Statutes of Québec 1983, c. 58;

(*b*) a corporation that is registered under the provisions of *The Labour-sponsored Venture Capital Corporations Act*, Statutes of Saskatchewan 1986, c. L-0.2;

(*c*) a corporation that is registered under Part 2 of the *Employee Investment Act*, Revised Statutes of British Columbia, 1996, c. 112;

(*d*) a registered labour-sponsored venture capital corporation;

(*e*) a corporation that is registered under Part III of the *Community Small Business Investment Funds Act*, chapter 18 of the Statutes of Ontario, 1992;

(*f*) the corporation established by *The Manitoba Employee Ownership Fund Corporation Act*, Continuing Consolidation of the Statutes of Manitoba, c. E95; or

(*f*.1) a corporation that is registered under The *Labour-Sponsored Venture Capital Corporations Act*, Continuing Consolidation of the Statutes of Manitoba c. L12; or

(*g*) the corporation established by *An Act to establish Fondaction, le Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi*, Statutes of Québec 1995, c. 48;

(*h*) a corporation that is registered under Part II of the *Equity Tax Credit Act*, Statutes of Nova Scotia 1993, c. 3; or

(*i*) a corporation that is registered under Part II of the *Risk Capital Investment Tax Credits Act*, chapter 22 of the Statutes of the Northwest Territories, 1998.

History: S. 6701, the portion before paragraph (*a*), was replaced by P.C. 2005-698, SOR/2005-126, dated May 3, 2005, applicable to the 1995 and subsequent taxation years, except that the portion before paragraph (*a*), in its application to property acquired before February 19, 1997, is to be read as follows:

"S. 6701. For the purposes of paragraph 40(2)(*i*), clause 53(2)(*k*)(i)(C), the definition 'public corporation' in subsection 89(1), the definition 'specified investment business' in subsection 125(7), the definition 'approved share' in subsection 127.4(1), subsections 131(8) and (11), section 186.1 and the definition 'financial intermediary corporation' in subsection 191(1), of the Act, 'prescribed labour-sponsored venture capital corporation' means, at any particular time,"

S. 6701, the portion before paragraph (*a*) formerly read:

"S. 6701. For the purposes of paragraph 40(2)(*i*), clause 53(2)(*k*)(i)(C), the definition 'public corporation' in subsection 89(1), the definition 'specified investment business' in subsection 125(7), the definition 'approved share' in subsection 127.4(1), subsections 131(8) and (11), section 186.1, the definition 'financial intermediary corporation' in subsection 191(1) and the definition 'eligible investment' in subsection 204.8(1) of the Act, the following are prescribed labour-sponsored venture capital corporations:"

S. 6701, the portion before paragraph (*a*), was replaced by P.C. 2001-1370, SOR/2001-289, dated August 1, 2001, applicable to the 1995 and subsequent taxation years, except that the portion of section 6701 of the Regulations before paragraph (*a*) shall, in its application to property acquired before February 19, 1997, be read without reference to the words and the definition "eligible investments in subsection 204.8(1)". S. 6701, the portion before paragraph (*a*), formerly read:

"S. 6701. For the purposes of paragraph 40(2)(*i*), clause 53(2)(*k*)(i)(C), the definition 'approved share' in subsection 127.4(1), subsections 131(8) and (11), section 186.1 and subsection 191(1) of the Act, and in this Part, 'prescribed labour-sponsored venture capital corporation' means at any particular time"

S. 6701(*c*) was replaced by P.C. 2001-1370, SOR/2001-289, dated August 1, 2001, applicable to the 1995 and subsequent taxation years. S. 6701(*c*) formerly read:

"(*c*) a corporation that is registered under Part 2 of the *Employee Investment Act*, chapter 24 of the Statutes of British Columbia, 1989;"

S. 6701(*i*) was added by P.C. 1999-249, SOR/99-102, dated February 18, 1999, applicable to the 1998 and subsequent taxation years.

S. 6701(*e*) was amended by P.C. 1999-249, SOR/99-102, dated February 18, 1999, applicable to the 1997 and subsequent taxation years except that

(*a*) before May 8, 1997, the references to the "Community Small Business Investment Funds Act" in the following provisions of the Regulations shall be read as references to the "Labour Sponsored Venture Capital Corporations Act, 1992":
(i) subparagraph 6700(*a*)(xi) of the Regulations,
(ii) section 6700.2 of the Regulations,
(iii) paragraph 6701(*e*) of the Regulations, and
(iv) paragraph 6702(*a*.2) of the Regulations; and

(*b*) for the 1997 taxation year, the following provisions of the Regulations shall be read without reference to the "Risk Capital Investment Tax Credits Act, chapter 22 of the Statutes of the Northwest Territories, 1998"
(i) section 6700.2 of the Regulations, and
(ii) paragraph 6701(*e*) of the Regulations. S. 6701(*e*) formerly read:

"(*e*) a corporation that is registered under Part III of the *Labour Sponsored Venture Capital Corporations Act*, 1992, Statutes of Ontario, 1992, c. 18;"

S. 6701(*d*) was amended by P.C. 1998-782, SOR/98-281, dated May 7, 1998, applicable after 1995. S. 6701(*d*) formerly read:

"(*d*) a registered labour-sponsored venture capital corporation, within the meaning assigned by section 204.8 of the Act;"

S. 6701(*f.1*) was added by P.C. 1997-1943, SOR/98-12, dated December 17, 1997, applicable to the 1997 and subsequent taxation years.

S. 6701(*h*) was added by P.C. 1997-1669, SOR/97-504, dated November 20, 1997, applicable to the 1997 and subsequent taxation years.

S. 6701(*g*) was added by P.C. 1996-436, SOR/96-173, dated March 26, 1996, applicable to the 1995 and subsequent taxation years.

S. 6701(*e*) was added by P.C. 1993-1549, SOR/93-396, dated July 21, 1993, applicable to the 1991 and subsequent taxation years.

S. 6701(*f*) was added by P.C. 1993-1549, SOR/93-396, dated July 21, 1993, applicable to the 1992 and subsequent taxation years.

S. 6701, the part preceding paragraph (*a*), was amended by P.C. 1992-1307, SOR/92-398, dated June 18, 1992, to add "subsections 131(8) and (11)", applicable to the 1990 and subsequent taxation years.

S. 6701(*c*) was added by P.C. 1992-1306, SOR/92-397, dated June 18, 1992, applicable in respect of taxation years ending after September 26, 1989.

S. 6701(*d*) was added by P.C. 1992-1307, SOR/92-398, applicable after 1988.

S. 6701 was amended by P.C. 1989-2306, SOR/89-551, dated November 23, 1989, applicable in respect of the 1986 and subsequent taxation years. S. 6701 formerly read:

"For the purposes of paragraph 40(2)(*i*), clause 52(2)(*k*)(i)(C), the definition 'approved share' in subsection 127.4(1) and section 186.1 of the Act, the corporation established by the *Act to Establish the Fonds de Solidarité de Travailleurs du Québec (F.T.Q.)*, Statutes of Quebec 1983, chapter 58, as amended by Statutes of Quebec 1983, chapter 54, is a prescribed labour-sponsored venture capital corporation."

S. 6701 was amended by P.C. 1986-2770, SOR/86-1136, dated December 11, 1986, effective May 23, 1985.

Part LXVII was added by P.C. 1981-1788, SOR/81-540, dated July 3, 1981 and applicable with respect to the 1977 and subsequent taxation years.

Interpretation Bulletins: *Secondary* — IT-73R6 The small business deduction; IT-269R3 Part IV tax on taxable dividends received by a private corporation or a subject corporation; IT-458R2 Canadian-controlled private corporation.

6702. For the purposes of subparagraph 40(2)(*i*)(ii) and clause 53(2)(k)(*i*)(C) of the Act, each of the following is prescribed assistance:

(*a*) the assistance received from a province that has been provided in respect of, or for the acquisition of, a share of the capital stock of a venture capital corporation described in section 6700;

(*a.1*) the assistance provided under the *Employee Investment Act*, R.S.B.C. 1996, c. 112, in respect of, or for the acquisition of, a share of the capital stock of a venture capital corporation described in section 6700.1;

(*a.2*) the assistance provided under the *Community Small Business Investment Funds Act*, S.O. 1992, c. 18, the *Risk Capital Investment Tax Credits Act*, S.N.W.T. 1998, c. 22, or the *Risk Capital Investment Tax Credits Act*, S.N.W.T. 1998, c. 22, as duplicated for Nunavut, in respect of, or for the acquisition of, a share of the capital stock of a venture capital corporation described in section 6700.2;

(*b*) a tax credit provided in respect of, or for the acquisition of, a share of a labour-sponsored venture capital corporation described in section 6701; and

(*c*) a tax credit provided by a province in respect of, or for the acquisition of, a share of the capital stock of a taxable Canadian corporation (other than a share of the capital stock of a corporation in respect of which an amount has been renounced by the corporation under subsection 66(12.6), (12.601), (12.62) or (12.64) of the Act) that is held in a stock savings plan described in section 6705.

History: S. 6702 was replaced by P.C. 2001-1370, SOR/2001-289, dated August 1, 2001, applicable after June 9, 2001. S. 6702 formerly read:

"For the purposes of subparagraph 40(2)(*i*)(ii) and clause 53(2)(*k*)(i)(C) of the Act, 'prescribed assistance' means

(*a*) the amount of any assistance received from a province that has been provided in respect of, or for the acquisition of, a share of the capital stock of a prescribed venture capital corporation;

(*a.1*) the amount of any assistance provided under the *Employee Investment Act*, chapter 24 of the Statutes of British Columbia, 1989, in respect of, or for the acquisition of, a share of the capital stock of a corporation described in section 6700.1;

(*a.2*) the amount of any assistance provided under the *Community Small Business Investment Funds Act*, chapter 18 of the Statutes of Ontario, 1992, or the *Risk Capital Investment Tax Credits Act*, chapter 22 of the Statutes of the Northwest Territories, 1998, in respect of, or for the acquisition of, a share of the capital stock of a corporation described in section 6700.2;

(*b*) the amount of any tax credit provided in respect of, or for the acquisition of, a share of a prescribed labour-sponsored venture capital corporation; and

(*c*) the amount of any tax credit provided by a province in respect of, or for the acquisition of, a share of the capital stock of a taxable Canadian corporation (other than a share of the capital stock of a corporation in respect of which an amount has been renounced by the corporation under subsection 66(12.6), (12.601), (12.62) or (12.64) of the Act) that is held in a prescribed stock savings plan."

S. 6702(*a.2*) was amended by P.C. 1999-249, SOR/99-102, dated February 18, 1999, applicable to the 1997 and subsequent taxation years except that

(*a*) before May 8, 1997, the references to the "Community Small Business Investment Funds Act" in the following provisions of the Regulations shall be read as references to the "Labour Sponsored Venture Capital Corporations Act, 1992":

(i) subparagraph 6700(*a*)(xi) of the Regulations,

(ii) section 6700.2 of the Regulations,

(iii) paragraph 6701(*e*) of the Regulations, and

(iv) paragraph 6702(*a.2*) of the Regulations; and

(*b*) for the 1997 taxation year, the following provisions of the Regulations shall be read without reference to the "Risk Capital Investment Tax Credits Act, chapter 22 of the Statutes of the Northwest Territories, 1998"

(i) section 6700.2 of the Regulations, and

(ii) paragraph 6701(*e*) of the Regulations.

"(*a.2*) the amount of any assistance provided under the *Labour Sponsored Venture Capital Corporations Act, 1992*, Statutes of Ontario, 1992, c. 18, in respect of, or for the acquisition of, a share of the capital stock of a corporation described in section 6700.2;"

S. 6702(*c*) was amended by P.C. 1996-494, SOR/96-199, dated April 16, 1996, by replacing the phrase "under any of subsections 66(12.6), (12.62) and (12.64) of the Act" with the phrase "under subsection 66(12.6), (12.601), (12.62) or (12.64) of the Act", applicable after December 2, 1992.

S. 6702(*a.2*) was added by P.C. 1993-1549, SOR/93-396, dated July 21, 1993, applicable to the 1991 and subsequent taxation years.

S. 6702(*a.1*) was added by P.C. 1992-1306, SOR/92-397, dated June 18, 1992, applicable in respect of taxation years ending after September 26, 1989.

S. 6702(*a*) was amended by P.C. 1989-2306, SOR/89-551, dated November 23, 1989, to substitute "received" for "received by a taxpayer", applicable in respect of the 1986 and subsequent taxation years.

S. 6702(*b*) was amended and 6702(*c*) was added by P.C. 1989-2306, SOR/89-551, dated November 23, 1989, applicable in respect of the 1986 and subsequent taxation years. S. 6702(*b*) formerly read:

"(*b*) the amount of any tax credit of a taxpayer provided by a province in respect of, or for the acquisition of, an approved share within the meaning assigned by subsection 127.4(1) of the Act."

S. 6702 was added by P.C. 1986-2770, SOR/86-1136, dated December 11, 1986, effective May 23, 1986.

Former S. 6702 was added by P.C. 1984-3789, SOR/84-948, dated November 29, 1984, applicable to taxation years beginning after November 12, 1981.

Interpretation Bulletins: *Secondary* — IT-73R6 The small business deduction; IT-269R3 Part IV tax on taxable dividends received by a private corporation or a subject corporation; IT-273R2 Government assistance — General comments.

6703. For the purposes of section 186.1 of the Act, a "prescribed investment contract corporation" means a corporation described in clause 146(1)(*j*)(ii)(B) [subsection 146(1) "retirement savings plan"] of the Act.

History: Former S. 6702 was renumbered as S. 6703 by P.C. 1986-2770, SOR/86-1136, dated December 11, 1986, effective May 23, 1985.

Former S. 6702 was added by P.C. 1984-3789, SOR/84-948, dated November 29, 1984, applicable to taxation years beginning after November 12, 1981.

Interpretation Bulletins: *Secondary* — IT-73R6 The small business deduction; IT-269R3 Part IV tax on taxable dividends received by a private corporation or a subject corporation.

6704. For the purposes of section 186.2 of the Act, a corporation is a prescribed qualifying corporation in respect of dividends received by a shareholder on shares of its capital stock if, when the shares were acquired by the shareholder, they constituted

(*a*) an investment described in sections 33 and 34 of the Act referred to in subparagraph 6700(*a*)(i);

(*b*) an eligible investment under the provisions of an Act referred to in subparagraph 6700(*a*)(ii), (iv), (v), (vi) or (viii) or the regulation referred to in subparagraph 6700(*a*)(iii);

(*c*) a qualified investment under the provisions of the Act referred to in subparagraph 6700(*a*)(vii); or

(*d*) an investment in an eligible business under the Venture Capital Policy and Directive referred to in paragraph 6700(*c*).

Pending Amendment

Prescribed Venture Capital Corporations — December 20, 2002

Section 6704 of the Regulations is amended by striking out the word "or" at the end of paragraph (*c*), by adding the word "or" at the end of paragraph (*d*) and by adding the following after paragraph (*d*):

(*e*) an investment in an eligible entity described in sections 17 and 18 of *An Act constituting Capital régional et coopératif Desjardins*, R.S.Q., c. C6.1.

Applicable: To the 2001 and subsequent taxation years.

Explanatory Note: Section 6704 of the Regulations sets out the criteria for determining if a corporation is a prescribed qualifying corporation in respect of dividends received by a shareholder on shares of its capital stock for the purposes of section 186.2 of the Act. Section 6704 is to be amended to include a corporation whose shares, at the time that they are acquired by a shareholder, are an investment in an eligible entity described in *An Act constituting Capital régional et coopératif Desjardins*, R.S.Q., c. C-6.1 as a "qualifying corporation".

The amendments to sections 6700 and 6704 of the Regulations are to apply to the 2001 and subsequent taxation years.

History: S. 6704(*b*) was amended by P.C. 1993-1549, SOR/93-396, dated July 21, 1993, to delete the reference to subparagraph 6704(*a*)(ix), applicable to dividends received after February 18, 1987.

S. 6704(*d*) was amended by P.C. 1993-1549, SOR/93-396, dated July 21, 1993, applicable to dividends received after September 26, 1989. S. 6704(*d*) formerly read:

"(*d*) an eligible investment under Part 2 of the Act referred to in subparagraph 6700(*a*)(x); or"

S. 6704(*e*) was revoked by P.C. 1993-1549, SOR/93-396, dated July 21, 1993, applicable to dividends received after September 26, 1989. S. 6704(*e*) formerly read:

"(*e*) an investment in an eligible business under the Venture Capital Policy and Directive referred to in paragraph 6700(*c*)."

S. 6704(*d*) was amended by P.C. 1992-1306, SOR/92-397, dated June 18, 1992, to substitute "an eligible investment under Part 2 of the Act referred to in subparagraph 6700(*a*)(x)" for "an investment in an eligible business under the Venture Capital Policy and Directive referred to in paragraph 6700(*c*)", applicable in respect of dividends received after September 26, 1989.

S. 6704(*e*) was added by P.C. 1992-1306, SOR/92-397, dated June 18, 1992, applicable in respect of dividends received after September 26, 1989.

S. 6704 was added by P.C. 1989-2306, SOR/89-551, dated November 23, 1989, applicable in respect of dividends received after February 18, 1987.

Interpretation Bulletins: *Secondary* — IT-73R6 The small business deduction; IT-269R3 Part IV tax on taxable dividends received by a private corporation or a subject corporation.

6705. For the purposes of paragraph 40(2)(*i*) and clause 53(2)(*k*)(i)(C) of the Act, a stock savings plan governed by any of the following is a prescribed stock savings plan:

(*a*) the *Alberta Stock Savings Plan Act*, Statutes of Alberta 1986, c. A-37.7;

(*b*) *The Stock Savings Tax Credit Act*, Statutes of Saskatchewan 1986, c. S-59.1;

(*c*) the *Stock Savings Plan Act*, Revised Statutes of Nova Scotia, 1989, c. 445;

(*d*) the *Stock Savings Tax Credit Act*, Revised Statutes of Newfoundland, 1990, c. S-28; or

(*e*) section 11.6 of the *Income Tax Act*, Continuing Consolidation of the Statutes of Manitoba c. I10.

History: S. 6705, the portion before paragraph (*a*), was replaced by P.C. 2001-1370, SOR/2001-289, dated August 1, 2001, applicable to the 1999 and subsequent taxation years. S. 6705, the portion before paragraph (*a*), formerly read:

"For the purposes of paragraph 40(2)(*i*) and clause 53(2)(*k*)(i)(C) of the Act, and in this Part, 'prescribed stock savings plan' means a stock savings plan as defined in"

Ss. 6705(*c*) and (*d*) were amended, and paragraph (*e*) was added, by P.C. 2001-1370, SOR/2001-289, dated August 1, 2001, applicable to the 1999 and subsequent taxation years. Ss. 6705(*c*) and (*d*) formerly read:

"(*c*) the *Nova Scotia Stock Savings Plan Act*, Statutes of Nova Scotia 1987, c. 6; and

(*d*) *The Stock Savings Tax Credit Act*, Statutes of Newfoundland 1988, c. 14."

S. 6705 was added by P.C. 1989-2306, SOR/89-551, dated November 23, 1989, applicable in respect of the 1986 and subsequent taxation years.

Interpretation Bulletins: *Secondary* — IT-73R6 The small business deduction; IT-269R3 Part IV tax on taxable dividends received by a private corporation or a subject corporation; IT-273R2 Government assistance — General comments.

Information Circulars: IC 87-3 Alberta stock savings plan.

6706. For the purpose of clause 204.81(1)(*c*)(v)(F) of the Act, a prescribed condition is that, in respect of a redemption of a Class A share of a corporation's capital stock, the shareholder requires the corporation to withhold an amount in respect of the redemption in accordance with Part XII.5 of the Act.

History: S. 6706 was amended by P.C. 1998-782, SOR/98-281, dated May 7, 1998, applicable to redemptions that occur after 1997. S. 6706 formerly read:

"S. 6706. (1) In this section,

'net cost' has the meaning assigned by subsection 127.4(1) of the Act;

'qualifying Class A share' in the capital stock of a corporation means a share in respect of which an information return described in paragraph 204.81(6)(*c*) of the Act was provided by the corporation, where the information return was not returned pursuant to subclause 204.81(1)(*c*)(v)(A)(I) of the Act, but does not include a share the consideration for which is not taken into account in determining the labour-sponsored funds tax credit (as defined in subsection 127.4(1) of the Act) for any taxation year of any individual other than a trust;

'specified percentage' in respect of a share of the capital stock of a corporation means

(*a*) where a provincial tax credit is available to the original owner of the share with respect to the acquisition of the share and the corporation, the original owner of the share and any subsequent owner of the share would, but for this section, not be obliged to repay the provincial tax credit or an amount in respect thereof, 40 per cent, and

(*b*) in any other case, 20 per cent.

(2) For the purposes of this section,

(*a*) any acquisition of shares by a person in the person's capacity as a broker or dealer in securities shall be disregarded for the purposes of determining by whom the shares were originally acquired;

(*b*) a shore shall be deemed to have been acquired by an individual at such time as it is irrevocably subscribed and paid for by the individual; and

(*c*) where a share was originally acquired by a qualifying trust (as defined in subsection 127.4(1) of the Act) for an individual in respect of the share for any taxation year, the trust is deemed in respect of the acquisition to have been an agent for that individual.

(3) For the purposes of subparagraph 204.81(1)(*c*)(v) of the Act, a corporation may, at a particular time, redeem one or more qualifying Class A shares

in the capital stock of the corporation originally acquired at the same time (in this subsection referred to as the 'acquisition time') by an individual (in this subsection referred to as the 'original owner') where the holder of those shares by written instrument before the particular time

(*a*) directs the corporation to remit an amount on behalf of the holder to the Receiver General no later than 30 days after the particular time equal to the least of

(i) the amount that represents the specified percentage of the net cost to the original owner of those shares,

(ii) the amount that would be the tax credit balance of the original owner with respect to any one of those shares if other Class A shares in the capital stock of the corporation that were

(A) originally acquired by the original owner at the acquisition time, and

(B) redeemed by the corporation before the particular time

had been acquired immediately before the acquisition time, and

(iii) the amount, if any, by which the amount for which those shares are to be redeemed exceeds the total of all amounts each of which is a repayment (otherwise than under this section) of a provincial tax credit available to the original owner with respect to the acquisition of those shares; and

(*b*) irrevocably gives the corporation authority to withhold from the amount for which those shares are to be redeemed, and remit on behalf on the holder to the Receiver General, the amount determined in respect of the redemption under paragraph (*a*).

(4) For the purposes of subsection (3), the tax credit balance of an individual with respect to a particular qualifying Class A share in the capital stock of a corporation originally acquired by the individual at a particular time in a taxation year of the individual means the amount determined by the formula

$$A + B - C$$

where

A is

(*a*) where the particular time is in the first 60 days of the year, the specified percentage of the amount, if any, by which $5,000 (or, if the particular time is before 1993, $3,500) exceeds the amount, if any, by which

(i) the total of all amounts each of which is the net cost to the individual of a qualifying Class A share in the capital stock of the corporation acquired in the preceding taxation year

exceeds

(ii) such portion of the total described in subparagraph (i) as may reasonably be considered to result in an increase in the amount that would be the tax credit balance of the individual with respect to a qualifying Class A share in the capital stock of the corporation acquired in the first 60 days of the preceding taxation year if the amount used as the value of C in computing ouch balance were nil, and

(*b*) in any other case, nil;

B is the specified percentage of the lesser of

(*a*) $5,000 (or, where the particular time is before 1992, $3,500), and

(*b*) the amount, if any, by which

(i) the net cost to the individual of all qualifying Class A shares in the capital stock of the corporation acquired by the individual at or before the particular time and in the year

exceeds

(ii) the amount that would be used as the value of A in determining the individual's tax credit balance with respect to the particular share if the description of A were read without reference to the words 'the specified percentage of'; and

C is the specified percentage of the total of all amounts each of which is the net cost to the individual of a qualifying Class A share

(*a*) acquired by the individual before the particular time and in the year, and

(*b*) redeemed by the corporation before the particular share is to be redeemed."

S. 6706(1), the definition "qualifying Class A share" was amended by P.C. 1996-437, SOR/96-174, dated March 26, 1996, applicable after December 2, 1992. That definition formerly read:

"'qualifying Class A share' in the capital stock of a corporation means a share in respect of which an information return described in paragraph 204.81(6)(*c*) of the Act has been provided by the corporation, where the information return was not returned pursuant to subclause 204.81(1)(*c*)(v)(A)(II) of the Act;"

S. 6706(2)(*c*) was added by P.C. 1996-437, SOR/96-174, dated March 26, 1996, applicable after December 2, 1992.

S. 6706(3) was amended by P.C. 1996-437, SOR/96-174, dated March 26, 1996, by replacing the reference to "clause 204.81(1)(*c*)(v)(G)" with a reference to "subparagraph 204.81(1)(*c*)(v)", applicable after December 2, 1992.

S. 6706 was added by P.C. 1992-1307, SOR/92-398, applicable in respect of shares redeemed after 1991.

6707. For the purpose of subsection 204.82(5) of the Act, a "prescribed provision of a law of a province" means section 25.1 of the *Community Small Business Investment Funds Act*, chapter 18 of the Statutes of Ontario, 1992.

History: S. 6707 was added by P.C. 1999-249, SOR/99-102, dated February 18, 1999, applicable after May 7, 1997.

PART LXVIII

Prescribed Plans, Arrangements and Contributions

6800. For the purpose of paragraph (*e*) of the definition "employee benefit plan" in subsection 248(1) of the Act, each of the following is a prescribed arrangement:

(*a*) the Major League Baseball Players Benefit Plan;

(*b*) an arrangement under which all contributions are made pursuant to a law of Canada or a province, where one of the main purposes of the law is to enforce minimum standards with respect to wages, vacation entitlement or severance pay; and

(*c*) an arrangement under which all contributions are made in connection with a dispute regarding the entitlement of one or more persons to benefits to be received or enjoyed by the person or persons.

History: The heading of Part LXVIII was amended by P.C. 1996-911, SOR/96-311, dated June 20, 1996, by changing it from "Prescribed Funds or Plans" to "Prescribed Plans, Arrangements and Contributions", applicable after October 8, 1986.

S. 6800 was amended by P.C. 1996-911, SOR/96-311, dated June 20, 1996, applicable after 1979. S. 6800 formerly read:

"S. 6800. For the purpose of paragraph (*e*) of the definition 'employee benefit plan' in subsection 248(1) of the Act, the Major League Baseball Players Benefit Plan is a prescribed plan."

Part LXVIII was added by P.C. 1981-1789, SOR/81-541, dated July 3, 1981 and effective January 1, 1980.

6801. For the purposes of paragraph (*l*) of the definition "salary deferral arrangement" in subsection 248(1) of the Act, a prescribed plan or arrangement is an arrangement in writing

(*a*) between an employer and an employee that is established on or after July 28, 1986 where

(i) it is reasonable to conclude, having regard to all the circumstances, including the terms and conditions of the arrangement and any agreement relating thereto, that the arrangement is not established to provide benefits to the employee on or after retirement but is established for the main purpose of permitting the employee to fund, through salary or wage deferrals, a leave of absence from the employee's employment of not less than

(A) where the leave of absence is to be taken by the employee for the purpose of permitting the full-time attendance of the employee at a designated educational institution (within the meaning assigned by subsection 118.6(1) of the Act), 3 consecutive months, or

(B) in any other case, 6 consecutive months

that is to commence immediately after a period (in this section referred to as the "deferral period") not exceeding 6 years after the date on which the deferrals for the leave of absence commence,

(ii) the amount of salary or wages deferred by the employee under all such arrangements for the services rendered by the employee to the employer in a taxation year does not exceed 33⅓ per cent of the amount of the salary or wages that the

employee would, but for the arrangements, reasonably be expected to have received in the year in respect of the services,

(iii) the arrangement provides that throughout the period of the leave of absence the employee does not receive any salary or wages from the employer, or from any other person or partnership with whom the employer does not deal at arm's length, other than

(A) the amount by which the employee's salary or wages under the arrangement was deferred or is to be reduced or, amounts that are based on a percentage of the salary or wage scale of employees of the employer, which percentage is fixed in respect of the employee for the deferral period and the leave of absence, and

(B) the reasonable fringe benefits that the employer usually pays to or on behalf of employees,

(iv) the arrangement provides that the amounts deferred in respect of the employee under the arrangement

(A) are held by or for the account of a trust governed by a plan or arrangement that is an employee benefit plan within the meaning of the definition thereof in subsection 248(1) of the Act, and provides that the amount that may reasonably be considered to be the income of the trust for a taxation year that has been earned by it for the benefit of the employee shall be paid in the year to the employee, or

(B) are held by or for the account of any person other than a trust referred to in clause (A), and provides that the amount in respect of interest or other additional amounts that may reasonably be considered to have accrued to or for the benefit of the employee to the end of a taxation year shall be paid in the year to the employee,

(v) the arrangement provides that the employee is to return to his regular employment with the employer or an employer that participates in the same or a similar arrangement after the leave of absence for a period that is not less than the period of the leave of absence, and

(vi) subject to subparagraph (iv), the arrangement provides that all amounts held for the employee's benefit under the arrangement shall be paid to the employee out of or under the arrangement no later than the end of the first taxation year that commences after the end of the deferral period;

(*b*) between an employer and an employee that is established before July 28, 1986 where it is reasonable to conclude, having regard to all the circumstances, including the terms and conditions of the arrangement and any agreement relating thereto, that the arrangement is not established to provide benefits on or after retirement but is established for the main purpose of permitting the employee to fund, through salary or wage deferrals, a leave of absence from the employment and under which the deferrals in respect of the leave of absence commenced before 1987;

(*c*) that is established for the purpose of deferring the salary or wages of a professional on-ice official for his services as such with the National Hockey League if, in the case of an official resident in Canada, the trust or other person who has custody and control of any funds, investments or other property under the arrangement is resident in Canada; or

(*d*) between a corporation and an employee of the corporation or a corporation related thereto under which the employee (or, after the employee's death, a dependant or relation of the employee or the legal representative of the employee) may or shall receive an amount that may reasonably be attributable to duties of an office or employment performed by the employee on behalf of the corporation or a corporation related thereto where

(i) all amounts that may be received under the arrangement shall be received after the time of the employee's death or retirement from, or loss of, the office or employment and no later than the end of the first calendar year commencing thereafter, and

(ii) the aggregate of all amounts each of which may be received under the arrangement depends on the fair market value of shares of the capital stock of the corporation or a corporation related thereto at a time within the period that commences one year before the time of the employee's death or retirement from, or loss of, the office or employment and ends at the time the amount is received,

unless, by reason of the arrangement or a series of transactions that includes the arrangement, the employee or a person with whom the employee does not deal at arm's length is entitled, either immediately or in the future, either absolutely or contingently, to receive or obtain any amount or benefit granted or to be granted for the purpose of reducing the impact, in whole or in part, of any reduction in the fair market value of the shares of the corporation or a corporation related thereto.

History: S. 6801(a)(i) was amended by P.C. 1991-301, SOR/153, dated February 21, 1991, applicable to the 1989 and subsequent taxation years. S. 6801(a)(i) formerly read:

"(i) it is reasonable to conclude, having regard to all the circumstances, including the terms and conditions of the arrangement and any agreement relating thereto, that the arrangement is not established to provide benefits to the employee on or after retirement but is established for the main purpose of permitting the employee to fund, through salary or wage deferrals, a leave of absence from his employment of not less than 6 consecutive months that is to commence immediately after a period (in this section referred to as the 'deferral period') not exceeding 6 years after the date on which the deferrals for the leave of absence commence,"

S. 6801(d) was added by P.C. 1991-301, SOR/153, dated February 21, 1991, applicable to the 1986 and subsequent taxation years.

S. 6801 was added by P.C. 1988-191, SOR/88-128, dated February 4, 1988, applicable to the 1986 and subsequent taxation years.

Advance Tax Rulings: ATR-39 Deferred salary leave plan.

6802. For the purposes of paragraph (*n*) of the definition "retirement compensation arrangement" in subsection 248(1) of the Act, a prescribed plan or arrangement is

(*a*) the plan instituted by the *Canada Pension Plan*;

(*b*) a provincial pension plan as defined in section 3 of the *Canada Pension Plan*;

(*c*) a plan instituted by the *Unemployment Insurance Act*;

(*d*) a plan pursuant to an agreement in writing that is established for the purpose of deferring the salary or wages of a professional on-ice official for the official's services as such with the National Hockey League if, in the case of an official resident in Canada, the trust or other person who has custody and control of any funds, investments or other property under the plan is resident in Canada;

(*e*) an arrangement under which all contributions are made pursuant to a law of Canada or a province, where one of the main purposes of the law is to enforce minimum standards with respect to wages, vacation entitlement or severance pay;

(*f*) an arrangement under which all contributions are made in connection with a dispute regarding the entitlement of one or more persons to benefits to be received or enjoyed by the person or persons; or

(*g*) a plan or arrangement instituted by the social security legislation of a country other than Canada or of a state, province or other political subdivision of such a country.

History: S. 6802(*e*) was amended by P.C. 1996-911, SOR/96-311, dated June 20, 1996, applicable after October 8, 1986. S. 6802(*e*) formerly read:

"(*e*) for a calendar year before 1991, a plan or arrangement (other than a plan or arrangement referred to in the definition 'retirement compensation arrangement' in subsection 248(1) of the Act as an 'athlete's plan' or a pension plan the registration of which under the Act has been revoked) any part of which would, but for this paragraph, be a retirement compensation arrangement in the year by reason of subsection 207.6(5) of the Act where

(i) a certificate of exemption under subsection 212(14) of the Act has been issued in connection with the plan or arrangement,

(ii) each employer who has made a contribution under the plan or arrangement in the year is

(A) a non-resident corporation throughout the year, or

(B) an organization that is not operated for the purpose of profit and whose assets are situated primarily outside Canada throughout the year,

(iii) if an employer described in clause (ii)(A) has made a contribution under the plan or arrangement in the year, no individual who is entitled (either absolutely or contingently) to benefits under the plan or arrangement is a member of a registered pension plan, or a beneficiary under a deferred profit sharing plan, to which an employer referred to in subparagraph (ii) or a person not dealing at arm's length with such an employer has made, or is required to make, contributions in relation to the year, and

(iv) contributions in the year under the plan or arrangement for the benefit of individuals resident in Canada are reasonable in relation to contributions under the plan or arrangement for the benefit of non-resident individuals."

S. 6802(*f*) and (*g*) were added by P.C. 1996-911, SOR/96-311, dated June 20, 1996, applicable after October 8, 1986.

S. 6802 was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after October 8, 1986, except that in its application before December 12, 1988, paragraph 6802(c) shall be read as follows:

"(*c*) a plan instituted by the *Unemployment Insurance Act, 1971*;"

6802.1. (1) For the purpose of paragraph 8(1)(*m*.2) of the Act, each of the following is a prescribed plan:

(*a*) the pension plan established as a consequence of the establishment, by section 27 of the *Members of Parliament Retiring Allowances Act*, of the Members of Parliament Retirement Compensation Arrangements Account; and

(*b*) the pension plan established by the Retirement Compensation Arrangements Regulations, No. 1.

(2) For the purpose of subsection 207.6(6) of the Act, each of the following is a prescribed plan or arrangement:

(*a*) the pension plan established as a consequence of the establishment, by section 27 of the *Members of Parliament Retiring Allowances Act*, of the Members of Parliament Retirement Compensation Arrangements Account;

(*b*) the pension plan established by the Retirement Compensation Arrangements Regulations, No. 1; and

(*c*) the pension plan established by the Retirement Compensation Arrangements Regulations, No. 2.

History: S. 6802.1 was added by P.C. 1999-2211, SOR/2000-12, dated December 16, 1999, applicable after 1991 except that

(*b*) in their application before December 15, 1994, each of subsections 6802.1(1) and (2) of those Regulations shall be read without reference to paragraphs 6802.1(1)(*b*) and (2)(*b*); and

(*c*) in its application before April 1995, subsection 6802.1(2) of those Regulations shall be read without reference to paragraph 6802.1(2)(*c*).

6803. For the purposes of the definition "foreign retirement arrangement" in subsection 248(1) of the Act, a prescribed plan or arrangement is a plan or arrangement to which subsection 408(*a*), (*b*) or (*h*) of the United States' *Internal Revenue Code of 1986*, as amended from time to time, applies.

History: S. 6803 was replaced by P.C. 2007-849, SOR/2007-116, dated May 31, 2007, effective on publication in the *Canada Gazette*, June 13, 2007. S. 6803 formerly read:

"S. 6803. For the purposes of the definition 'foreign retirement arrangement' in subsection 248(1) of the Act, a prescribed plan or arrangement is a plan or arrangement to which subsection 408(*a*), (*b*) or (*h*) of the United States *Internal Revenue Code of 1986*, as amended from time to time, applies."

S. 6803 was added by P.C. 1992-2416, SOR/92-692, dated November 26, 1992, applicable to the 1990 and subsequent taxation years.

Contributions to Foreign Plans

Definitions

6804. (1) The definitions in this subsection apply in this section.

"*foreign non-profit organization*" means,

(*a*) at any time before 1995, an organization

(i) that at that time meets the conditions in subparagraphs (*b*)(i) to (iii), or

(ii) that at that time is not operated for the purpose of profit, and whose assets are situated primarily outside Canada throughout the calendar year that includes that time, and

(*b*) at any time after 1994, an organization that at that time

(i) is not operated for the purpose of profit,

(ii) has its main place of management outside Canada, and

(iii) carries on its activities primarily outside Canada.

"*foreign plan*" means a plan or arrangement (determined without regard to subsection 207.6(5) of the Act) that would, but for paragraph (*l*) of the definition "retirement compensation arrangement" in subsection 248(1) of the Act, be a retirement compensation arrangement.

"*qualifying entity*" means a non-resident entity that hold all or part of the assets of a foreign plan where the following conditions are satisfied;

(*a*) the entity is resident in a country under the laws of which an income tax is imposed, and

(*b*) where those laws provide an exemption from tax, a reduced rate of tax or other favourable tax treatment for entities that hold assets of pension or other

retirement plans, the entity qualifies for the favourable treatment.

History: S. 6804(1) was added by P.C. 1996-911, SOR/96-311, dated June 20, 1996, applicable after October 8, 1986.

Electing Employer

(2) For the purposes of this section, an employer is an electing employer for a calendar year with respect to a foreign plan where

(*a*) the employer has sent or delivered to the Minister a letter stating that the employer elects to have this section apply with respect to contributions to the foreign plan, and

(*b*) the letter was sent or delivered on or before

(i) the last day of February in the year following the first calendar year after 1991 in which a contribution that is, or would be if subsection 207.6(5.1) of the Act were read without reference to paragraph (*a*) of that subsection, a resident's contribution (as defined in that subsection) was made under the foreign plan in respect of services rendered by an individual to the employer, or

(ii) any later date that is acceptable to the Minister,

except that an employer is not an electing employer for a year with respect to foreign plan if the Minister has granted written permission for the employer to revoke, for the year or a preceding calendar year, the election made under paragraph (*a*) in respect of the foreign plan.

History: S. 6804(2) was added by P.C. 1996-911, SOR/96-311, dated June 20, 1996, applicable after October 8, 1986.

Election by Union

(3) Except as otherwise permitted in writing by the Minister, an election made by a trade union for the purpose of subsection (2) is valid only if it is made by the highest-level structural unit of the union.

History: S. 6804(3) was added by P.C. 1996-911, SOR/96-311, dated June 20, 1996, applicable after October 8, 1986.

Contributions Made Before 1992

(4) For the purpose of paragraph 207.6(5.1)(*a*) of the Act, a contribution made under a foreign plan by a person or body of persons in a calendar year before 1992 is a prescribed contribution where

(*a*) the contribution is paid to a qualifying entity;

(*b*) each employer (in this subsection referred to as a "contributor") that makes a contribution under the foreign plan in the year is

(i) a non-resident corporation throughout the year,

(ii) a partnership that makes contributions under the foreign plan primarily in respect of services rendered outside Canada to the partnership by non-resident employees, or

(iii) a foreign non-profit organization throughout the year;

(*c*) if corporation or partnership (other than a corporation or partnership that is a foreign non-profit organization throughout the year) is a contributor, no individual who is entitled (either absolutely or contingently) to benefits under the foreign plan is a member of a registered pension plan, or a beneficiary under a deferred profit sharing plan, to which a contributor, or a person or body of persons not dealing at arm's length with a contributor, makes, or is required to make, contributions in relation to the year;

(*d*) contributions made in the year under the foreign plan for the benefit of individuals resident in Canada are reasonable in relation to contributions made under the plan for the benefit of non-resident individuals; and

(*e*) the foreign plan is not a pension plan the registration of which under the Act has been revoked.

History: S. 6804(4) was added by P.C. 1996-911, SOR/96-311, dated June 20, 1996, applicable after October 8, 1986.

Contributions Made in 1992, 1993 or 1994

(5) For the purpose of paragraph 207.6(5.1)(*a*) of the Act, a contribution made under a foreign plan by a person or body of persons at any time in 1992, 1993 or 1994 in respect of services rendered by an individual to an employer is a prescribed contribution where

(*a*) the contribution is paid to a qualifying entity;

(*b*) the employer is an electing employer for the year with respect to the foreign plan;

(*c*) if the employer is not at that time a foreign non-profit organization, the individual is not a member of a registered pension plan (other than a specified multi-employer plan, as defined in subsection 147.1(1) of the Act), or a deferred profit sharing plan, in which the employer, or a person or body of persons that does not deal at arm's length with the employer, participates; and

(*d*) either

(i) the employer is

(A) a corporation that is not resident in Canada at that time,

(B) a partnership that makes contributions under the foreign plan primarily in respect of services rendered outside Canada to the partnership by non-resident employees, or

(C) a foreign non-profit organization at that time, or

(ii) the individual was non-resident at any time before the contribution is made and became a member of the foreign plan before the end of the month after the month in which the individual became resident in Canada.

History: S. 6804(5) was added by P.C. 1996-911, SOR/96-311, dated June 20, 1996, applicable after October 8, 1986.

Contributions Made after 1994

(6) For the purposes of paragraph 207.6(5.1)(*a*) of the Act, a contribution made under a foreign plan by a person or body of persons at any time in a calendar year after 1994 in respect of services rendered by an individual to an employer is a prescribed contribution where

(*a*) the contribution is paid to a qualifying entity;

(*b*) the employer is an electing employer for the year with respect to the foreign plan;

(*c*) if the employer is at that time a foreign non-profit organization,

(i) the amount that, if subsection 8301(1) were read without reference to paragraph (*b*) of that subsection, would be the individual's pension adjust-

ment for the year in respect of the employer is nil, or

(ii) the amount that would be the individual's pension adjustment for the year in respect of the employer if

(A) all contributions made under the foreign plan in the year in respect of the individual were prescribed by this subsection,

(B) where the year is 1996, section 8308.1 were read without reference to subsection (4.1), and

(C) where the year is 1997, subparagraph 8308.1(2)(*b*)(v) were read as

"(v) the amount, if any, by which 18% of the individual's resident compensation from the employer for the year exceeds $1,000, and"

does not exceed the lesser of

(D) the money purchase limit for the year, and

(E) 18% of the individual's compensation (as defined in subsection 147.1(1) of the Act) for the year from the employer;

(*d*) if

(i) the employer is at that time a foreign non-profit organization, and

(ii) a period in the year throughout which the individual rendered services to the employer would be, under paragraph 8507(3)(*a*), a qualifying period of the individual with respect to another employer if that paragraph were read without reference to subparagraph (iv) of that paragraph,

subsection 8308(7) applies with respect to the determination of the individual's pension adjustment for the year with respect to each employer; and

(*e*) if the employer is not at that time a foreign non-profit organization,

(i) the individual was non-resident at any time before the contribution is made,

(ii) the individual became a member of the foreign plan before the end of the month after the month in which the individual became resident in Canada, and

(iii) the individual is not a member of a registered pension plan, or a deferred profit sharing plan, in which the employer, or a person or body of persons that does not deal at arm's length with the employer, participates.

History: S. 6804(6)(*c*)(ii) was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1995. S. 6804(6)(c)(ii) formerly read:

"(ii) the amount that, if all contributions made under the foreign plan in the year in respect of the individual were prescribed by this subsection, would be the individual's pension adjustment for the year in respect of the employer does not exceed the lesser of

(A) the money purchase limit for the year, and

(B) 18% of the individual's compensation (as defined in subsection 147.1(1) of the Act) for the year from the employer."

S. 6804(6) was added by P.C. 1996-911, SOR/96-311, dated June 20, 1996, applicable after October 8, 1986.

Replacement Plan

(7) For the purposes of subparagraphs (5)(*d*)(ii) and (6)(*e*)(ii), where benefits provided to an individual under a particular plan or arrangement are replaced by benefits under another plan or arrangement, the other plan or arrangement is deemed, in respect of the individual, to be the same plan or arrangement as the particular plan or arrangement.

History: S. 6804(7) was added by P.C. 1996-911, SOR/96-311, dated June 20, 1996, applicable after October 8, 1986.

PART LXIX

Prescribed Offshore Investment Fund Properties

6900. For the purpose of paragraph 94.1(2)(*a*) [subsection 94.1(2) "designated cost"] of the Act, an offshore investment fund property (within the meaning assigned by subsection 94.1(1) of the Act) of a taxpayer that

(*a*) was acquired by him by way of bequest or inheritance from a deceased person who, throughout the five years immediately preceding his death, was not resident in Canada,

(*b*) had not been acquired by the deceased from a person resident in Canada, and

(*c*) is not property substituted for property acquired by the deceased from a person resident in Canada

is a prescribed offshore investment fund property of the taxpayer.

History: S. 6900 was added by P.C. 1986-1048, SOR/86-488 dated May 1, 1986, applicable after 1984.

PART LXX

Accrued Interest on Debt Obligations

PRESCRIBED DEBT OBLIGATIONS

7000. (1) For the purpose of subsection 12(9) of the Act, each of the following debt obligations (other than a debt obligation that is an indexed debt obligation) in respect of which a taxpayer has at any time acquired an interest is a prescribed debt obligation:

(*a*) a particular debt obligation in respect of which no interest is stipulated to be payable in respect of its principal amount;

(*b*) a particular debt obligation in respect of which the proportion of the payments of principal to which the taxpayer is entitled is not equal to the proportion of the payments of interest to which he is entitled;

(*c*) a particular debt obligation, other than one described in paragraph (*a*) or (*b*), in respect of which it can be determined, at the time the taxpayer acquired the interest therein, that the maximum amount of interest payable thereon in a year ending after that time is less than the maximum amount of interest payable thereon in a subsequent year; and

(*d*) a particular debt obligation, other than one described in paragraph (*a*), (*b*) or (*c*), in respect of which the amount of interest to be paid in respect of any taxation year is, under the terms and conditions of the obligation, dependent on a contingency existing after the year;

and, for the purposes of this subsection, a debt obligation includes, for greater certainty, all of the issuer's obligations to pay principal and interest under that obligation.

History: S. 7000(1), that portion preceding paragraph (*a*), was amended by P.C. 1996-1419, SOR/96-435, dated September 11, 1996, applicable in respect of debt obligations issued after October 16, 1991. That portion formerly read:

"(1) For the purposes of subsection 12(9) of the Act, each of the following debt obligations in respect of which a taxpayer has at any time acquired an interest therein is a prescribed debt obligation:"

(2) For the purposes of subsection 12(9) of the Act, the amount determined in prescribed manner that is deemed to accrue to a taxpayer as interest on a prescribed debt obligation in each taxation year during which he holds an interest in the obligation is,

(*a*) in the case of a prescribed debt obligation described in paragraph (1)(*a*), the amount of interest that would be determined in respect thereof if interest thereon for that year were computed on a compound interest basis using the maximum of all rates each of which is a rate computed

(i) in respect of each possible circumstance under which an interest of the taxpayer in the obligation could mature or be surrendered or retracted, and

(ii) using assumptions concerning the interest rate and compounding period that will result in a present value, at the date of purchase of the interest, of all the maximum payments thereunder, equal to the cost thereof to the taxpayer;

(*b*) in the case of a prescribed debt obligation described in paragraph (1)(*b*), the aggregate of all amounts each of which is the amount of interest that would be determined in respect of his interest in a payment under the obligation if interest thereon for that year were computed on a compound interest basis using the specified cost of his interest therein and the specified interest rate in respect of his total interest in the obligation, and for the purposes of this paragraph,

(i) the "specified cost" of his interest in a payment under the obligation is its present value at the date of purchase computed using the specified interest rate, and

(ii) the "specified interest rate" is the maximum of all rates each of which is a rate computed

(A) in respect of each possible circumstance under which an interest of the taxpayer in the obligation could mature or be surrendered or retracted, and

(B) using assumptions concerning the interest rate and compounding period that will result in a present value, at the date of purchase of the interest, of all the maximum payments to the taxpayer in respect of his total interest in the obligation, equal to the cost of that interest to the taxpayer;

(*c*) in the case of a prescribed debt obligation described in paragraph (1)(*c*), other than an obligation in respect of which paragraph (*c*.1) applies, the greater of

(i) the maximum amount of interest thereon in respect of the year, and

(ii) the maximum amount of interest that would be determined in respect thereof if interest thereon for that year were computed on a compound interest basis using the maximum of all rates each of which is a rate computed

(A) in respect of each possible circumstance under which an interest of the taxpayer in the obligation could mature or be surrendered or retracted, and

(B) using assumptions concerning the interest rate and compounding period that will result in a present value, at the date of issue of the obligation, of all the maximum payments thereunder, equal to its principal amount;

(*c*.1) in the case of a prescribed debt obligation described in paragraph (1)(*c*) for which

(i) the rate of interest stipulated to be payable in respect of each period throughout which the obligation is outstanding is fixed at the date of issue of the obligation, and

(ii) the stipulated rate of interest applicable at each time is not less than each stipulated rate of interest applicable before that time,

the amount of interest that would be determined in respect of the year if interest on the obligation for that year were computed on a compound interest basis using the maximum of all rates each of which is the compound interest rate that, for a particular assumption with respect to when the taxpayer's interest in the obligation will mature or be surrendered or retracted, results in a present value (at the date the taxpayer acquires the interest in the obligation) of all payments under the obligation after the acquisition by the taxpayer of the taxpayer's interest in the obligation equal to the principal amount of the obligation at the date of acquisition; and

(*d*) in the case of a prescribed debt obligation described in paragraph 1(*d*), the maximum amount of interest thereon that could be payable thereunder in respect of that year.

History: S. 7000(2)(*c*), the portion before subparagraph (i), was amended by P.C. 1996-570, SOR/96-227, dated April 23, 1996, applicable to the 1993 and subsequent taxation years. That portion formerly read:

"(*c*) in the case of a prescribed debt obligation described in paragraph (1)(*c*), the greater of"

S. 7000(2)(*c*.1) was added by P.C. 1996-570, SOR/96-227, dated April 23, 1996, applicable to the 1993 and subsequent taxation years.

(3) For the purpose of this section, any bonus or premium payable under a debt obligation is considered to be an amount of interest payable under the obligation.

History: S. 7000(3) was amended by P.C. 1996-1419, SOR/96-435, dated September 11, 1996, applicable in respect of debt obligations issued after October 16, 1991. S. 7000(3) formerly read:

"(3) For the purposes of this Part, any bonus or premium payable under a debt obligation shall be considered to be an amount of interest payable under the obligation."

(4) For the purposes of this section, where

(*a*) a taxpayer has an interest in a debt obligation (in this subsection referred to as the "first interest") under which there is a conversion privilege or an option to extend its term upon maturity, and

(*b*) at the time the obligation was issued (or, if later, at the time the conversion privilege or option was added or modified) circumstances could reasonably be foreseen under which the holder of the obligation would, by exercising the conversion privilege or option, acquire an interest in a debt obligation with

a principal amount less than its fair market value at the time of acquisition,

the subsequent interest in any debt obligation acquired by the taxpayer by exercising the conversion privilege or option shall be considered to be a continuation of the first interest.

History: S. 7000(4) was amended by P.C. 1996-570, SOR/96-227, dated April 23, 1996, applicable with respect to debt obligations acquired by reason of the exercise after August 11, 1993 of a conversion privilege or an option to extend the term of another debt obligation. S. 7000(4) formerly read:

"(4) For the purposes of this Part, where a taxpayer has an interest in a debt obligation (in this subsection referred to as a 'first interest') under which obligation there is a conversion privilege or an option to extend its term upon maturity, the subsequent interest in any debt obligation acquired by the taxpayer pursuant to the exercise of such privilege or option shall be considered to be a continuation of the first interest."

(5) For the purposes of making the computations referred to in paragraphs (2)(*a*), (*b*), (*c*) and (*c*.1), the compounding period shall not exceed one year and any interest rate used shall be constant from the time of acquisition or issue, as the case may be, until the time of maturity, surrender or retraction.

History: S. 7000(5) was amended by P.C. 1996-570, SOR/96-227, dated April 23, 1996, applicable to the 1993 and subsequent taxation years. S. 7000(5) formerly read:

"(5) For the purposes of making the computations referred to in paragraphs (2)(*a*), (*b*) and (*c*), the compounding period shall not exceed one year and any interest rate used shall be constant from the date of acquisition or issue, as the case may be, to the date of maturity, surrender or retraction."

(6) For the purpose of the definition "investment contract" in subsection 12(11) of the Act, a registered retirement savings plan or a registered retirement income fund, other than a plan or fund to which a trust is a party, is a prescribed contract throughout a calendar year where an annuitant (as defined in subsection 146(1) or 146.3(1) of the Act, as the case may be) under the plan or fund is alive at any time in the year or was alive at any time in the preceding calendar year.

History: S. 7000(6) was amended by P.C. 1996-568, SOR/96-225, dated April 23, 1996, applicable to the 1993 and subsequent taxation years. S. 7000(6) formerly read:

"(6) For the purposes of paragraph 12(11)(*a*) of the Act, a prescribed contract is, at any time in a calendar year, a registered retirement savings plan, a registered home ownership savings plan or a registered retirement income fund, other than such a plan or fund to which a trust is a party, where an annuitant or beneficiary thereunder (within the meaning assigned by paragraph 146(1)(*a*), 146.2(1)(*a*) or 146.3(1)(*a*), as the case may be, of the Act) is alive at that time."

S. 7000(6) was added by P.C. 1985-2277, SOR/85-696 dated July 25, 1985, applicable to taxation years commencing after 1981.

Part LXX was added by P.C. 1983-3529, SOR/83-864 dated November 18, 1983 and effective for taxation years commencing after 1981.

Interpretation Bulletins: *Secondary* — IT-396R Interest income; IT-410R Debt obligations — Accrued interest on transfer [Archived by the CRA].
Advance Tax Rulings: ATR-61 Interest accrual rules.

Indexed Debt Obligations

7001. (1) For the purpose of subparagraph 16(6)(*a*)(i) of the Act, where at any time in a taxation year a taxpayer holds an interest in an indexed debt obligation, there is prescribed as interest receivable and received by the taxpayer in the year in respect of the obligation the total of

(*a*) the amount, if any, by which

(i) the total of all amounts each of which is the amount by which the amount payable in respect of the taxpayer's interest in an indexed payment under the obligation (other than a payment that is an excluded payment with respect to the taxpayer for the year) has, because of a change in the purchasing power of money, increased over an inflation adjustment period of the obligation that ends in the year

exceeds the total of

(ii) that portion of the total, if any, determined under subparagraph (i) that is required, otherwise than by subsection 16(6) of the Act, to be included in computing the taxpayer's income for the year or a preceding taxation year, and

(iii) the total of all amounts each of which is the amount by which the amount payable in respect of the taxpayer's interest in an indexed payment under the obligation (other than a payment that is an excluded payment with respect to the taxpayer for the year) has, by reason of a change in the purchasing power of money, decreased over an inflation adjustment period of the obligation that ends in the year, and

(*b*) where the non-indexed debt obligation associated with the indexed debt obligation is an obligation that is described in any of paragraphs 7000(1)(*a*) to (*d*), the amount of interest that would be determined under subsection 7000(2) to accrue to the taxpayer in respect of the non-indexed debt obligation in the particular period that

(i) begins at the beginning of the first inflation adjustment period of the indexed debt obligation in respect of the taxpayer that ends in the year, and

(ii) ends at the end of the last inflation adjustment period of the indexed debt obligation in respect of the taxpayer that ends in the year

if the particular period were a taxation year of the taxpayer and the taxpayer's interest in the indexed debt obligation were an interest in the non-indexed debt obligation.

(2) For the purposes of subparagraph 16(6)(*a*)(ii) of the Act, where at any time in a taxation year a taxpayer holds an interest in an indexed debt obligation, there is prescribed as interest payable and paid by the taxpayer in the year in respect of the obligation the amount, if any, by which

(*a*) the total of the amounts, if any, determined under subparagraphs (1)(*a*)(ii) and (iii) for the year in respect of the taxpayer's interest in the obligation

exceeds

(*b*) the amount, if any, determined under subparagraph (1)(*a*)(i) for the year in respect of the taxpayer's interest in the obligation.

(3) For the purposes of subparagraph 16(6)(*b*)(i) of the Act, where at any time in a taxation year an indexed debt obligation is an obligation of a taxpayer, there is prescribed as interest payable in respect of the year by the taxpayer in respect of the obligation the amount, if any, that would be determined under paragraph (1)(*a*) in respect of the taxpayer for the year if, at each time at which the obligation is an obligation of the taxpayer, the taxpayer were the holder of the obligation and not the debtor under the obligation.

(4) For the purposes of subparagraph 16(6)(*b*)(ii) of the Act, where at any time in a taxation year an indexed debt obligation is an obligation of a taxpayer, there is prescribed as interest receivable and received by the taxpayer in the year in respect of the obligation the amount, if any,

that would be determined under subsection (2) in respect of the taxpayer for the year if, at each time at which the obligation is an obligation of the taxpayer, the taxpayer were the holder of the obligation and not the debtor under the obligation.

(5) For the purpose of determining the amount by which an indexed payment under an indexed debt obligation has increased or decreased over a period because of a change in the purchasing power of money, the amount of the indexed payment at any time shall be determined using the method for computing the amount of the payment at the time it is to be made, adjusted in a reasonable manner to take into account the earlier date of computation.

(6) For the purposes of this section, the non-indexed debt obligation associated with an indexed debt obligation is the debt obligation that would result if the indexed debt obligation were amended to eliminate all adjustments determined by reference to changes in the purchasing power of money.

(7) In this section,

"*excluded payment*" with respect to a taxpayer for a taxation year means an indexed payment under an indexed debt obligation where

(*a*) the non-indexed debt obligation associated with the indexed debt obligation provides for the payment, at least annually, of interest at a single fixed rate, and

(*b*) the indexed payment corresponds to one of the interest payments referred to in paragraph (*a*),

but does not include payments under an indexed debt obligation where, at any time in the year, the taxpayer's proportionate interest in a payment to be made under the obligation after that time differs from the taxpayer's proportionate interest in any other payment to be made under the obligation after that time;

"*indexed payment*" means, in relation to an indexed debt obligation, an amount payable under the obligation that is determined by reference to the purchasing power of money;

"*inflation adjustment period*" of an indexed debt obligation means, in relation to a taxpayer,

(*a*) where the taxpayer acquires and disposes of the taxpayer's interest in the obligation in the same regular adjustment period of the obligation, the period that begins when the taxpayer acquires the interest in the obligation and ends when the taxpayer disposes of the interest, and

(*b*) in any other case, each of the following consecutive periods:

(i) the period that begins when the taxpayer acquires the taxpayer's interest in the obligation and ends at the end of the regular adjustment period of the obligation in which the taxpayer acquires the interest in the obligation,

(ii) each succeeding regular adjustment period of the obligation throughout which the taxpayer holds the interest in the obligation, and

(iii) where the taxpayer does not dispose of the interest in the obligation at the end of a regular adjustment period of the obligation, the period that begins immediately after the last period referred to in subparagraphs (i) and (ii) and that ends when the taxpayer disposes of the interest in the obligation;

"*regular adjustment period*" of an indexed debt obligation means

(*a*) where the terms or conditions of the obligation provide that, while the obligation is outstanding, indexed payments are to be made at regular intervals not exceeding 12 months in length, each of the following periods:

(i) the period that begins when the obligation is issued and ends when the first indexed payment is required to be made, and

(ii) each succeeding period beginning when an indexed payment is required to be made and ending when the next indexed payment is required to be made,

(*b*) where paragraph (*a*) does not apply and the obligation is outstanding for less than 12 months, the period that begins when the obligation is issued and ends when the obligation ceases to be outstanding, and

(*c*) in any other case, each of the following periods:

(i) the 12-month period that begins when the obligation is issued,

(ii) each succeeding 12-month period throughout which the obligation is outstanding, and

(iii) where the obligation ceases to be outstanding at a time other than the end of a 12-month period referred to in subparagraph (i) or (ii), the period that commences immediately after the last period referred to in those subparagraphs and that ends when the obligation ceases to be outstanding.

History: S. 7001 was added by P.C. 1996-1419, SOR/96-435, dated September 11, 1996, applicable in respect of debt obligations issued after October 16, 1991.

PART LXXI

Prescribed Federal Crown Corporations

7100. For the purposes of subsections 27(2) and (3), the definition "private corporation" in subsection 89(1) and subsection 124(3) of the Act, the following are prescribed federal Crown corporations:

(*a*) Canada Deposit Insurance Corporation;

(*b*) Canada Hibernia Holding Corporation;

(*c*) Canada Lands Company Limited;

(*d*) Canada Mortgage and Housing corporation;

(*e*) Canada Post Corporation;

(*f*) Canadian Broadcasting Corporation;

(*g*) Cape Breton Development Corporation;

(*h*) Freshwater Fish Marketing Corporation;

(*i*) Royal Canadian Mint; and

(*j*) VIA Rail Canada Inc.

History: S. 7100 was replaced by P.C. 2003-1921, SOR/2003-397, dated December 3, 2003, applicable to taxation years that begin after December 10, 2001. S. 7100 formerly read:

"S. 7100. For the purposes of section 27, the definition 'private corporation' in subsection 89(1) and subsection 124(3) of the Act, the following are prescribed federal crown corporations:

Canada Deposit Insurance Corporation

Canada Hibernia Holding Corporation

Canada Lands Company Limited
Canada Mortgage and Housing Corporation
Canada Post Corporation
Canadian Broadcasting Corporation
Cape Breton Development Corporation
Farm Credit Canada
Freshwater Fish Marketing Corporation
Petro-Canada
Royal Canadian Mint
Teleglobe Canada
The St. Lawrence Seaway Authority
VIA Rail Canada Inc.
"

S. 7100, the portion before the reference to "Canada Deposit Insurance Corporation" was replaced by P.C. 2003-1921, SOR/2003-397, dated December 3, 2003, applicable after July 13, 1990. S. 7100, the portion before the reference to "Canada Deposit Insurance Corporation" formerly read:

"S. 7100. For the purposes of section 27 and subsection 124(3) of the Act, the following are hereby prescribed to be federal Crown corporations:"

S. 7100, the reference to "Canada Development Investment Corporation" was struck out by P.C. 2003-1921, SOR/2003-397, dated December 3, 2003, applicable after January 2, 1995.

S. 7100, the reference to Theratronics International Limited was struck out by P.C. 2003-1921, SOR/2003-397, dated December 3, 2003, applicable after May 20, 1998.

S. 7100, the references to Canada Hibernia Holding Corporation and Theratronics International Limited were added by P.C. 2003-1921, SOR/2003-397, dated December 3, 2003, applicable after January 2, 1995.

S. 7100 was amended by S.C. 2001, c. 22, s. 22(a), by changing the reference to "Farm Credit Corporation" to "Farm Credit Canada", applicable on Royal Assent, June 14, 2001.

S. 7100 was amended by P.C. 1996-1927, SOR/97-28, dated December 19, 1996, to strike out the reference to "Air Canada", applicable beginning on November 1, 1995; to strike out the reference to "The companies comprising National Railways as defined in the *Canadian National–Canadian Pacific Act*, R.S. 1952, c. 39, as that Act read before it was repealed by S.C. 1966-67, c. 69, s. 76", applicable beginning on January 1, 1996; and to add "Canada Lands Company Limited", applicable beginning on November 1, 1995.

S. 7100 was amended by P.C. 1994-930, SOR/94-405, dated June 2, 1994, to add "Canada Post Corporation", applicable after March 26, 1994.

S. 7100 was amended by P.C. 1991-2029, SOR/91-603, dated October 24, 1991, to delete the reference to "Petro-Canada Limited", applicable commencing July 3, 1991.

S. 7100 was amended by P.C. 1991-1822, SOR/91-557, dated September 26, 1991, to add "Royal Canadian Mint", applicable commencing January 1, 1991.

S. 7100 was amended by P.C. 1991-350, SOR/91-174, dated February 28, 1991, to add "Petro-Canada Limited", applicable after January 31, 1991.

S. 7100 was amended by P.C. 1986-2590, SOR/86-1092 dated November 20, 1986, to delete the reference to "Northern Transportation Company Limited", effective July 15, 1985.

S. 7100 was amended by P.C. 1985-466, SOR/85-175 dated February 14, 1985, to substitute the words "*Canadian National–Canadian Pacific Act*, R.S. 1952, c. 39, as that Act read before it was repealed by S.C. 1966-67, c. 69, s. 76" for the words "*Canadian National Railways Act*", applicable September 1, 1984.

Part LXXI was added by P.C. 1984-3095, SOR/84-744 dated August 31, 1984, applicable commencing September 1, 1984.

Interpretation Bulletins: *Secondary*— IT-347R2 Crown corporations [Archived by the CRA].

PART LXXII
Cumulative Deduction Account [Repealed.]

7200. [Repealed.]

History: Part LXXII was repealed by P.C. 2001-1378, SOR/2001-295, dated August 1, 2001, in force August 15, 2001. Part LXXII formerly read:

"PART LXXII
Cumulative Deduction Account

PRESCRIBED ADDITION AND REDUCTION

S. 7200. (1) For the purposes of subparagraph 125(6)(*b*)(iii.1) of the Act, 'prescribed addition' in respect of a corporation means

(*a*) where, during the period of time commencing on October 24, 1979 and ending at the time of the commencement of the corporation's first taxation year ending after 1982, the number of specified reductions deducted in computing the cumulative deduction account of the corporation exceeds the number of specified additions added in computing the cumulative deduction account of the corporation, the amount, if any, by which

(i) the amount of the last specified reduction deducted in computing the corporation's cumulative deduction account

exceeds 1/8 of the amount, if any, by which

(ii) the aggregate of all amounts deducted by virtue of subparagraph 125(6)(*b*)(iv) of the Act in computing the corporation's cumulative deduction account during the period of time commencing on the first day of the taxation year of the corporation in which the last specified reduction was made and ending at the time of the commencement of the corporation's first taxation year ending after 1982

exceeds

(iii) the aggregate of all amounts added by virtue of subparagraphs 125(6)(*b*)(ii) and (iii) of the Act in computing the corporation's cumulative deduction account during the period of time referred to in subparagraph (ii); and

(*b*) where, during the period of time commencing on October 24, 1979 and ending at the time of the commencement of the corporation's first taxation year ending after 1982

(i) the number of specified reductions deducted in computing the cumulative deduction account of the corporation equals the number of specified additions added in computing the cumulative deduction account of the corporation,

(ii) the later of the last specified reduction and the last specified addition was a specified reduction, and

(iii) the amount of the last specified reduction exceeds the amount of the last specified addition,

the amount, if any, by which

(iv) the amount by which the amount of the last specified reduction exceeds the amount of the last specified addition

exceeds 1/8 of the amount, if any, by which

(v) the aggregate of all amounts deducted by virtue of subparagraph 125(6)(*b*)(iv) of the Act in computing the corporation's cumulative deduction account during the period of time commencing on the first day of the taxation year of the corporation in which the last specified reduction was made and ending at the time of the commencement of the corporation's first taxation year ending after 1982

exceeds

(vi) the aggregate of all amounts added by virtue of subparagraphs 125(6)(*b*)(ii) and (iii) of the Act in computing the corporation's cumulative deduction account during the period of time referred to in subparagraph (v).

(2) For the purposes of subparagraph 125(6)(*b*)(iv.1) of the Act, 'prescribed reduction' in respect of a corporation means the amount equal to the amount that would be determined under subsection (1) if the references therein to

(*a*) 'specified additions added' were read as 'specified reductions deducted';

(*b*) 'specified reduction deducted' were read as 'specified addition added';

(*c*) 'specified reductions deducted' were read as 'specified additions added';

(*d*) 'last specified addition' were read as 'last specified reduction';

(*e*) 'last specified reduction' were read as 'last specified addition'; and

(*f*) '1/8' were read as '1/9'.

(3) In this section,

(*a*) 'cumulative deduction account' has the meaning assigned by paragraph 125(6)(*b*) of the Act;

(*b*) 'specified addition' has the meaning assigned to the expression 'specified addition to the cumulative deduction account' by paragraph 125(12)(*a*) of the Act as it applied for taxation years ending before 1983; and

(*c*) 'specified reduction' has the meaning assigned to the expression 'specified reduction in the cumulative deduction account' by paragraph 125(12)(*b*) of the Act as it applied for taxation years ending before 1983.

Part LXXII was added by P.C. 1984-3789, SOR/84-948, dated November 29, 1984, applicable in respect of the first taxation year of a corporation ending after 1982.

PART LXXIII
Prescribed Amounts and Areas

7300. For the purposes of paragraph 12(1)(*x*) of the Act, "prescribed amount" means

(*a*) an amount paid to a corporation by the Native Economic Development Board created under Order in Council P.C. 1983-3394 of October 31, 1983 pursuant to the Native Economic Development Program or paid to a corporation under the Aboriginal Capital Corporation Program of the Canadian Aboriginal Economic Development Strategy, where all of the shares of the capital stock of the corporation are

(i) owned by aboriginal individuals,

(ii) held in trust for the exclusive benefit of aboriginal individuals,

(iii) owned by a corporation, all the shares of which are owned by aboriginal individuals or held in trust for the exclusive benefit of aboriginal individuals, or

(iv) owned or held in a combination of ownership structures described in subparagraph (i), (ii) or (iii)

and the purpose of the corporation is to provide loans, loan guarantees, bridge financing, venture capital, lease financing, surety bonding or other similar financing services to aboriginal enterprises; or

(*b*) prescribed assistance within the meaning assigned by section 6702.

History: S. 7300(a) was amended by P.C. 1991-729, SOR/91-276, dated April 18, 1991, applicable May 8, 1991. S. 7300(a) formerly read:

"(*a*) any amount paid to a corporation by the Native Economic Development Board created under Order in Council P.C. 1983-3394 of October 31, 1983 pursuant to the Native Economic Development Program or paid to a corporation under the Aboriginal Capital Corporation Program of the Canadian Aboriginal Economic Development Strategy, where all of the shares of the capital stock of the corporation are owned by aboriginal individuals and the purpose of the corporation is to provide loans, loan guarantees, bridge financing, venture capital, lease financing, surety bonding or other similar financing services to aboriginal enterprises; or"

S. 7300 was amended by P.C. 1990-213, SOR/90-120, dated February 8, 1990, applicable to amounts received after May 22, 1985. S. 7300 formerly read:

"S. 7300. For the purposes of paragraph 12(1)(*x*) of the Act, 'prescribed amount' means prescribed assistance within the meaning assigned by section 6702."

S. 7300 was added by P.C. 1986-2770, SOR/86-1136, dated December 11, 1986, effective May 23, 1985.

Interpretation Bulletins: *Secondary* — IT-273R2 Government assistance — General comments.

7301. [Repealed.]

History: S. 7301 was repealed by P.C. 2001-1378, SOR/2001-295, dated August 1, 2001, applicable August 1, 2001. S. 7301 formerly read:

"S. 7301. For the purposes of subsection 164.1(1) of the Act, $325 is the prescribed amount for the 1987 taxation year."

S. 7301 was added by P.C. 1987-2168, SOR/87-622, dated October 22, 1987.

7302. [Revoked.]

History: S. 7302 was revoked by P.C. 1993-1688, SOR/93-440, dated August 26, 1993 and applicable to the 1993 and subsequent taxation years. S. 7302 formerly read:

"(1) In this section and sections 7303 and 7304,

'administrative centre', in respect of an urban centre, means the city or town hall of the city or town, all or part of which is within the urban centre, that has the largest population of all the cities and towns in the urban centre;

'all-weather road' means

(*a*) a gravel or higher quality road, or

(*b*) a daily ferry service

that is ordinarily continuously usable except for not more than three consecutive weeks during the annual freeze-up period and not more than three consecutive weeks during the annual break-up period;

'area' includes a city, town, village or hamlet or any place listed in the most recent edition of the *Place Name Reference List*, published by Statistics Canada;

'grassland' means a part of Canada indicated on the Vegetation Regions map in *The National Atlas of Canada*, 4th edition (revised), published in 1974 by The Macmillan Company of Canada Limited as having a physiognomy described as

(*a*) low grass,

(*b*) medium grass, or

(*c*) tall grass;

'open woodland' means a part of Canada indicated on the Vegetation Regions map in *The National Atlas of Canada*, 4th edition (revised), published in 1974 by The Macmillan Company of Canada Limited as having a physiognomy described as

(*a*) lichen floor with scattered needleleaf trees,

(*b*) shrub floor with scattered needleleaf trees,

(*c*) shrubby needleleaf trees with patches of heath and barrens,

(*d*) scattered needleleaf trees with broadleaf shrubs,

(*e*) shrubs or grass with patches of needleleaf trees, or

(*f*) small lakes, moss and sedge covered floor and strings of needleleaf trees;

'tundra' means a part of Canada indicated on the Vegetation Regions map in *The National Atlas of Canada*, 4th edition (revised), published in 1974 by The Macmillan Company of Canada Limited as having a physiognomy described as

(*a*) Arctic dwarf shrubs, sedges, lichen-heath,

(*b*) Arctic mature sedges, grasses and shrubs,

(*c*) alpine sedges, grasses and shrubs, or

(*d*) lichen-heath, shrubs patches of needleleaf trees;

'urban centre' means an urban area within the meaning assigned by the *1986 Census Dictionary* published under the authority of the Minister of Supply and Services in January 1987, Catalogue 99-101E, south of the 60th parallel of north latitude that has a population of 10,000 or more as shown in Table 14 of the publications entitled *Population and Dwelling Counts — Provinces and Territories* published under the authority of the Minister of Supply and Services in September 1987, Catalogues 92-109 to 92-118.

(2) For the purposes of this section and sections 7303 and 7304, the population of an area in respect of a taxation year is the population determined for the area on the basis of the most recent quinquennial census taken by Statistics Canada before the end of the year."

S. 7302(1) was added by P.C. 1988-1105, SOR/88-312, dated June 6, 1988 and applicable to the 1987 and subsequent taxation years.

S. 7302(2) was added by P.C. 1988-1105, SOR/88-312, dated June 6, 1988 and applicable to the 1987 and subsequent taxation years.

7303. [Revoked.]

History: S. 7303 was revoked by P.C. 1993-1688, SOR/93-440, dated August 26, 1993 and applicable to the 1993 and subsequent taxation years. S. 7303 formerly read:

"(1) An area is a prescribed area for a taxation year for the purposes of section 110.7 of the Act where it is

(*a*) an area in Canada that is on or north of the 60th parallel of north latitude;

(*b*) an area in Canada south of the 60th parallel of north latitude and on or north of the 55th parallel of north latitude that, in the preceding taxation year, met the following requirements:

(i) it had a population of less than 10,000, and

(ii) there was no all-weather road providing access to the area or, where there was an all-weather road providing access to the area, it was more than 80 kilometres by all-weather road from the administrative centre of the urban centre that was nearest to the area;

(*c*) an area in Canada south of the 55th parallel of north latitude other than an area that is situated in grassland south of the 50th parallel of north latitude, that, in the preceding taxation year, met the following requirements:

(i) it had a population of less than 10,000,

(ii) it was entitled to a total of 50 points or more determined under subsection (7),

(iii) where there was no all-weather road providing access to the area, it was more than 80 kilometres in a straight line from the administrative centre of the nearest urban centre with a population of 50,000 or more, and

(iv) where there was an all-weather road providing access to the area, it was more than 320 kilometres by all-weather road from the administrative centre of the urban centre with a population of 50,000 or more that was nearest to the area by all-weather road and was more than

160 kilometres by all-weather road from the administrative centre of the urban centre that was nearest to the area;

(*d*) an area in Canada south of the 60th parallel of north latitude and on or north of the 55th parallel of north latitude that, in any preceding taxation year after 1985, met the requirements set out in paragraph (*b*) and in the immediately preceding taxation year met the following requirements:

(i) it had a population of less than 15,000, and

(ii) there was no all-weather road providing access to the area or, where there was an all-weather road providing access to the area, it was more than 1,610 kilometres by all-weather road from the administrative centre of the urban centre with a population of 100,000 or more that was nearest to the area; or

(*e*) an area in Canada south of the 55th parallel of north latitude other than an area that is situated in grassland south of the 50th parallel of north latitude that, in any preceding taxation year after 1985, met the requirements set out in paragraph (*c*) and in the immediately preceding taxation year met the following requirements:

(i) it was entitled to a total of 50 points or more determined under subsection (7),

(ii) where there was no all-weather road providing access to the area, it had a population of less than 15,000, and

(iii) where there was an all-weather road providing access to the area,

(A) it had a population of less than 10,000, or

(B) it had a population of more than 9,999 and less than 15,000 and it was more than 1,610 kilometres by all-weather road from the administrative centre of the urban centre with a population of 100,000 or more that was nearest to the area.

(2) For the 1987 to 1992 taxation years, the areas set out in Division I of Schedule IX shall, in addition to the areas prescribed by reason of subsection (1), be prescribed areas for the purposes of section 110.7 of the Act.

(3) For the 1987 to 1992 taxation years, the areas described in Division II of Schedule IX shall, in addition to the areas prescribed by reason of subsection (1), be prescribed areas for the purposes of section 110.7 of the Act.

(4) For the 1987 to 1992 taxation years, an area within a region described in Division III of Schedule IX that, in the preceding taxation year,

(*a*) had a population of less than 10,000, and

(*b*) had no all-weather road providing access to the area, or where there was an all-weather road providing access to the area, was more than 160 kilometres by all-weather road from the administrative centre of the urban centre that was within the province in which the area was situated, has a population of 10,000 or more and was nearest to the area,

shall, in addition to the areas prescribed by reason of subsection (1), be a prescribed area for the purposes of section 110.7 of the Act.

(5) For the 1987 taxation year, the areas on or north of the 55th parallel of north latitude and that are not otherwise prescribed areas under this Part shall, in addition to the areas prescribed by reason of subsection (1), be prescribed areas for the purposes of section 110.7 of the Act.

(6) For the 1987 taxation year, the areas south of the 55th parallel of north latitude and that are not otherwise prescribed areas under this Part, but that would be prescribed areas pursuant to paragraph (1)(*c*) if the reference to '60th parallel' in the definition 'urban centre' in subsection 7302(1) were read as a reference to '55th parallel', shall, in addition to the areas prescribed by reason of subsection (1), be prescribed areas for the purposes of section 110.7 of the Act.

(7) For the purposes of subparagraphs (1)(*c*)(ii) and (*e*)(i), the number of points to which an area is entitled is the aggregate of

(*a*) where the population of the area is

(i) from 1 to 99, 50 points,

(ii) from 100 to 499, 40 points,

(iii) from 500 to 999, 35 points,

(iv) from 1,000 to 1,999, 30 points,

(v) from 2,000 to 4,999, 25 points,

(vi) from 5,000 to 7,499, 15 points, and

(vii) from 7,500 to 9,999, 5 points;

(*b*) where there is no all-weather road providing access to the area, the aggregate of 15 points and

(i) if the area is not served by a scheduled air, rail or ferry passenger service, 15 points,

(ii) if the area is served by a scheduled air, rail or ferry passenger service on fewer than 4 days per week, 10 points, and

(iii) if the area is served by a scheduled air, rail or ferry passenger service on more than 3 days per week, 5 points,

(*c*) where the distance by all-weather road between the area and the administrative centre of the urban centre with a population of 15,000 or more that is nearest to the area is

(i) equal to or more than 402 kilometres but less than 483 kilometres, 5 points,

(ii) equal to or more than 483 kilometres but less than 803 kilometres, 10 points, and

(iii) equal to or more than 803 kilometres, 15 points,

(*d*) where the area is in

(i) tundra, 30 points, or

(ii) open woodland, 15 points, and

(*e*) where the area

(i) falls on or is encompassed by a line on one of the maps set out in Schedule X to which a point value has been assigned, the number of points assigned to that line,

(ii) falls entirely between two lines on one of the maps set out in Schedule X to which point values have been assigned, the higher number of points assigned to one of the lines,

(iii) falls between a line on one of the maps set out in Schedule X to which a point value has been assigned and the southern boundary of Canada, the number of points assigned to that line,

(iv) falls west of the most westerly line on the map of British Columbia set out in Schedule X to which a point value of 15 points has been assigned, 20 points, and

(v) falls between the most northerly line on one of the maps set out in Schedule X to which a point value has been assigned and the northern edge of the map, the number of points that is 5 points more than the number assigned to that line."

S. 7303 was added by P.C. 1988-1105, SOR/88-312, dated June 6, 1988 and applicable to the 1987 and subsequent taxation years.

7303.1. (1) An area is a prescribed northern zone for a taxation year for the purposes of section 110.7 of the Act where it is

(*a*) the Yukon Territory, the Northwest Territories or Nunavut;

(*b*) those parts of British Columbia, Alberta and Saskatchewan that lie north of 57°30"N latitude;

(*c*) that part of Manitoba that lies

(i) north of 56°20"N latitude, or

(ii) north of 52°30"N latitude and east of 95°25"W longitude;

(*d*) that part of Ontario that lies

(i) north of 52°30"N latitude, or

(ii) north of 51°05"N latitude and east of 89°10"W longitude;

(*e*) that part of Quebec that lies

(i) north of 51°05"N latitude, or

(ii) east of 63°00"W longitude and north of the Gulf of St. Lawrence; or

(*f*) Labrador, including Belle Isle.

History: S. 7303.1(1)(*a*) was replaced by S.C. 2007, c. 35, s. 79(1), applicable after March 31, 1999. S. 7303.1(1)(*a*) formerly read:

"(*a*) the Yukon Territory or the Northwest Territories;"

S. 7303.1(1) was added by P.C. 1993-1688, SOR/93-440, dated August 26, 1993 and applicable to the 1988 and subsequent taxation years.

Guides: T4039 Northern Residents Deductions.

(2) An area is a prescribed intermediate zone for a taxation year for the purposes of section 110.7 of the Act where it is the Queen Charlotte Islands, Anticosti Island, the Magdalen Islands or Sable Island, or where it is not part of a prescribed northern zone for the year and is

(*a*) that part of British Columbia that lies

(i) north of 55°35"N latitude

(ii) north of 55°00"N latitude and east of 122°00"W longitude, or

(iii) north of 55°13"N latitude and east of 123°16"W longitude;

(*b*) that part of Alberta that lies north of 55°00"N latitude;

(*c*) that part of Saskatchewan that lies

(i) north of 55°00"N latitude,

(ii) north of 54°15"N latitude and east of 107°00"W longitude, or

(iii) north of 53°20"N latitude and east of 103°00"W longitude;

(*d*) that part of Manitoba that lies

(i) north of 53°20"N latitude,

(ii) north of 52°10"N latitude and east of 97°40"W longitude, or

(iii) north of 51°30"N latitude and east of 96°00"W longitude;

(*e*) that part of Ontario that lies north of 50°35"N latitude; or

(*f*) that part of Quebec that lies

(i) north of 50°35"N latitude and west of 79°00"W longitude,

(ii) north of 49°00"N latitude, east of 79°00"W longitude and west of 74°00"W longitude,

(iii) north of 50°00"N latitude, east of 74°00"W longitude and west of 70°00"W longitude,

(iv) north of 50°45"N latitude, east of 70°00"W longitude and west of 65°30"W longitude, or

(v) north of the Gulf of St. Lawrence, east of 65°30"W longitude and west of 63°00"W longitude.

History: S. 7303.1(2)(*a*)(iii) was added by S.C. 2007, c. 35, s. 79(2), applicable to the 2007 and subsequent taxation years.

S. 7303.1(2) was added by P.C. 1993-1688, SOR/93-440, dated August 26, 1993 and applicable to the 1988 and subsequent taxation years.

Guides: T4039 Northern Residents Deductions.

7304. (1) In this section,

"*member of the taxpayer's household*" includes the taxpayer;

"*designated city*" means St. John's, Halifax, Moncton, Quebec City, Montreal, Ottawa, Toronto, North Bay, Winnipeg, Saskatoon, Calgary, Edmonton and Vancouver.

History: S. 7304(1) was added by P.C. 1988-1105, SOR/88-312, dated June 6, 1988, applicable to the 1987 and subsequent taxation years.

(2) For the purposes of this section, the trip cost to a taxpayer in respect of a trip made by an individual who, at the time the trip was made, was a member of the taxpayer's household is the least of

(*a*) the aggregate of

(i) the value of travel assistance, if any, provided by the taxpayer's employer in respect of travelling expenses for the trip, and

(ii) the amount, if any, received by the taxpayer from his employer in respect of travelling expenses for the trip,

(*b*) the aggregate of

(i) the value of travel assistance, if any, provided by the taxpayer's employer in respect of travelling expenses for the trip, and

(ii) travelling expenses incurred by the taxpayer for the trip, and

(*c*) the lowest return airfare ordinarily available, at the time the trip was made, to the individual for flights between the place in which the individual resided immediately before the trip, or the airport nearest thereto, and the designated city that is nearest to that place.

History: S. 7304(2)(c) was amended by P.C. 1993-1688, SOR/93-440, dated August 26, 1993 and applicable to the 1988 and subsequent taxation years. S. 7304(2)(c) formerly read:

"(c) the lowest return airfare ordinarily available, at the time the trip was made, to the individual for flights between the area in which the individual resided immediately before the trip, or the airport nearest thereto, and the designated city that is nearest to that area."

S. 7304(2) was added by P.C. 1988-1105, SOR/88-312, dated June 6, 1988, applicable to the 1987 and subsequent taxation years.

(3) For the purposes of subsection (4), the "period travel cost" to a taxpayer for a period in a taxation year, in respect of an individual who was a member of the taxpayer's household at any time during the period, is the total of the trip costs to the taxpayer in respect of all trips that were made by the individual at a time when the individual was a member of the taxpayer's household where the trips may reasonably be considered to relate to the period.

History: S. 7304(3) was amended by P.C. 1993-1688, SOR/93-440, dated August 26, 1993 and applicable to the 1988 and subsequent taxation years. S. 7304(3) formerly read:

"(3) For the purposes of this section, the annual travel cost to a taxpayer for a taxation year in respect of an individual who was a member of the taxpayer's household at any time during the year is the aggregate of

(*a*) the aggregate of the trip costs to the taxpayer in respect of all trips each of which was made by the individual in the year, at a time when the individual was a member of the taxpayer's household, and for the purpose of obtaining medical services not available in the locality in which the individual resided, and

(*b*) the aggregate of the trip costs to the taxpayer in respect of not more than two trips each of which was made by the individual in the year, at a time when the individual was a member of the taxpayer's household, and for a purpose other than obtaining medical services not available in the locality in which the individual resided."

S. 7304(3) was added by P.C. 1988-1105, SOR/88-312, dated June 6, 1988, applicable to the 1987 and subsequent taxation years.

(4) For the purposes of clause 110.7(1)(*a*)(i)(A) of the Act, the prescribed amount in respect of a taxpayer for a period in a taxation year is the lesser of

(*a*) the total of

(i) the value of travel assistance, if any, provided in the period by the taxpayer's employer in respect of travelling expenses for trips, each of which was made by an individual who, at the time the trip was made, was a member of the taxpayer's household, where the trips may reasonably be considered to relate to the period; and

(ii) the amount, if any, received in the period by the taxpayer from the taxpayer's employer in respect of travelling expenses for trips, each of which was made by an individual who, at the time the trip was made, was a member of the taxpayer's household, where the trips may reasonably be considered to relate to the period; and

(*b*) the total of all the period travel costs to the taxpayer for the period in respect of all individuals who were members of the taxpayer's household at any time in the period.

History: S. 7304(4) was amended by P.C. 1993-1688, SOR/93-440, dated August 26, 1993 and applicable to the 1988 and subsequent taxation years. S. 7304(4) formerly read:

"(4) For the purposes of clause 110.7(1)(*d*)(i)(A) of the Act, the prescribed amount in respect of a taxpayer for a taxation year is the lesser of

(*a*) the aggregate of

(i) the value of travel assistance, if any, provided in the year by the taxpayer's employer in respect of travelling expenses for trips, each of which was made in the year by an individual who, at the time the trip was made, was a member of the taxpayer's household, and

(ii) the amount, if any, received in the year by the taxpayer from the taxpayer's employer in respect of travelling expenses for trips, each of which was made in the year by an individual who, at the time the trip was made, was a member of the taxpayer's household, and

(*b*) the aggregate of all the annual travel costs to the taxpayer for the year in respect of all individuals who were members of the taxpayer's household at any time during the year."

S. 7304(4) was added by P.C. 1988-1105, SOR/88-312, dated June 6, 1988 and applicable to the 1987 and subsequent taxation years.

7305. For the purposes of subsection 80.3(4) of the Act, prescribed drought regions in respect of

(*a*) the 1995 calendar year are

(i) in Manitoba, the Local Government Districts of Alonsa, Fisher, Grahamdale, Grand Rapids and Mountain (South), the areas designated under The *Northern Affairs Act* (Manitoba) as the communities of Camperville, Crane River, Duck Bay,

Homebrook, Mallard, Meadow Portage, Rock Ridge, Spence Lake and Waterhen, the Rural Municipalities of Eriksdale, Lawrence, Mossey River, Ste. Rose and Siglunes, and Skownan,

(ii) in Saskatchewan, the Rural Municipalities of Antelope Park, Battle River, Beaver River, Biggar, Blaine Lake, Britannia, Buffalo, Cut Knife, Douglas, Eagle Creek, Eldon, Eye Hill, Frenchman Butte, Glenside, Grandview, Grass Lake, Great Bend, Heart's Hill, Hillsdale, Kindersley, Loon Lake, Manitou Lake, Mariposa, Mayfield, Meadow Lake, Medstead, Meeting Lake, Meota, Mervin, Milton, Mountain View, North Battleford, Oakdale, Paynton, Parkdale, Perdue, Pleasant Valley, Prairie, Prairiedale, Progress, Redberry, Reford, Round Hill, Round Valley, Rosemont, Senlac, Spiritwood, Tramping Lake, Turtle River, Wilton and Winslow, and

(iii) in Alberta, the Counties of Beaver, Camrose, Flagstaff, Lamont, Minburn, Paintearth, Smoky Lake, St. Paul, Strathcona, Thorhild, Two Hills and Vermilion River, the Municipal Districts of Bonnyville, MacKenzie, Northern Lights, Provost and Wainwright, and Special Areas 2, 3 and 4;

(*b*) the 1997 calendar year are

(i) in Ontario, the Counties of Hastings and Renfrew,

(ii) Nova Scotia,

(iii) in Manitoba, the Rural Municipalities of Albert, Alonsa, Archie, Arthur, Birtle, Boulton, Brenda, Cameron, Clanwilliam, Dauphin, Edward, Ellice, Glenella, Grahamdale, Harrison, Lakeview, Langford, Lansdowne, Lawrence, McCreary, Miniota, Minto, Morton, Ochre River, Park (South), Pipestone, Rosedale, Rossburn, Russell, Ste. Rose, Shellmouth, Shoal Lake, Sifton, Siglunes, Silver Creek, Strathclair, Turtle Mountain, Wallace, Westbourne, Whitewater and Winchester,

(iv) in Saskatchewan, the Rural Municipalities of Abernethy, Antelope Park, Antler, Argyle, Baildon, Bengough, Benson, Big Stick, Biggar, Bratt's Lake, Brock, Brokenshell, Browning, Buchanan, Calder, Caledonia, Cambria, Cana, Chester, Chesterfield, Churchbridge, Clinworth, Coalfields, Cote, Cymri, Deer Forks, Elcapo, Elmsthorpe, Emerald, Enniskillen, Enterprise, Estevan, Excel, Eye Hill, Fertile Belt, Fillmore, Foam Lake, Francis, Fox Valley, Garry, Glenside, Golden West, Good Lake, Grandview, Grass Lake, Grayson, Griffin, Happyland, Happy Valley, Hart Butte, Hazelwood, Heart's Hill, Indian Head, Insinger, Ituna Bon Accord, Invermay, Kellross, Key West, Keys, Kingsley, Lajord, Lake Alma, Lake Johnston, Lake of The Rivers, Langenburg, Laurier, Lipton, Livingston, Lomond, Maple Creek, Mariposa, Martin, Maryfield, McLeod, Milton, Montmartre, Moose Creek, Moose Jaw, Moose Mountain, Moosomin, Mountain View, Mount Pleasant, North Qu'Appelle, Norton, Oakdale, Orkney, Old Post, Poplar Valley, Prairie, Prairiedale, Progress, Reciprocity, Redburn, Reford, Rocanville, Rosemount, St. Philips, Saltcoats, Scott, Silverwood, Sliding Hills, Souris Valley, South Qu'Appelle, Spy Hill, Stanley, Stonehenge, Storthoaks, Surprise Valley, Tecumseh, Terrell, The Gap, Tramping Lake, Tullymet, Wallace, Walpole, Waverley, Wawken, Wellington, Weyburn, Willow Bunch, Willowdale, Winslow and Wolseley, and

(v) in Alberta, the County of Forty Mile, the Municipal Districts of Acadia Valley, Cypress, Pincher Creek, Provost and Willow Creek, and Special Areas 2, 3 and 4;

(*c*) the 1998 calendar year are

(i) in Ontario, the Counties of Bruce, Grey, Huron and Oxford, and the Districts of Nipissing, Parry Sound, Sudbury and Thunder Bay,

(ii) in Nova Scotia, the Counties of Annapolis, Colchester, Cumberland, Digby, Hants and Kings,

(iii) in Saskatchewan, the Rural Municipalities of Aberdeen, Antelope Park, Arlington, Auvergne, Battle River, Bayne, Beaver River, Biggar, Blaine Lake, Blucher, Bone Creek, Britannia, Buffalo, Canaan, Chaplin, Chesterfield, Clinworth, Corman Park, Coteau, Coulee, Cut Knife, Douglas, Dundurn, Eagle Creek, Eldon, Enfield, Excelsior, Eye Hill, Fertile Valley, Frenchman Butte, Frontier, Glen Bain, Glen McPherson, Glenside, Grandview, Grant, Grass Lake, Grassy Creek, Gravelbourg, Great Bend, Harris, Hart Butte, Heart's Hill, Hillsdale, Kindersley, King George, Lac Pelletier, Lacadena, Laird, Lake of The Rivers, Lawtonia, Lone Tree, Loon Lake, Loreburn, Mankota, Manitou Lake, Maple Bush, Mariposa, Marriott, Mayfield, Meadow Lake, Medstead, Meeting Lake, Meota, Mervin, Milden, Milton, Miry Creek, Monet, Montrose, Morse, Mountain View, Newcombe, North Battleford, Oakdale, Old Post, Parkdale, Paynton, Perdue, Pinto Creek, Pleasant Valley, Poplar Valley, Prairie, Prairiedale, Progress, Redberry, Reford, Reno, Riverside, Rosedale, Rosemount, Round Hill, Round Valley, Rosthern, Rudy, St. Andrews, Saskatchewan Landing, Senlac, Shamrock, Snipe Lake, Stonehenge, Swift Current, Tramping Lake, Turtle River, Val Marie, Vanscoy, Victory, Waverly, Webb, Whiska Creek, White Valley, Willow Bunch, Wilton, Winslow, Wise Creek, and Wood River, and

(iv) in Alberta, the Counties of Beaver, Camrose, Flagstaff, Grande Prairie, Lamont, Minburn, Paintearth, St. Paul, Smoky Lake, Stettler, Two Hills and Vermilion River, the Municipal Districts of Acadia, Big Lakes, Birch Hills, Bonnyville, Clear Hills, East Peace, Fairview, Greenview, Northern Lights, Peace, Provost, Saddle Hills, Smoky River, Spirit River, Starland, Wainwright and Yellowhead, and Special Areas 2, 3 and 4;

(*d*) the 1999 calendar year are

(i) in Nova Scotia, the Counties of Annapolis, Colchester, Cumberland, Digby, Hants, Kings and Yarmouth,

(ii) in British Columbia, the Peace River Regional District,

(iii) in Saskatchewan, the Rural Municipalities of Beaver River and Loon Lake, and

(iv) in Alberta, the Counties of Athabaska, Barrhead, Birch Hills, Grande Prairie, Lac Ste. Anne, Lakeland, Lamont, Saddle Hills, Smoky Lake, St. Paul, Thorhild, Two Hills, Westlock and Woodlands, and the Municipal Districts of Big Lakes, Bonnyville, Clear Hills, East Peace, Fairview, Greenview, Lesser Slave Lake, MacKenzie, Northern Lights, Peace, Smoky River and Spirit River;

(*e*) the 2000 calendar year are

(i) in British Columbia, the Regional District of East Kootenay,

(ii) in Saskatchewan, the Rural Municipalities of Antelope Park, Battle River, Big Stick, Biggar, Blaine Lake, Buffalo, Chesterfield, Clinworth, Cut Knife, Deer Forks, Douglas, Duck Lake, Eagle Creek, Enterprise, Eye Hill, Fox Valley, Glenside, Grandview, Grass Lake, Great Bend, Happyland, Hearth's Hill, Kindersley, Laird, Leask, Maple Creek, Mariposa, Marriott, Mayfield, Meeting Lake, Milton, Mountain View, Newcombe, North Battleford, Oakdale, Paynton, Piapot, Pleasant Valley, Prairiedale, Progress, Redberry, Reford, Reno, Rosemount, Rosthern, Round Valley, Senlac, St. Louis, Tramping Lake and Winslow, and

(iii) in Alberta, the Counties of Barrhead, Birch Hills, Cardston, Cypress, Flagstaff, Forty Mile, Grande Prairie, Kneehill, Lac Ste. Anne, Lethbridge, Newell, Paintearth, Saddle Hills, Starland, Stettler, Vulcan, Warner, Wheatland and Woodlands, the Improvement Districts of Kananaskis and Waterton, the Municipal Districts of Acadia, Fairview, Foothills, Greenview, Peace, Pincher Creek, Provost, Ranchland, Smoky River, Spirit River, Taber and Willow Creek, and the Municipality of Crowsnest Pass and Special Areas 2, 3, and 4;

(*f*) the 2001 calendar year are

(i) in Ontario, the Counties of Elgin, Essex, Haldimand, Hastings, Huron, Lambton, Lanark, Lennox and Addington, Middlesex, Norfolk, Northumberland, Oxford and Renfrew, the United Counties of Leeds and Grenville, the Frontenac Management Board, the Regional Municipality of Niagara, the Cities of Brant County, Brantford, Hamilton, Ottawa and Prince Edward County and the Municipality of Chatham-Kent,

(ii) in Quebec, the Magdalen Islands,

(iii) in Nova Scotia, the Counties of Annapolis, Antigonish, Cape Breton, Colchester, Cumberland, Digby, Hants, Inverness, Kings, Pictou, Richmond and Victoria,

(iv) in New Brunswick, the Counties of Albert, Kent and Westmorland,

(v) in Manitoba, the Rural Municipality of Kelsey,

(vi) in British Columbia, the Regional Districts of Central Kootenay, East Kootenay, Kootenay Boundary and Okanagan-Similkameen,

(vii) Prince Edward Island,

(viii) in Saskatchewan, the Rural Municipalities of Aberdeen, Abernethy, Antelope Park, Arborfield, Arlington, Arm River, Auvergne, Baildon, Barrier Valley, Battle River, Bayne, Beaver River, Bengough, Big Arm, Big Quill, Big River, Big Stick, Biggar, Birch Hills, Bjorkdale, Blaine Lake, Blucher, Bone Creek, Bratty Lake, Britannia, Brokenshell, Buchanan, Buckland, Buffalo, Calder, Caledonia, Cana, Canaan, Canwood, Carmichael, Caron, Chaplin, Chester, Chesterfield, Churchbridge, Clayton, Clinworth, Colonsay, Connaught, Corman Park, Cote, Coteau, Coulee, Craik, Cupar, Cut Knife, Deer Forks, Douglas, Duck Lake, Dufferin, Dundurn, Eagle Creek, Edenwold, Elcapo, Eldon, Elfros, Elmsthorpe, Emerald, Enfield, Enterprise, Excel, Excelsior, Eye Hill, Eyebrow, Fertile Valley, Fish Creek, Flett's Springs, Foam Lake, Fox Valley, Francis, Frenchman Butte, Frontier, Garden River, Garry, Glen Bain, Glen Mcpherson, Glenside, Good Lake, Grandview, Grant, Grass Lake, Grassy Creek, Gravelbourg, Grayson, Great Bend, Gull Lake, Happy Valley, Happyland, Harris, Hart Butte, Hazel Dell, Heart's Hill, Hillsborough, Hillsdale, Hoodoo, Hudson Bay, Humboldt, Huron, Indian Head, Insinger, Invergordon, Invermay, Ituna Bon Accord, Kellross, Kelvington, Key West, Keys, Kindersley, King George, Kingsley, Kinistino, Kutawa, Lac Pelletier, Lacadena, Laird, Lajord, Lake Johnston, Lake Lenore, Lake of The Rivers, Lakeland, Lakeside, Lakeview, Last Mountain Valley, Lawtonia, Leask, Leroy, Lipton, Livingston, Lone Tree, Longlaketon, Loon Lake, Loreburn, Lost River, Lumsden, Manitou Lake, Mankota, Maple Bush, Maple Creek, Mariposa, Marquis, Marriott, Mayfield, Mccraney, Mckillop, McLeod, Meadow Lake, Medstead, Meeting Lake, Meota, Mervin, Milden, Milton, Miry Creek, Monet, Montmartre, Montrose, Moose Jaw, Moose Range, Morris, Morse, Mount Hope, Mountain View, Newcombe, Nipawin, North Battleford, North Qu'Appelle, Norton, Oakdale, Old Post, Orkney, Paddockwood, Parkdale, Paynton, Pense, Perdue, Piapot, Pinto Creek, Pittville, Pleasant Valley, Pleasantdale, Ponass Lake, Poplar Valley, Porcupine, Prairie Rose, Prairiedale, Preeceville, Prince Albert, Progress, Redberry, Redburn, Reford, Reno, Riverside, Rodgers, Rosedale, Rosemount, Rosthern, Round Hill, Round Valley, Rudy, Saltcoats, Sarnia, Saskatchewan Landing, Sasman, Scott, Senlac, Shamrock, Shellbrook, Sherwood, Sliding Hills, Snipe Lake, South Qu'Appelle, Spalding, Spiritwood, St. Andrews, St. Louis, St. Peter, St. Philips, Stanley, Star City, Stonehenge, Surprise Valley, Sutton, Swift Current, Terrell, The Gap, Three Lakes, Tisdale, Torch River, Touchwood, Tramping Lake, Tullymet, Turtle River, Usborne, Val Marie, Vanscoy, Victory, Viscount, Wallace, Waverley, Webb, Wheatlands, Whiska Creek, White Valley, Willner, Willow Bunch, Willow Creek, Wilton, Winslow, Wise Creek, Wolseley, Wolverine, Wood Creek, Wood River and Wreford,

(ix) Alberta, and

(x) in Newfoundland and Labrador, the island of Newfoundland;

(g) the 2002 calendar year are

(i) in Ontario, the Counties of Bruce, Elgin, Lambton and Middlesex, the Municipality of Chatham-Kent, the District of Cochrane and the Regional Municipalities of Halton and Peel,

(ii) in Manitoba, the Rural Municipalities of Albert, Alonsa, Archie, Argyle, Arthur, Birtle, Blanshard, Brenda, Cameron, Clanwilliam, Coldwell, Cornwallis, Daly, Dauphin, Edward, Ellice, Elton, Eriksdale, Ethelbert, Gilbert Plains, Glenella, Glenwood, Grahamdale, Grandview, Hamiota, Harrison, Hillsburg, Kelsey, Langford, Lansdowne, Lawrence, McCreary, Miniota, Minitonas, Minto, Morton, Mossey River, Mountain, North Cypress, Oakland, Ochre River, Odanah, Park, Pipestone, Riverside, Roblin, Rosedale, Rossburn, Russell, Saskatchewan, Shell River, Shellmouth-Boulton, Shoal Lake, Sifton, Siglunes, Silver Creek, South Cypress, St. Laurent, Ste. Rose, Strathclair, Strathcona, Swan River, Turtle Mountain, Wallace, Whitehead, Whitewater, Winchester and Woodworth, and the unorganized territory that is north of the Rural Municipality of Alonsa, between that rural municipality and the south shore of Lake Manitoba,

(iii) in British Columbia, the Peace River Regional District,

(iv) in Saskatchewan, the Rural Municipalities of Aberdeen, Abernethy, Antelope Park, Antler, Arborfield, Argyle, Arlington, Arm River, Auvergne, Baildon, Barrier Valley, Battle River, Bayne, Beaver River, Big Arm, Big Quill, Big River, Big Stick, Biggar, Birch Hills, Bjorkdale, Blaine Lake, Blucher, Bone Creek, Britannia, Buchanan, Buckland, Buffalo, Calder, Cana, Canaan, Canwood, Carmichael, Caron, Chaplin, Chesterfield, Churchbridge, Clayton, Clinworth, Colonsay, Connaught, Corman Park, Cote, Coteau, Coulee, Craik, Cupar, Cut Knife, Deer Forks, Douglas, Duck Lake, Dufferin, Dundurn, Eagle Creek, Edenwold, Elcapo, Eldon, Elfros, Emerald, Enfield, Enniskillen, Enterprise, Excelsior, Eye Hill, Eyebrow, Fertile Belt, Fertile Valley, Fish Creek, Flett's Springs, Foam Lake, Fox Valley, Frenchman Butte, Frontier, Garden River, Garry, Glen Bain, Glen McPherson, Glenside, Good Lake, Grandview, Grant, Grass Lake, Grassy Creek, Gravelbourg, Grayson, Great Bend, Gull Lake, Happyland, Harris, Hazel Dell, Hazelwood, Heart's Hill, Hillsborough, Hillsdale, Hoodoo, Hudson Bay, Humboldt, Huron, Insinger, Invergordon, Invermay, Ituna Bon Accord, Kellross, Kelvington, Keys, Kindersley, King George, Kingsley, Kinistino, Kutawa, Lac Pelletier, Lacadena, Laird, Lake Johnston, Lake Lenore, Lakeland, Lakeside, Lakeview, Langenburg, Last Mountain Valley, Lawtonia, Leask, Leroy, Lipton, Livingston, Lone Tree, Longlaketon, Loon Lake, Loreburn, Lost River, Lumsden, Manitou Lake, Mankota, Maple Bush, Maple Creek, Mariposa, Marquis, Marriott, Martin, Maryfield, Mayfield, McCraney, McKillop, McLeod, Meadow Lake, Medstead, Meeting Lake, Meota, Mervin, Mlden, Milton, Miry Creek, Monet, Montrose, Moose Creek, Moose Jaw, Moose Mountain, Moose Range, Moosomin, Morris, Morse, Mount Hope, Mount Pleasant, Mountain View, Newcombe, Nipawin, North Battleford, North Qu'appelle, Oakdale, Orkney, Paddockwood, Parkdale, Paynton, Pense, Perdue, Piapot, Pinto Creek, Pittville, Pleasant Valley, Pleasantdale, Ponass Lake, Porcupine, Prairie Rose, Prairiedale, Preeceville, Prince Albert, Progress, Reciprocity, Redberry, Redburn, Reford, Reno, Riverside, Rocanville, Rodgers, Rosedale, Rosemount, Rosthern, Round Hill, Round Valley, Rudy, Saltcoats, Sarnia, Saskatchewan Landing, Sasman, Senlac, Shamrock, Shellbrook, Sherwood, Silverwood, Sliding Hills, Snipe Lake, Spalding, Spiritwood, Spy Hill, St. Andrews, St. Louis, St. Peter, St. Philips, Stanley, Star City, Storthoaks, Sutton, Swift Current, Three Lakes, Tisdale, Torch River, Touchwood, Tramping Lake, Tullymet, Turtle River, Usborne, Val Marie, Vanscoy, Victory, Viscount, Wallace, Walpole, Waverley, Wawken, Webb, Wheatlands, Whiska Creek, White Valley, Willner, Willow Creek, Willowdale, Wilton, Winslow, Wise Creek, Wolverine, Wood Creek, Wood River and Wreford, and

(v) Alberta;

(h) the 2003 calendar year are

(i) in Manitoba, the Rural Municipalities of Albert, Alonsa, Archie, Argyle, Armstrong, Arthur, Bifrost, Birtle, Blanshard, Brenda, Cameron, Clanwilliam, Coldwell, Cornwallis, Daly, Dauphin, Edward, Ellice, Elton, Eriksdale, Ethelbert, Fisher, Gilbert Plains, Gimli, Glenella, Glenwood, Grahamdale, Grandview, Hamiota, Harrison, Hillsburg, Kelsey, Lakeview, Langford, Lansdowne, Lawrence, Louise, McCreary, Miniota, Minitonas, Minto, Morton, Mossey River, Mountain, North Cypress, Oakland, Ochre River, Odanah, Park, Pipestone, Riverside, Roblin, Rockwood, Rosedale, Rossburn, Russell, Saskatchewan, Shell River, Shellmouth-Boulton, Shoal Lake, Sifton, Siglunes, Silver Creek, South Cypress, St. Laurent, Ste. Rose, Strathclair, Strathcona, Swan River, Turtle Mountain, Wallace, Westbourne, Whitehead, Whitewater, Winchester, Woodlands and Woodworth, the town of Grand Rapids and the Manitoba Census Consolidated Subdivision no. 19 (unorganized), as that subdivision was developed by Statistics Canada for the 2001 Census,

(ii) in British Columbia, the Regional Districts of Bulkley-Nechako, Cariboo, Central Kootenay, Central Okanagan, Columbia-Shuswap, East Kootenay, Fort Nelson-Liard, Fraser-Fort George, Kootenay Boundary, North Okanagan, Okanagan-Similkameen, Peace River, Spallumcheen, Squamish-Lillooet and Thompson-Nicola,

(iii) in Saskatchewan, the Rural Municipalities of Aberdeen, Abernethy, Antelope Park, Antler, Arborfield, Argyle, Barrier Valley, Battle River, Bayne, Beaver River, Benson, Big Quill, Big River, Biggar, Birch Hills, Bjorkdale, Blaine Lake, Blucher, Britannia, Brock, Brokenshell, Browning,

Buchanan, Buckland, Buffalo, Calder, Cana, Canaan, Canwood, Chesterfield, Churchbridge, Clayton, Clinworth, Coalfields, Colonsay, Connaught, Corman Park, Cote, Coteau, Coulee, Cupar, Cut Knife, Cymri, Deer Forks, Douglas, Duck Lake, Dufferin, Dundurn, Eagle Creek, Edenwold, Elcapo, Eldon, Elfros, Emerald, Enniskillen, Excelsior, Fertile Belt, Fertile Valley, Fish Creek, Flett's Springs, Foam Lake, Frenchman Butte, Garden River, Garry, Glenside, Good Lake, Grandview, Grant, Grayson, Great Bend, Griffin, Happyland, Harris, Hazel Dell, Hazelwood, Hillsdale, Hoodoo, Hudson Bay, Humboldt, Insinger, Invergordon, Invermay, Ituna Bon Accord, Kellross, Kelvington, Keys, Kindersley, King George, Kingsley, Kinistino, Kutawa, Lacadena, Laird, Lake Lenore, Lakeland, Lakeside, Lakeview, Langenburg, Last Mountain Valley, Leask, Leroy, Lipton, Livingston, Longlaketon, Loon Lake, Lumsden, Marriott, Martin, Maryfield, Mayfield, McKillop, McLeod, Meadow Lake, Medstead, Meeting Lake, Meota, Mervin, Milden, Milton, Miry Creek, Monet, Montrose, Moose Creek, Moose Mountain, Moose Range, Moosomin, Morse, Mount Hope, Mount Pleasant, Mountain View, Newcombe, Nipawin, North Battleford, North Qu'appelle, Oakdale, Orkney, Paddockwood, Parkdale, Paynton, Pense, Perdue, Pittville, Pleasant Valley, Pleasantdale, Ponass Lake, Porcupine, Prairie Rose, Prairiedale, Preeceville, Prince Albert, Reciprocity, Redberry, Redburn, Reford, Riverside, Rocanville, Rosemount, Rosthern, Round Hill, Rudy, Saltcoats, Sarnia, Saskatchewan Landing, Sasman, Shellbrook, Sherwood, Silverwood, Sliding Hills, Snipe Lake, Spalding, Spiritwood, Spy Hill, St. Andrews, St. Louis, St. Peter, St. Philips, Stanley, Star City, Storthoaks, Swift Current, Tecumseh, Three Lakes, Tisdale, Torch River, Touchwood, Tullymet, Turtle River, Usborne, Vanscoy, Victory, Viscount, Wallace, Walpole, Wawken, Webb, Weyburn, Willow Creek, Willowdale, Winslow and Wolverine, and

(iv) in Alberta, the Counties of Athabasca, Barrhead, Birch Hills, Brazeau, Cardston, Clearwater, Grande Prairie, Kneehill, Lac Ste. Anne, Lacombe, Lakeland, Leduc, Mountain View, Northern Sunrise, Parkland, Ponoka, Red Deer, Saddle Hills, Starland, Thorhild, Wetaskiwin, Woodlands and Yellowhead, the improvement districts of Banff, Jasper Park, Kananaskis, Waterton and Wilmore Wilderness, the municipal districts of Acadia, Big Lakes, Bighorn, Bonnyville, Clear Hills, Fairview, Greenview, MacKenzie, Northern Lights, Peace, Pincher Creek, Ranchland, Smoky River, Spirit River and Willow Creek, the municipalities of Crowsnest Pass and Jasper, and special areas 3 and 4;

(*i*) the 2004 calendar year are

(i) in British Columbia, the Regional District of Fort Nelson-Liard, and

(ii) in Alberta, the Counties of Beaver, Camrose, Flagstaff, Paintearth, Starland and Stettler, the Municipal Districts of Acadia, Clear Hills, Fairview, Mackenzie and Northern Lights, and Special Areas 2, 3 and 4; and

(*j*) the 2006 calendar year are

(i) in Ontario, the Territorial Districts of Algoma, Kenora, Manitoulin, Rainy River and Thunder Bay,

(ii) in British Columbia, the Regional Districts of Bulkley–Nechako, Cariboo, Fraser–Fort George, Kitimat–Stikine and Peace River,

(iii) in Saskatchewan, the Rural Municipalities of Arlington, Auvergne, Bengough, Big Stick, Bone Creek, Carmichael, Clinworth, Frontier, Glen McPherson, Grassy Creek, Gull Lake, Happy Valley, Hart Butte, Lac Pelletier, Lake Alma, Laurier, Lone Tree, Mankota, Maple Creek, Miry Creek, Old Post, Piapot, Pittville, Poplar Valley, Reno, Surprise Valley, The Gap, Val Marie, Waverley, Webb, Whiska Creek, White Valley, Willow Bunch and Wise Creek, and

(iv) in Alberta, the Counties of Clear Hills, Grande Prairie and Saddle Hills and the Municipal Districts of Greenview and Northern Lights.

Department of Finance Press Release

Notice of Ways and Means Motion Re Tax Deferral for Breeding Livestock in Flood Regions

[Reproduced below is Department of Finance News Release No. 2009-024, dated March 5, 2009, concerning a proposal to amend the rules in section 80.3 of the *Income Tax Act* and section 7305 of the Income Tax Regulations to allow tax deferral on the sale of breeding livestock in prescribed areas affected by flooding or excessive moisture, as is now the case for prescribed drought regions. The News Release also sets out areas of excessive moisture in Manitoba in 2008 that would qualify under this proposed amendment.]

The Honourable Jim Flaherty, Minister of Finance, today tabled in the House of Commons a Notice of Ways and Means Motion proposing tax amendments to help farmers who have had to deplete their breeding herds of grazing livestock as a result of flood or excessive moisture.

These income tax amendments will extend the existing rules that apply to farmers in prescribed drought regions. They will permit farmers, who dispose of such breeding livestock in a taxation year because of flood or excessive moisture, to exclude a portion of the sale proceeds from their incomes until the following taxation year. As a result, the full amount of the proceeds eligible for the deferral will be available to replenish their herds in the following taxation year.

In particular, this tax deferral will apply to sales of breeding herds of grazing livestock in a taxation year in regions that are prescribed, on the advice of the Minister of Agriculture and Agri-Food, as suffering from flood or other excessive moisture conditions significantly affecting forage yields in the year. This new measure will apply to the 2008 and subsequent taxation years. For 2008, 14 rural municipalities (St. Laurent, Coldwell, Eriksdale, Grahamdale, Fisher, Bifrost, Siglunes, Armstrong, Gimli, Alonsa, Mossey River, Ethelbert, Mountain South and Lawrence) and adjacent First Nations (Peguis, Fisher River, Lake Manitoba, Ebb and Flow, Sandy Bay, Little Saskatchewan, Lake St. Martin, Dauphin River, Kinonjeoshtegon, O-Chi-Chak-Ko-Sipi, Skownan and Pinaymootang), will qualify for the program, having suffered at least a 75 per cent decline in forage yields.

As with the existing rules applicable in respect of prescribed drought regions, the tax deferral will apply to unusually heavy sales, with the proportion of sales proceeds eligible for deferral rising with increasing levels of sales. The deferral will apply to proceeds from sales of grazing livestock where such sales result in a reduction of 15 per cent or more of the number of animals in a farmer's breeding herd. For sales which result in a reduction in excess of 15 per cent and less than 30 per cent of the breeding

herd, 30 per cent of the proceeds will be eligible for the deferral, while 90 per cent of the proceeds will be eligible for the deferral in respect of sales of 30 per cent or more of the animals in the herd.

Minister Flaherty announced the intention of the Government to introduce legislation to implement this proposal at the earliest opportunity.

Dept. of Agriculture/Agri-Food Canada Release
Designated Drought Regions for 2008

[On March 3, 2008, Agriculture and Agri-Food Canada released four News Releases, announcing the areas in Canada that qualify for the tax deferral for 2008 on income from drought-induced sales of breeding livestock, as prescribed in Regulation 7305 for purposes of subsection 80.3(4) of the Act. Reproduced below are excerpts from these four News Releases, setting out the areas in Alberta, British Columbia, Manitoba, and Saskatchewan.]

Federal Agriculture Minister Gerry Ritz today announced livestock producers in Alberta [British Columbia, Manitoba, and Saskatchewan] will be eligible for tax deferrals on livestock sold due to drought in 2008.

* * *

To defer income, the breeding herd must have been reduced by at least 15 per cent. Thirty per cent of income from net sales can be deferred if the breeding herd has been reduced by at least 15 per cent, but less than 30 per cent. Where the herd has been reduced by 30 per cent or more, 90 per cent of income from net sales can be deferred.

The deferral allows eligible producers in designated areas to defer income tax on the sale of breeding livestock for one year to help replenish breeding stock in the following year. In the case of consecutive years of drought designation, producers may defer sales income to the first year in which the area is no longer designated.

Eligible producers will be able to request this deferral when filing their 2008 income tax returns. Livestock producers are advised to contact their local Canada Revenue Agency Tax Services Office for details on the income tax provisions.

Alberta — Municipal Districts of Fairview and Spirit River, and Counties of Birch Hills, Grande Prairie No. 1, Saddle Hills, and Clear Hills.

British Columbia — Regional Districts of East Kootenay, Central Kootenay, Kootenay Boundary, and Peace River.

Manitoba — RM 100 Albert, RM 103 Arthur, RM 109 Brenda, RM 111 Cameron, RM 122 Edward, RM 131 Glenwood, RM 153 Morton, RM 162 Pipestone, RM 166 Riverside, RM 184 Sifton, RM 196 Killarney–Turtle Mountain, RM 204 Whitewater, and RM 205 Winchester.

Saskatchewan — RM 1 Argyle, RM 2 Mount Pleasant, RM 3 Enniskillen, RM 4 Coalfields, RM 5 Estevan, RM 6 Cambria, RM 7 Souris Valley, RM 8 Lake Alma, RM 9 Surprise Valley, RM 10 Happy Valley, RM 11 Hart Butte, RM 12 Poplar Valley, RM 17 Val Marie, RM 18 Lone Tree, RM 19 Frontier, RM 31 Storthoaks, RM 32 Reciprocity, RM 33 Moose Creek, RM 34 Browning, RM 35 Benson, RM 36 Cymri, RM 37 Lomond, RM 38 Laurier, RM 39 The Gap, RM 40 Bengough, RM 42 Willow Bunch, RM 43 Old Post, RM 44 Waverley, RM 45 Mankota, RM 46 Glen McPherson, RM 49 White Valley, RM 65 Tecumseh, RM 66 Griffin, RM 67 Weyburn, RM 68 Brokenshell, RM 69 Norton, RM 70 Key West, RM 71 Excel, RM 72 Lake of the Rivers, RM 73 Stonehenge, RM 74 Wood River, RM 75 Pinto Creek, RM 76 Auvergne, RM 77 Wise Creek, RM 78 Grassy Creek, RM 79 Arlington, RM 97 Wellington, RM 98 Scott, RM 99 Caledonia, RM 100 Elmsthorpe, RM 101 Terrell, RM 102 Lake Johnston, RM 103 Sutton, RM 104 Gravelbourg, RM 105 Glen Bain, RM 106 Whiska Creek, RM 107 Lac Pelletier, RM 108 Bone Creek, RM 127 Francis, RM 128 Lajord, RM 129 Bratt's Lake, RM 130 Redburn, RM 131 Baildon, RM 132 Hillsborough, RM 133 Rodgers, RM 134 Shamrock, RM 159 Sherwood, RM 160 Pense, RM 161 Moose Jaw, RM 162 Caron, and RM 191 Marquis.

Dept. of Agriculture/Agri-Food Canada Release
Designated Drought Regions for 2007

[On March 7, 2008, Agriculture and Agri-Food Canada released four News Releases, announcing the areas in Canada that qualify for the tax deferral for 2007 on income from drought-induced sales of breeding livestock, as prescribed in Regulation 7305 for purposes of subsection 80.3(4) of the Act. Reproduced below are excerpts from these four News Releases, setting out the areas in British Columbia, Alberta, Saskatchewan and Ontario.]

Owners of breeding livestock in certain areas ... who were forced to sell all or part of their herd in 2007 due to drought conditions will be eligible for a one-year tax deferral on 2007 income from these sales.

* * *

Thirty per cent of income from net sales can be deferred if the breeding herd has been reduced by at least 15 per cent, but less than 30 per cent. Where the herd has been reduced by 30 per cent or more, 90 per cent of income from net sales can be deferred. This will help replenish breeding stock in the coming year.

Eligible producers will be able to request this deferral when filing their 2007 income tax returns. Livestock producers are advised to contact their local Canada Revenue Agency Tax Services Office for details on the income tax provisions.

British Columbia — Regional District of Central Kootenay, Regional District of East Kootenay, Regional District of Kootenay Boundary, and Regional District of Okanagan-Similkameen

Alberta — Municipal District of Pincher Creek No. 9, Municipal District of Ranchland No. 66, Municipal District of Taber, Municipal District of Willow Creek No. 26, Municipality of Crowsnest Pass, Cardston County, Cypress County, County of Warner No. 5, County of Forty Mile No. 8, and County of Lethbridge

Saskatchewan — RM 10 Happy Valley, RM 11 Hart Butte, RM 12 Poplar Valley, RM 17 Val Marie, RM 18 Lone Tree, RM 19 Frontier, RM 40 Bengough, RM 42 Willow Bunch, RM 43 Old Post, RM 44 Waverley, RM 45 Mankota, RM 46 Glen McPherson, RM 49 White Valley, RM 51 Reno, RM 71 Excel, RM 72 Lake of the Rivers, RM 73 Stonehenge, RM 74 Wood River, RM 75 Pinto Creek, RM 76 Auvergne, RM 77 Wise Creek, RM 78 Grassy Creek, RM 79 Arlington, RM 105 Glen Bain, RM 106 Whiska Creek, RM 107 Lac Pelletier, RM 108 Bone Creek, RM 109 Carmichael, RM 110 Piapot, RM 111 Maple Creek, RM 135 Lawtonia, RM 136 Coulee, RM 137 Swift Current, RM 138 Webb, RM 139 Gull Lake, RM 141 Big Stick, RM 165 Morse, RM 166 Excelsior, RM 167 Saskatchewan Landing, RM 168 Riverside, RM 169 Pittville, and RM 229 Miry Creek

Ontario — City of Hamilton, City of Kawartha Lakes, City of Toronto, County of Brant, County of Bruce, County of Dufferin, County of Elgin, County of Essex, County of Frontenac, County of Grey, County of Haldimand, County of Hastings, County of Huron, County of Lambton, County of Lennox and Addington, County of Middlesex, County of Northumberland, County of Norfolk, County of Oxford, County of Perth, County of Peterborough, County of Prince Edward, County of Simcoe, County of Wellington, Municipality of Chatham-Kent, Regional Municipality of Durham, Regional Municipality of Halton, Regional Municipality of Niagara, Regional Municipality of Peel, Regional Municipality of Waterloo, Regional Municipality of York, Territorial District of Algoma, Territorial District of Manitoulin, Territorial District of Thunder Bay, and United Counties of Leeds and Greenville

History: S. 7305(*j*) was added by P.C. 2007-1444, SOR/2007-213, dated September 27, 2007, applicable to the 2006 calendar year.

S. 7305(*i*) was added by P.C. 2005-1656, SOR/2005-292, dated September 26, 2005, applicable to the 2004 calendar year.

S. 7305(*h*)(i) was replaced by P.C. 2005-1656, SOR/2005-292, dated September 26, 2005, to replace the reference to "Regional Municipalities" with "Rural Municipalities", applicable to the 2003 calendar year.

S. 7305(*h*) was added by P.C. 2004-1386, SOR/2004-260, dated November 23, 2004, applicable to the 2003 calendar year.

S. 7305(*g*) was added by P.C. 2004-246, SOR/2004-45, dated March 23, 2004, applicable to the 2002 calendar year.

S. 7305(*f*) was added by P.C. 2002-1412, SOR/2002-312, dated August 8, 2002, applicable to the 2001 calendar year.

S. 7305(*d*)(ii) was replaced by P.C. 2001-1369, SOR/2001-288, dated August 1, 2001, applicable to the 1999 calendar year. S. 7305(*d*)(ii) formerly read:

"(ii) in British Columbia, the Peace River Region,"

S. 7305(*e*) was added by P.C. 2001-1369, SOR/2001-288, dated August 1, 2001, applicable to the 2000 calendar year.

S. 7305(*d*) was added by P.C. 2000-1769, SOR/2001-3, dated December 13, 2000, applicable to the 1999 calendar year.

S. 7305(*a*) to (*c*) were amended and paragraphs (*d*) and (*e*) were revoked by P.C. 1999-1057, SOR/99-240, dated June 10, 1999, applicable after 1994. S. 7305(*a*) to (*e*) formerly read:

"(*a*) the 1988 calendar year are

(i) the Province of Ontario, other than the Counties of Bruce, Grey, Oxford and Cochrane,

(ii) the Provinces of Manitoba, Saskatchewan and Alberta, and

(iii) in the Province of British Columbia, the Regional Districts of Cariboo, Thompson–Nicola, Columbia–Shuswap, North Okanagan, Central Okanagan, Okanagan–Similkameen, Kootenay–Boundary, Central Kootenay and East Kootenay, Electoral Areas A, B and C of the Squamish–Lillooet Regional District, Electoral Areas A, B and C of the Fraser–Cheam Regional District and Electoral Area H of the Fraser–Fort George Regional District;

(*b*) the 1989 calendar year are

(i) the Province of Manitoba, other than the Rural Municipalities of Bifrost, Coldwell, Gimli, St. Laurent, Woodlands, Portage La Prairie, St. François Xavier, Grey, MacDonald, Franklin, De Salaberry, Ritchot, Hanover, La Broquerie, Ste. Anne, Taché, West St. Paul, Springfield, Whitemouth, Lac Du Bonnet, Brokenhead, St. Clements, East St. Paul, Rosser, Cartier, Rockwood and St. Andrews, and the Local Government Districts of Fisher, Armstrong, Stuartburn, Piney, Reynolds and Alexander,

(ii) the Province of Saskatchewan, other than the Rural Municipalities of Mervin, Frenchman Butte, Greenfield, Loon Lake, Meadow Lake and Beaver River, and

(iii) in the Province of Alberta, the Counties of Forty Mile, Lethbridge, Vulcan, Newell, Wheatland and Vermilion River, the Municipal Districts of Taber, Willow Creek, Foothills, Acadia, Provost and Wainwright, Improvement District 1 and Special Areas 2, 3 and 4;

(*c*) the 1990 calendar year are

(i) in the Province of Saskatchewan, the Rural Municipalities of Happy Valley, Hart Butte, Poplar Valley, Val Marie, Lone Tree, Frontier, Bengough, Willow Bunch, Old Post, Waverley, Mankota, Glen McPherson, White Valley, Reno, Stonehenge, Wood River, Pinto Creek, Auvergne, Wise Creek, Grassy Creek, Arlington, Bone Creek, Carmichael, Piapot, Maple Creek, Webb, Gull Lake, Big Stick, Enterprise, Riverside, Pittville, Fox Valley, Lacadena, Miry Creek, Clinworth, Happyland, Deer Forks, Monet, Snipe Lake, Newcombe, Chesterfield, Pleasant Valley, Kindersley, Milton, Mountain View, Winslow, Oakdale, Prairiedale, Antelope Park, Grandview, Mariposa, Progress, Heart's Bill, Reford, Tramping Lake, Grass Lake, Eye Hill, Buffalo, Round Valley, Senlac, Cut Knife, Hillsdale, Manitou Lake, Turtle River, Paynton, Eldon, Wilton, Mervin, Frenchman Butte, Brittania, Greenfield, Loon Lake and Beaver River, and

(ii) in the Province of Alberta, the Counties of Beaver, Lamount, Minburn, Newell, Smokey Lake, St. Paul, Two Hills, Vermilion River and Vulcan, the Municipal Districts of Cypress (also known as Improvement District 1), Acadia, Bonnyville, Provost, Wainwright and Taber, Improvement District 18, and Special Areas 2, 3 and 4;

(*d*) the 1991 calendar year are, in the Province of Alberta, the Counties of Athabasca, Beaver, Lamont, Minburn, Smoky Lake, St. Paul, Thorhild, Two Hills and Vermilion River, the Municipal Districts of Acadia, Bonnyville, Wainwright and Westlock, Improvement District 18 South and Special Areas 2, 3 and 4; and

(*e*) the 1992 calendar year are

(i) in the Province of British Columbia, the Regional Districts of Bulkley-Nechako, Cariboo, Fraser-Fort George and Peace River,

(ii) in the Province of Saskatchewan, the Rural Municipalities of Arborfield, Arlington Auvergne, Baildon, Barrier Valley, Battle River, Bayne, Beaver River, Bengough, Biggar, Big Quill, Big Stick, Birch Hills, Bjorkdale, Bone Creek, Bratt's Lake, Britannia, Buckland, Buffalo, Canaan, Carmichael, Caron, Chaplin, Chesterfield, Clayton, Clinworth, Connaught, Coulee, Cupar, Cut Knife, Deer Forks, Douglas, Eldon, Elmsthorpe, Enfield, Enterprise, Excel, Excelsior, Eyebrow, Eye Hill, Fish Creek, Flett's Springs, Fox Valley, Frenchman Butte, Frontier, Garden River, Glen Bain, Glen McPherson, Glenside, Grandview, Grant, Grass Lake, Grassy Creek, Gravelbourg, Great Bend, Gull Lake, Happyland, Happy Valley, Hart Butte, Hillsborough, Hillsdale, Hoodoo, Hudson Bay, Humboldt, Invergordon, Ituna Bon Accord, Kellross, Kelvington, Key West, Kinistino, Kutawa, Lacadena, Lac Pelletier, Lake Johnston, Lake Lenore, Lake of The Rivers, Lakeside, Lawtonia, Leroy, Lipton, Livingston, Lone Tree, Loon Lake, Manitou Lake, Mankota, Maple Creek, Mariposa, Marquis, Marriott, Mayfield, Medstead, Meeting Lake, Meota, Mervin, Miry Creek, Monet, Moose Jaw, Moose Range, Morse, Mountain View, Newcombe, Nipawin, North Battleford, Oakdale, Old Post, Parkdale, Paynton, Pense, Piapot, Pinto Creek, Pittville, Pleasantdale, Pleasant Valley, Ponass Lake, Poplar Valley, Porcupine, Prairie, Prairie Rose, Prince Albert, Progress, Redberry, Redburn, Reford, Reno, Riverside, Rodgers, Rosemount, Round Hill, Round Valley, St. Andrews, St. Louis, St. Peter, Saskatchewan Landing, Senlac, Shamrock, Sherwood, Snipe Lake, Spalding, Star City, Stonehenge, Surprise Valley, Sutton, Swift Current, Terrell, The Gap, Three Lakes, Tisdale, Torch River, Touchwood, Tramping Lake, Tullymet, Turtle River, Val Marie, Victory, Waverley, Webb, Wheatlands, Whiska Creek, White Valley, Willow Bunch, Willow Creek, Wilton, Winslow, Wise Creek, Wolverine and Wood River, and

(iii) in the Province of Alberta, the Counties of Athabasca, Barrhead, Beaver, Camrose, Flagstaff, Forty Mile, Grande Prairie, Lac Ste. Anne, Lamont, Leduc, Lethbridge, Minburn, Parkland, Smoky Lake, St. Paul, Strathcona, Thorhild, Two Hills, Vermilion River and Warner, the Municipal Districts of Bonnyville, Brazeau, Cardston, Cypress, Fairview, Peace, Provost, Smoky River, Spirit River, Sturgeon, Taber, Wainwright and Westlock, Improvement Districts 14, 15, 16, 17 East, 17 West, 18 South, 19, 20, 21, 22 and 23, and the City of Edmonton."

S. 7305(*e*) was added by P.C. 1993-1210, SOR/93-300, dated June 8, 1993, applicable after 1991.

S. 7305(*d*) was added by P.C. 1992-2542, SOR/92-732, dated December 10, 1992, applicable after 1990.

S. 7305 was added by P.C. 1991-464, SOR/91-195, dated March 14, 1991, applicable after 1987.

7305.01. For the purposes of subsection 80.3(4) of the Act, the prescribed drought regions in respect of a year include any particular area that is surrounded by a region or regions prescribed under section 7305 in respect of the year.

History: S. 7305.01 was added by P.C. 2000-1769, SOR/2001-3, dated December 13, 2000, applicable after 1987.

7305.1. For the purpose of subparagraph (v) of the description of A in paragraph 6(1)(*k*) of the Act, the amount prescribed for a taxation year is

(*a*) if a taxpayer is employed in a taxation year by a particular person principally in selling or leasing automobiles and an automobile is made available in the year to the taxpayer or a person related to the taxpayer by the particular person or a person related to the particular person, 21 cents; and

(*b*) in any other case, 24 cents.

Department of Finance Press Release
2009 Automobile Deduction Limits and Expense Benefit Rates for Business

[Reproduced below is an excerpt from Department of Finance News Release No. 2008-114, dated December 30, 2008, which states that the rates to be used for 2009 for the calculation of taxable benefits relating to automobile operating expenses remain unchanged from the level for 2008.]

* * *

- The general prescribed rate used to determine the taxable benefit relating to the personal portion of automobile operating expenses paid by employers for 2009 will remain at 24 cents per kilometre. For taxpayers employed principally in selling or leasing automobiles, the prescribed rate will remain at 21 cents per kilometre. The additional benefit of having an employer-provided vehicle available for personal use (i.e., the automobile standby charge) is calculated separately and is also included in the employee's income.

* * *

History: S. 7305.1(*a*) and (*b*) were replaced by S.C. 2009, c. 2, s. 113(1), applicable to taxation years that end after 2007. S. 7305.1(*a*) and (*b*) formerly read:

"(*a*) if a taxpayer is employed in a taxation year by a particular person principally in selling or leasing automobiles and an automobile is made available in the year to the taxpayer or a person related to the taxpayer by the particular person or a person related to the particular person, 19 cents; and

(*b*) in any other case, 22 cents."

S. 7305.1(*a*) and (*b*) were replaced by P.C. 2006-1104, SOR/2006-250, dated November 1, 2006, applicable to taxation years that end after 2005. S. 7305.1(*a*) and (*b*) formerly read:

"(*a*) if a taxpayer is employed in a taxation year by a particular person principally in selling or leasing automobiles and an automobile is made available in the year to the taxpayer or a person related to the taxpayer by the particular person or a person related to the particular person, 17 cents; and

(*b*) in any other case, 20 cents."

S. 7305.1(*a*) and (*b*) were replaced by P.C. 2005-1509, SOR/2005-265, dated August 31, 2005, applicable to taxation years that end after 2004. S. 7305.1(*a*) and (*b*) formerly read:

"(*a*) if a taxpayer is employed in a taxation year by a particular person principally in selling or leasing automobiles and an automobile is made available in the year to the taxpayer or a person related to the taxpayer by the particular person or a person related to the particular person, 14 cents; and

(*b*) in any other case, 17 cents."

S. 7305.1(*a*) and (*b*) were replaced by P.C. 2003-1110, SOR/2003-266, dated July 24, 2003, applicable to taxation years that end after 2002. S. 7305.1(*a*) and (*b*) formerly read:

"(*a*) if a taxpayer is employed in a taxation year by a particular person principally in selling or leasing automobiles and an automobile is made available in the year to the taxpayer or a person related to the taxpayer by the particular person or a person related to the particular person, 13 cents; and

(*b*) in any other case, 16 cents."

S. 7305.1(*a*) and (*b*) were amended by P.C. 2001-1235, SOR/2001-253, dated July 12, 2001, applicable to taxation years that end after 2000. S. 7305.1(*a*) and (*b*) formerly read:

"(*a*) if a taxpayer is employed in a taxation year by a particular person principally in selling or leasing automobiles and an automobile is made available in the year to the taxpayer or a person related to the taxpayer by the particular person or a person related to the particular person, 12 cents; and

(*b*) in any other case, 15 cents."

S. 7305.1(*a*) and (*b*) were amended by P.C. 2000-1330, SOR/2000-326, dated August 23, 2000, applicable to taxation years ending after 1999. S. 7305.1(*a*) and (*b*) formerly read:

"(*a*) if a taxpayer is employed in a taxation year by a particular person principally in selling or leasing automobiles and an automobile is made available in the year to the taxpayer or a person related to the taxpayer by the particular person or a person related to the particular person, 11 cents; and

(*b*) in any other case, 14 cents."

S. 7305.1(*a*) and (*b*) were amended by P.C. 1999-1056, SOR/99-239, dated June 10, 1999, applicable to taxation years that end after 1996. S. 7305.1(*a*) and (*b*) formerly read:

"(*a*) if a taxpayer is employed in a taxation year by a particular person principally in selling or leasing automobiles and an automobile is made available in the year to the taxpayer or a person related to the taxpayer by the particular person or a person related to the particular person, 10 cents; and

(*b*) in any other case, 13 cents."

S. 7305.1 was amended by P.C. 1999-1056, SOR/99-239, dated June 10, 1999, applicable to taxation years that end after 1995. S. 7305.1 formerly read:

"S. 7305.1. (1) Except where subsection (2) applies, for the purpose of subparagraph 6(1)(*k*)(v) of the Act, the amount prescribed for a taxation year ending after 1992 is 12 cents.

(2) For the purpose of subparagraph 6(1)(*k*)(v) of the Act, where a taxpayer is employed in a taxation year ending after 1993 by a particular person principally in selling or leasing automobiles and an automobile is made available in the year to the taxpayer or a person related to the taxpayer by the particular person or a person related to the particular person, the amount prescribed for the taxpayer in respect of the automobile for the year is 9 cents."

S. 7305.1(1) was added by P.C. 1995-775, SOR/95-244, dated May 16, 1995, applicable to the 1993 and subsequent taxation years.

S. 7305.1(2) was added by P.C. 1995-775, SOR/95-244, dated May 16, 1995, applicable to the 1994 and subsequent taxation years.

Income Tax Technical News: Issue No. 12, 1998 deduction limits and benefit rates for automobiles; Issue No. 10, 1997 deduction limits and benefit rates for automobiles.

7306. For the purposes of paragraph 18(1)(*r*) of the Act, the amount in respect of the use of one or more automobiles in a taxation year by an individual for kilometres driven in the year for the purpose of earning income of the individual is the total of

(*a*) the product of 46 cents multiplied by the number of those kilometres;

(*b*) the product of 6 cents multiplied by the lesser of 5,000 and the number of those kilometres; and

(*c*) the product of 4 cents multiplied by the number of those kilometres driven in the Yukon Territory, the Northwest Territories or Nunavut.

Department of Finance Press Release
2009 Automobile Deduction Limits and Expense Benefit Rates for Business

[Reproduced below is an excerpt from Department of Finance News Release No. 2008-114, dated December 30, 2008, which states that the limit for tax-exempt automobile allowances for 2009 remains unchanged from the level for 2008.]

* * *

- The limit on the deduction of tax-exempt allowances paid by employers to employees using their personal vehicle for business purposes for 2009 will remain at 52 cents per kilometre for the first 5,000 kilometres driven and 46 cents for each additional kilometre. For the Yukon Territory, Northwest Territories and Nunavut, the tax-exempt allowance will remain at 56 cents for the first 5,000 kilometres driven and 50 cents for each additional kilometre.

* * *

History: S. 7306(*a*) was replaced by S.C. 2009, c. 2, s. 114(1), applicable to kilometres driven after 2007. S. 7306(*a*) formerly read:

"(*a*) the product of 44 cents multiplied by the number of those kilometres;"

S. 7306(*a*) was replaced by P.C. 2006-1104, SOR/2006-250, dated November 1, 2006, applicable to kilometres driven after 2005. S. 7306(*a*) formerly read:

"(*a*) the product of 39 cents multiplied by the number of those kilometres;"

S. 7306(*a*) was replaced by P.C. 2005-1509, SOR/2005-265, dated August 31, 2005, applicable to kilometres driven after 2004. S. 7306(*a*) formerly read:

"(*a*) the product of 36 cents multiplied by the number of those kilometres;"

S. 7306(*a*) was replaced by P.C. 2003-1110, SOR/2003-266, dated July 24, 2003, applicable to kilometres driven after 2002. S. 7306(*a*) formerly read:

"(*a*) the product of 35 cents multiplied by the number of those kilometres;"

S. 7306(*a*) was amended by P.C. 2001-1235, SOR/2001-253, dated July 12, 2001, applicable to kilometres driven after 2000. S. 7306(*a*) formerly read:

"(*a*) the product of 31 cents multiplied by the number of those kilometres;"

S. 7306(*a*) was amended by P.C. 2000-1330, SOR/2000-326, dated August 23, 2000, applicable to kilometres driven after 1999. S. 7306(*a*) formerly read:

"(*a*) the product of 29 cents multiplied by the number of those kilometres;"

S. 7306(*c*) was amended by P.C. 1999-1056, SOR/99-239, dated June 10, 1999, applicable to kilometres driven after March 1999. S. 7306(*c*) formerly read:

"(*c*) the product of 4 cents multiplied by the number of those kilometres driven in the Yukon Territory or the Northwest Territories."

S. 7306(*a*) was amended by P.C. 1999-1056, SOR/99-239, dated June 10, 1999, applicable to kilometres driven after 1996. S. 7306(*a*) formerly read:

"(*a*) the product of 27 cents multiplied by the number of those kilometres;"

S. 7306(*a*) was amended by P.C. 1999-1056, SOR/99-239, dated June 10, 1999, applicable to kilometres driven after 1995. S. 7306(*a*) formerly read:

"(*a*) the product of 25 cents multiplied by the number of those kilometres;"

S. 7306 was amended by P.C. 1999-1056, SOR/99-239, dated June 10, 1999, applicable to kilometres driven after 1994. S. 7306 formerly read:

"S. 7306. For the purposes of paragraph 18(1)(*r*) of the Act, the amount in respect of the use of one or more automobiles in a taxation year by an individual is the aggregate of

(*a*) in respect of kilometres driven after 1987 for the purpose of earning income of the individual, the aggregate of

(i) 27 cents multiplied by the number of such kilometres, up to and including 5,000, driven in the year,

(ii) 21 cents multiplied by the number of such kilometres in excess of 5,000 driven in the year, and

(iii) 4 cents multiplied by the number of such kilometres driven in the year in the Yukon Territory or the Northwest Territories, and

(*b*) in respect of kilometres driven after August 1989 for the purpose of earning income of the individual, 4 cents multiplied by the number of such kilometres driven in the year."

S. 7306 was added by P.C. 1991-2272, SOR/91-673, dated November 21, 1991, applicable in respect of allowances paid for use after 1987 of automobiles.

Income Tax Technical News: Issue No. 12, 1998 deduction limits and benefit rates for automobiles; Issue No. 10, 1997 deduction limits and benefit rates for automobiles.

7307. (1) For the purposes of subsection 13(2), paragraph 13(7)(*g*), subparagraph 13(7)(*h*)(iii), subsections 20(4) and (16.1), the description of B in paragraph 67.3(*d*) and subparagraph 85(1)(*e.4*)(i) of the Act, the amount prescribed is

(*a*) with respect to an automobile acquired, or leased under a lease entered into, after August 1989 and before 1991, $24,000; and

(*b*) with respect to an automobile acquired, or leased under a lease entered into, after 1990, the amount determined by the formula

A + B

where

A is, with respect to an automobile acquired, or leased under a lease entered into,

(i) before 1997, $24,000,

(ii) in 1997, $25,000,

(iii) in 1998 or 1999, $26,000,

(iv) in 2000, $27,000, or

(v) after 2000, $30,000, and

B is the sum that would have been payable in respect of federal and provincial sales taxes on the acquisition of the automobile if it had been acquired, at a cost equal to A before the application of the federal and provincial sales taxes, if the automobile

(i) was acquired, at the time of the acquisition, or

(ii) was leased, at the time the lease was entered into.

Department of Finance Press Release
2009 Automobile Deduction Limits and Expense Benefit Rates for Business

[Reproduced below is an excerpt from Department of Finance News Release No. 2008-114, dated December 30, 2008, which states that the maximum allowable cost of a passenger vehicle purchased in 2009 remains at $30,000, unchanged from the level for 2008.]

* * *

- The ceiling on the capital cost of passenger vehicles for capital cost allowance (CCA) purposes will remain at $30,000 (plus applicable federal and provincial sales taxes) for purchases after 2008. This ceiling restricts the cost of a vehicle on which CCA may be claimed for business purposes.

* * *

History: S. 7307(1)(*b*), subparagraph (iv) of the description of A was amended, and subparagraph (v) was added, by P.C. 2001-1235, SOR/2001-253, dated July 12, 2001, applicable after 2000. S. 7307(1)(*b*). S. 7307(1)(*b*), subparagraph (iv) of the description of A formerly read:

"(iv) after 1999, $27,000, and"

S. 7307(1)(*b*), subparagraph (iii) of the description of A was amended, and subparagraph (iv) was added, by P.C. 2000-1330, SOR/2000-326, dated August 23, 2000, applicable after 1999. S. 7307(1)(*b*). S. 7307(1)(*b*), subparagraph (iii) of the description of A formerly read:

"(iii) after 1997, $26,000, and"

S. 7307(1)(*b*) was amended by P.C. 1999-1056, SOR/99-239, dated June 10, 1999, applicable after 1996. S. 7307(1)(*b*) formerly read:

"(*b*) with respect to an automobile acquired, or leased under a lease entered into, after 1990, the amount equal to the aggregate of

(i) $24,000,

(ii) where the automobile was acquired, the federal and provincial sales taxes that would have been payable on the acquisition of the automobile if it had been acquired at a cost, before those taxes, of $24,000, and

(iii) where the automobile was leased, the federal and provincial sales taxes that would have been payable on the acquisition of the automobile if it had been acquired at the time the lease was entered into at a cost, before those taxes, of $24,000."

S. 7307(1), the part preceding paragraph (*a*), was amended by P.C. 1995-775, SOR/95-244, dated May 16, 1995, to add the reference to subsection 20(4), applicable with respect to automobiles acquired, or leased under leases entered into, after August 31, 1989.

S. 7307(1), the part preceding paragraph (*a*), was amended by P.C. 1994-103, SOR/94-128, dated January 20, 1994, applicable with respect to automobiles acquired, or leased under leases entered into, after August 31, 1989. That part formerly read:

"(1) For the purposes of subsection 13(2), paragraph 13(7)(*g*), subparagraph 13(7)(*h*)(iii), subsection 20(16.1) and the description of B in paragraph 67.3(*d*) of the Act, the amount prescribed is"

S. 7307(1) was added by P.C. 1991-2272, SOR/91-673, dated November 21, 1991, effective December 4, 1991.

Interpretation Bulletins: *Secondary* — IT-291R3 Transfer of property to a corporation under subsection 85(1); IT-478R2 Capital cost allowance — Recapture and terminal loss.

Income Tax Technical News: Issue No. 12, 1998 deduction limits and benefit rates for automobiles; Issue No. 10, 1997 deduction limits and benefit rates for automobiles.

(2) For the purpose of the description of A in section 67.2 of the Act, the amount prescribed in respect of an automobile that is acquired either after August 1989 and before 1997 or after 2000 is $300.

Department of Finance Press Release
2009 Automobile Deduction Limits and Expense Benefit Rates for Business

[Reproduced below is an excerpt from Department of Finance News Release No. 2008-114, dated December 30, 2008, which states that the maximum allowable interest deduction on amounts borrowed to purchase a passenger vehicle in 2009 remains at $300, unchanged from the level for 2008.]

* * *

- The maximum allowable interest deduction for amounts borrowed to purchase an automobile will remain at $300 per month for loans related to vehicles acquired after 2008.

* * *

History: S. 7307(2) was added by P.C. 2001-1235, SOR/2001-253, dated July 12, 2001, applicable after 2000.

S. 7307(2) was revoked by P.C. 1999-1056, SOR/99-239, dated June 10, 1999, applicable in respect of automobiles acquired after 1996. S. 7307(2) formerly read:

"(2) For the purpose of the description of A in section 67.2 of the Act, the amount prescribed in respect of an automobile acquired after August 1989 is $300."

S. 7307(2) was added by P.C. 1991-2272, SOR/91-673, dated November 21, 1991, effective December 4, 1991.

Income Tax Technical News: Issue No. 12, 1998 deduction limits and benefit rates for automobiles; Issue No. 10, 1997 deduction limits and benefit rates for automobiles.

(3) For the purpose of the description of A in paragraph 67.3(*c*) of the Act, the amount prescribed in respect of a taxation year of a lessee is, with respect to an automobile leased under a lease entered into

(*a*) after August 1989 and before 1991, $650; and

(*b*) after 1990, the amount determined by the formula

A + B

where

A is

(i) for leases entered into after 1990 but before 1997, $650,

(ii) for leases entered into in 1997, $550,

(iii) for leases entered into in 1998 or 1999, $650,

(iv) for leases entered into in 2000, $700, and

(v) for leases entered into after 2000, $800, and

B is the sum of the federal and provincial sales taxes that would have been payable on a monthly payment under the lease in the taxation year of the lessee if, before those taxes, the lease had required monthly payments equal to A.

Department of Finance Press Release
2009 Automobile Deduction Limits and Expense Benefit Rates for Business

[Reproduced below is an excerpt from Department of Finance News Release No. 2008-114, dated December 30, 2008, which states that the maximum deductible monthly leasing cost for passenger vehicle leases entered into in 2009 remains at $800, unchanged from the level for 2008.]

* * *

- The limit on deductible leasing costs will remain at $800 per month (plus applicable federal and provincial sales taxes) for leases entered into after 2008. This limit is one of two restrictions on the deduction of automobile lease payments. A separate restriction prorates deductible lease costs where the value of the vehicle exceeds the capital cost ceiling.

* * *

History: S. 7307(3)(*b*), subparagraph (iv) of the description of A was amended, and subparagraph (v) was added, by P.C. 2001-1235, SOR/2001-253, dated July 12, 2001, applicable after 2000. S. 7307(3)(*b*). S. 7307(3)(*b*), subparagraph (iv) of the description of A formerly read:

"(iv) for leases entered into after 1999, $700, and"

S. 7307(3)(*b*), subparagraphs (i) and (ii) of the description of A were amended, and subparagraphs (iii) and (iv) were added by P.C. 2000-1330, SOR/2000-326, dated August 23, 2000, applicable after 1999. S. 7307(3)(*b*). S. 7307(3)(*b*), subparagraphs (i) and (ii) of the description of A formerly read:

"(i) for such leases, other than leases entered into in 1997, $650, and

(ii) for such leases entered into in 1997, $550."

S. 7307(3)(*b*) was amended by P.C. 1999-1056, SOR/99-239, dated June 10, 1999, applicable after 1996. S. 7307(3)(*b*) formerly read:

"(*b*) after 1990, the amount equal to the aggregate of

(i) $650, and

(ii) the greatest amount of federal and provincial sales taxes that would have been payable on a monthly payment under the lease in the taxation year of the lessee, if the lease had required monthly payments, before those taxes, of $650."

S. 7307(3) was added by P.C. 1991-2272, SOR/91-673, dated November 21, 1991, effective December 4, 1991.

Income Tax Technical News: Issue No. 12, 1998 deduction limits and benefit rates for automobiles; Issue No. 10, 1997 deduction limits and benefit rates for automobiles.

(4) For the purpose of the description of C in paragraph 67.3(*d*) of the Act, the amount prescribed in respect of an automobile leased under a lease entered into after August 1989 is the amount equal to $^{100}/_{85}$ of the amount determined in accordance with subsection (1) in respect of the automobile.

History: S. 7307(4) was added by P.C. 1991-2272, SOR/91-673, dated November 21, 1991, effective December 4, 1991.

Income Tax Technical News: Issue No. 12, 1998 deduction limits and benefit rates for automobiles; Issue No. 10, 1997 deduction limits and benefit rates for automobiles.

7308. (1) In this section, "carrier" has the meaning assigned by subsection 146.3(1) of the Act.

History: S. 7308(1) was added by P.C. 1994-102, SOR/94-127, dated January 20, 1994, applicable to the 1992 and subsequent taxation years.

(2) For the purposes of this section, a retirement income fund is a qualifying retirement income fund at a particular time if

(*a*) the fund was entered into before 1993 and the carrier has not accepted any property as consideration under the fund after 1992 and at or before the particular time, or

(*b*) the carrier has not accepted any property as consideration under the fund after 1992 and at or before the particular time, other than property transferred from a retirement income fund that, immediately before the time of the transfer, was a qualifying retirement income fund.

History: S. 7308(2) was added by P.C. 1994-102, SOR/94-127, dated January 20, 1994, applicable to the 1992 and subsequent taxation years.

(3) For the purposes of the definition "minimum amount" in subsection 146.3(1) of the Act, the prescribed factor in respect of an individual for a year in connection with a retirement income fund that was a qualifying retirement income fund at the beginning of the year is the factor, determined pursuant to the following table, that corresponds to the age in whole years (in the table referred to as "X") attained by the individual at the beginning of that year or that would have been so attained by the individual if the individual had been alive at the beginning of that year.

X	*Factor*
under 79	1/(90 – X)
79	.0853
80	.0875
81	.0899
82	.0927
83	.0958
84	.0993
85	.1033
86	.1079
87	.1133
88	.1196
89	.1271
90	.1362
91	.1473
92	.1612
93	.1792
94 or older	.2

History: S. 7308(3), the portion before the table, was amended by P.C. 2000-184, SOR/2000-63, dated February 17, 2000, applicable to the 1998 and subsequent taxation years. That portion formerly read:

"(3) For the purposes of the definition 'minimum amount' in subsection 146.3(1) of the Act, the prescribed amount in respect of an individual for a year in connection with a retirement income fund that was a qualifying retirement income fund at the beginning of the year is the factor, determined pursuant to the following table, that corresponds to the age in whole years (in the table referred to as 'X') attained by the individual at the beginning of that year or that would have been so attained by the individual if the individual had been alive at the beginning of that year."

S. 7308(3) was added by P.C. 1994-102, SOR/94-127, dated January 20, 1994, applicable to the 1992 and subsequent taxation years.

(4) For the purposes of the definition "minimum amount" in subsection 146.3(1) of the Act and subsection 8506(5), the prescribed factor in respect of an individual for a year in connection with a retirement income fund (other than a fund that was a qualifying retirement income fund at the beginning of the year) or the designated factor in respect of an individual for a year in connection with an account under a money purchase provision of a registered pension plan, as the case may be, is the factor, determined in accordance with the following table, that corresponds to

the age in whole years (in the table referred to as "Y") attained by the individual at the beginning of the year or that would have been so attained by the individual if the individual was alive at the beginning of the year.

Y	*Factor*
under 71	1/(90 – Y)
71	.0738
72	.0748
73	.0759
74	.0771
75	.0785
76	.0799
77	.0815
78	.0833
79	.0853
80	.0875
81	.0899
82	.0927
83	.0958
84	.0993
85	.1033
86	.1079
87	.1133
88	.1196
89	.1271
90	.1362
91	.1473
92	.1612
93	.1792
94 or older	.2

History: S. 7308(4), the portion before the table was replaced by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable after 2003. S. 7308(4), the portion before the table formerly read:

"(4) For the purposes of the definition 'minimum amount' in subsection 146.3(1) of the Act, the prescribed factor in respect of an individual for a year in connection with a retirement income fund other than a fund that was a qualifying retirement income fund at the beginning of the year is the factor, determined pursuant to the following table, that corresponds to the age in whole years (in the table referred to as 'Y') attained by the individual at the beginning of that year or that would have been so attained by the individual if the individual had been alive at the beginning of that year."

S. 7308(4), the portion before the table was amended by P.C. 2000-184, SOR/2000-63, dated February 17, 2000, applicable to the 2000 and subsequent taxation years. That portion formerly read:

"(4) For the purposes of the definition 'minimum amount' in subsection 146.3(1) of the Act, the prescribed amount in respect of an individual for a year in connection with a retirement income fund other than a fund that was a qualifying retirement income fund at the beginning of the year is the factor, determined pursuant to the following table, that corresponds to the age in whole years (in the table referred to as 'Y') attained by the individual at the beginning of that year or that would have been so attained by the individual if the individual had been alive at the beginning of that year."

S. 7308(4) was added by P.C. 1994-102, SOR/94-127, dated January 20, 1994, applicable to the 1992 and subsequent taxation years.

Regulations: 8506(5).

Information Circulars: IC 78-18R6 Registered Retirement Income Funds.

Federal Budget Extract

Non-Deductibility of Interest and Penalties

[Reproduced below is an excerpt from the May 2, 2006 Federal Budget, which sets out proposed amendments to the *Income Tax Act* concerning the non-deductibility of interest and penalties imposed under various tax statutes.]

The *Income Tax Act* was amended in 2004 to provide that fines and penalties are not generally deductible. However, pending the outcome of ongoing work relating to the harmonization of administrative rules — including penalties and interest — under various tax statutes, it was proposed at that time that this prohibition on the deductibility of penalties not apply to prescribed penalty interest imposed under the *Excise Act*, the *Air Travellers Security Charge Act* and the GST/HST portions of the *Excise Tax Act*. As this harmonization exercise is now complete with the introduction of the proposals outlined above, Budget 2006 proposes that this prescription be removed in so far as it relates to the *Air Travellers Security Charge Act* and the GST/HST portions of the *Excise Tax Act*. In addition, interest payable under the *Air Travellers Security Charge Act* and the GST/HST portions of the *Excise Tax Act* will no longer be deductible for income tax purposes.

Editorial Note: Paragraph 18(1)(*t*) was amended by Bill C-13 (Royal Assent June 22, 2006) to provide that interest paid or payable under the GST portion of the *Excise Tax Act* or under the *Air Travellers Security Charge Act* is not deductible, applicable to taxation years that begin on or after April 1, 2007. The second part of the Budget proposal noted above, concerning removing the exemption for prescribed penalty interest imposed under the *Excise Act*, the *Air Travellers Security Charge Act* and the GST/HST portions of the *Excise Tax Act*, presumably will be implemented by amending or withdrawing draft regulation 7309, applicable on the same date.

Pending Amendment

Prescribed Amounts — September 16, 2004

The *Income Tax Regulations* are amended by adding the following after section 7308:

7309. For the purpose of section 67.6 of the Act, each of the following is a prescribed fine or penalty

(*a*) an amount paid or payable under any of paragraphs 280(1)(*a*), 280(1.1)(*a*) and 280(2)(*a*) of the *Excise Tax Act*;

(*b*) an amount paid or payable under paragraph 110.1(*a*) of the *Excise Act*; and

(*c*) an amount paid or payable under subsection 53(1) of the *Air Travellers Security Charge Act*.

Applicable: To fines and penalties imposed after March 22, 2004.

Explanatory Note: The following amendments to the *Income Tax Regulations* are consequential to new section 67.6 of the *Income Tax Act*. For further information, see the commentary to that section.

7310. For the purpose of the definition "eligible apprentice" in subsection 127(9) of the Act, a prescribed trade in respect of a province means, at all times in a taxation year, a trade that is, at any time in that taxation year, a Red Seal trade for the province under the Interprovincial Standards Red Seal Program.

History: S. 7310 was added by S.C. 2007, c. 35, s. 80(1), applicable to taxation years ending on or after May 2, 2006, except that in its application to taxation years ending before October 2007, section 7310 is to be read as follows:

"S. 7310. For the purpose of the definition 'eligible apprentice' in subsection 127(9) of the Act, a prescribed trade in respect of a province means, at all times in a taxation year, a trade that is, on September 30, 2007, a Red Seal trade for the province under the Interprovincial Standards Red Seal Program."

PART LXXIV

Prescribed Forest Management Plans for Woodlots

7400. (1) For the purposes of subsections 70(9), (9.3) and (10) and 73(3) of the Act, a prescribed forest management plan in respect of a woodlot of a taxpayer is a

written plan for the management and development of the woodlot that

(*a*) describes the composition of the woodlot, provides for the attention necessary for the growth, health and quality of the trees on the woodlot and is approved in accordance with the requirements of a provincial program established for the sustainable management and conservation of forests; or

(*b*) has been certified in writing by a recognized forestry professional to be a plan that describes the composition of the woodlot, provides for the attention necessary for the growth, health and quality of the trees on the woodlot and includes

(i) a description of, or a map indicating, the location of the woodlot,

(ii) a description of the characteristics of the woodlot, including a map of the woodlot site that shows those characteristics,

(iii) a description of the development of the woodlot, including the activities carried out on the woodlot, since the taxpayer acquired it,

(iv) information acceptable to the recognized forestry professional estimating

(A) the ages and heights of the trees on the woodlot, and their species,

(B) the quantity of wood on the woodlot,

(C) the quality and composition of the soil underlying the woodlot, and

(D) the quantity of wood that the woodlot could yield as a result of the implementation of the plan,

(v) a description of, and the timing for, the activities proposed to be carried out on the woodlot under the plan, including any of those activities that deal with

(A) harvesting,

(B) renewal and regeneration,

(C) the application of silviculture techniques, and

(D) responsible stewardship and the protection of the environment, and

(vi) a description of the objectives and strategies for the management and development of the woodlot over a period of at least five years.

(2) A recognized forestry professional referred to in subsection (1) is a forestry professional who has a degree, diploma or certificate recognized by the Canadian Forestry Accreditation Board, the Canadian Institute of Forestry or the Canadian Council of Technicians and Technologists.

(3) A recognized forestry professional referred to in subsection (1) is not required to express an opinion as to the completeness or correctness of a description of past activities referred to in subparagraph (1)(*b*)(iii) or of information referred to in subparagraph (1)(*b*)(iv) if the information was not prepared by that recognized forestry professional.

History: S. 7400 was added by P.C. 2007-205, SOR/2007-35, dated February 22, 2007, applicable in respect of dispositions of property after December 10, 2001, except that for dispositions of property before 2008, section 7400 is to be read as follows:

"S. 7400. For the purposes of subsections 70(9), (9.3) and (10) and 73(3) of the Act, a prescribed forest management plan in respect of a woodlot is a written plan for the management and development of the woodlot that provides for the necessary attention to growth, health, quality and composition of the woodlot."

S. 7400 was repealed by P.C. 2001-1378, SOR/2001-295, dated August 1, 2001, in force August 15, 2001. S. 7400 formerly read:

"PART LXXIV
Prescribed Tax Treaty Provisions and Election

S. 7400. (1) For the purposes of section 115.1 of the Act, the following tax treaty provisions are hereby prescribed:

(*a*) paragraph 8 of Article XIII of the Convention as defined in section 2 of the *Canada–United States Tax Convention Act, 1984;* and

(*b*) paragraph 6 of Article 13 of the Convention as defined in section 2 of the *Canada–Netherlands Income Tax Convention Act, 1986.*

(2) The election described in paragraph 115.1(*b*) of the Act in respect of a disposition of property may be made

(*a*) at any time, if the vendor and the purchaser of the property have filed with the Minister a waiver in respect of the disposition in the form prescribed for the purposes of subparagraph 152(4)(*a*)(ii) of the Act within three years after the day that the Minister, by virtue of subsection 152(2) or (4) of the Act, mails to the vendor a notice of an original assessment or a notification that no tax is payable for the taxation year of the vendor in which the vendor disposed of the property; and

(*b*) within three years after the day referred to in paragraph (*a*), in any other case."

S. 7400 was added by P.C. 1988-1473, SOR/88-392, dated July 21, 1988, applicable to taxation years commencing after 1984.

PART LXXV
Prescribed Missions

7500. For the purpose of subclause 110(1)(*f*)(v)(A)(II) of the Act, the following are prescribed missions:

(*a*) Operation Palladium (Bosnia-Herzegovina);

(*b*) Operation Halo (Haiti);

(*c*) Operation Danaca (Middle East — Golan Heights);

(*d*) Operation Calumet (Middle East — Sinai);

(*e*) Operation Jade (Middle East — Jerusalem, Damascus and Egypt);

(*f*) Operation Iraqi Freedom (Kuwait);

(*g*) Operation Solitude (Senegal);

(*h*) Operation Altair (Persian Gulf);

(*i*) Operation Hamlet (Haiti);

(*j*) Operation Structure (Sri Lanka);

(*k*) Operation Habitation (Haiti);

(*l*) Operation Augural (Sudan — Kartoum);

(*m*) Operation Bronze (Bosnia-Herzegovina — North Atlantic Treaty Organization Stabilisation Force);

(*n*) Operation Boreas (Bosnia-Herzegovina — European Union Force);

(*o*) Operation Safari (Sudan — Kartoum);

(*p*) Operation Gladius (Golan Heights);

(*q*) Operation Augural (Ethiopia — Addis Ababa); and

(*r*) United Nations Mission in the Sudan — Civilian Policing Component (Sudan — Kartoum).

History: S. 7500 was added by P.C. 2008-410, SOR/2008-49, dated February 28, 2008, in force January 1, 2004.

S. 7500 was repealed by P.C. 2001-1378, SOR/2001-295, dated August 1, 2001, in force August 15, 2001. S. 7500 formerly read:

"S. 7500. For the purposes of subparagraph 96(2.2)(*d*)(ii) of the Act and this Part,

'prescribed film production' means a certified production defined in subsection 1104(2);

'prescribed revenue guarantee' means a revenue guarantee in respect of a prescribed film production, which guarantee is certified by the Minister of Communications to be a guarantee under which the person who agrees to

provide the revenue is a licensed broadcaster or *bona fide* film or tape distributor."

S. 7500 was added by P.C. 1988-1474, SOR/88-393, dated July 21, 1988, applicable after February 25, 1986.

PART LXXVI
Carved-out Property Exclusion

7600. For the purposes of paragraph (*g*) of the definition "carved-out property" in subsection 209(1) of the Act, a prescribed property at any time is

(*a*) any right, licence or privilege to prospect, explore, drill or mine for minerals in a mineral resource (other than a bituminous sands deposit, oil sands deposit or oil shale deposit) in Canada;

(*b*) any rental or royalty computed by reference to the amount or value of production of minerals from a mineral resource (other than a bituminous sands deposit, oil sands deposit or oil shale deposit) in Canada;

(*c*) any real property in Canada the principal value of which depends on its mineral resource content (other than a bituminous sands deposit, oil sands deposit or oil shale deposit);

(*d*) any right to or interest in any property described in any of paragraphs (*a*) to (*c*); or

(*e*) a property acquired before that time by a taxpayer in the circumstances described in paragraph (*c*) of the definition "carved-out property" in subsection 209(1) of the Act, except where it is reasonable to consider that one of the main reasons for the acquisition of the property, or any series of transactions or events in which the property was acquired, by the taxpayer was to reduce or postpone tax that would, but for this paragraph, be payable by another taxpayer under Part XII.1 of the Act.

History: Part LXXVI was added by P.C. 1989-1793, SOR/89-463, dated September 21, 1989, applicable to property acquired after July 19, 1985.

PART LXXVII
Prescribed Prizes

7700. For the purposes of subparagraph 56(1)(*n*)(i) of the Act, a prescribed prize is any prize that is recognized by the general public and that is awarded for meritorious achievement in the arts, the sciences or service to the public but does not include any amount that can reasonably be regarded as having been received as compensation for services rendered or to be rendered.

History: Part LXXVII was added by P.C. 1989-1923, SOR/89-473, dated September 28, 1989, applicable in respect of the 1983 and subsequent taxation years.

Interpretation Bulletins: *Secondary* — IT-75R4 Scholarships, fellowships, bursaries, prizes, research grants and financial assistance; IT-257R Canada Council grants.

PART LXXVIII
Prescribed Provincial Pension Plans

7800. (1) For the purposes of clause 56(1)(*a*)(i)(C), subsection 56(2), paragraph 60(*v*), subsection 74.1(1) and paragraph 118(8)(*e*) of the Act, the Saskatchewan Pension Plan is a prescribed provincial pension plan.

History: S. 7800(1) was amended by P.C. 2001-1378, SOR/2001-295, dated August 1, 2001, applicable August 1, 2001. S. 7800(1) formerly read: "S. 7800. (1) For the purposes of clause 56(1)(*a*)(i)(C), subsections 56(2) and (4), paragraph 60(*v*), subsection 74.1(1) and paragraph 118(8)(*e*) of the Act, the Saskatchewan Pension Plan is a prescribed provincial pension plan."

(2) For the purpose of subparagraph 60(*v*)(ii) of the Act, the prescribed amount for a taxation year in respect of the Saskatchewan Pension Plan is, for the 1987 taxation year, $1,200, and for the 1988 and subsequent taxation years, $600.

History: Part LXXVIII was added by P.C. 1989-1924, SOR/89-474, dated September 28, 1989, applicable to the 1987 and subsequent taxation years, except that, for the 1987 taxation year, the reference to "paragraph 118(8)(e)" in s. 7800(1), shall be read as "paragraph 110.2(4)(h)".

Interpretation Bulletins: *Secondary* — IT-124R6 Contributions to registered retirement savings plans.

PART LXXIX
Prescribed Financial Institutions

7900. For the purposes of section 33.1, paragraph 95(2)(*a*.3), clause 212(1)(*b*)(iii)(D) and subparagraph 212(1)(*b*)(xi) of the Act, "prescribed financial institution" means

(*a*) a corporation that is a member of the Canadian Payments Association; or

(*b*) a credit union that is a shareholder or member of a body corporate or organization that is a central for the purposes of the *Canadian Payments Association Act*.

Pending Amendment

Foreign Bank Branches — February 15, 2003 (Pre-published in the *Canada Gazette*, Part I, dated February 15, 2003)

Section 7900 of the Regulations is replaced by the following:

7900. (1) For the purposes of section 33.1, the definitions "excluded income" and "excluded revenue" and "specified deposit" in subsection 95(2.5), clause 212(1)(*b*)(iii)(D) and

subparagraph 212(1)(*b*)(xi) of the Act, each of the following is a prescribed financial institution:

(*a*) a corporation that is a member of the Canadian Payments Association, other than an authorized foreign bank; and

(*b*) a credit union that is a shareholder or member of a body corporate or organization that is a central for the purposes of the *Canadian Payments Act*.

(2) For the purposes of the definitions "excluded income" and "excluded revenue" and "specified deposit" in subsection 95(2.5) and clause 212(1)(*b*)(iii)(D) of the Act, an authorized foreign bank is a prescribed financial institution.

Applicable: After June 27, 1999, except that in applying section 7900 of the *Income Tax Regulations*, to taxation years that began before 2000, the reference to the phrase "the definitions "excluded income" and "excluded revenue" and "specified deposit" in subsection 95(2.5)" is to be read as a reference to the phrase "paragraph 95(2)(*a*.3), the definition "specified deposit" in subsection 95(2.5)".

Explanatory Note:

Regulatory Impact Analysis Statement from February 15, 2003

Section 7900 of the Regulations defines the meaning of "prescribed financial institution" for the purposes of various provisions in the Act. Section 7900 of the Regulations is re-numbered to be new subsection 7900(1), and new subsection 7900(2) describes that an authorized foreign bank is a prescribed financial institution for the purposes of the definitions "excluded income" and "excluded revenue" and "specified deposit" in subsection 95(2.5) and clause 212(1)(*b*)(iii)(D) of the Act.

History: S. 7900, the portion before paragraph (*a*) was amended by P.C. 1997-1670, SOR/97-505, dated November 20, 1997, applicable to taxation years of a foreign affiliate of a taxpayer that begin after 1994, except that

(*a*) those provisions apply to taxation years of a foreign affiliate of a taxpayer that end after 1994 where there has been a change in the taxation year of the foreign affiliate in 1994 and after February 22, 1994, unless

(i) the foreign affiliate had requested that change in the taxation year in writing before February 22, 1994 from the income taxation authority of the country in which it was resident and subject to income taxation, or

(ii) the first taxation year of the foreign affiliate that began after 1994 began at a time in 1995 that is earlier than the time when that taxation year would have begun if there had not been that change in the taxation year of the foreign affiliate; and

(*b*) in applying subsection 5907(1) of the Regulations, for taxation years of a foreign affiliate of a taxpayer that begin before 1996 and in respect of which subsection 8(13) does not apply, the references to "designated treaty country" shall be read as "country listed in subsection (11)". S. 7900, the portion before paragraph (*a*) formerly read:

"S. 7900. For the purposes of section 33.1, clause 212(1)(*b*)(iii)(D) and subparagraph 212(1)(*b*)(xi) of the Act, 'prescribed financial institution' means"

S. 7900 was added by P.C. 1990-854, SOR/90-285, dated May 10, 1990, applicable after December 19, 1986.

Interpretation Bulletins: *Secondary* — IT-360R2 Interest payable in a foreign currency.

Regulations

PART LXXX

Prescribed Reserve Amount and Recovery Rate

8000. For the purpose of clause 20(1)(*l*)(ii)(C) of the Act, the prescribed reserve amount for a taxation year means the aggregate of

(*a*) where the taxpayer is a bank, an amount equal to the lesser of

(i) the amount of the reserve reported in its annual report for the year that is filed with and accepted by the relevant authority or, where the taxpayer was throughout the year subject to the supervision of the relevant authority but was not required to file an annual report for the year with the relevant authority, in its financial statements for the year, as general provisions or as specific provisions, in respect of exposures to designated countries in respect of loans or lending assets of the taxpayer made or acquired by it in the ordinary course of its business, and

(ii) an amount in respect of the loans or lending assets of the taxpayer at the end of the year that were made or acquired by the taxpayer in the ordinary course of its business and reported for the year by the taxpayer to the relevant authority, in accordance with the guidelines established by the relevant authority, as part of the taxpayer's total exposure to designated countries for the purposes of determining the taxpayer's general provisions or specific provisions referred to in subparagraph (i) or that were acquired by the taxpayer after August 16, 1990 and reported for the year by the taxpayer to the relevant authority, in accordance with the guidelines established by the relevant authority, as an exposure to a designated country (in this subparagraph referred to as the "loans") equal to the positive or negative amount, as the case may be, determined by the formula

$$45\% (A + B) - (B + C)$$

where

A is the aggregate of all amounts each of which is the amount that would be the amortized cost of a loan to the taxpayer at the end of the year if the definition "amortized cost" in section 248 of the Act were read without reference to paragraphs (*e*) and (*i*) thereof,

B is the aggregate of all amounts each of which is the amount, if any, by which the principal amount of a loan outstanding at the time it was acquired by the taxpayer exceeds the amortized cost of the loan to the taxpayer immediately after the time it was acquired by the taxpayer, and

C is the aggregate of all amounts each of which is

(A) an amount deducted in respect of a loan under clause 20(1)(*l*)(ii)(B) of the Act in computing the taxpayer's income for the year, or

(B) an amount in respect of a loan determined as the amount, if any, by which

(I) the aggregate of all amounts in respect of the loan deducted under paragraph 20(1)(*p*) of the Act in computing the taxpayer's income for the year or a preceding taxation year

exceeds

(II) the aggregate of all amounts in respect of the loan included under paragraph 12(1)(*i*) of the Act in computing the taxpayer's income for the year or a preceding taxation year, and

(*a*.1) where the taxpayer is a bank, the positive or negative amount that would be determined under the formula in subparagraph (*a*)(ii) in respect of the

specified loans owned by the taxpayer at the end of the year if that subparagraph applied to those loans,

(*b*) [Repealed.]

History: S. 8000, the portion before paragraph (*a*) was amended by P.C. 1999-195, SOR/99-91, dated February 11, 1999, applicable

(*a*) to taxation years that end after September 1997; and

(*b*) to taxation years that end after 1995 and before October 1997 where the taxpayer makes an election under paragraph 81(11)(*b*) of the *Income Tax Amendment Act*, 1997, S.C. 1998, c. 19. S. 8000, the portion before paragraph (*a*) formerly read:

"S. 8000. For the purposes of clause 20(1)(*l*)(ii)(A) of the Act, the prescribed reserve amount for a taxpayer for a taxation year means the aggregate of"

S. 8000(*a*.1) was added by P.C. 1999-195, SOR/99-91, dated February 11, 1999, applicable

(*a*) to the 1997 and subsequent taxation years; and

(*b*) to taxation years that end after 1991 and before 1997 where the taxpayer elects in writing to have paragraph 8000(*a*.1) of the Income Tax Regulations, as enacted by subsection 2(2), apply to those years and files the election with the Minister of National Revenue before the end of June 1999.

S. 8000(*b*) was repealed by P.C. 1999-195, SOR/99-91, dated February 11, 1999, applicable

(*a*) to taxation years that end after September 1997; and

(*b*) to taxation years that end after 1995 and before October 1997 where the taxpayer makes an election under paragraph 81(11)(*b*) of the *Income Tax Amendment Act*, 1997, S.C. 1998, c. 19. S. 8000(*b*) formerly read:

"(*b*) an amount, not exceeding a reasonable amount, of a reserve for the year in respect of doubtful loans or lending assets of the taxpayer (other than a loan or lending asset described in subparagraph (*a*)(ii)) computed by

(i) identifying loans or lending assets of the taxpayer with respect to which a reserve could be claimed under clause 20(1)(*l*)(ii)(B) of the Act,

(ii) segregating particular types of loans or lending assets of the taxpayer referred to in subparagraph (i) into different classes based on the length of time that interest or principal payable to the taxpayer in respect thereof has been in arrears, and

(iii) determining the aggregate of all amounts each of which is the amount determined by multiplying the amortized cost to the taxpayer at the end of the year of loans or lending assets of a class described in subparagraph (ii) by the historical loss experience of the taxpayer in respect of that class."

S. 8000 was added by P.C. 1990-2779, SOR/91-78, dated December 24, 1990, applicable to taxation years and fiscal periods commencing after June 17, 1987 that end after 1987.

8001. [Repealed.]

History: S. 8001 was repealed by P.C. 1999-195, SOR/99-91, dated February 11, 1999, applicable

(*a*) to taxation years that end after September 1997; and

(*b*) to taxation years that end after 1995 and before October 1997 where the taxpayer makes an election under paragraph 81(11)(*b*) of the *Income Tax Amendment Act*, 1997, S.C. 1998, c. 19. S. 8001 formerly read:

"S. 8001. For the purposes of subclause 20(1)(*l*)(ii)(B)(II) and subparagraph 20(1)(*l*.1)(ii) of the Act, the prescribed recovery rate is 10 per cent."

S. 8001 was added by P.C. 1990-2779, SOR/91-78, dated December 24, 1990, applicable to taxation years and fiscal periods commencing after June 17, 1987 that end after 1987.

8002. For the purposes of paragraph 8000(*a*),

(*a*) the principal amount outstanding at any time of a lending asset of a taxpayer that is a share of the capital stock of a corporation is the part of the consideration received by the corporation for the issue of the share that is outstanding at that time;

(*b*) where

(i) a taxpayer realizes a loss from the disposition of a loan or lending asset described in subparagraph 8000(*a*)(ii) or a specified loan described in paragraph 8000(*a*.1) (in this paragraph referred to as the "former loan") for consideration that included another loan or lending asset that was a loan or lending asset described in subparagraph 8000(*a*)(ii) or paragraph 8000(*a*.1) (in this paragraph referred to as the "new loan"), and

(ii) in the case of a former loan that is not a specified loan, the loss is included in computing the taxpayer's provisionable assets as reported for the year to the relevant authority, in accordance with the guidelines established by the relevant authority, for the purpose of determining the taxpayer's general provisions or specific provisions in respect of exposures to designated countries,

the principal amount of the new loan outstanding at the time it was acquired by the taxpayer is deemed to be equal to the principal amount of the former loan outstanding immediately before that time; and

(*c*) where at the end of a particular taxation year a taxpayer owns a specified loan that, at the end of the preceding taxation year, was described in an inventory of the taxpayer, the amortized cost of the specified loan to the taxpayer at the end of the particular year is its value determined under section 10 of the Act at the end of the preceding year for the purpose of computing the taxpayer's income for the preceding year.

History: S. 8002(*b*) was amended and (*c*) was added by P.C. 1999-195, SOR/99-91, dated February 11, 1999, applicable

(*a*) to the 1997 and subsequent taxation years; and

(*b*) to taxation years that end after 1991 and before 1997 where the taxpayer elects in writing to have paragraph 8000(*a*.1) of the Income Tax Regulations, as enacted by subsection 2(2), apply to those years and files the election with the Minister of National Revenue before the end of June 1999. S. 8002(*b*) formerly read:

"(*b*) where a taxpayer

(i) realized a loss on the disposition of a loan or lending asset that was an exposure to a designated country (in this paragraph referred to as the 'former loan') for consideration that included another loan or lending asset that was an exposure to that designated country (in this paragraph referred to as the 'new loan'), and

(ii) included the loss referred to in subparagraph (i) in the calculation of its provisionable assets as reported in its annual report for the year to the relevant authority, in accordance with the guidelines established by the relevant authority, for the purposes of determining the taxpayer's general provisions or specific provisions in respect of exposures to designated countries,

the principal amount outstanding of the new loan at the time it was acquired by the taxpayer shall be deemed to be equal to the principal amount outstanding of the former loan immediately before that time."

S. 8002 was added by P.C. 1990-2779, SOR/91-78, dated December 24, 1990, applicable to taxation years and fiscal periods commencing after June 17, 1987 that end after 1987.

8003. Where a taxpayer elects to have this section apply by notifying the Minister in writing within 90 days after the day on which this section is published in the *Canada Gazette* the loans or lending assets of the taxpayer that are described in subparagraph 8000(*a*)(ii) shall not include any loan or lending asset acquired by the taxpayer before November 1988 from a person with whom the taxpayer was dealing at arm's length.

History: S. 8003 was added by P.C. 1990-2779, SOR/91-78, dated December 24, 1990, applicable to taxation years and fiscal periods commencing after June 17, 1987 that end after 1987.

8004. [Repealed.]

History: S. 8004 was repealed by P.C. 1999-195, SOR/99-91, dated February 11, 1999, applicable

(*a*) to taxation years that end after September 1997; and

(*b*) to taxation years that end after 1995 and before October 1997 where the taxpayer makes an election under paragraph 81(11)(*b*) of the *Income Tax Amendment Act*, 1997, S.C. 1998, c. 19, S. 8004 formerly read:

"S. 8004. For the purposes of paragraph 8000(*b*), 'historical loss experience' of a taxpayer, in respect of a class of loans or lending assets, means a reasonable percentage of the amortized cost to the taxpayer of the loans or lending assets of that class that are included in determining the amount under subparagraph 8000(*b*)(iii), where that percentage is a representation of the prior years losses net of recoveries in respect of the loans or lending assets of that class."

S. 8004 was added by P.C. 1990-2779, SOR/91-78, dated December 24, 1990, applicable to taxation years and fiscal periods commencing after June 17, 1987 that end after 1987.

8005. For the purposes of subparagraph 8000(*a*)(ii), where a loan or lending asset of a person (in this section referred to as the "holder") related to a taxpayer

(*a*) was reported for the year by the taxpayer to the relevant authority, in accordance with the guidelines established by the relevant authority, as an exposure to a designated country,

(*b*) was acquired by the holder or another person related to the taxpayer after August 16, 1990 as part of a series of transactions or events in which the taxpayer or a person related to the taxpayer disposed of a loan or lending asset that

(i) for the taxation year immediately preceding the particular year in which it was disposed of, was a loan or lending asset that was reported by the taxpayer to the relevant authority, in accordance with the guidelines established by the relevant authority, as an exposure to a designated country, and

(ii) was a loan or lending asset a loss arising on the disposition of which would be a loss in respect of which a deduction is permitted under Part I of the Act to the taxpayer or a person related to the taxpayer, and

(*c*) had an amortized cost to the holder, immediately after the time it was acquired by the holder, that was less than 55 per cent of its principal amount,

the following rules apply:

(*d*) the loan or lending asset shall be deemed

(i) to be a loan or lending asset of the taxpayer at the end of the year,

(ii) to be a loan or lending asset of the taxpayer that was acquired by the taxpayer at the time it was acquired by the holder, and

(iii) to have an amortized cost to the taxpayer, at any time, that is equal to its amortized cost to the holder at that time, and

(*e*) any amount in respect of the loan or lending asset deducted under paragraph 20(1)(*p*) of the Act or included under paragraph 12(1)(*i*) of the Act in computing the holder's income for a particular year shall be deemed to have been so deducted or included, as the case may be, in computing the income of the taxpayer for the year in which the particular year ends.

History: S. 8005 was added by P.C. 1990-2779, SOR/91-78, dated December 24, 1990, applicable to taxation years and fiscal periods commencing after June 17, 1987 that end after 1987.

8006. For the purposes of this Part,

"*designated country*" has the same meaning as in the Guidelines for banks established pursuant to section 175 of the *Bank Act*, as that section read on May 31, 1992, and issued by the Office of the Superintendent of Financial Institutions, as amended from time to time;

"*exposure to a designated country*" has the same meaning as in the Guidelines for banks established pursuant to section 175 of the *Bank Act*, as that section read on May 31, 1992, and issued by the Office of the Superintendent of Financial Institutions, as amended from time to time;

"*general provisions*" has the same meaning as the expression "general country risk provisions" in the Guidelines for banks established pursuant to section 175 of the *Bank Act*, as that section read on May 31, 1992, and issued by the Office of the Superintendent of Financial Institutions, as amended from time to time;

"*provisionable assets*" has the same meaning as in the Guidelines for banks established pursuant to section 175 of the *Bank Act*, as that section read on May 31, 1992, and issued by the Office of the Superintendent of Financial Institutions, as amended from time to time;

"*relevant authority*" means the Superintendent of Financial Institutions;

"*specific provisions*" has the same meaning as in the Guidelines for banks established pursuant to section 175 of the *Bank Act*, as that section read on May 31, 1992, and issued by the Office of the Superintendent of Financial Institutions, as amended from time to time;

"*specified loan*" means

(*a*) a United Mexican States Collateralized Par Bond due in 2019, or

(*b*) a United Mexican States Collateralized Discount Bond due in 2019;

History: S. 8006, the definition "specified loan" was added by P.C. 1999-195, SOR/99-91, dated February 11, 1999, applicable

(*a*) to the 1997 and subsequent taxation years; and

(*b*) to taxation years that end after 1991 and before 1997 where the taxpayer elects in writing to have paragraph 8000(*a*.1) of the Income Tax Regulations, as enacted by subsection 2(2), apply to those years and files the election with the Minister of National Revenue before the end of June 1999.

S. 8006 was added by P.C. 1992-2335, SOR/92-675, dated November 23, 1992, applicable in respect of taxation years and fiscal periods beginning after June 17, 1987 and ending after 1987.

8007. [Repealed.]

History: S. 8007 was repealed by P.C. 1999-195, SOR/99-91, dated February 11, 1999, applicable to taxation years ending after September 1997. S. 8007 formerly read:

"S. 8007. Paragraph 8000(*b*) does not apply in respect specified of a specified loan of a bank."

S. 8007 was added by P.C. 1999-195, SOR/99-91, dated February 11, 1999, applicable to taxation years that end after 1991 and before October 1997 where the taxpayer elects in writing to have paragraph 8000(*a*.1) of the Income Tax Regulations, as enacted by subsection 2(2), apply to those years and files the election with the Minister of National Revenue before the end of the third month after the month in which these Regulation are published in the *Canada Gazette*, Part II.

PART LXXXI
Transition for Financial Institutions

Transition Deduction in respect of Unpaid Claims Reserve

8100. For the purpose of subsection 20(26) of the Act, an insurer's unpaid claims reserve adjustment for its taxation year that includes February 23, 1994 is the amount, if any, by which

(*a*) the total of all amounts each of which is the maximum amount that, because of paragraph 1400(*e*), was deductible under paragraph 20(7)(*c*) of the Act in respect of an insurance policy in computing the insurer's income for its last taxation year that ended before February 23, 1994

exceeds

(*b*) where the insurer elects, by notifying the Minister in writing, to have this paragraph apply, the total of all amounts each of which is the maximum amount that would, because of paragraph 1400(*e*), have been deductible under paragraph 20(7)(*c*) of the Act in respect of an insurance policy in computing the insurer's income for its last taxation year that ended before February 23, 1994 if the amount "1/3" in the formula in subparagraph 1400(*e*)(ii), as it read for that year, were replaced by the amount "1", and

(*c*) in any other case, the total of all amount each of which is the maximum amount that would, because of paragraph 1400(*e*) or (*e*.1), have been deductible under paragraph 20(7)(*c*) of the Act in respect of an insurance policy in computing the insurer's income for its last taxation year that ended before February 23, 1994 if paragraph 1400(*e*.1) had applied to that year and paragraphs 1400(*e*) and (*e*.1) were read in their application to that year as they read in their application to the insurer's taxation year that includes February 23, 1994.

History: S. 8100 was amended by P.C. 1996-1452, SOR/96-443, dated September 17, 1996, applicable to taxation years that end after February 22, 1994. S. 8100 formerly read:

"(1) Subject to subsections (6) and (7), for the purposes of section 12.3 of the Act, the prescribed amount of a taxpayer's net reserve inclusion for a taxation year ending after 1988 and commencing before 1993 is an amount equal to the aggregate of

(*a*) that proportion of 15 per cent of the amount deducted by the taxpayer under subsection 20(26) of the Act in computing the taxpayer's income for the taxpayer's first taxation year that commences after June 17, 1987 and ends after 1987 (in this section referred to as an 'amount of net reserve adjustment') that the number of days in the year that are in 1989 is of 365,

(*b*) that proportion of 25 per cent of the amount of net reserve adjustment that the number of days in the year that are in 1990 or 1991 is of 365, and

(*c*) that proportion of 35 per cent of the amount of net reserve adjustment that the number of days in the year that are in 1992 is of 366.

(2) For the purposes of subsection (1), where a new corporation has been formed as a result of an amalgamation of two or more predecessor corporations, within the meaning of section 87 of the Act, and one or more of the predecessor corporations has an amount of net reserve adjustment, the new corporation shall be deemed to have an amount of net reserve adjustment equal to the aggregate of the amounts of net reserve adjustments of all the predecessor corporations.

(3) For the purposes of subsection (1), where there has been a winding-up as described in subsection 88(1) of the Act and the subsidiary referred to in that subsection has an amount of net reserve adjustment, the following rules apply:

(*a*) the taxation year of the subsidiary that included the time when the property of the subsidiary was transferred to, and the obligations of the subsidiary were assumed by, the parent on the winding-up shall be deemed to have ended immediately before that time;

(*b*) the parent shall be deemed to have had a taxation year that commenced immediately after the time referred to in paragraph (*a*);

(*c*) the parent shall, for taxation years commencing after the time referred to in paragraph (*a*), include in computing its amount of net reserve adjustment the amount of net reserve adjustment of the subsidiary at the end of its first taxation year that commences after June 17, 1987 and ends after 1987, determined without reference to paragraph (*d*); and

(*d*) the subsidiary shall, for taxation years commencing at or after the time referred to in paragraph (*a*), be deemed to have no amount of net reserve adjustment.

(4) For the purposes of subsection (1), where, by reason of subsection 98(6) of the Act, a new partnership is deemed to be a continuation of the predecessor partnership referred to therein and that predecessor partnership has an amount of net reserve adjustment, the following rules apply:

(*a*) the fiscal period of the predecessor partnership that included the time when the property of the predecessor partnership was transferred to, and the obligations of the predecessor partnership were assumed by, the new partnership shall be deemed to have ended immediately before that time;

(*b*) the new partnership shall be deemed to have had a fiscal period that commenced immediately after the time referred to in paragraph (*a*);

(*c*) the new partnership shall, for fiscal periods ending after the time referred to in paragraph (*a*), include in computing its amount of net reserve adjustment the amount of net reserve adjustment of the predecessor partnership at the end of its first taxation year that commences after June 17, 1987 and ends after 1987, determined without reference to paragraph (*d*); and

(*d*) the predecessor partnership shall, for fiscal periods commencing at or after the time referred to in paragraph (*a*), be deemed to have no amount of net reserve adjustment.

(5) For the purposes of subsection (1), where a non-resident insurer that carried on an insurance business in Canada has transferred that business pursuant to subsection 138(11.5) of the Act to another corporation and the non-resident insurer has an amount of net reserve adjustment that can reasonably be attributed to that business, the following rules apply:

(*a*) the taxation year of the non-resident insurer that included the time when the business was transferred shall be deemed to have ended immediately before that time;

(*b*) the other corporation shall be deemed to have had a taxation year that commenced immediately after the time referred to in paragraph (*a*);

(*c*) the other corporation shall, for taxation years commencing after the transfer of the business, include in computing its amount of net reserve adjustment the amount of net reserve adjustment of the non-resident insurer at the end of its first taxation year that commences after June 17, 1987 and ends after 1987, determined without reference to paragraph (*d*), that can reasonably be attributed to that business; and

(*d*) the non-resident insurer shall, for taxation years commencing at or after the time of the transfer of the business, be deemed to have no amount of net reserve adjustment in respect of that business.

(6) For the purposes of section 12.3 of the Act, where a person or a partnership that has an amount of net reserve adjustment that can reasonably be attributed to a business (in this subsection that amount is referred to as the 'particular amount') discontinues or transfers that business, otherwise than pursuant to a transaction described in any of subsections (2) to (5), the following rules apply:

(*a*) the prescribed amount of the net reserve inclusion of the person or partnership in respect of the particular amount for the taxation year of the person or partnership in which the person or partnership discontinued or transferred that business shall be equal to the amount, if any, by which

(i) the particular amount

exceeds

(ii) the aggregate of all amounts each of which is an amount that was included under section 12.3 of the Act in computing the income of the person or partnership for a preceding taxation year and that can reasonably be attributed to the particular amount; and

(*b*) the person or partnership shall, for taxation years commencing at or after the time of the discontinuance or the transfer of the business, be deemed to have no amount of net reserve adjustment in respect of that business.

(7) Subject to subsection (6), where a taxpayer that is an insurer deducts in any taxation year that commences after June 17, 1987 and ends before 1992 an amount under subparagraph 138(3)(*a*)(v) or subsection 140(1) of the Act, as the case may be, that may reasonably be considered to be in respect of an amount that was included in computing the insurer's income under subsection 140(2) of the Act for its first taxation year that commences after June 17, 1987 and ends after 1987 (in this subsection referred to as its '1988 taxation year'), the following rules apply:

(*a*) the prescribed amount of its net reserve inclusion for its last taxation year that ends in 1990 shall be equal to the aggregate of

(i) the prescribed amount of its net reserve inclusion for that last taxation year determined without reference to this subsection, and

(ii) its 1990 transition adjustment;

(*b*) the prescribed amount of its net reserve inclusion for its last taxation year that ends in 1991 shall be equal to the amount, if any, by which the aggregate of

(i) the prescribed amount of its net reserve inclusion for that last taxation year determined without reference to this subsection, and

(ii) its 1991 transition adjustment

exceeds

(iii) that proportion of its 1990 transition adjustment that 25 is of 60; and

(*c*) the prescribed amount of its net reserve inclusion for its last taxation year that ends in 1992 shall be equal to the amount, if any, by which

(i) the prescribed amount of its net reserve inclusion for that last taxation year determined without reference to this subsection

exceeds the aggregate of

(ii) that proportion of its 1990 transition adjustment that 35 is of 60, and

(iii) its 1991 transition adjustment.

(8) For the purposes of subsection (7), '1990 transition adjustment' of a taxpayer that is an insurer is the amount determined by the formula

$$A \times B$$

where

A is 60 per cent, and
B is the lesser of
(*a*) the aggregate of all amounts each of which is an amount deducted by it in any taxation year that commences after June 17, 1987 and ends before 1991 under subparagraph 138(3)(*a*)(v) or subsection 140(1) of the Act that may reasonably be considered to be in respect of an amount that was included in computing its income under subsection 140(2) of the Act for its 1988 taxation year, and
(*b*) the lesser of
(i) the amount of its net reserve adjustment, and
(ii) the amount, if any, by which
(A) the amount included under subsection 140(2) of the Act in computing its income for its 1988 taxation year
exceeds
(B) the aggregate of the amounts deducted by it under paragraph 20(7)(*c*) of the Act pursuant to paragraph 1400(*g*.1) or under subparagraph 138(3)(*a*)(i) of the Act pursuant to paragraph 1401(1)(*c*.1) in computing its income for its 1988 taxation year;

'1991 transition adjustment' of a taxpayer that is an insurer is the amount determined by the formula

$$(A \times B) - (C \times D)$$

where
A is 35 per cent,
B is the lesser of
(*a*) the aggregate of all amounts each of which is an amount deducted by it in any taxation year that commences after June 17, 1987 and ends before 1992 under subparagraph 138(3)(*a*)(v) or subsection 140(1) of the Act that may reasonably be considered to be in respect of an amount that was included in computing its income under subsection 140(2) of the Act for its 1988 taxation year, and
(*b*) the lesser of
(i) the amount of its net reserve adjustment, and
(ii) the amount, if any, by which
(A) the amount included under subsection 140(2) of the Act in computing its income for its 1988 taxation year
exceeds
(B) the aggregate of the amounts deducted by it under paragraph 20(7)(*c*) of the Act pursuant to paragraph 1400(*g*.1) or under subparagraph 138(3)(*a*)(i) of the Act pursuant to paragraph 1401(1)(*c*.1) in computing its income for its 1988 taxation year,
C is $^{35}/_{60}$, and
D is its 1990 transition adjustment."

S. 8100 was added by P.C. 1990-2779, SOR/91-78, dated December 24, 1990, applicable to taxation years and fiscal periods commencing after June 17, 1987 that end after 1987.

Inclusion of Transition Amount in Respect of Unpaid Claims Reserve

8101. (1) In this section, "transition deduction" of an insurer means the amount deducted under subsection 20(26) of the Act in computing the insurer's income for its taxation year that includes February 23, 1994.

History: S. 8101(1) was amended by P.C. 1996-1452, SOR/96-443, dated September 17, 1996, applicable to taxation years that end after February 22, 1994. S. 8101(1) formerly read:

"(1) For the purposes of subsection 20(26) of the Act, the prescribed amount of net reserve adjustment of a taxpayer means the amount, if any, by which
(*a*) the taxpayer's preliminary reserve adjustment
exceeds the aggregate of
(*b*) the total of all amounts each of which is a non-capital loss of the taxpayer for a taxation year before the taxpayer's first taxation year that commences after June 17, 1987 and ends after 1987 that is deductible under paragraph 111(1)(*a*) of the Act in computing the taxpayer's taxable income for the taxpayer's first taxation year that commences after June 17, 1987 and ends after 1987 or a subsequent taxation year,
(*c*) where the taxpayer is a bank, the total of
(i) that part of the total of the amounts of the five-year average loan loss experiences of the taxpayer, as determined, or as would be determined if such a determination were required, under the Minister's rules, for all taxation years before its first taxation year that commences after June 17, 1987 and ends after 1987, that was not deducted by the taxpayer under subsection 26(2) of the Act in computing its income for those taxation years,
(ii) that part of the total of the amounts transferred by the taxpayer to its tax allowable appropriations account, as permitted under the Minister's rules, for all taxation years before its first taxation year that commences after June 17, 1987 and ends after 1987, that was not deducted by the taxpayer under subsection 26(2) of the Act in computing its income for those taxation years,
(iii) the amount by which
(A) the amount of the special provision for losses on trans-border claims of the taxpayer, as determined, or as would be determined if such a determination were required, under the Minister's rules, that was deductible by the taxpayer under subsection 26(2) of the Act in computing its income for its last taxation year before its first taxation year that commences after June 17, 1987 and ends after 1987
exceeds
(B) that part of the amount described in clause (A) that was deducted in computing the income of the taxpayer for that last taxation year,
(iv) where the tax allowable appropriations account of the taxpayer at the end of its last taxation year before its first taxation year that commences after June 17, 1987 and ends after 1987, as determined, or as would be determined if such a determination were required, under the Minister's rules, is a negative amount, that amount expressed as a positive number, and
(v) that part of the total of the amounts calculated in respect of the taxpayer for the purposes of the Minister's rules, or that would be calculated for the purposes of those rules if such a calculation were required, under Procedure 8 of the Procedures for the Determination of the Provision for Loan Losses (as set out in Appendix 1 to those rules), for taxation years before its first taxation year that commences after June 17, 1987 and ends after 1987, that was not deducted by the taxpayer under subsection 26(2) of the Act in computing its income for those taxation years, and
(*d*) the total of all amounts each of which is an amount in respect of depreciable property of a prescribed class of the taxpayer equal to the amount, if any, by which
(i) the amount that would have been deductible by the taxpayer under paragraph 20(1)(*a*) of the Act in computing the taxpayer's income for the taxpayer's last taxation year before the taxpayer's first taxation year that commences after June 17, 1987 and ends after 1987 with respect to that class if the taxpayer had claimed the maximum allowable amount under that paragraph in that last taxation year with respect to that class
exceeds
(ii) the amount deducted by the taxpayer under paragraph 20(1)(*a*) of the Act in computing the taxpayer's income for that last taxation year with respect to that class."

S. 8101(1) was added by P.C. 1990-2779, SOR/91-78, dated December 24, 1990, applicable to taxation years and fiscal periods commencing after June 17, 1987 that end after 1987.

(2) Subject to subsection (3), there is prescribed for the purpose of section 12.3 of the Act in respect of an insurer for a taxation year that ends after February 22, 1994 the amount determined by the formula

$$[(0.05A + 0.10B + 0.15C)/365] \times D$$

where

A is the total of
(*a*) the number of days in the taxation year that are in 1994 or 1995, and
(*b*) where the taxation year includes February 23, 1994, the number of days in 1994 that are before the first day of the taxation year,

B is the number of days in the taxation year (other than February 29) that are in any of 1996 to 2001,

C is the number of days in the taxation year that are in 2002 or 2003, and

D is the insurer's transition deduction minus the amount, if any, required by subsection (4) or paragraph (5)(*b*) to be subtracted.

History: S. 8101(2) was amended by P.C. 1996-1452, SOR/96-443, dated September 17, 1996, applicable to taxation years that end after February 22, 1994. S. 8101(2) formerly read:

"(2) For the purposes of subsection (1), 'preliminary reserve adjustment' of a taxpayer means the aggregate of
(*a*) the amount, if any, by which
(i) the total of all amounts each of which is an amount deducted by the taxpayer under subparagraph 20(1)(*l*)(ii), subsection 33(1) and paragraph 137(1)(*a*) or (*b*), 137.1(3)(*c*) or 138(3)(*c*) of the Act in computing the taxpayer's income for the taxpayer's last taxation year before the taxpayer's first taxation year that commences after June 17, 1987 and ends after 1987
exceeds the total of
(ii) the greater of
(A) the maximum amount that would have been deductible in computing the taxpayer's income for the taxpayer's last taxation year before the taxpayer's first taxation year that commences after June 17, 1987 and ends after 1987 under subparagraph 20(1)(*l*)(ii) or paragraph 20(1)(*l*.1) of the Act if those provisions had applied to

that last taxation year and they were read as they read in their application to the taxpayer's first taxation year that commences after June 17, 1987 and ends after 1987, and

(B) that proportion of the amount determined under subparagraph (i) that

(I) the sum of the maximum amounts deductible by the taxpayer under subparagraph 20(1)(*l*)(ii) and paragraph 20(1)(*l.1*) of the Act in computing the taxpayer's income for the taxpayer's first taxation year that commences after June 17, 1987 and ends after 1987

is of

(II) the sum of the maximum amounts that would have been deductible by the taxpayer under subparagraph 20(1)(*l*)(ii), subsection 33(1) and paragraphs 137(1)(*a*) and (*b*), 137.1(3)(*c*) and 138(3)(*c*) of the Act in computing the taxpayer's income for the taxpayer's first taxation year that commences after June 17, 1987 and ends after 1987 if those provisions had applied to that year and they were read as they read in respect of the immediately preceding taxation year, and

(iii) where the taxpayer is a credit union, the prescribed amount of its 1971 reserve adjustment,

(*b*) where the taxpayer is a bank, the amount, if any, by which

(i) the amount included under subsection 26(1) of the Act in computing its income for its first taxation year that commences after June 17, 1987 and ends after 1987

exceeds

(ii) the sum of the maximum amounts that would have been deductible in computing its income for its last taxation year before its first taxation year that commences after June 17, 1987 and ends after 1987 under subparagraph 20(1)(*l*)(ii) and paragraph 20(1)(*l.1*) of the Act if those provisions had applied to that last taxation year and they were read as they read in their application to the taxpayer's first taxation year that commences after June 17, 1987 and ends after 1987, and

(*c*) where the taxpayer is an insurer, the amount, if any, by which the aggregate of

(i) the total of the amounts deducted under paragraph 20(7)(*c*) or under subparagraph 138(3)(*a*)(i) or (iv) of the Act by the insurer in computing its income for its last taxation year before its first taxation year that commences after June 17, 1987 and ends after 1987,

(ii) where the insurer is a life insurer, the total of the amounts deducted by the insurer in computing its income for its last taxation year before its first taxation year that commences after June 17, 1987 and ends after 1987 in respect of claims made under insurance policies that were received before and unpaid at the end of that last taxation year, and

(iii) the amount included under subsection 140(2) of the Act in computing the insurer's income for its first taxation year that commences after June 17, 1987 and ends after 1987

exceeds the total of

(iv) the sum of the maximum amounts that would have been deductible under paragraph 20(7)(*c*) or under subparagraph 138(3)(*a*)(i), (ii) or (iv) of the Act in computing its income for its last taxation year before its first taxation year that commences after June 17, 1987 and ends after 1987 if those provisions had applied to that last taxation year and they were read as they read for its first taxation year that commences after June 17, 1987 and ends after 1987,

(v) the amount, if any, by which

(A) the greater of the amounts determined under clauses (*a*)(ii)(A) and (B) in respect of the insurer

exceeds

(B) the amount determined under subparagraph (*a*)(i) in respect of the insurer, and

(vi) the prescribed amount of the insurer's 1968 reserve adjustment."

S. 8101(2) was added by P.C. 1990-2779, SOR/91-78, dated December 24, 1990, applicable to taxation years and fiscal periods commencing after June 17, 1987 that end after 1987.

(3) Where subsection 88(1) of the Act has applied to the winding-up of an insurer (in this subsection referred to as the "subsidiary"),

(*a*) the values of A, B and C in subsection (2) shall be determined in respect of the subsidiary without including any days that are after the day on which the subsidiary's assets were distributed to its parent on the winding-up; and

(*b*) there is prescribed for the purpose of section 12.3 ot the Act in respect of the parent for its taxation year that includes the day referred to in paragraph (*a*) the total of

(i) the amount that would be determined under subsection (2) in respect of the parent for the year if the parent's transition deduction did not include the subsidiary's transition deduction, and

(ii) the amount that would be determined under subsection (2) in respect of the parent for the year if

(A) the values of A, B and C in that subsection were determined without including the day referred to in paragraph (*a*) and any days before that day, and

(B) the value of D in that subsection were equal to the subsidiary's transition deduction.

History: S. 8101(3) was amended by P.C. 1996-1452, SOR/96-443, dated September 17, 1996, applicable to taxation years that end after February 22, 1994. S. 8101(3) formerly read:

"(3) Notwithstanding subsection (1), where a person or partnership discontinues or transfers a business in a taxation year ending before 1989, otherwise than pursuant to a transaction described in any of subsections 8100(2) to (5), and that person or partnership has a prescribed amount of net reserve adjustment that can reasonably be attributed to that business, the prescribed amount of net reserve adjustment of the person or partnership shall be deemed to be the amount, if any, by which

(*a*) the prescribed amount of net reserve adjustment of the person or partnership otherwise determined

exceeds

(*b*) that portion of the prescribed amount of net reserve adjustment of the person or partnership that can reasonably be attributed to the business that was discontinued or transferred."

S. 8101(3) was added by P.C. 1990-2779, SOR/91-78, dated December 24, 1990, applicable to taxation years and fiscal periods commencing after June 17, 1987 that end after 1987.

(4) Where subsection 138(11.5) or (11.94) of the Act has applied to the transfer of an insurance business by an insurer, there shall be subtracted, in determining the value of D in subsection (2) in respect of the insurer for a taxation year ending after the insurer ceased to carry on all or substantially all of the business, the part of the insurer's transition deduction that can reasonably be attributed to the business.

History: S. 8101(4) was added by P.C. 1996-1452, SOR/96-443, dated September 17, 1996, applicable to taxation years that end after February 22, 1994.

(5) Where an insurer ceases to carry on all or substantially all of an insurance business, otherwise than as a result of a merger to which subsection 87(2) of the Act applies, a winding-up to which subsection 88(1) of the Act applies or a transfer of the business to which subsection 138(11.5) or (11.94) of the Act applies,

(*a*) there is prescribed for the purpose of section 12.3 of the Act in respect of the insurer for its taxation year in which the cessation of business occurs, in addition to the amount prescribed by subsection (2), the amount, if any, by which

(i) the part of the insurer's transition deduction that can reasonably be attributed to the business

exceeds

(ii) that part of the total of the amounts included under section 12.3 of the Act in computing the income of the insurer for preceding taxation years that can reasonably be considered to be in respect of the amount determined under subparagraph (i); and

(*b*) there shall be subtracted, in determining the value of D in subsection (2) in respect of the insurer for the year or a subsequent taxation year, the amount determined under subparagraph (*a*)(i).

History: S. 8101(5) was added by P.C. 1996-1452, SOR/96-443, dated September 17, 1996, applicable to taxation years that end after February 22, 1994.

8102. [Revoked.]

Pending Amendment

Securities Held by Financial Institutions — April 11, 2009 (Pre-published in the *Canada Gazette*, Part I, dated April 11, 2009)

The Regulations are amended by adding the following after section 8101:

MARK-TO-MARKET — TRANSITION DEDUCTION

8102. (1) In this section, "excluded property", of a taxpayer, means a mark-to-market property used in a business of the taxpayer in its taxation year that includes October 31, 1994 where it is reasonable to expect that the property would have been valued at its fair market value for the purpose of computing the taxpayer's income from the business for the year if

(*a*) the Act were read without reference to subsection 142.5(2); and

(*b*) the property were held at the end of the year.

(2) For the purpose of subsection 142.5(4) of the Act, the prescribed amount for a taxpayer's taxation year that includes October 31, 1994 is the amount, if any, by which

(*a*) the total of all amounts each of which is the taxpayer's profit from the disposition in the year, because of subsection 142.5(2) of the Act, of a property other than a capital property or an excluded property

exceeds the total of

(*b*) the total of all amounts each of which is the taxpayer's loss from the disposition in the year, because of subsection 142.5(2) of the Act, of a property other than a capital property or an excluded property, and

(*c*) the amount, if any, by which

(i) the total of all amounts each of which is the taxpayer's loss from the disposition in the year of a mark-to-market property (other than a capital property, an excluded property or a property disposed of because of subsection 142.5(2) of the Act)

exceeds

(ii) the total of all amounts each of which is the taxpayer's profit from the disposition in the year of a mark-to-market property (other than a capital property, an excluded property or a property disposed of because of subsection 142.5(2) of the Act).

MARK-TO-MARKET — TRANSITION INCLUSION

8103. (1) In this section, "transition deduction", of a taxpayer, means the amount deducted under subsection 142.5(4) of the Act in computing the taxpayer's income for its taxation year that includes October 31, 1994.

(2) Subject to subsections (3), (5) and (7), there is prescribed for the purpose of subsection 142.5(5) of the Act in respect of a taxpayer for a taxation year that ends after October 30, 1994 the amount determined by the formula

$$A \times B/1825$$

where

A is the number of days (other than February 29) in the year that are before the day that is five years after the first day of the taxation year of the taxpayer that includes October 31, 1994; and

B is the taxpayer's transition deduction minus the amount, if any, required by subsection (4) or paragraph (6)(*b*) to be subtracted.

(3) If subsection 88(1) of the Act has applied to the winding-up of a taxpayer (in this subsection referred to as the "subsidiary"),

(*a*) the value of A in subsection (2) shall be determined in respect of the subsidiary without including any days that are after the day on which the subsidiary's assets were distributed to its parent on the winding-up; and

(*b*) there is prescribed for the purpose of subsection 142.5(5) of the Act in respect of the parent for its taxation year that includes the day referred to in paragraph (*a*) the total of

(i) the amount that would be determined under subsection (2) in respect of the parent for the year if the parent's transition deduction did not include the subsidiary's transition deduction, and

(ii) the amount that would be determined under subsection (2) in respect of the parent for the year if

(A) the value of A in that subsection were determined without including the day referred to in paragraph (*a*) and any days before that day, and

(B) the value of B in that subsection were equal to the subsidiary's transition deduction.

(4) If subsection 138(11.5) or (11.94) of the Act has applied to the transfer of an insurance business by an insurer, there shall be subtracted, in determining the value of B in subsection (2) in respect of the insurer for a taxation year that ends after the insurer ceased to carry on all or substantially all of the business, the part of the insurer's transition deduction that is included, because of paragraph 138(11.5)(*k*) of the Act, in the transition deduction of the person to whom the business was transferred.

(5) If subsection 98(6) of the Act deems a partnership (in this subsection referred to as the "new partnership") to be a continuation of another partnership (in this subsection referred to as the "predecessor partnership"),

(*a*) the value of A in subsection (2) shall be determined in respect of the predecessor partnership without including any days that are after the day on which the predecessor partnership's property was transferred to the new partnership; and

(*b*) there is prescribed for the purpose of subsection 142.5(5) of the Act in respect of the new partnership for its taxation year that includes the day referred to in paragraph (*a*) the total of

(i) the amount that would be determined under subsection (2) in respect of the new partnership for the year if its transition deduction did not include the predecessor partnership's transition deduction, and

(ii) the amount that would be determined under subsection (2) in respect of the new partnership for the year if

(A) the value of A in that subsection were determined without including the day referred to in paragraph (*a*) and any days before that day, and

(B) the value of B in that subsection were equal to the predecessor partnership's transition deduction.

(6) If a taxpayer ceases to carry on all or substantially all of a business, otherwise than as a result of a merger to which subsection 87(2) of the Act applies, a winding-up to which subsection 88(1) of the Act applies or a transfer of the business to which subsection 98(6) or 138(11.5) or (11.94) of the Act applies,

(*a*) there is prescribed for the purpose of subsection 142.5(5) of the Act in respect of the taxpayer for its taxation year in which the cessation of business occurs, in addition to the amount prescribed by subsection (2), the amount, if any, by which

(i) the part of the taxpayer's transition deduction that can reasonably be attributed to the business

exceeds

(ii) that part of the total of the amounts included under subsection 142.5(5) of the Act in computing the income of the taxpayer for preceding taxation years that can reasonably be considered to be in respect of the amount determined under subparagraph (i); and

(*b*) there shall be subtracted, in determining the value of B in subsection (2) in respect of the taxpayer for the year or a subsequent taxation year, the amount determined under subparagraph (*a*)(i).

(7) If a taxpayer ceases at any time to be a financial institution otherwise than because it ceases to carry on a business,

(*a*) there is prescribed for the purpose of subsection 142.5(5) of the Act in respect of the taxpayer for its taxation year that ended immediately before that time, the amount, if any, by which

(i) the taxpayer's transition deduction

exceeds

(ii) the total of the amounts included under subsection 142.5(5) of the Act in computing the taxpayer's income for preceding taxation years; and

(*b*) the amount prescribed for the purpose of subsection 142.5(5) of the Act in respect of the taxpayer for taxation years after the taxation year referred to in paragraph (*a*) is nil.

MARK-TO-MARKET — TRANSITION CAPITAL LOSS

8104. **(1)** In this section, "excluded property", of a taxpayer, means a mark-to-market property of the taxpayer for its taxation year that includes October 31, 1994 if

(*a*) the taxpayer had a taxable capital gain or an allowable capital loss for the year from the disposition of the property to which section 142 of the Act applied; or

(*b*) in the case of a taxpayer that was non-resident in the year, the property was a capital property other than a taxable Canadian property.

(2) For the purpose of subsection 142.5(6) of the Act, the prescribed amount for a taxpayer's taxation year that includes October 31, 1994 is the amount, if any, by which

(*a*) the total of all amounts each of which is the taxable capital gain of the taxpayer for the year from the disposition, because of subsection 142.5(2) of the Act, of a property other than an excluded property

exceeds the total of

(*b*) the total of all amounts each of which is the allowable capital loss of the taxpayer for the year from the disposition, because of subsection 142.5(2) of the Act, of a property other than an excluded property, and

(*c*) the amount, if any, by which

(i) the total of all amounts each of which is the allowable capital loss of the taxpayer for the year from the disposition of a mark-to-market property (other than an excluded property or a property disposed of because of subsection 142.5(2) of the Act)

exceeds

(ii) the total of all amounts each of which is the taxable capital gain of the taxpayer for the year from the disposition of a mark-to-market property (other than an excluded property or a property disposed of because of subsection 142.5(2) of the Act).

MARK-TO-MARKET — TRANSITION CAPITAL GAINS

8105. **(1)** In this section, "transition loss", of a taxpayer, means the amount elected by the taxpayer under subsection 142.5(6) of the Act to be an allowable capital loss of the taxpayer for its taxation year that includes October 31, 1994.

(2) There is prescribed for the purpose of subsection 142.5(7) of the Act in respect of a taxpayer for a taxation year that ends after October 30, 1994 the amounts that would be prescribed in respect of the taxpayer for the year by section 8103 if the references in subsections 8103(2) to (7) to

(*a*) "subsection 142.5(5)" were read as "subsection 142.5(7)"; and

(*b*) "transition deduction" were read as "transition loss (as defined in subsection 8105(1))".

Applicable: To taxation years that end after October 30, 1994.

Explanatory Note:

See the Regulatory Impact Analysis Statement, published in the *Canada Gazette*, Part I on April 11, 2009, reproduced with the Explanatory Note for Regulation 304(1)(*c*).

Explanatory Notes Released on June 1, 1995

Mark-to-Market Requirement — Transition Rules

Part LXXXI of the Regulations contains transition rules for the 1987 tax reform changes to the reserves available to financial institutions. On December 8, 1994, draft amendments were announced that would repeal these rules and introduce (in sections 8100 and 8101) new transition rules relating to unpaid claims reserves for non-life insurance policies.

New transition rules are added in sections 8102 to 8105 in connection with the introduction of the mark-to-market requirement for shares and certain debt obligations held by financial institutions. These new rules apply to taxation years ending after October 30, 1994.

Section 8102 — Mark-to-market — transition deduction

Section 8102 of the Regulations prescribes the maximum transition deduction that may be claimed under subsection 142.5(4) of the Act in respect of non-capital properties.

Subsection 8102(1) — Definitions

Subsection 8102(1) defines terms that are used in section 8102.

"Excluded property" of a taxpayer is property that it is reasonable to consider would have been marked to market for tax purposes in the taxpayer's taxation year that includes October 31, 1994, even if a requirement to do so had not been introduced. The determination of whether property that has been sold during the year is excluded property is to be made assuming that the taxpayer continued to hold the property throughout the year.

"Mark-to-market property" of a taxpayer has the meaning given by subsection 142.2(1) of the Act. In general terms, it comprises most shares held by the taxpayer and debt obligations that are marked to market for financial statement purposes.

Subsection 8102(2) — Prescribed amount

Subsection 142.5(4) of the Act contains a transition deduction in respect of the introduction of the requirement that certain property be marked to market for tax purposes. It permits a taxpayer to deduct an amount not exceeding a prescribed amount in its taxation year that includes October 31, 1994. Subsection 8102(2) of the Regulations prescribes the following maximum amount for this purpose:

- the taxpayer's total profits from the disposition of non-capital mark-to-market properties (other than excluded properties, as defined in subsection 8102(1)) that the mark-to-market rules deem the taxpayer to have disposed of in the year

minus

- the taxpayer's total losses from the disposition of non-capital mark-to-market properties (other than excluded properties) that the mark-to-market rules deem the taxpayer to have disposed of in the year, and
- the taxpayer's net losses (i.e., losses minus profits) from actual dispositions in the year of non-capital mark-to-market properties (other than excluded properties) and from deemed dispositions of such properties otherwise than because of the mark-to-market rules.

Section 8103 — Mark-to-market — transition inclusion

Section 8103 of the Regulations applies where a taxpayer has claimed a deduction under subsection 142.5(4) of the Act in respect of the introduction of the mark-to-market requirement. It prescribes the amount to be included in income each year under subsection 142.5(5) of the Act in respect of the deducted amount. Generally, the deducted amount is required to be included in income over a 5-year period. Section 8103 also contains rules for the income inclusion after certain corporate reorganizations have occurred or where a taxpayer ceases to carry on a business or to be a financial institution.

Subsection 8103(1) — "Transition deduction" defined

Subsection 8103(1) defines the "transition deduction" of a taxpayer to be the amount deducted under subsection 142.5(4) of the Act in computing the taxpayer's income for its taxation year that includes October 31, 1994.

Where a taxpayer has been formed by amalgamation, the continuity rule in paragraph 87(2)(g.2) of the Act ensures that any amount deducted by a predecessor corporation under subsection 142.5(4) of the Act is considered to have been deducted by the taxpayer. Therefore, the taxpayer's transition deduction is the sum of the transition deductions of its predecessors.

Similarly, the transition deduction of a taxpayer to which a business has been transferred in a transaction to which subsection 88(1) (winding-up), 138(11.5) (transfer of insurance business by a non-resident insurer) or 138(11.94) (transfer of insurance business by a resident insurer) of the Act applies will include the amount deducted by the transferor under subsection 142.5(4) in respect of the business. The relevant continuity rules are in paragraph 87(2)(g.2) (which applies to a winding-up by reason of paragraph 88(1)(e.2)) and paragraph 138(11.5)(k).

Subsection 8103(2) — Prescribed amount

Subsection 8103(2) prescribes the amount to be included in income each year under subsection 142.5(5) of the Act by a taxpayer that has claimed a transition deduction under subsection 142.5(4). The first taxation year for which an amount is prescribed is the taxation year that includes October 31, 1994. The prescribed amount for a taxation year is given by the formula:

$$\frac{A}{1825} \times B$$

where

A = the number of days in the year that are not more than 5 years after the start of the taxpayer's taxation year that includes October31, 1994 — February 29th is disregarded for this purpose, and

B = the taxpayer's transition deduction minus the amounts specified by subsection 8103(4) and paragraph 8103(6)(b).

Subsections 8103(3), (5) and (7) contain rules that override the determination of the prescribed amount under subsection 8103(2) when a taxpayer undergoes a reorganization, ceases to be a financial institution or ceases to carry on a business.

Subsection 8103(3) — Winding-up

As noted in the commentary on subsection 8103(1), where a subsidiary is wound up into its parent corporation and subsection 88(1) of the Act applies to the winding-up, the parent will be considered to have deducted the amount deducted by the subsidiary under subsection 142.5(4) of the Act. Thus, this amount will be taken into account in determining the amounts prescribed by subsection 8103(2) in respect of the parent.

Subsection 8103(3) contains additional rules relating to the winding-up of a subsidiary. These rules ensure that no part of the subsidiary's transition deduction is required to be included in both the parent's and the subsidiary's income.

Paragraph 8103(3)(a) provides that the amounts prescribed by subsection 8103(1) for the subsidiary are to be determined ignoring any days after the day on which the subsidiary's assets are distributed to its parent. This rule is relevant only if the subsidiary has a taxation year that ends after the day on which the distribution occurs.

Paragraph 8103(3)(b) prescribes the amount to be included in the parent's income under subsection 142.5(5) of the Act for the taxation year in which it receives the subsidiary's assets. The prescribed amount is equal to the sum of

- the amount that would otherwise be prescribed by subsection 8103(2) if the parent's transition deduction did not include any amount in respect of the subsidiary's transition deduction, and
- the part of the subsidiary's transition deduction that must be recognized in respect of the days in the taxation year after the parent receives the subsidiary's assets.

Transfer of insurance business

Subsection 8103(4) applies where an insurer has transferred an insurance business to another corporation on a rollover basis pursuant to subsection 138(11.5) or (11.94) of the Act. It provides that after the transfer of the business, the portion of the transferor's transition deduction that is considered a transition deduction of the transferee because of paragraph 138(11.5)(k) of the Act is to be disregarded in determining the amount prescribed by subsection 8103(2) in respect of the transferor. Paragraph 138(11.5)(k) contains a continuity rule for the portion of the transition amount that is reasonably attributable to the transferred business. Since paragraph 138(11.5)(h) of the Act deems the transferor and transferee to have taxation year ends immediately before the business is transferred, special rules are not required for the taxation year of transfer.

Subsection 8103(5) — Transfer to new partnership

Subsection 8103(5) contains rules that apply where a partnership ceases to exist and another partnership replaces it, in circumstances such that the continuity rule in subsection 98(6) of the Act applies. The rules are similar to those in subsection 8103(3) for the winding-up of a taxpayer into its parent corporation.

Subsection 8103(6) — Ceasing to carry on business

Subsection 8103(6) applies where a taxpayer ceases to carry on all or substantially all of a business otherwise than because of a merger, winding-up or transfer of the business to which the rollover rules in subsection 87(2), 88(1), 98(6) or 138(11.5) or (11.94) of the Act apply. In general terms, it accelerates the inclusion in income of the portion of the taxpayer's transition deduction that relates to the business.

Subsection 8103(6) prescribes an amount for inclusion, under subsection 142.5(5) of the Act, in the taxpayer's income for its taxation year in which it ceases to carry on the business. The prescribed amount, which is in addition to the amount prescribed for the year by subsection 8103(2), is equal to the portion of the taxpayer's transition deduction that is attributable to the business minus the amount of that portion that has already been included in the taxpayer's income. Subsection 8103(6) also provides that the portion of the taxpayer's transition deduction that is attributable to the business is to be disregarded in determining the amount prescribed by subsection 8103(2) in respect of the taxpayer for the taxation year in which it ceases to carry on the business and for subsequent taxation years.

Subsection 8103(7) — Ceasing to be a financial institution

Subsection 8103(7) applies where a taxpayer ceases to be a financial institution (as defined in subsection 142.2(1) of the Act) otherwise than because it has ceased to carry on a business. This subsection would apply, for example, where a taxpayer ceases to be a financial institution because of a change in control. Subsection 8103(7) requires the taxpayer to include the remaining amount of its transition deduction in income in the taxation year that ends immediately before it ceases to be a financial institution. (There will always be such a taxation year because of paragraph 142.6(1)(a) of the Act.)

Section 8104 — Mark-to-market — transition capital loss

Section 8104 of the Regulations prescribes the maximum amount that a taxpayer may claim under subsection 142.5(6) of the Act as an allowable capital loss in respect of the introduction of the mark-to-market requirement.

Subsection 8104(1) — Definitions

Subsection 8104(1) defines terms that are used in section 8104.

"Excluded property" of a taxpayer is certain mark-to-market property held by the taxpayer in its taxation year that includes October 31, 1994. This definition is relevant for a taxpayer that is a resident multinational life insurer or a non-resident insurer. In the case of a resident multinational life insurer, excluded property is capital property disposed of by the insurer in the year that was used by the insurer in a foreign insurance business. Excluded property of a non-resident insurer is capital property that is not taxable Canadian property (as defined in subsection 115(1) of the Act). Taxable capital gains and allowable capital losses from excluded property are disregarded in determining the insurer's income.

"Mark-to-market property" of a taxpayer has the meaning given by subsection 142.2(1) of the Act. In general terms, it comprises most shares held by the taxpayer and debt obligations that are marked to market for financial statement purposes.

Subsection 8104(2) — Prescribed amount

Subsection 142.5(6) of the Act contains a transition rule in respect of the introduction of the requirement that certain property be marked to market for tax purposes. It permits a taxpayer to claim, for its taxation year that includes October 31, 1994, an allowable capital loss not exceeding a prescribed amount. Subsection 8104(2) of the Regulations prescribes the following maximum amount for this purpose:

- the taxpayer's total taxable capital gains from the disposition of mark-to-market properties (other than excluded properties, as defined in subsection 8101(1)) that the mark-to-market rules deem the taxpayer to have disposed of in the year

minus

- the taxpayer's total allowable capital losses from the disposition of mark-to-market properties (other than excluded properties) that the mark-to-market rules deem the taxpayer to have disposed of in the year, and
- the taxpayer's net allowable capital losses (i.e., allowable capital losses minus taxable capital gains) from actual dispositions in the year of mark-to-market properties (other than excluded properties) and from deemed dispositions of such properties otherwise than because of the mark-to-market rules.

Section 8105 — Mark-to-market — transition capital gains

Section 8105 of the Regulations applies where a taxpayer has elected to claim an allowable capital loss under subsection 142.5(6) of the Act in respect of the introduction of the mark-to-market requirement. It prescribes the amount that is deemed by subsection 142.5(7) of the Act to be a taxable capital gain for each year. Generally, the prescribed amount for a year is a proportionate amount of the allowable capital loss that was claimed, based on a 5-year transition period.

Subsection 8105(1) defines the "transition loss" of a taxpayer to be the amount claimed by the taxpayer under subsection 142.5(6) of the Act as an allowable capital loss for the taxation year that includes October 31, 1994. The commentary on subsection 8103(1) regarding the effect of various restructurings on the "transition deduction" also applies to the transition loss.

Subsection 8105(2) provides that prescribed amounts are determined using the rules in section 8103. For this purpose, the references in that section to "transition deduction" are replaced by "transition loss" and to "142.5(5)" are replaced by "142.5(7)". For information on section 8103, see the commentary on that provision.

History: S. 8102 was revoked by P.C. 1996-1452, SOR/96-443, dated September 17, 1996, applicable to taxation years that end after February 22, 1994. S. 8102 formerly read:

"S. 8102. For the purposes of this Part and paragraph 137(1)(*d*) of the Act (as it read in its application to a credit union's first taxation year that commences after June 17, 1987), the prescribed amount of a credit union's 1971 reserve adjustment is the amount determined under section 602 as it read in its application to the credit union at the end of its last taxation year before its first taxation year that commences after June 17, 1987 and ends after 1987."

S. 8102 was amended by P.C. 1992-2335, SOR/92-675, dated November 23, 1992, applicable in respect of taxation years and fiscal periods beginning after June 17, 1987. S. 8102 formerly read:

"S. 8102. For the purposes of this Part and paragraph 137(1)(*d*) of the Act, the prescribed amount of a credit union's 1971 reserve adjustment is the amount determined under section 602 in respect of the credit union at the end of its last taxation year before its first taxation year that commences after June 17, 1987 and ends after 1987."

S. 8102 was added by P.C. 1990-2779, SOR/91-78, dated December 24, 1990, applicable to taxation years and fiscal periods commencing after June 17, 1987 that end after 1987.

8103. [Revoked.]

History: S. 8103 was revoked by P.C. 1996-1452, SOR/96-443, dated September 17, 1996, applicable to taxation years that end after February 22, 1994. S. 8103 formerly read:

"S. 8103. For the purposes of this Part and paragraph 138(4)(*a*) of the Act, as it read in its application for the first taxation year that commenced after June 17, 1987 and ends after 1987, the prescribed amount of an insurer's 1968 reserve adjustment is an amount equal to the aggregate of

(*a*) the amount, if any, by which

(i) the total of amounts that would have been the insurer's maximum tax actuarial reserve for its 1968 taxation year if that reserve had been determined on the basis of the rules applicable to its 1978 taxation year

exceeds

(ii) the total of the amounts that would have been the insurer's maximum tax actuarial reserve for its 1968 taxation year if that reserve had been determined on the basis of the rules applicable to its first taxation year that commences after June 17, 1987 and ends after 1987 on the assumption that those rules were read without reference to paragraph 1401(1)(*c.1*),

(*b*) the amount, if any, by which

(i) the amount the insurer was deemed for the purposes of paragraph 68A(4)(*a*) of the Act, as it read in respect of the insurer's 1969 taxation year, to have deducted under subparagraph 68A(3)(*a*)(iv) of the Act, as it read in respect of the insurer's 1969 taxation year, in computing its income for its 1968 taxation year from carrying on its life insurance business in Canada in respect of policy dividends under its participating life insurance policies

exceeds

(ii) the maximum amount that would have been deductible under subparagraph 138(3)(*a*)(iv) of the Act in computing its income for the 1968 taxation year if that subparagraph had applied to that year and it were read as it read in respect of the insurer's first taxation year that commences after June 17, 1987 and ends after 1987, and

(*c*) the amount, if any, by which

(i) the amount that the insurer was deemed for the purposes of paragraph 68A(4)(*a*) of the Act, as it read in respect of the insurer's 1969 taxation year, to have deducted under paragraph 68A(3)(*c*) of the Act, as it read in respect of the insurer's 1969 taxation year, in computing its income for its 1968 taxation year from carrying on its life insurance business in Canada

exceeds

(ii) that proportion of the amount determined under subparagraph (i) that

(A) the sum of the maximum amounts deductible by the insurer under subparagraph 20(1)(*l*)(ii) and paragraph 20(1)(*l.1*) of the Act in computing its income for its first taxation year that commences after June 17, 1987 and ends after 1987

is of

(B) the maximum amount that would have been deductible by the insurer under paragraph 138(3)(*c*) of the Act in computing its income for its first taxation year that commences after June 17, 1987 and ends after 1987 if that paragraph had applied to that year and it were read as it read in respect of the immediately preceding taxation year."

S. 8103 was added by P.C. 1990-2779, SOR/91-78, dated December 24, 1990, applicable to taxation years and fiscal periods commencing after June 17, 1987 that end after 1987.

8104. [Revoked.]

History: S. 8104 was revoked by P.C. 1996-1452, SOR/96-443, dated September 17, 1996, applicable to taxation years that end after February 22, 1994. S. 8104 formerly read:

"S. 8104. For the purposes of sections 8101 to 8103, where

(*a*) a particular corporation has been formed as a result of the amalgamation of two or more predecessor corporations within the meaning of section 87 of the Act,

(*b*) a subsidiary of a particular corporation has been wound up into the particular corporation pursuant to subsection 88(1) of the Act, or

(*c*) a non-resident insurer that carried on an insurance business in Canada has transferred that business to a particular corporation in a transaction to which subsection 138(11.5) of the Act applied,

the particular corporation shall be deemed to be the same corporation as, and a continuation of, the predecessor corporations, the subsidiary or the non-resident insurer, as the case may be."

S. 8104 was added by P.C. 1990-2779, SOR/91-78, dated December 24, 1990, applicable to taxation years and fiscal periods commencing after June 17, 1987 that end after 1987.

8105. [Revoked.]

History: S. 8105 was revoked by P.C. 1996-1452, SOR/96-443, dated September 17, 1996, applicable to taxation years that end after February 22, 1994. S. 8105 formerly read:

"S. 8105. For the purposes of this Part,

'maximum tax actuarial reserve' has the meaning assigned by paragraph 138(12)(*h*) of the Act;

'Minister's rules' has the meaning assigned by subsection 26(4) of the Act."

S. 8105 was added by P.C. 1990-2779, SOR/91-78, dated December 24, 1990, applicable to taxation years and fiscal periods commencing after June 17, 1987 that end after 1987.

PART LXXXII

Prescribed Properties and Permanent Establishments

PRESCRIBED PROPERTIES

8200. For the purposes of subsection 16.1(1) of the Act, "prescribed property" means

(*a*) exempt property, within the meaning assigned by paragraph 1100(1.13)(*a*), other than property leased on or before February 2, 1990 that is

(i) a truck or tractor that is designed for use on highways and has a "gross vehicle weight rating" (within the meaning assigned that expression by the Motor Vehicle Safety Regulations) of 11,778 kilograms or more,

(ii) a trailer that is designed for use on highways and is of a type designed to be hauled under normal operating conditions by a truck or tractor described in subparagraph (i), or

(iii) a railway car,

(*b*) property that is the subject of a lease where the tangible property, other than exempt property

(within the meaning assigned by paragraph 1100(1.13)(*a*)), that was the subject of the lease had, at the time the lease was entered into, an aggregate fair market value not in excess of $25,000, and

(*c*) intangible property,

History: The heading preceding s. 8200 was amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, to add a new Part heading and to change the former Part heading to a new section heading, applicable after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989.

S. 8200 was added by P.C. 1991-465, SOR/91-196, dated March 14, 1991, applicable in respect of leases entered into after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989, other than leases entered into pursuant to an agreement in writing entered into before that time under which the lessee thereunder has the right to require the lease of the property (and for these purposes a lease in respect of which a material change has been agreed to by the parties thereto effective at any particular time that is after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989 shall be deemed to have been entered into at that particular time).

8200.1. For the purposes of subsection 13(18.1) and subparagraph 241(4)(*d*)(vi.1) of the Act, "prescribed energy conservation property" means property described in Class 43.1 or 43.2 in Schedule II.

History: S. 8200.1 was replaced by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, deemed to have come into force on February 23, 2005.

S. 8200.1 formerly read:

"S. 8200.1. For the purposes of subsection 13(18.1) and subparagraph 241(4)(*d*)(vi.1) of the Act, prescribed energy conservation property means property described in Class 43.1 in Schedule II."

S. 8200.1 was added by P.C. 1997-1033, SOR/97-377, dated July 28, 1997, applicable after February 21, 1994.

Permanent Establishments

8201. For the purposes of subsection 16.1(1), the definition "outstanding debts to specified non-residents" in subsection 18(5), subsection 34.2(6), the definition "excluded income" and "excluded revenue" in subsection 95(2.5), subsections 112(2), 125.4(1) and 125.5(1), the definition "taxable supplier" in subsection 127(9), subparagraph 128.1(4)(*b*)(ii), paragraphs 181.3(5)(*a*) and 190.14(2)(*b*), the definition "Canadian banking business" in subsection 248(1) and paragraph 260(5)(*a*) of the Act, a "permanent establishment" of a person or partnership (either of whom referred to in this section as the "person") means a fixed place of business of the person, including an office, a branch, a mine, an oil well, a farm, a timberland, a factory, a workshop or a warehouse if the person has a fixed place of business and, where the person does not have any fixed place of business, the principal place at which the person's business is conducted, and

(*a*) where the person carries on business through an employee or agent, established in a particular place, who has general authority to contract for the person or who has a stock of merchandise owned by the person from which the employee or agent regularly fills orders, the person shall be deemed to have a permanent establishment at that place,

(*b*) where the person is an insurance corporation, the person is deemed to have a permanent establishment in each country in which the person is registered or licensed to do business,

(*c*) where the person uses substantial machinery or equipment at a particular place at any time in a taxation year, the person shall be deemed to have a permanent establishment at that place,

(*d*) the fact that the person has business dealings through a commission agent, broker or other independent agent or maintains an office solely for the purchase of merchandise shall not of itself be held to mean that the person has a permanent establishment, and

(*e*) where the person is a corporation, the fact that the person has a subsidiary controlled corporation at a place or a subsidiary controlled corporation engaged in trade or business at a place shall not of itself be held to mean that the person is operating a permanent establishment at that place,

except that, where the person is resident in a country with which the Government of Canada has concluded an agreement or convention for the avoidance of double taxation that has the force of law in Canada and in which the expression "permanent establishment" is given a particular meaning, that meaning shall apply.

History: S. 8201, the portion before paragraph (*a*) was replaced by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, deemed to have come into force on October 2, 1996, except that in applying section 8201,

(*a*) to the 1996 taxation year, it is to be read without reference to the phrase "the definition "outstanding debts to specified non-residents" in subsection 18(5),";

(*b*) to taxation years that ended before November 1997, it is to be read without reference to subsection 125.5(1) of the *Income Tax Act*;

(*c*) to taxation years that began before 1996, it is to be read without reference to the phrase "the definition "taxable supplier" in subsection 127(9),";

(*d*) to taxation years that ended before June 28, 1999, it is to be read without reference to the phrases "paragraph 181.3(5)(*a*) and 190.14(2)(*b*)," and "the definition "Canadian banking business" in subsection 248(1)";

(*e*) to taxation years that began before 2000, it is to be read without reference to the phrase "the definition "excluded income" and "excluded revenue" in subsection 95(2.5)"; and

(*f*) to taxation years that end before the day on which the amending Act is assented to (S.C. 2005, c. 30, June 29, 2005), it is to be read as though it also applies for the purpose of subsection 206(1.3) of the *Income Tax Act*.

S. 8201, the portion before paragraph (*a*) formerly read:

"S. 8201. For the purposes of subsection 16.1(1), the definition 'outstanding debts to specified non residents' in subsection 18(5), subsections 34.2(6), 112(2), 125.4(1) and 125.5(1), the definition 'taxable supplier' in subsection 127(9), subsection 206(1.3) and paragraph 260(5)(*a*) of the Act, a 'permanent establishment' of a person or partnership (referred to in this section as the 'person') means a fixed place of business of the person, including an office, a branch, a mine, an oil well, a farm, a timberland, a factory, a workshop or a warehouse and, where the person does not have any fixed place of business, the principal place at which the person's business is conducted, and"

S. 8201, the portion before paragraph (*a*) was amended by P.C. 2000-183, SOR/2000-62, dated February 17, 2000, applicable to the 1995 and subsequent taxation years, except that in applying section 8201 of the Income Tax Regulations

(*a*) to the 1995 and 1996 taxation years, it shall be read without the reference to the phrase "the definition 'outstanding debts to specified non residents' in subsection 18(5),";

(*b*) to the portion of the 1995 taxation year that was in 1994, it shall be read without the reference to subsection 34.2(6) of the *Income Tax Act*;

(*c*) to taxation years that ended before November 1997, it shall be read without the reference to subsection 125.5(1) of the Act; and

(*d*) to taxation years that began before 1996, it shall be read without the reference to phrase "the definition 'taxable supplier' in subsection 127(9),". That portion formerly read:

"S. 8201. For the purposes of subsections 16.1(1) and 112(2) and paragraph 260(5)(*a*) of the Act, 'permanent establishment' of a person not resident in Canada means a fixed place of business of the person, including an office, a branch, a mine, an oil well, a farm, a timberland, a factory, a workshop or a warehouse and, where the person does not have any fixed place of business, the principal place at which the person's business is conducted, and"

S. 8201 was added by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable after 10:00 p.m. Eastern Daylight Saving Time, April 26, 1989.

Tax Topics: No. 1737, Why Tax Lawyers Should Care that the Toronto Blue Jays Struck Out.

Tax Profile: June 2005 — Are You Sure That You Don't Have a Permanent Establishment?.

8201.1. [Repealed.]

History: S. 8201.1 was repealed by P.C. 2000-183, SOR/2000-62, dated February 17, 2000, applicable to the 1995 and subsequent taxation years. S. 8201.1 formerly read:

"S. 8201.1. For the purpose of subsection 206(1.3) of the Act, 'permanent establishment' of a corporation means a fixed place of business of the corporation, including an office, a branch, a mine, an oil well, a farm, a timberland, a factory, a workshop or a warehouse and, where the corporation does not have any fixed place of business, the principal place at which the corporation's business is conducted, and

(*a*) where the corporation carries on business through an employee or agent, established in a particular place, who has general authority to contract for the corporation or who has a stock of merchandise owned by the corporation from which the employee or agent regularly fills orders, the corporation shall be deemed to have a permanent establishment at that place,

(*b*) where the corporation is an insurance corporation, the corporation is deemed to have a permanent establishment in each country in which the corporation is registered or licensed to do business,

(*c*) where the corporation uses substantial machinery or equipment at a particular place at any time in a taxation year, the corporation shall be deemed to have a permanent establishment at that place,

(*d*) the fact that the corporation has business dealings through a commission agent, broker or other independent agent or maintains an office solely for the purchase of merchandise shall not of itself be held to mean that the corporation has a permanent establishment, and

(*e*) the fact that the corporation has a subsidiary controlled corporation at a place or a subsidiary controlled corporation engaged in trade or business at a place shall not of itself be held to mean that the corporation is operating a permanent establishment at that place, except that, where the corporation is resident in a country with which the Government of Canada has concluded an agreement or convention for the avoidance of double taxation that has the force of law in Canada and in which the expression 'permanent establishment' is given a particular meaning, that meaning shall apply."

S. 8201.1 was added by P.C. 2000-183, SOR/2000-62, dated February 17, 2000, applicable after December 4, 1985.

Pending Amendment

Prescribed Properties and Permanent Establishments — February 27, 2004

The *Income Tax Regulations* are amended by adding the following after Section 8201:

8202. (1) For the purposes of the definition "investment business" in subsection 95(1), and of subparagraph 95(2)(*l*)(iii) and paragraphs 95(2.3)(*b*) and (2.4)(*a*), of the Act, a "permanent establishment" of a person or partnership (which person or partnership is referred to in this subsection and subsection (3) as the "person") means

(*a*) a fixed place of business of the person, including an office, a branch, a mine, an oil well, a farm, a timberland, a factory, a workshop or a warehouse; or

(*b*) if the person does not have any fixed place of business, the principal place at which the person's business is conducted.

(2) Notwithstanding subsection (1), for the purposes of the definition "investment business" in subsection 95(1), and of subparagraph 95(2)(*l*)(iii) and paragraphs 95(2.3)(*b*) and (2.4)(*a*), of the Act, a "permanent establishment" of a person or partnership (which person or partnership is referred to in this subsection as the "person") has the meaning given to the expression "permanent establishment" in an agreement or a convention for the avoidance of double taxation that the Government of Canada has concluded with a country and that has the force of law in Canada if the person is a resident of that country for the purpose of the agreement or convention.

(3) For the purpose of subsection (1),

(*a*) if a person carries on business through an employee or agent, established in a particular place, who has general authority to contract for the person or who has a stock of merchandise owned by the person from which the employee or agent regularly fills orders, the person is deemed to have a fixed place of business at that place,

(*b*) if a person is an insurance corporation, the person is deemed to have a fixed place of business in each country in which the person is registered or licensed to do business,

(*c*) if a person uses substantial machinery or equipment at a particular place at any time in a taxation year, the person is deemed to have a fixed place of business at that place,

(*d*) the fact that a person has business dealings through a commission agent, broker or other independent agent or maintains an office solely for the purchase of merchandise at a particular place does not of itself mean that the person has a fixed place of business at that place, and

(*e*) the fact that a corporation has a subsidiary controlled corporation at a place or a subsidiary controlled corporation engaged in trade or business at a place does not of itself mean that the corporation is operating a fixed place of business at that place.

Applicable: To the 1999 and subsequent taxation years. However, if the taxpayer has made a valid election under [the "Global Section 95 Election"] of the *Legislative Proposals and Draft Regulations Relating to Income Tax* released on February 27, 2004 [reproduced in subsection 95(1) of the Act, before paragraph (*a*)], section 8202 of the Regulations applies to the 1994 and subsequent taxation years.

Explanatory Note: Part LXXXII of the *Income Tax Regulations* prescribes property, and defines the expression "permanent establishment", for various purposes of the *Income Tax Act*.

The Regulations are being amended to add new section 8202.

New subsection 8202(1) of the Regulations defines the term "permanent establishment" of a person or partnership for the purposes of the definition "investment business" in subsection 95(1) of the Act, paragraph 95(2)(*l*)(iii) of the Act, and paragraphs 95(2.3)(*b*) and (2.4)(*a*) of the Act to mean

— a fixed place of business of a person or partnership , including an office, a branch, a mine, an oil well, a farm, a timberland, a factory, a workshop or a warehouse, or

— where the person or partnership does not have any fixed place of business, the principal place at which the business of the person or partnership is conducted.

New subsection 8202(2) of the Regulations provides that the definition of "permanent establishment" in a tax treaty that Canada has with a foreign country takes precedence over subsection 8202(1) if the person or partnership is resident in that foreign country.

New subsection 8202(3) of the Regulations provides other rules for the purposes of determining if a fixed place of business exists for the purposes of subsection 8202(1).

New section 8202 applies to the 1999 and subsequent taxation years. However, where the taxpayer has made a valid Global Section 95 Election, new subsection 8202 applies to 1994 and subsequent taxation years. For information about the Global Section 95 Election, see the beginning of the commentary to section 95 of the Act.

PART LXXXIII

Pension Adjustments, Past Service Pension Adjustments, Pension Adjustment Reversals and Prescribed Amounts

History: The heading for Part LXXXIII was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1996. The heading formerly read:

"PART LXXXIII
Pension Adjustments, Past Service Pension Adjustments and Prescribed Amounts"

INTERPRETATION

8300. (1) In this Part,

"*certifiable past service event*", with respect to an individual, means a past service event that is required, by

reason of subsection 147.1(10) of the Act, to be disregarded, in whole or in part, in determining the benefits to be paid under a registered pension plan with respect to the individual until a certification of the Minister in respect of the event has been obtained;

"*complete period of reduced services*" of an individual means a period of reduced services of the individual that is not part of a longer period of reduced services of the individual;

"*excluded contribution*" to a registered pension plan means an amount that is transferred to the plan in accordance with any of subsections 146(16), 146.3(14.1), 147(19), 147.3(1) to (4) and 147.3(5) to (7) of the Act;

"*flat benefit provision*" of a pension plan means a defined benefit provision of the plan under which the amount of lifetime retirement benefits provided to each member is based on the aggregate of all amounts each of which is the product of a fixed rate and either the duration of service of the member or the number of units of output of the member, and, for the purposes of this definition, where

(*a*) the amount of lifetime retirement benefits provided under a defined benefit provision to each member is subject to a limit based on the remuneration received by the member, and

(*b*) the limit may reasonably be considered to be included to ensure that the amount of lifetime retirement benefits provided to each member does not exceed the maximum amount of such benefits that may be provided by a registered pension plan,

the limit shall be disregarded for the purpose of determining whether the provision is a flat benefit provision;

"*member*", in relation to a deferred profit sharing plan or a benefit provision of a registered pension plan, means an individual who has a right (either immediate or in the future and either absolute or contingent) to receive benefits under the plan or the provision, as the case may be, other than an individual who has such a right only because of the participation of another individual in the plan or under the provision, as the case may be;

"*PA offset*" for a calendar year means

(*a*) for years before 1997, $1,000, and

(*b*) for years after 1996, $600;

"*past service event*" means any transaction, event or circumstance that occurs after 1989 and as a consequence of which

(*a*) retirement benefits become provided to an individual under a defined benefit provision of a pension plan in respect of a period before the time the transaction, event or circumstance occurs,

(*b*) there is a change to the way in which retirement benefits provided to an individual under a defined benefit provision of a pension plan in respect of a period before the time the transaction, event or circumstance occurs are determined, including a change that is applicable only in specified circumstances, or

(*c*) there is a change in the value of an indexing or other automatic adjustment that enters into the determination of the amount of an individual's retirement benefits under a defined benefit provision of a pension plan in respect of a period before the time the value of the adjustment changes;

"*period of reduced services*" of an individual means, in connection with a benefit provision of a registered pension plan, a period that consists of one or more periods each of which is

(*a*) an eligible period of reduced pay or temporary absence of the individual with respect to an employer who participates under the provision, or

(*b*) a period of disability of the individual;

"*refund benefit*" means

(*a*) with respect to an individual and a benefit provision of a pension plan, a return of contributions made by the individual under the provision, and

(*b*) with respect to an individual and a deferred profit sharing plan, a return of contributions made by the individual to the plan,

and includes any interest (computed at a rate not exceeding a reasonable rate) payable in respect of those contributions.

"*resident compensation*" of an individual from an employer for a calendar year means the amount that would be the individual's compensation from the employer for the year if the definition "compensation" in subsection 147.1(1) of the Act were read without reference to paragraphs (*b*) and (*c*) of that definition.

History: S. 8300(1), the portion of the definition "period of reduced services" before paragraph (*a*) was replaced by P.C. 2007-849, SOR/2007-116, dated May 31, 2007, effective on publication in the *Canada Gazette*, June 13, 2007. S. 8300(1), the portion of the definition "period of reduced services" before paragraph (*a*) formerly read:

" 'period of reduced services' of an individual means, in connection with a defined benefit or money purchase provision of a registered pension plan, a period that consists of one or more periods each of which is"

S. 8300(1), paragraph (*a*) of the definition "refund benefit" was replaced by P.C. 2007-849, SOR/2007-116, dated May 31, 2007, effective on publication in the *Canada Gazette*, June 13, 2007. S. 8300(1), paragraph (*a*) of the definition "refund benefit" formerly read:

"(*a*) with respect to an individual and a money purchase or defined benefit provision of a pension plan, a return of contributions made by the individual under the provision, and"

S. 8300(1), the definition "excluded contribution" was replaced by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable after 2003. S. 8300(1), the definition "excluded contribution" formerly read:

" 'excluded contribution' to a registered pension plan means an amount that is transferred to the plan in accordance with any of subsections 146(16), 147(19), 147.3(1) to (4) and 147.3(5) to (7) of the Act;"

S. 8300(1), the definition "member" was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1989.

S. 8300(1), the definition "PA offset" was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1989.

S. 8300(1), the definition "resident compensation" was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1989.

The heading of Part LXXXIII was amended by P.C. 1996-911, SOR/96-311, dated June 20, 1996, by changing it from "Pension Adjustments and Past Service Pension Adjustments" to "Pension Adjustments, Past Service Pension Adjustments and Prescribed Amounts", applicable after 1991.

S. 8300(1), the definition "excluded contribution" was amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable with respect to transfers occurring after 1990. S. 8300(1), the definition "excluded contribution" formerly read:

" 'excluded contribution' to a registered pension plan means an amount paid to the plan that is transferred to the plan in accordance with any of subsections 146(16), 147(19) and 147.3(1) to (7) of the Act;"

S. 8300(1) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989 except that in its application with respect to amounts paid to pension plans before 1991, the definition "excluded contribution" in subsection 8300(1) shall be read as follows:

" 'excluded contribution' to a registered pension plan means an amount paid to the plan that is

(*a*) transferred to the plan in accordance with any of subsections 146(16), 147(19) and 147.3(1) to (7) of the Act, or

(*b*) deductible, as a consequence of the payment, under paragraph 60(j) or (j.1) of the Act in computing the income of a taxpayer for a taxation year;"

(2) The definition "past service event" in subsection (1) is applicable for the purposes of subsection 147.1(1) of the Act.

History: S. 8300(2) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

(3) All words and expressions used in this Part that are defined in sections 147 or 147.1 of the Act or in Part LXXXV have the meanings assigned in those provisions unless a definition in this Part is applicable.

History: S. 8300(3) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

(4) For the purposes of this Part, an officer who receives remuneration for holding an office shall, for any period that the officer holds the office, be deemed to render services to, and to be in the service of, the person from whom the officer receives the remuneration.

History: S. 8300(4) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

(5) For the purposes of this Part (other than the definition "member" in subsection (1)), where an individual has received an interest in an annuity contract in full or partial satisfaction of the individual's entitlement to benefits under a defined benefit provision of a pension plan, any rights of the individual under the contract are deemed to be rights under the defined benefit provision.

History: S. 8300(5) was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1989. S. 8300(5) formerly read:

"(5) For the purposes of this Part, where an individual has received an interest in an annuity contract in full or partial satisfaction of the individual's entitlement to benefits under a defined benefit provision of a pension plan, any rights of the individual under the contract shall be deemed to be rights under the defined benefit provision."

S. 8300(5) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

(6) For the purposes of this Part and subsection 147.1(10) of the Act, and subject to subsection 8308(1), the following rules apply in respect of the determination of the benefits that are provided to an individual under a defined benefit provision of a pension plan at a particular time:

(*a*) where a term of the defined benefit provision, or an amendment to a term of the provision, is not applicable with respect to the individual before a specified date, the term shall be considered to have been added to the provision, or the amendment shall be considered to have been made to the term, on the specified date;

(*b*) where an alteration to the benefits provided to the individual is conditional on the requirements of subsection 147.1(10) of the Act being met, those requirements shall be assumed to have been met;

(*c*) benefits that will be reinstated if the individual returns to employment with an employer who participates in the plan shall be considered not to be provided until the individual returns to employment; and

(*d*) where benefits under the provision depend on the individual's job category or other circumstances, the only benefits provided to the individual are the benefits that are relevant to the individual's circumstances at the particular time.

History: S. 8300(6) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

(7) For the purposes of subsections 8301(3) and (8), paragraph 8302(3)(*c*), subsections 8302(5) and 8304(5) and (5.1), paragraphs 8304.1(10)(*c*) and (11)(*c*), subparagraph 8306(4)(*a*)(ii) and subsection 8308(3), the benefits to which an individual is entitled at any time under a deferred profit sharing plan or pension plan include benefits to which the individual has only a contingent right because a condition for the vesting of the benefits has not been satisfied.

History: S. 8300(7) was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1989. S. 8300(7) formerly read:

"(7) For the purposes of subsections 8301(3) and (8), paragraph 8302(3)(*c*) and subsections 8302(5) and 8304(5), the benefits to which an individual is entitled at any time under a deferred profit sharing plan or pension plan include benefits to which the individual has only a contingent right because the conditions for the vesting of the benefits have not yet been satisfied."

S. 8300(7) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

(8) For the purposes of this Part, such portion of an amount allocated to an individual at any time under a money purchase provision of a registered pension plan as

(*a*) is attributable to

(i) forfeited amounts under the provision or earnings of the plan that are reasonably attributable to those amounts,

(ii) a surplus under the provision,

(iii) property transferred to the provision in respect of the actuarial surplus under a defined benefit provision of the plan or another registered pension plan, or

(iv) property transferred to the provision in respect of the surplus under another money purchase provision of the plan or under a money purchase provision of another registered pension plan, and

(*b*) can reasonably be considered to be allocated in lieu of a contribution that would otherwise have been made under the provision by an employer in respect of the individual

shall be deemed to be a contribution made under the provision by the employer with respect to the individual at that time and not to be an amount attributable to anything referred to in paragraph (*a*).

History: S. 8300(8)(*a*)(iv) was added by P.C. 2003-1497, SOR/2003-328, dated October 2, 2003, applicable to allocations that occur after 1998.

S. 8300(8) was added by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable with respect to amounts allocated after April 5, 1994.

(9) For the purposes of this Part and Part LXXXV, where property held in connection with a particular benefit provision of a pension plan is made available at any time to pay benefits under another benefit provision of the plan, the property is deemed to be transferred at that time from the particular benefit provision to the other benefit provision.

History: S. 8300(9) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1989.

(10) For the purposes of this Part and Parts LXXXIV and LXXXV, and subject to subsection (11), an individual is considered to have terminated from a deferred profit sharing plan or a benefit provision of a registered pension plan when the individual has ceased to be a member in relation to the plan or the provision, as the case may be.

History: S. 8300(10) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1989.

(11) Where the benefits provided with respect to an individual under a particular defined benefit provision of a registered pension plan depend on benefits provided with respect to the individual under one or more other defined benefit provisions of registered pension plans (each of the

particular provision and the other provisions being referred to in this subsection as a "related provision"), for the purposes of this Part and Parts LXXXIV and LXXXV,

(*a*) if the individual ceases, at any particular time after 1996, to be a member in relation to a specific related provision and is, at the particular time, a member in relation to another related provision, the individual is deemed

(i) not to terminate from the specific provision at the particular time, and

(ii) to terminate from the specific provision at the earliest subsequent time when the individual is no longer a member in relation to any of the related provisions;

(*b*) if the conditions in subsection 8304.1(14) (read without reference to the words "after 1996 and") are not satisfied with respect to the individual's termination from a related provision, the conditions in that subsection are deemed not to be satisfied with respect to the individual's termination from each of the other related provisions; and

(*c*) a specified distribution (as defined in subsection 8304.1(8)) made at any particular time in respect of the individual and a related provision is deemed, for the purpose of subsection 8304.1(5), also to be a specified distribution made at the particular time in respect of the individual and each of the other related provisions, except to the extent that the Minister has waived the application of this paragraph with respect to the distribution.

History: S. 8300(11) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1989.

(12) For the purposes of this Part, where

(*a*) all or any part of the amounts payable to an individual under a deferred profit sharing plan are paid by a trustee under the plan to a licensed annuities provider to purchase for the individual an annuity described in subparagraph 147(2)(*k*)(vi) of the Act, or

(*b*) an individual has acquired, in full or partial satisfaction of the individual's entitlement to benefits under a benefit provision of a registered pension plan (other than benefits to which the individual was entitled only because of the participation of another individual under the provision), an interest in an annuity contract (other than as a consequence of a transfer of property from the provision to a registered retirement savings plan or a registered retirement income fund under which the individual is the annuitant),

the individual is deemed to continue, from the time of the payment or acquisition, as the case may be, until the individual's death, to be a member in relation to the plan or provision, as the case may be.

History: S. 8300(12) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1989.

(13) For the purposes of this Part and Part LXXXV, where a benefit is to be provided, or may be provided, to an individual under a defined benefit provision of a registered pension plan as a consequence of an allocation that is to be made, or may be made, to the individual of all or part of an actuarial surplus under the provision, the individual is considered not to have any right to receive the benefit under the provision until the time at which the benefit becomes provided under the provision.

History: S. 8300(13) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1989.

Pension Adjustments

Pension Adjustment with Respect to Employer

8301. (1) For the purpose of subsection 248(1) of the Act, "pension adjustment" of an individual for a calendar year with respect to an employer means, subject to paragraphs 8308(4)(*d*) and (5)(*c*), the total of all amount each of which is

(*a*) the individual's pension credit for the year with respect to the employer under a deferred profit sharing plan or under a benefit provision of a registered pension plan;

(*b*) the individual's pension credit for the year with respect to the employer under a foreign plan, determined under section 8308.1; or

(*c*) the individual's pension credit for the year with respect to the employer under a specified retirement arrangement, determined under section 8308.3.

History: S. 8301(1) was amended by P.C. 1996-911, SOR/96-311, dated June 20, 1996, applicable with respect to the determination of pension adjustments for 1992 and subsequent years. S. 8301(1) formerly read:

"(1) For the purposes of subsection 248(1) of the Act, 'pension adjustment' of an individual for a calendar year with respect to an employer means, subject to paragraphs 8308(4)(*d*) and (5)(*c*), the aggregate of all amounts each of which is the individual's pension credit for the year with respect to the employer under a deferred profit sharing plan or under a benefit provision of a registered pension plan."

S. 8301(1) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Interpretation Bulletins: *Secondary* — IT-124R6 Contributions to registered retirement savings plans; IT-307R4 Spousal registered retirement savings plans.

Pension Credit — Deferred Profit Sharing Plan

(2) For the purposes of subsection (1) and Part LXXXV and subsection 147(5.1) of the Act, and subject to subsection 8304(2), an individual's pension credit for a calendar year with respect to an employer under a deferred profit sharing plan is the amount determined by the formula

$$A - B$$

where

A is the total of all amounts each of which is

(*a*) a contribution made to the plan in the year by the employer with respect to the individual, or

(*b*) the portion of an amount allocated in the year to the individual that is attributable to forfeited amounts under the plan or to earnings of the plan in respect of forfeited amounts, except to the extent that the portion

(i) is included in determining the individual's pension credit for the year with respect to any other employer who participates in the plan, or

(ii) is paid to the individual in the year; and

B is nil, unless the conditions in subsection (2.1) are satisfied, in which case it is the total referred to in paragraph (2.1)(*b*).

History: S. 8301(2) was replaced by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable to the determination of pension credits for the 2002 and subsequent calendar years. S. 8301(2) formerly read:

"(2) For the purposes of subsection (1) and Part LXXXV and subsection 147(5.1) of the Act, and subject to subsections (3) and 8304(2), an indi-

vidual's pension credit for a calendar year with respect to an employer under a deferred profit sharing plan is the aggregate of all amounts each of which is

(*a*) a contribution made to the plan in the year by the employer with respect to the individual, or

(*b*) such portion of an amount allocated in the year to the individual as is attributable to forfeited amounts under the plan and earnings of the plan in respect thereof, except to the extent that such portion is

(i) included in determining the individual's pension credit for the year with respect to any other employer who participates in the plan,

(ii) paid to the individual in the year, or

(iii) where the year is 1990, attributable to amounts forfeited before 1990 or earnings of the plan in respect thereof,

except that, where the year is before 1990, the individual's pension credit is nil."

S. 8301(2) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989, except that, before 1991, it shall be read without reference to the expression "and subsection 147(5.1) of the Act".

Regulations: 8301(15).
Interpretation Bulletins: *Secondary* — IT-124R6 Contributions to registered retirement savings plans.

Conditions Re — Description of B in Subsection (2)

(2.1) The following are conditions for the purpose of the description of B in subsection (2):

(*a*) the total of all amounts, each of which would be the individual's pension credit for the calendar year with respect to the employer under a deferred profit sharing plan if the description of B in subsection (2) were read as "is nil.", is

(i) equal to, or less than, 50% of the money purchase limit for the year,

(ii) greater than 18% of the amount that would be the individual's compensation from the employer for the year if the definition "compensation" in subsection 147.1(1) of the Act were read without reference to paragraph (*b*) of that definition, and

(iii) equal to, or less than, 18% of the amount that would be the individual's compensation from the employer for the preceding year if the definition "compensation" in subsection 147.1(1) of the Act were read without reference to paragraph (*b*) of that definition; and

(*b*) the total of all amounts, each of which is an amount that is paid from the plan to the individual or the employer in the calendar year or in the first two months of the following year that can reasonably be considered to derive from an amount included in the value of A in subsection (2) with respect to the individual and the employer for the year, is greater than nil.

History: S. 8301(2.1) was added by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable to the determination of pension credits for the 2002 and subsequent calendar years.

Regulations: 8301(15).

Non-Vested Termination from DPSP

(3) For the purposes of subsection (1) and Part LXXXV and subsection 147(5.1) of the Act, where

(*a*) an individual ceased in a calendar year after 1989 and before 1997 to be employed by an employer who participated in a deferred profit sharing plan for the benefit of the individual,

(*b*) as a consequence of the termination of employment, the individual ceased in the year to have any rights to benefits (other than a right to a refund benefit) under the plan,

(*c*) the individual was not entitled to benefits under the plan at the end of the year, or was entitled only to a refund benefit, and

(*d*) no benefit has been paid under the plan with respect to the individual, other than a refund benefit,

the individual's pension credit under the plan for the year with respect to the employer is nil.

History: S. 8301(3)(*a*) was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1989. S. 8301(3)(a) formerly read:

"(*a*) an individual ceased in a calendar year after 1989 to be employed by an employer who participated in a deferred profit sharing plan for the benefit of the individual,"

S. 8301(3) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989, except that, before 1991, subsection 8301(3) shall be read without reference to the expression "and subsection 147(5.1) of the Act".

Interpretation Bulletins: *Secondary* — IT-124R6 Contributions to registered retirement savings plans.

Pension Credit — Money Purchase Provision

(4) For the purposes of subsection (1) and Part LXXXV and subsection 147.1(9) of the Act, and subject to subsections (4.1) and (8) and 8304(2), an individual's pension credit for a calendar year with respect to an employer under a money purchase provision of a registered pension plan is the total of all amounts each of which is

(*a*) a contribution (other than an additional voluntary contribution made by the individual in 1990, an excluded contribution or a contribution described in paragraph 8308(6)(*e*) or (*g*)) made under the provision in the year by

(i) the individual, except to the extent that the contribution was not made in connection with the individual's employment with the employer and is included in determining the individual's pension credit for the year with respect to any other employer who participates in the plan, or

(ii) the employer with respect to the individual, or

(*b*) such portion of an amount allocated in the year to the individual as is attributable to

(i) forfeited amounts under the provision or earnings of the plan in respect thereof,

(ii) a surplus under the provision,

(ii.1) property transferred to the provision in respect of the actuarial surplus under a defined benefit provision of the plan or another registered pension plan, or

(ii.2) property transferred to the provision in respect of the surplus under another money purchase provision of the plan or under a money purchase provision of another registered pension plan,

except to the extent that that portion is

(iii) included in determining the individual's pension credit for the year with respect to any other employer who participates in the plan,

(iv) paid to the individual in the year, or

(v) where the year is 1990, attributable to amounts forfeited before 1990 or earnings of the plan in respect thereof,

except that the individual's pension credit is nil where the year is before 1990, and, for the purposes of this subsection,

the plan administrator shall determine the portion of a contribution made by an individual or an amount allocated to the individual that is to be included in determining the individual's pension credit with respect to each employer.

History: S. 8301(4)(b)(ii.2) was added by P.C. 2003-1497, SOR/2003-328, dated October 2, 2003, applicable to the determination of pension credits for 1999 and subsequent years.

S. 8301(4), the portion before subparagraph (*a*)(i) was amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable with respect to the determination of pension credits for 1990 and subsequent years except that, with respect to the determination of pension credits for years before 1993, the portion of subsection 8301(4) before paragraph (*a*) shall be read without reference to subsection 8301(4.1). S. 8301(4), the portion before subparagraph (*a*)(i) formerly read:

"(4) For the purposes of subsection (1) and Part LXXXV and subsection 147.1(9) of the Act, and subject to subsections (8) and 8304(2), an individual's pension credit for a calendar year with respect to an employer under a money purchase provision of a registered pension plan is the aggregate of all amounts each of which is

(*a*) a contribution (other than an additional voluntary contribution made by the individual in 1990 or an excluded contribution) made under the provision in the year by"

S. 8301(4)(b)(ii.1) was added by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable with respect to the determination of pension credits for 1991 and subsequent years.

S. 8301(4) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Regulations: 8301(15).
Interpretation Bulletins: *Secondary* — IT-124R6 Contributions to registered retirement savings plans.
Information Circulars: IC 98-2 Prescribed Compensation for Registered Pension Plans.
Registered Plans Directorate Newsletters: No. 91-4R, Registration rules for money purchase provisions.

Money Purchase Pension Credits Based on Amounts Allocated

(4.1) Where,

(*a*) under the terms of a money purchase provision of a pension plan, the method for allocating contributions is such that contributions made by an employer with respect to a particular individual may be allocated to another individual, and

(*b*) the Minister has, on the written application of the administrator of the plan, approved in writing a method for determining pension credits under the provision that, for each individual, takes into account amounts allocated to the individual,

each pension credit under the provision is the amount determined in accordance with the method approved by the Minister.

History: S. 8301(4.1) was added by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable with respect to the determination of pension credits for 1993 and subsequent years.

Pension Credit — Defined Benefit Provision of a Specified Multi-Employer Plan

(5) For the purposes of this Part and Part LXXXV and subsection 147.1(9) of the Act, an individual's pension credit for a calendar year with respect to an employer under a defined benefit provision of a registered pension plan that is, in the year, a specified multi-employer plan is the aggregate of

(*a*) the aggregate of all amounts each of which is a contribution (other than an excluded contribution) made under the provision by the individual

(i) in the year, in respect of

(A) the year, or

(B) a plan year ending in the year (other than in respect of such portion of a plan year as is before 1990), or

(ii) in January of the year (other than in January, 1990) in respect of the immediately preceding calendar year,

except to the extent that the contribution was not made in connection with the individual's employment with the employer and is included in determining the individual's pension credit for the year with respect to any other employer who participates in the plan,

(*b*) the aggregate of all amounts each of which is a contribution made in the year by the employer in respect of the provision, to the extent that the contribution may reasonably be considered to be determined by reference to the number of hours worked by the individual or some other measure that is specific to the individual, and

(*c*) the amount determined by the formula

$$\frac{A}{B} \times (C - B)$$

where

A is the amount determined under paragraph (*b*) for the purpose of computing the individual's pension credit,

B is the aggregate of all amounts each of which is the amount determined under paragraph (*b*) for the purpose of computing the pension credit of an individual for the year with respect to the employer under the provision, and

C is the aggregate of all amounts each of which is a contribution made in the year by the employer in respect of the provision,

except that, where the year is before 1990, the individual's pension credit is nil.

History: S. 8301(5) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Pension Credit — Defined Benefit Provision

(6) Subject to subsections (7), (8) and (10) and sections 8304 and 8308, for the purposes of this Part and Part LXXXV and subsection 147.1(9) of the Act, an individual's pension credit for a calendar year with respect to an employer under a defined benefit provision of a particular registered pension plan (other than a plan that is, in the year, a specified multi-employer plan) is

(*a*) if the year is after 1989, the amount determined by the formula

$$A + B$$

where

A is 9 times the individual's benefit entitlement under the provision with respect to the employer and the year, and

B is the amount, if any, by which the PA offset for the year exceeds the total of all amounts each of which is the value of B determined under this paragraph for the purpose of computing the individual's pension credit for the year

(i) with respect to the employer under any other defined benefit provision of a registered pension plan,

(ii) with respect to any other employer who at any time in the year does not deal at arm's length with the employer, under a defined benefit provision of a registered pension plan, or

(iii) with respect to any other employer under a defined benefit provision of the particular plan; and

(*b*) if the year is before 1990, nil.

History: S. 8301(6) was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1989. S. 8301(6) formerly read:

"(6) For the purposes of this Part and Part LXXXV and subsection 147.1(9) of the Act, and subject to subsections (7), (8) and (10) and sections 8304 and 8308, an individual's pension credit for a calendar year with respect to an employer under a defined benefit provision of a particular registered pension plan (other than a plan that is, in the year, a specified multi-employer plan) is the amount, if any, by which

(*a*) 9 times the individual's benefit entitlement under the provision with respect to the employer and the year

exceeds

(*b*) the amount, if any, by which $1,000 exceeds the aggregate of all amounts each of which is an amount deducted under this paragraph for the purpose of computing the individual's pension credit for the year

(i) with respect to the employer under any other defined benefit provision of a registered pension plan,

(ii) with respect to any other employer who at any time in the year does not deal at arm's length with the employer, under a defined benefit provision of a registered pension plan, or

(iii) with respect to any other employer under a defined benefit provision of the particular plan,

except that, where the year is before 1990, the individual's pension credit is nil."

S. 8301(6) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Interpretation Bulletins: *Secondary* — IT-124R6 Contributions to registered retirement savings plans.

Pension Credit — Defined Benefit Provision of a Multi-Employer Plan

(7) Where a registered pension plan is a multi-employer plan (other than a specified multi-employer plan) in a calendar year, the following rules apply, except to the extent that the Minister has waived in writing their application in respect of the plan, for the purpose of determining the pension credit of an individual for the year under a defined benefit provision of the plan:

(*a*) where the individual is employed in the year by more than one participating employer, the pension credit of the individual for the year under the provision with respect to a particular employer shall be determined as if the individual were not employed by any other participating employer;

(*b*) the description of B in paragraph (6)(*a*) shall be read as

"B is the amount determined by the formula

$$(C \times D) - E$$

where

C is the PA offset for the year,

D is

(i) where the member rendered services on a full-time basis throughout the year to the employer, one, and

(ii) in any other case, the fraction (not greater than one) that measures the services that, for the purpose of determining the member's lifetime retirement benefits under the provision, the member is treated as having rendered in the year to the employer, expressed as a proportion of the services that would have been rendered by the member in the year to the employer if the member had rendered services to the employer on a full-time basis throughout the year, and

E is the total of all amounts each of which is the value of B determined under this paragraph for the purpose of computing the individual's pension credit for the year with respect to the employer under any other defined benefit provision of the plan; and;"

(*c*) where a period in the year is a period of reduced services of the individual, the pension credit of the individual for the year under the provision with respect to each participating employer shall be determined as the aggregate of

(i) the pension credit that would be determined if no benefits (other than benefits attributable to services rendered by the individual) had accrued to the individual in respect of periods of reduced services, and

(ii) the pension credit that would be determined if the only benefits that had accrued to the individual were benefits in respect of periods of reduced services, other than benefits attributable to services rendered by the individual during such periods; and

(*d*) subsection (10) shall not apply.

History: S. 8301(7)(*b*) was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1989. S. 8301(7)(b) formerly read:

"(*b*) paragraph (6)(*b*) shall be read as follows:

'(*b*) the amount determined by the formula

$$\$1{,}000 \times A - B$$

where

A is

(i) where the member rendered services on a full-time basis throughout the year to the employer, one, and

(ii) in any other case, the fraction (not greater than one) that measures the services that, for the purpose of determining the member's lifetime retirement benefits under the provision, the member is treated as having rendered in the year to the employer, expressed as a proportion of the services that would have been rendered by the member in the year to the employer had the member rendered services to the employer on a full-time basis throughout the year, and

B is the aggregate of all amounts each of which is an amount deducted under this paragraph for the purpose of computing the individual's pension credit for the year with respect to the employer under any other defined benefit provision of the plan,;'"

S. 8301(7) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Non-Vested Termination from RPP

(8) For the purposes of this Part and Part LXXXV and subsection 147.1(9) of the Act, and subject to subsection (9), where

(*a*) an individual ceased in a calendar year after 1989 and before 1997 to be employed by an employer who participated in a registered pension plan for the benefit of the individual,

(*b*) as a consequence of the termination of employment, the individual ceased in the year to have any

rights to benefits (other than a right to a refund benefit) under a benefit provision of the plan,

(*c*) the individual was not entitled to benefits under the provision at the end of the year, or was entitled only to a refund benefit, and

(*d*) no benefit has been paid under the provision with respect to the individual, other than a refund benefit,

the individual's pension credit under the provision for the year with respect to the employer is

(*e*) where the provision is a money purchase provision, the total of all amounts each of which is a contribution (other than an additional voluntary contribution made by the individual in 1990, an excluded contribution or a contribution described in paragraph 8308(6)(*e*)) made under the provision in the year by the individual, except to the extent that the contribution was not made in connection with the individual's employment with the employer and is included in determining the individual's pension credit for the year with respect to any other employer who participates in the plan, and

(*f*) where the provision is a defined benefit provision, the lesser of

(i) the pension credit that would be determined if this subsection were not applicable, and

(ii) the aggregate of all amounts each of which is a contribution (other than an excluded contribution) made under the provision by the individual in, and in respect of, the year, except to the extent that the contribution was not made in connection with the individual's employment with the employer and is included in determining the individual's pension credit for the year with respect to any other employer who participates in the plan.

History: S. 8301(8)(*b*) was replaced by P.C. 2007-849, SOR/2007-116, dated May 31, 2007, effective on publication in the *Canada Gazette*, June 13, 2007. S. 8301(8)(*b*) formerly read:

"(*b*) as a consequence of the termination of employment, the individual ceased in the year to have any rights to benefits (other than a right to a refund benefit) under a money purchase or defined benefit provision of the plan,"

S. 8301(8)(*a*) was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1989. S. 8301(8)(*a*) formerly read:

"(*a*) an individual ceased in a calendar year after 1989 to be employed by an employer who participated in a registered pension plan for the benefit of the individual,"

S. 8301(8)(*e*) was amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable with respect to the determination of pension credits for 1990 and subsequent years. S. 8301(8)(*e*) formerly read:

"(*e*) where the provision is a money purchase provision, the aggregate of all amounts each of which is a contribution (other than an additional voluntary contribution made by the individual in 1990 or an excluded contribution) made under the provision in the year by the individual, except to the extent that the contribution was not made in connection with the individual's employment with the employer and is included in determining the individual's pension credit for the year with respect to any other employer who participates in the plan, and"

S. 8301(8) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Interpretation Bulletins: *Secondary* — IT-124R6 Contributions to registered retirement savings plans.

Multi-Employer Plans

(9) Subsection (8) is not applicable in respect of a registered pension plan that is a multi-employer plan in a calendar year except where

(*a*) the plan is not a specified multi-employer plan in the year;

(*b*) if the plan contains a defined benefit provision, the Minister has waived in writing the application of paragraph (7)(*b*) in respect of the plan for the year; and

(*c*) the Minister has approved in writing the application of subsection (8) in respect of the plan for the year.

History: S. 8301(9) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Interpretation Bulletins: *Secondary* — IT-124R6 Contributions to registered retirement savings plans.

Transition Rule — Money Purchase Offsets

(10) Where,

(*a*) throughout the period beginning on January 1, 1981 and ending on December 31 of a particular calendar year after 1989 and before 2000 there has been subtracted, in determining the amount of lifetime retirement benefits under a defined benefit provision of a registered pension plan (other than a specified multi-employer plan), the amount of lifetime retirement benefits under a money purchase provision of the plan or of another registered pension plan,

(*b*) lifetime retirement benefits under the defined benefit provision are determined, at the end of the particular year, in substantially the same manner as they were determined at the end of 1989, and

(*c*) for each individual and each calendar year before 1990, the amount of employer contributions made under the money purchase provision for the year in with respect to the individual did not exceed $3,500,

the pension credit of an individual for the particular year with respect to an employer under the defined benefit provision is equal to the amount, if any, by which

(*d*) the amount that would, but for this subsection, be the individual's pension credit

exceeds

(*e*) the lesser of

(i) $2,500, and

(ii) the amount determined by the formula

$$\frac{1}{10} \times (A - (B \times C))$$

where

A is the balance in the individual's account under the money purchase provision at the end of 1989,

B is the aggregate of all amounts each of which is the duration (measured in years, including any fraction of a year) of a period ending before 1990 that is pensionable service of the individual under the defined benefit provision and that is not part of a longer period ending before 1990 that is pensionable service of the individual under the provision, and

C is the amount that would be the individual's pension credit for 1989 with respect to the employer under the defined benefit provision if subsection (6) were read without reference to the words "if the year is after 1989" in

paragraph (6)(*a*) and without reference to paragraph (6)(*b*).

History: S. 8301(10)(*e*)(ii), the description of C was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1989. It formerly read:

"C is the amount that would be the individual's pension credit for 1989 with respect to the employer under the defined benefit provision if subsection (6) were read without reference to all that portion following subparagraph (*b*)(iii) thereof."

S. 8301(10) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Timing of Contributions

(11) Subject to paragraph (12)(*b*), for the purposes of this Part, a contribution made by an employer in the first two months of a calendar year to a deferred profit sharing plan, in respect of a money purchase provision of a registered pension plan, or in respect of a defined benefit provision of a registered pension plan that was, in the immediately preceding calendar year, a specified multi-employer plan, shall be deemed to have been made by the employer at the end of the immediately preceding calendar year and not to have been made in the year, to the extent that the contribution can reasonably be considered to relate to a preceding calendar year.

History: S. 8301(11) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Information Circulars: IC 98-2 Prescribed Compensation for Registered Pension Plans.

Indirect Contributions

(12) For the purposes of this Part and Part LXXXIV, where a trade union or association of employers (in this subsection and subsections (13) and (14) referred to as the "contributing entity") makes contributions to a registered pension plan,

(*a*) such portion of a payment made to the contributing entity by an employer or an individual as may reasonably be considered to relate to the plan (determined in accordance with subsection (13), where that subsection is applicable) shall be deemed to be a contribution made to the plan by the employer or individual, as the case may be, at the time the payment was made to the contributing entity, and

(*b*) subsection (11) shall not apply in respect of a contribution deemed by paragraph (*a*) to have been made to the plan.

History: S. 8301(12) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Apportionment of Payments

(13) For the purposes of subsection (12), where employers or individuals make payments in a calendar year to a contributing entity to enable the contributing entity to make contributions to a registered pension plan and the payments are not made solely for the purpose of being contributed to the plan, the contributing entity shall

(*a*) determine, in a manner that is reasonable in the circumstances, the portion of each payment that relates to the plan;

(*b*) make the determination in such a manner that all contributions made by the contributing entity to the plan, other than contributions made by the contributing entity as an employer or former employer of members of the plan, are considered to be funded by payments made to the contributing entity by employers or individuals;

(*c*) in the case of payments remitted to the contributing entity by an employer, notify the employer in writing, by January 31 of the immediately following calendar year, of the portion, or of the method for determining the portion, of each such payment that relates to the plan; and

(*d*) in the case of payments remitted to the contributing entity by an individual, notify the administrator of the plan in writing, by January 31 of the immediately following calendar year, of the total amount of payments made in the year by the individual that relate to the plan.

History: S. 8301(13) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Non-Compliance by Contributing Entity

(14) Where a contributing entity does not comply with the requirements of subsection (13) as they apply in respect of payments made to the contributing entity in a calendar year to enable the contributing entity to make contributions to a registered pension plan,

(*a*) the plan becomes, on February 1 of the immediately following calendar year, a revocable plan; and

(*b*) the Minister may make any determinations referred to in subsection (13) that the contributing entity failed to make, or failed to make in accordance with that subsection.

History: S. 8301(14) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Transferred Amounts

(15) For the purposes of subparagraph (*b*)(ii) of the description of A in subsection (2), paragraph (2.1)(*b*) and subparagraph (4)(*b*)(iv), an amount transferred for the benefit of an individual from a registered pension plan or a deferred profit sharing plan directly to a registered pension plan, a registered retirement savings plan, a registered retirement income fund or a deferred profit sharing plan is deemed to be an amount that was not paid to the individual.

History: S. 8301(15) and the heading before it were replaced by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable to the determination of pension credits for the 2002 and subsequent taxation years. S. 8301(15) and the heading before it formerly read:

"*Transferred Amounts*

(15) For the purposes of subparagraphs (2)(*b*)(ii) and (4)(*b*)(iv), an amount transferred for the benefit of an individual from a registered pension plan or a deferred profit sharing plan directly to a registered pension plan, a registered retirement savings plan, a registered retirement income fund or a deferred profit sharing plan shall be deemed to be an amount that was not paid to the individual."

S. 8301(15) was amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, by adding the phrase "a registered retirement income fund", applicable with respect to transfers occurring after August 29, 1990.

S. 8301(15) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Subsequent Events

(16) Except as otherwise expressly provided in this Part, each pension credit of an individual for a calendar year shall be determined without regard to any transactions, events or circumstances that occur subsequent to the year.

History: S. 8301(16) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Benefit Entitlement

8302. **(1)** For the purposes of subsection 8301(6), the benefit entitlement of an individual under a defined benefit provision of a registered pension plan in respect of a calendar year and an employer is the portion of the individual's benefit accrual under the provision in respect of the year that can reasonably be considered to be attributable to the individual's employment with that employer.

History: S. 8302(1) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Benefit Accrual for Year

(2) For the purposes of subsection (1), and subject to subsections (6), (8) and (9), the benefit accrual of an individual under a defined benefit provision of a registered pension plan in respect of a calendar year is the amount computed in accordance with the following rules:

(*a*) determine the portion of the individual's normalized pension under the provision at the end of the year that can reasonably be considered to have accrued in respect of the year;

(*b*) where the year is after 1989 and before 1995, determine the lesser of the amount determined under paragraph (*a*) and

(i) for 1990, $1,277.78,

(ii) for 1991 and for 1992, $1,388.89,

(iii) for 1993, $1,500.00, and

(iv) for 1994, $1,611.11; and

(*c*) where, in determining the amount of lifetime retirement benefits payable to the individual under the provision, there is deducted from the amount of those benefits that would otherwise be payable the amount of lifetime retirement benefits payable to the individual under a money purchase provision of a registered pension plan or the amount of a lifetime annuity payable to the individual under a deferred profit sharing plan, reduce the amount that would otherwise be determined under this subsection by 1/9 of the total of all amounts each of which is the pension credit of the individual for the year under such a money purchase provision or deferred profit sharing plan.

History: S. 8302(2)(*b*) and (*c*) were amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable after 1991. S. 8302(2)(*b*) and (*c*) formerly read:

"(*b*) where the year is 1990, 1991, 1992 or 1993, determine the lesser of the amount determined under paragraph (*a*) and

(i) for 1990, $1,277.78,

(ii) for 1991, $1,388.89,

(iii) for 1992, $1,500.00, and

(iv) for 1993, $1,611.11; and

(*c*) where, in determining the amount of lifetime retirement benefits payable to the individual under the provision, there is deducted from the amount of such benefits that would otherwise be payable the amount of lifetime retirement benefits payable to the individual under a money purchase provision of a registered pension plan or the amount of a lifetime annuity payable to the individual under a deferred profit sharing plan, reduce the amount determined under paragraph (*a*) (if the year is not 1990, 1991, 1992 or 1993) or paragraph (*b*) (if the year is 1990, 1991, 1992 or 1993) by 1/9 of the aggregate of all amounts each of which is the pension credit of the individual for the year under such a money purchase provision or deferred profit sharing plan."

S. 8302(2) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Normalized Pensions

(3) For the purposes of paragraph (2)(*a*), and subject to subsection (11), the normalized pension of an individual under a defined benefit provision of a registered pension plan at the end of a particular calendar year is the amount (expressed on an annualized basis) of lifetime retirement benefits that would be payable under the provision to the individual immediately after the end of the particular year if

(*a*) where lifetime retirement benefits have not commenced to be paid under the provision to the individual before the end of the particular year, they commenced to be paid immediately after the end of the year;

(*b*) where the individual had not attained 65 years of age before the time at which lifetime retirement benefits commenced to be paid (or are assumed by reason of paragraph (*a*) to have commenced to be paid) to the individual, the individual attained that age at that time;

(*c*) all benefits to which the individual is entitled under the provision were fully vested;

(*d*) where the amount of the individual's lifetime retirement benefits would otherwise be determined with a reduction computed by reference to the individual's age, duration of service or both, or with any other similar reduction, no such reduction were applied;

(*d*.1) no reduction in the amount of the individual's lifetime retirement benefits were applied in respect of benefits described in any of clauses 8503(2)(*a*)(vi)(A) to (C);

(*d*.2) no adjustment that is permissible under subparagraph 8503(2)(*a*)(ix) were made to the amount of the individual's lifetime retirement benefits;

(*e*) where the amount of the individual's lifetime retirement benefits depends on the remuneration received by the individual in a calendar year (in this paragraph referred to as the "other year") other than the particular year, the remuneration received by the individual in the other year were determined in accordance with the following rules:

(i) where the individual was remunerated for both the particular year and the other year as a person who rendered services on a full-time basis throughout each of the years, the remuneration received by the individual in the other year is identical to the remuneration received by the individual in the particular year,

(ii) where subparagraph (i) is not applicable and the individual rendered services in the particular year, the remuneration received by the individual in the other year is the remuneration that the individual would have received in the other year (or a reasonable estimate thereof determined by a method acceptable to the Minister) had the individual's rate of remuneration in the other year been the same as the individual's rate of remuneration in the particular year, and

(iii) where subparagraph (i) is not applicable and the individual did not render services in the particular year, the remuneration received by the individual in the other year is the remuneration that the individual would have received in the other year (or a reasonable estimate thereof determined by a method acceptable to the Minister)

had the individual's rate of remuneration in the other year been the amount that it is reasonable to consider would have been the individual's rate of remuneration in the particular year had the individual rendered services in the particular year;

(*f*) where the amount of the individual's lifetime retirement benefits depends on the individual's remuneration and all or a portion of the remuneration received by the individual in the particular year is treated under the provision as if it were remuneration received in a calendar year preceding the particular year for services rendered in that preceding year, that remuneration were remuneration for services rendered in the particular year;

(*g*) where the amount of the individual's lifetime retirement benefits depends on the individual's remuneration and the particular year is after 1989 and before 1995, benefits, to the extent that they can reasonably be considered to be in respect of the following range of annual remuneration, were excluded:

(i) where the particular year is 1990, the range from $63,889 to $86,111,

(ii) where the particular year is 1991 or 1992, the range from $69,444 to $86,111,

(iii) where the particular year is 1993, the range from $75,000 to $86,111, and

(iv) where the particular year is 1994, the range from $80,556 to $86,111;

(*h*) where

(i) the amount of the individual's lifetime retirement benefits depends on the individual's remuneration,

(ii) the formula for determining the amount of the individual's lifetime retirement benefits includes an adjustment to the individual's remuneration for one or more calendar years,

(iii) the adjustment to the individual's remuneration for a year (in this paragraph referred to as the "specified year") consists of multiplying the individual's remuneration for the specified year by a factor that does not exceed the ratio of the average wage for the year in which the amount of the individual's lifetime retirement benefits is required to be determined to the average wage for the specified year (or a substantially similar measure of the change in the wage measure), and

(iv) the adjustment may reasonably be considered to be made to increase the individual's remuneration for the specified year to reflect, in whole or in part, increases in average wages and salaries from that year to the year in which the amount of the individual's lifetime retirement benefits is required to be determined,

the formula did not include the adjustment to the individual's remuneration for the specified year;

(*i*) where the amount of the individual's lifetime retirement benefits depends on the Year's Maximum Pensionable Earnings for calendar years other than the particular year, the Year's Maximum Pensionable Earnings for each such year were equal to the Year's Maximum Pensionable Earnings for the particular year;

(*j*) where the amount of the individual's lifetime retirement benefits depends on the actual amount of pension (in this paragraph referred to as the "statutory pension") payable to the individual under the *Canada Pension Plan* or a provincial plan (as defined in section 3 of that Act), the amount of statutory pension (expressed on an annualized basis) were equal to

(i) 25 per cent of the lesser of the Year's Maximum Pensionable Earnings for the particular year and

(A) in the case of an individual who renders services throughout the particular year on a full-time basis to employers who participate in the plan, the aggregate of all amounts each of which is the individual's remuneration for the particular year from such an employer, and

(B) in any other case, the amount that it is reasonable to consider would be determined under clause (A) if the individual had rendered services throughout the particular year on a full-time basis to employers who participate in the plan, or

(ii) at the option of the plan administrator, any other amount determined in accordance with a method for estimating the statutory pension that can be expected to result in amounts substantially similar to amounts determined under subparagraph (i);

(*k*) where the amount of the individual's lifetime retirement benefits depends on the pension (in this paragraph referred to as the "statutory pension") payable to the individual under Part I of the *Old Age Security Act*, the amount of statutory pension payable for each calendar year were equal to the aggregate of all amounts each of which is the amount of the full monthly pension payable under Part I of the *Old Age Security Act* for a month in the particular year;

(*l*) except as otherwise expressly permitted in writing by the Minister, where the amount of the individual's lifetime retirement benefits depends on the amount of benefits (other than public pension benefits or similar benefits of a country other than Canada) payable under another benefit provision of a pension plan or under a deferred profit sharing plan, the amounts of the other benefits were such as to maximize the amount of the individual's lifetime retirement benefits;

(*m*) where the individual's lifetime retirement benefits would otherwise include benefits that the plan is required to provide by reason of a designated provision of the law of Canada or a province (within the meaning assigned by section 8513), or that the plan would be required to provide if each such provision were applicable to the plan with respect to all its members, such benefits were not included;

(*n*) where

(i) the individual attained 65 years of age before lifetime retirement benefits commenced to be paid (or are assumed by reason of paragraph (*a*) to

have commenced to be paid) to the individual, and

(ii) an adjustment is made in determining the amount of those benefits for the purpose of offsetting, in whole or in part, the decrease in the value of lifetime retirement benefits that would otherwise result by reason of the deferral of those benefits after the individual attained 65 years of age,

that adjustment were not made, except to the extent that the adjustment exceeds the adjustment that would be made on an actuarially equivalent basis;

(*o*) except as otherwise provided by subsection (4), where the amount of the individual's lifetime retirement benefits depends on

(i) the form of benefits provided with respect to the individual under the provision (whether or not at the option of the individual), including

(A) the benefits to be provided after the death of the individual,

(B) the amount of retirement benefits, other than lifetime retirement benefits, provided to the individual, or

(C) the extent to which the lifetime retirement benefits will be adjusted to reflect changes in the cost of living, or

(ii) circumstances that are relevant in determining the form of benefits,

the form of benefits and the circumstances were such as to maximize the amount of the individual's lifetime retirement benefits on commencement of payment;

(*p*) where the amount of the individual's lifetime retirement benefits depends on whether the individual is totally and permanently disabled at the time at which retirement benefits commence to be paid to the individual, the individual were not so disabled at that time; and

(*q*) where lifetime retirement benefits have commenced to be paid under the provision to the individual before the end of the particular year, benefits payable as a consequence of cost-of-living adjustments described in paragraph 8303(5)(*k*) were disregarded.

History: S. 8302(3)(*d.1*) and (*d.2*) were added by P.C. 2001-153, SOR/2001-67, dated January 30, 2001, applicable to the determination of pension credits for 1990 and subsequent years.

S. 8302(3)(*g*) was amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable after 1991. S. 8302(3)(*g*) formerly read:

"(*g*) where the amount of the individual's lifetime retirement benefits depends on the individual's remuneration and the particular year is 1990, 1991, 1992 or 1993, benefits, to the extent that they can reasonably be considered to be in respect of the following range of annual remuneration, were excluded:

(i) where the particular year is 1990, the range from $63,889 to $86,111,

(ii) where the particular year is 1991, the range from $69,444 to $86,111,

(iii) where the particular year is 1992, the range from $75,000 to $86,111, and

(iv) where the particular year is 1993, the range from $80,556 to $86,111;"

S. 8302(3) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Optional Forms

(4) Where the terms of a defined benefit provision of a registered pension plan permit a member to elect to receive additional lifetime retirement benefits in lieu of benefits that would, in the absence of the election, be payable after the death of the member if the member dies after retirement benefits under the provision commence to be paid to the member, paragraph (3)(*o*) applies as if the following elections were not available to the member;

(*a*) an election to receive additional lifetime retirement benefits, not exceeding additional benefits determined on an actuarially equivalent basis, in lieu of all or any portion of a guarantee that retirement benefits will be paid for a minimum period of ten years or less, and

(*b*) an election to receive additional lifetime retirement benefits in lieu of retirement benefits that would otherwise be payable to an individual who is a spouse or common-law partner or former spouse or common-law partner of the member for a period beginning after the death of the member and ending with the death of the individual, where

(i) the election may be made only if the life expectancy of the individual is significantly shorter than normal and has been so certified in writing by a medical doctor licensed to practice under the laws of a province or of the place where the individual resides, and

(ii) the additional benefits do not exceed additional benefits determined on an actuarially equivalent basis and on the assumption that the individual has a normal life expectancy.

History: S. 8302(4)(*b*) was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years. S. 8302(4)(*b*) formerly read:

"(*b*) an election to receive additional lifetime retirement benefits in lieu of retirement benefits that would otherwise be payable to a spouse or former spouse (in this paragraph referred to as the 'spouse') of the member for a period beginning after the death of the member and ending with the death of the spouse, where

(i) the election may be made only if the life expectancy of the spouse is significantly shorter than normal and has been so certified in writing by a medical doctor licensed to practise under the laws of a province or of the place where the spouse resides, and

(ii) the additional benefits do not exceed additional benefits determined on an actuarially equivalent basis and on the assumption that the spouse has a normal life expectancy."

S. 8302(4) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Termination of Entitlement to Benefits

(5) For the purposes of subsection (3), where an individual ceased in a calendar year to be entitled to all or part of the lifetime retirement benefits provided to the individual under a defined benefit provision of a registered pension plan, the normalized pension of the individual under the provision at the end of the year shall be determined on the assumption that the individual continued to be entitled to those benefits immediately after the end of the year.

History: S. 8302(5) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Defined Benefit Offset

(6) Where the amount of lifetime retirement benefits provided under a particular defined benefit provision of a registered pension plan to a member of the plan depends on the amount of lifetime retirement benefits provided to

the member under one or more other defined benefit provisions of registered pension plans, the benefit accrual of the member under the particular provision in respect of a calendar year is the amount, if any, by which

(*a*) the amount that would, but for this subsection, be the benefit accrual of the member under the particular provision in respect of the year if the benefits provided under the other provisions were provided under the particular provision

exceeds

(*b*) the amount that would be the benefit accrual of the member under the other provisions in respect of the year if the other provisions were a single provision.

History: S. 8302(6) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Offset of Specified Multi-Employer Plan Benefits

(7) Where the amount of an individual's lifetime retirement benefits under a defined benefit provision (in this subsection referred to as the "supplemental provision") of a registered pension plan depends on the amount of benefits payable under a defined benefit provision of a specified multi-employer plan, the defined benefit provision of the specified multi-employer plan shall be deemed to be a money purchase provision for the purpose of determining the benefit accruals of the individual under the supplemental provision.

History: S. 8302(7) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Transition Rule — Career Average Benefits

(8) Where

(*a*) on March 27, 1988 lifetime retirement benefits under a defined benefit provision of a pension plan were determined as the greater of benefits computed on a career average basis and benefits computed on a final or best average earnings basis,

(*b*) the method for determining lifetime retirement benefits under the provision was not amended after March 27, 1988 and before the end of a particular calendar year, and

(*c*) it was reasonable to expect, on January 1, 1990, that the lifetime retirement benefits to be paid under the provision to at least 75 per cent of the members of the plan on that date (other than members to whom benefits do not accrue under the provision after that date) will be determined on the final or best average earnings basis,

at the option of the plan administrator, benefit accruals under the provision in respect of the particular year may, where the particular year is before 1992, be determined without regard to the career average formula.

History: S. 8302(8) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Transition Rule — Benefit Rate Greater Than 2 Per Cent

(9) Subject to subsection (6), where

(*a*) the amount of lifetime retirement benefits provided under a defined benefit provision of a registered pension plan to a member of the plan is determined, in part, by multiplying the member's remuneration (or a function of the member's remuneration) by one or more benefit accrual rates, and

(*b*) the largest benefit accrual rate that may be applicable is greater than 2 per cent,

the member's benefit accrual under the provision in respect of 1990 or 1991 is the lesser of

(*c*) the member's benefit accrual otherwise determined, and

(*d*) 2 per cent of the aggregate of all amounts each of which is the amount that would, if the definition "compensation" in subsection 147.1(1) of the Act were read without reference to subparagraphs (*a*)(iii) and (iv) and paragraphs (*b*) and (*c*) thereof, be the member's compensation for the year from an employer who participated in the plan in the year for the benefit of the member.

History: S. 8302(9) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Period of Reduced Remuneration

(10) For the purposes of paragraph (9)(*d*), where a member of a registered pension plan is provided with benefits under a defined benefit provision of the plan in respect of a period in 1990 or 1991

(*a*) throughout which, by reason of disability, leave of absence, lay-off or other circumstance, the member rendered no services, or rendered a reduced level of services, to employers who participate in the plan, and

(*b*) throughout which the member received no remuneration, or a reduced rate of remuneration,

the member's compensation shall be determined on the assumption that the member received remuneration for the period equal to the amount of remuneration that it is reasonable to consider the member would have received if the member had rendered services throughout the period on a regular basis (having regard to the services rendered by the member before the period) and the member's rate of remuneration had been commensurate with the member's rate of remuneration when the member did render services on a regular basis.

History: S. 8302(10) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Anti-Avoidance

(11) Where the terms of a defined benefit provision of a registered pension plan can reasonably be considered to have been established or modified so that a pension credit of an individual for a calendar year under the provision would, but for this subsection, be reduced as a consequence of the application of paragraph (3)(*g*), that paragraph shall not apply in determining the individual's normalized pension under the provision in respect of the year.

History: S. 8302(11) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Past Service Pension Adjustment

PSPA with Respect to Employer

8303. (1) For the purpose of subsection 248(1) of the Act, "past service pension adjustment" of an individual for a calendar year in respect of an employer means the total of

(*a*) the accumulated past service pension adjustment (in this Part referred to as "accumulated PSPA") of

the individual for the year with respect to the employer, determined as of the end of the year,

(*b*) the total of all amounts each of which is the foreign plan PSPA (determined under subsection 8308.1(5) or (6)) of the individual with respect to the employer associated with a modification of benefits in the year under a foreign plan (as defined in subsection 8308.1(1)), and

(*c*) the total of all amounts each of which is the specified retirement arrangement PSPA (determined under subsection 8308.3(4) or (5)) of the individual with respect to the employer associated with a modification of benefits in the year under a specified retirement arrangement (as defined in subsection 8308.3(1)).

History: S. 8303(1) was amended by P.C. 1996-911, SOR/96-311, dated June 20, 1996, applicable with respect to the determination of past service pension adjustments for 1993 and subsequent years. S. 8303(1) formerly read:

"(1) For the purposes of subsection 248(1) of the Act, 'past service pension adjustment' of an individual for a calendar year with respect to an employer means the accumulated past service pension adjustment (in this Part referred to as 'accumulated PSPA') of the individual for the year with respect to the employer, determined as of the end of the year."

S. 8303(1) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Interpretation Bulletins: *Secondary*—IT-124R6 Contributions to registered retirement savings plans; IT-528 Transfers of funds between registered plans.

Accumulated PSPA for Year

(2) For the purposes of this Part, the accumulated PSPA of an individual for a calendar year with respect to an employer, determined as of any time, is the total of all amounts each of which is the individual's provisional past service pension adjustment (in this Part referred to as "provisional PSPA") with respect to the employer that is associated with

(*a*) a past service event (other than a certifiable past service event with respect to the individual) that occurred in the preceding year; or

(*b*) a certifiable past service event with respect to the individual where the Minister has, in the year and before that time, issued a certification for the purposes of subsection 147.1(10) of the Act in respect of the event and the individual.

History: S. 8303(2)(*a*) was amended by P.C. 2001-153, SOR/2001-67, dated January 30, 2001, applicable to past service events that occur after 2000. S. 8303(2)(*a*) formerly read:

"(*a*) a past service event (other than a certifiable past service event with respect to the individual) that occurred in the year and before that time; or"

S. 8303(2), the portion before paragraph (*a*) was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1995. That portion formerly read:

"(2) For the purposes of this Part and subsection 204.2(1.3) of the Act, the accumulated PSPA of an individual for a calendar year with respect to an employer, determined as of any time, is the aggregate of all amounts each of which is the individual's provisional past service pension adjustment (in this Part referred to as 'provisional PSPA') with respect to the employer that is associated with"

S. 8303(2) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Interpretation Bulletins: *Secondary*—IT-528 Transfers of funds between registered plans.

1991 Past Service Events and Certifications

(2.1) For the purposes of subsection (2),

(*a*) a past service event that occurred in 1991 (including, for greater certainty, a past service event that is deemed by paragraph 8304(3)(*b*) to have occurred immediately after the end of 1990) shall be deemed to have occurred on January 1, 1992 and not to have occurred in 1991; and

(*b*) a certification issued by the Minister in 1991 shall be deemed to have been issued on January 1, 1992 and not to have been issued in 1991.

History: S. 8303(2.1) was added by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable after 1990.

Interpretation Bulletins: *Secondary*—IT-528 Transfers of funds between registered plans.

Provisional PSPA

(3) Subject to subsections (8) and (10) and sections 8304 and 8308, for the purposes of this Part, the provisional PSPA of an individual with respect to an employer that is associated with a past service event that occurs at a particular time in a particular calendar year is the amount determined by the formula

$$A - B - C + D$$

where

A is the aggregate of all amounts each of which is, in respect of a calendar year after 1989 and before the particular year, the amount that would have been the individual's pension credit for the year with respect to the employer under a defined benefit provision of a registered pension plan (other than a plan that is, at the particular time, a specified multi-employer plan) had the individual's benefit entitlement under the provision in respect of the year and the employer been equal to the individual's redetermined benefit entitlement (determined as of the particular time) under the provision in respect of the year and the employer,

B is the aggregate that would be determined for A if the reference in the description of A to "determined as of the particular time" were read as a reference to "determined as of the time immediately before the particular time",

C is such portion of the amount of the individual's qualifying transfers made in connection with the past service event as is not deducted in computing the provisional PSPA of the individual with respect to any other employer, and

D is the total of all amounts each of which is an excess money purchase transfer in relation to the individual and the past service event that is not included in determining any other provisional PSPA of the individual that is associated with the past service event.

History: The formula in s. 8303(3) was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable with respect to past service events that occur after 1997. The formula formerly read:

"A – B – C"

S. 8303(3), the description of D was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable with respect to past service events that occur after 1997.

S. 8303(3) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Interpretation Bulletins: *Secondary*—IT-528 Transfers of funds between registered plans.

Redetermined Benefit Entitlement

(4) For the purposes of the description of A in subsection (3), an individual's redetermined benefit entitlement under a defined benefit provision of a registered pension plan in respect of a calendar year and an employer, determined as of a particular time, is the amount that would be determined under section 8302 to be the individual's ben-

efit entitlement under the provision in respect of the year and the employer if, for the purpose of computing the benefit accrual of the individual in respect of the year under the provision and, where subsection 8302(6) is applicable, under any other defined benefit provision, the amount determined under paragraph 8302(2)(*a*) in respect of a specific provision were equal to that portion of the individual's normalized pension (computed in accordance with subsection (5)) under the specific provision at the particular time, determined with reference to the year, as may reasonably be considered to have accrued in respect of the year.

History: S. 8303(4) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Interpretation Bulletins: *Secondary*—IT-528 Transfers of funds between registered plans.

Normalized Pension

(5) For the purposes of subsection (4), the normalized pension of an individual under a defined benefit provision of a registered pension plan at a particular time, determined with reference to a calendar year (in this subsection referred to as the "pension credit year"), is the amount (expressed on an annualized basis) of lifetime retirement benefits, other than excluded benefits, that would be payable to the individual under the provision immediately after the particular time if

(*a*) where lifetime retirement benefits have not commenced to be paid under the provision to the individual before the particular time, they commenced to be paid immediately after the particular time,

(*b*) where the individual had not attained 65 years of age before the time at which lifetime retirement benefits commenced to be paid (or are assumed by reason of paragraph (*a*) to have commenced to be paid) to the individual, the individual attained that age at that time,

(*c*) the amount of the individual's lifetime retirement benefits were determined with regard to all past service events occurring at or before the particular time and without regard to past service events occurring after the particular time,

(*d*) paragraphs 8302(3)(*c*) to (*p*) (other than paragraph 8302(3)(*g*), where subsection 8302(11) was applicable in respect of the pension credit year and the provision or would have been applicable had all benefits provided as a consequence of past service events become provided in the pension credit year) were applied for the purpose of determining the amount of the individual's lifetime retirement benefits and, for the purpose of those paragraphs, the pension credit year were the particular year referred to in those paragraphs, and

(*e*) where

(i) the amount of the individual's lifetime retirement benefits under the provision depends on the individual's remuneration, and

(ii) all or part of the individual's lifetime retirement benefits in respect of the pension credit year became provided as a consequence of a past service event pursuant to terms of the provision that enable benefits to be provided to members of the plan in respect of periods of employment with employers who have not participated under the provision,

the remuneration received by the individual from each such employer in respect of a period of employment in respect of which the individual is provided with benefits under the provision were remuneration received from an employer who has participated under the provision for the benefit of the individual,

and, for the purposes of this subsection, the following benefits are excluded benefits:

(*f*) where the formula for determining the amount of lifetime retirement benefits payable under the provision to the individual requires the calculation of an amount that is the product of a fixed rate and the duration of all or part of the individual's pensionable service, benefits payable as a direct consequence of an increase in the value of the fixed rate at any time (in this paragraph referred to as the "time of increase") after the pension credit year, other than benefits

(i) provided as a consequence of a second or subsequent increase in the value of the fixed rate after the time that retirement benefits under the provision commenced to be paid to the individual, or

(ii) that would not have become provided had the value of the fixed rate been increased to the amount determined by the formula

$$A \times \frac{B}{C}$$

where

A is the value that the fixed rate had immediately before the time of increase,

B is the average wage for the calendar year that includes the time of the increase, and

C is

(A) if the value of the fixed rate has previously been increased in the calendar year that includes the time of increase, the average wage for that year, or

(B) otherwise, the average wage for the year immediately preceding the calendar year that includes the time of increase,

(*f*.1) where the formula for determining the amount of lifetime retirement benefits payable under the provision to the individual includes a limit that is the product of the duration of the individual's pensionable service and the lesser of a percentage of the individual's remuneration and a fixed rate, and the value of the fixed rate is increased after the pension credit year to an amount equal to the defined benefit limit for the earlier of the year in which the increase occurs and the year in which retirement benefits under the provision commenced to be paid to the individual, the portion of the benefits payable as a direct consequence of the increase that would not have become provided had the value of the fixed rate been set at the defined benefit limit for the pension credit year, if

(i) the value of the fixed rate was, immediately before the increase, equal to the defined benefit limit for the year in which the value of the fixed rate was last established, and

(ii) where the year in which the value of the fixed rate was last established precedes the year immediately preceding the year in which the increase occurs,

(A) the Minister has approved in writing the application of this paragraph in respect of the past service event,

(B) there are more than nine active members (within the meaning assigned by paragraph 8306(4)(*a*)) under the provision, and

(C) the plan is not a designated plan,

(*f*.2) where the formula for determining the amount of lifetime retirement benefits payable under the provision to the individual includes a limit that is the product of the duration of the individual's pensionable service and the lesser of a percentage of the individual's remuneration and a fixed rate the value of which can reasonably be considered to be fixed each year as a portion of the defined benefit limit for that year, benefits payable as a direct consequence of an increase, after the pension credit year, in the value of the fixed rate to reflect the defined benefit limit for the year in which the increase occurs, if

(i) except as otherwise expressly permitted by the Minister, it is reasonable to consider that, for years after 1989, the ratio of the fixed rate to the defined benefit limit has been, and will remain, constant,

(ii) the benefits are not provided as a consequence of a second or subsequent increase in the value of the fixed rate after the time that retirement benefits under the provision commenced to be paid to the individual,

(iii) the Minister has approved in writing the application of this paragraph in respect of the past service event, and

(iv) the plan is not a designated plan,

(*g*) where

(i) the provision is a flat benefit provision,

(ii) at the particular time, the amount (expressed on an annual basis) of lifetime retirement benefits provided under the provision to each member in respect of pensionable service in each calendar year does not exceed 40 per cent of the defined benefit limit for the year that includes the particular time,

(iii) the conditions in subsection 8306(2) are satisfied in respect of the provision and the past service event in connection with which the normalized pension is being calculated, and

(iv) only one fixed rate is applicable in determining the amount of the individual's lifetime retirement benefits,

benefits provided as a direct consequence of an increase in the value of the fixed rate at any time (in this paragraph referred to as the "time of increase") after the pension credit year, other than benefits

(v) provided as a consequence of a second or subsequent increase in the value of the fixed rate after the time that retirement benefits under the provision commenced to be paid to the individual, or

(vi) that would not have become provided had the value of the fixed rate been increased to the greater of

(A) the greatest of all amounts each of which is an amount determined by the formula

$$A \times \frac{B}{C}$$

where

A is a value of the fixed rate in the period beginning on January 1, 1984 and ending immediately before the time of increase,

B is the average wage for the calendar year that includes the time of increase, and

C is the average wage for the later of 1984 and the calendar year in which the value of the fixed rate used for A was first effective, and

(B) the amount determined by the formula

$$D + (E \times F)$$

where

D is the value of the fixed rate immediately before the time of increase,

E is the amount by which the value of the fixed rate used for D would have to be increased to provide an increase in the individual's annual lifetime retirement benefits equal to $18 for each year of pensionable service, and

F is the duration (measured in years, including any fraction of a year) of the period beginning on the later of January 1, 1984 and the day on which the value of the fixed rate used for D was first effective and ending on the day that includes the time of increase,

(*h*) where the provision is a flat benefit provision, benefits provided as a direct consequence of an increase at any time (in this paragraph referred to as the "time of increase") after the pension credit year in the value of a fixed rate under the provision where

(i) the value of the fixed rate was increased pursuant to an agreement made before 1992, and

(ii) at the time the agreement was made, it was reasonable to expect that the percentage increase in the value of the fixed rate would approximate or be less than the percentage increase in the average wage from the calendar year in which the value of the fixed rate was last increased before the time of increase (or, if the increase is the first increase, the calendar year in which the initial value of the fixed rate was first applicable) to the calendar year that includes the time of increase,

(*i*) where the provision is a flat benefit provision under which the amount of each member's retirement benefits depends on the member's job category or rate of pay in such a manner that the ratio of

the amount of lifetime retirement benefits to remuneration does not significantly increase as remuneration increases, benefits provided as a direct consequence of a change, after the pension credit year, in the individual's job category or rate of pay,

(*j*) where

(i) the individual's pensionable service under the provision ends before the particular time,

(ii) the individual's lifetime retirement benefits under the provision have been adjusted by a cost-of-living or similar adjustment in respect of the period (in this paragraph referred to as the "deferral period") beginning at the latest of

(A) the time the individual's pensionable service under the provision ends,

(B) if the amount of the individual's lifetime retirement benefits depends on the individual's remuneration, the end of the most recent period for which the individual received remuneration that is taken into account in determining the individual's lifetime retirement benefits,

(C) if the amount of the individual's lifetime retirement benefits depends on the individual's remuneration and the remuneration is adjusted as described in paragraph 8302(3)(*h*), the end of the period in respect of which the adjustment is made, and

(D) if the formula for determining the amount of the individual's lifetime retirement benefits requires the calculation of an amount that is the product of a fixed rate and the duration of all or part of the individual's pensionable service (or other measure of services rendered by the individual), the time as of which the value of the fixed rate applicable with respect to the individual was established,

and ending at the earlier of the particular time and the time, if any, at which lifetime retirement benefits commenced to be paid under the provision to the individual, and

(iii) the adjustment is warranted, having regard to all prior such adjustments, by the increase in the Consumer Price Index or in the wage measure from the commencement of the deferral period to the time the adjustment was made,

benefits payable as a consequence of the adjustment,

(*k*) benefits payable as a consequence of a cost-of-living adjustment made after the time lifetime retirement benefits commenced to be paid under the provision to the individual, where the adjustment

(i) is warranted, having regard to all prior such adjustments, by the increase in the Consumer Price Index from that time to the time the adjustment was made, or

(ii) is a periodic adjustment described in subparagraph 8503(2)(*a*)(ii), and

(*l*) such portion of the individual's lifetime retirement benefits as

(i) would not otherwise be excluded in determining the individual's normalized pension,

(ii) may reasonably be considered to be attributable to cost-of-living adjustments or to adjustments made by reason of increases in a general measure of salaries and wages (other than increases in such a measure after the time lifetime retirement benefits commenced to be paid under the provision to the individual), and

(iii) is acceptable to the Minister.

History: S. 8303(5)(*f.1*)(ii)(C) was replaced by S.C. 2007, c. 35, s. 81(1), applicable to past service events that occur after 2007. S. 8303(5)(*f.1*)(ii)(C) formerly read:

"(C) the plan is not a designated plan under section 8515,"

S. 8303(5)(*f.2*)(iv) was replaced by S.C. 2007, c. 35, s. 81(2), applicable to past service events that occur after 2007. S. 8303(5)(*f.2*)(iv) formerly read:

"(iv) the plan is not a designated plan under section 8515,"

S. 8303(5)(*f.1*) and (*f.2*) were added by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable in respect of past service events that occur after 2003, except that in its application in respect of past service events that occur before 2006, paragraph 8303(5)(*f.1*) is to be read without its reference to subparagraphs (i) and (ii).

S. 8303(5) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Interpretation Bulletins: *Secondary* — IT-528 Transfers of funds between registered plans.

Qualifying Transfers

(6) For the purposes of subsections (3) and 8304(5) and (7), and subject to subsection (6.1) and paragraph 8304(2)(*h*), the amount of an individual's qualifying transfers made in connection with a past service event is the total of all amounts each of which is

(*a*) the portion of an amount transferred to a registered pension plan

(i) in accordance with any of subsections 146(16), 147(19) and 147.3(2), (5) and (7) of the Act, or

(ii) from a specified multi-employer plan in accordance with subsection 147.3(3) of the Act

that is transferred to fund benefits provided to the individual as a consequence of the past service event; or

(*b*) the amount of any property held in connection with a benefit provision of a registered pension plan that is made available to fund benefits provided to the individual under another benefit provision of the plan as a consequence of the past service event, where the transaction by which the property is made so available is such that, if the benefit provisions were in separate registered pension plans, the transaction would constitute a transfer of property from one plan to the other in accordance with any of subsections 147.3(2), (5) and (7) of the Act.

History: S. 8303(6), the portion before paragraph (*a*) was amended by P.C. 2001-153, SOR/2001-67, dated January 30, 2001, applicable to the determination of an individual's qualifying transfers that occur after April 18, 2000. S. 8303(6), the portion before paragraph (*a*) formerly read:

"(6) For the purposes of subsections (3) and 8304(5) and (7), and subject to subsection (6.1), the amount of an individual's qualifying transfers made in connection with a past service event is the total of all amounts each of which is"

S. 8303(6) was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable

(*a*) to the determination of an individual's qualifying transfers that occur after June 25, 1998; and

(*b*) where approved by the Minister of National Revenue, to the determination of an individual's qualifying transfers that occurred before June 26, 1998. S. 8303(6) formerly read:

"(6) For the purposes of subsections (3) and 8304(5) and (7), the amount of an individual's qualifying transfers made in connection with a past service event is the aggregate of all amounts each of which is such portion of an amount transferred to a registered pension plan

(*a*) in accordance with any of subsections 146(16), 147(19) and 147.3(2), (5) and (7) of the Act, or

(*b*) from a specified multi-employer plan in accordance with subsection 147.3(3) of the Act

as is transferred to fund benefits provided to the individual as a consequence of the past service event."

S. 8303(6) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Interpretation Bulletins: *Secondary* — IT-528 Transfers of funds between registered plans.

Exclusion for Pre-1990 Benefits

(6.1) The amount of an individual's qualifying transfers made in connection with a past service event shall be determined under subsection (6) without regard to the portion, if any, of amounts transferred or property made available, as the case may be, that can reasonably be considered to have been transferred or made available to fund benefits provided in respect of periods before 1990.

History: S. 8303(6.1) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable to the determination of an individual's qualifying transfers that occur after June 25, 1998.

Deemed Payment

(7) Where

(*a*) an individual has given an irrevocable direction that

(i) an amount be paid to a registered pension plan, or

(ii) property held in connection with a benefit provision of a registered pension plan be made available to fund benefits provided to the individual under another benefit provision of the plan

in the event that the Minister issues a certification for the purposes of subsection 147.1(10) of the Act with respect to the individual and to benefits provided under a defined benefit provision of the plan as a consequence of a past service event, and

(*b*) the amount is to be paid or the property is to be made available, as the case may be,

(i) where subparagraph (ii) does not apply, on or before the day that is 90 days after the day on which the certification is received by the administrator of the plan, and

(ii) where the plan was deemed by paragraph 147.1(3)(*a*) of the Act to be a registered pension plan at the time the direction was given, on or before the day that is 90 days after the later of

(A) the day on which the certification is received by the administrator of the plan, and

(B) the day on which the administrator of the plan receives written notice from the Minister of the registration of the plan for the purposes of the Act,

the amount or property, as the case may be, is deemed, for the purpose of subsection (6), to have been paid or made available, as the case may be, at the time the direction was given.

History: S. 8303(7) was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable

(*a*) to the determination of an individual's qualifying transfers that occur after June 25, 1998; and

(*b*) where approved by the Minister of National Revenue, to the determination of an individual's qualifying transfers that occurred before June 26, 1998. S. 8303(7) formerly read:

"(7) Where

(*a*) an individual has given an irrevocable direction that an amount be paid to a registered pension plan in the event that the Minister issues a certification for the purposes of subsection 147.1(10) of the Act with respect to the individual and to benefits provided under a defined benefit provision of the plan as a consequence of a past service event, and

(*b*) the amount will be paid within 90 days after the certification is received by the administrator of the plan,

the amount shall be deemed, for the purpose of subsection (6), to have been paid at the time the direction was given."

S. 8303(7) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Interpretation Bulletins: *Secondary* — IT-528 Transfers of funds between registered plans.

Excess Money Purchase Transfer

(7.1) Where lifetime retirement benefits have, as a consequence of a past service event, become provided to an individual under a defined benefit provision of a registered pension plan (other than a specified multi-employer plan) in respect of a period (in this subsection referred to as the "past service period") that

(*a*) was previously pensionable service of the individual under a particular defined benefit provision of a registered pension plan (other than a specified multi-employer plan),

(*b*) ceased to be pensionable service of the individual under the particular provision as a result of the payment of a single amount, all or part of which was transferred on behalf of the individual from the particular provision to a registered retirement savings plan, a registered retirement income fund, a money purchase provision of a registered pension plan or a defined benefit provision of a registered pension plan that was, at the time of the transfer, a specified multi-employer plan,

(*c*) has not, at any time after the payment of the single amount and before the past service event, been pensionable service of the individual under any defined benefit provision of a registered pension plan (other than a specified multi-employer plan), and

(*d*) is not, for the purpose of subsection 8304(5), a qualifying past service period in relation to the individual and the past service event,

the amount determined by the formula

$$A - B$$

is, for the purpose of the description of D in subsection (3), an excess money purchase transfer in relation to the individual and the past service event, where

A is the portion of the amount transferred, as described in paragraph (*b*), that can reasonably be considered to be attributable to benefits in respect of the portion of the past service period that is after 1989, and

B is the total of all amounts each of which is the portion of a pension credit, or the grossed-up amount of a provisional PSPA, of the individual that can reasonably be considered to be attributable to benefits previously provided under the particular provision in respect of the past service period.

History: S. 8303(7.1) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable with respect to past service events that occur after 1997.

Specified Multi-Employer Plan

(8) Where, in a calendar year, an individual makes a contribution (other than an excluded contribution) in respect of a defined benefit provision of a registered pen-

sion plan that is, in the year, a specified multi-employer plan, and the contribution

(*a*) is made in respect of a period after 1989 and before the year, and

(*b*) is not included in determining the individual's pension credit for the year with respect to any employer under the provision,

the individual's provisional PSPA with respect to an employer who participates in the plan, associated with the payment of the contribution, is the portion of the contribution that is not included in the individual's provisional PSPA with respect to any other employer who participates in the plan, and, for the purpose of this subsection, the plan administrator shall determine the portion of the contribution to be included in the provisional PSPA of the individual with respect to each employer.

History: S. 8303(8) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Interpretation Bulletins: *Secondary*—IT-528 Transfers of funds between registered plans.

Conditional Contributions

(9) For the purpose of subsection (8), a contribution includes an amount paid by an individual to a registered pension plan where the right of any person to retain the amount on behalf of the plan is conditional on the Minister issuing a certification for the purposes of subsection 147.1(10) of the Act as it applies with respect to the individual and to benefits provided as a consequence of the payment.

History: S. 8303(9) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Interpretation Bulletins: *Secondary*—IT-528 Transfers of funds between registered plans.

Benefits in Respect of Foreign Service

(10) Where, as a consequence of a past service event, benefits become provided to an individual under a defined benefit provision of a registered pension plan in respect of a period throughout which the individual was employed outside Canada, and the Minister has consented in writing to the application of this subsection, each provisional PSPA of the individual associated with the past service event shall be determined on the assumption that no benefits were provided in respect of the period.

History: S. 8303(10) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Interpretation Bulletins: *Secondary*—IT-528 Transfers of funds between registered plans.

Registered Plans Directorate Newsletters: No. 93-2, Foreign service newsletter.

Past Service Benefits — Additional Rules

Replacement of Defined Benefits

8304. (1) Where

(*a*) an individual ceased, at any time in a calendar year, to have any rights to benefits under a defined benefit provision of a registered pension plan (in this subsection referred to as the "former provision"),

(*b*) benefits became provided at that time to the individual under another defined benefit provision of a registered pension plan (in this subsection referred to as the "current provision") in lieu of the benefits under the former provision,

(*c*) the benefits that became provided at that time to the individual under the current provision in respect of the period in the year before that time are attributable to employment with the same employers as were the individual's benefits in respect of that period under the former provision,

(*d*) no amount was transferred in the year on behalf of the individual from the former provision to a registered retirement savings plan, a registered retirement income fund or a money purchase provision of a registered pension plan, and

(*e*) no benefits became provided under the former provision to the individual in the year and after that time,

each pension credit of the individual under the former provision for the year is nil.

History: S. 8304(1)(*d*) was amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, to add "a registered retirement income fund" and "a deferred profit sharing plan", applicable with respect to the determination of pension credits for 1990 and subsequent years.

S. 8304(1) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Interpretation Bulletins: *Secondary*—IT-124R6 Contributions to registered retirement savings plans; IT-528 Transfers of funds between registered plans.

Replacement of Money Purchase Benefits

(2) Where

(*a*) an individual ceased, at any time in a calendar year, to have any rights to benefits under a money purchase provision of a registered pension plan or under a deferred profit sharing plan (in this subsection referred to as the "former provision"),

(*b*) benefits became provided at that time to the individual under a defined benefit provision of a registered pension plan (in this subsection referred to as the "current provision") in lieu of benefits under the former provision,

(*c*) the benefits that became provided at that time to the individual under the current provision in respect of the period in the year before that time are attributable to employment with the same employers who made contributions under the former provision in respect of that period on behalf of the individual,

(*d*) no amount was transferred in the year on behalf of the individual from the former provision to a registered retirement savings plan, a registered retirement income fund, a money purchase provision of a registered pension plan or a deferred profit sharing plan,

(*e*) no contributions were made under the former provision by or on behalf of the individual, and no other amounts were allocated under the former provision to the individual, in the year and after that time, and

(*f*) it is reasonable to consider that no excess would, if this subsection did not apply and if the year ended at that time, be determined under any of paragraphs 147(5.1)(*a*) to (*c*), 147.1(8)(*a*) and (*b*) and (9)(*a*) and (*b*) of the Act with respect to the individual for the year,

the following rules apply:

(*g*) each pension credit of the individual under the former provision for the year is nil, and

(*h*) the amount, if any, of the individual's qualifying transfers made in connection with the replacement of the individuals benefits shall be determined under subsection 8303(6) without regard to the portion, if any, of amounts transferred from the former provision to the current provision that can reasonably be considered to relate to an amount that, but for paragraph (*g*), would have been included in determining the individual's pension credit under the former provision for the year.

History: S. 8304(2)(*f*), (*g*) and (*h*) were added by P.C. 2001-153, SOR/2001-67, dated January 30, 2001, applicable to the determination of pension credits for 2000 and subsequent years and to the determination of an individuals qualifying transfers that occur after April 18, 2000.

S. 8304(2)(*d*) was amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable with respect to the determination of pension credits for 1990 and subsequent years. S. 8304(2)(*d*) formerly read:

"(*d*) no amount was transferred in the year on behalf of the individual from the former provision to a registered retirement savings plan, a money purchase provision of a registered pension plan or a deferred profit sharing plan, and"

S. 8304(2)(*e*) was amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable with respect to the determination of pension credits for 1993 and subsequent years, except that paragraph 8304(2)(*e*) does not apply with respect to the determination of an individual's pension credits for 1993 under a money purchase provision of a registered pension plan, or under a deferred profit sharing plan, where the individual ceased, on or before April 5, 1994, to have any rights to benefits under the provision or the plan, as the case may be, and no amounts were allocated to the individual under the provision or the plan, as the case may be, after that date. S. 8304(2)(*e*) formerly read:

"(*e*) no contributions were made under the former provision in the year and after that time by, or on behalf of, the individual,"

S. 8304(2) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Past Service Benefits in Year of Past Service Event

(3) Subject to subsection (4), where, as a consequence of a past service event that occurs at a particular time in a calendar year, benefits (in this subsection and subsection (4) referred to as "past service benefits") become provided to an individual under a defined benefit provision of a registered pension plan in respect of a period in the year and before the particular time that, immediately before the past service event, was not pensionable service of the individual under the provision, the following rules apply, except to the extent that the Minister has waived in writing their application in respect of the plan:

(*a*) each pension credit of the individual under the provision for the year shall be determined as if the past service benefits had not become provided to the individual;

(*b*) where the year is 1990, the past service event shall be deemed, for the purposes of this Part, to have occurred immediately after the end of the year;

(*c*) where the year is after 1990, each provisional PSPA of the individual that is associated with the past service event as a consequence of which the past service benefits became provided shall be determined as if the past service event had occurred immediately after the end of the year;

(*d*) where information that is required for the computation of a provisional PSPA referred to in paragraph (*c*) is not determinable until after the time the provisional PSPA is computed, reasonable assumptions shall be made in respect of such information; and

(*e*) subsection 147.1(10) of the Act shall apply in respect of the past service benefits to the extent that that subsection would apply if the past service event had occurred immediately after the end of the year.

History: S. 8304(3) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Exceptions

(4) Subsection (3) does not apply where

(*a*) the past service benefits become provided in circumstances where subsection (1) or (2) is applicable; or

(*b*) the period in respect of which the past service benefits are provided was not, at any time before the past service event,

(i) pensionable service of the individual under a defined benefit provision of a registered pension plan, or

(ii) a period in respect of which a contribution was made on behalf of, or an amount (other than an amount in respect of earnings of a plan) was allocated to, the individual under a money purchase provision of a registered pension plan or under a deferred profit sharing plan;

(*c*) [Repealed.]

History: S. 8304(4)(*c*) was repealed by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable with respect to past service events that occur after 1996. S. 8304(4)(*c*) formerly read:

"(*c*) the past service period was previously pensionable service of the individual under the defined benefit provision under which the past service benefits are provided, and no amount was transferred in the year on behalf of the individual from the provision to a registered retirement savings plan, a registered retirement income fund or a money purchase provision of a registered pension plan."

S. 8304(4)(*b*)(ii) was amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable with respect to past service benefits that become provided after April 5, 1994. S. 8304(4)(*b*)(ii) formerly read:

"(ii) a period in respect of which contributions were made on behalf of the individual to a money purchase provision of a registered pension plan or to a deferred profit sharing plan; or"

S. 8304(4)(*c*) was amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, by adding "a registered retirement income fund", applicable with respect to past service benefits that become provided after August 29, 1990.

S. 8304(4) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Modified PSPA Calculation

(5) Where

(*a*) lifetime retirement benefits have, as a consequence of a past service event, become provided to an individual under a defined benefit provision of a registered pension plan in respect of one or more qualifying past service periods in relation to the individual and the past service event, and

(*b*) the benefits are considered to be attributable to employment of the individual with a single employer,

the provisional PSPA of the individual with respect to the employer that is associated with the past service event is the amount determined by the formula

$$A + B + C - D$$

where

A is the provisional PSPA that would be determined if

(*a*) this subsection did not apply,

(*b*) all former benefits in relation to the individual and the past service event had ceased to be provided at the time the past service event occurred,

(*c*) all former benefits in relation to the individual and the past service event were considered to be attributable to employment of the individual with the employer, and

(*d*) the value of C in subsection 8303(3) were nil;

B is the total of all amounts each of which is a non-vested PA amount in respect of the individual and the past service event;

C is the total of all amounts each of which is a money purchase transfer in relation to the individual and the past service event; and

D is the amount of the individual's qualifying transfers made in connection with the past service event.

History: S. 8304(5) was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable to the determination of provisional PSPAs that are associated with past service events that occur after 1997. S. 8304(5) formerly read:

"(5) Where

(*a*) lifetime retirement benefits have, as a consequence of a past service event, become provided to an individual under a defined benefit provision (in this subsection referred to as the 'current provision') of a registered pension plan in respect of a period (in this subsection referred to as the 'past service period') that

(i) immediately before the past service event, was not pensionable service of the individual under the provision, and

(ii) is, or was, pensionable service of the individual under another defined benefit provision (in this subsection referred to as the 'former provision') of a registered pension plan,

(*b*) either

(i) the individual has ceased to be entitled to benefits under the former provision,

(ii) the individual will cease to be entitled to benefits under the former provision when a certification of the Minister is issued for the purposes of subsection 147.1(10) of the Act in respect of benefits provided to the individual as a consequence of the past service event, or

(iii) all benefits to which the individual is entitled under the former provision will be paid within 90 days after a certification of the Minister is issued for the purposes of subsection 147.1(10) of the Act in respect of benefits provided to the individual as a consequence of the past service event,

(*c*) the lifetime retirement benefits are, for the purposes of this Part, considered to be attributable to employment of the individual with a single employer (in this subsection referred to as the 'current employer'), and

(*d*) lifetime retirement benefits (in this subsection referred to as the 'former benefits') to which the individual is or was entitled under the former provision in respect of the past service period have not been taken into account pursuant to this subsection in determining a provisional PSPA of the individual that is associated with any other past service event,

the provisional PSPA of the individual with respect to the current employer that is associated with the past service event is the amount determined by the formula

A + B + C – D

where

A is the provisional PSPA that would be determined if

(*a*) this subsection were not applicable,

(*b*) the former benefits had ceased to be provided at the time the past service event occurred,

(*c*) the former benefits were, for the purposes of this Part, considered to be attributable to employment of the individual with the current employer, and

(*d*) the value for C in the formula set out in subsection 8303(3) were nil,

B is

(*a*) where subsection 8301(8) has applied, or will apply, in respect of the determination of a pension credit of the individual under the former provision for a year that includes any part of the past service period, the aggregate of all amounts each of which is the amount, if any, by which

(i) the amount that would be the individual's pension credit under the former provision for the year with respect to an employer if subsection 8301(8) were not applicable

exceeds

(ii) the individual's pension credit under the provision for the year with respect to the employer, and

(*b*) otherwise, nil,

C is the total of all amounts each of which is an amount transferred on behalf of the individual from the former provision to a registered retirement savings plan, a registered retirement income fund, a money purchase provision of a registered pension plan or a defined benefit provision of a registered pension plan that was, at the time of the transfer, a specified multi-employer plan, to the extent that the amount may reasonably be considered to be the payment in respect of such part of the past service period as is after 1989, and

D is the amount of the individual's qualifying transfers made in connection with the past service event, as determined pursuant to subsection 8303(6)."

S. 8304(5), the description of "C", was amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable with respect to past service events occurring after August 29, 1990. The description of "C" formerly read:

"C is the aggregate of all amounts each of which is an amount transferred on behalf of the individual from the former provision to a registered retirement savings plan, a money purchase provision of a registered pension plan or a defined benefit provision of a registered pension plan that was, at the time of the transfer, a specified multi-employer plan, to the extent that the amount may reasonably be considered to be the payment of a benefit in respect of such part of the past service period as is after 1989, and"

S. 8304(5) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Definitions for Subsection (5)

(5.1) For the purpose of subsection (5), where

(*a*) lifetime retirement benefits (in this subsection referred to as "past service benefits") have, as a consequence of a past service event occurring at a particular time, become provided to an individual under a defined benefit provision of a registered pension plan in respect of a period that

(i) immediately before the particular time, was not pensionable service of the individual under the provision, and

(ii) is, or was, pensionable service of the individual under another defined benefit provision (in this subsection referred to as the "former provision") of a registered pension plan,

(*b*) either

(i) the individual has not, at any time after 1996 and before the particular time, been a member in relation to the former provision,

(ii) the individual ceased, at the particular time, to be a member in relation to the former provision, or

(iii) the past service event is a certifiable past service event and the individual is to cease being a member in relation to the former provision no later than 90 days after the day on which a certification of the Minister is issued for the purposes of subsection 147.1(10) of the Act in respect of the past service benefits, and

(*c*) lifetime retirement benefits to which the individual is or was entitled under the former provision in respect of the period have not been taken into account under subsection (5) as former benefits in determining a provisional PSPA of the individual that is associated with any other past service event,

the following rules apply:

(*d*) the period is a qualifying past service period in relation to the individual and the past service event,

(*e*) lifetime retirement benefits to which the individual is or was entitled under the former provision in respect of the period are former benefits in relation to the individual and the past service event,

(*f*) where subsection 8301(8) has applied in respect of the determination of a pension credit of the individual under the former provision with respect to an

employer for a year that includes any part of the period, the amount determined by the formula

A – B

is a non-vested PA amount in respect of the individual and the past service event, where

A is the amount that would have been the individual's pension credit under the former provision for the year with respect to the employer if subsection 8301(8) had not applied, and

B is the individual's pension credit under the former provision for the year with respect to the employer, and

(*g*) the amount determined by the formula

A – B

is a money purchase transfer in relation to the individual and the past service event, where

A is the total of all amounts each of which is

(i) an amount that was transferred, at or before the particular time, on behalf of the individual from the former provision to a registered retirement savings plan, a registered retirement income fund, a money purchase provision of a registered pension plan or a defined benefit provision of a registered pension plan that was, at the time of the transfer, a specified multi-employer plan, or

(ii) an amount that is to be paid or otherwise made available under the former provision with respect to the individual after the particular time, other than an amount that is to be transferred to fund the past service benefits or paid directly to the individual,

to the extent that the amount can reasonably be considered to be attributable to benefits in respect of the portion of the period that is after 1989, and

B is the total of all amounts each of which is, in respect of an employer with respect to which a provisional PSPA of the individual that is associated with the past service event is determined under subsection (5), the amount, if any, by which

(i) the portion of the value determined for B in subsection 8303(3), for the purpose of determining the individual's provisional PSPA with respect to the employer, that can reasonably be considered to be attributable to benefits provided in respect of the period

exceeds

(ii) the portion of the value determined for A in subsection 8303(3), for the purpose of determining the individual's provisional PSPA with respect to the employer, that can reasonably be considered to be attributable to benefits provided in respect of the period.

History: S. 8304(5.1) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable to the determination of provisional PSPAs that are associated with past service events that occur after 1997.

Reinstatement of Pre-1997 Benefits

(6) Where lifetime retirement benefits have, as a consequence of a past service event, become provided to an individual under a defined benefit provision of a registered pension plan in respect of a period that

(*a*) was previously pensionable service of the individual under the provision,

(*b*) ceased to be pensionable service of the individual under the provision as a consequence of the individual ceasing before 1997 to be a member in relation to the provision, and

(*c*) has not, at any time after 1996 and before the past service event, been pensionable service of the individual under a defined benefit provision of a registered pension plan,

each provisional PSPA of the individual that is associated with the past service event shall be determined as if all benefits provided to the individual under the provision before 1997 in respect of the period had been provided to the individual under another defined benefit provision of a registered pension plan in relation to which the individual has not, at any time after 1996, been a member.

History: S. 8304(6) was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable to the determination of provisional PSPAs that are associated with past service events that occur after 1997. S. 8304(6) formerly read:

"(6) Where lifetime retirement benefits have, as a consequence of a past service event, become provided to an individual under a defined benefit provision of a registered pension plan in respect of a period that

(*a*) immediately before the past service event, was not pensionable service of the individual under the provision, and

(*b*) was previously pensionable service of the individual under the provision,

the following rules apply for the purpose of determining each provisional PSPA of the individual that is associated with the past service event:

(*c*) each provisional PSPA shall be determined as if the lifetime retirement benefits had become provided under another defined benefit provision of a registered pension plan, and

(*d*) subsection (5) shall be read without reference to paragraph (*b*) thereof."

S. 8304(6) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Two or More Employers

(7) Where

(*a*) lifetime retirement benefits (in this subsection referred to as "past service benefits") provided to an individual under a defined benefit provision of a registered pension plan as a consequence of a past service event are attributable to employment of the individual with two or more employers (each of which is, in this subsection, referred to as a "current employer"), and

(*b*) subsection (5) would, but for paragraph (5)(*b*), apply in respect of the determination of each provisional PSPA of the individual that is associated with the past service event,

each such provisional PSPA shall be determined in accordance with the formula set out in subsection (5), except that

(*c*) in determining the amount A,

(i) the former benefits of the individual shall be considered to be attributable to employment of the individual with the individual's current employers, and

(ii) the portion of the former benefits attributable to employment with each current employer shall be determined by the administrator of the pension plan under which the past service benefits are

provided in a manner that is consistent with the association of the past service benefits with each current employer,

(*d*) the amounts B and C shall be included in computing only one provisional PSPA of the individual, as determined by the administrator of the pension plan under which the past service benefits are provided, and

(*e*) the amount D that is deducted in computing the individual's provisional PSPA with respect to a particular employer shall equal such portion of the individual's qualifying transfers made in connection with the past service event as is not deducted in computing the provisional PSPA of the individual with respect to any other employer.

History: S. 8304(7)(*b*) was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable to the determination of provisional PSPAs that are associated with past service events that occur after 1997. S. 8304(7)(*b*) formerly read:

"(*b*) subsection (5) would, but for the condition in paragraph (5)(*c*), apply in respect of the determination of each provisional PSPA of the individual that is associated with the past service event,"

S. 8304(7) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

(8) [Repealed.]

History: S. 8304(8) and the heading before it were repealed by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable to the determination of provisional PSPAs that are associated with past service events that occur after 1997. S. 8304(8) formerly read:

"Additional Rules Re Calculation of PSPA

(8) The following rules apply for the purposes of subsection (5) as it applies in respect of the determination of a provisional PSPA of an individual that is associated with a past service event:

(*a*) where the individual is entitled to benefits under the former provision at the time at which application is made for a certification of the Minister for the purposes of subsection 147.1(10) of the Act as it applies in respect of benefits provided to the individual as a consequence of the past service event, the amount C in the formula set out in subsection (5) shall be determined on the assumption that all amounts that will be paid under the former provision with respect to the individual after the certification is issued, other than any amount that will be transferred to fund benefits provided as a consequence of the past service event, have been transferred on behalf of the individual to a registered retirement savings plan;

(*b*) where an amount is credited to the individual under a money purchase provision of a registered pension plan in lieu of benefits to which the individual was entitled under a defined benefit provision of the plan, the amount shall be considered to be the payment of a benefit that was transferred from the defined benefit provision to the money purchase provision;

(*c*) the amount B in the formula set out in subsection (5) shall be determined on the assumption that no benefits will accrue to the individual under the former provision after the time at which the determination is made; and

(*d*) where lifetime retirement benefits have, as a consequence of the past service event, become provided to the individual in respect of two or more separate periods, the periods shall be considered to be a single period."

S. 8304(8) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Specified Multi-Employer Plans

(9) Except in subparagraph (4)(*b*)(i), a reference in this section to a defined benefit provision of a registered pension plan at any time does not, unless expressly provided, include a defined benefit provision of a plan that is, at that time, a specified multi-employer plan.

History: S. 8304(9) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Pension Adjustment Reversal

Total Pension Adjustment Reversal

8304.1. (1) For the purpose of subsection 248(1) of the Act, an individual's "total pension adjustment reversal" for a calendar year means the total of all amounts each of which is the pension adjustment reversal (in this Part and Part LXXXIV referred to as "PAR") determined in connection with the individual's termination in the year from a deferred profit sharing plan or from a benefit provision of a registered pension plan.

History: S. 8304.1(1) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1996.

Termination in 1997

(2) For the purposes of subsection (1) and the description of R in paragraph 8307(2)(*b*), where an individual terminates in 1997 from a deferred profit sharing plan or from a benefit provision of a registered pension plan, the termination is deemed to have occurred in 1998.

History: S. 8304.1(2) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1996.

PAR — Deferred Profit Sharing Plan

(3) For the purposes of this Part and Part LXXXIV and subject to subsection (12), an individual's PAR determined in connection with the individual's termination from a deferred profit sharing plan is

(*a*) if the conditions in subsection (13) are satisfied with respect to the termination, the total of all amounts each of which is an amount

(i) included in determining a pension credit of the Regulation individual under the plan, and

(ii) to which the individual has ceased, at or before the time of the termination, to have any rights,

but does not include any amount to which a spouse or common-law partner or former spouse or common-law partner of the individual has acquired rights as a consequence of a breakdown of their marriage or common-law partnership; and

(*b*) in any other case, nil.

History: S. 8304.1(3)(*a*) was amended by P.C. 2001-957, SOR/2001-188, applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years. S. 8304.1(3)(*a*) formerly read:

"(*a*) where the conditions in subsection (13) are satisfied with respect to the termination, the total of all amounts each of which is an amount

(i) included in determining a pension credit of the individual under the plan, and

(ii) to which the individual has ceased, at or before the time of the termination, to have any rights,

but does not include any amount to which a spouse or former spouse of the individual has acquired rights as a consequence of a breakdown of their marriage; and"

S. 8304.1(3) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1996.

PAR — Money Purchase Provision

(4) For the purposes of this Part and Part LXXXIV and subject to subsection (12), an individual's PAR determined in connection with the individual's termination from a money purchase provision of a registered pension plan is

(*a*) if the conditions in subsection (14) are satisfied with respect to the termination, the total of all amounts each of which is an amount

(i) included in determining a pension credit of the individual under the provision, and

(ii) to which the individual has ceased, at or before the time of the termination, to have any rights,

but does not include any amount to which a spouse or common-law partner or former spouse or common-law partner of the individual has acquired rights as a consequence of a breakdown of their marriage or common-law partnership; and

(*b*) in any other case, nil.

History: S. 8304.1(4)(*a*) was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years. S. 8304.1(4)(*a*) formerly read:

"(*a*) where the conditions in subsection (14) are satisfied with respect to the termination, the total of all amounts each of which is an amount

(i) included in determining a pension credit of the individual under the provision, and

(ii) to which the individual has ceased, at or before the time of the termination, to have any rights,

but does not include any amount to which a spouse or former spouse of the individual has acquired rights as a consequence of a breakdown of their marriage; and"

S. 8304.1(4) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1996.

PAR — Defined Benefit Provision

(5) For the purposes of this Part and Part LXXXIV and subject to subsections (6) and (12), an individual's PAR determined in connection with the individual's termination from a defined benefit provision of a registered pension plan is

(*a*) where the conditions in subsection (14) are satisfied with respect to the termination, the amount determined by the formula

$$A + B - C - D$$

where

A is the total of all amounts each of which is, in respect of a particular year that is the year in which the termination occurs or that is a preceding year, the lesser of

(i) the total of all amounts each of which is the pension credit of the individual under the provision for the particular year with respect to an employer, and

(ii) the RRSP dollar limit for the year following the particular year,

B is the total of all amounts each of which is the portion of the grossed-up amount of a provisional PSPA (other than a provisional PSPA determined in accordance with subsection 8303(8)) of the individual that is associated with a past service event occurring before the time of the termination that can reasonably be considered to be attributable to benefits provided under the provision,

C is the total of all amounts each of which is a specified distribution made in respect of the individual and the provision at or before the time of the termination, and

D is the total of all amounts each of which is a PA transfer amount in relation to the individual's termination from the provision; and

(*b*) in any other case, nil.

History: S. 8304.1(5) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1996.

Defined Benefit Pension Credits

(6) For the purpose of subparagraph (i) of the description of A in paragraph (5)(*a*), in determining an individual's PAR in connection with the individual's termination from a defined benefit provision of a registered pension plan,

(*a*) the individual's pension credits under the provision for the year in which the termination occurs shall be determined without regard to benefits provided after the time of the termination; and

(*b*) the individual's pension credits under the provision for each year in which the plan was a specified multi-employer plan are deemed to be nil.

History: S. 8304.1(6) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1996.

Grossed-up PSPA Amount

(7) For the purposes of the descriptions of B in subsection 8303(7.1) and paragraph (5)(*a*), the grossed-up amount of an individual's provisional PSPA with respect to an employer that is associated with a past service event is the amount that would be the provisional PSPA if

(*a*) the values of C and D in subsections 8303(3) and 8304(5) were nil; and

(*b*) the words "at the time the past service event occurred" in paragraph (*b*) of the description of A in subsection 8304(5) were read as "immediately before the time the past service event occurred".

History: S. 8304.1(7) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1996.

Specified Distribution

(8) For the purpose of the description of C in paragraph (5)(*a*), an amount paid under a defined benefit provision of a registered pension plan with respect to an individual is a specified distribution made in respect of the individual and the provision at the time it is paid, except to the extent that

(*a*) it can reasonably be considered to be a payment of benefits in respect of any period before 1990;

(*b*) it is transferred to another registered pension plan (other than a plan that is, at the time of the transfer, a specified multi-employer plan) in accordance with subsection 147.3(3) of the Act;

(*c*) it is transferred to another defined benefit provision of the plan where the transfer would, if the provision and the other provision were in separate registered pension plans, constitute a transfer in accordance with subsection 147.3(3) of the Act;

(*d*) it is a payment in respect of an actuarial surplus;

(*e*) it is

(i) a return of contributions made by the individual under the provision, where the contributions are returned pursuant to an amendment to the plan that also reduces the future contributions that would otherwise be required to be made under the provision by members of the plan and that does not reduce benefits provided under the provision, or

(ii) a payment of interest in respect of contributions that are returned as described in subparagraph (i);

(*f*) it can reasonably be considered to be a payment of benefits provided in respect of a period throughout which the plan was a specified multi-employer plan; or

(*g*) it can reasonably be considered to be a payment of benefits provided in respect of a period throughout which the individual was employed outside Canada, where the benefits became provided as a consequence of a past service event in respect of which the Minister had consented to the application of subsection 8303(10) for the purpose of determining the individual's provisional PSPAs.

History: S. 8304.1(8) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1996.

Property Made Available

(9) Where property held in connection with a particular defined benefit provision of a pension plan is made available at any time to provide benefits with respect to an individual under another benefit provision of a pension plan, subsection (8) applies as if the amount of the property had been paid under the particular provision at that time with respect to the individual.

History: S. 8304.1(9) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1996.

PA Transfer Amount

(10) Where

(*a*) an individual has terminated, at a particular time after 1996, from a defined benefit provision (in this subsection referred to as the "former provision") of a registered pension plan,

(*b*) lifetime retirement benefits (in this subsection referred to as the "past service benefits") have, as a consequence of a past service event occurring at or before the particular time, become provided to the individual under another defined benefit provision of a registered pension plan in respect of a period that is or was pensionable service of the individual under the former provision, and

(*c*) lifetime retirement benefits to which the individual is or was entitled under the former provision in respect of the period have, under subsection 8304(5), been taken into account as former benefits in determining a provisional PSPA of the individual that is associated with the past service event,

for the purposes of subsection 8406(5) and the description of D in paragraph (5)(a), the lesser of

(*d*) the portion of the value determined for A in subsection 8303(3), for the purpose of determining the provisional PSPA, that can reasonably be considered to be attributable to the past service benefits, and

(*e*) the portion of the value determined for B in subsection 8303(3), for the purpose of determining the provisional PSPA, that can reasonably be considered to be attributable to the former benefits

is a PA transfer amount in relation to the individual's termination from the former provision.

History: S. 8304.1(10) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1996.

Special 1997 PA Transfer Amount

(11) Where

(*a*) an individual has terminated, at a particular time in 1997, from a particular defined benefit provision of a registered pension plan,

(*b*) lifetime retirement benefits (in this subsection referred to as the "past service benefits") have, as a consequence of a past service event that occurred after the particular time and before 1998, become provided to the individual under the particular provision, or under another defined benefit provision of a registered pension plan, in respect of a period that was previously pensionable service of the individual under the particular provision, and

(*c*) lifetime retirement benefits to which the individual was previously entitled under the particular provision in respect of the period have, under subsection 8304(5), been taken into account as former benefits in determining a provisional PSPA of the individual that is associated with the past service event,

for the purposes of subsection 8406(5) and the description of D in paragraph (5)(a), the lesser of

(*d*) the portion of the value determined for A in subsection 8303(3), for the purpose of determining the provisional PSPA, that can reasonably be considered to be attributable to the past service benefits, and

(*e*) the portion of the value determined for B in subsection 8303(3), for the purpose of determining the provisional PSPA, that can reasonably be considered to be attributable to the former benefits

is a PA transfer amount in relation to the individual's termination from the particular provision at the particular time.

History: S. 8304.1(11) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1996.

Subsequent Membership

(12) Where an individual has ceased at a particular time to be a member in relation to a deferred profit sharing plan or a benefit provision of a registered pension plan and subsequently becomes a member in relation to the plan or the provision, as the case may be, the following rules apply in determining the individual's PAR in connection with any subsequent termination from the plan or the provision, as the case may be:

(*a*) in the case of a deferred profit sharing plan or money purchase provision, any amounts included in a pension credit of the individual under the plan or provision because of an allocation to the individual before the particular time shall be disregarded; and

(*b*) in the case of a defined benefit provision,

(i) the value of A in paragraph (5)(*a*) shall be determined without regard to any pension credit, or portion of a pension credit, that is attributable to benefits provided under the provision before the particular time,

(ii) the value of B in paragraph (5)(*a*) shall be determined without regard to any provisional PSPA that is associated with a past service event that occurred before the particular time, and

(iii) the value of C in paragraph (5)(a) shall be determined without regard to any specified distribution (as defined in subsection (8)) made at or before the particular time.

History: S. 8304.1(12) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1996.

Termination Conditions — Deferred Profit Sharing Plan

(13) For the purpose of paragraph (3)(*a*), the conditions with respect to an individual's termination from a deferred profit sharing plan are the following:

(*a*) the termination occurs after 1996 and otherwise than because of death; and

(*b*) no payments described in subparagraph 147(2)(*k*)(v) of the Act have been made out of or under the plan with respect to the individual.

History: S. 8304.1(13) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1996.

Termination Conditions — Registered Pension Plan

(14) For the purposes of paragraphs (4)(*a*) and (5)(*a*), the conditions with respect to an individual's termination from a benefit provision of a registered pension plan are the following:

(*a*) the termination occurs after 1996 and otherwise than because of death; and

(*b*) no retirement benefits have been paid under the provision with respect to the individual (other than retirement benefits paid with respect to the individual's spouse or common-law partner or former spouse or common-law partner as a consequence of a breakdown of their marriage or common-law partnership).

History: S. 8304.1(14)(*b*) was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, by replacing the word "spouse or former spouse" with the words "spouse or common-law partner or former spouse or common-law partner", applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 8304.1(14)(*b*) was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, by replacing the word "marriage" with the words "marriage or common-law partnership", applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 8304.1(14) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1996.

Breakdown of Marriage or Common-law Partnership

(15) Where

(*a*) before a member terminates from a defined benefit provision of a registered pension plan, there has been a breakdown of the member's marriage or common-law partnership, and

(*b*) as a consequence of the breakdown,

(i) the member has ceased to have rights to all or a portion of the benefits provided under the provision with respect to the member, and

(ii) an individual who is the member's spouse or common-law partner or former spouse or common-law partner has acquired rights under the provision in respect of those benefits,

for the purpose of subsection (8),

(*c*) any amount paid under the provision with respect to the rights acquired by the individual (other than a single amount paid under the provision at or before the time of the member's termination in full satisfaction of the rights acquired by the individual) is deemed not to have been paid with respect to the member, and

(*d*) unless a single amount has been paid under the provision at or before the time of the member's termination in full satisfaction of the rights acquired by the individual, a single amount equal to the present value (at the time the member terminates from the provision) of the benefits to which the member has ceased to have rights as a consequence of the breakdown is deemed to have been paid to the member at that time under the provision in full satisfaction of those benefits.

History: S. 8304.1, the heading before subsection (15) was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, applicable to the 2001 and subsequent taxation years. See the history for the amendments to ss. 8304.1(15)(*c*) and (*d*) below for additional application. S. 8304.1, the heading before subsection (15) formerly read:

"MARRIAGE BREAKDOWN"

S. 8304.1(15)(*a*) was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, by replacing the word "marriage" with the words "marriage or common-law partnership", applicable to the 2001 and subsequent taxation years. See the history for the amendments to ss. 8304.1(15)(*c*) and (*d*) below for additional application.

S. 8304.1(15)(*b*)(ii) was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, applicable to the 2001 and subsequent taxation years. See the history for the amendments to ss. 8304.1(15)(*c*) and (*d*) below for additional application. S. 8304.1(15)(*b*)(ii) formerly read:

"(ii) the member's spouse or former spouse (in this subsection referred to as the 'spouse') has acquired rights under the provision in respect of those benefits,"

S. 8304.1(15)(*c*) and (*d*) were amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, by replacing the words "the spouse" with the words "the individual", applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 8304.1(15) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1996.

ASSOCIATION OF BENEFITS WITH EMPLOYERS

8305. (1) Where, for the purposes of this Part, it is necessary to determine the portion of an amount of benefits provided with respect to a member of a registered pension plan under a defined benefit provision of the plan that is attributable to the member's employment with a particular employer, the following rules apply, subject to subsection 8308(7):

(*a*) the determination shall be made by the plan administrator;

(*b*) benefits provided as a consequence of services rendered by the member to an employer who participates in the plan shall be regarded as attributable to employment with that employer, whether the benefits become provided at the time the services are rendered or at a subsequent time; and

(*c*) the determination shall be made in a manner that

(i) is reasonable in the circumstances,

(ii) is not inconsistent with such determinations made previously, and

(iii) results in the full amount of benefits being attributed to employment with one or more employers who participate in the plan.

History: S. 8305(1) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

(2) Where the administrator of a registered pension plan does not comply with the requirements of subsection (1) in connection with the determination of an amount under this Part at any time,

(*a*) the plan becomes, at that time, a revocable plan; and

(*b*) the Minister shall make any determinations referred to in subsection (1) that the administrator fails to make, or fails to make in accordance with that subsection.

History: S. 8305(2) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

EXEMPTION FROM CERTIFICATION

8306. (1) For the purposes of subsection 147.1(10) of the Act as it applies in respect of a past service event and the benefits provided under a defined benefit provision of a registered pension plan with respect to a particular member of the plan, a certification of the Minister is not required where

(*a*) each provisional PSPA of the member that is associated with the past service event is nil;

(*b*) the conditions in subsection (2) or (3) are satisfied;

(*c*) the conditions in subsection (2) or (3) are substantially satisfied and the Minister waives in writing the requirement for certification;

(*c*.1) paragraph 8303(5)(*f*.1) was applicable in determining the provisional PSPA of the member that is associated with the past service event; or

(*d*) the past service event is deemed by paragraph 8304(3)(*b*) to have occurred immediately after the end of 1990.

History: S. 8306(1)(c1) was added by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable in respect of past service events that occur after 2005. It also applies in respect of past service events that occur after 2003 and before 2006 if the value of the fixed rate immediately before the past service event was equal to or greater than $1,715.

S. 8306(1) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

(2) The following are conditions for the purposes of paragraphs (1)(*b*) and (*c*) and 8303(5)(*g*):

(*a*) there are more than 9 active members under the provision;

(*b*) no more than 25 per cent of the active members under the provision are specified active members under the provision;

(*c*) for all or substantially all of the active members under the provision, the amount of lifetime retirement benefits accrued under the provision has increased as a consequence of the past service event;

(*d*) where there is a specified active member under the provision,

(i) the amounts C and D are greater than nil, and

(ii) the amount determined by the formula A/C does not exceed the amount determined by the formula B/D

where

A is the aggregate of all amounts each of which is the amount of lifetime retirement benefits accrued under the provision, immediately after the past service event, to a specified active member under the provision,

B is the aggregate of all amounts each of which is the amount of lifetime retirement benefits accrued under the provision, immediately after the past service event, to an active member (other than a specified active member) under the provision,

C is the aggregate of all amounts each of which is the amount of lifetime retirement benefits accrued under the provision, immediately before the past service event, to a specified active member under the provision, and

D is the aggregate of all amounts each of which is the amount of lifetime retirement benefits accrued under the provision, immediately before the past service event, to an active member (other than a specified active member) under the provision; and

(*e*) the benefits provided under the provision as a consequence of the past service event to members of the plan who are not active members under the provision are not more advantageous than such benefits provided to active members under the provision.

History: S. 8306(2) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

(3) The following are conditions for the purposes of paragraphs (1)(*b*) and (*c*):

(*a*) the past service event consists of the establishment of the provision;

(*b*) there are more than 9 active members under the provision;

(*c*) no more than 25 per cent of the active members under the provision are specified active members under the provision;

(*d*) the member is not a specified active member under the provision;

(*e*) if the member is not an active member under the provision, for each of the 5 years immediately preceding the calendar year in which the past service event occurs,

(i) the member was not connected at any time in the year with an employer who participates in the plan, and

(ii) the aggregate of all amounts each of which is the remuneration of the member for the year from an employer who participates in the plan did not exceed $2^1/_2$ times the Year's Maximum Pensionable Earnings for the year; and

(*f*) the aggregate of all amounts each of which is a provisional PSPA of the member that is associated with the past service event does not exceed $^7/_2$ of the money purchase limit for the year in which the past service event occurs.

History: S. 8306(3) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

(4) For the purposes of this section as it applies in respect of a past service event,

(*a*) a member of a pension plan is an active member under a defined benefit provision of the plan if

(i) lifetime retirement benefits accrue under the provision to the member in respect of a period that immediately follows the time the past service event occurs, or

(ii) the member is entitled, immediately after the time the past service event occurs, to lifetime retirement benefits under the provision in respect of a period before that time and it is reasonable to expect, at that time, that lifetime retirement benefits will accrue under the provision to the member in respect of a period after that time; and

(*b*) an active member under a defined benefit provision of a pension plan is a specified active member under the provision if

(i) the member is connected, at the time of the past service event, with an employer who participates in the plan, or

(ii) it is reasonable to expect, at the time of the past service event, that the aggregate of all amounts each of which is the remuneration of the member for the calendar year in which the past service event occurs from an employer who participates in the plan will exceed 2½ times the Year's Maximum Pensionable Earnings for the year.

History: S. 8306(3) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Certification in Respect of Past Service Events

Application for Certification

8307. (1) Application for a certification of the Minister for the purposes of subsection 147.1(10) of the Act shall be made in prescribed form by the administrator of the registered pension plan to which the certification relates.

History: S. 8307(1) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Prescribed Condition

(2) For the purposes of subsection 147.1(10) of the Act in respect of a past service event and benefits with respect to a particular member of a registered pension plan, the prescribed condition is that, at the particular time the Minister issues the certification,

(*a*) the aggregate of all amounts each of which is the member's provisional PSPA with respect to an employer that is associated with the past service event

does not exceed

(*b*) the amount determined by the formula

$$\$8{,}000 + A + B + C - D + R$$

where

A is the member's unused RRSP deduction room at the end of the year immediately preceding the calendar year (in this paragraph referred to as the "particular year") that includes the particular time,

B is the amount of the member's qualifying withdrawals made for the purposes of the certification, determined as of the particular time,

C is the amount of the member's PSPA withdrawals for the particular year, determined as of the particular time,

D is the aggregate of all amounts each of which is the accumulated PSPA of the member for the particular year with respect to an employer, determined as of the particular time and

R is the total of all amounts each of which is a PAR determined in connection with the individual's termination in the particular year from a deferred profit sharing plan, or from a benefit provision of a registered pension plan, and in respect of which an information return has been filed under section 8402.01 with the Minister before the particular time.

History: The description of R in s. 8307(2)(*b*) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable to the 1998 and subsequent calendar years.

The formula in s. 8307(2)(*b*) was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable to the 1998 and subsequent calendar years. The formula formerly read:

"

"$8,000 + A + B + C – D"

"

S. 8307(2) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Qualifying Withdrawals

(3) For the purposes of paragraph (5)(*a*) and the description of B in paragraph (2)(*b*), the amount of an individual's qualifying withdrawals made for the purposes of a certification in respect of a past service event, determined as of a particular time, is the lesser of

(*a*) the aggregate of all amounts each of which is such portion of an amount withdrawn by the individual from a registered retirement savings plan under which the individual was the annuitant (within the meaning assigned by subsection 146(1) of the Act) at the time of the withdrawal as

(i) is eligible, pursuant to subsection (4), to be designated for the purposes of the certification, and

(ii) is designated by the individual for the purposes of the certification by filing a prescribed form containing prescribed information with the Minister before the particular time, and

(*b*) the amount, if any, by which

(i) the aggregate of all amounts each of which is the provisional PSPA of the individual with respect to an employer that is associated with the past service event

exceeds

(ii) the amount, positive or negative, determined by the formula

$$A + C - D + R$$

where A, C, D and R have the same values as they have at the particular time for the purposes of the formula in paragraph (2)(*b*).

History: S. 8307(3)(*b*)(ii) was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable to the 1998 and subsequent calendar years. S. 8307(3)(*b*)(ii) formerly read:

"(ii) the amount, positive or negative, determined by the formula

$$A + C - D$$

where A, C and D have the same values as they have at the particular time for the purposes of the formula set out in paragraph (2)(*b*)."

S. 8307(3) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Interpretation Bulletins: *Secondary*—IT-124R6 Contributions to registered retirement savings plans.

Eligibility of Withdrawn Amount for Designation

(4) An amount withdrawn by an individual from a registered retirement savings plan is eligible to be designated for the purposes of a certification except to the extent that the following rules provide otherwise:

(*a*) the amount is not eligible to be designated if the amount was

(i) withdrawn from a registered retirement savings plan in a calendar year other than the year in which the designation would be filed with the Minister or either of the 2 immediately preceding calendar years, or

(ii) withdrawn in circumstances that entitle the individual to a deduction under paragraph 60(*l*) of the Act; and

(*b*) the amount is not eligible to be designated to the extent that the amount was

(i) designated by the individual for the purposes of any other certification, or

(ii) deducted under section 60.2 or subsection 146(8.2) or 147.3(13.1) of the Act in computing the individual's income for any taxation year.

History: S. 8307(4)(*b*)(ii) was amended by P.C. 2001-153, SOR/2001-67, dated January 30, 2001, applicable to the 1992 and subsequent taxation years. S. 8307(4)(*b*)(ii) formerly read:

"(ii) deducted under section 60.2 or subsection 146(8.2) of the Act in computing the individual's income for any taxation year."

S. 8307(4) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

PSPA Withdrawals

(5) For the purposes of the description of C in paragraph (2)(*b*) and the description of G in the definition "net past service pension adjustment" in subsection 146(1) of the Act, the amount of an individual's PSPA withdrawals for a calendar year, determined as of a particular time, is

(*a*) if the Minister has issued, in the year and before the particular time, a certification for the purposes of subsection 147.1(10) of the Act with respect to the individual, the aggregate of all amounts each of which is the amount of the individual's qualifying withdrawals made for the purposes of a certification that the Minister has issued in the year and before the particular time; and

(*b*) in any other case, nil.

History: S. 8307(5), the portion before paragraph (*a*) was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1995. That portion formerly read:

"(5) For the purposes of the description of C in paragraph (2)(*b*) and the description of G in paragraph 146(1)(*d.1*) and subsection 204.2(1.3) of the Act, the amount of an individual's PSPA withdrawals for a calendar year, determined as of a particular time, is"

S. 8307(5) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Interpretation Bulletins: *Secondary*—IT-124R6 Contributions to registered retirement savings plans.

Prescribed Withdrawal

(6) For the purposes of subsection (7) and subsections 146(8.2) and 147.3(13.1) of the Act, a prescribed withdrawal is the portion of an amount withdrawn by an individual from a registered retirement savings plan under which the individual is the annuitant (within the meaning assigned by subsection 146(1) of the Act) that is designated in accordance with subparagraph (3)(*a*)(ii) for the purposes of a certification in respect of the individual.

History: S. 8307(6) was amended by P.C. 2001-153, SOR/2001-67, dated January 30, 2001, applicable to the 1992 and subsequent taxation years. S. 8307(6) formerly read:

"(6) For the purposes of subsection (7) and subsection 146(8.2) of the Act, a prescribed withdrawal is such portion of an amount withdrawn by an individual from a registered retirement savings plan under which the individual is the annuitant (within the meaning assigned by subsection 146(1) of the Act) as is designated in accordance with subparagraph (3)(*a*)(iii) for the purposes of a certification with respect to the individual."

S. 8307(6) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1990.

Interpretation Bulletins: *Secondary*—IT-124R6 Contributions to registered retirement savings plans; IT-528 Transfers of Funds Between Registered Plans.

Prescribed Premium

(7) For the purpose of subsection 146(6.1) of the Act, a premium paid by a taxpayer under a registered retirement savings plan under which the taxpayer is the annuitant (within the meaning assigned by subsection 146(1) of the Act) at the time the premium is paid is a prescribed premium for a particular taxation year of the taxpayer where the following conditions are satisfied:

(*a*) the taxpayer withdrew an amount (in this subsection referred to as the "withdrawn amount") in the particular year from a registered retirement savings plan for the purposes of a certification in respect of a past service event;

(*b*) all or part of the withdrawn amount is a prescribed withdrawal pursuant to subsection (6);

(*c*) it is subsequently determined that

(i) as a consequence of reasonable error, the taxpayer withdrew a greater amount than necessary for the purposes of the certification, or

(ii) as a consequence of the application of paragraph 147.1(3)(*b*) of the Act, it was not necessary for the taxpayer to withdraw any amount;

(*d*) the premium is paid by the taxpayer in the 12-month period immediately following the time the determination referred to in paragraph (*c*) is made;

(*e*) the amount of the premium does not exceed such portion of the withdrawn amount as is a prescribed withdrawal pursuant to subsection (6) and is determined to have been an unnecessary withdrawal;

(*f*) the taxpayer files with the Minister, on or before the day on or before which the taxpayer is required (or would be required if tax under Part I of the Act were payable by the taxpayer for the taxation year in which the taxpayer pays the premium) by section 150 of the Act to file a return of income for the taxation year in which the taxpayer pays the premium, a written notice in which the taxpayer designates the premium as a recontribution of all or a portion of the withdrawn amount; and

(*g*) the taxpayer has not designated, pursuant to paragraph (*f*), any other premium as a recontribution of all or a portion of the withdrawn amount.

History: S. 8307(7) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable to the 1991 and subsequent taxation years.

Interpretation Bulletins: *Secondary*—IT-124R6 Contributions to registered retirement savings plans.

SPECIAL RULES

Benefits Provided Before Registration

8308. (1) For the purposes of this Part and subsection 147.1(10) of the Act, benefits that became provided under a defined benefit provision of a pension plan before the day as of which the plan becomes a registered pension plan shall be deemed to have become provided as a consequence of an event occurring on that day and not to have been provided before that day.

History: S. 8308(1) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Prescribed Amount for Connected Persons

(2) Where

(*a*) at any particular time in a calendar year after 1990,

(i) an individual becomes a member of a registered pension plan, or

(ii) lifetime retirement benefits commence to accrue to the individual under a defined benefit provision of a registered pension plan following a period in which lifetime retirement benefits did not accrue to the individual,

(*b*) the individual is connected at the particular time, or was connected at any time after 1989, with an employer who participates in the plan for the benefit of the individual,

(*c*) the individual did not have a pension adjustment for 1990 that was greater than nil, and

(*d*) this subsection did not apply before the particular time to prescribe an amount with respect to the individual,

an amount equal to the lesser of $11,500 and 18% of the individual's earned income (as defined in subsection 146(1) of the Act) for 1990 is prescribed with respect to the individual for the calendar year that includes the particular time for the purposes of the descriptions of B in the definitions "RRSP deduction limit" and "unused RRSP deduction room" in subsection 146(1) of the Act and the description of B in paragraph 204.2(1.1)(*b*) of the Act.

History: S. 8308(2), the portion after paragraph (*d*) was replaced by P.C. 2007-849, SOR/2007-116, dated May 31, 2007, effective on publication in the *Canada Gazette*, June 13, 2007. S. 8308(2), the portion after paragraph (*d*) formerly read:

" an amount equal to the lesser of $11,500 and 18 per cent of the individual's earned income (within the meaning assigned by paragraph 146(1)(*c*) [subsection 146(1) 'earned income'] of the Act) for 1990 is prescribed with respect to the individual for the year for the purpose of the description of B in paragraphs 146(1)(*g.1*) [subsection 146(1) 'RRSP deduction limit'] and (*l*) [subsection 146(1) 'unused RRSP deduction room'] and subsection 204.2(1.1) of the Act."

S. 8308(2) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Interpretation Bulletins: *Secondary* — IT-124R6 Contributions to registered retirement savings plans.

Remuneration for Prior Years

(3) Where an individual who is entitled to benefits under a defined benefit provision of a registered pension plan receives remuneration at a particular time in a particular calendar year no part of which is pensionable service of the individual under the provision and the remuneration is treated for the purpose of determining benefits under the provision as if it were remuneration received in one or more calendar years preceding the particular calendar year for services rendered in those preceding years, the following rules apply:

(*a*) such portion of the remuneration as is treated under the provision as if it were remuneration received in a preceding calendar year for services rendered in that preceding year shall be deemed, for the purpose of determining, as of the particular time and any subsequent time, a redetermined benefit entitlement of the individual under the provision, to have been received in that preceding year for services rendered in that preceding year; and

(*b*) the pension credit of the individual for the particular year under the provision with respect to an employer is the aggregate of

(i) the amount that would otherwise be the individual's pension credit for the particular year, and

(ii) the amount that would, if the payment of the remuneration were a past service event, be the provisional PSPA (or a reasonable estimate thereof determined in a manner acceptable to the Minister) of the individual with respect to the employer that is associated with the payment of the remuneration.

History: S. 8308(3) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Period of Reduced Services — Retroactive Benefits

(4) Where,

(*a*) as a consequence of a past service event, retirement benefits (in this subsection referred to as "retroactive benefits") become provided under a defined benefit provision of a registered pension plan (other than a plan that is a specified multi-employer plan) to an individual in respect of a period of reduced services of the individual,

(*b*) the period of reduced services was not, before the past service event, pensionable service of the individual under the provision, and

(*c*) the past service event occurs on or before April 30 of the year immediately following the calendar year in which ends the complete period of reduced services of the individual that includes the period of reduced services,

the following rules apply:

(*d*) each pension adjustment of the individual with respect to an employer for a year before the calendar year in which the past service event occurs shall be deemed to be, and to always have been, the aggregate of

(i) the amount that would otherwise be the individual's pension adjustment with respect to the employer for the year, and

(ii) such portion of the provisional PSPA of the individual with respect to the employer that is associated with the past service event as may reasonably be considered to be attributable to the provision of retroactive benefits in respect of the year, and

(*e*) each provisional PSPA of the individual with respect to an employer that is associated with the past service event shall be deemed (except for the purposes of this subsection) to be such portion of the amount that would otherwise be the individual's provisional PSPA as may reasonably be con-

sidered not to be attributable to the provision of retroactive benefits.

History: S. 8308(4) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Information Circulars: IC 98-2 Prescribed Compensation for Registered Pension Plans.

Period of Reduced Services — Retroactive Contributions

(5) Where

(*a*) a contribution (in this subsection referred to as a "retroactive contribution") is made by an individual, or by an employer with respect to the individual, under a money purchase provision of a registered pension plan in respect of a period in a particular calendar year that is a period of reduced services of the individual, and

(*b*) the retroactive contribution is made after the particular year and on or before April 30 of the year immediately following the calendar year in which ends the complete period of reduced services of the individual that includes the period of reduced services,

the following rules apply:

(*c*) each pension adjustment of the individual for the particular year with respect to an employer shall be deemed to be, and to always have been, the amount that it would have been had the retroactive contribution been made at the end of the particular year, and

(*d*) the retroactive contribution shall be deemed, for the purpose of determining pension adjustments of the individual for any year after the particular year, to have been made at the end of the particular year and not to have been made at any subsequent time.

History: S. 8308(5) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Information Circulars: IC 98-2 Prescribed Compensation for Registered Pension Plans.

Commitment to Make Retroactive Contributions

(6) Where

(*a*) an individual enters into a written commitment to make a contribution under a money purchase provision of a registered pension plan,

(*b*) the commitment is made to the administrator of the plan or to an employer who participates in the plan, and

(*c*) the rules in subsection (5) would apply in respect of the contribution if the contribution were made at the time at which the individual enters into the commitment,

the following rules apply for the purposes of this Part:

(*d*) the individual shall be deemed to have made the contribution to the plan at the time the individual enters into the commitment,

(*e*) if the individual subsequently pays all or a part of the contribution to the plan pursuant to the commitment, the amount paid to the plan is, for the purposes of paragraphs 8301(4)(*a*) and (8)(*e*), a contribution described in this paragraph,

(*f*) any contribution that an employer is required to make under the money purchase provision conditional on the individual making the contribution that the individual has committed to pay and in respect of which subsection (5) would apply if the contribution were made by the employer at the time the individual enters into the commitment shall be deemed to have been made by the employer at that time, and

(*g*) if an employer subsequently pays to the plan all or a part of a contribution in respect of which paragraph (*f*) applies, the amount paid to the plan is, for the purposes of paragraph 8301(4)(*a*), a contribution described in this paragraph.

History: S. 8308(6)(*e*) was amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable with respect to amounts paid to registered pension plans after 1989. S. 8308(6)(*e*) formerly read:

"(*e*) if the individual subsequently pays all or a part of the contribution to the plan pursuant to the commitment, the amount paid to the plan shall be deemed not to be a contribution made to the plan,"

S. 8308(6)(*g*) was amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable with respect to amounts paid to registered pension plans after 1989. S. 8308(6)(*g*) formerly read:

"(*g*) if an employer subsequently pays to the plan all or a part of a contribution in respect of which paragraph (*f*) is applicable, the amount paid to the plan shall be deemed not to be a contribution made to the plan."

S. 8308(6) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Information Circulars: IC 98-2 Prescribed Compensation for Registered Pension Plans.

Loaned Employees

(7) Where, pursuant to an arrangement between an employer (in this subsection referred to as the "lending employer") who is a participating employer in relation to a pension plan and an employer (in this subsection referred to as the "borrowing employer") who, but for this subsection, would not be a participating employer in relation to the plan,

(*a*) an employee of the lending employer renders services to the borrowing employer for which the employee receives remuneration from the borrowing employer, and

(*b*) while the employee renders services to the borrowing employer, benefits continue to accrue under a defined benefit provision of the plan to the employee, or the lending employer continues to make contributions under a money purchase provision of the plan with respect to the employee,

the following rules apply:

(*c*) for the purpose of the definition "participating employer" in subsection 147.1(1) of the Act as it applies in respect of the plan, the borrowing employer is a prescribed employer,

(*d*) the determination, for the purposes of this Part, of the portion of the employee's benefit accrual under a defined benefit provision of the plan in respect of a year that can reasonably be considered to be attributable to the employee's employment with each of the lending and borrowing employers shall be made with regard to the remuneration received by the employee for the year from each employer, and

(*e*) such portion of the contributions made under a money purchase provision of the plan by the lending employer as may reasonably be considered to be in respect of the employee's remuneration from the borrowing employer shall be deemed, for the purposes of this Part, to be contributions made by the borrowing employer.

History: S. 8308(7) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Successor Plans

(8) Notwithstanding any other provisions of this Part, other than section 8310, where

(*a*) all benefits with respect to an individual under a defined benefit provision (in this subsection referred to as the "former provision") of a registered pension plan are replaced in a calendar year by identical benefits under a defined benefit provision of another registered pension plan,

(*b*) the replacement of benefits is consequent on a transfer of the individual's employment from one employer (in this subsection referred to as the "former employer") to another employer (in this subsection referred to as the "successor employer"), and

(*c*) the Minister consents in writing to the application of this subsection in respect of that replacement of benefits,

the individual's pension adjustments for the year with respect to the former employer and the successor employer shall be the amounts that they would be if all benefits with respect to the individual under the former provision had been attributable to employment with the successor employer and not to employment with the former employer.

History: S. 8308(8) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Special Downsizing Benefits

(9) Where

(*a*) lifetime retirement benefits that do not comply with the condition in paragraph 8503(3)(*a*) are provided to an individual under a defined benefit provision of a registered pension plan, and

(*b*) the benefits are permissible only by reason of subsection 8505(3),

each pension credit of the individual under the provision and each provisional PSPA of the individual shall be determined without regard to the lifetime retirement benefits.

History: S. 8308(9) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

FOREIGN PLANS

Definition

8308.1. (1) In this section, "foreign plan" means a plan or arrangement (determined without regard to subsection 207.6(5) of the Act) that would, but for paragraph (l) of the definition "retirement compensation arrangement" in subsection 248(1) of the Act, be a retirement compensation arrangement.

History: S. 8308.1(1), was added by P.C. 1996-911, SOR/96-311, dated June 20, 1996, applicable after 1991.

Pension Credit

(2) Subject to subsections (3) to (4.1), the pension credit of an individual for a calendar year with respect to an employer under a foreign plan is

(*a*) where paragraph (*b*) does not apply, nil; and

(*b*) where

(i) the year is 1992 or a subsequent year,

(ii) the individual became entitled in the year, either absolutely or contingently, to benefits under the foreign plan in respect of services rendered to the employer in a period throughout which the individual was resident in Canada and rendered services to the employer that were primarily services rendered in Canada or services rendered in connection with a business carried on by the employer in Canada, or a combination of those services,

(iii) the individual continued to be entitled at the end of the year, either absolutely or contingently, to all or part of the benefits, and

(iv) either

(A) no contribution was made under the foreign plan in the year in respect of the individual, except where

(I) no contribution was made because the foreign plan had an actuarial surplus, and

(II) had a contribution been made in respect of the benefits referred to in subparagraph (ii), it would have been resident's contribution (as defined in subsection 207.6(5.1) of the Act), or

(B) a contribution that is not a resident's contribution was made under the foreign plan in the year in respect of the individual,

the lesser of

(v) the amount, if any, by which 18% of the individual's resident compensation from the employer for the year exceeds the PA offset for the year, and

(vi) the amount by which the money purchase limit for the year exceeds the PA offset for the year.

History: S. 8308.1(2)(*b*), the portion after subparagraph (iv) was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1991. That portion formerly read:

"the amount, if any, by which the lesser of

(v) 18% of the amount that would be the individual's compensation from the employer for the year if the definition 'compensation' in subsection 147.1(1) of the Act were read without reference to paragraphs (*b*) and (*c*) of that definition, and

(vi) the money purchase limit for the year

exceeds $1,000."

S. 8308.1(2), the portion before paragraph (*a*) was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1991. That portion formerly read:

"(2) Subject to subsections (3) and (4), the pension credit of an individual for a calendar year with respect to an employer under a foreign plan is"

S. 8308.1(2) was added by P.C. 1996-911, SOR/96-311, dated June 20, 1996, applicable after 1991.

Pension Credit — Tax Treaty

(2.1) For the purposes of applying subsection (2) in determining an individual's pension credit for a calendar year with respect to an employer under a foreign plan, if any contributions made to, or benefits accruing under, the plan in respect of the individual and the calendar year benefit from the application of paragraph 8 of Article XVIII of the *Canada–United States Tax Convention* signed at Washington on September 26, 1980, or from the application of a similar provision in another tax treaty,

(*a*) subparagraph (2)(*b*)(ii) shall be read without reference to the words "was resident in Canada and"; and

(*b*) the portion of subsection (2) after subparagraph (*b*)(iv) shall be read as "the lesser of the money purchase limit for the year and 18% of the individual's resident compensation from the employer for the year".

History: S. 8308.1(2.1) was added by S.C. 2009, c. 2, s. 115(1), applicable in determining pension credits for the 2009 and subsequent calendar years.

Pension Credit — Alternative Determination

(3) Subject to subsection (4), where the Minister has, on the written application of an employer, approved in writing a method for determining pension credits for a year with respect to the employer under a foreign plan, the pension credits shall be determined in accordance with that method.

History: S. 8308.1(3) was added by P.C. 1996-911, SOR/96-311, dated June 20, 1996, applicable after 1991.

Pension Credits for 1992, 1993 and 1994

(4) The pension credit of an individual for 1992, 1993 or 1994 with respect to an employer under a foreign plan is the lesser of

(*a*) the amount that would, but for this subsection, be determined as the pension credit for the year, and

(*b*) the amount, if any, by which the lesser of

(i) 18% of the amount that would be the individual's compensation from the employer for the year if the definition "compensation" in subsection 147.1(1) of the Act were read without reference to paragraphs (*b*) and (*c*) of that definition, and

(ii) the money purchase limit for the year

exceeds the total of

(iii) $1,000, and

(iv) the amount that would be the pension adjustment of the individual for the year with respect to the employer if subsection 8301(1) were read without reference to paragraph (*b*) of that subsection.

History: S. 8308.1(4) was added by P.C. 1996-911, SOR/96-311, dated June 20, 1996, applicable after 1991.

Pension Credits — 1996 to 2002

(4.1) For the purpose of determining the pension credit of an individual for a calendar year after 1995 and before 2003 with respect to an employer under a foreign plan, subparagraph (2)(*b*)(vi) shall be read as

"(vi) the money purchase limit for the year."

History: S. 8308.1(4.1) was amended by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, by replacing the reference to "2004" with a reference to "2003" and the heading before it was amended by replacing the reference to "2003" with a reference to "2002", applicable after 2002.

S. 8308.1(4.1) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1991.

Foreign Plan PSPA

(5) Subject to subsection (6), where the benefits to which an individual is entitled, either absolutely or contingently, under a foreign plan are modified, the foreign plan PSPA of the individual with respect to an employer associated with the modification of benefits is the amount, if any, by which

(*a*) the total of all amounts each of which is the amount that, if this section were read without reference to subsection (3), would be the pension credit of the individual with respect to the employer under the foreign plan for a calendar year before the year in which the individual's benefits are modified

exceeds the total of all amounts each of which is

(*b*) the pension credit of the individual with respect to the employer under the foreign plan for a calendar year before the year in which the individual's benefits are modified, or

(*c*) the foreign plan PSPA of the individual with respect to the employer associated with a previous modification of the individual's benefits under the foreign plan.

History: S. 8308.1(5) was added by P.C. 1996-911, SOR/96-311, dated June 20, 1996, applicable after 1991.

Foreign Plan PSPA — Alternative Determination

(6) Where the Minister has, on the written application of an employer, approved in writing a method for determining the foreign plan PSPA of an individual with respect to the employer associated with a modification of the individual's benefits under a foreign plan, the individual's foreign plan PSPA shall be determined in accordance with that method.

History: S. 8308.1(6) was added by P.C. 1996-911, SOR/96-311, dated June 20, 1996, applicable after 1991.

PRESCRIBED AMOUNT FOR MEMBER OF FOREIGN PLAN

Prescribed Amount

8308.2. (1) For the purposes of the descriptions of B in the definitions "RRSP deduction limit" and "unused RRSP deduction room" in subsection 146(1) of the Act and the description of B in paragraph 204.2(1.1)(*b*) of the Act, there is prescribed in respect of an individual for a calendar year the lesser of the money purchase limit for the preceding calendar year (in this section referred to as the "service year") and the amount determined by subsection (2), if the individual

(*a*) rendered services to an employer (excluding services that were primarily services rendered in Canada or services rendered in connection with a business carried on by the employer in Canada, or a combination of those services) throughout a period in the service year in which the individual was resident in Canada;

(*b*) became entitled, either absolutely or contingently, in the service year to benefits under a foreign plan (as defined in subsection 8308.1(1)) in respect of the services; and

(*c*) continued to be entitled at the end of the service year, either absolutely or contingently, to all or part of the benefits.

History: S. 8308.2(1) was replaced by S.C. 2009, c. 2, s. 116(1), applicable in determining prescribed amounts for the 2009 and subsequent calendar years except that in determining prescribed amounts for 2009, the amount of the money purchase limit for 2008 is deemed to be reduced by $600. S. 8308.2(1) formerly read:

"(1) Where

(*a*) throughout a period in a particular calendar year after 1992 an individual resident in Canada rendered services to an employer, other than services that were primarily services rendered in Canada or services rendered in connection with a business carried on by the employer in Canada, or a combination of those services,

(*b*) the individual became entitled in the particular year, either absolutely or contingently, to benefits under a pension plan that is a foreign plan (as defined in subsection 8308.1(1)) in respect of the services, and

(*c*) the individual continued to be entitled at the end of the particular year, either absolutely or contingently, to all or part of the benefits,

subject to subsection (2), there is prescribed in respect of the individual for the year following the particular year, for the purposes of the descriptions of B in the definitions 'RRSP deduction limit' and 'unused RRSP deduction room' in subsection 146(1) of the Act and the description of B in paragraph 204.2(1.1)(*b*) of the Act, the lesser of

(*d*) the amount by which the money purchase limit for the particular year exceeds the PA offset for the particular year, and

(*e*) 10% of the portion of the individual's resident compensation from the employer for the particular year that is attributable to services rendered by the individual to the employer in periods throughout which the individual rendered services described in paragraph (*a*)."

(2) The amount determined for the purpose of subsection (1) is.

(*a*) if the only benefits to which the individual became entitled in the service year under the foreign plan were provided under one or more money purchase provisions of the foreign plan, the total of all amounts each of which is the individual's pension credit for the service year with respect to the employer under a money purchase provision of the foreign plan, determined

(i) as though the foreign plan were a registered pension plan,

(ii) without regard to any contributions made by the individual, and

(iii) if, under the laws of the country in which the foreign plan is established, any contributions made after the end of the service year are treated as having been made in the service year, as though those contributions were made in the service year and not when the contributions were actually made; and

(*b*) in any other case, the greater of

(i) the total that would be determined under paragraph (*a*) if the individual had not become entitled in the service year to any benefits under a defined benefit provision of the foreign plan, and

(ii) 10% of the portion of the individual's resident compensation from the employer for the service year that is attributable to services rendered to the employer and included under paragraph (1)(*a*).

History: S. 8308.2(2) was replaced by S.C. 2009, c. 2, s. 116(1), applicable in determining prescribed amounts for the 2009 and subsequent calendar years except that in determining prescribed amounts for 2009, the amount of the money purchase limit for 2008 is deemed to be reduced by $600. S. 8308.2(2) formerly read:

"*Prescribed Amounts — 1997 to 2003*

(2) For the purpose of determining the amount prescribed under subsection (1) in respect of an individual for a calendar year after 1996 and before 2004, paragraph (*d*) of that subsection shall be read as:

'(*d*) the money purchase limit for the particular year, and.'"

S. 8308.2(2) was amended by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, by replacing the reference to "2005" with a reference to "2004" and the heading before it was amended by replacing the reference to "2004" with a reference to "2003", applicable after 2002.

S. 8308.2 and the heading before it were amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1991. S. 8308.2 and the heading before it formerly read:

"PRESCRIBED AMOUNT FOR MEMBER OF FOREIGN PLAN

S. 8308.2. Where

(*a*) throughout a period in a calendar year after 1992 an individual resident in Canada rendered services to an employer, other than services that were primarily services rendered in Canada or services rendered in connection with a business carried on by the employer in Canada, or a combination of those services,

(*b*) the individual became entitled in the year, either absolutely or contingently, to benefits under a pension plan that is a foreign plan (as defined in subsection 8308.1(1)) in respect of the services, and

(*c*) the individual continued to be entitled at the end of the year, either absolutely or contingently, to all or part of the benefits,

there is prescribed in respect of the individual for the following year, for the purposes of the descriptions of B in the definitions 'RRSP deduction limit' and 'unused RRSP deduction room' in subsection 146(1) of the Act and the description of B in paragraph 204.2(1.1)(*b*) of the Act, an amount equal to the lesser of

(*d*) the amount by which the money purchase limit for the year exceeds $1,000, and

(*e*) 10% of such portion of the amount that would be the individual's compensation from the employer for the year, if the definition 'compensation' in subsection 147.1(1) of the Act were read without reference to paragraphs (*b*) and (*c*) of that definition, as is attributable to services rendered by the individual to the employer in periods throughout which the individual rendered services described in paragraph (*a*)."

S. 8308.2 was added by P.C. 1996-911, SOR/96-311, dated June 20, 1996, applicable after 1991.

SPECIFIED RETIREMENT ARRANGEMENTS

Definition

8308.3. (1) In this section, "specified retirement arrangement" means, in respect of an individual and an employer, a plan or arrangement under which payments that are attributable to the individual's employment with the employer are to be, or may be, made to or for the benefit of the individual after the termination of the individual's employment with the employer, but does not include

(*a*) a plan or arrangement referred to in any of paragraphs (*a*) to (*k*), (*m*) and (*n*) of the definition "retirement compensation arrangement" in subsection 248(1) of the Act;

(*b*) [Repealed.]

(*c*) a plan or arrangement that does not provide in any circumstances for payments to be made to or for the benefit of the individual after the later of the last day of the calendar year in which the individual attains 71 years of age and the day that is 5 years after the day of termination of the individual's employment with the employer;

(*d*) a plan or arrangement (in this paragraph referred to as the "arrangement") that is, or would be, but for paragraph (l) of the definition "retirement compensation arrangement" in subsection 248(1) of the Act, a retirement compensation arrangement where

(i) the funding of the arrangement is subject to the *Pension Benefits Standards Act, 1985* or a similar law of a province, or

(ii) the arrangement is funded substantially in accordance with the funding requirements that would apply if the arrangement were subject to the *Pension Benefits Standards Act, 1985*;

(*e*) a plan or arrangement that is deemed by subsection 207.6(6) of the Act to be a retirement compensation arrangement; or

(*f*) an arrangement established by the *Judges Act* or the *Lieutenant Governors Superannuation Act*.

History: S. 8308.3(1)(*c*) was replaced by S.C. 2007, c. 29, s. 33(1), applicable after 2006. S. 8308.3(1)(*c*) formerly read:

"(*c*) a plan or arrangement that does not provide in any circumstances for payments to be made to or for the benefit of the individual after the later of the last day of the calendar year in which the individual attains 69 years of age and the day that is 5 years after the day of termination of the individual's employment with the employer;"

S. 8308.3(1)(*a*) was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1991. S. 8308.3(1)(*a*) formerly read:

"(*a*) a plan or arrangement referred to in any of paragraphs (*a*) to (*k*) and (*m*) of the definition 'retirement compensation arrangement' in subsection 248(1) of the Act;"

S. 8308.3(1)(*b*) was repealed by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1991. S. 8308.3(1)(*b*) formerly read:

"(*b*) a plan or arrangement referred to in any of paragraphs 6802(*a*) to (*f*);"

S. 8308.3(1)(*c*) was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1997, except that paragraph 8308.3(1)(*c*) of the Regulations, does not apply in respect of an individual who attained 69 years of age before 1998. S. 8308.3(1)(c) formerly read:

"(*c*) a plan or arrangement that does not provide, in any circumstances, for payments to be made to or for the benefit of the individual after the later of the day on which the individual attains 71 years of age and the day that is 5 years after the day of termination of the individual's employment with the employer;"

S. 8308.3(1) was added by P.C. 1996-911, SOR/96-311, dated June 20, 1996, applicable after 1991, except that, for the purpose of applying, before 1996, the definition "specified retirement arrangement" in subsection

8308.3(1), the definition shall be read with the following paragraph added after paragraph (*a*) of the definition:

"(a.1) an unfunded plan or arrangement that is maintained primarily for the benefit of non-residents in respect of services rendered outside Canada,"

Pension Credit

(2) Subject to subsections (3) and (3.1), the pension credit of an individual for a calendar year with respect to an employer under a specified retirement arrangement is

(*a*) where paragraph (*b*) does not apply, nil; and

(*b*) where

(i) the year is 1993 or a subsequent year,

(ii) the employer is, at any time in the year,

(A) a person who is exempt, because of section 149 of the Act, from tax under Part I of the Act on all or part of the person's taxable income, or

(B) the Government of Canada or the government of a province,

(iii) the individual became entitled in the year, either absolutely or contingently, to benefits under the arrangement in respect of employment with the employer,

(iv) at the end of the year, the individual is entitled, either absolutely or contingently, to benefits under the arrangement, and

(v) the amount determined by the formula

0.85A – B

is greater than nil where

A is the lesser of

(A) the amount, if any, by which 18% of the individual's resident compensation from the employer for the year exceeds the PA offset for the year, and

(B) the amount by which the money purchase limit for the year exceeds the PA offset for the year, and

B is the amount that would be the pension adjustment of the individual for the year with respect to the employer if subsection 8301(1) were read without reference to paragraph (*c*) of that subsection,

the amount that would be determined by the formula in subparagraph (v) if the reference to "0.85" in that formula were replaced by a reference to "1".

History: S. 8308.3(2), the portion before paragraph (a) was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1991. That portion formerly read:

"(2) Subject to subsection (3), the pension credit of an individual for a calendar year with respect to an employer under a specified retirement arrangement is"

S. 8308.3(2)(v), the portion before the description of B was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1991. That portion formerly read:

"(v) the amount determined by the formula

0.85 × (A – $1,000) – B

is greater than nil where

A is the lesser of

(A) 18% of the amount that would be the individual's compensation from the employer for the year if the definition 'compensation' in subsection 147.1(1) of the Act were read without reference to paragraphs (*b*) and (*c*) of that definition, and

(B) the money purchase limit for the year, and"

S. 8308.3(2) was added by P.C. 1996-911, SOR/96-311, dated June 20, 1996, applicable after 1991.

Pension Credit — Alternative Determination

(3) Where the Minister has, on the written application of an employer, approved in writing a method for determining pension credits for a year with respect to the employer under a specified retirement arrangement, the pension credits shall be determined in accordance with that method.

History: S. 8308.3(3) was added by P.C. 1996-911, SOR/96-311, dated June 20, 1996, applicable after 1991.

Pension Credits — 1996 to 2002

(3.1) For the purpose of determining the pension credit of an individual for a calendar year after 1995 and before 2003 with respect to an employer under a specified retirement arrangement, the portion of paragraph (2)(*b*) after subparagraph (iv) shall be read as

"(v) the amount determined by the formula

0.85A – B

is greater than nil where

A is the lesser of

(A) the amount, if any, by which 18% of the individual's resident compensation from the employer for the year exceeds the PA offset for the year, and

(B) the amount by which $15,500 exceeds the PA offset for the year, and

B is the amount that would be the pension adjustment of the individual for the year with respect to the employer if subsection 8301(1) were read without reference to paragraph (*c*),

the amount that would be determined by the formula in subparagraph (v) if

(vi) the reference to '0.85A' in that formula were read as a reference to 'A', and

(vii) clause (B) of the description of A in that subparagraph were read as

'(B) the money purchase limit for the year, and'.".

History: S. 8308.3(3.1) was amended by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, by replacing the reference to "2004" with a reference to "2003" and the heading before it was amended by replacing the reference to "2003" with a reference to "2002", applicable after 2002.

S. 8308.3(3.1) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1991.

Specified Retirement Arrangement PSPA

(4) Subject to subsection (5), where the benefits to which an individual is entitled, either absolutely or contingently, under a specified retirement arrangement are modified, the specified retirement arrangement PSPA of the individual with respect to an employer associated with the modification of benefits is the amount, if any, by which

(*a*) the total of all amounts each of which is the amount that, if this section were read without reference to subsection (3), would be the pension credit of the individual with respect to the employer under the arrangement for a calendar year before the year in which the individual's benefits are modified

exceeds the total of all amounts each of which is

(*b*) the pension credit of the individual with respect to the employer under the arrangement for a calendar year before the year in which the individual's benefits are modified, or

(*c*) the specified retirement arrangement PSPA of the individual with respect to the employer associated with a previous modification of the individual's benefits under the arrangement.

History: S. 8308.3(4) was added by P.C. 1996-911, SOR/96-311, dated June 20, 1996, applicable after 1991.

Specified Retirement Arrangement PSPA — Alternative Determination

(5) Where the Minister has, on the written application of an employer, approved in writing a method for determining the specified retirement arrangement PSPA of an individual with respect to the employer associated with a modification of the individual's benefits under a specified retirement arrangement, the individual's specified retirement arrangement PSPA shall be determined in accordance with that method.

History: S. 8308.3(5) was added by P.C. 1996-911, SOR/96-311, dated June 20, 1996, applicable after 1991.

GOVERNMENT-SPONSORED RETIREMENT ARRANGEMENTS

Definitions

8308.4. (1) The definitions in this subsection apply in this section.

"*administrator*" means, in respect of a government-sponsored retirement arrangement, the government or other entity that has ultimate responsibility for the administration of the arrangement.

"*government-sponsored retirement arrangement*" means a plan or arrangement established to provide pensions directly or indirectly from the public money of Canada or a province to one or more individuals each of whom renders services in respect of which amounts that are included in computing the income from a business of any person or partnership are paid directly or indirectly from the public money of Canada or a province.

History: S. 8308.4(1) was added by P.C. 1996-911, SOR/96-311, dated June 20, 1996, applicable after 1992.

Prescribed Amount

(2) Where

(*a*) in a particular calendar year after 1992 an individual renders services in respect of which an amount that is included in computing the income from a business of any person was payable directly or indirectly by the Government of Canada or of a province, and

(*b*) at the end of the particular year, the individual is entitled, either absolutely or contingently, to benefits under a government-sponsored retirement arrangement that provides benefits in connection with such services,

there is prescribed in respect of the individual for the year following the particular year, for the purposes of the descriptions of B in the definitions "RRSP deduction limit" and "unused RRSP deduction room" in subsection 146(1) of the Act and the description of B in paragraph 204.2(1.1)(*b*) of the Act,

(*c*) where the particular year is before 1996, the amount by which the RRSP dollar limit for that following year exceeds $1,000, and

(*d*) in any other case, the RRSP dollar limit for that following year.

History: S. 8308.4(2) was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1992. S. 8308.4(2) formerly read:

"(2) Where

(*a*) in a calendar year after 1992 an individual renders services in respect of which an amount that is included in computing the income from a business of any person or partnership was payable directly or indirectly from the public money of Canada or a province, and

(*b*) at the end of that year, the individual is entitled, either absolutely or contingently, to benefits under a government-sponsored retirement arrangement that provides benefits in connection with such services,

the amount by which the RRSP dollar limit for the following year exceeds $1,000 is prescribed in respect of the individual for that following year for the purposes of the descriptions of B in the definitions 'RRSP deduction limit' and 'unused RRSP deduction room' in subsection 146(1) of the Act and the description of B in paragraph 204.2(1.1)(*b*) of the Act."

S. 8308.4(2) was added by P.C. 1996-911, SOR/96-311, dated June 20, 1996, applicable after 1992.

PRESCRIBED AMOUNT FOR LIEUTENANT GOVERNORS AND JUDGES

8309. (1) Subject to subsection (3), where an individual is, at any time in a particular calendar year after 1989, a lieutenant governor of a province (other than a lieutenant governor who is not a contributor as defined in section 2 of the *Lieutenant Governors Superannuation Act*), there is prescribed in respect of the individual for the year following the particular year, for the purposes of the descriptions of B in the definitions "RRSP deduction limit" and "unused RRSP deduction room" in subsection 146(1) of the Act and the description of B in paragraph 204.2(1.1)(*b*) of the Act, the lesser of

(*a*) the amount, if any, by which 18% of the salary received by the individual for the particular year as a lieutenant governor exceeds the PA offset for the particular year, and

(*b*) the amount by which the money purchase limit for the particular year exceeds the PA offset for the particular year.

History: S. 8309(1) was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1989. S. 8309(1) formerly read:

"S. 8309. (1) Where an individual is, at any time in a particular calendar year after 1989, a lieutenant governor of a province (other than a lieutenant governor who is not a contributor within the meaning assigned by section 2 of the *Lieutenant Governors Superannuation Act*), there is prescribed in respect of the individual for the immediately following year for the purposes of the description of B in paragraphs 146(1)(*g.1*) and (*l*) and subsection 204.2(1.1) of the Act the amount, if any, by which

(*a*) the lesser of

(i) 18 percent of the salary received by the individual for the particular year as a lieutenant governor, and

(ii) the money purchase limit for the particular year

exceeds

(*b*) $1,000."

S. 8309(1) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

(2) Subject to subsection (3), where an individual is, at any time in a particular calendar year after 1990, a judge in receipt of a salary under the *Judges Act*, there is prescribed in respect of the individual for the year following the particular year, for the purposes of the descriptions of B in the definitions "RRSP deduction limit" and "unused RRSP deduction room" in subsection 146(1) of the Act and the description of B in paragraph 204.2(1.1)(*b*) of the Act, the lesser of

(*a*) the amount, if any, by which 18% of the portion of the salary received by the individual for the particular year under the *Judges Act* in respect of which contributions are required under subsection 50(1) or (2) of that Act exceeds the PA offset for the particular year; and

(*b*) the amount determined by the formula

$$A \times B/12$$

where

A is the amount by which the money purchase limit for the particular year exceeds the PA offset for the particular year, and

B is the number of months, in the particular year, for which the individual received salary in respect of which contributions were required under subsection 50(1) or (2) of the *Judges Act*.

History: S. 8309(2)(*a*) and (*b*) were amended by P.C. 2001-1634, SOR/2001-339, dated September 20, 2001, applicable to the determination of prescribed amounts for the 2001 and subsequent calendar years. S. 8309(2)(*a*) and (*b*) formerly read:

"(*a*) the amount, if any, by which 18% of the salary (other than salary that was not received under the *Judges Act*) received by the individual for the particular year as a judge exceeds the PA offset for the particular year, and

(*b*) the amount by which the money purchase limit for the particular year exceeds the PA offset for the particular year."

S. 8309(2) was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1989. S. 8309(2) formerly read:

"(2) Where an individual is, at any time in a particular calendar year after 1990, a judge in receipt of a salary under the *Judges Act*, there is prescribed in respect of the individual for the immediately following year for the purpose of the description of B in paragraphs 146(1)(*g.1*) and (*l*) and subsection 204.2(1.1) of the Act the amount, if any, by which

(*a*) the lesser of

(i) 18 percent of the salary (other than salary that was not received under the *Judges Act*) received by the individual for the particular year as a judge, and

(ii) the money purchase limit for the particular year

exceeds

(*b*) $1,000."

S. 8309(2) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

(3) For the purpose of determining the amount prescribed under subsection (1) or (2) in respect of an individual for a calendar year after 2000 and before 2004,

(*a*) paragraph (1)(*b*) shall be read as follows:

"(*b*) the money purchase limit for the particular year , and"

(*b*) the description of A in paragraph (2)(*b*) shall be read as follows:

"A is the money purchase limit for the particular year, and"

History: S. 8309(3) was amended by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, by replacing the reference to "2005" with a reference to "2004", applicable after 2002.

S. 8309(3) was amended by P.C. 2001-1634, SOR/2001-339, dated September 20, 2001, applicable to the determination of prescribed amounts for the 2001 and subsequent calendar years. S. 8309(3) formerly read:

"(3) For the purpose of determining the amount prescribed under subsection (1) or (2) in respect of an individual for a calendar year after 1996 and before 2005, paragraphs (1)(*b*) and (2)(*b*) shall be read as:

'(*b*) the money purchase limit for the particular year.'"

Minister's Powers

8310. (1) Where more than one method for determining an amount under this Part complies with the rules in this Part, only such of those methods as are acceptable to the Minister shall be used.

History: S. 8310(1) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

(2) Where, in a particular case, the rules in this Part require the determination of an amount in a manner that is not appropriate having regard to the provisions of this Part read as a whole and the purposes for which the amount is determined, the Minister may permit or require the amount to be determined in a manner that, in the Minister's opinion, is appropriate.

History: S. 8310(2) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Registered Plans Directorate Newsletters: No. 01-3, Tailored Individual Pension Plan (TIPPs).

(3) Where, pursuant to subsection (2), the Minister gives permission or imposes a requirement, the permission or requirement is not effective unless it is given or imposed in writing.

History: S. 8310(3) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Rounding of Amounts

8311. Where a pension credit, provisional PSPA or PAR of an individual is not a multiple of one dollar, it shall be rounded to the nearest multiple of one dollar or, if it is equidistant from two such consecutive multiples, to the higher of the two multiples.

History: S. 8311 was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1996. S. 8311 formerly read:

"S. 8311. Where a pension credit or provisional PSPA of an individual is not a multiple of one dollar, it shall be rounded to the nearest multiple of one dollar or, if it is equidistant from two such consecutive multiples, to the higher thereof."

S. 8311 was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

PART LXXXIV

Retirement and Profit-Sharing Plans — Reporting and Provision of Information

Definitions

8400. (1) All words and expressions used in this Part that are defined in subsection 8300(1), 8308.4(1) or 8500(1) or in subsection 147.1(1) of the Act have the meanings assigned in those provisions.

History: S. 8400, the heading before that section was amended by P.C. 1996-911, SOR/96-311, dated June 20, 1996, by changing it from "Registered Plans — Reporting and Provision of Information" to "Retirement and Profit-Sharing Plans — Reporting and Provision of Information", applicable after 1992.

S. 8400(1) was amended by P.C. 1996-911, SOR/96-311, dated June 20, 1996, applicable after 1992. S. 8400(1) formerly read:

"(1) All words and expressions used in this Part that are defined in subsection 8300(1) or 8500(1) or in subsection 147.1(1) of the Act have the meanings assigned in those provisions."

S. 8400(1) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

(2) A reference in this Part to a pension credit of an individual means a pension credit of the individual as determined under Part LXXXIII.

History: S. 8400(2) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

(3) For the purposes of this Part, where the administrator of a pension plan is not otherwise a person, the administrator shall be deemed to be a person.

History: S. 8400(3) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Pension Adjustment

8401. (1) Where the pension adjustment of an individual for a calendar year with respect to an employer is greater than nil, the employer shall, on or before the last day of February in the immediately following calendar year, file with the Minister an information return in prescribed form reporting the pension adjustment, other than the portion, if any, required by subsection (2) or (3) to be reported by the administrator of a registered pension plan.

History: S. 8401(1) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

(2) Where an individual makes a contribution in a particular calendar year to a registered pension plan that is a specified multi-employer plan in the year and the contribution is not remitted to the plan by any participating employer on behalf of the individual, the plan administrator shall, on or before the last day of February in the immediately following calendar year, file with the Minister an information return in prescribed form reporting the aggregate of all amounts each of which is the portion, if any, of the individual's pension adjustment for the particular year with respect to an employer that may reasonably be considered to result from the contribution.

History: S. 8401(2) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

(3) Where the portion of a pension credit of an individual for a calendar year that, pursuant to subsection (4), is reportable by the administrator of a registered pension plan is greater than nil, the administrator shall, on or before the last day of February in the immediately following calendar year, file with the Minister an information return in prescribed form reporting that portion of the pension credit.

History: S. 8401(3) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

(4) For the purpose of subsection (3), where, on application by the administrator of a registered pension plan that is, in a calendar year, a multi-employer plan (other than a specified multi-employer plan), the Minister consents in writing to the application of this subsection in respect of the plan in the year, such portion of each pension credit for the year under a defined benefit provision of the plan as may reasonably be considered to be attributable to benefits provided in respect of a period of reduced services of an individual is, to the extent permitted by the Minister, reportable by the administrator.

History: S. 8401(4) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

(5) Subsections (1) to (3) do not apply to require the reporting of amounts with respect to an individual for the calendar year in which the individual dies.

History: S. 8401(5) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

(6) Where the pension adjustment of an individual for a calendar year with respect to an employer is altered by reason of the application of paragraph 8308(4)(*d*) or (5)(*c*) and the amount (in this subsection referred to as the "redetermined amount") that a person would have been required to report based on the pension adjustment as altered exceeds

(*a*) if the person has not previously reported an amount in respect of the individual's pension adjustment, nil, and

(*b*) otherwise, the amount reported by the person in respect of the individual's pension adjustment,

the person shall, within 60 days after the day on which paragraph 8308(4)(*d*) or (5)(*c*), as the case may be, applies to alter the pension adjustment, file with the Minister an information return in prescribed form reporting the redetermined amount.

History: S. 8401(6) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Past Service Pension Adjustment

8402. **(1)** Where a provisional PSPA (computed under section 8303, 8304 or 8308) of an individual with respect to an employer that is associated with a past service event (other than a certifiable past service event) is greater than nil, the administrator of each registered pension plan to which the past service event relates shall, within 120 days after the day on which the past service event occurs, file with the Minister an information return in prescribed form reporting such portion of the aggregate of all amounts each of which is the individual's PSPA with respect to an employer that is associated with the past service event as may reasonably be considered to be attributable to benefits provided under the plan, except that a return is not required to be filed by an administrator if the amount that would otherwise be reported by the administrator is nil.

History: S. 8402(1) was replaced by P.C. 2005-694, SOR/2005-123, dated May 3, 2005, applicable upon publication in the *Canada Gazette*, May 18, 2005. S. 8402(1) formerly read:

"S. 8402. (1) Where a provisional PSPA (computed under section 8303, 8304 or 8308) of an individual with respect to an employer that is associated with a past service event (other than a certifiable past service event) is greater than nil, the administrator of each registered pension plan to which the past service event relates shall, within 60 days after the day on which the past service event occurs, file with the Minister an information return in prescribed form reporting such portion of the aggregate of all amounts each of which is the individual's PSPA with respect to an employer that is associated with the past service event as may reasonably be considered to be attributable to benefits provided under the plan, except that a return is not required to be filed by an administrator if the amount that would otherwise be reported by the administrator is nil."

S. 8402 was renumbered as s. 8402(1) by P.C. 1996-911, SOR/96-311, dated June 20, 1996, applicable after 1991.

S. 8402 was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989, except that any return otherwise required to be filed under section 8402 before the particular day that is 60 days after the day of publication in the *Canada Gazette* (January 15, 1992), shall be deemed to have been filed as required if it is filed on or before the particular day.

(2) Where a foreign plan PSPA (computed under subsection 8308.1(5) or (6)) of an individual with respect to an employer associated with a modification of benefits under a foreign plan (as defined by subsection 8308.1(1)) is greater than nil, the employer shall, on or before the last day of February in the year following the calendar year in which the individual's benefits were modified, file with the Minister an information return in prescribed form reporting the foreign plan PSPA.

History: S. 8402(2) was added by P.C. 1996-911, SOR/96-311, dated June 20, 1996, applicable after 1991.

(3) Where a specified retirement arrangement PSPA (computed under subsection 8308.3(4) or (5)) of an individual with respect to an employer associated with a modification of benefits under a specified retirement arrangement (as defined by subsection 8308.3(1)) is greater than nil, the employer shall, on or before the last day of February in the calendar year following the calendar year in which the individual's benefits were modified, file with the Minister an information return in prescribed form reporting the specified retirement arrangement PSPA.

History: S. 8402(3) was added by P.C. 1996-911, SOR/96-311, dated June 20, 1996, applicable after 1991.

Pension Adjustment Reversal

Deferred Profit Sharing Plan

8402.01. **(1)** Where the PAR determined in connection with an individual's termination from a deferred

profit sharing plan is greater than nil, each trustee under the plan shall file with the Minister an information return in prescribed form reporting the PAR

(*a*) where the termination occurs in the first, second or third quarter of a calendar year, on or before the day that is 60 days after the last day of the quarter in which the termination occurs, and

(*b*) where the termination occurs in the fourth quarter of a calendar year, before February of the following calendar year,

and, for this purpose, an information return filed by a trustee under a deferred profit sharing plan is deemed to have been filed by each trustee under the plan.

History: S. 8402.01(1) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1996, except that any return otherwise required by section 8402.01 of the Regulations, as enacted by subsection (1), to be filed before the particular day that is the later of

(*a*) March 31, 1999, if the return is in connection with a termination in 1997 or 1998, and September 30, 1999, if the return is in connection with a termination in 1999, and

(*b*) the day that is 60 days after the day on which subsection (1) is published in the *Canada Gazette*,

is required to be filed on or before the particular day.

Deferred Profit Sharing Plan — Employer Reporting

(2) Where an amount included in an individual's pension credit in respect of an employer under a deferred profit sharing plan is included in determining a PAR in connection with the individual's termination from the plan, the employer is deemed to be a trustee under the plan for the purpose of reporting the PAR.

History: S. 8402.01(2) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1996, except that any return otherwise required by section 8402.01 of the Regulations, as enacted by subsection (1), to be filed before the particular day that is the later of

(*a*) March 31, 1999, if the return is in connection with a termination in 1997 or 1998, and September 30, 1999, if the return is in connection with a termination in 1999, and

(*b*) the day that is 60 days after the day on which subsection (1) is published in the *Canada Gazette*,

is required to be filed on or before the particular day.

Benefit Provision of a Registered Pension Plan

(3) Subject to subsection (4), where the PAR determined in connection with an individual's termination from a benefit provision of a registered pension plan is greater than nil, the administrator of the plan shall file with the Minister an information return in prescribed form reporting the PAR

(*a*) where the termination occurs in the first, second or third quarter of a calendar year, on or before the day that is 60 days after the last day of the quarter in which the termination occurs; and

(*b*) where the termination occurs in the fourth quarter of a calendar year, before February of the following calendar year.

History: S. 8402.01(3) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1996, except that any return otherwise required by section 8402.01 of the Regulations, as enacted by subsection (1), to be filed before the particular day that is the later of

(*a*) March 31, 1999, if the return is in connection with a termination in 1997 or 1998, and September 30, 1999, if the return is in connection with a termination in 1999, and

(*b*) the day that is 60 days after the day on which subsection (1) is published in the *Canada Gazette*,

is required to be filed on or before the particular day.

Extended Deadline — PA Transfer Amount

(4) Where, in determining an individual's PAR in connection with the individual's termination from a defined benefit provision of a registered pension plan, it is reasonable for the administrator of the plan to conclude, on the basis of information provided to the administrator by the administrator of another pension plan or by the individual, that the value of D in paragraph 8304.1(5)(*a*) in respect of the termination may be greater than nil, the administrator shall file with the Minister an information return in prescribed form reporting the PAR, if it is greater than nil, on or before the later of

(*a*) the day on or before which it would otherwise be required to be filed; and

(*b*) the day that is 60 days after the earliest day on which the administrator has all the information required to determine that value.

History: S. 8402.01(4) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1996, except that any return otherwise required by section 8402.01 of the Regulations, as enacted by subsection (1), to be filed before the particular day that is the later of

(*a*) March 31, 1999, if the return is in connection with a termination in 1997 or 1998, and September 30, 1999, if the return is in connection with a termination in 1999, and

(*b*) the day that is 60 days after the day on which subsection (1) is published in the *Canada Gazette*,

is required to be filed on or before the particular day.

Calendar Year Quarter

(5) For the purposes of this section,

(*a*) the first quarter of a calendar year is the period beginning on January 1 and ending on March 31 of the calendar year;

(*b*) the second quarter of a calendar year is the period beginning on April 1 and ending on June 30 of the calendar year;

(*c*) the third quarter of a calendar year is the period beginning on July 1 and ending on September 30 of the calendar year; and

(*d*) the fourth quarter of a calendar year is the period beginning on October 1 and ending on December 31 of the calendar year.

History: S. 8402.01(5) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1996, except that any return otherwise required by section 8402.01 of the Regulations, as enacted by subsection (1), to be filed before the particular day that is the later of

(*a*) March 31, 1999, if the return is in connection with a termination in 1997 or 1998, and September 30, 1999, if the return is in connection with a termination in 1999, and

(*b*) the day that is 60 days after the day on which subsection (1) is published in the *Canada Gazette*,

is required to be filed on or before the particular day.

GOVERNMENT-SPONSORED RETIREMENT ARRANGEMENTS

8402.1. Where an amount is prescribed by subsection 8308.4(2) in respect of an individual for a calendar year because of the individual's entitlement (either absolute or contingent) to benefits under government-sponsored retirement arrangement (as defined in subsection 8308.4(1)), the administrator of the arrangement shall, on or before the last day of February in the year, file with the Minister an information return in prescribed form reporting the prescribed amount.

History: S. 8402.1 was added by P.C. 1996-911, SOR/96-311, dated June 20, 1996, applicable after 1992.

CONNECTED PERSONS

8403. Where, at any particular time after 1990,

(*a*) an individual becomes a member of a registered pension plan, or

(*b*) lifetime retirement benefits commence to accrue to the individual under a defined benefit provision

of a registered pension plan following a period in which lifetime retirement benefits did not accrue to the individual,

each employer who participates in the plan for the benefit of the individual and with whom the individual is connected (within the meaning assigned by subsection 8500(3)) at the particular time, or was connected at any time after 1989, shall, within 60 days after the particular time, file with the Minister an information return in prescribed form containing prescribed information with respect to the individual unless the employer has previously filed an information return under this section with respect to the individual.

History: S. 8403 was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989, except that any return otherwise required to be filed under section 8403 before the particular day that is 60 days after the day of publishing in the *Canada Gazette* (January 15, 1992), shall be deemed to have been filed as required if it is filed on or before the particular day.

Registered Plans Directorate Newsletters: No. 91-5, Transitional rules and other administrative issues for pension plans.

Reporting to Individuals

8404. **(1)** Every person who is required by section 8401 or 8402.1 to file an information return with the Minister shall, on or before the day on or before which the return is required to be filed with the Minister, send to each individual to whom the return relates, two copies of the portion of the return that relates to the individual.

History: S. 8404(1) was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1992. S. 8404(1) formerly read:

"S. 8404. (1) Every person who is required by section 8401 or subsection 8402.1(1) to file an information return with the Minister shall, on or before the day on or before which the return is required to be filed with the Minister, forward to each individual to whom the return relates, 2 copies of the portion of the return that relates to the individual."

S. 8404(1) was amended by P.C. 1996-911, SOR/96-311, dated June 20, 1996, applicable after 1992. S. 8404(1) formerly read:

"(1) Every person required by section 8401 to file an information return with the Minister shall, on or before the day on or before which the return is required to be filed with the Minister, forward to each individual to whom the return relates, two copies of the portion of the return that relates to that individual."

S. 8404(1) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

(2) Every person who is required by section 8402, 8402.01 or 8403 to file an information return with the Minister shall, on or before the day on or before which the return is required to be filed with the Minister, send to each individual to whom the return relates, one copy of the portion of the return that relates to the individual.

History: S. 8404(2) was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1996. S. 8404(2) formerly read:

"(2) Every person who is required by section 8402, subsection 8402.1(2) or section 8403 to file an information return with the Minister shall, on or before the day on or before which the return is required to be filed with the Minister, forward to each individual to whom the return relates, one copy of the portion of the return that relates to the individual."

S. 8404(2) was amended by P.C. 1996-911, SOR/96-311, dated June 20, 1996, applicable after 1992. S. 8404(2) formerly read:

"(2) Every person who is required by section 8402 or 8403 to file an information return with the Minister shall, on or before the day on or before which the return is required to be filed with the Minister, forward to each individual to whom the return relates, one copy of the portion of the return that relates to the individual."

S. 8404(2) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989, except that any copy of a return or form otherwise required under subsection 8404(2) to be forwarded to an individual before the particular day that is 60 days after the day of publishing in the *Canada Gazette* (January 15, 1992), shall be deemed to have been forwarded as required if it is forwarded on or before the particular day.

(3) Every person who obtains a certification from the Minister for the purposes of subsection 147.1(10) of the Act in respect of a past service event and an individual shall, within 60 days after receiving from the Minister the form submitted to the Minister pursuant to subsection 8307(1) in respect of the past service event and the individual, forward to the individual one copy of the form as returned by the Minister.

History: S. 8404(3) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989, except that any copy of a return or form otherwise required under subsection 8404(3) to be forwarded to an individual before the particular day that is 60 days after the day of publishing in the *Canada Gazette* (January 15, 1992), shall be deemed to have been forwarded as required if it is forwarded on or before the particular day.

(4) Every person who is required by subsection (1), (2) or (3) to forward a copy of an information return or a form to an individual shall send the copy to the individual at the individual's latest known address or deliver the copy to the individual in person.

History: S. 8404(4) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Discontinuance of Business

8405. Subsection 205(2) and section 206 are applicable, with such modifications as the circumstances require, in respect of returns required to be filed under this Part.

History: S. 8405 was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989, except that any return otherwise required by reason of section 8405 to be filed before February 28, 1991 shall be deemed to have been filed as required if it is filed on or before February 28, 1991.

Provision of Information

8406. **(1)** Where a person who is required to file an information return under section 8401 requires information from another person in order to determine an amount that is to be reported or to otherwise complete the return and makes a written request to the other person for the information, the other person shall provide the person with the information that is available to that other person,

(*a*) where the information return is required to be filed in the calendar year in which the request is received, within 30 days after receipt of the request; or

(*b*) in any other case, by January 31 of the year immediately following the calendar year in which the request is received.

History: S. 8406(1) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable on publication in the *Canada Gazette* (January 15, 1992).

(2) Where the administrator of a registered pension plan requires information from a person in order to determine a provisional PSPA of an individual under section 8303, 8304 or 8308 and makes a written request to the person for the information, the person shall, within 30 days after receipt of the request, provide the administrator with the information that is available to the person.

History: S. 8406(2) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable on publication in the *Canada Gazette* (January 15, 1992).

(3) Where the administrator of a registered pension plan requires information from a person in order to complete an information return required to be filed under section 8409 and makes a written request to the person for the information, the person shall, within 30 days after receipt of the request, provide the administrator with the information that is available to that person.

History: S. 8406(3) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable on publication in the *Canada Gazette* (January 15, 1992).

(4) Where a person requires information from another person in order to determine a PAR under section 8304.1 in connection with an individual's termination in a calendar year from a deferred profit sharing plan or from a benefit provision of a registered pension plan (other than information that the other person is required to provide to the person under subsection (5)) and makes a written request to the other person for the information, the other person shall provide the person with the information that is available to the other person on or before

(*a*) if the request is received before December 17 of the year, the day that is 30 days after the day on which the request is received; and

(*b*) in any other case, the later of the day that is 15 days after the day on which the request is received and January 15 of the year following the year.

History: S. 8406(4) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1996, except that

(*a*) any information otherwise required by subsection 8406(4) of the Regulations, as enacted by subsection (1), to be provided before the particular day that is the later of March 1, 1999 and the day that is 60 days after the day on which subsection (1) is published in the *Canada Gazette* is required to be provided on or before the particular day;

(*b*) any notification otherwise required by paragraph 8406(5)(a) of the Regulations, as enacted by subsection (1), to be provided before September 30, 1998 is required to be provided on or before that date; and

(*c*) any notification otherwise required by paragraph 8406(5)(b) of the Regulations, as enacted by subsection (1), to be provided before the particular day that is 60 days after the day on which subsection (1) is published in the *Canada Gazette* is required to be provided on or before the particular day.

(5) Where benefits provided to an individual under a registered pension plan (in this subsection referred to as the "importing plan") as a consequence of a past service event result in a PA transfer amount in relation to the individual's termination from a defined benefit provision of another registered pension plan (in this subsection referred to as the "exporting plan"),

(*a*) the administrator of the importing plan shall, in writing on or before the day that is 30 days after the day on which the past service event occurred, notify the administrator of the exporting plan of the occurrence of the past service event and of its relevance in determining the individual's PAR in connection with the individual's termination from the defined benefit provision; and

(*b*) the administrator of the importing plan shall notify the administrator of the exporting plan of the PA transfer amount in writing on or before the day that is 60 days after

(i) in the case of a certifiable past service event, the day on which the Minister issues a certification for the purposes of subsection 147.1(10) of the Act in respect of the past service event and the individual, and

(ii) in any other case, the day on which the past service event occurred.

History: S. 8406(5) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1996, except that

(*a*) any information otherwise required by subsection 8406(4) of the Regulations, as enacted by subsection (1), to be provided before the particular day that is the later of March 1, 1999 and the day that is 60 days after the day on which subsection (1) is published in the *Canada Gazette* is required to be provided on or before the particular day;

(*b*) any notification otherwise required by paragraph 8406(5)(a) of the Regulations, as enacted by subsection (1), to be provided before September 30, 1998 is required to be provided on or before that date; and

(*c*) any notification otherwise required by paragraph 8406(5)(b) of the Regulations, as enacted by subsection (1), to be provided before the particular day that is 60 days after the day on which subsection (1) is published in the *Canada Gazette* is required to be provided on or before the particular day.

Qualifying Withdrawals

8407. Where

(*a*) an individual who has withdrawn an amount from a registered retirement savings plan under which the individual was, at the time of the withdrawal, the annuitant (as defined in subsection 146(1) of the Act) provides to the issuer (as defined in subsection 146(1) of the Act) of the plan, in the calendar year in which the amount was withdrawn or one of the two immediately following calendar years, the prescribed form referred to in subparagraph 8307(3)(*a*)(ii) accompanied by a request that the issuer complete the form in respect of the withdrawal, and

(*b*) the issuer has not, at the time of the receipt of the request, forwarded to the individual 2 copies of the information return required by subsection 214(1) to be made by the issuer in respect of the withdrawal, and does not, within 30 days after receipt of the request, forward to the individual two copies of that return,

the issuer shall, within 30 days after receipt of the request, complete those portions of the form that the form indicates are required to be completed by the issuer in respect of the withdrawal and return the form to the individual.

History: S. 8407(*a*) was replaced by P.C. 2007-849, SOR/2007-116, dated May 31, 2007, effective on publication in the *Canada Gazette*, June 13, 2007. S. 8407(*a*) formerly read:

"(*a*) an individual who has withdrawn an amount from a registered retirement savings plan under which the individual was the annuitant (within the meaning assigned by paragraph 146(1)(*a*) [subsection 146(1) 'annuitant'] of the Act) at the time of the withdrawal provides to the issuer (within the meaning assigned by paragraph 146(1)(*c*.1) [subsection 146(1) 'issuer'] of the Act) of the plan, in the calendar year in which the amount was withdrawn or in either of the two immediately following calendar years, with the prescribed form referred to in subparagraph 8307(3)(*a*)(ii) accompanied by a request that the issuer complete the form in respect of the withdrawal, and"

S. 8407 was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable on publication in the *Canada Gazette* (January 15, 1992).

Requirement to Provide Minister with Information

8408. (1) The Minister may, by notice served personally or by registered or certified mail, require that a person provide the Minister, within such reasonable time as is stipulated in the notice, with

(*a*) information relating to the determination of amounts under Part LXXXIII;

(*b*) where the person claims that paragraph 147.1(10)(*a*) of the Act is not applicable with respect to an individual and a past service event by reason of an exemption provided by regulation, information relevant to the claim; or

(*c*) information for the purpose of determining whether the registration of a pension plan may be revoked.

History: S. 8408(1) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable on publication in the *Canada Gazette* (January 15, 1992).

(2) Where a person fails to provide the Minister with information pursuant to a requirement under subsection (1), each registered pension plan and deferred profit sharing plan to which the information relates becomes a revocable plan as of the day on or before which the information was required to be provided.

History: S. 8408(2) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable on publication in the *Canada Gazette* (January 15, 1992).

ANNUAL INFORMATION RETURNS

8409. (1) The administrator of a registered pension plan that is administered under the supervision of a government regulator shall file an information return for a fiscal period of the plan in prescribed form and containing prescribed information

(*a*) where an agreement concerning annual information returns has been entered into by the Minister and the regulator, as identified in subsection (2),

(i) in the case of the agreement with the Pension Commission of Ontario, with the Taxation Data Centre of the Ministry of Finance of Ontario, and

(ii) in any other case, with that regulator,

on or before the day that an information return required by that regulator is to be filed for the fiscal period; and

(*b*) in any other case, with the Minister on or before the day that is 180 days after the end of the fiscal period.

History: S. 8409(1) was amended by P.C. 1996-213, SOR/96-127, dated February 20, 1996, applicable to fiscal periods that end after December 30, 1994. Section 8409, as it read prior to this amendment, does not apply for the 1994 calendar year to a registered pension plan with a fiscal period ending in 1994 before December 31, 1994. S. 8409(1) formerly read:

"(1) Subject to subsection (2), the administrator of a registered pension plan shall, on or before June 30 in each calendar year after 1991, file with the Minister an information return for the preceding calendar year in prescribed form and containing prescribed information."

S. 8409(1) was amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, to substitute "1991" for "1990", applicable after 1989.

S. 8409(1) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989, except that any return otherwise required to be filed under subsection 8409(1) before the particular day that is 60 days after the date of publication in the *Canada Gazette* (January 15, 1992), shall be deemed to have been filed as required if it is filed on or before the particular day.

Registered Plans Directorate Newsletters: No. 96-2, Waiving the requirement to file a registered pension plan annual information return for an inactive plan; No. 95-4, New filing requirements for the registered pension plan annual information return; No. 94-4, Wind-up Valuation report.

Forms: T244.

(2) For the purposes of paragraph (1)(*a*), the following government regulators have entered into an agreement concerning annual information returns with the Minister:

(*a*) the Pension Commission of Ontario, Province of Ontario;

(*b*) the Superintendent of Pensions, Province of Nova Scotia;

(*c*) the Superintendent of Pensions, Province of New Brunswick;

(*d*) the superintendent of Pensions, Province of Manitoba; and

(*e*) the Superintendent of Pensions, Province of British Columbia.

History: S. 8409(2) was amended by P.C. 1996-213, SOR/96-127, dated February 20, 1996, applicable to fiscal periods that end after December 30, 1994. Section 8409, as it read prior to this amendment, does not apply for the 1994 calendar year to a registered pension plan with a fiscal period ending in 1994 before December 31, 1994. S. 8409(2) formerly read:

"(2) Where a final distribution of property held in connection with a registered pension plan is made in a particular calendar year, the administrator of the plan shall file the return required by subsection (1) for the preceding year on or before the earlier of June 30 of the particular year and the day that is 60 days after the final distribution of property."

S. 8409(2) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Editorial Note: Registered Plans Directorate Newsletter No. 03-1 states that Regulation 8409(2) will be amended to add the Province of Quebec to the list of government regulators that have entered into an agreement concerning annual information returns with the Minister.

Registered Plans Directorate Newsletters: No. 03-1, Joint Annual Information Return — New Participating Pension Supervisory Authority; No. 01-2, Joint Annual Information Return — New Participating Pension Supervisory Authorities.

(3) The administrator of a registered pension plan shall, within 60 days after the final distribution of property held in connection with the plan, notify the Minister in writing of the date of the distribution and the method of settlement.

History: S. 8409(3) was amended by P.C. 1996-213, SOR/96-127, dated February 20, 1996, applicable to fiscal periods that end after December 30, 1994. Section 8409, as it read prior to this amendment, does not apply for the 1994 calendar year to a registered pension plan with a fiscal period ending in 1994 before December 31, 1994. S. 8409(3) formerly read:

"(3) The administrator of a registered pension plan shall, within 60 days after the final distribution of property held in connection with the plan, file with the Minister an information return in prescribed form and containing prescribed information."

S. 8409(3) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable with respect to final distributions of property held in connection with registered pension plans where the distribution is made after 1989, and any return otherwise required to be filed under subsection 8409(3) before the particular day that is 60 days after the day of publication in the *Canada Gazette* (January 15, 1992), shall be deemed to have been filed as required if it is filed on or before the particular day.

ACTUARIAL REPORTS

8410. The administrator of a registered pension plan that contains a defined benefit provision shall, on demand from the Minister served personally or by registered or certified mail and within such reasonable time as is stipulated in the demand, file with the Minister a report prepared by an actuary on the basis of reasonable assumptions and in accordance with generally accepted actuarial principles and containing such information as is required by the Minister in respect of the defined benefit provisions of the plan.

History: S. 8410 was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1989.

Registered Plans Directorate Newsletters: No. 95-5, Conversion of a defined benefit provision to a money purchase provision; No. 94-4, Wind-up Valuation report.

PART LXXXV

Registered Pension Plans

INTERPRETATION

8500. (1) In this Part,

Regulations: 8301(2); 8301(2.1).

"*active member*" of a pension plan in a calendar year means a member of the plan to whom benefits accrue under a defined benefit provision of the plan in respect of all or any portion of the year or who makes contributions, or on whose behalf contributions are made, in relation to the year under a money purchase provision of the plan;

Regulations: 8500(7).

"*average Consumer Price Index*" for a calendar year means the amount obtained by dividing by 12 the aggregate of all amounts each of which is the Consumer Price

Index for a month in the 12-month period ending on September 30 of the immediately preceding calendar year;

"*beneficiary*" of an individual means a person who has a right, by virtue of the participation of the individual in a pension plan, to receive benefits under the plan after the death of the individual;

"*benefit provision*" of a pension plan means a money purchase or defined benefit provision of the plan;

"*bridging benefits*" provided to a member under a benefit provision of a pension plan means retirement benefits payable to the member under the provision for a period ending no later than on a date determinable at the time the benefits commence to be paid;

"*Consumer Price Index*" for a month means the Consumer Price Index for the month as published by Statistics Canada under the authority of the *Statistics Act*;

"*defined benefit limit*" for a calendar year means the greater of

(*a*) $1,722.22, and

(*b*) 1/9 of the money purchase limit for the year;

"*dependant*" of an individual at the time of the individual's death means a parent, grandparent, brother, sister, child or grandchild of the individual who, at that time, is both dependent on the individual for support and

(*a*) under 19 years of age and will not attain 19 years of age in the calendar year that includes that time,

(*b*) in full-time attendance at an educational institution, or

(*c*) dependent on the individual by reason of mental or physical infirmity;

"*designated plan*" has the meaning assigned by section 8515;

"*disabled*" means, in relation to an individual, suffering from a physical or mental impairment that prevents the individual from performing the duties of the employment in which the individual was engaged before the commencement of the impairment;

"*eligible period of reduced pay*" of an employee with respect to an employer means a period (other than a period in which the employee is, at any time after 1990, connected with the employer or a period any part of which is a period of disability of the employee)

(*a*) that begins after the employee has been employed by the employer or predecessor employers to the employer for not less than 36 months,

(*b*) throughout which the employee renders services to the employer, and

(*c*) throughout which the remuneration received by the employee from the employer is less than the remuneration that it is reasonable to expect the employee would have received from the employer had the employee rendered services throughout the period on a regular basis (having regard to the services rendered by the employee to the employer before the period) and had the employee's rate of remuneration been commensurate with the employee's rate of remuneration before the period;

"*eligible period of temporary absence*" of an individual with respect to an employer means a period throughout which the individual does not render services to the employer by reason of leave of absence, layoff, strike, lock-out or any other circumstance acceptable to the Minister, other than a period

(*a*) a part of which is a period of disability of the individual, or

(*b*) in which the individual is, at any time after 1990, connected with the employer;

"*eligible survivor benefit period*" in relation to a person who is a dependant of an individual at the time of the individual's death, means the period beginning on the day of death of the individual and ending on the latest of

(*a*) where the dependant is under 19 years of age throughout the calender year that includes the day of death of the individual, the earlier of

(i) December 31 of the calendar year in which the dependant attains 18 years of age, and

(ii) the day of death of the dependant,

(*b*) where the dependant is in full-time attendance at an educational institution on the later of the day of death of the individual and December 31 of the calendar year in which the dependant attains 18 years of age, the day on which the dependant ceases to be in full-time attendance at an educational institution, and

(*c*) where the dependant is dependent on the individual at the time of the individual's death by reason of mental or physical infirmity, the day on which the dependant ceases to be infirm or, if there is no such day, the day of death of the dependant;

"*existing plan*" means a pension plan that was a registered pension plan on March 27, 1988 or in respect of which an application for registration was made to the Minister before March 28, 1988, and includes a pension plan that was established before March 28, 1988 pursuant to an Act of Parliament that deems member contributions to be contributions to a registered pension plan;

"*forfeited amount*" under a money purchase provision of a pension plan means an amount to which a member of the plan has ceased to have any rights, other than the portion thereof, if any, that is payable

(*a*) to a beneficiary of the member as a consequence of the member's death, or

(*b*) to a spouse or common-law partner or former spouse or common-law partner of the member as a consequence of the breakdown of their marriage or common-law partnership;

"*grandfathered plan*" means

(*a*) an existing plan that, on March 27, 1988, contained a defined benefit provision, or

(*b*) a pension plan that was established to provide benefits under a defined benefit provision to one or more individuals in lieu of benefits to which the individuals were entitled under a defined benefit

provision of a pension plan that was a grandfathered plan, whether or not benefits are also provided to other individuals;

"*lifetime retirement benefits*" provided to a member under a benefit provision of a pension plan means

(*a*) retirement benefits provided to the member under the provision that, after they commence to be paid, are payable to the member until the member's death, unless the benefits are commuted or payment of the benefits is suspended, and

(*b*) for greater certainty, retirement benefits provided to the member under the provision in accordance with paragraph 8506(1)(*e*.1);

"*multi-employer plan*" in a calendar year means

(*a*) a pension plan in respect of which it is reasonable to expect, at the beginning of the year (or at the time in the year when the plan is established, if later), that at no time in the year will more than 95 per cent of the active members of the plan be employed by a single participating employer or by a related group of participating employers, other than a plan where it is reasonable to consider that one of the main reasons there is more than one employer participating in the plan is to obtain the benefit of any of the provisions of the Act or these regulations that are applicable only in respect of multi-employer plans, or

(*b*) a pension plan that is, in the year, a specified multi-employer plan,

and, for the purposes of this definition, two corporations that are related to each other solely by reason that they are both controlled by Her Majesty in right of Canada or a province shall be deemed not to be related persons;

"*pensionable service*" of a member of a pension plan under a defined benefit provision of the plan means the periods in respect of which lifetime retirement benefits are provided to the member under the provision;

"*period of disability*" of an individual means a period throughout which the individual is disabled;

"*predecessor employer*" means, in relation to a particular employer, an employer (in this definition referred to as the "vendor") who has sold, assigned or otherwise disposed of all or part of the vendor's business or undertaking or all or part of the assets of the vendor's business or undertaking to the particular employer or to another employer who, at any time after the sale, assignment or other disposition, becomes a predecessor employer in relation to the particular employer, where one or more employees of the vendor have, in conjunction with the sale, assignment or disposition, become employees of the employer acquiring the business, undertaking or assets;

"*public pension benefits*" means amounts payable on a periodic basis under the *Canada Pension Plan*, a provincial pension plan as defined in section 3 of the *Canada Pension Plan*, or Part I of the *Old Age Security Act*, but does not include disability, death or survivor benefits provided under those Acts;

"*public safety occupation*" means the occupation of

(*a*) firefighter,

(*b*) police officer,

(*c*) corrections officer,

(*d*) air traffic controller,

(*e*) commercial airline pilot, or

(*f*) paramedic;

"*retirement benefits*" provided to an individual under a benefit provision of a pension plan means benefits provided to the individual under the provision that are payable on a periodic basis;

"*surplus*" under a money purchase provision of a pension plan at any time means such portion, if any, of the amount held at that time in respect of the provision as has not been allocated to members and is not reasonably attributable to

(*a*) forfeited amounts under the provision or earnings of the plan that are reasonably attributable to those amounts,

(*b*) contributions made under the provision by an employer that will be allocated to members as part of the regular allocation of such contributions, or

(*c*) earnings of the plan (other than earnings that are reasonably attributable to the surplus under the provision before that time) that will be allocated to members as part of the regular allocation of such earnings;

"*totally and permanently disabled*" means, in relation to an individual, suffering from a physical or mental impairment that prevents the individual from engaging in any employment for which the individual is reasonably suited by virtue of the individual's education, training or experience and that can reasonably be expected to last for the remainder of the individual's lifetime;

"*Year's Maximum Pensionable Earnings*" for a calendar year has the meaning assigned by section 18 of the *Canada Pension Plan*.

History: S. 8500(1), the definition "designated plan" was added by S.C. 2007, c. 35, s. 82(1), applicable after 2007.

S. 8500(1), the definition "lifetime retirement benefits" was replaced by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable after 2003. S. 8500(1), the definition "lifetime retirement benefits" formerly read: " 'lifetime retirement benefits' provided to a member under a benefit provision of a pension plan means retirement benefits provided to the member under the provision that, after they commence to be paid, are payable to the member until the member's death, unless the benefits are commuted or payment of the benefits is suspended;"

S. 8500(1), paragraph (*f*) of the definition "public safety occupation" was added by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable after 2004.

S. 8500(1), paragraph (*b*) of the definition "forfeited amount" was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years. S. 8500(1), paragraph (*b*) of the definition "forfeited amount" formerly read:

"(*b*) to a spouse or former spouse of the member as a consequence of the breakdown of their marriage or other conjugal relationship;"

S. 8500(1), the definition "defined benefit limit" was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable After 1995, except that paragraph (b) of the definition "defined benefit limit" in subsection 8500(1) of the regulations, as enacted by subsection (1), applies

(*a*) before March 6, 1996 as though the money purchase limit for each year after 1995 were the amount that it would be if the definition

"money purchase limit" in subsection 147.1(1) of the *Income Tax Act* applied as it read on December 31, 1995; and

(*b*) after March 5, 1996 and before 1997 as though the money purchase limit for each year after 1995 were the amount that it would be if the definition "money purchase limit" in subsection 147.1(1) of that Act applied as it read on January 1, 1997. S. 8500(1), the definition "defined benefit limit" formerly read:

" 'defined benefit limit' for a calendar year means

(*a*) for years before 1996, $1,722.22, and

(*b*) for years after 1995, 1/9 of the money purchase limit for the year;"

S. 8500(1), the definition "defined benefit limit" was amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, by substituting "1996" for "1995" in paragraph (*a*), and "1995" for "1994" in paragraph (*b*), applicable after 1991.

S. 8500(1), paragraphs (*a*) and (*b*) of the definition "surplus" were amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable after 1988. S. 8500(1), paragraphs (*a*) and (*b*) formerly read:

"(*a*) forfeited amounts under the provision,

(*b*) earnings of the plan that are reasonably attributable to forfeited amounts under the provision, or"

S. 8500(1) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Interpretation Bulletins: *Secondary* — IT-124R6 Contributions to registered retirement savings plans.
Information Circulars: IC 98-2 Prescribed Compensation for Registered Pension Plans.
Registered Plans Directorate Newsletters: No. 96-1, Changes to retirement savings limits.

(1.1) The definition "surplus" in subsection (1) applies for the purpose of subsection 147.3(7.1) of the Act.

History: S. 8500(1.1) was added by P.C. 2003-1497, SOR/2003-328, dated October 2, 2003, applicable after 1998.

(2) All words and expressions used in this Part that are defined in subsection 147.1(1) of the Act or in Part LXXXIII have the meanings assigned in those provisions.

History: S. 8500(2) was replaced by S.C. 2007, c. 35, s. 82(2), applicable after 2007. S. 8500(2) formerly read:

"(2) All words and expressions used in this Part that are defined in subsection 147.1(1) of the Act have the meanings assigned in that subsection."

S. 8500(2) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

(3) For the purposes of this Part, a person is connected with an employer at any time where, at that time, the person

(*a*) owns, directly or indirectly, not less than 10% of the issued shares of any class of the capital stock of the employer or of any other corporation that is related to the employer,

(*b*) does not deal at arm's length with the employer, or

(*c*) is a specified shareholder of the employer by reason of paragraph (*d*) of the definition "specified shareholder" in subsection 248(1) of the Act,

and, for the purposes of this subsection,

(*d*) a person shall be deemed to own, at any time, each share of the capital stock of a corporation owned, at that time, by a person with whom the person does not deal at arm's length,

(*e*) where shares of the capital stock of a corporation are owned at any time by a trust,

(i) if the share of any beneficiary in the income or capital of the trust depends on the exercise by any person of, or the failure by any person to exercise, any discretionary power, each beneficiary of the trust shall be deemed to own, at that time, all the shares owned by the trust, and

(ii) in any other case, each beneficiary of a trust shall be deemed to own, at that time, that proportion of the shares owned by the trust that the fair market value at that time of the beneficiary's beneficial interest in the trust is of the fair market value at that time of all beneficial interests in the trust,

(*f*) each member of a partnership shall be deemed to own, at any time, that proportion of all shares of the capital stock of a corporation that are property of the partnership at that time that the fair market value at that time of the member's interest in the partnership is of the fair market value at that time of the interests of all members in the partnership, and

(*g*) a person who, at any time, has a right under a contract, in equity or otherwise, either immediately or in the future and either absolutely or contingently, to, or to acquire, shares of the capital stock of a corporation shall be deemed to own, at that time, those shares if one of the main reasons for the existence of the right may reasonably be considered to be that the person not be connected with an employer.

History: S. 8500(3) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Interpretation Bulletins: *Secondary* — IT-124R6 Contributions to registered retirement savings plans.
Registered Plans Directorate Newsletters: No. 91-1, Transitional registration rules for pension plans; No. 91-4R, Registration rules for money purchase provisions.

(4) For the purposes of this Part, an officer who receives remuneration for holding an office shall, for any period that the officer holds the office, be deemed to render services to, and to be in the service of, the person from whom the officer receives the remuneration.

History: S. 8500(4) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

(5) For the purpose of this Part, "spouse" and "former spouse" of a particular individual include another individual who is a party to a void or voidable marriage with the particular individual.

History: S. 8500(5) was replaced by P.C. 2007-849, SOR/2007-116, dated May 31, 2007, effective on publication in the *Canada Gazette*, June 13, 2007. S. 8500(5) formerly read:

"(5) For the purposes of this Part, a spouse of a particular individual includes another individual of the opposite sex who is a party to a void or voidable marriage with the particular individual."

S. 8500(5) was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years. S. 8500(5) formerly read:

"(5) For the purposes of this Part, any provision that applies with respect to a spouse of a taxpayer also applies in the same manner with respect to a party to a void or voidable marriage to a taxpayer."

S. 8500(5) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

(6) Where this Part provides that an amount is to be determined by aggregating the durations of periods that satisfy specified conditions, a period shall be included in determining the aggregate only if it is not part of a longer period that satisfies the conditions.

History: S. 8500(6) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

(7) For the purposes of the definition "active member" in subsection (1), subparagraph 8503(3)(*a*)(v) and paragraphs 8504(7)(*d*), 8506(2)(*c*.1) and 8507(3)(*a*), the portion of an amount allocated to an individual at any time

under a money purchase provision of a registered pension plan that is attributable to

(*a*) forfeited amounts under the provision or earnings of the plan that are reasonably attributable to those amounts,

(*b*) a surplus under the provision,

(*c*) property transferred to the provision in respect of the actuarial surplus under a defined benefit provision of the plan or another registered pension plan, or

(*d*) property transferred to the provision in respect of the surplus under another money purchase provision of the plan or under a money purchase provision of another registered pension plan

shall be deemed to be a contribution made under the provision on behalf of the individual at that time.

History: S. 8500(7), the portion before paragraph (*a*) was replaced by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable after 2003. S. 8500(7), the portion before paragraph (*a*) formerly read:

"(7) For the purposes of the definition 'active member' in subsection (1), subparagraph 8503(3)(*a*)(v) and paragraphs 8504(7)(*d*) and 8507(3)(*a*), such portion of an amount allocated to an individual at any time under a money purchase provision of a registered pension plan as is attributable to"

S. 8500(7)(*d*) was added by P.C. 2003-1497, SOR/2003-328, dated October 2, 2003, applicable to allocations that occur after 1998.

S. 8500(7) was added by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable after 1988, except that

(*a*) subsection 8500(7) shall, with respect to amounts allocated on or before April 5, 1994, be read

(i) without reference to the expression "and the definition 'active member' in subsection (1)", and

(ii) for the purposes of subparagraph 8507(3)(*a*)(vi), without reference to paragraph (*c*) thereof;

(8) Where an individual who is entitled to receive benefits (in this subsection referred to as "member benefits") under a pension plan because of the individual's membership in the plan is also entitled to receive other benefits (in this subsection referred to as "non-member benefits") under the plan or under any other pension plan solely because of the participation of another individual in the plan or in the other plan, the following rules apply:

(*a*) for the purpose of determining whether the member benefits are permissible under this Part, the non-member benefits shall be disregarded;

(*b*) for the purpose of determining whether the non-member benefits are permissible under this Part, the member benefits shall be disregarded; and

(*c*) for the purpose of determining a pension adjustment, pension adjustment reversal or provisional past service pension adjustment of the individual under Part LXXXIII, the non-member benefits shall be disregarded.

History: S. 8500(8) was added by P.C. 2001-153, SOR/2001-67, dated January 30, 2001, applicable after 1988, except that before 1997, paragraph 8500(8)(*c*) of the Regulations shall be read without reference to the words "pension adjustment reversal".

Prescribed Conditions for Registration and Other Conditions Applicable to Registered Pension Plans

Conditions for Registration

8501. (1) For the purposes of section 147.1 of the Act, and subject to sections 8509 and 8510, the prescribed conditions for the registration of a pension plan are

(*a*) the conditions set out in paragraphs 8502(*a*), (*c*), (*e*), (*f*) and (*l*),

(*b*) if the plan contains a defined benefit provision, the conditions set out in paragraphs 8503(4)(*a*) and (*c*), and

(*c*) if the plan contains a money purchase provision, the conditions set out in paragraphs 8506(2)(*a*) and (*d*),

and the following conditions:

(*d*) there is no reason to expect, on the basis of the documents that constitute the plan and establish the funding arrangements that

(i) the plan may become a revocable plan pursuant to subsection (2), or

(ii) the conditions in subsection 147.1(10) of the Act may not be complied with; and

(*e*) there is no reason to expect that the plan may become a revocable plan pursuant to subsection 147.1(8) or (9) of the Act or subsection 8503(15) or 8506(4).

History: S. 8501(1)(*e*) was replaced by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable after 2003. S. 8501(1)(*e*) formerly read:

"(*e*) there is no reason to expect that the plan may become a revocable plan pursuant to subsection 147.1(8) or (9) of the Act or subsection 8503(15)."

S. 8501(1) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Regulations: 8502; 8506(2).
Information Circulars: IC 98-2 Prescribed Compensation for Registered Pension Plans.
Registered Plans Directorate Newsletters: No. 91-4R, Registration rules for money purchase provisions.

Conditions Applicable to Registered Pension Plans

(2) For the purposes of paragraph 147.1(11)(*c*) of the Act, and subject to sections 8509 and 8510, a registered pension plan becomes a revocable plan at any time that it fails to comply with

(*a*) a condition set out in any of paragraphs 8502(*b*), (*d*), (*g*) to (*k*) and (*m*);

(*b*) where the plan contains a defined benefit provision, a condition set out in paragraph 8503(3)(*a*), (*b*), (*d*), (*j*), (*k*) or (*l*) or (4)(*b*), (*d*), (*e*) or (*f*); or

(*c*) where the plan contains a money purchase provision, a condition set out in any of paragraphs 8506(2)(*b*) to (*c*.1) and (*e*) to (*i*).

History: S. 8501(2)(*c*) was replaced by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable after 2003. S. 8501(2)(*c*) formerly read:

"(*c*) where the plan contains a money purchase provision, a condition set out in any of paragraphs 8506(2)(*b*) to (*c*) and (*e*) to (*h*)."

S. 8501(2)(*a*) was amended by P.C. 1996-911, SOR/96-311, dated June 20, 1996, applicable after 1993. S. 8501(2)(*a*) formerly read:

"(*a*) a condition set out in any of paragraphs 8502(*b*), (*d*) and (*g*) to (*k*);"

S. 8501(2)(*c*) was amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, to substitute "paragraphs 8506(2)(*b*) to (*c*)" for "paragraphs 8506(2)(*b*), (*c*)", applicable after April 5, 1994.

S. 8501(2) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Regulations: 8503(3).
Registered Plans Directorate Newsletters: No. 91-4R, Registration rules for money purchase provisions.

Permissive Rules

(3) The conditions in this Part do not apply in respect of a pension plan to the extent that they are inconsistent with the provisions of subsections 8503(6) and (8) and 8505(3) and (4).

History: S. 8501(3) was amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, by adding the reference to s. 8505(4), applicable after 1988.

S. 8501(3) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Supplemental Plans

(4) Where

(*a*) the benefits provided under a pension plan (in this subsection referred to as the "supplemental plan") that contains one defined benefit provision and no money purchase provisions may reasonably be considered to be supplemental to the benefits provided under a defined benefit provision (in this subsection referred to as the "base provision") of another pension plan,

(*b*) the supplemental plan does not otherwise comply with the condition set out in paragraph 8502(*a*) or the condition set out in paragraph 8502(*c*), and

(*c*) the Minister has approved the application of this subsection, which approval has not been withdrawn,

for the purpose of determining whether the supplemental plan complies with the conditions in paragraphs 8502(*a*) and (*c*), the benefits provided under the base provision shall be considered to be provided under the supplemental plan.

History: S. 8501(4) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Benefits Payable after the Breakdown of the Marriage or Common-law Partnership

(5) Where

(*a*) an individual who is a spouse or common-law partner or former spouse or common-law partner of a member of a registered pension plan is entitled to receive all or a portion of the benefits that would otherwise be payable under the plan to the member, and

(*b*) the entitlement was created

(i) by assignment of benefits by the member, on or after the breakdown of their marriage or common-law partnership, in settlement of rights arising out of their marriage or common-law partnership, or

(ii) by a provision of the law of Canada or a province applicable in respect of the division of property between the member and the individual, on or after the breakdown of their marriage or common-law partnership, in settlement of rights arising out of their marriage or common-law partnership,

the following rules apply:

(*c*) except where paragraph (*d*) applies, the benefits to which the individual is entitled are, for the purposes of this Part, deemed to be benefits provided and payable to the member, and

(*d*) the benefits to which the individual is entitled are, for the purposes of this Part, deemed to be benefits provided and payable to the individual and not provided or payable to the member where

(i) the entitlement of the individual was created by a provision of the law of Canada or a province described in subparagraph (*b*)(ii), and

(ii) that provision

(A) requires that benefits commence to be paid to the individual at a time that may be different from the time benefits commence to be paid to the member, or

(B) gives the individual any rights in respect of the benefits to which the individual is entitled in addition to the rights that the individual would have as a consequence of an assignment by the member, in whole or in part, of the member's right to benefits under the plan.

History: S. 8501(5) and the heading before it were amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years. S. 8501(5) and the heading before it formerly read:

"*Benefits Payable to Spouse After Marriage Breakdown*

(5) Where

(*a*) a spouse or former spouse of a member of a registered pension plan is entitled to receive all or a portion of the benefits that would otherwise be payable under the plan to the member, and

(*b*) the entitlement was created

(i) by assignment of benefits by the member, on or after the breakdown of their marriage or other conjugal relationship, in settlement of rights arising out of their marriage or other conjugal relationship, or

(ii) by a provision of the law of Canada or a province applicable in respect of the division of property between the member and the member's spouse or former spouse, on or after the breakdown of their marriage or other conjugal relationship, in settlement of rights arising out of their marriage or other conjugal relationship,

the following rules apply:

(*c*) except where paragraph (*d*) is applicable, the benefits to which the spouse or former spouse is entitled shall, for the purposes of this Part, be deemed to be benefits provided and payable to the member, and

(*d*) where

(i) the entitlement of the spouse or former spouse was created by a provision of the law of Canada or a province described in subparagraph (*b*)(ii), and

(ii) that provision

(A) requires that benefits commence to be paid to the spouse or former spouse at a time that may be different from the time benefits commence to be paid to the member, or

(B) gives the spouse or former spouse any rights in respect of the benefits to which the spouse or former spouse is entitled in addition to the rights that the spouse or former spouse would have as a consequence of an assignment by the member, in whole or in part, of the member's right to benefits under the plan,

the benefits to which the spouse or former spouse is entitled shall, for the purposes of this Part, be deemed to be benefits provided and payable to the spouse or former spouse and not provided or payable to the member."

S. 8501(5) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Indirect Contributions

(6) Where an employer or individual makes payments to a trade union or association of employers (in this subsection referred to as the "contributing entity") to enable the contributing entity to make contributions to a pension plan, such portion of a contribution made by the contributing entity to the plan as is reasonably attributable to a payment made to the contributing entity by an employer or individual shall, for the purposes of the conditions in this Part, be considered to be a contribution made by the

employer or individual, as the case may be, and not by the contributing entity.

History: S. 8501(6) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Member Contributions for Unfunded Liability

(6.1) For the purposes of the conditions in this Part (other than subparagraph 8510(9)(*b*)(i)), a contribution made by a member of a pension plan in respect of a defined benefit provision of the plan is deemed to be a current service contribution made by the member in respect of the member's benefits under the provision if

(*a*) the contribution cannot, but for this subsection, reasonably be considered to be made in respect of the member's benefits under the provision;

(*b*) the contribution is determined by reference to the actuarial liabilities under the provision in respect of periods before the time of the contribution; and

(*c*) the contribution is made pursuant to an arrangement

(i) under which all, or a significant number, of the active members of the plan are required to make similar contributions,

(ii) the main purpose of which is to ensure that the plan has sufficient assets to pay benefits under the provision, and

(iii) that is approved by the Minister.

History: S. 8501(6.1), the portion before paragraph (*a*), was replaced by P.C. 2007-1443, SOR/2007-212, dated September 27, 2007, applicable after June 23, 2007. S. 8501(6.1), the portion before paragraph (*a*), formerly read:

"(6.1) For the purposes of the conditions in this Part, a contribution made by a member of a pension plan in respect of a defined benefit provision of the plan is deemed to be a current service contribution made by the member in respect of the member's benefits under the provision if"

S. 8501(6.1) was added by P.C. 2003-1497, SOR/2003-328, dated October 2, 2003, applicable to contributions made after 1990.

Prescribed Eligible Contributions

(6.2) For the purpose of paragraph 147.2(4)(*a*) of the Act, a contribution described in subsection (6.1) is a prescribed eligible contribution.

History: S. 8501(6.2) was added by P.C. 2003-1497, SOR/2003-328, dated October 2, 2003, applicable to contributions made after 1990.

Benefits Provided with Surplus on Plan Wind-up

(7) Where

(*a*) a single amount is paid in full or partial satisfaction of an individual's entitlement to retirement benefits (in this subsection referred to as the "commuted benefits") under a defined benefit provision of a registered pension plan,

(*b*) other benefits are subsequently provided to the individual under the provision as a consequence of an allocation, on full or partial wind-up of the plan, of an actuarial surplus under the provision,

(*c*) the other benefits include benefits (in this subsection referred to as "ancillary benefits") that, but for this subsection, would not be permissible under this Part,

(*d*) if the individual had previously terminated from the provision and the conditions in subsection 8304.1(14) were satisfied with respect to the termination, it is reasonable to consider that all of the ancillary benefits are in respect of periods before 1990, and

(*e*) the Minister has approved the application of this subsection in respect of the ancillary benefits,

for the purpose of determining whether the ancillary benefits are permissible under this Part, the individual is considered to have an entitlement under the provision to the commuted benefits.

History: S. 8501(7) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable to benefits provided after 1996.

CONDITIONS APPLICABLE TO ALL PLANS

8502. For the purposes of section 8501, the following conditions are applicable with respect to a pension plan:

Primary purpose

(*a*) the primary purpose of the plan is to provide periodic payments to individuals after retirement and until death in respect of their service as employees;

History: S. 8502(a) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Registered Plans Directorate Newsletters: No. 01-3, Tailored Individual Pension Plan (TIPPs).

Permissible contributions

(*b*) each contribution that is made to the plan after 1990 is an amount that

(i) is paid by a member of the plan in accordance with the plan as registered, where the amount is credited to the member's account under a money purchase provision of the plan or is paid in respect of the member's benefits under a defined benefit provision of the plan,

(ii) is paid in accordance with a money purchase provision of the plan as registered, by an employer with respect to the employer's employees or former employees,

(iii) is an eligible contribution that is paid in respect of a defined benefit provision of the plan by an employer with respect to the employer's employees or former employees,

(iv) is transferred to the plan in accordance with any of subsections 146(16), 146.3(14.1), 147(19) and 147.3(1) to (8) of the Act, or

(v) is acceptable to the Minister and that is transferred to the plan from a pension plan that is maintained primarily for the benefit of non-residents in respect of services rendered outside Canada,

and, for the purposes of this paragraph,

(vi) an eligible contribution is a contribution that is paid by an employer in respect of a defined benefit provision of a pension plan where it is an eligible contribution under subsection 147.2(2) of the Act or, in the case of a plan in which Her Majesty in right of Canada or a province is a participating employer, would be an eligible contribution under subsection 147.2(2) of the Act if all amounts held to the credit of the plan in the

accounts of Canada or the province were excluded from the assets of the plan, and

(vii) such portion of the contributions that are made by Her Majesty in right of Canada or a province in respect of a defined benefit provision of the plan as can reasonably be considered to be made with respect to the employees or former employees of another person shall be deemed to be contributions that are made by that other person;

History: S. 8502(*b*)(iv) was replaced by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable after 2003. S. 8502(*b*)(iv) formerly read:

"(iv) is transferred to the plan in accordance with any of subsections 146(16), 147(19) and 147.3(1) to (8) of the Act, or"

S. 8502(b) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Permissible benefits

(*c*) the plan does not provide for, and its terms are such that it will not under any circumstances provide for, any benefits other than benefits

(i) that are provided under one or more defined benefit provisions and are in accordance with subsection 8503(2), paragraphs 8503(3)(*c*) and (*e*) to (*i*) and section 8504,

(ii) that are provided under one or more money purchase provisions and are in accordance with subsection 8506(1),

(iii) that the plan is required to provide by reason of a designated provision of the law of Canada or a province, or that the plan would be required to provide if each such provision were applicable to the plan with respect to all its members, or

(iv) that the plan is required to provide to an individual who is a spouse or common-law partner or former spouse or common-law partner of a member of the plan by reason of a provision of the law of Canada or a province applicable in respect of the division of property between the member and the individual, on or after the breakdown of their marriage or common-law partnership, in settlement of rights arising out of their marriage or common-law partnership;

History: S. 8502(*c*)(iv) was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years. S. 8502(*c*)(iv) formerly read:

"(iv) that the plan is required to provide to a spouse or former spouse of a member of the plan by reason of a provision of the law of Canada or a province applicable in respect of the division of property between the member and the spouse or former spouse, on or after the breakdown of their marriage or other conjugal relationship, in settlement of rights arising out of their marriage or other conjugal relationship;"

S. 8502(c) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Regulations: 8503(3); 8506(1).

Registered Plans Directorate Newsletters: No. 04-1, Transfers from a Defined Benefit Provision to a Money Purchase Provision, an RRSP, or a RRIF and Transfers between Defined Benefit Provisions; No. 98-2, Treating excess member contributions under a registered pension plan; No. 91-4R, Registration rules for money purchase provisions.

Permissible distributions

(*d*) each distribution that is made from the plan is

(i) a payment of benefits in accordance with the plan as registered,

(ii) a transfer of property held in connection with the plan where the transfer is made in accordance with subsection 147.3(3), (4.1), (7.1) or (8) of the Act,

(iii) a return of all or a portion of the contributions made by a member of the plan or an employer who participates in the plan, where the payment is made to avoid the revocation of the registration of the plan,

(iv) a return of all or a portion of the contributions made by a member of the plan under a defined benefit provision of the plan, where the return of contributions is pursuant to an amendment to the plan that also reduces the future contributions that would otherwise be required to be made under the provision by members,

(v) a payment of interest (computed at a rate not exceeding a reasonable rate) in respect of contributions that are returned as described in subparagraph (iv),

(vi) a payment in full or partial satisfaction of the interests of a person in an actuarial surplus that relates to a defined benefit provision of the plan,

(vii) a payment to an employer of property held in connection with a money purchase provision of the plan;

(viii) where the Minister has, under subsection 8506(2.1), waived the application of the condition in paragraph 8506(2)(*b*.1) in respect of a money purchase provision of the plan, a payment under the provision of an amount acceptable to the Minister; or

(ix) a payment, other than a payment described in subparagraph (i), with respect to a member of a single amount that the plan is required to make because of the *Pension Benefits Standards Act, 1985* or a similar law of a province, where the single amount is not transferred directly to another registered pension plan, a registered retirement savings plan or a registered retirement income fund;

History: S. 8502(*d*)(ix) was added by P.C. 2007-1443, SOR/2007-212, dated September 27, 2007, applicable to payments made after March 20, 2002.

S. 8502(*d*)(ii) was replaced by P.C. 2003-1497, SOR/2003-328, dated October 2, 2003, applicable to transactions that occur after 1998. S. 8502(*d*)(ii) formerly read:

"(ii) a transfer of property held in connection with a defined benefit provision of the plan to another pension plan to be held in connection with a benefit provision of that other plan, where the transfer is in accordance with subsection 147.3(3), (4.1) or (8) of the Act,"

S. 8502(d)(ii) was amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, by adding the reference to s. 147.3(4.1), applicable with respect to distributions made from a pension plan after 1990.

S. 8502(d)(viii) was added by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable after April 5, 1994.

S. 8502(d) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Payment of pension

(*e*) the plan

(i) requires that the retirement benefits of a member under each benefit provision of the plan begin to be paid not later than the end of the calendar year in which the member attains 71 years of age except that,

(A) in the case of benefits provided under a defined benefit provision, the benefits may begin to be paid at any later time that is acceptable to the Minister, if the amount of benefits (expressed on an annualized basis) payable does not exceed the amount of benefits that would be payable if payment of the benefits began at the end of the calendar year in which the member attains 71 years of age, and

(B) in the case of benefits provided under a money purchase provision in accordance with paragraph 8506(1)(*e*.1), the benefits may begin to be paid not later than the end of the calendar year in which the member attains 72 years of age, and

(ii) provides that retirement benefits under each benefit provision are payable not less frequently than annually;

History: S. 8502(*e*)(i) was replaced by S.C. 2007, c. 29, s. 34(1), applicable after 2006. S. 8502(*e*)(i) formerly read:

"(i) requires that the retirement benefits of a member under each benefit provision of the plan begin to be paid not later than the end of the calendar year in which the member attains 69 years of age except that,

(A) in the case of benefits provided under a defined benefit provision, the benefits may begin to be paid at any later time that is acceptable to the Minister, if the amount of benefits (expressed on an annualized basis) payable does not exceed the amount of benefits that would be payable if payment of the benefits began at the end of the calendar year in which the member attains 69 years of age, and

(B) in the case of benefits provided under a money purchase provision in accordance with paragraph 8506(1)(*e*.1), the benefits may begin to be paid not later than the end of the calendar year in which the member attains 70 years of age, and"

S. 8502(*e*)(i) was replaced by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable after 2003. S. 8502(*e*)(i) formerly read:

"(i) requires that the retirement benefits of a member under each benefit provision of the plan commence to be paid not later than

(A) the end of the calendar year in which the member attains 69 years of age, or

(B) in the case of benefits provided under a defined benefit provision, such later time as is acceptable to the Minister, but only if the amount of benefits (expressed on an annualized basis) payable does not exceed the amount of benefits that would be payable if payment of the benefits commenced at the time referred to in clause (A), and"

S. 8502(*e*)(i)(A) was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1996, except that

(*a*) subject to paragraph (*b*), clause 8502(*e*)(i)(A) of the Regulations, as enacted by subsection (1), applies in respect of benefits provided to an individual who attained 70 years of age before 1997 or 69 years of age in 1996 as though the reference in that clause to "69 years of age" were a reference to "71 years of age" and "70 years of age" respectively; and

(*b*) where retirement benefits under a pension plan are provided to an individual by means of an annuity contract issued before March 6, 1996 and, under the terms and conditions of the contract as they read immediately before that day,

(i) the day on which annuity payments are to begin under the contract is fixed and determined and is after the year in which the individual attains

(A) 69 years of age, where the individual had not attained that age before 1997, or

(B) 70 years of age, where the individual attained 69 years of age in 1996, and

(ii) the amount and timing of each annuity payment are fixed and determined,

clause 8502(*e*)(i)(A) of the Regulations, as enacted by subsection (1), applies in respect of the benefits as though the reference in that clause to "69 years of age" were a reference to "71 years of age". It formerly read:

"(A) the end of the calendar year in which the member attains 71 years of age, or"

S. 8502(e) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Assignment of rights

(*f*) the plan includes a stipulation that no right of a person under the plan is capable of being assigned, charged, anticipated, given as security or surrendered, and, for the purposes of this condition,

(i) assignment does not include

(A) assignment pursuant to a decree, order or judgment of a competent tribunal or a written agreement in settlement of rights arising out of a marriage or common-law partnership between an individual and the individual's spouse or common-law partner or former spouse or common-law partner, on or after the breakdown of their marriage or common-law partnership, or

(B) assignment by the legal representative of a deceased individual on the distribution of the individual's estate, and

(ii) surrender does not include a reduction in benefits to avoid the revocation of the registration of the plan;

History: S. 8502(*f*)(i)(A) was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years. S. 8502(*f*)(i)(A) formerly read:

"(A) assignment pursuant to a decree, order or judgment of a competent tribunal or a written agreement in settlement of rights arising out of a marriage or other conjugal relationship between an individual and the individual's spouse or former spouse, on or after the breakdown of their marriage or other conjugal relationship, or"

S. 8502(f) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Funding media

(*g*) the arrangement under which property is held in connection with the plan is acceptable to the Minister;

History: S. 8502(g) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Registered Plans Directorate Newsletters: No. 91-4R, Registration rules for money purchase provisions.

Investments

(*h*) the property held in connection with the plan does not include

(i) a prohibited investment under subsection 8514(1),

(ii) at any time that the plan is subject to the *Pension Benefits Standards Act, 1985* or a similar law of a province, an investment that is not permitted at that time under such laws as apply to the plan, or

(iii) at any time other than a time referred to in subparagraph (ii), an investment that would not

be permitted were the plan subject to the *Pension Benefits Standards Act, 1985*;

History: S. 8502(h) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Borrowing

(*i*) a trustee or other person who holds property in connection with the plan does not borrow money for the purposes of the plan, except where

(i) the borrowing is for a term not exceeding 90 days,

(ii) the borrowing is not part of a series of loans or other transactions and repayments, and

(iii) none of the property held in connection with the plan is used as security for the borrowed money (except where the borrowing is necessary to provide funds for the current payment of benefits or the purchase of annuities under the plan without resort to a distressed sale of the property that is held in connection with the plan),

or where

(iv) the money is borrowed for the purpose of acquiring real property that may reasonably be considered to be acquired for the purpose of producing income from property,

(v) the aggregate of all amounts borrowed for the purpose of acquiring the property and any indebtedness incurred as a consequence of the acquisition of the property does not exceed the cost to the person of the property, and

(vi) none of the property that is held in connection with the plan, other than the real property, is used as security for the borrowed money;

History: S. 8502(i) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Determination of amounts

(*j*) except as otherwise provided in this Part, each amount that is determined in connection with the plan is determined, where the amount is based on assumptions, using such reasonable assumptions as are acceptable to the Minister, and, where actuarial principles are applicable to the determination, in accordance with generally accepted actuarial principles;

History: S. 8502(j) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Registered Plans Directorate Newsletters: No. 95-5, Conversion of a defined benefit provision to a money purchase provision; No. 94-3R, Using assumptions to compute the present value of benefits.

Transfer of property between provisions

(*k*) property that is held in connection with a benefit provision of the plan is not made available to pay benefits under another benefit provision of the plan (including another benefit provision that replaces the first benefit provision), except where the transaction by which the property is made so available is such that if the benefit provisions were in separate registered pension plans, the transaction would constitute a transfer of property from one plan to the other in accordance with any of subsections 147.3(1) to (4.1), (6), (7.1) and (8) of the Act;

History: S. 8502(*k*) was replaced by P.C. 2003-1497, SOR/2003-328, dated October 2, 2003, applicable to transactions that occur after 1998. S. 8502(*k*) formerly read:

"(*k*) property that is held in connection with a benefit provision of the plan is not made available to pay benefits under another benefit provision of the plan (including another benefit provision that replaces the first benefit provision), except where the transaction by which the property is made so available is such that if the benefit provisions were in separate registered pension plans, the transaction would constitute a transfer of property from one plan to the other in accordance with any of subsections 147.3(1) to (4.1), (6) and (8) of the Act;"

S. 8502(k) was amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, by substituting the reference to s. 147.3(4.1) for a reference to s. 147.3(4), applicable with respect to transactions occurring after 1990.

S. 8502(k) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Registered Plans Directorate Newsletters: No. 91-4R, Registration rules for money purchase provisions.

Appropriate pension adjustments

(*l*) the plan terms are not such that an amount that is determined under Part LXXXIII in respect of the plan would be inappropriate having regard to the provisions of that Part read as a whole and the purposes for which the amount is determined; and

History: S. 8502(l) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Participants in GSRAs

(*m*) no individual who, at any time after 1993, is entitled, either absolutely or contingently, to benefits under the plan because of employment with an employer with whom the individual is connected is entitled at that time, either absolutely or contingently, to benefits under a government-sponsored retirement arrangement (as defined in subsection 8308.4(1)).

History: S. 8502(m) was added by P.C. 1996-911, SOR/96-311, dated June 20, 1996, applicable after 1993.

Defined Benefit Provisions

Net Contribution Accounts

8503. (1) In this section and subsection 8517(2), the net contribution account of a member of a pension plan in relation to a defined benefit provision of the plan is an account that is

(*a*) credited with

(i) the amount of each contribution that is made by the member to the plan in respect of the provision,

(ii) each amount that is transferred on behalf of the member to the plan in respect of the provision in accordance with any of subsections 146(16), 147(19) and 147.3(2) and (5) to (7) of the Act,

(iii) such portion of each amount that is transferred to the plan in respect of the provision in accordance with subsection 147.3(3) of the Act as may reasonably be considered to derive from contributions that are made by the member to a registered pension plan or interest (computed at a reasonable rate) in respect of those contributions,

(iv) the amount of any property that was held in connection with another benefit provision of the plan and that has been made available to provide benefits under the provision, to the extent that if

the provisions were in separate registered pension plans, the amount would be included in the member's net contribution account by reason of subparagraph (ii) or (iii), and

(v) interest (computed at a reasonable rate determined by the plan administrator) in respect of each period throughout which the account has a positive balance; and

(*b*) charged with

(i) each amount that is paid under the provision with respect to the member, otherwise than in respect of an actuarial surplus under the provision,

(ii) the amount of any property that is held in connection with the provision (other than property that is in respect of an actuarial surplus under the provision) and that is made available to provide benefits with respect to the member under another benefit provision of the plan, and

(iii) interest (computed at a reasonable rate determined by the plan administrator) in respect of each period throughout which the account has a negative balance.

History: S. 8503(1)(b)(i) was amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable after 1988. S. 8503(1)(b)(i) formerly read:

"(i) each amount that is paid under the provision with respect to the member,"

S. 8503(1)(b)(ii) was amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable after 1988. S. 8503(1)(b)(ii) formerly read:

"(ii) the amount of any property that is held in connection with the provision and that is made available to provide benefits with respect to the member under another benefit provision of the plan, and"

S. 8503(1) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Permissible Benefits

(2) For the purposes of paragraph 8502(*c*), the following benefits may, subject to the conditions set out in respect of each benefit, be provided under a defined benefit provision of a pension plan:

Registered Plans Directorate Newsletters: No. 04-1, Transfers from a Defined Benefit Provision to a Money Purchase Provision, an RRSP, or a RRIF and Transfers between Defined Benefit Provisions.

Lifetime retirement benefits

(*a*) lifetime retirement benefits provided to a member where the benefits are payable in equal periodic amounts, or are not so payable only by reason that

(i) the benefits payable to a member after the death of the member's spouse or common-law partner are less than the benefits that would be payable to the member were the member's spouse or common-law partner alive,

(ii) the plan provides for periodic cost-of-living adjustments to be made to the benefits, where the adjustments

(A) are determined in such a manner that they do not exceed cost-of-living adjustments warranted by increases in the Consumer Price Index after the benefits commence to be paid,

(B) consist of periodic increases at a rate not exceeding 4 per cent per annum after the time the benefits commence to be paid,

(C) are based on the rates of return on a specified pool of assets after the benefits commence to be paid, or

(D) consist of any combination of adjustments described in clauses (A) to (C),

and, in the case of adjustments described in clauses (C) and (D), the present value (at the time the member's benefits commence to be paid) of additional benefits that can reasonably be expected to be paid as a consequence of the adjustments does not exceed the greater of

(E) the present value (at the time the member's benefits commence to be paid) of additional benefits that could reasonably be expected to be paid as a consequence of adjustments warranted by increases in the Consumer Price Index after the member's benefits commence to be paid, and

(F) the present value (at the time the member's benefits commence to be paid) of additional benefits that would be paid as a consequence of adjustments at a fixed rate of 4 per cent per annum after the time the member's benefits commence to be paid,

(iii) where the plan does not provide for periodic cost-of-living adjustments to be made to the benefits, or provides only for such adjustments as are described in clause (ii)(A) or (B), the plan provides for cost-of-living adjustments to be made to the benefits from time to time at the discretion of any person, where the adjustments, together with periodic cost-of-living adjustments, if any, are warranted by increases in the Consumer Price Index after the benefits commence to be paid;

(iv) the amount of the benefits is increased as a consequence of additional lifetime retirement benefits becoming provided to the member under the provision;

(v) the amount of the benefits is determined with a reduction computed by reference to the member's age, duration of service, or both (or with any other similar reduction), and the amount is subsequently adjusted to reduce or eliminate the portion, if any, of the reduction that is not required for the benefits to comply with the conditions in paragraph (3)(*c*),

(vi) the amount of the benefits is determined with a reduction computed by reference to the following benefits and the amount is subsequently adjusted to reduce or eliminate the reduction:

(A) disability benefits to which the member is entitled under the *Canada Pension Plan* or a provincial pension plan as defined in section 3 of that Act,

(B) benefits to which the member is entitled under an employees' or workers' compensation law of Canada or a province in respect of an injury or disability, or

(C) benefits to which the member is entitled pursuant to a sickness or accident insurance plan or a disability insurance plan,

(vii) the amount of the benefits is determined with a reduction computed by reference to other benefits provided under the provision in respect of the member that are permissible under paragraph (*c*), (*d*), (*k*) or (*n*), and the amount is subsequently adjusted to reduce or eliminate the reduction,

(viii) the amount of the benefits is reduced as a consequence of benefits that are permissible under paragraph (*c*), (*d*), (*k*) or (*n*) becoming provided under the provision in respect of the member,

(ix) the amount of the benefits payable to the member while the member is in receipt of remuneration from a participating employer is less than the amount of the benefits that would otherwise be payable to the member if the member were not in receipt of the remuneration, or

(x) the amount of the benefits is adjusted in accordance with plan terms that were submitted to the Minister before April 19, 2000, where the benefits have commenced to be paid before 2003 and the adjustment is approved by the Minister;

History: S. 8503(2)(*a*)(i) was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, by replacing the word "spouse" with the words "spouse or common-law partner", applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 8503(2)(*a*)(iv) to (x) were added by P.C. 2001-153, SOR/2001-67, dated January 30, 2001, applicable after 1988.

Bridging benefits

(*b*) bridging benefits provided to a member where

(i) the bridging benefits are payable for a period beginning no earlier than the time lifetime retirement benefits commence to be paid under the provision to the member and ending no later than the end of the month immediately following the month in which the member attains 65 years of age, and

(ii) the amount of the bridging benefits payable for a particular month does not exceed the amount that is determined for that month by the formula

$$A \times (1 - .0025 \times B) \times C \times \frac{D}{10}$$

where

A is the amount (or a reasonable estimate thereof) of public pension benefits that would be payable to the member for the month in which the bridging benefits commence to be paid to the member if

(A) the member were 65 years of age throughout that month,

(B) that month were the first month for which public pension benefits were payable to the member,

(C) the member were entitled to the maximum amount of benefits payable under the *Old Age Security Act*, and

(D) the member were entitled to that proportion, not exceeding one, of the maximum benefits payable under the *Canada Pension Plan* (or a provincial plan as defined in section 3 of the *Canada Pension Plan*) that the total of the member's remuneration for the three calendar years in which the remuneration is the highest is of the total of the Year's Maximum Pensionable Earnings for those three years (or such other proportion of remuneration to Year's Maximum Pensionable Earnings as is acceptable to the Minister),

B is,

(A) except where clause (B) is applicable, the number of months, if any, from the date on which the bridging benefits commence to be paid to the member to the date on which the member attains 60 years of age, and

(B) where the member is totally and permanently disabled at the time the bridging benefits commence to be paid to the member and the member was not, at any time after 1990, connected with an employer who has participated in the plan, nil,

C is the greatest of all amounts each of which is the ratio of the Consumer Price Index for a month not before the month in which the bridging benefits commence to be paid to the member and not after the particular month, to the Consumer Price Index for the month in which the bridging benefits commence to be paid to the member, and

D is

(A) except where clause (B) is applicable, the lesser of 10 and

(I) where the member was not, at any time after 1990, connected with an employer who has participated in the plan, the aggregate of all amounts each of which is the duration (measured in years, including any fraction of a year) of a period that is pensionable service of the member under the provision, and

(II) in any other case, the aggregate that would be determined under subclause (I) if the duration of each period were multiplied by a fraction (not greater than 1) that measures the services rendered by the member throughout the period to employers who participate in the plan as a proportion of the services that would have been rendered by the member throughout the period to such

employers had the member rendered services on a full-time basis, and

(B) where the member is totally and permanently disabled at the time the bridging benefits commence to be paid to the member and the member was not, at any time after 1990, connected with an employer who has participated in the plan,

10;

Guarantee period

(*c*) retirement benefits (in this paragraph referred to as "continued retirement benefits") provided to one or more beneficiaries of a member who dies after retirement benefits under the provision commence to be paid to the member where

(i) the continued retirement benefits are payable for a period beginning after the death of the member and ending

(A) if retirement benefits permissible under paragraph (*d*) are provided under the provision to a spouse or common-law partner or former spouse or common-law partner of the member, no later than five years, and

(B) in any other case, no later than 15 years

after the day on which retirement benefits commence to be paid under the provision to the member, and

(ii) the aggregate amount of continued retirement benefits payable under the provision for each month does not exceed the amount of retirement benefits that would have been payable under the provision for the month to the member if the member were alive;

History: S. 8503(2)(*c*)(i)(A) was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years. S. 8503(2)(*c*)(i)(A) formerly read:

"(A) if retirement benefits permissible under paragraph (*d*) are provided under the provision to a spouse or former spouse of the member, no later than 5 years, and"

Post-retirement survivor benefits

(*d*) retirement benefits (in this paragraph referred to as "survivor retirement benefits") provided to one or more beneficiaries of a member who dies after retirement benefits under the provision commence to be paid to the member where

(i) each beneficiary is, at the time of the member's death, a spouse, a common-law partner, a former spouse, a former common-law partner or a dependent, of the member,

(ii) the survivor retirement benefits provided to a spouse or common-law partner or former spouse or common-law partner are payable for a period beginning after the death of the member and ending with the death of the spouse or common-law partner or former spouse or common-law partner,

(iii) the survivor retirement benefits provided to a dependant are payable for a period beginning after the death of the member and ending no later than at the end of the dependant's eligible survivor benefit period,

(iv) the amount of survivor retirement benefits payable for each month to a beneficiary does not exceed 66$^2/_3$ per cent of the amount of retirement benefits that would have been payable under the provision for the month to the member if the member were alive, and

(v) the aggregate amount of survivor retirement benefits and other retirement benefits payable under the provision for each month to beneficiaries of the member does not exceed the amount of retirement benefits that would have been payable under the provision for the month to the member if the member were alive;

History: S. 8503(2)(*d*)(i) and (ii) were amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years. S. 8503(2)(*d*)(i) and (ii) formerly read:

"(i) each beneficiary is a spouse, former spouse or dependant of the member at the time of the member's death,

(ii) the survivor retirement benefits provided to a spouse or former spouse are payable for a period beginning after the death of the member and ending with the death of the spouse or former spouse,"

Pre-retirement survivor benefits

(*e*) retirement benefits (in this paragraph referred to as "survivor retirement benefits") provided to one or more beneficiaries of a member who dies before retirement benefits under the provision commence to be paid to the member where

(i) no other benefits (other than benefits permissible under paragraph (*g*), (*j*), (*l.1*) or (*n*)) are payable as a consequence of the member's death,

(ii) each beneficiary is, at the time of the member's death, a spouse, a common-law partner, a former spouse, a former common-law partner or a dependent, of the member,

(iii) the survivor retirement benefits provided to a spouse or common-law partner or former spouse or common-law partner are payable for a period beginning after the death of the member and ending with the death of the spouse or common-law partner or former spouse or common-law partner,

(iv) the survivor retirement benefits provided to a dependant are payable for a period beginning after the death of the member and ending no later than at the end of the dependant's eligible survivor benefit period,

(v) the amount of survivor retirement benefits payable for a month to a beneficiary does not exceed 66$^2/_3$ per cent of the amount that is determined in respect of the month by the formula set out in subparagraph (vi), and

(vi) the aggregate amount of survivor retirement benefits payable under the provision for a particular month to beneficiaries of the member does not exceed the amount that is determined for the particular month by the formula

$$\frac{(A + B)}{12} \times C$$

where

A is the amount (expressed on an annualized basis) of lifetime retirement benefits that accrued under the provision to the member as of the member's day of death, determined without any reduction computed by reference to the member's age, duration of service, or both, and without any other similar reduction,

B is, in the case of a member who attains 65 years of age before the member's death or who was, at any time after 1990, connected with an employer who has participated in the plan, nil, and, otherwise, the amount, if any, by which the lesser of

(A) the amount (expressed on an annualized basis) of lifetime retirement benefits that could reasonably be expected to have accrued to the member to the day on which the member would have attained 65 years of age if the member had survived to that day and continued in employment and if the member's rate of remuneration had not increased after the member's day of death, and

(B) the amount, if any, by which 3/2 of the Year's Maximum Pensionable Earnings for the calendar year in which the member dies exceeds such amount as is required by the Minister to be determined in respect of benefits provided, as a consequence of the death of the member, under other benefit provisions of the plan and under benefit provisions of other registered pension plans

exceeds the amount determined for A, and

C is the greatest of all amounts each of which is the ratio of the Consumer Price Index for a month not before the month in which the member dies and not after the particular month, to the Consumer Price Index for the month in which the member dies;

History: S. 8503(2)(*e*)(ii) and (iii) were amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years. S. 8503(2)(*e*)(ii) and (iii) formerly read:

"(ii) each beneficiary is a spouse, former spouse or dependant of the member at the time of the member's death,

(iii) the survivor retirement benefits provided to a spouse or former spouse are payable for a period beginning after the death of the member and ending with the death of the spouse or former spouse,"

S. 8503(2)(*e*)(i) was amended by P.C. 2001-153, SOR/2001-67, dated January 30, 2001, applicable after June 4, 1997. S. 8503(2)(*e*)(i) formerly read:

"(i) no other benefits (other than benefits that are permissible under paragraphs (*g*), (*j*) and (*n*)) are payable as a consequence of the member's death,"

Pre-retirement survivor benefits — Alternative rule

(*f*) retirement benefits (in this paragraph referred to as "survivor benefits") provided to a beneficiary of a member who dies before retirement benefits under the defined benefit provision commence to be paid to the member where

(i) no other benefits (other than benefits permissible under paragraph (*g*), (*j*), (*l*.1) or (*n*)) are payable as a consequence of the member's death,

(ii) the beneficiary is a spouse or common-law partner or former spouse or common-law partner of the member,

(iii) the survivor benefits are payable for a period beginning not later than the later of

(A) the day that is one year after the day of death of the member, and

(B) the end of the calendar year in which the beneficiary attains 71 years of age,

and ending with the death of the beneficiary,

(iv) the survivor benefits would be in accordance with paragraph (*a*) if the beneficiary were a member of the plan, and

(v) the present value (at the time of the member's death) of all benefits provided as a consequence of the member's death does not exceed the present value (immediately before the member's death) of all benefits that have accrued under the provision with respect to the member to the day of the member's death;

History: S. 8503(2)(*f*)(iii)(B) was replaced by S.C. 2007, c. 29, s. 35(1), applicable after 2006. S. 8503(2)(*f*)(iii)(B) formerly read:

"(B) the end of the calendar year in which the beneficiary attains 69 years of age,"

S. 8503(2)(*f*)(iii) was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, by replacing the words "surviving spouse" with the word "survivor", applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 8503(2)(*f*), the portion before subparagraph (i) was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, by replacing the words "surviving spouse" with the word "survivor", applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 8503(2)(*f*)(ii) was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, by replacing the words "spouse or former spouse" with the words "spouse or common-law partner or former spouse or common-law partner", applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 8503(2)(*f*)(iv) was amended by P.C. 2001-957 SOR/2001-188, dated May 31, 2001, applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in

respect of the applicable taxation year and subsequent taxation years. S. 8503(2)(*f*)(iv) formerly read:

"(iv) the surviving spouse benefits would be in accordance with paragraph (*a*) if the surviving spouse were a member of the plan, and"

S. 8503(2)(*f*)(i) was amended by P.C. 2001-153, SOR/2001-67, dated January 30, 2001, applicable after June 4, 1997. S. 8503(2)(*f*)(i) formerly read:

"(i) no other benefits (other than benefits that are permissible under paragraphs (*g*), (*j*) and (*n*)) are payable as a consequence of the member's death,"

S. 8503(2)(*f*)(iii)(B) was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1996, except that

(*a*) subject to paragraph (*b*), clause 8503(2)(*f*)(iii)(B) of the Regulations, as enacted by subsection (1), applies in respect of benefits provided to an individual who attained 70 years of age before 1997 or 69 years of age in 1996 as though the reference in that clause to "69 years of age" were a reference to "71 years of age" and "70 years of age" respectively; and

(*b*) where retirement benefits under a pension plan are provided to an individual by means of an annuity contract issued before March 6, 1996 and, under the terms and conditions of the contract as they read immediately before that day,

(i) the day on which annuity payments are to begin under the contract is fixed and determined and is after the year in which the individual attains

(A) 69 years of age, where the individual had not attained that age before 1997, or

(B) 70 years of age, where the individual attained 69 years of age in 1996, and

(ii) the amount and timing of each annuity payment are fixed and determined,

clause 8503(2)(*f*)(iii)(B) of the Regulations, as enacted by subsection (1), applies in respect of the benefits as though the reference in that clause to "69 years of age" were a reference to "71 years of age". S. 8503(2)(*f*)(iii)(B) formerly read:

"(B) the end of the calendar year in which the beneficiary attains 71 years of age"

Pre-retirement survivor benefits — Guarantee period

(*g*) retirement benefits provided to one or more individuals as a consequence of the death of a person who

(i) is a beneficiary of a member who died before retirement benefits under the provision commenced to be paid to the member,

(ii) was, at the time of the member's death, a spouse or common-law partner or former spouse or common-law partner of the member, and

(iii) dies after the member's death,

where the benefits would be in accordance with paragraph (*c*) if the person were a member of the plan;

History: S. 8503(2)(*g*)(ii) was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, by replacing the words "spouse or former spouse" with the words "spouse or common-law partner or former spouse or common-law partner", applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Lump sum payments on termination

(*h*) the payment, with respect to a member in connection with the member's termination from the plan (otherwise than by reason of death), of one or more single amounts where

(i) the payments are the last payments to be made under the provision with respect to the member,

(ii) if subparagraph (iii) is not applicable, each single amount does not exceed the balance in the member's net contribution account immediately before the time of payment of the single amount, and

(iii) if

(A) the Minister has, pursuant to subsection (5), waived the application of the conditions in paragraph (4)(*a*) in respect of the provision, or

(B) the member's contributions under the provision for each calendar year after 1990 would have been in accordance with paragraph (4)(*a*) if the reference in clause (i)(B) thereof to "70 per cent" were read as a reference to "50 per cent",

each single amount does not exceed the amount that would be the balance in the member's net contribution account immediately before the time of the payment of the single amount if, for each current service contribution made by the member under the provision, the account were credited at the time of the contribution with an additional amount equal to the amount of the contribution (other than the portion of the contribution, if any, paid in respect of one or more periods that were not periods of regular employment and that would not have been required to be paid by the member if the periods were periods of regular employment);

History: S. 8503(2)(*h*)(iii), the portion after clause (B) was amended by P.C. 2001-153, SOR/2001-67, dated January 30, 2001, applicable after 1988. S. 8503(2)(*h*)(iii), the portion after clause (B) formerly read:

"each single amount does not exceed the amount that would be the balance in the member's net contribution account immediately before the time of payment of the single amount if, for each current service contribution made by the member under the provision, the account were credited with an additional amount equal to the amount of the contribution (other than the portion thereof, if any, paid in respect of one or more periods that were not periods of regular employment and that would not have been required to be paid by the member if the periods were periods of regular employment);"

Payment of commuted value of benefits on death before retirement

(*i*) the payment of one or more single amounts to one or more beneficiaries of a member who dies before retirement benefits under the provision commence to be paid to the member where

(i) no retirement benefits are payable as a consequence of the member's death, and

(ii) the aggregate of all amounts, each of which is such a single amount (other than the portion thereof, if any, that can reasonably be considered to be interest, computed at a rate not exceeding a reasonable rate, in respect of the period from the day of death of the member to the day the single amount is paid), does not exceed the present value, immediately before the death of the member, of all benefits that have accrued under the provision with respect to the member to the day of the member's death;

Lump sum payments on death

(*j*) the payment of one or more single amounts after the death of a member where

(i) the payments are the last payments to be made under the provision with respect to the member,

(ii) if the member dies before retirement benefits under the provision commence to be paid to the member and no retirement benefits are payable as a consequence of the member's death, the aggregate amount to be paid at any time complies with whichever of the conditions in subparagraphs (*h*)(ii) and (iii) would be applicable if the single amounts were paid in connection with the member's termination from the plan otherwise than by reason of death, and

(iii) if subparagraph (ii) is not applicable, the aggregate amount to be paid at any time does not exceed the balance, immediately before that time, in the member's net contribution account in relation to the provision;

Additional post-retirement death benefits

(*k*) retirement benefits (in this paragraph referred to as "additional death benefits") payable after the death of a member who dies after retirement benefits under the provision commence to be paid to the member where the additional death benefits are

(i) retirement benefits provided to a spouse or common-law partner or former spouse or common-law partner of the member that are in excess of the benefits that are permissible under paragraph (*d*), but that would be permissible under that paragraph if the reference in subparagraph (*d*)(iv) to "66⅔ per cent" were read as a reference to "100 per cent",

(ii) retirement benefits provided to one or more beneficiaries of the member that are in excess of the benefits that are permissible under paragraph (*c*), but that would be permissible under that paragraph if it were read without reference to clause (i)(A) thereof, or

(iii) a combination of retirement benefits described in subparagraphs (i) and (ii),

and where

(iv) the additional death benefits are provided in lieu of a proportion of the lifetime retirement benefits that would otherwise be payable under the provision to the member, and

(v) the present value of all benefits provided under the provision with respect to the member does not exceed the present value of the benefits that would be provided if

(A) the amount of the member's lifetime retirement benefits were determined without any reduction dependent on the benefits payable after the death of the member or on circumstances that are relevant in determining such death benefits,

(B) the maximum amount of retirement benefits that are permissible under paragraph (*d*) were payable to the member's spouse or common-law partner or former spouse or common-law partner after the death of the member, and

(C) those present values were determined as of

(I) except where subclause (II) applies, the particular time at which retirement benefits under the provision commence to be paid to the member, and

(II) where the additional death benefits become provided after the particular time, the time at which the additional death benefits become provided;

History: S. 8503(2)(*k*)(v)(B) was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years. S. 8503(2)(*k*)(v)(B) formerly read:

"(B) the maximum amount of retirement benefits that are permissible under paragraph (*d*) were payable to the member's spouse or former spouse after the death of the member, and"

S. 8503(2)(*k*)(i) was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years. S. 8503(2)(*k*)(i) formerly read:

"(i) retirement benefits provided to a spouse or former spouse of the member that are in excess of the benefits that are permissible under paragraph (*d*), but that would be permissible under that paragraph if the reference in subparagraph (iv) thereof to '66⅔ per cent' were read as a reference to '100 per cent',"

S. 8503(2)(*k*)(v) was amended by P.C. 2001-153, SOR/2001-67, dated January 30, 2001, applicable after 1988. S. 8503(2)(*k*)(v) formerly read:

"(v) the present value (at the time retirement benefits under the provision commence to be paid to the member) of all benefits provided under the provision with respect to the member does not exceed the present value (at that time) of the benefits that would be so provided if

(A) the amount of the member's lifetime retirement benefits were determined without any reduction dependent on the benefits payable after the death of the member or on circumstances that are relevant in determining such death benefits, and

(B) the maximum amount of retirement benefits that are permissible under paragraph (*d*) were payable to the member's spouse or former spouse after the death of the member;"

Additional bridging benefits

(*l*) bridging benefits in excess of bridging benefits that are permissible under paragraph (*b*) (referred to in this paragraph as "additional bridging benefits") provided to a member where

(i) the additional bridging benefits would be permissible under paragraph (*b*) if

(A) the formula in subparagraph (*b*)(ii) were replaced by the formula "A/12 × C", and

(B) the description of A in subparagraph (*b*)(ii) were read as follows:

"A" is 40% of the Year's Maximum Pensionable Earnings for the year in which the bridging benefits commence to be paid to the member,"

(ii) the additional bridging benefits are provided in lieu of all or a proportion of the benefits that would otherwise be payable under the provision with respect to the member, and

(iii) the present value (at the time retirement benefits under the provision commence to be paid to the member) of all benefits provided under the provision with respect to the member does not exceed the present value (at that time) of the ben-

efits that would be so provided if the additional bridging benefits were not provided;

History: S. 8503(2)(*l*)(i) and (ii) were amended by P.C. 2001-153, SOR/2001-67, dated January 30, 2001, applicable after June 4, 1997. S. 8503(2)(*l*)(i) and (ii) formerly read:

"(i) the additional bridging benefits would be permissible under paragraph (*b*) if the formula set out in subparagraph (ii) thereof were replaced by the formula 'A × C',

(ii) the additional bridging benefits are provided in lieu of a proportion of the lifetime retirement benefits that would otherwise be payable under the provision to the member and any benefits related thereto payable after the death of the member, and"

Survivor Bridging Benefits

(*l*.1) retirement benefits (in this paragraph referred to as "survivor bridging benefits") provided to a beneficiary of a member after the death of the member where

(i) the beneficiary is a spouse or common-law partner or former spouse or common-law partner of the member,

(ii) the survivor bridging benefits are payable at the election of the beneficiary, and

(iii) the survivor bridging benefits would be in accordance with paragraph (*l*) if the beneficiary were a member of the plan;

History: S. 8503(2)(*l*.1)(i) was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, by replacing the words "spouse or former spouse" with the words "spouse or common-law partner or former spouse or common-law partner", applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 8503(2)(*l*.1) was added by P.C. 2001-153, SOR/2001-67, dated January 30, 2001, applicable after June 4, 1997.

Commutation of benefits

(*m*) the payment with respect to a member of a single amount in full or partial satisfaction of the member's entitlement to other benefits under the provision, where the single amount does not exceed the total of

(i) the present value (at the particular time determined in accordance with subsection (2.1)) of

(A) the other benefits that, as a consequence of the payment, cease to be provided, and

(B) benefits, other than benefits referred to in clause (A), that it is reasonable to consider would cease to be provided as a consequence of the payment if

(I) where retirement benefits have not commenced to be paid under the provision to the member at the particular time, the plan provided for the retirement benefits that accrued to the member under the provision to be adjusted to reflect the increase in a general measure of wages and salaries from the particular time to the day on which the benefits commence to be paid, and

(II) the plan provided for periodic cost-of-living adjustments to be made to the retirement benefits payable under the provision to the member to reflect increases in the Consumer Price Index after the retirement benefits commence to be paid (other than increases before the particular time), and

(ii) interest (computed at a reasonable rate) from the particular time to the time the single amount is paid; and

History: S. 8503(2)(*m*) was amended by P.C. 2001-153, SOR/2001-67, dated January 30, 2001, applicable after 1988. S. 8503(2)(*m*) formerly read:

"(*m*) the payment with respect to a member of a single amount in full or partial satisfaction of the member's entitlement to other benefits under the provision, where the single amount does not exceed the present value (at the time the single amount is paid) of

(i) the other benefits that, as a consequence of the payment, cease to be provided, and

(ii) benefits, other than benefits referred to in subparagraph (i), that it is reasonable to consider would cease to be provided as a consequence of the payment if

(A) where retirement benefits have not commenced to be paid under the provision to the member at the time the single amount is paid, the plan provided for the retirement benefits that accrued to the member under the provision to be adjusted to reflect the increase in a general measure of wages and salaries from that time to the day on which the benefits commence to be paid, and

(B) the plan provided for periodic cost-of-living adjustments to be made to the retirement benefits payable under the provision to the member to reflect increases in the Consumer Price Index after the retirement benefits commence to be paid (other than increases before the time the single amount is paid); and"

[Idem]

(*n*) the payment, with respect to an individual after the death of a member, of a single amount in full or partial satisfaction of the individual's entitlement to other benefits under the provision, where

(i) the individual is a beneficiary of the member,

(ii) the single amount does not exceed the total of

(A) the present value (at the particular time determined in accordance with subsection (2.1)) of the other benefits that, as a consequence of the payment, cease to be provided, and

(B) interest (computed at a reasonable rate) from the particular time to the time the single amount is paid, and

(iii) if the other benefits in respect of which the single amount is paid include benefits described in paragraph (*e*) and the beneficiary was a spouse or common-law partner or former spouse or common-law partner of the member at the time of the member's death, the single amount is not transferred from the plan directly to another registered pension plan, a registered retirement savings plan or a registered retirement income fund except with the approval of the Minister.

History: S. 8503(2)(*n*)(iii) was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, by replacing the words "spouse or former spouse" with the words "spouse or common-law partner or former spouse or common-law partner", applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 8503(2)(*n*)(ii) was amended by P.C. 2001-153, SOR/2001-67, dated January 30, 2001, applicable after 1988. S. 8503(2)(*n*)(ii) formerly read:

"(ii) the single amount does not exceed the present value (at the time the single amount is paid) of the other benefits that, as a consequence of the payment, cease to be provided, and"

S. 8503(2)(n)(iii) was amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, by adding "or a registered retirement income fund", applicable with respect to payments made after April 5, 1994.

S. 8503(2) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Registered Plans Directorate Newsletters: No. 94-2, Technical questions and answers; No. 92-12, Commutation and opting out of a pension plan; No. 92-6, Pre-reform disability and bridging benefits; No. 92-5, Pre-reform death benefits.

Rule for Commutation of Benefits

(2.1) For the purpose of determining the limit on a single amount that can be paid with respect to an individual under paragraph (2)(*m*) or (*n*), the particular time referred to in that paragraph is

(*a*) except where paragraph (*b*) applies, the time the single amount is paid; and

(*b*) an earlier time than the time the single amount is paid, where

(i) the amount is based on a determination of the actuarial value (at the earlier time) of the individual's benefits,

(ii) the use of the earlier time in determining the actuarial value

(A) is required by the *Pension Benefits Standards Act, 1985* or a similar law of a province, or

(B) is reasonable having regard to accepted actuarial practice and the circumstances in which the individual acquires the right to the payment, and

(iii) except where clause (ii)(A) applies, the earlier time is no more than two years before the time the single amount is paid.

History: S. 8503(2.1) was added by P.C. 2001-153, SOR/2001-67, dated January 30, 2001, applicable after 1988.

Conditions Applicable to Benefits

(3) For the purposes of subsection 8501(2) and subparagraph 8502(*c*)(i), the following conditions are applicable in respect of the benefits provided under each defined benefit provision of a pension plan:

Regulations: 8500(7).

Eligible service

(*a*) the only lifetime retirement benefits provided under the provision to a member (other than additional lifetime retirement benefits provided to a member because the member is totally and permanently disabled at the time the member's retirement benefits commence to be paid) are lifetime retirement benefits provided in respect of one or more of the following periods (other than the portion of a period that is after the calendar year in which the member attains 71 years of age), namely,

(i) a period throughout which the member is employed in Canada by, and receives remuneration from, an employer who participates in the plan,

(ii) a period throughout which the member was employed in Canada by, and received remuneration from, a predecessor employer to an employer who participates in the plan,

(iii) an eligible period of temporary absence of the member with respect to an employer who participates in the plan or a predecessor employer to such an employer,

(iv) a period of disability of the member subsequent to a period described in subparagraph (i) where, throughout such part of the period of disability as is after 1990, the member is not connected with an employer who participates in the plan,

(v) a period in respect of which

(A) benefits that are attributable to employment of the member with a former employer accrued to the member under a defined benefit provision of another registered pension plan, or

(B) contributions were made by or on behalf of the member under a money purchase provision of another registered pension plan,

where the member has ceased to be a member of that other plan,

(vi) a period throughout which the member was employed in Canada by a former employer where the period was an eligibility period for the participation of the member in another registered pension plan, and

(vii) a period acceptable to the Minister throughout which the member is employed outside Canada;

History: S. 8503(3)(*a*), the portion before subparagraph (i) was replaced by S.C. 2007, c. 35, s. 83(1), applicable to benefits that are provided or payable after 2007. S. 8503(3)(*a*), the portion before subparagraph (i) formerly read:

"(*a*) the only lifetime retirement benefits provided under the provision to a member (other than additional lifetime retirement benefits provided to a member because the member is totally and permanently disabled at the time the member's retirement benefits commence to be paid) are lifetime retirement benefits provided in respect of one or more of the following periods,"

Information Circulars: IC 98-2 Prescribed Compensation for Registered Pension Plans.

Benefit accruals after pension commencement

(*b*) benefits are not provided under the provision (in this paragraph referred to as the "particular provision") to a member in respect of a period that is after the day on which retirement benefits commence to be paid to the member under a defined benefit provision of

(i) the plan, or

(ii) any other registered pension plan if

(A) an employer who participated under the particular provision for the benefit of the member, or

(B) an employer who does not deal at arm's length with an employer referred to in clause (A)

has participated under the defined benefit provision of the other plan for the benefit of the member;

Early retirement

(*c*) where lifetime retirement benefits commence to be paid under the provision to a member at any time before

(i) in the case of a member whose benefits are provided in respect of employment in a public safety occupation, the earliest of

(A) the day on which the member attains 55 years of age,

(B) the day on which the member has 25 years of early retirement eligibility service in relation to the provision,

(C) the day on which the aggregate of the member's age (measured in years, including any fraction of a year) and years of early retirement eligibility service in relation to the provision is equal to 75, and

(D) if the member was not, at any time after 1990, connected with any employer who has participated in the plan, the day on which the member becomes totally and permanently disabled, and

(ii) in any other case, the earliest of

(A) the day on which the member attains 60 years of age,

(B) the day on which the member has 30 years of early retirement eligibility service in relation to the provision,

(C) the day on which the aggregate of the member's age (measured in years, including any fraction of a year) and years of early retirement eligibility service in relation to the provision is equal to 80, and

(D) if the member was not, at any time after 1990, connected with any employer who has participated in the plan, the day on which the member becomes totally and permanently disabled,

the amount (expressed on an annualized basis) of lifetime retirement benefits payable to the member for each calendar year does not exceed the amount that is determined for the year by the formula

$$X \times (1 - .0025 \times Y)$$

where

X is the amount (expressed on an annualized basis) of lifetime retirement benefits that would be payable to the member for the year if the benefits were determined without a reduction computed by reference to the member's age, duration of service, or both, and without any other similar reduction, and

Y is the number of months in the period from the day on which lifetime retirement benefits commence to be paid to the member to the earliest of the days that would be determined under clauses (i)(A) to (C) or (ii)(A) to (C), as the case may be, if the member continued in employment with an employer who participates in the plan,

and, for the purposes of this paragraph,

(iii) "early retirement eligibility service" of a member in relation to a defined benefit provision of a pension plan means one or more periods each of which is

(A) a period that is pensionable service of the member under the provision, or

(B) a period throughout which the member was employed by an employer who has participated in the plan or by a predecessor employer to such an employer, and

(iv) "years of early retirement eligibility service" of a member in relation to a defined benefit provision of a pension plan means the aggregate of all amounts each of which is the duration (measured in years, including any fraction of a year) of a period that is early retirement eligibility service of the member in relation to the provision;

Increased benefits for disabled member

(*d*) where the amount of lifetime retirement benefits provided under the provision to a member depends on whether the member is physically or mentally impaired at the time (in this paragraph referred to as the "time of commencement") at which retirement benefits under the provision commence to be paid to the member,

(i) the amount of lifetime retirement benefits payable if the member

(A) is not totally and permanently disabled at the time of commencement, or

(B) is totally and permanently disabled at the time of commencement and was, at any time after 1990, connected with an employer who has participated in the plan

satisfies the limit that would be determined by the formula set out in paragraph (*c*) if the member were not impaired at the time of commencement, and

(ii) the amount of lifetime retirement benefits payable for a particular month to the member if subparagraph (i) is not applicable does not exceed the amount that is determined for the particular month by the formula

$$\frac{(A + B)}{12} \times C$$

where

A is the amount (expressed on an annualized basis) of lifetime retirement benefits that have accrued under the provision to the member to the time of commencement, determined as if the member were not impaired at the time of commencement and without any reduction computed by reference to the member's age, duration of service or both, and without any other similar reduction,

B is, in the case of a member who attains 65 years of age before the time of commencement, nil, and, otherwise, the amount, if any, by which the lesser of

(A) the amount (expressed on an annualized basis) of lifetime retirement benefits that could reasonably be expected to have accrued to the member to the day on which the member would have attained 65 years of age if the member had survived to

that day and continued in employment and if the member's rate of remuneration had not increased after the time of commencement, and

(B) the amount, if any, by which the Year's Maximum Pensionable Earnings for the calendar year that includes the time of commencement exceeds such amount as is required by the Minister to be determined in respect of benefits provided to the member under other benefit provisions of the plan and under benefit provisions of other registered pension plans

exceeds the amount determined for A, and

C is the greatest of all amounts each of which is the ratio of the Consumer Price Index for a month not before the month that includes the time of commencement and not after the particular month to the Consumer Price Index for the month that includes the time of commencement;

Pre-1991 benefits

(*e*) all benefits provided under the provision in respect of periods before 1991 are acceptable to the Minister and, for the purposes of this condition, any benefits in respect of periods before 1991 that become provided after 1988 with respect to a member who is connected with an employer who participates in the plan or was so connected at any time before the benefits become provided, shall, unless the Minister is notified in writing that the benefits are provided with respect to the member, be deemed to be unacceptable to the Minister;

Determination of retirement benefits

(*f*) the amount of retirement benefits provided under the provision to a member is determined in such a manner that the member's pension credit (as determined under Part LXXXIII) under the provision for a calendar year with respect to an employer is determinable at the end of the year;

Benefit accrual rate

(*g*) if the amount of lifetime retirement benefits provided under the provision to a member is determined, in part, by multiplying the member's remuneration (or a function of the member's remuneration) by an annual benefit accrual rate, or in a manner that is equivalent to that calculation, the annual benefit accrual rate or the equivalent annual benefit accrual rate does not exceed

(i) in the case of a member whose benefits are provided in respect of employment in a public safety occupation and for whom the formula for determining the amount of the lifetime retirement benefits can reasonably be considered to take into account public pension benefits, 2.33 per cent, and

(ii) in any other case, 2 per cent;

History: S. 8503(3)(*g*)(i) was replaced by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable after 2004. S. 8503(3)(*g*)(i) formerly read:

"(i) in the case of a member whose benefits are provided in respect of employment as a firefighter and for whom the formula for determining the amount of the lifetime retirement benefits can reasonably be considered to take into account public pension benefits, 2.33 per cent, and"

S. 8503(3)(*g*) was replaced by P.C. 2003-1920, SOR/2003-396, dated December 3, 2003, applicable after 2002. S. 8503(3)(*g*) formerly read:

"(*g*) where the amount of lifetime retirement benefits provided under the provision to a member is determined, in part, by multiplying the member's remuneration (or a function of the member's remuneration) by an annual benefit accrual rate, or in a manner that is equivalent to such a multiplication, the benefit accrual rate or the equivalent benefit accrual rate, as the case may be, does not exceed 2 per cent;"

Increase in accrued benefits

(*h*) where the amount of lifetime retirement benefits provided to a member in respect of a calendar year depends on

(i) the member's remuneration in subsequent years, or

(ii) the average wage (or other general measure of wages and salaries) for subsequent years,

and this condition has not been waived by the Minister, the formula for determining the amount of lifetime retirement benefits is such that

(iii) the percentage increase from year to year in the amount of lifetime retirement benefits that accrued to the member in respect of the year can reasonably be expected to approximate or be less than the percentage increase from year to year in the member's remuneration or in the average wage (or other general measure of wages and salaries), as the case may be, or

(iv) the condition in subparagraph (iii) is not satisfied only by reason that the formula can reasonably be considered to have been designed taking into account the public pension benefits payable to members,

and, for the purposes of this condition, where in determining the amount of lifetime retirement benefits provided under the provision to a member there is deducted an amount described in subparagraph (*j*)(i), it shall be assumed that the amount so deducted is nil;

[Idem]

(*i*) where the amount of lifetime retirement benefits provided to a member in respect of a calendar year depends on the member's remuneration in other years, the formula for determining the amount of the lifetime retirement benefits is such that any increase in the amount of lifetime retirement benefits that accrued to the member in respect of the year that is attributable to increased remuneration is primarily attributable to an increase in the rate of the member's remuneration;

Offset benefits

(*j*) where

(i) in determining the amount of lifetime retirement benefits provided under the provision to a member there is deducted

(A) the amount of lifetime retirement benefits provided to the member under a benefit provision of a registered pension plan, or

(B) the amount of a lifetime annuity that is provided to the member under a deferred profit sharing plan, and

(ii) a single amount is paid in full or partial satisfaction of the member's entitlement to benefits under the benefit provision referred to in clause (i)(A) or the deferred profit sharing plan referred to in clause (i)(B),

the amount that is so deducted in determining the amount of the member's lifetime retirement benefits under the defined benefit provision includes the amount of lifetime retirement benefits or lifetime annuity that may reasonably be considered to have been foregone as a consequence of the payment of the single amount;

Bridging benefits — Cross-plan restriction

(*k*) bridging benefits are not paid under the provision to a member who receives bridging benefits under another defined benefit provision of the plan (in this paragraph referred to as the "particular plan") or under a defined benefit provision of another registered pension plan, except that this condition is not applicable where it is waived by the Minister or where

(i) bridging benefits are paid to the member under only one defined benefit provision of the particular plan,

(ii) the decision to provide bridging benefits under the particular plan to the member was not made by the member, by persons with whom the member does not deal at arm's length or by the member and such persons, and

(iii) each employer who has participated in any registered pension plan (other than the particular plan) under a defined benefit provision of which the member receives bridging benefits

(A) has not participated in the particular plan, and

(B) has always dealt at arm's length with each employer who has participated in the particular plan,

and, for the purposes of this paragraph, bridging benefits provided under a defined benefit provision of a registered pension plan to the member do not include benefits that are provided on a basis no more favourable than an actuarially equivalent basis in lieu of all or a proportion of the benefits that would otherwise be payable under the provision with respect to the member; and

History: S. 8503(3)(*k*), the portion after subparagraph (iii) was amended by P.C. 2001-153, SOR/2001-67, dated January 30, 2001, applicable after June 4, 1997. S. 8503(3)(*k*), the portion after subparagraph (iii) formerly read:

"and, for the purposes of this paragraph, bridging benefits do not include benefits that are provided on a basis no more favourable than an actuarially equivalent basis in lieu of lifetime retirement benefits and related death benefits; and"

Division of benefits on breakdown of the marriage or common-law partnership

(*l*) if, by reason of a provision of a law described in subparagraph 8501(5)(*b*)(ii), an individual who is a spouse or common-law partner or former spouse or common-law partner of a member becomes entitled to receive all or a portion of the benefits that would otherwise be payable under the defined benefit provision to the member, and paragraph 8501(5)(*d*) applies with respect to the benefits,

(i) the present value of benefits provided under the provision with respect to the member (including, for greater certainty, benefits provided with respect to the individual) is not increased as a consequence of the individual becoming so entitled to benefits, and

(ii) the benefits provided under the provision to the member are not, at any time, adjusted to replace, in whole or in part, the portion of the member's benefits to which the individual has become entitled.

History: S. 8503(3)(*l*) and the heading before it were amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years. S. 8503(3)(*l*) and the heading before it formerly read:

"Division of benefits on marriage breakdown

(*l*) where, by reason of a provision of a law described in subparagraph 8501(5)(*b*)(ii), a spouse or former spouse of a member becomes entitled to receive all or a portion of the benefits that would otherwise be payable under the defined benefit provision to the member, and paragraph 8501(5)(*d*) is applicable in respect of the benefits,

(i) the present value of benefits provided under the provision with respect to the member (including, for greater certainty, benefits provided with respect to the spouse or former spouse) is not increased as a consequence of the spouse or former spouse becoming so entitled to benefits, and

(ii) the benefits provided under the provision to the member are not, at any time, adjusted to replace, in whole or in part, the portion of the member's benefits to which the spouse or former spouse has become entitled."

S. 8503(3) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Registered Plans Directorate Newsletters: No. 93-2, Foreign service newsletter; No. 92-8R, Eligible service; No. 92-7, Pre-reform early retirement provisions and post-retirement indexing; No. 92-6, Pre-reform disability and bridging benefits.

Additional Conditions

(4) For the purposes of section 8501, the following conditions are applicable in respect of each defined benefit provision of a pension plan:

Member contributions

(*a*) where members are required or permitted to make contributions under the provision,

(i) the aggregate amount of current service contributions to be made by a member in respect of a calendar year after 1990, no part of which is a period of disability or an eligible period of reduced pay or temporary absence of the member, does not exceed the lesser of

(A) 9 per cent of the aggregate of all amounts each of which is the member's compensation for the year from an employer who participates in the plan in the year for the benefit of the member, and

(B) the aggregate of $1,000 and 70 per cent of the aggregate of all amounts each of which is the amount that would be the member's pension credit (as determined under Part LXXXIII) for the year under the provision with respect to an employer if section 8302 were read without reference to paragraphs (2)(*b*) and (3)(*g*) thereof,

(ii) the method for determining current service contributions to be made by a member in respect of a calendar year that includes a period of disability or an eligible period of reduced pay or temporary absence of the member (referred to in this subparagraph as "period of reduced services") is consistent with that used for determining contributions in respect of years described in subparagraph (i), except that the member may be permitted or required to make, in respect of periods of reduced services, current service contributions not exceeding the amount reasonably necessary to fund the member's benefits in respect of the period of reduced services, and

(iii) the aggregate amount of contributions to be made by a member in connection with benefits that, as a consequence of a transaction, event or circumstance occurring at a particular time, become provided under the provision in respect of periods before that time does not exceed the amount reasonably necessary to fund such benefits;

Pre-payment of member contributions

(*b*) the contributions that are made under the provision by a member in respect of a calendar year are not paid before the year;

Reduction in benefits and return of contributions

(*c*) where the plan is not established by an enactment of Canada or a province, it includes a stipulation that permits, for the purpose of avoiding revocation of the registration of the plan,

(i) the plan to be amended at any time to reduce the benefits provided under the provision with respect to a member, and

(ii) a contribution that is made under the provision by a member or an employer to be returned to the person who made the contribution,

which stipulation may provide that an amendment to the plan, or a return of contributions, is subject to the approval of the authority administering the *Pension Benefits Standards Act, 1985* or a similar law of a province;

Undue deferral of payment

(*d*) each single amount that is payable after the death of a member is paid as soon as is practicable after the member's death (or, in the case of a single amount permitted by reason of paragraph (2)(*j*), after all other benefits have been paid);

Evidence of disability

(*e*) where additional lifetime retirement benefits are provided under the provision to a member because the member is totally and permanently disabled, the additional benefits are not paid before the plan administrator has received from a medical doctor who is licensed to practise under the laws of a province or of the place where the member resides a written report providing the information on the medical condition of the member taken into account by the administrator in determining that the member is totally and permanently disabled; and

(*f*) where lifetime retirement benefits are provided under the provision to a member in respect of a period of disability of the member, the benefits, to the extent that they would not be in accordance with paragraph (3)(*a*) if that paragraph were read without reference to subparagraph (iv) thereof, are not paid before the plan administrator has received from a medical doctor who is licensed to practise under the laws of a province or of the place where the member resides a written report providing the information on the medical condition of the member taken into account by the administrator in determining that the period is a period of disability.

History: S. 8503(4)(c) was amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable after 1988. S. 8503(4)(c) formerly read:

"(*c*) the plan includes a stipulation that permits

(i) the plan to be amended at any time to reduce the benefits provided under the provision with respect to a member, and

(ii) a contribution that is made under the provision by a member or an employer to be returned to the person who made the contribution

to avoid revocation of the registration of the plan;"

S. 8503(4)(e) and (f) were added by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable with respect to benefits that commence to be paid after April 5, 1994.

S. 8503(4)(e) and (f) were revoked by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable after 1988. S. 8503(4)(e) and (f) formerly read:

"Evidence of disability

(*e*) where the amount of lifetime retirement benefits provided under the provision to a member who is totally and permanently disabled exceeds the amount of lifetime retirement benefits that would be provided if the member were not totally and permanently disabled, the additional benefits are not paid before the plan administrator has received a written certification from a medical doctor who is licensed to practise under the laws of a province or of the place where the member resides, that the member is totally and permanently disabled; and

[Idem]

(*f*) where lifetime retirement benefits are provided under the provision to a member in respect of a period of disability of the member, the benefits, to the extent that they would not be in accordance with paragraph (3)(*a*) if that paragraph were read without reference to subparagraph (iv) thereof, are not paid before the plan administrator has received a written certification from a medical doctor who is licensed to practise under the laws of a province or of the place where the member resides, that the period is a period of disability."

S. 8503(4) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Registered Plans Directorate Newsletters: No. 94-2, Technical questions and answers.

Waiver of Member Contribution Condition

(5) The Minister may waive the conditions in paragraph (4)(*a*) where member contributions under a defined benefit provision of a pension plan are determined in a manner acceptable to the Minister and it is reasonable to

expect that, on a long-term basis, the aggregate of the regular current service contributions made under the provision by all members will not exceed 1/2 of the amount that is required to fund the aggregate benefits in respect of which those contributions are made.

History: S. 8503(5) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Pre-Retirement Death Benefits

(6) A pension plan may provide, in the case of a member who dies before retirement benefits under a defined benefit provision of the plan commence to be paid to the member but after becoming eligible to have retirement benefits commence to be paid, benefits under the provision to the beneficiaries of the member where the benefits would be in accordance with subsection (2) if retirement benefits under the provision had commenced to be paid to the member immediately before the member's death.

History: S. 8503(6) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Registered Plans Directorate Newsletters: No. 92-5, Pre-reform death benefits.

Commutation of Lifetime Retirement Benefits

(7) Where a pension plan permits a member to receive a single amount in full or partial satisfaction of the member's entitlement to lifetime retirement benefits under a defined benefit provision of the plan, the following rules apply:

(*a*) the condition in subparagraph (2)(*b*)(i) that the payment of bridging benefits under the provision not commence before lifetime retirement benefits commence to be paid under the provision to the member is not applicable where, before the member's lifetime retirement benefits commence to be paid, a single amount is paid in full satisfaction of the member's entitlement to the lifetime retirement benefits; and

(*b*) such part of the member's lifetime retirement benefits as remains payable after a single amount is paid in full satisfaction of the member's entitlement to lifetime retirement benefits that would otherwise be payable after the member attains a particular age shall be deemed, for the purposes of the conditions in this section, to be lifetime retirement benefits and not to be bridging benefits.

History: S. 8503(7) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Registered Plans Directorate Newsletters: No. 04-1, Transfers from a Defined Benefit Provision to a Money Purchase Provision, an RRSP, or a RRIF and Transfers between Defined Benefit Provisions; No. 94-2, Technical questions and answers.

Bridging Benefits and Election

(7.1) Where a pension plan permits a member, or a spouse or common-law partner or former spouse or common-law partner of the member, to elect to receive benefits described in any of paragraphs (2)(*b*), (*l*) or (*l.1*) under a defined benefit provision of the plan on a basis no more favourable than an actuarially equivalent basis in lieu of all or a proportion of the benefits that would otherwise be payable under the provision with respect to the member, the following rules apply:

(*a*) the condition in subparagraph (2)(*b*)(i) that the payment of bridging benefits under the provision not commence before lifetime retirement benefits commence to be paid under the provision to the member does not apply if, as a consequence of the election, no lifetime retirement benefits remain payable under the provision to the member; and

(*b*) for the purpose of determining whether retirement benefits provided under the provision to beneficiaries of the member are in accordance with paragraphs (2)(*c*), (*d*) and (*k*), the election may be disregarded.

History: S. 8503(7.1), the portion before paragraph (*a*) was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, by replacing the words "spouse or former spouse" with the words "spouse or common-law partner or former spouse or common-law partner", applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 8503(7.1) was added by P.C. 2001-153, SOR/2001-67, dated January 30, 2001, applicable after June 4, 1997.

Suspension or Cessation of Pension

(8) A pension plan may provide for

(*a*) the suspension of payment of a member's retirement benefits under a defined benefit provision of the plan where

(i) the retirement benefits payable to the member after the suspension are not altered by reason of the suspension, or

(ii) subsection (9) is applicable in respect of the member's retirement benefits; and

(*b*) the cessation of payment of any additional benefits that are payable to a member under a defined benefit provision of the plan because of a physical or mental impairment of the member or the termination of the member's employment under a downsizing program (within the meaning assigned by subsection 8505(1)).

History: S. 8503(8)(b) was amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable after 1988. S. 8503(8)(b) formerly read:

"(*b*) the cessation of payment of any additional benefits that are payable under a defined benefit provision of the plan to a member by reason of a physical or mental impairment of the member at the time the member's retirement benefits commence to be paid."

S. 8503(8) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Re-Employed Member

(9) Subject to subsection (10), where a pension plan provides, in the case of a member who becomes an employee of a participating employer after the member's retirement benefits under a defined benefit provision of the plan have commenced to be paid, that

(*a*) payment of the member's retirement benefits under the provision is suspended while the member is employed by a participating employer, and

(*b*) the amount of retirement benefits payable to the member after the suspension is redetermined

(i) to include benefits in respect of all or a part of the period throughout which payment of the member's benefits was suspended,

(i.1) where the retirement benefits payable under the provision to the member after the suspension are not adjusted by any cost-of-living or similar adjustments in respect of the period throughout which payment of the member's benefits was suspended, to take into account the member's remuneration from the employer for the period throughout which payment of the benefits was suspended,

(ii) where the member was totally and permanently disabled at the time the member's retirement benefits commenced to be paid, to include benefits in respect of all or a part of the period of disability of the member,

(iii) where the amount of the member's retirement benefits was previously determined with a reduction computed by reference to the member's age, duration of service or both, or with any other similar reduction, by redetermining the amount of the reduction, or

(iv) where payment of the member's retirement benefits resumes after the member attains 65 years of age, by applying an adjustment for the purpose of compensating, in whole or in part, for the payments foregone by the member after attaining 65 years of age,

the following rules apply:

(*c*) the condition in paragraph (3)(*b*) is not applicable in respect of benefits provided under the provision to the member in respect of a period throughout which payment of the member's benefits is suspended,

(*d*) where the member was totally and permanently disabled at the time the member's retirement benefits commenced to be paid, the condition in paragraph (3)(*b*) is not applicable in respect of benefits provided under the provision to the member in respect of a period of disability of the member,

(*e*) the conditions in paragraphs (2)(*b*) and (3)(*c*) and (*d*) and section 8504 are applicable in respect of benefits payable under the provision to the member after a suspension of the member's retirement benefits as if the member's retirement benefits had not previously commenced to be paid,

(*f*) for the purpose of paragraph 8502(*c*) as it applies in respect of benefits provided under the provision on the death of the member during or after a period throughout which payment of the member's benefits is suspended, subsections (2) and (6) are applicable as if the member's retirement benefits had not commenced to be paid before the period, and

(*g*) the provisions in paragraph (2)(*m*), Part LXXXIII and subsection 8517(4) that depend on whether the member's retirement benefits have commenced to be paid apply to past service events, commutations and transfers occurring in the period in which the member's benefits are suspended as if the member's benefits had not previously commenced to be paid.

History: S. 8503(9)(*g*) was added by S.C. 2007, c. 35, s. 83(2), applicable to benefits that are provided or payable after 2007.

S. 8503(9)(b)(i.1) was added by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable after 1988.

S. 8503(9) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Registered Plans Directorate Newsletters: No. 92-6, Pre-reform disability and bridging benefits.

Re-Employed Member — Special Rules Not Applicable

(10) Subsection (9) does not apply in respect of benefits provided under a defined benefit provision of a pension plan to a member unless the terms of the plan that provide for the redetermination of the amount of the member's retirement benefits do not apply where retirement benefits have, at any time, been paid under the provision to the member while the member was an employee of a participating employer.

History: S. 8503(10) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Re-Employed Member — Anti-Avoidance

(11) Where a member of a registered pension plan has become an employee of a participating employer after the member's retirement benefits under a defined benefit provision of the plan have commenced to be paid and it is reasonable to consider that one of the main reasons for the employment of the member is to enable the member to benefit from terms of the plan that provide for a redetermination of the amount of the member's retirement benefits provided in respect of a period before the benefits commenced to be paid, the plan becomes a revocable plan at the time the payment of the member's benefits resumes.

History: S. 8503(11) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Special Rules for Member Aged 70 or 71 in 2007

(11.1) Where

(*a*) a member of a registered pension plan attained 69 years of age in 2005 or 2006,

(*b*) the member's retirement benefits under a defined benefit provision of the plan commenced to be paid to the member in the year in which the member attained 69 years of age,

(*c*) the member's retirement benefits are suspended as of any particular time in 2007, and

(*d*) the member was employed with a participating employer from the time the member's retirement benefits commenced to be paid to the particular time,

the following rules apply:

(*e*) subsections (9) and (11) shall apply with respect to the member as though the member became an employee of the participating employer at the particular time, and

(*f*) for the purpose of subsection (10), retirement benefits paid under the provision to the member before the particular time shall be disregarded.

History: S. 8503(11.1) was added by S.C. 2007, c. 29, s. 35(2), applicable after 2006.

Limits Dependent On Consumer Price Index

(12) Benefits provided under a defined benefit provision of a pension plan that are benefits to which a condi-

tion in any of subparagraphs (2)(*b*)(ii) and (*e*)(v) and (vi) and (3)(*d*)(ii) is applicable shall be deemed to comply with the condition where they would so comply if the Consumer Price Index ratio computed as part of the formula that applies for the purpose of the condition were replaced by a substantially similar measure of the change in the Consumer Price Index.

History: S. 8503(12) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Statutory Plans — Special Rules

(13) Notwithstanding subsection (3),

(*a*) for the purposes of the condition in paragraph (3)(*b*) as it applies in respect of benefits provided under the pension plan established by the *Public Service Superannuation Act*, the reference to "any other registered pension plan" in subparagraph (3)(*b*)(ii) does not include the pension plans established by the *Canadian Forces Superannuation Act* and the *Royal Canadian Mounted Police Superannuation Act*; and

(*b*) the condition in paragraph (3)(*c*) does not apply in respect of benefits provided under the pension plan established by the *Canadian Forces Superannuation Act*.

History: S. 8503(13) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Artificially Reduced Pension Adjustments

(14) Where

(*a*) the amount of lifetime retirement benefits provided under a defined benefit provision of a registered pension plan to a member depends on the member's remuneration,

(*b*) remuneration (in this subsection referred to as "excluded remuneration") of certain types is disregarded for the purpose of determining the amount of the member's lifetime retirement benefits, and

(*c*) it can reasonably be considered that one of the main reasons that remuneration in the form of excluded remuneration was paid to the member by an employer at any time was to artificially reduce a pension credit of the member under the provision with respect to the employer,

the following rules apply for the purposes of the conditions in subsection 8504(1):

(*d*) the member shall be deemed to have been connected with the employer while the member was employed by the employer, and

(*e*) the member shall be deemed not to have received such remuneration as is excluded remuneration.

History: S. 8503(14) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Past Service Employer Contributions

(15) Where

(*a*) a contribution that is made by an employer to a registered pension plan is made, in whole or in part, in respect of benefits (in this subsection referred to as "past service benefits") provided under the plan to a member in respect of a period before 1990 and before the calendar year in which the contribution is made,

(*b*) the contribution is made

(i) after December 10, 1989, or

(ii) before December 11, 1989 where the contribution has not, before that date, been approved by the Minister under paragraph 20(1)(*s*) of the Act, and

(*c*) it is reasonable to consider that all or substantially all of such portion of the contribution as is in respect of past service benefits was paid by the employer, with the consent of the member, in lieu of a payment or other benefit to which the member would otherwise be entitled,

the plan becomes, for the purposes of paragraph 147.1(11)(*c*) of the Act, a revocable plan on the later of December 11, 1989 and the day immediately before the day on which the contribution is made.

History: S. 8503(15) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Definitions

(16) The following definitions apply in this subsection and in subsections (17) to (23).

"*qualifying period*" of a member under a defined benefit provision of a pension plan means a period throughout which the member is employed by an employer who participates in the plan but does not include any period that is before the day that is the first day, on or after the later of the following days, in respect of which retirement benefits are provided under the provision to the member:

(*a*) the day on which retirement benefits first commenced to be paid to the member under the provision; and

(*b*) the member's specified eligibility day under the provision.

History: S. 8503(16), the definition "qualifying period" was added by S.C. 2007, c. 35, s. 83(3), applicable to benefits that are provided or payable after 2007.

"*specified eligibility day*" of a member under a defined benefit provision of a pension plan means the earlier of

(*a*) the later of

(i) the day on which the member attains 55 years of age, and

(ii) the day on which the member attains the earliest age at which payment of the member's lifetime retirement benefits may commence under the terms of the provision without a reduction computed by reference to the member's age, duration of service, or both (and without any other similar reduction), otherwise than because of the member being totally and permanently disabled; and

(*b*) the day on which the member attains 60 years of age.

History: S. 8503(16), the definition "specified eligibility day" was added by S.C. 2007, c. 35, s. 83(3), applicable to benefits that are provided or payable after 2007.

Bridging Benefits Payable on a Stand-alone Basis

(17) The condition in subparagraph (2)(*b*)(i) that bridging benefits be payable to a member under a defined benefit provision of a pension plan for a period beginning no earlier than the time lifetime retirement benefits commence to be paid under the provision to the member does not apply where the following conditions are satisfied:

(*a*) the bridging benefits do not commence to be paid before the member's specified eligibility day under the provision;

(*b*) the plan provides that bridging benefits are payable under the provision to the member only for calendar months

(i) at any time in which the member is employed by an employer who participates in the plan, or

(ii) that begin on or after the time the member's lifetime retirement benefits under the provision commence to be paid;

(*c*) the member was not, at any time before the time at which the bridging benefits commence to be paid, connected with an employer who participates in the plan; and

(*d*) the plan is not a designated plan.

History: S. 8503(17) was added by S.C. 2007, c. 35, s. 83(3), applicable to benefits that are provided or payable after 2007.

Rules of Application

(18) Where bridging benefits under a defined benefit provision of a pension plan commence to be paid to a member in circumstances to which subsection (17) applies, the following rules apply:

(*a*) if the member dies before lifetime retirement benefits under the provision commence to be paid to the member, subsections (2) and (6) apply in respect of benefits provided under the provision on the death of the member as if the bridging benefits had not commenced to be paid before the member's death; and

(*b*) the provisions in paragraph (2)(*m*), Part LXXXIII and subsection 8517(4) that depend on whether the member's retirement benefits have commenced to be paid apply to past service events, commutations and transfers occurring before lifetime retirement benefits under the provision commence to be paid to the member as if the bridging benefits had not commenced to be paid.

History: S. 8503(18) was added by S.C. 2007, c. 35, s. 83(3), applicable to benefits that are provided or payable after 2007.

Benefit Accruals After Pension Commencement

(19) Paragraph (3)(*b*) does not apply to retirement benefits (in this subsection and in subsections (20) and (21) referred to as "additional benefits") provided under a defined benefit provision of a pension plan to a member of the plan if the following conditions are satisfied:

(*a*) the additional benefits are provided in respect of all or part of a qualifying period of the member under the provision;

(*b*) the amount of retirement benefits payable to the member under the provision for each whole calendar month in the qualifying period does not exceed 5% of the amount (expressed on an annualized basis) of retirement benefits that have accrued under the provision to the member to the beginning of the month, determined without a reduction computed by reference to the member's age, duration of service, or both, and without any other similar reduction (except that, if the plan limits the amount of pensionable service of a member or prohibits the provision of benefits in respect of periods after a member attains a specific age or combination of age and pensionable service, this condition does not apply to any calendar month in respect of which no benefits can be provided to the member because of the limit or prohibition, as the case may be);

(*c*) no part of the additional benefits are provided as a consequence of a past service event, unless the benefits are provided in circumstances to which subsection 8306(1) would apply if no qualifying transfers were made in connection with the past service event;

(*d*) the member was not, at any time before the additional benefits become provided, connected with an employer who participates in the plan; and

(*e*) the plan is not a designated plan.

History: S. 8503(19) was added by S.C. 2007, c. 35, s. 83(3), applicable to benefits that are provided or payable after 2007.

Redetermination of Benefits

(20) Where the amount of retirement benefits payable under a defined benefit provision of a pension plan to a member is redetermined to include additional benefits provided to the member in respect of a qualifying period of the member under the provision, the conditions in paragraph (2)(*b*) and section 8504 apply in respect of benefits payable under the provision to the member after the redetermination as if the member's retirement benefits had first commenced to be paid at the time of the redetermination.

History: S. 8503(20) was added by S.C. 2007, c. 35, s. 83(3), applicable to benefits that are provided or payable after 2007.

Rules of Application

(21) Where additional benefits are provided under a defined benefit provision of a pension plan to a member in respect of a qualifying period of the member under the provision, the following rules apply:

(*a*) if the qualifying period ends as a consequence of the member's death, subsections (2) and (6) apply in respect of benefits provided under the provision on the death of the member as if the member's retirement benefits had not commenced to be paid before the member's death; and

(*b*) the provisions in paragraph (2)(*m*), Part LXXXIII and subsection 8517(4) that depend on whether the member's retirement benefits have commenced to be paid apply to past service events, commutations and transfers occurring in the qualifying period as if the member's retirement benefits had not commenced to be paid.

History: S. 8503(21) was added by S.C. 2007, c. 35, s. 83(3), applicable to benefits that are provided or payable after 2007.

Anti-avoidance

(22) Subsections (20) and (21) do not apply where it is reasonable to consider that one of the main reasons for the provision of additional benefits to the member is to obtain the benefit of any of those subsections.

History: S. 8503(22) was added by S.C. 2007, c. 35, s. 83(3), applicable to benefits that are provided or payable after 2007.

Cross-plan Rules

(23) Where a member is provided with benefits under two or more associated defined benefit provisions, the determination of whether the conditions in subsections (17) and (19) are satisfied in respect of benefits payable or provided to the member under a particular associated provision shall be made on the basis of the following assumptions:

(*a*) benefits payable to the member under each of the other associated provisions were payable under the particular associated provision;

(*b*) if, before the member's specified eligibility day (determined without reference to this paragraph) under the particular associated provision, the member had commenced to receive retirement benefits under another associated provision on or after the member's specified eligibility day under that provision, the member's specified eligibility day under the particular associated provision were the member's specified eligibility day under that other associated provision; and

(*c*) if one or more of the other associated provisions is in a designated plan, the plan that includes the particular provision were also a designated plan.

History: S. 8503(23) was added by S.C. 2007, c. 35, s. 83(3), applicable to benefits that are provided or payable after 2007.

Associated Defined Benefit Provisions

(24) For the purpose of subsection (23), a defined benefit provision is associated with another defined benefit provision (other than a provision that is not in a registered pension plan) if

(*a*) the provisions are in the same pension plan; or

(*b*) the provisions are in separate pension plans and

(i) there is an employer who participates in both plans, or

(ii) an employer who participates in one of the plans does not deal at arm's length with an employer who participates in the other plan.

History: S. 8503(24) was added by S.C. 2007, c. 35, s. 83(3), applicable to benefits that are provided or payable after 2007.

Subsection (24) Not Applicable

(25) A particular defined benefit provision of a pension plan is not associated with a defined benefit provision of another pension plan if it is unreasonable to expect the benefits under the particular provision to be coordinated with the benefits under the other provision and the Minister has agreed not to treat the particular provision as being associated with the other provision.

History: S. 8503(25) was added by S.C. 2007, c. 35, s. 83(3), applicable to benefits that are provided or payable after 2007.

MAXIMUM BENEFITS

Lifetime Retirement Benefits

8504. (1) For the purposes of subparagraph 8502(*c*)(i), the following conditions are applicable in respect of the lifetime retirement benefits provided to a member under a defined benefit provision of a pension plan:

(*a*) the amount (expressed on an annualized basis) of lifetime retirement benefits payable to the member for the calendar year (in this paragraph referred to as the "year of commencement") in which the lifetime retirement benefits commence to be paid does not exceed the aggregate of

(i) the aggregate of all amounts each of which is, in respect of a calendar year after 1990 (in this paragraph referred to as a "specified year") in which the member was, at any time, connected with an employer who participated in the plan in the year for the benefit of the member, the lesser of

(A) the amount determined by the formula

$$.02 \times A \times \frac{B}{C}$$

where

A is the aggregate of all amounts each of which is the member's compensation for the specified year from an employer who participated under the provision in the year for the benefit of the member,

B is the greatest of all amounts each of which is the average wage for a calendar year not before the specified year and not after the year of commencement, and

C is the average wage for the specified year, and

(B) the amount determined by the formula

$$D \times E$$

where

D is the defined benefit limit for the year of commencement, and

E is the fraction of the specified year that is pensionable service of the member under the provision, and

(ii) the amount determined by the formula

$$F \times G$$

where

F is the lesser of

(A) 2 per cent of the member's highest average compensation (computed under subsection (2)) for the purpose of the provision, indexed to the year of commencement, and

(B) the defined benefit limit for the year of commencement, and

G is the aggregate of all amounts each of which is the duration (measured in years, including any fraction of a year) of a period that is pensionable service of the member under the provision and no part of which is in a specified year; and

(*b*) the amount of lifetime retirement benefits payable to the member for a particular calendar year after the year in which the lifetime retirement benefits commence to be paid does not exceed the product of

(i) the aggregate of the amounts determined under subparagraphs (*a*)(i) and (ii), and

(ii) the greatest of all amounts each of which is the ratio of

(A) the average Consumer Price Index for a calendar year not earlier than the calendar year in which the lifetime retirement benefits commence to be paid and not later than the particular year

to

(B) the average Consumer Price Index for the calendar year in which the lifetime retirement benefits commence to be paid.

History: S. 8504(1) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Information Circulars: IC 98-2 Prescribed Compensation for Registered Pension Plans.

Registered Plans Directorate Newsletters: No. 96-1, Changes to retirement savings limits; No. 92-11, Maximum pension limits; No. 92-7, Pre-reform early retirement provisions and post-retirement indexing.

Highest Average Compensation

(2) For the purposes of subsection (1) and paragraph 8505(3)(*d*), the highest average compensation of a member of a pension plan for the purpose of a defined benefit provision of the plan, indexed to the calendar year (in this subsection referred to as the "year of commencement") in which the member's lifetime retirement benefits under the provision commence to be paid, is,

(*a*) in the case of a member who has been employed for 3 non-overlapping periods of 12 consecutive months each by employers who participated under the provision for the benefit of the member, 1/3 of the greatest of all amounts each of which is the aggregate of the member's total indexed compensation for the purpose of the provision for each of the 36 months in 3 such periods throughout which the member was so employed, and

(*b*) in any other case, the amount determined by the formula

$$12 \times \frac{H}{I}$$

where

H is the aggregate of all amounts each of which is the member's total indexed compensation for the purpose of the provision for a month throughout which the member was employed by an employer who participated under the provision for the benefit of the member, and

I is the number of months for which total indexed compensation is included in the amount determined for H,

and, for the purposes of this subsection, the member's total indexed compensation for a month for the purpose of the provision is the amount determined by the formula

$$J \times \frac{K}{L}$$

where

J is the aggregate of all amounts each of which is such portion of the member's compensation for the calendar year (in this subsection referred to as the "compensation year") that includes the month from an employer who participated under the provision for the benefit of the member as may reasonably be considered to have been received in the month or to otherwise relate to the month,

K is the greatest of all amounts each of which is the average wage for a calendar year not before the later of the compensation year and 1986 and not after the year of commencement, and

L is the average wage for the later of the compensation year and 1986.

History: S. 8504(2), the portion before paragraph (*a*) was replaced by S.C. 2007, c. 35, s. 84(1), applicable to the 2008 and subsequent calendar years. S. 8504(2), the portion before paragraph (*a*) formerly read:

"(2) For the purposes of subsection (1) and paragraph 8505(3)(*d*), the highest average compensation of a member of a pension plan for the purpose of a defined benefit provision of the plan, indexed to the calendar year (in this subsection referred to as the 'year of commencement') in which the member's retirement benefits under the provision commence to be paid, is,"

S. 8504(2) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Registered Plans Directorate Newsletters: No. 92-11, Maximum pension limits.

Alternative Compensation Rules

(3) Lifetime retirement benefits provided to a member under a defined benefit provision of a pension plan shall be deemed to comply with the conditions in subsection (1) where they would so comply if either or both of the following rules were applicable:

(*a*) determine, for the purpose of subsection (2), the member's compensation from an employer for a calendar year by adding to the compensation otherwise determined such portion of the amount of each bonus and retroactive increase in remuneration paid by the employer to the member after the year as may reasonably be considered to be in respect of the year and by deducting therefrom such portion of the amount of each bonus and retroactive increase in remuneration paid by the employer to the member in the year as may reasonably be considered to be in respect of a preceding year; and

(*b*) determine, for the purpose of computing the amount J in subsection (2), the portion of the member's compensation from an employer for a calendar year that may reasonably be considered to relate to a month in the year by apportioning the compensation uniformly over the period in the year in respect of which it was paid.

History: S. 8504(3) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Part-Time Employees

(4) Where the pensionable service of a member under a defined benefit provision of a pension plan includes a period throughout which the member rendered services on a part-time basis to an employer who participates in the plan, the lifetime retirement benefits provided under the provision to the member shall be deemed to comply with the conditions in subsection (1) where they would so comply or be deemed by subsection (3) to so comply if

(*a*) for the purpose of determining the amount J in subsection (2), the member's compensation from an employer for a calendar year in which the member rendered services on a part-time basis to the employer were the amount that it is reasonable to expect would have been the member's compensation for the year from the employer if the member had rendered services to the employer on a full-time basis throughout the period or periods in the year throughout which the member rendered services to the employer, and

(*b*) in determining the amount G in subparagraph (1)(*a*)(ii), the duration of each period were multiplied by a fraction (not greater than one) that measures the services rendered by the member throughout the period to employers who participate in the plan as a proportion of the services that would have been rendered by the member throughout the period to such employers had the member rendered services on a full-time basis,

and, for the purposes of this subsection,

(*c*) where a member of a pension plan has rendered services throughout a period to two or more employers who participate in the plan, the employers shall be deemed to be, throughout the period, the same employer, and

(*d*) where a period is

(i) an eligible period of reduced pay or temporary absence of a member of a pension plan with respect to an employer, or

(ii) a period of disability of the member,

the member shall be deemed to have

(iii) rendered services throughout the period on a regular basis (having regard to the services rendered by the employee before the period) to the employer or employers by whom the member was employed before the period, and

(iv) received remuneration throughout the period at a rate commensurate with the member's rate of remuneration before the period.

History: S. 8504(4) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Retirement Benefits Before Age 65

(5) For the purposes of subparagraph 8502(*c*)(i), the following conditions are applicable in respect of retirement benefits payable under a defined benefit provision of a pension plan to a member of the plan for the period (in this subsection referred to as the "bridging period") from the time the benefits commence to be paid to the time the member attains 65 years of age:

(*a*) the amount (expressed on an annualized basis) of retirement benefits payable to the member for that part of the bridging period that is in the calendar year in which the benefits commence to be paid does not exceed the amount determined by the formula

$$(A \times B) + (0.25 \times C \times \frac{D}{35})$$

where

A is the defined benefit limit for the calendar year in which the benefits commence to be paid,

B is the aggregate of all amounts each of which is the duration (measured in years, including any fraction of a year) of a period that is pensionable service of the member under the provision,

C is the average of the Year's Maximum Pensionable Earnings for the year in which the benefits commence to be paid and for each of the 2 immediately preceding years, and

D is the lesser of 35 and the amount determined for B; and

(*b*) the amount of retirement benefits (expressed on an annualized basis) payable to the member for that part of the bridging period that is in a particular calendar year after the year in which the retirement benefits commence to be paid does not exceed the product of

(i) the amount determined by the formula set out in paragraph (*a*), and

(ii) the greatest of all amounts each of which is the ratio of

(A) the average Consumer Price Index for a calendar year not earlier than the calendar year in which the retirement benefits commence to be paid and not later than the particular year

to

(B) the average Consumer Price Index for the calendar year in which the retirement benefits commence to be paid.

History: S. 8504(5) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Registered Plans Directorate Newsletters: No. 91-5, Transitional rules and other administrative issues for pension plans.

Pre-1990 Benefits

(6) For the purposes of subparagraph 8502(*c*)(i), and subject to subsection (7), the lifetime retirement benefits provided under a defined benefit provision of a pension plan to a member of the plan in respect of pensionable service in a particular calendar year before 1990 (in this subsection referred to as the "benefit year") are subject to the condition that

(*a*) the amount (expressed on an annualized basis) of such lifetime retirement benefits payable to the member for a particular calendar year (in this subsection referred to as the "payment year")

does not exceed

(*b*) the amount determined by the formula

$$\frac{2}{3} \times A \times B \times C$$

where

A is the greater of $1,725 and the defined benefit limit for the year in which the benefits commence to be paid,

B is the aggregate of all amounts each of which is the duration (measured as a fraction of a year) of a period in the benefit year that is pensionable service of the member under the provision, and

C is the greatest of all amounts each of which is the ratio of

(i) the average Consumer Price Index for a calendar year not earlier than the calendar year in which the lifetime retirement benefits commence to be paid and not later than the payment year

to

(ii) the average Consumer Price Index for the calendar year in which the lifetime retirement benefits commence to be paid.

History: S. 8504(6) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Registered Plans Directorate Newsletters: No. 91-5, Transitional rules and other administrative issues for pension plans.

Limit Not Applicable

(7) The condition in subsection (6) is not applicable in respect of lifetime retirement benefits provided to an individual in respect of periods of pensionable service in a particular calendar year if

(*a*) at any time before June 8, 1990, a period in the particular year was pensionable service of the individual under a defined benefit provision of a registered pension plan;

(*b*) on June 7, 1990, the individual was entitled, pursuant to an arrangement in writing, to be provided with lifetime retirement benefits under a defined benefit provision of a registered pension plan in respect of a period in the particular year, whether or not the individual's entitlement was conditional on the individual making contributions under the provision;

(*c*) at the beginning of the particular year, a period in a preceding year was pensionable service of the individual under a defined benefit provision of a registered pension plan, and the individual did not, by reason of disability or leave of absence, render services in the particular year to an employer who participated in the plan with respect to the individual;

(*d*) contributions were made before June 8, 1990 by or on behalf of the individual under a money purchase provision of a registered pension plan in respect of the year; or

(*e*) contributions were made in the year by or on behalf of the individual to a deferred profit sharing plan.

History: S. 8504(7) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Regulations: 8500(7).

Cross-Plan Restrictions

(8) Where an individual is provided with benefits under more than one defined benefit provision, the determination of whether the benefits provided to the individual under a particular defined benefit provision comply with the conditions in subsections (5) and (6) shall be made on the assumption that benefits provided to the individual under each other defined benefit provision (other than a provision that is not included in a registered pension plan) associated with the particular provision were provided under the particular provision.

History: S. 8504(8) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Associated Defined Benefit Provisions

(9) For the purposes of subsection (8), a defined benefit provision is associated with a particular defined benefit provision if

(*a*) the provisions are in the same pension plan, or

(*b*) the provisions are in separate pension plans

(i) there is an employer who participates in both plans,

(ii) an employer who participates in one of the plans does not deal at arm's length with an employer who participates in the other plan, or

(iii) there is an individual who is provided with benefits under both provisions and the individual, or a person with whom the individual does not deal at arm's length, has the power to determine the benefits that are provided under the particular provision,

unless it is unreasonable to expect the benefits under the particular provision to be coordinated with the benefits under the other provision and the Minister has agreed not to treat the other provision as being associated with the particular provision.

History: S. 8504(9) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Excluded Benefits

(10) For the purpose of determining whether lifetime retirement benefits provided under a defined benefit provision of a pension plan comply with the conditions in subsection (1), the following benefits shall be disregarded:

(*a*) additional lifetime retirement benefits payable to a member because the member is totally and permanently disabled at the time the member's retirement benefits commence to be paid; and

(*b*) additional lifetime retirement benefits payable to a member whose retirement benefits commence to be paid after the member attains 65 years of age, where the additional benefits result from an adjustment that is made to offset, in whole or in part, the decrease in the value of lifetime retirement benefits that would otherwise result by reason of the deferral of such benefits after the member attains 65 years of age and the adjustment is not more favourable than

such an adjustment made on an actuarially equivalent basis.

History: S. 8504(10) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

[Idem]

(11) For the purpose of determining whether retirement benefits provided under a defined benefit provision of a pension plan comply with the conditions in subsection (5), the following benefits shall be disregarded:

(*a*) additional lifetime retirement benefits that are described in paragraph (10)(*a*); and

(*b*) bridging benefits payable at the election of a member, where the benefits are provided on a basis that is not more favourable than an actuarially equivalent basis in lieu of all or a proportion of the benefits that would otherwise be payable under the provision with respect to the member.

History: S. 8504(11)(*b*) was amended by P.C. 2001-153, SOR/2001-67, dated January 30, 2001, applicable after June 4, 1997. S. 8504(11)(*b*) formerly read:

"(*b*) bridging benefits payable at the election of a member, where the benefits are provided on a basis that is not more favourable than an actuarially equivalent basis in lieu of a proportion of the lifetime retirement benefits that would otherwise be payable under the provision to the member and any benefits related thereto payable after the death of the member."

S. 8504(11) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

[Idem]

(12) For the purpose of determining whether lifetime retirement benefits provided under a defined benefit provision of a pension plan comply with the condition in subsection (6), additional lifetime retirement benefits that are described in paragraph (10)(*b*) shall be disregarded.

History: S. 8504(12) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Alternative CPI Indexing

(13) The lifetime retirement benefits provided to a member under a defined benefit provision of a pension plan shall be deemed to comply with the condition in paragraph (1)(*b*) where they would so comply, or would be deemed by subsection (3) or (4) to so comply, if the ratio that is determined under subparagraph (1)(*b*)(ii) were replaced by a substantially similar measure of the change in the Consumer Price Index.

History: S. 8504(13) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

[Idem]

(14) The retirement benefits provided to a member under a defined benefit provision of a pension plan shall be deemed to comply with the condition in paragraph (5)(*b*) where they would so comply if the ratio that is determined under subparagraph (5)(*b*)(ii) were replaced by a substantially similar measure of the change in the Consumer Price Index.

History: S. 8504(14) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

[Idem]

(15) The lifetime retirement benefits provided to a member under a defined benefit provision of a pension plan shall be deemed to comply with the condition in subsection (6) where they would so comply if the amount C in the formula set out in paragraph (6)(*b*) were replaced by a substantially similar measure of the change in the Consumer Price Index.

History: S. 8504(15) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

ADDITIONAL BENEFITS ON DOWNSIZING

Downsizing Program

8505. (1) For the purposes of this section, "downsizing program" means the actions that are taken by an employer to bring about a reduction in the employer's workforce, including

(*a*) the termination of employment of employees; and

(*b*) the payment of amounts and the provision of special benefits to employees who elect or are required to terminate their employment.

History: S. 8505(1) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Registered Plans Directorate Newsletters: No. 92-9, Downsizing programs.

Applicability of Downsizing Rules

(2) For the purposes of this section,

(*a*) a downsizing program is an approved downsizing program if the Minister has approved in writing the application of this section in respect of the program;

(*b*) subject to subsection (2.1), an individual is a qualifying individual in relation to an approved downsizing program if

(i) the employment of the individual is terminated while the downsizing program is in effect,

(ii) the individual was not, at any time before the termination of employment, connected with the employer from whom the individual terminated employment, and

(iii) the Minister has approved in writing the application of this section to the individual; and

(*c*) the specified day is, in respect of an approved downsizing program,

(i) the day that is designated by the Minister in writing for the purpose of subparagraph (3)(*c*)(ii), and

(ii) if no such day has been designated, the day that is 2 years after the day on which the Minister approves the application of this section in respect of the downsizing program.

History: S. 8505(2)(b), the portion before subparagraph (i) was amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, to add "subject to subsection (2.1)", applicable with respect to an individual whose employment is terminated after February 14, 1992, other than an individual who, on or before that date,

(*a*) was notified that the individual's employment would be terminated after that date; or

(*b*) elected to terminate employment after that date.

S. 8505(2) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Qualifying Individual — Exclusion

(2.1) An individual whose employment is terminated under an approved downsizing program is not a qualifying individual in relation to the program if, at the time the individual's employment is terminated, it is reasonable to expect that

(*a*) the individual will become employed by, or provide services to,

(i) a person or body of persons from whom the individual terminated employment under the downsizing program, or

(ii) a person or body of persons that does not deal at arm's length with a person or body of persons referred to in subparagraph (i), or

(*b*) a corporation with which the individual is connected will provide services to a person or body of persons referred to in paragraph (*a*) and the individual will be directly involved in the provision of the services,

except that this subsection does not apply with respect to an individual where

(*c*) it is reasonable to expect that

(i) the individual will not be employed or provide services, or

(ii) if paragraph (*b*) is applicable, the corporation will not provide services,

for a period exceeding 12 months, and

(*d*) the Minister has waived the application of this subsection with respect to the individual.

History: S. 8505(2.1) was added by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable with respect to an individual whose employment is terminated after February 14, 1992, other than an individual who, on or before that date,

(*a*) was notified that the individual's employment would be terminated after that date; or

(*b*) elected to terminate employment after that date.

Additional Lifetime Retirement Benefits

(3) Lifetime retirement benefits (in this subsection referred to as "special retirement benefits") that do not comply with the condition in paragraph 8503(3)(*a*) may be provided under a defined benefit provision of a pension plan to a member of the plan who terminates employment after attaining 55 years of age where the following conditions are satisfied:

(*a*) the special retirement benefits are provided pursuant to an approved downsizing program;

(*b*) the member is a qualifying individual in relation to the downsizing program;

(*c*) under the terms of the provision,

(i) retirement benefits will not commence to be paid to the member until the member ceases to be employed by all employers who participate in the plan, and

(ii) retirement benefits will commence to be paid to the member no later than on the specified day;

(*d*) the amount (expressed on an annualized basis) of special retirement benefits payable to the member for a particular calendar year does not exceed the amount that is determined by the formula

$$A \times B \times C$$

where

A is the lesser of

(i) 2 per cent of the member's highest average compensation (computed under subsection 8504(2)) for the purpose of the provision, indexed to the calendar year (in this paragraph referred to as the "year of commencement") in which retirement benefits commence to be paid under the provision to the member, and

(ii) the defined benefit limit for the year of commencement,

B is the lesser of 7 and the amount, if any, by which 65 exceeds the member's age (expressed in years, including any fraction of a year) at termination of employment, and

C is the greatest of all amounts each of which is the ratio of

(i) the average Consumer Price Index for a calendar year not earlier than the year of commencement and not later than the particular year

to

(ii) the average Consumer Price Index for the year of commencement;

(*e*) [Revoked.]

(*f*) the plan

(i) does not permit the commutation of retirement benefits payable to the member, or

(ii) permits the commutation of retirement benefits payable to the member only if the life expectancy of the member is significantly shorter than normal; and

(*g*) lifetime retirement benefits that are permissible only by reason of this subsection are not provided to the member under any other defined benefit provision, unless this condition has been waived by the Minister.

History: S. 8505(3)(*e*) was revoked by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable after 1988. S. 8505(3)(*e*) formerly read:

"(*e*) the plan provides for the termination of payment of the special retirement benefits if, at any time after the benefits commence to be paid, a circumstance described in subsection (5) occurs with respect to the member;"

S. 8505(3) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Information Circulars: IC 98-2 Prescribed Compensation for Registered Pension Plans.

Re-employed Members

(3.1) Where

(*a*) a member of a pension plan becomes an employee of a participating employer after lifetime retirement benefits that are permissible only by reason of subsection (3) have commenced to be paid under a defined benefit provision of the plan to the member, and

(*b*) payment of the member's retirement benefits under the provision is suspended while the member is so employed,

the condition in paragraph (3)(*d*) is applicable in respect of benefits payable under the provision to the member after the suspension as if

(*c*) the member had not become so employed, and

(*d*) payment of the member's retirement benefits had not been suspended.

History: S. 8505(3.1) was added by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable after 1988.

Early Retirement Reduction

(4) Where a member of a pension plan is a qualifying individual in relation to an approved downsizing program, the terms of a defined benefit provision of the plan that determine the amount by which the member's lifetime retirement benefits under the provision are reduced because of the early commencement of the benefits may, under the downsizing program, be modified in such a way that the benefits do not comply with the condition in paragraph 8503(3)(*c*) but would so comply if the member's benefits were provided in respect of employment in a public safety occupation.

History: S. 8505(4) was amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable after 1988. S. 8505(4) formerly read:

"(4) For the purposes of the condition in paragraph 8503(3)(*c*) as it applies in respect of the lifetime retirement benefits provided under a defined benefit provision of a pension plan to a member of the plan, the member shall be deemed to be a person described in subparagraph 8503(3)(*c*)(i) where the following conditions are satisfied:

(*a*) the member is a qualifying individual in relation to the downsizing program;

(*b*) pursuant to the downsizing program, the terms for determining the amount by which the member's lifetime retirement benefits under the provision are reduced on account of the early commencement of the benefits are modified in such a way that they do not, but for this subsection, comply with the condition in paragraph 8503(3)(*c*); and

(*c*) the plan provides that any lifetime retirement benefits that are permissible only by reason of this subsection will cease to be payable if, at any time after the member terminates employment under the downsizing program, a circumstance described in subsection (5) occurs with respect to the member."

S. 8505(4) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Exception for Future Benefits

(5) Subsection (4) does not apply with respect to benefits that are provided to an individual in respect of a period that is after the day on which the individual's employment was terminated under an approved downsizing program.

History: S. 8505(5) and its heading were amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable after 1988. S. 8505(5) and its heading formerly read:

"*Re-Employment*

(5) For the purposes of paragraphs (3)(*e*) and (4)(*c*), the circumstances described with respect to a member of a pension plan are that:

(*a*) the member becomes employed by an employer who participates in the plan or by an employer who is related to an employer who participates in the plan,

(*b*) the member provides services (other than exempt services) to a person referred to in paragraph (*a*), or

(*c*) a corporation with which the member is connected provides services (other than exempt services) to a person referred to in paragraph (*a*) and the member is directly involved in the provision of the services,

and, for the purposes of this subsection, exempt services are services provided pursuant to an agreement to provide services for a period not exceeding 6 months where the Minister has agreed in writing that the services are to be disregarded for the purposes of this subsection."

S. 8505(5) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Alternative CPI Indexing

(6) Special retirement benefits provided to a member under a defined benefit provision of a pension plan shall be deemed to comply with the condition in paragraph (3)(*d*) where they would so comply if the amount C in that paragraph were replaced by a substantially similar measure of the change in the Consumer Price Index.

History: S. 8505(6) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Exclusion from Maximum Pension Rules

(7) For the purpose of determining whether retirement benefits provided under a defined benefit provision of a pension plan comply with the conditions in subsections 8504(1) and (5), lifetime retirement benefits that are permissible only by reason of subsection (3) shall be disregarded.

History: S. 8505(7) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Exemption from Past Service Contribution Rule

(8) Subsection 8503(15) does not apply in respect of a contribution that is made in respect of benefits provided to a qualifying individual pursuant to an approved downsizing program.

History: S. 8505(8) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Money Purchase Provisions

Permissible Benefits

8506. (1) For the purposes of paragraph 8502(*c*), the following benefits may, subject to the conditions specified in respect of each benefit, be provided under a money purchase provision of a pension plan:

Lifetime retirement benefits

(*a*) lifetime retirement benefits provided to a member where the benefits are payable in equal periodic amounts or are not so payable only by reason that

(i) the benefits payable to a member after the death of the member's spouse or common-law partner are less than the benefits that would be payable to the member were the member's spouse or common-law partner alive, or

(ii) the benefits are adjusted, after they commence to be paid, where those adjustments would be in accordance with any of subparagraphs 146(3)(*b*)(iii) to (v) of the Act if the annuity by means of which the lifetime retirement benefits are provided were an annuity under a retirement savings plan;

History: S. 8506(1)(*a*)(ii) was replaced by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, after 2003, except that, in respect of retirement benefits provided under a money purchase provision under an arrangement that was accepted for the purpose of paragraph 8506(2)(*g*) of the Regulations before February 27, 2004, subparagraph 8506(1)(*a*)(ii) is to be read as follows:

"(ii) the benefits are adjusted, after they commence to be paid, where those adjustments are acceptable to the Minister and are similar in nature to the adjustments described in any of subparagraphs 146(3)(*b*)(iii) to (v) of the Act;"

S. 8506(1)(*a*)(ii) formerly read:

"(ii) the benefits are adjusted, after they commence to be paid, where

(A) in the case of retirement benefits provided in accordance with subparagraph (2)(*g*)(i), the adjustments would be in accordance with any of subparagraphs 146(3)(*b*)(iii) to (v) of the Act if the annuity by means of which the lifetime retirement benefits are provided were an annuity under a retirement savings plan, and

(B) in any other case, the adjustments are acceptable to the Minister and are similar in nature to the adjustments permissible under clause (A);"

S. 8506(1)(*a*)(i) was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, by replacing the word "spouse" with the words "spouse or common-law partner", applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year,

each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Bridging benefits

(*b*) bridging benefits provided to a member where the bridging benefits are payable for a period ending no later than the end of the month following the month in which the member attains 65 years of age;

Guarantee period

(*c*) retirement benefits (in this paragraph referred to as "continued retirement benefits") provided to one or more beneficiaries of a member who dies after retirement benefits under the provision commence to be paid to the member where

(i) the continued retirement benefits are payable for a period beginning after the death of the member and ending no later than 15 years after the day on which retirement benefits commence to be paid under the provision to the member, and

(ii) the total amount of continued retirement benefits payable under the provision for each month does not exceed the amount of retirement benefits (other than benefits permissible under paragraph (*e*.1)) that would have been payable under the provision for the month to the member if the member were alive;

History: S. 8506(1)(*c*)(ii) was replaced by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable after 2003. S. 8506(1)(*c*)(ii) formerly read:

"(ii) the aggregate amount of continued retirement benefits payable under the provision for each month does not exceed the amount of retirement benefits that would have been payable under the provision for the month to the member if the member were alive;"

Post-retirement survivor benefits

(*d*) retirement benefits (in this paragraph referred to as "survivor retirement benefits") provided to a beneficiary of a member who dies after retirement benefits under the provision commence to be paid to the member where

(i) the beneficiary is a spouse or common-law partner or former spouse or common-law partner of the member at the time the member's retirement benefits commence to be paid,

(ii) the survivor retirement benefits are payable for a period beginning after the death of the member and ending with the death of the beneficiary, and

(iii) the total amount of survivor retirement benefits and other retirement benefits (other than benefits permissible under paragraph (*e*.1)) payable under the provision for each month to beneficiaries of the member does not exceed the amount of retirement benefits (other than benefits permissible under paragraph (*e*.1)) that would have been payable under the provision for the month to the member if the member were alive;

History: S. 8506(1)(*d*)(iii) was replaced by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable after 2003. S. 8506(1)(*d*)(iii) formerly read:

"(iii) the aggregate amount of survivor retirement benefits and other retirement benefits payable under the provision for each month to beneficiaries of the member does not exceed the amount of retirement benefits that would have been payable under the provision for the month to the member if the member were alive;"

The heading before s. 8506(1)(*d*) was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, by replacing the words "surviving spouse benefits" with the words "survivor benefits", applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 8506(1)(*d*)(i) was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, by replacing the words "spouse or former spouse" with the words "spouse or common-law partner or former spouse or common-law partner", applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

Pre-retirement survivor benefits

(*e*) retirement benefits provided to a beneficiary of a member who dies before retirement benefits under the provision commence to be paid to the member, and benefits provided to other individuals after the death of the beneficiary, where

(i) the beneficiary is a spouse or common-law partner or former spouse or common-law partner of the member at the time of the member's death,

(ii) the benefits would be permissible under paragraphs (*a*) to (*c*) if the beneficiary were a member of the plan, and

(iii) the retirement benefits are payable to the beneficiary beginning no later than on the later of one year after the day of death of the member and the end of the calendar year in which the beneficiary attains 71 years of age;

History: S. 8506(1)(*e*)(iii) was replaced by S.C. 2007, c. 29, s. 36(1), applicable after 2006. S. 8506(1)(*e*)(iii) formerly read:

"(iii) the retirement benefits are payable to the beneficiary beginning no later than on the later of one year after the day of death of the member and the end of the calendar year in which the beneficiary attains 69 years of age;"

The heading before s. 8506(1)(*e*) was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, by replacing the words "surviving spouse benefits" with the words "survivor benefits", applicable to the 2001 and subsequent taxation years. See the history for the amendment to s. 8506(1)(*e*)(i) below for additional application.

S. 8506(1)(*e*)(i) was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, by replacing the words "spouse or former spouse" with the words "spouse or common-law partner or former spouse or common-law partner", applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 8506(1)(*e*)(iii) was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1996, except that

(*a*) subject to paragraph (*b*), subparagraph 8506(1)(*e*)(iii) of the Regulations, as enacted by subsection (1), applies in respect of benefits provided to an individual who attained 70 years of age before 1997 or 69 years of age in 1996 as though the reference in that subparagraph to "69 years of age" were a reference to "71 years of age" and "70 years of age" respectively; and

(*b*) where retirement benefits under a pension plan are provided to an individual by means of an annuity contract issued before March 6, 1996 and, under the terms and conditions of the contract as they read immediately before that day,

(i) the day on which annuity payments are to begin under the contract is fixed and determined and is after the year in which the individual attains

(A) 69 years of age, where the individual had not attained that age before 1997, or

(B) 70 years of age, where the individual attained 69 years of age in 1996, and

(ii) the amount and timing of each annuity payment are fixed and determined,

subparagraph 8506(1)(*e*)(iii) of the Regulations, as enacted by subsection (1), applies in respect of the benefits as though the reference in that subparagraph to "69 years of age" were a reference to "71 years of age". S. 8506(1)(*e*)(iii) formerly read:

"(iii) the retirement benefits are payable to the beneficiary beginning no later than on the later of one year after the day of death of the member and the end of the calendar year in which the beneficiary attains 71 years of age;"

Variable benefits

(*e*.1) retirement benefits (in this paragraph referred to as "variable benefits"), other than benefits permissible under any of paragraphs (*a*) to (*e*), provided to a member and, after the death of the member, to one or more beneficiaries of the member if

(i) the variable benefits are paid from the member's account,

(ii) the variable benefits provided to the member or a beneficiary (other than a beneficiary who is the specified beneficiary of the member in relation to the provision) are payable for a period ending no later than the end of the calendar year following the calendar year in which the member dies,

(iii) the variable benefits provided to a beneficiary who is the specified beneficiary of the member in relation to the provision are payable for a period ending no later than the end of the calendar year in which the specified beneficiary dies, and

(iv) the amount of variable benefits payable to the member and beneficiaries of the member for each calendar year is not less than the minimum amount for the member's account under the provision for the calendar year;

History: S. 8506(1)(*e*.1) was added by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable after 2003.

Regulations: 8506(5).

Payment from account

(*f*) the payment with respect to a member of a single amount from the member's account under the provision;

Payment from account after death

(*g*) the payment, with respect to one or more beneficiaries of a member, of one or more single amounts from the member's account under the provision;

History: Paragraph 8506(1)(*g*) and the heading before it were replaced by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable after 2003. Paragraph 8506(1)(*g*) formerly read:

"Lump sum payments on death before retirement

(*g*) the payment of one or more single amounts to one or more beneficiaries of a member who dies before retirement benefits under the provision commence to be paid to the member;"

Commutation of benefits

(*h*) the payment with respect to a member of a single amount in full or partial satisfaction of the member's entitlement to other benefits under the provision, where the single amount does not exceed the present value (at the time the single amount is paid) of the other benefits that, as a consequence of the payment, cease to be provided; and

[Idem]

(*i*) the payment, with respect to an individual after the death of a member, of a single amount in full or partial satisfaction of the individual's entitlement to other benefits under the provision, where the individual is a beneficiary of the member and the single amount does not exceed the present value (at the time the single amount is paid) of the other benefits that, as a consequence of the payment, cease to be provided.

History: S. 8506(1) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Registered Plans Directorate Newsletters: No. 94-2, Technical questions and answers; No. 92-12, Commutation and opting out of a pension plan; No. 91-4R, Registration rules for money purchase provisions.

Additional Conditions

(2) For the purposes of section 8501, the following conditions are applicable in respect of each money purchase provision of a pension plan:

Regulations: 8500(7).

Employer contributions acceptable to Minister

(*a*) the amount of contributions that are to be made under the provision by each employer who participates in the plan is determined in a manner acceptable to the Minister;

Employer contributions with respect to particular members

(*b*) each contribution that is made under the provision by an employer consists only of amounts each of which is an amount that is paid by the employer with respect to a particular member;

Allocation of employer contributions

(*b*.1) each contribution that is made under the provision by an employer is allocated to the member with respect to whom it is made;

Employer contributions not permitted

(*c*) contributions are not made under the provision by an employer, and property is not transferred to the provision in respect of the actuarial surplus under a defined benefit provision of the plan or another registered pension plan,

(i) at a time when there is a surplus under the provision, or

(ii) at a time after 1991 when an amount that became a forfeited amount under the provision before 1990, or any earnings of the plan that are reasonably attributable to that amount, is being held in respect of the provision and has not been reallocated to members of the plan;

Contributions not permitted

(*c*.1) no contribution is made under the provision with respect to a member, and no amount is transferred for the benefit of a member to the provision from another benefit provision of the plan, at any time after the calendar year in which the member attains

71 years of age, other than an amount that is transferred for the benefit of the member to the provision

(i) in accordance with subsection 146.3(14.1) or 147.3(1) or (4) of the Act, or

(ii) from another benefit provision of the plan, where the amount so transferred would, if the benefit provisions were in separate registered pension plans, be in accordance with subsection 147.3(1) or (4) of the Act;

History: S. 8506(2)(c.1), the portion before subparagraph (i) was replaced by S.C. 2007, c. 29, s. 36(2), applicable after 2006. S. 8506(2)(c.1), the portion before subparagraph (i) formerly read:

"(c.1) no contribution is made under the provision with respect to a member, and no amount is transferred for the benefit of a member to the provision from another benefit provision of the plan, at any time after the calendar year in which the member attains 69 years of age, other than an amount that is transferred for the benefit of the member to the provision"

S. 8506(2)(c.1) was added by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable after 2003.

Return of contributions

(*d*) where the plan is not established by an enactment of Canada or a province, it includes a stipulation that permits, for the purpose of avoiding revocation of the registration of the plan, a contribution made under the provision by a member or by an employer to be returned to the person who made the contribution, which stipulation may provide that a return of contributions is subject to the approval of the authority administering the *Pension Benefits Standards Act, 1985* or a similar law of a province;

Allocation of earnings

(*e*) the earnings of the plan, to the extent that they relate to the provision and are not reasonably attributable to forfeited amounts or a surplus under the provision, are allocated to plan members on a reasonable basis and no less frequently than annually;

Payment or reallocation of forfeited amounts

(*f*) each forfeited amount under the provision (other than an amount forfeited before 1990) and all earnings of the plan that are reasonably attributable to the forfeited amount are

(i) paid to participating employers,

(ii) reallocated to members of the plan, or

(iii) paid as or on account of administrative, investment or similar expenses incurred in connection with the plan

on or before December 31 of the year immediately following the calendar year in which the amount is forfeited, or such later time as is permitted by the Minister under subsection (3);

Retirement benefits

(*g*) retirement benefits (other than benefits permissible under paragraph (1)(*e*.1)) under the provision are provided by means of annuities that are purchased from a licensed annuities provider;

History: S. 8506(2)(*g*) was replaced by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable after 2003, except that, in respect of retirement benefits provided under a money purchase provision under an arrangement that was accepted for the purpose of paragraph 8506(2)(*g*) before February 27, 2004, paragraph 8506(2)(*g*) is to be read as follows:

"(*g*) retirement benefits (other than benefits permissible under paragraph (1)(*e*.1)) under the provision are provided by means of annuities that are purchased from a licensed annuities provider or under an arrangement acceptable to the Minister;"

S. 8506(2)(*g*) formerly read:

"(*g*) retirement benefits under the provision are provided

(i) by means of annuities that are purchased from a person who is licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada an annuities business, or

(ii) under an arrangement acceptable to the Minister; and"

Undue deferral of payment — Death of member

(*h*) each single amount that is payable after the death of a member (other than a single amount that is payable after the death of the specified beneficiary of the member in relation to the provision) is paid as soon as is practicable after the member's death; and

History: S. 8506(2)(*h*) and the heading before it were replaced by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable after 2003. S. 8506(2)(*h*) and the heading before it formerly read:

"Undue deferral of payment

(*h*) each single amount payable after the death of a member is paid as soon as is practicable after the member's death."

S. 8506(2)(b.1) was added by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable with respect to contributions made under a money purchase provision of a pension plan after April 5, 1994.

S. 8506(2)(c) was amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable after 1988, except that paragraph 8506(2)(c) does not apply with respect to property transferred on or before April 5, 1994 to a money purchase provision of a pension plan in respect of an actuarial surplus under a defined benefit provision of a registered pension plan. S. 8506(2)(c) formerly read:

"(*c*) contributions are not made under the provision by an employer

(i) at a time when there is a surplus under the provision, or

(ii) at a time after 1991 when an amount that became a forfeited amount under the provision before 1990, or any earnings of the plan that are reasonably attributable thereto, has not been paid to participating employers or reallocated to members of the plan;"

S. 8506(2)(d) was amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable after 1988. S. 8506(2)(d) formerly read:

"(*d*) the plan includes a stipulation that permits a contribution made under the provision by a member or by an employer to be returned to the person who made the contribution to avoid revocation of the registration of the plan;"

S. 8506(2)(f) was amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable after April 5, 1994 with respect to

(*a*) forfeited amounts under a money purchase provision of a pension plan that arise after April 5, 1994;

(*b*) earnings of a pension plan after April 5, 1994; and

(*c*) forfeited amounts under a money purchase provision of a pension plan that arose on or before April 5, 1994, and earnings of the plan on or before that date, to the extent that, on that date, those amounts were being held in respect of the provision and have not been reallocated to members of the plan.

S. 8506(2)(f) formerly read:

"(*f*) each forfeited amount under the provision (other than an amount that became a forfeited amount before 1990) and all earnings of the plan that are reasonably attributable thereto are paid to participating employers or reallocated to members of the plan on or before December 31 of the year immediately following the calendar year in which the amount is forfeited, or such later time as is permitted by the Minister under subsection (3);"

S. 8506(2) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Undue deferral of payment — Death of specified beneficiary

(*i*) each single amount that is payable after the death of the specified beneficiary of a member in relation to the provision is paid as soon as is practicable after the specified beneficiary's death.

History: S. 8506(2)(*i*) was added by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable after 2003.

Registered Plans Directorate Newsletters: No. 94-2, Technical questions and answers; No. 91-4R, Registration rules for money purchase provisions.

Alternative Method for Allocating Employer Contributions

(2.1) The Minister may, on the written application of the administrator of a pension plan, waive the application of the condition in paragraph (2)(*b*.1) in respect of a money purchase provision of the plan where contributions made under the provision by an employer are allocated to members of the plan in a manner acceptable to the Minister.

History: S. 8506(2.1) was added by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable after April 5, 1994.

Reallocation of Forfeitures

(3) The Minister may, on the written application of the administrator of a registered pension plan, extend the time for satisfying the requirements of paragraph (2)(*f*) where

(*a*) the aggregate of the forfeited amounts that arise in a calendar year is greater than normal because of unusual circumstances; and

(*b*) the forfeited amounts are to be reallocated on a reasonable basis to a majority of plan members or paid as or on account of administrative, investment or similar expenses incurred in connection with the plan.

History: S. 8506(3)(b) was amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable after April 5, 1994 with respect to
(*a*) forfeited amounts under a money purchase provision of a pension plan that arise after April 5, 1994;
(*b*) earnings of a pension plan after April 5, 1994; and
(*c*) forfeited amounts under a money purchase provision of a pension plan that arose on or before April 5, 1994, and earnings of the plan on or before that date, to the extent that, on that date, those amounts were being held in respect of the provision and have not been reallocated to members of the plan.
S. 8506(3)(b) formerly read:
"(*b*) the forfeited amounts are to be reallocated on a reasonable basis to a majority of plan members."
S. 8506(3) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Registered Plans Directorate Newsletters: No. 91-4R, Registration rules for money purchase provisions.

Non-payment of Minimum Amount — Plan Revocable

(4) A registered pension plan that contains a money purchase provision becomes, for the purposes of paragraph 147.1(11)(*c*) of the Act, a revocable plan at the beginning of a calendar year if the total amount of retirement benefits (other than retirement benefits permissible under any of paragraphs (1)(*a*) to (*e*)) paid from the plan in the calendar year in respect of a member's account under the provision is less than the minimum amount for the account for the calendar year.

History: S. 8506(4) was added by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable after 2003.

Minimum Amount

(5) For the purposes of paragraph (1)(*e*.1) and subsection (4), but subject to subsection (7), the minimum amount for a member's account under a money purchase provision of a registered pension plan for a calendar year is the amount determined by the formula

$$A \times B$$

where

A is the balance in the account at the beginning of the year; and

B is

(*a*) if there is a specified beneficiary of the member for the year in relation to the provision, the factor designated under subsection 7308(4) for the year in respect of the specified beneficiary,

(*b*) if paragraph (*a*) does not apply for the year, the factor designated under subsection 7308(4) for the year in respect of an individual where

(i) the individual was, at the time the designation referred to in subparagraph (ii) was made, the member's spouse or common-law partner,

(ii) the member had, before the beginning of the year, provided the administrator of the plan with a written designation of the individual for the purpose of this paragraph in relation to the provision, and

(iii) the member had not, before the beginning of the year, revoked the designation, and

(*c*) in any other case, the factor designated under subsection 7308(4) for the year in respect of the member.

History: S. 8506(5) was added by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable after 2003.

Regulations: 7308(4).

Determination of Account Balance

(6) For the purpose of the description of A in subsection (5), the balance in a member's account at the beginning of a calendar year (in this subsection referred to as the "current year") is to be determined in accordance with the following rules:

(*a*) the determination is to be made in a manner that reasonably reflects the fair market value of the property held in connection with the account at the beginning of the current year, including an estimate of the portion of any unallocated earnings of the plan that arose in the preceding calendar year and that can reasonably be expected to be allocated to the account in the current year; and

(*b*) if retirement benefits (other than benefits permissible under paragraph (1)(*e*.1)) provided under the provision with respect to the member had commenced to be paid before the current year and continue to be payable in the current year, the determination is to be made without regard to the value of any property held in connection with those benefits.

History: S. 8506(6) was added by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable after 2003.

Special Rules for Minimum Amount

(7) The minimum amount for a member's account under a money purchase provision of a registered pension plan for a calendar year is

(*a*) nil, if an individual who is either the member or the specified beneficiary of the member for the year in relation to the provision

(i) is alive at the beginning of the year, and

(ii) had not attained 71 years of age at the end of the preceding calendar year; and

(*b*) if paragraph (*a*) does not apply and the year is 2008, 75 per cent of the amount that would, in the absence of this subsection, be the minimum amount for the account for the year.

History: S. 8506(7) and the heading before it were replaced by S.C. 2009, c. 2, s. 117(1), in force on Royal Assent, March 12, 2009. S. 8506(7) and the heading before it formerly read:

"When Minimum Amount is Nil

(7) The minimum amount for a member's account under a money purchase provision of a registered pension plan for a calendar year is nil if

(*a*) an individual, who is either the member or the specified beneficiary of the member for the year in relation to the provision, is alive at the beginning of the year; and

(*b*) that individual had not attained 71 years of age at the end of the preceding calendar year."

S. 8506(7)(*b*) was replaced by S.C. 2007, c. 29, s. 36(3), applicable after 2006. S. 8506(7)(*b*) formerly read:

"(*b*) that individual had not attained 69 years of age at the end of the preceding calendar year."

S. 8506(7) was added by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable after 2003.

Specified Beneficiary

(8) In this section, an individual is the specified beneficiary of a member for a calendar year in relation to a money purchase provision of a registered pension plan if

(*a*) the member died before the beginning of the year;

(*b*) the individual is a beneficiary of the member and was, immediately before the member's death, the member's spouse or common-law partner; and

(*c*) the member or the member's legal representative had, before the beginning of the year, provided the administrator of the plan with a written designation of the individual (and of no other individual) as the specified beneficiary of the member for the calendar year in relation to the provision.

History: S. 8506(8) was added by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, applicable after 2003.

Recontribution — Adjusted Minimum Amount for 2008

(9) If a contribution made by a member of a registered pension plan and credited to the member's account under a money purchase provision of the plan complies with the conditions in subsection (10), the contribution

(*a*) is deemed to have been made in accordance with the plan as registered;

(*b*) is to be disregarded for the purposes of paragraph (2)(*c.1*); and

(*c*) is deemed to be an excluded contribution for the purposes of paragraph 8301(4)(*a*).

History: S. 8506(9) was added by S.C. 2009, c. 2, s. 117(2), in force on Royal Assent, March 12, 2009. Contributions described in subsections 8506(9) and (10), that are made during the period that begins after 2008 and ends on the day that is 30 days after the day on which this Act is assented to (or such longer period as is acceptable to the Minister of National Revenue) are deemed for the purpose of subsection 8506(10) to have been made on December 31, 2008 and not when they were actually made, except that the amounts so deemed shall not exceed the amount that would be determined in respect of the account under paragraph 8506(10)(*c*), if the value of C in the formula in that paragraph were nil. [S.C. 2009, c. 2 was assented to on March 12, 2009. Due to statutory holidays in this 30-day period after Royal Assent, the period ends on April 14, 2009.]

Conditions Referred to in Subsection (9)

(10) The conditions referred to in subsection (9) are as follows:

(*a*) the contribution is made in 2008;

(*b*) the contribution is designated for the purposes of this subsection in a manner acceptable to the Minister; and

(*c*) the amount of the contribution does not exceed the amount determined by the formula

$$A - B - C$$

where

A is the lesser of

(i) the total of all amounts each of which is the amount of a retirement benefit (other than a retirement benefit permissible under any of paragraphs (1)(*a*) to (*e*)) paid from the plan in 2008 in respect of the account and included, because of paragraph 56(1)(*a*) of the Act, in computing the taxpayer's income for the taxation year, and

(ii) the amount that would, in the absence of paragraph (7)(*b*), be the minimum amount for the account for 2008,

B is the minimum amount for the account for 2008, and

C is the total of all other contributions made by the member under the money purchase provision at or before the time of the contribution and designated for the purposes of this subsection.

History: S. 8506(10) was added by S.C. 2009, c. 2, s. 117(2), in force on Royal Assent, March 12, 2009. Contributions described in subsections 8506(9) and (10), that are made during the period that begins after 2008 and ends on the day that is 30 days after the day on which this Act is assented to (or such longer period as is acceptable to the Minister of National Revenue) are deemed for the purpose of subsection 8506(10) to have been made on December 31, 2008 and not when they were actually made, except that the amounts so deemed shall not exceed the amount that would be determined in respect of the account under paragraph 8506(10)(*c*), if the value of C in the formula in that paragraph were nil. [S.C. 2009, c. 2 was assented to on March 12, 2009. Due to statutory holidays in this 30-day period after Royal Assent, the period ends on April 14, 2009.]

Periods of Reduced Pay

Prescribed Compensation

8507. (1) For the purposes of paragraph (*b*) of the definition "compensation" in subsection 147.1(1) of the Act, there is prescribed for inclusion in the compensation of an individual from an employer for a calendar year after 1990

(*a*) where the individual has a qualifying period in the year with respect to the employer, the amount determined under subsection (2) in respect of the period; and

(*b*) where the individual has a period of disability in the year, the amount that would be determined under paragraph (2)(*a*) in respect of the period if the period were a qualifying period of the individual with respect to the employer.

History: S. 8507(1) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Information Circulars: IC 98-2 Prescribed Compensation for Registered Pension Plans.

Additional Compensation in Respect of Qualifying Period

(2) For the purposes of paragraph (1)(*a*) and subsection (5), the amount that is determined in respect of a period in a calendar year that is a qualifying period of an individual with respect to an employer is the lesser of

(*a*) the amount, if any, by which

(i) the amount that it is reasonable to consider would have been the remuneration of the individual for the period from the employer if the individual had rendered services to the employer throughout the period on a regular basis (having regard to the services rendered by the individual to the employer before the complete period of reduced pay of which the period is a part) and the individual's rate of remuneration had been commensurate with the individual's rate of remuneration before the beginning of the complete period of reduced pay

exceeds

(ii) the remuneration of the individual for the period from the employer, and

(*b*) the amount determined by the formula

$$(5 + A + B - C) \times D$$

where

A is the lesser of 3 and the amount that would be the cumulative additional compensation fraction of the individual with respect to the employer, determined to the time that is immediately before the end of the period, if the individual's only qualifying periods had been periods that are also periods of parenting,

B is

(i) if no part of the period is a period of parenting, nil, and

(ii) otherwise, the lesser of

(A) the amount, if any, by which 3 exceeds the amount determined for A, and

(B) the ratio of

(I) the amount that would be determined under paragraph (*a*) if the remuneration referred to in subparagraphs (*a*)(i) and (ii) were the remuneration for such part of the period as is a period of parenting

to

(II) the amount determined for D,

C is the cumulative additional compensation fraction of the individual with respect to the employer, determined to the time that is immediately before the end of the period, and

D is the amount that it is reasonable to consider would have been the individual's remuneration for the year from the employer if the individual had rendered services to the employer on a full-time basis throughout the year and the individual's rate of remuneration had been commensurate with the individual's rate of remuneration before the beginning of the complete period of reduced pay of which the period is a part.

History: S. 8507(2) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Information Circulars: IC 98-2 Prescribed Compensation for Registered Pension Plans.

Qualifying Periods and Periods of Parenting

(3) For the purposes of this section,

(*a*) a period in a calendar year is a qualifying period of an individual in the year with respect to an employer if

(i) the period is an eligible period of reduced pay or temporary absence of the individual in the year with respect to the employer,

(ii) either

(A) lifetime retirement benefits are provided to the individual under a defined benefit provision of a registered pension plan (other than a plan that is, in the year, a specified multi-employer plan) in respect of the period, or

(B) contributions are made by or on behalf of the individual under a money purchase provision of a registered pension plan (other than a plan that is, in the year, a specified multi-employer plan) in respect of the period,

pursuant to terms of the plan that apply in respect of periods that are not regular periods of employment,

(iii) the lifetime retirement benefits or the contributions, as the case may be, exceed the benefits that would otherwise be provided or the contributions that would otherwise be made if the benefits or contributions were based on the services actually rendered by the individual and the remuneration actually received by the individual,

(iv) the individual's pension adjustment for the year with respect to the employer includes an amount in respect of the lifetime retirement benefits or the contributions, as the case may be,

(v) no benefits are provided in respect of the period to the individual under a defined benefit provision of any registered pension plan in which the employer does not participate,

(vi) no contributions are made by or on behalf of the individual in respect of the period under a money purchase provision of a registered pension plan or a deferred profit sharing plan in which the employer does not participate,

(vii) no part of the period is after the earlier of

(A) the time at which bridging benefits commence to be paid to the individual in circumstances to which subsection 8503(17) applied, and

(B) the earliest day in respect of which benefits have been provided to the individual in circumstances to which subsection 8503(19) applied; and

(*b*) a period of parenting of an individual is all or a part of a period that begins

(i) at the time of the birth of a child of whom the individual is a natural parent, or

(ii) at the time the individual adopts a child,

and ends 12 months after that time.

History: S. 8507(3)(*a*)(vii) was added by S.C. 2007, c. 35, s. 85(1), applicable to the 2008 and subsequent calendar years.

S. 8507(3)(a), the portion after subparagraph (vi) was revoked by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable after 1988. S. 8507(3)(a), the portion after subparagraph (vi) formerly read:

"and, for the purposes of this paragraph, an amount that is allocated to an individual from forfeited amounts or a surplus under a money purchase provision of a registered pension plan is deemed to be a contribution that is made on behalf of the individual under the provision; and"

S. 8507(3) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Regulations: 8500(7).

Information Circulars: IC 98-2 Prescribed Compensation for Registered Pension Plans.

Cumulative Additional Compensation Fraction

(4) For the purposes of this section, the cumulative additional compensation fraction of an individual with respect to an employer, determined to any time, is the aggregate of all amounts each of which is the additional compensation fraction that is associated with a period that ends at or before that time and that is a qualifying period of the individual in a calendar year after 1990 with respect to

(*a*) the employer;

(*b*) any other employer who does not deal at arm's length with the employer; or

(*c*) any other employer who participates in a registered pension plan in which the employer participates for the benefit of the individual.

History: S. 8507(4) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Additional Compensation Fraction

(5) For the purposes of subsection (4), the additional compensation fraction associated with a qualifying period of an individual in a calendar year with respect to a particular employer is the amount determined by the formula

$$\frac{E}{D}$$

where

D is the amount determined for D under paragraph (2)(*b*) in respect of the qualifying period, and

E is

(*a*) if

(i) all or a part of the qualifying period is a period throughout which the individual renders services to another employer pursuant to an arrangement in respect of which subsection 8308(7) is applicable,

(ii) the particular employer is a lending employer for the purposes of subsection 8308(7) as it applies in respect of the arrangement, and

(iii) the particular employer and the other employer deal with each other at arm's length,

the amount that would be determined under subsection (2) in respect of the qualifying period if, in the determination of the amount under paragraph (2)(*a*), no remuneration were included in respect of the portion of the qualifying period referred to in subparagraph (*a*)(i), and

(*b*) otherwise, the amount that is determined under subsection (2) in respect of the qualifying period.

History: S. 8507(5) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Information Circulars: IC 98-2 Prescribed Compensation for Registered Pension Plans.

Exclusion of Subperiods

(6) A reference in this section to a qualifying period of an individual in a calendar year with respect to an employer or to a period of disability of an individual in a calendar year does not include a period that is part of a longer such period.

History: S. 8507(6) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Complete Period of Reduced Pay

(7) In subsection (2), "complete period of reduced pay" of an individual with respect to an employer means a period that consists of one or more periods each of which is

(*a*) a period of disability of the individual, or

(*b*) an eligible period of reduced pay or temporary absence of the individual with respect to the employer,

and that is not part of a longer such period.

History: S. 8507(7) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

SALARY DEFERRAL LEAVE PLAN

8508. Where an employee and an employer enter into an arrangement in writing described in paragraph 6801(*a*) or (*b*),

(*a*) the period throughout which the employee defers salary or wages pursuant to the arrangement shall be deemed to be an eligible period of reduced pay of the employee with respect to the employer; and

(*b*) for the purposes of section 8507, the amount that it is reasonable to consider would have been the remuneration of the employee for any period from the employer shall be determined on the basis that the employee's rate of remuneration was the amount that it is reasonable to consider would, but for the arrangement, have been the employee's rate of remuneration.

History: S. 8508 was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Information Circulars: IC 98-2 Prescribed Compensation for Registered Pension Plans.

TRANSITION RULES

Prescribed Conditions Applicable Before 1992 to Grandfathered Plan

8509. (1) The prescribed conditions for the registration of a grandfathered plan are, before 1992,

(*a*) the condition set out in paragraph 8502(*a*),

(*b*) the condition set out in paragraph 8502(*c*), but only in respect of benefits provided under a money purchase provision of the plan, and

(*c*) if the plan contains a money purchase provision, the condition set out in paragraph 8506(2)(*a*),

and the following conditions:

(*d*) the benefits provided under each defined benefit provision of the plan are acceptable to the Minister and, for the purposes of this condition, any benefits in respect of periods before 1991 that become provided after 1988 with respect to a member who is connected with an employer who participates in the plan, or was so connected at any time before the benefits become provided, shall, unless the Minister is notified in writing that the benefits are provided with respect to the member, be deemed to be unacceptable to the Minister, and

(*e*) the plan contains such terms as may be required by the Minister.

History: S. 8509(1) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Regulations: 8501(1).

Conditions Applicable After 1991 to Benefits Under Grandfathered Plan

(2) For the purpose of the condition in paragraph 8502(*c*) as it applies after 1991 in respect of a grandfathered plan,

(*a*) the condition in subparagraph 8503(2)(*b*)(ii) is replaced by the condition that the amount of bridging benefits payable to a member for a particular month does not exceed the amount that is determined in respect of the month by the formula

$$(A \times C \times \frac{E}{F}) + (G \times (1 - \frac{E}{F}))$$

where

A is the amount determined for A under subparagraph 8503(2)(*b*)(ii) with respect to the member for the month,

C is the amount determined for C under subparagraph 8503(2)(*b*)(ii) with respect to the member for the month,

E is the aggregate of all amounts each of which is the duration (measured in years, including any fraction of a year) of a period ending before 1992 that is pensionable service of the member under the provision,

F is the aggregate of all amounts each of which is the duration (measured in years, including any fraction of a year) of a period that is pensionable service of the member under the provision, and

G is the amount determined with respect to the member for the month by the formula set out in subparagraph 8503(2)(*b*)(ii);

(*b*) the conditions in paragraphs 8503(3)(*c*), (*h*) and (*i*) and 8504(1)(*a*) and (*b*) apply only with respect to lifetime retirement benefits provided in respect of periods after 1991; and

(*c*) for the purposes of the conditions in paragraphs 8504(1)(*a*) and (*b*),

(i) the aggregate determined under subparagraph 8504(1)(*a*)(i) does not include an amount in respect of 1991, and

(ii) the amount determined for G under subparagraph 8504(1)(*a*)(ii) is based only on periods of pensionable service after 1991.

History: S. 8509(2) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Additional Prescribed Condition for Grandfathered Plan After 1991

(3) The prescribed conditions for the registration of a grandfathered plan include, after 1991, the condition that all benefits provided under each defined benefit provision of the plan in respect of periods before 1992 are acceptable to the Minister.

History: S. 8509(3) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Registered Plans Directorate Newsletters: No. 92-8R, Eligible service.

Defined Benefits Under Grandfathered Plan Exempt From Conditions

(4) The Minister may, after 1991, exempt from the condition in paragraph 8502(*c*) the following benefits provided under a defined benefit provision of a grandfathered plan:

(*a*) benefits that are payable after the death of a member, to the extent that the benefits can reasonably be considered to relate to lifetime retirement benefits provided to the member in respect of periods before 1992; and

(*b*) bridging benefits in excess of bridging benefits that are permissible under paragraph 8503(2)(*b*), to the extent that the excess bridging benefits are vested in a member on December 31, 1991.

History: S. 8509(4) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Registered Plans Directorate Newsletters: No. 92-6, Pre-reform disability and bridging benefits; No. 92-5, Pre-reform death benefits.

Benefits under Grandfathered Plan — Pre-1992 Disability

(4.1) Where benefits are provided under a defined benefit provision of a grandfathered plan to a member of the plan as a consequence of the member having become, before 1992, physically or mentally impaired, the following rules apply:

(*a*) the conditions in this Part (other than the condition in paragraph (*b*)) do not apply in respect of the benefits;

(*b*) the prescribed conditions for the registration of the plan include the condition that the benefits are acceptable to the Minister; and

(*c*) subsections 147.1(8) and (9) of the Act do not apply to render the plan a revocable plan where those subsections would not so apply if the member's pension credits under the provision were determined without regard to the benefits.

History: S. 8509(4.1) was added by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable after 1988.

Conditions Not Applicable to Grandfathered Plan

(5) Where a pension plan is a grandfathered plan,

(*a*) the conditions referred to in paragraph 8501(2)(*b*) do not apply before 1992 in respect of the plan;

(*b*) the condition in paragraph 8502(*d*) does not apply in respect of distributions made before 1992 under a defined benefit provision of the plan; and

(*c*) the conditions in paragraphs 8503(3)(*a*) and (*b*) do not apply in respect of benefits provided under a defined benefit provision of the plan in respect of periods before 1992.

History: S. 8509(5) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

PA Limits for Grandfathered Plan for 1991

(6) Subsections 147.1(8) and (9) of the Act do not apply in respect of a grandfathered plan for a calendar year before 1992 if

(*a*) the plan does not contain a money purchase provision in that year; or

(*b*) no contributions are made in respect of that year under the money purchase provisions of the plan.

History: S. 8509(6) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Limit on Pre-Age 65 Benefits

(7) Where a pension plan is a grandfathered plan or would be a grandfathered plan if the references to "March 27, 1988" in the definitions "existing plan" and "grandfathered plan" in subsection 8500(1) were read as references to "June 7, 1990" and the references to "March 28, 1988" in the definition "existing plan" in that subsection were read as references to "June 8, 1990",

(*a*) the conditions in paragraphs 8504(5)(*a*) and (*b*) apply only in respect of retirement benefits provided in respect of periods after 1991; and

(*b*) the amounts that are determined for B and D under paragraph 8504(5)(*a*) are based only on periods of pensionable service after 1991.

History: S. 8509(7) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Benefit Accrual Rate Greater Than 2 Per Cent

(8) Where a pension plan is a grandfathered plan or would be a grandfathered plan if the references to "March 27, 1988" in the definitions "existing plan" and "grandfathered plan" in subsection 8500(1) were read as references to "July 31, 1991" and the references to "March 28, 1988" in the definition "existing plan" in that subsection were read as references to "August 1, 1991",

(*a*) the condition in paragraph 8503(3)(*g*) applies only in respect of lifetime retirement benefits provided under a defined benefit provision of the plan in respect of periods after 1994; and

(*b*) subparagraph 8503(3)(*h*)(iv) is not applicable in respect of lifetime retirement benefits provided under a defined benefit provision of the plan to a member unless the formula for determining the amount of the member's lifetime retirement benefits complies with the condition in paragraph 8503(3)(*g*) as that condition would, but for this subsection, apply.

History: S. 8509(8) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Benefits Under Plan Other Than Grandfathered Plan

(9) The following rules apply in respect of the benefits provided under a defined benefit provision of a pension plan that is not a grandfathered plan:

(*a*) the condition in paragraph 8502(*c*) does not apply in respect of benefits provided with respect to an individual

(i) to whom retirement benefits have commenced to be paid under the provision before 1992, or

(ii) who has died before 1992; and

(*b*) the prescribed conditions for the registration of the plan include the condition that all benefits referred to in paragraph (*a*) are acceptable to the Minister.

History: S. 8509(9) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Money Purchase Benefits Exempt From Conditions

(10) The Minister may exempt from the condition in paragraph 8502(*c*) all or a portion of the benefits provided under a money purchase provision of a pension plan with respect to a member that may reasonably be considered to derive from contributions made before 1992 under a money purchase provision of a registered pension plan.

History: S. 8509(10) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Stipulation Not Required for Pre-1992 Plans

(10.1) The conditions in paragraphs 8503(4)(*c*) and 8506(2)(*d*) do not apply in respect of a pension plan

(*a*) that was a registered pension plan on December 31, 1991,

(*b*) in respect of which an application for registration was made to the Minister before 1992, or

(*c*) that was established to provide benefits to one or more individuals in lieu of benefits to which the individuals were entitled under another pension plan that is a plan described in paragraph (*a*) or (*b*) or this paragraph, whether or not benefits are also provided to other individuals.

History: S. 8509(10.1) was added by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable after 1988.

Benefits Acceptable to Minister

(11) For greater certainty, where benefits under a defined benefit provision of a pension plan are, by reason of paragraph 8503(3)(*e*) or subsection (3), subject to the condition that they be acceptable to the Minister, the provisions of this section shall not be considered to limit in any way the requirements that may be imposed by the Minister in respect of the benefits.

History: S. 8509(11) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

PA Limits — 1996 to 2002

(12) Neither subsection 147.1(8) nor (9) of the Act applies to render a registered pension plan a revocable plan at the end of any calendar year after 1995 and before 2003 solely because a pension adjustment, a total of pension

adjustments or a total of pension credits of an individual for the year (each of which is, in this subsection, referred to as a "test amount") is excessive where the subsection would not apply to render the plan a revocable plan at the end of the year if each test amount were decreased by the lesser of

(*a*) the amount, if any, by which the lesser of

(i) the total of all amounts each of which is

(A) a pension credit under a defined benefit provision of a registered pension plan that is included in determining the test amount, or

(B) a pension credit under a money purchase provision of a registered pension plan or under a deferred profit sharing plan that is included in determining the test amount and that is taken into account, under paragraph 8302(2)(*c*), in determining a pension credit referred to in clause (A), and

(ii) $15,500

exceeds the money purchase limit for the year, and

(*b*) the total of all amounts each of which is a pension credit referred to in clause (*a*)(i)(A).

History: S. 8509(12) was amended by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, by replacing the reference to "2004" with a reference to "2003", and the heading before it was amended by replacing the reference to "2003" with a reference to "2002", applicable after 2002.

S. 8509(12) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1995.

Maximum Benefits Indexed Before 2005

(13) Where

(*a*) a pension plan is a grandfathered plan or would be a grandfathered plan if the references to "March 27, 1988" in the definitions "existing plan" and "grandfathered plan" in subsection 8500(1) were read as references to "March 5, 1996" and the references to "March 28, 1988" in the definition "existing plan" in that subsection were read as references to "March 6, 1996",

(*b*) under the terms of the plan as they read immediately before March 6, 1996, the plan provided for benefits that are benefits to which a condition in any of subsections 8504(1), (5) and (6) and paragraph 8505(3)(*d*) applies and, at that time, the benefits complied with the condition, and

(*c*) as a consequence of the change in the defined benefit limit effective March 6, 1996, the benefits would, if this Part were read without reference to this subsection, cease to comply with the condition,

the following rules apply:

(*d*) for the purpose of determining at any time after March 5 1996 and before 1998 whether the benefits comply with the condition, the defined benefit limit for each year after 1995 is deemed to be the amount that it would be if the definition "money purchase limit" in subsection 147.1(1) of the Act were applied as it read on December 31, 1995, and

(*e*) for the purpose of determining at any time after 1997 whether the benefits comply with the condition, the defined benefit limit for 1996 and 1997 is deemed to be the amount that it would be if it were determined in accordance with paragraph (*d*).

History: S. 8509(13) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after March 5, 1996, except that where

(*a*) the retirement benefits provided to an individual under a pension plan are provided by means of an annuity contract issued before March 6, 1996, and

(*b*) under the terms and conditions of the contract as they read immediately before March 6, 1996,

(i) the day on which annuity payments are to begin under the contract is fixed and determined and is after 1997, and

(ii) the amount and timing of each annuity payment are fixed and determined,

subsection 8509(13) of the Regulations, as enacted by subsection (1), shall, in its application to those benefits, be read without reference to the words "and before 1998" in paragraph (*d*) of that subsection and without reference to paragraph (*e*) of that subsection.

Multi-Employer Plans and Other Special Plans

History: The heading before s. 8510 was replaced by P.C. 2007-1443, SOR/2007-212, dated September 27, 2007, applicable after June 23, 2007. The heading formerly read:

"Multi-Employer Plans and Specified Multi-Employer Plans"

Definition of "Multi-Employer Plan"

8510. (1) The definition "multi-employer plan" in subsection 8500(1) is applicable for the purposes of subsection 147.1(1) of the Act.

History: S. 8510(1) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Regulations: 8501(1).

Definition of "Specified Multi-Employer Plan"

(2) For the purposes of this Part and subsection 147.1(1) of the Act, "specified multi-employer plan" in a calendar year means a pension plan

(*a*) in respect of which the conditions in subsection (3) are satisfied at the beginning of the year (or at the time in the year when the plan is established, if later),

(*b*) that has, on application by the plan administrator, been designated in writing by the Minister to be a specified multi-employer plan in the year, or

(*c*) that was, by reason of paragraph (*a*), a specified multi-employer plan in the immediately preceding calendar year (where that year is after 1989),

but does not include a pension plan where the Minister has, before the beginning of the year, given notice by registered mail to the plan administrator that the plan is not a specified multi-employer plan.

History: S. 8510(2) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Qualification as a Specified Multi-Employer Plan

(3) The conditions referred to in paragraph (2)(*a*) are the following:

(*a*) it is reasonable to expect that at no time in the year will more than 95 per cent of the active members of the plan be employed by a single participating employer or by a related group of participating employers;

(*b*) where the year is 1991 or a subsequent year, it is reasonable to expect that

(i) at least 15 employers will contribute to the plan in respect of the year, or

(ii) at least 10 per cent of the active members of the plan will be employed in the year by more than one participating employer,

and, for the purposes of this condition, all employers who are related to each other shall be deemed to be a single employer;

(*c*) employers participate in the plan pursuant to a collective bargaining agreement;

(*d*) all or substantially all of the employers who participate in the plan are persons who are not exempt from tax under Part I of the Act;

(*e*) contributions are made by employers in accordance with a negotiated contribution formula that does not provide for any variation in contributions determined by reference to the financial experience of the plan;

(*f*) the contributions that are to be made by each employer in the year are determined, in whole or in part, by reference to the number of hours worked by individual employees of the employer or some other measure that is specific to each employee in respect of whom contributions are made to the plan;

(*g*) the administrator is a board of trustees or similar body that is not controlled by representatives of employers; and

(*h*) the administrator has the power to determine the benefits to be provided under the plan, whether or not that power is subject to the terms of a collective bargaining agreement.

History: S. 8510(3) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Minister's Notice

(4) For the purpose of subsection (2), the Minister may give notice that a plan is not a specified multi-employer plan only if the Minister is satisfied that participating employers will be able to comply with all reporting obligations imposed by Part LXXXIV with respect to the plan if it is not a specified multi-employer plan, and

(*a*) the notice is given at or after a time when the conditions in subsection (3) are not satisfied in respect of the plan; or

(*b*) the plan administrator has applied to the Minister for the notice.

History: S. 8510(4) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Special Rules — Multi-Employer Plan

(5) Where a pension plan is a multi-employer plan in a calendar year,

(*a*) each member of the plan who is connected at any time in the year with an employer who participates in the plan shall be deemed, for the purposes of applying the conditions in sections 8503 and 8504 in respect of the plan in the year and in each subsequent year, not to be so connected in the year;

(*b*) paragraph 8503(3)(*b*) shall, in its application in respect of benefits provided under a defined benefit provision of the plan in respect of a period in the year, be read without reference to subparagraph (ii) thereof; and

(*c*) the condition in paragraph 8503(3)(*k*) and the rule in subsection 8504(8) shall apply in the year in respect of the plan without regard to benefits provided under any other pension plan.

History: S. 8510(5) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Special Rules — Specified Multi-Employer Plan

(6) Where a pension plan is a specified multi-employer plan in a calendar year,

(*a*) a contribution that is made in the year in respect of a defined benefit provision of the plan by an employer with respect to the employer's employees or former employees in accordance with the plan as registered shall be deemed, for the purpose of paragraph 8502(*b*), to be an eligible contribution;

(*b*) subparagraph 8502(*c*)(i) shall, in its application in the year in respect of the plan, be read as follows:

"(i) benefits that are in accordance with subsection 8503(2), paragraphs 8503(3)(*c*), (*e*) and (*g*) and subsections 8504(5) and (6);"

(*c*) the conditions in paragraphs 8503(3)(*j*) and (4)(*a*) do not apply in the year in respect of the plan, and

(*d*) a payment made in the year under a defined benefit provision of the plan with respect to a member is deemed to comply with the conditions in paragraph 8503(2)(*h*) (in the case of a payment made in connection with the member's termination from the plan otherwise than by reason of death) or (*j*) (in the case of a payment made after the death of the member) where it would comply if paragraph 8503(2)(*h*) were read as follows:

"(*h*) the payment, with respect to a member in connection with the member's termination from the plan (otherwise than by reason of death), of one or more single amounts where

(i) the payments are the last payments to be made under the provision with respect to the member, and

(ii) each single amount does not exceed the amount that would be the balance in the member's net contribution account immediately before the time of payment of the single amount if, for each contribution that is a specified contribution, the account were credited at the time of the specified contribution with an additional amount equal to the amount of the specified contribution and, for this purpose, a specified contribution is

(A) a contribution included in determining a pension credit of the member under the provision because of paragraph 8301(5)(*b*), or

(B) a contribution made before 1990 in respect of the provision by a participating employer, to the extent that the contribution can reasonably be considered to have been determined by reference to the number of hours worked by

the member or some other measure specific to the member;".

History: S. 8510(6)(*d*) was added by P.C. 2001-153, SOR/2001-67, dated January 30, 2001, applicable after 1988.
S. 8510(6) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Additional Prescribed Conditions

(7) Where a pension plan is a specified multi-employer plan in a calendar year, the prescribed conditions for the registration of the plan include, in that year, the following conditions:

(*a*) when employer and member contribution rates under the plan were last established, it was reasonable to expect that, for each calendar year beginning with the year in which the contribution rates were last established,

(i) the aggregate of all amounts each of which is the pension credit of an individual for the year with respect to an employer under a benefit provision of the plan

would not exceed

(ii) 18 per cent of the aggregate of all amounts each of which is, for an individual and an employer where the pension credit of the individual for the year with respect to the employer under a benefit provision of the plan is greater than nil, the compensation of the individual from the employer for the year,

except that this condition does not apply for years before 1992 in the case of a pension plan that is a grandfathered plan; and

(*b*) where the plan contains a money purchase provision,

(i) the plan terms are such that, if subsection 147.1(9) of the Act were applicable in respect of the plan, the plan would not under any circumstances become a revocable plan at the end of the year pursuant to that subsection, or

(ii) if the plan terms do not comply with the condition in subparagraph (i), the only circumstances that would result in the plan becoming a revocable plan at the end of the year pursuant to subsection 147.1(9) of the Act, if that subsection were applicable in respect of the plan, are circumstances acceptable to the Minister.

History: S. 8510(7) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Information Circulars: IC 98-2 Prescribed Compensation for Registered Pension Plans.

Purchase of Additional Benefits

(8) Where, in the case of a pension plan that is a specified multi-employer plan in a calendar year,

(*a*) the amount of lifetime retirement benefits provided under a defined benefit provision of the plan to each member is determined by reference to the hours of employment of the member with participating employers,

(*b*) the plan permits a member whose actual hours of employment in a period are fewer than a specified number of hours for the period to make contributions to the plan in order to increase, to an amount not exceeding the specified number of hours for the period, the number of hours that are treated under the provision as hours of employment of the member in the period, and

(*c*) the specified number of hours for a period does not exceed a reasonable measure of the actual hours of employment of members who render services throughout the period on a full-time basis,

the condition in paragraph 8503(3)(*a*) does not apply in respect of such portion of the lifetime retirement benefits provided under the provision to a member as is determined by reference to hours acquired by the member as a consequence of contributions made to the plan in the year by the member, as described in paragraph (*b*).

History: S. 8510(8) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Special Rules — Member-funded Pension Plans

(9) Where a pension plan (other than a specified multi-employer plan) is a member-funded pension plan for the purposes of Division IX of the Regulation respecting the exemption of certain categories of pension plans from the provisions of the Supplemental Pension Plans Act of Quebec (R.Q., c. R-15.1, r. 2), as amended from time to time,

(*a*) paragraph 8502(*c*) shall in its application in respect of the plan be read without reference to subparagraph (iii);

(*b*) the prescribed conditions for the registration of the plan include the following conditions:

(i) the plan terms are such that each contribution to be made by a member under a defined benefit provision of the plan would be an eligible contribution under subsection 147.2(2) of the Act if

(A) the contribution were made by an employer who participates in the plan for the benefit of the member, and

(B) this subsection were read without reference to paragraph (*c*),

(ii) unless this condition is waived by the Minister, the plan is maintained pursuant to a collective bargaining agreement,

(iii) the plan is not, and it is reasonable to expect that the plan will not become, a designated plan, and

(iv) the amount of benefits provided to members, the amount of contributions required to be made by members and the entitlement of members' [*sic*] to benefit from actuarial surplus are determined in a manner that is

(A) clearly established in the plan terms, and

(B) not more advantageous for members who, at any time after the plan is established, are specified individuals (within the meaning assigned by subsection 8515(4)) under the plan than for members who are not specified individuals; and

(*c*) a contribution made by an employer to the plan is a prescribed contribution for the purposes of subsection 147.2(2) of the Act if

(i) the contribution is a current service contribution that would be an eligible contribution under subsection 147.2(2) of the Act if no contributions were prescribed for the purposes of that subsection and if that subsection were read without reference to its subparagraphs (*d*)(ii) and (iii), and

(ii) the recommendation pursuant to which the contribution is made is such that the current service contributions to be made by the employer do not exceed,

(A) where the amount of actuarial surplus in respect of the employer is greater than the greater of the amounts determined under subparagraphs 147.2(2)(*d*)(ii) and (iii) of the Act, 50% of the current service contributions that would be required to be made by the employer if there were no actuarial surplus under the provisions, and

(B) in any other case, the current service contributions that would be required to be made by the employer if there were no actuarial surplus under the provisions.

History: S. 8510(9) was added by P.C. 2007-1443, SOR/2007-212, dated September 27, 2007, applicable after June 23, 2007.

Conditions Applicable to Amendments

8511. (1) For the purposes of paragraph 147.1(4)(*c*) of the Act, the following conditions are prescribed in respect of an amendment to a registered pension plan:

(*a*) where the amendment increases the accrued lifetime retirement benefits provided to a member under a defined benefit provision of the plan, the increase is not, in the opinion of the Minister, inconsistent with the conditions in paragraphs 8503(3)(*h*) and (*i*); and

(*b*) where the plan is a grandfathered plan and the amendment increases the bridging benefits provided to a member under a defined benefit provision of the plan, the member's bridging benefits, as amended, comply with the condition in subparagraph 8503(2)(*b*)(ii) that would apply if the plan were not a grandfathered plan.

History: S. 8511(1) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

(2) Where an amendment to a registered pension plan provides for the return to a member of all or a part of the contributions made by the member under a defined benefit provision of the plan, the plan becomes a revocable plan at any time that an amount (other than an amount that may be transferred from the plan in accordance with subsection 147.3(6) of the Act) that is payable to the member as a consequence of the amendment is not paid to the member as soon after the amendment as is practicable.

History: S. 8511(2) was amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, by substituting "(other than an amount that may be transferred from the plan in accordance with subsection 147.3(6) of the Act)" for "(other than an amount that qualifies under subsection 147.3(6) of the Act for transfer to another registered pension plan or a registered retirement savings plan)", applicable after 1988.

S. 8511(2) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Registration and Amendment

8512. (1) For the purpose of subsection 147.1(2) of the Act, an application for registration of a pension plan shall be made by sending the following documents by registered mail to the Commissioner of Revenue at Ottawa:

(*a*) an application in prescribed form containing prescribed information;

(*b*) certified copies of the plan text and any other documents that contain terms of the plan;

(*c*) certified copies of all trust deeds, insurance contracts and other documents that relate to the funding of benefits under the plan;

(*d*) certified copies of all agreements that relate to the plan; and

(*e*) certified copies of all resolutions and by-laws that relate to the documents referred to in paragraphs (*b*) to (*d*).

History: S. 8512(1), the portion before paragraph (*a*) was replaced by P.C. 2007-849, SOR/2007-116, dated May 31, 2007, effective on publication in the *Canada Gazette*, June 13, 2007. S. 8512(1), the portion before paragraph (*a*) formerly read:

"S. 8512. (1) For the purposes of subsection 147.1(2) of the Act, an application for registration of a pension plan shall be made by forwarding by registered mail to the Deputy Minister of National Revenue for Taxation at Ottawa, the following documents:"

S. 8512(1) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable on date of publication in the *Canada Gazette* (January 15, 1992).

Registered Plans Directorate Newsletters: No. 04-2, Registered Pension Plan Applications — Processing an Incomplete Application; No. 91-4R, Registration rules for money purchase provisions.

(2) Where an amendment is made to a registered pension plan, to the arrangement for funding benefits under the plan or to a document that has been filed with the Minister in respect of the plan, within 60 days after the day on which the amendment is made, the plan administrator shall send to the Commissioner of Revenue at Ottawa

(*a*) a prescribed form containing prescribed information; and

(*b*) certified copies of all documents that relate to the amendment.

History: S. 8512(2), the portion before paragraph (*a*) was replaced by P.C. 2007-849, SOR/2007-116, dated May 31, 2007, effective on publication in the *Canada Gazette*, June 13, 2007. S. 8512(2), the portion before paragraph (*a*) formerly read:

"(2) Where, after 1988, an amendment is made to a registered pension plan, to the arrangement for funding benefits under the plan or to a document that has been filed with the Minister in respect of the plan, the plan administrator shall, within 60 days after the day on which the amendment is made, forward to the Deputy Minister of National Revenue for Taxation at Ottawa"

S. 8512(2) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988, except that any form or document otherwise required by S. 8512(2) to be forwarded to the Deputy Minister of National Revenue for Taxation before the particular day that is 60 days after the day of publication in the *Canada Gazette* (January 15, 1992), shall be deemed to have been forwarded as required if it is forwarded on or before the particular day.

(3) For the purpose of subsection 147.1(4) of the Act, an application for the acceptance of an amendment to a registered pension plan is made in prescribed manner if the documents that are required by subsection (2) are sent by registered mail to the Commissioner of Revenue at Ottawa.

History: S. 8512(3) was replaced by P.C. 2007-849, SOR/2007-116, dated May 31, 2007, effective on publication in the *Canada Gazette*, June 13, 2007. S. 8512(3) formerly read:

"(3) For the purposes of subsection 147.1(4) of the Act, an application for the acceptance of an amendment to a registered pension plan is made in

prescribed manner where the documents that are required by subsection (2) are forwarded by registered mail to the Deputy Minister of National Revenue for Taxation at Ottawa."

S. 8512(3) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Designated Laws

8513. For the purposes of paragraph 8302(3)(*m*), subparagraph 8502(*c*)(iii) and paragraph 8517(5)(*f*), "designated provision of the law of Canada or a province" means subsection 21(2) of the *Pension Benefits Standards Act, 1985* and any provision of a law of a province that is similar to that subsection.

History: S. 8513 was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Prohibited Investments

8514. (1) For the purposes of subparagraph 8502(*h*)(i) and subject to subsections (2), (2.1) and (3), a prohibited investment in respect of a registered pension plan is a share of the capital stock of, an interest in, or a debt of

(*a*) an employer who participates in the plan,

(*b*) a person who is connected with an employer who participates in the plan,

(*c*) a member of the plan,

(*d*) a person or partnership that controls, directly or indirectly, in any manner whatever, a person or partnership referred to in paragraph (*a*) or (*b*), or

(*e*) a person or partnership that does not deal at arm's length with a person or partnership referred to in paragraph (*a*), (*b*), (*c*) or (*d*),

or an interest in, or a right to acquire, such a share, interest or debt.

History: S. 8514(1), the portion before paragraph (*a*) was amended by P.C. 2001-153, SOR/2001-67, dated January 30, 2001, applicable to property acquired after September 1999. S. 8514(1), the portion before paragraph (*a*) formerly read:

"(1) For the purposes of subparagraph 8502(*h*)(i) and subject to subsections (2) and (3), a prohibited investment in respect of a registered pension plan is a share of the capital stock of, an interest in, or a debt of"

S. 8514(1) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

(2) A prohibited investment does not include

(*a*) a debt obligation described in paragraph (*a*) of the definition "fully exempt interest" in subsection 212(3) of the Act;

(*b*) a share listed on a designated stock exchange;

(*c*) a bond, debenture, note or similar obligation of a corporation any shares of which are listed on a designated stock exchange;

(*d*) an interest in, or a right to acquire, property referred to in paragraph (*b*) or (*c*); or

(*e*) a mortgage in respect of real property situated in Canada that

(i) where this condition has not been waived by the Minister and the amount paid for the mortgage, together with the amount of any indebtedness outstanding at the time the mortgage was acquired under any mortgage or hypothec that ranks equally with or superior to the mortgage exceeds 75 per cent of the fair market value, at that time, of the real property that is subject to the mortgage, is insured under the *National Housing Act* or by a corporation that offers its services to the public in Canada as an insurer of mortgages,

(ii) where the registered pension plan in connection with which the mortgage is held would be a designated plan for the purposes of subsection 8515(5) if subsection 8515(4) were read without reference to paragraph (*b*) thereof, is administered by an approved lender under the *National Housing Act*, and

(iii) bears a rate of interest that would be reasonable in the circumstances if the mortgagor dealt with the mortgagee at arm's length.

History: S. 8514(2)(*a*) was replaced by S.C. 2007, c. 35, s. 86(1), applicable after 2007. S. 8514(2)(*a*) formerly read:

"(*a*) a bond, debenture, note, mortgage or similar obligation described in clause 212(1)(*b*)(ii)(C) of the Act;"

S. 8514(2)(*b*) and (*c*) were amended by S.C. 2007, c. 35, s. 86(2), by replacing "stock exchange referred to in section 3200 or 3201" in those paragraphs with "designated stock exchange", in force December 14, 2007.

S. 8514(2)(*a*) was amended by P.C. 1994-1817, SOR/94-686, dated November 7, 1994, by deleting the word "hypothec".

S. 8514(2) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

(2.1) Where a share of the capital stock of, an interest in or a debt of, a person who is connected with a particular employer who participates in a registered pension plan that is a multi-employer plan would, but for this subsection, be a prohibited investment in respect of the plan, the property is not a prohibited investment in respect of the plan if

(*a*) the plan does not contain a money purchase provision;

(*b*) at the time the property in acquired by the plan, there are at least 15 employers who participate in the plan and, for this purpose,

(i) all employers who are related to each other are deemed to be a single employer, and

(ii) all the structural units of a trade union, including each local, branch, national and international unit, are deemed to be a single employer;

(*c*) at the time the property is acquired by the plan, no more than 10% of the active members of the plan are employed by the particular employer or by any person related to the particular employer;

(*d*) the property would not be a prohibited investment in respect of the plan if subsection (1) were read without reference to paragraph (1)(*b*); and

(*e*) immediately after the time the property in acquired by the plan, the total of all amounts each of which is the cost amount to a person of a property held in connection with the plan that would, but for this subsection, be a prohibited investment in respect of the plan does not exceed 10% of the total of all amounts each of which is the cost amount to a person of a property held in connection with the plan.

History: S. 8514(2.1) was added by P.C. 2001-153, SOR/2001-67, dated January 30, 2001, applicable to property acquired after September 1999.

(2.2) For the purposes of the conditions set out in paragraphs (2.1)(*b*) and (*c*), two corporations that are related to each other solely because they are both con-

trolled by Her Majesty in right of Canada or a province are deemed not to be related to each other.

History: S. 8514(2.2) was added by P.C. 2001-153, SOR/2001-67, dated January 30, 2001, applicable to property acquired after September 1999.

(3) A prohibited investment in respect of a registered pension plan does not include an investment that was acquired by the plan before March 28, 1988.

History: S. 8514(3) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

(4) For the purposes of subsection (3), where at any time after March 27, 1988, the principal amount of a bond, debenture, note, mortgage or similar obligation increases as a consequence of the advancement or lending of additional amounts or the maturity date of such an obligation is extended, the obligation shall, after that time, be deemed to have been issued at that time.

History: S. 8514(4) was amended by P.C. 1994-1817, SOR/94-686, dated November 7, 1994, by deleting the reference to the word "hypothec".
S. 8514(4) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Special Rules for Designated Plans

Designated Plans

8515. (1) For the purposes of subsections (5) and (9), and subject to subsection (3), a registered pension plan that contains a defined benefit provision is a designated plan throughout a calendar year if the plan is not maintained pursuant to a collective bargaining agreement and

(*a*) the aggregate of all amounts each of which is a pension credit (as determined under Part LXXXIII) for the year of a specified individual under a defined benefit provision of the plan

exceeds

(*b*) 50 per cent of the aggregate of all amounts each of which is a pension credit (as determined under Part LXXXIII) for the year of an individual under a defined benefit provision of the plan.

History: S. 8515(1) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Registered Plans Directorate Newsletters: No. 94-2, Technical questions and answers.

Designated Plan in Previous Year

(2) For the purposes of subsections (5) and (9), a registered pension plan is a designated plan throughout a particular calendar year after 1990 if the plan was a designated plan at any time in the immediately preceding year, except where the Minister has waived in writing the application of this subsection in respect of the plan.

History: S. 8515(2) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Exceptions

(3) A registered pension plan is not a designated plan in a calendar year pursuant to subsection (1) if

(*a*) the plan would not be a designated plan in the year pursuant to that subsection if the reference in paragraph (1)(*b*) to "50 per cent" were read as a reference to "60 per cent",

(*b*) the plan was established before the year, and

(*c*) the amount determined under paragraph (1)(*a*) in respect of the plan for the immediately preceding year did not exceed the amount determined under paragraph (1)(*b*),

or if

(*d*) there are more than 9 active members of the plan in the year, and

(*e*) the Minister has given written notice to the administrator of the plan that the plan is not a designated plan in the year.

History: S. 8515(3) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Specified Individuals

(4) An individual is a specified individual for the purposes of paragraph (1)(*a*) in respect of a pension plan and a particular calendar year if

(*a*) the individual was connected at any time in the year with an employer who participates in the plan; or

(*b*) the aggregate of all amounts each of which is the remuneration of the individual for the year from an employer who participates in the plan, or from an employer who does not deal at arm's length with a participating employer, exceeds $2^1/_2$ times the Year's Maximum Pensionable Earnings for the year.

History: S. 8515(4) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Eligible Contributions

(5) For the purpose of determining whether a contribution that is made by an employer to a registered pension plan at a time when the plan is a designated plan is an eligible contribution under subsection 147.2(2) of the Act, a prescribed condition is that

(*a*) the contribution satisfies the condition in subsection (6), or

(*b*) the contribution would satisfy the condition in subsection (6) if

(i) paragraph (6)(*b*) and subparagraph (7)(*e*)(i) were applicable only in respect of retirement benefits that became provided under the plan after 1990,

(ii) paragraph (6)(*c*) were applicable only in respect of those benefits payable after the death of a member that relate to retirement benefits that became provided under the plan to the member after 1990, and

(iii) the assumption as to the time retirement benefits (other than retirement benefits that became provided after 1990) will commence to be paid is the same for the purposes of the maximum funding valuation as for the purposes of the actuarial valuation that forms the basis for the recommendation referred to in subsection 147.2(2) of the Act pursuant to which the contribution is made.

History: S. 8515(5) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable

(i) in respect of contributions made after 1991 to a pension plan that was registered by the Minister on or before July 31, 1991 for the purposes of the *Income Tax Act*, and

(ii) in respect of contributions made after 1990 to a pension plan that is registered by the Minister after July 31, 1991 for the purposes of that Act.

Funding Restriction

(6) The condition referred to in subsection (5) is that the contribution would be required to be made for the plan to have sufficient assets to pay benefits under the defined benefit provisions of the plan, as registered, with respect to the employees and former employees of the employer if

(*a*) required contributions were determined on the basis of a maximum funding valuation prepared as of the same effective date as the actuarial valuation that forms the basis for the recommendation referred to in subsection 147.2(2) of the Act pursuant to which the contribution is made;

(*a.1*) each defined benefit provision of the plan provided that, with respect to restricted-funding members, retirement benefits are payable monthly in advance;

(*b*) each defined benefit provision of the plan provided that, after retirement benefits commence to be paid with respect to a restricted-funding member, the benefits are adjusted annually by a percentage increase for each year that is one percentage point less than the percentage increase in the Consumer Price Index for the year, in lieu of any cost-of-living adjustments actually provided;

(*c*) each defined benefit provision of the plan provided the following benefits after the death of a restricted-funding member who dies after retirement benefits under the provision have commenced to be paid to the member, in lieu of the benefits actually provided:

(i) where the member dies within 5 years after retirement benefits commence to be paid under the provision, the continuation of the retirement benefits for the remainder of the 5 years as if the member were alive, and

(ii) where an individual who is a spouse or common-law partner of the member when retirement benefits commence to be paid under the provision to the member is alive on the later of the day of death of the member and the day that is 5 years after the day on which the member's retirement benefits commence to be paid, retirement benefits payable to the individual for the duration of the individual's life, with the amount of the benefits payable for each month equal to $66^{2}/_{3}$ per cent of the amount of retirement benefits that would have been payable under the provision for the month to the member if the member were alive;

(*d*) where more than one employer participates in the plan, assets and actuarial liabilities were apportioned in a reasonable manner among participating employers with respect to their employees and former employees; and

(*e*) the rule in paragraph 147.2(2)(*d*) of the Act that provides for the disregard of a portion of the assets of the plan apportioned to the employer with respect to the employer's employees and former employees were applicable for the purpose of determining required contributions pursuant to this subsection.

History: S. 8515(6)(*d*)(ii) was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, by replacing the word "spouse" with the words "spouse or common-law partner", applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years.

S. 8515(6)(a.1) was added by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable with respect to a contribution that is made after the particular day that is 60 days after April 5, 1994, except where the contribution is made pursuant to a valuation report filed with the Minister in accordance with subsection 147.2(3) of the *Income Tax Act* on or before the particular day.

S. 8515(6) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Maximum Funding Valuation

(7) For the purposes of subsection (6), a maximum funding valuation is a valuation prepared by an actuary in accordance with the following rules:

(*a*) the projected accrued benefit method is used for the purpose of determining actuarial liabilities and current service costs;

(*b*) the valuation rate of interest is 7.5 per cent per annum;

(*c*) it is assumed that

(i) the rate of increase in general wages and salaries and in each member's rate of remuneration will be 5.5 per cent per annum, and

(ii) the rate of increase in the Consumer Price Index will be 4 per cent per annum;

(*d*) each assumption made in respect of economic factors other than those referred to in paragraph (*c*) is consistent with the assumptions in that paragraph;

(*e*) in the case of a restricted-funding member, it is assumed that

(i) retirement benefits will commence to be paid to the member no earlier than the day on which the member attains 65 years of age,

(ii) the member will survive to the time when the member's retirement benefits commence to be paid,

(iii) where the member is employed by a participating employer as of the effective date of the valuation, the member will continue in employment until the time the member's retirement benefits commence to be paid, and

(iv) when the member's retirement benefits commence to be paid, the member will be married to a person who is the same age as the member;

(*f*) the rate of mortality at each age is equal to

(i) in the case of a restricted-funding member, 80 per cent of the average of the rates at that age for males and females in the *1983 Group Annuity Mortality Table*, as published in Volume XXXV of the *Transactions of the Society of Actuaries*, and

(ii) in the case of any other member, 80 per cent of the rate at that age in the mortality table referred to in subparagraph (i) for individuals of the same sex as the member;

(*g*) it is assumed that where a member has a choice between receiving retirement benefits or a lump sum payment, retirement benefits will be paid to the member; and

(*h*) the plan's assets are valued at an amount equal to their fair market value as of the effective date of the valuation.

History: S. 8515(7)(e)(i) was amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable after 1988. S. 8515(7)(e)(i) formerly read:

"(i) retirement benefits will commence to be paid to the member on the later of the day on which the member attains 65 years of age and the effective date of the valuation,"

S. 8515(7)(f) was amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable after 1988, except that, with respect to a contribution that is made

(i) on or before the particular day that is 60 days after April 5, 1994, or

(ii) pursuant to a valuation report filed with the Minister in accordance with subsection 147.2(3) of the *Income Tax Act* on or before the particular day,

subparagraph 8515(7)(f)(i) shall be read as follows:

"(i) in the case of a restricted-funding member, or a male member who is not a restricted-funding member, 80 per cent of the average of the rates at that age for males and females in the *1983 Group Annuity Mortality Table*, as published in Volume XXXV of the *Transactions of the Society of Actuaries*, and"

S. 8515(7)(f) formerly read:

"(*f*) the rate of mortality at each age is equal to 80 per cent of the average of the rates at that age for males and females in the *1983 Group Annuity Mortality Table*, as published in Volume XXXV of the *Transactions of the Society of Actuaries*;"

S. 8515(7) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Restricted-Funding Members

(8) For the purposes of subsections (6) and (7) as they apply in respect of a contribution made to a registered pension plan, a member of the plan is a restricted-funding member if, at the time the maximum funding valuation is prepared,

(*a*) the member has a right, whether absolute or contingent, to receive retirement benefits under a defined benefit provision of the plan and the benefits have not commenced to be paid; or

(*b*) the payment of retirement benefits under a defined benefit provision of the plan to the member has been suspended.

History: S. 8515(8) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Member Contributions

(9) Where

(*a*) a member of a registered pension plan makes a contribution to the plan to fund benefits that have become provided at a particular time under a defined benefit provision of the plan in respect of periods before that time,

(*b*) the contribution is made at a time when the plan is a designated plan, and

(*c*) the contribution would not be an eligible contribution under subsection 147.2(2) of the Act if it were made by an employer who participates in the plan on behalf of the member,

the plan becomes, for the purposes of paragraph 147.1(11)(*c*) of the Act, a revocable plan immediately before the time the contribution is made.

History: S. 8515(9) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

ELIGIBLE CONTRIBUTIONS

Prescribed Contribution

8516. (1) For the purposes of subsection 147.2(2) of the Act, a contribution described in any of subsections (2) to (4) is a prescribed contribution.

History: S. 8516(1) was replaced by P.C. 2003-1497, SOR/2003-328, dated October 2, 2003, applicable to contributions made after 2002. S. 8516(1) formerly read:

"S. 8516. (1) For the purposes of subsection 147.2(2) of the Act, a contribution described in any of subsections (2) to (9) that is made by an employer to a registered pension plan in respect of the defined benefit provisions of the plan is a prescribed contribution."

S. 8516(1) was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1995. S. 8516(1) formerly read:

"S. 8516. (1) For the purposes of subsection 147.2(2) of the Act, a contribution described in any of subsections (2) to (8) that is made by an employer to a registered pension plan in respect of the defined benefit provisions of the plan is a prescribed contribution."

S. 8516(1) and the headings before section 8516 were amended by P.C. 1995-17, SOR/95-64, dated January 11, 1995, to substitute "Eligible Contributions" for "Eligible Contributions — Transition Rules" and to change the reference "(2) to (6)" to "(2) to (8)" in subsection (1), applicable after 1988.

S. 8516(1) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Funding on Termination Basis

(2) A contribution that is made by an employer to a registered pension plan is described in this subsection if

(*a*) the contribution is made pursuant to a recommendation by an actuary in whose opinion the contribution is required to be made so that, if the plan is terminated immediately after the contribution is made, it will have sufficient assets to pay benefits accrued under the defined benefit provisions of the plan, as registered, to the time the contribution is made;

(*b*) the recommendation is based on an actuarial valuation that complies with the following conditions:

(i) the effective date of the valuation is not more than four years before the day on which the contribution is made,

(ii) all assumptions made for the purposes of the valuation are reasonable at the time the valuation is prepared and at the time the contribution is made,

(iii) the valuation is prepared in accordance with generally accepted actuarial principles applicable with respect to a valuation prepared on the basis that a plan will be terminated, and

(iv) where more than one employer participates in the plan, assets and actuarial liabilities are apportioned in a reasonable manner among participating employers;

(*c*) the recommendation is approved by the Minister; and

(*d*) at the time the contribution is made, the plan is not a designated plan.

History: S. 8516(2)(*d*) was replaced by S.C. 2007, c. 35, s. 87(1), applicable after 2007. S. 8516(2)(*d*) formerly read:

"(*d*) at the time the contribution is made, the plan is not a designated plan under section 8515."

S. 8516(2) was replaced by P.C. 2003-1497, SOR/2003-328, dated October 2, 2003, applicable to contributions made after 2002. S. 8516(2) formerly read:

"Amortization of Excess Actuarial Surplus

(2) A contribution that is made by an employer to a registered pension plan is described in this subsection if

(*a*) it is made to the plan before 1995;

(*b*) the recommendation pursuant to which the contribution is made is such that the contributions that are required to be made by the employer in respect of the defined benefit provisions of the plan do not exceed the contributions that would be required if

(i) except as provided in subparagraph (ii), the contributions to be made by the employer were determined without regard to the actuarial surplus under the provisions, and

(ii) the contributions to be made by the employer after 1990 were determined on the basis that the excess actuarial surplus under the provisions with respect to the employer becomes available uniformly throughout the period beginning on the later of January 1, 1991 and the effective date of the actuarial valuation prepared in connection with the recommendation and ending on December 31, 1994 to fund benefits under the provisions, in lieu of contributions that would otherwise be required to be made by the employer,

and, for the purposes of this paragraph, the amount of the excess actuarial surplus under the defined benefit provisions of a pension plan with respect to an employer is, in relation to a recommendation pursuant to which contributions are made by the employer, the amount, if any, by which the amount of the actuarial surplus under the provisions with respect to the employer exceeds the aggregate of

(iii) the lesser of the amounts determined under subparagraphs 147.2(2)(*d*)(ii) and (iii) of the Act in relation to the employer and the recommendation, and

(iv) where the effective date of the actuarial valuation prepared in connection with the recommendation is before 1991, the amount, if any, by which

(A) the aggregate amount of current service contributions that would, but for the actuarial surplus, have been required to be made in respect of the provisions by the employer and the employer's employees for the period from the effective date of the actuarial valuation to December 31, 1990

exceeds

(B) the aggregate amount of current service contributions for that period made in the period by the employer and the employer's employees; and

(*c*) the contribution would be an eligible contribution under subsection 147.2(2) of the Act if no contributions were prescribed for the purposes of that subsection and if that subsection were read without reference to subparagraphs (*d*)(ii) and (iii) thereof."

S. 8516(2) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Registered Plans Directorate Newsletters: No. 91-5, Transitional rules and other administrative issues for pension plans.

Contributions Required by Pension Benefits Legislation

(3) A contribution that is made by an employer to a registered pension plan is described in this subsection if

(*a*) the contribution

(i) is required to be made to comply with the *Pension Benefits Standards Act, 1985* or a similar law of a province,

(ii) is made in respect of benefits under the defined benefit provisions of the plan as registered, and

(iii) is made pursuant to a recommendation by an actuary;

(*b*) the recommendation is based on an actuarial valuation that complies with the following conditions:

(i) the effective date of the valuation is not more than four years before the day on which the contribution is made,

(ii) all assumptions made for the purposes of the valuation are reasonable at the time the valuation is prepared and at the time the contribution is made, and

(iii) where more than one employer participates in the plan, assets and actuarial liabilities are apportioned in a reasonable manner among participating employers;

(*c*) the recommendation is approved by the Minister; and

(*d*) at the time the contribution is made, the plan is not a designated plan.

History: S. 8516(3)(*d*) was replaced by S.C. 2007, c. 35, s. 87(2), applicable after 2007. S. 8516(3)(*d*) formerly read:

"(*d*) at the time the contribution is made, the plan is not a designated plan under section 8515."

S. 8516(3) was replaced by P.C. 2003-1497, SOR/2003-328, dated October 2, 2003, applicable to contributions made after 2002. S. 8516(3) formerly read:

"Approval Under Paragraph 20(1)(s) of the Act

(3) A contribution that is made by an employer to a registered pension plan is described in this subsection if

(*a*) the Minister has approved the contribution under paragraph 20(1)(*s*) of the Act; and

(*b*) the contribution would have been deductible under paragraph 20(1)(*s*) of the Act had that paragraph been applicable to the taxation year of the employer in which the contribution was made."

S. 8516(3) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Shared Funding Arrangement

(4) A contribution that is made by an employer to a registered pension plan is described in this subsection if

(*a*) responsibility for the governance of the plan is shared between the participating employers and the members of the plan;

(*b*) the contribution is made pursuant to an arrangement approved by the Minister under which it is reasonable to expect that, on a long-term basis, the members' entitlement to benefit from actuarial surplus, the members' obligation to fund actuarial deficiencies and the members' obligation to make regular current service contributions, under the defined benefit provisions of the plan, will not be less than 66 $^{2}/_{3}$% or more than 100% of each such entitlement or obligation of the participating employers;

(*c*) the contribution is a current service contribution that would be an eligible contribution under subsection 147.2(2) of the Act if no contributions were prescribed for the purposes of that subsection and if that subsection were read without reference to subparagraphs (*d*)(ii) and (iii);

(*d*) the recommendation pursuant to which the contribution is made is such that the current service contributions to be made by the employer and the employer's employees in respect of the provisions do not exceed,

(i) where the amount of actuarial surplus in respect of the employer is not more than 10% of the amount of actuarial liabilities apportioned to the employer in respect of the employer's employees and former employees, the current service contributions that would be required if there were no actuarial surplus under the provisions,

(ii) where the amount of actuarial surplus in respect of the employer is greater than 10%, but not more than 15%, of the amount of actuarial liabilities apportioned to the employer in respect of the employer's employees and former employees, 75% of the current service contributions that would be required if there were no actuarial surplus under the provisions,

(iii) where the amount of actuarial surplus in respect of the employer is greater than 15%, but not more than 20%, of the amount of actuarial liabilities apportioned to the employer in respect of the employer's employees and former employees, 50% of the current service contributions that would be required if there were no actuarial surplus under the provisions,

(iv) where the amount of actuarial surplus in respect of the employer is greater than 20%, but not more than 25%, of the amount of actuarial liabilities apportioned to the employer in respect of the employer's employees and former employees, 25% of the current service contributions that would be required if there were no actuarial surplus under the provisions, and

(v) where the amount of actuarial surplus in respect of the employer is greater than 25% of the amount of actuarial liabilities apportioned to the employer in respect of the employer's employees and former employees, nil; and

(*e*) at the time the contribution is made, the plan is not a designated plan.

History: S. 8516(4)(*e*) was replaced by S.C. 2007, c. 35, s. 87(3), applicable after 2007. S. 8516(4)(*e*) formerly read:

"(*e*) at the time the contribution is made, the plan is not a designated plan under section 8515."

S. 8516(4) was replaced by P.C. 2003-1497, SOR/2003-328, dated October 2, 2003, applicable to contributions made after 2002. S. 8516(4) formerly read:

"*Contributions Pursuant to Collective Bargaining Agreement*

(4) A contribution that is made by an employer to a registered pension plan is described in this subsection if

(*a*) it is made to the plan before 1994; and

(*b*) it is made pursuant to a collective bargaining agreement that was entered into before 1990."

S. 8516(4) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

(5) [Repealed.]

History: S. 8516(5) was repealed by P.C. 2003-1497, SOR/2003-328, dated October 2, 2003, applicable to contributions made after 2002. S. 8516(5) formerly read:

"*Contributions Pursuant to Statute or By-Law*

(5) A contribution that is made by an employer to a registered pension plan is described in this subsection if

(*a*) it is made to the plan in 1991;

(*b*) it is made pursuant to a formula in a statute or by-law that was in existence on March 27, 1988; and

(*c*) the formula was not amended after March 27, 1988 and before the time the contribution is made."

S. 8516(5) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

(6) [Repealed.]

History: S. 8516(6) was repealed by P.C. 2003-1497, SOR/2003-328, dated October 2, 2003, applicable to contributions made after 2002. S. 8516(6) formerly read:

"*Employer Not Entitled to Reduce Contributions*

(6) A contribution that is made by an employer to a registered pension plan is described in this subsection if

(*a*) it is made to the plan before 1994;

(*b*) either

(i) the terms of the plan require that contributions made by the employer in respect of the defined benefit provisions of the plan be determined without regard to any actuarial surplus under the provisions, or

(ii) there is a dispute as to whether the terms of the plan have the effect described in subparagraph (i) and steps are being taken to resolve the dispute;

(*c*) the contribution would be an eligible contribution under subsection 147.2(2) of the Act if no contributions were prescribed for the purposes of that subsection and if that subsection were read without reference to subparagraphs (*d*)(ii) and (iii) thereof; and

(*d*) the contribution is acceptable to the Minister."

S. 8516(6) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

(7) [Repealed.]

History: S. 8516(7) was repealed by P.C. 2003-1497, SOR/2003-328, dated October 2, 2003, applicable to contributions made after 2002. S. 8516(7) formerly read:

"*Funding on Termination Basis*

(7) A contribution that is made by an employer to a registered pension plan is described in this subsection if

(*a*) the contribution is made pursuant to a recommendation by an actuary in whose opinion the contribution is required to be made so that, if the plan is terminated immediately after the contribution is made, it will have sufficient assets to pay benefits accrued under the defined benefit provisions of the plan, as registered, to the time the contribution is made;

(*b*) the recommendation is based on an actuarial valuation that complies with the following conditions:

(i) the effective date of the valuation is not more than 4 years before the day on which the contribution is made,

(ii) all assumptions made for the purposes of the valuation are reasonable at the time the valuation is prepared and at the time the contribution is made,

(iii) the valuation is prepared in accordance with generally accepted actuarial principles applicable with respect to a valuation prepared on the basis that a plan will be terminated, and

(iv) where more than one employer participates in the plan, assets and actuarial liabilities are apportioned in a reasonable manner among participating employers;

(*c*) the recommendation is approved by the Minister on the advice of the Superintendent of Financial Institutions; and

(*d*) at the time the contribution is made, the plan is not a designated plan under section 8515."

S. 8516(7) was added by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable after 1988.

(8) [Repealed.]

History: S. 8516(8) was repealed by P.C. 2003-1497, SOR/2003-328, dated October 2, 2003, applicable to contributions made after 2002. S. 8516(8) formerly read:

"*Contributions Required by Pension Benefits Legislation*

(8) A contribution that is made by an employer to a registered pension plan is described in this subsection if

(*a*) the contribution

(i) is required to be made to comply with the *Pension Benefits Standards Act, 1985* or a similar law of a province,

(ii) is made in respect of benefits under the defined benefit provisions of the plan as registered, and

(iii) is made pursuant to a recommendation by an actuary;

(*b*) the recommendation is based on an actuarial valuation that complies with the following conditions:

(i) the effective date of the valuation is not more than 4 years before the day on which the contribution is made,

(ii) all assumptions made for the purposes of the valuation are reasonable at the time the valuation is prepared and at the time the contribution is made, and

(iii) where more than one employer participates in the plan, assets and actuarial liabilities are apportioned in a reasonable manner among participating employers;

(*c*) the recommendation is approved by the Minister on the advice of the Superintendent of Financial Institutions; and

(*d*) at the time the contribution is made, the plan is not a designated plan under section 8515."

S. 8516(8) was added by P.C. 1995-17, SOR/95-64, dated January 11, 1995, applicable after 1988.

(9) [Repealed.]

History: S. 8516(9) was repealed by P.C. 2003-1497, SOR/2003-328, dated October 2, 2003, applicable to contributions made after 2002. S. 8516(9) formerly read:

"*Actuarial Reports Signed Before March 6, 1996*

(9) A contribution that is made by an employer to a registered pension plan is described in this subsection if

(*a*) the actuarial report containing the recommendation pursuant to which the contribution is made was signed before March 6, 1996;

(*b*) the contribution is made after March 5, 1996;

(*c*) the contribution would be an eligible contribution under subsection 147.2(2) of the Act if

(i) no contributions were prescribed for the purposes of that subsection, and

(ii) for the purpose of determining whether the actuarial valuation on which the recommendation is based complies with the condition in subparagraph 147.2(2)(*a*)(iii) of the Act, the defined benefit limit for each year after 1995 were equal to the amount that it would be if the

definition 'money purchase limit' in subsection 147.1(1) of the Act applied as it read on December 31, 1995; and

(*d*) where the contribution is made after 1996, the plan is not a designated plan under section 8515 at the time it is made."

S. 8516(9) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable after 1995.

TRANSFER — DEFINED BENEFIT TO MONEY PURCHASE

Prescribed Amount

8517. (1) Subject to subsections (2) to (3.1), for the purpose of applying paragraph 147.3(4)(*c*) of the Act to the transfer of an amount on behalf of an individual in full or partial satisfaction of the individual's entitlement to benefits under a defined benefit provision of a registered pension plan, the prescribed amount is the amount that is determined by the formula

$$A \times B$$

where

A is the amount of the individual's lifetime retirement benefits under the provision commuted in connection with the transfer, as determined under subsection (4), and

B is

(*a*) the present value factor that corresponds to the age attained by the individual at the time of the transfer, determined pursuant to the table to this subsection, or

(*b*) where the present value factor referred to in paragraph (*a*) is less than the present value factor that corresponds to the next higher age, the present value factor determined by interpolation between those two factors on the basis of the age (expressed in years, including any fraction of a year) of the individual.

Attained Age	Present Value Factor
Under 50	9.0
50	9.4
51	9.6
52	9.8
53	10.0
54	10.2
55	10.4
56	10.6
57	10.8
58	11.0
59	11.3
60	11.5
61	11.7
62	12.0
63	12.2
64	12.4
65	12.4
66	12.0
67	11.7
68	11.3
69	11.0
70	10.6
71	10.3
72	10.1
73	9.8
74	9.4
75	9.1
76	8.7
77	8.4
78	8.0
79	7.7
80	7.3
81	7.0
82	6.7
83	6.4
84	6.1
85	5.8
86	5.5
87	5.2
88	4.9
89	4.7
90	4.4
91	4.2
92	3.9
93	3.7
94	3.5
95	3.2
96 or over	3.0

History: S. 8517(1), the portion before the formula was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable to amounts transferred in respect of benefits provided after 1996. That portion formerly read:

"S. 8517. (1) For the purposes of paragraph 147.3(4)(*c*) of the Act as that paragraph applies in respect of the transfer of an amount on behalf of an individual in full or partial satisfaction of the individual's entitlement to benefits under a defined benefit provision of a registered pension plan, and subject to subsections (2) and (3), the prescribed amount is the amount that is determined by the formula"

The table in s. 8517(1) was amended by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable to transfers that occur after 1995. The table formerly read:

"

Attained Age	Present Value Factor
Under 50	9.0
50	9.4
51	9.6
52	9.8
53	10.0
54	10.2
55	10.4
56	10.6
57	10.8
58	11.0
59	11.3
60	11.5
61	11.7
62	12.0
63	12.2
64	12.4
65	12.4
66	12.0
67	11.7
68	11.3
69	11.0
70	10.6
71	10.3
72 or over	0.0

"

S. 8517(1) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Interpretation Bulletins: *Secondary* — IT-528 Transfers of funds between registered plans.

Registered Plans Directorate Newsletters: No. 04-1, Transfers from a Defined Benefit Provision to a Money Purchase Provision, an RRSP, or a RRIF and Transfers between Defined Benefit Provisions.

Minimum Prescribed Amount

(2) Where an amount is transferred in full satisfaction of an individual's entitlement to benefits under a defined benefit provision of a registered pension plan, the prescribed amount for the purposes of paragraph 147.3(4)(*c*) of the Act in respect of the transfer is the greater of the amount that would, but for this subsection, be the prescribed amount, and the balance, at the time of the transfer, in the member's net contribution account (within the meaning assigned by subsection 8503(1)) in relation to the provision.

History: S. 8517(2) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Interpretation Bulletins: *Secondary*—IT-528 Transfers of funds between registered plans.
Registered Plans Directorate Newsletters: No. 04-1, Transfers from a Defined Benefit Provision to a Money Purchase Provision, an RRSP, or a RRIF and Transfers between Defined Benefit Provisions.

Plan Wind-Up or Replacement

(3) Where an amount is transferred before January 1, 1993, or such later date as is acceptable to the Minister, on behalf of an individual as a consequence of the winding-up of a registered pension plan or as a consequence of the replacement of a defined benefit provision of a registered pension plan by a money purchase provision of another registered pension plan and either

(*a*) the winding-up of the plan or the replacement of the provision commenced at a time (in this subsection referred to as the "time of termination") before 1989,

(*b*) at the time of termination, the plan had at least 50 members, and

(*c*) the plan was established at least 5 years before the time of termination,

or the condition in paragraph (*a*) is satisfied and the Minister waives the conditions in paragraphs (*b*) and (*c*), the prescribed amount for the purposes of paragraph 147.3(4)(*c*) of the Act in respect of the transfer is the amount so transferred.

History: S. 8517(3) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Interpretation Bulletins: *Secondary*—IT-528 Transfers of funds between registered plans.
Registered Plans Directorate Newsletters: No. 94-4, Wind-up Valuation report.

Benefits Provided With Surplus on Plan Wind-up

(3.1) Where an amount is transferred in full or partial satisfaction of an individual's entitlement to benefits under a defined benefit provision of a registered pension plan and the benefits include benefits (in this subsection referred to as "ancillary benefits") that are permissible solely because of subsection 8501(7), the prescribed amount for the purpose of paragraph 147.3(4)(*c*) of the Act in respect of the transfer is the total of

(*a*) the amount that would, but for this subsection, be the prescribed amount, and

(*b*) an amount approved by the Minister not exceeding the lesser of

(i) the present value (at the time of the transfer) of the ancillary benefits that, as a consequence of the transfer, cease to be provided, and

(ii) the total of all amounts each of which is, in respect of a previous transfer from the provision to a money purchase provision of a registered pension plan, a registered retirement savings plan or a registered retirement income fund in full or partial satisfaction of the individual's entitlement to other benefits under the defined benefit provision, the amount, if any, by which

(A) the prescribed amount for the purpose of paragraph 147.3(4)(*c*) of the Act in respect of the previous transfer

exceeds

(B) the amount of the previous transfer.

History: S. 8517(3.1) was added by P.C. 1998-2256, SOR/99-9, dated December 16, 1998, applicable to amounts transferred in respect of benefits provided after 1996.

Amount of Lifetime Retirement Benefits Commuted

(4) For the purposes of subsection (1), and subject to subsection (7), the amount of an individual's lifetime retirement benefits under a defined benefit provision of a registered pension plan commuted in connection with the transfer of an amount on behalf of the individual in full or partial satisfaction of the individual's entitlement to benefits under the provision is the aggregate of

(*a*) where retirement benefits have commenced to be paid under the provision to the individual, the amount (expressed on an annualized basis) by which the individual's lifetime retirement benefits under the provision are reduced as a result of the transfer,

(*b*) where retirement benefits have not commenced to be paid under the provision to the individual, the amount (expressed on an annualized basis) by which the individual's normalized pension (computed in accordance with subsection (5)) under the provision at the time of the transfer is reduced as a result of the transfer, and

(*c*) where, in conjunction with the transfer, any other payment (other than an amount that is transferred in accordance with subsection 147.3(5) of the Act or that is transferred after 1991 in accordance with subsection 147.3(3) of the Act) is made from the plan in partial satisfaction of the individual's entitlement to benefits under the provision, the amount (expressed on an annualized basis) by which

(i) if paragraph (*a*) is applicable, the individual's lifetime retirement benefits under the provision are reduced, and

(ii) if paragraph (*b*) is applicable, the individual's normalized pension (computed in accordance with subsection (5)) under the provision at the time of the payment is reduced,

as a result of the payment, except to the extent that such reduction is included in determining, for the purposes of subsection (1), the amount of the individual's lifetime retirement benefits under the provi-

sion commuted in connection with the transfer of another amount on behalf of the individual.

History: S. 8517(4) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Interpretation Bulletins: *Secondary* — IT-528 Transfers of funds between registered plans.
Registered Plans Directorate Newsletters: No. 04-1, Transfers from a Defined Benefit Provision to a Money Purchase Provision, an RRSP, or a RRIF and Transfers between Defined Benefit Provisions.

Normalized Pensions

(5) For the purposes of subsection (4), the normalized pension of an individual under a defined benefit provision of a registered pension plan at a particular time is the amount (expressed on an annualized basis) of lifetime retirement benefits that would be payable under the provision at the particular time if

(*a*) lifetime retirement benefits commenced to be paid to the individual at the particular time;

(*b*) where the individual has not attained 65 years of age before the particular time, the individual attained that age at the particular time;

(*c*) all benefits to which the individual is entitled under the provision were fully vested;

(*d*) where the amount of the individual's lifetime retirement benefits would otherwise be determined with a reduction computed by reference to the individual's age, duration of service, or both, or with any other similar reduction, no such reduction were applied;

(*e*) where the amount of the individual's lifetime retirement benefits depends on the amount of benefits provided under another benefit provision of the plan or under another plan or arrangement, a reasonable estimate were made of those other benefits;

(*f*) where the individual's lifetime retirement benefits would otherwise include benefits that the plan is required to provide by reason of a designated provision of the law of Canada or a province, or that the plan would be required to provide if each such provision were applicable to the plan with respect to all its members, such benefits were not included; and

(*g*) except as otherwise provided by subsection (6), where the amount of the individual's lifetime retirement benefits depends on

(i) the form of benefits provided with respect to the individual under the provision (whether or not at the option of the individual), including

(A) the benefits to be provided after the death of the individual,

(B) the amount of retirement benefits, other than lifetime retirement benefits, provided to the individual, or

(C) the extent to which the lifetime retirement benefits will be adjusted to reflect changes in the cost of living, or

(ii) circumstances that are relevant in determining the form of benefits,

the form of benefits and the circumstances were such as to maximize the amount of the individual's lifetime retirement benefits on commencement of payment.

History: S. 8517(5) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Interpretation Bulletins: *Secondary* — IT-528 Transfers of funds between registered plans.

Optional Forms

(6) Where

(*a*) the terms of a defined benefit provision of a registered pension plan permit an individual to elect to receive additional lifetime retirement benefits in lieu of benefits that would, in the absence of the election, be payable after the death of the individual if the individual dies after retirement benefits under the provision commence to be paid to the individual, and

(*b*) the elections available to the individual include an election

(i) to receive additional lifetime retirement benefits, not exceeding additional benefits determined on an actuarially equivalent basis, in lieu of all or a portion of a guarantee that retirement benefits will be paid for a minimum period of ten years or less, or

(ii) to receive additional lifetime retirement benefits in lieu of retirement benefits that would otherwise be payable to a person who is a spouse or common-law partner or former spouse or common-law partner of the individual for a period beginning after the death of the individual and ending with the death of the person, where

(A) the election may be made only if the life expectancy of the person is significantly shorter than normal and has been noncertified in writing by a medical doctor licensed to practice under the laws of a province or of the place where the person resides, and

(B) the additional benefits do not exceed additional benefits determined on an actuarially equivalent basis and on the assumption that the person has a normal life expectancy,

paragraph (5)(*g*) applies as if

(*c*) the election described in subparagraph (*b*)(i) were not available to the individual, and

(*d*) where the particular time the normalized pension of the individual is determined under subsection (5) is after 1991, the election described in subparagraph (*b*)(ii) were not available to the individual.

History: S. 8517(6)(*b*)(ii) was amended by P.C. 2001-957, SOR/2001-188, dated May 31, 2001, applicable to the 2001 and subsequent taxation years. If a taxpayer and a person have jointly elected pursuant to section 144 of the *Modernization of Benefits and Obligations Act*, chapter 12 of the Statutes of Canada, 2000, in respect of the 1998, 1999 or 2000 taxation year, each of sections 1 to 17 of these Regulations apply to the taxpayer and the person in respect of the applicable taxation year and subsequent taxation years. S. 8517(6)(*b*)(ii) formerly read:

"(ii) to receive additional lifetime retirement benefits in lieu of retirement benefits that would otherwise be payable to a spouse or former spouse (in this subparagraph referred to as the 'spouse') of the individual for a period beginning after the death of the individual and ending with the death of the spouse, where

(A) the election may be made only if the life expectancy of the spouse is significantly shorter than normal and has been so certified in

writing by a medical doctor licensed to practise under the laws of a province or of the place where the spouse resides, and

(B) the additional benefits do not exceed additional benefits determined on an actuarially equivalent basis and on the assumption that the spouse has a normal life expectancy,"

S. 8517(6) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Interpretation Bulletins: *Secondary* — IT-528 Transfers of funds between registered plans.

Replacement Benefits

(7) Where

(*a*) an amount is transferred on behalf of an individual in full or partial satisfaction of the individual's entitlement to benefits under a defined benefit provision (in this paragraph referred to as the "particular provision") of a registered pension plan,

(*b*) in conjunction with the transfer, benefits become provided to the individual under another defined benefit provision of the plan or under a defined benefit provision of another registered pension plan, and

(*c*) an employer who participated under the particular provision for the benefit of the individual also participates under the other provision for the individual's benefit,

the amount of the individual's lifetime retirement benefits under the particular provision commuted in connection with the transfer is the amount that would be determined under subsection (4) if the benefits provided under the other provision were provided under the particular provision.

History: S. 8517(7) was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

Interpretation Bulletins: *Secondary* — IT-528 Transfers of Funds Between Registered Plans.

8518. [Repealed.]

History: S. 8518 and the heading before it were repealed by P.C. 2005-1508, SOR/2005-264, dated August 31, 2005, in force September 21, 2005.

S. 8518 and the heading before it formerly read:

"PENSION ADJUSTMENT LIMITS

S. 8518. (1) Subsection 147.1(8) of the Act does not apply to render a registered pension plan a revocable plan at the end of a calendar year by reason that a pension adjustment, or an aggregate of pension adjustments, of an individual for the year is excessive where the subsection would not so apply if the individual's pension adjustments for the year were determined without the inclusion of those pension credits, if any, of the individual for the year under deferred profit sharing plans that are described in subsection (2).

(2) For the purposes of subsection (1), a pension credit (as determined under Part LXXXIII) of an individual for a year under a deferred profit sharing plan is described in this subsection if

(*a*) it is a pension credit with respect to an employer by whom the individual ceased to be employed in the year; and

(*b*) it includes the amount of a contribution made to the plan in the year by the employer with respect to the individual that was based, in whole or in part, on the individual's remuneration for the preceding year."

S. 8518 was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

ASSOCIATION OF BENEFITS WITH TIME PERIODS

8519. Where, for the purposes of Part LXXXIII or this Part or subsection 147.1(10) of the Act, it is necessary to associate benefits provided under a defined benefit provision of a pension plan with periods of time, the association shall be made in a manner acceptable to the Minister.

History: S. 8519 was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

MINISTER'S ACTIONS

8520. For the purposes of this Part, a waiver, extension of time or other modification of the requirements of this Part granted by the Minister or an approval by the Minister in respect of any matter is not effective unless it is in writing and expressly refers to the requirement that is modified or the matter in respect of which the approval is given.

History: S. 8520 was added by P.C. 1991-2540, SOR/92-51, dated December 23, 1991, applicable after 1988.

PART LXXXVI

Taxable Capital Employed in Canada

8600. For the purposes of this Part and Part I.3 of the Act,

"*attributed surplus*" of a non-resident insurer for a taxation year has the meaning assigned by subsection 2400(1);

"*Canadian assets*" of a corporation that is a financial institution (as defined in subsection 181(1) of the Act) at any time in a taxation year means, in respect of the year, the amount, if any, by which

(*a*) the total of all amounts each of which is the amount at which an asset of the corporation (which asset is required, or, if the corporation were a bank to which the *Bank Act* applied, would be required, to be reflected in a return under subsection 223(1) of the *Bank Act*, as that Act read on May 31, 1992, if that return were prepared on a non-consolidated basis) would be shown on the corporation's balance sheet at the end of the year if its balance sheet were prepared on a non-consolidated basis

exceeds the total of

(*b*) the investment allowance of the corporation for the year determined under subsection 181.3(4) of the Act, and

(*c*) the total of all amounts each of which is the amount outstanding at the end of the year on account of a deposit made by the corporation that is described in paragraph (*c*) of the definition "eligible loan" in subsection 33.1(1) of the Act;

"*Canadian premiums*" for a taxation year, in respect of an insurance corporation that was resident in Canada at any time in the year and throughout the year did not carry on a life insurance business, means the total of the insurance corporation's net premiums for the year

(*a*) in respect of insurance on property situated in Canada, and

(*b*) in respect of insurance, other than on property, from contracts with persons resident in Canada,

and, for the purposes of this definition, "net premiums" has the same meaning as in subsection 403(2), and subsection 403(3) applies as if the references therein to "province" were read as references to "country";

"*Canadian reserve liabilities*" of an insurer as at the end of a taxation year has the meaning assigned by subsection 2400(1);

"*permanent establishment*" has the same meaning as in subsection 400(2);

"*total assets*" of a corporation that is a financial institution (as defined in subsection 181(1) of the Act) at any time in a taxation year means, in respect of that year, the amount, if any, by which

(*a*) the total of all amounts each of which is the amount at which an asset of the corporation would be shown on the corporation's balance sheet at the end of the year if its balance sheet were prepared on a non-consolidated basis

exceeds

(*b*) the investment allowance of the corporation for the year determined under subsection 181.3(4) of the Act;

"*total premiums*" for a taxation year, in respect of an insurance corporation that was resident in Canada at any time in the year and throughout the year did not carry on a life insurance business, means the total of the corporation's net premiums for the year (as defined in subsection 403(2)) that are included in computing its income under Part I of the Act;

"*total reserve liabilities*" of an insurer as at the end of a taxation year means the total amount as at the end of the year of the insurer's liabilities and reserves (other than liabilities and reserves in respect of a segregated fund) in respect of all its insurance policies, as determined for the purposes of the Superintendent of Financial Institutions, if the insurer is required by law to report to the Superintendent of Financial Institutions, or, in any other case, the superintendent of insurance or other similar officer or authority of the province under the laws of which the insurer is incorporated.

History: S. 8600, the definition "total reserve liabilities" was amended by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years. S. 8600, the definition "total reserve liabilities" formerly read:

" 'total reserve liabilities' as at the end of a taxation year, in respect of an insurance corporation that was resident in Canada at any time during the year and carried on a life insurance business at any time in the year, has the same meaning as in subsection 2405(3)."

S. 8600, the definition "Canadian reserve liabilities" was amended by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years. S. 8600, the definition "Canadian reserve liabilities" formerly read:

" 'Canadian reserve liabilities' as at the end of a taxation year, in respect of an insurance corporation that was resident in Canada at any time during the year and carried on a life insurance business at any time in the year, has the same meaning as in subsection 2405(3);"

S. 8600, the definition "attributed surplus" was amended by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years. S. 8600, the definition "attributed surplus" formerly read:

" 'attributed surplus' for a taxation year, in respect of an insurance corporation that was throughout the year not resident in Canada, means the amount determined under subsection 2405(3) to be the corporation's attributed surplus for the year;"

S. 8600 was added by P.C. 1994-556, SOR/94-298, dated April 14, 1994, applicable to taxation years ending after June 30, 1989.

8601. For the purpose of determining the taxable capital employed in Canada of a corporation for a taxation year under subsection 181.2(1) of the Act, the prescribed proportion of the corporation's taxable capital (as determined under Part I.3 of the Act) for the year is the amount determined by the formula

$$A \times \frac{B}{C}$$

where

A is the taxable capital (as determined under Part I.3 of the Act) of the corporation for the year,

B is the total of all amounts each of which is the amount, determined in accordance with Part IV (or, in the case of an airline corporation, that would be so determined if the corporation had a permanent establishment in every province and if paragraphs 407(1)(*a*) and (*b*) were read without reference to the words "in Canada"), of the corporation's taxable income earned in the year in a particular province or the amount of its taxable income that would, pursuant to that Part, be earned in the year in a province if all permanent establishments of the corporation in Canada were in a province, and

C is the corporation's taxable income for the year,

except that, where the corporation's taxable income for the year is nil, the corporation shall, for the purposes of this section, be deemed to have a taxable income for the year of $1,000.

History: S. 8601 was added by P.C. 1994-556, SOR/94-298, dated April 14, 1994, applicable to taxation years ending after June 30, 1989.

8602. For the purposes of paragraph (*b*) of the definition "Canadian surtax payable" in subsection 125.3(4) of the Act, the prescribed proportion of the amount determined under section 123.2 of the Act in respect of a corporation for a taxation year is the amount determined by the formula

$$A \times \frac{B}{C}$$

where

A is the amount determined under section 123.2 of the Act in respect of the corporation for the year;

B is

(*a*) where the corporation carried on a life insurance business at any time in the year, the corporation's taxable capital (as determined under Part I.3 of the Act) for the year, and

(*b*) in any other case, the corporation's taxable capital employed in Canada (as would be determined under Part I.3 of the Act if that Part were read without reference to paragraphs 181.3(1)(*a*) and (*b*) thereof) for the year; and

C is the corporation's taxable capital (as determined under Part I.3 of the Act) for the year.

History: S. 8602 was added by P.C. 1994-556, SOR/94-298, dated April 14, 1994, applicable to taxation years ending after June 30, 1989.

8603. For the purposes of Part VI of the Act,

(*a*) "Canadian assets" of a corporation that is a financial institution (as defined in subsection 190(1) of the Act) at any time in a taxation year means, in

respect of that year, the amount that would be determined under the definition "Canadian assets" in section 8600 in respect of the corporation for the year if the reference in that definition to "subsection 181(1)" were read as a reference to "subsection 190(1)" and paragraph (*b*) of that definition were read as follows:

"(*b*) the total determined under section 190.14 of the Act in respect of the corporation's investments for the year in financial institutions related to it, and;"

(*b*) "total assets" of a corporation that is a financial institution (as defined in subsection 190(1) of the Act) at any time in a taxation year means, in respect of that year, the amount that would be determined under the definition "total assets" in section 8600 in respect of the corporation for the year if the reference in that definition to "subsection 181(1)" were read as a reference to "subsection 190(1)" and paragraph (*b*) of that definition were read as follows:

"(*b*) the total determined under section 190.14 of the Act in respect of the corporation's investments for the year in financial institutions related to it; ; and"

(*c*) "attributed surplus", "Canadian reserve liabilities" and "total reserve liabilities" have the same respective meanings as in section 8600.

History: S. 8603 was added by P.C. 1994-556, SOR/94-298, dated April 14, 1994, applicable to the 1990 and subsequent taxation years.

8604. For the purposes of paragraph (*g*) of the definition "financial institution" in subsection 181(1) of the Act, each of the following corporations is a prescribed corporation:

(*a*) a corporation of which all or substantially all of the assets are shares or indebtedness of financial institutions (as defined in that subsection) to which the corporation is related;

(*b*) AVCO Financial Services Canada Limited;

(*c*) AVCO Financial Services Realty Limited;

(*d*) AVCO Financial Services Quebec Limited;

(*e*) General Motors Acceptance Corporation of Canada, Limited;

(*f*) Household Financial Corporation Limited;

(*g*) Household Finance Corporation of Canada;

(*h*) Household Realty Corporation Limited;

(*i*) Merchant Retail Services Limited;

(*j*) Superior Acceptance Corporation Limited;

(*k*) Superior Credit Corporation Limited;

(*l*) Crédit Industriel Desjardins;

(*m*) Beneficial Canada Inc.;

(*n*) Beneficial Realty Ltd.;

(*o*) RT Mortgage-Backed Securities Limited;

(*p*) RT Mortgage-Backed Securities II Limited;

(*q*) T. Eaton Acceptance Co. Limited;

(*r*) National Retail Credit Services Limited;

(*s*) Ford Credit Canada Limited;

(*t*) Principal Fund Incorporated;

(*u*) Farm Credit Canada;

(*v*) Canadian Cooperative Agricultural Financial Services;

(*w*) CU Credit Inc.;

(*x*) Household Commercial Canada Inc.;

(*y*) Canadian Home Income Plan Corporation;

(*z*) Hudson's Bay Company Acceptance Limited;

(*z*.1) Bombardier Capital Ltd.;

(*z*.2) Trans Canada Credit Corporation;

(*z*.3) Norwest Financial Canada, Inc.;

(*z*.4) Norwest Financial Capital Canada, Inc.;

(*z*.5) GE Capital Canada Limited; and

(*z*.6) GE Capital Canada Retailer Financial Services Company.

Pending Amendment

Tax on Large Corporations — December 20, 2002

Section 8604 of the *Income Tax Regulations* is repealed.

8604. [Repealed.]

Applicable: After December 19, 2002.

Explanatory Note: Existing section 8604 of the *Income Tax Regulations* prescribes corporations for the purposes of paragraph (*g*) of the definition "financial institution" in subsection 181(1) of the Act. In its paragraph (*a*), section 8604 also provides that a corporation of which all or substantially all of the assets are shares or indebtedness of a financial institution (as defined in subsection 181(1)) to which the corporation is related also falls within the definition.

Section 8604 is proposed to be repealed as a consequence of amendments to paragraph (*g*) of the definition, and readers may consult the notes for the amendments to that paragraph for additional information.

The repeal of this section is proposed to apply on and after December 20, 2002.

History: S. 8604(*u*) was amended by S.C. 2001, c. 22, s. 22, by replacing the reference to "Farm Credit Corporation" with "Farm Credit Canada", applicable on Royal Assent, June 14, 2001.

S. 8604(*w*) to (z6) were added by P.C. 1998-2046, SOR/98-571, dated November 19, 1998, applicable as follows:

Paragraph 8604(*w*) applies

(*a*) to taxation years beginning after May 1998; and

(*b*) if CU Credit Inc. so elects by notifying the Minister of National Revenue in writing before 1999, to the 1995 and subsequent taxation years of CU Credit Inc. and of all corporations related to CU Credit Inc.

Paragraph 8604(*x*) applies

(*a*) to taxation years beginning after May 1998; and

(*b*) if Household Commercial Canada Inc. so elects by notifying the Minister of National Revenue in writing before 1999, to the 1994 and subsequent taxation years of Household Commercial Canada Inc. and of all corporations related to Household Commercial Canada Inc.

Paragraph 8604(*y*) applies

(*a*) to taxation years beginning after May 1998; and

(*b*) if Canadian Home Income Plan Corporation so elects by notifying the Minister of National Revenue in writing before 1999, to the 1996 and subsequent taxation years of Canadian Home Income Plan Corporation and of all corporations related to Canadian Home Income Plan Corporation.

Paragraph 8604(*z*) applies

(*a*) to taxation years beginning after May 1998: and

(*b*) if Hudson's Bay Company Acceptance Limited so elects by notifying the Minister of National Revenue in writing before 1999, to taxation years beginning after 1994 of Hudson's Bay Company Acceptance Limited and of all corporations related to Hudson's Bay Company Acceptance Limited.

Paragraph 8604(z1) applies

(*a*) to taxation years beginning after May 1998; and
(*b*) if Bombardier Capital Ltd. so elects by notifying the Minister of National Revenue in writing before 1999, to the 1997 and subsequent taxation years of Bombardier Capital Ltd. and of all corporations related to Bombardier Capital Ltd.

Paragraphs 8604(z2), (z3) and (z4) apply
(*a*) to taxation years beginning after May 1998; and
(*b*) to the 1997 and subsequent taxation years of the particular corporation referred to in paragraph 8604(z2), (z3) or (z4), and of all corporations related to the particular corporation.

Paragraphs 8604(z5) and (z6) apply to taxation years ending after September 1998.

S. 8604 was added by P.C. 1994-556, SOR/94-298, dated April 14, 1994. The part preceding paragraph (*b*) is applicable to the 1989 and subsequent taxation years. Paragraphs (*b*) to (*k*) are applicable
(*a*) to the 1991 and subsequent taxation years; and
(*b*) where a particular corporation referred to in any of those paragraphs so elects by notifying the Minister of National Revenue in writing before 1995, to the taxation years ending after June 30, 1989 and before 1991 of the particular corporation and of all corporations related to the particular corporation.

Paragraphs (*l*) to (*n*) apply
(*a*) to taxation years ending after April 1994; and
(*b*) to the 1994 and subsequent taxation years of the particular corporation referred to in any of those paragraphs and of all corporations related to the particular corporation, and if the particular corporation has so elected by notifying the Minister of National Revenue in writing before 1995, to the taxation years ending after June 1989 of the particular corporation and of all corporations related to the particular corporation.

The application of Paragraphs (*l*) to (*n*) was amended by P.C. 1998-2046, SOR/98-571, dated November 19, 1998, deemed to have come into force on April 14, 1994. That application formerly read:

"Paragraphs (*l*) to (*n*) are applicable
(*a*) to the 1994 and subsequent taxation years; and
(*b*) where a particular corporation referred to in any of those paragraphs so elects by notifying the Minister of National Revenue in writing before 1995, to the taxation years ending after June 30, 1989 and before 1994 of the particular corporation and of all corporations related to the particular corporation."

Paragraphs (*o*) and (*p*) are applicable to the 1992 and subsequent taxation years.

Paragraphs (*q*) to (*u*) apply
(*a*) to taxation years ending after April 1994;
(*b*) to the 1994 and subsequent taxation years of the particular corporation referred to in any of paragraphs 8604(*g*), (*r*), (*t*) or (*u*), and of all corporations related to the particular corporation, and if the particular corporation has so elected by notifying the Minister of National Revenue in writing before 1995, to the 1993 taxation year of the particular corporation and of all corporations related to the particular corporation; and
(*c*) if the particular corporation referred to in paragraph 8604(*s*) so elects by notifying the Minister of National Revenue in writing before 1999, to taxation yearn ending after 1989 of the particular corporation and of all corporations related to the particular corporation.

The application for paragraphs (*q*) to (*u*) was amended by P.C. 1998-2046, SOR/98-571, dated November 19, 1998, deemed to have come into force on April 14, 1994. That application formerly read:

"Paragraphs (*q*) to (*u*) are applicable
(*a*) to the 1994 and subsequent taxation years; and
(*b*) where a particular corporation referred to in any of those paragraphs so elects by notifying the Minister of National Revenue in writing before 1995, to the taxation years ending after 1992 and before 1994 of the particular corporation and of all corporations related to the particular corporation."

Paragraph (*v*) is applicable to taxation years commencing after 1993.

8605. (1) For the purposes of subclause 181.3(1)(*c*)(ii)(A)(II) and clause 190.11(*b*)(i)(B) of the Act, the amount prescribed in respect of a particular corporation for a taxation year ending at a particular time is the total of all amounts each of which is the amount determined in respect of a corporation that is, at the particular time, foreign insurance subsidiary of the particular corporation, equal to the amount, if any, by which

(*a*) the amount by which the total, at the end of the subsidiary's last taxation year ending at or before the particular time, of

(i) the amount of the subsidiary's long-term debt, and

(ii) the amount of the subsidiary's capital stock (or, in the case of an insurance corporation incorporated without share capital, the amount of its member's contributions), retained earnings, contributed surplus and any other surpluses

exceeds the total of

(iii) the amount of the subsidiary's deferred tax debit balance at the end of the year, and

(iv) the amount of any deficit deducted in computing the subsidiary's shareholders' equity at the end of the year

exceeds the total of all amounts each of which is

(*b*) the carrying value to its owner at the particular time for the taxation year that includes the particular time of a share of the subsidiary's capital stock or its long ten debt that is owned at the particular time by

(i) the particular corporation,

(ii) a subsidiary of the particular corporation,

(iii) a corporation

(A) that is resident in Canada,

(B) that carried on a life insurance business in Canada at any time in its taxation year ending at or before the particular time, and

(C) that is

(I) a corporation of which the particular corporation is a subsidiary, or

(II) a subsidiary of a corporation described in subclause (I),

(iv) a subsidiary of corporation described in subparagraph (iii), or

(*c*) an amount included under paragraph (*a*) in respect of any surplus of the subsidiary contributed by a corporation described in any of subparagraphs (*b*)(i) to (iv), other than an amount included under paragraph (*b*).

(*d*) [Repealed.]

History: S. 8605(1)(c) was amended by P.C. 1998-2046, SOR/98-571, dated November 19, 1998, applicable to the 1991 and subsequent taxation years. S. 8605(1)(c) formerly read:

"(*c*) the carrying value to its owner, for the taxation year of the owner that includes the particular time, of the subsidiary's long-term debt that was owned by corporation referred to or described in any of subparagraphs (*b*)(i) to (iv), or"

S. 8605(1)(d) was repealed by P.C. 1998-2046, SOR/98-571, dated November 19, 1998, applicable to the 1991 and subsequent taxation years. S. 8605(1)(d) formerly read:

"(*d*) an amount included under paragraph (*a*) in respect of any surplus of the subsidiary contributed by a corporation described in any of subparagraphs (*b*)(i) to (iv), other than an amount included under paragraph (*b*) or (*c*)."

Subsection 8605(1) was added by P.C. 1996-1597, SOR/96-475, dated October 24, 1996, applicable to the 1991 and subsequent taxation years.

(2) For the purposes of subclause 181.3(1)(*c*)(ii)(A)(III) and clause 190.11(*b*)(i)(C) of the Act, the amount prescribed in respect of a particular corporation for a taxation year ending at a particular time is the total of all amounts each of which is the amount determined in respect of corporation that is, at the particular time, a foreign insurance subsidiary of the particular corporation, equal to the amount, if any, by which

(*a*) the total of the amounts determined under paragraphs (1)(*b*) and (*c*) in respect of the subsidiary for the year

exceeds

(*b*) the amount determined under paragraph (1)(*a*) in respect of the subsidiary for the year.

History: Subsection 8605(2) was added by P.C. 1996-1597, SOR/96-475, dated October 24, 1996, applicable to the 1991 and subsequent taxation years.

(3) For the purposes of subclause 181.3(1)(*c*)(ii)(A)(V) and clause 190.11(*b*)(i)(E) of the Act, the amount prescribed in respect of a particular corporation for a taxation year ending at a particular time means the total of all amounts each of which would be the total reserve liabilities of a foreign insurance subsidiary of the particular corporation as at the end of the subsidiary's last taxation year ending at or before the particular time if the subsidiary were required by law to report to the Superintendent of Financial Institutions for that year.

History: S. 8605(3) was amended by P.C. 2000-1714, SOR/2000-413, dated November 30, 2000, applicable to the 1999 and subsequent taxation years. S. 8605(3) formerly read:

"(3) For the purposes of subclause 181.3(1)(*c*)(ii)(A)(V) and clause 190.11(*b*)(i)(E) of the Act, the amount prescribed in respect of a particular corporation for a taxation year ending at particular time means the total of all amounts each of which would be the total reserve liabilities (as defined in subsection 2405(3)) of a foreign insurance subsidiary of the particular corporation as at the end of the subsidiary's last taxation year ending at or before the particular time if the subsidiary were required by law to report to the Superintendent of Financial Institutions for that year."

Subsection 8605(3) was added by P.C. 1996-1597, SOR/96-475, dated October 24, 1996, applicable to the 1991 and subsequent taxation years.

(4) The definitions in this subsection apply in this section.

"*foreign insurance subsidiary*" of a particular corporation at any time means a non-resident corporation that

(*a*) carried on a life insurance business throughout its last taxation year ending at or before that time,

(*b*) did not carry on a life insurance business in Canada at any time in its last taxation year ending at or before that time, and

(*c*) is at that time

(i) a subsidiary of the particular corporation, and

(ii) not a subsidiary of any corporation that

(A) is resident in Canada,

(B) carried on a life insurance business in Canada at any time in its last taxation year ending at or before that time, and

(C) is a subsidiary of the particular corporation.

"*subsidiary*" of a corporation (in this definition referred to as the "parent corporation") means a corporation controlled by the parent corporation where shares of each class of the capital stock of the corporation having a fair market value of not less than 75% of the fair market value of all of the issued and outstanding shares of that class belong to

(*a*) the parent corporation,

(*b*) a corporation that is a subsidiary of the parent corporation, or

(*c*) any combination of corporations each of which is a corporation referred to in paragraph (*a*) or described in paragraph (*b*).

History: Subsection 8605(4) was added by P.C. 1996-1597, SOR/96-475, dated October 24, 1996, applicable to the 1991 and subsequent taxation years.

PART LXXXVII

National Arts Service Organizations

8700. For the purposes of paragraph 149.1(6.4)(*d*) of the Act, the following conditions are prescribed for a national arts service organization:

(*a*) the organization is an organization

(i) that is, because of paragraph 149(1)(*l*) of the Act, exempt from tax under Part I of the Act,

(ii) that represents, in an official language of Canada, the community of artists from one or more of the following sectors of activity in the arts community, that is, theatre, opera, music, dance, painting, sculpture, drawing, crafts, design, photography, the literary arts, film, sound recording and other audio-visual arts, and such other sectors of artistic activity related to the creation or performance of works of art as the Minister of Communications may recognize,

(iii) no part of the income of which may be payable to, or otherwise available for the personal benefit of, any proprietor, member, shareholder, trustee, or settlor of the organization, except where the payment is for services rendered or is an amount to which paragraph 56(1)(*n*) of the Act applies in respect of the recipient,

(iv) all of the resources of which are devoted to the activities and objects described in its application for its last designation by the Minister of Communications pursuant to paragraph 149.1(6.4)(*a*) of the Act,

(v) more than 50 per cent of the directors, trustees, officers or other officials of which deal with each other at arm's length, and

(vi) no more than 50% of the property of which at any time has been contributed or otherwise paid into the organization by one person or members of a group of persons who do not deal with each other at arm's length and, for the purpose of this subparagraph, a reference to any person or to members of a group does not include a reference to Her Majesty in Right of Canada or a province, a municipality, a registered charity that is not a private foundation or any club, society or association described in paragraph 149(1)(*l*) of the Act; and

(*b*) the activities of the organization are confined to one or more of

(i) promoting one or more art forms,

(ii) conducting research into one or more art forms,

(iii) sponsoring arts exhibitions or performances,

(iv) representing interests of the arts community or a sector thereof (but not of individuals) before governmental, judicial, quasi-judicial or other public bodies,

(v) conducting workshops, seminars, training programs and similar development programs relating to the arts for members of the organization, in respect of which the value of benefits received or enjoyed by members of the organization is required by paragraph 56(1)(*aa*) of the Act to be included in computing the incomes of those members,

(vi) educating the public about the arts community or the sector represented by the organization,

(vii) organizing and sponsoring conventions, conferences, competitions and special events relating to the arts community or the sector represented by the organization,

(viii) conducting arts studies and surveys of interest to members of the organization relating to the arts community or the sector represented by the organization,

(ix) acting as an information centre by maintaining resource libraries and data bases relating to the arts community or the sector represented by the organization,

(x) disseminating information relating to the arts community or the sector represented by the organization, and

(xi) paying amounts to which paragraph 56(1)(*n*) of the Act applies in respect of the recipient and which relate to the arts community or the sector represented by the organization.

History: S. 8700(*a*)(vi) was replaced by P.C. 2007-849, SOR/2007-116, dated May 31, 2007, effective on publication in the *Canada Gazette*, June 13, 2007. S. 8700(*a*)(vi) formerly read:

"(vi) no more than 50 per cent of the property of which at any time has been contributed or otherwise paid into the organization by one person or by members of a group of persons who do not deal with each other at arm's length and, for the purposes of this subparagraph, a reference to any person or to members of a group does not include a reference to Her Majesty in right of Canada or a province, a municipality, or a registered charity (other than a club, society or association described in paragraph 149(1)(*l*) of the Act or a private foundation as that term is defined in paragraph 149.1(1)(*f*) [subsection 149.1(1) 'private foundation'] of the Act); and"

S. 8700 and the heading were added by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable after July 13, 1990.

Regulations

PART LXXXVIII

Disability-Related Modifications and Apparatus

8800. The renovations and alterations that are prescribed for the purposes of paragraph 20(1)(*qq*) of the Act are

(*a*) the installation of

(i) an interior or exterior ramp, or

(ii) a hand-activated electric door opener; and

(*b*) a modification to a bathroom, elevator or doorway to accommodate its use by a person in a wheelchair.

History: S. 8800 was added by P.C. 1993-2026, SOR/93-565, dated December 9, 1993, applicable with respect to renovations and alterations made after 1990.

8801. The devices and equipment that are prescribed for the purposes of paragraph 20(1)(*rr*) of the Act are

(*a*) an elevator car position indicator, such as a braille panel or an audio signal, for individuals having a sight impairment;

(*b*) a visual fire alarm indicator, a listening device for group meetings or a telephone device, for individuals having a hearing impairment; and

(*c*) a disability-specific computer software or hardware attachment.

History: S. 8801(*c*) was added by P.C. 1995-579, SOR/95-182, dated April 4, 1995, applicable to computer attachments for which amounts are paid by the taxpayer after February 25, 1992.

S. 8801 was added by P.C. 1993-2026, SOR/93-565, dated December 9, 1993, applicable with respect to devices or equipment for which amounts are paid by the taxpayer after February 25, 1992.

PART LXXXIX

Entities Prescribed with Respect to Certain Rules

International Organizations

8900. (1) For the purpose of subparagraph 110(1)(*f*)(iii) of the Act, the following international organizations are prescribed:

(*a*) the United Nations; and

(*b*) each international organization that is a specialized agency brought into relationship with the United Nations in accordance with Article 63 of the Charter of the United Nations.

History: S. 8900(1), and the heading before it were amended by P.C. 2003-266, SOR/2003-83, dated February 27, 2003, applicable to the 2001 and subsequent taxation years. S. 8900(1), and the heading before it formerly read:

"**PART LXXXIX**
Prescribed Organizations

S. 8900. For the purposes of paragraph 110(1)(*f*) of the Act,

(*a*) the United Nations, and any specialized agency that is brought into relationship with the United Nations in accordance with Article 63 of the Charter of the United Nations, are prescribed international organizations; and

(*b*) the International Air Transport Association and the International Society of Aeronautical Telecommunications are prescribed international non-governmental organizations."

S. 8900 was added by P.C. 1995-663, SOR/95-202, dated April 26, 1995, applicable to the 1991 and subsequent taxation years, except that paragraph 8900(*b*) applies only to the 1993 and subsequent taxation years.

International Non-governmental Organizations

(2) For the purpose of subparagraph 110(1)(*f*)(iv) of the Act, the following international non-governmental organizations are prescribed:

(*a*) the International Air Transport Association;

(*b*) the Société internationale de télécommunications aéronautiques; and

(*c*) the World Anti-Doping Agency.

History: S. 8900(2) was added by P.C. 2003-266, SOR/2003-83, dated February 27, 2003, applicable to the 2001 and subsequent taxation years.

PARTNERSHIP

8901. For the purpose of paragraph 249.1(1)(*b*) of the Act, Gaz Métropolitan and Company, Limited Partnership is a prescribed partnership.

History: S. 8901 was added by P.C. 2003-266, SOR/2003-83, dated February 27, 2003, applicable to fiscal periods that begin after 1994.

PART XC

Financial Institutions — Prescribed Entities and Properties

PRESCRIBED TRUST NOT A FINANCIAL INSTITUTION

9000. For the purpose of paragraph (*e*) of the definition "financial institution" in subsection 142.2(1) of the Act, a trust is, at any particular time, a prescribed person if the following conditions are satisfied at that particular time:

(*a*) the trust is a related segregated fund trust (within the meaning assigned by paragraph 138.1(1)(*a*) of the Act);

(*b*) the trust is deemed, under paragraph 138.1(1)(*a*) of the Act, to have been created at a time that is not more than two years before that particular time; and

(*c*) the cost of the trustee's interest (as determined by paragraph 138.1(1)(*c*) and (*d*) of the Act) in the trust does not exceed $5,000,000.

History: The heading for Part XC was replaced, and s. 9000 was added by S.C. 2009, c. 2, s. 118(1), applicable to taxation years that end after February 22, 1994. The heading for Part XC formerly read:

"PART XC
Financial Institutions — Prescribed Entities"

PRESCRIBED PROPERTY NOT MARK-TO-MARKET PROPERTY

9001. (1) In this section, "qualified small business corporation", at any time, means a corporation in respect of which the following conditions are satisfied at that time:

(*a*) the corporation is a Canadian-controlled private corporation;

(*b*) the corporation either is an eligible corporation (as defined in subsection 5100(1)) or would be an eligible corporation if the definition "eligible corporation" in subsection 5100(1) were read without reference to its paragraph (*e*);

(*c*) the carrying value of the total assets of the corporation and all corporations related to it (determined in accordance with generally accepted accounting principles on a consolidated or combined basis, where applicable) does not exceed $50,000,000; and

(*d*) the number of employees of the corporation and all corporations related to it does not exceed 500.

History: S. 9001(1) was added by S.C. 2009, c. 2, s. 118(1), applicable to taxation years that end after February 22, 1994, except that in applying section 9001 to taxation years that begin before October 2006, the reference in that section to "excluded property" is to be read as a reference to "mark-to-market property".

(2) For the purpose of paragraph (*e*) of the definition "excluded property" in subsection 142.2(1) of the Act, a share of the capital stock of a corporation is a prescribed property of a taxpayer if

(*a*) immediately after the time at which the taxpayer acquired the share, the corporation was a qualified small business corporation, and

(i) the corporation continued to be a qualified small business corporation for one year after that time, or

(ii) the taxpayer could not reasonably expect at that time that the corporation would cease to be a qualified small business corporation within one year after that time; or

(*b*) the share was issued to the taxpayer in exchange for one or more shares of the capital stock of the corporation that were, at the time of the exchange, prescribed property of the taxpayer under this subsection.

History: S. 9001(2) was added by S.C. 2009, c. 2, s. 118(1), applicable to taxation years that end after February 22, 1994, except that in applying section 9001 to taxation years that begin before October 2006, the reference in that section to "excluded property" is to be read as a reference to "mark-to-market property".

PRESCRIBED PROPERTY NOT MARK-TO-MARKET PROPERTY

9002. (1) For the purposes of paragraph (*e*) of the definition "excluded property" in subsection 142.2(1) of the Act, and of subparagraph 142.6(4)(*a*)(ii) of the Act, a debt obligation held by a bank is a prescribed property of the bank if the obligation is

(*a*) an exposure to a designated country (within the meaning assigned by section 8006);

(*b*) a United Mexican States Collateralized Par Bond due 2019; or

(*c*) a United Mexican States Collateralized Discount Bond due 2019.

History: S. 9002(1) was added by S.C. 2009, c. 2, s. 118(1), applicable to taxation years that end after February 22, 1994, except that in applying section 9002 to taxation years that begin before October 2006, the references in that section to "excluded property" are to be read as references to "mark-to-market property".

(2) For the purpose of paragraph (*e*) of the definition "excluded property" in subsection 142.2(1) of the Act, a share is a prescribed property of a taxpayer for a taxation year if

(*a*) the share is a lending asset of the taxpayer in the year; or

(*b*) the share was, immediately after its issuance, a share described in paragraph (*e*) of the definition "term preferred share" in subsection 248(1) of the Act, and the share would, at any time in the year, be a term preferred share if

(i) that definition were read without reference to the portion following paragraph (*b*), and

(ii) where the share was issued or acquired on or before June 28, 1982, it were issued or acquired after that day.

History: S. 9002(2) was added by S.C. 2009, c. 2, s. 118(1), applicable to taxation years that end after February 22, 1994, except that in applying

section 9002 to taxation years that begin before October 2006, the references in that section to "excluded property" are to be read as references to "mark-to-market property".

(3) For the purpose of paragraph (*e*) of the definition "excluded property" in subsection 142.2(1) of the Act, a share of the capital stock of a corporation that is held by a credit union is a prescribed property of the credit union for a taxation year if, throughout the period (referred to in this subsection as the "holding period") in that taxation year during which the credit union holds the share

(*a*) the corporation is a credit union; or

(*b*) the following conditions are satisfied:

(i) credit unions hold shares of the corporation that

(A) give those credit unions at least 50% of the votes that could be cast under all circumstances at an annual meeting of shareholders of the corporation, and

(B) have a fair market value of at least 50% of the fair market value of all the issued shares of the corporation,

(ii) the corporation is not controlled, directly or indirectly in any manner whatever, by any person that is not a credit union, and

(iii) the corporation would not be controlled by a person that is not a credit union if each share of the corporation that is not owned at any time in the holding period by a credit union were owned, at that time, by the person.

History: S. 9002(3) was replaced by S.C. 2009, c. 2, s. 118(2), applicable to taxation years that begin after February 2, 2009, except that

(*a*) it also applies to taxation years, of a taxpayer, that end after 2002 and begin before February 3, 2009, if the taxpayer so elects in writing and files the election with the Minister of National Revenue on or before the taxpayer's filing-due date for the taxpayer's taxation year in which this Act is assented to [R.A. March 12, 2009]; and

(*b*) if a taxpayer makes an election under paragraph (*a*) [above], in applying subsection 9002(3) for taxation years of the taxpayer that begin before October 2006, the reference in that subsection to "excluded property" is to be read as a reference to "mark-to-market property".

S. 9002(3) formerly read:

"(3) For the purpose of paragraph (*e*) of the definition 'excluded property' in subsection 142.2(1) of the Act, a share of the capital stock of a corporation that is held by a credit union is a prescribed property of the credit union for a taxation year if, throughout that taxation year,

(*a*) the corporation is a credit union; or

(*b*) credit unions hold

(i) shares of the corporation that give the credit unions more than 50% of the votes that could be cast under all circumstances at an annual meeting of shareholders of the corporation, and

(ii) shares of the corporation having a fair market value of more than 50% of the fair market value of all the issued shares of the corporation."

S. 9002(3) was added by S.C. 2009, c. 2, s. 118(1), applicable to taxation years that end after February 22, 1994, except that in applying section 9002 to taxation years that begin before October 2006, the reference in that subsection to "excluded property" is to be read as a reference to "mark-to-market property".

Prescribed Payment Card Corporation Share Not Mark-To-Market Property

9002.1. For the purpose of paragraph (*b*) of the definition "excluded property" in subsection 142.2(1) of the Act, a prescribed payment card corporation share of a taxpayer at any time means a share of the capital stock of a particular corporation if, at that time,

(*a*) the particular corporation is any one of the following

(i) MasterCard International Incorporated,

(ii) MasterCard Incorporated, or

(iii) Visa Inc.; and

(*b*) the share

(i) is of a class of shares that is not listed on a stock exchange,

(ii) is not convertible into or exchangeable for a share of the class of the capital stock of a corporation that is listed on a stock exchange, and

(iii) was issued by the particular corporation to the taxpayer or to a person related to the taxpayer.

History: S. 9002.1 was added by S.C. 2009, c. 2, s. 118(1), applicable to taxation years that end after February 22, 1994, except that in applying section 9002.1 to taxation years that begin before October 2006, the reference in that section to "paragraph (*b*) of the definition "excluded property"" is to be read as a reference to "paragraph (*d.1*) of the definition "mark-to-market property"".

Prescribed Securities Exchange Investment Not Mark-To-Market Property

9002.2. [Repealed.]

History: S. 9002.2 was repealed by S.C. 2009, c. 2, s. 118(3), applicable to taxation years that begin after 2007. S. 9002.2 formerly read:

"S. 9002.2. For the purpose of paragraph (*c*) of the definition 'excluded property' in subsection 142.2(1) of the Act, a prescribed securities exchange investment of a taxpayer at any time means a share of the capital stock of a corporation if, at that time, the corporation is not a public corporation and is

(*a*) The Toronto Stock Exchange Inc.;

(*b*) TSX Inc.;

(*c*) TSX Group Inc.;

(*d*) Bourse de Montréal Inc.; or

(*e*) Canadian Venture Exchange Inc."

S. 9002.2 was added by S.C. 2009, c. 2, s. 118(1), applicable to taxation years that begin after 1998 and before 2008, except that in applying that section to taxation years that begin before October 2006, the reference to "paragraph (*c*) of the definition "excluded property"" is to be read as a reference to "paragraph (*d.2*) of the definition "mark-to-market property"".

Significant Interest in a Corporation

9003. For the purpose of paragraph 142.2(3)(*c*) of the Act, a share described in paragraph 9002(2)(*b*) is prescribed in respect of all taxpayers.

History: S. 9003 was added by S.C. 2009, c. 2, s. 118(1), applicable to taxation years that end after February 22, 1994.

Financing Arrangement Not a Specified Debt Obligation

9004. For the purpose of paragraph (*c*) of the definition "specified debt obligation" in subsection 142.2(1) of the Act, a property is a prescribed property throughout a taxation year if

(*a*) the property is a direct financing lease, or any other financing arrangement, of a taxpayer that is reported as a loan in the taxpayer's financial statements for the year prepared in accordance with generally accepted accounting principles; and

(*b*) in computing the taxpayer's income for the year, an amount is deductible under paragraph 20(1)(*a*) of the Act in respect of the property that is the subject of the arrangement.

History: S. 9004 was replaced by S.C. 2009, c. 2, s. 118(1), applicable to taxation years that begin after February 2, 2009. S. 9004 formerly read:

"S. 9004. For the purpose of the definition 'specified debt obligation' in subsection 142.2(1) of the Act, a property is a prescribed property throughout a taxation year if the property is a direct financing lease, or any other financing arrangement, of a taxpayer that is reported as a loan in the taxpayer's financial statement for the year prepared in accordance with generally accepted accounting principles and an amount is deductible under

paragraph 20(1)(*a*) of the Act in respect of the property that is the subject of the lease or arrangement in computing the taxpayer's income for the year."

S. 9004 was added by P.C. 1999-195, SOR/99-91, dated February 11, 1999, applicable

(*a*) to taxation years that end after September 1997; and

(*b*) to taxation years that end after 1995 and before October 1997 where the taxpayer makes an election before October 1998. [See history note for paragraph 20(1)(*l*).]

Pending Amendment

Securities Held by Financial Institutions — April 11, 2009 (Pre-published in the *Canada Gazette*, Part I, dated April 11, 2009)

The Regulations are amended by adding the following after Part XC:

PART XCI

Financial Institutions — Income from Specified Debt Obligations

INTERPRETATION

Definitions

9100. The following definitions apply in this Part.

"*fixed payment obligation*", of a taxpayer, means a specified debt obligation under which

(*a*) the amount and timing of each payment (other than a fee or similar payment or an amount payable because of a default by the debtor) to be made by the debtor were fixed when the taxpayer acquired the obligation and have not been changed; and

(*b*) all payments are to be made in the same currency.

"*primary currency*", of a specified debt obligation, means

(*a*) the currency with which the obligation is primarily connected; and

(*b*) if there is no such currency, Canadian currency.

"*tax basis*", of a specified debt obligation at any time to a taxpayer, has the meaning assigned by subsection 142.4(1) of the Act.

"*total return*", of a taxpayer from a fixed payment obligation, means the amount, measured in the primary currency of the obligation, by which

(*a*) the total of all amounts each of which is the amount of a payment (other than a fee or similar payment) required to be made by the debtor under the obligation after its acquisition by the taxpayer

exceeds

(*b*) the cost to the taxpayer of the obligation.

PRESCRIBED INCLUSIONS AND DEDUCTIONS

9101. (1) Inclusion. For the purpose of paragraph 142.3(1)(*a*) of the Act, where a taxpayer holds a specified debt obligation at any time in a taxation year, the amount prescribed in respect of the obligation for the year is the total of

(*a*) the taxpayer's accrued return from the obligation for the year,

(*b*) if the taxpayer's accrual adjustment determined under section 9102 in respect of the obligation for the year is greater than nil, the amount of the adjustment, and

(*c*) if a foreign exchange adjustment is determined under section 9104 in respect of the obligation for the year and is greater than nil, the amount of the adjustment.

(2) Deduction. For the purpose of paragraph 142.3(1)(*b*) of the Act, where a taxpayer holds a specified debt obligation at any time in a taxation year, the amount prescribed in respect of the obligation is the total of

(*a*) if the taxpayer's accrual adjustment determined under section 9102 in respect of the obligation for the year is less than nil, the absolute value of the amount of the adjustment, and

(*b*) if a foreign exchange adjustment is determined under section 9104 in respect of the obligation for the year and is less than nil, the absolute value of the amount of the adjustment.

GENERAL ACCRUAL RULES

9102. (1) Fixed payment obligation not in default. For the purpose of paragraph 9101(1)(*a*), a taxpayer's accrued return for a taxation year from a fixed payment obligation, under which each payment required to be made before the end of the year was made by the debtor when it was required to be made, shall be determined in accordance with the following rules:

(*a*) determine, in the primary currency of the obligation, the portion of the taxpayer's total return from the obligation that is allocated to each day in the year using

(i) the level-yield method described in subsection (2), or

(ii) any other reasonable method that is substantially similar to the level-yield method;

(*b*) if the primary currency of the obligation is not Canadian currency, translate to Canadian currency the amount allocated to each day in the year, using a reasonable method of translation; and

(*c*) determine the total of all amounts each of which is the Canadian currency amount allocated to a day, in the year, at the beginning of which the taxpayer holds the obligation.

(2) Level-yield method. For the purpose of subsection (1), the level-yield method for allocating a taxpayer's total return from a fixed payment obligation is the method that allocates, to each particular day in the period that begins on the day following the day on which the taxpayer acquired the obligation and that ends on the day on which the obligation matures, the amount determined by the formula

$$(A + B - C) \times D$$

where

A is the cost of the obligation to the taxpayer (expressed in the primary currency of the obligation);

B is the total of all amounts each of which is the portion of the taxpayer's total return from the obligation that is allocated to a day before the particular day;

C is the total of all payments required to be made under the obligation after it was acquired by the taxpayer and before the particular day; and

D is the rate of interest per day that, if used in computing the present value (as of the end of the day on which the taxpayer acquired the obligation and based on daily compounding) of all payments to be made under the obligation after it was acquired by the taxpayer, produces a present value equal to the cost to the taxpayer of the obligation (expressed in the primary currency of the obligation).

(3) Other specified debt obligations. For the purpose of paragraph 9101(1)(*a*), a taxpayer's accrued return for a taxation year from a specified debt obligation, other than an obligation to which subsection (1) applies, shall be determined

(*a*) using a reasonable method that,

(i) taking into account the extent to which the obligation differs from fixed payment obligations, is consistent with the principles implicit in the methods that can be used under subsection (1) for fixed payment obligations, and

(ii) is in accordance with generally accepted accounting practice for the measurement of profit from debt obligations; and

(*b*) on the basis of reasonable assumptions with respect to the timing and amount of any payments to be made by the debtor under the obligation that are not fixed in their

timing or amount (expressed in the primary currency of the obligation).

(4) Accrual adjustment nil. For the purposes of paragraphs 9101(1)(*b*) and (2)(*a*), if subsection 142.3(1) of the Act applies to a taxpayer for a particular taxation year in respect of a specified debt obligation and either the subsection did not apply in respect of the obligation for the taxpayer's immediately preceding taxation year or the taxpayer did not own the obligation at the end of that immediately preceding taxation year, the taxpayer's accrual adjustment in respect of the obligation for the particular taxation year is nil.

(5) Accrual adjustment. For the purposes of paragraphs 9101(1)(*b*) and (2)(*a*), if subsection (4) does not apply to determine a taxpayer's accrual adjustment in respect of a specified debt obligation for a particular taxation year, the taxpayer's accrual adjustment is the positive or negative amount determined by the formula

A – B

where

A is the total of all amounts each of which is the amount that would be the taxpayer's accrued return from the obligation for a taxation year, before the particular taxation year, for which subsection 142.3(1) of the Act applied to the taxpayer in respect of the obligation if the accrued return were redetermined on the basis of

(*a*) the information available at the end of the particular taxation year, and

(*b*) the assumptions, if any, with respect to the timing and amount of payments to be made under the obligation after the particular taxation year that were used for the purpose of determining the taxpayer's accrued return from the obligation for the particular taxation year; and

B is the total of

(*a*) the amount included under paragraph 9101(1)(*a*) as the taxpayer's accrued return from the obligation for the taxation year immediately preceding the particular taxation year, and

(*b*) if the taxpayer's accrual adjustment in respect of the obligation for that immediately preceding taxation year was determined under this subsection, the value of A for the purpose of determining that accrual adjustment.

(6) Special cases and transition. The rules in this section for determining accrued returns and accrual adjustments are subject to section 9103.

Accrual Rules — Special Cases and Transition

9103. (1) Convertible obligation. For the purposes of section 9102, if the terms of a specified debt obligation of a taxpayer give the taxpayer the right to exchange the obligation for shares of the debtor or of a corporation related to the debtor

(*a*) subject to paragraph (*b*), the right shall be disregarded (whether it has been exercised or not); and

(*b*) if 5% or more of the cost of the obligation to the taxpayer is attributable to the right, the cost is deemed to equal the amount by which the cost exceeds the portion of the cost attributable to the right.

(2) Default by debtor. For the purposes of section 9102, in determining amounts in respect of a specified debt obligation, no reduction shall be made on account of the possible or actual failure of the debtor to make any payments under the obligation.

(3) Amendment of obligation. If the terms of a specified debt obligation of a taxpayer are amended at any time in a taxation year of the taxpayer to change the timing or amount of any payment to be made, at or after that time, under the obligation, the taxpayers's accrued returns for the taxation year and for each subsequent taxation year are to be redetermined under section 9102 using a reasonable method that fully gives effect, in those accrued returns, to the alteration to the payments under the obligation.

(4) Obligations acquired before financial institution rules apply. If a taxpayer held a specified debt obligation at the beginning of the taxpayer's first taxation year (in this subsection referred to as the "initial year") for which subsection 142.3(1) of the Act applied to the taxpayer in respect of the obligation, the following rules apply:

(*a*) the taxpayer's accrued return from the obligation for the initial year or a subsequent taxation year shall not include an amount to the extent that the amount was included in computing the taxpayer's income for a taxation year preceding the initial year; and

(*b*) if interest on the obligation in respect of a period before the initial year becomes receivable or is received by the taxpayer in a particular taxation year that is the initial year or a subsequent taxation year, and all or part of the interest would not, but for this paragraph, be included in computing the taxpayer's income for any taxation year, there shall be included in determining the taxpayer's accrued return from the obligation for the particular taxation year the amount, if any, by which

(i) the portion of the interest that would not otherwise be included in computing the taxpayer's income for any taxation year

exceeds

(ii) the portion of the cost of the obligation to the taxpayer that is reasonably attributable to that portion of the interest.

(5) Prepaid interest — transition rule. If, before November 1994 and in a taxation year that ended after February 22, 1994, a taxpayer received an amount under a specified debt obligation in satisfaction, in whole or in part, of the debtor's obligation to pay interest in respect of a period after the taxation year,

(*a*) the amount may, at the election of the taxpayer, be included in determining the taxpayer's accrued return for the taxation year from the obligation; and

(*b*) if the amount is so included, the taxpayer's accrued returns for subsequent taxation years from the obligation shall not include any amount in respect of interest that, because of the payment of the amount, the debtor is no longer required to pay.

Applicable: To taxation years that end after February 22, 1994, except that in respect of taxation years beginning before April 11, 2009 [the day of the prepublication of these regulations in Part I of the *Canada Gazette*], subsection 9103(3) of the Regulations is to be read as follows:

"(3) For the purposes of determining accrued returns and accrual adjustments under section 9102, if the terms of a specified debt obligation of a taxpayer have been amended to change the timing or amount of any payment to be made under the obligation, the amendment shall be taken into account as if the obligation had been acquired at the time the amendment was made."

Pending Amendment

Securities Held by Financial Institutions — April 11, 2009 (Pre-published in the *Canada Gazette*, Part I, dated April 11, 2009)

Subsection 9103(2) of the Regulations is repealed.

(2) [Repealed.]

Applicable:

(*a*) To taxation years that end after September 1997; and

(*b*) to a taxpayer's taxation years that end after 1995 and before October 1997 where the taxpayer has made an election under paragraph 81(11)(*b*) of the *Income Tax Amendment Act, 1997*, S.C. 1998, c. 19 [an election under s. 20(1)(*l*) of the *Income Tax Act*, to have been filed before October 1998].

Pending Amendment

Securities Held by Financial Institutions — April 11, 2009 (Pre-published in the *Canada Gazette*, Part I, dated April 11, 2009)

The following is added:

FOREIGN EXCHANGE ADJUSTMENT

9104. (1) Obligations held at end of taxation year. For the purposes of paragraphs 9101(1)(*c*) and (2)(*b*), if, at the end of a taxation year, a taxpayer holds a specified debt obligation the primary currency of which is not Canadian currency, the taxpayer's foreign exchange adjustment in respect of the obligation for the taxation year is the positive or negative amount determined by the formula

$$(A \times B) - C$$

where

A is the amount that would be the tax basis of the obligation to the taxpayer at the end of the year if

(*a*) the tax basis were determined using the primary currency of the obligation as the currency in which all amounts are expressed,

(*b*) the definition "tax basis" in subsection 142.4(1) of the Act were read without reference to paragraphs (*f*), (*h*), (*o*) and (*q*), and

(*c*) the taxpayer's foreign exchange adjustment in respect of the obligation for each year were nil;

B is the rate of exchange at the end of the year of the primary currency of the obligation into Canadian currency; and

C is the amount that would be the tax basis of the obligation to the taxpayer at the end of the year if

(*a*) the definition "tax basis" in subsection 142.4(1) of the Act were read without reference to paragraphs (*h*) and (*q*), and

(*b*) the taxpayer's foreign exchange adjustment in respect of the obligation for the year were nil.

(2) Disposition of obligation. If a taxpayer disposes of a specified debt obligation the primary currency of which is not Canadian currency, the taxpayer's foreign exchange adjustment in respect of the obligation for the taxation year in which the disposition occurs is the amount that would be the foreign exchange adjustment if the taxation year had ended immediately before the disposition.

(3) Disposition of obligation before 1996. At the election of a taxpayer, subsection (2) does not apply to specified debt obligations disposed of by the taxpayer before 1996.

Applicable: To taxation years that end after February 22, 1994.

Explanatory Note:

See the Regulatory Impact Analysis Statement, published in the *Canada Gazette*, Part I on April 11, 2009, reproduced with the Explanatory Note for Regulation 304(1)(*c*).

Explanatory Notes Released on June 1, 1995

Financial Institutions

New Parts XCI to XCII of the Regulations contain provisions relating to the tax treatment of securities held by financial institutions. The purpose of each Part is as follows:

- Part XCI contains the rules for determining income from specified debt obligations.
- Part XCII sets out rules relating to the disposition of specified debt obligations. These include rules for amortizing gains and losses from the disposition of such obligations.

These new Parts apply to taxation years that end after February 22, 1994.

Part XCI — Financial Institutions — Income from Specified Debt Obligations

Part XCI of the Regulations contains rules for determining the amounts that a financial institution is required to include and deduct each year in respect of a specified debt obligation in computing its income. These rules apply for the purpose of subsection 142.3(1) of the Act.

Section 9100 — Interpretation

Section 9100 defines certain terms that are used in Part XCI.

A "fixed payment obligation" of a taxpayer is a specified debt obligation held by the taxpayer under which the payments to be made by the debtor are all fixed in timing and amount, and are all denominated in the same currency. Fees and similar payments are to be disregarded for the purpose of this definition, as are any additional payments that the debtor will be required to make if the debtor fails to make a payment as required under the obligation.

The "primary currency" of a specified debt obligation is the currency with which the obligation is primarily connected. Where there is no such currency, the primary currency is the Canadian dollar.

The "tax basis" of a specified debt obligation to a taxpayer is the amount defined by subsection 142.4(1) of the Act. The tax basis is analogous to the adjusted cost base of capital property.

A taxpayer's "total return" from a fixed payment obligation is equal to (i) the total amount of payments required to be made under the obligation by the debtor after the acquisition of the obligation by the taxpayer minus (ii) the cost of the obligation to the taxpayer. Fees and similar payments (such as insurance premiums) are excluded in determining the total return. The total return is to be measured in the primary currency of the obligation. Where the taxpayer's cost was determined in another currency, it should be translated to the primary currency using the spot rate of exchange at the time of acquisition.

Section 9101 — Prescribed inclusions and deductions

Paragraph 142.3(1)(a) of the Act requires a financial institution that holds a specified debt obligation in a taxation year to include a prescribed amount in income in respect of the obligation. Subsection 9101(1) of the Regulations prescribes an amount for this purpose equal to the sum of:

- the accrued return from the obligation for the year;
- the accrual adjustment in respect of the obligation for the year (if this amount is positive); and
- in the case of a foreign-currency obligation, the foreign exchange adjustment in respect of the obligation for the year (if this amount is positive).

Paragraph 142.3(1)(b) of the Act provides that a financial institution that holds a specified debt obligation in a taxation year must deduct a prescribed amount in respect of the obligation. Subsection 9101(2) of the Regulations prescribes an amount for this purpose equal to the absolute value of the sum of:

- the accrual adjustment in respect of the obligation for the year (if this amount is negative); and
- in the case of a foreign-currency obligation, the foreign exchange adjustment in respect of the obligation for the year (if this amount is negative).

In general terms, the accrued return for a year is the total expected economic return to the taxpayer (assuming the taxayer holds the obligation to maturity) that is allocated to the year under accrual principles of income recognition. Sections 9102 and 9103 contain rules relating to the determination of accrued returns.

The accrual adjustment is the amount by which prior years' accrued returns have to be adjusted to reflect subsequent events. For example, the accrued return for a year may have been based on an estimate of the amount of a future payment under the obligation. When the actual amount becomes known,

or the estimate needs to be revised, an adjustment would be determined. Subsections 9102(4) and (5) contain rules relating to the determination of accrual adjustments.

The foreign exchange adjustment in respect of a foreign-currency obligation is the amount determined under section 9104. In general terms, this is the amount by which the tax value of the obligation has changed because of a change in the value of the foreign currency relative to the Canadian dollar.

Section 9102 — General accrual rules

Section 9102 contains the general rules for determining a financial institution's accrued returns and accrual adjustments in respect of a specified debt obligation. These amounts are included in the amounts prescribed by section 9101. Transition rules and rules for special situations are contained in section 9103. Examples are provided at the end of the commentary on this section.

Section 9102 is organized as follows:

- Subsection 9102(1) provides for the determination of accrued returns from specified debt obligations under which all payments are fixed in timing and amount. Subsection 9102(2) describes the level-yield method that is referred to in subsection 9102(1).
- Subsection 9102(3) provides for the determination of accrued returns from obligations other than those to which subsection 9102(1) applies.
- Subsections 9102(4) and (5) provide for the determination of accrual adjustments.
- Subsection 9102(6) provides that the rules in section 9102 are subject to the rules in section 9103.

Subsections 9102(1) and (2) — Fixed payment obligations not in default

Subsection 9102(1) sets out, for the purpose of paragraph 9101(1)(a), the method for determining a taxpayer's accrued return for each taxation year from a specified debt obligation that is a fixed payment obligation under which the debtor has made all required payments. A "fixed payment obligation" is defined in section 9100 as a specified debt obligation under which the payments to be made by the debtor are all fixed in timing and amount, and are all denominated in the same currency.

In the case of a Canadian-dollar obligation that a taxpayer holds throughout a taxation year, the accrued return for the year is the total of the amounts allocated to each day in the year in respect of the taxpayer's total return from the obligation. Where the taxpayer does not hold the obligation throughout the year, the accrued return is the total of the amounts allocated to the days in the year at the beginning of which the taxpayer holds the obligation. The amount allocated to each day is to be determined using the level-yield method described in subsection 9102(2), or any other reasonable method that is substantially similar. Generally, a method would be considered reasonable only if it is in accordance with generally accepted accounting practice.

Under the level-yield method described in subsection 9102(2), the internal rate of return of an obligation is used to determine the amount of the taxpayer's total return from the obligation that is allocated to each day. The internal rate of return is the interest rate that produces a present value of payments under the obligation equal to the cost of the obligation to the taxpayer. For this purpose, compounding is on a daily basis. The amount of the total return allocated to a particular day is determined by the formula:

$$(A + B - C) \times D$$

where

A = the cost of the obligation to the taxpayer;

B = the portion of the total return allocated to preceding days;

C = the total payments required to be made under the obligation to the taxpayer before the particular day; and

D = the internal rate of return of the obligation, expressed as a daily rate of interest.

It is recognized that few, if any, taxpayers use precisely this method for financial statement purposes. As noted above, subsection 9102(1) allows the use of any other reasonable method that is substantially similar. For example, a taxpayer could use a method based on semi-annual compounding, in which case a suitable approach to proration between compounding dates would be necessary (where the taxation year end falls between compounding dates).

It is intended that straight-line proration be an acceptable method where it can be used for financial statement purposes and the obligation provides for a level rate of interest. Under this method, any premium or discount on the acquisition of an obligation is recognized on a uniform basis from the acquisition date to the maturity date of the obligation. Similarly, each interest payment is spread over the period to which it relates. An amount paid in respect of accrued interest on the acquisition of the obligation would normally be taken into account by offsetting it against the interest, and then spreading the remainder of the interest over the period from acquisition to the interest payment date.

In the case of a foreign-currency obligation, the first step is to determine, in the currency of the obligation, the total return and the amount of that return allocated to each day. For this purpose, the level-yield method (or any similar method that is permissible) is applied using the foreign currency as the currency in which all computations are done. Next, the amounts allocated to each day in a taxation year are translated to Canadian dollars using a reasonable method of translation. Finally, the Canadian dollar amounts for the days at the beginning of which the taxpayer holds the obligation are totalled. One translation method that would generally be acceptable is to use the average exchange rate for the year. Where this approach is used, it will make no difference whether the amount allocated to each day is totalled before or after being translated to Canadian dollars. Thus, the accrued return for the year could be determined in the foreign currency, and then translated to Canadian dollars.

Subsection 9102(1) is restricted to specified debt obligations under which the debtor has made all required payments. If a debtor is in default, subsection 9102(3) will apply. In general, under subsection 9102(3) the accrued return for a taxation year will equal the amount that would be determined under subsection 9102(1) plus any additional interest that accrues in the year because of the default.

Subsection 9102(3) — Other obligations

Subsection 9102(3) contains rules regarding the determination of accrued returns from specified debt obligations for the purpose of paragraph 9101(1)(a). It applies to obligations other than those to which subsection 9102(1) applies. Generally, subsection 9102(3) should allow a taxpayer to recognize income from an obligation using the same method for tax purposes as it uses for financial statement purposes.

Subsection 9102(3) requires that a taxpayer's accrued return from an obligation for each taxation year be determined using a reasonable method that is consistent with the principles implicit in the methods that subsection 9102(1) allows to be used for fixed payment obligations. The degree of consistency that is required depends on the extent to which the obligation is similar to fixed payment obligations. Subsection 9102(3) also requires that the method for determining the accrued return be in accordance with generally accepted accounting practice. Finally, it provides that reasonable assumptions are to be made with respect to the amount and timing of payments that are not fixed. Each of these requirements is discussed below.

Consistency with methods for fixed payment obligations

The following paragaphs describe the main consequences of the requirement that an accrual method used for a particular specified debt obligation be consistent with the principles that are implicit in the methods that can be used for fixed payment obligations.

The first consequence is that the accrued return for each year must be based on the total return that the taxpayer would realize if the obligation were held to maturity. Whether or not particular payments under the obligation are characterized as

interest is irrelevant in determining the total return, and thus the amount to be accrued each year. Also, each year's return must include an amount in respect of any discount on the acquisition of the obligation. Conversely, an acquisition premium is to be applied to reduce the amount that would otherwise accrue each year.

Second, to the extent that the total return derives from fixed payments, it must generally accrue at a uniform (or approximately uniform) rate. For example, if the rate of interest for each period is the sum of a fixed rate and a variable rate, and the fixed rate is not the same for all periods, there would have to be a "levelling" of the fixed rates. This requirement to "level the interest rate" is not new. A similar requirement is contained in the accrual rules under subsection 7000(2) of the Regulations.

It is not intended that interest be levelled where this would be inappropriate, such as where additional interest is payable because of the default of the debtor. For example, assume that a debt obligation that was acquired at its face amount provides for interest at the rate of 8%, and also provides that where the debtor fails to make a payment as required, interest on the overdue payment accrues at the rate of 11%. In this case, the accrued return for a year would equal the sum of the regular interest that accrues at the rate of 8% and any interest that accrues at 11% on overdue payments.

As indicated above, the consistency requirement is to be applied taking into account the extent to which an obligation differs from fixed payment obligations. This is relevant, in particular, for the levelling principle. For many variable rate debt obligations, it is appropriate to accrue the variable rate interest on the basis of the actual rates for each year. This would apply for example, if a debt obligation provides for interest that is set annually at a rate equal to the 1-year London Interbank Offered Rate (LIBOR) plus $^1/_2$%. Another example is a debt obligation that provides for interest at a bank's prime rate plus 1%. Of course, any acquisition premium or discount would have to be taken into account in determining the accrued return for each year.

The third consequence of the consistency requirement is that payments of interest in a year are not directly included in the accrued return for the year. In other words, the accrued return is determined on the basis of accrual principles only. (In some circumstances, interest payments may be included in accrual adjustments determined under subsection 9102(5).) However, interest payments, like other payments, would be subtracted from the base on which the return is considered to accrue. Thus, if a debtor prepays interest, the payment has the same tax consequences as a payment of principal (assuming the payment of principal does not constitute a partial disposition of the obligation). In particular, accrued returns continue to be determined throughout the period for which the interest was prepaid.

Fourth, interest that has accrued before a taxpayer acquires an obligation is included in determining the taxpayer's accrued returns only to the extent that the accrued interest exceeds the portion of the cost of the obligation to the taxpayer that is attributable to the interest. This follows from the fact that the amount included in respect of the interest in the taxpayer's total projected return from the obligation is equal to the difference between the amount of the interest and the amount the taxpayer has paid for it.

Finally, in the case of a foreign-currency obligation, the amount that accrues each day is to be determined in the primary currency of the obligation and then translated to Canadian dollars. However, where amounts are translated using the average exchange rate for each year, the same result is obtained by totalling the daily accruals to give the accrued return for the year (measured in the primary currency) before translating to Canadian dollars.

Generally accepted accounting practice

One of the requirements imposed by subsection 9102(3) is that a method for determining accrued returns be in accordance with generally accepted accounting practice. The term "practice" is used rather than "principles" to indicate that the Handbook of The Canadian Institute of Chartered Accountants would not be the only source of information for determining what is acceptable.

Assumptions

The requirement that assumptions be made with respect to the timing and amount of payments that are not fixed is intended to ensure that a taxpayer reports reasonable accrued returns from an obligation that provides for contingent payments. For example, assume that a taxpayer holds an obligation that provides for interest payments at the rate of 3% per year, and an amount payable at maturity equal to $1,000 adjusted by the change in a stock index from the date of issue to the maturity date. In determining its accrued returns, the taxpayer would have to make a reasonable assumption about the amount that will be paid at maturity. This assumption may change from year to year, depending on the performance of the stock index. (The performance of the stock index may also give rise to accrual adjustments under subsection 9102(5).)

Whether it is actually necessary to make assumptions with respect to contingent payments depends on the method used to determine accrued returns. For example, assume that a 5-year obligation provides for interest that, at issue date and at each anniversary of that date, is set equal to the 1-year LIBOR rate plus 1%. A taxpayer that acquires the obligation at a discount may choose to accrue the discount on a straight-line basis over a reasonable period, and in addition to recognize the actual amount of interest that accrues each year. In this case, there would be no need to make any assumptions about future interest payments.

Subsections 9102(4) and (5) — Accrual adjustment

Subsections 9102(4) and (5) provide for the determination of accrual adjustments in respect of specified debt obligations. Where an accrual adjustment for a taxation year is positive, it is included in the amount prescribed by subsection 9101(1) in respect of the obligation for the year. A negative accrual adjustment is included in determining the amount prescribed by subsection 9101(2).

In general terms, an accrual adjustment in respect of an obligation for a taxation year is the amount by which prior years' accrued returns have to be adjusted to recognize payments under the obligation in the year that differ from those assumed for the purpose of determining the accrued returns. The adjustment also takes into account changes in assumptions regarding anticipated future payments under the obligation, to the extent that the changed assumptions will not be fully reflected in the determination of accrued returns for the current and future taxation years.

Subsection 9102(4) provides that a taxpayer's accrual adjustment in respect of a specified debt obligation is nil where the adjustment is being determined for the first taxation year for which subsection 142.3(1) of the Act applies with respect to the obligation. In this case, there are no accrued returns to be adjusted.

Subsection 9102(5), which applies where subsection 9102(4) is not applicable, provides that a taxpayer's accrual adjustment in respect of a specified debt obligation for a particular taxation year is equal to

- the total of the taxpayer's accrued returns from the obligation for previous taxation years, redetermined to take into account all information available at the end of the particular year and to use the same assumptions regarding the timing and amount of payments as are used for the purpose of determining the accrued return for the particular year

minus

- the taxpayer's accrued return for the taxation year preceding the particular year, and
- if subsection 9102(5) applied to that preceding year, the redetermined amounts of the accrued returns that were used in determining the accrual adjustment for that year.

Subsection 9102(6) — Special cases and transition

Subsection 9102(6) provides that the rules in section 9102 for determining accrued returns and accrual adjustments are subject to section 9103. Section 9103 contains rules for convertible

obligations, impaired obligations and amended obligations, and also transition rules.

The following examples illustrate acceptable methods for determining accrued returns under subsection 9102(3), and show the calculation of accrual adjustments under subsection 9102(5). It should be noted that other methods may also be acceptable. It has been assumed that all methods are in accordance with generally acceptable accounting practice.

EXAMPLE 1

A debt obligation is issued on January 1, 1996 and matures on January 1, 2001. The obligation has a face amount of $1,000 and provides for an interest payment each January 1st based on the value of 1-year LIBOR on the preceding January 1st minus 2%. The taxpayer acquires the obligation when it is issued, at a cost of $877. The taxpayer's taxation year is the calendar year.

The value of 1-year LIBOR on January 1, 1996 is 6% and on January 1, 1997 is 8%.

The taxpayer has chosen to recognize the discount using a level-yield approach.

Accrued returns and accrual adjustments:

1. Using the value of 1-year LIBOR on January 1, 1996 to project the future values produces interest payments of $40 each January 1st. On this basis, the internal rate of return for the obligation is 7%.

2. The taxpayer's accrued return for 1996 is equal to $61.39 (= $877 × .07).

3. The taxpayer's accrued return for 1997 consists of two components. The first is the amount that would be the accrued return if the value of 1-year LIBOR had remained at 6%. This amount is equal to $62.89 (= ($877 + $61.39 – $40) × .07). The second component is equal to the additional interest because of the difference between the assumed and the actual value of LIBOR. This additional interest is $20. Thus, the accrued return for 1997 is $82.89.

4. Accrued returns for 1998 to 2000 would be determined in a similar manner.

5. There are no accrual adjustments.

EXAMPLE 2

The facts are the same as in example 1, except that the taxpayer has chosen to accrue the discount using a straight-line approach.

Accrued returns and accrual adjustments:

1. The amount of the discount to be accrued each year is $24.60 (= ($1,000 – $877) / 5).

2. The taxpayer's accrued return for 1996 is equal to $64.60 (= $40 + $24.60).

3. The taxpayer's accrued return for 1997 is equal to $84.60 (= $60 + $24.60).

4. Accrued returns for 1998 to 2000 would be determined in a similar manner.

5. There are no accrual adjustments.

EXAMPLE 3

A debt obligation is issued on January 1, 1996 and matures on January 1, 1999. The obligation has a face amount of $1,000 and provides for quarterly interest payments. The interest payment for a quarter is based on a 90-day commercial paper rate at the beginning of the quarter, increased or decreased by a specified amount. For the first 4 interest payments, an amount of 1% is subtracted from the commercial paper rate (expressed on an annualized basis). For the next 4 payments, there is an increase of 1%. For the last 4 payments, the commercial paper rate is increased by 3%. The taxpayer acquires the obligation when it is issued, at a cost of $1,000. The taxpayer's taxation year is the calendar year.

The rates for 90-day commercial paper (on an annualized basis) are 6% throughout 1996, 5% throughout 1997 and 7% throughout 1998.

Accrued returns and accrual adjustments:

1. The adjustments to the commercial paper rate must be levelled. The average adjustment is an increase of 1% per year (= (–1% + 1% + 3%) / 3).

2. The accrued return for 1996 is $70 (= $1,000 × (.06 + .01)). The accrued returns for 1997 and 1998 are $60 and $80 respectively.

3. There are no accrual adjustments.

EXAMPLE 4

A debt obligation is issued on January 1, 1996 and matures on January 1, 2001. The obligation has a face amount of $1,000 and provides for annual interest payments equal to 5% of the face amount. In addition, a bonus is payable on maturity, based on the debtor's cumulative profits over the 5 years. The taxpayer acquires the obligation when it is issued, at a cost of $1,000. The taxpayer's taxation year is the calendar year.

If the debtor had issued a fixed interest rate obligation for the same price, the interest rate would have been 9%.

The amount of the bonus payment is $151.32, and this amount is known before the end of 2000.

Accrued returns and accrual adjustments:

1. The taxpayer's accrued return for 1996 is equal to $90 (= $1,000 × .09).

2. For 1997, the amount to which the 9% rate of return is applied is equal to the face amount plus the difference between the accrued return for 1996 and the amount of interest that was paid, i.e. compounding applies to the unpaid portion of the accrued return. Thus, the taxpayer's accrued return for 1997 is equal to $93.60 (= ($1,000 + $90 – $50) × .09).

3. The taxpayer's accrued returns for 1998 and 1999 are $97.52 and $101.80 respectively.

4. Based on the actual bonus payment, the internal rate of return of the obligation to the taxpayer is 7.6%. Computing the taxpayer's accrued return for 2000 on the basis that all accrued returns were determined using this rate gives an accrued return for 2000 equal to $84.85.

5. Redetermining the taxpayer's accrued returns for 1996 to 1999 on the basis of the rate of return of 7.6% gives total accrued returns for those years equal to $316.47. Since the accrued returns that were reported by the taxpayer totalled $382.92, the taxpayer has an accrual adjustment for 2000 equal to -$66.45. Thus, in computing its income for the year 2000, the taxpayer can claim a deduction of $66.45 under paragraph 142.3(1)(b) of the Act.

6. The net amount included in the taxpayer's income for the year 2000 in respect of the obligation is $18.40 (= $84.85 – $66.45). This is equal to the total return of $401.32 minus $382.92 which was included in computing income for previous years.

EXAMPLE 5

A debt obligation is issued on January 1, 1996 and matures on January 1, 2001. The amount payable at maturity is equal to $1,000 multiplied by the ratio of the value of a stock index on December 31, 2000 to the value of the index on December 31, 1995. In addition, the obligation provides for interest payments each January 1st equal to $30 multiplied by the ratio of the value of the stock index on the preceding December 31st to the value of the index on December 31, 1995. The taxpayer acquires the obligation when it is issued, at a cost of $1,050. The taxpayer's taxation year is the calendar year.

Accrued returns and accrual adjustments:

1. The taxpayer's accrued return from the obligation for each year is equal to

- the increase, if any, in the adjusted face amount from the end of the preceding year to the end of the current year — the adjusted face amount at any time is equal to $1,000 multiplied by the ratio of the value of the stock index at that time to the value of the stock index on December 31, 1995

plus

- the actual interest for the year

minus

- $10 in respect of the $50 premium over the initial face amount.

2. There would be an accrual adjustment for any year in which the stock index declines. The adjustment would be a negative amount equal to the decrease in the adjusted face amount of the obligation.

Section 9103 — Accrual rules — special cases and transition

Section 9103 contains rules that apply with respect to the determination of accrued returns and accrual adjustments under section 9102. There are rules for convertible obligations, impaired obligations and amended obligations, and also transition rules.

Subsection 9103(1) — Convertible obligation

Subsection 9103(1) contains two rules that apply with respect to a specified debt obligation that is convertible into shares of the debtor or of a corporation related to the debtor. Paragraph 9103(1)(a) provides that the conversion right is to be disregarded in determining accrued returns and accrual adjustments. Thus, the possibility that the obligation will be settled by way of shares does not enter into the determination of these amounts. In addition, the actual exercise of the conversion right is ignored for the purpose of determining the accrued return and accrual adjustment for the year of exercise. However, any gain from converting to shares is recognized under the rules in section 142.4 of the Act for the disposition of obligations.

Paragraph 9103(1)(b) provides that if 5% or more of the cost of a convertible obligation is attributable to the conversion right, the taxpayer's cost is to be considered to be the actual cost minus the amount that is attributable to the conversion right. This rule has the effect of preventing a taxpayer from deducting the cost of a conversion right, where this cost is a significant amount. The cost attributable to a conversion right can be determined as the difference between the actual cost of the obligation and the estimated fair market value of the obligation without the conversion right.

It should be noted that subsection 9103(1) does not apply where a debt obligation is convertible into shares of a corporation not related to the debtor. In this case, the possibility of conversion must be taken into account in determining accrued returns. Where the value of the conversion right is material, a method for determining accrued returns will generally not be considered reasonable unless it is based on an assumption that the right will be exercised and a reasonable value is assumed for the shares.

Subsection 9103(2) — Default by debtor

Subsection 9103(2) provides that accrued returns and accrual adjustments are to be determined in respect of a specified debt obligation without any reduction for the possible or actual failure of the debtor to make any payments under the obligation. Deductions in respect of impaired debts can be claimed under paragraphs 20(1)(l) (doubtful debt reserve) and 20(1)(p) (bad debt deduction) of the Act.

Subsection 9103(3) — Amendment of obligation

Subsection 9103(3) applies where a specified debt obligation has been amended to change the timing or amount of a payment to be made under the obligation. It provides that the amendment is to be taken into account as if the obligation had been acquired when the amendment was made. This means that the amendment affects future accrued returns only. For example, if accrued returns are being determined for a debt obligation using the level-yield method, the rate of return would be redetermined for the period after the amendment, and there would be no accrual adjustment in respect of the amendment.

It should be noted that subsection 9103(3) applies with respect to payments that are not required to be made until after the amendment. If overdue payments are forgiven, a bad debt deduction would generally be available under paragraph 20(1)(p) of the Act.

Subsection 9103(4) — Obligations acquired before financial institution rules apply

Subsection 9103(4) applies with respect to a specified debt obligation held by a taxpayer at the beginning of its first taxation year to which subsection 142.3(1) of the Act applies. Subsection 9103(4) ensures a proper transition from subsection 12(3) of the Act to subsection 142.3(1). It is expected that there will be few obligations for which subsection 9103(4) is relevant.

Paragraph 9103(4)(a) provides that a taxpayer's accrued return for a taxation year does not include an amount to the extent that the amount was included in computing the taxpayer's income for a taxation year before subsection 142.3(1) commenced to apply. This rule would apply, for example, where prepaid interest has been included in income under subsection 12(3). A reasonable adjustment would be made to the accrued returns that are otherwise determined to allow for the return that has already been recognized. Paragraph 9103(4)(a) would also apply where subsection 16(3) of the Act has required a discount on the issue of a debt obligation to be included in the taxpayer's income.

Paragraph 9103(4)(b) applies with respect to interest that is received or becomes receivable in a taxation year in which subsection 142.3(1) of the Act is applicable, where the interest is in respect of a period before that subsection applied. Paragraph 9103(4)(b) provides that the taxpayer's accrued return for the year from the obligation includes the amount by which (i) the portion of the interest that would not otherwise be taken into account in computing the taxpayer's income for any taxation year exceeds (ii) the portion of the taxpayer's cost of the obligation that is reasonably attributable to that portion of the interest. This paragraph might apply, for example, where a taxpayer receives a contingent interest payment in the first year in which subsection 142.3(1) applies, and part or all of the payment is in respect of a previous taxation year. If the portion of the interest payment that is in respect of the previous year has not been included in computing the taxpayer's income for that year, and would not otherwise be included in the taxpayer's accrued return for the current year, paragraph 9103(4)(b) will include it in the accrued return.

Subsection 9103(5) — Prepaid interest — transition rule

Subsection 9103(5) applies where a taxpayer received a prepayment of interest on a debt obligation before November 1994 and in a taxation year that ended after February 22, 1994. Subsection 9103(5) allows the taxpayer to include the full amount of the prepaid interest in its accrued return for the year in which it received the prepayment, in which case the taxpayer's accrued returns for subsequent years are to be determined without including any amount in respect of the prepaid interest.

Section 9104 — Foreign exchange adjustment

Section 9104 provides for the determination of foreign exchange adjustments in respect of specified debt obligations. Foreign exchange adjustments are determined if the primary currency of an obligation is not the Canadian dollar. As defined in section 9100, the primary currency of an obligation is the currency with which the obligation is primarily connected. Where a foreign exchange adjustment for a taxation year is positive, it is included in the amount prescribed by subsection 9101(1) in respect of the obligation for the year. A negative adjustment is included in determining the amount prescribed by subsection 9101(2).

Subsection 9104(1)

Subsection 9104(1) applies where a taxpayer holds a foreign currency obligation at the end of a taxation year. It provides that the foreign exchange adjustment in respect of the obligation for the year is to be computed as follows:

1. Determine the tax basis of the obligation to the taxpayer at the end of the year, using the primary currency of the obligation as the currency in which all amounts are expressed. For this purpose, the definition of "tax basis" in subsection 142.4(1) of the Act is modified so that it does not include (i) any amounts in respect of the change in value of a foreign currency relative to

the Canadian dollar, and (ii) the amounts referred to in paragraphs (f) and (q) of the definition (adjustments in determining the adjusted cost base on February 22, 1994 of an obligation that was a capital property).

2. Translate the tax basis to Canadian dollars using the spot rate of exchange at the end of the year.

3. Subtract the Canadian dollar tax basis at the end of the year, determined on the assumption that the foreign exchange adjustment in respect of the obligation for the year is nil, and without taking into account the amounts referred to in paragraphs (f) and (q) of the definition of "tax basis".

The following example illustrates the operation of subsection 9104(1):

Example

A U.S. dollar debt obligation is issued on December 31, 1995 and matures on December 31, 2000. The obligation has a face amount of US$1,000 and provides for interest at the rate of 6%, payable annually. The taxpayer acquires the obligation when it is issued, at a cost of US$900. The taxpayer's taxation year is the calendar year.

The exchange rates (C$/US$) to the end of 1998 are:

	Year-end	Average
1995	$1.36	—
1996	1.30	$1.34
1997	1.35	1.32
1998	1.32	1.34

Results for first 3 years:

	1996	*1997*	*1998*
US Dollar Tax Basis	(US$)	(US$)	(US$)
Tax basis (beginning of year)	900.00	916.86	935.17
Add: accrued return	76.86	78.30	79.87
Deduct: interest received	60.00	60.00	60.00
Tax basis (end of year)	916.86	935.17	955.03
Foreign Exchange Adjustment	(C$)	(C$)	(C$)
Tax basis (beginning of year)	1224.00	1191.92	1262.48
Add: accrued return (1)	103.00	103.36	107.02
Deduct: interest received	78.00	81.00	79.20
Tax basis (before current year foreign exchange adjustment)	1249.00	1214.28	1290.30
US$ tax basis — translated	1191.92	1262.48	1260.65
Foreign exchange adjustment	(57.07)	48.19	(29.65)

(1) Translated using the average exchange rate for the year.

Subsections 9104(2) and (3)

Subsection 9104(2) provides for the determination of a foreign exchange adjustment for the taxation year in which a taxpayer disposes of a foreign currency debt obligation. The foreign exchange adjustment is the amount that would be determined under subsection 9104(1) if the taxation year had ended immediately before the disposition.

Subsection 9104(3) provides that, at the election of a taxpayer, subsection 9104(2) does not apply to dispositions of debt obligations before 1996. Where a taxpayer makes this election, any foreign-exchange-related change in value of an obligation that arises in the year of disposition will be an element in the determination of the total gain or loss from the disposition of the obligation.

Pending Amendment

Securities Held by Financial Institutions — April 11, 2009 (Pre-published in the *Canada Gazette*, Part I, dated April 11, 2009)

The following is added:

PART XCII

Financial Institutions — Disposition of Specified Debt Obligations

INTERPRETATION

9200. (1) Definitions.

The following definitions apply in this Part.

"*gain*", of a taxpayer from the disposition of a specified debt obligation, means the gain from the disposition determined under paragraph 142.4(6)(*a*) of the Act.

"*loss*", of a taxpayer from the disposition of a specified debt obligation, means the loss from the disposition determined under paragraph 142.4(6)(*b*) of the Act.

"*residual portion*", of a taxpayer's gain or loss from the disposition of a specified debt obligation, means the amount determined under subsection 142.4(8) of the Act in respect of the disposition.

(2) Amortization date. For the purposes of this Part, the amortization date for a specified debt obligation disposed of by a taxpayer is the day determined as follows:

(*a*) subject to paragraphs (*b*) to (*d*), the amortization date is the later of the day of disposition and the day on which the debtor is required to make the final payment under the obligation, determined without regard to any option respecting the timing of payments under the obligation (other than an option that was exercised before the disposition);

(*b*) subject to paragraphs (*c*) and (*d*), the amortization date is the day of disposition if the day on which the debtor is required to make the final payment under the obligation is not determinable for the purpose of paragraph (*a*);

(*c*) subject to paragraph (*d*), the amortization date is the first day, if any, after the disposition on which the interest rate could change, if the obligation is one in respect of which the following conditions are satisfied:

(i) the obligation provides for stipulated interest payments,

(ii) the rate of interest for one or more periods after the issuance of the obligation was not fixed on the day of issue, and

(iii) when the obligation was issued, it was reasonable to expect that the interest rate for each period would equal or approximate a reasonable market rate of interest for that period; and

(*d*) if, for purposes of its financial statements, the taxpayer had a gain or loss from the disposition that is being amortized to profit, the amortization date is the last day of the amortization period.

TRANSITION AMOUNT

9201. For the purpose of subsection 142.4(1) of the Act, "transition amount", of a taxpayer in respect of the disposition of a specified debt obligation, means,

(*a*) if neither paragraph (*b*) nor (*c*) applies, nil;

(*b*) if

(i) the taxpayer acquired the obligation before its taxation year that includes February 23, 1994,

(ii) neither paragraph 7000(2)(*a*) nor (*b*) has applied to the obligation, and

(iii) the principal amount of the obligation exceeds the cost of the obligation to the taxpayer (which excess is referred to in this paragraph as the "discount"),

the amount determined by the formula

$$A - B$$

where

A is the total of all amounts each of which is the amount included in respect of the discount in computing the taxpayer's profit for a taxation year that ended before February 23, 1994, and

B is the total of all amounts each of which is the amount included in respect of the discount in computing the taxpayer's income for a taxation year that ended before February 23, 1994; and

(*c*) where

(i) the conditions in subparagraphs (*b*)(i) and (ii) are satisfied, and

(ii) the cost of the obligation to the taxpayer exceeds the principal amount of the obligation (which excess is referred to in this paragraph as the "premium"),

the negative of the amount determined by the formula

$$A - B$$

where

A is the total of all amounts each of which is the amount deducted in respect of the premium in computing the taxpayer's profit for a taxation year that ended before February 23, 1994, and

B is the total of all amounts each of which is the amount deducted in respect of the premium in computing the taxpayer's income for a taxation year that ended before February 23, 1994.

Prescribed Debt Obligations

9202. (1) Application of related election. The following rules apply with respect to an election made under subsection (3) or (4) by a taxpayer:

(*a*) the election applies only if

(i) it is in writing,

(ii) it specifies the first taxation year (in this subsection referred to as the "initial year") of the taxpayer to which it is to apply, and

(iii) either it is received by the Minister within six months after the end of the initial year, or the Minister has expressly accepted the later filing of the election;

(*b*) subject to paragraph (*c*), the election applies to dispositions of specified debt obligations in the initial year and subsequent taxation years; and

(*c*) if the Minister has approved, on written application by the taxpayer, the revocation of the election, the election does not apply to dispositions of specified debt obligations in the taxation year specified in the application and in subsequent taxation years.

(2) Prescribed specified debt obligation. For the purpose of subparagraph 142.4(5)(*a*)(ii) of the Act, a specified debt obligation disposed of by a taxpayer in a taxation year is prescribed in respect of the taxpayer if the amortization date for the obligation is not more than two years after the end of the taxation year.

(3) Prescribed specified debt obligation — exception. Subsection (2) does not apply in respect of a taxpayer for a taxation year if

(*a*) generally accepted accounting principles require that the taxpayer's gains and losses arising on the disposition of a class of debt obligations be amortized to profit for the purpose of the taxpayer's financial statements;

(*b*) the taxpayer has elected not to have subsection (2) apply; and

(*c*) the election applies to dispositions in the year.

(4) Prescribed specified debt obligation. For the purpose of subparagraph 142.4(5)(*a*)(ii) of the Act, a specified debt obligation disposed of by a taxpayer in a taxation year is prescribed in respect of the taxpayer if

(*a*) the taxpayer has elected to have this subsection apply;

(*b*) the election applies to dispositions in the year; and

(*c*) the absolute value of the positive or negative amount determined by the formula (A – B) does not exceed the lesser of $5,000 and the amount, if any, specified in the election, where

A is the total of all amounts each of which is the residual portion of the taxpayer's gain from the disposition of the obligation or any other specified debt obligation disposed of in the same transaction, and

B is the total of all amounts each of which is the residual portion of the taxpayer's loss from the disposition of the obligation or any other specified debt obligation disposed of in the same transaction.

(5) Prescribed specified debt obligation. For the purpose of subparagraph 142.4(5)(*a*)(ii) of the Act, a specified debt obligation disposed of by a taxpayer in a taxation year is prescribed in respect of the taxpayer if

(*a*) the disposition resulted in an extinguishment of the obligation, other than an extinguishment that occurred because of a purchase of the obligation by the debtor in the open market;

(*b*) the taxpayer had the right to require the obligation to be settled at any time; or

(*c*) the debtor had the right to settle the obligation at any time.

Residual Portion of Gain or Loss

9203. (1) Allocation of residual portion. Subject to section 9204, if subsection 142.4(4) of the Act applies to the disposition of a specified debt obligation by a taxpayer, the amount allocated to each taxation year in respect of the residual portion of the gain or loss from the disposition shall be determined, for the purpose of that subsection,

(*a*) by a method that complies with, or is substantially similar to a method that complies with, subsection (2); or

(*b*) if gains and losses from the disposition of debt obligations are amortized to profit for the purpose of the taxpayer's financial statements, by the method used for the purpose of the taxpayer's financial statements.

(2) Proration method. For the purpose of subsection (1), a method for allocating to taxation years the residual portion of a taxpayer's gain or loss from the disposition of a specified debt obligation complies with this subsection if the amount allocated to each taxation year is determined by the formula

$$A \times B/C$$

where

A is the residual portion of the taxpayer's gain or loss;

B is the number of days in the taxation year that are in the period referred to in the description of C; and

C is the number of days in the period that,

(*a*) where subsection (3) applies in respect of the obligation, is determined under that subsection, and

(*b*) in any other case,

(i) begins on the day on which the taxpayer disposed of the obligation, and

(ii) ends on the earlier of

(A) the amortization date for the obligation, and

(B) the day that is 20 years after the day on which the taxpayer disposed of the obligation.

(3) Single proration period. This subsection applies in respect of specified debt obligations disposed of by a taxpayer in a transaction in a taxation year, and the period determined under this subsection in respect of the obligations is the period that begins on the day of disposition and ends on the weighted average amortization date for those obligations so disposed of to which subsection 142.4(4) of the Act applies, if

(*a*) the taxpayer has elected in its return of income for the taxation year to have this subsection apply in respect of the obligations so disposed of;

(*b*) all the obligations so disposed of were disposed of at the same time; and

(*c*) the number of the obligations so disposed of to which subsection 142.4(4) of the Act applies is at least 50.

(4) Weighted average amortization date. For the purpose of subsection (3), the weighted average amortization date for a group of specified debt obligations disposed of on the same day by a taxpayer is,

(*a*) if paragraph (*b*) does not apply, the day that is the number of days after the day of disposition equal to the total of the number of days determined in respect of each obligation by the formula

$$A \times B/C$$

where

A is the number of days from the day of disposition to the amortization date for the obligation,

B is the residual portion of the gain or loss from the disposition of the obligation, and

C is the total of all amounts each of which is the residual portion of the gain or loss from the disposition of an obligation in the group; and

(*b*) the day that the taxpayer determines using a reasonable method for estimating the day determined under paragraph (*a*).

Special Rules for Residual Portion of Gain or Loss

9204. (1) Application.

This section applies for the purposes of subparagraphs 142.4(4)(*c*)(ii) and (*d*)(ii) of the Act.

(2) Winding-up. If subsection 88(1) of the Act has applied to the winding-up of a taxpayer (in this subsection referred to as the "subsidiary"), the following rules apply in respect of the residual portion of a gain or loss of the subsidiary from the disposition of a specified debt obligation to which subsection 142.4(4) of the Act applies:

(*a*) the amount of that residual portion allocated to the taxation year of the subsidiary in which its assets were distributed to its parent on the winding-up shall be determined on the assumption that the taxation year ended when the assets were distributed to its parent;

(*b*) no amount shall be allocated in respect of that residual portion to any taxation year of the subsidiary after its taxation year in which its assets were distributed to its parent; and

(*c*) the amount of that residual portion allocated to the taxation year of the parent in which the subsidiary's assets were distributed to it shall be determined on the assumption that the taxation year began when the assets were distributed to it.

(3) Transfer of an insurance business. No amount in respect of the residual portion of a gain or loss of an insurer from the disposition of a specified debt obligation to which subsection 142.4(4) of the Act applies shall be allocated to any taxation year of the insurer that ends after the insurer ceased to carry on all or substantially all of an insurance business, if

(*a*) subsection 138(11.5) or (11.94) of the Act has applied to the transfer of that business; and

(*b*) the person to whom that business was transferred is considered, because of paragraph 138(11.5)(*k*) of the Act, to be the same person as the insurer in respect of that residual portion.

(4) Transfer to new partnership. If subsection 98(6) of the Act deems a partnership (in this subsection referred to as the "new partnership") to be a continuation of another partnership (in this subsection referred to as the "predecessor partnership"), the following rules apply in respect of the residual portion of a gain or loss of the predecessor partnership from the disposition of a specified debt obligation to which subsection 142.4(4) of the Act applies:

(*a*) the amount of that residual portion allocated to the taxation year of the predecessor partnership in which its property was transferred to the new partnership shall be determined on the assumption that the taxation year ended when the property was transferred;

(*b*) no amount shall be allocated in respect of that residual portion to any taxation year of the predecessor partnership after its taxation year in which its property was transferred to the new partnership; and

(*c*) the amount of that residual portion allocated to the taxation year of the new partnership in which the predecessor partnership's property was transferred to it shall be determined on the assumption that the taxation year began when the property was transferred to it.

(5) Ceasing to carry on business. There shall be allocated to a particular taxation year of a taxpayer the part, if any, of the residual portion of the taxpayer's gain or loss that is from a disposition of a specified debt obligation to which subsection 142.4(4) of the Act applies and that was not allocated to a preceding taxation year, if

(*a*) at any time in the particular taxation year the taxpayer ceases to carry on all or substantially all of a business, otherwise than as a result of a merger to which subsection 87(2) of the Act applies, a winding-up to which subsection 88(1) of the Act applies or a transfer of the business to which subsection 98(6) or 138(11.5) or (11.94) of the Act applies;

(*b*) the disposition occurred before that time; and

(*c*) the specified debt obligation was property used in the business.

(6) Ceasing to be a financial institution. There shall be allocated to a particular taxation year of a taxpayer the part, if any, of the residual portion of the taxpayer's gain or loss that is from a disposition of a specified debt obligation to which subsection 142.4(4) of the Act applies and that was not allocated to a preceding taxation year, if

(*a*) the particular taxation year ends immediately before the time at which the taxpayer ceases to be a financial institution, otherwise than because it has ceased to carry on a business; and

(*b*) the disposition occurred before that time.

Applicable: To taxation years that end after February 22, 1994.

Explanatory Note:

See the Regulatory Impact Analysis Statement, published in the *Canada Gazette*, Part I on April 11, 2009, reproduced with the Explanatory Note for Regulation 304(1)(*c*).

Explanatory Notes Released on June 1, 1995

Part XCII — Financial Institutions — Disposition of Specified Debt Obligations

Part XCII of the Regulations contains provisions relating to the disposition of specified debt obligations by financial institutions. These include:

- a definition of "transition amount";
- provisions that prescribe certain specified debt obligations for exclusion from the amortization requirement; and
- rules for amortizing gains and losses from the disposition of specified debt obligations.

Subsection 9200(1) — Definitions

Subsection 9200(1) defines certain terms that are used in Part XCII.

A taxpayer's "gain" from the disposition of a specified debt obligation is the gain determined under paragraph 142.4(6)(a) of the Act.

A taxpayer's "loss" from the disposition of a specified debt obligation is the loss determined under paragraph 142.4(6)(b) of the Act.

The "residual portion" of a taxpayer's gain or loss from the disposition of a specified debt obligation is the amount determined under subsection 142.4(8) of the Act in respect of the disposition. The residual portion is the amount of the gain or loss that is required to be amortized (if the amortization requirement applies to the obligation).

Subsection 9200(2) — Amortization date

Subsection 9200(2) contains rules for determining the amortization date for a specified debt obligation disposed of by a taxpayer. This date is used in subsections 9203(2) and (4) to determine the end of the amortization period for an obligation or group of obligations. It is also used in subsection 9202(2) for determining whether an obligation is excluded from the amortization requirement.

Paragraph 9200(2)(a) provides that the amortization date is the day on which the debtor is required to make the final payment under the specified debt obligation or, if later, the day of disposition. The day of disposition would be later where, for example, the debtor has failed to repay borrowed money on the maturity date of the obligation. In determining when the final payment is required to be made, an option to redeem or retract an obligation, or to extend its maturity date, is to be disregarded unless it has been exercised. Paragraph 9200(2)(a) applies only if none of paragraphs 9200(2)(b) to (d) applies.

It should be noted that a specified debt obligation is a taxpayer's interest in a debt obligation issued by the debtor. The amortization date is determined with respect to the taxpayer's interest. Where, for example, the taxpayer holds a coupon stripped from a debt obligation, the amortization date is the payment date for the coupon.

Paragraph 9200(2)(b) applies where the date for the last payment is not determinable, and so paragraph 9200(2)(a) cannot be applied. This would be the case, for example, where the maturity date is based on a contingency. Paragraph 9200(2)(b) provides that, subject to paragraphs 9200(2)(c) and (d), the amortization date is the day of disposition.

Paragraph 9200(2)(c) applies if the obligation is a variable interest rate debt obligation and, at the time the obligation was issued, the interest rate for each period was expected to equal or approximate a reasonable market rate. In this case, the amortization date is the day before the next interest reset date. Paragraph 9200(2)(c) does not apply if there are no interest reset dates after the disposition, or if paragraph 9200(2)(d) is applicable. An example of a debt obligation to which paragraph 9200(2)(c) would apply is an obligation with a 10-year term that provides for the interest rate to be reset every two years to LIBOR plus 1%.

Paragraph 9200(2)(d) applies where, for the purposes of its financial statements, the taxpayer has a gain or loss from the disposition that is being amortized. In this case, the amortization date is the last day of the financial statement amortization period.

Section 9201 — Transition amount

Subsection 142.4(1) of the Act provides that the transition amount of a taxpayer in respect of the disposition of a specified debt obligation is the amount defined by regulation. This amount is relevant if subsection 142.4(4) of the Act applies in respect of the disposition. The transition amount is required to be recognized in the year of disposition.

Section 9201 defines "transition amount" for the purpose of subsection 142.4(1). In general terms, the transition amount is the amount of any premium or discount that has been recognized for financial statement purposes, but not for tax purposes, to the beginning of the taxation year that includes February 23, 1994.

Paragraphs 9201(b) and (c) provide for the determination of the transition amount in respect of the disposition of a specified debt obligation by a taxpayer where the following conditions are satisfied:

- the taxpayer acquired the obligation before its taxation year that includes February 23, 1994,
- the accrual rules in paragraphs 7000(2)(a) and (b) of the Regulations have not applied to the obligation, and
- the principal amount of the obligation differs from its cost to the taxpayer, i.e. the obligation was purchased at a discount or premium.

Paragraph 9201(b), which applies in the case of a discount, provides that the transition amount is equal to the amount of the discount that has been included in determining the taxpayer's financial statement profit for taxation years ending before February 23, 1994 minus the amount of the discount included in determining its income for those years for tax purposes. Thus, the transition amount will be nil if, for tax purposes, the taxpayer has been following its financial statement reporting.

Paragraph 9201(c) contains a similar rule for premiums, except that the transition amount will be negative if it is not nil.

Paragraph 9201(a) provides that if neither of paragraphs 9201(b) and (c) applies, the transition amount is nil.

Section 9202 — Prescribed debt obligations

Subsection 142.4(5) of the Act provides that the full gain or loss from the disposition of certain specified debt obligations is required to be taken into account in the taxation year of disposition. In other words, the amortization rules do not apply to these gains and losses. Obligations to which this subsection applies include obligations prescribed under subparagraph 142.4(5)(a)(ii). Section 9202 prescribes certain debt obligations for this purpose.

Subsection 9202(1) — Elections

Subsections 9202(3) and (4) provide for elections to be made by a taxpayer. An election is made under subsection 9202(3) if a taxpayer does not want subsection 9202(2) to apply. An election is made under subsection 9202(4) if a taxpayer wants that subsection to apply. Subsection 9202(1) sets out the rules that apply with respect to these elections.

An election must (i) be in writing, (ii) specify the first taxation year to which it applies, and (iii) be received by the Minister of National Revenue within 6 months after the end of that first year (unless the Minister accepts a later filing). An election continues to apply until the taxpayer revokes it. A revocation requires the Minister's approval, and written application must be made for that approval.

Subsection 9202(2) — Amortization period less than two years

Subsection 9202(2) prescribes certain specified debt obligations for the purpose of subparagraph 142.4(5)(a)(ii) of the Act. Prescribed obligations are excluded from the amortization rules for gains and losses. An obligation is prescribed by subsection 9202(2) if its amortization date (as determined under subsection 9200(2)) is within two years of the end of the taxation year in which the taxpayer disposed of the obligation. However, subsection 9202(2) does not apply to a taxpayer if the conditions in subsection 9202(3) are satisfied.

Subsection 9202(3) — Exclusion

Subsection 9202(3) provides that subsection 9202(2) does not apply to a taxpayer if (i) the taxpayer is required by generally accepted accounting principles (GAAP) to amortize gains and losses from a class of debt obligations, and (ii) the taxpayer has elected not to have subsection 9202(2) apply. This exclusion enables a taxpayer that is required to amortize some or all of its gains and losses for financial statement purposes to choose to also amortize them for tax purposes even if the amortization period is short. It should be noted that the exclusion applies to all obligations, not just those for which GAAP requires amortization. See subsection 9202(1) for rules regarding elections under subsection 9202(3).

Subsection 9202(4) — Small net gain or loss

Subsection 9202(4) prescribes certain specified debt obligations for the purpose of subparagraph 142.4(5)(a)(ii) of the Act. Prescribed obligations are excluded from the amortization rules that apply to gains and losses. Subsection 9202(4) is an elective provision — see subsection 9202(1) for rules relating to elections.

Where subsection 9202(4) applies, a specified debt obligation is prescribed if the taxpayer's net gain or loss from the disposi-

tion of the obligation and from other obligations disposed of in the same transaction does not exceed $5,000. A taxpayer may elect to have a lower threshhold for this purpose. Such an election might be made where, for example, the taxpayer is required to amortize gains and losses for financial statement purposes, but does not amortize if the gain or loss is less than $1,000.

Subsection 9202(5) — Obligations that are extinguished and demand obligations

Subsection 9202(5) prescribes certain specified debt obligations for the purpose of subparagraph 142.4(5)(a)(ii) of the Act. Prescribed obligations are excluded from the amortization rules for gains and losses. A specified debt obligation is prescribed by subsection 9202(5) if the disposition of the obligation results in its extinguishment. An obligation would be prescribed, for example, where the disposition occurs because the debtor settles it, whether at the scheduled maturity date or as a result of the exercise of an option to redeem or retract before that date. As another example, a specified debt obligation would be prescribed where the holder exercises an option to convert it into shares. As an exception, an obligation is not prescribed where the extinguishment occurs because of an open market purchase of the obligation by the debtor.

Subsection 9202(5) also prescribes a specified debt obligation if the obligation is an obligation that was payable on demand or that could be redeemed at any time by the debtor.

Section 9203 — Residual portion of gain or loss

Section 9203 contains rules for determining the amount of the residual portion of a gain or loss from the disposition of a specified debt obligation that must be recognized each year under subparagraph 142.4(4)(c)(ii) or (d)(ii) of the Act. These rules are subject to section 9204, which applies after certain reorganizations and other events.

Subsection 9203(1) — Allocation of residual portion

Subsection 9203(1) specifies the methods that are permitted for amortizing the residual portion of a gain or loss from the disposition of a specified debt obligation. Any method may be used if it complies with subsection 9203(2), or is substantially similar to a method that so complies. Subsection 9203(2) provides for the amount allocated to each year to be determined on a straight-line proration basis. It is intended that the reference to substantially similar methods generally include the method that provides for the amount allocated to each year to equal to the difference between (i) the amount that would have accrued in the year in respect of the obligation if the taxpayer had retained it, and (ii) the amount that would have accrued in the year in respect of the obligation if the taxpayer had reacquired the obligation immediately after disposing of it.

Where a taxpayer amortizes gains and losses for the purpose of its financial statements, the taxpayer is permitted to use the same method of amortization for tax purposes. This rule allows the financial statement method to be used for all obligations, including obligations that are not subject to amortization for financial statement purposes.

Subsection 9203(2) — Proration method

Subsection 9203(2) sets out, for the purpose of subsection 9203(1), a method for amortizing the residual portion of the gain or loss from the disposition of a specified debt obligation. The method involves prorating the residual portion on a straight-line basis over the amortization period. More specifically, the amount allocated to a particular taxation year is equal to the residual portion of the gain or loss times the proportion of days in the amortization period that are in the year. Generally, the amortization period for an obligation is the period that begins on the day of disposition of the obligation and ends on the earlier of the amortization date determined under subsection 9200(2) and the day that is 20 years after the day of disposition. However, where subsection 9203(3) applies, the amortization period is determined pursuant to that subsection and subsection 9203(4).

Subsection 9203(3) — Single proration period

Under the amortization method set out in subsection 9203(2), the residual portion of the gain or loss from the disposition of a specified debt obligation is spread on a straight-line basis over the amortization period for the obligation. Subsection 9203(3) allows a taxpayer to use the same amortization period for a group of specified debt obligations that were disposed of at the same time in the same transaction, if there are at least 50 obligations to which subsection 142.4(4) of the Act applies. This enables the net residual gain or loss to be spread as if it were from the disposition of a single obligation.

Where subsection 9203(3) applies, the amortization period starts on the day of disposition of the obligations, and ends on the weighted average amortization date determined under subsection 9203(4) for those obligations to which subsection 142.4(4) applies. In this regard, obligations that are prescribed by section 9202 (obligations excluded from amortization requirement) are not taken into account in determining the weighted average amortization date. In particular, obligations that are prescribed because their amortization dates are not more than two years after the end of the year of disposition are disregarded.

Subsection 9203(3) applies on an elective basis. An election must be made in the tax return for the year in which the obligations were disposed of. No special form is required for the election — it could be made, for example, by including a page with the return that identifies the transaction to which the election applies.

Subsection 9203(4) — Weighted average amortization date

Subsection 9203(3) allows a taxpayer to use a single amortization period for a group of specified debt obligations. The period ends on the weighted average amortization date for the obligations. Subsection 9203(4) specifies how the weighted average amortization date is to be determined for this purpose. A taxpayer is given a choice between using a precisely determined date and a reasonable estimate of that date.

Under paragraph 9203(4)(a), the weighted average amortization date for a group of obligations disposed of on the same day is obtained as follows:

1. For each obligation, determine the number of days from the day of disposition to the amortization date for the obligation — the amortization date is determined under subsection 9200(2).

2. Multiply the number of days by the ratio of the residual portion of the gain or loss from the disposition of the obligation to the total of the residual portions for all the obligations.

3. Compute the total of the amounts determined under step 2 for all the obligations.

4. Determine the day that follows the day of disposition by that total amount.

Paragraph 9203(4)(b) allows a taxpayer to determine the weighted average amortization date for a group of obligations using a reasonable method for estimating the exact date determined under paragraph 9203(4)(a). An example of an approach that would generally be reasonable is to select a random sample of the debt obligations and determine the exact date for that sample.

Section 9204 — Special rules for residual portion of gain or loss

Section 9204 contains rules relating to the amortization of the residual portion of the gain or loss from the disposition of a specified debt obligation. These rules, which modify the normal rules in section 9203, apply where

- a subsidiary corporation has been wound up into its parent corporation on a rollover basis pursuant to subsection 88(1) of the Act;
- an insurer has transferred an insurance business on a rollover basis pursuant to subsection 138(11.5) or (11.94) of the Act;
- a new partnership is a continuation of another partnership pursuant to subsection 98(6) of the Act;
- a taxpayer ceases to carry on a business; or
- a taxpayer ceases to be a financial institution.

Subsection 9204(1) — Application of section

Subsection 9204(1) provides that section 9204 applies for the purpose of subparagraphs 142.4(4)(c)(ii) and (d)(ii) of the Act. Subparagraph 142.4(4)(c)(ii) requires the residual portion of the gain from the disposition of a specified debt obligation to be

amortized in accordance with prescribed rules. Subparagraph 142.4(4)(d)(ii) contains a similar requirement with respect to the residual portion of a loss.

Subsection 9204(2) — Winding-up

Where a subsidiary is wound up into its parent corporation and subsection 88(1) of the Act applies to the winding-up, the parent is considered to be a continuation of the subsidiary for the purpose of paragraphs 142.4(4)(c) and (d) of the Act. The relevant continuity provision is paragraph 87(2)(g.2) of the Act, which applies to a winding-up by reason of paragraph 88(1)(e.2). Consequently, amounts may be allocated to the parent in respect of the residual portion of the subsidiary's gains and losses from the disposition of specified debt obligations.

Subsection 9204(2) contains the following rules that ensure that no part of the residual portion of a gain or loss is taken into account in determining the income of both a parent and a subsidiary:

- The amount of the residual portion of a gain or loss allocated to the taxation year of the subsidiary in which its assets were distributed to its parent is to be determined on the assumption that the taxation year ended when the assets were distributed.
- No amount is to be allocated to any subsequent taxation year of the subsidiary.
- The amount of the residual portion of a gain or loss allocated to the taxation year of the parent in which it received the subsidiary's assets is to be determined on the assumption that the taxation year began when the assets were received.

Subsection 9204(3) — Transfer of insurance business

Where an insurer has transferred an insurance business to another corporation on a rollover basis pursuant to subsection 138(11.5) or (11.94) of the Act, paragraph 138(11.5)(k) provides that, for the purpose of paragraphs 142.4(4)(c) and (d) of the Act, the transferee is considered to be a continuation of the transferor in respect of the transferred business. Consequently, amounts may be allocated to the transferee in respect of the residual portion of the transferor's gains and losses from the disposition of specified debt obligations in the course of the business. Subsection 9204(3) provides that, after the transfer of the business, amounts that are allocated to the transferee are not also to be allocated to the transferor. Since paragraph 138(11.5)(h) of the Act deems the transferor and transferee to have taxation year ends immediately before the business is transferred, special rules are not required for the taxation year of transfer.

Subsection 9204(4) — Transfer to new partnership

Subsection 9204(4) contains rules that apply where a partnership has ceased to exist and another partnership has replaced it, in circumstances such that the continuity rule in subsection 98(6) of the Act applies. The rules are similar to those in subsection 9204(2) for the winding-up of a taxpayer into its parent corporation.

Subsection 9204(5) — Ceasing to carry on business

Subsection 9204(5) applies where a taxpayer ceases to carry on all or substantially all of a business otherwise than because of a merger, winding-up or transfer of the business to which the rollover rules in subsection 87(2), 88(1), 98(6) or 138(11.5) or (11.94) of the Act apply. It requires the residual portion of the gain or loss from each specified debt obligation disposed of in the course of the business to be recognized in the taxation year in which the cessation occurs, except to the extent that the residual portion has been recognized in a previous year.

Subsection 9204(6) — Ceasing to be a financial institution

Subsection 9204(6) applies where a taxpayer ceases to be a financial institution, as defined in subsection 142.2(1) of the Act, otherwise than because it has ceased to carry on a business. This subsection would apply, for example, where a taxpayer ceases to be a financial institution because of a change in control. Subsection 9204(6) requires the residual portion of the gain or loss from each specified debt obligation that the taxpayer disposed of before it ceased to be a financial institution to be recognized in the taxation year ending immediately before it ceased to be a financial institution, except to the extent that the residual portion has been recognized in a previous year.

Pending Amendment

Foreign Bank Branches — August 8, 2000

Section 9204 (proposed) of the Regulations is amended by adding the following after subsection (2):

(2.1) Winding-up into Authorized Foreign Bank.

If subsection 142.7(13) of the Act applies in respect of the winding-up of a Canadian affiliate of an entrant bank, subsection (2) applies with respect to the winding-up and, for this purpose, the references in subsection (2) to "subsection 88(1)", "taxpayer" and "parent" shall be read as references to "subsection 142.7(13)", "Canadian affiliate" and "entrant bank", respectively.

Applicable: After June 27, 1999 in respect of an authorized foreign bank, and after August 8, 2000 in any other case.

Pending Amendment

Foreign Bank Branches — August 8, 2000

Subparagraph 9204(5)(*a*) (proposed) of the Regulations is replaced by the following:

(*a*) any time a taxpayer ceases to carry on all or substantially all of a business, otherwise than as a result of a merger to which subsection 87(2) of the Act applies, a winding-up to which subsection 88(1) or 142.7(13) of the Act applies or a transfer of the business to which subsection 98(6), 138(11.5) or (11.94) of the Act applies,

Applicable: After June 27, 1999 in respect of an authorized foreign bank, and after August 8, 2000 in any other case.

Pending Amendment

Foreign Bank Branches — August 8, 2000

Section 9204 (proposed) of the Regulations is amended by adding the following after subsection (5):

(5.1) Non-Resident Taxpayer.

For the purpose of subsection (5), a non-resident taxpayer is considered to cease to carry on all or substantially all of a business if the taxpayer ceases to carry on, or ceases to carry on in Canada, all or substantially all of the part of the business that was carried on in Canada.

Applicable: After June 27, 1999 in respect of an authorized foreign bank, and after August 8, 2000 in any other case.

PART XCIII

Film or Video Production Services Tax Credit

ACCREDITED PRODUCTION

9300. (1) Subject to subsection (2), for the purpose of section 125.5 of the Act, accredited production means

(*a*) a film or video production in respect of which the aggregate expenditures, included in the cost of the production, in the period that ends 24 months after the time that the principal filming or taping of the production began, exceeds $1,000,000; and

(*b*) a film or video production that is part of a series of television productions that has two or more episodes, or is a pilot programme for such a series of episodes, in respect of which the aggregate expenditures included in the cost of each episode in the period that ends 24 months after the time that the principal filming or taping of the production began exceeds

(i) in the case of an episode whose running time is less than 30 minutes, $100,000, and

(ii) in any other case, $200,000.

(2) An accredited production does not include a production that is any of the following:

(*a*) news, current events or public affairs programming, or a programme that includes weather or market reports;

(*b*) a talk show;

(*c*) a production in respect of a game, questionnaire or contest;

(*d*) a sports event or activity;

(*e*) a gala presentation or awards show;

(*f*) a production that solicits funds;

(*g*) reality television;

(*h*) pornography;

(*i*) advertising; and

(*j*) a production produced primarily for industrial, corporate or institutional purposes.

History: Part XCIII [section 9300] was added by P.C. 2005-698, SOR/2005-126, dated May 3, 2005, applicable to taxation years that end after October 1997.

PART XCIV

Prescribed Programs of Physical Activity

[CHILD FITNESS TAX CREDIT]

Interpretation

9400. (1) The following definitions apply in this Part.

"*physical activity*" means a supervised activity suitable for children (other than an activity where a child rides on or in a motorized vehicle as an essential component of the activity) that

(*a*) in the case of a qualifying child in respect of whom an amount is deductible under section 118.3 of the Act in computing any person's income for the taxation year, results in movement and in an observable expenditure of energy in a recreational context; and

(*b*) in the case of any other child, contributes to cardio-respiratory endurance and to one or more of the following:

(i) muscular strength,

(ii) muscular endurance,

(iii) flexibility, and

(iv) balance.

History: S. 9400(1), the definition "physical activity" was added by S.C. 2007, c. 35, s. 88(1), applicable after 2006.

"*qualifying child*" has the meaning assigned by subsection 118.03(1) of the Act.

History: S. 9400(1), the definition "qualifying child" was added by S.C. 2007, c. 35, s. 88(1), applicable after 2006.

Prescribed program of physical activity

(2) For the purpose of the definition "eligible fitness expense" in subsection 118.03(1) of the Act, a prescribed program of physical activity is

(*a*) a weekly program, that is not part of a school's curriculum, of a duration of eight or more consecutive weeks in which all or substantially all of the activities include a significant amount of physical activity;

(*b*) a program, that is not part of a school's curriculum, of a duration of five or more consecutive days of which more than 50% of the daily activities include a significant amount of physical activity;

(*c*) a program, that is not part of a school's curriculum, of a duration of eight or more consecutive weeks, offered to children by a club, association or similar organization (in this section referred to as an "organization") in circumstances where a participant in the program may select amongst a variety of activities if

(i) more than 50% of those activities offered to children by the organization are activities that include a significant amount of physical activity, or

(ii) more than 50% of the time scheduled for activities offered to children in the program is scheduled for activities that include a significant amount of physical activity; or

(*d*) a membership in an organization, that is not part of a school's curriculum, of a duration of eight or more consecutive weeks if more than 50% of all the activities offered to children by the organization include a significant amount of physical activity.

History: S. 9400(2) was added by S.C. 2007, c. 35, s. 88(1), applicable after 2006.

Mixed-use facility

(3) For the purpose of the definition "eligible fitness expense" in subsection 118.03(1) of the Act, a prescribed program of physical activity is that portion of a program, which program does not meet the requirements of paragraph (2)(*c*) and is not part of a school's curriculum, of a duration of eight or more consecutive weeks, offered to children by an organization in circumstances where a participant in the program may select amongst a variety of activities

(*a*) that is the percentage of those activities offered to children by the organization that are activities that include a significant amount of physical activity; or

(*b*) that is the percentage of the time scheduled for activities in the program that is scheduled for activities that include a significant amount of physical activity.

History: S. 9400(3) was added by S.C. 2007, c. 35, s. 88(1), applicable after 2006.

Membership

(4) For the purpose of the definition "eligible fitness expense" in subsection 118.03(1) of the Act, a prescribed program of physical activity is that portion of a membership in an organization, which membership does not meet the requirements of paragraph (2)(*d*) and is not part of a school's curriculum, of a duration of eight or more consecutive weeks that is the percentage of all the activities offered to children by the organization that are activities that include a significant amount of physical activity.

History: S. 9400(4) was added by S.C. 2007, c. 35, s. 88(1), applicable after 2006.

Horseback riding

(5) For the purpose of the definition "physical activity" in subsection (1), horseback riding is deemed to be an activity that contributes to cardio-respiratory endurance and to one or more of muscular strength, muscular endurance, flexibility and balance.

History: S. 9400(5) was added by S.C. 2007, c. 35, s. 88(1), applicable after 2006.

SCHEDULE I

(ss. 100, 102 and 106)

RANGES OF REMUNERATION AND OF TOTAL REMUNERATION

1. For the purposes of paragraph 102(1)(*c*), the ranges of remuneration for each pay period in a taxation year shall be determined as follows:

(*a*) in respect of a daily pay period, the ranges of remuneration shall commence at $44 and increase in increments of $2 for each range up to and including $151.99;

(*b*) in respect of a weekly pay period, the ranges of remuneration shall commence at $202 and increase in increments of

(i) $2 for each range up to and including $309.99,

(ii) $4 for each range from $310 to $529.99,

(iii) $8 for each range from $530 to $969.99,

(iv) $12 for each range from $970 to $1,629.99,

(v) $16 for each range from $1,630 to $2,509.99,

(vi) $20 for each range from $2,510 to $3,609.99;

(*c*) in respect of a bi-weekly pay period, the ranges of remuneration shall commence at $403 and increase in increments of

(i) $4 for each range up to and including $618.99,

(ii) $8 for each range from $619 to $1,058.99,

(iii) $16 for each range from $1,059 to $1,938.99,

(iv) $24 for each range from $1,939 to $3,258.99,

(v) $32 for each range from $3,259 to $5,018.99,

(vi) $40 for each range from $5,019 to $7,218.99;

(*d*) in respect of a semi-monthly pay period, the ranges of remuneration shall commence at $437 and increase in increments of

(i) $4 for each range up to and including $652.99,

(ii) $8 for each range from $653 to $1,092.99,

(iii) $18 for each range from $1,093 to $2,082.99,

(iv) $26 for each range from $2,083 to $3,512.99,

(v) $34 for each range from $3,513 to $5,382.99,

(vi) $44 for each range from $5,383 to $7,802.99;

(*e*) in respect of 12 monthly pay periods, the ranges of remuneration shall commence at $873 and increase in increments of

(i) $8 for each range up to and including $1,304.99,

(ii) $18 for each range from $1,305 to $2,294.99,

(iii) $34 for each range from $2,295 to $4,164.99,

(iv) $52 for each range from $4,165 to $7,024.99,

(v) $70 for each range from $7,025 to $10,874.99,

(vi) $86 for each range from $10,875 to $15,604.99;

(*f*) in respect of 10 monthly pay periods, the ranges of remuneration shall commence at $1,048 and increase in increments of

(i) $10 for each range up to and including $1,587.99,

(ii) $20 for each range from $1,588 to $2,687.99,

(iii) $42 for each range from $2,688 to $4,997.99,

(iv) $62 for each range from $4,998 to $8,407.99,

(v) $84 for each range from $8,408 to $13,027.99,

(vi) $104 for each range from $13,028 to $18,747.99;

(*g*) in respect of four-week pay periods, the ranges of remuneration shall commence at $806 and increase in increments of

(i) $8 for each range up to and including $1,237.99,

(ii) $16 for each range from $1,238 to $2,117.99,

(iii) $32 for each range from $2,118 to $3,877.99,

(iv) $48 for each range from $3,878 to $6,517.99,

(v) $64 for each range from $6,518 to $10,037.99,

(vi) $80 for each range from $10,038 to $14,437.99;

(*h*) in respect of 22 pay periods per annum, the ranges of remuneration shall commence at $477 and increase in increments of

(i) $6 for each range up to and including $800.99,

(ii) $10 for each range from $801 to $1,350.99,

(iii) $18 for each range from $1,351 to $2,340.99,

(iv) $28 for each range from $2,341 to $3,880.99,

(v) $38 for each range from $3,881 to $5,970.99,

(vi) $48 for each range from $5,971 to $8,610.99.

History: S. 1 of Schedule I was replaced by P.C. 2007-974, SOR/2007-149, dated May 31, 2007, deemed to have taken effect on January 1, 2007.

S. 1 of Schedule I was replaced by P.C. 2007-974, SOR/2007-149, dated May 31, 2007, deemed to have taken effect on July 1, 2006.

S. 1 of Schedule I was replaced by P.C. 2007-974, SOR/2007-149, dated May 31, 2007, deemed to have taken effect on January 1, 2006.

S. 1 of Schedule I was replaced by P.C. 2007-974, SOR/2007-149, dated May 31, 2007, deemed to have taken effect on January 1, 2005.

S. 1 of Schedule I was replaced by P.C. 2007-974, SOR/2007-149, dated May 31, 2007, deemed to have taken effect on January 1, 2004 [to correct an error in P.C. 2005-1133, SOR/2005-185].

S. 1 of Schedule I was replaced by P.C. 2005-1133, SOR/2005-185, dated June 7, 2005, applicable to the 2004 and subsequent taxation years.

S. 1 of Schedule I was replaced by P.C. 2005-694, SOR/2005-123, dated May 3, 2005, deemed to have taken effect on January 1, 2004.

S. 1 of Schedule I was replaced by P.C. 2005-694, SOR/2005-123, dated May 3, 2005, deemed to have taken effect on January 1, 2003.

S. 1 of Schedule I was replaced by P.C. 2005-694, SOR/2005-123, dated May 3, 2005, deemed to have taken effect on January 1, 2002.

S. 1(*b*) to (*h*) of Schedule I were amended by P.C. 2001-1115, SOR/2001-221, dated June 14, 2001, applicable to the 2001 and subsequent taxation years.

S. 1(*a*) to (*h*) of Schedule I were amended by P.C. 2000-1334, SOR/2000-329, dated August 23, 2000, deemed to have come into force on July 1, 2000.

S. 1(*a*) to (*h*) of Schedule I were amended by P.C. 1999-2205, SOR/2000-10, dated December 16, 1999, deemed to have come into force on July 1, 1999.

S. 1(*a*) to (*h*) of Schedule I were amended by P.C. 1999-2205, SOR/2000-10, dated December 16, 1999, deemed to have come into force on January 1, 1999.

S. 1(*a*) to (*h*) of Schedule 1 was amended by P.C. 1998-2271, SOR/99-18, dated December 16, 1998, deemed to have come into force on July 1, 1998.

S. 1(*d*) was amended by P.C. 1996-501, SOR/96-206, dated April 16, 1996, to prescribe new ranges of remuneration, effective beginning on January 1, 1996.

S. 1(*d*) was amended by P.C. 1994-1370, SOR/94-569, dated August 16, 1994, to prescribe new ranges of remuneration, effective commencing January 1, 1994.

S. 1(*a*) to (*h*) were amended by P.C. 1992-2347, SOR/92-667, dated November 19, 1992 to prescribe new ranges of remuneration, effective commencing January 1, 1992.

S. 1(*b*) to (*h*) were amended by P.C. 1992-291, SOR/92-138, dated February 20, 1992, to prescribe new ranges of remuneration, effective commencing July 1, 1991.

S. 1(*b*) to (*h*) were amended by P.C. 1991-1643, SOR/91-536, dated September 5, 1991, to prescribe new ranges of remuneration, effective commencing January 1, 1991.

S. 1(*a*) to (*h*) were amended by P.C. 1991-732, SOR/91-279, dated April 18, 1991, to prescribe new ranges of remuneration, effective commencing January 1, 1990.

S. 1(*e*) to (*g*) of Schedule I were amended by P.C. 1990-432, SOR/90-161, dated March 8, 1990, to prescribe new ranges of remuneration, effective commencing January 1, 1989.

S. 1 of Schedule I was amended by P.C. 1988-1041, SOR/88-310, dated June 2, 1988 to prescribe new ranges of remuneration, effective commencing January 1, 1988.

S. 1 of Schedule I was amended by P.C. 1984-3918, SOR/84-968, dated December 7, 1984 to prescribe new ranges of remuneration for British Columbia, effective July 1, 1984.

S. 1 of Schedule I were amended by P.C. 1984-3684, SOR/84-913, dated November 15, 1984, to prescribe new ranges of remuneration and total remuneration, effective January 1, 1984.

Paragraphs 1(a) to (h) of Schedule I were amended by P.C. 1984-775, SOR/84-223, dated March 9, 1984, to change the figures therein.

Subparagraphs 1(a)(i), 1(b)(i), 1(c)(i), 1(d)(i), 1(e)(i), 1(f)(i), 1(g)(i) and 1(h)(i) of Schedule I were amended by P.C. 1983-1195, SOR/83-360, dated April 22, 1983, effective July 1, 1982, to delete references to "Nova Scotia" therein.

Subparagraphs 1(a)(iii), 1(b)(iii), 1(c)(iii), 1(d)(iii), 1(e)(iii), 1(f)(iii), 1(g)(iii) and 1(h)(iii) of Schedule I were amended by P.C. 1983-1195, SOR/83-360, dated April 22, 1983, effective July 1, 1982, to add references to "Nova Scotia" therein.

2. For the purposes of paragraph 102(1)(*d*), the mid-point of the range of amount of personal credits for a taxation year shall be as follows:

(*a*) from $0 to $8,929, $8,929;
(*b*) from $8,929.01 to $10,817, $9,873.00;
(*c*) from $10,817.01 to $12,705, $11,761.00;
(*d*) from $12,705.01 to $14,593, $13,649.00;
(*e*) from $14,593.01 to $16,481, $15,537.00;
(*f*) from $16,481.01 to $18,369, $17,425.00;
(*g*) from $18,369.01 to $20,257, $19,313.00;
(*h*) from $20,257.01 to $22,145, $21,201.00;
(*i*) from $22,145.01 to $24,033, $23,089.00;
(*j*) from $24,033.01 to $25,921, $24,977.00;
(*k*) for amounts in excess of $25,921, the amount of the personal credits.

History: S. 2 of Schedule I was replaced by P.C. 2007-974, SOR/2007-149, dated May 31, 2007, deemed to have taken effect on January 1, 2007. S. 2 of Schedule I formerly read:

"S. 2. For the purposes of paragraph 102(1)(*d*), the mid-point of the range of amount of personal credits for a taxation year shall be as follows:
(*a*) from $0 to $8,639, $8,639;
(*b*) from $8,639.01 to $10,486, $9,562.50;
(*c*) from $10,486.01 to $12,333, $11,409.50;
(*d*) from $12,333.01 to $14,180, $13,256.50;
(*e*) from $14,180.01 to $16,027, $15,103.50;
(*f*) from $16,027.01 to $17,874, $16,950.50;
(*g*) from $17,874.01 to $19,721, $18,797.50;
(*h*) from $19,721.01 to $21,568, $20,644.50;
(*i*) from $21,568.01 to $23,415, $22,491.50;
(*j*) from $23,415.01 to $25,562, $24,338.50;
(*k*) for amounts in excess of $25,562, the amount of the personal credits."

S. 2 of Schedule I was replaced by P.C. 2007-974, SOR/2007-149, dated May 31, 2007, deemed to have taken effect on July 1, 2006. S. 2 of Schedule I formerly read:

"S. 2. For the purposes of paragraph 102(1)(*d*), the mid-point of the range of amount of personal credits for a taxation year shall be as follows:
(*a*) from $0 to $9,039, $9,039;
(*b*) from $9,039.01 to $10,886, $9,962.50;
(*c*) from $10,886.01 to $12,733, $11,809.50;
(*d*) from $12,733.01 to $14,580, $13,656.50;
(*e*) from $14,580.01 to $16,427, $15,503.50;
(*f*) from $16,427.01 to $18,274, $17,350.50;
(*g*) from $18,274.01 to $20,121, $19,197.50;
(*h*) from $20,121.01 to $21,968, $21,044.50;
(*i*) from $21,968.01 to $23,815, $22,891.50;
(*j*) from $23,815.01 to $25,662, $24,738.50;
(*k*) for amounts in excess of $25,662, the amount of the personal credits."

S. 2 of Schedule I was replaced by P.C. 2007-974, SOR/2007-149, dated May 31, 2007, deemed to have taken effect on January 1, 2006. S. 2 of Schedule I formerly read:

"S. 2. For the purposes of paragraph 102(1)(*d*), the mid-point of the range of amount of personal credits for a taxation year shall be as follows:
(*a*) from $0 to $8,148, $8,148;
(*b*) from $8,148.01 to $9,955, $9,051.50;
(*c*) from $9,955.01 to $11,762, $10,858.50;
(*d*) from $11,762.01 to $13,569, $12,665.50;
(*e*) from $13,569.01 to $15,376, $14,472.50;
(*f*) from $15,376.01 to $17,183, $16,279.50;
(*g*) from $17,183.01 to $18,990, $18,086.50;
(*h*) from $18,990.01 to $20,797, $19,893.50;
(*i*) from $20,797.01 to $22,604, $21,700.50;
(*j*) from $22,604.01 to $24,411, $23,507.50;
(*k*) for amounts in excess of $24,411, the amount of the personal credits."

S. 2 of Schedule I was replaced by P.C. 2007-974, SOR/2007-149, dated May 31, 2007, deemed to have taken effect on January 1, 2005. S. 2 of Schedule I formerly read:

"S. 2. For the purposes of paragraph 102(1)(*d*), the mid-point of the range of amount of personal credits for a taxation year shall be as follows:
(*a*) from $0 to $8,012, $8,012;
(*b*) from $8,012.01 to $9,789, $8,900.50;
(*c*) from $9,789.01 to $11,566, $10,677.50;
(*d*) from $11,566.01 to $13,343, $12,454.50;
(*e*) from $13,343.01 to $15,120, $14,231.50;
(*f*) from $15,120.01 to $16,897, $16,008.50;
(*g*) from $16,897.01 to $18,674, $17,785.50;
(*h*) from $18,674.01 to $20,451, $19,562.50;
(*i*) from $20,451.01 to $22,228, $21,339.50;
(*j*) from $22,228.01 to $24,005, $23,116.50;
(*k*) for amounts in excess of $24,005, the amount of the personal credits."

S. 2 of Schedule I was replaced by P.C. 2007-974, SOR/2007-149, dated May 31, 2007, deemed to have taken effect on force on January 1, 2004. S. 2 of Schedule I formerly read:

"S. 2. For the purposes of paragraph 102(1)(*d*), the mid-point of the range of amount of personal credits for a taxation year shall be as follows:
(*a*) from $0 to $8,148, $8,148;
(*b*) from $8,148.01 to $9,955, $9,051.50;
(*c*) from $9,955.01 to $11,762, $10,858.50;
(*d*) from $11,762.01 to $13,569, $12,665.50;
(*e*) from $13,569.01 to $15,376, $14,472.50;
(*f*) from $15,376.01 to $17,183, $16,279.50;
(*g*) from $17,183.01 to $18,990, $18,086.50;
(*h*) from $18,990.01 to $20,797, $19,893.50;
(*i*) from $20,797.01 to $22,604, $21,700.50;
(*j*) from $22,604.01 to $24,411, $23,507.50; and
(*k*) for amounts in excess of $24,411, the amount of the personal credits."

S. 2 of Schedule I was replaced by P.C. 2005-1133, SOR/2005-185, dated June 7, 2005, applicable to the 2004 and subsequent taxation years.

S. 2 of Schedule I was replaced by P.C. 2005-694, SOR/2005-123, dated May 3, 2005, deemed to have taken effect on January 1, 2004.

S. 2 of Schedule I was replaced by P.C. 2005-694, SOR/2005-123, dated May 3, 2005, deemed to have taken effect on January 1, 2003.

S. 2 of Schedule I was replaced by P.C. 2005-694, SOR/2005-123, dated May 3, 2005, deemed to have taken effect on January 1, 2002.

S. 2 of Schedule I was amended by P.C. 2001-1115, SOR/2001-221, dated June 14, 2001, applicable to the 2001 and subsequent taxation years.

S. 2 of Schedule I was amended by P.C. 2000-1334, SOR/2000-329, dated August 23, 2000, deemed to have come into force on July 1, 2000.

S. 2 of Schedule I was amended by P.C. 1999-2205, SOR/2000-10, dated December 16, 1999, deemed to have come into force on July 1, 1999.

S. 2 of Schedule I was amended by P.C. 1999-2205, SOR/2000-10, dated December 16, 1999, deemed to have come into force on January 1, 1999.

S. 2 of Schedule I was amended by P.C. 1998-2271, SOR/99-18, dated December 16, 1998, deemed to have come into force on July 1, 1998.

S. 2 was amended by P.C. 1992-2347, SOR/92-667, dated November 19, 1992 to prescribe new ranges of remuneration, effective commencing January 1, 1992.

S. 2(a) to (l) were amended by P.C. 1991-732, SOR/91-279, dated April 18, 1991, to prescribe new ranges of remuneration, effective commencing January 1, 1990.

S. 2 of Schedule I were amended by P.C. 1984-3684, SOR/84-913, dated November 15, 1984, to prescribe new ranges of remuneration and total remuneration, effective January 1, 1984.

Paragraphs 2(a) and 2(b) of Schedule I were amended by P.C. 1983-1195, SOR/83-360, dated April 22, 1983, effective July 1, 1982, to respectively, delete and add references to "Nova Scotia" therein.

3. [Repealed.]

History: S. 3 of Schedule I was repealed by P.C. 2001-1115, SOR/2001-221, dated June 14, 2001, applicable to the 2001 and subsequent taxation years. S. 3 of Schedule I formerly read:

"S. 3. For the purposes of paragraph 102(2)(*e*), the ranges of personal credits and expenses for a taxation year shall commence at $1,500 and increase in increments of
(*a*) $1,000 for each range up to and including $4,499.99;
(*b*) $2,000 for each range from $4,500 to $8,499.99;
(*c*) $2,500 for each range from $8,500 to $13,499.99;
(*d*) $3,000 for each range from $13,500 to $19,499.99;
(*e*) $3,500 for each range from $19,500 to $26,499.99;
(*f*) $4,000 for each range from $26,500 to $34,499.99;

(*g*) $4,500 for each range from $34,500 to $43,499.99;
(*h*) $5,000 for each range from $43,500 to $53,499.99; and
(*i*) $5,500 for the range from $53,500 to $58,999.99."

S. 3 was added by P.C. 1992-2347, SOR/92-667, dated November 19, 1992 to prescribe new ranges of remuneration, effective commencing January 1, 1992.

Schedule I was amended by P.C. 1989-2105, SOR/89-508, dated October 19, 1989 to prescribe new ranges of remuneration, effective July 1, 1989.

Schedule I was amended by P.C. 1985-1345, SOR/86-629, dated June 5, 1986, effective January 1, 1986. (This effective date was subsequently amended by P.C. 1986-2070, SOR/86-949, dated September 11, 1986.)

Schedule I was amended by P.C. 1985-1645, SOR/85-453, dated May 16, 1985, to prescribe new ranges of remuneration and total remuneration, effective January 1, 1985.

Schedule I was amended by P.C. 1983-2717, SOR/83-692, dated September 1, 1983, to prescribe new ranges of remuneration and total remuneration, effective January 1, 1983.

Schedule I was amended to revise the figures therein by P.C. 1983-1137, SOR/83-349, dated April 15, 1983, effective January 1, 1982.

The former Schedule I, which comprised tax deduction tables, was revoked and replaced by the one prescribing the ranges of remuneration and of total remuneration for purposes of tax withholding by P.C. 1981-1557, SOR/81-471, dated June 12, 1981, effective January 1, 1981.

Schedule I (not reproduced) comprised tax deduction tables for withholding tax at the source. Schedule I originally consolidated as Schedule A by P.C. 1954-1917, and subsequently consolidated by P.C. 1979-1933.

Schedule I was amended by P.C. 1979-2622, SOR/79-694, September 28, 1979, by P.C. 1980-701, SOR/180-187, March 21, 1980, by P.C. 1980-2226, SOR/80-683, August 27, 1980, and by P.C. 1980-3375, SOR/80-941, December 11, 1980.

SCHEDULE II

Capital Cost Allowances

CLASS 1

(4 per cent)

Property not included in any other class that is

(*a*) a bridge;
(*b*) a canal;
(*c*) a culvert;
(*d*) a dam;
(*e*) a jetty acquired before May 26, 1976;
(*f*) a mole acquired before May 26, 1976;
(*g*) a road, sidewalk, airplane runway, parking area, storage area or similar surface construction, acquired before May 26, 1976;
(*h*) railway track and grading, including components such as rails, ballast, ties and other track material,
  (i) that is not part of a railway system, or
  (ii) that was acquired after May 25, 1976;
(*i*) railway traffic control or signalling equipment, acquired after May 25, 1976, including switching, block signalling, interlocking, crossing protection, detection, speed control or retarding equipment, but not including property that is principally electronic equipment or systems software therefor;
(*j*) a subway or tunnel, acquired after May 25, 1976;
(*k*) electrical generating equipment (except as specified elsewhere in this Schedule);
(*l*) a pipeline, other than
  (i) a pipeline that is gas or oil well equipment, and
  (ii) a pipeline that is for oil or natural gas if the Minister, in consultation with the Minister of Natural Resources, is or has been satisfied that the main source of supply for the pipeline is or was likely to be exhausted within 15 years after the date on which the operation of the pipeline commenced;
(*m*) the generating or distributing equipment and plant (including structures) of a producer or distributor of electrical energy;
(*n*) manufacturing and distributing equipment and plant (including structures) acquired primarily for the production or distribution of gas, except
  (i) a property acquired for the purpose of producing or distributing gas that is normally distributed in portable containers,
  (ii) a property acquired for the purpose of processing natural gas, before the delivery of such gas to a distribution system, or
  (iii) a property acquired for the purpose of producing oxygen or nitrogen;
(*o*) the distributing equipment and plant (including structures) of a distributor of water;
(*p*) the production and distributing equipment and plant (including structures) of a distributor of heat; or
(*q*) a building or other structure, or a part of it, including any component parts such as electric wiring, plumbing, sprinkler systems, air-conditioning equipment, heating equipment, lighting fixtures, elevators and escalators (except property described in any of paragraphs (*k*) and (*m*) to (*p*) of this Class or in any of paragraphs (*a*) to (*e*) of Class 8).

History: Class 1, paragraph (*l*) was replaced by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, deemed to have come into force on February 23, 2005. Class 1, paragraph (*l*) formerly read:

"(*l*) a pipeline, other than gas or oil well equipment, unless, in the case of a pipeline for oil or natural gas, the Minister, in consultation with the Minister of Energy, Mines and Resources, is or has been satisfied that the main source of supply for the pipeline is or was likely to be exhausted within 15 years after the date on which operation of the pipeline commenced;"

Class 1, paragraph (*q*) was replaced by P.C. 2005-2186, SOR/2005-371, dated November 22, 2005, applicable to property acquired after 1987. Class 1, paragraph (*q*) formerly read:

"(*q*) a building or other structure, or part thereof, including component parts such as electric wiring, plumbing, sprinkler systems, air-conditioning equipment, heating equipment, lighting fixtures, elevators and escalators."

Class 1, paragraph (*k*) was amended by P.C. 1997-1033, SOR/97-377, dated July 28, 1997, applicable to property acquired after 1987. That paragraph formerly read:

"(*k*) electrical generating equipment;"

Class 1, paragraphs (*k*) to (*q*) were added by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, applicable in respect of property acquired after 1987.

Interpretation Bulletins: *Primary* — IT-79R3 Capital cost allowance — Buildings or other structures; IT-482R Pipelines. *Secondary* — IT-195R4 Rental property — Capital cost allowance restrictions; IT-304R2 Condominiums; IT-476R Capital cost allowance — Equipment used in petroleum and natural gas activities.

CLASS 2

(6 per cent)

Property that is

(*a*) electrical generating equipment (except as specified elsewhere in this Schedule);

(*b*) a pipeline, other than gas or oil well equipment, unless, in the case of a pipeline for oil or natural gas, the Minister in consultation with the Minister of Energy, Mines and Resources, is or has been satisfied that the main source of supply for the pipeline is or was likely to be exhausted within 15 years from the date on which operation of the pipeline commenced;

(*c*) the generating or distributing equipment and plant (including structures) of a producer or distributor of electrical energy, except a property included in Class 10, 13, 14, 26 or 28;

(*d*) manufacturing and distributing equipment and plant (including structures) acquired primarily for the production or distribution of gas, except

(i) a property included in Class 10, 13 or 14,

(ii) a property acquired for the purpose of producing or distributing gas that is normally distributed in portable containers,

(iii) a property acquired for the purpose of processing natural gas, before delivery of such a gas to a distribution system,

(iv) a property acquired for the purpose of producing oxygen or nitrogen;

(*e*) the distributing equipment and plant (including structures) of a distributor of water, except a property included in Class 10, 13 or 14; or

(*f*) the production and distributing equipment and plant (including structures) of a distributor of heat, except a property included in Class 10, 13 or 14;

acquired by the taxpayer

(*g*) before 1988, or

(*h*) before 1990

(i) pursuant to an obligation in writing entered into by the taxpayer before June 18, 1987,

(ii) that was under construction by or on behalf of the taxpayer on June 18, 1987, or

(iii) that is machinery or equipment that is a fixed and integral part of a building, structure, plant facility or other property that was under construction by or on behalf of the taxpayer on June 18, 1987.

History: Class 2 was amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, to add "acquired by the taxpayer" immediately following paragraphs (*f*) and to add paragraphs (*g*) and (*h*) applicable with respect to property acquired after 1987.

Subparagraph (*d*)(iii) was amended by P.C. 1986-2590, SOR/86-1092, dated November 20, 1986, to delete "oxygen or nitrogen", applicable with respect to property acquired after April 3, 1985.

Subparagraph (*d*)(iv) was added by P.C. 1986-2590, SOR/86-1092, dated November 20, 1986, applicable with respect to property acquired after April 3, 1985.

Subparagraph (*d*)(iii) was amended by P.C. 1985-890, SOR/85-270, dated March 21, 1985, to substitute ", oxygen or nitrogen before delivery of such gas" for "before delivery", applicable to property acquired after April 3, 1985.

Paragraph (*c*) was amended by P.C. 1979-1488, SOR/79-427, May 22, 1979 to add the reference to Class 26.

CLASS 3

(5 per cent)

Property not included in any other class that is

(*a*) a building or other structure, or part thereof, including component parts such as electric wiring, plumbing, sprinkler systems, air-conditioning equipment, heating equipment, lighting fixtures, elevators and escalators, acquired by the taxpayer

(i) before 1988, or

(ii) before 1990

(A) pursuant to an obligation in writing entered into by the taxpayer before June 18, 1987,

(B) that was under construction by or on behalf of the taxpayer on June 18, 1987, or

(C) that is a component part of a building that was under construction by or on behalf of the taxpayer on June 18, 1987;

(*b*) a breakwater;

(*c*) a dock;

(*d*) a trestle;

(*e*) a windmill;

(*f*) a wharf;

(*g*) an addition or alteration, made during the period that is after March 31, 1967 and before 1988, to a building that would have been included in this class during that period but for the fact that it was included in Class 20;

(*h*) a jetty acquired after May 25, 1976;

(*i*) a mole acquired after May 25, 1976;

(*j*) telephone, telegraph or data communication equipment, acquired after May 25, 1976, that is a wire or cable;

(*k*) an addition or alteration, other than an addition or alteration described in paragraph (*k*) of Class 6, made after 1987, to a building included, in whole or in part,

(i) in this class,

(ii) in Class 6 by virtue of subparagraph (*a*)(viii) thereof, or

(iii) in Class 20,

to the extent that the aggregate cost of all such additions or alterations to the building does not exceed that lesser of

(iv) $500,000, and

(v) 25 per cent of the aggregate of the amounts that would, but for this paragraph, be the capital cost of the building and any additions or alterations thereto included in this class or Class 6 or 20; or

(*l*) ancillary to a wire or cable referred to in paragraph (*j*) or Class 42 and that is supporting equipment such as a pole, mast, tower, conduit, brace, crossarm, guy or insulator.

History: Paragraph (*j*) was amended and paragraph (*l*) was added by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to property acquired by a taxpayer after December 23, 1991, other than property acquired pursuant to an agreement in writing entered into by the taxpayer before December 24, 1991, except that

(*a*) where the taxpayer so elects in a letter that is filed with the Minister of National Revenue on or before the day that is 180 days after these amendments are published in the *Canada Gazette* Part II (February 9, 1994) or in a letter that is attached to the taxpayer's return of income filed in accordance with section 150 of the *Income Tax Act* for the taxpayer's first taxation year ending after December 23, 1991, those provisions apply to property acquired by the taxpayer after the beginning of that year;

(*b*) with respect to property acquired before December 24, 1991 in respect of which an election referred to in paragraph (*a*) applies, paragraph (*l*) of Class 3 in schedule II shall be read without reference to the words "or Class 42" and Schedule II to the said Regulations shall be read without reference to Class 42; and

(*c*) with respect to property acquired after December 23, 1991 and before the day on which these amendments are published in the *Canada Gazette* Part II (February 9, 1994), paragraph (*l*) of Class 3 in Schedule II shall be read without reference to the words "or Class 42".

Paragraph (*j*) formerly read:

"(*j*) telephone, telegraph or data communication equipment, acquired after May 25, 1976, that is

(i) a wire or cable, or

(ii) supporting equipment such as a pole, mast, tower, conduit, brace, crossarm, guy or insulator that is ancillary to a wire or cable referred to in subparagraph (i); or"

Paragraph (*a*) was amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989 and applicable in respect of property acquired after 1987. Paragraph (*a*) formerly read:

"(*a*) a building or other structure, including component parts such as electric wiring, plumbing, sprinkler systems, air-conditioning equipment, heating equipment, lighting fixtures, elevators and escalators;"

Paragraph (*g*) was amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, to substitute "1988" for "1979", applicable in respect of property acquired after 1987.

Paragraph (*k*) was added by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, and applicable in respect of property acquired after 1987.

Paragraph (*g*) was amended by P.C. 1978-1768, SOR/78-949, December 14, 1978, effective January 1, 1979, to limit its application to periods before 1979.

Interpretation Bulletins: *Primary* — IT-79R3 Capital cost allowance — Buildings or other structures.

CLASS 4

(6 per cent)

Property that would otherwise be included in another class in this Schedule that is

(*a*) a railway system or a part thereof, except automotive equipment not designed to run on rails or tracks, that was acquired after the end of the taxpayer's 1958 taxation year and before May 26, 1976; or

(*b*) a tramway or trolley bus system or a part thereof, except property included in Class 10, 13 or 14.

CLASS 5

(10 per cent)

Property that is

(*a*) a chemical pulp mill or ground wood pulp mill, including buildings, machinery and equipment, but not including hydro-electric power plants and their equipment, or

(*b*) an integrated mill producing chemical pulp or ground wood pulp and manufacturing therefrom paper, paper board or pulp board, including buildings, machinery and equipment, but not including hydro-electric power plants and their equipment,

but not including any property that was acquired after the end of the taxpayer's 1962 taxation year.

CLASS 6

(10 per cent)

Property not included in any other class that is

(*a*) a building of

(i) frame,

(ii) log,

(iii) stucco on frame,

(iv) galvanized iron, or

(v) corrugated metal

construction, including component parts such as electric wiring, plumbing, sprinkler systems, air-conditioning equipment, heating equipment, lighting fixtures, elevators and escalators, if the building

(vi) is used by the taxpayer for the purpose of gaining or producing income from farming or fishing,

(vii) has no footings or any other base support below ground level,

(viii) was acquired by the taxpayer before 1979 and is not a building described in subparagraph (vi) or (vii),

(ix) was acquired by the taxpayer after 1978 under circumstances such that

(A) he was obligated to acquire the building under the terms of an agreement in writing entered into before 1979, and

(B) the installation of footings or any other base support of the building was commenced before 1979, or

(x) was acquired by the taxpayer after 1978 under circumstances such that

(A) he commenced construction of the building before 1979, or

(B) the construction of the building was commenced under the terms of an agreement in writing entered into by him before 1979, and

the installation of footings or any other base support of the building was commenced before 1979;

(*b*) a wooden breakwater;

(*c*) a fence;

(*d*) a greenhouse;

(*e*) an oil or water storage tank;

(*f*) a railway tank car acquired before May 26, 1976;

(*g*) a wooden wharf;

(*h*) an aeroplane hangar acquired after the end of the taxpayer's 1958 taxation year;

(*i*) an addition or alteration, made

(A) during the period that is after March 31, 1967 and before 1979, or

(B) after 1978 if the taxpayer was obligated to have it made under the terms of an agreement in writing entered into before 1979,

to a building that would have been included in this class during that period but for the fact that it was included in Class 20;

(*j*) a railway locomotive that is acquired after May 25, 1976 and before February 26, 2008 and that is not an automotive railway car;

(*k*) an addition or alteration, made after 1978 to a building included in this class by virtue of subparagraph (*a*)(viii), to the extent that the aggregate cost of all such additions and alterations to the building does not exceed $100,000.

History: Paragraph (*j*) of Class 6 was replaced by P.C. 2009-660, SOR/2009-126, dated April 30, 2009, applicable in respect of property acquired after February 25, 2008. Paragraph (*j*) of Class 6 formerly read:

"(*j*) a railway locomotive acquired after May 25, 1976, but not including an automotive railway car; or"

Subparagraph (*a*)(v) was amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, to replace "corrugated iron" with "corrugated metal", applicable to the 1989 and subsequent taxation years with respect to property acquired after 1987.

Paragraph (*a*) was amended to add "if the building" and subparagraphs (vi)–(x), paragraph (*i*) was amended and paragraph (*k*) was added by P.C. 1978-3768, SOR/78-949, December 14, 1978, effective January 1, 1979. Paragraph (*i*) formerly read:

"(i) an addition or alteration made after March 31, 1967, to a building that would be included in this class but for the fact that it is included in Class 20, or".

Interpretation Bulletins: *Primary* — IT-79R3 Capital cost allowance — Buildings or other structures. *Secondary* — IT-195R4 Rental property — Capital cost allowance restrictions; IT-476R Capital cost allowance — Equipment used in petroleum and natural gas activities.

CLASS 7
(15 per cent)

Property that is

(*a*) a canoe or rowboat;

(*b*) a scow;

(*c*) a vessel, but not including a vessel

(i) of a separate class prescribed by subsection 1101(2a), or

(ii) included in Class 41;

(*d*) furniture, fittings or equipment attached to a property included in this class, but not including radiocommunication equipment;

(*e*) a spare engine for a property included in this class;

(*f*) a marine railway;

(*g*) a vessel under construction, other than a vessel included in Class 41;

(*h*) subject to an election made under subsection 1103(2i), property acquired after February 27, 2000 that is

(i) a rail suspension device designed to carry trailers that are designed to be hauled on both highways and railway tracks, or

(ii) a railway car;

(*i*) property that is acquired after February 27, 2000 (other than property included in paragraph (*y*) of Class 10), that is a railway locomotive and that is not an automotive railway car;

(*j*) pumping or compression equipment, including equipment ancillary to pumping and compression equipment, acquired after February 22, 2005 if the equipment pumps or compresses petroleum, natural gas or a related hydrocarbon for the purpose of moving it

(i) through a transmission pipeline,

(ii) from a transmission pipeline to a storage facility, or

(iii) to a transmission pipeline from a storage facility, or

(*k*) pumping or compression equipment that is acquired after February 25, 2008, including equipment ancillary to pumping and compression equipment, that is on a pipeline and that pumps or compresses carbon dioxide for the purpose of moving it through the pipeline.

History: Class 7, paragraph (*i*) was replaced by P.C. 2009-660, SOR/2009-126, dated April 30, 2009, applicable in respect of property acquired after February 25, 2008. Class 7, paragraph (*i*) formerly read:

"(*i*) property acquired after February 27, 2000 that is a railway locomotive, but not including an automotive railway car; or"

Class 7, paragraph (*k*) was added by P.C. 2009-660, SOR/2009-126, dated April 30, 2009, applicable in respect of property acquired after February 25, 2008.

Class 7, paragraph (*j*) was added by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, deemed to have come into force on February 23, 2005.

Class 7, paragraphs (*h*) and (*i*) were added by P.C. 2005-2186, SOR/2005-371, dated November 22, 2005, applicable to property acquired after February 27, 2000.

Paragraph (*c*) was amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989 and applicable in respect of property acquired after 1987. Paragraph (*c*) formerly read:

"(*c*) a vessel, but not including a vessel of a separate class prescribed by subsection 1101(2a);"

Paragraph (*g*) was amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, to add ", other than a vessel included in Class 41", applicable in respect of property acquired after 1987.

Interpretation Bulletins: *Secondary*— IT-267R2 Capital cost allowance — Vessels; IT-317R Capital cost allowance — Radio and television equipment [Archived by the CRA]; Capital cost allowance — Equipment used in petroleum and natural gas activities.

CLASS 8
(20 per cent)

Property not included in Class 1, 2, 7, 9, 11, 17 or 30 that is

(*a*) a structure that is manufacturing or processing machinery or equipment;

(*b*) tangible property attached to a building and acquired solely for the purpose of

(i) servicing, supporting or providing access to or egress from, machinery or equipment,

(ii) manufacturing or processing, or

(iii) any combination of the functions described in subparagraphs (i) and (ii);

(*c*) a building that is a kiln, tank or vat, acquired for the purpose of manufacturing or processing;

(*d*) a building or other structure, acquired after February 19, 1973, that is designed for the purpose of preserving ensilage on a farm;

(*e*) a building or other structure, acquired after February 19, 1973, that is

(i) designed to store fresh fruits or fresh vegetables at a controlled level of temperature and humidity, and

(ii) to be used principally for the purpose of storing fresh fruits or fresh vegetables by or for the person or persons by whom they were grown;

(*f*) electrical generating equipment acquired after May 25, 1976, if

(i) the taxpayer is not a person whose business is the production for the use of or distribution to others of electrical energy,

(ii) the equipment is auxiliary to the taxpayer's main power supply, and

(iii) the equipment is not used regularly as a source of supply;

(*g*) electrical generating equipment, acquired after May 25, 1976, that has a maximum load capacity of not more than 15 kilowatts;

(*h*) portable electrical generating equipment acquired after May 25, 1976;

(*i*) a tangible capital property that is not included in another class in this Schedule except

(i) land or any part thereof or any interest therein,

(ii) an animal,

(iii) a tree, shrub, herb or similar growing thing,

(iv) an oil or gas well,

(v) a mine,

(vi) a specified temporary access road of the taxpayer,

(vii) radium,

(viii) a right of way,

(ix) a timber limit,

(x) a tramway track, or

(xi) property of a separate class prescribed by subsection 1101(2a);

(*j*) property not included in any other class that is radio-communication equipment acquired after May 25, 1976;

(*k*) a rapid transit car that is used for the purpose of public transportation within a metropolitan area and is not part of a railway system;

(*l*) an outdoor advertising poster panel or bulletin board; or

(*m*) a greenhouse constructed of a rigid frame and a replaceable, flexible plastic cover.

History: The portion of Class 8 before paragraph (*a*) was replaced by P.C. 2005-2186, SOR/2005-371, dated November 22, 2005, applicable to property acquired after February 27, 2000. The portion of Class 8 before paragraph (*a*) formerly read:

"Property not included in Class 1, 2, 7, 9, 11 or 30 that is"

Subparagraph (*i*)(vi) of Class 8 was amended by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable to property acquired after March 6, 1996. Subparagraph (*i*)(vi) of Class 8 formerly read:

"(vi) an oil well,"

Subparagraph (*i*)(iv) of Class 8 was amended by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable to property acquired after March 6, 1996. Subparagraph (*i*)(iv) of Class 8 formerly read:

"(iv) a gas well,"

The part preceding paragraph (*a*) was amended by P.C. 1997-1033, SOR/97-377, dated July 28, 1997, applicable to property acquired after 1987. That part formerly read:

"Property not included in Class 2, 7, 9, 11 or 30 that is"

Paragraph (*m*) was added by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to the 1989 and subsequent taxation years with respect to property acquired after 1987.

The part preceding paragraph (*a*) was amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, to add the reference to Class 11, applicable in respect of property acquired after 1987.

Paragraph (*l*) was added by P.C. 1989-2464, SOR/90-22, dated December 14, 1989 and applicable in respect of property acquired after 1987.

Paragraph (*k*) was added by P.C. 1985-2673, SOR/85-853 dated August 29, 1985, effective September 18, 1985.

Subparagraph (*i*)(iv) was amended by P.C. 1980-3120, SOR/80-881, November 13, 1980, to delete "(other than a gas well that is part of the equipment of a farm and from which the gas produced is not sold)".

Editorial Note: For data network infrastructure equipment acquired after March 22, 2004, see Class 46 (30%).

Interpretation Bulletins: *Primary* — IT-79R3 Capital cost allowance — Buildings or other structures; IT-482R Pipelines. *Secondary* — IT-165R Returnable containers [Archived by the CRA]; IT-317R Capital cost allowance — Radio and television equipment [Archived by the CRA]; IT-472 Capital cost allowance — Class 8 property; IT-476R Capital Cost Allowance — Equipment Used in Petroleum and Natural Gas Activities.

CLASS 9

(25 per cent)

Property acquired before May 26, 1976, other than property included in Class 30, that is

(*a*) electrical generating equipment, if

(i) the taxpayer is not a person whose business is the production for the use of or distribution to others of electrical energy,

(ii) the equipment is auxiliary to the taxpayer's main power supply, and

(iii) the equipment is not used regularly as a source of supply,

(*b*) radar equipment,

(*c*) radio transmission equipment,

(*d*) radio receiving equipment,

(*e*) electrical generating equipment that has a maximum load capacity of not more than 15 kilowatts, or

(*f*) portable electrical generating equipment,

and property acquired after May 25, 1976 that is

(*g*) an aircraft;

(*h*) furniture, fittings or equipment attached to an aircraft; or

(*i*) a spare part for an aircraft, or for furniture, fittings or equipment attached to an aircraft.

Interpretation Bulletins: *Secondary* — IT-317R Capital cost allowance — Radio and television equipment [Archived by the CRA].

CLASS 10

(30 per cent)

Property not included in any other class that is

(*a*) automotive equipment, including a trolley bus, but not including

(i) an automotive railway car acquired after May 25, 1976,

(ii) a railway locomotive, or

(iii) a tramcar,

(*b*) a portable tool acquired after May 25, 1976 for the purpose of earning rental income for short terms, such as hourly, daily, weekly or monthly, except a property described in Class 12,

(*c*) harness or stable equipment,

(*d*) a sleigh or wagon,

(*e*) a trailer, including a trailer designed to be hauled on both highways and railway tracks,

(*f*) general-purpose electronic data processing equipment and systems software for that equipment, including ancillary data processing equipment, acquired after May 25, 1976 and before March 23, 2004 (or after March 22, 2004 and before 2005 if an election in respect of the property is made under subsection 1101(5q)), but not including property that is principally or is used principally as

(i) electronic process control or monitor equipment,

(ii) electronic communications control equipment,

(iii) systems software for a property referred to in subparagraph (i) or (ii), or

(iv) data handling equipment unless it is ancillary to general-purpose electronic data processing equipment,

(*f*.1) a designated underground storage cost, or

(*f*.2) an unmanned telecommunication spacecraft designed to orbit above the earth,

and property (other than property included in Class 41 or property included in Class 43 that is described in paragraph (*b*) of that Class) that would otherwise be included in another Class in this Schedule, that is

(*g*) a building or other structure (other than property described in paragraph (*l*) or (*m*)) that would otherwise be included in Class 1, 3 or 6 and that was acquired for the purpose of gaining or producing income from a mine, except

(i) a property included in Class 28,

(ii) a property acquired principally for the purpose of gaining or producing income from the processing of ore from a mineral resource that is not owned by the taxpayer,

(iii) an office building not situated on the mine property, or

(iv) a refinery that was acquired by the taxpayer

(A) before November 8, 1969, or

(B) after November 7, 1969 and that had been used before November 8, 1969 by any person with whom the taxpayer was not dealing at arm's length;

(v) [Revoked.]

(*h*) contractor's movable equipment, including portable camp buildings, acquired for use in a construction business or for lease to another taxpayer for use in that other taxpayer's construction business, except a property included in

(i) this Class by virtue of paragraph (*t*),

(ii) a separate class prescribed by subsection 1101(2b), or

(iii) Class 22 or 38;

(*i*) a floor of a roller skating rink;

(*j*) gas or oil well equipment;

(*k*) property (other than property included in Class 28 or property described in paragraph (*l*) or (*m*)) that was acquired for the purpose of gaining or producing income from a mine and that is

(i) a structure that would otherwise be included in Class 8, or

(ii) machinery or equipment,

except a property acquired before May 9, 1972 for the purpose of gaining or producing income from the processing of ore after extraction from a mineral resource that is not owned by the taxpayer;

(*l*) property acquired after the 1971 taxation year for the purpose of gaining or producing income from a mine and providing services to the mine or to a community where a substantial proportion of the persons who ordinarily work at the mine reside, if such property is

(i) an airport, dam, dock, fire hall, hospital, house, natural gas pipeline, power line, recreational facility, school, sewage disposal plant, sewer, street lighting system, town hall, water pipeline, water pumping station, water system, wharf or similar property,

(ii) a road, sidewalk, airplane runway, parking area, storage area or similar surface construction, or

(iii) machinery or equipment ancillary to any of the property described in subparagraph (i) or (ii),

but is not

(iv) a property included in Class 28, or

(v) a railway not situated on the mine property;

(*m*) property acquired after March 31, 1977, principally for the purpose of gaining or producing income from a mine, if such property is

(i) railway track and grading including components such as rails, ballast, ties and other track material,

(ii) property ancillary to the track referred to in subparagraph (i) that is

(A) railway traffic control or signalling equipment, including switching, block signalling, interlocking, crossing protection, detection, speed control or retarding equipment, or

(B) a bridge, culvert, subway, trestle or tunnel,

(iii) machinery or equipment ancillary to any of the property referred to in subparagraph (i) or (ii), or

(iv) conveying, loading, unloading or storing machinery or equipment, including a structure, acquired for the purpose of shipping output from the mine by means of the track referred to in subparagraph (i),

but is not

(v) property included in Class 28, or

(vi) for greater certainty, rolling stock,

(*n*) property that was acquired for the purpose of cutting and removing merchantable timber from a timber limit and that will be of no further use to the taxpayer after all merchantable timber that the taxpayer is entitled to cut and remove from the limit has been cut and removed, unless the taxpayer has elected to include another property of this kind in another class in this Schedule;

(*o*) mechanical equipment acquired for logging operations, except a property included in Class 7;

(*p*) an access road or trails for the protection of standing timber against fire, insects or disease;

(*q*) property acquired for a motion picture drive-in theatre;

(*r*) property included in this class by virtue of subsection 1102(8) or (9), except a property included in Class 28;

(*s*) a motion picture film or video tape acquired after May 25, 1976, except a property included in paragraph (*w*) or (*x*) or in Class 12;

(*t*) a property acquired after May 22, 1979 that is designed principally for the purpose of

(i) determining the existence, location, extent or quality of accumulations of petroleum or natural gas,

(ii) drilling oil or gas wells, or

(iii) determining the existence, location, extent or quality of mineral resources,

except a property included in a separate class prescribed by subsection 1101(2b);

(*u*) property acquired after 1980 to be used primarily in the processing in Canada of heavy crude oil recovered from a natural reservoir in Canada to a stage that is not beyond the crude oil stage or its equivalent that is

(i) property that would otherwise be included in Class 8 except railway rolling stock or a property described in paragraph (*j*) of Class 8,

(ii) an oil or water storage tank,

(iii) a powered industrial lift truck that would otherwise be included in paragraph (*a*),

(iv) property that would otherwise be included in paragraph (*f*);

(*v*) property acquired after August 31, 1984 that is equipment used for the purpose of effecting an interface between a cable distribution system and electronic products used by consumers of that system and that is designed primarily

(i) to augment the channel capacity of a television receiver or radio,

(ii) to decode pay television or other signals provided on a discretionary basis, or

(iii) to achieve any combination of functions described in subparagraphs (i) and (ii);

(*w*) a certified production acquired after 1987 and before March 1996;

(*x*) a Canadian film or video production; or

(*y*) a railway locomotive that is not an automotive railway car and that was not used or acquired for use

for any purpose by any taxpayer before February 26, 2008.

History: Class 10, paragraph (*y*) was added by P.C. 2009-660, SOR/2009-126, dated April 30, 2009, applicable in respect of property acquired after February 25, 2008.

Class 10, the portion of paragraph (*f*) before subparagraph (i), was replaced by P.C. 2005-2286, SOR/2005-414, dated December 6, 2005, deemed to have come into force on March 23, 2004. Class 10, the portion of paragraph (*f*) before subparagraph (i) formerly read:

"(*f*) general-purpose electronic data processing equipment and systems software therefor, including ancillary data processing equipment, acquired after May 25, 1976, but not including property that is principally or is used principally as"

Paragraph (*s*) of Class 10 of Schedule II was replaced by P.C. 2005-698, SOR/2005-126, dated May 3, 2005, applicable to the 1995 and subsequent taxation years. Paragraph (*s*) of Class 10 of Schedule II formerly read:

"(*s*) a motion picture film or video tape acquired after May 25, 1976, except a property included in paragraph (*w*) or in Class 12;"

Paragraph (*w*) of Class 10 of Schedule II was replaced, and paragraph (*x*) was added, by P.C. 2005-698, SOR/2005-126, dated May 3, 2005, applicable to the 1995 and subsequent taxation years. Paragraph (*w*) of Class 10 of Schedule II formerly read:

"(*w*) a certified production acquired after 1987."

The part following paragraph (*f*.2) and preceding paragraph (*g*) was amended by P.C. 1994-230, SOR/94-169, dated February 10, 1994, applicable with respect to property acquired after February 25, 1992. The part formerly read:

"and property that would otherwise be included in another class in this Schedule, other than Class 41, that is"

Paragraph (*e*) was amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, to add the words following "a trailer", applicable with respect to property acquired after December 23, 1991.

The portion of paragraph (*h*) preceding subparagraph (i) was amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to property acquired after December 23, 1991, other than property acquired by a taxpayer before 1993

(*a*) pursuant to an agreement in writing entered into by the taxpayer before December 24, 1991; or

(*b*) that was under construction by or on behalf of the taxpayer on December 23, 1991.

The portion formerly read:

"(*h*) contractor's movable equipment, including portable camp buildings, except a property included in"

Paragraph (*n*) was amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to the 1986 and subsequent taxation years. The paragraph formerly read:

"(*n*) property that was acquired for the purpose of cutting and removing merchantable timber from a timber limit and that will be of no further use to the taxpayer after all merchantable timber has been removed from the limit, unless the taxpayer has elected to include another property of this kind in another class in this Schedule;"

The part following paragraph (*f*.1) and preceding subparagraph (*g*)(i) was amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989 and applicable in respect of property acquired after 1987. That part formerly read: "and property that would otherwise be included in another class in this Schedule that is

(*g*) a building or other structure (other than property described in paragraph (*l*) or (*m*)) that would otherwise be included in Class 3 or 6 and that was acquired for the purpose of gaining or producing income from a mine, except"

Subparagraph (*h*)(iii) was amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989 to add the reference to Class 38, applicable in respect of property acquired after 1987.

Paragraph (*s*) was amended by P.C. 1988-2795, SOR/89-27, dated December 27, 1988 to add the reference to paragraph (*w*), applicable in respect of property acquired after 1987.

Paragraph (*w*) was added by P.C. 1988-2795, SOR/89-27 dated December 27, 1988, applicable in respect of property acquired after 1987, other than property

(*a*) acquired after 1987 pursuant to an agreement in writing entered into by the taxpayer before June 18, 1987 or pursuant to a prospectus, preliminary prospectus, registration statement or offering memorandum filed before June 18, 1987 with a public authority in Canada where the document was required to be filed before any trade in securities may commence; or

(*b*) that is a film or tape acquired in 1988 that is part of a series of films or tapes where the series includes films or tapes that are included in Class 12 in Schedule II otherwise than by reason of this paragraph and the film or tape is produced at a fixed price or by reference to a formula under a production option agreement entered into by a licensed broadcaster or *bona fide* film or tape distributor before 1988.

Paragraph (*v*) was added by P.C. 1986-2770, SOR/86-1136, dated December 11, 1986, effective May 23, 1985.

Paragraph (*u*) was added by P.C. 1981-3329, SOR/81-974, dated November 27, 1981, effective January 1, 1981.

Paragraph (*f*.1) was added by P.C. 1980-3279, SOR/80-926, dated December 4, 1980 and effective December 12, 1979.

Subparagraph (*g*)(v) was revoked by P.C. 1980-288, SOR/80-99, January 25, 1980. This subparagraph formerly read:

"(v) property described in paragraph (*l*)"

The same Order in Council amended paragraph (*k*) of Class 10 by removing the duplicate references to Class 28 and paragraph (*l*) of Class 10 which were contained in former subparagraphs (iv) and (v).

Paragraph (*h*) was amended and paragraph (*t*) was added by P.C. 1979-1487, SOR/79-426, May 22, 1979. Paragraph (*h*) formerly read:

"(*h*) contractor's movable equipment, including portable camp buildings, except a property included in Class 22."

Paragraphs (*g*) and (*k*) were amended to add references to paragraph (*l*), and paragraph (*m*) was added by P.C. 1978-344, SOR/78-137 dated February 10, 1978, effective after March 31, 1977.

Editorial Note: For general-purpose data processing equipment acquired after March 22, 2004, see Class 45 (45%). For such equipment acquired after March 18, 2007, see Class 50 (55%). For such property acquired after January 27, 209 and before February 2011, see Class 52 (100%).

Interpretation Bulletins: *Secondary* — IT-306R2 Capital cost allowance — Contractor's movable equipment; IT-501 Capital cost allowance — Logging assets.

Class 10.1

(30 per cent)

Property that would otherwise be included in Class 10 that is a passenger vehicle, the cost of which to the taxpayer exceeds $20,000 or such other amount as may be prescribed for the purposes of subsection 13(2) of the Act.

History: Class 10.1 was added by P.C. 1991-2272, SOR/91-673, dated November 21, 1991, applicable to taxation years and fiscal periods commencing after June 17, 1987 that end after 1987.

Class 11

(35 per cent)

Property not included in any other class that is used to earn rental income and that is

(*a*) an electrical advertising sign owned by the manufacturer thereof, acquired before May 26, 1976; or

(*b*) an outdoor advertising poster panel or bulletin board acquired by the taxpayer

(i) before 1988, or

(ii) before 1990

(A) pursuant to an obligation in writing entered into by the taxpayer before June 18, 1987, or

(B) that was under construction by or on behalf of the taxpayer on June 18, 1987.

History: Paragraph (*b*) was amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989 and applicable in respect of property acquired after 1987. Paragraph (*b*) formerly read:

"(*b*) an outdoor advertising poster panel or bulletin board."

Class 12

(100 per cent)

Property not included in any other class that is

(*a*) a book that is part of a lending library;

(*b*) chinaware, cutlery or other tableware;

(*c*) a kitchen utensil costing less than

(i) $100, if acquired before May 26, 1976, or

(ii) $200, if acquired after May 25, 1976;

(*d*) a die, jig, pattern, mould or last;

(*e*) a medical or dental instrument costing less than

(i) $100, if acquired before May 26, 1976, or

(ii) $200, if acquired after May 25, 1976;

(*f*) a mine shaft, main haulage way or similar underground work designed for continuing use, or any extension thereof, sunk or constructed after the

mine came into production, to the extent that the property was acquired before 1988;

(*g*) linen;

(*h*) a tool costing less than

(i) $100, if acquired before May 26, 1976, or

(ii) $200, if acquired after May 25, 1976;

(*i*) a uniform;

(*j*) the cutting or shaping part in a machine;

(*k*) apparel or costume, including accessories used therewith, used for the purpose of earning rental income;

(*l*) a video tape acquired before May 26, 1976;

(*m*) a motion picture film or video tape that is a television commercial message;

(*n*) a certified feature film or certified production;

(*o*) computer software acquired after May 25, 1976, but not including systems software or property acquired after August 8, 1989 and before 1993 that is described in paragraph (*s*);

(*p*) a metric scale or a scale designed for ready conversion to metric weighing, acquired after March 31, 1977 and before 1984 for use in a retail business and having a maximum weighing capacity of 100 kilograms;

(*q*) a designated overburden removal cost; or

(*r*) a video-cassette, a video-laser disk or a digital video disk, that is acquired for the purpose of renting and that is not expected to be rented to any one person for more than 7 days in any 30-day period;

and property that would otherwise be included in another class in this Schedule that is

(*s*) acquired by the taxpayer after August 8, 1989 and before 1993, for use in a business of selling goods or providing services to consumers that is carried on in Canada, or for lease to another taxpayer for use by that other taxpayer in such a business, and that is

(i) electronic bar code scanning equipment designed to read bar codes applied to goods held for sale in the ordinary course of the business,

(ii) a cash register or similar sales recording device designed with the capability of calculating and recording sales tax imposed by more than one jurisdiction in respect of the same sale,

(iii) equipment or computer software that is designed to convert a cash register or similar sales recording device to one having the capability of calculating and recording sales tax imposed by more than one jurisdiction in respect of the same sale, or

(iv) electronic equipment or computer software that is ancillary to property described in subparagraph (i), (ii) or (iii) and all or substantially all the use of which is in conjunction with that property.

Federal Budget Extract

Capital Cost Allowance for Tools

[Reproduced below is an excerpt from the May 2, 2006 Federal Budget, which sets out a proposal to increase the cost limit for tools in Class 12.]

A portion of the capital cost of depreciable property is deductible as capital cost allowance (CCA) each year, with the maximum CCA rate for each type of property set out in the Income Tax Regulations.

Currently, tools that cost less than $200 are eligible for a 100-per-cent CCA rate under paragraph (*h*) of Class 12 of Schedule II to the Income Tax Regulations. Tools that cost $200 or more are generally eligible for a 20-per-cent CCA rate under Class 8 of Schedule II to the Income Tax Regulations.

Budget 2006 proposes that the cost limit for access to the 100-per-cent Class 12 treatment be increased to $500 from $200 for such tools acquired on or after May 2, 2006.

The budget also proposes to clarify the description of tools eligible under paragraph (*h*) of that class by specifically excluding electronic communication devices and electronic data processing equipment.

Consequential to the increase in the cost limit for tools, Budget 2006 also proposes that the cost limit for kitchen utensils under paragraph (*c*) of Class 12 and medical or dental instruments under paragraph (*e*) of Class 12 be increased to $500 from $200 for such utensils and instruments acquired on or after May 2, 2006.

History: Paragraph (*r*) of Class 12 of Schedule II was replaced by P.C. 2005-698, SOR/2005-126, dated May 3, 2005, applicable to property acquired after December 12, 1995. Paragraph (*r*) of Class 12 of Schedule II formerly read:

"(*r*) a videotape cassette acquired after February 15, 1984 for the purpose of renting and that is not expected to be rented to any one person for more than 7 days in any 30 day period;"

Paragraph (*o*) was amended by P.C. 1990-2067, SOR/90-670, dated September 27, 1990, to add "or property acquired after August 8, 1989 and before 1993 that is described in paragraph (*s*)", applicable October 10, 1990.

The part following paragraph (*r*), including paragraph (*s*), was added by P.C. 1990-2067, SOR/90-670, dated September 27, 1990, applicable upon October 10, 1990.

Paragraph (*n*) was amended by P.C. 1986-477, SOR/86-254, dated February 27, 1986, to substitute "certified production" for "certified feature production" and to delete "certified short production", applicable in respect of a motion picture film or video tape, the principal photography or taping of which commenced after 1985.

Paragraph (*r*) was added by P.C. 1985-2277, SOR/85-696, dated July 25, 1985, effective August 7, 1985.

Paragraph (*p*) was amended by P.C. 1981-733, SOR/81-244, dated March 19, 1981, to substitute "1984" for "July 1, 1981", effective April 8, 1991.

Paragraph (*q*) was added by P.C. 1979-1487, SOR/79-426, dated May 22 1979, effective November 17, 1978.

Paragraph (*p*) was added by P.C. 1978-344, SOR/78-137, dated February 10, 1978, effective after March 31, 1977.

Interpretation Bulletins: *Secondary*— IT-165R Returnable containers [Archived by the CRA]; IT-422 Definition of tools; IT-441 Capital cost allowance — Certified feature productions and certified short productions [Archived by the CRA].

Class 13

Property that is a leasehold interest and property acquired by a taxpayer that would, if that property had been acquired by a person with whom the taxpayer was not dealing at arm's length at the time the property was acquired by the taxpayer, be a leasehold interest of that person, except

(*a*) an interest in minerals, petroleum, natural gas, other related hydrocarbons or timber and property relating thereto or in respect of a right to explore for, drill for, take or remove minerals, petroleum, natural gas, other related hydrocarbons or timber;

(*b*) that part of the leasehold interest that is included in another class in this Schedule by reason of subsection 1102(5) or (5.1); or

(*c*) a property included in Class 23.

History: The portion of Class 13 preceding paragraph (*a*) and paragraph (*b*) were amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to property acquired after December 23, 1991, other than property acquired by a taxpayer before 1993

(a) pursuant to an agreement in writing entered into by the taxpayer before December 24, 1991; or

(b) that was under construction by or on behalf of the taxpayer on December 23, 1991.

That portion and paragraph (*b*) formerly read respectively:

"Property that is a leasehold interest, except"

"(*b*) that part of the leasehold interest that is included in another class in the Schedule by virtue of subsection 1102(5); or"

Interpretation Bulletins: *Secondary* — IT-195R4 Rental property — Capital cost allowance restrictions.

CLASS 14

Property that is a patent, franchise, concession or licence for a limited period in respect of property, except

(*a*) a franchise, concession or licence in respect of minerals, petroleum, natural gas, other related hydrocarbons or timber and property relating thereto (except a franchise for distributing gas to consumers or a licence to export gas from Canada or from a province) or in respect of a right to explore for, drill for, take or remove minerals, petroleum, natural gas, other related hydrocarbons or timber;

(*b*) a leasehold interest;

(*c*) a property included in Class 23;

(*d*) a licence to use computer software; or

(*e*) a property that is included in Class 44.

History: Paragraph (*e*) was added by P.C. 1994-231, SOR/94-170, dated February 10, 1994, applicable to property acquired after April 26, 1993.

Paragraph (*d*) was added by P.C. 1983-3411, SOR/83-855, dated November 4, 1983, applicable in respect of property acquired after May 25, 1976.

Interpretation Bulletins: *Secondary* — IT-143R3 Meaning of eligible capital expenditure; IT-477 (Consolid.) Capital cost allowance — Patents, franchises, concessions and licences.

Tax Topics: No. 1528, Tax Planning Opportunities for Intellectual Property Rights.

CLASS 15

Property that would otherwise be included in another class in this Schedule and that

(*a*) was acquired for the purpose of cutting and removing merchantable timber from a timber limit, and

(*b*) will be of no further use to the taxpayer after all merchantable timber that the taxpayer is entitled to cut and remove from the limit has been cut and removed,

except

(*c*) property that the taxpayer has, in the taxation year or a preceding taxation year, elected not to include in this class, or

(*d*) a timber resource property.

History: Class 15 was amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to the 1986 and subsequent taxation years. Class 15 formerly read:

"Property that would otherwise be included in another class in this Schedule but for the fact that

(*a*) it was acquired for the purpose of cutting and removing merchantable timber from a timber limit, and

(*b*) it will be of no further use to the taxpayer after all merchantable timber has been removed from the limit,

except

(*c*) property that the taxpayer has, in the taxation year or a previous taxation year, elected not to include in this class; or

(*d*) property that is a timber resource property."

Interpretation Bulletins: *Secondary* — IT-501 Capital cost allowance — Logging assets.

CLASS 16

(40 per cent)

Property acquired before May 26, 1976 that is

(*a*) an aircraft,

(*b*) furniture, fittings or equipment attached to an aircraft, or

(*c*) a spare part for a property included in this class,

property acquired after May 25, 1976 that is

(*d*) a taxicab,

property acquired after November 12, 1981 that is

(*e*) a motor vehicle that

(i) would be an automobile as that term is defined in subsection 248(1) of the Act, if that definition were read without reference to paragraph (*d*) thereof,

(ii) was acquired for the purpose of renting or leasing, and

(iii) is not expected to be rented or leased to any person for more than 30 days in any 12 month period,

property acquired after February 15, 1984 that is

(*f*) a coin-operated video game or pinball machine,

and property acquired after December 6, 1991 that is

(*g*) a truck or tractor designed for hauling freight, and that is primarily so used by the taxpayer or a person with whom the taxpayer does not deal at arm's length in a business that includes hauling freight, and that has a "gross vehicle weight rating" (as that term is defined in subsection 2(1) of the Motor Vehicle Safety Regulations) in excess of 11,788 kg.

History: The portion following paragraph (*d*) was amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to taxation years and fiscal periods commencing after June 17, 1987 that end after December 31, 1987, except that all that portion of Class 16 following paragraph (*e*) shall, in its application before December 7, 1991, be read as follows:

and property acquired after February 15, 1984 that is

(*f*) a coin-operated video game or pinball machine.

The portion formerly read:

"property acquired after November 12, 1981 that is

(*e*) a motor vehicle that

(i) is an automobile under the definition 'automobile' in subsection 248(1) of the Act when that definition is read without reference to paragraph (*e*) thereof,

(ii) was acquired for the purpose of renting or leasing, and

(iii) is not expected to be rented or leased to any one person for more than 30 days in any 12 month period,

and property acquired after February 15, 1984 that is

(*f*) a coin-operated video game or pinball machine."

Paragraph (*e*) was amended by P.C. 1991-2272, SOR/91-673, dated November 21, 1991, applicable to taxation years and fiscal periods commencing after June 17, 1987 that end after 1987. Paragraph (*e*) formerly read:

"(*e*) a passenger vehicle acquired for the purpose of renting or leasing and that is not expected to be rented or leased to any one person for more than 30 days in any 12 month period,"

The part following paragraph (*e*) was added by P.C. 1985-2277, SOR/85-696, dated July 25, 1985, effective August 7, 1985.

The part following paragraph (*c*) was amended by P.C. 1983-1083, SOR/83-340, dated April 15, 1983, to add the reference to a passenger automobile acquired after November 12, 1981, applicable in respect of property (other than property described in Class 31 of Schedule II to the said Regulations or paragraph (*n*) of Class 12 of that Schedule) acquired or disposed of after November 12, 1981, property described in the said Class 31 acquired or disposed of after 1981 and property described in paragraph (*n*) of the said Class 12 acquired or disposed of after 1982.

Interpretation Bulletins: *Secondary* — IT-317R Capital cost allowance — Radio and television equipment [Archived by the CRA].

CLASS 17

(8 per cent)

Property that would otherwise be included in another class in this Schedule that is

(*a*) a telephone system, telegraph system, or a part thereof, acquired before May 26, 1976, except

(i) radiocommunication equipment, or

(ii) a property included in Class 10, 13, 14 or 28, or

(*a.1*) property (other than a building or other structure) acquired after February 27, 2000 that has not

been used for any purpose before February 28, 2000 and is

(i) electrical generating equipment (other than electrical generating equipment described in Class 43.1, 43.2 or 48 or in Class 8 because of paragraph (*f*), (*g*) or (*h*) of that Class), or

(ii) production and distribution equipment of a distributor of water or steam (other than such property described in Class 43.1 or 43.2) used for heating or cooling (including, for this purpose, pipe used to collect or distribute an energy transfer medium but not including equipment or pipe used to distribute water that is for consumption, disposal or treatment),

and property not included in any other class, acquired after May 25, 1976, that is

(*b*) telephone, telegraph or data communication switching equipment, except

(i) equipment installed on customers' premises, or

(ii) property that is principally electronic equipment or systems software therefor; or

(*c*) a road (other than a specified temporary access road of the taxpayer), sidewalk, airplane runway, parking area, storage area or similar surface construction.

History: Class 17, subparagraphs (*a*.1)(i) and (ii) were replaced by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, deemed to have come into force on February 23, 2005.

Class 17, subparagraphs (i) and (ii) of paragraph (*a*.1) formerly read:

"(i) electrical generating equipment (other than electrical generating equipment described in any of paragraphs (*f*) to (*h*) of Class 8), or

(ii) production and distribution equipment of a distributor of water or steam used for heating or cooling (including, for this purpose, pipe used to collect or distribute an energy transfer medium but not including equipment or pipe used to distribute water that is for consumption, disposal or treatment),"

Paragraph (*a*.1) of Class 17 was added by P.C. 2005-2186, SOR/2005-371, dated November 22, 2005, applicable to property acquired after February 27, 2000.

Paragraph (*c*) of Class 17 was amended by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable to property acquired after March 6, 1996. Paragraph (*c*) of Class 17 formerly read:

"(*c*) a road, sidewalk, airplane runway, parking area, storage area or similar surface construction."

Interpretation Bulletins: *Primary* — IT-482R Pipelines. *Secondary* — IT-476R Capital cost allowance — Equipment used in petroleum and natural gas activities.

Income Tax Technical News: Issue No. 20, Tax Treatment of Golf Courses.

CLASS 18

(60 per cent)

Property that is a motion picture film acquired before May 26, 1976, except

(*a*) a television commercial message; or

(*b*) a certified feature film.

CLASS 19

Property acquired by the taxpayer after June 13, 1963 and before January 1, 1967 that would otherwise be included in Class 8 if,

(*a*) in the taxation year in which the property was acquired,

(i) the taxpayer was an individual who was resident in Canada for not less than 183 days, or

(ii) the taxpayer was a corporation that had a degree of Canadian ownership,

(*b*) the property was acquired for use in Canada in a business carried on by the taxpayer that,

(i) for the fiscal period in which the property was acquired, or

(ii) for the fiscal period in which the business first commenced selling goods in reasonable commercial quantities,

whichever was later, was a business in which the aggregate of

(iii) its net sales, as they would be determined under paragraphs 71A(2)(*d*) and (*f*) of the former Act (within the meaning assigned by paragraph 8(*b*) of the *Income Tax Application Rules, 1971*), from the sale of goods processed or manufactured in Canada by the business,

(iv) an amount equal to that part of its gross revenue that is rent from goods processed or manufactured in Canada in the course of the business, and

(v) its gross revenue from advertisements in a newspaper or magazine produced by the business,

was not less than 2/3 of the amount by which the gross revenue from the business for the period exceeded the aggregate of each amount paid or credited in the period to a customer of the business as a bonus, rebate or discount or for returned or damaged goods, and was not a business that was principally

(vi) operating a gas or oil well,

(vii) logging,

(viii) mining,

(ix) construction, or

(x) a combination of two or more of the activities referred to in subparagraphs (vi) to (ix); and

(*c*) the property had not been used for any purpose whatever before it was acquired by the taxpayer.

CLASS 20

Property that would otherwise be included in Class 3 or 6

(*a*) that was acquired after December 5, 1963 and before April 1, 1967 that is

(i) a building,

(ii) an extension to a building, outside the previously existing walls or roof of the building, if the aggregate cost of the extensions added in the aforementioned period exceeded the lesser of

(A) $100,000, and

(B) 25 per cent of the capital cost to the taxpayer of the building on December 5, 1963, or

(iii) an addition or alteration to a property described in subparagraph (i) or (ii),

and that has been certified by the Minister of Industry, upon application by the taxpayer in such form as may be prescribed by the Minister of Industry,

(iv) to be situated in an area that was a designated area, as determined for the purposes of section 71A of the former Act (within the meaning assigned by paragraph 8(*b*) of the *Income Tax Application Rules, 1971*),

(A) at the time the property was acquired,

(B) in a case where the property was built by the taxpayer, at the time construction was commenced, or

(C) in a case where the property was built for the taxpayer pursuant to a contract entered into by the taxpayer, at the time the contract was entered into, and

(v) to have not been used for any purpose whatever before it was acquired by the taxpayer; or

(*b*) the capital cost of which was included in the approved capital costs as defined in the *Area Development Incentives Act* upon which approved capital cost the Minister of Industry has based the amount of a development grant authorized under that Act.

CLASS 21

Property that would otherwise be included in Class 8 or Class 19

(*a*) that was acquired after December 5, 1963 and before April 1, 1967 and that

(i) was acquired for use in a business carried on by the taxpayer that has been certified by the Minister of Industry, for the purposes of section 71A of the former Act (within the meaning assigned by paragraph 8(*b*) of the *Income Tax Application Rules, 1971*), to be a new manufacturing or processing business in a designated area for the fiscal period in which the property was acquired or for a subsequent fiscal period, and

(ii) had not been used for any purpose whatever before it was acquired by the taxpayer; or

(*b*) the capital cost of which was included in the approved capital costs as defined in the *Area Development Incentives Act* upon which approved capital cost the Minister of Industry has based the amount of a development grant authorized under that Act.

CLASS 22

(50 per cent)

Property acquired by the taxpayer after March 16, 1964 and

(*a*) before 1988, or

(*b*) before 1990

(i) pursuant to an obligation in writing entered into by the taxpayer before June 18, 1987, or

(ii) that was under construction by or on behalf of the taxpayer on June 18, 1987

that is power-operated movable equipment designed for the purpose of excavating, moving, placing or compacting earth, rock, concrete or asphalt, except a property included in Class 7.

History: Class 22 was amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989 and applicable in respect of property acquired after 1987. Class 22 and its heading formerly read:

"Property acquired after March 16, 1964 that is power-operated movable equipment designed for the purpose of excavating, moving, placing or compacting earth, rock, concrete or asphalt, except a property included in

(*a*) Class 7; or

(*b*) Class 10 by virtue of paragraph (*t*) of that Class."

Class 22 was amended by P.C. 1979-1487, SOR/79-426, May 22, 1979, by adding the reference to Class 10.

Interpretation Bulletins: *Secondary* — IT-411R Meaning of "construction"; IT-469R Capital cost allowance — Earth-moving equipment.

CLASS 23

(100 per cent)

Property that is

(*a*) a leasehold interest or a concession in respect of land granted under or pursuant to an agreement in writing with the Canadian Corporation for the 1967 World Exhibition where such leasehold interest or concession is to expire not later than June 15, 1968;

(*b*) a building or other structure, including component parts, erected on land that is the subject matter of a leasehold interest or concession described in paragraph (*a*) where such building or other structure, including component parts, is of a temporary nature and is required by the agreement to be removed not later than June 15, 1968;

(*c*) a leasehold interest or licence in respect of land granted under or pursuant to an agreement in writing with the Expo 86 Corporation where such leasehold interest or licence is to expire not later than January 31, 1987; or

(*d*) a building or other structure, including component parts, erected on land that is the subject matter of a leasehold interest or licence described in paragraph (*c*) where such building or other structure, including component parts, is of a temporary nature and is required by the agreement to be removed not later than January 31, 1987.

History: Paragraphs (*c*) and (*d*) were added by P.C. 1984-3995, SOR/85-13, dated December 17, 1984, applicable in respect of property acquired after 1983.

CLASS 24

Property acquired after April 26, 1965 and before 1971

(*a*) that would otherwise be included in Class 2, 3, 6 or 8 and that

(i) was acquired primarily for the purpose of preventing, reducing or eliminating pollution of

(A) any of the inland, coastal or boundary waters of Canada, or

(B) any lake, river, stream, watercourse, pond, swamp or well in Canada,

by industrial waste, refuse or sewage created by operations in the course of carrying on a business by the taxpayer or that would be created by such operations if the property had not been acquired and used, and

(ii) had not been used for any purpose whatever before it was acquired by the taxpayer,

but not including property acquired for use in the production of by-products or the recovery of materials unless the by-products are produced from, or the materials are recovered from, materials that after April 26, 1965,

(iii) were being discarded as waste by the taxpayer, or

(iv) were commonly being discarded as waste by other taxpayers who carried on operations of a type similar to the operations carried on by the taxpayer,

and property acquired before 1999

(*b*) that would otherwise be included in another class in this Schedule

(i) that has not been included by the taxpayer in any other class,

(ii) that had not been used for any purpose whatever before it was acquired by the taxpayer,

(iii) that was acquired by the taxpayer after 1970 primarily for the purpose of preventing, reducing or eliminating pollution of

(A) any of the inland, coastal or boundary waters of Canada, or

(B) any lake, river, stream, watercourse, pond, swamp or well in Canada,

that is caused, or that, if the property had not been acquired and used, would be caused by

(C) operations carried on by the taxpayer at a site in Canada at which operations have been carried on by him from a time that is before 1974,

(D) the operation in Canada of a building or plant by the taxpayer, the construction of which was either commenced before 1974 or commenced under an agreement in writing entered into by him before 1974, or

(E) the operation of transportation or other movable equipment that has been operated by the taxpayer in Canada (including any of the inland, coastal or boundary waters of Canada) from a time that is before 1974,

or that was acquired by him after May 8, 1972, that would otherwise have been property referred to in this subparagraph except that

(F) it was acquired

(I) for the purpose of gaining or producing income from a business by a taxpayer whose business includes the preventing, reducing or eliminating of pollution of a kind referred to in this subparagraph that is caused or that otherwise would be caused primarily by operations referred to in clause (C), (D) or (E) carried on by other taxpayers (not including persons referred to in section 149 of the Act), and

(II) to be used in a business referred to in subclause (I) in the preventing, reducing or eliminating of pollution of a kind referred to in this subparagraph, or

(G) it was acquired

(I) for the purpose of gaining or producing income from a property by a corporation whose principal business is the purchasing of conditional sales contracts, accounts receivable, bills of sale, chattel mortgages, bills of exchange or other obligations representing part or all of the sale price of merchandise or services, the lending of money, or the leasing of property, or any combination thereof, and

(II) to be leased to a taxpayer (other than a person referred to in section 149 of the Act) to be used by him, in an operation referred to in clause (C), (D), (E) or (F), in the preventing, reducing or eliminating of pollution of a kind referred to in this subparagraph, and

(iv) that has, upon application by the taxpayer to the Minister of the Environment, been accepted by that Minister as property the primary use of which is to be the preventing, reducing or eliminating of pollution of a kind referred to in subparagraph (iii)

and for the purposes of paragraphs (*a*) and (*b*)

(*c*) where a corporation (in this paragraph referred to as the "predecessor corporation") has, as a result of an amalgamation within the meaning assigned by subsection 87(1) of the Act, merged at any time after 1973 with one or more other corporations to form one corporate entity (in this paragraph referred to as the "new corporation"), the new corporation shall be deemed to be the same corporation as, and a continuation of, the predecessor corporation;

(*d*) where a corporation (in this paragraph referred to as the "subsidiary") has been wound up at any time after 1973 in circumstances to which subsection 88(1) of the Act applies, the parent (within the meaning assigned by that subsection) shall be deemed to be the same corporation as, and a continuation of, the subsidiary; and

(*e*) this class shall be read without reference to subparagraph (*b*)(i) where paragraph (*c*) or (*d*) applies to the taxpayer and the property was acquired before 1992.

History: The portion after paragraph (*a*) and before paragraph (*b*) was amended by P.C. 1997-1033, SOR/97-377, dated July 28, 1997, applicable after February 21, 1994. That portion formerly read:

"and property"

The portion following subparagraph (*b*)(iv) was added by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to the 1974 and subsequent taxation years.

Paragraph (*b*) was amended by deleting "before 1980" and adding "and property" between paragraphs (*a*) and (*b*) by P.C. 1979-1487, SOR/79-426, May 22, 1979.

Paragraph (*b*) preceding subparagraph (i) was amended to substitute "1980" for "1979", and subparagraph (*b*)(iv) was amended to delete "made before 1978" after "application", by P.C. 1978-345, SOR/78-146 dated February 10, 1978, effective on and after January 1, 1978.

Interpretation Bulletins: *Secondary* — IT-336R Capital cost allowance — Pollution control property [Archived by the CRA].

CLASS 25

(100 per cent)

Property that would otherwise be included in another class in this Schedule that is property acquired by the taxpayer

(*a*) before October 23, 1968, or

(*b*) after October 22, 1968 and before 1974, where the acquisition of the property may reasonably be regarded as having been in fulfilment of an obligation undertaken in an agreement made in writing before October 23, 1968 and ratified, confirmed or adopted by the legislature of a province by a statute that came into force before that date,

if the taxpayer was, on October 22, 1968, a corporation, commission or association to which, on the assumption that October 22, 1968 was in its 1969 taxation year, paragraph 62(1)(*c*) of the former Act (within the meaning assigned by paragraph 8(*b*) of the *Income Tax Application Rules, 1971*),

(*c*) would not apply, and

(*d*) would have applied but for subparagraph (i) or (ii) of that paragraph.

CLASS 26

(5 per cent)

Property that is

(*a*) a catalyst; or

(*b*) deuterium enriched water (commonly known as "heavy water") acquired after May 22, 1979.

History: Class 26 was amended by P.C. 1979-1488, SOR/79-427, May 22, 1979 to add paragraph (*b*) and to increase the rate to 5% from 1%.

CLASS 27

Property acquired before 1999 that would otherwise be included in another Class in this Schedule

(*a*) that has not been included by the taxpayer in any other class;

(*b*) that had not been used for any purpose whatever before it was acquired by the taxpayer;

(*c*) that was acquired by the taxpayer after March 12, 1970 primarily for the purpose of preventing, reducing or eliminating air pollution by

(i) removing particulate, toxic or injurious materials from smoke or gas, or

(ii) preventing the discharge of part or all of the smoke, gas or other air pollutant,

that is discharged or that, if the property had not been acquired and used, would be discharged into the atmosphere as a result of

(iii) operations carried on by the taxpayer at a site in Canada at which operations have been carried on by him from a time that is before 1974,

(iv) the operation in Canada of a building or plant by the taxpayer, the construction of which was either commenced before 1974 or commenced under an agreement in writing entered into by him before 1974, or

(v) the operation of transportation or other movable equipment that has been operated by the taxpayer in Canada (including any of the inland, coastal or boundary waters of Canada) from a time that is before 1974,

or that was acquired by him after May 8, 1972, that would otherwise have been property referred to in this paragraph except that

(vi) it was acquired

(A) for the purpose of gaining or producing income from a business by a taxpayer whose business includes the preventing, reducing or eliminating of air pollution that is caused or that otherwise would be caused primarily by operations referred to in subparagraph (iii), (iv) or (v) carried on by other taxpayers (not including persons referred to in section 149 of the Act), and

(B) to be used in a business referred to in clause (A) in the preventing, reducing or eliminating of air pollution in a manner referred to in this paragraph, or

(vii) it was acquired

(A) for the purpose of gaining or producing income from a property by a corporation whose principal business is the purchasing of conditional sales contracts, accounts receivable, bills of sale, chattel mortgages, bills of exchange or other obligations representing part or all of the sale price of merchandise or services, the lending of money, or the leasing of property, or any combination thereof, and

(B) to be leased to a taxpayer (other than a person referred to in section 149 of the Act) to be used by him, in an operation referred to in subparagraph (iii), (iv), (v) or (vi), in the preventing, reducing or eliminating of air pollution in a manner referred to in this paragraph; and

(*d*) that has, upon application by the taxpayer to the Minister of the Environment, been accepted by that Minister as property the primary use of which is to be the preventing, reducing or eliminating of air pollution in a manner referred to in paragraph (*c*);

and for the purposes of paragraphs (*a*) to (*d*),

(*e*) where a corporation (in this paragraph referred to as the "predecessor corporation") has, as a result of an amalgamation within the meaning assigned by subsection 87(1) of the Act, merged at any time after 1973 with one or more other corporations to form one corporate entity (in this paragraph referred to as the "new corporation"), the new corporation shall be deemed to be the same corporation as, and a continuation of, the predecessor corporation;

(*f*) where a corporation (in this paragraph referred to as the "subsidiary") has been wound up at any time after 1973 in circumstances to which subsection 88(1) of the Act applies, the parent (within the meaning assigned by that subsection) shall be deemed to be the same corporation as, and a continuation of, the subsidiary; and

(*g*) this class shall be read without reference to paragraph (*a*) where paragraph (*e*) or (*f*) applies to the taxpayer and the property was acquired before 1992.

History: The part before paragraph (*a*) was amended by P.C. 1997-1033, SOR/97-377, dated July 28, 1997, applicable after February 21, 1994. That part formerly read:

"Property that would otherwise be included in another class in this Schedule"

The part following paragraph (*d*) was added by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to the 1974 and subsequent taxation years.

The part preceding paragraph (*a*) was amended by deleting "acquired before 1980" by P.C. 1979-1487, SOR/79-426, May 22, 1979.

The part preceding paragraph (*a*) was amended to substitute "1980" for "1979", and paragraph (*d*) was amended to delete "made before 1978" after "application", by P.C. 1978-345, SOR/78-146, dated February 10, 1978, effective on and after January 1, 1978.

Interpretation Bulletins: *Secondary* — IT-336R Capital cost allowance — Pollution control property [Archived by the CRA].

CLASS 28

(30 per cent)

Property situated in Canada that would otherwise be included in another class in this Schedule that

(*a*) was acquired by the taxpayer

(i) before 1988, or

(ii) before 1990

(A) pursuant to an obligation in writing entered into by the taxpayer before June 18, 1987,

(B) that was under construction by or on behalf of the taxpayer on June 18, 1987, or

(C) that is machinery or equipment that is a fixed and integral part of a building, structure, plant facility or other property that was under construction by or on behalf of the taxpayer on June 18, 1987,

and that

(*b*) was acquired by the taxpayer principally for the purpose of gaining or producing income from one or more mines operated by the taxpayer and situated in Canada and each of which

(i) came into production in reasonable commercial quantities after November 7, 1969, or

(ii) was the subject of a major expansion after November 7, 1969

(A) whereby the greatest designed capacity, measured in weight of input of ore, of the mill that processed the ore from the mine was not less than 25% greater in the year following the expansion than it was in the year preceding the expansion, or

(B) where in the one year period preceding the expansion

(I) the Minister, in consultation with the Minister of Natural Resources, determines that the greatest designed capacity of the mine, measured in weight of output of ore, immediately after the expansion was not less than 25% greater than the greatest designed capacity of the mine immediately before the expansion, and

(II) either

1. no mill processed the ore from the mine at any time, or

2. the mill that processed the ore from the mine processed other ore,

(*c*) was acquired by the taxpayer

(i) after November 7, 1969,

(ii) before the coming into production of the mine or the completion of the expansion of the mine referred to in subparagraph (*b*)(i) or (ii), as the case may be, and

(iii) in the case of a mine that was the subject of a major expansion described in subparagraph (*b*)(ii), in the course of and principally for the purposes of the expansion,

(*d*) had not, before it was acquired by the taxpayer, been used for any purpose whatever by any person with whom the taxpayer was not dealing at arm's length, and

(*e*) is any of the following, namely,

(i) property that was acquired before the mine came into production and that would, but for this class, be included in Class 10 by virtue of paragraph (*g*), (*k*), (*l*) or (*r*) of that class or would have been so included in that class if it had been acquired after the 1971 taxation year,

(ii) property that was acquired before the mine came into production and that would, but for this class, be included in Class 10 by virtue of paragraph (*m*) of that class, or

(iii) property that was acquired after the mine came into production and that would, but for this class, be included in Class 10 by virtue of paragraph (*g*), (*k*), (*l*) or (*r*) of that class,

or that would be described in paragraphs (*b*) to (*e*) if in those paragraphs each reference to a "mine" were read as a reference to a "mine that is a location in a bituminous sands deposit, oil sands deposit or oil shale deposit from which material is extracted", and each reference to "after November 7, 1969" were read as "before November 8, 1969".

History: Schedule II, clauses (*b*)(ii)(A) and (B) of Class 28, were amended by P.C. 2000-1331, SOR/2000-327, dated August 23, 2000, applicable to expansions commencing after September 13, 2000. Schedule II, clauses (*b*)(ii)(A) and (B) of Class 28, formerly read:

"(A) whereby the greatest designed capacity, measured in tons of input of ore, of the mill that processed the ore from the mine was not less than 25 per cent greater in the year following the expansion than it was in the year preceding the expansion, or

(B) where, in the one-year period preceding the expansion,

(I) no mill processed the ore from the mine at any time, or

(II) the mill that processed the ore from the mine processed other ore,"

Subparagraph (*b*)(ii) was amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to expansions of mines commencing after June 18, 1987. The subparagraph formerly read:

"(ii) was the subject of a major expansion after November 7, 1969 whereby the greatest designed capacity, measured in tons of input of ore, of the mill that processed the ore from the mine was not less than 25 per cent greater in the year immediately following the expansion than it was in the year immediately preceding the expansion,"

Class 28 was amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989 and applicable in respect of property acquired after 1987. Class 28 and its heading formerly read:

"Property situated in Canada that would otherwise be included in another class in this Schedule and

(*a*) was acquired by the taxpayer principally for the purpose of gaining or producing income from one or more mines operated by the taxpayer and situated in Canada and each of which

(i) came into production in reasonable commercial quantities after November 7, 1969, or

(ii) was the subject of a major expansion after November 7, 1969 whereby the greatest designed capacity, measured in tons of input of ore, of the mill that processed the ore from the mine was not less than 25 per cent greater in the year immediately following the expansion than it was in the year immediately preceding the expansion,

(*b*) was acquired by the taxpayer

(i) after November 7, 1969,

(ii) before the coming into production of the mine or the completion of the expansion of the mine referred to in subparagraph (*a*)(i) or (ii), as the case may be, and

(iii) in the case of a mine that was the subject of a major expansion described in subparagraph (*a*)(ii), in the course of and principally for the purposes of the expansion,

(*c*) had not, before it was acquired by the taxpayer, been used for any purpose whatever by any person with whom the taxpayer was not dealing at arm's length, and

(*d*) is any of the following:

(i) property that was acquired before the mine came into production and that would, but for this class, be included in Class 10 by virtue of paragraph (*g*), (*k*), (*l*) or (*r*) of the description of that class or would have been so included in that class if it had been acquired after the 1971 taxation year, or

(ii) property that was acquired before the mine came into production and that would, but for this class, be included in Class 10 by virtue of paragraph (*m*) of the description of that class, or

(iii) property that was acquired after the mine came into production and that would, but for this class, be included in Class 10 by virtue of paragraph (*g*), (*k*), (*l*) or (*r*) of the description of that class,

and property situated in Canada that would otherwise be included in another class and would be described in paragraphs (*a*), (*b*), (*c*) and (*d*) if

(*e*) each reference in those paragraphs

(i) to a 'mine' were read as a reference to a 'mine that is a location in a bituminous sands deposit, oil sands deposit or oil shale deposit from which material is extracted', and

(ii) to 'after November 7, 1969' were read as 'before November 8, 1969'."

Subparagraph (*d*)(iii) was amended to add a reference to paragraph (*l*) by P.C. 1980-3279, SOR/80-926, dated December 4, 1980, effective in respect of property acquired after December 11, 1979.

Subparagraph (*d*)(ii) was revoked and replaced by subparagraphs (*d*)(ii) and (iii) by P.C. 1978-344, SOR/78-137, dated February 10, 1978, effective after March 31, 1977. Subparagraph (*d*)(ii) formerly read:

"(ii) property that was acquired after the mine came into production and that would, but for this class, be included in Class 10 by virtue of paragraphs (*g*), (*k*), or (*r*) of the description of that class;"

CLASS 29

Property (other than property included in Class 41 solely because of paragraph (*c*) or (*d*) of that Class or property included in Class 47 because of paragraph (*b*) of that Class) that would otherwise be included in another class in this Schedule

(*a*) that is property manufactured by the taxpayer, the manufacture of which was completed by him after May 8, 1972, or other property acquired by the taxpayer after May 8, 1972,

(i) to be used directly or indirectly by him in Canada primarily in the manufacturing or processing of goods for sale or lease, or

(ii) to be leased, in the ordinary course of carrying on a business in Canada of the taxpayer, to a lessee who can reasonably be expected to use, directly or indirectly, the property in Canada primarily in Canadian field processing carried on by the lessee or in the manufacturing or processing by the lessee of goods for sale or lease, if the taxpayer is a corporation whose principal business is

(A) leasing property,

(B) manufacturing property that it sells or leases,

(C) the lending of money,

(D) the purchasing of conditional sales contracts, accounts receivable, bills of sale, chattel mortgages, bills of exchange or other obligations representing part or all of the sale price of merchandise or services, or

(E) selling or servicing a type of property that it also leases,

or any combination thereof, unless use of the property by the lessee commenced before May 9, 1972;

(*b*) that is

(i) property that, but for this class, would be included in Class 8, except railway rolling stock or a property described in paragraph (*j*) of Class 8,

(ii) an oil or water storage tank,

(iii) a powered industrial lift truck,

(iv) electrical generating equipment described in Class 9,

(v) property that is described in paragraph (*b*) or (*f*) of Class 10, or

(vi) property that would be described in paragraph (*f*) of Class 10 if the portion of that paragraph before subparagraph (i) read as follows:

"(*f*) general-purpose electronic data processing equipment and systems software for that equipment, including ancillary data processing equipment, acquired after March 18, 2007 and before January 28, 2009, but not including property that is principally or is used principally as"; and

(*c*) that is property acquired by the taxpayer

(i) before 1988,

(ii) before 1990

(A) pursuant to an obligation in writing entered into by the taxpayer before June 18, 1987,

(B) that was under construction by or on behalf of the taxpayer on June 18, 1987, or

(C) that is machinery or equipment that is a fixed and integral part of a building, structure, plant facility or other property that was under construction by or on behalf of the taxpayer on June 18, 1987, or

(iii) after March 18, 2007 and before 2012 if the property is machinery, or equipment,

(A) that would be described in paragraph (*a*) if subparagraph (*a*)(ii) were read without reference to "in Canadian field processing carried on by the lessee or", or

(B) that is described in any of subparagraphs (*b*)(i) to (iii) and (vi).

History: Class 29, subparagraph (*b*)(v) was replaced, and subparagraph (vi) was added by P.C. 2009-660, SOR/2009-126, dated April 30, 2009, applicable in respect of property acquired after March 18, 2007. Class 29, subparagraph (v) formerly read:

"(v) property described in paragraph (*b*) or (*f*) of Class 10; and"

Class 29, the portion of subparagraph (*c*)(iii) before clause (A) was replaced by P.C. 2009-660, SOR/2009-126, dated April 30, 2009, applicable in respect of property acquired after February 25, 2008. Class 29, the portion of subparagraph (*c*)(iii) before clause (A) formerly read:

"(iii) after March 18, 2007 and before 2009 if the property is machinery, or equipment,"

Class 29, clause (*c*)(iii)(B) was replaced by P.C. 2009-660, SOR/2009-126, dated April 30, 2009, applicable in respect of property acquired after March 18, 2007. Class 29, clause (*c*)(iii)(B) formerly read:

"(B) that is described in any of subparagraphs (*b*)(i) to (iii)."

The portion of Class 29 before paragraph (*a*) was replaced by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, applicable to property acquired on or after March 19, 2007. The portion of Class 29 before paragraph (*a*) formerly read:

"Property not included in Class 41 because of paragraph (*c*) or (*d*) of that Class that would otherwise be included in another class in this Schedule"

Subparagraph (*c*)(iii) of Class 29 was added by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, deemed to have come into force on March 19, 2007.

The portion of subparagraph (*a*)(ii) before clause (A) of Class 29 was amended by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable to taxation years that begin after 1996. The portion of subparagraph (*a*)(ii) before clause (A) of Class 29 formerly read:

"(ii) to be leased, in the ordinary course of carrying on a business in Canada of the taxpayer, to a lessee who can reasonably be expected to use, directly or indirectly, the property in Canada primarily in the manufacturing or processing by him of goods for sale or lease, if the taxpayer is a corporation whose principal business is"

The portion of Class 29 before paragraph (*a*) was amended by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable to taxation years that begin after 1996. The portion of Class 29 before paragraph (*a*) formerly read:

"Property that would otherwise be included in another class in this Schedule"

Paragraph (*c*) was added to Class 29 by P.C. 1989-2464, SOR/90-22, dated December 14, 1989 and applicable with respect to property acquired after 1987.

Interpretation Bulletins: *Secondary* — IT-147R3 Capital cost allowance — Accelerated write-off of manufacturing and processing machinery and equipment; IT-411R Meaning of "construction".

CLASS 30

(40 per cent)

Property that is an unmanned telecommunication spacecraft designed to orbit above the earth and acquired by the taxpayer

(*a*) before 1988, or

(*b*) before 1990

(i) pursuant to an obligation in writing entered into by the taxpayer before June 18, 1987, or

(ii) that was under construction by or on behalf of the taxpayer on June 18, 1987.

History: Class 30 was amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, applicable in respect of property acquired after 1987. Class 30 formerly read:

"Property that is an unmanned telecommunication spacecraft designed to orbit above the earth."

CLASS 31

(5 per cent)

Property that is a multiple-unit residential building in Canada that would otherwise be included in Class 3 or Class 6 and in respect of which

(*a*) a certificate has been issued by Canada Mortgage and Housing Corporation certifying

(i) in respect of a building that would otherwise be included in Class 3, that the installation of footings or any other base support of the building was commenced

(A) after November 18, 1974 and before 1980, or

(B) after October 28, 1980 and before 1982,

as the case may be, and

(ii) in respect of a building that would otherwise be included in Class 6, that the installation of footings or any other base support of the building was commenced after December 31, 1977 and before 1979,

and that, according to plans and specifications for the building, not less than 80 per cent of the floor space will be used in providing self-contained domestic establishments and related parking, recreation, service and storage areas;

(*b*) not more than 20 per cent of the floor space is used for any purpose other than the purposes referred to in paragraph (*a*);

(*c*) the certificate referred to in paragraph (*a*) was issued on or before the later of

(i) December 31, 1981, and

(ii) the day that is 18 months after the day on which the installation of footings or other base support of the building was commenced; and

(*d*) the construction of the building proceeds, after 1982, without undue delay, taking into consideration acts of God, labour disputes, fire, accidents or unusual delay by common carriers or suppliers of materials or equipment;

and that was acquired by the taxpayer

(*e*) before June 18, 1987, or

(*f*) after June 17, 1987 pursuant to

(i) an obligation in writing entered into by the taxpayer before June 18, 1987, or

(ii) the terms of a prospectus, preliminary prospectus, registration statement, offering memorandum or notice required to be filed with a public authority in Canada and filed before June 18, 1987 with that public authority.

History: Class 31 was amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, to add "that was acquired by the taxpayer" following paragraph (*d*) and to add paragraphs (*e*) and (*f*), applicable in respect of property acquired after June 17, 1987.

Paragraph (*d*) was amended by P.C. 1982-3667, SOR/82-1070, dated December 3, 1982. Paragraph (*d*) formerly read:

"(*d*) the construction of the building proceeds after the completion of the installation of the footings or other base support without undue delay, taking into consideration acts of God, labour disputes, fire, unusual delay by common carriers or accidents."

Clause (*a*)(i)(B) and paragraphs (*c*) and (*d*), were added by P.C. 1981-733, SOR/81-244, dated March 19, 1981, effective October 29, 1980.

Subparagraph (*a*)(i), was amended by P.C. 1979-1487, SOR/79-426, May 22, 1979, effective January 1, 1979, by substituting "1980" for "1979".

Class 31 was revoked and replaced by P.C. 1978-345, SOR/78-146, dated February 10, 1978, effective on and after January 1, 1978. Class 31 formerly read:

"Property that is a multiple-unit residential building in Canada that would otherwise be included in class 3 and in respect of which

(*a*) a certificate has been issued by Central Mortgage and Housing Corporation certifying

(i) that the installation of footings or any other base support of the building was commenced after November 18, 1974 and before 1978, and,

(ii) that, according to plans and specifications for the building, not less than 80% of the floor space will be used in providing self-contained domestic establishments and related parking, recreation, service and storage areas, and

(*b*) not more than 20% of the floor space is used for any purpose other than the purposes referred to in subparagraph (*a*)(ii).".

Interpretation Bulletins: *Secondary* — IT-195R4 Rental property — Capital cost allowance restrictions.

CLASS 32

(10 per cent)

Property that is a multiple-unit residential building in Canada that would otherwise be included in Class 6 if the reference to "1979" in subparagraph (*a*)(viii) of that Class were read as a reference to "1980", and in respect of which

(*a*) a certificate has been issued by Central Mortgage and Housing Corporation certifying

(i) that the installation of footings or any other base support of the building was commenced after November 18, 1974 and before 1978, and

(ii) that, according to plans and specifications for the building, not less than 80 per cent of the floor space will be used in providing self-contained domestic establishments and related parking, recreation, service and storage areas; and

(*b*) not more than 20 per cent of the floor space is used for any purpose other than the purposes referred to in subparagraph (*a*)(ii).

History: The part preceding paragraph (*a*) was amended by P.C. 1978-3768, SOR/78-949, dated December 14, 1978, effective January 1, 1979. That part formerly read:

"Property that is a multiple unit residential building in Canada that would otherwise be included in class 6 and in respect of which"

Interpretation Bulletins: *Secondary* — IT-195R4 Rental property — Capital cost allowance restrictions; IT-367R3 Capital cost allowance — Multiple-unit residential buildings [Archived by the CRA].

CLASS 33

(15 per cent)

Property that is a timber resource property.

Interpretation Bulletins: *Secondary* — IT-481 (Consolid.) Timber resource property and timber limits.

CLASS 34

Property that would otherwise be included in Class 1, 2 or 8

(*a*) that is

(i) electrical generating equipment,

(ii) production equipment and pipelines of a distributor of heat,

(iii) steam generating equipment that was acquired by the taxpayer primarily for the purpose of producing steam to operate property described in subparagraph (i), or

(iv) an addition to a property described in subparagraph (i), (ii) or (iii),

but not including buildings or other structures,

(*b*) that was acquired by the taxpayer after May 25, 1976,

(*c*) that

(i) was acquired by the taxpayer for use by him in a business carried on in Canada, or

(ii) is to be leased by the taxpayer to a lessee for use by the lessee in Canada, and

(*d*) that is property in respect of which a certificate has been issued

(i) before December 11, 1979 by the Minister of Industry, Trade and Commerce certifying that the property is part of a plan designed to

(A) produce heat derived primarily from the consumption of wood wastes or municipal wastes,

(B) produce electrical energy by the utilization of fuel that is petroleum, natural gas or related hydrocarbons, coal, coal gas, coke, lignite or peat (in this clause referred to as "fossil fuel"), wood wastes or municipal wastes, or any combination thereof, if the consumption of fossil fuel (expressed as the high heat value of the fossil fuel), if any, chargeable to electrical energy on an annual basis in respect of the property is no greater than 7,000 British Thermal Units per kilowatt-hour of electrical energy produced, or

(C) recover heat that is a by-product of an industrial process, or

(ii) after December 10, 1979, by the Minister of Energy, Mines and Resources certifying that the property is part of a plan designed to

(A) produce heat derived primarily from the consumption of natural gas, coal, coal gas, lignite, peat, wood wastes or municipal wastes, or any combination thereof,

(B) produce electrical energy by the utilization of fuel that is petroleum, natural gas or related hydrocarbons, coal, coal gas, coke, lignite or peat (in this clause referred to as "fossil fuel"), wood wastes or municipal wastes, or any combination thereof, if the consumption of fossil fuel (expressed as the high heat value of the fossil fuel), if any, chargeable to electrical energy on an annual basis in respect of the property is no greater than 7,000 British Thermal Units per kilowatt-hour of electrical energy produced, or

(C) recover heat that is a by-product of an industrial process,

and property that was acquired by the taxpayer after December 10, 1979 (other than property described in paragraph (*a*)) and would otherwise be included in another Class in this Schedule

(*e*) that is

(i) active solar heating equipment including solar collectors, solar energy conversion equipment, storage equipment, control equipment, equipment designed to interface solar heating equipment with other heating equipment, and solar water heaters, used to

(A) heat a liquid or air to be used directly in the course of manufacturing or processing,

(B) provide space heating when installed in a new building or other new structure at the time of its original construction where that construction commenced after December 10, 1979, or

(C) heat water for a use other than a use described in clause (A) or (B),

(ii) a hydro electric installation of a producer of hydro electric energy with a planned maximum generating capacity not exceeding 15 megawatts upon completion of site development that is the generating equipment and plant (including structures) of that producer including a canal, a dam, a dyke, an overflow spillway, a penstock, a powerhouse complete with generating equipment and other equipment ancillary thereto, control equipment, fishways or fish bypasses and transmission equipment, except distribution equipment and a property included in Class 10 or 17,

(iii) heat recovery equipment that is designed to conserve energy or reduce the requirement to acquire energy by extracting and reusing heat from thermal waste including condensers, heat exchange equipment, steam compressors used to upgrade low pressure steam, waste heat boilers and ancillary equipment such as control panels, fans, instruments or pumps,

(iv) an addition or alteration to a hydro electric installation described in subparagraph (ii) that results in a change in generating capacity if the new maximum generating capacity at the hydro electric installation does not exceed 15 megawatts, or

(v) a fixed location device acquired after February 25, 1986, that is a wind energy conversion system designed to produce electrical energy, consisting of a wind-driven turbine, generating equipment and related equipment, including control and conditioning equipment, support structures, a powerhouse complete with equipment ancillary thereto, and transmission equipment, but not including distribution equipment, equipment designed to store electrical energy or property included in Class 10 or 17,

(*f*) that

(i) was acquired by the taxpayer for use by him for the purpose of gaining or producing income from a business carried on in Canada or from property situated in Canada, or

(ii) is to be leased by the taxpayer to a lessee for use by the lessee in Canada, and

(*g*) that is property in respect of which a certificate has been issued by the Minister of Energy, Mines and Resources,

but not including

(*h*) property in respect of which a certificate issued under paragraph (*d*) or (*g*) has been revoked pursuant to subsection 1104(11),

(*i*) property that had been used before it was acquired by the taxpayer unless the property had previously been included in Class 34 for the purpose of computing the income of the person from whom it was acquired,

(*j*) property acquired by the taxpayer after February 21, 1994 other than

(i) property acquired by the taxpayer

(A) pursuant to an agreement of purchase and sale in writing entered into by the taxpayer before February 22, 1994,

(B) in order to satisfy a legally binding obligation entered into by the taxpayer in writing before February 22, 1994 to sell electricity to a public power utility in Canada,

(C) that was under construction by or on behalf of the taxpayer on February 22, 1994, or

(D) that is machinery or equipment that is a fixed and integral part of a building, structure or other property that was under construction by or on behalf of the taxpayer on February 22, 1994, and

(ii) property acquired by the taxpayer before 1996

(A) pursuant to an agreement of purchase and sale in writing entered into before 1995 to acquire the property from a person or partnership in circumstances where

(I) the property was part of a project that was under construction by the person or partnership on February 22, 1994, and

(II) it is reasonable to conclude, having regard to all of the circumstances, that the person or partnership constructed the project with the intention of transferring all or part of the project to another taxpayer after completion, or

(B) pursuant to an agreement in writing entered into before 1995 by the taxpayer with a person or partnership where the taxpayer agrees to assume a legally binding obligation entered into by the person or partnership before February 22, 1994 to sell electricity to a public power utility in Canada, or

(*k*) property in respect of which a certificate has not been issued under paragraph (*d*) or (*g*) before the time that is the later of

(i) the end of 1995, and

(ii) 2 years after the property is acquired by the taxpayer or, where the property is property acquired in circumstances to which paragraph (*j*) applies, 2 years after substantial completion of the property.

History: Paragraphs (*j*) and (*k*) were added by P.C. 1997-1033, SOR/97-377, dated July 28, 1997, applicable after February 21, 1994.

The part preceding paragraph (*a*) was amended by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, to add the reference to Class 1, applicable in respect of property acquired after 1987.

Subparagraph (*e*)(v) was added by P.C. 1987-2354, SOR/87-667, dated November 26, 1987, applicable with respect to property acquired after February 25, 1986.

Paragraph (*b*) was amended by P.C. 1985-2673, SOR/85-853, dated August 29, 1985, to delete "and before 1985" at the end, effective September 18, 1985.

Subparagraph (*c*)(ii) was amended by P.C. 1985-2673, SOR/85-853, dated August 29, 1985, to delete "if the use of the property commenced before 1985" at the end, effective September 18, 1985.

The part following paragraph (*d*) and preceding paragraph (*e*) was amended by P.C. 1985-2673, SOR/85-853, dated August 29, 1985, to delete "and before 1985" after "December 10, 1979", effective September 18, 1985.

Clause (*e*)(i)(B) was amended by P.C. 1985-2673, SOR/85-853, dated August 29, 1985, to delete "and before 1985" at the end, effective September 18, 1985.

Subparagraph (*f*)(ii) was amended by P.C. 1985-2673, SOR/85-853, dated August 29, 1985, to delete "if the use of the property commenced before 1985" at the end, effective September 18, 1985.

Clauses (*d*)(i)(C) and (*d*)(ii)(C) were amended by P.C. 1984-2044, SOR/84-454, dated June 14, 1984, to substitute "heat that is a by-product of an industrial process" for "industrial by-product heat".

Subparagraph (*a*)(iv) was added by P.C. 1980-3323, SOR/80-935, dated December 4, 1980.

Paragraph (*b*) and subparagraph (*c*)(ii) were amended by P.C. 1980-3323, SOR/80-935, dated December 4, 1980 and effective December 11, 1979, by substituting "1985" for "1981".

Paragraph (*b*) and subparagraph (*c*)(ii) were amended by P.C. 1980-327, SOR/80-114, effective January 1, 1980, by substituting "1981" for "1980"

The part following paragraph (*c*) was amended by P.C. 1980-3323, SOR/80-935, dated December 4, 1980 and effective December 11, 1979. That part formerly read:

"(*d*) that is property in respect of which a certificate has been issued by the Minister of Industry, Trade and Commerce certifying that the property is part of a plan designed to

(i) produce heat derived primarily from the consumption of wood wastes or municipal wastes,

(ii) produce electrical energy by the utilization of fuel that is petroleum, natural gas or related by hydrocarbons, coal, coal gas, coke, lignite or peat (in this subparagraph referred to as fossil fuel), wood wastes or municipal wastes, or any combination thereof, provided the consumption of fossil fuel (expressed as the high heat value of the fossil fuel), if any, chargeable to electrical energy on an annual basis in respect of the property is no greater than 7,000 British Thermal Units per kilowatt-hour of electrical energy produced, or

(iii) recover industrial by-product heat,

but not including

(*e*) property in respect of which a certificate issued under paragraph (*d*) has been revoked pursuant to subsection 1104(11), or

(*f*) property that had been used before it was acquired by the taxpayer unless the property had previously been included in Class 34 for the purpose of computing the income of the person from whom it was acquired".

Class 35

(7 per cent)

Property not included in any other class that is

(*a*) a railway car acquired after May 25, 1976; or

(*b*) a rail suspension device designed to carry trailers that are designed to be hauled on both highways and railway tracks.

History: Class 35 was amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to property acquired after December 23, 1991, other than property acquired by a taxpayer before 1993

(*a*) pursuant to an agreement in writing entered into by the taxpayer before December 24, 1991; or

(*b*) that was under construction by or on behalf of the taxpayer on December 23, 1991.

The class formerly read:

"Property not included in any other class that is a railway car acquired after May 25, 1976."

Class 36

Property acquired after December 11, 1979 that is deemed to be depreciable property by virtue of paragraph 13(5.2)(*c*) of the Act.

History: Class 36 was added by P.C. 1982-599, SOR/82-265, dated February 26, 1982, applicable in respect of property acquired after December 11, 1979.

Class 37

(15 per cent)

Property that would otherwise be included in another class in this Schedule that is property used in connection with an amusement park, including

(*a*) land improvements (other than landscaping) for or in support of park activities, including

(i) roads, sidewalks, parking areas, storage areas, or similar surface constructions, and

(ii) canals,

(*b*) buildings (other than warehouses, administration buildings, hotels or motels), structures and equipment (other than automotive equipment), including

(i) rides, attractions and appurtenances associated with a ride or attraction, ticket booths and facades,

(ii) equipment, furniture and fixtures, in or attached to a building included in this class,

(iii) bridges, and

(iv) fences or similar perimeter structures, and

(*c*) automotive equipment (other than automotive equipment designed for use on highways or streets),

and property not included in another class in this Schedule that is a waterway or a land improvement (other than landscaping, clearing or levelling land) used in connection with an amusement park.

History: Class 37 was added by P.C. 1982-599, SOR/82-265, dated February 26, 1982.

CLASS 38

Property not included in Class 22 but that would otherwise be included in that class if that class were read without reference to paragraphs (*a*) and (*b*) thereof.

History: Class 38 was added by P.C. 1989-2464, SOR/90-22, dated December 14, 1989, applicable in respect of property acquired after 1987.
Interpretation Bulletins: *Secondary* — IT-411R Meaning of "construction"; IT-469R Capital cost allowance — Earth-moving equipment.

CLASS 39

Property acquired after 1987 and before February 26, 1992 that is not included in Class 29, but that would otherwise be included in that Class if that Class were read without reference to subparagraphs (*b*)(iii) and (v) and paragraph (*c*) thereof.

History: Class 39 was amended by P.C. 1994-230, SOR/94-169, dated February 10, 1994, applicable with respect to property acquired after February 25, 1992. Class 39 formerly read:

"Property acquired after 1987 that is not included in Class 29, but that would otherwise be included in that class if that class were read without reference to subparagraphs (*b*)(iii) and (v) and paragraph (*c*) thereof."

Class 39 was added by P.C. 1989-2464, SOR/90-22, dated December 14, 1989 and applicable in respect of property acquired after 1987.
Interpretation Bulletins: *Secondary* — IT-411R Meaning of "construction".

CLASS 40

Property acquired after 1987 and before 1990 that is a powered industrial lift truck or property described in paragraph (*b*) or (*f*) of Class 10 and that is property not included in Class 29 but that would otherwise be included in that class if that class were read without reference to paragraph (*c*) thereof.

History: Class 40 was added by P.C. 1989-2464, SOR/90-22, dated December 14, 1989 and applicable in respect of property acquired after 1987.

CLASS 41
(25 per cent)

Property

(*a*) not included in Class 28 that would otherwise be included in that Class if that Class were read without reference to paragraph (*a*) of that Class and if subparagraphs (e)(i) to (iii) of that Class were read as follows:

"(i) property that was acquired before the mine came into production and that would, but for this Class, be included in Class 10 because of paragraph (*g*), (*k*), (*l*) or (*r*) of that Class or would have been so included in that Class if it had been acquired after the 1971 taxation year, and property that would, but for this Class, be included in Class 41 because of subsection 1102(8) or (9),

(ii) property that was acquired before the mine came into production and that would, but for this Class, be included in Class 10 because of paragraph (*m*) of that Class, or

(iii) property that was acquired after the mine came into production and that would, but for this Class, be included in Class 10 because of paragraph (*g*), (*k*), (*l*) or (*r*) of that Class, and property that would, but for this Class, be included in Class 41 because of subsection 1102(8) or (9);"

(*a*.1) that is the portion, expressed as a percentage determined by reference to capital cost, of property that

(i) would, but for this Class, be included in Class 10 because of paragraph (*g*), (*k*) or (*l*) of that Class, or that is included in this Class because of subsection 1102(8) or (9),

(ii) is not described in paragraph (*a*) or (*a*.2),

(iii) was acquired by the taxpayer principally for the purpose of gaining or producing income from one or more mines that are operated by the taxpayer and situated in Canada, and that became available for use for the purpose of subsection 13(26) of the Act in a taxation year, and

(iv) had not, before it was acquired by the taxpayer, been used for any purpose by any person or partnership with whom the taxpayer was not dealing at arm's length,

where that percentage is determined by the formula

$$100 \times \frac{[A - (B \times 365/C)]}{A}$$

where

A is the total of all amounts each of which is the capital cost of a property of the taxpayer that became available for use for the purpose of subsection 13(26) of the Act in the year and that is described in subparagraphs (i) to (iv) in respect of the mine or mines, as the case may be,

B is 5% of the taxpayer's gross revenue from the mine or mines, as the case may be, for the year, and

C is the number of days in the year;

(*a*.2) that

(i) is property that would, but for this Class, be included in Class 10 because of paragraph (*g*), (*k*) or (*l*) of that Class or that is included in his Class because of subsection 1102(8) or (9),

(ii) was acquired by the taxpayer in a taxation year principally for the purpose of gaining or producing income from one or more mines each of which

(A) is one or more wells operated by the taxpayer for the extraction of material from a deposit of bituminous sands or oil shales, operated by the taxpayer and situated in Canada,

(B) was the subject of a major expansion after March 6, 1996, and

(C) is a mine in respect of which the Minister, in consultation with the Minister of Natural Resources, determines that the greatest designed capacity of the mine, measured in volume of oil that is not beyond the crude oil stage or its equivalent, immediately after the expansion was not less than 25% greater than the greatest designed capacity of the mine immediately before the expansion,

(iii) was acquired by the taxpayer

(A) after March 6, 1996,

(B) before the completion of the expansion, and

(C) in the course of and principally for the purposes of the expansion, and

(iv) had not, before it was acquired by the taxpayer, been used for any purpose by any person or partnership with whom the taxpayer was not dealing at arm's length;

(*a*.3) that is property included in this Class because of subsection 1102(8) or (9), other than property described in paragraph (*a*) or (*a*.2) or the portion of property described in paragraph (*a*.1);

(*b*) that is property, other than property described in subsection 1101(2c),

(i) described in paragraph (*f*.1), (*g*), (*j*), (*k*), (*l*), (*m*), (*r*), (*t*) or (*u*) of Class 10 that would be included in that Class if this Schedule were read without reference to this paragraph; or

(ii) that is a vessel, including the furniture, fittings, radio communication equipment and other equipment attached thereto, that is designed principally for the purpose of

(A) determining the existence, location, extent or quality of accumulations of petroleum, natural gas or mineral resources, or

(B) drilling oil or gas wells,

and that was acquired by the taxpayer after 1987 other than property that was acquired before 1990

(iii) pursuant to an obligation in writing entered into by the taxpayer before June 18, 1987,

(iv) that was under construction by or on behalf of the taxpayer on June 18, 1987, or

(v) that is machinery and equipment that is a fixed and integral part of property that was under construction by or on behalf of the taxpayer on June 18, 1987.

(*c*) acquired by the taxpayer after May 8, 1972, to be used directly or indirectly by the taxpayer in Canada primarily in Canadian field processing, where the property would be included in Class 29 if

(i) Class 29 were read without reference to

(A) the words "property included in Class 41 solely because of paragraph (*c*) or (*d*) of that Class or",

(B) its subparagraphs (*b*)(iii) and (v), and

(C) its paragraph (*c*), and

(ii) subsection 1104(9) were read without reference to paragraph (*k*) of that subsection, and

(iii) this Schedule were read without reference to this Class, Class 39 and Class 43; or

(*d*) acquired by the taxpayer after December 5, 1996 (otherwise than pursuant to an agreement in writing made before December 6, 1996) to be leased, in the ordinary course of carrying on a business in Canada of the taxpayer, to a lessee who can reasonably be expected to use, directly or indirectly, the property in Canada primarily in Canadian field processing carried on by the lessee, where the property would be included in Class 29 if

(i) Class 29 were read without reference to

(A) the words "property included in Class 41 solely because of paragraph (*c*) or (*d*) of that Class or",

(B) its subparagraphs (*b*)(iii) and (v), and

(C) its paragraph (*c*), and

(ii) this Schedule were read without reference to this Class, Class 39 and Class 43.

Federal Budget Extract

Accelerated Capital Cost Allowance for Oil Sands

[The March 19, 2007 Federal Budget proposed a phasing out of the accelerated CCA for assets used in oil sands projects. The extract below from the 2007 Budget papers outlines these proposed changes.]

Currently, most machinery, equipment and structures used to produce income from a mine or an oil sands project, including buildings and community infrastructure related to worker accommodations, are eligible for a capital cost allowance (CCA) rate of 25 per cent under Class 41 of Schedule II to the Income Tax Regulations. This rate also applies to assets owned by a mineral resource owner that are used in the initial processing of ore from the mineral resource or in upgrading of bitumen (the oil sands product) from that mineral resource into synthetic crude oil.

In addition to the regular CCA deduction, an accelerated CCA has been provided since 1972 for assets acquired for use in new mines, including oil sands mines, as well as assets acquired for major mine expansions (i.e. those that increase the capacity of a mine by at least 25 per cent). In 1996, this accelerated CCA was extended to in-situ oil sands projects (which use oil wells rather than mining techniques to extract bitumen) by deeming them to be mines. This change ensured that both types of oil sands projects are accorded the same CCA treatment. The 1996 changes also extended the accelerated CCA to expenditures on eligible assets acquired in a taxation year for use in a mine or oil sands project, to the extent that the cost of those assets exceeds 5 per cent of the gross revenue for the year from the mine or project.

The accelerated CCA takes the form of an additional allowance that supplements the regular CCA claim. Once an asset is available for use, the taxpayer is entitled to deduct CCA at the regular rate. The additional allowance allows the taxpayer to deduct in computing income for a taxation year up to 100 per cent of the remaining cost of the eligible assets, not exceeding the taxpayer's income for the year from the project (calculated after deducting the regular CCA). This accelerated CCA provides a financial benefit by effectively deferring taxation until the cost of capital assets has been recovered out of project earnings.

* * *

Budget 2007 proposes to phase out the accelerated CCA for oil sands projects — both mining and in-situ. The regular 25-per-cent CCA rate will remain in place.

To the extent that the accelerated CCA for oil sands projects induces incremental oil sands development that could contribute to environmental impacts, such as greenhouse gas emissions, air and water contaminants, water usage, and disturbance

of natural habitats and wildlife, these changes could help reduce such incremental impacts.

To provide stability, and in recognition of the long time lines involved in some oil sands projects, the following transitional relief will be provided:

- the accelerated CCA will continue to be available in full for:
  - — assets acquired before March 19, 2007, and
  - — assets acquired before 2012 that are part of a project phase on which major construction began before March 19, 2007; and
- for other assets, the additional accelerated allowance will be gradually phased down over the period from 2011 to 2015 (when it will be eliminated), according to the schedule set out below.

* * *

Phase-Out Schedule

For assets that do not qualify for the full retention of the accelerated CCA as outlined above, the availability of the additional allowance will be gradually phased out in respect of claims made over the period from 2011 to 2015. In each year, a taxpayer will be permitted to claim a percentage of the amount of the additional allowance otherwise calculated under the existing rules. The percentage allowed will decline each calendar year, as follows (prorated for off-calendar taxation years):

Year	Allowable Percentage of Additional Allowance
2010	100
2011	90
2012	80
2013	60
2014	30
2015	0

History: Subparagraph (*c*)(i) of Class 41 was replaced by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, applicable to property acquired on or after March 19, 2007. Subparagraph (*c*)(i) of Class 41 formerly read:

"(i) Class 29 were read without reference to subparagraphs (*b*)(iii) and (v) and paragraph (*c*) of that Class,"

Subparagraph (*d*)(i) of Class 41 was replaced by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, applicable to property acquired on or after March 19, 2007. Subparagraph (*d*)(i) of Class 41 formerly read:

"(i) Class 29 were read without reference to subparagraphs (*b*)(iii) and (v) and paragraph (*c*) of that Class, and"

The portion of paragraph (*b*) before subparagraph (i) was replaced by P.C. 2005-2186, SOR/2005-371, dated November 22, 2005, deemed to have come into force on November 7, 2001.

The portion of paragraph (*b*) before subparagraph (i) formerly read:

"(*b*) that is property"

Schedule II, the portion of the text that is within quotation marks in paragraph (*a*) of Class 41, that is after subparagraph (i) and before subparagraph (iii) was amended by P.C. 2001-1378, SOR/2001-295, dated August 1, 2001, applicable August 1, 2001. That portion formerly read:

"(ii) property that was acquired before the mine came into production and that would, but for this Class, be included in Class 10 because of paragraph (*m*) of that Class, or"

Schedule II, clause (*a.2*)(ii)(C) of Class 41 was amended by P.C. 2000-1331, SOR/2000-327, dated August 23, 2000, applicable to expansions commencing after September 13, 2000. Schedule II, clause (*a.2*)(ii)(C) of Class 41 formerly read.

"(C) is a mine in respect of which the Minister, in consultation with the Minister of Natural Resources, in satisfied that the greatest designed capacity of the mine, measured in barrels of oil that is not beyond the crude oil stage or its equivalent, immediately after the expansion was not less than 25% greater than the greatest designed capacity of the mine immediately before the expansion,"

Paragraphs (*c*) and (*d*) of Class 41 were added by P.C. 1999-629, SOR/99-179, dated April 15, 1999, applicable to taxation years that begin after 1996.

Class 41, the portion before paragraph (*b*) was amended by P.C. 1998-49, SOR/98-97, dated January 26, 1998, applicable in respect of property acquired after March 6, 1996, except that paragraphs (*a*) and (*a.3*) of the description of Class 41 in Schedule II of the Regulations, as enacted by section 5, apply in respect of property acquired after 1987. Class 41, the portion before paragraph (*b*) formerly read:

"Property

(*a*) not included in Class 28 that would otherwise be included in that class if that class were read without reference to paragraph (*a*) thereof; or"

Subparagraph (*b*)(i) of Class 41 was amended by P.C. 1997-1033, SOR/97-377, dated July 28, 1997, applicable to property acquired after February 25, 1992.

Subparagraph (*b*)(i) of Class 41 was amended by P.C. 1994-230, SOR/94-169, dated February 10, 1994, applicable with respect to property acquired after February 25, 1992. The subparagraph formerly read:

"(i) that would otherwise be included in paragraph (*f.1*), (*g*), (*j*), (*k*), (*l*), (*m*), (*r*), (*t*) or (*u*) of Class 10, or"

Class 41 was added by P.C. 1989-2464, SOR/90-22, dated December 14, 1989 and applicable in respect of property acquired after 1987.

Interpretation Bulletins: *Primary* — IT-482R Pipelines. *Secondary* — IT-267R2 Capital cost allowance — Vessels; IT-476R Capital cost allowance — Equipment used in petroleum and natural gas activities.

CLASS 42
(12 per cent)

Property that is

(*a*) fibre-optic cable; or

(*b*) telephone, telegraph or data communication equipment that is a wire or cable (other than a cable included in this class because of paragraph (*a*)), acquired after February 22, 2005, and that has not been used, or acquired for use, for any purpose before February 23, 2005.

History: Class 42 was replaced by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, deemed to have come into force on February 23, 2005.

Class 42 formerly read:

"Property that is fibre-optic cable."

Class 42 was added by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to property acquired by a taxpayer after December 23, 1991, other than property acquired pursuant to an agreement in writing entered into by the taxpayer before December 24, 1991, except that

(*a*) where the taxpayer so elects in a letter that is filed with the Minister of National Revenue on or before the day that is 180 days after these amendments are published in the *Canada Gazette* Part II (February 9, 1994) or in a letter that is attached to the taxpayer's return of income filed in accordance with section 150 of the *Income Tax Act* for the taxpayer's first taxation year ending after December 23, 1991, Class 42 applies to property acquired by the taxpayer after the beginning of that year;

(*b*) with respect to property acquired before December 24, 1991 in respect of which an election referred to in paragraph (*a*) applies, Schedule II shall be read without reference to Class 42.

CLASS 43
(30 per cent)

Property acquired after February 25, 1992 that

(*a*) is not included in Class 29, but that would otherwise be included in that Class if that Class were read without reference to subparagraphs (*b*)(iii) and (v) and paragraph (*c*) thereof; or

(*b*) is property

(i) that is described in paragraph (*k*) of Class 10 and that would be included in that Class if this Schedule were read without reference to this paragraph and paragraph (*b*) of Class 41, and

(ii) that, at the time of its acquisition, can reasonably be expected to be used entirely in Canada and primarily for the purpose of processing ore extracted from a mineral resource located in a country other than Canada.

History: Paragraph (*b*) was amended by P.C. 1997-1033, SOR/97-377, dated July 28, 1997, applicable to property acquired after February 25, 1992. That paragraph formerly read:

"(*b*) is property described in paragraph (*k*) of Class 10 that would be included in that Class if this Schedule were read without reference to this paragraph and paragraph (*b*) of Class 41 and that

(i) is not property in respect of which the taxpayer has filed with the Minister an election in writing, on or before the day on or before which the taxpayer's return of income under Part I of the Act for the taxation year in which the property was acquired was required to be filed or would have been required to be filed if tax under that Part were payable by the taxpayer for the year, that the property be included in Class 41, and

(ii) at the time of its acquisition, can reasonably be expected to be used entirely in Canada and primarily for the purposes of processing ore extracted from a mineral resource located in a country other than Canada."

Class 43 was added by P.C. 1994-230, SOR/94-169, dated February 10, 1994, applicable with respect to property acquired after February 25, 1992, except that an election referred to in Class 43 shall be deemed to have been filed as required by that Class if it is filed with the Minister of National Revenue within 180 days after the publication of these Regulations in the *Canada Gazette*, February 23, 1994.

Interpretation Bulletins: *Primary* — IT-482R Pipelines; *Secondary* — IT-476R Capital cost allowance — Equipment used in petroleum and natural gas activities.

CLASS 43.1

(30 per cent)

Property, other than reconditioned or remanufactured equipment, that would otherwise be included in Class 1, 2, 8 or 48 or in Class 17 because of paragraph (*a*.1) of that Class

(*a*) that is

(i) electrical generating equipment, including any heat generating equipment used primarily for the purpose of producing heat energy to operate the electrical generating equipment,

(ii) equipment that generates both electrical and heat energy other than, for greater certainty, fuel cell equipment,

(ii.1) fixed location fuel cell equipment that uses hydrogen generated only from internal, or ancillary, fuel reformation equipment,

(iii) heat recovery equipment used primarily for the purpose of conserving energy, or reducing the requirement to acquire energy, by

(A) extracting thermal waste that is generated by equipment referred to in subparagraph (i) or (ii), and

(B) reusing the thermal waste to generate electrical energy from equipment referred to in subparagraph (i) or (ii),

(iii.1) district energy equipment,

(iv) control, feedwater and condensate systems and other equipment, if that property is ancillary to equipment described in any of subparagraphs (i) to (iii), or

(v) an addition to a property described in any of subparagraphs (i) to (iv),

other than buildings or other structures, heat rejection equipment (such as condensers and cooling water systems), transmission equipment, distribution equipment, fuel handling equipment that is not used to upgrade the combustible portion of the fuel and fuel storage facilities,

(*b*) that

(i) is situated in Canada,

(ii) is

(A) acquired by the taxpayer for use by the taxpayer for the purpose of gaining or producing income from a business carried on in Canada or from property situated in Canada, or

(B) leased by the taxpayer to a lessee for the use by the lessee for the purpose of gaining or producing income from a business carried on in Canada or from property situated in Canada, and

(iii) has not been used for any purpose before it was acquired by the taxpayer unless

(A) the property was depreciable property that

(I) was included in Class 34, 43.1 or 43.2 of the person from whom it was acquired, or

(II) would have been included in Class 34, 43.1 or 43.2 of the person from whom it was acquired had the person made a valid election to include the property in Class 43.1 or 43.2, as the case may be, under paragraph 1102(8)(*d*) or 1102(9)(*d*), and

(B) the property was acquired by the taxpayer not more than five years after the time it is considered to have become available for use, for the purpose of subsection 13(26) of the Act, by the person from whom it was acquired and remains at the same site in Canada as that at which that person used the property, and

(*c*) that is

(i) part of a system (other than an enhanced combined cycle system) that

(A) is used by the taxpayer, or by a lessee of the taxpayer, to generate electrical energy, or both electrical and heat energy, using only fuel that is fossil fuel, eligible waste fuel, spent pulping liquor, or any combination of those fuels, and

(B) has a heat rate attributable to fossil fuel (other than solution gas) not exceeding 6,000 BTU per kilowatt-hour of electrical energy generated by the system, which heat rate is calculated as the fossil fuel (expressed as the high heat value of the fossil fuel) used by the system that is chargeable to gross electrical energy output on an annual basis, or

(ii) part of an enhanced combined cycle system that

(A) is used by the taxpayer, or by a lessee of the taxpayer, to generate electrical energy using only a combination of natural gas and waste heat from one or more natural gas compressor systems located on a natural gas pipeline,

(B) has an incremental heat rate not exceeding 6,700 BTU per kilowatt-hour of electricity generated by the system, which heat rate is calculated as the natural gas (expressed as its high heat value) used by the system that is chargeable to gross electrical energy output on an annual basis, and

(C) does not have economically viable access to a steam host,

and property, other than reconditioned or remanufactured equipment, that would otherwise be included in another Class in this Schedule

(*d*) that is

(i) property that meets the following conditions:

(A) it is used by the taxpayer, or by a lessee of the taxpayer, primarily for the purpose of heating an actively circulated liquid or gas and is

(I) active solar heating equipment, including such equipment that consists of above ground solar collectors, solar energy conversion equipment, solar water heaters, energy storage equipment, control equipment and equipment designed to interface solar

heating equipment with other heating equipment, or

(II) equipment that is a part of a ground source heat pump system that is used primarily for the purpose of heating a liquid or gas used directly in an industrial process or in a greenhouse, including such equipment that consists of underground piping, energy conversion equipment, energy storage equipment, control equipment and equipment designed to interface the system with other heating equipment, and

(B) it is not a building, part of a building (other than a solar collector that is not a window and that is integrated into a building), equipment used to heat water for use in a swimming pool, nor equipment that distributes heated air or water in a building,

Pending Amendment

Capital Cost Allowance (2008 Budget Measures) — February 26, 2008

The portion of subparagraph (*d*)(i) of Class 43.1 in Schedule II to the Regulations that is after subclause (A)(I) is replaced by the following:

(II) equipment that is part of a ground source heat pump system that meets the standards set by the Canadian Standards Association for the design and installation of earth energy systems, including such equipment that consists of underground piping, energy conversion equipment, energy storage equipment, control equipment and equipment designed to interface the system with other heating equipment, and

(B) it is not a building, part of a building (other than a solar collector that is not a window and that is integrated into a building), equipment used to heat water for use in a swimming pool, energy equipment that backs up equipment described in subclause (A)(I) or (II) nor equipment that distributes heated air or water in a building,

Applicable: To property acquired after February 25, 2008.

Explanatory Note:

Class 43.1 provides a 30% accelerated CCA rate for certain energy conservation equipment. Class 43.2 provides a 50% accelerated CCA rate. In general terms, Class 43.2 applies to property described in Class 43.1 if the property is acquired on or after February 23, 2005 and before 2020. Unlike Class 43.1, however, Class 43.2 applies to co-generation property described in paragraphs (*a*) to (*c*) of Class 43.1 only if the heat efficiency of fuels used in an eligible co-generation system does not exceed a 4,750 BTU requirement instead of the 6,000 BTU requirement.

Class 43.1 (and indirectly Class 43.2) is amended in the following respects.

1. Ground Source Heat Pump System

Subparagraph (*d*)(i) of Class 43.1 applies to certain active solar heating equipment and ground source heat pump system equipment.

Subclause (*d*)(i)(A)(II) is amended to remove the requirement that the liquid or gas heated by equipment that is part of a ground source heat pump system be used directly in an industrial process or in a greenhouse. Under the revised provision, the equipment must be part of a ground source heat pump system that meets the standards set by the Canadian Standards Association for the design and installation of earth energy systems.

Subclause (*d*)(i)(B) is amended to exclude energy equipment that backs up equipment described in subclause (A)(I) or (II).

2. Waste-Fuelled Thermal Energy Systems

Subparagraph (*d*)(ix) of Class 43.1 is amended to remove the requirement that the heat energy generated by equipment of a taxpayer, or a lessee of the taxpayer, be used in the taxpayer's (or lessee's) industrial process or greenhouse. Under the revised test, the heat must be used directly in an industrial process or in a greenhouse regardless of who owns it.

3. Bio-oil Equipment

Subparagraph (*d*)(xi) of Class 43.1 applies to certain equipment that is part of a system that is used to convert wood waste or plant residue into bio-oil. Currently, the bio-oil must be used by the taxpayer, or a lessee of the taxpayer, primarily for the purpose of generating electricity, or electricity and heat. The reference to "taxpayer, or lessee of the taxpayer" is removed and generation of "heat that is used directly in an industrial process or in a greenhouse" is added as an eligible use.

Consequently, bio-oil may be used for the specified purposes regardless of who owns the generating equipment.

4. Biogas Equipment

Subparagraph (*d*)(xiii) of Class 43.1 currently applies to property of a taxpayer that is part of a system that is used by the taxpayer, or a lessee of the taxpayer, primarily to produce, store and use biogas in a certain manner. The following two requirements are removed: the biogas no longer need be used by the taxpayer; and the biogas no longer need be used to produce electricity or to produce heat that is used directly in an industrial process. This will allow the biogas to be sold.

Two additional changes are made consequential to the removal of the production of electricity in subparagraph (*d*)(xiii). The first change is to remove reference to electrical generating equipment in clause (*d*)(xiii)(A). The second change is to remove references in clause (*d*)(xiii)(B) to auxiliary electrical generating equipment, transmission equipment, distribution equipment and equipment used to store electrical energy and to subparagraph (a.1)(i) of Class 17 (which applies to electrical generating equipment). As a result of the inclusion of the definitions "biogas" and "eligible waste fuel" in subsection 1104(13), the equipment that generates the electricity or heat using the biogas may be included in paragraph (*a*) or subparagraph (*d*)(ix) of Class 43.1.

These amendments apply to property acquired after February 25, 2008.

(ii) a hydro-electric installation of a producer of hydro-electric energy, where that installation

(A) has, if acquired after February 21, 1994 and before December 11, 2001, an annual average generating capacity not exceeding 15 megawatts upon completion of the site development, or, if acquired after December 10, 2001, a rated capacity at the hydro-electric installation site that does not exceed 50 megawatts, and

(B) is the electrical generating equipment and plant (including structures) of that producer including a canal, a dam, a dyke, an overflow spillway, a penstock, a powerhouse (complete with electrical generating equipment and other ancillary equipment), control equipment, fishways or fish bypasses, and transmission equipment,

other than distribution equipment, property otherwise included in Class 10 and property that would be included in Class 17 if that Class were read without reference to its subparagraph (*a*.1)(i),

(iii) an addition or alteration, which is acquired after February 21, 1994 and before December 11, 2001, to a hydro-electric installation that is described in subparagraph (ii) or that would be so described if that installation were acquired by the taxpayer after February 21, 1994, and which results in an increase in generating capacity, if the resulting annual average generating capacity of

the hydro-electric installation does not exceed 15 megawatts,

(iii.1) an addition or alteration, which is acquired after December 10, 2001, to a hydro-electric installation that is described in subparagraph (ii) or that would be so described if that installation were acquired by the taxpayer after February 21, 1994, and which results in an increase in generating capacity, if the resulting rated capacity at the hydro-electric installation site does not exceed 50 megawatts,

(iv) heat recovery equipment used by the taxpayer, or by a lessee of the taxpayer, primarily for the purpose of conserving energy, or reducing the requirement to acquire energy, by

(A) extracting thermal waste that is generated directly in an industrial process (other than in an industrial process that generates or processes electrical energy), and

(B) reusing the thermal waste directly in an industrial process (other than in an industrial process that generates or processes electrical energy),

including such equipment that consists of heat exchange equipment, compressors used to upgrade low pressure steam, vapour or gas, waste heat boilers and other ancillary equipment such as control panels, fans, instruments or pumps, but not including buildings,

(v) a fixed location device that is a wind energy conversion system that

(A) is used by the taxpayer, or by a lessee of the taxpayer, primarily for the purpose of generating electrical energy, and

(B) consists of wind-driven turbine, electrical generating equipment and related equipment, including

(I) control, conditioning and battery storage equipment,

(II) support structures,

(III) powerhouse complete with other ancillary equipment, and

(IV) transmission equipment,

other than distribution equipment, auxiliary electrical generating equipment, property otherwise included in Class 10 and property that would be included in Class 17 if that Class were read without reference to its subparagraph (*a*.1)(i),

(vi) fixed location photovoltaic equipment that is used by the taxpayer, or a lessee of the taxpayer, primarily for the purpose of generating electrical energy from solar energy if the equipment consists of solar cells or modules and related equipment including inverters, control, conditioning and battery storage equipment, support structures and transmission equipment, but not including

(A) a building or a part of a building (other than a solar cell or module that is integrated into a building),

(B) auxiliary electrical generating equipment, property otherwise included in Class 10 and property that would be included in Class 17 if that Class were read without reference to its subparagraph (*a.1*)(i), and

(C) distribution equipment,

(vii) above-ground equipment used by the taxpayer, or by a lessee of the taxpayer, primarily for the purpose of generating electrical energy solely from geothermal energy, including such equipment that consists of pumps, heat exchangers, steam separators, electrical generating equipment and ancillary equipment used to collect the geothermal heat, but not including buildings, transmission equipment, distribution equipment, equipment designed to store electrical energy, property otherwise included in Class 10 and property that would be included in Class 17 if that Class were read without reference to its subparagraph (*a*.l)(i),

(viii) above-ground equipment used by the taxpayer, or by a lessee of the taxpayer, primarily for the purpose of collecting landfill gas or digester gas, including such equipment that consists of fans, compressors, storage tanks, heat exchangers and other ancillary equipment used to collect the gas, to remove non-combustibles and contaminants from the gas or to store the gas, but not including buildings or property otherwise included in Class 10 or 17,

(ix) equipment used by the taxpayer, or by a lessee of the taxpayer, primarily for the purpose of generating heat energy from the consumption of eligible waste fuel, and using only fuel that is eligible waste fuel, fossil fuel or a combination of both, if the heat energy is used directly in an industrial process, or in a greenhouse, of the taxpayer or lessee, including such equipment that consists of fuel handling equipment used to upgrade the combustible portion of the fuel and control, feedwater and condensate systems, and other ancillary equipment, but not including buildings or other structures, heat rejection equipment (such as condensers and cooling water systems), fuel storage facilities, other fuel handling equipment and electrical generating equipment, and property otherwise included in Class 10 or 17,

Pending Amendment

Capital Cost Allowance (2008 Budget Measures) — February 26, 2008

Subparagraph (*d*)(ix) of Class 43.1 in Schedule II to the Regulations is replaced by the following:

(ix) equipment used by the taxpayer, or by a lessee of the taxpayer, primarily for the purpose of generating heat energy from the consumption of eligible waste fuel, and using only fuel that is eligible waste fuel, fossil fuel or a combination of both, if the heat energy is used directly in an industrial process, or in a greenhouse, including such equipment that consists of fuel handling equipment used to upgrade the combustible portion of the fuel and control, feedwater and condensate systems, and other ancillary equipment, but not including buildings or other structures, heat rejection equipment (such as condensers and cooling water systems), fuel storage facilities, other fuel handling equip-

ment and electrical generating equipment, and property otherwise included in Class 10 or 17,

Applicable: To property acquired after February 25, 2008.

Explanatory Note: See the Explanatory Note following the amendment to the portion of subparagraph (*d*)(i) of Class 43.1 in Schedule II after subclause (A)(I).

(x) an expansion engine with one or more turbines, or cylinders, that convert the compression energy in pressurized natural gas into shaft power that generates electricity, including the related electrical generating equipment and ancillary controls, where the expansion engine

(A) is part of a system that is installed

(I) on a distribution line of a distributor of natural gas, or

(II) on a branch distribution line of a taxpayer primarily engaged in the manufacturing or processing of goods for sale or lease if the branch line is used to deliver natural gas directly to the taxpayer's manufacturing or processing facility, and

(B) is used instead of a pressure reducing valve,

(xi) equipment used in a system of the taxpayer that converts wood waste or plant residue into bio-oil, if that bio-oil is used by the taxpayer, or by a lessee of the taxpayer, primarily for the purpose of generating electricity, or electricity and heat, other than equipment used for the collection, storage or transportation of wood waste or plant residue, buildings or other structures and property otherwise included in Class 10 or 17,

Pending Amendment

Capital Cost Allowance (2008 Budget Measures) — February 26, 2008

Subparagraph (*d*)(xi) of Class 43.1 in Schedule II to the Regulations is replaced by the following:

(xi) equipment used by the taxpayer, or a lessee of the taxpayer, in a system that converts wood waste or plant residue into bio-oil, if that bio-oil is used primarily for the purpose of generating heat that is used directly in an industrial process or a greenhouse, electricity or electricity and heat, other than equipment used for the collection, storage or transportation of wood waste or plant residue, buildings or other structures and property otherwise included in Class 10 or 17,

Applicable: To property acquired after February 25, 2008.

Explanatory Note: See the Explanatory Note following the amendment to the portion of subparagraph (*d*)(i) of Class 43.1 in Schedule II after subclause (A)(I).

(xii) fixed location fuel cell equipment used by the taxpayer, or by a lessee of the taxpayer, that uses hydrogen generated only from ancillary electrolysis equipment (or, if the fuel cell is reversible, the fuel cell itself) using electricity all or substantially all of which is generated by photovoltaic, wind energy conversion or hydro-electric equipment, of the taxpayer or the lessee, and equipment ancillary to the fuel cell equipment other than buildings or other structures, transmission equipment, distribution equipment, auxiliary electrical generating equipment and property otherwise included in Class 10 or 17,

(xiii) property that is part of a system that is used by the taxpayer, or by a lessee of the taxpayer, primarily to produce, store and use biogas if that biogas is used by the taxpayer or the lessee primarily to produce electricity, heat that is used directly in an industrial process or in a greenhouse, or electricity and such heat, which property

(A) includes equipment that is an anaerobic digester reactor, a buffer tank, a pre-treatment tank, biogas piping, a biogas storage tank, biogas scrubbing equipment and electrical generating equipment, and

(B) does not include property (other than a buffer tank) that is used to collect, move or store organic waste, equipment used to process the residue after digestion or to treat recovered liquids, auxiliary electrical generating equipment, buildings or other structures, transmission equipment, distribution equipment, equipment designed to store electrical energy, property otherwise included in Class 10 and property that would be included in Class 17 if that class were read without reference to its subparagraph (*a.1*)(i), or

Pending Amendment

Capital Cost Allowance (2008 Budget Measures) — February 26, 2008

Subparagraph (*d*)(xiii) of Class 43.1 in Schedule II to the Regulations is replaced by the following:

(xiii) property that is part of a system that is used by the taxpayer, or by a lessee of the taxpayer, primarily to produce and store biogas, which property includes equipment that is an anaerobic digester reactor, a buffer tank, a pre-treatment tank, biogas piping, a biogas storage tank, and biogas scrubbing equipment but not including

(A) property (other than a buffer tank) that is used to collect, move or store organic waste,

(B) equipment used to process the residue after digestion or to treat recovered liquids,

(C) buildings or other structures, and

(D) property otherwise included in Class 10 or 17, or

Applicable: To property acquired after February 25, 2008.

Explanatory Note: See the Explanatory Note following the amendment to the portion of subparagraph (*d*)(i) of Class 43.1 in Schedule II after subclause (A)(I).

(xiv) property that is used by the taxpayer, or by a lessee of the taxpayer, primarily for the purpose of generating electricity using wave or tidal energy (otherwise than by using physical barriers or dam-like structures), including support structures, control, conditioning and battery storage equipment, submerged cables and transmission equipment, but not including buildings, distribution equipment, auxiliary electricity generating equipment, property otherwise included in Class 10 and property that would be included in Class 17 if that class were read without reference to its subparagraph (*a.1*)(i), and

(*e*) that

(i) is situated in Canada,

(ii) is

(A) acquired by the taxpayer for use by the taxpayer for the purpose of gaining or producing income from a business carried on in Canada or from property situated in Canada, or

(B) leased by the taxpayer to a lessee for the use by the lessee for the purpose of gaining or producing income from a business carried on in Canada or from property situated in Canada, and

(iii) has not been used for any purpose before it was acquired by the taxpayer unless

(A) the property was depreciable property that

(I) was included in Class 34, 43.1 or 43.2 of the person from whom it was acquired, or

(II) would have been included in Class 34, 43.1 or 43.2 of the person from whom it was acquired had the person made a valid election to include the property in Class 43.1 or 43.2, as the case may be, under paragraph 1102(8)(*d*) or 1102(9)(*d*), and

(B) the property was acquired by the taxpayer not more than five years after the time it is considered to have become available for use, for the purpose of subsection 13(26) of the Act, by the person from whom it was acquired and remains at the same site in Canada as that at which that person used the property.

History: Subparagraph (*a*)(ii.1) of Class 43.1 was replaced by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, applicable to property acquired on or after March 19, 2007. Subparagraph (*a*)(ii.1) of Class 43.1 formerly read:

"(ii.1) fixed location fuel cell equipment that has a peak capacity of not less than 3 kilowatts of electrical output and uses hydrogen generated only from internal, or ancillary, fuel reformation equipment,"

The portion of paragraph (*a*) of Class 43.1 after subparagraph (v) was replaced by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, applicable to property acquired on or after March 19, 2007. The portion of paragraph (*a*) of Class 43.1 after subparagraph (v) formerly read:

"other than buildings or other structures, heat rejection equipment (such as condensers and cooling water systems), transmission equipment, distribution equipment, fuel storage facilities and fuel handling equipment,"

Clause (*c*)(i)(A) of Class 43.1 was replaced by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, applicable to property acquired on or after March 19, 2007. Clause (*c*)(i)(A) of Class 43.1 formerly read:

"(A) is used by the taxpayer, or by a lessee of the taxpayer, to generate electrical energy, or both electrical and heat energy, using only fuel that is fossil fuel, wood waste, spent pulping liquor, municipal waste, land-fill gas, digester gas or bio-oil, or any combination of those fuels, and"

Subparagraph (*d*)(i) of Class 43.1 was replaced by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, applicable to property acquired on or after March 19, 2007. Subparagraph (*d*)(i) of Class 43.1 formerly read:

"(i) active solar heating equipment used by the taxpayer, or by a lessee of the taxpayer, primarily for the purpose of heating a liquid or gas used directly in an industrial process or in a greenhouse, including such equipment that consists of solar collectors, solar energy conversion equipment, solar water heaters, energy storage equipment, control equipment and equipment designed to interface solar heating equipment with other heating equipment, but not including buildings,"

Subparagraph (*d*)(vi) of Class 43.1 was replaced by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, applicable to property acquired on or after March 19, 2007. Subparagraph (*d*)(vi) of Class 43.1 formerly read:

"(vi) fixed location photovoltaic equipment that

(A) is used by the taxpayer, or by a lessee of the taxpayer, primarily for the purpose of generating electrical energy from solar energy,

(B) has a peak capacity of not less than 3 kilowatts of electrical output, and

(C) consists of solar cells or modules and related equipment including

(I) control, conditioning and battery storage equipment,

(II) support structures, and

(III) transmission equipment,

other than buildings, distribution equipment, auxiliary electrical generating equipment, property otherwise included in Class 10 and property that would be included in Class 17 if that Class were read without reference to its subparagraph (*a*.1)(i),"

Subparagraph (*d*)(ix) of Class 43.1 was replaced by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, applicable to property acquired on or after March 19, 2007. Subparagraph (*d*)(ix) of Class 43.1 formerly read:

"(ix) equipment used by the taxpayer, or by a lessee of the taxpayer, primarily for the purpose of generating heat energy from the consumption of wood waste, municipal waste, landfill gas, digester gas or bio-oil, if the heat energy is used directly in an industrial process, or in a greenhouse, of the taxpayer or lessee, including such equipment that consists of fuel handling equipment used to upgrade the combustible portion of the fuel and control, feedwater and condensate systems, and other ancillary equipment, but not including buildings or other structures, heat rejection equipment (such as condensers and cooling water systems), fuel storage facilities, other fuel handling equipment and electrical generating equipment, and property otherwise included in Class 10 or 17,"

Subparagraph (*d*)(xii) of Class 43.1 was replaced by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, applicable to property acquired on or after March 19, 2007, except that subparagraph (*d*)(xii) of Class 43.1 in Schedule II to the Regulations is to be read as follows with respect to property acquired before February 26, 2008:

"(xii) fixed location fuel cell equipment used by the taxpayer, or by a lessee of the taxpayer, that uses hydrogen generated only from ancillary electrolysis equipment (or, if the fuel cell is reversible, the fuel cell itself) using electricity generated by photovoltaic, wind energy conversion or hydro-electric equipment, of the taxpayer or the lessee, and equipment ancillary to the fuel cell equipment other than buildings or other structures, transmission equipment, distribution equipment, auxiliary electrical generating equipment and property otherwise included in Class 10 or 17,"

Subparagraph (*d*)(xii) of Class 43.1 formerly read:

"(xii) fixed location fuel cell equipment used by the taxpayer, or by a lessee of the taxpayer, that has a peak capacity of not less than 3 kilowatts of electrical output and uses hydrogen generated only from ancillary electrolysis equipment (or, if the fuel cell is reversible, the fuel cell itself) using electricity generated by photovoltaic, wind energy conversion or hydro-electric equipment, of the taxpayer or the lessee, and equipment ancillary to the fuel cell equipment other than buildings or other structures, transmission equipment, distribution equipment, auxiliary electrical generating equipment and property otherwise included in Class 10 or 17, or"

The portion of subparagraph (*d*)(xiii) of Class 43.1 before clause (A) was replaced by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, applicable to property acquired on or after March 19, 2007. The portion of subparagraph (*d*)(xiii) of Class 43.1 before clause (A) formerly read:

"(xiii) property of a taxpayer that is part of a system that is used by the taxpayer or a lessee of the taxpayer primarily to produce, store and use biogas produced from manure by anaerobic digestion if that biogas is used primarily by the taxpayer or the lessee to produce electricity, or to produce heat that is used directly in an industrial process or in a greenhouse, which property"

Clause (*d*)(xiii)(B) of Class 43.1 was replaced by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, applicable to property acquired on or after March 19, 2007. Clause (*d*)(xiii)(B) of Class 43.1 formerly read:

"(B) does not include property that is used to collect manure, store manure (other than a buffer tank) or move manure to the system, equipment used to process the residue after digestion or to treat recovered liquids, auxiliary electrical generating equipment, buildings or other structures, transmission equipment, distribution equipment, equipment designed to store electrical energy, property otherwise included in Class 10 and property that would be included in Class 17 if that class were read without reference to its subparagraph (*a*.1)(i), and"

Subparagraph (*d*)(xiv) of Class 43.1 was added by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, applicable to property acquired on or after March 19, 2007.

Class 43.1, clause (*c*)(i)(A) was replaced by P.C. 2006-1103, SOR/2006-249, dated November 1, 2006, applicable to property acquired on or after November 14, 2005 that has not been used or acquired for use before that date. Class 43.1, clause (*c*)(i)(A) formerly read:

"(A) is used by the taxpayer, or by a lessee of the taxpayer, to generate electrical energy, or both electrical and heat energy, using only fuel that is fossil fuel, wood waste, municipal waste, landfill gas, digester gas or bio-oil, or any combination of those fuels, and"

Class 43.1, the portion before paragraph (*a*) was replaced by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, applicable to property acquired after February 22, 2005. Class 43.1, the portion before paragraph (*a*) formerly read:

"Property, other than reconditioned or remanufactured equipment, that would otherwise be included in Class 1, 2 or 8 or in Class 17 because of subparagraph (*a*.1)(i) of that Class,"

Class 43.1, subparagraph (*a*)(iii.1) was added by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, applicable to property acquired after February 22, 2005.

Class 43.1, subclauses (*b*)(iii)(A)(I) and (II) were replaced by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, deemed to have come into force on February 23, 2005. Class 43.1, subclauses (*b*)(iii)(A)(I) and (II) formerly read:

"(I) was included in Class 34 or 43.1 of the person from whom it was acquired, or

(II) that would have been included in Class 34 or 43.1 of the person from whom it was acquired had the person made a valid election to include the property in Class 43.1 pursuant to paragraph 1102(8)(*d*) or 1102(9)(*d*), and"

Class 43.1, subparagraph (*d*)(xiii) was added by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, applicable to property acquired after February 22, 2005.

Class 43.1, subclauses (*e*)(iii)(A)(I) and (II) were replaced by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, deemed to have come into force on February 23, 2005. Class 43.1, subclauses (*e*)(iii)(A)(I) and (II) formerly read:

"(I) was included in Class 34 or 43.1 of the person from whom it was acquired, or

(II) would have been included in Class 34 or 43.1 of the person from whom it was acquired had the person made a valid election to include the property in Class 43.1 pursuant to paragraph 1102(8)(*d*) or 1102(9)(*d*), and"

Class 43.1, subparagraph (*a*)(ii) was replaced, and subparagraph (ii.1) was added, by P.C. 2005-2287, SOR/2005-415, dated December 6, 2005, applicable to property that is acquired after February 18, 2003. Class 43.1, subparagraph (*a*)(ii) formerly read:

"(ii) equipment that generates both electrical and heat energy,"

Class 43.1, subparagraph (*a*)(iv) was replaced by P.C. 2005-2287, SOR/2005-415, dated December 6, 2005, applicable to property that is acquired after February 18, 2003. Class 43.1, subparagraph (*a*)(iv) formerly read:

"(iv) control, feedwater and condensate systems and other equipment, where that property is ancillary to equipment described in subparagraph (i), (ii) or (iii), or"

Class 43.1, clause (*c*)(i)(A) was replaced by P.C. 2005-2287, SOR/2005-415, dated December 6, 2005, applicable to property that is acquired after February 18, 2003. Class 43.1, clause (*c*)(i)(A) formerly read:

"(A) is used by the taxpayer, or by a lessee of the taxpayer, to generate electrical energy, or both electrical and heat energy, using only fuel that is fossil fuel, wood waste, municipal waste, landfill gas or digester gas, or any combination of those fuels, and"

Class 43.1, subparagraph (*d*)(i) was replaced by P.C. 2005-2287, SOR/2005-415, dated December 6, 2005, applicable to property that is acquired after February 18, 2003. Class 43.1, subparagraph (*d*)(i) formerly read:

"(i) active solar heating equipment used by the taxpayer, or by a lessee of the taxpayer, primarily for the purpose of heating a liquid or gas used directly in an industrial process, including such equipment that consists of solar collectors, solar energy conversion equipment, solar water heaters, energy storage equipment, control equipment and equipment designed to interface solar heating equipment with other heating equipment, but not including buildings,"

Class 43.1, clause (*d*)(ii)(A) was replaced by P.C. 2005-2287, SOR/2005-415, dated December 6, 2005, applicable after December 10, 2001. Class 43.1, clause (*d*)(ii)(A) formerly read:

"(A) has an annual average generating capacity not exceeding 15 megawatts upon completion of site development, and"

Class 43.1, subparagraph (*d*)(iii) was replaced, and subparagraph (iii.1) was added, by P.C. 2005-2287, SOR/2005-415, dated December 6, 2005, applicable after December 10, 2001. Class 43.1, subparagraph (*d*)(iii) formerly read:

"(iii) an addition or alteration to a hydro-electric installation described in subparagraph (ii) that results in an increase in generating capacity, if the resulting annual average generating capacity of the hydro-electric installation does not exceed 15 megawatts,"

Class 43.1, subparagraph (*d*)(ix) was replaced by P.C. 2005-2287, SOR/2005-415, dated December 6, 2005, applicable to property that is acquired after February 18, 2003. Class 43.1, subparagraph (*d*)(ix) formerly read:

"(ix) equipment used by the taxpayer, or by a lessee of the taxpayer, primarily for the purpose of generating heat energy from the consumption of wood waste, municipal waste, landfill gas or digester gas, if the heat energy is used directly in an industrial process carried on by the taxpayer or lessee, including such equipment that consists of fuel handling equipment used to upgrade the combustible portion of the fuel and control, feedwater and condensate systems, and other ancillary equipment, but not including buildings or other structures, property otherwise included in Class 10 or 17, heat rejection equipment (such as condensers and cooling water systems), fuel storage facilities, fuel handling equipment and electrical generating equipment, or"

Class 43.1, subparagraphs (*d*)(xi) and (xii) were added by P.C. 2005-2287, SOR/2005-415, dated December 6, 2005, applicable to property that is acquired after February 18, 2003.

Class 43.1, the portion before paragraph (*a*) was replaced by P.C. 2005-2186, SOR/2005-371, dated November 22, 2005, applicable to property acquired after February 27, 2000. Class 43.1, the portion before paragraph (*a*) formerly read:

"Property, other than reconditioned or remanufactured equipment, that would otherwise be included in Class 1, 2 or 8"

The portion of Class 43.1 after paragraph (*c*) and before paragraph (*d*) was replaced by P.C. 2005-2186, SOR/2005-371, dated November 22, 2005, applicable to property acquired by a taxpayer on or after September 3, 2005, other than property acquired by a taxpayer on or after that day pursuant to a written agreement made before that day by the taxpayer and a person with whom the taxpayer deals at arm's length. The portion of Class 43.1 after paragraph (*c*) and before paragraph (*d*) formerly read:

"and property (other than property described in paragraph (*a*)) that would otherwise be included in another class in this Schedule"

Class 43.1, the portion of subparagraph (*d*)(ii) after clause (B) was replaced by P.C. 2005-2186, SOR/2005-371, dated November 22, 2005, applicable to property acquired after February 27, 2000. Class 43.1, the portion of subparagraph (*d*)(ii) after clause (B) formerly read:

"other than distribution equipment and property otherwise included in Class 10 or 17,"

Class 43.1, the portion of subparagraph (*d*)(v) after clause (B) was replaced by P.C. 2005-2186, SOR/2005-371, dated November 22, 2005, applicable to property acquired after February 27, 2000. Class 43.1, the portion of subparagraph (*d*)(v) after clause (B) formerly read:

"other than distribution equipment, auxiliary electrical generating equipment or property otherwise included in Class 10 or 17,"

Class 43.1, the portion of subparagraph (*d*)(vi) after clause (C) was replaced by P.C. 2005-2186, SOR/2005-371, dated November 22, 2005, applicable to property acquired after February 27, 2000. Class 43.1, the portion of subparagraph (*d*)(vi) after clause (C) formerly read:

"other than buildings, distribution equipment, auxiliary electrical generating equipment and property otherwise included in Class 10 or 17,"

Class 43.1, subparagraph (*d*)(vii) was replaced by P.C. 2005-2186, SOR/2005-371, dated November 22, 2005, applicable to property acquired after February 27, 2000. Class 43.1, subparagraph (*d*)(vii) formerly read:

"(vii) above-ground equipment used by the taxpayer, or by a lessee of the taxpayer, primarily for the purpose of generating electrical energy solely from geothermal energy, including such equipment that consists of pumps, heat exchangers, steam separators, electrical generating equipment and ancillary equipment used to collect the geothermal heat, but not including buildings, transmission equipment, distribution equipment, equipment designed to store electrical energy and property otherwise included in Class 10 or 17,"

Schedule II, clause (*e*)(iii)(B) of Class 43.1 was amended by P.C. 2001-1378, SOR/2001-295, dated August 1, 2001, applicable August 1, 2001. Schedule II, clause (*e*)(iii)(B) of Class 43.1 formerly read:

"(B) the property was acquired by the taxpayer not more than five years after it became available for use for the purpose of subsection 13(26) of the Act by the person from whom it was acquired and remains at the same site in Canada as that at which that person used the property."

Schedule II, clause (*b*)(iii)(B) of Class 43.1 was amended by P.C. 2001-1378, SOR/2001-295, dated August 1, 2001, applicable August 1, 2001. Schedule II, clause (*b*)(iii)(B) of Class 43.1 formerly read:

"(B) the property was acquired by the taxpayer not more than five years after it became available for use for the purpose of subsection 13(26) of the Act by the person from whom it was acquired and remains at the same site in Canada as that at which that person used the property, and"

Schedule II, paragraph (*e*) of Class 43.1 was amended by P.C. 2000-1331, SOR/2000-327, dated August 23, 2000, applicable to property acquired after June 26, 1996, except that, in respect of property acquired before 1998 pursuant to an agreement in writing made by the taxpayer before June 27, 1996

(*b*) paragraph (*e*) of Class 43.1 of Schedule II to the Regulations shall be read without reference to subparagraphs (i) and (iii) thereof.

Schedule II, paragraph (*e*) of Class 43.1 formerly read:

"(*e*) that has not been used for any purpose whatever before it was acquired by the taxpayer and that is

(i) acquired by the taxpayer for use by the taxpayer for the purpose of gaining or producing income from a business carried on in Canada or from property situated in Canada, or

(ii) leased by the taxpayer to a lessee for use by the lessee for the purpose of gaining or producing income from a business carried on in Canada or from property situated in Canada."

Schedule II, clause (*d*)(vi)(B) of Class 43.1 was amended by P.C. 2000-1331, SOR/2000-327, dated August 23, 2000, applicable to property acquired after February 18, 1997. Schedule II, clause (*d*)(vi)(B) of Class 43.1 formerly read:

"(B) has a peak capacity of not less than 10 kilowatts of electrical output, and"

Schedule II, clause (*c*)(i)(B) of Class 43.1 was amended by P.C. 2000-1331, SOR/2000-327, dated August 23, 2000, applicable to property acquired after February 16, 1999. Schedule II, clause (*c*)(i)(B) of Class 43.1 formerly read:

"(B) has a heat rate attributable to fossil fuel not exceeding 6,000 BTU per kilowatt-hour of electrical energy generated by the system, which heat rate is calculated as the fossil fuel (expressed as the high heat value of the fossil fuel) used by the system that is chargeable to gross electrical energy output on an annual basis, or"

Schedule II, paragraph (*b*) of Class 43.1 was amended by P.C. 2000-1331, SOR/2000-327, dated August 23, 2000, applicable to property acquired after June 26, 1996 except that, in respect of property acquired before 1998 pursuant to an agreement in writing made by the taxpayer before June 27, 1996

(*a*) paragraph (*b*) of Class 43.1 of Schedule II to the Regulations, shall be read without reference to subparagraphs (i) and (iii) thereof.

Schedule II, paragraph (*b*) of Class 43.1 formerly read:

"(*b*) that has not been used for any purpose whatever before it is acquired by the taxpayer and that is

(i) acquired by the taxpayer for use by the taxpayer for the purpose of gaining or producing income from a business carried on in Canada or from property situated in Canada, or

(ii) leased by the taxpayer to a lessee for use by the lessee for the purpose of gaining or producing income from a business carried on in Canada or from property situated in Canada, and"

Class 43.1 was added by P.C. 1997-1033, SOR/97-377, dated July 28, 1997, applicable to property acquired by a taxpayer after February 21, 1994 except that

(*a*) in respect of property

(i) acquired by the taxpayer pursuant to an agreement of purchase and sale in writing made before September 27, 1994, or

(ii) under construction by or on behalf of the taxpayer on September 27, 1994,

clause (*c*)(ii)(B) of Class 43.1 in Schedule II to the Regulations, as enacted by section 13, shall be read as follows:

(B) has an incremental heat rate not exceeding 7,000 BTU per kilowatt-hour of electricity generated by the system, which heat rate is calculated as the natural gas (expressed as its high heat value) used by the system that is chargeable to the gross electrical energy output on an annual basis, and

and

(*b*) in respect of property acquired by a taxpayer before June 27, 1996, or acquired before 1998 pursuant to an agreement in writing made by a taxpayer before June 27, 1996,

(i) the portion of Class 43.1 in Schedule II to the Regulations before paragraph (*a*), as enacted by section 13, shall be read without reference to ", other than reconditioned or remanufactured equipment,",

(ii) the portion of paragraph (*b*) of Class 43.1 in Schedule II to the Regulations that is before subparagraph (i), as enacted by section 13, shall be read as follows:

(*b*) that is

and

(iii) the portion of paragraph (*e*) of Class 43.1 in Schedule II to the Regulations that is before subparagraph (i), as enacted by section 13, shall be read as follows:

(*e*) that is

Interpretation Bulletins: *Primary*—IT-482R Pipelines.

Canadian Petroleum Tax Journal: Renewable Energy—Tax Developments and Opportunities, Leanne Sereda, Vol. 13 No. 1 2000.

CLASS 43.2

(50 per cent)

Property that is acquired after February 22, 2005 and before 2020 (other than property that was included, before it was acquired, in another class in this Schedule by any taxpayer) and that is property that would otherwise be included in Class 43.1

(*a*) if the expression "6,000 BTU" in clause (*c*)(i)(B) of that Class were read as the expression "4,750 BTU"; or

(*b*) because of paragraph (*d*) of that Class.

Federal Budget Extract
Class 43.2 Clean Energy Generation Assets

[Reproduced below is an excerpt from the February 26, 2008 Federal Budget, which proposes expansion of eligibility for Class 43.2.]

Clean Energy Generation: Accelerated CCA

Under the capital cost allowance (CCA) regime in the income tax system, Class 43.2 of Schedule II to the Income Tax Regulations provides accelerated CCA (50 per cent per year on a declining balance basis) for specified clean energy generation equipment acquired before 2020. The class incorporates by reference a detailed list of eligible equipment that generates energy in the form of electricity or heat, by:

- using a renewable energy source (e.g. wind, solar, small hydro);
- using waste fuel (e.g. landfill gas, wood waste, manure); or
- making efficient use of fossil fuels (e.g. high efficiency cogeneration systems, which produce electricity and heat simultaneously).

Providing accelerated CCA in this context is an explicit exception to the general practice of setting CCA rates based on the useful life of assets. Accelerated CCA provides a financial benefit by deferring taxation. This incentive for investment is premised on the environmental benefits of low-emission or no-emission energy generation equipment.

Accelerated CCA for Clean Energy Generation

CCA Class 43.2 was introduced in 2005 and is currently available for assets acquired on or after February 23, 2005 and before 2020. For assets acquired before February 23, 2005, accelerated CCA is provided under Class 43.1 (30 per cent). The eligibility criteria for these classes are generally the same except that cogeneration systems that use fossil fuels must meet a higher efficiency standard in the case of fossil fuel for Class 43.2 than for Class 43.1. Systems that meet only the lower efficiency standard continue to be eligible for Class 43.1.

Class 43.2 covers a variety of stationary clean energy generation equipment that is used to produce electricity or heat, or used to produce certain fuels from waste that are in turn used to produce electricity or heat. Subject to the detailed rules in the regulations, eligible equipment includes:

Electricity

- High efficiency cogeneration equipment;
- Wind turbines;
- Small hydroelectric facilities;
- Fuel cells;
- Photovoltaic equipment;
- Wave and tidal power equipment;
- Equipment that generates electricity using geothermal energy;
- Equipment that generates electricity using certain waste sources.

Heat

- Active solar equipment;
- District heating equipment that distributes heat from cogeneration;
- Equipment that generates heat for an industrial process using certain waste sources;
- Heat recovery equipment used in electricity generation and industrial processes.

Fuels from Waste

- Equipment that recovers landfill gas or digester gas;
- Equipment used to convert biomass into bio-oil;
- Equipment used to produce biogas through anaerobic digestion.

Where the majority of the tangible property in a project is eligible for Class 43.2, certain intangible project start-up expenses (e.g. engineering and design work, feasibility studies) are treated as Canadian Renewable and Conservation Expenses. These expenses may be deducted in full in the year incurred, carried forward indefinitely for use in future years, or transferred to investors using flow-through shares.

Budget 2008 proposes a number of measures to expand eligibility for Class 43.2 to important additional applications.

Ground Source Heat Pump Systems

A typical ground source heat pump (GSHP) system consists of an underground loop through which an energy transfer fluid is circulated in order to collect solar heat from the ground. A heat pump gathers thermal energy from the loop and upgrades it for uses such as space heating or hot water. In the summer, GSHPs can be reversed to provide air cooling.

Currently, GSHP equipment is eligible for Class 43.2 treatment only if it is used to generate heat for use in an industrial process or a greenhouse. The industrial applications of GSHP systems are limited, however, because these systems typi-

cally produce low grade heat that is suitable primarily for space heating and hot water.

Budget 2008 proposes to broaden Class 43.2 to include GSHP systems used in applications other than industrial processes or greenhouses, such as space and water heating (but not including swimming pool heating) in industrial, commercial and residential buildings used for an income-earning purpose.

Qualifying GSHP system equipment will include underground piping systems, heat pumps, and ancillary equipment. Back-up energy equipment that supplements a GSHP system and equipment that distributes energy within a building will not be included. Installations will be required to meet relevant Canadian Standards Association (CSA) standards for earth energy systems in order to be eligible for Class 43.2.

By encouraging investment in GSHP systems, in cases where GSHP systems displace use of fossil fuels, this measure will contribute to a reduction in emissions of greenhouse gases and air pollutants. In cases where GSHP systems do not displace fossil fuels because heating needs are predominantly met by electrical heating from a no-emission source, use of GSHP systems can reduce demand for electricity by using it more efficiently.

These changes will apply to eligible assets acquired on or after February 26, 2008.

Biogas Production Equipment

Class 43.2 includes equipment used to produce biogas through anaerobic digestion of specified organic wastes. A biogas plant consists primarily of a large heated airtight tank in which bacteria act on the organic waste to produce a gas composed mainly of methane. The gas is cleaned and can then be burned, like natural gas, to produce electricity or heat. Biogas facilities contribute to a reduction in greenhouse gas emissions both by capturing and burning methane, a potent greenhouse gas, and by potentially displacing the use of fossil fuels for energy generation. Further processing of the residual waste from biogas production may be undertaken to improve its quality for use as fertilizer.

Using a variety of feedstocks in an anaerobic digester can improve its efficiency by increasing the amount of biogas produced from a given amount of input, making the project more economic and further encouraging the use of fuel from waste. Budget 2007 announced an expansion of the list of feedstocks for eligible biogas production systems from manure to include food waste, plant residue and wood waste. Budget 2008 proposes to further expand this list to include animal matter, which is a good source of biogas, and sludge from a licensed sewage treatment facility, which can help stabilize the biogas production process. To ensure environmental and health standards are met, eligibility will be conditional on such inputs being disposed of in accordance with applicable federal and provincial laws.

These changes will apply to eligible assets acquired on or after February 26, 2008.

Waste-To-Energy Applications — User Restrictions

In many instances, Class 43.2 allows a taxpayer to sell the output — heat, electricity, or fuel from waste — produced by the eligible equipment. There are, however, several instances where the heat output or fuel produced from waste is required to be used for a specified purpose by a taxpayer.

- *Thermal energy systems* that generate heat from the combustion of specified fuels from waste are currently eligible for Class 43.2 only if the heat is used directly in an industrial process, or in a greenhouse, of the taxpayer.
- *Bio-oil* is produced through a thermo-chemical conversion process that uses biomass that is wood waste or other plant residues. Equipment used to produce bio-oil is eligible for Class 43.2 only if the taxpayer is also the user of the bio-oil and uses it to generate electricity, or electricity and heat.
- *Biogas* production equipment is eligible for Class 43.2 only if the taxpayer is also the user of the biogas and uses it to produce electricity, heat for use in an industrial process or a greenhouse, or both.

Budget 2008 proposes to expand the eligibility criteria of Class 43.2 for equipment used to produce heat from waste sources and equipment used to produce bio-oil by removing the requirement that the industrial process, greenhouse, electrical generating facility, or cogeneration facility be operated by the taxpayer. Allowing the taxpayer to sell the bio-oil or heat from waste sources to third parties for the designated uses is consistent with the intent of Class 43.2 in diverting materials that would otherwise be waste into the energy stream. For equipment used to produce bio-oil, eligibility will be expanded to include use of the bio-oil to produce heat for an industrial process or a greenhouse.

Budget 2008 also proposes to remove the requirements that biogas produced by a taxpayer's eligible anaerobic digester system be used by the taxpayer and that it be used to produce heat for use in an industrial process or a greenhouse or to produce electricity. This will allow biogas to displace natural gas in applications such as commercial and residential space and water heating, thereby reducing fossil fuel use. In addition, biogas will be added as an eligible fuel for waste-fuelled thermal and electrical energy generation systems. This will ensure that equipment using purchased biogas to produce heat for use in an industrial process or a greenhouse, or to produce electricity, will qualify for Class 43.2.

By expanding the range of business models in which technologies eligible for the Class 43.2 incentive can be used, these measures will help to increase the viability of waste-to-energy systems. By promoting investment in these technologies, these measures will contribute to a reduction in greenhouse gas emissions, increased diversification of Canada's energy supply, and the diversion into energy generation of waste materials.

These changes will apply to eligible assets acquired on or after February 26, 2008.

History: The portion of Class 43.2 before paragraph (*a*) was replaced by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, deemed to have come into force on March 19, 2007. The portion of Class 43.2 before paragraph (*a*) formerly read:

"Property that is acquired after February 22, 2005 and before 2012 (other than property that was included, before it was acquired, in another Class in this Schedule by any taxpayer) and that is property that would otherwise be included in Class 43.1"

Class 43.2 was added by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, deemed to have come into force on February 23, 2005, except that in respect of a property acquired before December 10, 2005, the portion of Class 43.2 in Schedule II before paragraph (*a*), is to be read as follows:

"Property that is acquired after February 22, 2005 and before 2012 and that is property that would otherwise be included in Class 43.1"

CLASS 44

(25 per cent)

Property that is a patent, or a right to use patented information for a limited or unlimited period.

History: Class 44 was added by P.C. 1994-231, SOR/94-170, dated February 10, 1994, applicable to property acquired after April 26, 1993.

CLASS 45

(45 per cent)

Property acquired after March 22, 2004 and before March 19, 2007 (other than property acquired before 2005 in respect of which an election is made under subsection 1101(5q)) that is general-purpose electronic data processing equipment and systems software for that equipment, including ancillary data processing equipment, but not including property that is principally or is used principally as

(*a*) electronic process control or monitor equipment;

(*b*) electronic communications control equipment;

(*c*) systems software for equipment referred to in paragraph (*a*) or (*b*); or

(*d*) data handling equipment (other than data handling equipment that is ancillary to general-purpose electronic data processing equipment).

History: The portion of Class 45 before paragraph (*a*) was replaced by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, deemed to have come into force on March 19, 2007. The portion of Class 45 before paragraph (*a*) formerly read:

"Property acquired after March 22, 2004 (other than property acquired before 2005 in respect of which an election is made under subsection 1101(5q)) that is general-purpose electronic data processing equipment and systems software for that equipment, including ancillary data processing

equipment, but not including property that is principally or is used principally as"

Class 45 was added by P.C. 2005-2286, SOR/2005-414, dated December 6, 2005, deemed to have come into force on March 23, 2004.

CLASS 46

(30 per cent)

Property acquired after March 22, 2004 that is data network infrastructure equipment, and systems software for that equipment, that would, but for this Class, be included in Class 8 because of paragraph (*i*) of that Class.

History: Class 46 was added by P.C. 2005-2286, SOR/2005-414, dated December 6, 2005, deemed to have come into force on March 23, 2004.

CLASS 47

(8 per cent)

Property that is

(*a*) transmission or distribution equipment (which may include for this purpose a structure) acquired after February 22, 2005 and that is used for the transmission or distribution of electrical energy, other than

(i) property that is a building, and

(ii) property that has been used or acquired for use for any purpose by any taxpayer before February 23, 2005; or

(*b*) equipment acquired after March 18, 2007 that is part of a liquefied natural gas facility that liquefies or regasifies natural gas, including controls, cooling equipment, compressors, pumps, storage tanks, vaporizers and ancillary equipment, loading and unloading pipelines on the facility site used to transport liquefied natural gas between a ship and the facility, and related structures, other than property that is

(i) acquired for the purpose of producing oxygen or nitrogen,

(ii) a breakwater, a dock, a jetty, a wharf, or a similar structure, or

(iii) a building.

History: Class 47 was replaced by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, deemed to have come into force on March 19, 2007. Class 47 formerly read:

"Property acquired after February 22, 2005 that is transmission or distribution equipment (which may include for this purpose a structure) used for the transmission or distribution of electrical energy, other than

(*a*) property that is a building; and

(*b*) property that has been used or acquired for use for any purpose by any taxpayer before February 23, 2005."

Class 47 was added by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, deemed to have come into force on February 23, 2005.

CLASS 48

(15 per cent)

Property acquired after February 22, 2005 that is a combustion turbine (including associated burners and compressors) that generates electrical energy, other than

(*a*) electrical generating equipment described in any of paragraphs (*f*) to (*h*) of Class 8;

(*b*) property acquired before 2006 in respect of which an election is made under subsection 1101(5t); and

(*c*) property that has been used or acquired for use for any purpose by any taxpayer before February 23, 2005.

History: Class 48 was added by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, deemed to have come into force on February 23, 2005.

CLASS 49

(8 per cent)

Property that is a pipeline, including control and monitoring devices, valves and other equipment ancillary to the pipeline, that

(*a*) is acquired after February 22, 2005, is used for the transmission (but not the distribution) of petroleum, natural gas or related hydrocarbons, and is not

(i) a pipeline described in subparagraph (*l*)(ii) of Class 1,

(ii) property that has been used or acquired for use for any purpose by any taxpayer before February 23, 2005,

(iii) equipment included in Class 7 because of paragraph (*j*) of that Class, or

(iv) a building or other structure; or

(*b*) is acquired after February 25, 2008, is used for the transmission of carbon dioxide, and is not

(i) equipment included in Class 7 because of paragraph (*k*) of that Class, or

(ii) a building or other structure.

History: Class 49 was replaced by P.C. 2009-660, SOR/2009-126, dated April 30, 2009, applicable in respect of property acquired after February 25, 2008. Class 49 formerly read:

"Property acquired after February 22, 2005 that is a pipeline, including control and monitoring devices, valves and other equipment ancillary to the pipeline, used for the transmission (but not the distribution) of petroleum, natural gas or related hydrocarbons, other than

(*a*) a pipeline described in subparagraph (*l*)(ii) of Class 1;

(*b*) property that has been used or acquired for use for any purpose by any taxpayer before February 23, 2005;

(*c*) equipment included in Class 7 because of paragraph (*j*) of that Class; and

(*d*) a building or other structure."

Class 49 was added by P.C. 2006-439, SOR/2006-117, dated June 14, 2006, deemed to have come into force on February 23, 2005.

Interpretation Bulletins: *Secondary* — IT-476R Capital cost allowance — Equipment used in petroleum and natural gas activities.

CLASS 50

(55 per cent)

Property acquired after March 18, 2007 that is general-purpose electronic data processing equipment and systems software for that equipment, including ancillary data processing equipment, but not including property that is included in Class 52 or that is principally or is used principally as

(*a*) electronic process control or monitor equipment;

(*b*) electronic communications control equipment;

(*c*) systems software for equipment referred to in paragraph (*a*) or (*b*); or

(*d*) data handling equipment (other than data handling equipment that is ancillary to general-purpose electronic data processing equipment).

History: Class 50, the portion before paragraph (*a*) was replaced by P.C. 2009-660, SOR/2009-126, dated April 30, 2009, applicable in respect of property acquired after January 27, 2009. Class 50, the portion before paragraph (*a*) formerly read:

"Property acquired after March 18, 2007 that is general-purpose electronic data processing equipment and systems software for that equipment, including ancillary data processing equipment, but not including property that is principally or is used principally as".

Class 50 was added by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, deemed to have come into force on March 19, 2007.

CLASS 51

(6 per cent)

Property acquired after March 18, 2007 that is a pipeline, including control and monitoring devices, valves and other equipment ancillary to the pipeline, used for the distribution (but not the transmission) of natural gas, other than

(*a*) a pipeline described in subparagraph (*l*)(ii) of Class 1 or in Class 49;

(*b*) property that has been used or acquired for use for any purpose by a taxpayer before March 19, 2007; and

(*c*) a building or other structure.

History: Class 51 was added by P.C. 2009-581, SOR/2009-115, dated April 23, 2009, deemed to have come into force on March 19, 2007.

CLASS 52

(100 per cent)

Property acquired by a taxpayer after January 27, 2009 and before February 2011 that

(*a*) is general-purpose electronic data processing equipment and systems software for that equipment, including ancillary data processing equipment, but not including property that is principally or is used principally as

(i) electronic process control or monitor equipment,

(ii) electronic communications control equipment,

(iii) systems software for equipment referred to in paragraph (i) or (ii), or

(iv) data handling equipment (other than data handling equipment that is ancillary to general-purpose electronic data processing equipment);

(*b*) is situated in Canada;

(*c*) has not been used, or acquired for use, for any purpose whatever before it is acquired by the taxpayer; and

(*d*) is acquired by the taxpayer

(i) for use in a business carried on by the taxpayer in Canada or for the purpose of earning income from property situated in Canada, or

(ii) for lease by the taxpayer to a lessee for use by the lessee in a business carried on by the lessee in Canada or for the purpose of earning income from property situated in Canada.

History: Class 52, the portion before paragraph (*a*) was amended by P.C. 2009-847 SOR/2009-155, dated May 28, 2009 to correct an error in P.C. 2009-660, SOR/2009-125 to refer to property acquired before February 2011, instead of before February 2010.

Class 52 was added by P.C. 2009-660, SOR/2009-126, dated April 30, 2009, applicable in respect of property acquired after January 27, 2009.

SCHEDULE III

Capital Cost Allowances, Class 13

1. For the purposes of paragraph 1100(1)(*b*), the amount that may be deducted in computing the income of a taxpayer for a taxation year in respect of the capital cost of property of Class 13 in Schedule II is the lesser of

(*a*) the aggregate of each amount determined in accordance with section 2 of this Schedule that is a prorated portion of the part of the capital cost to him, incurred in a particular taxation year, of a particular leasehold interest; and

(*b*) the undepreciated capital cost to the taxpayer as of the end of the taxation year (before making any deduction under section 1100) of property of the class.

2. Subject to section 3 of this Schedule, the prorated portion for the year of the part of the capital cost, incurred in a particular taxation year, of a particular leasehold interest is the lesser of

(*a*) 1/5 of that part of the capital cost; and

(*b*) the amount determined by dividing that part of the capital cost by the number of 12-month periods (not exceeding 40 such periods) falling within the period commencing with the beginning of the particular taxation year in which the capital cost was incurred and ending with the day the lease is to terminate.

3. For the purpose of determining, under section 2 of this Schedule, the prorated portion for the year of the part of the capital cost, incurred in a particular taxation year, of a particular leasehold interest, the following rules apply:

(*a*) where an item of the capital cost of a leasehold interest was incurred before the taxation year in which the interest was acquired, it shall be deemed to have been incurred in the taxation year in which the interest was acquired;

(*b*) where, under a lease, a tenant has a right to renew the lease for an additional term, or for more than one additional term, after the term that includes the end of the particular taxation year in which the capital cost was incurred, the lease shall be deemed to terminate on the day on which the term next succeeding the term in which the capital cost was incurred is to terminate;

(*c*) the prorated portion for the year of the part of the capital cost, incurred in a particular taxation year, of a particular leasehold interest shall not exceed the amount, if any, remaining after deducting from that part of the capital cost the aggregate of the amounts claimed and deductible in previous years in respect thereof;

(*d*) where, at the end of a taxation year, the aggregate of

(i) the amounts claimed and deductible in previous taxation years in respect of a particular leasehold interest, and

(ii) the proceeds of disposition, if any, of part or all of that interest

equals or exceeds the capital cost as of that time of the interest, the prorated portion of any part of that capital cost shall, for all subsequent years, be deemed to be nil; and

(*e*) where, at the end of a taxation year, the undepreciated capital cost to the taxpayer of property of Class 13 in Schedule II is nil, the prorated portion of any part of the capital cost as of that time shall, for all subsequent years, be deemed to be nil.

4. Where a taxpayer has acquired a property that would, if the property had been acquired by a person with whom the taxpayer was not dealing at arm's length at the

time the property was acquired, be a leasehold interest of that person, a reference in this Schedule to a leasehold interest shall, in respect of the taxpayer, include a reference to that property, and the terms and conditions of the leasehold interest of that property in respect of the taxpayer shall be deemed to be the same as those that would have applied in respect of that person had that person acquired the property.

History: Section 4 was added by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to property acquired after December 23, 1991, other than property acquired by a taxpayer before 1993

(*a*) pursuant to an agreement in writing entered into by the taxpayer before December 24, 1991; or

(*b*) that was under construction by or on behalf of the taxpayer on December 23, 1991.

Interpretation Bulletins: *Secondary* — IT-324 Capital cost allowance — Emphyteutic lease [Archived by the CRA]; IT-464R Capital cost allowance — Leasehold interests.

SCHEDULE IV

Capital Cost Allowances, Class 15

1. For the purposes of paragraph 1100(1)(*f*), the amount that may be deducted in computing the income of a taxpayer for a taxation year in respect of property described in Class 15 in Schedule II is the lesser of

(*a*) an amount computed on the basis of a rate per cord, board foot or cubic metre cut in the taxation year; and

(*b*) the undepreciated capital cost to the taxpayer as of the end of the taxation year (before making any deduction under section 1100 for the taxation year) of property of that class.

2. Where all the property of the class is used in connection with one timber limit or section thereof, the rate per cord, board foot or cubic metre is the amount determined by dividing

(*a*) the undepreciated capital cost to the taxpayer as of the end of the taxation year (before making any deduction under section 1100 for the taxation year) of the property

by

(*b*) the number of cords, board feet or cubic metres of timber in the limit or section thereof as of the commencement of the taxation year, obtained by deducting the quantity cut up to that time from the amount shown by the latest cruise.

3. Where a part of the property of the class is used in connection with one timber limit or a section thereof and a part is used in connection with another limit or section thereof, a separate rate shall be computed for each part of the property, in the manner provided in section 2 of this Schedule, as though each part of the property were the taxpayer's only property of that class.

History: Paragraph 1(*a*) was amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, to add the words "cubic metre", applicable to the 1986 and subsequent taxation years.

The portion of section 2 preceding paragraph (*a*) was amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to the 1986 and subsequent taxation years. The portion formerly read:

"S. 2. Where all the property of the class is used in connection with one timber limit or section thereof, the rate per cord or board foot is the amount determined by dividing"

Paragraph 2(b) was amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to the 1986 and subsequent taxation years. The paragraph formerly read:

"(*b*) the number of cords or board feet of timber in the limit or section thereof as of the commencement of the taxation year as shown by deducting the quantity cut up to that time from the amount shown by the latest cruise."

Interpretation Bulletins: *Secondary* — IT-501 Capital cost allowance — Logging assets.

SCHEDULE V

Capital Cost Allowances, Industrial Mineral Mines

1. For the purposes of paragraph 1100(1)(*g*), the amount that may be deducted in computing the income of a taxpayer for a taxation year in respect of a property described in that paragraph that is an industrial mineral mine or a right to remove industrial minerals from an industrial mineral mine is the lesser of

(*a*) an amount computed on the basis of a rate (computed under section 2 or 3 of this Schedule, as the case may be) per unit of mineral mined in the taxation year; and

(*b*) the undepreciated capital cost to the taxpayer as of the end of the taxation year (before making any deduction under section 1100) of the mine or right.

2. Where the taxpayer has not been granted an allowance in respect of the mine or right for a previous taxation year, the rate for a taxation year is an amount determined by dividing the capital cost of the mine or right to the taxpayer minus the residual value, if any, by

(*a*) in any case where the taxpayer has acquired a right to remove only a specified number of units, the specified number of units of material that he acquired a right to remove; and

(*b*) in any other case, the number of units of commercially mineable material estimated as being in the mine when the mine or right was acquired.

3. Where the taxpayer has been granted an allowance in respect of the mine or right in a previous taxation year, the rate for the taxation year is

(*a*) where paragraph (*b*) does not apply, the rate employed to determine the allowance for the most recent year for which an allowance was granted; and

(*b*) where it has been established that the number of units of material remaining to be mined in the previous taxation year was in fact different from the quantity that was employed in determining the rate for the previous year referred to in paragraph (*a*), or where it has been established that the capital cost of the mine or right is substantially different from the amount that was employed in determining the rate for that previous year, a rate determined by dividing the undepreciated capital cost to the taxpayer of the mine or right as of the commencement of the year minus the residual value, if any, by

(i) in any case where the taxpayer has acquired a right to remove only a specified number of units, the number of units of commercially mineable material that, at the commencement of the year, he had a right to remove, and

(ii) in any other case, the number of units of commercially mineable material estimated as

remaining in the mine at the commencement of the year.

4. In lieu of the aggregate of deductions otherwise allowable under this Schedule, a taxpayer may elect that the deduction for the taxation year be the lesser of

(*a*) $100; and

(*b*) the amount received by him in the taxation year from the sale of mineral.

5. In this Schedule, "residual value" means the estimated value of the property if all commercially mineable material were removed.

Interpretation Bulletins: *Secondary* — IT-423 Sale of sand, gravel or topsoil [Archived by the CRA]; IT-492 Capital cost allowance — Industrial mineral mines.

SCHEDULE VI

Capital Cost Allowances, Timber Limits and Cutting Rights

1. For the purposes of paragraph 1100(1)(*e*), the amount that may be deducted in computing the income of a taxpayer for a taxation year in respect of the capital cost to him of a property, other than a timber resource property, that is a timber limit or a right to cut timber from a limit is the lesser of

(*a*) the aggregate of

(i) an amount computed on the basis of a rate (determined under section 2 or 3 of this Schedule) per cord, board foot or cubic metre cut in the year, and

(ii) the lesser of

(A) 1/10 of the amount expended by the taxpayer after the commencement of his 1949 taxation year that is included in the capital cost to him of the timber limit or right, for surveys, cruises or preparation of prints, maps or plans for the purpose of obtaining a licence or right to cut timber, and

(B) the amount expended as described in clause (A) minus the aggregate of amounts deducted under this subparagraph in computing the income of the taxpayer in previous years; and

(*b*) the undepreciated capital cost to the taxpayer as of the end of the year (before making any deduction under section 1100 for the year) of the timber limit or right.

2. If the taxpayer has not been granted an allowance in respect of the limit or right for a previous taxation year, the rate for a taxation year is an amount determined by dividing

(*a*) the capital cost of the limit or right to the taxpayer, minus the aggregate of the residual value of the timber limit and any amount expended by the taxpayer after the commencement of his 1949 taxation year that is included in the capital cost to him of the timber limit or right, for surveys, cruises or preparation of prints, maps or plans for the purpose of obtaining a licence or right to cut timber,

by

(*b*) the quantity of timber in the limit or the quantity of timber the taxpayer has obtained a right to cut, as the case may be, (expressed in cords, board feet or cubic metres) as shown by a cruise.

3. If the taxpayer has been granted an allowance in respect of the limit or right in a previous taxation year, the rate for a taxation year is

(*a*) where paragraph (*b*) does not apply, the rate employed to determine the allowance for the most recent year for which an allowance was granted; and

(*b*) where it has been established that the quantity of timber that was in the limit or that the taxpayer had a right to cut was in fact substantially different from the quantity that was employed in determining the rate for the previous year referred to in paragraph (*a*), or where it has been established that the capital cost of the limit or right is substantially different from the amount that was employed in determining the rate for that previous year, a rate determined by dividing

(i) the undepreciated capital cost to the taxpayer of the limit or right as of the commencement of the year, minus the residual value,

by

(ii) the estimated remaining quantity of timber that is in the limit or that the taxpayer has a right to cut, as the case may be, (expressed in cords, board feet or cubic metres) at the commencement of the year.

4. In lieu of the deduction otherwise determined under this Schedule, a taxpayer may elect that the deduction for a taxation year be the lesser of

(*a*) $100; and

(*b*) the amount received by him in the taxation year from the sale of timber.

5. In this Schedule, "residual value" means the estimated value of the property if the merchantable timber were removed.

History: Subparagraph 1(*a*)(i) was amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to the 1986 and subsequent taxation years. The subparagraph formerly read:

"(i) an amount computed on the basis of a rate (computed under section 2 or 3 of this Schedule, as the case may be) per cord or board foot cut in the year, and"

Paragraph 2(*b*) was amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to the 1986 and subsequent taxation years. The paragraph formerly read:

"(*b*) the quantity of timber in the limit or the quantity of timber the taxpayer has obtained a right to cut, as the case may be, (expressed in cords or board feet) as shown by a *bona fide* cruise."

Subparagraph 3(*b*)(ii) was amended by P.C. 1994-139, SOR/94-140, dated January 27, 1994, applicable to the 1986 and subsequent taxation years. The subparagraph formerly read:

"(ii) the estimated remaining quantity of timber that is in the limit or that the taxpayer has a right to cut, as the case may be, (expressed in cords or board feet) at the commencement of the year."

Interpretation Bulletins: *Secondary* — IT-481 (Consolid.) Timber resource property and timber limits.

SCHEDULE VII

Publicly-Traded Shares or Securities*

Column 1	Column 2	
A-1 Steel & Iron Foundry (Vancouver) Ltd.	Cl A.	6.75
A-1 Steel & Iron Foundry (Vancouver) Ltd.	Cl B.	6.50
Aabro Mining & Oils Ltd.	Com.	
Abbey Life Insurance Company of Canada	Com.	
Abcourt Metals Inc.	Com.	.28
Aberdeen Minerals Ltd.	Com.	
Abeta Mining Corp. Ltd.	Com.	.05
Abex Mines Ltd.	Com.	.01
Abino Gold Mines Ltd.	Com.	.03
Abitibi Asbestos Mining Co. Ltd.	Com.	1.75
Abitibi Copper Mines Ltd.	Com.	.13
Abitibi Paper Co. Ltd.	Com.	7.25
Abitibi Paper Co. Ltd.	7 1/2 pc cu A pr.	49.50
Abstainers Insurance Co.	Com.	11.00
Acadia Uranium Mines Ltd.	Com.	.06
Accra Explorations Limited	Com.	.07
Accurate Calculations Ltd.	Com.	1.13
Acheron Mines Ltd.	Com.	.16
Acklands Limited	Com.	7.50
Acklands Limited	6 pc cu pr.	15.75
Acklands Limited	6 pc cu cv 2nd pr.	11.25
Acme Gas & Oil Co. Ltd.	Com.	.22
Aconic	Com.	.02
Acres Limited	Com.	11.63
Acres Limited	7.20 pc A pr.	40.00
Acres Limited	Wt.	2.40
Acroll Oil & Gas Ltd.	Com.	.63
Adanac Mining & Exploration Ltd.	Com.	.46
Adera Mining Limited	Com.	.33
Admiral Corporation	Com.	18.50
Admiral Mines Limited	Com.	.15
Advance Red Lake Gold Mines Ltd.	Com.	.04
Advocate Mines Ltd.	Com.	1.80
Aetna Investment Ltd.	Com.	.85
Afton Mines Limited	Com.	1.21
A.G.F. Management Ltd.	Cl B pr.	5.75
AGF Special Fund Ltd.	Com.	3.00
Agressive Mining Limited	Com.	.11
Agnico Mines Ltd.	Com.	1.98
Agra Industries Ltd.	Com.	9.63
AGT Data Systems Ltd.	Com.	1.00
AHED Music Corp. Ltd.	Com.	4.70
Aiken-Russet Red Lake Mines Ltd.	Com.	.07
Aimco Industries Ltd.	Com.	16.00
A.I.S. Resources Ltd.	Com.	5.90
Ajax Mercury Mines Ltd.	Com.	.11
Ajax Minerals Limited	Com.	.23
Akaitcho Yellowknife Gold Mines Ltd.	Com.	.45
Alakon Metals Limited	Com.	.06
Albany Oil and Gas Ltd.	Com.	.45
Albarmont Mines Corporation	Com.	.27
Albatros Gold Mines Ltd.	Com.	
Alberta Copper Resources Ltd.	Com.	.40
Alberta Eastern Gas Ltd.	Com.	5.45
Alberta Gas Trunk Line Co. Ltd.	Com.	49.75
Alberta Gas Trunk Line Co. Ltd.	4 3/4 pc cu C pr.	76.00
Alberta Gas Trunk Line Co. Ltd.	5 3/8 pc cu cvD pr.	138.00
Alberta Gypsum Ltd.	Com.	.15
Alberta Natural Gas Co. Ltd.	Com.	20.00
Alcan Aluminium Ltd.	Com.	18.88
Alcan Aluminium Ltd.	4 1/4 pc cu cv pr.	26.75
Alchib Development Ltd.	Com.	.45
Alcor Minerals Limited	Com.	.12
Alexander Red Lake Mines Ltd.	Com.	.03
Algoma Central Railway Co.	Com.	8.25
Algoma Steel Corp. Ltd. The	Com.	13.38
Algonquin Building Credits Ltd.	Com.	4.05
Algonquin Building Credits Ltd.	6 pc cu pr.	4.00
Alice Arm Mining Ltd.	Com.	.11
Alice Lake Mines Limited	Com.	.23
Alina Mines & Oils Ltd.	Com.	.80
Aljo Mines Ltd.	Com.	
Allarco Developments Inc.	Com.	4.80
All Canadian-American Investments Limited	Com.	.55
All-Can Holdings Ltd.	Cl A.	
All-Can Holdings Ltd.	Cl B.	

Column 1	Column 2	
Allcop Mines Ltd.	Com.	.02
Alliance Building Corp. Ltd.	Com.	3.20
Alliance Building Corp. Ltd.	7 pc cu cv A pr.	7.00
Allied Mining Corp.	Com.	3.25
Allied Roxana Minerals Limited	Com.	.65
Allied Telemedia Ltd.	Com.	.03
Alminex Ltd.	Com.	5.35
Alscope Consolidated Ltd.	Com.	1.25
Altair Mining Corp. Limited	Com.	.10
Aluminum Co. of Canada Ltd.	4 pc cu 1st pr.	18.00
Aluminum Co. of Canada Ltd.	4 1/2 pc cu 2nd pr.	36.13
Alvija Mines Ltd.	Com.	.07
Alwin Mining Co. Ltd.	Com.	.64
Amalgamated Beau Belle Mines Ltd.	Com.	.04
Amalgamated Kirkland Mines Ltd.	Com.	
Amalgamated Larder Mines Ltd.	Com.	.49
Amalgamated Properties Ltd.	Com.	.70
Amalgamated Rare Earth Mines Ltd.	Com.	.07
Amalgamated Resources Ltd.	Com.	.03
Amalta Oils & Minerals Ltd.	Com.	.13
Ambassador Development Corp. of Canada Ltd.	Com.	.70
Ambassador Mines Ltd.	Com.	.09
Amber Resources Ltd.	Com.	.30
Ameranium Mines Ltd.	Com.	.06
Americ Mines Ltd.	Com.	.17
American Chibougamau Mines Ltd.	Com.	
American Copper & Smelting Ltd.	Com.	
American Eagle Petroleums Ltd.	Com.	.75
American Leduc Petroleums Ltd.	Com.	.09
American Metropolitan Enterprises Ltd.	Com.	1.15
American Quasar Petroleum Co.	Com.	4.80
American Uranium Limited	Com.	
Amigo Mines Ltd.	Com.	.06
Anaconda Petroleum Limited	Com.	
Anchor Mines Limited	Com.	.23
Anchor Petroleums Ltd.	Com.	.04
Andacollo Mining Co. Ltd.	Com.	
Andex Mines Ltd.	Com.	.30
Angelus Petroleums 1965 Ltd.	Com.	.23
Anglo American Nickel Mining Corp. Ltd.	Com.	
Anglo-Bomarc Mines Limited	Com.	.60
Anglo-Canadian Pulp & Paper Mills Ltd.	Com.	4.70
Anglo-Canadian Pulp & Paper Mills Ltd.	4 1/2 pc cu cv pr.	14.00
Anglo-Canadian Telephone Co.	4 1/2 pc cu pr.	30.75
Anglo-Canadian Telephone Co.	$2.65 cu pr.	34.00
Anglo-Canadian Telephone Co.	$2.90 cu pr.	38.00
Anglo-Canadian Telephone Co.	$3.15 cu pr.	42.63
Anglo-Permanent Corporate Holdings Limited	Com.	13.50
Anglo-Rouyn Mines Ltd.	Com.	.32
Anglo United Development Corp. Ltd.	Com.	.71
Anglo Western Minerals Ltd.	Com.	.17
Angot Group Limited, The	Com.	1.00
Annmar Mining Limited	Com.	.05
Ansil Mines Ltd.	Com.	.01
Anthes Imperial Limited	5 1/2 pc cu A 1st pr.	
Anthes Imperial Limited	5 1/2 pc cu B 1st pr.	80.00
Anthes Imperial Limited	5 1/4 pc cu C 1st pr.	80.00
Anthonian Mining Corp. Ltd.	Com.	.03
Anthony Gas & Oil Explorations Ltd.	Com.	1.43
Antoine Silver Mines Ltd.	Com.	.04
Anuk River Mines Ltd.	Com.	.25
Anuwon Uranium Mines Ltd.	Com.	.02
Aquablast Incorporated	Com.	3.65
Aquacare International Ltd.	Com.	
Aquitaine Co. of Canada Ltd.	Com.	24.50
Arcadia Explorations Ltd.	Com.	.11
Arctic Gold & Silver Mines Ltd.	Com.	.09
Arctic Yellowknife Mines Ltd.	Com.	.03
Ardel Explorations Limited	Com.	.08
Ardo Mines Ltd.	Com.	.16
Ardo Mines Ltd.	B wt.	
Argosy Mining Corp. Ltd.	Com.	.45
Argus Corporation Limited	Com.	13.00
Argus Corporation Limited	$2.50 cu A pr.	32.00
Argus Corporation Limited	$2.60 cu A pr.	34.13
Argus Corporation Limited	$2.70 cu B pr.	35.75

* Prices at Valuation Day — December 22, 1971.

Column 1	Column 2	
Argus Corporation Limited	C pr.	9.75
Arjon Gold Mines Ltd.	Com.	.01
Arlington Silver Mines Ltd.	Com.	.17
Armore Mines Ltd.	Com.	.14
Arno Mines Ltd.	Com.	.04
Arrowhead Gold Mines Ltd.	Com.	.01
Asamera Oil Corporation Ltd.	Com.	18.50
Asbestos Corporation Ltd.	Com.	25.50
Ascopex Explorations Ltd.	Com.	
Aselo Industries Ltd.	Com.	.13
Ashland Oil Canada Ltd.	Com.	11.88
Ashland Oil Canada Ltd.	6 pc cu cv pr.	29.50
Ashland Oil Inc.	Com.	20.38
Aspen Grove Mines Ltd.	Com.	.10
Associated Porcupine Mines Ltd.	Com.	.32
Astonish Lake Uranium Mining Corp. Ltd.	Com.	
Astrabrun Mines Ltd.	Com.	.03
Astral Communications Ltd.	Com.	1.97
Atco Industries Ltd.	Com.	8.13
Athabasca Columbia Resources Ltd.	Com.	1.65
Athena Mines Limited	Com.	.08
Atlanta Mines Ltd.	Com.	
Atlantic Coast Copper Corp. Ltd.	Com.	.46
Atlantic Nickel Mines Ltd.	Com.	.22
Atlantic Richfield Co.	Com.	64.13
Atlantic Sugar Refineries Co. Limited	Com.	6.38
Atlantic Sugar Refineries Co. Limited	A cu pr.	15.00
Atlantic Sugar Refineries Co. Limited	5 pc cu pr.	62.38
Atlantic Sugar Refineries Co. Limited	Wt.	1.40
Atlantic Trust Company	Com.	
Atlantic Tungsten Corp. Ltd.	Com.	.17
Atlas Explorations Limited	Com.	.32
Atlas Yellowknife Mines Ltd.	Com.	.05
Attila Resources Ltd.	Com.	1.13
Augdome Corp. Ltd.	Com.	.19
Augmitto Explorations Ltd.	Com.	
August Porcupine Gold Mines Ltd.	Com.	.02
Aunor Gold Mines Ltd.	Com.	2.30
Auscan Mining and Oil Corporation Limited	Com.	.90
Austin Investment Corp. Ltd.	Com.	.41
Auto Electric Services Co. Ltd.	Com.	6.00
Auto Marine Electric Ltd.	Com.	
Auto Marine Electric Ltd.	Pr.	.40
Automotive Hardware Limited	Com.	7.25
Autotelic Industries Ltd.	Com.	.65
Ava Gold Mining Co. Ltd.	Com.	
Avco Corporation	Com.	
Avilla International Explorations Ltd.	Com.	.28
Avino Mines & Resources Limited	Com.	.33
Avoca Mines Canada Ltd.	Com.	.65
Babine International Resources Ltd.	Com.	.14
Bahamas-Caribbean Development Corporation Limited	Com.	.16
Baker Talc Ltd.	Com.	.42
Balco Forest Products Ltd.	Com.	8.25
Bald Mountain Oil Co.	Com.	.03
Baldwin Consolidated Mines Ltd.	Com.	.01
Ballinderry Explorations Limited	Com.	.90
Bamboo Creek Gold Mines Ltd.	Com.	.80
Banco Finance Limited	Cl B	
Bancroft Uranium Mines Ltd.	Com.	
Band-Ore Gold Mines Ltd.	Com.	.05
Bankeno Mines Ltd.	Com.	6.40
Bankfield Consolidated Mines Ltd.	Com.	.02
Bank of British Columbia	Com.	22.25
Bank of Montreal	Com.	18.50
Bank of Nova Scotia	Com.	31.13
Banner Porcupine Mines Ltd.	Com.	
Banque Canadienne Nationale	Com.	14.00
La Banque Provinciale du Canada	Com.	13.75
Bantam Mining Ltd.	Com.	.40
Barber-Ellis of Canada Ltd.	Com.	13.50
Barber Oil Corporation	Com.	48.50
Barbi Lake Copper Mines Ltd.	Com.	.15
Barcelona Traction Light & Power Co.	Com.	.20
Barclay Resources Ltd.	Com.	
Barex-Trust, The	Com.	.20
Barima Minerals Ltd.	Com.	.01
Barons Oil Limited	Com.	.05
Barrington Exploration Corp. Ltd.	Com.	.07
Bartaco Industries Limited	Com.	4.50
Barvallee Mines Ltd.	Com.	
Barymin Explorations Ltd.	Com.	1.20
Base Metals Mining Corp. Ltd.	Com.	.01

Column 1	Column 2	
Bashaw Leduc Oil & Gas Limited	Com.	.05
Basic Resources International Limited	Com.	3.30
Baslen Petroleums Ltd.	Com.	.07
Bateman Bay Mining Co.	Com.	.06
Bathurst Norsemines Ltd.	Com.	.85
Bathurst Norsemines Ltd.	A wt.	
Bathurst Paper Ltd.	5¼ pc cu 1963 pr.	6.75
Baton Broadcasting Ltd.	Com.	14.88
Bay Mills Ltd.	Com.	1.34
Bay Mills Ltd.	6 pc cu A 1st pr.	3.05
B.C. Turf Limited	Com.	4.00
Beacon Mining Co. Ltd.	Com.	.05
Bear International Industries Ltd.	Com.	.19
Beattie-Duquesne Mines Ltd.	Com.	.04
Beauce Placer Mining Co. Ltd.	Com.	.01
Beaumont Resources Limited	Com.	.09
Beauport Holdings Ltd.	Com.	.36
Beaver Engineering Ltd.	Com.	6.50
Beaver Lumber Co. Ltd.	Com.	19.50
Beaver Lumber Co. Ltd.	Cl A.	19.38
Beaver Lumber Co. Ltd.	$1.40 cu pr.	21.00
Becker Milk Co. Ltd.	Cl B pr.	10.00
Bel-Air Mining Ltd.	Com.	.92
Belcarra Explorations Ltd.	Com.	
Belding-Corticelli Limited	Com.	10.25
Belding-Corticelli Limited	7 pc cu pr.	10.34
Belding-Corticelli Limited	Wt.	2.80
Belgium Standard Ltd.	Com.	15.50
Belgium Standard Ltd.	5 pc cu pr.	
Bell Canada	Com.	46.88
Bell Canada	$3.20 cu cv pr.	52.38
Bell Canada	$3.34 cu cv cl B pr.	53.88
Bellechasse Mining Corp. Ltd.	Com.	.04
Belleterre Quebec Mines Ltd.	Com.	.15
Bellex Mines Ltd.	Com.	.02
Bell Knit Industries Ltd.	Com.	.88
Bell Molybdenum Mines Ltd.	Com.	.14
Belore Mines Ltd.	Com.	.16
Belra Explorations Ltd.	Com.	
Benson Mines Limited	Com.	.14
Berkley Hotel	Com.	1.75
Berncam International Industries Ltd.	Com.	6.13
Bethlehem Copper Corporation Ltd.	Com.	18.00
Betrust Investment Corporation Ltd.	Com.	16.50
Betrust Investment Corporation Ltd.	5¾ pc cu A pr.	
Big I Mines Ltd., The	Com.	
Big Jackpot Mines Ltd.	Com.	.01
Big Long Lac Gold Mining Co. Ltd.	Com.	.01
Big Nama Creek Mines Ltd.	Com.	.09
Big Town Copper Mines Ltd.	Com.	
Bilmac Gold Mines Ltd.	Com.	
Biltmore Hats Limited	Com.	13.00
Biltmore Hats Limited	Cl A cu pr.	10.50
Bio-Millet Laboratories	Com.	
Bird Construction Co. Ltd.	Com.	57.50
Bird River Mines Co. Ltd.	Com.	.65
Biroco Kirkland Mines Ltd.	Com.	.01
Biron Bay Gold Mines Ltd.	Com.	.23
Bison Petroleum & Minerals Ltd.	Com.	9.10
Black Bay Uranium Ltd.	Com.	
Black Cricket Mines Ltd.	Com.	.60
Black Giant Mines Ltd.	Com.	.30
Black Hawk Mining Ltd.	Com.	.50
Black Photo Corporation Ltd.	Com.	4.85
Blackwater Mines Ltd.	Com.	.30
Block Bros. Industries Ltd.	Com.	3.00
Block Bros. Industries Ltd.	A wt.	5.00
Block Bros. Industries Ltd.	B wt.	
Blue Bonnets Raceway Inc.	Com.	2.05
Blue Grass Uranium Mines Ltd.	Com.	.01
Blue Gulch Explorations Limited	Com.	.48
Blue Star Mines Limited	Com.	.06
Bluewater Oil & Gas Ltd.	Com.	.90
Bochawna Copper Mines Ltd.	Com.	
Bock & Frère Ltée	6¾ pc cu pr.	
Boise Yellowknife Mines Ltd.	Com.	
Bombardier Limited	Cl A.	9.50
Bonanza Explorations Ltd.	Com.	
Bonnet Plume River Mines Ltd.	Com.	.15
Bon-Val Mines Ltd.	Com.	.44
Boraway Mines Ltd.	Com.	.11
Border Chemical Company Limited	Com.	10.38
Bordun Mining (Quebec) Limited	Com.	.30
Borealis Exploration Ltd.	Com.	.30

Column 1	Column 2	
Borealis Exploration Ltd.	Wt.	
Boswell River Mines Ltd.	Com.	.22
Boundary Exploration Ltd.	Com.	.14
Bounty Exploration Ltd.	Com.	.13
Bourbeau Lake Mines Ltd.	Com.	.02
Bourlamaque Central Mines 1945 Ltd.	Com.	.02
Bovis Corporation Ltd.	Com.	1.90
Bowater Paper Corporation Ltd.	Com.	4.65
Bowaters Mersey Paper Company Ltd.	5½ pc cu pr.	32.00
Bowes Co. Ltd.	Com.	12.50
Bow Valley Industries Ltd.	Com.	28.38
Bow Valley Industries Ltd.	5½ pc cu A pr.	14.25
BP Canada Ltd.	5 pc pr.	75.00
BP Oil & Gas Limited	Com.	6.20
Bracemac Mines Ltd.	Com.	.03
Bralorne Can-Fer Resources Ltd.	Com.	1.75
Bralorne Oil & Gas Ltd.	Com.	2.25
Bralsaman Petroleums Ltd.	Com.	3.25
Bramalea Consolidated Development Ltd.	Com.	3.45
Bramalea Consolidated Development Ltd.	Wt.	2.10
Brameda Resources Limited	Com.	.92
Braminco Mines Ltd.	Com.	.03
Brandy Brook Mines Ltd.	Com.	.10
Brascan Limited	Com.	18.50
Brenda Mines Limited	Com.	4.55
Brenmac Mines Limited	Com.	.38
Brettland Mining Ltd.	Com.	
Brett Oils Limited	Com.	.23
Brewster Lake Mines Limited	Com.	.60
Briarcourt Mines Ltd.	Com.	.11
Bridge Hill Mines Limited	Com.	.38
Bridge & Tank Co. of Canada Ltd.	Com.	4.50
Bridge & Tank Co. of Canada Ltd.	$2.90 cu pr.	32.25
Bright & Co. Ltd. T.G.	Com.	16.00
Bright Red Lake Mines Ltd.	Com.	.01
Bright Star Trio Mining Ltd.	Com.	1.10
Brilund Mines Ltd.	Com.	8.00
Brinco Ltd.	Com.	5.63
British American Bank Note Co. Ltd.	Com.	13.00
British Columbia Forest Products Ltd.	Com.	19.75
British Columbia Forest Products Ltd.	6 pc cu pr.	41.50
British Columbia Oil Lands Limited	Com.	7.50
British Columbia Packers Ltd.	Cl A.	20.00
British Columbia Packers Ltd.	Cl B.	19.50
British Columbia Sugar Refinery Ltd.	Com.	19.38
British Columbia Sugar Refinery Ltd.	5 pc cu pr.	17.00
British Columbia Telephone Co.	Com.	63.75
British Columbia Telephone Co.	4⅜ pc cu pr.	63.00
British Columbia Telephone Co.	4½ pc cu pr.	63.00
British Columbia Telephone Co.	4¾ pc C pr.	66.50
British Columbia Telephone Co.	4¾ pc 1956 cu D pr.	66.00
British Columbia Telephone Co.	4.84 pc cu pr.	17.50
British Columbia Telephone Co.	5.15 pc cu pr.	71.50
British Columbia Telephone Co.	5¾ pc cu pr.	80.50
British Columbia Telephone Co.	6 pc cu pr.	84.50
British Columbia Telephone Co.	6 pc cu 2nd pr.	82.00
British Columbia Telephone Co.	6.80 pc cu pr.	26.50
British Controlled Oilfields Ltd.	Com.	.20
British International Finance Canada Ltd.	Cl A.	
British Matachewan Gold Mines Ltd.	Com.	
Broken Hill Explorations Ltd.	Com.	.08
Brooke Bond Foods Ltd.	4.16 pc cu pr.	19.50
Brosnan Canadian Mines Ltd.	Com.	
Broulan Reef Mines Ltd.	Com.	.23
Brown-McDade Mines Ltd.	Com.	.10
Bruck Mills Ltd.	Cl A.	15.00
Bruck Mills Ltd.	Cl B.	8.00
Bruneau Mining Corporation 1970	Com.	.11
Brunswick Mining & Smelting Corp. Ltd.	Com.	3.05
Brycon Industries Ltd.	Com.	.18
Buchanan Mines Limited	Com.	.15
Buckeye Explorations Ltd.	Com.	.35
Budd Automotive Co. of Canada Ltd.	Com.	6.63
Budd Automotive Co. of Canada Ltd.	Wt.	2.40
Buffalo Gas & Oil Corporation Limited	Com.	1.05
Buffalo Lake Mines Ltd.	Com.	
Bullion Mountain Mining Ltd.	Com.	.65
Bullion Mountain Mining Ltd.	A wt.	
Bunker Hill Extension Mines Ltd.	Com.	.05
Burlington Mines & Enterprises Ltd.	Com.	
Burns Foods Limited	Com	12.75
Burnt Hill Tungsten & Metallurgical Ltd.	Com.	.18
Burrard Dry Dock Co. Ltd.	Com.	7.00

Column 1	Column 2	
Burrard Mortgage Investments Ltd.	Com.	1.90
Burrex Mines Limited	Com.	.04
Bushnell Communications Limited	Com.	6.00
Buval Executive Mining Industries Ltd.	Com.	.40
Cable Copper Mines Limited	Com.	
Cabot Corporation	Com.	
Cadillac Development Corp. Ltd.	Com.	8.38
Cadillac Development Corp. Ltd.	6½ pc cu B pr.	20.25
Cadillac Explorations Ltd.	Com.	1.30
CAE Industries Ltd.	Com.	4.65
Calcorp Resources Ltd.	Com.	.14
Caledon Mountain Estates Ltd.	Com.	4.50
Calgary Power Ltd.	Com.	27.25
Calgary Power Ltd.	4 pc cu pr.	
Calgary Power Ltd.	$5.00 cu pr.	69.00
Calgary Power Ltd.	$5.40 cu cv pr.	91.00
Calico Silver Mines Ltd.	Com.	.18
Caliper Developments Limited	Com.	.75
Calix Mines Ltd.	Com.	.05
Calmark Industries Ltd.	Com.	
Calmor Iron Bay Mines Ltd.	Com.	.50
Calta Mines Limited	Com.	1.02
Calvert-Dale Estates Ltd.	Com.	.82
Calvert Gas & Oils Ltd.	Com.	.14
Cambridge Leaseholds Limited	Com.	11.50
Cambridge Mines Limited	Com.	.38
Cambridge Mining Corp. Ltd.	Com.	.02
Camdeck Mines Ltd.	Com.	.15
Camflo Mines Limited	Com.	2.51
Camindex Mines Ltd.	Com.	.13
Camlaren Mines Ltd.	Com.	.08
Cam Mines Ltd.	Com.	.30
Campbell Chibougamau Mines Ltd.	Com.	4.70
Campbell Red Lake Mines Ltd.	Com.	21.50
Campeau Corporation Ltd.	Com.	3.50
Canada & Dominion Sugar Co. Ltd.	Com.	32.50
Canada Cement Lafarge Ltd.	Com.	46.63
Canada Cement Lafarge Ltd.	6½ pc cu pr.	19.75
Canada Forgings Ltd.	Com.	4.50
Canada Geothermal Oil Ltd.	Com.	.68
Canada Machinery Corporation Ltd.	Com.	19.00
Canada Malting Co. Limited	Com.	26.00
Canada Malting Co. Limited	B pr.	.89
Canada Northwest Land Limited	Com.	1.50
Canada Packers Ltd.	Com.	18.50
Canada Permanent Mortgage Corporation	Com.	18.00
Canada Safeway Limited	$4.40 cu pr.	82.50
Canada Southern Petroleum Ltd.	Com.	6.20
Canada Southern Petroleum Ltd.	Wt.	3.10
Canada Steamship Lines Ltd.	Com.	40.00
Canada Steamship Lines Ltd.	5 pc cu pr.	5.13
Canada Tungsten Mining Corp. Ltd.	Com.	1.55
Canada Western Cordage Company Ltd.	Cl A.	
Canada Western Cordage Company Ltd.	Cl B.	
Canadex Mining Corp. Ltd.	Com.	.13
Canadian Allied Property Investments Limited	Com.	7.00
Canadian All-Metal Explorations Ltd.	Com.	
Canadian Arena Co.	Com.	15.00
Canadian Arrow Mines Limited	Com.	.14
Canadian Barranca Corp. Ltd.	Com.	.22
Canadian Bonanza Petroleums Ltd.	Com.	1.30
Canadian Breweries Limited	Com.	7.50
Canadian Breweries Limited	$2.20 cu A pr.	32.00
Canadian Breweries Limited	$2.65 cu B pr.	36.50
Canadian Cablesystems Ltd.	Com.	14.13
Canadian Cablesystems Ltd.	Wt.	2.25
Canadian Canners Ltd.	Cl A.	6.50
Canadian Converters Co. Ltd.	Cl A.	2.00
Canadian Converters Co. Ltd.	Cl B.	
Canadian Corporate Management Company Limited	Com.	16.00
Canadian Corporate Management Company Limited	Cl B.	
Canadian Curtiss-Wright Ltd.	Com.	.70
Canadian Delhi Oil Limited	Com.	5.00
Canadian Equity & Development Company Limited	Com.	12.00
Canadian Export Gas & Oil Ltd.	Com.	3.60
Canadian Food Products Ltd.	Com.	5.20
Canadian Food Products Ltd.	6 pc cu 1st pr.	32.50
Canadian Food Products Ltd.	6 pc cv 2nd pr.	32.00
Canadian & Foreign Securities Co. Ltd.	Com.	
Canadian Fortune Oil Limited	Com.	
Canadian Foundation Co. Ltd.	Com.	6.00

Column 1	Column 2	
Canadian Foundation Co. Ltd.	6 pc cu A pr.	7.75
Canadian Gas & Energy Fund Ltd.	B wt.	7.25
Canadian General Electric Company Ltd.	Com.	22.50
Canadian General Electric Company Ltd.	Cu cv pr.	26.00
Canadian General Investments Ltd.	Com.	66.00
Canadian General Securities Limited	Cl A.	12.75
Canadian General Securities Limited	Cl B.	30.00
Canadian Goldale Corp. Ltd.	Com.	3.50
Canadian Hidrogas Resources Ltd.	Com.	.72
Canadian Homestead Oils Limited	Com.	8.60
Canadian Homestead Oils Limited	6 pc cu cv pr.	17.00
Canadian Hydrocarbons Ltd.	Com.	13.88
Canadian Hydrocarbons Ltd.	5½ pc cu A pr.	14.00
Canadian Imperial Bank of Commerce	Com.	25.75
Canadian Industrial Gas & Oil Ltd.	Com.	9.13
Canadian Industrial Gas & Oil Ltd.	5½ pc cu cv pr.	21.50
Canadian Industries Ltd.	Com.	13.88
Canadian Industries Ltd.	7½ pc cu pr.	52.50
Canadian International Investment Trust Ltd.	Com.	32.00
Canadian International Investment Trust Ltd.	5 pc cu pr.	
Canadian International Power Company Ltd.	Com.	22.50
Canadian International Power Company Ltd.	5.20 pc 1965 cu. pr.	13.50
Canadian Interurban Properties Limited	Com.	2.00
Canadian Interurban Properties Limited	7 pc cu cv A pr.	7.75
Canadian Jamieson Mines Ltd.	Com.	1.25
Canadian Javelin Limited	Com.	9.60
Canadian Keeley Mines Ltd.	Com.	.05
Canadian Leisure Industries Ltd.	Com.	.06
Canadian Lencourt Mines Ltd.	Com.	.07
Canadian Long Island Petroleums Ltd.	Com.	.65
Canadian Magnesite Mines Ltd.	Com.	.31
Canadian Malartic Gold Mines Ltd.	Com.	.27
Canadian Manoir Industries Limited	Com.	3.35
Canadian Manoir Industries Limited	6 pc cu pr.	
Canadian Marconi Company	Com.	3.05
Canadian Merrill Ltd.	Com.	4.75
Canadian Nistro Mines Ltd.	Com.	.09
Canadian Occidental Petroleum Ltd.	Com.	9.13
Canadian Pacific Investments Limited	Com.	12.00
Canadian Pacific Investments Limited	4¾ pc cv A pr.	24.50
Canadian Pacific Investments Limited	Wt.	3.05
Canadian Pacific Limited	Ordinary	13.88
Canadian Pacific Limited	4 pc pr Canadian unit	9.63
Canadian Pacific Limited	4 pc pr United Kingdom unit	7.75
Canadian Pacific Limited	7¼ pc A pr.	10.75
Canadian Provident, The	Com.	
Canadian Refractories Ltd.	Com.	
Canadian Reserve Oil & Gas Ltd.	Com.	5.60
Canadian Reynolds Metals Co. Limited	Pr.	
Canadian Salt Co. Ltd.	Com.	15.00
Canadian Scenic Oils Ltd.	Com.	.80
Canadian Security Management Ltd.	Cl A.	1.25
Canadian Southern Cross Mines (No Liability)	Com.	
Canadian Superior Oil Ltd.	Com.	43.25
Canadian Tire Corp. Ltd.	Com.	40.25
Canadian Tire Corp. Ltd.	Cl A.	35.38
Canadian Tricentrol Oils Ltd.	Com.	14.63
Canadian Union Insurance Company	Com.	
Canadian Utilities Limited	Com.	37.25
Canadian Utilities Limited	4¼ pc cu pr.	57.25
Canadian Utilities Limited	5 pc cu pr.	66.50
Canadian Utilities Limited	6 pc cu pr.	78.75
Canadian Utilities Limited	Wt.	8.50
Canadian Vickers Ltd.	Com.	9.25
Canadian Wallpaper Manufacturers Ltd.	Com.	85.50
Canadian Western Natural Gas Company Limited	Com.	21.00
Canadian Western Natural Gas Company Limited	4 pc cu pr.	11.50
Canadian Western Natural Gas Company Limited	5½ pc cu pr.	15.00
Canadore Mining & Development Corp.	Com.	.10
Can-American Natural Resources Ltd.	Com.	
Can-American Petroleums Ltd.	Com.	
Canarctic Resources Ltd.	Com.	.27
Can-Base Industries Ltd.	Com.	.18
Canbridge Oil Explorations Ltd.	Com.	1.50
Can-Con Enterprises & Explorations Ltd.	Com.	.10
Candida Holdings Naamloze Vennootschap	Com.	16.75
Candore Explorations Ltd.	Com.	.04
Candy Mines & Investments Ltd.	Com.	.12
Caneonti Mines Ltd.	Com.	.01
Cannon Mines Limited	Com.	.07
Canol Metal Mines Ltd.	Com.	.02
Canol Mines Limited	Com.	.25
Canron Ltd.	Com.	19.38
Canron Ltd.	4¼ pc cu cv pr.	70.00
Canterra Development Corp. Ltd.	Com.	1.00
Cantol Ltd.	Com.	3.40
Cantrend Industries Ltd.	Cl A.	
Cantrend Industries Ltd.	Cl B.	
Canuc Mines Limited	Com.	.30
Canyon City Explorations Ltd.	Com.	.05
C-A Petroleums Ltd.	Com.	
Capital Diversified Industries Ltd.	Com.	.59
Capital Diversified Industries Ltd.	A wt.	.15
Capital Dynamics Ltd.	Com.	1.80
Capital Dynamics Ltd.	Wt.	.03
Capital Estates Inc.	Com.	
Capri Mining Corporation Ltd.	Com.	.14
Caprive Industries & Resources Limited	Com.	.09
Captain International Industries Limited	Com.	6.00
Captain Mines Limited	Com.	.11
Cara Operations Ltd.	Com.	4.60
Caravelle Mines Ltd.	Com.	.11
Card Lake Copper Mines Ltd.	Com.	.10
Cardwell Resources Limited	Com.	.15
Cariboo-Bell Copper Mines Limited	Com.	.25
Cariboo Gold Quartz Mining Co. Ltd.	Com.	.95
Carling Copper Mines Ltd.	Com.	.20
Carlson Mines Ltd.	Com.	
Carlton Cleaning Carousels Ltd.	Com.	.25
Carndesson Mines Ltd.	Com.	
Carnegie New Mining Corp. Ltd.	Com.	
Carolin Mines Limited	Com.	.20
Carrier Shoe Co. Ltd. J.D.	Com.	6.63
Carrier Shoe Co. Ltd. J.D.	Wt.	3.25
Carroll & Reed Ltd.	Com.	
Carter J. B. Ltd.	Cl A.	10.12
Carter J. B. Ltd.	Cl B.	60.00
Cartier Quebec Explorations Ltd.	Com.	.10
Casavant Brothers Limited	Cl A.	1.00
Cascade Molybdenum Mines Ltd.	Com.	.23
Casino Silver Mines Ltd.	Com.	.55
Cassiar Asbestos Corporation Limited	Com.	18.63
Cassiar Consolidated Mines Ltd.	Com.	.10
Cassidy's Ltd.	Com.	4.35
Cassidy's Ltd.	6¼ pc cu cv A 1st pr.	8.75
Castlebar Silver & Cobalt Mines Ltd.	Com.	.06
Castle Oil and Gas Limited	Com.	1.40
C & C Yachts Ltd.	Com.	2.50
CDP Computer Data Processors Ltd.	Com.	1.30
CDRH Limited	Com.	5.88
Cedarvale Mines Ltd.	Com.	.35
Celtic Minerals Ltd.	Com.	.79
Centex Mines Ltd.	Com.	.12
Central Dynamics Limited	Com.	.90
Central Fund of Canada Ltd.	Cl A.	6.25
Central Ontario Savings & Loan Corp.	Com.	8.00
Central Patricia Gold Mines Ltd.	Com.	1.70
Central Trust Company of Canada, The	Com.	13.75
Centura Mining Ltd.	Com.	.36
Cessland Corp. Ltd.	Com.	.28
CFTO-TV Limited	Com.	
CGC Mines Ltd.	Com.	
Chance Mining & Exploration Co. Ltd.	Com.	
Chapparal Mines Limited	Com.	.16
Charter Industries Ltd.	Com.	1.30
Charter Oil Company Ltd.	Com.	6.00
Chataway Exploration Co. Ltd.	Com.	.17
Chateau-Gai Wines Ltd.	Com.	16.88
Chemalloy Mineral Ltd.	Com.	2.06
Chemcell Ltd.	Com.	4.35
Chemcell Ltd.	$1.00 cu pr.	12.50
Chemcell Ltd.	$1.75 cu pt pr.	19.75
Chesbar Iron Powder Limited	Com.	2.00
Chesbar Iron Powder Limited	Wt.	.40
Chesterville Mines Limited	Com.	.10
Chibex Mining Corp.	Com.	.38
Chib-Kayrand Copper Mines Ltd.	Com.	.05
Chibougamau Mining & Smelting Co. Inc.	Com.	.29
Chiboug Copper Corp. Ltd.	Com.	.18
Chieftain Development Company Ltd.	Com.	8.10
Chimo Gold Mines Ltd.	Com.	1.20
Chinook Shopping Centre Limited	Com.	3.00

Column 1	Column 2	
Chipman Mining & Energy Corp. Ltd.	Com.	.40
Choiceland Iron Mines Ltd.	Com.	.25
Chromex Nickel Mines Ltd.	Com.	.18
Chromium Mining & Smelting Corporation Limited	Com.	1.75
Chrysler Corporation	Com.	29.75
Chukuni Gold Mines Ltd.	Com.	.04
CHUM Limited	Com.	5.50
CHUM Limited	Cl B.	8.50
Churchill Copper Corporation Ltd.	Com.	.75
Cicada Mines Ltd.	Com.	.03
Cimco Limited	Cl A.	12.06
Cincinnati-Porcupine Mines Ltd.	Com.	.02
Cinola Mines Ltd.	Com.	.08
Citadel Mines Ltd.	Com.	.04
Citex Mines Ltd.	Com.	.05
Cities Service Company	Com.	
City Associated Enterprises Ltd.	Cl B.	.70
Clairtone Sound Corporation Limited	Com.	
Clarepine Development Ltd.	Com.	.20
Clark Canadian Exploration Co.	Com.	3.75
Clavos Porcupine Mines Ltd.	Com.	.02
Claw Lake Molybdenum Mines Ltd.	Com.	.03
Clearwater Mines Ltd.	Com.	.15
Clero Mines Ltd.	Com.	.06
Cleveland Mining & Smelting Co.	Com.	.05
Clicker Red Lake Mines Ltd.	Com.	
Clinger Gold Mines Ltd.	Com.	.02
Coast Copper Company Limited	Com.	3.00
Coast Interior Ventures	Com.	.75
Coast Silver Mines Ltd.	Com.	.14
Cochenour Willans Gold Mines Ltd.	Com.	.21
Cochrane-Dunlop Hardware Ltd.	Com.	35.00
Cochrane-Dunlop Hardware Ltd.	Cl A.	30.50
Cockfield Brown & Company Limited	Com.	6.00
Codville Distributors Ltd.	Cl A.	3.75
Coin Canyon Mines Ltd.	Com.	
Coin Canyon Mines Ltd.	A wt.	
Coin Lake Gold Mines Ltd.	Com.	.09
Coleman Collieries Ltd.	Cl A.	7.00
Coleman Collieries Ltd.	Cl B.	6.95
Coleman Collieries Ltd.	6 pc 1st cv pr.	.73
Coleman Collieries Ltd.	B wt.	2.51
Colleen Copper Mines Ltd.	Com.	.12
College Plumbing Supplies Ltd.	Com.	4.00
Collingwood Terminals Ltd.	Com.	
Collingwood Terminals Ltd.	Pr.	
Colonial Oil and Gas Ltd.	Com.	.65
Columbia Cellulose Company Limited	Com.	2.90
Columbia Cellulose Company Limited	$1.20 cu cv pr.	8.63
Columbia Gas System Inc.	Com.	
Columbia Metals Corporation Ltd.	Com.	.36
Columbia Placers Ltd.	Com.	.08
Columbia River Mines Limited	Com.	.28
Columbiere Mines Ltd.	Com.	
Comaplex Resources International Ltd.	Com.	1.80
Comaplex Resources International Ltd.	A wt.	.64
Combined Engineered Products Limited	Com.	2.60
Combined Engineered Products Limited	$1.10 cu cv pr.	11.88
Combined Insurance Co. of America	Com.	40.00
Combined Larder Mines Ltd.	Com.	.01
Combined Metal Mines Ltd.	Com.	.12
Comet Industries Ltd.	Com.	.70
Cominco Ltd.	Com.	22.88
Cominga Compagnie Minière de l'Ungava	Com.	.03
Commerce Nickel Mines Ltd.	Com.	.08
Commercial Finance Corporation Limited	Com.	
Commercial Holdings & Metals Corp.	Com.	2.00
Commercial Life Assurance Co. of Canada	Com.	
Commercial Oil & Gas Limited	Com.	.09
Commodore Business Machines (Canada) Limited	Com.	8.13
Commodore Business Machines (Canada) Limited	A wt.	4.25
Commonwealth Holiday Inns of Canada Ltd.	Com.	12.25
Compton Exploration Ltd.	Com.	
Computel Systems Ltd.	Com.	3.00
Computrex Centres Ltd.	Com.	.38
Comstock Keno Mines Ltd.	Com.	.07
Comtech Group International Limited	Com.	1.90
Comtech Group International Limited	5 pc cu pr.	
Concorde Explorations Ltd.	Com.	
Concourse Building Ltd.	Com.	
Condor Mines Limited	Com.	.11

Column 1	Column 2	
Conduits National Co. Ltd.	Com.	3.00
Congress Mining Corporation Limited	Com.	.48
Coniagas Mines Ltd.	Com.	.28
Conigo Mines Ltd.	Com.	.13
Conoco Silver Mines Ltd.	Com.	.25
Con Quest Exploration Ltd.	Com.	.40
Consolidated Ad Astra Minerals Ltd.	Com.	.11
Consolidated Bathurst Limited	Com.	7.88
Consolidated Bathurst Limited	6 pc cu pr.	11.75
Consolidated Bathurst Limited	1968 Wt.	3.00
Consolidated Bathurst Limited	Wt.	.55
Consolidated Bellekemo Mines Ltd.	Com.	.01
Consolidated Brewis Minerals Ltd.	Com.	.08
Consolidated Buffalo Red Lake Mines Ltd.	Com.	.07
Consolidated Building Corp. Ltd.	Com.	1.50
Consolidated Building Corp. Ltd.	6 pc cu A pr.	
Consolidated Callinan Flin-Flon Mines Limited	Com.	.07
Consolidated Canadian Faraday Ltd.	Com.	.80
Consolidated Canorama Exploration Ltd.	Com.	.15
Consolidated Daering Mining Inc.	Com.	.09
Consolidated Developments Ltd.	Com.	.70
Consolidated Diversified Standard Securities Ltd.	Cl A.	2.50
Consolidated Diversified Standard Securities Ltd.	$2.50 1st pr.	25.00
Consolidated Dolsam Mines Ltd.	Com.	.12
Consolidated Durham Mines & Resources Ltd.	Com.	.73
Consolidated East Crest Oil Company Limited	Com.	1.52
Consolidated Fenimore Iron Mines Ltd.	Com.	.02
Consolidated Gem Exploration Ltd.	Com.	.05
Consolidated Harpers Malartic Gold Mines Ltd.	Com.	.05
Consolidated Imperial Minerals Ltd.	Com.	.07
Consolidated Manitoba Mines Ltd.	Com.	
Consolidated Marbenor Mines Ltd.	Com.	1.55
Consolidated Marcus Gold Mines Ltd.	Com.	.05
Consolidated Mogador Mines Ltd.	Com.	.03
Consolidated Monpas Mines Ltd.	Com.	
Consolidated Montclerg Mines Ltd.	Com.	.03
Consolidated Morrison Explorations Ltd.	Com.	1.58
Consolidated Negus Mines Ltd.	Com.	.07
Consolidated Nicholson Mines Ltd.	Com.	.05
Consolidated Northern Exploration Ltd.	Com.	.29
Consolidated Novell Mines Ltd.	Com.	.02
Consolidated Oil & Gas Inc.	Com.	
Consolidated Panther Mines Ltd.	Com.	.30
Consolidated Pershcourt Mining Ltd.	Com.	
Consolidated Professor Mines Ltd.	Com.	
Consolidated Proprietary Mines Holdings Ltd.	Com.	.06
Consolidated Prudential Mines Ltd.	Com.	.10
Consolidated Rambler Mines Ltd.	Com.	1.55
Consolidated Rexspar Minerals & Chemicals Limited	Com.	.16
Consolidated Ribago Mines Ltd.	Com.	.02
Consolidated Shunsby Mines Ltd.	Com.	.10
Consolidated Standard Mines Ltd.	Com.	.05
Consolidated Textile Mills Ltd.	Com.	4.75
Consolidated Theatres Ltd.	Cl A.	
Consolidated Vigor Mines Ltd.	Com.	.03
Consolidated Virginia Mining Corp.	Com.	
Consolidated West Petroleum Limited	Com.	1.28
Consumers Distributing Company Limited	Com.	23.88
Consumers Gas Company	Com.	19.50
Consumers Gas Company	5½ pc cu A pr.	83.25
Consumers Gas Company	5½ pc cu B pr.	84.00
Consumers Glass Co. Ltd.	Com.	10.50
Contact Ventures Ltd.	Com.	.55
Continental Can Company Inc.	Com.	32.00
Continental Cinch Mines Ltd.	Com.	.09
Continental Copper Mines Ltd.	Com.	.08
Continental McKinney Mines Ltd.	Com.	.08
Continental Potash Corporation Ltd.	Com.	.04
Continental Research & Development Ltd.	Com.	7.00
Controlled Foods International Ltd.	Com.	1.90
Conuco Limited	Com.	.35
Conwest Exploration Co. Ltd.	Com.	7.75
Cooper of Canada Ltd.	Com.	14.50
Copconda Mines Ltd.	Com.	
Copeland Process Ltd.	Com.	4.00
Cop-Mac Mines Ltd.	Com.	.23
Copp-Clark Publishing Co. Ltd.	Pr.	
Coppercorp Limited	Com.	.15
Copper Corp. of America	Com.	.08
Copperfields Mining Corp. Ltd.	Com.	1.25

Column 1	Column 2	
Copper Giant Mining Corporation Ltd.	Com.	.10
Copper Horn Mining Ltd.	Com.	.04
Copper Lake Explorations Ltd.	Com.	.31
Copperline Mines Limited	Com.	.19
Copper-Lode Mines Ltd.	Com.	.09
Copper-Man Mines Ltd.	Com.	.04
Copper Pass Mines Ltd.	Com.	
Copper Queen Explorations Limited	Com.	.09
Copper Ridge Mines Ltd.	Com.	.22
Copperstream-Frontenac Mines Ltd.	Com.	
Copperville Mining Corp. Ltd.	Com.	.09
Corby Distilleries Limited	Cl A.	23.00
Corby Distilleries Limited	Cl B.	23.50
Corgemines Limited	Com.	.20
Cornat Industries Limited	Com.	1.65
Coronation Allied Industries Ltd.	Com.	.57
Coronation Credit Corp. Ltd.	Com.	1.20
Coronation Credit Corp. Ltd.	6 pc cu cv A pr.	1.75
Coronation Credit Corp. Ltd.	Wt. series 2	
Coronet Mines Limited	Com.	.25
Corporate Foods Ltd.	Com.	8.00
Corporate Foods Ltd.	$2.75 A cu pr.	28.00
Corporate Properties Ltd.	Com.	3.31
Corporation d'expansion financière	Com.	1.25
Coseka Resources Limited	Com.	1.01
Cosmic Nickel Mines Limited	Com.	.09
Cosmos Imperial Mills Limited	Com.	.85
Costain Richard Canada Ltd.	Com.	7.50
Coulee Lead & Zinc Mines Ltd.	Com.	.13
Courier Explorations Ltd.	Com.	.28
Courvan Mining Co. Ltd.	Com.	.07
Cove Uranium Mines Ltd.	Com.	
Cowl Limited	Com.	3.50
Crackingstone Mines Ltd.	Com.	.04
Craibbe Fletcher Gold Mines Ltd.	Com.	.01
Craig Bit Co. Ltd., The	Com.	4.75
Craigmont Mines Ltd.	Com.	7.00
Crain Limited, R. L.	Com.	11.13
Crawford Allied Industries Ltd.	Com.	1.85
Cream Silver Mines Limited	Com.	.24
Creative Patents & Products Limited	Com.	2.25
Credit Foncier Franco-Canadien	Com.	57.00
Credo Mining Limited	Com.	.05
Cree Lake Mining	Com.	.40
Crestbrook Forest Industries Ltd.	Com.	3.90
Crestland Mines Ltd.	Com.	.07
Crest Ventures Ltd.	Com.	.18
Crestwood Kitchens Ltd.	Com.	1.75
Cresus Mining Limited	Com.	.07
Creswell Mines Ltd.	Com.	
Cross Co. Ltd., W. B.	Com.	3.00
Crowbank Mines Ltd.	Com.	.12
Crownbridge Copper Mines Ltd.	Com.	.03
Crown Cork & Seal Co. Ltd.	Com.	150.00
Crown Life Insurance Company	Com.	30.25
Crown Trust Company	Com.	15.50
Crown Zellerbach Canada Ltd.	Cl A.	16.63
Crows Nest Industries Ltd.	Com.	26.00
Croydon Mines Ltd.	Com.	.14
Croydon Rouyn Mines Ltd.	Com.	.03
Crusade Petroleum Corp. Ltd.	Com.	.65
Crush International Ltd.	Com.	19.00
Cultus Exploration Ltd.	Com.	.20
Cumex Mines Ltd.	Com.	.45
Cummings Properties Limited	Com.	
Cumont Mines Ltd.	Com.	.32
Cunningham Drug Stores Limited	Com.	
Cuvier Mines Ltd.	Com.	.10
Cygnus Corporation Ltd.	Cl A.	5.75
Cygnus Corporation Ltd.	Cl B.	6.25
Dairy Barn Stores of Canada Limited	Com.	2.07
Dairy Barn Stores of Canada Limited	Wt.	.38
Dale-Ross Holdings Ltd.	Com.	7.50
Dale-Ross Holdings Ltd.	6 pc cu A pr.	7.50
Dalex Co. Limited	7 pc cu pr.	80.00
Dalex Mines Limited	Com.	.06
Dalfen's Ltd.	Com.	12.50
Dalhousie Oil Co. Ltd.	Com.	.18
Daniel Diversified Ltd.	Com.	.30
Dankoe Mines	Com.	.60
D'Aragon Mines Ltd.	Com.	.17
Darkhawk Mines Limited	Com.	.40
Darsi Mines Limited	Com.	.09
Dasson Copper Corp. Ltd.	Com.	.19

Column 1	Column 2	
Dataline Systems Ltd.	Com.	1.83
Datapro Ltd.	Com.	2.25
Datateck Systems Ltd.	Com.	1.00
Dauphin Iron Mines Ltd.	Com.	.07
David Minerals Limited	Com.	.27
Davis Distributing & Vending Ltd.	Com.	1.30
Davis-Keays Mining Co. Ltd.	Com.	.70
Dawson Developments Ltd.	Com.	6.00
Debenture & Securities Corp. of Canada	5 pc cu pr.	
Debhold (Canada) Limited	6¼ pc cu B pr.	78.00
Decca Resources Limited	Com.	2.20
Deerhorn Mines Ltd.	Com.	.03
Dejour Mines Ltd.	Com.	.17
Delahey Consolidated Nickel Mines Limited	Com.	.05
D'Eldona Gold Mines Ltd.	Com.	.45
Delhi Pacific Mines Ltd.	Com.	.07
Delkirk Mining Ltd.	Com.	.07
Delmico Mines Ltd.	Com.	.03
Delta-Benco	Com.	1.65
Delta Hotels Ltd.	Com.	2.30
Delta Hotels Ltd.	6 pc cl A pr.	1.35
Delta Hotels Ltd.	Rt.	
Delta Minerals Corp.	Com.	
Delta Petroleum Corporation Ltd.	Com.	.73
Deltan Corp. Ltd.	Com.	6.38
Deltec Panamerica (Sociedad Anonima)	Com.	1.00
Demsey Mines Ltd.	Com.	.17
Denison Mines Ltd.	Com.	24.50
Derby Mines Ltd.	Com.	
Derlak Red Lake Gold Mines Ltd.	Com.	.01
Deseret Peak Mines Ltd.	Com.	.18
Desjardins Mines Ltd.	Com.	.55
Despina Gold Mines Ltd.	Com.	
Destorbelle Mines Ltd.	Com.	.01
Devil's Elbow Mines Ltd.	Com.	.06
Dickenson Mines Ltd.	Com.	.85
Dictator Mines Ltd.	Com.	.33
Discovery Mines Ltd.	Com.	.75
Dison International Ltd.	Com.	1.34
Distillers Corporation-Seagrams Ltd.	Com.	31.25
District Trust Co.	Com.	15.00
Diversified Credit Corp. Ltd.	Com.	
Dixie-Carolina Mining Corp. Ltd.	Com.	
D L P Diversified Ltd.	Com.	
Dog'n Suds Food Services Ltd.	Com.	.25
Dolly Varden Mines Ltd.	Com.	.35
Doman Industries Ltd.	Com.	9.75
Doman Industries Ltd.	6½ pc cu cv A pr.	39.00
Doman Industries Ltd.	Wt.	22.00
Domco Industries Limited	Com.	5.00
Dome Mines Ltd.	Com.	54.50
Dome Petroleum Ltd.	Com.	34.00
Dominion & Anglo Investment Corporation Ltd.	Com.	
Dominion & Anglo Investment Corporation Ltd.	5 pc cu pr.	74.25
Dominion Bridge Co. Ltd.	Com.	23.75
Dominion Citrus & Drugs Ltd.	Com.	8.50
Dominion Coal Co. Ltd.	Pr.	23.38
Dominion Corset Co. Ltd.	Com.	6.00
Dominion Dairies Ltd.	Com.	34.00
Dominion Dairies Ltd.	5 pc pr.	25.00
Dominion Explorers Ltd.	Com.	1.40
Dominion Fabrics Limited	Com.	
Dominion Fabrics Limited	Cl A cu pt pr.	4.38
Dominion Foundries & Steel Ltd.	Com.	25.00
Dominion Foundries & Steel Ltd.	4¾ pc cu A pr.	74.00
Dominion Glass Company Limited	Com.	10.25
Dominion Glass Company Limited	7 pc cu cv pr.	12.75
Dominion Jubilee Corp. Ltd.	Com.	.70
Dominion Leaseholds Ltd.	Com.	.06
Dominion Life Assurance Co.	Com.	95.00
Dominion Lime Limited	Com.	7.88
Dominion Lime Limited	Wt.	.50
Dominion Magnesium Ltd.	Com.	6.00
Dominion of Canada General Insurance Co.	Com.	
Dominion-Scottish Investments Ltd.	Com.	15.68
Dominion-Scottish Investments Ltd.	5 pc cu pr.	30.75
Dominion Stores Ltd.	Com.	15.00
Dominion Textile Limited	Com.	21.00
Dominion Textile Limited	7 pc cu pr.	101.00
Domtar Limited	Com.	12.25
Domtar Limited	$1.00 cu pr.	13.38
Donalda Mines Ltd.	Com.	.08

Column 1	Column 2	
Donlee Manufacturing Industries Limited	Com.	4.50
Donna Mines Limited	Com.	.07
Donohue Company Limited	Com.	4.00
Donohue Company Limited	6 1/4 pc cu pr.	15.75
Donrand Mines Ltd.	Com.	
Don-X Mines Ltd.	Com.	
Doral Mining Exploration Ltd.	Com.	
Dorion Red Lake Mines Ltd.	Com.	.01
Dorita Silver Mines Ltd.	Com.	.11
Douglas Leaseholds Limited	Com.	2.25
Dove Lake Mines Inc.	Com.	.40
Dover Industries Ltd.	Com.	15.00
Dover Industries Ltd.	6 pc cu pr.	8.00
DRG Limited	Com.	14.00
Drummond Die & Stamping Co. Ltd.	Com.	.16
Drummond Welding & Steel Works Ltd.	Cl A.	3.00
Dubuisson Goldfields Ltd.	Com.	.03
Ducros Mines Ltd.	Com.	.16
Duke Mining Company Limited	Com.	.20
Dumagami Mines Limited	Com.	.19
Dumont Nickel Corporation	Com.	.29
Duncan Range Iron Mines Ltd.	Com.	.10
Dundee Mines Ltd.	Com.	.18
Dunraine Mines Ltd.	Com.	.14
Dunterra Mines Ltd.	Com.	
Dunvegan Mines Ltd.	Com.	
Dupont of Canada Ltd.	Com.	20.25
Dupont of Canada Ltd.	7 1/2 pc cu pr.	52.00
Duport Mining Co. Ltd.	Com.	
Dupuis Frères Limited	Cl A cu pr.	6.00
Dustbane Enterprises Ltd.	Com.	6.50
Dusty Mac Mines Limited	Com.	.10
Duvan Copper Co. Ltd.	Com.	.03
Duvex Oils & Mines Ltd.	Com.	.02
Dylex Diversified Limited	Com.	8.75
Dylex Diversified Limited	Cl A pt pr.	8.63
Dynacore Enterprises Ltd.	Com.	
Dynaco Resources Ltd.	Com.	.25
Dynalta Oil & Gas Co. Ltd.	Com.	1.25
Dynamic Mining Exploration Ltd.	Com.	.16
Dynamic Petroleum Products Ltd.	Com.	1.02
Dynamo Mines Limited	Com.	.17
Dynasty Exploration Ltd.	Com.	5.90
Eagle Gold Mines Ltd.	Com.	3.00
Eagle Industries Limited	Com.	5.63
Eagle River Mines Limited	Com.	.38
Earlcrest Resources Ltd.	Com.	.11
Early Bird Mines Ltd.	Com.	.13
East Amphi Gold Mines Ltd.	Com.	.01
East Bay Gold Ltd.	Com.	.04
Eastern Bakeries Ltd.	Com.	4.00
Eastern Bakeries Ltd.	4 pc cu pr.	
Eastern Canada Savings & Loan Company	Com.	12.50
Eastern Utilities Limited	5 1/2 pc cu. pr.	
Eastgate	Com.	.73
East Lun Gold Mines Ltd.	Com.	.01
East Malartic Mines Ltd.	Com.	.95
Eastmont Larder Lake Gold Mines Ltd.	Com.	
Eastmont Silver Mines Ltd.	Com.	
Eastrock Explorations Ltd.	Com.	.40
East Sullivan Mines Ltd.	Com.	2.70
East Ventures Ltd.	Com.	.04
Eastview Mines Ltd.	Com.	
Eaton Corporation	Com.	42.00
Echo Bay Mining Ltd.	Com.	.15
Economic Investment Trust Ltd.	Com.	13.75
Economic Investment Trust Ltd.	5 pc cu A pr.	32.50
Eddy Match Co. Ltd.	Com.	10.25
Edmonton Concrete Block Co. Ltd.	Com.	
Edmonton International Speedway Ltd.	Com.	.65
EDP Industries Limited	Com.	.30
EDP Industries Limited	5 pc cu cv A pr.	
EDP Industries Limited	Wt.	
Ego Mines Ltd.	Com.	.09
El Bonanza Mining Corp. Ltd.	Com.	.12
El Coco Explorations Ltd.	Com.	.07
Electrohome Limited	Com.	41.00
Electrohome Limited	5 3/4 pc cu A pr.	77.75
Electro-Knit Fabrics (Canada) Ltd.	Com.	5.38
Electronic Associates of Canada Limited	Com.	2.25
E-L Financial Corporation Limited	Com.	6.88
E-L Financial Corporation Limited	A cv pr.	9.75
E-L Financial Corporation Limited	Wt.	2.45
Elk Creek Waterworks Co. Ltd.	Com.	
Elmac Malartic Mines Ltd.	Com.	.03
El Paso Natural Gas Company	Com.	
Embassy Petroleums Ltd.	Com.	.43
Embassy Petroleums Ltd.	A wt.	.20
Emco Limited	Com.	6.25
Emperor Mines Ltd.	Com.	.10
Empire Life Insurance Co., The	Com.	8.00
Empire Metals Corporation Ltd.	Com.	.10
Empire Minerals Inc.	Com.	.05
Enamel & Heating Products Limited	Cl A.	2.25
Enamel & Heating Products Limited	Cl B.	1.25
Enex Mines Ltd.	Com.	.21
Entarea Management Ltd.	Com.	5.00
Equatorial Resources Limited	Com.	.19
Ericksen-Ashby Mines Ltd.	Com.	
Erie Diversified Industries Ltd.	Com.	8.00
Erie Diversified Industries Ltd.	Cl A.	8.00
ERI Explorations Inc.	Com.	.77
Eskimo Copper Mines Ltd.	Com.	.12
Essex Packers Limited	Com.	
Essex Packers Limited	5 pc cu 1st pr.	
Ethel Copper Mines Ltd.	Com.	
Evangeline Savings & Mortgage Co.	Com.	
Evenlode Mines Ltd.	Com.	.01
Excellence Life Insurance Co. (The)	Com.	
Excelsior Life Insurance Co.	Com.	
Exeter Mines Ltd.	Com.	.40
Expo Iron Limited	Com.	.45
Expo Ungava Mines Limited	Com.	.20
Exquisite Form Brassiere (Canada) Limited	Com.	4.10
Exquisite Form Brassiere (Canada) Limited	6 pc cu cv pr.	6.75
Extendicare (Canada) Ltd.	Com.	8.50
Extendicare (Canada) Ltd.	Wt.	3.50
Fab Metal Mines Ltd.	Com.	.04
Fairborn Mines Ltd.	Com.	.12
Fairway Explorations Ltd.	Com.	
Falaise Lake Mines Ltd.	Com.	.16
Falconbridge Nickel Mines Ltd.	Com.	81.00
Falcon Explorations Ltd.	Com.	.55
Fallinger Mining Corporation	Com.	1.32
Family Life Assurance Co.	50 pc paid	
Fannex Resources Ltd.	Com.	.37
Fanny Farmer Candy Shops Inc.	Com.	
Far East Minerals Ltd.	Com.	
Farmers & Merchants Trust Co. Ltd.	Com.	2.50
Farwest Mining Ltd.	Com.	.06
Fathom Oceanology Ltd.	Com.	.73
Fawn Bay Development Ltd.	Com.	.05
Federal Diversiplex Ltd.	Com.	1.20
Federal Grain Limited	Com.	8.00
Federated Mining Corp. Ltd.	Com.	.45
Federated Mining Corp. Ltd.	Rt.	
Fidelity Mining Investments Ltd.	Com.	.06
Fidelity Mortgage & Savings Corporation	Com.	
Fidelity Trust Co., The	Com.	1.55
Fidelity Trust Co., The	Wt.	.65
Fields Stores Limited	Com.	13.50
Financial Collection Agencies Ltd.	Com.	16.00
Financial Life Assurance Co.	Com.	
Finlayson Enterprises Ltd.	Cl A.	14.00
Finlayson Enterprises Ltd.	Cl B.	
Finning Tractor & Equipment Company Limited	Com.	12.50
First City Financial Corp. Ltd.	Com.	7.75
First Maritime Mining Corp. Ltd.	Com.	.60
First National City Corp.	Com.	
First National Uranium Mines Limited	Com.	.15
First Orenda Mines Ltd.	Com.	.08
Fiscal Investments Ltd.	Com.	9.00
Fiscal Investments Ltd.	Pr.	.20
Fittings Ltd.	Com.	15.00
Five Star Petroleum and Mines Ltd.	Com.	.16
Flagstone Mines Limited	Com.	.17
Fleet Manufacturing Ltd.	Com.	.86
Fleetwood Corporation	Com.	8.00
Flemdon Ltd.	Com.	1.40
Fleming Mines Ltd.	Com.	.01
Flin Flon Mines Ltd.	Com.	.27
Flint Rock Mines Ltd.	Com.	1.95
Foley Silver Mines Ltd.	Com.	.04
Fontana Mines 1945 Ltd.	Com.	.03
Ford Motor Company	Com.	70.00
Ford Motor Co. of Canada Ltd.	Com.	82.75
Forest Kerr Mines Ltd.	Com.	.04

Column 1	Column 2
Fort Norman Explorations Inc.	Com. .53
Fort Reliance Minerals Ltd.	Com. .32
Fort St. John Petroleums Ltd.	Com. .67
Fortune Channel Mines Ltd.	Com. .14
Fortune Channel Mines Ltd.	A wt.
Fosco Mining Ltd.	Com. 1.18
Founders Group	Com. .45
Fourbar Mines Limited	Com. .10
4-F Foods Limited	Com. .19
Four Seasons Hotels Ltd.	Com. 14.25
Four Seasons Hotels Ltd.	Wt. 6.50
Four Seasons Mining & Resources Ltd.	Com.
Fox Lake Mines Ltd.	Com. .03
FPE Pioneer Electric Ltd.	Cl A. 17.50
FPE Pioneer Electric Ltd.	5½ pc cu cv A pr. 69.00
Francana Oil & Gas Ltd.	Com. 4.55
Fraser Companies Limited	Com. 12.13
Frebert Mines Ltd.	Com. .01
Freehold Gas & Oil Limited	Com. 1.76
Freehold Gas & Oil Limited	A wt.
Freehold Gas & Oil Limited	B wt.
Freiman Ltd., A. J.	Com. 5.88
Frobex Limited	Com. .34
Frontier Explorations Limited	Com. .16
Fruehauf Trailer Company of Canada Limited	Com. 16.50
Fulcrum Investments Co. Ltd.	Com. 3.65
Fulcrum Investments Co. Ltd.	6 pc cu pr. 7.50
Fundy Chemical Corporation Ltd.	Com. 8.75
Fundy Exploration Ltd.	Com. .02
Futurity Oils Limited	Com. .27
Galex Mines Limited	Com. .45
Galt Malleable Iron Limited	Com. 7.50
Galt Malleable Iron Limited	6 pc cu 1st pr.
Gan Copper Mines Ltd.	Com. .02
Ganda Silver Mines Ltd.	Com.
Garrison Creek Consolidated Mines Ltd.	Com. .06
Gary Mines Ltd.	Com. .10
Gaspé Copper Mines Ltd.	Com. 49.00
Gaspé Park Mines Ltd.	Com.
Gaspé Quebec Mines Ltd.	Com. .64
Gaspesie Mining Co. Limited	Com.
Gaspex Mines Ltd.	Com.
Gateford Mines Ltd.	Com. .02
Gateway Uranium Mines Ltd.	Com. .02
Gaz Métropolitain Inc.	Com. 5.50
Gaz Métropolitain Inc.	5.40 pc cu pr. 66.00
Gaz Métropolitain Inc.	5½ pc cu pr. 66.00
Gaz Métropolitain Inc.	1963 wt. 1.45
Gaz Métropolitain Inc.	1966 wt. 2.20
G & B Automated Equipment Limited	Com. 1.75
General Bakeries Ltd.	Com. 3.35
General Developments Corporation	Com. 25.50
General Distributors of Canada Ltd.	Com. 15.88
General Dynamics Corporation	Com.
General Investment Corporation of Quebec	Com. 3.00
General Motors Corporation	Com. 80.50
General Products Mfg. Corporation Limited	Cl A. 82.00
General Products Mfg. Corporation Limited	Cl B. 81.00
General Resources Ltd.	Com. .08
General Trust of Canada	Com. 23.75
Genesco Inc.	Com.
Genstar Limited	Com. 13.13
Genstar Limited	Wt. 4.50
Geoquest Resources Ltd.	Com. 1.95
Georgia Lake Mines Ltd.	Com.
Gesco Distributing Limited	Com. 3.50
Getty Oil Company	Com. 80.00
Giant Explorations Ltd.	Com. .40
Giant Mascot Mines Ltd.	Com. 5.00
Giant Metallics Mines Ltd.	Com. .11
Giant Reef Petroleums Limited	Com. .21
Giant Yellowknife Mines Ltd.	Com. 7.05
Gibbex Mines Ltd.	Com. .35
Gibraltar Mines Ltd.	Com. 4.70
Gibson Mines Ltd.	Com.
Glenburk Mines Ltd.	Com. .03
Glen Copper Mines Ltd.	Com. .16
Glendale Mobile Homes Ltd.	Com. 5.25
Glengair Group Limited	Com. 1.90
Glengair Group Limited	6 pc cv B pr. 3.10
Glengair Group Limited	Cl A wt. .85
Glengair Group Limited	Cl B wt. .90
Glengair Group Limited	Unit 6.25
Glenlyon Mines Limited	Com. .12

Column 1	Column 2
Goderich Elevator & Transit Co. Ltd.	Com.
Gogama Minerals Ltd.	Com. .23
Golconda Mining Exploration	Com. 5.50
Goldcrest Products Ltd.	Com. 3.50
Golden Age Mines Ltd.	Com. .40
Golden Gate Explorations Ltd.	Com. .25
Golden Harker Explorations Ltd.	Com. .07
Golden Shaft Mines Ltd.	Com.
Golden Spike Western Petroleums Limited	Com. .06
Golden West Resources Limited	Com. .11
Goldex Mines Ltd.	Com. 1.20
Gold Hawk Exploration Ltd.	Com.
Gold Hawk Mines Ltd.	Com. .11
Goldray Mines Ltd.	Com. .67
Goldrim Mining Company Ltd.	Com. .10
Gold River Mines Ltd.	Com. .15
Goldstar Explorations & Investments Limited	Com.
Golsil Mines Ltd.	Com. .46
Goodyear Tire & Rubber Co. of Canada Ltd.	Com. 153.00
Goodyear Tire & Rubber Co. of Canada Ltd.	4 pc cu pr. 34.50
Gordon-Lebel Mines Ltd.	Com. .01
Gordon Mackay & Stores Ltd.	Cl A. 6.00
Gordon Mackay & Stores Ltd.	Cl B. 21.75
Governor Gold Mines Ltd.	Com.
Gowganda Silver Mines	Com. .23
Gradore Mines Ltd.	Com.
Grafton Fraser Limited	6 pc cu pr. 17.25
Grafton Group Ltd.	Com. 20.75
Gramara Mercantile Corp. Ltd.	Com. .18
Grand Bahama Developments Co. Ltd.	Com.
Grandex Exploration and Investment Co. Ltd.	Com.
Grandroy Mines Ltd.	Com. .09
Granduc Mines Ltd.	Com. 4.50
Grandview Mines Ltd.	Com. .12
Granisle Copper Limited	Com. 7.95
Granite Club Ltd.	Com. 14.75
Granite Mountain Mines Ltd.	Com. .17
Grasset Lake Mines Ltd.	Com. .20
Gray Industries Inc.	Com. .40
Great Bear Silver Mines Ltd.	Com.
Great Britain & Canada Investments Ltd.	Com. 18.75
Great Britain & Canada Investments Ltd.	5¼ pc cu pr. 30.00
Great Canadian Oil Sands Limited	Com. 5.40
Great Eagle Explorations & Holdings Ltd.	Com.
Great Eastern Resources Canada Ltd.	Com. .39
Great Lakes Nickel Ltd.	Com. 1.37
Great Lakes Paper Company Limited	Com. 17.75
Great Lakes Paper Company Limited	Wt. 2.30
Great Lakes Power Corporation Ltd.	Com. 19.38
Great Lakes Silver Mines Ltd.	Com. .11
Great National Land & Investment Corp. Ltd.	Com. 1.05
Great Northern Capital Corp. Ltd.	Com. 8.75
Great Northern Gas Utilities Ltd.	6 pc cu A pr. 19.00
Great Northern Petroleums & Mines Ltd.	Com. .69
Great Northern Petroleums & Mines Ltd.	A wt.
Great Pacific Industries Ltd.	Com. 1.30
Great Plains Development Co. of Canada Ltd.	Com. 29.75
Great Slave Mines Ltd.	Com. .05
Great West International Equities Ltd.	Com.
Great West Life Assurance Co.	Com. 43.00
Great West Mining & Smelting Corp. Ltd.	Com. .16
Great West Steel Industries Ltd.	Com. 5.13
Greb Industries Limited	Com. 4.90
Green Coast Resources Limited	Com. 4.90
Green Eagle Mines Ltd.	Com. .42
Greenfields Development Corporation Ltd.	Com.
Green Point Mines Ltd.	Com. .18
Grenache Inc.	Cl A. 3.37
Greyhound Computer of Canada Ltd.	Com. 1.65
Greyhound Lines of Canada Ltd.	Com. 15.75
Grissol Foods Ltd.	Com. 8.25
Grouse Mountain Resorts Ltd.	Com. 2.40
Grouse Mountain Resorts Ltd.	6 pc cv pr. 1.70
Growers Wine Co. Ltd.	Cl A. 3.90
Growers Wine Co. Ltd.	Cl B. 3.75
GSW Limited	Cl A. 9.13
GSW Limited	Cl B. 9.00
GSW Limited	5 pc cu pr. 71.63
Guarantee Co. of North America, The	Com.
Guaranty Trust Company of Canada	Com. 14.88
Guaranty Trust Company of Canada	Rt. .53
Guardian Growth Fund Ltd.	Pr. 8.84
Guardian Management Corporation Ltd.	Com. 7.00
Gubby Mines Ltd.	Com.

Column 1	Column 2	
Guichon Mine Ltd.	Com.	.03
Gui-Por Uranium Mines & Metals Ltd.	Com.	.15
Gulch Mines Ltd.	Com.	.06
Gulf Lead Mines Ltd.	Com.	
Gulf Oil Canada Limited	Com.	25.63
Gulf Oil Corporation	Com.	25.50
Gulf Titanium Ltd.	Com.	.25
Gunn Mines Ltd.	Com.	.24
Hahn Brass Limited	5 pc 1st pr.	
Halifax Developments Limited	Com.	1.85
Hallnor Mines Ltd.	Com.	.80
Halren Mines Ltd.	Com.	.10
Hambro Corp. of Canada Ltd.	Com.	13.00
Hambro Corp. of Canada Ltd.	5½ pc cu A pr.	
Hamilton Group Limited, The	Com.	21.38
Hamilton Group Limited, The	5 pc cu A pr.	85.00
Hamilton Harvey Ltd.	Com.	8.00
Hamilton Trust & Savings Corp.	Com.	10.25
Hamilton Trust & Savings Corp.	Voting trust com.	10.50
Hamilton Trust & Savings Corp.	7 pc cu A Pr.	18.88
Hammond Investment Corporation	Com.	1.00
Hand Chemical Industries Limited	Com.	5.00
Hand Chemical Industries Limited	Pt pr.	5.00
Handy Andy Company	Com.	3.63
Hanna Gold Mines Ltd.	Com.	.19
Hansa Explorations Ltd.	Com.	
Hanson Mines Ltd.	Com.	.14
Hardee Farms International Ltd.	Com.	1.10
Hardee Farms International Ltd.	6½ pc A pr.	80.00
Harding Carpets Ltd.	Com.	14.88
Harding Carpets Ltd.	Cl A.	14.50
Hardwicke Investment Corporation Ltd.	Com.	50.00
Harlequin Enterprises Ltd.	Com	3.80
Harris & Sons Ltd., J.	Com.	3.00
Hart River Mines Ltd.	Com.	.16
Harvest Petroleums Ltd.	Com.	.04
Harvey's Foods Ltd.	Com.	.82
Harvey Woods Ltd.	Cl A.	1.65
Harvey Woods Ltd.	Cl B.	.50
Hawker Industries Ltd.	Com.	
Hawker Siddeley Canada Ltd.	Com.	2.40
Hawker Siddeley Canada Ltd.	5¾ pc cu cv pr.	58.50
Hayes-Dana Limited	Com.	12.00
Headvue Mines Ltd.	Com.	
Headway Corporation Limited	Com.	3.45
Headway Red Lake Gold Mines Ltd.	Com.	.07
Hearne Coppermine Explorations Ltd.	Com.	.15
Heath Gold Mines Ltd.	Com.	.01
Hedman Mines Ltd.	Com.	.50
Hertz Industries Ltd.	Com.	.12
Hewbet Mines Ltd.	Com.	
Hibernia Mining Co. Ltd.	Com.	.11
Highland-Bell Limited	Com.	
Highland Chief Mines Ltd.	Com.	.12
Highland Lodge Mines Ltd.	Com.	.08
Highland Mercury Mines Ltd.	Com.	.15
Highland Queen Mines Ltd.	Com.	.23
Highland Queen Sportswear Ltd.	Com.	1.63
Highland Valley Mines Limited	Com.	.09
Highmont Mining Corporation Ltd.	Com.	2.10
Highpoint Mines Limited	Com.	.05
Hi-Lite Uranium Explorations Ltd.	Com.	
Hinde & Dauch Ltd.	Com.	125.00
H & M Tax Savers Ltd.	Com.	
Hobrough Ltd.	Com.	3.00
Hobrough Ltd.	6 pc cu pr.	1.70
Hogan Mines Ltd.	Com.	.12
Holberg Mines Limited	Com.	
Hollinger Mines Ltd.	Com.	36.50
Hollingsworth Mines Ltd.	Com.	
Home Oil Co. Ltd.	Cl A.	33.38
Home Oil Co. Ltd.	Cl B.	33.00
Home Smith International Ltd.	Com.	.75
Home Supermarket Ltd.	Com.	.30
Honda Mining Co. Ltd.	Com.	.29
Horne Fault Mines Ltd.	Com.	.07
Horne & Pitfield Foods Ltd.	Com.	2.50
Hotstone Minerals Ltd.	Com.	.01
House of Braemore Furniture Ltd.	Com.	3.50
Houston Oils Limited	Com.	1.94
Houston Oils Limited	Wt.	.65
Howard Smith Paper Mills Ltd.	$2.00 cu pr.	25.38
Howden & Company Limited, D. H.	Com.	3.10
Hubbard Dyers Limited	Com.	45.00

Column 1	Column 2	
Hubbard Dyers Limited	Pr.	
Hubert Lake Ungava Nickel Mines Ltd.	Com.	.01
Hub Mining Exploration Ltd.	Com.	.16
Hucamp Mines Ltd.	Com.	.27
Huclif Porcupine Mines Ltd.	Com.	
Hudson Bay Mines Ltd.	Com.	.16
Hudson Bay Mining & Smelting Co. Ltd.	Com.	21.00
Hudson Bay Mountain Silver Mines Ltd.	Com.	.08
Hudson's Bay Company	Com.	18.88
Hudson's Bay Oil & Gas Co. Ltd.	Com.	46.00
Hudson's Bay Oil & Gas Co. Ltd.	5 pc cu cv A pr.	55.50
Hughes-Owens Co. Ltd.	Cl B.	9.00
Hughes-Owens Co. Ltd.	6.40 pc cu pr.	21.13
Hugh-Pam Porcupine Mines Ltd.	Com.	.16
Humlin Red Lake Mines Ltd.	Com.	.01
Hummingbird Mines Ltd.	Com.	.85
Hunch Mines Ltd.	Com.	.03
Hunter Basin Mines Ltd.	Com.	.07
Hunter Douglas Limited	Com.	
Huron Bruce Mines Limited	Com.	
Huron & Erie Mortgage Corporation, The	Com.	25.00
Husky Oil Ltd.	Com.	16.38
Husky Oil Ltd.	6 pc cu A pr.	43.00
Husky Oil Ltd.	6 pc cu B pr.	44.25
Husky Oil Ltd.	D wt.	6.90
Husky Oil Ltd.	E wt.	5.60
Hydra Explorations Ltd.	Com.	.17
Hy's of Canada Limited	Com.	3.00
Hytec Electronics Ltd.	Com.	
I.A.C. Limited	Com.	19.75
I.A.C. Limited	4½ pc cu pr.	69.00
I.A.C. Limited	5¾ pc cu pr.	23.00
I.A.C. Limited	Wt.	8.00
Ibes International Ltd.	Com.	.25
Ibsen Cobalt Silver Mines Ltd.	Com.	
Ice Station Resources Ltd.	Com.	.21
Ideal Bay Explorations Ltd.	Com.	.11
Imasco Limited	Com.	20.00
Imasco Limited	6 pc cu pr.	4.60
Imperial General Properties Limited	Com.	4.50
Imperial General Properties Limited	Wt.	1.00
Imperial Life Assurance Co. of Canada	Com.	137.00
Imperial Marine Industries Ltd.	Com.	1.05
Imperial Marine Industries Ltd.	A wt.	.16
Imperial Metals and Power Ltd.	Com.	.23
Imperial Metals and Power Ltd.	Wt.	
Imperial Oil Limited	Com.	31.50
Income Disability & Reinsurance Co. of Canada	Com.	6.00
Income Disability & Reinsurance Co. of Canada	Wt.	.58
Indal Canada Limited	Com.	8.38
Independent Mining Corp. Ltd.	Com.	.01
Index Mines Limited	Com.	1.40
Indian Mountain Metal Mines Ltd.	Com.	.49
Indusmin Limited	Com.	9.75
Industrial Adhesives Limited	Com.	13.38
Industrial Growth Management Limited	Com.	3.75
Industrial Life Insurance Company, The	Com.	
Ingersoll Machine & Tool Company Limited	4 pc cu pr.	
Inglis Co. Ltd., John	Com.	9.50
Initiative New Exploration Ltd.	Com.	2.25
Inland Chemicals Canada Ltd.	Com.	3.05
Inland Copper Ltd.	Com.	.23
Inland Natural Gas Co. Ltd.	Com.	13.00
Inland Natural Gas Co. Ltd.	5 pc cu pr.	14.50
In-Place Electronics Limited	Com.	.35
In-Place Electronics Limited	7 pc cv pr.	
Inqua Resources Ltd.	Com.	.50
Integrated Wood Products Ltd.	Com.	3.50
Inter-City Gas Limited	Com.	6.75
Inter-City Gas Limited	6½ pc cu A 2nd pr.	16.50
Inter-City Gas Limited	B 2nd pr.	19.50
Inter-City Gas Limited	Wt.	2.90
Inter-City Gas Limited	1971 wt.	3.05
Inter-City Manufacturing Ltd.	Cl A.	
Interior Breweries Limited	Com.	3.35
Intermetco Ltd.	Com.	2.30
International Altas Development & Exploration Ltd.	Com.	.19
International Bibis Tin Mines Ltd.	Com.	.08
International Bond and Equity Corporation Ltd.	Com.	1.40

Column 1	Column 2	
International Bond and Equity Corporation Ltd.	Cl A.	1.22
International Bond and Equity Corporation Ltd.	Wt.	.16
International Bornite Mines Ltd.	Com.	.19
International Business Machines Corp.	Com.	339.00
International Copper Corp. Ltd.	Com.	.16
International Halliwell Mines Ltd.	Com.	.21
International Hydrodynamics Company Ltd.	Com.	1.20
International Hydrodynamics Company Ltd.	B Wt.	
International Hydrodynamics Company Ltd	Rt.	
International Kenville Gold Mines Ltd.	Com.	.10
International Land Corporation Ltd.	Com.	5.75
International Mariner Resources Ltd.	Com.	.66
International Mariner Resources Ltd.	C wt.	.19
International Minerals & Chemical Corp. (Canada) Ltd.	Com.	16.88
International Mogul Mines Ltd.	Com.	7.40
International Nickel Co. of Canada Ltd.	Com.	32.63
International Norvalie Mines Ltd.	Com.	.06
International Obaska Mines Ltd.	Com.	.28
International Paper Co.	Com.	
International Space Modules Ltd.	Cl B.	.90
International Systcoms Ltd.	Com.	.57
International Utilities Corporation	Com.	42.75
International Utilities Corporation	Cl A. cv.	49.75
International Utilities Corporation	$1.32 cu cv pr.	
International Visual Systems Ltd.	Com.	1.25
International Visual Systems Ltd.	Wt.	.40
Interplex S.P.A. Industries Ltd.-	Com.	.60
Interpool International Ltd.	Com.	20.00
Interprovincial Allied Properties Ltd.	Com.	1.35
Inter-Provincial Diversified Holdings Limited	Com.	3.25
Interprovincial Pipeline Co.	Com.	30.63
Interprovincial Pipeline Co.	Wt.	14.50
Interprovincial Steel & Pipe Corp. Ltd.	Com.	7.63
Interprovincial Steel & Pipe Corp. Ltd.	$1.20 cu cv pr.	23.75
Inter-Rock Oil Co. of Canada Limited	Com.	.15
Inter-Tech Development & Resources Ltd.	Com.	.80
Investment Foundation Ltd.	Com.	41.50
Investors Group, The	Com.	7.75
Investors Group, The	Cl A.	7.75
Investors Group, The	5 pc cu cv pr.	21.00
Invicta Explorations, Ltd.	Com.	.08
Ionarc Smelters Limited	Com.	1.40
I.O.S. Limited	Com.	
Irish Copper Mines Ltd.	Com.	.07
Iron Bay Trust	Com.	3.10
Iron City Mines Ltd.	Com.	.15
Iron Cliff Mines Ltd.	Com.	.17
Ironco Mining & Smelting Ltd.	Com.	
Iroquois Petroleum Co. Ltd.	Com.	
Irwin Toy Ltd.	Com.	17.00
Isec Canada Ltd.	Com.	.10
Iskut Silver Mines Ltd.	Com.	.16
Island Telephone Co. Ltd.	Com.	10.25
ISO Mines Ltd.	Com.	1.35
Israel Continental Oil Co. Ltd.	Com.	.21
I.T.L. Industries Limited	Com.	4.25
I.T.L. Industries Limited	6½ pc cu cv pr.	10.50
Ivaco Industries Limited	Com.	14.25
IWC Industries Limited	Com.	1.90
Jackpot Copper Mines Limited	Com.	.07
Jack Waite Mining Co.	Com.	.03
Jacobus Mining Corp. Ltd.	Com.	.03
Jacola Mines Ltd.	Com.	.04
Jagor Resources Limited	Com.	.20
Jahalla Lake Mines Ltd.	Com.	.04
Jamaican Mining Ltd.	Com.	
Jamaica Public Service Co. Ltd.	Com.	.23
Jameland Mines Ltd.	Com.	.05
James Bay Mining Corp.	Com.	.22
Jamex Explorations Limited	Com.	.32
Janus Explorations Ltd.	Com.	.06
Jason Explorers Ltd.	Com.	.13
Jason Explorers Ltd.	A wt.	
Jaye Explorations Ltd.	Com.	.06
J B Automatik Ltd.	Com.	
Jean Lake Lithium Mines Ltd.	Com.	.02
Jelex Mines Ltd.	Com.	.10
Jenkins Bros. Ltd.	Com.	
Jericho Mines Ltd.	Com.	.10
Jersey Consolidated Mines Ltd.	Com.	.11
Jespersen-Kay Systems Ltd.	Com.	3.00

Column 1	Column 2	
Joburke Gold Mines Ltd.	Com.	.02
Jockey Club Ltd., The	Com.	5.25
Jockey Club Ltd., The	5½ pc cu B pr.	10.38
Jockey Club Ltd., The	5.60 pc cu 2nd pr.	10.38
Jockey Club Ltd., The	6 pc cu A 1st pr.	10.38
Johnson & Johnson	Com.	97.75
Joliet-Quebec Mines Ltd.	Com.	.19
Jolly Jumper Products of America Ltd.	Com.	1.30
Jolly Jumper Products of America Ltd.	Wt.	
Jonsmith Mines Ltd.	Com.	.07
Jorex Limited	Com.	1.36
Joutel Copper Mines Ltd.	Com.	.52
Jowsey Denton Gold Mines Ltd.	Com.	
Joy Mining Ltd.	Com.	.95
Joy Mining Ltd.	A wt.	.05
Juma Mining & Exploration Ltd.	Com.	.02
Juniper Mines Ltd.	Com.	.16
Kaiser Resources Ltd.	Com.	3.95
Kalco Valley Mines Ltd.	Com.	.15
Kallio Iron Mines Ltd.	Com.	5.00
Kal Resources Ltd.	Com.	.64
Kamad Silver Company Ltd.	Com.	.35
Kamco Developments Ltd.	Com.	
Kam-Kotia Mines Ltd.	Com.	.45
Kamloops Copper Consolidated Ltd.	Com.	.07
Kappa Explorations Ltd.	Com.	.36
Kaps Transport Limited	Com.	8.13
Kardar Canadian Oils Ltd.	Com.	1.88
KB Mining Co. Ltd.	Com.	.11
Keeprite Products Ltd.	Cl A.	11.75
Kelglen Mines Ltd.	Com.	.05
Kellcam Explorations Ltd.	Com.	
Kelly-Desmond Mining Corp. Ltd.	Com.	.01
Kelly-Deyong Sound Corporation Ltd.	Com.	.85
Kelly Douglas & Co. Ltd.	Cl A cu pr.	5.50
Kelsey-Hayes Canada Ltd.	Com.	7.00
Keltic Mining Corp. Ltd.	Com.	
Kelver Mines Limited	Com.	.18
Kelvinator of Canada Limited	Com.	5.00
Kendon Copper Mines Ltd.	Com.	
Kenogamisis Gold Mines Ltd.	Com.	.09
Kenting Limited	Com.	10.25
Kenwest Mines Ltd.	Com.	.02
Kerr Addison Mines Ltd.	Com.	7.40
Kewagama Gold Mines Que. Ltd.	Com.	.05
Key-Anacon Mines Ltd.	Com.	.25
Key Industries Limited	Com.	.22
Keystone Business Forms Limited	Com.	3.00
Key-Way Mining Co. Ltd.	Com.	.07
Kidd Copper Mines Ltd.	Com.	
Kiena Gold Mines Ltd.	Com.	.75
Kilarney Gas & Oil Development Co. Ltd.	Com.	
Kilembe Copper Cobalt Ltd.	Com.	2.25
Kimberlite Mining Corp. Ltd.	Com.	
King Island Mines Ltd.	Com.	.03
King Kirkland Gold Mines Ltd.	Com.	
Kingswood Explorations Ltd.	Com.	.14
Kingswood Explorations Ltd.	Wt.	
Kirkland Gateway Gold Mines Ltd.	Com.	
Kirkland Minerals Corp. Ltd.	Com.	.07
Kismet Mining Corporation Ltd.	Com.	.37
Knobby Lake Mines Limited	Com.	.20
Knogo Corp. Ltd.	Com.	.75
Koffler Stores Ltd.	Com.	15.38
Koffler Stores Ltd.	7 pc A 1st pr.	8.88
Koffler Stores Ltd.	Wt.	6.85
Komo Explorations Ltd.	Com.	.07
Kontiki Lead & Zinc Mines Ltd.	Com.	.03
Kopan Developments Ltd.	Com.	.06
KSF Chemical Processes Ltd.	Com.	1.80
KSF Chemical Processes Ltd.	1968 wt.	.50
K. T. Mining Ltd.	Com.	.11
Kukatush Mining Corp. (1960) Ltd.	Com.	1.75
Kupfer Mines Ltd.	Com.	.42
Labatt Limited, John	Com.	22.00
Labatt Limited, John	Cv A pr.	23.88
Labrador Mining & Exploration Co. Ltd.	Com.	35.25
Lacanex Mining Company Limited	Com.	.90
Lacanex Mining Company Limited	Wt.	.45
Laddie Gold Mines Ltd.	Com.	.04
Laduboro Oil Ltd.	Com.	.90
Laidlaw Motorways Ltd.	Com.	14.88
Laidlaw Motorways Ltd.	7 pc cu cv A pr.	15.38
Laidlaw Motorways Ltd.	Wt.	10.62

Column 1	Column 2	
Laiteries Leclerc Inc., Les	Cl A.	10.75
Lake Beaverhouse Mines Limited	Com.	.12
Lake Dufault Mines Ltd.	Com.	12.13
Lake Erie Gas Ltd.	Com.	
Lake Expanse Gold Mines Ltd.	Com.	.09
Lakehead Mines Ltd.	Com.	.09
Lake Kozak Mines Ltd.	Com.	.04
Lakeland Natural Gas Ltd.	Wt.	
Lakelyn Mines Ltd.	Com.	.10
Lake Ontario Cement Ltd.	Com.	2.70
Lake-Osu Mines Ltd.	Com.	.09
Lake Shore Mines Ltd.	Com.	2.30
Lakeside Oil & Gas Ltd.	Com.	
La Luz Mines Ltd.	Com.	1.55
Lambert Inc., Alfred	Cl A.	15.25
Lambton Loan & Investment Co.	Com.	
Lancer of Canada Limited	Com.	1.85
Langis Silver & Cobalt Mining Co. Ltd.	Com.	.06
Larandona Mines Ltd.	Com.	
Larchmont Mines Ltd.	Com.	.08
Largo Mines Ltd.	Com.	.22
Laroma Midlothian Mines Ltd.	Com.	.04
Laronge Mining Ltd.	Com.	.81
Larum Mines Ltd.	Com.	.02
Lassie Red Lake Gold Mines Ltd.	Com.	.07
Lassiter Petroleums Ltd.	Com.	
Laura Mines Limited	Com.	.20
Laura Secord Candy Shops Ltd.	Com.	8.88
Laurentide Financial Corp. Ltd.	Com.	10.38
Laurentide Financial Corp. Ltd.	$1.25 cu pr.	17.50
Laurentide Financial Corp. Ltd.	$1.40 cu pr.	19.00
Laurentide Financial Corp. Ltd.	$2.00 cu cv 2nd pr.	25.88
Laurentide Financial Corp. Ltd.	6¼ pc cu pr.	17.00
La Verendrye Management Corp.	Com.	8.00
Lawson & Jones Ltd.	Cl A.	18.00
Lawson & Jones Ltd.	Cl B.	92.50
Leamoor Minerals Ltd.	Com.	1.10
Lederic Mines Ltd.	Com.	.18
Leeds Metals Co. Ltd.	Com.	.04
Leemac Mines Ltd.	Com.	.21
Leigh Instruments Limited	Com.	4.45
Leigh Instruments Limited	$2.60 cu cv A pr.	25.00
Leisure World Nursing Homes Ltd.	Com.	1.00
Leitch Mines Ltd.	Com.	
Lemtex Developments Limited	Com.	.55
Lennie Red Lake Gold Mines Ltd.	Com.	.03
Leon's Furniture Ltd.	Com.	6.13
Lequer Mines & Investments Ltd.	Com.	
Levack Mines Ltd.	Com.	
Levy Industries Ltd.	Com.	13.50
Levy Industries Ltd.	6 pc cu A pr.	6.50
Lewes River Mines Ltd.	Com.	.11
Lewis Red Lake Mines Ltd.	Com.	.22
Lexington Mines Limited	Com.	.25
Liberian Iron Ore Limited	Com.	10.13
Life Investors Ltd.	Com.	7.50
Life Investors Ltd.	Wt.	1.25
Lincoln Trust & Saving Company	Com.	12.13
Lingside Copper Mining Co. Limited	Com.	.03
Linland Equipment Sales Ltd.	Com.	1.25
Lion Mines Ltd.	Com.	
Lion Nickel Mines of Canada Ltd.	Com.	.25
Lithium Corporation of Canada Ltd.	Com.	.05
Little Hatchet Minerals Ltd.	Com.	.30
Little Long Lac Mines Limited	Com.	1.80
Livingston Industries Ltd.	Com.	9.00
Livingston Industries Ltd.	6 pc cu A 1st pr.	39.25
Livingston Industries Ltd.	Wt.	5.00
Lobell Mines Ltd.	Com.	
Loblaw Companies Limited	Cl A.	5.75
Loblaw Companies Limited	Cl B.	5.75
Loblaw Companies Limited	$2.40 cu pr.	30.00
Loblaw Groceterias Co. Limited	Com.	99.50
Loblaw Groceterias Co. Limited	$1.50 cu A pr.	18.50
Loblaw Groceterias Co. Limited	$1.60 cu B pr.	19.88
Loblaw Groceterias Co. Limited	$6.60 2nd pt pr.	60.00
Loblaw Inc.	Com.	7.00
Locana Corporation Ltd.	Com.	
Lochaber Oil Corp. Ltd.	Com.	
Lochiel Explorations Ltd.	Com.	1.54
Lodestar Mines Ltd.	Com.	.05
Loeb Ltd., M.	Com.	3.55
Logistec Corp.	Com.	8.25
Loisan Red Lake Gold Mines Ltd.	Com.	.04

Column 1	Column 2	
London Life Insurance Co.	Com.	68.50
London Pride Silver Mines Ltd.	Com.	.09
Lone Creek Mines Ltd.	Com.	.50
Lord Simcoe Hotel Ltd.	Cl A.	
Lori Explorations Ltd.	Com.	.21
Lornex Mining Corporation Ltd.	Com.	6.80
Lost River Mining Corp. Ltd.	Com.	3.85
Louanna Gold Mines Ltd.	Com.	.05
Louisbourg Mines Ltd.	Com.	
Louisiana Land & Exploration Co.	Com.	
Louvicourt Goldfield Corp.	Com.	.11
Lower Valley Mines Ltd.	Com.	.12
Lucky Strike Mines Limited	Com.	.13
Lundor Mines Ltd.	Com.	.55
Luxor Red Lake Mines Ltd.	Com.	
Lynbar Mining Corp. Ltd.	Com.	.10
Lyndhurst Mining Co. Ltd.	Com.	.02
Lynx-Canada Explorations Limited	Com.	1.35
Lynx Yellowknife Gold Mines Ltd.	Com.	.04
Lytton Mineral Limited	Com.	1.30
Macandrews Red Lake Gold Mines Ltd.	Com.	
Macdonald Mines Ltd.	Com.	.08
Maclan Exploration Limited	Com.	.63
Maclaren Power & Paper Co.	Cl A.	15.00
Maclaren Power & Paper Co.	Cl B.	16.00
Maclaren Power & Paper Co.	1 pc pr.	.50
Maclean-Hunter Cable TV Limited	Com.	8.00
Maclean-Hunter Cable TV Limited	7 pc cu A pr.	18.62
Maclean-Hunter Limited	Com.	8.75
Maclean-Hunter Limited	Cl B.	9.50
Macmillan Bloedel Limited	Com.	25.50
Macmillan Bloedel Limited	3 pc pr.	.47
Madeleine Mines Ltd.	Com.	2.54
Madill Ltd., S.	Com.	6.50
Madison Oils Ltd.	Com.	.12
Madsen Red Lake Gold Mines Ltd.	Com.	.60
Magadyne Industries Limited	Com.	1.25
Magna Electronics Corp. Ltd.	Com.	4.05
Magna Electronics Corp. Ltd.	6½ pc cu pr.	
Magnasonic Canada Ltd.	Com.	8.00
Magnetics International Ltd.	Com.	.80
Magnum Fund Ltd.	Com.	23.38
Magoma Mines Ltd.	Com.	.04
Maher Shoes Limited	Com.	20.25
Maher Shoes Limited	Pr.	8.00
Main Oka Mining Corp.	Com.	
Majestic Explorations Ltd.	Com.	
Major Holdings & Development Ltd.	Com.	1.60
Malartic Goldfields Quebec Ltd.	Com.	.55
Malartic Hygrade Gold Mines Ltd.	Com.	2.25
Mandarin Mines Ltd.	Com.	.16
M and M Porcupine Gold Mines Ltd.	Com.	.08
Maneast Uranium Corp. Ltd.	Com.	.01
Manhattan Continental Development Corporation	Com.	.31
Manitou-Barvue Mines Ltd.	Com.	.33
Manix Mining Co. Ltd.	Com.	.20
Manoka Mining & Smelting Co. Ltd.	Com.	
Manor Mines Ltd.	Com.	
Manterre Gold Mines Ltd.	Com.	.01
Maple Leaf Gardens Ltd.	Com.	30.50
Maple Leaf Mills Limited	5½ pc cl B pr.	70.00
Maple Leaf Mills Limited	Com.	15.50
Maple Leaf Mines Ltd.	Com.	.13
Maracambeau Mines Ltd.	Com.	.07
Mara Lake Mines Ltd.	Com.	.09
Marchant Mining Co. Ltd.	Com.	.60
Marche Union Inc.	Com.	3.60
Mareast Explorations Ltd.	Com.	
Margaret Red Lake Mines 1940 Ltd.	Com.	
Maria Mining Corp. Ltd.	Com.	
Marigot Investments Ltd.	Com.	.25
Mariner Mines Limited	B wt.	
Maritime Electric Co. Ltd.	Com.	27.00
Maritime Telegraph & Telephone Co. Ltd.	Com.	22.13
Maritime Telegraph & Telephone Co. Ltd.	7 pc cu pr.	
Markborough Properties Ltd.	Com.	5.38
Markborough Properties Ltd.	Wt.	.70
Marlex Enviro-Systems & Resources Ltd.	Com.	.24
Marshall Boston Iron Mines Ltd.	Com.	.26
Marshall Creek Copper Co. Ltd.	Com.	.07
Martin-Bird Gold Mines Ltd.	Com.	.01
Martin-McNeely Mines Ltd.	Com.	.07
Marval Mines Ltd.	Com.	.35

Column 1	Column 2	
Marvens Ltd.	Cl A.	
Massey-Ferguson Limited	Com.	11.63
Massval Mines Limited	Com.	.07
Master Metal Corp. Mining Ltd.	Com.	.55
Mastermet Cobalt Mines Ltd.	Com.	.05
Matachewan Consolidated Mines Ltd.	Com.	.07
Mate Yellowknife Gold Mines Limited	Com.	.05
Matrix Exploration Limited	Com.	.23
Mattagami Lake Mines Ltd.	Com.	27.88
Matt Berry Mines Ltd.	Com.	.09
Maverick Mines & Oils Limited	Com.	.12
Maverick Mountain Resources Ltd.	Com.	.20
Maybrun Mines Ltd.	Com.	.10
Maycor Mines Ltd.	Com.	.05
Mayfair Molly Mines Ltd.	Com.	.06
Mayfield Explorations Ltd.	Com.	.14
Maylac Gold Mines Ltd.	Com.	
McAdam Mining Corp. Ltd.	Com.	.41
McCarthy Milling Co. Ltd.	Cl A.	
McCarthy Milling Co. Ltd.	Cl B.	
McCoy Lake Mines Limited	Com.	
McCuaig Red Lake Gold Mines Ltd.	Com.	.02
McFinley Red Lake Gold Mines Ltd.	Com.	.05
McIntyre-Porcupine Mines Ltd.	Com.	74.75
McLaughlin Associates Ltd., S.B.	Com.	13.00
McLaughlin Associates Ltd., S.B.	Wt.	5.30
McManus Red Lake Gold Mines Ltd.	Com.	.01
McMarmac Red Lake Gold Mines Ltd.	Com.	.01
McVittie Graham Mining Co. Ltd.	Com.	1.55
Medipack Corp. Ltd.	Com.	1.45
Melchers Distilleries Limited	Com.	11.00
Melton Real Estate Ltd.	Com.	1.60
Melton Real Estate Ltd.	A Wt.	.48
Menorah Mines Ltd.	Com.	.11
Mentor Exploration & Development Co. Ltd.	Com.	.60
MEPC Canadian Properties Ltd.	Com.	7.38
MEPC Canadian Properties Ltd.	6 pc cu A pr.	18.88
MEPC Canadian Properties Ltd.	Wt.	2.40
MEPC Canadian Properties Ltd.	Rt.	
Mercuria Industries Limited	Com.	.80
Mercury Explorations Limited	Com.	.10
Merged Mining Enterprises Ltd.	Com.	.15
Meridian Mining & Exploration Co. Ltd.	Com.	.58
Merland Explorations Limited	Com.	.75
Meta Uranium Mines Ltd.	Com.	.11
Meteor Mining Company Limited	Com.	.04
Metropolitan Stores of Canada Ltd.	Com.	15.38
Metropolitan Stores of Canada Ltd.	6½ pc cu 1961 pr.	18.50
Metropolitan Stores of Canada Ltd.	$1.30 cu 1967 pr.	19.50
Metropolitan Trust Company, The	Com.	18.75
Metropolitan Trust Company, The	Rt.	.90
Mexican Light & Power Co. Limited	Com.	6.82
Mexican Light & Power Co. Limited	$1.00 cu pr.	11.38
Mextor Minerals Ltd.	Com.	.30
MGF Management Ltd.	Cl A.	1.95
Mica Company of Canada Ltd.	Com.	
Microsystems International Ltd.	Com.	5.38
Microsystems International Ltd.	Wt.	1.70
Midcon Oil & Gas Limited	Com.	.51
Middle Bay Mines Ltd.	Com.	.01
Midepsa Industries Ltd.	Com.	.16
Mid Industries & Explorations Ltd.	Com.	.40
Midland Nickel Corp. Ltd.	Com.	.18
Midland Petroleums Limited	Com.	.06
Mid Patepedia Mines Ltd.	Com.	.14
Midrim Mining Co. Ltd.	Com.	.12
Mid-West Mines Ltd.	Com.	.05
Mija Mines Limited	Com.	.12
Miles Red Lake Mines Ltd.	Com.	.02
Milestone Exploration Ltd.	Com.	.08
Mill City Petroleums Ltd.	Com.	2.06
Millerfields Silver Corp. Ltd.	Com.	
Milton Brick Company Ltd.	Com.	3.85
Mindustrial Corporation Ltd.	Com.	7.25
Minedel Mines Ltd.	Com.	.04
Mineral Exploration Corp. Ltd.	Com.	.12
Mineral Mountain Mining Co. Ltd.	Com.	.18
Mineral Resources International Ltd.	Com.	.35
Mines Iberville Ltée	Com.	
Minex Development Ltd.	Com.	.10
Min-Ore Mines Ltd.	Com.	.03
Mirado Nickel Mines Ltd.	Com.	.02
Miro Mines Ltd.	Com.	.05
Miron Company Ltd.	Cl A.	4.10

Column 1	Column 2	
Mistango River Mines Ltd.	Com.	.12
Mistassini Uranium Mines Ltd.	Com.	.10
Mitchell Co. Ltd., Robert	Cl A.	11.50
Mitchell Co. Ltd., Robert	Cl B.	
MLW Worthington Limited	Com.	12.75
Mobilex Development Corporation Limited	Com.	.85
Mobil Oil Corporation	Com.	51.25
Mogar Mines Ltd.	Com.	
Mohawk Industries Ltd.	Com.	.90
Mohawk Industries Ltd.	6 pc cu cv pr.	1.95
Mohawk Mines Ltd.	Com.	.02
Mollie Mac Mines Ltd.	Com.	.09
Molson Industries Ltd.	Cl A.	19.75
Molson Industries Ltd.	Cl B.	19.75
Molson Industries Ltd.	Cl C.	
Molybdenite Corp. of Canada Limited	Com.	
Molymine Exploration Ltd.	Com.	.10
Moly-Ore Mines Ltd.	Com.	.32
Monarch Gold Mines Ltd.	Com.	.02
Monarch Investments Ltd.	Com.	23.38
Monarch Life Assurance	Com.	28.00
Monarch Metal Mines Ltd.	Com.	.07
Monenco Ltd.	Com.	6.00
Moneta Porcupine Mines Ltd.	Com.	.60
Monpre Iron Mines Ltd.	Com.	
Monteagle Minerals Ltd.	Com.	.35
Monterey Petroleum Corporation	Com.	.21
Mont Laurier Uranium Mines Ltd.	Com.	.86
Montreal City & District Savings Bank	Com.	14.88
Montreal Refrigerating & Storage Ltd.	Com.	
Montreal Trust Co.	Com.	18.13
Moore Corp. Ltd.	Com.	38.00
Mooshla Gold Mines Co. Ltd.	Com.	.01
More Mines Limited	Com.	.17
Moresby Mines Ltd.	Com.	.15
Morocco Mines Ltd.	Com.	.08
Morono Copper Mines Ltd.	Com.	.21
Morse Corporation Ltd., Robt.	Cl A.	14.00
Morse Corporation Ltd., Robt.	Cl B.	30.00
Morse Corporation Ltd., Robt.	5½ pc cu cv A pr.	33.00
Morse Corporation Ltd., Robt.	5½ pc cu cv B pr.	31.50
Motorcade Stores Limited	Com.	.25
Mount Jamie Mines Quebec Limited	Com.	.15
Mount Keno Mines Ltd.	Com.	.01
Mount Pleasant Mines Ltd.	Com.	.25
Mount Royal Rice Mills Ltd.	Com.	7.50
Mount Royal Rice Mills Ltd.	5.80 pc cu pr.	20.00
Mount Washington Copper Co. Ltd.	Com.	.07
Mount Wright Iron Mines Ltd.	Com.	.20
MPG Investment Corporation Limited	Com.	4.20
MPG Investment Corporation Limited	$1.30 cu pr.	15.00
MSN Industries Ltd.	Com.	6.13
Mt Hyland Mines Ltd.	Com.	.17
MTS International Services Inc.	Com.	3.00
Multi-Minerals Ltd.	Com.	.27
Multiple Access General Computer Corporation Limited	Com.	1.25
Murgor Explorations Ltd.	Com.	.09
Murky Fault Metal Mines Ltd.	Com.	.50
Murmac Lake Athabasca Mines Ltd.	Com.	.02
Murphy Oil Co. Ltd.	Com.	12.00
Murphy Oil Co. Ltd.	5¾ pc cu cv A pr.	31.00
Murrit Photofax Ltd.	Com.	3.30
Murrit Photofax Ltd.	Wt.	.40
Muscocho Exploration Ltd.	Com.	.18
Mustang Mines Ltd.	Com.	.29
Mymar Mining & Reduction Ltd.	Com.	.27
My-Pitt Red Lake Gold Mines Ltd.	Com.	
Myteque Mines Limited	Com.	
Mytolon Chemical Inc.	Com.	2.75
Mytolon Chemical Inc.	Wt.	1.000
Nabors Drilling Limited	Com.	10.00
Na-Churs International Limited	Com.	6.00
Nadina Explorations Ltd.	Com.	.91
Naganta Mining & Development Co. Ltd.	Com.	.21
Nahanni Mines Ltd.	Com.	.20
Nasco Cobalt Silver Mines Ltd.	Com.	.01
National Drug & Chemical Co. of Canada Ltd.	Com.	6.00
National Drug & Chemical Co. of Canada Ltd.	Cu cv pr.	8.50
National Grocers Company Limited	$1.50 cu pr.	24.44
National Hees Enterprises Ltd.	Com.	2.75
National Hees Industries Ltd.	Com.	2.70
National Hees Industries Ltd.	6 pc cv 1st pr.	
National Nickel Limited	Com.	.17

Column 1	Column 2	
National Nursing Homes Ltd.	Com.	1.75
National Nursing Homes Ltd.	Wt.	.35
National Petroleum Corporation	Com.	2.35
National Sea Products Ltd.	Com.	9.50
National Sea Products Ltd.	5½ pc cu pr.	3.25
National Trust Co. Ltd.	Com.	32.50
Nation Lake Mines Ltd.	Com.	
Native Minerals Ltd.	Com.	.03
Native Mines Ltd.	Com.	.05
Navco Food Services Limited	Com.	
Negor Mines Ltd.	Com.	
Nello Mining Ltd.	Com.	
Nelson's Laundries Co. Ltd.	6 pc cu pr.	7.25
Nemrod Mining Co. Ltd.	Com.	.18
Neonex International Limited	Com.	3.70
Nesbitt Mining & Exploration Ltd.	Com.	.25
New Arnifield Mines Ltd.	Com.	
New Associated Developments Ltd.	Com.	
New Athona Mines Ltd.	Com.	.10
Newbaska Gold & Copper Mines Ltd.	Com.	
New Bedford Explorations Ltd.	Com.	.09
New Bidlamaque Gold Mines Ltd.	Com.	
New Brunswick Telephone Co. Ltd.	Com.	14.63
New Brunswick Uranium Metals & Mining Ltd.	Com.	2.90
New Calumet Mines Ltd.	Com.	.20
New Campbell Island Mines Ltd.	Com.	
New Cinch Uranium Ltd.	Com.	.19
Newconex Holdings Ltd.	Com.	4.70
New Continental Oil Company of Canada Limited	Com.	.69
New Cronin Babine Mines Ltd.	Com.	.06
New Davies Petroleums Ltd.	Com.	.06
New Digby Dome Mines Ltd.	Com.	.04
New Dimension Resources Ltd.	Com.	.58
New Dominion Nickel Mines Ltd.	Com.	.02
New Far North Exploration Ltd.	Com.	.04
New Formaque Mines Ltd.	Com.	.04
New Forty Four Mines Ltd.	Com.	
Newfoundland Light & Power Co. Ltd.	Com.	12.25
Newfoundland Light & Power Co. Ltd.	5 ½ pc cu A pr.	
New Gateway Oils & Minerals Ltd.	Com.	.11
New Glacier Explorers Ltd.	Com.	.05
New Gold Star Mines Limited	Com.	
New Goldvue Mines Ltd.	Com.	.06
New Harricana Mines Ltd.	Com.	
New Hope Porcupine Gold Mines Ltd.	Com.	
New Hosco Mines Ltd.	Com.	.62
New Indian Mines Ltd.	Com.	.06
New Insco Mines Ltd.	Com.	.40
New Jason Mines Ltd.	Com.	.03
New Kelore Mines Ltd.	Com.	.05
New Lorie Mines Ltd.	Com.	.04
Newlund Mines Ltd.	Com.	.13
New Mallen Red Lake Mines Ltd.	Com.	.01
New Marvel Oils Ltd.	Com.	.15
New Metalore Mining Co. Ltd.	Com.	.45
New Miller Pipe Lines & Mining Exploration Ltd.	Com.	.07
New Mount Costigan Mines Ltd.	Com.	.16
Newnorth Gold Mines Ltd.	Com.	.05
New Pascalis Mines Ltd.	Com.	.20
New Picton Uranium Mines Ltd.	Com.	
New Potterdoal Mines Ltd.	Com.	.04
New Privateer Mines Limited	Com.	.19
New Providence Development Co.	Com.	.36
New Quebec Raglan Mines Limited	Com.	6.90
New Redwood Gold Mines Ltd.	Com.	
Newrich Explorations Ltd.	Com.	.06
New Senator Rouyn Ltd.	Com.	.08
New Taku Mines Limited	Com.	.26
New Territorial Uranium Mines Ltd.	Com.	.11
New Unisphere Resources Limited	Com.	.42
Newvan Resources Ltd.	Com.	.28
New Walcord Mines Ltd.	Com.	.02
New Wellington Mines Ltd.	Com.	.21
New York Oils Limited	Com.	.65
Niagara Structural Steel Co. Ltd.	Com.	
Niagara Structural Steel Co. Ltd.	6½ pc cu cv A pr.	18.00
Niagara Wire Weaving Company Limited, The	Com.	11.00
Niagara Wire Weaving Company Limited, The	Cl B.	10.00
Nickel Hill Mines Limited	Com.	.14
Nickel Lake Mines Ltd.	Com.	.02
Nickel Offsets Ltd.	Com.	.14
Nickel Rim Mines Limited	Com.	.10

Column 1	Column 2	
Nicoba Mines Ltd.	Com.	.02
Nicohal Mines Ltd.	Com.	
Nisson Mining & Development Limited	Com.	1.80
Nith River Petroleums Ltd.	Com.	.31
Nitracell Canada Ltd.	Com.	.30
Noble Mines & Oils Ltd.	Com.	1.15
Nocana Mines Ltd.	Com.	.03
Noctin Investment Corporation Ltd.	Com.	
Noland Mines Ltd.	Com.	
Nor-Acme Gold Mines Ltd.	Com.	.18
Noradco Mines Ltd.	Com.	
Noranda Mines Ltd.	Com.	32.75
Norbaska Mines Ltd.	Com.	.19
Norcan Mines Limited	Com.	.10
Norco Oil Corp.	Com.	1.19
Nordev Mines Ltd.	Com.	.10
Nordex Explosives Ltd.	Com.	.50
Nordic Industries Ltd.	Com.	.18
Norex Resources Limited	Com.	.20
Norgold Mines Limited	Com.	.03
Norlex Mines Ltd.	Com.	.26
Normont Copper Ltd.	Com.	
Norque Copper Mines Ltd.	Com.	
Norseman Mines Limited	Com.	.80
Northair Mines Ltd.	Com.	.15
North American Asbestos Co. Ltd.	Com.	.04
North American Land & Leisure Ltd.	Com.	
North American Rare Metals Ltd.	Com.	.18
North American Rockwell Corp.	Com.	29.00
Northcal Mines Ltd.	Com.	.41
North Canadian Oils Ltd.	Com.	5.50
North Canadian Oils Ltd.	5½ pc cu pr.	38.00
North Coldstream Mines Ltd.	Com.	.48
North Continental Oil & Gas Corporation Ltd.	Com.	.02
North D'Arcy Explorations Ltd.	Com.	.20
Northern Canada Mines Ltd.	Com.	.49
Northern & Central Gas Corporation Ltd.	Com.	14.00
Northern & Central Gas Corporation Ltd.	$1.06 cu cv pr.	22.00
Northern & Central Gas Corporation Ltd.	$1.50 cu cv pr.	28.75
Northern & Central Gas Corporation Ltd.	$2.60 cu 1st pr.	37.25
Northern & Central Gas Corporation Ltd.	$2.70 cu pr.	37.00
Northern & Central Gas Corporation Ltd.	Wt.	5.50
Northern Coal Mines Ltd.	Com.	.12
Northern Gem Mining Corp. Ltd.	Com.	.02
Northern Homestake Mines Ltd.	Com.	.24
Northern Homestake Mines Ltd.	Rt.	.01
Northern Metals Limited	Com.	
Northern Nuclear Mines Ltd.	Com.	
Northern Quebec Explorers Ltd.	Com.	.12
Northern Tar, Chemical & Wood Ltd.	Com.	3.25
Northern Tar, Chemical & Wood Ltd.	Cu A pr.	17.00
Northern Telephone Ltd.	5½ pc cu A 1st pr.	
Northern Telephone Ltd.	5½ pc cu B 1st pr.	
Northern Telephone Ltd.	5½ pc cu C 1st pr.	14.50
North Expo Mines Ltd.	Com.	
Northgate Exploration Ltd.	Com.	4.70
North Island Mines Limited	Com.	.12
Northland Oils Ltd.	Com.	.82
Northland Trust Co.	Com.	
Northlode Explorations Ltd.	Com.	.16
North Pacific Mines Ltd.	Com.	.37
North Rock Explorations Ltd.	Com.	2.25
Northville Explorations Ltd.	Com.	.06
Northwest Canalask Nickel Mines Ltd.	Com.	.06
North Western Utilities Ltd.	4 pc cu pr.	54.00
Northwest Sports Enterprises Ltd.	Com.	6.00
Northwest Trust Co.	Com.	
Northwest Trust Co.	Pr.	
Northwest Ventures Limited	Com.	.52
North Whitney Mines Ltd.	Com.	
Nor-West Kim Resources Ltd.	Com.	.18
Nor-West Kim Resources Ltd.	B wt.	
Nouvelle Mining Exploration Ltd.	Com.	.10
Nova Beaucage Mines Ltd.	Com.	.26
Nova Scotia Light & Power Co. Ltd.	Com.	13.13
Nova Scotia Light & Power Co. Ltd.	4 pc cu pr.	
Nova Scotia Light & Power Co. Ltd.	4½ pc cu pr.	
Nova Scotia Light & Power Co. Ltd.	5 pc cu pr.	
Nova Scotia Savings and Loan Co.	Com.	15.50
NQN Mines Ltd.	Com.	.17
NSI Marketing Ltd.	Com.	3.65
Nudulama Mines Ltd.	Com.	
Numac Oil & Gas Ltd.	Com.	12.75
Nu-West Development Corp. Ltd.	Com.	8.25

Column 1	Column 2	
NWL Financial Corporation Ltd.	Com.	2.10
N W P Developments Ltd.	Com.	
N W T Copper Mines Ltd.	Com.	.15
Oakville Wood Specialties Limited	6 pc cu pr.	
Oakwood Petroleums Limited	Com.	1.00
O'Brien Gold Mines Limited	Com.	.14
Occidental Petroleum Corporation	Com.	12.25
Ocean Cement & Supplies Ltd.	Com.	29.50
Oceanic Iron Ore of Canada Ltd.	Com.	.15
Ogilvie Flour Mills Co. Ltd.	7 pc cu pr.	25.25
Oil Patch Equipment Sales & Rentals Ltd.	Com.	1.90
Okanagan Helicopters Ltd.	Com.	6.25
Okanagan Helicopters Ltd.	6 pc cu A pr.	
Okanagan Helicopters Ltd.	6 pc cv 2nd pr.	11.50
Okanagan Helicopters Ltd.	Wt.	3.00
Okanagan Holdings Ltd.	Com.	5.13
Okanagan Telephone Company	$0.40 cu pr.	5.25
Old Canada Investment Corporation Ltd.	Com.	.70
Old Canada Investment Corporation Ltd.	6 pc A 1st pr.	1.45
Old Canada Investment Corporation Ltd.	Wt.	.50
Olivet Gold Mines Ltd.	Com.	
Omega Hydrocarbons Ltd.	Com.	.07
Omega Mines Ltd.	Com.	.14
Onaco Petroleums Ltd.	Com.	.08
Onapping Mines Ltd.	Com.	.08
Ontex Mining Ltd.	Com.	.38
Opemiska Copper Mines Quebec Ltd.	Com.	8.10
Open End Mines Limited	Com.	.31
Orangeroof Canada Ltd.	Com.	5.25
Orchan Mines Ltd.	Com.	3.55
Ordala Mines Ltd.	Com.	
Orlando Realty Corporation Ltd.	Com.	4.95
Orofino Mines Ltd.	Com.	.13
Oro Mines Ltd.	Com.	.20
Ortega Minerals Ltd.	Com.	.05
Orvalley Gold Mines Ltd.	Com.	
OSF Industries Limited	Com.	4.75
Oshawa Group Ltd.	Cl A.	11.38
Oshawa Group Ltd.	Wt.	1.50
Osisko Lake Mines Ltd.	Com.	.27
Ourgold Mining Co. Ltd.	Com.	
Overland Express Ltd., The	Com.	10.50
Overland Express Ltd., The	$0.60 cu cv pr.	22.00
Overland Express Ltd., The	2nd pt pr.	4.45
Pace Industries Ltd.	Com.	.85
Pace Industries Ltd.	Wt.	
Pacific Asbestos Ltd.	Com.	1.32
Pacific Atlantic Canadian Investment Co. Ltd.	Com.	4.05
Pacific Atlantic Canadian Investment Co. Ltd.	5 pc cu A pr.	
Pacific Copper Mines Ltd.	Com.	1.85
Pacific Enterprises Ltd.	Com.	1.65
Pacific Gas Transmission Co.	Com.	
Pacific Nickel Mines Ltd.	Com.	.31
Pacific Northern Gas Ltd.	Cl A.	3.50
Pacific Northern Gas Ltd.	6¾ pc cu pr.	22.50
Pacific Northern Oils Ltd.	Com.	.07
Pacific Petroleums Limited	Com.	31.63
Pacific Silver Mines & Oils Ltd.	Com.	.06
Pacific Sulphur Ltd.	Com.	
Pacific Western Airlines Ltd.	Com.	12.63
Pacific Western Airlines Ltd.	6 pc cu pr.	30.88
Packard Pershing Mines Ltd.	Com.	
Paco Corporation of Canada Ltd.	Com.	1.85
Page Petroleum Ltd.	Com.	1.50
Palco Explorations Ltd.	Com.	.15
Palliser Petroleums Ltd.	Com.	
Palmer McLellan (United) Ltd.	Com.	
Palomino Explorations Ltd.	Com.	.10
Pamike Mines Ltd.	Com.	.20
Pamour Porcupine Mines Ltd.	Com.	1.75
Panacan Resources Ltd.	Com.	.38
Panacea Mining & Exploration Ltd.	Com.	
Pan American Mines Ltd.	Com.	
Pan Canadian Petroleums Limited	Com.	15.25
Pancana Industries Ltd.	Com.	2.35
Pan Eastern Corporation Ltd.	Com.	.29
Pango Gold Mines Ltd.	Com.	
Pan Ocean Oil Corporation	Com.	11.38
Panther Mines Ltd.	Com.	.20
Paragon Properties Limited	Com.	3.10
Paramaque Mines Ltd.	Com.	.03
Paramount Mining Ltd.	Com.	.20
Parkland Beef Industries Ltd.	Com.	.30
Park Lawn Cemetery Company	Com.	

Column 1	Column 2	
Parr Mines Ltd.	Com.	.14
Partridge River Mines Ltd.	Com.	
Pathfinder Resources Ltd.	Com.	.92
Pathfinder Resources Ltd.	B wt.	.16
Patino Naamloze Vennootschap	Com.	13.75
Pato Consolidated Gold Dredging Ltd.	Com.	6.50
Patricia Silver Mines Ltd.	Com.	.06
Paulpic Gold Mines Ltd.	Com.	.13
Pax International Mines Ltd.	Com.	.01
Payco Mines Ltd.	Com.	.05
Payette River Mines Limited	Com.	.06
Payfair Industries Ltd.	Com.	
PCE Explorations Limited	Com.	.52
Peace River Mining & Smelting Ltd.	Com.	
Peace River Petroleums Ltd.	Com.	.17
Peel-Elder Limited	Com.	14.13
Peel Resources Ltd.	Com.	.14
Pelangio Larder Mines Ltd.	Com.	.02
Pembina Pipe Line Ltd.	Cl A.	7.13
Pembina Pipe Line Ltd.	Cl B.	7.00
Pembina Pipe Line Ltd.	5 pc cu 1st pr.	48.00
Pembina Pipe Line Ltd.	6 pc cu A 2nd pr.	25.50
Pembroke Electric Light Co. Ltd.	Com.	27.50
Pend Oreille Mines & Metals Co.	Com.	.75
Pennbec Mining Corp.	Com.	
Pennington's Stores Limited	Com.	11.88
Peoples Credit Jewellers Ltd.	Com.	9.38
Peoples Credit Jewellers Ltd.	Cl A.	9.00
Peoples Credit Jewellers Ltd.	6 pc cu pr.	94.75
Peoples Department Stores Limited	Com.	11.75
P.E.P. Professional & Engineered Patents Ltd.	Com.	.35
Pere Marquette Petroleums Ltd.	Com.	.03
Permo Gas & Oil Limited	Com.	.38
Pershing Manitou Gold Mines Ltd.	Com.	
Pershon Gold Mines Ltd.	Com.	.01
Peruvian Oils & Minerals Ltd.	Com.	.29
Peso Silver Mines Ltd.	Com.	.14
Peterson Red Lake Mines Ltd.	Com.	
Petrofina Canada Ltd.	Com.	21.50
Petrol Oil & Gas Company Ltd., The	Com.	1.32
Petromines Ltd.	Com.	.26
Petroquest Ltd.	Com.	
Peyto Oils Limited	Com.	1.87
Pharaoh Mines Ltd.	Com.	
Phillips Cables Limited	Com.	9.75
Phillips Petroleum Co.	Com.	
Phoenix Canada Oil Company Ltd.	Com.	7.45
Photo Engravers & Electrotypers Ltd.	Com.	19.00
Pickel Crow Explorations Limited	Com.	.23
Pickering Metal Mines Ltd.	Com.	.01
Pick Mines Ltd.	Com.	
Picton Mines	Com.	
Pine Bell Mines Ltd.	Com.	.13
Pine Lake Mining Co. Ltd.	Com.	.13
Pine Pacific Mines Ltd.	Com.	.18
Pine Point Mines Ltd.	Com.	24.00
Pine Ridge Exploration Co. Ltd.	Com.	.13
Pine Tree Explorations Ltd.	Com.	.15
Pinex Mines Ltd.	Com.	.69
Pinnacle Mines Ltd.	Com.	.12
Pinnacle Petroleums Ltd.	Com.	.44
Pitchvein Mines Ltd.	Com.	.01
Pitt Gold Mining Co. Ltd.	Com.	.04
Pitts Engineering Construction Limited, C.A.	Com.	14.13
Pizza Pan International Corp.	Com.	
Place Gas & Oil Company Limited	Com.	1.00
Placer Development Ltd.	Com.	25.50
Plains Petroleum Ltd.	Com.	.27
Plateau Metals Limited	Com.	.33
Pleno Mines Ltd.	Com.	
Polaris Mines Ltd.	Com.	.05
Polcon Corp.	Com.	3.00
Polypump Ltd.	Com.	2.53
Ponderay Exploration Co. Ltd.	Com.	1.15
Ponder Oils Ltd.	Com.	.68
Popular Industries Ltd.	Com.	1.50
Port Arthur Iron Ore Corp.	Com.	
Portcomm Communications Corp. Ltd.	Com.	.75
Portcomm Communications Corp. Ltd.	A. Wt.	
Port Dover Gas & Oil Ltd.	Com.	
Porield Petroleums Limited	Com.	.10
Portland Yellowknife Gold Mines Limited	Com.	
Potter Distilleries Ltd.	Com.	3.50
Power Corp. of Canada Ltd.	Com.	5.50

Column 1	Column 2
Power Corp. of Canada Ltd.	4 3/4 pc 1st pr. 28.38
Power Corp. of Canada Ltd.	5 pc cv A 2nd pr. 8.88
Power Corp. of Canada Ltd.	6 pc 2nd pr.
Prado Explorations Ltd.	Com. 1.12
Prairie Oil Royalties Company Ltd.	Com. 11.75
Prairie Royalty	Com.
Prefac Concrete Co. Ltd.	Com. 1.45
Premier Cablevision Limited	Com. 10.60
Premier Trust Co., The	Fully paid 340.00
Premium Iron Ores Limited	Com. 1.75
Preston Mines Limited	Com. 6.70
Price Company Limited, The	Com. 7.25
Price Company Limited, The	4 pc cu pr. 50.00
Prime Potash Corporation of Canada Ltd.	Com. .03
Primer Group Minerals Ltd.	Com. .09
Probe Mines Limited	Com. .20
Proflex Limited	Com. 2.20
Pronghorn Petroleum Corp. Ltd.	Com.
Proto Explorations Ltd.	Com. .15
Provident Assurance Company (The)	Com.
Provigo Inc.	Com. 6.75
Provinces & Explorations Ltd.	Com. .22
Puma Petroleums Ltd.	Com. .84
Puma Petroleums Ltd.	A Wt. .48
Purdex Minerals Ltd.	Com. .01
Pure Silver Mines Ltd.	Com. 2.30
Pyramid Mining Co. Ltd.	Com. .31
Q Broadcasting Ltd.	Cl A. 5.00
Q.S.P. Ltd.	Com. 11.25
Quadrate Explorations Ltd.	Com. .02
Quatsino Copper-Gold Mines Ltd.	Com. .11
Quebec Antimony Mines Ltd.	Com. .24
Quebec Cobalt & Exploration Ltd.	Com. .55
Quebec Explorers Corp. Ltd.	Com. .15
Quebec Gold Belt Mines Ltd.	Com. .08
Quebec Industrial Minerals Corp.	Com.
Quebec Manitou Mines Ltd.	Com. .12
Quebec Mattagami Minerals Ltd.	Com. .25
Quebec Sturgeon River Mines Ltd.	Com. .10
Quebec Telephone	Com. 13.75
Quebec Telephone	6 1/5 pc cu cv A pr. 14.00
Quebec Telephone	5 pc cu pr 1951 series 5.50
Quebec Teléphone	5 pc cu pr 1955 series 13.25
Quebec Telephone	5 pc cu pr 1956 series
Quebec Telephone	4 3/4 pc cu pr 1965 series 12.50
Quebec Uranium Mining Corp.	Com. .18
Queenston Gold Mines Ltd.	Com. .20
Quejo Mines Ltd.	Com. .04
Quest Yellowknife Mines Limited	Com. .01
Quilchena Mining & Development Co. Ltd.	Com.
Quinte-Canlin Limited	Com. 1.95
Quinte-Canlin Limited	Cl A. 2.00
Rackla River Mines Ltd.	Com. .06
Rackla River Mines Ltd.	Rt.
Radex Minerals Ltd.	Com. .08
Radex Minerals Ltd.	Wt.
Radiation Development Co. Ltd.	Com. 3.50
Radio Hill Mines Co. Ltd.	Com.
Radiore Uranium Mines Ltd.	Com. .25
Ragged Chute Silver Mines Ltd.	Com.
Ramada Resources Ltd.	Com.
Rambler Exploration Co. Ltd.	Com.
Ramid International Ltd.	Com. .24
Ram Petroleums Ltd.	Com. .64
Rancheria Mining Co. Ltd.	Com. .08
Ranchmen's Resources Ltd.	Com. .60
Rand Malartic Mines Ltd.	Com. .02
Rand Resources Limited	Com. .53
Ranger Oil Canada Limited	Com. 13.75
Rank Organization Ltd.	Com. 22.13
Ranney Gold Mines Ltd.	Com.
Rapid Data Systems & Equipment Ltd.	Com. 4.50
Rapid Data Systems & Equipment Ltd.	6 pc cu cv pr. 5.25
Rapid Grip & Batten Limited	Com. 5.00
Rapid Grip & Batten Limited	Cl A. 7.00
Rapid River Resources Ltd.	Com. .06
Rawhide U Mines Ltd.	Com. .10
Rayfield Mining Co.	Com.
Raylloyd Mines & Explorations Ltd.	Com. .20
Raymond Tiblemont Gold Mines Ltd.	Com. .02

Column 1	Column 2
Rayore Mines Ltd.	Com. .40
Rayrock Mines Limited	Com. 1.15
Reactor Uranium Mines Ltd.	Com. .15
Reader's Digest Association (Canada) Ltd.	Com. 7.88
Readyfoods Ltd.	Com. 1.88
Realm Mining Corporation Limited	Com.
Realty Capital Corporation Ltd.	Cl A. 3.40
Realty Capital Corporation Ltd.	Wt. .85
Reco Silver Mines Ltd.	Com. .10
Redaurum Red Lake Gold Mines Ltd.	Com.
Redcoat Mines Ltd.	Com.
Redcon Gold Mines Ltd.	Com. .03
Redhill Investment Corp. Ltd.	Com. 4.75
Red Metal Mines Ltd.	Com. .06
Redruth Gold Mines Ltd.	Com. .02
Redstone Mines Ltd.	Com. .32
Reed Shaw Osler Limited	Com. 8.75
Reeves Macdonald Mines Ltd.	Com. 1.00
Regentbranch Holdings Limited	Com. 2.25
Reichhold Chemicals (Canada) Ltd.	Com. 9.00
Reichhold Chemicals (Canada) Ltd.	Wt. 2.75
Reid Lithographing Co. Ltd.	Com. 10.13
Reid Lithographing Co. Ltd.	6 1/4 pc cu A pr. 41.13
Reitman's Canada Ltd.	Com. 19.13
Reitman's Canada Ltd.	Cl A. 19.25
Renold Chains Canada Ltd.	Cl A. cu pr.
Renzy Mines Ltd.	Com. .43
Reprox Corp. Ltd.	Com. 1.70
Republic Resources Ltd.	Com. .17
Revelstoke Building Materials Ltd.	Com. 14.75
Revelstoke Building Materials Ltd.	6 pc cu pr. 15.00
Revenue Properties Co. Ltd.	Com. .71
Rexdale Mines Ltd.	Com.
Reynolds Aluminum Co. of Canada Ltd.	4 3/4 pc cu 1st pr. 64.75
R.H.P. Canada Ltd.	Cu pt cl A.
Rhyolite-Rouyn Mines Ltd.	Com.
Richan Explorations Limited	Com. .80
Richelieu Vaudreuil Farms Ltd.	Com.
Richfault Explorations Ltd.	Com.
Rich Group Yellowknife Mines Ltd.	Com. .21
Richore Gold Mines Ltd.	Com.
Richwood Industries Ltd.	Com. 2.10
Ridgefield Explorations Ltd.	Com.
Riley's Datashare International Ltd.	Com. 1.95
Rimrock Mining Corporation Ltd.	Com. .50
Rio-Algom Mines Ltd.	Com. 15.25
Rio-Algom Mines Ltd.	$5.80 cu A 1st pr. 75.50
Rio Plata Silver Mines Ltd.	Com. .07
Rio Rupununi Mines Ltd.	Com. .01
Ripley International Ltd.	Com. 3.80
Riverside Yarns Ltd.	Com. 2.25
Riverside Yarns Ltd.	Cl A cu cv pr. 2.75
Riviera Industries & Resources Ltd.	Com. .22
Robb Montbray Mines Ltd.	Com. .01
Robert Mines Ltd.	Com. .50
Robin Red Lake Mines Ltd.	Com. .50
Robinson, Little & Co. Ltd.	Com. 37.25
Robinson, Little & Co. Ltd.	Cl A. 36.75
Rocket Mines Limited	Com. .18
Rockland Mining Ltd.	Com. .23
Rodstrom Yellowknife Mines Ltd.	Com. .07
Rokon Mines Ltd.	Com. .29
Rolland Paper Co. Limited	Cl A. 3.10
Rolland Paper Co. Limited	Cl B. 2.75
Rolland Paper Co. Limited	4 1/4 pc cu pr.
Rolling Hills Copper Mines Ltd.	Com. .34
Roman Corporation Ltd.	Com. 6.10
Romfield Building Corp. Ltd.	Com.
Ronalds-Federated Ltd.	Com. 13.50
Ronnoco Gold Mines Ltd.	Com.
Ron Roy Uranium Mines Limited	Com. .12
Rose Gold Mining Co. Ltd.	Com. .11
Rose Pass Mines Ltd.	Com. .25
Rothmans of Pall Mall Canada Ltd.	Com. 16.63
Rothmans of Pall Mall Canada Ltd.	6.85 pc cu 1st pr. 82.50
Rothmans of Pall Mall Canada Ltd.	6 5/8 pc cv 2nd pr. 19.88
Rothmans of Pall Mall Canada Ltd.	Wt. 3.50
Rouyn Exploration Ltd.	Com. .07
Rowan Consolidated Mines Ltd.	Com. .02
Roxmark Mines Ltd.	Com. .04
Royal Agassiz Mines Ltd.	Com. .28
Royal Bank of Canada, The	Com. 29.50
Royal Canadian Ventures Ltd.	Com. 1.02
Royal Oak Dairy Ltd.	Cl A. 12.75

Column 1	Column 2	
Royal Oak Dairy Ltd.	Cl B.	
Royal Trust Company, The	Com.	37.50
Royal Trust Co. Mortgage Corp., The	5 pc cu A pr.	14.25
R R D Limited	Com.	5.00
R R D Limited	Wt.	.50
R S L Limited	Com.	3.10
Rugged Red Lake Mines Ltd.	Com.	.01
Russel Holdings Ltd.	Com.	1.08
Russel Ltd., Hugh	Cl A.	9.00
Russel Ltd., Hugh	6½ pc cv A 1st pr.	20.13
Russell Foods	Com.	
Ruttan Lake Explorations Ltd.	Com.	.37
Ryanor Mining Co. Ltd.	Com.	.14
Sabina Industries Ltd.	Com.	2.35
Safari Explorations Limited	Com.	.23
St. Anthony Mines Ltd.	Com.	
Saint Fabien Copper Mines Ltd.	Com.	.07
St. James Resources Ltd.	Com.	1.70
Saint Lawrence Cement Co. Ltd.	Cl A.	36.50
Saint Lawrence Columbium & Metals Corp.	Com.	1.00
Saint Lawrence Corp. Ltd.	Com.	21.00
Saint Lawrence Corp. Ltd.	5 pc cu A pr.	63.00
Saint Lawrence Diversified Co.	Com.	.65
Saint Luci Exploration Co. Ltd.	Com.	.16
St. Mary's Explorations Ltd.	Com.	.04
Saint Maurice Capital Corp. Ltd.	Com.	.70
Samson Mines Ltd.	Com.	.02
Sandwell & Company Limited	Com.	5.75
Sanelli Pools Limited	Unit	.45
Sangamo Co. Ltd.	Com.	14.38
San Jacinto Explorations Ltd.	Com.	.09
San Judas Molybdenum Corp. Ltd.	Com.	.40
Santack Mines Ltd.	Com.	
Santa Helena Mining Ltd.	Com.	.20
Santa Maria Mines Ltd.	Com.	.31
Santa's Village Ltd.	Com.	10.00
Santiago Mining & Exploration Ltd.	Com.	
Sapawe Gold Mines Ltd.	Com.	.03
Saratoga Processing Co. Ltd.	Com.	4.40
Sarimco Mines Ltd.	Com.	.02
Sarnoil Ltd.	Com.	
Saskatchewan Trust & Loan Co.	Com.	
Saskoba Mines Inc.	Com.	.34
Sastex Petro-Minerals Ltd.	Com.	.07
Satellite Metal Mines Ltd.	Com.	.06
Savanna Creek Gas & Oil Ltd.	Com.	
Sayvette Limited	Com.	4.70
Scandia Mining & Exploration Ltd.	Com.	.11
Schneider Limited, J. M.	Com.	11.00
Schneider Limited, J. M.	B cu cv pr.	8.25
Schneider Limited, J. M.	C cu cv pr.	
Schott Industries Inc.	Com.	5.50
Sciminex Limited	Com.	.53
Scintrex Limited	Com.	2.90
Scope Resources Ltd.	Com.	.13
Scott Chibougamau Mines Ltd.	Com.	.01
Scottish & York Holdings Ltd.	Com.	9.50
Scott-Lasalle Limited	Com.	9.13
Scott Misener Steamships Ltd.	Com.	2.50
Scott Misener Steamships Ltd.	5½ pc cu pr.	7.50
Scott Paper Limited	Com.	18.50
Scott's Restaurant Ltd.	Com.	15.13
SCU Industries Ltd.	Com.	1.75
Scurry-Rainbow Oil Limited	Com.	16.25
Scythes and Company Limited	Com.	16.00
Seaboard Life Insurance Co.	Com.	2.00
Seaway Copper Mines Limited	Com.	.83
Seaway Multi-Corp. Ltd.	Com.	8.00
Seaway Multi-Corp. Ltd.	Cu cv A pr.	5.88
Seaway Multi-Corp. Ltd.	Wt.	.94
Seco-Cemp. Ltd.	7¼ pc.	10.31
Secondo Mining Ltd.	Com.	.10
Security Capital Corp. Ltd.	Cl B.	3.90
Seemar Mines Ltd.	Com.	.25
Seldore Mining Company Limited	Com.	.40
Select Properties Ltd.	Com.	2.45
Selkirk Holdings Ltd.	Cl A.	17.00
Senior Gas & Oil Ltd.	Com.	
September Mt. Copper Mines Ltd.	Com.	.10
Seton Lake Mines Ltd.	Com.	
Share Mines & Oils Ltd.	Com.	.12
Shasta Mines & Oils Ltd.	Com.	.50
Shaw Limited, L. E.	Com.	5.88
Shawmin Explorations Ltd.	Com.	

Column 1	Column 2	
Shawnee Petroleums Ltd.	Com.	.09
Shawnex Mines Limited	Com.	.15
Shaw Pipe Industries Ltd.	Com.	8.00
Sheba Copper Mines Ltd.	Com.	.22
Sheba Mines Ltd.	Com.	.04
Sheldon-Larder Mines Ltd.	Com.	.07
Shell Canada Limited	Cl A.	37.25
Shell Investments Ltd.	5½ pc cu cv pr.	37.25
Shell Investments Ltd.	Wt.	17.00
Shell Oil Company	Com.	
Shelter Bay Mining Corp.	Com.	.21
Shepherd Casters Canada Ltd.	Com.	4.00
Sheritt-Lee Mines Ltd.	Com.	.28
Sherritt Gordon Mines Ltd.	Com.	15.13
Sherwin-Williams Co. of Canada Ltd.	Com.	13.50
Sherwin-Williams Co. of Canada Ltd.	7 pc cu pr.	89.00
Shewan Copper Mining Corp. Ltd.	Com.	
Shield Development Co. Ltd., The	Com.	.80
Shore to Shore Corporation Limited	Com.	3.50
Shully's Industries Limited	Com.	4.75
Siebens Oil & Gas Ltd.	Com.	9.00
Sierra Empire Mines Ltd.	Com.	1.50
Sifton Properties Ltd.	Com.	3.60
Sigma Mines Quebec Ltd.	Com.	3.75
Silbak Premier Mines Ltd.	Com.	.09
Sileurian Chieftain Mining Co. Ltd.	Com.	.09
Silknit Limited	Com.	22.00
Silknit Limited	5 pc pr.	37.00
Silmonac Mines Ltd.	Com.	.27
Silver Butte Mines Ltd.	Com.	.07
Silver Chief Minerals Ltd.	Com.	.27
Silver Christal Natural Gas & Minerals Ltd.	Com.	.45
Silver City Mines Ltd.	Com.	.12
Silver-Cup Mines Ltd.	Com.	.20
Silver Eureka Corp.	Com.	.38
Silver Key Mines Ltd.	Com.	.05
Silverknife Mines Ltd.	Com.	.05
Silver Lake Mines Ltd.	Com.	
Silvermaque Mining Ltd.	Com.	.18
Silver-Men Mines Ltd.	Com.	.03
Silver-Miller Mines Ltd.	Com.	.05
Silver Monarch Mines Ltd.	Com.	
Silver Pack Mines Ltd.	Com.	
Silverquick Development Co. BC Ltd.	Com.	.12
Silver Ridge Mining Co. Ltd.	Com.	.05
Silver Shield Mines Inc.	Com.	3.10
Silver Shield Mines Inc.	A wt.	2.19
Silver Shield Mines Inc.	B wt.	2.02
Silversides Mines Ltd.	Com.	.07
Silver Spring Mines Ltd.	Com.	.58
Silverstack Mines Ltd.	Com.	.26
Silver Standard Mines Ltd.	Com.	1.10
Silver Star Mines Ltd.	Com.	.10
Silver Summit Mines Ltd.	Com.	.02
Silverwood Industries Ltd.	Cl A.	15.63
Silverwood Industries Ltd.	Cl B.	14.75
Simpsons Limited	Com.	22.00
Simpsons-Sears Limited	Com.	28.63
Sintra Limited	Com.	5.50
Sirmac Mines Ltd.	Com.	
Skelly Oil Company	Com.	45.25
Sklar Manufacturing Ltd.	Com.	2.35
Sklar Manufacturing Ltd.	Wt.	.75
Skyline Hotels Limited	Com.	9.25
Sladen Quebec Ltd.	Com.	
Slate Bay Gold Mines Ltd.	Com.	.02
Slater Steel Industries Limited	Com.	10.00
Slater Steel Industries Limited	5½ pc cu 1st pr.	13.88
Slater Steel Industries Limited	5½ pc 2nd pr.	13.75
Slater Steel Industries Limited	$1.20 cu pr.	15.00
Slater Walker of Canada Ltd.	Com.	13.25
Slater Walker of Canada Ltd.	Rt.	
Slater Walker Securities Ltd.	Com.	8.00
Slave Point Mines Ltd.	Com.	.04
S L Diversified Corp. Ltd.	Com.	9.38
Slocan Ottawa Mines Ltd.	Com.	.69
S.M.A. Inc.	Com.	.50
S M Industries Ltd.	Com.	
Snowdrift Base Metal Mines Ltd.	Com.	.13
Sobeys Stores Limited	Com.	6.75
Soca Ltée.	Com.	.50
Sogena Inc.	Com.	14.50
Sogepet Ltd.	Com.	1.22
Solar Explorations Ltd.	Com.	

Column 1	Column 2	
Solidarité Compagnie d'Assurance sur la Vie	Com.	
Solomon Development Ltd.	Com.	.38
Solomons Pillars Mines Ltd.	Com.	
Somerville Industries Ltd.	$2.80 cu pr.	40.00
Somex Ltée	Com.	.83
Southam Press Limited	Com.	73.13
South Dufault Mines Ltd.	Com.	.05
Southern Pacific Petroleum Ltd.	Com.	.08
Southern Union Oils Ltd.	Com.	
South Pacific Mines Ltd.	Com.	
South Seas Mining Ltd.	Com.	.22
South Winnipeg Limited	Com.	
Spacemaster Minerals Ltd.	Com.	.03
Spa Mines Ltd.	Com.	.05
Spanish River Mines Ltd.	Com.	
Spar Aerospace Products Ltd.	Com.	1.65
Sparling Ltd., George	Com.	2.40
Spartan Air Services Ltd.	Com.	.50
Spartan Explorations Ltd.	Com.	.13
Spartex Oil & Gas Ltd.	Com.	.08
Spectroair Explorations Ltd.	Com.	.13
Speculators Fund Ltd.	Com.	.42
Spenho Mines Ltd.	Com.	.06
Spina Porcupine Mines Ltd.	Com.	
Spirit Lake Mines Ltd.	Com.	
Spooner Mines & Oils Limited	Com.	1.10
Stability Life Insurance Co.	Com.	
Stafford Foods Ltd.	Com.	2.60
Stairs Exploration & Mining Co. Ltd.	Com.	.02
Stall Lake Mines Ltd.	Com.	.89
Stampede International Resources Ltd.	Com.	.68
Standard Broadcasting Corp. Ltd.	Com.	13.00
Standard Fuel Co. Ltd.	4½ pc cu pr.	
Standard Gold Mines Ltd.	Com.	.07
Standard Nickel Mines Limited	Com.	.22
Standard Paving & Materials Ltd.	Com.	11.50
Stanfield's Ltd.	Cl A.	
Stanfield's Ltd.	Cl B.	
Stanford Mines Ltd.	Com.	.60
Stannex Minerals Ltd.	Com.	.14
Stanrock Uranium Mines Ltd.	Com.	.60
Star Lake Gold Mines Ltd.	Com.	.05
Steel Co. of Canada Ltd., The	Com.	26.75
Steeltree Group Inc.	Com.	.95
Steeltree Group Inc.	6 pc cu pr.	3.55
Steep Rock Iron Mines Ltd.	Com.	2.23
Steetley Industries Ltd.	Com.	7.00
Steinberg's Limited	Cl A.	22.88
Steinberg's Limited	5¼ pc cu A pr.	77.00
Steintron International Electronics Ltd.	Com.	3.35
Stellako Mining Company Ltd.	Com.	.11
Sterisystems Ltd.	Com.	15.25
Sterisystems Ltd.	Cl A.	15.50
Sterling Trust Corporation	Com.	8.25
Stewart Lake Iron Mines of Ontario Ltd.	Com.	.15
Stormy Mines Ltd.	Com.	.28
Stuart House International Ltd.	Com.	3.55
Stuart House International Ltd.	6 pc cu cv A pr.	6.75
Stuart Oil Company Ltd., D. A.	Com.	7.75
Studer Mines Limited	Com.	.10
Stump Mines Ltd.	Com.	.08
Sturdy Mines Ltd.	Com.	.14
Sturgeon Petroleums Ltd.	Com.	
Sturgex Mines Ltd.	Com.	.21
Subeo Limited	Com.	.10
Sudbury Contact Mines Ltd.	Com.	.25
Sullivan Mining Group Ltd.	Com.	2.70
Summit Explorations & Holdings Ltd.	Com.	.73
Sun Bear Mines Ltd.	Com.	.01
Sunburst Explorations Ltd.	Com.	.11
Sunburst Explorations Ltd.	Rt.	.01
Sunlite Oil Company Ltd.	Com.	5.00
Sunningdale Oils Ltd.	Com.	2.65
Sun Publishing Co. Limited	Cl A.	34.75
Sun Publishing Co. Limited	Cl B.	33.00
Sunrise Silver Mines Ltd.	Com.	.10
Sunset Yellowknife Mines Ltd.	Com.	
Superior Acid & Iron Ltd.	Com.	.12
Superior Electronics Industries Ltd.	Com.	2.05
Supermarché à Domicile Ltée	Com.	.30
Superpack Corporation Ltd.	Com.	4.00
Supersol Ltd.	Com.	
Supertest Petroleum Corporation Limited	Com.	16.25
Supertest Petroleum Corporation Limited	Ordinary	68.00

Column 1	Column 2	
Surluga Gold Mines Ltd.	Com.	.07
Surpass Chemicals Limited	Com.	1.60
Swim Lake Mines Ltd.	Com.	.15
Swiss Oils of Canada 1959 Ltd.	Com.	.18
Systems Air Corp. Ltd.	Com.	.15
Systems Dimensions Ltd.	Com.	6.88
Tache Lake Mines Ltd.	Com.	.03
Tagami Mines Limited	Com.	.12
Takla Silver Mines Ltd.	Com.	.09
Talisman Mines Limited	Com.	.15
Taman Uranium Mines Ltd.	Com.	.07
Tamblyn Limited, G.	Com.	18.50
Tamblyn Limited, G.	4 pc cu pr.	25.00
Tancord Industries Limited	Com.	2.40
Tancord Industries Limited	A pr.	2.50
Taneloy Mines Ltd.	Com.	.08
Tanzilla Explorations Ltd.	Com.	.11
Tara Exploration & Development Company Limited	Com.	12.75
Target Mines Ltd.	Com.	.08
Tartan Explorations Ltd.	Com.	.19
Taseko Mines Ltd.	Com.	.22
Tashota-Nipigon Mines Ltd.	Com.	.22
Tasmaque Gold Mines Ltd.	Com.	
Taylor Windfall Gold Mining Co. Ltd.	Com.	.02
Tay River Mines Ltd.	Com.	.15
Teck Corporation Ltd.	Cl A.	4.75
Teck Corporation Ltd.	Cl B.	4.15
Teckora Mines Limited	Com.	.51
Teknol Mining Co. Ltd.	Com.	.34
Teledyne Canada Ltd.	Com.	4.65
Tenneco Inc.	Com.	
Terra Developers Ltd.	Com.	
Terra Mining & Exploration Ltd.	Com.	2.40
Terrasol	Com.	2.88
Terrex Mining Co. Ltd.	Com.	.15
Texacal Resources Ltd.	Com.	.24
Texaco Canada Limited	Com.	34.50
Texaco Canada Limited	4 pc cu pr.	60.00
Texal Development Ltd.	Com.	.30
Texas East Transmission	Com.	
Texas Gulf Sulphur Co. Inc.	Com.	14.38
Texmont Mines Ltd.	Com.	.39
Texore Mines Ltd.	Com.	.10
Tex-Sol Explorations Ltd.	Com.	.57
Thermatron Corporation Ltd.	Com.	
Thermatron Corporation Ltd.	Wt.	
Third Canadian General Investment Trust Ltd.	Com.	11.75
Third Canadian General Investment Trust Ltd.	Pr.	32.00
Thomas Nationwide Transport Limited	Com.	1.95
Thompson Lundmark Gold Mines Ltd.	Com.	.20
Thompson Paper Box Co. Limited	Com.	4.75
Thompson Paper Box Co. Limited	6 pc cu pr.	
Thomson Drilling Company Ltd.	Com.	1.50
Thomson Newspapers Limited	Com.	29.13
Thomson Newspapers Limited	6¾ pc cu pr.	51.13
Thor Explorations Ltd.	Com.	.68
Thorncrest Explorations Ltd.	Com.	
Timken Co.	Com.	43.00
Timrod Mining Co. Ltd.	Com.	.21
Tinex Development Exploration Ltd.	Com.	
Tobe Mines Ltd.	Com.	.12
Tokar Limited	Com.	1.40
Tombill Mines Ltd.	Com.	.55
Tomrose Mines Ltd.	Com.	
Tonecraft Limited	Com.	12.50
Tontine Mining Limited	Com.	.60
Tooke Bros. Ltd.	Com.	.75
Tooke Bros. Ltd.	A pr.	
Topley Criss Mines Limited	Com.	.09
Torcan Explorations Ltd.	Com.	.12
Tormex Mining Developers Ltd.	Com.	1.68
Toromont Industrial Holdings Ltd.	Com.	1.30
Toromont Industrial Holdings Ltd.	6½ pc cu cv A pr.	
Toronado Mines Ltd.	Com.	.17
Toronto-Dominion Bank	Com.	30.00
Toronto Iron Works Ltd. (The)	Com.	8.75
Toronto & London Investment Co. Ltd.	Com.	3.90
Toronto Star Limited	Cl B.	38.00
Toronto Star Limited	Cl C.	38.50
Torwest Resources 1962 Ltd.	Com.	.23
Total Petroleum (North America) Ltd.	Com.	6.20
Total Petroleum (North America) Ltd.	3½ pc cv A pr.	14.25
Tower Resources Ltd.	Com.	.24

Column 1	Column 2	
Towmart Holdings Limited	Com.	.45
Traders Building Association Ltd.	Com.	
Traders Group Limited	Cl A.	15.75
Traders Group Limited	Cl B.	15.00
Traders Group Limited	5 pc cu pr.	25.00
Traders Group Limited	5 pc cu cv A pr.	20.50
Traders Group Limited	4½ pc cu pr.	56.25
Traders Group Limited	$2.16 cu pr.	26.00
Traders Group Limited	1965 wt.	2.05
Traders Group Limited	1966 wt.	4.70
Traders Group Limited	1969 wt.	5.00
Transair Limited	Com.	3.15
Transair Limited	Pr.	
Transair Limited	Wt.	.89
Transair Limited	Rt.	
Trans-American Mining Corp. Ltd.	Com.	
Trans Canada Glass Ltd.	Com.	5.13
Trans-Canada Pipe Lines Limited	Com.	36.25
Trans-Canada Pipe Lines Limited	$2.75 cu cv pr.	66.75
Trans-Canada Pipe Lines Limited	$2.80 cu pr.	42.25
Trans-Canada Pipe Lines Limited	Wt.	10.75
Trans-Canada Resources Ltd.	Com.	.82
Trans Columbia Exploration Ltd.	Com.	.11
Transcontinental Resources Ltd.	Com.	.27
Trans Eastern Oil & Gas Ltd.	Com.	
Trans Global Financial Services Ltd.	Com.	1.80
Trans-Mountain Oil Pipeline Company	Com.	20.38
Transocean Oil Incorporated	Com.	
Trans-Prairie Pipelines Ltd.	Com.	12.75
Transterre Exploration Ltd.	Com.	.20
Trans Yukon Exploration Ltd.	Com.	.06
Tresdor Larder Mines Ltd.	Com.	
Tribag Mining Co. Ltd.	Com.	.60
Tri-Bridge Mines Limited	Com.	.35
Trimac Ltd.	Com.	6.50
Trinity Chibougamau Mines Ltd.	Com.	.10
Triphope Resources Ltd.	Com.	
Triton Explorations Limited	Com.	.70
Trizec Corporation Limited	Com.	17.00
Trizec Corporation Limited	Wt.	.50
Troilus Mines Ltd.	Com.	.15
Trojan Consolidated Mines Ltd.	Com.	.25
Tromac Mines Ltd.	Com.	.03
Troy Silver Mines Ltd.	Com.	.08
Tru-Wall Concrete Forming Ltd.	Com.	2.90
Tundra Gold Mines Ltd.	Com.	.18
Turbo Resources Limited	Com.	.93
Turismo Industries Ltd.	Com.	.37
Turner Valley Oil Company Limited	Com.	.18
Twentieth Century Explorations Limited	Com.	.75
Twin Peak Mines Ltd.	Com.	.28
Twin Richfield Oils Ltd.	Com.	.21
Tyee Lake Resources Limited	Com.	.14
U.A.P. Inc.	Cl A.	16.25
Ulster Petroleums Ltd.	Com.	1.46
Ultramar Company Limited	Com.	6.13
Unas Investments Ltd.	Com.	16.63
Ungava Copper Corp. Ltd.	Com.	.04
Unican Security Systems Ltd.	Com.	4.05
Unigesco Inc.	Com.	
Unigesco Inc.	Cl A.	2.85
Unigesco Inc.	Cl B.	2.72
Union Acceptance Corporation Ltd.	6 pc cu C 1st pr.	40.44
Union Acceptance Corporation Ltd.	6¼ pc cu A 1st pr.	40.00
Union Acceptance Corporation Ltd.	6¼ pc cu B 1st pr.	42.50
Union Carbide Canada Limited	Com.	13.50
Union Gas Company of Canada Limited	Com.	14.75
Union Gas Company of Canada Limited	5½ pc cu A pr.	43.00
Union Gas Company of Canada Limited	6 pc cu B pr.	44.13
Union Mining Corporation	Com.	.21
Union Oil Company of Canada Ltd.	Com.	44.00
United Asbestos Corp. Ltd.	Com.	4.05
United Canadian Shares Ltd.	Com.	
United Canso Oil & Gas Ltd.	Com.	4.25
United Canso Oil & Gas Ltd.	Wt.	.64
United Cobalt Mines Ltd.	Com.	.02
United Comstock Lode Mines Ltd.	Com.	
United Copper Corporation Ltd.	Com.	.10
United Corporations Ltd.	Cl A.	19.50
United Corporations Ltd.	Cl B.	15.00
United Corporations Ltd.	$1.50 cu A pr.	20.00
United Corporations Ltd.	5 pc cu 1963 pr.	19.00
United Equities Limited	Com.	2.00
United Funds Management Ltd.	Com.	8.38
United Grain Growers Limited	5 pc pr.	14.00
United Investment Life Assurance Co.	Com.	5.69
United Keno Hill Mines Ltd.	Com.	3.85
United Macfie Mines Ltd.	Com.	.04
United Mindamar Metals Ltd.	Com.	.16
United New Fortune Mines Ltd.	Com.	
United Provincial Investment Ltd.	Com.	1.30
United Reef Petroleums Ltd.	Com.	.18
United Siscoe Mines Ltd.	Com.	2.10
United Westburne Industries Ltd.	Com.	4.00
United Westburne Industries Ltd.	6¼ pc cu A 1st pr.	39.00
United Westburne Industries Ltd.	Wt.	1.00
Universal Factors Corp.	Com.	
Universal Gas Co. Ltd.	Com.	
Universal Minerals Corporation	Com.	.24
Universal Patent & Development Ltd.	Com.	.12
Universal Sections Ltd.	Com.	6.50
Univex Mining Corporation Ltd.	Com.	.41
Upper Canada Mines Ltd.	Com.	1.66
Uranium Ridge Mines Ltd.	Com.	.03
Uranium Valley Mines Ltd.	Com.	.20
Urban Quebec Mines Ltd.	Com.	.04
US-CA-MEX Explorations Ltd.	Com.	.20
Utilities & Funding Corp. Ltd.	Com.	1.60
Utilities & Funding Corp. Ltd.	Cl A.	1.60
Valdex Mines Inc.	Com.	.13
Valley Copper Mines Ltd.	Com.	7.70
Val Mar Swimming Pools Ltd.	Cl A.	1.60
Val Nor Exploration Ltd.	Com.	
Vananda Exploration Ltd.	Com.	.06
Van Der Holt Associates Limited	Com.	7.25
Vandoo Consolidated Explorations Ltd.	Com.	.04
Van Ness Industries Ltd.	Com.	.83
Vargas Mines Limited	Com.	.53
Vastlode Mining Company Ltd.	Com.	.05
Velcro Industries Limited	Com.	17.63
Vencap Investments Ltd.	Com.	1.80
Venpower Limited	Com.	1.30
Ventures Mining Limited	Com.	.07
Vermont Mines Ltd.	Com.	
Versafood Services Ltd.	Com.	7.50
Versatile Manufacturing Ltd.	Com.	3.50
Versatile Manufacturing Ltd.	Cl A.	2.75
Vespar Mines Ltd.	Com.	.14
Vestor Explorations Ltd.	Com.	.33
Viau Limited	Com.	
Victoria Algoma Mineral Co. Ltd.	Com.	.11
Victoria & Grey Trust Co.	Com.	35.50
Victoria & Grey Trust Co.	5.35 pc cu A pr.	40.63
Victoria Wood Development Corp. Ltd.	Com.	
Victoria Wood Development Corp. Ltd.	7½ pc cu A pr.	8.13
Victor Mining Corp. Ltd.	Com.	.08
Viking Mines Ltd.	Com.	.08
Villacentres Ltd.	Com.	9.88
Vimy Explorations Ltd.	Com.	.02
Visa Bella Inc.	Com.	
Volcanic Mines Ltd.	Com.	.10
Voyager Explorations Ltd.	Com.	
Voyager Petroleums Ltd.	Com.	4.90
Vulcan Industrial Packaging Limited	Com.	9.00
Wabasso Limited	Com.	18.50
Waco Petroleums Ltd.	Com.	.02
Wadge Mines Ltd.	Com.	.01
Waferboard Corp. Ltd.	Com.	1.50
Wainoco Oil & Chemicals Ltd.	Com.	5.63
Waite Dufault Mines Ltd.	Com.	.09
Wajax Limited	Com.	13.63
Walker-Gooderham & Worts Limited (Hiram)	Com.	42.38
Wall & Redekop Corporation Ltd.	Com.	2.75
Wardair Canada Ltd.	Com.	1.45
Warner Investments Ltd., E.C.	Cl A.	
Warner Investments Ltd., E.C.	Cl B.	
Warner West	Com.	.43
Warnock Hersey International Limited	Com.	3.65
Warnock Hersey International Limited	$1.50 cu A pr.	10.00
Warrington Products Ltd.	Pr.	3.50
Watson Lake Mines Ltd.	Com.	.04
Wavecom Development Ltd.	Com.	.75
W. C. P. Explorations Ltd.	Com.	10.13
W. C. P. Explorations Ltd.	5 pc cu cv A pr.	30.00
Webb & Knapp Canada Limited	Com.	.40
Webbwood Exploration Co. Ltd.	Com.	1.25
Webbwood Mobile Home Estates Ltd.	Com.	1.00
Wee-Gee Uranium Mines Ltd.	Com.	

Column 1	Column 2	
Weldwood of Canada Limited	Com.	13.50
Weldwood of Canada Limited	Rt.	
Welland Consolidated Mining Ltd.	Com.	
Wellington Bank	Cl A.	.38
Wentworth Investment Corporation Ltd.	Com.	10.00
Werner Lake Nickel Mines Ltd.	Com.	.01
Wescorp Industries Ltd.	Com.	5.40
Wesley Mines Ltd.	Com.	
Westairs Mines Ltd.	Com.	
Westates Petroleum Company	Com.	5.05
Westburne International Industries Ltd.	Com.	10.75
Westburne International Industries Ltd.	8 pc cu cv pr.	36.00
Westburne International Industries Ltd.	Wt.	6.70
West Canadian Mineral Holdings Ltd.	Com.	1.10
Westcoast Petroleum Ltd.	Com.	10.13
Westcoast Petroleum Ltd.	6 pc cu pr.	30.00
West Coast Resources Ltd.	Com.	.06
Westcoast Transmission Co. Ltd.	Com.	25.88
Westcoast Transmission Co. Ltd.	Wt.	6.69
Westcoast Transmission Co. Ltd.	Rt.	.16
Westeel-Rosco Limited	Com.	13.88
Western Allenbee Oil & Gas Company Ltd.	Com.	.23
Western Broadcasting Co. Ltd.	Com.	12.13
Western Broadcasting Co. Ltd.	5¾ pc cu cv pr.	36.00
Western-Buff Mines & Oils Ltd.	Com.	.07
Western Canadian Seed Processors Ltd.	Com.	4.50
Western Decalta Petroleum Ltd.	Com.	6.55
Western Exploration Company Ltd.	Com.	.12
Western Mines Ltd.	Com.	2.55
Western Quebec Mines Co. Ltd.	Com.	.10
Western Realty Projects Limited	Com.	7.13
Western Standard Silver Mines Ltd.	Com.	.10
Western Supplies Ltd.	Cl A cu cv.	9.00
Western & Texas Oil Co. Ltd.	Com.	
Western Tin Mines Ltd.	Com.	.02
Western Warner Oils Limited	Com.	.47
Westfair Foods Ltd.	Cl A.	26.50
Westfair Foods Ltd.	7 pc cu pr.	19.00
Westfield Minerals Ltd.	Com.	.96
Westfield Minerals Ltd.	Wt.	.48
West Hill Enterprises & Mining Ltd.	Com.	.10
West Indies Plantation Ltd.	Com.	1.75
West Indies Plantation Ltd.	Cl A.	3.25
Westinghouse Canada Limited	Com.	14.50
Westland Mines Ltd.	Com.	.08
Weston Limited, George	Com.	18.00
Weston Limited, George	4½ pc cu pr.	66.50
Weston Limited, George	6 pc cu pr.	82.00
West Red Lake Gold Mines Ltd.	Com.	
Westview Investment Corporation Ltd.	Com.	2.08
Westville Mines Ltd.	Com.	
West Wasa Mines Ltd.	Com.	.08
Whim Creek Consolidated No Liability	Com.	
Whipsaw Mines Limited	Com.	.10
Whistler Petroleums Ltd.	Com.	.32
Whitehorse Copper Mines Ltd.	Com.	1.75
White Pass & Yukon Corp. Ltd.	Com.	10.00
White Pass & Yukon Corp. Ltd.	6¾ pc cu A pr.	22.00
White Pass & Yukon Corp. Ltd.	Wt.	.76
White River Mines Ltd.	Com.	.28
Whiterock Estates Development Corporation Limited	Com.	14.38
Whitesail Mines Ltd.	Com.	
White Star Copper Mines Ltd.	Com.	.14
Whitey Wilson Oil & Gas Ltd.	Com.	.31
Whonnock Industries Limited	Cl A.	13.50
Whonnock Industries Limited	Cl B	14.00
Wilco Mining Co. Ltd.	Com.	.15
Wildor Mines	Com.	.01
Wiley Oilfield Hauling Ltd.	Com.	7.00
Williams Creek Gold Quartze Mining Co. Ltd.	Com.	.46
Willow Lake Mines Ltd.	Com.	
Willroy Mines Ltd.	Com.	.70
Wilshire Oil Company of Texas	Com.	
Wilson Red Lake Gold Mines Ltd.	Com.	
Winco Steak & Burger Restaurants Limited	Com.	4.60
Windermere Exploration Limited	Com.	.20
Windfall Oils & Mines Ltd.	Com.	.09
Win-Eldrich Mines Ltd.	Com.	.09
Winnipeg Supply and Fuel Co. Ltd.	Com.	8.50
Win West Oil & Mining Ltd.	Com.	.25
Wisconsin Mining Company Ltd.	Com.	.10
Wolf Creek Mines Ltd.	Com.	
Wood, Alexander Ltd.	Com.	2.53
Wood-Croesus Gold Mines Ltd.	Com.	.02
Woodford Investment Ltd.	Cl A.	
Woodford Investment Ltd.	Cl B.	2.00
Woodward Stores Limited	Com.	25.00
Worldwide Energy Company Ltd.	Com.	2.16
Wosk's Ltd.	Com.	7.75
Wrightbar Mines Limited	Com.	.30
Wright-Hargreaves Mines Ltd.	Com.	1.15
Xoma Ltd.	Com.	4.05
Yankee Canuck Oil and Mining Corp. Ltd.	Com.	.04
Yarandry Silver Mines Ltd.	Com.	.05
Yellorex Mines Ltd.	Com.	.13
Yellowknife Base Metals Ltd.	Com.	
Yellowknife Bear Mines Ltd.	Com.	4.40
Yorbeau Mines Inc.	Com.	.05
York Lambton Corporation Limited	Cl A.	.80
York Lambton Corporation Limited	Cl B.	
Young-Davidson Mines Ltd.	Com.	.16
Young, H. G. Mines Ltd.	Com.	.06
Young-Shannon Gold Mines Ltd.	Com.	.01
Yreka Mines Ltd.	Com.	.17
Y & R Properties Ltd.	Com.	6.75
Yukon Consolidated Gold Corp. Ltd.	Com.	1.10
Yukon Properties Limited	Com.	
Yukon Revenue Mines Limited	Com.	.12
Zahamy Mines Ltd.	Com.	2.38
Zeller's Ltd.	Com.	17.00
Zeller's Ltd.	4½ pc cu pr.	34.00
Zenith Electric Supply Ltd.	Com.	2.35
Zenith Mining Corporation Ltd.	Com.	.27
Zenmac Metal Mines Limited	Com.	.06
Zinat Mines Limited	Com.	.15
Zodiac Ltd.	Cl A.	1.90
Zodiac Mines Ltd.	Com.	
Zulapa Mining Corporation Ltd.	Com.	.12

History: Schedule VII was amended by P.C. 1980-2081, SOR/80-618, dated July 31, 1980, and by P.C. 1980-3472, SOR/81-24, dated December 18, 1980, to correct a number of typographical errors that occurred in the publication of the Consolidated Regulations of Canada, c. 945.

SCHEDULE VIII

Universities Outside Canada

1. The universities situated in the United States that are prescribed by section 3503 are the following:

Abilene Christian University, Abilene, Texas
Academy of the New Church, the, Bryn Athyn, Pennsylvania
Adams State College, Alamosa, Colorado
Alfred University, Alfred, New York
American Film Institute Center for Advanced Film and Television Studies, Los Angeles, California
American Graduate School of International Management, Glendale, Arizona
American International College, Springfield, Massachusetts
American University, The, Washington, District of Columbia
American University in Cairo, The, New York, New York
Amherst College, Amherst, Massachusetts
Anderson College, Anderson, South Carolina
Andover Newton Theological School, Newton Centre, Massachusetts
Andrews University, Berrien Springs, Michigan
Antioch College, Yellow Springs, Ohio
Arizona State University, Tempe, Arizona
Asbury Theological Seminary, Wilmore, Kentucky
Associated Mennonite Biblical Seminary, Elkhart, Indiana
Atlantic Union College, South Lancaster, Massachusetts
Augsburg College, Minneapolis, Minnesota
Aurora University, Aurora, Illinois
Azusa Pacific College, Azusa, California

Babson College, Babson Park, Massachusetts
Bard College, Annandale-On-Hudson, New York
Barnard College, New York, New York
Bastyr University, Seattle, Washington
Bates College, Lewiston, Maine
Baylor College of Medicine, Houston, Texas
Baylor University, Waco, Texas
Beloit College, Beloit, Wisconsin
Bennington College, Bennington, Vermont
Bentley College, Waltham, Massachusetts
Beth Medrash Gevoha, Lakewood, New Jersey
Bethel College, Mishawaka, Indiana
Bethel College, North Newton, Kansas
Bethel College and Seminary, St. Paul, Minnesota
Biola University, La Mirada, California
Bob Jones University, Greenville, South Carolina
Boston College, Chestnut Hill, Massachusetts
Boston University, Boston, Massachusetts
Bowdoin College, Brunswick, Maine
Bowling Green State University, Bowling Green, Ohio
Brandeis University, Waltham, Massachusetts
Brigham Young University — Hawaii Campus, Laie, Hawaii
Brigham Young University, Provo, Utah
Brown University, Providence, Rhode Island
Bryn Mawr College, Bryn Mawr, Pennsylvania
Bucknell University, Lewisburg, Pennsylvania
California Institute of Technology, Pasadena, California
California Institute of the Arts, Valencia, California
California Lutheran University, Thousand Oaks, California
Calvin College, Grand Rapids, Michigan
Calvin Theological Seminary, Grand Rapids, Michigan
Canisius College, Buffalo, New York
Carleton College, Northfield, Minnesota
Carnegie-Mellon University, Pittsburgh, Pennsylvania
Carroll College, Helena, Montana
Case Western Reserve University, Cleveland, Ohio
Catholic University of America, The, Washington, District of Columbia
Cedarville College, Cedarville, Ohio
Central Michigan University, Mount Pleasant, Michigan
Central Yeshiva Tomchei Tmimim-Lubavitch, Brooklyn, New York
Christendom College, Front Royal, Virginia
City University, Bellevue, Washington
City University of New York, The, John Jay College of Criminal Justice, New York, New York
Claremont McKenna College, Claremont, California
Clark University, Worcester, Massachusetts
Clarkson University, Potsdam, New York
Colby College, Waterville, Maine
Colby-Sawyer College, New London, New Hampshire
Colgate — Rochester Divinity School, The, Rochester, New York
Colgate University, Hamilton, New York
College of William and Mary, Williamsburg, Virginia
Colorado College, The, Colorado Springs, Colorado
Colorado School of Mines, Golden, Colorado
Colorado State University, Fort Collins, Colorado
Columbia International University, Columbia, South Carolina
Columbia Union College, Takoma Park, Maryland
Columbia University in the City of New York, New York, New York
Concordia College, Moorhead, Minnesota
Connecticut College, New London, Connecticut
Conway School of Landscape Design, Conway, Massachusetts
Cornell University, Ithaca, New York
Cornerstone College and Grand Rapids Baptist Seminary, Grand Rapids, Michigan
Covenant College, Lookout Mountain, Tennessee
Creighton University, Omaha, Nebraska
Curtis Institute of Music, The, Philadelphia, Pennsylvania
D'Youville College, Buffalo, New York
Dallas Theological Seminary, Dallas, Texas
Dartmouth College, Hanover, New Hampshire
Denison University, Granville, Ohio
De Paul University, Chicago, Illinois
Dordt College, Sioux Center, Iowa
Drake University, Des Moines, Iowa
Drew University, Madison, New Jersey
Drury College, Springfield, Missouri
Duke University, Durham, North Carolina
Duquesne University, Pittsburgh, Pennsylvania
Eastern College, St. Davids, Pennsylvania
Eastern Mennonite University, Harrisonburg, Virginia
Eastern Washington University, Cheney, Washington
Eckerd College, St. Petersburg, Florida
Ecumenical Theological Center, Detroit, Michigan
Elmira College, Elmira, New York
Emerson College, Boston, Massachusetts
Emmanuel School of Religion, Johnson City, Tennessee
Emmaus Bible College, Dubuque, Iowa
Emory University, Atlanta, Georgia
Emporia State University, Emporia, Kansas
Ferris State University, Big Rapids, Michigan
Finlandia University, Hancock, Michigan
Florida Atlantic University, Boca Raton, Florida
Florida Gulf Coast University, Fort Myers, Florida
Florida State University, Tallahassee, Florida
Fordham University, New York, New York
Franciscan University of Steubenville, Steubenville, Ohio
Fresno Pacific College, Fresno, California
Fuller Theological Seminary, Pasadena, California
Gallaudet College, Washington, District of Columbia
Geneva College, Beaver Falls, Pennsylvania
Georgetown University, Washington, District of Columbia
George Washington University, The, Washington, District of Columbia
Georgia Institute of Technology, Atlanta, Georgia
Goddard College, Plainfield, Vermont
God's Bible School and College, Cincinnati, Ohio
Gonzaga University, Spokane, Washington
Gordon College, Wenham, Massachusetts
Gordon-Conwell Theological Seminary, South Hamilton, Massachusetts
Goshen College, Goshen, Indiana
Grace University, Omaha, Nebraska
Graceland College, Lamoni, Iowa
Greenville College, Greenville, Illinois
Grinnell College, Grinnell, Iowa
Hamilton College, Clinton, New York
Hampshire College, Amherst, Massachusetts
Harvard University, Cambridge, Massachusetts
Hebrew Union College — Jewish Institute of Religion, Cincinnati, Ohio
Hillsdale College, Hillsdale, Michigan
Holy Trinity Orthodox Seminary, The Jordanville, New York
Hope College, Holland, Michigan
Houghton College, Houghton, New York
Huntington College, Huntington, Indiana
Illinois Institute of Technology, Chicago, Illinois
Illinois State University, Normal, Illinois
Indiana University, Bloomington, Indiana
Iowa State University of Science and Technology, Ames, Iowa
Ithaca College, Ithaca, New York
Jamestown College, Jamestown, North Dakota

Jewish Theological Seminary of America, The, New York, New York
Johns Hopkins University, The, Baltimore, Maryland
Julliard School, The, New York, New York
Kansas State University, Manhattan, Kansas
Kenyon College, Gambier, Ohio
Kettering University, Flint, Michigan
Lafayette College, Easton, Pennsylvania
Lake Superior State University, Sault Ste. Marie, Michigan
Lawrence Technological University, Southfield, Michigan
Lehigh University, Bethlehem, Pennsylvania
Leland Stanford Junior University (Stanford University), Stanford, California
LeMoyne College, Syracuse, New York
LeTourneau College, Longview, Texas
Liberty University, Lynchburg, Virginia
Life Chiropractic College West, Hayward, California
Life University, Marietta, Georgia
Logan College of Chiropractic, St. Louis, Missouri
Loma Linda University, Loma Linda, California
Louisiana State University, and Agricultural and Mechanical College, Baton Rouge, Louisiana
Loyola University, Chicago, Illinois
Macalester College, St. Paul, Minnesota
Magdalen College, Warner, New Hampshire
Maharishi University of Management, Fairfield, Iowa
Manhattanville College, Purchase, New York
Mankato State University, Mankato, Minnesota
Maranatha Baptist Bible College, Watertown, Wisconsin
Marquette University, Milwaukee, Wisconsin
Massachusetts Institute of Technology, Cambridge, Massachusetts
Mayo Foundation, Rochester, Minnesota
Mayo Graduate School of Medicine, Rochester, Minnesota
Meadville-Lombard Theological School, Chicago, Illinois
Medaille College, Buffalo, New York
Medical College of Ohio, Toledo, Ohio
Medical University of South Carolina, Charleston, South Carolina
Mercyhurst College, Erie, Pennsylvania
Mesivta Yshiva Rabbi Chaim Berlin, Brooklyn, New York
Messiah College, Grantham, Pennsylvania
Miami University, Oxford, Ohio
Michigan State University, Detroit College of Law, East Lansing, Michigan
Michigan State University, East Lansing, Michigan
Michigan Technological University, Houghton, Michigan
Middlebury College, Middlebury, Vermont
Minot State University, Minot, North Dakota
Mirrer Yeshiva Central Institute, Brooklyn, New York
Montana State University, Bozeman, Montana
Moody Bible Institute, Chicago, Illinois
Montana Tech of the University of Montana, Butte, Montana
Moravian College, Bethlehem, Pennsylvania
Mount Holyoke College, South Hadley, Massachusetts
Mount Ida College, Newton Centre, Massachusetts
Multnomah Bible College, Portland, Oregon
Naropa Institute, The, Boulder, Colorado
National College of Chiropractic, The, Lombard, Illinois
Nazarene Theological Seminary, Kansas City, Missouri
Ner Israel Rabbinical College, Baltimore, Maryland
New England College, Henniker, New Hampshire
New School University, New York, New York
New York University, New York, New York
Niagara University, Niagara University, New York
North American Baptist Seminary, Sioux Falls, South Dakota
North Carolina State University at Raleigh, Raleigh, North Carolina
North Central College, Naperville, Illinois
North Dakota State University of Agriculture and Applied Science, Fargo, North Dakota
Northeastern University, Boston, Massachusetts
Northern Michigan University, Marquette, Michigan
Northwest College of The Assemblies of God, Kirkland, Washington
Northwestern College, Orange City, Iowa
Northwestern College, St. Paul, Minnesota
Northwestern University, Evanston, Illinois
Northwood University, Midland, Michigan
Nova Southeastern University, Fort Lauderdale, Florida
Nyack College, Nyack, New York
Oakland University, Rochester, Michigan
Oakwood College, Huntsville, Alabama
Oberlin College, Oberlin, Ohio
Ohio College of Podiatric Medicine, Cleveland, Ohio
Ohio State University, The, Columbus, Ohio
Ohio University, Athens, Ohio
Old Dominion University, Norfolk, Virginia
Oral Roberts University, Tulsa, Oklahoma
Oregon State University, Corvallis, Oregon
Pace University, New York, New York
Pacific Graduate School of Psychology, Menlo Park, California
Pacific Lutheran University, Tacoma, Washington
Pacific Union College, Angwin, California
Pacific University, Forest Grove, Oregon
Palm Beach Atlantic College, West Palm Beach, Florida
Palmer College of Chiropractic, Davenport, Iowa
Palmer College of Chiropractic-West, Sunnyvale, California
Park College, Kansas City, Missouri
Pennsylvania College of Podiatric Medicine, Philadelphia, Pennsylvania
Pennsylvania State University, The, University Park, Pennsylvania
Philadelphia College of Bible, Langhorne, Pennsylvania
Philadelphia University, Philadelphia, Pennsylvania
Pine Manor College, Chestnut Hill, Massachusetts
Pomona College, Claremont, California
Princeton Theological Seminary, Princeton, New Jersey
Princeton University, Princeton, New Jersey
Principia College, The, Elsah, Illinois
Providence College, Providence, Rhode Island
Purdue University, Lafayette, Indiana
Rabbinical College of America, Morristown, New Jersey
Rabbinical College of Long Island, Long Beach, New York
Rabbinical Seminary of America, Forest Hills, New York
Reconstructionist Rabbinical College, Wyncote, Pennsylvania
Reed College, Portland, Oregon
Reformed Bible College, Grand Rapids, Michigan
Reformed Theological Seminary, Jackson, Mississippi
Rensselaer Polytechnic Institute, Troy, New York
Rice University, Houston, Texas
Roberts Wesleyan College, North Chili, New York
Rochester Institute of Technology, Rochester, New York
Rockefeller University, New York, New York
Rush University, Chicago, Illinois
Rutgers — The State University, New Brunswick, New Jersey
St. Bonaventure University, St. Bonaventure, New York
St. John's College, Annapolis, Maryland
St. John's College, Santa Fe, New Mexico
St. John's University, Jamaica, New York
St. Lawrence University, Canton, New York
Saint John's University, Collegeville, Minnesota
Saint Louis University, St. Louis, Missouri
St. Mary's University of San Antonio, San Antonio, Texas
Saint Olaf College, Northfield, Minnesota

St. Vladimir's Orthodox Theological Seminary, Crestwood, New York
San Francisco State College, San Francisco, California
San José State University, San José, California
Santa Clara University, Santa Clara, California
Sarah Lawrence College, Bronxville, New York
Scripps College, Claremont, California
Scripps Research Institute, The, La Jolla, California
Seattle Pacific University, Seattle, Washington
Seattle University, Seattle, Washington
Sherman College of Straight Chiropractic, Spartanburg, South Carolina
Simmons College, Boston, Massachusetts
Simpson College, Indianola, Iowa
Simpson College, Redding, California
Skidmore College, Saratoga Springs, New York
Smith College, The, Northampton, Massachusetts
South Dakota School of Mines and Technology, Rapid City, South Dakota
Southern Adventist University, Collegedale, Tennessee
Southern Methodist University, Dallas, Texas
Southwestern Adventist College, Keene, Texas
Spring Arbor College, Spring Arbor, Michigan
Springfield College, Springfield, Massachusetts
State University College at Potsdam, Potsdam, New York
State University College at Oswego, Oswego, New York
State University of New York at Binghamton, Binghamton, New York
State University of New York at Buffalo, Buffalo, New York
State University of New York at Stony Brook, Stony Brook, New York
State University of New York College of Arts and Science at Plattsburgh, Plattsburgh, New York
Stephens College, Columbia, Missouri
Stevens Institute of Technology, Hoboken, New Jersey
Sunbridge College, Chestnut Ridge, New York
Swarthmore College, Swarthmore, Pennsylvania
Syracuse University, Syracuse, New York
Tabor College, Hillsboro, Kansas
Talmudical Yeshiva of Philadelphia, Philadelphia
Talmudic College of Florida, Miami Beach, Florida
Taylor University, Upland, Indiana
Teachers College, Columbia University, New York, New York
Telshe Yeshiva Rabbinical College of Telshe, Inc., Wickcliffe, Ohio
Telshe Yeshiva-Chicago, Rabbinical College of Telshe-Chicago, Inc., Chicago, Illinois
Temple University, Philadelphia, Pennsylvania
Texas A&M University, College Station, Texas
Texas Chiropractic College, Pasadena, Texas
Texas Woman's University, Denton, Texas
The Herman M. Finch University of Health Sciences/The Chicago Medical School, North Chicago, Illinois
Thomas Aquinas College, Santa Paula, California
Touro College, New York, New York
Trinity Bible College, Ellendale, North Dakota
Trinity Christian College, Palos Heights, Illinois
Trinity College, Hartford, Connecticut
Trinity Episcopal School for Ministry, Ambridge, Pennsylvania
Trinity Evangelical Divinity School, Deerfield, Illinois
Trinity Lutheran College, Issaquah, Washington
Trinity University, San Antonio, Texas
Tufts University, Medford, Massachusetts
Tulane University, New Orleans, Louisiana
Union College, Lincoln, Nebraska
Union College, Schenectady, New York
Union Institute, The, Cincinnati, Ohio
Union Theological Seminary, New York, New York
University of Akron, The, Akron, Ohio
University of Alabama at Birmingham, The, Birmingham, Alabama
University of Arizona, The, Tucson, Arizona
University of Arkansas at Little Rock, Little Rock, Arkansas
University of California, Berkeley, California
University of California, Davis, California
University of California, Irvine, California
University of California, Los Angeles, California
University of California, Riverside, California
University of California, San Diego, California
University of California, San Francisco, California
University of California, Santa Barbara, California
University of California, Santa Cruz, California
University of Central Florida, Orlando, Florida
University of Chicago, The, Chicago, Illinois
University of Cincinnati, Cincinnati, Ohio
University of Colorado, Boulder, Colorado
University of Delaware, Newark, Delaware
University of Denver, Denver, Colorado
University of Detroit Mercy, Detroit, Michigan
University of Florida, Gainesville, Florida
University of Georgia, The, Athens, Georgia
University of Hawaii, Honolulu, Hawaii
University of Houston, Houston, Texas
University of Idaho, Moscow, Idaho
University of Illinois, Urbana, Illinois
University of Iowa, Iowa City, Iowa
University of Judaism, Los Angeles, California
University of Kansas, Lawrence, Kansas
University of Kentucky, Lexington, Kentucky
University of Maine, Orono, Maine
University of Maryland, College Park, Maryland
University of Massachusetts at Amherst, Amherst, Massachusetts
University of Miami, Coral Gables, Florida
University of Michigan, The, Ann Arbor, Michigan
University of Minnesota, Minneapolis, Minnesota
University of Missouri, Columbia, Missouri
University of Missouri, St. Louis, Missouri
University of Nebraska, The, Lincoln, Nebraska
University of Montana-Missoula, The, Missoula, Montana
University of Nevada-Reno, Reno, Nevada
University of North Carolina at Chapel Hill, Chapel Hill, North Carolina
University of North Dakota, Grand Forks, North Dakota
University of North Texas, Denton, Texas
University of Notre Dame du Lac, Notre Dame, Indiana
University of Oklahoma, Norman, Oklahoma
University of Oregon, Eugene, Oregon
University of Pennsylvania, Philadelphia, Pennsylvania
University of Pittsburgh, Pittsburgh, Pennsylvania
University of Portland, Portland, Oregon
University of Rhode Island, Kingston, Rhode Island
University of Rochester, Rochester, New York
University of San Diego, San Diego, California
University of Southern California, Los Angeles, California
University of Southern Mississippi, The, Hattiesburg, Mississippi
University of St. Thomas, Houston, Texas
University of St. Thomas, St. Paul, Minnesota
University of Tennessee, The, Knoxville, Tennessee
University of Texas, Austin, Texas
University of Texas Southwestern Medical Center at Dallas, The, Dallas, Texas
University of the Pacific, Stockton, California
University of Tulsa, Tulsa, Oklahoma
University of Utah, Salt Lake City, Utah
University of Vermont, Burlington, Vermont

University of Virginia, Charlottesville, Virginia
University of Washington, Seattle, Washington
University of Wisconsin, Madison, Wisconsin
University of Wyoming, The, Laramie, Wyoming
Utah State University of Agriculture and Applied Science, Logan, Utah
Valparaiso University, Valparaiso, Indiana
Vanderbilt University, Nashville, Tennessee
Vassar College, Poughkeepsie, New York
Villanova University, Villanova, Pennsylvania
Wake Forest University, Winston-Salem, North Carolina
Walla Walla College, College Place, Washington
Washington and Lee University, Lexington, Virginia
Washington Bible College, Lanham, Maryland
Washington State University, Pullman, Washington
Washington University, St. Louis, Missouri
Wayne State University, Detroit, Michigan
Wellesley College, Wellesley, Massachusetts
Wesleyan University, Middletown, Connecticut
Western University of Health Sciences, Pomona, California
Westfield State College, Westfield, Massachusetts
West Virginia University, Morgantown, West Virginia
Western Baptist College, Salem, Oregon
Western Conservative Baptist Seminary, Portland, Oregon
Western Michigan University, Kalamazoo, Michigan
Western States Chiropractic College, Portland, Oregon
Western Washington University, Bellingham, Washington
Westminster Theological Seminary in California, Escondido, California
Westminster Theological Seminary, Philadelphia, Pennsylvania
Wheaton College, Norton, Massachusetts
Wheaton College, Wheaton, Illinois
Wheelock College, Boston, Massachusetts
Whitman College, Walla Walla, Washington
Whittier College, Whittier, California
Whitworth College, Spokane, Washington
William Tyndale College, Farmington Hills, Michigan
Williams College, Williamstown, Massachusetts
Wittenberg University, Springfield, Ohio
Wright State University, Dayton, Ohio
Yale University, New Haven, Connecticut
Yeshiva Ohr Elchonon Chabad West Coast Talmudic Seminary, Los Angeles, California
Yeshiva University, New York, New York

History: S. 1 of Schedule VIII was amended by P.C. 2006-997, SOR/2006-205, dated September 21, 2006, by adding: City University of New York, The, John Jay College of Criminal Justice, New York, New York; Finlandia University, Hancock, Michigan; Illinois State University, Normal, Illinois; and University of St. Thomas, Houston, Texas, deemed to have taken effect on January 1, 2005.

S. 1 of Schedule VIII was amended by P.C. 2006-997, SOR/2006-205, dated September 21, 2006, by adding: University of Tennessee, The, Knoxville, Tennessee, deemed to have taken effect on January 1, 2006.

S. 1 of Schedule VIII was amended by P.C. 2006-815, SOR/2006-200, dated August 29, 2006, by adding: California Institute of the Arts, Valencia, California, deemed to have taken effect on January 1, 2003.

S. 1 of Schedule VIII was amended by P.C. 2006-815, SOR/2006-200, dated August 29, 2006, by striking out: Life Chiropractic College West, San Lorenzo, California, deemed to have taken effect on January 1, 2004.

S. 1 of Schedule VIII was amended by P.C. 2006-815, SOR/2006-200, dated August 29, 2006, by adding: D'Youville College, Buffalo, New York; Georgetown University, Washington, District of Columbia; Life Chiropractic College West, Hayward, California; University of St. Thomas, St. Paul, Minnesota, deemed to have taken effect on January 1, 2004.

S. 1 of Schedule VIII was amended by P.C. 2006-815, SOR/2006-200, dated August 29, 2006, by adding: Christendom College, Front Royal, Virginia, deemed to have taken effect on January 1, 2005.

S. 1 of Schedule VIII was amended by P.C. 2005-1133, SOR/2005-185, dated June 7, 2005, by striking out the following: Philadelphia College of Textiles and Science, Philadelphia, Pennsylvania, and San José State College, San José, California, deemed to have had effect as of January 1, 1999.

S. 1 of Schedule VIII was amended by P.C. 2005-1133, SOR/2005-185, dated June 7, 2005, by adding: Philadelphia University, Philadelphia, Pennsylvania, and San José State University, San José, California, deemed to have had effect as of January 1, 1999.

S. 1 of Schedule VIII was amended by P.C. 2005-694, SOR/2005-123, dated May 3, 2005, by adding the following in alphabetical order: Reformed Theological Seminary, Jackson, Mississippi, deemed to have taken effect on January 1, 2000.

S. 1 of Schedule VIII was amended by P.C. 2005-694, SOR/2005-123, dated May 3, 2005, by adding the following in alphabetical order: Baylor University, Waco, Texas; University of Akron, The, Akron, Ohio; University of Southern Mississippi, The, Hattiesburg, Mississippi, deemed to have taken effect on January 1, 2002.

S. 1 of Schedule VIII was amended by P.C. 2005-694, SOR/2005-123, dated May 3, 2005, by adding the following in alphabetical order: Conway School of Landscape Design, Conway, Massachusetts, deemed to have taken effect on January 1, 2003.

S. 1 of Schedule VIII was amended by P.C. 2002-2169, SOR/2003-5, dated December 12, 2002, by adding a reference to: Saint John's University, Collegeville, Minnesota, applicable January 1, 2002.

S. 1 of Schedule VIII was amended by P.C. 2002-2169, SOR/2003-5, dated December 12, 2002, by adding references to: Kenyon College, Gambier, Ohio; Medical University of South Carolina, Charleston, South Carolina; Nova Southeastern University, Fort Lauderdale, Florida; Talmudic College of Florida, Miami Beach, Florida; Trinity Lutheran College, Issaquah, Washington; University of Detroit Mercy, Detroit, Michigan, applicable January 1, 2001.

S. 1 of Schedule VIII was amended by P.C. 2002-2169, SOR/2003-5, dated December 12, 2002, by deleting references to: Lutheran Bible Institute of Seattle, Issaquah, Washington; University of Detroit, Detroit, Michigan, applicable on publication in the *Canada Gazette* on January 1, 2003.

S. 1 of Schedule VIII was amended by P.C. 2001-829, SOR/2001-172, dated May 10, 2001, by adding references to: Magdalen College, Warner, New Hampshire; Medaille College, Buffalo, New York; Medical College of Ohio, Toledo, Ohio; Northern Michigan University, Marquette, Michigan; St. Bonaventure University, St. Bonaventure, New York, applicable as of January 1, 2000.

S. 1 of Schedule VIII was amended by P.C. 2001-829, SOR/2001-172, dated May 10, 2001, by adding references to: Academy of the New Church, The, Bryn Athyn, Pennsylvania; Aurora University, Aurora, Illinois; Baylor College of Medicine, Houston, Texas; Florida Gulf Coast University, Fort Myers, Florida; New School University, New York, New York; Texas A&M University, College Station, Texas; Western University of Health Sciences, Pomona, California; Westfield State College, Westfield, Massachusetts, applicable as of January 1, 1999.

S. 1 of Schedule VIII was amended by P.C. 2001-829, SOR/2001-172, dated May 10, 2001, by deleting references to: Columbia Pacific University, San Rafael, California; Medical College of Pennsylvania and Hahnemann University, The, Philadelphia, Pennsylvania; Ottawa University, Ottawa, Kansas; Parsons School of Design, New York, New York; Radcliffe College, Cambridge, Massachusetts, applicable as of May 23, 2001.

S. 1 was amended by P.C. 2000-726, SOR/2000-191, dated May 18, 2000, by deleting references to: Ambassador University, Big Sandy, Texas; American College, The, Bryn Mawr, Pennsylvania; Anna Maria College, (formerly Anna Maria College for Women), Paxton, Massachusetts; Baldwin-Wallace College, Berea, Ohio; Bluffton College, Bluffton, Ohio; Carroll College, Waukesha, Wisconsin; College of New Rochelle, New Rochelle, New York; College of Wooster, The, Wooster, Ohio; Dana College, Blair, Nebraska; De Pauw University, Greencastle, Indiana; Detroit College of Law, Detroit, Michigan; Divinity School, The, Rochester, New York; Earlham College, Richmond, Indiana; Eastern Baptist Theological Seminary, The, Philadelphia, Pennsylvania; Eastern Mennonite College, Harrisonburg, Virginia; Georgetown University, Washington, District of Columbia; GMI Engineering & Management Institute, Flint, Michigan; Gustavus Adolphus College, St. Peter, Minnesota; Hebrew Union College — Jewish Institute of Religion, Los Angeles, California; Hebrew Union College — Jewish Institute of Religion, New York, New York; Hobe Sound Bible College, Hobe Sound, Florida; Hollins College, Hollins College, Virginia; Hood College, Frederick, Maryland; Liberty Baptist College, Lynchburg, Virginia; Life Chiropractic College, Marietta, Georgia; Louisiana State University, Baton Rouge, Louisiana; Marymount College, Tarrytown, New York; Mills College, Oakland, California; Mount Vernon College, Washington, District of Columbia; Nasson College, Springvale, Maine; Nazarene Bible College, Colorado Springs, Colorado; Nebraska Wesleyan University, Lincoln, Nebraska; Northrop Institute of Technology, Inglewood, California; Northwest College, Kirkland, Washington; Northwood Institute, Midland, Michigan; Puget Sound Christian College . . . A college of the Bible, Edmonds, Washington; Reformed Theological Seminary, Jackson, Mississippi; Ripon College, Ripon, Wisconsin; Saint Mary-of-the-Woods College, Saint Mary-of-the-Woods, Indiana; Saint Mary's College, Notre Dame, Indiana; Southern College of Seventh-Day Adventists, Collegedale, Tennessee; Temple Buell College, Denver, Colorado; Trinity College, Dunedin, Florida; University of Dubuque, Dubuque, Iowa; University of Santa Clara, Santa Clara, California; University of the Ozarks, Clarksville, Arkansas; University of the South, The, Sewanee, Tennessee; University of Vermont and State Agricultural College, Burlington, Vermont; Wagner College, Staten Island, New York; Yeshiva University of Los Angeles, Los Angeles, California, applicable as of June 7, 2000.

S. 1 was amended by P.C. 2000-726, SOR/2000-191, dated May 18, 2000 by adding Carroll College, Helena, Montana; Duquesne University, Pittsburgh, Pennsylvania; University of Texas Southwestern Medical Center at Dallas, The, Dallas, Texas; University of Wyoming, The, Laramie, Wyoming; Wright State University, Dayton, Ohio, applicable as of January 1, 1997.

S. 1 was amended by P.C. 2000-726, SOR/2000-191, dated May 18, 2000 by adding Antioch College, Yellow Springs, Ohio; California Lutheran University, Thousand Oaks, California; Cornerstone College and Grand Rapids Baptist Seminary, Grand Rapids, Michigan; Eastern College, St. Davids, Pennsylvania; Emporia State University, Emporia, Kansas; Juilliard School, The, New York, New York; Maranatha Baptist Bible College, Watertown, Wisconsin; Naropa Institute, The, Boulder, Colorado; State University of New York at Stony Brook, Stony Brook, New York; West Virginia University, Morgantown, West Virginia, applicable as of January 1, 1998.

S. 1 was amended by P.C. 2000-726, SOR/2000-191, dated May 18, 2000 by adding Texas Woman's University, Denton, Texas; University of Missouri, St. Louis, Missouri; Wheelock College, Boston, Massachusetts, applicable as of January 1, 1999.

S. 1 was amended by P.C. 2000-726, SOR/2000-191, dated May 18, 2000, by adding references to: Colgate-Rochester Divinity School, The, Rochester, New York; Eastern Mennonite University, Harrisonburg, Virginia; Kettering University, Flint, Michigan; Liberty University, Lynchburg, Virginia; Life University, Marietta, Georgia; Louisiana State University and Agricultural and Mechanical College, Baton Rouge, Louisiana; Michigan State University, Detroit; College of Law, East Lansing, Michigan; Northwest College of The Assemblies of God, Kirkland, Washington; Northwood University, Midland, Michigan; Santa Clara University, Santa Clara, California; Southern Adventist University, Collegedale, Tennessee; University of Vermont, Burlington, Vermont, applicable as of June 7, 2000.

S. 1 was amended by P.C. 1997 1041, SOR/97-385, dated July 28, 1997, by deleting references to Antioch University, New York, New York; Bastyr College, Seattle, Washington; Briarcliff College, Briarcliff Manor, New York; Columbia Bible College & Seminary, Columbia, South Carolina; Dropsie University, The, Philadelphia, Pennsylvania; George Williams College, Downers Grove, Illinois; Grace College of the Bible, Omaha, Nebraska; Montana College of Mineral Science and Technology, Butte, Montana; Multnomah School of the Bible, Portland, Oregon; Ricker College, Houlton, Maine; Rosemead Graduate School of Psychology, Rosemead, California; University of Health Sciences/The Chicago Medical School, Chicago, Illinois; University of Montana, Missoula, Montana; Western Evangelical Seminary, Portland, Oregon; Westminster Choir College, Princeton, New Jersey, and to add: Bastyr University, Seattle, Washington; City University, Bellevue, Washington; Columbia International University, Columbia, South Carolina; Eckerd College, St. Petersburg, Florida; Grace University, Omaha, Nebraska; Montana Tech of the University of Montana, Butte, Montana; Multnomah Bible College, Portland, Oregon; Parsons School of Design, New York, New York; The Herman A. Finch University of Health Sciences/The Chicago Medical School, North Chicago, Illinois; Union College, Lincoln, Nebraska; University of California, Davis, California; University of California, Irvine, California; University of California, Los Angeles, California; University of California, Riverside, California; University of California, San Diego, California; University of California, Santa Barbara, California; University of California, Santa Cruz, California; University of Montana-Missoula, The, Missoula, Montana, applicable to the 1996 and subsequent taxation years.

S. 1 was amended by P.C. 1996-632, SOR/96-250, dated April 30, 1996 by deleting references to Maharishi International University, Fairfield, Iowa and Medical College of Pennsylvania, Philadelphia, Pennsylvania, applicable after December 31, 1994.

S. 1 was amended by P.C. 1996-632, SOR/96-250, dated April 30, 1996 to add: Alfred University, Alfred, New York; Colby-Sawyer College, New London, New Hampshire; College of New Rochelle, New Rochelle, New York; Florida State University, Tallahassee, Florida; Holy Trinity Orthodox Seminary, The Jordanville, New York; Lawrence Technological University, Southfield, Michigan; Maharishi University of Management, Fairfield, Iowa; Medical College of Pennsylvania and Hahnemann University, The, Philadelphia, Pennsylvania; Mercyhurst College, Erie, Pennsylvania; Rush University, Chicago, Illinois; Simpson College, Redding, California; Southern College of Seventh-Day Adventists, Collegedale, Tennessee; Westminster Theological Seminary in California, Escondido, California, applicable after December 31, 1994.

S. 1 was amended by P.C. 1995-581, SOR/95-184, dated April 4, 1995 to add: Ambassador University, Big Sandy, Texas; Columbia Union College, Takoma Park, Maryland; Detroit College of Law, Detroit, Michigan; Divinity School, The, Rochester, New York; Emmanuel School of Religion, Johnson City, Tennessee; Meadville-Lombard Theological School, Chicago, Illinois; Oakwood College, Huntsville, Alabama; Scripps Research Institute, The, La Jolla, California; University of the South, The, Sewanee, Tennessee, applicable after December 31, 1993.

S. 1 was amended by P.C. 1994-866, SOR/94-395, dated May 26, 1994 to add: Associated Mennonite Biblical Seminary, Elkhart, Indiana; Bluffton College, Bluffton, Ohio; Clark University, Worcester, Massachusetts; Ecumenical Theological Center, Detroit, Michigan; Nebraska Wesleyan University, Lincoln, Nebraska; Northwestern College, Orange City, Iowa; Sunbridge College, Chestnut Ridge, New York; Union Institute, The, Cincinnati, Ohio; University of Georgia, The, Athens, Georgia; University of Judaism, Los Angeles, California; Wake Forest University, Winston-Salem, North Carolina; and Wheaton College, Norton, Massachusetts, and to repeal: Goshen Biblical Seminary, Elkhart, Indiana; Mennonite Biblical Seminary, Elkhart, Indiana; and Union for Experimenting Colleges and Universities, The, Cincinnati, Ohio, applicable after December 31, 1992.

S. 1 was amended by P.C. 1993-901, SOR/93-229, dated May 4, 1993 to add: American Film Institute Center for Advanced Film and Television Studies, Los Angeles, California; Calvin Theological Seminary, Grand Rapids, Michigan; St. John's University, Jamaica, New York; Saint Olaf College, Northfield, Minnesota, applicable after December 31, 1991.

S. 1 was amended by P.C. 1992-1108, SOR/91-198, dated May 21, 1992 to add: Baldwin-Wallace College, Berea, Ohio; Bastyr College, Seattle, Washington; Earlham College, Richmond, Indiana; Lutheran Bible Institute of Seattle, Issaquah, Washington; North Central College, Naperville, Illinois; Rabbinical College of Long Island, Long Beach, New York; Scripps College, Claremont, California; Trinity Bible College, Ellendale, North Dakota; University of California, San Francisco, California, applicable after December 31, 1990.

S. 1 was amended by P.C. 1991-467, SOR/91-198, dated March 14, 1991, to add: Anderson College, Anderson, South Carolina; De Pauw University, Greencastle, Indiana; Ferris State University, Big Rapids, Michigan; Hampshire College, Amherst, Massachusetts; Mayo Foundation, Rochester, Minnesota; Pennsylvania College of Podiatric Medicine, Philadelphia, Pennsylvania; Reconstructionist Rabbinical College, Wyncote, Pennsylvania; Skidmore College, Saratoga Springs, New York; Talmudical Yeshiva of Philadelphia, Philadelphia; Villanova University, Villanova, Pennsylvania; Yeshiva Ohr Elchonon Chabad West Coast Talmudic Seminary, Los Angeles, California, applicable after 1989.

S. 1 was amended by P.C. 1990-1332, SOR/90-411, dated June 28, 1990 to substitute "Francisan University of Steubenville, Steubenville, Ohio" and "Lake Superior University, Sault Ste. Marie, Michigan" for "University of Steubenville, Steubenville, Ohio" and "Lake Superior College, Sault Ste. Marie, Michigan" and to add: Claremont McKenna College, Claremont, California; Columbia Bible College & Seminary, Columbia, South Carolina; Curtis Institute of Music, The, Philadelphia, Pennsylvania; Emory University, Atlanta, Georgia; Mankato State University, Mankato, Minnesota; Minot State University, Minot, North Dakota; New England College, Henniker, New Hampshire; Northwestern College, St. Paul, Minnesota; Palmer College of Chiropractic-West, Sunnyvale, California; Rice University, Houston, Texas; Southwestern Adventist College, Keene, Texas; University of Alabama at Birmingham, The, Birmingham, Alabama; University of Montana, Missoula, Montana; University of the Ozarks, Clarksville, Arkansas; and University of San Diego, San Diego, California, applicable after 1988.

S. 1 was amended by P.C. 1989-723, SOR/89-233, dated April 28, 1989, to add: Augsburg College, Minneapolis, Minnesota; Elmira College, Elmira, New York; God's Bible School and College, Cincinnati, Ohio; Life Chiropractic College, Marietta, Georgia; Life Chiropractic College-West, San Lorenzo, California; Montana College of Mineral Science and Technology, Butte, Montana; Nazarene Bible College, Colorado Springs, Colorado; Providence College, Providence, Rhode Island; Thomas Aquinas College, Santa Paula, California; University of Arkansas at Little Rock, Little Rock, Arkansas; University of Nevada-Reno, Reno, Nevada; Western Baptist College, Salem, Oregon, applicable after 1987.

S. 1 was amended by P.C. 1988-561, SOR/88-209, dated March 24, 1988, to add: Carroll College, Waukesha, Wisconsin; Dana College, Blair, Nebraska; Emerson College, Boston, Massachusetts; Hood College, Frederick, Maryland; Nazarene Theological Seminary, Kansas City, Missouri; Pacific Union College, Angwin, California; Princeton Theological Seminary, Princeton, New Jersey; Reformed Theological Seminary, Jackson, Mississippi; State University College at Potsdam, Potsdam, New York; Taylor University, Upland, Indiana; and University of Massachusetts at Amherst, Amherst, Massachusetts; applicable after 1986.

S. 1 was amended by P.C. 1987-1479, SOR/87-472, dated July 30, 1987, to: (a) delete "Detroit Bible College, Farmington Hills, Michigan"; (b) change "Biola College, La Mirada, California", "Columbia Pacific University, Petaluma, California" and "Leland Stanford Junior University, Stanford, California" to "Biola University, La Mirada, California"; "Columbia Pacific University, San Rafael, California" and "Leland Stanford Junior University (Stanford University), Stanford, California", respectively; and (c) add American International College, Springfield, Massachusetts; Atlantic Union College, South Lancaster, Massachusetts; Canisius College, Buffalo, New York; Central Yeshiva Tomchei Tmimim-Lubavitch, Brooklyn, New York; Concordia College, Moorhead, Minnesota; Emmaus Bible College, Dubuque, Iowa; Hobe Sound Bible College, Hobe Sound, Florida; Moravian College, Bethlehem, Pennsylvania; Pacific Graduate School of Psychology, Menlo Park, California; Philadelphia College of Bible, Langhorne, Pennsylvania; Rabbinical College of America, Morristown, New Jersey; Saint Mary-of-the-Woods College, Saint Mary-of-the-Woods, Indiana; Trinity Episcopal School for Ministry, Ambridge, Pennsylvania; University of Rhode Island, Kingston, Rhode Island; Western States Chiropractic College, Portland, Oregon; Whittier College, Whittier, California; William Tyndale College, Farmington Hills, Michigan; applicable after 1985.

S. 1 was amended by P.C. 1986-746, SOR/86-382, dated March 26, 1986, to: (a) add De Paul University, Chicago, Illinois; GMI Engineering & Management Institute, Flint, Michigan; Grace College of the Bible, Omaha, Nebraska; Hollins College, Hollins College, Virginia; Mount Ida College, Newton Centre, Massachusetts; Sherman College of Straight Chiropractic, Spartanburg,

South Carolina; Union for Experimenting Colleges and Universities, The, Cincinnati, Ohio; Washington and Lee University, Lexington, Virginia; and (b) change "Seattle Pacific College, Seattle, Washington" to "Seattle Pacific University, Seattle, Washington"; effective January 1, 1985.

S. 1 was amended by P.C. 1985-1150, SOR/85-332, dated April 4, 1985 to: (a) add American Graduate School of International Management, Glendale, Arizona, effective January 1, 1983; (b) change Clarkson College of Technology to Clarkson University and Puget Sound College of the Bible to Puget Sound Christian College ... A college of the Bible, applicable January 1, 1984; and (c) add the following: American University in Cairo, The, New York, New York; Barnard College, New York, New York; Lafayette College, Easton, Pennsylvania; State University of New York at Binghamton, Binghamton, New York; University of Health Sciences/The Chicago Medical School, Chicago, Illinois; University of Missouri, Columbia, Missouri, applicable January 1, 1984.

S. 1 was amended by P.C. 1984-774, SOR/84-222, dated March 9, 1984 and effective January 1, 1983 to add the following: American College, The, Bryn Mawr, Pennsylvania; Antioch University, New York, New York: Case Western Reserve University, Cleveland, Ohio; Central Michigan University, Mount Pleasant, Michigan; College of Wooster, The, Wooster, Ohio; Hebrew Union College-Jewish Institute of Religion, Los Angeles, California; Kansas State University, Manhattan, Kansas; Maharishi International University, Fairfield, Iowa: Mirrer Yeshiva Central Institute, Brooklyn, New York; Mount Vernon College, Washington, District of Columbia; Ohio College of Podiatric Medicine, Cleveland, Ohio; Pacific University, Forest Grove, Oregon; Palm Beach Atlantic College, West Palm Beach, Florida; Puget Sound College of the Bible, Edmonds, Washington; Radcliffe College, Cambridge, Massachusetts; Ripon College, Ripon, Wisconsin; St. Vladimir's Orthodox Theological Seminary, Crestwood, New York; Southern Illinois University of Carbondale, Carbondale, Illinois; Trinity University, San Antonio, Texas; University of Central Florida, Orlando, Florida; University of Steubenville, Steubenville, Ohio; Westminster Choir College, Princeton, New Jersey.

S. 1 was amended by P.C. 1983-1194, SOR/83-359, dated April 22, 1983 and effective January 1, 1982, to add: Adams State College, Alamosa, Colorado; Beloit College, Beloit, Wisconsin; Bowling Green State University, Bowling Green, Ohio; College of William and Mary, Williamsburg, Virginia; Fresno Pacific College, Fresno, California: Medical College of Pennsylvania, Philadelphia, Pennsylvania; Pine Manor College, Chestnut Hill, Massachusetts; Rockefeller University, New York, New York; Trinity Evangelical Divinity School, Deerfield, Illinois; Walla Walla College, College Place, Washington; Western Conservative Baptist Seminary, Portland, Oregon.

S. 1 was amended by P.C. 1982-1094, SOR/82-408, dated April 13, 1982, and effective January 1, 1981, to add the following: Abilene Christian University, Abilene, Texas; Andover Newton Theological School, Newton Centre, Massachusetts; Asbury Theological Seminary, Wilmore, Kentucky; Bates College, Lewiston, Maine; Bethel College, North Newton, Kansas; Illinois Institute of Technology, Chicago, Illinois; LeTourneau College, Longview, Texas; Liberty Baptist College, Lynchburg, Virginia; Messiah College, Grantham, Pennsylvania; Oberlin College, Oberlin, Ohio; Pomona College, Claremont, California; Reformed Bible College, Grand Rapids, Michigan; St. Mary's University of San Antonio, San Antonio, Texas; Texas Chiropractic College, Pasadena, Texas.

S. 1 was amended by P.C. 1981-673, SOR/81-234, dated March 12, 1981 and effective January 1, 1980, to substitute "Carnegie Mellon University, Pittsburgh, Pennsylvania" for "Carnegie Institute of Technology, Pittsburgh, Pennsylvania", and to add: Azusa Pacific College, Azusa, California; Boston College, Chestnut Hill, Massachusetts; Le Moyne College, Syracuse, New York; Northwest College, Kirkland, Washington; Northwood Institute, Midland, Michigan: Rabbinical Seminary of America, Forest Hills, New York; South Dakota School of Mines and Technology, Rapid City, South Dakota; Whitman College, Walla Walla, Washington; Yeshiva University of Los Angeles, Los Angeles, California.

S. 1 was amended by P.C. 1980-1138, SOR/80-321, dated May 1, 1980 and effective January 1, 1979, to add: Cedarville College, Cedarville, Ohio; Detroit Bible College, Farmington Hills, Michigan; Goddard College, Plainfield, Vermont; Louisiana State University, Baton Rouge, Louisiana; Multnomah School of the Bible, Portland, Oregon; North American Baptist Seminary, Sioux Falls, South Dakota; Ottawa University, Ottawa, Kansas; Pace University, New York, New York; Park College, Kansas City, Missouri; St. John's College, Annapolis, Maryland; St. John's College, Santa Fe, New Mexico; Stephens College, Columbia, Missouri; Taylor University, Upland Indiana; Touro College, New York, New York; Trinity College, Dunedin, Florida; Washington Bible College, Lanham, Maryland; Western Evangelical Seminary, Portland, Oregon.

S. 1 was amended by P.C. 1979-1181, SOR/79-336, dated April 9, 1979 and effective January 1, 1978, to add: Brigham Young University — Hawaii Campus, Laie, Hawaii; Eastern Washington University, Cheney, Washington; Fuller Theological Seminary, Pasadena, California; Grinnell College, Grinnell, Iowa; Macalester College, St. Paul, Minnesota; National College of Chiropractic, The Lombard, Illinois; Old Dominion University, Norfolk, Virginia; Saint Mary's College, Notre Dame, Indiana; Sarah Lawrence College, Bronxville, New York; Union College, Schenectady, New York; University of Santa Clara, Santa Clara, California.

S. 1 was amended by P.C. 1978-781, SOR/78-256, dated March 20, 1978, to add the following, effective on and after January 1, 1977: Bennington College, Bennington, Vermont; Creighton University, Omaha, Nebraska; Florida Atlantic University, Boca Raton, Florida; Mesivta Yeshiva Rabbi Chaim Berlin, Brooklyn, New York; Ohio University, Athens, Ohio; Swarthmore College, Swarthmore, Pennsylvania; University of Houston, Houston, Texas; Valparaiso University, Valparaiso, Indiana; Western Washington University, Bellingham, Washington.

2. The universities situated in the United Kingdom of Great Britain and Northern Ireland that are prescribed by section 3503 are the following:

Aston University, Birmingham, England
Cranfield University, Bedfordshire, England
Gateshead Talmudical College, Gateshead, England
Heriot-Watt University, Edinburgh, Scotland
Imperial College of Science, Technology and Medicine, London, England
King's College London, London, England
London Business School, London, England
Loughborough University, Leicestershire, England
Queen's University of Belfast, The, Belfast, Northern Ireland
University College London, London, England
University of Aberdeen, Aberdeen, Scotland
University of Birmingham, Birmingham, England
University of Bath, The, Bath, England
University of Bradford, Bradford, England
University of Bristol, Bristol, England
University of Cambridge, Cambridge, England
University of Dundee, The, Dundee, Scotland
University of Durham, Durham, England
University of Edinburgh, Edinburgh, Scotland
University of Exeter, Exeter, England
University of Glasgow, Glasgow, Scotland
University of Leeds, Leeds, England
University of Liverpool, Liverpool, England
University of London, London, England
University of Manchester, The, Manchester, England
University of Newcastle, The, Newcastle upon Tyne, England
University of North London, London, England
University of Nottingham, The Nottingham, England
University of Oxford, Oxford, England
University of Reading, Reading, England
University of St. Andrews, St. Andrews, Scotland
University of Surrey, Guildford, Surrey, England
University of Sheffield, Sheffield, England
University of Southampton, Southampton, England
University of Strathclyde, Glasgow, Scotland
University of Sussex, Brighton, England
University of Wales, Cardiff, Wales

History: S. 2 of Schedule VIII was amended by P.C. 2006-815, SOR/2006-200, dated August 29, 2006, by adding: Heriot-Watt University, Edinburgh, Scotland, deemed to have taken effect on January 1, 2004.

S. 2 of Schedule VIII was amended by P.C. 2002-2169, SOR/2003-5, dated December 12, 2002, by adding references to: London Business School, London, England; Loughborough University, Leicestershire, England, applicable January 1, 2001.

S. 2 of Schedule VIII was amended by P.C. 2001-829, SOR/2001-172, dated May 10, 2001, by adding references to: University College London, London, England, applicable as of January 1, 2000.

S. 2 of Schedule VIII was amended by P.C. 2001-829, SOR/2001-172, dated May 10, 2001, by adding references to: King's College London, London, England; University of North London, London, England, applicable as of January 1, 1999.

S. 2 of Schedule VIII was amended by P.C. 2001-829, SOR/2001-172, dated May 10, 2001, by deleting references to: University of Hull, The, Hull, England; University of Lancaster, Lancaster, England, applicable as of May 23, 2001.

S. 2 was amended by P.C. 2000-726, SOR/2000-191, dated May 18, 2000 to delete Cranfield Institute of Technology, Cranfield, Bedford, England; and Victoria University of Manchester, Manchester, England, and add Cranfield University, Bedfordshire, England; University of Manchester, The, Manchester, England, as applicable to June 7, 2000.

S. 2 was amended by P.C. 2000-726, SOR/2000-191, dated May 18, 2000 to add University of Newcastle, The, Newcastle upon Tyne, England; University of Surrey, Guildford, Surrey, England, applicable as of January 1, 1997.

S. 2 was amended by P.C. 2000-726, SOR/2000-191, dated May 18, 2000 to add Imperial College of Science, Technology and Medicine, London, England, applicable as of January 1, 1998.

S. 2 was amended by P.C. 1996-632, SOR/96-250, dated April 30, 1996 to add Aston University, Birmingham, England and the University of Sussex, Brighton, England, applicable after December 31, 1994.

S. 2 was amended by P.C. 1994-866, SOR/94-395, dated May 26, 1994, to add University of Hull, The, Hull, England, applicable after December 31, 1992.

S. 2 was amended by P.C. 1992-1108, SOR/91-198, dated May 21, 1992, to add Gateshead Talmudical College, Gateshead, England, applicable after December 31, 1990.

S. 2 was amended by P.C. 1991-467, SOR/91-198, dated March 14, 1991, to add: University of Bath, The, Bath, England; University of Dundee, The, Dundee, Scotland; University of Nottingham, The Nottingham, England, applicable after 1989.

S. 2 was amended by P.C. 1990-1332, SOR/90-411 dated June 28, 1990 to add the University of Exeter, Exeter, England and The University of Lancaster, Lancaster, England, applicable after 1988

S. 2 was amended by P.C. 1989-723, SOR/89-233, dated April 28, 1989, to add the University of Southampton, Southampton, England, applicable after 1987.

S. 2 was amended by P.C. 1984-774, SOR/84-222, dated March 9, 1984 and effective January 1, 1983, to add the University of Durham, Durham, England.

3. The universities situated in France that are prescribed by section 3503 are the following:

American University in Paris, Paris
Catholic Faculties of Lyon, Lyon
Catholic Institute of Paris, Paris
Catholic University of Lille, The, Lille
École Nationale des Ponts et Chausées, Paris
European Institute of Business Administration (INSEAD), Fontainebleau
Hautes Études Commerciales, Paris
Paris Graduate School of Management, Paris

History: S. 3 of Schedule VIII was amended by P.C. 2001-829, SOR/2001-172, dated May 10, 2001, by deleting references to: University of Aix-Marseilles, Aix-en-Provence; University of Paris, Paris, applicable as of May 23, 2001.

S. 3 was amended by P.C. 2000-726, SOR/2000-191, dated May 18, 2000, to delete Catholic Faculties of Lille, Lille; and add Catholic University of Lille, The, Lille, applicable as of June 7, 2000.

S. 3 was amended by P.C. 1994-866, SOR/94-395, dated May 26, 1994, to add: Hautes Études Commerciales, Paris; Paris Graduate School of Management, applicable after December 31, 1992.

S. 3 was amended by P.C. 1991-467, SOR/91-198, dated March 14, 1991, to add: École Nationale des Ponts et Chausées, Paris; European Institute of Business Administration (INSEAD), Fontainebleau, applicable after 1989.

S. 3 was amended by P.C. 1990-1332, SOR/90-411 dated June 28, 1990 to substitute the American University in Paris for the American College in Paris, applicable after 1988.

S. 3 was amended by P.C. 1988-561, SOR/88-209, dated March 24, 1988, to add the American College in Paris, applicable after 1986.

4. The universities situated in Austria that are prescribed by section 3503 are the following:

University of Vienna, Vienna

5. The universities situated in Belgium that are prescribed by section 3503 are the following:

Catholic University of Louvain, Louvain

History: S. 5 was amended by S.C. 2000-726, SOR/2000-191, dated on May 18, 2000, to delete Free University of Brussels, Brussels, as applicable to June 7, 2000.

6. The universities situated in Switzerland that are prescribed by section 3503 are the following:

Franklin College of Switzerland, Sorengo (Lugano)
University of Geneva, Geneva
University of Lausanne, Lausanne

History: S. 6 of Schedule VIII was amended by P.C. 2001-829, SOR/2001-172, dated May 10, 2001, by deleting references to: University of Fribourg, Fribourg, applicable as of May 23, 2001.

S. 6 was amended by P.C. 1992-1108, SOR/91-198, dated May 21, 1992 to add Franklin College of Switzerland, Sorengo (Lugano), applicable after December 31, 1990.

7. The universities situated in Vatican City that are prescribed by section 3503 are the following:

Pontifical Gregorian University

8. The universities situated in Israel that are prescribed by section 3503 are the following:

Bar-Ilan University, Ramat-Gan
Ben Gurion University of the Negev, Beersheba
École biblique et archéologique française, Jerusalem
Hebrew University of Jerusalem, The, Jerusalem
Jerusalem College for Women, Bayit-Vegan, Jerusalem
Jerusalem College of Technology, Jerusalem
Technion-Israel Institute of Technology, Haifa
Tel-Aviv University, Tel-Aviv
University of Haifa, Haifa
Weizmann Institute of Science, Rehovot
Yeshivat Aish Hatorah, Jerusalem

History: S. 8 of Schedule VIII was amended by P.C. 2001-829, SOR/2001-172, dated May 10, 2001, by deleting the references to: Bezalel — Academy of Arts and Design, Jerusalem, applicable as of May 23, 2001.

S. 8 was amended by P.C. 1996-632, SOR/96-250, dated April 30, 1996, to add École biblique et archéologique française, Jerusalem, applicable after December 31, 1994.

S. 8 was amended by P.C. 1994-866, SOR/94-395, dated May 26, 1994, to add Yeshivat Aish Hatorah, Jerusalem, applicable after December 31, 1992.

S. 8 was amended by P.C. 1988-561, SOR/88-209, dated March 24, 1988, to add the Bezalel Academy of Arts and Design, Jerusalem, applicable after 1986.

S. 8 was amended by P.C. 1986-746, SOR/86-382, dated March 26, 1986, to add the Jerusalem College of Technology, Jerusalem, effective January 1, 1985.

S. 8 was amended by P.C. 1983-1194, SOR/83-359, dated April 22, 1983 and effective January 1, 1982 to add the Weizmann Institute of Science, Rehovot.

S. 8 was amended by P.C. 1980-1138, SOR/80-321, May 1, 1980, to add the following, effective January 1, 1979: Ben Gurion University of the Negev, Beersheba; Jerusalem College for Women, Bayit-Vegan, Jerusalem.

9. The universities situated in Lebanon that are prescribed by section 3503 are the following:

American University of Beirut, Riad El Solh, Beirut
St. Joseph University, Beirut

History: S. 9 was amended by P.C. 2006-815, SOR/2006-200, dated August 29, 2006, by adding: American University of Beirut, Riad El Solh, Beirut, deemed to have taken effect on January 1, 2003.

S. 9 was amended by P.C. 2000-726, SOR/2000-191, dated May 18, 2000, to delete American University of Beirut, The, Beirut, as applicable on June 7, 2000.

St. Joseph University, Beirut was added to S. 9 by P.C. 1980-1138, SOR/80-321, May 1, 1980, effective January 1, 1979.

10. The universities situated in Ireland that are prescribed by section 3503 are the following:

National University of Ireland, Dublin
Royal College of Surgeons in Ireland, Dublin
University of Dublin, The, Trinity College, Dublin

History: S. 10 of Schedule VIII was amended by P.C. 2006-997, SOR/2006-205, dated September 21, 2006, by striking out: University of Dublin, Dublin, deemed to have taken effect on January 1, 2005.

S. 10 of Schedule VIII was amended by P.C. 2006-997, SOR/2006-205, dated September 21, 2006, by adding: University of Dublin, The, Trinity College, Dublin, deemed to have taken effect on January 1, 2005.

National University of Ireland, Dublin was added to S. 10 by P.C. 1985-1150, SOR/85-332, dated April 4, 1985, applicable January 1, 1984.

University of Dublin, Dublin was added to S. 10 by P.C. 1980-1138, SOR/80-321, May 1, 1980, effective January 1, 1979.

11. The universities situated in the Federal Republic of Germany that are prescribed by section 3503 are the following:

Ukrainian Free University, Munich
University of Heidelberg, Heidelberg

History: S. 11 of Schedule VIII was amended by P.C. 2006-997, SOR/2006-205, dated September 21, 2006, by striking out: Ruprecht-Karls-Universität Heidenberg, Heidenberg, deemed to have taken effect on January 1, 1995.

S. 11 of Schedule VIII was amended by P.C. 2006-997, SOR/2006-205, dated September 21, 2006, by adding: University of Heidelberg, Heidelberg, deemed to have taken effect on January 1, 1995.

S. 11 was amended by P.C. 1996-632, SOR/96-250, dated April 30, 1996, to add Ruprecht-Karls-Universität Heidenberg, Heidenberg, applicable after December 31, 1994.

12. The universities situated in Poland that are prescribed by section 3503 are the following:

Catholic University of Lublin, Lublin
Jagiellonian University, Krakow

History: S. 12 was amended by P.C. 2000-726, SOR/2000-191, dated May 18, 2000, to add Jagiellonian University, Krakow, applicable as of January 1, 1998.

S. 12 was amended by P.C. 1986-746, SOR/86-382, dated March 26, 1986, to change "Catholic University of Lubin, Lubin" to "Catholic University of Lublin, Lublin", effective January 1, 1982.

S. 12 was added by P.C. 1183-1194, SOR/83-359, dated April 22, 1983 and effective January 1, 1982.

13. The universities situated in Spain that are prescribed by section 3503 are the following:

University of Navarra, Pamplona.

History: S. 13 was added by P.C. 1987-1479, SOR/87-472, dated July 30, 1987, applicable after 1985.

14. The universities situated in the People's Republic of China that are prescribed by section 3503 are the following:

Nanjing University, Nanjing.

History: S. 14 of Schedule VIII was amended by P. C. 2001, SOR/2001-172, dated May 10, 2001, by deleting the reference to Nanjing Institute of Technology, and by adding the reference to Nanjing University, Nanjing, applicable as of May 23, 2001.

S. 14 was added by P.C. 1989-723, SOR/89-233 dated April 28, 1989, applicable after 1987.

15. The universities situated in Jamaica that are prescribed for the purposes of section 3503 are the following:

University of the West Indies, Mona Campus, Kingston.

History: S. 15 was added by P.C. 1989-723, SOR/89-233 dated April 28, 1989 and applicable after 1987.

16. [Repealed.]

History: S. 16 of Schedule VIII was repealed by P.C. 2001-829, SOR/2001-172, dated May 10, 2001, applicable as of May 23, 2001. S. 16 of Schedule VIII formerly read:

"S. 16. The university situated in the Czech and Slovak Federal Republic that is prescribed by section 3503 is the following:
Universita Karlova, Prague
"

S. 16 was added by P.C. 1992-1108, SOR/91-198, dated May 21, 1992 and applicable after December 31, 1990.

Interpretation Bulletins: *Secondary* — IT-516R2 Tuition tax credit.

17. The universities situated in Australia that are prescribed by section 3503 are the following:

Adelaide University, Adelaide
Queensland University of Technology, Brisbane
University of Melbourne, The, Parkville
University of Queensland, The, Brisbane
University of Sydney, The, Sydney
University of Tasmania, Hobart

History: S. 17 of Schedule VIII was amended by P.C. 2002-2169, SOR/2003-5, dated December 12, 2002, by adding a reference to: Adelaide University, Adelaide, applicable January 1, 2001.

S. 17 of Schedule VIII was amended by P.C. 2001-829, SOR/2001-172, dated May 10, 2001, by adding the reference to: Queensland University of Technology, Brisbane, applicable as of January 1, 1999.

S. 17 was amended by P.C. 2000-726, SOR/2000-191, dated May 18, 2000, to delete Flinders University of South Australia, The, Adelaide; and Universtiy of New South Wales, The, Sydney, as applicable to June 7, 2000.

S. 17 was amended by P.C. 2000-726, SOR/2000-191, dated May 18, 2000, to add University of Melbourne, The, Parkville; University of Queensland, The, Brisbane, applicable as of January 1, 1997.

S. 17 was amended by P.C. 1996-632, SOR/96-250, dated April 30, 1996, to add Flinders University of South Australia, The, Adelaide and the University of New South Wales, The, Sydney, applicable after December 31, 1994.

S. 17 was amended by P.C. 1994-866, SOR/94-395, dated May 26, 1994, to add: University of Tasmania, Hobart, applicable after December 31, 1992.

S. 17 was added by P.C. 1993-901, SOR/93-229, dated May 4, 1993 and applicable after December 31, 1991.

18. The university situated in the Republic of Croatia that is prescribed by section 3503 is the following:

University of Zagreb, Zagreb

History: S. 18 was added by P.C. 1994-866, SOR/94-395, dated May 26, 1994, applicable after December 31, 1992.

19. The universities situated in South Africa that are prescribed by section 3503 are the following:

University of Cape Town, Rondebosch
University of Natal, Durban
University of the Witwatersrand, The, Johannesburg

History: S. 19 of Schedule VIII was amended by P.C. 2006-815, SOR/2006-200, dated August 29, 2006, by adding: University of Cape Town, Rondebosch, deemed to have taken effect on January 1, 2004.

S. 19 of Schedule VIII was amended by P.C. 2001-829, SOR/2001-172, dated May 10, 2001, applicable as of January 1, 2000. S. 19 of Schedule VIII formerly read:

"S. 19. The university situated in South Africa that is prescribed by section 3503 is the following:
University of the Witwatersrand, The, Johannesburg
"

S. 19 was added by P.C. 1995-581, SOR/95-184, dated April 4, 1995, applicable after December 31, 1993.

20. For the purposes of section 3503 the universities situated in the Netherlands are the following:

Leiden University, Leiden
Nyenrode University, Breukelen
University of Groningen, Groningen

History: S. 20 of Schedule VIII was amended by P.C. 2002-2169, SOR/2003-5, dated December 12, 2002, applicable January 1, 2001. S. 20 of Schedule VIII formerly read:

"S. 20. The university situated in the Netherlands that is prescribed by section 3503 is the following:
Leiden University, Leiden
Nijenrode University, Breukelen
"

S. 20 was amended by P.C. 2000-726, SOR/2000-191, dated May 18, 2000, to add Leiden University, Leiden, applicable as of January 1, 1998.

S. 20 was added by P.C. 1996-632, SOR/96-250, dated April 30, 1996, applicable after December 31, 1994.

21. For the purposes of section 3503 the universities situated in Hong Kong are the following:

Hong Kong University of Science and Technology, The, Kowloon
University of Hong Kong, The, Hong Kong

History: S. 21 of Schedule VIII was amended by P.C. 2002-2169, SOR/2003-5, dated December 12, 2002, applicable January 1, 2002. S. 21 of Schedule VIII formerly read:

"S. 21. The university situated in Hong Kong that is prescribed by section 3503 is the following:
Hong Kong University of Science and Technology, The, Kowloon
"

S. 21 was added by P.C. 1996-632, SOR/96-250, dated April 30, 1996, applicable after December 31, 1994.

22. The universities situated in New Zealand that are prescribed by section 3503 are the following:

University of Auckland, The, Auckland
University of Otago, Dunedin
Victoria University of Wellington, Wellington

History: S. 22 of Schedule VIII was amended by P.C. 2006-815, SOR/2006-200, by adding: University of Auckland, The, Auckland, deemed to have taken effect on January 1, 2003.

S. 22 of Schedule VIII was replaced by P.C. 2005-694, SOR/2005-123, dated May 3, 2005, deemed to have taken effect on January 1, 2003. S. 22 of Schedule VIII formerly read:

"S. 22. The university situated in New Zealand that is prescribed by section 3503 is the following:
Victoria University of Wellington, Wellington

S. 22 was added by P.C. 2000-726, SOR/2000-191, dated May 18, 2000, applicable as of January 1, 1999.

23. The university situated in Hungary that is prescribed by section 3503 is the following:
Central European University, Budapest

History: S. 23 of Schedule VIII was added by P.C. 2001-829, SOR/2001-172, dated May 10, 2001, applicable as of January 1, 1999.

24. The university situated in India that is prescribed by section 3503 is the following:
Panjab University, Chandigarh

History: S. 24 of Schedule VIII was added by P.C. 2001-829, SOR/2001-172, dated May 10, 2001, applicable as of January 1, 2000.

25. The university situated in Estonia that is prescribed by section 3503 is the following:
University of Tartu, Tartu

History: S. 25 of Schedule VIII was added by P.C. 2006-815, SOR/2006-200, dated August 29, 2006, deemed to have taken effect on January 1, 2004.

SCHEDULE IX

Prescribed Areas

[Revoked.]

History: Schedule IX was revoked by P.C. 1993-1688, SOR/93-440, dated August 26, 1993 and applicable to the 1993 and subsequent taxation years. Schedule IX formerly read:

SCHEDULE IX
(Section 7303)

"[PRESCRIBED AREAS (1987–1992)

DIVISION I
[Subsection 7303(2)]

S. 1. In Ontario
Armstrong
Christian Island Indian Reserve 30
Grassy Narrows
Gull Bay
Islington Indian Reserve 29
(including
Whitedog Post Office)
Longlac
Swift Rapids (Generating Station)

S. 2. In Quebec
Black Cape
Bonaventure
Broadlands
Caplan
Escuminac
Fermont
Grande-Cascapédia
Lagacé
L'Alverne
L'Ascension-de-Patapédia (Canton Patapédia)
L'Immaculée-Conception
Léonard-de-Matapédia
Mann Settlement
Manouane
Matapédia (including Saint-Laurent-de-Matapédia)
Matapédia-Ouest
Millstream
New Carlisle
New Richmond
New Richmond Station
Nouvelle
Paspébiac
Pointe-à-la-Croix
Pointe-à-la-Garde
Restigouche
Ristigouche-Partie-Sud-Est
Rivière-Paspébiac
Runnymede
Saint-Alexis
Saint-Alexis-de-Matapédia
Saint-Alphonse-de-Caplan
Saint-André-de-Restigouche
Saint-Benoît-de-Matapédia
Saint-Elzéar-de-Bonaventure
Saint-Étienne-de-Ristigouche
Saint-Fidèle-de-Ristigouche
Saint-François-d'Assise
Saint-Godefroi
Saint-Jean-de-Matapédia
Saint-Joseph-de-Matapédia
Saint-Jules-de-Cascapédia
Saint-Omer
Saint-Siméon-de-Bonaventure
Saint-Victor-de-Bonaventure
Sellarsville
Winneway

S. 3. In British Columbia
Alexis Creek
Alkali Lake
Blueberry River Indian Reserve 205
Dog Creek
Hudson's Hope
Kitwanga
Port Hardy
Port McNeill
Summit Lake (Mile 392)

S. 4. In Saskatchewan
Big Head Indian Reserve 124
Carragana
Chelan
Climax (including Port of Climax)
Consul (including Willow Creek)
Goodsoil
Monchy
Pierceland
Porcupine Plain

S. 5. In Alberta
Big Horn Indian Reserve 144A
Frog Lake (community)
Nordegg
Smallboy's Camp (community)

S. 6. In Newfoundland
Aspen Cove
Badger's Quay
Burin
Carmanville
Centreville
Channel-Port aux Basques
Doting Cove
Labrador City
Lumsden
Main Point
Musgrave Harbour
Parsons Point (Indian Bay)
Ragged Harbour
Ross Bay Junction
Trepassey
Valleyfield
Wabush
Wareham
Wesleyville

DIVISION II
[Subsection 7303(3)]

S. 1. All areas in Newfoundland along Highways 320-29, 320-33, 320-34, 320-35, 320-36, 320-37, 320-38, 330-13, 330-14, 330-15, 330-16, 330-18, 330-23, 330-27, 330-28, 330-32, 330-34 to 330-45, 332-10 to 332-30 and 332; along that portion of Highway 330 that lies between Main Point and Wesleyville; and along that portion of Highway 320 that lies between Wesleyville and Centreville.

S. 2. All areas in Newfoundland on Change Islands, Chapel Island, Fogo Island, New World Island, North Twillingate Island, Salt Harbour Island, South Twillingate Island and Strong Island.

S. 3. All areas in Newfoundland along Highway 211.

DIVISION III
[Subsection 7303(4)]

S. 1. The region of Newfoundland known as Burin Peninsula that lies south of a line beginning at the point where the centre of the Sandy Harbour River meets the Western Channel, thence upstream along the centre of the Sandy

Harbour River to a point where the centre of Highway 210 crosses the centre of the river, thence southwesterly along the centre of Highway 210 to the point where the centre of that highway intersects with the centre of Highway 211, thence westerly along the centre of Highway 211 to the point where the centre of that highway meets the centre of Highway 211-10, thence southwesterly along the centre of Highway 211-10 to the point where the centre of that highway meets the northeastern boundary of the town of Terrenceville, thence westerly along the boundary of Terrenceville to the point where the boundary meets the shore of Fortune Bay.

S. 2. The region in Quebec known as Gaspé Peninsula as defined in subsection 127(9) of the Act.

S. 3. The region in Saskatchewan known as the Rural Municipality of Meadow Lake (588)."

Schedule IX was added by P.C. 1988-1105, SOR/88-312 dated June 6, 1988, applicable to the 1987 and subsequent taxation years.

SCHEDULE X

Prescribed Areas

[Revoked.]

History: Schedule X was revoked by P.C. 1993-1688, SOR/93-440, dated August 26, 1993 and applicable to the 1993 and subsequent taxation years.

Schedule X was added by P.C. 1988-1105, SOR/88-312 dated June 6, 1988, applicable to the 1987 and subsequent taxation years.

Remission Orders

Nelly Bituala–Mayala Remission Order
[CCTBs Received in Error]

P.C. 2009-963, June 11, 2009 (SI/2009-55 June 24, 2009.)

Her Excellency the Governor General in Council, considering that the collection of the amount is unjust, on the recommendation of the Minister of National Revenue and the Treasury Board, pursuant to subsection 23(2.1) of the *Financial Administration Act* hereby remits to Nelly Bituala–Mayala the amount of $16,143, paid or payable by her as repayment of Canada child tax benefits with respect to the 2003 and 2004 base taxation years under Part I of the *Income Tax Act*.

Explanatory Note

(This note is not part of the Order.)

The Order remits the amount of $16,143 with respect to Canada child tax benefits received by Nelly Bituala–Mayala in error, for the 2003 and 2004 base taxation years, to which she was not entitled. The remission is based on extreme hardship and an error on the part of the Canada Revenue Agency as to her entitlement to the benefits for that period.

Pierre Gosselin Remission Order
[Circumstances Not in Taxpayer's Control]

P.C. 2009-951, June 11, 2009 (SI/2009-51 June 24, 2009.)

Her Excellency the Governor General in Council, considering that the collection of the tax is unjust, on the recommendation of the Minister of National Revenue, pursuant to subsection 23(2) of the *Financial Administration Act*, hereby remits tax

(a) in the amount of $2,798.63, $2,755.07, $5,197.06, $1,891.79, $2,176.76, $2,613.95, $1,583.89, $1,889.86, $2,239.50, $1,117.15, $167.79 and $201.04, and all relevant interest on it, paid or payable under Part I of the *Income Tax Act* by Pierre Gosselin or his estate for the 1991, 1992, 1993, 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2003 and 2004 taxation years, respectively, and

(b) in the amount of $2,576.55, and all relevant interest on it, paid or payable under Part I.2 of the *Income Tax Act* by Pierre Gosselin or his estate for the 2005 taxation year.

Explanatory Note

(This note is not part of the Order.)

The Order remits a portion of the income tax and all relevant interest paid or payable by Pierre Gosselin or his estate for the 1991 to 2000 and 2003 to 2005 taxation years.

The amount remitted represents the additional tax incurred by Mr. Gosselin as a result of circumstances that were not within his control. The payment of that amount caused a significant financial setback for Mr. Gosselin.

Wendy Drever Remission Order
[Timing Difference of Tax Liability]

P.C. 2009-299, February 26, 2009 (SI/2009-17 March 18, 2009.)

Her Excellency the Governor General in Council, considering that the collection of the tax is unjust, on the recommendation of the Minister of National Revenue, pursuant to subsection 23(2) of the *Financial Administration Act*, hereby remits tax in the amount of $2,891.00, and all relevant interest on it, paid or payable by Wendy Drever, for the 2002 taxation year, under Part I of the *Income Tax Act*.

Explanatory Note

(This note is not part of the Order.)

The Order remits a portion of income tax and all relevant interest paid or payable on it by Wendy Drever in respect of the 2002 taxation year.

Ms. Drever has been receiving taxable wage loss replacement benefits since 1995. In 2002, she received a retroactive lump sum disability payment from the Canada Pension Plan (CPP). This amount reduced her wage loss replacement benefit entitlements and she was required to repay the CPP lump sum payment to the wage loss replacement provider. She was taxed on the lump sum payment in 2002 and received a deduction from 2003 income for the repayment amount. Due to delays that were not within her control, the transaction bridged two taxation years. The amount remitted represents the additional tax liability incurred by Ms. Drever because of this timing difference.

Joan Clym Remission Order
[Significant Financial Hardship]

P.C. 2008-1623, September 5 2008 (SI/2008-98 September 17, 2008.)

Her Excellency the Governor General in Council, considering that the collection of the tax is unjust, on the recommendation of the Minister of National Revenue, pursuant to subsection 23(2) of the *Financial Administration Act*, hereby remits tax in the amount of $11,096.87 for the 1979 taxation year, and all relevant interest thereon, paid or payable under Part I of the *Income Tax Act* by Joan Clym or her estate.

Explanatory Note

(This note is not part of the Order.)

The Order remits a portion of the income tax and all relevant interest thereon, paid or payable by Joan Clym or her estate in respect of the reassessment of her 1979 income tax return.

The payment of this tax would have caused Joan Clym significant financial hardship at the time of the reassessment. The payment of this tax and related interest charges would now cause significant financial hardship for her estate. Circumstances beyond the control of Joan Clym prevented her from addressing her tax situation.

Vera Henderson Income Tax Remission Order
[Unintended Results of Legislation]

P.C. 2008-983 May 29, 2008 (SI/2008-62 June 11, 2008.)

Her Excellency the Governor General in Council, considering that the collection of tax is unjust, on the recommendation of the Minister of National Revenue, pursuant to subsection 23(2) of the *Financial Administration Act*, hereby makes the annexed *Vera Henderson Income Tax Remission Order*.

Vera Henderson Income Tax Remission Order

Remission

1. Remission is hereby granted of the tax paid by Vera Henderson under Part I of the *Income Tax Act* in the amount of $4,000.70 for the 2001 taxation year.

Condition

2. The remission is granted on the condition that Vera Henderson does not claim a deduction under subsection 120.2(1) of the *Income Tax Act* in respect of the amount remitted.

Explanatory Note

(This note is not part of the Order.)

The Order remits $4,000.70 paid by Vera Henderson as income tax for the 2001 taxation year.

The amount remitted represents the additional tax paid by Mrs. Henderson due to unintended results of the legislation.

Certain Former Employees Of SDL Optics, Inc. Remission Order No. 2
[Employment Benefit from Stock Purchase Plan Exceeds Subsequent Proceeds of Disposition]

P.C. 2008-975 May 29, 2008 (SI/2008-60 June 11, 2008.)

Her Excellency the Governor General in Council, considering that it is in the public interest to do so, on the recommendation of the Minister of National Revenue, pursuant to subsection 23(2) of the *Financial Administration Act*, hereby makes the annexed *Certain Former Employees of SDL Optics, Inc. Remission Order No. 2*.

Certain Former Employees Of SDL Optics, Inc. Remission Order No. 2

Interpretation

1. In this Order, "employment benefit" means a benefit under subsection 7(1) of the *Income Tax Act* in respect of the acquisition of shares, in 1999 and 2000, through the stock purchase plan for employees of SDL Optics, Inc.

Remission

2. Remission is granted to the taxpayers set out in column 1 of the schedule for the amount set out in column 2, in respect of the 1999 or 2000 taxation years, as the case may be, which represents all or a portion of tax paid or payable under Part I of the *Income Tax Act* in respect of an employment benefit.

Condition

3. The remission set out in section 2 is granted on the condition that the taxpayer agrees to reduce the adjusted cost base of any shares held at the close of the stock markets on December 29, 2006 that were, or are identical to those, purchased in 1999 or 2000 through the stock purchase plan for employees of SDL Optics, Inc. by the amount set out in column 2 of the schedule, divided by the taxpayer's effective federal tax rate on the employment benefit.

Schedule (Sections 2 and 3)

SCHEDULE

Item	Column 1 Taxpayer	Column 2 Amount ($)
1.	Jingjing Liu	9,882.91
2.	Mandeep Saini	6,075.70
3.	Shanna Wang	17,219.71

Explanatory Note

(This note is not part of the Order.)

The Order remits all or a portion of federal income tax paid or payable in respect of the 1999 or 2000 taxation years, as the case may be, by certain former employees of SDL Optics, Inc. Those individuals qualify for tax remission if the tax assessed on the employment benefit associated with shares acquired in 1999 or 2000 through the stock purchase plan for employees of SDL Optics, Inc. exceeds the total of the proceeds of disposition realized on the disposition of those shares and the market value of any of those shares held at the close of stock markets on December 29, 2006. The remission is conditional and the amount remitted is subject to certain adjustments. [The first Certain Former Employees of SDL Optics, Inc. Remission Order, was made by P.C. 2007-1635, October 25, 2007 (SI/2007-99 November 14, 2007).]

Doina-Florica Calin Remission Order
[Executor Missed Deadlines for Alleviating Provisions Due to Illness]

P.C. 2007-563 April 19, 2007 (SI/2007-53, May 2, 2007)

Her Excellency the Governor General in Council, considering that the collection of the tax is unjust, on the recommendation of the Minister of National Revenue, pursuant to subsection 23(2) of the *Financial Administration Act*, hereby remits tax under Part I of the *Income Tax Act* in the amount of $17,100.57 for the 2000 taxation year, and all relevant interest thereon, paid or payable by Doina-Florica Calin.

Explanatory Note

(*This note is not part of the Order.*)

This Order remits a portion of income tax and all relevant interest paid or payable thereon by Doina-Florica Calin in respect of her final return.

The executor of the estate was unable to take advantage of alleviating legislative provisions because he forfeited options after the legislated timeframe (first taxation year of the estate). The executor missed this deadline due to serious health problems.

Léopold Bouchard Remission Order
[Serious Illness]

P.C. 2007-562 April 19, 2007 (SI/2007-52, May 2, 2007)

Her Excellency the Governor General in Council, considering that the collection of the tax is unjust, on the recommendation of the Minister of National Revenue, pursuant to subsection 23(2) of the *Financial Administration Act*, hereby remits tax under Part I of the *Income Tax Act* in the amount of $1,233.93 for the 1993 taxation year, and all relevant interest thereon, paid or payable by Léopold Bouchard.

Explanatory Note

(*This note is not part of the Order.*)

This Order remits a portion of income tax and all relevant penalties and interest paid or payable thereon by Léopold Bouchard in respect of the 1993 taxation year.

In 1993, Mr. Bouchard fell seriously ill and became unable to continue to work. Having fallen ill, he did not file his 1993 income tax return until several years later and was assessed tax of $1,233.93 and related penalties and interest. He began receiving social assistance in 1995 and continues to receive these long-term disability benefits. Mr. Bouchard's income is at a level where paying this debt would cause him extreme hardship.

Jerry Mathews Remission Order
[Accumulated Interest Charges]

P.C. 2006-446 June 14, 2006 (Registration SI/2006-92)

Her Excellency the Governor General in Council, considering that the collection of the amount is unjust, on the recommendation of the Minister of National Revenue and the Treasury Board, pursuant to subsection 23(2.1) of the *Financial Administration Act*, hereby remits interest charged under Part I of the *Income Tax Act* in the amount of $4,382.01 as of April 5, 2004, and all interest on that interest, paid or payable by Jerry Mathews.

Explanatory Note

(*This note is not part of the Order.*)

The Order remits to Jerry Mathews $4,382.01, which represents interest charges on arrears of a 1983 income tax debt.

Mr. Mathews filed his 1980 to 1985 tax returns in 2000. He owed a tax balance for 1983; however, a subsequent year loss carryback eliminated the tax debt. While the taxes were eliminated, the interest that had accrued on that debt remained and arrears interest continued to accrue on that balance.

Having regard to the length of time that had elapsed and the fact that no income tax liability arose as a result of the late filings, it is just to remit the accumulated interest charges.

Ram Sewak Remission Order
[Taxpayer Unaware of Very Old Tax Debt]

P.C. 2006-445 June 14, 2006 (Registration SI/2006-91)

Her Excellency the Governor General in Council, considering that the collection of the tax is unjust, on the recommendation of the Minister of National Revenue, pursuant to subsection 23(2) of the *Financial Administration Act*, hereby remits tax and penalties under Part I of the *Income Tax Act* in the amount of $989.80 for the 1977 taxation year, and all relevant interest thereon, paid or payable by Ram Sewak.

Explanatory Note

(*This note is not part of the Order.*)

This Order remits a portion of income tax and all relevant penalties and interest paid or payable thereon by Ram Sewak in respect of the 1977 taxation year.

In 2001, Mr. Sewak returned to Canada to find out that he had an income tax debt dating back to 1978, the year he left Canada. Interest charges have increased the debt to a level where paying it would cause extreme hardship for Mr. Sewak.

Clara Reid Remission Order
[No Income from which to Deduct EI Benefit Repayments]

P.C. 2006-372 May 31, 2006 (Registration SI/2006-78)

Her Excellency the Governor General in Council, considering that the collection of the tax is unjust, on the recommendation of the Minister of National Revenue, pursuant to subsection 23(2) of the *Financial Administration Act*, hereby remits tax under Part I of the *Income Tax Act* in the amount of $1,335.60 for the 2003 taxation year, and all relevant interest thereon, paid or payable by Clara Reid.

Explanatory Note

(This note is not part of the Order.)

This Order remits a portion of income tax and all relevant interest paid or payable thereon by Clara Reid in respect of the 2003 taxation year.

In 2003 Ms. Reid received Employment Insurance (EI) benefits. She reported them as income on her 2003 return and paid the applicable tax. In 2004 her claim for long-term disability payments was approved retroactive to 2003. Since the benefit periods overlapped, she was required to repay the EI benefits. She repaid the full amount.

In 2004 she was entitled to a deduction from income for the amount of the repayment. However, she had no income in 2004 from which to deduct it. As a result, she has been taxed in 2003 on benefits that she repaid in 2004. The inclusion in income of the EI benefits in 2003 that were later repaid unfairly caused Clara Reid additional tax liability.

McIntyre Lands Remission Order
[Lands to be Treated as a Reserve]

P.C. 2005-2230 November 28, 2005 (Registration SI/2005-128, December 14, 2005)

Her Excellency the Governor General in Council, considering that it is in the public interest to do so, on the recommendation of the Minister of Indian Affairs and Northern Development and Federal Interlocutor for Métis and Non-Status Indians, pursuant to subsection 23(2) of the *Financial Administration Act*, hereby makes the annexed McIntyre Lands Income Tax Remission Order.

McIntyre Lands Income Tax Remission Order

1. The following definitions apply in this Order.

"Indian" has the same meaning as in subsection 2(1) of the *Indian Act*. (Indien)

"McIntyre Lands" means the lands described in the Schedule. (terres de McIntyre)

"reserve" has the same meaning as in subsection 2(1) of the *Indian Act*. (réserve)

"Yukon First Nation Final Agreement" means a land claims agreement that is in effect pursuant to the *Yukon First Nations Land Claims Settlement Act*. (accord définitif d'une première nation du Yukon)

2. Subject to section 3, remission is hereby granted to an Indian in respect of each taxation year from 1999 to 2005 of the amount, if any, by which

(a) the tax, interest and penalties paid or payable by the Indian under Parts I, I.1 and I.2 of the *Income Tax Act* for the year

exceeds

(b) the tax, interest and penalties that would have been payable by the Indian if the McIntyre Lands had been a reserve throughout that year.

3. This Order does not apply to an Indian who is enrolled throughout a taxation year referred to in section 2 under a Yukon First Nation Final Agreement.

SCHEDULE (Section 1)

McIntyre Lands

FIRSTLY:

The whole of Lots numbered 567 to 669 inclusive, in the Hillcrest McIntyre Subdivision, in the City of Whitehorse in the Yukon Territory, as said lots are shown on a plan of survey of record number 66606 in the Canada Lands Surveys Records at Ottawa, a copy of which is filed in the Land Titles Office for the Yukon Land Registration District at Whitehorse under number 58624.

SECONDLY:

The whole of Lots numbered 791 to 901 inclusive, in the Hillcrest McIntyre subdivision, in the City of Whitehorse in the Yukon Territory, as said lots are shown on a plan of survey of record number 66607 in the Canada Land Surveys Records at Ottawa, a copy of which is filed in the Land Titles Office for the Yukon Land Registration District at Whitehorse under number 58625.

THIRDLY:

The whole of Lots number 710 to 735 inclusive, 748 to 762 inclusive, 766 to 790 inclusive and 741, in the Hillcrest McIntyre Subdivision, in the City of Whitehorse in the Yukon Territory, as said lots are shown on a plan of survey of record number 66607 in the Canada Lands Surveys Records at Ottawa, a copy of which is filed in the Land Titles Office for the Yukon Land Registration District at Whitehorse under number 58625.

FOURTHLY:

The whole of Lots number 326 to 566 inclusive, and 671, in the Hillcrest McIntyre Subdivision, in the City of Whitehorse in the Yukon Territory, as said lots are shown on a plan of survey of record number 66606 in the Canada Lands Surveys Records at Ottawa, a copy of which is filed in the Land Titles Office for the Yukon Land Registration District at Whitehorse under number 58624.

FIFTHLY:

The whole of Lots number 672 to 709 inclusive, 736 to 740 inclusive, 742 to 747 inclusive, and 763 to 765 inclusive, in the Hillcrest McIntyre Subdivision, in the City of Whitehorse in the Yukon Territory, as said lots are shown on a plan of survey of record number 66607 in the Canada Lands Surveys Records at Ottawa, a copy of which is filed in the Land Titles Office for the Yukon Land Registration District at Whitehorse under number 58625.

Explanatory Note

(This note is not part of the Order.)

The purpose of this Order is to provide relief from the amount of federal income tax paid or payable by an Indian that exceeds the amount of those taxes that would have been payable during the taxation years 1999 to 2005 if the Mount McIntyre area of the city of Whitehorse had been a reserve under the *Indian Act*. The Government of Canada made a commitment to grant this remission as part of an agreement to resolve outstanding litigation between the Kwanlin Dun First Nation and Canada.

ATA Woodworking Inc. Remission Order
[CRA Calculation Error]

P.C. 2005-1502 August 31, 2005 (Registration SI/2005-78, September 21, 2005)

Her Excellency the Governor General in Council, considering that the collection of the tax is unjust, on the recommendation of the Minister of National Revenue, pursuant to subsection 23(2) of the *Financial Administration Act*, hereby remits tax under Part I of the *Income Tax Act* in the amounts of $15,123.00, $15,305.00, $18,326.00, $20,198.00, $17,162.00 and $3,655.00 for the 1996, 1997, 1998, 1999, 2000 and 2001 taxation years, respectively, and all relevant interest thereon, paid or payable by ATA Woodworking Inc.

Explanatory Note

(*This note is not part of the Order.*)

This Order remits a portion of income tax and all relevant interest paid or payable thereon by ATA Woodworking Inc. (ATA) in respect of the 1996 to 2001 taxation years.

The Canada Customs and Revenue Agency made a material error in the calculation of tax payable, which created an additional tax liability for ATA.

David Lynds Remission Order
[Tax Liability on Workers' Compensation Award]

P.C. 2005-707 May 3, 2005 (Registration SI/2005-40, May 18, 2005)

Her Excellency the Governor General in Council, considering that the collection of certain amounts of tax is unjust, on the recommendation of the Minister of National Revenue, pursuant to subsection 23(2) of the *Financial Administration Act*, hereby makes the annexed David Lynds Income Tax Remission Order.

Interpretation

1. In this Order, "non-capital loss" has the meaning assigned by subsection 111(8) of the *Income Tax Act*.

Remission

2. Remission is hereby granted of the tax paid or payable by David Lynds under Part I of the *Income Tax Act* in the amount of $303.45, $5,050.75, $1,464.72, $2,783.04, $2,825.00 and $2,712.44 for the 1992, 1993, 1994, 1995, 1996 and 1997 taxation years, respectively, and all interest paid or payable on it.

Condition

3. The remission is granted on the condition that David Lynds does not claim a deduction for any portion of his non-capital loss relating to the repayment in 2001 of wage loss replacement benefits to Manulife Financial.

Explanatory Note

(*This note is not part of the Order.*)

The Order remits to David Lynds $15,139.40, which represents a portion of the tax paid or payable by Mr. Lynds under Part I of the *Income Tax Act* for the taxation years 1992 through 1997 and all interest paid or payable on it.

The amount remitted represents the additional tax liability incurred by Mr. Lynds as a result of the lengthy adjudication period involved in obtaining a workers' compensation award.

ManiganSes Remission Order
[Withholding Tax Liability]

P.C. 2005-708 May 3, 2005 (Registration SI/2005-41, May 18, 2005)

Her Excellency the Governor General in Council, considering that the collection of the tax is unjust, on the recommendation of the Minister of National Revenue, pursuant to subsection 23(2) of the *Financial Administration Act*, hereby remits tax under subsection 227(8.4) of the *Income Tax Act* in the amounts of $7,836.00 and $6,754.80 for the 2000 and 2002 taxation years, respectively, and all relevant interest thereon, paid or payable by ManiganSes, Festival international des arts de la marionnette.

Explanatory Note

(*This note is not part of the Order.*)

This Order remits tax and all relevant interest paid or payable thereon by ManiganSes, Festival international des arts de la marionnette ("ManiganSes") in respect of its 2000 and 2002 payroll account.

ManiganSes, a non-profit organization, engaged the services of several international puppet troupes. ManiganSes was required to withhold a portion of its payment for services to each troupe member on account of their Canadian tax liability but failed to do so. As a result ManiganSes became liable for the amount it failed to withhold. Liability for this amount after the funds were disbursed to the troupes caused financial hardship for ManiganSes.

A waiver of the withholding requirement had been requested by ManiganSes' director but Canada Customs and Revenue Agency (CCRA) officials did not deal with the request properly. The lack of CCRA action may have led ManiganSes to believe that they did not have to withhold any funds.

The misunderstanding between ManiganSes and CCRA officials concerning the validity of the waiver caused ManiganSes substantial additional tax liability.

Dane Pocrnic Remission Order
[Retroactive Lump Sum Receipt]

P.C. 2005-624 April 19, 2005 (Registration SI/2005-38, May 4, 2005)

Her Excellency the Governor General in Council, considering that the collection of the tax is unjust, on the recommendation of the Minister of National Revenue, pursuant to subsection 23(2) of the *Financial Administration Act*, hereby remits tax under Part I.2 of the *Income Tax Act* in the amount of $3,161 for the 1999 taxation year, and all relevant interest thereon, paid or payable by Dane Pocrnic.

Explanatory Note

(*This note is not part of the Order.*)

This Order remits a portion of income tax and all relevant interest paid or payable by Dane Pocrnic in respect of the 1999 taxation year.

In 1999, Mr. Pocrnic received a taxable lump sum payment from a government agency, a portion of which he was entitled to receive in the years from 1992 to 1998. As a result of the income inclusion in 1999, Mr. Pocrnic was required to repay a significant portion of his Old Age Security benefits for that year. The amount remitted represents the additional tax liability incurred by Mr. Pocrnic as a result of the lengthy delay by the government agency in paying him the amounts to which he was entitled in the relevant years.

Janet Hall Remission Order
[Retroactive Lump Sum Receipt]

P.C. 2004-1336 November 16, 2004 (Registration SI/2004-154, December 1, 2004)

Her Excellency the Governor General in Council, considering that the collection of the tax is unjust, on the recommendation of the Minister of National Revenue, pursuant to subsection 23(2)[1] of the *Financial Administration Act*, hereby remits tax under Part I of the *Income Tax Act* in the amount of $4,648.90 for the 2001 taxation year, and all relevant interest thereon, paid or payable by Janet Hall.

Explanatory Note

(*This note is not part of the Order.*)

This Order remits a portion of income tax and all relevant interest paid or payable thereon by Janet Hall in respect of the 2001 taxation year.

Ms. Hall has been receiving taxable wage loss replacement benefits since 1994. In 2001 she received a retroactive lump sum disability payment from the Canada Pension Plan (CPP). This amount reduced her wage loss replacement entitlements and she was required to repay approximately 95% of the CPP lump sum to the wage loss replacement provider. She was taxed on the lump sum payment in 2001 and received a deduction from 2002 income for the repayment amount. Due to delays that were not within her control, the transaction bridged two taxation years. The additional tax assessed because of the timing difference represents a significant financial setback for Ms. Hall.

Karen Smedley and George Smedley Remission Order
[Claim for Capital Gains Exemption]

P.C. 2004-0265 March 23, 2004 (Registration SI/2004-033, April 7, 2004)

Her Excellency the Governor General in Council, considering that the collection of the tax is unjust, on the recommendation of the Minister of National Revenue, pursuant to subsection 23(2) of the *Financial Administration Act*, hereby remits tax under Part I of the *Income Tax Act* in the amounts of $8,725.16 and $11,190.65 for the 1994 taxation year, and all relevant interest thereon, paid or payable by Karen Smedley and George Smedley, respectively.

Explanatory Note

(*This note is not part of the Order.*)

This Order remits a portion of income tax and all relevant interest paid or payable thereon by Karen Smedley and George Smedley in respect of the 1994 taxation year.

During the course of an audit in 1996 by Revenue Canada a portion of the Smedleys' 1994 claim for the capital gains exemption was disallowed because the disposition occurred after February 22, 1994. The Smedleys disputed the disposition date in court and were unsuccessful.

Both had already filed an "Election to Report a Capital Gain on Property Owned at the end of February 24, 1994" in respect of a similar property. The Revenue Canada auditor failed to advise the Smedleys that they could have amended their elections to include the first property and thereby take advantage of the capital gains exemption on its disposition. Incorrect action on the part of the auditor caused the Smedleys substantial additional tax liability.

Donald Potter Income Tax Remission Order
[Tax on RRSP Funds Withdrawn from Plan]

P.C. 2004-0264 March 23, 2004 (Registration SI/2004-032, April 7, 2004)

Her Excellency the Governor General in Council, considering that the collection of certain amounts of tax is unjust, on the recommendation of the Minister of National Revenue, pursuant to subsection 23(2) of the *Financial Administration Act*, hereby makes the annexed *Donald Potter Income Tax Remission Order*.

Interpretation

1. In this Order, "registered retirement savings plan" has the meaning assigned by subsection 146(1) of the *Income Tax Act*.

Remission

2. Subject to section 3, remission is hereby granted of the tax paid or payable by Donald Potter under Part I of the *Income Tax Act* in the amount of $2,517.61 for the 2001 taxation year and all interest paid or payable in respect of that tax.

Condition

3. The remission referred to in section 2 is granted on condition that Donald Potter does not institute or proceed with any action, objection, appeal, application or other proceeding of any kind in

[1] S.C. 1991, c. 24, s. 7(2)

respect of the taxation of funds withdrawn from his registered retirement savings plans in 2001.

Explanatory Note

(*This note is not part of the Order.*)

This Order remits $2,517.61, representing a portion of the tax paid or payable by Donald Potter under Part I of the *Income Tax Act* for the 2001 taxation year and all interest paid or payable in respect of that portion.

The amount remitted is in relation to funds withdrawn by Mr. Potter from registered retirement savings plans based on incorrect information regarding the amount of non-capital losses he had available to be carried forward to the 2001 taxation year. The incorrect information was provided in writing by a Canada Customs and Revenue Agency (CCRA) official who also sent letters of authority to the financial institutions who issued those plans permitting them to pay the funds to Mr. Potter without withholding the required tax.

The amount remitted corresponds to the additional tax liability incurred by Mr. Potter in respect of the 2001 taxation year as a result of his reliance on the incorrect information provided by the CCRA official.

Denise Valois Remission Order
[EI Benefit Repayment]

P.C. 2004-0124 February 24, 2004 (Registration SI/2004-0023, March 10, 2004)

Her Excellency the Governor General in Council, considering that the collection of the tax is unjust, on the recommendation of the Minister of National Revenue, pursuant to subsection 23(2) of the *Financial Administration Act*, hereby remits tax under Part I of the *Income Tax Act* in the amount of $149.21 for the 2000 taxation year, and all relevant interest thereon, paid or payable by Denise Valois.

Explanatory Note

(*This note is not part of the Order.*)

This Order remits a portion of income tax and all relevant interest paid or payable thereon by Denise Valois in respect of the 2000 taxation year.

In 2001, Ms. Valois repaid Employment Insurance (EI) benefits that she had received in 2000 and 2001. She was unable to deduct the repayment amount in 2001. The amount of taxes paid in respect of the 2000 EI benefits represents an undue hardship for Ms. Valois.

Bernard Waddington Remission Order
[EI Benefit Repayment]

P.C. 2003-1379 September 18, 2003 (Registration SI/2003-0161, October 8, 2003)

Her Excellency the Governor General in Council, considering that collection of the amount is unjust, on the recommendation of the Minister of National Revenue and the Treasury Board, pursuant to subsection 23(2.1) of the *Financial Administration Act*, hereby remits to Bernard Waddington the amount of $568.00 paid or payable as a benefit repayment under Part VII of the *Employment Insurance Act* for the 1999 taxation year, and any interest paid or payable on it.

Explanatory Note

(*This note is not part of the Order.*)

This Order remits a portion of an employment insurance benefit repayment in the amount of $568.00, paid or payable, and any interest paid or payable on that amount, by Bernard Waddington, based on unintended results of application of the *Employment Insurance Act*. The liability would not have arisen if the calculation of a repayment of benefits under Part VII of the *Employment Insurance Act* for a year took into account the portion of a lump sum payment of benefits relating to prior years.

Chanakarn Kongprayoonvate Remission Order
[Excess CCTB Payments]

P.C. 2003-1378 September 18, 2003 (Registration SI/2003-0160, October 8, 2003)

Her Excellency the Governor General in Council, considering that collection of the amount is unjust, on the recommendation of the Minister of National Revenue and the Treasury Board, pursuant to subsection 23(2.1) of the *Financial Administration Act*, hereby remits to Chanakarn Kongprayoonvate the amount of $4,676.64 payable by her as a repayment of Canada Child Tax Benefits under Part I of the *Income Tax Act*.

Explanatory Note

(*This note is not part of the Order.*)

This Order remits the debt with respect to the Canada Child Tax Benefit payments that were determined to be in excess of Chanakarn Kongprayoonvate's entitlements for the 1998, 1999 and 2000 base taxation years. The remission is based on extreme hardship and Chanakarn Kongprayoonvate's reliance on an error on the part of the Canada Customs and Revenue Agency as to her entitlement to the Benefit for the period.

Order Declaring that all Provisions of Part X of the Financial Administration Act Apply to Parc Downsview Park Inc.

P.C. 2003-1304 September 3, 2003 (Registration SI/2003-156, September 24, 2003)

Her Excellency the Governor General in Council, on the recommendation of the Prime Minister, pursuant to subsection 86(2) of the Financial Administration Act, hereby declares that all provisions of Part X of that Act that apply only to parent Crown corporations apply to Parc Downsview Park Inc. and that those provisions apply to Parc Downsview Park Inc. with such modifications as the circumstances require, as if it were a parent Crown corporation.

Explanatory Note

(This note is not part of the Order.)

This Order declares that all of the provisions of Part X of the *Financial Administration Act* that apply only to parent Crown corporations apply to Parc Downsview Park Inc. — a wholly-owned subsidiary of a parent Crown corporation — with such modifications as the circumstances require, as if it were a parent Crown corporation.

Certain Taxpayers Remission Order, 2003-1
[Pension Contributions by Members of the Memorial University Pension Plan]

P.C. 2003-912 June 12, 2003 (Registration SI/2003-123, July 2, 2003)

Her Excellency the Governor General in Council, considering that it is in the public interest to do so, on the recommendation of the Minister of National Revenue, pursuant to subsection 23(2) of the *Financial Administration Act*, hereby makes the annexed Certain Taxpayers Remission Order, 2003-1.

Remission

1. Subject to section 2, remission is hereby granted of amounts payable under the *Income Tax Act* by a person who is or was a member of the Memorial University Pension Plan where those amounts would not be payable if the contributions paid by the person in respect of non-existent service pursuant to regulations made under section 29 of *The Memorial University (Pensions) Act*, R.S.N. 1970, c. 232, were deductible under the *Income Tax Act*.

Conditions

2. Remission is granted if the following conditions are met:

(a) the contributions for non-existent service were made pursuant to an agreement entered into prior to 1990;

(b) the contributions were made in accordance with the pension plan as registered;

(c) the contributions have not been deducted from income in prior years; and

(d) the person applies for this relief, in writing, to the Minister of National Revenue before January 1, 2004.

Explanatory Note

(This note is not part of the Order.)

This Order remits amounts payable under the *Income Tax Act* resulting from the disallowance of the deduction from income of pension contributions made in respect of the purchase of non-existent service, as provided for under the Memorial University Pension Plan at the time of purchase.

Saskatchewan Indian Federated College Remission Order, 2003

P.C. 2003-910 June 12, 2003 (Registration SI/2003-122, July 2, 2003)

Her Excellency the Governor General in Council, considering that it is in the public interest to do so, on the recommendation of the Minister of National Revenue, pursuant to subsection 23(2) of the *Financial Administration Act*, hereby makes the annexed Saskatchewan Indian Federated College Remission Order, 2003.

Interpretation

1. The following definitions apply in this Order.

"band" has the same meaning as in subsection 2(1) of the *Indian Act*.

"Indian" has the same meaning as in subsection 2(1) of the *Indian Act*.

"Indian Settlement" means the settlement named, and constituting the lands described, in the schedule.

"reserve" has the same meaning as in subsection 2(1) of the *Indian Act*.

Application

2. This Order applies in respect of the Indian Settlement until lands constituting that Indian Settlement are set apart as a reserve by an order of the Governor in Council.

PART 1
INCOME TAX

Interpretation

3. In this Part,

(*a*) "tax" means a tax imposed under Part I, I.1 or I.2 of the *Income Tax Act*; and

(*b*) all other words and expressions not otherwise defined in section 1 have the same meaning as in the *Income Tax Act*.

Remission of Income Tax

4. Remission is hereby granted to an Indian, or a band, with income situated on the Indian Settlement, in respect of each taxation year or fiscal period beginning during or after the calendar year 2000, of the amount, if any, by which

(*a*) the taxes, interest and penalties paid or payable by the Indian or band, as the case may be, for the taxation year or fiscal period

exceed

(*b*) the taxes, interest and penalties that would have been payable by that Indian or band for the taxation year or fiscal period if the Indian Settlement had been a reserve throughout that taxation year or fiscal period.

PART 2
GOODS AND SERVICES TAX

Interpretation

5. In this Part,

(*a*) "tax" means the goods and services tax imposed under subsection 165(1) of the *Excise Tax Act*; and

(*b*) all other words and expressions not otherwise defined in section 1 have the same meaning as in Part IX of the *Excise Tax Act*.

Remission of the Goods and Services Tax

6. Subject to sections 7 and 8, remission is hereby granted to an Indian or a band that is the recipient of a taxable supply made on or delivered to the Indian Settlement on or after the day on which this Order comes into force in the case of an Indian, and January 1, 2000 in the case of a band, of the amount, if any, by which

(*a*) the tax paid or payable by the recipient

exceeds

(*b*) the tax that would have been payable by the recipient if the Indian Settlement had been a reserve at the time the supply was made or delivered.

Conditions

7. Remission granted to an Indian under section 6 is on condition that

(*a*) the tax paid or payable has not otherwise been rebated, credited, refunded or remitted under Part IX of the *Excise Tax Act* or under the *Financial Administration Act*; and

(*b*) in respect of tax paid, a written claim for the remission is made to the Minister of National Revenue within two years after the day on which the tax was paid.

8. Remission granted to a band under section 6 is on condition that

(*a*) the tax paid or payable has not otherwise been rebated, credited, refunded or remitted under Part IX of the *Excise Tax Act* or under the *Financial Administration Act*;

(*b*) in respect of tax paid on or after January 1, 2000 but before the day on which this Order comes into force, a written claim for the remission is made to the Minister of National Revenue within two years after the day on which this Order comes into force; and

(*c*) in respect of tax paid on or after the day on which this Order comes into force, a written claim for the remission is made to the Minister of National Revenue within two years after the day on which the tax was paid.

SCHEDULE (Section 1)

Settlement	Legal Description of Settlement Lands
Saskatchewan Indian Federated College Campus	In the City of Regina, in the North East and South East Quarters of Section 8, in Township 17, Range 19 West of the Second Meridian, Saskatchewan, all that portion shown as Block B on a Plan of record in the Saskatchewan Land Surveys Directory as No. 99RA08587, as amended by Master of Titles Order No. 01RA01057, containing 13.153 hectares (32.503 acres) more or less.

Explanatory Note

(This note is not part of the Order.)

The purpose of this Order is to provide relief from federal income tax and the goods and services tax to Indians and Indian Bands on the campus of the Saskatchewan Indian Federated College that would be available if that campus were a reserve under the *Indian Act*. The Government of Canada has made a public commitment to grant reserve status under the *Indian Act* to that land.

Danielle Gareau Remission Order
[Inclusion in Income of EI Benefits that were Repaid]

P.C. 2003-774 May 29, 2003 (Registration SI/2003-113, June 18, 2003)

Her Excellency the Governor General in Council, considering that the collection of the tax is unjust, on the recommendation of the Minister of National Revenue, pursuant to subsection 23(2) of the *Financial Administration Act*, hereby remits tax under Part I of the *Income Tax Act* in the amount of $155.10 for the 1998 taxation year, and all relevant interest thereon, paid or payable by Danielle Gareau.

Explanatory Note

(This note is not part of the Order.)

This Order remits a portion of income tax and all relevant interest paid or payable thereon by Danielle Gareau in respect of the 1998 taxation year.

In 1998, Ms. Gareau received Employment Insurance (EI) benefits in excess of her entitlements. She repaid some of the excess in 1998 and, on the advice of officials of the Department of Human Resources Development, she repaid the balance by installments in 1999. Repayments of benefits may be deducted from income in the year of repayment. Thus, Ms. Gareau was entitled to deduct her repayment from her 1999 income. However, she had no income in 1999 from which to deduct it. As a result, she has been taxed in 1998 on EI benefits that she repaid in 1999. The inclusion in income of EI benefits in 1998 that were later repaid unfairly caused Danielle Gareau additional tax liability.

Natalie Goyette Remission Order
[Non-Taxable Retroactive Pension Received as a Lump Sum]

P.C. 2003-227 February 20, 2003 (Registration SI/2003-37, March 12, 2003)

Her Excellency the Governor General in Council, considering that the collection of the tax is unjust, on the recommendation of the Minister of National Revenue, pursuant to subsection 23(2) of the *Financial Administration Act*, hereby remits tax under Part I of the *Income Tax Act* in the amount of $2,455.06 for the 1998 and 1999 taxation years, and all relevant interest thereon, paid or payable by Nathalie Goyette.

Explanatory Note

(This note is not part of the Order.)

This Order remits tax under Part I of the *Income Tax Act* and any relevant interest paid or payable by Ms. Nathalie Goyette in respect of the 1998 and 1999 taxation years.

In 1999, Ms. Goyette was granted a non-taxable pension retroactive to 1997. A lump-sum payment in respect of pension arrears was paid to her in 2000. She then had to repay the taxable wage-loss replacement benefits that she had received while awaiting a decision with respect to her request for a pension. Had she received her non-taxable pension during the period of entitlement, rather than the taxable wage-loss replacement benefits, Ms. Goyette's tax liability for 1998 and 1999 would have been greatly reduced.

La Caisse des Mutuellistes, Épargne et Crédit Remission Order
[Error in the Calculation of Capital Tax]

P.C. 2003-218 February 20, 2003, Registration SI/2003-33, March 12, 2003)

Her Excellency the Governor General in Council, considering that the collection of the tax is unjust, on the recommendation of the Minister of National Revenue, pursuant to subsection 23(2) of the *Financial Administration Act*, hereby remits tax under Part I.3 of the *Income Tax Act* in the amount of $20,108.00 for the 1996 and 1997 taxation years, and all relevant interest thereon, paid by La Caisse des Mutuellistes, Épargne et Crédit.

Explanatory Note

(This note is not part of the Order.)

This Order remits tax on capital under Part I.3 of the *Income Tax Act* and any relevant interest paid by La Caisse des Mutuellistes, Épargne et Crédit (the Corporation) in respect of the 1996 and 1997 taxation years.

For a number of years, the Corporation included in the computation of its tax on capital amounts that should have been excluded and, as a result, it paid tax on capital where none would have been

payable. This error was one that should have been easily detected and corrected in 1999, in the course of an audit carried out by the Canada Customs and Revenue Agency. However, the error went unnoticed until 2001. By then, only the 1998 to 2000 taxation years could be reassessed, the previous years being statute-barred. This Order remits tax on capital paid in respect of the 1996 and 1997 taxation years, since it would have been possible to issue reassessments for those years had the error been detected in 1999.

Willard Thorne Remission Order
[Retroactive Lump-Sum CPP Benefits Causing Tax Liability]

P.C. 2002-2177 December 12, 2002 (Registration SI/2003-1, January 1, 2003)

Her Excellency the Governor General in Council, considering that the collection of the tax is unjust, on the recommendation of the Minister of National Revenue, pursuant to subsection 23(2) of the *Financial Administration Act*, hereby remits tax under Part I of the *Income Tax Act* in the amount of $819.40 for the 1987 taxation year, and all relevant interest thereon, paid or payable by Willard Thorne.

Explanatory Note

(This note is not part of the Order.)

This Order remits the income tax and all relevant interest paid or payable by Mr. Willard Thorne in respect of the 1987 taxation year.

In 1987, Mr. Thorne received a retroactive lump sum payment of benefits under the Canada Pension Plan, covering the period of 1985 to 1987. The inclusion of the lump sum amount in his income caused Mr. Thorne a tax liability in 1987. However, had there not been a delay in the payments of benefits to which he was entitled, Mr. Thorne would not have had any tax liability in either year.

Telesat Canada Remission Order
[Replacement Property Rules]

P.C. 1998-2047 July 28, 1999 (Registration SI/99-82, August 18, 1999)

His Excellency the Governor General in Council, considering that it is in the public interest to do so, on the recommendation of the Minister of Finance, pursuant to subsection 23(2) of the *Financial Administration Act*, hereby makes the annexed Telesat Canada Remission Order.

Interpretation

1. The definitions in this section apply in this Order.

"Act" means the *Income Tax Act*.

"former property" means the Anik E1 satellite in respect of which Telesat Canada has received proceeds of disposition referred to in paragraph 13(4)(*a*) of the Act.

"replacement property" means the property acquired as a replacement for the former property and to which subsection 13(4) of the Act would apply if it were read in accordance with paragraph 2(b) of this Order and if Telesat Canada had made an election under subsection 13(4) of the Act with respect to the replacement property in its return of income for the taxation year in which it acquired the property.

Remission

2. Subject to section 3, remission is hereby granted to Telesat Canada in respect of each of the 1996 and subsequent taxation years, of an amount equal to the amount, if any, by which

(*a*) the total of the tax payable under Part I and Part I.3 of the Act by Telesat Canada for the year and the interest and penalties in respect thereof payable by it under the Act for the year

exceeds

(*b*) the total of the tax that would be payable under Part I and Part I.3 of the Act by Telesat Canada for the year and the interest and penalties in respect thereof that would be payable by it under the Act for the year if the expression "the second taxation year following the initial year" in clause 13(4)(*c*)(ii)(A) and paragraph 44(1)(*c*) of the Act were read as "the taxation year that includes December 31, 1999" and if Telesat Canada had made an election, as and when required, under subsection 13(4) of the Act, with respect to the disposition of the former property and the acquisition of the replacement property.

Conditions

3. Remission is granted under section 2 on condition that

(*a*) in calculating the income or loss of Telesat Canada under the Act in respect of the 1996 and subsequent taxation years, no deduction in respect of the cost of the replacement property is claimed except to the extent that would be allowed if subsection 13(4) and section 44 of the Act were read in accordance with paragraph 2(b) of this Order and if Telesat Canada had made a valid election under subsection 13(4) of the Act with respect to the disposition of the former property and the acquisition of the replacement property; and

(*b*) if there is a disposition of the replacement property, the Act is treated by Telesat Canada and the person or partnership that acquired the replacement property as applying as if subsection 13(4) and section 44 of the Act were read in accordance with paragraph 2(*b*) of this Order and as if Telesat Canada had made a valid election under subsection 13(4) of the Act with respect to the disposition of the former property and the acquisition of the replacement property.

Explanatory Note

(This note is not part of the Order.)

This Order defers income tax that would otherwise be payable on insurance proceeds received by Telesat Canada in respect of a damaged satellite, by remitting income tax otherwise payable on the initial receipt of those proceeds on the condition that Telesat Canada reduce its adjusted cost base and capital cost in respect of the replacement satellite, in accordance with the replacement property rules in the *Income Tax Act*.

The present value of the net benefit of the Order is approximately $14 million. This is the amount by which the income tax remitted exceeds the present value of future capital cost allowance deductions that would have been available if the replacement satellite were not treated as a replacement property.

Remission Order for Payments to Employees Pursuant to 1998 Ice Storm

P.C. 1998-2047 (T.B. Rec. 826537), dated November 19, 1998.

His Excellency the Governor General in Council, considering that it is in the public interest to do so, on the recommendation of the Minister of National Revenue and the Treasury Board, pursuant to subsections 23(2) and (2.1) of the *Financial Administration Act*, hereby remits amounts payable under the *Income Tax Act*, the Canada Pension Plan and the *Employment Insurance Act* as a result of an amount paid or advanced in 1998 as relief for loss because of the ice storm in January 1998 which caused extended power outages and extensive damage in Ontario, Quebec, New Brunswick and Nova Scotia in respect of which an amount is

required to be included in the income from employment of a taxpayer by virtue of paragraph 6(1)(*a*) or (*b*) or subsection 6(9) of the *Income Tax Act*, where the employee deals at arm's length with the employer, the payment or advance is voluntary, reasonable in the circumstances and *bona fide* and does not exceed the damages suffered by the employee net of any other compensation the employee receives or is entitled to receive, is not based on employment factors such as performance, position or years of service or the fact that the employee is a shareholder and is not made in exchange for past or future services or to compensate for loss of income, plus relevant interest and penalties, on condition that the employee waive any benefit or right accruing under the said Acts as a result of the payment or advance.

Order Amending the Income Earned in Quebec Income Tax Remission Order, 1988

P.C. 1998-396 SI/98-47; March 19, 1998.

His Excellency the Governor General in Council, considering that it is in the public interest to do so, on the recommendation of the Minister of Finance, pursuant to subsection 23(2)[1] of the *Financial Administration Act*, hereby makes the annexed Order Amending the Income Earned in Quebec Income Tax Remission Order, 1988.

Amendments

1. Paragraph 3(b) of the Income Earned in Quebec Income Tax Remission Order, 1988[1] is amended by striking out the word "and" at the end of paragraph (c) of subsection 2602(1) of the Income Tax Regulations, as it reads for the purposes of paragraph 3(b) of the Order, by adding the word "and" at the end of paragraph (d) of that subsection and by adding the following after paragraph (d) of that subsection:[2]

(*e*) the income of the individual for that year from the disposition of a life insurance policy under which a person resident in the province is, at the time the policy was issued or effected, the person whose life was insured.

2. (1) Subparagraph 4(d)(ii) of the French version of the Order is replaced by the following:

(ii) soit par une société, une commission ou une association dont au moins 90% des actions, du capital ou des biens appartenaient à la province de Québec ou par une filiale en propriété exclusive d'une telle société, commission ou association, si nul autre que Sa Majesté du chef de la province de Québec n'avait des droits sur les actions, le capital ou les biens de cette société, commission, association ou filiale, ou n'avait le droit d'acquérir ces actions, ce capital ou ces biens,

(2) Paragraphs 4(f) and (g) of the Order are replaced by the following:

(*f*) amounts that would be required by paragraph 56(1)(*n*) or (*o*) of the Act to be included in computing the individual's income for the year if

(i) the individual were resident in Canada throughout the year,

(ii) the references in subparagraph 56(1)(*n*)(i) and paragraph 56(1)(*o*) of the Act to "received by the taxpayer in the year" were read as references to "received by the taxpayer in the year from the Province of Quebec or any corporation, commission, association or institution referred to in paragraph 4(*d*) of the *Income Earned in Quebec Income Tax Remission Order, 1988*, other than an institution of the Government of Canada, or from a wholly-owned corporation subsidiary to such a corporation, commission or association", and

(iii) the reference to "$500" in paragraph 56(1)(*n*) of the Act were read as a reference to "the proportion of $500 that the amount determined under subparagraph (i) is of the amount that would be so determined if the requirements of subparagraphs 4(*f*)(i) and (ii) of the *Income Earned in Quebec Income Tax Remission Order, 1988* were not taken into account",

(*g*) amounts that would be required by subsection 56(8) of the Act to be included in computing the individual's income for the year if the individual were resident in Canada throughout the year, and

3. (1) Clause 5(2)(c)(ii)(B) of the French version of the Order is replaced by the following:

(B) soit d'une société, commission ou association dont au moins 90% des actions, du capital ou des biens appartenaient à la province de Québec, ou d'une filiale en propriété exclusive d'une telle société, commission ou association, si nul autre que Sa Majesté du chef de la province de Québec n'avait des droits sur les actions, le capital ou les biens de cette société, commission, association ou filiale, ou n'avait le droit d'acquerir ces actions, ce capital ou ces biens,

(2) Paragraph 5(2)(e) of the Order is replaced by the following:

(*e*) was, at any time in the year, a child of a person described in paragraph (*b*) or (*c*) and was living with the person in a self-contained domestic establishment that the person, whether alone or jointly with one or more other persons, maintained and in which the person lived and actually supported the child who at that time, was

(i) wholly dependent for support on the person, or the person and the other person or persons, and

(ii) either under 18 years of age or so dependent by reason of mental or physical infirmity.

4. Subparagraphs 6(1)(b)(ii) and (iii) of the Order are replaced by the following:

(ii) the definition "business-income tax" in subsection 126(7) of the Act read as follows:

"'business-income tax' paid by a taxpayer for a taxation year in respect of businesses carried on by the taxpayer in a country other than Canada (in this definition referred to as the 'business country') means such portion of 55% of any income or profits tax paid by the taxpayer for the year to the government of any country other than Canada or to the government of a state, province or other political subdivision of any such country as can reasonably be regarded as tax in respect of the income of the taxpayer from any business carried on by the taxpayer in the business country, but does not include a tax, or the portion of a tax, that can reasonably be regarded as relating to an amount that

(*a*) any other person or partnership has received or is entitled to receive from that government, or

(*b*) was deductible under subparagraph 110(1)(*f*)(i) in computing the taxpayer's taxable income for the year," and

(iii) the definition "tax for the year otherwise payable under this Part" in subsection 126(7) of the Act read as follows:

"'tax for the year otherwise payable under this Part' means the amount determined by the formula

A - B

where

A is the tax payable under this Part for the year after taking into account the requirements of subparagraph 6(1)(b)(i) of the Income Earned in Quebec Income Tax Remission Order, 1988, but before making any deduction under any of sections 121, 122.3, 126.1, 127 and 127.2 to 127.4 and this section, and

B is the amount, if any, deemed by subsection 120(2) to have been paid on account of tax payable under this Part for the year after taking into account the requirements of subparagraph 6(1)(*b*)(i) of the *Income Earned in Quebec Income Tax Remission Order, 1988*";

5. Paragraph 7(b) of the French version of the order is replaced by the following:

b) dans le cas d'un particulier visé à l'alinéa 5(2)*b*), *c*), *d*) ou *e*), en ce qui concerne la rémunération reçue de la province de Québec ou d'une société, commission, association ou institution ou d'un établissement visés à l'alinéa 5(2)*c*), sauf une institution du gouvernement du Canada, ou d'une filiale en propriété exclusive d'une telle société, commission ou association.

6. The Order is amended by adding the following after section 7:

[1] S.C. 1991, c. 24, s. 7(2).

[2] SI/89-157

7.1 Every individual to whom an amount was remitted under section 5 for a taxation year shall reimburse that amount, plus interest thereon to the day of payment, to Her Majesty in right of Canada to the extent of the amount of tax payable under the *Taxation Act*, R.S.Q., c. I-3, for that year that the individual, as a result of an objection served on the Minister of Revenue of the Province of Quebec, a claim filed in any court or a complaint made to any tribunal, was declared not to be liable to pay on the ground that the individual was not subject to the tax levied under that Act because of the individual's place of residence.

7. Subsection 8(1)[2] of the Order is replaced by the following:[3]

8. (1) Sections 3 to 6 apply to the 1983 to 1996 taxation years.

Application

8. (1) Sections 1 and 7 apply to the 1994 and subsequent taxation years.

(2) Paragraph 4(f) of the Order, as enacted by subsection 2(2), applies to the 1983 and subsequent taxation years.

(3) Paragraph 4(g) of the Order, as enacted by subsection 2(2), applies to the 1993 and subsequent taxation years.

(4) Subsection 3(2) applies to the 1988 and subsequent taxation years.

(5) Section 4 applies to the 1990 and subsequent taxation years.

Explanatory Note

(This note is not part of the Order.)

The *Income Earned in Quebec Income Tax Remission Order, 1988* defines the expression "income earned in the year in a province" for the purposes of the *Income Tax Act* and remits to certain individuals who are deemed to be resident in Canada, to non-residents who realized capital gains in Quebec and to Quebec residents who earned business income from a foreign source the additional tax, interest and penalty arising both from the imposition of the federal surtax and from the loss of the federal tax abatement in respect of income earned in Quebec.

This Order extends, with the necessary changes, the application of the *Income Earned in Quebec Income Tax Remission Order, 1988* with respect to the 1994, 1995 and 1996 taxation years in the case of sections 3 to 6 of that Order. The federal surtax and the federal tax abatement in respect of income earned in Quebec are respectively 52% and 16.5%.

Order Respecting the Remission of Income Tax in Respect of Certain Income of Individuals Earned in the Province of Quebec (1988)

P.C. 1989-1204 SI/89-157, dated July 5, 1989, pursuant to section 17 of the Financial Administration Act, as amended by P.C. 1991-1661, SI/91-116, dated September 25, 1991.

Short Title

1. This Order may be cited as the *Income Earned in Quebec Income Tax Remission Order, 1988*.

Interpretation

2. In this Order,

"Act" means the *Income Tax Act*;

"Regulations" means the *Income Tax Regulations*.

Remission to Individuals who Did Not Reside in Canada at any Time in a Taxation Year

3. Remission is hereby granted to any individual who did not reside in Canada at any time in a taxation year of the amount, if any, by which

(*a*) the tax, interest and penalties paid or payable under the Act by that individual in respect of that taxation year

exceeds

(*b*) the tax, interest and penalties that would have been payable by that individual under the Act in respect of that taxation year if, for the purpose of determining that person's income earned in that year in the Province of Quebec, section 2602 of the Regulations read as follows:

"**2602.** (1) Except as provided in subsection (2), where an individual did not reside in Canada at any time in a taxation year, his income earned in the taxation year in a particular province is the aggregate of

(*a*) that part of the amount of his income from an office or employment that is included in computing his taxable income earned in Canada for the year by virtue of subparagraph 115(1)(*a*)(i) of the Act that is reasonably attributable to the duties performed by him in the province,

(*b*) his income for that year earned in the province as determined in the manner set forth in section 4 of the *Income Earned in Quebec Income Tax Remission Order, 1988*,

(*c*) his income for that year from carrying on business earned in the province, determined as hereinafter set forth in this Part, and

(*d*) the taxable capital gains in the province included in computing his taxable income earned in Canada for the year by virtue of subparagraph 115(1)(*a*)(iii) of the Act from dispositions of property, each of which was a disposition of a property or an interest therein that was

(i) real property situated in the province or an option in respect thereof, or

(ii) any other capital property used by him in carrying on a business in the province,

determined as hereinafter set forth in this Part.

(2) Where the aggregate of the amount of an individual's income as determined under subsection (1) for all provinces for a taxation year exceeds his income described in subsection 115(1) of the Act, the amount of his income earned in the taxation year in a particular province shall be that proportion of his income so described that the amount of his income earned in the taxation year in the province as determined under subsection (1) is of the aggregate of all those amounts.

(3) Where, in a taxation year, a non-resident individual has disposed of real property situated in a particular province or an interest therein, or an option in respect thereof, any taxable capital gain from that disposition shall be a taxable capital gain in that particular province.

(4) Except as provided in subsection (5), where, in a taxation year, a non-resident individual has disposed of any capital property, other than property referred to in subsection (3), used by him in carrying on a business in Canada, the proportion of any taxable capital gain from that disposition that

(*a*) his income for the year from carrying on that business in a particular province

is of

(*b*) his income for the year from carrying on that business in Canada,

shall be a taxable capital gain in that particular province.

(5) Where in a taxation year a non-resident individual

(*a*) had no permanent establishment in Canada, and

(*b*) disposed of any capital property, other than property referred to in subsection (3), used by him in a previous year in carrying on a business in Canada,

the proportion of any taxable capital gain from that disposition that

(*c*) his income from carrying on that business in a particular province for the last preceding taxation year in which he had income from carrying on that business in a province

is of

[3] SI/94-43.

(*d*) his income for the year, referred to in paragraph (*c*), from carrying on that business in Canada,

shall be a taxable capital gain in that particular province."

4. Where an individual who did not reside in Canada at any time in a taxation year was

(*a*) a student in full-time attendance at an educational institution in the Province of Quebec that is a university, college or other educational institution providing courses at a post-secondary school level,

(*b*) a student attending, or a teacher teaching at, an educational institution outside Canada that is a university, college or other educational institution providing courses at a post-secondary school level who had, in any previous year, ceased to be resident in the Province of Quebec in the course of or subsequent to moving to attend or to teach at, as the case may be, that institution,

(*c*) an individual who had, in any previous year, ceased to be resident in the Province of Quebec in the course of or subsequent to moving to carry on research or any similar work under a grant received by him to enable him to carry on that research or work, or

(*d*) an individual who had, in any previous year, ceased to be resident in the Province of Quebec and who was, in the taxation year, in receipt of remuneration in respect of an office or employment that was paid to him directly or indirectly by

(i) the Province of Quebec,

(ii) any corporation, commission or association the shares, capital or property of which were at least 90 per cent owned by the Province of Quebec, or a wholly-owned subsidiary corporation to such a corporation, commission or association, on condition that no person other than Her Majesty in right of the Province of Quebec had any right to the shares, capital or property of that corporation, commission, association or subsidiary or a right to acquire the shares, capital or property,

(iii) an educational institution, other than an educational institution of the Government of Canada, in the Province of Quebec that was

(A) a university, college or other educational institution providing courses at a post-secondary school level that received or was entitled to receive financial support from the Province of Quebec,

(B) a school operated by the Province of Quebec, or by a municipality thereof or by a public body thereof performing a function of government, or a school operated on behalf of that Province, municipality or public body, or

(C) a secondary school providing courses leading to a certificate or diploma that is a requirement for entrance to a college or university, or

(iv) an institution in the Province of Quebec, other than an institution of the Government of Canada, supplying health services or social services, or both, that received or was entitled to receive financial support from the Province of Quebec,

there shall be included, for the purposes of this Order, in computing his income earned in the taxation year in the Province of Quebec, the aggregate of

(*e*) the amount of any remuneration in respect of an office or employment that was paid to him directly or indirectly by the Province of Quebec or any corporation, commission, association or institution referred to in paragraph (*d*), other than an institution of the Government of Canada, or by a wholly-owned corporation subsidiary to such corporation, commission or association, and that was received by the individual who did not reside in Canada in the year, except to the extent that such remuneration was attributable to the duties of an office or employment performed by him outside Canada, and that is

(i) subject to an income or profits tax imposed by the government of a country other than Canada, or

(ii) paid in connection with the selling of property, the negotiating of contracts or the rendering of services for his employer, or a foreign affiliate of his employer, or any other person with whom his employer does not deal at arm's length, in the ordinary course of a business carried on by his employer, that foreign affiliate or that other person,

(*f*) amounts that would be required by paragraph 56(1)(*n*) or (*o*) of the Act to be included in computing his income for the year if he were resident in Canada throughout the year and the references in subparagraph 56(1)(*n*)(i) and paragraph 56(1)(*o*) of the Act to "received by the taxpayer in the year" were read as references to "received by the taxpayer in the year from the Province of Quebec or any corporation, commission, association or institution referred to in paragraph 4(*d*) of the *Income Earned in Quebec Income Tax Remission Order, 1988*, other than an institution of the Government of Canada, or from a wholly-owned corporation subsidiary to such corporation, commission or association", and if the reference to "$500" in subparagraph 56(1)(*n*)(ii) of the Act were read as a reference to "the proportion of $500 that the amount that would be determined under subparagraph 56(1)(*n*)(i) if the requirements of this paragraph were taken into account is of the amount determined under subparagraph 56(1)(*n*)(i) without taking the requirements of this paragraph into account",

(*g*) amounts that would be required by subsection 56(5) or (8) of the Act to be included in computing his income for the year if he were resident in Canada throughout the year, and

(*h*) amounts that would be required by paragraph 56(1)(*q*) of the Act to be included in computing his income for the year if he were resident in Canada throughout the year,

minus the amount that would be deductible in computing his income for the year by virtue of section 62 of the Act if

(*i*) that section were read without reference to paragraph (1)(*a*) thereof,

(*j*) that section were applicable in computing the taxable income of individuals who did not reside in Canada, and

(*k*) the amounts described in subparagraph (1)(*f*)(ii) thereof were the amounts described in paragraph (*f*).

Remission to Individuals Who Did Not Reside in a Province, the Northwest Territories or the Yukon Territory on the Last Day of the Taxation Year

5. (1) Subject to subsection (2), remission is hereby granted to any individual who did not reside in a province on the last day of a taxation year of the amount, if any, by which

(*a*) income tax, interest and penalties paid or payable under the Act by that individual in respect of that taxation year

exceeds

(*b*) the tax, interest and penalties that would have been payable by that individual under the Act in respect of that taxation year if the individual had resided in the Province of Quebec on the last day of the taxation year.

(2) Subsection (1) is applicable to an individual who

(*a*) sojourned in the Province of Quebec for a period of, or periods the aggregate of which is, 183 days or more and was ordinarily resident outside Canada;

(*b*) was at any time in the year an agent-general, officer or servant of the Province of Quebec and was resident in that Province immediately prior to his appointment or employment by that Province;

(*c*) performed services at any time in the year under an international development assistance program prescribed under Part XXXIV of the Regulations and was at any time

(i) in the three month period preceding the day on which those services commenced, resident in the Province of Quebec, and

(ii) in the six month period preceding the day on which those services commenced, an officer or servant of

(A) the Province of Quebec,

(B) any corporation, commission or association the shares, capital or property of which were at least 90 per cent owned by the Province of Quebec, or a wholly-owned corporation subsidiary to such a corporation, commission or association, on condition that no person other than Her Majesty in right of the Province of Quebec had any right to those shares or that capital or property of such corporation, commission, association or subsidiary or a right to acquire those shares or that capital or property,

(C) an educational institution, other than an educational institution of the Government of Canada, in the Province of Quebec that was

(I) a university, college or other educational institution providing courses at a post-secondary school level that received or was entitled to receive financial support from the Province of Quebec,

(II) a school operated by the Province of Quebec, or by a municipality thereof or by a public body thereof performing a function of

government, or a school operated on behalf of that Province, municipality or public body, or

(III) a secondary school providing courses leading to a certificate or diploma that is a requirement for entrance to a college or university, or

(D) an institution in the Province of Quebec, other than an institution of the Government of Canada, supplying health services or social services, or both, that received or was entitled to receive financial support from the Province of Quebec;

(*d*) was resident in Canada in any previous year and was, at any time in the year, the spouse of a person described in paragraph (*b*) or (*c*) living with that person; or

(*e*) was, at any time in the year, a child described in paragraph 109(1)(*d*) of the Act, as it applied in respect of the 1985 taxation year, of a person described in paragraph (*b*) or (*c*).

(3) Paragraph (2)(*d*) is not applicable where the spouse of an individual described in paragraph (2)(*c*) is also an individual described in paragraph (2)(*c*).

Remission to Individuals who Resided in the Province of Quebec on the Last Day of a Taxation Year

6. (1) Remission is hereby granted to any individual who resided in the Province of Quebec on the last day of a taxation year of the amount, if any, by which

(*a*) the tax, interest and penalties payable under the Act by that individual in respect of that taxation year

exceeds

(*b*) the tax, interest and penalties that would have been payable by that individual in respect of that taxation year if

(i) if subsections 2601(1) and (2) of the Regulations read as follows:

"**2601.** (1) Notwithstanding subsection (4) and section 2603, where an individual resided in a particular province on the last day of a taxation year and had no income for the year from a business with a permanent establishment in another province, his income earned in the taxation year in the province is his income for the year.

(2) Notwithstanding subsection (4) and section 2603, where an individual resided in a particular province on the last day of a taxation year and had income for the year from a business with a permanent establishment in any other province, his income earned in the taxation year in the province is the amount, if any, by which

(*a*) his income for the year

exceeds

(*b*) the aggregate of his income for the year from carrying on business earned in each other province, determined as hereinafter set forth in this Part.",

(ii) if paragraph 126(7)(*a*) of the Act read as follows:

"(*a*) business-income tax paid by a taxpayer for a taxation year in respect of business carried on by him in a country other than Canada (in this paragraph referred to as the 'business country') means such portion of 55/100ths of any income or profits tax paid by him for the year to the government of any country other than Canada or to the government of a state, province or other political subdivision of any such country as may reasonably be regarded as tax in respect of the income of the taxpayer from any business carried on by him in the business country; and", and

(iii) if paragraph 126(7)(*d*) of the Act read as follows:

"(*d*) tax for the year otherwise payable under this Part means the tax for the taxation year otherwise payable under this Part after taking into account the requirements of subparagraph 6(1)(*b*)(i) of the *Income Earned in Quebec Income Tax Remission Order, 1988*, but before making any deduction under sections 121, 126, 127 and 127.2 to 127.4."

(2) In subsection (1), a reference to the last day of a taxation year shall, in the case of an individual who resided in the Province of Quebec at any time in the year and ceased to reside in Canada before the end of the year, be deemed to be a reference to the last day in the year on which the individual resided in Canada.

Deductions and Remittances

7. Notwithstanding paragraph 102(1)(*a*), subsection 102(2), paragraph 103(1)(*m*) and subparagraphs 103(4)(*a*)(xiii), (*b*)(xiii) and (*c*)(xiii) of the Regulations, the amount to be deducted or withheld by an employer and remitted to the Receiver General pursuant to Part I of the Regulations shall, in the case of

(*a*) an individual referred to in section 4 in respect of the remuneration referred to in paragraph 4(*e*), and

(*b*) an individual referred to in paragraph 5(2)(*b*), (*c*), (*d*) or (*e*) in respect of remuneration received from the Province of Quebec or from any corporation, commission, association or institution referred to in paragraph 5(2)(*c*), other than an institution of the Government of Canada, or from a wholly-owned corporation subsidiary to such corporation, commission or association,

be determined as if the employee reported for work at an establishment of the employer in Quebec.

8. (1) Sections 3 to 6 are applicable in respect of the 1983 to 1993 taxation years.

(2) Section 7 is applicable in respect of the 1989 and subsequent taxation years.

(SI/91-116, S. 1; SI/92-230, S. 1; SI/94-43, S. 1.)

Indians and Bands on Certain Indian Settlements Remission Order (1997)

P.C. 1997-1529, SI/97-127, dated 23 October 1997.

His Excellency the Governor General in Council, considering that it is in the public interest to do so, on the recommendation of the Minister of National Revenue, pursuant to subsection 23(2)(*a*) of the *Financial Administration Act*, hereby makes the annexed Indians and Bands on Certain Indian Settlements Remission Order (1997).

Interpretation

1. The definitions in this section apply in this Order.

"band" has the same meaning as in subsection 2(1) of the *Indian Act*.

"Indian" has the same meaning as in subsection 2(1) of the *Indian Act*.

"Indian Settlement" means an area that is named and described in column 2 of the schedule.

"reserve" has the same meaning as in subsection 2(1) of the *Indian Act*.

Application

2. This Order applies to any Indian Settlement until the time when the area of that Indian Settlement is set aside, in whole or in part, as a reserve by Order of the Governor in Council.

Part 1
Income Tax

Interpretation

3. (1) For the purposes of this Part, "tax" means tax imposed under Parts I, I.1 and I.2 of the *Income Tax Act*.

(2) Subject to section 1, all other words and expressions used in this Part have the same meaning as in the *Income Tax Act*.

Remission of Income Tax

4. Remission is hereby granted to a taxpayer who is an Indian whose income is situated on an Indian Settlement, in respect of the taxation year set out in column 3 of the schedule in relation to that Indian Settlement and each taxation year after that year, of the amount, if any, by which

(a) the taxes, interest and penalties paid or payable by the taxpayer for the taxation year under the *Income Tax Act*

exceed

(b) the taxes, interest and penalties that would have been payable by the taxpayer for the taxation year under that Act if the Indian Settlement were a reserve throughout the year.

Explanatory Note

This note is not part of the Order.

The purpose of this Order is to extend the benefits of relief from income tax and the goods and services tax (GST) to Indians, as though the specified Indian settlemetns were reserves. This Order applies to settlements for which a public commitment has been made by the Government of Canada to grant reserve status under the *Indian Act*. The Department of Indian and Northern Affairs has advised the Department of National Revenue of the settlements that have identified boundaries that should be included in this Order.

Income Tax as well as Canada Pension Plan and Employment Insurance Premiums Remission Order

P.C. 1997-201, dated February 11, 1997, pursuant to subsection 23(2) of the Financial Administration Act.

His Excellency the Governor General in Council, considering that it is in the public interest to do so, on the recommendation of the Minister of National Revenue and the Treasury Board, pursuant to subsections 23(2)[1] and 23(2.1)* of the *Financial Administration Act*, hereby remits amounts payable under the *Income Tax Act*, the *Canada Pension Plan* and the *Employment Insurance Act* as a result of an amount paid as relief for loss because of torrential rains and wind in or near the region along the Saguenay River on or about July 20, 1996, that is required to be included in the income from employment of a taxpayer by virtue of paragraph 6(1)(*a*) or (*b*) of the *Income Tax Act*, where the payment is voluntary, reasonable and bona fide, is not based on employment factors such as performance, position or years of service and is not made in exchange for past or future services or to compensate for loss of income, plus relevant interest and penalties, on condition that the taxpayer waive any benefit or right accruing under the said Acts as a result of the payment.

Income Tax Remission Order Tax Payments on General Partnership SR & ED Tax Shelters

P.C. 1996-1274, SI/96-80, dated August 7, 1996, pursuant to subsection 23(2) of the Financial Administration Act.

His Excellency the Governor General in Council, considering that it is in the public interest to do so, on the recommendation of the Minister of National Revenue, pursuant to subsection 23(2) of the *Financial Administration Act*, hereby remits to each taxpayer, other than a promoter, who has delivered or delivers to the Minister a timely and duly executed agreement letter (referred to in the details of the settlement project regarding general partnerships used as SR & ED tax shelters issued by the Minister on June 30, 1995) accepted by the Minister, amounts payable under the *Income Tax Act* by the taxpayer equal to (1) the difference between (a) 50% of the product of each payment made before executing the agreement on account of the tax liability resulting from adjustments made by the Minister to the taxpayer's claim in respect of the tax shelter and the prescribed rate of interest for income tax refunds, for the period from the date of the payment to the date of the assessment of the tax liability made as a result of the agreement, compounded daily, and (b) refund interest in respect of any such payment, (2) 50% of the product of that difference and that rate, for the period from the said date of assessment to the date this Order is implemented, so compounded, and (3) amounts that would not be payable if there were no such refund interest or if this Order were not made.

Income Tax Remission Order (Canada Pension Plan)

P.C. 1995-201, SI/95-21, dated February 22, 1995, pursuant to subsection 23(2) of the Financial Administration Act.

His Excellency the Governor General in Council, considering that the collection of the tax is unjust, on the recommendation of the Minister of National Revenue, pursuant to subsection 23(2)* of the *Financial Administration Act*, is pleased hereby to remit the net total of the taxes payable under Parts I and I.1 of the *Income Tax Act* for the 1987 to 1995 taxation years that, without regard to sections 122.2 and 122.4 to 122.64 thereof as they read at any time, would not be payable by a taxpayer if the part of any amount received by the taxpayer after 1987 and before 1996 by reason of section 63.1 of the *Canada Pension Plan* that was payable for a month in a year preceding the year in which it was received had been received in that preceding year, and all relevant penalties and interest.

Order Respecting the Remission of Income Tax in Relation to Certain Lands in the Yukon Territory

P.C. 1995-197, SI/95-18, dated February 22, 1995, pursuant to section 23(2) of the Financial Administration Act.*

Short Title

1. This Order may be cited as the *Income Tax Remission Order (Yukon Territory Lands)*.

Interpretation

2. In this Order,

"Act" means the *Yukon First Nations Self-Government Act*;

"reserve" has the same meaning as in subsection 2(1) of the *Indian Act*.

Remission

3. Remission is hereby granted of amounts payable under the *Income Tax Act* that would not be payable if the lands in the Yukon Territory

(*a*) that are reserved or set aside, as at the day on which this Order comes into force, by notation in the property records of the Department of Indian Affairs and Northern Development, for the use of its Indian and Inuit Affairs Program, were reserves for the period beginning after 1984 and ending on the expiration of the third calendar year after the calendar year in which the Act comes into force;

[1] S.C. 1991, c. 24, s. 7(2).

(*b*) that were so notated for a period beginning after 1984 and ending before the day on which this Order comes into force, had been a reserve throughout each calendar year of that period; and

(*c*) that are so notated for a period beginning after the day on which this Order comes into force and ending before the expiration of the third calendar year after the calendar year in which the Act comes into force, were a reserve throughout each calendar year of that period.

Income Tax on Pensions Paid to Non-Residents Remission Order

P.C. 1994-1780, SI/94-129, dated November 16, 1994, pursuant to subsection 23(2) of the Financial Administration Act.

His Excellency the Governor General in Council, considering that the collection of the tax is unjust, on the recommendation of the Minister of National Revenue, pursuant to subsection 23(2)[1] of the *Financial Administration Act*, is pleased hereby to remit the amounts that would not be payable under the *Income Tax Act* if the repeal of, and substitution for, paragraph 217(*c*) thereof in 1991 were not applicable to the 1991 and 1992 taxation years.

Indian Income Tax Remission Order

P.C. 1993-1649, SI/93-166, dated August 25, 1993, pursuant to subsection 23(2) of the Financial Administration Act.

His Excellency the Governor General in Council, considering that it is in the public interest to do so, on the recommendation of the Minister of National Revenue, pursuant to subsection 23(2)* of the *Financial Administration Act*, is pleased hereby to remit amounts that would be remitted if the reference to subsectin 87(1) of the *Indian Act* in the Indian Income Tax Remission Order included a reference to a provision similar to that subsection in an Act cited in that Order.

Farmers' Income Taxes Remission Order

P.C. 1993-1647, SI/93-164, dated August 25, 1993, pursuant to subsection 23(2) of the Financial Administration Act.

His Excellency the Governor General in Council, considering that the collection of the tax is unreasonable, on the recommendation of the Minister of National Revenue, pursuant to subsection 23(2)* of the *Financial Administration Act*, is pleased hereby to remit tax payable by a taxpayer under Parts I to I.2 of the *Income Tax Act* for the 1992 taxation year that would not be payable if that portion of each payment received in 1992 in respect of a gross revenue insurance program established under the *Farm Income Protection Act* that is required to be and is repaid were not included in computing the income of the taxpayer for the 1992 taxation year under paragraph 12(1)(*p*) of the *Income Tax Act*, and all relevant interest and penalties, on condition that the taxpayer file with the Minister an undertaking in a form acceptable to the Minister in which the taxpayer agrees not to deduct the amount repaid or required to be repaid in computing the taxpayer's income for any taxation year and waives all relevant rights of objection or appeal.

Order Respecting the Remission of Income Tax Paid or Payable on Income from Employers Residing on Reserves and Indian Settlements and on Certain Unemployment Insurance Benefits Received by Indians

P.C. 1993-523, SI/93-44, dated April 7, 1993, pursuant to subsection 23(2) of the Financial Administration Act.

Short Title

1. This Order may be cited as the *Indian Income Tax Remission Order*.

Interpretation

2. In this Order,

"Act" means the *Income Tax Act*;

"Indian" has the same meaning as in subsection 2(1) of the *Indian Act*;

"Indian settlement" has the same meaning as in section 2 of the *Indians and Bands on Certain Indian Settlements Remission Order*;

"reserve" means

(*a*) a reserve as defined in subsection 2(1) of the *Indian Act*,

(*b*) Category IA land or Category IA-N land as defined in subsection 2(1) of the *Cree-Naskapi (of Quebec) Act*, and

(*c*) Sechelt lands as defined in subsection 2(1) of the *Sechelt Indian Band Self-Government Act*.

Remission in respect of certain Employment Income

3. (1) Remission is hereby granted to a taxpayer who is an Indian of the amounts payable by the taxpayer under Parts I to I.2 of the Act for a taxation year that would not be payable by the taxpayer if, in the calculation of the taxpayer's income for the year, there were not included an amount equal to the product obtained by multiplying the income for the year from each office or employment of the taxpayer by the proportion that

(*a*) the amounts that are required to be included in the computation of the income from that office or employment for the year and that are payable to the taxpayer by an employer residing on a reserve or Indian settlement

are of

(*b*) the amounts that are required to be included in the computation of the income from that office or employment for the year.

(2) Remission is hereby granted to a person for whom the amounts payable under Parts I to I.2 of the Act for a taxation year would be reduced if, in the calculation of the income of the taxpayer referred to in subsection (1) for the year, there were not included the product obtained under that subsection in respect of each office or employment of the taxpayer, of an amount equal to the amount, if any, by which

(*a*) total amount payable by the person under Parts I to I.2 of the Act for the year

exceeds

(*b*) total amount that would be payable by the person for the year if, in the calculation of the taxpayer's income for the year, there were not included the product obtained under subsection (1) in respect of each office or employment of the taxpayer.

(3) Subsections (1) and (2) apply to the 1992 and 1993 taxation years.

[1] S.C. 1991, c. 24, s. 7(2).

Remission in respect of certain Unemployment Insurance Benefits

4. (1) Subject to section 5, remission is hereby granted to a taxpayer who is an Indian of the amounts payable by the taxpayer under Parts I to I.2 of the Act for a taxation year that would not be payable by the taxpayer if, in the calculation of the taxpayer's income for the year for the purpose of an assessment, there were not included an amount equal to the product obtained by multiplying the total of the benefits referred to in subparagraph 56(1)(*a*)(iv) of the Act and included in the calculation of the taxpayer's income for the year for the purpose of an assessment, by the proportion that

(*a*) the income from employment during a relevant qualifying period that was taken into account in determining the amount of those benefits and that is exempt from taxation under subsection 87(1) of the *Indian Act* or in respect of which there is a remission of tax payable under the Act by a taxpayer who is an Indian

is of

(*b*) the total income from employment during a relevant qualifying period that was taken into account in determining the amount of those benefits.

(2) Subject to section 5, remission is hereby granted to a person for whom the amounts payable under Parts I to I.2 of the Act for a taxation year would be reduced if, in respect of the taxpayer referred to in subsection (1), an amount equal to the amount of the product referred to in that subsection were not included in the calculation of the taxpayer's income for the year for the purpose of an assessment, of an amount equal to the amount, if any, by which

(*a*) the total amount payable by the person under Parts I to I.2 of the Act for the year

exceeds

(*b*) the total amount that would be payable by the person for the year if, in respect of the taxpayer, an amount equal to the amount of the product referred to subsection (1) were not included in the calculation of the taxpayer's income for the year for the purpose of an assessment.

(3) Subsections (1) and (2) apply to taxation years 1985 to 1991.

Condition

5. Remission under subsection 4(1) or (2) is granted on condition that an application in writing establishing the applicant's right to that remission be submitted to the Minister of National Revenue.

Order Respecting the Remission of Income Tax, Interest and Penalties on Royalties or Fees Received from Canada by Residents of India for Technical Services

P.C. 1991-1953, SI/91-137, dated October 23, 1991, pursuant to section 17 of the Financial Administration Act.

Short Title

1. This Order may be cited as the *Residents of India Remission Order*.

Interpretation

2. In this Order,

"Act" means the *Income Tax Act*;

"Agreement" means the *Agreement between the Government of Canada and the Government of India for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income* set out in Schedule III to chapter 7 of the Statutes of Canada, 1986;

"person" has the meaning assigned by paragraph 1(*c*) of Article 3 of the Agreement.

Remission

3. Remission is hereby granted to any person who is a resident of India, within the meaning of the Agreement, for any amount paid or credited to that person in respect of royalties in relation to a right or property that is granted after December 12, 1988 or in respect of fees for technical services under a contract that is signed after that date, of an amount equal to the amount by which

(*a*) the aggregate of the taxes, interest and penalties payable by that person under the Act with respect to the amount so paid or credited

exceeds

(*b*) the aggregate of the taxes, interest and penalties that would have been payable by that person under the Act with respect to the amount so paid or credited, if the reference to a rate of 30 per cent in paragraph 2 of Article 13 of the Agreement were read as a reference to a rate of 20 per cent.

Order Respecting the Remission of Certain Income Taxes Paid or Payable by Certain Persons in Respect of Interest from Government and Long-Term Corporate Debt Obligations

P.C. 1985-3480, SI/85-214, dated December 11, 1985, pursuant to section 17 of the Financial Administration Act.

Short Title

1. This Order may be cited as the *Government and Long-Term Corporate Debt Obligations Remission Order*.

Interpretation

2. In this Order, "Act" means the *Income Tax Act*.

Remission

3. Remission is hereby granted to each non-resident person who is liable for tax under Part XIII of the Act in respect of any amount paid or credited to him as, on account or in lieu of payment of, or in satisfaction of, interest of an amount equal to the amount, if any, by which

(*a*) the tax payable by the non-resident person under Part XIII of the Act in respect of the amount so paid or credited

exceeds

(*b*) the tax that would be payable by the non-resident person under Part XIII of the Act in respect of the amount so paid or credited if the references to "1986" in subparagraphs 212(1)(*b*)(ii) and (vii) of the Act were read as references to "1987".

4. Where a person required to deduct or withhold a tax payable by a non-resident person under Part XIII of the Act is liable to pay as tax under Part XIII on behalf of the non-resident person the whole of the amount that should have been deducted or withheld, remission is hereby granted to that person of an amount equal to the amount, if any, by which

(*a*) the tax payable by the person so required to deduct or withhold under Part XIII of the Act

exceeds

(*b*) the tax that would be payable by the person so required to deduct or withhold under Part XIII of the Act if the references to "1986" in subparagraphs 212(1)(*b*)(ii) and (vii) of the Act were read as references to "1987".

Canada–United States Tax Convention (1980)

Date Signed:	Convention — September 26, 1980 First Protocol — June 14, 1983 Second Protocol — March 28, 1984 Third Protocol — August 31, 1994; Revised Third Protocol — March 17, 1995 Fourth Protocol — July 29, 1997 Fifth Protocol — September 21, 2007
Statutory citation:	Convention — S.C. 1984, c. 20, Part I First Protocol — S.C. 1984, c. 20, Part II Second Protocol — S.C. 1984, c. 20, Part III Revised Third Protocol — S.C. 1995, c. 34 Fourth Protocol — S.C. 1997, c. 38, Part 7 Fifth Protocol — S.C. 2007, c. 32
Date entered into force:	Convention — August 16, 1984 First Protocol — August 16, 1984 Second Protocol — August 16, 1984 Revised Third Protocol — November 9, 1995 Fourth Protocol — December 16, 1997 Fifth Protocol — December 15, 2008
Effective date of provisions:	Convention and First and Second Protocols • For withholding taxes — Amounts paid or credited to non-residents on or after October 1, 1984 • For other taxes — Taxation years beginning on or after January 1, 1985 Third Protocol • For withholding taxes — Amounts paid or credited to non-residents on or after January 1, 1996 (See Article 21 of Third Protocol for details.) • For other taxes — Taxation years beginning on or after January 1, 1995 (See Article 21 of Third Protocol for details.) Fourth Protocol • For gains — April 26, 1995 (See Articles 1 and 3 of Fourth Protocol.) • For pensions and annuities — January 1, 1996 (See Article 3 of Fourth Protocol.) Fifth Protocol • For withholding taxes — Generally, on amounts paid or credited on or after February 1, 2009 (See paragraph 3 of Article 27 of Fifth Protocol for exceptions to certain specific provisions.) • For other taxes — Generally, for taxation years beginning after 2008 (See paragraph 3 of Article 27 of Fifth Protocol for exceptions to certain specific provisions.)
History:	Replaced the 1942 Canada–U.S. Convention

Convention between Canada and the United States of America with Respect to Taxes on Income and on Capital[1]

Canada and the United States of America, desiring to conclude a Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and on capital, have agreed as follows:[2]

Article I — Personal Scope

This Convention is generally applicable to persons who are residents of one or both of the Contracting States.

Article II — Taxes Covered

1. This Convention shall apply to taxes on income and on capital imposed on behalf of each Contracting State, irrespective of the manner in which they are levied.

2. Notwithstanding paragraph 1, the taxes existing on March 17, 1995 to which the Convention shall apply are:

(*a*) In the case of Canada, the taxes imposed by the Government of Canada under the *Income Tax Act*; and

(*b*) In the case of the United States, the Federal income taxes imposed by the *Internal Revenue Code* of 1986. However, the Convention shall apply to:

(i) The United States accumulated earnings tax and personal holding company tax, to the extent, and only to the extent, necessary to implement the provisions of paragraphs 5 and 8 of Article X (Dividends);

(ii) The United States excise taxes imposed with respect to private foundations, to the extent, and only to the extent, necessary to implement the provisions of paragraph 4 of Article XXI (Exempt Organizations);

(iii) The United States social security taxes, to the extent, and only to the extent, necessary to implement the provisions of para-

[1] The text of the Convention as it appears here has been consolidated to reflect the changes made by all five Protocols. The editorial comments on the provisions of the Convention are largely based on the revised technical explanation of the Convention issued by the U.S. Treasury Department on April 26, 1984 and on technical explanations issued with regard to the Third, Fourth, and Fifth Protocols. The technical explanations have been endorsed by the Canadian Department of Finance. See *Estate of William F. Kubicek Jr.*, 97 DTC 5454 (F.C.A.).

[2] The Supreme Court of Canada has stated that an ancillary goal of the Convention is to mitigate the administrative complexities arising from having to simultaneously comply with two uncoordinated taxation systems: See *The Queen v. Crown Forest Industries Limited*, 95 DTC 5389 (S.C.C.).

graph 2 of Article XXIV (Elimination of Double Taxation) and paragraph 4 of Article XXIX (Miscellaneous Rules); and

(iv) The United States estate taxes imposed by the *Internal Revenue Code* of 1986, to the extent, and only to the extent, necessary to implement the provisions of paragraph 3(*g*) of Article XXVI (Mutual Agreement Procedure) and Article XXIX B (Taxes Imposed by Reason of Death).

3. The Convention shall apply also to:

(*a*) Any taxes identical or substantially similar to those taxes to which the Convention applies under paragraph 2; and

(*b*) Taxes on capital;

which are imposed after March 17, 1995 in addition to, or in place of, the taxes to which the Convention applies under paragraph 2.

History: Paragraphs 2 to 4 of Article II were amended by Article 1 of the Third Protocol, and formerly read:

"2. The existing taxes to which the Convention shall apply are:

(*a*) In the case of Canada, the taxes imposed by the Government of Canada under Parts I, XIII and XIV of the *Income Tax Act*; and

(*b*) In the case of the United States, the Federal income taxes imposed by the *Internal Revenue Code*.

3. The Convention shall apply also to:

(*a*) Any identical or substantially similar taxes on income; and

(*b*) Taxes on capital

which are imposed after the date of signature of the Convention in addition to, or in place of, the existing taxes.

4. Notwithstanding the provisions of paragraphs 2(*b*) and 3, the Convention shall apply to:

(*a*) The United States accumulated earnings tax and personal holding company tax, to the extent, and only to the extent, necessary to implement the provisions of paragraphs 5 and 8 of Article X (Dividends);

(*b*) The United States excise taxes imposed with respect to private foundations, to the extent, and only to the extent, necessary to implement the provisions of paragraph 4 of Article XXI (Exempt Organizations); and

(*c*) The United States social security taxes, to the extent, and only to the extent, necessary to implement the provisions of paragraph 4 of Article XXIX (Miscellaneous Rules)."

Article III — General Definitions

1. For the purposes of this Convention, unless the context otherwise requires:

(*a*) When used in a geographical sense, the term "Canada" means the territory of Canada, including any area beyond the territorial seas of Canada which, in accordance with international law and the laws of Canada, is an area within which Canada may exercise rights with respect to the seabed and subsoil and their natural resources;

(*b*) The term "United States" means:

(i) The United States of America, but does not include Puerto Rico, the Virgin Islands, Guam or any other United States possession or territory; and

(ii) When used in a geographical sense, such term also includes any area beyond the territorial seas of the United States which, in accordance with international law and the laws of the United States, is an area within which the United States may exercise rights with respect to the seabed and subsoil and their natural resources;

(*c*) The term "Canadian tax" means the taxes referred to in Article II (Taxes Covered) that are imposed on income by Canada;

(*d*) The term "United States tax" means the taxes referred to in Article II (Taxes Covered), other than in subparagraph (*b*)(i) to (iv) of paragraph 2 thereof, that are imposed on income by the United States;

(*e*) The term "person" includes an individual, an estate, a trust, a company and any other body of persons;

(*f*) The term "company" means any body corporate or any entity which is treated as a body corporate for tax purposes;

(*g*) The term "competent authority" means:

(i) In the case of Canada, the Minister of National Revenue or his authorized representative; and

(ii) In the case of the United States, the Secretary of the Treasury or his delegate;

(*h*) The term "international traffic" with reference to a resident of a Contracting State means any voyage of a ship or aircraft to transport passengers or property (whether or not operated or used by that resident) except where the principal purpose of the voyage is to transport passengers or property between places within the other Contracting State;

(*i*) The term "State" means any national State, whether or not a Contracting State;

(*j*) The term "the 1942 Convention" means the Convention and Protocol between Canada and the United States for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion in the case of Income Taxes signed at Washington on March 4, 1942, as amended by the Convention signed at Ottawa on June 12, 1950, by the Convention signed at Ottawa on August 8, 1956 and by the Supplementary Convention signed at Washington on October 25, 1966; and

(*k*) The term "national" of a Contracting State means:

(i) Any individual possessing the citizenship or nationality of that State; and

(ii) Any legal person, partnership or association deriving its status as such from the laws in force in that State.

2. As regards the application of the Convention by a Contracting State any term not defined therein shall, unless the context otherwise requires and subject to the provisions of Article XXVI (Mutual Agreement Procedure), have the meaning which it has under the law of that State concerning the taxes to which the Convention applies.

History: Subparagraph 1(*k*) of Article III was added by Article 1 of the Fifth Protocol to this Convention.

Subparagraphs 1(*c*) and (*d*) of Article III were amended by Article 2 of the Third Protocol to this Convention, and formerly read:

"(*c*) The term "Canadian tax" means the Canadian taxes referred to in paragraphs 2(*a*) and 3(*a*) of Article II (Taxes Covered);

(*d*) The term "United States tax" means the United States taxes referred to in paragraphs 2(*b*) and 3(*a*) of Article II (Taxes Covered);"

Subparagraph 1(*h*) of Article III was amended by Article I of the First Protocol to this Convention, and formerly read:

"(*h*) The term "international traffic" means any voyage of a ship or aircraft to transport passengers or property except where the principal purpose of the voyage is to transport passengers or property between places within a Contracting State;"

Article IV — Residence

1. For the purposes of this Convention, the term "resident" of a Contracting State means any person that, under the laws of that State, is liable to tax therein by reason of that person's domicile, residence, citizenship, place of management, place of incorporation or any other criterion of a similar nature, but in the case of an estate or trust, only to the extent that income derived by the estate or trust is liable to tax in that State, either in its hands or in the hands of its beneficiaries. For the purposes of this paragraph, an individual who is not a resident of Canada under this paragraph and who is a U.S. citizen or an alien admitted to the United States for permanent residence (a "green card" holder) is a resident of the United States only if the individual has a substantial presence, permanent home or habitual abode in the United States, and that individual's personal and economic relations are closer to the United States than to any third State. The term "resident" of a Contracting State is understood to include:

(*a*) The Government of that State or a political subdivision or local authority thereof or any agency or instrumentality of any such government, subdivision or authority, and

(*b*) (i) A trust, organization or other arrangement that is operated exclusively to administer or provide pension, retirement or employee benefits; and

(ii) A not-for-profit organization

that was constituted in that State and that is, by reason of its nature as such, generally exempt from income taxation in that State.

2. Where by reason of the provisions of paragraph 1 an individual is a resident of both Contracting States, then his status shall be determined as follows:

(*a*) He shall be deemed to be a resident of the Contracting State in which he has a permanent home available to him; if he has a permanent home available to him in both States or in neither State, he shall be deemed to be a resident of the Contracting State with which his personal and economic relations are closer (centre of vital interests);

(*b*) If the Contracting State in which he has his centre of vital interests cannot be determined, he shall be deemed to be a resident of the Contracting State in which he has an habitual abode;

(*c*) If he has an habitual abode in both States or in neither State, he shall be deemed to be a resident of the Contracting State of which he is a citizen; and

(*d*) If he is a citizen of both States or of neither of them, the competent authorities of the Contracting States shall settle the question by mutual agreement.

3. Where by reason of the provisions of paragraph 1, a company is a resident of both Contracting States, then

(*a*) If it is created under the laws in force in a Contracting State, but not under the laws in force in the other Contracting State, it shall be deemed to be a resident only of the first-mentioned State; and

(*b*) In any other case, the competent authorities of the Contracting States shall endeavor to settle the question of residency by mutual agreement and determine the mode of application of this Convention to the company. In the absence of such agreement, the company shall not be considered a resident of either Contracting State for purposes of claiming any benefits under this Convention.

4. Where by reason of the provisions of paragraph 1 an estate, trust or other person (other than an individual or a company) is a resident of both Contracting States, the Competent authorities of the States shall by mutual agreement endeavour to settle the question and to determine the mode of application of the Convention to such person.

5. Notwithstanding the provisions of the preceding paragraphs, an individual shall be deemed to be a resident of a Contracting State if:

(*a*) The individual is an employee of that state or of a political subdivision, local authority or instrumentality thereof rendering services in the discharge of functions of a governmental nature in the other Contracting State or in a third State; and

(*b*) The individual is subjected in the first-mentioned State to similar obligations in respect of taxes on income as are residents of the first-mentioned State.

The spouse and dependent children residing with such an individual and meeting the requirements of subparagraph (*b*) above shall also be deemed to be residents of the first-mentioned State.

6. An amount of income, profit or gain shall be considered to be derived by a person who is a resident of a Contracting State where:

(*a*) The person is considered under the taxation law of that State to have derived the amount through an entity (other than an entity that is a resident of the other Contracting State); and

(*b*) By reason of the entity being treated as fiscally transparent under the laws of the first-mentioned State, the treatment of the amount under the taxation law of that State is the same as its treatment would be if that amount had been derived directly by that person.

7. An amount of income, profit or gain shall be considered not to be paid to or derived by a person who is a resident of a Contracting State where:

(*a*) The person is considered under the taxation law of the other Contracting State to have derived the amount through an entity that is not a resident of the first-mentioned State, but by reason of the entity not being treated as fiscally transparent under the laws of that State, the treatment of the amount under the taxation law of that State is not the same as its treatment would be if that amount had been derived directly by that person; or

(*b*) The person is considered under the taxation law of the other Contracting State to have received the amount from an entity that is a resident of that other State, but by reason of the entity being treated as fiscally transparent under the laws of the first-mentioned State, the treatment of the amount under the taxation law of that State is not the same as its treatment would be if that entity were not treated as fiscally transparent under the laws of that State.

History: Paragraph 3 of Article IV was deleted and replaced by paragraph 1 of Article 2 of the Fifth Protocol to this Convention, and formerly read:

"3. Where by reason of the provisions of paragraph 1 a company is a resident of both Contracting States, then if it was created under the laws in force in a Contracting State, it shall be deemed to be a resident of that State. Notwithstanding the preceding sentence, a company that was created in a Contracting State, that is a resident of both Contracting States and that is continued at any time in the other Contracting State in accordance with the corporate law in that other State shall be deemed while it is so continued to be a resident of that other State."

Paragraphs 6 and 7 of Article IV were added by paragraph 2 of Article 2 of the Fifth Protocol to this Convention.

Paragraph 1 of Article IV was amended by paragraph 1 of Article 3 of the Third Protocol to this Convention, and formerly read:

"1. For the purposes of this Convention, the term "resident of a Contracting State" means any person who, under the laws of that State, is liable to tax therein by reason of his domicile, residence, place of management, place of incorporation or any other criterion of a similar nature, but in the case of an estate or trust, only to the extent that income, derived by such estate or trust is liable to tax in that State, either in its hands or in the hands of its beneficiaries."

The last sentence of paragraph 3 of Article IV was added by paragraph 2 of Article 3 of the Third Protocol to this Convention.

Article V — Permanent Establishment

1. For the purposes of this Convention, the term "permanent establishment" means a fixed place of business through which the business of a resident of a Contracting State is wholly or partly carried on.

2. The term "permanent establishment" shall include especially

(*a*) A place of management;

(*b*) A branch;

(*c*) An office;

(*d*) A factory;

(*e*) A workshop; and

(*f*) A mine, an oil or gas well, a quarry or any other place of extraction of natural resources.

3. A building site or construction or installation project constitutes a permanent establishment if, but only if, it lasts more than 12 months.

4. The use of an installation or drilling rig or ship in a Contracting State to explore for or exploit natural resources constitutes a permanent establishment if, but only if, such use is for more than three months in any twelve-month period.

5. A person acting in a Contracting State on behalf of a resident of the other Contracting State — other than an agent of an independent status to whom paragraph 7 applies — shall be deemed to be a permanent establishment in the first-mentioned State if such person has, and habitually exercises in that State, an authority to conclude contracts in the name of the resident.

6. Notwithstanding the provisions of paragraphs 1, 2, 5, and 9, the term "permanent establishment" shall be deemed not to include a fixed place of business used solely for, or a person referred to in paragraph 5 engaged solely in, one or more of the following activities:

(*a*) The use of facilities for the purpose of storage, display or delivery of goods or merchandise belonging to the resident;

(*b*) The maintenance of a stock of goods or merchandise belonging to the resident for the purpose of storage, display or delivery;

(*c*) The maintenance of a stock of goods or merchandise belonging to the resident for the purpose of processing by another person;

(*d*) The purchase of goods or merchandise, or the collection of information, for the resident; and

(*e*) Advertising, the supply of information, scientific research or similar activities which have a preparatory or auxiliary character, for the resident.

7. A resident of a Contracting State shall not be deemed to have a permanent establishment in the other Contracting State merely because such resident carries on business in that other State through a broker, general commission agent or any other agent of an independent status, provided that such persons are acting in the ordinary course of their business.

8. The fact that a company which is a resident of a Contracting State controls or is controlled by a company which is a resident of the other Contracting State, or which carries on business in that other State (whether through a permanent establishment or otherwise), shall not constitute either company a permanent establishment of the other.

9. Subject to paragraph 3, where an enterprise of a Contracting State provides services in the other Contracting State, if that enterprise is found not to have a permanent establishment in that other State by virtue of the preceding paragraphs of this Article, that enterprise shall be deemed to provide those services through a permanent establishment in that other State if and only if:

(*a*) Those services are performed in that other State by an individual who is present in that other State for a period or periods aggregating 183 days or more in any twelve-month period, and, during that period or periods, more than 50 percent of the gross active business revenues of the enterprise consists of income derived from the services performed in that other State by that individual; or

(*b*) The services are provided in that other State for an aggregate of 183 days or more in any twelve-month period with respect to the same or connected project for customers who are either residents of that other State or who maintain a permanent establishment in that other State and the services are provided in respect of that permanent establishment.

10. For the purposes of this Convention, the provisions of this Article shall be applied in determining whether any person has a permanent establishment in any State.

History: The first sentence of paragraph 6 of Article V was amended by paragraph 1 of Article 3 of the Fifth Protocol to this Convention by deleting the word "and" preceding the first reference to paragraph 5, inserting a comma, and adding the words "and 9" following that reference to paragraph 5.

Paragraph 9 of Article V was deleted and replaced with paragraphs 9 and 10 by paragraph 2 of Article 3 of the Fifth Protocol to this Convention. Paragraph 9 formerly read:

"9. For the purposes of the Convention, the provisions of this Article shall be applied in determining whether any person has a permanent establishment in any State."

Paragraph 4 of Article V was amended by Article I of the First Protocol to this Convention and the Canada–United States Agreement Regarding Canadian Taxation of Offshore Drilling Rigs. Paragraph 4 of Article V formerly read as follows:

"4. The use of a drilling rig or ship in a Contracting State to explore for or exploit natural resources constitutes a permanent establishment if, but only if, such use is for more than 3 months in any twelve-month period."

Article VI — Income from Real Property

1. Income derived by a resident of a Contracting State from real property (including income from agriculture, forestry or other natural resources) situated in the other Contracting State may be taxed in that other State.

2. For the purposes of this Convention, the term "real property" shall have the meaning which it has under the taxation laws of the Contracting State in which the property in question is situated and shall include any option or similar right in respect thereof. The term shall in any case include usufruct of real property, rights to explore for or to exploit mineral deposits, sources and other natural resources, and rights to amounts computed by reference to the amount or value of production from such resources; ships and aircraft shall not be regarded as real property.

3. The provisions of paragraph 1 shall apply to income derived from the direct use, letting or use in any other form of real property and to income from the alienation of such property.

History: Paragraphs 1 and 2 of Article VI were amended by Article III of the First Protocol to this Convention, and formerly read:

"1. Income derived by a resident of a Contracting State from real property (including income from agriculture or forestry) situated in the other Contracting State may be taxed in that other State.

2. For the purposes of this Convention, the "real property "shall have the meaning which it has under the taxation laws of the Contracting State in which the property in question is situated and shall include any option or similar right in respect thereof. The term shall in any case include usufruct of real property and rights to explore for or to exploit mineral deposits, sources and other natural resources; ships and aircraft shall not be regarded as real property."

Article VII — Business Profits

1. The business profits of a resident of a Contracting State shall be taxable only in that State unless the resident carries on business in the other Contracting State through a permanent establishment situated herein. If the resident carries on, or has carried on, business as aforesaid, the business profits of the resident may be taxed in the other State but only so much of them as is attributable to that permanent establishment.

2. Subject to the provisions of paragraph 3, where a resident of a Contracting State carries on, or has carried on, business in the other Contracting State through a permanent establishment situated therein, there shall in each Contracting State be attributed to that permanent establishment the business profits which it might be expected to make if it were a distinct and separate person engaged in the same or similar activities under the same or similar conditions and dealing wholly independently with the resident and with any other person related to the resident (within the meaning of paragraph 2 of Article IX (Related Persons)).

3. In determining the business profits of a permanent establishment, there shall be allowed as deductions expenses which are incurred for the purposes of the permanent establishment, including executive and general administrative expenses so incurred, whether in the State in which the permanent establishment is situated, or elsewhere. Nothing in this paragraph shall require a Contracting State to allow the deduction of any expenditure which, by reason of its nature, is not generally allowed as a deduction under the taxation laws of that State.

4. No business profits shall be attributed to a permanent establishment of a resident of a Contracting State by reason of the use thereof for either the mere purchase of goods or merchandise or the mere provision of executive, managerial or administrative facilities or services for such resident.

5. For the purposes of the preceding paragraphs, the business profits to be attributed to a permanent establishment shall be determined by the same method year by year unless there is good and sufficient reason to the contrary.

6. Where business profits include items of income which are dealt with separately in other Articles of this Convention, then the provisions of those Articles shall not be affected by the provisions of this Article.

7. For the purposes of the Convention, the business profits attributable to a permanent establishment shall include only those profits derived from the assets or activities of the permanent establishment.

History: Paragraph 2 of Article VII was deleted and replaced by Article 4 of the Fifth Protocol to this Convention, and formerly read:

"2. Subject to the provisions of paragraph 3, where a resident of a Contracting State carries on business in the other Contracting State through a permanent establishment situated therein, there shall in each Contracting State be attributed to that permanent establishment the business profits which it might be expected to make if it were a distinct and separate person engaged in the same or similar activities under the same or similar conditions and dealing wholly independently with the resident and with any other person related to the resident (within the meaning of paragraph 2 of Article IX (Related Persons))."

Article VIII — Transportation

1. Notwithstanding the provisions of Articles VII (Business Profits), XII (Royalties) and XIII (Gains), profits derived by a resident of a Contracting State from the operation of ships or aircraft in international traffic, and gains, derived by a resident of a Contracting State from the alienation of ships, aircraft or containers (including trailers and related equipment for the transport of containers) used principally in international traffic, shall be exempt from tax in the other Contracting State.

2. For the purposes of this Convention, profits derived by a resident of a Contracting State from the operation of ships or aircraft in international traffic include profits from:

(*a*) The rental of ships or aircraft operated in international traffic;

(*b*) The use, maintenance or rental of containers (including trailers and related equipment for the transport of containers) used in international traffic; and

(*c*) The rental of ships, aircraft or containers (including trailers and related equipment for the transport of containers) provided that such profits are incidental to profits referred to in paragraph 1, 2(*a*), or 2(*b*).

3. Notwithstanding the provisions of Article VII (Business Profits), profits derived by a resident of a Contracting State from a voyage of a ship where the principal purpose of the voyage is to transport passengers or property between places in the other Contracting State may be taxed in that other State.

4. Notwithstanding the provisions of Articles VII (Business Profits) and XII (Royalties), profits of a resident of a Contracting State engaged in the operation of motor vehicles or a railway as a common carrier or a contract carrier derived from:

(*a*) The transportation of passengers or property between a point outside the other Contracting State and any other point; or

(*b*) The rental of motor vehicles (including trailers) or railway rolling stock, or the use, maintenance or rental of containers (including trailers and related equipment for the transport of containers) used to transport passengers or property between a point outside the other Contracting State and any other point

shall be exempt from tax in that other Contracting State.

5. The provisions of paragraphs 1, 3 and 4 shall also apply to profits or gains referred to in those paragraphs derived by a resident of a Contracting State from the participation in a pool, a joint business or an international operating agency.

6. Notwithstanding the provisions of Article XII (Royalties), profits derived by a resident of a Contracting State from the use, maintenance or rental of railway rolling stock, motor vehicles, trailers or containers (including trailers and related equipment for the transport of containers) used in the other Contracting State for a period or periods not expected to exceed in the aggregate 183 days in any twelve-month period shall be exempt from tax in the other Contracting State except to the extent that such profits are attributable to a permanent establishment in the other State and liable to take in the other State by reason of Article VII (Business Profits).

History: Paragraph 1 of Article VIII was amended by Article IV of the First Protocol to this Convention, and formerly read:

"1. Notwithstanding the provisions of Articles VII (Business Profits) and XIII (Gains), profits derived by a resident of a Contracting State from the

operation of ships or aircraft in international traffic, and gains derived by a resident of a Contracting State from the alienation of ships or aircraft used principally in international traffic, shall be exempt from tax in the other Contracting State."

Article IX — Related Persons

1. Where a person in a Contracting State and a person in the other Contracting State are related and where the arrangements between them differ from those which would be made between unrelated persons, each State may adjust the amount of the income, loss or tax payable to reflect the income, deductions, credits or allowances which would, but for those arrangements, have been taken into account in computing such income, loss or tax.

2. For the purposes of this Article, a person shall be deemed to be related to another person if either person participates directly or indirectly in the management or control of the other, or if any third person or persons participate directly or indirectly in the management of control of both.

3. Where an adjustment is made or to be made by a Contracting State in accordance with paragraph 1, the other Contracting State shall (notwithstanding any time or procedural limitations in the domestic law of that other State) make a corresponding adjustment to the income, loss or tax of the related person in that other State if:

(*a*) It agrees with the first-mentioned adjustment; and

(*b*) Within six years from the end of the taxable year to which the first-mentioned adjustment relates, the competent authority of the other State has been notified of the first-mentioned adjustment. The competent authorities, however, may agree to consider cases where the corresponding adjustment would not otherwise be barred by any time or procedural limitations in the other State, even if the notification is not made within the six-year period.

4. In the event that the notification referred to in paragraph 3 is not given within the time period referred to therein, and the competent authorities have not agreed to otherwise consider the case in accordance with paragraph 3(*b*), the competent authority of the Contracting State which has made or is to make the first-mentioned adjustment may provide relief from double taxation where appropriate.

5. The provisions of paragraphs 3 and 4 shall not apply in the case of fraud, willful default or neglect or gross negligence.

History: Paragraphs 3 and 4 of Article IX were amended by Article 4 of the Third Protocol to this Convention, and formerly read:

"3. Where an adjustment is made or to be made by a Contracting State in accordance with paragraph 1, the other Contracting State shall (notwithstanding any time or procedural limitations in the domestic law of that other State) make a corresponding adjustment to the income, loss or tax of the related person in that other State if:

(*a*) It agrees with the first-mentioned adjustment; and

(*b*) Within six years from the end of the taxable year to which the first-mentioned adjustment relates, the competent authority of the other State has been notified of the first-mentioned adjustment.

4. In the event that the notification referred to in paragraph 3 is not given within the time period referred to therein, and if the person to whom the first-mentioned adjustment relates has not received, at least six months prior to the expiration of such time period, notification of such adjustment from the Contracting State which has made or is to make such adjustment that State shall, notwithstanding the provisions of paragraph 1, not make the first-mentioned adjustment to the extent that such adjustment would give rise to double taxation."

Article X — Dividends

1. Dividends paid by a company which is a resident of a Contracting State to a resident of the other Contracting State may be taxed in that other State.

2. However, such dividends may also be taxed in the Contracting State of which the company paying the dividends is a resident and according to the laws of the State; but if a resident of the other Contracting State is the beneficial owner of such dividends, the tax so charged shall not exceed:

(*a*) 5 percent of the gross amount of the dividends if the beneficial owner is a company which owns at least 10 percent of the voting stock of the company paying the dividends (for this purpose, a company that is a resident of a Contracting State shall be considered to own the voting stock owned by an entity that is considered fiscally transparent under the laws of that State and that is not a resident of the Contracting State of which the company paying the dividends is a resident, in proportion to the company's ownership interest in that entity);

(*b*) 15 per cent of the gross amount of the dividends in all other cases.

This paragraph shall not affect the taxation of the company in respect of the profits out of which the dividends are paid.

3. For the purposes of this Article, the term "dividends" means income from shares or other rights, not being debt-claims, participating in profits, as well as income that is subjected to the same taxation treatment as income from shares under the laws of the State of which the payer is a resident.

4. The provisions of paragraph 2 shall not apply if the beneficial owner of the dividends, being a resident of a Contracting State, carries on, or has carried on, business in the other Contracting State of which the company paying the dividends is a resident, through a permanent establishment situated therein, and the holding in respect of which the dividends are paid is effectively connected to such permanent establishment. In such case, the provisions of Article VII (Business Profits) shall apply.

5. Where a company is a resident of a Contracting State, the other Contracting State may not impose any tax on the dividends paid by the company, except insofar as such dividends are paid to a resident of that other State or insofar as the holding in respect of which the dividends are paid is effectively connected with a permanent establishment situated in that other State, nor subject the company's undistributed profits to a tax, even if the dividends paid or the undistributed profits consist wholly or partly of profits or income arising in such other State.

6. Nothing in this Convention shall be construed as preventing a Contracting State from imposing a tax on the earnings of a company attributable to permanent establishments in that State, in addition to the tax which would be chargeable on the earnings of a company which is a resident of that State, provided that any additional tax so imposed shall not exceed 5 per cent of the amount of such earnings which have not been subjected to such additional tax in previous taxation years. For the purposes of this paragraph, the term "earnings" means the amount by which the business profits attributable to permanent establishments in a Contracting State (including gains from the alienation of property forming part of the business property of such permanent establishments) in a year and previous years exceeds the sum of:

(*a*) Business losses attributable to such permanent establishments (including losses from the alienation of property forming part of the business property of such permanent establishments) in such year and previous years;

(*b*) All taxes, other than the additional tax referred to in this paragraph, imposed on such profits in that State;

(*c*) The profits reinvested in that State, provided that where that State is Canada, such amount shall be determined in accordance with the existing provisions of the law of Canada regarding the computation of the allowance in respect of investment in property in Canada, and any subsequent modification of those provisions which shall not affect the general principle hereof; and

(*d*) Five hundred thousand Canadian dollars ($500,000) or its equivalent in United States currency, less any amounts deducted by the company, or by an associated company with respect to the same or a similar business, under this subparagraph (*d*); for the purposes of this subparagraph (*d*) a company is associated with another company if one company directly or indirectly controls the other, or both companies are directly or indirectly controlled by the same person or persons, or if two companies deal with each other not at arm's length.

7. Notwithstanding the provisions of paragraph 2,

(*a*) Dividends paid by a company that is a resident of Canada and a non-resident-owned investment corporation to a company that is a resident of the United States, that owns at least 10 per cent of the voting stock of the company paying the dividends and that is the beneficial owner of such dividends, may be taxed in Canada at a rate not exceeding 10 per cent of the gross amount of the dividends;

(*b*) Paragraph 2(*b*) and not paragraph 2(*a*) shall apply in the case of dividends paid by a resident of the United States that is a Regulated Investment Company; and

(*c*) Subparagraph 2(*a*) shall not apply to dividends paid by a resident of the United States that is a Real Estate Investment Trust (REIT), and subparagraph 2(*b*) shall apply only if:

(i) The beneficial owner of the dividends is an individual holding an interest of not more than 10 percent in the REIT;

(ii) The dividends are paid with respect to a class of stock that is publicly traded and the beneficial owner of the dividends is a person holding an interest of not more than 5 percent in any class of the REIT's stock; or

(iii) The beneficial owner of the dividends is a person holding an interest of not more than 10 percent in the REIT and the REIT is diversified.

Otherwise, the rate of tax applicable under the domestic law of the United States shall apply. Where an estate or testamentary trust acquired its interest in a REIT as a consequence of an individual's death, for purposes of this subparagraph the estate or trust shall for the five-year period following the death be deemed with respect to that interest to be an individual.

8. Notwithstanding the provisions of paragraph 5, a company which is a resident of Canada and which has income subject to tax in the United States (without regard to the provisions of the Convention) may be liable to the United States accumulated earnings tax and personal holding company tax but only if 50 per cent or more in value of the outstanding voting shares of the company is owned, directly or indirectly, throughout the last half of its taxable year by citizens or residents of the United States (other than citizens of Canada who do not have immigrant status in the United States or who have not been residents in the United States for more than three taxable years) or by residents of a third State.

History: Subparagraph 2(*a*) of Article X was deleted and replaced by paragraph 1 of Article 5 of the Fifth Protocol to this Convention, and formerly read:

"(*a*) 5 per cent of the gross amount of the dividends if the beneficial owner is a company which owns at least 10 per cent of the voting stock of the company paying the dividends;"

Paragraph 3 of Article X was deleted and replaced by paragraph 2 of Article 5 of the Fifth Protocol to this Convention, and formerly read:

"3. The term 'dividends' as used in this Article means income from shares or other rights, not being debt-claims, participating in profits, as well as income subjected to the same taxation treatment as income from shares by the taxation laws of the State of which the company making the distribution is a resident."

Paragraph 4 of Article X was deleted and replaced by paragraph 3 of Article 5 of the Fifth Protocol to this Convention, and formerly read:

"4. The provisions of paragraph 2 shall not apply if the beneficial owner of the dividends, being a resident of a Contracting State, carries on business in the other Contracting State of which the company paying the dividends is a resident, through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated therein, and the holding in respect of which the dividends are paid is effectively connected with such permanent establishment or fixed base. In such case, the provisions of Article VII (Business Profits) or Article XIV (Independent Personal Services), as the case may be, shall apply."

Paragraph 5 of Article X was amended by paragraph 4 of Article 5 of the Fifth Protocol to this Convention by deleting "or a fixed base" following "effectively connected with a permanent establishment".

Subparagraph 7(*c*) of Article X was deleted and replaced by paragraph 5 of Article 5 of the Fifth Protocol to this Convention, and formerly read:

"(*c*) Paragraph 2(*a*) shall not apply to dividends paid by a resident of the United States that is a Real Estate Investment Trust, and paragraph 2(*b*) shall apply only where such dividends are beneficially owned by an individual holding an interest of less than 10 per cent in the trust; otherwise the rate of tax applicable under the domestic law of the United States shall apply. Where an estate or a testamentary trust acquired its interest in a Real Estate Investment Trust as a consequence of an individual's death, for the purposes of the preceding sentence the estate or trust shall for the five-year period following the death be deemed with respect to that interest to be an individual."

Paragraphs 2(*a*) and 6 were amended by paragraph 1 of Article 5 of the Third Protocol to the Convention by deleting references to a rate of tax of "10 per cent" and replacing them with references to a rate of tax of "5 per cent".

Paragraph 7 of Article X was amended by paragraph 2 of Article 5 of the Third Protocol to this Convention, and formerly read:

"7. Notwithstanding the provisions of paragraph 5, a Contracting State, other than a Contracting State that imposes the additional tax on earnings referred to in paragraph 6, may tax a dividend paid by a company to the extent that the dividend is attributable to profits earned in taxable years beginning after the date of signature of the Convention if, for the three-year period ending with the close of the company's taxable period preceding the declaration of the dividend (or for such part of that three-year period as the company has been in existence, or for the first taxable year if the dividend was declared in that taxable year), at least 50 per cent of such company's gross income from all sources was included in the computation of the business profits attributable to a permanent establishment which such company had in that State; provided that where a resident of the other Contracting State is the beneficial owner of such dividend any tax so imposed on the dividend shall be subject to the limitations of paragraph 2 or the rules of paragraph 4, as the case may be."

Article XI — Interest

1. Interest arising in a Contracting State and beneficially owned by a resident of the other Contracting State may be taxed only in that other State.

[Please see the History note for the reading of this paragraph for the period January 1, 2008 to December 31, 2009.]

2. The term "interest" as used in this Article means income from debt-claims of every kind, whether or not secured by mortgage, and whether or not carrying a right to participate in the debtor's profits, and in particular, income from government securities and income from bonds or debentures, including premiums or prizes attaching to such securities, bonds or debentures, as well as income assimilated to income from money lent by the taxation laws of the Contracting State in which the income arises. However, the term "interest" does not include income dealt with in Article X (Dividends).

3. The provisions of paragraph 1 shall not apply if the beneficial owner of the interest, being a resident of a Contracting State, carries on, or has carried on, business in the other Contracting State in which the interest arises, through a permanent establishment situated therein, and the debt-claim in respect of which the interest is paid is effectively connected with such permanent establishment. In such case the provisions of Article VII (Business Profits) shall apply.

4. For the purposes of this Article, interest shall be deemed to arise in a Contracting State when the payer is that State itself, or a political subdivision, local authority or a resident of that State. Where, however, the person paying the interest, whether he is a resident of a Contracting State or not, has in a State other than that of which he is a resident a permanent establishment in connection with which the indebtedness on which the interest is paid was incurred, and such interest is borne by such permanent establishment, then such interest shall be deemed to arise in the State in which the permanent establishment is situated and not in the State of which the payer is a resident.

5. Where, by reason of a special relationship between the payer and the beneficial owner or between both of them and some other person, the amount of the interest, having regard to the debt-claim for which it is paid, exceeds the amount which would have been agreed upon by the payer and the beneficial owner in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In such case the excess part of the payments shall remain taxable according to the laws of each Contracting State, due regard being had to the other provisions of this Convention.

6. Notwithstanding the provisions of paragraph 1:

(*a*) Interest arising in the United States that is contingent interest of a type that does not qualify as portfolio interest under United States law may be taxed by the United States but, if the beneficial owner of the interest is a resident of Canada, the gross amount of the interest may be taxed at a rate not exceeding the rate prescribed in subparagraph (*b*) of paragraph 2 of Article X (Dividends);

(*b*) Interest arising in Canada that is determined with reference to receipts, sales, income, profits or other cash flow of the debtor or a related person, to any change in the value of any property of the debtor or a related person or to any dividend, partnership distribution or similar payment made by the debtor to a related person may be taxed by Canada, and according to the laws of Canada, but if the beneficial owner is a resident of the United States, the gross amount of the interest may be taxed at a rate not exceeding the rate prescribed in subparagraph (*b*) of paragraph 2 of Article X (Dividends); and

(*c*) Interest that is an excess inclusion with respect to a residual interest in a real estate mortgage investment conduit may be taxed by each State in accordance with its domestic law.

7. Where a resident of a Contracting State pays interest to a person other than a resident of the other Contracting State, that other State may not impose any tax on such interest except insofar as it arises in that other State or insofar as the debt-claim in respect of which the interest is paid is effectively connected with a permanent establishment situated in that other State.

History: Article XI was deleted and replaced by Article 6 of the Fifth Protocol to this Convention. In applying this amendment to interest paid or credited during the period January 1, 2008 to December 31, 2009, paragraph 1 of Article XI shall read:

"1. Interest arising in a Contracting State and beneficially owned by a resident of the other Contracting State may be taxed only in that other State. However, if the interest is not exempt under paragraph 3 of Article XI (Interest) as it read on January 1, 2007, and the payer of the interest and the beneficial owner of the interest are related, or would be deemed to be related if the provisions of paragraph 2 of Article IX (Related Persons) applied for this purpose, such interest may also be taxed in the Contracting State in which it arises, and according to the laws of that State, but the tax so charged shall not exceed the following percentage of the gross amount of the interest:

(*a*) If the interest is paid or credited during the first calendar year that ends after entry into force [December 15, 2008] of this paragraph, 7 percent; and

(*b*) If the interest is paid or credited during the second calendar year that ends after entry into force [December 15, 2008] of this paragraph, 4 percent;"

Article XI formerly read:

"1. Interest arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State.

2. However, such interest may also be taxed in the Contracting State in which it arises, and according to the laws of that State; but if a resident of the other Contracting State is the beneficial owner of such interest, the tax so charged shall not exceed 10 per cent of the gross amount of the interest.

3. Notwithstanding the provisions of paragraph 2, interest arising in a Contracting State shall be exempt from tax in that State if:

(*a*) The interest is beneficially owned by the other Contracting State, a political subdivision or local authority thereof or an instrumentality of such other State, subdivision or authority, and is not subject to tax by that other State;

(*b*) The interest is beneficially owned by a resident of the other Contracting State and is paid with respect to debt obligations issued at arm's length and guaranteed or insured by that other State or a political subdivision thereof or an instrumentality of such other State or subdivision which is not subject to tax by that other State;

(*c*) The interest is beneficially owned by a resident of the other Contracting State and is paid by the first-mentioned State, a political subdivision or local authority thereof or an instrumentality of such first-mentioned State, subdivision or authority which is not subject to tax by that first-mentioned State;

(*d*) The interest is beneficially owned by a resident of the other Contracting State and is paid with respect to indebtedness arising as a consequence of the sale on credit by a resident of that other State of any equipment, merchandise or services except where the sale or indebtedness was between related persons; or

(*e*) The interest is paid by a company created under the laws in force in the other Contracting State with respect to an obligation entered into before the date of signature of this Convention, provided that such interest would have been exempt from tax in the first-mentioned State under Article XII of the 1942 Convention.

4. The term 'interest' as used in this Article means income from debt-claims of every kind, whether or not secured by mortgage, and whether or not carrying a right to participate in the debtor's profits, and in particular, income from government securities and income from bonds or debentures, including premiums and prizes attaching to such securities, bonds or debentures, as well as income assimilated to income from money lent by the taxation laws of the Contracting State in which the income arises. However, the term 'interest' does not include income dealt with in Article X Dividends.

5. The provisions of paragraphs 2 and 3 shall not apply if the beneficial owner of the interest, being a resident of a Contracting State, carries on business in the other Contracting State in which the interest arises, through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated therein, and the debt-claim in respect of which the interest is paid is effectively connected with such permanent establishment or fixed base. In such case, the provisions of Article VII (Business Profits) or Article XIV (Independent Personal Services), as the case may be, shall apply.

6. For the purposes of this Article, interest shall be deemed to arise in a Contracting State when the payer is that State itself, or a political subdivision, local authority or resident of that State. Where, however, the person paying the interest, whether a resident of a Contracting State or not, has, in a State other than that of which he or she is a resident, a permanent establishment or a fixed base in connection with which the indebtedness on which the interest is paid was incurred, and such interest is borne by such permanent establishment or fixed base, then such interest shall be deemed to arise in the State in which the permanent establishment or fixed base is situated and not in the State of which the payer is a resident.

7. Where, by reason of a special relationship between the payer and the beneficial owner or between both of them and some other person, the amount of the interest, having regard to the debt-claim for which it is paid, exceeds the amount which would have been agreed upon by the payer and the beneficial owner in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In such case, the excess part of the payments shall remain taxable according to the laws of each Contracting State, due regard being had to the other provisions of the Convention.

8. Where a resident of a Contracting State pays interest to a person other than a resident of the other Contracting State, that other State may not impose any tax on such interest except insofar as it arises in that other State, or insofar as the debt-claim in respect of which the interest is paid is effectively connected with a permanent establishment or a fixed base situated in that other State.

9. The provisions of paragraphs 2 and 3 shall not apply to an excess inclusion with respect to a residual interest in a Real Estate Mortgage Investment Conduit to which Section 860G of the United States *Internal Revenue Code*, as it may be amended from time to time without changing the general principle thereof, applies."

Paragraph 2 of Article XI was amended by paragraph 1 of Article 6 of the Third Protocol to this Convention by deleting the reference to "15 per cent" and replacing it with "10 per cent".

Subparagraph 3(*d*) of Article XI was amended by paragraph 2 of Article 6 of the Third Protocol to this Convention, and formerly read:

"(*d*) The interest is beneficially owned by a seller who is a resident of the other Contracting State and is paid by a purchaser in connection with the sale on credit of any equipment, merchandise or services, except where the sale is made between persons dealing with each other not at arm's length; or."

Paragraph 9 was added to Article XI by paragraph 3 of Article 6 of the Third Protocol to this Convention.

Article XII — Royalties

1. Royalties arising in a Contracting State and paid to a resident of the other Contract State may be taxed in that other State.

2. However, such royalties may also be taxed in the Contracting State in which they arise, and according to the laws of that State; but if a resident of the other Contracting State is the beneficial owner of such royalties, the tax so charged shall not exceed 10 per cent of the gross amount of the royalties.

3. Notwithstanding the provisions of paragraph 2,

(*a*) Copyright royalties and other like payments in respect of the production or reproduction of any literary, dramatic, musical or artistic work (other than payments in respect of motion pictures and works on film, videotape or other means of reproduction for use in connection with television);

(*b*) Payments for the use of, or the right to use, computer software;

(*c*) Payments for the use of, or the right to use, any patent or any information concerning industrial, commercial or scientific experience (but not including any such information provided in connection with a rental or franchise agreement); and

(*d*) Payments with respect to broadcasting as may be agreed for the purposes of this paragraph in an exchange of notes between the Contracting States;

arising in a Contracting State and beneficially owned by a resident of the other Contracting State shall be taxable only in that other State.

4. The term "royalties" as used in this Article means payments of any kind received as a consideration for the use of, or the right to use, any copyright of literary, artistic or scientific work (including motion pictures and works on film, videotape or other means of reproduction for use in connection with television), any patent, trade mark, design or model, plan, secret formula or process, or for the use of, or the right to use, tangible personal property or for information concerning industrial, commercial or scientific experience, and, notwithstanding the provisions of Article XIII (Gains), includes gains from the alienation of any intangible property or rights described in this paragraph to the extent that such gains are contingent on the productivity, use or subsequent disposition of such property or rights.

5. The provisions of paragraphs 2 and 3 shall not apply if the beneficial owner of the royalties, being a resident of a Contracting State, carries on, or has carried on, business in the other Contracting State in which the royalties arise, through a permanent establishment situated therein, and the right or property in respect of which the royalties are paid is effectively connected to such permanent establishment. In such case the provisions of Article VII (Business Profits) shall apply.

6. For the purposes of this Article,

(*a*) Royalties shall be deemed to arise in a Contracting State when the payer is a resident of that State. Where, however, the person paying the royalties, whether he is a resident of a Contracting State or not, has in a State a permanent establishment in connection with which the obligation to pay the royalties was incurred, and such royalties are borne by such permanent establishment, then such royalties shall be deemed to arise in the State in which the permanent establishment is situated and not in any other State of which the payer is a resident; and

(*b*) Where subparagraph (*a*) does not operate to treat royalties as arising in either Contracting State and the royalties are for the use of, or the right to use, intangible property or tangible personal property in a Contracting State, then such royalties shall be deemed to arise in that State.

7. Where, by reason of a special relationship between the payer and the beneficial owner, or between both of them and some other person, the amount of the royalties, having regard to the use, right or information for which they are paid, exceeds the amount which would have been agreed upon by the payer and the beneficial owner in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In such cases, the excess part of the payments shall remain taxable according to the laws of each Contracting State, due regard being had to the other provisions of this Convention.

8. Where a resident of a Contracting State pays royalties to a person other than a resident of the other Contracting State, that other State may not impose any tax on such royalties except insofar as they arise in that other State or insofar as the right or property in respect of which the royalties are paid is effectively connected with a permanent establishment situated in that other State.

History: Paragraph 5 of Article XII was deleted and replaced by paragraph 1 of Article 7 of the Fifth Protocol to this Convention, and formerly read:

"5. The provisions of paragraphs 2 and 3 shall not apply if the beneficial owner of the royalties, being a resident of a Contracting State, carries on business in the other Contracting State in which the royalties arise, through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated therein, and the right or property in respect of which the royalties are paid is effectively connected with such permanent establishment or fixed base. In such case the provisions of Article VII (Business Profits) or Article XIV (Independent Personal Services), as the case may be, shall apply."

Subparagraph 6(*a*) of Article XII was deleted and replaced by paragraph 2 of Article 7 of the Fifth Protocol to this Convention, and formerly read:

"(*a*) Royalties shall be deemed to arise in a Contracting State when the payer is a resident of that State. Where, however, the person paying the royalties, whether he is a resident of a Contracting State or not, has in a State a permanent establishment or a fixed base in connection with which the obligation to pay the royalties was incurred, and such royalties are borne by such permanent establishment or fixed base, then such royalties shall be deemed to arise in the State in which the permanent establishment or fixed base is situated and not in any other State of which the payer is a resident; and"

Paragraph 8 of Article XII was amended by paragraph 3 of Article 7 of the Fifth Protocol to this Convention by deleting "or a fixed base" following "effectively connected with a permanent establishment".

Paragraph 3 of Article XII was amended by paragraph 1 of Article 7 of the Third Protocol to this Convention, and formerly read:

"3. Notwithstanding the provisions of paragraph 2, copyright royalties and other like payments in respect of the production or reproduction of any literary, dramatic, musical or artistic work (but not including royalties in respect of motion pictures and works on film, videotape or other means of reproduction for use in connection with television) arising in a Contracting State and beneficially owned by a resident of the other Contracting State shall be taxable only in that other State."

Paragraph 6 of Article XII was amended by paragraph 2 of Article 7 of the Third Protocol to this Convention, and formerly read:

"6. For the purposes of this Article, royalties shall be deemed to arise in a Contracting State when the payer is that State itself, or a political subdivision, local authority or resident of that State. However:

(*a*) Except as provided in subparagraph (*b*), where the person paying the royalties, whether he is a resident of a Contracting State or not, has in a State other than that of which he is a resident a permanent establishment or a fixed base in connection with which the obligation to pay the royalties was incurred, and such royalties are borne by such permanent establishment or fixed base, then such royalties shall be deemed to arise in the State in which the permanent establishment or fixed base is situated and not in the State of which the payer is a resident; and

(*b*) Where the royalties are for the use of, or the right to use, intangible property or tangible personal property in a Contracting State, then such royalties shall be deemed to arise in that State and not in the State of which the payer is a resident."

Paragraphs 3 and 4 of Article XII were amended by Article V of the First Protocol to this Convention, and formerly read:

"3. Notwithstanding the provisions of paragraph 2, copyright royalties and other like payments in respect of the production or reproduction of any literary, dramatic, musical or artistic work (but not including royalties in respect of motion picture films and of works on film or videotape for use in connection with television) arising in a Contracting State and beneficially owned by a resident of the other Contracting State shall be taxable only in that other State.

4. The term "royalties" as used in this Article means payments of any kind received as a consideration for the use of, or the right to use, any copyright of literary, artistic or scientific work (including motion picture films and works on film or videotape for use in connection with television), any patent, trade mark, design or model plan, secret formula or process, or for the use of, or the right to use, tangible personal property or for information concerning industrial, commercial or scientific experience, and, notwithstanding the provisions of Article XIII (Gains), includes gains from the alienation of any intangible property or rights described in this paragraph to the extent that such gains are contingent on the productivity, use or subsequent disposition of such property or rights."

Subparagraph 6(*b*) of Article XII was amended by Article V of the First Protocol to this Convention, and formerly read:

"(*b*) Where the royalties are for the use of intangible property or tangible personal property in a Contracting State, then such royalties shall be deemed to arise in that State and not in the State of which the payer is a resident."

Article XIII — Gains

1. Gains derived by a resident of a Contracting State from the alienation of real property situated in the other Contracting State may be taxed in that other State.

2. Gains from the alienation of personal property forming part of the business property of a permanent establishment which a resident of a Contracting State has or had (within the twelve-month period preceding the date of alienation) in the other Contracting State, including such gains from the alienation of such a permanent establishment, may be taxed in that other State.

3. For the purposes of this Article the term "real property situated in the other Contracting State"

(*a*) In the case of real property situated in the United States, means a United States real property interest and real property referred to in Article VI (Income from Real Property) situated in the United States, but does not include a share of the capital stock of a company that is not a resident of the United States; and

(*b*) In the case of real property situated in Canada means:

(i) Real property referred to in Article VI (Income from Real Property) situated in Canada;

(ii) A share of the capital stock of a company that is a resident of Canada, the value of whose shares is derived principally from real property situated in Canada; and

(iii) An interest in a partnership, trust or estate, the value of which is derived principally from real property situated in Canada.

4. Gains from the alienation of any property other than that referred to in paragraphs 1, 2 and 3 shall be taxable only in the Contracting State of which the alienator is a resident.

5. The provisions of paragraph 4 shall not affect the right of a Contracting State to levy, according to its domestic law, a tax on gains from the alienation of any property derived by an individual who is a resident of the other Contracting State if:

(*a*) The individual was a resident of the first-mentioned State:

(i) For at least 120 months during any period of 20 consecutive years preceding the alienation of the property; and

(ii) At any time during the 10 years immediately preceding the alienation of the property; and

(*b*) The property (or property for which such property was substituted in an alienation the gain on which was not recognized for the purposes of taxation in the first-mentioned State):

(i) Was owned by the individual at the time the individual ceased to be a resident of the first-mentioned State; and

(ii) Was not a property that the individual was treated as having alienated by reason of ceasing to be a resident of the first-mentioned State and becoming a resident of the other Contracting State.

6. Where an individual (other than a citizen of the United States) who was a resident of Canada became a resident of the United States, in determining his liability to United States taxation in respect of any gain from the alienation of a principal residence in Canada owned by him at the time he ceased to be a resident of Canada, the adjusted basis of such property shall be no less than its fair market value at that time.

7. Where at any time an individual is treated for the purposes of taxation by a Contracting State as having alienated a property and is taxed in that State by reason thereof, the individual may elect to be treated for the purposes of taxation in the other Contracting State, in the year that includes that time and all subsequent years, as if the individual had, immediately before that time, sold and repurchased the property for an amount equal to its fair market value at that time.

8. Where a resident of a Contracting State alienates property in the course of a corporate or other organization, reorganization, amalgamation, division or similar transaction and profit, gain or income with respect to such alienation is not recognized for the purpose of taxation in that State, if requested to do so by the person who acquires the property, the competent authority of the other Contracting State may agree, in order to avoid double taxation and subject to terms and conditions satisfactory to such competent authority, to defer the recognition of the profit, gain or income with respect to such property for the purpose of taxation in that other State until such time and in such manner as may be stipulated in the agreement.

9. Where a person who is a resident of a Contracting State alienates a capital asset which may in accordance with this Article be taxed in the other Contracting State and

(*a*) That person owned the asset on September 26, 1980 and was resident in the first-mentioned State on that date; or

(*b*) The asset was acquired by that person in an alienation of property which qualified as a non-recognition transaction for the purposes of taxation in that other State;

the amount of the gain which is liable to tax in that other State in accordance with this Article shall be reduced by the proportion of the gain attributable on a monthly basis to the period ending on December 31 of the year in which the Convention enters into force, or such greater portion of the gain as is shown to the satisfaction of the competent authority of the other State to be reasonably attributable to that period. For the purposes of this paragraph the term "non-recognition transaction" includes a transaction to which paragraph 8 applies and, in the case of taxation in the United States, a transaction that would have been a non-recognition transaction

but for Sections 897(*d*) and 897(*e*) of the *Internal Revenue Code*. The provisions of this paragraph shall not apply to

(*c*) An asset that on September 26, 1980 formed part of the business property of a permanent establishment of a resident of a Contracting State situated in the other Contracting State;

(*d*) An alienation by a resident of a Contracting State of an asset that was owned at any time after September 26, 1980 and before such alienation by a person who was not at all times after that date while the asset was owned by such person a resident of that State; or

(*e*) An alienation of an asset that was acquired by a person at any time after September 26, 1980 and before such alienation in a transaction other than a non-recognition transaction.

History: Paragraph 2 of Article XIII was deleted and replaced by paragraph 1 of Article 8 of the Fifth Protocol to this Convention, and formerly read:

"2. Gains from the alienation of personal property forming part of the business property of a permanent establishment which a resident of a Contracting State has or had (within the twelve-month period preceding the date of alienation) in the other Contracting State or of personal property pertaining to a fixed base which is or was available (within the twelve-month period preceding the date of alienation) to a resident of a Contracting State in the other Contracting State for the purpose of performing independent personal services, including such gains from the alienation of such a permanent establishment or of such a fixed base, may be taxed in that other State."

Paragraph 5 of Article XIII was deleted and replaced by paragraph 2 of Article 8 of the Fifth Protocol to this Convention, and formerly read:

"5. The provisions of paragraph 4 shall not affect the right of a Contracting State to levy tax on gains from the alienation of property derived by an individual who is a resident of the other Contracting State if such individual:

(*a*) Was a resident of the first-mentioned State for 120 months during any period of 20 consecutive years preceding the alienation of the property; and

(*b*) Was a resident of the first-mentioned State at any time during the ten years immediately preceding the alienation of the property;

and if such property (or property for which such property was substituted in an alienation the gain on which was not recognized for the purposes of taxation in the first-mentioned State) was owned by the individual at the time he ceased to be a resident of the first-mentioned State."

Paragraph 7 of Article XIII was deleted and replaced by paragraph 3 of Article 8 of the Fifth Protocol to this Convention, and formerly read:

"7. Where at any time an individual is treated for the purposes of taxation by a Contracting State as having alienated a property and is taxed in that State by reason thereof and the domestic law of the other Contracting State at such time defers (but does not forgive) taxation, that individual may elect in his annual return of income for the year of such alienation to be liable to tax in the other Contracting State in that year as if he had, immediately before that time, sold and repurchased such property for an amount equal to its fair market value at that time."

Subparagraph 9(*c*) of Article XIII was amended by paragraph 4 of Article 8 of the Fifth Protocol to this Convention by deleting "or pertained to a fixed base" following "permanent establishment".

Subparagraph 3(*a*) was amended by the Fourth Protocol to this Convention, and formerly read:

"(*a*) In the case of real property situated in the United States, means a United States real property interest and real property referred to in Article VI (Income from Real Property) situated in the United States; and"

Subparagraph 3(*b*)(ii) was amended by the Fourth Protocol to this Convention, and formerly read:

"(ii) A share of the capital stock of a company, the value of whose shares is derived principally from real property situated in Canada; and"

Paragraph 8 of Article XIII was amended by Article 8 of the Third Protocol to this Convention, and formerly read:

"8. Where a resident of a Contracting State alienates property in the course of a corporate organization, reorganization, amalgamation, division or similar transaction and profit, gain or income with respect to such alienation is not recognized for the purpose of taxation in that State, if requested to do so by the person who acquires the property, the competent authority of the other Contracting State may agree, in order to avoid double taxation and subject to terms and conditions satisfactory to such competent authority, to defer the recognition of the profit, gain or income with respect to such property for the purpose of taxation in that other State until such time and in such manner as may be stipulated in the agreement."

Paragraphs 3 and 5 of Article XIII were amended by Article VI of the First Protocol to this Convention, and formerly read:

"3. Gains derived by a resident of a Contracting State from the alienation of:

(*a*) Shares forming part of a substantial interest in the capital stock of a company which is not a resident of that State the value of which shares is derived principally from real property situated in the other Contracting State; or

(*b*) An interest in a partnership, trust or estate the value of which is derived principally from real property situated in the other Contracting State may be taxed in that other State; provided that the laws in force in the first-mentioned State at the time of such alienation would, in comparable circumstances, be subject to taxation gains derived by a resident of that other State. For the purposes of this paragraph,

(*c*) The term "real property" includes the shares of a company the value of which shares is derived principally from real property or an interest in a partnership, trust or estate referred to in subparagraph (*b*), but does not include property (other than mines, oil or gas wells, rental property or property used for agriculture or forestry) in which the business of the company, partnership, trust or estate is carried on; and

(*d*) A substantial interest exists when the resident and persons related thereto own 10 per cent or more of the shares of any class of the capital stock of a company."

"5. The provisions of paragraph 4 shall not affect the right of a Contracting State to levy a tax on gains from the alienation of property derived by an individual who is a resident of the other Contracting State if such individual:

(*a*) Was a resident of the first-mentioned State for 120 months during any period of 20 consecutive years; and

(*b*) Was a resident of the first-mentioned State at any time during the ten years immediately preceding the alienation of the property."

Paragraph 9 of Article XIII was amended by Article VI of the First Protocol to this Convention, and formerly read:

"9. Where a resident of a Contracting State alienates property which may in accordance with this Article be taxed in the other Contracting State and which was owned by a resident of the first-mentioned State on the date of signature of this Convention, the amount of the gain which is liable to tax in that other State in accordance with this Article shall be reduced by the proportion of the gain attributable (on a monthly basis), or such greater portion of the gain as is shown to the satisfaction of the competent authority of the other State to be reasonably attributable, to the period ending on December 31 of the year in which the Convention enters into force; the provisions of this paragraph shall not apply to property which on the date of signature of the Convention formed part of the business property of a permanent establishment or pertained to a fixed base in the other Contracting State."

Article XIV — Independent Personal Services [Repealed.]

History: Article XIV was deleted by Article 9 of the Fifth Protocol to this Convention, and formerly read:

"Income derived by an individual who is a resident of a Contracting State in respect of independent personal services may be taxed in that State. Such income may also be taxed in the other Contracting State if the individual has or had a fixed base regularly available to him in that other State but only to the extent that the income is attributable to the fixed base."

Article XV — Income from Employment

1. Subject to the provisions of Articles XVIII (Pensions and Annuities) and XIX (Government Service), salaries, wages and other remuneration derived by a resident of a Contracting State in respect of an employment shall be taxable only in that State unless the employment is exercised in the other Contracting State. If the employment is so exercised, such remuneration as is derived therefrom may be taxed in that other State.

2. Notwithstanding the provisions of paragraph 1, remuneration derived by a resident of a Contracting State in respect of an employment exercised in the other Contracting State shall be taxable only in the first-mentioned State if:

(*a*) Such remuneration does not exceed ten thousand dollars ($10,000) in the currency of that other State; or

(*b*) The recipient is present in that other State for a period or periods not exceeding in the aggregate 183 days in any twelve-month period commencing or ending in the fiscal year concerned, and the remuneration is not paid by, or on behalf of, a person who is a resident of that other State and is not borne by a permanent establishment in that other State.

3. Notwithstanding the provisions of paragraphs 1 and 2, remuneration derived by a resident of a Contracting State in respect of an employment regularly exercised in more than one State on a ship, aircraft, motor vehicle or train operated by a resident of that Contracting State shall be taxable only in that State.

History: The title of Article XV was deleted and replaced by paragraph 1 of Article 10 of the Fifth Protocol to this Convention, and formerly read:

"Dependent Personal Services"

Paragraphs 1 and 2 of Article XV were deleted and replaced by paragraph 2 of Article 10 of the Fifth Protocol to this Convention, and formerly read:

"1. Subject to the provisions of Article XVIII (Pensions and Annuities) and XIX (Government Service), salaries, wages and other similar remuneration derived by a resident of a Contracting State in respect of an employment shall be taxable only in that State unless the employment is exercised in the other Contracting State. If the employment is so exercised, such remuneration as is derived therefrom may be taxed in that other State.

2. Notwithstanding the provisions of paragraph 1, remuneration derived by a resident of a Contracting State in respect of an employment exercised in a calendar year in the other Contracting State shall be taxable only in the first-mentioned State if:

(*a*) Such remuneration does not exceed ten thousand dollars ($10,000) in the currency of that other State; or

(*b*) The recipient is present in the other Contracting State for a period or periods not exceeding in the aggregate 183 days in that year and the remuneration is not borne by an employer who is a resident of that other State or by a permanent establishment or a fixed base which the employer has in that other State."

Article XVI — Artistes and Athletes

1. Notwithstanding the provisions of Articles VII (Business Profits) and XV (Income from Employment), income derived by a resident of a Contracting State as an entertainer, such as a theatre, motion picture, radio or television artiste, or a musician, or as an athlete, from his personal activities as such exercised in the other Contracting State, may be taxed in that other State, except where the amount of the gross receipts derived by such entertainer or athlete, including expenses reimbursed to him or borne on his behalf, from such activities do not exceed fifteen thousand dollars ($15,000) in the currency of that other State for the calendar year concerned.

2. Where income in respect of personal activities exercised by an entertainer or an athlete in his capacity as such accrues not to the entertainer or athlete but to another person, that income may, notwithstanding the provisions of Articles VII (Business Profits), and XV (Income from Employment), be taxed in the Contracting State in which the activities of the entertainer or athlete are exercised. For the purposes of the preceding sentence, income of an entertainer or athlete shall be deemed not to accrue to another person if it is established that neither the entertainer or athlete, nor persons related thereto, participate directly or indirectly in the profits of such other person in any manner, including the receipt of deferred remuneration, bonuses, fees, dividends, partnership distributions or other distributions.

3. The provisions of paragraphs 1 and 2 shall not apply to the income of:

(*a*) An athlete in respect of his activities as an employee of a team which participates in a league with regularly scheduled games in both Contracting States; or

(*b*) A team described in subparagraph (*a*).

4. Notwithstanding the provisions of Articles VII (Business Profits) and XV (Income from Employment) an amount paid by a resident of a Contracting State to a resident of the other Contracting State as an inducement to sign an agreement relating to the performance of the services of an athlete (other than an amount referred to in paragraph 1 of Article XV (Income from Employment)) may be taxed in the first-mentioned State, but the tax so charged shall not exceed 15 per cent of the gross amount of such payment.

History: Paragraph 1 of Article XVI was amended by paragraph 1 of Article 11 of the Fifth Protocol to this Convention by deleting "XIV (Independent Personal Services)" following "Notwithstanding the provisions of Articles" and substituting "VII (Business Profits)", and by deleting "XV (Dependent Personal Services)" and substituting "XV (Income from Employment)".

Paragraph 2 of Article XVI was amended by paragraph 2 of Article 11 of the Fifth Protocol to this Convention by deleting "XIV (Independent Personal Services)" following "notwithstanding the provisions of Articles VII (Business Profits)," and by deleting "XV (Dependent Personal Services)" and substituting "XV (Income from Employment)".

Paragraph 4 of Article XVI was amended by paragraph 3 of Article 11 of the Fifth Protocol to this Convention by deleting "XIV (Independent Personal Services)" following "Notwithstanding the provisions of Articles" and substituting "VII (Business Profits)", and by deleting "(Dependent Personal Services)" in both places in the paragraph and substituting "(Income from Employment)".

Paragraph 3 of Article XVI was amended by Article VII of the First Protocol to this Convention, and formerly read:

"3. The provisions of this Article shall not apply to the income of an athlete in respect of an employment with a team which participates in a league with regularly scheduled games in both Contracting States."

Paragraph 4 of Article XVI was added by Article VII of the First Protocol to this Convention.

Article XVII — Withholding of Taxes in Respect of Personal Services [Repealed.]

History: Article XVII was deleted by Article 12 of the Fifth Protocol to this Convention, and formerly read:

"1. Deduction and withholding of tax on account of the tax liability for a taxable year on remuneration paid to an individual who is a resident of a Contracting State (including an entertainer or athlete) in respect of the performance of independent personal services in the other Contracting State may be required by that other State, but with respect to the first five thousand dollars ($5,000) in the currency of that other State, paid as remuneration in that taxable year by each payor, such deduction and withholding shall not exceed 10 per cent of the payment.

2. Where the competent authority of a Contracting State considers that an amount that would otherwise be deducted or withheld from any amount paid or credited to an individual who is a resident of the other Contracting State in respect of the performance of personal services in the first-mentioned State is excessive in relation to the estimated tax liability for the taxable year of that individual in the first-mentioned State, it may determine that a lesser amount will be deducted or withheld.

3. The provisions of this Article shall not affect the liability of a resident of a Contracting State referred to in paragraph 1 or 2 for tax imposed by the other Contracting State."

The title of Article XVII and paragraph 2 of that Article were amended by Article VIII of the First Protocol to this Convention, and formerly read:

"Withholding of Taxes in Respect of Independent Personal Services

* * *

2. Where the competent authority of a Contracting State considers that an amount that would otherwise be deducted or withheld from any amount paid or credited to an individual who is a resident of the other Contracting State in respect of the performance of independent personal services in the first-mentioned State is excessive in relation to the estimated tax liability for the taxable year of that individual in the first-mentioned State, it may determine that a lesser amount will be deducted or withheld."

Article XVIII — Pensions and Annuities

1. Pensions and annuities arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State, but the amount of any such pension that would be excluded from taxable income in the first-mentioned State if the recipient were a resident thereof shall be exempt from taxation in that other State.

2. However:

(*a*) Pensions may also be taxed in the Contracting State in which they arise and according to the laws of that State; but if a resident of the other Contracting State is the beneficial owner of a periodic pension payment, the tax so charged shall not exceed 15 per cent of the gross amount of such payment; and

(*b*) Annuities may also be taxed in the Contracting State in which they arise and according to the laws of that State; but if a resident of the other Contracting State is the beneficial owner of an annuity payment, the tax so charged shall not exceed 15 per cent of the portion of such payment that would not be excluded from taxable income in the first-mentioned State if the beneficial owner were a resident thereof.

3. For the purposes of this Convention:

(*a*) The term "pensions" includes any payment under a superannuation, pension or other retirement arrangement, Armed Forces retirement pay, war veterans pensions and allowances and amounts paid under a sickness, accident or disability plan, but does not include payments under an income-averaging annuity contract or, except for the purposes of Article XIX (Government Service), any benefit referred to in paragraph 5; and

(*b*) The term "pensions" also includes a Roth IRA, within the meaning of section 408A of the *Internal Revenue Code*, or a plan or arrangement created pursuant to legislation enacted by a Contracting State after September 21, 2007 that the competent authorities have agreed is similar thereto. Notwithstanding the provisions of the preceding sentence, from such time that contributions have been made to the Roth IRA or similar plan or arrangement, by or for the benefit of a resident of the other Contracting State (other than rollover contributions from a Roth IRA or similar plan or arrangement described in the previous sentence that is a pension within the meaning of this subparagraph), to the extent of accretions from such time, such Roth IRA or similar plan or arrangement shall cease to be considered a pension for purposes of the provisions of this Article.

4. For the purposes of this Convention:

(*a*) The term "annuity" means a stated sum paid periodically at stated times during life or during a specified number of years, under an obligation to make the payments in return for adequate and full consideration (other than services rendered), but does not include a payment that is not a periodic payment or any annuity the cost of which was deductible for the purposes of taxation in the Contracting State in which it was acquired; and

(*b*) An annuity or other amount paid in respect of a life insurance or annuity contract (including a withdrawal in respect of the cash value thereof) shall be deemed to arise in a Contracting State if the person paying the annuity or other amount (in this subparagraph referred to as the "payer") is a resident of that State. However, if the payer, whether a resident of a Contracting State or not, has in a State other than that of which the payer is a resident a permanent establishment in connection with which the obligation giving rise to the annuity or other amount was incurred, and the annuity or other amount is borne by the permanent establishment, then the annuity or other amount shall be deemed to arise in the State in which the permanent establishment is situated and not in the State of which the payer is a resident.

5. Benefits under the social security legislation in a Contracting State (including tier 1 railroad retirement benefits but not including unemployment benefits) paid to a resident of the other Contracting State shall be taxable only in that other State, subject to the following conditions:

(*a*) a benefit under the social security legislation in the United States paid to a resident of Canada shall be taxable in Canada as though it were a benefit under the Canada Pension Plan, except that 15 per cent of the amount of the benefit shall be exempt from Canadian tax; and

(*b*) a benefit under the social security legislation in Canada paid to a resident of the United States shall be taxable in the United States as though it were a benefit under the *Social Security Act*, except that a type of benefit that is not subject to Canadian tax when paid to residents of Canada shall be exempt from United States tax.

6. Alimony and other similar amounts (including child support payments) arising in a Contracting State and paid to a resident of the other Contracting State shall be taxable as follows:

(*a*) Such amounts shall be taxable only in that other State;

(*b*) Notwithstanding the provisions of subparagraph (*a*), the amount that would be excluded from taxable income in the first-mentioned State if the recipient were a resident thereof shall be exempt from taxation in that other State.

7. A natural person who is a citizen or resident of a Contracting State and a beneficiary of a trust, company, organization or other arrangement that is a resident of the other Contracting State, generally exempt from income taxation in that other State and operated exclusively to provide pension or employee benefits may elect to defer taxation in the first-mentioned State, subject to rules established by the competent authority of that State, with respect to any income accrued in the plan but not distributed by the plan, until such time as and to the extent that a distribution is made from the plan or any plan substituted therefor.

8. Contributions made to, or benefits accrued under, a qualifying retirement plan in a Contracting State by or on behalf of an individual shall be deductible or excludible in computing the individual's taxable income in the other Contracting State, and contributions made to the plan by the individual's employer shall be allowed as a deduction in computing the employer's profits in that other State, where:

(*a*) The individual performs services as an employee in that other State the remuneration from which is taxable in that other State;

(*b*) The individual was participating in the plan (or another similar plan for which this plan was substituted) immediately before the individual began performing the services in that other State;

(*c*) The individual was not a resident of that other State immediately before the individual began performing the services in that other State;

(*d*) The individual has performed services in that other State for the same employer (or a related employer) for no more than 60 of the 120 months preceding the individual's current taxation year;

(*e*) The contributions and benefits are attributable to the services performed by the individual in that other State, and are made or accrued during the period in which the individual performs those services; and

(*f*) With respect to contributions and benefits that are attributable to services performed during a period in the individual's current taxation year, no contributions in respect of the period are made by or on behalf of the individual to, and no services performed in that other State during the period are otherwise taken into account for purposes of determining the individual's entitlement to benefits under, any plan that would be a qualifying retirement plan in that other State if paragraph 15 of this Article were read without reference to subparagraphs (*b*) and (*c*) of that paragraph.

This paragraph shall apply only to the extent that the contributions or benefits would qualify for tax relief in the first-mentioned State if the individual was a resident of and performed the services in that State.

9. For the purposes of United States taxation, the benefits granted under paragraph 8 to a citizen of the United States shall not exceed the benefits that would be allowed by the United States to its residents for contributions to, or benefits otherwise accrued under, a generally corresponding pension or retirement plan established in and recognized for tax purposes by the United States.

10. Contributions made to, or benefits accrued under, a qualifying retirement plan in a Contracting State by or on behalf of an individual who is a resident of the other Contracting State shall be deductible or excludible in computing the individual's taxable income in that other State, where:

(*a*) The individual performs services as an employee in the first-mentioned state the remuneration from which is taxable in that State and is borne by an employer who is a resident of that State or by a permanent establishment which the employer has in that State; and

(*b*) The contributions and benefits are attributable to those services and are made or accrued during the period in which the individual performs those services.

This paragraph shall apply only to the extent that the contributions or benefits qualify for tax relief in the first-mentioned State.

11. For the purposes of Canadian taxation, the amount of contributions otherwise allowed as a deduction under paragraph 10 to an individual for a taxation year shall not exceed the individual's deduction limit under the law of Canada for the year for contributions to registered retirement savings plans remaining after taking into account the amount of contributions to registered retirement savings plans deducted by the individual under the law of Canada for the year. The amount deducted by an individual under paragraph 10 for a taxation year shall be taken into account in computing the individual's deduction limit under the law of Canada for subsequent taxation years for contributions to registered retirement savings plans.

12. For the purposes of United States taxation, the benefits granted under paragraph 10 shall not exceed the benefits that would be allowed by the United States to its residents for contributions to, or benefits otherwise accrued under, a generally corresponding pension or retirement plan established in and recognized for tax purposes by the United States. For purposes of determining an individual's eligibility to participate in and receive tax benefits with respect to a pension or retirement plan or other retirement arrangement established in and recognized for tax purposes by the United States, contributions made to, or benefits accrued under, a qualifying retirement plan in Canada by or on behalf of the individual shall be treated as contributions or benefits under a generally corresponding pension or retirement plan established in and recognized for tax purposes by the United States.

13. Contributions made to, or benefits accrued under, a qualifying retirement plan in Canada by or on behalf of a citizen of the United States who is a resident of Canada shall be deductible or excludible in computing the citizen's taxable income in the United States, where:

(*a*) The citizen performs services as an employee in Canada the remuneration from which is taxable in Canada and is borne by an employer who is a resident of Canada or by a permanent establishment which the employer has in Canada; and

(*b*) The contributions and benefits are attributable to those services and are made or accrued during the period in which the citizen performs those services.

This paragraph shall apply only to the extent that the contributions or benefits qualify for tax relief in Canada.

14. The benefits granted under paragraph 13 shall not exceed the benefits that would be allowed by the United States to its residents for contributions to, or benefits otherwise accrued under, a generally corresponding pension or retirement plan established in and recognized for tax purposes by the United States. For purposes of determining an individual's eligibility to participate in and receive tax benefits with respect to a pension or retirement plan or other retirement arrangement established in and recognized for tax purposes by the United States, contributions made to, or benefits accrued under, a qualifying retirement plan in Canada by or on behalf of the individual shall be treated as contributions or benefits under a generally corresponding pension or retirement plan established in and recognized for tax purposes by the United States.

15. For purposes of paragraphs 8 to 14, a qualifying retirement plan in a Contracting State means a trust, company, organization or other arrangement:

(*a*) That is a resident of that State, generally exempt from income taxation in that State and operated primarily to provide pension or retirement benefits;

(*b*) That is not an individual arrangement in respect of which the individual's employer has no involvement; and

(c) Which the competent authority of the other Contracting State agrees generally corresponds to a pension or retirement plan established in and recognized for tax purposes by that other State.

16. For purposes of this Article, a distribution from a pension or retirement plan that is reasonably attributable to a contribution or benefit for which a benefit was allowed pursuant to paragraph 8, 10 or 13 shall be deemed to arise in the Contracting State in which the plan is established.

17. Paragraphs 8 to 16 apply, with such modifications as the circumstances require, as though the relationship between a partnership that carries on a business, and an individual who is a member of the partnership, were that of employer and employee.

History: Paragraphs 3 and 4 of Article XVIII were deleted and replaced by paragraph 1 of Article 13 of the Fifth Protocol to this Convention, and formerly read:

"3. For the purposes of this Convention, the term 'pensions' includes any payment under a superannuation, pension or other retirement arrangement, Armed Forces retirement pay, war veterans' pensions and allowances and amounts paid under a sickness, accident or disability plan, but does not include payments under an income-averaging annuity contract or, except for the purposes of Article XIX (Government Service), any benefit referred to in paragraph 5.

4. For the purposes of the Convention, the term 'annuities' means a stated sum paid periodically at stated times during life or during a specified number of years, under an obligation to make the payments in return for adequate and full consideration (other than services rendered), but does not include a payment that is not a periodic payment or any annuity the cost of which was deductible for the purposes of taxation in the Contracting State in which it was acquired."

Paragraph 7 of Article XVIII was deleted and replaced by paragraph 2 of Article 13 of the Fifth Protocol to this Convention, and formerly read:

"7. A natural person who is a citizen or resident of a Contracting State and a beneficiary of a trust, company, organization or other arrangement that is a resident of the other Contracting State, generally exempt from income taxation in that other State and operated exclusively to provide pension, retirement or employee benefits may elect to defer taxation in the first-mentioned State, under rules established by the competent authority of that State, with respect to any income accrued in the plan but not distributed by the plan, until such time as and to the extent that a distribution is made from the plan or any plan substituted therefor."

Paragraphs 8 to 17 of Article XVIII were added by paragraph 3 of Article 13 of the Fifth Protocol to this Convention.

Paragraph 3 of Article XVIII was amended by the Fourth Protocol to this Convention, and formerly read:

"3. For the purposes of this Convention, the term "pensions" includes any payment under a superannuation, pension or other retirement arrangement, Armed Forces retirement pay, war veterans' pensions and allowances and amounts paid under a sickness, accident or disability plan, but does not include payments under an income-averaging annuity contract or any benefit referred to in paragraph 5."

Paragraph 3 of Article XVIII was amended by paragraph 1 of Article 9 of the Third Protocol to this Convention, and formerly read:

"3. For the purposes of this Convention, the term "pensions" includes any payment under a superannuation, pension or retirement plan, Armed Forces retirement pay, war veterans pensions and allowances and amounts paid under a sickness, accident or disability plan, but does not include payments under an income-averaging annuity contract or any benefit referred to in paragraph 5."

Paragraph 5 of Article XVIII was amended by paragraph 2 of Article 9 of the Third Protocol to this Convention, and formerly read:

"5. Benefits under the social security legislation in a Contracting State paid to a resident of the other Contracting State shall be taxable as follows:

(a) Such benefits shall be taxable only in that other State;

(b) Notwithstanding the provisions of subparagraph (a), one-half of the total amount of any such benefit paid in a taxable year shall be exempt from taxation in that other State."

Paragraph 7 of Article XVIII was added by paragraph 3 of Article 9 of the Third Protocol to this Convention.

Paragraph 1 and subparagraph 2(b) of Article XVIII were amended by Article IX of the First Protocol to this Convention, and formerly read:

"1. Pensions and annuities arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State, but the amount of any pension included in income for the purposes of taxation in that other State shall not exceed the amount that would be included in the first-mentioned State if the recipient were a resident thereof.

2.

* * *

(b) Annuities may also be taxed in the Contracting State in which they arise and according to the laws of that State; but if a resident of the other Contracting State is the beneficial owner of an annuity payment, the tax so charged shall not exceed 15 per cent of the portion of such payment that is liable to tax in the first-mentioned State."

Paragraph 5 of Article XVIII was amended by Article I of the Second Protocol to this Convention, and formerly read:

"5. Benefits under the social security legislation in a Contracting State paid to a resident of the other Contracting State or a citizen of the United States shall be taxable only in the first-mentioned State."

Paragraph 6 of Article XVIII was amended by Article IX of the First Protocol to this Convention, and formerly read:

"6. Alimony and other similar amounts (including child support payments) arising in a Contracting State and paid to a resident of the other Contracting State shall be taxable only in that other State, but the amount included in income for the purposes of taxation in that other State shall not exceed the amount that would be included in income in the first-mentioned State if the recipient were a resident thereof."

Article XIX — Government Service

Remuneration, other than a pension, paid by a Contracting State or a political subdivision or local authority thereof to a citizen of that State in respect of services rendered in the discharge of functions of a governmental nature shall be taxable only in that State. However, the provisions of Article VII (Business Profits), XV (Income from Employment) or XVI (Artistes and Athletes), as the case may be, shall apply, and the preceding sentence shall not apply, to remuneration paid in respect of services rendered in connection with a trade or business carried on by a Contracting State or a political subdivision or local authority thereof.

History: Article XIX was amended by Article 14 of the Fifth Protocol to this Convention by deleting "XIV (Independent Personal Services)" and substituting "VII (Business Profits)", and by deleting "XV (Dependent Personal Services)" and substituting "XV (Income from Employment)".

Article XX — Students

Payments received by an individual who is a student, apprentice, or business trainee, and is, or was immediately before visiting a Contracting State, a resident of the other Contracting State, and who is present in the first-mentioned State for the purpose of the individual's full-time education or full-time training, shall not be taxed in that State, provided that such payments arise outside that State, and are for the purpose of the maintenance, education or training of the individual. The provisions of this Article shall apply to an apprentice or business trainee only for a period of time not exceeding one year from the date the individual first arrives in the first-mentioned State for the purpose of the individual's training.

History: Article XX was deleted and replaced by Article 15 of the Fifth Protocol to this Convention, and formerly read:

"Payments which a student, apprentice or business trainee, who is or was immediately before visiting a Contracting State a resident of the other Contracting State, and who is present in the first-mentioned State for the purpose of his full-time education or training, receives for the purpose of his maintenance, education or training shall not be taxed in that State provided that such payments are made to him from outside that State."

Article XXI — Exempt Organizations

1. Subject to the provisions of paragraph 4, income derived by a religious, scientific, literary, educational or charitable organization shall be exempt from tax in a Contracting State if it is resident in the other Contracting State, but only to the extent that such income is exempt from tax in that other State.

2. Subject to the provisions of paragraph 4, income referred to in Articles X (Dividends) and XI (Interest) derived by a trust, company, organization or other arrangement that is a resident of a Contracting State, generally exempt from income taxation in a taxable year in that State and operated exclusively to administer or provide pension, retirement or employee benefits shall be exempt from income taxation in that taxable year in the other Contracting State.

3. Subject to the provisions of paragraph 4, income referred to in Articles X (Dividends) and XI (Interest) derived by a trust, company, organization or other arrangement that is a resident of a Contracting State, generally exempt from income taxation in a taxable year in that State and operated exclusively to earn income for the benefit of one or more of the following:

(a) An organization referred to in paragraph 1; or

(b) A trust, company, organization or other arrangement referred to in paragraph 2;

shall be exempt from income taxation in that taxable year in the other Contracting State.

4. The provisions of paragraphs 1, 2 and 3 shall not apply with respect to the income of a trust, company, organization or other arrange-

ment from carrying on a trade or business or from a related person other than a person referred to in paragraphs 1, 2 or 3.

5. A religious, scientific, literary, educational or charitable organization which is resident in Canada and which has received substantially all of its support from persons other than citizens or residents of the United States shall be exempt in the United States from the United States excise taxes imposed with respect to private foundations.

6. For the purposes of United States taxation, contributions by a citizen or resident of the United States to an organization which is resident in Canada, which is generally exempt from Canadian tax and which could qualify in the United States to receive deductible contributions if it were resident in the United States shall be treated as charitable contributions; however, such contributions (other than such contributions to a college or university at which the citizen or resident or a member of his family is or was enrolled) shall not be deductible in any taxable year to the extent that they exceed an amount determined by applying the percentage limitations of the laws of the United States in respect of the deductibility of charitable contributions to the income of such citizen or resident arising in Canada. The preceding sentence shall not be interpreted to allow in any taxable year deductions for charitable contributions in excess of the amount allowed under the percentage limitations of the laws of the United States in respect of the deductibility of charitable contributions. For the purposes of this paragraph, a company that is a resident of Canada and that is taxable in the United States as if it were a resident of the United States shall be deemed to be a resident of the United States.

7. For the purposes of Canadian taxation, gifts by a resident of Canada to an organization that is a resident of the United States, that is generally exempt from United States tax and that could qualify in Canada as a registered charity if it were a resident of Canada and created or established in Canada shall be treated as gifts to a registered charity; however, no relief from taxation shall be available in any taxation year with respect to such gifts (other than such gifts to a college or university at which the resident or a member of the resident's family is or was enrolled) to the extent that such relief would exceed the amount of relief that would be available under the *Income Tax Act* if the only income of the resident for that year were the resident's income arising in the United States. The preceding sentence shall not be interpreted to allow in any taxation year relief from taxation for gifts to registered charities in excess of the amount of relief allowed under the percentage limitations of the laws of Canada in respect of relief for gifts to registered charities.

History: Paragraphs 4, 5, and 6 of Article XXI were renumbered as paragraphs 5, 6, and 7, respectively, by paragraph 1 of Article 16 of the Fifth Protocol to this Convention.

Paragraphs 1 through 3 of Article XXI were deleted and replaced with paragraphs 1 through 4 by paragraph 2 of Article 16 of the Fifth Protocol to this Convention, and formerly read:

"1. Subject to the provisions of paragraph 3, income derived by a religious, scientific, literary, educational or charitable organization shall be exempt from tax in a Contracting State if it is resident in the other Contracting State but only to the extent that such income is exempt from tax in that other State.

2. Subject to the provisions of paragraph 3, income referred to in Articles X (Dividends) and XI (Interest) derived by:

(*a*) A trust, company, organization or other arrangement that is a resident of a Contracting State, generally exempt from income taxation in a taxable year in that State and operated exclusively to administer or provide pension, retirement or employee benefits; or

(*b*) A trust, company, organization or other arrangement that is a resident of a Contracting State, generally exempt from income taxation in a taxable year in that State and operated exclusively to earn income for the benefit of an organization referred to in subparagraph (*a*);

shall be exempt from income taxation in that taxable year in the other Contracting State.

3. The provisions of paragraphs 1 and 2 shall not apply with respect to the income of a trust, company, organization or other arrangement from carrying on a trade or business or from a related person other than a person referred to in paragraph 1 or 2."

Paragraphs 2 and 3 of Article XXI were amended by paragraph 1 of Article X of the Third Protocol to this Convention, and formerly read:

"2. Subject to the Provisions of paragraph 3, income referred to in Articles X (Dividends) and XI (Interest) derived by:

(*a*) A trust, company or other organization which is resident in a Contracting State, generally exempt from tax in a taxable year in that State and constituted and operated exclusively to administer or provide benefits under one or more funds or plans established to provide pension, retirement or other employee benefits; or

(*b*) A trust, company or other organization which is resident in a Contracting State, not taxed in a taxable year in that State and constituted and operated exclusively to earn income for the benefit of an organization referred to in subparagraph (*a*); shall be exempt from tax in that taxable year in the other Contracting State.

3. The provisions of paragraphs 1 and 2 shall not apply with respect to the income of a trust, company or other organization from carrying on a trade or business or from a related person other than a person referred to in paragraph 1 or 2."

Paragraph 5 of Article XXI was amended by paragraph 2 of Article 10 of the Third Protocol to this Convention by adding a new sentence at the end.

Paragraph 6 of Article XXI was amended by paragraph 3 of Article 10 of the Third Protocol to this Convention, and formerly read:

"6. For the purposes of Canadian taxation, gifts by a resident of Canada to an organization which is resident in the United States, which is generally exempt from United States tax and which could qualify in Canada to receive deductible gifts if it were created or established and resident in Canada shall be treated as gifts to a registered charity; however, such gifts (other than such gifts to a college or university at which the resident or a member of his family is or was enrolled) shall not be deductible in any taxable year to the extent that they exceed an amount determined by applying the percentage limitations of the laws of Canada in respect of the deductibility of gifts to registered charities to the income of such resident arising in the United States. The preceding sentence shall not be interpreted to allow in any taxable year deductions for gifts to registered charities in excess of the amount allowed under the percentage limitations of the laws of Canada in respect of the deductibility of gifts to registered charities."

Paragraph 2 of Article XXI was amended by Article X of the First Protocol to this Convention, and formerly read:

"2. Subject to the provisions of paragraph 3, income referred to in Articles X (Dividends) and XI (Interest) derived by a trust, company or other organization constituted and operated exclusively to administer or provide benefits under one or more funds or plans established to provide pension, retirement or other employee benefits shall be exempt from tax in a Contracting State if it is resident in the other Contracting State and its income is generally exempt from tax in that other State."

Article XXII — Other Income

1. Items of income of a resident of a Contracting State, wherever arising, not dealt with in the foregoing Articles of this Convention shall be taxable only in that State, except that if such income arises in the other Contracting State it may also be taxed in that other State.

2. To the extent that income distributed by an estate or trust is subject to the provisions of paragraph 1, then, notwithstanding such provisions, income distributed by an estate or trust which is a resident of a Contracting State to a resident of the other Contracting State who is a beneficiary of the estate or trust may be taxed in the first-mentioned State and according to the laws of that State, but the tax so charged shall not exceed 15 per cent of the gross amount of the income; provided, however, that such income shall be exempt from tax in the first-mentioned State to the extent of any amount distributed out of income arising outside that State.

3. Losses incurred by a resident of a Contracting State with respect to wagering transactions the gains on which may be taxed in the other Contracting State shall, for the purpose of taxation in that other State, be deductible to the same extent that such losses would be deductible if they were incurred by a resident of that other State.

4. Notwithstanding the provisions of paragraph 1, compensation derived by a resident of a Contracting State in respect of the provision of a guarantee of indebtedness shall be taxable only in that State, unless such compensation is business profits attributable to a permanent establishment situated in the other Contracting State, in which case the provisions of Article VII (Business Profits) shall apply.

History: Paragraph 4 of Article XXII was added by Article 17 of the Fifth Protocol to this Convention.

Paragraph 3 of Article XXI was added by Article 11 of the Third Protocol to this Convention.

Article XXIII — Capital

1. Capital represented by real property, owned by a resident of a Contracting State and situated in the other Contracting State, may be taxed in that other State.

2. Capital represented by personal property forming part of the business property of a permanent establishment which a resident of a Contracting State has in the other Contracting State may be taxed in that other State.

3. Capital represented by ships and aircraft operated by a resident of a Contracting State in international traffic, and by personal property pertaining to the operation of such ships and aircraft, shall be taxable only in that State.

4. All other elements of capital of a resident of a Contracting State shall be taxable only in that State.

History: Paragraph 2 of Article XXIII was amended by Article 18 of the Fifth Protocol to this Convention by deleting ", or by personal property pertaining to

a fixed base available to a resident of a Contracting State in the other Contracting State for the purpose of performing independent personal services,".

Article XXIV — Elimination of Double Taxation

1. In the case of the United States, subject to the provisions of paragraphs 4, 5 and 6, double taxation shall be avoided as follows: In accordance with the provisions and subject to the limitations of the law of the United States (as it may be amended from time to time without changing the general principle hereof), the United States shall allow to a citizen or resident of the United States, or to a company electing to be treated as a domestic corporation, as a credit against the United States tax on income the appropriate amount of income tax paid or accrued to Canada; and, in the case of a company which is a resident of the United States owning at least 10 per cent of the voting stock of a company which is a resident of Canada from which it receives dividends in any taxable year, the United States shall allow as credit against the United States tax on income the appropriate amount of income tax paid or accrued to Canada by that company with respect to the profits out of which such dividends are paid.

2. In the case of Canada, subject to the provisions of paragraphs 4, 5 and 6, double taxation shall be avoided as follows:

(*a*) Subject to the provisions of the law of Canada regarding the deduction from tax payable in Canada of tax paid in a territory outside Canada and to any subsequent modification of those provisions (which shall not affect the general principle hereof)

(i) Income tax paid or accrued to the United States on profits, income or gains arising in the United States, and

(ii) In the case of an individual, any social security taxes paid to the United States (other than taxes relating to unemployment insurance benefits) by the individual on such profits, income or gains

shall be deducted from any Canadian tax payable in respect of such profits, income or gains;

(*b*) In the case of a company which is a resident of Canada owning at least 10 percent of the voting stock of a company which is a resident of the United States from which it receives dividends in any taxable year, Canada shall allow as a credit against the Canadian tax on income the appropriate amount of income tax paid or accrued to the United States by the second company with respect to the profits out of which the dividends are paid.

(*c*) Notwithstanding the provisions of subparagraph (*a*), where Canada imposes a tax on gains from the alienation of property that, but for the provisions of paragraph 5 of Article XIII (Gains), would not be taxable in Canada, income tax paid or accrued to the United States on such gains shall be deducted from any Canadian tax payable in respect of such gains.

3. For the purposes of this Article:

(*a*) Profits, income or gains (other than gains to which paragraph 5 of Article XIII (Gains) applies) of a resident of a Contracting State which may be taxed in the other Contracting State in accordance with the Convention (without regard to paragraph 2 of Article XXIX (Miscellaneous Rules)) shall be deemed to arise in that other State; and

(*b*) Profits, income or gains of a resident of a Contracting State which may not be taxed in the other Contracting State in accordance with the Convention (without regard to paragraph 2 of Article XXIX (Miscellaneous Rules)) or to which paragraph 5 of Article XIII (Gains) applies shall be deemed to arise in the first-mentioned State.

4. Where a United States citizen is a resident of Canada, the following rules shall apply:

(*a*) Canada shall allow a deduction from the Canadian tax in respect of income tax paid or accrued to the United States in respect of profits, income or gains which arise (within the meaning of paragraph 3) in the United States, except that such deduction need not exceed the amount of the tax that would be paid to the United States if the resident were not a United States citizen; and

(*b*) For the purposes of computing the United States tax, the United States shall allow as a credit against United States tax the income tax paid or accrued to Canada after the deduction referred to in subparagraph (*a*). The credit so allowed shall not reduce that portion of the United States tax that is deductible from Canadian tax in accordance with subparagraph (*a*).

5. Notwithstanding the provisions of paragraph 4, where a United States citizen is a resident of Canada, the following rules shall apply in respect of the items of income referred to in Article X (Dividends), XI or XII (Royalties) that arise (within the meaning of paragraph 3) in the United States and that would be subject to United States tax if the resident of Canada were not a citizen of the United States, as long as the law in force in Canada allows a deduction in computing income for the portion of any foreign tax paid in respect of such items which exceeds 15 per cent of the amount thereof:

(*a*) The deduction so allowed in Canada shall not be reduced by any credit or deduction for income tax paid or accrued to Canada allowed in computing the United States tax on such items;

(*b*) Canada shall allow a deduction from Canadian tax on such items in respect of income tax paid or accrued to the United States on such items, except that such deduction need not exceed the amount of the tax that would be paid on such items to the United States if the resident of Canada were not a United States citizen; and

(*c*) For the purposes of computing the United States tax on such items, the United States shall allow as a credit against United States tax the income tax paid or accrued to Canada after the deduction referred to in subparagraph (*b*). The credit so allowed shall reduce only that portion of the United States tax on such items which exceeds the amount of tax that would be paid to the United States on such items if the resident of Canada were not a United States citizen.

6. Where a United States citizen is a resident of Canada, items of income referred to in paragraph 4 or 5 shall, notwithstanding the provisions of paragraph 3, be deemed to arise in Canada to the extent necessary to avoid the double taxation of such income under paragraph 4(*b*) or paragraph 5(*c*).

7. For the purposes of this Article, any reference to "income tax paid or accrued" to a Contracting State shall include Canadian tax and United States tax, as the case may be, and taxes of general application which are paid or accrued to a political subdivision or local authority of that State, which are not imposed by that political subdivision or local authority in a manner inconsistent with the provisions of the Convention and which are substantially similar to the Canadian tax or United States tax, as the case may be.

8. Where a resident of a Contracting State owns capital which, in accordance with the provisions of the Convention, may be taxed in the other Contracting State, the first-mentioned State shall allow as a deduction from the tax on the capital of that resident an amount equal to the capital tax paid in that other State. The deduction shall not, however, exceed that part of the capital tax, as computed before the deduction is given, which is attributable to the capital which may be taxed in that other State.

9. The provisions of this Article relating to the source of profits, income or gains shall not apply for the purpose of determining a credit against United States tax for any foreign taxes other than income taxes paid or accrued to Canada.

10. Where in accordance with any provision of the Convention income derived or capital owned by a resident of a Contracting State is exempt from tax in that State, such State may nevertheless, in calculating the amount of tax on other income or capital, take into account the exempted income or capital.

History: Subparagraph 2(*b*) of Article XXIV was deleted and replaced by Article 19 of the Fifth Protocol to this Convention, and formerly read:

"(*b*) Subject to the existing provisions of the law of Canada regarding the taxation of income from a foreign affiliate and to any subsequent modification of those provisions — which shall not affect the general principle hereof — for the purpose of computing Canadian tax, a company which is a resident of Canada shall be allowed to deduct in computing its taxable income any dividend received by it out of the exempt surplus of a foreign affiliate which is a resident of the United States; and"

Subparagraphs 2(*a*) and (*b*) of Article XXIV were amended by paragraph 1 of Article 12 of the Third Protocol to this Convention, and formerly read:

"(*a*) Subject to the provisions of the law of Canada regarding the deduction from tax payable in Canada of tax paid in a territory outside Canada and to any subsequent modification of those provisions (which shall not affect the general principle hereof), and unless a greater deduction or relief is provided under the law of Canada, income tax paid or accrued to the United States on profits, income or gains arising in the United States shall be deducted from any Canadian tax payable in respect of such profits, income or gains;

(*b*) Subject to the provisions of the law of Canada regarding the determination of the exempt surplus of a foreign affiliate and to any subsequent modification of those provisions (which shall not affect the general principle hereof), for the purposes of computing Canadian tax, a company which is a resident of Canada shall be allowed to deduct in computing its taxable income any dividend received by it out of the exempt surplus of a foreign affiliate which is a resident of the United States; and."

Paragraph 5 of Article XXIV was amended by paragraph 2 of Article 12 of the Third Protocol to this Convention, and formerly read:

"5. Notwithstanding the provisions of paragraph 4, where a United States citizen is a resident of Canada, the following rules shall apply in respect of the items of income referred to in Article X (Dividends), XI (Interest) or XII (Royalties) which arise (within the meaning of paragraph 3) in the United States, as long as the law in force in Canada allows a deduction in computing

income for the portion of any foreign tax paid in respect of such items which exceeds 15 per cent of the amount thereof:

(*a*) The deduction so allowed in Canada shall not be reduced by any credit or deduction for income tax paid or accrued to Canada allowed in computing the United States tax on such items;

(*b*) Canada shall allow a deduction from the Canadian tax in respect of the income tax paid or accrued to the United States on such items, except that such deduction need not exceed 15 per cent of the gross amount of such items that has been included in computing the income of the citizen for Canadian tax purposes; and

(*c*) For the purposes of computing the United States tax on such items, the United States shall allow as a credit against United States tax the income tax paid or accrued to Canada after the deduction referred to in subparagraph (*b*). The credit so allowed shall reduce only that portion of the United States tax on such items which exceeds 15 per cent of the amount thereof included in computing United States taxable income."

Paragraph 7 of Article XXIV was amended by paragraph 3 of Article 12 of the Third Protocol to this Convention, and formerly read:

"7. For the purposes of this Article, any reference to "income tax paid or accrued" to a Contracting State shall include Canadian tax and United States tax, as the case may be, and taxes of general application which are paid or accrued to a political subdivision or local authority of that State, which are not imposed by that political subdivision or local authority in a manner inconsistent with the provisions of the Convention and which are substantially similar to the taxes of that State referred to in paragraphs 2 and 3(*a*) of Article II (Taxes Covered)."

Paragraph 10 of Article XXIV was added by paragraph 4 of Article 12 of the Third Protocol to this Convention.

Paragraphs 1 and 2 of Article XXIV were amended and paragraph 9 was added by Article XI of the First Protocol to this Convention. Paragraphs 1 and 2 of Article XXIV formerly read as follows:

"1. In the case of the United States, subject to the provisions of paragraphs 4, 5 and 6, double taxation shall be avoided as follows: In accordance with the provisions and subject to the limitations of the law of the United States (as it may be amended from time to time without changing the general principle hereof), the United States shall allow to a citizen or resident of the United States, or to a company electing to be treated as a domestic corporation, as a credit against the United States tax on income the appropriate amount of income tax paid or accrued to Canada; and, in the case of a company which is a resident of the United States owning at least 10 per cent of the voting stock of a company which is a resident of Canada from which it receives dividends in any taxable year, the United States shall allow as a credit against the United States tax on income the appropriate amount of income tax paid or accrued to Canada by that company with respect to the profits out of which such dividends are paid. Such appropriate amount shall be based upon the amount of income tax paid or accrued to Canada, but shall not exceed that proportion of the United States tax that taxable income arising in Canada bears to the entire taxable income.

2. In the case of Canada, subject to the provisions of paragraphs 4, 5 and 6, double taxation shall be avoided as follows:

(*a*) Subject to the provisions of the law of Canada regarding the deduction from tax payable in Canada of tax paid in a territory outside Canada and to any subsequent modification of those provisions (which shall not affect the general principle hereof), and unless a greater deduction or relief is provided under the law of Canada, income tax paid or accrued to the United States on profits, income or gains arising in the United States shall be deducted from any Canadian tax payable in respect of such profits, income or gains; and

(*b*) Subject to the provisions of the law of Canada regarding the determination of the exempt surplus of a foreign affiliate and to any subsequent modification of those provisions (which shall not affect the general principle hereof), for the purposes of computing Canadian tax, a company which is a resident of Canada shall be allowed to deduct in computing its taxable income any dividend received by it out of the exempt surplus of a foreign affiliate which is a resident of the United States."

Article XXV — Non-Discrimination

1. Nationals of a Contracting State shall not be subjected in the other Contracting State to any taxation or any requirement connected therewith that is more burdensome than the taxation and connected requirements to which nationals of that other State in the same circumstances, particularly with respect to taxation on worldwide income, are or may be subjected. This provision shall also apply to individuals who are not residents of one or both of the Contracting States.

2. In determining the taxable income or tax payable of an individual who is a resident of a Contracting State, there shall be allowed as a deduction in respect of any other person who is a resident of the other Contracting State and who is dependent on the individual for support the amount that would be so allowed if that other person were a resident of the first-mentioned State.

3. Where a married individual who is a resident of Canada and not a citizen of the United States has income that is taxable in the United States pursuant to Article XV (Income from Employment), the United States tax with respect to such income shall not exceed such proportion of the total United States tax that would be payable for the taxable year if both the individual and his spouse were United States citizens as the individual's taxable income determined without regard to this paragraph bears to the amount that would be the total taxable income of the individual and his spouse. For the purposes of this paragraph,

(*a*) The "total United States tax" shall be determined as if all the income of the individual and his spouse arose in the United States; and

(*b*) A deficit of the spouse shall not be taken into account in determining taxable income.

4. Any company which is a resident of a Contracting State, the capital of which is wholly or partly owned or controlled, directly or indirectly, by one or more residents of the other Contracting State, shall not be subjected in the first-mentioned State to any taxation or any requirement connected therewith which is other or more burdensome than the taxation and connected requirements to which other similar companies of the first-mentioned State, the capital of which is wholly or partly owned or controlled, directly or indirectly, by one or more residents of a third State, are or may be subjected.

5. Notwithstanding the provisions of Article XXIV (Elimination of Double Taxation), the taxation on a permanent establishment which a resident of a Contracting State has in the other Contracting State shall not be less favourably levied in the other State than the taxation levied on residents of the other State carrying on the same activities. This paragraph shall not be construed as obliging a Contracting State:

(*a*) To grant to a resident of the other Contracting State any personal allowances, reliefs and reductions for taxation purposes on account of civil status or family responsibilities which it grants to its own residents; or

(*b*) To grant to a company which is a resident of the other Contracting State the same tax relief that it provides to a company which is a resident of the first-mentioned State with respect to dividends received by it from a company.

6. Except where the provisions of paragraph 1 of Article IX (Related Persons), paragraph 7 of Article XI (Interest) or paragraph 7 of Article XII (Royalties) apply, interest, royalties and other disbursements paid by a resident of a Contracting State to a resident of the other Contracting State shall, for the purposes of determining the taxable profits of the first-mentioned resident, be deductible under the same conditions as if they had been paid to a resident of the first-mentioned State. Similarly, any debts of a resident of a Contracting State to a resident of the other Contracting State shall, for the purposes of determining the taxable capital of the first-mentioned resident, be deductible under the same conditions as if they had been contracted to a resident of the first-mentioned State.

7. The provisions of paragraph 7 shall not affect the operation of any provision of the taxation laws of a Contracting State:

(*a*) Relating to the deductibility of interest and which is in force on the date of signature of this Convention (including any subsequent modification of such provisions that do not change the general nature thereof); or

(*b*) Adopted after such date by a Contracting State and which is designed to ensure that a person who is not a resident of that State does not enjoy, under the laws of that State, a tax treatment that is more favorable than that enjoyed by residents of that State.

8. Expenses incurred by a citizen or resident of a Contracting State with respect to any convention (including any seminar, meeting, congress or other function of a similar nature) held in the other Contracting State shall, for the purposes of taxation in the first-mentioned State, be deductible to the same extent that such expenses would be deductible if the convention were held in the first-mentioned State.

9. Notwithstanding the provisions of Article II (Taxes Covered), this Article shall apply to all taxes imposed by a Contracting State.

History: Paragraph 1 of Article XXV was deleted and replaced by paragraph 1 of Article 20 of the Fifth Protocol to this Convention, and formerly read:

"1. Citizens of a Contracting State, who are residents of the other Contracting State, shall not be subject in that other State to any taxation or any requirement connected therewith which is other or more burdensome than the taxation and connected requirements to which citizens of that other State in the same circumstances are or may be subjected."

Paragraph 2 of Article XXV was deleted and paragraphs 3 to 10 were renumbered accordingly by paragraph 2 of Article 20 of the Fifth Protocol to this Convention. Paragraph 2 formerly read:

"2. Citizens of a Contracting State, who are not residents of the other Contracting State, shall not be subjected in that other State to any taxation or any requirement connected therewith which is other or more burdensome than the taxation and connected requirements to which citizens of any third State in the same circumstances (including State of residence) are or may be subjected."

Paragraph 3 of Article XXV was amended by paragraph 3 of Article 20 of the Fifth Protocol to this Convention by deleting "Article XV (Dependent Personal Services)" and substituting "Article XV (Income from Employment)".

Paragraph 3 of Article XXV was amended by paragraph 1 of Article 13 of the Third Protocol to this Convention,and formerly read:

"3. In determining the taxable income of an individual who is a resident of a Contracting State there shall be allowed as a deduction in respect of any other person who is a resident of the other Contracting State and who is dependent on the individual for support the amount that would be so allowed if that other person were a resident of the first-mentioned state."

Paragraph 10 of Article XXV was amended by paragraph 2 of Article 13 of the Third Protocol to this Convention, and formerly read:

"10. Notwithstanding the provisions of Article II (Taxes Covered), this Article shall apply:

(*a*) In the case of Canada, to all taxes imposed under the *Income Tax Act*; and

(*b*) In the case of the United States, to all taxes imposed under the *Internal Revenue Code*."

Paragraph 6 of Article XXV was amended by Article XII of the First Protocol to this Convention, and formerly read:

"6. Notwithstanding the provisions of Article XXIV (Elimination of Double Taxation), the taxation on a permanent establishment which a resident of a Contracting State has in the other Contracting State shall not be less favorably levied in the other State than the taxation levied on residents of the other State carrying on the same activities. This provision shall not be construed as obliging a Contracting State to grant to residents of the other Contracting State any personal allowances, reliefs and reductions for taxation purposes on account of civil status or family responsibilities which it grants to its own residents."

Article XXVI — Mutual Agreement Procedure

1. Where a person considers that the actions of one or both of the Contracting States result or will result for him in taxation not in accordance with the provisions of this Convention, he may, irrespective of the remedies provided by the domestic law of those States, present his case in writing to the competent authority of the Contracting State of which he is a resident or, if he is a resident of neither Contracting State, of which he is a national.

2. The competent authority of the Contracting State to which the case has been presented shall endeavor, if the objection appears to it to be justified and if it is not itself able to arrive at a satisfactory solution, to resolve the case by mutual agreement with the competent authority of the other Contracting State, with a view to the avoidance of taxation which is not in accordance with the Convention. Except where the provisions of Article IX (Related Persons) apply, any agreement reached shall be implemented notwithstanding any time or other procedural limitations in the domestic law of the Contracting States, provided that the competent authority of the other Contracting State has received notification that such a case exists within six years from the end of the taxable year to which the case relates.

3. The competent authorities of the Contracting States shall endeavor to resolve by mutual agreement any difficulties or doubts arising as to the interpretation or application of the Convention. In particular, the competent authorities of the Contracting States may agree:

(*a*) To the same attribution of profits to a resident of a Contracting State and its permanent establishment situated in the other Contracting State;

(*b*) To the same allocation of income, deductions, credits or allowances between persons;

(*c*) To the same determination of the source, and the same characterization, of particular items of income;

(*d*) To a common meaning of any term used in the Convention;

(*e*) To the elimination of double taxation with respect to income distributed by an estate or trust;

(*f*) To the elimination of double taxation with respect to a partnership;

(*g*) To provide relief from double taxation resulting from the application of the estate tax imposed by the United States or the Canadian tax as a result of a distribution or disposition of property by a trust that is a qualified domestic trust within the meaning of section 2056A of the *Internal Revenue Code*, or is described in subsection 70(6) of the *Income Tax Act* or is treated as such under paragraph 5 of Article XXIX B (Taxes Imposed by Reason of Death), in cases where no relief is otherwise available; or

(*h*) To increases in any dollar amounts referred to in the Convention to reflect monetary or economic developments.

They may also consult together for the elimination of double taxation in cases not provided for in the Convention.

4. Each of the Contracting States will endeavor to collect on behalf of the other Contracting State such amounts as may be necessary to ensure that relief granted by the Convention from taxation imposed by that other State does not enure to the benefit of persons not entitled thereto. However, nothing in this paragraph shall be construed as imposing on either of the Contracting States the obligation to carry out administrative measures of a different nature from those used in the collection of its own tax or which would be contrary to its public policy (*ordre public*).

5. The competent authorities of the Contracting States may communicate with each other directly for the purpose of reaching an agreement in the sense of the preceding paragraphs.

6. Where, pursuant to a mutual agreement procedure under this Article, the competent authorities have endeavored but are unable to reach a complete agreement in a case, the case shall be resolved through arbitration conducted in the manner prescribed by, and subject to, the requirements of paragraph 7 and any rules or procedures agreed upon by the Contracting States by notes to be exchanged through diplomatic channels, if:

(*a*) Tax returns have been filed with at least one of the Contracting States with respect to the taxable years at issue in the case;

(*b*) The case:

(i) Is a case that:

(A) Involves the application of one or more Articles that the competent authorities have agreed in an exchange of notes shall be the subject of arbitration; and

(B) Is not a particular case that the competent authorities agree, before the date on which arbitration proceedings would otherwise have begun, is not suitable for determination by arbitration; or

(ii) Is a particular case that the competent authorities agree is suitable for determination by arbitration; and

(*c*) All concerned persons agree according to the provisions of subparagraph 7(*d*).

7. For the purposes of paragraph 6 and this paragraph, the following rules and definitions shall apply:

(*a*) The term "concerned person" means the presenter of a case to a competent authority for consideration under this Article and all other persons, if any, whose tax liability to either Contracting State may be directly affected by a mutual agreement arising from that consideration;

(*b*) The "commencement date" for a case is the earliest date on which the information necessary to undertake substantive consideration for a mutual agreement has been received by both competent authorities;

(*c*) Arbitration proceedings in a case shall begin on the later of:

(i) Two years after the commencement date of that case, unless both competent authorities have previously agreed to a different date, and

(ii) The earliest date upon which the agreement required by subparagraph (*d*) has been received by both competent authorities;

(*d*) The concerned person(s), and their authorized representatives or agents, must agree prior to the beginning of arbitration proceedings not to disclose to any other person any information received during the course of the arbitration proceeding from either Contracting State or the arbitration board, other than the determination of such board;

(*e*) Unless a concerned person does not accept the determination of an arbitration board, the determination shall constitute a resolution by mutual agreement under this Article and shall be binding on both Contracting States with respect to that case; and

(*f*) For purposes of an arbitration proceeding under paragraph 6 and this paragraph, the members of the arbitration board and their staffs shall be considered "persons or authorities" to whom information may be disclosed under Article XXVII (Exchange of Information) of this Convention.

History: Paragraph 6 of Article XXVI was deleted and replaced with paragraphs 6 and 7 by paragraph 1 of Article 21 of the Fifth Protocol to this Convention, and formerly read:

"6. If any difficulty or doubt arising as to the interpretation or application of the Convention cannot be resolved by the competent authorities pursuant to the preceding paragraphs of this Article, the case may, if both competent authorities and the taxpayer agree, be submitted for arbitration, provided that the taxpayer agreed in writing to be bound by the decision of the arbitration board. The decision of the arbitration board in a particular case shall be binding on both States with respect to that case. The procedures shall be established in an exchange of notes between the Contracting States. The provisions of this paragraph shall have effect after the Contracting States have so agreed through the exchange of notes."

Subparagraphs 3(*f*) and (*g*) of Article XXVI were amended and paragraph (*h*) was added by paragraph 1 of Article 14 of the Third Protocol to this Convention. Paragraphs 3(*f*) and (*g*) formerly read:

"(*f*) To the elimination of double taxation with respect to a partnership; or

(*g*) To increases in any dollar amounts referred to in the Convention to reflect monetary or economic developments."

Paragraph 6 was added to Article XXVI by paragraph 2 of Article 14 of the Third Protocol to this Convention.

Article XXVI A — Assistance in Collection

1. The Contracting States undertake to lend assistance to each other in the collection of taxes referred to in paragraph 9, together with interest, costs, additions to such taxes and civil penalties, referred to in this Article as a "revenue claim".

2. An application for assistance in the collection of a revenue claim shall include a certification by the competent authority of the applicant State that, under the laws of that State, the revenue claim has been finally determined. For the purposes of this Article, a revenue claim is finally determined when the applicant State has the right under its internal law to collect the revenue claim and all administrative and judicial rights of the taxpayer to restrain collection in the applicant State have lapsed or been exhausted.

3. A revenue claim of the applicant State that has been finally determined may be accepted for collection by the competent authority of the requested State and, subject to the provisions of paragraph 7, if accepted shall be collected by the requested State as though such revenue claim were the requested State's own revenue claim finally determined in accordance with the laws applicable to the collection of the requested State's own taxes.

4. Where an application for collection of a revenue claim in respect of a taxpayer is accepted

(*a*) By the United States, the revenue claim shall be treated by the United States as an assessment under United States laws against the taxpayer as of the time the application is received; and

(*b*) By Canada, the revenue claim shall be treated by Canada as an amount payable under the *Income Tax Act*, the collection of which is not subject to any restriction.

5. Nothing in this Article shall be construed as creating or providing any rights of administrative or judicial review of the applicant State's finally determined revenue claim by the requested State, based on any such rights that may be available under the laws of either Contracting State. If, at any time pending execution of a request for assistance under this Article, the applicant State loses the right under its internal law to collect the revenue claim, the competent authority of the applicant State shall promptly withdraw the request for assistance in collection.

6. Subject to this paragraph, amounts collected by the requested State pursuant to this Article shall be forwarded to the competent authority of the applicant State. Unless the competent authorities of the Contracting States otherwise agree, the ordinary costs incurred in providing collection assistance shall be borne by the requested State and any extraordinary costs so incurred shall be borne by the applicant State.

7. A revenue claim of an applicant State accepted for collection shall not have in the requested State any priority accorded to the revenue claims of the requested State.

8. No assistance shall be provided under this Article for a revenue claim in respect of a taxpayer to the extent that the taxpayer can demonstrate that

(*a*) Where the taxpayer is an individual, the revenue claim relates either to a taxable period in which the taxpayer was a citizen of the requested State or, if the taxpayer became a citizen of the requested State at any time before November 9, 1995 and is such a citizen at the time the applicant State applies for collection of the claim, to a taxable period that ended before November 9, 1995; and

(*b*) Where the taxpayer is an entity that is a company, estate or trust, the revenue claim relates to a taxable period in which the taxpayer derived its status as such an entity from the laws in force in the requested State.

9. Notwithstanding the provisions of Article II (Taxes Covered), the provisions of this Article shall apply to all categories of taxes collected, and to contributions to social security and employment insurance premiums levied, by or on behalf of the Government of a Contracting State.

10. Nothing in this Article shall be construed as:

(*a*) Limiting the assistance provided for in paragraph 4 of Article XXVI (Mutual Agreement Procedure); or

(*b*) Imposing on either Contracting State the obligation to carry out administrative measures of a different nature from those used in the collection of its own taxes or that would be contrary to its public policy (*ordre public*).

11. The competent authorities of the Contracting States shall agree upon the mode of application of this Article, including agreement to ensure comparable levels of assistance to each of the Contracting States.

History: Subparagraph 8(*a*) of Article XXVI A was deleted and replaced by paragraph 1 of Article 22 of the Fifth Protocol to this Convention, and formerly read:

"(*a*) Where the taxpayer is an individual, the revenue claim relates to a taxable period in which the taxpayer was a citizen of the requested State, and"

Paragraph 9 of Article XXVI A was deleted and replaced by paragraph 2 of Article 22 of the Fifth Protocol to this Convention, and formerly read:

"9. Notwithstanding the provisions of Article II (Taxes Covered), the provisions of this Article shall apply to all categories of taxes collected by or on behalf of the Government of a Contracting State."

Article XXVI A was added by Article 15 of the Third Protocol to this Convention.

Article XXVII — Exchange of Information

1. The competent authorities of the Contracting States shall exchange such information as may be relevant for carrying out the provisions of this Convention or of the domestic laws of the Contracting States concerning taxes to which this Convention applies insofar as the taxation thereunder is not contrary to this Convention. The exchange of information is not restricted by Article I (Personal Scope). Any information received by a Contracting State shall be treated as secret in the same manner as information obtained under the taxation laws of that State and shall be disclosed only to persons or authorities (including courts and administrative bodies) involved in the assessment or collection of, the administration and enforcement in respect of, or the determination of appeals in relation to the taxes to which this Convention applies or, notwithstanding paragraph 4, in relation to taxes imposed by a political subdivision or local authority of a Contracting State that are substantially similar to the taxes covered by this Convention under Article II (Taxes Covered). Such persons or authorities shall use the information only for such purposes. They may disclose the information in public court proceedings or in judicial decisions. The competent authorities may release to an arbitration board established pursuant to paragraph 6 of Article XXVI (Mutual Agreement Procedure) such information as is necessary for carrying out the arbitration procedure; the members of the arbitration board shall be subject to the limitations on disclosure described in this Article.

2. If information is requested by a Contracting State in accordance with this Article, the other Contracting State shall use its information gathering measures to obtain the requested information, even though that other State may not need such information for its own tax purposes. The obligation contained in the preceding sentence is subject to the limitations of paragraph 3 but in no case shall such limitations be construed to permit a Contracting State to decline to supply information because it has no domestic interest in such information.

3. In no case shall the provisions of paragraph 1 and 2 be construed so as to impose on a Contracting State the obligation:

(*a*) To carry out administrative measures at variance with the laws and administrative practice of that State or of the other Contracting State;

(*b*) To supply information which is not obtainable under the laws or in the normal course of the administration of that State or of the other Contracting State; or

(*c*) To supply information which would disclose any trade, business, industrial, commercial or professional secret or trade process, or information the disclosure of which would be contrary to public policy (*ordre public*).

4. For the purposes of this Article, this Convention shall apply, notwithstanding the provisions of Article II (Taxes Covered):

(*a*) To all taxes imposed by a Contracting State; and

(*b*) To other taxes to which any other provision of this Convention applies, but only to the extent that the information may be relevant for the purposes of the application of that provision.

5. In no case shall the provisions of paragraph 3 be construed to permit a Contracting State to decline to supply information because the information is held by a bank, other financial institution, nominee or person acting in an agency or a fiduciary capacity or because it relates to ownership interests in a person.

6. If specifically requested by the competent authority of a Contracting State, the competent authority of the other Contracting State shall provide information under this Article in the form of depositions of witnesses and authenticated copies of unedited original documents (including books, papers, statements, records, accounts, and writings).

7. The requested State shall allow representatives of the requesting State to enter the requested State to interview individuals and examine books and records with the consent of the persons subject to examination.

History: Article XXVII was deleted and replaced by Article 23 of the Fifth Protocol to this Convention, and formerly read:

"1. The competent authorities of the Contracting States shall exchange such information as is relevant for carrying out the provisions of this Convention or of the domestic laws of the Contracting States concerning taxes to which the Convention applies insofar as the taxation thereunder is not contrary to the Convention. The exchange of information is not restricted by Article I (Personal Scope). Any information received by a Contracting State shall be treated as secret in the same manner as information obtained under the taxation laws of that State and shall be disclosed only to persons or authorities (including courts and administrative bodies) involved in the assessment or collection of, the administration and enforcement in respect of, or the determination of appeals in relation to the taxes to which the Convention applies or, notwithstanding paragraph 4, in relation to taxes imposed by a political subdivision or local authority of a Contracting State that are substantially similar to the taxes covered by the Convention under Article II (Taxes Covered). Such persons or authorities shall use the information only for such purposes. They may disclose the information in public court proceedings or in judicial decisions. The competent authorities may release to an arbitration board established pursuant to paragraph 6 of Article XXVI (Mutual Agreement Procedure) such information as is necessary for carrying out the arbitration procedure; the members of the arbitration board shall be subject to the limitations on disclosure described in this Article.

2. If information is requested by a Contracting State in accordance with this Article, the other Contracting State shall endeavor to obtain the information to which the request relates in the same way as if its own taxation was involved notwithstanding the fact that the other State does not, at that time, need such information. If specifically requested by the competent authority of a Contracting State, the competent authority of the other Contracting State shall endeavor to provide information under this Article in the form requested, such as depositions of witnesses and copies of unedited original documents (including books, papers, statements, records, accounts, or writings), to the same extent such depositions and documents can be obtained under the laws and administrative practices of that other State with respect to its own taxes.

3. In no case shall the provisions of paragraphs 1 and 2 be construed so as to impose on a Contracting State the obligation:

(*a*) To carry out administrative measures at variance with the laws and administrative practice of that or of the other Contracting State;

(*b*) To supply information which is not obtainable under the laws or in the normal course of the administration of that or of the other Contracting State; or

(*c*) To supply information which would disclose any trade, business, industrial, commercial or professional secret or trade process, or information the disclosure of which would be contrary to public policy (*ordre public*).

4. For the purposes of this Article, the Convention shall apply, notwithstanding the provisions of Article II (Taxes Covered):

(*a*) To all taxes imposed by a Contracting State; and

(*b*) To other taxes to which any other provision of the Convention applies, but only to the extent that the information is relevant for the purposes of the application of that provision."

Paragraph 1 of Article XXVII was amended by paragraph 1 of Article 16 of the Third Protocol to this Convention, and formerly read:

"1. The competent authorities of the Contracting States shall exchange such information as is necessary for carrying out the provisions of this Convention or of the domestic laws of the Contracting States concerning taxes covered by the Convention insofar as the taxation thereunder is not contrary to the Convention. The exchange of information is not restricted by Article I (Personal Scope). Any information received by a Contracting State shall be treated as secret in the same manner as information obtained under the taxation laws of that State and shall be disclosed only to persons or authorities (including courts and administrative bodies) involved in the assessment or collection of, the administration and enforcement in respect of, or the determination of appeals in relation to, the taxes covered by the Convention. Such persons or authorities shall use the information only for such purposes. They may disclose the information in public court proceedings or in judicial decisions."

Paragraph 4 of Article XXVII was amended by paragraph 2 of Article 16 of the Third Protocol to this Convention, and formerly read:

"4. Notwithstanding the provisions of Article II (Taxes Covered), for the purposes of this Article the Convention shall apply:

(*a*) In the case of Canada, to all taxes imposed by the Government of Canada on estates and gifts and under the *Income Tax Act*; and

(*b*) In the case of the United States, to all taxes imposed under the *Internal Revenue Code*."

Article XXVIII — Diplomatic Agents and Consular Officers

Nothing in this Convention shall affect the fiscal privileges of diplomatic agents or consular officers under the general rules of international law or under the provisions of special agreements.

Article XXIX — Miscellaneous Rules

1. The provisions of this Convention shall not restrict in any manner any exclusion, exemption, deduction, credit or other allowance now or hereafter accorded by the laws of a Contracting State in the determination of the tax imposed by that State.

2. (*a*) Except to the extent provided in paragraph 3, this Convention shall not affect the taxation by a Contracting State of its residents (as determined under Article IV (Residence)) and, in the case of the United States, its citizens and companies electing to be treated as domestic corporations.

(*b*) Notwithstanding the other provisions of this Convention, a former citizen or former long-term resident of the United States, may, for the period of ten years following the loss of such status, be taxed in accordance with the laws of the United States with respect to income from sources within the United States (including income deemed under the domestic law of the United States to arise from such sources).

3. The provisions of paragraph 2 shall not affect the obligations undertaken by a Contracting State:

(*a*) Under paragraphs 3 and 4 of Article IX (Related Persons), paragraphs 6 and 7 of Article XIII (Gains), paragraphs 1, 3, 4, 5, 6(*b*), 7, 8, 10 and 13 of Article XVIII (Pensions and Annuities), paragraph 5 of Article XXIX (Miscellaneous Rules), paragraphs 1, 5, and 6 of Article XXIX B (Taxes Imposed by Reason of Death), paragraphs 2, 3, 4, and 7 of Article XXIX B (Taxes Imposed by Reason of Death) as applied to estates of persons other than former citizens referred to in paragraph 2 of this Article, paragraphs 3 and 5 of Article XXX (Entry into Force), and Articles XIX (Government Service), XXI (Exempt Organizations), XXIV (Elimination of Double Taxation), XXV (Non-Discrimination) and XXVI (Mutual Agreement Procedure);

(*b*) Under Article XX (Students), toward individuals who are neither citizens of, nor have immigrant status in, that State.

4. With respect to taxable years not barred by the statute of limitations ending on or before December 31 of the year before the year in which the Social Security Agreement between Canada and the United States (signed in Ottawa on March 11, 1981) enters into force, income from personal services not subject to tax by the United States under this Convention or the 1942 Convention shall not be considered wages or net earnings from self-employment for purposes of social security taxes imposed under the *Internal Revenue Code*.

5. Where a person who is a resident of Canada and a shareholder of a United States S corporation requests the competent authority of Canada to do so, the competent authority may agree, subject to terms and conditions satisfactory to such competent authority, to apply the following rules for the purposes of taxation in Canada with respect to the period during which the agreement is effective:

(*a*) The corporation shall be deemed to be a controlled foreign affiliate of the person;

(*b*) All the income of the corporation shall be deemed to be foreign accrual property income;

(*c*) For the purposes of subsection 20(11) of the *Income Tax Act*, the amount of the corporation's income that is included in the person's income shall be deemed not to be income from a property; and

(*d*) Each dividend paid to the person on a share of the capital stock of the corporation shall be excluded from the person's income and shall be deducted in computing the adjusted cost base to the person of the share.

6. For purposes of paragraph 3 of Article XXII (Consultation) of the General Agreement on Trade in Services, the Contracting States agree that:

(*a*) A measure falls within the scope of the Convention only if:

(i) The measure relates to a tax to which Article XXV (Non-Discrimination) of the Convention applies; or

(ii) The measure relates to a tax to which Article XXV (Non-Discrimination) of the Convention does not apply and to which any other provision of the Convention applies, but only to the extent that the measure relates to a matter dealt with in that other provision of the Convention; and

(*b*) Notwithstanding paragraph 3 of Article XXII (Consultation) of the General Agreement on Trade in Services, any doubt as to the interpretation of subparagraph (*a*) will be resolved under paragraph 3 of Article XXVI (Mutual Agreement Procedure) of the Convention or any other procedure agreed to by both Contracting States.

7. The appropriate authority of a Contracting State may request consultations with the appropriate authority of the other Contracting State to determine whether change to the Convention is appropriate to respond to changes in the law or policy of that other State. Where domestic legislation enacted by a Contracting State unilaterally removes or significantly limits any material benefit otherwise provided by the Convention, the

appropriate authorities shall promptly consult for the purpose of considering an appropriate change to the Convention.

History: Paragraph 2 of Article XXIX was deleted and replaced by paragraph 1 of Article 24 of the Fifth Protocol to this Convention, and formerly read:

"2. Except as provided in paragraph 3, nothing in the Convention shall be construed as preventing a Contracting State from taxing its residents (as determined under Article IV (Residence)) and, in the case of the United States, its citizens (including a former citizen whose loss of citizenship had as one of its principal purposes the avoidance of tax, but only for a period ten years following such loss) and companies electing to be treated as domestic corporations, as if there were no convention between the United States and Canada with respect to taxes on income and on capital."

Subparagraph 3(*a*) of Article XXIX was deleted and replaced by paragraph 2 of Article 24 of the Fifth Protocol to this Convention, and formerly read:

"(*a*) Under paragraphs 3 and 4 of Article IX (Related Persons), paragraphs 6 and 7 of Article XIII (Gains), paragraphs 1, 3, 4, 5, 6 and 7 of Article XVIII (Pensions and Annuities), paragraph 5 of Article XXIX (Miscellaneous Rules), paragraphs 1, 5 and 6 XXIX B (Taxes Imposed by Reason of Death), paragraphs 2, 3, 4 and 7 XXIX B (Taxes Imposed by Reason of Death) as applied to the estates of persons other than former citizens referred to in paragraph 2 of this Article, paragraphs 3 and 5 of Article XXX (Entry into Force), and Articles XIX (Government Service), XXI (Exempt Organizations), XXIV (Elimination of Double Taxation), XXV (Non-Discrimination) and XXVI (Mutual Agreement Procedure);"

Subparagraph 3(*a*) of Article XXIX was amended by paragraph 1 of Article 17 of the Third Protocol to this Convention, and formerly read:

"(*a*) Under paragraphs 3 and 4 of Article IX (Related Persons), paragraphs 6 and 7 of Article XIII (Gains), paragraphs 1, 3, 4, 5(*b*) and 6(*b*) of Article XVIII (Pensions and Annuities), paragraphs 5 and 7 of Article XXIX (Miscellaneous Rules), paragraphs 3 and 5 of Article XXX (Entry into Force), and Articles XIX (Government Service), XXI (Exempt Organizations), XXIV (Elimination of Double Taxation), XXV (Non-Discrimination) and XXVI (Mutual Agreement Procedure); and."

Paragraphs 5 to 7 of Article XXIX were amended by paragraph 2 of Article 17 of the Third Protocol to this Convention, and formerly read:

"5. A beneficiary of a Canadian registered retirement savings plan may elect, under rules established by the competent authority of the United States, to defer United States taxation with respect to any income accrued in the plan but not distributed by the plan, until such time as a distribution is made from such plan, or any plan substituted therefor. The provisions of the preceding sentence shall not apply to income which is reasonably attributable to contributions made to the plan by the beneficiary while he was not a resident of Canada.

6. Notwithstanding any other provision of the Convention,

(*a*) Where profits, income or gains derived by a trust is to be treated for the purposes of the Convention as income of a resident of a Contracting State, and a principal purpose for the establishment, acquisition or maintenance of the trust was to obtain a benefit under the Convention or the 1942 Convention for persons who are not residents of that state, Articles VI (Income from Real Property) through XXIV (Elimination of Double Taxation) shall not apply in relation to the profits, income or gains of the trust; and

(*b*) Articles VI (Income from Real Property) through XXIV (Elimination of Double Taxation) shall not apply to non-resident-owned investment corporations as defined under section 133 of the *Income Tax Act* of Canada, or under any similar provision enacted by Canada after the date of signature of the Protocol.

7. One-half of the total amount of benefits under the social security legislation in Canada paid in a taxable year to a resident of Canada who is a citizen of the United States shall be exempt from taxation in the United States."

Paragraph 2 of Article XXIX was amended by Article XIII of the First Protocol to this Convention, and formerly read:

"2. Except as provided in paragraph 3, nothing in the Convention shall be construed as preventing a Contracting State from taxing its residents (as determined under Article IV (Residence)) and, in the case of the United States, its citizens (including a former citizen whose loss of citizenship had as one of its principal purposes the avoidance of income tax, but only for a period of ten years following such loss) and companies electing to be treated as domestic corporations, as if there were no convention between (the United States and Canada with respect to taxes on income and on capital."

Subparagraph 3(*a*) of Article XXIX was amended by Article II of the Second Protocol to this Convention. Subparagraph 3(*a*), as amended by Article XIII of the First Protocol to this Convention, formerly read as follows:

"(*a*) Under paragraphs 3 and 4 of Article IX (Related Persons), paragraphs 6 and 7 of Article XIII (Gains), paragraphs 1, 3, 4, 5 and 6(*b*) of Article XVIII (Pensions and Annuities), paragraph 5 of Article XXIX (Miscellaneous Rules), paragraphs 3 and 5 of Article XXX (Entry into Force), and Articles XIX (Government Service), XXI (Exempt Organizations), XXIV (Elimination of Double Taxation), XXV (Non-Discrimination) and XXVI (Mutual Agreement Procedure); and."

Subparagraph 3(*a*) of Article XXIX was previously amended by Article XIII of the First Protocol to this Convention, and formerly read:

"(*a*) Under paragraphs 3 and 4 of Article IX (Related Persons), paragraphs 6 and 7 of Article XIII (Gains), paragraph 5 of Article XXIX (Miscellaneous Rules), paragraphs 3 and 5 of Article XXX (Entry into Force), and Articles XVIII (Pensions and Annuities), XIX (Government Service), XXI (Exempt Organizations), XXIV (Elimination of Double Taxation), XXV (Non-Discrimination) and XXVI (Mutual Agreement Procedure); and."

Paragraphs 4, 5, and 6 of Article XXIX were amended by Article XIII of the First Protocol to this Convention, and formerly read:

"4. With respect to taxable years not barred by the statute of limitations ending on or before December 31 of the year in which the Convention enters into force, income from personal services not subject to tax by the United States under the 1942 Convention shall not be considered wages or net earnings from self-employment for purposes of social security taxes imposed under the *Internal Revenue Code*.

5. A United States citizen who is a resident of Canada and a beneficiary of a Canadian registered retirement savings plan may elect, under rules established by the competent authority of the United States, to defer United States taxation with respect to any income accrued in the plan but not distributed by the plan, until such time as a distribution is made from such plan, or any plan substituted therefore.

6. If 25 per cent or more of the capital of a company which is a resident of a Contracting State is owned directly or indirectly by individuals who are not residents of that State, and if by reason of special measures the tax imposed in that State on that company with respect to dividends (other than dividends referred to in paragraph 2(*a*) of Article X (Dividends)), interest or royalties arising in the other Contracting State is substantially less than the tax generally imposed by the first-mentioned State on corporate business profits then, notwithstanding the provisions of Article X (Dividends), XI (interest) or XII (Royalties), that other State may tax such dividends, interest or royalties as if there were no convention between the United States and Canada with respect to taxes on income and on capital."

Paragraph 7 of Article XXIX was added by Article II of the Second Protocol to this Convention.

Article XXIX A — Limitation on Benefits

1. For the purposes of the application of this Convention by a Contracting State,

(*a*) a qualifying person shall be entitled to all of the benefits of this Convention; and

(*b*) except as provided in paragraphs 3, 4 and 6, a person that is not a qualifying person shall not be entitled to any benefits of this Convention.

2. For the purposes of this Article, a qualifying person is a resident of a Contracting State that is:

(*a*) a natural person;

(*b*) a Contracting State or a political subdivision or local authority thereof, or any agency or instrumentality of any such State, subdivision or authority;

(*c*) a company or trust whose principal class of shares or units (and any disproportionate class of shares or units) is primarily and regularly traded on one or more recognized stock exchanges;

(*d*) a company, if five or fewer persons each of which is a company or trust referred to in subparagraph (*c*) own directly or indirectly more than 50 percent of the aggregate vote and value of the shares and more than 50 percent of the vote and value of each disproportionate class of shares (in neither case including debt substitute shares), provided that each company or trust in the chain of ownership is a qualifying person;

(*e*) (i) a company, 50 percent or more of the aggregate vote and value of the shares of which and 50 percent or more of the vote and value of each disproportionate class of shares (in neither case including debt substitute shares) of which is not owned, directly or indirectly, by persons other than qualifying persons; or

(ii) a trust, 50 percent or more of the beneficial interest in which and 50 percent or more of each disproportionate interest in which, is not owned, directly or indirectly, by persons other than qualifying persons;

where the amount of the expenses deductible from gross income (as determined in the State of residence of the company or trust) that are paid or payable by the company or trust, as the case may be, for its preceding fiscal period (or, in the case of its first fiscal period, that period) directly or indirectly, to persons that are not qualifying persons is less than 50 percent of its gross income for that period;

(*f*) an estate;

(*g*) a not-for-profit organization, provided that more than half of the beneficiaries, members or participants of the organization are qualifying persons;

(*h*) a trust, company, organization or other arrangement described in paragraph 2 of Article XXI (Exempt Organizations) and established for the purpose of providing benefits primarily to individuals who are qualifying persons, or persons who were qualifying persons within the five preceding years; or

(*i*) a trust, company, organization or other arrangement described in paragraph 3 of Article XXI (Exempt Organizations) provided that the beneficiaries of the trust, company, organization or other arrangement are described in subparagraph (*g*) or (*h*).

3. Where a person is a resident of a Contracting State and is not a qualifying person, and that person, or a person related thereto, is engaged in the active conduct of a trade or business in that State (other than the business of making or managing investments, unless those activities are carried on with customers in the ordinary course of business by a bank, an insurance company, a registered securities dealer or a deposit-taking financial institution), the benefits of this Convention shall apply to that resident person with respect to income derived from the other Contracting State in connection with or incidental to that trade or business (including any such income derived directly or indirectly by that resident person through one or more other persons that are residents of that other State), but only if that trade or business is substantial in relation to the activity carried on in that other State giving rise to the income in respect of which benefits provided under this Convention by that other State are claimed.

4. A company that is a resident of a Contracting State shall also be entitled to the benefits of Articles X (Dividends), XI (Interest) and XII (Royalties) if:

(*a*) Its shares that represent more than 90 percent of the aggregate vote and value of all of its shares and at least 50 percent of the vote and value of any disproportionate class of shares (in neither case including debt substitute shares) are owned, directly or indirectly, by persons each of whom is a qualifying person or a person who:

(i) Is a resident of a country with which the other Contracting State has a comprehensive income tax convention and is entitled to all of the benefits provided by that other State under that convention;

(ii) Would qualify for benefits under paragraphs 2 or 3 if that person were a resident of the first-mentioned State (and, for the purposes of paragraph 3, if the business it carried on in the country of which it is a resident were carried on by it in the first-mentioned State); and

(iii) Would be entitled to a rate of tax in the other Contracting State under the convention between that person's country of residence and that other State, in respect of the particular class of income for which benefits are being claimed under this Convention, that is at least as low as the rate applicable under this Convention; and

(*b*) The amount of the expenses deductible from gross income (as determined in the company's State of residence) that are paid or payable by the company for its preceding fiscal period (or, in the case of its first fiscal period, that period) directly or indirectly to persons that are not qualifying persons is less than 50 percent of the company's gross income for that period.

5. For the purposes of this Article,

(*a*) The term "debt substitute share" means:

(i) A share described in paragraph (*e*) of the definition "term preferred share" in the *Income Tax Act*, as it may be amended from time to time without changing the general principle thereof; and

(ii) Such other type of share as may be agreed upon by the competent authorities of the Contracting States.

(*b*) The term "disproportionate class of shares" means any class of shares of a company resident in one of the Contracting States that entitles the shareholder to disproportionately higher participation, through dividends, redemption payments or otherwise, in the earnings generated in the other State by particular assets or activities of the company;

(*c*) The term "disproportionate interest in a trust" means any interest in a trust resident in one of the Contracting States that entitles the interest holder to disproportionately higher participation in, or claim to, the earnings generated in the other State by particular assets or activities of the trust;

(*d*) The term "not-for-profit organization" of a Contracting State means an entity created or established in that State and that is, by reason of its not-for-profit status, generally exempt from income taxation in that State, and includes a private foundation, charity, trade union, trade association or similar organization;

(*e*) The term "principal class of shares" of a company means the ordinary or common shares of the company, provided that such class of shares represents the majority of the voting power and value of the company. If no single class of ordinary or common shares represents the majority of the aggregate voting power and value of the company, the "principal class of shares" are those classes that in the aggregate represent a majority of the aggregate voting power and value of the company; and

(*f*) The term "recognized stock exchange" means:

(i) The NASDAQ System owned by the National Association of Securities Dealers, Inc. and any stock exchange registered with the Securities and Exchange Commission as a national securities exchange for purposes of the *Securities Exchange Act* of 1934;

(ii) Canadian stock exchanges that are "prescribed stock exchanges" or "designated stock exchanges" under the *Income Tax Act*; and

(iii) Any other stock exchange agreed upon by the Contracting States in an exchange of notes or by the competent authorities of the Contracting States.

6. Where a person that is a resident of a Contracting State is not entitled under the preceding provisions of this Article to the benefits provided under this Convention by the other Contracting State, the competent authority of that other State shall, upon that person's request, determine on the basis of all factors including the history, structure, ownership and operations of that person whether:

(*a*) Its creation and existence did not have as a principal purpose the obtaining of benefits under this Convention that would not otherwise be available; or

(*b*) It would not be appropriate, having regard to the purpose of this Article, to deny the benefits of this Convention to that person.

The person shall be granted the benefits of this Convention by that other State where the competent authority determines that subparagraph (*a*) or (*b*) applies.

7. It is understood that this Article shall not be construed as restricting in any manner the right of a Contracting State to deny benefits under this Convention where it can reasonably be concluded that to do otherwise would result in an abuse of the provisions of this Convention.

History: Article XXIX A was deleted and replaced by Article 25 of the Fifth Protocol to this Convention, and formerly read:

"1. For the purposes of the application of this Convention by the United States,

(*a*) A qualifying person shall be entitled to all of the benefits of this Convention, and

(*b*) Except as provided in paragraphs 3, 4 and 6, a person that is not a qualifying person shall not be entitled to any benefits of the Convention.

2. For the purposes of this Article, a qualifying person is a resident of Canada that is:

(*a*) A natural person;

(*b*) The Government of Canada or a political subdivision or local authority thereof, or any agency or instrumentality of any such government, subdivision or authority;

(*c*) A company or trust in whose principal class of shares or units there is substantial and regular trading on a recognized stock exchange;

(*d*) A company more than 50 per cent of the vote and value of the shares (other than debt substitute shares) of which is owned, directly or indirectly, by five or fewer persons each of which is a company or trust referred to in subparagraph (*c*), provided that each company or trust in the chain of ownership is a qualifying person or a resident or citizen of the United States;

(*e*) (i) A company 50 per cent or more of the vote and value of the shares (other than debt substitute shares) of which is not owned, directly or indirectly, by persons other than qualifying persons or residents or citizens of the United States, or

(ii) A trust 50 per cent or more of the beneficial interest in which is not owned, directly or indirectly, by persons other than qualifying persons or residents or citizens of the United States,

where the amount of the expenses deductible from gross income that are paid or payable by the company or trust, as the case may be, for its preceding fiscal period (or, in the case of its first fiscal period, that period) to persons that are not qualifying persons or residents or citizens of the United States is less than 50 per cent of its gross income for that period;

(*f*) An estate;

(*g*) A not-for-profit organization, provided that more than half of the beneficiaries, members or participants of the organization are qualifying persons or residents or citizens of the United States; or

(*h*) An organization described in paragraph 2 of Article XXI (Exempt Organizations) and established for the purpose of providing benefits primarily to individuals who are qualifying persons, persons who were qualifying persons within the five preceding years, or residents or citizens of the United States.

3. Where a person that is a resident of Canada and is not a qualifying person of Canada, or a person related thereto, is engaged in the active conduct of a trade or business in Canada (other than the business of making or managing investments, unless those activities are carried on with customers in the ordinary course of business by a bank, an insurance company, a registered securities dealer or a deposit-taking financial institution), the benefits of the Convention shall apply to that resident person with respect to income derived from the United States in connection with or incidental to that trade or business, including any such income derived directly or indirectly by that resident person through one or more other persons that are residents of the United States. Income shall be deemed to be derived from the United States in con-

nection with the active conduct of a trade or business in Canada only if that trade or business is substantial in relation to the activity carried on in the United States giving rise to the income in respect of which benefits provided under the Convention by the United States are claimed.

4. A company that is a resident of Canada shall also be entitled to the benefits of Articles X (Dividends), XI (Interest) and XII (Royalties) if

(*a*) Its shares that represent more than 90 per cent of the aggregate vote and value represented by all of its shares (other than debt substitute shares) are owned, directly or indirectly, by persons each of whom is a qualifying person, a resident or citizen of the United States or a person who

(i) Is a resident of a country with which the United States has a comprehensive income tax convention and is entitled to all of the benefits provided by the United States under that convention;

(ii) Would qualify for benefits under paragraphs 2 or 3 if that person were a resident of Canada (and, for the purposes of paragraph 3, if the business it carried on in the country of which it is a resident were carried on by it in Canada); and

(iii) Would be entitled to a rate of United States tax under the convention between that person's country of residence and the United States, in respect of the particular class of income for which benefits are being claimed under this Convention, that is at least as low as the rate applicable under this Convention; and

(*b*) The amount of the expenses deductible from gross income that are paid or payable by the company for its preceding fiscal period (or, in the case of its first fiscal period, that period) to persons that are not qualifying persons or residents or citizens of the United States is less than 50 per cent of the gross income of the company for that period.

5. For the purposes of this Article,

(*a*) The term "recognized stock exchange" means:

(i) The NASDAQ System owned by the National Association of Securities Dealers, Inc. and any stock exchange registered with the Securities and Exchange Commission as a national securities exchange for purposes of the *Securities Exchange Act* of 1934;

(ii) Canadian stock exchanges that are "prescribed stock exchanges" under the *Income Tax Act*; and

(iii) Any other stock exchange agreed upon by the Contracting States in an exchange of notes or by the competent authorities of the Contracting States;

(*b*) The term "not-for-profit organization" of a Contracting State means an entity created or established in that State and that is, by reason of its not-for-profit status, generally exempt from income taxation in that State, and includes a private foundation, charity, trade union, trade association or similar organization; and

(*c*) The term "debt substitute share" means:

(i) A share described in paragraph (*e*) of the definition "term preferred share" in the *Income Tax Act*, as it may be amended from time to time without changing the general principle thereof; and

(ii) Such other type of share as may be agreed upon by the competent authorities of the Contracting States.

6. Where a person that is a resident of Canada is not entitled under the preceding provisions of this Article to the benefits provided under the Convention by the United States, the competent authority of the United States shall, upon that person's request, determine on the basis of all factors including the history, structure, ownership and operations of that person whether

(*a*) Its creation and existence did not have as a principal purpose the obtaining of benefits under the Convention that would not otherwise be available; or

(*b*) It would not be appropriate, having regard to the purpose of this Article, to deny the benefits of the Convention to that person.

The person shall be granted the benefits of the Convention by the United States where the competent authority determines that subparagraph (*a*) or (*b*) applies.

7. It is understood that the fact that the preceding provisions of this Article apply only for the purposes of the application of the Convention by the United States shall not be construed as restricting in any manner the right of a Contracting State to deny benefits under the Convention where it can reasonably be concluded that to do otherwise would result in an abuse of the provisions of the Convention."

Article XXIX A was added by Article 18 of the Third Protocol to this Convention.

Article XXIX B — Taxes Imposed by Reason of Death

1. Where the property of an individual who is a resident of a Contracting State passes by reason of the individual's death to an organization that is referred to in paragraph 1 of Article XXI (Exempt Organizations) and that is a resident of the other Contracting State,

(*a*) If the individual is a resident of the United States and the organization is a resident of Canada, the tax consequences in the United States arising out of the passing of the property shall apply as if the organization were a resident of the United States; and

(*b*) If the individual is a resident of Canada and the organization is a resident of the United States, the tax consequences in Canada arising out of the passing of the property shall apply as if the individual had disposed of the property for proceeds equal to an amount elected on behalf of the individual for this purpose (in a manner specified by the competent authority of Canada), which amount shall be no less than the individual's cost of the property as determined for purposes of Canadian tax and no greater than the fair market value of the property.

2. In determining the estate tax imposed by the United States, the estate of an individual (other than a citizen of the United States) who was a resident of Canada at the time of the individual's death shall be allowed a unified credit equal to the greater of

(*a*) The amount that bears the same ratio to the credit allowed under the law of the United States to the estate of a citizen of the United States as the value of the part of the individual's gross estate that at the time of the individual's death is situated in the United States bears to the value of the individual's entire gross estate wherever situated; and

(*b*) The unified credit allowed to the estate of a non-resident not a citizen of the United States, under the law of the United States.

The amount of any unified credit otherwise allowable under this paragraph shall be reduced by the amount of any credit previously allowed with respect to any gift made by the individual. A credit otherwise allowable under subparagraph (*a*) shall be allowed only if all information necessary for the verification and computation of the credit is provided.

3. In determining the estate tax imposed by the United States on an individual's estate with respect to property that passes to the surviving spouse of the individual (within the meaning of the law of the United States) and that would qualify for the estate tax marital deduction under the law of the United States if the surviving spouse were a citizen of the United States and all applicable elections were properly made (in this paragraph and in paragraph 4 referred to as "qualifying property"), a non-refundable credit computed in accordance with the provisions of paragraph 4 shall be allowed in addition to the unified credit allowed to the estate under paragraph 2 or under the law of the United States, provided that

(*a*) The individual was at the time of death a citizen of the United States or a resident of either Contracting State;

(*b*) The surviving spouse was at the time of the individual's death a resident of either Contracting State;

(*c*) If both the individual and the surviving spouse were residents of the United States at the time of the individual's death, one or both was a citizen of Canada; and

(*d*) The executor of the decedent's estate elects the benefits of this paragraph and waives irrevocably the benefits of any estate tax marital deduction that would be allowed under the law of the United States on a United States Federal estate tax return filed for the individual's estate by the date on which a qualified domestic trust election could be made under the law of the United States.

4. The amount of the credit allowed under paragraph 3 shall equal the lesser of

(*a*) The unified credit allowed under paragraph 2 or under the law of the United States (determined without regard to any credit allowed previously with respect to any gift made by the individual), and

(*b*) The amount of estate tax that would otherwise be imposed by the United States on the transfer of qualifying property.

The amount of estate tax that would otherwise be imposed by the United States on the transfer of qualifying property shall equal the amount by which the estate tax (before allowable credits) that would be imposed by the United States if the qualifying property were included in computing the taxable estate exceeds the estate tax (before allowable credits) that would be so imposed if the qualifying property were not so included. Solely for purposes of determining other credits allowed under the law of the United States, the credit provided under paragraph 3 shall be allowed after such other credits.

5. Where an individual was a resident of the United States immediately before the individual's death, for the purposes of subsections 70(5.2) and (6) of the *Income Tax Act*, both the individual and the individual's spouse shall be deemed to have been resident in Canada immediately before the individual's death. Where a trust that would be a trust described in subsection 70(6) of that Act, if its trustees that were residents or citizens of the United States or domestic corporations under the law of the United States were residents of Canada, requests the competent authority of Canada to do so, the competent authority may agree, subject to terms and conditions satisfactory to such competent authority, to treat the trust for the purposes of that Act as being resident in Canada for such time and with respect to such property as may be stipulated in the agreement.

6. In determining the amount of Canadian tax payable by an individual who immediately before death was a resident of Canada, or by a trust described in subsection 70(6) of the *Income Tax Act* (or a trust which is treated as being resident in Canada under the provisions of paragraph 5),

the amount of any Federal or state estate or inheritance taxes payable in the United States (not exceeding, where the individual was a citizen of the United States or a former citizen referred to in paragraph 2 of Article XXIX (Miscellaneous Rules), the amount of estate and inheritance taxes that would have been payable if the individual were not a citizen or former citizen of the United States) in respect of property situated within the United States shall,

(*a*) To the extent that such estate or inheritance taxes are imposed upon the individual's death, be allowed as a deduction from the amount of any Canadian tax otherwise payable by the individual for the taxation year in which the individual died on the total of

(i) Any income, profits or gains of the individual arising (within the meaning of paragraph 3 of Article XXIV (Elimination of Double Taxation)) in the United States in that year, and

(ii) Where the value at the time of the individual's death of the individual's entire gross estate wherever situated (determined under the law of the United States) exceeded 1.2 million U.S. dollars or its equivalent in Canadian dollars, any income, profits or gains of the individual for that year from property situated in the United States at that time, and

(*b*) To the extent that such estate or inheritance taxes are imposed upon the death of the individual's surviving spouse, be allowed as a deduction from the amount of any Canadian tax otherwise payable by the trust for its taxation year in which that spouse dies on any income, profits or gains of the trust for that year arising (within the meaning of paragraph 3 of Article XXIV (Elimination of Double Taxation)) in the United States or from property situated in the United States at the time of death of the spouse.

For purposes of this paragraph, property shall be treated as situated within the United States if it is so treated for estate tax purposes under the law of the United States as in effect on March 17, 1995, subject to any subsequent changes thereof that the competent authorities of the Contracting States have agreed to apply for the purposes of this paragraph. The deduction allowed under this paragraph shall take into account the deduction for any income tax paid or accrued to the United States that is provided under paragraph 2(*a*), 4(*a*) or 5(*b*) of Article XXIV (Elimination of Double Taxation).

7. In determining the amount of estate tax imposed by the United States on the estate of an individual who was a resident or citizen of the United States at the time of death, or upon the death of a surviving spouse with respect to a qualified domestic trust created by such an individual or the individual's executor or surviving spouse, a credit shall be allowed against such tax imposed in respect of property situated outside the United States, for the federal and provincial income taxes payable in Canada in respect of such property by reason of the death of the individual or, in the case of a qualified domestic trust, the individual's surviving spouse. Such credit shall be computed in accordance with the following rules:

(*a*) A credit otherwise allowable under this paragraph shall be allowed regardless of whether the identity of the taxpayer under the law of Canada corresponds to that under the law of the United States.

(*b*) The amount of a credit allowed under this paragraph shall be computed in accordance with the provisions and subject to the limitations of the law of the United States regarding credit for foreign death taxes (as it may be amended from time to time without changing the general principle hereof), as though the income tax imposed by Canada were a creditable tax under that law.

(*c*) A credit may be claimed under this paragraph for an amount of federal or provincial income tax payable in Canada only to the extent that no credit or deduction is claimed for such amount in determining any other tax imposed by the United States, other than the estate tax imposed on property in a qualified domestic trust upon the death of the surviving spouse.

8. Provided that the value, at the time of death, of the entire gross estate wherever situated of an individual who was a resident of Canada (other than a citizen of the United States) at the time of death does not exceed 1.2 million U.S. dollars or its equivalent in Canadian dollars, the United States may impose its estate tax upon property forming part of the estate of the individual only if any gain derived by the individual from the alienation of such property would have been subject to income taxation by the United States in accordance with Article XIII (Gains).

History: Paragraph 1 of Article XXIX B was deleted and replaced by paragraph 1 of Article 26 of the Fifth Protocol of this Convention, and formerly read:

"1. Where the property of an individual who is a resident of a Contracting State passes by reason of the individual's death to an organization referred to in paragraph 1 of Article XXI (Exempt Organizations), the tax consequences in a Contracting State arising out of the passing of the property shall apply as if the organization were a resident of that State."

Paragraph 5 of Article XXIX B was deleted and replaced by paragraph 2 of Article 26 of the Fifth Protocol of this Convention, and formerly read:

"5. Where an individual was a resident of the United States immediately before the individual's death, for the purposes of subsection 70(6) of the *Income Tax Act*, both the individual and the individual's spouse shall be deemed to have been resident in Canada immediately before the individual's death. Where a trust that would be a trust described in subsection 70(6) of that Act, if its trustees that were residents or citizens of the United States or domestic corporations under the law of the United States were residents of Canada, requests the competent authority of Canada to do so, the competent authority may agree, subject to terms and conditions satisfactory to such competent authority, to treat the trust for the purposes of that Act as being resident in Canada for such time as may be stipulated in the agreement."

Article XXIX B was added by Article 19 of the Third Protocol to this Convention.

Article XXX — Entry into Force

1. This Convention shall be subject to ratification in accordance with the applicable procedures of each Contracting State and instruments of ratification shall be exchanged at Ottawa as soon as possible.

2. The Convention shall enter into force upon the exchange of instruments of ratification and, subject to the provisions of paragraph 3, its provisions shall have effect:

(*a*) For tax withheld at the source on income referred to in Articles X (Dividends), XI (Interest), XII (Royalties) and XVIII (Pensions and Annuities), with respect to amounts paid or credited on or after the first day of the second month next following the date on which the Convention enters into force;

(*b*) For other taxes, with respect to taxable years beginning on or after the first day of January next following the date on which the Convention enters into force; and

(*c*) Notwithstanding the provisions of subparagraph (*b*), for the taxes covered by paragraph 4 of Article XXIX (Miscellaneous Rules) with respect to all taxable years referred to in that paragraph.

3. For the purposes of applying the United States foreign tax credit in relation to taxes paid or accrued to Canada:

(*a*) Notwithstanding the provisions of paragraph 2(*a*) of Article II (Taxes Covered), the tax on 1971 undistributed income on hand imposed by Part IX of the *Income Tax Act* of Canada shall be considered to be an income tax for distributions made on or after the first day of January 1972 and before the first day of January 1979 and shall be considered to be imposed upon the recipient of a distribution, in the proportion that the distribution out of undistributed income with respect to which the tax has been paid bears to 85 per cent of such undistributed income;

(*b*) The principles of paragraph 6 of Article XXIV (Elimination of Double Taxation) shall have effect for taxable years beginning on or after the first day of January 1976; and

(*c*) The provisions of paragraph 1 of Article XXIV shall have effect for taxable years beginning on or after the first day of January 1981.

Any claim for refund based on the provisions of this paragraph may be filed on or before June 30 of the calendar year following that in which the Convention enters into force, notwithstanding any rule of domestic law to the contrary.

4. Subject to the provisions of paragraph 5, the 1942 Convention shall cease to have effect for taxes for which this Convention has effect in accordance with the provisions of paragraph 2.

5. Where any greater relief from tax would have been afforded by any provision of the 1942 Convention than under this Convention, any such provision shall continue to have effect for the first taxable year with respect to which the provisions of this Convention have effect under paragraph 2(*b*).

6. The 1942 Convention shall terminate on the last date on which it has effect in accordance with the preceding provisions of this Article.

7. The Exchange of Notes between the United States and Canada dated August 2 and September 17, 1928, providing for relief from double income taxation on shipping profits, is terminated. Its provisions shall cease to have effect with respect to taxable years beginning on or after the first day of January next following the date on which this Convention enters into force.

8. The provisions of the Convention between the Government of Canada and the Government of the United States of America for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on the Estates of Deceased Persons signed at Washington on February 17, 1961 shall continue to have effect with respect to estates of persons deceased prior to the first day of January next following the date on which this Convention enters into force but shall cease to have effect with respect to estates of persons deceased on or after that date. Such

Convention shall terminate on the last date on which it has effect in accordance with the preceding sentence.

History: Paragraph 3 of Article XXX was amended by Article XIV of the First Protocol to this Convention, and formerly read:

"3. For the purposes of applying the United States foreign tax credit in relation to taxes paid or accrued to Canada:

(*a*) Notwithstanding the provisions of paragraph 2(*a*) of Article II (Taxes Covered), the tax on 1971 undistributed income on hand imposed by Part IX of the *Income Tax Act* of Canada shall be considered to be an income tax for distributions made on or after the first day of January 1972 and before the first day of January 1979, and shall be considered imposed upon the recipient of a distribution, in the proportion that the distribution out of undistributed income with respect to which the tax has been paid bears to 85 per cent of such undistributed income; and

(*b*) The principles of paragraph 6 of Article XXIV (Elimination of Double Taxation) shall have effect for taxable years beginning on or after the first day of January 1976."

Article XXXI — Termination

1. This Convention shall remain in force until terminated by a Contracting State.

2. Either Contracting State may terminate the Convention at any time after 5 years from the date on which the Convention enters into force provided that at least 6 months' prior notice of termination has been given through diplomatic channels.

3. Where a Contracting State considers that a significant change introduced in the taxation laws of the other Contracting State should be accommodated by a modification of the Convention, the Contracting States shall consult together with a view to resolving the matter; if the matter cannot be satisfactorily resolved, the first-mentioned State may terminate the Convention in accordance with the procedures set forth in paragraph 2, but without regard to the 5-year limitation provided therein.

4. In the event the Convention is terminated, the Convention shall cease to have effect:

(*a*) For tax withheld at the source on income referred to in Articles X (Dividends), XI (Interest), XII (Royalties), XVIII (Pensions and Annuities) and paragraph 2 of Article XXII (Other Income), with respect to amounts paid or credited on or after the first day of January next following the expiration of the 6 months' period referred to in paragraph 2; and

(*b*) For other taxes, with respect to taxable years beginning on or after the first day of January next following the expiration of the 6 months' period referred to in paragraph 2.

IN WITNESS WHEREOF, the undersigned, being duly authorized thereto by their respective governments, have signed this Convention.

DONE in two copies at Washington this twenty-sixth day of September, 1980, in the French and English languages, each text being equally authentic.

FOR THE GOVERNMENT OF CANADA
Allan J. MacEachen

FOR THE GOVERNMENT OF THE UNITED STATES OF AMERICA
G. William Miller

Third Protocol — Entry into Force

[Articles 20 and 21 of the Third Protocol do not amend the text of the Convention, and are therefore reproduced separately in this Appendix. The Third Protocol was signed at Washington on August 31, 1994, and a revised version of this Third Protocol was signed at Washington on March 17, 1995. The Third Protocol of March 17, 1995 was ratified on November 9, 1995, on which day it also came into force. CCH]

Article 20

1. The appropriate authorities of the Contracting States shall consult within a three-year period from the date on which this Protocol enters into force with respect to further reductions in withholding taxes provided in the Convention, and with respect to the rules in Article XXIX A (Limitation on Benefits) of the Convention.

2. The appropriate authorities of the Contracting States shall consult after a three-year period from the date on which the Protocol enters into force in order to determine whether it is appropriate to make the exchange of notes referred to in of Article XXVI (Mutual Agreement Procedure) of the Convention.

Article 21

1. This Protocol shall be subject to ratification in accordance with the applicable procedures in Canada and the United States and instruments of ratification shall be exchanged as soon as possible.

2. The Protocol shall enter into force upon the exchange of instruments of ratification, and shall have effect:

(*a*) For tax withheld at the source on income referred to in Articles X (Dividends), XI (Interest), XII (Royalties) and XVIII (Pensions and Annuities) of the Convention, except on income referred to in paragraph 5 of Article XVIII of the Convention (as it read before the entry into force of this Protocol), with respect to amounts paid or credited on or after the first day of the second month next following the date on which the Protocol enters into force, except that the reference in paragraph 2(*a*) of Article X (Dividends) of the Convention, as amended by the Protocol, to "5 per cent" shall be read, in its application to amounts paid or credited on or after that first day:

(i) Before 1996, as "7 per cent"; and

(ii) After 1995 and before 1997, as "6 per cent"; and

(*b*) For other taxes, with respect to taxable years beginning on or after the first day of January next following the date on which the Protocol enters into force, except that the reference in paragraph 6 of Article X (Dividends) of the Convention, as amended by the Protocol, to "5 per cent" shall be read, in its application to taxable years beginning on or after that first day and ending before 1997, as "6 per cent".

3. Notwithstanding the provisions of paragraph 2, Article XXVI A (Assistance in Collection) of the Convention shall have effect for revenue claims finally determined by a requesting State after the date that is 10 years before the date on which the Protocol enters into force.

4. Notwithstanding the provisions of paragraph 2, paragraphs 2 through 7 of Article XXIX B (Taxes Imposed by Reason of Death) of the Convention (and paragraph 2 of Article II (Taxes Covered) and paragraph 3(*a*) of Article XXIX (Miscellaneous Rules) of the Convention, as amended by the Protocol, to the extent necessary to implement paragraphs 2 through 7 of Article XXIX B (Taxes Imposed by Reason of Death) of the Convention) shall, notwithstanding any limitation imposed under the law of a Contracting State on the assessment, reassessment or refund with respect to a person's return, have effect with respect to deaths occurring after the date on which the Protocol enters into force and, provided that any claim for refund by reason of this sentence is filed within one year of the date on which the Protocol enters into force or within the otherwise applicable period for filing such claims under domestic law, with respect to benefits provided under any of those paragraphs with respect to deaths occurring after November 10, 1988.

5. Notwithstanding the provisions of paragraph 2, paragraph 2 of Article 3 of the Protocol shall have effect with respect to taxable years beginning on or after the first day of January next following the date on which the Protocol enters into force.

IN WITNESS WHEREOF, the undersigned, duly authorized thereto by their respective Governments, have signed this Protocol.

DONE in two copies at _____ this _____ day of _____ 199___ in the English and French languages, each text being equally authentic.

FOR THE GOVERNMENT OF CANADA:
Robert Wright

FOR THE GOVERNMENT OF THE UNITED STATES OF AMERICA:
Richard Hecklinger

Fourth Protocol — Entry into Force

[Article 3 of the Fourth Protocol does not amend the text of the Convention, and is therefore reproduced separately in this Appendix. The Fourth Protocol was signed on July 29, 1997 affecting articles XIII and XVIII of the Convention. This Fourth Protocol entered into force on December 16, 1997. CCH.]

Article 3

1. This Protocol shall be subject to ratification in accordance with the applicable procedures in Canada and the United States and instruments of ratification shall be exchanged as soon as possible.

2. This Protocol shall enter into force upon the exchange of instruments of ratification, and shall have effect as follows:

(*a*) Article 1 of this Protocol shall have effect as of April 26, 1995; and

(*b*) Article 2 of this Protocol shall have effect with respect to amounts paid or credited to a resident of the other Contracting State after 1995, except that where a Contracting State has, in accordance with the Convention read without reference to this Protocol, imposed a tax on benefits paid or credited under the social security legislation in that State, and those benefits are paid or credited after 1995 and

(i) before the calendar year in which this Protocol enters into force, if this Protocol enters into force before September 1 of that year, or

(ii) before the end of the calendar year in which this Protocol enters into force, if this Protocol enters into force after August 31 of that year,

Article 2 shall only have effect with respect to such benefits (referred to in this Article as "source-taxed benefits") as described in paragraphs 3, 4 and 5.

3. With respect to source-taxed benefits paid by a Contracting State to a resident of the other Contracting State, Article 2 applies only if the resident has, within three years after the date on which this Protocol enters into force, applied to the competent authority of the first-mentioned Contracting State for a refund of the tax imposed on the benefits. However, with respect to source-taxed benefits paid by the United States to a resident of Canada, the competent authority of Canada shall:

(*a*) apply for and receive such refund on behalf of the resident;

(*b*) remit to the resident, in accordance with the law of Canada governing refunds of income tax overpayments, such refund less any tax imposed in Canada on the benefits in accordance with Article 2 of this Protocol; and

(*c*) make the application referred to in subparagraph (*a*) only if the additional tax that would be imposed in Canada on the benefits, on the assumption that Article 2 of this Protocol applied, would be less than the tax imposed in the United States on the benefits as a result of paragraph 5 of Article XVIII (Pensions and Annuities) of the Convention read without reference to this Protocol.

4. All taxes refunded as a result of this Protocol shall be refunded without interest and interest on any taxes of a resident of a Contracting State assessed as a result of this Protocol shall be computed as though those taxes became payable no earlier than December 31 of the year following the year in which this Protocol enters into force.

5. The competent authorities of the Contracting States shall establish procedures for making or revoking the application referred to in paragraph 3 and shall agree on such additional procedures as are necessary to ensure the appropriate implementation of this Protocol.

IN WITNESS WHEREOF, the undersigned, being duly authorized thereto by their respective Governments, have signed this Protocol.

Done at Ottawa in duplicate, in the English and French languages, both texts being equally authentic, this 29th day of July, 1997.

FOR CANADA:
Michael Leir

FOR THE UNITED STATES OF AMERICA:
Vladimir Sambaiew

Fifth Protocol — Entry into Force

[Article 27 of the Fifth Protocol specifies the effective dates for the amendments in the Fifth Protocol, and is reproduced separately in this Appendix. The Fifth Protocol was signed on September 21, 2007 at Chelsea, and entered into force on December 15, 2008. CCH.]

Article 27

1. This Protocol shall be subject to ratification in accordance with the applicable procedures in the United States and Canada. The Contracting States shall notify each other in writing, through diplomatic channels, when their respective applicable procedures have been satisfied.

2. This Protocol shall enter into force on the date of the later of the notifications referred to in paragraph 1, or January 1, 2008, whichever is later. The provisions of this Protocol shall have effect:

(*a*) In respect of taxes withheld at source, for amounts paid or credited on or after the first day of the second month that begins after the date on which this Protocol enters into force;

(*b*) In respect of other taxes, for taxable years that begin after (or, if the later of the notifications referred to in paragraph 1 is dated in 2007, taxable years that begin in and after) the calendar year in which this Protocol enters into force.

3. Notwithstanding paragraph 2,

(*a*) Paragraph 1 of Article 2 of this Protocol shall have effect with respect to corporate continuations effected after September 17, 2000;

(*b*) New paragraph 7 of Article IV (Residence) of the Convention as added by Article 2 of this Protocol shall have effect as of the first day of the third calendar year that ends after this Protocol enters into force;

(*c*) Article 3 of this Protocol shall have effect as of the third taxable year that ends after this Protocol enters into force, but in no event shall it apply to include, in the determination of whether an enterprise is deemed to provide services through a permanent establishment under paragraph 9 of Article V (Permanent Establishment) of the Convention, any days of presence, services rendered, or gross active business revenues that occur or arise prior to January 1, 2010;

(*d*) In applying Article 6 of this Protocol to interest paid or credited during the first two calendar years that end after entry into force of this Protocol, paragraph 1 of Article XI (Interest) of the Convention shall be read as follows:

1. Interest arising in a Contracting State and beneficially owned by a resident of the other Contracting State may be taxed only in that other State. However, if the interest is not exempt under paragraph 3 of Article XI (Interest) as it read on January 1, 2007, and the payer of the interest and the beneficial owner of the interest are related, or would be deemed to be related if the provisions of paragraph 2 of Article IX (Related Persons) applied for this purpose, such interest may also be taxed in the Contracting State in which it arises, and according to the laws of that State, but the tax so charged shall not exceed the following percentage of the gross amount of the interest:

(*a*) If the interest is paid or credited during the first calendar year that ends after entry into force of this paragraph, 7 percent; and

(*b*) If the interest is paid or credited during the second calendar year that ends after entry into force of this paragraph, 4 percent;

(*e*) Paragraphs 2 and 3 of Article 8 of this Protocol shall have effect with respect to alienations of property that occur (including, for greater certainty, those that are deemed under the law of a Contracting State to occur) after September 17, 2000;

(*f*) Article 21 of this Protocol shall have effect with respect to

(i) Cases that are under consideration by the competent authorities as of the date on which this Protocol enters into force; and

(ii) Cases that come under such consideration after that time,

and the commencement date for a case described in subparagraph (*f*)(i) shall be the date on which the Protocol enters into force; and

(*g*) Article 22 of this Protocol shall have effect for revenue claims finally determined by an applicant State after November 9, 1985.

IN WITNESS WHEREOF the undersigned, being duly authorized thereto by their respective Governments, have signed this Protocol.

DONE in duplicate at Chelsea this twenty-first day of September 2007 in the English and French languages, each text being equally authentic.

FOR THE GOVERNMENT OF CANADA
Jim Flaherty

FOR THE GOVERNMENT OF THE UNITED STATES OF AMERICA
Henry M. Paulson, Jr.

Diplomatic Notes to Fifth Protocol (Annex A)

Protocol Amending the Convention Between Canada and the United States of America With Respect to Taxes on Income and on Capital
Diplomatic Notes: Annex A to the Convention
September 21, 2007

Note no. JLAB-0111

Excellency,

I have the honor to refer to the Protocol (the "Protocol") done today between Canada and the United States of America amending the Convention with Respect to Taxes on Income and on Capital done at Washington on 26 September 1980, as amended by the Protocols done on 14 June 1983, 28 March 1984, 17 March 1995, and 29 July 1997 (the "Convention"), and to propose on behalf of the Government of Canada the following:

In respect of any case where the competent authorities have endeavored but are unable to reach a complete agreement under Article XXVI (Mutual Agreement Procedure) of the Convention regarding the application of one or more of the following Articles of the Convention: IV (Residence) (but only insofar as it relates to the residence of a natural person), V (Permanent Establishment), VII (Business Profits), IX (Related Persons), and XII (Royalties) (but only (i) insofar as Article XII might apply in transactions involving related persons to whom Article IX might apply, or (ii) to an allocation of amounts between royalties that are taxable under paragraph 2 thereof and royalties that are exempt under paragraph 3 thereof), binding arbitration shall be used to determine such application, unless the competent authorities agree that the particular case is not suitable for determination by arbitration. In addition, the competent authorities may, on an *ad hoc* basis, agree that binding arbitration shall be used in respect of any other matter to which Article XXVI applies. If an arbitration proceeding (the "Proceeding") under paragraph 6 of Article XXVI commences, the following rules and procedures shall apply:

1. The Proceeding shall be conducted in the manner prescribed by, and subject to the requirements of, paragraphs 6 and 7 of Article XXVI and these rules and procedures, as modified or supplemented by any other rules and procedures agreed upon by the competent authorities pursuant to paragraph 17 below.

2. The determination reached by an arbitration board in the Proceeding shall be limited to a determination regarding the amount of income, expense or tax reportable to the Contracting States.

3. Notwithstanding the initiation of the Proceeding, the competent authorities may reach a mutual agreement to resolve a case and terminate the Proceeding. Correspondingly, a concerned person may withdraw a request for the competent authorities to engage in the Mutual Agreement Procedure (and thereby terminate the Proceeding) at any time.

4. The requirements of subparagraph 7(*d*) of Article XXVI shall be met when the competent authorities have each received from each concerned person a notarized statement agreeing that the concerned person and each person acting on the concerned person's behalf, shall not disclose to any other person any information received during the course of the Proceeding from either Contracting State or the arbitration board, other than the determination of the Proceeding. A concerned person that has the legal authority to bind any other concerned person(s) on this matter may do so in a comprehensive notarized statement.

5. Each Contracting State shall have 60 days from the date on which the Proceeding begins to send a written communication to the other Contracting State appointing one member of the arbitration board. Within 60 days of the date on which the second such communication is sent, the two members appointed by the Contracting States shall appoint a third member, who shall serve as chair of the board. If either Contracting State fails to appoint a member, or if the members appointed by the Contracting States fail to agree upon the third member in the manner prescribed by this paragraph, a Contracting State shall ask the highest ranking member of the Secretariat at the Centre for Tax Policy and Administration of the Organisation for Economic Co-operation and Development (OECD) who is not a citizen of either Contracting State, to appoint the remaining member(s) by written notice to both Contracting States within 60 days of the date of such failure. The competent authorities shall develop a non-exclusive list of individuals with familiarity in international tax matters who may potentially serve as the chair of the board.

6. The arbitration board may adopt any procedures necessary for the conduct of its business, provided that the procedures are not inconsistent with any provision of Article XXVI or this note.

7. Each of the Contracting States shall be permitted to submit, within 60 days of the appointment of the chair of the arbitration board, a proposed resolution describing the proposed disposition of the specific monetary amounts of income, expense or taxation at issue in the case, and a supporting position paper, for consideration by the arbitration board. Copies of the proposed resolution and supporting position paper shall be provided by the board to the other Contracting State on the date on which the later of the submissions is submitted to the board. In the event that only one Contracting State submits a proposed resolution within the allotted time, then that proposed resolution shall be deemed to be the determination of the board in that case and the Proceeding shall be terminated. Each of the Contracting States may, if it so desires, submit a reply submission to the board within 120 days of the appointment of its chair, to address any points raised by the proposed resolution or position paper submitted by the other Contracting State. Additional information may be submitted to the arbitration board only at its request, and copies of the board's request and the Contracting State's response shall be provided to the other Contracting State on the date on which the request or the response is submitted. Except for logistical matters such as those identified in paragraphs 12, 14 and 15 below, all communications from the Contracting States to the arbitration board, and *vice versa*, shall take place only through written communications between the designated competent authorities and the chair of the board.

8. The arbitration board shall deliver a determination in writing to the Contracting States within six months of the appointment of its chair. The board shall adopt as its determination one of the proposed resolutions submitted by the Contracting States.

9. In making its determination, the arbitration board shall apply, as necessary: (1) the provisions of the Convention as amended; (2) any agreed commentaries or explanations of the Contracting States concerning the Convention as amended; (3) the laws of the Contracting States to the extent they are not inconsistent with each other; and (4) any OECD Commentary, Guidelines or Reports regarding relevant analogous portions of the OECD Model Tax Convention.

10. The determination of the arbitration board in a particular case shall be binding on the Contracting States. The determination of the board shall not state a rationale. It shall have no precedential value.

11. As provided in subparagraph 7(*e*) of Article XXVI, the determination of an arbitration board shall constitute a resolution by mutual agreement under this Article. Each concerned person must, within 30 days of receiving the determination of the board from the competent authority to which the case was first presented, advise that competent authority whether that concerned person accepts the determination of the board. If any concerned person fails to so advise the relevant competent authority within this time frame, the determination of the board shall be considered not to have been accepted in that case. Where the determination of the board is not accepted, the case may not subsequently be the subject of a Proceeding.

12. Any meeting(s) of the arbitration board shall be in facilities provided by the Contracting State whose competent authority initiated the mutual agreement proceedings in the case.

13. The treatment of any associated interest or penalties shall be determined by applicable domestic law of the Contracting State(s) concerned.

14. No information relating to the Proceeding (including the board's determination) may be disclosed by the members of the arbitration board or their staffs or by either competent authority, except as permitted by the Convention and the domestic laws of the Contracting States. In addition, all material prepared in the course of, or relating to, the Proceeding shall be considered to be information exchanged between the Contracting States. The Contracting States shall ensure that all members of the arbitration board and their staffs sign and send to each Contracting State notarized statements, prior to their acting in the arbitration proceeding, in which they agree to abide by and be subject to the confidentiality and nondisclosure provisions of Articles XXVI and XXVII of the Convention and the applicable domestic laws of the Contracting States. In the event those provisions conflict, the most restrictive condition shall apply.

15. The fees and expenses of members of the arbitration board shall be set in accordance with the International Centre for Settlement of Investment Disputes (ICSID) Schedule of Fees for arbitrators, as in effect on the date on which the arbitration proceedings begin, and shall be borne equally by the Contracting States. Any fees for language translation shall also be borne equally by the Contracting States. Meeting facilities, related resources, financial management, other logistical support, and general administrative coordination of the Proceeding shall be provided, at its own cost, by the Contracting State whose competent authority initiated the mutual agreement proceedings in the case. Any other costs shall be borne by the Contracting State that incurs them.

16. For purposes of paragraphs 6 and 7 of Article XXVI and this note, each competent authority shall confirm in writing to the other competent authority and to the concerned person(s) the date of its receipt of the information necessary to undertake substantive consideration for a mutual agreement. Such information shall be:

a) in the United States, the information required to be submitted to the U.S. competent authority under Revenue Procedure 2006-54, section 4.05 (or any applicable analogous provisions) and, for cases initially submitted as a request for an Advance Pricing Agreement, the information required to be submitted to the Internal Revenue Service under Revenue Procedure 2006-9, section 4 (or any applicable analogous provisions), and

b) in Canada, the information required to be submitted to Canadian competent authority under Information Circular 71-17 (or any applicable successor publication).

However, this information shall not be considered received until both competent authorities have received copies of all materials submitted to either Contracting State by the concerned person(s) in connection with the mutual agreement procedure.

17. The competent authorities of the Contracting States may modify or supplement the above rules and procedures as necessary to more effectively implement the intent of paragraph 6 of Article XXVI to eliminate double taxation.

If the above proposal is acceptable to your Government, I further propose that this Note, which is authentic in English and in French, and your reply Note reflecting such acceptance shall constitute an agreement between our two Governments which shall enter into force on the date of entry into force of the Protocol and shall be annexed to the Convention as Annex A thereto and shall therefore be an integral part of the Convention.

Please accept, Excellency, the assurance of my highest consideration.

Maxime Bernier

Minister of Foreign Affairs

Excellency,

I have the honour to acknowledge receipt of your Note No. JLAB-0111 dated September 21, 2007, which states in its entirety as follows:

Excellency,

I have the honor to refer to the Protocol (the "Protocol") done today between Canada and the United States of America amending the Convention with Respect to Taxes on Income and on Capital done at Washington on 26 September 1980, as amended by the Protocols done on 14 June 1983, 28 March 1984, 17 March 1995, and 29 July 1997 (the "Convention"), and to propose on behalf of the Government of Canada the following:

In respect of any case where the competent authorities have endeavored but are unable to reach a complete agreement under Article XXVI (Mutual Agreement Procedure) of the Convention regarding the application of one or more of the following Articles of the Convention: IV (Residence) (but only insofar as it relates to the residence of a natural person), V (Permanent Establishment), VII (Business Profits), IX (Related Persons), and XII (Royalties) (but only (i) insofar as Article XII might apply in transactions involving related persons to whom Article IX might apply, or (ii) to an allocation of amounts between royalties that are taxable under paragraph 2 thereof and royalties that are exempt under paragraph 3 thereof), binding arbitration shall be used to determine such application, unless the competent authorities agree that the particular case is not suitable for determination by arbitration. In addition, the competent authorities may, on an *ad hoc* basis, agree that binding arbitration shall be used in respect of any other matter to which Article XXVI applies. If an arbitration proceeding (the "Proceeding") under paragraph 6 of Article XXVI commences, the following rules and procedures shall apply:

1. The Proceeding shall be conducted in the manner prescribed by, and subject to the requirements of, paragraphs 6 and 7 of Article XXVI and these rules and procedures, as modified or supplemented by any other rules and procedures agreed upon by the competent authorities pursuant to paragraph 17 below.

2. The determination reached by an arbitration board in the Proceeding shall be limited to a determination regarding the amount of income, expense or tax reportable to the Contracting States.

3. Notwithstanding the initiation of the Proceeding, the competent authorities may reach a mutual agreement to resolve a case and terminate the Proceeding. Correspondingly, a concerned person may withdraw a request for the competent authorities to engage in the Mutual Agreement Procedure (and thereby terminate the Proceeding) at any time.

4. The requirements of subparagraph 7(*d*) of Article XXVI shall be met when the competent authorities have each received from each concerned person a notarized statement agreeing that the concerned person and each person acting on the concerned person's behalf, shall not disclose to any other person any information received during the course of the Proceeding from either Contracting State or the arbitration board, other than the determination of the Proceeding. A concerned person that has the legal authority to bind any other concerned person(s) on this matter may do so in a comprehensive notarized statement.

5. Each Contracting State shall have 60 days from the date on which the Proceeding begins to send a written communication to the other Contracting State appointing one member of the arbitration board. Within 60 days of the date on which the second such communication is sent, the two members appointed by the Contracting States shall appoint a third member, who shall serve as chair of the board. If either Contracting State fails to appoint a member, or if the members appointed by the Contracting States fail to agree upon the third member in the manner prescribed by this paragraph, a Contracting State shall ask the highest ranking member of the Secretariat at the Centre for Tax Policy and Administration of the Organisation for Economic Co-operation and Development (OECD) who is not a citizen of either Contracting State, to appoint the remaining member(s) by written notice to both Contracting States within 60 days of the date of such failure. The competent authorities shall develop a non-exclusive list of individuals with familiarity in international tax matters who may potentially serve as the chair of the board.

6. The arbitration board may adopt any procedures necessary for the conduct of its business, provided that the procedures are not inconsistent with any provision of Article XXVI or this note.

7. Each of the Contracting States shall be permitted to submit, within 60 days of the appointment of the chair of the arbitration board, a proposed resolution describing the proposed disposition of the specific monetary amounts of income, expense or taxation at issue in the case, and a supporting position paper, for consideration by the arbitration board. Copies of the proposed resolution and supporting position paper shall be provided by the board to the other Contracting State on the date on which the later of the submissions is submitted to the board. In the event that only one Contracting State submits a proposed resolution within the allotted time, then that proposed resolution shall be deemed to be the determination of the board in that case and the Proceeding shall be terminated. Each of the Contracting States may, if it so desires, submit a reply submission to the board within 120 days of the appointment of its chair, to address any points raised by the proposed resolution or position paper submitted by the other Contracting State. Additional information may be submitted to the arbitration board only at its request, and copies of the board's

request and the Contracting State's response shall be provided to the other Contracting State on the date on which the request or the response is submitted. Except for logistical matters such as those identified in paragraphs 12, 14 and 15 below, all communications from the Contracting States to the arbitration board, and *vice versa*, shall take place only through written communications between the designated competent authorities and the chair of the board.

8. The arbitration board shall deliver a determination in writing to the Contracting States within six months of the appointment of its chair. The board shall adopt as its determination one of the proposed resolutions submitted by the Contracting States.

9. In making its determination, the arbitration board shall apply, as necessary: (1) the provisions of the Convention as amended; (2) any agreed commentaries or explanations of the Contracting States concerning the Convention as amended; (3) the laws of the Contracting States to the extent they are not inconsistent with each other; and (4) any OECD Commentary, Guidelines or Reports regarding relevant analogous portions of the OECD Model Tax Convention.

10. The determination of the arbitration board in a particular case shall be binding on the Contracting States. The determination of the board shall not state a rationale. It shall have no precedential value.

11. As provided in subparagraph 7(*e*) of Article XXVI, the determination of an arbitration board shall constitute a resolution by mutual agreement under this Article. Each concerned person must, within 30 days of receiving the determination of the board from the competent authority to which the case was first presented, advise that competent authority whether that concerned person accepts the determination of the board. If any concerned person fails to so advise the relevant competent authority within this time frame, the determination of the board shall be considered not to have been accepted in that case. Where the determination of the board is not accepted, the case may not subsequently be the subject of a Proceeding.

12. Any meeting(s) of the arbitration board shall be in facilities provided by the Contracting State whose competent authority initiated the mutual agreement proceedings in the case.

13. The treatment of any associated interest or penalties shall be determined by applicable domestic law of the Contracting State(s) concerned.

14. No information relating to the Proceeding (including the board's determination) may be disclosed by the members of the arbitration board or their staffs or by either competent authority, except as permitted by the Convention and the domestic laws of the Contracting States. In addition, all material prepared in the course of, or relating to, the Proceeding shall be considered to be information exchanged between the Contracting States. The Contracting States shall ensure that all members of the arbitration board and their staffs sign and send to each Contracting State notarized statements, prior to their acting in the arbitration proceeding, in which they agree to abide by and be subject to the confidentiality and nondisclosure provisions of Articles XXVI and XXVII of the Convention and the applicable domestic laws of the Contracting States. In the event those provisions conflict, the most restrictive condition shall apply.

15. The fees and expenses of members of the arbitration board shall be set in accordance with the International Centre for Settlement of Investment Disputes (ICSID) Schedule of Fees for arbitrators, as in effect on the date on which the arbitration proceedings begin, and shall be borne equally by the Contracting States. Any fees for language translation shall also be borne equally by the Contracting States. Meeting facilities, related resources, financial management, other logistical support, and general administrative coordination of the Proceeding shall be provided, at its own cost, by the Contracting State whose competent authority initiated the mutual agreement proceedings in the case. Any other costs shall be borne by the Contracting State that incurs them.

16. For purposes of paragraphs 6 and 7 of Article XXVI and this note, each competent authority shall confirm in writing to the other competent authority and to the concerned person(s) the date of its receipt of the information necessary to undertake substantive consideration for a mutual agreement. Such information shall be:

a) in the United States, the information required to be submitted to the U.S. competent authority under Revenue Procedure 2006-54, section 4.05 (or any applicable analogous provisions) and, for cases initially submitted as a request for an Advance Pricing Agreement, the information required to be submitted to the Internal Revenue Service under Revenue Procedure 2006-9, section 4 (or any applicable analogous provisions), and

b) in Canada, the information required to be submitted to Canadian competent authority under Information Circular 71-17 (or any applicable successor publication).

However, this information shall not be considered received until both competent authorities have received copies of all materials submitted to either Contracting State by the concerned person(s) in connection with the mutual agreement procedure.

17. The competent authorities of the Contracting States may modify or supplement the above rules and procedures as necessary to more effectively implement the intent of paragraph 6 of Article XXVI to eliminate double taxation.

If the above proposal is acceptable to your Government, I further propose that this Note, which is authentic in English and in French, and your reply Note reflecting such acceptance shall constitute an agreement between our two Governments which shall enter into force on the date of entry into force of the Protocol and shall be annexed to the Convention as Annex A thereto and shall therefore be an integral part of the Convention.

Please accept, Excellency, the assurance of my highest consideration.

I am pleased to inform you that the Government of the United States of America accepts the proposal set forth in your Note. The Government of the United States of America further agrees that your Note, which is authentic in English and in French, together with this reply, shall constitute an Agreement between the United States of America and Canada, which shall enter into force on the date of entry into force of the Protocol amending the Convention between the United States of America and Canada with Respect to Taxes on Income and on Capital done at Washington on 26 September 1980, as amended by the Protocols done on 14 June 1983, 28 March 1984, 17 March 1995, and 29 July 1997 (the "Convention"), and shall be annexed to the Convention as Annex A thereto, and shall therefore be an integral part of the Convention.

Accept, Excellency, the renewed assurances of my highest consideration.

Diplomatic Notes to Fifth Protocol (Annex B)

Protocol Amending the Convention Between Canada and the United States of America With Respect to Taxes on Income and on Capital

Diplomatic Notes: Annex B to the Convention

September 21, 2007

Note no. JLAB-0112

Excellency,

I have the honor to refer to the Protocol (the "Protocol") done today between Canada and the United States of America amending the Convention with Respect to Taxes on Income and on Capital done at Washington on 26 September 1980, as amended by the Protocols done on 14 June 1983, 28 March 1984, 17 March 1995, and 29 July 1997 (the "Convention").

In the course of the negotiations leading to the conclusion of the Protocol done today, the negotiators developed and agreed upon a common understanding and interpretation of certain provisions of the Convention. These understandings and interpretations are intended to give guidance both to the taxpayers and to the tax authorities of our two countries in interpreting various provisions contained in the Convention.

I, therefore, have the further honor to propose on behalf of the Government of Canada the following understandings and interpretations:

1. Meaning of undefined terms

For purposes of paragraph 2 of Article III (General Definitions) of the Convention, it is understood that, as regards the application at any time of the Convention, and any protocols thereto by a Contracting State, any term not defined therein shall, unless the context otherwise requires or the competent authorities otherwise agree to a common meaning pursuant to Article XXVI (Mutual Agreement Procedure), have the meaning which it has at that time under the law of that State for the purposes of the taxes to which the Convention, and any protocols thereto apply, any meaning under the applicable tax laws of that State prevailing over a meaning given to the term under other laws of that State.

2. Meaning of connected projects

For the purposes of applying subparagraph (*b*) of paragraph 9 of Article V (Permanent Establishment) of the Convention, it is understood that projects shall be considered to be connected if they constitute a coherent whole, commercially and geographically.

3. Definition of the term "dividends"

It is understood that distributions from Canadian income trusts and royalty trusts that are treated as dividends under the taxation laws of Canada shall be considered dividends for the purposes of Article X (Dividends) of the Convention.

4. Deletion of Article XIV (Independent Personal Services)

It is understood that the deletion of Article XIV (Independent Personal Services) of the Convention confirms the negotiators' shared understanding that no practical distinction can be made between a "fixed base" and a "permanent establishment", and that independent personal services of a resident of a Contracting State, to the extent that such resident is found to have a permanent establishment in the other Contracting State with respect to those services, shall be subject to the provisions of Article VII (Business Profits).

5. Former permanent establishments and fixed bases

It is understood that the modifications of paragraph 2 of Article VII (Business Profits), paragraph 4 of Article X (Dividends), paragraph 3 of Article XI (Interest) and paragraph 5 of Article XII (Royalties) of the Convention to refer to business having formerly been carried on through a permanent establishment confirm the negotiators' shared understanding of the meaning of the existing provisions, and thus are clarifying only.

6. Stock options

For purposes of applying Article XV (Income from Employment) and Article XXIV (Elimination of Double Taxation) of the Convention to income of an individual in connection with the exercise or other disposal (including a deemed exercise or disposal) of an option that was granted to the individual as an employee of a corporation or mutual fund trust to acquire shares or units ("securities") of the employer (which is considered, for the purposes of this Note, to include any related entity) in respect of services rendered or to be rendered by such individual, or in connection with the disposal (including a deemed disposal) of a security acquired under such an option, the following principles shall apply:

(a) Subject to subparagraph 6(*b*) of this Note, the individual shall be deemed to have derived, in respect of employment exercised in a Contracting State, the same proportion of such income that the number of days in the period that begins on the day the option was granted, and that ends on the day the option was exercised or disposed of, on which the individual's principal place of employment for the employer was situated in that Contracting State is of the total number of days in the period on which the individual was employed by the employer; and

(b) Notwithstanding subparagraph 6(*a*) of this Note, if the competent authorities of both Contracting States agree that the terms of the option were such that the grant of the option will be appropriately treated as transfer of ownership of the securities (e.g., because the options were in-the-money or not subject to a substantial vesting period), then they may agree to attribute income accordingly.

7. Taxes imposed by reason of death

It is understood that,

(a) Where a share or option in respect of a share is property situated in the United States for the purposes of Article XXIX B (Taxes Imposed by Reason of Death) of the Convention, any employment income in respect of the share or option shall be, for the purpose of clause 6(*a*)(ii) of that Article, income from property situated in the United States;

(b) Where property situated in the United States for the purposes of Article XXIX B (Taxes Imposed by Reason of Death) of the Convention is held by an entity that is a resident of Canada and that is described in subparagraph 1(*b*) of Article IV (Residence) of the Convention, any income out of or under the entity in respect of the property shall be, for the purpose of subparagraph 6(*a*)(ii) of Article XXIX B (Taxes Imposed by Reason of Death), income from property situated in the United States; and

(c) Where a tax is imposed in Canada by reason of death in respect of an entity that is a resident of Canada and that is described in subparagraph 1(*b*) of Article IV (Residence) of the Convention, that tax shall be, for the purpose of paragraph 7 of Article XXIX B (Taxes Imposed by Reason of Death) of the Convention, imposed in respect of property situated in Canada.

8. Royalties — information in connection with franchise agreement

It is understood that the reference in subparagraph 3(*c*) of Article XII (Royalties) of the Convention to information provided in connection with a franchise agreement shall generally refer only to information that governs or otherwise deals with the operation (whether by the payer or by another person) of the franchise, and not to other information concerning industrial, commercial or scientific experience that is held for resale or license.

9. With reference to Article VII (Business Profits)

It is understood that the business profits to be attributed to a permanent establishment shall include only the profits derived from the assets used, risks assumed and activities performed by the permanent establishment. The principles of the OECD Transfer Pricing Guidelines shall apply for purposes of determining the profits attributable to a permanent establishment, taking into account the different economic and legal circumstances of a single entity. Accordingly, any of the methods described therein as acceptable methods for determining an arm's length result may be used to determine the income of a permanent establishment so long as those methods are applied in accordance with the Guidelines. In particular, in determining the amount of attributable profits, the permanent establishment shall be treated as having the same amount of capital that it would need to support its activities if it were a distinct and separate enterprise engaged in the same or similar activities. With respect to financial institutions other than insurance companies, a Contracting State may determine the amount of capital to be attributed to a permanent establishment by allocating the institution's total equity between its various offices on the basis of the proportion of the financial institution's risk-weighted assets attributable to each of them. In the case of an insurance company, there shall be attributed to a permanent establishment not only premiums earned through the permanent establishment, but that portion of the insurance company's overall investment income from reserves and surplus that supports the risks assumed by the permanent establishment.

10. Qualifying retirement plans

For purposes of paragraph 15 of Article XVIII (Pensions and Annuities) of the Convention, it is understood that

(a) In the case of Canada, the term "qualifying retirement plan" shall include the following and any identical or substantially similar plan that is established pursuant to legislation introduced after the date of signature of the Protocol: registered pension plans under section 147.1 of the *Income Tax Act*, registered retirement savings plans under section 146 that are part of a group arrangement described in subsection 204.2(1.32), deferred profit sharing plans under section 147, and any registered retirement savings plan under section 146 or registered retirement income fund under section 146.3 that is funded exclusively by rollover contributions from one or more of the preceding plans; and

(b) In the case of the United States, the term "qualifying retirement plan" shall include the following and any identical or substantially similar plan that is established pursuant to legislation introduced after the date of signature of the Protocol: qualified plans under section 401(*a*) of the *Internal Revenue Code* (including section 401(*k*) arrangements), individual retirement plans that are part of a simplified employee pension plan that satisfies section 408(*k*), section 408(*p*) simple retirement accounts, section 403(a) qualified annuity plans, section 403(b) plans, section 457(*g*) trusts providing benefits under section 457(*b*) plans, the Thrift Savings Fund (section 7701(*j*)), and any individual retirement account under section 408(*a*) that is funded exclusively by rollover contributions from one or more of the preceding plans.

11. Former long-term residents

The term "long-term resident" shall mean any individual who is a lawful permanent resident of the United States in eight or more taxable years during the preceding 15 taxable years. In determining whether the threshold in the preceding sentence is met, there shall not count any year in which the individual is treated as a resident of Canada under the Convention, or as a resident of any country other than the United States under the provisions of any other U.S. tax treaty, and, in either case, the individual does not waive the benefits of such treaty applicable to residents of the other country.

12. Special source rules relating to former citizens and long-term residents

For purposes of subparagraph 2(*b*) of Article XXIX (Miscellaneous Rules) of the Convention, "income deemed under the domestic law of the United States to arise from such sources" shall consist of gains from the sale or exchange of stock of a U.S. company or debt obligations of a U.S. person, the United States, a State, or a political subdivision thereof, or the District of Columbia, gains from property (other than stock or debt obligations) located in the United States, and, in certain cases, income or gain derived from the sale of stock of a non-U.S. company or a disposition of property contributed to such non-U.S. company where such company would be a controlled foreign corporation with respect to the person if such person had continued to be a U.S. person. In addition, an individual who exchanges property that gives rise or would give rise to U.S.-source income for property that gives rise to foreign-source income shall be treated as if he or she had sold the property that would give rise to U.S. source income for its fair market value, and any consequent gain shall be deemed to be income from sources within the United States.

13. Exchange of Information

It is understood that the standards and practices described in Article XXVII (Exchange of Information) of the Convention are to be in no respect less effective than those described in the Model Agreement on Exchange of Information on Tax Matters developed by the OECD Global Forum Working Group on Effective Exchange of Information.

14. Limitation on Benefits

The United States and Canada are part of the same regional free trade area and, as a result, the Convention reflects the fact that publicly traded companies resident in one country may be traded on a stock exchange of the other country. Nevertheless, the Contracting States agree that in making future amendments to the Convention, they shall consult on possible modifications to subparagraph 2(*c*) of Article XXIX A (Limitation on Benefits) of the Convention (including, modifications necessary to discourage corporate inversion transactions).

If the above proposal is acceptable to your Government, I further propose that this Note, which is authentic in English and in French, and your reply Note reflecting such acceptance shall constitute an agreement between our two Governments which shall enter into force on the date of entry into force of the Protocol and shall be annexed to the Convention as Annex B thereto and shall therefore be an integral part of the Convention.

Please accept, Excellency, the assurance of my highest consideration.

Maxime Bernier

Minister of Foreign Affairs

Excellency,

I have the honour to acknowledge receipt of your Note No. JLAB-0112 dated September 21, 2007, which states in its entirety as follows:

Excellency,

I have the honor to refer to the Protocol (the "Protocol") done today between Canada and the United States of America amending the Convention with Respect to Taxes on Income and on Capital done at Washington on 26 September 1980, as amended by the Protocols done on 14 June 1983, 28 March 1984, 17 March 1995, and 29 July 1997 (the "Convention").

In the course of the negotiations leading to the conclusion of the Protocol done today, the negotiators developed and agreed upon a common understanding and interpretation of certain provisions of the Convention. These understandings and interpretations are intended to give guidance both to the taxpayers and to the tax authorities of our two countries in interpreting various provisions contained in the Convention.

I, therefore, have the further honor to propose on behalf of the Government of Canada the following understandings and interpretations:

1. Meaning of undefined terms

For purposes of paragraph 2 of Article III (General Definitions) of the Convention, it is understood that, as regards the application at any time of the Convention, and any protocols thereto by a Contracting State, any term not defined therein shall, unless the context otherwise requires or the competent authorities otherwise agree to a common meaning pursuant to Article XXVI (Mutual Agreement Procedure), have the meaning which it has at that time under the law of that State for the purposes of the taxes to which the Convention, and any protocols thereto apply, any meaning under the applicable tax laws of that State prevailing over a meaning given to the term under other laws of that State.

2. Meaning of connected projects

For the purposes of applying subparagraph (*b*) of paragraph 9 of Article V (Permanent Establishment) of the Convention, it is understood that projects shall be considered to be connected if they constitute a coherent whole, commercially and geographically.

3. Definition of the term "dividends"

It is understood that distributions from Canadian income trusts and royalty trusts that are treated as dividends under the taxation laws of Canada shall be considered dividends for the purposes of Article X (Dividends) of the Convention.

4. Deletion of Article XIV (Independent Personal Services)

It is understood that the deletion of Article XIV (Independent Personal Services) of the Convention confirms the negotiators' shared understanding that no practical distinction can be made between a "fixed base" and a "permanent establishment", and that independent personal services of a resident of a Contracting State, to the extent that such resident is found to have a permanent establishment in the other Contracting State with respect to those services, shall be subject to the provisions of Article VII (Business Profits).

5. Former permanent establishments and fixed bases

It is understood that the modifications of paragraph 2 of Article VII (Business Profits), paragraph 4 of Article X (Dividends), paragraph 3 of Article XI (Interest) and paragraph 5 of Article XII (Royalties) of the Convention to refer to business having formerly been carried on through a permanent establishment confirm the negotiators' shared understanding of the meaning of the existing provisions, and thus are clarifying only.

6. Stock options

For purposes of applying Article XV (Income from Employment) and Article XXIV (Elimination of Double Taxation) of the Convention to income of an individual in connection with the exercise or other disposal (including a deemed exercise or disposal) of an

option that was granted to the individual as an employee of a corporation or mutual fund trust to acquire shares or units ("securities") of the employer (which is considered, for the purposes of this Note, to include any related entity) in respect of services rendered or to be rendered by such individual, or in connection with the disposal (including a deemed disposal) of a security acquired under such an option, the following principles shall apply:

(a) Subject to subparagraph 6(*b*) of this Note, the individual shall be deemed to have derived, in respect of employment exercised in a Contracting State, the same proportion of such income that the number of days in the period that begins on the day the option was granted, and that ends on the day the option was exercised or disposed of, on which the individual's principal place of employment for the employer was situated in that Contracting State is of the total number of days in the period on which the individual was employed by the employer; and

(b) Notwithstanding subparagraph 6(*a*) of this Note, if the competent authorities of both Contracting States agree that the terms of the option were such that the grant of the option will be appropriately treated as transfer of ownership of the securities (e.g., because the options were in-the-money or not subject to a substantial vesting period), then they may agree to attribute income accordingly.

7. Taxes imposed by reason of death

It is understood that,

(a) Where a share or option in respect of a share is property situated in the United States for the purposes of Article XXIX B (Taxes Imposed by Reason of Death) of the Convention, any employment income in respect of the share or option shall be, for the purpose of clause 6(*a*)(ii) of that Article, income from property situated in the United States;

(b) Where property situated in the United States for the purposes of Article XXIX B (Taxes Imposed by Reason of Death) of the Convention is held by an entity that is a resident of Canada and that is described in subparagraph 1(*b*) of Article IV (Residence) of the Convention, any income out of or under the entity in respect of the property shall be, for the purpose of subparagraph 6(*a*)(ii) of Article XXIX B (Taxes Imposed by Reason of Death), income from property situated in the United States; and

(c) Where a tax is imposed in Canada by reason of death in respect of an entity that is a resident of Canada and that is described in subparagraph 1(*b*) of Article IV (Residence) of the Convention, that tax shall be, for the purpose of paragraph 7 of Article XXIX B (Taxes Imposed by Reason of Death) of the Convention, imposed in respect of property situated in Canada.

8. Royalties — information in connection with franchise agreement

It is understood that the reference in subparagraph 3(*c*) of Article XII (Royalties) of the Convention to information provided in connection with a franchise agreement shall generally refer only to information that governs or otherwise deals with the operation (whether by the payer or by another person) of the franchise, and not to other information concerning industrial, commercial or scientific experience that is held for resale or license.

9. With reference to Article VII (Business Profits)

It is understood that the business profits to be attributed to a permanent establishment shall include only the profits derived from the assets used, risks assumed and activities performed by the permanent establishment. The principles of the OECD Transfer Pricing Guidelines shall apply for purposes of determining the profits attributable to a permanent establishment, taking into account the different economic and legal circumstances of a single entity. Accordingly, any of the methods described therein as acceptable methods for determining an arm's length result may be used to determine the income of a permanent establishment so long as those methods are applied in accordance with the Guidelines. In particular, in determining the amount of attributable profits, the permanent establishment shall be treated as having the same amount of capital that it would need to support its activities if it were a distinct and separate enterprise engaged in the same or similar activities. With respect to financial institutions other than insurance companies, a Contracting State may determine the amount of capital to be attributed to a permanent establishment by allocating the institution's total equity between its various offices on the basis of the proportion of the financial institution's risk-weighted assets attributable to each of them. In the case of an insurance company, there shall be attributed to a permanent establishment not only premiums earned through the permanent establishment, but that portion of the insurance company's overall investment income from reserves and surplus that supports the risks assumed by the permanent establishment.

10. Qualifying retirement plans

For purposes of paragraph 15 of Article XVIII (Pensions and Annuities) of the Convention, it is understood that

(a) In the case of Canada, the term "qualifying retirement plan" shall include the following and any identical or substantially similar plan that is established pursuant to legislation introduced after the date of signature of the Protocol: registered pension plans under section 147.1 of the *Income Tax Act*, registered retirement savings plans under section 146 that are part of a group arrangement described in subsection 204.2(1.32), deferred profit sharing plans under section 147, and any registered retirement savings plan under section 146 or registered retirement income fund under section 146.3 that is funded exclusively by rollover contributions from one or more of the preceding plans; and

(b) In the case of the United States, the term "qualifying retirement plan" shall include the following and any identical or substantially similar plan that is established pursuant to legislation introduced after the date of signature of the Protocol: qualified plans under section 401(*a*) of the *Internal Revenue Code* (including section 401(k) arrangements), individual retirement plans that are part of a simplified employee pension plan that satisfies section 408(*k*), section 408(*p*) simple retirement accounts, section 403(*a*) qualified annuity plans, section 403(*b*) plans, section 457(*g*) trusts providing benefits under section 457(*b*) plans, the Thrift Savings Fund (section 7701(*j*)), and any individual retirement account under section 408(*a*) that is funded exclusively by rollover contributions from one or more of the preceding plans.

11. Former long-term residents

The term "long-term resident" shall mean any individual who is a lawful permanent resident of the United States in eight or more taxable years during the preceding 15 taxable years. In determining whether the threshold in the preceding sentence is met, there shall not count any year in which the individual is treated as a resident of Canada under the Convention, or as a resident of any country other than the United States under the provisions of any other U.S. tax treaty, and, in either case, the individual does not waive the benefits of such treaty applicable to residents of the other country.

12. Special source rules relating to former citizens and long-term residents

For purposes of subparagraph 2(*b*) of Article XXIX (Miscellaneous Rules) of the Convention, "income deemed under the domestic law of the United States to arise from such sources" shall consist of gains from the sale or exchange of stock of a U.S. company or debt obligations of a U.S. person, the United States, a State, or a political subdivision thereof, or the District of Columbia, gains from property (other than stock or debt obligations) located in the United States, and, in certain cases, income or gain derived from the sale of stock of a non-U.S. company or a disposition of property contributed to such non-U.S. company where such company would be a controlled foreign corporation with respect to the person if such person had continued to be a U.S. person. In addition, an individual who exchanges property that gives rise or would give rise to U.S.-source income for property that gives rise to foreign-source income shall be treated as if he or she had sold the property that would give rise to U.S. source income for its fair market value, and any consequent gain shall be deemed to be income from sources within the United States.

13. Exchange of Information

It is understood that the standards and practices described in Article XXVII (Exchange of Information) of the Convention are to

be in no respect less effective than those described in the Model Agreement on Exchange of Information on Tax Matters developed by the OECD Global Forum Working Group on Effective Exchange of Information.

14. Limitation on Benefits

The United States and Canada are part of the same regional free trade area and, as a result, the Convention reflects the fact that publicly traded companies resident in one country may be traded on a stock exchange of the other country. Nevertheless, the Contracting States agree that in making future amendments to the Convention, they shall consult on possible modifications to subparagraph 2(*c*) of Article XXIX A (Limitation on Benefits) of the Convention (including, modifications necessary to discourage corporate inversion transactions).

If the above proposal is acceptable to your Government, I further propose that this Note, which is authentic in English and in French, and your reply Note reflecting such acceptance shall constitute an agreement between our two Governments which shall enter into force on the date of entry into force of the Protocol and shall be annexed to the Convention as Annex B thereto, and shall therefore be an integral part of the Convention.

Please accept, Excellency, the assurance of my highest consideration.

I am pleased to inform you that the Government of the United States of America accepts the proposal set forth in your Note. The Government of the United States of America further agrees that your Note, which is authentic in English and in French, together with this reply, shall constitute an Agreement between the United States of America and Canada, which shall enter into force on the date of entry into force of the Protocol amending the Convention between the United States of America and Canada with Respect to Taxes on Income and on Capital done at Washington on 26 September 1980, as amended by the Protocols done on 14 June 1983, 28 March 1984, 17 March 1995, and 29 July 1997 (the "Convention"), and shall be annexed to the Convention as Annex B thereto, and shall therefore be an integral part of the Convention.

Accept, Excellency, the renewed assurances of my highest consideration.

Technical Explanation of the Canada–U.S. Convention

Between the United States of America and Canada with Respect to Taxes on Income and on Capital Signed at Washington, D.C. on September 26, 1980, as Amended by the Protocol Signed at Ottawa on June 14, 1983 and the Protocol Signed at Washington on March 28, 1984.

Introduction

This is a technical explanation of the Convention between the United States and Canada signed on September 26, 1980, as amended by the Protocols signed on June 14, 1983 and March 28, 1984 ("the Convention"). References are made to the Convention and Protocol between Canada and the United States with respect to Income Taxes signed on March 4, 1942, as amended by the Convention signed on June 12, 1950, the Convention signed on August 8, 1956 and the Supplementary Convention signed on October 25, 1966 ("the 1942 Convention"). These references are intended to put various provisions of the Convention into context. The technical explanation does not, however, provide a complete comparison between the Convention and the 1942 Convention. Moreover, neither the Convention nor the technical explanation is intended to have implications for the interpretation of the 1942 Convention.

The technical explanation is an official guide to the Convention. It reflects policies behind particular Convention provisions, as well as understandings reached with respect to the interpretation and application of the Convention.

Article I — Personal Scope

Article I provides that the Convention is generally applicable to persons who are residents of either Canada or the United States or both Canada and the United States. The word "generally" is used because certain provisions of the Convention apply to persons who are residents of neither Canada nor the United States.

Article II — Taxes Covered

Paragraph 1 states that the Convention applies to taxes "on income and on capital" imposed on behalf of Canada and the United States, irrespective of the manner in which such taxes are levied. Neither Canada nor the United States presently impose taxes on capital. Paragraph 1 is not intended either to broaden or to limit paragraph 2, which provides that the Convention shall apply, in the case of Canada, to the taxes imposed by the Government of Canada under Parts I, XIII, and XIV of the *Income Tax Act* and, in the case of the United States, to the Federal income taxes imposed by the *Internal Revenue Code* ("the Code").

National taxes not generally covered by the Convention include, in the case of the United States, the estate, gift, and generation-skipping transfer taxes, the Windfall Profits Tax, Federal unemployment taxes, social security taxes imposed under sections 1401, 3101, and 3111 of the Code, and the excise tax on insurance premiums imposed under Code section 4371. The Convention also does not generally cover the Canadian excise tax on net insurance premiums paid by residents of Canada for coverage of a risk situated in Canada, the Petroleum and Gas Revenue Tax (PGRT) and the Incremental Oil Revenue Tax (IORT). However, the Convention has the effect of covering the Canadian social security tax in certain respects because under Canadian domestic tax law no such tax is due if there is no income subject to tax under the *Income Tax Act* of Canada. Taxes imposed by the states of the United States, and by the provinces of Canada, are not generally covered by the Convention. However, if such taxes are imposed in accordance with the provisions of the Convention, a foreign tax credit is ensured by paragraph 7 of Article XXIV (Elimination of Double Taxation).

Paragraph 2 contrasts with paragraph 1 of the Protocol to the 1942 Convention, which refers to "Dominion income taxes." In addition, unlike the 1942 Convention, the Convention does not contain a reference to "surtaxes and excess-profits taxes."

Paragraph 3 provides that the Convention also applies to any taxes identical or substantially similar to the taxes on income in existence on September 26, 1980 which are imposed in addition to or in place of the taxes existing on that date. Similarly, taxes on capital imposed after that date are to be covered.

It was agreed that Part I of the *Income Tax Act* of Canada is a covered tax even though Canada has made certain modifications in the *Income Tax Act* after the signature of the Convention and before the signature of the 1983 Protocol. In particular, Canada has enacted a low flat rate tax on petroleum production (the PGRT) which, at the time of the signature of the 1983 Protocol, is imposed generally at a statutory rate of 14.67 per cent for the period June 1, 1982 to May 31, 1983, and at 16 per cent thereafter, generally reduced to an effective rate of 11 per cent or 12 per cent after deducting a 25 per cent resource allowance. The PGRT is not deductible in computing income for Canadian income tax purposes. This agreement is not intended to have implications for any other convention or for the interpretation of Code sections 901 and 903. Further, the PGRT and IORT are not taxes described in paragraphs 2 or 3.

Paragraph 4 provides that, notwithstanding paragraphs 2 and 3, the Convention applies to certain United States taxes for certain specified purposes: the accumulated earnings tax and personal holding company tax are covered only to the extent necessary to implement the provisions of paragraphs 5 and 8 of Article X (Dividends); the excise taxes imposed with respect to private foundations are covered only to the extent necessary to implement the provisions of paragraph 4 of Article XXI (Exempt Organizations); and the social security taxes imposed under sections 1401, 3101, and 3111 of the Code are covered only to the extent necessary to implement the provisions of paragraph 4 of Article XXIX (Miscellaneous Rules). The pertinent provisions of Articles X, XXI, and XXIX are described below. Canada has no national taxes similar to the United States accumulated earnings tax, personal holding company tax, or excise taxes imposed with respect to private foundations.

Article II does not specifically refer to interest, fines and penalties. Thus, each Contracting State may, in general, impose interest, fines, and penalties or pay interest pursuant to its domestic laws. Any question whether such items are being imposed or paid in connection with covered taxes in a manner consistent with provisions of the Convention, such as Article XXV (Non-Discrimination), may, however, be resolved by the competent authorities pursuant to Article XXVI (Mutual Agreement Procedure). See, however, the discussion below of the treatment of certain

interest under Articles XXIX (Miscellaneous Rules) and XXX (Entry Into Force).

Article III — General Definitions

Article III provides definitions and general rules of interpretation for the Convention. Paragraph 1(a) states that the term "Canada," when used in a geographical sense, means the territory of Canada, including any area beyond the territorial seas of Canada which, under international law and the laws of Canada, is an area within which Canada may exercise rights with respect to the seabed and subsoil and their natural resources. This definition differs only in form from the definition of Canada in the 1942 Convention; paragraph 1(a) omits the reference in the 1942 Convention to "the Provinces, the Territories and Sable Island" as unnecessary. Paragraph 1(b)(i) defines the term "United States" to mean the United States of America. The term does not include Puerto Rico, the Virgin Islands, Guam, or any other United States possession or territory.

Paragraph 1(b)(ii) states that when the term "United States" is used in a geographical sense the term also includes any area beyond the territorial seas of the United States which, under international law and the laws of the United States, is an area within which the United States may exercise rights with respect to the seabed and subsoil and their natural resources.

Paragraph 1(c) defines the term "Canadian tax" to mean the taxes imposed by the Government of Canada under Parts I, XIII, and XIV of the *Income Tax Act* as in existence on September 26, 1980 and any identical or substantially similar taxes on income imposed by the Government of Canada after that date and which are in addition to or in place of the then existing taxes. The term does not extend to capital taxes, if and when such taxes are ever imposed by Canada.

Paragraph 1(d) defines the term "United States tax" to mean the Federal income taxes imposed by the *Internal Revenue Code* as in existence on September 26, 1980 and any identical or substantially similar taxes on income imposed by the United States after that date in addition to or in place of the then existing taxes. The term does not extend to capital taxes, nor to the United States taxes identified in paragraph 4 of Article II (Taxes Covered).

Paragraph 1(e) provides that the term "person" includes an individual, an estate, a trust, a company, and any other body of persons. Although both the United States and Canada do not regard partnerships as taxable entities, the definition in the paragraph is broad enough to include partnerships where necessary.

Paragraph 1(f) defines the term "company" to mean any body corporate or any entity which is treated as a body corporate for tax purposes.

The term "competent authority" is defined in paragraph 1(g) to mean, in the case of Canada, the Minister of National Revenue or his authorized representative and, in the case of the United States, the Secretary of the Treasury or his delegate. The Secretary of the Treasury has delegated the general authority to act as competent authority to the Commissioner of the Internal Revenue Service, who has redelegated such authority to the Associate Commissioner (Operations). The Assistant Commissioner (Examination) has been delegated the authority to administer programs for simultaneous, spontaneous and industry wide exchanges of information. The Director, Foreign Operations District, has been delegated the authority to administer programs for routine and specific exchanges of information and mutual assistance in collection. The Assistant Commissioner (Criminal Investigations) has been delegated the authority to administer the simultaneous criminal investigation program with Canada.

Paragraph 1(h) defines the term "international traffic" to mean, with reference to a resident of a Contracting State, any voyage of a ship or aircraft to transport passengers or property (whether or not operated or used by that resident), except where the principal purpose of the voyage is transport between points within the other Contracting State. For example, in determining for Canadian tax purposes whether a United States resident has derived profits from the operation of ships or aircraft in international traffic, a voyage of a ship or aircraft (whether or not operated or used by that resident) that includes stops in both Contracting States will not be international traffic if the principal purpose of the voyage is to transport passengers or property from one point in Canada to another point in Canada.

Paragraph 1(i) defines the term "State" to mean any national State, whether or not a Contracting State.

Paragraph 1(j) establishes "the 1942 Convention" as the term to be used throughout the Convention for referring to the pre-existing income tax treaty relationship between the United States and Canada.

Paragraph 2 provides that, in the case of a term not defined in the Convention, the domestic tax law of the Contracting State applying to the Convention shall control, unless the context in which the term is used requires a definition independent of domestic tax law or the competent authorities reach agreement on a meaning pursuant to Article XXVI (Mutual Agreement Procedure). The term "context" refers to the purpose and background of the provision in which the term appears.

Pursuant to the provisions of Article XXVI, the competent authorities of the Contracting States may resolve any difficulties or doubts as to the interpretation or application of the Convention. An agreement by the competent authorities with respect to the meaning of a term used in the Convention would supersede conflicting meanings in the domestic laws of the Contracting States.

Article IV — Residence

Article IV provides a detailed definition of the term "resident of a Contracting State." The definition begins with a person's liability to tax as a resident under the respective taxation laws of the Contracting States. A person who, under those laws, is a resident of one Contracting State and not the other need look no further. However, the Convention definition is also designed to assign residence to one State or the other for purposes of the Convention in circumstances where each of the Contracting States believes a person to be its resident. The Convention definition is, of course, exclusively for purposes of the Convention.

Paragraph 1 provides that the term "resident of a Contracting State" means any person who, under the laws of that State, is liable to tax therein by reason of his domicile, residence, place of management, place of incorporation, or any other criterion of a similar nature. The phrase "any other criterion of a similar nature" includes, for U.S. purposes, an election under the Code to be treated as a U.S. resident. An estate or trust is, however, considered to be a resident of a Contracting State only to the extent that income derived by such estate or trust is liable to tax in that State either in its hands or in the hands of its beneficiaries. To the extent that an estate or trust is considered a resident of a Contracting State under this provision, it can be a "beneficial owner" of items of income specified in other articles of the Convention — e.g., paragraph 2 of Article X (Dividends).

Paragraphs 2, 3, and 4 provide rules to determine a single residence for purposes of the Convention for persons resident in both Contracting States under the rules set forth in paragraph 1. Paragraph 2 deals with individuals. A "dual resident" individual is initially deemed to be a resident of the Contracting State in which he has a permanent home available to him. If the individual has a permanent home available to him in both States or in neither, he is deemed to be a resident of the Contracting State with which his personal and economic relations are closer. If the personal and economic relations of an individual are not closer to one Contracting State than to the other, the individual is deemed to be a resident of the Contracting State in which he has an habitual abode. If he has such an abode in both States or in neither State, he is deemed to be a resident of the Contracting State of which he is a citizen. If the individual is a citizen of both States or of neither, the competent authorities are to settle the status of the individual by mutual agreement.

Paragraph 3 provides that if, under the provisions of paragraph 1, a company is a resident of both Canada and the United States, then it shall be deemed to be a resident of the State under whose laws (including laws of political subdivisions) it was created. Paragraph 3 does not refer to the State in which a company is organized, thus making clear that the tie-breaker rule for a company is controlled by the State of the company's original creation. Various jurisdictions may allow local incorporation of an entity that is already organized and incorporated under the laws of another country. Paragraph 3 provides certainty in both the United States and Canada with respect to the treatment of such an entity for purposes of the Convention.

Paragraph 4 provides that where, by reason of the provisions of paragraph 1, an estate, trust, or other person, other than an individual or a company, is a resident of both Contracting States, the competent authorities of the States shall by mutual agreement endeavor to settle the question and determine the mode of application of the Convention to such person. This delegation of authority to the competent authorities complements the provisions of Article XXVI (Mutual Agreement Procedure), which implicitly grant such authority.

Paragraph 5 provides a special rule for certain government employees, their spouses, and dependent children. An individual is deemed to be a resident of a Contracting State if he is an employee of that State or of a political subdivision, local authority, or instrumentality of that State, is rendering services in the discharge of functions of a governmental nature in any State, and is subjected in the first-mentioned State to "similar obligations" in respect of taxes on income as are residents of the

first-mentioned State. Paragraph 5 provides further that a spouse and dependent children residing with a government employee and also subject to "similar obligations" in respect of income taxes as residents of the first-mentioned State are also deemed to be residents of that State. Paragraph 5 overrides the normal tie-breaker rule of paragraph 2. A U.S. citizen or resident who is an employee of the U.S. government in a foreign country or who is a spouse or dependent of such employee is considered to be subject in the United States to "similar obligations" in respect of taxes on income as those imposed on residents of the United States, notwithstanding that such person may be entitled to the benefits allowed by sections 911 or 912 of the Code.

Article V — Permanent Establishment

Paragraph 1 provides that for the purposes of the Convention the term "permanent establishment" means a fixed place of business through which the business of a resident of a Contracting State is wholly or partly carried on. Article V does not use the term "enterprise of a Contracting State," which appears in the 1942 Convention. Thus, paragraph 1 avoids introducing an additional term into the Convention. The omission of the term is not intended to have any implications for the interpretation of the 1942 Convention.

Paragraph 2 provides that the term "permanent establishment" includes especially a place of management, a branch, an office, a factory, a workshop, and a mine, oil or gas well, quarry, or any other place of extraction of natural resources. Paragraph 3 adds that a building site or construction or installation project constitutes a permanent establishment if and only if it lasts for more than 12 months. Paragraph 4 provides that a permanent establishment exists in a Contracting State if the use of an installation or drilling rig or drilling ship in that State to explore for or exploit natural resources lasts for more than 3 months in any 12 month period, but not if such activity exists for a lesser period of time. The competent authorities have entered into an agreement under the 1942 Convention setting forth guidelines as to certain aspects of Canadian taxation of drilling rigs owned by U.S. persons that constitute Canadian permanent establishments. The agreement will be renewed when this Convention enters into force.

Paragraph 5 provides that a person acting in a Contracting State on behalf of a resident of the other Contracting State is deemed to be a permanent establishment of the resident if such person has and habitually exercises in the first-mentioned State the authority to conclude contracts in the name of the resident. This rule does not apply to an agent of independent status, covered by paragraph 7. Under the provisions of paragraph 5, a permanent establishment may exist even in the absence of a fixed place of business. If, however, the activities of a person described in paragraph 5 are limited to the ancillary activities described in paragraph 6, then a permanent establishment does not exist solely on account of the person's activities.

There are a number of minor differences between the provisions of paragraphs 1 through 5 and the analogous provisions of the 1942 Convention. One important deviation is elimination of the rule of the 1942 Convention which deems a permanent establishment to exist in any circumstance where a resident of one State uses substantial equipment in the other State for any period of time. The Convention thus generally raises the threshold for source basis taxation of activities that involve substantial equipment (and that do not otherwise constitute a permanent establishment). Another deviation of some significance is elimination of the rule of the 1942 Convention that considers a permanent establishment to exist where a resident of one State carries on business in the other State through an agent or employee who has a stock of merchandise from which he regularly fills orders that he receives. The Convention provides that a person other than an agent of independent status who is engaged solely in the maintenance of a stock of goods or merchandise belonging to a resident of the other State for the purpose of storage, display or delivery does not constitute a permanent establishment.

Paragraph 6 provides that a fixed place of business used solely for, or an employee described in paragraph 5 engaged solely in, certain specified activities is not a permanent establishment, notwithstanding the provisions of paragraphs 1, 2, and 5. The specified activities are: a) the use of facilities for the purpose of storage, display, or delivery of goods or merchandise belonging to the resident whose business is being carried on; b) the maintenance of a stock of goods or merchandise belonging to the resident for the purpose of storage, display, or delivery; c) the maintenance of a stock of goods or merchandise belonging to the resident for the purpose of processing by another person; d) the purchase of goods or merchandise, or the collection of information, for the resident; and e) advertising, the supply of information, scientific research, or similar activities which have a preparatory or auxiliary character, for the resident. Combinations of the specified activities have the same status as any one of the activities. Thus, unlike the OECD Model Convention, a combination of the activities described in subparagraphs 6(a) through 6(e) need not be of a preparatory or auxiliary character (except as required by subparagraph 6(e)) in order to avoid the creation of a permanent establishment. The reference in paragraph 6(e) to specific activities does not imply that any other particular activities — for example, the servicing of a patent or a know-how contract or the inspection of the implementation of engineering plans — do not fall within the scope of paragraph 6(e) provided that, based on the facts and circumstances, such activities have a preparatory or auxiliary character.

Paragraph 7 provides that a resident of a Contracting State is not deemed to have a permanent establishment in the other Contracting State merely because such resident carries on business in the other State through a broker, general commission agent, or any other agent of independent status, provided that such persons are acting in the ordinary course of their business.

Paragraph 8 states that the fact that a company which is a resident of one Contracting State controls or is controlled by a company which is either a resident of the other Contracting State or which is carrying on a business in the other State, whether through a permanent establishment or otherwise, does not automatically render either company a permanent establishment of the other.

Paragraph 9 provides that, for purposes of the Convention, the provisions of Article V apply in determining whether any person has a permanent establishment in any State. Thus, these provisions would determine whether a person other than a resident of Canada or the United States has a permanent establishment in Canada or the United States, and whether a person resident in Canada or the United States has a permanent establishment in a third State.

Article VI — Income from Real Property

Paragraph 1 provides that income derived by a resident of a Contracting State from real property situated in the other Contracting State may be taxed by that other State. Income from real property includes, for purposes of Article VI, income from agriculture, forestry or other natural resources. Also, while "income derived ... from real property" includes income from rights such as an overriding royalty or a net profits interest in a natural resource, it does not include income in the form of rights to explore for or exploit natural resources which a party receives as compensation for services (e.g., exploration services); the latter income is subject to the provisions of Article VII (Business Profits), XIV (Independent Personal Services), or XV (Dependent Personal Services), as the case may be. As provided by paragraph 3, paragraph 1 applies to income derived from the direct use, letting or use in any other form of real property and to income from the alienation of such property.

Generally speaking, the term "real property" has the meaning which it has under the taxation laws of the Contracting State in which the property in question is situated, in accordance with paragraph 2. In any case, the term includes any option or similar right in respect of real property, the usufruct of real property, and rights to explore for or to exploit mineral deposits, sources, and other natural resources. The reference to "rights to explore for or to exploit mineral deposits, sources and other natural resources" includes rights generating either variable (e.g., computed by reference to the amount of value or production) or fixed payments. The term "real property" does not include ships and aircraft.

Unlike Article XIIIA of the 1942 Convention, Article VI does not contain an election to allow a resident of a Contracting State to compute tax on income from real property situated in the other State on a net basis. Both the *Internal Revenue Code* and the *Income Tax Act* of Canada generally allow for net basis taxation with respect to real estate rental income, although Canada does not permit such an election for natural resource royalties. Also, unlike the 1942 Convention which in Article XI imposes a 15 per cent limitation on the source basis taxation of rental or royalty income from real property, Article VI of the Convention allows a Contracting State to impose tax on such income under its internal law. In Canada the rate of tax on resource royalties is 25 per cent of the gross amount of the royalty, if the income is not attributable to a business carried on in Canada. In an exchange of notes to the Protocol, the United States and Canada agreed to resume negotiations, upon request by either country, to provide an appropriate limit on taxation in the State of source if either country subsequently increases its statutory tax rate now applicable to such royalties (25 per cent in the case of Canada and 30 per cent in the case of the United States).

Article VII — Business Profits

Paragraph 1 provides that business profits of a resident of a Contracting State are taxable only in that State unless the resident carries on

business in the other Contracting State through a permanent establishment situated in that other State. If the resident carries on, or has carried on, business through such a permanent establishment, the other State may tax such business profits but only so much of them as are attributable to the permanent establishment. The reference to a prior permanent establishment ("or has carried on") makes clear that a Contracting State in which a permanent establishment existed has the right to tax the business profits attributable to that permanent establishment, even if there is a delay in the receipt or accrual of such profits until after the permanent establishment has been terminated.

Any business profits received or accrued in taxable years in which the Convention has effect, in accordance with Article XXX (Entry Into Force), which are attributable to a permanent establishment that was previously terminated are subject to tax in the Contracting State in which such permanent establishment existed under the provisions of Article VII.

Paragraph 2 provides that where a resident of either Canada or the United States carries on business in the other Contracting State through a permanent establishment in that other State, both Canada and the United States shall attribute to that permanent establishment business profits which the permanent establishment might be expected to make if it were a distinct and separate person engaged in the same or similar activities under the same or similar conditions and dealing wholly independently with the resident and with any other person related to the resident. The term "related to the resident" is to be interpreted in accordance with paragraph 2 of Article IX (Related Persons). The reference to other related persons is intended to make clear that the test of paragraph 2 is not restricted to independence between a permanent establishment and a home office.

Paragraph 3 provides that, in determining business profits of a permanent establishment, there are to be allowed as deductions those expenses which are incurred for the purposes of the permanent establishment, including executive and administrative expenses, whether incurred in the State in which the permanent establishment is situated or in any other State. However, nothing in the paragraph requires Canada or the United States to allow a deduction for any expenditure which would not generally be allowed as a deduction under its taxation laws. The language of this provision differs from that of paragraph 1 of Article III of the 1942 Convention, which states that in the determination of net industrial and commercial profits of a permanent establishment there shall be allowed as deductions "all expenses, wherever incurred" as long as such expenses are reasonably allocable to the permanent establishment. Paragraph 3 of Article VII of the Convention is not intended to have any implications for interpretation of the 1942 Convention, but is intended to assure that under the Convention deductions are allowed by a Contracting State which are generally allowable by that State.

Paragraph 4 provides that no business profits are to be attributed to a permanent establishment of a resident of a Contracting State by reason of the use of the permanent establishment for merely purchasing goods or merchandise or merely providing executive, managerial, or administrative facilities or services for the resident. Thus, if a company resident in a Contracting State has a permanent establishment in the other State, and uses the permanent establishment for the mere performance of stewardship or other managerial services carried on for the benefit of the resident, this activity will not result in profits being attributed to the permanent establishment.

Paragraph 5 provides that business profits are to be attributed to a permanent establishment by the same method in every taxable period unless there is good and sufficient reason to change such method. In the United States, such a change may be a change in accounting method requiring the approval of the Internal Revenue Service.

Paragraph 6 explains the relationship between the provisions of Article VII and other provisions of the Convention. Where business profits include items of income which are dealt with separately in other Articles of the Convention, those other Articles are controlling.

Paragraph 7 provides a definition for the term "attributable to." Profits "attributable to" a permanent establishment are those derived from the assets or activities of the permanent establishment. Paragraph 7 does not preclude Canada or the United States from using appropriate domestic tax law rules of attribution. The "attributable to" definition does not, for example, preclude a taxpayer from using the rules of section 1.864-4(c)(5) of the Treasury Regulations to assure for U.S. tax purposes that interest arising in the United States is attributable to a permanent establishment in the United States. (Interest arising outside the United States is attributable to a permanent establishment in the United States based on the principles of Regulations sections 1.864-5 and 1.864-6 and Revenue Ruling 75-253, 1975-2 C.B. 203.) Income that would be taxable under the Code and that is "attributable to" a permanent establishment under paragraph 7 is taxable pursuant to Article VII, however, even if such income might under the Code be treated as fixed or determinable annual or periodical gains or income not effectively connected with the conduct of a trade or business within the United States. The "attributable to" definition means that the limited "force-of-attraction" rule of Code section 864(c)(3) does not apply for U.S. tax purposes under the Convention.

Article VIII — Transportation

Paragraph 1 provides that profits derived by a resident of a Contracting State from the operation of ships or aircraft in international traffic are exempt from tax in the other Contracting State, even if, under Article VII (Business Profits), such profits are attributable to a permanent establishment. Paragraph 1 also provides that gains derived by a resident of a Contracting State from the alienation of ships, aircraft or containers (including trailers and related equipment for the transport of containers) used principally in international traffic are exempt from tax in the other Contracting State even if, under Article XIII (Gains), those gains would be taxable in that other State. These rules differ from Article V of the 1942 Convention, which conditions the exemption in the State of source on registration of the ship or aircraft in the other State. Paragraph 1 also applies notwithstanding the provisions of Article XII (Royalties). Thus, to the extent that profits described in paragraph 2 would also fall within Article XII (Royalties) (e.g., rent from the lease of a container), the provisions of Article VIII are controlling.

Paragraph 2(a) provides that profits covered by paragraph 1 include profits from the rental of ships or aircraft operated in international traffic. Such rental profits are included whether the rental is on a time, voyage, or bareboat basis, and irrespective of the State of residence of the operator.

Paragraph 2(b) provides that profits covered by paragraph 1 include profits derived from the use, maintenance or rental of containers, including trailers and related equipment for the transport of containers, if such containers are used in international traffic.

Paragraph 2(c) provides that profits covered by paragraph 1 include profits derived by a resident of a Contracting State from the rental of ships, aircraft, or containers (including trailers and related equipment for the transport of containers), even if not operated in international traffic, as long as such profits are incidental to profits of such person referred to in paragraphs 1, 2(a), or 2(b).

Paragraph 3 states that profits derived by a resident of a Contracting State from a voyage of a ship where the principal purpose of the voyage is to transport passengers or property between points in the other Contracting State is taxable in that other State, whether or not the resident maintains a permanent establishment there. Paragraph 3 overrides the provisions of Article VII. Profits from such a voyage do not qualify for exemption under Article VIII by virtue of the definition of "international traffic" in paragraph 1(h) of Article III (General Definitions). However, profits from a similar voyage by aircraft are taxable in the Contracting State of source only if the profits are attributable to a permanent establishment maintained in that State.

Paragraph 4 provides that profits derived by a resident of a Contracting State engaged in the operation of motor vehicles or a railway as a common carrier or contract carrier, and attributable to the transportation of passengers or property between a point outside the other Contracting State and any other point are exempt from tax in that other State. In addition, profits of such a person from the rental of motor vehicles (including trailers) or railway rolling stock, or from the use, maintenance, or rental of containers (including trailers and related equipment for the transport of containers) used to transport passengers or property between a point outside the other Contracting State and any other point are exempt from tax in that other State.

Paragraph 5 provides that a resident of a Contracting State that participates in a pool, a joint business, or an international operating agency is subject to the provisions of paragraphs 1, 3, and 4 with respect to the profits or gains referred to in paragraphs 1, 3, and 4.

Paragraph 6 states that profits derived by a resident of a Contracting State from the use, maintenance, or rental of railway rolling stock, motor vehicles, trailers, or containers (including trailers and related equipment for the transport of containers) used in the other Contracting State for a period not expected to exceed 183 days in the aggregate in any 12-month period are exempt from tax in that other State except to the extent that the profits are attributable to a permanent establishment, in which case the State of source has the right to tax under Article VII. The provisions of paragraph 6, unlike the provisions of paragraph 4, apply whether or not the resident is engaged in the operation of motor vehicles or a railway as a common carrier or contract carrier. Paragraph 6 overrides the provisions of Article XII (Royalties), which would otherwise permit taxation in the State of source in the circumstances described.

Gains from the alienation of motor vehicles and railway rolling stock derived by a resident of a Contracting State are not affected by paragraph 4 or 6. Such gains would be taxable in the other Contracting State, however, only if the motor vehicles or rolling stock formed part of a permanent establishment maintained there. See paragraphs 2 and 4 of Article XIII.

Article IX — Related Persons

Paragraph 1 authorizes Canada and the United States, as the case may be, to adjust the amount of income, loss, or tax payable by a person with respect to arrangements between that person and a related person in the other Contracting State. Such adjustment may be made when arrangements between related persons differ from those that would obtain between unrelated persons. The term "person" encompasses a company resident in a third State with, for example, a permanent establishment in a Contracting State.

Paragraph 2 provides that, for the purposes of Article IX, a person is deemed to be related to another person if either participates directly or indirectly in the management or control of the other or if any third person or persons participate directly or indirectly in the management or control of both. Thus, if a resident of any State controls directly or indirectly a company resident in Canada and a company resident in the United States, such companies are considered to be related persons for purposes of Article IX. Article IX and the definition of "related person" in paragraph 2 may encompass situations that would not be covered by provisions in the domestic laws of the Contracting States. Nor is the paragraph 2 definition controlling for the definition of "related person" or similar terms appearing in other Articles of the Convention. Those terms are defined as provided in paragraph 2 of Article III (General Definitions).

Paragraph 3 provides that where, pursuant to paragraph 1, an adjustment is made or to be made by a Contracting State, the other Contracting State shall make a corresponding adjustment to the income, loss, or tax of the related person in that other State, provided that the other State agrees with the adjustment and, within six years from the end of the taxable year of the person in the first State to which the adjustment relates, the competent authority of the other State has been notified in writing of the adjustment. The reference to an adjustment which "is made or to be made" does not require a Contracting State to formally propose an adjustment before paragraph 3 becomes pertinent. The notification required by paragraph 3 may be made by any of the related persons involved or by the competent authority of the State which makes or is to make the initial adjustment. The notification must give details regarding the adjustment sufficient to apprise the competent authority receiving the notification of the nature of the adjustment. If the requirements of paragraph 3 are complied with, the corresponding adjustment will be made by the other Contracting State notwithstanding any time or procedural limitations in the domestic law of that State.

Paragraph 4 provides that in a case where the other Contracting State has not been notified as provided in paragraph 3 and if the person whose income, loss, or tax is being adjusted has not received notification of the adjustment within five and one-half years from the end of its taxable year to which the adjustment relates, such adjustment shall not be made to the extent that the adjustment would give rise to double taxation between the United States and Canada. Again, the notification referred to in this paragraph need not be a formal adjustment, but it must be in writing and must contain sufficient details to permit the taxpayer to give the notification referred to in paragraph 3.

If, for example, the Internal Revenue Service proposes to make an adjustment to the income of a U.S. company pursuant to Code section 482, and the adjustment involves an allocation of income from a related Canadian company, the competent authority of Canada must receive written notification of the proposed IRS adjustment within six years from the end of the taxable year of the U.S. company to which the adjustment relates. If such notification is not received in a timely fashion and if the U.S. company does not receive written notification of the adjustment from the IRS within 5-1/2 years from the end of its relevant taxable year, the IRS will unilaterally recede on the proposed section 482 adjustment to the extent that this adjustment would otherwise give rise to double taxation between the United States and Canada. The Internal Revenue Service will determine whether and to what extent the adjustment would give rise to double taxation with respect to income arising in Canada by examining the relevant facts and circumstances such as the amount of foreign tax credits attributable to Canadian taxes paid by the U.S. company, including any carryovers and credits for deemed paid taxes.

Paragraph 5 provides that neither a corresponding adjustment described in paragraph 3 nor the cancelling of an adjustment described in paragraph 4 will be made in any case of fraud, willful default, neglect, or gross negligence on the part of the taxpayer or any related person.

Paragraphs 3 and 4 of Article IX are exceptions to the "saving clause" contained in paragraph 2 of Article XXIX (Miscellaneous Rules), as provided in paragraph 3(a) of Article XXIX. Paragraphs 3 and 4 of Article IX apply to adjustments made or to be made with respect to taxable years for which the Convention has effect as provided in paragraphs 2 and 5 of Article XXX (Entry Into Force).

Article X — Dividends

Paragraph 1 allows a Contracting State to impose tax on its residents with respect to dividends paid by a company which is a resident of the other Contracting State.

Paragraph 2 limits the amount of tax that may be imposed on such dividends by the Contracting State in which the company paying the dividends is resident if the beneficial owner of the dividends is a resident of the other Contracting State. The limitation is 10 per cent of the gross amount of the dividends if the beneficial owner is a company that owns 10 per cent or more of the voting stock of the company paying the dividends; and 15 per cent of the gross amount of the dividends in all other cases. Paragraph 2 does not impose any restrictions with respect to taxation of the profits out of which the dividends are paid.

Paragraph 3 defines the term "dividends," as the term is used in this Article. Each Contracting State is permitted to apply its domestic law rules for differentiating dividends from interest and other disbursements.

Paragraph 4 provides that the limitations of paragraph 2 do not apply if the beneficial owner of the dividends carries on business in the State in which the company paying the dividends is a resident through a permanent establishment or fixed base situated there, and the stockholding in respect of which the dividends are paid is effectively connected with such permanent establishment or fixed base. In such a case, the dividends are taxable pursuant to the provisions of Article VII (Business Profits) or Article XIV (Independent Personal Services), as the case may be. Thus, dividends paid in respect of holdings forming part of the assets of a permanent establishment or fixed base or which are otherwise effectively connected with such permanent establishment or fixed base (i.e., dividends attributable to the permanent establishment or fixed base) will be taxed on a net basis using the rates and rules of taxation generally applicable to residents of the State in which the permanent establishment or fixed base is situated.

Paragraph 5 imposes limitations on the right of Canada or the United States, as the case may be, to impose tax on dividends paid by a company which is a resident of the other Contracting State. The State in which the company is not resident may not tax such dividends except insofar as they are paid to a resident of that State or the holding in respect of which the dividends are paid is effectively connected with a permanent establishment or fixed base in that State. In the case of the United States, such dividends may also be taxed in the hands of a U.S. citizen and certain former citizens, pursuant to the "saving clause" of paragraph 2 of Article XXIX (Miscellaneous Rules). In addition, the Contracting State in which the company is not resident may not subject such company's undistributed profits to any tax. See, however, paragraphs 6, 7, and 8 which, in certain circumstances, qualify the rules of paragraph 5. Neither paragraph 5 nor any other provision of the Convention restricts the ability of the United States to apply the provisions of the Code concerning foreign personal holding companies and controlled foreign corporations.

Paragraph 6 provides that, notwithstanding paragraph 5, a Contracting State in which is maintained a permanent establishment or permanent establishments of a company resident in the other Contracting State may impose tax on such company's earnings, in addition to the tax that would be charged on the earnings of a company resident in that State. The additional tax may not, however, exceed 10 per cent of the amount of the earnings which have not been subjected to such additional tax in previous taxation years. Thus, Canada, which has a branch profits tax in force, may impose that tax up to the 10 per cent limitation in the case of a United States company with one or more permanent establishments in Canada. This branch profits tax may be imposed notwithstanding other rules of the Convention, including paragraph 6 of Article XXV (Non-Discrimination).

For purposes of paragraph 6, the term "earnings" means the excess of business profits attributable to all permanent establishments for a year and previous years over the sum of: a) business losses attributable to such permanent establishments for such years; b) all taxes on profits, whether or not covered by the Convention (e.g., provincial taxes on profits and provincial resource royalties (which Canada considers "taxes") in excess of the mineral resource allowance provided for under the law of Canada), other than the additional tax referred to in paragraph 6; c) profits reinvested in such State; and d) $500,000 (Canadian, or its equivalent in U.S. dollars) less any amounts deducted under paragraph 6(d) with respect to the same or a similar business by the company or an associated company. The deduction

under paragraph 6(d) is available as of the first year for which the Convention has effect, regardless of the prior earnings and tax expenses, if any, of the permanent establishment. The $500,000 deduction is taken into account after other deductions, and is permanent. For the purpose of paragraph 6, references to business profits and business losses include gains and losses from the alienation of property forming part of the business property of a permanent establishment. The term "associated company" includes a company which directly or indirectly controls another company or two companies directly or indirectly controlled by the same person or persons, as well as any two companies that deal with each other not at arm's length. This definition differs from the definition of "related persons" in paragraph 2 of Article IX (Related Persons).

Paragraph 7 provides that, notwithstanding paragraph 5, a Contracting State that does not impose a branch profits tax as described in paragraph 6 (i.e., under current law, the United States) may tax a dividend paid by a company which is a resident of the other Contracting State if at least 50 per cent of the company's gross income from all sources was included in the computation of business profits attributable to one or more permanent establishments which such company had in the first-mentioned State. The dividend subject to such a tax must, however, be attributable to profits earned by the company in taxable years beginning after September 26, 1980 and the 50 per cent test must be met for the three-year period preceding the taxable year of the company in which the dividend is declared (including years ending on or before September 26, 1980) or such shorter period as the company had been in existence prior to that taxable year. Dividends will be deemed to be distributed, for purposes of paragraph 7, first out of profits of the taxation year of the company in which the distribution is made and then out of the profits of the preceding year or years of the company. Paragraph 7 provides further that if a resident of the other Contracting State is the beneficial owner of such dividends, any tax imposed under paragraph 7 is subject to the 10 or 15 per cent limitation of paragraph 2 or the rules of paragraph 4 (providing for dividends to be taxed as business profits or income from independent personal services), as the case may be.

Paragraph 8 provides that, notwithstanding paragraph 5, a company which is a resident of Canada and which, absent the provisions of the Convention, has income subject to tax by the United States may be liable for the United States accumulated earnings tax and personal holding company tax. These taxes can be applied, however, only if 50 per cent or more in value of the outstanding voting shares of the company is owned, directly or indirectly, throughout the last half of its taxable year by residents of a third State or by citizens or residents of the United States, other than citizens of Canada who are resident in the United States but who either do not have immigrant status in the United States or who have not been resident in the United States for more than three taxable years. The accumulated earnings tax is applied to accumulated taxable income calculated without the benefits of the Convention. Similarly, the personal holding company tax is applied to undistributed personal holding company income computed as if the Convention had not come into force.

Article X does not apply to dividends paid by a company which is not a resident of either Contracting State. Such dividends, if they are income of a resident of one of the Contracting States, are subject to tax as provided in Article XXII (Other Income).

Article XI — Interest

Paragraph 1 allows interest arising in Canada or the United States and paid to a resident of the other State to be taxed in the latter State. Paragraph 2 provides that such interest may also be taxed in the Contracting State where it arises, but if a resident of the other Contracting State is the beneficial owner, the tax imposed by the State of source is limited to 15 per cent of the gross amount of the interest.

Paragraph 3 provides a number of exceptions to the right of the source State to impose a 15 per cent tax under paragraph 2. The following types of interest beneficially owned by a resident of a Contracting State are exempt from tax in the State of source: a) interest beneficially owned by a Contracting State, a political subdivision, or a local authority thereof, or an instrumentality of such State, subdivision, or authority, which interest is not subject to tax by such State; b) interest beneficially owned by a resident of a Contracting State and paid with respect to debt obligations issued at arm's length which are guaranteed or insured by such State or a political subdivision thereof, or by an instrumentality of such State or subdivision (not by a local authority or an instrumentality thereof, but only if the guarantor or insurer is not subject to tax by that State; c) interest paid by a Contracting State, a political subdivision, or a local authority thereof, or by an instrumentality of such State, subdivision, or authority, but only if the payor is not subject to tax by such State; and d) interest beneficially owned by a seller of equipment, merchandise, or services, but only if the interest is paid in connection with a sale on credit of equipment, merchandise, or services and the sale was made at arm's length. Whether such a transaction is made at arm's length will be determined in the United States under the facts and circumstances. The relationship between the parties is a factor, but not the only factor, taken into account in making this determination. Furthermore, interest paid by a company resident in the other Contracting State with respect to an obligation entered into before September 26, 1980 is exempt from tax in the State of source (irrespective of the State of residence of the beneficial owner), provided that such interest would have been exempt from tax in the Contracting State of source under Article XII of the 1942 Convention. Thus, interest paid by a United States corporation whose business is not managed and controlled in Canada to a recipient not resident in Canada or to a corporation not managed and controlled in Canada would be exempt from Canadian tax as long as the debt obligation was entered into before September 26, 1980. The phrase "not subject to tax by that ... State" in paragraph 3(a), (b), and (c) refers to taxation at the Federal levels of Canada and the United States.

The phrase "obligation entered into before the date of signature of this Convention" means: (1) any obligation under which funds were dispersed prior to September 26, 1980; (2) any obligation under which funds are dispersed on or after September 26, 1980, pursuant to a written contract binding prior to and on such date, and at all times thereafter until the obligation is satisfied; or (3) any obligation with respect to which, prior to September 26, 1980, a lender had taken every action to signify approval under procedures ordinarily employed by such lender in similar transactions and had sent or deposited for delivery to the person to whom the loan is to be made written evidence of such approval in the form of a document setting forth, or referring to a document sent by the person to whom the loan is to be made that sets forth, the principal terms of such loan.

Paragraph 4 defines the term "interest", as used in Article XI, to include, among other things, debt claims of every kind as well as income assimilated to income from money lent by the taxation laws of the Contracting State in which the income arises. In no event, however, is income dealt with in Article X (Dividends) to be considered interest.

Paragraph 5 provides that neither the 15 per cent limitation on tax in the Contracting State of source provided in paragraph 2 nor the various exemptions from tax in such State provided in paragraph 3 apply if the beneficial owner of the interest is a resident of the other Contracting State carrying on business in the State of source through a permanent establishment or fixed base, and the debt claim in respect of which the interest is paid is effectively connected with such permanent establishment or fixed base (i.e., the interest is attributable to the permanent establishment or fixed base). In this case, interest income is to be taxed in the Contracting State of source as business profits — that is, on a net basis.

Paragraph 6 establishes the source of interest for purposes of Article XI. Interest is considered to arise in a Contracting State if the payer is that State, or a political subdivision, local authority, or resident of that State. However, in cases where the person paying the interest, whether a resident of a Contracting State or of a third State, has in a State other than that of which he is a resident a permanent establishment or fixed base in connection with which the indebtedness on which the interest was paid was incurred, and such interest is borne by the permanent establishment or fixed base, then such interest is deemed to arise in the State in which the permanent establishment or fixed base is situated and not in the State of the payer's residence. Thus, pursuant to paragraphs 6 and 2, and Article XXII (Other Income), Canadian tax will not be imposed on interest paid to a U.S. resident by a company resident in Canada if the indebtedness is incurred in connection with, and the interest is borne by, a permanent establishment of the company situated in a third State. "Borne by" means allowable as a deduction in computing taxable income. Paragraph 7 provides that in cases involving special relationships between persons Article XI does not apply to amounts in excess of the amount which would have been agreed upon between persons having no special relationship; any such excess amount remains taxable according to the laws of Canada and the United States, consistent with any relevant provisions of the Convention.

Paragraph 8 restricts the right of a Contracting State to impose tax on interest paid by a resident of the other Contracting State. The first State may not impose any tax on such interest except insofar as the interest is paid to a resident of that State or arises in that State or the debt claim in respect of which the interest is paid is effectively connected with a permanent establishment or fixed base situated in that State. Thus, pursuant to paragraph 8 the United States has agreed not to impose tax on certain interest paid by Canadian companies to persons not resident in the United States, to the extent that such companies would pay U.S.-source interest under Code section 861(a)(1)(C) but not under the source rule of paragraph 6. It is to be noted that paragraph 8 is subject to the "saving clause" of paragraph 2 of Article XXIX (Miscellaneous Rules), so the United States may in all events impose its tax on interest received by U.S. citizens.

Article XII — Royalties

Generally speaking, under the 1942 Convention royalties, including royalties with respect to motion picture films, which are derived by a resident of one Contracting State from sources within the other Contracting State are taxed at a maximum rate of 15 per cent in the latter State; copyright royalties are exempt from tax in the State of source, if the resident does not have a permanent establishment in that State. See Articles II, III, XIIIC, and paragraph 1 of Article XI of the 1942 Convention, and paragraph 6(a) of the Protocol to the 1942 Convention.

Paragraph 1 of Article XII of the Convention provides that a Contracting State may tax its residents with respect to royalties arising in the other Contracting State. Paragraph 2 provides that such royalties may also be taxed in the Contracting State in which they arise, but that if a resident of the other Contracting State is the beneficial owner of the royalties the tax in the Contracting State of source is limited to 10 per cent of the gross amount of the royalties.

Paragraph 3 provides that, notwithstanding paragraph 2, copyright royalties and other like payments in respect of the production or reproduction of any literary, dramatic, musical, or artistic work, including royalties from such works on videotape or other means of reproduction for private (home) use, if beneficially owned by a resident of the other Contracting State, may not be taxed by the Contracting State of source. This exemption at source does not apply to royalties in respect of motion pictures, and of works on film, video tape or other means of reproduction for use in connection with television broadcasting. Such royalties are subject to tax at a maximum rate of 10 per cent in the Contracting State in which they arise, as provided in paragraph 2 unless the provisions of paragraph 5, described below, apply).

Paragraph 4 defines the term "royalties" for purposes of Article XII. "Royalties" means payments of any kind received as consideration for the use of or the right to use any copy right of literary, artistic, or scientific work, including motion pictures, and works on film, videotape or other means of reproduction for use in connection with television broadcasting, any patent, trademark, design or model, plan, secret formula or process, or any payment for the use of or the right to use tangible personal property or for information concerning industrial, commercial, or scientific experience. The term "royalties" also includes gains from the alienation of any intangible property or rights described in paragraph 4 to the extent that such gains are contingent on the productivity, use, or subsequent disposition of such intangible property or rights. Thus, a guaranteed minimum payment derived from the alienation of (but not the use of) any right or property described in paragraph 4 is not a "royalty." Any amounts deemed contingent on use by reason of Code section 871(e) are, however, royalties under paragraph 2 of Article III (General Definitions), subject to Article XXVI (Mutual Agreement Procedure). The term "royalties" does not encompass management fees, which are covered by the provisions of Article VII (Business Profits) or XIV (Independent Personal Services), or payments under a *bona fide* cost-sharing arrangement. Technical service fees may be royalties in cases where the fees are periodic and dependent upon productivity or a similar measure.

Paragraph 5 provides that the 10 per cent limitation on tax in the Contracting State of source provided by paragraph 2, and the exemption in the Contracting State of source for certain copyright royalties provided by paragraph 3, do not apply if the beneficial owner of the royalties carries on business in the State of source through a permanent establishment or fixed base and the right or property in respect of which the royalties are paid is effectively connected with such permanent establishment or fixed base (i.e., the royalties are attributable to the permanent establishment or fixed base). In that event, the royalty income would be taxable under the provisions of Article VII (Business Profits) or XIV (Independent Personal Services), as the case may be.

Paragraph 6 establishes rules to determine the source of royalties for purposes of Article XII. The first rule is that royalties arise in a Contracting State when the payer is that State, or a political subdivision, local authority, or resident of that State. Notwithstanding that rule, royalties arise not in the State of the payer's residence but in any State, whether or not a Contracting State, in which is situated a permanent establishment or fixed base in connection with which the obligation to pay royalties was incurred, if such royalties are borne by such permanent establishment or fixed base. Thus, royalties paid to a resident of the United States by a company resident in Canada for the use of property in a third State will not be subject to tax in Canada if the obligation to pay the royalties is incurred in connection with, and the royalties are borne by, a permanent establishment of the company in a third State. "Borne by" means allowable as a deduction in computing taxable income.

A third rule, which overrides both the residence rule and the permanent establishment rule just described, provides that royalties for the use of, or the right to use, intangible property or tangible personal property in a Contracting State arise in that State. Thus, consistent with the provisions of Code section 861(a)(4), if a resident of a third State pays royalties to a resident of Canada for the use of or the right to use intangible property or tangible personal property in the United States, such royalties are considered to arise in the United States and are subject to taxation by the United States consistent with the Convention. Similarly, if a resident of Canada pays royalties to a resident of a third State, such royalties are considered to arise in the United States and are subject to U.S. taxation if they are for the use of or the right to use intangible property or tangible personal property in the United States. The term "intangible property" encompasses all the items described in paragraph 4, other than tangible personal property.

Paragraph 7 provides that in cases involving special relationships between persons the benefits of Article XII do not apply to amounts in excess of the amount which would have been agreed upon between persons with no special relationship; any such excess amount remains taxable according to the laws of Canada and the United States, consistent with any relevant provisions of the Convention.

Paragraph 8 restricts the right of a Contracting State to impose tax on royalties paid by a resident of the other Contracting State. The first State may not impose any tax on such royalties except insofar as they arise in that State or they are paid to a resident of that State or the right or property in respect of which the royalties are paid is effectively connected with a permanent establishment or fixed base situated in that State. This rule parallels the rule in paragraph 8 of Article XI (Interest) and paragraph 5 of Article X (Dividends). Again, U.S. citizens remain subject to U.S. taxation on royalties received despite this rule, by virtue of paragraph 2 of Article XXIX (Miscellaneous Rules).

Article XIII — Gains

Paragraph 1 provides that Canada and the United States may each tax gains from the alienation of real property situated within that State which are derived by a resident of the other Contracting State. The term "real property situated in the other Contracting State" is defined for this purpose in paragraph 3 of this Article. The term "alienation" used in paragraph 1 and other paragraphs of Article XIII means sales, exchanges and other dispositions or deemed dispositions (e.g., change of use, gifts, distributions, death) that are taxable events under the taxation laws of the Contracting State applying the provisions of the Article.

Paragraph 2 of Article XIII provides that the Contracting State in which a resident of the other Contracting State "has or had" a permanent establishment or fixed base may tax gains from the alienation of personal property constituting business property if such gains are attributable to such permanent establishment or fixed base. Unlike paragraph 1 of Article VII (Business Profits), paragraph 2 limits the right of the source State to tax such gains to a twelve-month period following the termination of the permanent establishment or fixed base.

Paragraph 3 provides a definition of the term "real property situated in the other Contracting State." Where the United States is the other Contracting State, the term includes real property (as defined in Article VI (Income from Real Property)) situated in the United States and a United States real property interest. Thus, the United States retains the ability to exercise its full taxing right under the *Foreign Investment in Real Property Tax Act* (Code section 897). (For a transition rule from the 1942 Convention, see paragraph 9 of this Article).

Where Canada is the other Contracting State, the term means real property (as defined in Article VI) situated in Canada; shares of stock of a company, the value of whose shares consists principally of Canadian real property; and an interest in a partnership, trust or estate, the value of which consists principally of Canadian real property. The term "principally" means more than 50 per cent. Taxation in Canada is preserved through several tiers of entities if the value of the company's shares or the partnership, trust or estate is ultimately dependent principally upon real property situated in Canada.

Paragraph 4 reserves to the Contracting State of residence the sole right to tax gains from the alienation of any property other than property referred to in paragraphs 1, 2, and 3.

Paragraph 5 states that, despite paragraph 4, a Contracting State may impose tax on gains derived by an individual who is a resident of the other Contracting State if such individual was a resident of the first-mentioned State for 120 months (whether or not consecutive) during any period of 20 consecutive years preceding the alienation of the property, and was a resident of that State at any time during the 10-year period immediately preceding the alienation of the property. The property (or property received in substitution in a tax-free transaction in the first-mentioned

State) must have been owned by the individual at the time he ceased to be a resident of the first-mentioned State.

Paragraph 6 provides a rule to coordinate Canadian and United States taxation of gains from the alienation of a principal residence situated in Canada. An individual (not a citizen of the United States) who was a resident of Canada and becomes a resident of the United States may determine his liability for U.S. income tax purposes in respect of gain from the alienation of a principal residence in Canada owned by him at the time he ceased to be a resident of Canada by claiming an adjusted basis for such residence in an amount no less than the fair market value of the residence at that time. Under paragraph 2(b) of Article XXX, the rule of paragraph 6 applies to gains realized for U.S. income tax purposes in taxable years beginning on or after the first day of January next following the date when instruments of ratification are exchanged, even if a particular individual described in paragraph 6 ceased to be a resident of Canada prior to such date. Paragraph 6 supplements any benefits available to a taxpayer pursuant to the provisions of the Code, e.g., section 1034.

Paragraph 7 provides a rule to coordinate U.S. and Canadian taxation of gains in circumstances where an individual is subject to tax in both Contracting States and one Contracting State deems a taxable alienation of property by such person to have occurred, while the other Contracting State at that time does not find a realization or recognition of income and thus defers, but does not forgive, taxation. In such a case the individual may elect in his annual return of income for the year of such alienation to be liable to tax in the latter Contracting State as if he had sold and repurchased the property for an amount equal to its fair market value at a time immediately prior to the deemed alienation. The provision would, for example, apply in the case of a gift by a U.S. citizen or a U.S. resident individual which Canada deems to be an income producing event for its tax purposes but with respect to which the United States defers taxation while assigning the donor's basis to the donee. The provision would also apply in the case of a U.S. citizen who, for Canadian tax purposes, is deemed to recognize income upon his departure from Canada, but not to a Canadian resident (not a U.S. citizen) who is deemed to recognize such income. The rule does not apply in the case of death, although Canada also deems that to be a taxable event, because the United States in effect forgives income taxation of economic gains at death. If in one Contracting State there are losses and gains from deemed alienations of different properties, then paragraph 7 must be applied consistently in the other Contracting State within the taxable period with respect to all such properties. Paragraph 7 only applies, however, if the deemed alienations of the properties result in a net gain.

Paragraph 8 concerns the coordination of Canadian and U.S. rules with respect to the recognition of gain on corporate organizations, reorganizations, amalgamations, divisions, and similar transactions. Where a resident of a Contracting State alienates property in such a transaction, and profit, gain, or income with respect to such alienation is not recognized for income tax purposes in the Contracting State of residence, the competent authority of the other Contracting State may agree, pursuant to paragraph 8, if requested by the person who acquires the property, to defer recognition of the profit, gain, or income with respect to such property for income tax purposes. This deferral shall be for such time and under such other conditions as are stipulated between the person who acquires the property and the competent authority. The agreement of the competent authority of the State of source is entirely discretionary and will be granted only to the extent necessary to avoid double taxation of income. This provision means, for example, that the United States competent authority may agree to defer recognition of gain with respect to a transaction if the alienator would otherwise recognize gain for U.S. tax purposes and would not recognize gain under Canada's law. The provision only applies, however, if alienations described in paragraph 8 result in a net gain. In the absence of extraordinary circumstances the provisions of the paragraph must be applied consistently within a taxable period with respect to alienations described in the paragraph that take place within that period.

Paragraph 9 provides a transitional rule reflecting the fact that under Article VIII of the 1942 Convention gains from the sale or exchange of capital assets are exempt from taxation in the State of source provided the taxpayer had no permanent establishment in that State. Paragraph 9 applies to deemed, as well as actual, alienations or dispositions. In addition, paragraph 9 applies to a gain described in paragraph 1, even though such gain is also income within the meaning of paragraph 3 of Article VI. Paragraph 9 will apply to transactions notwithstanding section 1125(c) of the *Foreign Investment in Real Property Tax Act*, Public Law 96-499 ("FIRPTA").

Paragraph 9 applies to capital assets alienated by a resident of a Contracting State if (a) that person owned the asset on September 26, 1980 and was a resident of that Contracting State on September 26, 1980 (and at all times after that date until the alienation), or (b) the asset was acquired by that person in an alienation of property which qualified as a non-recognition transaction for tax purposes in the other Contracting State. For purposes of subparagraph 9(b), a non-recognition transaction is a transaction in which gain resulting therefrom is, in effect, deferred for tax purposes, but is not permanently forgiven. Thus, in the United States, certain tax-free organizations, reorganizations, liquidations and like-kind exchanges will qualify as non-recognition transactions. However, a transfer of property at death will not constitute a non-recognition transaction, since any gain due to appreciation in the property is permanently forgiven in the United States due to the fair market value basis taken by the recipient of the property. If a transaction is a non-recognition transaction for tax purposes, the transfer of non-qualified property, or "boot," which may cause some portion of the gain on the transaction to be recognized, will not cause the transaction to lose its character as a non-recognition transaction for purposes of subparagraph 9(b). In addition, a transaction that would have been a non-recognition transaction in the United States but for the application of sections 897(d) and 897(e) of the Code will also constitute a non-recognition transaction for purposes of subparagraph 9(b). Further, a transaction which is not a non-recognition transaction under U.S. law, but to which non-recognition treatment is granted pursuant to the agreement of the competent authority under paragraph 8 of this Article, is a non-recognition transaction for purposes of subparagraph 9(b). However, a transaction which is not a non-recognition transaction under U.S. law does not become a non-recognition transaction for purposes of subparagraph 9(b) merely because the basis of the property in the hands of the transferee is reduced under section 1125(d) of FIRPTA.

The benefits of paragraph 9 are not available to the alienation or disposition by a resident of a Contracting State of an asset that (a) on September 26, 1980 formed part of the business property of a permanent establishment or pertained to a fixed base which a resident of that Contracting State had in the other Contracting State, (b) was alienated after September 26, 1980 and before the alienation in question in any transaction that was not a non-recognition transaction, as described above, or (c) was owned at any time prior to the alienation in question and after September 26, 1980 by a person who was not a resident of that same Contracting State after September 26, 1980 while such person held the asset. Thus, for example, in order for paragraph 9 to be availed of by a Canadian resident who did not own the alienated asset on September 26, 1980, the asset must have been owned by other Canadian residents continuously after September 26, 1980 and must have been transferred only in transactions which were non-recognition transactions for U.S. tax purposes.

The availability of the benefits of paragraph 9 is illustrated by the following examples. It should be noted that the examples do not purport to fully describe the U.S. and Canadian tax consequences resulting from the transactions described therein. Any condition for the application of paragraph 9 which is not discussed in an example should be assumed to be satisfied.

Example 1. A, an individual resident of Canada, owned an appreciated U.S. real property interest on September 26, 1980. On January 1, 1982, A transferred the U.S. real property interest to X, a Canadian corporation, in exchange for 100 per cent of X's voting stock. A's gain on the transfer to X is exempt from U.S. tax under Article VIII of the 1942 Convention. Since the transaction qualifies as a non-recognition transaction for U.S. tax purposes, as described above, X is entitled to the benefits of paragraph 9, pursuant to subparagraph 9(b), upon a subsequent disposition of the U.S. real property interest occurring after the entry into force of this Convention. If A's transfer to X had instead occurred after the entry into force of this Convention, A would be entitled to the benefits of paragraph 9, pursuant to subparagraph 9(a), with respect to U.S. taxation of that portion of the gain resulting from the transfer to X that is attributable on a monthly basis to the period ending on December 31 of the year in which the Convention enters into force (or a greater portion of the gain as is shown to the satisfaction of the U.S. competent authority). X would be entitled to the benefits of paragraph 9 pursuant to subparagraph 9(b), upon a subsequent disposition of the U.S. real property interest.

Example 2. The facts are the same as in *Example 1*, except that A is a corporation which is resident in Canada. Assuming that the transfer of the U.S. real property interest to X is a section 351 transaction or a tax-free reorganization for U.S. tax purposes, the results are the same as in *Example 1*.

Example 3. The facts are the same as in Example 1, except that X is a U.S. corporation. If the transfer to X by A took place on January 1, 1982, A's gain on the transfer to X would be exempt from tax under Article VIII of the 1942 Convention and A would be entitled to the benefits of paragraph 9, pursuant to subparagraph 9(b), upon a subsequent disposition of the stock of X occurring after the entry into force of this Convention. If the transfer to X by A took place after the entry into force of this Convention, A would be entitled to the benefits of paragraph 9, pursuant to subparagraph 9(a), with respect to U.S. taxation (if any) of the gain resulting from the transfer to X, and would also be entitled to the benefits of paragraph 9, pursuant to subparagraph 9(b), upon a subsequent disposition of the stock

of X. For several reasons, including the fact that X is a U.S. corporation, paragraph 9 has no impact on the U.S. tax consequences of a subsequent disposition by X of the U.S. real property interest in either case.

Example 4. B, a corporation resident in Canada, owns all of the stock of C, which is also a corporation resident in Canada. C owns a U.S. real property interest. After the Convention enters into force, B liquidates C in a section 332 liquidation. The transaction is treated as a non-recognition transaction for U.S. tax purposes under the definition of a non-recognition transaction described above. C is entitled to the benefits of paragraph 9, pursuant to subparagraph 9(a), with respect to gain taxed (if any) under section 897(d), and B is entitled to the benefits of paragraph 9, pursuant to subparagraph 9(b), upon a subsequent disposition of the U.S. real property interest. Generally, the United States would not subject B to tax upon the liquidation of C.

Example 5. The facts are the same as in *Example 4*, except that C is a U.S. corporation. B is entitled to the benefits of paragraph 9, pursuant to subparagraph 9(a), with respect to U.S. taxation (if any) of the gain resulting from the liquidation of C. B is not entitled to the benefits of paragraph 9 upon a subsequent disposition of the U.S. real property interest since that asset was held after September 26, 1980 by a person who was not a resident of Canada. The U.S. tax consequences to C are governed by the internal law of the United States.

Example 6. D, an individual resident of the United States, owns Canadian real estate. On January 1, 1982, D transfers the Canadian real estate to E, a corporation resident in Canada, in exchange for all of E's stock. This transfer is treated as a taxable transaction under the *Income Tax Act* of Canada. However, D's gain on the transfer is exempt from Canadian tax under Article VIII of the 1942 Convention. D is not entitled to the benefits of subparagraph 9(b) upon a subsequent disposition of the stock of E since the stock was not transferred in a transaction which was a non-recognition transaction for Canadian tax purposes. E is not entitled to Canadian benefits under this paragraph since, *inter alia*, it is a Canadian resident. (However, under Canadian law, both D and E would have a basis for tax purposes equal to the fair market value of the property at the time of D's transfer). If the transfer to E had taken place after entry into force of this Convention, D would be entitled to the benefits of paragraph 9, pursuant to subparagraph 9(a), with respect to Canadian tax resulting from the transfer to E, but would not be entitled to the benefits of subparagraph 9(b) upon a subsequent disposition of the E stock. (Note that E could seek to have the transaction treated as a non-recognition transaction under paragraph 8 of this Article, with the result that, if the competent authority agrees, D will take a carryover basis in the stock of E and be entitled to the benefits of subparagraph 9(b) upon a subsequent disposition thereof).

Example 7. The facts are the same as in Example 6, except that E is a U.S. corporation. This transaction is also a recognition event under Canadian law at the shareholder level. The results are generally the same as in *Example 6*. However, if the transfer to E had been granted non-recognition treatment in Canada pursuant to paragraph 8, both D and E would be entitled to the benefits of paragraph 9 for Canadian tax purposes, pursuant to subparagraph 9(b), upon subsequent dispositions of the stock of E or the Canadian real estate, respectively.

Example 8. F, an individual resident of the United States, owns all of the stock of G, a Canadian corporation, which in turn owns Canadian real estate. F causes G to be amalgamated in a merger with another Canadian corporation. This is a non-recognition transaction under Canadian law and F is entitled, for Canadian tax purposes, to the benefits of paragraph 9, pursuant to subparagraph 9(b), upon a subsequent disposition of the stock of the other Canadian corporation.

Example 9. H, a U.S. corporation, owns all of the stock of J, another U.S. corporation. J owns Canadian real estate. H liquidates J. For Canadian tax purposes, no tax is imposed on H as a result of the liquidation and H receives a fair market value basis in the Canadian real estate. Accordingly, since gain has been forgiven due to the fair market value basis (rather than postponed in a non-recognition transaction), H would not be entitled to the benefits of subparagraph 9(b) upon the subsequent disposition of the Canadian real estate. Canada would impose a tax on J, but J would be entitled to the benefits of paragraph 9, pursuant to subparagraph 9(a), with respect to Canadian tax imposed on the liquidation.

Example 10. The facts are the same as in *Example 9*, except that J is a Canadian corporation. Paragraph 9 does not affect the Canadian taxation of J. While H is subject to Canadian tax on the liquidation of J, H is entitled to the benefits of paragraph 9, pursuant to subparagraph 9(a), with respect to such Canadian taxation. H will take a fair market value basis (rather than have gain postponed in a non-recognition transaction) in the Canadian real estate for Canadian tax purposes and is thus not entitled to the benefits of paragraph 9 upon a subsequent disposition of the Canadian real estate (since, *inter alia*, the gain has been forgiven due to the fair market value basis).

Example 11. K, a U.S. corporation, owns the stock of L, another U.S. corporation, which in turn owns Canadian real estate. K causes L to be merged into another U.S. corporation. For Canadian tax purposes, such a transaction is treated as a recognition event, but Canada will not impose a tax on K under its internal law. Canada would impose tax on L, but L is entitled to the benefits of paragraph 9, pursuant to subparagraph 9(a), with respect to Canadian taxation of gain resulting from the merger. The acquiring U.S. corporation would take a fair market value basis in the Canadian real estate, and would thus not be entitled to the benefits of subparagraph 9(b) upon a subsequent disposition of the real estate. (Note that the acquiring U.S. corporation could seek to obtain non-recognition treatment under paragraph 8 of this Article, with the result that, if approved by the competent authority, it would obtain a carryover basis in the property and be entitled to the benefits of subparagraph 9(b) upon a subsequent disposition of the Canadian real estate).

Paragraph 9 provides that where a resident of Canada or the United States is subject to tax pursuant to Article XIII in the other Contracting State on gains from the alienation of a capital asset, and if the other conditions of paragraph 9 are satisfied, the amount of the gain shall be reduced for tax purposes in that other State by the amount of the gain attributable to the period during which the property was held up to and including December 31 of the year in which the documents of ratification are exchanged. The gain attributable to such person is normally determined by dividing the total gain by the number of full calendar months the property was held by such person, including, in the case of an alienation described in paragraph 9(b), the number of months in which a predecessor in interest held the property, and multiplying such monthly amount by the number of full calendar months ending on or before December 31 of the year in which the instruments of ratification are exchanged.

Upon a clear showing, however, a taxpayer may prove that a greater portion of the gain was attributable to the specified period. Thus, in the United States the fair market value of the alienated property at the treaty valuation date may be established under paragraph 9 in the manner and with the evidence that is generally required by U.S. Federal income, estate, and gift tax regulations. For this purpose a taxpayer may use valid appraisal techniques for valuing real estate such as the comparable sales approach (see Rev. Proc. 79-24, 1979-1 C.B. 565) and the reproduction cost approach. If more than one property is alienated in a single transaction each property will be considered individually.

A taxpayer who desires to make this alternate showing for U.S. tax purposes must so indicate on his U.S. income tax return for the year of the sale or exchange and must attach to the return a statement describing the relevant evidence. The U.S. competent authority or his authorized delegate will determine whether the taxpayer has satisfied the requirements of paragraph 9.

The amount of gain which is reduced by reason of the application of paragraph 9 is not to be treated for U.S. tax purposes as an amount of "nontaxed gain" under section 1125(d)(2)(B) of FIRPTA, where that section would otherwise apply. (Note that gain not taxed by virtue of the 1942 Convention is "nontaxed gain").

U.S. residents, citizens and former citizens remain subject to U.S. taxation on gains as provided by the Code notwithstanding the provisions of Article XIII, other than paragraphs 6 and 7. See paragraphs 2 and 3(a) of Article XXIX (Miscellaneous Rules).

Article XIV — Independent Personal Services

Article XIV concerns the taxation of income derived by an individual in respect of the performance of independent personal services. Such income may be taxed in the Contracting State of which such individual is a resident. It may also be taxed in the other Contracting State if the individual has or had a fixed base regularly available to him in the other State for the purpose of performing his activities, but only to the extent that the income is attributable to that fixed base. The use of the term "has or had" ensures that a Contracting State in which a fixed base existed has the right to tax income attributable to that fixed base even if there is a delay between the termination of the fixed base and the receipt or accrual of such income.

Unlike Article VII of the 1942 Convention, which provides a limited exemption from tax at source on income from independent personal services, Article XIV does not restrict the exemption to persons present in the State of source for fewer than 184 days. Furthermore, Article XIV does not allow the $5,000 exemption at source of the 1942 Convention, which was available even if services were performed through a fixed base. However, Article XIV provides complete exemption at source if a fixed base does not exist.

Article XV — Dependent Personal Services

Paragraph 1 provides that, in general, salaries, wages, and other similar remuneration derived by a resident of a Contracting State in respect of an employment are taxable only in that State unless the employment is exercised in the other Contracting State. If the employment is exercised in the other Contracting State, the entire remuneration derived therefrom may be taxed in that other State but only if, as provided by paragraph 2, the recipient is present in the other State for a period or periods exceeding 183 days in the calendar year, or the remuneration is borne by an employer who is a resident of that other State or by a permanent establishment or fixed base which the employer has in that other State. However, in all cases where the employee earns $10,000 or less in the currency of the State of source, such earnings are exempt from tax in that State. "Borne by" means allowable as a deduction in computing taxable income. Thus, if a Canadian resident individual employed at the Canadian permanent establishment of a U.S. company performs services in the United States, the income earned by the employee from such services is not exempt from U.S. tax under paragraph 1 if such income exceeds $10,000 (U.S.) because the U.S. company is entitled to a deduction for such wages in computing its taxable income.

Paragraph 3 provides that a resident of a Contracting State is exempt from tax in the other Contracting State with respect to remuneration derived in respect of an employment regularly exercised in more than one State on a ship, aircraft, motor vehicle, or train operated by a resident of the taxpayer's State of residence. The word "regularly" is intended to distinguish crew members from persons occasionally employed on a ship, aircraft, motor vehicle, or train. Only the Contracting State of which the employee and operator are resident has the right to tax such remuneration. However, this provision is subject to the "saving clause" of paragraph 2 of Article XXIX (Miscellaneous Rules), which permits the United States to tax its citizens despite paragraph 3.

Article XV states that its provisions are overridden by the more specific rules of Article XVIII (Pensions and Annuities) and Article XIX (Government Services).

Article XVI — Artistes and Athletes

Article XVI concerns income derived by a resident of a Contracting State as an entertainer, such as a theatre, motion picture, radio, or television artiste, or a musician, or as an athlete, from his personal activities as such exercised in the other Contracting State. Article XVI overrides Articles XIV (Independent Personal Services) and XV (Dependent Personal Services) to allow source basis taxation of an entertainer or athlete in cases where the latter Articles would not permit such taxation. Thus, paragraph 1 provides that certain income of an entertainer or athlete may be taxed in the State of source in all cases where the amount of gross receipts derived by the entertainer or athlete, including expenses reimbursed to him or borne on his behalf, exceeds $15,000 in the currency of that other State for the calendar year concerned. For example, where a resident of Canada who is an entertainer derives income from his personal activities as an entertainer in the United States, he is taxable in the United States on all such income in any case where his gross receipts are greater than $15,000 for the calendar year. Article XVI does not restrict the right of the State of source to apply the provisions of Articles XIV and XV. Thus, an entertainer or athlete resident in a Contracting State and earning $14,000 in wages borne by a permanent establishment in the other State may be taxed in the other State as provided in Article XV.

Paragraph 2 provides that where income in respect of personal activities exercised by an entertainer or an athlete accrues not to the entertainer or athlete himself but to another person, that income may, notwithstanding the provisions of Article VII (Business Profits), Article XIV, and Article XV, be taxed in the Contracting State in which the activities are exercised. The anti-avoidance rule of paragraph 2 does not apply if it is established by the entertainer or athlete that neither he nor persons related to him participate directly or indirectly in the profits of the other person in any manner, including the receipt of deferred remuneration, bonuses, fees, dividends, partnership distributions, or other distributions.

Thus, if an entertainer who is a resident of Canada is under contract with a company and the arrangement between the entertainer and the company provides for payments to the entertainer based on the profits of the company, all of the income of the company attributable to the performer's U.S. activities may be taxed in the United States irrespective of whether the company maintains a permanent establishment in the United States. Paragraph 2 does not affect the rule of paragraph 1 that applies to the entertainer or athlete himself.

Paragraph 3 provides that paragraphs 1 and 2 of Article XVI do not apply to the income of an athlete in respect of an employment with a team which participates in a league with regularly scheduled games in both Canada and the United States, nor do those paragraphs apply to the income of such a team. Such an athlete is subject to the rules of Article XV. Thus, the athlete's remuneration would be exempt from tax in the Contracting State of source if he is a resident of the other Contracting State and earns $10,000 or less in the currency of the State of source, or if he is present in that State for a period or periods not exceeding in the aggregate 183 days in the calendar year, and his remuneration is not borne by a resident of that State or a permanent establishment or fixed base in that State. In addition, a team described in paragraph 3 may not be taxed in a Contracting State under paragraph 2 of this Article solely by reason of the fact that a member of the team may participate in the profits of the team through the receipt of a bonus based, for example, on ticket sales. The employer may be taxable pursuant to other articles of the Convention, such as Article VII.

Paragraph 4 provides that, notwithstanding Articles XIV and XV, an amount paid by a resident of a Contracting State to a resident of the other State as an inducement to sign an agreement relating to the performance of the services of an athlete may be taxed in the first-mentioned State. However, the tax imposed may not exceed 15 per cent of the gross amount of the payment. The provision clarifies the taxation of signing bonuses in a manner consistent with their treatment under U.S. interpretations of the 1942 Convention. Amounts paid as salary or other remuneration for the performance of the athletic services themselves are not taxable under this provision, but are subject to the provisions of paragraphs 1 and 3 of this Article, or Articles XIV or XV, as the case may be. The paragraph covers all amounts paid (to the athlete or another person) as an inducement to sign an agreement for the services of an athlete, such as a bonus to sign a contract not to perform for other teams. An amount described in this paragraph is not to be included in determining the amount of gross receipts derived by an athlete in a calendar year for purposes of paragraph 1. Thus, if an athlete receives a $50,000 signing bonus and a $12,000 salary for a taxable year, the State of source would not be entitled to tax the salary portion of the receipt of the athlete for that year under paragraph 1 of this Article.

Article XVII — Withholding of taxes in respect of personal services

Article XVII confirms that a Contracting State may require withholding of tax on account of tax liability with respect to remuneration paid to an individual who is a resident of the other Contracting State, including an entertainer or athlete, in respect of the performance of independent personal services in the first-mentioned State. However, withholding with respect to the first $5,000 (in the currency of the State of source) of such remuneration paid in that taxable year by each payor shall not exceed 10 per cent of such payment. In the United States, the withholding described in paragraph 1 relates to withholding with respect to income tax liability and does not relate to withholding with respect to other taxes, such as social security taxes. Nor is the paragraph intended to suggest that withholding in circumstances not specifically mentioned, such as withholding with respect to dependent personal services, is precluded by the Convention.

Paragraph 2 provides that in any case where the competent authority of Canada or the United States believes that withholding with respect to remuneration for the performance of personal services is excessive in relation to the estimated tax liability of an individual to that State for a taxable year, it may determine that a lesser amount will be deducted or withheld. In the case of independent personal services, paragraph 2 may thus result in a lesser withholding than the maximum authorized by paragraph 1.

Paragraph 3 states that the provisions of Article XVII do not affect the liability of a resident of a Contracting State for taxes imposed by the other Contracting State. The Article deals only with the method of collecting taxes and not with substantive tax liability.

Article XVIIIA of the 1942 Convention authorizes the issuance of regulations to specify circumstances under which residents of the United States temporarily performing personal services in Canada may be exempted from deduction and withholding of United States tax. This provision is omitted from the Convention as unnecessary. The Code and regulations provide sufficient authority to avoid excessive withholding of U.S. income tax. Further, paragraph 2 provides for adjustments in the amount of withholding where appropriate.

Article XVIII — Pensions and Annuities

Paragraph 1 provides that a resident of a Contracting State is taxable in that State with respect to pensions and annuities arising in the other Contracting State. However, the State of residence shall exempt from taxation the amount of any such pension that would be excluded from taxable income in the State of source if the recipient were a resident thereof. Thus,

if a $10,000 pension payment arising in a Contracting State is paid to a resident of the other Contracting State and $5,000 of such payment would be excluded from taxable income as a return of capital in the first-mentioned State if the recipient were a resident of the first-mentioned State, the State of residence shall exempt from tax $5,000 of the payment. Only $5,000 would be so exempt even if the first-mentioned State would also grant a personal allowance as a deduction from gross income if the recipient were a resident thereof. Paragraph 1 imposes no such restriction with respect to the amount that may be taxed in the State of residence in the case of annuities.

Paragraph 2 provides rules with respect to the taxation of pensions and annuities in the Contracting State in which they arise. If the beneficial owner of a periodic pension payment is a resident of the other Contracting State, the tax imposed in the State of source is limited to 15 per cent of the gross amount of such payment. Thus, the State of source is not required to allow a deduction or exclusion for a return of capital to the pensioner, but its tax is limited in amount in the case of a periodic payment. Other pension payments may be taxed in the State of source without limit.

In the case of annuities beneficially owned by a resident of a Contracting State, the Contracting State of source is limited to a 15 per cent tax on the portion of the payment that would not be excluded from taxable income (i.e., as a return of capital) in that State if the beneficial owner were a resident thereof.

Paragraph 3 defines the term "pensions" for purposes of the Convention to include any payment under a superannuation, pension, or retirement plan, Armed-Forces retirement pay, war veterans pensions and allowances, and amounts paid under a sickness, accident, or disability plan. Thus, the term "pension" includes pensions paid by private employers as well as any pension paid by a Contracting State in respect of services rendered to that State. A pension for government service is covered. The term "pensions" does not include payments under an income averaging annuity contract or benefits paid under social security legislation. The latter benefits are taxed, pursuant to paragraph 5, only in the Contracting State paying the benefit. Income derived from an income averaging annuity contract is taxable pursuant to the provisions of Article XXII (Other Income).

Paragraph 4 provides that, for purposes of the Convention, the term "annuities" means a stated sum paid periodically at stated times during life or during a specified number of years, under an obligation to make payments in return for adequate and full consideration other than services rendered. The term does not include a payment that is not periodic or any annuity the cost of which was deductible for tax purposes in the Contracting State where the annuity was acquired. Items excluded from the definition of "annuities" are subject to the rules of Article XXII.

Paragraph 5, as amended by the 1984 Protocol, provides that benefits under social security legislation in Canada or the United States paid to a resident of the other Contracting State are taxable only in the State in which the recipient is resident. However, the State of residence must exempt from taxation one-half of the total amount of such benefits paid in a taxable year. Thus, if U.S. social security benefits are paid to a resident of Canada, the United States will exempt such benefits from tax and Canada will exempt one-half of the benefits from taxation. The exemption of one-half of the benefits in the State of residence is an exception to the saving clause under subparagraph 3(a) of Article XXIX (Miscellaneous Rules). The United States will not exempt U.S. social security benefits from tax if the Canadian resident receiving such benefits is a U.S. citizen. If a U.S. citizen and resident receives Canadian social security benefits, Canada will not tax such benefits and the United States will exempt from tax one-half of the total amount of such benefits. The United States will also exempt one-half of Canadian social security benefits from tax if the recipient is a U.S. citizen who is a resident of Canada, under paragraph 7 of Article XXIX. Paragraph 5 encompasses benefits paid under social security legislation of a political subdivision, such as a province of Canada.

Paragraph 6(a) provides that only the State of which a person is resident has the right to tax alimony and other similar amounts (including child support payments) arising in the other Contracting State and paid to such person. However, under paragraph 6(b), the State of residence shall exempt from taxation the amount that would be excluded from taxable income in the State of source if the recipient were a resident thereof. Thus, if child support payments are made by a U.S. resident to a resident of Canada, Canada shall exempt from tax the amount of such payments which would be excluded from taxable income under section 71(b) of the *Internal Revenue Code*. Paragraph 6 does not define the term "alimony"; the term is defined pursuant to the provisions of paragraph 2 of Article III (General Definitions).

Article XVIII does not provide rules to determine the State in which pensions, annuities, alimony, and other similar amounts arise. The provisions of paragraph 2 of Article III are used to determine where such amounts arise for purposes of determining whether a Contracting State has the right to tax such amounts.

Paragraphs 1, 3, 4, 5(b) and 6(b) of Article XVIII are, by reason of paragraph 3(a) of Article XXIX (Miscellaneous Rules), exceptions to the "saving clause." Thus, the rules in those paragraphs change U.S. taxation of U.S. citizens and residents.

Article XIX — Government Service

Article XIX provides that remuneration, other than a pension, paid by a Contracting State or political subdivision or local authority thereof to a citizen of that State in respect of services rendered in the discharge of governmental functions shall be taxable only in that State. (Pursuant to paragraph 5 of Article IV (Residence), other income of such a citizen may also be exempt from tax, or subject to reduced rates of tax, in the State in which he is performing services, in accordance with other provisions of the Convention.) However, if the services are rendered in connection with a trade or business, then the provisions of Article XIV (Independent Personal Services), Article XV (Dependent Personal Services), or Article XVI (Artistes and Athletes), as the case may be, are controlling. Whether functions are of a governmental nature may be determined by a comparison with the concept of a governmental function in the State in which the income arises.

Pursuant to paragraph 3(a) of Article XXIX (Miscellaneous Rules), Article XIX is an exception to the "saving clause." As a result, a U.S. citizen resident in Canada and performing services in Canada in the discharge of functions of a governmental nature for the United States is taxable only in the United States on remuneration for such services.

This provision differs from the rules of Article VI of the 1942 Convention. For example, Article XIX allows the United States to impose tax on a person other than a citizen of Canada who earns remuneration paid by Canada in respect of services rendered in the discharge of governmental functions in the United States. (Such a person may, however, be entitled to an exemption from U.S. tax as provided in Code section 893.) Also, under the provisions of Article XIX Canada will not impose tax on amounts paid by the United States in respect of services rendered in the discharge of governmental functions to a U.S. citizen who is ordinarily resident in Canada for purposes other than rendering governmental services. Under paragraph 1 of Article VI of the 1942 Convention, such amounts would be taxable by Canada.

Article XX — Students

Article XX provides that a student, apprentice, or business trainee temporarily present in a Contracting State for the purpose of his full-time education or training is exempt from tax in that State with respect to amounts received from outside that State for the purpose of his maintenance, education, or training, if the individual is or was a resident of the other Contracting State immediately before visiting the first-mentioned State. There is no limitation on the number of years or the amount of income to which the exemption applies.

The Convention does not contain provisions relating specifically to professors and teachers. Teachers are treated under the Convention pursuant to the rules established in Articles XIV (Independent Personal Services) and XV (Dependent Personal Services), in the same manner as other persons performing services. In Article VIIIA of the 1942 Convention there is a 2-year exemption in the Contracting State of source in the case of a professor or teacher who is a resident of the other Contracting State.

Article XXI — Exempt Organizations

Paragraph 1 provides that a religious, scientific, literary, educational, or charitable organization resident in a Contracting State shall be exempt from tax on income arising in the other Contracting State but only to the extent that such income is exempt from taxation in the Contracting State in which the organization is resident. Since this paragraph, and the remainder of Article XXI, deal with entities that are not normally taxable, the test of "resident in" is intended to be similar — but cannot be identical — to the one outlined in paragraph 1 of Article IV (Residence). Paragraph 3 provides that paragraph 1 does not exempt from tax income of a trust, company, or other organization from carrying on a trade or business, or income from a "related person" other than a person referred to in paragraph 1 or 2.

Paragraph 2 provides that a trust, company, or other organization that is resident in a Contracting State and constituted and operated exclusively to administer or provide employee benefits or benefits for the self-employed under one or more funds or plans established to provide pension or retirement benefits or other employee benefits is exempt from

taxation on dividend and interest income arising in the other Contracting State in a taxable year, if the income of such organization is generally exempt from taxation for that year in the Contracting State in which it is resident. In addition, a trust, company, or other organization resident in a Contracting State and not taxed in a taxable year in that State shall be exempt from taxation in the other State in that year on dividend and interest income arising in that other State if it is constituted and operated exclusively to earn income for the benefit of an organization described in the preceding sentence. Pursuant to paragraph 3 the exemption at source provided by paragraph 2 does not apply to dividends or interest from carrying on a trade or business or from a "related person," other than a person referred to in paragraph 1 or 2. The term "related person" is not necessarily defined by paragraph 2 of Article IX (Related Persons).

Paragraph 4 provides an exemption from U.S. excise taxes on private foundations in the case of a religious, scientific, literary, educational, or charitable organization which is resident in Canada but only if such organization has received substantially all of its support from persons other than citizens or residents of the United States.

Paragraph 5 provides that contributions by a citizen or resident of the United States to an organization which is resident in Canada and is generally exempt from Canadian tax are treated as charitable contributions, but only if the organization could qualify in the United States to receive deductible contributions if it were resident in (i.e., organized in) the United States. Paragraph 5 generally limits the amount of contributions made deductible by the Convention to the income of the U.S. citizen or resident arising in Canada, as determined under the Convention. In the case of contributions to a college or university at which the U.S. citizen or resident or a member of his family is or was enrolled, the special limitation to income arising in Canada is not required. The percentage limitations of Code section 170 in respect of the deductibility of charitable contributions apply after the limitations established by the Convention. Any amounts treated as charitable contributions by paragraph 5 which are in excess of amounts deductible in a taxable year pursuant to paragraph 5 may be carried over and deducted in subsequent taxable years, subject to the limitations of paragraph 5.

Paragraph 6 provides rules for purposes of Canadian taxation with respect to the deductibility of gifts to a U.S. resident organization by a resident of Canada. The rules of paragraph 6 parallel the rules of paragraph 5. The current limitations in Canadian law provide that deductions for gifts to charitable organizations may not exceed 20 per cent of income. Excess deductions may be carried forward for one year.

The term "family" used in paragraphs 5 and 6 is defined in paragraph 2 of the Exchange of Notes accompanying the Convention to mean an individual's brothers and sisters (whether by whole or half-blood, or by adoption), spouse, ancestors, lineal descendants, and adopted descendants. Paragraph 2 of the Exchange of Notes also provides that the competent authorities of Canada and the United States will review procedures and requirements for organizations to establish their exempt status under paragraph 1 of Article XXI or as an eligible recipient of charitable contributions or gifts under paragraphs 5 and 6 of Article XXI. It is contemplated that such review will lead to the avoidance of duplicative administrative efforts in determining such status and eligibility.

The provisions of paragraph 5 and 6 generally parallel the rules of Article XIIID of the 1942 Convention. However, paragraphs 5 and 6 permit greater deductions for certain contributions to colleges and universities than do the provisions of the 1942 Convention.

Article XXII — Other Income

Paragraph 1 provides that a Contracting State of which a person is a resident has the sole right to tax items of income, wherever arising, if such income is not dealt with in the prior Articles of the Convention. If such income arises in the other Contracting State, however, it may also be taxed in that State. The determination of where income arises for this purpose is made under the domestic laws of the respective Contracting States unless the Convention specifies where the income arises (e.g., paragraph 6 of Article XI (Interest)) for purposes of determining the right to tax, in which case the provisions of the Convention control.

Paragraph 2 provides that to the extent that income distributed by an estate or trust resident in one Contracting State is deemed under the domestic law of that State to be a separate type of income "arising" within that State, such income distributed to a beneficiary resident in the other Contracting State may be taxed in the State of source at a maximum rate of 15 per cent of the gross amount of such distribution. Such a distribution will, however, be exempt from tax in the State of source to the extent that the income distributed by the estate or trust was derived by the estate or trust from sources outside that State. Thus, in a case where the law of Canada treats a distribution made by a trust resident in Canada as a separate type of income arising in Canada, Canadian tax is limited by paragraph 2 to 15 per cent of the gross amount distributed to a U.S. resident beneficiary. Although the Code imposes tax on certain domestic trusts (e.g., accumulation trusts) and such trusts are residents of the United States for purposes of Article IV (Residence) and paragraph 2 of Article XXII, paragraph 2 does not apply to distributions by such trusts because, pursuant to Code sections 667(e) and 662(b), these distributions have the same character in the hands of a non-resident beneficiary as they do in the hands of the trust. Thus, a distribution by a domestic accumulation trust is not a separate type of income for U.S. purposes. The taxation of such a distribution in the United States is governed by the distribution's character, the provisions of the Code and the provisions of the Convention other than the provision in paragraph 2 limiting the tax at source to 15 per cent.

Article XXIII — Capital

Although neither Canada nor the United States currently has national taxes on capital, Article XXIII provides rules for the eventuality that such taxes might be enacted in the future. Paragraph 1 provides that capital represented by real property (as defined in paragraph 2 of Article VI (Income From Real Property)) owned by a resident of a Contracting State and situated in the other Contracting State may be taxed in that other State.

Paragraph 2 provides that capital represented by either personal property forming part of the business property of a permanent establishment or personal property pertaining to a fixed base in a Contracting State may be taxed in that State.

Paragraph 3 provides that capital represented by ships and aircraft operated by a resident of a Contracting State in international traffic and by personal property pertaining to the operation of such ships and aircraft are taxable only in the Contracting State of residence.

Paragraph 4 provides that all elements of capital other than those covered by paragraphs 1, 2, and 3 are taxable only in the Contracting State of residence. Thus, capital represented by motor vehicles or railway cars, not pertaining to a permanent establishment or fixed base in a Contracting State, would be taxable only in the Contracting State of which the taxpayer is a resident.

Article XXIV — Elimination of Double Taxation

Paragraph 1 provides the general rules that will apply under the Convention with respect to foreign tax credits for Canadian taxes paid or accrued. The United States undertakes to allow to a citizen or resident of the United States, or to a company electing under Code section 1504(d) to be treated as a domestic corporation, a credit against the Federal income taxes imposed by the Code for the appropriate amount of income tax paid or accrued to Canada. In the case of a company which is a resident of the United States owning 10 per cent or more of the voting stock of a company which is a resident of Canada (which for this purpose does not include a company electing under Code section 1504(d) to be treated as a domestic corporation), and from which it receives dividends in a taxable year, the United States shall allow as a credit against income taxes imposed by the Code the appropriate amount of income tax paid or accrued to Canada by the Canadian company with respect to the profits out of which such company paid the dividends.

The direct and deemed-paid credits allowed by paragraph 1 are subject to the limitations of the Code as they may be amended from time to time without changing the general principle of paragraph 1. Thus, as is generally the case under U.S. income tax conventions, provisions such as Code sections 901(c), 904, 905, 907, 908, and 911 apply for purposes of computing the allowable credit under paragraph 1. In addition, the United States is not required to maintain the overall limitation currently provided by U.S. law.

The term "income tax paid or accrued" is defined in paragraph 7 of Article XXIV to include certain specified taxes which are paid or accrued. The Convention only provides a credit for amounts paid or accrued. The determination of whether an amount is paid or accrued is made under the Code. Paragraph 1 provides a credit for these specified taxes whether or not they qualify as creditable under Code section 901 or 903. A taxpayer who claims credit under the Convention for Canadian taxes made creditable solely by paragraph 1 is not, as a result of the Protocol, subject to a per-country limitation with respect to Canadian taxes. Thus, credit for such Canadian taxes would be computed under the overall limitation currently provided by U.S. law. (However, see the discussion below of the source rules of paragraphs 3 and 9 for a restriction on the use of third country taxes to offset the U.S. tax imposed on resourced income.)

A taxpayer claiming credits for Canadian taxes under the Convention must apply the source rules of the Convention, and must apply those

source rules in their entirety. Similarly, a taxpayer claiming credit for Canadian taxes which are creditable under the Code and who wishes to use the source rules of the Convention in computing that credit must apply the source rules of the Convention in their entirety.

Paragraph 3 provides source rules for purposes of applying Article XXIV. Profits, income or gains of a resident of a Contracting State which may be taxed in the other Contracting State in accordance with the Convention, for reasons other than the saving clause of paragraph 2 of Article XXIX (Miscellaneous Rules) (e.g., pensions and annuities taxable where arising pursuant to Article XVIII (Pensions and Annuities)), are deemed to arise in the latter State. This rule does not, however, apply to gains taxable under paragraph 5 of Article XIII (Gains) (i.e., gains taxed by a Contracting State derived from the alienation of property by a former resident of that State). Gains from such an alienation arise, pursuant to paragraph 3(b), in the State of which the alienator is a resident. Thus, if in accordance with paragraph 5 of Article XIII, Canada imposes tax on certain gains of a U.S. resident such gains are deemed, pursuant to paragraphs 2 and 3(b) of Article XXIV, to arise in the United States for purposes of computing the deduction against Canadian tax for the U.S. tax on such gain. Under the Convention such gains arise in the United States for purposes of the United States foreign tax credit. Paragraph 3(b) also provides that profits, income, or gains arise in the Contracting State of which a person is a resident if they may not be taxed in the other Contracting State under the provisions of the Convention (e.g., alimony), other than the "saving clause" of paragraph 2 of Article XXIX.

Paragraph 9 provides clarification that the source rules of this Article shall not be used to determine the credit available against U.S. tax for foreign taxes other than income taxes paid or accrued to Canada (i.e., taxes of third countries). Thus, creditable third country taxes may not offset the U.S. tax on income treated as arising in Canada under the source rules of the Convention. A person claiming credit for income taxes of a third country may not rely upon the rules of paragraphs 3 and 6 for purposes of treating income that would otherwise have a U.S. source as having a foreign source. Thus, if the taxpayer elects to compute the foreign tax credit for any year using the special source rules set forth in paragraphs 3 and 6, paragraph 9 requires that a separate limitation be computed for taxes not covered by paragraph 1 without regard to the source rules of paragraphs 3 and 6, and the credit for such taxes may not exceed such limitation. The credit allowed under this separate limitation may not exceed the proportion of the Federal income taxes imposed by the Code that the taxpayer's taxable income from foreign sources (under the Code) not included in taxable income arising in Canada (and not in excess of total foreign source taxable income under the Code) bears to the taxpayer's worldwide taxable income. In any case the credit for taxes covered by paragraph 1 and the credit for other foreign taxes is limited to the amount allowed under an overall limitation computed by aggregating taxable income arising in Canada and other foreign source taxable income.

If creditable Canadian taxes exceed the proportion of U.S. tax that taxable income arising in Canada bears to the entire taxable income, such taxes may qualify to be absorbed by any excess in the separate limitation computed with respect to other taxes.

In a case where a taxpayer has different types of income subject to separate limitations under the Code (e.g., section 904(d)(1)(B) DISC dividends) the Convention rules just described apply in the context of each of the separate Code limitations.

A taxpayer may, for any year, claim a credit pursuant to the rules of the Code. In such case, the taxpayer would be subject to the limitations established in the Code, and would forgo the rules of the Convention that determine where taxable income arises. In addition, any Canadian taxes covered by paragraph 1 which are not creditable under the Code would not be credited.

Thus, where a taxpayer elects to use the special source rules of this Article to compute the foreign tax credit for any year, the following computations must be made:

Step 1(a): Compute a hypothetical foreign tax credit limitation for Canadian income and taxes using the source rules of the Convention.

Step 1(b): Compute a hypothetical foreign tax credit limitation for third country income and taxes using the source rules of the Code.

Step 1(c): Compute an overall foreign tax credit limitation using the source rules of the Convention to the extent they resource Canadian source income as U.S. source income or U.S. source income as Canadian source income, and using the source rules of the Code with respect to any other income.

Step 2: Allocate the amount of creditable Canadian taxes to the amount of the limitation computed under step 1(a), and allocate the amount of creditable third country taxes to the amount of the limitation computed under step 1(b). The amount of credit to be so allocated may not exceed the amount of the respective limitation.

Step 3: (1) If the total credits allocated under step 2 exceed the amount of the limitation computed under step 1(c), the amount of allowable credits must be reduced to that limitation (see Rev. Rul. 82-215, 1982-2 Cum. Bull. 153 for the method of such reduction).

Step 3: (2) If the total credits allocated under step 2 are less than the amount of the limitation computed under step 1(c), then (a) any amount of creditable Canadian taxes in excess of the amount of the step 1(a) limitation may be credited to the extent of the excess of the step 1(c) limitation over the total step 2 allocation, and (b) any amount of third country taxes in excess of the amount of the step 1(b) limitation may not be credited.

The following examples (in which the taxpayer's U.S. tax rate is presumed to be 46%) illustrate the application of the source rules of Article XXIV:

Example 1.

(a) A U.S. corporate taxpayer has for the taxable year $100 of taxable income having a U.S. source under both the Convention and the Code; $100 of taxable income having a Canadian source under both the Convention and the Code; $50 of taxable income having a Canadian source under the Convention but a U.S. source under the Code (see, for example, paragraph 1 of Article VII (Business Profits) and paragraph 3(a) of Article XXIV); and $80 of taxable income having a foreign (non-Canadian) source under the Code. The taxpayer pays $75 of Canadian income taxes and $45 of third country income taxes. All the foreign source income of the taxpayer constitutes "other" income described in Code section 904(d)(1)(C).

The source rules of the Convention are applied as follows to compute the taxpayer's foreign tax credit:

Step 1(a):

$$\frac{\$150 \text{ (Canadian source taxable income under Convention)}}{\$330 \text{ (total taxable income)}} \times \$151.80 = \$69 \text{ limit for Canadian taxes.}$$

Step 1(b):

$$\frac{\$\ 80 \text{ (third country source taxable income under Code)}}{\$330 \text{ (total taxable income)}} \times \$151.80 = \$36.80 \text{ limit for third country taxes.}$$

Step 1(c):

$$\frac{\$230 \text{ (overall foreign taxable income under source rules described above)}}{\$330 \text{ (total taxable income)}} \times \$151.80 = \$105.80 \text{ total limit.}$$

Step 2: The taxpayer may tentatively credit $69 of the $75 Canadian income taxes under the step 1(a) limitation, and $36.80 of the third country income taxes under the step 1(b) limitation.

Step 3: Since the total amount of taxes credited under step 2 equals the taxpayer's total limitation of $105.80 under step 1(c), no additional taxes may be credited. The taxpayer has a $6 Canadian income tax carryover and a $8.20 third country income tax carryover for U.S. foreign tax credit purposes.

(b) If the taxpayer had paid only $30 of third country taxes, he would credit that $30 in step 2. Since the total amount of credits allowed under step 2 ($99) is less than the taxpayer's total limit of $105.80, and since the taxpayer has $6 of excess Canadian taxes not credited under step 2, he may also claim a credit for that $6 of Canadian income taxes, for a total credit of $105.

(c) If the taxpayer had paid $45 of third country income taxes and $65 of Canadian income taxes, the computation would be as follows:

Step 2: The taxpayer would credit the $65 of Canadian income taxes, and would also credit $36.80 of the $45 of third country income taxes.

Step 3: Although the total amount of credits computed under step 2 ($101.80) is less than the taxpayer's total limitation of $105.80, no additional credits can be claimed since the taxpayer has only excess third country income taxes. The excess third country income taxes are thus not permitted to offset U.S. tax on income that is Canadian source income under the Convention. The taxpayer would have $8.20 of third country income taxes as a carryover for U.S. foreign tax credit purposes.

Example 2.

A United States corporate taxpayer has for the taxable year $100 of taxable income having a Canadian source under the Convention but a U.S. source under the Code; $100 of taxable income having a U.S. source under both the Convention and the Code; $80 of taxable income having a foreign (non-Canadian) source under the Code; and ($50) of loss allocated or apportioned to Canadian source income. The taxpayer pays $50 of foreign (non-Canadian) income taxes, and $20 of Canadian income taxes.

The source rules of the Convention are applied as follows to compute the taxpayer's foreign tax credit:

Step 1(a):

$$\frac{\$\ 50 \text{ (Canadian source taxable income under Convention)}}{\$230 \text{ (total taxable income)}} \times \$105.80 = \$23 \text{ limit for Canadian taxes.}$$

Step 1(b):

$$\frac{\$\ 80 \text{ (third country source taxable income under Code)}}{\$230 \text{ (total taxable income)}} \times \$105.80 = \$36.80 \text{ limit for third country taxes}$$

Step 1(c):

$$\frac{\$130 \text{ (overall foreign taxable income under source rules described above)}}{\$230 \text{ (total taxable income)}} \times \$105.80 = \$59.80 \text{ total limit.}$$

Step 2: Since the taxpayer paid $20 of Canadian income taxes, he may credit that amount in full since the step 1(a) limit is $23. Since the step 1(b) limit is $36.80, the taxpayer may credit $36.80 of the $50 foreign income taxes paid.

Step 3: Although the total taxes credited under step 2 ($56.80) is less than the taxpayer's total limit of $59.80, no additional credits may be claimed since the only excess taxes are third country income taxes, and those may not be used to offset any excess limitation in step 3. The $13.20 of foreign taxes not allowed as a credit is available as a foreign tax credit carryover.

Example 3.

The facts are the same as in *Example 2*, except that foreign (non-Canadian) operations result in a loss of ($30) rather than taxable income of $80, and no foreign (non-Canadian) income taxes are paid. The taxpayers' credit is computed as follows:

Step 1(a):

$$\frac{\$\ 50}{\$120} \times \$55.20 = \$23 \text{ limit for \$120 Canadian taxes.}$$

Step 1(b): Since there is no third country source taxable income under the Code, the limit for third country income taxes is zero.

Step 1(c):

$$\frac{\$\ 20}{\$120} \times \$55.20 = \$9.20 \text{ total limit.}$$

Step 2: Since the taxpayer paid $20 of Canadian income tax, he may tentatively credit that amount in full since the step 1(a) limit is $23.

Step 3: Since the total taxes credited under step 2 ($20) exceeds the taxpayer's total limit of $9.20, the taxpayer must reduce the total amount claimed as a credit to $9.20. The remaining $10.80 of Canadian income taxes are available as a foreign tax credit carryover.

Example 4.

The facts are the same as in *Example 2*, except that the first $100 of taxable income mentioned in *Example 2* has a Canadian source under both the Convention and the Code.

Step 1(a):

$$\frac{\$\ 50}{\$230} \times \$105.80 = \$23 \text{ limit for Canadian taxes.}$$

Step 1(b):

$$\frac{\$\ 80}{\$230} \times \$105.80 = \$36.80 \text{ limit for third country income taxes.}$$

Step 1(c):

$$\frac{\$130}{\$230} \times \$105.80 = \$59.80 \text{ total limit.}$$

Step 2: The taxpayer credits the $20 of Canadian income tax and $36.80 of third country income tax.

Step 3: As explained in *Example 2*, the taxpayer's total credit is limited to $56.80. In this case, however, if the Canadian taxes covered by the Convention are creditable under the Code, the taxpayer could elect the Code limitation of $59.80 ($130 X $105.80), $230 which is more advantageous than the Convention limitation because that limitation does not permit third country income taxes to be credited against the U.S. tax on income arising in Canada under the Convention.

Example 5.

The facts are the same as in *Example 2*, except that the corporation pays $25 of Canadian income taxes and $12 of foreign (non-Canadian) income taxes. Under step 2, the taxpayer would credit $23 of the $25 of Canadian income taxes and the full $12 of third country income taxes. Since the total amount of income taxes credited under step 2 is $35, which is less than the taxpayer's total limit of $59.80, the taxpayer may credit an amount of Canadian income taxes up to the $24.80 excess. Here, the taxpayer may claim a credit for the additional $2 of Canadian income taxes not credited under step 2, and has a total credit of $37.

Example 6.

(a) A U.S. corporate taxpayer has for the taxable year $100 of taxable income having a Canadian source under the Convention and the Code; $50 of taxable income having a Canadian source under the Convention but a U.S. source under the Code; $80 of taxable income having a foreign (non-Canadian) source under the Code; and ($50) of loss allocated or apportioned to U.S. source income. The taxpayer pays $65 of Canadian income taxes, and $45 of third country income taxes.

Step 1(a):

$$\frac{\$150}{\$180} \times \$82.80 = \$69 \text{ limit for Canadian income taxes.}$$

Step 1(b):

$$\frac{\$\ 80}{\$180} \times \$82.80 = \$36.80 \text{ limit for third country income taxes.}$$

Step 1(c):

$$\frac{\$180}{\$180} \times \$82.80 = \$82.80 \text{ total limit.}$$

Step 2: The taxpayer tentatively credits the $65 of Canadian income taxes against the $69 limit of step 1(a), and $36.80 of the $45 of third country income taxes against the $36.80 limit of step 1(b).

Step 3: Since the total amount of credits tentatively allowed under step 2 ($101.80) exceeds the taxpayer's total limit of $82.80 under step 1(c), the taxpayer's allowable credit is reduced to $82.80 under the method provided by Rev. Rul. 82-215.

(b) If the taxpayer had paid only $40 of Canadian income taxes, the total credits tentatively allowed under step 2 is $76.80. Although that amount is less than the $82.80 total limit under step 1(c), no additional taxes may be credited since the taxpayer only has excess third country income taxes. The $8.20 of excess third country income taxes would be allowed as a foreign tax credit carryover.

The general rule for avoiding double taxation in Canada is provided in paragraph 2. Pursuant to paragraph 2(a) Canada undertakes to allow to a resident of Canada a credit against income taxes imposed under the Income Tax Act for the appropriate amount of income taxes paid or accrued to the United States. Paragraph 2(b) provides for the deduction by a Canadian company, in computing taxable income, of any dividend received out of the exempt surplus of a U.S. company which is an affiliate. The provisions of paragraphs 2(a) and (b) are subject to the provisions of the *Income Tax Act* as they may be amended from time to time without changing the general principle of paragraph 2. Paragraph 2(c) provides that where Canada imposes a tax on the alienation of property pursuant to the provisions of paragraph 5 of Article XIII (Gains), Canada will allow a credit for the income tax paid or accrued to the United States on such gain.

The rules of paragraph 1 are modified in certain respects by rules in paragraphs 4 and 5 for income derived by United States citizens who are residents of Canada. Paragraph 4 provides two steps for the elimination of double taxation in such a case. First, paragraph 4(a) provides that Canada shall allow a deduction from (credit against) Canadian tax in respect of income tax paid or accrued to the United States in respect of profits, income, or gains which arise in the United States (within the meaning of paragraph 3(a)); the deduction against Canadian tax need not, however, exceed the amount of income tax that would be paid or accrued to the United States if the individual were not a U.S. citizen, after taking into account any relief available under the Convention.

The second step, as provided in paragraph 4(b), is that the United States allows as a credit against United States tax, subject to the rules of paragraph 1, the income tax paid or accrued to Canada after the Canadian credit for U.S. tax provided by paragraph 4(a). The credit so allowed by the United States is not to reduce the portion of the United States tax that is creditable against Canadian tax in accordance with paragraph 4(a).

The following example illustrates the application of paragraph 4.

Example A

- A U.S. citizen who is a resident of Canada earns $175 of income from the performance of independent personal services, of which $100 is derived from services performed in Canada and $75 from services performed in the United States. That is his total world-wide income.
- If he were not a U.S. citizen, the United States could tax $75 of that amount under Article XIV (Independent Personal Services). By reason of paragraph 3(a), the $75 that may be taxed by the United States under Article XIV is deemed to arise in the United States. Assume that the U.S. tax on the $75 would he $25 if the taxpayer were not a U.S. citizen.
- However, since the individual is a U.S. citizen, he is subject to U.S. tax on his worldwide income of $175. After excluding $75 under section 911, his taxable income is $100 and his U.S. tax is $40.
- Because he is a resident of Canada, he is also subject to Canadian tax on his worldwide income. Assume that Canada taxes the $175 at $75.
- Canada will credit against its tax of $75 the U.S. tax at source of $25, leaving a net Canadian tax of $50.
- The United States will credit against its tax of $40 the Canadian tax net of credit, but without reducing its source basis tax of $25; thus, the allowable credit is $40 – $25 = $15.
- To use a credit of $15 requires Canadian source taxable income of $37.50 ($37.50/$100 × $40 = $15). Without any special treaty rule, Canadian source taxable income would be only $25 ($100 less the section 911 exclusion of $75). Paragraph 6 provides for resourcing an additional $12.50 of income to Canada, so that the credit of $15 can be fully used.

Paragraph 5 provides special rules for the elimination of double taxation in the case of dividends, interest, and royalties earned by a U.S. citizen resident in Canada. These rules apply notwithstanding the provisions of paragraph 4, but only as long as the law in Canada allows a deduction in computing income for the portion of any foreign tax paid in respect of dividends, interest, or royalties which exceeds 15 per cent of the amount of such items of income, and only with respect to those items of income. The rules of paragraph 4 apply with respect to other items of income; moreover, if the law in force in Canada regarding the deduction for foreign taxes changes, the provisions of paragraph 5 shall not apply and the U.S. foreign tax credit for Canadian taxes and the Canadian credit for U.S. taxes will be determined solely pursuant to the provisions of paragraph 4.

The calculations under paragraph 5 are as follows. First, the deduction allowed in Canada in computing income shall be made with respect to U.S. tax on the dividends, interest, and royalties before any foreign tax credit by the United States with respect to income tax paid or accrued to Canada. Second, Canada shall allow a deduction from (credit against) Canadian tax for U.S. tax paid or accrued with respect to the dividends, interest, and royalties, but such credit need not exceed 15 per cent of the gross amount of such items of income that have been included in computing income for Canadian tax purposes. (The credit may, however, exceed the amount of tax that the United States would be entitled to levy under the Convention upon a Canadian resident who is not a U.S. citizen.) Third, for purposes of computing the U.S. tax on such dividends, interest, and royalties, the United States shall allow as a credit against the U.S. tax the income tax paid or accrued to Canada after the 15 per cent credit against Canadian tax for income tax paid or accrued to the United States. The United States is in no event obliged to give a credit for Canadian income tax which will reduce the U.S. tax below 15 per cent of the amount of the dividends, interest, and royalties.

The rules of paragraph 5 are illustrated by the following examples.

Example B

- A U.S. citizen who is a resident of Canada has $100 of royalty income arising in the United States. The tentative U.S. tax before foreign tax credit is $40.
- Canada, under its law, allows a deduction for the U.S. tax in excess of 15 per cent or, in this case, a deduction of $25 ($400 – $15). The Canadian taxable income is $75 and the Canadian tax on that amount is $35.
- Canada gives a credit of $15 (the maximum credit allowed is 15 per cent of the gross royalty taken into Canadian income) and collects a net tax of $20.
- The United States allows a credit for the net Canadian tax against its tax in excess of 15 per cent. Thus, the maximum credit is $25 ($400 – $15). But since the net Canadian tax paid was $20, the usable credit is $20.
- To be able to use a credit of $20 requires Canadian source taxable income of $50 (50% of the U.S. tentative tax of $40). Under paragraph 6, $50 of the U.S. royalty is resourced to be of Canadian source. The credit of $20 may then be offset against the U.S. tax of $40, leaving a net U.S. tax of $20.
- The combined tax paid to both countries is $40, $20 to Canada and $20 to the United States.

Example C

A U.S. citizen who is a resident of Canada receives $200 of income with respect to personal services performed within Canada and $100 of royalty income arising within the United States. Taxable income for U.S. purposes, taking into account the rules of Code section 911, is $220. U.S. tax (before foreign tax credits) is $92. The $100 of royalty income is deemed to bear U.S. tax (before foreign tax credits) of $41.82

$$\frac{(\$100 \times \$92)}{\$220}$$

Under Canadian law, a deduction of $26.82 (the excess of $41.82 over 15 per cent of the $100 royalty income) is allowed in computing income. The Canadian tax on $273.18 of income ($300 less the $26.82 deduction) is

$130. Canada then gives a credit against the $130 for $15 (the U.S. tax paid or accrued with respect to the royalty, $41.82, but limited to 15 per cent of the gross amount of such income, or $15), leaving a final Canadian tax of $115. Of the $115, $30.80 is attributable to the royalty—

$$\frac{\$\ 73.18\ (\$100\ \text{royalty less}\ \$26.82\ \text{deduction})}{\$273.18\ (\$300\ \text{income less}\ \$26.82\ \text{deduction})} \times \$115.$$

Of this amount, $26.82 is creditable against U.S. tax pursuant to paragraph 5. (Although the U.S. allows a credit for the Canadian tax imposed on the royalty, $30.80, the credit may not reduce the U.S. tax below 15 per cent of the amount of the royalty. Thus, the maximum allowable credit is the excess of $41.82, the U.S. tax imposed on the royalty income, over $15, which is 15 per cent of the $100 royalty). The remaining $3.98 (the Canadian tax of $30.80 less the credit allowed of $26.82) is a foreign tax credit carryover for U.S. purposes, subject to the limitations of paragraph 5. (An additional $50.18 of Canadian tax with respect to Canadian source services income is creditable against U.S. tax pursuant to paragraphs 3 and 4(b). The $50.18 is computed as follows: tentative U.S. tax (before foreign tax credits) is $92; the U.S. tax on Canadian source services income is $50.18 ($92 less the U.S. tax on the royalty income of $41.82); the limitation on the services income is:

$$\frac{\$120\ (\text{taxable income from services})}{\$220\quad (\text{total taxable income}} \times \$92,$$

or $50.18. The credit for Canadian tax paid on the services income is therefore $50.18; the remainder of the Canadian tax on the services income, or $34.02, is a foreign tax credit carryover for U.S. purposes, subject to the limitations of paragraph 5).

Paragraph 6 is necessary to implement the objectives of paragraphs 4(b) and 5(c). Paragraph 6 provides that where a U.S. citizen is a resident of Canada, items of income referred to in paragraph 4 or 5 are deemed for the purposes of Article XXIV to arise in Canada to the extent necessary to avoid double taxation of income by Canada and the United States consistent with the objectives of paragraphs 4(b) and 5(c). Paragraph 6 can override the source rules of paragraph 3 to permit a limited resourcing of income. The principles of paragraph 6 have effect, pursuant to paragraph 3(b) of Article XXX (Entry Into Force), for taxable years beginning on or after January 1, 1976. See the discussion of Article XXX below.

The application of paragraph 6 is illustrated by the following example.

Example D

The facts are the same as in *Example C*. The United States has undertaken, pursuant to paragraph 5(c) and paragraph 6, to credit $26.82 of Canadian taxes on royalty income that has a U.S. source under both paragraph 3 and the *Internal Revenue Code*. (As illustrated in *Example C*, the credit, however, only reduces the U.S. tax on the royalty income which exceeds 15 per cent of the amount of such income included in computing U.S. taxable income.) Pursuant to paragraph 6, for purposes of determining the U.S. foreign tax credit limitation under the Convention with respect to Canadian taxes,

$$\frac{A \times \$92}{\$220} = \$26.82;\ A = \$64.13$$

$64.13 of taxable income with respect to the royalties is deemed to arise in Canada.

Paragraph 7 provides that any reference to "income tax paid or accrued" to Canada or the United States includes Canadian tax or United States tax, as the case may be. The terms "Canadian tax" and "United States tax" are defined in paragraphs 1(c) and 1(d) of Article III (General Definitions). References to income taxes paid or accrued also include taxes of general application paid or accrued to a political subdivision or local authority of Canada or the United States which are not imposed by such political subdivision or local authority in a manner inconsistent with the provisions of the Convention and which are substantially similar to taxes of Canada or the United States referred to in paragraphs 2 and 3(a) of Article II (Taxes Covered).

In order for a tax imposed by a political subdivision or local authority to fall within the scope of paragraph 7, such tax must apply to individuals, companies, or other persons generally, and not only to a particular class of individuals or companies or a particular type of business. The tax must also be substantially similar to the national taxes referred to in paragraphs 2 and 3(a) of Article II. Finally, the political subdivision or local authority must apply its tax in a manner not inconsistent with the provisions of the Convention. For example, the political subdivision or local authority must not impose its tax on a resident of the other Contracting State earning business profits within the political subdivision or local authority but not having a permanent establishment there. It is understood that a Canadian provincial income tax that satisfied the conditions of paragraph 7 on September 26, 1980 also satisfied the conditions of that paragraph on June 14, 1983 — i.e., no significant changes have occurred in the taxes imposed by Canadian provinces.

Paragraph 8 relates to the provisions of Article XXIII (Capital). It provides that where a resident of a Contracting State owns capital which, in accordance with the provisions of Article XXIII, may be taxed in the other Contracting State, the State of residence shall allow as a deduction from (credit against) its tax on capital an amount equal to the capital tax paid in the other Contracting State. The deduction is not, however, to exceed that part of the capital tax, computed before the deduction, which is attributable to capital which may be taxed in the other State.

Article XXV — Non-discrimination

Paragraphs 1 and 2 of Article XXV protect individual citizens of a Contracting State from discrimination by the other Contracting State in taxation matters. Paragraph 1 provides that a citizen of a Contracting State who is a resident of the other Contracting State may not be subjected in that other State to any taxation or requirement connected with taxation which is other or more burdensome than the taxation and connected requirements imposed on similarly situated citizens of the other State.

Paragraph 2 assures protection in a case where a citizen of a Contracting State is not a resident of the other Contracting State. Such a citizen may not be subjected in the other State to any taxation or requirement connected to taxation which is other or more burdensome than the taxation and connected requirements to which similarly situated citizens of any third State are subjected. The reference to citizens of a third State "in the same circumstances" includes consideration of the State of residence. Thus, pursuant to paragraph 2, the Canadian taxation with respect to a citizen of the United States resident in, for example, the United Kingdom may not be more burdensome than the taxation of a U.K. citizen resident in the United Kingdom. Any benefits available to the U.K. citizen by virtue of an income tax convention between the United Kingdom and Canada would be available to the U.S. citizen resident in the United Kingdom if he is otherwise in the same circumstances as the U.K. citizen.

Paragraph 3 assures that, in computing taxable income, an individual resident of a Contracting State will be entitled to the same deduction for dependents resident in the other Contracting State that would be allowed if the dependents were residents of the individual's State of residence. The term "dependent" is defined in accordance with the rules set forth in paragraph 2 of Article III (General Definitions). For U.S. tax purposes, paragraph 3 does not expand the benefits currently available to a resident of the United States with a dependent resident in Canada. See Code section 152(b)(3).

Paragraph 4 allows a resident of Canada (not a citizen of the United States) to file a joint return in cases where such person earns salary, wages, or other similar remuneration as an employee and such income is taxable in the United States under the Convention. Paragraph 4 does not apply where the resident of Canada earns wages which are exempt in the United States under Article XV (Dependent Personal Services) or earns only income taxable by the United States under provisions of the Convention other than Article XV.

The benefit provided by paragraph 3 is available regardless of the residence of the taxpayer's spouse. It is limited, however, by a formula designed to ensure that the benefit is available solely with respect to persons whose U.S. source income is entirely, or almost entirely, wage income. The formula limits the United States tax with respect to wage income to that portion of the total U.S. tax that would be payable for the taxable year if both the individual and his spouse were United States citizens as the individual's taxable income (determined without any of the benefits made available by paragraph 4, such as the standard deduction) bears to the total taxable income of the individual and his spouse. The term "total United States tax" used in the formula is total United States tax without regard to any foreign tax credits, as provided in subparagraph 4(a). (Foreign income taxes may, however, be claimed as deductions in computing taxable income, to the extent allowed by the Code.) In determining total taxable income of the individual and his spouse, the benefits made available by paragraph 4 are taken into account, but a deficit of the spouse is not.

The following example illustrates the application of paragraph 4.

A, a Canadian citizen and resident, is married to B who is also a Canadian citizen and resident. A earns $12,000 of wages taxable in the U.S. under Article XV (Dependent Personal Services) and $2,000 of wages taxable only in Canada. B earns $1,000 of U.S. source dividend income, taxed by the United States at 15 per cent pursuant to Article X (Dividends). B also earns $2,000 of wages taxable only in Canada. A's taxable income for U.S.

purposes, determined without regard to paragraph 4, is $11,700 ($12,000 – $2,000 (Code sections 151(b) and 873(b)(3)) + $1,700 (Code section 63)). The U.S. tax (Code section 1(d)) with respect to such income is $2,084.50. The total U.S. tax payable by A and B if both were U.S. citizens and all their income arose in the United States would be $2,013 under Code section 1(a) on taxable income of $14,800 ($17,000 – $200 (Code section 116) – $2,000 (Code section 151)). Pursuant to paragraph 4, the U.S. tax imposed on A's wages from U.S. sources is limited to $1,591.36

$$\frac{(\$11{,}700 \times \$2{,}013)}{\$14{,}800}$$

B's U.S. tax liability with respect to the U.S. source dividends remains $150.

The provisions of paragraph 4 may be elected on a year-by-year basis. They are purely computational and do not make either or both spouses residents of the United States for the purpose of other U.S. income tax conventions. The rules relating to the election provided by U.S. law under Code section 6013(g)(see section 1.6013–6 of the Treasury Regulations) do not apply to the election described in this paragraph.

Paragraph 5 protects against discrimination in a case where the capital of a company which is a resident of one Contracting State is wholly or partly owned or controlled, directly or indirectly, by one or more residents of the other Contracting State. Such a company shall not be subjected in the State of which it is a resident to any taxation or requirement connected therewith which is other or more burdensome than the taxation and connected requirements to which are subjected other similar companies which are residents of that State but whose capital is wholly or partly owned or controlled, directly or indirectly, by one or more residents of a third State.

Paragraph 6 protects against discrimination in the case of a permanent establishment which a resident of one Contracting State has in the other Contracting State. The taxation of such a permanent establishment by the other Contracting State shall not be less favorable than the taxation of residents of that other State carrying on the same activities. The paragraph specifically overrides the provisions of Article XXIV (Elimination of Double Taxation), thus ensuring that permanent establishments will be entitled to relief from double taxation on a basis comparable to the relief afforded to similarly situated residents. Paragraph 6 does not oblige a Contracting State to grant to a resident of the other Contracting State any personal allowances, reliefs, and reductions for taxation purposes on account of civil status or family responsibilities which it grants to its own residents. In addition, paragraph 6 does not require a Contracting State to grant to a company which is a resident of the other Contracting State the same tax relief that it grants to companies which are resident in the first-mentioned State with respect to intercorporate dividends. This provision is merely clarifying in nature, since neither the United States nor Canada would interpret paragraph 6 to provide for granting the same relief in the absence of a specific denial thereof. The principles of paragraph 6 would apply with respect to a fixed base as well as a permanent establishment. Paragraph 6 does not, however, override the provisions of Code section 906.

Paragraph 7 concerns the right of a resident of a Contracting State to claim deductions for purposes of computing taxable profits in the case of disbursements made to a resident of the other Contracting State. Such disbursements shall be deductible under the same conditions as if they had been made to a resident of the first-mentioned State. Thus, this paragraph does not require Canada to permit a deduction to a Canadian trust for disbursements made to a non-resident beneficiary out of income derived from a business in Canada or Canadian real property; granting such a deduction would result in complete exemption by Canada of such income and would put Canadian trusts with non-resident beneficiaries in a better position than if they had resident beneficiaries. These provisions do not apply to amounts to which paragraph 1 of Article IX (Related Persons), paragraph 7 of Article XI (Interest), or paragraph 7 of Article XII (Royalties) apply. Paragraph 7 of Article XXV also provides that, for purposes of determining the taxable capital of a resident of a Contracting State, any debts of such person to a resident of the other Contracting State shall be deductible under the same conditions as if they had been contracted to a resident of the first-mentioned State. This portion of paragraph 7 relates to Article XXIII (Capital).

Paragraph 8 provides that, notwithstanding the provisions of paragraph 7, a Contracting State may enforce the provisions of its taxation laws relating to the deductibility of interest, in force on September 26, 1980, or as modified subsequent to that date in a manner that does not change the general nature of the provisions in force on September 26, 1980; or which are adopted after September 26, 1980, and are designed to ensure that non-residents do not enjoy a more favorable tax treatment under the taxation laws of that State than that enjoyed by residents. Thus Canada may continue to limit the deductions for interest paid to certain non-residents as provided in section 18(4) of Part I of the *Income Tax Act*.

Paragraph 9 provides that expenses incurred by citizens or residents of a Contracting State with respect to any convention, including any seminar, meeting, congress, or other function of similar nature, held in the other Contracting State, are deductible for purposes of taxation in the first-mentioned State to the same extent that such expenses would be deductible if the convention were held in that first-mentioned State. Thus, for U.S. income tax purposes an individual who is a citizen or resident of the United States and who attends a convention held in Canada may claim deductions for expenses incurred in connection with such convention without regard to the provisions of Code section 274(h). Section 274(h) imposes special restrictions on the deductibility of expenses incurred in connection with foreign conventions. A claim for a deduction for such an expense remains subject, in all events, to the provisions of U.S. law with respect to the deductibility of convention expenses generally (e.g., Code sections 162 and 212). Similarly, in the case of a citizen or resident of Canada attending a convention in the United States, paragraph 9 requires Canada to allow a deduction for expenses relating to such convention as if the convention had taken place in Canada.

Paragraph 10 provides that, notwithstanding the provisions of Article II (Taxes Covered), the provisions of Article XXV apply in the case of Canada to all taxes imposed under the *Income Tax Act*; and, in the case of the United States, to all taxes imposed under the Code. Article XXV does not apply to taxes imposed by political subdivisions or local authorities of Canada or the United States.

Article XXV substantially broadens the protection against discrimination provided by the 1942 Convention, which contains only one provision dealing specifically with this subject. That provision, paragraph 11 of the Protocol to the 1942 Convention, states that citizens of one of the Contracting States residing within the other Contracting State are not to be subjected to the payment of more burdensome taxes than the citizens of the other State.

The benefits of Article XXV may affect the tax liability of a U.S. citizen or resident with respect to the United States. See paragraphs 2 and 3 of Article XXIX (Miscellaneous Rules).

Article XXVI — Mutual Agreement Procedure

Paragraph 1 provides that where a person considers that the actions of one or both of the Contracting States will result in taxation not in accordance with the Convention, he may present his case in writing to the competent authority of the Contracting State of which he is a resident or, if he is a resident of neither Contracting State, of which he is a national. Thus, a resident of Canada must present to the Minister of National Revenue (or his authorized representative) any claim that such resident is being subjected to taxation contrary to the Convention. A person who requests assistance from the competent authority may also avail himself of any remedies available under domestic laws.

Paragraph 2 provides that the competent authority of the Contracting State to which the case is presented shall endeavor to resolve the case by mutual agreement with the competent authority of the other Contracting State, unless he believes that the objection is not justified or he is able to arrive at a satisfactory unilateral solution. Any agreement reached between the competent authorities of Canada and the United States shall be implemented notwithstanding any time or other procedural limitations in the domestic laws of the Contracting States, except where the special mutual agreement provisions of Article IX (Related Persons) apply, provided that the competent authority of the Contracting State asked to waive its domestic time or procedural limitations has received written notification that such a case exists within six years from the end of the taxation year in the first-mentioned State to which the case relates. The notification may be given by the competent authority of the first-mentioned State, the taxpayer who has requested the competent authority to take action, or a person related to the taxpayer. Unlike Article IX, Article XXVI does not require the competent authority of a Contracting State to grant unilateral relief to avoid double taxation in a case where timely notification is not given to the competent authority of the other Contracting State. Such unilateral relief may, however, be granted by the competent authority in its discretion pursuant to the provisions of Article XXVI and in order to achieve the purposes of the Convention. In a case where the provisions of Article IX apply, the provisions of paragraphs 3, 4, and 5 of that Article are controlling with respect to adjustments and corresponding adjustments of income, loss, or tax and the effect of the Convention upon time or procedural limitations of domestic law. Thus, if relief is not available under Article IX because of fraud, the provisions of paragraph 2 of Article XXVI do not independently authorize such relief.

Paragraph 3 provides that the competent authorities of the Contracting States shall endeavor to resolve by mutual agreement any difficulties or doubts arising as to the interpretation or application of the Convention. In particular, the competent authorities may agree to the same attribution of profits to a resident of a Contracting State and its permanent establishment in the other Contracting State; the same allocation of income, deductions, credits, or allowances between persons; the same determination of the source of income; the same characterization of particular items of income; a common meaning of any term used in the Convention; rules, guidelines, or procedures for the elimination of double taxation with respect to income distributed by an estate or trust, or with respect to a partnership; or to increase any dollar amounts referred to in the Convention to reflect monetary or economic developments. The competent authorities may also consult and reach agreements on rules, guidelines, or procedures for the elimination of double taxation in cases not provided for in the Convention.

The list of subjects of potential mutual agreement in paragraph 3 is not exhaustive; it merely illustrates the principles set forth in the paragraph. As in the case of other U.S. tax conventions, agreement can be arrived at in the context of determining the tax liability of a specific person or in establishing rules, guidelines, and procedures that will apply generally under the Convention to resolve issues for classes of taxpayers. It is contemplated that paragraph 3 could be utilized by the competent authorities, for example, to resolve conflicts between the domestic laws of Canada and the United States with respect to the allocation and apportionment of deductions.

Paragraph 4 provides that each Contracting State will endeavor to collect on behalf of the other State such amounts as may be necessary to ensure that relief granted by the Convention from taxation imposed by the other State does not enure to the benefit of persons not entitled to such relief. Paragraph 4 does not oblige either Contracting State to carry out administrative measures of a different nature from those that would be used by Canada or the United States in the collection of its own tax or which would be contrary to its public policy.

Paragraph 5 confirms that the competent authorities of Canada and the United States may communicate with each other directly for the purpose of reaching agreement in the sense of paragraphs 1 through 4.

Article XXVII — Exchange of Information

Paragraph 1 authorizes the competent authorities to exchange the information necessary for carrying out the provisions of the Convention or the domestic laws of Canada and the United States concerning taxes covered by the Convention, insofar as the taxation under those domestic laws is not contrary to the Convention. The authority to exchange information granted by paragraph 1 is not restricted by Article I (Personal Scope), and thus need not relate solely to persons otherwise covered by the Convention. It is contemplated that Article XXVII will be utilized by the competent authorities to exchange information upon request, routinely, and spontaneously.

Any information received by a Contracting State pursuant to the Convention is to be treated as secret in the same manner as information obtained under the taxation laws of that State. Such information shall be disclosed only to persons or authorities, including courts and administrative bodies, involved in the assessment or collection of, the administration and enforcement in respect of, or the determination of appeals in relation to, the taxes covered by the Convention and the information may be used by such persons only for such purposes. (In accordance with paragraph 4, for the purposes of this Article the Convention applies to a broader range of taxes than those covered specifically by Article II (Taxes Covered).

In specific cases a competent authority providing information may, pursuant to paragraph 3, impose such other conditions on the use of information as are necessary. Although the information received by persons described in paragraph 1 is to be treated as secret, it may be disclosed by such persons in public court proceedings or in judicial decisions.

The provisions of paragraph 1 authorize the U.S. competent authority to continue to allow the General Accounting Office to examine tax return information received from Canada when GAO is engaged in a study of the administration of U.S. tax laws pursuant to a directive of Congress. However, the secrecy requirements of paragraph 1 must be met.

If a Contracting State requests information in accordance with Article XXVII, the other Contracting State shall endeavor, pursuant to paragraph 2, to obtain the information to which the request relates in the same manner as if its own taxation were involved, notwithstanding the fact that such State does not need the information. In addition, the competent authority requested to obtain information shall endeavor to provide the information in the particular from requested such as depositions of witnesses and copies of unedited original documents, to the same extent such depositions and documents can be obtained under the laws or administrative practices of that State with respect to its own taxes.

Paragraph 3 provides that the provisions of paragraph 1 and 2 do not impose on Canada or the United States the obligation to carry out administrative measures at variance with the laws and administrative practice of either State; to supply information which is not obtainable under the laws or in the normal course of the administration of either State; or to supply information which would disclose any trade, business industrial commercial or professional secret or trade process, or information the disclosure of which would be contrary to public policy. Thus, Article XXVII allows, but does not obligate, the United States and Canada to obtain and provide information that would not be available to the requesting State under its laws or administrative practice or that in different circumstances would not be available to the State requested to provide the information. Further, Article XXVII allows a Contracting State to obtain information for the other Contracting State even if there is no tax liability in the State requested to obtain the information. Thus, the United States will continue to be able to give Canada tax information even if there is no U.S. tax liability at issue.

Paragraph 4 provides that, for the purposes of Article XXVII, the Convention applies, in the case of Canada, to all taxes imposed by the Government of Canada on estates and gifts under the *Income Tax Act* and, in the case of the United States, to all taxes imposed under the *Internal Revenue Code*. Article XXVII does not apply to taxes imposed by political subdivisions or local authorities of the Contracting States. Paragraph 4 is designed to ensure that information exchange will extend to most national level taxes on both sides, and specifically to information gathered for purposes of Canada's taxes on estate and gifts (not effective for deaths or gifts after 1971). This provision is intended to mesh with paragraph 18 of Article XXX (Entry Into Force), which terminates the existing estate tax convention between the United States and Canada.

Article XXVIII — Diplomatic Agents and Consular Officers

Article XXVIII states that nothing in the Convention affects the fiscal privileges of diplomatic agents or consular officers under the general rules of international law or under the provisions of special agreements. However, various provisions of the Convention could apply to such persons such as those concerning exchange of information, mutual agreement, and non-discrimination.

Article XXIX — Miscellaneous Rules

Paragraph 1 states that the provisions of the Convention do not restrict in any manner any exclusion, exemption, deduction, credit, or other allowance accorded by the laws of a Contracting State in the determination of the tax imposed by that State. Thus, if a deduction would be allowed for an item in computing the taxable income of a Canadian resident under the Code, such deduction is available to such person in computing taxable income under the Convention. Paragraph 1 does not, however, authorize a taxpayer to make inconsistent choices between rules of the Code and rules of the Convention. For example, if a resident of Canada desires to claim the benefits of the "attributable to" rule of paragraphs 1 and 7 of Article VII (Business Profits) with respect to the taxation of business profits of a permanent establishment, such person must use the "attributable to" concept consistently for all items of income and deductions and may not rely upon the "effectively connected" rules of the Code to avoid U.S. tax on other items of attributable income. In no event are the rules of the Convention to increase overall U.S. tax liability from what liability would be if there were no convention.

Paragraph 2 provides a "saving clause" pursuant to which Canada and the United States may each tax its residents, as determined under Article IV (Residence), and the United States may tax its citizens (including any former citizen whose loss of citizenship had as one of its principal purposes the avoidance of tax, but only for a period of 10 years following such loss) and companies electing under Code section 1504(d) to be treated as domestic corporations, as if there were no convention between the United States and Canada with respect to taxes on income and capital.

Paragraph 3 provides that, notwithstanding paragraph 2, the United States and Canada must respect certain specified provisions of the Convention in regard to residents, citizens, and section 1504(d) companies. Paragraph 3(a) lists certain paragraphs and Articles of the Convention that represent exceptions to the "saving clause" in all situations; paragraph 3(b) provides a limited further exception for students who have not acquired immigrant status in the State where they are temporarily present.

Paragraph 4 provides relief with respect to social security taxes imposed on employers, employees, and self-employed persons under Code

sections 1401, 3101 and 3111. Income from personal services not subject to tax by the United States under the provisions of this Convention or the 1942 Convention is not to be considered wages or net earnings from self-employment for purposes of the U.S. social security taxes with respect to taxable years of the taxpayer not barred by the statute of limitations relating to refunds (under the Code) ending on or before December 31 of the year before the year in which the Social Security Agreement between Canada and the United States (signed in Ottawa on March 11, 1981) enters into force. Thus, if that agreement enters into force in 1986, a resident of Canada earning income from personal services and such person's employer may apply for refunds of the employee's and employer's shares of U.S. social security tax paid attributable to the employee's income from personal services that is exempt from U.S. tax by virtue of this Convention or the 1942 Convention. In this example, the refunds would be available for social security taxes paid with respect to taxable years not barred by the statute of limitations of the Code ending on or before December 31, 1985. For purposes of Code section 6611, the date of overpayment with respect to refunds of U.S. tax pursuant to paragraph 4 is the later of the date on which the Social Security Agreement between Canada and the United States enters into force and the date on which instruments of ratification of the Convention are exchanged.

Under certain limited circumstances, an employee may, pursuant to paragraph 5 of Article XXX (Entry Into Force), claim an exemption from U.S. tax on wages under the 1942 Convention for one year after the Convention comes into force. The provisions of paragraph 4 would not, however, provide an exemption from U.S. social security taxes for such year.

Paragraph 4 does not modify existing U.S. statutes concerning social security benefits or funding. The Social Security Act requires the general funds of the Treasury to reimburse the social security trust funds on the basis of the records of wages and self-employment income maintained by the Social Security Administration. The Convention does not alter those records. Thus, any refunds of tax made pursuant to paragraph 4 would not affect claims for U.S. quarters of coverage with respect to social security benefits. And such refunds would be charged to general revenue funds, not social security trust funds.

Paragraph 5 provides a method to resolve conflicts between the Canadian and U.S. treatment of individual retirement accounts. Certain Canadian retirement plans which are qualified plans for Canadian tax purposes do not meet Code requirements for qualification. As a result, the earnings of such a plan are currently included in income, for U.S. tax purposes, rather than being deferred until actual distributions are made by the plan. Canada defers current taxes on the earnings of such a plan but imposes tax on actual distributions from the plan. Paragraph 5 is designed to avoid a mismatch of U.S. taxable income and foreign tax credits attributable to the Canadian tax on such distributions. Under the paragraph a beneficiary of a Canadian registered retirement savings plan may elect to defer U.S. taxation with respect to any income accrued in the plan but not distributed by the plan, until such time as a distribution is made from the plan or any substitute plan. The election is to be made under rules established by the competent authority of the United States. The election is not available with respect to income accrued in the plan which is reasonably attributable to contributions made to the plan by the beneficiary while he was not a Canadian resident.

Paragraph 6 provides rules denying the benefits of the Convention in certain situations where both countries believed that granting benefits would be inappropriate.

Paragraph 6(a) provides that Articles VI (Income from Real Property) through XXIV (Elimination of Double Taxation) shall not apply to profits, income or gains derived by a trust which is treated as the income of a resident of a Contracting State (see paragraph 1 of Article IV (Residence)), if a principal purpose of the establishment, acquisition or maintenance of the trust was to obtain a benefit under the Convention or the 1942 Convention for persons who are not residents of that State. For example, the provision could be applied to a case where a non-resident of the United States created a United States trust to derive dividend income from Canada and a principal purpose of the establishment or maintenance of the trust was to obtain the reduced rate of Canadian tax under Article X (Dividends) for the non-resident. Paragraph 6(b) provides that Articles VI through XXIV shall not apply to Canadian non-resident owned investment companies, as defined in section 133 of the *Income Tax Act*, or under a similar provision that is subsequently enacted. This provision operates to deny the benefits of the Convention to a Canadian non-resident owned investment company, and does not effect the grant of benefits to other persons. Thus, for example, a dividend paid by such a company to a shareholder who is a U.S resident is subject to the reduced rates of tax provided by Article X. The denial of the benefits of Articles VI through XXIV in such cases applies notwithstanding any other provision of the Convention. A Canadian non-resident owned investment company may, however, be entitled to claim the benefits of the 1942 Convention for an additional one-year period, pursuant to paragraph 5 of Article XXX (Entry into Force). Where the provisions of this paragraph apply, the Contracting State in which the income arises may tax such income under its domestic law.

Paragraph 7 provides rules for the U.S. taxation of Canadian social security benefits paid to a resident of Canada who is a U.S. citizen. These rules are described in the discussion of paragraph 5 of Article XVIII (Pensions and Annuities).

Article XXX — Entry into Force

Paragraph 1 provides that the Convention is subject to ratification in accordance with the procedures of Canada and the United States. The exchange of instruments of ratification is to take place at Ottawa as soon as possible.

Paragraph 2 provides, subject to paragraph 3, that the Convention shall enter into force upon the exchange of instruments of ratification. It has effect, with respect to source State taxation of dividends, interest, royalties, pensions, annuities, alimony, and child support, for amounts paid or credited on or after the first day of the second calendar month after the date on which the instruments of ratification are exchanged. For other taxes, the Convention takes effect for taxable years beginning on or after January 1 next following the date when instruments of ratification are exchanged. In the case of relief from United States social security taxes provided by paragraph 4 of Article XXIX (Miscellaneous Rules), the Convention also has effect for taxable years before the date on which instruments of ratification are exchanged.

Paragraph 3 provides special effective date rules for foreign tax credit computations with respect to taxes paid or accrued to Canada. Paragraph 3(a) provides that the tax on 1971 undistributed income on hand imposed by Part IX of the *Income Tax Act* of Canada is considered to be an "income tax" for distributions made on or after January 1, 1972 and before January 1, 1979. Any such tax which is paid or accrued under U.S. standards is considered to be imposed at the time of distribution and on the recipient of the distribution, in the proportion that the distribution out of undistributed income with respect to which the tax has been paid bears to 85 per cent of such undistributed income. A person claiming a credit for tax pursuant to paragraph 3(a) is obligated to compute the amount of the credit in accordance with that paragraph.

Paragraph 3(b) provides that the principles of paragraph 6 of Article XXIV (Elimination of Double Taxation), which provides for resourcing of certain dividend, interest, and royalty income to eliminate double taxation of U.S. citizens residing in Canada, have effect for taxable years beginning on or after January 1, 1976. The paragraph is intended to grant the competent authorities sufficient flexibility to address certain practical problems that have arisen under the 1942 Convention. It is anticipated that the competent authorities will be guided by paragraphs 4 and 5 of Article XXIV in applying paragraph 3(b) of Article XXX. Paragraph 3(c) provides that the provisions of paragraph 1 of Article XXIV (and the source rules of that Article) shall have effect for taxable years beginning on or after January 1, 1981.

Any claim for refund based on the provisions of paragraph 3 may be filed on or before June 30 of the calendar year following the year in which instruments of ratification are exchanged, notwithstanding statutes of limitations or other rules of domestic law to the contrary. For purposes of Code section 6611, the date of overpayment is the date on which instruments of ratification are exchanged, with respect to any refunds of U.S. tax pursuant to paragraph 3.

Paragraph 4 provides that, subject to paragraph 5, the 1942 Convention ceases to have effect for taxes for which the Convention has effect under the provisions of paragraph 2. For example, if under paragraph 2 the Convention were to have effect with respect to taxes withheld at source on dividends paid as of October 1, 1984, the 1942 Convention will not have effect with respect to such taxes.

Paragraph 5 modifies the rule of paragraph 4 to allow all of the provisions of the 1942 Convention to continue to have effect for the period through the first taxable year with respect to which the provisions of the Convention would otherwise have effect under paragraph 2(b), if greater relief from tax is available under the 1942 Convention than under the Convention. Paragraph 5 applies to all provisions of the 1942 Convention, not just those provisions of the convention for which the Convention takes effect under paragraph 2(b) of this Article. Thus, for example, assume that the Convention has effect, pursuant to paragraph 2(b), for taxable years of a taxpayer beginning on or after January 1, 1985. Further assume that a U.S. resident with a taxable year beginning on April 1 and ending on March 31 receives natural resource royalties from Canada which are subject to a 25% tax under Article VI (Income from Real Property) of the Convention, as amended by the Protocol, and Canada's internal law, but which would be

subject to a 15% tax under Article XI of the 1942 Convention. Pursuant to paragraph 5, the greater benefits of the 1942 Convention would continue to apply to royalties paid or credited to the U.S. resident through March 31, 1986.

Paragraph 6 provides that the 1942 Convention terminates on the last of the dates on which it has effect in accordance with the provisions of paragraphs 4 and 5.

Paragraph 7 terminates the Exchange of Notes between the United States and Canada of August 2 and September 17, 1928 providing for relief from double taxation of shipping profits. The provisions of the Exchange of Notes no longer have effect for taxable years beginning on or after January 1 following the exchange of instruments of ratification of the Convention. The 1942 Convention, in Article V, had suspended the effectiveness of the Exchange of Notes.

Paragraph 8 terminates the Convention between Canada and the United States for the Avoidance of Double Taxation with Respect to Taxes on the Estates of Deceased Persons signed on February 17, 1961. The provisions of that Convention cease to have effect with respect to estates of persons deceased on or after January 1 of the year following the exchange of instruments of ratification of the Convention.

Article XXXI — Termination

Paragraph 1 provides that the Convention shall remain in force until terminated by Canada or the United States.

Paragraph 2 provides that either Canada or the United States may terminate the Convention at any time after 5 years from the date on which instruments of ratification are exchanged, provided that notice of termination is given through diplomatic channels at least 6 months prior to the date on which the Convention is to terminate.

Paragraph 3 provides a special termination rule in situations where Canada or the United States changes its taxation laws and the other Contracting State believes that such change is significant enough to warrant modification of the Convention. In such a circumstance, the Canadian Ministry of Finance and the United States Department of the Treasury would consult with a view to resolving the matter. If the matter cannot be satisfactorily resolved, the Contracting State requesting an accommodation because of the change in the other Contracting State's taxation laws may terminate the Convention by giving the 6 months' prior notice required by paragraph 2, without regard to whether the Convention has been in force for 5 years.

Paragraph 4 provides that, in the event of termination, the Convention ceases to have effect for tax withheld at source under Articles X (Dividends), XI (Interest), XII (Royalties), and XVIII (Pensions and Annuities), and under paragraph 2 of Article XXII (Other Income), with respect to amounts paid or credited on or after the first day of January following the expiration of the 6 month period referred to in paragraph 2. In the case of other taxes, the Convention shall cease to have effect in the event of termination with respect to taxable years beginning on or after January 1 following the expiration of the 6 month period referred to in paragraph 2.

April 26, 1984

Technical Explanation of the Third Protocol to the Canada–U.S. Convention

Treasury Department Technical Explanation of the Protocol amending the convention between the United States of America and Canada with respect to taxes on income and on capital signed at Washington on September 26, 1980, as amended by the protocols signed on June 14, 1983 and March 28, 1984

The Protocol, signed at Washington on March 17, 1995 (the "Protocol"), amends the Convention Between the United States of America and Canada with Respect to Taxes on Income and on Capital, signed at Washington on September 26, 1980, as amended by the Protocols signed on June 14, 1983 and March 28, 1984 (collectively referred to as the "Convention"). This technical explanation is an official guide to the Protocol. It explains policies behind particular provisions, as well as understandings reached during the negotiations with respect to the interpretation and application of the Protocol. The technical explanation is not intended to provide a complete comparison between the Protocol and the Articles of the Convention that it amends. To the extent that the Convention has not been amended by the Protocol, the Technical Explanation of the Convention remains the official explanation. References to "he" or "his" should be read to mean "he" or "she" or "his" or "her."

Article 1

Article 1 of the Protocol amends Article II (Taxes Covered) of the Convention. Article II identifies the taxes to which the Convention applies. Paragraph 1 of Article 1 replaces paragraphs 2 through 4 of Article II of the Convention with new paragraphs 2 and 3. For each Contracting State, new paragraph 2 of Article II specifies the taxes existing on the date of signature of the Protocol to which the Convention applies. New paragraph 3provides that the Convention will also apply to taxes identical or substantially similar to those specified in paragraph 2, and to any new capital taxes, that are imposed after the date of signature of the Protocol.

New paragraph 2(a) of Article II describes the Canadian taxes covered by the Convention. As amended by the Protocol, the Convention will apply to all taxes imposed by the Government of Canada under the *Income Tax Act*.

New paragraph 2(b) of Article II amends the provisions identifying the U.S. taxes covered by the Convention in several respects. The Protocol incorporates into paragraph 2(b) the special rules found in paragraph 4 of Article II of the present Convention. New paragraph 2(b)(iii) conforms the rule previously found in paragraph 4(c) of Article II to the amended provisions of Article XXIV (Elimination of Double Taxation), under which Canada has agreed to grant a foreign tax credit for U.S. social security taxes. In addition, the Protocol adds a fourth special rule to reflect the addition to the Convention of new Article XXIX B (Taxes Imposed by Reason of Death) and related provisions in new paragraph 3(g) of Article XXVI (Mutual Agreement Procedure).

Article 1 of the Protocol also makes minor clarifying, nonsubstantive amendments to paragraphs 2 and 3 of the Article.

Article 2

This Article of the Protocol amends paragraphs 1(c) and 1(d) of Article III (General Definitions) of the Convention. These paragraphs define the terms "Canadian tax" and "United States tax," respectively. The present Convention defines "Canadian tax" to mean the Canadian taxes specified in paragraph 2(a) or 3(a) of Article II (Taxes Covered), i.e., Canadian income taxes. It similarly defines the term "United States tax" to mean the U.S. taxes specified in paragraph 2(b) or 3(a) of Article II, i.e., U.S. income taxes.

As amended by the Protocol, paragraph 2(a) of Article II of the Convention covers all taxes imposed by Canada under its *Income Tax Act*, including certain taxes that are not *income* taxes. As explained below, paragraph 2(b) is similarly amended by the Protocol to include certain U.S. taxes that are not *income* taxes. It was, therefore, necessary to amend the terms "Canadian tax" and "United States tax" so that they would continue to refer exclusively to the *income* taxes imposed by each Contracting State. The amendment to the definition of the term "Canadian tax" ensures, for example, that the Protocol will not obligate the United States to give a foreign tax credit under Article XXIV (Elimination of Double Taxation) for covered taxes other than income taxes.

The definition of "United States tax," as amended, excludes certain United States taxes that are covered in Article II only for certain limited purposes under the Convention. These include the accumulated earnings tax, the personal holding company tax, foundation excise taxes, social security taxes, and estate taxes. To the extent that these are to be creditable taxes in Canada, that fact is specified elsewhere in the Convention. A Canadian income tax credit for U.S. social security taxes is provided in new paragraph 2(a)(ii) of Article XXIV (Elimination of Double Taxation). A Canadian income tax credit for the U.S. estate taxes is provided in paragraph 6 of new Article XXIV B (Taxes Imposed by Reason of Death).

Article 3

Article 3 of the Protocol amends Article IV (Residence) of the Convention. It clarifies the meaning of the term "resident" in certain cases and adds a special rule, found in a number of recent U.S. treaties, for determining the residence of U.S. citizens and "green-card" holders.

The first sentence of paragraph 1 of Article IV sets forth the general criteria for determining residence under the Convention. It is amended by the Protocol to state explicitly that a person will be considered a resident of a Contracting State for purposes of the Convention if he is liable to tax in that Contracting State by reason of citizenship. Although the sentence applies to both Contracting States, only the United States taxes its non-resident citizens in the same manner as its residents. Aliens admitted to the United States for permanent residence ("green card" holders) continue to qualify as U.S. residents under the first sentence of paragraph 1, because they are taxed by the United States as residents, regardless of where they physically reside.

U.S. citizens and green card holders who reside outside the United States, however, may have relatively little personal or economic nexus with the United States. The Protocol adds a second sentence to paragraph 1 that acknowledges this fact by limiting the circumstances under which such persons are to be treated, for purposes of the Convention, as U.S. residents. Under that sentence, a U.S. citizen or green card holder will be treated as a resident of the United States for purposes of the Convention, and, thereby, be entitled to treaty benefits, only if (1) the individual has a substantial presence, permanent home, or habitual abode in the United States, and (2) the individual's personal and economic relations with the United States are closer than those with any third country. If, however, such an individual is a resident of both the United States and Canada under the first sentence of the paragraph, his residence for purposes of the Convention is determined instead under the "tie-breaker" rules of paragraph 2 of the Article.

The fact that a U.S. citizen who does not have close ties to the United States may not be treated as a U.S. resident under Article IV of the Convention does not alter the application of the saving clause of paragraph 2 of Article XXIX (Miscellaneous Rules) to that citizen. However, like any other individual that is a resident alien under U.S. law, a green card holder is treated as a resident of the United States for purposes of the saving clause only if he qualifies as such under Article IV.

New paragraph 1(a) confirms that the term "resident" of a Contracting State includes the Government of that State or a political subdivision or local authority of that State, as well as any agency or instrumentality of one of these governmental entities. This is implicit in the current Convention and in other U.S. and Canadian treaties, even where not specified.

New paragraph 1 also clarifies, in subparagraph (b), that trusts, organizations, or other arrangements operated exclusively to provide retirement or employee benefits, and other not-for-profit organizations, such as organizations described in section 501(c) of the *Internal Revenue Code*, are residents of a Contracting State if they are constituted in that State and are generally exempt from income taxation in that State by reason of their nature as described above. This change clarifies that the specified entities are to be treated as residents of one of the Contracting States. This corresponds to the interpretation that had previously been adopted by the Contracting States. Such entities, therefore, will be entitled to the benefits of the Convention with respect to the other Contracting State, provided that they satisfy the requirements of new Article XXIV A (Limitation on Benefits) (discussed below).

Article 3 of the Protocol adds a sentence to paragraph 3 of Article IV of the current Convention to address the residence of certain dual resident corporations. Certain jurisdictions allow local incorporation of an entity that is already organized and incorporated under the laws of another country. Under Canadian law, such an entity is referred to as having been "continued" into the other country. Although the Protocol uses the Canadian term, the provision operates reciprocally. The new sentence states that such a corporation will be considered a resident of the State into which it is continued. Paragraph 5 of Article 21 of the Protocol governs the effective date of this provision.

Article 4

Article 4 of the Protocol amends paragraphs 3 and 4 of Article IX (Related Persons) of the Convention. Paragraph 1 of Article IX authorizes a Contracting State to adjust the amount of income, loss, or tax payable by a person with respect to arrangements between that person and a related person in the other Contracting State, when such arrangements differ from those that would obtain between unrelated persons. Under the present Convention, if an adjustment is made or to be made by a Contracting State under paragraph 1, paragraph 3 obligates the other Contracting State to make a corresponding adjustment if two conditions are satisfied: (1) the other Contracting State agrees with the adjustment made or to be made by the first Contracting State, and (2) the competent authority of the other Contracting State has received notice of the first adjustment within six years of the end of the taxable year to which that adjustment relates. If notice is not given within the six-year period, and if the person to whom the first adjustment relates is not notified of the adjustment at least six months prior to the end of the six-year period, paragraph 4 of Article IX of the present Convention requires that the first Contracting State withdraw its adjustment, to the extent necessary to avoid double taxation.

Article 4 of the Protocol amends paragraphs 3 and 4 of Article IX to prevent taxpayers from using the notification requirements of the present Convention to avoid adjustments. Paragraph 4, as amended, eliminates the requirement that a Contracting State withdraw an adjustment if the notification requirement of paragraph 3 has not been met. Paragraph 4 is also amended to delete the requirement that the taxpayer be notified at least six months before expiration of the six-year period specified in paragraph 3.

As amended by the Protocol, Article IX also explicitly authorizes the competent authorities to relieve double taxation in appropriate cases, even if the notification requirement is not satisfied. Paragraph 3 confirms that the competent authorities may agree to a corresponding adjustment if such an adjustment is not otherwise barred by time or procedural limitations such as the statute of limitations. Paragraph 4 provides that the competent authority of the State making the initial adjustment may grant unilateral relief from double taxation in other cases, although such relief is not obligatory.

Article 5

Article 5 of the Protocol amends Article X (Dividends) of the Convention. Paragraph 1 of Article 5 amends paragraph 2(a) of Article X to reduce from 10 per cent to 5 per cent the maximum rate of tax that may be imposed by a Contracting State on the gross amount of dividends beneficially owned by a company resident in the other Contracting State that owns at least 10 per cent of the voting stock of the company paying the dividends. The rate at which the branch profits tax may be imposed under paragraph 6 is also reduced by paragraph 1 of Article 5 from 10 per cent to 5 per cent. Under the entry-into-force provisions of Article 21 of the Protocol, these reductions will be phased in over a three-year period.

Paragraph 2 of Article 5 of the Protocol replaces paragraph 7 of Article X of the Convention with a new paragraph 7. Paragraph 7 of the existing Convention is no longer relevant because it applies only in the case where a Contracting State does not impose a branch profits tax. Both Contracting States now do impose such a tax.

New paragraph 7 makes the 5 per cent withholding rate of new paragraph 2(a) inapplicable in certain situations. Under new paragraph 7(b), dividends paid by U.S. regulated investment companies (RICs) are denied the 5 per cent withholding rate even if the Canadian shareholder is a corporation that would otherwise qualify as a direct investor by satisfying the 10-per cent ownership requirement. Consequently, all RIC dividends to Canadian beneficial owners are subjected to the 15 per cent rate that applies to dividends paid to portfolio investors.

Dividends paid by U.S. real estate investment trusts (REITs) to Canadian beneficial owners are also denied the 5 per cent rate under the rules of paragraph 7(c). REIT dividends paid to individuals who own less than a 10 per cent interest in the REIT are subject to withholding at a maximum rate of 15 per cent. Paragraph 7(c) also provides that dividend distributions by a REIT to an estate or a testamentary trust acquiring the interest in the REIT as a consequence of the death of an individual will be treated as distributions to an individual, for the five-year period following the death. Thus, dividends paid to an estate or testamentary trust in respect of a holding of less than a 10 per cent interest in the REIT also will be entitled to the 15 per cent rate of withholding, but only for up to five years after the death. REIT dividends paid to other Canadian beneficial owners are subject to the rate of withholding tax that applies under the domestic law of the United States (i.e., 30 per cent).

The denial of the 5 per cent withholding rate at source to all RIC and REIT shareholders, and the denial of the 15 per cent rate to most shareholders of REITs, is intended to prevent the use of these non-taxable conduit entities to gain unjustifiable benefits for certain shareholders. For example, a Canadian corporation that wishes to hold a portfolio of U.S. corporate shares may hold the portfolio directly and pay a U.S. withholding tax of 15 per cent on all of the dividends that it receives. Alternatively, it may place the portfolio of U.S. stocks in a RIC, in which the Canadian corporation owns more than 10 per cent of the shares, but in which there are enough small shareholders to satisfy the RIC diversified ownership requirements. Since the RIC is a pure conduit, there are no U.S. tax costs to the Canadian corporation of interposing the RIC as an intermediary in

the chain of ownership. It is unlikely that a 10 per cent shareholding in a RIC will constitute a 10 per cent shareholding in any company from which the dividends originate. In the absence of the special rules in paragraph 7(b), however, interposition of a RIC would transform what should be portfolio dividends into direct investment dividends taxable at source by the United States only at 5 per cent. The special rules of paragraph 7 prevent this.

Similarly, a resident of Canada may hold U.S. real property directly and pay U.S. tax either at a 30 per cent rate on the gross income or at the income tax rates specified in the *Internal Revenue Code* on the net income. By placing the real estate holding in a REIT, the Canadian investor could transform real estate income into dividend income and thus transform high-taxed income into much lower-taxed income. In the absence of the special rule, if the REIT shareholder were a Canadian corporation that owned at least a 10 per cent interest in the REIT, the withholding rate would be 5 per cent; in all other cases, it would be 15 per cent. In either event, with one exception, a tax rate of 30 per cent or more would be significantly reduced. The exception is the relatively small individual Canadian investor who might be subject to U.S. tax at a rate of only 15 per cent on the net income even if he earned the real estate income directly. Under the rule in paragraph 7(c), such individuals, defined as those holding less than a 10 per cent interest in the REIT, remain taxable at source at a 15 per cent rate.

Subparagraph (a) of paragraph 7 provides a special rule for certain dividends paid by Canadian non-resident-owned investment corporations ("NROs"). The subparagraph provides for a maximum rate of 10 per cent (instead of the standard rate of 5 per cent) for dividends paid by NROs that are Canadian residents to a U.S. company that owns 10 per cent or more of the voting stock of the NRO and that is the beneficial owner of the dividend. This rule maintains the rate available under the current Convention for dividends from NROS. Canada wanted the withholding rate for direct investment NRO dividends to be no lower than the maximum withholding rates under the Convention on interest and royalties, to make sure that a foreign investor cannot transform interest or royalty income subject to a 10 per cent withholding tax into direct dividends qualifying for a 5 per cent withholding tax by passing it through to an NRO.

Article 6

Article 6 of the Protocol amends Article XI (Interest) of the Convention. Paragraph 1 of the Article reduces the general maximum withholding rate on interest under paragraph 2 of Article XI from 15 per cent to 10 per cent.

Paragraph 3 of Article XI of the Convention provides that, notwithstanding the general withholding rate applicable to interest payments under paragraph 2, certain specified categories of interest are exempt from withholding at source. Paragraph 2 of Article 6 of the Protocol amends paragraph 3(d) of the Convention, which deals with interest paid on indebtedness arising in connection with a sale on credit of equipment, merchandise, or services. The exemption provided by that paragraph in the Convention is broadened under the Protocol to apply to interest that is beneficially owned either by the seller in the underlying transaction, as under the present Convention, or by any beneficial owner of interest paid with respect to an indebtedness arising as a result of the sale on credit of equipment, merchandise, or services. This exemption, however, does not apply in cases where the purchaser is related to the seller or the debtor is related to the beneficial owner of the interest. The negotiators agreed that this exemption is subject, as are the other provisions of the Convention, to any anti-avoidance rules applicable under the respective domestic law of the Contracting States.

The reference to "related persons" in paragraph 3(d) of Article XI of the Convention, as amended, is a change from the present Convention, which refers to "persons dealing at arm's length." The term "related person" as used in this Article is not defined for purposes of the Convention. Accordingly, the meaning of the term, and, therefore, the application of this Article, will be governed by the domestic law of each Contracting State (as is true with the use of the term "arm's-length" under the current Convention) under the interpretative rule of paragraph 2 of Article III (General Definitions). The United States will define the term "related person" as under section 482 of the *Internal Revenue Code*, to include organizations, trades, or businesses (whether or not incorporated, whether or not organized in the United States, and whether or not affiliated) owned or controlled directly or indirectly by the same interests. The Canadian definition of "related persons" is found in section 251 of the *Income Tax Act*.

Paragraph 3 of Article 6 of the Protocol adds a new paragraph 9 to Article XI of the Convention. Although the definition of "interest" in paragraph 4 includes an excess inclusion with respect to a residual interest in a real estate mortgage investment conduit (REMIC) described in section 860G of the *Internal Revenue Code*, new paragraph 9 provides that the reduced rates of tax at source for interest provided for in paragraphs 2 and 3 do not apply to such income. This class of interest, therefore, remains subject to the statutory 30 per cent U.S. rate of tax at source. The legislation that created REMICs in 1986 provided that such excess inclusions were to be taxed at the full 30 per cent statutory rate, regardless of any then-existing treaty provisions to the contrary. The 30 per cent rate of tax on excess inclusions received by residents of Canada is consistent with this expression of Congressional intent.

Article 7

Article 7 of the Protocol modifies Article XII (Royalties) of the Convention by expanding the classes of royalties exempt from withholding of tax at source. Paragraph 3, as amended by the Protocol, identifies four classes of royalty payments arising in one Contracting State and beneficially owned by a resident of the other that are exempt at source: (1) subparagraph (a) preserves the exemption in paragraph 3 of the present Convention for copyright royalties in respect of literary and other works, other than certain such payments in respect of motion pictures, videotapes, and similar payments; (2) subparagraph (b) specifies that computer software royalties are also exempt; (3) subparagraph (c) adds royalties paid for the use of, or the right to use, patents and information concerning industrial, commercial, and scientific experience, other than payments in connection with rental or franchise agreements; and (4) subparagraph (d) allows the Contracting States to reach an agreement, through an exchange of Diplomatic Notes, with respect to the application of paragraph 3 of Article XII to payments in respect of certain live broadcasting transmissions.

The specific reference to software in subparagraph (b) is not intended to suggest that the United States views the term "copyright" as excluding software in other U.S. treaties (including the current treaty with Canada).

The negotiators agreed that royalties paid for the use of, or the right to use, designs or models, plans, secret formulas, or processes are included under subparagraph 3(c) to the extent that they represent payments for the use of, or the right to use, information concerning industrial, commercial, or scientific experience. In addition, they agreed that royalties paid for the use of, or the right to use, "know-how," as defined in paragraph 11 of the Commentary on Article 12 of the OECD Model Income Tax Treaty, constitute payments for the use of, or the right to use, information concerning industrial, commercial, or scientific experience. The negotiators further agreed that a royalty paid under a "mixed contract," "package fee," or similar arrangement will be treated as exempt at source by virtue of paragraph 3 to the extent of any portion that is paid for the use of, or the right to use, property or information with respect to which paragraph 3 grants an exemption.

The exemption granted under subparagraph 3(c) does not, however, extend to payments made for information concerning industrial, commercial, or scientific experience that is provided in connection with a rental or franchise agreement. For this purpose, the negotiators agreed that a franchise is to be distinguished from other arrangements resulting in the transfer of intangible property. They agreed that a license to use intangibles (whether or not including a trademark) in a territory, in and of itself, would not constitute a franchise agreement for purposes of subparagraph 3(c) in the absence of other rights and obligations in the license agreement or in any other agreement that would indicate that the arrangement in its totality constituted a franchise agreement. For example, a resident of one Contracting State may acquire a right to use a secret formula to manufacture a particular product (e.g., a perfume), together with the right to use a trademark for that product and to market it at a non-retail level, in the other Contracting State. Such an arrangement would not constitute a franchise in the absence of any other rights or obligations under that arrangement or any other agreement that would indicate that the arrangement in its totality constituted a franchise agreement. Therefore, the royalty payment under that arrangement would be exempt from withholding tax in the other Contracting State to the extent made for the use of, or the right to use, the secret formula or other information concerning industrial, commercial, or scientific experience; however, it would be subject to withholding tax at a rate of 10 per cent, to the extent made for the use of, or the right to use, the trademark.

The provisions of paragraph 3 do not fully reflect the U.S. treaty policy of exempting all types of royalty payments from taxation at source, but Canada was not prepared to grant a complete exemption for all types of royalties in the Protocol. Although the Protocol makes several important changes to the royalty provisions of the present Convention in the direction of bringing Article XII into conformity with U.S. policy, the United States remains concerned about the imposition of withholding tax on some classes of royalties and about the associated administrative burdens. In this connection, the Contracting States have affirmed their intention to col-

laborate to resolve in good faith any administrative issues that may arise in applying the provisions of subparagraph 3(c). The United States intends to continue to pursue a zero rate of withholding for all royalties in future negotiations with Canada, including discussions under Article 20 of the Protocol, as well as in negotiations with other countries.

As noted above, new subparagraph 3(d) enables the Contracting States to provide an exemption for royalties paid with respect to broadcasting through an exchange of notes. This provision was included because Canada was not prepared at the time of the negotiations to commit to an exemption for broadcasting royalties. Subparagraph 3(d) was included to enable the Senate to give its advice and consent in advance to such an exemption, in the hope that such an exemption could be obtained without awaiting the negotiation of another full protocol. Any agreement reached under the exchange of notes authorized by subparagraph 3(d) would lower the withholding rate from 10 per cent to zero and, thus, bring the Convention into greater conformity with established U.S. treaty policy.

Paragraph 2 of Article 7 of the Protocol amends the rules in paragraph 6 of Article XII of the Convention for determining the source of royalty payments. Under the present Convention, royalties generally are deemed to arise in a Contracting State if paid by a resident of that State. However, if the obligation to pay the royalties was incurred in connection with a permanent establishment or a fixed base in one of the Contracting States that bears the expense, the royalties are deemed to arise in that State.

The Protocol continues to apply these basic rules but changes the scope of an exception provided under the present Convention. Under the present Convention, a royalty paid for the use of, or the right to use, property in a Contracting State is deemed to arise in that State. Under the Protocol, this "place of use" exception applies only if the Convention does not otherwise deem the royalties to arise in one of the Contracting States. Thus, the "place of use" exception will apply only if royalties are neither paid by a resident of one of the Contracting States nor borne by a permanent establishment or fixed base in either State. For example, if a Canadian resident were to grant franchise rights to a resident of Chile for use in the United States, the royalty paid by the Chilean resident to the Canadian resident for those rights would be U.S. source income under this Article, subject to U.S. withholding at the 10 per cent rate provided in paragraph 2.

The rules of this Article differ from those provided under U.S. domestic law. Under U.S. domestic law, a royalty is considered to be from U.S. sources if it is paid for the use of, or the privilege of using, an intangible within the United States; the residence of the payor is irrelevant. If paid to a nonresident alien individual or other foreign person, a U.S. source royalty is generally subject to withholding tax at a rate of 30 per cent under U.S. domestic law. By reason of paragraph 1 of Article XXIX (Miscellaneous Rules), a Canadian resident would be permitted to apply the rules of U.S. domestic law to its royalty income if those rules produced a more favorable result in its case than those of this Article. However, under a basic principle of tax treaty interpretation recognized by both Contracting States, the prohibition against so-called "cherry-picking," the Canadian resident would be precluded from claiming selected benefits under the Convention (e.g., the tax rates only) and other benefits under U.S. domestic law (e.g., the source rules only) with respect to its royalties. See, e.g., Rev. Rul. 84-17, 1984-1 C.B. 308. For example, if a Canadian company granted franchise rights to a resident of the United States for use 50 per cent in the United States and 50 per cent in Chile, the Convention would permit the Canadian company to treat all of its royalty income from that single transaction as U.S. source income entitled to the withholding tax reduction under paragraph 2. U.S. domestic law would permit the Canadian company to treat 50 per cent of its royalty income as U.S. source income subject to a 30 per cent withholding tax and the other 50 per cent as foreign source income exempt from U.S. tax. The Canadian company could choose to apply either the provisions of U.S. domestic law or the provisions of the Convention to the transaction, but would not be permitted to claim both the U.S. domestic law exemption for 50 per cent of the income and the Convention's reduced withholding rate for the remainder of the income.

Royalties generally are considered borne by a permanent establishment or fixed base if they are deductible in computing the taxable income of that permanent establishment or fixed base.

Since the definition of "resident" of a Contracting State in Article IV (Residence), as amended by Article 3 of the Protocol, specifies that this term includes the Contracting States and their political subdivisions and local authorities, the source rule does not include a specific reference to these governmental entities.

Article 8

Article 8 of the Protocol broadens the scope of paragraph 8 of Article XIII (Gains) of the Convention to cover organizations, reorganizations, amalgamations, and similar transactions involving either corporations or other entities. The present Convention covers only transactions involving corporations. The amendment is intended to make the paragraph applicable to transactions involving other types of entities, such as trusts and partnerships.

As in the case of transactions covered by the present Convention, the deferral allowed under this provision shall be for such time and under such other conditions as are stipulated between the person acquiring the property and the competent authority. The agreement of the competent authority of the State of source is entirely discretionary and, when granted, will be granted only to the extent necessary to avoid double taxation.

Article 9

Article 9 of the Protocol amends Article XVIII (Pensions and Annuities) of the Convention. Paragraph 3 of Article XVIII defines the term "pensions" for purposes of the Convention, including the rules for the taxation of cross-border pensions in paragraphs 1 and 2 of the Article, the rules in paragraphs 2 and 3 of Article XXI (Exempt Organizations) for certain income derived by pension funds, and the rules in paragraph 1(b)(i) of Article IV (Residence) regarding the residence of pension funds and certain other entities. The Protocol amends the present definition by substituting the phrase "other retirement arrangement" for the phrase "retirement plan." The purpose of this change is to clarify that the definition of "pensions" includes, for example, payments from Individual Retirement Accounts (IRAs) in the United States and to provide that "pensions" includes, for example, Registered Retirement Savings Plans (RRSPs) and Registered Retirement Income Funds (RRIFs) in Canada. The term "pensions" also would include amounts paid by other retirement plans or arrangements, whether or not they are qualified plans under U.S. domestic law; this would include, for example, plans and arrangements described in section 457 or 414(d) of the *Internal Revenue Code*.

Paragraph 2 of Article 9 of the Protocol amends paragraph 5 of Article XVIII to modify the treatment of social security benefits under the Convention. Under the amended paragraph, benefits paid under the U.S. or Canadian social security legislation to a resident of the other Contracting State, or, in the case of Canadian benefits, to a U.S. citizen, are taxable exclusively in the paying State. This amendment brings the Convention into line with current U.S. treaty policy. Social security benefits are defined, for this purpose, to include tier 1 rail-road retirement benefits but not unemployment benefits (which therefore fall under Article XXII (Other Income) of the Convention). Pensions in respect of government service are covered not by this rule but by the rules of paragraphs 1 and 2 of Article XVIII.

The special rule regarding U.S. citizens is intended to clarify that only Canada, and not the United States, may tax a social security payment by Canada to a U.S. citizen not resident in the United States. This is consistent with the intention of the general rule, which is to give each Contracting State exclusive taxing jurisdiction over its social security payments. Since paragraph 5 is an exception to the saving clause, Canada will retain exclusive taxing jurisdiction over Canadian social security benefits paid to U.S. residents and citizens, and *vice versa*. It was not necessary to provide a special rule to clarify the taxation of U.S. social security payments to Canadian citizens, because Canada does not tax on the basis of citizenship and, therefore, does not include citizens within the scope of its saving clause.

A new paragraph 7 is added to Article XVIII by Article 9 of the Protocol. This paragraph replaces paragraph 5 of Article XXIX (Miscellaneous Rules) of the present Convention. The new paragraph makes reciprocal the rule that it replaced and expands its scope, so that it no longer applies only to residents and citizens of the United States who are beneficiaries of Canadian RRSPs. As amended, paragraph 7 applies to an individual who is a citizen or resident of a Contracting State and a beneficiary of a trust, company, organization, or other arrangement that is a resident of the other Contracting State and that is both generally exempt from income taxation in its State of residence and operated exclusively to provide pension, retirement, or employee benefits. Under this rule, the beneficiary may elect to defer taxation in his State of residence on income accrued in the plan until it is distributed or rolled over into another plan. The new rule also broadens the types of arrangements covered by this paragraph in a manner consistent with other pension-related provisions of the Protocol.

Article 10

Article 10 of the Protocol amends Article XXI (Exempt Organizations) of the Convention. Paragraph 1 of Article 10 amends paragraphs 2 and 3 of Article XXI. The most significant changes are those that conform the language of the two paragraphs to the revised definition of the term "pension" in paragraph 3 of Article XVIII (Pensions and Annuities). The revision adds the term "arrangement" to "trust, company or organization" in describing the residents of a Contracting State that may receive dividend

and interest income exempt from current income taxation by the other Contracting State. This clarifies that IRAs, for example, are eligible for the benefits of paragraph 2, subject to the exception in paragraph 3, and makes Canadian RRSPs and RRIFs, for example, similarly eligible (provided that they are operated exclusively to administer or provide pension, retirement, or employee benefits).

The other changes, all in paragraph 2, are intended to improve and clarify the language. For example, the reference to "tax" in the present Convention is changed to a reference to "income taxation." This is intended to clarify that if an otherwise exempt organization is subject to an excise tax, for example, it will not lose the benefits of this paragraph. In subparagraph 2(b), the phrase "not taxed in a taxable year" was changed to "generally exempt from income taxation in a taxable year" to ensure uniformity throughout the Convention; this change was not intended to disqualify a trust or other arrangement that qualifies for the exemption under the wording of the present Convention.

Paragraph 2 of Article 10 adds a sentence to paragraph 5 of Article XXI of the Convention. The paragraph in the present Convention provides that a U.S. citizen or resident may deduct, for U.S. income tax purposes, contributions made to Canadian charities under certain circumstances. The added sentence makes clear that the benefits of the paragraph are available to a company that is a resident of Canada but is treated by the United States as a domestic corporation under the consolidated return rules of section 1504(d) of the *Internal Revenue Code*. Thus, such a company will be able to deduct, for U.S. income tax purposes, contributions to Canadian charities that are deductible to a U.S. resident under the provisions of the paragraph.

Paragraph 3 of Article 10 amends paragraph 6 of Article XXI of the Convention to replace references to "deductions" for Canadian tax purposes with references to "relief" from tax. These changes clarify that the provisions of paragraph 6 apply to the credit for charitable contributions allowed under current Canadian law. The Protocol also makes other non-substantive drafting changes to paragraph 6.

Article 11

Article 11 of the Protocol adds a new paragraph 3 to Article XXII (Other Income) of the Convention. This Article entitles residents of one Contracting State who are taxable by the other State on gains from wagering transactions to deduct losses from wagering transactions for the purposes of taxation in that other State. However, losses are to be deductible only to the extent that they are incurred with respect to wagering transactions, the gains on which could be taxable in the other State, and only to the extent that such losses would be deductible if incurred by a resident of that other State.

This Article does not affect the collection of tax by a Contracting State. Thus, in the case of a resident of Canada, this Article does not affect, for example, the imposition of U.S. withholding taxes under section 1441 or section 1442 of the *Internal Revenue Code* on the gross amount of gains from wagering transactions. However, in computing its U.S. income tax liability on net income for the taxable year concerned, the Canadian resident may reduce its gains from wagering transactions subject to taxation in the United States by any wagering losses incurred on such transactions, to the extent that those losses are deductible under the provisions of new paragraph 3. Under U.S. domestic law, the deduction of wagering losses is governed by section 165 of the *Internal Revenue Code*. It is intended that the resident of Canada file a nonresident income tax return in order to substantiate the deduction for losses and to claim a refund of any overpayment of U.S. taxes collected by withholding.

Article 12

Article 12 of the Protocol amends Article XXIV (Elimination of Double Taxation) of the Convention. Paragraph 1 of Article 12 amends the rules for Canadian double taxation relief in subparagraphs (a) and (b) of paragraph 2 of Article XXIV. The amendment to subparagraph (a) obligates Canada to give a foreign tax credit for U.S. social security taxes paid by individuals. The amendment to subparagraph (b) of paragraph 2 does not alter the substantive effect of the rule, but conforms the language to current Canadian law. Under the provision as amended, Canada generally continues to allow an exemption to a Canadian corporation for direct dividends paid from the exempt surplus of a U.S. affiliate.

Paragraphs 4 and 5 of Article XXIV of the Convention provide double taxation relief rules, for both the United States and Canada, with respect to U.S. source income derived by a U.S. citizen who is resident in Canada. These rules address the fact that a U.S. citizen resident in Canada remains subject to U.S. tax on his worldwide income at ordinary progressive rates, and may, therefore, be subject to U.S. tax at a higher rate than a resident of Canada who is not a U.S. citizen. In essence, these paragraphs limit the foreign tax credit that Canada is obliged to allow such a U.S. citizen to the amount of tax on his U.S. source income that the United States would be allowed to collect from a Canadian resident who is not a U.S. citizen. They also oblige the United States to allow the U.S. citizen a credit for any income tax paid to Canada on the remainder of his income. Paragraph 4 deals with items of income other than dividends, interest, and royalties and is not changed by the Protocol. Paragraph 5, which deals with dividends, interest, and royalties, is amended by paragraph 2 of Article 12 of the Protocol.

The amendments to paragraph 5 of the Article make that paragraph applicable only to dividend, interest, and royalty income that would be subject to a positive rate of U.S. tax if paid to a Canadian resident who is not a U.S. citizen. This means that the rules of paragraph 4, not paragraph 5, will apply to items of interest and royalties, such as portfolio interest, that would be exempt from U.S. tax if paid to a non-U.S. citizen resident in Canada. Under paragraph 4, Canada will not allow a credit for the U.S. tax on such income, and the United States will credit the Canadian tax to the extent necessary to avoid double taxation.

Paragraph 2 of Article 12 of the Protocol makes further technical amendments to paragraph 5 of Article XXIV of the Convention. The existing Technical Explanation of paragraphs 5 and 6 of Article XXIV of the Convention should be read as follows to reflect the amendments made by the Protocol:

Paragraph 5 provides special rules for the elimination of double taxation in the case of dividends, interest, and royalties earned by a U.S. citizen resident in Canada. These rules apply notwithstanding the provisions of paragraph 4, but only as long as the law in Canada allows a deduction in computing income for the portion of any foreign tax paid in respect of dividends, interest, or royalties which exceeds 15 per cent of the amount of such items of income, and only with respect to those items of income. The rules of paragraph 4 apply with respect to other items of income; moreover, if the law in force in Canada regarding the deduction for foreign taxes is changed so as to no longer allow such a deduction, the provisions of paragraph 5 shall not apply and the U.S. foreign tax credit for Canadian taxes and the Canadian credit for U.S. taxes will be determined solely pursuant to the provisions of paragraph 4.

The calculations under paragraph 5 are as follows. First, the deduction allowed in Canada in computing income shall be made with respect to U.S. tax on the dividends, interest, and royalties before any foreign tax credit by the United States with respect to income tax paid or accrued to Canada. Second, Canada shall allow a deduction from (credit against) Canadian tax for U.S. tax paid or accrued with respect to the dividends, interest, and royalties, but such credit need not exceed the amount of income tax that would be paid or accrued to the United States on such items of income if the individual were not a U.S. citizen after taking into account any relief available under the Convention. Third, for purposes of computing the U.S. tax on such dividends, interest, and royalties, the United States shall allow as a credit against the U.S. tax the income tax paid or accrued to Canada after the credit against Canadian tax for income tax paid or accrued to the United States. The United States is in no event obliged to give a credit for Canadian income tax which will reduce the U.S. tax below the amount of income tax that would be paid or accrued to the United States on the amount of the dividends, interest, and royalties if the individual were not a U.S. citizen after taking into account any relief available under the Convention.

The rules of paragraph 5 are illustrated by the following examples.

Example B

– A U.S. citizen who is a resident of Canada has $100 of dividend income arising in the United States. The tentative U.S. tax before foreign tax credit is $40.

– Canada, under its law, allows a deduction for the U.S. tax in excess of 15 per cent or, in this case, a deduction of $25 ($40 - $15). The Canadian taxable income is $75 and the Canadian tax on that amount is $35.

– Canada gives a credit of $15 (the maximum credit allowed is 15 per cent of the gross dividend taken into Canadian income) and collects a net tax of $20.

– The United States allows a credit for the net Canadian tax against its tax in excess of 15 per cent. Thus, the maximum credit is $25 ($40 - $15). But since the net Canadian tax paid was $20, the usable credit is $20.

– To be able to use a credit of $20 requires Canadian source taxable income of $50 (50% of the U.S. tentative tax of $40). Under paragraph 6, $50 of the U.S. dividend is resourced to be of Canadian source. The

credit of $20 may then be offset against the U.S. tax of $40, leaving a net U.S. tax of $20.

The combined tax paid to both countries is $40, $20 to Canada and $20 to the United States.

Example C

A U.S. citizen who is a resident of Canada receives $200 of income with respect to personal services performed within Canada and $100 of dividend income arising within the United States. Taxable income for U.S. purposes, taking into account the rules of Code section 911, is $220. U.S. tax (before foreign tax credits) is $92. The $100 of dividend income is deemed to bear U.S. tax (before foreign tax credits) of $41.82 ($100/$200 × $92). Under Canadian law, a deduction of $26.82 (the excess of $41.82 over 15 per cent of the $100 dividend income) is allowed in computing income. The Canadian tax on $273.18 of income ($300 less the $26.82 deduction) is $130. Canada then gives a credit against the $130 for $15 (the U.S. tax paid or accrued with respect to the dividend, $41.82 but limited to 15 per cent of the gross amount of such income, or $15), leaving a final Canadian tax of $115. Of the $115, $30.80 is attributable to the dividend:

$$\frac{\$73.18\ (\$100\ \text{dividend less}\ \$26.82\ \text{deduction})}{\$273.18\ (\$300\ \text{income less}\ \$26.82\ \text{deduction})} \times \$115$$

Of this amount, $26.82 is creditable against U.S. tax pursuant to paragraph 5. (Although the U.S. allows a credit for the Canadian tax imposed on the dividend, $30.80, the credit may not reduce the U.S. tax below 15 per cent of the amount of the dividend. Thus, the maximum allowable credit is the excess of $41.82, the U.S. tax imposed on the dividend income, over $15, which is 15 per cent of the $100 dividend). The remaining $3.98 (the Canadian tax of $30.80 less the credit allowed of $26.82) is a foreign tax credit carryover for U.S. purposes, subject to the limitations of paragraph 5. (An additional $50.18 of Canadian tax with respect to Canadian source services income is creditable against U.S. tax pursuant to paragraphs 3 and 4(b). The $50.18 is computed as follows: tentative U.S. tax (before foreign tax credits) is $92; the U.S. tax on Canadian source services income is $50.18 ($92 less the U.S. tax on the dividend income of $41.82); the limitation on the services income is:

$$\frac{\$120\ (\text{taxable income from services})}{\$220\ (\text{total taxable income})} \times \$92$$

or $50.18. The credit for Canadian tax paid on the services income is therefore $50.18; the remainder of the Canadian tax on the services income, or $34.02, is a foreign tax credit carryover for U.S. purposes, subject to the limitations of paragraph 5.)

Paragraph 6 is necessary to implement the objectives of paragraphs 4(b) and 5(c). Paragraph 6 provides that where a U.S. citizen is a resident of Canada, items of income referred to in paragraph 4 or 5 are deemed for the purposes of Article XXIV to arise in Canada to the extent necessary to avoid double taxation of income by Canada and the United States consistent with the objectives of paragraphs 4(b) and 5(c). Paragraph 6 can override the source rules of paragraph 3 to permit a limited resourcing of income. The principles of paragraph 3 have effect, pursuant to paragraph 3(b) of Article XXX (Entry Into Force) of the Convention, for taxable years beginning on or after January 1, 1976. See the discussion of Article XXX below.

The application of paragraph 6 is illustrated by the following example.

Example D

The facts are the same as in Example C. The United States has undertaken, pursuant to paragraph 5(c) and paragraph 6, to credit $26.82 of Canadian taxes on dividend income that has a U.S. source under both paragraph 3 and the *Internal Revenue Code*. (As illustrated in Example C, the credit, however, only reduces the U.S. tax on the dividend income which exceeds the amount of income tax that would be paid or accrued to the United States on such income if the individual were not a U.S. citizen after taking into account any relief available under the Convention. Pursuant to paragraph 6, for purposes of determining the U.S. foreign tax credit limitation under the Convention with respect to Canadian taxes, $64.13

$$\frac{A}{\$220} \times \$92 = \$26.82;\ A = \$64.13$$

of taxable income with respect to the dividends is deemed to arise in Canada.

Paragraph 3 of Article 12 of the Protocol makes a technical amendment to paragraph 7 of Article XXIV. It conforms the reference to U.S. and Canadian taxes to the amended definitions of "United States tax" and "Canadian tax" in subparagraphs (c) and (d) of paragraph 1 of Article III (General Definitions). No substantive change in the effect of the paragraph is intended.

Paragraph 4 of Article 12 of the Protocol adds a new paragraph 10 to Article XXIV of the Convention. This paragraph provides for the application of the rule of "exemption with progression" by a Contracting State in cases where an item of income of a resident of that State is exempt from tax in that State by virtue of a provision of the Convention. For example, where under Canadian law a tax benefit, such as the goods and services tax credit, to a Canadian resident individual is reduced as the income of that individual, or the individual's spouse or other dependent, increases, and any of these persons receives U.S. social security benefits that are exempt from tax in Canada under the Convention, Canada may, nevertheless, take the U.S. social security benefits into account in determining whether, and to what extent, the benefit should be reduced.

New Article XXIX B (Taxes Imposed by Reason of Death), added by Article 19 of the Protocol, also provides relief from double taxation in certain circumstances in connection with Canadian income tax imposed by reason of death and U.S. estate taxes. However, subparagraph 7(c) of Article XXIX B generally denies relief from U.S. estate tax under that Article to the extent that a credit or deduction has been claimed for the same amount in determining any other tax imposed by the United States. This restriction would operate to deny relief, for example, to the extent that relief from U.S. income tax is claimed under Article XXIV in respect of the same amount of Canadian tax. There is, however, no requirement that relief from U.S. tax be claimed first (or exclusively) under Article XXIV. Paragraph 6 of Article XXIX B also prevents the claiming of double relief from Canadian income taxation under both that Article and Article XXIV, by providing that the credit provided by Article XXIX B applies only after the application of the credit provided by Article XXIV.

Article 13

Article 13 of the Protocol amends Article XXV (Non-Discrimination) of the Convention. Paragraph 1 of Article 13 amends paragraph 3 of Article XXV to conform the treaty language to a change in Canadian law. The paragraph is intended to allow the treatment of dependents under the income tax law of a Contracting State to apply with respect to dependents who are residents of the other Contracting State. As drafted in the present Convention, the rule deals specifically only with deductions; the amendments made by the Protocol clarify that it also applies to the credits now provided by Canadian law.

Paragraph 2 of Article 13 of the Protocol amends paragraph 10 of Article XXV of the Convention to broaden the scope of the non-discrimination protection provided by the Convention. As amended, Article XXV will apply to all taxes imposed by a Contracting State. Under the present Convention, non-discrimination protection is limited in the case of Canadian taxes to taxes imposed under the *Income Tax Act*. As amended by the Protocol, non-discrimination protection will extend, for example, to the Canadian goods and services tax and other Canadian excise taxes.

Article 14

Article 14 of the Protocol makes two changes to Article XXVI (Mutual Agreement Procedure) of the Convention. First, it adds a new subparagraph 3(g) specifically authorizing the competent authorities to provide relief from double taxation in certain cases involving the distribution or disposition of property by a U.S. qualified domestic trust or a Canadian spousal trust, where relief is not otherwise available.

Article 14 also adds a new paragraph 6 to Article XXVI (Mutual Agreement Procedure). Paragraph 6 provides for a voluntary arbitration procedure, to be implemented only upon the exchange of Diplomatic Notes between the United States and Canada. Similar provisions are found in the recent U.S. treaties with the Federal Republic of Germany, the Netherlands, and Mexico. Paragraph 6 provides that where the competent authorities have been unable, pursuant to the other provisions of Article XXVI, to resolve a disagreement regarding the interpretation or application of the Convention, the disagreement may, with the consent of the taxpayer and both competent authorities, be submitted for arbitration, provided the taxpayer agrees in writing to be bound by the decision of the arbitration board. Nothing in the provision requires that any case be submitted for arbitration. However, if a case is submitted to an arbitration board, the board's decision in that case will be binding on both Contracting States and on the taxpayer with respect to that case.

The United States was reluctant to implement an arbitration procedure until there has been an opportunity to evaluate the process in practice under other agreements that allow for arbitration, particularly the U.S.–Germany Convention. It was agreed, therefore, as specified in para-

graph 6, that the provisions of the Convention calling for an arbitration procedure will not take effect until the two Contracting States have agreed through an exchange of Diplomatic Notes to do so. This is similar to the approach taken with the Netherlands and Mexico. Paragraph 6 also provides that the procedures to be followed in applying arbitration will be agreed through an exchange of notes by the Contracting States. It is expected that such procedures will ensure that arbitration will not generally be available where matters of either State's tax policy or domestic law are involved.

Paragraph 2 of Article 20 of the Protocol provides that the appropriate authorities of the Contracting State will consult after three years following entry into force of the Protocol to determine whether the Diplomatic Notes implementing the arbitration procedure should be exchanged.

Article 15

Article 15 of the Protocol adds to the Convention a new Article XXVI A (Assistance in Collection). Collection assistance provisions are included in several other U.S. income tax treaties, including the recent treaty with the Netherlands, and in many U.S. estate tax treaties. U.S. negotiators initially raised with Canada the possibility of including collection assistance provisions in the Protocol, because the Internal Revenue Service has claims pending against persons in Canada that would be subject to collection under these provisions. However, the ultimate decision of the U.S. and Canadian negotiators to add the collection assistance article was attributable to the confluence of several unusual factors.

Of critical importance was the similarity between the laws of the United States and Canada. The Internal Revenue Service, the Justice Department, and other U.S. negotiators were reassured by the close similarity of the legal and procedural protections afforded by the Contracting States to their citizens and residents and by the fact that these protections apply to the tax collection procedures used by each State. In addition, the U.S. negotiators were confident, given their extensive experience in working with their Canadian counterparts, that the agreed procedures could be administered appropriately, effectively, and efficiently. Finally, given the close cooperation already developed between the United States and Canada in the exchange of tax information, the U.S. and Canadian negotiators concluded that the potential benefits to both countries of obtaining such assistance would be immediate and substantial and would far outweigh any cost involved.

Under paragraph 1 of Article XXVI A, each Contracting State agrees, subject to the exercise of its discretion and to the conditions explicitly provided later in the Article, to lend assistance and support to the other in the collection of revenue claims. The term "revenue claim" is defined in paragraph 1 to include all taxes referred to in paragraph 9 of the Article, as well as interest, costs, additions to such taxes, and civil penalties. Paragraph 9 provides that, notwithstanding the provisions of Article II (Taxes Covered) of the Convention, Article XXVI A shall apply to all categories of taxes collected by or on behalf of the Government of a Contracting State.

Paragraph 2 of the Article requires the Contracting State applying for collection assistance (the "applicant State") to certify that the revenue claim for which collection assistance is sought has been "finally determined." A revenue claim has been finally determined when the applicant State has the right under its internal law to collect the revenue claim and all administrative and judicial rights of the taxpayer to restrain collection in the applicant State have lapsed or been exhausted.

Paragraph 3 of the Article clarifies that the Contracting State from which assistance was requested (the "requested State") has discretion as to whether to accept a particular application for collection assistance. However, if the application for assistance is accepted, paragraph 3 requires that the requested State grant assistance under its existing procedures as though the claim were the requested State's own revenue claim finally determined under the laws of that State. This obligation under paragraph 3 is limited by paragraph 7 of the Article, which provides that, although generally treated as a revenue claim of the requested State, a claim for which collection assistance is granted shall not have any priority accorded to the revenue claims of the requested State.

Paragraph 4 of Article XXVI A provides that, when the United States accepts a request for assistance in collection, the claim will be treated by the United States as an assessment as of the time the application was received. Similarly, when Canada accepts a request, a revenue claim shall be treated as an amount payable under the *Income Tax Act*, the collection of which is not subject to any restriction.

Paragraph 5 of the Article provides that nothing in Article XXVI A shall be construed as creating in the requested State any rights of administrative or judicial review of the applicant State's finally determined revenue claim. Thus, when an application for collection assistance has been accepted, the substantive validity of the applicant State's revenue claim cannot be challenged in an action in the requested State. Paragraph 5 furthers provides, however, that if the applicant State's revenue claim ceases to be finally determined, the applicant State is obligated to withdraw promptly any request that had been based on that claim.

Paragraph 6 provides that, as a general rule, the requested State is to forward the entire amount collected to the competent authority of the applicant State. The ordinary costs incurred in providing collection assistance will normally be borne by the requested State and only extraordinary costs will be borne by the applicant State. The application of this paragraph, including rules specifying which collection costs are to be borne by each State and the time and manner of payment of the amounts collected, will be agreed upon by the competent authorities, as provided for in paragraph 11.

Paragraph 8 provides that no assistance is to be given under this Article for a claim in respect of an individual taxpayer, to the extent that the taxpayer can demonstrate that he was a citizen of the requested State during the taxable period to which the revenue claim relates. Similarly, in the case of a company, estate, or trust, no assistance is to be given to the extent that the entity can demonstrate that it derived its status as such under the laws in force in the requested State during the taxable period to which the claim relates.

Subparagraph (a) of paragraph 10 clarifies that Article XXVI A supplements the provisions of paragraph 4 of Article XXVI (Mutual Agreement Procedure). The Mutual Agreement Procedure paragraph, which is more common in U.S. tax treaties, provides for collection assistance in cases in which a Contracting State seeks assistance in reclaiming treaty benefits that have been granted to a person that is not entitled to those benefits. Subparagraph (b) of paragraph 10 makes clear that nothing in Article XXVI A can require a Contracting State to carry out administrative measures of a different nature from those used in the collection of its own taxes, or that would be contrary to its public policy (order public).

Paragraph 11 requires the competent authorities to agree upon the mode of application of Article XXVI A, including agreement to ensure comparable levels of assistance to each of the Contracting States.

Paragraph 3 of Article 21 of the Protocol allows collection assistance under Article XXVI A to be sought for revenue claims that have been finally determined at any time within the 10 years preceding the date on which the Protocol enters into force.

Article 16

Article 16 of the Protocol amends Article XXVII (Exchange of Information) of the Convention. Paragraph 1 of Article 16 amends paragraph 1 of Article XXVII. The first change is a wording change to make it clear that information must be exchanged if it is "relevant" for carrying out the provisions of the Convention or of the domestic laws of the Contracting States, even if it is not "necessary." Neither the United States nor Canada views this as a substantive change. The second amendment merely conforms the language of the paragraph to the language of Article II (Taxes Covered), as amended, by referring to the taxes "to which the Convention applies" rather than to the taxes "covered by the Convention."

The Protocol further amends paragraph 1 to allow a Contracting State to provide information received from the other Contracting State to its states, provinces, or local authorities, if it relates to a tax imposed by that state, province, or local authority that is substantially similar to a national-level tax covered under Article II (Taxes Covered). However, this provision does not authorize a Contracting State to request information on behalf of a state, province, or local authority. The Protocol also amends paragraph 1 to authorize the competent authorities to release information to any arbitration panel that may be established under the provisions of new paragraph 6 of Article XXVI (Mutual Agreement Procedure). Any information provided to a state, province, or local authority or to an arbitration panel is subject to the same use and disclosure provisions as is information received by the national Governments and used for their purposes.

Paragraph 2 of Article 16 amends paragraph 4 of Article XXVII, which describes the applicable taxes for the purposes of this Article. Under the present Convention, the Article applies in Canada to taxes imposed by the Government of Canada under the *Income Tax Act* and on estates and gifts and in the United States to all taxes imposed under the *Internal Revenue Code*. The Protocol broadens the scope of the Article to apply to "all taxes imposed by a Contracting State." This change allows information to be exchanged, for example, with respect to Canadian excise taxes, as is the case with respect to U.S. excise taxes under the present Convention. Paragraph 4 is also amended to authorize the exchange of information

with respect to other taxes, to the extent relevant to any other provision of the Convention.

Article 17

Article 17 of the Protocol amends Article XXIX (Miscellaneous Rules) of the Convention. Paragraph 1 of Article 17 modifies paragraph 3(a), the exceptions to the saving clause, to conform the cross-references in the paragraph to changes in other parts of the Convention. The paragraph also adds to the exceptions to the saving clause certain provisions of Article XXIX B (Taxes Imposed by Reason of Death). Thus, certain benefits under that Article will be granted by a Contracting State to its residents and, in the case of the United States, to its citizens, notwithstanding the saving clause of paragraph 2 of Article XXIX.

Paragraph 2 of Article 17 replaces paragraphs 5 through 7 of Article XXIX of the present Convention with three new paragraphs. (Paragraph 5 in the present Convention was moved to paragraph 7 of Article XVIII (Pensions and Annuities), and paragraphs 6 and 7 were deleted as unnecessary.) New paragraph 5 provides a rule for the taxation by Canada of a Canadian resident that is a shareholder in a U.S. S corporation. The application of this rule is relatively limited, because U.S. domestic law requires that S corporation shareholders be either U.S. citizens or U.S. residents. Therefore, the rule provided by paragraph 5 would apply only to an S corporation shareholder who is a resident of both the United States and Canada (i.e., a "dual resident" who meets certain requirements), determined before application of the "tie-breaker" rules of Article IV (Residence), or a U.S. citizen resident in Canada. Since the shareholder would be subject to U.S. tax on its share of the income of the S corporation as it is earned by the S corporation and, under Canadian statutory law, would be subject to tax only when the income is distributed, there could be a timing mismatch resulting in unrelieved double taxation. Under paragraph 5, the shareholder can make a request to the Canadian competent authority for relief under the special rules of the paragraph. Under these rules, the Canadian shareholder will be subject to Canadian tax on essentially the same basis as he is subject to U.S. tax, thus eliminating the timing mismatch.

The Protocol adds to Article XXIX a new paragraph 6, which provides a coordination rule for the Convention and the General Agreement on Trade in Services ("GATS"). Paragraph 6(a) provides that, for purposes of paragraph 3 of Article XXII (Consultation) of the GATS, a measure falls within the scope of the Convention only if the measure relates to a tax (1) to which Article XXV (Non-Discrimination) of the Convention applies, or (2) to which Article XXV does not apply and to which any other provision of the Convention applies, but only to the extent that the measure relates to a matter dealt with in that other provision. Under paragraph 6(b), notwithstanding paragraph 3 of Article XXII of the GATS, any doubt as to the interpretation of subparagraph (a) will be resolved under paragraph 3 of Article XXVI (Mutual Agreement Procedure) of the Convention or any other procedure agreed to by both Contracting States.

GATS generally obliges its Members to provide national treatment and most-favored-nation treatment to services and service suppliers of other Members. A very broad exception from the national treatment obligation applies to direct taxes. An exception from the most-favored-nation obligation applies to a difference in treatment resulting from an international agreement on the avoidance of double taxation (a "tax agreement") or from provisions on the avoidance of double taxation in any other international agreement or arrangement by which the Member is bound.

Article XXII(3) of GATS specifically provides that there will be no access to GATS procedures to settle a national treatment dispute concerning a measure that falls within the scope of a tax agreement. This provision preserves the exclusive application of nondiscrimination obligations in the tax agreement and clarifies that the competent authority mechanism provided by the tax agreement will apply, instead of GATS procedures, to resolve nondiscrimination disputes involving the taxation of services and service suppliers.

In the event of a disagreement between Members as to whether a measure falls within the scope of a tax agreement that existed at the time of the entry into force of the Agreement establishing the World Trade Organization, Article XXII(2), footnote 11, of GATS reserves the resolution of the dispute to the Contracting States under the tax agreement. In such a case, the issue of the scope of a tax agreement may be resolved under GATS procedures (rather than tax treaty procedures) only if both parties to the existing tax agreement consent. With respect to subsequent tax agreements, GATS provides that either Member may bring the jurisdictional matter before the Council for Trade In Services, which will refer the matter to arbitration for a decision that will be final and binding on the Members.

Both Canada and the United States agree that a protocol to a convention that is grandfathered under Article XXII(2), footnote 11, of GATS is also grandfathered. Nevertheless, since the Protocol extends the application of the Convention, and particularly the nondiscrimination article, to additional taxes (e.g., some non-income taxes imposed by Canada), the negotiators sought to remove any ambiguity and agreed to a provision that clarified the scope of the Convention and the relationship between the Convention and GATS.

The purpose of new paragraph 6(a) of the Convention is to provide the agreement of the Contracting States as to the measures considered to fall within the scope of the Convention in applying Article XXII(3) of GATS between the Contracting States. The purpose of new paragraph 6(b) is to reserve the resolution of the issue of the scope of the Convention for purposes of Article XXII(3) of GATS to the competent authorities under the Convention rather than to settlement under GATS procedures.

The Protocol also adds to Article XXIX a new paragraph 7, relating to certain changes in the law or treaty policy of either of the Contracting States. Paragraph 7 provides, first, that in response to a change in the law or policy of either State, the appropriate authority of either State may request consultations with its counterpart in the other State to determine whether a change in the Convention is appropriate. If a change in domestic legislation has unilaterally removed or significantly limited a material benefit provided by the Convention, the appropriate authorities are instructed by the paragraph to consult promptly to consider an appropriate amendment to the Convention. The "appropriate authorities" may be the Contracting States themselves or the competent authorities under the Convention. The consultations may be initiated by the authority of the Contracting State making the change in law or policy or by the authority of the other State. Any change in the Convention recommended as a result of this process can be implemented only through the negotiation, signature, ratification, and entry into force of a new protocol to the Convention.

Article 18

In general

Article 18 of the Protocol adds a new Article XXIX A (Limitation on Benefits) to the Convention. Article XXIX A addresses the problem of "treaty shopping" by requiring, in most cases, that the person seeking U.S. treaty benefits not only be a Canadian resident but also satisfy other tests. In a typical case of treaty shopping, a resident of a third State might establish an entity resident in Canada for the purpose of deriving income from the United States and claiming U.S. treaty benefits with respect to that income. Article XXIX A limits the benefits granted by the United States under the Convention to those persons whose residence in Canada is not considered to have been motivated by the existence of the Convention. Absent Article XXIX A, the entity would be entitled to U.S. benefits under the Convention as a resident of Canada, unless it were denied benefits as a result of limitations (e.g., business purpose, substance-over-form, step transaction, or conduit principles or other anti-avoidance rules) applicable to a particular transaction or arrangement. General anti-abuse provisions of this sort apply in conjunction with the Convention in both the United States and Canada. In the case of the United States, such anti-abuse provisions complement the explicit anti-treaty-shopping rules of Article XXIX A. While the anti-treaty-shopping rules determine whether a person has a sufficient nexus to Canada to be entitled to treaty benefits, general anti-abuse provisions determine whether a particular transaction should be recast in accordance with the substance of the transaction.

The present Convention deals with treaty-shopping in a very limited manner, in paragraph 6 of Article XXIX, by denying benefits to Canadian residents that benefit from specified provisions of Canadian law. The Protocol removes that paragraph 6 from Article XXIX, because it is superseded by the more general provisions of Article XXIX A.

The Article is not reciprocal, except for paragraph 7. Canada prefers to rely on general anti-avoidance rules to counter arrangements involving treaty-shopping through the United States.

The structure of the Article is as follows: paragraph 1 states that, in determining whether a resident of Canada is entitled to U.S. benefits under the Convention, a "qualifying person" is entitled to all of the benefits of the Convention, and other persons are not entitled to benefits, except where paragraphs 3, 4, or 6 provide otherwise. Paragraph 2 lists a number of characteristics, any one of which will make a Canadian resident a qualifying person. These are essentially mechanical tests. Paragraph 3 provides an alternative rule, under which a Canadian resident that is not a qualifying person under paragraph 2 may claim U.S. benefits with respect to those items of U.S. source income that are connected with the active conduct of a trade or business in Canada. Paragraph 4 provides a limited "derivative benefits" test for entitlement to benefits with respect to U.S. source dividends, interest, and royalties beneficially owned by a resident of Canada that is not a qualifying person. Paragraph 5 defines certain terms used in the Article. Paragraph 6 requires the U.S. competent authority to

grant benefits to a resident of Canada that does not qualify for benefits under any other provision of the Article, where the competent authority determines, on the basis of all factors, that benefits should be granted. Paragraph 7 clarifies the application of general anti-abuse provisions.

Individuals and governmental entities

Under paragraph 2, the first two categories of qualifying persons are (1) individual residents of Canada, and (2) the Government of Canada, a political subdivision or local authority thereof, or an agency or instrumentality of that Government, political subdivision, or local authority. It is considered unlikely that persons falling into these two categories can be used, as the beneficial owner of income, to derive treaty benefits on behalf of a third-country person. If a person is receiving income as a nominee on behalf of a third-country resident, benefits will be denied with respect to those items of income under the articles of the Convention that grant the benefit, because of the requirements in those articles that the beneficial owner of the income be a resident of a Contracting State.

Publicly traded entities

Under subparagraph (c) of paragraph 2, a Canadian resident company or trust is a qualifying person if there is substantial and regular trading in the company's principal class of shares, or in the trust's units, on a recognized stock exchange. The term "recognized stock exchange" is defined in paragraph 5(a) of the Article to mean, in the United States, the NASDAQ System and any stock exchange registered as a national securities exchange with the Securities and Exchange Commission, and, in Canada, any Canadian stock exchanges that are "prescribed stock exchanges" under the *Income Tax Act*. These are, at the time of signature of the Protocol, the Alberta, Montreal, Toronto, Vancouver, and Winnipeg Stock Exchanges. Additional exchanges may be added to the list of recognized exchanges by exchange of notes between the Contracting States or by agreement between the competent authorities.

Certain companies owned by publicly traded corporations also may be qualifying persons. Under subparagraph (d) of paragraph 2, a Canadian resident company will be a qualifying person, even if not publicly traded, if more than 50 per cent of the vote and value of its shares is owned (directly or indirectly) by five or fewer persons that would be qualifying persons under subparagraph (c). In addition, each company in the chain of ownership must be a qualifying person or a U.S. citizen or resident. Thus, for example, a Canadian company that is not publicly traded but that is owned, one-third each, by three companies, two of which are Canadian resident corporations whose principal classes of shares are substantially and regularly traded on a recognized stock exchange, will qualify under subparagraph (d).

The 50-per cent test under subparagraph (d) applies only to shares other than "debt substitute shares." The term "debt substitute shares" is defined in paragraph 5 to mean shares defined in paragraph (e) of the definition in the Canadian *Income Tax Act* of "term preferred shares" (see section 248(1) of the *Income Tax Act*), which relates to certain shares received in debt-restructuring arrangements undertaken by reason of financial difficulty or insolvency. Paragraph 5 also provides that the competent authorities may agree to treat other types of shares as debt substitute shares.

Ownership/base erosion test

Subparagraph (e) of paragraph 2 provides a two-part test under which certain other entities may be qualifying persons, based on ownership and "base erosion." Under the first of these tests, benefits will be granted to a Canadian resident company if 50 per cent or more of the vote and value of its shares (other than debt substitute shares), or to a Canadian resident trust if 50 per cent or more of its beneficial interest, is *not* owned, directly or indirectly, by persons other than qualifying persons or U.S. residents or citizens. The wording of these tests is intended to make clear that, for example, if a Canadian company is more than 50 per cent owned by a U.S. resident corporation that is, itself, wholly owned by a third-country resident other than a U.S. citizen, the Canadian company would not pass the ownership test. This is because more than 50 per cent of its shares is owned indirectly by a person (the third-country resident) that is not a qualifying person or a citizen or resident of the United States.

For purposes of this subparagraph (e) and other provisions of this Article, the term "shares" includes, in the case of a mutual insurance company, any certificate or contract entitling the holder to voting power in the corporation. This is consistent with the interpretation of similar limitation on benefits provisions in other U.S. treaties.

The second test of subparagraph (e) is the so-called "base erosion" test. A Canadian company or trust that passes the ownership test must also pass this test to be a qualifying person. This test requires that the amount of expenses that are paid or payable by the Canadian entity in question to persons that are not qualifying persons or U.S. citizens or residents, and that are deductible from gross income, be less than 50 per cent of the gross income of the company or trust. This test is applied for the fiscal period immediately preceding the period for which the qualifying person test is being applied. If it is the first fiscal period of the person, the test is applied for the current period.

The ownership/base erosion test recognizes that the benefits of the Convention can be enjoyed indirectly not only by equity holders of an entity, but also by that entity's obligees, such as lenders, licensors, service providers, insurers and reinsurers, and others. For example, a third-country resident could license technology to Canadian-owned Canadian corporation to be sublicensed to a U.S. resident. The U.S. source royalty income of the Canadian corporation would be exempt from U.S. withholding tax under Article XII (Royalties) of the Convention (as amended by the Protocol). While the Canadian corporation would be subject to Canadian corporation income tax, its taxable income could be reduced to near zero as a result of the deductible royalties paid to the third-country resident. If, under a Convention between Canada and the third country, those royalties were either exempt from Canadian tax or subject to tax at a low rate, the U.S. treaty benefit with respect to the U.S. source royalty income would have flowed to the third-country resident at little or no tax cost, with no reciprocal benefit to the United States from the third country. The ownership/base erosion test therefore requires both that qualifying persons or U.S. residents or citizens substantially own the entity and that the entity's deductible payments be made in substantial part to such persons.

Other qualifying persons

Under subparagraph (f) of paragraph 2, a Canadian resident estate is a qualifying person, entitled to the benefits of the Convention with respect to its U.S. source income.

Subparagraphs (g) and (h) specify the circumstances under which certain types of not-for-profit organizations will be qualifying persons. Subparagraph (g) of paragraph 2 provides that a not-for-profit organization that is a resident of Canada is a qualifying person, and thus entitled to U.S. benefits, if more than half of the beneficiaries, members, or participants in the organization are qualifying persons or citizens or residents of the United States. The term "not-for-profit organization" of a Contracting State is defined in subparagraph (b) of paragraph 5 of the Article to mean an entity created or established in that State that is generally exempt from income taxation in that State by reason of its not-for-profit status. The term includes charities, private foundations, trade unions, trade associations, and similar organizations.

Subparagraph (h) of paragraph 2 specifies that certain organizations described in paragraph 2 of Article XXI (Exempt Organizations), as amended by Article 10 of the Protocol, are qualifying persons. To be a qualifying person, such an organization must be established primarily for the purpose of providing pension, retirement, or employee benefits to individual residents of Canada who are (or were, within any of the five preceding years) qualifying persons, or to citizens or residents of the United States. An organization will be considered to be established "primarily" for this purpose if more than 50 per cent of its beneficiaries, members, or participants are such persons. Thus, for example, a Canadian Registered Retirement Savings Plan ("RRSP") of a former resident of Canada who is working temporarily outside of Canada would continue to be a qualifying person during the period of the individual's absence from Canada or for five years, whichever is shorter. A Canadian pension fund established to provide benefits to persons employed by a company would be a qualifying person only if most of the beneficiaries of the fund are (or were within the five preceding years) individual residents of Canada or residents or citizens of the United States.

The provisions of paragraph 2 are self-executing, unlike the provisions of paragraph 6, discussed below. The tax authorities may, of course, on review, determine that the taxpayer has improperly interpreted the paragraph and is not entitled to the benefits claimed.

Active trade or business test

Paragraph 3 provides an eligibility test for benefits for residents of Canada that are not qualifying persons under paragraph 2. This is the so-called "active trade or business" test. Unlike the tests of paragraph 2, the active trade or business test looks not solely at the characteristics of the person deriving the income, but also at the nature of the activity engaged in by that person and the connection between the income and that activity. Under the active trade or business test, a resident of Canada deriving an item of income from the United States is entitled to benefits with respect to that income if that person (or a person related to that person under the principles of *Internal Revenue Code* section 482) is engaged in an active trade or business in Canada and the income in question is derived in connection with, or is incidental to, that trade or business.

Income that is derived in connection with, or is incidental to, the business of making or managing investments will not qualify for benefits under this provision, unless those investment activities are carried on with customers in the ordinary course of the business of a bank, insurance company, registered securities dealer, or deposit-taking financial institution.

Income is considered derived "in connection" with an active trade or business in the United States if, for example, the income-generating activity in the United States is "upstream," "downstream," or parallel to that conducted in Canada. Thus, if the U.S. activity consisted of selling the output of a Canadian manufacturer or providing inputs to the manufacturing process, or of manufacturing or selling in the United States the same sorts of products that were being sold by the Canadian trade or business in Canada, the income generated by that activity would be treated as earned in connection with the Canadian trade or business. Income is considered "incidental" to the Canadian trade or business if, for example, it arises from the short-term investment of working capital of the Canadian resident in U.S. securities.

An item of income will be considered to be earned in connection with or to be incidental to an active trade or business in Canada if the income is derived by the resident of Canada claiming the benefits directly or indirectly through one or more other persons that are residents of the United States. Thus, for example, a Canadian resident could claim benefits with respect to an item of income earned by a U.S. operating subsidiary but derived by the Canadian resident indirectly through a wholly-owned U.S. holding company interposed between it and the operating subsidiary. This language would also permit a Canadian resident to derive income from the United States through one or more U.S. residents that it does not wholly own. For example, a Canadian partnership in which three unrelated Canadian companies each hold a one-third interest could form a wholly-owned U.S. holding company with a U.S. operating subsidiary. The "directly or indirectly" language would allow otherwise available treaty benefits to be claimed with respect to income derived by the three Canadian partners through the U.S. holding company, even if the partners were not considered to be related to the U.S. holding company under the principles of *Internal Revenue Code* section 482.

Income that is derived in connection with, or is incidental to, an active trade or business in Canada, must pass an additional test to qualify for U.S. treaty benefits. The trade or business in Canada must be substantial in relation to the activity in the United States that gave rise to the income in respect of which treaty benefits are being claimed. To be considered substantial, it is not necessary that the Canadian trade or business be as large as the U.S. income-generating activity. The Canadian trade or business cannot, however, in terms of income, assets, or other similar measures, represent only a very small percentage of the size of the U.S. activity.

The substantiality requirement is intended to prevent treaty-shopping. For example, a third-country resident may want to acquire a U.S. company that manufactures television sets for worldwide markets; however, since its country of residence has no tax treaty with the United States, any dividends generated by the investment would be subject to a U.S. withholding tax of 30 per cent. Absent a substantiality test, the investor could establish a Canadian corporation that would operate a small outlet in Canada to sell a few of the television sets manufactured by the U.S. company and earn a very small amount of income. That Canadian corporation could then acquire the U.S. manufacturer with capital provided by the third-country resident and produce a very large number of sets for sale in several countries, generating a much larger amount of income. It might attempt to argue that the U.S. source income is generated from business activities in the United States related to the television sales activity of the Canadian parent and that the dividend income should be subject to U.S. tax at the 5 per cent rate provided by Article X of the Convention, as amended by the Protocol. However, the substantiality test would not be met in this example, so the dividends would remain subject to withholding in the United States at a rate of 30 per cent.

In general, it is expected that if a person qualifies for benefits under one of the tests of paragraph 2, no inquiry will be made into qualification for benefits under paragraph 3. Upon satisfaction of any of the tests of paragraph 2, any income derived by the beneficial owner from the other Contracting State is entitled to treaty benefits. Under paragraph 3, however, the test is applied separately to each item of income.

Derivative benefits test

Paragraph 4 of Article XXIX A contains a so-called "derivative benefits" rule not generally found in U.S. treaties. This rule was included in the Protocol because of the special economic relationship between the United States and Canada and the close coordination between the tax administrations of the two countries.

Under the derivative benefits rule, a Canadian resident company may receive the benefits of Articles X (Dividends), XI (Interest), and XII (Royalties), even if the company is not a qualifying person and does not satisfy the active trade or business test of paragraph 3. To qualify under this paragraph, the Canadian company must satisfy both (i) the base erosion test under subparagraph (e) of paragraph 2, and (ii) an ownership test.

The derivative benefits ownership test requires that shares (other than debt substitute shares) representing more than 90 per cent of the vote and value of the Canadian company be owned directly or indirectly by either (i) qualifying persons or U.S. citizens or residents, or (ii) other persons that satisfy each of three tests. The three tests that must be satisfied by these other persons are as follows:

First, the person must be a resident of a third State with which the United States has a comprehensive income tax convention and be entitled to all of the benefits under that convention. Thus, if the person fails to satisfy the limitation on benefits tests, if any, of that convention, no benefits would be granted under this paragraph. Qualification for benefits under an active trade or business test does not suffice for these purposes, because that test grants benefits only for certain items of income, not for all purposes of the convention.

Second, the person must be a person that would qualify for benefits with respect to the item of income for which benefits are sought under one or more of the tests of paragraph 2 or 3 of this Convention, if the person were a resident of Canada and, for purposes of paragraph 3, the business were carried on in Canada. For example, a person resident in a third country would be deemed to be a person that would qualify under the publicly traded test of paragraph 2 of this Convention if the principal class of its shares were substantially and regularly traded on a stock exchange recognized either under the treaty between the United States and Canada or under the treaty between the United States and the third country. Similarly, a company resident in a third country would be deemed to satisfy the ownership/base erosion test of paragraph 2 under this hypothetical analysis if, for example, it were wholly owned by an individual resident in that third country and most of its deductible payments were made to individual residents of that country (i.e., it satisfied base erosion).

The third requirement is that the rate of U.S. withholding tax on the item of income in respect of which benefits are sought must be at least as low under the convention between the person's country of residence and the United States as under this Convention.

Competent authority discretion

Paragraph 6 provides that when a resident of Canada derives income from the United States and is not entitled to the benefits of the Convention under other provisions of the Article, benefits may, nevertheless be granted at the discretion of the U.S. competent authority. In making a determination under this paragraph, the competent authority will take into account all relevant facts and circumstances relating to the person requesting the benefits. In particular, the competent authority will consider the history, structure, ownership (including ultimate beneficial ownership), and operations of the person. In addition, the competent authority is to consider (1) whether the creation and existence of the person did not have as a principal purpose obtaining treaty benefits that would not otherwise be available to the person, and (2) whether it would not be appropriate, in view of the purpose of the Article, to deny benefits. The paragraph specifies that if the U.S. competent authority determines that either of these two standards is satisfied, benefits shall be granted.

For purposes of implementing paragraph 6, a taxpayer will be expected to present his case to the competent authority for an advance determination based on the facts. The taxpayer will not be required to wait until it has been determined that benefits are denied under one of the other provisions of the Article. It also is expected that, if and when the competent authority determines that benefits are to be allowed, they will be allowed retroactively to the time of entry into force of the relevant treaty provision or the establishment of the structure in question, whichever is later (assuming that the taxpayer also qualifies under the relevant facts for the earlier period).

General anti-abuse provisions

Paragraph 7 was added at Canada's request to confirm that the specific provisions of Article XXIX A and the fact that these provisions apply only for the purposes of the application of the Convention by the United States should not be construed so as to limit the right of each Contracting State to invoke applicable anti-abuse rules. Thus, for example, Canada remains free to apply such rules to counter abusive arrangements involving "treaty-shopping" through the United States, and the United States remains free to apply its substance-over-form and anticonduit rules, for example, in relation to Canadian residents. This principle is recognized by the Organization for Economic Cooperation and Development in the Commentaries to its Model Tax Convention on Income and on Capital,

and the United States and Canada agree that it is inherent in the Convention. The agreement to state this principle explicitly in the Protocol is not intended to suggest that the principle is not also inherent in other tax conventions, including the current Convention with Canada.

Article 19

In general

Article 19 of the Protocol adds to the Convention a new Article XXIX B (Taxes Imposed by Reason of Death). The purpose of Article XXIX B is to better coordinate the operation of the death tax regimes of the two Contracting States. Such coordination is necessary because the United States imposes an estate tax, while Canada now applies an income tax on gains deemed realized at death rather than an estate tax. Article XXIX B also contains other provisions designed to alleviate death taxes in certain situations.

For purposes of new Article XXIX B, the term "resident" has the meaning provided by Article IV (Residence) of the Convention, as amended by Article 3 of the Protocol. The meaning of the term "resident" for purposes of Article XXIX B, therefore, differs in some respects from its meaning under the estate, gift, and generation-skipping transfer tax provisions of the *Internal Revenue Code*.

Charitable bequests

Paragraph 1 of new Article XXIX B facilitates certain charitable bequests. It provides that a Contracting State shall accord the same death tax treatment to a bequest by an individual resident in one of the Contracting States to a qualifying exempt organization resident in the other Contracting State as it would have accorded if the organization had been a resident of the first Contracting State. The organizations covered by this provision are those referred to in paragraph 1 of Article XXI (Exempt Organizations) of the Convention. A bequest by a U.S. citizen or U.S. resident (as defined for estate tax purposes under the *Internal Revenue Code*) to such an exempt organization generally is deductible for U.S. estate tax purposes under section 2055 of the *Internal Revenue Code*, without regard to whether the organization is a U.S. corporation. However, if the decedent is not a U.S. citizen or U.S. resident (as defined for estate tax purposes under the *Internal Revenue Code*), such a bequest is deductible for U.S. estate tax purposes, under section 2106(a)(2) of the *Internal Revenue Code*, only if the recipient organization is a U.S. corporation. Under paragraph 1 of Article XXIX B, a U.S. estate tax deduction also will be allowed for a bequest by a Canadian resident (as defined under Article IV (Residence)) to a qualifying exempt organization that is a Canadian corporation. However, paragraph 1 does not allow a deduction for U.S. estate tax purposes with respect to any transfer of property that is not subject to U.S. estate tax.

Unified credit

Paragraph 2 of Article XXIX B grants a "*pro rata*" unified credit to the estate of a Canadian resident decedent, for purposes of computing U.S. estate tax. Although the Congress anticipated the negotiation of such *pro rata* unified credits in *Internal Revenue Code* section 2102(c)(3)(A), this is the first convention in which the United States has agreed to give such a credit. However, certain exemption provisions of existing estate and gift tax conventions have been interpreted as providing a *pro rata* unified credit.

Under the *Internal Revenue Code*, the estate of a nonresident not a citizen of the United States is subject to U.S. estate tax only on its U.S. *situs* assets and is entitled to a unified credit of $13,000, while the estate of a U.S. citizen or U.S. resident is subject to U.S. estate tax on its entire worldwide assets and is entitled to a unified credit of $192,800. (For purposes of these *Internal Revenue Code* provisions, the term "resident" has the meaning provided for estate tax purposes under the *Internal Revenue Code*.) A lower unified credit is provided for the former category of estates because it is assumed that the estate of a nonresident not a citizen generally will hold fewer U.S. *situs* assets, as a percentage of the estate's total assets, and thus will have a lower U.S. estate tax liability. The pro rata unified credit provisions of paragraph 2 increase the credit allowed to the estate of a Canadian resident decedent to an amount between $13,000 and $192,800 in appropriate cases, to take into account the extent to which the assets of the estate are situated in the United States. Paragraph 2 provides that the amount of the unified credit allowed to the estate of a Canadian resident decedent will in no event be less than the $13,000 allowed under the *Internal Revenue Code* to the estate of a nonresident not a citizen of the United States (subject to the adjustment for prior gift tax unified credits, discussed below). Paragraph 2 does not apply to the estates of U.S. citizen decedents, whether resident in Canada or elsewhere, because such estates receive a unified credit of $192,800 under the *Internal Revenue Code*.

Subject to the adjustment for gift tax unified credits, the *pro rata* credit allowed under paragraph 2 is determined by multiplying $192,800 by a fraction, the numerator of which is the value of the part of the gross estate situated in the United States and the denominator of which is the value of the entire gross estate wherever situated. Thus, if half of the entire gross estate (by value) of a decedent who was a resident and citizen of Canada were situated in the United States, the estate would be entitled to a *pro rata* unified credit of $96,400 (provided that the U.S. estate tax due is not less than that amount). For purposes of the denominator, the entire gross estate wherever situated (i.e., the worldwide estate, determined under U.S. domestic law) is to be taken into account for purposes of the computation. For purposes of the numerator, an estate's assets will be treated as situated in the United States if they are so treated under U.S. domestic law. However, if enacted, a technical correction now pending before the Congress will amend U.S. domestic law to clarify that assets will not be treated as U.S. *situs* assets for purposes of the *pro rata* unified credit computation if the United States is precluded from taxing them by reason of a treaty obligation. This technical correction will affect the interpretation of both this paragraph 2 and the analogous provisions in existing conventions. As currently proposed, it will take effect on the date of enactment.

Paragraph 2 restricts the availability of the *pro rata* unified credit in two respects. First, the amount of the unified credit otherwise allowable under paragraph 2 is reduced by the amount of any unified credit previously allowed against U.S. gift tax imposed on any gift by the decedent. This rule reflects the fact that, under U.S. domestic law, a U.S. citizen or U.S. resident individual is allowed a unified credit against the U.S. gift tax on lifetime transfers. However, as a result of the estate tax computation, the individual is entitled only to a total unified credit of $192,800, and the amount of the unified credit available for use against U.S. estate tax on the individual's estate is effectively reduced by the amount of any unified credit that has been allowed in respect of gifts by the individual. This rule is reflected by reducing the amount of the *pro rata* unified credit otherwise allowed to the estate of a decedent individual under paragraph 2 by the amount of any unified credit previously allowed with respect to lifetime gifts by that individual. This reduction will be relevant only in rare cases, where the decedent made gifts subject to the U.S. gift tax while a U.S. citizen or U.S. resident (as defined under the *Internal Revenue Code* for U.S. gift tax purposes).

Paragraph 2 also conditions allowance of the *pro rata* unified credit upon the provision of all information necessary to verify and compute the credit. Thus, for example, the estate's representatives will be required to demonstrate satisfactorily both the value of the worldwide estate and the value of the U.S. portion of the estate. Substantiation requirements also apply, of course, with respect to other provisions of the Protocol and the Convention. However, the negotiators believed it advisable to emphasize the substantiation requirements in connection with this provision, because the computation of the *pro rata* unified credit involves certain information not otherwise relevant for U.S. estate tax purposes.

In addition, the amount of the *pro rata* unified credit is limited to the amount of U.S. estate tax imposed on the estate. See section 2102(c)(4) of the *Internal Revenue Code*.

Marital credit

Paragraph 3 of Article XXIX B allows a special "marital credit" against U.S. estate tax in respect of certain transfers to a surviving spouse. The purpose of this marital credit is to alleviate, in appropriate cases, the impact of the estate tax marital deduction restrictions enacted by the Congress in the Technical and Miscellaneous Revenue Act of 1988 ("TAMRA"). It is the firm position of the U.S. Treasury Department that the TAMRA provisions do not violate the non-discrimination provisions of this Convention or any other convention to which the United States is a party. This is because the estate — not the surviving spouse — is the taxpayer, and the TAMRA provisions treat the estates of nonresidents not citizens of the United States in the same manner as the estates of U.S. citizen and U.S. resident decedents. However, the U.S. negotiators believed that it was not inappropriate, in the context of the Protocol, to ease the impact of those TAMRA provisions upon certain estates of limited value.

Paragraph 3 allows a non-refundable marital credit in addition to the pro rata unified credit allowed under paragraph 2 (or, in the case of a U.S. citizen or U.S. resident decedent, the unified credit allowed under U.S. domestic law). However, the marital credit is allowed only in connection with transfers satisfying each of the five conditions set forth in paragraph 3. First, the property must be "qualifying property," i.e., it must pass to the surviving spouse (within the meaning of U.S. domestic law) and be property that would have qualified for the estate tax marital deduction under U.S. domestic law if the surviving spouse had been a U.S. citizen and all applicable elections specified by U.S. domestic law had been properly made. Second, the decedent must have been, at the time of death, either a resident of Canada or the United States or a citizen of the United States. Third, the surviving spouse must have been, at the time of the decedent's death, a resident of either Canada or the United States. Fourth, if both the

decedent and the surviving spouse were residents of the United States at the time of the decedent's death, at least one of them must have been a citizen of Canada. Finally, to limit the benefits of paragraph 3 to relatively small estates, the executor of the decedent's estate is required to elect the benefits of paragraph 3, and to waive irrevocably the benefits of any estate tax marital deduction that would be allowed under U.S. domestic law, on a U.S. Federal estate tax return filed by the deadline for making a qualified domestic trust election under *Internal Revenue Code* section 2056A(d). In the case of the estate of a decedent for which the U.S. Federal estate tax return is filed on or before the date on which this Protocol enters into force, this election and waiver must be made on any return filed to claim a refund pursuant to the special effective date applicable to such estates (discussed below).

Paragraph 4 governs the computation of the marital credit allowed under paragraph 3. It provides that the amount of the marital credit shall equal the lesser of (i) the amount of the unified credit allowed to the estate under paragraph 2 or, where applicable, under U.S. domestic law (before reduction for any gift tax unified credit), or (ii) the amount of U.S. estate tax that would otherwise be imposed on the transfer of qualifying property to the surviving spouse. For this purpose, the amount of U.S. estate tax that would otherwise be imposed on the transfer of qualifying property equals the amount by which (i) the estate tax (before allowable credits) that would be imposed if that property were included in computing the taxable estate exceeds (ii) the estate tax (before allowable credits) that would be imposed if the property were not so included. Property that, by reason of the provisions of paragraph 8 of this Article, is not subject to U.S. estate tax is not taken into account for purposes of this hypothetical computation.

Finally, paragraph 4 provides taxpayers with an ordering rule. The rule states that, solely for purposes of determining any other credits (e.g., the credits for foreign and state death taxes) that may be allowed under U.S. domestic law to the estate, the marital credit shall be allowed after such other credits.

In certain cases, the provisions of paragraphs 3 and 4 may affect the U.S. estate taxation of a trust that would meet the requirements for a qualified terminable interest property ("QTIP") election, for example, a trust with a life income interest for the surviving spouse and a remainder interest for other family members. If, in lieu of making the QTIP election and the qualified domestic trust election, the decedent's executor makes the election described in paragraph 3(d) of this Article, the provisions of *Internal Revenue Code* sections 2044 (regarding inclusion in the estate of the second spouse of certain property for which the marital deduction was previously allowed), 2056A (regarding qualified domestic trusts), and 2519 (regarding dispositions of certain life estates) will not apply. To obtain this treatment, however, the executor is required, under paragraph 3, to irrevocably waive the benefit of any marital deduction allowable under the *Internal Revenue Code* with respect to the trust.

The following examples illustrate the operation of the marital credit and its interaction with other credits. Unless otherwise stated, assume for purposes of illustration that H, the decedent, and W, his surviving spouse, are Canadian citizens resident in Canada at the time of the decedent's death. Assume further that all conditions set forth in paragraphs 2 and 3 of this Article XXIX B are satisfied (including the condition that the executor waive the estate tax marital deduction), that no deductions are available under the *Internal Revenue Code* in computing the U.S. estate tax liability, and that there are no adjusted taxable gifts within the meaning of *Internal Revenue Code* section 2001(b) or 2101(c). Also assume that the applicable U.S. domestic estate and gift tax laws are those that were in effect on the date the Protocol was signed.

Example 1. H has a worldwide gross estate of $1,200,000. He bequeaths U.S. real property worth $600,000 to W. The remainder of H's estate consists of Canadian *situs* property.

H's estate would be entitled to a *pro rata* unified credit of $96,400 (= $192,800 × (600,000/1,200,000)) and to a marital credit in the same amount (the lesser of the unified credit allowed ($96,400) and the U.S. estate tax that would otherwise be imposed on the property transferred to W ($192,800 tax on U.S. taxable estate of $600,000)). The *pro rata* unified credit and the marital credit combined would eliminate all U.S. estate tax with respect to the property transferred to W.

Example 2. H has a worldwide gross estate of $1,200,000, all of which is situated in the United States. He bequeaths U.S. real property worth $600,000 to W and U.S. real property worth $600,000 to a child, C. H's estate would be entitled to a *pro rata* unified credit of $192,800 (= $192,800 × 1,200,000/1,200,000) and to a marital credit of $192,800 (the lesser of the unified credit ($192,800) and the U.S. estate tax that would otherwise be imposed on the property transferred to W ($235,000, i.e., $427,800 tax on U.S. taxable estate of $1,200,000 less $192,800 tax on U.S. taxable estate of $600,000)). This would reduce the estate's total U.S. estate tax liability of $427,800 by $385,600.

Example 3. H has a worldwide gross estate of $700,000, of which $500,000 is real property situated in the United States. H bequeaths U.S. real property valued at $100,000 to W. The remainder of H's gross estate, consisting of U.S. and Canadian *situs* real property, is bequeathed to H's child, C. H's estate would be entitled to a *pro rata* unified credit of $137,714 ($192,800 × $500,000/$700,000). In addition, H's estate would be entitled to a marital credit of $34,000, which equals the lesser of the unified credit ($137,714) and $34,000 (the U.S. estate tax that would otherwise be imposed on the property transferred to W before allowance of any credits, i.e., $155,800 tax on U.S. taxable estate of $500,000 less $121,800 tax on U.S. taxable estate of $400,000).

Example 4. H has a worldwide gross estate of $5,000,000, $2,000,000 of which consists of U.S. real property situated in State X. State X imposes a state death tax equal to the federal credit allowed under *Internal Revenue Code* section 2011. H bequeaths U.S. *situs* real property worth $1,000,000 to W and U.S. *situs* real property worth $1,000,000 to his child, C. The remainder of H's estate ($3,000,000) consists of Canadian *situs* property passing to C. H's estate would be entitled to a *pro rata* unified credit of $77,120 ($192,800 × $2,000,000/$5,000,000). H's estate would be entitled to a state death tax credit under *Internal Revenue Code* section 2102 of $99,600 (determined under *Internal Revenue Code* section 2011(b) with respect to an adjusted taxable estate of $1,940,000). H's estate also would be entitled to a marital credit of $77,120, which equals the lesser of the unified credit ($77,120) and $435,000 (the U.S. estate tax that would otherwise be imposed on the property transferred to W before allowance of any credits, i.e., $780,000 tax on U.S. taxable estate of $2,000,000 less $345,800 tax on U.S. taxable estate of $1,000,000).

Example 5. The facts are the same as in Example 4, except that H and W are Canadian citizens who are resident in the United States at the time of H's death. Canadian Federal and provincial income taxes totalling $500,000 are imposed by reason of H's death. H's estate would be entitled to a unified credit of $192,800 and to a state death tax credit of $300,880 under *Internal Revenue Code* sections 2010 and 2011(b), respectively. Under paragraph 6 of Article XXIX B, H's estate would be entitled to a credit for the Canadian income tax imposed by reason of death, equal to the lesser of $500,000 (the Canadian taxes paid) or $1,138,272 ($2,390,800 (tax on $5,000,000 taxable estate) less total of unified and state death tax credits ($493,680) × $3,000,000/$5,000,000). H's estate also would be entitled to a marital credit of $192,800, which equals the lesser of the unified credit ($192,800) and $550,000 (the U.S. estate tax that would otherwise be imposed on the property transferred to W before allowance of any credits, i.e., $2,390,800 tax on U.S. taxable estate of $5,000,000 less $1,840,800 tax on U.S. taxable estate of $4,000,000).

Canadian treatment of certain transfers

The provisions of paragraph 5 relate to the operation of Canadian law. They are intended to provide deferral ("rollover") of the Canadian tax at death for certain transfers to a surviving spouse and to permit the Canadian competent authority to allow such deferral for certain transfers to a trust. For example, they would enable the competent authority to treat a trust that is a qualified domestic trust for U.S. estate tax purposes as a Canadian spousal trust as well for purposes of certain provisions of Canadian tax law and of the Convention. These provisions do not affect U.S. domestic law regarding qualified domestic trusts. Nor do they affect the status of U.S. resident individuals for any other purpose.

Credit for U.S. taxes

Under paragraph 6, Canada agrees to give Canadian residents and Canadian resident spousal trusts (or trusts treated as such by virtue of paragraph 5) a deduction from tax (i.e., a credit) for U.S. Federal or state estate or inheritance taxes imposed on U.S. *situs* property of the decedent or the trust. This credit is allowed against the income tax imposed by Canada, in an amount computed in accordance with subparagraph 6(a) or 6(b).

Subparagraph 6(a) covers the first set of cases — where the U.S. tax is imposed upon a decedent's death. Subparagraph 6(a)(i) allows a credit for U.S. tax against the total amount of Canadian income tax payable by the decedent in the taxable year of death on any income, profits, or gains arising in the United States (within the meaning of paragraph 3 of Article XXIV (Elimination of Double Taxation)). For purposes of subparagraph 6(a)(i), income, profits, or gains arising in the United States within the meaning of paragraph 3 of Article XXIV include gains deemed realized at death on U.S. *situs* real property and on personal property forming part of the business property of a U.S. permanent establishment or fixed base. (As explained below, these are the only types of property on which the United States may impose its estate tax if the estate is worth $1.2 million or less.) Income, profits, or gains arising in the United States also include income

and profits earned by the decedent during the taxable year of death, to the extent that the United States may tax such amounts under the Convention (e.g., dividends received from a U.S. corporation and wages from the performance of personal services in the United States).

Where the value of the decedent's entire gross estate exceeds $1.2 million, subparagraph 6(a)(ii) allows a credit against the Canadian income tax on any income, profits, or gains from any U.S. *situs* property, in addition to any credit allowed by subparagraph 6(a)(i). This provision is broader in scope than is the general rule under subparagraph 6(a)(i), because the United States has retained the right to impose its estate tax on all types of property in the case of larger estates.

Subparagraph 6(b) provides rules for a second category of cases — where the U.S. tax is imposed upon the death of the surviving spouse. In these cases, Canada agrees to allow a credit against the Canadian tax payable by a trust for its taxable year during which the surviving spouse dies on any income, profits, or gains (i) arising in the United States on U.S. *situs* real property or business property, or (ii) from property situated in the United States. These rules are intended to provide a credit for taxes imposed as a result of the death of the surviving spouse in situations involving trusts. To the extent that taxes are imposed on the estate of the surviving spouse, subparagraph 6(a) would apply as well. In addition, the competent authorities are authorized to provide relief from double taxation in certain additional circumstances involving trusts, as described above in connection with Article 14 of the Protocol.

The credit allowed under paragraph 6 is subject to certain conditions. First, where the decedent was a U.S. citizen or former citizen (described in paragraph 2 of Article XXIX (Miscellaneous Rules)), paragraph 6 does not obligate Canada to provide a credit for U.S. taxes in excess of the amount of U.S. taxes that would have been payable if the decedent had not been a U.S. citizen or former citizen. Second, the credit allowed under paragraph 6 will be computed after taking into account any deduction for U.S. income tax provided under paragraph 2(a), 4(a), or 5(b) of Article XXIV (Elimination of Double Taxation). This clarifies that no double credit will be allowed for any amount and provides an ordering rule. Finally, because Canadian domestic law does not contain a definition of U.S. *situs* property for death tax purposes, such a definition is provided for purposes of paragraph 6. To maximize coordination of the credit provisions, the Contracting States agreed to follow the U.S. estate tax law definition as in effect on the date of signature of the Protocol and, subject to competent authority agreement, as it may be amended in the future.

Credit for Canadian taxes

Under paragraph 7, the United States agrees to allow a credit against U.S. Federal estate tax imposed on the estate of a U.S. resident or U.S. citizen decedent, or upon the death of a surviving spouse with respect to a qualified domestic trust created by such a decedent (or the decedent's executor or surviving spouse). The credit is allowed for Canadian Federal and provincial income taxes imposed at death with respect to property of the estate or trust that is situated outside of the United States. As in the case under paragraph 6, the competent authorities also are authorized to provide relief from double taxation in certain cases involving trusts (see discussion of Article 14, above).

The amount of the credit generally will be determined as though the income tax imposed by Canada were a creditable tax under the U.S. estate tax provisions regarding credit for foreign death taxes, in accordance with the provisions and subject to the limitations of *Internal Revenue Code* section 2014. However, subparagraph 7(a) clarifies that a credit otherwise allowable under paragraph 7 will not be denied merely because of inconsistencies between U.S. and Canadian law regarding the identity of the taxpayer in the case of a particular taxable event. For example, the fact that the taxpayer is the decedent's estate for purposes of U.S. estate taxation and the decedent for purposes of Canadian income taxation will not prevent the allowance of a credit under paragraph 7 for Canadian income taxes imposed by reason of the death of the decedent.

In addition, subparagraph 7(c) clarifies that the credit against the U.S. estate tax generally may be claimed only to the extent that no credit or deduction is claimed for the same amount of Canadian tax in determining any other U.S. tax. This makes clear, for example, that a credit may not be claimed for the same amount under both this provision and Article XXIV (Elimination of Double Taxation). To prevent double taxation, an exception to this restriction is provided for certain taxes imposed with respect to qualified domestic trusts. Subject to the limitations of subparagraph 7(c), the taxpayer may choose between relief under Article XXIV, relief under this paragraph 7, or some combination of the two.

Relief for small estates

Under paragraph 8, the United States agrees to limit the application of its estate tax in the case of certain small estates of Canadian resident decedents. This provision is intended to eliminate the "trap for the unwary" that exists for such decedents, in the absence of an estate tax convention between the United States and Canada. In the absence of sophisticated estate tax planning, such decedents may inadvertently subject their estates to U.S. estate tax liability by holding shares of U.S. corporate stock or other U.S. *situs* property. U.S. resident decedents are already protected in this regard by the provisions of Article XIII (Gains) of the present Convention, which prohibit Canada from imposing its income tax on gains deemed realized at death by U.S. residents on such property.

Paragraph 8 provides relief only in the case of Canadian resident decedents whose entire gross estates wherever situated (i.e., worldwide gross estates determined under U.S. law) have a value, at the time of death, not exceeding $1.2 million. Paragraph 8 provides that the United States may impose its estate tax upon property forming part of such estates only if any gain on alienation of the property would have been subject to U.S. income taxation under Article XIII (Gains). For estates with a total value not exceeding $1.2 million, this provision has the effect of permitting the United States to impose its estate tax only on real property situated in the United States, within the meaning of Article XIII, and personal property forming part of the business property of a U.S. permanent establishment or fixed base.

Saving clause exceptions

Certain provisions of Article XXIX B are included in the list of exceptions to the general "saving clause" of Article XXIX (Miscellaneous Rules), as amended by Article 17 of the Protocol. To the extent that an exception from the saving clause is provided for a provision, each Contracting State is required to allow the benefits of that provision to its residents (and, in the case of the United States, its citizens), notwithstanding the saving clause. General saving clause exceptions are provided for paragraphs 1, 5, and 6 of Article XXIX B. Saving clause exceptions are provided for paragraphs 2, 3, 4, and 7, except for the estates of former U.S. citizens referred to in paragraph 2 of Article XXIX.

Effective dates

Article 21 of the Protocol contains special retrospective effective date provisions for paragraphs 2 through 8 of Article XXIX B and certain related provisions of the Protocol. Paragraphs 2 through 8 of Article XXIX B and the specified related provisions generally will take effect with respect to deaths occurring after the date on which the Protocol enters into force (i.e., the date on which the instruments of ratification are exchanged). However, the benefits of those provisions will also be available with respect to deaths occurring after November 10, 1988, provided that a claim for refund due as a result of these provisions is filed by the later of one year from the date on which the Protocol enters into force or the date on which the applicable period for filing such a claim expires under the domestic law of the Contracting State concerned. The general effective dates set forth in Article 21 of the Protocol otherwise apply.

It is unusual for the United States to agree to retrospective effective dates. In this case, however, the negotiators believed that retrospective application was not inappropriate, given the fact that the TAMRA provisions were the impetus for negotiation of the Protocol and that the negotiations commenced soon after the enactment of TAMRA. The United States has agreed to retrospective effective dates in certain other instances (e.g., in the case of the U.S.–Germany estate tax treaty). The retrospective effective dates apply reciprocally, so that they will benefit the estates of U.S. decedents as well as Canadian decedents.

Article 20

Article 20 of the Protocol does not amend the text of the Convention. It states two understandings between the Contracting States regarding future action relating to matters dealt with in the Protocol. Paragraph 1 requires the appropriate authorities of the Contracting States to consult on two matters within three years from the date on which the Protocol enters into force. First, they will consult with a view to agreeing to further reductions in withholding rates on dividends, interest and royalties under Articles X, XI, and XII, respectively. This provision reflects the fact that, although the Protocol does significantly reduce withholding rates, the United States remains interested in even greater reductions, to further open the capital markets and fulfill the objectives of the North American Free Trade Agreement. Second, the appropriate authorities of the Contracting States will consult about the rules in Article XXIX A (Limitation on Benefits). By that time, both Contracting States will have had an opportunity to observe the operation of the Article, and the United States will have had greater experience with the corresponding provisions in other recent U.S. tax conventions.

Paragraph 2 of Article 20 also requires consultations between the appropriate authorities, after the three-year period from the date on which

the Protocol enters into force, to determine whether to implement the arbitration procedure provided for in paragraph 6 of Article XXVI (Mutual Agreement Procedure), added by Article 14 of the Protocol. The three-year period is intended to give the authorities an opportunity to consider how arbitration has functioned in other tax conventions, such as the U.S.–Germany Convention, before implementing it under this Convention.

Article 21

Article 21 of the Protocol provides the rules for the entry into force of the Protocol provisions. The Protocol will be subject to ratification according to the normal procedures in both Contracting States and instruments of ratification will be exchanged as soon as possible. Upon the exchange of instruments, the Protocol will enter into force.

Paragraph 2(a) of Article 21 generally governs the entry into force of the provisions of the Protocol for taxes withheld at source, while paragraph 2(b) generally governs for other taxes. Paragraphs 3, 4, and 5 provide special rules for certain provisions.

Paragraph 2(a) provides that the Protocol generally will have effect for taxes withheld at source on dividends, interest, royalties, and pensions and annuities (other than social security benefits), under Articles X, XI, XII, and XVIII, respectively, with respect to amounts paid or credited on or after the first day of the second month following the date on which the Protocol enters into force (i.e., the date on which instruments of ratification are exchanged). However, with respect to direct investment dividends, the 5 per cent rate specified in paragraph 2(a) of Article X will be phased in as follows: (1) for dividends paid or credited after the first day of the second month referred to above, and during 1995, the rate of withholding will be 7 per cent; (2) for dividends paid or credited after the first day of the second month, and during 1996, the rate will be 6 per cent; and (3) for dividends paid or credited after the first day of the second month and after 1996, the rate will be 5 per cent.

For taxes other than those withheld at source and for the provisions of the Protocol relating to taxes withheld on social security benefits, the Protocol will have effect with respect to taxable years beginning on or after the first day of January following the date on which the Protocol enters into force. However, the rate of tax applicable to the branch tax under paragraph 6 of Article X (Dividends) will be phased in a manner similar to the direct investment dividend withholding tax rate; that is, a rate of 6 per cent will apply for taxable years beginning in 1996 and a rate of 5 per cent will apply for taxable years beginning in 1997 and subsequent years.

Paragraph 3 of Article 21 provides a special effective date for the provisions of the new Article XXVI A (Assistance in Collection) of the Convention, introduced by Article 15 of the Protocol. Collection assistance may be granted by a Contracting State with respect to a request by the other Contracting State for a claim finally determined by the requesting State after the date that is ten years before the date of the entry into force of the Protocol. Thus, for example, if instruments of ratification are exchanged on July 1, 1995, assistance may be given by Canada under Article XXVI A for a claim that was finally determined in the United States at any time after July 1, 1985.

Paragraph 4 of Article 21 provides special effective date provisions for paragraphs 2 through 7 of the new Article XXIX B (Taxes Imposed by Reason of Death) of the Convention, introduced by Article 18 of the Protocol, and certain related provisions elsewhere in the Convention. These special effective date provisions are discussed above in connection with Article 18.

Finally, paragraph 5 of Article 21 provides a special effective date for paragraph 2 of Article 3 of the Protocol, which provides a new residence rule for certain "continued" corporations. Under paragraph 5, the new residence rule for such corporations will have effect for taxable years beginning on or after the first day of January following the date on which the Protocol enters into force.

Technical Explanation of the Fourth Protocol to the Canada–U.S. Convention

Department of the Treasury Technical Explanation of the Protocol between the United States of America and Canada signed at Ottawa on July 29, 1997 amending the Convention between the United States of America and Canada with respect to taxes on Income and on capital signed at Washington on September 26, 1980 as amended by the Protocols signed on June 14, 1983, March 28, 1984 and March 17, 1995

Introduction

This document is a technical explanation of the Protocol Between the United States of America and Canada signed on July 29, 1997 (the "Protocol") amending the Convention Between the United States of America and Canada With Respect to Taxes on Income and on Capital Signed at Washington on September 26, 1980 as Amended by the Protocols Signed on June 14, 1983, March 28, 1984 and March 17, 1995 (the "Convention").

This technical explanation is an official guide to the Protocol. It reflects the policies behind particular Protocol provisions, as well as understandings reached with respect to the application and interpretation of the Protocol. References in this technical explanation to "he" or "his" should be read to mean "he or she" or "his or her."

Article 1

Article 1 of the Protocol amends paragraph 3 of Article XIII (Gains) of the Convention. Paragraph 1 of Article XIII of the Convention provides that gains derived by a resident of a Contracting State from the alienation of real property situated within the other Contracting State may be taxed in that other State. The term "real property situated in the other Contracting State" is defined for this purpose in paragraph 3 of Article XIII of the Convention.

Under paragraph 3(a) of Article XIII of the Convention, real property situated in the United States includes real property (as defined in Article VI (Income from Real Property) of the Convention) situated in the United States and a United States real property interest. Under section 897(c) of the *Internal Revenue Code* (the "Code") the term "United States real property interest" includes shares in a U.S. corporation that owns sufficient U.S. real property interests to satisfy an asset-ratio test on certain testing dates.

Under Paragraph 3(b) of Article XIII of the Convention, real property situated in Canada means real property (as defined in Article VI of the Convention) situated in Canada; shares of stock of a company, the value of whose shares consists principally of Canadian real property; and an interest in a partnership, trust or estate, the value of which consists principally of Canadian real property. The term "principally" means more than 50 per cent.

Under the Code, stock of a foreign corporation is not considered a "United States real property interest." Therefore, the United States does not tax a resident of Canada on the sale of stock of a foreign corporation, regardless of the composition of the corporation's assets. Although the Convention permits Canada to tax a U.S. resident on the sale of stock of a company that is not a resident of Canada if the value of the company's shares consists principally of Canadian real property, Canada does not currently impose such a tax. However, on April 26, 1995, amendments were proposed to the Canadian *Income Tax Act* that would impose Canadian income tax on gains realized on stock of certain companies that are not residents of Canada if (i) more than 50 per cent of the fair market value of all of the company's properties consists of any combination of taxable Canadian property, Canadian resource property, timber resource property in Canada and income interests in Canadian trusts, and (ii) more than 50 per cent of the fair market value of the shares in question is derived directly or indirectly from any combination of real property located in Canada, Canadian resource property, and timber resource property in Canada. This amendment is proposed to be effective as of April 26, 1995 with proration for gains that accrued before that date. Although the Canadian Parliament was dissolved before these amendments were passed, they are expected to be re-introduced in the current session with the same effective date.

The Protocol amends paragraphs 3(a) and 3(b)(ii) of Article XIII of the Convention to limit each State's right to tax the gains of a resident of the other State from the sale of stock of a real property holding company to cases where the company is resident in that State. Although the United States does not impose and is not currently considering imposing a tax under the Code on gains from the sale of stock of non-resident real property holding companies, the Protocol nevertheless amends the Convention to prohibit the imposition of such a tax on Canadian residents. Although Canada is considering imposing such a tax on gains from the sale of shares of companies that are not residents of Canada, this Protocol provision will cause the proposed amendments to the Canadian *Income Tax Act* to be inapplicable to U.S. residents who derive gains from the sale of stock of real

property holding companies that are not residents of Canada. This provision will be retroactively effective to April 26, 1995, the date the previous Canadian legislation was proposed to be effective.

Article 2

Paragraph 1

Paragraph 1 of Article 2 of the Protocol amends paragraph 3 of Article XVIII (Pensions and Annuities) of the Convention to clarify that social security benefits paid by one Contracting State in respect of services rendered to that State or a subdivision or authority of that State are subject to the rules set forth in paragraph 5 of Article XVIII, and are not subject to Article XIX (Government Service). Thus, all social security benefits paid by a Contracting State will be subject to the same rules, regardless of whether the services were rendered to a private sector employer, the government, or both.

Paragraph 2

Paragraph 2 of Article 2 of the Protocol amends paragraph 5 of Article XVIII of the Convention, which provides rules for the taxation of social security benefits (including tier 1 railroad retirement benefits but not including unemployment benefits), and reverses changes made by the third protocol to the Convention, which was signed on March 17, 1995 and generally took effect as of January 1, 1996 (the "1995 Protocol"). Under the Convention prior to amendment by the 1995 Protocol, the State of residence of the recipient of social security benefits had the exclusive right to tax social security benefits paid by the other State on a net basis but exempted 50 per cent of the benefit. This was changed by the 1995 Protocol. Under the 1995 Protocol, effective January 1, 1996 benefits paid under the U.S. or Canadian social security legislation to a resident of the other Contracting State (or, in the case of Canadian benefits, paid to a U.S. citizen) are taxable exclusively in the paying State.

Canada and the United States impose different source-basis taxing regimes on social security benefits. Under Code section 871(a)(3), 85 per cent of social security benefits paid to a nonresident alien are includible in gross income. The taxable portion of social security benefits is subject to the regular 30 per cent withholding tax, with the result that the gross social security benefit is subject to an effective tax rate of 25.5 per cent. This is a final payment of tax and Canadian recipients of U.S. social security benefits, regardless of their level of income, may not elect to be taxed in the United States on a net basis at graduated rates.

In Canada, social security benefits paid to nonresidents are subject to a general withholding tax of 25 per cent. However, Canada permits U.S. recipients of Canadian benefits to file a Canadian tax return and pay tax at regular graduated rates on their net income. As a result, low-income U.S. recipients of Canadian social security typically pay little or no tax on their benefits.

The Protocol returns to a system of residence-based taxation in which social security benefits are exclusively taxable in the State where the recipient lives. Social security benefits will generally be taxed as if they were benefits paid under the social security legislation in the residence State. Therefore, social security benefits will be taxed on a net basis at graduated rates and low-income recipients will not pay any tax on these benefits. However, the Protocol modifies the residence State's taxation of cross-border benefits in order to take into account how the benefits would have been taxed in the source State if paid to a resident of that State.

In the case of Canadian recipients of U.S. social security benefits, the Protocol provides that only 85 per cent of these benefits will be subject to tax in Canada. This reflects the fact that, although in Canada social security benefits are fully includible, a maximum of 85 per cent of United States social security benefits are includible in income for U.S. tax purposes. See Code section 86. This is also consistent with the taxation of social security benefits under the Convention prior to the effective date of the 1995 Protocol, since at the time the pre-1996 rule was adopted the United States included a maximum of 50 per cent of the social security benefits in income.

In the case of U.S. recipients of Canadian social security benefits, the Protocol provides that the benefits will be taxed as if they were payments under the Social Security Act. Therefore, a maximum of 85 per cent of the Canadian benefits will be included in the gross income of a U.S. recipient, even though the entire benefit would have been taxed by Canada if received by a Canadian resident. However, if the Canadian benefit is of a type that is not subject to Canadian tax when paid to a resident of Canada, it will not be subject to U.S. tax when received by a resident of the United States. This provision is necessary to take into account certain proposed changes to Canada's Old Age Security benefits. At present, Old Age Security benefits paid to U.S. residents are subject to both ordinary Canadian income tax and an additional "recovery tax" that has the effect of means-testing the benefit. Canada has proposed to change the Old Age Security benefit system so that the benefit would be means-tested at source and not subject to the recovery tax. Because the amount of such future benefits will have already been reduced to take into account the recipient's income, it would not be appropriate to subject such benefits to additional U.S. tax.

Article 3

Article 3 of the Protocol contains the rules for bringing the Protocol into force and giving effect to its provisions.

Paragraph 1

Paragraph 1 provides for the ratification of the Protocol by both Contracting States according to their constitutional and statutory requirements and instruments of ratification will be exchanged as soon as possible.

In the United States, the process leading to ratification and entry into force is as follows: Once a protocol has been signed by authorized representatives of the two Contracting States, the Department of State sends the protocol to the President who formally transmits it to the Senate for its advice and consent to ratification, which requires approval by two-thirds of the Senators present and voting. Prior to this vote, however, it generally has been the practice for the Senate Committee on Foreign Relations to hold hearings on the protocol and make a recommendation regarding its approval to the full Senate. Both Government and private sector witnesses may testify at these hearings. After receiving the advice and consent of the Senate to ratification, the protocol is returned to the President for his signature on the ratification document. The President's signature on the document completes the process in the United States.

Paragraph 2

Paragraph 2 of Article 3 provides that the Protocol will enter into force on the date on which the instruments of ratification are exchanged. However, the date on which the Protocol enters into force will not be the date on which its provisions will take effect. Paragraph 2, therefore, also contains rules that determine when the provisions of the Protocol will have effect.

Under paragraph 2(a), Article 1 of the Protocol will have effect as of April 26, 1995. As discussed above, this is the date on which certain proposed amendments to Canadian law would be effective.

Under paragraph 2(b), Article 2 of the Protocol will have effect as of January 1, 1996, which is the date as of which the changes to the taxation of social security benefits that were implemented by the 1995 Protocol became effective. Consequently, the source-basis taxation of social security benefits that was implemented by the 1995 Protocol will be retroactively eliminated and recipients of cross-border social security benefits will be entitled to a refund of any source-State tax withheld on their benefits for 1996 and later years. This return to residence-basis taxation of social security benefits means that some high-income recipients of cross-border benefits may be required to pay additional taxes to their State of residence if their average tax rate on these benefits in their State of residence is higher than the current rate of source-State withholding tax. It is only for future years, however, that such high-income recipients of benefits will be subject to a higher rate of tax. No one will be subject to a higher rate of tax for the retroactive period. If, as a result of the change, the residence-State tax would exceed the amount of the refund otherwise due, there will be neither a refund of source-State tax nor the imposition of additional residence-State tax.

Subparagraphs (b)(i) and (ii) provide rules that determine how the retroactive effect of the Protocol will generally be implemented for the year in which the Protocol enters into effect. As discussed below, these rules are required as a result of administrative limitations on the ability of the relevant Government organizations to effect the payment of refunds. Withholding taxes imposed by the United States on cross-border social security benefits are collected and administered by the Social Security Administration (SSA), not the Internal Revenue Service (IRS). However, any refunds of withholding tax improperly collected on social security benefits are ordinarily paid by the IRS. If the Protocol enters into force prior to September 1 of a calendar year, it is possible for the SSA to pay refunds of the tax withheld for the entire year directly to the individual Canadian recipient. If the Protocol enters into force after August 31 of a calendar year, it will not be possible for SSA to pay refunds of tax withheld for that year and refunds must be paid through the IRS.

Paragraphs 3, 4 and 5 of Article 3 establish administrative procedures to govern the payment of refunds through the IRS, including rules to ensure that benefits will not be subject to a higher rate of tax in the residence State

for the retroactive period. The taxes withheld on social security benefits paid for years after 1995 and prior to the calendar year in which the Protocol enters into force (referred to in the Protocol as "source-taxed benefits") will be subject to the refund procedures set forth in paragraphs 3, 4, and 5, regardless of when the Protocol enters into force. Social security benefits paid for calendar years beginning after the Protocol enters into force will not be subject to the refund procedures set forth in paragraphs 3, 4, and 5 because source State tax will not be withheld.

If the Protocol enters into force after August 31 of a calendar year, subparagraph (b)(i) provides that social security benefits paid during such calendar year will be treated as benefits paid for calendar years ending before the year in which the Protocol enters into force (and thus will be treated as "source-taxed benefits"). In this case, the taxes withheld on these benefits will be subject to the refund procedures set forth in paragraphs 3, 4, and 5 of Article 3 and these benefits will not be subject to a higher rate of residence-State tax. If the Protocol enters into force before September 1 of a calendar year, subparagraph (b)(ii) provides that social security benefits paid during such calendar year will be treated as benefits paid for calendar years beginning after the year in which the Protocol enters into force. In this case, the taxes withheld on these benefits will be directly and automatically refunded by the source State and the potentially higher rate of residence-State tax will apply.

Paragraph 3

Paragraph 3 of Article 3 of the Protocol provides rules governing the payment of refunds of source-State tax with respect to "source-taxed benefits." In general, all applications for refund must be made to the competent authority of the source State within three years of entry into force of the Protocol.

Except as set forth in subparagraph (b) of paragraph 2, the retroactive effect of the Protocol is elective and applies only if a recipient of benefits applies for a refund of the tax paid or withheld. Consequently, if a recipient of benefits does not apply for a refund of the tax paid or withheld, the Protocol will not be given retroactive effect, except as set forth in subparagraph (b) of paragraph 2. If the residence-State tax that would be imposed on such source-taxed benefits is greater than the source-State tax imposed on such benefits, it is assumed that the recipient will not apply for a refund of the source-State tax and such benefits will not be subject to the retroactive effect of the Protocol. Because the application for refund may be made on a year-by-year basis, the recipient may elect the most beneficial treatment for each year. Therefore, social security benefits will not be subject to a higher rate of tax for the retroactive period, except as set forth in subparagraph (b) of paragraph 2.

The refund procedure depends on the recipient's State of residence. In the case of U.S. residents who received Canadian social security benefits that were subject to Canadian tax, a U.S. resident who elects to have the Protocol apply retroactively will apply directly to the Canadian competent authority for the refund of any Canadian tax not previously refunded. On the receipt of such refund, the Canadian social security benefits will be includible in the U.S. resident's gross income for the years with respect to which the refund was paid. Consequently, the U.S. recipient may be required to file an amended U.S. income tax return for such years and pay U.S. tax on such benefits. Pursuant to Article XXVII (Exchange of Information) of the Convention, the Canadian competent authority will provide the U.S. competent authority with information regarding the payment of refunds.

In the case of Canadian residents who received U.S. social security benefits, the Canadian competent authority shall be the only person entitled to apply for a refund of the U.S. taxes withheld on such benefits. Individual residents of Canada will not apply directly to the IRS for refunds. However, the Canadian competent authority may base its applications on information received from individual Canadians, as well as on information to be provided by the United State competent authority. The Protocol provides that the Canadian competent authority shall apply for and receive all such refunds on behalf of individual residents of Canada and shall remit such refunds to individual residents of Canada after deducting any additional Canadian tax that may imposed as a result of such social security benefits being subject to tax in Canada. The Canadian competent authority shall make such application for refund on behalf of an individual resident of Canada only if the additional Canadian tax that would be imposed is less than the amount of the U.S. tax to be refunded. If, with respect to an individual resident of Canada, the additional Canadian tax that would be imposed on the individual's social security benefits is equal to or greater than the U.S. tax withheld, the Canadian competent authority shall not apply for a refund of the U.S. tax withheld on the individual's benefits. This provision ensures that refunds of U.S. tax will be paid only when the refund will benefit an individual resident of Canada. A refund of U.S. tax will not be paid if it would simply result in a payment from the U.S. Treasury to the Government of Canada without any portion of the refund being paid to an individual resident of Canada.

Paragraph 4

Paragraph 4 provides that all taxes refunded as a result of the Protocol will be refunded without interest. Correspondingly, any additional taxes assessed as a result of the Protocol will be assessed without interest provided that the additional taxes are paid in a timely manner. However, interest and penalties on underpayments may be assessed for periods beginning after December 31 of the year following the year in which the Protocol enters into force.

Paragraph 5

Paragraph 5 provides that the competent authorities shall establish procedures for making or revoking the application for refund provided for in paragraph 3 and such other procedures as are necessary to ensure the appropriate implementation of the Protocol. It will be necessary to establish procedures for a taxpayer to revoke his application for refund because a taxpayer may apply for a refund and then determine that the residence-State tax imposed on his social security benefits pursuant to Article 2 of the Protocol exceeds the amount of source-State tax refunded. Such a taxpayer (or, in the case of a Canadian resident, the Canadian competent authority acting on behalf of such taxpayer) will be permitted to revoke his application for refund provided that the taxpayer returns the source-State refund and the three-year period established in paragraph 3 has not expired as of the date on which the revocation is filed. The competent authorities will also establish procedures to ensure that duplicate refunds are not paid.

Technical Explanation of the Fifth Protocol to the Canada–U.S. Convention

Department of the Treasury Technical Explanation of the Protocol done at Chelsea on September 21, 2007 amending the Convention between the United States of America and Canada with respect to taxes on income and on capital done at Washington on September 26, 1980, as amended by the Protocols done on June 14, 1983, March 28, 1984, March 17, 1995, and July 29, 1997.

Introduction

This is a Technical Explanation of the Protocol signed at Chelsea on September 21, 2007 (the "Protocol"), amending the Convention between the United States of America and Canada with Respect to Taxes on Income and on Capital done at Washington on September 26, 1980, as amended by the Protocols done on June 14, 1983, March 28, 1984, March 17, 1995, and July 29, 1997 (the "existing Convention"). The existing Convention as modified by the Protocol shall be referred to as the "Convention."

Negotiation of the Protocol took into account the U.S. Treasury Department's current tax treaty policy and the Treasury Department's Model Income Tax Convention, published on November 15, 2006 (the "U.S. Model"). Negotiations also took into account the Model Tax Convention on Income and on Capital, published by the Organisation for Economic Cooperation and Development (the "OECD Model"), and recent tax treaties concluded by both countries.

The Technical Explanation is an official United States guide to the Protocol. The Government of Canada has reviewed this document and subscribes to its contents. In the view of both governments, this document accurately reflects the policies behind particular Protocol provisions, as well as understandings reached with respect to the application and interpretation of the Protocol and the Convention.

References made to the "existing Convention" are intended to put various provisions of the Protocol into context. The Technical Explanation does not, however, provide a complete comparison between the provisions of the existing Convention and the amendments made by the Protocol. The Technical Explanation is not intended to provide a complete guide to the existing Convention as amended by the Protocol. To the extent that the

existing Convention has not been amended by the Protocol, the prior technical explanations of the Convention remain the official explanations. References in this Technical Explanation to "he" or "his" should be read to mean "he or she" or "his or her." References to the "Code" are to the *Internal Revenue Code*.

On the date of signing of the Protocol, the United States and Canada exchanged two sets of diplomatic notes. Each of these notes sets forth provisions and understandings related to the Protocol and the Convention, and comprises an integral part of the overall agreement between the United States and Canada. The first note, the "Arbitration Note", relates to the implementation of new paragraphs 6 and 7 of Article XXVI (Mutual Agreement Procedure), which provide for binding arbitration of certain disputes between the competent authorities. The second note, the "General Note", relates more generally to issues of interpretation or application of various provisions of the Protocol.

Article 1

Article 1 of the Protocol adds subparagraph 1(*k*) to Article III (General Definitions) to address the definition of "national" of a Contracting State as used in the Convention. The Contracting States recognize that Canadian tax law does not draw distinctions based on nationality as such. Nevertheless, at the request of the United States, the definition was added and contains references to both citizenship and nationality. The definition includes any individual possessing the citizenship or nationality of a Contracting State and any legal person, partnership or association whose status is determined by reference to the laws in force in a Contracting State. The existing Convention contains one reference to the term "national" in paragraph 1 of Article XXVI (Mutual Agreement Procedure). The Protocol adds another reference in paragraph 1 of Article XXV (Non-Discrimination) to ensure that nationals of the United States are covered by the non-discrimination provisions of the Convention. The definition added by the Protocol is consistent with the definition provided in other U.S. tax treaties.

The General Note provides that for purposes of paragraph 2 of Article III, as regards the application at any time of the Convention, any term not defined in the Convention shall, unless the context otherwise requires or the competent authorities otherwise agree to a common meaning pursuant to Article XXVI (Mutual Agreement Procedure), have the meaning which it has at that time under the law of that State for the purposes of the taxes to which the Convention apply, any meaning under the applicable tax laws of that State prevailing over a meaning given to the term under other laws of that State.

Article 2

Article 2 of the Protocol replaces paragraph 3 of Article IV (Residence) of the existing Convention to address the treatment of so-called dual resident companies. Article 2 of the Protocol also adds new paragraphs 6 and 7 to Article IV to determine whether income is considered to be derived by a resident of a Contracting State when such income is derived through a fiscally transparent entity.

Paragraph 3 of Article IV — Dual resident companies

Paragraph 3, which addresses companies that are otherwise considered resident in each of the Contracting States, is replaced. The provisions of paragraph 3, and the date upon which these provisions are effective, are consistent with an understanding reached between the United States and Canada on September 18, 2000, to clarify the residence of a company under the Convention when the company has engaged in a so-called corporate "continuance" transaction. The paragraph applies only where, by reason of the rules set forth in paragraph 1 of Article IV (Residence), a company is a resident of both Contracting States.

Subparagraph 3(*a*) provides a rule to address the situation when a company is a resident of both Contracting States but is created under the laws in force in only one of the Contracting States. In such a case, the rule provides that the company is a resident only of the Contracting State under which it is created. For example, if a company is incorporated in the United States but the company is also otherwise considered a resident of Canada because the company is managed in Canada, subparagraph 3(*a*) provides that the company shall be considered a resident only of the United States for purposes of the Convention. Subparagraph 3(*a*) is intended to operate in a manner similar to the first sentence of former paragraph 3. However, subparagraph 3(*a*) clarifies that such a company must be considered created in only one of the Contracting States to fall within the scope of subparagraph 3(*a*). In some cases, a company may engage in a corporate continuance transaction and retain its charter in the Contracting State from which it continued, while also being considered as created in the State to which the company continued. In such cases, the provisions of subparagraph 3(*a*) shall not apply because the company would be considered created in both of the Contracting States.

Subparagraph 3(*b*) addresses all cases involving a dual resident company that are not addressed in subparagraph 3(*a*). Thus, subparagraph 3(*b*) applies to continuance transactions occurring between the Contracting States if, as a result, a company otherwise would be considered created under the laws of each Contracting State, e.g., because the corporation retained its charter in the first State. Subparagraph 3(*b*) would also address so-called serial continuance transactions where, for example, a company continues from one of the Contracting States to a third country and then continues into the other Contracting State without having ceased to be treated as resident in the first Contracting State.

Subparagraph 3(*b*) provides that if a company is considered to be a resident of both Contracting States, and the residence of such company is not resolved by subparagraph 3(*a*), then the competent authorities of the Contracting States shall endeavor to settle the question of residency by a mutual agreement procedure and determine the mode of application of the Convention to such company. Subparagraph 3(*b*) also provides that in the absence of such agreement, the company shall not be considered a resident of either Contracting State for purposes of claiming any benefits under the Convention.

Paragraphs 6 and 7 of Article IV — income, profit, or gain derived through fiscally transparent entities

New paragraphs 6 and 7 are added to Article IV to provide specific rules for the treatment of amounts of income, profit or gain derived through or paid by fiscally transparent entities such as partnerships and certain trusts. Fiscally transparent entities, as explained more fully below, are in general entities the income of which is taxed at the beneficiary, member, or participant level. Entities that are subject to tax, but with respect to which tax may be relieved under an integrated system, are not considered fiscally transparent entities. Entities that are fiscally transparent for U.S. tax purposes include partnerships, common investment trusts under section 584, grantor trusts, and business entities such as a limited liability company ("LLC") that is treated as a partnership or is disregarded as an entity separate from its owner for U.S. tax purposes. Entities falling within this description in Canada are (except to the extent the law provides otherwise) partnerships and what are known as "bare" trusts.

United States tax law also considers a corporation that has made a valid election to be taxed under Subchapter S of Chapter 1 of the *Internal Revenue Code* (an "S corporation") to be fiscally transparent within the meaning explained below. Thus, if a U.S. resident derives income from Canada through an S corporation, the U.S. resident will under new paragraph 6 be considered for purposes of the Convention as the person who derived the income. Exceptionally, because Canada will ordinarily accept that an S corporation is itself resident in the United States for purposes of the Convention, Canada will allow benefits under the Convention to the S corporation in its own right. In a reverse case, however — that is, where the S corporation is owned by a resident of Canada and has U.S.-source income, profits or gains — the Canadian resident will not be considered as deriving the income by virtue of subparagraph 7(*a*) as Canada does not see the S corporation as fiscally transparent.

Under both paragraph 6 and paragraph 7, it is relevant whether the treatment of an amount of income, profit or gain derived by a person through an entity under the tax law of the residence State is "the same as its treatment would be if that amount had been derived directly." For purposes of paragraphs 6 and 7, whether the treatment of an amount derived by a person through an entity under the tax law of the residence State is the same as its treatment would be if that amount had been derived directly by that person shall be determined in accordance with the principles set forth in Code section 894 and the regulations under that section concerning whether an entity will be treated as fiscally transparent with respect to an item of income received by the entity. Treas. Reg. section 1.894-1(d)(3)(iii) provides that an entity will be fiscally transparent under the laws of an interest holder's jurisdiction with respect to an item of income to the extent that the laws of that jurisdiction require the interest holder resident in that jurisdiction to separately take into account on a current basis the interest holder's respective share of the item of income paid to the entity, whether or not distributed to the interest holder, and the character and source of the item in the hands of the interest holder are determined as if such item were realized directly from the source from which realized by the entity. Although Canada does not have analogous provisions in its domestic law, it is anticipated that principles comparable to those described above will apply.

Paragraph 6

Under paragraph 6, an amount of income, profit or gain is considered to be derived by a resident of a Contracting State (residence State) if 1) the

amount is derived by that person through an entity (other than an entity that is a resident of the other Contracting State (source State), and 2) by reason of that entity being considered fiscally transparent under the laws of the residence State, the treatment of the amount under the tax law of the residence State is the same as its treatment would be if that amount had been derived directly by that person. These two requirements are set forth in subparagraphs 6(*a*) and 6(*b*), respectively.

For example, if a U.S. resident owns a French entity that earns Canadian-source dividends and the entity is considered fiscally transparent under U.S. tax law, the U.S. resident is considered to derive the Canadian-source dividends for purposes of Article IV (and thus, the dividends are considered as being "paid to" the resident) because the U.S. resident is considered under the tax law of the United States to have derived the dividend through the French entity and, because the entity is treated as fiscally transparent under U.S. tax law, the treatment of the income under U.S. tax law is the same as its treatment would be if that amount had been derived directly by the U.S. resident. This result obtains even if the French entity is viewed differently under the tax laws of Canada or of France (i.e., the French entity is treated under Canadian law or under French tax law as not fiscally transparent).

Similarly, if a Canadian resident derives U.S.-source income, profit or gain through an entity created under Canadian law that is considered a partnership for Canadian tax purposes but a corporation for U.S. tax purposes, U.S.-source income, profit or gain derived through such entity by the Canadian resident will be considered to be derived by the Canadian resident in considering the application of the Convention.

Application of paragraph 6 and related treaty provisions by Canada

In determining the entitlement of a resident of the United States to the benefits of the Convention, Canada shall apply the Convention within its own legal framework.

For example, assume that from the perspective of Canadian law an amount of income is seen as being paid from a source in Canada to USLLC, an entity that is entirely owned by U.S. persons and is fiscally transparent for U.S. tax purposes, but that Canada considers a corporation and, thus, under Canadian law, a taxpayer in its own right. Since USLLC is not itself taxable in the United States, it is not considered to be a U.S. resident under the Convention; but for new paragraph 6 Canada would not apply the Convention in taxing the income.

If new paragraph 6 applies in respect of an amount of income, profit or gain, such amount is considered as having been derived by one or more U.S. resident shareholders of USLLC, and Canada shall grant benefits of the Convention to the payment to USLLC and eliminate or reduce Canadian tax as provided in the Convention. The effect of the rule is to suppress Canadian taxation of USLLC to give effect to the benefits available under the Convention to the U.S. residents in respect of the particular amount of income, profit or gain.

However, for Canadian tax purposes, USLLC remains the only "visible" taxpayer in relation to this amount. In other words, the Canadian tax treatment of this taxpayer (USLLC) is modified because of the entitlement of its U.S. resident shareholders to benefits under the Convention, but this does not alter USLLC's status under Canadian law. Canada does not, for example, treat USLLC as though it did not exist, substituting the shareholders for it in the role of taxpayer under Canada's system.

Some of the implications of this are as follows. First, Canada will not require the shareholders of USLLC to file Canadian tax returns in respect of income that benefits from new paragraph 6. Instead, USLLC itself will file a Canadian tax return in which it will claim the benefit of the paragraph and supply any documentation required to support the claim. (The Canada Revenue Agency will supply additional practical guidance in this regard, including instructions for seeking to establish entitlement to Convention benefits in advance of payment.) Second, as is explained in greater detail below, if the income in question is business profits, it will be necessary to determine whether the income was earned through a permanent establishment in Canada. This determination will be based on the presence and activities in Canada of USLLC itself, not of its shareholders acting in their own right.

Determination of the existence of a permanent establishment from the business activities of a fiscally transparent entity

New paragraph 6 applies not only in respect of amounts of dividends, interest and royalties, but also profit (business income), gains and other income. It may thus be relevant in cases where a resident of one Contracting State carries on business in the other State through an entity that has a different characterization in each of the two Contracting States.

Application of new paragraph 6 and the provisions of Article V (Permanent Establishment) by Canada

Assume, for instance, that a resident of the United States is part owner of a U.S. limited liability company (USLLC) that is treated in the United States as a fiscally transparent entity, but in Canada as a corporation. Assume one of the other two shareholders of USLLC is resident in a country that does not have a tax treaty with Canada and that the remaining shareholder is resident in a country with which Canada does have a tax treaty, but that the treaty does not include a provision analogous to paragraph 6.

Assume further that USLLC carries on business in Canada, but does not do so through a permanent establishment there. (Note that from the Canadian perspective, the presence or absence of a permanent establishment is evaluated with respect to USLLC only, which Canada sees as a potentially taxable entity in its own right.) Regarding Canada's application of the provisions of the Convention, the portion of USLLC's profits that belongs to the U.S. resident shareholder will not be taxable in Canada, provided that the U.S. resident meets the Convention's limitation on benefits provisions. Under paragraph 6, that portion is seen as having been derived by the U.S. resident shareholder, who is entitled to rely on Article VII (Business Profits). The balance of USLLC's profits will, however, remain taxable in Canada. Since USLLC is not itself resident in the United States for purposes of the Convention, in respect of that portion of its profits that is not considered to have been derived by a U.S. resident (or a resident of another country whose treaty with Canada includes a rule comparable to paragraph 6) it is not relevant whether or not it has a permanent establishment in Canada.

Another example would be the situation where a USLLC that is wholly owned by a resident of the U.S. carries on business in Canada through a permanent establishment. If the USLLC is fiscally transparent for U.S. tax purposes (and therefore, the conditions for the application of paragraph 6 are satisfied) then the USLLC's profits will be treated as having been derived by its U.S. resident owner inclusive of all attributes of that income (e.g., such as having been earned through a permanent establishment). However, since the USLLC remains the only "visible" taxpayer for Canadian tax purposes, it is the USLLC, and not the U.S. shareholder, that is subject to tax on the profits that are attributable to the permanent establishment.

Application of new paragraph 6 and the provisions of Article V (Permanent Establishment) by the United States

It should be noted that in the situation where a person is considered to derive income through an entity, the United States looks in addition to such person's activities in order to determine whether he has a permanent establishment. Assume that a Canadian resident and a resident in a country that does not have a tax treaty with the United States are owners of CanLP. Assume further that CanLP is an entity that is considered fiscally transparent for Canadian tax purposes but is not considered fiscally transparent for U.S. tax purposes, and that CanLP carries on business in the United States. If CanLP carries on the business through a permanent establishment, that permanent establishment may be attributed to the partners. Moreover, in determining whether there is a permanent establishment, the activities of both the entity and its partners will be considered. If CanLP does not carry on the business through a permanent establishment, the Canadian resident, who derives income through the partnership, may claim the benefits of Article VII (Business Profits) of the Convention with respect to such income, assuming that the income is not otherwise attributable to a permanent establishment of the partner. In any case, the third country partner cannot claim the benefits of Article VII of the Convention between the United States and Canada.

Paragraph 7

Paragraph 7 addresses situations where an item of income, profit or gain is considered not to be paid to or derived by a person who is a resident of a Contracting State. The paragraph is divided into two subparagraphs.

Under subparagraph 7(*a*), an amount of income, profit or gain is considered not to be paid to or derived by a person who is a resident of a Contracting State (the residence State) if (1) the other Contracting State (the source State) views the person as deriving the amount through an entity that is not a resident of the residence State, and (2) by reason of the entity not being treated as fiscally transparent under the laws of the residence State, the treatment of the amount under the tax law of the residence State is not the same as its treatment would be if that amount had been derived directly by the person.

For example, assume USCo, a company resident in the United States, is a part owner of CanLP, an entity that is considered fiscally transparent for Canadian tax purposes, but is not considered fiscally transparent for U.S. tax purposes. CanLP receives a dividend from a Canadian company in

which it owns stock. Under Canadian tax law USCo is viewed as deriving a Canadian-source dividend through CanLP. For U.S. tax purposes, CanLP, and not USCo, is viewed as deriving the dividend. Because the treatment of the dividend under U.S. tax law in this case is not the same as the treatment under U.S. law if USCo derived the dividend directly, subparagraph 7(*a*) provides that USCo will not be considered as having derived the dividend. The result would be the same if CanLP were a third-country entity that was viewed by the United States as not fiscally transparent, but was viewed by Canada as fiscally transparent. Similarly, income from U.S. sources received by an entity organized under the laws of the United States that is treated for Canadian tax purposes as a corporation and is owned by shareholders who are residents of Canada is not considered derived by the shareholders of that U.S. entity even if, under U.S. tax law, the entity is treated as fiscally transparent.

Subparagraph 7(*b*) provides that an amount of income, profit or gain is not considered to be paid to or derived by a person who is a resident of a Contracting State (the residence State) where the person is considered under the tax law of the other Contracting State (the source State) to have received the amount from an entity that is a resident of that other State (the source State), but by reason of the entity being treated as fiscally transparent under the laws of the Contracting State of which the person is resident (the residence State), the treatment of such amount under the tax law of that State (the residence State) is not the same as the treatment would be if that entity were not treated as fiscally transparent under the laws of that State (the residence State).

That is, under subparagraph 7(*b*), an amount of income, profit or gain is not considered to be paid to or derived by a resident of a Contracting State (the residence State) if: (1) the other Contracting State (the source State) views such person as receiving the amount from an entity resident in the source State; (2) the entity is viewed as fiscally transparent under the laws of the residence State; and (3) by reason of the entity being treated as fiscally transparent under the laws of the residence State, the treatment of the amount received by that person under the tax law of the residence State is not the same as its treatment would be if the entity were not treated as fiscally transparent under the laws of the residence State.

For example, assume that USCo, a company resident in the United States is the sole owner of CanCo, an entity that is considered under Canadian tax law to be a corporation that is resident in Canada but is considered under U.S. tax law to be disregarded as an entity separate from its owner. Assume further that USCo is considered under Canadian tax law to have received a dividend from CanCo.

In such a case, Canada, the source State, views USCo as receiving income (*i.e.*, a dividend) from a corporation that is a resident of Canada (CanCo), CanCo is viewed as fiscally transparent under the laws of the United States, the residence State, and by reason of CanCo being disregarded under U.S. tax law, the treatment under U.S. tax law of the payment is not the same as its treatment would be if the entity were regarded as a corporation under U.S. tax law. That is, the payment is disregarded for U.S. tax purposes, whereas if U.S. tax law regarded CanCo as a corporation, the payment would be treated as a dividend. Therefore, subparagraph 7(*b*) would apply to provide that the income is not considered to be paid to or derived by USCo.

The same result obtains if, in the above example, USCo is considered under Canadian tax law to have received an interest or royalty payment (instead of a dividend) from CanCo. Under U.S. law, because CanCo is disregarded as an entity separate from its owner, the payment is disregarded, whereas if CanCo were treated as not fiscally transparent, the payment would be treated as interest or a royalty, as the case may be. Therefore, subparagraph 7(*b*) would apply to provide that such amount is not considered to be paid to or derived by USCo.

The application of subparagraph 7(*b*) differs if, in the above example, USCo (as well as other persons) are owners of CanCo, a Canadian entity that is considered under Canadian tax law to be a corporation that is resident in Canada but is considered under U.S. tax law to be a partnership (as opposed to being disregarded). Assume that USCo is considered under Canadian tax law to have received a dividend from CanCo. Such payment is viewed under Canadian tax law as a dividend, but under U.S. tax law is viewed as a partnership distribution. In such a case, Canada views USCo as receiving income (*i.e.*, a dividend) from an entity that is a resident of Canada (CanCo), CanCo is viewed as fiscally transparent under the laws of the United States, the residence State, and by reason of CanCo being treated as a partnership under U.S. tax law, the treatment under U.S. tax law of the payment (as a partnership distribution) is not the same as the treatment would be if CanCo were not fiscally transparent under U.S. tax law (as a dividend). As a result, subparagraph 7(*b*) would apply to provide that such amount is not considered paid to or derived by the U.S. resident.

As another example, assume that CanCo, a company resident in Canada, is the owner of USLP, an entity that is considered under U.S. tax law (by virtue of an election) to be a corporation resident in the United States, but that is considered under Canadian tax law to be a branch of CanCo. Assume further that CanCo is considered under U.S. tax law to have received a dividend from USLP. In this case, the United States views CanCo as receiving income (*i.e.*, a dividend) from an entity that is resident in the United States (USLP), but by reason of USLP being a branch under Canadian tax law, the treatment under Canadian tax law of the payment is not the same as its treatment would be if USLP were a company under Canadian tax law. That is, the payment is treated as a branch remittance for Canadian tax purposes, whereas if Canadian tax law regarded USLP as a corporation, the payment would be treated as a dividend. Therefore, subparagraph 7(b) would apply to provide that the income is not considered to be paid to or derived by CanCo. The same result would obtain in the case of interest or royalties paid by USLP to CanCo.

Paragraphs 6 and 7 apply to determine whether an amount is considered to be derived by (or paid to) a person who is a resident of Canada or the United States. If, as a result of paragraph 7, a person is not considered to have derived or received an amount of income, profit or gain, that person shall not be entitled to the benefits of the Convention with respect to such amount. Additionally, for purposes of application of the Convention by the United States, the treatment of such payments under Code section 894(c) and the regulations thereunder would not be relevant.

New paragraphs 6 and 7 are not an exception to the saving clause of paragraph 2 of Article XXIX (Miscellaneous Rules). Accordingly, subparagraph 7(*b*) does not prevent a Contracting State from taxing an entity that is treated as a resident of that State under its tax law. For example, if a U.S. partnership with members who are residents of Canada elects to be taxed as a corporation for U.S. tax purposes, the United States will tax that partnership on its worldwide income on a net basis, even if Canada views the partnership as fiscally transparent.

Interaction of paragraphs 6 and 7 with the determination of "beneficial ownership"

With respect to payments of income, profits or gain arising in a Contracting State and derived directly by a resident of the other Contracting State (and not through a fiscally transparent entity), the term "beneficial owner" is defined under the internal law of the country imposing tax (*i.e.*, the source State). Thus, if the payment arising in a Contracting State is derived by a resident of the other State who under the laws of the first-mentioned State is determined to be a nominee or agent acting on behalf of a person that is not a resident of that other State, the payment will not be entitled to the benefits of the Convention. However, payments arising in a Contracting State and derived by a nominee on behalf of a resident of that other State would be entitled to benefits. These limitations are confirmed by paragraph 12 of the Commentary to Article 10 of the OECD Model.

Special rules apply in the case of income, profits or gains derived through a fiscally transparent entity, as described in new paragraph 6 of Article IV. Residence State principles determine who derives the income, profits or gains, to assure that the income, profits or gains for which the source State grants benefits of the Convention will be taken into account for tax purposes by a resident of the residence State. Source country principles of beneficial ownership apply to determine whether the person who derives the income, profits or gains, or another resident of the other Contracting State, is the beneficial owner of the income, profits or gains. The source State may conclude that the person who derives the income, profits or gains in the residence State is a mere nominee, agent, conduit, etc., for a third country resident and deny benefits of the Convention. If the person who derives the income, profits or gains under paragraph 6 of Article IV would not be treated under the source State's principles for determining beneficial ownership as a nominee, agent, custodian, conduit, etc., that person will be treated as the beneficial owner of the income, profits or gains for purposes of the Convention.

Assume, for instance, that interest arising in the United States is paid to CanLP, an entity established in Canada which is treated as fiscally transparent for Canadian tax purposes but is treated as a company for U.S. tax purposes. CanCo, a company incorporated in Canada, is the sole interest holder in CanLP. Paragraph 6 of Article IV provides that CanCo derives the interest. However, if under the laws of the United States regarding payments to nominees, agents, custodians and conduits, CanCo is found be a nominee, agent, custodian or conduit for a person who is not a resident of Canada, CanCo will not be considered the beneficial owner of the interest and will not be entitled to the benefits of Article XI with respect to such interest. The payment may be entitled to benefits, however, if CanCo is found to be a nominee, agent, custodian or conduit for a person who is a resident of Canada.

With respect to Canadian-source income, profit or gains, beneficial ownership is to be determined under Canadian law. For example, assume that LLC, an entity that is treated as fiscally transparent for U.S. tax purposes, but as a corporation for Canadian tax purposes, is owned by USCo, a U.S. resident company. LLC receives Canadian-source income. The question of the beneficial ownership of the income received by LLC is determined under Canadian law. If LLC is considered the beneficial owner of the income under Canadian law, paragraph 6 shall apply to extend benefits of the Convention to the income received by LLC to the extent that the Canadian-source income is derived by U.S. resident members of LLC.

Article 3

Article 3 of the Protocol amends Article V (Permanent Establishment) of the Convention. Paragraph 1 of Article 3 of the Protocol adds a reference in Paragraph 6 of Article IV [*sic* — V] to new paragraph 9 of Article V. Paragraph 2 of Article 3 of the Protocol sets forth new paragraphs 9 and 10 of Article V.

Paragraph 9 of Article V

New paragraph 9 provides a special rule (subject to the provisions of paragraph 3) for an enterprise of a Contracting State that provides services in the other Contracting State, but that does not have a permanent establishment by virtue of the preceding paragraphs of the Article. If (and only if) such an enterprise meets either of two tests as provided in subparagraphs 9(*a*) and 9(*b*), the enterprise will be deemed to provide those services through a permanent establishment in the other State.

The first test as provided in subparagraph 9(*a*) has two parts. First, the services must be performed in the other State by an individual who is present in that other State for a period or periods aggregating 183 days or more in any twelve-month period. Second, during that period or periods, more than 50 percent of the gross active business revenues of the enterprise (including revenue from active business activities unrelated to the provision of services) must consist of income derived from the services performed in that State by that individual. If the enterprise meets both of these tests, the enterprise will be deemed to provide the services through a permanent establishment. This test is employed to determine whether an enterprise is deemed to have a permanent establishment by virtue of the presence of a single individual (*i.e.*, a natural person).

For the purposes of subparagraph 9(*a*), the term "gross active business revenues" shall mean the gross revenues attributable to active business activities that the enterprise has charged or should charge for its active business activities, regardless of when the actual billing will occur or of domestic law rules concerning when such revenues should be taken into account for tax purposes. Such active business activities are not restricted to the activities related to the provision of services. However, the term does not include income from passive investment activities.

As an example of the application of subparagraph 9(*a*), assume that Mr. X, an individual resident in the United States, is one of the two shareholders and employees of USCo, a company resident in the United States that provides engineering services. During the 12-month period beginning December 20 of Year 1 and ending December 19 of Year 2, Mr. X is present in Canada for periods totaling 190 days, and during those periods, 70 percent of all of the gross active business revenues of USCo attributable to business activities are derived from the services that Mr. X performs in Canada. Because both of the criteria of subparagraph 9(*a*) are satisfied, USCo will be deemed to have a permanent establishment in Canada by virtue of that subparagraph.

The second test as provided in subparagraph 9(*b*) provides that an enterprise will have a permanent establishment if the services are provided in the other State for an aggregate of 183 days or more in any twelve-month period with respect to the same or connected projects for customers who either are residents of the other State or maintain a permanent establishment in the other State with respect to which the services are provided. The various conditions that have to be satisfied in order for subparagraph 9(*b*) to have application are described in detail below.

In addition to meeting the 183-day threshold, the services must be provided for customers who either are residents of the other State or maintain a permanent establishment in that State. The intent of this requirement is to reinforce the concept that unless there is a customer in the other State, such enterprise will not be deemed as participating sufficiently in the economic life of that other State to warrant being deemed to have a permanent establishment.

Assume for example, that CanCo, a Canadian company, wishes to acquire USCo, a company in the United States. In preparation for the acquisition, CanCo hires Canlaw, a Canadian law firm, to conduct a due diligence evaluation of USCo's legal and financial standing in the United States. Canlaw sends a staff attorney to the United States to perform the due diligence analysis of USCo. That attorney is present and working in the United States for greater than 183 days. If the remuneration paid to Canlaw for the attorney's services does not constitute more than 50 percent of Canlaw's gross active business revenues for the period during which the attorney is present in the United States, Canlaw will not be deemed to provide the services through a permanent establishment in the United States by virtue of subparagraph 9(*a*). Additionally, because the services are being provided for a customer (CanCo) who neither is a resident of the United States nor maintains a permanent establishment in the United States to which the services are provided, Canlaw will also not have a permanent establishment in the United States by virtue of subparagraph 9(*b*).

Paragraph 9 applies only to the provision of services, and only to services provided by an enterprise to third parties. Thus, the provision does not have the effect of deeming an enterprise to have a permanent establishment merely because services are provided to that enterprise. Paragraph 9 only applies to services that are performed or provided by an enterprise of a Contracting State within the other Contracting State. It is therefore not sufficient that the relevant services be merely furnished to a resident of the other Contracting State. Where, for example, an enterprise provides customer support or other services by telephone or computer to customers located in the other State, those would not be covered by paragraph 9 because they are not performed or provided by that enterprise within the other State. Another example would be that of an architect who is hired to design blueprints for the construction of a building in the other State. As part of completing the project, the architect must make site visits to that other State, and his days of presence there would be counted for purposes of determining whether the 183-day threshold is satisfied. However, the days that the architect spends working on the blueprint in his home office shall not count for purposes of the 183-day threshold, because the architect is not performing or providing those services within the other State.

For purposes of determining whether the time threshold has been met, subparagraph 9(*b*) permits the aggregation of services that are provided with respect to connected projects. Paragraph 2 of the General Note provides that for purposes of subparagraph 9(*b*), projects shall be considered to be connected if they constitute a coherent whole, commercially and geographically. The determination of whether projects are connected should be determined from the point of view of the enterprise (not that of the customer), and will depend on the facts and circumstances of each case. In determining the existence of commercial coherence, factors that would be relevant include: 1) whether the projects would, in the absence of tax planning considerations, have been concluded pursuant to a single contract; 2) whether the nature of the work involved under different projects is the same; and 3) whether the same individuals are providing the services under the different projects. Whether the work provided is covered by one or multiple contracts may be relevant, but not determinative, in finding that projects are commercially coherent.

The aggregation rule addresses, for example, potentially abusive situations in which work has been artificially divided into separate components in order to avoid meeting the 183-day threshold. Assume for example, that a technology consultant has been hired to install a new computer system for a company in the other country. The work will take ten months to complete. However, the consultant purports to divide the work into two five-month projects with the intention of circumventing the rule in subparagraph 9(*b*). In such case, even if the two projects were considered separate, they will be considered to be commercially coherent. Accordingly, subject to the additional requirement of geographic coherence, the two projects could be considered to be connected, and could therefore be aggregated for purposes of subparagraph 9(*b*). In contrast, assume that the technology consultant is contracted to install a particular computer system for a company, and is also hired by that same company, pursuant to a separate contract, to train its employees on the use of another computer software that is unrelated to the first system. In this second case, even though the contracts are both concluded between the same two parties, there is no commercial coherence to the two projects, and the time spent fulfilling the two contracts may not be aggregated for purposes of subparagraph 9(*b*). Another example of projects that do not have commercial coherence would be the case of a law firm which, as one project provides tax advice to a customer from one portion of its staff, and as another project provides trade advice from another portion of its staff, both to the same customer.

Additionally, projects, in order to be considered connected, must also constitute a geographic whole. An example of projects that lack geographic coherence would be a case in which a consultant is hired to execute separate auditing projects at different branches of a bank located in different cities pursuant to a single contract. In such an example, while the consultant's projects are commercially coherent, they are not geographically coherent and accordingly the services provided in the various

branches shall not be aggregated for purposes of applying subparagraph 9(*b*). The services provided in each branch should be considered separately for purposes of subparagraph 9(*b*).

The method of counting days for purposes of subparagraph 9(*a*) differs slightly from the method for subparagraph 9(*b*). Subparagraph 9(*a*) refers to days in which an individual is present in the other country. Accordingly, physical presence during a day is sufficient. In contrast, subparagraph 9(*b*) refers to days during which services are provided by the enterprise in the other country. Accordingly, non-working days such as weekends or holidays would not count for purposes of subparagraph 9(*b*), as long as no services are actually being provided while in the other country on those days. For the purposes of both subparagraphs, even if the enterprise sends many individuals simultaneously to the other country to provide services, their collective presence during one calendar day will count for only one day of the enterprise's presence in the other country. For instance, if an enterprise sends 20 employees to the other country to provide services to a client in the other country for 10 days, the enterprise will be considered present in the other country only for 10 days, not 200 days (20 employees × 10 days).

By deeming the enterprise to provide services through a permanent establishment in the other Contracting State, paragraph 9 allows the application of Article VII (Business Profits), and accordingly, the taxation of the services shall be on a net-basis. Such taxation is also limited to the profits attributable to the activities carried on in performing the relevant services. It will be important to ensure that only the profits properly attributable to the functions performed and risks assumed by provision of the services will be attributed to the deemed permanent establishment.

In addition to new paragraph 9, Article 3 of the Protocol amends paragraph 6 of Article V of the Convention to include a reference to paragraph 9. Therefore, in no case will paragraph 9 apply to deem services to be provided through a permanent establishment if the services are limited to those mentioned in paragraph 6 which, if performed through a fixed place of business, would not make the fixed place of business a permanent establishment under the provisions of that paragraph.

The competent authorities are encouraged to consider adopting rules to reduce the potential for excess withholding or estimated tax payments with respect to employee wages that may result from the application of this paragraph. Further, because paragraph 6 of Article V applies notwithstanding paragraph 9, days spent on preparatory or auxiliary activities shall not be taken into account for purposes of applying subparagraph 9(*b*).

Paragraph 10 of Article V

Paragraph 2 of Article 3 of the Protocol also sets forth new paragraph 10 of Article V. The provisions of new paragraph 10 are identical to paragraph 9 of Article V as it existed prior to the Protocol. New paragraph 10 provides that the provisions of Article V shall be applied in determining whether any person has a permanent establishment in any State.

Article 4

Article 4 of the Protocol replaces paragraph 2 of Article VII (Business Profits).

New paragraph 2 provides that where a resident of either Canada or the United States carries on (or has carried on) business in the other Contracting State through a permanent establishment in that other State, both Canada and the United States shall attribute to permanent establishments in their respective states those business profits which the permanent establishment might be expected to make if it were a distinct and separate person engaged in the same or similar activities under the same or similar conditions and dealing wholly independently with the resident and with any other person related to the resident. The term "related to the resident" is to be interpreted in accordance with paragraph 2 of Article IX (Related Persons). The reference to other related persons is intended to make clear that the test of paragraph 2 is not restricted to independence between a permanent establishment and a home office.

New paragraph 2 is substantially similar to paragraph 2 as it existed before the Protocol. However, in addition to the reference to a resident of a Contracting State who "carries on" business in the other Contracting State, the Protocol incorporates into the Convention the rule of Code section 864(c)(6) by adding "or has carried on" to address circumstances where, as a result of timing, income may be attributable to a permanent establishment that no longer exists in one of the Contracting States. In such cases, the income is properly within the scope of Article VII. Conforming changes are also made in the Protocol to Articles X (Dividends), XI (Interest), and XII (Royalties) of the Convention where Article VII would apply. As is explained in paragraph 5 of the General Note, these revisions to the Convention are only intended to clarify the application of the existing provisions of the Convention.

The following example illustrates the application of paragraph 2. Assume a company that is a resident of Canada and that maintains a permanent establishment in the United States winds up the permanent establishment's business and sells the permanent establishment's inventory and assets to a U.S. buyer at the end of year 1 in exchange for an installment obligation payable in full at the end of year 3. Despite the fact that the company has no permanent establishment in the United States in year 3, the United States may tax the deferred income payment recognized by the company in year 3.

The "attributable to" concept of paragraph 2 provides an alternative to the analogous but somewhat different "effectively connected" concept in Code section 864(c). Depending on the circumstances, the amount of income "attributable to" a permanent establishment under Article VII may be greater or less than the amount of income that would be treated as "effectively connected" to a U.S. trade or business under Code section 864. In particular, in the case of financial institutions, the use of internal dealings to allocate income within an enterprise may produce results under Article VII that are significantly different than the results under the effectively connected income rules. For example, income from interbranch notional principal contracts may be taken into account under Article VII, notwithstanding that such transactions may be ignored for purposes of U.S. domestic law. A taxpayer may use the treaty to reduce its taxable income, but may not use both treaty and Code rules where doing so would thwart the intent of either set of rules. See Rev. Rul. 84-17, 1984-1 C.B. 308.

The profits attributable to a permanent establishment may be from sources within or without a Contracting State. However, as stated in the General Note, the business profits attributable to a permanent establishment include only those profits derived from the assets used, risks assumed, and activities performed by the permanent establishment.

The language of paragraph 2, when combined with paragraph 3 dealing with the allowance of deductions for expenses incurred for the purposes of earning the profits, incorporates the arm's length standard for purposes of determining the profits attributable to a permanent establishment. The United States and Canada generally interpret the arm's length standard in a manner consistent with the OECD Transfer Pricing Guidelines.

Paragraph 9 of the General Note confirms that the arm's length method of paragraphs 2 and 3 consists of applying the OECD Transfer Pricing Guidelines, but taking into account the different economic and legal circumstances of a single legal entity (as opposed to separate but associated enterprises). Thus, any of the methods used in the Transfer Pricing Guidelines, including profits methods, may be used as appropriate and in accordance with the Transfer Pricing Guidelines. However, the use of the Transfer Pricing Guidelines applies only for purposes of attributing profits within the legal entity. It does not create legal obligations or other tax consequences that would result from transactions having independent legal significance. Thus, the Contracting States agree that the notional payments used to compute the profits that are attributable to a permanent establishment will not be taxed as if they were actual payments for purposes of other taxing provisions of the Convention, for example, for purposes of taxing a notional royalty under Article XII (Royalties).

One example of the different circumstances of a single legal entity is that an entity that operates through branches rather than separate subsidiaries generally will have lower capital requirements because all of the assets of the entity are available to support all of the entity's liabilities (with some exceptions attributable to local regulatory restrictions). This is the reason that most commercial banks and some insurance companies operate through branches rather than subsidiaries. The benefit that comes from such lower capital costs must be allocated among the branches in an appropriate manner. This issue does not arise in the case of an enterprise that operates through separate entities, since each entity will have to be separately capitalized or will have to compensate another entity for providing capital (usually through a guarantee).

Under U.S. domestic regulations, internal "transactions" generally are not recognized because they do not have legal significance. In contrast, the rule provided by the General Note is that such internal dealings may be used to attribute income to a permanent establishment in cases where the dealings accurately reflect the allocation of risk within the enterprise. One example is that of global trading in securities. In many cases, banks use internal swap transactions to transfer risk from one branch to a central location where traders have the expertise to manage that particular type of risk. Under paragraph 2 as set forth in the Protocol, such a bank may also use such swap transactions as a means of attributing income between the branches, if use of that method is the "best method" within the meaning of regulation section 1.482-1(c). The books of a branch will not be respected,

however, when the results are inconsistent with a functional analysis. So, for example, income from a transaction that is booked in a particular branch (or home office) will not be treated as attributable to that location if the sales and risk management functions that generate the income are performed in another location.

The understanding in the General Note also affects the interpretation of paragraph 3 of Article VII. Paragraph 3 provides that in determining the business profits of a permanent establishment, deductions shall be allowed for the expenses incurred for the purposes of the permanent establishment, ensuring that business profits will be taxed on a net basis. This rule is not limited to expenses incurred exclusively for the purposes of the permanent establishment, but includes expenses incurred for the purposes of the enterprise as a whole, or that part of the enterprise that includes the permanent establishment. Deductions are to be allowed regardless of which accounting unit of the enterprise books the expenses, so long as they are incurred for the purposes of the permanent establishment. For example, a portion of the interest expense recorded on the books of the home office in one State may be deducted by a permanent establishment in the other. The amount of the expense that must be allowed as a deduction is determined by applying the arm's length principle.

As noted above, paragraph 9 of the General Note provides that the OECD Transfer Pricing Guidelines apply, by analogy, in determining the profits attributable to a permanent establishment. Accordingly, a permanent establishment may deduct payments made to its head office or another branch in compensation for services performed for the benefit of the branch. The method to be used in calculating that amount will depend on the terms of the arrangements between the branches and head office. For example, the enterprise could have a policy, expressed in writing, under which each business unit could use the services of lawyers employed by the head office. At the end of each year, the costs of employing the lawyers would be charged to each business unit according to the amount of services used by that business unit during the year. Since this has the characteristics of a cost-sharing arrangement and the allocation of costs is based on the benefits received by each business unit, such a cost allocation would be an acceptable means of determining a permanent establishment's deduction for legal expenses. Alternatively, the head office could agree to employ lawyers at its own risk, and to charge an arm's length price for legal services performed for a particular business unit. If the lawyers were under-utilized, and the "fees" received from the business units were less than the cost of employing the lawyers, then the head office would bear the excess cost. If the "fees" exceeded the cost of employing the lawyers, then the head office would keep the excess to compensate it for assuming the risk of employing the lawyers. If the enterprise acted in accordance with this agreement, this method would be an acceptable alternative method for calculating a permanent establishment's deduction for legal expenses.

The General Note also makes clear that a permanent establishment cannot be funded entirely with debt, but must have sufficient capital to carry on its activities as if it were a distinct and separate enterprise. To the extent that the permanent establishment has not been attributed capital for profit attribution purposes, a Contracting State may attribute such capital to the permanent establishment, in accordance with the arm's length principle, and deny an interest deduction to the extent necessary to reflect that capital attribution. The method prescribed by U.S. domestic law for making this attribution is found in Treas. Reg. section 1.882-5. Both section 1.882-5 and the method prescribed in the General Note start from the premise that all of the capital of the enterprise supports all of the assets and risks of the enterprise, and therefore the entire capital of the enterprise must be allocated to its various businesses and offices.

However, section 1.882-5 does not take into account the fact that some assets create more risk for the enterprise than do other assets. An independent enterprise would need less capital to support a perfectly-hedged U.S. Treasury security than it would need to support an equity security or other asset with significant market and/or credit risk. Accordingly, in some cases section 1.882-5 would require a taxpayer to allocate more capital to the United States, and therefore would reduce the taxpayer's interest deduction more, than is appropriate. To address these cases, the General Note allows a taxpayer to apply a more flexible approach that takes into account the relative risk of its assets in the various jurisdictions in which it does business. In particular, in the case of financial institutions other than insurance companies, the amount of capital attributable to a permanent establishment is determined by allocating the institution's total equity between its various offices on the basis of the proportion of the financial institution's risk-weighted assets attributable to each of them. This recognizes the fact that financial institutions are in many cases required to risk-weight their assets for regulatory purposes and, in other cases, will do so for business reasons even if not required to do so by regulators. However, risk-weighting is more complicated than the method prescribed by section 1.882-5. Accordingly, to ease this administrative burden, taxpayers may choose to apply the principles of Treas. Reg. section 1.882-5(c) to determine the amount of capital allocable to its U.S. permanent establishment, in lieu of determining its allocable capital under the risk-weighted capital allocation method provided by the General Note, even if it has otherwise chosen the principles of Article VII rather than the effectively connected income rules of U.S. domestic law. It is understood that this election is not binding for purposes of Canadian taxation unless the result is in accordance with the arm's length principle.

As noted in the Convention, nothing in paragraph 3 requires a Contracting State to allow the deduction of any expenditure which, by reason of its nature, is not generally allowed as a deduction under the tax laws in that State.

Article 5

Article 5 makes a number of amendments to Article X (Dividends) of the existing Convention. As with other benefits of the Convention, the benefits of Article X are available to a resident of a Contracting State only if that resident is entitled to those benefits under the provisions of Article XX IX A (Limitation on Benefits).

See the Technical Explanation for new paragraphs 6 and 7 of Article IV (Residence) for discussion regarding the interaction between domestic law concepts of beneficial ownership and the treaty rules to determine when a person is considered to derive an item of income for purposes of obtaining benefits of the Convention such as withholding rate reductions.

Paragraph 1

Paragraph 1 of Article 5 of the Protocol replaces subparagraph 2(*a*) of Article X of the Convention. In general, paragraph 2 limits the amount of tax that may be imposed on dividends by the Contracting State in which the company paying the dividends is resident if the beneficial owner of the dividends is a resident of the other Contracting State. Subparagraph 2(*a*) limits the rate to 5 percent of the gross amount of the dividends if the beneficial owner is a company that owns 10 percent or more of the voting stock of the company paying the dividends.

The Protocol adds a parenthetical to address the determination of the requisite ownership set forth in subparagraph 2(*a*) when the beneficial owner of dividends receives the dividends through an entity that is considered fiscally transparent in the beneficial owner's Contracting State. The added parenthetical stipulates that voting stock in a company paying the dividends that is indirectly held through an entity that is considered fiscally transparent in the beneficial owner's Contracting State is taken into account, provided the entity is not a resident of the other Contracting State. The United States views the new parenthetical as merely a clarification.

For example, assume USCo, a U.S. corporation, directly owns 2 percent of the voting stock of CanCo, a Canadian company that is considered a corporation in the United States and Canada. Further, assume that USCo owns 18 percent of the interests in LLC, an entity that in turn owns 50 percent of the voting stock of CanCo. CanCo pays a dividend to each of its shareholders. Provided that LLC is fiscally transparent in the United States and not considered a resident of Canada, USCo's 9 percent ownership in CanCo through LLC (50 percent x 18 percent) is taken into account in determining whether USCo meets the 10 percent ownership threshold set forth in subparagraph 2(a). In this example, USCo may aggregate its voting stock interests in CanCo that it owns directly and through LLC to determine if it satisfies the ownership requirement of subparagraph 2(*a*). Accordingly, USCo will be entitled to the 5 percent rate of withholding on dividends paid with respect to both its voting stock held through LLC and its voting stock held directly. Alternatively, if, for example, all of the shareholders of LLC were natural persons, the 5 percent rate would not apply.

Paragraph 2

Paragraph 2 of Article 5 of the Protocol replaces the definition of the term "dividends" provided in paragraph 3 of Article X of the Convention. The new definition conforms to the U.S. Model formulation. Paragraph 3 defines the term dividends broadly and flexibly. The definition is intended to cover all arrangements that yield a return on an equity investment in a corporation as determined under the tax law of the source State, as well as arrangements that might be developed in the future.

The term dividends includes income from shares, or other corporate rights that are not treated as debt under the law of the source State, that participate in the profits of the company. The term also includes income that is subjected to the same tax treatment as income from shares by the law of the source State. Thus, for example, a constructive dividend that results from a non-arm's length transaction between a corporation and a related party is a dividend. In the case of the United States the term "dividend" includes amounts treated as a dividend under U.S. law upon the

sale or redemption of shares or upon a transfer of shares in a reorganization. *See, e.g.*, Rev. Rul. 92-85, 1992-2 C.B. 69 (sale of foreign subsidiary's stock to U.S. sister company is a deemed dividend to extent of the subsidiary's and sister company's earnings and profits). Further, a distribution from a U.S. publicly traded limited partnership that is taxed as a corporation under U.S. law is a dividend for purposes of Article X. However, a distribution by a limited liability company is not considered by the United States to be a dividend for purposes of Article X, provided the limited liability company is not characterized as an association taxable as a corporation under U.S. law.

Paragraph 3 of the General Note states that distributions from Canadian income trusts and royalty trusts that are treated as dividends as a result of changes to Canada's taxation of income and royalty trusts enacted in 2007 (S.C. 2007, c. 29) shall be treated as dividends for the purposes of Article X.

Additionally, a payment denominated as interest that is made by a thinly capitalized corporation may be treated as a dividend to the extent that the debt is recharacterized as equity under the laws of the source State. At the time the Protocol was signed, interest payments subject to Canada's thin-capitalization rules were not recharacterized as dividends.

Paragraph 3

Paragraph 3 of Article 5 of the Protocol replaces paragraph 4 of Article X. New paragraph 4 is substantially similar to paragraph 4 as it existed prior to the Protocol. New paragraph 4, however, adds clarifying language consistent with the changes made in Articles 4, 6, and 7 of the Protocol with respect to income attributable to a permanent establishment that has ceased to exist. Paragraph 4 provides that the limitations of paragraph 2 do not apply if the beneficial owner of the dividends carries on or has carried on business in the State in which the company paying the dividends is a resident through a permanent establishment situated there, and the stockholding in respect of which the dividends are paid is effectively connected to such permanent establishment. In such a case, the dividends are taxable pursuant to the provisions of Article VII (Business Profits). Thus, dividends paid in respect of holdings forming part of the assets of a permanent establishment or which are otherwise effectively connected to such permanent establishment will be taxed on a net basis using the rates and rules of taxation generally applicable to residents of the State in which the permanent establishment is situated.

Paragraph 4

To conform with Article 9 of the Protocol, which deletes Article XIV (Independent Personal Services) of the Convention, paragraph 4 of Article 5 of the Protocol amends paragraph 5 of Article X by omitting the reference to a "fixed base."

Paragraph 5

Paragraph 5 of Article 5 of the Protocol replaces subparagraph 7(*c*) of Article X of the existing Convention. Consistent with current U.S. tax treaty policy, new subparagraph 7(*c*) provides rules that expand the application of subparagraph 2(*b*) for the treatment of dividends paid by a Real Estate Investment Trust (REIT). New subparagraph 7(*c*) maintains the rule of the existing Convention that dividends paid by a REIT are not eligible for the 5 percent maximum rate of withholding tax of subparagraph 2(*a*), and provides that the 15 percent maximum rate of withholding tax of subparagraph 2(*b*) applies to dividends paid by REITs only if one of three conditions is met.

First, the dividend will qualify for the 15 percent maximum rate if the beneficial owner of the dividend is an individual holding an interest of not more than 10 percent in the REIT. For this purpose, subparagraph 7(*c*) also provides that where an estate or testamentary trust acquired its interest in a REIT as a consequence of the death of an individual, the estate or trust will be treated as an individual for the five-year period following the death. Thus, dividends paid to an estate or testamentary trust in respect of a holding of less than a 10 percent interest in the REIT also will be entitled to the 15 percent rate of withholding, but only for up to five years after the death.

Second, the dividend will qualify for the 15 percent maximum rate if it is paid with respect to a class of stock that is publicly traded and the beneficial owner of the dividend is a person holding an interest of not more than 5 percent of any class of the REIT's stock.

Third, the dividend will qualify for the 15 percent maximum rate if the beneficial owner of the dividend holds an interest in the REIT of 10 percent or less and the REIT is "diversified." A REIT is diversified if the gross value of no single interest in real property held by the REIT exceeds 10 percent of the gross value of the REIT's total interest in real property. For purposes of this diversification test, foreclosure property is not considered an interest in real property, and a REIT holding a partnership interest is treated as owning its proportionate share of any interest in real property held by the partnership.

A resident of Canada directly holding U.S. real property would pay U.S. tax either at a 30 percent rate of withholding tax on the gross income or at graduated rates on the net income. By placing the real property in a REIT, the investor absent a special rule could transform real estate income into dividend income, taxable at the rates provided in Article X, significantly reducing the U.S. tax that otherwise would be imposed. Subparagraph 7(*c*) prevents this result and thereby avoids a disparity between the taxation of direct real estate investments and real estate investments made through REIT conduits. In the cases in which subparagraph 7(*c*) allows a dividend from a REIT to be eligible for the 15 percent maximum rate of withholding tax, the holding in the REIT is not considered the equivalent of a direct holding in the underlying real property.

Article 6

Article 6 of the Protocol replaces Article XI (Interest) of the existing Convention. Article XI specifies the taxing jurisdictions over interest income of the States of source and residence and defines the terms necessary to apply Article XI. As with other benefits of the Convention, the benefits of Article XI are available to a resident of a Contracting State only if that resident is entitled to those benefits under the provisions of Article XXIX A (Limitation on Benefits).

Paragraph 1 of Article XI

New paragraph 1 generally grants to the residence State the exclusive right to tax interest beneficially owned by its residents and arising in the other Contracting State. See the Technical Explanation for new paragraphs 6 and 7 of Article IV (Residence) for discussion regarding the interaction between domestic law concepts of beneficial ownership and the treaty rules to determine when a person is considered to derive an item of income for purposes of obtaining benefits under the Convention such as withholding rate reductions.

Subparagraph 3(*d*) of Article 27 of the Protocol provides an additional rule regarding the application of paragraph 1 during the first two years that end after the Protocol's entry into force. This rule is described in detail in the Technical Explanation to Article 27.

Paragraph 2 of Article XI

Paragraph 2 of new Article XI is substantially identical to paragraph 4 of Article XI of the existing Convention.

Paragraph 2 defines the term "interest" as used in Article XI to include, *inter alia*, income from debt claims of every kind, whether or not secured by a mortgage. Interest that is paid or accrued subject to a contingency is within the ambit of Article XI. This includes income from a debt obligation carrying the right to participate in profits. The term does not, however, include amounts that are treated as dividends under Article X (Dividends).

The term "interest" also includes amounts subject to the same tax treatment as income from money lent under the law of the State in which the income arises. Thus, for purposes of the Convention, amounts that the United States will treat as interest include (i) the difference between the issue price and the stated redemption price at maturity of a debt instrument (i.e., original issue discount (OID)), which may be wholly or partially realized on the disposition of a debt instrument (section 1273), (ii) amounts that are imputed interest on a deferred sales contract (section 483), (iii) amounts treated as interest or OID under the stripped bond rules (section 1286), (iv) amounts treated as original issue discount under the below-market interest rate rules (section 7872), (v) a partner's distributive share of a partnership's interest income (section 702), (vi) the interest portion of periodic payments made under a "finance lease" or similar contractual arrangement that in substance is a borrowing by the nominal lessee to finance the acquisition of property, (vii) amounts included in the income of a holder of a residual interest in a real estate mortgage investment conduit (REMIC) (section 860E), because these amounts generally are subject to the same taxation treatment as interest under U.S. tax law, and (viii) interest with respect to notional principal contracts that are re-characterized as loans because of a "substantial non-periodic payment."

Paragraph 3 of Article XI

Paragraph 3 is in all material respects the same as paragraph 5 of Article XI of the existing Convention. New paragraph 3 adds clarifying language consistent with the changes made in Articles 4, 5, and 7 of the Protocol with respect to income attributable to a permanent establishment that has ceased to exist. Also, consistent with the changes described in Article 9 of the Protocol, discussed below, paragraph 3 does not contain

references to the performance of independent personal services through a fixed base.

Paragraph 3 provides an exception to the exclusive residence taxation rule of paragraph 1 in cases where the beneficial owner of the interest carries on business through a permanent establishment in the State of source and the interest is effectively connected to that permanent establishment. In such cases the provisions of Article VII (Business Profits) will apply and the source State will retain the right to impose tax on such interest income.

Paragraph 4 of Article XI

Paragraph 4 is in all material respects the same as paragraph 6 of Article XI of the existing Convention. The only difference is that, consistent with the changes described below with respect to Article 9 of the Protocol, paragraph 4 does not contain references to a fixed base.

Paragraph 4 establishes the source of interest for purposes of Article XI. Interest is considered to arise in a Contracting State if the payer is that State, or a political subdivision, local authority, or resident of that State. However, in cases where the person paying the interest, whether a resident of a Contracting State or of a third State, has in a State other than that of which he is a resident a permanent establishment in connection with which the indebtedness on which the interest was paid was incurred, and such interest is borne by the permanent establishment, then such interest is deemed to arise in the State in which the permanent establishment is situated and not in the State of the payer's residence. Furthermore, pursuant to paragraphs 1 and 4, and Article XXII (Other Income), Canadian tax will not be imposed on interest paid to a U.S. resident by a company resident in Canada if the indebtedness is incurred in connection with, and the interest is borne by, a permanent establishment of the company situated in a third State. For the purposes of this Article, "borne by" means allowable as a deduction in computing taxable income.

Paragraph 5 of Article XI

Paragraph 5 is identical to paragraph 7 of Article XI of the existing Convention.

Paragraph 5 provides that in cases involving special relationships between the payer and the beneficial owner of interest income or between both of them and some other person, Article XI applies only to that portion of the total interest payments that would have been made absent such special relationships (*i.e.*, an arm's-length interest payment). Any excess amount of interest paid remains taxable according to the laws of the United States and Canada, respectively, with due regard to the other provisions of the Convention.

Paragraph 6 of Article XI

New paragraph 6 provides anti-abuse exceptions to exclusive residence State taxation in paragraph 1 for two classes of interest payments.

The first class of interest, dealt with in subparagraphs 6(*a*) and 6(*b*), is so-called "contingent interest." With respect to interest arising in the United States, subparagraph 6(*a*) refers to contingent interest of a type that does not qualify as portfolio interest under U.S. domestic law. The cross-reference to the U.S. definition of contingent interest, which is found in Code section 871(h)(4), is intended to ensure that the exceptions of Code section 871(h)(4)(C) will apply. With respect to Canada, such interest is defined in subparagraph 6(*b*) as any interest arising in Canada that is determined by reference to the receipts, sales, income, profits or other cash flow of the debtor or a related person, to any change in the value of any property of the debtor or a related person or to any dividend, partnership distribution or similar payment made by the debtor or a related person.[3] Any such interest may be taxed in Canada according to the laws of Canada.

Under subparagraph 6(*a*) or 6(*b*), if the beneficial owner is a resident of the other Contracting State, the gross amount of the "contingent interest" may be taxed at a rate not exceeding 15 percent.

The second class of interest is dealt with in subparagraph 6(*c*). This exception is consistent with the policy of Code sections 860E(e) and 860G(b) that excess inclusions with respect to a real estate mortgage investment conduit (REMIC) should bear full U.S. tax in all cases. Without a full tax at source, foreign purchasers of residual interests would have a competitive advantage over U.S. purchasers at the time these interests are initially offered. Also, absent this rule, the U.S. fisc would suffer a revenue loss with respect to mortgages held in a REMIC because of opportunities for tax avoidance created by differences in the timing of taxable and economic income produced by these interests.

Therefore, subparagraph 6(*c*) provides a bilateral provision that interest that is an excess inclusion with respect to a residual interest in a REMIC may be taxed by each State in accordance with its domestic law. While the provision is written reciprocally, at the time the Protocol was signed, the provision had no application in respect of Canadian-source interest, as Canada did not have REMICs.

Paragraph 7 of Article XI

Paragraph 7 is in all material respects the same as paragraph 8 of Article XI of the existing Convention. The only difference is that, consistent with the changes made in Article 9 of the Protocol, paragraph 7 removes the references to a fixed base.

Paragraph 7 restricts the right of a Contracting State to impose tax on interest paid by a resident of the other Contracting State. The first State may not impose any tax on such interest except insofar as the interest is paid to a resident of that State or arises in that State or the debt claim in respect of which the interest is paid is effectively connected with a permanent establishment situated in that State.

Relationship to other Articles

Notwithstanding the foregoing limitations on source State taxation of interest, the saving clause of paragraph 2 of Article XXIX (Miscellaneous Rules) permits the United States to tax its residents and citizens, subject to the special foreign tax credit rules of paragraph 5 of Article XXIV (Elimination of Double Taxation), as if the Convention had not come into force.

Article 7

Article 7 of the Protocol amends Article XII (Royalties) of the existing Convention. As with other benefits of the Convention, the benefits of Article XII are available to a resident of a Contracting State only if that resident is entitled to those benefits under the provisions of Article XXIX A (Limitation on Benefits).

See the Technical Explanation for new paragraphs 6 and 7 of Article IV (Residence) for discussion regarding the interaction between domestic law concepts of beneficial ownership and the treaty rules to determine when a person is considered to derive an item of income for purposes of obtaining benefits of the Convention such as withholding rate reductions.

Paragraph 1

Paragraph 1 of Article 7 of the Protocol replaces paragraph 5 of Article XII of the Convention. In all material respects, new paragraph 5 is the same as paragraph 5 of Article XII of the existing Convention. However, new paragraph 5 adds clarifying language consistent with the changes made in Articles 4, 5, and 6 of the Protocol with respect to income attributable to a permanent establishment that has ceased to exist. To conform with Article 9 of the Protocol, which deletes Article XIV (Independent Personal Services) of the Convention, paragraph 1 of Article 7 of the Protocol also amends paragraph 5 of Article XII by omitting the reference to a "fixed base."

New paragraph 5 provides that the 10 percent limitation on tax in the source State provided by paragraph 2, and the exemption in the source State for certain royalties provided by paragraph 3, do not apply if the beneficial owner of the royalties carries on or has carried on business in the source State through a permanent establishment and the right or property in respect of which the royalties are paid is attributable to such permanent establishment. In such case, the royalty income would be taxable by the source State under the provisions of Article VII (Business Profits).

Paragraph 2

Paragraph 2 of Article 7 of the Protocol sets forth a new subparagraph 6(*a*) of Article XII that is in all material respects the same as subparagraph 6(*a*) of Article XII of the existing Convention. The only difference is that, consistent with the changes made in Article 9 of the Protocol, new subparagraph 6(*a*) omits references to a "fixed base."

Paragraph 3

Paragraph 3 of Article 7 of Protocol amends paragraph 8 of Article XII of the Convention to remove references to a "fixed base." In addition, paragraph 8 of the General Note confirms the intent of the Contracting States that the reference in subparagraph 3(*c*) of Article XII of the Convention to information provided in connection with a franchise agreement generally refers only to information that governs or otherwise

[3] New subparagraph 6(b) of Article XI erroneously refers to a "similar payment made by the debtor to a related person." The correct formulation, which the Contracting States agree to apply, is "similar payment made by the debtor or a related person."

deals with the operation (whether by the payer or by another person) of the franchise, and not to other information concerning industrial, commercial or scientific experience that is held for resale or license.

Article 8

Paragraph 1

Paragraph 1 of Article 8 of the Protocol replaces paragraph 2 of Article XIII (Gains) of the existing Convention. Consistent with Article 9 of the Protocol, new paragraph 2 does not contain any reference to property pertaining to a fixed base or to the performance of independent personal services.

New paragraph 2 of Article XIII provides that the Contracting State in which a resident of the other Contracting State has or had a permanent establishment may tax gains from the alienation of personal property constituting business property if such gains are attributable to such permanent establishment. Unlike paragraph 1 of Article VII (Business Profits), paragraph 2 limits the right of the source State to tax such gains to a twelve-month period following the termination of the permanent establishment.

Paragraph 2

Paragraph 2 of Article 8 of the Protocol replaces paragraph 5 of Article XIII of the existing Convention. In general, new paragraph 5 provides an exception to the general rule stated in paragraph 4 that gains from the alienation of any property, other than property referred to in paragraphs 1, 2, and 3, shall be taxable only in the Contracting State of which the alienator is a resident. Paragraph 5 provides that a Contracting State may, according to its domestic law, impose tax on gains derived by an individual who is a resident of the other Contracting State if such individual was a resident of the first-mentioned State for 120 months (whether or not consecutive) during any period of 20 consecutive years preceding the alienation of the property, and was a resident of that State at any time during the 10-year period immediately preceding the alienation of the property. Further, the property (or property received in substitution in a tax-free transaction in the first-mentioned State) must have been owned by the individual at the time he ceased to be a resident of the first-mentioned State and must not have been property that the individual was treated as having alienated by reason of ceasing to be a resident of the first-mentioned State and becoming a resident of the other Contracting State.

The provisions of new paragraph 5 are substantially similar to paragraph 5 of Article XIII of the existing Convention. However, the Protocol adds a new requirement to paragraph 5 that the property not be "a property that the individual was treated as having alienated by reason of ceasing to be a resident of the first-mentioned State and becoming a resident of the other Contracting State." This new requirement reflects the fact that the main purpose of paragraph 5 — ensuring that gains that accrue while an individual is resident in a Contracting State remain taxable for the stated time after the individual has moved to the other State — is met if that pre-departure gain is taxed in the first State immediately before the individual's emigration. This rule applies whether or not the individual makes the election provided by paragraph 7 of Article XIII, as amended, which is described below.

Paragraph 3

Paragraph 3 of Article 8 of the Protocol replaces paragraph 7 of Article XIII.

The purpose of paragraph 7, in both its former and revised form, is to provide a rule to coordinate U.S. and Canadian taxation of gains in the case of a timing mismatch. Such a mismatch may occur, for example, where a Canadian resident is deemed, for Canadian tax purposes, to recognize capital gain upon emigrating from Canada to the United States, or in the case of a gift that Canada deems to be an income producing event for its tax purposes but with respect to which the United States defers taxation while assigning the donor's basis to the donee. The former paragraph 7 resolved the timing mismatch of taxable events by allowing the individual to elect to be liable to tax in the deferring Contracting State as if he had sold and repurchased the property for an amount equal to its fair market value at a time immediately prior to the deemed alienation.

The election under former paragraph 7 was not available to certain non-U.S. citizens subject to tax in Canada by virtue of a deemed alienation because such individuals could not elect to be liable to tax in the United States. To address this problem, the Protocol replaces the election provided in former paragraph 7, with an election by the taxpayer to be treated by a Contracting State as having sold and repurchased the property for its fair market value immediately before the taxable event in the other Contracting State. The election in new paragraph 7 therefore will be available to any individual who emigrates from Canada to the United States, without regard to whether the person is a U.S. citizen immediately before ceasing to be a resident of Canada. If the individual is not subject to U.S. tax at that time, the effect of the election will be to give the individual an adjusted basis for U.S. tax purposes equal to the fair market value of the property as of the date of the deemed alienation in Canada, with the result that only post-emigration gain will be subject to U.S. tax when there is an actual alienation. If the Canadian resident is also a U.S. citizen at the time of his emigration from Canada, then the provisions of new paragraph 7 would allow the U.S. citizen to accelerate the tax under U.S. tax law and allow tax credits to be used to avoid double taxation. This would also be the case if the person, while not a U.S. citizen, would otherwise be subject to taxation in the United States on a disposition of the property.

In the case of Canadian taxation of appreciated property given as a gift, absent paragraph 7, the donor could be subject to tax in Canada upon making the gift, and the donee may be subject to tax in the United States upon a later disposition of the property on all or a portion of the same gain in the property without the availability of any foreign tax credit for the tax paid to Canada. Under new paragraph 7, the election will be available to any individual who pays taxes in Canada on a gain arising from the individual's gifting of a property, without regard to whether the person is a U.S. taxpayer at the time of the gift. The effect of the election in such case will be to give the donee an adjusted basis for U.S. tax purposes equal to the fair market value as of the date of the gift. If the donor is a U.S. taxpayer, the effect of the election will be the realization of gain or loss for U.S. purposes immediately before the gift. The acceleration of the U.S. tax liability by reason of the election in such case enables the donor to utilize foreign tax credits and avoid double taxation with respect to the disposition of the property.

Generally, the rule does not apply in the case of death. Note, however, that Article XXIX B (Taxes Imposed by Reason of Death) of the Convention provides rules that coordinate the income tax that Canada imposes by reason of death with the U.S. estate tax.

If in one Contracting State there are losses and gains from deemed alienations of different properties, then paragraph 7 must be applied consistently in the other Contracting State within the taxable period with respect to all such properties. Paragraph 7 only applies, however, if the deemed alienations of the properties result in a net gain.

Taxpayers may make the election provided by new paragraph 7 only with respect to property that is subject to a Contracting State's deemed disposition rules and with respect to which gain on a deemed alienation is recognized for that Contracting State's tax purposes in the taxable year of the deemed alienation. At the time the Protocol was signed, the following were the main types of property that were excluded from the deemed disposition rules in the case of individuals (including trusts) who cease to be residents of Canada: real property situated in Canada; interests and rights in respect of pensions; life insurance policies (other than segregated fund (investment) policies); rights in respect of annuities; interests in testamentary trusts, unless acquired for consideration; employee stock options; property used in a business carried on through a permanent establishment in Canada (including intangibles and inventory); interests in most Canadian personal trusts; Canadian resource property; and timber resource property.

Paragraph 4

Consistent with the provisions of Article 9 of the Protocol, paragraph 4 of Article 8 of the Protocol amends subparagraph 9(*c*) of Article XIII of the existing Convention to remove the words "or pertained to a fixed base."

Relationship to other Articles

The changes to Article XIII set forth in paragraph 3 were announced in a press release issued by the Treasury Department on September 18, 2000. Consistent with that press release, subparagraph 3(*e*) of Article 27 of the Protocol provides that the changes, jointly effectuated by paragraphs 2 and 3, will be generally effective for alienations of property that occur after September 17, 2000.

Article 9

To conform with the current U.S. and OECD Model Conventions, Article 9 of the Protocol deletes Article XIV (Independent Personal Services) of the Convention. The subsequent articles of the Convention are not renumbered. Paragraph 4 of the General Note elaborates that current tax treaty practice omits separate articles for independent personal services because a determination of the existence of a fixed base is qualitatively the same as the determination of the existence of a permanent establishment. Accordingly, the taxation of income from independent per-

sonal services is adequately governed by the provisions of Articles V (Permanent Establishment) and VII (Business Profits).

Article 10

Article 10 of the Protocol renames Article XV of the Convention as "Income from Employment" to conform with the current U.S. and OECD Model Conventions, and replaces paragraphs 1 and 2 of that renamed article consistent with the OECD Model Convention.

Paragraph 1

New paragraph 1 of Article XV provides that, in general, salaries, wages, and other remuneration derived by a resident of a Contracting State in respect of an employment are taxable only in that State unless the employment is exercised in the other Contracting State. If the employment is exercised in the other Contracting State, the entire remuneration derived therefrom may be taxed in that other State, subject to the provisions of paragraph 2.

New paragraph 1 of Article XV does not contain a reference to "similar" remuneration. This change was intended to clarify that Article XV applies to any form of compensation for employment, including payments in kind. This interpretation is consistent with paragraph 2.1 of the Commentary to Article 15 (Income from Employment) of the OECD Model and the Technical Explanation of the 2006 U.S. Model.

Paragraph 2

New paragraph 2 of Article XV provides two limitations on the right of a source State to tax remuneration for services rendered in that State. New paragraph 2 is divided into two subparagraphs that each sets forth a rule which, notwithstanding any contrary result due to the application of paragraph 1 of Article XV, prevents the source State from taxing income from employment in that State.

First, subparagraph 2(*a*) provides a safe harbor rule that the remuneration may not be taxed in the source State if such remuneration is $10,000 or less in the currency of the source State. This rule is identical to the rule in subparagraph 2(*a*) of Article XV of the existing Convention. It is understood that, consistent with the prior rule, the safe harbor will apply on a calendar-year basis.

Second, if the remuneration is not exempt from tax in the source State by virtue of subparagraph 2(*a*), subparagraph 2(*b*) provides an additional rule that the source State may not tax remuneration for services rendered in that State if the recipient is present in the source State for a period (or periods) that does not exceed in the aggregate 183 days in any twelve-month period commencing or ending in the fiscal year concerned, and the remuneration is not paid by or on behalf of a person who is a resident of that other State or borne by a permanent establishment in that other State. For purposes of this article, "borne by" means allowable as a deduction in computing taxable income.

Assume, for example, that Mr. X, an individual resident in Canada, is an employee of the Canadian permanent establishment of USCo, a U.S. company. Mr. X is sent to the United States to perform services and is present in the United States for less than 183 days. Mr. X receives more than $10,000 (U.S.) in the calendar year(s) in question. The remuneration paid to Mr. X for such services is not exempt from U.S. tax under paragraph 1, because his employer, USCo, is a resident of the United States and pays his remuneration. If instead Mr. X received less than $10,000 (U.S.), such earnings would be exempt from tax in the United States, because in all cases where an employee earns less than $10,000 in the currency of the source State, such earnings are exempt from tax in the source State.

As another example, assume Ms. Y, an individual resident in the United States is employed by USCo, a U.S. company. Ms. Y is sent to Canada to provide services in the Canadian permanent establishment of USCo. Ms. Y is present in Canada for less than 183 days. Ms. Y receives more than $10,000 (Canadian) in the calendar year(s) in question. USCo charges the Canadian permanent establishment for Ms. Y's remuneration, which the permanent establishment takes as a deduction in computing its taxable income. The remuneration paid to Ms. Y for such services is not exempt from Canadian tax under paragraph 1, because her remuneration is borne by the Canadian permanent establishment.

New subparagraph 2(*b*) refers to remuneration that is paid by or on behalf of a "person" who is a resident of the other Contracting State, as opposed to an "employer." This change is intended only to clarify that both the United States and Canada understand that in certain abusive cases, substance over form principles may be applied to recharacterize an employment relationship, as prescribed in paragraph 8 of the Commentary to Article 15 (Income from Employment) of the OECD Model. Subparagraph 2(*b*) is intended to have the same meaning as the analogous provisions in the U.S. and OECD Models.

Paragraph 6 of the General Note

Paragraph 6 of the General Note contains special rules regarding employee stock options. There are no similar rules in the U.S. Model or the OECD Model, although the issue is discussed in detail in paragraph 12 of the Commentary to Article 15 (Income from Employment) of the OECD Model.

The General Note sets forth principles that apply for purposes of applying Article XV and Article XXIV (Elimination of Double Taxation) to income of an individual in connection with the exercise or other disposal (including a deemed exercise or disposal) of an option that was granted to the individual as an employee of a corporation or mutual fund trust to acquire shares or units ("securities") of the employer in respect of services rendered or to be rendered by such individual, or in connection with the disposal (including a deemed disposal) of a security acquired under such an option. For this purpose, the term "employer" is considered to include any entity related to the service recipient. The reference to a disposal (or deemed disposal) reflects the fact that under Canadian law and under certain provisions of U.S. law, income or gain attributable to the granting or exercising of the option may, in some cases, not be recognized until disposition of the securities.

Subparagraph 6(*a*) of the General Note provides a specific rule to address situations where, under the domestic law of the Contracting States, an employee would be taxable by both Contracting States in respect of the income in connection with the exercise or disposal of the option. The rule provides an allocation of taxing rights where (1) an employee has been granted a stock option in the course of employment in one of the Contracting States, and (2) his principal place of employment has been situated in one or both of the Contracting States during the period between grant and exercise (or disposal) of the option. In this situation, each Contracting State may tax as Contracting State of source only that proportion of the income that relates to the period or periods between the grant and the exercise (or disposal) of the option during which the individual's principal place of employment was situated in that Contracting State. The proportion attributable to a Contracting State is determined by multiplying the income by a fraction, the numerator of which is the number of days between the grant and exercise (or disposal) of the option during which the employee's principal place of employment was situated in that Contracting State and the denominator of which is the total number of days between grant and exercise (or disposal) of the option that the employee was employed by the employer.

If the individual is a resident of one of the Contracting States at the time he exercises the option, that Contracting State will have the right, as the State of residence, to tax all of the income under the first sentence of paragraph 1 of Article XV. However, to the extent that the employee renders his employment in the other Contracting State for some period of time between the date of the grant of the option and the date of the exercise (or disposal) of the option, the proportion of the income that is allocated to the other Contracting State under subparagraph 6(*a*) of the General Note will, subject to paragraph 2, be taxable by that other State under the second sentence of paragraph 1 of Article XV of the Convention. For this purpose, the tests of paragraph 2 of Article XV are applied to the year or years in which the relevant services were performed in the other Contracting State (and not to the year in which the option is exercised or disposed). To the extent the same income is subject to taxation in both Contracting States after application of Article XV, double taxation will be alleviated under the rules of Article XXIV (Elimination of Double Taxation).

Subparagraph 6(*b*) of the General Note provides that notwithstanding subparagraph 6(*a*), if the competent authorities of both Contracting States agree that the terms of the option were such that the grant of the option is appropriately treated as transfer of ownership of the securities (e.g., because the options were in-the-money or not subject to a substantial vesting period), then they may agree to attribute income accordingly.

Article 11

Consistent with Article 9 and paragraph 1 of Article 10 of the Protocol, paragraphs 1, 2, and 3 of Article 11 of the Protocol revise paragraphs 1, 2, and 4 of Article XVI (Artistes and Athletes) of the existing Convention by deleting references to former Article XIV (Independent Personal Services) of the Convention and deleting and replacing other language in acknowledgement of the renaming of Article XV (Income from Employment).

Article 12

Article 12 of the Protocol deletes Article XVII (Withholding of Taxes in Respect of Personal Services) from the Convention. However, the subsequent Articles are not renumbered.

Article 13

Article 13 of the Protocol replaces paragraphs 3, 4, and 7 and adds paragraphs 8 through 17 to Article XVIII (Pensions and Annuities) of the Convention.

Paragraph 1

Roth IRAs

Paragraph 1 of Article 13 of the Protocol separates the provisions of paragraph 3 of Article XVIII into two subparagraphs. Subparagraph 3(*a*) contains the existing definition of the term "pensions," while subparagraph 3(*b*) adds a new rule to address the treatment of Roth IRAs or similar plan (as described below).

Subparagraph 3(*a*) of Article XVIII provides that the term "pensions" for purposes of the Convention includes any payment under a superannuation, pension, or other retirement arrangement, Armed-Forces retirement pay, war veterans pensions and allowances, and amounts paid under a sickness, accident, or disability plan, but does not include payments under an income-averaging annuity contract (which are subject to Article XXII (Other Income)) or social security benefits, including social security benefits in respect of government services (which are subject to paragraph 5 of Article XVIII). Thus, the term "pensions" includes pensions paid by private employers (including pre-tax and Roth 401(k) arrangements) as well as any pension paid in respect of government services. Further, the definition of "pensions" includes, for example, payments from individual retirement accounts (IRAs) in the United States and from registered retirement savings plans (RRSPs) and registered retirement income funds (RRIFs) in Canada.

Subparagraph 3(*b*) of Article XVIII provides that the term "pensions" generally includes a Roth IRA, within the meaning of Code section 408A (or a similar plan described below). Consequently, under paragraph 1 of Article XVIII, distributions from a Roth IRA to a resident of Canada generally continue to be exempt from Canadian tax to the extent they would have been exempt from U.S. tax if paid to a resident of the United States. In addition, residents of Canada generally may make an election under paragraph 7 of Article XVIII to defer any taxation in Canada with respect to income accrued in a Roth IRA but not distributed by the Roth IRA, until such time as and to the extent that a distribution is made from the Roth IRA or any plan substituted therefore [*sic*]. Because distributions will be exempt from Canadian tax to the extent they would have been exempt from U.S. tax if paid to a resident of the United States, the effect of these rules is that, in most cases, no portion of the Roth IRA will be subject to taxation in Canada.

However, subparagraph 3(*b*) also provides that if an individual who is a resident of Canada makes contributions to his or her Roth IRA while a resident of Canada, other than rollover contributions from another Roth IRA (or a similar plan described below), the Roth IRA will cease to be considered a pension at that time with respect to contributions and accretions from such time and accretions from such time will be subject to tax in Canada in the year of accrual. Thus, the Roth IRA will in effect be bifurcated into a "frozen" pension that continues to be subject to the rules of Article XVIII and a savings account that is not subject to the rules of Article XVIII. It is understood by the Contracting States that, following a rollover contribution from a Roth 401(k) arrangement to a Roth IRA, the Roth IRA will continue to be treated as a pension subject to the rules of Article XVIII.

Assume, for example, that Mr. X moves to Canada on July 1, 2008. Mr. X has a Roth IRA with a balance of 1,100 on July 1, 2008. Mr. X elects under paragraph 7 of Article XVIII to defer any taxation in Canada with respect to income accrued in his Roth IRA while he is a resident of Canada. Mr. X makes no additional contributions to his Roth IRA until July 1, 2010, when he makes an after-tax contribution of 100. There are accretions of 20 during the period July 1, 2008 through June 30, 2010, which are not taxed in Canada by reason of the election under paragraph 7 of Article XVIII. There are additional accretions of 50 during the period July 1, 2010 through June 30, 2015, which are subject to tax in Canada in the year of accrual. On July 1, 2015, while Mr. X is still a resident of Canada, Mr. X receives a lump-sum distribution of 1,270 from his Roth IRA. The 1,120 that was in the Roth IRA on June 30, 2010 is treated as a distribution from a pension plan that, pursuant to paragraph 1 of Article XVIII, is exempt from tax in Canada provided it would be exempt from tax in the United States under the *Internal Revenue Code* if paid to a resident of the United States. The remaining 150 comprises the after-tax contribution of 100 in 2010 and accretions of 50 that were subject to Canadian tax in the year of accrual.

The rules of new subparagraph 3(*b*) of Article XVIII also will apply to any plan or arrangement created pursuant to legislation enacted by either Contracting State after September 21, 2007 (the date of signature of the Protocol) that the competent authorities agree is similar to a Roth IRA.

Source of payments under life insurance and annuity contracts

Paragraph 1 of Article 13 also replaces paragraph 4 of Article XVIII. Subparagraph 4(*a*) contains the existing definition of annuity, while subparagraph 4(*b*) adds a source rule to address the treatment of certain payments by branches of insurance companies.

Subparagraph 4(*a*) provides that, for purposes of the Convention, the term "annuity" means a stated sum paid periodically at stated times during life or during a specified number of years, under an obligation to make the payments in return for adequate and full consideration other than services rendered. The term does not include a payment that is not periodic or any annuity the cost of which was deductible for tax purposes in the Contracting State where the annuity was acquired. Items excluded from the definition of "annuity" and not dealt with under another Article of the Convention are subject to the rules of Article XXII (Other Income).

Under the existing Convention, payments under life insurance and annuity contracts to a resident of Canada by a Canadian branch of a U.S. insurance company are subject to either a 15-percent withholding tax under subparagraph 2(*b*) of Article XVIII or, unless dealt with under another Article of the Convention, an unreduced 30-percent withholding tax under paragraph 1 of Article XXII, depending on whether the payments constitute annuities within the meaning of paragraph 4 of Article XVIII.

On July 12, 2004, the Internal Revenue Service issued Revenue Ruling 2004-75, 2004-2 C.B. 109, which provides in relevant part that annuity payments under, and withdrawals of cash value from, life insurance or annuity contracts issued by a foreign branch of a U.S. life insurance company are U.S.-source income that, when paid to a nonresident alien individual, is generally subject to a 30-percent withholding tax under Code sections 871(a) and 1441. Revenue Ruling 2004-97, 2004-2 C.B. 516, provided that Revenue Ruling 2004-75 would not be applied to payments that were made before January 1, 2005, provided that such payments were made pursuant to binding life insurance or annuity contracts issued on or before July 12, 2004.

Under new subparagraph 4(b) of Article XVIII, an annuity or other amount paid in respect of a life insurance or annuity contract (including a withdrawal in respect of the cash value thereof), will generally be deemed to arise in the Contracting State where the person paying the annuity or other amount (the "payer") is resident. However, if the payer, whether a resident of a Contracting State or not, has a permanent establishment in a Contracting State other than a Contracting State in which the payer is a resident, the payment will be deemed to arise in the Contracting State in which the permanent establishment is situated if both of the following requirements are satisfied: (i) the obligation giving rise to the annuity or other amount must have been incurred in connection with the permanent establishment, and (ii) the annuity or other amount must be borne by the permanent establishment. When these requirements are satisfied, payments by a Canadian branch of a U.S. insurance company will be deemed to arise in Canada.

Paragraph 2

Paragraph 2 of Article 13 of the Protocol replaces paragraph 7 of Article XVIII of the existing Convention. Paragraph 7 continues to provide a rule with respect to the taxation of a natural person on income accrued in a pension or employee benefit plan in the other Contracting State. Thus, paragraph 7 applies where an individual is a citizen or resident of a Contracting State and is a beneficiary of a trust, company, organization, or other arrangement that is a resident of the other Contracting State, where such trust, company, organization, or other arrangement is generally exempt from income taxation in that other State, and is operated exclusively to provide pension, or employee benefits. In such cases, the beneficiary may elect to defer taxation in his State of residence on income accrued in the plan until it is distributed from the plan (or from another plan in that other Contracting State to which the income is transferred pursuant to the domestic law of that other Contracting State).

Paragraph 2 of Article 13 of the Protocol makes two changes to paragraph 7 of Article XVIII of the existing Convention. The first change is that the phrase "pension, retirement or employee benefits" is changed to "pension or employee benefits" solely to reflect the fact that in certain cases, discussed above, Roth IRAs will not be treated as pensions for

purposes of Article XVIII. The second change is that "under" is changed to "subject to" to make it clear that an election to defer taxation with respect to undistributed income accrued in a plan may be made whether or not the competent authority of the first-mentioned State has prescribed rules for making an election. For the U.S. rules, see Revenue Procedure 2002-23, 2002-1 C.B. 744. As of the date the Protocol was signed, the competent authority of Canada had not prescribed rules.

Paragraph 3

Paragraph 3 of Article 13 of the Protocol adds paragraphs 8 through 17 to Article XVIII to deal with cross-border pension contributions. These paragraphs are intended to remove barriers to the flow of personal services between the Contracting States that could otherwise result from discontinuities in the laws of the Contracting States regarding the deductibility of pension contributions. Such discontinuities may arise where a country allows deductions or exclusions to its residents for contributions, made by them or on their behalf, to resident pension plans, but does not allow deductions or exclusions for payments made to plans resident in another country, even if the structure and legal requirements of such plans in the two countries are similar.

There is no comparable set of rules in the OECD Model, although the issue is discussed in detail in the Commentary to Article 18 (Pensions). The 2006 U.S. Model deals with this issue in paragraphs 2 through 4 of Article 18 (Pension Funds).

Workers on short-term assignments in the other Contracting State

Paragraphs 8 and 9 of Article XVIII address the case of a short-term assignment where an individual who is participating in a "qualifying retirement plan" (as defined in paragraph 15 of Article XVIII) in one Contracting State (the "home State") performs services as an employee for a limited period of time in the other Contracting State (the "host State"). If certain requirements are satisfied, contributions made to, or benefits accrued under, the plan by or on behalf of the individual will be deductible or excludible in computing the individual's income in the host State. In addition, contributions made to the plan by the individual's employer will be allowed as a deduction in computing the employer's profits in the host State.

In order for paragraph 8 to apply, the remuneration that the individual receives with respect to the services performed in the host State must be taxable in the host State. This means, for example, that where the United States is the host State, paragraph 8 would not apply if the remuneration that the individual receives with respect to the services performed in the United States is exempt from taxation in the United States under Code section 893.

The individual also must have been participating in the plan, or in another similar plan for which the plan was substituted, immediately before he began performing services in the host State. The rule regarding a successor plan would apply if, for example, the employer has been acquired by another corporation that replaces the existing plan with its own plan, transferring membership in the old plan over into the new plan.

In addition, the individual must not have been a resident (as determined under Article IV (Residence)) of the host State immediately before he began performing services in the host State. It is irrelevant for purposes of paragraph 8 whether the individual becomes a resident of the host State while he performs services there. A citizen of the United States who has been a resident of Canada may be entitled to benefits under paragraph 8 if (a) he performs services in the United States for a limited period of time and (b) he was a resident of Canada immediately before he began performing such services.

Benefits are available under paragraph 8 only for so long as the individual has not performed services in the host State for the same employer (or a related employer) for more than 60 of the 120 months preceding the individual's current taxable year. The purpose of this rule is to limit the period of time for which the host State will be required to provide benefits for contributions to a plan from which it is unlikely to be able to tax the distributions. If the individual continues to perform services in the host State beyond this time limit, he is expected to become a participant in a plan in the host State. Canada's domestic law provides preferential tax treatment for employer contributions to foreign pension plans in respect of services rendered in Canada by short-term residents, but such treatment ceases once the individual has been resident in Canada for at least 60 of the preceding 72 months.

The contributions and benefits must be attributable to services performed by the individual in the host State, and must be made or accrued during the period in which the individual performs those services. This rule prevents individuals who render services in the host State for a very short period of time from making disproportionately large contributions to home State plans in order to offset the tax liability associated with the income earned in the host State. In the case where the United States is the host State, contributions will be deemed to have been made on the last day of the preceding taxable year if the payment is on account of such taxable year and is treated under U.S. law as a contribution made on the last day of the preceding taxable year.

If an individual receives benefits in the host State with respect to contributions to a plan in the home State, the services to which the contributions relate may not be taken into account for purposes of determining the individual's entitlement to benefits under any trust, company, organization, or other arrangement that is a resident of the host State, generally exempt from income taxation in that State and operated to provide pension or retirement benefits. The purpose of this rule is to prevent double benefits for contributions to both a home State plan and a host State plan with respect to the same services. Thus, for example, an individual who is working temporarily in the United States and making contributions to a qualifying retirement plan in Canada with respect to services performed in the United States may not make contributions to an individual retirement account (within the meaning of Code section 408(a)) in the United States with respect to the same services.

Paragraph 8 states that it applies only to the extent that the contributions or benefits would qualify for tax relief in the home State if the individual were a resident of and performed services in that State. Thus, benefits would be limited in the same fashion as if the individual continued to be a resident of the home State. However, paragraph 9 provides that if the host State is the United States and the individual is a citizen of the United States, the benefits granted to the individual under paragraph 8 may not exceed the benefits that would be allowed by the United States to its residents for contributions to, or benefits otherwise accrued under, a generally corresponding pension or retirement plan established in and recognized for tax purposes by the United States. Thus, the lower of the two limits applies. This rule ensures that U.S. citizens working temporarily in the United States and participating in a Canadian plan will not get more favorable U.S. tax treatment than U.S. citizens participating in a U.S. plan.

Where the United States is the home State, the amount of contributions that may be excluded from the employee's income under paragraph 8 for Canadian purposes is limited to the U.S. dollar amount specified in Code section 415 or the U.S. dollar amount specified in Code section 402(g)(1) to the extent contributions are made from the employee's compensation. For this purpose, the dollar limit specified in Code section 402(g)(1) means the amount applicable under Code section 402(g)(1) (including the age 50 catch-up amount in Code section 402(g)(1)(C)) or, if applicable, the parallel dollar limit applicable under Code section 457(e)(15) plus the age 50 catch-up amount under Code section 414(v)(2)(B)(i) for a Code section 457(g) trust.

Where Canada is the home State, the amount of contributions that may be excluded from the employee's income under paragraph 8 for U.S. purposes is subject to the limitations specified in subsections 146(5), 147(8), 147.1(8) and (9) and 147.2(1) and (4) of the *Income Tax Act* and paragraph 8503(4)(*a*) of the Income Tax Regulations, as applicable. If the employee is a citizen of the United States, then the amount of contributions that may be excluded is the lesser of the amounts determined under the limitations specified in the previous sentence and the amounts specified in the previous paragraph.

The provisions described above provide benefits to employees. Paragraph 8 also provides that contributions made to the home State plan by an individual's employer will be allowed as a deduction in computing the employer's profits in the host State, even though such a deduction might not be allowable under the domestic law of the host State. This rule applies whether the employer is a resident of the host State or a permanent establishment that the employer has in the host State. The rule also applies to contributions by a person related to the individual's employer, such as contributions by a parent corporation for its subsidiary, that are treated under the law of the host State as contributions by the individual's employer. For example, if an individual who is participating in a qualifying retirement plan in Canada performs services for a limited period of time in the United States for a U.S. subsidiary of a Canadian company, a contribution to the Canadian plan by the parent company in Canada that is treated under U.S. law as a contribution by the U.S. subsidiary would be covered by the rule.

The amount of the allowable deduction is to be determined under the laws of the home State. Thus, where the United States is the home State, the amount of the deduction that is allowable in Canada will be subject to the limitations of Code section 404 (including the Code section 401(a)(17) and 415 limitations). Where Canada is the home State, the amount of the deduction that is allowable in the United States is subject to the limitations specified in subsections 147(8), 147.1(8) and (9) and 147.2(1) of the *Income Tax Act*, as applicable.

Cross-border commuters

Paragraphs 10, 11, and 12 of Article XVIII address the case of a commuter who is a resident of one Contracting State (the "residence State") and performs services as an employee in the other Contracting State (the "services State") and is a member of a "qualifying retirement plan" (as defined in paragraph 15 of Article XVIII) in the services State. If certain requirements are satisfied, contributions made to, or benefits accrued under, the qualifying retirement plan by or on behalf of the individual will be deductible or excludible in computing the individual's income in the residence State.

In order for paragraph 10 to apply, the individual must perform services as an employee in the services State the remuneration from which is taxable in the services State and is borne by either an employer who is a resident of the services State or by a permanent establishment that the employer has in the services State. The contributions and benefits must be attributable to those services and must be made or accrued during the period in which the individual performs those services. In the case where the United States is the residence State, contributions will be deemed to have been made on the last day of the preceding taxable year if the payment is on account of such taxable year and is treated under U.S. law as a contribution made on the last day of the preceding taxable year.

Paragraph 10 states that it applies only to the extent that the contributions or benefits qualify for tax relief in the services State. Thus, the benefits granted in the residence State are available only to the extent that the contributions or benefits accrued qualify for relief in the services State. Where the United States is the services State, the amount of contributions that may be excluded under paragraph 10 is the U.S. dollar amount specified in Code section 415 or the U.S. dollar amount specified in Code section 402(g)(1) (as defined above) to the extent contributions are made from the employee's compensation. Where Canada is the services State, the amount of contributions that may be excluded from the employee's income under paragraph 10 is subject to the limitations specified in subsections 146(5), 147(8), 147.1(8) and (9) and 147.2(1) and (4) of the *Income Tax Act* and paragraph 8503(4)(*a*) of the Income Tax Regulations, as applicable.

However, paragraphs 11 and 12 further provide that the benefits granted under paragraph 10 by the residence State may not exceed certain benefits that would be allowable under the domestic law of the residence State.

Paragraph 11 provides that where Canada is the residence State, the amount of contributions otherwise allowable as a deduction under paragraph 10 may not exceed the individual's deduction limit for contributions to registered retirement savings plans (RRSPs) remaining after taking into account the amount of contributions to RRSPs deducted by the individual under the law of Canada for the year. The amount deducted by the individual under paragraph 10 will be taken into account in computing the individual's deduction limit for subsequent taxation years for contributions to RRSPs. This rule prevents double benefits for contributions to both an RRSP and a qualifying retirement plan in the United States with respect to the same services.

Paragraph 12 provides that if the United States is the residence State, the benefits granted to an individual under paragraph 10 may not exceed the benefits that would be allowed by the United States to its residents for contributions to, or benefits otherwise accrued under, a generally corresponding pension or retirement plan established in and recognized for tax purposes by the United States. For purposes of determining an individual's eligibility to participate in and receive tax benefits with respect to a pension or retirement plan or other retirement arrangement in the United States, contributions made to, or benefits accrued under, a qualifying retirement plan in Canada by or on behalf of the individual are treated as contributions or benefits under a generally corresponding pension or retirement plan established in and recognized for tax purposes by the United States. Thus, for example, the qualifying retirement plan in Canada would be taken into account for purposes of determining whether the individual is an "active participant" within the meaning of Code section 219(g)(5), with the result that the individual's ability to make deductible contributions to an individual retirement account in the United States would be limited.

Paragraph 10 does not address employer deductions because the employer is located in the services State and is already eligible for deductions under the domestic law of the services State.

U.S. citizens resident in Canada

Paragraphs 13 and 14 of Article XVIII address the special case of a U.S. citizen who is a resident of Canada (as determined under Article IV (Residence)) and who performs services as an employee in Canada and participates in a qualifying retirement plan (as defined in paragraph 15 of Article XVIII) in Canada. If certain requirements are satisfied, contributions made to, or benefits accrued under, a qualifying retirement plan in Canada by or on behalf of the U.S. citizen will be deductible or excludible in computing his or her taxable income in the United States. These provisions are generally consistent with paragraph 4 of Article 18 of the U.S. Model treaty.

In order for paragraph 13 to apply, the U.S. citizen must perform services as an employee in Canada the remuneration from which is taxable in Canada and is borne by an employer who is a resident of Canada or by a permanent establishment that the employer has in Canada. The contributions and benefits must be attributable to those services and must be made or accrued during the period in which the U.S. citizen performs those services. Contributions will be deemed to have been made on the last day of the preceding taxable year if the payment is on account of such taxable year and is treated under U.S. law as a contribution made on the last day of the preceding taxable year.

Paragraph 13 states that it applies only to the extent the contributions or benefits qualify for tax relief in Canada. However, paragraph 14 provides that the benefits granted under paragraph 13 may not exceed the benefits that would be allowed by the United States to its residents for contributions to, or benefits otherwise accrued under, a generally corresponding pension or retirement plan established in and recognized for tax purposes by the United States. Thus, the lower of the two limits applies. This rule ensures that a U.S. citizen living and working in Canada does not receive better U.S. treatment than a U.S. citizen living and working in the United States. The amount of contributions that may be excluded from the employee's income under paragraph 13 is the U.S. dollar amount specified in Code section 415 or the U.S. dollar amount specified in Code section 402(g)(1) (as defined above) to the extent contributions are made from the employee's compensation. In addition, pursuant to Code section 911(d)(6), an individual may not claim benefits under paragraph 13 with respect to services the remuneration for which is excluded from the individual's gross income under Code section 911(a).

For purposes of determining the individual's eligibility to participate in and receive tax benefits with respect to a pension or retirement plan or other retirement arrangement established in and recognized for tax purposes by the United States, contributions made to, or benefits accrued under, a qualifying retirement plan in Canada by or on behalf of the individual are treated as contributions or benefits under a generally corresponding pension or retirement plan established in and recognized for tax purposes by the United States. Thus, for example, the qualifying retirement plan in Canada would be taken into account for purposes of determining whether the individual is an "active participant" within the meaning of Code section 219(g)(5), with the result that the individual's ability to make deductible contributions to an individual retirement account in the United States would be limited.

Paragraph 13 does not address employer deductions because the employer is located in Canada and is already eligible for deductions under the domestic law of Canada.

Definition of "qualifying retirement plan"

Paragraph 15 of Article XVIII provides that for purposes of paragraphs 8 through 14, a "qualifying retirement plan" in a Contracting State is a trust, company, organization, or other arrangement that (a) is a resident of that State, generally exempt from income taxation in that State and operated primarily to provide pension or retirement benefits; (b) is not an individual arrangement in respect of which the individual's employer has no involvement; and (c) the competent authority of the other Contracting State agrees generally corresponds to a pension or retirement plan established in and recognized for tax purposes in that State. Thus, U.S. individual retirement accounts (IRAs) and Canadian registered retirement savings plans (RRSPs) are not treated as qualifying retirement plans unless addressed in paragraph 10 of the General Note (as discussed below). In addition, a Canadian retirement compensation arrangement (RCA) is not a qualifying retirement plan because it is not considered to be generally exempt from income taxation in Canada.

Paragraph 10 of the General Note provides that the types of Canadian plans that constitute qualifying retirement plans for purposes of paragraph 15 include the following and any identical or substantially similar plan that is established pursuant to legislation introduced after the date of signature of the Protocol (September 21, 2007): registered pension plans under section 147.1 of the *Income Tax Act*, registered retirement savings plans under section 146 that are part of a group arrangement described in subsection 204.2(1.32), deferred profit sharing plans under section 147, and any registered retirement savings plan under section 146, or registered retirement income fund under section 146.3, that is funded exclusively by rollover contributions from one or more of the preceding plans.

Paragraph 10 of the General Note also provides that the types of U.S. plans that constitute qualifying retirement plans for purposes of para-

graph 15 include the following and any identical or substantially similar plan that is established pursuant to legislation introduced after the date of signature of the Protocol (September 21, 2007): qualified plans under Code section 401(a) (including Code section 401(k) arrangements), individual retirement plans that are part of a simplified employee pension plan that satisfies Code section 408(k), Code section 408(p) simple retirement accounts, Code section 403(a) qualified annuity plans, Code section 403(b) plans, Code section 457(g) trusts providing benefits under Code section 457(b) plans, the Thrift Savings Fund (Code section 7701(j)), and any individual retirement account under Code section 408(a) that is funded exclusively by rollover contributions from one or more of the preceding plans.

If a particular plan in one Contracting State is of a type specified in paragraph 10 of the General Note with respect to paragraph 15 of Article XVIII, it will not be necessary for taxpayers to obtain a determination from the competent authority of the other Contracting State that the plan generally corresponds to a pension or retirement plan established in and recognized for tax purposes in that State. A taxpayer who believes a particular plan in one Contracting State that is not described in paragraph 10 of the General Note nevertheless satisfies the requirements of paragraph 15 may request a determination from the competent authority of the other Contracting State that the plan generally corresponds to a pension or retirement plan established in and recognized for tax purposes in that State. In the case of the United States, such a determination must be requested under Revenue Procedure 2006-54, 2006-49 I.R.B. 655 (or any applicable analogous provision). In the case of Canada, the current version of Information Circular 71-17 provides guidance on obtaining assistance from the Canadian competent authority.

Source rule

Paragraph 16 of Article XVIII provides that a distribution from a pension or retirement plan that is reasonably attributable to a contribution or benefit for which a benefit was allowed pursuant to paragraph 8, 10, or 13 of Article XVIII will be deemed to arise in the Contracting State in which the plan is established. This ensures that the Contracting State in which the plan is established will have the right to tax the gross amount of the distribution under subparagraph 2(*a*) of Article XVIII, even if a portion of the services to which the distribution relates were not performed in such Contracting State.

Partnerships

Paragraph 17 of Article XVIII provides that paragraphs 8 through 16 of Article XVIII apply, with such modifications as the circumstances require, as though the relationship between a partnership that carries on a business, and an individual who is a member of the partnership, were that of employer and employee. This rule is needed because paragraphs 8, 10, and 13, by their terms, apply only with respect to contributions made to, or benefits accrued under, qualifying retirement plans by or on behalf of individuals who perform services as an employee. Thus, benefits are not available with respect to retirement plans for self-employed individuals, who may be deemed under U.S. law to be employees for certain pension purposes. Paragraph 17 ensures that partners participating in a plan established by their partnership may be eligible for the benefits provided by paragraphs 8, 10, and 13.

Relationship to other Articles

Paragraphs 8, 10, and 13 of Article XVIII are not subject to the saving clause of paragraph 2 of Article XXIX (Miscellaneous Rules) by reason of the exception in subparagraph 3(*a*) of Article XXIX.

Article 14

Consistent with Articles 9 and 10 of the Protocol, Article 14 of the Protocol amends Article XIX (Government Service) of the Convention by deleting the reference to "Article XIV (Independent Personal Services)" and replacing such reference with the reference to "Article VII (Business Profits)" and by reflecting the new name of Article XV (Income from Employment).

Article 15

Article 15 of the Protocol replaces Article XX (Students) of the Convention. Article XX provides rules for host-country taxation of visiting students and business trainees. Persons who meet the tests of Article XX will be exempt from tax in the State that they are visiting with respect to designated classes of income. Several conditions must be satisfied in order for an individual to be entitled to the benefits of this Article.

First, the visitor must have been, either at the time of his arrival in the host State or immediately before, a resident of the other Contracting State.

Second, the purpose of the visit must be the full-time education or training of the visitor. Thus, if the visitor comes principally to work in the host State but also is a part-time student, he would not be entitled to the benefits of this Article, even with respect to any payments he may receive from abroad for his maintenance or education, and regardless of whether or not he is in a degree program. Whether a student is to be considered full-time will be determined by the rules of the educational institution at which he is studying.

The host State exemption in Article XX applies to payments received by the student or business trainee for the purpose of his maintenance, education or training that arise outside the host State. A payment will be considered to arise outside the host State if the payer is located outside the host State. Thus, if an employer from one of the Contracting States sends an employee to the other Contracting State for full-time training, the payments the trainee receives from abroad from his employer for his maintenance or training while he is present in the host State will be exempt from tax in the host State. Where appropriate, substance prevails over form in determining the identity of the payer. Thus, for example, payments made directly or indirectly by a U.S. person with whom the visitor is training, but which have been routed through a source outside the United States (*e.g.*, a foreign subsidiary), are not treated as arising outside the United States for this purpose.

In the case of an apprentice or business trainee, the benefits of Article XX will extend only for a period of one year from the time that the individual first arrives in the host country for the purpose of the individual's training. If, however, an apprentice or trainee remains in the host country for a second year, thus losing the benefits of the Article, he would not retroactively lose the benefits of the Article for the first year.

Relationship to other Articles

The saving clause of paragraph 2 of Article XXIX (Miscellaneous Rules) does not apply to Article XX with respect to an individual who neither is a citizen of the host State nor has been admitted for permanent residence there. The saving clause, however, does apply with respect to citizens and permanent residents of the host State. Thus, a U.S. citizen who is a resident of Canada and who visits the United States as a full-time student at an accredited university will not be exempt from U.S. tax on remittances from abroad that otherwise constitute U.S. taxable income. However, an individual who is not a U.S. citizen, and who visits the United States as a student and remains long enough to become a resident under U.S. law, but does not become a permanent resident (*i.e.*, does not acquire a green card), will be entitled to the full benefits of the Article.

Article 16

Article 16 of the Protocol revises Article XXI (Exempt Organizations) of the existing Convention.

Paragraph 1

Paragraph 1 amends Article XXI by renumbering paragraphs 4, 5, and 6 as 5, 6, and 7, respectively.

Paragraph 2

Paragraph 2 replaces paragraphs 1 through 3 of Article XXI with four new paragraphs. In general, the provisions of former paragraphs 1 through 3 have been retained.

New paragraph 1 provides that a religious, scientific, literary, educational, or charitable organization resident in a Contracting State shall be exempt from tax on income arising in the other Contracting State but only to the extent that such income is exempt from taxation in the Contracting State in which the organization is resident.

New paragraph 2 retains the provisions of former subparagraph 2(*a*), and provides that a trust, company, organization, or other arrangement that is resident in a Contracting State and operated exclusively to administer or provide pension, retirement or employee benefits or benefits for the self-employed under one or more funds or plans established to provide pension or retirement benefits or other employee benefits is exempt from taxation on dividend and interest income arising in the other Contracting State in a taxable year, if the income of such organization or other arrangement is generally exempt from taxation for that year in the Contracting State in which it is resident.

New paragraph 3 replaces and expands the scope of former subparagraph 2(*b*) Former subparagraph 2(*b*) provided that, subject to the provisions of paragraph 3 (new paragraph 4), a trust, company, organization or other arrangement that was a resident of a Contracting State, generally exempt from income taxation in that State and operated exclusively to earn income for the benefit of one or more organizations described in subpara-

graph 2(*a*) (new paragraph 2) was exempt from taxation on dividend and interest income arising in the other Contracting State in a taxable year. The Internal Revenue Service concluded in private letter rulings (PLR 200111027 and PLR 200111037) that a pooled investment fund that included as investors one or more organizations described in paragraph 1 could not qualify for benefits under former subparagraph 2(*b*). New paragraph 3 now allows organizations described in paragraph 1 to invest in pooled funds with trusts, companies, organizations, or other arrangements described in new paragraph 2.

Former subparagraph 2(*b*) did not exempt income earned by a trust, company or other arrangement for the benefit of religious, scientific, literary, educational or charitable organizations exempt from tax under paragraph 1. Therefore, the Protocol expands the scope of paragraph 3 to include such income.

As noted above with respect to Article X (Dividends), paragraph 3 of the General Note explains that distributions from Canadian income trusts and royalty trusts that are treated as dividends as a result of changes to Canada's law regarding taxation of income and royalty trusts shall be treated as dividends for the purposes of Article X. Accordingly, such distributions will also be entitled to the benefits of Article XXI.

New paragraph 4 replaces paragraph 3 and provides that the exemptions provided by paragraphs 1, 2, 3 do not apply with respect to the income of a trust, company, organization or other arrangement from carrying on a trade or business or from a related person, other than a person referred to in paragraph 1, 2 or 3. The term "related person" is not necessarily defined by paragraph 2 of Article IX (Related Person).

Article 17

Article 17 of the Protocol amends Article XXII (Other Income) of the Convention by adding a new paragraph 4. Article XXII generally assigns taxing jurisdiction over income not dealt with in the other articles (Articles VI through XXI) of the Convention.

New paragraph 4 provides a specific rule for residence State taxation of compensation derived in respect of a guarantee of indebtedness. New paragraph 4 provides that compensation derived by a resident of a Contracting State in respect of the provision of a guarantee of indebtedness shall be taxable only in that State, unless the compensation is business profits attributable to a permanent establishment situated in the other Contracting State, in which case the provisions of Article VII (Business Profits) shall apply. The clarification that Article VII shall apply when the compensation is considered business profits was included at the request of the United States. Compensation paid to a financial services entity to provide a guarantee in the ordinary course of its business of providing such guarantees to customers constitutes business profits dealt with under the provisions of Article VII. However, provision of guarantees with respect to debt of related parties is ordinarily not an independent economic undertaking that would generate business profits, and thus compensation in respect of such related-party guarantees is, in most cases, covered by Article XXII.

Article 18

Article 18 of the Protocol amends paragraph 2 of Article XXIII (Capital) of the Convention by deleting language contained in that paragraph consistent with the changes made by Article 9 of the Protocol.

Article 19

Article 19 of the Protocol deletes subparagraph 2(*b*) of Article XXIV (Elimination of Double Taxation) of the Convention and replaces it with a new subparagraph.

New subparagraph 2(*b*) allows a Canadian company receiving a dividend from a U.S. resident company of which it owns at least 10 percent of the voting stock, a credit against Canadian income tax of the appropriate amount of income tax paid or accrued to the United States by the dividend paying company with respect to the profits out of which the dividends are paid. The third Protocol to the Convention, signed March 17, 1995, had amended subparagraph (*b*) to allow a Canadian company to deduct in computing its Canadian taxable income any dividend received by it out of the exempt surplus of a foreign affiliate which is a resident of the United States. This change is consistent with current Canadian tax treaty practice: it does not indicate any present intention to change Canada's "exempt surplus" rules, and those rules remain in effect.

Article 20

Article 20 of the Protocol revises Article XXV (Non-Discrimination) of the existing Convention to bring that Article into closer conformity to U.S. tax treaty policy.

Paragraphs 1 and 2

Paragraph 1 replaces paragraph 1 of Article XXV of the existing Convention. New paragraph 1 provides that a national of one Contracting State may not be subject to taxation or connected requirements in the other Contracting State that are more burdensome than the taxes and connected requirements imposed upon a national of that other State in the same circumstances. The OECD Model would prohibit taxation that is "other than or more burdensome" than that imposed on U.S. persons. Paragraph 1 omits the words "other than or" because the only relevant question under this provision should be whether the requirement imposed on a national of the other Contracting State is more burdensome. A requirement may be different from the requirements imposed on U.S. nationals without being more burdensome.

The term "national" in relation to a Contracting State is defined in subparagraph 1(*k*) of Article III (General Definitions). The term includes both individuals and juridical persons. A national of a Contracting State is afforded protection under this paragraph even if the national is not a resident of either Contracting State. Thus, a U.S. citizen who is resident in a third country is entitled, under this paragraph, to the same treatment in Canada as a national of Canada in the same or similar circumstances (i.e., one who is resident in a third State).

Whether or not the two persons are both taxable on worldwide income is a significant circumstance for this purpose. For this reason, paragraph 1 specifically refers to taxation or any requirement connected therewith, particularly with respect to taxation on worldwide income, as relevant circumstances. This language means that the United States is not obliged to apply the same taxing regime to a national of Canada who is not resident in the United States as it applies to a U.S. national who is not resident in the United States. U.S. citizens who are not resident in the United States but who are, nevertheless, subject to U.S. tax on their worldwide income are not in the same circumstances with respect to U.S. taxation as citizens of Canada who are not U.S. residents. Thus, for example, Article XXV would not entitle a national of Canada residing in a third country to taxation at graduated rates on U.S.-source dividends or other investment income that applies to a U.S. citizen residing in the same third country.

Because of the increased coverage of paragraph 1 with respect to the treatment of nationals wherever they are resident, paragraph 2 of this Article no longer has application, and therefore has been omitted.

Paragraph 3

Paragraph 3 makes changes to renumbered paragraph 3 of Article XXV in order to conform with Article 10 of the Protocol by deleting the reference to "Article XV (Dependent Personal Services)" and replacing it with a reference to "Article XV (Income from Employment)."

Article 21

Paragraph 1 of Article 21 of the Protocol replaces paragraph 6 of Article XXVI (Mutual Agreement Procedure) of the Convention with new paragraphs 6 and 7. New paragraphs 6 and 7 provide a mandatory binding arbitration proceeding (Arbitration Proceeding). The Arbitration Note details additional rules and procedures that apply to a case considered under the arbitration provisions.

New paragraph 6 provides that a case shall be resolved through arbitration when the competent authorities have endeavored but are unable through negotiation to reach a complete agreement regarding a case and the following three conditions are satisfied. First, tax returns have been filed with at least one of the Contracting States with respect to the taxable years at issue in the case. Second, the case (i) involves the application of one or more Articles that the competent authorities have agreed in an exchange of notes shall be the subject of arbitration and is not a case that the competent authorities agree before the date on which an Arbitration Proceeding would otherwise have begun, is not suitable for determination by arbitration; or (ii) is a case that the competent authorities agree is suitable for determination by arbitration. Third, all concerned persons and their authorized representatives agree, according to the provisions of subparagraph 7(*d*), not to disclose to any other person any information received during the course of the Arbitration Proceeding from either Contracting State or the arbitration board, other than the determination of the board (confidentiality agreement). The confidentiality agreement may also be executed by any concerned person that has the legal authority to bind any other concerned person on the matter. For example, a parent corpora-

tion with the legal authority to bind its subsidiary with respect to confidentiality may execute a comprehensive confidentiality agreement on its own behalf and that of its subsidiary.

The United States and Canada have agreed in the Arbitration Note to submit cases regarding the application of one or more of the following Articles to mandatory binding arbitration under the provisions of paragraphs 6 and 7 of Article XXVI: IV (Residence), but only insofar as it relates to the residence of a natural person, V (Permanent Establishment), VII (Business Profits), IX (Related Persons), and XII (Royalties) (but only (i) insofar as Article XII might apply in transactions involving related persons to whom Article IX might apply, or (ii) to an allocation of amounts between royalties that are taxable under paragraph 2 thereof and royalties that are exempt under paragraph 3 thereof). The competent authorities may, however, agree, before the date on which an Arbitration Proceeding would otherwise have begun, that a particular case is not suitable for arbitration.

New paragraph 7 provides six subparagraphs that detail the general rules and definitions to be used in applying the arbitration provisions.

Subparagraph 7(*a*) provides that the term "concerned person" means the person that brought the case to competent authority for consideration under Article XXVI (Mutual Agreement Procedure) and includes all other persons, if any, whose tax liability to either Contracting State may be directly affected by a mutual agreement arising from that consideration. For example, a concerned person does not only include a U.S. corporation that brings a transfer pricing case with respect to a transaction entered into with its Canadian subsidiary for resolution to the U.S. competent authority, but also the Canadian subsidiary, which may have a correlative adjustment as a result of the resolution of the case.

Subparagraph 7(*c*) provides that an Arbitration Proceeding begins on the later of two dates: two years from the "commencement date" of the case (unless the competent authorities have previously agreed to a different date), or the earliest date upon which all concerned persons have entered into a confidentiality agreement and the agreements have been received by both competent authorities. The "commencement date" of the case is defined by subparagraph 7(*b*) as the earliest date the information necessary to undertake substantive consideration for a mutual agreement has been received by both competent authorities.

Paragraph 16 of the Arbitration Note provides that each competent authority will confirm in writing to the other competent authority and to the concerned persons the date of its receipt of the information necessary to undertake substantive consideration for a mutual agreement. In the case of the United States, this information is (i) the information that must be submitted to the U.S. competent authority under Section 4.05 of Rev. Proc. 2006-54, 2006-49 I.R.B. 1035 (or any applicable successor publication), and (ii) for cases initially submitted as a request for an Advance Pricing Agreement, the information that must be submitted to the Internal Revenue Service under Rev. Proc. 2006-9, 2006-2 I.R.B. 278 (or any applicable successor publication). In the case of Canada, this information is the information required to be submitted to the Canadian competent authority under Information Circular 71-17 (or any applicable successor publication). The information shall not be considered received until both competent authorities have received copies of all materials submitted to either Contracting State by the concerned person(s) in connection with the mutual agreement procedure. It is understood that confirmation of the "information necessary to undertake substantive consideration for a mutual agreement" is envisioned to ordinarily occur within 30 days after the necessary information is provided to the competent authority.

The Arbitration Note also provides for several procedural rules once an Arbitration Proceeding under paragraph 6 of Article XXVI ("Proceeding") has commenced, but the competent authorities may modify or supplement these rules as necessary. In addition, the arbitration board may adopt any procedures necessary for the conduct of its business, provided the procedures are not inconsistent with any provision of Article XXVI of the Convention.

Paragraph 5 of the Arbitration Note provides that each Contracting State has 60 days from the date on which the Arbitration Proceeding begins to send a written communication to the other Contracting State appointing one member of the arbitration board. Within 60 days of the date the second of such communications is sent, these two board members will appoint a third member to serve as the chair of the board. It is agreed that this third member ordinarily should not be a citizen of either of the Contracting States.

In the event that any members of the board are not appointed (including as a result of the failure of the two members appointed by the Contracting States to agree on a third member) by the requisite date, the remaining members are appointed by the highest ranking member of the Secretariat at the Centre for Tax Policy and Administration of the Organisation for Economic Co-operation and Development (OECD) who is not a citizen of either Contracting State, by written notice to both Contracting States within 60 days of the date of such failure.

Paragraph 7 of the Arbitration Note establishes deadlines for submission of materials by the Contracting States to the arbitration board. Each competent authority has 60 days from the date of appointment of the chair to submit a Proposed Resolution describing the proposed disposition of the specific monetary amounts of income, expense or taxation at issue in the case, and a supporting Position Paper. Copies of each State's submissions are to be provided by the board to the other Contracting State on the date the later of the submissions is submitted to the board. Each of the Contracting States may submit a Reply Submission to the board within 120 days of the appointment of the chair to address points raised in the other State's Proposed Resolution or Position Paper. If one Contracting State fails to submit a Proposed Resolution within the requisite time, the Proposed Resolution of the other Contracting State is deemed to be the determination of the arbitration board. Additional information may be supplied to the arbitration board by a Contracting State only at the request of the arbitration board. The board will provide copies of any such requested information, along with the board's request, to the other Contracting State on the date the request is made or the response is received.

All communication with the board is to be in writing between the chair of the board and the designated competent authorities with the exception of communication regarding logistical matters.

In making its determination, the arbitration board will apply the following authorities as necessary: (i) the provisions of the Convention, (ii) any agreed commentaries or explanation of the Contracting States concerning the Convention as amended, (iii) the laws of the Contracting States to the extent they are not inconsistent with each other, and (iv) any OECD Commentary, Guidelines or Reports regarding relevant analogous portions of the OECD Model Tax Convention.

The arbitration board must deliver a determination in writing to the Contracting States within six months of the appointment of the chair. The determination must be one of the two Proposed Resolutions submitted by the Contracting States. The determination shall provide a determination regarding only the amount of income, expense or tax reportable to the Contracting States. The determination has no precedential value and consequently the rationale behind a board's determination would not be beneficial and shall not be provided by the board.

Paragraph 11 of the Arbitration Note provides that, unless any concerned person does not accept the decision of the arbitration board, the determination of the board constitutes a resolution by mutual agreement under Article XXVI and, consequently, is binding on both Contracting States. Each concerned person must, within 30 days of receiving the determination from the competent authority to which the case was first presented, advise that competent authority whether the person accepts the determination. The failure to advise the competent authority within the requisite time is considered a rejection of the determination. If a determination is rejected, the case cannot be the subject of a subsequent MAP procedure on the same issue(s) determined by the panel, including a subsequent Arbitration Proceeding. After the commencement of an Arbitration Proceeding but before a decision of the board has been accepted by all concerned persons, the competent authorities may reach a mutual agreement to resolve the case and terminate the Proceeding.

For purposes of the Arbitration Proceeding, the members of the arbitration board and their staffs shall be considered "persons or authorities" to whom information may be disclosed under Article XXVII (Exchange of Information). The Arbitration Note provides that all materials prepared in the course of, or relating to, the Arbitration Proceeding are considered information exchanged between the Contracting States. No information relating to the Arbitration Proceeding or the board's determination may be disclosed by members of the arbitration board or their staffs or by either competent authority, except as permitted by the Convention and the domestic laws of the Contracting States. Members of the arbitration board and their staffs must agree in statements sent to each of the Contracting States in confirmation of their appointment to the arbitration board to abide by and be subject to the confidentiality and nondisclosure provisions of Article XXVII of the Convention and the applicable domestic laws of the Contracting States, with the most restrictive of the provisions applying.

The applicable domestic law of the Contracting States determines the treatment of any interest or penalties associated with a competent authority agreement achieved through arbitration.

In general, fees and expenses are borne equally by the Contracting States, including the cost of translation services. However, meeting facilities, related resources, financial management, other logistical support, and general and administrative coordination of the Arbitration Proceeding will be provided, at its own cost, by the Contracting State that initiated the

Mutual Agreement Procedure. The fees and expenses of members of the board will be set in accordance with the International Centre for Settlement of Investment Disputes (ICSID) Schedule of Fees for arbitrators (in effect on the date on which the arbitration board proceedings begin). All other costs are to be borne by the Contracting State that incurs them. Since arbitration of MAP cases is intended to assist taxpayers in resolving a governmental difference of opinion regarding the taxation of their income, and is merely an extension of the competent authority process, no fees will be chargeable to a taxpayer in connection with arbitration.

Article 22

Article 22 of the Protocol amends Article XXVI A (Assistance in Collection) of the existing Convention. Article XXVI A sets forth provisions under which the United States and Canada have agreed to assist each other in the collection of taxes.

Paragraph 1

Paragraph 1 replaces subparagraph 8(*a*) of Article XXVI A. In general, new subparagraph 8(*a*) provides the circumstances under which no assistance is to be given under the Article for a claim in respect of an individual taxpayer. New subparagraph 8(*a*) contains language that is in substance the same as subparagraph 8(*a*) of Article XXVI A of the existing Convention. However, the revised subparagraph also provides that no assistance in collection is to be given for a revenue claim from a taxable period that ended before November 9, 1995 in respect of an individual taxpayer, if the taxpayer became a citizen of the requested State at any time before November 9, 1995 and is such a citizen at the time the applicant State applies for collection of the claim.

The additional language is intended to avoid the potentially discriminating application of former subparagraph 8(*a*) as applied to persons who were not citizens of the requested State in the taxable period to which a particular collection request related, but who became citizens of the requested State at a time prior to the entry into force of Article XXVI A as set forth in the third protocol signed March 17, 1995. New subparagraph 8(*a*) addresses this situation by treating the citizenship of a person in the requested State at anytime prior to November 9, 1995 as comparable to citizenship in the requested State during the period for which the claim for assistance relates if 1) the person is a citizen of the requested state at the time of the request for assistance in collection, and 2) the request relates to a taxable period ending prior to November 9, 1995. As is provided in subparagraph 3(*g*) of Article 27, this change will have effect for revenue claims finally determined after November 9, 1985, the effective date of the adoption of collection assistance in the third protocol signed March 17, 1995.

Paragraph 2

Paragraph 2 replaces paragraph 9 of Article XXVI A of the Convention. Under paragraph 1 of Article XXVI A, each Contracting State generally agrees to lend assistance and support to the other in the collection of revenue claims. The term "revenue claim" is defined in paragraph 1 to include all taxes referred to in paragraph 9 of the Article, as well as interest, costs, additions to such taxes, and civil penalties. New paragraph 9 provides that, notwithstanding the provisions of Article II (Taxes Covered) of the Convention, Article XXVI A shall apply to all categories of taxes collected, and to contributions to social security and employment insurance premiums levied, by or on behalf of the Government of a Contracting State. Prior to the Protocol, paragraph 9 did not contain a specific reference to contributions to social security and employment insurance premiums. Although the prior language covered U.S. federal social security and unemployment taxes, the language did not cover Canada's social security (*e.g., Canada Pension Plan*) and employment insurance programs, contributions to which are not considered taxes under Canadian law and therefore would not otherwise have come within the scope of the paragraph.

Article 23

Article 23 of the Protocol replaces Article XXVII (Exchange of Information) of the Convention.

Paragraph 1 of Article XXVII

New paragraph 1 of Article XXVII is substantially the same as paragraph 1 of Article XXVII of the existing Convention. Paragraph 1 authorizes the competent authorities to exchange information as may be relevant for carrying out the provisions of the Convention or the domestic laws of Canada and the United States concerning taxes covered by the Convention, insofar as the taxation under those domestic laws is not contrary to the Convention. New paragraph 1 changes the phrase "is relevant" to "may be relevant" to clarify that the language incorporates the standard in Code section 7602 which authorizes the Internal Revenue Service to examine "any books, papers, records, or other data which *may be relevant* or material." (Emphasis added.) In *United States v. Arthur Young & Co.*, 465 U.S. 805, 814 (1984), the Supreme Court stated that "the language 'may be' reflects Congress's express intention to allow the Internal Revenue Service to obtain 'items of even *potential* relevance to an ongoing investigation, without reference to its admissibility.'" (Emphasis in original.) However, the language "may be"would not support a request in which a Contracting State simply asked for information regarding all bank accounts maintained by residents of that Contracting State in the other Contracting State, or even all accounts maintained by its residents with respect to a particular bank.

The authority to exchange information granted by paragraph 1 is not restricted by Article I (Personal Scope), and thus need not relate solely to persons otherwise covered by the Convention. Under paragraph 1, information may be exchanged for use in all phases of the taxation process including assessment, collection, enforcement or the determination of appeals. Thus, the competent authorities may request and provide information for cases under examination or criminal investigation, in collection, on appeals, or under prosecution.

Any information received by a Contracting State pursuant to the Convention is to be treated as secret in the same manner as information obtained under the tax laws of that State. Such information shall be disclosed only to persons or authorities, including courts and administrative bodies, involved in the assessment or collection of, the administration and enforcement in respect of, or the determination of appeals in relation to, the taxes covered by the Convention and the information may be used by such persons only for such purposes. (In accordance with paragraph 4, for the purposes of this Article the Convention applies to a broader range of taxes than those covered specifically by Article II (Taxes Covered)). Although the information received by persons described in paragraph 1 is to be treated as secret, it may be disclosed by such persons in public court proceedings or in judicial decisions.

Paragraph 1 also permits, however, a Contracting State to provide information received from the other Contracting State to its states, provinces, or local authorities, if it relates to a tax imposed by that state, province, or local authority that is substantially similar to a national-level tax covered under Article II (Taxes Covered). This provision does not authorize a Contracting State to request information on behalf of a state, province, or local authority. Paragraph 1 also authorizes the competent authorities to release information to any arbitration panel that may be established under the provisions of new paragraph 6 of Article XXVI (Mutual Agreement Procedure). Any information provided to a state, province, or local authority or to an arbitration panel is subject to the same use and disclosure provisions as is information received by the national Governments and used for their purposes.

The provisions of paragraph 1 authorize the U.S. competent authority to continue to allow legislative bodies, such as the tax-writing committees of Congress and the Government Accountability Office to examine tax return information received from Canada when such bodies or offices are engaged in overseeing the administration of U.S. tax laws or a study of the administration of U.S. tax laws pursuant to a directive of Congress. However, the secrecy requirements of paragraph 1 must be met.

It is contemplated that Article XXVII will be utilized by the competent authorities to exchange information upon request, routinely, and spontaneously.

Paragraph 2 of Article XXVII

New paragraph 2 conforms with the corresponding U.S. and OECD Model provisions. The substance of the second sentence of former paragraph 2 is found in new paragraph 6 of the Article, discussed below.

Paragraph 2 provides that if a Contracting State requests information in accordance with Article XXVII, the other Contracting State shall use its information gathering measures to obtain the requested information. The instruction to the requested State to "use its information gathering measures" to obtain the requested information communicates the same instruction to the requested State as the language of former paragraph 2 that stated that the requested State shall obtain the information "in the same way as if its own taxation was involved." Paragraph 2 makes clear that the obligation to provide information is limited by the provisions of paragraph 3, but that such limitations shall not be construed to permit a Contracting State to decline to obtain and supply information because it has no domestic tax interest in such information.

In the absence of such a paragraph, some taxpayers have argued that subparagraph 3(*a*) prevents a Contracting State from requesting information from a bank or fiduciary that the Contracting State does not need for its own tax purposes. This paragraph clarifies that paragraph 3 does not

impose such a restriction and that a Contracting State is not limited to providing only the information that it already has in its own files.

Paragraph 3 of Article XXVII

New paragraph 3 is substantively the same as paragraph 3 of Article XXVII of the existing Convention. Paragraph 3 provides that the provisions of paragraphs 1 and 2 do not impose on Canada or the United States the obligation to carry out administrative measures at variance with the laws and administrative practice of either State; to supply information which is not obtainable under the laws or in the normal course of the administration of either State; or to supply information which would disclose any trade, business, industrial, commercial, or professional secret or trade process, or information the disclosure of which would be contrary to public policy.

Thus, a requesting State may be denied information from the other State if the information would be obtained pursuant to procedures or measures that are broader than those available in the requesting State. However, the statute of limitations of the Contracting State making the request for information should govern a request for information. Thus, the Contracting State of which the request is made should attempt to obtain the information even if its own statute of limitations has passed. In many cases, relevant information will still exist in the business records of the taxpayer or a third party, even though it is no longer required to be kept for domestic tax purposes.

While paragraph 3 states conditions under which a Contracting State is not obligated to comply with a request from the other Contracting State for information, the requested State is not precluded from providing such information, and may, at its discretion, do so subject to the limitations of its internal law.

As discussed with respect to paragraph 2, in no case shall the limitations in paragraph 3 be construed to permit a Contracting State to decline to obtain information and supply information because it has no domestic tax interest in such information.

Paragraph 4 of Article XXVII

The language of new paragraph 4 is substantially similar to former paragraph 4. New paragraph 4, however, consistent with new paragraph 1, discussed above, replaces the words "is relevant" with "may be relevant" in subparagraph 4(b).

Paragraph 4 provides that, for the purposes of Article XXVII, the Convention applies to all taxes imposed by a Contracting State, and to other taxes to which any other provision of the Convention applies, but only to the extent that the information may be relevant for the purposes of the application of that provision.

Article XXVII does not apply to taxes imposed by political subdivisions or local authorities of the Contracting States. Paragraph 4 is designed to ensure that information exchange will extend to taxes of every kind (including, for example, estate, gift, excise, and value added taxes) at the national level in the United States and Canada.

Paragraph 5 of Article XXVII

New paragraph 5 conforms with the corresponding U.S. and OECD Model provisions. Paragraph 5 provides that a Contracting State may not decline to provide information because that information is held by a financial institution, nominee or person acting in an agency or fiduciary capacity. Thus, paragraph 5 would effectively prevent a Contracting State from relying on paragraph 3 to argue that its domestic bank secrecy laws (or similar legislation relating to disclosure of financial information by financial institutions or intermediaries) override its obligation to provide information under paragraph 1. This paragraph also requires the disclosure of information regarding the beneficial owner of an interest in a person.

Paragraph 6 of Article XXVII

The substance of new paragraph 6 is similar to the second sentence of paragraph 2 of Article XXVII of the existing Convention. New paragraph 6 adopts the language of paragraph 6 of Article 26 (Exchange of Information and Administrative Assistance) of the U.S. Model. New paragraph 6 provides that the requesting State may specify the form in which information is to be provided (*e.g.*, depositions of witnesses and authenticated copies of original documents). The intention is to ensure that the information may be introduced as evidence in the judicial proceedings of the requesting State. The requested State should, if possible, provide the information in the form requested to the same extent that it can obtain information in that form under its own laws and administrative practices with respect to its own taxes.

Paragraph 7 of Article XXVII

New paragraph 7 is consistent with paragraph 8 of Article 26 (Exchange of Information and Administrative Assistance) of the U.S. Model. Paragraph 7 provides that the requested State shall allow representatives of the requesting State to enter the requested State to interview individuals and examine books and records with the consent of the persons subject to examination. Paragraph 7 was intended to reinforce that the administrations can conduct consensual tax examinations abroad, and was not intended to limit travel or supersede any arrangements or procedures the competent authorities may have previously had in place regarding travel for tax administration purposes.

Paragraph 13 of General Note

As is explained in paragraph 13 of the General Note, the United States and Canada understand and agree that the standards and practices described in Article XXVII of the Convention are to be in no respect less effective than those described in the Model Agreement on Exchange of Information on Tax Matters developed by the OECD Global Forum Working Group on Effective Exchange of Information.

Article 24

Article 24 amends Article XXIX (Miscellaneous Rules) of the Convention.

Paragraph 1

Paragraph 1 replaces paragraph 2 of Article XXIX of the existing Convention. New paragraph 2 is divided into two subparagraphs. In general, subparagraph 2(*a*) provides a "saving clause" pursuant to which the United States and Canada may each tax its residents, as determined under Article IV (Residence), and the United States may tax its citizens and companies, including those electing to be treated as domestic corporations (*e.g.* under Code section 1504(d)), as if there were no convention between the United States and Canada with respect to taxes on income and capital. Subparagraph 2(*a*) contains language that generally corresponds to former paragraph 2, but omits certain language pertaining to former citizens, which are addressed in new subparagraph 2(*b*).

New subparagraph 2(*b*) generally corresponds to the provisions of former paragraph 2 addressing former citizens of the United States. However, new subparagraph 2(*b*) also includes a reference to former long-term residents of the United States. This addition, as well as other changes in subparagraph 2(*b*), brings the Convention in conformity with the U.S. taxation of former citizens and long-term residents under Code section 877.

Similar to subparagraph 2(*a*), new subparagraph 2(*b*) operates as a "saving clause" and provides that notwithstanding the other provisions of the Convention, a former citizen or former long-term resident of the United States, may, for a period of ten years following the loss of such status, be taxed in accordance with the laws of the United States with respect to income from sources within the United States (including income deemed under the domestic law of the United States to arise from such sources).

Paragraphs 11 and 12 of the General Note provide definitions based on Code section 877 that are relevant to the application of paragraph 2 of Article XXIX. Paragraph 11 of the General Note provides that the term "long-term resident" means any individual who is a lawful permanent resident of the United States in eight or more taxable years during the preceding 15 taxable years. In determining whether the eight-year threshold is met, one does not count any year in which the individual is treated as a resident of Canada under this Convention (or as a resident of any country other than the United States under the provisions of any other U.S. tax treaty), and the individual does not waive the benefits of such treaty applicable to residents of the other country. This understanding is consistent with how this provision is generally interpreted in U.S. tax treaties.

Paragraph 12 of the General Note provides that the phrase "income deemed under the domestic law of the United States to arise from such sources" as used in new subparagraph 2(*b*) includes gains from the sale or exchange of stock of a U.S. company or debt obligations of a U.S. person, the United States, a State, or a political subdivision thereof, or the District of Columbia, gains from property (other than stock or debt obligations) located in the United States, and, in certain cases, income or gain derived from the sale of stock of a non-U.S. company or a disposition of property contributed to such non-U.S. company where such company would be a controlled foreign corporation with respect to the individual if such person had continued to be a U.S. person. In addition, an individual who exchanges property that gives rise or would give rise to U.S.-source income for property that gives rise to foreign-source income will be treated as if he had sold the property that would give rise to U.S.-source income for its fair market value, and any consequent gain shall be deemed to be income from sources within the United States.

Paragraph 2

Paragraph 2 replaces subparagraph 3(*a*) of Article XXIX of the existing Convention. Paragraph 3 provides that, notwithstanding paragraph 2 of Article XXIX, the United States and Canada must respect specified provisions of the Convention in regard to certain persons, including residents and citizens. Therefore, subparagraph 3(*a*) lists certain paragraphs and Articles of the Convention that represent exceptions to the "saving clause" in all situations. New subparagraph 3(*a*) is substantially similar to former subparagraph 3(*a*), but now contains a reference to paragraphs 8, 10, and 13 of Article XVIII (Pensions and Annuities) to reflect the changes made to that article in paragraph 3 of Article 13 of the Protocol.

Article 25

Article 25 of the Protocol replaces Article XXIX A (Limitation on Benefits) of the existing Convention, which was added to the Convention by the Protocol done on March 17, 1995. Article XXIX A addresses the problem of "treaty shopping" by residents of third States by requiring, in most cases, that the person seeking benefits not only be a U.S. resident or Canadian resident but also satisfy other tests. For example, a resident of a third State might establish an entity resident in Canada for the purpose of deriving income from the United States and claiming U.S. treaty benefits with respect to that income. Article XXIX A limits the benefits granted by the United States or Canada under the Convention to those persons whose residence in the other Contracting State is not considered to have been motivated by the existence of the Convention. As replaced by the Protocol, new Article XXIX A is reciprocal, and many of the changes to the former paragraphs of Article XXIX A are made to effectuate this reciprocal application.

Absent Article XXIX A, an entity resident in one of the Contracting States would be entitled to benefits under the Convention, unless it were denied such benefits as a result of limitations under domestic law (*e.g.*, business purpose, substance-over-form, step transaction, or conduit principles or other anti-avoidance rules) applicable to a particular transaction or arrangement. As noted below in the explanation of paragraph 7, general anti-abuse provisions of this sort apply in conjunction with the Convention in both the United States and Canada. In the case of the United States, such anti-abuse provisions complement the explicit anti-treaty-shopping rules of Article XXIX A. While the anti-treaty-shopping rules determine whether a person has a sufficient nexus to Canada to be entitled to benefits under the Convention, the anti-abuse provisions under U.S. domestic law determine whether a particular transaction should be recast in accordance with the substance of the transaction.

Paragraph 1 of Article XXIX A

New paragraph 1 of Article XXIX A provides that, for the purposes of the application of the Convention, a "qualifying person" shall be entitled to all of the benefits of the Convention and, except as provided in paragraphs 3, 4, and 6, a person that is not a qualifying person shall not be entitled to any benefits of the Convention.

Paragraph 2 of Article XXIX A

New paragraph 2 lists a number of characteristics any one of which will make a United States or Canadian resident a qualifying person. The "look-through" principles introduced by the Protocol (e.g. paragraph 6 of Article IV (Residence)) are to be applied in conjunction with Article XXIX A. Accordingly, the provisions of Article IV shall determine the person who derives an item of income, and the objective tests of Article XXIX A shall be applied to that person to determine whether benefits shall be granted. The rules are essentially mechanical tests and are discussed below.

Individuals and governmental entities

Under new paragraph 2, the first two categories of qualifying persons are (1) natural persons resident in the United States or Canada (as listed in subparagraph 2(*a*)), and (2) the Contracting States, political subdivisions or local authorities thereof, and any agency or instrumentality of such Government, political subdivision or local authority (as listed in subparagraph 2(*b*)). Persons falling into these two categories are unlikely to be used, as the beneficial owner of income, to derive benefits under the Convention on behalf of a third-country person. If such a person receives income as a nominee on behalf of a third-country resident, benefits will be denied with respect to those items of income under the articles of the Convention that would otherwise grant the benefit, because of the requirements in those articles that the beneficial owner of the income be a resident of a Contracting State.

Publicly traded entities

Under new subparagraph 2(*c*), a company or trust resident in a Contracting State is a qualifying person if the company's principal class of shares, and any disproportionate class of shares, or the trust's units, or disproportionate interest in a trust, are primarily and regularly traded on one or more recognized stock exchanges. The term "recognized stock exchange" is defined in subparagraph 5(*f*) of the Article to mean, in the United States, the NASDAQ System and any stock exchange registered as a national securities exchange with the Securities and Exchange Commission, and, in Canada, any Canadian stock exchanges that are "prescribed stock exchanges" or "designated stock exchanges" under the *Income Tax Act*. These are, at the time of signature of the Protocol, the Montreal Stock Exchange, the Toronto Stock Exchange, and Tiers 1 and 2 of the TSX Venture Exchange. Additional exchanges may be added to the list of recognized exchanges by exchange of notes between the Contracting States or by agreement between the competent authorities.

If a company has only one class of shares, it is only necessary to consider whether the shares of that class meet the relevant trading requirements. If the company has more than one class of shares, it is necessary as an initial matter to determine which class or classes constitute the "principal class of shares." The term "principal class of shares" is defined in subparagraph 5(*e*) of the Article to mean the ordinary or common shares of the company representing the majority of the aggregate voting power and value of the company. If the company does not have a class of ordinary or common shares representing the majority of the aggregate voting power and value of the company, then the "principal class of shares" is that class or any combination of classes of shares that represents, in the aggregate, a majority of the voting power and value of the company. Although in a particular case involving a company with several classes of shares it is conceivable that more than one group of classes could be identified that account for more than 50% of the voting power and value of the shares of the company, it is only necessary for one such group to satisfy the requirements of this subparagraph in order for the company to be entitled to benefits. Benefits would not be denied to the company even if a second, non-qualifying, group of shares with more than half of the company's voting power and value could be identified.

A company whose principal class of shares is regularly traded on a recognized stock exchange will nevertheless not qualify for benefits under subparagraph 2(*c*) if it has a disproportionate class of shares that is not regularly traded on a recognized stock exchange. The term "disproportionate class of shares" is defined in subparagraph 5(*b*) of the Article. A company has a disproportionate class of shares if it has outstanding a class of shares which is subject to terms or other arrangements that entitle the holder to a larger portion of the company's income, profit, or gain in the other Contracting State than that to which the holder would be entitled in the absence of such terms or arrangements. Thus, for example, a company has a disproportionate class of shares if it has outstanding a class of "tracking stock" that pays dividends based upon a formula that approximates the company's return on its assets employed in the United States. Similar principles apply to determine whether or not there are disproportionate interests in a trust.

The following example illustrates the application of subparagraph 5(*b*).

Example. OCo is a corporation resident in Canada. OCo has two classes of shares: Common and Preferred. The Common shares are listed and regularly traded on a designated stock exchange in Canada. The Preferred shares have no voting rights and are entitled to receive dividends equal in amount to interest payments that OCo receives from unrelated borrowers in the United States. The Preferred shares are owned entirely by a single investor that is a resident of a country with which the United States does not have a tax treaty. The Common shares account for more than 50 percent of the value of OCo and for 100 percent of the voting power. Because the owner of the Preferred shares is entitled to receive payments corresponding to the U.S.-source interest income earned by OCo, the Preferred shares are a disproportionate class of shares. Because the Preferred shares are not primarily and regularly traded on a recognized stock exchange, OCo will not qualify for benefits under subparagraph 2(*c*).

The term "regularly traded" is not defined in the Convention. In accordance with paragraph 2 of Article III (General Definitions) and paragraph 1 of the General Note, this term will be defined by reference to the domestic tax laws of the State from which benefits of the Convention are sought, generally the source State. In the case of the United States, this term is understood to have the meaning it has under Treas. Reg. section 1.884-5(d)(4)(i)(B), relating to the branch tax provisions of the Code, as may be amended from time to time. Under these regulations, a class of shares is considered to be "regularly traded" if two requirements are met: trades in the class of shares are made in more than *de minimis* quantities on at least 60 days during the taxable year, and the aggregate number of shares in the class traded during the year is at least 10 percent of the

average number of shares outstanding during the year. Sections 1.884-5(d)(4)(i)(A), (ii) and (iii) will not be taken into account for purposes of defining the term "regularly traded" under the Convention.

The regularly-traded requirement can be met by trading on one or more recognized stock exchanges. Therefore, trading may be aggregated for purposes of this requirement. Thus, a U.S. company could satisfy the regularly traded requirement through trading, in whole or in part, on a recognized stock exchange located in Canada. Authorized but unissued shares are not considered for purposes of this test.

The term "primarily traded" is not defined in the Convention. In accordance with paragraph 2 of Article III (General Definitions) and paragraph 1 of the General Note, this term will have the meaning it has under the laws of the State concerning the taxes to which the Convention applies, generally the source State. In the case of the United States, this term is understood to have the meaning it has under Treas. Reg. section 1.884-5(d)(3), as may be amended from time to time, relating to the branch tax provisions of the Code. Accordingly, stock of a corporation is "primarily traded" if the number of shares in the company's principal class of shares that are traded during the taxable year on all recognized stock exchanges exceeds the number of shares in the company's principal class of shares that are traded during that year on all other established securities markets.

Subject to the adoption by Canada of other definitions, the U.S. interpretation of "regularly traded" and "primarily traded" will be considered to apply, with such modifications as circumstances require, under the Convention for purposes of Canadian taxation.

Subsidiaries of publicly traded entities

Certain companies owned by publicly traded corporations also may be qualifying persons. Under subparagraph 2(*d*), a company resident in the United States or Canada will be a qualifying person, even if not publicly traded, if more than 50 percent of the vote and value of its shares, and more than 50 percent of the vote and value of each disproportionate class of shares, is owned (directly or indirectly) by five or fewer persons that are qualifying persons under subparagraph 2(*c*). In addition, each company in the chain of ownership must be a qualifying person. Thus, for example, a company that is a resident of Canada, all the shares of which are owned by another company that is a resident of Canada, would qualify for benefits of the Convention if the principal class of shares (and any disproportionate classes of shares) of the parent company are regularly and primarily traded on a recognized stock exchange. However, such a subsidiary would not qualify for benefits under subparagraph 2(*d*) if the publicly traded parent company were a resident of a third state, for example, and not a resident of the United States or Canada. Furthermore, if a parent company qualifying for benefits under subparagraph 2(*c*) indirectly owned the bottom-tier company through a chain of subsidiaries, each subsidiary in the chain, as an intermediate owner, must be a qualifying person in order for the bottom-tier subsidiary to meet the test in subparagraph 2(*d*).

Subparagraph 2(*d*) provides that a subsidiary can take into account ownership by as many as five companies, each of which qualifies for benefits under subparagraph 2(*c*) to determine if the subsidiary qualifies for benefits under subparagraph 2(*d*). For example, a Canadian company that is not publicly traded but that is owned, one-third each, by three companies, two of which are Canadian resident corporations whose principal classes of shares are primarily and regularly traded on a recognized stock exchange, will qualify under subparagraph 2(*d*).

By applying the principles introduced by the Protocol (e.g. paragraph 6 of Article IV) in the context of this rule, one "looks through" entities in the chain of ownership that are viewed as fiscally transparent under the domestic laws of the State of residence (other than entities that are resident in the State of source).

The 50-percent test under subparagraph 2(*d*) applies only to shares other than "debt substitute shares." The term "debt substitute shares" is defined in subparagraph 5(a) to mean shares defined in paragraph (*e*) of the definition in the Canadian *Income Tax Act* of "term preferred shares" (see subsection 248(1) of the *Income Tax Act*), which relates to certain shares received in debt-restructuring arrangements undertaken by reason of financial difficulty or insolvency. Subparagraph 5(*a*) also provides that the competent authorities may agree to treat other types of shares as debt substitute shares.

Ownership/base erosion test

Subparagraph 2(*e*) provides a two-part test under which certain other entities may be qualifying persons, based on ownership and lack of "base erosion." A company resident in the United States or Canada will satisfy the first of these tests if 50 percent or more of the vote and value of its shares and 50 percent or more of the vote and value of each disproportionate class of shares, in both cases not including debt substitute shares, is not owned, directly or indirectly, by persons other than qualifying persons. Similarly, a trust resident in the United States or Canada will satisfy this first test if 50 percent or more of its beneficial interests, and 50 percent or more of each disproportionate interest, is not owned, directly or indirectly, by persons other than qualifying persons. The wording of these tests is intended to make clear that, for example, if a Canadian company is more than 50 percent owned, either directly or indirectly (including cumulative indirect ownership through a chain of entities), by a U.S. resident corporation that is, itself, wholly owned by a third-country resident other than a qualifying person, the Canadian company would not pass the ownership test. This is because more than 50 percent of its shares is owned indirectly by a person (the third-country resident) that is not a qualifying person.

It is understood by the Contracting States that in determining whether a company satisfies the ownership test described in subparagraph 2(*e*)(i), a company, 50 percent of more of the aggregate vote and value of the shares of which and 50 percent or more of the vote and value of each disproportionate class of shares (in neither case including debt substitute shares) of which is owned, directly or indirectly, by a company described in subparagraph 2(*c*) will satisfy the ownership test of subparagraph 2(*e*)(i). In such case, no further analysis of the ownership of the company described in subparagraph 2(*c*) is required. Similarly, in determining whether a trust satisfies the ownership test described in subparagraph 2(*e*)(ii), a trust, 50 percent or more of the beneficial interest in which and 50 percent or more of each disproportionate interest in which, is owned, directly or indirectly, by a trust described in subparagraph (2)(*c*) will satisfy the ownership test of subparagraph (2)(*e*)(ii), and no further analysis of the ownership of the trust described in subparagraph 2(*c*) is required.

The second test of subparagraph 2(*e*) is the so-called "base erosion" test. A company or trust that passes the ownership test must also pass this test to be a qualifying person under this subparagraph. This test requires that the amount of expenses that are paid or payable by the entity in question, directly or indirectly, to persons that are not qualifying persons, and that are deductible from gross income (with both deductibility and gross income as determined under the tax laws of the State of residence of the company or trust), be less than 50 percent of the gross income of the company or trust. This test is applied for the fiscal period immediately preceding the period for which the qualifying person test is being applied. If it is the first fiscal period of the person, the test is applied for the current period.

The ownership/base erosion test recognizes that the benefits of the Convention can be enjoyed indirectly not only by equity holders of an entity, but also by that entity's obligees, such as lenders, licensors, service providers, insurers and reinsurers, and others. For example, a third-country resident could license technology to a Canadian-owned Canadian corporation to be sub-licensed to a U.S. resident. The U.S.-source royalty income of the Canadian corporation would be exempt from U.S. withholding tax under Article XII (Royalties) of the Convention. While the Canadian corporation would be subject to Canadian corporation income tax, its taxable income could be reduced to near zero as a result of the deductible royalties paid to the third-country resident. If, under a convention between Canada and the third country, those royalties were either exempt from Canadian tax or subject to tax at a low rate, the U.S. treaty benefit with respect to the U.S.-source royalty income would have flowed to the third-country resident at little or no tax cost, with no reciprocal benefit to the United States from the third country. The ownership/base erosion test therefore requires both that qualifying persons substantially own the entity and that the entity's tax base is not substantially eroded by payments (directly or indirectly) to nonqualifying persons.

For purposes of this subparagraph 2(*e*) and other provisions of this Article, the term "shares" includes, in the case of a mutual insurance company, any certificate or contract entitling the holder to voting power in the corporation. This is consistent with the interpretation of similar limitation on benefits provisions in other U.S. treaties. In Canada, the principles that are reflected in subsection 256(8.1) of the *Income Tax Act* will be applied, in effect treating memberships, policies or other interests in a corporation incorporated without share capital as representing an appropriate number of shares.

The look-through principles introduced by the Protocol (e.g. new paragraph 6 of Article IV) are to be taken into account when applying the ownership and base erosion provisions of Article XXIX A. Therefore, one "looks through" an entity that is viewed as fiscally transparent under the domestic laws of the residence State (other than entities that are resident in the source State) when applying the ownership/base erosion test. Assume, for example, that USCo, a company incorporated in the United States, wishes to obtain treaty benefits by virtue of the ownership and base erosion rule. USCo is owned by USLLC, an entity that is treated as fiscally transparent in the United States. USLLC in turn is wholly owned in equal shares by 10 individuals who are residents of the United States. Because the

United States views USLLC as fiscally transparent, the 10 U.S. individuals shall be regarded as the owners of USCo for purposes of the ownership test. Accordingly, USCo would satisfy the ownership requirement of the ownership/base erosion test. However, if USLLC were instead owned in equal shares by four U.S. individuals and six individuals who are not residents of either the United States or Canada, USCo would not satisfy the ownership requirement. Similarly, for purposes of the base erosion test, deductible payments made to USLLC will be treated as made to USLLC's owners.

Other qualifying persons

Under new subparagraph 2(*f*), an estate resident in the United States or Canada is a qualifying person entitled to the benefits of the Convention.

New subparagraphs 2(*g*) and 2(*h*) specify the circumstances under which certain types of not-for-profit organizations will be qualifying persons. Subparagraph 2(g) provides that a not-for-profit organization that is resident in the United States or Canada is a qualifying person, and thus entitled to benefits, if more than half of the beneficiaries, members, or participants in the organization are qualifying persons. The term "not-for-profit organization" of a Contracting State is defined in subparagraph 5(*d*) of the Article to mean an entity created or established in that State that is generally exempt from income taxation in that State by reason of its not-for-profit status. The term includes charities, private foundations, trade unions, trade associations, and similar organizations.

New subparagraph 2(*h*) specifies that certain trusts, companies, organizations, or other arrangements described in paragraph 2 of Article XXI (Exempt Organizations) are qualifying persons. To be a qualifying person, the trust, company, organization or other arrangement must be established for the purpose of providing pension, retirement, or employee benefits primarily to individuals who are (or were, within any of the five preceding years) qualifying persons. A trust, company, organization, or other arrangement will be considered to be established for the purpose of providing benefits primarily to such persons if more than 50 percent of its beneficiaries, members, or participants are such persons. Thus, for example, a Canadian Registered Retirement Savings Plan ("RRSP") of a former resident of Canada who is working temporarily outside of Canada would continue to be a qualifying person during the period of the individual's absence from Canada or for five years, whichever is shorter. A Canadian pension fund established to provide benefits to persons employed by a company would be a qualifying person only if most of the beneficiaries of the fund are (or were within the five preceding years) individual residents of Canada or residents or citizens of the United States.

New subparagraph 2(*i*) specifies that certain trusts, companies, organizations, or other arrangements described in paragraph 3 of Article XXI (Exempt Organizations) are qualifying persons. To be a qualifying person, the beneficiaries of a trust, company, organization or other arrangement must be described in subparagraph 2(*g*) or 2(*h*).

The provisions of paragraph 2 are self-executing, unlike the provisions of paragraph 6, discussed below. The tax authorities may, of course, on review, determine that the taxpayer has improperly interpreted the paragraph and is not entitled to the benefits claimed.

Paragraph 3 of Article XXIX A

Paragraph 3 provides an alternative rule, under which a United States or Canadian resident that is not a qualifying person under paragraph 2 may claim benefits with respect to those items of income that are connected with the active conduct of a trade or business in its State of residence.

This is the so-called "active trade or business" test. Unlike the tests of paragraph 2, the active trade or business test looks not solely at the characteristics of the person deriving the income, but also at the nature of the person's activity and the connection between the income and that activity. Under the active trade or business test, a resident of a Contracting State deriving an item of income from the other Contracting State is entitled to benefits with respect to that income if that person (or a person related to that person under the principles of Code section 482, or in the case of Canada, section 251 of the *Income Tax Act*) is engaged in an active trade or business in the State where it is resident, the income in question is derived in connection with, or is incidental to, that trade or business, and the size of the active trade or business in the residence State is substantial relative to the activity in the other State that gives rise to the income for which benefits are sought. Further details on the application of the substantiality requirement are provided below.

Income that is derived in connection with, or is incidental to, the business of making or managing investments will not qualify for benefits under this provision, unless those investment activities are carried on with customers in the ordinary course of the business of a bank, insurance company, registered securities dealer, or deposit-taking financial institution.

Income is considered derived "in connection" with an active trade or business if, for example, the income-generating activity in the State is "upstream," "downstream," or parallel to that conducted in the other Contracting State. Thus, for example, if the U.S. activity of a Canadian resident company consisted of selling the output of a Canadian manufacturer or providing inputs to the manufacturing process, or of manufacturing or selling in the United States the same sorts of products that were being sold by the Canadian trade or business in Canada, the income generated by that activity would be treated as earned in connection with the Canadian trade or business. Income is considered "incidental" to a trade or business if, for example, it arises from the short-term investment of working capital of the resident in securities issued by persons in the State of source.

An item of income may be considered to be earned in connection with or to be incidental to an active trade or business in the United States or Canada even though the resident claiming the benefits derives the income directly or indirectly through one or more other persons that are residents of the other Contracting State. Thus, for example, a Canadian resident could claim benefits with respect to an item of income earned by a U.S. operating subsidiary but derived by the Canadian resident indirectly through a wholly-owned U.S. holding company interposed between it and the operating subsidiary. This language would also permit a resident to derive income from the other Contracting State through one or more residents of that other State that it does not wholly own. For example, a Canadian partnership in which three unrelated Canadian companies each hold a one-third interest could form a wholly-owned U.S. holding company with a U.S. operating subsidiary. The "directly or indirectly" language would allow otherwise unavailable treaty benefits to be claimed with respect to income derived by the three Canadian partners through the U.S. holding company, even if the partners were not considered to be related to the U.S. holding company under the principles of Code section 482.

As described above, income that is derived in connection with, or is incidental to, an active trade or business in a Contracting State, must pass the substantiality requirement to qualify for benefits under the Convention. The trade or business must be substantial in relation to the activity in the other Contracting State that gave rise to the income in respect of which benefits under the Convention are being claimed. To be considered substantial, it is not necessary that the trade or business be as large as the income-generating activity. The trade or business cannot, however, in terms of income, assets, or other similar measures, represent only a very small percentage of the size of the activity in the other State.

The substantiality requirement is intended to prevent treaty shopping. For example, a third-country resident may want to acquire a U.S. company that manufactures television sets for worldwide markets; however, since its country of residence has no tax treaty with the United States, any dividends generated by the investment would be subject to a U.S. withholding tax of 30 percent. Absent a substantiality test, the investor could establish a Canadian corporation that would operate a small outlet in Canada to sell a few of the television sets manufactured by the U.S. company and earn a very small amount of income. That Canadian corporation could then acquire the U.S. manufacturer with capital provided by the third-country resident and produce a very large number of sets for sale in several countries, generating a much larger amount of income. It might attempt to argue that the U.S.-source income is generated from business activities in the United States related to the television sales activity of the Canadian parent and that the dividend income should be subject to U.S. tax at the 5 per cent rate provided by Article X (Dividends) of the Convention. However, the substantiality test would not be met in this example, so the dividends would remain subject to withholding in the United States at a rate of 30 percent.

It is expected that if a person qualifies for benefits under one of the tests of paragraph 2, no inquiry will be made into qualification for benefits under paragraph 3. Upon satisfaction of any of the tests of paragraph 2, any income derived by the beneficial owner from the other Contracting State is entitled to treaty benefits. Under paragraph 3, however, the test is applied separately to each item of income.

Paragraph 4 of Article XXIX A

Paragraph 4 provides a limited "derivative benefits" test that entitles a company that is a resident of the United States or Canada to the benefits of Articles X (Dividends), XI (Interest), and XII (Royalties), even if the company is not a qualifying person and does not satisfy the active trade or business test of paragraph 3. In general, a derivative benefits test entitles the resident of a Contracting State to treaty benefits if the owner of the resident would have been entitled to the same benefit had the income in question been earned directly by that owner. To qualify under this paragraph, the company must satisfy both the ownership test in subparagraph 4(*a*) and the base erosion test of subparagraph 4(*b*).

Under subparagraph 4(*a*), the derivative benefits ownership test requires that the company's shares representing more than 90 percent of the aggregate vote and value of all of the shares of the company, and at least 50 percent of the vote and value of any disproportionate class of shares, in neither case including debt substitute shares, be owned directly or indirectly by persons each of whom is either (i) a qualifying person or (ii) another person that satisfies each of three tests. The three tests of subparagraph 4(*a*) that must be satisfied by these other persons are as follows:

First, the other person must be a resident of a third State with which the Contracting State that is granting benefits has a comprehensive income tax convention. The other person must be entitled to all of the benefits under that convention. Thus, if the person fails to satisfy the limitation on benefits tests, if any, of that convention, no benefits would be granted under this paragraph. Qualification for benefits under an active trade or business test does not suffice for these purposes, because that test grants benefits only for certain items of income, not for all purposes of the convention.

Second, the other person must be a person that would qualify for benefits with respect to the item of income for which benefits are sought under one or more of the tests of paragraph 2 or 3 of Article XXIX A, if the person were a resident of the Contracting State that is not providing benefits for the item of income and, for purposes of paragraph 3, the business were carried on in that State. For example, a person resident in a third country would be deemed to be a person that would qualify under the publicly-traded test of paragraph 2 of Article XXIX A if the principal class of its shares were primarily and regularly traded on a stock exchange recognized either under the Convention between the United States and Canada or under the treaty between the Contracting State granting benefits and the third country. Similarly, a company resident in a third country would be deemed to satisfy the ownership/base erosion test of paragraph 2 under this hypothetical analysis if, for example, it were wholly owned by an individual resident in that third country and the company's tax base were not substantially eroded by payments (directly or indirectly) to non-qualifying persons.

The third requirement is that the rate of tax on the item of income in respect of which benefits are sought must be at least as low under the convention between the person's country of residence and the Contracting State granting benefits as it is under the Convention.

Subparagraph 4(*b*) sets forth the base erosion test. This test requires that the amount of expenses that are paid or payable by the company in question, directly or indirectly, to persons that are not qualifying persons under the Convention, and that are deductible from gross income (with both deductibility and gross income as determined under the tax laws of the State of residence of the company), be less than 50 percent of the gross income of the company. This test is applied for the fiscal period immediately preceding the period for which the test is being applied. If it is the first fiscal period of the person, the test is applied for the current period. This test is qualitatively the same as the base erosion test of subparagraph 2(*e*).

Paragraph 5 of Article XXIX A

Paragraph 5 defines certain terms used in the Article. These terms were identified and discussed in connection with new paragraph 2, above.

Paragraph 6 of Article XXIX A

Paragraph 6 provides that when a resident of a Contracting State derives income from the other Contracting State and is not entitled to the benefits of the Convention under other provisions of the Article, benefits may, nevertheless be granted at the discretion of the competent authority of the other Contracting State. This determination can be made with respect to all benefits under the Convention or on an item by item basis. In making a determination under this paragraph, the competent authority will take into account all relevant facts and circumstances relating to the person requesting the benefits. In particular, the competent authority will consider the history, structure, ownership (including ultimate beneficial ownership), and operations of the person. In addition, the competent authority is to consider (1) whether the creation and existence of the person did not have as a principal purpose obtaining treaty benefits that would not otherwise be available to the person, and (2) whether it would not be appropriate, in view of the purpose of the Article, to deny benefits. If the competent authority of the other Contracting State determines that either of these two standards is satisfied, benefits shall be granted.

For purposes of implementing new paragraph 6, a taxpayer will be permitted to present his case to the competent authority for an advance determination based on a full disclosure of all pertinent information. The taxpayer will not be required to wait until it has been determined that benefits are denied under one of the other provisions of the Article. It also is expected that, if and when the competent authority determines that benefits are to be allowed, they will be allowed retroactively to the time of entry into force of the relevant provision of the Convention or the establishment of the structure in question, whichever is later (assuming that the taxpayer also qualifies under the relevant facts for the earlier period).

Paragraph 7 of Article XXIX A

New paragraph 7 is in substance similar to paragraph 7 of Article XXIX A of the existing Convention and clarifies the application of general anti-abuse provisions. New paragraph 7 provides that paragraphs 1 through 6 of Article XXIX A shall not be construed as limiting in any manner the right of a Contracting State to deny benefits under the Convention where it can reasonably be concluded that to do otherwise would result in an abuse of the provisions of the Convention. This provision permits a Contracting State to rely on general anti-avoidance rules to counter arrangements involving treaty shopping through the other Contracting State.

Thus, Canada may apply its domestic law rules to counter abusive arrangements involving "treaty shopping" through the United States, and the United States may apply its substance-over-form and anti-conduit rules, for example, in relation to Canadian residents. This principle is recognized by the OECD in the Commentaries to its Model Tax Convention on Income and on Capital, and the United States and Canada agree that it is inherent in the Convention. The statement of this principle explicitly in the Protocol is not intended to suggest that the principle is not also inherent in other tax conventions concluded by the United States or Canada.

Article 26

Article 26 of the Protocol replaces paragraphs 1 and 5 of Article XXIX B (Taxes Imposed by Reason of Death) of the Convention. In addition, paragraph 7 of the General Note provides certain clarifications for purposes of paragraphs 6 and 7 of Article XXIX B.

Paragraph 1

Paragraph 1 of Article XXIX B of the existing Convention generally addresses the situation where a resident of a Contracting State passes property by reason of the individual's death to an organization referred to in paragraph 1 of Article XXI (Exempt Organizations) of the Convention. The paragraph provided that the tax consequences in a Contracting State arising out of the passing of the property shall apply as if the organization were a resident of that State.

The Protocol replaces paragraph 1, and the changes set forth in new paragraph 1 are intended to specifically address questions that have arisen about the application of former paragraph 1 where property of an individual who is a resident of Canada passes by reason of the individual's death to a charitable organization in the United States that is not a "registered charity" under Canadian law. Under one view, paragraph 1 of Article XXIX B requires Canada to treat the passing of the property as a contribution to a "registered charity" and thus to allow all of the same deductions for Canadian tax purposes as if the U.S. charity had been a "registered charity" under Canadian law. Under another view, paragraph 6 of Article XXI (Exempt Organizations) of the Convention continues to limit the amount of the income tax charitable deduction in Canada to the individual's income arising in the United States. The changes set forth in new paragraph 1 are intended to provide relief from the Canadian tax on gain deemed recognized by reason of death that would otherwise give rise to Canadian tax when the individual passes the property to a charitable organization in the United States, but, for purposes of the separate Canadian income tax, do not eliminate the limitation under paragraph 6 of Article XXI on the amount of the deduction in Canada for the charitable donation to the individual's income arising in the United States.

As revised, paragraph 1 is divided into two subparagraphs. New subparagraph 1(*a*) applies where property of an individual who is a resident of the United States passes by reason of the individual's death to a qualifying exempt organization that is a resident of Canada. In such case, the tax consequences in the United States arising from the passing of such property apply as if the organization were a resident of the United States. A bequest by a U.S. citizen or U.S. resident (as defined for estate tax purposes under the Code) to an exempt organization generally is deductible for U.S. federal estate tax purposes under Code section 2055, without regard to whether the organization is a U.S. corporation. Thus, generally, the individual's estate will be entitled to a charitable deduction for Federal estate tax purposes equal to the value of the property transferred to the organization. Generally, the effect is that no Federal estate tax will be imposed on the value of the property.

New subparagraph 1(*b*) applies where property of an individual who is a resident of Canada passes by reason of the individual's death to a qualifying exempt organization that is a resident of the United States. In such

case, for purposes of the Canadian capital gains tax imposed at death, the tax consequences arising out of the passing of the property shall apply as if the individual disposed of the property for proceeds equal to an amount elected on behalf of the individual. For this purpose, the amount elected shall be no less than the individual's cost of the property as determined for purposes of Canadian tax, and no greater than the fair market value of the property. The manner in which the individual's representative shall make this election shall be specified by the competent authority of Canada. Generally, in the event of a full exercise of the election under new subparagraph 1(*b*), no capital gains tax will be imposed in Canada by reason of the death with regard to that property.

New paragraph 1 does not address the situation in which a resident of one Contracting State bequeaths property with a situs in the other Contracting State to a qualifying exempt organization in the Contracting State of the decedent's residence. In such a situation, the other Contracting State may impose tax by reason of death, for example, if the property is real property situated in that State.

Paragraph 2

Paragraph 2 of Article 26 of the Protocol replaces paragraph 5 of Article XXIX B of the existing Convention. The provisions of new paragraph 5 relate to the operation of Canadian law. Because Canadian law requires both spouses to have been Canadian residents in order to be eligible for the rollover, these provisions are intended to provide deferral ("rollover") of the Canadian tax at death for certain transfers to a surviving spouse and to permit the Canadian competent authority to allow such deferral for certain transfers to a trust. For example, they would enable the competent authority to treat a trust that is a qualified domestic trust for U.S. estate tax purposes as a Canadian spousal trust as well for purposes of certain provisions of Canadian tax law and of the Convention. These provisions do not affect U.S. domestic law regarding qualified domestic trusts. Nor do they affect the status of U.S. resident individuals for any other purpose.

New paragraph 5 adds a reference to subsection 70(5.2) of the Canadian *Income Tax Act*. This change is needed because the rollover in respect of certain kinds of property is provided in that subsection. Further, new paragraph 5 adds a clause "and with respect to such property" near the end of the second sentence to make it clear that the trust is treated as a resident of Canada only with respect to its Canadian property.

For example, assume that a U.S. decedent with a Canadian spouse sets up a qualified domestic trust holding U.S. and Canadian real property, and that the decedent's executor elects, for Federal estate tax purposes, to treat the entire trust as qualifying for the Federal estate tax marital deduction. Under Canadian law, because the decedent is not a Canadian resident, Canada would impose capital gains tax on the deemed disposition of the Canadian real property immediately before death. In order to defer the Canadian tax that might otherwise be imposed by reason of the decedent's death, under new paragraph 5 of Article XXIX B, the competent authority of Canada shall, at the request of the trustee, treat the trust as a Canadian spousal trust with respect to the Canadian real property. The effect of such treatment is to defer the tax on the deemed distribution of the Canadian real property until an appropriate triggering event such as the death of the surviving spouse.

Paragraph 7 of the General Note

In addition to the foregoing, paragraph 7 of the General Note provides certain clarifications for purposes of paragraphs 6 and 7 of Article XXIX B. These clarifications ensure that tax credits will be available in cases where there are inconsistencies in the way the two Contracting States view the income and the property.

Subparagraph 7(*a*) of the General Note applies where an individual who immediately before death was a resident of Canada held at the time of death a share or option in respect of a share that constitutes property situated in the United States for the purposes of Article XXIX B and that Canada views as giving rise to employment income (for example, a share or option granted by an employer). The United States imposes estate tax on the share or option in respect of a share, while Canada imposes income tax on income from employment. Subparagraph 7(*a*) provides that for purposes of clause 6(*a*)(ii) of Article XXIX B, any employment income in respect of the share or option constitutes income from property situated in the United States. This provision ensures that the estate tax paid on the share or option in the United States will be allowable as a deduction from the Canadian income tax.

Subparagraph 7(*b*) of the General Note applies where an individual who immediately before death was a resident of Canada held at the time of death a registered retirement savings plan (RRSP) or other entity that is a resident of Canada and that is described in subparagraph 1(*b*) of Article IV (Residence) and such RRSP or other entity held property situated in the United States for the purposes of Article XXIX B. The United States would impose estate tax on the value of the property held by the RRSP or other entity (to the extent such property is subject to Federal estate tax), while Canada would impose income tax on a deemed distribution of the property in the RRSP or other entity. Subparagraph 7(*b*) provides that any income out of or under the entity in respect of the property is, for the purpose of subparagraph 6(*a*)(ii) of Article XXIX B, income from property situated in the United States. This provision ensures that the estate tax paid on the underlying property in the United States (if any) will be allowable as a deduction from the Canadian income tax.

Subparagraph 7(*c*) of the General Note applies where an individual who immediately before death was a resident or citizen of the United States held at the time of death an RRSP or other entity that is a resident of Canada and that is described in subparagraph 1(*b*) of Article IV (Residence). The United States would impose estate tax on the value of the property held by the RRSP or other entity, while Canada would impose income tax on a deemed distribution of the property in the RRSP or other entity. Subparagraph 7(*c*) provides that for the purpose of paragraph 7 of Article XXIX B, the tax imposed in Canada is imposed in respect of property situated in Canada. This provision ensures that the Canadian income tax will be allowable as a credit against the U.S. estate tax.

Article 27

Article 27 of the Protocol provides the entry into force and effective date of the provisions of the Protocol.

Paragraph 1

Paragraph 1 provides generally that the Protocol is subject to ratification in accordance with the applicable procedures in the United States and Canada. Further, the Contracting States shall notify each other by written notification, through diplomatic channels, when their respective applicable procedures have been satisfied.

Paragraph 2

The first sentence of paragraph 2 generally provides that the Protocol shall enter into force on the date of the later of the notifications referred to in paragraph 1, or January 1, 2008, whichever is later. The relevant date is the date on the second of these notification documents, and not the date on which the second notification is provided to the other Contracting State. The January 1, 2008 date is intended to ensure that the provisions of the Protocol will generally not be effective before that date.

Subparagraph 2(*a*) provides that the provisions of the Protocol shall have effect in respect of taxes withheld at source, for amounts paid or credited on or after the first day of the second month that begins after the date on which the Protocol enters into force. Further, subparagraph 2(*b*) provides that the Protocol shall have effect in respect of other taxes, for taxable years that begin after (or, if the later of the notifications referred to in paragraph 1 is dated in 2007, taxable years that begin in and after) the calendar year in which the Protocol enters into force. These provisions are generally consistent with the formulation in the U.S. Model treaty, with the exception that a parenthetical was added in subparagraph 2(*b*) to address the contingency that the written notifications provided pursuant to paragraph 1 may occur in the 2007 calendar year. Further, subparagraph 3(*d*) of Article 27 of the Protocol contains special provisions with respect to the taxation of cross-border interest payments that have effect for the first two calendar years that end after the date the Protocol enters into force. Therefore, during this period, cross-border interest payments are not subject to the effective date provisions of subparagraph 2(*a*).

Paragraph 3

Paragraph 3 sets forth exceptions to the general effective date rules set forth in paragraph 2 of Article 27 of the Protocol.

Dual corporate residence tie-breaker

Subparagraph 3(*a*) of Article 27 of the Protocol provides that paragraph 1 of Article 2 of the Protocol relating to Article IV (Residence) shall have effect with respect to corporate continuations effected after September 17, 2000. This date corresponds to a press release issued on September 18, 2000 in which the United States and Canada identified certain issues with respect to these transactions and stated their intention to negotiate a protocol that, if approved, would address the issues effective as of the date of the press release.

Certain payments through fiscally transparent entities

Subparagraph 3(*b*) of Article 27 of the Protocol provides that new paragraph 7 of Article IV (Residence) set forth in paragraph 2 of Article 2 of the Protocol shall have effect as of the first day of the third calendar year that ends after the Protocol enters into force.

Permanent establishment from the provision of services

Subparagraph 3(*c*) of Article 27 of the Protocol sets forth the effective date for the provisions of Article 3 of the Protocol, pertaining to Article V (Permanent Establishment) of the Convention. The provisions pertaining to Article V shall have effect as of the third taxable year that ends after the Protocol enters into force, but in no event shall it apply to include, in the determination of whether an enterprise is deemed to provide services through a permanent establishment under paragraph 9 of Article V of the Convention, any days of presence, services rendered, or gross active business revenues that occur or arise prior to January 1, 2010. Therefore, the provision will apply beginning no earlier than January 1, 2010 and shall not apply with regard to any presence, services or related revenues that occur or arise prior to that date.

Withholding rates on cross-border interest payments

Subparagraph 3(*d*) of Article 27 of the Protocol sets forth special effective date rules pertaining to Article 6 of the Protocol relating to Article XI (Interest) of the Convention. Article 6 of the Protocol sets forth a new Article XI of the Convention that provides for exclusive residence State taxation regardless of the relationship between the payer and the beneficial owner of the interest. Subparagraph 3(*d*), however, phases in the application of paragraph 1 of Article XI during the first two calendar years that end after the date the Protocol enters into force. During that period, paragraph 1 of Article XI of the Convention permits source State taxation of interest if the payer and the beneficial owner are related or deemed to be related by reason of paragraph 2 of Article IX (Related Persons) of the Convention ("related party interest"), and the interest would not otherwise be exempt under the provisions of paragraph 3 of Article XI as it read prior to the Protocol. However, subparagraph 3(*d*) also provides that the source State taxation on such related party interest is limited to 7 percent in the first calendar year that ends after entry into force of the Protocol and 4 percent in the second calendar year that ends after entry into force of the Protocol.

Subparagraph 3(*d*) makes clear that the provisions of the Protocol with respect to exclusive residence based taxation of interest when the payer and the beneficial owner are not related or deemed related ("unrelated party interest") applies for interest paid or credited during the first two calendar years that end after entry into force of the Protocol.

The withholding rate reductions for related party interest and exemptions for unrelated party interest will likely apply retroactively. For example, if the Protocol enters into force on June 30, 2008, paragraph 1 of Article XI, as it reads under subparagraph 3(*d*) of Article 27, will have the following effect during the first two calendar years. First, unrelated party interest that is paid or credited on or after January 1, 2008 will be exempt from taxation in the source State. Second, related party interest paid or credited on or after January 1, 2008 and before January 1, 2009, will be subject to source State taxation but at a rate not to exceed 7 percent of the gross amount of the interest. Third, related party interest paid or credited on or after January 1, 2009 and before January 1, 2010, will be subject to source State taxation but at a rate not to exceed 4 percent of the gross amount of the interest. Finally, all interest paid or credited after January 1, 2010, will be subject to the regular rules of Article XI without regard to subparagraph 3(*d*) of Article 27.

Further, the provisions of subparagraph 3(*d*) ensure that even with respect to circumstances where the payer and the beneficial owner are related or deemed related under the provisions of paragraph 2 of Article IX, the source State taxation of such cross-border interest shall be no greater than the taxation of such interest prior to the Protocol.

Gains

Subparagraph 3(*e*) of Article 27 of the Protocol provides the effective date for paragraphs 2 and 3 of Article 8 of this Protocol, which relate to the changes made to paragraphs 5 and 7 of Article XIII (Gains) of the Convention. The changes set forth in those paragraphs shall have effect with respect to alienations of property that occur (including, for greater certainty, those that are deemed under the law of a Contracting State to occur) after September 17, 2000. This date corresponds to the press release issued on September 18, 2000 which announced the intention of the United States and Canada to negotiate a protocol that, if approved, would incorporate the changes set forth in these paragraphs to coordinate the tax treatment of an emigrant's gains in the United States and Canada.

Arbitration

Subparagraph 3(*f*) of Article 27 of the Protocol pertains to Article 21 of the Protocol which implements the new arbitration provisions. An arbitration proceeding will generally begin two years after the date on which the competent authorities of the Contracting States began consideration of a case. Subparagraph 3(*f*), however, makes clear that the arbitration provisions shall apply to cases that are already under consideration by the competent authorities when the Protocol enters into force, and in such cases, for purposes of applying the arbitration provisions, the commencement date shall be the date the Protocol enters into force. Further, the provisions of Article 21 of the Protocol shall be effective for cases that come into consideration by the competent authorities after the date that the Protocol enters into force. In order to avoid the potential for a large number of MAP cases becoming subject to arbitration immediately upon the expiration of two years from entry into force, the competent authorities are encouraged to develop and implement procedures for arbitration by January 1, 2009, and begin scheduling arbitration of otherwise unresolvable MAP cases in inventory (and meeting the agreed criteria) prior to two years from entry into force.

Assistance in collection

Subparagraph 3(*g*) of Article 27 of the Protocol pertains to the date when the changes set forth in Article 22 of the Protocol, relating to assistance in collection of taxes, shall have effect. Consistent with the third protocol that entered into force on November 9, 1995, and which had effect for requests for assistance on claims finally determined after November 9, 1985, the provisions of Article 22 of the Protocol shall have effect for revenue claims finally determined by an applicant State after November 9, 1985.

Canada–U.K. Income Tax Convention (1978)

Date Signed:	Convention – September 8, 1978
	First Protocol – April 15, 1980
	Second Protocol – October 16, 1985
	Third Protocol – May 7, 2003
Date entered into force:	Convention – December 17, 1980
	First Protocol – December 18, 1980
	Second Protocol – December 23, 1985
	Third Protocol – May 4, 2004
Effective date of provisions:	Convention –
	• For withholding taxes — Amounts paid or credited to non-residents on or after January 1, 1976
	• For other taxes — Taxation years beginning on or after January 1, 1976
	First protocol –
	The provisions of Article 27A of the Convention, as added by Article IV of the Protocol, will have effect in Canada:
	• For withholding taxes — Amounts paid or credited to non-residents on or after January 1, 1981
	• For other taxes — Taxation years beginning on or after January 1, 1981
	Second protocol –
	• For withholding taxes and dividends, interest and royalties — Amounts paid or credited on or after February 1, 1986.
	• For pension and annuity payments — Amounts paid or credited after April 6, 1986.
	• For other payments — Taxation years beginning on or after January 1, 1986.
	Third protocol –
	• For withholding taxes — Amounts paid or credited to non-residents on or after January 1, 2005
	• For other taxes — Taxation years beginning on or after January 1, 2005
	• In the case of the United Kingdom, the Protocol will have effect in respect of income tax and capital gains tax, for any year of assessment beginning on or after April 6, 2005, and;
	• In respect of corporation tax, for any financial year beginning on or after April 1, 2005.
History:	The 1978 Canada–UK Convention replaced the 1966 Agreement. The 1978 convention has been amended by three protocols — see above for dates.

Convention between the Government of Canada and the Government of the United Kingdom of Great Britain and Northern Ireland for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital Gains[4]

The Government of Canada and the Government of the United Kingdom of Great Britain and Northern Ireland desiring to conclude a Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and capital gains, have agreed as follows:

Article 1 — Personal Scope

This Convention shall apply to persons who are residents of one or both of the Contracting States.

Article 2 — Taxes Covered

1. The taxes which are the subject of this Convention are:

(*a*) in Canada:

the income taxes which are imposed by the Government of Canada, (hereinafter referred to as "Canadian tax");

(*b*) in the United Kingdom of Great Britain and Northern Ireland:

the income tax, the corporation tax, the capital gains tax, the petroleum revenue tax and the development land tax (hereinafter referred to as "United Kingdom tax").

2. The Convention shall apply also to any identical or substantially similar taxes which are imposed after the date of signature of this Convention in addition to, or in place of, the existing taxes by either Contracting State or by the Government of any territory to which the present Convention is extended under Article 26 . The Contracting States shall notify each other of changes which have been made in their respective taxation laws.

Article 3 — General Definitions

1. In this Convention, unless the context otherwise requires:

[4] The text of the Convention as it appears here has been consolidated to reflect the changes made by all three Protocols.

(*a*) (i) the term "Canada" used in a geographical sense, means the territory of Canada, including any area beyond the territorial waters of Canada which is an area where Canada may, in accordance with its national legislation and international law, exercise sovereign rights with respect to the sea-bed and sub-soil and their natural resources;

(ii) the term "United Kingdom" means Great Britain and Northern Ireland, including any area outside the territorial sea of the United Kingdom which in accordance with international law has been or may be hereafter designated, under the laws of the United Kingdom concerning the Continental Shelf, as an area within which the rights of the United Kingdom with respect to the sea-bed and sub-soil and their natural resources may be exercised;

(*b*) the terms "a Contracting State" and "the other Contracting State" mean, as the context requires, Canada or the United Kingdom;

(*c*) the term "person" includes an individual, a trust, a company, any entity treated as a unit for tax purposes and any other body of persons, but does not include a partnership;

History: Subparagraph (*c*) of paragraph 1 of Article 3 of the Convention was amended by Article 1 of the Canada–U.K. Protocol, dated May 7, 2003. Subparagraph (*c*) of paragraph 1 of Article 3 of the Convention formerly read:

"(*c*) the term "person" comprises an individual, a company, any entity treated as a unit for tax purposes or any other body of persons."

(*d*) the term "company" means any body corporate or any other entity which is treated as a body corporate for tax purposes; in French, the term "sociéetée" also means a "corporation" within the meaning of Canadian law;

(*e*) the terms "enterprise of a Contracting State" and "enterprise of the other Contracting State" mean respectively an enterprise carried on by a resident of a Contracting State and an enterprise carried on by a resident of the other Contracting State;

(*f*) the term "competent authority" means:

(i) in the case of Canada, the Minister of National Revenue or his authorized representative,

(ii) in the case of the United Kingdom, the Commissioners of Inland Revenue or their authorized representative;

(*g*) the term "tax" means Canadian tax or United Kingdom tax, as the context requires;

(*h*) the term "national" means:

(i) in relation to the United Kingdom, any British citizen, or any British subject not possessing the citizenship of any other Commonwealth country or territory, provided that citizen or subject has the right of abode in the United Kingdom; and any legal person, partnership, association or other entity deriving its status as such from the law in force in the United Kingdom;

History: Clause (i) of subparagraph (*h*) of paragraph 1 of Article 3 of the Convention was amended by Article 1 of the Canada–U.K. Protocol, dated May 7, 2003. Clause (i) of subparagraph (*h*) of paragraph 1 of Article 3 of the Convention formerly read:

"(i) in relation to the United Kingdom all citizens of the United Kingdom and Colonies, British Subjects under sections 2, 13(1) or 16 of the *British Nationality Act 1948*, and British Subjects by virtue of section 1 of the *British Nationality Act 1965*, provided they are patrial within the meaning of the *Immigration Act 1971*, so far as these provisions are in force on the date of entry into force of this Convention or have been modified only in minor respects, so as not to affect their general character; and all legal persons, partnerships, and associations deriving their status as such from the law in force in the United Kingdom."

(ii) in relation to Canada, all citizens of Canada and all legal persons, partnerships and associations deriving their status as such from the law in force in Canada.

2. As regards the application of the Convention by a Contracting State any term not otherwise defined shall, unless the context otherwise requires, have the meaning which it has under the laws of that Contracting State relating to the taxes which are the subject of the Convention;

Article 4 — Fiscal Domicile

1. For the purposes of this Convention, the term "resident of a Contracting State" means any person who, under the law of that State, is liable to taxation therein by reason of his domicile, residence, place of management or any other criterion of a similar nature. But this term does not include any person who is liable to tax in that Contracting State in respect only of income from sources therein.

2. Where by reason of the provisions of paragraph 1 an individual is a resident of both Contracting States, then his status shall be determined as follows:

(*a*) he shall be deemed to be a resident of the Contracting State in which he has a permanent home available to him. If he has a permanent home available to him in both Contracting States, he shall be deemed to be a resident of the Contracting State with which his personal and economic relations are closer (centre of vital interests);

(*b*) if the Contracting State in which he has his centre of vital interests cannot be determined, or if he has not a permanent home available to him in either Contracting State, he shall be deemed to be a resident of the Contracting State in which he has an habitual abode;

(*c*) if he has an habitual abode in both Contracting States or in neither of them, he shall be deemed to be a resident of the Contracting State of which he is a national;

(*d*) if he is a national of both Contracting States or of neither of them, the competent authorities of the Contracting States shall settle the question by mutual agreement;

3. Where by reason of the provisions of paragraph 1 of this Article a person other than an individual is a resident of both Contracting States, the competent authorities of the Contracting States shall endeavour to determine by mutual agreement the State of which the person shall be deemed to be a resident, having regard to its place of effective management, the place where it is incorporated or otherwise constituted and any other relevant factors. If the competent authorities are unable to determine the matter by mutual agreement, they shall endeavour to determine by mutual agreement the mode of application of the Convention to that person.

History: Paragraph 3 of Article 4 of the Convention was amended by Article 2 of the Canada–U.K. Protocol, dated May 7, 2003. Paragraph 3 of Article 4 of the Convention formerly read:

"3. Where by reason of the provisions of paragraph 1 a person other than an individual is a resident of both Contracting States, the competent authorities of the Contracting States shall by mutual agreement endeavour to settle the question and to determine the mode of application of the Convention to such person."

Article 5 — Permanent Establishment

1. For the purposes of this Convention, the term "permanent establishment" means a fixed placed of business in which the business of the enterprise is wholly or partly carried on.

2. The term "permanent establishment "shall include especially:

(*a*) a place of management;

(*b*) a branch;

(*c*) an office;

(*d*) a factory;

(*e*) a workshop;

(*f*) a mine, quarry or other place of extraction of natural resources;

(*g*) a building site or construction or assembly project which exists for more than 12 months.

3. The term "permanent establishment "shall not be deemed to include:

(*a*) the use of facilities solely for the purpose of storage, display or delivery of goods or merchandise belonging to the enterprise;

(*b*) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of storage, display or delivery;

(*c*) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of processing by another enterprise;

(*d*) the maintenance of a fixed place of business solely for the purpose of purchasing goods or merchandise or for collecting information, for the enterprise;

(*e*) the maintenance of a fixed place of business solely for the purpose of advertising, for the supply of information, for scientific research, or for similar activities which have a preparatory or auxiliary character, for the enterprise.

4. A person — other than an agent of an independent status to whom paragraph 5 applies — acting in a Contracting State on behalf of an enterprise of the other Contracting State shall be deemed to be a permanent establishment in the first-mentioned State if he has, and habitually exercises in that first-mentioned State, an authority to conclude

contracts in the name of the enterprise, unless his activities are limited to the purchase of goods or merchandise for the enterprise.

5. An enterprise of a Contracting State shall not be deemed to have a permanent establishment in the other Contracting State merely because it carries on business in that other State through a broker, general commission agent or any other agent of an independent status, where such persons are acting in the ordinary course of their business.

6. The fact that a company which is a resident of a Contracting State controls or is controlled by a company which is a resident of the other Contracting State, or which carries on business in that other State (whether through a permanent establishment or otherwise), shall not of itself constitute either company a permanent establishment of the other.

Article 6 — Income from Immovable Property.

1. Income from immovable property, including income from agriculture or forestry, may be taxed in the Contracting State in which such property is situated.

2. For the purposes of this Convention, the term "immovable property" shall be defined in accordance with the law of the Contracting State in which the property in question is situated. The term shall in any case include property accessory to immovable property, livestock and equipment used in agriculture and forestry, rights to which the provisions of general law respecting landed property apply, usufruct of immovable property and rights to variable or fixed payments as consideration for the working of, or the right to work, mineral deposits, sources and other natural resources; ships, boats and aircraft shall not be regarded as immovable property.

3. The provisions of paragraph 1 shall apply to income derived from the direct use, letting, or use in any other form of immovable property and to profits from alienation of such property.

4. The provisions of paragraphs 1 and 3 shall also apply to the income from immovable property of an enterprise and to income from immovable property used for the performance of professional services.

Article 7 — Business Profits

1. The profits of an enterprise of a Contracting State shall be taxable only in that State unless the enterprise carries on business in the other Contracting State through a permanent establishment situated therein. If the enterprise carries on or has carried on business as aforesaid, the profits of the enterprise may be taxed in the other State but only so much of them as is attributable to that permanent establishment.

2. Subject to the provisions of paragraph 3, where an enterprise of a Contracting State carries on business in the other Contracting State through a permanent establishment situated therein, there shall be attributed to that permanent establishment profits which it might be expected to make if it were a distinct and separate enterprise engaged in the same or similar activities under the same or similar conditions and dealing wholly independently with the enterprise of which it is a permanent establishment.

3. In the determination of the profits of a permanent establishment situated in a Contracting State, there shall be allowed as deductions expenses of the enterprise (other than expenses which would not be deductible under the law of that State if the permanent establishment were a separate enterprise) which are incurred for the purposes of the permanent establishment including executive and general administrative expenses, whether incurred in the State in which the permanent establishment is situated or elsewhere.

4. Insofar as it has been customary in a Contracting State to determine the profits to be attributed to a permanent establishment on the basis of an apportionment of the total profits of the enterprise to its various parts, nothing in paragraph 2 shall preclude that Contracting State from determining the profits to be taxed by such an apportionment as may be customary; the method of apportionment adopted shall, however, be such that the result shall be in accordance with the principles embodied in this Article.

5. No profits shall be attributed to a permanent establishment by reason of the mere purchase by that permanent establishment of goods or merchandise for the enterprise.

6. For the purposes of the preceding paragraphs, the profits to be attributed to the permanent establishment shall be determined by the same method year by year unless there is good and sufficient reason to the contrary.

7. Where profits include items of income which are dealt with separately in other Articles of this Convention, the provisions of this Article shall not prevent the application of the provisions of those other Articles with respect to the taxation of such items of income.

Article 8 — Shipping and Air Transport

1. Profits derived by an enterprise of a Contracting State from the operation of ships or aircraft in international traffic shall be taxable only in that State.

2. Notwithstanding the provisions of paragraph 1 and Article 7, profits derived from the operation of ships used principally to transport passengers or goods exclusively between places in a Contracting State may be taxed in that State.

3. Notwithstanding the provisions of Article 7, profits of an enterprise of a Contracting State from the use, maintenance or rental of containers (including trailers and related equipment for the transport of containers) used for the transport of goods or merchandise in international traffic shall be taxable only in that State.

4. The provisions of this Article shall also apply to profits derived by an enterprise of a Contracting State from its participation in a pool, a joint business or an international operating agency.

History: Article 8 was amended by Article 1 of the Protocol to this Convention, dated December 23, 1985. Article 8 formerly read:

"1. Profits derived by an enterprise of a Contracting State from the operation of ships or aircraft in international traffic shall be taxable only in that State.

2. Notwithstanding the provisions of paragraph 1 and Article 7, profits derived from the operation of ships used principally to transport passengers or goods exclusively between places in a Contracting state may be taxed in that State.

3. The provisions of paragraphs 1 and 2 shall also apply to profits referred to in those paragraphs derived by an enterprise of a Contracting State from its participation in a pool, a joint business or in an international operating agency."

Article 9 — Associated Enterprises

1. Where:

(*a*) an enterprise of a Contracting State participates directly or indirectly in the management, control or capital of an enterprise of the other Contracting State; or

(*b*) the same persons participate directly or indirectly in the management, control or capital of an enterprise of a Contracting State and an enterprise of the other Contracting State;

and in either case conditions are made or imposed between the two enterprises in their commercial or financial relations which differ from those which would be made between independent enterprises, then any profits which would, but for those conditions, have accrued to one of the enterprises, but, by reason of those conditions, have not so accrued, may be included by a Contracting State in the profits of that enterprise and taxed accordingly.

2. Where a Contracting State includes in the profits of an enterprise of that State — and taxes accordingly — profits on which an enterprise of the other Contracting State has been charged to tax in that other State and the profits so included are profits which would have accrued to the enterprise of the first-mentioned State if the conditions made between the two enterprises had been those which would have been made between independent enterprises, then, subject to the provisions of paragraph 3 of this Article, that other State shall (notwithstanding any time limits in the domestic law of that other State) make an appropriate adjustment to the amount of tax charged therein on the profits. In determining such adjustment, due regard shall be had to the other provisions of this Convention and the competent authorities of the Contracting States shall if necessary consult each other.

3. Where a Contracting State makes or proposes to make an adjustment in accordance with the provisions of paragraph 1 of this Article, the other Contracting State shall be required to make the appropriate adjustment provided for under paragraph 2 of this Article to the profits of the associated enterprise in that other State only if within six years from the end of the taxation year (in Canada) or the chargeable period (in the United Kingdom) to which the first-mentioned adjustment relates, the competent authority of the other State has been notified that the first-mentioned adjustment has been made or proposed.

4. The provisions of paragraphs 2 and 3 of this Article shall not impose any obligation on Canada in the case of fraud, wilful default or gross negligence or on the United Kingdom in the case of fraudulent conduct.

History: Article 9 of the Convention was amended by Article 3 of the Canada–U.K. Protocol, dated May 7, 2003. Article 9 of the Convention formerly read:

"Where

(*a*) an enterprise of a Contracting State participates directly or indirectly in the management, control or capital of an enterprise of the other Contracting State, or

(*b*) the same persons participate directly or indirectly in the management, control or capital of an enterprise of a Contracting State and an enterprise of the other Contracting State,

and in either case conditions are made or imposed between the two enterprises in their commercial or financial relations which differ from those which would be made between independent enterprises, then any income, deductions, receipts or outgoings which would, but for those conditions, have been attributed to one of the enterprises, but, by reason of those conditions, have not been so attributed, may be taken into account in computing the profits or losses of that enterprise and taxed accordingly."

Article 10 — Dividends

1. Dividends paid by a company which is a resident of a Contracting State to a resident of the other Contracting State may be taxed in that other State.

2. However, such dividends may also be taxed in the Contracting State of which the company paying the dividends is a resident and according to the laws of that State, but if the beneficial owner of the dividends is a resident of the other Contracting State the tax so charged shall not exceed:

(*a*) 5 per cent of the gross amount of the dividends if the beneficial owner is a company which controls, directly or indirectly, at least 10 per cent of the voting power in the company paying the dividends;

(*b*) 15 per cent of the gross amount of the dividends in all other cases.

The provisions of this paragraph shall not affect the taxation of the company in respect of the profits out of which the dividends are paid.

3. [Deleted by Protocol signed on May 7, 2003]

History: Paragraphs 1 and 2 of Article 10 of the Convention were amended by Article 4 of the Canada–U.K. Protocol, dated May 7, 2003. Paragraphs 1 and 2 of the Convention formerly read:

"1. Dividends paid by a company which is a resident of Canada to a resident of the United Kingdom may be taxed in the United Kingdom. Such dividends may also be taxed in Canada, and according to the laws of Canada, but provided that the beneficial owner of the dividends is a resident of the United Kingdom the tax so charged shall not exceed:

(*a*) 10 per cent of the gross amount of the dividends if the recipient is a company which controls, directly or indirectly, at least 10 per cent of the voting power in the company paying the dividends;

(*b*) 15 per cent of the gross amount of the dividends in all other cases.

2. Dividends paid by a company which is a resident of the United Kingdom to a resident of Canada may be taxed in Canada. Such dividends may also be taxed in the United Kingdom, and according to the laws of the United Kingdom, but provided that the beneficial owner of the dividends is a resident of Canada the tax so charged shall not exceed 15 per cent of the gross amount of the dividends."

Paragraph 3 of Article 10 of the Convention was deleted by Article 4 of the Canada–U.K. Protocol, dated May 7, 2003. Paragraph 3 of Article 10 of the Convention formerly read:

"3. However, as long as an individual resident in the United Kingdom is entitled to a tax credit in respect of dividends paid by a company resident in the United Kingdom, the following provisions of this paragraph shall apply instead of the provisions of paragraph 2 of this Article:

(*a*) (i) Dividends paid by a company which is a resident of the United Kingdom to a resident of Canada may be taxed in Canada.

(ii) where a resident of Canada is entitled to a tax credit in respect of such a dividend under subparagraph (*b*) of this paragraph, tax may also be charged in the United Kingdom and according to the laws of the United Kingdom, on the aggregate of the amount or value of that dividend and the amount of that tax credit at a rate not exceeding 15 per cent.

(iii) Where a resident of Canada is entitled to a tax credit in respect of such a dividend under subparagraph (*c*) of this paragraph, tax may also be charged in the United Kingdom and according to the laws of the United Kingdom, on the aggregate of the amount or value of that dividend and the amount of that tax credit at a rate not exceeding 10 per cent.

(iv) Except as provided in subparagraph (*a*)(ii) and (*a*)(iii) of this paragraph, dividends paid by a company which is a resident of the United Kingdom to a resident of Canada who is the beneficial owner of those dividends shall be exempt from any tax which is chargeable in the United Kingdom on dividends.

(*b*) A resident of Canada who receives a dividend from a company which is a resident of the United Kingdom shall, subject to the provisions of subparagraph (*c*) of this paragraph and provided he is the beneficial owner of the dividend, be entitled to the tax credit in respect thereof to which an individual resident in the United Kingdom would have been entitled had he received that dividend, and to the payment of any excess of such credit over his liability to the United Kingdom tax.

(*c*) The provisions of subparagraph (*b*) of this paragraph shall not apply where the beneficial owner of the dividend is, or is associated with, a company which, either alone or together with one or more associated companies, controls, directly or indirectly, at least 10 per cent of the voting power in the company paying the dividend. In these circumstances a company which is a resident of Canada and receives a dividend from a company which is a resident of the United Kingdom shall, provided it is the beneficial owner of the dividend, be entitled to a tax credit equal to one-half of the tax credit to which an individual resident in the United Kingdom would have been entitled had he received that dividend, and to the payment of any excess of such credit over its liability to United Kingdom tax. For the purpose of this subparagraph, two companies shall be deemed to be associated if one controls, directly or indirectly, more than 50 per cent of the voting power in the other company, or a third company controls more than 50 per cent of the voting power in both of them."

4. The term "dividends" as used in this Article means income from shares, "jouissance" shares or "jouissance" rights, mining shares, founders, shares or other rights, not being debt-claims, participating in profits, as well as income assimilated to or treated in the same way as income from shares by the taxation law of the State of which the company making the payment is a resident.

5. The provisions of paragraphs 1 and 2 of this Article shall not apply if the beneficial owner of the dividends, being a resident of a Contracting State, carries on business in the other Contracting State of which the company paying the dividends is a resident, through a permanent establishment situated therein, or performs in that other State professional services from a fixed base situated therein, and the holding in respect of which the dividends are paid is effectively connected with such permanent establishment or fixed base. In such a case, the provisions of Article 7 or Article 14, as the case may be, shall apply.

History: Paragraph 5 of Article 10 of the Convention was amended by Article 4 of the Canada–U.K. Protocol, dated May 7, 2003. Paragraph 5 of Article 10 of the Convention formerly read:

"5. The provisions of paragraphs 1, 2 and 3 shall not apply if the recipient of the dividends, being a resident of a Contracting State, carries on business in the other Contracting State of which the company paying the dividends is a resident, through a permanent establishment situated therein, or performs in that other State professional services from a fixed base situated therein, and the holding in respect of which the dividends are paid is effectively connected with such permanent establishment or fixed base. In such a case, the provisions of Article 7 or Article 14, as the case may be, shall apply."

6. Where a company is a resident of only one Contracting State, the other Contracting State may not impose any tax on the dividends paid by the company, except insofar as such dividends are paid to a resident of that other State or insofar as the holding in respect of which the dividends are paid is effectively connected with a permanent establishment or a fixed base situated in that other State, nor subject the company's undistributed profits to a tax on undistributed profits, even if the dividends paid or the undistributed profits consist wholly or partly of profits or income arising in such other State.

7. The provisions of this Article shall not apply if it was the main purpose or one of the main purposes of any person concerned with the creation or assignment of the shares or other rights in respect of which the dividend is paid to take advantage of this Article by means of that creation or assignment.

History: Paragraph 7 of Article 10 of the Convention was amended by Article 4 of the Canada–U.K. Protocol, dated May 7, 2003. Paragraph 7 of Article 10 of the Convention formerly read:

"7. If a resident of Canada does not bear Canadian tax on dividends derived from a company which is a resident of the United Kingdom and owns 10 per cent or more of the class of shares in respect of which the dividends are paid, then neither paragraph 2 nor 3 shall apply to the dividends to the extent that they can have been paid only out of profits which the company paying the dividends earned or other income which it received in a period ending twelve months or more before the relevant date. For the purposes of this paragraph the term "relevant date" means the date on which the beneficial owner of the dividends became the owner of 10 per cent or more of the class of shares referred to above.

Provided that this paragraph shall not apply if the shares were acquired for *bona fide* commercial reasons and not primarily for the purpose of securing the benefit of this Article."

Article 10 was amended by Article 2 of the Protocol to this Convention. Article 10 formerly read:

"1. Dividends paid by a company which is a resident of Canada to a resident of the United Kingdom may be taxed in the United Kingdom. Such dividends may also be taxed in Canada, and according to the laws of Canada, but provided that the beneficial owner of the dividends is a resident of the

United Kingdom the tax so charged shall not exceed 15 per cent of the gross amount of the dividends.

2. Dividends paid by a company which is a resident of the United Kingdom to a resident of Canada may be taxed in Canada. Such dividends may also be taxed in the United Kingdom, and according to the laws of the United Kingdom, but provided that the beneficial owner of the dividends is a resident of Canada the tax so charged shall not exceed 15 per cent of the gross amount of the dividends.

3. However, as long as an individual resident in the United Kingdom is entitled to a tax credit in respect of dividends paid by a company resident in the United Kingdom, the following provisions of this paragraph shall apply instead of the provisions of paragraph 2 of this Article:

(*a*) (i) Dividends paid by a company which is a resident of the United Kingdom to a resident of Canada may be taxed in Canada

(ii) Where a resident of Canada is entitled to a tax credit in respect of such a dividend under subparagraph (*b*) of this paragraph, tax may also be charged in the United Kingdom and according to the laws of the United Kingdom, on the aggregate of the amount or value of that dividend and the amount of that tax credit at a rate not exceeding 15 per cent.

(iii) Except as provided in subparagraph (*a*)(ii) of this paragraph, dividends paid by a company which is a resident of the United Kingdom to a resident of Canada who is the beneficial owner of those dividends shall be exempt from any tax which is chargeable in the United Kingdom on dividends.

(*b*) A resident of Canada who receives a dividend from a company which is a resident of the United Kingdom shall, subject to the provisions of subparagraph (*c*) of this paragraph and provided he is the beneficial owner of the dividend, be entitled to the tax credit in respect thereof to which an individual resident in the United Kingdom would have been entitled had he received that dividend, and to payment of any excess of such credit over his liability to United Kingdom tax.

(*c*) The provisions of subparagraph (*b*) of this paragraph shall not apply where the beneficial owner of the dividend is a company which, either alone or together with one or more associated companies, controls directly or indirectly at least 10 per cent of the voting power in the company paying the dividend. For the purposes of this subparagraph two companies shall be deemed to be associated if one is controlled directly or indirectly by the other or both are controlled directly or indirectly by a third company.

4. The term "dividends" as used in this Article means income from shares, "jouissance" shares or "jouissance" rights, mining shares, founders' shares or other rights, not being debt-claims, participating in profits, as well as income assimilated to or treated in the same way as income from shares by the taxation law of the State of which the company making the payment is a resident.

5. The provisions of paragraphs 1, 2 and 3 shall not apply if the recipient of the dividends, being a resident of a Contracting State, carries on business in the other Contracting State of which the company paying the dividends is a resident, through a permanent establishment situated therein, or performs in that other State professional services from a fixed base situated therein, and the holding in respect of which the dividends are paid is effectively connected with such permanent establishment or fixed base. In such a case, the provisions of Article 7 or Article 14, as the case may be, shall apply.

6. Where a company is a resident of only one Contracting State, the other Contracting State may not impose any tax on the dividends paid by the company, except insofar as such dividends are paid to a resident of that other State or insofar as the holding in respect of which the dividends are paid is effectively connected with a permanent establishment or a fixed base situated in that other State, nor subject the company's undistributed profits to a tax on undistributed profits, even if the dividends paid or the undistributed profits consist wholly or partly of profits or income arising in such other State.

7. If a resident of Canada does not bear Canadian tax on dividends derived from a company which is a resident of the United Kingdom and owns 10 per cent or more of the class of shares in respect of which the dividends are paid, then neither paragraph 2 nor 3 shall apply to the dividends to the extent that they can have been paid only out of profits which the company paying the dividends earned or other income which it received in a period ending twelve months or more before the relevant date. For the purposes of this paragraph the term "relevant date "means the date on which the beneficial owner of the dividends became the owner of 10 per cent or more of the class of shares referred to above.

Provided that this paragraph shall not apply if the shares were acquired for *bona fide* commercial reasons and not primarily for the purpose of securing the benefit of this Article."

Article 11 — Interest

1. Interest arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State.

2. However, such interest may be taxed in the Contracting State in which it arises, and according to the law of that State; but if the recipient is the beneficial owner of the interest, the tax so charged shall not exceed 10 per cent of the gross amount of the interest.

3. Notwithstanding the provisions of paragraph 2 of this Article,

(*a*) interest arising in the United Kingdom and paid to a resident of Canada shall be taxable only in Canada if it is paid in respect of a loan made, guaranteed or insured, or a credit extended, guaranteed or insured by Export Development Canada;

(*b*) interest arising in Canada and paid to a resident of the United Kingdom shall be taxable only in the United Kingdom if it is paid in respect of a loan made, guaranteed or insured, or a credit extended, guaranteed or insured by the United Kingdom Export Credits Guarantee Department; and

(*c*) interest arising in a Contracting State and paid with respect to indebtedness in connection with the sale on credit by a resident of the other State of any equipment, merchandise or services, except where the sale or indebtedness was between related persons, shall be taxable only in the other State.

History: Paragraph 3 of Article 11 of the Convention was amended by Article 5 of the Canada–U.K. Protocol, dated May 7, 2003. Paragraph 3 of Article 11 of the Convention formerly read:

"3. Notwithstanding the provisions of paragraph 2 of this Article,

(*a*) interest arising in the United Kingdom and paid to a resident of Canada shall be taxable only in Canada if it is paid in respect of a loan made, guaranteed or insured, or a credit extended, guaranteed or insured by the Export Development Corporation; and

(*b*) interest arising in Canada and paid to a resident of the United Kingdom shall be taxable only in the United Kingdom if it is paid in respect of a loan made, guaranteed or insured, or a credit extended, guaranteed or insured by the United Kingdom Export Credits Guarantee Department."

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4. (*a*) Notwithstanding the provisions of paragraph 2 of this Article, interest arising in Canada and paid in respect of a bond, debenture or other similar obligation of the Government of Canada or of a political subdivision or local authority thereof shall, provided that the interest is beneficially owned by a resident of the United Kingdom, be taxable only in the United Kingdom;

(*b*) Notwithstanding the provisions of Article 29 Canada may, on or before the thirtieth day of June in any calendar year, give to the United Kingdom notice of termination of this paragraph and in such event this paragraph shall cease to have effect in respect of interest paid on obligations issued after 31 December of the calendar year in which the notice is given.

5. The term "interest" as used in this Article means income from debt-claims of every kind, whether or not secured by mortgage, and whether or not carrying a right to participate in the debtor's profits, and in particular, income from government securities and income from bonds or debentures, including premiums and prizes attaching to bonds or debentures, as well as income assimilated to income from money lent by the taxation law of the State in which the income arises. However, the term "interest" does not include income dealt with in Article 10 .

6. The provisions of paragraphs 1, 2, 3 and 4 of this Article shall not apply if the beneficial owner of the interest, being a resident of a Contracting State, carries on business in the other Contracting State in which the interest arises through a permanent establishment situated therein, or performs in that other State professional services from a fixed base situated therein, and the debt-claim in respect of which the interest is paid is effectively connected with such permanent establishment or fixed base. In such a case, the provisions of Article 7 or Article 14, as the case may be, shall apply.

History: Paragraph 6 of Article 11 of the Convention was amended by Article 5 of the Canada–U.K. Protocol, dated May 7, 2003. Paragraph 6 of Article 11 of the Convention formerly read:

"6. The provisions of paragraphs 1, 2 and 4 of this Article shall not apply if the recipient of the interest, being a resident of a Contracting State, carries on business in the other Contracting State in which the interest arises through a permanent establishment situated therein, or performs in that other State professional services from a fixed base situated therein, and the debt-claim in respect of which the interest is paid is effectively connected with such permanent establishment or fixed base. In such a case, the provisions of Article 7 or Article 14, as the case may be, shall apply."

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7. Interest shall be deemed to arise in a Contracting State when the payer is that State itself, a political subdivision, a local authority or a resident of that State. Where, however, the person paying the interest, whether he is a resident of a Contracting State or not, has in a Contracting State a permanent establishment in connection with which the indebtedness on which the interest is paid was incurred, and that interest is borne by that permanent establishment, then such interest shall be deemed to arise in the Contracting State in which the permanent establishment is situated.

8. Where, owing to a special relationship between the payer and the person deriving the interest or between both of them and some other person, the amount of the interest paid exceeds for whatever reason the

amount which would have been paid in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In that case, the excess part of the payments shall remain taxable according to the law of each Contracting State, due regard being had to the other provisions of this Convention.

9. Any provision in the law of a Contracting State relating only to interest paid to a non-resident company shall not operate so as to require such interest paid to a company which is a resident of the other Contracting State to be treated as a distribution of the company paying such interest. The preceding sentence shall not apply to interest paid to a company which is a resident of a Contracting State in which more than 50 per cent of the voting power is controlled, directly or indirectly, by a person or persons resident in the other Contracting State.

10. The provisions of paragraph 2 of this Article shall not apply to interest where the beneficial owner of the interest:

(*a*) does not bear tax in respect thereof in Canada; and

(*b*) sells (or makes a contract to sell) the holding from which the interest is derived within three months of the date on which such beneficial owner acquired that holding.

11. The provisions of this Article shall not apply if it was the main purpose or one of the main purposes of any person concerned with the creation or assignment of the debt-claim in respect of which the interest is paid to take advantage of this Article by means of that creation or assignment.

History: Paragraph 11 of Article 11 of the Convention was added by Article 5 of the Canada–U.K. Protocol, dated May 7, 2003.

Paragraph 2 of Article 11 was amended by Article 3 of the Protocol to this Convention, dated December 23, 1985, to change "15 per cent" to "10 per cent".

Article 12 — Royalties

1. Royalties arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State.

2. However, such royalties may be taxed in the Contracting State in which they arise, and according to the law of that State; but if the recipient is the beneficial owner of the royalties the tax so charged shall not exceed 10 per cent of the gross amount of the royalties.

3. Notwithstanding the provisions of paragraph 2 of this Article,

(*a*) copyright royalties and other like payments in respect of the production or reproduction of any literary, dramatic, musical or artistic work (other than payments in respect of motion pictures and works on film, videotape or other means of reproduction for use in connection with television broadcasting);

(*b*) payments for the use of, or the right to use, any patent or for information concerning industrial, commercial or scientific experience (but not including any such payment provided in connection with a rental or franchise agreement);

(*c*) payments for the use of, or the right to use, computer software;

arising in a Contracting State and beneficially owned by a resident of the other Contracting State shall be taxable only in that other State.

History: Paragraph 3 of Article 12 of the Convention was amended by Article 6 of the Canada–U.K. Protocol, dated May 7, 2003. Paragraph 3 of Article 12 of the Convention formerly read:

"3. Notwithstanding the provisions of paragraph 2 of this Article, copyright royalties and other like payments in respect of the production or reproduction of any literary, dramatic, musical or artistic work (but not including royalties in respect of motion pictures and works on film, videotape or other means of reproduction for use in connection with television broadcasting) arising in a Contracting State and beneficially owned by a resident of the other Contracting State shall be taxable only in that other State."

4. The term "royalties" as used in this Article means payments of any kind received as a consideration for the use of, or the right to use, any copyright, patent, trade mark, design or model, plan, secret formula or process, or for the use of, or the right to use, industrial, commercial or scientific equipment, or for information concerning industrial, commercial or scientific experience, and includes payments of any kind in respect of motion pictures and works on film, videotape or other means of reproduction for use in connection with television broadcasting.

5. The provisions of paragraphs 1, 2 and 3 of this Article shall not apply if the beneficial owner of the royalties, being a resident of a Contracting State, carries on business in the other Contracting State in which the royalties arise through a permanent establishment situated therein, or performs in that other State professional services from a fixed base situated therein, and the right or property in respect of which the royalties are paid is effectively connected with such permanent establishment or fixed base. In such a case, the provisions of Article 7 or Article 14, as the case may be, shall apply.

History: Paragraph 5 of Article 12 of the Convention was amended by Article 6 of the Canada–U.K. Protocol, dated May 7, 2003. Paragraph 5 of Article 12 of the Convention formerly read:

"5. The provisions of paragraphs 1, 2 and 3 shall not apply if the recipient of the royalties, being a resident of a Contracting State, carries on business in the other Contracting State in which the royalties arise through a permanent establishment situated therein, or performs in that other State professional services from a fixed base situated therein, and the right or property in respect of which the royalties are paid is effectively connected with such permanent establishment or fixed base. In such a case, the provisions of Article 7 or Article 14, as the case may be, shall apply."

6. Royalties shall be deemed to arise in a Contracting State when the payer is that State itself, a political subdivision, a local authority or a resident of that State. Where, however, the person paying the royalties, whether he is a resident of a Contracting State or not, has in a Contracting State a permanent establishment in connection with which the obligation to pay the royalties was incurred, and those royalties are borne as such by that permanent establishment, then such royalties shall be deemed to arise in the Contracting State in which the permanent establishment is situated.

7. Where, owing to a special relationship between the payer and the person deriving the royalties or between both of them and some other person, the amount of the royalties paid exceeds for whatever reason the amount which would have been paid in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In that case, the excess part of the payments shall remain taxable according to the law of each Contracting State, due regard being had to the other provisions of this Convention.

8. The provisions of this Article shall not apply if it was the main purpose or one of the main purposes of any person concerned with the creation or assignment of the rights in respect of which the royalties are paid to take advantage of this Article by means of that creation or assignment.

History: Paragraph 8 of Article 12 of the Convention was added by Article 6 of the Canada–U.K. Protocol, dated May 7, 2003.

Paragraphs 3 and 4 of Article 12 were amended by Article 4 of the Protocol to this Convention, dated December 23, 1985. Paragraphs 3 and 4 formerly read:

"3. Notwithstanding the provisions of paragraphs 2, copyrights royalties and other like payments in respect of the production or reproduction of any literary, dramatic, musical or artistic work (but not including royalties in respect of motion picture films and works on film or videotape for use in connection with television) arising in a Contracting State and beneficially owned by a resident of the other Contracting State shall be taxable only in that other State.

4. The term "royalties" as used in this Article means payments of any kind received as a consideration for the use of, or the right to use, any copyright, patent, trade mark, design or model, plan, secret formula or process, or for the use of, or the right to use, industrial, commercial or scientific equipment, or for information concerning industrial, commercial or scientific experience, and includes payments of any kind in respect of motion picture films and works on film or videotape for use in connection with television."

Article 13 — Capital Gains

1. Gains derived by a resident of a Contracting State from the alienation of immovable property situated in the other Contracting State may be taxed in that other State.

2. Gains from the alienation of movable property forming part of the business property of a permanent establishment which an enterprise of a Contracting State has in the other Contracting State or of movable property pertaining to a fixed base available to a resident of a Contracting State in the other Contracting State for the purpose of performing professional services, including such gains from the alienation of such a permanent establishment (alone or with the whole enterprise) or of such fixed base, may be taxed in that other State.

3. Gains derived by a resident of a Contracting State from the alienation of ships or aircraft operated in international traffic or movable property pertaining to the operation of such ships or aircraft, shall be taxable only in that Contracting State.

4. Gains from the alienation of:

(*a*) any right, licence or privilege to explore for, drill for, or take petroleum, natural gas or other related hydrocarbons situated in a Contracting State, or

(*b*) any right to assets to be produced in a Contracting State by the activities referred to in subparagraph (a) above or to interests in or to the benefit of such assets situated in a Contracting State,

may be taxed in that State.

5. Gains from the alienation of:

(*a*) shares, other than shares quoted on an approved stock exchange, deriving their value or the greater part of their value directly or indirectly from immovable property situated in a Contracting State or from any right referred to in paragraph 4 of this Article, or

(*b*) an interest in a partnership or trust the assets of which consists principally of immovable property situated in a Contracting State, of rights referred to in paragraph 4 of this Article, or of shares referred to in subparagraph (*a*) above,

may be taxed in that State.

6. The provisions of paragraph 5 of this Article shall not apply:

(*a*) in the case of shares, where immediately before the alienation of the shares, the alienator owned, or the alienator and any persons related to or connected with him owned, less than 10 per cent of each class of the share capital of the company; or

(*b*) in the case of an interest in a partnership or trust, where immediately before the alienation of the interest, the alienator was entitled to, or the alienator and any persons related to or connected with him were entitled to, an interest of less than 10 per cent of the income and capital of the partnership or trust.

7. For the purposes of paragraph 5 of this Article:

(*a*) the term "an approved stock exchange" means a stock exchange prescribed for the purposes of the Canadian *Income Tax Act* or a recognized stock exchange within the meaning of the United Kingdom *Corporation Tax Acts*; and

(*b*) the term "immovable property" does not include any property (other than rental property) in which the business of the company, partnership or trust was carried on.

8. Gains from the alienation of any property, other than that referred to in paragraphs 1, 2, 3, 4 and 5 of this Article shall be taxable only in the Contracting State of which the alienator is a resident.

9. The provisions of paragraph 8 of this Article shall not affect the right of a Contracting State to levy according to its law a tax on or in respect of gains from the alienation of any property on a person who is a resident of that State at any time during the fiscal year in which the property is alienated, or has been so resident at any time during the six years immediately preceding the alienation of the property.

History: Paragraph 9 of Article 13 of the Convention was amended by Article 7 of the Canada–U.K. Protocol, dated May 7, 2003. Paragraph 9 of Article 13 formerly read:

"9. The provisions of paragraph 8 of this Article shall not affect the right of a Contracting State to tax, according to its domestic law, gains derived by an individual who is a resident of the other Contracting State from the alienation of any property, if the alienator:

(*a*) is a national of the first-mentioned Contracting State or was a resident of that State for 15 years or more prior to the alienation of the property, and

(*b*) was a resident of the first-mentioned Contracting State at any time during the five years immediately preceding such alienation."

10. Where an individual ceases to be a resident of a Contracting State and by reason thereof is treated under the laws of that State as having alienated property before ceasing to be a resident of that State and is taxed in that State accordingly and at any time thereafter becomes a resident of the other Contracting State, the other Contracting State may tax gains in respect of the property only to the extent that such gains had not accrued while the individual was a resident of the first-mentioned State. However, this provision shall not apply to property, any gain from which that other State could have taxed in accordance with the provisions of this Article, other than this paragraph, if the individual had realized the gain before becoming a resident of that other State. The competent authorities of the Contracting States may consult to determine the application of this paragraph.

History: Paragraph 10 of Article 13 of the Convention was added by Article 7 of the Canada–U.K. Protocol, dated May 7, 2003.

Article 13 was amended by Article 5 of the Protocol to this Convention, dated December 23, 1985. Article 13 formerly read:

"1. Gains from the alienation of immovable property may be taxed in the Contracting State in which such property is situated.

2. Gains from the alienation of movable property forming part of the business property of a permanent establishment which an enterprise of a Contracting State has in the other Contracting State or of movable property pertaining to a fixed base available to a resident of a Contracting State in the other Contracting State for the purpose of performing professional services, including such gains from the alienation of such a permanent establishment (alone or together with the whole enterprise) or of such a fixed base may be taxed in the other State. However, gains derived by a resident of a Contracting State from the alienation of ships and aircraft operated in international traffic and movable property pertaining to the operation of such ships and aircraft, shall be taxable only in that Contracting State.

3. Gains from the alienation of:

(*a*) any right, licence or privilege to explore for, drill for, or take petroleum, natural gas or other related hydrocarbons situated in a Contracting State, or

(*b*) any right to assets to be produced in a Contracting State by the activities referred to in subparagraph (a) above or to interests in or to the benefit of such assets situated in a Contracting State,

may be taxed in that State.

4. Gains from the alienation of

(*a*) shares, other than shares quoted on an approved stock exchange, deriving their value or the greater part of their value directly or indirectly from immovable property situated in a Contracting State or from any right referred to in paragraph 3 of this Article, or

(*b*) an interest in a partnership or trust the assets of which consist principally of immovable property situated in a Contracting State, of rights referred to in paragraph 3 of this Article, or of shares referred to in subparagraph (*a*) above,

may be taxed in that State.

5. For the purposes of paragraph 4 of this Article "an approved stock exchange" means a stock exchange prescribed for the purposes of the *Canadian Income Tax Act* or a recognized stock exchange within the meaning of the United Kingdom *Corporation Tax Acts*.

6. Gains from the alienation of any property, other than those mentioned in paragraphs 1, 2, 3 and 4 shall be taxable only in the Contracting State of which the alienator is a resident.

7. The provisions of paragraph 6 of this Article shall not affect the right of a Contracting State to tax, according to its domestic law, gains derived by an individual resident in the other Contracting State from the alienation of any property, if the alienator:

(*a*) is a national of the first-mentioned Contracting State or was a resident of that State for 15 years or more prior to the alienation of the property, and

(*b*) was a resident of the first-mentioned Contracting State at any time during the five years immediately preceding such alienation."

Article 14 — Professional Services

1. Income derived by a resident of a Contracting State in respect of professional services or other independent activities of a similar character shall be taxable only in that State unless he has a fixed base regularly available to him in the other Contracting State for the purpose of performing his activities. If he has such a fixed base, the income may be taxed in the other Contracting State but only so much of it as is attributable to that fixed base.

2. The term "professional services" includes independent scientific, literary, artistic, educational or teaching activities as well as the independent activities of physicians, lawyers, engineers, architects, dentists and accountants.

Article 15 — Dependent Personal Services

1. Subject to the provisions of Articles 17 and 18, salaries, wages and other similar remuneration derived by a resident of a Contracting State in respect of an employment shall be taxable only in that State unless the employment is exercised in the other Contracting State. If the employment is so exercised, such remuneration as is derived therefrom may be taxed in that other State.

2. Notwithstanding the provisions of paragraph 1, remuneration derived by a resident of a Contracting State in respect of an employment exercised in the other Contracting State shall be taxable only in the first-mentioned State if:

(*a*) the recipient is present in the other State for a period or periods not exceeding in the aggregate 183 days in the calendar year concerned, and

(*b*) the remuneration is paid by, or on behalf of, an employer who is not a resident of the other State, and

(*c*) the remuneration is not borne by a permanent establishment or a fixed base which the employer has in the other State.

3. Notwithstanding the preceding provisions of this Article, remuneration in respect of an employment exercised aboard a ship or aircraft operated in international traffic may be taxed in the Contracting State in which the place of effective management of the enterprise is situated.

4. In relation to remuneration of a director of a company derived from the company the preceding provisions of this Article shall apply as if the remuneration were remuneration of an employee in respect of employment, and as if references to employer were references to the company.

5. Where under the law of a Contracting State tax is required to be deducted and is so deducted from salaries, wages and other similar remuneration derived in respect of an employment exercised in that Contracting State, tax shall not be deducted therefrom on behalf of the other Contracting State.

History: Paragraph 5 of Article 15 was added by Article 1 of the Protocol, dated December 18, 1980, which became effective at the same time as the main body of the Convention.

Article 16 — Artistes and Athletes

1. Notwithstanding the provisions of Articles 7, 14 and 15, income derived by entertainers, such as theatre, motion picture, radio or television artistes, and musicians, and by athletes, from their personal activities as such may be taxed in the Contracting State in which these activities are exercised.

2. Where income in respect of personal activities as such of an entertainer or athlete accrues not to that entertainer or athlete himself but to another person, that income may, notwithstanding the provisions of Articles 7, 14 and 15, be taxed in the Contracting State in which the activities of the entertainer or athlete are exercised.

3. The provisions of paragraphs 1 and 2 shall not apply:

(*a*) to income derived from activities performed in a Contracting State by entertainers or athletes if the visit to that Contracting State is wholly or substantially supported by public funds;

(*b*) to a non-profit making organization no part of the income of which is payable, or is otherwise available for the personal benefit of, any proprietor, member or shareholder thereof, or

(*c*) to an entertainer or athlete in respect of services provided to an organization referred to in subparagraph (*b*).

Article 17 — Pensions and Annuities

1. Periodic pension payments arising in a Contracting State and paid to a resident of the other Contracting State who is the beneficial owner thereof shall be taxable only in that other State.

History: Paragraph 1 of Article 17 of the Convention was amended by Article 8 of the Canada–U.K. Protocol, dated May 7, 2003. Paragraph 1 of Article 17 of the Convention formerly read:

"1. Pensions arising in a Contracting State and paid to a resident of the other Contracting State who is the beneficial owner thereof shall be taxable only in that other State."

2. Annuities arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State. However, such annuities may also be taxed in the Contracting State in which they arise and according to the laws of that State, but if the recipient is the beneficial owner of the annuities the tax so charged shall not exceed 10 per cent of the portion thereof that is subject to tax in that State.

3. For the purposes of this Convention, the term "pension" includes any payment under a superannuation, pension or retirement plan, Armed Forces retirement pay, war veterans' pensions and allowances, and any payment under a sickness, accident or disability plan, as well as any payment made under the social security legislation in a Contracting State.

History: Paragraph 3 of Article 17 of the Convention was amended by Article 8 of the Canada–U.K. Protocol, dated May 7, 2003. Paragraph 3 of Article 17 of the Convention formerly read:

"3. For the purposes of this Convention, the term "pension" includes any payment under a superannuation, pension or retirement plan, Armed Forces retirement pay, war veterans pensions and allowances, and any payment under a sickness, accident or disability plan, as well as any payment made under the social security legislation in a Contracting State, but does not include any payment under a superannuation, pension or retirement plan in settlement of all future entitlements under such a plan or any payment under an income-averaging annuity contract."

4. For the purposes of this Convention, the term "annuity" means a stated sum payable periodically at stated times during life or during a specified or ascertainable period of time under an obligation to make the payments in return for adequate and full consideration in money or money's worth, but does not include any payment under a superannuation, pension or retirement plan or any payment under an income-averaging annuity contract.

History: Paragraph 4 of Article 17 of the Convention was amended by Article 8 of the Canada–U.K. Protocol, dated May 7, 2003. Paragraph 4 of Article 17 of the Convention formerly read:

"4. For the purposes of this Convention, the term "annuity" means a stated sum payable periodically at stated times during life or during a specified or ascertainable period of time under an obligation to make the payments in return for adequate and full consideration in money or money's worth, but does not include a pension or any payment under a superannuation, pension or retirement plan in settlement of all future entitlements under such a plan or any payment under an income-averaging annuity contract."

5. Notwithstanding any other provision of this Convention, alimony and similar payments arising in a Contracting State and paid to a resident of the other Contracting State who is the beneficial owner thereof shall be taxable only in that other State.

History: Article 17 was amended by Article 6 of the Protocol to this Convention, dated December 23, 1985. Article 17 formerly read:

"1. Pensions and annuities arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State. However, such pension and annuities may also be taxed in the first-mentioned Contracting State, but of the total amount thereof paid in any year of assessment or taxation year to a resident of the other Contracting State that first-mentioned Contracting State shall exempt from tax ten thousand Canadian dollars ($10,000) or five thousand pounds sterling (£5000), whichever is the greater. For the purposes of this paragraph the term "pensions" does not include lump sum payments out of a pension plan.

2. Notwithstanding the provisions of paragraph 1 of this Article, pensions paid out of public funds of the United Kingdom or Northern Ireland or of the funds of any local authority in the United Kingdom to any individual in respect of services rendered to the Government of the United Kingdom or Northern Ireland or a local authority in the United Kingdom in the discharge of functions of a governmental nature may be taxed in the United Kingdom.

3. The term "annuity" means a stated sum payable periodically stated times during life or during a specific or ascertainable period of time under an obligation to make the payments in return for adequate and full consideration in money or money's worth, but does not include payments of any kind under an income-averaging annuity contract.

4. Notwithstanding any other provision of this Convention, alimony and similar payments arising in a Contracting State and paid to a resident of the other Contracting State who is the beneficial owner thereof shall be taxable only in that other State."

Paragraph 1 of Article 17 was amended by Article 2 of the Protocol, which became effective at the same time as the main body of the Convention. Paragraph 1 formerly read as follows:

"Pensions and annuities arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State. However, such pensions and annuities may also be taxed in the first-mentioned Contracting State but only to the extent that the total amount thereof paid in any year of assessment or taxation year to the resident of the other Contracting State exceeds ten thousand Canadian dollars ($10,000) or five thousand pounds sterling (£5,000), whichever is the greater. However, the tax so charged in the first-mentioned Contracting State shall not exceed the tax chargeable on such pensions and annuities in the other Contracting State."

Article 18 — Government Service

1. (*a*) Remuneration, other than a pension, paid by a Contracting State or a political subdivision or a local authority thereof to any individual in respect of services rendered to that State or subdivision or local authority thereof shall be taxable only in that State.

(*b*) However, such remuneration shall be taxable only in the other Contracting State if the services are rendered in that State and the recipient is a resident of that State who:

(i) is a national of that State; or

(ii) did not become a resident of that State solely for the purpose of performing the services.

2. This Article shall not apply to remuneration in respect of services rendered in connection with any trade or business carried on by one of the Contracting States or a political subdivision or a local authority thereof.

3. In this Article, the term "political subdivision" shall, in relation to the United Kingdom, include Northern Ireland.

Article 19 — Students

Payments which a student, apprentice or business trainee who is or was immediately before visiting one of the Contracting States a resident of a Contracting State and who is present in the other Contracting State solely for the purpose of his education or training receives for the purpose of his maintenance, education or training shall not be taxed in that other State,

provided that such payments are made to him from sources outside that other State.

Article 20 — Estates and Trusts

1. Income received from an estate or trust resident in Canada by a resident of the United Kingdom who is the beneficial owner thereof may be taxed in Canada according to its law, but the tax so charged shall not exceed 15 per cent of the gross amount of the income.

2. The provisions of paragraph 1 of this Article shall not apply if the recipient of the income, being a resident of the United Kingdom, carries on business in Canada through a permanent establishment situated therein, or performs in Canada professional services from a fixed base situated therein, and the right of interest in the estate or trust in respect of which the income is paid is effectively connected with such permanent establishment or fixed base. In such a case, the provisions of Article 7 or Article 14, as the case may be, shall apply.

3. For the purposes of this Article, a trust does not include an arrangement whereby the contributions made to the trust are deductible for the purposes of taxation in Canada.

History: Paragraph 3 of Article 20 was added by Article 7 of the Protocol to this Convention, dated December 23, 1985.

Article 20A — Other Income

1. Items of income beneficially owned by a resident of a Contracting State, wherever arising, not dealt with in the foregoing Articles of this Convention shall be taxable only in that State.

2. The provisions of paragraph 1 of this Article shall not apply to income, other than income from immovable property, if the beneficial owner of such income, being a resident of a Contracting State, carries on business in the other Contracting State through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated therein, and the right or property in respect of which the income is paid is effectively connected with such permanent establishment or fixed base. In such case the provisions of Article 7 or Article 14 of this Convention, as the case may be, shall apply.

3. Notwithstanding the provisions of paragraphs 1 and 2 of this Article, items of income of a resident of a Contracting State not dealt with in the foregoing Articles of this Convention and arising in the other Contracting State may also be taxed in that other State.

History: Article 20A of the Convention was added by Article 9 of the Canada–U.K. Protocol, dated May 7, 2003.

Article 21 — Elimination of Double Taxation

1. In the case of Canada, double taxation shall be avoided as follows:

(*a*) subject to the existing provisions of the law of Canada regarding the deduction from tax payable in Canada of tax paid in a territory outside Canada and to any subsequent modification of those provisions — which shall not affect the general principle hereof — and unless a greater deduction or relief is provided under the laws of Canada, tax payable in the United Kingdom on profits, income or gains arising in the United Kingdom shall be deducted from any Canadian tax payable in respect of such profits, income or gains;

(*b*) subject to the existing provisions of the law of Canada regarding the allowance as a credit against Canadian tax of tax payable in a territory outside Canada and to any subsequent modification of those provisions — which shall not affect the general principle hereof — where a company that is a resident of the United Kingdom pays a dividend to a company that is a resident of Canada that controls directly or indirectly at least 10 per cent of the voting power in the first-mentioned company, the credit shall take into account the tax payable in the United Kingdom by that first-mentioned company in respect of the profits out of which such dividend is paid;

(*c*) where in accordance with any provision of this Convention income derived by a resident of Canada is exempt from tax in Canada, Canada may nevertheless, in calculating the amount of tax on other income take into account the exempted income.

History: Paragraph 1 of Article 21 of the Convention was amended by Article 10 of the Canada–U.K. Protocol, dated May 7, 2003. Paragraph 1 of Article 21 of the Convention formerly read:

"1. In the case of Canada, double taxation shall be avoided as follows:

(*a*) Subject to the existing provisions of the law of Canada regarding the deduction from tax payable in Canada of tax paid in a territory outside Canada and to any subsequent modification of those provisions — which shall not affect the general principle hereof — and unless a greater deduction or relief is provided under the laws of Canada, tax payable in the United Kingdom on profits, income or gains arising in the United Kingdom shall be deducted from any Canadian tax payable in respect of such profits, income or gains.

(*b*) Subject to the existing provisions of the law of Canada regarding the determination of the exempt surplus of a foreign affiliate and to any subsequent modification of those provisions — which shall not affect the general principle hereof — for the purpose of computing Canadian tax, a company resident in Canada shall be allowed to deduct in computing its taxable income any dividend received by it out of the exempt surplus of a foreign affiliate resident in the United Kingdom.

The terms "foreign affiliate" and "exempt surplus" shall have the meaning which they have under the *Income Tax Act* of Canada."

2. In the case of the United Kingdom, double taxation shall be avoided as follows: subject to the provisions of the law of the United Kingdom regarding the allowance as a credit against United Kingdom tax of tax payable in a territory outside the United Kingdom (which shall not affect the general principle hereof)

(*a*) tax payable under the laws of Canada and in accordance with this Convention, whether directly or by deduction, on profits, income or chargeable gains from sources within Canada, (excluding in the case of a dividend, tax payable in respect of the profits out of which the dividend is paid) shall be allowed as a credit against any United Kingdom tax computed by reference to the same profits, income or chargeable gains by reference to which the Canadian tax is computed; and

(*b*) in the case of a dividend paid by a company which is a resident of Canada to a company which is resident in the United Kingdom and which controls directly or indirectly at least 10 per cent of the voting power in the Canadian company, the credit shall take into account (in addition to any tax creditable under (*a*)) tax payable under the laws of Canada by the company in respect of the profits out of which such dividend is paid.

3. For the purposes of paragraphs 1 and 2 of this Article, income profits and capital gains owned by a resident of a Contracting State which are taxed in the other Contracting State in accordance with this Convention shall be deemed to arise from sources in that other Contracting State.

History: Paragraph 4 of Article 21 of the Convention was deleted by Article 10 of the Canada–U.K. Protocol, dated May 7, 2003. Paragraph 4 of Article 21 of the Convention formerly read:

"4. Where profits on which an enterprise of a Contracting State has been charged to tax in that State are also included in the profits of an enterprise of the other State and the profits so included are profits which would have accrued to that enterprise of the other State if the conditions made between the enterprises had been those which would have been made between independent enterprises dealing at arm's length, the amount included in the profits of both enterprises shall be treated for the purposes of this Article as income from a source in the other State of the enterprise of the first-mentioned State and relief shall be given accordingly under the provisions of paragraph 1 or paragraph 2 of this Article."

Paragraph 4 of Article 21 was added by Article 8 of the Protocol to this Convention, dated December 23, 1985.

Article 22 — Non-Discrimination

1. The nationals of a Contracting State shall not be subjected in the other Contracting State to any taxation or any requirement connected therewith which is other or more burdensome than the taxation and connected requirements to which nationals of that other State in the same circumstances are or may be subjected.

2. The taxation on a permanent establishment which an enterprise of a Contracting State has in the other Contracting State shall not be less favourably levied in that other State than the taxation levied on enterprises of that other State carrying on the same activities. This provision shall not be construed as obliging either Contracting State to grant to individuals not resident in its territory those personal allowances and reliefs for tax purposes which are by law available only to individuals who are so resident.

3. Nothing in this Convention shall be construed as preventing a Contracting State from imposing on the earnings attributable to permanent establishments in that State of a company which is a resident of the other Contracting State, tax in addition to the tax which would be chargeable on the earnings of a company which is a resident of the first-mentioned State, provided that the rate of any additional tax so imposed shall not exceed 5 per cent of the amount of such earnings which have not been subjected to such additional tax in previous taxation years.

History: The reference in paragraph 3 of Article 22 of the Convention to "10 per cent" was amended by Article 11 of the Canada–U.K. Protocol, dated May 7, 2003, to read "5 per cent".

4. For the purpose of paragraph 3 of this Article, the term earnings means the profits attributable to permanent establishments in a Contracting State (including gains from the alienation of property forming part of the business property of such permanent establishments) in a year and previous years after deducting therefrom:

(*a*) business losses attributable to such permanent establishments (including losses from the alienation of property forming part of the business property of such permanent establishments) in such year and previous years; and

(*b*) all taxes, other than the additional tax referred to in paragraph 3 of this Article, imposed on such profits in that State; and

(*c*) the profits reinvested in that State, provided that where that State is Canada, the amount of such deduction shall be determined in accordance with the existing provisions of the law of Canada regarding the computation of the allowance in respect of investment in property in Canada, and any subsequent modification of those provisions which shall not affect the general principle thereof; and

(*d*) five hundred thousand Canadian dollars, or two hundred and fifty thousand pounds sterling, whichever is the greater, less any amount deducted in that State under this sub-paragraph (*d*) by the company or a company associated therewith; for the purposes of this subparagraph (*d*) a company is associated with another company if one of them directly or indirectly has control of the other or both are directly or indirectly under the control of the same person, or if the two companies deal with each other not at arm's length.

5. In this Article, the term "taxation" means taxes which are the subject of this Convention.

History: Paragraph 3 of Article 22 was amended by Article 9 of the Protocol to this Convention, dated December 23, 1985. Paragraph 3 formerly read:

"3. Nothing in this Convention shall be construed as preventing a Contracting State from imposing on the earnings attributable to permanent establishments in that State of a company which is a resident of the other Contracting State, tax in addition to the tax which would be chargeable on the earnings of a company which is a resident of the first-mentioned State, provided that the rate of any additional tax so imposed shall not exceed 15 per cent of the amount of such earnings which have not been subjected to such additional tax in previous taxation years."

Paragraphs 3 and 4 of Article 22 were amended by Article 3 of the Protocol, dated December 18, 1980, which became effective at the same time as the main body of the Convention. Paragraphs 3 and 4 formerly read as follows:

"3. Subject to the provisions of paragraph 4 of this Article, nothing in this Convention shall be construed as preventing a Contracting State from imposing on the earnings attributable to a permanent establishment in that State of a company which is a resident of the other Contracting State, tax in addition to the tax which would be chargeable on the earnings of a company which is a resident of the first-mentioned State, provided that the rate of any additional tax so imposed shall not exceed the lessor of:

(*a*) 15 per cent of the amount of such earnings which have not been subjected to such additional tax in previous taxation years, and

(*b*) the rate specified in respect of such additional tax in any agreement or convention entered into by Canada with any third State. For the purpose of this provision, the term earnings' means an amount not in excess of the profits attributable to a permanent establishment in a Contracting State in a year and previous years after deducting therefrom all taxes, other than the additional tax referred to herein, imposed on such profits in that State.

4. The provisions of paragraph 3 of this Article shall not apply where the profits attributable to a permanent establishment in a year or previous years do not exceed in the aggregate 500,000 Canadian dollars or 250,000 pounds sterling, whichever is the greater."

Article 23 — Mutual Agreement Procedure

1. Where a resident of a Contracting State considers that the actions of one or both of the Contracting States result or will result for him in taxation not in accordance with this Convention, he may, without prejudice to the remedies provided by the national laws of those States, address to the competent authority of the Contracting State of which he is a resident an application in writing stating the grounds for claiming the revision of such taxation.

2. The competent authority referred to in paragraph 1 shall endeavour, if the objection appears to it to be justified and if it is not itself able to arrive at an appropriate solution, to resolve the case by mutual agreement with the competent authority of the other Contracting State, with a view to the avoidance of taxation not in accordance with the Convention.

3. The competent authorities of the Contracting States shall endeavour to resolve by mutual agreement any difficulties or doubts arising as to the interpretation or application of the Convention. In particular, the competent authorities of the Contracting States may reach agreement on:

(*a*) the same attribution of profits to a resident of a Contracting State and its permanent establishment situated in the other Contracting State;

(*b*) the same allocation of income between a resident of a Contracting State and any associated person provided for in Article 9.

Article 24 — Exchange of Information

1. The competent authorities of the Contracting States shall exchange such information as is necessary for carrying out the provisions of this Convention or of the domestic laws of the Contracting States concerning taxes covered by this Convention insofar as the taxation thereunder is not contrary to this Convention, in particular, to prevent fraud and to facilitate the administration of statutory provisions against legal avoidance. This includes information relating to the assessment or collection of, the enforcement or prosecution in respect of, or the determination of appeals in relation to, the taxes covered by this Convention. The exchange of information is not restricted by Article 1 of this Convention. Any information received by a Contracting State shall be treated as secret and shall be disclosed only to persons or authorities (including courts and administrative bodies) concerned with the assessment or collection of, the enforcement or prosecution in respect of, or the determination of appeals in relation to, the taxes covered by this Convention. Such persons or authorities shall use the information only for such purposes. They may disclose the information in public court proceedings or in judicial decisions.

2. In no case shall the provisions of paragraph 1 of this Article be construed so as to impose on a Contracting State the obligation:

(*a*) to carry out administrative measures at variance with the laws and administrative practice of that or of the other Contracting State;

(*b*) to supply information which is not obtainable under the laws or in the normal course of the administration of that or of the other Contracting State;

(*c*) to supply information which would disclose any trade, business, industrial, commercial or professional secret or trade process, or information the disclosure of which would be contrary to public policy.

3. If information is requested by a Contracting State in accordance with this Article, the other Contracting State shall obtain that information in the same manner and to the same extent as if the tax of the first-mentioned State were the tax of that other State and were being imposed by that other State, notwithstanding that the other State may not, at that time, need such information for the purposes of its own tax.

History: Article 24 of the Convention was amended by Article 12 of the Canada–U.K. Protocol, dated May 7, 2003. Article 24 of the Convention formerly read:

"1. The competent authorities of the Contracting States shall exchange such information (being information which is at their disposal under their respective taxation laws in the normal course of administration) as is necessary for the carrying out of the provisions of this Convention or for the prevention of fraud or for the administration of statutory provisions against legal avoidance in relation to the taxes which are the subject of this Convention, Any information so exchanged shall be treated as secret and shall not be disclosed to persons other than persons (including a court or administrative tribunal) concerned with the assessment, collection or enforcement in respect of the taxes which are the subject of this Convention. No information as aforesaid shall be exchanged which would disclose any trade, business, industrial or professional secret or trade process."

Article 25 — Diplomatic and Consular Officials

1. Nothing in this Convention shall affect the fiscal privileges of members of diplomatic or consular missions under the general rules of international law or under the provisions of special agreements.

2. This Convention shall not apply to International Organizations, to organs or officials thereof and to persons who are members of a diplomatic or permanent mission or consular post of a third State, being present in a Contracting State and not treated in either Contracting State as residents in respect of taxes on income or capital gains.

Article 26 — Extension

1. This Convention may be extended, either in its entirety or with modifications to any territory for whose international relations either of the Contracting States is responsible, and which imposes taxes substantially

similar in character to those which are the subject of this Convention and any such extension shall take effect from such date and subject to such modifications and conditions (including conditions as to termination) as may be specified and agreed between the Contracting States in notes to be exchanged for this purpose.

2. The termination of this Convention under Article 29 shall, unless otherwise expressly agreed by both Contracting States, terminate the application of this Convention to any territory to which it has been extended under this Article.

Article 27 — Miscellaneous Rules

1. The provisions of this Convention shall not be construed to restrict in any manner any exclusion, exemption, deduction, credit or other allowance now or hereafter accorded by the laws of a Contracting State in the determination of the tax imposed by that Contracting State.

2. Where under any provision of this Convention any income is relieved from tax in a Contracting State and, under the law in force in the other Contracting State a person, in respect of that income, is subject to tax by reference to the amount thereof which is remitted to or received in that other Contracting State and not by reference to the full amount thereof, then the relief to be allowed under this Convention in the first-mentioned Contracting State shall apply only to so much of the income as is taxed in the other Contracting State.

3. Nothing in this Convention shall be construed as restricting the right of Canada to tax a resident of Canada on that resident's share of any income or capital gains of a partnership, trust or controlled foreign affiliate in which that resident has an interest.

History: Paragraphs 2 and 3 of Article 27 of the Convention were amended by Article 13 of the Canada–U.K. Protocol, dated May 7, 2003. Paragraphs 2 and 3 of Article 27 of the Convention formerly read:

"2. Where under any provision of this Convention any person is relieved from tax in a Contracting State on certain income and, under the law in force in the other Contracting State, that person is subject to tax in that other State in respect of that income by reference to the amount thereof which is remitted to or received in that other State, the relief from tax to be allowed under this Convention in the first-mentioned State shall apply only to the amounts so remitted or received.

3. Nothing in this Convention shall be construed as preventing Canada from imposing a tax on amounts included in the income of a resident of Canada by virtue of the provisions of section 91 of the Canadian *Income Tax Act*, so far as they are in force on the date of entry into force of this Convention, or have been modified only in minor respects, so as not to affect their general character."

4. [Deleted by Article 8 of Protocol signed May 7, 2003.]

History: Paragraph 4 of Article 27 of the Convention was deleted by Article 13 of the Canada–U.K. Protocol. Paragraph 4 of Article 27 of the Convention formerly read:

"4. The aggregate of the amount or value of the dividend and the amount of the tax credit referred to in paragraph 3(*b*) or 3(*c*) of Article 10 of this Convention shall be treated as a dividend for Canadian income tax purposes."

5. Each of the Contracting States will endeavour to collect on behalf of the other Contracting State such amounts as may be necessary to ensure that relief granted by this Convention from taxation imposed by that other State does not enure to the benefit of persons not entitled thereto. However, nothing in this paragraph shall be construed as imposing on either of the Contracting States the obligation to carry out administrative measures of a different nature from those used in the collection of its own tax or which would be contrary to its public policy.

6. The competent authorities of the Contracting States may communicate with each other directly for the purpose of applying this Convention.

7. Contributions paid in a year by, or on behalf of, an individual who exercises employment in a Contracting State in that year to a pension arrangement established in the other Contracting State (including an arrangement created under the social security legislation in that other State) and in which the individual participates in order to secure retirement benefits in respect of those services shall, during a period not exceeding in the aggregate 60 months, and if the contributions to the arrangement would qualify for tax relief if they had been made in that other State, be treated in the same way for tax purposes in the first-mentioned State as contributions paid to a pension arrangement that is recognised for tax purposes in the first-mentioned State, provided that:

(*a*) immediately before the individual began to exercise employment in the first-mentioned State, that individual was not a resident of that State and contributions had been paid by or on behalf of that individual to the pension arrangement; and

(*b*) the pension arrangement is accepted by the competent authority of the first-mentioned State as generally corresponding to a pension arrangement recognised as such for tax purposes by that State.

History: Paragraph 7 of Article 27 of the Convention was added by Article 13 of the Canada–U.K. Protocol, dated May 7, 2003.

Paragraph 4 of Article 27 was amended by Article 10 of the Protocol to this Convention, dated December 23, 1985. Paragraph 4 formerly read:

"4. The aggregate of the amount or value of the dividend and the amount of the tax credit referred to in subparagraph 3(*b*) of this Convention shall be treated as a dividend for Canadian income tax purposes."

Article 27A — Miscellaneous Rules Applicable to Certain Offshore Activities

1. The provisions of this Article shall apply notwithstanding any other provision of this Convention.

2. A person who is a resident of a Contracting State and carries on activities in the other Contracting State in connection with the exploration or exploitation of the sea bed and sub-soil and their natural resources situated in that other Contracting State shall, subject to paragraph 3 of this Article, be deemed to be carrying on a business in that other Contracting State through a permanent establishment situated therein.

3. The provisions of paragraph 2 of this Article shall not apply where the activities referred to therein are carried on for a period or periods not exceeding in the aggregate 30 days in any 12-month period. For the purposes of this paragraph:

(*a*) where a person carrying on activities referred to in paragraph 2 of this Article is associated with an enterprise carrying on substantially similar activities, that person shall be deemed to be carrying on those substantially similar activities of the enterprise with which he is associated, in addition to his own activities;

(*b*) two enterprises shall be deemed to be associated if one enterprise participates directly or indirectly in the management or control of the other enterprise or if the same persons participate directly or indirectly in the management or control of both enterprises.

4. Salaries, wages and similar remuneration derived by a resident of a Contracting State in respect of an employment connected with the exploration or exploitation of the sea bed and sub-soil and their natural resources situated in the other Contracting State may, to the extent that the duties are performed offshore in that other Contracting State, be taxed in that other Contracting State.

History: Article 27A was amended by Article 11 of the Protocol to this Convention, dated December 23, 1985. Article 27A formerly read:

"1. The provisions of this Article shall apply notwithstanding any other provision of this Convention.

2. A person who is a resident of a Contracting State and carries on activities in the other Contracting State in connection with the exploration or exploitation of the sea bed and sub-soil and their natural resources situated in that other Contracting State shall, subject to paragraphs 3 and 4 of this Article, be deemed to be carrying on a business in that other Contracting State through a permanent establishment situated therein.

3. The provisions of paragraph 2 of this Article shall not apply where the activities referred to therein are carried on for a period or periods not exceeding in the aggregate 30 days in any 12-month period. For the purposes of this paragraph:

(*a*) where a person carrying on activities referred to in paragraph 2 of this Article is associated with an enterprise carrying on substantially similar activities, that person shall be deemed to be carrying on those substantially similar activities of the enterprise with which he is associated, in addition to his own activities;

(*b*) two enterprises shall be deemed to be associated if one enterprise participates directly or indirectly in the management or control of the other enterprise or if the same persons participate directly or indirectly in the management or control of both enterprises.

4. Profits derived by a resident of a Contracting State from the transportation of passengers or goods to a location where activities in connection with the exploration or exploitation of the sea bed and sub-soil and their natural resources are being carried on in a Contracting State, or from the operation of tugboats and similar vessels in connection with such activities, shall be taxable only in the Contracting State of which he is a resident.

5. (*a*) Subject to subparagraph (*b*) of this paragraph, salaries, wages and similar remuneration derived by a resident of a Contracting State in respect of an employment connected with the exploration or exploitation of the sea bed and sub-soil and their natural resources situated in the other Contracting State may, to the extent that the duties are performed offshore in that other Contracting State, be taxed in that other Contracting State.

(*b*) Salaries, wages and similar remuneration derived by a resident of a Contracting State in respect of an employment exercised aboard a ship or aircraft engaged in the transportation of passengers or goods to a location where activities connected with the exploration or exploitation of the sea bed and sub-soil and their natural resources are being carried on in the other Contracting State, or in respect of an employment exercised aboard a tugboat or similar vessel in connection with such activities, may be taxed in that other Contracting State unless the person deriving the profits from the operation of the ship or aircraft is a resident of the first-mentioned Contracting State."

Article 28 — Entry into Force

1. The Convention shall come into force on the date when the last of all such things shall have been done in Canada and the United Kingdom as are necessary to give the Convention the force of law in Canada and the United Kingdom respectively and shall thereupon have effect:

(*a*) in Canada:

(i) in respect of tax withheld at the source on amounts paid or credited to non-residents on or after 1 January 1976;

(ii) in respect of other Canadian taxes, for the 1976 taxation year and subsequent years;

(*b*) in the United Kingdom:

(i) in relation to any dividend to which paragraph 3 of Article 10 applies in respect of income tax and payment of tax credit, for any year of assessment beginning on or after 6 April 1973. A dividend paid on or after 1 April 1973 but before 6 April 1973 shall be treated for tax credit purposes as paid on 6 April 1973;

(ii) in relation to any other provision of this Convention, in respect of income tax and capital gains tax, for any year of assessment beginning on or after 6 April 1976;

(iii) in respect of corporation tax, for any financial year beginning on or after 1 April 1976;

(iv) in respect of petroleum revenue tax for any chargeable period beginning on or after 1 January 1976;

(v) in respect of development land tax, for any realized development value accruing on or after 1 August 1976.

2. The Governments of the Contracting States shall, as soon as possible, inform one another in writing of the date when the last of all such things have been done as are necessary to give the Convention the force of law in Canada and the United Kingdom respectively. The date specified by the last Government to fulfil this requirement, being the date on which the Convention shall come into force in accordance with paragraph 1, shall be confirmed in writing by the Government so notified.

3. Subject to the provisions of paragraph 4 of this Article the existing Agreement shall cease to have effect as respects taxes to which this Convention applies in accordance with the provisions of paragraph 1 of this Article.

4. Where, however, any greater relief from tax would have been afforded by any provision of the existing Agreement than is due under this Convention, any such provision as aforesaid shall continue to have effect:

(*a*) in the United Kingdom for any year of assessment, chargeable period or financial year;

(*b*) in Canada for any taxation year;

beginning before the entry into force of this Convention.

5. The existing Agreement shall terminate on the last date on which it has effect in accordance with the foregoing provisions of this Article.

6. The termination of the existing Agreement as provided in paragraph 5 of this Article shall not revive the Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Canada for the Avoidance of Double Taxation with respect to certain classes of Income signed at Ottawa on 6 December 1965. Upon the entry into force of this Convention that Agreement shall terminate.

7. In this Article the term "the existing Agreement" means the Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Canada for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital Gains signed at Ottawa on 12 December 1966.

8. Notwithstanding any provisions of the respective domestic laws of the Contracting States imposing time limits for applications for relief from tax, an application for relief under the provisions of this Convention shall have effect, and any consequential refunds of tax made, if the application is made to the competent authority concerned within one year of the end of the calendar year in which this Convention enters into force.

History: Paragraph 8 of Article 28 was added by Article 5 of the Protocol, dated December 18, 1980, which became effective at the same time as the main body of the Convention.

Article 29 — Termination

This Convention shall continue in effect indefinitely but the Government of either Contracting State may, on or before 30 June in any calendar year after the year 1980 give notice of termination to the Government of the other Contracting State and, in such event, this Convention shall cease to be effective:

(*a*) in Canada:

(i) in respect of tax withheld at the source on amounts paid or credited to non-residents on or after 1 January in the calendar year next following that in which the notice is given; and

(ii) in respect of other Canadian taxes for any taxation year ending in or after the calendar year next following that in which the notice is given;

(*b*) in the United Kingdom:

(i) in respect of income tax and capital gains tax for any years of assessment beginning on or after 6 April in the calendar year next following that in which such notice is given;

(ii) in respect of corporation tax, for any financial year beginning on or after 1 April in the calendar year next following that in which such notice is given;

(iii) in respect of petroleum revenue tax for any chargeable period beginning on or after 1 January in the calendar year next following that in which such notice is given;

(iv) in respect of development land tax, for any realized development value accruing on or after 1 April in the calendar year next following that in which such notice is given.

IN WITNESS WHEREOF the undersigned, duly authorized thereto, have signed this Convention.

DONE in duplicate at London, this 8th day of September 1978, in the English and French languages, both texts being equally authoritative.

FOR THE GOVERNMENT OF CANADA:
Paul Martin

FOR THE GOVERNMENT OF THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND:
Frank Judd

Income Tax Conventions Interpretation Act

R.S.C. 1985, Chapter I-4, as amended by R.S.C. 1985 (1st Supp.) c. 48; S.C. 1991, c. 49; S.C. 1993 c. 24; S.C. 1998, c. 19; S.C. 1999, c. 22; S.C. 2005, c. 19; S.C. 2007, c. 35.

Short Title

Sec. 1. Short title — This Act may be cited as the *Income Tax Conventions Interpretation Act*.

Definition

Sec. 2. Definition of "convention" — In this Act, "convention" means any convention or agreement between Canada and another state relating to tax on income, and includes any protocol or supplementary convention or agreement relating thereto.

Interpretation

Sec. 3. Meaning of undefined terms — Notwithstanding the provisions of a convention or the Act giving the convention the force of law in Canada, it is hereby declared that the law of Canada is that, to the extent that a term in the convention is

(*a*) not defined in the convention,

(*b*) not fully defined in the convention, or

(*c*) to be defined by reference to the laws of Canada,

that term has, except to the extent that the context otherwise requires, the meaning it has for the purposes of the *Income Tax Act*, as amended from time to time, and not the meaning it had for the purposes of the *Income Tax Act* on the date the convention was entered into or given the force of law in Canada if, after that date, its meaning for the purposes of the *Income Tax Act* has changed.

Sec. 4. Permanent establishments in Canada — Notwithstanding the provisions of a convention or the Act giving the convention the force of law in Canada, it is hereby declared that the law of Canada is that where, for the purposes of the application of the convention, the profits from a business activity, including an industrial or commercial activity, attributable or allocable to a permanent establishment in Canada are to be determined for any period,

(*a*) there shall, except where the convention expressly otherwise provides, be included in the determination of those profits all amounts with respect to that activity that are attributable or allocable to the permanent establishment and that would be required to be included under the *Income Tax Act*, as amended from time to time, by a person resident in Canada carrying on the activity in Canada in the computation of his income from a business for that period; and

(*b*) there shall, except to the extent that an agreement between the competent authorities of the parties to the convention expressly otherwise provides, not be deducted in the determination of those profits any amount with respect to that activity that is attributable or allocable to the permanent establishment and that would not be deductible under the *Income Tax Act*, as amended from time to time, by a person resident in Canada carrying on the activity in Canada in the computation of his income from a business for that period.

Sec. 4.1 Application of section 245 of the *Income Tax Act* — Notwithstanding the provisions of a convention or the Act giving the convention the force of law in Canada, it is hereby declared that the law of Canada is that section 245 of the *Income Tax Act* applies to any benefit provided under the convention.

(S.C. 2005, c. 19, s. 60(1).)

Sec. 4.2 Stock exchanges — Notwithstanding the provisions of a convention or the Act giving the convention the force of law in Canada, each reference in a convention to a stock exchange that is prescribed under, or for the purposes of, the *Income Tax Act* shall be read as a reference to a designated stock exchange, as defined in the *Income Tax Act*.

(S.C. 2007, c. 35, s. 70(1).)

Sec. 5. Definitions — Notwithstanding the provisions of a convention or the Act giving the convention the force of law in Canada, in this section and in the convention,

"annuity" — "annuity" does not include any pension payment or any payment under a plan, arrangement or contract described in subparagraphs (*a*)(i) to (ix) of the definition "pension"; (S.C. 1993, c. 24, s. 147; S.C. 1999, c. 22.)

"Canada" — "Canada" means the territory of Canada, and includes

(*a*) every area beyond the territorial seas of Canada that, in accordance with international law and the laws of Canada, is an area in respect of which Canada may exercise rights with respect to the seabed and subsoil and their natural resources, and

(*b*) the seas and airspace above every area described in paragraph (*a*);

"immovable property" and *"real property"* — "immovable property" and "real property", with respect to property in Canada, are hereby declared to include

(*a*) any right to explore for or exploit mineral deposits and sources in Canada and other natural resources in Canada, and

(*b*) any right to an amount computed by reference to the production, including profit, from, or to the value of production from, mineral deposits and sources in Canada and other natural resources in Canada.

"pension" — "pension" means, in respect of payments that arise in Canada,

(*a*) if the convention does not include a definition "pension", a payment under any plan, arrangement or contract that is

(i) a registered pension plan,

(ii) a registered retirement savings plan,

(iii) a registered retirement income fund,

(iv) a retirement compensation arrangement,

(v) a deferred profit sharing plan,

(vi) a plan that is deemed by subsection 147(15) of the *Income Tax Act* not to be a deferred profit sharing plan,

(vii) an annuity contract purchased under a plan referred to in subparagraph (v) or (vi),

(viii) an annuity contract where the amount paid by or on behalf of an individual to acquire the contract was deductible under paragraph 60(*l*) of the *Income Tax Act* in computing the individual's income for any taxation year (or would have been so deductible if the individual had been resident in Canada), or

(ix) a superannuation, pension or retirement plan not otherwise referred to in this paragraph, and

(*b*) if the convention includes a definition "pension", a payment that is a pension for the purposes of the convention or a payment (other than a payment of social security benefits) that would be a periodic pension payment if the convention did not include a definition "pension";

(S.C. 1999, c. 22)

"periodic pension payment" — "periodic pension payment" means, in respect of payments that arise in Canada, a pension payment other than (S.C. 1999, c. 22)

(*a*) a lump sum payment, or a payment that can reasonably be considered to be an instalment of a lump sum amount, under a registered pension plan,

(*b*) a payment before maturity, or a payment in full or partial commutation of the retirement income, under a registered retirement savings plan,

(*c*) a payment at any time in a calendar year under a registered retirement income fund, where the total of all payments (other than the specified portion of each such payment) made under

the fund at or before that time and in the year exceeds the total of

(i) the amount that would be the greater of

(A) twice the amount that, if the value of C in the definition "minimum amount" in subsection 146.3(1) of the *Income Tax Act* were nil, would be the minimum amount under the fund for the year, and

(B) 10% of the fair market value of the property (other than annuity contracts that, at the beginning of the year, are not described in paragraph (*b*.1) of the definition "qualified investment" in subsection 146.3(1) of the *Income Tax Act*) held in connection with the fund at the beginning of the year

if all property transferred in the year and before that time to the carrier of the fund as consideration for the carrier's undertaking to make payments under the fund had been so transferred immediately before the beginning of the year and if the definition "minimum amount" in subsection 146.3(1) of the *Income Tax Act* applied with respect to all registered retirement income funds, and

(ii) the total of all amounts each of which is an annual or more frequent periodic payment under an annuity contract that is a qualified investment, as defined in subsection 146.3(1) of the *Income Tax Act*, (other than an annuity contract the fair market value of which is taken into account under clause (i)(B)) held by a trust governed by the fund that was paid into the trust in the year and before that time, or

(S.C. 1998, c. 19)

(*d*) a payment to a recipient at any time in a calendar year under an arrangement, other than a plan or fund referred to in paragraphs (*a* to (*c*), where

(i) the payment is not

(A) one of a series of annual or more frequent payments to be made over the lifetime of the recipient or over a period of at least 10 years,

(B) one of a series of annual or more frequent payments each of which is contingent on the recipient continuing to suffer from a physical or mental impairment, or

(C) a payment to which the recipient is entitled as a consequence of the death of an individual who was in receipt of periodic pension payments under the arrangement, and that is made under a guarantee that a minimum number of the payments will be made in respect of the individual, or

(ii) at the time the payment is made, it can reasonably be concluded that

(A) the total amount of payments (other than excluded payments) under the arrangement to the recipient in the year will exceed twice the total amount of payments (other than excluded payments) made under the arrangement to the recipient in the immediately preceding year, otherwise than because of the fact that payments commenced to be made to the recipient in the preceding year and were made for a period of less than twelve months in that year, or

(B) the total amount of payments (other than excluded payments) under the arrangement to the recipient in the year will exceed twice the total amount of payments (other than excluded payments) to be made under the arrangement to the recipient in any subsequent year, otherwise than because of the termination of the series of payments or the reduction in the amount of payments to be made after the death of any individual,

and, for the purposes of this subparagraph, "excluded payment" means a payment that is neither a periodic payment nor a payment described in any of clauses (i)(A) to (C).

(S.C. 1993, c. 24, s. 147.)

(S.C. 1993, c. 24.)

Sec. 5.1(1) Repealed by S.C. 1999, c. 22

(S.C. 1993, c. 24, s. 148; S.C. 1998, c. 19; S.C. 1999, c. 22.)

(2) Definition of "specified portion" — For the purpose of the definition "periodic pension payment" in section 5, the "specified portion" of a payment means the total of

(*a*) the portion of the payment that is not required by section 146.3 of the *Income Tax Act* to be included in computing the income of any person and that is not included under paragraph 212(1)(*q*) of that Act in respect of any person; and

(*b*) the portion of the payment in respect of which a deduction is available under paragraph 60(*l*) of the *Income Tax Act* in computing the income of any person.

(S.C. 1998, c. 19)

Sec. 6. Meaning of "interest" — Notwithstanding section 3, the meaning of the term "interest" in any convention given the force of law in Canada before November 19, 1974 does not include any amount paid or credited, pursuant to an agreement in writing entered into before June 23, 1983, as consideration for a guarantee referred to in paragraph 214(15)(*a*) of the *Income Tax Act*.

Sec. 6.1. Transitional — Where a taxation year of a taxpayer includes June 23, 1983, the additional tax payable under the *Income Tax Act* (except Part XIII thereof) by the taxpayer for the taxation year by virtue of this Act shall be calculated in accordance with the following formula:

$$A = T \times \frac{B}{C}$$

where

A is the amount of additional taxes payable under the *Income Tax Act*, except Part XIII thereof) by the taxpayer for the taxation year by virtue of this Act,

T is the amount of additional taxes payable under the *Income Tax Act*, (except Part XIII thereof) by the taxpayer for the taxation year by virtue of this Act (except this section),

B is the number of days, in the taxation year after June 23, 1983, and

C is the number of days in the taxation year.

(R.S.C. 1985, 1st Supp., c. 48, s. 2.)

Sec. 6.2. Partnerships — Notwithstanding the provisions of a convention between Canada and another state or the Act giving it the force of law in Canada, it is hereby declared that the law of Canada is that, for the purposes of the application of the convention and the *Income Tax Act* to a person who is a resident of Canada, a partnership of which that person is a member is neither a resident nor an enterprise of that other state.

(1991, c. 49, s. 220(1).)

Sec. 6.3 Gains arising in Canada — Except where a convention expressly otherwise provides, any amount of income, gain or loss in respect of the disposition of a property that is taxable Canadian property within the meaning assigned by the *Income Tax Act* is deemed to arise in Canada.

(S.C. 1999, c. 22)

Sec. 7. Application — This Act applies

(*a*) in the case of tax under Part XIII of the *Income Tax Act*, to amounts paid or credited after June 23, 1983; and

(*b*) in all other cases, to taxation years ending after June 23, 1983.

Interpretation Act

R.S.C. 1985, c. I-21, as amended by R.S.C. 1985 (1st Supp.), c. 11; R.S.C. 1985 (2nd Supp.), c. 27; S.C. 1990, c. 17; S.C. 1992, c. 1; S.C. 1992, c. 47; S.C. 1992, c. 51; S.C. 1993, c. 28, Sched. III; S.C. 1993, c. 34; S.C. 1993, c. 38; S.C. 1995, c. 39; S.C. 1996, c. 31; S.C. 1997, c. 39; S.C. 1998, c. 15; S.C. 1998, c. 30; S.C. 1999, c. 3; S.C. 1999, c. 28; S.C. 1999, c. 31; S.C. 2001, c. 4; S.C. 2002, c. 7; S.C. 2002, c. 8; S.C. 2003, c. 22.

Short Title

Sec. 1. Short title — This Act may be cited as the *Interpretation Act*.

Interpretation

Sec. 2. Definitions — (1) In this Act,

"Act" — "Act" means an Act of Parliament;

"enact" — "enact" includes to issue, make or establish;

"enactment" — "enactment" means an Act or regulation or any portion of an Act or regulation;

**"public officer"* — "public officer" includes any person in the federal public administration who is authorized by or under an enactment to do or enforce the doing of an act or thing or to exercise a power, or on whom a duty is imposed by or under an enactment;

"regulation" — "regulation" includes an order, regulation, rule, rule of court, form, tariff of costs or fees, letters patent, commission, warrant, proclamation, by-law, resolution or other instrument issued, made or established

(*a*) in the execution of a power conferred by or under the authority of an Act, or

(*b*) by or under the authority of the Governor in Council;

repeal — "repeal" includes revoke or cancel.

(2) *Expired and replaced enactments* — For the purposes of this Act, an enactment that has been replaced is repealed and an enactment that has expired, lapsed or has otherwise ceased to have effect is deemed to have been repealed.

(S.C. 1993, c. 34, s. 88; S.C. 1999, c. 31, s. 146.)

Application

Sec. 3. Application — (1) Every provision of this Act applies, unless a contrary intention appears, to every enactment, whether enacted before or after the commencement of this Act.

(2) *Application to this Act* — The provisions of this Act apply to the interpretation of this Act.

(3) *Rules of construction not excluded* — Nothing in this Act excludes the application to an enactment of a rule of construction applicable to that enactment and not inconsistent with this Act.

Enacting Clause of Acts

Sec. 4. Enacting clause — (1) The enacting clause of an Act may be in the following form:

> "Her Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:".

(2) *Order of clauses* — The enacting clause of an Act shall follow the preamble, if any, and the various provisions within the purview or body of the Act shall follow in a concise and enunciative form.

Operation

Royal Assent

Sec. 5. Royal assent — (1) The Clerk of the Parliaments shall endorse on every Act, immediately after its title, the day, month and year when the Act was assented to in Her Majesty's name and the endorsement shall be a part of the Act.

(2) *Date of commencement* — If no date of commencement is provided for in an Act, the date of commencement of that Act is the date of assent to the Act.

(3) *Commencement provision* — Where an Act contains a provision that the Act or any portion thereof is to come into force on a day later than the date of assent to the Act, that provision is deemed to have come into force on the date of assent to the Act.

(4) *Commencement when no date fixed* — Where an Act provides that certain provisions thereof are to come or are deemed to have come into force on a day other than the date of assent to the Act, the remaining provisions of the Act are deemed to have come into force on the date of assent to the Act.

Day Fixed for Commencement or Repeal

Sec. 6. Operation when date fixed for commencement or repeal — (1) Where an enactment is expressed to come into force on a particular day, it shall be construed as coming into force on the expiration of the previous day, and where an enactment is expressed to expire, lapse or otherwise cease to have effect on a particular day, it shall be construed as ceasing to have effect on the commencement of the following day.

(2) *When no date fixed* — Every enactment that is not expressed to come into force on a particular day shall be construed as coming into force

(*a*) in the case of an Act, on the expiration of the day immediately before the day the Act was assented to in Her Majesty's name; and

(*b*) in the case of a regulation, on the expiration of the day immediately before the day the regulation was registered pursuant to section 6 of the *Statutory Instruments Act* or, if the regulation is of a class that is exempted from the application of subsection 5(1) of that Act, on the expiration of the day immediately before the day the regulation was made.

(3) *Judicial notice* — Judicial notice shall be taken of a day for the coming into force of an enactment that is fixed by a regulation that has been published in the *Canada Gazette*.

(S.C. 1992, c. 1, s. 87.)

Regulation Prior to Commencement

Sec. 7. Preliminary proceedings — Where an enactment is not in force and it contains provisions conferring power to make regulations or do any other thing, that power may, for the purpose of making the enactment effective on its commencement, be exercised at any time before its commencement, but a regulation so made or a thing so done has no effect until the commencement of the enactment, except in so far as may be necessary to make the enactment effective on its commencement.

Territorial Operation

Sec. 8. Territorial operation — (1) Every enactment applies to the whole of Canada, unless a contrary intention is expressed in the enactment.

(2) *Amending enactment* — Where an enactment that does not apply to the whole of Canada is amended, no provision in the amending enactment applies to any part of Canada to which the amended enactment does not apply, unless it is provided in the amending enactment that it applies to that part of Canada or to the whole of Canada.

* The definition of "public officer" in subsection 2(1) was amended by S.C. 2003, c. 22, s. 224(*z*.43) to replace the expression "public service of Canada" with the expression "federal public administration", coming into force on a day to be fixed by order of the Governor in Council.

(2.1) *Exclusive economic zone of Canada* — Every enactment that applies in respect of exploring or exploiting, conserving or managing natural resources, whether living or non-living, applies, in addition to its application to Canada, to the exclusive economic zone of Canada, unless a contrary intention is expressed in the enactment. (S.C. 1996, c. 31, s. 86.)

(2.2) *Continental shelf of Canada* — Every enactment that applies in respect of exploring or exploiting natural resources that are

(*a*) mineral or other non-living resources of the seabed or subsoil, or

(*b*) living organisms belonging to sedentary species, that is to say, organisms that, at the harvestable stage, either are immobile on or under the seabed or are unable to move except in constant physical contact with the seabed or subsoil

applies, in addition to its application to Canada, to the continental shelf of Canada, unless a contrary intention is expressed in the enactment.

(S.C. 1996, c. 31, s. 86.)

(3) *Extra-territorial operation* — Every Act now in force enacted prior to December 11, 1931 that expressly or by necessary or reasonable implication was intended, as to the whole or any part thereof, to have extra-territorial operation shall be construed as if, at the date of its enactment, the Parliament of Canada had full power to make laws having extra-territorial operation as provided by the *Statute of Westminster, 1931*. (S.C. 1996, c. 31, s. 86.)

(S.C. 1996, c. 31, s. 86.)

Rules of Construction

Property and Civil Rights

Sec. 8.1. Duality of legal traditions and application of provincial law — Both the common law and the civil law are equally authoritative and recognized sources of the law of property and civil rights in Canada and, unless otherwise provided by law, if in interpreting an enactment it is necessary to refer to a province's rules, principles or concepts forming part of the law of property and civil rights, reference must be made to the rules, principles and concepts in force in the province at the time the enactment is being applied.

(S.C. 2001, c. 4, s. 8.)

Sec. 8.2. Terminology — Unless otherwise provided by law, when an enactment contains both civil law and common law terminology, or terminology that has a different meaning in the civil law and the common law, the civil law terminology or meaning is to be adopted in Provice of Quebec and the common law terminology or meaning is to be adopted in the other provinces.

(S.C. 2001, c. 4, s. 8.)

Private Acts

Sec. 9. Provisions in private Acts — No provision in a private Act affects the rights of any person, except as therein mentioned or referred to.

Law Always Speaking

Sec. 10. Law always speaking — The law shall be considered as always speaking, and where a matter or thing is expressed in the present tense, it shall be applied to the circumstances as they arise, so that effect may be given to the enactment according to its true spirit, intent and meaning.

Imperative and Permissive Construction

Sec. 11. "Shall" and "may" — The expression "shall" is to be construed as imperative and the expression "may" as permissive.

Enactments Remedial

Sec. 12. Enactments deemed remedial — Every enactment is deemed remedial, and shall be given such fair, large and liberal construction and interpretation as best ensures the attainment of its objects.

Preambles and Marginal Notes

Sec. 13. Preamble — The preamble of an enactment shall be read as a part of the enactment intended to assist in explaining its purport and object.

Sec. 14. Marginal notes and historical references — Marginal notes and references to former enactments that appear after the end of a section or other division in an enactment form no part of the enactment, but are inserted for convenience of reference only.

Application of Interpretation Provisions

Sec. 15. Application of definitions and interpretation rules — (1) Definitions or rules of interpretation in an enactment apply to all the provisions of the enactment, including the provisions that contain those definitions or rules of interpretation.

(2) *Interpretation sections subject to exceptions* — Where an enactment contains an interpretation section or provision, it shall be read and construed

(*a*) as being applicable only if a contrary intention does not appear; and

(*b*) as being applicable to all other enactments relating to the same subject-matter unless a contrary intention appears.

Sec. 16. Words in regulations — Where an enactment confers power to make regulations, expressions used in the regulations have the same respective meanings as in the enactment conferring the power.

Her Majesty

Sec. 17. Her Majesty not bound or affected unless stated — No enactment is binding on Her Majesty or affects Her Majesty or Her Majesty's rights or prerogatives in any manner, except as mentioned or referred to in the enactment.

Proclamations

Sec. 18. Proclamation — (1) Where an enactment authorizes the issue of a proclamation, the proclamation shall be understood to be a proclamation of the Governor in Council.

(2) *Proclamation to be issued on advice* — Where the Governor General is authorized to issue a proclamation, the proclamation shall be understood to be a proclamation issued under an order of the Governor in Council, but it is not necessary to mention in the proclamation that it is issued under such an order.

(3) *Effective day of proclamations* — A proclamation that is issued under an order of the Governor in Council may purport to have been issued on the day of the order or on any subsequent day and, if so, takes effect on that day. (S.C. 1992, c. 1, s. 88.)

(4) *Judicial notice of proclamation* — (Repealed by S.C. 1992, c. 1, s. 88.)

(S.C. 1992, c. 1, s. 88.)

Oaths

Sec. 19. Administration of oaths — (1) Where, by an enactment or by a rule of the Senate or House of Commons, evidence under oath is authorized or required to be taken, or an oath is authorized or directed to be made, taken or administered, the oath may be administered, and a certificate of its having been made, taken or administered may be given by

(*a*) any person authorized by the enactment or rule to take the evidence; or

(*b*) a judge of any court, a notary public, a justice of the peace or a commissioner for taking affidavits, having authority or jurisdiction within the place where the oath is administered.

(2) *Where justice of peace empowered* — Where power is conferred on a justice of the peace to administer an oath or solemn

affirmation or to take an affidavit or declaration, the power may be exercised by a notary public or a commissioner for taking oaths.

Reports to Parliament

Sec. 20. Reports to Parliament — Where an Act requires a report or other document to be laid before Parliament and, in compliance with the Act, a particular report or document has been laid before Parliament at a session thereof, nothing in the Act shall be construed as requiring the same report or document to be laid before Parliament at any subsequent session.

Corporations

Sec. 21. Powers vested in corporations — (1) Words establishing a corporation shall be construed

(*a*) as vesting in the corporation power to sue and be sued, to contract and be contracted with by its corporate name, to have a common seal and to alter or change it at pleasure, to have perpetual succession, to acquire and hold personal property for the purposes for which the corporation is established and to alienate that property at pleasure;

(*b*) in the case of a corporation having a name consisting of an English and a French form or a combined English and French form, as vesting in the corporation power to use either the English or the French form of its name or both forms and to show on its seal both the English and French forms of its name or have two seals, one showing the English and the other showing the French form of its name;

(*c*) as vesting in a majority of the members of the corporation the power to bind the others by their acts; and

(*d*) as exempting from personal liability for its debts, obligations or acts individual members of the corporation who do not contravene the provisions of the enactment establishing the corporation.

(2) *Corporate name* — Where an enactment establishes a corporation and in each of the English and French versions of the enactment the name of the corporation is in the form only of the language of that version, the name of the corporation shall consist of the form of its name in each of the versions of the enactment.

(3) *Banking business* — No corporation is deemed to be authorized to carry on the business of banking unless that power is expressly conferred on it by the enactment establishing the corporation.

Majority and Quorum

Sec. 22. Majorities — (1) Where an enactment requires or authorizes more than two persons to do an act or thing, a majority of them may do it.

(2) *Quorum of board, court, commission, etc.* — Where an enactment establishes a board, court, commission or other body consisting of three or more members, in this section called an "association",

(*a*) at a meeting of the association, a number of members of the association equal to,

(i) if the number of members provided for by the enactment is a fixed number, at least one-half of the number of members, and

(ii) if the number of members provided for by the enactment is not a fixed number but is within a range having a maximum or minimum, at least one-half of the number of members in office if that number is within the range,

constitutes a quorum;

(*b*) an act or thing done by a majority of the members of the association present at a meeting, if the members present constitute a quorum, is deemed to have been done by the association; and

(*c*) a vacancy in the membership of the association does not invalidate the constitution of the association or impair the right of the members in office to act, if the number of members in office is not less than a quorum.

Appointment, Retirement and Powers of Officers

Sec. 23. Public officers hold office during pleasure — (1) Every public officer appointed by or under the authority of an enactment or otherwise is deemed to have been appointed to hold office during pleasure only, unless it is otherwise expressed in the enactment, commission or instrument of appointment.

(2) *Effective day of appointments* — Where an appointment is made by instrument under the Great Seal, the instrument may purport to have been issued on or after the day its issue was authorized, and the day on which it so purports to have been issued is deemed to be the day on which the appointment takes effect.

(3) *Appointment or engagement otherwise than under Great Seal* — Where there is authority in an enactment to appoint a person to a position or to engage the services of a person, otherwise than by instrument under the Great Seal, the instrument of appointment or engagement may be expressed to be effective on or after the day on which that person commenced the performance of the duties of the position or commenced the performance of the services, and the day on which it is so expressed to be effective, unless that day is more than sixty days before the day on which the instrument is issued, is deemed to be the day on which the appointment or engagement takes effect.

(4) *Remuneration* — Where a person is appointed to an office, the appointing authority may fix, vary or terminate that person's remuneration.

(5) *Commencement of appointments or retirements* — Where a person is appointed to an office effective on a specified day, or where the appointment of a person is terminated effective on a specified day, the appointment or termination is deemed to have been effected immediately on the expiration of the previous day.

Sec. 24. Implied powers respecting public officers — (1) Words authorizing the appointment of a public officer to hold office during pleasure include, in the discretion of the authority in whom the power of appointment is vested, the power to

(*a*) terminate the appointment or remove or suspend the public officer;

(*b*) re-appoint or reinstate the public officer; and

(*c*) appoint another person in the stead of, or to act in the stead of, the public officer.

(2) *Power to act for ministers* — Words directing or empowering a minister of the Crown to do an act or thing, regardless of whether the act or thing is administrative, legislative or judicial, or otherwise applying to that minister as the holder of the office, include

(*a*) a minister acting for that minister or, if the office is vacant, a minister designated to act in the office by or under the authority of an order in council;

(*b*) the successors of that minister in the office;

(*c*) his or their deputy; and

(*d*) notwithstanding paragraph (*c*), a person appointed to serve, in the department or ministry of state over which the minister presides, in a capacity appropriate to the doing of the act or thing, or to the words so applying.

(S.C. 1992, c. 1, s. 89(3).)

(3) *Restriction as to public servants* — Nothing in paragraph (2)(*c*) or (*d*) shall be construed as authorizing the exercise of any authority conferred on a minister to make a regulation as defined in the *Statutory Instruments Act*. (S.C. 1992, c. 1, s. 89(4).)

(4) *Successors to and deputy of public officer* — Words directing or empowering any public officer, other than a minister of the Crown, to do any act or thing, or otherwise applying to the public officer by his name of office, include his successors in the office and his or their deputy.

(5) *Powers of holder of public office* — Where a power is conferred or a duty imposed on the holder of an office, the power may be exercised and the duty shall be performed by the person for the time being charged with the execution of the powers and duties of the office.

(S.C. 1992, c. 1, s. 89.)

Evidence

Sec. 25. Documentary evidence — (1) Where an enactment provides that a document is evidence of a fact without anything in the context to indicate that the document is conclusive evidence, then, in any judicial proceedings, the document is admissible in evidence and the fact is deemed to be established in the absence of any evidence to the contrary.

(2) *Queen's Printer* — Every copy of an enactment having printed thereon what purports to be the name or title of the Queen's Printer and Controller of Stationery or the Queen's Printer is deemed to be a copy purporting to be printed by the Queen's Printer for Canada.

Computation of Time

Sec. 26. Time limits and holidays — Where the time limited for the doing of a thing expires or falls on a holiday, the thing may be done on the day next following that is not a holiday.

Sec. 27. Clear days — (1) Where there is a reference to a number of clear days or "at least" a number of days between two events, in calculating that number of days the days on which the events happen are excluded.

(2) *Not clear days* — Where there is a reference to a number of days, not expressed to be clear days, between two events, in calculating that number of days the day on which the first event happens is excluded and the day on which the second event happens is included.

(3) *Beginning and ending of prescribed periods* — Where a time is expressed to begin or end at, on or with a specified day, or to continue to or until a specified day, the time includes that day.

(4) *After specified day* — Where a time is expressed to begin after or to be from a specified day, the time does not include that day.

(5) *Within a time* — Where anything is to be done within a time after, from, of or before a specified day, the time does not include that day.

Sec. 28. Calculation of a period of months after or before a specified day — Where there is a reference to a period of time consisting of a number of months after or before a specified day, the period is calculated by

(*a*) counting forward or backward from the specified day the number of months, without including the month in which that day falls;

(*b*) excluding the specified day; and

(*c*) including in the last month counted under paragraph (*a*) the day that has the same calendar number as the specified day or, if that month has no day with that number, the last day of that month.

Sec. 29. Time of the day — Where there is a reference to time expressed as a specified time of the day, the time is taken to mean standard time.

Sec. 30. Time when specified age attained — A person is deemed not to have attained a specified number of years of age until the commencement of the anniversary, of the same number, of the day of that person's birth.

Miscellaneous Rules

Sec. 31. Reference to provincial court judge, etc. — (1) Where anything is required or authorized to be done by or before a judge, provincial court judge, justice of the peace or any functionary or officer, it shall be done by or before one whose jurisdiction or powers extend to the place where the thing is to be done. (R.S.C. 1985 (1st Supp.), c. 27, s. 203.)

(2) *Ancillary powers* — Where power is given to a person, officer or functionary to do or enforce the doing of any act or thing, all such powers as are necessary to enable the person, officer or functionary to do or enforce the doing of the act or thing are deemed to be also given.

(3) *Powers to be exercised as required* — Where a power is conferred or a duty imposed, the power may be exercised and the duty shall be performed from time to time as occasion requires.

(4) *Power to repeal* — Where a power is conferred to make regulations, the power shall be construed as including a power, exercisable in the same manner and subject to the same consent and conditions, if any, to repeal, amend or vary the regulations and make others. (R.S.C. 1985 (1st Supp.), c. 27, s. 203.)

(R.S.C. 1985 (1st Supp.), c. 27, s. 203.)

Sec. 32. Forms — Where a form is prescribed, deviations from that form, not affecting the substance or calculated to mislead, do not invalidate the form used.

Sec. 33. Gender — (1) Words importing female persons include male persons and corporations and words importing male persons include female persons and corporations. (S.C. 1992, c. 1, s. 90.)

(2) *Number* — Words in the singular include the plural, and words in the plural include the singular.

(3) *Parts of speech and grammatical forms* — Where a word is defined, other parts of speech and grammatical forms of the same word have corresponding meanings.

(S.C. 1992, c. 1, s. 90.)

Offences

Sec. 34. Indictable and summary conviction offences — (1) Where an enactment creates an offence,

(*a*) the offence is deemed to be an indictable offence if the enactment provides that the offender may be prosecuted for the offence by indictment;

(*b*) the offence is deemed to be one for which the offender is punishable on summary conviction if there is nothing in the context to indicate that the offence is an indictable offence; and

(*c*) if the offence is one for which the offender may be prosecuted by indictment or for which the offender is punishable on summary conviction, no person shall be considered to have been convicted of an indictable offence by reason only of having been convicted of the offence on summary conviction.

(2) *Criminal Code to apply* — All the provisions of the *Criminal Code* relating to indictable offences apply to indictable offences created by an enactment, and all the provisions of that Code relating to summary conviction offences apply to all other offences created by an enactment, except to the extent that the enactment otherwise provides.

(3) *Documents similarly construed* — In a commission, proclamation, warrant or other document relating to criminal law or procedure in criminal matters,

(*a*) a reference to an offence for which the offender may be prosecuted by indictment shall be construed as a reference to an indictable offence; and

(*b*) a reference to any other offence shall be construed as a reference to an offence for which the offender is punishable on summary conviction.

Powers to Enter Dwelling-Houses to Carry Out Arrests

Sec. 34.1. Authorization to enter dwelling-house — Any person who may issue a warrant to arrest or apprehend a person under any Act of Parliament, other than the *Criminal Code*, has the same powers, subject to the same terms and conditions, as a judge or justice has under the *Criminal Code*

(*a*) to authorize the entry into a dwelling-house described in the warrant for the purpose of arresting or apprehending the person, if the person issuing the warrant is satisfied by information on oath that there are reasonable grounds to believe that the person is or will be present in the dwelling-house; and

(*b*) to authorize the entry into the dwelling-house without prior announcement if the requirement of subsection 529.4(1) of the *Criminal Code* is met.

(S.C. 1997, c. 39, s. 4.)

Definitions

Sec. 35. General definitions — (1) In every enactment,

"Act" — "Act", as meaning an Act of a legislature, includes an ordinance of the Northwest Territories and a law of the Legislature of Yukon or of the Legislature for Nunavut; (S.C. 1993, c. 28, Sched. III, s. 82(1); S.C. 1998, c. 15, s. 28; S.C. 2002, c. 7, s. 188.)

"bank" — "bank" means a bank listed in Schedule I or II to the *Bank Act*; (S.C. 1999, c. 28 s. 168.)

"British Commonwealth" or "British Commonwealth of Nations" — "British Commonwealth" or "British Commonwealth of Nations" has the same meaning as "Commonwealth";

"broadcasting" — "broadcasting" means any radiocommunication in which the transmissions are intended for direct reception by the general public;

"Canada" — "Canada" for greater certainty, includes the internal waters of Canada and the territorial sea of Canada; (S.C. 1996, c. 31, s. 87.)

"Canadian waters" — "Canadian waters" includes the territorial sea of Canada and the internal waters of Canada; (S.C. 1996, c. 31, s. 87.)

"Clerk of the Privy Council" or "Clerk of the Queen's Privy Council" — "Clerk of the Privy Council" or "Clerk of the Queen's Privy Council" means the Clerk of the Privy Council and Secretary to the Cabinet;

"commencement" — "commencement", when used with reference to an enactment, means the time at which the enactment comes into force;

"Commonwealth" or "Commonwealth of Nations" — "Commonwealth" or "Commonwealth of Nations" means the association of countries named in the schedule;

"Commonwealth and Dependent Territories" — "Commonwealth and Dependent Territories" means the several Commonwealth countries and their colonies, possessions, dependencies, protectorates, protected states, condominiums and trust territories;

"contiguous zone" — "contiguous zone",

(*a*) in relation to Canada, means the contiguous zone of Canada as determined under the *Oceans Act*, and

(*b*) in relation to any other state, means the contiguous zone of the other state as determined in accordance with international law and the domestic laws of that other state;

(S.C. 1996, c. 31, s. 87.)

"continental shelf" — "continental shelf",

(*a*) in relation to Canada, means the continental shelf of Canada as determined under the *Oceans Act*, and

(*b*) in relation to any other state, means the continental shelf of the other state as determined in accordance with international law and the domestic laws of that other state;

(S.C. 1996, c. 31, s. 87.)

"contravene" — "contravene" includes fail to comply with; (S.C. 1992, c. 47, s. 79.)

"corporation" — "corporation" does not include a partnership that is considered to be a separate legal entity under provincial law;

"county" — "county" includes two or more counties united for purposes to which the enactment relates;

"county court" — (Repealed by S.C. 1990, c. 17, s. 26(1).)

"diplomatic or consular officer" — "diplomatic or consular officer" includes an ambassador, envoy, minister, chargé d'affaires, counsellor, secretary, attaché, consul-general, consul, vice-consul, pro-consul, consular agent, acting consul-general, acting consul, acting vice-consul, acting consular agent, high commissioner, permanent delegate, adviser, acting high commissioner, and acting permanent delegate;

"exclusive economic zone" — "exclusive economic zone",

(*a*) in relation to Canada, means the exclusive economic zone of Canada as determined under the *Oceans Act*, and includes the seabed and subsoil below that zone, and

(*b*) in relation to any other state, means the exclusive economic zone of the other state as determined in accordance with international law and the domestic laws of that other state;

(S.C. 1996, c. 31, s. 87.)

"Federal Court" — (Repealed by S.C. 2002, c. 8, s. 151.)

"Federal Court–Appeal Division" or "Federal Court of Appeal" — (Repealed by S.C. 2002, c. 8, s. 151.)

"Federal Court–Trial Division" — (Repealed by S.C. 2002, c. 8, s. 151.)

"Governor", "Governor General" or "Governor of Canada" — "Governor", "Governor General" or "Governor of Canada" means the Governor General of Canada or other chief executive officer or administrator carrying on the Government of Canada on behalf and in the name of the Sovereign, by whatever title that officer is designated;

"Governor General in Council" or "Governor in Council" — "Governor General in Council" or "Governor in Council" means the Governor General of Canada acting by and with the advice of, or by and with the advice and consent of, or in conjunction with the Queen's Privy Council for Canada;

"Great Seal" — "Great Seal" means the Great Seal of Canada;

"Her Majesty", "His Majesty", "the Queen", "the King", or "the Crown" — "Her Majesty", "His Majesty", "the Queen", "the King", or "the Crown" means the Sovereign of the United Kingdom, Canada and Her other Realms and Territories, and Head of the Commonwealth;

"Her Majesty's Realms and Territories" — "Her Majesty's Realms and Territories" means all realms and territories under the sovereignty of Her Majesty;

"herein" — "herein" used in any section shall be understood to relate to the whole enactment, and not to that section only;

"holiday" — "holiday" means any of the following days, namely, Sunday; New Year's Day; Good Friday; Easter Monday; Christmas Day; the birthday or the day fixed by proclamation for the celebration of the birthday of the reigning Sovereign; Victoria Day; Canada Day; the first Monday in September, designated Labour Day; Remembrance Day; any day appointed by proclamation to be observed as a day of general prayer or mourning or day of public rejoicing or thanksgiving; and any of the following additional days, namely,

(*a*) in any province, any day appointed by proclamation of the lieutenant governor of the province to be observed as a public holiday or as a day of general prayer or mourning or day of public rejoicing or thanksgiving within the province, and any day that is a non-juridical day by virtue of an Act of the legislature of the province, and

(*b*) in any city, town, municipality or other organized district, any day appointed to be observed as a civic holiday by resolution of the council or other authority charged with the administration of the civic or municipal affairs of the city, town, municipality or district;

"internal waters" — "internal waters",

(*a*) in relation to Canada, means the internal waters of Canada as determined under the *Oceans Act*, and includes the airspace above and the bed and subsoil below those waters, and

(*b*) in relation to any other state, means the waters on the landward side of the baselines of the territorial sea of the other state;

(S.C. 1996, c. 31, s. 87.)

"legislative assembly", "legislative council" or "legislature" — "legislative assembly", "legislative council" or "legislature" includes the Lieutenant Governor in Council and the Legislative Assembly of the Northwest Territories, as constituted before September 1, 1905, the Legislature of Yukon, the Commissioner in Council of the Northwest Territories, and the Legislature for Nunavut; (S.C. 1993, c. 28, Sched. III, s. 82(1); S.C. 2002, c. 7, s. 188.)

"lieutenant governor" — "lieutenant governor" means the lieutenant governor or other chief executive officer or administrator carrying on the government of the province indicated by the enactment, by whatever title that officer is designated, and in Yukon, the Northwest Territories and Nunavut means the Commissioner; (S.C. 1993, c. 28, Sched. III, s. 82(1); S.C. 2002, c. 7, s. 188.)

"lieutenant governor in council" — "lieutenant governor in council" means the lieutenant governor acting by and with the advice of, by and with the advice and consent of, or in conjunction with, the executive council of the province indicated by the enactment, and in Yukon, means the Commissioner of Yukon acting with the consent of the Executive Council of Yukon and, in the Northwest Territories and Nunavut, means the Commissioner; (S.C. 1993, c. 28, Sched. III, s. 82(1); S.C. 2002, c. 7, s. 188.)

"local time" — "local time", in relation to any place, means the time observed in that place for the regulation of business hours;

"military" — "military" shall be construed as relating to all or any part of the Canadian Forces;

"month" — "month" means a calendar month;

"oath" and "sworn" — "oath" includes a solemn affirmation or declaration when the context applies to any person by whom and to any case in which a solemn affirmation or declaration may be made instead of an oath, and in the same cases the expression "sworn" includes the expression "affirmed" or "declared";

"Parliament" — "Parliament" means the Parliament of Canada;

"person" — "person", or any word or expression descriptive of a person, includes a corporation;

"proclamation" — "proclamation" means a proclamation under the Great Seal;

"province" — "province" means a province of Canada, and includes Yukon, the Northwest Territories and Nunavut; (S.C. 1993, c. 28, Sched. III, s. 82(1); S.C. 2002, c. 7, s. 188.)

"radio" or "radiocommunication" — "radio" or "radiocommunication" means any transmission, emission or reception of signs, signals, writing, images, sounds or intelligence of any nature by means of electromagnetic waves of frequencies lower than 3000 GHz propagated in space without artificial guide;

"regular force" — "regular force" means the component of the Canadian Forces that is referred to in the *National Defence Act* as the regular force;

"reserve force" — "reserve force" means the component of the Canadian Forces that is referred to in the *National Defence Act* as the reserve force;

"security" and "sureties" — "security" means sufficient security, and "sureties" means sufficient sureties, and when those words are used one person is sufficient therefor, unless otherwise expressly required;

"standard time" — "standard time", except as otherwise provided by any proclamation of the Governor in Council that may be issued for the purposes of this definition in relation to any province or territory or any part thereof, means

(*a*) in relation to the Province of Newfoundland, Newfoundland standard time, being three hours and thirty minutes behind Greenwich time,

(*b*) in relation to the Provinces of Nova Scotia, New Brunswick and Prince Edward Island, that part of the Province of Quebec lying east of the sixty-third meridian of west longitude, and that part of Nunavut lying east of the sixty-eighth meridian of west longitude, Atlantic standard time, being four hours behind Greenwich time,

(*c*) in relation to that part of the Province of Quebec lying west of the sixty-third meridian of west longitude, that part of the Province of Ontario lying between the sixty-eighth and the ninetieth meridians of west longitude, Southampton Island and the islands adjacent to Southampton Island, and that part of Nunavut lying between the sixty-eighth and the eighty-fifth meridians of west longitude, eastern standard time, being five hours behind Greenwich time,

(*d*) in relation to that part of the Province of Ontario lying west of the ninetieth meridian of west longitude, the Province of Manitoba, and that part of Nunavut, except Southampton Island and the islands adjacent to Southampton Island, lying between the eighty-fifth and the one hundred and second meridians of west longitude, central standard time, being six hours behind Greenwich time,

(*e*) in relation to the Provinces of Saskatchewan and Alberta, the Northwest Territories, and that part of Nunavut lying west of the one hundred and second meridian of west longitude, mountain standard time, being seven hours behind Greenwich time,

(*f*) in relation to the Province of British Columbia, Pacific standard time, being eight hours behind Greenwich time, and

(*g*) in relation to Yukon, Yukon standard time, being nine hours behind Greenwich time; (S.C. 2002, c. 7, s. 188.)

(S.C. 1993, c. 28, Sched. III, s. 82(2).)

"statutory declaration" — "statutory declaration" means a solemn declaration made pursuant to section 41 of the *Canada Evidence Act*;

"superior court" — "superior court" means

(*a*) in the Province of Prince Edward Island or Newfoundland, the Supreme Court, (S.C. 1990, c. 17, s. 26(2); S.C. 1992, c. 51, s. 56(2).)

(*a.1*) in the Province of Ontario, the Court of Appeal for Ontario and the Superior Court of Justice, (S.C. 1990, c. 17, s. 26(2); S.C. 1998, c. 30, s. 15(i).)

(*b*) in the Province of Quebec, the Court of Appeal and the Superior Court in and for the Province,

(*c*) in the Province of New Brunswick, Manitoba, Saskatchewan or Alberta, the Court of Appeal for the Province and the Court of Queen's Bench for the Province,

(*d*) in the Provinces of Nova Scotia and British Columbia, the Court of Appeal and the Supreme Court of the Province, (S.C. 1992, c. 51, s. 56(2).)

(*e*) the Supreme Court of Yukon, the Supreme Court of the Northwest Territories and the Nunavut Court of Justice, (S.C. 1993, c. 28, Sched. III, s. 82(3); S.C. 1999, c. 3, s. 71; S.C. 2002, c. 7, s. 188.)

and includes the Supreme Court of Canada, the Federal Court of Appeal, the Federal Court and the Tax Court of Canada; (S.C. 2002, c. 8, s. 151(2).)

"telecommunications" — "telecommunications" means the emission, transmission or reception of signs, signals, writing, images, sounds or intelligence of any nature by any wire, cable, radio, optical or other electromagnetic system, or by any similar technical system; (S.C. 1993, c. 38, s. 87.)

"territorial sea" — "territorial sea",

(*a*) in relation to Canada, means the territorial sea of Canada as determined under the *Oceans Act* and includes the airspace above and the seabed and subsoil below that sea, and

(*b*) in relation to any other state, means the territorial sea of the other state as determined in accordance with international law and the domestic laws of that other state;

(S.C. 1996, c. 31, s. 87.)

"territory" — "territory" means Yukon, the Northwest Territories and Nunavut; (S.C. 1995, c. 39, s. 174; S.C. 2002, c. 7, s. 188.)

"two justices" — "two justices" means two or more justices of the peace, assembled or acting together;

"United Kingdom" — "United Kingdom" means the United Kingdom of Great Britain and Northern Ireland;

* See Proclamation SOR/2001-182, dated May 23, 2001, concerning time zones for Nunavut, reproduced at the end of this Act.

"United States" — "United States" means the United States of America;

"writing" — "writing", or any term of like import, includes words printed, typewritten, painted, engraved, lithographed, photographed or represented or reproduced by any mode of representing or reproducing words in visible form.

(2) *Governor in Council may amend schedule* — The Governor in Council may, by order, amend the schedule by adding thereto the name of any country recognized by the order to be a member of the Commonwealth or deleting therefrom the name of any country recognized by the order to be no longer a member of the Commonwealth. (S.C. 1992, c. 1, s. 91.)

(R.S.C. 1985 (1st Supp.), c. 11; 1985 (2nd Supp.), c. 27; 1990, c. 17, s. 26; 1992, c. 1, s. 91; 1992, c. 47, s. 79; 1992 c. 51, s. 56; 1993, c. 28. Sched. III, s. 82; 1993, c. 38, s. 87; 1995, c. 39, s. 174; 1996, c. 31, s. 87; 1998, c. 15, s. 28; 1998, c. 30, s. 15; 1999, c. 3, ss. 12 and 71; 1999, c. 28, s. 168; 2002, c. 7, s. 88; 2002, c. 8, s. 151.)

Sec. 36. Construction of "telegraph" — The expression "telegraph" and its derivatives, in an enactment or in an Act of the legislature of any province enacted before that province became part of Canada on any subject that is within the legislative powers of Parliament, are deemed not to include the word "telephone" or its derivatives.

Sec. 37. Construction of "year" — (1) The expression "year" means any period of twelve consecutive months, except that a reference

(*a*) to a "calendar year" means a period of twelve consecutive months commencing on January 1;

(*b*) to a "financial year" or "fiscal year" means, in relation to money provided by Parliament, or the Consolidated Revenue Fund, or the accounts, taxes or finances of Canada, the period beginning on April 1 in one calendar year and ending on March 31 in the next calendar year; and

(*c*) by number to a Dominical year means the period of twelve consecutive months commencing on January 1 of that Dominical year.

(2) *Governor in Council may define year* — Where in an enactment relating to the affairs of Parliament or the Government of Canada there is a reference to a period of a year without anything in the context to indicate beyond doubt whether a financial or fiscal year, any period of twelve consecutive months or a period of twelve consecutive months commencing on January 1 is intended, the Governor in Council may prescribe which of those periods of twelve consecutive months shall constitute a year for the purposes of the enactment.

Sec. 38. Common names — The name commonly applied to any country, place, body, corporation, society, officer, functionary, person, party or thing means the country, place, body, corporation, society, officer, functionary, person, party or thing to which the name is commonly applied, although the name is not the formal or extended designation thereof.

Sec. 39. Affirmative and negative resolutions — (1) In every Act,

(*a*) the expression "subject to affirmative resolution of Parliament", when used in relation to any regulation, means that the regulation shall be laid before Parliament within fifteen days after it is made or, if Parliament is not then sitting, on any of the first fifteen days next thereafter that Parliament is sitting and shall not come into force unless and until it is affirmed by a resolution of both Houses of Parliament introduced and passed in accordance with the rules of those Houses;

(*b*) the expression "subject to affirmative resolution of the House of Commons", when used in relation to any regulation, means that the regulation shall be laid before the House of Commons within fifteen days after it is made or, if the House is not then sitting, on any of the first fifteen days next thereafter that the House is sitting and shall not come into force unless and until it is affirmed by a resolution of the House of Commons introduced and passed in accordance with the rules of that House;

(*c*) the expression "subject to negative resolution of Parliament", when used in relation to any regulation, means that the regulation shall be laid before Parliament within fifteen days after it is made or, if Parliament is not then sitting, on any of the first fifteen days next thereafter that Parliament is sitting and may be annulled by a resolution of both Houses of Parliament introduced and passed in accordance with the rules of those Houses; and

(*d*) the expression "subject to negative resolution of the House of Commons", when used in relation to any regulation, means that the regulation shall be laid before the House of Commons within fifteen days after it is made or, if the House is not then sitting, on any of the first fifteen days next thereafter that the House is sitting and may be annulled by a resolution of the House of Commons introduced and passed in accordance with the rules of that House.

(2) *Effect of negative resolution* — Where a regulation is annulled by a resolution of Parliament or of the House of Commons, it is deemed to have been revoked on the day the resolution is passed and any law that was revoked or amended by the making of that regulation is deemed to be revived on the day the resolution is passed, but the validity of any action taken or not taken in compliance with a regulation so deemed to have been revoked shall not be affected by the resolution.

References and Citations

Sec. 40. Citation of enactment — (1) In an enactment or document,

(*a*) an Act may be cited by reference to its chapter number in the Revised Statutes, by reference to its chapter number in the volume of Acts for the year or regnal year in which it was enacted or by reference to its long title or short title, with or without reference to its chapter number; and

(*b*) a regulation may be cited by reference to its long title or short title, by reference to the Act under which it was made or by reference to the number or designation under which it was registered by the Clerk of the Privy Council.

(2) *Citation includes amendment* — A citation of or reference to an enactment is deemed to be a citation of or reference to the enactment as amended.

Sec. 41. Reference to two or more parts, etc. — (1) A reference in an enactment by number or letter to two or more parts, divisions, sections, subsections, paragraphs, subparagraphs, clauses, subclauses, schedules, appendices or forms shall be read as including the number or letter first mentioned and the number or letter last mentioned.

(2) *Reference in enactments to parts, etc.* — A reference in an enactment to a part, division, section, schedule, appendix or form shall be read as a reference to a part, division, section, schedule, appendix or form of the enactment in which the reference occurs.

(3) *Reference in enactment to subsections, etc.* — A reference in an enactment to a subsection, paragraph, subparagraph, clause or subclause shall be read as a reference to a subsection, paragraph, subparagraph, clause or subclause of the section, subsection, paragraph, subparagraph or clause, as the case may be, in which the reference occurs.

(4) *Reference to regulations* — A reference in an enactment to regulations shall be read as a reference to regulations made under the enactment in which the reference occurs.

(5) *Reference to another enactment* — A reference in an enactment by number or letter to any section, subsection, paragraph, subparagraph, clause, subclause or other division or line of another enactment shall be read as a reference to the section, subsection, paragraph, subparagraph, clause, subclause or other division or line of such other enactment as printed by authority of law.

Repeal and Amendment

Sec. 42. Power of repeal or amendment reserved — (1) Every Act shall be so construed as to reserve to Parliament the power of repealing or amending it, and of revoking, restricting or modifying any power, privilege or advantage thereby vested in or granted to any person.

(2) *Amendment or repeal at same session* — An Act may be amended or repealed by an Act passed in the same session of Parliament.

(3) *Amendment part of enactment* — An amending enactment, as far as consistent with the tenor thereof, shall be construed as part of the enactment that it amends.

Sec. 43. Effect of repeal — Where an enactment is repealed in whole or in part, the repeal does not

(*a*) revive any enactment or anything not in force or existing at the time when the repeal takes effect,

(*b*) affect the previous operation of the enactment so repealed or anything duly done or suffered thereunder,

(*c*) affect any right, privilege, obligation or liability acquired, accrued, accruing or incurred under the enactment so repealed,

(*d*) affect any offence committed against or contravention of the provisions of the enactment so repealed; or any punishment, penalty or forfeiture incurred under the enactment so repealed, or

(*e*) affect any investigation, legal proceeding or remedy in respect of any right, privilege, obligation or liability referred to in paragraph (*c*) or in respect of any punishment, penalty or forfeiture referred to in paragraph (*d*),

and an investigation, legal proceeding or remedy as described in paragraph (*e*) may be instituted, continued or enforced, and the punishment, penalty or forfeiture may be imposed as if the enactment had not been so repealed.

Sec. 44. Repeal and substitution — Where an enactment, in this section called the "former enactment", is repealed and another enactment, in this section called the "new enactment", is substituted therefor,

(*a*) every person acting under the former enactment shall continue to act, as if appointed under the new enactment, until another person is appointed in the stead of that person;

(*b*) every bond and security given by a person appointed under the former enactment remains in force, and all books, papers, forms and things made or used under the former enactment shall continue to be used as before the repeal in so far as they are consistent with the new enactment;

(*c*) every proceeding taken under the former enactment shall be taken up and continued under and in conformity with the new enactment in so far as it may be done consistently with the new enactment;

(*d*) the procedure established by the new enactment shall be followed as far as it can be adapted thereto

(i) in the recovery or enforcement of fines, penalties and forfeitures imposed under the former enactment,

(ii) in the enforcement of rights, existing or accruing under the former enactment, and

(iii) in a proceeding in relation to matters that have happened before the repeal;

(*e*) when any punishment, penalty or forfeiture is reduced or mitigated by the new enactment, the punishment, penalty or forfeiture if imposed or adjudged after the repeal shall be reduced or mitigated accordingly;

(*f*) except to the extent that the provisions of the new enactment are not in substance the same as those of the former enactment, the new enactment shall not be held to operate as new law, but shall be construed and have effect as a consolidation and as declaratory of the law as contained in the former enactment;

(*g*) all regulations made under the repealed enactment remain in force and are deemed to have been made under the new enactment, in so far as they are not inconsistent with the new enactment, until they are repealed or others made in their stead; and

(*h*) any reference in an unrepealed enactment to the former enactment shall, with respect to a subsequent transaction, matter or thing, be read and construed as a reference to the provisions of the new enactment relating to the same subject-matter as the former enactment, but where there are no provisions in the new enactment relating to the same subject-matter, the former enactment shall be read as unrepealed in so far as is necessary to maintain or give effect to the unrepealed enactment.

Sec. 45. Repeal does not imply enactment was in force — (1) The repeal of an enactment in whole or in part shall not be deemed to be or to involve a declaration that the enactment was previously in force or was considered by Parliament or other body or person by whom the enactment was enacted to have been previously in force.

(2) *Amendment does not imply change in law* — The amendment of an enactment shall not be deemed to be or to involve a declaration that the law under that enactment was or was considered by Parliament or other body or person by whom the enactment was enacted to have been different from the law as it is under the enactment as amended.

(3) *Repeal does not declare previous law* — The repeal or amendment of an enactment in whole or in part shall not be deemed to be or to involve any declaration as to the previous state of the law.

(4) *Judicial construction not adopted* — A re-enactment, revision, consolidation or amendment of an enactment shall not be deemed to be or to involve an adoption of the construction that has by judicial decision or otherwise been placed on the language used in the enactment or on similar language.

Demise of Crown

Sec. 46. Effect of demise — (1) Where there is a demise of the Crown,

(*a*) the demise does not affect the holding of any office under the Crown in right of Canada; and

(*b*) it is not necessary by reason of the demise that the holder of any such office again be appointed thereto or, having taken an oath of office or allegiance before the demise, again take that oath.

(2) *Continuation of proceedings* — No writ, action or other process or proceeding, civil or criminal, in or issuing out of any court established by an Act is, by reason of a demise of the Crown, determined, abated, discontinued or affected, but every such writ, action, process or proceeding remains in full force and may be enforced, carried on or otherwise proceeded with or completed as though there had been no such demise.

Schedule
(Section 35)

Antigua and Barbuda
Australia
The Bahamas
Bangladesh
Barbados
Belize
Botswana
Brunei Darussalam
Canada
Cyprus
Dominica
Fiji
Gambia
Ghana
Grenada
Guyana
India
Jamaica
Kenya
Kiribati
Lesotho
Malawi
Malaysia
Maldives
Malta
Mauritius
Nauru
New Zealand
Nigeria
Pakistan
Papua New Guinea
St. Christopher and Nevis
St. Lucia
St. Vincent and the Grenadines
Seychelles
Sierra Leone
Singapore
Solomon Islands
South Africa
Sri Lanka
Swaziland
Tanzania
Tonga
Trinidad and Tobago
Tuvalu
Uganda
United Kingdom
Vanuatu
Western Samoa
Zambia
Zimbabwe

(SOR/86-532; SOR/93-140; SOR/95-366.)

Proclamation Interpretation Act

SOR/2001-182, May 23, 2001

Proclamation establishing three different time zones in Nunavut, for the purposes of the definition of "standard time" in the Interpretation Act

A Proclamation

Whereas "standard time", in relation to any province or territory, has the meaning set out in subsection 35(1) of the Interpretation Act, except as otherwise provided by a proclamation of the Governor in Council;

And Whereas the Government of Nunavut has expressed the desire to change the definition of standard time in relation to Nunavut;

Now Know You that We, by and with the advice of Our Privy Council for Canada, and pursuant to Order in Council P.C. 2001-804 of May 2, 2001, do by this Our Proclamation provide that, for the purpose of the definition "standard time" in subsection 35(1) of the Interpretation Act, "standard time" means

(*a*) in relation to that part of Nunavut that is east of the 85th meridian of west longitude, and in Southampton Island and the islands adjacent to Southampton Island, Eastern Standard Time, being five hours behind Greenwich time;

(*b*) in relation to that part of Nunavut that is between the 85th meridian of west longitude and the 102nd meridian of west longitude, except Southampton Island and the islands adjacent to Southampton Island and all areas lying within the Kitikmeot Region, Central Standard Time, being six hours behind Greenwich time; and

(*c*) in relation to that part of Nunavut that is west of the 102nd meridian of west longitude, and all areas lying within the Kitikmeot Region, Mountain Standard Time, being seven hours behind Greenwich time.

Of All Which Our Loving Subjects and all others whom these Presents may concern are hereby required to take notice and to govern themselves accordingly.

In Testimony Whereof, We have caused this Our Proclamation to be published and the Great Seal of Canada to be hereunto affixed. Witness: Our Right Trusty and Well-beloved Adrienne Clarkson, Chancellor and Principal Companion of Our Order of Canada, Chancellor and Commander of Our Order of Military Merit, Governor General and Commander-in-Chief of Canada.

At Our Government House, in Our City of Ottawa, this twenty-third day of May in the year of Our Lord two thousand and one and in the fiftieth year of Our Reign.

By Command,

V. Peter Harder
Deputy Registrar General of Canada

TOPICAL INDEX

References are to sections of the Income Tax Act, the Income Tax Application Rules (A.R.), and to the Income Tax Regulations

Section

A

Aboriginal persons
. Aboriginal Capital Corporation Program ... Reg. 7300
. aboriginal government, defined ... 241(10)
. exemption from tax ... 81(1)(a)
. first nations tax ... 120(2.2); 239(5)
. Native Economic Development Board ... Reg. 7300

Accident insurance — see Sickness and accident insurance plans

Accounting
. accrual method
. . foreign investment entities ... 94.3
. . professional business ... 34
. cash method
. . defined ... 248(1)
. . farmers and fishermen ... 28
. . reserves prohibited ... 20(7)
. . residence change ... 28(4)
. consolidation method ... 248(24)
. equity method ... 248(24)
. foreign investment entities ... 94.1(2)(b)
. functional currency reporting — see Foreign currency
. methods limitations ... 248(24)
. penalties for tax professionals ... 163.2

Accounts
. capital dividend — see Dividends, capital
. contingent, deduction limitation ... 18(1)(e)
. negative amounts ... 257
. net income stabilization account — see Net income stabilization account (NISA)
. retention of records ... Reg. 5800(1)
. tax deferred, defined ... 219(7)
. tax-free savings — see Tax-free savings accounts

Accounts receivable
. 1971 ... A.R. 23(5)
. deceased persons ... 70(2)–(3)
. disposing of business ... 28(5)
. election on sale ... 22
. sale ... 22
. statement by vendor or purchaser re sale of business ... 22(2)

Accrual method — see Accounting

Accumulated averaging amount — see Income averaging

Acquisition
. property — see Property acquisition
. shares — see Shares

Actions
. recovery of tax debts ... 222

Active business — see also Business
. defined ... 125(7); 248(1); Reg. 5100(1)
. foreign affiliates ... 95(1); Reg. 5907(2.1)–(2.83)
. qualifying, defined ... Reg. 5100(1)
. small business ... 125(7)
. specified, for LSVCC ... 204.8(1)

Actors, non-resident
. deferred payment by actor's corporation ... 115(2.2)
. election ... 216.1
. information returns ... Reg. 202(1.1)
. returns ... 216.1
. tax rate ... 212(5.1)
. taxable income earned in Canada ... 115(2.1)

Actuary
. defined, RPP ... 147.1(1)
. report filing, RPP ... 147.2(3)

Adjusted business income — see Income, business or property

Adjusted cost base
. additions
. . bonds and debentures ... 53(1)(g)
. . cost incurred in valuating the property ... 53(1)(n)
. . debt obligations ... 53(1)(g)
. . expense incurred on land or building of corporation ... 53(1)(d.3)
. . expropriation assets ... 53(1)(k)
. . farming land ... 53(1)(i)
. . foreign affiliates' shares ... 53(1)(d)
. . indexed debt obligations ... 53(1)(g.1)
. . interest in mutual fund trust ... 53(1)(d.2)

Section

Adjusted cost base
. additions — continued
. . interest in partnership ... 53(1)(e)
. . interest in related segregated fund trust ... 53(1)(l)
. . interest in trust ... 53(1)(d.1)
. . land cost ... 53(1)(h)
. . real property ... 53(1)(o)
. . shares of capital stock ... 53(1)(a)–(d.3)
. . shares of capital stock of Canadian corporations ... 53(1)(f.1)–(f.2)
. . substituted property ... 53(1)(f)
. amalgamation
. . capital property ... 87(2)(e)
. . income computation of predecessor corporation's shareholder ... 87(4)
. . shares of foreign affiliate ... 87(2)(u)
. bonds and debentures
. . deductions allowed ... 53(2)(l)
. capital property, change of control of corporation ... 111(4)
. computation ... 53(1)
. . deemed contribution of capital ... 53(1.1)
. cost incurred in valuating the property
. . real property ... 53(1)(o)
. debt forgiveness rules
. . capital property ... 80(9)
. . partnership interest ... 80(11)
. . shares and debt ... 80(10)–(11)
. debts owing by a corporation ... 53(2)(p)
. debts owing to individuals ... 84.2
. deductions
. . bonds and debentures ... 53(2)(l)
. . control of corporation acquired by a person or group ... 53(2)(b.2)
. . debt obligations ... 53(2)(l)
. . debts owing by a corporation ... 53(2)(p)
. . expropriation assets ... 53(2)(n)
. . indexed debt obligations ... 53(2)(l.1)
. . interest in partnership ... 53(2)(c)
. . interest in related segregated fund trust ... 53(2)(q)
. . interest in trust ... 53(2)(b.1)
. . loss on disposition of deceased's shares ... 53(2)(t)
. . non-qualifying real property ... 53(2)(u)
. . partial disposition of property ... 53(2)(d)
. . property acquired as consideration for payment ... 53(2)(f)
. . property acquired by assistance ... 53(2)(k)
. . property acquired in the year ... 53(2)(s)
. . right to receive partnership property ... 53(2)(o)
. . settlement of debts ... 53(2)(g)
. . share of capital stock
. . . non-resident corporation ... 53(2)(b)
. . . resident corporation ... 53(2)(a)
. . shares of capital stock acquired before August 1976 ... 53(2)(e)
. . shares of capital stock of joint exploration corporations ... 53(2)(f.1)
. . trusts, income interest ... 53(2)(h)–(j)
. defined ... 54; 248(1)
. disposition of share in foreign affiliate ... 93(1)
. . deemed election ... 93(1.1)
. dividends
. . received from foreign affiliate ... 92
. . tax-deferred preferred shares ... 83(1)
. ecological gifts ... 43(2)
. election re year of acquisition ... 53(2.1)
. expropriation assets
. . amounts deducted ... 53(2)(n)
. flow-through entities ... 53(1)(p)–(r)
. foreign affiliates' interest in partnership ... 95(2)(j); Reg. 5907(12)
. foreign investment entity ... 53(1)(m.1); 53(2)(w); 94.3(5)
. foreign spin-off ... 86.1(3)
. identical properties ... 47
. . owned on Dec. 31, 1971 ... A.R. 26(8)–(8.5)
. indexed debt obligations ... 53(1)(g.1)
. negative ... 40(3)
. offshore investment fund property ... 53(1)(m)
. partial dispositions ... 43
. partnership
. . interest owned on Dec. 31, 1971 ... A.R. 26(9)–(9.4)
. . property contribution ... 97
. . sole proprietorship ... 98(5)
. . winding-up ... 85(3); 98(3)

Section

Adjusted cost base — continued
. property owned before Feb. 22, 1994 ... 53(2)(v); 110.6(19); 110.6(22); A.R. 26(29)
. . amended elections ... 110.6(27)
. . effect of election on non-qualifying property ... 110.6(21)
. . late elections ... 110.6(26)
. . partnership interest ... 110.6(23)
. . revocation of election ... 110.6(25)
. . timing of election ... 110.6(24)
. property owned on Dec. 31, 1971 ... A.R. 26(3)
. . property not disposed ... A.R. 26(4)
. property owned on June 18, 1971
. . non-arm's length transactions ... A.R. 26(5)
. recomputation
. . specified property ... 53(4)
. right to receive partnership property ... 53(2)(o)
. segregated fund trust ... 138.1(5)
. shareholder disposing of shares on reorganization ... 86(4)
. specified property
. . amalgamations ... 53(6)
. . disposition to non-arm's length person ... 53(5)
. . recomputation ... 53(4)
. stock option benefits ... 53(1)(j)
. trust property ... 43(3)

Adjusted cost basis
. defined, life policyholders ... 148(9)

Adjusted principal amount
. defined for expropriation assets ... 80.1(7)

Adjustment time
. defined ... 14(5); 248(1)

Administration and enforcement of Act
. appointment of officers, clerks, employees ... 220(2)–(2.01)
. assignment of refunds and tax credits ... 220(6)–(7)
. authorized person, inspections by ... 231.1(1)
. books and records — see Books and records
. collection of tax — see Tax collection
. Commissioner of CRA, power of ... 220(1)
. compliance order ... 231.7
. documents and information
. . judicial authorization ... 231.2(3)–(5)
. . requirement to produce ... 231.2(1)
. . third party providing ... 231.2(2)
. foreign-based information — see Information
. garnishment ... 224(1)–(6)
. hearing officers ... 231.4(2)–(4)
. information communication — see Information
. inquiry — see Investigation and search
. inspections
. . dwelling-house ... 231.1(2)
. . generally ... 231.1(1)
. . warrant ... 231.1(3)
. interest application ... 221.1
. investigations ... 231
. judicial authorization ... 231.2(3)–(5)
. judicial powers ... 231.2(6)
. Minister's duty ... 220(1)
. oaths, power to administer ... 220(5)
. receipt of things mailed ... 248(7)
. recovery of tax by deduction or set-off ... 224.1
. regulations ... 221(1)
. . binding Crown ... 221(3)
. . effective date ... 221(2)
. . incorporation of material by reference ... 221(4)
. returns, extending time for filing ... 220(3)
. search warrant ... 231.3(1)–(4)
. security for payment of tax ... 220(4)
. . surrender of excess security ... 220(4.1)–(4.2)
. seizure — see Investigation and search
. solicitor–client privilege ... 232(2)
. transitional provisions ... A.R. 65.1
. waiver of filing of documents ... 220(2.1)
. waiver of interest or penalty ... 220(3.1)

Administrator — see also Trustees
. registered pension plan
. . appointment ... 147.1(6)
. . defined ... 147.1(1)
. . obligations ... 147.1(7)
. . separate liability re obligations ... 147.1(16)

Adoption expense tax credit
. apportionment ... 118.01(3)

Section

Adoption expense tax credit — continued
. calculation ... 118.01(2)
. definitions ... 118.01(1)

Adult
. defined re communal organizations ... 143(4)

Advertising and broadcasting
. Canadian issue defined ... 19(5)
. Canadian newspaper ... 19(5)
. . ceases to be Canadian ... 19(7)
. . held in trust ... 19(6)
. CCA rate ... Reg. Sch. II, Class 11
. . bulletin board ... Reg. Sch. II, Class 11
. . electrical signs ... Reg. Sch. II, Class 11
. . outdoor poster panel or bulletin board ... Reg. Sch. II, Class 8, 19, 29, 39, 43
. . posters ... Reg. Sch. II, Class 11
. . signs, separate classes ... Reg. 1101(5l)
. deduction limitations ... 19(1)
. foreign broadcasting undertaking
. . deduction limitations ... 19.1(1)
. . defined ... 19.1(4)
. . exception re deduction ... 19.1(2)
. network defined ... 19.1(4)
. non-Canadian newspapers
. . deductions allowed ... 19(3)
. . deductions disallowed ... 19(1)
. . special issue ... 19(3)
. periodicals directed at Canadian market ... 19.01
. television commercials
. . CCA rate ... Reg. Sch. II, Class 12
. . message, defined ... Reg. 1104(2)

Aeronautics Act
. compensation exempt ... 81(1)(d)

Affidavits
. requirements for ... 225.2(4)

Affiliate
. foreign — see Foreign affiliates

Affiliated persons
. affiliated group of persons, defined ... 251.1(3)
. amalgamations ... 251.1(2)
. controlled, defined ... 251.1(3)
. defined ... 251.1(1)
. majority-interest group of beneficiaries ... 251.1(3)
. majority-interest group of partners ... 251.1(3)
. mergers ... 251.1(2)
. person affiliated with themselves ... 251.1(4)
. person includes partnership ... 251.1(4)

Agents and brokers
. commission
. . deductible expenses ... 8(1)(f)
. . unearned ... 32
. . withholding tax ... 153(1)(g)
. Crown, deduction ... 124(3)
. dividends received by ... 153(4)–(5)
. government, exempt allowances ... 6(1)(b)(iii)–(iv)
. information return ... Reg. 201(2)
. insurance
. . reserves ... 32(1)
. . unearned commission ... 32
. interest on borrowed money to buy car or aircraft ... 8(1)(j)
. liability for non-residents tax ... 215(2)
. registered political party
. . books and records ... 230.1
. . information return ... 230.1(2)
. returns to be filed by ... 150(3)
. withholding tax
. . commission ... 153(1)(g)
. . dues ... Reg. 108(4)

Agreements — see also Contracts
. associated corporations
. . business limit ... 125(3)–(6)
. . dividend allowance allocation ... 191.1(3)
. avoiding collection of withholding tax, void ... 227(12)
. Canada–U.S. Agreement on Automotive Products ... 56(1)(a)(v)
. CCPC expenditure limit ... 127(10.3)
. collection, Federal Provincial Fiscal Arrangements Act ... 228
. debt forgiveness ... 80.04
. federal–provincial tax transfer payments ... 154
. First Nations tax ... 120(2.2); 239(5)
. lease option, capital cost allowance ... Reg. 1101(5)
. non-residents, competent authority agreements ... 115.1
. overpayments of child tax benefits ... 122.63
. partnerships, share income or loss to reduce tax ... 103
. retention of records ... Reg. 5800(1)
. separation, defined ... 248(1)
. support payments
. . deduction of payments ... 60(b)
. . prior payments ... 60.1(3)
. . third party payments ... 56.1(2); 60.1(1)

Agricultural cooperative corporations
. amalgamation ... 87(2)(s)
. definitions ... 135.1(1)
. tax deferred cooperative shares
. . amalgamation ... 87(2)(s)
. . deductibility limit ... 135.1(3)
. . deemed disposition ... 135.1(4)
. . defined ... 135.1(1)
. . eligible disposition ... 135.1(1)
. . income inclusion ... 135.1(2)
. . reacquisition ... 135.1(5)
. . winding up or redemption ... 135.1(8)
. . withholding ... 135.1(6)–135.1(7)

Agricultural land — see Land

Agricultural organizations
. exempt from tax ... 149(1)(e)

Air-conditioning equipment
. CCA rate ... Reg. Sch. II, Class 6

Aircraft
. CCA rate ... Reg. Sch. II, Class 9
. deductible expenses for use in employment ... 8(1)(j); 8(9)
. equipment, CCA rate ... Reg. Sch. II, Class 16
. furniture equipment, CCA rate ... Reg. Sch. II, Class 9
. GST input tax credit and rebate ... 248(17)
. hangar, CCA rate ... Reg. Sch. II, Class 6
. non-resident reciprocal tax exemption ... 81(1)(c)
. QST input tax refund and rebate ... 248(17.1)
. revenue plane miles flown ... Reg. 407(2)
. runway, CCA rate ... Reg. Sch. II, Class 1, 17
. take-off weight ... Reg. 407(3)
. undepreciated capital cost ... 13(27)(h)

Airline corporations
. income earned in a province ... Reg. 407

Alimony — see Support payments

Allowable business investment loss — see Losses, business investment

Allowances — see also Expenses
. board and lodging ... 6(1)(a)
. Canadian forces ... 6(1)(b)(ii); 81(1)(d)–(d.1)
. Clergy ... 6(1)(b)(vi)
. construction workers on special work site ... 6(6)
. depletion — see Depletion allowance
. frontier exploration — see Oil and gas wells
. Halifax disaster ... 81(1)(f)
. Inquiries Act expense, not income ... 6(1)(b)(i)
. lessee, coal mine ... 65(3)
. members of legislative assembly ... 81(2)
. municipal officer ... 81(3)
. ore processing ... 65(1)
. personal or living expense ... 6(1)(b)
. representation, Crown officials exempt ... 6(1)(b)(iii)–(iv)
. resource — see Resource allowance
. retiring — see Retiring allowance
. schooling — see Schooling allowance
. separation, armed forces ... 6(1)(b)(ii)
. shareholders of mines, oil or gas wells ... 65(2)
. sports and recreation lodging ... 6(1)(b)(v.1)
. timber limits ... 65(1); 65(3)
. transportation, exempt ... 6(6)
. traveling for official purpose, exemptions ... 6(1)(b)(i)
. use of automobile ... 6(1)(b)(vii.1); 6(1)(b)(x); 6(1)(b)(x)(xi)
. veterans ... 81(1)(d)–(e)

Alter ego trust — see Trusts

Alterations — see Repair and maintenance

Alternative minimum tax — see Minimum tax

Amalgamated corporations
. accrual rules ... 87(2)(j.4)
. adjustment time ... 14(5)
. affiliated persons ... 251.1(2)
. agricultural cooperative corporations ... 87(2)(s)
. base period for new corporation ... 87(2)(j.1)
. Canadian corporations
. . obligations received on ... A.R. 26(23)
. . rules re parent shares ... 87(9)
. Canadian development expenses
. . taxable capital amount ... 66(12.6013)
. capital dividend account ... 87(2)(z.1)
. capital property
. . acquisition cost ... 87(2)(e); 87(2)(t)
. CCA rate ... Reg. 1102(14)
. charitable donations of predecessors ... 87(2)(v)
. computation of income ... 87(1)–(9)
. . method ... 87(2)(c)
. . reserves ... 87(2)(m)
. continuation of predecessor ... 87(2)(jj)–(ll)
. . related corporations ... 55(3.5)
. . replacement property rules ... 87(2)(l.3)–(l.4)
. continuation of predecessor corporation
. . rules re RPP ... 87(2)(q)
. contributed surplus ... 87(2)(y)
. corporate status ... Reg. 4800(3)
. cross-border mergers ... 128.2

Amalgamated corporations — continued
. debt
. . acquired from predecessor ... 87(2)(h)–(h.1)
. . deemed settlement ... 80.01(3)
. . settlement ... 87(2)(h)–(h.1)
. deemed affiliations ... 69(14)
. deemed non-arm's length ... A.R. 21(2.2)
. deemed not to be controlled ... 88(4)
. deemed proceeds of disposition of property ... 69(11); 69(13)
. deemed timing of existence ... 69(14)
. defined ... 87(1)
. depreciable property ... 87(2)(d)
. . acquisition from predecessor ... 87(2)(d.1)
. dividends
. . computation ... 87(2)(rr)
. . election ... 87(2)(ss)
. . general rate income pool ... 87(2)(vv); 89(5)
. . low rate income pool ... 87(2)(ww); 89(9)
. . taxable ... 87(2)(x)
. earned depletion base ... Reg. 1214
. eligible capital property rule ... 87(2)(f)
. employee benefit plan ... 87(2)(j.3)
. employee profit sharing plan ... 87(2)(r)
. exchanged shares, terms and conditions ... 87(4.1)–(4.3)
. financial institutions ... 87(2)(g.2)
. flow-through entities ... 87(2)(bb.1)
. flow-through shares ... 87(4.4)
. foreign affiliates ... Reg. 5903(5); Reg. 5905(5.1)
. foreign investment entities ... 87(2)(j.95)
. foreign tax carryover ... 87(2)(z)
. fuel tax rebates ... 87(2)(uu)
. functional currency reporting ... 261(17); 261(19)
. gift of
. . predecessor's property ... 87(2)(m.2)
. . qualifying securities ... 87(2)(m.1)
. group term life insurance premiums ... 87(2)(j.2)
. income deferral from sale of livestock ... 87(2)(tt)
. insurers ... 87(2.2)
. inventory ... 87(2)(b)
. inventory adjustment ... 87(2)(j.1)
. investment corporations
. . income computation ... 87(2)(bb)
. investment tax credit
. . refundable ... 87(2)(oo.1)
. . SR and ED expenses ... 87(2)(oo)
. Labour-sponsored funds tax credit ... 127.4(1.1)
. lease cancellation ... 87(2)(j.5)
. lessee's income computation ... 16.1(4)
. losses
. . predecessors' ... 87(2.1)
. . subsidiary wholly-owned corporation ... 87(2.11)
. mark-to-market property ... 87(2)(e.4)–(e.5)
. matchable expenditures ... 87(2)(j.2)
. mining reclamation trusts ... 87(2)(j.93)
. mutual fund corporation
. . income computation ... 87(2)(bb)
. new corporations
. . claim for unused Part VI and I.3 tax credit of predecessors ... 87(2)(j.9)
. . continuation of predecessors ... 87(2)(j.6)–(j.91)
. . cost of partnership interest ... 87(2)(e.1)
. . gain from acquiring partnership interest ... 100(2.1)
. . investment tax credits ... 87(2)(qq)
. new corporations' share options
. . predecessor corporation granting ... 87(2)(o)
. . predecessor's shares ... 87(5)
. . previously expired ... 87(2)(o)
. . received on ... A.R. 26(22)
. NRO investment corporations
. . income computation ... 87(2)(cc)
. options, adjusted cost base ... 87(5.1)
. paid-up capital computation ... 87(3)
. . election ... 87(3.1)
. patronage dividends ... 87(2)(g.5)
. payment to employees ... 87(2)(k)
. petroleum recovery expenses ... 87(2)(j.2)
. predecessor
. . charitable donations ... 87(2)(v)
. . continuation of ... 87(2)(jj)–(ll)
. . cost of property on amalgamation ... 87(2)(e.2)
. . defined ... 87(2)(l.2)
. . eligible capital property rule ... 87(2)(f)
. . forgiven debt ... 87(2)(l.21)
. . losses, deduction limitations ... 87(2.1)
. . obligations of ... 87(6)–(7)
. . options, expiry of previously granted ... 87(2)(o)
. . replacement property rules ... 87(2)(l.3)–(l.4)
. . resource expenses ... 66.7(10.1); 87(1.2)
. . shareholder's income ... 87(4)
. . shares of ... 87(4)–(5)
. . taxable dividends ... 87(2)(x)
. . unused Part VI and I.3 tax credit ... 87(2)(j.9)
. preferred earning amount ... 87(2)(y.1)
. prepaid expenses of predecessor ... 87(2)(j.2)
. public corporations ... 87(2)(ii)
. Quebec credit unions ... 87(2.3)
. refundable dividend tax on hand ... 87(2)(aa)

Section

Amalgamated corporations — continued
. refundable Part VII tax on hand....87(2)(nn)
. related corporations
. . deemed related to predecessors....55(3.5); 251(3.2)
. related persons....251(3.1)
. reserves
. . computation....87(2)(g)
. . continuation....87(2)(g.1)
. . special....87(2)(i) (j)
. resource expenses of predecessor....66.7(10.1); 87(1.2)
. resource property disposition....87(2)(p)
. rules applicable....87(2)
. scientific research expenses....87(2)(l)
. security or debt obligation....87(2)(e.2)
. shareholder of predecessor corporation
. . computing income of....87(4)
. shares deemed listed....87(10)
. shares deemed received by new corporation....87(1.1)
. shares of foreign affiliate....87(2)(u)
. shares received on amalgamation....A.R. 26(21)
. SIFT wind-up corporations....87(2)(s.1)
. small business deduction....87(2)(j.92)
. specified debt obligation of predecessor....87(2)(e.3)
. subsidiaries, wholly-owned corporations....87(1.1)–(1.4)
. successor corporation — see Successor corporations
. superficial losses....87(2)(g.3)
. . capital property....87(2)(g.4)
. tax-deferred preferred shares....83(7)
. taxation year....87(2)(a)
. transitional provisions
. . amalgamated pre–1972....A.R. 34(1)
. . exploration and development expenses....A.R. 34(4)
. . transaction not at arm's length....A.R. 26(5.1)
. vertical amalgamations....87(2.11)
. . capital property, option to increase cost....87(11)
. . option to increase cost of certain capital property....87(11)
. video production tax credit....87(2)(j.94)
. warranty, outlays made pursuant to....87(2)(n)

Amateur athlete trusts
. amateur athlete, defined....143.1(1)
. beneficiaries, income from....143.1(2)
. defined....248(1)
. designated income taxation....210.2(2)
. distribution of property on death of beneficiary....143.1(4)
. exempt from tax....149(1)(v)
. payments as business income....12(1)(z)
. qualifying performance income, defined....143.1(1)
. reserve fund....143.1(1)–(1.2)
. tax payable on payments received....212(1)(u)
. termination....143.1(3); 214(3)

Amateur athletic associations, registered Canadian
. appeal on refusal to register....172(3)
. books and records....230(2); Reg. 5800(1)
. deemed refusal to register....172(4)
. defined....248(1)
. fiscal period....Reg. 216(2)
. information returns....Reg. 216(1)
. reserve fund....143.1(1)–(1.2)
. retention of records....Reg. 5800(1)
. revocation of registration....168

Ambassador
. deemed resident in Canada....250(1)–(2)

Ambulance
. transportation cost, medical expenses....118.2(2)(f)

Amortized cost — see Costs

Amounts
. adjusted principal, defined....80.1(7)
. defined....248(1)
. payable, defined for life policy loans....148(9)
. receivable
. . income....12(1)(b)
. . interpretation....12(2)
. unpaid, rules....78

Amusement parks
. CCA rate....Reg. Sch. II, Class 37
. defined....Reg. 1104(12)

Animals
. basic herd — see Basic herd
. class, defined....29(3); Reg. 1802(5)
. farmer disposing....29(1)–29(2)
. inventory valuation....Reg. 1802(1)–(5)
. livestock — see Livestock
. registered, defined....Reg. 1802(5)
. valuation....Reg. 1802(1)–(5)

Annual adjustments for inflation....117.1

Annual annuity amount — see Annuities

Annual dues — see Dues

Section

Annuitants
. assessment by Minister....160.2(3)–160.2(4)
. deemed to be holder of contract....Reg. 304(3)
. defined....146(1); 146.3(1); Reg. 304(4)

Annuities — see also Annuity contracts; Pensions
. accrual, deceased persons....70(1)
. annual annuity amount, defined....61(4)
. deduction from income....8(5)
. deemed enlarged....58(7)
. defined....248(1)
. disposition of income averaging contract....56(1)(e); 56(1)(f)
. enlargement....58(7)
. exemption....58(1)
. government, receipts exempt....58(1)
. income....56(1)(d)
. . exception....16(4)
. . exempt amounts....56(1)(d)–(d.2)
. income averaging — see Annuity contracts
. life insurance proceeds receivable as....148(6); 148(10)
. non-residents receiving payments....212(1)(h); 212(1)(o)
. not pension fund benefits....58(6)
. prior to 1932....58(1)
. prior to 1940....58(2)
. qualified, defined....Reg. 1408(1)
. qualified investment....Reg. 4900(3)
. qualifying trust annuity
. . application of provisions....60.011(3)
. . defined....60.011(2); 248(1)
. . joint and several liability....160.2(2.1)–(2.2); 160.2(5)
. . rules applicable....75.2
. Registered Pension Plans, acquired — see Registered pension plans
. spouses or common-law partners, apportionment between....58(5)
. valuation....Reg. 4200
. withholding tax....153(1)(f)

Annuity contracts — see also Annuities
. accumulating funds
. . computation....Reg. 307(2)
. . deemed acquisition of interest in....12.2(8)
. . defined....Reg. 307(1)
. . income computation....12.2
. aggregate deductions....Reg. 303(2)
. annuitant deemed to be holder of contract....Reg. 304(3)
. capital element of payments....60(a)
. . basis for partly exempt annuities....58(4); Reg. 300(1)
. ceasing to be TFSA....146.2(10)
. deductions allowed....20(19)
. deductions permitted on cancellation or termination....Reg. 303(1)
. income averaging
. . ceasing....61.1(1)
. . deductions....61(1)–(2)
. . . limitations....18(11)
. . defined....61(4); 248(1)
. . disposition....56(1)(e)–(f)
. . disposition–information return....Reg. 208
. . non-residents receiving payments....212(1)(n)
. . payments after death....61.1(2)
. . payments deductible....61(1)–(2)
. . qualifying payments, defined....61(4)
. . withholding tax....153(1)(k)
. interest deemed interest in life policy....Reg. 305(3)
. interest on loan to acquire, deduction....20(1)(c)(iv)
. life
. . adjusted purchase price at a particular time....Reg. 300(4)
. . conditions barring failure of....Reg. 301(2)
. . defined....148(10); Reg. 301(1)
. . payments commencing at different times....Reg. 300(3)
. payments
. . amounts....Reg. 305(2)
. . limitations....Reg. 300(1.1)
. . payments to non-residents, information return....Reg. 202(2)
. . total expected to be made....Reg. 300(2)
. . under will, deductions....60(a); Reg. 300(2)
. prescribed
. . conditions barring failure of....Reg. 304(2)
. . defined....Reg. 304(1)
. receipt under two contracts....58(3)
. unallocated income accrued before 1982....Reg. 305(1)

Anti-avoidance rules — see Tax avoidance

Appeals
. in camera hearings....179
. costs awarded to Crown, collection....222.1
. determination of ecological gifts....169(1.1); 171(1.1)
. disposition by consent....169(3)
. expenses deductible....60(o)

Section

Appeals — continued
. extension to time to appeal....167
. Federal Court of Appeal....180
. . exclusive jurisdiction....180(2)
. . method of instituting....180(1)
. . re registration....172(3)
. . summary disposition....180(3)
. large corporations....169(2.1)
. methods of disposing....171(1)
. no reasonable grounds for....179.1
. notice of objection — see Objections
. order to give tax information....241(6)–(8)
. proof of returns....244(18)
. refund of tax....164(1.1)
. . exception....164(1.7)
. registration
. . from refusal of....172(3)–(4.1)
. . from revocation of....172(3)–(4.1)
. retention of books and records....230(6)
. stay of proceedings....239(4)
. Tax Court of Canada....169(1)
. . amendment after reassessment....165(7)
. . extension of time to appeal....167
. . limitations....169(2)
. . method of instituting....175
. . no reasonable grounds for....179.1
. . notice of appeal to Minister....170
. . reference questions....173–174
. . rules applicable....175
. . transitional provisions....A.R. 62(5)
. transitional provisions....A.R. 62(5)–(6)
. transmission of documents by Minister....176
. waived issues....169(2.2)

Application rules — see Transitional provisions

Apportionment
. accruals to date of death....70(1)
. annuity income of spouse or common-law partner....58(5)
. bond interest to date of sale....20(14)
. depletion allowance re coal mine....65(3)
. expenses re exempt income....18(1)(c)
. taxable income for taxation year....149(6)

Apprenticeship
. apprentice mechanic's tools
. . contribution to partnership....97(5)
. . cost....8(7)
. . deduction....8(1)(r)
. . definitions....8(6)
. . disposition....56(1)(k)
. . rollover to corporation....85(5.1)
. incentive grant
. . income inclusion....56(1)(n.1)
. . repayment deductible....60(p)
. job creation tax credit
. . apprenticeship expenditure, defined....127(9)
. . eligible apprentice, defined....127(9)
. . eligible salary and wages....127(9); 127(11.4)
. . prescribed trades....Reg. 7310

Appropriate percentage
. defined....248(1)

Appropriation
. property to shareholder....15(1); 15(7)

Arbitrary assessments....152(7)

Armed forces — see Canadian Forces

Arm's length transactions
. artificial....245(3)
. foreign investment entities
. . defined....94(1)
. non-arm's length
. . acquisition of government rights....A.R. 21(2.1)
. . deemed proceeds on disposition of certain property....69
. . disposition of goodwill....A.R. 21(2)
. . life insurance policy, disposition of....148(7)–(8)
. . non-arm's length relationship defined....251(1)
. . partnerships....6(17)
. . sale of shares....84.1
. . sale of shares by non-resident....212.1
. . transfer of property....160
. . winding-up....88(1.7)
. non-resident trusts....94(1)
. question of fact....251(1)
. related persons
. . corporations....251(3)
. . deemed non-arm's length....251(1)
. . deemed not to related....55(4)
. . deemed to be related....55(5)(e)
. . defined....251(2)
. transfer pricing rules
. . arm's length allocation defined....247(1)
. . arm's length transfer price defined....247(1)

Art — see also Artists and sculptors
. gift of, deductions....118.1(7)
. National arts service organizations
. . benefits as income....56(1)(aa)
. . defined....248(1)

Section

Artificial transactions
. arm's length ... 245(3)
. attribution rules ... 74.5(11)
. indirect payments or transfers ... 245(2)

Artists and sculptors — see also Art
. artistic endeavours
. . defined ... 10(8)
. . value of inventory ... 10(6)–(7)
. employment expense deduction ... 8(1)(q)

Assessment — see also Reassessment
. alternative basis ... 152(9)
. appeals to vacate or vary ... 169(1)
. arbitrary assessment ... 152(7)
. balance of amount payable or receivable ... 152(4.4)
. date when made, presumption ... 244(15)
. deemed to be valid ... 152(8)
. defined ... 248(1)
. incorrect or incomplete ... 152(3)
. irregularities not to affect ... 166
. limited-recourse debt rules ... 143.2(15)
. loss determination ... 152(1.1)–(1.8)
. Minister
. . not bound by return ... 152(7)
. . obligation of ... 152(1)
. negative amounts ... 257
. net worth assessment ... 152(7)
. non-resident's tax ... 227(10)–(10.1)
. notice
. . abstention from appeal ... 244(10)
. . authority ... 152(2)
. . capital gains refund, mutual fund trusts ... 132(1)
. . deceased persons ... 70(2)
. . dividend refund, private corporation ... 129(1)
. . not sent ... 225.2(3)
. objections — see Objections
. outside normal reassessment period ... 152(4)–(4.3)
. payment of tax and interest ... 185(2)
. . excessive election ... 185(1)
. . objection ... 165
. . refunds ... 164(1)
. RCA benefits ... 160.3(2)
. RRSP, RRIF
. . benefits ... 160.2
. tax on excessive election ... 185(1); 185(3)
. . joint and several liability ... 185(4)
. . liability assessment ... 185(5)
. . rules applicable ... 185(6)
. tax shelters ... 143.2(15)
. . penalties ... 237.1(6.2)
. transitional provisions, validity ... A.R. 62(1)

Assets — see also Capital
. distribution
. . inadequate consideration ... 69(4)–(5)
. . winding-up of corporation ... 69(5)
. foreign affiliate ... 80.1(4)–(6)
. income, of deceased persons ... 70(2)
. large corporations, determination of value ... 181(3)
. tangible capital, CCA rate ... Reg. Sch. II, Class 8; 19

Assignment
. tax refunds and credits receivable ... 220(6)–(7)

Assistance
. defined ... 66(15)

Associated corporations
. agreement filing re business limit ... 125(3)–(4)
. agreement re scientific research and experimental development ... 37(9.2)–(9.5)
. amounts paid to an associated corporation ... 129(6)
. association through third corporation ... 256(2)
. base level deductions ... 18(2.3)–(2.4)
. business limit ... 125(2)
. . agreement filing ... 125(3)
. . failure to file agreement ... 125(4)
. . special rules ... 125(5)
. computation of tax ... 125(3)–(6)
. controlled, exception ... 256(1.6)
. corporations without share capital ... 256(8.1)
. deemed not to be ... 256(3)–(5)
. deemed to be ... 256(1)–(2.1)
. defined ... 256(1)–(6)
. dividend allowance allocation agreement ... 191.1(3)
. . failure to file ... 191.1(5)
. investment income from, deemed active business income ... 129(6)
. options and rights ... 256(1.4)
. parent deemed to own shares ... 256(1.3)
. person related to himself ... 256(1.5)
. saving provisions ... 256(3)–(5)

Association of Universities and Colleges of Canada
. exemption ... 149(1)(h.1)

Associations and societies
. benevolent societies
. . exemptions ... 149(1)(k)
. . life insurance business, taxation ... 149(3)–(4.3)
. fraternal benefit societies
. . exemptions ... 149(1)(k)
. . life insurance business, taxation ... 149(3)–(4.3)

Section

Athlete trusts, amateur — see Amateur athlete trusts

Athletic associations, amateur — see Amateur athletic associations, registered Canadian

Attributed surplus
. defined ... Reg. 2400(1)

Attribution rules
. artificial transactions ... 74.5(11)
. capital gains and losses ... 74.2(2)
. emigration election ... 74.2(3)
. exceptions ... 74.5(12)–(13)
. . fair market value ... 74.5(1)
. . loans for value ... 74.5(2)
. . spouses living apart ... 74.5(3)
. . trusts ... 75(3)
. loans to non-residents ... 17(2)
. repayment of existing indebtedness ... 74.1(3)
. transfer or loan
. . to corporations ... 74.4(1)–(4)
. . to minors ... 74.1(2)
. . between spouses ... 74.1(1)
. . to trust ... 74.1(1)
. trusts, reversionary ... 75(2)
. . exceptions ... 75(3)

Auction
. seized chattels ... 225(2)

Authorized foreign banks — see Foreign banks

Authors
. income averaging ... 61(1)

Automobiles
. allowances, income ... 6(1)(b)
. benefit
. . shareholder's income ... 15(5)
. CCA rate
. . general ... Reg. 1102(11)–(13); Reg. Sch. II, Class 10
. . passenger vehicles costing more than $20,000 ... Reg. Sch. II, Class 10.1
. deductible expenses ... 18(1)(r)
. . more than one owner or lessor ... 67.4
. . prescribed amount ... Reg. 7306
. . for use in employment ... 8(1)(j)
. deduction of cost of use
. . recapture ... 13(11)
. defined ... 248(1)
. employer providing for personal use ... 6(1)(e)
. . minimum amount ... 6(2)
. employment benefit, information return ... Reg. 200(3)
. equipment, CCA rate ... Reg. Sch. II, Class 10
. exemption for allowances ... 6(1)(b)(vii.1); 6(1)(b)(x); 6(1)(b)(x)(xi)
. GST input tax credit and rebate ... 248(17)
. leasing, cost deduction limitation ... 67.3–67.4
. operating cost paid by employer, income ... 6(1)(a)
. operating expenses
. . benefit calculation ... 6(1)(k)
. . inclusion in income ... 6(1)(l)
. . prescribed amount ... Reg. 7305.1
. parking expenses ... 6(1.1)
. passenger vehicle
. . CCA rate ... Reg. Sch. II, Class 16
. . defined ... 248(1)
. . GST input tax credit and rebate ... 248(17)
. . interest on money borrowed for, deduction ... 67.2
. . limitation re cost of leasing ... 67.3; Reg. 7307
. . QST input tax refund and rebate ... 248(17.1)
. provided to partner, business income ... 12(1)(y)
. QST input tax refund and rebate ... 248(17.1)
. recaptured depreciation, excess amounts exclusion ... 13(2); Reg. 7307
. shareholder's benefit, information return ... Reg. 200(4)
. standby charges ... 6(1)(e)
. . automobile salesmen ... 6(2.1)
. . determination ... 6(2)
. . minimum amount ... 6(2)
. undepreciated capital cost ... 13(27)(h)

Averaging — see Income averaging

Avoidance of tax — see Tax avoidance

Awards and prizes
. included as income ... 56(1)(n)
. income ... 6(1)(j)
. income-averaging annuity
. . deductions ... 61(1)
. information return ... Reg. 200(2)(a)
. lottery prizes, cost of property acquired as ... 52(4)
. personal injury, exclusion from income ... 81(1)(g.1)
. prescribed ... Reg. 7700
. property acquired as ... 52(4)
. refund of ... 60(q)
. windfalls, taxability ... 52(4)
. work of arts, literature, music, etc ... 56(1)(n)

B

Section

Bad debts
. bank reserves for ... 26(2)
. capital losses ... 50
. deductibility where change of control ... 111(5.3)
. deductible ... 20(1)(p)
. deemed income on recovery ... 12(1)(i.1)
. established to be ... 50(1)
. inventory property recovered ... 12.4
. owing at the end of taxation year ... 50(1)
. proceeds of disposition of depreciable property ... 20(4)
. recovered amount as taxable capital gain ... 39(11)
. restrictive covenants
. . deduction ... 60(f)
. . income inclusion on recovery ... 56(1)(m)

Balance-due day
. defined ... 248(1)
. SIFT partnerships ... 248(1)

Bank for International Settlements
. tax exemption ... Reg. 806; Reg. 806.1

Bankruptcy and insolvency — see also Business discontinuation; Winding-up
. alternative method year-end, additional business income ... 34.1(8)
. bankrupt, defined ... 248(1)
. child tax benefit ... 122.61(3.1)
. corporations ... 128(1)
. . liability re transfers ... 160.4
. estate of the bankrupt, defined ... 248(1)
. GST credit ... 122.5(7)
. individuals ... 128(2)
. . deductions re RRSP ... 128(2)(d.1)
. . deductions re RRSP where two taxation years ... 128(2)(d.2)
. minimum tax carryover ... 120.2(4)
. payments by trustees ... 227(5)
. priority of Crown claim re withholding tax ... 227(4.1)
. returns ... 128(2)(e)
. shares of bankrupt
. . deemed disposition ... 50(1.1)
. . loss ... 50(1)
. tax collection ... 223(11.1)
. tax credits, personal ... 118.95
. taxable dividend tax exemption ... 186.1
. taxation year ... 128
. trustees — see Trustees
. unpaid amount of tax ... A.R. 67(5)
. withholding tax
. . Crown holds secured interest ... 227(4.2)
. . priority ... 227(4.1)
. working income tax benefit ... 122.7(1.1)

Banks — see also Financial institutions
. aggregate amount of deposits ... Reg. 404(3)
. aggregate amount of loans ... Reg. 404(2)
. Bank for International Settlements
. . tax exemption ... Reg. 806; Reg. 806.1
. computation of income ... 26(1)
. . Minister's rules ... 26(4)
. . write-offs and recoveries ... 26(3)
. contingent reserves ... 26(2)
. deductions from income ... 26(2)
. defined ... 248(1)
. deposits and loans ... Reg. 404(4)
. foreign — see Foreign banks
. income earned in the year in a province ... Reg. 404(1)–(4)
. income inclusions ... 26(1)
. international — see International banking centre business

Basic herd — see also Livestock
. defined ... 29(3)
. disposition ... 29(1)–29(2)
. election to reduce ... 29(1)

Bearer bonds — see Bonds and debentures

Beneficiaries
. amateur athlete trusts
. . distribution of property on death of ... 143.1(4)
. . income from ... 143.1(2)
. amounts deemed payable by trust ... 104(29)
. amounts transferred from DPSP to testamentary trust ... 104(27.1)–(28)
. deceased persons ... 70(1)
. deemed not to be under a trust ... 104(5.5)
. deferred profit sharing plans
. . amount contributed to or forfeited in a trust ... 147(10.3)
. . lump-sum payments ... 147(10.1)–(10.2)
. defined ... 108(1); 146.1(1); 251.1(3)
. designated
. . defined ... 210(1)
. . tax payment in the absence of ... 210.3(1)–210.3(2)
. distributions by trust ... 107(2.1)
. employee profit sharing plans
. . foreign tax deduction ... 144(8.1)
. . non-deductible receipts ... 144(7)

Section

Beneficiaries
. employee profit sharing plans — continued
. . receipt of property other than money ... 144(7.1)
. . receipts ... 144(6)
. . refunds ... 144(9)
. estates and trusts, capital gains ... 104(21); 104(21.4)
. exempt, defined ... 104(5.4)
. exempt capital gains balance ... 107(2.2)
. former resident ... 126(2.22)
. income ... 105
. . amateur athlete trusts, from ... 143.1(2)
. . amount deemed not paid ... 104(13.1)
. . amount payable ... 104(24)
. . benefits received from trust, etc. ... 105(1)
. . deemed received from testamentary trust ... 104(27)
. . designation re non-taxable dividends ... 104(20)
. . interpretation ... 108(5)
. . non-taxable dividend ... 104(20)
. . taxable capital gain ... 104(21); 104(21.4)
. . taxable dividend ... 104(19)
. interest in trust property
. . capital interest greater than income interest ... 104(7.1)–(7.2)
. . distribution loss reduction ... 107(6)
. majority-interest
. . defined ... 251.1(3)
. . group, defined ... 251.1(3)
. non-resident ... 104(7)
. . security for tax on distributions ... 220(4.6)–(4.71)
. . taxation ... 212(1)(c)
. non-resident estates and trusts
. . distributions ... 107(5)–(5.2)
. . tax exemptions re trust income ... 212(10); 212(11)
. non-resident trusts
. . defined ... 94(1)
. . liability ... 94(3); 160(2.1)
. . resident, defined ... 94(1)
. . successor, defined ... 94(1)
. preferred
. . allocable amount ... 104(15)
. . defined ... 108(1)
. . election re accumulating income ... 104(14); Reg. 2800
. . . late, amended or revoked elections ... 104(14.01)–(14.02)
. . income from trust ... 104(12)–(15)
. . income inclusion ... 104(13)–(13.2)
. registered retirement savings plan, refund of premiums ... 146(8.1)
. restricted meaning ... 104(1.1)
. supplementary unemployment benefit plans
. . amounts received taxable ... 145(3)
. tax deemed paid by on designated income ... 210.2(3)
. taxable capital gains
. . computation ... 104(21.1)
. . from trust ... 104(21.2)–104(21.24)
. taxable capital gains designation ... 104(21); 104(21.4)
. . late, amended or revoked designations ... 104(21.01)–(21.03)
. transfer of rights of deceased to ... 69(1.1)
. transfers from deceased persons ... 70(3)

Benefits
. automobile operating expenses
. . calculation ... 6(1)(k)
. . inclusion in income ... 6(1)(l)
. Canadian Forces income replacement ... 6(1)(f.1)
. child care benefit ... 56(6)
. child tax — see Child tax benefits
. conferred on a person
. . arm's length ... 246(2)
. . income ... 246(1)
. death
. . income inclusion ... 56(1)(a)(iii)
. deferred amounts from salary deferral arrangements ... 6(1)(i)
. deferred profit sharing plans
. . deduction of estate-tax-paid part ... 60(m)
. . taxation ... 147(10)–(12)
. defined re RRSP ... 146(1)
. employment
. . housing subsidies ... 6(23)
. . income inclusion ... 6(1)(a)
. . relocation financing subsidies ... 6(19)
. group term life insurance ... 6(4)
. indirect ... 56(2)
. overpayments
. . repayment, deductible ... 60(n)
. parking expenses ... 6(1.1)
. pension benefits — see Pensions
. retirement income fund, taxation ... 146.3(5)
. shareholders ... 15(1); 15(7)
. stock options — see Options
. working income tax benefit — see Working income tax benefit

Section

Benevolent societies — see Associations and societies

Beverages — see Food and beverages

Bituminous sands
. defined ... 248(1)
. determination of viscosity and density ... Reg. 1107
. equipment, defined ... Reg. 1206(1)

Blind persons — see Disabled persons

Blocked currency — see Foreign currency

Blood relationship
. defined ... 251(6)

Board and lodging
. railway employee's temporary duty, deductions ... 8(1)(e)
. special work site allowance, exemption ... 6(6)
. sports and recreation programs ... 6(1)(b)(v.1)
. transport employees ... 8(1)(g)
. value deemed income ... 6(1)(a)

Boards of trade
. exemption from tax ... 149(1)(e)

Bonds and debentures — see also Debt obligations; Securities
. accrued interest, information returns ... Reg. 211
. adjusted cost base
. . amounts added ... 53(1)(g)
. . amounts deducted ... 53(2)(i)
. bearer
. . non-residents, withholding tax ... 215(2)
. . ownership certificate required for negotiation ... 234
. Canada Savings — see Canada Savings Bonds
. convertible ... 51.1
. . capital gains ... 51
. coupon identification ... 240(2)
. date of issue
. . application to non-residents ... 212(7); 212(8)
. discounts, taxability ... 16(2)
. . deduction ... 20(1)(f)
. . deduction limitation ... 18(1)(f)
. . exception ... 16(4); 16(5)
. . issued by exempt persons ... 16(3)
. disposition
. . capital loss ... 40(2)(d)
. . identical in group, part disposal ... 47(2)
. . exchanged for property owned Dec. 31, 1971 ... A.R. 26(25)
. identical properties ... 248(12)
. income
. . defined ... 248(1)
. . interest or dividends on ... 15(3); 15(4); 18(1)(g)
. . payments not deductible ... 18(1)(g)
. interest
. . apportionment to date of sale ... 20(14)
. . deemed dividend ... 15(3); 15(4)
. . foreign government secured public utility ... 81(1)(m)
. principal amount outstanding on January 1, 1972 ... A.R. 26(1.1)
. provincial, non-residents' interest income ... 212(6)–(8)
. purchased by issuer, capital gain or loss ... 39(3)
. qualified investment ... Reg. 4900
. small business — see Small business bonds; Small business development bonds

Bone marrow transplant
. cost deduction ... 118.2(2)(l.1)

Bonus
. Canada Savings Bonds ... 12.1
. interest payment, credit unions ... 137(6)
. paid to reduce interest rate on borrowing, deduction ... 18(9.1)
. payments, oil or gas rights acquired pre-1962 ... A.R. 29(21)–A.R. 29(22)
. withholding tax
. . amount less than $5000 ... Reg. 103(1)
. . amount more than $5000 ... Reg. 103(2)

Books and magazines
. lending library, CCA rate ... Reg. Sch. II, Class 12
. periodicals directed at Canadian market ... 19.01
. talking textbooks ... 64; Reg. 5700(w)
. textbook tax credit
. . formula ... 118.6(2.1)
. . transfer ... 118.81
. . unused credit carryforward ... 118.61

Books and records
. examination
. . compliance order ... 231.7
. . privilege claimed ... 232
. false entries ... 239(1)
. filing, waiver of ... 220(2.1)
. political contributions ... 230.1
. production for inspection ... 231.2(1)
. . judicial powers ... 231.2(6)
. . search warrant ... 231.2(3)–(5)
. . third party ... 231.2(2)

Section

Books and records — continued
. record, defined ... 248(1)
. retention requirements ... 230(1); 230(4); Reg. 5800(1)–Reg. 5800(2)
. . amateur athletic associations ... 230(2)
. . charitable organizations ... 230(2)
. . electronic records ... 230(4.1)
. . electronic records, exemption ... 230(4.2)
. . lawyers ... 230(2.1)
. . objection or appeal ... 230(6)
. . permission for early disposal ... 230(8)
. . set by Minister ... 230(3); 230(7)
. . where no return filed ... 230(5)
. search warrant ... 231.3(1)–(4)
. seizure — see also Investigation and search
. . evidence re offences ... 231.3(5)–(8)

Borrowed money — see also Loans
. defined ... 248(1)
. money borrowed to repay ... 20(3)

Branch tax
. accumulated 1968 deficit ... 219(7)
. attributed surplus ... 219(7)
. base amount ... 219(1)
. . excluded gains ... 219(1.1)
. Canadian investment fund ... 219(7)
. definitions related to ... 219(7)
. excluded corporations ... 219(2)
. foreign banks ... 218.2
. insurance corporations
. . 1975 branch accounting election deficiency, defined ... 138(12)
. . additional tax on ceasing business ... 219(5.1)
. . election re Canadian investment funds ... 219(4); Reg. 2403(1)
. . election re deferral of tax ... 219(5.2); 219(5.3); Reg. 2403(2)
. limitation re corporate emigration ... 219.2
. maximum tax actuarial reserve ... 219(7)
. non-resident corporations ... 219(1)
. provisions of Act applicable ... 219(3)
. qualified related corporation defined ... 219(8)
. surplus funds derived from operations ... 219(7)
. tax deferred account, defined ... 219(7)

Breakwater
. CCA rate ... Reg. Sch. II, Class 3, 6

Bridges
. CCA rate ... Reg. Sch. II, Class 1

Bridging benefits
. pension tax credit ... 118(8.1); Reg. 8500(1); Reg. 8503

Broadcasting — see Advertising and broadcasting

Brokers — see Agents and brokers

Brother and brother-in-law
. defined ... 252(2)

Builders and contractors
. equipment, CCA rate ... Reg. Sch. II, Class 10

Buildings and structures
. available for use ... 13(28)
. CCA rate
. . additions or alterations ... Reg. Sch. II, Class 3, 6, 20
. . bridges ... Reg. Sch. II, Class 1
. . construction components ... Reg. Sch. II, Class 6
. . corrugated metal ... Reg. Sch. II, Class 6
. . dams ... Reg. Sch. II, Class 1
. . electrical wiring ... Reg. Sch. II, Class 6
. . frame ... Reg. Sch. II, Class 6
. . fruit and vegetable storage ... Reg. Sch. II, Class 8, 19
. . galvanized iron ... Reg. Sch. II, Class 6
. . leased property ... Reg. 1102(5)
. . log buildings ... Reg. Sch. II, Class 6
. . manufacturing ... Reg. Sch. II, Class 8, 19, 29, 39, 43
. . mine structures ... Reg. Sch. II, Class 10
. . multiple-unit residential buildings ... Reg. 1101(5b); Reg. Sch. II, Class 31–32
. . non-residential buildings ... Reg. 1100(1)(a.1)–(a.2); Reg. 1101(5b.1); Reg. 1102(23) (25)
. . oil storage tank ... Reg. Sch. II, Class 6
. . plumbing ... Reg. Sch. II, Class 6
. . storage ... Reg. Sch. II, Class 29, 39, 43
. . stucco ... Reg. Sch. II, Class 6
. . tangible property attached to ... Reg. Sch. II, Class 8, 19
. . water storage tank ... Reg. Sch. II, Class 6
. deemed proceeds of disposition on replacement ... 44(6)
. disposition losses
. . deductions ... 13(21.1)
. . restriction ... 13(21.2)
. eligible non-residential building
. . CCA ... Reg. 1100(1)(a.1)–(a.2); Reg. 1101(5b.1); Reg. 1102(23)–(25)
. . defined ... Reg. 1104(2)

Section

Buildings and structures — continued
. investment tax credit ... Reg. 4600(1)
. soft costs — see Construction soft costs

Bulletin board
. CCA rate ... Reg. Sch. II, Class 11

Bursaries — see Scholarships, fellowships and bursaries

Bus operators
. expenses ... 8(1)(g)
. income earned in the year in a province ... Reg. 409

Business
. active — see Active business
. carrying on, defined ... 253
. CCA rate, separate classes ... Reg. 1101(1)
. ceasing — see Business discontinuation
. defined ... 248(1)
. divided, income earned in the year in a province ... Reg. 412
. expenses — see Expenses
. income — see Income, business or property
. international banking — see International banking centre business
. losses — see Losses, business
. non-resident carrying on
. . liability for tax ... 2(3)
. . part of year, income ... 114
. personal service — see Personal services business
. professional
. . income ... A.R. 23(3)–(5)
. . income computation ... 34
. related, defined ... 149.1(1)
. reorganization, appropriations ... 84(2)
. sale, farmers ... 28(5)
. separate classes, CCA rate ... Reg. 1101(1)
. small — see Small business
. specified investment, defined ... 125(7); 248(1)
. winding-up — see Winding-up

Business discontinuation — see also Bankruptcy and insolvency; Winding-up
. appropriation of undistributed income ... 84(2)
. business carried on by spouse or controlled corporation ... 24(2)
. computation of income ... 24(1)
. controlled corporation carrying on ... 24(2)
. cumulative eligible capital ... 24(2)
. deductions allowed to partner ... 24(3)
. disposition of depreciable property ... 13(8)
. fiscal period of individual proprietor ... 25
. general rules ... 22–25
. partnerships ... 24(3)
. payment of withheld taxes ... Reg. 108(2)
. sale of accounts receivable ... 22(1)
. . statement by vendor and purchaser ... 22(2)
. sale of inventory ... 23
. spouse carrying on ... 24(2)
. . cumulative eligible capital ... 24(2)
. . taxable capital gain ... 24(2)

Business investment losses — see Losses, business investment

Business limit
. amount ... 125(2)
. associated corporations ... 125(3); 125(4)
. defined ... 248(1)
. reduction ... 125(5.1)
. special rules ... 125(5)

Business number
. authority to communicate ... 237(3); 237(4)
. contact information, defined ... 241(10)
. corporate information, defined ... 241(10)
. defined ... 248(1)
. excluded individual, defined ... 241(10)
. failure to provide in return, penalty ... 162(6)
. failure to show ... 237(2)
. penalty for misuse of ... 239(2.3)
. public disclosure ... 241(9.2)–(9.4)
. registration information, defined ... 241(10)
. requirement for information return ... 237(2)
. requirement to obtain and provide ... 237

Business property
. former, defined ... 248(1)

Butterfly transactions
. anti-avoidance ... 55
. bump denial rules ... 88(1)(c)
. limitations ... 55(3.1)–(3.3)
. purchase butterflies ... 55(3.1)–(3.3)
. rules ... 55(5)
. safe-income determination ... 55(2)
. safe-income determination time defined ... 55(1)

C

Caisses populaires — see Credit unions

Canada
. defined ... 255

Canada Disability Savings Act
. repayments deductible ... 60(z)

Section

Canada Education Savings Act
. repayments deductible ... 60(x)

Canada Oil Substitution Program
. prescribed program ... Reg. 5501

Canada Pension Plan
. benefits included as income ... 56(1)(a)(i)
. contributions deductible
. . employer's premium ... 8(1)(l.1)
. death benefits, income inclusion ... 56(1)(a.1)
. deduction of self-employment contributions ... 60(e)
. disability benefits ... 56(8)
. . previous years' ... 120.3
. overpayments ... 60(n)
. tax credit ... 118.7

Canada Savings Bonds
. cash bonus ... 12.1
. information returns ... Reg. 220
. interest rate prescribed ... Reg. 4302
. redemption agent's liability re information returns ... Reg. 220

Canada–U.S. Agreement on Automotive Products
. assistance as income ... 56(1)(a)(v)

Canadian-controlled private corporations
. associated ... 125(3)–(6)
. defined ... 125(7); 248(1)
. dividends
. . electing not to be CCPC ... 89(11)–(13)
. . GRIP addition on becoming CCPC ... 89(4)
. . LRIP addition, ceasing to be CCPC ... 89(8)
. employee stock options ... 7(1.1)
. expenditure limit
. . agreement ... 127(10.3)
. . associated CCPCs ... 127(10.21)–(10.23)
. . determination ... 127(10.2); 127(10.6)
. . failure to file agreement ... 127(10.4)
. refundable ITCs ... 127.1(2.2)–127.1(2.3)
. refundable tax on net investment income ... 123.3
. small-CCPC, quarterly instalments ... 157(1.1)–(1.5); 157(3.1)
. special rules re business limit ... 125(5)
. status for 1972 taxation year ... A.R. 50(1)
. taxation year where status change ... 249(3.1)

Canadian corporations
. amalgamation deemed non-arm's length ... A.R. 21(2.2)
. defined ... 89(1)
. NROs deemed not to be ... 134
. obligations received on amalgamation ... A.R. 26(23)
. options received on amalgamation ... A.R. 26(22)
. shares, adjusted cost base ... 53(1)(f.1); 53(1)(f.2)
. winding-up ... 88(2)

Canadian development expenses — see also Exploration and development expenses
. acquisition of control ... 66(11); 66(11.3)
. adjusted cumulative, defined ... 66(14.3)
. amounts included in income ... 66.2(1)
. becoming Canadian exploration expenses ... 66.7(9)
. Canadian exploration expenses converted to ... 66.7(9)
. carved-out income deduction ... 66(14.6)
. cumulative ... 66.2(5)
. . defined ... 248(1)
. . reduction of ... 66.7(12)
. cumulative expense deduction ... 66.2(2)
. . change of control ... 66(11.4); 66(11.5)
. deduction where short taxation year ... 66(13.1)
. deemed nil ... 66.8(3)(c)
. defined ... 66.2(5); 248(1)
. designation of amount ... 66(14.2)
. . penalty for late filing ... 66(14.5)
. . special cases ... 66(14.4)
. false statement in return, penalty ... 163(2.2)
. included in income, expenses not deducted or deductible ... 66.2
. limitations ... 66(12.1); 66(13)
. non-deductible ... 66.2
. non-resident partnership ... 66.2(7)
. partnership ... 66.2(6)
. preceding years' ... 66.1(9)
. prescribed ... Reg. 1218
. presumption re cost of acquisition of property ... 66.2(8)
. renounced to flow-through shareholder ... 66(12.6)–(12.75)
. . effects ... 66(12.63)
. . expenses in first 60 days of year ... 66(12.66)
. . failure to file ... 66(12.7001); 66(12.702)
. . filing requirements ... 66(12.68)–(12.702)
. . late filing of documents ... 66(12.74)
. . late filing penalty ... 66(12.75)
. . look-back rule ... 66(12.66)
. . partnerships ... 66(16); 66(17)–(20)
. . reductions ... 66(12.73)
. . restrictions ... 66(12.67); 66(12.71)
. . rules for first $1 million ... 66(12.601)
. . selling instrument defined ... 66(15)
. restricted ... 66.1(6)

Section

Canadian development expenses — continued
. shares acquisition ... 66.3(1)
. specified amount where property disposed by original owner ... 66.7(12.1)
. specified purpose ... 66.1(6)
. successor's ... 66.7(4)
. taxable capital amount ... 66(12.6011)
. . amalgamations and mergers ... 66(12.6013)
. . taxable capital employed in Canada ... 66(12.6012)
. unitized oil or gas fields ... 66(12.3)
. use of borrowed money ... 21(2)–(4)

Canadian Education Association
. fund for teachers' exchange ... 8(1)(d)

Canadian exploration and development expenses — see Exploration and development expenses

Canadian exploration expenses — see also Exploration and development expenses
. acquisition of control ... 66(11); 66(11.3)
. amounts included in income ... 66.1(1)
. Canadian development expenses converted to ... 66.7(9)
. carved-out income deductions ... 66(14.6)
. cumulative ... 66.1(1); 66.1(6)
. . reduction of ... 66.7(12)
. . of a trust ... 127(12.3)
. deductions ... 66.1(3)
. deemed incurred by shareholder corporation or partnership ... Reg. 1207(5)
. defined ... 66.1(6); 248(1)
. definitions related to ... 66.1(6)
. designation of amount ... 66(14.1)
. . penalty for late filing ... 66(14.5)
. . special cases ... 66(14.4)
. false statement in return, penalty ... 163(2.2)
. investment tax credit ... 127(9)
. limitations ... 66(12.1); 66(13)
. prescribed ... Reg. 1217
. principal-business corporation deductions ... 66.1(2)
. qualified
. . defined re ITC ... 127(9)
. . prescribed expenditure ... Reg. 4608
. renounced to flow-through shareholder ... 66(12.6)–(12.75)
. . effects ... 66(12.61)
. . expenses in first 60 days of year ... 66(12.66)
. . failure to file ... 66(12.702)
. . filing requirements ... 66(12.68)–(12.702)
. . late filing of documents ... 66(12.74); 66(12.75)
. . look-back rule ... 66(12.66)
. . partnership ... 66(16); 66(17)–(20)
. . reductions ... 66(12.73)
. . restrictions ... 66(12.67); 66(12.71)
. . selling instrument defined ... 66(15)
. restricted expense, defined ... 66.1(6)
. share acquisition ... 66.3(1)
. share of partners ... 66.1(7)
. successor's ... 66.7(3)
. use of borrowed money ... 21(2)–(4)

Canadian field processing
. defined ... 248(1)

Canadian Forces
. allowances, benefits, etc.
. . income inclusion ... 6(1)(b)(ii)–(iii)
. . non-taxable ... 81(1)(d)–(d.1)
. deployed missions
. . income deduction ... 110(1)(f)(v)
. . no withholding ... Reg. 102(6)
. . prescribed missions ... Reg. 7500
. income replacement benefits ... 6(1)(f.1)
. overseas school staff
. . deemed resident in Canada ... 250(1)
. . defined ... 248(1)
. . prescribed order ... Reg. 6600
. prescribed missions ... Reg. 7400

Canadian International Development Agency
. prescribed programs ... Reg. 3400

Canadian manufacturing and processing profits — see Manufacturing and processing

Canadian oil and gas property expenses
. carved-out income deductions ... 66(14.6)
. cumulative
. . change of control of corporation ... 66(11.4); 66(11.5)
. . deductions for ... 66.4(2)
. . defined ... 66.4(5)
. . non-resident partner's share ... 66.4(7)
. . partner's share ... 66.4(6)
. deduction ... 66.4(2)
. . change of control ... 66(11); 66(11.3)
. . non-resident partner's ... 66.4(7)
. . partner's share ... 66.4(6)
. . recovery of costs ... 66.4
. . unitized oil and gas fields ... 66(12.5)
. deemed nil ... 66.8(3)(c)
. defined ... 66.4(5); 248(1); Reg. 1206(1)
. false statement in return, penalty ... 163(2.2)

Section

Canadian oil and gas property expenses — continued
. specific purpose, defined ... 66.1(6)
. successor's ... 66.7(5)

Canadian renewable and conservation expense
. defined ... 66.1(6); 248(1)
. exclusions ... Reg. 1219(2)
. prescribed ... Reg. 1219(1)
. test wind turbines, defined ... Reg. 1219(3)
. wind energy conservation ... Reg. 1219(4)

Canadian resource property — see Resource property

Canadian service providers
. defined ... 115.2
. non-resident funds ... 115.2

Canadian Vessel Construction Assistance Act — see also Ships and vessels
. conversion cost ... 13(17)
. disposition of deposit under ... 13(19); 13(20)
. recapture of depreciation ... 13(13)

Canadian Wheat Board
. participation certificates ... 161(5)

Canals
. CCA rate ... Reg. Sch. II, Class 1

Candidates
. political contributions
. . books and records ... 230.1
. . deduction ... 127(3)
. . information returns ... 230.1(2)
. . receipts ... 127(3.1)–(3.3)
. . restrictions ... 127(4.1)

Canoe
. CCA rate ... Reg. Sch. II, Class 7

Cape Breton
. defined ... 127(9)

Capital
. combined with income
. . exceptions ... 16(1); 16(4); 16(5)
. . indexed debt obligations ... 16(6)
. cost allowance — see Capital cost allowance
. cost of
. . defined for manufacturing and processing profits ... Reg. 5202
. . defined for partnerships ... Reg. 5204
. cumulative eligible
. . business carried on by spouse or controlled corporation ... 24(2)
. . business discontinuation ... 24(2)
. . computation ... 111(5.2)
. . debt forgiveness rules ... 80(7)
. . deduction ... 20(1)(b)
. . defined ... 14(5)–(5.1); 248(1)
. . eligible capital property rule ... 87(2)(f)
. . exempt gains balance ... 14(5)
. . sale of business ... 24(1)
. deduction
. . large corporations ... 181.5(1)–(1.1)
. . large corporations' related groups ... 181.5(2)–(6)
. . not associated ... 181.5(7)
. dividend — see Dividends, capital
. element in annuities, deduction
. . partly exempt annuities ... Reg. 300(1)
. expenditure — see Capital expenditures and outlays
. financial institutions, determinations ... 181.3(3)
. interest combined with ... 16(1)
. . exceptions ... 16(4); 16(5)
. investment allowance for additional non-resident tax ... Reg. 808(1)
. large corporations
. . deduction ... 181.5(1)–(1.1)
. . determination ... 181.2(3)
. . limitations re inclusions and deductions ... 181(4)
. . value and amount determination ... 181(3)
. loss — see Losses, capital
. outlays — see Capital expenditures and outlays
. paid-up
. . addition to where share paid ... 84.1(3)
. . computation after designation ... 192(4.1); 194(4.1)
. . computation for flow-through shares ... 66.3(4)
. . computation for share exchanges ... 85.1(2.1)
. . computation on amalgamation ... 87(3)
. . election ... 87(3.1)
. . computation on rollover to corporation ... 85(2.1)
. . computation on transfer of business by non-resident insurer ... 138(11.8)
. . conversion of class of shares into ... 84(1)
. . defined ... 89(1); 248(1)
. . dividend treatment on increase or decrease of ... 84(1)
. . insurance corporation demutualization ... 139.1(6)–(7)
. . limit ... 84(5)
. . reduction, deemed dividend ... 84(4); 84(4.1)
. pre–1972 surplus on hand
. . defined ... 88(2.1)

Section

Capital
. pre–1972 surplus on hand — continued
. . determination ... 88(2.2)
. property — see Capital property
. reorganization
. . deemed dividends ... 84(4)
. . foreign spin-off ... 86.1
. . shareholder disposing of shares to corporation ... 86; A.R. 26(27)
. . . reduction in paid-up capital ... 86
. taxable
. . financial institutions ... 181.3(2)
. . large corporations ... 181(4); 181.2(2)
. . . value and amount ... 181(3)
. taxable, employed in Canada
. . large corporations ... 181(3); 181(4); 181.2(1)
. . . attributed surplus ... Reg. 8603
. . . Canadian assets ... Reg. 8603
. . . definitions related to ... Reg. 8600
. . . financial institution ... Reg. 8604–Reg. 8605
. . . prescribed portion of taxable capital ... Reg. 8601
. . . total assets ... Reg. 8603
. . non-residents ... 181.4

Capital cost
. soft cost — see Construction soft costs
. undepreciated
. . aircraft ... 13(27)(h)
. . automobiles ... 13(27)(h)
. . available-for-use ... 13(26); 13(27)(a)–(d)
. . computation ... 111(5.1)
. . deemed deductions of insurers ... 13(22)
. . defined ... 13(21); 248(1)
. . oil and gas wells ... 13(27)(j)
. . pollution control equipment ... 13(27)(e)
. . property of farmers and fishermen ... 13(27)(g)
. . replacement parts ... 13(27)(k)
. . shares ... 13(27)(f)
. . ships and vessels ... 13(27)(h)
. . spare parts ... 13(27)(i)

Capital cost allowance
. accelerated
. . class 19 property ... Reg. 1100(1)(n)
. . class 20 property ... Reg. 1100(1)(p)
. . class 21 property ... Reg. 1100(1)(q)
. additional
. . certified production ... Reg. 1100(1)(l)
. . fishing vessels ... Reg. 1100(1)(i)
. . grain storage facilities and elevators ... Reg. 1100(1)(sb)
. . offshore drilling vessels ... Reg. 1100(1)(va)
. advertising
. . equipment ... Reg. Sch. II, Class 11
. . poster panel or bulletin board ... Reg. Sch. II, Class 1, 8, 19, 29, 39, 43
. . signs, electrical ... Reg. Sch. II, Class 11
. . signs, separate classes ... Reg. 1101(5l)
. air pollution control property ... Reg. Sch. II, Class 27
. aircraft ... Reg. Sch. II, Class 9
. . equipment ... Reg. Sch. II, Class 16
. . furniture, fittings, etc. ... Reg. Sch. II, Class 9, 16
. . hangar ... Reg. Sch. II, Class 6
. . runway ... Reg. Sch. II, Class 1
. . runway construction equipment ... Reg. Sch. II, Class 17
. . spare parts ... Reg. Sch. II, Class 9
. amalgamations ... 87(2)(d)
. amusement parks ... Reg. Sch. II, Class 37
. ancillary to wire or cable ... Reg. Sch. II, Class 3
. apparel or costume rentals ... Reg. Sch. II, Class 12
. apportionment according to use of assets ... 13(7)
. automobiles ... 13(11); Reg. 1102(11)–(13)
. automobiles costing more than $20,000 ... Reg. Sch. II, Class 10.1
. automotive equipment ... Reg. Sch. II, Class 10
. bituminous sands projects ... Reg. 1107
. books of lending library ... Reg. Sch. II, Class 12
. breakwater ... Reg. Sch. II, Class 3, 6
. bridges ... Reg. Sch. II, Class 1
. buildings and structures ... Reg. Sch. II, Class 1
. . additions and alterations after 1987 ... Reg. Sch. II, Class 3
. . amusement parks ... Reg. Sch. II, Class 37
. . component parts ... Reg. Sch. II, Class 1, 3
. . disposition losses ... 13(21.1)
. . extension, alteration, etc. ... Reg. Sch. II, Class 20
. . on leased property ... Reg. 1102(5)
. . mines ... Reg. Sch. II, Class 10
. . multiple-unit residential ... Reg. Sch. II, Class 31–32
. . non-residential buildings ... Reg. 1100(1)(a.1)–(a.2); Reg. 1101(5b.1); Reg. 1102(23)–(25)
. . preserve ensilage on a farm ... Reg. Sch. II, Class 3
. . for storage ... Reg. Sch. II, Class 8, 19, 29, 39, 43
. . used as kilns, vats, etc. ... Reg. Sch. II, Class 8, 19, 29, 39, 43
. . without footing or foundation ... Reg. Sch. II, Class 6

Section

Capital cost allowance — continued
. bulletin board ... Reg. Sch. II, Class 11
. business property acquired after Dec. 5, 1963 and before April 1, 1967 ... Reg. Sch. II, Class 21
. cable distribution system equipment ... Reg. Sch. II, Class 10
. canals ... Reg. Sch. II, Class 1
. canoe ... Reg. Sch. II, Class 7
. cash register recording devices ... Reg. Sch. II, Class 12
. catalysts ... Reg. Sch. II, Class 26
. certified feature film, defined ... Reg. 1104(2); Reg. 1104(10)
. certified feature films or production ... Reg. Sch. II, Class 12
. certified production
. . defined ... Reg. 1104(2); Reg. 1104(10)
. . separate classes ... Reg. 1101(5k)
. chinaware ... Reg. Sch. II, Class 12
. class 38 property ... Reg. 1100(1)(zd)
. class 39 property ... Reg. 1100(1)(ze)
. class 40 property ... Reg. 1100(1)(zf)
. coin-operated video games or pinball machines ... Reg. Sch. II, Class 16
. combustion turbines ... Reg. Sch. II, Class 48
. computer software ... Reg. Sch. II, Class 12
. . defined ... Reg. 1104(2)
. . separate classes ... Reg. 1101(5p)–(5r)
. . tax shelter property ... Reg. 1100(20.1)–(20.2); Reg. 1101(5r)
. . year 2000 ... Reg. 1100(1)(zg); Reg. 1100(1)(zh)
. concessions ... Reg. 1100(1)(c); Reg. Sch. II, Class 14
. contractor's movable equipment ... Reg. Sch. II, Class 10
. corrugated iron building ... Reg. Sch. II, Class 6
. cost of borrowing added to ... 21
. costume accessories ... Reg. Sch. II, Class 12
. crown corporation, commission or association, pre–1974 assets ... Reg. Sch. II, Class 25
. culverts ... Reg. Sch. II, Class 1
. cutlery ... Reg. Sch. II, Class 12
. cutting part of a machine ... Reg. Sch. II, Class 12
. dams ... Reg. Sch. II, Class 1
. data communication equipment ... Reg. Sch. II, Class 3, 42
. data communication switching equipment ... Reg. Sch. II, Class 17
. data network infrastructure equipment ... Reg. 1104(2); Reg. Sch. II, Class 46
. data processing equipment ... Reg. Sch. II, Class 29, 50, 52
. . electronic general-purpose, defined ... Reg. 1104(2)
. . rate ... Reg. Sch. II, Class 10
. . separate class ... Reg. Sch. II, Class 45
. deemed capital cost
. . re prescribed property ... 13(7.5)
. . townsite costs ... 13(7.5); Reg. 1102(14.2)
. deemed depreciable property ... Reg. Sch. II, Class 36
. dental instrument ... Reg. Sch. II, Class 12
. depreciable property
. . acquired with government aid ... 13(7.1); 13(7.4)
. . automobile ... 13(11)
. . available-for-use ... 13(27)–13(31)
. . special rules re deduction ... 20(28)
. . deemed ... Reg. 1101(5g)
. . defined ... 13(21); 248(1)
. . excess of proceeds on disposal ... 13(1)
. . recapture ... 13(1)
. designated overburden removal cost ... Reg. 1104(2); Reg. Sch. II, Class 12
. designated underground storage cost, defined ... Reg. 1104(2)
. die, jig, pattern or mould ... Reg. Sch. II, Class 12
. dock and wharf ... Reg. Sch. II, Class 3
. double depreciation ... Reg. 1100(1)(d)
. drive-in theatre, property ... Reg. Sch. II, Class 10
. earth moving equipment ... Reg. Sch. II, Class 22, 38
. earth orbiting unmanned telecommunication spacecraft ... Reg. Sch. II, Class 30
. elections, transfers between classes ... Reg. 1103
. electrical advertising sign ... Reg. Sch. II, Class 11
. electrical bar code scanning equipment ... Reg. Sch. II, Class 12
. electrical generating equipment ... Reg. Sch. II, Class 9, 17, 29, 39, 43, 43.1–43.2
. electrical generating or distributing equipment ... Reg. Sch. II, Class 1–2, 8, 19, 34
. electrical generating or distributing equipment, portable ... Reg. Sch. II, Class 8–9, 19
. electrical plants, miner ... Reg. 1102(8)–(9.2)
. electrical transmission or distribution equipment ... Reg. Sch. II, Class 47

Section

Capital cost allowance — continued
. electronic data processing equipment....Reg. Sch. II, Class 29, 50, 52
. . general-purpose, defined....Reg. 1104(2)
. . rate....Reg. Sch. II, Class 10
. . separate class....Reg. Sch. II, Class 45
. electronic equipment....Reg. Sch. II, Class 10
. . rapidly depreciating....Reg. 1101(5p)–(5q)
. . separate classes....Reg. 1101(5p)–(5r)
. energy conservation equipment....Reg. Sch. II, Class 43.1–43.2
. energy conservation property....13(18.1); Reg. 1102(21)–Reg. 1102(22)
. engines, spare....Reg. Sch. II, Class 7
. facsimile transmission device....Reg. 1101(5p)
. farmers and fishermen....Reg. 1700–1704
. . application of regulations....Reg. 1704
. . depreciable cost of property....Reg. 1703(2)
. . fishing vessels, additional allowances....Reg. 1100(1)(i)
. . grants, subsidies, etc....Reg. 1703(5)
. . maximum deduction....Reg. 1701
. . personal use property....Reg. 1703(4)
. . property acquired by gift....Reg. 1703(8)
. . property acquired from a parent....Reg. 1703(7)
. . property not included....Reg. 1702
. . rates....Reg. 1700
. . taxation year....Reg. 1703(1)
. . transactions not at arm's length....Reg. 1703(6)
. feature film, certified....Reg. Sch. II, Class 12
. fence....Reg. Sch. II, Class 6
. fibre-optic cable....Reg. Sch. II, Class 42
. film or video
. . Canadian production....Reg. 1100(1)(m); Reg. 1101(5k.1)
. . certified feature film....Reg. Sch. II, Class 12
. . certified production....Reg. 1101(5k); Reg. Sch. II, Class 12
. . completed during taxation year....Reg. 1100(22)
. . motion picture films....Reg. Sch. II, Class 18
. . not completed during taxation year....Reg. 1100(21)–(23)
. . rate....Reg. Sch. II, Class 10, 18
. . for rental....Reg. Sch. II, Class 12
. . television commercial....Reg. Sch. II, Class 12
. frame building....Reg. 1100(1)(c); Reg. Sch. II, Class 6
. franchises....Reg. Sch. II, Class 14
. fresh produce storage....Reg. Sch. II, Class 8, 19
. fuel cell equipment....Reg. Sch. II, Class 43.1
. furniture, fittings, etc., attached to Class 7 properties....Reg. Sch. II, Class 7
. galvanized iron building....Reg. Sch. II, Class 6
. gas manufacturing or distributing equipment....Reg. Sch. II, Class 1–2
. gas or oil well equipment....Reg. Sch. II, Class 10
. government corporation, commission or association
. . pre–1974 assets....Reg. Sch. II, Class 25
. grain storage facilities....Reg. 1100(1)(sb)
. greenhouse....Reg. Sch. II, Class 6, 8, 19, 29
. harness or stable equipment....Reg. Sch. II, Class 10
. heat distributing and production equipment....Reg. Sch. II, Class 1–2
. heat generating equipment....Reg. Sch. II, Class 43.1–43.2
. heat production equipment and pipelines....Reg. Sch. II, Class 34
. heat recovery equipment....Reg. Sch. II, Class 34, 43.1–43.2
. heavy water....Reg. Sch. II, Class 26
. hydro electric installation....Reg. Sch. II, Class 34, 43.1–43.2
. inclusions in other classes
. . election....Reg. 1103
. income from mine....Reg. 1104(5)
. industrial mineral mines....Reg. 1100(1)(g); Reg. Sch. V
. insurers' 1975-76 excess....138(12)
. inter vivos transfer of property....73(2)
. jetty....Reg. Sch. II, Class 1, 3
. jig....Reg. Sch. II, Class 12
. kitchen utensils....Reg. Sch. II, Class 12
. land improvement for amusement parks....Reg. Sch. II, Class 37
. leasehold interest....Reg. 1100(1)(b); Reg. Sch. II, Class 13; Reg. Sch. III
. leasing property
. . acquisition by virtue of amalgamation....Reg. 1100(1.16)
. . acquisition for more than one year....Reg. 1100(1.15)
. . additions and alterations....Reg. 1100(1.19)
. . alterations and improvements....Reg. 1102(4)
. . breakdown....Reg. 1100(1.18)
. . deemed....Reg. 1100(17.1)
. . deemed not exempt....Reg. 1100(1.14)
. . deemed not to be....Reg. 1100(19)–(20)
. . defined....Reg. 1100(17)

Section

Capital cost allowance
. leasing property — continued
. . excluded properties....Reg. 1100(18)
. . exempt property....Reg. 1100(1.13)
. . gross revenue as rent....Reg. 1100(15)–Reg. 1100(16); Reg. 1100(17.2)
. . . exception....Reg. 1100(17.3)
. . lease renegotiation....Reg. 1100(1.2)
. . nil amount....Reg. 1100(1.12)
. . replacement property....Reg. 1100(1.17)
. . separate class....Reg. 1101(5c)
. . specified....Reg. 1100(1.1)
. . . defined....Reg. 1100(1.11)
. . term of lease....Reg. 1100(1.3)
. lessee of property
. . replacement property....16.1(5)–(7)
. . restrictions....16.1(1)–(4)
. licences....Reg. 1100(1)(c); Reg. Sch. II, Class 14
. lift trucks, powered industrial....Reg. Sch. II, Class 10, 29
. linen....Reg. Sch. II, Class 12
. lobbying expense....13(12)
. log building....Reg. Sch. II, Class 6
. logging operation equipment....Reg. Sch. II, Class 10
. machine cutting or shaping parts....Reg. Sch. II, Class 12
. main haulage way....Reg. Sch. II, Class 12
. manufacturing and processing....Reg. 1102(15); Reg. Sch. II, Class 8, 19, 29, 39
. . additional allowances....Reg. 1100(1)(zi)
. . election....Reg. 1102(16.1)
. . excluded operations....Reg. 1104(9)
. . foreign ore....Reg. Sch. II, Class 43
. . revenue defined....Reg. 1102(16)
. manufacturing and processing property....Reg. Sch. II, Class 43
. . deemed capital cost....13(10)
. . separate classes....Reg. 1101(5q); Reg. 1101(5s)–(5s.5)
. marine railway....Reg. Sch. II, Class 7
. medical or dental equipment....Reg. Sch. II, Class 12
. metric scale....Reg. Sch. II, Class 12
. mineral resources testing equipment....Reg. Sch. II, Class 10
. mines....Reg. 1100(1)(x)–(ya); Reg. Sch. II, Class 28, 41
. . additional....Reg. 1100(1)(w)
. . buildings and structures....Reg. Sch. II, Class 10
. . electrical plant....Reg. 1102(8)–(9.2)
. . property....Reg. Sch. II, Class 10
. . shaft....Reg. Sch. II, Class 12
. misclassified property....13(6)
. mole....Reg. Sch. II, Class 1, 3
. motion picture films....Reg. Sch. II, Class 10, 18
. motion picture property....Reg. Sch. II, Class 10
. mould....Reg. Sch. II, Class 12
. multiple-unit residential unit....Reg. Sch. II, Class 31–32
. natural gas distribution line....Reg. Sch. II, Class 51
. natural gas facility....Reg. Sch. II, Class 47
. offshore drilling vessels, additional....Reg. 1100(1)(va)
. oil and gas well equipment....Reg. 1104(2); Reg. Sch. II, Class 1–2, 10, 41
. oil storage tank....Reg. Sch. II, Class 6, 29, 39, 43
. ore, defined....Reg. 1104(2)
. outdoor advertising poster panel....Reg. Sch. II, Class 11
. parking area....Reg. Sch. II, Class 1, 17
. passenger automobiles....Reg. Sch. II, Class 16
. patent or right to use information....Reg. 1100(1)(c); Reg. 1100(9); Reg. Sch. II, Class 14, 44
. pattern....Reg. Sch. II, Class 12
. petroleum or natural gas testing equipment....Reg. Sch. II, Class 10
. photocopiers....Reg. 1101(5p)
. pinball machines....Reg. Sch. II, Class 16
. pipelines
. . oil or gas....Reg. Sch. II, Class 1–2, 49
. . pumping or compression equipment....Reg. Sch. II, Class 7
. . separate classes....Reg. 1101(5i); Reg. 1101(5j); Reg. 1101(5u); Reg. 1101(5v)
. pollution control equipment
. . air pollution....Reg. Sch. II, Class 27
. . taxation year after Nov. 18, 1981....Reg. 1100(1)(ta)
. . taxation year including Nov. 18, 1981....Reg. 1100(1)(t)
. . water pollution....Reg. Sch. II, Class 24
. poster panels....Reg. Sch. II, Class 11
. power-operated movable equipment....Reg. Sch. II, Class 22, 38
. powered industrial lift truck....Reg. Sch. II, Class 40
. prescribed classes....Reg. 1105
. proceeds of disposition
. . bad debts....20(4)
. . defined....13(21)
. properties defined for....Reg. 1104(2)

Section

Capital cost allowance — continued
. properties excluded....Reg. 1102
. . land....Reg. 1102(2)
. . non-arm's length exception....Reg. 1102(20)
. . non-residents' property....Reg. 1102(3)
. . partnership property....Reg. 1102(1a)
. property acquired
. . by transfer, amalgamation, winding-up....Reg. 1102(14); Reg. 1102(14.1)
. . in the year....Reg. 1100(2)–(2.5)
. property alterations....Reg. 1102(19)
. property disposed of after ceasing business....13(8)
. pulp and paper industry....Reg. Sch. II, Class 5
. radar equipment....Reg. Sch. II, Class 9
. radio
. . communication equipment....Reg. Sch. II, Class 8, 19
. . equipment....Reg. Sch. II, Class 9
. . receiving equipment....Reg. Sch. II, Class 9
. . transmission equipment....Reg. Sch. II, Class 9
. railway
. . cars....Reg. 1100(1)(z)–(z.1c); Reg. Sch. II, Class 6–7, 35
. . cars, separate classes....Reg. 1101(5d)–(5d.2)
. . companies....Reg. 1102(10)
. . companies, marine railway....36; Reg. 1102(10); Reg. Sch. II, Class 7
. . expansion and modernization property....Reg. 1100(1)(zc)
. . locomotive, property incorporated into....Reg. 1102(19.1)–(19.2)
. . locomotives....Reg. Sch. II, Class 6, 10
. . rail suspension device....Reg. Sch. II, Class 7
. . rail suspension equipment....Reg. Sch. II, Class 35
. . rolling stock or property....Reg. Sch. II, Class 10
. . sidings....Reg. 1100(8)
. . systems....Reg. Sch. II, Class 4
. . . defined....Reg. 1104(2)
. . tank cars....Reg. Sch. II, Class 6
. . track and grading....Reg. 1101(5e); Reg. 1101(5f); Reg. Sch. II, Class 1
. . track and other equipment....Reg. 1100(1)(za)–(zb)
. . traffic control or signaling equipment....Reg. Sch. II, Class 1
. rapid transit cars....Reg. Sch. II, Class 8, 19
. rates for classes....Reg. 1100(1)(a); Reg. Sch. II
. recapture of excess....13(1); 13(2)
. . bad debts....20(4)
. . Canadian Vessel Construction Assistance Act....13(13)
. . motor vehicles....13(2)
. . non-resident's business defined....13(9)
. recreational property....Reg. 1102(17)
. recycling material....Reg. Sch. II, Class 24
. rental properties
. . defined....Reg. 1100(14)
. . gross revenue as rent....Reg. 1100(14.1)
. . . exception....Reg. 1100(14.2)
. . leasehold interest....Reg. 1100(13)
. . limitation re corporations and partnerships....Reg. 1100(12)
. . partnerships....Reg. 1100(11); Reg. 1100(13)
. representation expenses....13(12)
. residential buildings, multiple unit....Reg. Sch. II, Class 31–32
. resource extraction assets....Reg. Sch. II, Class 41
. right of way....Reg. Sch. II, Class 8, 19, 29, 39, 43
. river improvements....Reg. 1102(7)
. roads....Reg. Sch. II, Class 1, 17
. roller skating rink....Reg. Sch. II, Class 10
. rowboat....Reg. Sch. II, Class 7
. scientific research
. . control acquired before end of year....37(6); 37(6.1)
. scow....Reg. Sch. II, Class 7
. separate classes
. . advertising signs....Reg. 1101(5l)
. . business or property....Reg. 1101(1)
. . Canadian vessels....Reg. 1101(2a); Reg. 1101(2c)
. . certified production....Reg. 1101(5k)
. . combustion turbines....Reg. Sch. II, Class 48
. . computer software....Reg. 1101(5p); Reg. 1101(5r)
. . deemed depreciable property....Reg. 1101(5g)
. . film or video production....Reg. 1100(1)(m); Reg. 1101(5k.1)
. . fishing vessels....Reg. 1101(2)
. . lease option agreements....Reg. 1101(5)
. . leasehold interest in real property....Reg. 1101(5h)
. . leasing property....Reg. 1101(5c)
. . manufacturing and processing property....Reg. 1101(5q); Reg. 1101(5s)–(5s.5)
. . mines....Reg. 1101(4)–(4d)
. . MURBs....Reg. 1101(5b)
. . non-residential buildings....Reg. 1100(1)(a.1)–(a.2); Reg. 1101(5b.1); Reg. 1102(23)–(25)
. . offshore drilling vessels....Reg. 1101(2b); Reg. 1101(2c)

Section

Capital cost allowance
. separate classes — continued
. . pipelines ... Reg. 1101(5i); Reg. 1101(5j); Reg. 1101(5u); Reg. 1101(5v)
. . railway cars ... Reg. 1101(5d)–(5d.2)
. . railway track ... Reg. 1101(5e); Reg. 1101(5e.1); Reg. 1101(5f)
. . railway trestles ... Reg. 1101(5e.2)
. . specified energy property ... Reg. 1101(5m)–(5o)
. . telecommunication spacecraft ... Reg. 1101(5a)
. . timber limits and cutting rights ... Reg. 1101(3)
. . transmission pipelines ... Reg. 1101(5u); Reg. 1101(5v)
. ships and vessels ... 13(13)–(20); Reg. Sch. II, Class 7
. . Canadian ... Reg. 1100(1)(v)
. . under construction ... Reg. Sch. II, Class 7
. . fishing vessels, additional allowances ... Reg. 1100(1)(i)
. . resource extraction ... Reg. Sch. II, Class 41
. short production, certified ... Reg. Sch. II, Class 12
. sidewalks ... Reg. Sch. II, Class 1, 17
. sleigh or wagon ... Reg. Sch. II, Class 10
. software ... Reg. Sch. II, Class 12
. . defined ... Reg. 1104(2)
. . tax shelter property ... Reg. 1100(20.1)–(20.2)
. . year 2000 ... Reg. 1100(1)(zg); Reg. 1100(1)(zh)
. solar heating equipment ... Reg. Sch. II, Class 34, 43.1–43.2
. specified energy property ... Reg. 1100(24)–(29); Reg. 1101(5m)–(5o)
. specified temporary access road, defined ... Reg. 1104(2)
. stable equipment ... Reg. Sch. II, Class 10
. steam generating equipment ... Reg. Sch. II, Class 17, 34
. storage area ... Reg. Sch. II, Class 1, 17
. storage buildings ... Reg. Sch. II, Class 8, 19, 29, 39, 43
. storage tanks for oil or water ... Reg. Sch. II, Class 6, 10
. structure used as machinery or equipment ... Reg. Sch. II, Class 8, 19, 29, 39, 43
. stucco on frame ... Reg. Sch. II, Class 6
. subway or tunnel ... Reg. Sch. II, Class 1
. surface construction and bridges ... Reg. 1102(14.3)
. systems software ... Reg. 1104(2); Reg. Sch. II, Class 10
. tableware ... Reg. Sch. II, Class 12
. tangible capital property ... Reg. Sch. II, Class 8, 19
. tangible property attached to a building ... Reg. Sch. II, Class 8, 19
. tar sands ore, defined ... Reg. 1104(2)
. taxation year less than 12 months ... Reg. 1100(3)
. taxicabs ... Reg. Sch. II, Class 16
. telecommunication spacecraft, unmanned ... Reg. Sch. II, Class 10, 30
. telegraph system, defined ... Reg. 1104(2)
. telephone and telegraph equipment ... Reg. Sch. II, Class 3
. telephone equipment, separate class ... Reg. 1101(5p)
. telephone or telegraph equipment
. . switching equipment ... Reg. Sch. II, Class 17
. telephone system, defined ... Reg. 1104(2)
. television commercial message ... Reg. 1104(2); Reg. Sch. II, Class 12
. timber access roads or trails ... Reg. Sch. II, Class 10
. timber cutting and removing property ... Reg. Sch. II, Class 10, 15; Reg. Sch. IV
. timber limit and cutting rights ... Reg. 1100(1)(e); Reg. Sch. VI
. timber resource property ... Reg. Sch. II, Class 33
. tools
. . portable ... Reg. Sch. II, Class 10, 12
. . for rental ... Reg. Sch. II, Class 29
. total allowed
. . insurers' ... 13(22)
. . life insurers' ... 13(23)
. total depreciation, defined ... 13(21)
. trailer or wagon ... Reg. Sch. II, Class 10
. tramway ... Reg. 1104(2); Reg. Sch. II, Class 4
. transfer of property to another class ... 13(5)–(5.5); Reg. 1103
. transmission pipelines ... Reg. 1101(5u); Reg. 1101(5v)
. trestle ... Reg. Sch. II, Class 3
. trolley bus system ... Reg. Sch. II, Class 4
. trolley bus system, defined ... Reg. 1104(2)
. tunnel ... Reg. Sch. II, Class 1
. underground storage costs ... Reg. Sch. II, Class 10
. uniforms ... Reg. Sch. II, Class 12
. video game machines ... Reg. Sch. II, Class 16
. videotapes ... Reg. Sch. II, Class 12
. water distributing equipment ... Reg. Sch. II, Class 17
. water distributing equipment and plant ... Reg. Sch. II, Class 1–2
. water pollution control property ... Reg. Sch. II, Class 24

Section

Capital cost allowance — continued
. water storage tank ... Reg. Sch. II, Class 6, 29, 39, 43
. wharf ... Reg. Sch. II, Class 3, 6
. wind energy conversion system ... Reg. Sch. II, Class 34, 43.1–43.2
. windmill ... Reg. Sch. II, Class 3
. wood assets ... Reg. 1100(1)(f)
. wooden breakwater ... Reg. Sch. II, Class 6
. wooden wharfs ... Reg. Sch. II, Class 6
. World Exhibition, 1967, land for ... Reg. Sch. II, Class 23
. year 2000 software ... Reg. 1100(1)(zg); Reg. 1100(1)(zh)

Capital dividends — see Dividends, capital

Capital expenditures and outlays — see also Expenses
. eligible capital expenditure, defined ... 14(5); 248(1)
. illegal payments
. . deduction prohibited ... 67.5(1)
. . reassessment ... 67.5(2)
. investment tax credit ... 127(12.2)
. non-deductible, outlays or losses ... 18(1)(b)
. outlay defined ... 66(15)
. qualified, subsidiary's ... 88(1.4)

Capital gains
. adjusted cost base — see Adjusted cost base
. allocations re credit unions ... 137(5.1); 137(5.2)
. attribution rules ... 74.2(2)
. bad debts
. . personal-use property ... 50(2)
. beneficiaries
. . computation ... 104(21.1)
. . deemed gain ... 104(21); 104(21.4)–(21.6)
. . from trust ... 104(21.2)–104(21.24)
. bonds purchased by issuer ... 39(3)
. ceasing to be Canadian resident, election to defer ... Reg. 1300
. convertible bonds ... 51
. cost of property
. . in lieu of dividend in kind ... 52(2)
. . lottery prize ... 52(4)
. . stock dividends ... 52(1); 52(3)
. cultural property ... 39(1)
. cumulative eligible capital
. . exempt gains balance ... 14(5)
. debentures outstanding on January 1, 1972 ... A.R. 26(1.1)
. debentures purchased by issuer ... 39(3)
. deceased person's trust ... 70(7)
. deduction
. . annual gains limit ... 110.6(1)
. . cumulative eligible capital ... 14(5)
. . cumulative gains limit ... 110.6(1); 110.6(13)
. . deduction denied ... 110.6(31)–110.6(32)
. . deemed residence in Canada ... 110.6(5)
. . definitions related to ... 110.6(1)
. . disallowed ... 110.6(7)–(11)
. . effect of election on non-qualifying property ... 110.6(21)
. . election re partnership interest ... 110.6(23)
. . election re property owned before Feb. 22, 1994 ... 53(2)(v); 110.6(19)–(29); A.R. 26(29)
. . flow-through entities ... 39.1
. . maximum ... 110.6(4)
. . qualified farm property ... 110.6(2)
. . qualified fishing property ... 110.6(2.2)
. . shares' average annual rate of return ... 110.6(9)
. . small business corporation's shares ... 110.6(2.1)
. . specified ... 126(5.1)
. . spousal or common-law partner trust's taxable income ... 110.6(12)
. . transition year ... 110.6(2.3)
. deemed disposition of property, leaving Canada ... 40(3)
. deemed gains for partners ... 40(3.1)
. . amount ... 40(3.11)
. . excluded amount ... 40(3.15)
. . unsubstantial amounts ... 40(3.16)
. deemed proceeds of disposition ... 55(2)
. . exception ... 55(3)
. deferral re small business investments ... 44.1
. defined ... 39(1)(a); 40(1)(a); 130(3); 248(1)
. disposition of property
. . Canadian securities ... 39(4)
. . to child ... 40(1.1)
. . deceased person's estate ... 164(6)
. . deemed, leaving Canada ... 40(3)
. . by financial institutions ... Reg. 9203–9204
. . gift of non-qualifying securities ... 40(1.01)
. . involuntary deferral of gain ... 44
. . non-arm's length, after June 18, 1971 ... A.R. 26(5)
. . part disposition ... 43
. . personal property ... 41(1)–(3)
. . post–1971 ... A.R. 26(1)
. . pre–1972 ... A.R. 26(3)
. . principal residence ... 40(6)

Section

Capital gains
. disposition of property — continued
. . property with more than one use ... 45
. . residence, to spouse ... 40(4)
. . subject to warranty ... 42
. dividends — see Dividends, capital gains
. ecological gifts ... 38(a.2); 38.1
. election by mutual fund corporations ... 131(1)
. . allocation ... 131(1.6)–(1.9)
. . deemed date ... 131(1.1)
. . penalty ... 131(1.3)
. . penalty assessment and payment ... 131(1.4)
. . reporting requirements ... 131(1.5)
. . request to make ... 131(1.2)
. election to realize on ceasing to be Canadian ... Reg. 1302
. eligible taxable ... 108(1)
. employee profit sharing plans
. . allocated to employees ... 144(4)
. . inclusion in beneficiary's income ... 144(7)
. estates and trusts ... 104(21); 104(21.4)
. excessive election tax ... 184–185
. exemption ... 183.1(7)
. failure to report ... 110.6(6)
. farmer's principal residence ... 40(2)(c)
. flow-through entities, exempt capital gains balance ... 39.1
. foreign affiliate ... 95(2); Reg. 5907(5)
. . transitional provisions ... A.R. 35
. foreign currency ... 39(2)
. foreign currency debt ... 40(10)–(11)
. foreign resource property ... 59(1)
. general rules ... 40(1)(a)
. gift of partnership interest ... 38(a.3)
. gift of shares ... 38(a.1); 38.1
. gifts ... 69(1)
. identical properties in group, part disposal ... 47
. insurance company, pre–1969 depreciable property ... 138(11.2)
. investment corporation
. . tax deduction ... 130(1); 130(2)
. life insurance corporation segregated fund ... 138.1(3)
. . deemed gains and losses ... 138.1(3.1)–(3.2)
. life insurance policies ... Reg. 217
. limitation
. . family residence ... 40(2)(b)
. . farm land and house ... 40(2)(c)
. . lottery prizes ... 40(2)(f)
. . non-residents ... 40(2)(a)
. listed personal property ... 41(1)
. . loss ... 41(3)
. . transitional provisions ... 41(2)
. mortgage investment corporation ... 130.1(1); 130.1(4)
. . allocation ... 130.1(4.3)
. . reporting requirements ... 130.1(4.2)
. mutual fund corporations ... 131(1)–(6)
. mutual fund trusts ... 132(1)
. net gain from disposition of listed personal property
. . determination ... 41(1)–41(2)
. not income from property ... 9(3)
. options — see Options
. partners'
. . specified members, deemed ... 40(3.131)
. partners' deemed gains ... 40(3.1)
. . amount ... 40(3.11)
. . excluded amount ... 40(3.15)
. . limited partners ... 40(3.14)
. . unsubstantial amounts ... 40(3.16)
. partnership, taxation ... 96(1.7)
. partnership interest disposal ... 100(2)
. personal-use property ... 46(1)
. . decrease in value, corporate-owned ... 46(4)
. . disposed of as a set ... 46(3)
. . partial disposition ... 46(2)
. principal residence
. . capital gains election ... 40(7.1)
. . disposal to spouse ... 40(4)
. . limitation ... 40(2)(b)
. prizes ... 52(4)
. profit sharing plans
. . determination ... 147(4)
. . inclusion in beneficiary's income ... 44(1)
. property exchanges
. . deductible reserves ... 44(1.1)
. . deferred amounts ... 44
. property transfer to child, deductible reserves ... 40(1.1); 44(1.1)
. publicly traded shares
. . gifts ... 38(a.1); 38.1
. . Valuation Day value ... Reg. Sch. VII
. redemption, defined ... 131(6); 132(4)
. refund
. . excessive interest on ... 132(2.2)
. . interest on ... 132(2.1)
. . mutual fund corporations ... 131(2)
. . application to other liability ... 131(3)

Section

Capital gains
. refund
. . mutual fund corporations — continued
. . . excess interest on....131(3.2)
. . . interest on....131(3.1)
. refundable tax on hand
. . defined....131(6); 132(4)
. . determination by Minister....152(1)
. . reduction by mutual fund corporations....131(9)
. small business investment deferral....44.1
. spouse running discontinued business....24(2)
. taxable
. . beneficiaries from trust....104(21.1)–104(21.2)
. . defined....38(a); 248(1)
. . eligible....108(1)
. . income not to include....149(2)
. . partnerships....96(1.7)
. . recovered amount from bad debts....39(11)
. . trust's....104(21.3)
. taxable Canadian property, additions to....40(9)
. taxed
. . defined....131(7)
. . mutual fund....132(6)
. transitional provisions....A.R. 26
. trusts
. . exempt capital gains balance....107(2.2)
. . not flowed out to beneficiaries....107(2.11)
. Valuation Day, publicly traded shares....A.R. 24
. windfalls....40(2)(f)

Capital losses — see Losses, capital

Capital property
. acquired in amalgamation....87(2)(e)
. amalgamated corporation's....87(2)(t)
. cost determination for transfer....13(5.2)–(5.5)
. cost of partnership interest to new corporation....87(2)(e.1)
. deceased persons', transfer....70(6)
. deemed, on transfer....73(1.1)
. defined....54; 248(1); A.R. 26(12)
. eligible — see Eligible capital property
. exchanges....44
. financial institutions, election....142.6(8)
. . election limit....142.6(9)–142.6(10)
. former business property, defined....248(1)
. gift of....118.1(5.4)–(6)
. . deduction....110.1(2.1)–(3)
. inter vivos transfer by individual....73(1)
. owned on December 31, 1971....A.R. 26(3)
. repayment of assistance to acquire
. . capital loss....39(13)
. replacement property, as....44(5)
. shares deemed to be....54.2
. transfer to corporation
. . non-arm's length....A.R. 26(5.2)

Capital stocks — see Shares

Capital tax — see also Large corporations tax
. accounting method....190(2)
. definitions related to....190(1)
. financial institutions....190–190.211
. . acquisition of control....190.1(6)
. . deductions allowed....190.1(3); 190.1(4)
. . short taxation year....190.1(2)
. . straddle years....190.16
. . unused Part I tax credit defined....190.1(5)
. . unused surtax credit defined....190.1(5)
. life insurance corporations....190(1)
. . definitions related to....190(1.1)
. . determination....190.13
. returns....190.2

Capitalization
. construction soft costs — see Construction soft costs
. interest....18(3.1)–(3.7); 21(1)
. thin capitalization rules....18(4)–(6)
. undistributed income, deemed to be dividend....84(1)

Caregivers
. tax credit....118(1)(c.1)

Carved-out income — see Income, carved-out

Carved-out property
. defined....209(1)
. partnership's....209(6)
. payment of tax....209(4)
. prescribed....Reg. 7600
. provisions of Act applicable....209(5)
. return....209(3)
. taxation....209(2)

Cash method — see Accounting

Ceasing to carry on business — see Business discontinuation

Cemetery care trust
. defined....248(1)
. exemption....149(1)(s.2)

Central paymaster
. regulations....Reg. 402.1

Section

Certificates
. change of ownership, NRO investment corporation....Reg. 502
. clearance
. . distribution by legal representative....159(2)
. . property disposal by non-resident....116(2); 116(4)
. of employer....8(10)
. film or video productions
. . accredited film or video production certificate....125.5(1); 125.5(6)
. . Canadian film or video production certificate....125.4(1)
. . certificate of completion....Reg. 1106(1)
. . communication of information....241(3.3)
. mental or physical impairment....118.3(4)
. non-resident's exemption
. . appeal from refusal to issue....172(3)
. ownership — see Ownership certificates
. unpaid tax....223(2)
. War Savings Certificates....81(1)(b)
. Wheat Board participation....161(5)

Certified feature films — see Film or video

Certified production — see Film or video

Chambers of Commerce
. exemption....149(1)(e)

Charitable donations
. amalgamated corporations
. . predecessor's property....87(2)(m.2)
. . qualifying securities....87(2)(m.1)
. amalgamations....87(2)(v)
. amount of advantage....248(32)
. art....118.1(7)
. artificial transactions....248(38)
. capital property....118.1(5.4)–(6)
. commuters....118.1(9)
. cost of property acquired by donor....248(33)
. Crown gifts, total....118.1(1)
. cultural property....118.1(7.1)
. deduction by corporation....110.1(1)(a)
. . eligible medical gifts....110.1(1)(a.1); 110.1(8); 110.1(9); Reg. 3505
. . gifts to Her Majesty....110.1(1)(b)
. . gifts to institutions....110.1(1)(c)
. deductions....110(2)
. deemed fair market value....248(35)–(37)
. ecological gift....38(a.2); 110.1(5)
. . adjusted cost base....43(2)
. . appeal of valuation....169(1.1); 171(1.1)
. . capital gains....38.1
. . deduction....110.1(1)(d)
. . defined....118.1(1)
. . fair market value....118.1(10.2)–(10.5); 118.1(12)
. eligible amount....248(31)
. fair market value....118.1(10.1)
. gifts by corporation
. . capital property....110.1(2.1)–(3)
. . corporation ceasing to exist....110.1(7)
. . ecological gifts....110.1(1)(d); 110.1(5)
. . limitation on deduction....110.1(1.1); 110.1(1.2)
. . non-qualifying securities....110.1(6)
. . proof of....110.1(2)
. . where control acquired....110.1(1.2)
. inadequate consideration....69
. inclusion in income....149.1(12)
. information not provided....248(41)
. intention to give....248(30)
. inter-charity gifts....248(40)
. life insurance proceeds....118.1(5.1)–(5.2)
. limited-recourse debt....143.2(6.1)
. limited-recourse debt, repayment....248(34)
. member of religious order....110(2)
. non-qualifying securities
. . death of donor....118.1(15)
. . deemed gift....118.1(13)
. . defined....118.1(18)
. . excepted gift....118.1(19)
. . exchange of beneficial interest in trust....118.1(14.1)
. . exchanged security....118.1(14)
. . financial institution defined....118.1(20)
. . gift of....40(1.01)
. . loan-backs....118.1(16)
. . ordering rule....118.1(17)
. order of consideration for credit....118.1(2.1)
. by partnership....118.1(8)
. partnership, by, deductions....110.1(4)
. partnership interest....38(a.3)
. personal use property....46(5)
. predecessor corporation....87(2)(v)
. prescribed donees....Reg. 3504
. proof of....118.1(2)
. property acquired by way of....69(1)
. receipts
. . contents of....Reg. 3501
. . defined....Reg. 3500
. . false information....188.1(9)–188.1(10)
. . form....Reg. 3500
. . incorrect information....188.1(7)–188.1(8)

Section

Charitable donations
. receipts — continued
. . signatures....Reg. 3501(2)
. . where registration annulled....149.1(24)
. registered organizations....Reg. 3500
. RRSP, RRIF, TFSA proceeds....118.1(5.3)
. scientific research, deduction limitations....37(5)
. securities, publicly traded....38(a.1); 38.1
. stock options....110(1)(d.01)
. . proceeds of disposition....110(2.1)
. substantive gifts....248(39)
. tax credit....118.1(3)
. total....118.1(1)
. total cultural
. . defined....118.1(1)
. . fair market value....118.1(10)
. transitional provision....A.R. 14
. universities outside Canada....Reg. 3503; Reg. Sch. VIII
. by will....118.1(5)
. winding-up of corporate donor....88(1)(e.6); 88(1)(e.61)
. year of death....118.1(4)

Charitable foundations
. control of corporation....149.1(12)
. defined....149.1(1); Reg. 3700
. designation by Minister....149.1(6.3)
. . national arts service organizations....149.1(6.4)
. . revocation....149.1(6.5)
. disbursement excess....149.1(21)
. disbursement quota....149.1(1); 149.1(1.2); Reg. 3701
. limited-dividend housing company....Reg. 3700
. national arts service organizations....149.1(6.4)
. net asset amount....188(5)
. net value of property....188(5)
. non-qualified investment....Reg. 3700
. penalties
. . control of corporation....188.1(3)
. . excess corporate holdings....188.1(3.1)–188.1(3.5)
. political activities....149.1(1.1)
. private
. . defined....149.1(1); 248(1)
. . designated as public....149.1(13)
. . excess corporate holdings....149.1(1); 149.2; 188.1(3.1)–188.1(3.5)
. . interest on debts....189(2)
. . interest on debts re shares....189(4)
. . non-qualified investments....149.1(1); 189
. . revocation of registration....149.1(4)
. . share substitution....189(5)
. . shares deemed to be debt....189(3)
. property tax transfer....188(3)–(3.1); 188(4)
. property valuation....Reg. 3702
. public
. . defined....149.1(1); 248(1)
. . designated as private....149.1(13)
. . revocation of registration....149.1(3)
. taxation year....Reg. 3700

Charitable organizations
. books and records....230(2)
. charitable activities
. . deemed....149.1(10)
. . exclusions....149.1(1.1)
. . political activities....149.1(1.1); 149.1(6.2)
. . resources for....149.1(6)
. charitable purposes....149.1(6.1)
. defined....149.1(1)
. designation by Minister....149.1(6.3)
. . national arts service organizations....149.1(6.4)
. . revocation....149.1(6.5)
. disbursement excess....149.1(21)
. disposition of ecological gift....207.31
. national arts service organizations....149.1(6.4)
. political activities....149.1(1.1); 149.1(6.2)
. qualified donees
. . deemed charitable activity....149.1(10)
. . defined....149.1(1); 248(1)
. registered Canadian, deemed refusal to register....172(4)
. registration revocation
. . appeal....172(3)–(4.1)
. . deemed year-end....188(1)
. . eligible donee, defined....188(1.3)
. . notice....168(1)–168(2)
. . objections....168(4)
. . reasons....149.1(2)
. . terrorism financing....168(3)
. . winding-up period....188(1.2)
. resources for charitable activity....149.1(6)
. terrorism financing
. . communication of information....241(9)–(9.1)
. . registration revocation....168(3)

Charity, registered
. accumulation of property....149.1(8)–149.1(9)
. amount deemed to be expended....149.1(5)
. associated, designation of....149.1(7)
. books and records retention....Reg. 5800(1)

Section

Charity, registered — continued
. capital gains pool, defined....149.1(1)
. communication of information by CRA....241(3.2); 241(9)–(10)
. defined....248(1)
. designation of association....149.1(7)
. disbursement excess
. . defined....149.1(21)
. . rules....149.1(20)
. enduring property, defined....149.1(1)
. information communication to public....149.1(15)
. information returns
. . failure to file....188.1(6)
. . requirement....149.1(14)
. non-qualified investment tax
. . interest on debt....189(2)
. . interest on debt computation....189(4)
. . share deemed to be debt....189(3)–189(4)
. . share substitution....189
. payment of tax....189(6)
. penalties
. . assessment....189(7)
. . carrying on business....188.1(1)–188.1(2)
. . delay of expenditures....188.1(11)
. . failure to file information returns....188.1(6)
. . false receipts....188.1(9)–188.1(10)
. . incorrect receipts....188.1(7)–188.1(8)
. . provisions applicable....189(8); 189(8.1)
. . reduction of liability....189(6.3)
. . undue benefits....188.1(4)–188.1(5)
. property, accumulation of....149.1(8)–149.1(9)
. property transfer tax....189(3)–189(4)
. registration revocation or refusal
. . annulment where error....149.1(23)–149.1(24)
. . appeal....172(3)–(4.1)
. . deemed year-end....188(1)
. . eligible donee, defined....188(1.3)
. . notice....168(1)–168(2)
. . notice of refusal....149.1(22)
. . objections....168(4)
. . reasons....149.1(2)–(4.1)
. . terrorism financing....168(3)
. . winding-up period....188(1.2)
. returns
. . exception....150(1.1)
. . requirement....189(6)
. . revocation tax....189(6.1)
. revocation tax
. . assessment....189(7)
. . definitions applicable....187.7
. . liability....188(1.1)
. . non-application....188(2.1)
. . provisions applicable....189(8); 189(8.1)
. . reduction of liability....189(6.2)
. . returns....189(6.1)
. . shared liability....188(2)
. same-sex marriage....149.1(6.21)
. specified gift
. . defined....149.1(1)
. . exclusion....149.1(1.1)
. specified re non-resident trust....94(1)
. suspension of receipting privileges....188.2
. taxation
. . interest at prescribed rate....189(7); 189(9)
. . non-qualified investments....189
. . property transfer tax....188(3); 188(3.1); 188(4)
. taxation year....149.1(1)
. terrorism financing....172(3.1); 172(4.1)
. . communication of information....241(9)–(9.1)
. . registration revocation....168(3)
. transfer of property tax....188(3); 188(3.1); 188(4)

Child care benefit
. amounts for previous years....56(8)
. income inclusion....56(6)
. repayments deductible....60(v)

Child care expenses
. care provided in U.S....63(4)
. deductions....63(1)
. . equal income of supporter and recipient....63(2.1)
. . income exceeding income of supporting person....63(2)
. deemed resident's....64.1
. definitions related to....63(3)
. student taxpayer....63(2.2)–63(2.3)

Child care spaces
. investment tax credit
. . definitions....127(9)
. . recapture....20(1)(nn.1); 127(27.1)–(27.12); 127(28.1)

Child fitness tax credit
. apportionment....118.03(3)
. calculation....118.03(2)
. child with disability....118.03(2.1)
. definitions....118.03(1); Reg. 9400(1)
. horseback riding....Reg. 9400(5)
. prescribed program of physical activity....Reg. 9400

Child support payments — see Support payments

Section

Child tax benefits
. annual adjustments....122.61(5)–(7)
. bankruptcy, effect of....122.61(3.1)
. cohabiting spouse or common-law partner
. . defined....122.6
. . person becoming....122.62(7)
. death of cohabiting spouse....122.62(5)
. deemed overpayments....122.61(1)
. . amount not to be charged....122.61(4)
. . exception....122.61(2)
. definitions related to....122.6
. determination....152(3.2)–(3.3)
. elections....122.62
. eligible individuals
. . defined....122.6
. . exception....122.62(3)
. . extension of notice time....122.62(2)
. . notice....122.62(1)
. . person ceasing to be....122.62(4)
. . . waiver....122.62(4)
. information communication....122.64(2)
. . penalty....122.64(4)
. information confidentiality....122.64(1)
. name and address requirement re taxpayer....122.64(3)
. non-residents, income for the year....122.61(3)
. notice re eligible individual....122.62(1)
. . extension of time....122.62(2)
. offences....122.64(4)
. part-year residents....122.61(3)
. presumption does not apply....Reg. 6301
. qualified dependant....Reg. 6300
. . defined....122.6
. refunds....164(2.2)
. relevant factors....Reg. 6302
. return of income, defined....122.6

Child tax credit
. amount....118(1)(b.1)
. part year....118(10)

Children
. adopted....252(1)
. adoption expenses — see Adoption expense tax credit
. born outside marriage....252(1)
. child, defined....70(10); 75.1(2); 110.6(1)
. . extended meaning....252(1); A.R. 26(20)
. . life insurance policy....148(9)
. child care benefit — see Child care benefit
. child support — see Support payments
. child tax benefits — see Child tax benefits
. child tax credit — see Child tax credit
. child's spouse....252(1)
. eligible, defined....63(3)
. farm property transfer
. . at death....A.R. 26(18)
. . inter vivos....A.R. 26(19)
. fitness tax credit — see Child fitness tax credit
. property transfer to
. . capital gain or loss....40(1.1)
. . deductible reserves....40(1.1); 44(1.1)
. step-children....252(1)
. supporting person, defined....63(3)
. transfer of commercial woodlots....Reg. 7400

Chinaware
. CCA rate....Reg. Sch. II, Class 12

Chiropractors
. income computation....34

Civilian War-related Benefits Act
. pensions exempt....81(1)(d)

Clawback
. labour-sponsored fund tax credit....211.7–211.9
. old age security....180.2
. . adjusted income defined....180.2(1)
. . base taxation year defined....180.2(1)
. . calculation of amount....180.2(2)
. . provisions applicable....180.2(6)
. . return of income defined....180.2(1)
. . returns....180.2(5)
. . withholding....180.2(3)

Clearance certificates
. distribution by legal representative....159(2)
. property disposal by non-resident....116(2); 116(4)

Clergy
. residence
. . certificate of employer....8(10)
. . deduction....8(1)(c)
. traveling allowances exempt....6(1)(b)(vi)

Clothing and uniforms
. CCA rate
. . costume or apparel for rental....Reg. Sch. II, Class 12
. . uniforms....Reg. Sch. II, Class 12

Clubs
. membership fees, deductibility....18(1)(l)
. non-profit, investment income....149(1)(l); 149(5)

Coal mines — see Mines and minerals

Section

Collection — see Tax collection

Colleges and universities — see also Educational institutions
. AUCC exemption....149(1)(h.1)
. charitable donations....Reg. 3503
. universities outside Canada....Reg. Sch. VIII

Commercial woodlots
. forest management plans....Reg. 7400

Commercials — see Advertising and broadcasting

Commission agents — see Agents and brokers

Commissions
. government, exempt from tax....149(1)(d)–(d.6); 149(1.1)–(1.3)
. insurance, unearned reserves....32
. reinsurance, income....12(1)(s)

Common-law partners — see Spouses or common-law partners

Common shares — see Shares

Communal organizations
. congregation, defined....143(4)
. deemed to be inter vivos trust....143(1)–(3)
. definitions related to....143(4)
. election in respect of gifts....143(3)–(3.1)
. religious organization, defined....143(4)
. taxation, member of family specified for....143(5)

Commuters
. charitable donations made in U.S.A....118.1(9)

Companies — see Corporations

Compensation
. damage to property, included in income....12(1)(f)
. defined, RPP....147.1(1)
. disability payments
. . Halifax disaster....81(1)(f)
. foreign property expropriation assets....80.1(1)
. German government....81(1)(g)
. trust, exempt from tax....149(1)(w)
. veterans....81(1)(d)–(e)

Computation
. of income — see Income computation
. of tax — see Tax computation

Computer software
. capital cost allowance....Reg. Sch. II, Class 12
. . separate classes....Reg. 1101(5p)–(5r)
. . tax shelter property....Reg. 1100(20.1)–(20.2)
. . year 2000....Reg. 1100(1)(zg); Reg. 1100(1)(zh)
. defined....Reg. 1104(2)
. voice recognition....64; 118.2(2)(l.42)

Concessions
. CCA rate....Reg. 1100(1)(c); Reg. Sch. II, Class 14
. limited period....13(4.2); 13(4.3)

Conditional sale — see Purchase-sale agreements

Congregation — see also Communal organizations
. defined....143(4)
. member of, defined....143(4)

Consideration — see Inadequate consideration

Construction activities
. defined....Reg. 238
. information return....Reg. 238

Construction equipment
. investment tax credit....Reg. 4603

Construction soft costs
. capitalization....20(29)
. commencement of foundation....18(3.7)
. completion time....18(3.3)
. deduction limitations....18(3.1)
. delayed construction....18(3.6)
. exceptions....18(3.4); 18(3.5)
. included costs....18(3.2)

Consumer Price Index
. annual adjustments....117.1(1)
. defined....117.1(4)

Containers
. reserve for, deductible....20(1)(m)(iv)

Contingent accounts
. deduction limitation....18(1)(e)

Contract payments
. information returns....Reg. 237

Contractors
. equipment, CCA rate....Reg. Sch. II, Class 10

Contracts — see also Agreements
. annuity — see Annuity contracts
. employment....6(3)
. expenses of negotiating....8(1)(f)
. life annuity, defined....Reg. 301(1)
. payments
. . combining interest with capital....16(1); 16(4); 16(5)
. . defined....127(9)
. . prescribed amount....Reg. 4606
. pension plan....254
. retention of records....Reg. 5800(1)

Section

Controlled corporations
. acquisition of control
. . change of control ... 13(25)
. . date of ... 256(9)
. . deemed not acquired ... 256(7)
. . depreciable property ... 13(24); 13(25)
. . unused large corporations tax credit ... 125.3(3)
. amalgamation — see Amalgamated corporations
. carrying on discontinued business of controller ... 24(2)
. change of control
. . adjusted cost base of capital property ... 111(4)
. . anti-avoidance role re resource expenses ... 66.7(11)
. . business losses ... 111(4)–(5.2)
. . deductions permitted re exploration and development expenses ... 66.5(3)
. . deemed year-end ... 249(4)
. . depreciable property ... 13(25)
. . foreign currency debt ... 111(12)
. . loss carryover restrictions ... 111(4)
. . resource property acquisition ... 66(11.4); 66(11.5)
. . restrictions re acquisition of control ... 111(5.5)
. . successor rule re resource expenses ... 66.7(10)
. conditions re control ... 256(1.2)
. control by charitable foundation ... 149.1(12)
. control by one trustee, information return ... 13(7.3)
. control deemed not acquired ... 256(7)
. control in fact ... 256(5.1)
. controlled for limited purposes ... 256(6)
. controlled only to safeguard loan ... 256(6)
. corporations without share capital ... 256(8.1)
. deemed control, amalgamation not to be ... 88(4)
. deemed exercise of rights to acquire shares ... 256(8)
. defined ... 112(6); 149(8)
. investment tax credits
. . control acquired after beginning of year ... 127(9.2)
. . control acquired before end of year ... 127(9.1)
. parent deemed to own shares ... 256(1.3)
. related group controlling ... 251(5)
. simultaneous control ... 256(6.1)
. . control in fact ... 256(6.2)
. when controlled ... 186(2)

Controlled foreign affiliate — see Foreign affiliates

Conventions
. expenses deductible ... 20(10)
. food cost as part of the fee, deductions ... 67.1(3)

Convertible property
. bonds and debentures ... 51.1
. exchange ... 51
. exchange with shares of capital stock ... 51(2)
. exchanged for property owned Dec. 31, 1971 ... A.R. 26(24)
. fair market value ... 51; A.R. 26(24)
. reduction in paid-up capital ... 51(3)

Convertible securities — see Securities

Cooperative corporations
. agricultural
. . amalgamation ... 87(2)(s)
. . definitions ... 135.1(1)
. . tax deferred cooperative shares ... 135.1
. deemed not to be private corporation ... 136(1)
. defined ... 136(2)
. housing — see Housing corporations
. investment tax credit ... 127(6)
. patronage dividend
. . deductibility limit ... 135.1(3)
. . deduction ... 20(1)(u); 135(8)
. . non-resident receiving ... 212(1)(g)
. scientific research tax credit ... 127.3(5)
. share-purchase tax credits ... 127.2(5)
. specified, defined ... Reg. 4901

Corporate distribution tax
. application to specified corporations ... 183.1(1)
. capital gains exemption ... 183.1(7)
. inter-corporate dividend deduction ... 183.1(4)
. share acquisition tax
. . provisions applicable ... 183.2(2)
. . returns ... 183.2(1)
. share purchase ... 183.1(4)
. shares issued as stock dividends ... 183.1(3)
. tax payable
. . exemption ... 183.1(6)
. . indirect payment ... 183.1(2); 183.1(5)

Corporations
. accountability of officers ... 242
. adjustment time ... 14(5)
. affiliated persons ... 251.1(1)
. amalgamation — see Amalgamated corporations
. annuity contract funds ... 12.2
. appeals by large corporations ... 169(2.1)
. associated — see Associated corporations
. bankruptcy ... 128(1)
. . taxable dividend tax exemption ... 186.1
. . taxation ... 186.1
. base level deduction for a taxation year ... 18(2.2)

Section

Corporations — continued
. becoming resident
. . deemed cost of shares ... 52(8)
. benefits conferred on shareholders ... 15(1); 15(7)
. books and records — see Books and records
. business losses — see Losses, business
. butterfly transactions
. . limitation ... 55(3.1)–(3.3)
. Canadian
. . amalgamation deemed non-arm's length ... A.R. 21(2.2)
. . defined ... 89(1); 248(1)
. . NROs deemed not to be ... 134
. . obligations received on amalgamation ... A.R. 26(23)
. . options received on amalgamation ... A.R. 26(22)
. . shares, adjusted cost base ... 53(1)(f.1); 53(1)(f.2)
. . winding-up ... 88(2)
. Canadian-controlled private — see Canadian-controlled private corporations
. cancellation of shares ... 84(3)
. capital gains — see Capital gains
. capital loss — see Losses, capital
. capital stock — see Shares
. capital tax
. . continuation of predecessor ... 87(2)(jj)–(ll)
. charitable — see Charitable organizations
. charitable donations ... 110.1(1)
. closely-held, defined ... 94(1)
. connected with payer corporation, conditions ... 186(4)
. continued in different jurisdiction ... 250(5.1)
. control by charitable foundation ... 149.1(12)
. control by one trustee ... 13(7.3)
. controlled — see Controlled corporations
. cooperative — see Cooperative corporations
. cost of capital — see Capital
. Crown — see Crown
. Crown agents, deductions ... 124(3)
. debt forgiveness
. . reserves ... 61.3–61.4
. deductions — see Deductions from income; Deductions from tax
. deemed dividend — see Dividends
. deemed resident in Canada ... 250(4)
. defined ... 248(1)
. deposit insurance — see Deposit insurance corporation
. distribution of assets
. . amalgamation of related corporations ... 55(3.5)
. . anti-avoidance rules ... 55
. . corporate distribution tax ... 183.1
. . deemed proceeds or capital gain ... 55(2)
. . distribution, defined ... 55(1)
. . interpretation ... 55(3.01)
. . permitted acquisition defined ... 55(1)
. . permitted exchange defined ... 55(1)
. . permitted redemption defined ... 55(1)
. . qualified person ... 55(1); 55(3.4)
. . rules ... 55(5)
. . safe-income determination time ... 55(1)
. . to shareholders under fair value, on winding-up ... 69(4)–69(5)
. . specified class defined ... 55(1)
. . specified corporation ... 55(1)
. . by specified corporation ... 55(3.02)
. . specified wholly owned corporation ... 55(1)
. dividends — see Dividends
. earned depletion base ... Reg. 1202
. election by — see Elections
. electric companies — see Public utilities
. eligible, defined ... Reg. 5100(1)
. emigration — see Emigration
. exchanged shares, terms and conditions ... 87(4.1)–(4.3)
. excluded, defined ... 127.1(2)
. execution of documents by ... 236
. exempt from tax
. . filing requirements ... 149(7)
. . penalty for failure to file ... 149(7.1)
. . provisions inapplicable to ... 227(14)
. . rules applicable ... 149(1); 149(10)
. expenditure limit
. . determination ... 127(10.2); 127(10.6)
. fabricating or processing, defined ... A.R. 29(26)
. family farm — see Farmers
. family fishing — see Fishermen
. fees paid deemed as salary ... Reg. 402(7)
. foreign affiliate — see Foreign affiliates
. foreign business — see Foreign business corporations
. foreign tax — see Foreign taxes
. gas — see Public utilities
. government, tax exemption ... 149(1)(d)–(d.6); 149(1.1)–(1.3)
. gross revenue
. . determination ... Reg. 402(4)–(6)
. holding — see Holding corporations
. housing — see Housing corporations

Section

Corporations — continued
. immigrating
. . deemed dividend ... 128.1(1)
. . foreign affiliate ... 128.1(1)
. . paid-up capital ... 128.1(2)
. . paid-up capital adjustment ... 128.1(3)
. income bonds — see Bonds and debentures
. income earned in a province — see Income, taxable
. incorporated in Canada, defined ... 248(1)
. information returns — see Information returns
. insider, defined ... Reg. 4803(1)
. insolvent
. . liability re transfers by ... 160.4
. instalment base ... Reg. 5301
. . defined ... 157(4)
. instalment payment of tax
. . deferral ... 157.1
. . limitation on interest ... 161(4.1)
. . monthly amounts ... 157(1)
. . quarterly, small-CCPC ... 157(1.1)–(1.5); 157(3.1)
. insurance — see Insurance corporations
. interest deduction
. . conditional loans by non-residents ... 18(6)
. . limitation re specified non-residents ... 18(4)–(6)
. . thin capitalization rules ... 18(4)–(6)
. interest income
. . exception ... 12(3)–(11)
. investment — see Investment corporations
. investment contract corporation
. . dividend tax exemption ... 186.1
. investment interest, defined ... A.R. 23(5)
. investor, defined ... 112(2.6)
. joint exploration — see Joint exploration corporations
. large — see Large corporations tax
. liabilities defined ... 130.1(9)
. life insurance — see Life insurance corporations
. life insurance policy funds — see Life insurance policies
. listed corporations ... Schedule
. loan — see Trust and loan corporations
. loans
. . deemed benefit to shareholder ... 15(9)
. . to foreign affiliate, transfer pricing rules ... 247(7)
. . to foreign affiliates ... 15(2.1)
. . non-residents ... 17
. . . to another non-resident ... 15(2.2)
. . . exception ... 17(7)
. . persons connected to shareholders ... 15(2.1)
. . to subsidiary ... 218
. loans to employees
. . deemed benefit ... 80.4(1)
. . deemed interest ... 80.5
. . exception re benefits ... 15(2); 80.4(3)
. . intended use not relevant ... 80.4(1.1)
. loans to shareholders
. . deemed benefit ... 80.4(2)
. . deemed interest ... 80.5
. . persons connected with ... 15(2); 15(7); 80.4(8)
. losses
. . deductibility on change of control ... 111(4)–(5.5)
. . disposition of property or securities ... 40(2)(d)
. . disposition of shares ... 40(2)(h)
. manufacturing and processing profits — see Manufacturing and processing
. mining — see Mines and minerals; Mining and ore processing
. mortgage investment — see Mortgage investment corporations
. municipal — see Municipalities
. mutual fund — see Mutual fund corporations
. non-profit — see Non-profit corporations
. non-resident — see Non-resident corporations
. objections by large corporations ... 165(1.11)–(1.14)
. oil — see Oil and gas wells
. paid-up capital — see Capital
. payment of tax — see Tax payment
. permanent establishment, defined ... Reg. 400(2)
. personal service — see Personal services business
. predecessor
. . charitable donations ... 87(2)(v)
. . continuation of ... 87(2)(jj)–(ll)
. . cost of property on amalgamation ... 87(2)(e.2)
. . defined ... 87(2)(l.2)
. . eligible capital property rule re amalgamation ... 87(2)(f)
. . financial institutions ... 87(2)(g.2)
. . losses, deduction limitations ... 87(2.1)
. . mark-to-market property ... 87(2)(e.4); 87(2)(e.5)
. . obligations of ... 87(6)–(7)
. . options, expiry of previously granted ... 87(2)(o)
. . replacement property rules ... 87(2)(l.3)–(l.4)
. . resource expenses ... 66.7(10.1); 87(1.2)
. . shareholders' income ... 87(4)
. . shares of ... 87(4)–87(5)
. . specified debt obligation ... 87(2)(e.3)
. . taxable dividends ... 87(2)(x)

Section

Corporations
. predecessor — continued
. . unused Part VI and I.3 tax credit by new corporation....87(2)(j.9)
. preferred rate amount, determination....137(4.3)
. private — see Private corporations
. property loaned or transferred to
. . attribution rules....74.4(1)–(3)
. . benefit of spouse or minors....74.4(2)
. . calculation of amount....74.4(3)
. . exceptions to attribution rules....74.5(12)–74.5(13)
. . paid-up capital computation....85(2.1)
. . partnerships, from....85(2)
. . shareholder, from....85(1)
. . tax deferred transfer....85(1)
. public — see Public corporations
. qualified activities
. . defined for manufacturing and processing....Reg. 5202
. qualified related
. . defined....219(8)
. . tax deferred account....219(5.3)
. . . defined....219(7)
. qualifying, defined....127.1(2)
. railways — see Railway companies
. rate of tax — see Tax rates
. rate reduction — see Tax rates
. reduction of capital, deemed dividend....84(4)
. refundable tax — see Refundable tax, dividends; Refundable tax, net investment income of CCPC; Refundable tax, scientific research; Refundable tax, share-purchase
. related....112(2.9); 248(14)
. . deductions re scientific research....37(1.1)
. . transfer of dividend tax liability, restrictions....191.3(4)
. related group, controlled by....251(5)
. reorganization of capital — see Capital reorganizations
. reorganizations
. . amalgamation of related corporations....55(3.5)
. . butterfly transactions....55
. . cross-border mergers....128.2
. . foreign spin-off....86.1
. . unlisted shares deemed listed....55(6)
. resident in Canada, dividends....12(1)(j)
. resource income....Reg. 5203
. returns — see Returns
. safe-income determination time, defined....55(1)
. share for share exchange....85.1
. shares of parent corporation on merger....87(9)
. small business corporations — see Small business
. small business development bonds — see Small business development bonds
. special products, drilling and exploration expense deductions....66(2)
. specified
. . defined....55(1)
. . distribution of assets by....55(3.02)
. . wholly owned, defined....55(1)
. specified holding
. . defined....Reg. 5100(1)
. specified personal — see Personal corporations, specified
. status....Reg. 4800(1)
. . 1972 taxation year....A.R. 50(1)
. . amalgamation....Reg. 4800(3)
. . conditions prescribed....Reg. 4800(2)
. . designation by Minister pre–1972....A.R. 50(3)
. stock dividends — see Dividends
. stock options — see Options
. subsidiary controlled — see Subsidiaries
. subsidiary wholly-owned — see Subsidiaries
. substantial interest of shareholders....191(2); 191(3)
. successor — see Successor corporations
. tax credits — see Large corporations tax credit
. tax exempt, capital dividend account....89(1.2)
. tax rate — see Tax rates
. taxable Canadian
. . defined....248(1)
. . shares of parent on merger....87(9)
. . winding-up of subsidiary....88(1)
. taxable income earned
. . provincial abatement....124
. transactions, books and records retention....Reg. 5800(1)
. trust — see Trust and loan corporations
. undistributed income — see Income, undistributed
. wholly-owned, defined....85(1.3)
. winding-up — see Winding-up

Cost amount
. defined....248(1)

Cost base, adjusted — see Adjusted cost base

Cost of capital — see Capital

Costs
. actual, defined....A.R. 26(13)–(17.1)

Section

Costs — continued
. amortized
. . Canadian assets of Insurers....138(13)
. . defined....248(1)
. . insurer's Canadian assets....138(13)
. . obligation, defined....A.R. 26(12)
. construction soft costs — see Construction soft costs
. litigation, collection by Crown....222.1
. trust interest....248(25.3)

Costume (for rental)
. CCA rate....Reg. Sch. II, Class 12

Countries
. designated....Reg. 8006
. prescribed re foreign tax credit....Reg. 1600

Credit unions
. 1971 reserves....A.R. 58(5)
. allocation of taxable dividends and capital gains....137(5.1); 137(5.2)
. allocations in proportion to borrowing....137(2)–(5)
. amalgamation, Quebec....87(2.3)
. bonus interest payment, defined....137(6)
. computation of income....137; A.R. 58(1)
. deductions from income....137(7); A.R. 58(1)
. deemed not to be private corporation....137(7)
. defined....137(6); 248(1)
. depreciable cost, defined....A.R. 58(5)
. member, defined....137(6)
. member's income....137(5)
. non-capital losses, exceptions....A.R. 58(1.1)
. payments to members deemed interest....137(4.1)
. . not dividends....137(4.2)
. preferred rate amount determination....137(4.3)
. related....181.3(5)
. reserves
. . acquiring assets of another credit union....A.R. 58(3.4)
. . amalgamation of credit unions....A.R. 58(3.3)
. . maximum cumulative....137(6); A.R. 58(3.2)

Creditors
. secured, defined....224(1.3)
. seizure of property....79.1
. . adjustment....79.1(5)
. . bad, doubtful and impaired debts....79.1(8)
. . capital gains reserves....79.1(3)
. . cost to creditor....79.1(6)
. . creditor defined....79.1(1)
. . debt defined....79.1(1)
. . exception re foreign resource property....79.1(2.1)
. . inventory reserves....79.1(4)
. . person defined....79.1(1)
. . property defined....79.1(1)
. . seizure defined....79.1(2)
. . specified amount defined....79.1(1)
. . specified cost defined....79.1(1)
. . treatment of debt....79.1(7)
. surrender of property by debtor....79
. . creditor defined....79(1)
. . debt defined....79(1)
. . defined....79(2)
. . employee or shareholder debt....79(5)
. . foreign exchange....79
. . proceeds of disposition....79(3)
. . property defined....79(1)
. . specified amount defined....79(1)
. . subsequent payment by debtor....79(4)
. . surrender is not payment....79(6)

Credits — see Tax credits

Crown
. charges, reimbursement....80.2
. corporations
. . CCA rate, pre–1974 assets....Reg. Sch. II, Class 25
. . deductions....124(3)
. . exemptions....149(1)(d)–(d.6); 149(1.1)–(1.3)
. . land transfer profits....27(3)
. . large corporations tax....181.71
. . liability for Part IV.1 tax....187.61
. . liability for Part VI tax....190.211
. . liability for Part VI.1 tax....191.4(3)
. . prescribed federal....Reg. 7100
. . taxability....27
. officials, allowances not taxable....6(1)(b)(iii)
. resource output acquired from....69(7); 69(9)
. resource output disposed of to....69(8)
. royalties — see Royalties
. total ecological gift to....118.1(1)
. total gift to....118.1(1)

Cultural property
. capital gain....39(1)
. gift of, deductions....118.1(7.1)
. tax payable on dispositions....207.3

Culverts
. CCA rate....Reg. Sch. II, Class 1

Cumulative eligible capital — see Capital

Cumulative offset account — see Exploration and development expenses

Section

Currency — see Foreign currency

Cutlery
. CCA rate....Reg. Sch. II, Class 12

D

Dams
. CCA rate....Reg. Sch. II, Class 1

Data communication equipment
. capital cost allowance....Reg. Sch. II, Class 3, 17, 42

Data network infrastructure equipment
. CCA....Reg. 1104(2); Reg. Sch. II, Class 46

Data processing equipment
. CCA
. . defined....Reg. 1104(2)
. . rate....Reg. Sch. II, Class 10, 29, 50, 52
. . separate class....Reg. Sch. II, Class 45

Daughter-in-law
. as child of taxpayer....252(1)

Dealers
. exploration expenses....66(5)

Death benefits
. defined....248(1)
. income inclusion....56(1)(a)(iii)
. lump-sum payments
. . 1971–1974....A.R. 40
. withholding of tax....153(1)(d)

Death duties
. interest deductible....60(d)
. property subject to....60(m.1)

Death of taxpayer — see Deceased persons; Funeral arrangements, eligible

Debentures — see Bonds and debentures

Debt — see also Bonds and debentures; Debt obligations; Loans
. distress preferred shares....80.02
. . deemed settlement....80.02(7)
. foreign currency debt
. . acquisition of control....111(12)
. . defined....111(8)
. . gains and losses....40(10)–40(11)
. forgiveness rules — see Debt forgiveness rules
. non-qualifying, defined....70(8)
. parking....80.01(6)
. . deemed settlement....80.01(8)
. . parked obligation....80.01(7)
. settlement, deemed....80.01
. . amalgamations....80.01(3)
. . application....80.01(2)
. . commercial debt obligation defined....80.01(1)
. . commercial obligation defined....80.01(1)
. . debt parking....80.01(6); 80.01(8)
. . debtor defined....80.01(1)
. . distress preferred share defined....80.01(1)
. . foreign currency transactions....80.01(11)
. . forgiven amount defined....80.01(1)
. . parked obligation....80.01(7)
. . specified cost defined....80.01(1)
. . statute barred debt....80.01(9)
. . subsequent payment....80.01(10)
. . winding-up....80.01(4), (5.1)
. surrender of property by debtor....79
. . creditor defined....79(1)
. . debt defined....79(1)
. . defined....79(2)
. . employee or shareholder debt....79(5)
. . foreign exchange....79
. . proceeds of disposition....79(3)
. . property defined....79(1)
. . specified amount defined....79(1)
. . subsequent payment by debtor....79(4)
. . surrender is not payment....79(6)
. tax debts — see Tax debts
. testamentary, defined....70(8)

Debt forgiveness rules....80
. amalgamation....87(2)(l.21)
. application....80(2)
. capital loss in current year....80(12)
. capital property....80(9)
. commercial debt obligation defined....80(1)
. commercial obligation defined....80(1)
. cumulative eligible capital....80(7)
. debtor defined....80(1)
. deduction from income....20(1)(uu)
. deferred recognition on settlement....80.03
. depreciable property....80(5)
. depreciable property restriction....80(6)
. directed person defined....80(1)
. distress preferred shares defined....80(1)
. eligible Canadian partnership defined....80(1)
. excluded obligation defined....80(1)
. excluded property defined....80(1)
. excluded security defined....80(1)
. forgiven amount
. . defined....80(1)
. . transferred....80.04

Section

Debt forgiveness rules — continued
. gains on dispositions....80.03
. gross tax attributes....80(14.1)
. income inclusion....12(1)(z.3); 80(13)
. loss reduction, capital....80(4)
. loss reduction, non-capital....80(3)
. Minister's designation....80(16)
. obligations issued for purposes of....248(26)
. partners....80(15)
. partnership designations....80(18)
. partnership interest....80(11)
. relevant loss balance defined....80(1)
. reserves
. . add-back....56.2–56.3
. . corporations....61.3–61.4
. . individuals....61.2
. residual balance....80(14)
. resource expenditures....80(8)
. shares and debt....80(10); 80(11)
. successor pool defined....80(1)
. surrender of capital property....80.03
. transfers of forgiven amounts....80.04
. unrecognized loss defined....80(1)

Debt obligations — see also Bonds and debentures; Debt; Loans
. accrued interest....20(14); Reg. 7000
. . information return....Reg. 211
. adjusted cost base....84.2
. . amounts deducted....53(1)(g); 53(2)(i)
. . indexed obligations amounts....53(1)(g.1)
. amalgamation, received on....A.R. 26(23)
. amortized cost of....A.R. 26(12)
. amounts paid to undertake in future
. . deductions....20(24); 20(25)
. assignment by non-residents....214(14)
. bad debts — see Bad debts
. bearer form
. . defined....Reg. 201(7)
. . information return....Reg. 201(6)
. cash purchase ticket for grain....76(4)
. debtor's gain on settlement....Reg. 5400–Reg. 5401
. . outstanding on January 1, 1972....A.R. 26(1.1)
. deductions re overaccruals....20(21)
. defined....204; A.R. 26(12)
. discount, taxability
. . deduction from income....20(1)(f)
. . issued by exempt persons....16(2); 16(3)
. distress preferred shares....80.02
. . deemed settlement on expiry....80.02(7)
. . substitution....80.02(3)–(6)
. doubtful debts
. . deductibility where change of control....111(5.3)
. exception re interest in prescribed debts....12(9.1)
. excluded, defined....214(8)
. financial institutions, held by....142.2–142.6
. . ceasing to be or becoming financial institution....142.6(1)
. . debt acquired in rollover....142.6(5)–142.6(6)
. . deemed disposition rule, exception....142.6(2)
. . financial institution defined....142.2(1)
. . investment dealer defined....142.2(1)
. . mark-to-market property....142.5
. . mark-to-market property defined....142.2(1)
. . property ceasing to be inventory....142.6(4)
. . property not inventory....142.6(3)
. . significant interest....142.2(2)–(4)
. . specified debt obligations....142.2(1); 142.3; Reg. 9004
. . superficial loss rule....142.6(7)
. foreign affiliate's, capital gain or loss on settlement....95(2)(i)
. foreign currency....76.1
. . weak currency....20.3
. foreign tax credit, prescribed countries....Reg. 1600
. forgiveness rules — see Debt forgiveness rules
. identical properties....248(12)
. identification....Reg. 807
. impaired loans
. . indexed debt obligations....16(7)
. . restriction on reserve....12(4.1)
. income, securities in lieu of....76
. indexed....16(6)
. . adjustments to cost base....53(1)(g.1); 53(2)(l.1)
. . defined....16(6); 248(1)
. . definitions re....Reg. 7001(7)
. . impaired obligations....16(7)
. . information returns....Reg. 201(4.1)–Reg. 201(4.2)
. . prescribed interest....Reg. 7001
. interest, deductibility....20(14.1)
. interest income
. . deemed accrual....12(9)
. . exception....12(3)–(11)
. interest payable, computation....18(9.2)–18(9.8)
. lending assets, defined....248(1)
. limitations re inclusions, deductions and tax credits....248(28)
. long-term, defined....190(1)
. non-resident being assigned at discount
. . deemed resident....214(9)

Section

Debt obligations — continued
. non-resident selling at discount
. . reduction of tax....214(10)
. . taxation of resident....16(2); 16(3); 214(7); 214(7.1)
. non-residents
. . moving debt from Canadian business....76.1
. non-taxable
. . defined....240(1)
. . identification....Reg. 807
. owned by corporation, adjusted cost base....53(2)(p)
. part of a larger obligation....248(27)
. predecessor corporation, of....87(6)–87(7)
. premium, defined....A.R. 26(12)
. prescribed....Reg. 6210; Reg. 7000
. . disposition proceeds as exempt income....12(9.1)
. . tax exemption for international organizations....Reg. 806.2
. prescribed security converted or exchanged to....Reg. 6208
. principal amount
. . defined....248(1); A.R. 26(1.1)
. . non-deductible....18(1)(f)
. . outstanding, January 1, 1972....A.R. 26(1.1)
. publicly-traded liability
. . defined....122.1(1)
. . unaffiliated, defined....122.1(1)
. qualified investments....Reg. 4900
. qualifying
. . defined....Reg. 5100(1)
. . defined for small business bonds....15.2(3)
. . defined for small business development bonds....15.1(3)
. . small business corporation's....15.1(3)
. security in satisfaction of income debt....76(1)
. settlement by foreign affiliate....80.1(5)
. specified
. . beginning to use in Canadian business....142.6(1.2)
. . ceasing to use in Canadian business....142.6(1.1); 142.6(1.3)
. . disposition by financial institutions....Reg. 9200–9204
. . disposition of....142.4
. . financing arrangements....Reg. 9004
. . foreign bank branches....142.7(5)
. . income from....142.3
. . income from disposition....Reg. 9100–9104
. . predecessor corporation....87(2)(e.3)
. . prescribed property....Reg. 9004
. taxable and non-taxable, defined....240(1)
. transfer of
. . transferee's deductions....20(14)(b)
. . transferor's income of accrued interest....20(14)(a)
. weak currency....20.3

Deceased persons
. accrual of periodic payments....70(1)
. alternative method year-end
. . additional business income....34.1(8)
. . partner or proprietor....34.1(9)
. amounts receivable....70(2)
. capital cost of depreciable property....70(13)–70(14)
. capital property....70(5)
. capital stock of corporation, fair market value....70(5.3)
. charitable donation
. . life insurance....118.1(5.1); 118.1(5.2)
. . RRSP, RRIF or TFSA proceeds....118.1(5.3)
. . by will....118.1(5)
. . in year of death....118.1(4)
. child tax benefit....122.62(5)
. computation of income
. . amounts received in year of death....70(1)
. deductions from income
. . net capital losses....111(2)
. definitions related to....70(8)
. depreciable and other property
. . election by legal representative....70(6.2)
. . transfer to spouse or trust....70(6)
. disposal of estate, capital gains or losses....164(6)
. disposition of employee stock options....164(6.1); Reg. 1000.1
. distribution of property
. . clearance certificate....159(2)
. election
. . filing of return, revocation....70(2); 70(4)
. . joint re reserves....72(1)
. . legal representatives re property....70(6.2); Reg. 1000
. . payment of taxes....159(5)–159(7)
. eligible capital property, rules applicable....70(5.1)
. funeral expenses, prepaid — see Funeral arrangements, eligible
. income averaging annuity contract payments....61.1(2)
. income from RRIF....146.3(5.5)
. interests in foreign investment entities....70(5.2)
. land inventories....70(5.2)
. life insurance policies, transfer exceptions....70(3.1)

Section

Deceased persons — continued
. lifelong learning plan....146.02(6)
. . election....146.02(7)
. loss on disposition of deceased's shares....53(2)(t)
. member of partnership....96(1.5)
. net capital loss
. . credit....111(2); 164(6)
. net income stabilization account (NISA) fund
. . payments from....70(5.4)
. . transfer to spouse or trust....70(6.1)
. property disposition, election by legal representative....70(6.2); Reg. 1000
. reserves
. . joint election by spouse and personal representative....72(1)–72(2)
. resource property....70(5.2)
. RESP, tax payable....204.91(4)
. returns — see Returns
. RPP contributions....147.2(6)
. RRIF annuitant....146.3(3.1); 146.3(6)–(6.4)
. RRSP refund of premiums....146(8.1)
. tax payment, election....Reg. 1001
. transfer of
. . farming/fishing property to child....70(9)–(9.8)
. . farming/fishing property to parent....70(9.6); A.R. 26(18)
. . partnership interest....98.2; 100(3)
. . property....248(8)
. . rights to beneficiaries....69(1.1); 70(3); 70(3.1)
. . rights to spouse or trust....70(6)–70(7)
. . small business investments....44.1(4)
. trust, capital gains or losses....70(7)
. valuation of income assets....70(2)

Deductions from income — see also Capital cost allowance; Exemptions
. 1948 Act, under....A.R. 17(6)–A.R. 17(7)
. accrued bond interest....20(14)
. accumulated averaging amount — see Income averaging
. additional business income....34.1(3)
. advertising expenses
. . limitations....19(1)
. . newspapers ceasing to be Canadian....19(7)
. . newspapers held in trust....19(6)
. . non-Canadian special issues....19(3)
. . periodicals directed at Canadian market....19.01
. aircraft traveling costs, presumption....8(9)
. allowed....8
. amounts deemed to be tax payable....20(1)(ll)
. amounts in part for property disposition
. . election re future obligations....20(25)
. . paid for future obligations....20(24)
. amounts paid by employer under salary deferral arrangement....20(1)(pp)
. annual adjustment for inflation....117.1
. annual dues....8(1)(i)
. annual fees, etc....20(1)(e.1)
. annuity contract payments
. . aggregate....Reg. 303(2)
. . on cancellation or termination....Reg. 303(1)
. . excessive....20(19)
. annuity payments, capital element....60(a); Reg. 300(1)
. apprentice mechanic's tools....8(1)(r); 8(6)
. apprenticeship incentive grant
. . repayment....60(p)
. artist's employment expenses....8(1)(q)
. attendant care expenses....64
. automobile cost of use, recapture....13(11)
. automobile expenses....18(1)(r)
. . interest on borrowed money....67.2
. . leasing cost limitation....67.3
. . more than one owner or lessor....67.4
. bad debts....20(1)(p)
. . contingent bank accounts....26(2)
. . property disposition proceeds....20(4)
. . restrictive covenants....60(f)
. bank reserves....26(2)
. base level deductions
. . allocation of amount....18(2.4)
. . associated corporation's....18(2.3)
. . leasing, rental or sale of real property....18(2)(f)
. . special rules....18(2)–(2.5)
. building disposition losses....13(21.1)
. . restriction where tax cost exceeding proceeds....13(21.2)
. business discontinuation
. . partners' entitlement....24(3)
. business expenses — see Expenses
. business losses — see Losses, business
. Canada Disability Savings Act repayments....60(z)
. Canada Education Savings Grants repayments....60(x)
. Canada Pension Plan
. . contributions....8(1)(l.1)
. . contributions for self-employment....60(e)
. . overpayment repaid....60(n)
. Canadian exploration expenses — see Exploration and development expenses

Section

Deductions from income — continued
. Canadian Forces missions....110(1)(f)(v); Reg. 7500
. capital cost allowance — see Capital cost allowance
. capital gains deduction — see Capital gains
. carved-out income....66(14.6)
. charitable gifts....110(2)
. child care benefit repayments....60(y)
. child care expenses....63(1)
. . deemed resident's....64.1
. . definitions related to....63(3)
. . equal income of supporter and recipient....63(2.1)
. . income exceeding income of supporting person....63(2)
. . student taxpayer....63(2.2)–63(2.3)
. clergy residence expenses....8(1)(c)
. construction soft costs....20(29)
. . capitalization of interest on loans....18(3.2)
. . commencement of foundation....18(3.7)
. . completion time of construction....18(3.3)
. . delayed construction....18(3.6)
. . exceptions....18(3.4); 18(3.5)
. . limitations....18(3.1)
. contributions
. . CPP/QPP re self-employment....60(e)
. . premium, Employment Insurance Act....8(1)(l.1)
. . Quebec parental insurance plan....8(1)(l.2); 60(g)
. convention expenses....20(10)
. corporations
. . adjusted cost base determination....53(2)
. . interest on income bonds....15(3); 15(4); 18(1)(g)
. . loans between non-residents....15(2.2)
. . loans to foreign affiliates....15(2.1)
. . loans to partnership....15(2); 15(7)
. . loans to shareholders, etc....15(2); 15(7)
. cost....8(7)
. cost of borrowed money
. . capitalization election....21
. . reassessment....21(5)
. cost of supplies consumed in performance of duties....8(1)(i)
. CPP/QPP contributions for self-employment....60(e)
. credit unions....137; A.R. 58(1)
. Crown charge reimbursements....80.2
. cumulative eligible capital amount....20(1)(b)
. . business ceasing....24(1)
. death duty interest....60(d)
. debt forgiveness rules....20(1)(uu)
. debt obligations overaccruals....20(21)
. debt transferor's accrued interest....20(14)(b)
. deceased persons, net capital losses....111(2)
. Deductions from income....20(1)
. depletion....65(1)
. . coal mine lessee....65(3)
. . shareholder's portion....65(2)
. depletion allowance, supplementary....Reg. 1212(1)
. deposit insurance corporation
. . limitations....137.1(3)–137.1(4)
. disability-related equipment cost....20(1)(rr)
. disability supports....64
. discounts on certain obligations....20(1)(f)
. dividend distribution expenses....20(1)(g)
. dividend on share from foreign affiliate....20(13); 113
. dues and expenses for performing duties....8(1)(i)
. duty, countervailing or anti-dumping....20(1)(vv)
. earned depletion allowance....Reg. 1201
. eligible tool....8(6.1)
. employee benefit plan contributions
. . limitations....18(1)(o); 18(10); 32.1(1)
. employee profit sharing plan forfeitures....8(1)(o.1)
. employee stock options....110(1)(d); 110(1)(d.1)
. employees of international organizations....110(1)(f)
. employer contributions
. . deferred profit sharing plans....20(1)(y)
. . pension fund contributions....20(1)(q)
. . profit sharing plans....20(1)(w); 144(5)
. . retirement compensation arrangements....20(1)(r)
. . supplementary unemployment benefits plan....20(1)(x)
. employment insurance
. . appeal costs....60(o)
. . benefits repayment....60(v.1)
. . overpayment repaid....60(n)
. environmental trusts, qualifying
. . contributions....20(1)(ss)
. . cost....20(1)(tt)
. estate-tax-paid benefits....60(m)
. estates and trusts....104(6)
. . amounts payable to preferred beneficiaries....104(13)
. dividends from non-resident investment corporation....104(11)
. . not allowed....104(7)
. . Part XII.2 tax....104(30)–(31)
. preferred beneficiary....104(12); 104(14)
. property held for non-resident....104(10)
. . testamentary trusts'....104(23)
. estimated deductions defined....Reg. 100(1)

Section

Deductions from income — continued
. expenses — see Expenses
. exploration and development expenses — see Exploration and development expenses
. farm losses....111(1)(c)
. . limitation....111(6); 111(7)
. farmers
. . clearing land....30
. . disposal of animals of basic herd class....29
. fees paid to reduce interest rate on borrowing....18(9.1)
. financial reports printing costs....20(1)(g)
. fines, prohibition....67.6; Reg. 7309
. flow-through shares, Part XII.6 tax....20(1)(nn)
. food and beverage expenses
. . truck drivers....67.1(5)
. food and beverages expenses
. . cost of food, etc., as part of convention fees....67.1(3)
. . cost of food, etc., as part of traveling ticket, exemption....67.1(4)
. . deduction limitations....67.1(1)
. . exceptions....67.1(2)
. . truck drivers....67.1(1.1)
. . work camp....67.1(2)
. foreign affiliate's consolidated group....Reg. 5907(1.2)
. foreign broadcasting undertaking, exception....19.1(1)–19.1(2)
. foreign corporation income
. . attribution to sources....126(6)
. foreign non-business income tax....20(12)
. foreign resource expenses....66.21(4)
. foreign taxes — see Foreign tax deductions
. foreign universities, contributions....Reg. Sch. VIII
. franchise representation expenses....13(12)
. . election....20(9)
. frontier exploration allowances....Reg. 1207
. general limitation....8(2)
. general provisions re expenses....18(1)(a)
. gifts by corporations
. . capital property....110.1(2.1)–(3)
. . charitable....110.1(1)(a)
. . ecological gifts....110.1(1)(d)
. . eligible medical gifts....110.1(1)(a.1); 110.1(8); 110.1(9); Reg. 3505
. . to Her Majesty....110.1(1)(b)
. . to institutions....110.1(1); 110.1(1)(c)
. . limitation....110.1(1.1); 110.1(1.2)
. . partnership, by....110.1(4)
. . proof of....110.1(2)
. . where control acquired....110.1(1.2)
. group term life insurance premiums....18(9.01)
. home office....8(13)
. illegal payments....67.5(1)
. income averaging annuities....61
. income from a source....4(2)–(3)
. indexing for inflation....117.1
. insurance corporations
. . deemed allowed on depreciable property....13(22)
. . insurance premium refunds....140(1)
. . profit or loss on securities....138(3); 140(1)
. interest on borrowed money
. . to acquire annuity contracts....20(1)(c)(iv)
. . to acquire land....18(2)
. . car or aircraft for employment....8(1)(j)
. . to earn income....20(2)–(3); 20(14.1)
. . general....20(1)(c)
. . loss of income source....20.1
. . passenger vehicle....67.2
. . provisions disallowing....18(11)
. . repayment amount previously included as income....20(1)(ll)
. interest paid to non-residents
. . conditional loans....18(6)
. . deduction limitations....18(4)–(6)
. . outstanding debts to specified non-residents....18(5)
. . thin capitalization....18(4)–(6)
. interest share-purchase loan....20(1)(qq)
. international banking centres
. . disallowed....33.1(10)
. . exceptions....33.1(9)
. inventory adjustment costs....20(1)(ii)
. inventory allowance
. . reduction in....20(17)
. investment counsel fees....20(1)(bb)
. landscaping costs....20(1)(aa)
. lease cancellation expenses....18(1)(q); 20(1)(z); 20(1)(z.1)
. legal expenses....60(o); 60(o.1)
. . employees....8(1)(b)
. legislative assembly members....81(2)
. lessee of oil, gas wells, mine or timber limit....65(3)
. licence representation expenses....13(12)
. life insurance corporations
. . deemed allowed....13(23)
. . disallowed....138(5)–(5.2); 138(8)
. . disallowed foreign taxes....138(8)

Section

Deductions from income
. life insurance corporations — continued
. . dividends....138(6)
. . excess policy dividend....138(3)–(7)
. life insurance premiums assigned as collateral for loan....20(1)(e.2)
. life policies issued pursuant to various plans....20(2.2)
. life policies overaccruals....20(20)
. limitations....18(1)
. . advertising expenses....19(1)
. . amounts previously deducted....248(28)
. . annual value of property....18(1)(d)
. . capital outlay or losses....18(1)(b)
. . construction soft costs....18(3.1)
. . employer's contributions to plans....18(1)(i)–(k)
. . exempt expenses....18(1)(c)
. . foreign broadcasting undertaking....19.1(1)
. . interest on borrowed money....18(11)
. . interest on land....18(2)
. . interest paid to specified non-residents....18(4)–(6)
. . lease cancellation expenses....18(1)(q)
. . limited partnership losses....96(2.1); 111(1)(e)
. . newspapers, ceasing to be Canadian....19(7)
. . newspapers held in trust....19(6)
. . personal services business expenses....18(1)(p)
. . prepaid expenses....18(9)
. . prepaid expenses of insurers....18(9.02)
. . recreational facilities and club dues....18(1)(l)
. . substituted property....18(13)–(16)
. . work space in home....18(12)
. loans, etc., acquired in ordinary course of business....20(27)
. loans or lending assets of insurers....18(1)(s)
. lobbying costs....20(1)(cc)
. losses — see Losses
. lump sum payments....110.2
. matchable expenditures — see Matchable expenditures
. meals by employees....8(4)
. medical expenses — see Medical expenses
. members of religious orders....110(2)
. mining allowances....Reg. 1209
. mining corporations
. . Canadian exploration and development expenses....66(3)
. . Canadian exploration and development expenses incurred 1952–1972....A.R. 29(2)–(5)
. mining exploration expenses....Reg. 1203
. mining taxes....20(1)(v); Reg. 3900
. mortgage discount incurred by property vendor....20(5)
. moving expenses....62(1)
. . students....62(2)
. musical instrument costs....8(1)(p)
. mutual fund trusts
. . designated amounts of units....132.1(3)
. . negative amounts....257
. . negative policy reserves....20(22)
. net capital losses....111(1)(b); 111(1.1)
. . deceased persons....111(2)
. net reserve adjustment....20(26)
. non-capital losses....111(1)(a)
. non-resident-owned investment corporations....133(2)
. office rent....8(1)(i)
. oil and gas wells — see Oil and gas wells
. old age security clawback....60(w)
. old age security overpayment repaid....60(n)
. overaccruals
. . debt obligations....20(21)
. . life policies....20(20)
. Part VI.1 tax....110(1)(k)
. partnership losses, limitations....96(2.1); 111(1)(e)
. partnerships....96(1.3)
. . business discontinuation....24(3)
. past service voluntary contributions to RPP....60.2
. patronage dividends
. . carryover....20(1)(u); 135(1); 135(2.1)
. . non-arm's length customers....135(1.1)
. . non-member customers....135(2)
. payments made under tax Act....18(1)(t)
. payments on discounted bonds....18(1)(f)
. payments to registered pension plans....60(j.02)
. . pre–1988....60(j.01)
. penalties, prohibition....67.6; Reg. 7309
. penalties on debt repayment....18(9.1)
. pension fund contributions, employees....8(1)(m)
. pension income splitting....60(c)
. permit representation expenses....13(12)
. personal or living expenses....18(1)(h)
. personal services business expenses....18(1)(p)
. petroleum and natural gas corporations
. . expenses incurred 1949–1952....A.R. 29(1)
. . transitional provisions....66(3)
. police on deployed missions....110(1)(f)(v); Reg. 7500
. policy loan repayments....60(s)
. political party contributions....18(1)(n)

Section

Deductions from income — continued
. premium, Quebec parental insurance plan ... 8(1)(l.2); 60(g)
. prepaid expenses, limitations ... 18(9)
. . insurers ... 18(9.02)
. private health service plan premiums ... 20.01
. professional business income ... A.R. 23(3)–(5)
. professional membership dues
. . limitation ... 8(5)
. property acquisition grants ... 13(7.1); 13(7.4)
. property cost ... 20(1)(a)
. property sold in course of business
. . reserve disallowed ... 20(8)
. . reserve for unpaid amounts ... 20(1)(n)
. property tax on land ... 18(2)
. prospectors and grubstakers ... 110(1)(d.2)
. RCA contributions
. . employees' ... 8(1)(m.2)
. . provincial pension plans ... 60(v); 60.02
. RCA distributions ... 60(t)
. RCA interest disposition proceeds ... 60(u)
. reasonable expectation of profit ... 3.1
. reasonable expenses ... A.R. 31
. refund of income payments ... 60(q)
. reimbursement of Crown charges ... 80.2
. reimbursement of disability top-up payment ... 8(1)(n.1)
. reimbursement payments repaid ... 20(1)(hh)
. religious order, member of ... 110(2)
. repayment of amounts previously included as income ... 20(1)(m.2)
. repayment of inducements ... 20(1)(hh)
. repayment of interest previously included as income ... 20(1)(ll)
. repayment of loans by shareholders ... 20(1)(j)
. representation expenses ... 13(12)
. reserves
. . amounts from proceeds of disposition ... 40(1.1); 44(1.1)
. . amounts not due until later year ... 20(1)(n)
. . disallowed ... 20(8)
. . doubtful debts ... 20(1)(l)
. . exceptions ... 20(7)
. . guarantees, etc. ... 20(1)(l.1)
. . limitations ... 20(6)
. . manufacturer's warranty ... 20(1)(m.1)
. . net reserve adjustment ... 20(26)
. . quadrennial surveys ... 20(1)(o)
. . services not rendered ... 18(1)(e); 20(1)(m)
. residence in prescribed area ... 110.7
. . restrictions ... 110.7(3)
. . specified percentage ... 110.7(2)
. resource allowance ... 20(1)(v.1)
. resource expenses of limited partner ... 66.8(1)–(3)
. resource processing allowances ... Reg. 1200–1218
. . prescribed deductions ... Reg. 1213
. retirement compensation arrangement — see Retirement compensation arrangement
. retiring allowance
. . repayment ... 60(n)
. . transferred ... 60(j.1)
. royalties ... 18(1)(m); 80.2
. RPP contributions
. . employee contributions ... 8(1)(m)
. RRIF
. . fees non-deductible ... 18(1)(u)
. . non-deductible premiums ... 146(8.2); 146(8.21)
. . payments ... 60(i)
. RRSP
. . amendment of return ... 152(6)
. . fees non-deductible ... 18(1)(u)
. . payments ... 60(i)
. . premiums ... 60(l); 146(5)
. . recontributions of withdrawals ... 146(6.1)
. . transfer of refund ... 60(l)
. salary deferral amounts, forfeited ... 8(1)(o); 12(1)(n.2)
. salary deferral arrangement expenses
. . deductions allowed for non-residents ... 20(1)(oo)
. . disallowed ... 18(1)(o.1)
. salary payable by employee to assistant ... 8(1)(i)
. salary reimbursement ... 8(1)(n)
. salesmen ... 8(1)(f)
. scientific research expenses
. . deemed time of ... 37(1.2)
. . related corporation's business ... 12(1)(v); 37(1.1); Reg. 2900
. separate returns, aggregate amount ... 114.2
. share exchange losses ... 112(7)
. share listing fees ... 20(1)(g)
. share transfer fees ... 20(1)(g)
. shareholders, foreign affiliate ... 113
. shares returned by employee to issuer ... 8(12)
. ships and vessels
. . capital cost allowance ... 13(13)–(20)
. . conversion costs ... 13(14); 13(17)
. . reassessment ... 13(18)
. sinking funds ... 18(1)(e)
. site investigation costs ... 20(1)(dd)
. small business — see Small business

Section

Deductions from income — continued
. social assistance ... 110(1)(f)
. soft costs — see Construction soft costs
. special productions corporations ... 66(2)
. split income ... 20(1)(ww)
. split-pension amount ... 60(c)
. station agents ... 8(1)(e)
. succession duty interest ... 60(d)
. succession duty-paid benefits ... 60(m.1)
. superannuation benefits ... 60(j)
. . amounts eligible ... 60.01
. . amounts transferred to testamentary trust from DPSP ... 104(27.1)–(28)
. supplementary depletion allowances ... Reg. 1212(1)
. support payments
. . agreement ... 60.1(1)
. . general ... 60(b)
. . prior payment ... 60.1(3)
. . repayment ... 60(c.2)
. . third party payments ... 60.1(1)
. tax appeal expenses ... 60(o)
. taxable dividends ... 112(1); 112(2)
. teachers' exchange fund contributions ... 8(1)(d)
. terminal losses, excess amount not deductible ... 20(16)–(16.3)
. trade union membership dues, limitation ... 8(1)(i); 8(5)
. trademark representation expenses ... 13(12)
. tradesperson's tools ... 8(1)(s)
. transfer to spousal RRSP ... 60(j.2)
. transport employees ... 8(1)(g)
. traveling expenses ... 8(1)(h)
. . certificate of employer ... 8(10)
. . use of personal vehicle ... 8(1)(h.1)
. treaty-exempt income ... 110(1)(f)(i)
. trusts — see Trusts
. tuition assistance for adult education ... 110(1)(g)
. uncollectible portion of property disposition proceeds ... 20(4)–(4.2)
. United Nations employees ... 110(1)(f)(iii)
. unpaid claims under insurance policies ... 18(1)(e.1)
. unpaid remuneration ... 78(3)
. utilities service connection ... 20(1)(ee)
. Western Grain Stabilization Act levy ... 20(1)(ff)
. work space in home ... 8(13)
. . limitations ... 18(12)
. worker's compensation ... 110(1)(f)(ii)

Deductions from tax
. corporations
. . provincial abatement ... 124
. . rate reduction ... 123.4
. exemptions — see Exemptions
. financial institutions ... 190.1(3); 190.1(4)
. . unused Part VI tax credit ... 125.2(1)–125.2(2)
. foreign corporation income ... 126(2)
. foreign tax — see Foreign tax deductions
. income earned in a province providing schooling allowances ... 120(2)
. investment corporations ... 130(1)
. investment tax credit ... 127(5)
. . co-operative corporations ... 127(6)
. . expenditure or acquired property ... 127(12.2)
. . partnerships ... 127(8)
. . refundable ... 127.1(3)
. . trust ... 127(7)
. large corporations tax ... 181.1(4)–(5)
. life insurers, investment income ... 208(2)
. logging tax ... 127(1)
. manufacturing and processing profits
. . electrical energy and steam ... 125.1(2); 125.1(5)
. . percentage determination ... 125.1(1)
. mortgage investment corporations, election ... 130.1(1); 130.1(4.1)
. N.R.O. investment corporations, election ... 133(7.3)
. political contributions ... 127(3)
. scientific research tax credit ... 127.3
. share-purchase tax credit ... 127.2
. small business — see Small business
. taxable dividends ... 121

Deferred income plans
. investments in small business ... Reg. 5100–5104
. liability of trustee ... 207.2(2)
. over-contributions ... 204.1–204.3
. penalty tax ... 207.1
. share acquisition penalty tax ... 207.1(5)
. taxation of property held by ... 207.1–207.2(3)

Deferred profit sharing plans
. acceptance for registration ... 147(2)
. amended contract ... 147(10.5)
. amount contributed to or forfeited in a trust ... 147(10.3)
. amount transferred to testamentary trust ... 104(27.1)–(28)
. appropriation of trust property by employer ... 147(13)
. assets used as security for loan, tax on
. . interest ... 202(5)
. . liability of trustee ... 198(3)

Section

Deferred profit sharing plans
. assets used as security for loan, tax on — continued
. . refund ... 198(1); 198(2); 198(5)
. benefits
. . defined ... 248(1)
. . exclusion of estate-tax-paid part ... 60(m)
. . taxation ... 147(10)–(12)
. ceasing to be a member ... Reg. 8300(10)
. certain property held in trust taxable ... 207.1(2)
. debt obligation, defined ... 204
. deemed not to be employee's profit sharing plan ... 147(6)
. defined ... 147(1)
. election re single payments ... Reg. 1503
. employer contributions
. . deductible ... 20(1)(y); 147(8)
. . deduction limitation ... 147(9)
. . deductions disallowed ... 147(9.1)
. . limitation ... 18(1)(j); 147(5.1)
. equity share, defined ... 204
. excess contributions
. . excess amount, defined ... 204.2(4)
. . return, payment of tax ... 204.3(1)
. . tax payable by individuals ... 204.1(1)
. . tax payable by trust ... 204.1(3)
. excluded property, defined ... 204
. excluded share, defined ... 204
. exempt income ... 147(7); 149(1)(s)
. forfeited amounts, reallocation ... 147(2.2)
. information returns ... 202(1)–202(2)
. initial base, defined ... 204
. interest on money borrowed for premiums, deductibility ... 18(11)
. liability of trustee ... 207.1(2)
. licensed annuities provider, defined ... 147(1)
. life insurance policies, rules ... 198(6)–(8)
. lump-sum payments to beneficiary ... 147(10.1)–(10.2)
. member defined ... Reg. 8300
. non-qualified investments
. . distribution deemed disposition ... 200
. . initial ... 204
. . interest on tax ... 202(5)
. . life insurance policies ... 198(6)–(8)
. . penalty tax ... 207.1(1)
. . refunds ... 198(4); 199(2)
. . tax ... 198(1); 198(2); 199(1)
. . trustee's tax liability ... 198(3); 204; 207.2(2)
. non-vested termination ... Reg. 8301(3)
. out of profit payments ... 147(16)
. participating employer ... 147(1.1)
. payments out of, 1971–1974 ... A.R. 40
. payments to non-residents, election to file return ... 212(1)(m); 217
. pension adjustment reversal ... Reg. 8304.1; Reg. 8402.01
. pension credit ... Reg. 8301(2)–(2.1)
. property appropriations ... 147(13)
. property disposed by
. . inadequate considerations ... 147(18)
. provisions of Part I ... 202(3)
. purchase of annuity ... Reg. 8300(12)
. qualified investment
. . defined ... 204
. . information returns ... Reg. 221(2)
. . prescribed ... Reg. 4900
. receipts as income ... 56(1)(i)
. refund applications, consideration ... 202(2)
. refunds applied to other taxes ... 203
. registration
. . acceptance ... 147(2)
. . date ... 147(5)
. . refusal ... 147(2.1)
. . requirements ... Reg. 1501
. revocation of registration
. . refunds applied to other taxes ... 203
. . rules applicable ... 147(14); 147(14.1); 147(15)
. . transfers not made according to rules ... 147(21)
. share acquisition, penalty tax ... 207.1(5)
. shares disposition, income ... 147(10.4)
. tax on property held by trust ... 207.1–207.2(3)
. tax on transactions for inadequate consideration ... 201
. tax payment, deemed ... 202(6)
. transfers
. . excess amounts ... 147(22)
. . lump-sum payments to other plans ... 147(19); 147(20)
. withholding tax ... 153(1)(h)

Definitions
. 1975-76 excess additional group term reserve ... 138(12)
. 1975-76 excess capital cost allowance ... 138(12)
. 1975-76 excess investment reserves ... 138(12)
. 1975-76 excess policy dividend deduction ... 138(12)
. 1975-76 excess policy reserves ... 138(12)
. 1975 branch accounting election deficiency ... 138(12)

Section

Definitions — continued
. aboriginal government....241(10)
. ACB reduction....44.1(1)
. accredited film or video production certificate....125.5(1)
. accredited production....125.5(1); Reg. 9300
. accumulated 1968 deficit....219(7)
. accumulated income payment....146.1(1)
. accumulated overpayment amount....161.1
. accumulated underpayment amount....161.1
. accumulating fund....Reg. 307(1)
. accumulating income....108(1)
. acquisition, permitted....55(1)
. acquisition cost....A.R. 20(4)
. acquisition fee....138.1(6)
. action....222(1)
. active business....248(1)
. . carried on by a corporation....125(7)
. . of foreign affiliate....95(1)
. . income for the year from....125(7)
. . qualifying....Reg. 5100(1)
. active business corporation....44.1(1)
. active member, RPP....Reg. 8500(1)
. actual cost....A.R. 26(13)–(17.1)
. actuary....147.1(1)
. additional voluntary contributions....248(1)
. adjusted business income
. . corporations with resource income....Reg. 5203(1)
. . manufacturing and processing profits....Reg. 5202
. adjusted cost base....54; 248(1)
. adjusted cost basis....148(9)
. adjusted cumulative Canadian development expense....66(14.3)
. adjusted cumulative foreign resource expense....66.21(1)
. adjusted income
. . child tax benefits....122.6(1)
. . GST credit....122.5(1)
. . medical expense supplement....122.51(1)
. . OAS clawback....180.2(1)
. adjusted net income....122.7(1)
. adjusted principal amount....80.1(7)
. adjusted taxable income....89(1)
. adjustment time....14(5); 248(1)
. administrator....147.1(1); Reg. 226(1)
. adoption expense, eligible....118.01(1)
. adoption period....118.01(1)
. adult, re communal organizations....143(4)
. advantage....205(1); 207.01(1)
. advertisement directed at the Canadian market....19.01(1)
. affiliated group of persons....251.1(3)
. affiliated persons....251.1(1)
. aggregate investment income....129(4); 248(1)
. agreed portion....66(15)
. agricultural business....135.1(1)
. agricultural cooperative corporation....135.1(1)
. allocable income for the year....Reg. 410(2)
. allocations in proportion to borrowing....137(6)
. allocations in proportion to patronage....135(4); Reg. 4901(2)
. allowable business investment loss....38(c); 248(1)
. allowable capital loss....38(b); 248(1)
. allowable refund....133(8); 205(1); 207.01(1)
. allowable refundable tax on hand....133(9)
. alter ego trust....248(1)
. amateur athlete....143.1(1)
. amateur athlete trust....248(1)
. amended act....A.R. 8
. amortized cost....248(1); A.R. 26(12)
. amount....248(1)
. amount payable
. . life policies....Reg. 310
. . policy loan....138(12); 148(9); Reg. 1408(1)
. . trust....104(24)
. amusement park....Reg. 1104(12)
. anniversary day
. . investment contract....12(11)
. . life insurance policy....12.2(11)
. annual annuity amount....61(4)
. annual child care expense amount....63(3)
. annual gains limit....110.6(1)
. annuitant
. . annuity contract....Reg. 304(4)
. . RRIF....146.3(1)
. . RRSP....146(1)
. annuities provider, licensed....248(1)
. annuity....248(1)
. annuity, qualified....Reg. 1408(1)
. annuity, qualifying trust....60.011; 248(1)
. annuity contract, prescribed....Reg. 304(1)
. antecedent corporation....95(1)
. application for a certificate of completion....Reg. 1106(1)
. apprentice mechanic....8(6)
. apprenticeship expenditure....127(9)
. appropriate minister....13(21)
. appropriate percentage....248(1)
. approved project....127(9)

Section

Definitions — continued
. approved project property....Reg. 4604(1); Reg. 4605
. approved share
. . labour-sponsored venture capital corporation....127.4(1)
. . re Part XII.5 tax....211.7(1)
. arm's length allocation....247(1)
. arm's length interest....94.1(1)
. arm's length transfer....94(1)
. arm's length transfer price....247(1)
. arrears interest....161.1
. artistic endeavour....10(8)
. assessable distribution....218.3(1)
. assessable dividend....186(3)
. assessment....248(1)
. assistance
. . exploration and development....66(15)
. . film and video production services credit....125.5(1)
. . film or video production tax credit....125.4(1)
. . prescribed....Reg. 6702
. assistance holdback amount....146.4(1)
. associated corporations....256(1)
. at-risk amount....96(2.2); 127(8.5)
. attributed surplus....219(7); Reg. 2400(1); Reg. 8600
. attributed surplus for the year....Reg. 2405(3)
. authorized foreign bank....248(1)
. authorized person
. . communication of information....241(10)
. . for investigation purposes....231
. automobile....248(1)
. available exempt surplus amount....Reg. 5907(2.83)
. average consumer price index....Reg. 8500(1)
. average wage, RPP....147.1(1)
. balance....152(4.4)
. balance-due day....248(1)
. bank....248(1)
. bankrupt....248(1)
. bankrupt, estate of....248(1)
. base taxation year
. . child tax benefits....122.6(1)
. . OAS clawback....180.2(1)
. base year....12.5(1); 138(12); 142.51(1); Reg. 2400(1)
. basic herd....29(3)
. basic oxygen furnace gas....Reg. 1104(13)
. beneficiary
. . designated....210(1)
. . foreign investment entity....94.1(1)
. . non-resident trust....94(1)
. . resident....94(1)
. . RESPs....146.1(1)
. . restricted meaning....104(1.1)
. . RPP....Reg. 8500(1)
. . successor....94(1)
. . trusts....108(1); 251.1(3)
. benefit
. . bridging....Reg. 8500(1)
. . on death....Reg. 310
. . under defined profit sharing plan....248(1)
. . insurance policy....Reg. 1408(1); Reg. 1900(1)
. . registered disability savings plans....205(1)
. . RRSP....146(1)
. benefits provision....Reg. 8500(1)
. bio-oil....Reg. 1104(13)
. biogas....Reg. 1104(13)
. bituminous sands....248(1)
. bituminous sands equipment....Reg. 1206(1)
. blast furnace gas....Reg. 1104(13)
. block of shares....Reg. 4803(1)
. block of units of trust....Reg. 4803(1)
. blood relationship....251(6)
. bonus interest payment....137(6)
. borrowed money....248(1)
. branch advance....20.2
. branch financial statements....20.2
. breeding animals....80.3(1)
. breeding herd....80.3(1)
. bridging benefits....Reg. 8500(1)
. business....248(1)
. business agency....143(4)
. business income tax....126(7)
. business investment losses, allowable....38(c); 248(1)
. business limit....248(1)
. business number....248(1)
. business property, former....248(1)
. business that is an individual's artistic endeavour....10(8)
. calculating currency....95(1)
. calculation period....20.2
. Canada....255
. Canadian....Reg. 1106(1)
. Canadian affiliate....142.7(1)
. Canadian amateur athletic association, registered....248(1)
. Canadian assets....Reg. 8600

Section

Definitions — continued
. Canadian banking business....248(1)
. Canadian business property....Reg. 2400(1); Reg. 2405(3)
. Canadian-controlled private corporation....125(7); 248(1)
. Canadian corporation....89(1); 248(1)
. Canadian currency year....261(1)
. Canadian development expenses....66.2(5); 248(1)
. . adjusted cumulative....66(14.3)
. . cumulative....66.2(5)
. Canadian equity property....Reg. 2400(1); Reg. 2405(3)
. Canadian exploration and development expenses....66(15); 248(1)
. Canadian exploration and development overhead expenses....Reg. 1206(1); Reg. 1206(4.2)
. Canadian exploration expenses....66.1(6); 248(1)
. . cumulative....66.1(6); 248(1)
. Canadian field processing....248(1)
. Canadian film or video production....125.4(1); Reg. 1106(4)
. Canadian film or video production certificate....125.4(1)
. Canadian government film agency....Reg. 1106(1)
. Canadian investment fund....219(7); Reg. 2400(1); Reg. 2405(3)
. Canadian investment fund for the year....Reg. 2405(3)
. Canadian investment property....Reg. 2400(1); Reg. 2405(3)
. Canadian investor....115.2(1)
. Canadian issue....19(5)
. Canadian labour expenditure....125.5(1)
. Canadian life investment income, gross....Reg. 2400(1)
. Canadian manufacturing and processing profits....125.1(3)
. Canadian newspaper....19(5)
. Canadian oil and gas exploration expense....Reg. 1206(1)
. Canadian oil and gas property expense....66.4(5); 248(1)
. Canadian outstanding premiums....Reg. 2400(1)
. Canadian outstanding premiums, mean....Reg. 2400(1)
. Canadian partnership....102(1); 248(1)
. Canadian premiums....Reg. 8600
. Canadian property....133(8)
. Canadian property mutual fund investment....218.3(1)
. Canadian property mutual fund loss....218.3(1)
. Canadian real, immovable or resource property....248(1)
. Canadian renewable and conservation expense....66.1(6); 248(1); Reg. 1219(1)
. Canadian reserve liabilities....Reg. 2400(1); Reg. 2405(3); Reg. 8600
. Canadian reserve liabilities, mean....Reg. 2400(1)
. Canadian resident partnership....248(1)
. Canadian resource profits....Reg. 5202
. Canadian resource property....66(15); 248(1)
. Canadian security....39(6)
. Canadian service provider....115.2(1)
. Canadian surtax payable....125.3(4)
. Canadian tax results....261(1)
. Cape Breton....127(9)
. capital dividend....83(2); 248(1)
. capital dividend account....89(1)
. capital gains....39(1)(a); 248(1)
. capital gains balance, exempt....39.1(1)
. capital gains dividends account
. . mutual fund corporation....131(6)
. . non-resident owned investment corporations....133(8)
. capital gains pool....149.1(1)
. capital gains redemption
. . mutual fund corporation....131(6)
. . mutual fund trust....132(4)
. capital interest....108(1); 248(1)
. capital loss....39(1)(b); 248(1)
. . allowable....248(1)
. capital property....54; 248(1); A.R. 26(12)
. capital property, eligible....54
. capital tax....Reg. 1408(1)
. carrier, RRIF....146.3(1); Reg. 7308
. carrying on business....253
. carrying value....44.1(1); 94.1(1); Reg. 2400(2)
. carved-out income....209(1)
. carved-out property....209(1)
. cash method....248(1)
. cash purchase ticket....76(5)
. cash surrender value....148(9); Reg. 310; Reg. 1408(1)
. catch....Reg. 105.1(1)
. cemetery care trust....148.1(1); 248(1)
. cemetery services....148.1(1)
. certifiable past service event....Reg. 8300

Definitions — continued — Section
. certificate of completion — Reg. 1106(1)
. certified feature film — Reg. 1104(2)
. certified production — Reg. 1104(2)
. certified property — 127(9); Reg. 4602
. charitable foundation — 149.1(1); Reg. 3700
. charitable gift, total — 118.1(1); 143(4)
. charitable organization — 149.1(1)
. charitable purpose — 149.1(1)
. charity — 149.1(1)
. charity, specified re non-resident trust — 94(1)
. child — 70(10); 75.1(2); 110.6(1)
. . eligible — 118.01(1)
. . extended meaning — 252(1); A.R. 26(20)
. . life insurance policy — 148(9)
. child care expense amount
. . annual — 63(3)
. . periodic — 63(3)
. child care expenses — 63(3)
. child care space amount — 127(9)
. child support amount — 56.1(4)
. claim liability — Reg. 1408(1)
. class, specified — 55(1)
. class of animal — Reg. 1802(5)
. class of animals — 29(3)
. classification society — Reg. 3600(2)
. closely-held corporation — 94(1)
. coal mine operator — Reg. 1206(1)
. cohabitating spouse or common-law partner — 122.7(1)
. cohabiting spouse or common-law partner — 122.5(1); 122.6(1)
. combined cycle system, enhanced — Reg. 1104(13)
. commencement day — 56.1(4)
. commercial debt obligation — 80(1); 80.01(1)
. commercial obligation
. . debt forgiveness rules — 80(1)
. . deemed settlement of debt — 80.01(1)
. . for foreign tax credit — 126(7)
. common-law partner — 248(1)
. common-law partnership — 248(1)
. common share — 44.1(1); 248(1)
. compensation, RPP — 147.1(1)
. complete period of reduced services — Reg. 8300
. completion date — 146.01(1)
. computer software — Reg. 1104(2)
. congregation — 143(4)
. connected contributor — 94(1)
. connected person — Reg. 4901(2)
. connected shareholder — Reg. 4901(2)
. connection
. . by adoption — 251(6)(c)
. . by blood relationship — 251(6)(a)
. . by marriage — 251(6)(b)
. construction activities — Reg. 238(1)
. construction equipment, qualified — Reg. 4603
. consumer goods and services — 135(4); Reg. 4901(2)
. consumer price index — Reg. 8500(1)
. contact information — 241(10)
. contract payment — 127(9)
. contributed property — 95(3.3)
. contribution
. . non-resident trusts — 94(1)
. . political — Reg. 2002(1)
. . registered disability savings plan — 146.4(1)
. . RESPs — 146.1(1)
. contributor
. . non-resident trusts — 94(1)
. . trusts — 251.1(3)
. contributor, connected — 94(1)
. contributor, indirect — 94(1)
. contributor, resident — 94(1)
. contributor, specified — 94(1)
. controlled — 251.1(3)
. controlled corporation — 112(6); 186(2)
. controlled foreign affiliate — 17(13); 17(15); 95(1); 248(1)
. conventional lands — Reg. 1206(1)
. conversion — 13(21)
. conversion benefit — 139.1(1)
. conversion costs — 13(21)
. cooperative corporations — 136(2)
. corporate information — 241(10)
. corporation — 248(1)
. . closely-held — 94(1)
. . controlled — 112(6); 186(2)
. . eligible — Reg. 5100(1)
. . excluded — 127.1(2)
. . incorporated in Canada — 248(1)
. . qualifying — 127.1(2)
. . specified — 55(1)
. . specified holding — Reg. 5100(1)
. . successor — 59(3.4)
. . wholly owned — 85(1.3)
. cost amount — 108(1); 248(1)
. cost of capital
. . for manufacturing and processing — Reg. 5202
. . partnerships — Reg. 5204

Definitions — Section
. cost of capital — continued
. . resource income — Reg. 5203(1)
. cost of labour
. . for manufacturing and processing — Reg. 5202
. . partnerships — Reg. 5204
. . resource income — Reg. 5203(1)
. court of appeal — 241(10)
. credit union — 137(6); 248(1)
. crew — Reg. 105.1(1)
. Crown gifts, total — 118.1(1); 143(4)
. culpable conduct — 163.2
. cultural gift, total — 118.1(1); 143(4)
. cumulative Canadian development expenses — 66.2(5)
. cumulative Canadian exploration expense — 66.1(6); 248(1)
. cumulative Canadian oil and gas property expense — 66.4(5)
. cumulative eligible capital — 14(5)–(5.1); 248(1)
. cumulative foreign resource expense — 66.21(1)
. cumulative gains limit — 110.6(1)
. cumulative net investment loss — 110.6(1)
. cumulative offset account — 66.5(2)
. cumulative taxable income — 133(9)
. custodian — 148.1(1); 232(1)
. customer — 135(4)
. data network infrastructure equipment — Reg. 1104(2)
. data processing equipment, general purpose electronic — Reg. 1104(2)
. deadline — 139.1(1)
. dealer compensation payment — 260(1)
. death benefit — 248(1)
. debt obligation — 194(3); 204
. debt obligation, in bearer form — Reg. 201(7)
. debt obligation, qualifying — 15.2(3)
. debtor — 80(1); 80.01(1)
. December 31, 1995 income — 34.2(1)
. deferral, permitted — 44.1(1)
. deferral amount — 94.2(1)
. deferred amount — 248(1)
. deferred profit sharing plan — 147(1); 248(1)
. defined benefit limit — Reg. 8500(1)
. defined benefit provision — 147.1(1)
. demutualization — 139.1(1)
. dependant — 118(6); Reg. 8500(1)
. dependant, qualified
. . child tax benefits — 122.6(1)
. . GST credit — 122.5(1)
. deposit, specified — 95(2.5)
. deposit balance — Reg. 2400(1)
. deposit insurance corporation — 89(15); 137.1(5)
. depreciable cost — A.R. 58(5)
. depreciable property — 13(21); 248(1)
. depreciation, total — 13(21)
. designated acquired corporation — 95(1)
. designated beneficiary — 210(1)
. designated benefit — 146.3(1)
. designated city — Reg. 7304(1)
. designated corporations — Reg. 2405(3)
. designated cost — 94.1(1)
. designated country — Reg. 8006
. designated country, exposure to — Reg. 8006
. designated donor information — 241(10)
. designated educational institution — 118.6(1); 122.7(1)
. designated financial institution — 153(6)
. designated income of a trust — 210(1)
. designated insurance property — 138(12); 248(1)
. designated investment services — 115.2(1)
. designated overburden removal cost — Reg. 1104(2)
. designated person
. . communication of information — 241(10)
. . re attribution rules — 74.3(2); 74.5(5)
. designated plan — Reg. 8500(1)
. designated property — 89(1)
. designated provincial program — 146.1(1)
. designated rate — Reg. 5100(1)
. designated security — Reg. 226(1)
. designated shareholder — Reg. 4901(2)
. designated stock exchange — 248(1)
. designated taxpayer information — 241(10)
. designated underground storage cost — Reg. 1104(2)
. designated withdrawal — 146.01(1)
. digester gas — Reg. 1104(13)
. direct equity percentage — 95(4)
. directed person — 80(1)
. disability assistance payment — 146.4(1)
. disability policy — 6(17)
. disability savings plan — 146.4(1)
. disabled — Reg. 8500(1)
. disbursement excess — 149.1(21)
. disbursement quota — 149.1(1)
. disclaimer — 248(9)
. discount — A.R. 26(12)
. disposition
. . general — 248(1)

Definitions — Section
. disposition — continued
. . interest in life insurance policy — 148(9)
. . resource and processing allowances — Reg. 1206(1)
. disposition, qualifying — 107.4(1)
. distress preferred share — 80(1); 80.01(1)
. distribution — 55(1); 146.2(1)
. distribution equipment — Reg. 1104(13)
. district — Reg. 1802(5)
. district energy equipment — Reg. 1104(13)
. district energy system — Reg. 1104(13)
. divestment obligation percentage — 149.1(1)
. dividend — 248(1)
. dividend, eligible — 89(1); 248(1)
. dividend, excepted — 187.1
. dividend, taxable — 129(7)
. dividend-like redemption — 95(3.2)
. dividend rental arrangement — 248(1)
. document — 231
. documentation-due date — 247(1)
. drilling or exploration expense — 66(15); A.R. 29(27); A.R. 29(30)
. DTC-eligible individual — 146.4(1)
. dwelling house — 231
. earned depletion base — Reg. 1205
. earned income — 63(3); 146(1)
. ecological gifts, total — 118.1(1); 143(4)
. economic profit, for foreign tax credit — 126(7)
. education assistance payment — 146.1(1)
. education savings plan — 146.1(1)
. educational institution, designated — 118.6(1)
. educational program, qualifying
. . education tax credit — 118.6(1)
. . lifelong learning plan — 146.02(1)
. . RESPs — 146.1(1)
. educational program, specified — 118.6(1)
. elected functional currency — 261(1)
. electronic data processing equipment, general purpose — Reg. 1104(2)
. eligible adoption expense — 118.01(1)
. eligible amount
. . home buyers' plan — 146.01(1)
. . lifelong learning plan — 146.02(1)
. eligible apprentice — 127(9)
. eligible business entity — 204.8(1)
. eligible Canadian partnership — 80(1)
. eligible capital, cumulative — 248(1)
. eligible capital amount — 248(1)
. eligible capital expenditure — 14(5); 248(1)
. eligible capital property — 54; 248(1); A.R. 26(12)
. eligible child — 63(3); 118.01(1)
. eligible child care space expenditure — 127(9)
. eligible corporation — 56.4(1); Reg. 5100(1)
. eligible dependant — 122.7(1)
. eligible deposit — 33.1(1)
. eligible dividend — 89(1); 248(1)
. eligible electronic payment card — 118.02(1)
. eligible fitness expense — 118.03(1)
. eligible funeral arrangement — 148.1(1); 248(1)
. eligible housing loss — 6(22)
. eligible individual
. . child tax benefits — 122.6(1)
. . GST credit — 122.5(1)
. . medical expense supplement — 122.51(1)
. . working income tax benefit — 122.7(1)
. eligible interest — 56.4(1)
. eligible investment — 204.8(1)
. eligible issuer — 15.2(3)
. eligible labour body — 204.8(1)
. eligible landfill site — Reg. 1104(13)
. eligible loan — 33.1(1)
. eligible non-residential building — Reg. 1104(2)
. eligible offset — 108(1)
. eligible pension income — 60.03(1); 118(7)
. eligible period of reduced pay — Reg. 8500(1)
. eligible period of temporary absence — Reg. 8500(1)
. eligible pooling arrangement — 44.1(1)
. eligible portion, re refundable dividend tax — 129(4)
. eligible production corporation — 125.5(1)
. eligible property
. . foreign banks — 142.7(1)
. . s. 85 rollover — 85(1.1)
. eligible public transit pass — 118.02(1)
. eligible relocation — 248(1)
. eligible salary and wages — 127(9)
. eligible sewage treatment facility — Reg. 1104(13)
. eligible small business corporation — 44.1(1)
. . re development bonds — 15.1(3)
. eligible small business corporation share — 44.1(1)
. eligible spouse — 122.7(1)
. eligible survivor benefit period — Reg. 8500(1)
. eligible taxable capital gain — 108(1)
. eligible taxation year — 110.2
. eligible taxpayer — 127(9)
. eligible travel period — 67.1(5)
. eligible trust — 94(1); 95(1); 95(3.2)
. eligible waste fuel — Reg. 1104(13)
. eligible waste management facility — Reg. 1104(13)

Definitions — continued

	Section
. employed	248(1)
. employee	248(1); Reg. 100(1)
. employee benefit plan	248(1)
. employee trust	248(1)
. employees profit sharing plan	144(1); 248(1)
. employer	248(1)
. . group disability insurance	6(17)
. . withholding tax	Reg. 100(1)
. employment	248(1)
. enactment	A.R. 12
. end of the taxation year	Reg. 1104(1)
. enduring property	149.1(1)
. enhanced combined cycle system	Reg. 1104(13)
. enhanced recovery equipment	Reg. 1206(1)
. entity	94(1); 94.1(1); 95(1); 122.1(1); 163.2
. entrant bank	142.7(1)
. environmental trust, qualifying	248(1)
. equity	122.1(1)
. equity limit	Reg. 2400(1)
. equity limit for the year	Reg. 2405(3)
. equity percentage	95(4); 149.1(1)
. equity property	Reg. 2400(1); Reg. 2405(3)
. equity share	204; Reg. 4803(1)
. equity value	122.1(1)
. estate	104(1); 248(1)
. estate of the bankrupt	248(1)
. estimate of the expenses of survey	Reg. 3600(2)
. estimated deduction	Reg. 100(1)
. excepted dividends	187.1
. excess amount	
. . RESP	204.9(1)
. . for the year re RRSP	204.2(1)
. excess corporate holdings percentage	149.1(1)
. excess TFSA amount	207.01(1)
. excessive eligible dividend designation	89(1); 248(1)
. exchange, permitted	55(1)
. exchange date	20.3(1)
. exchange rate	111(8); 261(5)
. excluded activity	163.2
. excluded amount	120.4(1)
. excluded arrangement	Reg. 1900(1)
. excluded consideration	74.4(1)
. excluded contribution	Reg. 8300
. excluded corporation	127.1(2)
. excluded dividends	191(1)
. excluded income	95(2.5)
. excluded individual	241(10)
. excluded obligation	80(1); 214(8); Reg. 6202.1(5)
. excluded payment	Reg. 7001(7)
. excluded premium	
. . home buyers' plan	146.01(1)
. . lifelong learning plan	146.02(1)
. excluded production	Reg. 1106(1)
. excluded property	204
. . debt forgiveness rules	80(1)
. . of foreign affiliate	95(1)
. . mark-to-market rules	142.2(1)
. . of non-resident	Reg. 810(1)
. . non-resident trusts	94(1)
. . of trust	108(1)
. excluded revenue	95(2.5)
. excluded right or interest	128.1(10)
. excluded security	80(1)
. excluded shares	204
. excluded subsidiary entity	122.1(1)
. excluded withdrawal	
. . home buyers' plan	146.01(1)
. . lifelong learning plan	146.02(1)
. exempt activity	182(2)
. exempt amount	94(1)
. exempt beneficiary	104(5.4)
. exempt business	94.1(1)
. exempt capital gains balance	39.1(1)
. exempt contribution	207.01(1)
. exempt deficit allocation	Reg. 5905(16)
. exempt deficit reduction	Reg. 5905(17)
. exempt foreign trust	94(1)
. exempt gains balance	14(5)
. exempt income	248(1)
. exempt interest	94.1(1)
. exempt loan or transfer	17(15)
. exempt policy	12.2(11); Reg. 306(1)
. exempt property	94.1(1); 108(1)
. exempt service	94(1)
. exempt shares	112(2.6); 149.1(1)
. exempt shares percentage	149.1(1)
. exempt surplus reduction	Reg. 5905(18)
. exempt taxpayer	94(1); 94.1(1)
. exempt trust	95(1); 95(3.2); Reg. 4801.1
. existing guaranteed life insurance policy	Reg. 1900(1)
. existing plan	Reg. 8500(1)
. expenditure	143.2(1); 143.3(1)
. expense	66(15)
. exploration and development expenses	
. . Canadian	66(15)
. . foreign	66(15)

Definitions

	Section
. exploration and development expenses — continued	
. . specified foreign	66(15)
. exporting resource	Reg. 1206(1)
. exposure to a designated country	Reg. 8006
. extended motor vehicle warranty	Reg. 1408(1)
. fabricating or processing corporations	A.R. 29(26)
. fair market value	70(8)
. fair value property	142.2(1)
. false statement	163.2
. family, re communal organizations	143(4)
. farm loss	111(8); 248(1)
. farm loss, restricted	31(1.1)
. farming	248(1)
. filing-due date	248(1)
. film property	127.52(3)
. financial institution	142.2(1); 181(1); 190(1); Reg. 2400(1)
. . designated	153(6)
. . restricted	248(1)
. . specified	248(1)
. financial intermediary corporation	191(1)
. financial statements	94.1(1)
. first instalment base	161(9)
. first post-exchange year	132.2
. first purchaser	Reg. 226(1)
. first term shared-use equipment	127(9)
. fiscal period	249.1
. . qualifying re fiscal year end reserve rule	34.2(1)
. . registered Canadian amateur athletic associations	Reg. 216(2)
. fisherman	Reg. 105.1(1)
. fishing	248(1)
. fitness expense, eligible	118.03(1)
. fixed payment obligation	Reg. 9100
. flat benefit provision	Reg. 8300
. flow-through entity	39.1(1)
. flow-through mining expenditure	127(9)
. flow-through share	66(15); 248(1)
. food and animal waste	Reg. 1104(13)
. food waste	Reg. 1104(13)
. foreign accrual property income	95(1); 248(1)
. foreign accrual property loss	Reg. 5903(3)
. foreign affiliate	95(1); 248(1)
. . controlled	17(13); 17(15); 95(1); 248(1)
. . specified controlled	94(1)
. foreign bank	33.1(1); 94.1(1); 95(1)
. foreign-based information or document	231.6(1)
. foreign broadcasting undertaking	19.1(4)
. foreign currency	248(1); 261(5)
. foreign currency debt	111(8); 248(1)
. foreign exploration and development expense	66(15); 248(1)
. foreign exploration and development expense, specified	66(15)
. foreign income	127.54(1)
. foreign investment entity	94.1(1); 248(1)
. foreign investment income	129(4)
. foreign merger	87(8.1)
. foreign merger, qualifying	142.7(1)
. foreign non-profit organization	Reg. 6804
. foreign oil and gas business	126(7)
. foreign plan	Reg. 6804
. foreign policy loan	Reg. 2400(1); Reg. 2405(3)
. foreign resource expense	66.21(1); 248(1)
. . adjusted cumulative	66.21(1)
. . cumulative	66.21(1)
. foreign resource income	66.21(1)
. foreign resource limit, global	66.21(1)
. foreign resource loss	66.21(1)
. foreign resource pool expenses	248(1)
. foreign resource property	66(15); 248(1)
. foreign retirement arrangement	248(1)
. foreign tax credit, unused	126(7)
. foreign taxes	127.54(1)
. foreign trust, exempt	94(1)
. forfeited amount	147(1); Reg. 8500(1)
. forgiven	80.01(1)
. forgiven amount	80(1)
. former business property	248(1)
. former limit	147.1(1)
. former spouse	252(3)
. fossil fuel	Reg. 1104(13)
. fresh-start year	94.3(1)
. frontier exploration base	Reg. 1207(2)
. full rate taxable income	123.4(1)
. full-time student	146.02(1)
. fully exempt interest	212(3)
. functional currency	261(1)
. functional currency year	261(1)
. funeral arrangement, eligible	148.1(1)
. funeral or cemetery services	148.1(1)
. funeral services	148.1(1)
. gas or oil well equipment	Reg. 1104(2)
. Gaspé Peninsula	127(9)
. general amending provision	Reg. 1408(1)
. general corporate income tax rate	Reg. 414(1)
. general provisions	Reg. 8006

Definitions — continued

	Section
. general purpose electronic data processing equipment	Reg. 1104(2)
. general rate factor	89(1)
. general rate income pool	89(1); 248(1)
. general rate reduction percentage	123.4(1)
. gifting arrangement	237.1(1)
. gifts	
. . re communal organizations	143(4)
. . specified	149.1(1)
. . total	118.1(1)
. . total charitable	118.1(1); 143(4)
. . total Crown	118.1(1); 143(4)
. . total cultural	118.1(1); 143(4)
. . total ecological	118.1(1); 143(4)
. global foreign resource limit	66.21(1)
. goods and services tax	248(1)
. goodwill amount	56.4(1)
. governing plan	Reg. 4901(2)
. government assistance	127(9)
. government entity	241(10)
. government of a country	95(2)(y)
. government right of a taxpayer	A.R. 21(3)
. grandfathered plan	Reg. 8500(1)
. grandfathered shares	248(1)
. gross Canadian life investment income	Reg. 2400(1); Reg. 2405(3)
. gross compensation	163.2
. gross cost	
. . for manufacturing and processing	Reg. 5202
. . partnerships	Reg. 5204
. gross entitlements	163.2
. gross investment revenue	138(12)
. gross resource profits	Reg. 1204(1)
. gross revenue	248(1)
. . from a mine	Reg. 1104(5.1)–Reg. 1104(5.2)
. . non-resident corporation	Reg. 413(1)
. gross-up factor	94.2(1)
. group foreign affiliate	Reg. 5907(2.83)
. group term life insurance policy	248(1); Reg. 1900(1)
. guaranteed interest	Reg. 1900(1)
. HBP balance	146.01(1)
. head lease	209(1)
. hedge	20.3(1)
. holder	146.2(1); 146.4(1)
. holding corporation	139.1(1)
. home purchase loan	80.4(7)
. home relocation loan	248(1)
. housing loss	6(21)
. housing loss, eligible	6(22)
. impairment	118.4(1)
. income	3
. . adjusted re GST credit	122.5(1)
. . from an active business	95(1)
. . of corporation, for the year from active business	125(7)
. . earned in the year in a province	120(4); Reg. 2600(1)
. . exempt	248(1)
. . individual's income for the year	120(3)
. . from logging business in the province	Reg. 700(2)
. . from logging operations	127(2)
. . from a mine	Reg. 1104(5)–Reg. 1104(6)
. . from mining operations	Reg. 3900(1)
. . from property	95(1); 129(4)
. . from a source	4(1)
. . taxable resource income	125.11(1)
. . of taxpayer attributable to business done with members	135(4)
. . of trust	108(3)
. . for the year	56(9)
. income allocation	94.3(1)
. income averaging annuity contract	61(4); 248(1)
. income bond	248(1)
. income debenture	248(1)
. income from a non-qualifying business	95(1)
. income interest	108(1); 248(1)
. increase in capital	133(8)
. indebtedness	95(2.5)
. indexed debt obligation	248(1)
. indexed payment	Reg. 7001(7)
. indirect contributor	94(1)
. individual	248(1)
. industrial mineral mines	Reg. 1104(3)
. ineligible individual	122.7(1)
. inflation adjustment period	Reg. 7001(7)
. initial base	204
. initial non-qualified investment	204
. insider of a corporation	Reg. 4803(1)
. inspector	Reg. 3600(2)
. instalment base	161(9)
. . corporations	157(4); Reg. 5301(1)
. . farmers and fishermen	155(2)
. . first	Reg. 5301(1)
. . individuals	156(3); Reg. 5300
. . second	Reg. 5301(2)
. instalment threshold	156.1(1)

Definitions — continued — Section

. insurance business ... 12.5(1)
. insurance corporation ... 248(1)
. insurance policy ... 248(1)
. insurance policy in Canada ... Reg. 2405(3)
. insurance property, designated ... 138(12); 248(1)
. insurer ... 248(1)
. inter vivos trust ... 108(1); 248(1)
. interest
. . on debt relating to the acquisition of land ... 18(3)
. . in family farm partnership ... 70(10); 110.6(1)
. . in family fishing partnership ... 70(10); 110.6(1)
. . policy loans ... 138(12); 148(9)
. international traffic ... 248(1)
. inventory ... 248(1)
. inventory, qualifying ... 20(18)
. investment ... 122.1(1)
. investment business ... 94.1(1); 95(1)
. investment contract ... 12(11)
. investment contract corporation, prescribed ... Reg. 6703
. investment corporation ... 130(3); 248(1)
. investment dealer ... 142.2(1)
. investment expense ... 110.6(1)
. investment income ... 110.6(1)
. investment property
. . credit unions ... 137.1(5)
. . deposit insurance corporations ... 137.1(5)
. . foreign affiliate ... 95(1)
. . foreign investment entities ... 94.1(1)
. . insurer ... Reg. 2400(1); Reg. 2405(3)
. investment services, designated ... 115.2(1)
. investment tax credit ... 127(9)–(9.02); 248(1)
. investment tax credit, refundable ... 127.1(2)
. investor ... 112(2.6); 125.4(1)
. issuer
. . RRSP ... 146(1)
. . of shares ... 112(2.6)
. . TFSA ... 146.2(1)
. joint election
. . pension income splitting ... 60.03(1)
. . small business bonds ... 15.2(3)
. . small business development bonds ... 15.1(3)
. joint exploration corporation ... 66(15)
. joint spousal or common-law partner trust ... 248(1)
. judge ... 231; 232(1)
. labour expenditure ... 125.4(1)
. labour-sponsored fund tax credit ... 211.7(1)
. labour-sponsored venture capital corporation
. . prescribed ... Reg. 6701
. . registered ... 248(1)
. land ... 18(3)
. landfill gas ... Reg. 1104(13)
. landfill site ... Reg. 1104(13)
. lapse-supported policy ... Reg. 1408(1)
. large corporation ... 225.1(8)
. lawyer ... 232(1); 248(1)
. lead performer ... Reg. 1106(8)
. lead voice ... Reg. 1106(8)
. lease obligation ... 95(1)
. legal representative ... 248(1)
. lending assets ... 248(1)
. lending of money ... 95(1)
. liabilities ... 130.1(9)
. . weighted Canadian ... Reg. 2400(1)
. . weighted total ... Reg. 2400(1)
. licensed annuities provider ... 147(1); 248(1)
. licensing of property ... 95(1)
. life annuity contracts ... Reg. 301(1)
. life equity limit ... Reg. 2405(3)
. life insurance business ... 248(1)
. life insurance capital dividend ... 248(1)
. life insurance corporation ... 248(1)
. life insurance policy ... 138(12); 211(1); 248(1); Reg. 310; Reg. 1408(1); Reg. 1900(1)
. . in Canada ... 138(12); 211(1); 248(1); Reg. 310; Reg. 1408(1); Reg. 1900(1)
. . exempt ... 12.2(11)
. . existing guaranteed ... 211(1)
. . group term ... 248(1); Reg. 1900(1)
. . guaranteed existing ... Reg. 1900(1)
. . non-participating ... 211(1); Reg. 1900(1)
. . participating ... 138(12); 211(1)
. . post–1995 ... Reg. 1408(1)
. . pre–1996 ... Reg. 1408(1)
. . pre-funded group ... Reg. 1900(1)
. . registered ... 211(1); Reg. 1900(1)
. . taxable ... 211(1); Reg. 1900(1)
. life insurer ... 248(1)
. life surplus factor ... Reg. 2405(3)
. lifetime beneficial trusts ... 60.011(1)
. lifetime disability assistance payments ... 146.4(1)
. lifetime retirement benefits ... Reg. 8500(1)
. limitation period ... 222(4)
. limited-dividend housing company ... Reg. 3700
. limited partner ... 96(2.4); 127(8.5)
. . for minimum tax ... 127.52(3)
. . for tax shelter rules ... 143.2(1)
. limited-recourse amount ... 143.2(1); 248(1)

Definitions — continued — Section

. listed international agreement ... 248(1)
. listed personal property ... 54; 248(1)
. listed personal property loss ... 41(3)
. LLP balance ... 146.02(1)
. logging tax ... 127(2)
. long-haul truck ... 67.1(5)
. long-haul truck driver ... 67.1(5)
. long-term debt ... 181(1); 190(1)
. loss allocation ... 94.3(1)
. loss from a source ... 4(1)
. loss from property ... 129(4)
. low rate income pool ... 89(1); 248(1)
. lump-sum payments ... Reg. 103(6)
. lump-sum premium ... Reg. 2700
. majority-interest beneficiary ... 251.1(3)
. majority-interest group of beneficiaries ... 251.1(3)
. majority-interest group of partners ... 251.1(3)
. majority-interest partner ... 248(1)
. manufacturing or processing ... 125.1(3)
. mark-to-market formula ... 94.2(1)
. mark-to-market property ... 142.2(1)
. master trust ... Reg. 4802(1.1)
. matchable expenditure ... 18.1(1)
. material transaction ... 149.1(1)
. maturity, RRSP ... 146(1)
. maximum cumulative reserve ... 137(6)
. maximum tax actuarial reserve ... 138(12); 219(7)
. maximum tax actuarial reserve, mean ... Reg. 2400(1); Reg. 2405(3)
. mean amount on deposit ... Reg. 2405(3)
. medical practitioner ... 118.4(2)
. member
. . of a congregation ... 143(4)
. . of a credit union ... 137(6)
. . re patronage dividends ... 135(4)
. . RPP ... 147.1(1); Reg. 8300
. . of the taxpayer's household ... Reg. 7304(1)
. member institution ... 137.1(5)
. mine ... Reg. 1104(6)–Reg. 1104(7); Reg. 1206(1); Reg. 3900(1)
. mineral ore ... Reg. 3900(1)
. mineral resource ... 248(1)
. minerals ... 248(1); Reg. 1104(3); Reg. 3900(1)
. minimum amount, re RRIF ... 146.3(1)
. mining ... Reg. 1104(3)
. mining operations ... Reg. 3900(1)
. mining property ... 35(2)
. Minister ... 248(1)
. modified net premium ... Reg. 1408(1)
. monetary contributions ... 127(4.1)
. money purchase limit ... 147.1(1); 248(1)
. money purchase provision ... 147.1(1)
. mortality experience ... Reg. 1900(1)
. mortality loss adjustment account ... Reg. 1900(1)
. mortgage investment corporation ... 130.1(6); 248(1)
. motor vehicle ... 248(1)
. motor vehicle warranty, extended ... Reg. 1408(1)
. moving expenses ... 62(3)
. multi-employer plan ... 147.1(1); Reg. 8500(1)
. multi-employer plan, specified ... 147.1(1)
. municipal waste ... Reg. 1104(13)
. mutual fund corporation ... 131(8); 248(1)
. mutual fund trust ... 132(6); 248(1)
. mutual holding corporation ... 139.1(1)
. national arts service organization, registered ... 248(1)
. net accounting income ... 94.1(1)
. net accounting income, payable ... 94.1(1)
. net asset amount ... 188(5)
. net capital loss ... 111(8); 248(1)
. net corporate income tax rate ... 248(1)
. net cost
. . of approved shares ... 127.4(1)
. . of insurance ... Reg. 1900(1)
. . re Part XII.5 tax ... 211.7(1)
. net income stabilization account ... 248(1)
. net interest rate ... 211(1)
. net level premium ... Reg. 1900(1)
. net level premium reserve ... Reg. 1900(1)
. net past service pension adjustment ... 146(1)
. net tax owing ... 156.1
. net value ... 188(5)
. network ... 19.1(4)
. new shares ... Reg. 6202.1(5)
. Newfoundland offshore area ... 248(1)
. NISA Fund No. 2 ... 248(1)
. non-business income tax ... 113(3); 126(7)
. non-Canadian newspaper ... 19(8)
. non-cancellable or guaranteed renewable accident and sickness policy ... Reg. 1408(1)
. non-capital loss ... 111(8); 248(1)
. non-conventional land ... Reg. 1206(1)
. non-Crown royalties ... Reg. 3900(1)
. non-deductible distributions amount ... 104(16); 122(3)
. non-discretionary trust ... 17(15); 248(1)
. non-government assistance ... 127(9)
. non-member customer ... 135(4)

Definitions — continued — Section

. non-participating life insurance policy ... Reg. 1900(1)
. non-participating shares ... 204
. non-portfolio earnings ... 122.1(1); 197(1)
. non-portfolio earnings, taxable ... 197(1)
. non-portfolio property ... 122.1(1); 248(1)
. non-qualified investment
. . charitable organization ... 149.1(1); Reg. 3700
. . deferred profit sharing plan ... 204
. . RRSP ... 146(1)
. . TFSA ... 207.01(1)
. non-qualifying business ... 95(1)
. non-qualifying corporation ... 127(9)
. non-qualifying country ... 95(1)
. non-qualifying debt ... 70(8)
. non-qualifying security ... 118.1(18)
. non-resident ... 248(1)
. non-resident entity ... 94.1(1)
. non-resident investor ... 218.3(1)
. non-resident-owned investment corporation ... 133(8); 248(1)
. non-resident person ... 33.1(1)
. non-resident time ... 94(1)
. non-residential building, eligible ... Reg. 1104(2)
. non-segregated property ... 138(12)
. non-taxable obligation ... 240(1)
. normal reassessment period ... 152(3.1)
. Nova Scotia offshore area ... 248(1)
. obligation ... A.R. 26(12)
. office ... 248(1)
. officer ... 232(1)
. official ... 239(2.22); 241(10)
. official agent ... Reg. 2002(2)
. official receipt ... Reg. 2002(1)
. official receipt form ... Reg. 2002(1)
. offset account, cumulative ... 66.5(2)
. oil or gas well ... 248(1); Reg. 1207(6)
. old law ... A.R. 12
. operator ... 76(5)
. options ... 143.3(1)
. ore ... Reg. 1104(2); Reg. 1206(1)
. original acquisition ... 127.4(1); 211.7(1)
. original corporate holdings percentage ... 149.1(1)
. original editorial content ... 19.01(1)
. original owner ... Reg. 1206(1)
. original right ... A.R. 21(3)
. OSFI risk-weighting guidelines ... 248(1)
. other beneficiary ... 147(17)
. outlay ... 66(15)
. outstanding debts to specified non-residents ... 18(5)
. outstanding premiums ... Reg. 2400(1)
. overpayment ... 164(7)
. overpayment amount ... 161.1
. overseas Canadian Forces school staff ... 248(1)
. owner
. . original ... 66(15)
. . predecessor ... 66(15)
. ownership rights ... 139.1(1)
. oxygen furnace gas, basic ... Reg. 1104(13)
. PA offset ... Reg. 8300
. paid-up capital ... 89(1); 248(1)
. paid-up capital value ... 204
. paid-up premium ... Reg. 2700
. Part I.3 tax credit, unused ... 125.3(4)
. Part I tax on tobacco manufacturing profits ... 182(2)
. Part VI tax credit, unused ... 125.2(3)
. Part VII refund ... 192(2); 248(1)
. Part VIII refund ... 194(2); 248(1)
. participate ... 163.2
. participating debt interest ... 212(3)
. participating employer ... 147.1(1)
. participating interest ... 94.1(1); 95(3.2); 248(1)
. participating interest, specified ... 248(1)
. participating life insurance policy ... 138(12)
. participating member ... 143(4)
. participating percentage ... 95(1); Reg. 5904
. participation period
. . home buyers' plan ... 146.01(1)
. . lifelong learning plan ... 146.02(1)
. partnership ... 115(5)
. passenger vehicle ... 248(1)
. past service event ... 147.1(1); Reg. 8300
. past service pension adjustment ... 248(1)
. pay period ... Reg. 100(1)
. payment ... 135(4)
. payment card corporation ... Reg. 9002.1
. pension adjustment ... 248(1); Reg. 8301(1)
. pension adjustment reversal, total ... 248(1); Reg. 8304.1
. pension income ... 60.03(1); 118(7); 118(8)
. pension income, eligible ... 60.03(1); 118(7)
. pension income, qualified ... 60.03(1); 118(7); 118(8)
. pension plan, registered ... 248(1)
. pension transferee ... 60.03(1)
. pensionable service ... Reg. 8500(1)
. pensioner ... 60.03(1)
. period of disability ... Reg. 8500(1)

Section

Definitions — continued
. period of reduced services ... Reg. 8300
. periodic child care expense amount ... 63(3)
. periodical ... 19.01(1)
. permanent establishment ... Reg. 2600(2); Reg. 8201–8202
. permitted acquisition ... 55(1)
. permitted deferral ... 44.1(1)
. permitted exchange ... 55(1)
. permitted redemption ... 55(1)
. person ... 80(1); 80.01(1); 248(1)
. personal credits, for withholding tax ... Reg. 100(1)
. personal or living expenses ... 248(1)
. personal services business ... 125(7); 248(1)
. personal trust ... 248(1)
. personal-use property ... 54; 248(1)
. physical activity ... Reg. 9400(1)
. plan trust ... 146.4(1); Reg. 4901(2)
. planning activity ... 163.2
. plant residue ... Reg. 1104(13)
. policy anniversary ... Reg. 310
. policy liability ... Reg. 1408(1)
. policy loan ... 138(12); 148(9); 211(1); Reg. 310
. policy loan, foreign ... Reg. 2400(1)
. policy loan, mean ... Reg. 2400(1); Reg. 2405(3)
. polling day ... Reg. 2002(2)
. pooling arrangement, eligible ... 44.1(1)
. port call tonnage ... Reg. 410(2)
. portfolio investment entity ... 122.1(1)
. post-secondary educational institution ... 146.1(1)
. post-secondary school level ... 146.1(1)
. post–1971 spousal or common-law partner trust ... 248(1)
. pre–1986 capital loss balance ... 111(8)
. pre-funded group life insurance policy ... Reg. 1900(1)
. pre-production mining expenditure ... 127(9)
. pre-reversion debt ... 261(1)
. pre–1972 spousal trust ... 108(1)
. pre-transition debt ... 261(1)
. predecessor corporation ... 87(2)(l.2)
. predecessor employer ... Reg. 8500(1)
. predecessor owner ... Reg. 1206(1)
. preferred beneficiary ... 108(1)
. preferred share ... 248(1)
. preferred share, distress ... 80(1); 80.01(1)
. preferred share, short term ... 248(1)
. preferred share, taxable ... 248(1)
. preferred share, term ... 248(1)
. premium
. . capital gains ... A.R. 26(12)
. . insurance ... Reg. 1900(1)
. . life insurance ... 148(9)
. . RRSP ... 146(1)
. premium category ... Reg. 2700
. premium paid by the policyholder ... Reg. 1408(4)
. prescribed ... 248(1)
. prescribed amount ... Reg. 4606
. prescribed annuity contract ... Reg. 304(1)
. prescribed assistance ... Reg. 6702
. prescribed designated region ... Reg. 4607
. prescribed expenditure
. . re Canadian exploration expenses ... Reg. 4608(2)
. . scientific research ... Reg. 2901
. prescribed investment contract corporation ... Reg. 6703
. prescribed labour-sponsored venture capital corporation ... Reg. 6701
. prescribed machinery and equipment ... Reg. 4604(2)
. prescribed offshore regions ... Reg. 4609
. prescribed person
. . film or video production tax credit ... Reg. 1106(10)
. . Part XII tax ... Reg. 1216
. prescribed provisions of the law of a province ... Reg. 6501
. prescribed rate ... 80.4(7)
. prescribed securities ... Reg. 6200
. prescribed security interest ... Reg. 2201(1)
. prescribed stock savings plan ... Reg. 6705
. prescribed taxable Canadian corporation ... Reg. 1106(2)
. prescribed venture capital corporation ... Reg. 6700–6700.2
. primary currency ... Reg. 9100
. primary elevator ... 76(5)
. primary recovery ... Reg. 1206(1)
. principal amount ... 248(1)
. principal business corporation ... 66(15)
. principal residence ... 54
. private corporation ... 89(1); 248(1)
. private corporation, Canadian controlled ... 125(7)
. private foundation ... 149.1(1); 248(1)
. private health services plan ... 248(1)
. private holding corporation ... 191(1)
. pro rata portion ... 131(6); 132(4)
. proceeds of disposition
. . foreign investment entities ... 94.2(1)
. . life insurance ... 148(9); Reg. 310; Reg. 1206(1)

Section

Definitions
. proceeds of disposition — continued
. . property ... 13(21); 54; 66.4(5)
. process elevator ... 76(5)
. processing ... Reg. 3900(1)
. processing property ... Reg. 1206(1)
. producer ... Reg. 1106(1)
. production ... 66(15); Reg. 1104(8.1)
. production commencement time ... 125.4(1)
. production tax amount ... 126(7)
. professional athlete ... 143.1(1)
. professional corporation ... 248(1)
. profit sharing plan ... 147(1); 248(1)
. profit sharing plan, deferred ... 147(1)
. prohibited investment ... 207.01(1)
. promoter
. . investment services ... 115.2(1)
. . non-resident trusts ... 94(1)
. . tax shelters ... 237.1(1)
. property ... 54.1(2); 248(1)
. . certified ... 127(9)
. . eligible capital ... A.R. 26(12)
. . excluded ... 94(1)
. . exempt ... 94.1(1)
. . reportable re emigration ... 128.1(10)
. . restricted ... 94(1)
. . specified ... 94(1)
. . substituted ... 248(5)
. property and casualty surplus ... Reg. 2400(1); Reg. 2405(3)
. property held, RRIF ... 146.3(1)
. prospector ... 35(2)
. province ... 124(4); Reg. 414(1)
. provincial SIFT tax rate ... 248(1)
. provincial statutes ... A.R. 29(33)
. provisional assets ... Reg. 8006
. public commuter transit services ... 118.02(1)
. public corporation ... 89(1); 248(1)
. public foundation ... 149.1(1); 248(1)
. public market ... 122.1(1); 248(1)
. public pension benefits ... Reg. 8500(1)
. public primary caregiver ... 146.1(1)
. public safety occupation ... Reg. 8500(1)
. public transit pass, eligible ... 118.02(1)
. publicly accessible charity information ... 241(10)
. publicly traded ... Reg. 230(1)
. publicly-traded liability ... 122.1(1)
. pulp and paper waste ... Reg. 1104(13)
. quadrennial survey ... Reg. 3600(2)
. qualified activities ... Reg. 5202
. qualified annuity ... Reg. 1408(1)
. qualified Canadian labour expenditure ... 125.5(1)
. qualified Canadian transit organization ... 118.02(1)
. qualified construction equipment ... Reg. 4603
. qualified corporation ... 125.4(1)
. qualified dependant
. . GST credit ... 122.5(1)
. . re child tax benefits ... 122.6(1); Reg. 6300
. qualified donee ... 149.1(1); 248(1)
. qualified expenditure ... 127(9); Reg. 2902
. qualified farm property ... 108(1); 110.6(1)
. qualified fishing property ... 108(1)
. qualified insurance corporation ... Reg. 810(2)
. qualified investment
. . deferred profit sharing plan ... 204
. . non-resident investors ... 115.2(1)
. . registered disability savings plans ... 205(1)
. . RESP ... 146.1(1)
. . RRIF ... 146.3(1)
. . RRSP ... 146(1)
. . TFSA ... 207.01(1)
. qualified labour expenditure ... 125.4(1)
. qualified pension income ... 60.03(1); 118(7); 118(8)
. qualified person ... 55(1)
. qualified property ... 127(9); Reg. 4600(1)
. qualified REIT property ... 122.1(1)
. qualified related corporation
. . for branch tax ... 219(8)
. . life insurance ... 138(12)
. qualified resource ... Reg. 1206(1)
. qualified security ... 260(1)
. qualified small business corporation ... Reg. 9001(1)
. qualified small business corporation share ... 108(1); 110.6(1)
. qualified tertiary oil recovery project ... Reg. 1206(1); Reg. 1206(8); Reg. 1206(8.1)
. qualified transportation equipment ... Reg. 4601
. qualified trust ... 259(5)
. qualified trust unit ... 260(1)
. qualifying active business ... Reg. 5100(1)
. qualifying amount ... 110.2
. qualifying arrangement ... 146.2(1); 204.2(1.32)
. qualifying child ... 118.03(1); Reg. 9400(1)
. qualifying corporation ... 127.1(2)
. qualifying cost contribution arrangement ... 247(1)
. qualifying currency ... 261(1)
. qualifying debt obligation ... 15.1(3); 15.2(3)
. qualifying disposition ... 44.1(1); 107.4(1)

Section

Definitions — continued
. qualifying educational program
. . education tax credit ... 118.6(1)
. . lifelong learning plan ... 146.02(1)
. . RESPs ... 146.1(1)
. qualifying entity ... 94.1(1); 118.03(1); Reg. 6804
. qualifying environmental trust ... 248(1)
. qualifying exchange ... 132.2
. qualifying fiscal period ... 34.2(1)
. qualifying foreign merger ... 142.7(1)
. qualifying group RRSP premium ... 204.2(1.31)
. qualifying home ... 146.01(1)
. qualifying income ... 126(7)
. qualifying income limit ... 127.1(2)
. qualifying inventory ... 20(18)
. qualifying investor ... 94(1)
. qualifying losses ... 126(7)
. qualifying member ... 248(1)
. qualifying obligations ... Reg. 5100(1)
. qualifying payment ... 61(4)
. qualifying performance income ... 143.1(1)
. qualifying person
. . employee stock options ... 7(7)
. . funeral services ... 148.1(1)
. . registered disability savings plan ... 146.4(1)
. qualifying relation ... 118.02(1)
. qualifying services ... 94(1)
. qualifying share ... 192(6); 248(1); Reg. 4901(2)
. qualifying transfer ... 207.01(1)
. qualifying trust ... 127.4(1); 211.7(1)
. qualifying trust annuity ... 60.011; 248(1)
. quarter ... 146.01(1)
. railway system ... Reg. 1104(2)
. rate reduction percentage
. . general ... 123.4(1)
. . resource ... 125.11(1)
. RCA trust ... 207.5(1)
. readily obtainable fair market value ... 94.2(1)
. real estate investment trust ... 122.1(1)
. real or immovable property ... 122.1(1)
. receipt, official ... Reg. 2002(1)
. receipt of things mailed ... 248(7)
. recognized stock exchange ... 248(1)
. reconciliation amount ... 94.2(1)
. record ... 248(1)
. redemption, permitted ... 55(1)
. refund benefit ... Reg. 8300
. refund interest ... 161.1; Reg. 5203(4)
. refund of payment ... 146.1(1)
. refund of premiums ... 146(1)
. refundable capital gains tax on hand ... 131(6); 132(4)
. refundable dividend tax on hand ... 129(3)
. refundable investment tax credit ... 127.1(2)
. refundable Part VII tax on hand ... 192(3); 248(1)
. refundable Part VIII tax on hand ... 194(3); 248(1)
. refundable tax ... 207.5(1)
. registered agent ... Reg. 2002(2)
. registered animal ... Reg. 1802(5)
. registered Canadian amateur athletic association ... 248(1)
. registered charity ... 248(1)
. registered disability savings plan ... 146.4(1); 248(1)
. registered education savings plan ... 146.1(1); 248(1)
. registered investment ... 204.4(1); 248(1)
. registered labour-sponsored venture capital corporation ... 248(1)
. registered life insurance policy ... 211(1); Reg. 1900(1)
. registered national arts service organization ... 248(1)
. registered party ... Reg. 2002(2)
. registered pension plan ... 248(1)
. registered retirement income fund ... 146.3(1); 248(1)
. registered retirement savings plan ... 146(1); 248(1)
. registered securities dealer ... 248(1)
. registered supplementary unemployment benefit plan ... 145(1); 248(1)
. registration information ... 241(10)
. regular adjustment period ... Reg. 7001(7)
. regular eligible amount ... 146.01(1)
. regulated innovative capital ... 122.1(1)
. regulation ... 248(1)
. reinsurance arrangement ... 211(1); Reg. 1900(1)
. reinsurance commission ... Reg. 1408(1)
. reinsurance recoverable ... Reg. 2400(1)
. related business ... 149.1(1)
. related corporations ... 251(3)
. related group ... 251(4)
. related persons ... 251(2)
. related transaction ... 126(7)
. release or surrender ... 248(9)
. relevant authority
. . financial institutions ... Reg. 8006
. . insurance ... Reg. 1408(1); Reg. 2405(3)
. relevant contribution ... 148.1(1)
. relevant cost base ... 95(4)
. relevant loss balance ... 80(1)

Definitions — continued — Section

. relevant percentage ... A.R. 58(5)
. relevant person ... 149.1(1)
. relevant spot rate ... 261(1)
. relevant tax factor ... 95(1); 113(3)
. religious organizations ... 143(4)
. remuneration
. . film and video production ... Reg. 1106(1)
. . fishermen's ... Reg. 105.1(1)
. . for withholding tax ... Reg. 100(1); Reg. 100(3)
. renewable and conservation expense, Canadian ... Reg. 1219(1)
. rent from real or immovable properties ... 122.1(1)
. rental cost ... Reg. 5202
. rental or leasing property ... 127.52(3)
. rental property ... Reg. 1100(14)
. repayment period ... 146.02(1)
. replacement property ... 146.01(1)
. replacement share ... 44.1(1)
. reportable property re emigration ... 128.1(10)
. reportable transaction ... 233.1(1)
. reported reserve ... Reg. 1408(1)
. reporting entity ... 233.3(1)
. reporting partnership ... 233.1(1)
. reporting person ... 233.1(1)
. representative ... 241(10)
. reserve amount ... 66(15)
. reserve liabilities, Canadian ... Reg. 2400(1)
. reserve transition amount ... 12.5(1); 138(12)
. reserves ... 181(1); 190(1); 204.8(1)
. resident beneficiary ... 94(1)
. resident compensation ... Reg. 8300
. resident contributor ... 94(1)
. residual portion ... Reg. 9200
. resource ... Reg. 1206(1)
. resource activity ... Reg. 1206(1)
. resource expenses, foreign ... 248(1)
. resource profits ... Reg. 1204(1.1)
. resource property
. . Canadian ... 66(15)
. . foreign ... 66(15)
. resource rate reduction percentage ... 125.1(1)
. RESP lifetime limit ... 204.9(1)
. restricted expense ... 66.1(6)
. restricted farm loss ... 31(1.1); 248(1)
. restricted financial institution ... 248(1)
. restricted property ... 94(1)
. restrictive covenant ... 56.4(1)
. retirement benefits ... Reg. 8500(1)
. retirement compensation arrangement ... 248(1)
. retirement income ... 146(1)
. retirement income fund ... 146.3(1); 248(1)
. retirement savings plan ... 146(1); 248(1)
. retiring allowance ... 248(1)
. return of income ... 122.7(1)
. . child tax benefits ... 122.6(1)
. . OAS clawback ... 180.2(1)
. revenue, gross ... 248(1)
. reversionary year ... 261(1)
. revoked corporation ... 204.8(1); 211.7(1)
. revoked plan ... 204; Reg. 4901(2)
. right to receive production ... 18.1(1)
. royalty, non-Crown ... Reg. 3900(1)
. royalty, specified provision ... Reg. 1206(8); Reg. 1206(8.1)
. RRSP deduction limit ... 146(1); 248(1)
. RRSP dollar limit ... 146(1); 248(1)
. safe-income determination time ... 55(1)
. salaries and wages
. . manufacturing and processing ... Reg. 5202
. . non-resident corporations ... Reg. 413(1)
. salary deferral arrangement ... 248(1)
. salary or wages
. . film and video production services credit ... 125.5(1)
. . film or video production tax credit ... 125.4(1)
. . general ... 248(1)
. sale (of securities) ... Reg. 230(1)
. scientific research and experimental development ... 248(1)
. . financing contract ... 194(6); 248(1)
. . tax credit ... 127.3(2); 248(1)
. . unused tax credit ... 127.3(2); 248(1)
. screenwriter, Canadian ... Reg. 1106(8)
. script material ... 125.4(1)
. second instalment base ... 161(9)
. second term shared-use equipment ... 127(9)
. secondary recovery method ... Reg. 1206(1)
. secured creditors ... 224(1.3)
. securities dealer, registered ... 248(1)
. securities lending arrangement ... 248(1); 260(1)
. security ... 122.1(1); Reg. 226(1); Reg. 230(1)
. . Canadian ... 39(6)
. . designated ... Reg. 226(1)
. . re employee stock options ... 7(7)
. security distribution ... 260(1)
. security interest ... 224(1.3)
. segregated fund ... 138(12); 211(1)
. self-contained domestic establishment ... 248(1)

Definitions — continued — Section

. selling instrument ... 66(15)
. separation agreement ... 248(1)
. services ... 95(3)
. settlor ... 17(15); 108(1)
. sewage treatment facility, eligible ... Reg. 1104(13)
. share ... 139.1(1); 248(1)
. . approved ... 127.4(1)
. . block of ... Reg. 4803(1)
. . capital stock of family farm corporation ... 70(10); 110.6(1)
. . capital stock of family fishing corporation ... 70(10); 110.6(1)
. . common ... 248(1)
. . distress preferred ... 80(1); 80.01(1)
. . equity ... 204; Reg. 4803(1)
. . excluded ... 204
. . grandfathered ... 248(1)
. . non-participating ... 204
. . preferred ... 248(1)
. . qualified small business corporation's ... 110.6(1)
. . qualifying ... 192(6); 248(1)
. . re mutual fund reorganization ... 132.2
. . short-term preferred ... 248(1)
. . specified ... 94(1)
. . taxable preferred ... 248(1)
. . taxable RFI ... 248(1)
. . term preferred ... 248(1)
. share-purchase tax credit ... 127.2(6); 248(1)
. share-purchase tax credit, unused ... 127.2(6); 248(1)
. shared-use equipment
. . first term ... 127(9)
. . second term ... 127(9)
. shareholder ... 248(1)
. . designated ... Reg. 4901(2)
. . specified ... 18(5); 55(3.3); 248(1)
. . specified non-resident ... 18(5)
. shareholder corporation ... 66(15)
. short-term preferred shares ... 248(1)
. SIFT partnership ... 197(1); 248(1)
. SIFT partnership balance-due day ... 248(1)
. SIFT trust ... 122.1(1)–122.1(2); 248(1)
. SIFT trust wind-up event ... 248(1)
. SIFT wind-up corporation ... 248(1)
. SIFT wind-up entity ... 248(1)
. SIFT wind-up entity equity ... 248(1)
. significant interest ... 94.1(1); 142.2(2)–(4)
. similar provision ... 224(1.3)
. single amount ... 147.1(1)
. SLA compensation payment ... 260(1)
. small business bonds ... 15.2(3); 248(1)
. small business corporation ... 248(1)
. small business corporation, eligible
. . re capital gains deferral ... 44.1(1)
. . re development bonds ... 15.1(3)
. small business corporation share ... 110.6(1)
. small business corporation share, eligible ... 44.1(1)
. small business development bonds ... 15.1(3); 248(1)
. small business investment corporations ... Reg. 5101(1)
. small business investment limited partnerships ... Reg. 4901(2)
. small business investment trust ... Reg. 4901(2)
. small business security ... Reg. 4901(2); Reg. 5100(2)
. solicitor–client privilege ... 232(1)
. solution gas ... Reg. 1104(13)
. specific provisions ... Reg. 8006
. specified active business ... 204.8(1)
. specified adjustment factor ... Reg. 5907(2.83)
. specified Canadian entity ... 233.3(1)
. specified charity ... 94(1)
. specified child care start-up expenditure ... 127(9)
. specified class ... 55(1); 256(1.1)
. specified contributor ... 94(1)
. specified controlled foreign affiliate ... 94(1)
. specified cooperative corporation ... Reg. 4901(2)
. specified corporation ... 55(1)
. specified cost ... 80.01(1)
. specified debt obligation ... 142.2(1)
. specified deposit ... 95(2.5)
. specified disabled person ... 146.01(1)
. specified discontinuance ... 95(3.3)–95(3.5)
. specified educational program ... 118.6(1); 146.1(1)
. specified employee ... 248(1)
. specified employer ... 122.3(2)
. specified energy property ... Reg. 1100(25)
. specified financial institutions ... 248(1)
. specified fixed interest ... 94(1); 95(1); 95(3.2)
. specified foreign affiliate ... Reg. 5907(2.83)
. specified foreign exploration and development expense ... 66(15)
. specified foreign property ... 233.3(1)
. specified future tax consequence ... 248(1)
. specified gifts ... 149.1(1)
. specified holding corporation ... Reg. 5100(1)
. specified individual ... 120.4(1); 204.8(1); 248(1)
. specified insurance benefit ... 139.1(1)

Definitions — continued — Section

. specified interest ... 94.1(1)
. specified investment business ... 125(7); 248(1)
. specified loan ... Reg. 8006
. specified member ... 248(1)
. specified Minister ... 146.4(1)
. specified multi-employer plan ... 147.1(1)
. specified non-resident shareholder ... 18(5)
. specified participating interest ... 248(1)
. specified partnership income ... 125(7)
. specified partnership loss ... 125(7)
. specified party ... 94(1); 94.1(1)
. specified percentage ... 67.1(5)
. . fiscal year end reserve rule ... 34.2(1)
. . investment tax credit ... 127(9)
. . for manufacturing and processing ... Reg. 5202
. . resource and processing allowances ... Reg. 1206(1)
. specified person ... 88(1)(c.2); Reg. 6202.1(5)
. specified person or partnership ... 95(1); 95(2.6)
. specified personal corporation ... A.R. 57(1.1)
. specified place ... 67.1(5)
. specified plan ... 146.1(1)
. specified portion ... 110.2
. specified predecessor ... 59(3.4)
. specified predecessor corporation ... 95(1)
. specified property ... 127(9)
. . debt forgiveness rules ... 54
. . deferred income plans ... Reg. 5100(1)
. . non-resident trusts ... 94(1)
. . resource and processing allowances ... Reg. 1206(1)
. specified proportion ... 248(1)
. specified purchaser ... 95(1); 95(3.2); 95(3.5)
. specified purpose ... 66.1(6)
. specified right ... A.R. 21(3)
. specified royalty provision ... Reg. 1206(8); Reg. 1206(8.1)
. specified sampling ... 127(9)
. specified share ... 94(1)
. specified shareholder ... 18(5); 55(3.3); 248(1)
. specified small business corporation ... Reg. 4901(2)
. specified stage ... 208(1.1)
. specified tax allocation ... 94.3(1)
. specified temporary access road ... Reg. 1104(2)
. specified time ... 94(1)
. specified transaction ... 20(18)
. specified transaction or event ... 211(1); Reg. 1900(1)
. specified vendor ... 95(3.2); 95(3.5)
. specified wholly owned corporation ... 55(1)
. specified year ... 146.4(1)
. spent pulping liquor ... Reg. 1104(13)
. split income ... 120.4(1); 248(1)
. split-pension amount ... 60.03(1)
. spousal or common-law partner plan ... 146(1)
. spousal trust, pre-1972 ... 108(1)
. spouse ... 252(3); Reg. 304(5)
. spouse, former ... 252(3)
. SR&ED qualified expenditure pool ... 127(9)
. stakeholder ... 139.1(1)
. start-up period ... 204.8(1)
. stated percentage ... 59(3.4); Reg. 1206(1)
. stock dividend ... 248(1)
. stock savings plan, prescribed ... Reg. 6705
. stone quarry ... Reg. 1104(8)
. subject corporation ... 186(3)
. subject entity ... 122.1(1)
. subject property of a retirement compensation arrangement ... 207.5(1)
. subordinate ... 163.2
. subscriber ... 146.1(1)
. subscriber's gross cumulative excess ... 204.9(1)
. subscriber's share of the excess amount ... 204.9(1)
. subsequent fiscal periods ... 249.1(3)
. subsidiary controlled corporation ... 248(1)
. subsidiary wholly-owned corporation ... 87(1.4); 248(1)
. substituted property ... 248(5)
. substituted shares ... 149.1(1)
. successor beneficiary ... 94(1)
. successor corporation ... 59(3.4)
. successor pool ... 80(1)
. super-allowance benefit amount ... 127(9)
. superannuation or pension benefit ... 248(1)
. superficial loss ... 54
. supplemental eligible amount ... 146.01(1)
. supplementary depletion base ... Reg. 1212(3)
. supplementary unemployment benefit plan ... 145(1); 248(1)
. support amount ... 56.1(4)
. supporting person ... 63(3)
. surplus ... Reg. 8500(1)
. surplus entitlement percentage ... 95(1)
. surplus fund derived from operations ... 138(12); 219(7)
. survey ... Reg. 3600(2)
. survey, quadrennial ... Reg. 3600(2)
. surveyor ... Reg. 3600(2)

Section

Definitions — continued
. survivor....146.2(1)
. systems software, CCA....Reg. 1104(2)
. tar sands....248(1)
. tar sands ore....Reg. 1104(2); Reg. 1206(1)
. tax anniversary date, life insurance....148(9); Reg. 310
. tax basis....Reg. 9100
. tax benefit
. . GAAR....245(1)
. . matchable expenditure rules....18.1(1)
. . penalties....163.2
. . transfer pricing rules....247(1)
. tax consequences....245(1)
. tax debt....222(1)
. tax deferred account....219(7)
. tax-deferred cooperative share....135.1(1)
. tax-exempt income....126(7)
. tax for the year otherwise payable....126(7)
. tax otherwise payable
. . labour-sponsored funds tax credit....127.4(1)
. . scientific research tax credit....127.3(8)
. . share-purchase tax credit....127.2(7)
. . under this part....120(4); 122.3(2)
. tax-paid amount....146(1)
. tax payable....248(2)
. tax reporting currency....261(1)
. tax shelter....18.1(1); 237.1(1); 248(1)
. tax shelter investment....143.2(1)
. tax treaty....248(1)
. taxable Canadian business....95(1)
. taxable Canadian corporation....89(1); 248(1)
. taxable Canadian property....248(1)
. taxable capital gain....38(a); 248(1)
. taxable conversion benefit....139.1(1)
. taxable deficit allocation....Reg. 5905(19)
. taxable deficit reduction....Reg. 5905(20)
. taxable dividends
. . general....89(1); 248(1)
. . non-resident-owned investment corporation....112(6); 133(8)
. . private corporations....129(7)
. taxable income....2(2); 248(1)
. . earned in a year in a province....124(4); Reg. 400(1)
. . earned in Canada....115(1); 248(1)
. . non-resident corporation....Reg. 413(1)
. taxable life insurance policy....Reg. 1900(1)
. taxable net gain....248(1)
. taxable obligation....240(1)
. taxable preferred share....248(1)
. taxable resource income....125.1(1)
. taxable RFI shares....248(1)
. taxable SIFT distributions....Reg. 414(1)
. taxable SIFT trust distributions....122(3)
. taxable supplier....127(9)
. taxable surplus reduction....Reg. 5905(21)
. taxation year
. . base, re child tax benefits....122.6(1)
. . charitable foundations....Reg. 3700
. . corporation....249(1)(a)
. . eligible re lump-sum payments....110.2
. . end of....Reg. 1104(1)
. . foreign affiliate....95(1)
. . individual....249(1)(b)
. . industrial proprietor of business....11(2); 14(4)
. . non-resident entity....94.1(1)
. . partnership....249(1)(d)
. . registered charity....149.1(1); Reg. 1104(1)
. . trust....249(1)(c)
. taxed capital gains....130.1(9); 131(7); 132(5)
. taxing country....126(7)
. taxpayer
. . general....248(1)
. . includes partnership....18.1(1); 56.4(1); 143.2(1); 143.3(1)
. taxpayer information....239(2.22); 241(10)
. TCP gains balance....131(6); 132(4)
. TCP gains distribution....131(6); 132(4)
. telegraph system....Reg. 1104(2)
. telephone system....Reg. 1104(2)
. television commercial message....Reg. 1104(2)
. temporary access road, specified....Reg. 1104(2)
. term....209(1)
. term insurance....Reg. 2700
. term-preferred shares....248(1)
. tertiary oil recovery project, qualified....Reg. 1206(1); Reg. 1206(8); Reg. 1206(8.1)
. tertiary recovery equipment....Reg. 1206(1)
. testamentary debt....70(8)
. testamentary trust....108(1); 248(1)
. TFSA....248(1)
. TFSA dollar limit....207.01(1)
. thermal waste....Reg. 1104(13)
. third party....143.1(1)
. threshold amount....Reg. 1207(3)
. timber resource property....13(21); 248(1)
. tobacco manufacturing....182(2)

Section

Definitions — continued
. tobacco manufacturing capital and labour cost....182(2)
. tools....8(6)
. top-up disability payment....6(17)
. total assets....Reg. 8600
. total charitable gift....118.1(1); 143(4)
. total corporate holdings percentage....149.1(1)
. total Crown gift....118.1(1); 143(4)
. total cultural gift....118.1(1); 143(4)
. total depreciation....13(21)
. total ecological gifts....118.1(1); 143(4)
. total gift....118.1(1)
. total pension adjustment reversal....248(1); Reg. 8304.1
. total premiums....Reg. 8600
. total remuneration....Reg. 100(1)
. total reserve liabilities....Reg. 2405(3); Reg. 8600
. total reserve liabilities, mean....Reg. 2405(3)
. total return....Reg. 9100
. totally and permanently disabled....Reg. 8500(1)
. tracking entity....94.2(1)
. tracking property....142.2(1)
. traders or dealers in securities....Reg. 226(1); Reg. 230(1)
. trading day....94.2(1)
. tramway or trolley bus system....Reg. 1104(2)
. transaction
. . GAAR....245(1)
. . non-resident information return....233.1(1)
. . transfer pricing rules....247(1)
. transaction, specified....20(18)
. transfer price....247(1)
. transfer pricing capital adjustment....247(1)
. transfer pricing capital setoff adjustment....247(1)
. transfer pricing income adjustment....247(1)
. transfer pricing income setoff adjustment....247(1)
. transition amount....142.51(1)
. transition property....142.51(1)
. transition year....12.5(1); 138(12); 142.51(1); Reg. 2400(1)
. transmission equipment....Reg. 1104(13)
. Treasury Board....248(1)
. treaty co-production....Reg. 1106(3)
. treaty-protected business....248(1)
. treaty-protected property....248(1)
. triggering disposition....95(3.3)–95(3.4)
. trust....104(1); 108(1); 248(1)
. . eligible....94(1); 95(3.2)
. . employee....248(1)
. . exempt....95(3.2); Reg. 4801.1
. . exempt foreign....94(1)
. . foreign investment entity rules....94.1(1)
. . joint spousal or common-law partner....248(1)
. . lifetime beneficial....60.011(1)
. . master....Reg. 4802(1.1)
. . non-discretionary....17(15)
. . non-resident trust rules....94(1)
. . personal....248(1)
. . qualified....259(5)
. . qualifying....127.4(1)
. . RESPs....146.1(1)
. . testamentary....248(1)
. . unit....248(1)
. trust company....95(1)
. twinning arrangement....Reg. 1106(1)
. unaffiliated publicly-traded liability....122.1(1)
. undepreciated capital cost....13(21); 248(1)
. underlying foreign tax reduction....Reg. 5905(22)
. underlying payment....260(1)
. underpayment amount....161.1
. unit trust....108(2); 248(1)
. United States....19(5)
. unrecognized gains balance....248(1)
. unrecognized loss....80(1)
. unrelated group....251(4)
. unused Canadian property mutual fund loss....218.3(1)
. unused foreign tax credit....126(7)
. unused Part 1.3 tax credit....125.3(4)
. unused Part I tax credit....190.1(5)
. unused Part VI tax credit....125.2(3)
. unused portion of a beneficiary's exempt capital gains balance....144(1)
. unused RRSP deduction room....146(1); 248(1)
. unused scientific research and experimental development tax credit....248(1)
. unused share-purchase tax credit....248(1)
. unused surtax credit....190.1(5)
. unused TFSA contribution room....207.01(1)
. valuation....Reg. 2405(3)
. valuation activity....163.2
. value....148(9); Reg. 2400(1)
. value for the year....Reg. 2405(3)
. venture capital corporations, prescribed....Reg. 6700–6700.2
. vessel....13(21)
. wage measure....147.1(1)
. waste management facility, eligible....Reg. 1104(13)

Section

Definitions — continued
. weak currency debt....20.3(1)
. weighted Canadian liabilities....Reg. 2400(1)
. weighted total liabilities....Reg. 2400(1)
. wholly owned corporation....85(1.3)
. wholly owned corporation, specified....55(1)
. wood waste....Reg. 1104(13)
. working income....122.7(1)
. year....14(4)
. year's maximum pensionable earnings....Reg. 8500(1)

Dentists
. dental instruments, CCA rate....Reg. Sch. II, Class 12
. income computation....34

Departure tax
. corporate emigration....219.1
. . reduction re treaty country....219.3
. deemed disposition of property....128.1(4)–(9)
. reporting requirements....128.1(9)
. security for payment....220(4.5)–(4.54); 220.1
. . undue hardship....220(4.7)–(4.71)

Dependants — see also Children
. defined....118(6)
. infirm dependant....118(1)(e)
. qualified, re child tax benefits....122.6; Reg. 6300
. tax credits....118(1)(d)

Depletion allowance
. deductible....65(1)
. earned
. . deduction from income....Reg. 1201
. lessee's share, coal mine....65(3)
. regulations re mines, oil and gas wells....65(2)
. shareholders of mines, oil or gas wells....65(2)
. supplementary....Reg. 1212(1)
. supplementary depletion base
. . computation....Reg. 1212(2)
. . defined....Reg. 1212(3)
. . successor corporations....Reg. 1212(4)
. timber limits....65

Depletion base, earned
. amalgamation of corporations....Reg. 1214
. control of corporation deemed acquired....Reg. 1202(7)–Reg. 1202(8)
. defined....Reg. 1205
. determination....Reg. 1205
. original owner's....Reg. 1202(3)
. original owner's dispositions....Reg. 1202(4)
. property acquired by amalgamation or winding-up....Reg. 1202(5)
. successor corporations....Reg. 1202(2)
. . winding-up of corporations....Reg. 1214

Deposit insurance corporation
. amounts paid to member institution
. . interest payable....137.1(10.1)
. . repayment of amount....137.1(10); 137.1(12)
. compliance with Act....137.1(8)
. computation of income
. . amounts included....137.1(1)
. . deductible amounts....137.1(3)
. . deduction limitations....137.1(4)
. . exempt amounts....137.1(2)
. deemed not credit union....137.1(7)
. deemed not private corporation....137.1(6)
. defined....89(15); 137.1(5)
. investment property....137.1(5)
. member institutions
. . amounts paid to....137.1(10)
. . deductions....137.1(11)
. . deemed....137.1(5.1)
. . defined....137.1(5)
. . interest deemed payable by....137.1(10.1)
. . repayment of amount....137.1(12)
. . security for payment of tax or interest....220(4.3)–(4.4)
. special tax rate....137.1(9)
. subsidiary wholly owned corporation deemed to be....137.1(5.1)

Depreciable property — see also Capital cost allowance
. acquisition from predecessor....87(2)(d.1)
. acquisition from public assistance....13(7.2)
. acquisition grant, deemed capital cost....13(7.1)
. actual cost....88(2.3)
. amalgamated corporations
. . acquisition....87(2)(d); 87(2)(d.1)
. available-for-use
. . buildings....13(28)
. . capital cost....13(26)
. . CCA claim....13(27); 13(28); 13(29); 13(30); 13(31)
. . construction soft cost deduction....20(29)
. . deemed....13(27); 13(28); 13(29); 13(30); 13(31)
. . interpretation....13(27)(a)–(d)
. investment tax credit claim....13(27); 13(28); 13(29); 13(30); 13(31)
. . leased property....13(29); 13(32)

Section

Depreciable property
. available-for-use — continued
. . restrictions on deductions....13(26)
. . special rules re deduction....20(28)
. capital cost
. . deceased persons....70(13)–70(14)
. . reduction....Reg. 5400
. capital cost allowance — see Capital cost allowance
. capitalization of interest....21(1)
. change in use....13(7)
. cost determination for transfer....13(5.2)–(5.5)
. deduction for uncollectible portion of proceeds of disposition....20(4)–(4.2)
. deemed, separate classes re CCA....Reg. 1101(5g); Reg. Sch. II, Class 36
. deemed acquired on acquisition of control of corporation....13(24)
. deemed acquisition or disposition....13(7)
. deemed capital cost....13(10)
. . of acquisition....13(7.4)
. . re prescribed property....13(7.5)
. . re townsite costs....13(7.5)
. . on receiving grant....13(7.1); 13(7.4)
. deemed deductions for life insurers....13(23)
. deemed disposition by trust
. . interest in NISA fund....104(5.1)
. deemed disposition on death....70(5)
. defined....13(21); 248(1)
. disposition
. . acquired before 1972....A.R. 20(1)–(5)
. . after ceasing business....13(8)
. election re exchanges....44(4)
. exchange of, income determination....13(4)
. exchange of property....13(33)
. inter vivos transfers by individual....73(1)
. leased
. . available-for-use....13(29); 13(32)
. misclassified....13(6)
. non-resident's income from....116(5.2)
. partnership's, transfer rules
. . acquired before 1972....A.R. 20(3)–(5)
. proceeds of disposition....20(5)
. recapture of depreciation....13(1); 13(2)
. reclassification....13(5)
. rules re transfer....13(5.1)–(5.5)
. sale of mortgage on....20(5)
. trade-ins....13(33)
. transfer by non-resident insurer....138(11.8)
. transfer of leasehold interest....13(5.1)–(5.5)
. transitional provisions re depreciation....A.R. 18
. UCC determination....13(26); 13(27)(a)–(d)
. UCC to partnership, property acquired before 1972....A.R. 20(4)
. uncollectible proceeds of disposition....20(4)
. winding-up, inclusions....88(1)(c.4); 88(1)(c.7)

Designated educational institutions — see Educational institutions

Designated insurance property
. defined....138(12); 248(1)

Designated persons
. defined re attribution rules....74.3(2); 74.5(5)
. taxable capital gains....74.3(1)

Designated surplus — see Surplus

Development expenses — see Canadian development expenses; Exploration and development expenses

Die, jig, pattern, etc.
. CCA rate....Reg. Sch. II, Class 12

Diplomatic representatives
. deemed resident....250(1)
. exemptions....6(1)(b)(iii)
. . foreign countries....149(1)(a)
. . members of family and servants....149(1)(b)

Direct equity percentage
. defined....95(4)

Directors
. fees as income....6(1)(c)
. liability for corporate offence....242
. liability to withhold taxes....227.1(1)
. . amount recoverable....227.1(5)
. . contributions....227.1(7)
. . limitations....227.1(2)–(4)
. . preference....227.1(6)
. meetings, books and records retention....Reg. 5800(1)

Disability savings plans — see Registered disability savings plans

Disabled persons
. alterations to driveway for bus access....118.2(2)(l.6)
. apparatus cost, deduction....Reg. 8801
. attendant care expenses....64
. benefits from CPP or QPP
. . income inclusion....56(8)
. . previous year's payments....120.3
. Bliss symbol board....64; Reg. 5700(x)

Section

Disabled persons — continued
. Braille equipment....64; Reg. 5700(y)
. building modification cost....Reg. 8800
. child fitness tax credit....118.03(2.1)
. compensation payments
. . Halifax disaster....81(1)(f)
. computer equipment....64
. construction costs to facilitate mobility....118.2(2)(l.21)
. deaf-blind intervening assistance....118.2(2)(l.44)
. deaf-blind intervening services....64
. disability-related benefits....6(16)
. disability savings plans — see Registered disability savings plans
. disability supports deduction....64
. equipment cost, deduction....20(1)(rr)
. group disability insurance....6(17)–6(18)
. job coaching services....64
. lip reading training cost....118.2(2)(l.3)
. mental or physical impairment
. . certificate of impairment....118.3(4)
. . credit for....118.3(1)
. . defined....118.4(1)
. . dependant's....118.3(2)
. . medical practitioner defined....118.4(2)
. . partial dependency....118.3(3)
. . time spent on therapy....118.3(1.1)
. . waiver of RESP conditions....146.1(2.2)
. move to more accessible dwelling....118.2(2)(l.5)
. note-taking services....64; 118.2(2)(l.41)
. reading assistance....64; 118.2(2)(l.43)
. real-time captioning services....64; 118.2(2)(l.4)
. rehabilitative therapy cost....118.2(2)(l.3)
. renovation costs to facilitate mobility....118.2(2)(l.2)
. sign language
. . interpretation costs....64; 118.2(2)(l.4)
. . learning cost deduction....118.2(2)(l.3)
. specified disabled person re homebuyers' plan....146.01(1)
. speech synthesizers....64
. talking textbooks....64; Reg. 5700(w)
. teletypewriter....64
. training to care for....118.2(2)(l.8)
. tutoring services....64; 118.2(2)(l.91)
. van for person in wheelchair....118.2(2)(l.7)
. veteran's compensation....81(1)(d)–(e)
. voice recognition software....64; 118.2(2)(l.42)
. working income tax benefit supplement....122.7(3)

Disbursement excess
. defined....149.1(21)
. rules re....149.1(20)

Disbursement quota
. authority of Minister....149.1(1.2)
. defined....149.1(1)
. prescribed amount....Reg. 3701

Discharge
. security for taxes....Reg. 2200

Disclosure
. public partnerships....Reg. 229.1
. public trusts....Reg. 204.1

Discount
. bond, taxability....16(2)
. . deduction....20(1)(f)
. . deduction limitation....18(1)(f)
. . exception....16(5)
. . issued by exempt persons....16(3)
. defined....A.R. 26(12)

Discretion — see Ministerial discretion

Disposition of property — see Property disposition

Distribution
. of assets — see Assets
. of shares — see Shares

Dividends
. allowance
. . allocation agreement with associated corporation....191.1(3)
. . defined....191.1(2)
. . short years....191.1(6)
. . total, defined....191.1(4)
. anti-avoidance rules....55
. broker receiving....153(4); 153(5)
. capital — see Dividends, capital
. capital gains — see Dividends, capital gains
. controlled corporations — see Controlled corporations
. corporate distribution tax....183.1
. corporations paying
. . 1971 undistributed income....83(2)
. . excess election, liability....185(4)–(6)
. . excess payment election....185(1); 185(2)
. . late-filed elections, penalty....83(5)
. . tax-paid undistributed surplus....83(2)
. corporations receiving from another corporation....112(1)
. . debts incurred prior to Nov. 18, 1974, rules....84.2
. . deductions disallowed....112(2.1)–(2.5)

Section

Dividends
. corporations receiving from another corporation — continued
. . foreign affiliate....113
. . loss from transaction....112(3)–(3.2)
. . non-resident....112(2)
. deduction from income
. . amounts from computing shareholders adjusted cost base....83(1)
. . patronage....20(1)(u); 135(1)
. deemed
. . acquisition, redemption, or cancellation of shares....84(3); 84(8)
. . change of terms and conditions....191(4); 191(5)
. . conditions....84(1)
. . demutualization of insurance companies....212.2
. . distribution on winding-up....84(2)
. . guaranteed shares....84(4.3)
. . immigrating corporation....128.1(1)
. . redemption of shares, on....84(3)
. . reduction of contributed surplus....84(10)
. . reduction of paid-up capital....84(4); 84(4.1)
. . saving provision....84(6)
. . shares disposed of on redemptions, etc....84(9)
. . shares of capital stock appropriated or distributed....84(5)
. . SIFT partnership....89(1); 96(1.11); 126(8)
. . SIFT trust....89(1); 104(16)
. . term preferred shares....84(4.2); 258(2)
. . time when payable....84(7)
. . winding-up of corporation....84(2)
. deemed to be capital gains....55
. deemed to be interest, from mortgage investment corporations....130.1(2)–(3)
. defined....248(1)
. disposition by foreign affiliate....Reg. 5905(8)
. distribution expenses....20(1)(g)
. elections
. . excessive eligible dividend designation....185.1(2)–(4)
. . not to be CCPC....89(11)–(13)
. . payable out of surplus....Reg. 2100
. . to treat a portion as a separate dividend....55(5)(f)
. eligible
. . defined....89(1); 248(1)
. . designation....89(14)
. . excessive designation....185.1 185.2
. . securities lending arrangement....260(1.1)
. employee profit sharing plans, tax credits....144(8)
. excepted, defined....187.1
. excessive eligible dividend designation
. . assessment....185.2(4)
. . defined....89(1); 248(1)
. . liability....185.2(3); 185.2(5)
. . objections and appeals....185.2(2)
. . tax on....185.1–185.2
. . treating as ordinary dividend....185.1(2)–(4)
. excluded
. . defined....191(1)
. . paid to partnerships....191(6)
. exempt shares
. . change in agreement or condition....112(2.7)
. . defined....112(2.6)
. exempt surplus....113(4)
. foreign affiliates — see Foreign affiliates
. foreign bank branches....142.7(9)–(10)
. general rate factor, defined....89(1)
. general rate income pool
. . addition, 2006....89(7)
. . addition, becoming CCPC....89(4)
. . addition, post-amalgamation....89(5)
. . addition, post-winding-up....89(6)
. . amalgamated corporations....87(2)(vv); 89(5)
. . defined....89(1); 248(1)
. gross-up....82(1)(b)
. income bonds....15(3); 15(4); 18(1)(g)
. insurance corporation to policyholders....140(1)
. interest on income bonds....15(3); 15(4); 18(1)(g)
. in kind....52(2)
. . from foreign affiliate....80.1(4)
. loans to shareholders, deduction on later repayment....20(1)(j)
. low rate income pool
. . addition, amalgamation....89(9)
. . addition, ceasing to be CCPC....89(8)
. . addition, winding-up....89(10)
. . amalgamated corporations....87(2)(ww)
. . defined....89(1); 248(1)
. non-resident corporations....90–95; 112(2)
. . business income....12(1)(k)
. . deductions disallowed....112(2.1)–(2.5)
. . income inclusion....90
. non-residents
. . exempt....212(2.1)
. . received by former resident....119
. . tax payable by....212(1)(g); 212(2); 214(3)
. . time of deemed payments....214(3.1)
. non-taxable, designation of....104(20)
. ownership certificate....234

Section

Dividends — continued
. paid out of surplus outstanding from March 31, 1977 ... 83(1); Reg. 2100–Reg. 2101
. partnership receiving, taxation ... 93.1(2); 186(6); 187.4
. patronage — see Patronage dividends
. private corporations, tax ... 186(1)
. . assessable dividend defined ... 186(3)
. . controlled corporation defined ... 186(2)
. . reduction ... 186(1.1)
. . subject corporation defined ... 186(3)
. private corporations receiving
. . deemed not taxable ... 186.2
. . exempt corporations ... 186.1
. . filing of return ... 87(1)
. . interest on tax payable ... 187(2)
. public corporation's, tax-deferred preferred shares ... 83(1)
. qualifying
. . defined ... 83(6)
. . paid by public corporations ... 83(1)
. received from others
. . deductions ... 112(1)
. . foreign affiliates ... 113; Reg. 5900
. . non-residents ... 12(2)
. . transaction losses ... 112(3)–(3.32)
. refundable tax, private corporation — see Refundable tax, dividends
. rental arrangement, defined ... 248(1)
. resident corporation, business income ... 12(1)(j)
. securities in satisfaction of debt ... 76
. securities lending arrangement
. . deductibility ... 260(6.1)
. . refund ... 260(7)
. share from foreign affiliate ... 20(13)
. shares as non-capital property
. . stop-loss rules ... 112(4)–(4.22)
. simultaneous ... 89(3)
. simultaneous of N.R.O. investment corporations ... 133(7.2)
. small business development — see Small business development bonds
. stock — see Stock dividends
. stop-loss rules ... 112(3)–(3.32)
. tax credit
. . deductions ... 121
. . employee profit sharing plans ... 144(8)
. taxable
. . allocations re credit unions ... 137(5.1); 137(5.2)
. . amalgamated corporations ... 87(2)(x)
. . deductions ... 112(1); 112(2); 121
. . deemed received ... 82(2)
. . defined ... 112(6); 129(7); 248(1)
. . exempt corporations ... 186.1
. . income inclusion ... 82(1)
. . received by a trust ... 104(19)
. . received by spouse or partner ... 82(3)
. . returns ... 185.2(1)
. taxable preferred shares
. . agreement re tax liability ... 191.3(1)–(6)
. . assessment of tax ... 191.3(3)
. . assessment of transferor corporation ... 191.3(5)
. . associated corporations ... 191.1(3)
. . deemed dividends ... 191(4); 191(5)
. . election re tax payable ... 191.2
. . failure to file agreement re associated corporations ... 191.1(5)
. . information return ... 187.5; 191.4(1)
. . payment by transferor corporation ... 191.3(6)
. . provisions of Part I applicable ... 187.6; 191.4(2)
. . special tax on dividends ... 187.2
. . substantial interest of shareholders ... 191(2); 191(3)
. . tax on dividends issued by restricted financial institutions ... 187.3(1)
. . tax rate ... 191.1(1)
. . time of acquisition ... 187.3(2)
. . transfer of liability to related corporation, restrictions ... 191.3(4)
. taxable RFI shares
. . information return ... 187.5
. . special tax ... 187.3
. . taxation ... 187.3(1)
. . time of acquisition ... 187.3(2)
. unclaimed
. . effect of tax remittance ... 153(5)
. . withholding tax ... 153(4)

Dividends, capital
. additional tax on excessive election ... 184–185
. . alternative to additional tax ... Reg. 2106
. anti-avoidance rule re share acquisition ... 83(2.1)
. . exception ... 83(2.2)–(2.4)
. capital dividend account
. . computation where control acquired ... 89(1.1)
. . defined ... 89(1)
. . foreign investment entity ... 94.2(19)
. . life insurance — see Life insurance
. . specified personal corporations ... A.R. 57(9)
. . tax-exempt corporation's ... 89(1.2)

Section

Dividends, capital
. capital dividend account — continued
. . transitional provisions ... A.R. 32.1(4)
. . where control acquired ... 89(1.1)
. deemed to be ... 83(2)
. defined ... 248(1)
. late-filed elections ... 83(3)
. late-filed elections, penalty ... 83(4)
. Minister's request for election ... 83(3.1)
. private corporations ... 83(2)
. private corporations' election ... Reg. 2101
. transaction losses ... 112(3)–(3.32)

Dividends, capital gains
. account ... 131(6)
. additional tax on excessive election ... 184–185
. . alternative to additional tax ... Reg. 2106
. deemed from foreign affiliate ... Reg. 5902
. election
. . additional tax on excessive election ... 184–185
. . deemed date ... 131(1.1)
. . penalty ... 131(1.3)
. . penalty assessment and payment ... 131(1.4)
. . request to make ... 131(1.2)
. election by mutual fund corporation
. . allocation ... 131(1.6)–(1.9)
. . deemed date ... 131(1.1)
. . penalty ... 131(1.3)
. . penalty assessment and payment ... 131(1.4)
. . reporting requirements ... 131(1.5)
. . request to make ... 131(1); 131(1.2)
. investment corporation's election re dividends ... Reg. 2104
. mortgage investment corporation ... 130.1(4)
. . allocation ... 130.1(4.2)–(4.5)
. . election re dividends ... Reg. 2104
. . reporting requirements ... 130.1(4.2)
. mutual fund corporation's election re dividends ... Reg. 2104
. N.R.O. investment corporations ... Reg. 2105

Docks and wharfs
. CCA rate ... Reg. Sch. II, Class 3
. wooden wharfs, CCA rate ... Reg. Sch. II, Class 6

Documents
. defined for investigation purposes ... 231
. presumptions as to issuing authority ... 244(13)
. proving in evidence ... 244(9)
. for transfer pricing rules ... 247(1)
. transmitted to court re appeals ... 176

Domestic establishment — see Permanent establishment; Principal residence

Donations
. charitable — see Charitable donations
. political parties — see Political contributions

Doubtful debts — see Bad debts

DPSP — see Deferred profit sharing plans

Drainage
. land, farmers ... 30

Drilling and exploration expenses — see Oil and gas wells

Drive-in theatres
. CCA rate ... Reg. Sch. II, Class 10

Drought regions
. income deferral ... 80.3(4)–(6)
. prescribed ... Reg. 7305
. surrounding areas ... Reg. 7305.01

Drugs — see Medical expenses

Dues
. annual
. . deductible ... 8(1)(i)
. . deduction limitations ... 8(5)
. professional memberships, deduction limitations ... 8(5)
. recreational club membership, deductibility ... 18(1)(l)

Duty
. countervailing or anti-dumping
. . deduction ... 20(1)(vv)
. . income inclusion ... 12(1)(z.6)

Dwelling-house
. defined for investigation purposes ... 231
. inspection
. . prior authorization ... 231.1(2)
. . warrant ... 231.1(3)

E

Earned depletion allowance — see Depletion allowance

Earned depletion base — see Depletion base, earned

Earned income — see Income

Earth moving equipment
. CCA rate ... Reg. Sch. II, Class 22, 38

Ecological gifts — see Charitable donations

Section

Education
. credits ... 118.6(2)
. . disabled persons ... 118.6(3)
. . transfer ... 118.81
. . tuition — see Tuition fees
. . unused credit carryforward ... 118.61
. expense allowance, exemptions ... 6(1)(b)(ix)
. lifelong learning plan — see Lifelong learning plan
. registered education savings plans — see Registered education savings plans

Education savings incentive programs
. repayments deductible ... 60(x)

Education savings plans — see Registered education savings plans

Educational institutions — see also Colleges and universities
. designated ... 118.6(1)
. post secondary, defined ... 146.1(1)
. qualifying educational program ... 118.6(1)
. tuition fees deductibility ... 118.5
. universities outside Canada ... Reg. Sch. VII

Elections
. alternative method fiscal year-end ... 249.1(4)
. . additional income election for start-up business ... 34.1(2)
. . non-application to tax shelters ... 249.1(5)
. . revocation of election ... 249.1(6)
. amended ... 220(3.2)
. . assessment of interest and penalty ... 220(3.4)
. . date of ... 220(3.3)
. . penalty ... 220(3.5)
. . penalty, unpaid balance ... 220(3.6)
. amounts paid for future obligations ... 20(25)
. assessment of excessive ... 185(1); 185(3)
. . joint and several liability ... 185(4)
. . rules applicable ... 185(6)
. basic herd reduction ... 29(1)
. Canadian securities disposition ... 39(4)
. . limitations ... 39(5)
. capital dividend payment ... 83(2)
. . acquisition of right to dividends ... 83(2.1)
. . anti-avoidance rule re share acquisition ... 83(2.1)–(2.4)
. . exception to anti-avoidance rule ... 83(2.1)–(2.4)
. . late filing ... 83(3)
. . Minister's request ... 83(3.1)
. . payment of tax and interest ... 185(2)
. capital gains of mutual fund corporation ... 131(1)
. . deemed date ... 131(1.1)
. . penalty ... 131(1.3)
. . penalty assessment and payment ... 131(1.4)
. . request to make ... 131(1.2)
. capital property owned before Feb. 22, 1994 ... 53(2)(v); 110.6(19); A.R. 26(29)
. . amended elections ... 110.6(27)
. . effect on non-qualifying property ... 110.6(21)
. . late elections ... 110.6(26)
. . partnership interest ... 110.6(23)
. . penalties ... 110.6(29)–110.6(30)
. . revocation ... 110.6(25)
. . timing of election ... 110.6(24)
. capitalization of cost of borrowing ... 21
. cash method, farmers ... 28(1)
. CCA class transfers ... Reg. 1103
. ceasing to be Canadian resident
. . capital gains realization ... Reg. 1302
. . deferral of capital gains ... Reg. 1300
. . deferred payment of tax ... Reg. 1301
. change in use of property ... 45(2); A.R. 26.1(2)
. . disallowed ... 45(4)
. communal organizations ... 143(3)–(3.1)
. computation of partnership income ... 96(3)
. corporations
. . dividends payable ... Reg. 2100
. . property transfer from partnership ... 85(2)
. . property transfer from shareholder ... 85(1)
. . rollover of property from shareholder ... 85(1)
. deceased persons'
. . lifelong learning plan ... 146.02(7)
. . payment of tax ... 159(5)–(7); Reg. 1001
. . property disposition ... Reg. 1000
. . return ... 70(2)
. . return, revocation ... 70(4)
. . RRSP ... 146(8.1)
. . transferred or distributed property ... 70(6.2)
. deferred profit sharing plans
. . single payments ... Reg. 1503
. dispositions
. . share in foreign affiliate ... 93(1)
. . vessel ... 13(16)
. dividends
. . excessive eligible dividend designation ... 185.1(2)–(4)
. . not to be CCPC ... 89(11)–(13)
. . out of tax-paid undistributed surplus ... Reg. 2100
. . received by spouse or partner ... 82(3)
. . to treat part of dividend as separate ... 55(5)(f)

Section

Elections — continued
. eligible capital property ... 14(1.01); 14(1.02); 14(1.03)
. emigration
. . attribution rules ... 74.2(3)
. . deemed disposition of property ... 128.1(4)
. employee profit sharing plans ... 87(2)(r); 144(4.1); 144(10); Reg. 1500
. excessive capital dividend payments
. . additional tax ... 184–185
. . alternative to additional tax ... Reg. 2106
. exchanges of property ... 13(4); 13(4.1); 13(4.2); 13(4.3); 44(4)
. fair market value on Valuation Day ... A.R. 26(7)
. financial institution re excluded property ... 142.2(1); 152(6.2)
. fishermen's ... Reg. 105.1(1)
. foreign affiliates ... Reg. 5915–5919
. . disposition of shares ... Reg. 5902
. . . late filing ... 93(5)–(7)
. foreign bank branches ... 142.7(11)
. foreign investment entities ... 94.1(2)(h)
. foreign property expropriation assets ... 80.1(2)
. . two or more ... 80.1(9); Reg. 4500
. foreign reporting rules ... 233.2(5)
. foreign spin-off ... 86.1(2)
. . deemed to be filed ... 95(2)(g.2)
. insurance corporations
. . branch tax elections ... 219(4); 219(5.2); Reg. 2403
. international banking centre business
. . eligible deposit recording ... 33.1(6)
. . restriction ... 33.1(7)
. investment corporation ... 130(2)
. . capital gains dividends ... Reg. 2104
. joint
. . small business bonds ... 15.2(3)
. . small business development bonds ... 15.1(3)
. late filed ... 220(3.2)
. . assessment of interest and penalty ... 220(3.4)
. . capital dividend payment ... 83(3)
. . contribution of property to partnership ... 96(5)–(7)
. . date of ... 220(3.3)
. . penalty ... 220(3.5)
. . penalty, unpaid balance ... 220(3.6)
. . prescribed provisions ... Reg. 600
. late filed by foreign affiliate
. . share disposition ... 93(5)–(7)
. . special cases ... 93(5.1)
. life insurers'
. . property disposition or reacquisition ... 138(11.6)
. limited period franchise, concession or licence ... 13(1.4); 13(4.2)–(4.3)
. minor's capital property ... 81(5)
. mortgage investment corporation ... 130.1(4)
. . capital gains dividends ... Reg. 2104
. . deductions, re ... 130.1(4.1)
. mutual fund corporation's capital gains ... 131(1)
. . allocation ... 131(1.6)–(1.9)
. . deemed date ... 131(1.1)
. . dividends ... Reg. 2104
. . penalty ... 131(1.3)
. . penalty assessment and payment ... 131(1.4)
. . reporting requirements ... 131(1.5)
. . request to make ... 131(1.2)
. mutual fund qualifying exchanges ... 132.2
. mutual fund trust ... 132(6.1)
. . income from other trusts ... 132.11(3)
. . partnership income or loss ... 132.11(2)
. . revocation ... 132.11(1.1)
. non-resident actors ... 216.1
. non-resident insurer branch tax payment ... 219(5.2)
. non-resident-owned investment corporation ... 134.1
. . revocation ... 134.2
. non-residents
. . certain payments ... 217
. . parent corporation, interest on loan ... 218(3)–(4)
. N.R.O. investment corporations ... Reg. 500
. . capital gains dividend ... 133(7.1); Reg. 2105
. . deductions, re ... 133(7.3)
. . revocation ... Reg. 501
. simultaneous dividends ... 133(7.2)
. paid-up capital on amalgamation ... 87(3.1)
. partners' contribution of property ... 97(2)
. . validity ... 99(3)–(4)
. pension income split ... 220(3.201)
. preferred beneficiary of estate or trust ... 104(14)
. . late, amended or revoked elections ... 104(14.01)–(14.02)
. principal residence ... Reg. 2300–Reg. 2301
. prior to 1972, transitional provisions ... A.R. 66(1)
. private corporations, capital dividends payable ... Reg. 2101
. professional business ... 34
. property acquisition year ... 53(2.1)
. property owned Dec. 31, 1971 ... Reg. 4700
. proportional holdings in trust property ... 259
. public corporation, transitional provisions ... A.R. 50(2)

Section

Elections — continued
. related segregated fund trusts ... 138.1(4); Reg. 6100
. representation expenses ... Reg. 4100
. restrictive covenants ... 56.4(9); 56.4(12)
. revoked ... 220(3.2)
. . assessment of interest and penalty ... 220(3.4)
. . date of ... 220(3.3)
. . penalty ... 220(3.5)
. . penalty, unpaid balance ... 220(3.6)
. rollover
. . by beneficiary ... 107(2.002)
. . foreign spin-off ... 86.1(2)
. . transfer of property to corporation ... 85(6)–(9)
. . by trust ... 107(2.001)
. sale of business
. . fiscal period ... 25
. securities disposition ... 39(4)
. . limitation ... 39(5)
. share disposition in foreign affiliate
. . deemed election ... 93(1.1); 93(1.3)
. . election ... 93(1)
. shareholders
. . non-resident corporation ... 93
. . property transfer to corporation ... 85(1)
. . rollover of property to corporation ... 85(1)
. small business corporations to become public
. . disposition of shares ... 48.1
. stock options, deferral of taxation ... 7(10) (14)
. surplus reduction
. . dividends out of 1971 capital surplus on hand ... Reg. 2100
. . dividends out of tax-paid undistributed surplus ... Reg. 2100
. . investment corporation's capital gains dividends ... Reg. 2104
. . mortgage investment corporation ... Reg. 2104.1
. . mortgage investment corporation's capital gains dividends ... Reg. 2104
. . mutual fund corporation's capital gains dividends ... Reg. 2104
. . N.R.O. investment corporations ... Reg. 2105
. tax deduction variation ... Reg. 109
. tax-free savings accounts ... 146.2(5)
. taxable preferred shares
. . re tax payable ... 191.2
. . re tax payable, time of election ... 191.2(1)
. transitional provisions
. . prior to 1972 election ... A.R. 66(1)
. trusts, accumulating income ... Reg. 2800
. use as principal residence ... 45(3)
. vessel disposition ... 13(16)
. withholding tax increase ... 153(1.2)
. work in progress ... 34

Electric utilities — see Public utilities

Electric wiring
. CCA rate ... Reg. Sch. II, Class 6

Electrical equipment
. capital cost allowance
. . combustion turbines ... Reg. Sch. II, Class 48
. . generating equipment ... Reg. Sch. II, Class 2, 8–9, 19, 29, 34, 39, 43, 43.1–43.2
. . hydro-electric installation ... Reg. Sch. II, Class 43.1–43.2
. . mines ... Reg. 1102(8)–Reg. 1102(9); Reg. Sch. II, Class 10
. . transmission or distribution equipment ... Reg. Sch. II, Class 47
. certificate re generating equipment ... Reg. 1104(11)

Electrical generating equipment
. CCA rate ... Reg. Sch. II, Class 17

Electronic data processing equipment
. CCA
. . defined ... Reg. 1104(2)
. . rate ... Reg. Sch. II, Class 10, 29, 50, 52
. . separate class ... Reg. Sch. II, Class 45

Electronic equipment
. CCA rate ... Reg. Sch. II, Class 10, 12
. . rapidly depreciating ... Reg. 1101(5p)–(5q)
. . separate classes ... Reg. 1101(5p)–(5r)

Electronic filing
. information returns ... Reg. 205.1
. penalty ... 162(7.2)
. prescribed corporations ... 150.1

Eligible capital expenditure — see also Capital expenditures and outlays
. defined ... 14(5); 248(1)

Eligible capital property
. acquisition ... 14(3)
. allowable capital loss ... 20(4.3)
. bad debts deductible ... 20(4.2)
. capital gains election ... 14(1.01); 14(1.02); 14(1.03); 14(9)
. deceased persons' ... 70(5.1)
. deemed capital gain ... 14(1.1); 14(1.2)

Section

Eligible capital property — continued
. deemed continuation of ownership ... 14(12)
. . deemed identical property ... 14(13)
. defined ... 54; 248(1); A.R. 26(12)
. disposition ... 14(6); 14(7)
. exchanges ... 14(6); 14(7)
. foreign banks ... 14(14)–(15)
. government assistance ... 14(10); 14(11)
. . repayment ... 20(1)(hh.1)
. immigrants and emigrants ... 14(8)
. income inclusion ... 14(1)
. transfer ... 14(13)
. transfer to beneficiaries ... 70(3.1)
. winding-up, adjustments ... 88(1)(c.1)

Eligible funeral arrangement — see Funeral arrangements, eligible

Emigration
. corporate
. . departure tax ... 219.1
. . treaty countries, reduction in departure tax ... 219.3
. deemed disposition of property ... 128.1(4)
. . excluded right or interest ... 128.1(10)
. . instalment interest ... 128.1(5)
. . reportable property ... 128.1(10)
. . reporting requirements ... 128.1(9)
. . returning former resident ... 128.1(6)
. . subsequent dividends ... 119
. deemed disposition on emigration
. . post-emigration loss ... 128.1(8)
. departure tax ... 128.1(4)
. . post-emigration loss ... 128.1(8)
. . reporting requirements ... 128.1(9)
. . security for payment ... 220(4.5)–(4.54)
. election ... 128.1(4)
. . attribution rules ... 74.2(3)
. employee stock options ... 7(1.6)
. excluded right or interest defined ... 128.1(10)
. foreign exploration and development expenses ... 66(4.3)
. foreign resource expenses ... 66.21(5)
. foreign resource pool expenses ... 115(4.1)
. former resident
. . credit for tax paid ... 119
. home buyers' plan ... 146.01(5)
. lifelong learning plan ... 146.02(5)
. reportable property defined ... 128.1(10)

Employee benefit plans
. allocation ... 32.1(2)
. amalgamated corporations ... 87(2)(j.3)
. contributions to ... 6(10); 12(1)(n.1)
. . deductions from income ... 18(1)(o)
. . limitations re deduction ... 18(10)
. deductions ... 32.1(1)
. defined ... 248(1)
. distribution of trust property ... 107.1
. income ... 32.1(3)
. income computation ... 6(1)(g); 12(1)(n.1)
. prescribed plans, arrangements and contributions ... Reg. 6800
. receipts as income ... 12(1)(n.1)
. trust property distribution ... 107.1

Employees
. allowances
. . special work site, exemptions ... 6(6)
. . taxable ... 6(1)(b)
. annual dues
. . deductible ... 8(1)(i)
. . not deductible ... 8(5)
. automobiles — see Automobiles
. automotive products, transitional assistance benefits taxable ... 56(1)(a)(v)
. benefit plans — see Employee benefit plans
. benefits
. . disability-related ... 6(16)–6(18)
. . goods and services tax ... 6(7)
. . taxable ... 6(1)(a)
. charity trust
. . defined ... Reg. 3500
. . donation to ... Reg. 3502
. . registered organization ... Reg. 3502
. construction on special work site, exempt allowance ... 6(6)
. contract negotiation expenses ... 8(1)(f)
. contributions to pension funds
. . deductible ... 8(1)(m); 20(1)(q)
. deductible expenses
. . certificate of employer ... 8(10)
. . goods and services tax ... 8(11)
. defined ... 248(1)
. defined for withholding tax ... Reg. 100(1)
. employment credit ... 118(10)
. filing withholding of tax return to employers ... 227(2); 227(3)
. foreign country, exemption ... 149(1)(a)
. . members of family and servants ... 149(1)(b)
. foreign government, exemptions ... 149(1)(a); 149(1)(b)

Section

Employees — continued
. government
. . payment for volunteer services....81(4)
. group insurance benefits....6(4)
. housing subsidies as income....6(23)
. international organization
. . deduction....110(1)(f)
. . tax credit....126(3)
. legal expenses....8(1)(b)
. loans to....15(2)
. . deemed benefit....80.4(1)
. . deemed interest....80.5
. . exception re benefits....80.4(3)
. . forgiven amount....6(15.1)
. . forgiveness....6(15)
. . interest as income....6(9)
. meals, deductibility....8(4)
. office rent payable by, deduction....8(1)(i)
. part-time, traveling expenses....81(3.1)
. payments by amalgamated corporation....87(2)(k)
. payments by employer as remuneration....6(3)
. professional membership dues....8(1)(i)
. . limitation....8(5)
. profit sharing plans — see Employees profit sharing plan
. railway company, living expenses....8(1)(e)
. RCA contributions
. . deductions....8(1)(m.2)
. receipts from profit sharing plans....12(1)(n)
. relocation
. . eligible housing losses defined....6(22)
. . eligible relocation defined....248(1)
. . financing subsidies....6(19)
. . housing losses....6(20)
. . housing losses defined....6(21)
. returns filed with employer re withholding tax....Reg. 107
. salary deferral arrangement — see Salary deferral arrangements
. salary payable to assistant, deduction....8(1)(i)
. salesman, expenses....8(1)(f)
. services to corporation other than employer....Reg. 402.1
. shares returned to issuer....8(12)
. sickness and accident insurance benefits....6(1)(f)
. specified
. . defined....248(1)
. . limitation re research and development deduction....37(9.1)–37(9.3); 37(9.5)
. . . filing....37(9.4)
. stock options
. . adjusted cost base....53(1)(j)
. . CCPC....7(1.1)
. . ceasing to be exercisable....7(1.7)
. . charitable donation....110(1)(d.01); 110(2.1)
. . deductions from income....110(1)(d); 110(1)(d.1)
. . deferral of taxation....7(8)–(16)
. . disposition within 30 days....7(1.31)
. . election re deferral....7(10)–(14)
. . emigration....7(1.6)
. . exchange of options....7(1.4)–(1.5)
. . filing requirements....7(16)
. . information returns....Reg. 200(5)
. . not identical property....47(3)
. . order of disposition....7(1.3)
. . qualifying person, defined....7(7)
. . reduction in exercise price....110(1.7)–(1.8)
. . security, defined....7(7)
. . taxation of....7(1)
. . termination of employment....7(4)
. . trustee holding....7(2); 7(6)
. . value of shares....110(1.5)–(1.6)
. . withholding tax....7(15)
. supplies consumed in performance of duties....8(1)(i)
. tax credit....118(10)
. transport, expenses deductible....8(1)(g)
. traveling expenses....8(1)(f); 8(1)(h)
. . certificate of employer....8(10)
. . personal motor vehicle used for....8(1)(h.1)
. trust
. . defined....248(1)
. . distribution of....107.1
. . income....6(1)(h)

Employees profit sharing plan
. allocation to beneficiaries....144(4)
. allocations as income....144(3); 144(7)
. amalgamated corporations....87(2)(r)
. beneficiaries' receipts deductible....144(6); 144(7)
. beneficiary receiving property other than money....144(7.1)
. capital gains or losses
. . allocated to employees....144(4)
. . inclusion in beneficiary's income....144(3); 144(7)
. . unused portion of beneficiaries' exempt capital gains balance....144(1)
. computation of beneficiaries' income....144(3)
. contingent allocations to employees taxable....144(3)
. defined....248(1)

Section

Employees profit sharing plan — continued
. dividend tax credit....144(8)
. election....144(4.1); Reg. 1500
. employer's contributions
. . deductible....144(5)
. . out of profits payments....144(10)
. exemption....81(1)(k); 144(2); 149(1)(p)
. foreign tax deduction....144(8.1)
. information return from trustee....Reg. 212
. out of profit payments....144(10)
. property disposition, deemed....144(4.1); 144(4.2)
. refunds of tax....144(9)
. taxation year of trust....144(11)

Employers
. amounts paid under salary deferral arrangement, deduction....20(1)(pp)
. ceasing to carry on business, withholding tax due....Reg. 108(2)
. certificate re deductible expenses....8(10)
. deferred profit sharing plan contributions — see Deferred profit sharing plans
. defined....248(1)
. defined for withholding tax....Reg. 100(1)
. employee benefit plan contributions, deduction limitations....18(10)
. employee's responsibility re tax filing....Reg. 107
. establishment....Reg. 100(4)
. multi-employer plan
. . defined, RPP....147.1(1)
. . specified, defined, RPP....147.1(1)
. payments to employee as remuneration....6(3)
. pension fund contributions deduction....20(1)(q)
. profit sharing plan contributions — see Profit sharing plans
. RCA contributions deductible....20(1)(r)
. salary deferral arrangement — see Salary deferral arrangements
. specified, defined....122.3(2)
. supplementary unemployment benefit plan contributions....20(1)(x); 145(5)
. . deduction limitations....18(1)(i)
. union employer....252.1

Employment
. defined....248(1)
. employed, defined....248(1)
. income from — see Income, employment
. insurance benefit plans
. . events occurring before 1974....A.R. 19(1)
. . plan in existence on June 19, 1971....A.R. 19(2)
. insurance benefits....6(1)(f)
. loss from....4; 5(2)
. non-resident in Canada....2(3); 114
. . deductions permitted....115(1)
. . taxable income computation....115(1)
. part-time residents....114
. tax credit — see Employment tax credit
. United Nations....Reg. 6000; Reg. 8900

Employment insurance
. appeal costs, deductible....60(o)
. benefits repayment, deduction....60(v.1)
. benefits taxable....56(1)(a)(iv)
. . withholding tax....153(1)(d.1)
. premiums, tax credit....118.7
. repayment of overpayment....60(n)
. supplementary benefit plans — see Supplementary unemployment benefit plans

Employment tax credit
. general....118(10)
. overseas employment....122.3
. parent corporation's on winding-up of subsidiaries....88(1)(e.4)

Energy conservation program — see also Home insulation; Oil substitution program
. grants as income....12(1)(u); 56(1)(s)
. non-residents....212(1)(s)

Energy conservation property
. capital cost allowance....13(18.1); Reg. Sch. II, Class 43.1– 43.2
. deemed operating in required manner....Reg. 1104(14)–(16)
. definitions related to....Reg. 1104(13)

Energy cost assistance
. exemption from income....81(1)(g.5)

Energy property, specified
. CCA....Reg. 1100(24)–(29)
. defined....Reg. 1100(25)

Enforcement of Act — see Administration and enforcement of Act

Entertainment expenses
. deduction limitation....67.1(1)
. exceptions....67.1(2)
. interpretation....67.1(4)

Environmental trusts
. amalgamated corporations....87(2)(j.93)
. beneficiaries....107.3
. deduction of acquisition cost....20(1)(tt)

Section

Environmental trusts — continued
. deduction of contributions....20(1)(ss)
. exempt from tax....149(1)(z)–(z.2)
. payments as business income....12(1)(z.1)
. . dispositions of interests in trusts....12(1)(z.2)
. qualifying, defined....248(1)
. residence....250(7)
. tax credit....127.41
. tax on....211.6
. termination....107.3(3)
. transfers to beneficiaries....107.3(2)

Equipment — see Machinery and equipment

Equity
. defined....122.1(1)
. equity percentage
. . defined....95(4)
. . direct, defined....95(4)
. equity property, defined....Reg. 2405(3)
. limit for the year, defined....Reg. 2405(3)
. shares — see Shares
. SIFT wind-up entity equity, defined....248(1)

Establishment — see Permanent establishment

Estate taxes — see also Death duties
. benefits subject to, deduction from income....60(m)
. interest, deduction....60(d)

Estates
. bankruptcy — see Bankruptcy and insolvency
. clearance certificate....159(2)
. defined....248(1)
. loss carryback....40(3.61)
. references to....104(1)
. returns, due date....150(1)(c)
. trusts — see Trusts
. valuation....Reg. 4200

Estimate of tax — see Tax

European Bank for Reconstruction and Development
. tax exemption....Reg. 806.1

European Fund
. tax exemption....Reg. 806

Evasion of tax — see Tax evasion

Evidence and proof
. amounts not received, affidavit....244(19)
. documents....244(9); 244(13)
. failure to comply....244(7); 244(8)
. judicial notice....244(12)
. no appeal....244(10)
. presumptions....244(11)
. procedure and evidence....244
. proof of personal service....244(6)
. proof of service by mail....244(5)
. return....244(17)–(19)
. signature of Department officer....244(11)
. time of compliance....244(7)

Executors — see Trustees

Exemptions — see also Deductions from income; Deductions from tax
. agricultural organizations....149(1)(e)
. aircraft of non-residents....81(1)(c)
. amateur athletic trusts....149(1)(v)
. amounts not included....81
. apportionment rule....149(6)
. armed forces traveling or separation allowance....6(1)(b)(iii)
. Association of Universities and Colleges of Canada....149(1)(h.1)
. automobile allowance....6(1)(b)(vii.1); 6(1)(b)(x); 6(1)(b)(x)(xi)
. basic
. . individuals....127.53(1)
. . multiple trusts....127.53(2); 127.53(3)
. benevolent societies....149(1)(k)
. . engaged in life insurance business....149(3)–(4.3)
. boards of trade....149(1)(e)
. capital dividend....83(2)
. capital gains....149(2)
. cemetery care trust....149(1)(s.2)
. chamber of commerce....149(1)(e)
. clergy's allowances....6(1)(b)(vi)
. clubs, etc., for social welfare....149(1)(l); 149(5)
. compensation
. . Federal Republic of Germany....81(1)(g)
. compensation trust....149(1)(w)
. corporations, rules applicable....149(10)
. Crown corporations....27; 149(1)(d)–(d.6); 149(1.1)–(1.3)
. . exception....187.61; 191.4(3)
. deferred profit sharing plans....147(7)
. deferred profit sharing trust....149(1)(s)
. disposition proceeds of prescribed debt obligations....12(9.1)
. dividends
. . of foreign affiliate....93(3)
. . paid from tax-paid undistributed surplus....83(1)
. . qualifying....83(1)

Section

Exemptions — continued
. education allowance ... 6(1)(b)(ix)
. employee profit sharing plans ... 144(2); 149(1)(p)
. employers' contribution to plans, etc. ... 6(1)(a)
. energy cost assistance ... 81(1)(g.5)
. environmental trusts ... 149(1)(z)–(z.2)
. exempt income, defined ... 248(1)
. expense re income, not deductible ... 19(1)(c)
. foreign government officials ... 149(1)(a)
. . families and servants ... 149(1)(b)
. foreign government secured public utility bond interest ... 81(1)(m)
. foreign retirement arrangement income ... 81(1)(r)
. fraternal societies ... 149(1)(k)
. . engaged in life insurance business ... 149(3)–(4.3)
. funeral arrangements, eligible ... 149(1)(s.1)
. Governor-General ... 81(1)(n)
. Halifax disaster pensions ... 81(1)(f)
. heating expense relief ... 81(1)(g.4)
. hepatitis C trust ... 81(1)(g.3)
. housing companies ... 149(1)(n)
. housing companies for aged ... 149(1)(l)
. housing corporations ... 149(1)(i)
. information returns ... 149(12)
. insurers of farmers and fishermen ... 149(1)(t)
. interest payable to international organizations ... Reg. 806–806.2
. labour organization ... 149(1)(k)
. married persons — see Spouses or common-law partners
. master trusts ... 149(1)(o.4)
. members of legislative assembly ... 81(2)
. members of religious orders ... 110(2)
. municipal authorities ... 149(1)(c)
. municipal corporations ... 149(1)(d)–(d.6); 149(1.1)–(1.3)
. municipal officers ... 81(3)
. non-profit organizations ... 149(1)(l)
. . deemed trust ... 149(5)
. . scientific research, for ... 149(8)
. part-time employees
. . travel expenses ... 81(3.1)
. pension corporation ... 149(1)(o.1)–(o.2)
. pension trusts ... 149(1)(o)
. personal injury award ... 81(1)(g.1)
. provincial corporations ... 149(1)(d)–(d.6); 149(1.1)–(1.3)
. provincial indemnities ... 81(1)(q)
. RCA ... 149(1)(q.1)
. recreation clubs
. . investment income ... 149(5)
. registered charity ... 149(1)(f)
. registered disability savings plans ... 149(1)(u.1)
. registered education savings plans ... 146.1; 149(1)(u)
. registered retirement income fund ... 149(1)(x)
. registered retirement savings plan trust ... 149(1)(r)
. retirement savings plan trust ... 146(4)
. scholarships and bursaries ... 56(3)
. small business corporations ... 149(1)(o.3)
. social assistance payments ... 81(1)(h)
. sports and recreation lodging allowances ... 6(1)(b)(v.1)
. statutory ... 81(1)(a)
. supplementary unemployment benefit plans ... 145(2); 149(1)(q)
. tax-free savings accounts ... 149(1)(u.2)
. transportation allowances ... 6(6)
. traveling allowance for official purpose ... 6(1)(b)(i)
. trusts to provide vacation pay ... 149(1)(y)
. veterans' pensions, allowances ... 81(1)(d)–(e)
. volunteer services, payment for ... 81(4)
. War Savings Certificates ... 81(1)(b)

Expenditures
. defined ... 143.3(1)
. limitations
. . application of provisions ... 143.3(5)
. . options ... 143.3(2)
. . other interests ... 143.3(4)
. . shares ... 143.3(3)
. matchable — see Matchable expenditures

Expenses — see also Capital expenditures and outlays
. adoption — see Adoption expense tax credit
. advertising — see Advertising and broadcasting
. aircraft, employee-owned ... 8(1)(j)
. . presumption re deductions ... 8(9)
. annual fees, etc. ... 20(1)(e.1)
. annual value of property ... 18(1)(d)
. apportionment, re income ... 18(1)(c)
. automobile, employee-owned
. . depreciation ... 13(11)
. . interest ... 8(1)(j)
. base level deductions ... 18(2)–(2.5)
. borrowing money ... 20(1)(e)
. broadcasting — see Advertising and broadcasting
. building site investigation ... 20(1)(dd)

Section

Expenses — continued
. Canadian development expenses — see Canadian development expenses
. Canadian exploration expenses — see Canadian exploration expenses
. capital outlay not deductible ... 18(1)(b)
. child care — see Child care expenses
. club dues deductibility ... 18(1)(l)
. commission agents ... 8(1)(f); 13(11)
. convention ... 20(10)
. cost of connection to public utilities ... 20(1)(ee)
. cumulative eligible capital amount ... 20(1)(b)
. deductions from income ... 18; 18.1; 19–20
. defined ... 66(15)
. discounts on certain obligations ... 20(1)(f)
. employer's contributions to plans ... 18(1)(i)–(k); 18(1)(o)
. exempt income limitations ... 18(1)(c)
. farm land clearing ... 30
. fees — see Fees
. financial report printing ... 20(1)(g)
. financing expenses ... 20(1)(e)
. food and beverages
. . cost of food as part of airline ticket ... 67.1(4)
. . cost of food as part of convention fees ... 67.1(3)
. . deduction limitation ... 67.1(1)
. . exceptions ... 67.1(2)
. . truck drivers ... 67.1(5)
. . work camp ... 67.1(2)
. foreign resource — see Foreign resource expenses
. franchise representation ... 13(12); 20(1)(cc); 20(9)
. funeral, pre-paid ... 148.1
. incurred in earning exempt income ... 18(1)(c)
. interest — see Interest
. issuing or selling units, shares, interests, etc. ... 20(1)(e)
. landscaping ... 20(1)(aa)
. lease cancellation payments ... 18(1)(q); 20(1)(z); 20(1)(z.1)
. legal — see Legal expenses
. licence representation ... 13(12); 20(1)(cc); 20(9)
. limitations, advertising ... 19(1)
. limitations, general ... 18(1); 67
. lobbying ... 20(1)(cc); 20(9)
. . deemed capital cost allowance ... 13(12)
. . election to defer ... 20(9)
. meals ... 8(4)
. medical — see Medical expenses
. moving — see Moving expenses
. municipal officers ... 81(3)
. non-deductible
. . recreational facilities and club dues ... 18(1)(l)
. payments on discounted bonds ... 18(1)(f)
. permit representation ... 13(12); 20(1)(cc); 20(9)
. personal or living ... 18(1)(h)
. . defined ... 248(1)
. . value deemed income ... 6(1)(b)
. personal services business expenses ... 18(1)(p)
. political contributions ... 18(1)(n)
. prepaid
. . amalgamated corporation's ... 87(2)(j.2)
. . limitations ... 18(9)
. . limitations of insurers ... 18(9.02)
. property cost ... 20(1)(a)
. railway companies, repairs, etc. ... 36
. railway workers ... 8(1)(e)
. reasonable ... 67
. transitional provisions ... A.R. 31
. reasonable expectation of profit ... 3.1
. rent ... 18(1)(d)
. representation
. . deductions ... 20(1)(cc)
. . deemed deducted as depreciation ... 13(12)
. . election to defer ... 20(9)
. . exemption ... 6(1)(b)(iii); 6(1)(b)(iv)
. representation re business ... Reg. 4100
. reserves ... 18(1)(e)
. resource expenses of limited partner ... 66.8(1)
. . following fiscal periods ... 66.8(2)
. royalties ... 18(1)(m); 80.2
. scientific research — see Scientific research and experimental development
. shares issuing or sale ... 20(1)(e)
. shares transfer ... 20(1)(g)
. sinking fund ... 18(1)(e)
. site investigation ... 20(1)(dd)
. soft costs re construction
. . commencement of foundation ... 18(3.7)
. . completion time ... 18(3.3)
. . deduction limitations ... 18(3.1)
. . delayed construction ... 18(3.6)
. . exceptions ... 18(3.4); 18(3.5)
. . included costs ... 18(3.2)
. trade union membership dues ... 8(1)(i)
. trademark representation ... 13(12); 20(1)(cc); 20(9)
. transport employees, income deduction ... 8(1)(g)
. traveling — see Traveling expenses
. trust property maintenance ... 105(2)

Section

Expenses — continued
. unpaid ... 78
. unreasonable ... 67
. . transitional provisions ... A.R. 31
. utilities service connection ... 20(1)(ee)

Experimental development — see Scientific research and experimental development

Exploration and development expenses
. 1948–1962 expenses ... A.R. 29(9)
. 1962–1972 expenses ... A.R. 29(10)
. acquisition of control ... 66(11); 66(11.3)
. amalgamated corporation's ... 66.7(10.1); 87(1.2); A.R. 34(4)
. amounts deemed deductible ... 66(14)
. at-risk amount, defined ... 66.8(3)(a)
. bonus payments
. . rights acquired pre–1962 ... A.R. 29(21)–A.R. 29(22)
. Canadian
. . acquisition of control ... 66(11); 66(11.3)
. . anti-avoidance rule where change of control ... 66.7(11)
. . deductions ... 66(1)
. . defined ... 66(15); 248(1)
. . joint exploration corporations' ... 66(1)–(10.4)
. . limitations ... 66(12.1); 66(13)
. . successor corporation's ... 66.7(1)
. . successor rule where change of control ... 66.7(10)
. . use of borrowed money ... 21(2)–(4)
. Canadian cumulative
. . reduction of ... 66.7(12)
. Canadian development expenses — see Canadian development expenses
. Canadian exploration expenses — see Canadian exploration expenses
. Canadian oil and gas exploration expenses — see Canadian oil and gas property expenses
. carved-out income deductions ... 66(14.6)
. certificate of Minister ceasing to be valid ... 66.1(10)
. change of control of corporation
. . resource property acquisition ... 66(11.4); 66(11.5)
. computation ... 66(12)
. control change ... 66(11); 66(11.3)
. cost of borrowed money ... 21(2)–(4)
. cumulative expense deduction ... 66.2(2)
. . Canadian development expenses ... 66.2(6)
. . non-resident partnership ... 66.2(7)
. . partnership ... 66.2(6)
. cumulative offset account
. . addition of designated amount ... 66(14.1); 66(14.2)
. . change of control ... 66.5(3)
. . computation ... 87(2)(pp)
. . deductions permitted ... 66.5(1)
. . defined ... 66.5(2)
. . instalment payment of tax ... 196(3)
. . return ... 196(2)
. . taxation ... 196(1)
. dealers ... 66(5)
. deductions from expenses
. . northern mineral exploration assistance payments ... A.R. 29(28)
. deductions from income ... 66(3); 66.1(2); 66.5(1)
. . 1962–1972 expenses ... A.R. 29(11)–A.R. 29(12)
. . change of control of corporation ... 66.5(3)
. . exceptions ... A.R. 29(24)
. . expenses incurred 1949–1952 ... A.R. 29(1)
. . expenses incurred 1952–1972 ... A.R. 29(2)–(5)
. . limitation ... A.R. 29(23)
. deemed not deductible ... A.R. 29(34)
. definitions related to ... 66(15)
. drilling expenses — see Oil and gas wells
. expenses incurred 1949–1952 ... A.R. 29(1)
. foreign ... 66(4)
. . acquisition of control ... 66(11); 66(11.3)
. . ceasing to be Canadian resident ... 115(4.1)
. . change of residence ... 66(4.3)
. . country-by-country allocations ... 66(4.1)
. . deductions where short taxation year ... 66(13.1)
. . defined ... 66(15); 248(1)
. . foreign resource pool expenses, defined ... 248(1)
. . limitations ... 66(12.4)–(12.42)
. . method of allocation ... 66(4.2)
. . reduction of ... 66.7(13)
. . specified, defined ... 66(15)
. . successor's ... 66.7(2)
. . successor's allocation ... 66.7(2.1)–(2.2)
. . use of borrowed money ... 21(2)–(4)
. foreign resource property
. . anti-avoidance rule where change of control ... 66.7(11)
. . defined ... 66(15)
. . original owner, defined ... 66(15)
. . predecessor owner, defined ... 66(15)
. . production from, defined ... 66(15)
. . successor rule applicability ... 66.7(6)–(8)
. . successor rule where change of control ... 66.7(10)
. frontier exploration allowance
. . deductions ... Reg. 1207

Section

Exploration and development expenses — continued
. frontier exploration base
. . defined ... Reg. 1207(2)
. . threshold amount ... Reg. 1207(3)
. income ... 20(1)(kk)
. joint exploration corporation ... Reg. 1206(4)
. limitation of deductions ... 66(12.1); 66(13)
. limited partner's resource expenses ... 66.8(1)
. . at-risk amount ... 66.8(3)(a)
. . following fiscal period ... 66.8(2)
. mining corporations
. . expenses incurred 1952–1972 ... A.R. 29(2)–(5)
. overhead expenses
. . capital allowance of a person ... Reg. 1206(6)
. . connected person and corporation ... Reg. 1206(5)(a)
. . cost incurred by a person ... Reg. 1206(5)(b)
. . defined ... Reg. 1206(1); Reg. 1206(4.2)
. . equity percentage ... Reg. 1206(7)
. . joint exploration corporation ... Reg. 1206(4.1)
. partner's share ... 66.1(7)
. petroleum and natural gas corporations
. . expenses incurred 1949–1952 ... A.R. 29(1)
. principal business corporations ... 66(1)
. property acquired by successor corporation ... A.R. 29(25)
. recovery of ... 59(3.2); 66.1(1); 66.2(1)
. reduction of
. . Canadian cumulative expenses ... 66.7(12)
. . foreign expenses ... 66.7(13)
. shares of capital stock
. . acquisition ... 66.3(1)
. . deductions from paid-up capital ... 66.3(2)
. sodium chloride or potash ... 66(2)
. special product corporations ... 66(2)
. specified percentage, defined ... Reg. 1206(1)
. successor corporation, defined ... 59(3.4)
. successor corporation rules ... 66.7
. unitized oil or gas field ... 66(12.2); 66(12.3)
. . property expense deductions ... 66(12.5)

Exploration and development grants
. income ... 20(1)(kk)

Exploration and drilling rights
. deductions from income
. . limitation re pre–1962 rights ... A.R. 29(13)
. transitional provisions
. . bonus payments, rights acquired pre–1962 ... A.R. 29(21)–A.R. 29(22)
. . payments deductible ... A.R. 29(14)
. . receipts for, included in income ... A.R. 29(16)–(20)

Expropriation assets
. adjusted cost base ... 53(1)(k)
. foreign property ... 80.1(1)
. . acquired from foreign affiliate ... 80.1(4)–(6)
. . adjusted principal amount, defined ... 80.1(7)
. . currency ... 80.1(8)
. . election ... 80.1(2); Reg. 4500
. two or more ... 80.1(9)

F

Facsimile transmission device
. capital cost allowance ... Reg. 1101(5p)

Fair market value — see also Inadequate consideration
. capital interest in trust ... 107(1.2)
. capital stock of corporation, deceased persons ... 70(5.3)
. charitable gifts ... 118.1(10.1); 248(35)–(37)
. convertible property ... 51(2)
. deemed dispositions at ... 13(7)
. defined ... 70(8)
. depreciable property
. . change in use ... 13(7)
. ecological gifts ... 118.1(10.2)–(10.5); 118.1(12)
. election by individuals on Valuation Day ... Reg. 4700
. inventory property ... 10(1)–(6)
. . incorrect valuation ... 10(3)
. . work in progress ... 10(4)–(6)
. mineral resource acquired from Crown ... 69(7)
. mineral resource disposed to Crown ... 69(6)
. publicly traded securities ... A.R. 26(11)
. readily obtainable, defined ... 94.2(1)
. stock options ... 110(1.5)–(1.6)
. total cultural gifts ... 118.1(10)
. undivided interest in property ... 160(3.1)
. vested interest in trust ... 107.4(4)

Fairness provisions — see Ministerial discretion

False return — see Offences and penalties

Family
. defined re communal organizations ... 143(4)

FAPI — see Foreign accrual property income

Farmers
. agricultural cooperative corporations — see Agricultural cooperative corporations
. basic herd
. . defined ... 29(3)

Section

Farmers
. basic herd — continued
. . reduction ... 29(1)–29(2)
. capital gains, principle residence ... 40(2)(c)
. CCA rate ... Reg. 1700–1704
. . application of regulations ... Reg. 1704
. . building or structure to preserve ensilage on a farm ... Reg. Sch. II, Class 8, 19, 29, 39, 43
. . buildings used to produce income ... Reg. Sch. II, Class 6
. . depreciable cost of property ... Reg. 1703(2)
. . fruit and vegetable storage structure ... Reg. Sch. II, Class 8, 19, 29, 39, 43
. . grants, subsidies, etc. ... Reg. 1703(5)
. . maximum deduction ... Reg. 1701
. . personal use property ... Reg. 1703(4)
. . property acquired by gift ... Reg. 1703(8)
. . property acquired from a parent ... Reg. 1703(7)
. . property not included ... Reg. 1702
. . taxation year ... Reg. 1703(1)
. . transactions not at arm's length ... Reg. 1703(6)
. chief source of income, determination ... 31(2)
. computation of income
. . cash method ... 28(1)
. . disposal of animals ... 29; 80.3(1)
. . farming not chief source of income ... 31
. . inventory acquisition ... 28(1.1)
. . inventory valuation ... 28(1.2)
. . joint business ... 28(2)
. . land clearing ... 30
. . land drainage system ... 30
. . Minister's concurrence to method ... 28(3)
. . reserves not deductible ... 20(7)
. . residence change ... 28(4)
. . sale of business ... 28(5)
. family farm corporations and partnerships
. . inter vivos transfer to child ... 73(4)–(4.1)
. . interest in partnership ... 70(10); 110.6(1)
. . net income stabilization account ... 110.6(1.1)
. . shares of capital stock ... 70(10); 110.6(1)
. . transfer to child at death ... 70(9.2)–(9.31); 70(9.8)
. . transfer to parent at death ... 70(9.6)
. farm support payments
. . information returns ... Reg. 234
. farming, defined ... 248(1)
. forest management plans ... Reg. 7400
. income computation ... 28; 31(1)
. instalment base, defined ... 155(2)
. insurers of, tax exemption ... 149(1)(t); Reg. 4802(2)
. land
. . adjusted cost base ... 53(1)(i)
. . disposition by partnership ... 101
. . instalment payment on sale ... 12(1)(g)
. limitation on interest ... 161(4)
. livestock — see Livestock
. losses — see Losses, farm
. net income stabilization account — see Net income stabilization account (NISA)
. payment of tax, due date ... 155
. property transfer to child
. . attribution of capital gain ... 75.1
. . on death ... 70(9)–(9.31); A.R. 26(18)
. . inter vivos transfers ... 73(3)–(6)
. . leased property ... 70(9.8)
. . reserve ... 40(1.1); 44(1.1)
. property transfer to parents at death ... 70(9.6)
. qualified farm property
. . capital gains deduction ... 110.6(2)
. . deemed capital gain ... 14(1.1)
. . defined ... 110.6(1)
. . property used in farm business ... 110.6(1.3)
. . transition year ... 110.6(2.3)
. restricted farm losses — see Losses, farm
. undepreciated capital cost of property ... 13(27)(g)
. Western Grain Stabilization Act
. . deduction of levy ... 20(1)(ff)
. . payments ... 12(1)(p)
. Wheat Board certificate ... 161(5)
. winding-up of subsidiary ... 88(1.6)

Federal Court of Appeal — see also Appeals
. appeals re registration ... 172(3)
. appeals to ... 180
. transmission of documents by Minister ... 176(2)

Federal–Provincial Fiscal Arrangements Act
. application of agreement ... 228
. collection agreement ... 228

Fees
. annual, deduction ... 20(1)(e.1)
. directors as income ... 6(1)(c)
. guarantee, non-resident persons ... 214(15)
. investment counsel, deductibility ... 20(1)(bb)
. listing of stock, deductions ... 28(1)(g)(ii)
. management, non-resident receiving ... 212(1)(a); 212(4)
. paid to reduce interest rate on borrowing, deduction ... 18(9.1)
. RRSP, RRIF, TFSA, non-deductible ... 18(1)(u)

Section

Fees — continued
. share transfer and listing ... 20(1)(g)
. transfer of property, deductibility ... 20(1)(g)
. tuition — see Tuition fees
. withholding tax ... 153(1)(g)

Fellowships — see Scholarships, fellowships and bursaries

Fence
. CCA rate ... Reg. Sch. II, Class 6

Fibre-optic cable
. CCA rate ... Reg. Sch. II, Class 42

Filing — see Electronic filing; Information returns; Returns

Filing-due date
. defined ... 248(1)

Film or video
. capital cost allowance
. . Canadian production ... Reg. 1100(1)(m); Reg. 1101(5k.1)
. . certified feature film ... Reg. Sch. II, Class 12
. . certified production ... Reg. 1101(5k); Reg. Sch. II, Class 12
. . completed during taxation year ... Reg. 1100(22)
. . motion picture films ... Reg. Sch. II, Class 18
. . not completed during taxation year ... Reg. 1100(21)–(23)
. . rate ... Reg. Sch. II, Class 10, 18
. . for rental ... Reg. Sch. II, Class 12
. . television commercial ... Reg. Sch. II, Class 12
. certified feature film
. . CCA rate ... Reg. Sch. II, Class 12
. . defined for CCA ... Reg. 1104(2)
. certified feature production, defined ... Reg. 1104(10)
. certified production
. . CCA rate ... Reg. Sch. II, Class 12
. . defined ... Reg. 1104(2); Reg. 1104(10)
. . separate classes ... Reg. 1101(5k)
. film property, defined for minimum tax ... 127.52(3)
. information returns
. . general ... Reg. 225
. . payment to non-resident ... Reg. 202(1)
. motion picture films
. . CCA rate ... Reg. Sch. II, Class 18
. . payments to non-residents ... 212(5)
. non-resident actors ... 212(5.1)
. non-resident supplying
. . information return ... Reg. 202(1)
. . withholding tax ... 212(5)

Film or video production services tax credit
. accredited film or video production certificate
. . defined ... 125.5(1)
. . revocation of certificate ... 125.5(6)
. accredited production, defined ... 125.5(1); Reg. 9300
. assistance, defined ... 125.5(1)
. Canadian labour expenditure
. . defined ... 125.5(1)
. . rules governing ... 125.5(2)
. deemed government assistance ... 125.5(5)
. eligible production corporation, defined ... 125.5(1)
. exclusion ... 125.5(4)
. qualified Canadian labour expenditure, defined ... 125.5(1)
. rate ... 125.5(3)
. revocation of certificate ... 125.5(6)
. salary or wages, defined ... 125.5(1)

Film or video production tax credit
. amalgamations ... 87(2)(j.94)
. animation production ... Reg. 1106(7)
. assistance defined ... 125.4(1)
. calculation ... 125.4(3)
. Canadian, defined ... Reg. 1106(1)
. Canadian film or video production
. . defined ... Reg. 1106(4)
. . requirements ... Reg. 1106(5)
. Canadian film or video production certificate
. . defined ... 125.4(1)
. Canadian government film agency ... Reg. 1106(1)
. certificate of completion
. . application for ... Reg. 1106(1)
. . defined ... Reg. 1106(1)
. credit considered government assistance ... 125.4(5)
. definitions related to ... Reg. 1106
. documentary production ... Reg. 1106(9)
. exception ... 125.4(4)
. excluded production, defined ... Reg. 1106(1)
. guidelines ... 125.4(7)
. investor defined ... 125.4(1)
. labour expenditure defined ... 125.4(1)
. labour expenditure rules ... 125.4(2)
. lead performer/ screenwriter, defined ... Reg. 1106(8)
. licence fee program ... Reg. 1106(11)
. points allocation ... Reg. 1106(5) (7)
. prescribed amount defined ... Reg. 1106(11)
. prescribed person, defined ... Reg. 1106(10)

Film or video production tax credit — continued
. prescribed taxable Canadian corporation....Reg. 1106(2)
. producer, defined....Reg. 1106(1)
. production commencement time, defined....125.4(1)
. qualified corporation defined....125.4(1)
. qualified labour expenditure defined....125.4(1)
. remuneration, defined....Reg. 1106(1)
. revocation of certificate....125.4(6)
. salary or wages defined....125.4(1)
. script material, defined....125.4(1)
. treaty co-production, defined....Reg. 1106(3)
. twinning arrangement, defined....Reg. 1106(1)

Financial Administration Act
. Crown agents, tax computation....124(3)

Financial institutions — see also Banks; Foreign banks; International banking centre business
. acquisition of control....190.1(6)
. amalgamations....87(2)(g.2)
. . mark-to-market property....87(2)(e.4); 87(2)(e.5)
. . specified debt obligations....87(2)(e.3)
. Canadian assets, defined....Reg. 8600
. capital calculation....190.13
. capital deduction
. . related institutions....190.15
. capital of....181.3(3)
. capital property held by
. . election re accrued capital gains, limitation....142.6(9)–142.6(10)
. . election re accrued gains....142.6(8)
. capital tax — see also Capital tax
. . calculation....190.1(1)
. . deductions allowed....190.1(3); 190.1(4)
. . short taxation year....190.1(2)
. . straddle years....190.16
. . unused Part I tax credit....190.1(5)
. . unused surtax credit....190.1(5)
. conversion of foreign bank affiliate to branch....142.7
. credit union, defined....248(1)
. defined....142.2(1); 181(1); 190(1); Reg. 2400(1); Reg. 9000
. designated, defined....153(6)
. election re excluded property....142.2(1); 152(6.2)
. financial institution defined....142.2(1)
. foreign banks — see Foreign banks
. garnishment....224(1.1)
. information return
. . accrued interest payments....Reg. 211
. international — see International banking centre business
. investment allowance....181.3(4)–(5)
. investment dealer defined....142.2(1)
. investments in related institutions....190.14
. listed corporations....Schedule
. long-term debts, defined....190(1)
. mark-to-market property defined....142.2(1)
. prescribed re specified deposits....Reg. 7900
. prescribed segregated fund trusts....Reg. 9000
. reserves....190(1)
. . foreign bank branches....142.7(7)
. restricted....131(10)
. . defined....248(1)
. . information return re taxable dividends....187.5
. . shares acquired under securities lending arrangement....260(9)
. . tax on dividends on taxable RFI shares....187.3(1)
. returns....181.6; 190.2
. shares and debt held by....142.2–142.6
. . accrual rules, general....Reg. 9102
. . accrual rules, special cases and transition....Reg. 9103
. . ceasing to be or becoming financial institution....142.6(1)
. . debt acquired in rollover....142.6(5)–142.6(6)
. . deemed disposition rule, exception....142.6(2)
. . disposition of specified debt obligations....Reg. 9200–9204
. . excluded property....142.2(1); 152(6.2); Reg. 9001–9002.1
. . foreign exchange adjustment....Reg. 9104
. . income from specified debt obligations....Reg. 9100–9104
. . mark-to-market property....142.5; Reg. 8102–8105
. . prescribed debt obligations....Reg. 9202
. . prescribed entities and securities....Reg. 9000–9004
. . prescribed inclusions and deductions....Reg. 9101
. . property ceasing to be inventory....142.6(4)
. . property not inventory....142.6(3)
. . significant interest....142.2(2)–(4); Reg. 9003
. . specified debt obligations....142.2(1); 142.3–142.4; Reg. 9004
. . stop-loss rules....112(5)
. . superficial loss rule....142.6(7)
. specified, defined....248(1)

Financial institutions — continued
. tax payment....181.7
. . provisions applicable....190.21
. taxable capital....181.3(2)
. . accounting method....190(2)
. . calculation....190.12
. . employed in Canada....181.3(1); 190.11; Reg. 8605
. total assets, defined....Reg. 8600
. undertaking re non-resident tax....212(18)
. unused Part I tax credit....190.1(5)
. unused Part I.3 tax credit....125.3(1.1)
. unused Part VI tax credit....125.2(1)–125.2(2)
. winding-up....88(1)(a.3)
. winding-up of Canadian affiliate....142.7(12)–(14)

Financial intermediary corporations
. defined....191(1)

Financial statements
. foreign bank branches....20.2
. foreign investment entities....94.1(1)
. functional currency reporting — see Foreign currency
. printing costs....20(1)(g)

Fines — see also Offences and penalties
. non-deductible....67.6; Reg. 7309

First Nations Tax
. amount deemed paid....120(2.2)
. offences and penalties....239(5)

Fiscal period — see also Taxation year
. alternative method....249.1(4)
. . non-application to tax shelters....249.1(5)
. . revocation of election....249.1(6)
. amateur athletic associations, registered Canadian....Reg. 216(2)
. CCPC status change....249(3.1)
. change of....249.1(7)
. defined....249.1
. . partnerships....249.1(2)
. . subsequent periods....249.1(3)
. exceeding 365 days....249(3)
. partnership members....99(2)
. . partnerships....249.1(2)
. prescribed partnerships....Reg. 8901
. reference to....249(2)
. sale of business....25
. . extended period....25
. . residence requirement to election....25
. terminated partnership....99(1)

Fiscal year-end
. alternative method....249.1(4)
. . additional business income....34.1(1)
. . additional business income, deduction....34.1(3)
. . additional income election for start-up business....34.1(2)
. . death of partner or proprietor....34.1(9)
. . deceased taxpayers....34.1(8)
. . December 31, 1995 income....34.1(4)–(6)
. . December 31, 1995 income, maximum....34.1(7)
. . non-application to tax shelters....249.1(5)
. . partnerships....96(1)
. . revocation of election....249.1(6)
. transitional reserve rule....34.2
. . anti-avoidance rule....34.2(7)
. . calculation of reserve....34.2(4)
. . death of partner or proprietor....34.2(8)
. . December 31, 1995 income, computation....34.2(2)
. . December 31, 1995 income defined....34.2(1)
. . income inclusion....34.2(5)
. . qualifying fiscal period defined....34.2(1)
. . specified percentage defined....34.2(1)
. . substituted business....34.2(3)
. . where reserve may not be claimed....34.2(6)

Fishermen
. amount of remuneration....Reg. 105.1(2)
. catch, defined....Reg. 105.1(1)
. CCA rate....Reg. 1700–1704
. . application of regulations....Reg. 1704
. . buildings used to produce income....Reg. Sch. II, Class 6
. . depreciable cost of property....Reg. 1703(2)
. . fishing vessels....Reg. 1100(1)(i); Reg. 1101(2)
. . grants, subsidies, etc....Reg. 1703(5)
. . maximum deduction....Reg. 1701
. . personal use property....Reg. 1703(4)
. . property acquired by gift....Reg. 1703(8)
. . property acquired from a parent....Reg. 1703(7)
. . property not included....Reg. 1702
. . taxation year....Reg. 1703(1)
. . transactions not at arm's length....Reg. 1703(6)
. computation of income
. . cash method....28(1)
. . joint business....28(2)
. . Minister's concurrence to method....28(3)
. . reserves not deductible....20(7)
. . residence change....28(4)
. . sale of business....28(5)

Fishermen — continued
. crew, defined....Reg. 105.1(1)
. defined....Reg. 105.1(1)
. election....Reg. 105.1(1)
. family fishing corporations and partnerships
. . inter vivos transfer to child....73(4)–(4.1)
. . interest in partnership....70(10); 110.6(1)
. . share of capital stock....70(10); 110.6(1)
. . transfer to child at death....70(9.3)–(9.31); 70(9.8)
. . transfer to parent at death....70(9.6)
. fishing, defined....248(1)
. income computation....28
. instalment base, defined....155(2)
. insurers of, tax exemption....149(1)(t); Reg. 4802(2)
. limitation on interest....161(4)
. payment of tax, due date....155
. property transfer to child
. . on death....70(9)–(9.31)
. . inter vivos transfers....73(3)–(6)
. . leased property....70(9.8)
. . reserve....40(1.1); 44(1.1)
. property transfer to parents at death....70(9.6)
. qualified fishing property
. . capital gains deduction....110.6(2.2)
. . deemed capital gain....14(1.2)
. . defined....110.6(1)
. . property used in fishing business....110.6(1.2)
. . transition year....110.6(2.3)
. remuneration, amount of....Reg. 105.1(1)
. undepreciated capital cost of property....13(27)(g)

Fitness
. child fitness tax credit....118.03; Reg. 9400

Flooding
. tax deferral re livestock disposal....80.3; Reg. 7305

Flow-through partnerships — see SIFT partnerships

Flow-through shares — see Shares, flow-through

Flow-through trusts — see SIFT trusts

Food and beverages
. deduction limitation....67.1(1)
. . truck drivers....67.1(1.1)
. . work camp exemption....67.1(2)
. expense deduction
. . cost of food as part of airline ticket....67.1(4)
. . cost of food as part of convention fees....67.1(3)
. . employee meals....8(4)
. . limitation....67.1(2)
. gluten-free, medical expense....118.2(2)(r)

Foreclosures — see Mortgage

Foreign accrual property income
. amount prescribed....Reg. 5907(13)
. deductible loss....Reg. 5903
. defined....95(1); 248(1)
. determination of components....95(2)
. fresh start rules....95(2)(k)–(k.6)
. functional currency reporting....261(6.1)

Foreign affiliates — see also Non-resident corporations
. account maintenance....Reg. 5907(6)
. acquisition of shares of another foreign affiliate....Reg. 5905(1); Reg. 5905(6)
. active business....95(1); Reg. 5907(1)
. adjusted cost base of share....53(1)(d); 92; Reg. 5911
. amalgamation....Reg. 5905(5.1)
. anti-avoidance....95(3.7)–(3.8)
. assets to taxpayer....80.1(4)–(6)
. available exempt surplus amount....Reg. 5907(2.83)
. Canadian resident shareholder
. . amounts included in computing income....91
. . election, disposition of share....93
. . reassessment....152(6.1)
. capital gains or losses....95(2); Reg. 5907(5)
. . accrued prior to becoming affiliate....95(2.21)
. . cost of capital property....95(2)(f.91)–(f.93)
. . debt settlement or extinguishment....95(2)(i)
. . excluded property, computed separately....95(2)(g.02)
. . foreign exchange....95(2)(g)–(g.02)
. . property disposition....95(2)(f)–(f.12)
. . rollover....95(2)(e.3)–(e.6)
. . suspension of recognition....95(2)(c.1)–(c.6); 95(2)(f.3)–(f.9); 95(2)(h)–(h.5); Reg. 5912–5914
. . transitional provisions....A.R. 35
. carrying on business in a country....Reg. 5906(1)
. computation of income....Reg. 5907(2.1)–(2.83)
. consolidated group
. . deductions....Reg. 5907(1.2)
. . tax payable....Reg. 5907(1.3)
. . taxation....Reg. 5907(1.1)
. contributed property....95(3.3)
. controlled
. . deemed....95(2.201)
. . defined....95(1); 95(2.01)–95(2.02); 248(1)
. . definition....17(13); 17(15); 95(1); 95(2)(u)–(x); Reg. 5907(1)

Section

Foreign affiliates
. controlled — continued
. . determination ... 17(9)–17(10); 17(12)
. . foreign investment entity ... 94.1(2)(h); 95(2)(g.3)
. . loans to ... 17(8)-(8.2); 247(7)
. . look through rule ... 17(9)
. . specified, defined ... 94(1)
. cost of property ... Reg. 5907(2.01)
. currency transactions ... 95(2)(g.3); 95(2.3)
. debt settlement, capital gain or loss ... 95(2)(i)
. deemed ... 95(2)(n); Reg. 5907(3)
. defined ... 95(1); 248(1)
. designated property, defined ... 95(3.1)
. determination of status ... 96(3.6)
. disposition of shares
. . to another foreign affiliate ... 85.1(3)
. . deemed election ... 93(1.1); 93(1.3)
. . election ... 93(1); Reg. 5902
. . exception ... 85.1(4)
. . held by partnership ... 93(1.2)
. . loss ... 93(4)
. . no election ... 93(1.4)
. dissolution or liquidation ... 88(3); 95(2)(e)–(e.2); Reg. 5905(7); Reg. 5907(9)
. dividend-like redemption ... 95(3.2)
. dividends
. . corporations receiving ... Reg. 5900
. . deemed nil ... Reg. 5907(7)
. . disposition ... Reg. 5905(8)
. . exempt ... 93(3)
. . exempt, taxable, pre-acquisition surplus ... Reg. 5900
. . income, included in ... 12(1)(k)
. . in kind ... 80.1(4)
. . order of distribution ... Reg. 5901
. . received by partnership ... 93.1(2)
. . surplus distribution ... Reg. 5901
. . whole ... Reg. 5907(1)
. dividends deduction
. . foreign taxes ... 91(4)
. . by resident corporation ... 113(1); 113(2)
. . by resident shareholder ... 91(5)–(6)
. earnings ... Reg. 5907(1)
. election re share disposition ... 93
. elections ... 95(2)(g.2); Reg. 5915–5919
. eligible trust ... 95(3.2)
. entity, defined ... 95(1)
. excluded property
. . capital gain or loss on settlement of debt ... 95(2)(i)
. . defined ... 95(1)
. . internal disposition ... 95(2)(c.1)–(c.6); 95(2)(f.3)–(f.9)
. exempt deficit ... Reg. 5907(1)
. exempt deficit allocation ... Reg. 5905(16)
. exempt deficit reduction ... Reg. 5905(17)
. exempt earnings ... Reg. 5907(1)
. . designated treaty country ... Reg. 5907(11)–(11.2)
. . determination of qualifying interest ... Reg. 5907(1.01)
. . related corporation, determination ... Reg. 5907(1.01)
. exempt losses ... Reg. 5907(1)
. . designated treaty country ... Reg. 5907(11)–(11.2)
. exempt surplus ... 95(3.8); Reg. 5907(1)
. exempt surplus reduction ... Reg. 5905(18)
. exempt trust ... 95(3.2)
. exempt trust, anti-avoidance ... 95(3.7)
. foreign accrual property income — see Foreign accrual property income
. foreign accrual tax, defined ... 95(1)
. foreign bank, defined ... 95(1)
. foreign currency transactions ... 95(2)(g.3); 95(2.3)
. foreign investment entity ... 94.1(2)(h); 95(2)(g.3)
. foreign reporting rules ... 233.2–233.7
. . information return ... 233.4(4)
. . partnerships ... 233.4(3)
. . status determination ... 233.4(2)
. foreign tax
. . deductions ... Reg. 5907(1)
. . underlying ... Reg. 5907(1)
. fresh start rules ... 95(2)(k)–(k.6); Reg. 5907(2.9); Reg. 5907(2.91)
. government of a country, defined ... 95(2)(y); Reg. 5907(4)
. group foreign affiliate ... Reg. 5907(2.83)
. immigrating companies ... 128.1(1)
. income
. . active business ... 95(1); 95(2)(a); Reg. 5907(2.1)-(2.83)
. . business or property ... 95(2)(f)–(f.12)
. . computation ... 95(2)
. . currency ... 95(2)(f.12)–(f.15)
. . dissolution or liquidation ... 95(2)(e)
. . indebtedness ... 95(2)(a.3); 95(2)(l); 95(2.4)–(2.5)
. . insurance of risks ... 95(2)(a.2)
. . interest ... Reg. 5907(2.81)–(2.83)
. . lease obligations ... 95(2)(a.3)
. . property ... 95(1)
. . provision of services ... 95(2)(b)
. . sale of property ... 95(2)(a.1)

Section

Foreign affiliates — continued
. income bonds ... 95(5)
. indebtedness, defined ... 95(2.5)
. insurance business ... 95(2)(j.1)–(j.2)
. investment business ... 95(1); 95(2)(k)–(k.6); 95(2)(s)–(t); 95(2.1)
. investment property ... 95(1)
. lease obligation ... 95(1)
. lending of money ... 95(1)
. licensing of property ... 95(1)
. limitation on disposition of partnership interest ... 93(2.2); 93(2.3)
. limitation on disposition of shares ... 93(2)–(2.1)
. loans to ... 15(2.1); 17(3)
. look-through rules ... 95(2)(q)
. losses ... Reg. 5907(1)
. . deductible ... Reg. 5903
. . exempt ... Reg. 5907(1)
. . net ... Reg. 5907(1)
. . taxable ... Reg. 5907(1)
. merger ... 95(2)(d); 95(2)(d.1); Reg. 5903(5); Reg. 5905(3)–(5) — see also Foreign mergers
. . taxation year ... Reg. 5907(8)
. net earnings ... Reg. 5907(1)
. . at source ... Reg. 5907(10)
. net loss ... Reg. 5907(1)
. net surplus ... Reg. 5907(1)
. oil and gas business ... Reg. 5910
. participating interest ... 95(3.2)
. participating percentages ... 95(1); Reg. 5904
. partnership
. . adjusted cost base ... 95(2)(j); Reg. 5907(12)
. . deemed partners ... 95(2)(k.7)
. . qualifying member ... 95(2)(o); 95(2)(r); 248(1)
. permanent establishment ... Reg. 5906
. qualifying interest ... 95(2)(m) (n)
. . deemed ... 95(2.2) (2.21)
. qualifying shareholder ... 95(2)(p)
. relevant cost base ... 95(4)
. relevant tax factor ... 95(1)
. services, defined ... 95(3)
. shares
. . account maintenance ... Reg. 5905(6)
. . acquired from a partnership ... 91(7)
. . acquisition, redemption ... Reg. 5905(1) Reg. 5905(2)
. . adjusted cost base ... 92; Reg. 5911
. . amalgamation ... 87(2)(u)
. . deductions for ... 91(4)–(6)
. . disposition, election ... 93
. . election re disposition ... 93
. . fair market value ... A.R. 26(11.1); A.R. 26(11.2)
. . income inclusion ... 91(1)
. . issued by ... Reg. 5905(9)
. . issued to avoid taxes ... 95(6)(b)
. . losses on disposition ... 93(4)
. . partnership, acquired from ... 91(7)
. . partnership, held by ... 93.1(1)
. . reserves for foreign exchange restrictions ... 91(2)
. special rules ... Reg. 5905(1)
. specified adjustment factor ... Reg. 5907(2.83)
. specified discontinuance ... 95(3.3)–95(3.5)
. specified fixed interest ... 95(3.2)
. specified foreign affiliate ... Reg. 5907(2.83)
. specified person or partnership ... 95(1); 95(2.6)
. specified purchaser ... 93(1.6); 95(3.2); 95(3.5)
. specified vendor ... 93(1.5); 95(3.2); 95(3.5)
. stock dividends from ... 95(7)
. surplus distribution ... Reg. 5900–Reg. 5901
. surplus entitlement ... Reg. 5905(10)–(14)
. surplus entitlement percentage ... 95(1)
. tax credits from country of origin ... Reg. 5907(7.1)
. taxable Canadian business ... 95(1)
. taxable deficit ... Reg. 5907(1)
. taxable deficit allocation ... Reg. 5905(19)
. taxable deficit reduction ... Reg. 5905(20)
. taxable earnings ... Reg. 5907(1)
. taxable loss ... Reg. 5907(1)
. taxable surplus ... Reg. 5907(1)
. taxable surplus reduction ... Reg. 5905(21)
. taxation year ... 95(1)
. triggering disposition ... 95(3.3)–95(3.4)
. trust company ... 95(1)
. underlying foreign tax
. . adjustments ... Reg. 5907(13)–(14)
. . defined ... Reg. 5907(1)
. . reduction ... Reg. 5905(22)
. whole dividend ... Reg. 5907(1)
. winding up ... Reg. 5903(6); Reg. 5905(5.2)

Foreign banks — see also Banks; Financial institutions; International banking centre business
. authorized
. . amalgamation and merger ... 142.7(2)
. . assumption of debt obligations ... 142.7(8)
. . branch advance ... 20.2
. . branch establishment dividends ... 142.7(9)–(10)
. . branch establishment rollover ... 142.7(3)–(4)
. . branch financial statements ... 20.2

Section

Foreign banks
. authorized — continued
. . branch interest tax ... 218.2
. . calculation period, defined ... 20.2
. . Canadian affiliate, defined ... 142.7(1)
. . Canadian banking business, defined ... 248(1)
. . capital ... 181.3(3)
. . capital calculation ... 190.13
. . conversion from foreign bank affiliate ... 142.7
. . defined ... 248(1)
. . deposits and loans ... Reg. 413(3)
. . elections ... 142.7(11)
. . eligible capital property ... 14(14)–(15)
. . entrant bank, defined ... 142.7(1)
. . foreign currency debt obligations ... 76.1
. . foreign tax credit ... 126(1.1)
. . interest deduction ... 20.2
. . interest not deductible ... 18(1)(v)
. . investment allowance ... 181.3(4)–181.3(5); Reg. 808(8)
. . investments in related institutions ... 190.14
. . mark-to-market property ... 142.6(1.1)–(1.3); 142.7(6)
. . moving debt from Canadian business ... 76.1
. . OSFI risk-weighting guidelines, defined ... 248(1)
. . reserves ... 142.7(7)
. . returns ... Reg. 801
. . specified debt obligations ... 142.6(1.1) (1.3); 142.7(5)
. . winding-up of affiliate ... 142.7(12)–(14); Reg. 9204
. . withholding tax ... 212(13.3); Reg. 800–804
. defined
. . re foreign accrual property income ... 95(1)
. . re international banking centre business ... 33.1(1)

Foreign broadcasting undertaking — see also Advertising and broadcasting
. defined ... 19.1(4)

Foreign business corporations
. exempt dividends ... 213
. tax non-payable ... 213(2)

Foreign currency
. Canadian currency requirement ... 261(2)
. capital gains and losses ... 39(2)
. conversion by insurers ... Reg. 2404
. debt obligations ... 76.1
. deemed debt settlement ... 80.01(11)
. defined ... 248(1); 261(5)
. exchange rate, defined ... 111(8); 261(5)
. foreign affiliate income ... 95(2)(f.12)–(f.15)
. foreign affiliate's gains or losses ... 95(2)(g)–(g.02)
. foreign currency debt
. . acquisition of control ... 111(12)
. . defined ... 111(8); 248(1)
. . gains and losses ... 40(10)–40(11)
. functional currency reporting
. . amalgamation ... 261(17)
. . amounts carried back ... 261(15)
. . amounts payable or refundable ... 261(11)
. . anti-avoidance ... 261(18)
. . converting Canadian currency amounts ... 261(5); 261(7)
. . deferred amounts re debt ... 261(6)
. . definitions ... 261(1); 261(5)
. . election ... 261(3)
. . foreign affiliates ... 261(6.1)
. . income, gain or loss determinations ... 261(20)–261(21)
. . mergers ... 261(19)
. . partnerships ... 261(6); 261(22)
. . pre-reversion debt ... 261(1); 261(13) 261(14)
. . pre-transition debt ... 261(1); 261(8)–(10)
. . requirements ... 261(3)
. . reversionary years ... 261(1); 261(12)
. . revocation of election ... 261(4)
. . rules ... 261(5)
. . wind-ups ... 261(16)
. hedging agreements ... 95(2)(g.01)
. hedging arrangements ... 95(2)(g.3)
. income in blocked currency ... 161(6); 161(6.1)
. primary currency, defined ... Reg. 9100
. reserves, non-resident corporation shareholders ... 91(2)
. sale or exchange ... 95(2.3)
. securities held by financial institutions ... Reg. 9104
. weak currency debt obligations ... 20.3

Foreign exploration and development expenses — see Exploration and development expenses

Foreign government employees
. exemption ... 149(1)(a)

Foreign investment entity
. accounting ... 94.1(2)(b)
. accrual method
. . definitions ... 94.3(1)
. . rules of application ... 94.3(2)
. . when applicable ... 94.3(3)
. adjusted cost base ... 53(1)(m.1); 53(2)(w); 94.3(5)
. amalgamations ... 87(2)(j.95)

Section

Foreign investment entity — continued
. arm's length interest
. . defined ... 94.1(1)
. . determination ... 94.1(2)(f)
. beneficiary, defined ... 94.1(1)
. capital dividend account ... 94.2(19)
. carrying value
. . deemed nil ... 94.1(2)(j)
. . defined ... 94.1(1)
. change of status ... 94.2(12)
. . fresh start ... 94.2(15)
. conditions ... 94.1(3)
. controlled foreign affiliate ... 94.1(2)(h); 95(2)(g.3)
. deferral amount
. . same interest reacquired ... 94.2(14)
. deferral amount, defined ... 94.2(1)
. defined ... 94.1(1); 248(1)
. demand for information ... 94.1(2)(i); 94.1(2)(p)–(r)
. designated cost, defined ... 94.1(1)
. determination of status ... 94.1(2)
. disposition of interest ... 94.2(21)
. double taxation prevention ... 94.4
. elections ... 94.1(2)(h)
. entity, defined ... 94.1(1)
. exempt business, defined ... 94.1(1)
. exempt interest, defined ... 94.1(2)(g)
. exempt property
. . defined ... 94.1(1)
. . definition not applicable ... 94.1(2)(p)
. exempt taxpayer
. . defined ... 94.1(1)
. . partnerships ... 96(1.9)
. financial statements ... 94.1(1); 94.1(2)(a)
. foreign bank, defined ... 94.1(1)
. foreign insurance policies ... 94.2(10)–(11)
. foreign partnership, residence of members ... 94.2(6)–(8)
. fresh start
. . change of status ... 94.2(15)
. . change of status, tax-exempt entity ... 94.2(17)
. . emigration of taxpayer ... 94.2(16)
. . fresh-start year, defined ... 94.3(1)
. gross-up factor, defined ... 94.2(1)
. imputed income ... 94.1
. income allocation, defined ... 94.3(1)
. income inclusion
. . accrual method ... 94.3(4)
. . imputed income ... 94.1(4)
. . mark-to-market regime ... 94.2(4)
. interest of deceased person ... 70(5.2)
. investment business
. . defined ... 94.1(1)
. . determination ... 94.1(2)(e)
. investment property, defined ... 94.1(1)
. loss allocation, defined ... 94.3(1)
. loss on disposition of interest ... 94.1(5)
. mark-to-market
. . applicability ... 94.2(3)
. . exception ... 94.2(20)
. . formula ... 94.2(1)
. . income inclusion ... 94.2(4)
. . non-resident periods excluded ... 94.2(5)
. . rules of application ... 94.2(2)
. net accounting income
. . defined ... 94.1(1)
. . payable, defined ... 94.1(1)
. non-resident entity, defined ... 94.1(1)
. participating interest
. . cost of ... 94.2(13)
. . defined ... 94.1(1)
. . tracking ... 94.2(9)
. proceeds of disposition, defined ... 94.2(1)
. qualifying entity
. . defined ... 94.1(1)
. . definition not applicable ... 94.1(2)(r)
. readily obtainable fair market value ... 94.2(1)
. reconciliation amount, defined ... 94.2(1)
. rules of application ... 94.1(2)
. significant interest, defined ... 94.1(1)
. specified interest, defined ... 94.1(1)
. specified party, defined ... 94.1(1)
. specified tax allocation, defined ... 94.3(1)
. superficial dispositions ... 94.2(18)
. tax avoidance motive ... 94.1(2)(k)–(n)
. taxation year ... 94.1(1)
. tracking entity, defined ... 94.2(1)
. trading day, defined ... 94.2(1)
. trust, defined ... 94.1(1)

Foreign mergers — see also Amalgamated corporations
. defined ... 87(8.1)
. election re taxation year ... 87(8)
. foreign affiliates ... 87(8)

Foreign property
. expropriation asset ... 80.1(1)
. . election ... 80.1(2); Reg. 4500
. . election re two or more ... 80.1(9)

Section

Foreign property — continued
. resource property
. . acquisition by non-successor ... 66.7(16)
. . anti-avoidance rule where change of control ... 66.7(11)
. . defined ... 66(15)
. . disposition by original owner ... 66.7(13.1)–(13.2)
. . disposition by predecessor owner ... 66.7(15)–(15.1)
. . original owner, defined ... 66(15)
. . predecessor owner, defined ... 66(15)
. . production from, defined ... 66(15)
. . successor rule applicability ... 66.7(6) (8)
. . successor rule where change of control ... 66.7(10)

Foreign reporting rules
. application ... 233.2(2)
. exempt trust
. . conditions ... Reg. 4801.1
. . defined ... 233.2(1)
. first year residents, exception ... 233.7
. foreign affiliates ... 233.4
. . information return ... 233.4(4)
. . partnerships ... 233.4(3)
. . reporting entity ... 233.4(1)
. . status determination ... 233.4(2)
. information return ... 233.2–233.7
. . due diligence exception ... 233.5
. non-resident trust ... 233.2(4); 233.2(4.1)
. partnerships ... 233.3(2)
. penalty for false statement or omission ... 163(2.4)
. . partnerships ... 163(2.6); 163(2.7)–(2.9)
. . shares or debt of foreign affiliate ... 163(2.5)
. reporting entity defined ... 233.3(1)
. reporting requirements ... 233.3
. returns re non-resident trusts ... 233.6
. specified Canadian entity defined ... 233.3(1)
. specified foreign property defined ... 233.3(1)
. specified foreign trust
. . election re filing ... 233.2(5)

Foreign resource expenses
. ceasing to be Canadian resident ... 115(4.1)
. changing residence ... 66.21(5)
. cumulative, defined ... 66.21(1)
. cumulative adjusted, defined ... 66.21(1)
. deductions from income ... 66.21(4)
. defined ... 66.21(1); 248(1)
. definitions relating to ... 66.21(1)–(2)
. foreign resource pool expenses, defined ... 248(1)
. global foreign resource limit, defined ... 66.21(1)
. reduction ... 66.7(13.1)
. specified amount re disposition of property ... 66.7(13.2)
. successor's ... 66.7(2.3)

Foreign resource income
. defined ... 66.21(1)
. definitions relating to ... 66.21(1)–(2)
. foreign resource loss, defined ... 66.21(1)
. income inclusion ... 66.21(3)

Foreign resource property — see Resource property

Foreign retirement arrangements — see also Retirement compensation arrangement
. contributions ... Reg. 6804
. defined ... 248(1)
. definitions related to ... Reg. 6804
. electing employer ... Reg. 6804
. election by union ... Reg. 6804
. foreign non-profit organization, defined ... Reg. 6804
. foreign plan, defined ... Reg. 6804; Reg. 8308.1(1)
. income exemption ... 81(1)(r)
. income inclusion ... 56(12)
. past service pension adjustment ... Reg. 8308.1(5)
. pension credit ... Reg. 8308.1(2)–(2.1); Reg. 8308.1(4)
. . alternative determination ... Reg. 8308.1(3)
. prescribed amount for member ... Reg. 8308.2
. prescribed plans ... Reg. 6803
. qualifying entity, defined ... Reg. 6804
. replacement plan ... Reg. 6804

Foreign spin-off
. cost adjustments ... 86.1(3)
. election ... 86.1(2)
. election deemed to be filed ... 95(2)(g.2)
. eligible distribution ... 86.1(2)
. inventory valuation ... 86.1(4)
. prescribed distributions ... Reg. 5600
. reassessment ... 86.1(5)
. rollover ... 86.1(1)

Foreign tax credit
. amount ... 126(2)–(2.1)
. amounts not eligible ... 126(4)–(4.4)
. amounts not eligible, deduction ... 20(12.1)
. availability ... 126(2.23)
. business income tax defined ... 126(7)
. commercial obligation defined ... 126(7)
. deemed dividend from partnership ... 126(8)
. economic profit defined ... 126(7)
. employees of international organizations ... 126(3)
. exception ... 126(1.2)

Section

Foreign tax credit — continued
. foreign banks ... 126(1.1)
. foreign oil and gas business defined ... 126(7)
. foreign oil and gas levies ... 126(5)
. former resident ... 126(2.21)
. income deemed from separate source ... 126(6)
. multiple foreign countries ... 126(6)
. non-business income tax defined ... 126(7)
. non-resident foreign tax ... 126(2.2)
. prescribed countries ... Reg. 1600
. production tax amount defined ... 126(7)
. qualifying incomes and losses
. . computation ... 126(9); 128(8)
. . qualifying incomes defined ... 126(7)
. . qualifying losses defined ... 126(7)
. related transactions defined ... 126(7)
. rules of construction ... 126(6)
. special ... 127.54(2)
. tax-exempt income defined ... 126(7)
. tax for the year otherwise payable defined ... 126(7)
. taxing country defined ... 126(7)
. United Nations employees ... 126(3)
. unused, defined ... 126(7)
. unused, rules relating to ... 126(2.3)
. unused credits ... 126(2.3)

Foreign tax deductions
. additions for ... 110.5
. amounts not eligible for tax credit ... 20(12.1)
. deductible amounts, non-resident corporation shareholders ... 91(4)
. foreign affiliate's ... Reg. 5907(1)
. income from property exceeding 15% ... 20(11)

Foreign taxes
. accrual
. . defined ... 95(1)
. adjustments re blocked currency ... 161(6.1)
. affiliates' consolidated group
. . deductions ... Reg. 5907(1.2)
. . tax payable ... Reg. 5907(1.3)
. . taxation ... Reg. 5907(1.1)
. carryover, amalgamations ... 87(2)(z)
. credits — see also Foreign tax credit
. . deduction for amounts not eligible ... 20(12.1)
. . prescribed countries ... Reg. 1600
. defined ... 127.54(1)
. income from property exceeding 15% ... 20(11)
. life insurers ... 138(8)
. . deductions not allowed ... 138(5.1)
. non-business income ... 20(12)
. non-resident-owned investment corporation ... 133(4)

Foreign trusts — see Trusts, non-resident

Forest management plans
. commercial woodlots ... Reg. 7400

Forms and precedents
. prescribed or authorized ... 244(16)

Forward averaging — see Income averaging

Franchises
. CCA rate ... Reg. 1100(1)(c); Reg. Sch. II, Class 14
. limited period ... 13(4.2); 13(4.3)
. representation expenses ... 13(12); 20(1)(cc); 20(9)

Fraternal benefit societies — see also Associations and societies
. exemptions ... 149(1)(k)
. life insurance business, taxation ... 149(3)–(4.3)

Frontier exploration — see Oil and gas wells

Fruit and vegetable storage structure
. CCA rate ... Reg. Sch. II, Class 8, 19, 29, 39, 43

Fuel cell equipment
. capital cost allowance ... Reg. Sch. II, Class 43.1–43.2

Fuel tax rebate
. amalgamated corporations ... 87(2)(uu)
. as business income ... 12(1)(x.1)
. non-capital losses ... 111(10)
. partnerships ... 111(10)

Functional currency reporting — see Foreign currency

Funds
. accumulating for annuity contract
. . computation ... Reg. 307(2)
. . defined ... Reg. 307(1)
. accumulating for life policies ... Reg. 307(3)–(5)
. sinking fund
. . allowable deduction ... 18(1)(e)

Funeral arrangements, eligible ... 148.1
. deemed distribution on transfer ... 148.1(4)–(5)
. defined ... 248(1)
. definitions related to ... 148.1
. exemption ... 148.1(2); 149(1)(s.1)
. income inclusion ... 12(1)(z.4)
. non-residents ... 212(1)(v)
. pre-paid expenses ... 148.1
. refund of payment ... 148.1(3)

Section

G

GAAR — see Tax avoidance

Garnishment
. Crown bound 224(1.4)
. definitions 224(1.3)
. discharge of original liability 224(2)
. financial institutions 224(1.1)
. future payments, applicability to 224(3)
. individual's liability to pay 224(4)
. institution's liability to pay 224(4.1)
. requirement to pay 224(1)–(1.2)
. service of garnishee 224(5); 224(6)

Gas utilities — see Public utilities

Gas wells — see Oil and gas wells

Gaspé Peninsula
. defined 127(9)

Gaz Metropolitan and Company, Limited Partnership
. prescribed partnership Reg. 8901

General anti-avoidance rule — see Tax avoidance

Gifts — see Charitable donations

Golf course
. membership expenses, deductibility 18(1)(l)

Goods
. not delivered
. . business income 12(1)(a)
. . deduction 20(1)(m)
. . interpretation 12(2)
. . reserves 12(1)(e)

Goods and services tax
. benefits conferred on 15(1.3)
. change of use 248(15)
. credit
. . adjusted income 122.5(1)
. . amount 122.5(3)
. . bankruptcy 122.5(7)
. . eligible dependant 122.5(1)–(2)
. . eligible individual 122.5(1)–(2); 122.5(5)
. . exception 122.5(6)
. . non-residents 122.5(6.2)
. . payment 122.5(3)
. . qualified relation 122.5(1); 122.5(2)
. . time of payment 122.5(4)
. defined 248(1)
. employee benefits 6(7)
. employment expenses 8(11)
. input tax credit 248(16)
. . aircraft 248(17)
. . assessment 248(17.2)
. . passenger vehicles 248(17)
. . repayment 248(18)
. refundable tax credit 122.5
. refunds 164(2.1)

Goodwill
. amount received on disposition A.R. 21(1)–(3)
. defined re restrictive covenant 56.4(1)
. no eligible capital property election 14(1.03)
. non-arm's length transactions A.R. 21(2)

Government
. aboriginal government, defined 241(10)
. assistance, income inclusion 56(1)(n)
. assistance to buy property, adjusted cost base 53(2)(k)
. bond, etc., issued at discount 16(2)–(5)
. communication of information — see Information
. government entity, defined 241(10)
. representative, defined 241(10)

Governor General
. tax exemption 81(1)(n)

Grain elevators
. CCA rate Reg. 1100(1)(sb)
. operators, income earned in the year in a province Reg. 408

Grandparents
. extended meaning of 252(2)

Grants and subsidies
. apprenticeship incentive grant
. . income inclusion 56(1)(n.1)
. . repayment deductible 60(p)
. exploration and development, income 20(1)(kk)
. government assistance to purchase depreciable property 13(7.2)
. Halifax disaster 81(1)(f)
. home insulation or energy conversion 12(1)(u)
. mineral assistance, exploration and development expense 66(12)
. reduction in qualified expenditure for investment tax credit 127(18)–(26)
. repayments deductible
. . Canada Disability Savings Act 60(z)
. . Canada Education Savings Act 60(x)
. scientific research 12(1)(v)
. . deductible allowance 60(q)
. . income inclusion 56(1)(o)

Section

Grants and subsidies
. scientific research — continued
. . information return Reg. 200(2)(b)
. . non-resident, taxable income 115(2)
. . refund as income 56(1)(p)

Gratuities
. income inclusion 5(1)

Greenhouse
. CCA rate Reg. Sch. II, Class 6

Gross investment revenue — see Revenue

Gross negligence — see Offences and penalties

Gross revenue — see Revenue

Group term life insurance — see Life insurance

Groups
. defined 251(4)
. related
. . corporations controlled by 251(5)
. . defined 251(4)
. unrelated, defined 251(4)

Grubstakers — see Prospectors and grubstakers

GST — see Goods and services tax

Guarantees
. fees, non-resident's 214(15)
. inclusion in income 12(1)(d.1)
. reserves for
. . deductions 20(1)(l.1)
. . non-deductible 20(7)

Guardians
. return required 150(1)(d)

H

Halifax disaster
. pensions, grants, allowances 81(1)(f)

Harness
. CCA rate Reg. Sch. II, Class 10

Health service plans — see Private health service plans

Heat generating equipment
. CCA rate Reg. Sch. II, Class 2, 43.1– 43.2
. . solar Reg. Sch. II, Class 43.1– 43.2

Heat recovery equipment
. CCA rate Reg. Sch. II, Class 34, 43.1– 43.2
. certificate revocation Reg. 1104(11)

Heating expense relief
. exemption from income 81(1)(g.4)

Hedging
. foreign affiliates 95(2)(g.01); 95(2)(g.3)
. weak currency debt 20.3(3)

Hepatitis C trust
. exemption from income 81(1)(g.3)

Herd — see Basic herd

Holding corporations
. deemed to be public company 141(3)–(4)
. defined 139.1(1)
. mutual
. . defined 139.1(1)
. taxable Canadian property 141(5)

Home
. principal residence — see Principal residence
. self-contained domestic establishment, defined 248(1)

Home buyers' plan
. annuitant, defined 146.01(1)
. benefit, defined 146.01(1)
. completion date, defined 146.01(1)
. definitions related to 146.01(1)
. designated withdrawal, defined 146.01(1)
. eligible amount
. . defined 146.01(1)
. . plan holder becomes non-resident 146.01(5)
. . repayment of 146.01(3)
. . . portion not repaid 146.01(4)
. excluded premiums, defined 146.01(1)
. excluded withdrawals
. . deceased person's 146.01(6)
. . deceased person's spouse claiming 146.01(7)
. . defined 146.01(1)
. filing requirement 150(1.1)
. HBP balance, defined 146.01(1)
. income inclusion 56(1)(h.1)
. issuer, defined 146.01(1)
. participation period, defined 146.01(1)
. qualifying home
. . acquisition 146.01(2)
. . defined 146.01(1)
. regular eligible amount, defined 146.01(1)
. replacement property 146.01(1)
. specified disabled person, defined 146.01(1)
. supplemental eligible amount, defined 146.01(1)
. withholding tax exception Reg. 104(3)–(4)

Section

Home insulation — see also Energy conservation program
. grants as income 12(1)(u); 56(1)(s)
. . information return Reg. 224
. . non-residents, taxation 212(1)(s)
. prescribed program Reg. 5500

Home office
. deductions allowed 8(13)
. employee's rent deduction 8(1)(i)
. limitation of deductions 18(12)

Home ownership savings plan — see Registered home ownership savings plans

Home purchase loan
. deemed new 80.4(6)
. defined 80.4(7)
. from employer to acquire 15(2)
. interest rate 80.4(4)
. . deemed 80.5
. . prescribed, defined 80.4(7)
. . reduction 80.4(5)

Home relocation loan
. benefit as income 6(23); 110(1)(j)
. defined 248(1)
. employee subsidy as income 6(19)
. replacement 110(1.4)

Hospital bills — see Medical expenses

Housing corporations
. cooperative, change in use before 1972 A.R. 26.1(1)
. exemptions 149(1)(i); 149(1)(l); 149(1)(n)
. limited dividend, executions 149(1)(n)

Housing losses
. defined 6(21)
. eligible, defined 6(22)
. employee relocation 6(20)

Housing subsidies
. employment income 6(23)

Hunting lodge
. expenses deductibility 18(1)(l)

Husband — see Spouses or common-law partners

Hydro-electric installation
. CCA rate Reg. Sch. II, Class 43.1– 43.2

Hypothecs — see also Mortgage
. accrued interest, deduction allowed 20(14)
. discount on, income deduction 20(1)(f)
. proceeds of sale, disposition of property 20(5)

I

Identical property
. bonds and debentures 47(2)
. defined 248(12)
. employee stock options 47(3)
. gains or losses 47
. insurance corporations 138(11.1)
. owned on Dec. 31, 1971 A.R. 26(8)–(8.5)

Immigration
. corporations
. . deemed dividend to shareholder 128.1(1)
. . exception re non-resident withholding tax 215(1.1)
. . paid-up capital 128.1(2)
. . paid-up capital adjustment 128.1(3)
. deemed disposition of property 128.1(1)–(1.1)
. foreign exploration and development expenses 66(4.3)
. foreign reporting rules 233.7
. foreign resource expenses 66.21(5)

Immovables — see Real or immovable property

Impaired loans
. indexed debt obligations 16(7)
. restriction on reserve 12(4.1)

Impairment — see Disabled persons

Improvements — see Repair and maintenance

In camera proceedings
. appeal 179

Inadequate consideration — see also Fair market value
. corporations, distribution of property to shareholders 69(4)
. . on winding-up 69(5)
. gifts, bequests, etc. 69(1)
. investments of deferred profit sharing plans 201
. property acquired pre–1972 A.R. 32
. property disposed by DPSP 147(18)
. registered disability savings plans 206
. sales 69(1)

Income
. accumulated averaging amount — see Income averaging
. accumulating, of trust — see Trusts
. achievement prize 56(1)(n)
. adjusted, defined re child tax benefits 122.6

Section

Income — continued
. adjusted taxable, determination for minimum tax ... 127.52(1)
. alternative method fiscal year-end
. . additional income ... 34.1
. . December 31, 1995 income ... 34.1(4)–(6)
. . December 31, 1995 income, maximum ... 34.1(7)
. annuity ... 56(1)(d)
. . exempt amounts ... 56(1)(d)–(d.2)
. . payments exempt as ... 16(4)
. annuity contract funds, computation ... 12.2
. apprentice mechanic's tools, disposition ... 56(1)(k)
. apprenticeship incentive grant ... 56(1)(n.1)
. assistance, automotive workers ... 56(1)(a)(v)
. automobile operating cost ... 6(1)(a)
. averaging — see Income averaging
. beneficiaries — see Beneficiaries
. benefits as
. . deferred profit sharing plan ... 147(10)–(12)
. . employee profit sharing plan ... 144(3); 144(7)
. blocked currency ... 161(6)
. . foreign tax adjustment ... 161(6.1)
. business — see Income, business or property
. capital combined with ... 16(1)
. . exceptions ... 16(4); 16(5)
. carved-out — see Income, carved-out
. cash purchase ticket for grain ... 76(4)
. child care benefit ... 56(6)
. computation — see Income computation
. CPP disability benefits ... 56(8)
. credit union, from ... 137(5)
. death benefits under CPP or QPP ... 56(1)(a.1)
. deductions — see Deductions from income
. deferral
. . inclusion of deferred amount ... 80.3(2)–(6)
. . livestock disposal, drought regions ... 80.3; Reg. 7305
. . livestock disposal, flood regions ... 80.3; Reg. 7305
. deferred profit-sharing plan ... 56(1)(i)
. defined ... 3
. depreciable property, disposition ... 13(1)
. designated of a trust — see Trusts
. director's ... 6(1)(c)
. earned — see Income, earned
. employee benefit plan ... 32.1(3)
. employee benefit plan benefits ... 6(1)(g); 12(1)(n.1)
. employee trust ... 6(1)(h)
. employees
. . financing subsidies on relocation ... 6(19)
. employment — see Income, employment
. employment insurance benefits ... 56(1)(a)
. exemptions — see Exemptions
. exploration and development grants ... 20(1)(kk)
. farmers ... 31
. fellowships ... 56(1)(n)
. foreign — see Income, foreign
. foreign accrual property — see Foreign accrual property income
. foreign resource — see Foreign resource income
. foreign retirement arrangement ... 56(1.2)
. government assistance ... 56(1)(a)(vi)
. grants re home insulation or energy conversion ... 12(1)(u)
. inclusions ... 12–17
. indirect payments ... 56(2)
. insurance corporations ... 138(2)
. interest earned by corporation, etc. ... 12(3)–(11)
. interest-free loan benefits ... 56(4.1)
. . limitations ... 56(4.2)
. investment — see Income, investment
. legal expenses recovered ... 56(1)(l)
. life insurance, disposition of interest ... 56(1)(j)
. life insurance policy funds computation ... 12.2
. life insurance policyholder ... 148(1)
. low interest loan benefit ... 56(4.1)
. . limitations ... 56(4.2)
. maintenance insurance plans
. . benefits ... 6(1)(f)
. maintenance payments
. . events occurring before 1974 ... A.R. 19(1)
. mine, from ... Reg. 1104(5)–(6)
. mineral resource
. . acquisition from Crown ... 69(7)
. . disposition to Crown ... 69(6)
. National arts service organizations benefits ... 56(1)(aa)
. negative amounts ... 257
. non-business foreign, taxation ... 20(12)
. non-business income tax, foreign affiliate paying ... 113(1)
. office or employment — see Income, employment
. other sources ... 56–59.1
. partnership — see Partnerships
. payments, Western Grain Stabilization Act ... 12(1)(p)
. payments refund, deductible ... 60(q)
. pension benefits ... 56(1)(a)
. pension income splitting ... 56(1)(a.2)

Section

Income — continued
. personal injury awards, exclusion
. . election, re capital property ... 81(5)
. professional business ... 34; A.R. 23(3)–(5)
. property — see Property
. QPP disability benefits ... 56(8)
. RCA benefits ... 56(1)(x)–(z)
. reasonable expectation of profit ... 3.1
. recaptured depreciation ... 13(1)
. . excess amount re motor vehicles exclusion ... 13(2)
. registered disability savings plan ... 56(1)(q.1)
. registered education savings plan ... 56(1)(q)
. registered retirement savings plan ... 56(1)(h)
. reinsurance commission ... 12(1)(s); 20(1)(jj)
. research grants ... 56(1)(o)
. RESP receipts ... 146.1(7.1)
. restrictive covenants ... 6(3.1); 56.4
. retirement, defined ... 146(1)
. retirement compensation arrangement benefits ... 56(1)(x)–(z)
. retiring allowance ... 56(1)(a)
. rights, valuation ... Reg. 4200
. scholarships, etc. ... 56(1)(n)
. . exemption ... 56(3)
. shareholder of amalgamated corporation ... 87(4)
. social assistance payments ... 56(1)(u)
. source from, defined ... 4(1)
. specified partnership income ... 125(7)
. splitting — see Split income
. support payments
. . calculation of income inclusion ... 56(1)(b)
. . payments to third parties ... 56.1
. taxable — see Income, taxable
. tradesperson's tools, disposition ... 56(1)(k)
. transfer of rights ... 56(4)
. . non-resident transferee ... 212(12)
. trust's — see Trusts
. undistributed — see Income, undistributed
. unemployment benefit plan, supplementary ... 56(1)(g)
. unpaid amounts, when deemed included ... 78(1)
. . corporations winding-up ... 78(2)
. unpaid remuneration when deemed included ... 78(3)
. worker's compensation payments ... 56(1)(v)
. for the year, defined ... 56(9); 120(3)

Income, business or property
. acquisition of eligible capital property ... 14(3)
. active business income of foreign affiliate ... Reg. 5907(2.1)–(2.83)
. adjusted
. . defined for manufacturing and processing corporations ... Reg. 5202
. . defined for resource corporations ... Reg. 5203(1)
. amateur athlete trust payments ... 12(1)(z)
. annuity contract funds
. . deemed acquisition of interest in ... 12.2(8)
. . income computation ... 12.2
. automobile provided to partner ... 12(1)(y)
. bad debts recovered ... 12(1)(i); 12(1)(i.1)
. . inventory property ... 12.4
. benefits from estate or trust ... 12(1)(m)
. computation ... 9(1)
. . amounts to be included ... 14(1)
. . eligible capital property acquired ... 14(3)
. . inclusions ... 12–17
. . inventory property valuation ... 10(1)–(6)
. . ordering of provisions ... 111.1
. . work in progress ... 10(4)–(6)
. debt forgiveness rules ... 12(1)(z.3)
. deductions — see Deductions from income
. disposition of prescribed debt obligation, exemption ... 12(9.1)
. dividends from non-resident corporations ... 12(1)(k)
. dividends from resident corporations ... 12(1)(j)
. earned in a province
. . limitations ... Reg. 2606
. . more than one business ... Reg. 2603; Reg. 2605
. eligible capital amount ... 14(1); 248(1)
. environmental trust receipts ... 12(1)(z.1)
. . dispositions of interests in trusts ... 12(1)(z.2)
. farmers ... 31
. foreign affiliate's active business income ... Reg. 5907(2.1)–(2.83)
. foreign investment entity ... 12(1)(k)
. foreign non-business income, deductions ... 20(12)
. foreign oil and gas production taxes ... 12(1)(o.1)
. former TFSA ... 12(1)(z.5)
. fuel tax rebates ... 12(1)(x.1)
. funeral expenses, eligible ... 12(1)(z.4)
. grants for home insulation or energy conversion ... 12(1)(u)
. inclusions ... 12–17
. individual as proprietor ... 11(1)
. inducement payments
. . deemed outlay or expense ... 12(2.2)
. . receipt of ... 12(2.1)
. insurance proceeds ... 12(1)(f)

Section

Income, business or property — continued
. interest on debt obligations ... 12(3)–(11)
. . deemed accrual ... 12(9)
. interest received or receivable ... 12(1)(c)
. inventory adjustment ... 12(1)(r); 20(1)(ii); 87(2)(j.1)
. inventory valuation ... 10(1)–(6)
. investment contracts ... 12(4)
. . anniversary day ... 12(11)
. . defined ... 12(11)
. investment income from associated corporation ... 129(6)
. investment tax credit ... 12(1)(t)
. life insurance policy funds
. . income computation ... 12.2
. loans as benefit to personal service corporations ... 12(1)(w)
. non-resident trusts ... 12(1)(k)
. partnership income ... 12(1)(l); 96(1)
. payments for right to receive production ... 12(1)(g.1)
. payments received from production or use of property ... 12(1)(g)
. property sold in course of business
. . deemed proceeds ... 14(2)
. . reserve disallowed ... 20(8)
. . reserve for unpaid amounts ... 20(1)(n)
. recaptured depreciation ... 13(1)
. receipts from employee benefit plan contributions ... 12(1)(n.1)
. receipts from employee profit sharing plan contributions ... 12(1)(n)
. refund of anti-dumping duty ... 12(1)(z.6)
. refund of countervailing duty ... 12(1)(z.6)
. reimbursement of Crown charges ... 80.2
. reimbursement payments ... 12(1)(x)
. . deemed outlay or expense ... 12(2.2)
. . receipt of ... 12(2.1)
. reinsurance commission ... 12(1)(s)
. repayment of amount previously included as, deduction ... 20(1)(m.2)
. reserves
. . doubtful debts ... 12(1)(d)
. . goods and services ... 12(1)(e)
. . guarantees, etc. ... 12(1)(d.1)
. . insurers' unpaid claims ... 12.3
. . quadrennial surveys of previous years ... 20(1)(m)
. . services not rendered ... 12(1)(h)
. restrictive covenants ... 12(1)(x)
. royalties ... 12(1)(o)
. . amounts receivable ... 12(1)(b)
. royalty refunds ... 12(1)(x.2)
. services, etc., to be rendered ... 12(1)(a)
. . interpretation ... 12(2)
. stabilization payments under Western Grain Stabilization Act ... 12(1)(p)
. transitional provisions ... A.R. 17(5)

Income, carved-out
. deductions ... 66(14.6)
. defined ... 209(1)
. partnership's ... 209(6)
. payment of tax ... 209(4)
. provisions of Act applicable ... 209(5)
. return ... 209(3)
. taxation ... 209(2)

Income, earned
. defined ... 63(3)
. out of province ... 120(1)
. in a province — see Income computation
. RRSPs ... 146(1)

Income, employment
. automobile benefits ... Reg. 200(3)
. awards ... 6(1)(j)
. computation ... 3
. . amounts to be included ... 6
. . basic rules ... 5(1)
. disability-related benefits ... 6(16)
. inclusions ... 6
. loss insurance as income ... 6(1)(f)
. reimbursements ... 6(1)(j)
. restrictive covenants ... 6(3.1)
. retirement compensation payments ... 12(1)(n.3)

Income, foreign
. in blocked currency ... 161(6)
. . foreign tax adjustment ... 161(6.1)
. FAPI — see Foreign accrual property income
. non-business income, taxation ... 20(12)
. resource — see Foreign resource income

Income, investment
. associated corporation, deemed active business income ... 129(6)
. defined ... 110.6(1)
. defined re trust ... 108(1)
. information returns ... Reg. 201(1)
. insurance corporations ... 138
. . branch tax election by non-residents ... 219(4); Reg. 2403(1)
. life insurers ... 138
. . definitions related to ... 211(1)

Section

Income, investment
. life insurers — continued
. . instalment payment of tax....211.3
. . instalment payment of tax, payment of remainder....211.4
. . instalment payment of tax, provisions of Act applicable....211.5(1)
. . returns....211.2
. . tax payable....211.1(1); Reg. 2402
. paid to associated corporation....129(6)
. recreational clubs....149(5)

Income, taxable
. adjusted, determination for minimum tax....127.52(1)
. apportionment for taxation year....149(6)
. computation....110–114
. . order of deductions....110.6(17)
. defined....2(2); 248(1)
. earned in a province
. . by airlines....Reg. 407
. . by banks....Reg. 404(1)–(4)
. . by bus and truck operators....Reg. 409
. . by corporations
. . . computation....Reg. 401
. . . defined....Reg. 400(1)
. . . gross revenue determination in other countries....Reg. 402(4)–(6)
. . . permanent establishment determination....Reg. 402(1)–(3)
. . by divided business....Reg. 412
. . by grain elevator operators....Reg. 408
. . by insurance corporations....Reg. 403(1)
. . by net premiums....Reg. 403(2)
. . by net premiums where no permanent establishment....Reg. 403(3)–(4)
. . by international banking centre....Reg. 413.1
. . by pipeline operators....Reg. 411
. . by railways....Reg. 406
. . by ship operators....Reg. 410(1)
. . by trust and loan corporations....Reg. 405
. earned in Canada, defined....248(1)
. earned in the year by non-resident corporations....Reg. 413(1)
. earned in the year in a province, defined....124(4)
. logging operations....Reg. 700
. non-resident-owned investment corporation....133(2)
. non-residents....115(2)
. . computation....115(1)
. . deductions permitted....115(1)
. . deemed payments....214(3)
. . time of deemed payment....214(3.1)
. part-time residents....114
. resident's liability for tax....2(1)

Income, undistributed
. capitalization....84(1)
. deemed dividend on
. . distribution....84(1)
. . redemption or conversion of stock....84(3)
. election re tax....Reg. 2102(2)
. tax-paid, dividends deemed to be paid from....83(1)

Income averaging
. annuities — see Annuities
. authors....61(1)
. business losses over five years....111(1)(a)
. composers....61(1)
. forward, credit....120.1
. lump-sum payments from pension plans, 1971–1974....A.R. 40

Income bonds and debentures — see Bonds and debentures

Income computation
. accountants....34
. accounting methods limitations....248(24)
. accrual method....34
. additions and deductions....6
. adjusted business income — see Income, business or property
. adjusted cost base — see Adjusted cost base
. amalgamated corporations....87
. amount not included....81; 248(28)
. amounts deemed payable as proceeds of disposition....14(2)
. amounts to be included in income....6
. annuity contract funds
. . accrued investment income....12.2
. annuity payments, exempt amounts....56(1)(d)–(d.2)
. apprenticeship incentive grant....56(1)(n.1)
. assistance under Canada–U.S. Agreement on Automotive Products....56(1)(a)(v)
. automobile allowance....6(1)(b)
. automobile operating cost....6(1)(a)
. automobile operating expenses....6(1)(k); 6(1)(l)
. awards, etc., re work of arts, literature, music, etc....56(1)(n)
. awards and prizes....56(1)(n)
. bad debt recovered....56(1)(m)

Section

Income computation — continued
. banks
. . Minister's rule....26(4)
. . write-offs and recoveries....26(3)
. basic rules....3
. beneficiaries — see Beneficiaries
. bursaries....56(1)(n)
. . exemption....56(3)
. business — see Income, business or property
. business, ceasing to carry on....24(1)
. capital combined with income....16(1)
. . annuity payments exempt....16(4)
. . discount bonds....16(2); 16(3); 16(5)
. . exceptions....16(4); 16(5)
. capital gains — see Capital gains
. cash method
. . defined....248(1)
. . farmers....28
. . reserves prohibited....20(7)
. . residence change....28(4)
. charities....149.1
. child care benefit....56(6)
. chiropractors....34
. compensation from German government....81(1)(g)
. corporations
. . loans by non-resident to non-resident....15(2.2)
. . loans to foreign affiliates....15(2.1)
. . loans to partnerships....15(2); 15(7)
. . loans to shareholders, etc....15(2); 15(7)
. CPP disability benefits....56(8)
. credit unions....137
. . transitional plans....A.R. 58(1)
. Crown corporations....27
. . tax on capital of financial institutions....190.211
. . tax on corporations paying dividends on taxable preferred shares....191.4(3)
. . tax on preferred shares....187.61
. death benefits....56(1)(a)(iii)
. death benefits under CPP or QPP....56(1)(a.1)
. debt transferee's....20(14)(b)
. debt transferor's....20(14)(a)
. deceased persons....70
. deductions — see Deductions from income
. deemed capital cost of depreciable property....13(7.1); 13(7.4)
. deemed capital cost of manufacturing and processing property....13(10)
. deferred profit sharing plan payments....56(1)(i)
. dentists....34
. deposit insurance corporation
. . amounts included....137.1(1)
. . deductible amounts....137.1(3)
. . deduction limitations....137.1(4)
. . exempt amounts....137.1(2)
. disability benefits for previous years....120.3
. disability-related benefits....6(16)
. dividends
. . deemed received....82(2)
. . received by spouse or partner....82(3)
. . taxable....82(1)
. earned in a province by
. . airlines....Reg. 407
. . banks....Reg. 404(1)–(4)
. . bus operators....Reg. 409
. . corporations
. . . deduction from corporate tax....124(1)
. . . deduction from tax, schooling allowances....120(2)
. . . earned in a province....Reg. 401
. . . gross revenue....Reg. 402(4)–(6)
. . divided businesses....Reg. 412
. . grain elevator operators....Reg. 408
. . individuals
. . . bus and truck operators....Reg. 2604
. . . business....Reg. 2603
. . . dual residence....Reg. 2607
. . . limitation re business income....Reg. 2606
. . . more than one business....Reg. 2605
. . insurance corporations....Reg. 403(1)
. . insurance corporations, net premiums....Reg. 403(3) (4)
. . loan corporations....Reg. 405
. . non-resident corporations....Reg. 413(1)
. . non-resident individuals....Reg. 2600; Reg. 2602
. . pipeline operators....Reg. 411
. . railway companies....Reg. 406
. . resident individuals....Reg. 2601
. . ship operators....Reg. 410(1)
. . truck operators....Reg. 409
. . trust corporations....Reg. 403(1); Reg. 405
. . trust corporations, net premiums....Reg. 403(2)
. education disability plan payments....56(1)(q.1)
. education savings plan payments....56(1)(q)
. election, insurer's, re 1975 taxation year....111(7.1)
. eligible capital amount....248(1)
. eligible capital property acquired....14(3)
. eligible funeral arrangement....148.1(2)
. . refund....148.1(3)

Section

Income computation — continued
. employee benefit plans
. . benefits....6(1)(g); 12(1)(n.1)
. . contributions....6(10)
. . contributions or receipts from....12(1)(n.1)
. . payments....56(1)(a)
. employee profit sharing plan
. . beneficiary receipts....144(5)–(7)
. . exemption....81(1)(k)
. employment insurance benefits....6(1)(f); 56(1)(a)(iv)
. . repayment....60(v.1)
. energy conversion grants....12(1)(u)
. exemptions — see Exemptions
. expenditures limitations
. . application of provisions....143.3(5)
. . options....143.3(2)
. . other interests....143.3(4)
. . shares....143.3(3)
. exploration and development grants....20(1)(kk)
. farmers — see Farmers
. fees paid to reduce interest rate on borrowing....18(9.1)
. fellowship payments....56(1)(n)
. financial assistance....56(1)(r)
. fishermen — see Fishermen
. foreign affiliates' active business income....Reg. 5907(2.1)–(2.83)
. foreign investment entity
. . accrual method....94.3(4)
. . imputed income....94.1(4)
. . mark-to-market regime....94.2(4)
. foreign resource income....66.21(3)
. foreign retirement arrangement....56(12); 81(1)(r)
. foreign tax credit, prescribed countries....Reg. 1600
. government assistance....56(1)(a)(vi); 56(1)(r)
. grants re home insulation....56(1)(s)
. grants re home insulation or energy conversion....12(1)(u)
. grants under prescribed programs....56(1)(s)
. grubstakers....35
. Halifax disaster pensions, grants, etc....81(1)(f)
. home buyers' plan....56(1)(h.1)
. home insulation grants....12(1)(u); 56(1)(s)
. inclusions....12–17
. income-averaging annuity contract payments....56(1)(e); 56(1)(f)
. income earned outside province by individuals....120(1)
. income from a source, deductions....4(1)–(3)
. income from office or employment....5(1)
. . automobile operating cost....6(1)(a)
. . automobile salesmen....6(2.1)
. . automobile standby charge....6(1)(e); 6(2)
. . awards....6(1)(j)
. . Canadian Forces income replacement....6(1)(f.1)
. . director's fee....6(1)(c)
. . employee benefit plan benefits....6(1)(g); 12(1)(n.1)
. . employee benefit plan contributions....6(10)
. . employee trust income....6(1)(h)
. . exceptions....6(1)(a)
. . group insurance policy payments....6(4)
. . inclusions....6
. . insurance benefits....6(1)(f)
. . interest on employee debts....6(9)
. . payments against contract, etc....6(3)
. . personal or living allowances....6(1)(b)
. . profit sharing plan allocations....6(1)(d)
. . reimbursements....6(1)(j)
. . restrictive covenants....6(3.1)
. . special work site exemptions....6(6)
. . stock option benefits....7
. . traveling allowance exemptions....6(1)(b)(i)
. . veterans income replacement....6(1)(f.1)
. income replacement benefits....56(1)(r)
. indirect payments....56(2)
. inducement payments
. . deemed outlay or expense....12(2.2)
. . receipt of....12(1)(x); 12(2.1)
. insurance agents....32(1)
. insurance corporations — see Insurance corporations
. interest-free loan benefits....56(4.1)
. . limitations....56(4.2)
. interest income
. . loan to employees or corporations....6(9); 12(1)(w)
. . loan to non-residents....17
. . loan to non-residents, exception....17(7)
. . received or receivable....12(1)(c)
. . small business development bonds....12(3)–(11); 15.1(1)
. inventory adjustment....12(1)(r); 20(1)(ii); 87(2)(j.1)
. investment tax credit....12(1)(t)
. lawyers....34
. legal expenses recovered....56(1)(l)
. . re right to collect retiring allowance or pension benefits....56(1)(l.1)
. lessee of property
. . amalgamation or winding-up....16.1(4)
. . assignment or sublease....16.1(3)

Section

Income computation
. lessee of property — continued
. . election ... 16.1(2)
. . rollover provisions ... 16.1(4)
. life insurance corporations — see Life insurance corporations
. life insurance policy funds — see Life insurance policies
. Lifelong Learning Plan ... 56(1)(h.2)
. loaned property used to pay existing indebtedness ... 56(4.3)
. logging operations ... Reg. 700
. losses — see Losses
. low-interest loan benefits
. . limitations ... 56(4.1); 56(4.2)
. medical practitioners ... 34
. method, amalgamations ... 87(2)(c)
. mining income ... Reg. 1104(5)–(6)
. negative amounts ... 257
. non-profit corporation ... 149(9)
. non-resident-owned investment corporation ... 133(1)
. non-resident trusts, property acquisition ... Reg. 5909
. non-resident withholding tax, reduction of amounts ... Reg. 809
. non-residents ... 250.1
. non-resident's aircraft exemption ... 81(1)(c)
. oil substitution grants ... 56(1)(s)
. options granted ... 49(1)–(5)
. ordering of provisions of Act ... 111.1
. other sources ... 56–59.1
. parent corporation's on winding-up of subsidiary ... 88(1.3)
. part-time residents ... 114
. partnership, Canadian securities owned and disposed by partners ... 39(4.1)
. partnerships
. . election ... 66.1(7); 96
. pension benefits ... 56(1)(a)
. pension income splitting ... 56(1)(a.2)
. personal injury awards exemption ... 81(1)(g.1)
. personal or living expense allowance ... 6(1)(b)
. prepaid expenses, limitation ... 18(9)
. . insurers ... 18(9.02)
. professionals ... 34; A.R. 23(3)–(5)
. property disposition after ceasing business ... 13(8)
. property exchange, capital gains ... 13(4); 14(6); 14(7)
. property replacement, capital gains ... 13(4.1); 14(6); 14(7)
. prospecting income exemption ... 81(1)(l)
. prospectors ... 35
. QPP disability benefits ... 56(8)
. Quebec parental insurance plan ... 56(1)(a)(vii)
. RCA benefits, proceeds of disposition of interest ... 56(1)(x)–(z)
. R.C.M.P. pension exemption ... 81(1)(i)
. recaptured depreciation, excess amounts exclusion re motor vehicles ... 13(2)
. refunds of grants, bursaries, etc. ... 56(1)(p)
. registered retirement income fund payments ... 56(1)(t)
. registered retirement savings plan
. . payments ... 56(1)(h); 146(8.3)–(8.7)
. . spousal or common-law partner payments ... 146(8.3)
. . year of death ... 146(8.8)–(8.93)
. reimbursement payments
. . deemed outlay or expense ... 12(2.2)
. . receipt of ... 12(1)(x); 12(2.1)
. reinsurance commission ... 12(1)(s)
. repayment of existing indebtedness through loaned property ... 56(4.3)
. research grants ... 56(1)(o)
. . refunds ... 56(1)(p)
. resource property disposition ... 59(1)
. restrictive covenants ... 56.4
. retirement compensation arrangement benefits ... 56(1)(x)–(z)
. retirement compensation payments ... 12(1)(n.3)
. retiring allowance ... 56(1)(a)(ii)
. RHOSP income ... 12(10.1)
. salary deferral amounts, received in respect of another person ... 6(1)(i); 6(11)–(14); 56(1)(w)
. scholarships ... 56(1)(n)
. . exemption ... 56(3)
. scientific research deductions ... 12(1)(v)
. services, etc., rendered
. . interpretation ... 12(2)
. services, etc. to be rendered ... 12(1)(a)
. . amounts receivable ... 12(1)(b)
. share disposition
. . benefits to employees ... 7
. shareholders
. . appropriation of property on winding-up ... 84(2)
. . automobile of company as benefit ... 15(5)
. . benefits conferred on ... 15(1); 15(7)

Section

Income computation
. shareholders — continued
. . corporate loans ... 15(2)
. . deemed benefit by corporation ... 15(9)
. . stock dividends received ... 15(1.1)
. small business bond issuers — see Small business bonds
. small business development bonds — see Small business development bonds
. social assistance payments ... 56(1)(u)
. . exemption ... 81(1)(h)
. soft costs capitalization
. . commencement of foundation ... 18(3.7)
. . completion time of construction ... 18(3.3)
. . costs included ... 18(3.2)
. . deduction limitation ... 18(3.1)
. . delayed construction ... 18(3.6)
. . exceptions ... 18(3.1)–(3.7)
. split income ... 56(5)
. stated percentage
. . defined ... 59(3.4)
. . variation of ... 59(3.5)
. supplementary unemployment benefits plan payments ... 56(1)(g)
. support payments
. . calculation of income inclusion ... 56(1)(b)
. . payments to third parties ... 56.1
. taxable — see Income, taxable
. transfer of rights to income ... 56(4)
. tuition assistance for adult education ... 56(1)(r)
. veteran's pensions, etc. ... 81(1)(d) (e)
. veterinarians ... 34
. War Savings Certificates exemption ... 81(1)(b)
. worker's compensation payments ... 56(1)(v)

Income maintenance insurance plan
. benefits as income ... 6(1)(f)
. . information return ... Reg. 200(2)(f)

Income splitting
. pension income — see Pensions

Income supplements
. income inclusion ... 56(1)(r)

Income Tax Act
. amended Act, defined ... A.R. 8
. deductions under 1948 Act ... A.R. 17(6)–A.R. 17(7)
. former Act, defined ... A.R. 8
. old law, defined ... A.R. 12
. references include same subject in former statutes ... A.R. 13
. references to former statutes
. . construction ... A.R. 16
. references to same subject
. . retrospection ... A.R. 17(4)

Income Tax Application Rules — see also Transitional provisions
. application of former rules ... A.R. 70
. application of new rules ... A.R. 71

Income trusts — see SIFT trusts

Income War Tax Act
. deductions under ... A.R. 17(1)–(5)

Indemnities
. provincial, exempt income ... 81(1)(q)
. reserves not deductible ... 20(7)

Indexed debt obligations — see Debt obligations

Indexed security investment plans
. capital losses in 1986 ... 47.1(27)
. transition for 1986 ... 47.1(28)

Indexing for inflation ... 117.1

Indirect payment — see Payments

Individual retirement accounts and annuities (IRA) — see Foreign retirement arrangements

Individuals
. accumulated averaging amount — see Income averaging
. averaging — see Income averaging
. bankruptcy ... 128(2)
. . deductions re RRSP ... 128(2)(d.1)
. . deductions re RRSP where two taxation years ... 128(2)(d.2)
. basic exemptions ... 127.53(1)
. blind persons — see Disabled persons
. computation of income — see Income computation
. computation of tax — see Tax computation
. debts of corporation owing ... 84.2(2)
. deductions from income — see Deductions from income
. deductions from tax — see Deductions from tax
. defined ... 248(1)
. disabled — see Disabled persons
. eligible, defined re child tax benefits ... 122.6
. employees of international organizations
. . deduction ... 110(1)(f)
. . tax credit ... 126(3)
. foreign tax credit ... 127.54(2)

Section

Individuals — continued
. income as business proprietor ... 11(1)
. . taxation year ... 11(2)
. income earned in province
. . definitions related to ... Reg. 2600
. . residents ... Reg. 2601
. income earned outside province ... 120(1)
. . bus and truck operators ... Reg. 2604
. . business ... Reg. 2603
. . dual residence ... Reg. 2607
. . limitations re business income ... Reg. 2606
. . more than one business ... Reg. 2605
. . non-residents ... Reg. 2602
. income in taxation year ... 13(3)
. income not earned in a province — see Income computation
. instalment base, defined ... 156(3); Reg. 5300
. married — see Spouses or common-law partners
. payment of tax ... 156
. . farmers and fishermen ... 155
. rates of tax
. . income earned outside province ... 120(1)
. related — see Related person
. residence in more than one province ... Reg. 2607
. residence in prescribed area
. . deductions ... 110.7
. returns — see Returns
. schooling allowances, reduction for ... 120(2)
. small business bond issuers ... 15.2(7)
. special T1 tax table ... Reg. 2500(1)
. . additional tax for income not earned in a province ... Reg. 2500(3)
. . amount taxable ... Reg. 2501
. . rules for preparation ... Reg. 2500(2)
. tax deemed payable ... A.R. 49
. taxation — see Tax computation
. taxation year ... 13(3)
. . defined ... 14(4); 249(1)
. year-end
. . alternative method ... 249.1(4)

Inducement payments
. business or property income ... 12(1)(x)
. deemed outlay or expense ... 12(2.2)
. receipt of ... 12(2.1)
. repayment, deductions ... 20(1)(hh)

Inflation
. indexation ... 117.1

Information
. communication
. . authorized person, defined ... 241(10)
. . business number ... 241(9.2)–(9.4)
. . child tax benefits ... 122.64(2)
. . conditions allowing ... 241(4)
. . contact information, defined ... 241(10)
. . corporate information, defined ... 241(10)
. . court of appeal, defined ... 241(10)
. . criminal proceedings ... 241(3)
. . dangerous situations ... 241(3.1)
. . designated donor information, defined ... 241(10)
. . designated person, defined ... 241(10)
. . designated taxpayer information ... 241(9)–241(10)
. . exception ... 241(5)
. . film or video production certificate ... 241(3.3)
. . legal proceedings ... 241(2); 241(6)–(8)
. . official, defined ... 241(10)
. . penalty to disclose confidential matters ... 239(2.2)–(2.22)
. . Petroleum and Gas Revenue Tax Act ... 241(11)
. . prescribed laws of Quebec ... Reg. 3003
. . publicly accessible charity information ... 241(9)–241(10)
. . registered charities ... 241(3.2); 241(9)–(10)
. . registration information, defined ... 241(10)
. . taxpayer information, defined ... 239(2.22); 241(1); 241(10)
. . threats to security ... 241(9)–(9.1)
. . unauthorized use, prevention of ... 241(4.1)
. failure to provide in return ... 162(5)
. foreign-based
. . defined for investigation purposes ... 231.6(1)
. . failure to comply with requirement ... 231.6(8)
. . notice to provide ... 231.6(3)
. . requirement to provide ... 231.6(2)
. . review of requirement ... 231.6(4)–(7)
. hearing, territorial jurisdiction ... 244(3)
. laying of ... 244(1)
. . time limit ... 244(4)
. . two or more offences ... 244(2)
. request for
. . proof of personal service ... 244(6)
. . proof of service by mail ... 244(5)

Information returns — see also Returns
. accrued bond interest paid by financial company ... Reg. 211
. athletic associations, registered Canadian ... Reg. 216(1)
. awards and prizes ... Reg. 200(2)(a)

Section

Information returns — continued
. business number requirement....237(2)
. Canada Savings Bonds
. . bonuses....Reg. 220
. . redemption agent's responsibility....Reg. 220
. construction activities....Reg. 238
. contract payments....Reg. 237
. debt obligations, indexed....Reg. 201(4.1)–(4.2)
. debt obligations in bearer form, disposition or redemption....Reg. 201(6)
. deferred profit sharing plan....202(1)
. demand for....233(1)
. . partnership....233(2)–(3)
. distribution of copies to taxpayers....Reg. 209
. electric, gas or steam corporations....Reg. 213
. electronic filing....Reg. 205.1
. emigrant's property....128.1(9)
. employee automobile benefits....Reg. 200(3)
. employee profit sharing plans....Reg. 212
. employee stock options....Reg. 200(5)
. estates and trusts
. . arising on death....Reg. 204(1)
. . exempt trusts....Reg. 204(3)
. . filing date....Reg. 204(2)
. exempt corporations, organizations, etc....149(12)
. farm support payments....Reg. 234
. filing....244(22)
. . date....Reg. 205
. . electronic....Reg. 205.1
. films and videotapes....Reg. 225
. foreign affiliates....233.4(4)
. foreign reporting rules....233.2–233.7
. . due diligence exception....233.5
. . first year residents....233.7
. grants and subsidies....Reg. 200(2)(b)
. home insulation grants....Reg. 224
. identifier information....Reg. 235
. . partnerships....Reg. 236
. income averaging annuity contracts business....Reg. 208
. interest in investment contract....Reg. 201(4)
. investment income....Reg. 201(1)
. legal representatives....Reg. 206(1)
. . filing on bankruptcy....Reg. 206(2)
. life insurance policy payments....Reg. 217
. life insurers' re policy payment....Reg. 201(5)
. non-residents....233.1
. . bearer coupon....Reg. 201(3)
. . deemed member of partnership....233.1(5)
. . payments to....Reg. 202(1)–(8)
. . reportable transaction defined....233.1(1)
. . reporting partnership defined....233.1(1)
. . reporting person defined....233.1(1)
. . requirement to file....233.1(2)
. . requirement to file, exception....233.1(4)
. . requirement to file, partnership....233.1(3)
. . transaction defined....233.1(1)
. oil substitution program payments....Reg. 224
. ownership certificates....Reg. 201(3); Reg. 207
. . date of forwarding to the Minister....Reg. 207
. partnerships....Reg. 229
. patronage payments....Reg. 218
. payments to agents or nominees....Reg. 201(2)
. payments to non-residents....Reg. 202(1)
. . administration fees....Reg. 202(1)
. . alimony or other payments....Reg. 202(1)
. . benefits under registered plans....Reg. 202(2)
. . dividends....Reg. 202(1)
. . film or videotape payments....Reg. 202(1)
. . foreign actors....Reg. 202(1.1)
. . income of or from estate or trust....Reg. 202(1)
. . interest payments....Reg. 202(1)
. . rents or royalties....Reg. 202(1)
. . timber royalties....Reg. 202(1)
. political contributions....230.1(2)
. private corporations....187(1)
. proof of filing....244(21)
. public utilities....Reg. 213
. qualified investments....Reg. 221
. registered charity
. . failure to file....188.1(6)
. . requirement....149.1(14)
. registered education savings plans....146.1(13.1)
. remuneration....Reg. 200(1)
. requirement....Reg. 200(1)
. resource flow-through shares amount renounced....Reg. 228
. RPP and DPSP....Reg. 8400–8410
. RRIF payments....Reg. 215
. RRSPs payments....Reg. 214
. scholarships, etc....Reg. 200(2)(a)
. scientific research tax credits....Reg. 226
. security transactions....Reg. 230
. share purchase tax credits....Reg. 227
. shareholder's automobile benefits....Reg. 200(4)
. social assistance....Reg. 233
. Social Insurance Number requirement....237(2)
. stock options....Reg. 200(5)
. tax-free savings accounts....Reg. 223

Section

Information returns — continued
. tax liability re dividends on taxable preferred shares....191.4(1)
. tax shelters....237.1(7); Reg. 231
. . copies to be provided....237.1(7.3)
. . time for filing....237.1(7.1)–237.1(7.2)
. taxable preferred shares....187.5
. taxable shares of restricted financial institutions....187.5
. time of compliance, proof as to....244(8)
. withholding tax
. . information re deductions....Reg. 210
. worker's compensation....Reg. 232

Initial base
. defined, deferred profit-sharing plan....204

Inquiries — see Investigation and search

Insolvency — see Bankruptcy and insolvency

Instalment payments
. base
. . corporations....157(4); Reg. 5301
. . defined....161(9)
. . farmers and fishermen....155(2)
. . individuals....156(3); Reg. 5300
. corporations
. . deferral....157.1
. . monthly amounts....157(1)
. . quarterly, small-CCPC....157(1.1)–(1.5); 157(3.1)
. farmers and fishermen....155
. individuals
. . limitation on interest....161(4.01)
. . requirements....156
. instalment threshold, defined....156.1
. interest on late or deficient payment....161(2)
. . amounts deemed paid....161(8); 161(10)
. . limitation for corporations....161(4.1)
. . limitation for farmers and fishermen....161(4)
. . limitation for individuals....161(4.01)
. . offset method of calculation....161(2.2)
. liability to pay instalments....156.1
. life insurance corporations....211.3
. net tax owing, defined....156.1
. payment of remainder....156.1(4)
. penalty for late or deficient payments....163.1
. refund of overpayment....164(1.51)–(1.53)

Insurance
. accident — see Sickness and accident insurance plans
. agents and brokers, unearned commission....32
. employment — see Employment insurance
. foreign insurance policies....94.2(10)–(11)
. group disability
. . disability policy defined....6(17)
. . employer defined....6(17)
. . top-up disability payment....6(18)
. . top-up disability payment defined....6(17)
. group term life — see Life insurance
. insurers — see Insurance corporations
. life — see Life insurance
. loss of employment income....6(1)(f)
. . events occurring before 1974....A.R. 19(1)
. . plan in existence on June 19, 1971....A.R. 19(2)
. policy, defined....248(1)
. proceeds used for repairs....12(1)(f)
. reinsurance
. . deduction....20(1)(jj)
. . income inclusion....12(1)(s)
. . reinsurance arrangement, defined....Reg. 1900(1)
. . reinsurance commission....Reg. 1408(1)
. . reinsurance recoverable, defined....Reg. 2400(1)
. sickness — see Sickness and accident insurance plans

Insurance corporations — see also Life insurance corporations; Non-resident insurance corporations
. 1975-76 excess additional group term reserves....138(12)
. 1975-76 excess capital cost allowance....138(12)
. 1975-76 excess investment reserves....138(12)
. 1975-76 excess policy dividend
. . deduction....138(12)
. . reserves....138(12)
. 1975 branch accounting election deficiency, defined....138(12)
. amalgamation....87(2.2)
. amount or item reported....Reg. 2400(3)
. Canadian assets, amortized cost....138(13)
. Canadian business property, defined....Reg. 2400(1); Reg. 2405(3)
. Canadian equity property
. . defined....Reg. 2400(1); Reg. 2405(3)
. . transitional provisions....Reg. 2405(3); Reg. 2409
. Canadian investment fund
. . computation....Reg. 2412
. . deeming rules....Reg. 2400(6)
. . defined....Reg. 2400(1); Reg. 2405(3)
. . non-resident insurers....Reg. 2405(3)
. Canadian investment property....Reg. 2405(3)

Section

Insurance corporations — continued
. Canadian outstanding premiums
. . defined....Reg. 2400(1)
. . mean, defined....Reg. 2400(1)
. Canadian premiums, defined....Reg. 8600
. Canadian reserve liabilities
. . defined....Reg. 2400(1); Reg. 2405(3); Reg. 8600
. . mean, defined....Reg. 2400(1)
. capital cost, depreciable property....138(11.2)
. capital cost allowance, 1975-76 excess....138(12)
. capital gains, policies....39(1)(a)
. carrying value of property....Reg. 2400(2)
. computation of income....138(1)
. . election re 1975 taxation year....111(7.1)
. . inclusion in income....140(2)
. . insurer's income or loss....138(2)
. . non-resident insurer's....138(11.91)
. . transfer of business....138(11.92)
. deductions from income....138(3); 140(1)
. . 1975-76 excess policy dividend....138(12)
. . deemed allowed on depreciable property....13(22)
. . loans or lending assets....18(1)(s)
. deemed not private corporation....141.1
. deeming rules....Reg. 2400(5)–Reg. 2400(6)
. defined....138(1); 248(1)
. definitions related to....Reg. 2400(1)–(4); Reg. 2405
. demutualization
. . benefit excluded from RRSP....139.1(12)
. . cash, defined....139.1(1)
. . consequences....139.1(4)
. . conversion benefit, defined....139.1(1)
. . conversion benefit, taxable....139.1(1)
. . deemed dividends....212.2
. . definitions related to....139.1(1)
. . employee-paid insurance....139.1(15)
. . flow through of conversion benefits....139.1(16)
. . flow through of share benefits....139.1(17)
. . general rules....139.1(2)
. . holding corporation, defined....139.1(1)
. . mutual holding corporation....139.1(1); 139.2
. . no shareholder benefit....139.1(11)
. . ownership rights, defined....139.1(1)
. . ownership rights, value of....139.1(5)
. . paid-up capital....139.1(6)–(7)
. . payment of premium....139.1(9)
. . policy dividends....139.1(8)
. . retirement benefit....139.1(14)
. . RRSP registration rules....139.1(12)
. . share, defined....139.1(1)
. . special rules....139.1(3)
. . stakeholder, defined....139.1(1)
. . taxable conversion benefit....139.1(1); 139.1(10)
. deposit — see Deposit insurance corporation
. deposit balance, defined....Reg. 2400(1)
. designated, defined....Reg. 2405(3)
. designated insurance property....Reg. 2401
. designated insurance property, defined....138(12); 248(1)
. equity limit
. . defined....Reg. 2400(1)
. . designation....Reg. 2401(4)
. . for the year....Reg. 2405(3)
. equity property
. . defined....Reg. 2400(1); Reg. 2405(3)
. . no double counting....Reg. 2400(7)
. excluded arrangement, defined....Reg. 1900(1)
. farmers' and fishermen's
. . exempt from tax....149(1)(t); Reg. 4802(2)
. foreign accrual property income....95(2)(j.1)–(j.2)
. gross investment revenue
. . insurance premium refunds....140(1)
. group term insurance policy....138(12)
. identical property....138(11.1)
. income computation
. . negative policy reserves....12(1)(e.1)
. . prescribed cost of property....Reg. 2411
. income earned in a province....Reg. 403(1)
. insurance property, limitations....Reg. 2406
. insurer, defined....248(1)
. investment property
. . Canadian, defined....Reg. 2400(1)
. . defined....Reg. 2400(1)
. . designation rules....Reg. 2401
. . limitations....Reg. 2406
. . transitional provisions....Reg. 2405(3); Reg. 2409
. liabilities
. . weighted Canadian....Reg. 2400(1)
. . weighted total....Reg. 2400(1)
. life — see Life insurance corporations
. matchable expenditure rules inapplicable....18.1(15)
. maximum tax actuarial reserve....138(12)
. mean Canadian reserve liabilities....Reg. 2405(3)
. mean total reserve liabilities....Reg. 2405(3)
. mutual, exemption from tax....149(1)(m)
. negative policy reserves, deduction....20(22)
. net premiums....Reg. 403(2)
. . no permanent establishment....Reg. 403(3)–(4)
. non-resident — see Non-resident insurance corporations

Section

Insurance corporations — continued
. non-segregated property ... 138(12)
. policies
. . benefits under, defined ... Reg. 1408(1); Reg. 1900(1)
. . cash surrender value, defined ... Reg. 1408(1)
. . general amending provision, defined ... Reg. 1408(1)
. . lapse-supported, defined ... Reg. 1408(1)
. . modified net premium, defined ... Reg. 1408(1)
. . non-cancellable or guaranteed renewable accident and sickness ... Reg. 1408(1)
. . premium paid by the policyholder, defined ... Reg. 1408(4)
. policy liability, defined ... Reg. 1408(1)
. policy reserves
. . 1975-76 excess additional group term ... 138(12)
. . 1975-76 excess investment ... 138(12)
. . 1975-76 excess policy ... 138(12)
. . 1975-76 excess policy dividend ... 138(12)
. . deductible ... 20(7)
. . regulations ... Reg. 1400
. . reported, defined ... Reg. 1408(1)
. . reserve transition amount ... 12.5; 20.4
. premiums, defined ... Reg. 1900(1)
. prepaid expenses ... 18(9.02)
. prescribed cost of property determination ... Reg. 2411
. property acquisition on default in payment of insurer's claim ... 138(11.93)
. property and casualty surplus ... Reg. 2400(1); Reg. 2405(3)
. property in the course of development ... Reg. 2405(3)
. qualified annuity, defined ... Reg. 1408(1)
. qualified related corporation, defined ... 138(12); 219(8)
. reinsurance
. . deduction ... 20(1)(jj)
. . income inclusion ... 12(1)(s)
. . reinsurance arrangement, defined ... Reg. 1900(1)
. . reinsurance commission ... Reg. 1408(1)
. . reinsurance recoverable, defined ... Reg. 2400(1)
. relevant authority, defined ... Reg. 1408(1)
. segregated fund ... 138(12)
. subsidiaries, winding up ... 88(1)(g)
. surplus funds derived from operations ... 138(12); A.R. 60
. tax actuarial reserves, mean maximum ... Reg. 2400(1)
. taxable income ... Reg. 403(1)
. total premiums, defined ... Reg. 8600
. total reserve liabilities, defined ... Reg. 2405(3); Reg. 8600
. transfer of insurance business
. . by non-resident insurers ... 138(11.5)–(11.93)
. . by resident insurers ... 138(11.94)
. transition year
. . defined ... 12.5(1); Reg. 2400(1)
. . income computation ... 12.5; 20.4; Reg. 2400(8)
. transitional provisions ... Reg. 2409
. undistributed income — see Income, undistributed
. unpaid claims reserve ... 12.3; 20(26); Reg. 8100–8101
. unpaid policy claims, deductions ... 18(1)(e.1)
. value, defined ... Reg. 2400(1)

Inter vivos trusts — see Trusts

Interest
. accrued
. . amalgamated corporations ... 87(2)(j.4)
. . bonds ... 20(14)
. . deceased persons ... 70(1)
. . information returns by financial institutions ... Reg. 211
. application time ... 221.1
. arrears
. . defined ... 161.1
. . offset ... 161.1
. bonds ... 20(14)
. bonus, payment by credit union ... 137(6)
. borrowed money — see Loans
. business income ... 12(1)(c)
. capital, combined with ... 16(1)
. . exceptions ... 16(4); 16(5)
. capital gains refund
. . mutual fund corporations ... 131(3.1)–(3.2)
. . mutual fund trust ... 132(2.1)–(2.2)
. capitalization ... 18(3.2)
. election ... 21
. compound, deductibility ... 20(1)(d)
. compounding in a year ... 248(11)
. corporation owing non-resident
. . conditional loans ... 18(6)
. . limitations re deductions ... 18(4)–(6)
. . thin capitalization ... 18(4)–(6)
. coupons, identification ... 240(2)
. death duty, deduction from income ... 60(d)

Section

Interest — continued
. debt obligations
. . deductibility ... 20(14.1)
. . deemed accrual ... 12(9)
. . income ... 12(3)–(11)
. deductibility
. . general ... 20(1)(c)
. . reasonable expectation of profit ... 3.1
. deduction limitations
. . conditional loans by non-residents ... 18(6)
. . deemed interest payments to non-resident ... 214(3); 214(6)
. . loans made on condition ... 18(6)
. . resident paying to specified non-resident ... 18(4)–(6)
. . thin capitalization ... 18(4)–(6)
. deemed not interest ... 212(15)
. deemed on term preferred shares ... 258(3)
. . exception ... 258(4)
. defined
. . land purchase loans ... 18(3)
. . life policy loans ... 138(12)
. dishonoured instruments ... 220(3.8)
. disputed amounts ... 164(5.1)
. estate tax, deduction from income ... 60(d)
. expenses for selling ... 20(1)(e)
. foreign banks
. . branch interest tax ... 218.2
. . deductible ... 20.2
. . non-deductible ... 18(1)(v)
. guarantee charges ... 214(15)
. home purchase loan ... 80.4(4)
. . reduction ... 80.4(5)
. impaired debt obligations ... 12(4.1)
. income bonds ... 15(3); 15(4); 18(1)(g)
. indexed debt obligations ... Reg. 7001
. instalment payment of tax ... 161(2)
. . amounts deemed paid ... 161(8); 161(10)
. . limitation for corporation ... 161(4.1)
. . limitation for farmers and fishermen ... 161(4)
. . limitation for individuals ... 161(4.01)
. . offset method for calculation ... 161(2.2)
. insurance policy loans ... Reg. 4001
. interest repaid ... 164(4)
. investments in small business ... Reg. 5100(1)
. leasehold — see Leasehold interest
. loans to employees, income ... 6(9)
. loans to non-residents ... 17
. . exception ... 17(7)
. money borrowed to acquire small business bonds ... 15.2(4)
. money borrowed to acquire small business development bonds ... 15.1(4)
. non-resident receiving
. . provincial bonds ... 212(6)–(8)
. . wholly-owned subsidiary paying ... 218
. . withholding tax ... 212(1)(b); 212(3)
. N.R.O. investment corporation refund ... 133(7.01)–(7.02)
. offset of arrears and refund interest ... 161.1
. overpaid tax ... 164(3)–(3.2)
. . interest on interest repaid ... 164(4)
. . Minister's duty ... 164(4.1)
. paid on debts to non-resident shareholders
. . conditional loans ... 18(6)
. . deduction limitations ... 18(4)–(6)
. . thin capitalization ... 18(4)–(6)
. participation certificates ... 161(5)
. penalties not paid ... 161(11)
. . partnership liability re tax shelter ... 161(12)
. period where not payable ... 161.2
. private corporation's dividend refund ... 129(2.1)–(2.2)
. rates ... Reg. 4300
. . Canada Savings Bonds ... Reg. 4302
. . prescribed ... Reg. 4301
. received or receivable, income ... 12(1)(c)
. refund
. . defined ... 161.1
. . offset ... 161.1
. refundable tax payment defaults
. . qualified shares ... 193(3); 193(4)
. . scientific research tax credit ... 195(3)–195(4)
. registered charity tax ... 189(7)
. registered charity tax overdue ... 189(9)
. repayment, deductibility ... 20(1)(ll)
. restrictions re weak currency debt ... 20.3(2)
. securities in satisfaction of ... 76
. small amounts owing ... 161.3–161.4
. stand-by charges ... 214(15)
. succession duty ... 60(d)
. tax amount not deducted or withheld ... 227(8.3)
. tax amount not remitted ... 227(9.2)
. tax-free savings accounts ... 146.2(7)
. tax not paid ... 227(9.3)
. unclaimed
. . effect of tax remittance ... 153(5)
. . withholding tax ... 153(4)

Section

Interest — continued
. unpaid taxes ... 161(1)
. . amount deemed paid ... 161(10)
. . effect of loss carry back ... 161(7); 164(5)
. . excessive election ... 185(2)
. . flow-through share renunciation ... 161(6.2)
. . foreign tax adjustments ... 161(6.1)
. . income from blocked currency country ... 161(6)
. . instalments ... 161(2)
. . limitation ... 161(4.01)
. . limitation for farmers and fishermen ... 161(4)
. . private corporation ... 187(2)
. . transitional provisions ... A.R. 62(2)
. . waiver ... 220(3.1)
. . Wheat Board certificate ... 161(5)

International Air Transport Association
. prescribed organization ... Reg. 8900

International Bank for Reconstruction and Development
. tax exemption ... Reg. 806

International banking centre business — see also Foreign banks
. deductions from income
. . conditions denying ... 33.1(10)
. . exception ... 33.1(9)
. designation of branch or office ... 33.1(3)
. eligible deposit
. . defined ... 33.1(1)
. . disposition losses ... 33.1(11)
. . limitation ... 33.1(8)
. . non-resident person's ... 33.1(2)
. eligible deposit recording
. . election ... 33.1(6)
. . election restriction ... 33.1(7)
. eligible loan
. . 90% minimum requirement ... 33.1(9)
. . defined ... 33.1(1)
. . disposition losses ... 33.1(11)
. . non-resident person's ... 33.1(2)
. exemption ... 33.1(3)
. foreign bank, defined ... 33.1(1)
. income from ... 33.1(4)
. . exclusions disallowed ... 33.1(11)
. . restrictions ... 33.1(5)
. indebtedness to another person
. . deductions disallowed ... 33.1(10)
. loss from ... 33.1(4)
. . non-capital loss determination not affected by ... 33.1(11)
. non-resident person
. . defined ... 33.1(1)
. . deposits or loan made by or to ... 33.1(2)
. . partnerships ... 33.1(2)
. returns ... 33.1(12)
. taxable income earned in a province ... Reg. 413.1

International development assistance program
. prescribed programs ... Reg. 3400

International Development Association
. tax exemption ... Reg. 806

International Finance Corporation
. tax exemption ... Reg. 806

International Monetary Fund
. tax exemption ... Reg. 806

International organizations
. employees
. . deduction ... 110(1)(f)
. . tax credits ... 126(3)
. exemption from tax on interest ... Reg. 806

International shipping corporations
. residence determination ... 250(6)

International Society of Aeronautical Telecommunications
. prescribed organization ... Reg. 8900

International traffic
. defined ... 248(1)

Interpretation — see also Definitions
. references to former statutes ... A.R. 16
. same subject in former statutes ... A.R. 13

Inventions
. royalties to non-resident persons ... 212(1)(d); Reg. 202(1)

Inventory
. acquisition, farmers and fishermen ... 28(1.1)
. adjustment ... 12(1)(r); 20(1)(ii); 87(2)(j.1)
. allowance, deductions
. . reduction ... 20(17)
. amalgamation of corporations ... 87(2)(b)
. composition ... Reg. 1800
. defined ... 248(1)
. foreign spin-off ... 86.1(4)
. land
. . deceased persons ... 70(5.2)
. . transfer to beneficiaries ... 70(3.1)
. non-residents
. . adding items ... 10(13)

Section

Inventory
. non-residents — continued
. . removing items 10(12)
. . work in progress 10(14)
. qualifying, defined 20(18)
. reserves of creditor 79.1(4)
. sale of 23
. valuation 10(1)–(6); Reg. 1801
. . acquisition of control 10(10)–10(11)
. . adventure in the nature of trade 10(1.01)
. . animals Reg. 1802(1)–(5)
. . artistic endeavours 10(6)–10(7)
. . expenses included in cost 10(1.1)
. . farmers and fishermen 28(1.2)
. . incorrect 10(3)
. . land 10(1.1)
. . method 10(2.1)
. . transitional rule 10(9)
. . work in progress 10(4) (6)

Investigation and search
. authorized person, defined 231
. compliance order 231.7
. document, defined 231
. dwelling-house, defined 231
. foreign-based information 231.6(1)
. inspection by authorized person 231.1(1)
. . dwelling-house 231.1(2)
. . warrant 231.1(3)
. judge, defined 231
. judicial authorization 231.2(3)–(5)
. Minister's powers 231.4(1)
. production of documents and information 231.1(1)
. . third parties 231.2(2)
. rights of persons under investigation 231.4(6)
. rights of witnesses 231.4(5)
. search warrant 231.2(3)–(5)
. seizure of documents, etc.
. . copies of documents 231.5(1)
. . evidence re offences 231.3(5)–(8)
. . interference with official 231.5(2)
. . privileged documents 232

Investment allowance
. financial institutions 181.3(4)–(5)
. foreign banks Reg. 808(8)
. investment in property by non-Canadian corporations Reg. 808(1)
. large corporations
. . determination 181.2(4)
. . limitations re inclusions and deductions 181(4)
. . value and amount 181(3)

Investment business
. foreign investment entities
. . defined 94.1(1)
. . determination 94.1(2)(e)
. specified, defined 125(7); 248(1)

Investment contracts
. anniversary day, defined 12(11)
. business income 12(4)
. defined 12(11)
. information return Reg. 201(4)

Investment corporations
. amalgamation, income computation 87(2)(bb)
. capital gains dividends election Reg. 2104
. deductions from tax 130(1)
. defined 130(3); 248(1)
. election re capital gains 130(2)
. mortgage — see Mortgage investment corporations
. non-resident-owned — see Non-resident-owned investment corporations
. restricted financial institution 131(10)
. small business — see Small business investment
. tax deduction 130(1)
. taxed capital gains 130(3)
. wholly owned subsidiaries
. . property deemed owned 130(4)

Investment counsel
. fees to, deductibility 20(1)(bb)

Investment dealer
. defined 142.2(1)

Investment entity, foreign — see Foreign investment entity

Investment income — see Income, investment

Investment property
. defined Reg. 2405(3)
. deposit insurance corporation 137.1(5)
. foreign investment entities 94.1(1)
. insurers
. . Canadian, defined Reg. 2400(1)
. . limitations Reg. 2406
. . transitional provisions Reg. 2409

Investment tax credit
. addition to 127(10.1); 127(10.7)
. adjusted selling cost 127(11.7)
. adjusted service cost 127(11.7)

Section

Investment tax credit — continued
. amalgamated corporation 87(2)(oo); 87(2)(qq)
. amount deemed not to be assistance 127(10.8)
. apprenticeship expenditures — see Apprenticeship
. approved project defined 127(9)
. approved project property Reg. 4604(1); Reg. 4605
. buildings Reg. 4600(1)
. Cape Breton defined 127(9)
. capital cost determination 127(11.1)
. certified property Reg. 4602
. certified property defined 127(9)
. child care spaces
. . recapture 20(1)(nn.1)
. co-operative corporation 127(6)
. computation 127(12.1); 127(12.2)
. computation for expenditure acquired property 127(12.2)
. computation of deemed receipts 127(12); 127(12.1)
. construction equipment Reg. 4603
. contract payment defined 127(9)
. control of corporation
. . acquired after beginning of year 127(9.2)
. . acquired before end of year 127(9.1)
. deduction 127(5)
. defined 127(9)–(9.02); 248(1)
. depreciable property available for use 13(27); 13(28); 13(29); 13(30); 13(31)
. determination of amount 12(1)(t)
. eligible taxpayer defined 127(9)
. expenditure limit
. . associated CCPCs 127(10.21)–(10.23)
. . determination 127(10.2)
. expenditure limit, determination 127(10.6)
. expenditures deemed not made before property became available for use 127(11.2)
. first term shared-use equipment defined 127(9)
. flow-through mining expenditure defined 127(9)
. Gaspé Peninsula defined 127(9)
. government assistance defined 127(9)
. limited partner's 127(8.1)
. . expenditure base 127(8.2)
. . not allocated 127(8.3)–(8.4)
. machinery and equipment Reg. 4600(2)
. . prescribed Reg. 4604(2)
. mining 127(9)
. no waiver of filing requirements 220(2.2)
. non-arm's length costs 127(11.6)
. non-arm's length purchases of goods 127(11.8)
. non-government assistance defined 127(9)
. non-qualifying corporation defined 127(9)
. parent corporation's on winding-up of subsidiary 88(1)(e.3)
. partnership 127(8)
. payments received as assistance, contracts, etc. 127(11.1)
. pre-production mining expenditure defined 127(9)
. prescribed areas Reg. 4610
. prescribed expenditures re Canadian exploration expenses Reg. 4608
. property, certified 127(9)
. property deemed not acquired before available for use 127(11.2)
. qualified expenditure
. . defined 127(9)
. . reduction 127(11.5)
. . reduction re assistance received 127(18)–(26)
. . transferred expenditures 127(13)–(17)
. qualified property Reg. 4600(1)
. . defined 127(9); 127(11)
. recapture 127(27) (36)
. . allocating taxpayer 127(29)
. . partnerships 127(28)–(31)
. refundable 127.1
. . associated CCPCs 127.1(2.2)–127.1(2.3)
. . deemed deductions 127.1(3)
. . definitions 127.1(2)–(2.1)
. . scientific research and experimental development 127.1(2.01)
. . short taxation year 127.1(4)
. scientific research and experimental development 127(5)
. . refundable 127.1(2.01)
. second term shared-use equipment defined 127(9)
. specified percentage defined 127(9)
. specified sampling defined 127(9)
. super-allowance benefit amount defined 127(9)
. transitional provision 127(9.01)–127(9.02); 127(36)
. transportation equipment Reg. 4601
. trust 127(7)

Investments
. capital losses 39(1)(c)
. cumulative net losses 110.6(1)
. expense, defined 110.6(1)
. limited partnerships 253.1

Section

Investments — continued
. non-qualified — see Investments, non-qualified
. non-resident fund 115.2
. qualified — see Investments, qualified
. registered — see Investments, registered
. small business — see Small business investment
. tax credits — see Investment tax credit
. tax shelters — see Tax shelters

Investments, non-qualified
. charities
. . defined for 149.1(1)
. . tax on 189
. deferred income plans, trustee's tax liability 207.2(2)
. deferred profit sharing plans
. . distribution deemed disposition 200
. . initial 204
. . interest on tax 202(5)
. . life insurance policies 198(6)–(8)
. . penalty tax 207.1(1)
. . refunds 198(4); 199(2)
. . tax 198(1)–(2)
. . tax on investments not disposed of 199(1)
. . trustee's tax liability 198(3); 204
. defined
. . for charities 149.1(1)
. . for RRSP 146(1)
. . for TFSA 207.01(1)
. penalty tax 207.1(3)
. registered education savings plans
. . penalty tax 207.1(3)
. . plan revocable 146.1(2.1)
. registered retirement income fund
. . acquisition by 146.3(7)
. . disposition by 146.3(8)
. . penalty tax 207.1(3)
. . tax on acquisition by 146.3(9)
. registered retirement savings plans
. . acquisition 146(10)
. . defined for 146(1)
. . disposition 146(6)
. . life insurance policies 146(11)
. . penalty tax 207.1(1); 207.1(3)
. . tax payable on acquisition 146(10.1)

Investments, qualified
. deferred profit sharing plans 204; Reg. 4900
. information return Reg. 221
. non-resident corporations Reg. 808
. non-resident fund 115.2
. prescribed Reg. 4900
. registered disability savings plans 205(1); Reg. 4900
. registered education savings plans 146.1(1); Reg. 4900
. registered retirement income fund 146.3(1); Reg. 4900
. registered retirement savings plans 146(1); Reg. 4900
. tax-free savings accounts 207.01(1); Reg. 4900

Investments, registered
. defined 204.4(1); 248(1)
. provisions of Act applicable to 204.7(3)
. publication of list 204.5
. registration
. . application 204.4(2)
. . deemed 204.4(7)
. . revocation 204.4(3)–(5)
. returns 204.7(1)–(3)
. . trustee's liability 204.7(2)
. tax payable 204.6(1)–(3)
. trust 204.4(2)
. trust, successor 204.4(6)

Investors
. defined 112(2.6)
. losses sustained by 112(2.8)
. qualifying re non-resident trusts 94(1)

IRA — see Foreign retirement arrangements

ISIP — see Indexed security investment plans

J

Jetty
. CCA rate Reg. Sch. II, Class 1, 3

Jigs
. CCA rate Reg. Sch. II, Class 12

Joint exploration corporations
. adjusted cost base of share 53(2)(f.1)
. agreed portion, defined 66(15)
. Canadian exploration and development overhead expenses Reg. 1206(4.1)
. Canadian exploration expenses Reg. 1207(5)
. defined 66(15)
. resource property acquisition Reg. 1206(4)
. shareholder corporation, defined 66(15)
. shares of capital stock, adjusted cost base 53(2)(f.1)

Joint spousal or common-law partner trust — see Trusts, spousal or common-law partner

Section

Judge
. defined ... 231; 232(1)

Judicial notice
. order and regulations ... 244(12)

Jurisdiction
. territorial ... 244(3)

K

Kiddie tax — see Split income

Kilns
. CCA rate ... Reg. Sch. II, Class 8, 19, 29, 39, 43

Kitchen utensils
. CCA rate ... Reg. Sch. II, Class 12

L

Labour
. cost of, defined for manufacturing and processing profits ... Reg. 5202

Labour organizations
. entire union is single entity ... 252.1
. exempt from tax ... 149(1)(k)

Labour-sponsored funds tax credit
. amalgamations or mergers ... 127.4(1.1)
. approved share defined ... 127.4(1); 211.7(1)
. clawback of credit ... 211.7–211.9
. . definitions related to ... 211.7(1)
. . disposition of approved share ... 211.8(1)
. . net cost defined ... 211.7(1)
. . original acquisition defined ... 211.7(1)
. . qualifying trust defined ... 211.7(1)
. . refund of clawback ... 211.9
. . revoked corporation defined ... 211.7(1)
. . withholding and remittance of tax ... 211.8(2)
. computation ... 127.4(6)
. credit limit ... 127.4(5)
. deduction of ... 127.4(2)
. deemed original acquisition ... 127.4(5.1)
. defined ... 211.7(1)
. net cost of approved share defined ... 127.4(1)
. original acquisition defined ... 127.4(1)
. qualifying trust defined ... 127.4(1)

Labour-sponsored venture capital corporations ... 204.82(6)
. assistance, defined ... Reg. 6702
. business discontinuation ... 204.8(2)
. community small business investment funds ... Reg. 4801.02
. definitions ... 204.8(1)
. dissolution prohibitions ... 204.85
. dividend tax exemption ... 186.1
. dividends received from prescribed qualifying corporation ... 186.2
. eligible business ... 204.8(1); Reg. 4801.02
. eligible investment ... 204.8(1)
. eligible labour body ... 204.8(1)
. exempt dividends ... 186.2
. exempt dividends from prescribed qualifying corporation ... Reg. 6704
. investment contract corporation
. . defined ... Reg. 6703
. investment shortfall, determination ... 204.82(2.1); 204.82(2.2)
. loss on disposition of shares ... 40(2)(i)
. penalties ... 204.84
. penalty tax for business discontinuation ... 204.841
. provincially registered ... 204.82(5); Reg. 6707
. provisions of Act applicable ... 204.87
. recovery of credit ... 204.82
. refund of tax ... 204.83
. registered, defined ... 248(1)
. registration
. . conditions ... 204.81(1)–(1.2)
. . cost of ... 204.81(4)
. . date ... 204.81(5)
. . number ... 204.81(2)
. . prescribed conditions ... Reg. 6706
. . successive ... 204.81(3)
. registration revocation ... 204.81(6)
. . notice of intention to revoke ... 204.81(7); 204.81(8)
. . right of appeal ... 204.81(9)
. . voluntary ... 204.81(8.1)
. reserves ... 204.8(1)
. returns ... 204.86
. revoked corporations ... 204.8(1)
. rules re ... 131(11)
. specified active business, defined ... 204.8(1)
. specified individual ... 204.8(1)
. start-up period ... 204.8(1)
. tax payment ... 204.86

Land — see also Real or immovable property
. adjusted cost base ... 53(1)(h)
. agricultural, instalment payment on sale ... 12(1)(g)
. CCA rate exclusion ... Reg. 1102(2)
. clearing, farmers ... 30
. conventional, defined ... Reg. 1206(1)
. Crown, transfer to Crown corporation ... 27(3)

Section

Land — continued
. deceased persons, disposition deemed ... 70(5.2)
. deemed proceeds of disposition on replacement ... 44(6)
. defined ... 18(3)
. farm disposition ... 101
. interest on borrowed money to purchase, deduction limitation ... 18(2)(a)
. inventory
. . deceased persons' ... 70(5.2)
. . transfer to beneficiaries ... 70(3.1)
. non-conventional, defined ... Reg. 1206(1)
. property taxes not deductible ... 18(2)(b)
. valuation as inventory ... 10(1.1)

Landscaping
. costs, deductibility ... 20(1)(aa)

Large corporations tax
. acquisition of control ... 181.1(7)
. assets, carrying value determination ... 181(3)
. capital deduction ... 181.5(1)–(1.1)
. . related corporations' ... 181.5(2)–(7)
. capital determination ... 181.2(3)
. . limitations re inclusions and deductions ... 181(4)
. . value and amount ... 181(3)
. crown corporations ... 181.71
. defined ... 225.1(8)
. financial institutions — see Financial institutions
. interest in partnership ... 181.2(5)
. investment allowance
. . determination ... 181.2(4)
. . limitations re inclusions and deductions ... 181(4)
. . value and amount ... 181(3)
. loans to other corporations ... 181.2(6)
. prescribed expressions ... 181(2)
. related
. . capital deduction ... 181.5(2)–(6)
. . not associated ... 181.5(7)
. returns ... 181.6
. short taxation years ... 181.1(2)
. specified percentage ... 181.1(1.1)–(1.2)
. surtax ... Reg. 8602
. . Canadian surtax payable ... 181.1(6)
. . unused credit ... 181.1(6)
. tax collection restrictions ... 225.1(7)
. tax credit — see Large corporations tax credit
. tax not payable, conditions ... 181.1(3)
. tax payable ... 181.1(1)
. . deductions allowed ... 181.1(4)–(5)
. tax payment ... 181.7
. taxable capital
. . defined ... 181.2(2)
. . employed in Canada
. . . attributed surplus ... Reg. 8603
. . . Canadian assets ... Reg. 8603
. . . definitions related to ... Reg. 8600
. . . determination ... 181(3)
. . . financial institution ... Reg. 8604
. . . limitations re inclusions and deductions ... 181(4)
. . . non-residents ... 181.4
. . . prescribed portion of taxable capital ... Reg. 8601
. . . prescribed proportion ... 181.2(1)
. . . total assets ... Reg. 8603
. . limitations re inclusions and deductions ... 181(4)
. . value and amount ... 181(3)
. unused surtax credit ... 181.1(6)

Large corporations tax credit
. acquisition of control ... 125.3(3)
. Canadian surtax payable ... 125.3(4)
. deductions ... 125.3(1)
. reassessment ... 152(6)
. special rules ... 125.3(2)
. unused
. . deductibility on acquisition of control ... 125.3(3)
. . defined ... 125.3(4)

Lawyers — see also Legal representative
. books and records ... 230(2.1)
. defined ... 232(1); 248(1)
. income computation ... 34
. legal expenses – see Legal expenses
. privilege — see Solicitor–client privilege

Lease
. cancellation
. . amalgamated corporations' ... 87(2)(j.5)
. . expense deduction ... 18(1)(q); 20(1)(z); 20(1)(z.1)
. . payment ... 13(5.5)
. head lease
. . defined ... 209(1)
. . term ... 209(1)

Lease option agreements
. CCA rate, separate classes ... Reg. 1101(5); Reg. Sch. II, Class 36

Leasehold interest
. CCA rate ... Reg. 1100(1)(b); Reg. Sch. II, Class 13; Reg. Sch. III
. . land for 1967 World Exhibition ... Reg. Sch. II, Class 23

Section

Leasehold interest — continued
. housing unit, change of use before 1972 ... A.R. 26.1(1)
. real property
. . CCA rate ... Reg. 1101(5h)
. . considered interest in ... 248(4)
. transfer with disposition of property ... 13(5.1)–(5.5)

Leasing property
. automobiles, deduction limitation ... 67.3–67.4
. available-for-use ... 13(29); 13(32)
. base level deductions ... 18(2)(f)
. business purposes, for ... 18(1)(d)
. CCA
. . acquisition by virtue of amalgamation ... Reg. 1100(1.16)
. . acquisition for more than one year ... Reg. 1100(1.15)
. . additions and alterations ... Reg. 1100(1.19)
. . deemed not exempt ... Reg. 1100(1.14)
. . exempt property ... Reg. 1100(1.13)
. . gross revenue as rent ... Reg. 1100(15)–Reg. 1100(16)
. . lease renegotiation ... Reg. 1100(1.2)
. . nil amount ... Reg. 1100(1.12)
. . property breakdown ... Reg. 1100(1.18)
. . replacement property ... Reg. 1100(1.17)
. . separate class ... Reg. 1101(5c)
. . term of lease ... Reg. 1100(1.3)
. deemed ... Reg. 1100(17.1)
. deemed not to be ... Reg. 1100(19)–(20)
. defined ... Reg. 1100(17)
. excluded properties ... Reg. 1100(18)
. gross revenue as rent, exception ... Reg. 1100(17.2)–Reg. 1100(17.3)
. lessee of property
. . CCA restrictions ... 16.1(1)–(4)
. . replacement property ... 16.1(5)–(7)
. lessee's income computation
. . amalgamation or winding-up ... 16.1(4)
. . assignment or sublease ... 16.1(3)
. . election ... 16.1(2)
. . rollover provisions ... 16.1(4)
. prescribed ... Reg. 8200
. specified
. . CCA ... Reg. 1100(1.1)
. . defined ... Reg. 1100(1.11)

Legal expenses
. awarded by court, income inclusion ... 56(1)(l)
. collection of wages ... 8(1)(b)
. deductible ... 60(o); 60(o.1)
. employees ... 8(1)(b)
. re right to collect retiring allowance or pension benefits ... 56(1)(l.1)
. recovered amounts, income inclusion ... 56(1)(l)

Legal representative — see also Lawyers
. clearance certificate prior to distribution ... 159(2)
. defined ... 248(1)
. election for deceased person
. . annual instalment payments ... Reg. 1001
. . property disposition ... Reg. 1000
. . transferred or distributed property ... 70(6.2)
. information returns ... Reg. 206(1)
. payment of tax on behalf of another ... 159(1)

Legislative assembly members
. expense allowance ... 81(2)

Lessee
. reimbursement of Crown charges ... 80.2
. share of coal mine allowance ... 65(3)

Letters of credit
. registered pension plans ... 147.2(7)

Levy
. Western Grain Stabilization Act ... 12(1)(p); 20(1)(ff)

Liability for tax — see Tax liability

Licences
. CCA rate ... Reg. 1100(1)(c); Reg. Sch. II, Class 14
. limited period ... 13(4.2); 13(4.3)
. representation expenses ... 13(12); 20(1)(cc); 20(9)

Licensed annuities provider
. defined ... 248(1)

Life annuity contracts — see Annuity contracts

Life estates
. disposition of interest in property on death ... 43.1(2)
. retention of interest in property on disposition ... 43.1(1)

Life insurance
. borrowed money to acquire ... 20(1)(c)(ii)
. capital dividend
. . corporation as beneficiary ... 89(2)
. . defined ... 248(1)
. . transaction losses ... 112(3)–(3.32)
. corporations — see Life insurance corporations
. disposition of interest in ... 56(1)(j)
. group term
. . accidental death insurance ... Reg. 2700
. . average daily cost of insurance ... Reg. 2701

Section

Life insurance
. group term — continued
. . definitions related to ... Reg. 2700
. . employee-paid insurance ... Reg. 2704
. . employer-paid ... 18(9.01)
. . group term policy, defined ... 248(1)
. . lump-sum premium ... Reg. 2700
. . paid-up premium ... Reg. 2700
. . premium category ... Reg. 2700
. . prepaid insurance benefit ... Reg. 2703
. . prescribed benefit ... Reg. 2701
. . prescribed premium and insurance ... Reg. 2705
. . survivor income benefits ... Reg. 2701
. . taxpayer portion of premiums ... Reg. 2703
. . term insurance ... Reg. 2700
. . term insurance benefit ... Reg. 2702
. policies — see Life insurance policies

Life insurance corporations — see also Insurance corporations
. benevolent societies' business ... 149(3)–(4.3)
. Canadian insurance fund for the year ... Reg. 2405(3)
. Canadian investment fund
. . computation ... Reg. 2412
. . determination outside Canada ... Reg. 2405(4)
. . non-resident companies ... Reg. 2405(3)
. . resident company ... Reg. 2405(3)
. Canadian life investment income
. . amounts determined ... Reg. 1401(1)
. . computation ... 211.1(3); Reg. 1900
. . definitions related to ... Reg. 1900
. . taxable ... 211.1(2)
. capital dividend election ... Reg. 2101
. capital gains ... 138(11.2)
. capital tax ... 190(1)
. . definitions related to ... 190(1.1)
. . determination ... 190.13
. computation of income ... 138(4) (4.6)
. . amortized cost of Canadian assets ... 138(13)
. . amounts included ... 138(4); 138(4.4)–(4.6)
. . deemed deductions ... 138(4.1)–(4.3)
. . gains from property disposition or reacquisition ... 138(11.4)
. . policy funds — see Life insurance policies
. . policy reserves — see Life insurance policies
. . prescribed amounts re land or property costs, etc. ... 138(4.4)–(4.6)
. conversion to mutual ... 139
. deductions ... 138(3)–(7)
. . deemed allowed on depreciable property ... 13(23)
. . disallowed ... 138(5)–(5.2)
. . disallowed foreign taxes ... 138(5.1)
. . dividends ... 138(6)
. . excess policy dividend ... 138(3.1)
. deemed to be public company ... 141(2)
. defined ... 248(1)
. definitions related to ... 211(1); Reg. 2405(3)
. equity limit, non-resident insurers ... Reg. 2405(3)
. equity property ... Reg. 2405(3)
. excluded arrangement, defined ... Reg. 1900(1)
. foreign accrual property income ... 95(2)(j.1) (j.2)
. foreign taxes, deductions disallowed ... 138(5.1)
. fraternal benefit societies' business ... 149(3)–(4.3)
. gross investment revenue, defined ... 138(12)
. identical properties ... 138(11.1)
. income computation
. . 1977 carry forward deductions ... Reg. 2408
. . 1977 excess policy dividend deductions ... Reg. 2407
. . prescribed cost of property ... Reg. 2410
. . rules applicable ... Reg. 2402; Reg. 2409
. information returns ... Reg. 201(5); Reg. 217
. insurance property ... Reg. 2409
. investment income, Canadian gross ... Reg. 2400(1); Reg. 2405(3)
. investment income tax ... 211.1(1)
. . instalment payment ... 211.3
. . instalment payment, of remainder ... 211.4
. . interest on instalments ... 211.5(2)
. . provisions of Act applicable ... 211.5(1)
. . returns ... 211.2
. . short taxation year ... 211.1(4)
. investments in related institutions ... 190.14
. life annuity contract, defined ... 148(10)
. life insurance business, defined ... 248(1)
. life insurance policy — see Life insurance policies
. life insurer, defined ... 248(1)
. mutual, conversion to ... 139
. non-capital losses ... 111(7.2)
. non-resident
. . attributed surplus for the year ... Reg. 2405(3)
. . Canadian investment fund ... Reg. 2405(3)
. . currency conversion ... Reg. 2404
. . equity limit for the year ... Reg. 2405(3)
. . life equity limit ... Reg. 2405(3)
. . life surplus factor ... Reg. 2405(3)
. policies — see Life insurance policies
. policy funds — see Life insurance policies

Section

Life insurance corporations — continued
. policy loans
. . foreign, defined ... Reg. 2400(1)
. . mean, defined ... Reg. 2400(1)
. . not designated property ... Reg. 2401(7)
. policy reserves — see Life insurance policies
. prescribed cost of property ... Reg. 2410
. property disposition
. . deemed ... 138(11.3)
. . election ... 138(11.6)
. . mark-to-market rule ... 138(11.31)
. . rules ... 138(11.4)
. property reacquisition, rules ... 138(11.4)
. property transfer or loan ... 138(4.5)
. segregated fund
. . acquisition fee, defined ... 138.1(6)
. . capital gains and losses ... 138.1(3)
. . conditions barring application of rules ... 138.1(7)
. . deemed gains and losses ... 138.1(3.1)–(3.2)
. . defined ... 138.1(1); 211(1)
. . property at end of 1977 taxation year ... 138.1(2)
. . rules ... 138.1(1)
. segregated fund policy — see Life insurance policies
. segregated fund trust
. . adjusted cost base of property ... 138.1(5)
. taxable Canadian property ... 141(5)
. taxable income ... 149(4.3)
. . 1977 carry forward deductions ... Reg. 2408
. . 1977 excess policy dividend deductions ... Reg. 2407
. transition year
. . defined ... 138(12)
. . income computation ... 138(16)–138(25)

Life insurance policies
. accumulating funds ... Reg. 307(3)–(5)
. . income computation ... 12.2
. adjusted cost basis of policyholder ... 148(9)
. amount payable, defined ... 138(12); Reg. 310
. amounts included in computing income ... 148(1.1)
. anniversary date ... 12.2(11)
. annuity contracts ... 148(10)
. annuity payments, proceeds receivable as ... 148(6)
. benefit on death, defined ... Reg. 310
. in Canada, defined ... 138(12); 248(1)
. cash surrender value, defined ... 148(9); Reg. 310
. changes in terms of ... 211(2)
. charitable donation ... 118.1(5.1)–(5.2)
. child, defined ... 148(9)
. deceased persons, non-transferable ... 70(3.1)
. deferred profit sharing plans ... 198(6)–(8)
. defined ... 20(2.2); 138(4.01); 138(12); 148(9); 211(1); 248(1); Reg. 310; Reg. 1900(1)
. disposition of interest
. . deductions ... 20(20)
. . deemed proceeds ... 148(2)
. . defined ... 148(9)
. . income computation ... 148(1.1)
. . income from ... 148(4)
. . information return ... Reg. 217
. . non-arm's length ... 148(7); 148(8)
. . non-residents, by ... 116(5.1)–(5.4)
. . proceeds of, defined ... 148(9)
. . value of, defined ... 148(9)
. dividend, deemed proceeds of disposition ... 148(2)
. exempt policy, defined ... 12.2(11); Reg. 306
. existing guaranteed ... 211(1)
. existing guaranteed, defined ... Reg. 1900(1)
. group term, defined ... Reg. 1900(1)
. guaranteed interest ... Reg. 1900(1)
. inter vivos transfer to spouse ... 148(8.1)
. interest in annuity contract deemed interest in ... Reg. 305(3)
. interest on borrowed money, deductions ... 20(1)(c)(ii); 20(2.1)(b)
. loan repayment, deduction ... 60(s)
. mean amount of deposit ... Reg. 2405(3)
. mean maximum tax actuarial reserve ... Reg. 2405(3)
. modified net premium, defined ... Reg. 1408(1)
. mortality experience, defined ... Reg. 1900(1)
. mortality gain, defined ... Reg. 308
. mortality loss, defined ... Reg. 308
. mortality loss adjustment account ... Reg. 1900(1)
. net cost of insurance ... Reg. 1900(1)
. net cost of pure insurance ... Reg. 308
. net interest rate ... 211(1)
. non-arm's length dispositions ... 148(7); 148(8)
. non-participating, defined ... 211(1); Reg. 1900(1)
. non-resident
. . disposition ... 116(5.1)–(5.4)
. participating ... 138(12); 211(1)
. policy anniversary, defined ... Reg. 310
. policy dividends, deemed proceeds of disposition ... 148(2)
. policy funds, computation ... 12.2
. policy loans
. . amounts payable ... 138(12); 148(9)
. . defined ... 138(12); 148(9); 211(1); Reg. 310

Section

Life insurance policies
. policy loans — continued
. . interest ... 138(12); 148(9); Reg. 4001
. policy reserves
. . deductibility ... 20(7)
. . regulations ... Reg. 1401–1407
. . reserve transition amount ... 138(16)–138(25)
. policyholders
. . adjusted cost base ... 148(9)
. . disposition of interest, income computation ... 148(1.1)
. . income ... 148(1)
. post-1995, defined ... Reg. 1408(1)
. pre 1996, defined ... Reg. 1408(1)
. pre-funded group, defined ... Reg. 1900(1)
. premiums
. . assigned as collateral for loan, deduction ... 20(1)(e.2)
. . defined ... 148(9); Reg. 1900(1)
. . net level, defined ... Reg. 1900(1)
. . payment by employer ... 6(4)
. . prescribed ... Reg. 309
. prescribed increase in benefit on death ... Reg. 309(2)
. proceeds as income ... 56(1)(j)
. proceeds of disposition, defined ... Reg. 310
. qualified annuity, defined ... Reg. 1408(1)
. RCA, under ... 207.6(2)
. RCA acquiring interest in ... 207.6(2)
. registered, defined ... 211(1); Reg. 1900(1)
. reinsurance arrangement ... 211(1)
. reinsurance commission ... Reg. 1408(1)
. relevant authority, defined ... Reg. 1408(1)
. riders ... 12.2(10); 211(2)
. segregated fund policy
. . allocation and election ... 138.1(4); Reg. 6100
. . conditions barring application of rules ... 138.1(7)
. special rules ... 148(3)
. specified transaction or event ... 211(1); Reg. 1900(1)
. tax anniversary date ... 148(9); Reg. 310
. taxable, defined ... 211(1); Reg. 1900(1)
. transfer to spouse or common-law partner
. . at death ... 148(8.2)
. . inter vivos ... 148(8.1)
. transitional provisions ... Reg. 2409
. unallocated income accrued before 1982 ... Reg. 305(1)
. value defined ... 148(9)

Lifelong learning plan
. annuitant, defined ... 146.02(1)
. benefit, defined ... 146.02(1)
. death of taxpayer ... 146.02(6)
. . election ... 146.02(7)
. definitions related to ... 146.02(1)
. designated person ... 146.02(2)
. educational program, qualifying ... 146.02(1)
. eligible amount
. . defined ... 146.02(1)
. . repayment ... 146.02(3)
. . where portion not repaid ... 146.02(4)
. excluded premium, defined ... 146.02(1)
. excluded withdrawal, defined ... 146.02(1)
. filing requirement ... 150(1.1)
. full-time student, defined ... 146.02(1)
. income inclusion ... 56(1)(h.2)
. LLP balance, defined ... 146.02(1)
. participation period, defined ... 146.02(1)
. repayment period, defined ... 146.02(1)
. taxpayer ceasing to be resident ... 146.02(5)
. withholding tax exception ... Reg. 104.1

Limitation periods
. acknowledgment of tax debt ... 222(5)–(7)
. bar to claims ... 222(9)
. collection restricted ... 222(3)
. defined ... 222(4)
. extension ... 222(8)
. restarted ... 222(5)
. transitional ... 222(10)

Limited dividend housing corporation
. exemptions ... 149(1)(n)

Limited partnership — see Partnerships, limited

Limited-recourse debt rules — see Tax shelters

Linen
. CCA rate ... Reg. Sch. II, Class 12

Liquidators — see Trustees

Listed corporations ... Schedule

Listed personal property
. defined ... 54; 248(1)
. loss ... 41(3)
. taxable net gain on disposition ... 41; 248(1)

Livestock — see also Basic herd
. breeding animals, defined ... 80.3(1)
. breeding herd, defined ... 80.3(1)
. income deferral
. . amalgamated corporation's ... 87(2)(tt)

Section

Livestock
. income deferral — continued
. . disposal re flooding ... 80.3; Reg. 7305
. . inclusion of deferred amount ... 80.3(2)–(6); 87(2)(tt)
. . sale in drought region ... 80.3; Reg. 7305

Living expenses — see Expenses

Loan corporations — see Trust and loan corporations

Loans — see also Debt; Debt obligations
. acquired in ordinary course of business, deductions ... 20(27)
. adjusted cost base, amounts deducted ... 53(2)(l)
. amalgamated corporations, acquisition from predecessor ... 87(2)(h); 87(2)(h.1)
. amortized cost, defined ... 248(1)
. bad debts — see Bad debts
. benefit, income of personal service corporation ... 12(1)(w)
. borrowed to repay borrowed money ... 20(3)
. capitalization of interest ... 18(3.1)–(3.7)
. corporations — see Corporations
. cost capitalization
. . election ... 21
. . reassessment ... 21(5)
. debtor's gain on settlement ... Reg. 5400–Reg. 5401
. . outstanding on January 1, 1972 ... A.R. 26(1.1)
. deductibility of penalties on repayment ... 18(9.1)
. doubtful debts
. . deductibility where change of control ... 111(5.3)
. . reserves ... 20(1)(l)
. . reserves as business income ... 12(1)(d)
. employees, to
. . deemed benefits ... 80.4(1)
. . deemed interest ... 80.5
. . deemed specified employee ... 15(2.7)
. . exception re benefits ... 80.4(3)
. . forgiven amount ... 6(15.1)
. . forgiveness ... 6(15)
. . interest as income ... 6(9)
. expenses on ... 20(1)(e)
. fees paid to reduce interest rate on borrowing ... 18(9.1)
. home purchase - see Home purchase loan
. home relocation — see Home relocation loan
. interest free
. . income inclusion ... 56(4.1)
. . limitations ... 56(4.2)
. interest on ... 20(2)
. . acquisition of annuity contracts ... 20(1)(c)(iv)
. . acquisition of small business bonds ... 15.2(4)
. . acquisition of small business development bond ... 15.1(4)
. . automobiles, salesman ... 8(1)(j)
. . compound ... 20(1)(d)
. . deductibility ... 20(2)
. . . compound ... 20(1)(d)
. . . limitation ... 18(4)
. . loss of income source ... 20.1
. . defined for land purchases ... 18(3)
. . disallowed deductions ... 18(11)
. . exploration, prospecting and development, election ... 21(2)–(4)
. . extended meaning ... 20(2.1)
. . land purchase ... 18(2)(a)
. . loss of income source ... 20.1
. . salesmen's car or aircraft ... 8(1)(j)
. . used to acquire land ... 18(3)
. land purchases, interest deductions ... 18(2)(a)
. large corporations to other corporations ... 181.2(6)
. life insurance premiums assigned as collateral ... 20(1)(e.2)
. long term debts ... 181(1)
. . defined ... 190(1)
. losses, bank reserves for ... 26(2)
. low interest
. . income inclusion ... 56(4.1)
. . limitations ... 56(4.2)
. non-residents ... 17
. . exception ... 17(7)
. . made through partnerships ... 17(4)
. . made through trusts ... 17(5)
. non-residents paying to residents
. . conditional loans ... 18(6)
. . deduction limitations ... 18(4)–(6)
. partnerships
. . anti-avoidance rule ... 17(6)
. policy loans
. . foreign, defined ... Reg. 2400(1)
. . mean, defined ... Reg. 2400(1)
. . not designated property ... Reg. 2401(7)
. principal amount outstanding ... Reg. 8002
. . disposition ... Reg. 8005
. . election ... Reg. 8003
. . reporting to relevant authority ... Reg. 8005
. by shareholder to corporation ... 20(3.1)
. shareholders, to ... 15(2)
. . deemed ... 15(9)
. . deemed benefit ... 80.4(2)

Section

Loans — continued
. shareholders, to — continued
. . deemed interest ... 80.5
. . exception re certain employees ... 15(2.4)
. . exception re certain trusts ... 15(2.5)
. . exception where loan in ordinary course of business ... 15(2.3)
. . exception where repayment within year ... 15(2.6)
. . non-resident to non-resident ... 15(2.2)
. . persons connected to ... 15(2.1); 80.4(8)
. specified, defined ... Reg. 8006
. student loan
. . tax credit for interest ... 118.62
. transfer pricing rules — see Transfer pricing

Lobbying
. costs
. . capital cost allowance ... 13(12)
. . deductibility ... 20(1)(cc); 20(9)
. election ... 20(9); Reg. 4100

Lodges
. membership expenses, deductibility ... 18(1)(l)

Lodging — see Board and lodging

Logging — see also Timber limits and cutting rights; Timber resource property
. equipment, CCA rate ... Reg. Sch. II, Class 10
. income for the year from logging business ... Reg. 700(2)
. logging tax
. . computation ... Reg. 700
. . defined ... 127(2)
. . tax credit ... 127(1)

Look through rules
. employee shares held by trust ... 7(2)

Losses
. bank reserves for ... 26(2)
. business — see Losses, business
. capital — see Losses, capital
. carry back of overpayment of tax ... 164(5)
. carryover ... 111(1)
. . effect on interest ... 164(5)
. . restrictions re non-residents ... 111(9)
. disposition of indebtedness ... 40(2)(e.1)
. farm — see Losses, farm
. foreign accrual property ... Reg. 5903
. foreign affiliates ... Reg. 5907(1)
. . deductible ... Reg. 5903
. . exempt ... Reg. 5907(1)
. . net ... Reg. 5907(1)
. . taxable ... Reg. 5907(1)
. foreign resource — see Foreign resource income
. housing, employee relocation ... 6(20); 6(22)
. insurers ... 138(2)
. investment loss deductions ... 39(9)
. . payment under debt guarantee ... 39(12)
. limitations ... 111(3)
. limited partnership's
. . at-risk amount of interest of partner ... 96(2.2)–(2.3)
. . deduction ... 96(2.1)
. . deduction limitation ... 111(1)(e)
. . defined ... 248(1)
. . non-capital of subsidiary ... 88(1.1)
. . of a subsidiary ... 88(1.1)
. listed personal property ... 41(3)
. net capital — see Losses, net capital
. non-capital — see Losses, non-capital
. non-resident mutual fund investors
. . carryback ... 218.3(6)–218.3(7)
. . definitions ... 218.3(1)
. . use of ... 218.3(6)
. office or employment ... 5(2)
. property ... 9(2)
. restricted farm — see Losses, farm
. securities dealer ... 112(4)–(4.22)
. settlement or extinguishment of commercial obligation ... 40(2)(e.2)
. shares exchanged ... 112(7)
. shares not held as capital property, stop-loss rules ... 112(4)–(4.22)
. shares on which non-taxable dividend received ... 112(3)–(3.32)
. source, from ... 4(1)
. . deductions ... 4(2)–(3)
. specified partnership loss ... 125(7)
. superficial
. . amalgamation of corporations ... 87(2)(g.3)
. . capital property on amalgamation ... 87(2)(g.4)
. . debt held by financial institution ... 142.6(7)
. . defined ... 54
. . limitations ... 40(2)(g)
. terminal, deductions ... 20(16)–(16.3)

Losses, business
. carry back, effects ... 161(7)
. change of control of corporation
. . loss deductibility ... 111(4)–(5.5)
. . restrictions re deductions ... 111(5.5)
. deductibility ... 111(1); 146(1)
. defined ... 9(2)

Section

Losses, business — continued
. investments — see Losses, business investment
. limitations ... 111(3)
. net-capital loss deductions ... 111(1)(b)
. . deceased persons ... 111(2)
. payment under debt guarantee ... 39(12)

Losses, business investment
. allowable
. . defined ... 38(c); 248(1)
. . partnerships ... 96(1.7)
. deductions from ... 39(9)
. defined ... 39(1)(c)
. loss deductions ... 39(9)
. payment under debt guarantee ... 39(12)
. trusts ... 39(10)

Losses, capital
. allowable
. . defined ... 38(b); 248(1)
. . eligible capital property ... 20(4.3)
. . partnerships ... 96(1.7)
. bad debts ... 50
. bequests ... 69(1)
. bonds outstanding on January 1, 1972 ... A.R. 26(1.1)
. bonds purchased by issuer ... 39(3)
. business investment — see Losses, business investment
. corporations' change of control
. . deductibility ... 111(4)–(5.5)
. . limitations ... 111(4)–(5.4)
. debentures
. . outstanding on January 1, 1972 ... A.R. 26(1.1)
. . purchased by issuer ... 39(3)
. debt forgiveness rules ... 80(4)
. deceased person's trust ... 70(7)
. defined ... 39(1)(b); 40(1)(b); 248(1)
. disposal of LSVCC share ... 40(2)(i)
. disposing estate of deceased person ... 164(6)
. disposition of Canadian securities ... 39(4)
. disposition of property to child ... 40(1.1)
. EPSP, allocated to employees ... 144(4)
. estates ... 40(3.61)
. foreign affiliate ... 95(2); Reg. 5907(5)
. . transitional provisions ... A.R. 35
. foreign currency ... 39(2)
. foreign currency debt ... 40(10)–40(11)
. general rules ... 40(1)(b)
. gifts ... 69(1)
. indexed security investment plans, transition for 1986 ... 47.1(27)
. limitation
. . corporate bonds and debentures ... 40(2)(d)
. . lottery prizes ... 40(2)(f)
. . personal use property ... 40(2)(g)
. . superficial loss ... 40(2)(g)
. net — see Losses, net capital
. non-property loss ... 9(3)
. partnership election ... 40(3.12)
. partnership interest disposition ... 100(4)
. pre-1986 capital loss balance defined ... 111(8)
. profit sharing plans, determination ... 147(4)
. repayment of assistance to acquire capital property ... 39(13)
. restrictions ... 40(3.3)–(3.7)
. stop-loss rules ... 40(3.3)–(3.7)
. transfer to child ... 40(1.1)
. Valuation Day ... A.R. 24

Losses, farm
. calculation ... 111(8)
. carryforward ... 111(1)(d)
. defined ... 111(8); 248(1)
. effect on cost base of land ... 53(1)(i)
. farming not chief source of income ... 31
. limitations ... 111(6); 111(7)
. partnership's ... 96(1)
. restricted farm losses
. . carryforward ... 111(1)(c)
. . deduction restrictions ... 31
. . defined ... 31(1.1); 248(1)
. . determination ... 152(1.1)–(1.8)
. . limitations ... 111(3)
. . partnership's ... 96(1)
. restrictions re non-residents ... 111(9)

Losses, net capital
. deceased persons ... 111(2)
. deductibility ... 111(1.1)
. . year of death ... 111(2)
. deductions ... 111(1)(b); 111(3)
. . deceased persons ... 111(2)
. . limitations ... 111(3)
. defined ... 111(8); 248(1)
. determination ... 152(1.1)–(1.8)
. foreign affiliate's ... Reg. 5907(1)
. investment corporation, non-resident owned ... 133(2)
. partnership ... 96(1)
. restrictions re non-residents ... 111(9)

Section

Losses, non-capital
. credit unions, exceptions ... A.R. 58(1.1)
. debt forgiveness rules ... 80(3)
. deductions ... 111(1)(a)
. . life insurers' ... 111(7.2)
. . limitations ... 111(3)
. deemed to be ... 111(5.4)
. defined ... 111(8); 248(1)
. determination ... 152(1.1)–(1.8)
. fuel tax rebate ... 111(10)
. . partnerships ... 111(11)
. life insurer's ... 111(7.2)
. limited partnership of a subsidiary ... 88(1.1)
. partnerships ... 96(1)
. restrictions re non-residents ... 111(9)
. winding-up of subsidiary ... 88(1.1)

Lottery prizes — see Awards and prizes

Lump-sum payments — see Payments, lump-sum

M

Machinery and equipment
. CCA rate ... Reg. Sch. II, Class 8, 19, 29, 39, 43
. contractor's, CCA rate ... Reg. Sch. II, Class 10
. cutting parts, CCA rate ... Reg. Sch. II, Class 12
. investment tax credit ... Reg. 4600(2); Reg. 4604(2)
. logging equipment, CCA rate ... Reg. Sch. II, Class 10
. power-operated movable equipment ... Reg. Sch. II, Class 22, 38
. powered industrial lift truck, CCA rate ... Reg. Sch. II, Class 40
. shaping parts, CCA rate ... Reg. Sch. II, Class 12

Mailing date
. presumption re ... 244(14)

Maintenance
. payments — see Support payments
. and repairs — see Repair and maintenance

Management fees
. non-resident receiving ... 212(1)(a); 212(4)

Manufacturing and processing
. activities excluded ... 125.1(3)
. capital cost allowance ... 13(10)
. CCA rate
. . additional allowances ... Reg. 1100(1)(zi)
. . election ... Reg. 1102(16.1)
. . exclusions ... Reg. 1104(9)
. . prescribed property ... Reg. 1102(15)
. . property ... Reg. Sch. II, Class 29, 39, 43
. . property, separate classes ... Reg. 1101(5q); Reg. 1101(5s)–(5s.5)
. cost of capital, defined ... Reg. 5202
. cost of labour, defined ... Reg. 5202
. excluded professions ... Reg. 1104(9)
. foreign ore, CCA rate ... Reg. Sch. II, Class 43
. gross revenue determination ... 125.1(4)
. kilns, tanks or vat, CCA rate ... Reg. Sch. II, Class 8, 19, 29, 39, 43
. machinery and equipment — see Machinery and equipment
. profits — see Manufacturing and processing profits
. revenue defined ... Reg. 1102(16)
. warranty reserves, deductions ... 20(1)(m.1)

Manufacturing and processing profits
. Canadian
. . basic formula ... Reg. 5200
. . deduction from tax ... 125.1(1)
. . defined ... 125.1(3); Reg. 5200
. . definitions related to ... Reg. 5202
. . partnerships ... Reg. 5204
. . resource income ... Reg. 5203
. . small manufacturers' rule ... Reg. 5201
. deduction from tax ... 125.1(1)
. . definitions related to ... Reg. 5202
. . partnerships ... Reg. 5204
. . resource income ... Reg. 5203
. . small businesses ... Reg. 5201
. . specified percentage ... Reg. 5202
. electrical energy and steam ... 125.1(2); 125.1(5)

Marihuana
. medical expense ... 118.2(2)(u)

Mark-to-market property
. beginning to use in Canadian business ... 142.6(1.2)
. ceasing to use in Canadian business ... 142.6(1.1); 142.6(1.3)
. change in status ... 142.6(1.4)–(1.6)
. deemed disposition by trust ... 104(4.1)
. defined ... 142.2(1)
. foreign bank branches ... 142.7(6)
. foreign investment entities ... 94.2
. held by financial institutions, transitional ... Reg. 8102–8105
. predecessor corporation ... 87(2)(e.4); 87(2)(e.5)
. significant interest ... 142.2(2)–(4); Reg. 9003
. stop-loss rules ... 112(5.5)
. tax treatment ... 142.5
. transition year ... 142.51
. winding-up ... 88(1)(h); 88(1)(i)

Section

Marriage — see also Spouses or common-law partners
. religious charity's rights ... 149.1(6.21)

Matchable expenditures
. accrual rules ... 18.1(14)
. amalgamation ... 87(2)(j.2)
. deduction ... 18.1(3)
. . calculation of amount ... 18.1(4)
. . limitation ... 18.1(2)
. deemed termination of rights ... 18.1(5)
. deemed timing of expenditure ... 18.1(5)
. disposition of right ... 18.1(6)
. . arm's length ... 18.1(7)
. . non-arm's length dispositions ... 18.1(8)
. exceptions
. . no tax benefit ... 18.1(16)
. . not a tax shelter ... 18.1(16)
. . revenue threshold ... 18.1(17)
. . risks ceded between insurers ... 18.1(15)
. identical properties ... 18.1(12)
. income on disposition of right ... 18.1(6)
. matchable expenditure defined ... 18.1(1)
. multiple related rights ... 18.1(5)
. non-arm's length disposition ... 18.1(8)
. partnership ceasing to exist ... 18.1(11)
. right for indeterminate period ... 18.1(5)
. right to receive production defined ... 18.1(1)
. rights to additional terms ... 18.1(5)
. special case re terminal deduction ... 18.1(9)
. special rules ... 18.1(5)
. substituted property ... 18.1(8); 18.1(10)
. . deemed identical ... 18.1(12)
. tax benefit defined ... 18.1(1)
. tax shelter defined ... 18.1(1)
. tax shelter rules, application ... 18.1(13)
. taxpayer defined ... 18.1(1)
. terminal deduction ... 18.1(7)
. . amount of deduction ... 18.1(10)
. . deferral ... 18.1(9)

Meals — see Food and beverages

Mechanic, apprentice's tools
. contribution to partnership ... 97(5)
. cost ... 8(7)
. deduction ... 8(1)(r)
. definitions ... 8(6)
. disposition ... 56(1)(k)
. rollover to corporation ... 85(5.1)

Median rule
. valuation of gain or loss on property owned Dec. 31, 1971 ... A.R. 26(3)

Medical donations
. deduction by corporation ... 110.1(1)(a.1)
. eligible medical gift, defined ... 110.1(8)
. prescribed conditions ... 110.1(9); Reg. 3505

Medical expenses
. alterations to driveway for bus access ... 118.2(2)(l.6)
. blind or deaf person's ... 118.2(2)(l); Reg. 5700
. bone marrow transplant ... 118.2(2)(l.1)
. construction costs to facilitate mobility ... 118.2(2)(l.21)
. cost of care training to care for disabled person ... 118.2(2)(l.8)
. cost of therapy ... 118.2(2)(l.9)
. cost of van for person in wheelchair ... 118.2(2)(l.7)
. credit formula ... 118.2(1)
. deaf-blind intervening services ... 118.2(2)(l.44)
. deemed ... 118.2(3); 118.2(4)
. dentures cost ... 118.2(2)(p)
. devices and equipment
. . prescribed ... Reg. 5700
. . tax credit ... 118.2(2)(i); 118.2(2)(m)
. drugs or medicaments ... 118.2(2)(n); 118.2(2)(s); Reg. 5701
. eligible expenditures ... 118.2(1)
. expenses considered as ... 118.2(2)
. eye glasses ... 118.2(2)(j)
. gluten-free food products ... 118.2(2)(r)
. instruments, CCA rate ... Reg. Sch. II, Class 12
. laboratory services ... 118.2(2)(o)
. lip reading training costs ... 118.2(2)(l.3)
. marihuana ... 118.2(2)(u)
. medical equipment and devices ... 118.2(2)(i); 118.2(2)(m); 118.2(2)(t)
. medical equipment and devices, prescribed ... Reg. 5700
. moving costs re more accessible dwelling ... 118.2(2)(l.5)
. note-taking services ... 118.2(2)(l.41)
. nursing home expenses
. . full-time attendant's remuneration ... 118.2(2)(b)
. . full-time care ... 118.2(2)(d)
. occupational therapy ... 118.2(2)(l.9)
. organ transplant costs ... 118.2(2)(l.1)
. oxygen tent ... 118.2(2)(k)
. patient's care and training at a school or institution ... 118.2(2)(e)

Section

Medical expenses — continued
. prescribed medical devices or equipment ... 118.2(2)(i); 118.2(2)(m); Reg. 5700
. private health plan premium ... 118.2(2)(q)
. radiological services ... 118.2(2)(o)
. reading services ... 118.2(2)(l.43)
. real-time captioning services ... 118.2(2)(l.4)
. rehabilitative therapy costs ... 118.2(2)(l.3)
. remuneration re full-time attendant ... 118.2(2)(b.1)
. . group home ... 118.2(2)(b.2)
. . at home ... 118.2(2)(c)
. . nursing home ... 118.2(2)(b)
. renovation costs to facilitate mobility ... 118.2(2)(l.2)
. sign language interpretation costs ... 118.2(2)(l.4)
. sign language learning costs ... 118.2(2)(l.3)
. supplement ... 122.51
. . adjusted income ... 122.51
. . eligible individual ... 122.51
. . formula ... 122.51
. transportation costs ... 118.2(2)(g)
. . by ambulance ... 118.2(2)(f)
. traveling costs ... 118.2(2)(h)
. tutoring services ... 118.2(2)(l.91)
. voice recognition software ... 118.2(2)(l.42)
. wig ... Reg. 5700(a)

Medical practitioner
. defined ... 118.4(2)
. fees, etc., medical expense ... 118.2(2)(a)
. income computation ... 34
. instruments, CCA rate ... Reg. Sch. II, Class 12

Members
. credit union, of ... 137(6)
. defined, RPP ... 147.1(1)
. defined for DPSP and RPP ... Reg. 8300
. religious order, gifts by ... 110(2)

Members of Legislative Assembly
. expense allowance ... 81(2)

Membership fees
. clubs, deductibility ... 18(1)(l)
. employees ... 8(1)(i)

Memorial filing — see Tax collection

Mental or physical impairment — see Disabled persons

Mergers — see Amalgamated corporations

Metal processing and fabricating corporation
. defined ... A.R. 29(26)

Metric scale
. CCA rate ... Reg. Sch. II, Class 12

Migration — see Emigration; Immigration

Military — see Canadian Forces

Mines and minerals — see also Mining and ore processing
. additional allowances ... Reg. 1209
. bituminous sands projects ... Reg. 1107
. Canadian exploration and development expenses deduction ... 66(3)
. CCA rate
. . buildings and structures ... Reg. Sch. II, Class 10
. . electrical plant ... Reg. 1102(8)–Reg. 1102(9)
. . industrial mineral ... Reg. 1100(1)(g); Reg. Sch. V
. . property ... Reg. Sch. II, Class 10
. . separate classes ... Reg. 1101(4)–(4d); Reg. Sch. II, Class 28, 41
. . shaft ... Reg. Sch. II, Class 12
. . structures ... Reg. Sch. II, Class 10
. coal
. . lessee's share of allowances ... 65(3)
. . operator, defined ... Reg. 1206(1)
. deductions from income ... 65(1)
. . expenses incurred 1952–1972 ... A.R. 29(2)–(5)
. . lessees' share of allowance ... 65(3)
. . mining taxes ... 20(1)(v); Reg. 3900(2)
. . resource allowance ... 20(1)(v.1)
. defined ... Reg. 1104(6)–Reg. 1104(7); Reg. 1206(1)
. exploration and development expenses ... 66(3)
. exploration or earned depletion
. . stated percentage ... 59(3.4)
. . stated percentage variation ... 59(3.5)
. flow-through mining expenditure defined re ITC ... 127(9)
. gross revenue from a mine
. . defined ... Reg. 1104(5.1)
. . exclusion ... Reg. 1104(5.2)
. income from
. . defined ... Reg. 1104(5)–(6)
. income from mining operations ... Reg. 3900(1)
. industrial mineral
. . capital cost ... Reg. Sch. V
. . defined ... Reg. 1104(3)
. investment tax credit ... 127(9)
. mine, defined ... Reg. 3900(1)
. mineral, defined ... 248(1); Reg. 1104(3); Reg. 3900(1)
. mineral exploration assistance ... 66(12)
. mineral ore, defined ... Reg. 3900(1)

Section

Mines and minerals — continued
. mineral resource, defined ... 248(1)
. mineral rights, dealers ... 66(5)
. mining property, defined ... 35(2)
. pre-production mining expenditure defined ... 127(9)
. production, defined ... Reg. 1104(8.1)
. prospector's income computation ... 35
. shareholder's share of allowance ... 65(2)

Minimum tax
. adjusted taxable income ... 127.52(1)
. basic credit ... 127.531
. calculation ... 127.5
. carryover ... 120.2(1)
. exemptions ... 127.55
. film property defined ... 127.52(3)
. limited partner defined ... 127.52(3)
. minimum amount ... 127.51
. partnerships ... 127.52(2)
. . anti-avoidance rule ... 127.52(2.1)
. rental or leasing property defined ... 127.52(3)

Mining and ore processing — see also Mines and minerals
. allowances ... 65(1)
. CCA rate
. . buildings and structures ... Reg. Sch. II, Class 10
. . foreign ore ... Reg. Sch. II, Class 43
. deductions from income ... Reg. 1203
. defined ... Reg. 1104(3)
. designated overburden cost, defined ... Reg. 1104(2)
. designated underground storage cost ... Reg. 1104(2)
. expenses incurred 1952–1972 ... A.R. 29(2)–(5)
. income from mining operations ... Reg. 3900(1)
. mineral ore, defined ... Reg. 3900(1)
. mining operations, defined ... Reg. 3900(1)
. processing, defined ... Reg. 3900(1)
. property, defined ... 35(2)
. property acquisition by successor corporation ... A.R. 29(25)
. taxes, income deductions ... 20(1)(v); Reg. 3900(2)

Mining reclamation trusts — see Environmental trusts

Minister
. authorization re security acceptance ... 220(4)
. discharge re security for taxes ... Reg. 2200
. duties when objection filed ... 165(3)
. duty to enforce Act ... 220(1)
. duty to justify penalty imposed ... 163(3)

Ministerial discretion
. extensions of filing date ... 220(3)
. late, amended or revoked elections ... 220(3.2)–(3.7)
. late filed elections ... Reg. 600
. refunds, returns filed after three years ... 164(1.5)
. security for payment of tax ... 220(4.7)–(4.71)
. waiver of filing of documents ... 220(2.1)
. waiver of interest or penalty ... 220(3.1)
. waiver of RESP conditions, mental impairment ... 146.1(2.2)
. waiver of tax, excess RRSP contributions ... 204.1(4)
. withholding tax, undue hardship ... 153(1.1); 153(1.3)

Minors
. income from injury award property ... 81(1)(g.1)
. . election re capital property ... 81(5)
. income of estate held in trust for ... 104(18)
. transfer of property to
. . attribution rules ... 74.1(2); 74.2(2)
. . joint liability for tax ... 160
. . repayment of existing indebtedness ... 74.1(3)

M.L.A.
. allowances ... 81(2)

Modernization — see Repair and maintenance

Mole
. CCA rate ... Reg. Sch. II, Class 1, 3

Money
. borrowed, defined ... 248(1)
. borrowed to repay borrowed money ... 20(3)

Mortgage — see also Hypothecs
. discount on sale of, received in payment of property ... 20(5)
. foreclosure ... 79.1
. prescribed security interest ... Reg. 2201
. real property, not interest in ... 248(4)

Mortgage investment corporations
. capital gains dividends ... 130.1(4)
. . allocation ... 130.1(4.2)–(4.5)
. . election ... Reg. 2104
. . reporting requirements ... 130.1(4.2)
. deductions from tax ... 130.1(1)
. . election ... 130.1(4.1)
. deemed public corporation ... 130.1(5)
. defined ... 130.1(6); 248(1)
. dividends deemed to be interest ... 130.1(2)–(3)
. surplus reduction election ... Reg. 2104.1

Motion picture films — see Film or video

Section

Motor vehicles — see also Automobiles
. defined ... 248(1)
. extended warranty, defined ... Reg. 1408(1)

Moulds
. CCA rate ... Reg. Sch. II, Class 12

Moving expenses
. deduction from income ... 62(1)
. . students ... 62(2)
. defined ... 62(3)
. eligible relocation, defined ... 248(1)

Municipal officers
. expense allowance ... 81(3)

Municipalities
. boundaries ... 149(11)
. disposition of ecological gift ... 207.31
. exempt from tax ... 149(1)(c) (d.6)
. taxable dividends received, tax exempt ... 227(16)

MURBs — see Buildings and structures

Musical instruments
. cost deduction ... 8(1)(p)

Mutual fund corporations
. amalgamation, income computation ... 87(2)(bb)
. capital gains
. . dividend account ... 131(6)
. . dividend election ... Reg. 2104
. . redemption ... 131(6)
. capital gains election ... 131(1)
. . allocation ... 131(1.6)–(1.9)
. . deemed date ... 131(1.1)
. . penalty ... 131(1.3)
. . penalty assessment and payment ... 131(1.4)
. . reporting requirements ... 131(1.5)
. . request to make ... 131(1.2)
. capital gains refund ... 131(2)
. . application to other liability ... 131(3)
. . excess interest on ... 131(3.2)
. . interest on ... 131(3.1)
. deemed dividend ... 131(4)
. deemed not to be ... 131(8.1)
. defined ... 131(8); 248(1)
. dividend refund ... 131(5)
. labour-sponsored venture capital corporations ... 131(11)
. non-resident investors
. . Canadian partner ... 218.3(9)
. . deemed tax paid ... 218.3(4)
. . definitions ... 218.3(1)
. . loss carryback ... 218.3(6)–218.3(7)
. . partnership filing-due date ... 218.3(8)
. . refund ... 218.3(5)
. . tax payable ... 218.3(2)
. . use of losses ... 218.3(3)
. payment of tax ... 157(3)
. refundable capital gains tax on hand ... 131(6)
. . reduction ... 131(9)
. refundable dividend tax ... 131(5)
. reorganizations — see Mutual fund qualifying exchanges
. restricted financial institution ... 131(10)
. shares maintained for benefit of non-residents ... 131(8.1)
. taxed capital gains ... 131(7)
. TCP gains
. . definitions ... 131(6)
. . distribution ... 131(5.1)–131(5.2)

Mutual fund qualifying exchanges
. depreciable property ... 132.2(5)
. election
. . amendment or revocation ... 132.2(7)
. . due date ... 132.2(6)
. first post-exchange year ... 132.2(1)
. general ... 132.2(3)
. non-depreciable property ... 132.2(4)
. qualifying exchange, defined ... 132.2
. share, defined ... 132.2
. timing ... 132.2(2)

Mutual fund trusts
. additional income, electing trust ... 132.11(6)–(8)
. adjusted cost base of units in ... 53(1)(d.2)
. beneficiary, change in status ... 132.11(5)
. for benefit of non-residents ... 132(7)
. capital gains
. . application to other liability ... 132(2)
. . excessive interest on refund ... 132(2.2)
. . interest on refund ... 132(2.1)
. . redemption ... 132(4)
. . tax refund ... 132(1)
. deemed payments to beneficiaries ... 132.11(4)
. defined ... 132(6); 248(1)
. designation of amount ... 132.1(1)
. . adjusted cost base of units ... 132.1(2)
. . carryover of excess ... 132.1(4)
. . deduction limitations ... 132.1(3)
. . designation not effective ... 132.1(5)
. disposition of deceased employee's units ... 164(6.1); Reg. 1000.1

Section

Mutual fund trusts — continued
. election re income from other trusts ... 132.11(3)
. election re share of partnership income and loss ... 132.11(2)
. election to be ... 132(6.1)
. money market funds ... Reg. 4801.01
. non-resident investors
. . Canadian partner ... 218.3(9)
. . deemed tax paid ... 218.3(4)
. . definitions ... 218.3(1)
. . loss carryback ... 218.3(6)–218.3(7)
. . partnership filing-due date ... 218.3(8)
. . refund ... 218.3(5)
. . tax payable ... 218.3(2)
. . use of losses ... 218.3(3)
. payment of tax ... 156(2)
. portion of non-taxable dividend paid to beneficiary ... 132(3)
. prescribed conditions ... Reg. 4801
. prescribed trusts ... Reg. 4801.01
. public investment trust
. . defined ... Reg. 204.1(1)
. . information disclosure ... Reg. 204.1(2)
. public trust
. . defined ... Reg. 204.1(1)
. . information disclosure ... Reg. 204.1(2)
. qualified trust unit, defined ... 260(1)
. refundable capital gains tax on hand ... 132(4)
. reorganizations — see Mutual fund qualifying exchanges
. retention of status ... 132(6.2)
. revocation of election ... 132.11(1.1)
. taxation year ... 132.11(1)
. taxed capital gains ... 132(5)
. TCP gains
. . definitions ... 132(4)
. . distribution ... 132(5.1); 132(5.2)

Mutual holding corporations
. demutualization ... 139.2

Mutual insurance corporations
. exemption from tax ... 149(1)(m)

N

National arts service organizations
. benefits as income ... 56(1)(aa)
. conditions ... Reg. 8700
. defined ... 248(1)
. registration ... 149.1(6.4)

National Contingency Fund
. prescribed for stock exchange ... Reg. 3202

Native Economic Development Program
. prescribed amounts ... Reg. 7300

Natural gas — see Oil and gas wells

Natural resource property — see Resource property

Net capital loss — see Losses, net capital

Net income stabilization account (NISA)
. amounts paid to trust after death from NISA fund ... 104(14.1)
. defined ... 248(1)
. disposition ... 73(5)
. income inclusion ... 12(10.2)
. NISA Fund No. 2
. . acquisition of control ... 12(10.4)
. . amount credited to fund excluded from income ... 12(10.3)
. . defined ... 248(1)
. payments at the time of death ... 70(5.4)
. payments to non-residents ... 214(3)
. . information returns ... Reg. 202(2.1)
. . taxation ... 212(1)(t)
. property disposition by trust under plan ... 104(5.1)
. shares of capital stock of family farm corporation ... 110.6(1.1)
. small business corporation's ... 110.6(1.1)
. transfer to spouse or trust ... 70(6.1)

Net worth assessments ... 152(7)

Network
. defined for broadcasting undertaking ... 19.1(4)

Newfoundland offshore area
. defined ... 248(1)

Newspapers
. Canadian, deemed Canadian citizens ... 19(5.1)
. Canadian, defined ... 19(5)
. Canadian issue, defined ... 19(5)
. ceasing to be Canadian, deductions ... 19(7)
. held in trust, deductions ... 19(6)
. non-Canadian, advertising in ... 19
. non-Canadian, defined ... 19(8)

NISA — see Net income stabilization account (NISA)

Non-arm's length — see Arm's length transactions

Non-business income — see Income

Non-capital losses — see Losses, non-capital

Non-capital shares — see Shares

Section

Non-profit corporations
. computation of income....149(9)
. exemptions....149(1)(j)
. gifts deemed income....149(8)
. scientific research
. . exemptions....149(1)(j)
. . income rules....149(9)
. taxable capital gains, not income....149(2)

Non-profit organizations
. exempt from tax....149(1)(l)
. . filing requirements....149(7)
. . investment income....149(5)
. . penalty for failure to file....149(7.1)
. taxable capital gains, not income....149(2)

Non-qualified investments — see Investments, non-qualified

Non-qualifying debts — see Debt obligations

Non-resident corporations — see also Foreign affiliates
. applications of provisions of Act....219(3)
. branch tax....219(1)
. . exempt corporations....219(2)
. . insurance corporation elections....219(4); 219(5.2); Reg. 2403
. carrying on business in Canada
. . allowable liquid assets....Reg. 808(3)
. . branch tax....219(1)
. . capital investment allowance....Reg. 808(1)
. . deemed resident....214(9)
. definitions related to....Reg. 413(1)
. departure tax, limitations re branch tax....219.2
. dividends from....90–95; 112(2)
. . business income....12(1)(k)
. . deductions disallowed....112(2.1)–(2.5)
. failure to file returns....162(2.1)
. information returns....233.1
. interest on income bond....15(4)
. loans to wholly-owned subsidiaries....218
. property acquisition by trusts....Reg. 5909
. qualified investment in property....Reg. 808(2)
. . allowable liquid assets....Reg. 808(3)
. salaries and wages....Reg. 413(1)
. shareholders — see Shareholders
. subsidiary, loan to....218(1); 218(2)
. tax avoidance....95(6)
. total gross revenue for the year....Reg. 413(2)

Non-resident insurance corporations
. accumulated 1968 deficit....219(7)
. attributed surplus....219(7)
. attributed surplus, defined....Reg. 2400(1); Reg. 8600
. attributed surplus for the year....Reg. 2405(3)
. branch tax election
. . Canadian investment funds....219(4)
. . Canadian investment income....Reg. 2403(1)
. . election re deferral of tax....219(5.2); Reg. 2403(2)
. . tax on ceasing to carry on business....219(5.2)
. branch tax on ceasing to carry on business in Canada....219(5.1)
. Canadian investment fund....219(7)
. . for the year....Reg. 2405(3)
. computation of income....138(9)
. currency conversion....Reg. 2404
. deemed payment of dividends....219(5.3)
. definitions related to....219(7)
. equity limit for the year....Reg. 2405(3)
. financial institution rules....138(10)
. foreign accrual property income....95(2)(j.1)–(j.2)
. income computation....138(11.91)
. incorporation of business in Canada on tax-deferred or rollover basis....138(11.5)
. life insurance corporations
. . attributed surplus for the year....Reg. 2405(3)
. . Canadian investment fund....Reg. 2405(3)
. . currency conversion....Reg. 2404
. . equity limit for the year....Reg. 2405(3)
. . life equity limit....Reg. 2405(3)
. . life surplus factor....Reg. 2405(3)
. maximum tax actuarial reserve....219(7)
. qualified, defined....Reg. 810(2)
. qualified related corporation
. . defined....219(8)
. . tax deferred account....219(5.3)
. registered, defined....Reg. 804
. returns....Reg. 801
. surplus funds derived from operations....219(7)
. tax deferred account
. . defined....219(7)
. . qualified related corporation....219(5.3)
. transfer of depreciable property....138(11.8)
. transfer of insurance business....138(11.5)
. . contributed surplus computation....138(11.9)
. . income computation....138(11.92)
. . paid-up capital computation....138(11.7)
. . rules re depreciable property....138(11.8)
. withholding tax....Reg. 800–804

Section

Non-resident-owned investment corporations
. allowable refund....133(6); 133(8)
. allowable refundable tax on hand....133(9)
. . determination by Minister....152(1)
. amalgamation, income computation....87(2)(cc)
. Canadian property....133(8)
. capital gains dividend account....133(8)
. capital gains dividends....Reg. 2105
. change of ownership certificates....Reg. 502
. computation of income....133(1)
. cumulative taxable income....133(9)
. deductions from income....133(2)
. deductions from tax, election....133(7.3)
. deemed not to be Canadian or private corporation....134
. deemed to be....134.1
. defined....133(8); 248(1)
. dividends, simultaneous....133(7.2)
. dividends or interest received by trustees, exemptions....212(9)
. election....134.1; Reg. 500
. . capital gains dividend....133(7.1)
. . revocation....134.2; Reg. 501
. foreign taxes....133(4)
. increase in capital....133(8)
. interest payable by....212(1)(b)
. payment of tax....157(3)
. refund....133(6)
. . application to other liability....133(7)
. . excess interest on allowable....133(7.02)
. . interest on allowable....133(7.01)
. special tax rate....133(3)
. surplus determination....Reg. 503
. taxable dividend....133(8)
. transitional provisions....A.R. 59(2)

Non-resident trusts — see Trusts, non-resident

Non-residents
. actors
. . deferred payment by actor's corporation....115(2.2)
. . election....216.1
. . information returns....Reg. 202(1.1)
. . returns....216.1
. . tax rate....212(5.1)
. . taxable income earned in Canada....115(2.1)
. agent liable for tax....215(2)
. aircraft, exempt....81(1)(c)
. amounts owed by....17
. . exception....17(7)
. annuity payments, taxation....212(1)(n); 212(1)(o)
. assessment of tax....227(10); 227(10.1)
. assignment of obligations....214(14)
. becoming resident, cost of property....A.R. 26(10)
. beneficiaries of estates and trusts
. . deductions....104(7)
. . distribution to, by trust....107(5)–(5.2)
. . security for tax on distributions....220(4.6)–(4.71)
. capital gain limitation....40(2)(a)
. carrying on business in Canada
. . deemed resident....214(9)
. . eligible capital property....13(14)–(15)
. . extended meaning....253
. . foreign currency debt obligations....76.1
. . liability for tax....2(3)
. . moving debt from Canadian business....76.1
. . regulations respecting tax....214(13)
. . withholding tax....Reg. 805
. child tax benefit....122.61(3)
. clearance certificates....116(2); 116(4)
. competent authority agreements....115.1
. corporation — see Non-resident corporations
. deemed by tax treaty....250(5)
. deemed dividends, demutualization of insurance companies....212.2
. deemed resident in respect of payments....212(13)
. . deductions allowed....214(9)
. . deferred profit-sharing plan payments....212(1)(m)
. . payments by partnership....212(13.1)
. . payments to another non-resident....212(13.2)
. defined....248(1)
. discount bonds....16(3)
. dividends
. . exempt....212(2.1); 213
. . ownership certificates....234
. . payments deemed to be....214(3)
. . time of deemed payment....214(3.1)
. . withholding tax....212(2)
. election re certain payments....217
. . special tax credit....217(6)
. . taxable income earned in Canada, computation....217(3)
. election re income earned between 1971–1976....Reg. 2602
. employed in Canada, tax liability....2(3)
. entity, defined....94.1(1)
. excluded property, defined....Reg. 810(1)
. exemption from tax
. . 2010 Olympic and Paralympic Winter Games....115(2.3); 212(17.1)

Section

Non-residents
. exemption from tax — continued
. . deemed payments to spouse, etc....212(12)
. . exempt dividends....213
. . international organizations re interest....Reg. 806–806.2
. . pension benefits....212(1)(h)
. . ships and aircraft....81(1)(c)
. . trust income....212(9)–(11)
. exemptions — see Exemptions
. filing of returns by....216–217
. foreign resource pool expenses....115(4.1)
. foreign tax credit....126(2.2)
. . availability....126(2.23)
. . prescribed countries....Reg. 1600
. former residents
. . foreign tax credit....126(2.21)
. . replaced shares....128.3
. . returning to Canada....128.1(6)
. . returning trust beneficiaries....128.1(7)
. . trust beneficiary....126(2.22)
. funds with Canadian service providers....115.2
. guarantee fees....214(15)
. home insulation grants....212(1)(s)
. income and capital combined, computation....214(2)
. income computation....250.1
. income earned on Canadian resources property....115(4)
. information return....233.1
. information returns re payments....Reg. 202(1)–(8)
. . bearer coupon....Reg. 201(3)
. . benefits under registered plans....Reg. 202(2)
. insurance corporations....138(9)
. . financial institution rules....138(10)
. insurers — see Insurance corporations
. interest assigned to resident....214(6)
. interest paid to
. . conditional loans....18(6)
. . deduction limitations....18(4)–(6)
. . withholding tax....212(1)(b); 212(3)
. inventory valuation....10(12)–(14)
. investment fund....115.2
. liability....2(3); Reg. 805
. life insurance policy, disposition....116(5.1)–(5.4)
. loans to....17
. . anti-avoidance....17(2)–(6)
. . back-to-back loans....17(11.2)
. . determination of related status....17(11)–(11.3)
. . exception....17(7)
. . through partnership....17(4)
. . through trusts....17(5)
. loss restrictions....111(9)
. mutual fund investments
. . Canadian partner....218.3(9)
. . deemed tax paid....218.3(4)
. . definitions....218.3(1)
. . loss carryback....218.3(6)–218.3(7)
. . partnership filing-due date....218.3(8)
. . refund....218.3(5)
. . tax payable....218.3(2)
. . use of losses....218.3(3)
. mutual fund trusts established for....132(7)
. obligations sold by at discount
. . reduction of tax....214(10)
. . taxation of resident....16(2); 16(3); 214(7); 214(7.1)
. obligations sold to at discount
. . deemed residence....214(9)
. old age security clawback....180.2(2)
. . withholding calculation....180.2(4)
. other annuity payments....212(1)(o)
. ownership certificate requirement....234
. part of year, taxable income....114
. partnerships
. . acquisition of Canadian partner....96(8)–(9)
. . allowable liquid assets....Reg. 808(6)
. . investments in property....Reg. 808(4)
. . cumulative expense deduction....66.2(7)
. . payments by resident....212(13.1)
. . qualified investment in property....Reg. 808(5)
. payments
. . deemed....214(3)
. . deemed, time of....214(3.1)
. . deemed payment of resident....212(13)–(13.2)
. . employee benefit plans or trusts....212(17)
. . made under securities lending arrangement, withholding tax....260(8)
. . to pension funds or plans....212(13)
. . rents, royalties, etc. by....212(13)
. properties excluded from CCA....Reg. 1102(3)
. property disposition
. . clearance certificate....116(2); 116(4)
. . excluded property....116(6); 116(6.1)
. . life insurance policies....116(5.1)–(5.4)
. . ownership certificate....234
. . proposed, certificate....116(5.2)
. . purchaser's liability....116(5.3)
. . requisites....116(2)–(5.1)
. . rules applicable....115.1

Non-residents — Section
. property disposition — continued
. . treaty-protected property 116(5.01)–(5.02); 116(6.1); 150(5)
. rates 212(1)
. redeemed or cancelled obligation 214(14)
. refunds — see Refunds
. registered supplemental unemployment benefit plan payment 212(1)(k)
. regulations 214(13)
. rent payment 212(13)
. . tax payment 216
. . use of invention, trade name, etc. 212(1)(d)
. rolling stock, rental payments 212(16)
. royalty payments
. . alternative tax payment 216
. . withholding tax 212(1)(d)
. RRIF payments, withholding tax 212(1)(q)
. salary deferral arrangement
. . deductions allowed for expenses 20(1)(oo)
. . limitations 6(13)
. sale of property by 20(8)
. securities given in satisfaction of debt 214(4); 214(5)
. securities lending arrangement 212(19)–212(20)
. . withholding tax on payments 260(8)
. shareholder loans
. . repayment 227(6.1); 227(7.1)
. shares sale, non-arm's length 212.1
. ships or aircraft exemptions 81(1)(c)
. standby charges paid to 214(15)
. tax computation 118.94
. tax credits, personal 217(4)–217(5)
. tax non-payable 213(2)
. taxable Canadian income 212(1)
. . calculation of taxable income earned in Canada 217(3)
. . computation 115(1)
. . deductions permitted 115(1)
. . deemed payments 214(3)
. . shares of life insurance corporation 141(5)
. . time of deemed payment 214(3.1)
. taxable capital employed in Canada 181.4
. taxable income earned in Canada, computation 217(3)
. taxation year 250.1
. thin capitalization, restrictions 18(4)–(6)
. timber cutting rights, disposition
. . tax payment 216
. timber royalty payments 212(13)
. . information return Reg. 202(1)
. transfer pricing — see Transfer pricing
. trust beneficiaries, exemptions 212(10); 212(11)
. trust distributions to
. . security for tax 220.2
. trust for benefit of 104(10)
. trusts — see Trusts, non-resident
. withholding tax 212(1)
. . administration fee 212(1)(a); 212(4)–212(4)
. . amateur athletic trust 212(1)(u)
. . annuity payments 212(1)(n); 212(1)(o)
. . carrying on business Reg. 805
. . deduction restrictions 216(8)
. . deemed payments 214(3)
. . deemed payments, time of 214(3.1)
. . deferred profit sharing plan payments 212(1)(m)
. . disposition of real property or timber limit 216(5)–(6)
. . dividends 212(2)
. . election to deduct under Part I 216
. . eligible funeral arrangements 212(1)(v)
. . energy conservation grants, income 212(1)(s)
. . estate or trust income 212(1)(c); 212(9)–(11)
. . estate or trust income, exemptions 212(9)–(11)
. . former TFSA 212(1)(p)
. . home insulation grants 212(1)(s)
. . income averaging annuity contract payments 212(1)(n)
. . interest 212(1)(b); 212(3)
. . interest deemed not to be interest 212(15)
. . interest on provincial bonds, etc. 212(6)–(8)
. . liability 227(8.1)
. . management fee 212(1)(a); 212(4)
. . motion picture film payments 212(5)
. . motion picture rights 212(5)
. . NISA Fund No. 2 payments 212(1)(t); 214(3)
. . patronage dividend 212(1)(g)
. . payments for services rendered by 212(1)(d)
. . payments from amateur athletic trust 214(3)
. . pension benefits 212(1)(h)
. . rents 212(1)(e); 216
. . RESP payments 212(1)(r)
. . restrictive covenant payments 212(1)(i)
. . retirement compensation arrangement contributions 227(10.2)
. . retirement compensation plan benefits 212(1)(j)
. . retiring allowance 212(1)(j.1)
. . royalties, etc. 212(1)(d)
. . RRIF payments 212(1)(q)

Non-residents — Section
. withholding tax — continued
. . RRSP payments 212(1)(l)
. . superannuation payments 212(1)(h)
. . supplementary unemployment benefit plan payments 212(1)(k)
. . timber royalties 212(1)(e); 216

Northern Mineral Exploration Assistance
. grants deductible from expenses 66.1(6)
. payments, interest 20(1)(c)(iii)

Northwest Territories
. prescribed northern zone Reg. 7303.1(1)

Notice
. assessment — see Assessment
. mailing date, proof of 244(14)
. non-resident's property disposal 116(1); 116(3)
. objection — see Objections

Nova Scotia offshore area
. defined 248(1)

Nunavut
. prescribed northern zone Reg. 7303.1(1)

Nursing homes
. full-time attendant's remuneration 118.2(2)(b)
. full-time care expenses 118.2(2)(d)

O

Oaths
. administering 220(5)

Objections
. expenses deductible 60(o)
. by large corporations 165(1.11)–(1.14)
. limitation of right to object 165(1.1)
. Minister's duty 165(3)
. notice of objection
. . acceptance when not properly served 165(6)
. . extension of time by Minister 166.1
. . extension of time by Tax Court 166.2
. . Minister's duty upon receiving 165(3)
. . service 165(2)–(2.1)
. . time for filing 165(1)
. . transitional provisions A.R. 62(4)
. by partnerships 165(1.15)
. retention of books and records 230(6)
. second notice after reassessment not required 165(7)

Offences and penalties
. accountants 163.2
. avoidance of tax 239(1); 239(2)
. books and records, false entries 239(1)
. business number misused 239(2.3)
. capital gains election
. . mutual fund corporations 131(1.3)–(1.4)
. confidential information disclosure 239(2.2)–(2.22)
. conviction, no additional penalty 239(3)
. corporation, liability of officers 242
. culpable conduct, defined 163.2
. deferred income plans
. . penalty tax 207.1
. . share acquisition 207.1(5)
. evasion of tax 239(1); 239(2)
. excessive election 185(2)
. failure to complete ownership certificate 162(4)
. failure to comply with regulations 162(7)
. failure to file return 162(1); 238(1)
. . compliance order 238(2)
. . effect of subsequent events 162(11)
. . mandatory electronic filing 162(7.2)
. . maximum penalty 162(3)–162(4)
. . partnership information return 162(7.1)
. . prescribed information returns 162(7.02)
. . repeated failure 162(2)
. . TD 1 form 227(3)
. . trustee, etc. dealing with property, business, or estate 150(3)
. . willful 163(1)
. failure to furnish foreign based information 162(10)–(10.3)
. failure to make partnership information return 162(8); 162(8.1)
. failure to provide business number 162(6)
. failure to provide information 162(5)
. failure to provide SIN 162(6)
. failure to remit taxes 227(9); 227(9.1)
. false statement or omission 163; 239(1)
. . burden of proof on Minister 163(3)
. . effect of carryback of losses 163(4)
. . foreign reporting requirements 163(2.4)–(2.91); 233.5
. fines non-deductible 67.6; Reg. 7309
. First Nations tax 239(5)
. gross negligence 163(2)
. incorrect identification number 239(2.1)
. indictment 239(2)
. information communication offences 122.64(4)
. instalments late or deficient 163.1
. interest on 161(11)

Offences and penalties — continued — Section
. labour-sponsored venture capital corporations 204.84–204.841
. late filing
. . corporate tax return 235
. . designation re exploration and development expenses 66(14.5)
. . election of foreign affiliate 93(6); 93(7)
. . election re dividend 83(4)
. . partnership membership election 96(5)–(7)
. . prescribed information returns 162(7.01)
. limitation period 244(4)
. made to increase refund or credit 239(1.1)
. . renunciation of resource expenses 163(2.21); 163(2.22)
. misrepresentation by third party 163.2
. omissions in return 163(2)
. partnerships
. . failure to file information return 162(7.1)
. . late filed election 96(5)–(7)
. penalties non-deductible 67.6; Reg. 7309
. planning activity, defined 163.2
. power of court to reduce 243
. professional advisors 163.2
. registered charities
. . assessment 189(7)
. . carrying on business 188.1(1)–188.1(2)
. . corporation controlled by foundation 188.1(3)
. . delay of expenditures 188.1(11)
. . failure to file information returns 188.1(6)
. . false receipts 188.1(9)–188.1(10)
. . incorrect receipts 188.1(7)–188.1(8)
. . provisions applicable 189(8); 189(8.1)
. . reduction of liability 189(6.3)
. . undue benefits 188.1(4)–188.1(5)
. repeated failures 163(1)
. saving provision 238(3)
. SIN misused 239(2.3)
. tax planning 163.2
. tax preparers 163.2
. tax shelters
. . incorrect identification number 239(2.1)
. . non-compliance with rules 237.1(7.4)
. transfer pricing rules 247(3)
. waiver of penalty 220(3.1)
. withholding tax
. . failure to remit 227(9)
. . failure to withhold 227(8)

Office
. defined 248(1)
. home office deductions 8(13)
. income from 5(1); 6
. loss from 5(2)

Officers — see Employees

Offshore area — see Newfoundland offshore area; Nova Scotia offshore area

Offshore investment fund property 94.1
. adjusted cost base 53(1)(m)
. prescribed Reg. 6900

Oil and gas wells
. additional allowances Reg. 1208
. Canadian exploration expenses, defined Reg. 1206(1)
. Canadian oil and gas property expense, defined 248(1)
. Canadian property expenses — see Canadian oil and gas property expenses
. CCA rate
. . equipment Reg. Sch. II, Class 10, 41
. . storage tanks Reg. Sch. II, Class 6, 29, 39, 43
. dealers' exploration rights, licences, etc. 66(5)
. deductions from income 66(3)
. . depletion allowance 65(1)
. . expenses incurred 1949–1952 A.R. 29(1)
. . exploration and development expenses — see Exploration and development expenses
. . limitations 66(13)
. . resource allowance 20(1)(v.1)
. . shareholder's allowances 65(2)
. defined 248(1); Reg. 1207(6)
. designated underground storage cost, defined Reg. 1104(2)
. drilling and exploration expenses
. . defined A.R. 29(27); A.R. 29(30)
. . Northern Mineral Exploration Assistance payments A.R. 29(28)
. . reduction of cumulative Canadian expenses 66.7(12)
. . reduction of expenses, foreign 66.7(13)
. equipment
. . CCA rate Reg. Sch. II, Class 10, 41
. . defined Reg. 1104(2)
. exploration and development expenses — see Exploration and development expenses
. exploration and development grants 20(1)(kk)
. foreign production taxes 12(1)(o.1)

Section

Oil and gas wells — continued
. foreign tax credit
. . calculation ... 126(5)
. . foreign oil and gas business defined ... 126(7)
. . production tax amount defined ... 126(7)
. frontier exploration allowances
. . deductions from income ... Reg. 1207
. . threshold amount ... Reg. 1207(3)
. frontier exploration base
. . defined ... Reg. 1207(2)
. manufacturing and distributing equipment, CCA rate ... Reg. Sch. II, Class 2
. natural gas distribution line, CCA ... Reg. Sch. II, Class 51
. natural gas facility, CCA ... Reg. Sch. II, Class 47
. petroleum disposed to Crown ... 69(6)
. qualified territory oil recovery project ... Reg. 1206(8); Reg. 1206(8.1)
. reduction of expenses
. . Canadian cumulative ... 66.7(12)
. . foreign ... 66.7(13)
. royalties — see Royalties
. specified amount where property disposed by original owner ... 66.7(12.1)
. specified development well, defined ... Reg. 1206(1)
. specified royalty provisions ... Reg. 1206(8); Reg. 1206(8.1)
. storage tanks, CCA rate ... Reg. Sch. II, Class 6, 29, 39, 43
. substances injected to recover petroleum, cost deduction ... 20(1)(mm)
. tertiary recovery equipment ... Reg. 1206(1)
. undepreciated capital cost ... 13(27)(j)
. unitized fields in Canada
. . exploration and development expenses ... 66(12.2); 66(12.3)
. . property expense deductions ... 66(12.5)

Oil substitution program — see also Energy conservation program
. grants as income ... 12(1)(u); 56(1)(s)
. . non-residents ... 212(1)(s)
. information return ... Reg. 224
. prescribed program ... Reg. 5501

Old age security
. clawback ... 180.2
. . adjusted income defined ... 180.2(1)
. . base taxation year defined ... 180.2(1)
. . calculation of amount ... 180.2(2)
. . deduction from income ... 60(w)
. . provisions applicable ... 180.2(6)
. . return of income defined ... 180.2(1)
. . withholding ... 180.2(3)
. . withholding calculation ... 180.2(4)
. non-residents, pensions ... 212(1)(h)
. overpayments ... 60(n)
. receipts taxable ... 56(1)(a)(i)

Olympic and Paralympic Winter Games
. non-resident tax exemption ... 115(2.3); 212(17.1)

Options
. amalgamation
. . predecessor corporation, granted by ... 87(2)(o)
. . received on ... A.R. 26(22)
. capital gains ... 49(1)–(4); 49(5)
. defined ... 143.3(1)
. dispositions after February 22, 1994 ... 49(3.2)
. employee stock options
. . adjusted cost base ... 53(1)(j)
. . ceasing to be exercisable ... 7(1.7)
. . charitable donation ... 110(1)(d.01); 110(2.1)
. . deductions from income ... 110(1)(d); 110(1)(d.1)
. . deferral of taxation ... 7(1.1); 7(8)–(16)
. . disposition of deceased employee's options ... 164(6.1); Reg. 1000.1
. . disposition within 30 days ... 7(1.31)
. . election re deferral ... 7(10)–(14)
. . emigration ... 7(1.6)
. . exchange of options ... 7(1.4)–(1.5)
. . filing requirements ... 7(16)
. . information returns ... Reg. 200(5)
. . look through rules ... 7(2)
. . not identical property ... 47(3)
. . order of disposition ... 7(1.3)
. . qualifying person, defined ... 7(7)
. . reduction in exercise price ... 110(1.7)–(1.8)
. . security, defined ... 7(7)
. . taxation of ... 7(1)
. . termination of employment ... 7(4)
. . trustee holding ... 7(2); 7(6)
. . value of shares under ... 110(1.5)–(1.6)
. . withholding tax ... 7(15)
. expenditure limitation ... 143.3(2)
. extension or renewal of original ... 49(5)
. no disposition where obligation satisfied ... 49.1
. property acquisition ... 49(3); 49(3.01)
. property disposition ... 49(3.1)

Ore
. defined ... Reg. 1104(2); Reg. 1206(1)

Section

Ore — continued
. exporting resource, defined ... Reg. 1206(1)
. processing — see Mining and ore processing
. tar sands, defined ... Reg. 1104(2)

Organ transplant
. cost deduction ... 118.2(2)(l.1)

Original rights — see Rights or things

Outlay — see Capital expenditures and outlays; Expenses

Overaccruals
. debt obligations, deductions ... 20(21)
. life policies, deductions ... 20(20)

Overpayment of tax — see Tax payment

Overseas employment tax credit ... 122.3

Ownership certificates
. date of forwarding to the Minister ... Reg. 207
. failure to complete and file, penalty ... 162(4)
. information return ... Reg. 201(3); Reg. 207
. negotiation ... Reg. 207
. payment by non-resident person ... 234

P

Paid-up capital — see Capital

Paper mills — see Pulp and paper mills

Parent
. corporation — see Subsidiaries
. defined ... 252(2)
. farm property acquired from, CCA rate ... Reg. 1703(7)
. transfer of farm property to, on death of taxpayer ... A.R. 26(18)
. transfer of unused tax credits to ... 118.9(1)

Parking area
. CCA rate ... Reg. Sch. II, Class 1, 17

Parking expense
. income inclusion ... 6(1.1)

Parks — see Amusement parks

Partnerships
. affiliated persons ... 251.1(1)
. agreement to share income or loss to reduce tax
. . unreasonable proportions ... 103(1); 103(1.1)
. allocated income of former partner
. . capital property ... 96(1.4)
. . deductions ... 96(1.3)
. . disposition ... 96(1); 96(1.2)
. allowable business investment losses ... 96(1.7)
. alternative method fiscal year-end
. . calculation ... 96(1)
. automobile provided to partner
. . income inclusion ... 12(1)(y)
. beneficially interested in a trust ... 248(25)
. business carried on as sole proprietorship ... 98(5)
. business discontinuation
. . deductions allowed ... 24(3)
. Canadian, defined ... 102; 248(1)
. Canadian exploration expenses ... Reg. 1207(5)
. Canadian manufacturing and processing profits ... Reg. 5204
. Canadian resident
. . defined ... 248(1)
. . taxation year ... 248(1)(d)
. Canadian securities owned and disposed by partners ... 39(4.1)
. capital cost of depreciable property
. . acquired before 1972 ... A.R. 20(3)–(5)
. capital gains
. . election ... 110.6(23)
. . specified members, deemed ... 40(3.131)
. capital gains, deemed ... 40(3.1)
. . amount ... 40(3.11)
. . excluded amount ... 40(3.15)
. . unsubstantial amounts ... 40(3.16)
. capital losses
. . allowable ... 96(1.7)
. . election ... 40(3.12)
. carved-out income ... 209(6)
. CCA rate, limitation re rental properties ... Reg. 1100(12)
. ceasing to exist
. . exception to rules ... 98(4)
. . rules applicable ... 98(3)
. computation of income ... 96(1)–(3)
. . election ... 96(3)–(7)
. continuation by new partner ... 98(6)
. contribution of property
. . apprentice mechanic's tools ... 97(5)
. . capital cost to partner exceeds proceeds of disposition ... 97(4)
. . election, rules ... 96(4); 97(2)
. . fair market value ... 97(1)
. . late filed election penalty ... 96(5)–(7)
. . period ... 96(4)
. . tradesperson's tools ... 97(5)
. . validity ... 96(3)

Section

Partnerships — continued
. corporate
. . deemed membership of corporation ... 125(6.1)
. . deemed to be controlled ... 125(6.3)
. . purpose of ... 125(6)
. . specified income deemed nil ... 125(6.2)
. cost of interest owned on December 31, 1971 ... A.R. 26(9)–(9.4)
. cumulative oil and gas property expenses
. . non-resident partner ... 66.4(7)
. . share of partner ... 66.4(6)
. death of partner ... 96(1.5)
. debt forgiveness rules ... 80(11); 80(15); 80(18)
. deceased partner, returns of income ... 96(1.1); 150(4)
. deemed gain from share disposition ... 92(5)
. deemed membership
. . foreign affiliate rules ... 95(2)(k.7)
. . transfer pricing rules ... 247(6)
. defined ... 115(5)
. depreciable property acquired before 1972 ... A.R. 20(3)–(5)
. designation of income by trust ... 210.2(4)
. disposition of a partnership interest ... 92(4)
. disposition of foreign affiliate shares ... 93(1.2)
. . deemed election ... 93(1.3)
. . no election ... 93(1.4)
. . specified purchaser ... 93(1.6)
. . specified vendor ... 93(1.5)
. dividends received by
. . excluded dividends ... 191(6)
. . flow through to partners ... 186(6)
. . tax treatment ... 186(6); 187.4
. eligible Canadian, debt forgiveness rules ... 80(1)
. exploration and development expenses
. . 1948–1962 expenses ... A.R. 29(9)
. . 1962–1972 expenses ... A.R. 29(10)
. family farm — see Farmers
. family fishing — see Fishermen
. fiscal period ... 249.1(2)
. . extended ... 127.2(9)
. flow-through — see SIFT partnerships
. foreign affiliate shares ... 93.1(1)
. foreign affiliate's interest in
. . adjusted cost base ... 95(2)(j); Reg. 5907(12)
. . qualifying member ... 95(2)(o); 95(2)(r)
. foreign exploration and development expenses
. . limitations ... 66(12.42)
. foreign investment entity rules ... 94.2(6)–(8); 96(1.9)
. foreign reporting rules ... 233.3(2); 233.4(3)
. foreign resource property disposition ... 59(1.1)
. fuel tax rebate ... 111(10)
. functional currency reporting ... 261(6); 261(22)
. general rules ... 96(1)–(2.7)
. gifts by, deductions ... 110.1(4); 118.1(8)
. gross revenue determination ... Reg. 402(6)
. income ... 12(1)(l); 96(1)
. . allocation to former member ... 96(1.01)
. . from interest, exception ... 12(3)–(11)
. . retired or deceased partner's ... 96(1.1)
. information return ... Reg. 229
. . demand for ... 233(2)–(3)
. . non-resident ... 233.1
. interest disposition ... 100(1)
. . capital gains ... 98(1); 100(2)
. . capital loss ... 100(4)
. . computation of gain from ... 100(2.1)
. . gift of partnership interest ... 38(a.3)
. . land used in farming business ... 101
. interest in
. . adjusted cost base, amounts added ... 53(1)(e)
. . adjusted cost base, amounts deducted ... 53(2)(c)
. . cost of acquisition to new corporation ... 87(2)(e.1)
. . deemed re loan ... 80.5
. . deemed to be a member ... 248(13)
. . owned on December 31, 1971 ... A.R. 26(9)–(9.4)
. . transfer on death ... 100(3)
. interest income, exception ... 12(3)–(11)
. interest payable on unpaid penalty re tax shelter ... 161(12)
. investment interest, defined ... A.R. 23(5)
. investment tax credit ... 127(8)
. large corporations interest in ... 181.2(5)
. limitation of disposition of foreign affiliate shares ... 93(2.1)
. limitation of disposition of interest ... 93(2.2); 93(2.3)
. limited — see Partnerships, limited
. loans to
. . anti-avoidance rule ... 17(6)
. . deemed benefit ... 80.4(1)
. . deemed benefit as shareholder ... 80.4(2)
. . deemed interest ... 80.5
. . deemed interest as shareholder ... 80.5
. . exception re benefits ... 80.4(3)
. loans to employees ... 15(2.7)
. loans to non-residents through ... 17(4)
. loss
. . defined ... 103(2)
. . unreasonable proportions ... 103(1.1)

Section

Partnerships — continued
. majority interest partner, defined ... 248(1)
. matchable expenditures ... 18.1(11)
. minimum tax ... 127.52(2)
. . anti-avoidance rule ... 127.52(2.1)
. non-capital losses ... 96(1)
. non-resident
. . acquisition of Canadian partner ... 96(8)–(9)
. . allowable liquid assets ... Reg. 808(6)
. . . investments in property ... Reg. 808(4)
. . information returns ... 233.1
. . property disposition ... 115.1
. . qualified investment in property ... Reg. 808(5)
. non-resident partner
. . cumulative exploration expense deduction ... 66.2(7)
. . cumulative oil and gas property expenses ... 66.4(7)
. . oil and gas property expense deduction ... 66.4(7)
. objections to assessments
. . limitation ... 165(1.15)
. oil and gas property expense deduction
. . non-resident partner ... 66.4(7)
. . share of partner ... 66.4(6)
. partners
. . continuation by new partner ... 98(6)
. . deemed carrying on business ... 96(1.6)
. . property transfer where capital cost exceeds proceeds of disposition ... 97(4)
. . reference in notice, etc. ... 244(20)
. payment by non-resident ... 212(13.1)
. payment to non-resident ... 212(13.1)
. penalty for false statement or omission ... 163(2.6)
. person, included in ... 227(15)
. personal-use property ... 46(4)
. property disposition
. . deemed proceeds ... 98(2)
. . farming business ... 101
. . non-residents ... 115.1
. . partnership ceases to exist ... 98(3)–(7)
. . transitional provisions ... 98(1)
. property loaned or transferred to ... 96(1.8)
. public investment partnerships
. . defined ... Reg. 229.1(1)
. . information disclosure ... Reg. 229.1(2)
. public partnerships
. . defined ... Reg. 229.1(1)
. . information disclosure ... Reg. 229.1(2)
. qualified investment in property, allowable liquid assets ... Reg. 808(4)
. qualifying member, defined ... 248(1)
. recapture of investment tax credit ... 127(28)–(31)
. rental property
. . CCA rate ... Reg. 1100(13)
. . leasehold interest ... Reg. 1100(13)
. renunciation to flow-through shareholder ... 66(17)–(20)
. replacement of capital ... 100(5)
. residual interest in ... 98.1(1)
. . continuation of original partnership ... 98.1(2)
. . transfer on death ... 98.2
. resource profits ... Reg. 1206(3)–(9)
. resource property
. . successor rule ... 66.7(10.1)
. right to receive property of, adjusted cost base ... 53(2)(o)
. scientific research tax credit ... 127.3(4); 127.3(7)
. share of partners, income ... 66.1(7)
. share-purchase tax credits ... 127.2(4)
. shareholder, loans to ... 15(2); 15(7)
. shares exchange losses ... 112(7)
. SIFT partnerships — see SIFT partnerships
. small business bonds issuer
. . rules ... 15.2(2)
. . tax otherwise payable by partners ... 15.2(6)
. specified investment flow-through partnerships — see SIFT partnerships
. specified member
. . deemed ... 40(3.131)
. . defined ... 248(1)
. specified participating interest ... 98(7)
. specified partnership income ... 125(7)
. specified partnership loss ... 125(7)
. specified proportion ... 248(1)
. subsidiary's interest disposition on winding up ... 88(1)(a.2)
. tax equity, transitional provisions ... A.R. 26(12)
. taxable capital gains ... 96(1.7)
. terminated, fiscal period ... 99(1)–99(2)
. transfer of property to controlled corporation ... 85(2)
. . on winding-up of partnership ... 85(3)
. transfer pricing penalty ... 247(5)

Partnerships, limited
. artificial transaction ... 96(2.6)–(2.7)
. at-risk amount of interest of partner ... 96(2.2)–(2.3)
. defined ... 248(1)
. . minimum tax purposes ... 127.52(3)
. exempt interest ... 96(2.5)
. expenditure base re investment tax credit ... 127(8.2)

Section

Partnerships, limited — continued
. investment tax credits ... 127(8.1)–(8.4)
. . not allowed ... 127(8.3)–(8.4)
. investments in ... 253.1
. limited partner defined ... 96(2.4)
. loss determination ... 152(1.1)–(1.8)
. losses
. . at-risk amount of interest of partner ... 96(2.2)–(2.3)
. . deduction ... 96(2.1)
. . deduction limitation ... 111(1)(e)
. . defined ... 248(1)
. . non-capital of subsidiary ... 88(1.1)
. . of a subsidiary ... 88(1.1)
. partner, extended definition ... 40(3.14)
. partner's investment tax credit ... 127(8.1)
. partner's resource expenses ... 66.8(1)
. . in the following year ... 66.8(2)
. small business, defined ... Reg. 4901

Past service pension adjustments — see Pension adjustments

Patent or right to use information
. CCA rate ... Reg. 1100(1)(c); Reg. 1100(9); Reg. 1100(9.1); Reg. Sch. II, Class 14, 44

Patronage dividends
. advertisement re payment ... 135(5)
. amalgamated corporations ... 87(2)(g.5)
. amount of payment to customer ... 135(6)
. . withholding ... 135(3); 135.1(6)
. consumer goods or services ... 135(4)
. deductibility limit ... 135.1(3)
. deduction carry over ... 135(2.1)
. deduction from income ... 20(1)(u); 135(1)
. . non-arm's length customers ... 135(1.1)
. definitions related to ... 135(4)
. goods deemed sold or delivered ... 135(8)
. income of recipient ... 135(7); 135.1(2)
. information returns ... Reg. 218
. non-member customers ... 135(2)
. non-residents receiving ... 212(1)(g)

Patronage payments
. defined ... Reg. 4901
. information return ... Reg. 218

Pattern
. CCA rates ... Reg. Sch. II, Class 12

Payment card corporations
. prescribed ... Reg. 9002.1

Payments
. annuity — see Annuities
. capital and interest combined
. . exceptions ... 16(4); 16(5)
. . transitional provisions ... 16(1)
. discounted bonds ... 18(1)(f)
. illegal
. . deduction prohibited ... 67.5(1)
. . reassessment ... 67.5(2)
. income bonds, not deductible ... 18(1)(g)
. indirect, deemed income ... 56(2)
. inducement — see Inducement payments
. instalment — see Instalment payments
. lump-sum — see Payments, lump-sum
. patronage — see Patronage payments
. periodic
. . accrued of deceased persons ... 70(1)
. . withholding tax ... Reg. 102(1); Reg. Sch. I
. property, based on production or use ... 12(1)(g); 12(2.01)
. remuneration, as ... 6(3)
. stabilization, income ... 12(1)(p)
. support — see Support payments
. tax — see Tax payment

Payments, lump-sum
. 1971–1974 ... A.R. 40
. addition to tax payable ... 120.31
. deductions from income ... 110.2
. deferred profit sharing plan, to beneficiary ... 147(10.1)–(10.2)
. defined ... Reg. 103(6)
. notional tax payable ... 120.31
. pension income ... Reg. 103(5)
. withholding tax
. . amount less than $5,000 ... Reg. 103(1)
. . amount more than $5,000 ... Reg. 103(2)
. . non-resident exception ... Reg. 104(2)
. . provincial rates ... Reg. 103(4)
. . retroactive increases ... Reg. 103(3)

Penalties — see Offences and penalties

Pension adjustments
. apportionment of payments ... Reg. 8301(13)
. association of benefits with employer ... Reg. 8305(1)
. certifiable past service event ... Reg. 8300
. certification in respect of past service events ... Reg. 8307–8308
. complete period or reduced services ... Reg. 8300
. defined ... 248(1); Reg. 8301(1)
. definitions related to ... Reg. 8300

Section

Pension adjustments — continued
. excluded contribution ... Reg. 8300
. exemption from certification ... Reg. 8306(1)
. flat benefit provision ... Reg. 8300
. indirect contributions ... Reg. 8301(12)
. Minister's powers ... Reg. 8310
. money purchase offsets, transitional ... Reg. 8301(10)
. multi-employer plans ... Reg. 8301(9)
. non-compliance by contributing entity ... Reg. 8301(14)
. non-vested termination from RPP ... Reg. 8301(8)
. PA offset defined ... Reg. 8300
. past service
. . accumulated PSPA for year ... Reg. 8303(2)
. . conditional contributions ... Reg. 8303(9)
. . deemed payment ... Reg. 8303(7)
. . defined ... 248(1)
. . definitions related to ... Reg. 8300
. . events and certifications, 1991 ... Reg. 8303(2.1)
. . excess money purchase transfer ... Reg. 8303(7.1)
. . foreign service ... Reg. 8303(10)
. . net past service pension adjustment ... 146(1)
. . normalized pension ... Reg. 8303(5)
. . past service event, defined ... Reg. 8300
. . provisional PSPA ... Reg. 8303(3)
. . qualifying transfers ... Reg. 8303(6)
. . qualifying transfers, exclusion ... Reg. 8303(6.1)
. . redetermined benefit entitlement ... Reg. 8303(4)
. . with respect to employer ... Reg. 8303(1)
. . specified multi-employer plan ... Reg. 8303(8)
. pension credit
. . deferred profit sharing plan ... Reg. 8301(2)–(2.1)
. . defined benefit provision ... Reg. 8301(5)–(6); Reg. 8301(7)
. . money purchase provision ... Reg. 8301(4)–(4.1)
. period of reduced services ... Reg. 8300
. prescribed amount for Lieutenant Governors and judges ... Reg. 8309
. refund benefit ... Reg. 8300
. resident compensation defined ... Reg. 8300
. reversal ... Reg. 8304.1
. . deferred profit sharing plans ... Reg. 8402.01
. . definitions related to ... Reg. 8300
. rounding of amounts ... Reg. 8311
. subsequent events ... Reg. 8301(16)
. timing of contributions ... Reg. 8301(11)
. transferred amounts ... Reg. 8301(15)

Pension corporation
. exempt from tax ... 149(1)(o.1)–(o.2)
. prescribed persons ... Reg. 4802(1)

Pension funds or plans — see also Canada Pension Plan; Registered pension plans
. contract under ... 254
. employee benefit plans, prescribed ... Reg. 6800
. employees' contributions deductible ... 8(1)(m)
. employer, union ... 252.1
. foreign plans ... Reg. 8308.1
. . past service pension adjustment ... Reg. 8308.1(5)
. . pension credit ... Reg. 8308.1(2)–(2.1); Reg. 8308.1(4)
. . pension credit, alternative determination ... Reg. 8308.1(3)
. . prescribed amount for member ... Reg. 8308.2
. foreign retirement arrangements ... Reg. 6804
. government retirement arrangements ... Reg. 8308.4
. income-averaging annuity
. . deductions ... 61(1)
. net past service pension adjustment ... 146(1)
. non-residents ... 115.2
. past service contributions ... 57(4)
. payments out of
. . 1971–1974 ... A.R. 40
. . withholding tax ... 153(1)(b)
. prescribed provincial ... 146(22); Reg. 7800
. registered — see Registered pension plans
. transitional provisions ... A.R. 40

Pension trusts
. exempt from tax ... 149(1)(o)

Pensions — see also Pension adjustments; Pension funds or plans; Registered pension plans
. Canada Pension Plan — see Canada Pension Plan
. Halifax disaster ... 81(1)(f)
. lump-sum payment, taxation ... Reg. 103(5)
. pension income split
. . joint election ... 220(3.201)
. pension income splitting
. . deduction ... 60(c)
. . definitions ... 60.03(1)
. . effect ... 60.03(2)
. . false declaration ... 60.03(4)
. . income inclusion ... 56(1)(a.2)
. . joint liability ... 160(1.3)
. . limitation ... 60.03(3)
. . withholding tax ... 153(1.3); 153(2)
. R.C.M.P., exemption ... 81(1)(i)

Section

Pensions — continued
. superannuation or pension benefits
. . defined....248(1)
. . eligible amount....60.01
. . included as income....56(1)(a)
. . income....57(1)
. . inherited and estate tax-paid, deduction....60(m)
. . non-residents receiving....212(1)(h); Reg. 202(2)
. . overpayment....60(n)
. . paid to non-residents....212(13)
. . part contributions only....57(3)
. . payments to contributor's widow....57(5)
. . transfer to testamentary trust from DPSP....104(27.1)–(28)
. . transferred amount, deduction....60(j)
. . withholding tax....153(1)(b)
. tax credit
. . bridging benefits....118(8.1)
. . computation....118(3)
. . pension income, defined....118(7)
. . pension income, eligible....118(7)
. . pension income, exclusions....118(8)
. . pension income, qualified....118(7)
. veterans....81(1)(d)–(e)

Periodic payments — see Payments

Periodicals
. defined....19.01(1)
. limitations deduction or advertising expenses....19.01
. original editorial content, defined....19.01(1)

Permanent establishment
. death duties, deduction....60(m)
. deductions from income — see Deductions from income
. defined....104(1); Reg. 400(2); Reg. 8201–8202
. defined for individuals....Reg. 2600
. determination....Reg. 402(1)–(3)
. employer's....Reg. 100(4)
. foreign affiliates....Reg. 5906
. non-resident beneficiary
. . tax exemptions....212(9)–(11)
. . taxation....212(1)(c)
. returns — see Returns

Permits
. representation expenses....13(12); 20(1)(cc); 20(9)

Person — see Corporations; Individuals

Personal corporations, specified
. capital dividend account....A.R. 57(9)
. defined....A.R. 57(11)

Personal credits — see Tax credits

Personal exemptions — see Exemptions

Personal or living expenses — see Expenses

Personal services business
. defined....125(7); 248(1)
. expense deduction limitations....18(1)(p)
. loan to
. . deemed benefit....80.4(1)
. . deemed interest....80.5
. . exception re benefits....80.4(3)
. . income, as....12(1)(w)

Personal trust — see Trusts

Personal-use property
. adjusted cost base....46(1)
. bad debt....50(2)
. charitable donation....46(5)
. decrease in value....46(4)
. defined....54; 248(1)
. excluded property....46(5)
. partial disposition....46(2)

Petroleum and Gas Revenue Tax Act
. communication of information....241(11)

Petroleum companies — see Oil and gas wells

Photocopiers
. capital cost allowance....Reg. 1101(5p)

Physical activity
. child fitness tax credit....118.03; Reg. 9400

Physical impairment — see Disabled persons

Pinball machines
. CCA rate....Reg. Sch. II, Class 16

Pipeline companies
. capital cost allowance
. . oil or gas....Reg. Sch. II, Class 49
. . pumping or compression equipment....Reg. Sch. II, Class 7
. . rate....Reg. Sch. II, Class 1–2
. . separate classes....Reg. 1101(5i); Reg. 1101(5j); Reg. 1101(5u); Reg. 1101(5v)
. deduction of expenses....66(1)
. income earned in the year in a province....Reg. 411

Plumbing
. CCA rate....Reg. Sch. II, Class 6

Section

Police officers
. deployed missions
. . income deduction....110(1)(f)(v)
. . no withholding....Reg. 102(6)
. . prescribed missions....Reg. 7500
. prescribed missions....Reg. 7400
. R.C.M.P. — see Royal Canadian Mounted Police

Policy loans — see Life insurance policies

Political contributions
. books and records....230.1
. deduction....127(3)
. definitions....Reg. 2002
. disallowed deductions....18(1)(n)
. information returns....230.1(2); Reg. 2001
. receipts
. . contents....Reg. 2000
. . definitions....Reg. 2002(1)
. . issuance....127(3.1)–(3.3)
. restrictions....127(4.1)

Pollution control equipment
. CCA rate
. . air pollution....Reg. Sch. II, Class 27
. . taxation year after Nov. 18, 1981....Reg. 1100(1)(ta)
. . taxation year including Nov. 18, 1981....Reg. 1100(1)(t)
. . water pollution....Reg. 1100(1)(t); Reg. Sch. II; Class 24
. undepreciated capital cost....13(27)(e)

Post secondary educational institution — see Colleges and universities; Educational institutions

Poster panels
. CCA rate....Reg. Sch. II, Class 11

Power operated equipment — see Machinery and equipment

Predecessor corporation — see Amalgamated corporations

Preferred rate amount — see Tax rates

Preferred shares — see Shares, preferred

Premiums
. employment insurance, deduction....8(1)(l.1)
. group insurance excess, as income....6(4)
. insurance, refunds....140(1)
. ownership of obligations defined....A.R. 26(12)
. RRSP
. . beneficiary receiving....146(8.1)
. . deduction....60(l); 146(5)
. . paid in taxation year of registration....146(14)
. . refund....146(1); 146(1.1)
. . transfer of refund....60(l)

Prescribed
. amounts
. . automobile deduction limits....Reg. 7307
. . automobile expenses....Reg. 7306
. . automobile operating expense....Reg. 7305.1
. . contract payments....Reg. 4606
. . disbursement quota....Reg. 3701
. . film or video production tax credit....Reg. 1106(11)
. . foreign accrual property income....Reg. 5907(13)
. . foreign retirement arrangements....Reg. 8308.2
. . group term life insurance....Reg. 2701; Reg. 2705
. . insurer's cost of property....Reg. 2411
. . life insurer's cost of property....Reg. 2410
. . Native Economic Development Board....Reg. 7300
. . pension adjustment for Lieutenant Governors and judges....Reg. 8309
. . provincial SIFT tax rate....Reg. 414(3)
. . RRIFs....Reg. 7308
. annuity contracts....Reg. 304
. areas
. . intermediate zone....Reg. 7303.1(2)
. . investment tax credits....Reg. 4610
. . northern zone....Reg. 7303.1(1)
. . residence in, deductions....110.7
. . traveling expenses....Reg. 7304
. assistance....Reg. 6702
. Canadian development expenses....Reg. 1218
. Canadian exploration expenditures....Reg. 4608(2)
. Canadian exploration expenses....Reg. 1217
. Canadian Forces missions....Reg. 7400
. Canadian renewable and conservation expense....Reg. 1219(1)
. carved-out property....Reg. 7600
. CCA classes....13(21.1); Reg. 1105
. conditions
. . labour-sponsored venture capital corporations....Reg. 6706
. . medical gifts....Reg. 3505
. . mutual fund trusts....Reg. 4801
. . public corporations....Reg. 4800(2)
. contributions
. . RPP, employer....Reg. 8516
. . RPP eligible....Reg. 8501(6.2)
. countries re foreign tax credit....Reg. 1600
. credit rating agencies....Reg. 4900(2)

Section

Prescribed — continued
. date, Quebec tax abatement....Reg. 6401
. debt obligations....Reg. 6210; Reg. 7000; Reg. 9202
. . disposition proceeds as exempt income....12(9.1)
. . tax exemption for international organizations....Reg. 806.2
. deductions, resource processing allowances....Reg. 1213
. defined....248(1)
. designated regions re ITC....Reg. 4607
. distributions....Reg. 5600
. donees, charity....Reg. 3504
. drought regions....Reg. 7305
. drugs or medicaments....Reg. 5701
. federal Crown corporations....Reg. 7100
. financial institutions....Reg. 7900
. fines or penalties....Reg. 7309
. forest management plans....Reg. 7400
. forms and precedents....244(16)
. grant programs....56(1)(s)
. interest
. . Canada Savings Bonds....Reg. 4202
. . general rates....Reg. 4201
. home purchase loan....80.4(7)
. indexed debt obligations....Reg. 7001
. . registered charity tax....189(7); 189(9)
. international development assistance program....Reg. 3400
. international organizations....Reg. 8900
. investment contract corporation....Reg. 6703
. investments, qualified....Reg. 4900
. labour-sponsored venture capital corporations....Reg. 6701
. laws of a province....Reg. 6501–6503
. life insurance premiums....Reg. 309
. machinery and equipment....Reg. 4604(2)
. medical devices or equipment....118.2(2)(i); 118.2(2)(m); Reg. 5700
. missions....Reg. 7500
. offshore investment fund property....Reg. 6900
. offshore regions, defined....Reg. 4609
. orders, Canadian Forces schools....Reg. 6600
. payment card corporations....Reg. 9002.1
. person
. . film or video production tax credit....Reg. 1106(10)
. . financial institutions....Reg. 9000
. . Part XII tax....Reg. 1216
. . pension corporations....Reg. 4802(1)
. plans and arrangements
. . employee benefit plans....Reg. 6800
. . foreign retirement arrangements....Reg. 6803
. . retirement compensation arrangement....Reg. 6802–6802
. . salary deferral arrangement....Reg. 6801
. portion of taxable capital....Reg. 8601
. prizes....Reg. 7700
. program of physical activity....Reg. 9400
. programs
. . Canada Oil Substitution Program....Reg. 5500
. . home insulation....Reg. 5500
. property
. . excluded property....Reg. 9000–9002.1
. . leasing properties....Reg. 8200
. . mark-to-market property....Reg. 9000–9002.1
. . specified debt obligations....Reg. 9004
. . TFSA investments....Reg. 5000–5001
. property, CCA
. . deemed capital cost....13(7.5)
. . manufacturing and processing....Reg. 1102(15)
. provincial pension plans....146(22); Reg. 7800
. provisions, late-filed elections....Reg. 600
. publicly-traded securities....Reg. 4400
. Quebec laws....Reg. 3003
. reserve amounts....Reg. 8000
. retirement compensation arrangement....207.6(6)
. scientific research expenditures....Reg. 2901
. securities....Reg. 6200–6210
. security interest....Reg. 2201
. shares....Reg. 6201–6209; Reg. 9003
. stock exchanges
. . contingency fund....Reg. 3202
. . rule....248(29)
. stock savings plan....Reg. 6705
. tax transfer payment rate....Reg. 3300
. taxable Canadian corporation....Reg. 1106(2)
. trades....Reg. 7310
. trusts....Reg. 4800.1
. venture capital corporation....Reg. 6700–6700.2

Principal business corporation
. deductions allowed....66.1(2)
. defined....66(15)
. exploration and development expense deductions....66(1)

Principal residence
. capital gains....40(2)(b)
. . computation....40(6)
. . disposal to spouse....40(2)(b); 40(4)
. defined....54

Section

Principal residence — continued
. disposition
. . capital gains election ... 40(7.1)
. . computation ... 40(6)
. . to spouse, capital gains ... 40(4)
. distribution by spousal or common-law partner trust ... 107(2.01)
. election, returns ... Reg. 2300–Reg. 2301
. election to use property as ... 45(3)
. exception to rules ... 54.1(1)
. individuals residing in more than one province ... Reg. 2607
. prescribed area
. . deductions ... 110.7

Printing costs
. financial statements ... 20(1)(g)

Private corporations
. amalgamation, capital dividend account transfer ... 87(2)(z.1)
. associated
. . agreement re expenditure limit ... 127(10.3)
. . agreement re expenditure limit, failure to file ... 127(10.4)
. bankrupt, taxable dividend tax exemption ... 186.1
. Canadian controlled — see Canadian-controlled private corporations
. capital dividend account
. . anti-avoidance rule re dividend acquisition ... 83(2.1)–(2.4)
. . dividend acquisition ... 83(2.1)
. . election to treat dividends as having been paid ... 83(2)
. . exception to anti-avoidance rule ... 83(2.2)–(2.4)
. . transfer to new corporation on amalgamation ... 87(2)(z.1)
. capital dividends, election ... Reg. 2101
. connected with payer corporation, conditions ... 186(4)
. cooperatives deemed not to be ... 136(1)
. credit unions deemed not to be ... 137(7)
. deemed ... 186(5)
. defined ... 89(1); 248(1)
. dividend refund ... 129(1)
. . bankrupt controlling corporation ... 129(1.1)
. . excess interest on ... 129(2.2)
. . interest on ... 129(2.1)
. dividends deemed not to be taxable ... 129(1.2)
. dividends received by
. . deemed not taxable ... 186.2
. . filing of return ... 187(1)
. . tax-exempt corporations ... 186.1
. . tax payable, interest ... 187(2)
. expenditure limit
. . agreement ... 127(10.3)
. . agreement not filed ... 127(10.4)
. . determination ... 127(10.6)
. holding company, defined ... 191(1)
. income from associated corporation ... 129(6)
. labour-sponsored — see Labour-sponsored venture capital corporations
. municipal and provincial corporations ... 227(16)
. non-resident-owned deemed not to be ... 134
. payment of tax ... 157(3)
. refundable dividend tax on hand
. . aggregate investment income defined ... 129(4); 248(1)
. . definitions related to ... 127(8)
. . determination by Minister ... 152(1)
. . eligible portion defined ... 129(4)
. . foreign investment income defined ... 129(4)
. . income or loss from property defined ... 129(4)
. . transitional provisions ... 129(3)
. tax on dividends ... 186(1)
. . assessable dividend defined ... 186(3)
. . controlled corporation defined ... 186(2)
. . reduction ... 186(1.1)
. . subject corporation defined ... 186(3)

Private foundations — see Charitable foundations

Private health service plans
. deduction of premiums ... 20.01
. . conditions ... 20.01(1)
. . equivalent coverage ... 20.01(3)
. . limitations ... 20.01(2)
. defined ... 248(1)

Privilege — see Solicitor–client privilege

Prizes — see Awards and prizes

Proceeds of disposition — see Property disposition

Processing allowance — see Resource allowance

Processing profits — see Manufacturing and processing profits

Professional business — see Business

Professional corporation
. defined ... 248(1)

Professional dues — see Dues

Section

Profit
. determination ... 3.1(2)
. reasonable expectation ... 3.1(1)

Profit sharing plans
. acceptance for registration ... 147(3)
. allocations as income ... 6(1)(d)
. capital gains or losses
. . determination ... 147(4)
. deductions ... 18(1)(k)
. deferred — see Deferred profit sharing plans
. defined ... 248(1)
. employees — see Employees profit sharing plan
. employer's contributions
. . deductible ... 20(1)(w)
. . limitation ... 18(1)(k)
. forfeitures deductible ... 8(1)(o.1)
. income allocation ... 6(1)(d)
. income-averaging annuity ... 61(2)
. . deductions ... 61(1)
. property disposition
. . deemed ... 40(2)(g)
. receipts ... 12(1)(n)
. registration
. . deemed refusal ... 172(3)–172(4)
. trusts — see Deferred profit sharing plans

Promoter
. non-resident trusts ... 94(1)
. tax shelters — see Tax shelters

Proof — see Evidence and proof

Property — see also Real or immovable property
. accumulation by charities ... 149.1(8)–149.1(9)
. acquisition — see Property acquisition
. actual cost, defined ... A.R. 26(13)–(17.1)
. adjusted cost base — see Adjusted cost base
. after ceasing business, deductions ... 13(8)
. annual value not deductible ... 18(1)(d)
. appropriation to shareholder on winding-up ... 84(2)
. approved project property
. . defined ... Reg. 4604(1); Reg. 4605
. . investment tax credit ... Reg. 4604(1)
. . revocation of approval ... 127(11.3)
. available for use ... 248(19)
. benefits conferred on shareholder ... 15(1); 15(7)
. capital — see Capital property
. capital cost
. . deductible ... 20(1)(a)
. . reduction ... Reg. 5400–Reg. 5401
. carved-out — see Carved-out property
. CCA rate
. . buildings on leased property ... Reg. 1102(5.1)
. . leased ... Reg. 1102(4)
. . recreational ... Reg. 1102(17)
. . separate classes ... Reg. 1101(1)
. . tangible, attached to building ... Reg. Sch. II, Class 8, 19
. certified
. . ascertainment ... 127(10)
. . defined ... Reg. 4602
. . defined re investment tax credit ... 127(9)
. . investment tax credit ... Reg. 4602
. change in use ... 13(7)
. . before 1972 ... A.R. 26.1(1)
. . election ... A.R. 26.1(2)
. . election not effective ... 45
. . GST ... 248(15)
. charge or lien re unpaid taxes ... 223(5)–(8)
. convertible — see Convertible property
. cultural — see Cultural property
. deceased persons, loss on disposition ... 164(6)
. deemed disposition by trust ... 104(4)–(5)
. deemed disposition on emigration ... 128.1(4)
. . instalment interest ... 128.1(5)
. . post-emigration loss ... 128.1(8)
. . returning former resident ... 128.1(6)
. . returning trust beneficiaries ... 128.1(7)
. . subsequent dividends ... 119
. deemed disposition on immigration ... 128.1(1)–(1.1)
. deemed not acquired before available for use ... 127(11.2)
. defined ... 248(1)
. . exception to principal residence rule ... 54.1(2)
. depreciable — see Depreciable property
. designated, defined ... 89(1)
. disposition — see Property disposition
. distribution
. . loss reduction on trust property ... 107(6)
. . occurrence as a consequence of death ... 248(8)
. . retirement compensation arrangement trust's ... 107.2
. eligible capital — see Eligible capital property
. eligible personal, defined ... 54
. estate taxes applicable ... 60(m)
. exchanges
. . capital gains ... 44
. . capital property ... 44
. . deferred capital gains ... 44
. . election ... 44(4)
. . eligible capital property ... 14(6); 14(7)

Section

Property
. exchanges — continued
. . former property ... 14(6); 14(7)
. . limited period franchise, concession or licence ... 13(4.2); 13(4.3)
. . restrictions ... 13(4); 13(4.1); 14(7); 44(7)
. excluded from CCA ... Reg. 1102
. . defined re trust ... 108(1)
. . land ... Reg. 1102(2)
. . non-residents ... 116(6); 116(6.1); Reg. 810(1); Reg. 1102(3)
. . partnership property ... Reg. 1102(1a)
. film, defined for minimum tax ... 127.52(3)
. foreign — see Foreign property
. former
. . exchanges with ... 14(6); 14(7)
. . replacement for ... 13(4); 13(4.1); 14(7)
. identical — see Identical property
. immovable — see Real or immovable property
. income from ... 9(1)
. . basic rules ... 3
. . capital gains not included ... 9(3)
. . compound ... 20(1)(d)
. . computation ... 4(1)
. . deductions ... 18–21
. . exception re proceeds from disposition of prescribed debt obligations ... 12(9.1)
. . inclusions ... 12–17
. . inducement payments ... 12(1)(x)
. . inducement payments, deemed outlay or expense ... 12(2.2)
. . inducement payments, receipt of ... 12(2.1)
. . interest on money borrowed ... 20(1)(c)(ii)
. . reasonable expectation of profit ... 3.1
. . reimbursement payments ... 12(1)(x)
. . reimbursement payments, deemed outlay or expense ... 12(2.2)
. . reimbursement payments, receipt of ... 12(2.1)
. . transfer ... 56(4)
. inducement payments
. . deemed outlay or expense ... 12(2.2)
. . receipt of ... 12(1)(x); 12(2.1)
. instalment payments
. . income on sale of ... 12(1)(g)
. insurer's in course of development ... Reg. 2405(3)
. leased
. . CCA rate ... Reg. 1102(4)
. . lease cancellation payment deduction ... 20(1)(z)
. leasehold interest, CCA rate ... Reg. Sch. II, Class 13; Reg. Sch. III
. leasing — see Leasing property
. listed personal — see Listed personal property
. loans — see Property transfer or loan
. loss ... 9(2)
. . capital loss not included ... 9(3)
. lottery prize, cost of ... 52(4)
. mark-to-market — see Mark-to-market property
. matrimonial regime
. . partition of property ... 248(22)
. . property transfer ... 248(23)
. . transfer after death ... 248(23.1)
. misclassified ... 13(6)
. more than one use
. . election disallowed to change ... 45(4)
. . election to use as principal residence ... 45(3)
. . election where change in use ... 45
. non-segregated ... 138(12)
. offshore investment fund, prescribed ... Reg. 6900
. option to acquire
. . exercised ... 49(3)
. . specified property ... 49(3.01)
. option to dispose exercised ... 49(3.1)
. owned December 31, 1971, election ... Reg. 4700
. partition ... 248(20)
. . matrimonial regime ... 248(22)
. payments for right to receive production, income ... 12(1)(g.1)
. payments received for production or use ... 12(1)(g); 12(2.01)
. personal injury award, income
. . election re capital property ... 81(1)(g.1); 81(5)
. personal-use — see Personal-use property
. predecessor corporation's replacement property ... 87(2)(l.3)–(l.4)
. proceeds of disposition — see Property disposition
. processing, defined ... Reg. 1206(1)
. qualified property, defined re ITC ... 127(9)
. reacquisition by life insurers
. . election ... 138(11.6)
. . rules ... 138(11.4)
. reacquisition prior to 1972 ... A.R. 26(6)
. real — see Real or immovable property
. recreational
. . CCA rate ... Reg. 1102(17)
. . maintenance and use ... 18(1)(l)
. reimbursement payments
. . deemed outlay or expense ... 12(2.2)
. . receipt of ... 12(1)(x); 12(2.1)

Section

Property — continued
. rental — see Rental property
. rental or leasing, defined for minimum tax 127.52(3)
. replacement
. . capital property as 44(5)
. . deemed proceeds of disposition 44(6)
. . for former property 13(4); 13(4.1); 14(6); 14(7)
. . limited period franchise, concession or licence 13(4.2); 13(4.3)
. repossession 79.1
. resource — see Resource property
. rollovers — see Rollovers
. sale re unpaid taxes 223(9)–(11)
. seizure by creditors 79.1
. . seizure defined 79.1(2)
. small business — see Small business
. sold during course of business
. . reserve disallowed 20(8)
. . reserve for unpaid amounts 20(1)(n)
. specified — see Specified property
. subdivision 248(21)
. . partition 248(20)
. substituted
. . adjusted cost base 53(1)(f)
. . defined 248(5)
. surplus of insurers Reg. 2405(3)
. surveying cost, adjustment to cost base 53(1)(n)
. tangible, attached to building, CCA rate Reg. Sch. II, Class 8, 19
. tangible capital, CCA rate Reg. Sch. II, Class 8, 19
. taxable Canadian property
. . additions to A.R. 26(30)
. . defined 248(1)
. . disposition by non-resident 116
. . holding corporation shares 141(5)
. . life insurance corporation shares 141(5)
. . mutual fund corporation gains 131(5.1)–(5.2)
. . mutual fund trust gains 132(5.1); 132(5.2)
. taxes, deduction limitation 18(2)(b)
. transfer of — see Property transfer or loan
. valuation for inventory
. . incorrect 10(3)
. . work in progress 10(1)–(6)
. value included in income, non-residents 52(1)
. vested indefeasibly 248(9.2)

Property acquisition
. deduction limitations for money borrowed 18(11)
. election re year 53(2.1)
. greater than fair market value 69(1)
. investment tax credit 127(12.2)
. lottery prize 52(4)
. occurrences as a consequence of death 248(8)
. proceeds in excess of fair market value 69(1)
. satisfaction of interest in a trust 40(7)
. successor corporation A.R. 29(25)
. in the year
. . adjusted cost base 53(2)(s)
. . CCA Reg. 1100(2)–(2.5)

Property disposition
. allocation of amounts in consideration for 68
. amalgamated corporations' deemed proceeds 69(11)
. amount deemed payable 14(2)
. business investment loss
. . deduction 39(9)
. . payment under debt guarantee 39(12)
. business property or interest, deemed proceeds 44(6)
. capital gains — see Capital gains
. to child, deductible reserves 40(1.1); 44(1.1)
. cultural property 207.3
. deceased person's, election Reg. 1000
. deduction for uncollectible portion of proceeds 20(4)–(4.2)
. deemed
. . capital cost on receiving grant 13(7.1); 13(7.4)
. . of deceased person's 70(5)
. . at fair value 13(7)
. . replacement property 44(6)
. deemed by trust 104(4)–(5)
. . NISA fund, interest in 104(5.1)
. . resource property 104(5.2)
. . . election 104(5.3)
. . . revocation of election 104(5.31)
. . reversionary trust 107(4.1)
. . RHOSP properties 50(3)
. . spousal or common-law partner trust 107(4)
. deemed proceeds
. . affiliated person 69(11)
. . amalgamation of corporation 69(11)
. . on amalgamation or merger 69(13)
. . anti-avoidance rule 69(11)
. . reassessments 69(12)
. . on replacement 44(6)
. defined Reg. 1206(1)
. disposition, defined 248(1)
. election 44(4)

Section

Property disposition — continued
. eligible capital property exchanged 14(6); 14(7)
. exceeding undepreciated value 13(1)
. exchange of property
. . deductible reserves 44(1.1)
. . deferred capital gains 44
. . eligible capital property 14(6); 14(7); 44
. foreign affiliate's
. . capital gain or loss 95(2)(f)–(f.12); Reg. 5907(5)
. . rollover 95(2)(e.3) (e.6)
. gift 69(1)
. involuntary, capital gains 44
. life estate of deceased person 43.1(2)
. life estate retention on partial disposition 43.1(1)
. life insurers, by
. . deemed 138(11.3)
. . election 138(11.6)
. . mark-to-market rule 138(11.3)
. . rules 138(11.4)
. non-residents
. . certificate 116(2); 116(4)
. . excluded property 116(6); 116(6.1)
. . life insurance policies 116(5.1)–(5.4)
. . notice 116(3)
. . proposed, certificate 116(5.2)
. . purchaser's liability 116(5); 116(5.3)
. . requisites 116(2)–(5.1)
. . rules applicable 115.1; 116(1); 216(5)–(6)
. option, exercise of 49(1); 49(3.1)
. part disposition
. . adjusted cost base deductions 53(2)(d)
. . capital gains 43
. . deceased person's life estate 43.1(2)
. . ecological gifts 43(2)
. . retaining life estate 43.1(1)
. personal-use property 46
. . disposed of as a set 46(3)
. proceeds of
. . apportionment rule 68
. . deemed 44(6); 69(11)–(13)
. . deemed to be greater than fair market value 69(1.2)
. . defined 13(21); 54; Reg. 1206(1)
. . less than fair market value 69(1)
. . life insurance policy 56(1)(j); 148(2)
. . property acquired before 1972 A.R. 20(4)
. . replacement property acquired 13(4)(c)
. . sale or mortgage agreement 20(5)
. . shares of disposed foreign affiliate 88(3)
. . unclaimed, effect of tax remittance 153(5)
. . unclaimed, withholding tax 153(4)
. . uncollectible portion 20(4)
. recapture of depreciation 13(1); 13(2)
. remainder of part
. . life estate holder's death 43.1(2)
. . retaining life estate 43.1(1)
. resource property — see Resource property
. RHOSP properties, deemed by trust 50(3)
. shares — see Shares
. transitional provision 248(1.1)
. vendor's option 49(3.1)

Property transfer or loan
. artificial transactions 74.5(11)
. attribution rules, exceptions 74.5
. back-to-back loans or transfers 74.5(6)
. beneficiaries of deceased persons 70(1)
. capital gain
. . attribution rules 74.2(2)
. . of designated person 74.3(1)
. capital interest of trust distribution 107(2)
. controlling partnership to corporation 85(2)
. . on winding-up of partnership 85(3)
. controlling shareholder to corporation 85(1)
. . rollover election 85(6) (9)
. corporation, to
. . attribution rules 74.4(1)–(3)
. . benefit of spouse or minors 74.4(2)
. . benefits not granted to designated persons 74.4(4)
. . calculation of amount 74.4(3)
. . capital cost of depreciable property 85(5)
. . designated person, defined 74.5(5)
. . exceptions to attribution rules 74.5(12)–74.5(13)
. . excluded consideration 74.4(1)
. . outstanding amounts 74.4(3)
. . paid-up capital computation 85(2.1)
. Crown land to Crown corporation 27(3)
. deemed
. . taxable capital gain of designated person 74.5(9)
. depreciable property acquired before 1972 A.R. 20(1)–(5)
. designated person 74.4(1)
. . benefits not granted to 74.4(4)
. . defined 74.3(2)
. . taxable capital gain 74.3(1)
. election re deceased person 70(6.2)
. eligible property
. . defined 85(1.1)
. . tax deferred transfer 85(1)

Section

Property transfer or loan — continued
. excluded consideration, defined 74.4(1)
. farm property
. . to child A.R. 26(18); A.R. 26(19)
. . commercial woodlot Reg. 7400
. farming or fishing property
. . to child on death 70(9) (9.31)
. . inter vivos transfers 73(3)–(6)
. . to parents on death 70(9.6)
. fees, deductibility 20(1)(g)
. income deemed that of transferor 56(4)
. indirect payments 56(2)
. by individual 73(1)–(1.1)
. inter vivos
. . capital cost and amount deemed allowed 73(2)
. . commercial woodlot to child Reg. 7400
. . by individual 73(1)–(1.1)
. interest on death 100(3)
. loans for value, guarantees 74.5(7)
. minors, to
. . attribution rules 74.1(2); 74.2(2)
. . gain or loss 75.1
. . payment of tax 160
. . repayment of existing indebtedness 74.1(3)
. non-arm's length, joint and several tax liability 160
. non-resident trust 94(2)
. occurrences as a consequence of death 248(8)
. partnerships
. . Canadian, between 96(1.8)
. . capital cost 97
. real property 85(1.2)
. repayment of existing indebtedness 56(4.3); 74.1(3)
. rollover basis, rules applicable 85(1)
. share for share exchange
. . computation of paid-up capital 85.1(2.1)
. . between foreign affiliates 85.1(3)
. . between foreign affiliates, exception 85.1(4)
. . foreign shares 85.1(5) 85.1(6)
. . rollover 85.1
. . SIFT unit for share 85.1(7)–85.1(8)
. specified person, defined 74.5(8)
. spouse, common-law partner or trust 70(5.2)
. spouse, to
. . attribution rules 74.1(1); 74.2(1)
. . living apart 74.5(3)
. . repayment of existing indebtedness 74.1(3)
. spouse or trust 70(6)
. tax deferred transfer of eligible property 85(1)
. trust, to
. . attribution rules 74.3(1)
. . trust 104(5.8)

Prosecutions — see Offences and penalties

Prospectors and grubstakers
. computation of income 35
. deduction from income 110(1)(d.2)
. defined 35(2)
. exemption 81(1)(l)
. reduction of expenses
. . cumulative Canadian 66.7(12)
. . foreign 66.7(13)

Province
. defined 124(4); Reg. 414(1)
. income earned in — see Income
. prescribed pension funds or plans Reg. 7800
. tax transfer payments
. . to 154
. . rate of Reg. 3300
. taxable income earned in — see Income, taxable

Provincial corporations
. exempt from tax 149(1)(d)–(d.6); 149(1.1)–(1.3)

Provincial laws
. defined A.R. 29(33)
. prescribed Reg. 6501–6503
. tax payable under A.R. 29(32)

Provincial taxes
. abatement
. . corporations 124(1)
. . individuals 120(1)
. . Quebec tax Reg. 6401
. refund, request to pay to province 164(1.8)

Public corporations
. amalgamations 87(2)(ii)
. defined 89(1); 248(1)
. election to be
. . determination by Minister pre–1972 A.R. 50(3)
. . transitional provisions A.R. 50(2)
. exemptions 227(14); 227(16)
. qualifying dividends
. . defined 83(6)
. . shareholders' 83(1)
. status Reg. 4800(1)
. . amalgamation Reg. 4800(3)
. . conditions prescribed Reg. 4800(2)

Public foundation — see Charitable foundations

Section

Public investment partnerships
. defined ... Reg. 229.1(1)
. information disclosure ... Reg. 229.1(2)

Public investment trusts
. defined ... Reg. 204.1(1)
. information disclosure ... Reg. 204.1(2)

Public partnerships
. defined ... Reg. 229.1(1)
. information disclosure ... Reg. 229.1(2)

Public servants
. dues, deduction limitation ... 8(5)

Public transit pass
. tax credit
. . apportionment ... 118.02(3)
. . calculation ... 118.02(2)
. . definitions ... 118.02(1)

Public trusts
. defined ... Reg. 204.1(1)
. information disclosure ... Reg. 204.1(2)

Public utilities
. CCA rate ... Reg. Sch. II, Class 2, 43.1–43.2
. cost of connection
. . deductibility ... 20(1)(ee)
. . government secured bonds ... 81(1)(m)
. deduction for electrical energy and steam ... 125.1(2); 125.1(5)
. heat generating equipment, CCA rate ... Reg. Sch. II, Class 2
. information returns ... Reg. 213
. service connection cost, deductions ... 20(1)(ee)
. water distributing equipment, CCA rate ... Reg. Sch. II, Class 2

Pulp and paper mills
. CCA rate ... Reg. Sch. II, Class 5

Purchase-sale agreements
. inadequate consideration ... 69(1)
. inventory ... 23
. property ... 20(5)

Q

Quadrennial surveys — see Surveys

Qualified expenditures — see Capital expenditures and outlays; Expenses

Qualified investments — see Investments, qualified

Qualified non-resident fund
. Canadian investment managers ... 115.2
. designated services ... 115.2
. not carrying on business in Canada ... 115.2
. qualified investments ... 115.2
. using Canadian service provider ... 115.2

Qualified related corporation — see Corporations

Qualified trust — see Trusts

Qualifying debt obligation — see Debt obligations

Qualifying environmental trusts — see Environmental trusts

Quarry
. stone, defined for capital cost allowance ... Reg. 1104(8)

Quebec
. amalgamation of credit unions ... 87(2.3)
. deemed trusts ... 248(3)–(3.2)
. parental insurance plan
. . deduction of premiums ... 8(1)(l.2); 60(g)
. . income inclusion ... 56(1)(a)(vii)
. . premiums, tax credit ... 118.7
. prescribed laws ... Reg. 3003
. QST input tax refund ... 248(16.1)
. . aircraft ... 248(17.1)
. . assessment ... 248(17.3)
. . passenger vehicles ... 248(17.1)
. . repayment ... 248(18.1)
. tax abatement, prescribed date ... Reg. 6401

Quebec Pension Plan
. death benefits, income inclusion ... 56(1)(a.1)
. deduction of self-employment contributions ... 60(e)
. disability benefits ... 56(8)
. disability benefits for previous years ... 120.3

R

Radar and radio equipment
. CCA rate
. . acquired prior to May 26, 1976 ... Reg. Sch. II, Class 9
. . radio communication ... Reg. Sch. II, Class 8, 19

Railway cars
. CCA rate ... Reg. Sch. II, Class 35
. . additional for tank cars ... Reg. 1100(1)(z)–(z.1c); Reg. Sch. II, Class 6
. . locomotive, property incorporated into ... Reg. 1102(19.1)–(19.2)
. . locomotives ... Reg. Sch. II, Class 6, 10
. . rail suspension equipment ... Reg. Sch. II, Class 35
. . separate classes ... Reg. 1101(5d)–(5d.2)
. . tank cars ... Reg. Sch. II, Class 6

Section

Railway companies
. CCA rate
. . expansion and modernization of property ... Reg. 1100(1)(zc)
. . marine railway ... Reg. Sch. II, Class 7
. . rail suspension device ... Reg. Sch. II, Class 7
. . railway car ... Reg. Sch. II, Class 7
. . railway tracks, etc. ... Reg. 1101(5e); Reg. 1101(5f)
. . sidings ... Reg. 1100(8)
. . signaling equipment ... Reg. Sch. II, Class 1
. . subway or tunnel equipment ... Reg. Sch. II, Class 1
. . track and related equipment ... Reg. 1100(1)(za)–(zb)
. . track and traffic control equipment ... Reg. Sch. II, Class 1, 4
. . traffic control equipment ... Reg. 1100(1)(za)–(zb)
. employees' living expenses ... 8(1)(e)
. income earned in the year in a province ... Reg. 406
. railway system, defined ... Reg. 1104(2)
. repairs, etc., deductibility ... 36
. rolling stock
. . exempt from non-resident tax ... 212(1)(d)
. . payments for temporary use of ... 212(16)

Rates of interest — see Interest

Rates of tax — see Tax rates

RCA — see Retirement compensation arrangement

R.C.M.P. — see Royal Canadian Mounted Police

Real estate investment trusts
. defined ... 122.1(1)
. excluded from SIFT trust definition ... 122.1(1)
. qualified REIT property, defined ... 122.1(1)

Real or immovable property — see also Land
. adjustment to cost base ... 53(1)(o); 53(2)(u)
. base level deduction on interest to acquire ... 18(2)(f)
. Canadian real, immovable or resource property, defined ... 248(1)
. deemed depreciable property, CCA rate ... Reg. Sch. II, Class 36
. defined ... 122.1(1)
. interest in
. . hypothec ... 248(4.1)
. . leasehold interest ... 248(4); 248(4.1); Reg. 1101(5h)
. . life estate ... 43.1
. . mortgage ... 248(4)
. non-resident disposition ... 216(5); 216(6)
. rent from, defined ... 122.1(1)

Reassessment — see also Assessment
. amendment of appeal ... 165(7)
. consequential ... 152(4.3)
. election re borrowed money costs ... 21(5)
. illegal payments deducted from income ... 67.5(2)
. mandatory ... 152(6)
. misrepresentation or fraud ... 152(4)–(4.2)
. normal reassessment period
. . allowed after ... 152(4)
. . defined ... 152(3.1)
. . waiver of ... 152(4)–(4.2)
. not allowed ... 152(5)
. notice of objection not required ... 165(7)
. option exercised in subsequent year ... 49(4)
. provisions applicable ... 169(4)
. unused Part I.3 tax credit ... 152(6)
. waiver revoked ... 152(4.1)
. where amount re foreign affiliate is reduced ... 152(6.1)

Receipts
. charitable donations — see Charitable donations
. political contributions — see Political contributions

Receiver — see Trustees

Records — see Books and records

Recreational facilities
. CCA rate ... Reg. 1102(17)
. clubs — see Clubs
. expense deductibility ... 18(1)(l)
. recreation programs — see Sports and recreation programs

Redemption of shares — see Shares

Reed Stenhouse Companies Limited
. special prescribed shares ... Reg. 6206

Reference questions
. Tax Court of Canada ... 173–174

Refundable tax, dividends
. application to other liability ... 129(2)
. defined ... 129(3)
. definitions related to ... 127(8)
. dividends paid to bankrupt controlling corporation ... 129(1.1)
. excess interest on ... 129(2.2)
. interest on ... 129(2.1)
. private corporations ... 129
. refundable dividend tax on hand
. . aggregate investment income defined ... 129(4); 248(1)

Section

Refundable tax, dividends
. refundable dividend tax on hand — continued
. . defined ... 129(3)
. . eligible portion defined ... 129(4)
. . foreign investment income defined ... 129(4)
. . income or loss from property defined ... 129(4)

Refundable tax, net investment income of CCPC
. calculation ... 123.3

Refundable tax, scientific research
. amount designation ... 194(4)
. . deemed ... 194(5)
. . late ... 194(7)
. . paid-up capital after designation ... 194(4.1)
. . penalty for late designation ... 194(8)
. . restrictions ... 194(9)
. . tax on excess ... 195(7.1)
. amount not designated ... 194(4.2)
. application of tax ... 194(1)
. avoidance ... 195(7)
. debt obligation, defined ... 194(3)
. deferral, undue ... 195(6)
. evasion ... 195(5)
. financing contract, defined ... 194(6); 248(1)
. interest on amount in default ... 195(3)–195(4)
. liability of corporate directors ... 227.1(1)
. Part VIII refund, defined ... 194(2); 248(1)
. payments ... 195(2)
. . interest on amount in default ... 195(3)–195(4)
. provisions of Act applicable ... 195(8)
. refundable Part VIII tax on hand ... 194(3); 248(1)
. returns ... 195(1)
. scientific research financing contract ... 194(6)
. tax credit — see Scientific research and experimental development
. tax on excess amount ... 195(7.1)

Refundable tax, share-purchase
. amount designation ... 192(4)
. . late ... 192(8)
. . late, penalty ... 192(9)
. . paid-up capital after designation ... 192(4.1)
. . restriction ... 192(11)
. . tax on excess ... 193(7.1)
. application of tax ... 192(1)
. avoidance ... 193(7)
. deemed deduction ... 192(10)
. deferral, undue ... 193(6)
. evasion ... 193(5)
. interest on amount in default ... 193(3); 193(4)
. liability of corporate directors ... 227.1(1)
. obligation to acquire shares ... 192(7)
. Part VII refund
. . deemed paid ... 192(5)
. . defined ... 192(2); 248(1)
. payment ... 193(2)
. . interest on default amount ... 193(3); 193(4)
. . requirement ... 192(1)
. provisions of Act applicable ... 193(8)
. qualifying shares, defined ... 192(6); 248(1)
. refundable Part VII tax on hand ... 192(3); 248(1)
. returns ... 193(1)
. share purchase tax credit — see Share purchase tax credit
. tax on excess amount ... 193(7.1)

Refunds
. allowable refundable tax on hand, defined ... 133(9)
. allowable to N.R.O. investment corporation ... 133(6); 133(8)
. . excess interest on ... 133(7.02)
. . interest on ... 133(7.01)
. appeals ... 164(1.1)
. . exception ... 164(1.7)
. assignment by corporation ... 220(6); 220(7)
. capital gains
. . excessive interest on ... 132(2.2)
. . interest on ... 132(2.1)
. . mutual fund corporations ... 131(2)
. . . application to other liability ... 131(3)
. . . excess interest on ... 131(3.2)
. . . interest on ... 131(3.1)
. . mutual fund trusts ... 132(1)
. child tax benefits ... 164(2.2)
. collection in jeopardy ... 164(1.2)–(1.31)
. dividends — see Dividends
. duty, countervailing or anti-dumping, income inclusion ... 12(1)(z.6)
. excess amount to taxpayer ... 160.1(1)
. . amount applied to liability ... 160.1(4)
. . assessment ... 160.1(3)
. . liability ... 160.1(1.1)–(2.1)
. GST tax credit ... 164(2.1)
. insurance premiums, deductible ... 140(1)
. interest on interest repaid ... 164(4)
. non-resident tax ... 227(6); 227(7)
. . mutual fund investors ... 218.3(5)
. . shareholder loan ... 227(6.1); 227(7.1)
. notice for stopping payment ... 164(1.3)
. overpaid tax ... 164(1)
. . applied to other debts ... 164(2)

Section

Refunds
. overpaid tax — continued
. . beneficiary of profit sharing plan....144(9)
. . deferred profit sharing plan....198(4); 199(2)
. . interest....164(3)–(3.2)
. . interest on interest repaid....164(4)
. . Minister's duty....164(4.1)
. . notice of assessment....164(1)
. . provincial portion of....164(1.4)
. . recovery of security....198(5)
. . withholding re unfiled returns....164(2.01)
. overpayment of instalments....164(1.51)–(1.53)
. refundable capital gains tax on hand — see Capital gains
. refundable dividend tax on hand — see Refundable tax, dividends
. repayments on appeals and objections....164(1.1)
. . exception....164(1.7)
. . judicial procedure where repayment refused....164(1.3)
. request to pay to province....164(1.8)
. returns filed after 3 years
. . ministerial discretion....164(1.5)
. tax, determined by Minister....152(1)
. tax-free savings accounts....207.07(2)
. tax withheld — see Withholding

Registered agent — see Agents and brokers

Registered Canadian amateur athletic association — see Amateur athletic associations, registered Canadian

Registered charity — see Charity, registered

Registered disability savings plans
. definitions....146.4(1); 205(1)
. disability assistance payments
. . defined....146.4(1)
. . joint and several liability....160.21
. . non-taxable portion....146.4(7)
. . taxation of....146.4(6)
. income tax exempt....149(1)(u.1)
. interest on borrowings for contribution not deductible....18(11)
. issuer's obligations....146.4(13)
. non-compliance....146.4(10)–146.4(12)
. non-resident receiving payments....212(1)(r.1)
. payments as income....56(1)(q.1)
. plan conditions....146.4(4)
. qualified investment
. . defined....205(1)
. . information returns....Reg. 221(2)
. . prescribed....Reg. 4900
. registered status
. . cessation for non-compliance....146.4(10)
. . conditions....146.4(2)
. . nullified....146.4(3)
. tax payable
. . inadequate consideration....206
. . multiple holders....207(3)
. . non-qualified investments....206.1
. . refund....207(2)
. . return and payment....207(1)
. . use of property as security....206.3
. . waiver of liability....206.4
. . where advantage extended....206.2
. transfer of funds....146.4(8) 146.4(9)
. trust not taxable....146.4(5)
. withholding tax....153(1)(i); 212(1)(r.1)

Registered education savings plans
. accumulated income payment, defined....146.1(1)
. amendment, obligation to file....146.1(4.1)
. applications of Act....204.93
. beneficiary, defined....146.1(1)
. contribution, defined....146.1(1)
. deemed inter vivos trust....146.1(11)
. defined....146.1(1); 248(1)
. definitions related to....146.1; 204.9(1)
. educational assistance payment....146.1(7)
. . defined....146.1(1)
. entities non-taxable....146.1(5)
. excess amount
. . defined....204.9(1)
. . subscriber's share....204.9(1)
. extension for making payments....146.1(2.21)–(2.22)
. income inclusions....146.1(7.1)
. . excluded amounts....146.1(7.2)
. income tax exempt....149(1)(u)
. information returns....146.1(13.1)
. interest on borrowings for contribution not deductible....18(11)
. new beneficiary....204.9(4)
. non qualified investment
. . penalty tax....207.1(3)
. . plan revocable....146.1(2.1)
. non-resident receiving payments, taxation....212(1)(r)
. payments as income....56(1)(q)
. payments to beneficiaries....146.1(7)

Section

Registered education savings plans — continued
. payments under....204.94
. . administrative rules....204.94(4)
. . charging provision....204.94(2)
. . returns....204.94(3)
. penalty tax....207.1(3)
. periodic payments
. . specified amounts....204.9(2)
. post-secondary educational institution, defined....146.1(1)
. post-secondary school level, defined....146.1(1)
. public primary caregiver, defined....146.1(1)
. qualified investment
. . information returns....Reg. 221(2)
. . prescribed....Reg. 4900
. qualified investment, defined....146.1(1)
. qualifying educational program, defined....146.1(1)
. refund of payments, defined....146.1(1)
. refunds from unregistered plans....204.9(3)
. registration
. . conditions for....146.1(2)
. . date....146.1(12)
. . deemed....146.1(3)
. . revocable....146.1(2.1)
. . revocation....146.1(12.1)–(13)
. . without prospectus....146.1(4)
. regulations....146.1(15)
. RESP lifetime limit, defined....204.9(1)
. returns....204.92
. revocation of registration....146.1(12.1) (13)
. social insurance number....146.1(2.3)
. specified educational program, defined....146.1(1)
. specified plan, defined....146.1(1)
. subscriber, defined....146.1(1)
. subscriber's exemption from tax....146.1(6)
. subscriber's gross cumulative excess, defined....204.9(1)
. subscriber's share of the excess amount, defined....204.9(1)
. tax payable by subscriber....204.91(1)
. . deceased subscribers....204.91(4)
. . marriage or common-law partnership breakdown....204.91(3)
. waiver of tax....204.91(2)
. tax payment....204.92
. transfers between plans....146.1(6.1); 204.9(5)
. transitional provisions....146.1(14)
. trust, defined....146.1(1)
. waiver of conditions, mental impairment....146.1(2.2)
. withholding tax....153(1)(t)

Registered home ownership savings plans
. income from....12(10.1)
. information return, payments to non-residents....Reg. 202(2)
. non-resident, payment deemed from RHOSP trust....214(3)

Registered labour-sponsored venture capital corporations — see Labour-sponsored venture capital corporations

Registered national arts service organizations — see National arts service organizations

Registered organizations
. defined....Reg. 3500

Registered pension plans — see also Pension funds or plans; Pensions
. active member....Reg. 8500(1); Reg. 8500(7)
. actuarial report, filing....147.2(3)
. actuary, defined....147.1(1)
. administrator
. . appointment....147.1(6)
. . defined....147.1(1)
. . obligations....147.1(7)
. . separate liability re obligations....147.1(16)
. amalgamated corporation rules....87(2)(q)
. amendments
. . acceptance of....147.1(4)
. . conditions....Reg. 8511
. annuity contracts....147.4
. . amended contracts....147.4(2)
. . beginning after age 69....147.4(4)
. . new contracts....147.4(3)
. association of benefits with time periods....Reg. 8519
. average consumer price index....Reg. 8500(1)
. average wage, defined....147.1(1)
. beneficiary....Reg. 8500(1)
. benefits
. . accrual....Reg. 8302(2)
. . anti-avoidance....Reg. 8302(11)
. . bridging....Reg. 8500(1)
. . career average....Reg. 8302(8)
. . contingent rights....Reg. 8300(7)
. . defined benefit provision entitlement....Reg. 8302(1)
. . on downsizing....Reg. 8505
. . entitlement....Reg. 8301(1)
. . member and non-member....Reg. 8500(8)

Section

Registered pension plans
. benefits — continued
. . payable to spouse after marriage breakdown....Reg. 8501(5)
. . payments made prior to taxpayer being contributor....57(4)
. . provided with surplus on plan wind-up....Reg. 8501(7)
. . provision....Reg. 8500(1)
. . rate greater than 2 per cent....Reg. 8302(9)
. ceasing to be a member....Reg. 8300(10)
. compensation....147.1(1)
. conditions....147.1(5); Reg. 8501(2); Reg. 8502
. connected, defined....Reg. 8500(3)
. consumer price index....Reg. 8500(1)
. contributions
. . additional voluntary, defined....248(1)
. . indirect....Reg. 8501(6)
. . prescribed eligible....Reg. 8501(6.2)
. . for unfunded liability....Reg. 8501(6.1)
. defined....248(1)
. defined benefit limit....Reg. 8500(1)
. defined benefit provisions....147.1(1); Reg. 8300(11)
. . additional conditions....Reg. 8503(4)
. . artificially reduced pension adjustments....Reg. 8503(14)
. . associated....Reg. 8503(24)
. . benefit accruals after pension commencement....Reg. 8503(17); Reg. 8503(19)–Reg. 8503(24)
. . bridging benefits, stand-alone basis....Reg. 8503(16)–Reg. 8503(18); Reg. 8503(23)–Reg. 8503(24)
. . bridging benefits election....Reg. 8503(7.1)
. . commutation of benefits....Reg. 8503(2.1)
. . cross plan rules....Reg. 8503(23)
. . eligible service....Reg. 8503(3)
. . employer contributions....147.2(2)
. . lifetime retirement benefits, commutation....Reg. 8503(7)
. . limits depend on CPI....Reg. 8503(12)
. . net contribution account....Reg. 8503(1)
. . offset....Reg. 8302(6)
. . past service employer contribution....Reg. 8503(15)
. . permissible benefits....Reg. 8503(2)
. . pre-retirement death benefits....Reg. 8503(6)
. . qualifying period, defined....Reg. 8503(16)
. . re-employed member....Reg. 8503(9)–(11.1)
. . right to actuarial surplus....Reg. 8300(13)
. . specified eligibility day, defined....Reg. 8503(16)
. . statutory plans....Reg. 8503(13)
. . suspension or cessation of pension....Reg. 8503(8)
. . waiver of member contribution condition....Reg. 8503(5)
. definitions....Reg. 8500(1)
. dependant....Reg. 8500(1)
. designated laws....Reg. 8513
. designated plans....Reg. 8515
. disabled....Reg. 8500(1)
. downsizing, benefits on....Reg. 8505
. durations of periods....Reg. 8500(6)
. eligible period of reduced pay....Reg. 8500(1)
. eligible period of temporary absence....Reg. 8500(1)
. eligible survivor benefit period....Reg. 8500(1)
. employee contribution
. . amount deductible....147.2(4)
. . deceased taxpayer....147.2(6)
. . deductibility....8(1)(m)
. employer contributions
. . deductible....20(1)(q); 147.2(1)
. . defined benefit provisions....147.2(2)
. . funding on termination basis....Reg. 8516(2)
. . prescribed....Reg. 8516
. . required by legislation....Reg. 8516(3)
. . shared funding arrangements....Reg. 8516(4)
. existing plan....Reg. 8500(1)
. forfeited amount....Reg. 8500(1)
. former limit, defined....147.1(1)
. income deduction....18(1)(k)
. interest on money borrowed for premiums, deductibility....18(11)
. interpretation....Reg. 8500(1)–(8)
. letter of credit....147.2(7)
. lifetime retirement benefits....Reg. 8500(1)
. maximum benefits....Reg. 8504
. member, defined....147.1(1); Reg. 8300
. member-funded plans....Reg. 8510(9)
. Minister's action....Reg. 8520
. money purchase provision
. . account balance....Reg. 8506(6)
. . additional conditions....Reg. 8506(2)
. . alternative method for allocating employer contributions....Reg. 8506(2.1)
. . deemed contribution by employer....Reg. 8300(8)
. . defined....147.1(1)
. . eligible variable benefit withdrawal amount....60.021
. . minimum amount....Reg. 8506(4)–(10)

Section

Registered pension plans
. money purchase provision — continued
. . money purchase limit, defined ... 147.1(1); 248(1)
. . permissible benefits ... Reg. 8506(1)
. . reallocation of forfeitures ... Reg. 8506(3)
. . specified beneficiary ... Reg. 8506(8)
. multi-employer plan ... 147.1(9); Reg. 8500(1); Reg. 8510
. . anti-avoidance ... 147.1(14)
. . defined ... 147.1(1)
. . pension adjustment limit ... 147.1(9)
. net past service pension adjustment ... 146(1)
. normalized pensions ... Reg. 8302(3)
. officer deemed to provide services ... Reg. 8500(4)
. offset of specified multi-employer plan benefits ... Reg. 8302(7)
. optional forms ... Reg. 8302(4)
. participating employer ... 147.1(1)
. past service benefits ... 147.1(10)
. . additional rules ... Reg. 8304
. . defined benefit provision ... Reg. 8300(6)
. past service events
. . and certifications, 1991 ... Reg. 8303(2.1)
. . defined ... 147.1(1)
. past service pension adjustment, net ... 146(1)
. past service voluntary contributions, deductions ... 60.2
. payments
. . deductions ... 60(j.02)
. . pre-1988 ... 60(j.01)
. . pursuant to new contract ... 254
. pension adjustment
. . non-vested termination ... Reg. 8301(8)
. pension adjustment limit ... 147.1(8)
. . multi-employer plan ... 147.1(9)
. pension adjustment reversal ... Reg. 8304.1
. . deferred profit sharing plans ... Reg. 8402.01
. pension corporation
. . exempt from tax ... 149(1)(o.1)–(o.2)
. . prescribed persons ... Reg. 4802(1)
. pension trusts exempt from tax ... 149(1)(o)
. pensionable service ... Reg. 8500(1)
. period of disability ... Reg. 8500(1)
. period of reduced remuneration ... Reg. 8302(10); Reg. 8507
. permissive rules ... Reg. 8501(3)
. predecessor employer ... Reg. 8500(1)
. prohibited investments ... Reg. 8514
. provision of information
. . actuarial reports ... Reg. 8410
. . annual information returns ... Reg. 8409
. . connected persons ... Reg. 8403
. . discontinuance of business ... Reg. 8405
. . qualifying withdrawals ... Reg. 8407
. . government-sponsored retirement arrangements ... Reg. 8402.1
. . past service pension adjustment ... Reg. 8402
. . pension adjustment ... Reg. 8400
. . reporting to individuals ... Reg. 8404
. . requested from third person ... Reg. 8406
. . upon request by Minister ... Reg. 8408
. public pension benefits ... Reg. 8500(1)
. public safety occupation ... Reg. 8500(1)
. purchase of annuity ... Reg. 8300(12)
. registration ... 147.1(2)
. . amendments ... Reg. 8512(2); Reg. 8512(3)
. . application ... Reg. 8512(1)
. . conditions ... Reg. 8501(1)
. . deemed ... 147.1(3)
. . plan as registered ... 147.1(15)
. . refusal of application ... 172(5)
. . revocation ... 147.1(13)
. . notice of intention ... 147.1(11)–(12)
. regulations ... 147.1(18)
. repayments of post-1989 benefits ... 60(j.04)
. repayments of pre-1990 benefits ... 60(j.03)
. reporting and provision of information ... Reg. 8400–8410
. retirement benefits ... Reg. 8500(1)
. salary deferral leave plan ... Reg. 8508
. share acquisition, penalty tax ... 207.1(5)
. single amount ... 147.1(1)
. specified multi-employer plan ... 147.1(1); Reg. 8510
. spouse, void marriage ... Reg. 8500(5)
. Superintendent of Financial Institutions' advice ... 147.1(17)
. supplemental plans ... Reg. 8501(4)
. surplus ... Reg. 8500(1); Reg. 8500(1.1)
. teachers' contributions ... 147.2(5)
. termination of entitlement to benefits ... Reg. 8302(5)
. totally and permanently disabled ... Reg. 8500(1)
. transfers
. . between benefit provisions ... Reg. 8300(9)
. . deemed transfer ... 147.3(14)
. . defined benefit to defined benefit ... 147.3(3)
. . defined benefit to money purchase of RRSP or RRIF ... 147.3(4); 147.3(4.1); Reg. 8517
. . division of amount transferred ... 147.3(11)

Section

Registered pension plans
. transfers — continued
. . excess amount ... 147(22); 147.3(13)
. . lump-sum benefits on death ... 147.3(7)
. . lump-sum payments from DPSP ... 147(19); 147(20)
. . money purchase plan replaces defined benefit plan ... 147.3(8)
. . money purchase plan replaces money purchase plan ... 147.3(7.1)
. . money purchase to defined benefit ... 147.3(2)
. . money purchase to money purchase or RRSP or RRIF ... 147.3(1)
. . pre-1991 contributions ... 147.3(6)
. . property between provisions ... 147.3(14.1)
. . restrictions ... 147.3(12)
. . to RPP, RRSP or RRIF for spouse on marriage breakdown ... 147.3(5)
. . from RRIF ... 146.3(14.1)–(14.2)
. . taxation of amount transferred ... 147.3(9)–(10)
. . withdrawal of excessive transfers to RRSP or RRIF ... 147.3(13.1)
. transitional rules ... Reg. 8509
. unfunded liability, member contributions for ... Reg. 8501(6.1)
. wage measures ... 147.1(1)
. year's maximum pensionable earnings ... Reg. 8500(1)

Registered retirement income fund
. amount credited or added ... 146.3(15)
. amounts included in income ... 146.3(5.1)
. . deceased person's ... 146.3(5.5)
. . ordering ... 146.3(5.3)
. amounts received on death
. . joint and several liability ... 160.2(2)
. . recipient's assessment ... 160.2(3)–160.2(4)
. benefits taxable ... 146.3(5)
. change in fund after registration ... 146.3(11)–(13)
. charitable donation of proceeds ... 118.1(5.3)
. death of annuitant ... 146.3(3.1)
. death of last annuitant ... 146.3(6)–(6.4)
. defined ... 146.3(1); 248(1)
. definitions related to ... Reg. 7308
. designated benefit
. . deemed received on death ... 146.3(6.1)–(6.2)
. . defined ... 146.3(1)
. exemptions ... 149(1)(x)
. fees not deductible ... 18(1)(u)
. inclusion in income ... 56(1)(t)
. information returns
. . payments ... Reg. 215
. . payments to non-residents ... Reg. 202(2)
. minimum withdrawal amount
. . 2008 taxation year ... 60.021; 146.3(1.1)–146.3(1.2)
. . minimum amount, defined ... 146.3(1)
. non-qualified investments
. . acquisition by trust ... 146.3(7)
. . disposition by trust ... 146.3(8)
. . penalty tax ... 207.1(3)
. . tax on acquisition of ... 146.3(9)
. non-residents, payments deemed from trust ... 214(3)
. non-residents receiving payments, taxation ... 212(1)(q)
. premium deduction ... 60(i)
. . non-deductible premiums ... 146(8.2)
. . non-deductible premiums, special rules ... 146(8.21)
. . undeducted amounts determination ... 204.2(1.4)
. prescribed amounts ... Reg. 7308
. qualified investment
. . information returns ... Reg. 221(2)
. . prescribed ... Reg. 4900
. registration, acceptance for ... 146.3(2)
. retirement income fund, defined ... 146.3(1); 248(1)
. security, recovery of property used as ... 146.3(10)
. share acquisition, penalty tax ... 207.1(5)
. spouse's or common-law partner's income ... 146.3(5.4)
. tax payable by trust ... 207.1(4)
. taxation of property held by ... 207.1–207.2(3)
. transfer to money purchase RPP ... 146.3(14.1)–(14.2)
. transfers between spouses or former spouses ... 146.3(14); 146.3(14.2)
. trust governed by
. . exemptions ... 146.3(3)
. . property acquisition or disposition ... 146.3(4)
. . qualified investment ... 146.3(1)
. withholding tax ... 153(1)(l)

Registered retirement savings plans
. acceptance for registration ... 146(2)–(3)
. advantages ... 146(13.1)
. amounts deductible ... 146(5)
. amounts deemed received on death
. . by spouse or common-law partner ... 146(8.91)
. amounts received on death
. . joint and several liability ... 160.2(1)

Section

Registered retirement savings plans
. amounts received on death — continued
. . recipient's assessment ... 160.2(3)–160.2(4)
. annuitant, defined ... 146(1)
. annuity contracts as investments ... 146(11.1)
. bankrupt individual's
. . deductions allowed ... 128(2)(d.1)
. . deductions allowed where two taxation years ... 128(2)(d.2)
. benefits ... 146(1)
. benefits, taxation ... 146(8)
. . excluded withdrawals ... 146(8)
. change in plan ... 146(12); 146(13)
. charitable donation of proceeds ... 118.1(5.3)
. computation of income ... 146(8.3)–(8.7)
. contributions
. . tax on excess amounts ... 204.1–204.3
. credited or added amount ... 146(20)
. deceased annuitant ... 146(8.1)
. deduction room
. . anti-avoidance provision ... 146(5.21)
. . unused, defined ... 248(1)
. deemed payment of premiums ... 146(22)
. defined ... 248(1)
. disposition of property ... 146(9)
. earned income ... 146(1)
. excess contributions
. . cumulative excess amount ... 204.2(1.1)
. . cumulative excess amount, transitional amount ... 204.2(1.5)
. . deemed to be registered ... 204.2(3)
. . excess amount defined ... 204.2(1)
. . excess amount determination, formula ... 204.2(1.2)
. . return, payment of tax ... 204.3(1)
. . tax on excess ... 204.1(2.1)
. . tax payable by individuals ... 204.1(1)
. . tax payable by trust ... 204.1(3)
. . terminated plan deemed to exist ... 204.2(2)
. . waiver of tax ... 204.1(4)
. exemptions ... 146(4); 146(8.7); 149(1)(r)
. fees not deductible ... 18(1)(u)
. financially dependent child or grandchild ... 146(1.1)
. group amount ... 204.2(1.3)
. . qualifying arrangement defined ... 204.2(1.32)
. . qualifying group RRSP premium defined ... 204.2(1.31)
. home buyers' plan — see Home buyers' plan
. information returns
. . payments ... Reg. 214
. . payments to non-residents ... Reg. 202(2)
. issuers
. . annual return ... Reg. 214.1
. . defined ... 146(1)
. lifelong learning plan — see Lifelong learning plan
. lifetime beneficial trusts ... 60.011
. maturity, defined ... 146(1)
. maximum amount deductible ... 146(8.2)
. non-qualified investments
. . acquisition ... 146(10)
. . disposition ... 146(6)
. . life insurance policies ... 146(11)
. . penalty tax ... 207.1(1); 207.1(3)
. . tax payable ... 146(10.1); 207.1(1)
. . transitional provisions ... A.R. 61
. . by trust ... 146(1)
. non-residents receiving benefits
. . election to file return ... 217
. . payments deemed from trust ... 214(3)
. penalty tax ... 207.1(1)
. pre-1988 payments ... 60(j.01)
. premium deduction ... 60(i); 146(1); 146(5)
. . amendment of return ... 152(6)
. . money borrowed for, deductions disallowed ... 18(11)
. . non-deductible premiums, special rules ... 146(8.21)
. . paid while plan unregistered ... 146(14); 146(15)
. . recontribution of withdrawals ... 146(6.1)
. . spousal plan ... 146(5.1)
. . undeducted amounts determination ... 204.2(1.4)
. property acquired pre-1972 ... A.R. 61
. property used as security recovered ... 146(7)
. qualified investment
. . annuity contracts ... 146(11.1)
. . defined ... 146(1)
. . information returns ... Reg. 221(2)
. . prescribed ... Reg. 4900
. qualifying trust annuity
. . application of provisions ... 60.011(3)
. . defined ... 60.011(2); 248(1)
. . joint and several liability ... 160.2(2.1)–(2.2); 160.2(5)
. . rules applicable ... 75.2
. re-calculation re designated withdrawal ... 146(8.01)
. receipts as income ... 56(1)(h)
. . withholding tax ... 153(1)(j)
. refund of contributions ... 146(2)
. refund of premiums ... 146(1); 146(1.1)

Section

Registered retirement savings plans — continued
. registration
. . appeal from refusal ... 172(3)
. retirement income, defined ... 146(1)
. retirement savings plan, defined ... 146(1); 248(1)
. RRSP deduction limit, defined ... 146(1); 248(1)
. RRSP dollar limit, defined ... 146(1); 248(1)
. share acquisition
. . penalty tax ... 207.1(5)
. spousal or common-law partner plan
. . defined ... 146(1)
. tax on non-qualified investment ... 146(10.1)
. tax-paid amount, defined ... 146(1)
. taxation ... 212(1)(l)
. taxation of property held by ... 207.1–207.2(3)
. transfer of funds ... 146(16)
. . excess amounts ... 147(22)
. . ordering ... 146(8.5)
. . provincial pension plans ... 146(21)
. transfer of lump-sum payments from DPSP
. . anti-avoidance rule ... 147(19)
. . exclusion from income ... 147(20)
. transfer of refund ... 60(l)
. transfer to spousal RRSP ... 60(j.2)
. unused deduction room ... 146(1)
. withholding tax exemption re non-residents ... 212(1)(l)
. year of death ... 146(8.8)–(8.93)

Registered securities dealer
. defined ... 248(1)
. tax re payments to non-residents ... 212(19)–212(20)

Registered supplementary unemployment benefit plans — see Supplementary unemployment benefit plans

Registration
. charity ... 149.1
. deferred profit sharing plan ... 147
. labour-sponsored venture capital corporation ... 204.81
. refusal or revocation, appeal ... 172(3)–(4.1)
. registered education savings plan ... 146.1
. registered pension plans ... 147.1; Reg. 8501(1)
. registered retirement income fund ... 146.3
. registered retirement savings plan ... 146

Regulations
. binding Crown ... 221(3)
. defined ... 248(1)
. depletion, re mines, oil or gas wells ... 65(2)
. effective date ... 221(2)
. incorporation of material by reference ... 221(4)
. judicial notice of ... 244(12)
. non-residents ... 214(13)
. power to make ... 221(1)
. scope of ... 221(1)

Reimbursements
. assistance re eligible capital property ... 20(1)(hh.1)
. business or property income ... 12(1)(x)
. . deemed outlay or expense ... 12(2.2)
. . receipt of ... 12(2.1)
. legal costs
. . income inclusion ... 56(1)(l)
. repayment, deductions ... 20(1)(hh)

Reinsurance
. commission
. . deduction ... 20(1)(jj)
. . income inclusion ... 12(1)(s)

REITs — see Real estate investment trusts

Related person
. deemed non-arm's length ... 251(1)
. defined ... 251(2)

Related segregated fund trust — see Trusts

Relationships
. blood relationship, defined ... 251(6)
. defined re child ... 252(2)
. non-arm's length — see Arm's length transactions

Relevant authority
. defined ... A.R. 58(5)

Relevant percentage
. defined ... A.R. 58(5)

Relevant tax factor
. defined ... 113(3)

Religious order
. members deduction ... 110(2)

Religious organizations
. defined ... 143(4)
. same-sex marriage ... 149.1(6.21)

Relocation
. employees
. . eligible housing losses defined ... 6(22)
. . eligible relocation defined ... 248(1)
. . financing subsidies ... 6(19)
. . housing losses ... 6(20)

Section

Relocation
. employees — continued
. . housing losses defined ... 6(21)
. . housing subsidies ... 6(23)

Remuneration — see also Salary and wages
. amount determination ... Reg. 100(3)–(3.1)
. death benefits — see Death benefits
. deceased persons ... 70(1)
. defined for withholding tax ... Reg. 100(1)
. employer to employee ... 6(3)
. fishermen's, amount of ... Reg. 105.1
. information returns ... Reg. 200(1)
. retiring allowance — see Retiring allowance
. unpaid ... 78(3)
. . corporation winding-up ... 78(4)
. withholding tax ... 153(1)(a)
. . commissions ... Reg. 102(5)
. . deduction and remittance ... Reg. 101
. . exceptions ... Reg. 104
. . lump-sum payments less than $5,000 ... Reg. 103(1)
. . lump-sum payments more than $5,000 ... Reg. 103(2)
. . periodic payments ... Reg. 102(1)
. . retroactive increase more than $5,000 ... Reg. 103(3)
. . tables of deduction ... Reg. Sch. I

Renewable and conservation expense — see Canadian renewable and conservation expense

Rental property
. CCA rate
. . gross revenue as rent ... Reg. 1100(14.1)
. . leasehold interest ... Reg. 1100(13)
. . limitation ... Reg. 1100(12)
. . limitation re corporations and partnerships ... Reg. 1100(11)
. defined ... Reg. 1100(14)
. gross revenue as
. . exception ... Reg. 1100(14.2)
. lease — see Lease

Rents
. accrual in case of deceased persons ... 70(1)
. gross revenue as ... Reg. 1100(14.1)
. . exception ... Reg. 1100(14.2)
. leasing properties
. . gross revenue as rent ... Reg. 1100(17.2)
. . gross revenue as rent, exception ... Reg. 1100(17.3)
. non-residents
. . information return ... Reg. 202(1)
. . optional method of tax payment ... 216(4)–(4.1)
. . withholding tax ... 212(1)(d); 212(13)
. office, payable by employees ... 8(1)(i)
. property leased for business ... 18(1)(d)

Reorganization of capital — see Capital

Repair and maintenance
. leased property, CCA rate ... Reg. 1102(4)
. railway companies ... 36

Replacement parts
. undepreciated capital cost ... 13(27)(k)

Replacement property
. capital property as ... 44(5)
. deemed proceeds of disposition ... 44(6)
. for former property ... 13(4); 13(4.1); 14(6); 14(7)
. limited period franchise, concession or licence ... 13(4.2); 13(4.3)

Reporting requirements — see Information returns; Returns

Repossessions
. seizure of property ... 79.1

Research grants — see Grants and subsidies

Reserves
. amalgamated corporation's ... 87(2)(g); 87(2)(m)
. . continuation ... 87(2)(g.1)
. . special ... 87(2)(i); 87(2)(j)
. amounts not due until later year ... 20(1)(n); 20(8)
. bank, deductibility ... 26(2)
. capital gains, creditor ... 79.1(3)
. contingency ... 18(1)(e)
. credit unions
. . 1971, defined ... A.R. 58(5)
. . maximum cumulative ... 137(6)
. debt forgiveness
. . add-back ... 56.2–56.3
. . corporations ... 61.3–61.4
. . individuals ... 61.2
. deceased persons ... 72(1)
. . personal representative's election ... 72(2)
. defined ... 181(1)
. definitions related to ... Reg. 8006
. doubtful or impaired debts ... 12(1)(d)
. . deduction ... 20(1)(l)
. sectoral reserve defined ... 20(2.3)
. . specified percentage ... 20(2.4)
. . specified reserve adjustment ... 20(30)

Section

Reserves — continued
. fiscal year-end transitional rule ... 34.2
. . anti-avoidance rule ... 34.2(7)
. . calculation of reserve ... 34.2(4)
. . death of partner or proprietor ... 34.2(8)
. . December 31, 1995 income ... 34.2(1)
. . income inclusion ... 34.2(5)
. . partners ... 96(1)
. . qualifying fiscal period defined ... 34.2(1)
. . specified percentage defined ... 34.2(1)
. . substituted business ... 34.2(3)
. . where reserve may not be claimed ... 34.2(6)
. guarantees, indemnities ... 12(1)(d.1); 20(7)
. insurance corporations ... Reg. 1400
. . negative policy reserves ... 12(1)(e.1)
. insurers' unpaid claims ... 12.3; Reg. 8100 Reg. 8101
. inventory, creditor ... 79.1(4)
. lending assets ... Reg. 8000
. . principal amount outstanding ... Reg. 8002
. life insurance company, maximum tax actuarial ... 138(12)
. life insurers ... Reg. 1401–1407
. . mean maximum tax actuarial ... Reg. 2405(3)
. limitation on deduction ... 18(1)(e); 20(6)
. negative policy reserve deduction ... 20(22)
. net deduction for adjustments ... 20(26)
. prescribed amount ... Reg. 8000
. previous year's, survey ... 12(1)(h)
. principal amount of loan outstanding
. . disposition ... Reg. 8005
. . election ... Reg. 8003
. . reporting to relevant authority ... Reg. 8005
. prohibited, cash basis ... 20(7)
. property to child, deductions ... 40(1.1); 44(1.1)
. quadrennial survey ... 12(1)(h)
. quadrennial survey of vessels ... 20(1)(o)
. sectoral, defined ... 20(2.3)
. services not rendered ... 12(1)(e); 20(1)(m)
. shareholders, non-resident corporation
. . foreign exchange restriction ... 91(2)
. . preceding year ... 91(3)
. surveys ... Reg. 3600
. . previous years ... 12(1)(h)
. unearned insurance commissions ... 32

Residence — see also Non-residents; Principal residence; Residents
. deemed cessation re non-resident trusts ... 94(5)
. environmental trusts ... 250(7)
. inter vivos trusts ... 250(6.1)
. international shipping corporation ... 250(6)

Residential buildings — see Buildings and structures

Residents
. ceasing to be ... 226(1)–226(2)
. . taxable income ... 115(2)
. corporations as ... 250(4)
. deemed ... 250(1)
. . expenses re child care, tuition fees ... 64.1
. extended meaning of ... 250(1)
. income earned in a province ... Reg. 2601
. individuals residing in more than one province ... Reg. 2607
. liability for tax ... 2(1)
. ordinary resident, defined ... 250(3)
. part-time
. . child tax benefit ... 122.61(3)
. . taxation ... 114
. part-year
. . taxation ... 118.91
. persons abroad ... 250(2)
. regulations ... 214(13)

Resource allowance
. additional
. . mining operations ... Reg. 1209
. . oil and gas wells ... Reg. 1208
. deductions from income ... 20(1)(v.1); Reg. 1200–1218
. definitions related to ... Reg. 1206(1)–Reg. 1206(2)
. depletion base — see Depletion base, earned
. prescribed deductions ... Reg. 1213
. qualified resources, defined ... Reg. 1206(1)

Resource expenses — see also Canadian oil and gas property expenses; Exploration and development expenses
. at-risk amount ... 66.8(3)(a)
. foreign — see Foreign resource expenses
. limited partner's ... 66.8(1)–66.8(2)

Resource losses
. foreign, defined ... 66.21(1)

Resource output
. acquired from Crown ... 69(7); 69(9)
. disposition to Crown ... 69(6); 69(8); 69(10)

Resource profits
. acquisition by joint exploration corporation ... Reg. 1206(4)
. defined ... Reg. 1204

Section

Resource profits — continued
. determination ... Reg. 1204
. partnerships ... Reg. 1206(3)–(9)

Resource property
. acquisition by non-successor ... 66.7(16)
. acquisition expenses
. . change of control of corporation ... 66(11.4); 66(11.5)
. Canadian
. . acquisition by non-successor ... 66.7(16)
. . acquisition from tax-exempt person ... 66.6
. . amalgamation, partnership property ... 66.7(10.1)
. . deceased person's ... 70(5)
. . defined ... 66(15); 248(1)
. . disposition by predecessor owner ... 66.7(14)
. . original owner, defined ... 66(15)
. . predecessor owner, defined ... 66(15)
. . production from, defined ... 66(15)
. . reserve amount of original or predecessor owner, defined ... 66(15)
. . successor rule applicability ... 66.7(6)–66.7(7)
. carved-out income
. . defined ... 209(1)
. . partnerships ... 209(6)
. . payment of tax ... 209(4)
. . provisions of Act applicable to ... 209(5)
. . return ... 209(3)
. . special tax ... 209(2)
. carved-out property, defined ... 209(1)
. deceased person's ... 70(5)
. deceased persons, deemed disposition ... 70(5.2)
. deemed disposition by trust ... 104(5.2)
. disposition, amount receivable
. . involuntary ... 59.1
. . recovery of exploration and development expenses ... 59(3.2)
. disposition by non-residents, purchaser's liability ... 116(5.2); 116(5.3)
. disposition by original owner
. . foreign property ... 66.7(13.1)–(13.2)
. . specified amount re Canadian development expenses ... 66.7(12.1)
. . specified amount re oil and gas property expenses ... 66.7(12.1)
. disposition by predecessor owner
. . Canadian property ... 66.7(14)
. . foreign property ... 66.7(15)–(15.1)
. disposition by trust
. . election ... 104(5.3)
. . revocation of election ... 104(5.31)
. foreign
. . acquisition by non-successor ... 66.7(16)
. . acquisition from tax-exempt person ... 66.6
. . amalgamation, partnership property ... 66.7(10.1)
. . anti-avoidance rule where change of control ... 66.7(11)
. . deceased person's ... 70(5)
. . defined ... 66(15); 248(1)
. . disposition by original owner ... 66.7(13.1)–(13.2)
. . disposition by predecessor owner ... 66.7(15)–(15.1)
. . not eligible for rollover ... 85(1.11)
. . original owner, defined ... 66(15)
. . predecessor owner, defined ... 66(15)
. . proceeds of disposition ... 59(1)
. . production from, defined ... 66(15)
. . seizure exceptions ... 79.1(2.1)
. . successor rule applicability ... 66.7(6)–(8)
. . successor rule where change of control ... 66.7(10)
. involuntary disposition ... 59.1
. non-resident's income from ... 115(4)
. operators' deduction ... Reg. 1201
. resource allowances — see Resource allowance
. royalties — see Royalties
. specified stage, defined ... 208(1.1)

RESP — see Registered education savings plans

Restricted farm losses — see Losses, farm

Restricted financial institutions — see Financial institutions

Restrictive covenants
. allocation of amounts in consideration for ... 68
. anti-avoidance ... 56.4(10)–(11)
. application of provisions ... 56.4(5)–(15)
. bad debts
. . deduction ... 60(f)
. . income inclusion on recovery ... 56(1)(m)
. capital treatment ... 39(1)
. defined ... 56.4(1)
. eligible capital property ... 14(1)
. filing election ... 56.4(9); 56.4(12)
. income from employment ... 6(3.1)
. income inclusion ... 56.4(2)
. income inclusion, exceptions ... 56.4(3)
. non-residents ... 212(1)(i)
. proceeds of disposition ... 54
. related person ... 12(1)(x)
. taxation ... 9(1)
. treatment of purchaser ... 56.4(4)

Section

Retention of records — see Books and records

Retirement compensation arrangement
. amounts paid to acquire interest in ... 214(3)
. amounts received, income ... 12(1)(n.3)
. another person's benefits received
. . joint and several tax liability ... 160.3
. benefits as income ... 56(1)(x)–(z)
. . non-resident's ... 212(1)(j)
. contributions, deemed ... 207.6(4)
. creation of ... 207.6(1)
. deduction disallowed ... 18(1)(o.2)
. deductions from income ... 60(t)
. . contributions to provincial pension plans ... 60(v); 60.02
. . employees' ... 8(1)(m.2)
. . proceeds of disposition of interest in RCA ... 60(u)
. defined ... 248(1)
. disposition of property by ... 56(11)
. employee contribution deductibility ... 8(1)(m.2)
. employer, union ... 252.1
. employer contribution deductibility ... 20(1)(r)
. foreign retirement arrangements — see Foreign retirement arrangements
. incorporated employees ... 207.6(3)
. joint and several tax liability ... 160.3
. life insurance policies under ... 207.6(2)
. non-residents
. . benefits, taxation ... 212(1)(j)
. . superannuation or pension benefits taxation ... 212(13)
. prescribed ... 207.6(6)
. prescribed plans ... Reg. 6802–6802.1
. property distribution ... 107.2
. provisions of Act applicable ... 207.7(4)
. RCA trust, defined ... 207.5(1)
. refundable tax
. . defined ... 207.5(1)
. . election ... 207.5(2)
. refunds ... 207.7(2)
. resident's ... 207.6(5)
. resident's contribution ... 207.6(5.1)
. severability ... 56(10)
. specified retirement arrangements ... Reg. 8308.3
. subject property of ... 207.5(1)
. superannuation or pension benefits to non-residents ... 212(13)
. tax payable ... 207.7(1)
. tax payment ... 207.7(3)
. transfers between plans ... 207.6(7)
. withholding tax ... 153(1)(p)–(r); 227(8.2)

Retirement income fund — see Registered retirement income fund

Retirement savings plans — see Registered retirement savings plans

Retiring allowance
. deduction on repayment ... 60(n)
. defined ... 248(1)
. included in income ... 56(1)(a)(ii)
. income-averaging annuity ... 61(2)
. . deductions ... 61(1)
. non-residents receiving, taxation ... 212(1)(j.1)
. single payment
. . 1971–1974 ... A.R. 40
. transferred, deductions ... 60(j.1)
. withholding payment of tax ... 153(1)(c)

Returns — see also Information returns
. amended ... 152(6)
. bankrupt taxpayer ... 128(2)(e)
. capital tax ... 190.2
. carved-out income and property ... 209(3)
. child tax benefit ... 122.6
. corporations
. . due date ... 150(1)(a)
. . if paying dividends ... 185.2(1)
. . penalty for late filing ... 235
. . refundable tax, qualifying shares ... 193(1)
. . refundable tax, scientific research tax credit ... 195(1)
. cumulative offset account ... 196(2)
. deceased persons'
. . due date ... 150(1)(b)
. . election ... 70(2)
. . election revocation ... 70(4)
. . partners and proprietors ... 150(4)
. . separate, for assets with income value ... 70(2)
. deferred income plans
. . penalty tax ... 207.2(1)
. deferred profit sharing plan
. . excess contributions ... 204.3
. demands for ... 150(2)
. designated income of a trust ... 210.2(5)
. designated persons, due date ... 150(1)(e)
. electronic filing ... 150.1; 162(7.2)
. employee with employer re withholding tax ... 227(2); 227(3); Reg. 107
. estates and trusts
. . due date ... 150(1)(c)

Section

Returns
. estates and trusts — continued
. . trusts arising on death ... 104(23)
. estimate of tax in ... 151
. examination by Minister ... 152(1)
. . incorrect assessment ... 152(3)
. exempt persons
. . royalties ... 208(2)
. extension of time ... 220(3)
. failure to comply with regulations ... 162(7)
. failure to file ... 162(1); 238(1)
. . effect of subsequent events ... 162(11)
. . maximum penalty ... 162(3)–162(4)
. . non-resident corporations ... 162(2.1)
. . repeated penalties ... 162(2)
. . TD 1 form ... 227(3)
. . willful ... 163(1)
. failure to provide information ... 162(5)
. . business number ... 162(6)
. . foreign based information ... 162(10)–(10.3)
. . SIN ... 162(6)
. failure to report amount ... 163(1)
. false statement or omission ... 163(2); 163(2.2); 163(2.3); 239(1)
. . burden of proof ... 163(3)
. . effect of carryback of losses ... 163(4)
. . foreign reporting requirements ... 163(2.4); 163(2.5); 163(2.6); 163(2.7)–(2.9); 233.5
. . renunciation of resource expenses ... 163(2.21); 163(2.22)
. filing ... 150(1)
. . deferred profit sharing plans ... 202(1)
. . exemptions ... 150(1.1)
. . extension of time ... 220(3)
. . individuals ... 150(1)(d)
. . non-residents, by ... 216–217
. . private corporation receiving taxable dividends ... 187(1)
. . proof of failure to comply ... 244(7)
. . SIN or business number requirement ... 237
. financial institutions ... 181.6; 190.2
. foreign based information, failure to provide ... 162(10)–(10.3)
. foreign reporting rules
. . due diligence exception ... 233.5
. . non-resident trusts ... 233.6
. information returns
. . failure to file ... 162(7.02)
. . late filing penalty ... 162(7.01)
. . partnership, failure to make ... 162(7.1)
. . penalty ... 162(8)
. international banking centre business ... 33.1(12)
. labour-sponsored venture capital corporations ... 204.86
. large corporations ... 181.6
. life insurer's
. . investment income ... 211.2
. non-residents
. . authorized foreign banks ... Reg. 801
. . insurance corporations ... Reg. 801
. notice of assessment ... 152(2)
. old age security clawback ... 180.2(5)
. omissions ... 163(2)
. . interpretation ... 163(2.1)
. Part XII.6 tax ... 211.91(2)
. partnership information, failure to make ... 162(8); 162(8.1)
. principal residence, election ... Reg. 2300–2301
. proof of filing ... 244(21)
. reassessment
. . disallowed ... 152(5)
. refundable corporate tax
. . qualifying shares ... 193(1)
. . scientific research tax credit ... 195(1)
. registered charity
. . exception ... 150(1.1)
. . requirement ... 189(6)
. . revocation tax ... 189(6.1)
. registered disability savings plans ... 207(1)
. registered investments ... 204.7(1)–(3)
. . trustee's liability ... 204.7(2)
. RESP ... 204.92
. RRSPs
. . excess contributions ... 204.3
. . issuer's annual return ... Reg. 214.1
. separate
. . credits, re ... 118.93
. shares acquisition ... 183.2(1)
. SIFT partnerships ... 197(4)–(6)
. SIN requirement ... Reg. 3800
. stock option deferral ... 7(16)
. tax-free savings accounts ... 207.07(1)
. tax imposed re renounced share look-back rule ... 211.91(2)
. tobacco manufacturers' surtax ... 183(1)
. trustees, agents, etc., to file ... 150(3)
. trusts — see Trusts
. understatement ... 163(2)
. . interpretation ... 163(2.1)

Section

Revenue
. gross
. . defined ... 248(1); Reg. 402(5)
. . partnership income ... Reg. 402(6)
. gross investment
. . defined ... 138(12)
. . insurance corporations ... 138(12)

Reversionary trusts
. attribution rules ... 75(2)

Revised Income Tax Act
. transitional provisions ... A.R. 69; A.R. 72–79

RHOSP — see Registered home ownership savings plans

Riders
. life insurance policies ... 12.2(10)

Rights or things
. deceased persons'
. . exceptions re transfer ... 70(3.1)
. . transfer to beneficiaries ... 70(3)
. government rights
. . non-arm's length acquisition ... A.R. 21(2.1)
. government rights, defined ... A.R. 21(3)
. to income, transfer ... 56(4)
. original rights, defined ... A.R. 21(3)
. specified rights, defined ... A.R. 21(3)

River improvements
. CCA rate ... Reg. 1102(7)

Roads
. CCA rate ... Reg. Sch. II, Class 1, 17

Rollovers
. amalgamated corporations ... 87
. capital cost
. . apprentice mechanic's tools ... 85(5.1)
. . depreciable property ... 85(5)
. . tradesperson's tools ... 85(5.1)
. capital reorganization ... 86
. debt acquired by financial institution ... 142.6(5)–142.6(6)
. election
. . by beneficiary ... 107(2.002)
. . transfer of property to corporation ... 85(6)–(9)
. . by trust ... 107(2.001)
. eligible property
. . defined ... 85(1.1)
. . exception re foreign resource property ... 85(1.11)
. farming and fishing property
. . on death ... 70(9)–(9.8)
. . inter vivos transfers ... 73(3)–(6)
. foreign affiliates
. . disposition of excluded property ... 95(2)(e.3)–(e.6)
. . dissolution or liquidation ... 95(2)(e.1)
. foreign bank branches ... 142.7(3)–(4)
. foreign spin-off ... 86.1(1)
. . cost adjustments ... 86.1(3)
. . election ... 86.1(2)
. . election deemed to be filed ... 95(2)(g.2)
. . eligible distribution ... 86.1(2)
. . inventory valuation ... 86.1(4)
. no eligible capital property election ... 14(1.03)
. paid-up capital computation ... 85(2.1)
. real property ... 85(1.2)
. share for share exchange ... 85.1
. transfer to spouse ... 73(1)–(2)
. transfers to corporation by shareholder ... 85(1)
. winding up of subsidiary ... 88

Royal Canadian Mounted Police — see also Police officers
. communication of information ... 241(9)–(9.1)
. information laid under Act ... 244(1)
. pension exemption ... 81(1)(i)

Royalties
. accrual in case of deceased persons ... 70(1)
. deductions ... 18(1)(m)
. included as income ... 12(1)(o)
. non-Crown
. . deduction ... Reg. 3900(2)
. . defined ... Reg. 3900(1)
. non-deductible ... 18(1)(m)
. non-residents
. . copyright ... 212(1)(d)
. . information return ... Reg. 202(1)
. not interest income
. . timber ... 212(1)(e)
. refunds ... 12(1)(x.2)
. reimbursement of Crown charges ... 80.2
. tax payable by exempt person ... 208

RPP — see Registered pension plans

RRIF — see Registered retirement income fund

RRSP — see Registered retirement savings plans

S

Safe-income
. determination ... 55(2)
. determination time, defined ... 55(1)

Section

Salary and wages — see also Remuneration
. accrual in case of deceased persons ... 70(1)
. average wage, defined re RPP ... 147.1(1)
. central paymaster ... Reg. 402.1
. collection, legal expenses ... 8(1)(b)
. deferred amounts — see Salary deferral arrangements
. defined ... 248(1)
. . manufacturing and processing ... Reg. 5202
. paid to another employer's employee ... Reg. 402.1
. payments by employer to employee, deemed ... 6(3)
. reimbursement, deductions ... 8(1)(n)
. unpaid ... 78(3)
. . corporation winding-up ... 78(4)
. wage measures, defined re RPP ... 147.1(1)
. withholding tax ... 153(1)(a)

Salary deferral arrangements
. amounts paid by employer under, deduction ... 20(1)(pp)
. benefits received from separate arrangements ... 6(14)
. deferred amounts
. . additional ... 6(12)
. . benefits as income ... 6(1)(i)
. . computation ... 6(1)(i); 6(11) (14)
. . computation of amounts received for another person ... 56(1)(w)
. . deemed ... 6(11)
. . defined ... 248(1)
. . forfeited, deductions ... 8(1)(o)
. . non-resident's limitation ... 6(13)
. defined ... 248(1)
. expenses
. . deductions allowed for non-residents ... 20(1)(oo)
. . deductions disallowed ... 18(1)(o.1)
. features of ... Reg. 6801
. forfeited amounts ... 12(1)(n.2)
. non-resident employees ... 6(13)
. prescribed plan ... Reg. 6801

Sales agreement — see Purchase-sale agreements

Salespeople and vendors
. automobiles standby charges ... 6(2.1)
. deductible expenses ... 8(1)(f)
. . interest on borrowed money to buy car or aircraft ... 8(1)(j)

Same-sex marriage — see also Spouses or common-law partners
. religious charity's rights ... 149.1(6.21)

Savings and credit unions — see Credit unions

Scholarships, fellowships and bursaries — see also Grants and subsidies
. exemption ... 56(3)
. income inclusion ... 56(1)(n)
. information return ... Reg. 200(2)(a)
. research grants ... 56(1)(o)

Schooling allowance
. provincial, tax reduction ... 120(2)

Scientific research and experimental development
. alternative expenditure calculation, election ... 37(10)
. amalgamated corporations' expenses ... 87(2)(l)
. associated corporations ... 37(9.2)–(9.5)
. capital cost allowance ... 37(6)
. . control acquired before end of year ... 37(6.1)
. charitable donations ... 37(5)
. deductions ... 12(1)(v); 37; Reg. 2900
. defined ... 248(1)
. exemptions ... 149(1)(j); 149(2)
. expenditure calculation ... 37(8)
. . specified employee, salary or wages ... 37(9)
. expense deduction ... 37
. . acquiring rights ... 37(4)
. . control acquired by a person or group before end of year ... 37(6.1)
. . deemed time of ... 37(1.2)
. . exclusive economic zone ... 37(1.3)
. . limitation ... 37(3)
. . outside Canada ... 37(2); Reg. 2900
. . salary and wages outside Canada ... 37(1.4)–37(1.5)
. . specified employees ... 37(9.1)–37(9.5)
. grants as income ... 56(1)(o)
. incentives ... 37(1)
. interest on amount in default ... 195(4)
. investment tax credit
. . deduction ... 127(5)
. . first term shared-use equipment ... 127(9)
. . qualified expenditure pool ... 127(9)
. . recapture ... 127(27)–(36)
. . second term shared-use equipment ... 127(9)
. . transfer of qualified expenditure ... 127(13)–(17)
. Minister obtaining advice ... 37(3)
. non-profit corporation
. . control by ... 149(8)
. . exemptions ... 149(1)(j)
. . income rules ... 149(9)
. Part VIII refund, defined ... 248(1)

Section

Scientific research and experimental development — continued
. payments
. . interest on amount in default ... 195(4)
. prescribed expenditures ... Reg. 2901
. prescribed proxy amount ... 37(8)
. qualified expenditures ... Reg. 2902
. reclassified expenditures ... 37(12)
. refundable Part VIII tax on hand ... 248(1)
. refundable tax — see Refundable tax, scientific research
. reporting requirement ... 37(11)
. special-purpose buildings ... Reg. 2903
. specified employee
. . allocation of amount ... 37(9.3)
. . deemed corporations ... 37(9.5)
. . limitation ... 37(9.1); 37(9.4)
. . salary or wages ... 37(9.2)
. tax credit
. . calculation of consideration ... 127.3(10)
. . co-operative corporations ... 127.3(5)
. . deductions ... 127.3
. . defined ... 127.3(2); 248(1)
. . election re first holder ... 127.3(9)
. . information return ... Reg. 226
. . no waiver of filing requirements ... 220(2.2)
. . partnerships ... 127.3(4); 127.3(7)
. . tax otherwise payable ... 127.3(8)
. . trusts ... 127.3(3); 127.3(3.1)
. . unused ... 39(8); 127.3(2); 248(1)
. work considered scientific research and experimental development ... 37(13)

Scow
. CCA rate ... Reg. Sch. II, Class 7

Search — see Investigation and search

Securities — see also Bonds and debentures; Debt obligations; Shares
. Canadian
. . defined ... 39(6)
. . election re disposition ... 39(4); 39(5)
. capital gains or losses ... 39(4)
. . limitations ... 39(4); 39(5)
. charitable donation of ... 38(a.1); 38.1
. convertible ... 51
. dealers — see Securities dealers
. defined ... 122.1(1); Reg. 226; Reg. 230
. designated, defined ... Reg. 226
. discharge for taxes ... Reg. 2200
. disposition
. . capital gains or loss ... 39(4)
. . election ... 39(4)
. . limitation ... 39(5)
. held by financial institutions — see Financial institutions
. indexed — see Indexed security investment plans
. information return ... Reg. 230
. lending arrangement — see Securities lending arrangement
. mark-to-market — see Mark-to-market property
. members of partnership
. . owned and disposed by partners ... 39(4.1)
. non-resident person, received in respect of debt ... 214(4); 214(5)
. options — see Options
. prescribed
. . conditions ... Reg. 6201(1) (8)
. . defined ... Reg. 6200
. . obligations converted or exchanged as ... Reg. 6208
. public market, defined ... 122.1(1); 248(1)
. publicly traded
. . charitable donation of ... 38(a.1); 38.1
. . corporations, list of ... Reg. Sch. VII
. . defined ... Reg. 230
. . prescribed ... Reg. 4400
. . Valuation Day value ... A.R. 26(11); Reg. Sch. VII
. qualified investments ... Reg. 4900
. satisfaction of income debt ... 76
. traders — see Securities dealers
. withholding tax, unclaimed dividends, interest and proceeds ... Reg. 108(4)

Securities dealers
. registered
. . defined ... 248(1)
. . tax re payments to non-residents ... 212(19)–212(20)
. trader or dealer in securities, defined ... Reg. 226; Reg. 230

Securities lending arrangement
. dealer compensation payment ... 260(1)
. deductibility of compensation amount ... 260(6)
. deductibility of dividends ... 260(6.1)
. deemed compensation payments ... 18(1)(w); 260(5)–(5.1)
. deemed fee for borrowed security ... 260(8.1)
. defined ... 248(1); 260(1)
. dividend refund ... 260(7)

Section

Securities lending arrangement — continued
. effect for tax treaties 260(8.2)
. eligible dividend 260(1.1)
. interest paid to non-resident 212(19)–212(20)
. non-arm's length compensation payment 260(10)
. non-deductibility of compensation payments 18(1)(w)
. non-resident withholding tax 260(8)
. qualified securities 260(1)
. qualified trust unit 260(1)
. securities distribution 260(1)
. shares acquired by restricted financial institutions 260(9)
. SLA compensation payment 260(1)
. transfer or loan 260(2)–(4)
. underlying payment 260(1)

Security for payment of tax
. departure tax 220(4.5)–(4.54)
. deposit insurance corporation 220(4.3)–(4.4)
. distributions to non-resident beneficiaries 220.2
. emigration 220(4.5)–(4.54)
. general 220(4)
. limit 220(4.71)
. surrender 220(4.1)
. surrender of excess security 220(4.2)
. tax deemed not to be assessed 152(10)
. taxpayer leaving Canada 220.1
. undue hardship 220(4.7)–(4.71)

Security interest
. defined 224(1.3)
. prescribed, defined Reg. 2201

Segregated funds — see Life insurance corporations

Seismic data
. limitation on renunciation 66(12.6)

Seizure of documents, etc. — see Investigation and search

Seizure of property
. bad, doubtful and impaired debts 79.1(8)
. creditors 79.1
. . adjustment 79.1(5)
. . capital gains reserves 79.1(3)
. . cost to creditor 79.1(6)
. . creditor defined 79.1(1)
. . debt defined 79.1(1)
. . inventory reserves 79.1(4)
. . person defined 79.1(1)
. . property defined 79.1(1)
. . specified amount defined 79.1(1)
. . specified cost defined 79.1(1)
. . treatment of debt 79.1(7)
. exception re foreign resource property 79.1(2.1)
. seizure defined 79.1(2)
. taxpayer leaving Canada 226
. unpaid tax 225
. . exemptions from seizure 225(5)
. . sale, notice of 225(3)
. . sale of chattels by auction 225(2)
. . surplus resulting from sale of chattels 225(4)

Self-contained domestic establishment
. defined 248(1)

Separation agreement
. defined 248(1)
. support payments — see Support payments

Separation allowances
. armed forces 6(1)(b)(ii)

Service connection cost
. deductibility 20(1)(ee)

Services
. non-residents, taxation 212(1)(d)
. not rendered
. . business income 12(1)(a)
. . deduction 20(1)(m)
. . interpretation 12(2)
. . reserves 12(1)(e)
. personal service — see Personal services business
. rendered, business income 12(1)(b); 12(2)

Set-off — see Tax collection

Settlor
. defined 17(15); 108(1)

Share purchase tax credit
. calculation of consideration 127.2(11)
. co-operative corporations 127.2(5)
. deductions 127.2
. deemed cost of acquisition 127.2(8)
. defined 127.2(6); 248(1)
. election re first holder 127.2(10)
. exempt persons 127.2(2)
. information return Reg. 227
. partnerships 127.2(4)
. partnership's fiscal period 127.2(9)
. refundable tax — see Refundable tax, share-purchase
. tax otherwise payable 127.2(7)

Section

Share purchase tax credit — continued
. trusts 127.2(3)
. . exempt 127.2(3.1)
. unused, defined 127.2(6); 248(1)

Shareholder corporation
. defined 66(15)

Shareholders
. amalgamated corporation 87(4)
. appropriations on winding-up 84(2)
. automobile benefits, information return Reg. 200(4)
. automobile provided by corporation 15(5)
. benefits conferred on
. . by corporation 15(1); 15(7)
. . goods and services tax 15(1.3)
. books and records retention re meetings Reg. 5800(1)
. capital dividends 83(2)
. computation of income
. . appropriations on winding-up 84(2)
. . automobile benefit 15(5)
. . benefits conferred on by corporation 15(1); 15(7)
. . corporate loans 15(2)
. . deemed benefit by corporation 15(9)
. . stock dividends received 15(1.1)
. connected, defined Reg. 4901
. cost of property received as dividend in kind 52(2)
. cost of stock dividend 52(3)
. counting, method 130.1(7)
. defined 248(1)
. designated, defined Reg. 4901
. disposing of shares to corporation 86(1); 86(2)
. . deemed on redemption, cancellation, etc. 84(9)
. distribution of property to, under fair value 69(4)
. . on winding-up 69(5)
. dividend out of tax-paid undistributed surplus 83(1)
. exchange of shares on reorganization 86(1)
. . of capital 86(2)
. . foreign spin-off 86.1
. foreign affiliate, deductions 113
. foreign affiliate's assets acquired as benefit 80.1(4)
. loans
. . forgiveness 15(1.2); 15(1.21)
. loans by corporation 15(2)
. . deduction on repayment 20(1)(j)
. . deemed benefit 80.4(2); 80.5
. . deemed specified employee 15(2.7)
. . exception re benefits 80.4(3)
. . exception re certain employees 15(2.4)
. . exception re certain trusts 15(2.5)
. . exception where loan in ordinary course of business 15(2.3)
. . exception where repayment within one year 15(2.6)
. . non-resident to non-resident 15(2.2)
. . persons connected with 15(2.1); 80.4(8)
. loans to corporation 20(3.1)
. meetings, books and records retention Reg. 5800(1)
. mines, oil or gas wells, allowance 65(2)
. non-resident
. . repayment of shareholder loan 227(6.1); 227(7.1)
. non-resident corporation's 90–95
. . adjusted cost base 92
. . computation of income 91
. . election, disposition of share in foreign affiliate 93
. . foreign accrual property income 95(1)
. . foreign exchange restriction reserve 91(2)
. . interest on loans to residents, deduction limitations 18(4)–(6)
. . preceding year reserve 91(3)
. . thin capitalization rules 18(4)–(6)
. partnerships, loans to 15(7)
. persons connected with, loans 15(2.1); 80.4(8)
. specified
. . deemed to be related 55(5)(e)
. . defined 18(5); 55(3.3); 248(1)
. . exclusion 55(3.4)
. . person deemed not to be 18(5.1)
. specified non-resident, defined 18(5)
. stock dividends received from corporation 15(1.1)
. substantial interest in corporation 191(2); 191(3)
. transfer of property to controlled corporation
. . rollover rules 85(1)
. winding-up of Canadian corporation 88(2)

Shares — see also Securities
. acquisition
. . corporate distribution tax 183.1(4)
. . deemed cost 127.2(8)
. . by deferred income plan, penalty tax 207.1(5)
. acquisition tax
. . provisions applicable 183.2(2)
. . returns 183.2(1)
. adjusted cost base — see Adjusted cost base
. amalgamated corporations' 87(1.1)

Section

Shares — continued
. annual rate of return average 110.6(9)
. approved
. . defined 127.4(1)
. . net cost 127.4(1)
. . prescribed labour-sponsored venture capital corporations Reg. 6701
. bankrupt corporation's
. . deemed disposition 50(1.1)
. . loss 50(1)
. block of, defined Reg. 4803(1)
. capital stock of family farm corporation
. . defined 70(10); 110.6(1)
. . value of assets 110.6(15)
. capital stock of family fishing corporation
. . defined 70(10); 110.6(1)
. class of 248(6)
. common, defined 248(1)
. conversion of, with undistributed income deemed dividend 84(3)
. corporate distribution tax 183.1(4)
. cost of subsidiary's 52(7)
. deemed exercise of rights to acquire shares 256(8)
. deemed interest on 258(5)
. deemed to be capital property 54.2
. defined 248(1)
. disposed foreign affiliate, proceeds 88(3)
. disposition
. . to corporation on redemption, cancellation, etc. 84(9)
. . decrease in value of property 46(4)
. . deemed 55(2)–55(3)
. . by deferred plans 147(10.4)
. . small business corporation becoming public 48.1
. . small business investment 44.1
. . stop-loss rules 112(3)–(3.32)
. distress preferred 80(1)
. . debt forgiveness rules 80.02
. . deemed settlement of debt 80.01(1)
. . deemed settlement on expiry 80.02(7)
. . substitution 80.02(3)–(6)
. distribution
. . adjusted cost base 86(4)
. . prescribed re foreign spin-off Reg. 5600
. employee shares returned to issuer 8(12)
. employee stock options
. . adjusted cost base 53(1)(j)
. . capital gains 49(1)–(4)
. . CCPC 7(1.1)
. . ceasing to be exercisable 7(1.7)
. . charitable donation 110(1)(d.01); 110(2.1)
. . deductions from income 110(1)(d); 110(1)(d.1)
. . deferral of taxation 7(8)–(16)
. . disposition within 30 days 7(1.31)
. . election re deferral 7(10)–(14)
. . emigration 7(1.6)
. . exchange of options 7(1.4)–(1.5)
. . filing requirements 7(16)
. . information returns Reg. 200(5)
. . look through rules 7(2)
. . not identical property 47(3)
. . order of disposition 7(1.3)
. . qualifying person, defined 7(7)
. . security, defined 7(7)
. . taxation of 7(1)
. . termination of employment 7(4)
. . trustee holding 7(2); 7(6)
. . withholding tax 7(15)
. equity, defined 204; Reg. 4803(1)
. exchange of
. . computation of paid-up capital 85.1(2.1)
. . between foreign affiliates 85.1(3)
. . . exception 85.1(4)
. . foreign shares 85.1(5)–85.1(6)
. . former resident 128.3
. . losses 112(7)
. . for shares owned Dec. 31, 1971 A.R. 26(26)
. . for SIFT units 85.1(7)–85.1(8)
. . terms and conditions 87(4.1)–(4.3); A.R. 26(26)
. exchange of, tax deferred 85.1
. excluded, defined 204
. exempt
. . defined 112(2.6)
. expenditure limitation 143.3(3)
. expenses of issuing or selling 20(1)(e)
. exploration and development 66.3(1)
. . deductions from paid-up capital 66.3(2)
. fair market value
. . family farm corporation 70(10)
. . shares of deceased person 70(5.3)
. . under stock options 110(1.5)–(1.6)
. financial institutions, held by 142.2–142.6
. . ceasing to be or becoming financial institution 142.6(1)
. . deemed disposition rule, exception 142.6(2)
. . excluded property 142.2(1); 152(6.2); Reg. 9001–9002.1

Section

Shares
. financial institutions, held by — continued
. . financial institution, defined ... 142.2(1)
. . investment dealer defined ... 142.2(1)
. . mark-to-market property ... 142.5
. . . defined ... 142.2(1)
. . prescribed entities and securities ... Reg. 9000–9004
. . property ceasing to be inventory ... 142.6(4)
. . property not inventory ... 142.6(3)
. . significant interest ... 142.2(2)–(4); Reg. 9003
. . specified debt obligation defined ... 142.2(1)
. flow-through — see Shares, flow-through
. foreign affiliates — see Foreign affiliates
. foreign spin-off
. . adjusted cost base ... 86.1(3)
. grandfathered, defined ... 248(1)
. guaranteed, deemed dividends ... 84(4.3)
. interest on loan to purchase, deduction ... 20(1)(qq)
. issued to avoid tax ... 95(6)
. issuer, defined ... 112(2.6)
. listing fees, deductibility ... 20(1)(g)
. loss on disposition, determination ... 40(2)(h)
. non-arm's length transactions ... 84.1
. . addition to paid-up capital ... 84.1(3)
. . non-residents, by ... 212.1
. non-participating, defined ... 204
. options — see Options
. ownership, books and records retention ... Reg. 5800(1)
. paid-up capital value ... 204
. . computation ... 84.2
. parent corporation's on merger ... 87(9)
. participating percentage of ... 95(1)
. predecessor corporation, of ... 87(4) 87(5)
. preferred — see Shares, preferred
. publicly traded
. . charitable donation of ... 38(a.1); 38.1
. . corporations, list of ... Reg. Sch. VII
. . defined ... Reg. 230
. . prescribed ... Reg. 4400
. . unlisted shares deemed listed ... 55(6)
. . Valuation Day value ... A.R. 26(11); Reg. Sch. VII
. qualified investments ... Reg. 4900
. qualified small business corporation's
. . capital gains deduction ... 110.6(2.1)
. . defined ... 110.6(1)
. . personal trust ... 110.6(16)
. . related persons, etc. ... 110.6(14)
. . transition year ... 110.6(2.3)
. . value of assets ... 110.6(15)
. qualifying, defined ... Reg. 4901
. qualifying for refundable tax
. . amount not designated ... 194(4.2)
. . application ... 192(1)
. . defined ... 192(6); 248(1)
. . obligation to acquire, effect of ... 192(7)
. . returns ... 193(1)
. received for convertible securities ... 51
. . reduction in paid-up capital ... 51(3)
. received on amalgamation ... A.R. 26(21)
. redemption, undistributed income used for ... 84(3)
. reorganization of capital ... 86
. . foreign spin-off ... 86.1
. sale by non-residents, non-arm's length ... 212.1
. series of ... 248(6)
. short-term preferred, defined ... 248(1)
. specified class ... 256(1.1)
. stop-loss rules — see Stop-loss rules
. subsidiary's, cost of ... 52(7)
. tax deferred cooperative shares — see Agricultural cooperative corporations
. tax-deferred preferred series ... Reg. 2107
. . on amalgamation ... 83(7)
. . qualifying dividends ... 83(1)
. taxable preferred — see Shares, taxable preferred
. taxable RFI
. . defined ... 248(1)
. . dividends — see Dividends
. . information return ... 187.5
. . tax on dividends ... 187.3(1)
. . time of acquisition ... 187.3(2)
. transfer expenses ... 20(1)(g)
. undepreciated capital cost ... 13(27)(f)
. unlisted shares deemed listed ... 55(6)
. unused share purchase tax credit ... 39(7)

Shares, flow-through
. amalgamated corporations ... 87(4.4)
. cost of ... 66.3(3)
. defined ... 66(15); 248(1)
. information return re amount renounced ... Reg. 228
. interest ... 161(6.2)
. look-back rule, tax imposed ... 211.91
. mining expenditure ITC ... 127(9)
. paid-up capital computation ... 66.3(4)
. Part XII.6 tax deductible ... 20(1)(nn)
. renunciation
. . expenses in first 60 days of year ... 66(12.66)

Section

Shares, flow-through
. renunciation — continued
. . late filing of documents
. . . penalty ... 66(12.741)
. . look-back rule ... 66(12.66)
. . oil and gas property expenses ... 66(12.7001)
. renunciation of Canadian development expenses ... 66(12.73)
. . effects ... 66(12.63)
. . failure to file ... 66(12.7001); 66(12.702)
. . filing re assistance ... 66(12.701)
. . filing requirements ... 66(12.68)–(12.702)
. . late filing of documents ... 66(12.74); 66(12.75)
. . restrictions ... 66(12.62); 66(12.67); 66(12.7); 66(12.71)
. renunciation of Canadian exploration expenses ... 66(12.6); 66(12.73)
. . effects ... 66(12.61)
. . failure to file ... 66(12.7001); 66(12.702)
. . filing re assistance ... 66(12.701)
. . filing requirements ... 66(12.68)–(12.702)
. . late filing of documents ... 66(12.74); 66(12.75)
. . restrictions ... 66(12.67); 66(12.7); 66(12.71)
. seismic data costs ... 66(12.6)
. tax imposed re look-back rule ... 211.91

Shares, preferred — see also Shares, taxable preferred; Shares, term-preferred
. defined ... 248(1)
. taxation ... 87(4)

Shares, prescribed
. acquired as consideration for disposition of property ... Reg. 6203(1)
. acquiring corporation's ... Reg. 6207
. conditions ... Reg. 6201(1)–(8); Reg. 6202(1)
. deemed acquired ... Reg. 6201(11)
. deemed disposed before acquisition ... Reg. 6201(9)
. designated amount deemed received by taxpayer ... Reg. 6201(10)
. dividend entitlement ... Reg. 6203(2)
. . amount deemed not limited ... Reg. 6204(2)
. . amount limitation ... Reg. 6204(1)
. . specified person ... Reg. 6204(3)
. lending assets ... Reg. 6209
. limitations ... Reg. 6202(1)–Reg. 6202(2); Reg. 6205
. new shares
. . conditions ... Reg. 6202.1(1)–Reg. 6202.1(2)
. . defined ... Reg. 6202.1(5)
. . dividend entitlement ... Reg. 6202.1(3)
. . excluded obligations, defined ... Reg. 6202.1(4)
. . specified person, defined ... Reg. 6202.1(5)
. Reed Stenhouse Companies Limited special shares ... Reg. 6206
. specified person
. . defined ... Reg. 6203(3)
. . dividend entitlement ... Reg. 6204(3)

Shares, taxable preferred
. agreement re tax liability ... 191.3(1)–(6)
. assessment of tax ... 191.2(3); 191.3(3)
. assessment of transferor corporation ... 191.3(5)
. associated corporations' dividends ... 191.1(3)
. deemed dividends ... 191(4); 191(5)
. defined ... 248(1)
. dividends — see Dividends
. election re tax payable ... 191.2(1)
. failure to file agreement re associated corporations ... 191.1(5)
. information return ... 187.5; 191.4(1)
. payment by transferor corporation ... 191.3(6)
. provisions of Part I applicable ... 187.6; 191.4(2)
. substantial interest of shareholders ... 191(2); 191(3)
. tax on dividends ... 187.2
. tax on dividends issued by restricted financial institutions ... 187.3(1)
. time of acquisition ... 187.3(2)
. transfer of liability to related corporation, restrictions ... 191.3(4)

Shares, term-preferred
. deemed dividend ... 84(4.2); 258(2)
. deemed interest ... 258(3)
. deemed interest, exception ... 258(4)
. defined ... 248(1)

Ships and vessels
. allocable income for the year ... Reg. 410(2)
. capital cost allowance ... 13(13)–(20)
. CCA rate
. . Canadian vessels ... Reg. 1100(1)(v)
. . under construction ... Reg. Sch. II, Class 7
. . fishing vessels ... Reg. 1100(1)(i); Reg. 1101(2)
. . offshore drilling vessels ... Reg. 1100(1)(va); Reg. 1101(2b)
. . resource extraction ... Reg. Sch. II, Class 41
. . rowboat ... Reg. Sch. II, Class 7
. . separate classes ... Reg. 1101(2a); Reg. Sch. II, Class 7
. . structured financing facility ... Reg. 1101(2c)
. conversion, defined ... 13(21)

Section

Ships and vessels — continued
. conversion costs ... 13(14); 13(17)
. . defined ... 13(21)
. defined ... 13(21)
. dispositions ... 13(15)
. . deposits, CVCA Act ... 13(19); 13(20)
. . election ... 13(16)
. income earned in the year in a province by operators ... Reg. 410(1)
. non-residents, reciprocal tax exemption ... 81(1)(c)
. port-call-tonnage ... Reg. 410(2)
. quadrennial surveys
. . deductions ... 20(1)(o)
. . defined ... Reg. 3600
. . previous years ... 20(1)(m)
. . reserves ... 20(1)(h)
. reassessment of deductible costs ... 13(18)
. recapture of depreciation ... 13(13)
. residence of international shipping corporation ... 250(6)
. undepreciated capital cost ... 13(27)(h)

Sickness and accident insurance plans
. benefits taxable ... 6(1)(f)

Sidewalks
. CCA rate ... Reg. Sch. II, Class 1, 17

SIFT partnerships
. application of provisions ... 197(3); 197(6)
. assessment ... 197(6)
. balance-due day ... 248(1)
. Canadian resident partnership
. . defined ... 248(1)
. . taxation year ... 248(1)(d)
. deemed dividend
. . deeming provision ... 96(1.11)
. . eligible dividend ... 89(1)
. . foreign tax credit ... 126(8)
. defined ... 197(1); 197(8); 248(1)
. equity value, defined ... 122.1(1)
. information return ... Reg. 229
. investment, defined ... 122.1(1)
. net corporate income tax rate ... 248(1)
. non-portfolio earnings
. . defined ... 197(1)
. . taxable, defined ... 197(1)
. non-portfolio property, defined ... 122.1(1)
. objections and appeals ... 197(6)
. payments ... 197(6)–(7)
. provincial SIFT tax rate
. . defined ... 248(1)
. . prescribed amount ... Reg. 414(3)
. returns ... 197(4)–(6)
. security, defined ... 122.1(1)
. subject entity, defined ... 122.1(1)
. tax on partnership income ... 197(2)
. taxable SIFT distributions ... Reg. 414
. winding-up
. . deemed settlement ... 80.01(5.1)
. . exchange for shares ... 85.1(7)–85.1(8)
. . SIFT wind-up corporations ... 87(2)(s.1); 248(1)
. . SIFT wind-up entity, defined ... 248(1)
. . SIFT wind-up entity equity, defined ... 248(1)
. . tax consequences ... 88.1

SIFT trusts
. adjusted cost base deduction ... 53(2)(h)(i.1)
. deductions from income ... 104(6)(b)(iv)
. deemed dividend ... 89(1); 104(16)
. defined ... 122.1(1)–122.1(2)
. distributions
. . non-deductible amount ... 104(16); 122(3)
. . taxable ... 122(3); Reg. 414
. equity value, defined ... 122.1(1)
. income for provincial tax ... 120(3)(d); Reg. 2608
. investment, defined ... 122.1(1)
. net corporate income tax rate ... 248(1)
. non-portfolio earnings, defined ... 122.1(1)
. non-portfolio property, defined ... 122.1(1); 248(1)
. real or immovable property
. . defined ... 122.1(1)
. . rent from, defined ... 122.1(1)
. security, defined ... 122.1(1)
. subject entity, defined ... 122.1(1)
. tax payable
. . calculation ... 122(1)
. . negative amounts ... 122(1.01)
. . provincial SIFT tax rate ... 248(1); Reg. 414
. winding-up
. . deemed settlement ... 80.01(5.1)
. . distributions of property ... 107(3); 107(3.1)
. . exchange for shares ... 85.1(7) 85.1(8)
. . SIFT wind-up corporations ... 87(2)(s.1); 248(1)
. . SIFT wind-up entity, defined ... 248(1)
. . SIFT wind-up entity equity, defined ... 248(1)
. . SIFT wind-up trust event, defined ... 248(1)
. . tax consequences ... 88.1

Simultaneous dividends — see Dividends

Single payments — see Payments, lump-sum

Section

Sinking fund
. allowable deduction ... 18(1)(e)

Sister and sister-in-law
. defined ... 252(2)

Sleigh
. CCA rate ... Reg. Sch. II, Class 10

Small business
. active business
. . defined ... 125(7)
. . income of corporation from ... 125(7)
. bonds — see Small business bonds; Small business development bonds
. CCPCs — see Canadian-controlled private corporations
. corporations
. . defined ... 248(1)
. . election to become public ... 48.1(1)
. . eligible, defined ... 15.1(3)
. . exemptions ... 149(1)(o.3)
. . joint election, disqualification ... 15.1(6)
. . net income stabilization account ... 110.6(1.1)
. . qualified shares, capital gains deduction ... 110.6(2.1); 110.6(2.3)
. . qualified shares, defined ... 110.6(1); 110.6(14)–(16)
. . qualifying debt obligation ... 15.1(3)
. . specified investment, defined ... 125(7)
. . specified small business, defined ... Reg. 4901(2)
. credit union ... 137(4)
. deduction
. . agreement filing ... 125(3)
. . business limit ... 125(2)–(5.1)
. . computation ... 125(1)
. . corporate partnerships ... 125(6)
. . corporation deemed member of ... 125(6.1)
. . deemed to be controlled ... 125(6.3)
. . specified income deemed nil ... 125(6.2)
. . phase-out for larger corporations ... 125(5.1)
. . rate ... 125(1.1)
. investment — see Small business investment
. manufacturing and processing profits ... Reg. 5201
. securities
. . acquisition by corporation, trust, or partnership ... Reg. 5104
. . active annual rate of return ... Reg. 5100(3)
. . amount required to be held ... Reg. 5102(2)
. . defined ... Reg. 5100(2)
. . disposition by limited partnership ... Reg. 5102(3)
. . disposition by trust ... Reg. 5103(3)
. . held by trust ... Reg. 5103(2)
. specified partnership income ... 125(7)
. specified partnership loss ... 125(7)

Small business bonds — see also Small business development bonds
. defined ... 15.2(3); 248(1)
. definitions related to ... 15.2(3)
. eligible issuers, defined ... 15.2(3)
. interest as taxable dividend ... 15.2(1)
. interest on money borrowed to acquire
. . status of ... 15.2(4)
. issuers' taxation
. . false declaration re joint election ... 15.2(5)
. . individuals deemed issuers ... 15.2(7)
. . partners tax payable ... 15.2(6)
. . partnership ... 15.2(2)
. . rules ... 15.2(2)
. joint election
. . defined ... 15.2(3)
. . false declaration ... 15.2(5)
. partnership issuer
. . rules ... 15.2(2)
. . tax otherwise payable by partners ... 15.2(6)
. qualifying debt obligations, defined ... 15.2(3)
. taxable benefits ... 15.2(1)
. . individual issuer's ... 15.2(2)
. . partnership as issuer ... 15.2(2)

Small business development bonds — see also Small business bonds
. deemed taxable dividend ... 15.1(1)
. defined ... 15.1(3); 248(1)
. definitions related to ... 15.1(3)
. interest on ... 15.1(1)
. interest on borrowed money to acquire ... 15.1(4)
. issuers
. . income ... 15.1(2)
. . taxable income ... 15.1(2)
. issuing
. . false declaration re joint election ... 15.1(5)
. . rules ... 15.1(2)
. joint election
. . defined ... 15.1(3)
. . exception ... 15.1(7)
. . false declaration ... 15.1(5)
. rules for issuing ... 15.1(2)

Small business investment
. capital gain deferral ... 44.1(2)
. deferred income plans ... Reg. 5100–5104
. . active annual rate of return ... Reg. 5100(3)

Section

Small business investment — continued
. definitions re capital gains deferral ... 44.1(1)
. disposition ... 44.1(9)
. eligible pooling arrangements ... 44.1(3)
. investment corporations
. . acquisition of securities ... Reg. 5104
. . assets requirement ... Reg. 5101(2)
. . defined ... Reg. 5101(1)
. . disposition of property ... Reg. 5101(3)
. . interests in partnership or trust ... Reg. 5101(4)
. investment losses ... 39(1)(c)
. limited partnerships
. . acquisition of securities ... Reg. 5104
. . defined ... Reg. 4901
. . disposition of securities ... Reg. 5102(3)
. . requirements ... Reg. 5102(1)
. . securities held by ... Reg. 5102(2)
. order of share disposition ... 44.1(13)
. share exchanges ... 44.1(6)–(7)
. shares acquired on death ... 44.1(4)
. shares acquired on relationship breakdown ... 44.1(5)
. trusts
. . acquisition of securities ... Reg. 5104
. . defined ... Reg. 4901
. . disposition of securities ... Reg. 5103(3)
. . requirements ... Reg. 5103(1)
. . securities held by ... Reg. 5103(2)
. venture capital corporations ... Reg. 5100(2.1)

Social assistance
. deduction ... 110(1)(f)
. income exemptions ... 81(1)(h)
. income inclusion ... 56(1)(u)
. information returns ... Reg. 233

Social Insurance Number
. application ... Reg. 3800
. authority to communicate ... 237(3); 237(4)
. failure to provide in return, penalty ... 162(6)
. failure to show ... 237(2)
. penalty for misuse of ... 239(2.3)
. registered education savings plans ... 146.1(2.3)
. requirement for information return ... 237(2)
. requirement to obtain ... 237

Sodium chloride
. drilling and exploration expense deductions ... 66(2)

Soft costs — see Construction soft costs

Software — see Computer software

Solar heating equipment
. CCA rate ... Reg. Sch. II, Class 43.1– 43.2

Sole proprietorship — see Partnerships

Solicitor–client privilege
. custodian, meaning ... 232(1)
. defence ... 232
. defined ... 232(1)
. judge, defined ... 232(1)
. lawyer, defined ... 232(1)
. officer, defined ... 232(1)
. rules governing ... 232
. seizure of privileged documents ... 232

Son-in-law
. included in meaning of child ... 252(1)

Source deductions — see Withholding

Spare parts
. undepreciated capital cost ... 13(27)(i)

Specified debt obligation — see Debt obligations

Specified development well — see Oil and gas wells

Specified employees — see Employees

Specified financial institutions — see Financial institutions

Specified future tax consequence
. defined ... 248(1)

Specified individual — see Split income

Specified investment business
. defined ... 125(7); 248(1)

Specified investment flow-through partnerships — see SIFT partnerships

Specified investment flow-through trusts — see SIFT trusts

Specified personal corporations
. capital dividend account ... A.R. 57(9)
. defined ... A.R. 57(11)

Specified predecessor
. defined ... 59(3.4)

Specified property
. adjusted cost base ... 53(4)
. defined ... 54; Reg. 5100(1)
. energy ... Reg. 1101(5m)–(5o)

Split income
. deduction from income ... 20(1)(ww)
. defined ... 120.4(1); 248(1)
. exception to income inclusions ... 56(5)
. excluded amount, defined ... 120.4(1)

Section

Split income — continued
. joint liability for tax ... 160(1.2)
. pension income splitting — see Pensions
. specified individual
. . defined ... 120.4(1)
. . tax payable by ... 120.4(3)
. tax rate ... 120.4(2)

Sports and recreation programs
. board and lodging allowances ... 6(1)(b)(v.1)
. child fitness tax credit — see Child fitness tax credit

Spousal trust — see Trusts, spousal or common-law partner

Spouses or common-law partners
. annuitant under RRSP ... 146(5.1)
. apportionment of annuity payments ... 58(5)
. attribution rules ... 74.1(1)
. . living apart exception ... 74.5(3)
. business carried on by ... 24(2)
. cohabiting, child tax benefit
. . deemed overpayments ... 122.61(1)
. . deemed overpayments exception ... 122.61(2)
. . defined ... 122.6
. . person becoming ... 122.62(7)
. . separation ... 122.62(6)
. . separation, effect ... 122.62(6)
. common-law partner, defined ... 248(1)
. common-law partnership, defined ... 248(1)
. defined ... 252(3); Reg. 304(5)
. dividends received by ... 82(3)
. excess refund of tax, joint liability ... 160.1(2.1)
. life insurance policy transfer to spouse
. . at death ... 148(8.2)
. . inter vivos ... 148(8.1)
. matrimonial regime
. . partition of property ... 248(22)
. . property transfer ... 248(23)
. . property transfer after death ... 248(23.1)
. net income stabilization account (NISA) fund transfer to ... 70(6.1)
. non-residents — see Non-residents
. pension benefits, not apportionable ... 58(6)
. registered retirement income fund
. . income from ... 146.3(5.4)
. . transfers between ... 146.3(14); 146.3(14.2)
. RPP benefits payable on marriage breakdown ... Reg. 8501(5)
. support payment — see Support payments
. tax credit ... 118(1)(a)
. transfer of unused credits ... 118.8
. transfer or loan of property between ... 70(6)
. . attribution rules ... 74.1(1); 74.2(1)–74.2(2)
. . inter vivos ... 73
. . non-resident transferee ... 212(12)
. . payment of tax ... 160
. . principal residence ... 40(4)
. . repayment of existing indebtedness ... 74.1(3)
. . special rules ... 160(4)
. . trusts ... 70(7)

Stabilization payment
. income ... 12(1)(p)

Stable equipment
. CCA rate ... Reg. Sch. II, Class 10

Standby charges
. automobile salesmen ... 6(2.1)
. employer leasing automobile
. . to employee ... 6(1)(e)
. . minimum amount ... 6(2)
. non-resident person ... 214(15)

Station agents
. living expenses deductible ... 8(1)(e)

Statutory exemptions — see Exemptions

Steam generating equipment
. CCA rate ... Reg. Sch. II, Class 17, 34

Steam utilities — see Public utilities

Stock — see Securities; Shares

Stock dividends
. corporate distribution tax ... 183.1
. cost ... 52(3)
. defined ... 248(1)
. foreign affiliates ... 95(7)
. paid to shareholder, income ... 15(1.1)
. payment ... 84(1)

Stock exchange
. Contingency Fund ... Reg. 3202
. designated
. . authority to designate ... 262
. . defined ... 248(1)
. listing false, deduction allowed ... 20(1)(g)
. prescribed
. . interpretation rule ... 248(29)
. recognized, defined ... 248(1)

Stock options — see Options

Section

Stock savings plan
. prescribed ... Reg. 6705

Stop-loss rules
. acquisition of control ... 111(5)
. adventures in the nature of trade ... 18(15)
. capital interest in trust ... 107(1)
. capital property
. . depreciable ... 13(21.2)
. . eligible ... 14(12)
. . non-depreciable ... 40(3.3)–(3.7)
. definitions related to ... 112(6)
. mark-to-market property ... 112(5.5)
. non-capital loss of subsidiary ... 88(1.1)
. non-residents ... 40(3.7)
. shares
. . acquired in exchange for other shares ... 112(7)
. . disposition to affiliate ... 40(3.6)
. . held as capital property ... 112(3)–(3.32)
. . held by financial institution ... 112(5)–(5.6)
. . not held as capital property ... 112(4)–(4.22)
. winding-up of subsidiary ... 88(1.1)

Storage area
. CCA rate ... Reg. Sch. II, Class 1, 17

Structures — see Buildings and structures

Students
. child care expenses ... 63(2.2)
. . amount deductible ... 63(2.3)
. lifelong learning plan — see Lifelong learning plan
. moving expenses, deduction ... 62(2)
. non-resident, taxable income ... 115(2)
. tax credits
. . carryforward of unused credit ... 118.61
. . education ... 118.6
. . interest on student loan ... 118.62
. . textbooks ... 118.6(2.1)
. . transfer ... 118.81
. . tuition fees ... 118.5
. tuition assistance for adult education ... 56(1)(r); 110(1)(g)

Subsidiaries
. controlled corporations, defined ... 248(1)
. cost of shares of ... 52(7)
. limited partnership, non-capital losses ... 88(1.1)
. loan to, by parent company ... 17(3); 218
. qualified expenditures ... 88(1.4)
. wholly-owned corporations
. . amalgamation ... 87(1.1)–(1.4)
. . defined ... 87(1.4); 248(1)
. . interest on bonds ... 212(6)
. . losses of predecessor on amalgamation ... 87(2.11)
. . property deemed owned ... 130(4)
. . vertical amalgamations ... 87(2.11)
. winding-up ... 88(1)
. . acquisition of control ... 88(1)(d.2); 88(1)(d.3)
. . capital property distribution ... 88(1)(d)
. . computation of income ... 88(1)(e.1)
. . cost of distribution of property to parent ... 88(1)(c)
. . disposition of shares ... 88(1)(b)
. . increase in cost amount ... 88(1)(d.4)
. . insurance company ... 88(1)(g)
. . interest in partnership ... 88(1)(a.2)
. . net-capital losses ... 88(1.2)
. . non-capital losses ... 88(1.1)
. . parent corporations continuation of ... 88(1.5)
. . parent farming corporations continuation of ... 88(1.6)
. . parent's employment tax credit ... 88(1)(e.4)
. . parent's income computation ... 88(1.3)
. . parent's investment tax credit ... 88(1)(e.3)
. . property distribution to parent ... 88(1)(a); 88(1)(a.1)
. . specified subsidiary corporation ... 88(1)(c.5)

Subsidy — see Grants and subsidies

Subway
. CCA rate ... Reg. Sch. II, Class 1

Succession duties — see Death duties

Successor corporations
. defined ... 59(3.4)
. earned depletion base ... Reg. 1202(2); Reg. 1202(6)
. exploration and development expenses
. . pre–1972 ... A.R. 29(25)
. property acquisition ... A.R. 29(25)
. second successor
. . frontier exploration expenses ... Reg. 1207(7)
. supplementary depletion base ... Reg. 1212(4)

Superannuation benefits — see Pensions

Superficial losses — see Losses

Superintendent of Financial Institutions
. advice re RPP ... 147.1(17)

Supplementary depletion allowance — see Depletion allowance

Supplementary unemployment benefit plans
. amounts received on amendment or winding-up ... 145(4)
. amounts received taxable ... 145(3)

Section

Supplementary unemployment benefit plans — continued
. defined ... 145(1); 248(1)
. employer's contributions ... 20(1)(x); 145(5)
. exemption ... 149(1)(q)
. limitation ... 18(1)(i)
. non-residents, payments to ... 212(1)(k); Reg. 202(2)
. receipts as income ... 56(1)(g)
. registered
. . defined ... 145(1); 248(1)
. trust exempt ... 145(2)
. withholding tax ... 153(1)(e)

Support payments
. child support amount, defined ... 56.1(4)
. commencement day, defined ... 56.1(4)
. deduction ... 60(b)
. effect on tax credits ... 118(5)–118(5.1)
. income inclusion ... 56(1)(b); 56(1)(c.2)
. payments for specific purpose ... 60.1(2)
. prior payments ... 56.1(3); 60.1(3)
. reimbursement ... 56(1)(c.2)
. repayment ... 60(c.2)
. support amount, defined ... 56.1(4)
. third party payments ... 56.1(1); 60.1(1)

Surplus
. attributed, defined ... Reg. 2400(1)
. attributed for the year, defined ... Reg. 2405(3)
. capital surplus (1971) on hand, election re reduction ... Reg. 2100
. contributed
. . amalgamated corporations ... 87(2)(y)
. . limitation on conversion to paid-up capital ... 84(11)
. distribution
. . foreign affiliates ... Reg. 5900
. . . order of ... Reg. 5901
. election
. . capital surplus (1971) on hand reduction ... Reg. 2100
. . reduction by mortgage investment corporation ... Reg. 2104.1
. . tax-paid undistributed on hand reduction ... Reg. 2100
. exempt
. . deemed dividends ... 113(4)
. . foreign affiliates ... Reg. 5907(1)
. foreign affiliates
. . exempt ... Reg. 5907(1)
. . net ... Reg. 5907(1)
. . taxable ... Reg. 5907(1)
. funds derived from operation of insurance company ... 138(12); A.R. 60
. non-resident-owned investment corporation ... Reg. 503
. pre–1972 capital surplus on hand
. . defined ... 88(2.1)
. . determination ... 88(2.2)
. property and casualty, defined ... Reg. 2400(1)
. property and casualty, of insurers ... Reg. 2405(3)
. reduction, deemed dividends ... 84(10)
. reduction election ... Reg. 2100
. . capital surplus (1971) on hand ... Reg. 2100
. . investment corporation ... Reg. 2104
. . mortgage investment corporations ... Reg. 2104; Reg. 2104.1
. . mutual fund corporations ... Reg. 2104
. . non-resident-owned investment corporation ... Reg. 2105
. . tax-paid undistributed on hand ... Reg. 2100
. undistributed on hand, tax-paid
. . election re reduction ... Reg. 2100

Surtax
. corporation
. . computation ... 123.1
. financial institutions, unused credits ... 190.1(5)
. individuals, income earned out of a province ... 120(1)
. large corporations ... Reg. 8602
. . Canadian surtax payable ... 181.1(6)
. . surtax, unused credits ... 181.1(6)
. tobacco manufacturers ... 182
. . exempt activity ... 182(2)
. . Part I tax on tobacco manufacturing profits, defined ... 182(2)
. . payment ... 183(2)
. . returns ... 183(1)
. . tobacco manufacturing, defined ... 182(2)
. . tobacco manufacturing capital and labour cost, defined ... 182(2)

Surveys
. defined ... Reg. 3600
. estimate of expenses ... Reg. 3600
. inspectors ... Reg. 3600
. quadrennial ... Reg. 3600
. . reserves for ... 12(1)(h); 20(1)(o)
. reserves ... 20(1)(o)
. . previous year's ... 12(1)(h); Reg. 3600
. surveyor, defined ... Reg. 3600

Section

T

Tableware
. CCA rate ... Reg. Sch. II, Class 12

Tangible property — see Property

Tanks
. CCA rate ... Reg. Sch. II, Class 8, 19

Tar sands
. defined ... 248(1)

Tax
. abatement — see Provincial taxes
. additional, re income not earned in a province ... 120(1)
. anniversary date, defined ... 148(9)
. avoidance — see Tax avoidance
. benefit — see Tax benefit
. collection — see Tax collection
. computation — see Tax computation
. corporate distributions — see Corporate distribution tax
. credits — see Tax credits
. departure — see Departure tax
. equity defined ... A.R. 26(12)
. estimate of amount ... 151
. evasion — see Tax evasion
. foreign — see Foreign taxes
. garnishment — see Tax collection
. liability — see Tax liability
. logging — see Logging
. negative amounts ... 257
. payable
. . deemed ... A.R. 49
. . defined ... 248(2)
. payment — see Tax payment
. rates — see Tax rates
. recovery — see Tax collection
. reduction, discounted obligations ... 214(10)
. refundable — see Refundable tax, dividends; Refundable tax, net investment income of CCPC; Refundable tax, scientific research; Refundable tax, share-purchase
. shelters — see Tax shelters
. transfer payments, federal–provincial
. . rate ... Reg. 3300
. transfers, federal–provincial ... 154
. treaties — see Treaties
. unpaid
. . certificate ... 223(2)
. . garnishment ... 224
. withholding — see Withholding

Tax avoidance — see also Tax evasion
. anti-avoidance
. . abuse or misuse ... 245(4)
. . general provisions ... 245(2)
. . minimum tax re partner ... 127.52(2.1)
. . small business investment ... 44.1(12)
. avoidance transaction ... 245(3)
. benefits conferred on a person ... 246(1)
. . arm's length transactions ... 246(2)
. butterfly transactions ... 55
. deemed capital gains ... 55(2)
. deemed proceeds ... 55(2)
. distribution of corporate assets ... 55
. . deemed proceeds or capital gain ... 55(2)
. . distribution defined ... 55(1)
. . interpretation ... 55(3.01)
. . permitted acquisition defined ... 55(1)
. . permitted exchange defined ... 55(1)
. . permitted redemption defined ... 55(1)
. . rules ... 55(5)
. . specified class defined ... 55(1)
. . specified corporation ... 55(1)
. . specified wholly owned corporation ... 55(1)
. foreign affiliates ... 95(3.7)–(3.8)
. foreign investment entities ... 94.1(2)(k)–(n)
. general anti-avoidance rule (GAAR) ... 245(2)
. loans to non-residents ... 17(2)
. non-resident trusts ... 94(16)
. partnerships
. . contribution of capital to ... 40(3.13)
. . specified members, deemed ... 40(3.131)
. . unreasonable proportions ... 103(1.1)
. persons deemed not to be related ... 55(4)
. refundable corporate tax
. . qualified shares ... 193(7)
. . scientific research tax credit ... 195(7)
. restrictive covenants ... 56.4(10)–(11)
. rights issued, acquired or disposed of ... 17(14)
. shares issued
. . acquired or disposed of ... 17(14)
. . by foreign affiliate ... 95(6)(b)
. . by non-resident corporation ... 95(6)(a)
. tax consequences
. . adjustment by Minister ... 245(8)
. . defined ... 245(1)
. . determination ... 245(5)
. . exception ... 245(7)
. . request for adjustment ... 245(6)

Tax avoidance — continued
. transfer or loan of property ... 74.5(11)
. transfer pricing — see Transfer pricing

Tax benefit
. GAAR ... 245(1)
. matchable expenditure rules ... 18.1
. transfer pricing rules ... 247(1)

Tax collection
. acquisition of debtor's property ... 224.2
. affidavit requirements ... 225.2(4)
. agreement, application under Federal–Provincial Fiscal Arrangements Act ... 228
. amount payable
. . defined ... 223(1)
. . re-appropriation of amounts ... 221.2
. application ... 228
. apportionment of tax ... 228
. assessment notice
. . not sent ... 225.2(3)
. . service of ... 225.2(5)–(7)
. authorization to proceed further ... 225.2(2)
. . review of ... 225.2(9)–(13)
. . service of ... 225.2(5)–(7)
. bankruptcy and insolvency ... 223(11.1)
. books and records — see Books and records
. certificate of taxes unpaid ... 223(2)
. . details in ... 223(12)
. . registration, costs of ... 223(4)
. . registration in court, effect ... 223(3)
. charge on property
. . memorial filing ... 223(5)–223(6)
. . proceeding re memorial ... 223(7)
. commencement day ... 225.1(1.1)
. deducting or withholding tax — see Withholding
. garnishment ... 224(1)–(6)
. in jeopardy ... 225.2(1)–(13)
. . refunds withheld ... 164(1.2)–(1.31)
. legal procedures ... 225.2(1)–(13)
. . assessment notice not sent ... 225.2(3)
. . authorization to proceed further ... 225.2(2)
. . in camera hearing ... 225.2(10)
. . directions ... 225.2(12)
. . service of authorization ... 225.2(5)
. limitation periods ... 222(3)–(10)
. litigation costs awarded to Crown ... 222.1
. memorial filing ... 223(5)–223(6)
. . details in ... 223(12)
. . presentation of documents ... 223(8)
. . proceedings re ... 223(7)
. payment of money seized from tax debtors ... 224.3(1)
. . receipt of Minister ... 224.3(2)
. re-appropriation of amounts ... 221.2
. recovery actions ... 222(2)
. recovery by deduction or set-off ... 224.1
. refund of excess payments ... 160.1(1)
. . amount applied to liability ... 160.1(4)
. . assessment of excess ... 160.1(3)
. restrictions ... 225.1(1)–(8)
. . large corporations ... 225.1(7)
. review of authorization
. . application for ... 225.2(8)
. . in camera hearing ... 225.2(10)
. . disposition of application ... 225.2(11)
. . no appeal ... 225.2(13)
. . time for ... 225.2(9)
. sale of property
. . requirements of provincial law ... 223(10)
. . sheriff's authority ... 223(9)
. . sheriff's authority limitation ... 223(11)
. seizure of chattels ... 225
. . exemptions from seizure ... 225(5)
. . sale, notice of ... 225(3)
. . sale by public auction ... 225(2)
. . surplus resulting from sale ... 225(4)
. . taxpayer leaving Canada ... 226(1)–226(2)
. set-off ... 224.1
. . arrears and refund interest ... 161.1

Tax computation
. corporation
. . associated or related ... 125(3)–(6)
. . rate reduction ... 123.4
. . rates ... 123
. credits — see Tax credits
. deductions — see Deductions from tax
. expenditures limitations
. . application of provisions ... 143.3(5)
. . options ... 143.3(2)
. . other interests ... 143.3(4)
. . shares ... 143.3(3)
. individuals
. . additional tax determination ... 120.2(3)
. . amount deemed payable ... A.R. 49
. . deceased person's deductions ... 120.2(4)
. . employment out of Canada ... 122.3(1)
. . employment out of Canada, limitations ... 122.3(1.1)
. . income earned outside province ... 120(1)

Tax computation
. individuals — continued
. . minimum tax carryover ... 120.2(1)
. . rates ... 117(1)
. . rules applicable ... 117(1)
. . transitional provisions ... A.R. 49
. inter vivos trust
. . deductions not allowed ... 122(1); 122(1.1); 122(2)
. minimum tax — see Minimum tax
. non-resident's ... 118.94
. special T1 tax table for individuals ... Reg. 2500(1)
. . amount taxable ... Reg. 2501
. . income not earned in a province ... Reg. 2500(3)
. . rules for preparation ... Reg. 2500(2)
. split income ... 120.4(2)

Tax Court of Canada — see also Appeals
. appeals ... 169(1); 175
. . limitations ... 169(2)
. . re ecological gift determination ... 169(1.1); 171(1.1)
. disposition of appeal, methods ... 171(1)
. extension of time by Minister ... 166.1
. extension of time by Tax Court ... 166.2
. extension of time to appeal ... 167
. lack of power to lessen punishment ... 243
. notice of appeal to Minister ... 170
. reassessment on appeal ... 165(7)
. reference questions ... 173 174
. transmission of documents by Minister ... 176(1)
. waived issues, no appeal ... 169(2.2)

Tax credits
. age credit ... 118(2)
. annual adjustment for inflation ... 117.1
. bankruptcy ... 118.95
. Canada Pension Plan contributions ... 118.7
. charitable donations ... 118.1
. corporations
. . provincial abatement ... 124
. dividends — see Dividends
. education
. . disabled persons ... 118.6(3)
. . formula ... 118.6(2)
. . transfer ... 118.81
. . unused credit carryforward ... 118.61
. employment — see Employment tax credit
. employment insurance premiums ... 118.7
. environmental trusts ... 127.41
. financial institutions
. . unused Part I tax ... 190.1(5)
. . unused Part I.3 tax credit ... 125.3(1.1)
. . unused surtax credit ... 190.1(5)
. foreign — see Foreign tax credit
. foreign affiliates' from country of origin ... Reg. 5907(7.1)
. foreign taxes ... 126
. goods and services tax ... 122.5; 164(2.1)
. indexing for inflation ... 117.1
. individuals
. . adoption expenses ... 118.01
. . age credit ... 118(2)
. . basic personal amount ... 118(1)(c)
. . caregivers ... 118(1)(c.1)
. . child fitness ... 118.03; Reg. 9400
. . child tax credit ... 118(1)(b.1); 118(10)
. . dependants ... 118(1)(d)
. . education ... 118.6
. . effect of support payments ... 118(5)–118(5.1)
. . employment credit ... 118(10)
. . infirm dependant ... 118(1)(e)
. . interest on student loan ... 118.62
. . married or common-law partnership ... 118(1)(a)
. . non-residents, limitation ... 217(4)–217(5)
. . overseas employment ... 122.3(1); 122.3(1.1)
. . pension tax credit ... 118(3); 118(7)–(8.1)
. . personal credits ... 118(1)
. . personal credits limitation ... 118(4)
. . public transit pass ... 118.02
. . textbooks ... 118.6(2.1)
. . wholly dependent person's ... 118(1)(b)
. investment — see Investment tax credit
. labour-sponsored funds — see Labour-sponsored funds tax credit
. large corporations — see Large corporations tax credit
. limitation ... 248(28)
. medical expense supplement ... 122.51
. medical expenses ... 118.2
. mental or physical impairment ... 118.3(1)
. . certificate of impairment ... 118.3(4)
. minimum tax, basic ... 127.531
. non-residents ... 118.94
. ordering of ... 118.92
. parents or grandparents
. . transfer to ... 118.9(2)
. Part VI tax, unused
. . deduction by financial institutions ... 125.2(1)–125.2(2)
. . defined ... 125.2(3)

Tax credits — continued
. part-year residents ... 118.91
. pension tax credit ... 118(3); 118(7)–(8.1)
. personal credits ... 118(1); Reg. 100(1)
. provincial ... 120(2)
. Quebec parental insurance plan ... 118.7
. scientific research — see Scientific research and experimental development
. separate returns ... 118.93
. share purchase — see Share purchase tax credit
. student loan interest ... 118.62
. textbooks
. . formula ... 118.6(2.1)
. . transfer ... 118.81
. . unused credit carryforward ... 118.61
. transfer of unused credits
. . parents or grandparents ... 118.9(1)
. . spouse or common-law partner ... 118.8
. . tuition and education ... 118.81
. tuition fee credits ... 118.5(1)
. . ancillary fees and charges ... 118.5(3)
. . application to deemed residents ... 118.5(2)
. . transfer ... 118.81
. . unused credit carryforward ... 118.61
. unused large corporations tax credit
. . deductions ... 125.3(1)
. unused Part I.3 tax credit
. . financial institutions ... 125.3(1.1)
. unused share purchase ... 39(7)

Tax debts
. acknowledgment ... 222(5)–(7)
. defined ... 222(1)
. limitation periods ... 222(3)–(10)
. recovery actions ... 222(2)

Tax deferred account
. defined ... 219(7)

Tax deferred cooperative shares — see Agricultural cooperative corporations

Tax equity
. defined ... A.R. 26(12)

Tax evasion — see also Tax avoidance
. penalties ... 239
. refundable corporate tax
. . qualified shares ... 193(5)
. . scientific research tax credit ... 195(5)

Tax-free savings accounts
. ceasing to be TFSA ... 146.2(8)–(11)
. charitable donation of proceeds ... 118.1(5.3)
. contributions
. . TFSA dollar limit, defined ... 207.01(1)
. . unused TFSA contribution room, defined ... 207.01(1)
. definitions ... 146.2(1); 207.01(1)
. excess amount
. . defined ... 207.01(1)
. . tax payable ... 207.02
. fees not deductible ... 18(1)(u)
. filing election ... 146.2(5)
. income inclusion ... 12(1)(z.5)
. income tax exempt ... 149(1)(u.2)
. information returns ... Reg. 223
. interest on borrowings for contribution not deductible ... 18(11)
. interest or other income ... 146.2(7)
. prohibited investments
. . defined ... 207.01(1)
. . prescribed property ... Reg. 5000–5001
. qualified investments
. . defined ... 207.01(1)
. . information return ... Reg. 221(2)
. . non-qualified investment, defined ... 207.01(1)
. . prescribed ... Reg. 4900
. qualifying arrangement
. . conditions ... 146.2(2)
. . deemed not to be other plan ... 146.2(12)
. . defined ... 146.2(1)
. . TFSA only ... 146.2(12)
. qualifying transfer, defined ... 207.01(1)
. refund
. . allowable refund, defined ... 207.07(1)
. . payment ... 207.07(2)
. security for loan ... 146.2(4)
. significant interest ... 207.01(4)
. survivor
. . defined ... 146.2(1)
. . exempt contributions, defined ... 207.01(1)
. . as successor holder ... 207.01(3)
. tax payable
. . excess amount ... 207.02
. . non-resident contributions ... 207.03
. . non-resident withholding ... 212(1)(p)
. . prohibited or non-qualified investment ... 207.04
. . provisions applicable ... 207.07(3)
. . return and payment ... 207.07(1)
. . waiver ... 207.06
. . where advantage extended ... 207.05
. trust not taxable ... 146.2(6)

Section

Tax instalments — see Instalment payments

Tax investigations — see Investigation and search

Tax liability
. defined ... 130.1(9)
. failure to withhold tax ... 227(8)
. non-arm's length transfers of property ... 160
. non-resident trusts ... 94(3); 160(2.1)
. non-residents ... 2(3); Reg. 805
. periodic payments
. . determination of tax ... Reg. 102(2)
. property distribution without certificate ... 159(3)
. property transferred not at arm's length
. . special rules ... 160(4)
. purchaser of non-resident's property ... 116(5)
. RCA benefits ... 160.3
. residents ... 2(1)
. transfers by insolvent corporations ... 160.4
. trustee, deferred income plan ... 207.2(2)

Tax paid undistributed surplus on hand — see Income, undistributed

Tax payment — see also Withholding
. ceasing to be Canadian resident
. . election to deferred payment ... Reg. 1301
. . election to realize capital gains ... Reg. 1302
. certificate
. . before distribution of assets ... 159(2)
. . penalty for distribution without ... 159(3)
. corporate rate ... 123
. corporations
. . lump-sum ... 157(2.1)
. . monthly amounts ... 157(1)
. . quarterly, small-CCPCs ... 157(1.1)–(1.5); 157(3.1)
. deceased persons
. . capital gains and losses ... 164(6)
. . election ... 159(5)–(7); Reg. 1001
. deferred income plans ... 207.2(1)
. deferred profit sharing plan ... 198(2)
. . deemed ... 202(6)
. . excess contributions ... 204.3
. discharge of security for ... Reg. 2200
. election
. . day determination by trust ... 159(6.1)
. . deceased persons ... 159(5)–(7); Reg. 1001
. estates and trusts, arising on death ... 104(23)
. excessive election ... 185(2)
. joint and several liability ... 185(4)
. . liability assessment ... 185(5)
. . rules applicable ... 185(6)
. . time extension ... 185(3)
. excessive eligible dividend designation ... 185.1
. exempt persons
. . royalties ... 208(1)
. farmers and fishermen ... 155
. financial institutions ... 181.7
. . calculation ... 190.1(1)
. . deductions allowed ... 190.1(3); 190.1(4)
. . provisions applicable ... 190.21
. . short taxation year ... 190.1(2)
. individuals ... 156
. . employment out of Canada ... 122.3(1); 122.3(1.1)
. instalments — see Instalment payments
. inter vivos trusts ... 122(1)
. . deductions not allowed ... 122(1.1)
. . exception ... 122(2)
. interest — see Interest
. labour-sponsored venture capital corporations ... 204.86
. large corporations ... 181.7
. liability of transferee to assessment ... 160(2)
. municipalities and charitable organizations ... 207.4
. mutual fund corporations ... 157(3)
. mutual fund trusts ... 156(2)
. non-resident corporation, branch tax ... 219(1)
. non-resident-owned investment corporation ... 157(3)
. non-residents — see Non-residents
. others, on behalf of ... 159(1)
. overpayments
. . appeals ... 164(1.1)
. . . exception ... 164(1.7)
. . carry-back of loss, effects ... 164(5)
. . defined ... 164(7)
. . interest ... 164(3)–(3.2)
. . interest on interest repaid ... 164(4)
. . Minister's duty ... 164(4.1)
. . no refund where collection in jeopardy ... 164(1.3)
. . provincial portion of ... 164(1.4)
. . refund — see Refunds
. postponement, income in blocked currency ... 161(6)
. private corporation ... 157(3)
. refundable corporate tax
. . interest on default, qualifying shares ... 193(3); 193(4)
. . interest on default, scientific research tax credit ... 195(3)–195(4)
. . liability of corporate directors ... 227.1(1)
. . qualifying shares ... 193(2)
. . scientific research tax credit ... 195(2)

Section

Tax payment — continued
. registered charity ... 189(6)
. registered disability savings plans ... 207(1)
. registered investments ... 204.6(1)–(3)
. remainder after notice of assessment ... 158
. RESP ... 204.92
. retirement compensation arrangement ... 207.7(3)
. RRSP
. . excess contributions ... 204.3
. security for payment ... 220(4)–(4.71)
. . discharge ... Reg. 2200
. tax-free savings accounts ... 207.07(1)
. taxpayer leaving Canada ... 226(1)
. testamentary trust, by ... 104(23)
. transfer of property to spouse or minor, joint liability ... 160
. unclaimed dividends, interest or proceeds of disposition ... 153(4)
. . effect of remittance ... 153(5)
. withholding — see Withholding

Tax rates
. corporations ... 123
. . associated corporations ... 125(3)–(6)
. . investment corporations ... 130
. . non-resident, branch tax ... 219(1)
. . non-resident-owned investment corporation ... 133(3)
. . provincial abatement ... 124
. . reduction ... 123.4
. . resource reduction ... 125.11
. . small business deduction ... 125(1.1)
. . surtax ... 123.1
. current and subsequent years
. . appropriate percentage ... 248(1)
. foreign bank branch interest ... 218.2
. income not earned in the province ... 120(1)
. individuals ... 117(2)
. . income earned outside province ... 120(1)
. . split income ... 120.4(2)
. . threshold amounts ... 117(3)
. inter vivos trust ... 122(1)
. . exception ... 122(2)
. logging taxes ... Reg. 700
. non-resident actors ... 212(5.1)
. non-resident withholding tax ... 212(1)
. provincial SIFT tax rate
. . defined ... 248(1)
. . prescribed amount ... Reg. 414
. transfer payments to provinces ... Reg. 3300

Tax shelters
. application of other sections of Act ... 237.1(8)
. assessments ... 237.1(6.2)
. computer software, CCA limitations ... Reg. 1100(20.1)–(20.2)
. cost of investment ... 143.2
. deductions and claims disallowed ... 237.1(6)
. . unpaid penalty ... 237.1(6.1)
. defined ... 237.1(1); 248(1)
. . for purpose of matchable expenditure rules ... 18.1(1)
. fiscal period, alternative method not available ... 249.1(5)
. gifting arrangement, defined ... 237.1(1)
. identification number
. . application for ... 237.1(2)
. . issuance by Minister ... 237.1(3)
. . penalty for providing incorrect ... 239(2.1)
. . prohibition against sales without ... 237.1(4)
. . provision by promoter ... 237.1(5)
. information returns ... 237.1(7)
. . copies to be provided ... 237.1(7.3)
. . regulations ... Reg. 231
. . time for filing ... 237.1(7.1)–237.1(7.2)
. interest payable by partnership on unpaid penalties ... 161(12)
. limited-recourse debt rules ... 143.2
. . application to matchable expenditures ... 18.1(13)
. . assessments ... 143.2(15)
. . at-risk adjustment ... 143.2(2)
. . . borrowings backed by guarantee or security ... 143.2(5)
. . . right to acquire property ... 143.2(4)
. . . timing ... 143.2(9)
. . at-risk adjustment, exclusions ... 143.2(3)
. . expenditure defined ... 143.2(1)
. . gifts or monetary contributions ... 143.2(6.1); 248(34)
. . indebtedness deemed to be limited recourse amount ... 143.2(7)–143.2(8); 143.2(10)
. . . exception for short-term debt ... 143.2(11)
. . information outside Canada ... 143.2(13)–(14)
. . limited partner defined ... 143.2(1)
. . limited-recourse amount, defined ... 143.2(1); 248(1)
. . series of loans or repayments ... 143.2(12)
. . short-term debt ... 143.2(11)
. . tax shelter investment
. . . defined ... 143.2(1)

Section

Tax shelters
. limited-recourse debt rules
. . tax shelter investment — continued
. . . reduction ... 143.2(6)
. . taxpayer defined ... 143.2(1)
. matchable expenditure rules ... 18.1
. penalty
. . non-compliance with rules ... 237.1(7.4)
. . unpaid, deductions and claims disallowed ... 237.1(6.1)
. person, defined ... 237.1(1)
. promoter
. . defined ... 237.1(1)
. sales prohibited without identification number ... 237.1(4)

Tax treaties — see Treaties

Taxable benefits — see Benefits

Taxable Canadian property — see Property

Taxable dividends — see Dividends

Taxable income — see Income, taxable

Taxable preferred shares — see Shares, taxable preferred

Taxable RFI share dividends — see Dividends

Taxation year — see also Fiscal period
. amalgamated corporations ... 87(2)(a)
. apportionment of taxable income for ... 149(6)
. appropriate percentage of tax rates ... 248(1)
. bankruptcies ... 128
. base, defined re child tax benefits ... 122.6
. calendar year ... 249(1.1)
. CCPC status change ... 249(3.1)
. ceasing business ... 13(8)
. deemed year end where change of control occurs ... 249(4)
. deferred profit sharing trust ... 144(11)
. defined ... 249(1)
. . individual's ... 14(4); Reg. 1104(1)
. end of, defined ... Reg. 1104(1)
. financial institutions ... 190.1(2)
. first ... 130.1(8)
. fiscal period exceeding 365 days ... 249(3)
. foreign affiliate ... 95(1)
. foreign affiliate, merger ... Reg. 5907(8)
. foreign investment entity ... 94.1(1)
. income of individual proprietor of business ... 11(1)–11(2)
. individual's
. . in business ... Reg. 1703(1)
. . defined ... 14(4)
. . income ... 13(3)
. large corporations ... 181.1(2)
. life insurance corporations
. . investment income tax ... 211.1(4)
. mutual fund trust ... 132.11(1)
. non-residents ... 250.1
. partnership members ... 99(2)
. reference to ... 249(2)
. registered charity ... 149.1(1)
. testamentary trusts ... 249(5)–(6)
. trust or estate arising on death ... 104(23)

Taxicabs
. CCA rate ... Reg. Sch. II, Class 16

Taxpayer
. absconding ... 226
. bankrupt ... 128
. ceasing to be Canadian resident
. . cash method in computing income ... 28(4)
. . security for departure tax ... 220.1
. ceasing to carry on business ... 22–25
. deceased — see Deceased persons
. defaulting ... 226
. defined
. . general ... 248(1)
. . includes partnership ... 18.1(1); 56.4(1); 143.2(1); 143.3(1)
. leaving Canada ... 226
. specified predecessor, defined ... 59(3.4)

Taxpayer migration — see Emigration; Immigration

Taxpayer relief provisions — see Ministerial discretion

Teachers and professors
. fund contributions ... 8(1)(d)
. RPP contributions ... 147.2(5)
. taxable Income, leaving Canada to teach ... 115(2)

Telecommunication spacecraft
. CCA rate ... Reg. Sch. II, Class 30
. separate CCA class ... Reg. 1101(5a)

Telephone or telegraph equipment
. capital cost allowance ... Reg. 1101(5p); Reg. Sch. II, Class 3, 17, 42
. telegraph system, defined ... Reg. 1104(2)
. telephone system, defined ... Reg. 1104(2)

Television — see Advertising and broadcasting

Terminal losses — see Losses

Section

Termination payments — see Employment

Terrorism financing
. communication of information....241(9)–(9.1)
. revocation of charitable status....168(3)

Testamentary debts — see Debt obligations

Testamentary trusts — see Trusts

Textbooks
. talking textbooks....64; Reg. 5700(w)
. tax credit
. . formula....118.6(2.1)
. . transfer....118.81
. . unused credit carryforward....118.61

TFSA — see Tax-free savings accounts

Thin capitalization
. limitations re interest deduction....18(4)
. restrictions for non-residents....18(4)–(6)

Timber limits and cutting rights
. CCA rate....Reg. 1100(1)(e)
. . access roads....Reg. Sch. II, Class 10
. . separate classes....Reg. 1101(3); Reg. Sch. II, Class 10; Reg. Sch. VI
. . timber property....Reg. Sch. II, Class 15; Reg. Sch. IV
. deduction restrictions....216(8)
. non-resident disposition....216(5)–(6)
. non-residents receiving....212(1)(e); 212(13)
. . alternative tax....216
. . information return....Reg. 202(1)
. . optional method of tax payment....216(4)–(4.1)
. river improvements....Reg. 1102(7)

Timber resource property
. bad debts deductible....20(4.1)
. CCA rate....Reg. Sch. II, Class 33
. defined....13(21); 248(1)
. gain from disposition....39(1)(a)
. non-resident disposition....216(5)–(6)
. proceeds of disposition
. . when deductible....20(5.1)
. undepreciated capital cost....13(21)

Tips
. income inclusion....5(1)

Tobacco manufacturers surtax....182
. exempt activity, defined....182(2)
. Part I tax on tobacco manufacturing profits, defined....182(2)
. payment....183(2)
. returns....183(1)
. tobacco manufacturing, defined....182(2)
. tobacco manufacturing capital and labour cost, defined....182(2)

Tools
. apprentice mechanic's — see Apprenticeship
. CCA rate
. . general....Reg. Sch. II, Class 12
. . portable....Reg. Sch. II, Class 10
. . for rental....Reg. Sch. II, Class 29
. tradesperson's — see Tradesperson's tools

Townsite costs
. deemed capital cost....Reg. 1102(14.2)

Trade unions
. dues deduction, limitation....8(5)
. eligible labour body, defined....204.8(1)

Trademarks
. representation expenses....13(12); 20(1)(cc); 20(9)

Traders or dealers in securities — see Securities

Tradesperson's tools
. contribution to partnership....97(5)
. cost....8(7)
. deduction....8(1)(s)
. definitions....8(6)
. disposition....56(1)(k)
. eligible tool....8(6.1)
. rollover to corporation....85(5.1)

Trailer
. CCA rate....Reg. Sch. II, Class 10

Tramways
. CCA rate....Reg. Sch. II, Class 4
. defined....Reg. 1104(2)

Transaction
. arm's length — see Arm's length transactions
. artificial — see Artificial transactions
. defined for transfer pricing rules....247(1)
. series of....248(10)
. specified, defined....20(18)

Transfer fees
. deductibility....20(1)(g)

Transfer pricing
. adjustment of amounts....247(2)
. . none unless appropriate....247(10)
. anti-avoidance....247(9)
. arm's length allocation defined....247(1)
. arm's length transfer price defined....247(1)
. documentation due date defined....247(1)

Section

Transfer pricing — continued
. documentation required....247(4)
. excluded provisions....247(8)
. loans to foreign affiliate, exclusion....247(7)
. partnerships
. . deemed membership....247(6)
. . gross revenue for penalty purpose....247(5)
. penalty....247(3)
. . partnerships....247(5)
. provisions of Act applicable....247(11)
. provisions of Act excluded....247(8)
. qualifying cost contribution arrangement defined....247(1)
. tax benefit defined....247(1)
. transaction defined....247(1)
. transfer price defined....247(1)
. transfer pricing capital adjustment defined....247(1)
. transfer pricing capital set-off adjustment defined....247(1)
. transfer pricing income adjustment defined....247(1)
. transfer pricing income setoff adjustment defined....247(1)

Transferee liability
. transfer to spouse or minor....160

Transitional provisions
. 1948 Income Tax Act, defined....A.R. 12
. 1971 receivables....A.R. 23(5)
. actual cost, defined....A.R. 26(13)–(17.1)
. administration and enforcement....A.R. 65.1
. amalgamations
. . exploration and development expenses....A.R. 34(4)
. . obligations received on....A.R. 26(23)
. . options received on....A.R. 26(22)
. . prior to 1972....A.R. 34(1)
. . shares received on....A.R. 26(21)
. . transaction not at arm's length....A.R. 26(5.1)
. amended Act, defined....A.R. 8
. appeals to Federal Court....A.R. 62(6)
. appeals to Tax Court....A.R. 62(5)
. assessments....A.R. 62(1)
. bond exchange....A.R. 26(25)
. capital cost of depreciable property
. . acquired before 1972....A.R. 20(3)–(5)
. . non-arm's length transactions....A.R. 26(5)
. . percentage, defined....A.R. 20(4)
. capital dividend account....A.R. 32.1(4)
. capital gains
. . adjusted cost base....A.R. 26(3)–(10)
. . principal amount outstanding on January 1, 1972....A.R. 26(1.1)
. . shares received on amalgamations....A.R. 26(21)
. capital property, defined....A.R. 26(12)
. capital reorganization....A.R. 26(27)
. change in use of property
. . before 1972....A.R. 26.1(1)
. . election....A.R. 26.1(2)
. computation of income
. . amounts not previously included....A.R. 17(5)
. convertible property exchange....A.R. 26(24)
. corporations, status for 1972....A.R. 50(1)
. corporations deemed
. . determination by Minister pre–1972....A.R. 50(3)
. . private....A.R. 50(2)
. . public....A.R. 50(2)
. cost of interest in partnership
. . owned on December 31, 1971....A.R. 26(9)–(9.4)
. cost of property, non-resident becoming resident....A.R. 26(10)
. cost of undisposed property....A.R. 26(4)
. credit unions....A.R. 58(1)
. . acquiring assets of another credit union....A.R. 58(3.4)
. . maximum cumulative reserve....A.R. 58(3.2)
. deductions
. . 1948 Act, under....A.R. 17(6)–A.R. 17(7)
. . Excess Profits Tax Act....A.R. 17(3)
. . Income War Tax Act, under....A.R. 17(1)–(5)
. . professional business....A.R. 23(3)–(5)
. depreciable property of partnership transferred
. . property acquired before 1972....A.R. 20(3)–(5)
. depreciation provisions....A.R. 18
. discount, defined....A.R. 26(12)
. disposition, defined....248(1.1)
. drilling and exploration expenses
. . defined....A.R. 29(27); A.R. 29(30)
. . northern mineral exploration assistance payments....A.R. 29(28)
. election by corporation....A.R. 66(1)
. eligible capital property....A.R. 26(12)
. employment insurance benefits
. . events occurring before 1974....A.R. 19(1)
. . plan in existence on June 19, 1971....A.R. 19(2)
. enactments, defined....A.R. 12
. expenses deemed not deductible....A.R. 29(34)
. exploration and development expenses
. . 1948–1962 expenses....A.R. 29(9)
. . 1962–1972 expenses....A.R. 29(10)

Section

Transitional provisions — continued
. exploration and drilling rights
. . acquired 1962–1972....A.R. 29(14)
. exploration expenses deduction
. . 1962–1972 expenses....A.R. 29(11)–A.R. 29(12)
. . exceptions....A.R. 29(20); A.R. 29(24)
. . limitation....A.R. 29(23)
. fair market value
. . publicly traded securities....A.R. 26(11)
. farm property transfer to child....A.R. 26(18); A.R. 26(19)
. foreign affiliate
. . capital gain or loss....A.R. 35
. . shares, fair market value....A.R. 26(11.1); A.R. 26(11.2)
. former Act, defined....A.R. 8
. goodwill etc., amounts received on disposition....A.R. 21(1)–(3)
. identical properties owned on December 31, 1971
. . adjusted cost base....A.R. 26(8)–(8.5)
. inadequate consideration, property acquired pre–1972....A.R. 32
. income from professional business....A.R. 23(3)–(5)
. income maintenance payment
. . events occurring before 1974....A.R. 19(1)
. interest on unpaid taxes....A.R. 62(2)
. investment interest, defined....A.R. 23(5)
. labour-sponsored venture capital corporations....204.81(1.2)
. mark-to-market property....142.51
. mining corporation
. . deductions....A.R. 29(21); A.R. 29(25)
. . expenses incurred 1952–1972....A.R. 29(2)–(5)
. non-resident-owned investment corporation....A.R. 59(2)
. non-residents
. . withholding tax on interest....A.R. 10(4)
. obligation
. . defined....A.R. 26(12)
. . received on amalgamation....A.R. 26(23)
. old law, defined....A.R. 12
. options received on amalgamation....A.R. 26(22)
. Part IV of former Act, application to gifts....A.R. 14
. Part VIII of former Act application....A.R. 15
. pension fund, etc., single payment....A.R. 40
. petroleum and natural gas corporations, expenses incurred 1949–1952....A.R. 29(1)
. premium, defined....A.R. 26(12)
. property disposal to spouse or trust, acquired before 1972....A.R. 20(1)–(5)
. property reacquisition prior to 1972....A.R. 26(6)
. provincial statute
. . defined....A.R. 29(33)
. . tax payable under....A.R. 29(32)
. reasonable expenses....A.R. 31
. receipts for exploration or drilling rights
. . income....A.R. 29(16)–(20)
. references
. . to former statutes....A.R. 16
. . include same subject in former statutes....A.R. 13
. . method of construing....A.R. 17(4)
. . to registered pension plan....A.R. 17(8)
. securities publicly traded, value....A.R. 26(11)
. share for share exchange....A.R. 26(26)
. shares of foreign affiliate, value....A.R. 26(11.1); A.R. 26(11.2)
. shares received on amalgamation as capital gains....A.R. 26(21)
. tax equity of partnership....A.R. 26(12)
. tax-free zone....A.R. 26(3)
. tax payable
. . under provincial statutes....A.R. 29(32)
. taxable capital gain or loss of foreign affiliate....A.R. 35
. transfer of capital property to corporation
. . non-arm's length....A.R. 26(5.2)
. transfer of depreciable property
. . acquired before 1972....A.R. 20(1)–(5)
. trust property, distribution prior to 1972....A.R. 36
. unreasonable expenses....A.R. 31
. Valuation Day election....A.R. 26(7)
. Valuation Day value
. . defined....A.R. 24
. . fair market value of securities....A.R. 26(11)
. valuation of assets
. . tax-free zone....A.R. 26(3)
. withholding tax
. . limitation....A.R. 10(6)

Transportation
. allowances, exempt....6(6)
. employees, expenses deductible....8(1)(g)
. qualified equipment
. . investment tax credit....Reg. 4601
. services, reserves for....20(6)
. special work site exempt allowances....6(6)

Section

Traveling expenses
. allowances paid for, exemptions 6(1)(b)(v); 6(1)(b)(vii)
. annual travel cost Reg. 7304(3)
. deduction from income 8(1)(h)
. . certificate of employer 8(10)
. medical reasons 118.2(2)(h)
. part-time employees 81(3.1)
. personal motor vehicle used for work 8(1)(h.1)
. prescribed amount of benefits Reg. 7304(4)
. special work site
. . exemptions 6(6)
. trip cost Reg. 7304(2)

Treasury Board
. defined 248(1)

Treaties
. deduction of exempt income 110(1)(f)(i)
. defined 248(1)
. non-residents under 250(5)
. pension credit Reg. 8308.1(2.1)
. permanent establishment Reg. 5906(2)
. treaty-protected business, defined 248(1)
. treaty-protected property
. . defined 248(1)
. . disposition 116(5.01)–(5.02); 116(6.1); 150(5)
. . exclusion from taxable income 115(1)

Trestle
. CCA rate Reg. Sch. II, Class 3

Trolley bus system
. CCA rate Reg. Sch. II, Class 4

Truck drivers
. long-haul truck drivers
. . definitions 67.1(5)
. . meal expense deductions 67.1(1.1)

Truck operators
. income earned in the year in a province Reg. 409; Reg. 2604

Trust and loan corporations
. income earned in the year in a province Reg. 405

Trustees
. bankruptcy
. . corporations 128(1)
. . individuals 128(2)
. . responsibility for filing return 150(3); Reg. 206(2)
. certificate required before distribution 159(2)
. control of corporation by one trustee 13(7.3)
. dividends, etc. received from NRO investment corporation, exemptions 212(9)
. employee profit sharing plan, information return Reg. 212
. employee shares returned to issuer 8(12)
. holding shares for employees 7(2); 7(6)
. liability for tax re property of deferred income plans 198(3); 207.2(2)
. liability re returns of registered investment 204.7(2)
. liability re royalty tax payment for exempt persons 208(3)
. liability to pay tax for trusts with designated income 210.2(6)
. returns to be filed by 150(3)

Trusts
. accumulating income
. . defined 108(1)
. . election Reg. 2800
. alter ego, defined 248(1)
. amounts deemed payable to beneficiaries 104(29)
. arising on death 104(23)
. bankrupt estate 128(1); 128(2)
. basic exemptions 127.53(2); 127.53(3)
. beneficiaries — see Beneficiaries
. benefit, included in income 12(1)(m); 105(1)
. business investment loss 39(10)
. capital gains designation 104(21); 104(21.4)
. . late, amended or revoked designation 104(21.01)–(21.03)
. capital interest in
. . adjusted cost base, amounts added 53(1)(d.1)
. . adjusted cost base, amounts deducted 53(2)(b.1)
. . cost 107(1.1)
. . cost amount, defined 108(1)
. . defined 108(1); 248(1)
. . disposition 107
. . distribution in satisfaction of 107(2)
. . distribution of principal residence by spousal or common-law partner trust 107(2.01)
. . distribution prior to 1972 A.R. 36
. . distribution to beneficiaries 107(2.1)
. . exempt capital gains balance 107(2.2)
. . fair market value 107(1.2)
. . greater than income interest 104(7.1)–(7.2)
. . loss reduction on property distribution 107(6)
. . property acquisition in satisfaction of 40(7)
. . specified participating interest 107(4.01)
. . stop-loss rule 107(1)

Section

Trusts
. capital interest in — continued
. . testamentary trust 107(1.1)
. compensation, exempt from tax 149(1)(w)
. computation of income
. . deduction 104(6)
. . Part XII.2 tax payment deduction 104(30)–(31)
. conditional, attribution rules 75(2)
. contributor, defined 251.1(3)
. corporation — see Trust and loan corporations
. cost of trust interest 248(25.3)
. creation of 248(9.1)
. cumulative Canadian exploration expenses 127(12.3)
. deductions from income 104(6)
. . amounts payable to preferred beneficiaries 104(13)–(13.2)
. . capital gain portion deemed to be beneficiaries' 104(21); 104(21.4)–(21.6)
. . dividends received from NRO investment corporations 104(11)
. . preferred beneficiaries' income 104(12)–(15)
. . property maintenance cost 105(2)
. . property owned for non-resident 104(10)
. . testamentary trusts 104(23)
. deductions not allowed
. . non-resident beneficiary 104(7)
. deemed disposition of property 104(4)–(5)
. . distribution to specified beneficiary 107(4.1)
. . interest in NISA fund 104(5.1)
. . resource property 104(5.2)
. . . election 104(5.3)
. . . revocation of election 104(5.31)
. . reversionary trust 107(4.1)
. . spousal or common-law partner trust 107(4)
. deemed resident in Canada 104(7.01)
. deferred profit sharing plans — see Deferred profit sharing plans
. defined 108(1); 248(1)
. definitions related to 108
. designated contributor 104(5.6)–(5.7)
. . deemed not to be 104(5.7)
. designated income taxation
. . amateur athletic association's 210.2(2)
. . amount 210.2(1)
. . beneficiaries not designated 210.3(1)–210.3(2)
. . designated income, defined 210(1)
. . designation re partnership 210.2(4)
. . exceptions 210(2)
. . liability of trustee to pay tax 210.2(6)
. . provisions of Act applicable 210.2(7)
. . returns 210.2(5)
. . tax deemed paid by beneficiary 210.2(3)
. disposition, qualifying 107.4
. disqualification 108(4)
. distribution of property
. . deemed disposition at fair market value 107(4.1)–(4.2)
. . employee benefit plan, by 107.1
. . non-residents 107(5) (5.2)
. . non-residents, security for payment of tax 220(4.6)–(4.71); 220.2
. . reversionary trust 107(4.1)
. . specified beneficiary 107(4.1)
. dividends, taxable
. . deemed not received by beneficiaries 104(20)
. . deemed received by beneficiaries 104(19)
. dividends from NRO investment corporations 104(11)
. election by preferred beneficiary re accumulating income 104(14)–(14.02)
. election re deceased's property 70(6.2)
. eligible offset, defined 108(1)
. eligible trust, defined 95(3.2)
. employee
. . defined 248(1)
. . distribution by 107.1
. . income 6(1)(h)
. employees' charity
. . defined Reg. 3500
. . donation to Reg. 3502
. . registered organization Reg. 3502
. employees profit sharing plan — see Employees profit sharing plan
. environmental
. . acquisition cost 20(1)(tt)
. . deduction of contributions 20(1)(ss)
. . payments as income 12(1)(z.1)
. environmental, qualifying 107.3
. exempt foreign
. . becoming or ceasing to be 94(6)
. . defined 94(1)
. exempt property, defined 108(1)
. exempt trust
. . anti-avoidance 95(3.7)
. . defined 95(3.2); 233.2(1)
. . foreign reporting rules Reg. 4801.1
. foreign source income
. . business income tax 104(22.4)

Section

Trusts
. foreign source income — continued
. . designation 104(22)
. . foreign tax deemed paid 104(22.1)
. . non-business income tax 104(22.4)
. . recalculation 104(22.2)
. . recalculation of foreign tax 104(22.3)
. gains not flowed out to beneficiaries 107(2.11)
. income interest 106(1)
. . adjusted cost base deductions 53(2)(h)–(j)
. . cost of 106(1.1)
. . defined 108(1); 248(1)
. . disposition 106(2)
. . less than capital interest 104(7.1)–(7.2)
. . proceeds of disposition 106(3)
. income of
. . accumulating 108(1); Reg. 2800
. . defined 108(3)
. . payable to preferred beneficiaries 104(13)–(13.2)
. income trusts — see SIFT trusts
. infants 104(18)
. information returns
. . date Reg. 204(2)
. . exempt trusts Reg. 204(3)
. inter vivos
. . basic exemptions 127.53(1) (3)
. . communal organizations 143(1)–(3)
. . deductions not allowed 122(1.1)
. . defined 248(1)
. . residence of 250(6.1)
. . tax payable 122(1)
. interest in 248(13)
. interests acquired for consideration 108(7)
. investment tax credit 127(7)
. . amounts deemed received 127(12); 127(12.1)
. joint partner — see Trusts, spousal or common-law partner
. lifetime beneficial trusts 60.011
. loans to non-residents through 17(5)
. maintenance expenses 105(2)
. master
. . defined Reg. 4802(1.1)
. . exemptions 149(1)(o.4)
. minors' income 104(18)
. mutual fund — see Mutual fund trusts
. net income stabilization account (NISA) fund transfer to 70(6.1)
. newspaper held in 19(6)
. no rollover on election 107(2.001)
. no rollover on election by beneficiary 107(2.002)
. non-discretionary
. . defined 17(15)
. non-payment of dues and taxes 108(4)
. non-resident — see Trusts, non-resident
. partner — see Trusts, spousal or common-law partner
. person or partnership beneficially interested in 248(25)
. personal
. . defined 248(1)
. . principal residence 54
. . qualified small business corporation shares 110.6(16)
. personal-use property, decrease in value of 46(4)
. principal residence disposal in favour of spouse 40(4)
. property
. . adjusted cost base 43(3)
. . distribution prior to 1972 A.R. 36
. . election re holdings 259
. . proportional holdings in 259
. property maintenance cost 105(2)
. property transfer
. . from another trust 248(25.2)
. . to another trust 248(25.1)
. . attribution rules 74.2(2); 74.5(9)
. . capital gain of designated person 74.3(1)
. . capital interest distribution 107(2)
. . capital property to another trust 104(5.8)
. . income of designated person 74.3(1)
. providing vacation pay, exemptions 149(1)(y)
. public investment trust
. . defined Reg. 204.1(1)
. . information disclosure Reg. 204.1(2)
. public trust
. . defined Reg. 204.1(1)
. . information disclosure Reg. 204.1(2)
. qualified, defined 259(5)
. qualifying disposition
. . defined 107.4(1)
. . distribution of property received on 107(4.2)
. . tax consequences 107.4(3)
. Quebec 248(3)–(3.2)
. RCA governing
. . creation of trusts 207.6(1)
. . defined 207.5(1)
. . exemptions 149(1)(q.1)
. . property disposition 56(1.1)
. . property distribution 107.2

Section

Trusts — continued
. real estate investment trust
. . defined ... 122.1(1)
. . excluded from SIFT trust definition ... 122.1(1)
. . qualified REIT property, defined ... 122.1(1)
. registered disability savings plans — see Registered disability savings plans
. registered investment ... 204.4(2); 204.4(6)
. related segregated fund
. . adjusted cost base additions ... 53(1)(l)
. . adjusted cost base deductions ... 53(2)(q)
. . election and allocation ... 138.1(4); Reg. 6100
. return due date ... 150(1)(c)
. reversionary
. . attribution rule exceptions ... 75(3)
. . attribution rules ... 75(2)
. . deemed disposition at fair market value ... 107(4.1)
. . distribution to specified beneficiary ... 107(4.1)
. right to enforce payment ... 248(25.4)
. RRSP — see Registered retirement savings plans
. scientific research tax credits ... 127.3(3)
. . exempt ... 127.3(3.1)
. segregated fund — see Life insurance corporations
. settlor defined ... 17(15)
. share exchange losses ... 112(7)
. share-purchase tax credit ... 127.2(3)
. . exempt ... 127.2(3.1)
. SIFT trusts — see SIFT trusts
. specified foreign
. . election re joint filing ... 233.2(5)
. specified investment flow-through trusts — see SIFT trusts
. spousal — see Trusts, spousal or common-law partner
. status
. . conditions ... Reg. 4800(2); Reg. 4801
. . prescribed trusts ... Reg. 4800.1
. successor, registered investment ... 204.4(6)
. supplementary unemployment benefit plan, exempt ... 145(2)
. tax payment
. . election
. . . day determination ... 159(6.1)
. taxable capital gains
. . beneficiary's ... 104(21.2)–104(21.24)
. . net ... 104(21.3)
. taxation ... 104
. taxation year ... 249(1)
. testamentary
. . basic exemptions ... 127.53(1)–(3)
. . cost of capital interest in ... 107(1.1)
. . deductions ... 104(23)
. . defined ... 108(1); 248(1)
. . fiscal period ... 249(5)–(6)
. . pension income deemed to be beneficiaries ... 104(27)
. TFSA — see Tax-free savings accounts
. transfer of deceased person's NISA fund to ... 104(14.1)
. transfer of deceased person's property to ... 70(6)
. transfer of property
. . from another trust ... 248(25.2)
. . to another trust ... 248(25.1)
. units
. . annuity contract funds ... 12.2
. . block of units, defined ... Reg. 4803(1)
. . defined ... 108(2); 248(1)
. . interest income ... 12(3)–(11)
. . life insurance policy funds ... 12.2
. . qualified investments ... Reg. 4900
. value of vested interest ... 107.4(4)
. variation of ... 108(6)

Trusts, non-resident
. ACB of capital interest ... 94(5)
. amalgamations ... 87(2)(j.95)
. application of provisions ... 94(1)
. arm's length transfer
. . anti-avoidance ... 94(16)
. . arm's length determination ... 94(15)
. . defined ... 94(1)
. assessment ... 160(2.1)
. beneficiary
. . defined ... 94(1)
. . resident, defined ... 94(1)
. . successor, defined ... 94(1)
. closely-held corporation, defined ... 94(1)
. contribution
. . defined ... 94(1)
. . determination ... 94(9)
. . rules ... 94(2)
. contributor
. . connected, defined ... 94(1)
. . deemed ... 94(13)
. . defined ... 94(1)
. . indirect, defined ... 94(1)
. . residency ... 94(10)–(12)
. . resident, defined ... 94(1)
. . specified, defined ... 94(1)

Section

Trusts, non-resident — continued
. deduction from FAPI ... 94(4)
. deduction from taxable income ... 94(3)
. deemed cessation of residence ... 94(5)
. definitions ... 94(1)
. eligible, defined ... 94(1)
. entity, defined ... 94(1)
. excluded property
. . defined ... 94(1)
. excluded provisions ... 94(4)
. exempt foreign trust
. . becoming or ceasing to be ... 94(6)
. . defined ... 94(1)
. exempt service, defined ... 94(1)
. exempt taxpayer, defined ... 94(1)
. financial assistance ... 94(6)
. foreign reporting rules ... 233.2(4)–(4.1); 233.6
. income from property acquired ... Reg. 5909
. liability ... 94(3)
. non-resident time, defined ... 94(1)
. promoter, defined ... 94(1)
. qualifying investor, defined ... 94(1)
. recovery limit ... 94(7)–(8)
. resident beneficiary
. . assessment ... 160(2.1)
. . defined ... 94(1)
. . liability ... 94(3)
. resident contributor
. . assessment ... 160(2.1)
. . defined ... 94(1)
. . liability ... 94(3)
. restricted property
. . defined ... 94(1)
. . exception ... 94(14)
. rights and obligations ... 94(2)
. rules of application ... 94(2)
. specified charity, defined ... 94(1)
. specified contributor, defined ... 94(1)
. specified controlled foreign affiliate ... 94(1)
. specified fixed interest, defined ... 94(1)
. specified party, defined ... 94(1)
. specified property, defined ... 94(1)
. specified share, defined ... 94(1)
. specified time, defined ... 94(1)
. transfers of property ... 94(2)
. trust, defined ... 94(1)

Trusts, spousal or common-law partner
. benefits transfer to spouse, partner or trust ... 70(7)
. capital gains dividend ... 110.6(12)
. creation, special rules ... 70(7)
. deductions from taxable income ... 110.6(12)
. joint spousal or common-law partner trust defined ... 248(1)
. post–1971 spousal or common-law partner trust defined ... 248(1)
. pre–1972 spousal trust, defined ... 108(1)
. principal residence distribution ... 107(2.01)
. property distribution
. . deemed disposition at fair market value ... 107(4)
. . to person other than spouse or partner ... 107(4)
. qualification ... 108(4)
. special rules ... 70(7)
. transfer of farming/fishing property on death ... 70(9.1)–(9.11); 70(9.3)–(9.31)
. transfer or distribution to ... 70(6)
. . election ... 70(6.2)

Tuition fees
. assistance for adult education ... 56(1)(r); 110(1)(g)
. tax credit ... 118.5(1)
. . ancillary fees and charges ... 118.5(3)
. . applied to deemed resident ... 118.5(2)
. . carryforward of unused credit ... 118.61
. . transfer ... 118.81

Tunnels
. CCA rate ... Reg. Sch. II, Class 1

U

Undepreciated capital cost — see Capital cost

Undistributed income — see Income, undistributed

Undistributed surplus — see Surplus

Undue hardship
. variation of tax withheld ... 153(1.1); 153(1.3)

Unemployment benefits — see Employment insurance; Supplementary unemployment benefit plans

Uniforms — see Clothing and uniforms

Unions — see Labour organizations

Unit trust — see Trusts

United Nations — see also International organizations
. employment ... Reg. 6000; Reg. 8900

United States
. defined ... 19(5)

Unitized fields in Canada — see Oil and gas wells

Section

Universal child care benefit — see Child care benefit

Universities — see Colleges and universities; Educational institutions

Utilities — see Public utilities

V

Vacation pay
. trust established to provide, exemptions ... 149(1)(y)

Valuation
. defined ... Reg. 2405(3)

Valuation Day value ... A.R. 26
. defined ... A.R. 24
. individual election ... Reg. 4700
. publicly traded securities ... Reg. Sch. VII
. transitional provisions, date fixed by proclamation ... A.R. 24

Value
. defined re life insurance policy ... 148(9)
. fair market — see Fair market value

Vendors — see Salespeople and vendors

Venture capital corporations
. labour-sponsored — see Labour-sponsored venture capital corporations
. prescribed ... Reg. 6700–6700.2
. small business investment ... Reg. 5100(2.1)

Vessels — see Ships and vessels

Vesting of property
. indefeasible ... 248(9.2)

Veterans
. income replacement benefits ... 6(1)(f.1)
. pensions, allowances, etc ... 81(1)(d)–(e)

Veterinarians
. income computation ... 34

Video — see Film or video

Video game machines
. CCA rate ... Reg. Sch. II, Class 16

Volunteers
. payment by employer exempt ... 81(4)

W

Wage loss replacement plans
. benefits received ... 6(1)(f)
. employer contributions ... 6(1)(a)

Wages — see Salary and wages

Wagon
. CCA rate ... Reg. Sch. II, Class 10

Waiver — see also Ministerial discretion
. no appeal from waived issues ... 169(2.2)
. normal reassessment period ... 152(4)–(4.2)
. . revoked ... 152(4.1)
. tax re TFSA ... 207.06

War Savings Certificates
. exempt from tax ... 81(1)(b)

War Veterans' Allowances Act
. allowances exempt ... 81(1)(d)

Warranties
. amalgamation, outlays made pursuant to warranty ... 87(2)(n)
. dispositions subject to ... 42
. extended motor vehicle warranty, defined ... Reg. 1408(1)
. reserves deductible ... 20(1)(m.1)
. reserves not deductible ... 20(7)

Warrants
. inspection of dwelling-house ... 231.1(3)
. judicial authorization ... 231.2(3)–(5)
. search of documents, premises, etc ... 231.3(1)–(4)

Water
. connection — see Public utilities
. distributing equipment, CCA rate ... Reg. Sch. II, Class 2, 17
. storage tank, CCA rate ... Reg. Sch. II, Class 6, 29, 39, 43

Weak currency debt
. defined ... 20.3(1)
. gain or loss ... 20.3(2)
. hedges ... 20.3(3)
. interest restrictions ... 20.3(2)
. repayment of principal ... 20.3(4)

Wells — see Oil and gas wells

Western Grain Stabilization Act
. levy
. . paid ... 20(1)(ff)
. . refund received ... 12(1)(p)
. stabilization payments received ... 12(1)(p)

Wharfs — see Docks and wharfs

Wheelchair
. deduction for, annual adjustment ... 117.1(1)(c)

Wife — see Spouses or common-law partners

Section

Wills
. annuity paid under, deduction allowed....60(a)
. gifts by....118.1(5)

Wind energy conversion system
. CCA rate....Reg. Sch. II, Class 43.1 - 43.2

Wind turbines
. Canadian renewable and conservation expense....Reg. 1219(1)
. test, defined....Reg. 1219(3)

Windfalls — see Awards and prizes

Winding-up — see also Bankruptcy and insolvency; Business discontinuation
. appropriation of undistributed income on....84(2)
. Canadian corporations....88(1); 88(2)
. charitable gifts....88(1)(e.6); 88(1)(e.61)
. debt, deemed settlement....80.01(4)–80.01(5.1)
. depreciable property, inclusions....88(1)(c.4); 88(1)(c.7)
. distributions....84(2)
. . under fair market value....69(5)
. earned depletion base....Reg. 1214
. eligible capital property, adjustments....88(1)(c.1)
. foreign affiliate, assets acquired from....80.1(6)
. foreign affiliates....Reg. 5903(6); Reg. 5905(5.2)
. functional currency reporting....261(16)
. general rate income pool addition....89(6)
. investment tax credit
. . refundable....88(1)(e.9)
. . SR and ED....88(1)(e.8)
. lessee's income computation....16.1(4)
. low rate income pool addition....89(10)
. mark-to-market property....88(1)(h); 88(1)(i)
. non-arm's length transactions....88(1.7)
. partnership, transfer of property....85(3)
. property, CCA rate....Reg. 1102(14)
. SIFTs
. . amalgamation....87(2)(s.1)
. . deemed settlement....80.01(5.1)
. . distributions of property....107(3); 107(3.1)
. . exchange for shares....85.1(7)–85.1(8)
. . SIFT trust wind-up event, defined....248(1)
. . SIFT wind-up corporation, defined....248(1)
. . SIFT wind-up entity, defined....248(1)
. . SIFT wind-up entity equity, defined....248(1)
. . tax consequences....88.1
. specified person, defined....88(1)(c.2)
. specified subsidiary corporation....88(1)(c.5)
. subsidiary....88(1)
. . acquisition of control....88(1)(d.2); 88(1)(d.3)
. . capital property distribution....88(1)(d)
. . computation of income....88(1)(e.1)
. . cost of distribution of property to parent....88(1)(c)
. . disposition of shares....88(1)(b)
. . financial institutions....88(1)(a.3)
. . increase in cost amount....88(1)(d.4)
. . insurance company....88(1)(g)
. . interest in partnership....88(1)(a.2)
. . net-capital losses....88(1.2)
. . non-capital losses....88(1.1)
. . parent corporation continued as subsidiary....88(1.5)
. . parent farming corporation continued as subsidiary....88(1.6)
. . parent's employment tax credit....88(1)(e.4)
. . parent's investment tax credit....88(1)(e.3)
. . property distribution....88(1)(a); 88(1)(a.1)
. substituted property....88(1)(c.3)
. . deemed time of change of control....88(1)(c.6)
. unpaid deductible expenses, non-arm's-length corporation....78(2)

Windmill
. CCA rate....Reg. Sch. II, Class 3

Withholding
. agreements to contrary void....227(12)
. amount deemed received by taxpayer....153(3)
. amount in trust not part of estate....227(5)–(8.1)
. amount not deducted or withheld
. . interest on....227(8.3)
. . liability to pay....227(8.4)
. amount not remitted
. . interest on....227(9.2)
. . liability to pay....227(9.4)
. amount to be kept separate....227(5)
. annuity payments....153(1)(f)
. applicability to Crown....227(11)
. assessment for amount payable....227(10); 227(10.1)
. authorized foreign banks....Reg. 800–804
. benefits under government assistance program....153(1)(m)
. bonus or lump-sum payments
. . amount less than $5,000....Reg. 103(1)

Section

Withholding
. bonus or lump-sum payments — continued
. . amount more than $5,000....Reg. 103(2)
. brokers, securities dealers
. . unclaimed dividends, interest and proceeds....Reg. 108(4)
. commissions....Reg. 102(5)
. corporate emigration....219.1
. . treaty countries....219.3
. death benefits....153(1)(d)
. deduction tables....Reg. Sch. I
. determination....Reg. 102(1)–Reg. 102(2)
. . commissions....Reg. 102(5)
. . exceptions....Reg. 104
. disability savings plan payments....153(1)(i)
. dividends
. . paid to non-residents....212(2)
. . received by brokers....153(4); 153(5)
. DPSP plan payments....153(1)(h)
. earnings supplement....153(1)(s)
. EI benefits....153(1)(d.1)
. election to increase....153(1.2); Reg. 109
. employee stock options....7(15)
. employer ceasing to carry on business, remittances....Reg. 108(2)
. employer re acquisition of approved share....Reg. 100(5)
. exemption re Canadian Forces, police....Reg. 102(6)
. failure to withhold....215(6)
. . penalty....227(8)
. fees, commissions or other service payments....153(1)(g)
. filing of return by employee....227(2); 227(3); Reg. 107
. foreign banks....212(13.3)
. hardship caused by....153(1.1); 153(1.3)
. immunity from action....227(1)
. income-averaging annuity contract payments....153(1)(k)
. information re deductions....Reg. 210
. interest
. . non-resident withholding....212(1)(b); 212(3)
. . obligation issued before 1976....A.R. 10(4)
. labour-sponsored funds tax credit clawback....211.8(2)
. liability of corporate directors....227.1(1)
. . amount recoverable....227.1(5)
. . contributions....227.1(7)
. . limitations....227.1(2)–(4)
. . preference....227.1(6)
. liability to withhold....153(1); 227(1); Reg. 101; Reg. 108
. lump-sum payments
. . amount less than $5,000....Reg. 103(1)
. . exceptions
. . . home buyers' plan....Reg. 104(3)–(4)
. . . lifelong learning plan....Reg. 104.1
. . . non-residents....Reg. 104(2)
. . more than $5,000....Reg. 103(2) Reg. 103(3)
. . provincial rates....Reg. 103(4)
. nature of payments....153(1)
. non-resident corporations, branch tax....219(1) (5.3)
. non-resident insurers....Reg. 800–804
. non-residents....212(1); 215; 227(10); 227(10.1)
. . administration fee....212(1)(a); 212(4)
. . amateur athletic trust....212(1)(u)
. . annuity payments....212(1)(n); 212(1)(o)
. . carrying on business....Reg. 805
. . deduction restrictions....216(8)
. . deemed payments....214(3)
. . deemed payments, time of....214(3.1)
. . deferred profit sharing plan payments....212(1)(m)
. . disposition of real property or timber limit....216(5) (6)
. . dividends....212(2)
. . education savings plan payments....212(1)(r); 212(1)(r.1)
. . election to deduct under Part I....216
. . eligible funeral arrangements....212(1)(v)
. . energy conservation grants, income....212(1)(s)
. . estate or trust income....212(1)(c); 212(9)–(11)
. . estate or trust income, exemptions....212(9)–(11)
. . financial institution's undertaking....212(18)
. . former TFSA....212(1)(p)
. . home insulation grants....212(1)(s)
. . income averaging annuity contract payments....212(1)(n)
. . interest....212(1)(b); 212(3)
. . interest deemed not to be interest....212(15)
. . interest on provincial bonds, etc....212(6)–(8)
. . liability....227(8.1)
. . management fee....212(1)(a); 212(4)

Section

Withholding
. non-residents — continued
. . motion picture film payments....212(5)
. . motion picture rights....212(5)
. . NISA Fund No. 2 payments....212(1)(t); 214(3)
. . patronage dividend....212(1)(g)
. . payments for services rendered by....212(1)(d)
. . payments from amateur athletic trust....214(3)
. . pension benefits....212(1)(h)
. . rents....212(1)(e); 216
. . RESP payments....212(1)(r)
. . restrictive covenant payments....212(1)(i)
. . retirement compensation arrangement contributions....227(10.2)
. . retirement compensation plan benefits....212(1)(j)
. . retiring allowance....212(1)(j.1)
. . royalties, etc....212(1)(d)
. . RRIF payments....212(1)(q)
. . RRSP payments....212(1)(l)
. . superannuation payments....212(1)(h)
. . supplementary unemployment benefit plan payments....212(1)(k)
. . timber royalties....212(1)(e); 216
. remittance to financial institution....153(1); 153(1.4)
. split-pension amount....153(1.3); 153(2)

Woodlots
. forest management plans....Reg. 7400

Worker's compensation
. deduction....110(1)(f)(ii)
. income inclusion....56(1)(v)

Working income tax benefit
. advance payment
. . application....122.7(6)
. . limitation....122.7(8)
. . notification to Minister....122.7(9)
. . payment of....122.7(7)
. . tax payable....117(2.1)
. amount deemed nil....122.7(5)
. death....122.7(12)
. deemed payment....122.7(2)
. definitions....122.7(1)
. disability supplement....122.7(3)
. effect of bankruptcy....122.7(11)
. eligible dependant
. . defined....122.7(1)
. . special rule....122.7(10)
. eligible spouse not eligible individual....122.7(4)
. modification for provincial program....122.71

World Anti-Doping Agency
. prescribed organization....Reg. 8900

Y

Yachts
. expenses deductibility....18(1)(l)

Year-end
. alternative method....249.1(4)
. . additional business income....34.1(1)
. . additional income election for start-up business....34.1(2)
. . bankrupts....34.1(8)
. . calculation for partner....96(1)
. . death of partner or proprietor....34.1(9)
. . December 31, 1995 income....34.1(4)–(6)
. . . computation....34.2(2)
. . . defined....34.2(1)
. . . maximum....34.1(7)
. . deduction for additional business income....34.1(3)
. . non-application to tax shelters....249.1(5)
. . revocation of election....249.1(6)
. change of....249.1(7)
. charitable status revoked....188(1)
. fiscal period
. . defined....249.1(1)
. . partnerships....249.1(2)
. . subsequent periods....249.1(3)
. individuals, alternative method....249.1(4)
. transitional reserve rule....34.2
. . anti-avoidance rule....34.2(7)
. . calculation of reserve....34.2(4)
. . death of partner or proprietor....34.2(8)
. . income inclusion....34.2(5)
. . qualifying fiscal period defined....34.2(1)
. . specified percentage defined....34.2(1)
. . substituted business....34.2(3)
. . where reserve may not be claimed....34.2(6)

Youth Allowances Act
. provincial schooling allowance, deduction....120(2)

Yukon Territory
. prescribed northern zone....Reg. 7303.1(1)

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